Asia Credit Commentary

November 28, 2016

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2017 Outlook – Offense Wins Games, Defense Wins Championships

- Asian credit spreads have tightened by 47bp year to date. Current valuations are tight versus historical levels and other EM regions.
- Asia is seen as a safe haven with low volatility and fund flows into Asia will remain supportive. We are therefore Neutral on Asia credit and spreads are likely to remain range bound with no major sell-off.
- Bond price volatility is likely to be high, particularly in 1Q17, from rates and USD movement arising from Trump's first 100 days in office and potential negative impact of Brexit.
- Macro concerns: Fed rate hikes / USD strength / inflation concerns, geopolitical events, and China growth and inflation risk.
- Trading strategy, trade ideas, data and chart pack

Asian credit spreads have tightened by 21bp since June and 47bp year to date. Brexit and Trump's unexpected election victory did not lead to substantial spread widening as fund inflows from outside and within Asia have been strong on the back of ongoing monetary easing and Asia being seen as a safe haven. While we see the recent spread widening as justified given tight valuations relative to fundamentals and historical levels, as well as other EMs, we believe that **fund inflows into Asia and the perception of Asia exhibiting lower volatility will likely continue given the sizeable amount of negative yielding bonds and huge outflows from China investing into USD assets. We therefore recommend a Neutral stance on Asia credit and expect spreads to remain range bound throughout next year. However, macro concerns such as Fed rate hikes on the back of USD strength and higher inflation, concerns surrounding China's rising leverage and the structural slowdown in Asia remain valid. These will likely increase market volatility in 2017 – especially in 1Q17 given the first 100 days of Trump's presidency and the potential negative impact of Brexit, although we do not expect a large sell-off.** Our rates strategists also forecast 10-year UST to reach 2.2% by year-end and 3.0% in end-2017, and expect the curve to steepen. Our economists expect the Fed to hike rates twice in 2017. **In our view, these are unlikely to have a large negative impact on Chinese credits which comprise ~40% of the Asian credit market. That said, investors should remain defensive and selective in their trading strategy.**

We would like to extend our appreciation to Lulu Chen for her contribution to this report.

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Trading strategy

Asian Sovereigns

We remain constructive on Indonesia's fundamentals and would express our positive view via an Overweight position in the 10-year INDOIS sukuks. While the 10s30s curves of the Indonesian quasi-sovereigns are relatively steep, with many investors avoiding duration at the moment, we see limited scope for them to flatten and prefer to position in the shorter-end. Specifically, we would Overweight PLBIIJ 2025 but would Underweight PERTIJ 2023 and PLNIJ 2021 due to tight valuations. **Like Indonesia, we are positive on the Philippines' prospects but see valuations of the PHILIP complex as unattractive and remain Underweight.** On the other hand, we are cautious on Malaysia – we think policy options to counter capital outflow risks are limited – and Thailand – we think risks are skewed to the downside given sluggish exports, elevated household debt as well as the possibility of renewed political unrest. **Among the frontier sovereigns, we have a preference for Sri Lanka as we believe credit metrics are likely to stabilize on the back of IMF support.** However, we think the recent improvement in Pakistan's fundamentals is unlikely to be sustained following the conclusion of the IMF's support program. **Mongolia will remain event-driven with potential IMF support and/or an extension of the PBOC swap line key events to watch. We think the risk-reward is evenly balanced at current levels and stay Neutral.** Finally, we would Underweight Vietnam as we believe valuations do not adequately compensate investors for its rising economic risks.

Asian Financials

Valuations in many segments of the Asian financials universe remain unattractive. The issuance pipeline, particularly from China, remains heavy. **Consequently, we prefer to adopt a defensive stance on Asian financials and would avoid lower quality credits that have reached unsustainably tight valuations.** Within the Chinese financials space, we remain comfortable positioning in seniors of the large state-owned banks (i.e. ICBC, CCB, BOC, and ABC) although we would Underweight seniors of the joint-stock banks as valuations do not reflect their higher risk profiles. Among the various sub-segments of Chinese financials, we would selectively Overweight leasing company seniors and Underweight AMC seniors. Among Chinese financials' subordinated bonds, we would Underweight the AT1s on still tight valuations. Outside of China, we are also Overweight selected T2s of Korean banks and Singapore banks. We are broadly Neutral on Indian banks' seniors, albeit with a preference for the private sector banks given their stronger fundamentals, and seniors of the Korean banks, which while not exhibiting exciting valuations, should continue to benefit from a solid safe haven bid. Likewise, Malaysian and Thai banks' seniors and T2s are trading tight for their ratings but should continue to benefit from scarcity/diversification value.

IG corporates

We are reversing our cautious view on metals and mining names to a more constructive stance. Chinese government-driven capacity reductions across coal, iron, steel, copper and aluminium have been largely successful; such that prices of many commodities onshore have rebounded significantly with a continued stable outlook. **We expect the improvement in ASP achieved by names like MINMET, SBSG and Chalco to be credit positive and these wider names should gradually tighten in.** On the other hand, the surge in thermal coal prices will put pressure on thermal generators; while gas players should continue to benefit (as their cheap competitors' advantage wanes providing more headroom for further government-supported structural tariff hikes). We are also getting very selective in the LGFV space where we prefer a handful of names high up on the administrative hierarchy, backed by fiscally stronger governments and hold strategic assets. In contrast, we avoid those which are too tight or have real fallen angel risk.

We have long believed that the non-China space (e.g. South East Asia and Korea), looks tight due to positive technicals. However, we are turning more cautious on this space now. We expect Thailand and Malaysia to be hit hard by portfolio outflows as USD liquidity seeks higher capital gains in the stock market with the anticipation of a pro-stimulus Trump regime in the US, but credit spreads should be largely upheld by stable corporate fundamentals and low bond supply. **We remain watchful on the Korean quasi-**

sovereign space where spreads remain tight but political instability is ensuing, and we would much prefer some recently issued cheaper Hong Kong credits like MTRC.

In India, valuations have become quite tight for the state-owned oil E&P/refining companies (Oil India, IOCL, BPCL) and we recommend switching into some of the private corporates (ADSEZ, UPLLIN, RILIN). While these do not benefit from state support, they are fairly stable credits (for UPLLIN), can potentially deleverage (for RILIN) and we see operational improvements together with reduction in related-party exposures (for ADSEZ). On an outright basis, we like BHARTI and ADTIN. Bharti could see potential deleveraging through asset disposals which could partially offset margin pressure due to competition. We like Adani Transmission's regulated business and strong bond structure. Thai credits, in general, trade tight for their ratings due to limited supply. That said, we see some value in downstream refiner, Thai Oil over upstream PTTEPT and in petrochemical company PTTGC over the parent, PTTTB. We also think Malaysian credits are expensive with the PETMK 10-year curve trading ~50bp inside the CNOOC curve despite being one-two notches weaker rated.

We are revising our long-end bull flattener recommendations earlier, mostly 5-to-10yr switches, due to a cautious stance on rapid treasury yields widening. In fact, most of our earlier flattener trades have worked out and reached target prices; and our strategy for 2017 is to stay closer to the short end to ride out the treasury volatility. **We look for bull steepeners at the short end; names like CHGRID, SHENGY and TENCNT with flat 5s10s would make good 10-to-5 switches, in our view.** Finally, we continue to recommend picking up more yield by looking at **high quality unrated names as well as papers with structural subordination from stable names. We continue to like unrated names such as the PCCW holdco bond, HKHKD and HUAWEI,** which pays much more spread over where a fair unrated premium should be.

High Yield

We expect Asia HY bond issuance will pick up in 2017 especially from China property, China industrials and Indian space. That said, we do not expect these issuances to materially re-price the existing bond market as we expect investors will remain selective. **On China property, we expect to see curve steepening and credit differentiation, but not a massive sell-off as we believe developers are well positioned in terms of liquidity to weather through this round of policy tightening (milder than last round) and onshore money bid will continue to provide support.** As call economics still make good sense for many to call their high-coupon 2017 callable bonds, we are Overweight most 2017 callable bonds that provide reasonable carry, such as GZRFPR curve, KWGPRO curve, SHUION perp, FUTLAN 2019, TPHL 2019, LOGPH 2019, FANHAI 2019. Meanwhile, with supply picking up and ongoing industry headwinds in the near term, we believe long end bonds of weak names will present the most downside, we are thus Underweight on DALWAN 2024, COGARD 2023new, ROADKG 2021, YUZHOU 2023, SHUION 2019new, PWRLNG 2021, FTHDGR 2021 and CSCHCN 2021. In addition, call probability for some (particular 2020c18 bonds with deteriorating fundamental and/or low coupon) will decline in a rising rate environment, which makes bond valuation even more expensive on YTM basis. We are thus Underweight on AGILE 2020, COGARD 2020, CIFIHG 2020, CENCHI 2020.

On China industrials, the space looks tight with limited upside. We maintain **Underweight on BTSDF, DEGREE, YESTAR, HONGQI and ZOOMLI 2022** considering their business risk (BTSDF, YESTAR, DEGREE, ZOOMLI), regulatory risk (BTSDF, YESTAR) and corporate disclosure risk (DEGREE, YESTAR, HONGQI). Besides, we are Neutral on the HY oil names (MIEHOL, ANTOIL and HONHUA) as well as retail operators (PRKSON, GERGHK and MAOIH) and others such as ZOOMLI 2017, WESCHI and YINGDZ. **We only see value in selective names such as SANYPH 2018.**

On Indian corporates, we are Neutral on the good quality but low yielding names such as MSSIN and TTMTIN and do not see much relative value in names such as GNPIN, TATAIN and DIALIN. Given the sharp decline in bond price since our Underweight recommendation, we are turning Neutral on GCX but will be closely watching its 2Q16 results for any signs of weakening liquidity. **We recommend**

investors avoid RCOMIN since its leverage metrics are likely to worsen post the restructuring exercise. We are comfortable owning some of the commodity names such as JSTLIN, VEDLN and FMGAU as well as names with high probability of being called such as GKOLN 2019. JSW Steel and Vedanta are likely to report better credit metrics driven by favourable commodity price environment, increased production capacities and narrowing capex. FMG has significantly reduced its production costs and utilized large part of its free cash flows to repay debt resulting in significant improvement in net leverage. On the other hand, **we maintain Underweight on NOBLSP series** to reflect concerns on business viability and corporate disclosure.

On Indonesian corporates, **we do not like the long-dated property bonds such as ASRIIJ, LPKRIJ, KJIAIJ and BSDEIJ** due to our concern of UST risk and expectation of a slow recovery in Indonesian property sales. **We only see opportunities in selective bonds which either have short duration or have potential corporate actions such as GJTLIJ, JPFAIJ, INDYIJ, MLPL.** Others such as SOLUIJ, TBIGIJ and MPMXIJ and SRIRJK also look a bit tight considering their respective risk profile. **On the other gaming and technology names**, it remains uncertain if recovery on both industries is sustainable and we therefore **prefer the solid names such as MPEL 2021.** We view **WYNMAC 2021 is too tight and see more value in STCITY 2021.** We are also **concerned with GATSP** due to potential debt restructuring risk.

Summary of trade ideas

Asian Sovereigns and Quasi-Sovereigns

- **Overweight INDOIS 4.325% 2025 (Z+217bp) and INDOIS 4.55% 2026 (Z+229bp)**
- **Underweight tight Indonesian quasi-sovereign bonds – PERTIJ 4.3% 2023 (Z+227bp) and PLNIJ 5.5% 2021 (Z+192bp)**
- **Buy CDS protection on the Malaysian sovereign (169bp)**
- **Switch from PLBIII 4.875% 2024 (Z+264bp) to PLBIIJ 4.25% 2025 (Z+286bp)**
- **Switch from PKSTAN 5.5% 2021 (101.45, Z+339bp) to SRILAN 5.75% 2022 (99.62, Z+404bp)**

Asian Financials

- **Overweight wide Chinese leasing seniors – ICBCIL 3.25% 2020 (Z+153bp) and ICBCIL 3.2% 2020 (Z+149bp)**
- **Overweight WOORIB 4.75% 2024 T2s (Z+246bp)**
- **Overweight Singapore banks' T2s – UOBSP 2.88% 2027c2022 T2s (Z+185bp) and UOBSP 3.5% 2026c2021 T2s (Z+182bp)**
- **Overweight CBAAU 3.375% 2026c2021 T2s (Z+210bp)**
- **Underweight Chinese joint-stock bank (JSB) seniors – INDUBK 2% 2019 (Z+82bp) and INDUBK 2.375% 2021 (Z+127bp)**
- **Underweight tight Chinese AMC seniors – ORIEAS 2.375% 2021 (Z+142bp) and ORIEAS 5% 2024 (Z+239bp)**
- **Underweight CCAMCL 4.45% c2021 AT1s (97.725, YTC: 4.99%)**
- **Switch from CINDBK 4.25% c2021 AT1s (98.0, YTC: 4.71%) or CINDBK 7.25% c2019 AT1s (106.575, YTC: 4.33%) to ICBCAS 4.25% c2021 AT1s (96.625, YTC: 5.07%)**
- **Switch from WOORIB 5% c2020 AT1s (YTC: 4.53%, Z+293bp) to WOORIB 4.5% c2021 AT1s (YTC: 5.22%, Z+345bp)**

IG Corporates

China Corporates

- **Overweight SBSG 2018 at Z+145bp and 2020 at Z+183bp**
- **Overweight MINMET 2020 at Z+165bp and 2025 at Z+235bp**
- **Overweight HUAWEI 2025 at Z+200bp**
- **Overweight CHALUM 2021 at Z+256bp**
- **Switch from CHGRID 2026 at Z+137bp to CHGRID 2021 at Z+105bp**
- **Switch from SHENGY 2025 at Z+160bp to 2020 at Z+128bp**
- **Switch from TENCNT 2025 at Z+143bp to BABA 2024 at Z+168bp**
- **Underweight COSL series**

LGFVs

- **Overweight TRTHK 2019 at Z+149bp and 2021 at Z+174bp**

- **Overweight YUNAEN 2019 at Z+185bp**
- **Underweight ZZCITY 2019 at Z+195bp**
- **Underweight CSPLIN 2019 at Z+205bp**

Hong Kong

- **Overweight CKHH 2027 at Z+150bp**
- **Overweight HKHKD 2023 at Z+220bp**
- **Underweight LIHHK series**
- **Switch from KOROIL 2026 at Z+104bp to MTRC 2026 at Z+100bp**

India and others

- **Overweight BHARTI 2024 (Z+263bp)**
- **Small overweight ADTIN 2026 (Z+249bp)**
- **Switch from OINLIN 2019 (Z+122bp) or OINLIN 2024 (Z+221bp) to ADSEZ 2020 (Z+209bp) or UPLLIN 2021 (Z+196bp)**
- **Switch from BPCLIN 2022 (Z+178bp), BPCLIN 2025 (Z+215bp) to RILIN 2022 (mid Z+183bp), RILIN 2025 (mid Z+215bp);**
- **Switch from IOCLIN 2021 (Z+175bp), IOCLIN 2023 (Z+206bp) to RILIN 2022 (Z+183bp), RILIN 2025 (Z+215bp)**
- **Switch from PTTEPT 2021 (Z+109bp) to TOPTB 2023 (Z+155bp) or RILIN 2022 (Z+183bp)**
- **Switch from PTTTB 2022 (Z+114bp) to PTTGC 2022 (Z+143bp)**

High Yield Corporates

China property sector

- **Overweight select short dated 2017-callable bonds for carry:**
    - **GZRFPR curve at 4.7-5.3% YTC/ 6.1-7.0% (Z+480-550bp) YTM**
    - **KWGPRO curve at 4.2-4.8% YTC/5.7-6.4% (Z+425-530bp) YTM**
    - **SHUION perp at 4.4% (Z+275bp) YTC**
    - **FUTLAN 2019 at 4.7% YTC/6.7% (Z+530bp) YTM**
    - **LOGPH 2019 at 4.5% YTC/7.3% (Z+590bp) YTM**
    - **TPHL 2019 at 4.5% YTC/8.4% (Z+700bp) YTM**
    - **FANHAI 2019 at 5.9% YTC/7.7% (Z+620bp)**
- **Underweight COGARD 2020c18 at 5.0% (Z+380bp) YTC/5.3% (Z+375bp) YTM and COGARD 2023new at 5.4% (Z+345bp) YTM**
- **Underweight YUZHOU 2023 at 6.2% (Z+425bp)**
- **Underweight ROADKG 2021 at 5.8% (Z+410bp)**
- **Underweight SHUION 2019 at 4.7% (Z+320bp)**
- **Underweight CSCHCN 2021 at 7.7% (Z+590bp)**

- **Underweight AGILE perp at 8.3% YTC (Z+700bp), Switch from AGILE 2020c18 at 6.1% YTC (Z+485bp)/6.3% YTM (Z+475bp) to GZRFPR 2020c17 at 5.3% YTC (Z+440bp)/7.0% (Z+545bp)**
- **Switch from PWRLNG 2021 at 7.0% (Z+520bp) to CAPG 2019 at 6.0% (Z+465bp)**
- **Switch from CIFIHG 2020c18 at 4.7% YTC (Z+350bp) /5.2% YTM (Z+365bp) to KWGPRO 2020c17 at 4.1% (Z+315bp) YTC/ 6.8% (Z+530bp) YTM**

China Industrials

- **Small Overweight SANYPH 2018 at 5.9%**
- **Underweight DEGREE 2021 at 5.3% (Z+375bp)**
- **Underweight HONGQI 2017 at 5.0% (Z+402bp) and 2018 at 5.1% (Z+388bp)**
- **Underweight ZOOMLI 2022 at 7.1% (Z+522bp)**
- **Switch from BTSDF 2021 at 5.6% (Z+400bp) into XINHD 2018 at 4.9% (Z+375bp)**

Indian corporates

- **Overweight JSTLIN 2019 at 5.3% (Z+376bp); Switch from TATAIN 2020 at 4.7% (Z+314bp) or TATAIN 2024 at 6.4% (Z+436bp)**
- **Overweight GKOLN 2019 at 4.4% (YTC)**
- **Underweight DIALIN 2026 at 5.8% (Z+363bp)**
- **Underweight RCOMIN 2020 at 6.2% (Z+454bp)**
- **Switch from GNPIN 2021 at 4.7% (Z+293bp) to MSSIN 2021 at 4.8% (Z+303bp)**
- **Switch from VEDLN 2018 at 5.7% (Z+451bp), VEDLN 2019 at 6% (Z+467bp) or VEDLN 2023 at 8% (Z+613bp) to VEDLN 2021 at 7.4% (Z+570bp)**

Indonesian corporates

- **Overweight JPFAIJ 2018 at 5.7% (Z+450bp)**
- **Overweight MLPL 2018 at 6.7% (YTW)**
- **Overweight GJTLIJ 2018 at 92.75 (14.6%)**
- **Overweight INDYIJ 2018 at 96 (10.1%) and 2023 at 76 (11.9%)**
- **Underweight ASRIIJ 2022 at 7.4% (Z+564bp), Switch to MDLNIJ 2019 at 7.1% (Z+575bp)**
- **Underweight BSDEIJ 2023 at 5.5% (Z+351bp)**
- **Switch from LPKRIJ 2026 at 7.6% (Z+552bp) to 2022 at 6.5% (Z+497bp)**

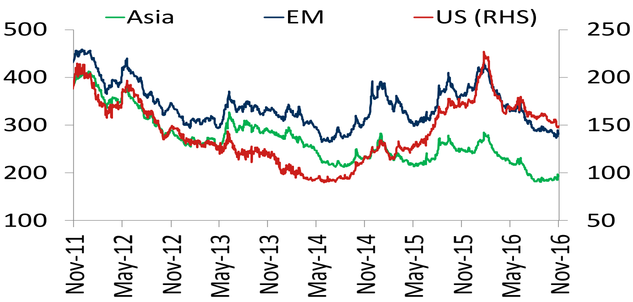
Other corporates

- **Overweight FMGAU 2022 (unsecured) at 5.9% YTW (Z+438bp) and FMGAU 2022 (secured) at 4.7% YTC (Z+350bp)**
- **Overweight MPEL 2021 at 5.1% (Z+345bp)**
- **Underweight WYNMAC 2021 at 5.3% (Z+360bp), Switch to STDCTY 2021 at 6.8% at Z+523bp or MPEL 2021 at 5.1% (Z+345bp)**
- **Underweight NOBLSP 2018 at 92.2 (10.1%) and 2020 at 82.5 (13.7%), Switch to INDYIJ 2018 at 96 (10.1%)**
- **Underweight GATSP 2019 at 78.75 (22.9%)**

Credit strategy

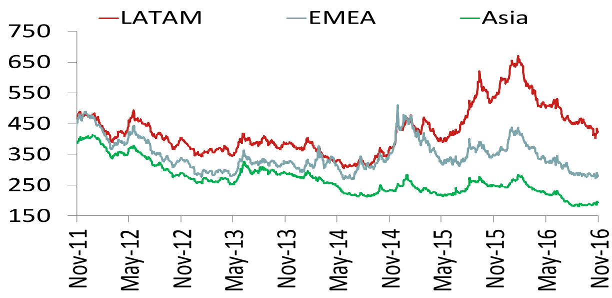
When writing our 2H16 outlook, we had expected that the surprise results of Brexit and Trump's election victory would have led to substantial spread widening in the markets. However, fund inflows from outside and within Asia have been strong on the back of ongoing central bank easing, as well as post Brexit, where Asia was viewed as a safe haven. It was not until the last two weeks that major outflows of USD9.5bn were seen, according to Lipper / EPFR. While we see the recent spread widening as justified given Asia credit's tight valuations relative to fundamentals, historical levels and versus other EMs (Exhibits 1 & 2), we believe the trend of fund inflows into Asia and the perception of Asia being a safe haven, i.e. having low volatility, is likely to continue given the unprecedented amounts of negative-yielding bonds outstanding and strong inflows from Chinese money investing in USD assets, driven by the gradual depreciation of the CNY. This is likely to prevent a sell-off scenario, in our view, and we therefore expect credit spreads to remain range bound throughout the year although we expect volatility to remain high in 1Q17.

Exhibit 1. Global Credit Spreads



Source: Bloomberg, Nomura

Exhibit 2. EM Credit Spreads



Source: Bloomberg, Nomura

Technicals: We expect ~USD190bn of gross USD bond supply in 2017 versus USD155bn in 2016 YTD. While the headline gross supply figure looks large (see Exhibit 3), this is driven primarily by higher redemptions next year of USD121bn (versus USD76bn in 2015), and net USD bond supply will actually be lower at ~USD67bn versus an estimated ~USD89bn in 2016. Not surprisingly, we expect the bulk of Asian bond supply to come from the financials space (~USD92bn), with Chinese financials (~USD56bn or ~61% of total financials supply) continuing to dominate financials supply. Apart from that, we expect ~USD56bn of supply from IG corporates, ~USD25bn from HY corporates and ~USD15bn from Asian sovereigns. The aforementioned heavy redemptions in 2017 should serve as a positive technical for the markets next year.

Exhibit 3. We expect USD67bn of net supply in 2017

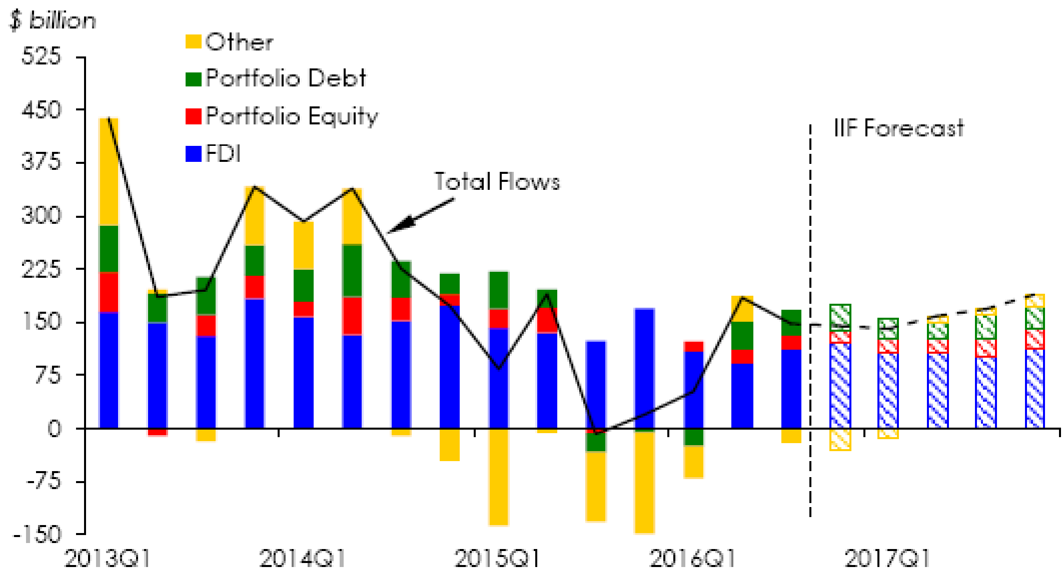
Supply Estimates	USDbn
Sovereigns	15
Financials	92
IG Corporates	56
HY Corporates	25
Gross Supply	**188**
Redemptions	121
Net supply	**67**

Source: Nomura estimates

Sizeable outflows from EM bond funds (USD6.6bn during the week of 16th November) following Donald Trump's unexpected election victory has faded quite materially, with outflows amounting to a more manageable USD2.9bn during the week of 23rd November. Heading into 2017, we expect demand for Asian credit to remain solid. While valuations in Asian credit are not cheap, they remain attractive relative to both DM credit (a large proportion of which is in negative yield territory – USD10.4trn in November according to Fitch, although down from USD11.7trn in June) and credit from other EMs like LATAM and CEEMEA (Asia is now viewed as a relative safe haven in the EM credit space). The Institute of International Finance (IIF) is projecting private non-resident capital inflows into EM to rise to USD769bn in 2017 from a projected USD640bn in 2016. Asia, in particular, is expected to see the largest improvement in capital inflows, which are projected to rise to USD348bn in 2017 from USD278bn in 2016 (See Exhibit 4).

In addition to inflows from outside of Asia, liquidity within Asia remains quite robust as well. With Chinese credits now accounting for a significant portion of the benchmark (~40%) and on the back of CNY/USD depreciation expectations, sizeable amounts of Chinese money have been flowing out of China into USD credits (particularly Chinese credits), a trend we expect will continue into next year. We also highlight that Asian investors in general have become a larger proportion of the investor base for Asian credit (~65% in 2015 versus ~59% in 2014), and are less likely to pull their money out of Asia in a risk-off scenario. All in all, the positive demand backdrop supports our view that although Asian credit valuations continue to trade tight relative to fundamentals, any sell-off is likely to be shallow and short-lived.

Exhibit 4. IIF projects private non-resident capital inflows into EM to increase to USD769bn in 2017 from a projected USD640bn in 2016.



Source: The Institute of International Finance

That said, one needs to be wary about risk factors which could lead to rising volatility of credit spreads especially in 1Q17. They include the followings:

- Fed hike / USD strength / Inflation concerns – Fed hike in December is well expected as the Fed fund futures markets is implying a 100% probability. The question is how brisk the pace will be over the next 12-18 months. **Our house view is that there will be a hike of 25bp in December, two 25bp hikes in June and December 2017, and another 3 hikes in 2018 considering that the incoming Trump administration and the Republican-led Congress are likely to unleash huge fiscal stimulus.** This could lead to further strengthening of USD, higher inflation and higher UST yields though the inflation effect may only surface later in 2H17 and 2018. **Our rates strategists now see 10-year UST at 2.2%**

at the end of the year, 2.6% in June 2017 and 3.0% in December 2017, with the curve further steepening from here especially on the longer end. All these do not bode well for Asian bond investors as most of them do not hedge UST risk in their portfolios. Longer-dated bonds and perpetuals especially those with low incentives to call will be negatively impacted. USD strength will also mean weaker Asian currencies which will be negative to Indonesian and Malaysian credits and to a lesser extent, Indian credits. That said, the negative impact on Chinese credits will be relatively limited. Hong Kong credits may also face downside risks from Fed hikes as higher rates negatively impact the property market. However, the fundamental and technical picture for Hong Kong credits remains strong enough to balance the downside risk.

- Political risks (Implementation of Brexit, France – presidential and legislative elections in 2Q, Netherlands – legislative elections in 1Q, Germany – Federal elections in 3Q/4Q, Italy – constitutional referendum in 4Q, Investigation on South Korea President Park, China's 19th National People Congress of the CCP in 2H, the royal succession and elections in Thailand in 2H) – It remains to be seen how the implementation of Brexit will pan out and whether it could add volatility to the markets as more concrete measures are announced and implemented. While we were surprised by the relatively limited market turbulence post Brexit and Trump's election victory, one still needs to watch out for the potential surprises from the other political events around the globe over the next 12 months.
- China growth and inflation risk – China growth has stabilized over the past months and our economists have raised the real GDP growth for 4Q from 6.4% to 6.6%, implying 2016 growth at 6.7% versus previous forecast of 6.6%. That said, we still expect the real GDP growth to slow to 6.1% in 2017 and to 5.5% in 2018. The quality of growth is also weaker as it is now more driven by property investment while consumption growth has started to lose steam. Our economics team also sees rising inflationary pressure in China given rising housing prices over the past 2 years. We now forecast CPI inflation to be about 2.4% in 2017 versus previous forecast of 1.8%. The recent strong month-on-month PPI gains also led us to raise our 2016 and 2017 PPI inflation forecasts to -1.6% y-o-y and +1% respectively. This could potentially lead to rising yields onshore. **One comforting factor supporting our markets is that there are more Chinese accounts buying USD bonds on the back of continued weakness in CNY and they also see a yield pick-up in offshore USD bonds as compared to onshore bonds. Should this situation reverse with onshore bond yields picking up, we may potentially see weaker fund inflows (or even outflows) among Chinese accounts to buy USD credits.**

Outlook for Asian Sovereigns

Indonesia: We remain constructive on Indonesia's fundamentals and think an S&P upgrade should still happen by mid-2017. Our economists are upbeat on Indonesia's growth prospects and maintain an above-consensus GDP growth forecast of 5.2% for 2016 (consensus: 5.0%) and 5.6% for 2017 (consensus: 5.3%) as further structural reforms and greater fiscal headroom from the tax amnesty program continue to drive the domestic demand-led recovery. The tax amnesty program in particular has made solid progress. Revenues from penalty rate payments reached IDR97.2trn (USD7.4bn or 0.8% of GDP) by 30th September. Assets declared reached IDR3,621trn (USD277bn or 28.9% of GDP), close to the government's estimate of IDR4,000trn (USD306bn). These receipts, along with higher non-tax revenues and lower subsidies under the revised 2016 budget, should allow for greater fiscal consolidation. As a result, our economists have cut their fiscal deficit forecast for 2016 and 2017 to 2.5% and 2.6% of GDP respectively (from 2.9% and 2.8% previously). Meanwhile, S&P in late October commented that it was "not ready" to upgrade Indonesia, effectively taking such a move off the table at its upcoming December review. Nevertheless, we believe Indonesia should do enough to win an upgrade to IG by mid-2017 given positive momentum with respect to growth and reforms (S&P has to either upgrade Indonesia or revise its outlook back to Stable by mid-2017 as the sovereign's outlook was revised to Positive in May 2015 and review periods typically last for a maximum of 24 months).

Indonesia is much better placed to deal with capital outflow risks. Increased expectations for tighter Fed monetary policy following Donald Trump's unexpected election win have spurred capital outflows from Asia, with Indonesia again in investors' crosshairs. However, our economists think that Indonesia is better placed to deal with such outflows now than it was during the 2013 "taper tantrum". For instance, the current account deficit has almost halved to 1.8% of GDP in 3Q16 from 3.2% in 2013. While the deficit is expected to widen to 2.9% of GDP in 2017, this is mainly on the back of greater infrastructure spending. Further, they see scope for near-term policy responses to mitigate such risks, such as counter-cyclical fiscal policies, as the government still has some room to increase the fiscal deficit. The IDR could also be allowed to weaken, albeit not drastically, and Bank Indonesia's ample FX reserves (USD115.0bn or 8.8 months of import cover) can be used to minimize volatility in the IDR. External liquidity backstops, i.e. bilateral FX swap agreements with Japan, China and Australia, or the Chiang Mai Initiative, can also be relied upon. **Hence, while there will undoubtedly be some pressure on the IDR (our FX strategists forecast the IDR to hit 14,000 by end-2018), it will not be as severe as during "taper tantrum" when the IDR almost touched 14,700.**

On the whole, while valuations are not outright cheap, we think the INDON/INDOIS complexes still look attractive versus similarly-rated sovereigns like ROMANI and REPHUN, and would Overweight INDOIS 2025 and 2026. Sukuks were recently made eligible for inclusion into JPMorgan's EM indices (i.e. EMBI, JACI, etc.) and shorter-dated INDOIS sukuks have already converged towards (and in some cases trade inside of) comparable INDON conventional bonds. In contrast, INDOIS 2025 (Z+217bp) and 2026 (Z+229bp) still offer ~20-30bp of spread pickup over comparable INDONs. Likewise, we think it makes sense for existing holders of INDON 2025 and 2026 to consider switching into INDOIS 2025 and 2026.

Philippines: Like Indonesia, we are positive on Philippines' economic prospects but continue to see valuations as being unattractive. Despite recent controversial rhetoric by firebrand President Duterte, our economists remain positive on the Philippines and expect more progress on reforms, particularly on cutting red tape and corruption, to be made under the current government. Further progress is also expected in the area of infrastructure spending, as past reforms allow the Duterte government to hit the ground running and expedite project approvals while plugging the infrastructure gap ties in well with President Duterte's goal of inclusive growth. In addition, the Philippines exhibits a highly favorable demographic profile with one of the youngest populations in the world (median age of 23.5 years) with the working-age population expected to continue growing over the next three decades. Consequently, our economists expect potential growth in the country to rise to 6.7% throughout the current government's term until 2022 from 6.2% during 2010-16. **The Philippines is also resilient to capital outflow risks.** As one of the better growth stories in the region, FDI inflows are continuing to rise. FX reserves are also more than adequate at USD86.1bn or 9.9 months of import cover. Further, BSP has ample room to tighten monetary policy, and in fact our economists expect the central bank to hike rates by 50bp in 1H17, with scope for further hikes if risks arise. **Notwithstanding a pullback in the PHILIP complex of late on the back of heightened political noise, we continue to view PHILIP valuations as being unattractive and prefer to stay Underweight on the complex.**

Malaysia / Thailand: While Malaysia's economy has hitherto been resilient to lower commodity prices and rising political noise, we are not so constructive going forward. Our economists expect GDP growth to slow from 5.0% in 2015 to 4.1% in 2016 and 3.9% in 2017, below the official 4.0-5.0% forecast range. Malaysia, like Indonesia, is also vulnerable to capital outflows given the high foreign ownership of government bonds (foreigner ownership of outstanding MGS has increased to 51.9%). **However, unlike Indonesia, we think Malaysia's policy options are more limited.** There is no room for BNM to increase rates given slowing growth. Instead, BNM has been employing more administrative measures to support the falling MYR, such as pressuring foreign banks to restrict trading in the offshore NDF market. **While our economists do not expect such moves to lead to more draconian controls, they have undoubtedly hurt sentiment even more. In sum, we would adopt a cautious stance on Malaysia and recommend buying protection at 169bp.** While the Thai royal succession has so far been smooth, the year-long mourning period is likely to weigh on consumer and business sentiment and our economists expect GDP growth of just 2.8% in 2016, below the official forecast of above 3%, improving only slightly to 3% in 2017. **With risks skewed to the**

downside given sluggish exports, elevated household debt, as well as the possibility of renewed political unrest, we think it makes sense for investors to buy cheap protection on Thailand at 93bp.

Frontier Sovereigns

a) **Sri Lanka: We think credit metrics are likely to stabilize on the back of IMF support.** Following the agreement of a three-year USD1.5bn Extended Fund Facility (EFF) with the IMF in June, we think the stage is set for Sri Lanka to introduce structural reforms and put its public finances on a sounder footing. Fiscal consolidation is the main focus of the program, which aims to reduce Sri Lanka's fiscal deficit to 3.5% of GDP by 2010 (2015: 7.4%). Such ambitions are supported by recent parliamentary approval to raise the value added tax (VAT) to 15% from 11%, expanding the government's revenue base. The IMF has recognized the progress made in its first review under the EFF, noting that "fiscal performance has been encouraging", in particular that "the reinstatement of the amendments to the value added tax will help boost revenues, while the 2017 budget proposal should strengthen government finances". In our view, further progress on fiscal consolidation is likely to lead the rating agencies to revise their current Negative outlooks to Stable. **Given the relatively flat SRILAN curve, we prefer to position in the 5-year part of the curve with the SRILAN 5.75% 2022 (Z+404bp) being our preferred pick.**

b) **Pakistan: We think the recent improvement in fundamentals is unlikely to be sustained.** Pakistan has seen GDP growth improve to 4.7% in FY16 (FY15: 4.0%) and its fiscal and current account deficits contract to 4.1% of GDP (FY15: 5.3%) and 0.9% of GDP (FY15: 1.0%) respectively with IMF support. However, the recent three-year EFF program was concluded in September and history has shown that fundamentals can deteriorate rapidly without the discipline imposed by IMF programs. For instance, the small current account surplus of 0.1% of GDP in FY11 quickly reverted to a 2.1% deficit in FY12 after the abandonment of the 2008 IMF program in October 2011. This is also resulted in a sharp widening of the fiscal deficit from 6.7% of GDP in FY11 to 8.6% in FY12. Apart from this, upcoming elections in 2018 could lead to an increase in political noise and a slippage in the current fiscal consolidation stance. **Given our expectation for a less favorable fundamental trajectory going forward, and with short-end PKSTANs trading inside of comparable SRILANs, we would rather position in the latter and recommend switching from PKSTAN 2021 (Z+339bp) to SRILAN 5.75% 2022 (Z+404bp).**

c) **Vietnam: Fundamentals remain fairly robust although risks are rising.** Vietnam has experienced strong economic growth over the past few years – GDP growth has risen steadily to 6.7% in 2015 from 6.0% in 2014 and 5.4% in 2013 – driven by brisk export growth, high levels of FDI and robust domestic demand. Inflation also remains well contained with CPI trending in the mid-2% range. On the other hand, government debt has increased rapidly to 58.3% of GDP in 2015 from 51.8% in 2013 while the banking sector continues to be dragged by weak asset quality and capital buffers. Meanwhile, Vietnam, which has benefited greatly from free trade (the country has signed numerous free trade agreements, including the Trans-Pacific Partnership or TPP), is likely to be hard hit if President-elect Trump follows through on pledges to increase US trade protectionism. **On balance, we think VIETNM valuations do not adequately compensate investors for these risks and would Underweight the bonds.**

d) **Mongolia: Key to watch will be potential IMF support and/or an extension of the PBOC swap line.** Mongolia has been on a downward spiral for the last few years, hurt by declining commodity prices (as minerals account for ~90% of exports) and a slowing China (as ~90% of minerals exports go to China). This culminated in a "crisis speech" by Mongolia's Finance Minister on 10th August, during which he laid bare the severe deterioration in the country's fiscal and external position. Since then, the government has taken several measures to stabilize the economy and boost confidence. An "Economic Stabilization Plan" was drafted, with an aim to kick-start several large-scale infrastructure projects, including the Oyu Tolgoi underground mine and Tavan Tolgoi coal mine. A medium-term fiscal framework was also drawn up that aims to bring the fiscal deficit down to 5% of GDP by 2019 from an expected 18% in 2016 (this elevated deficit can be attributed to one-off election-related spending) through rationalizing government spending. Meanwhile, the government has held discussions with an IMF mission for a potential support program from 24th October to 4th November, and an outcome is expected by early next year. It has also commenced discussions with the PBOC for an extension/expansion of the existing CNY15bn swap line maturing in August 2017. **We view an extension of the PBOC swap line as likely given significant Chinese economic interests in Mongolia. On the other hand, IMF support is far from certain at this point as it is contingent on Mongolia meeting the agency's medium-term debt sustainability framework.** General weakness in Asian sovereign bonds, coupled with Moody's move to downgrade Mongolia to Caa1, has driven the MONGOL complex ~3-5 points lower over the past month. **We view the risk-reward as being evenly balanced at current levels and are Neutral on the complex.**

Outlook for Asian Financials

Chinese Financials

a) **Chinese Banks: Recent results show continued pressure on profitability although asset quality stress appears to be easing.** Operating profitability was sluggish at the large state-owned banks, with net interest revenues contracting on the back of declining benchmark interest rates. This was offset by lower costs and impairments, allowing them to post flat-to-slightly positive growth in net profits in 3Q16. On a positive note, the pace of increase in reported NPLs continued to moderate (CCB even reported a decline in NPLs q-o-q), likely on the back of further NPL disposals, while capital buffers improved (all of the large state-owned banks reported an improvement in their core capital ratios). The joint-stock banks (JSBs) generally reported stronger bottom line growth compared to their large state-owned bank peers, helped by more robust non-interest income growth. However, reported NPLs also increased at a faster pace, with the largest increase seen at SPDB (10% q-o-q) and Merchants (7% q-o-q). JSBs' investment receivables portfolios, which encompass various "shadow banking"-related activities like trust and asset management schemes, fell slightly q-o-q, although they remain a sizeable proportion of JSB's assets (for instance, receivables still comprise an elevated 34% of assets at Industrial Bank). In contrast to the large state-owned banks, capital ratios at the JSBs were generally stagnant on the back of brisk RWA growth. Core capitalization at the JSBs (CET1 ratios of ~8-9%, ex-Merchants which has a strong CET1 ratio of 12.4%) also continued to lag those of the large state-owned banks (CET1 ratios of ~10-13%). **Going forward, we expect banks' profitability pressures to persist, and several banks could start to report profit declines. Meanwhile, while asset quality stress is likely to persist, we expect the increase in NPLs to be more gradual as banks continue to write off bad loans aggressively and as measures to tackle to China's bad debt problem (such as debt-equity swaps) gain traction.**

On the whole, we continue to prefer large state-owned banks like ICBC/CCB/BOC over the JSBs. Not only is the potential for government support stronger for the large state-owned banks, they are also better capitalized and have comparatively smaller exposure to non-standard assets via their investment receivables portfolios. **While valuations are not particularly compelling at present, we stay Neutral on large state-owned banks' seniors as they continue to enjoy sponsorship from Chinese bank treasury desks and have been resilient during periods of market weakness. On the other hand, we view JSBs' seniors as trading too tight to seniors of the large state-owned banks and prefer to Underweight them.** The most egregious examples are the INDUBK 2019 (Z+82bp) and 2021 (Z+127bp), which trade just ~5-10bp wide of comparable BCHINAs. While JSB's seniors have also benefited from supportive technicals, we believe they are likely to underperform should concerns on the Chinese banking system intensify. **Among their subordinated bonds, we would Underweight the AT1s but are Neutral on the T2s.** Despite some recent widening, Chinese banks' AT1s continue to trade tight on both an absolute basis and compared to AT1s from other regions like Europe and Middle East. While the onshore repackage bid for such instruments remains strong, we believe that technicals are a dangerous thing to rely on and can disappear quickly during periods of market volatility. Sizeable supply, not just from the larger national banks but also the smaller city commercial banks which only have H-share listings and hence must issue AT1s offshore, could also weigh on valuations. Among the

T2s, we see relatively more value in the 10-year bullet T2s compared to the 10nc5 T2s, which trade flat to or slightly inside of higher-rated Singapore banks' T2s, although we also acknowledge that there is limited catalyst to drive the bullet T2s tighter given investors' preference to avoid duration at this point.

The big four Chinese banks, as Global Systemically Important Banks (G-SIBs), will also need to comply with the Total Loss Absorbing Capacity (TLAC) requirements. However, as China is still classified as an EM, its banks are given an additional six years and will only need to comply with TLAC requirements by 2025 (as opposed to 2019 for DM banks). Further, the local regulator has yet to clarify the approach they intend to take, i.e. structural, statutory or contractual subordination. **This, coupled with Chinese investor preference for shorter-dated paper, implies that there is unlikely to be much, if any, supply of TLAC-compliant bonds from the major Chinese banks next year.**

b) **Standby Letter of Credit (SBLC) bonds:** SBLC issuance has slowed to a trickle of late – USD900m in 2016 versus USD3.1bn in 2015 and USD4.9bn in 2014 – as borrowing costs have come down, allowing companies that previously had difficulties issuing offshore bonds without the backing of a bank-issued SBLC to tap the markets directly. A good example is Great Wall Asset Management, which issued two SBLC-backed seniors in 2014-15 before coming to the market directly this year. **On the whole, we are comfortable holding SBLCs backed by the large state-owned banks. While such structures have yet to be tested, we think the letter of credit and pre-funded interest provide a reasonably strong degree of protection for investors.** Among the SBLCs outstanding, we generally prefer to hold those with multiple drawings (i.e. the SBLC covers the principal plus all coupons) versus those with single drawings (i.e. the SBLC covers the principal and one coupon), although such structural nuances do not appear to factor greatly into valuations. Instead, technical factors such as issue size and type of holders play a larger role in valuations. **With the current SBLC-to-bank senior premium of ~45bp close to the one-year historical average of ~50bp, we view current valuations as broadly fair.**

c) **Leasing Companies:** The Chinese leasing industry has grown rapidly over the past few years (leasing industry assets have grown 68% over the last two years to reach CNY3.2trn at end-2015) and this trend is likely to continue over the coming years, driven by the economic advantages (financial flexibility, cost efficiency and tax benefits) afforded to corporates and favorable policies (the government in September 2015 issued guidance underpinning the leasing industry's key role in China's economic development). **As such, we continue to view leasing companies that are sponsored by commercial banks to be key subsidiaries of their parent banks and expect this strategic importance to remain intact for the foreseeable future.** This is despite recent moves by several leasing companies (i.e. BOC Aviation and CDB Leasing) to conduct listings, although in any case their parent banks have retained a majority stake in them. This view is also shared by the rating agencies, with Moody's equalizing the ratings on the leasing companies that they rate (i.e. CDB Leasing, ICBC Leasing, CCB Leasing and CMB Leasing) with the ratings of their parent banks in August 2016. **Hence, although the leasing-to-bank senior premium has compressed to ~50bp on average (versus the one-year historical average of ~60bp and wides of ~80bp in March), we continue to view leasing company seniors as offering an attractive pickup to banks' seniors for limited additional risk and would Overweight them.**

d) **Asset Management Companies (AMCs):** AMCs have been rapidly expanding beyond their traditional business of distressed asset management over the past few years, with financial services (i.e. banking, leasing, trust, securities, insurance, etc.) and asset management now comprising a larger proportion of assets than distressed asset management. In particular, all four major AMCs boast now ownership of a bank in their portfolio, for instance Cinda's Nanyang Commercial Bank (purchased from BOCHK in May 2016 for HKD68bn), Huarong's Xiangjiang Bank (a city commercial bank in Hunan province), Orient's Bank of Dalian (a city commercial bank in Liaoning province) and Great Wall's GW Bank (a joint stock bank in Sichuan province previously known as Bank of Deyang). **Nevertheless, we believe the AMCs will continue to play a crucial role in the government's efforts to work through China's sizeable bad debt problem, which underpins the high likelihood of government support for these entities.** Recent rhetoric from PBOC Deputy Governor Fan Yifei affirming the strategic importance of the AMCs, and their central role in China's evolving debt-equity swap program, reinforces this view. **Despite our constructive fundamental view, we think AMC senior valuations look fair at best.** For instance, 5-year AMC seniors currently trade ~70bp wide of comparable Chinese banks' seniors on average versus the one-year historical average of ~75bp and wides of ~130bp in October 2015. Meanwhile, the CCAMCL AT1s currently exhibit an AT1-to-senior spread pickup of ~145bp, significantly lower than the pickup (~155-190bp) on Chinese banks' AT1s. While they currently benefit from the strong onshore repackage bid, we believe valuations do not adequately compensate investors for the additional risk.

e) **Other NBFIs (Securities Companies, Life Insurance Companies, etc.):** Securities companies came under intense scrutiny following the sharp correction in the Chinese stock market in July-August 2015, with several senior industry figures (including CITIC Securities President Cheng Boming) investigated for "disciplinary violations". While such headline risks have abated, operating profitability has dimmed as more subdued stock market turnover this year has resulted in lower brokerage and margin finance income. Securities companies also remain highly exposed to the domestic stock market after they were made to invest up to 20% of their net assets in domestic stocks (through the China Securities Finance Corporation) to support the market during the 2015 pullback. **With valuations now at very tight levels – CITICS 2019 (Z+105bp) trade just ~20bp wider than BCHINA 2019 (Z+83bp) versus over ~130bp at the start of 2016 – we prefer to stay Underweight the securities complex.** Meanwhile, we are also cautious on the Chinese life insurers. Given pressure on their investment yields as a result of lower domestic interest rates, insurers have increasingly shifted their asset mix towards equities and non-traditional investments such as infrastructure project debt, asset management schemes and trust products, increasing the investment risk on their balance sheets. **Hence, we would Underweight both the PINGLI seniors (which are in any case relatively illiquid) and the CHLIIN 2075c2020 T2s (YTC: 4.53%).** Meanwhile, we are also not fans of the smaller insurers like SUNSHG and UNILIC on a fundamental basis given their small scale, short track record and elevated exposure to high-risk assets. For instance, ~30% of UNILIC's investment portfolio is in real estate investments and "trust schemes and debt investment schemes", i.e. shadow lending-type products. **However, we think these risks are largely factored into valuations of the SUNSHG/UNILIC seniors, which offer a meaningful pickup to the PINGLI seniors at current valuations, and are broadly Neutral on the bonds.**

Indian Banks: The public sector banks have struggled with poor profitability, worsening asset quality and inadequate capitalization for years. However, it was not until the RBI mandated banks to conduct an asset quality review and accelerate the recognition of legacy NPAs in December 2015 that the truly perilous state of their balance sheets was revealed. Since then, numerous public sector banks have reported net losses, hurt by the higher levels of NPA provisioning they had to take, while a handful of the weaker ones (i.e. BOI, Union and Syndicate) were downgraded to HY by S&P. Recent results show some stabilization in new NPA formation although it will likely take another 2-3 quarters before absolute levels of NPAs plateau. The public sector banks also continue to be severely under-capitalized and this situation is unlikely to improve anytime soon. The Indian government has committed INR700bn of funds to be injected into the public sector banks over the next four years but this falls short of the ~INR2.5bn of capital S&P estimates the banks will need to meet their capital requirements under Basel 3. Meanwhile, although the private sector banks have not been immune to asset quality strain (for instance, ICICI and Axis disclosed sizeable "watch lists" of potential bad loans that have been slipping into NPA status at a brisk pace), their robust pre-provisioning profitability and capitalization enables them to comfortably absorb the rise in NPA provisions. **On a fundamental basis, we continue to prefer the private sector banks and better performing public sector banks like SBI and Baroda as their stronger capital buffers and comparatively cleaner balance sheets place them in a better position to boost lending and profitability when the economy recovers. While we are not fans of the fundamentally weaker public sector banks like IOB, IDBI and BOI, we believe that downgrade pressure for these banks has moderated and their ratings should stabilize from here. In sum, we are Neutral on the entire senior complex as valuations fairly reflect the individual banks' credit profiles.**

On the regulatory front, the Finance Ministry released a draft bill on the resolution of financial firms in India on 29th September. **In essence, while the use of bail-in is provided for under the proposed framework,**

authorities retain a preference for recovery with bail-in to be used only as a last resort. Further, bail-in-able instruments must have contractual bail-in clauses. The restrictive bail-in language, coupled with the political obstacles the bill is likely to face (a multitude of laws would have to be amended), suggest very limited impact on the Indian banks and their outstanding bonds in the near-term.

Korean Banks: Despite the challenging operating environment (i.e. lower interest rates squeezing margins, ongoing corporate restructuring keeping asset quality under pressure), the Korean commercial banks have generally continued to see a gradual improvement in profitability while asset quality has also remained fairly stable. Although margins have been contracting, the banks are still seeing growth in net interest income on the back of higher loan volumes, which has helped to offset lower non-interest income like fees. Meanwhile, NPLs have generally been stable or declining given their relatively lower exposure to troubled sectors like shipbuilding, shipping, construction and steel. On the other hand, Korean policy banks like KDB and KEXIM are more exposed to the aforementioned stressed sectors (for instance, ~70% of loans to shipbuilding and shipping companies are originated by policy banks) and this has resulted in a meaningful pickup in credit costs. That said, government support for the policy banks remains very high, with KDB and KEXIM enjoying solvency guarantees from the government. Further, capital injections for KDB/KEXIM have been included in the government's 2017 budget while a KRW11trn recapitalization fund has also been established, which the banks can call on as required. **On the whole, we view Korean banks' senior valuations as uninspiring although we acknowledge that low-beta Korean senior paper should continue to benefit from a solid safe haven bid. Among their T2s, we see the most value in the WOORIB 2024 T2s (Z+246bp).** They offer an attractive ~135bp of pickup to comparable seniors versus ~85-115bp for other Korean banks' bullet T2s and ~85-90bp for Chinese banks' bullet T2s. While the recent move by KDIC to divest a 29.7% in Woori (reducing KDIC's stake in the bank to 21% from 51% previously) could prompt Moody's to reduce the four notches of uplift that Woori's senior rating currently benefits from, this would not impact Woori's subordinated debt ratings (which are notched off the standalone rating). **Among their AT1s, we view the new WOORIB 4.5% AT1s (YTC: 5.22%, Z+345bp) as attractive relative to the old WOORIB 5% AT1s (YTC: 4.53%, Z+293bp).** In our view, the stricter coupon distribution language (distribution is restricted to certain percentage of the bank's annual consolidated net income, as opposed to available distributable reserves on the old AT1s) and the 1.3-year extension are worth at most ~35-40bp, implying that the new WOORIB 4.5% AT1s are still ~30-35bp cheap relative to the old WOORIB 5% AT1s.

Southeast Asian Banks: Banking system fundamentals in Southeast Asia have been worsening as a result of sluggish economic growth in the region. In Singapore, the three major banks are seeing rising pressure on their asset quality, primarily from their exposure to the domestic oil & gas services sector which is under severe strain following the sharp drop in oil prices. The most high profile casualty to date has been Swiber, which filed for liquidation in July after finding itself unable to repay its creditors although it has since agreed to be placed under judicial management instead. Swiber's swift demise has resulted in higher NPLs and NPL provisions at all three banks, although the largest impact was no doubt felt at DBS, Swiber's main lender. The outlook for the oil services sector remains bleak, with more troubled companies (like KrisEnergy, Swissco, etc.) seeking to restructure their debt. **While asset quality stress is likely to persist, Singapore banks are in our view well positioned to weather a further rise in impairments given their robust pre-provisioning profitability and capital buffers. As a result, we would Overweight their 10nc5 T2s, which trade flat or just slightly inside of Chinese banks' 10nc5 T2s despite being rated 2-3 notches higher.** We acknowledge that there is some downgrade risk for Singapore banks as Moody's had revised its sector outlook to Negative in March, although we believe that this is already priced into valuations of the T2s. On the other hand, we would Underweight the DBSSP AT1s (YTC: 4.22%) on tight valuations.

In Malaysia and Thailand, banks are also seeing greater asset quality pressure although we would argue that Malaysian banks are at an earlier stage of the NPL cycle. In Malaysia, incremental stress at the banks has come largely from their overseas loan portfolios, particularly Indonesia, with domestic asset quality remaining resilient so far. However, we believe that slowing economic growth, coupled with the high level of corporate and household indebtedness, should lead to a pickup in domestic NPLs going forward. On the other hand, Thai banks have already seen NPLs rise steadily over the past few years, particularly in their SME and retail portfolios. However, apart from idiosyncratic cases like Sahaviriya Steel, which led to sharply higher impairments at SCB at KTB, corporate sector asset quality has held up relatively well. While the economic growth outlook remains subdued, we note that the pace of new NPL formation for the system has moderated and most banks are guiding for their NPL ratios to peak by mid-2017. Asset quality aside, Thai banks also generally exhibit stronger capital and provision coverage buffers than their Malaysian peers. **Hence, while we are Neutral on both due to unexciting valuations, we generally prefer to position in Thai banks' seniors over Malaysian banks' seniors. Meanwhile, we see limited value in their T2s – MAYMK 2026c2021 T2s (Z+214bp) and KTB 2024c2019 T2s (Z+226bp) – at current levels.**

Supply expectations: Asian financials (ex-Japan/Australia) have issued USD77.0bn of bonds YTD, mainly driven by Chinese financials (USD51.0bn or 66% of total Asian financials issuance) and to a lesser extent Korean banks (USD15.3bn or 20% of total Asian financials issuance). **We expect ~USD92bn of financials supply in 2017, with Chinese financials continuing to dominate issuance (~USD56bn or ~61%)**

a) **China: ~**USD56bn – For offshore expansion and raising Basel 3 capital.

b) **Korea:** ~USD18bn – For refinancing 2017 maturities and raising Basel 3 capital.

c) **India: ~**USD6bn – For refinancing 2017 maturities and raising Basel 3 capital.

d) **Other Asian Banks (i.e. Singapore, Hong Kong, Malaysia, Thailand, etc.):** ~USD12bn.

Outlook for IG corporates

For Asia IG corporates, we believe the macro data of China should hold and therefore we still feel largely comfortable owning central SOE names, with a preference for metals and mining which has been trading wide but we expect commodity price normalization to improve metrics. We expect high-quality bond supply to be limited and see adequate technical support, but prefer staying at the shorter end of the curve due to treasury volatility. Finally, we maintain our cautious stance on LGFV names. Outside of China, we are getting wary on the deteriorating political and business outlook of Korea and recommend switching into Hong Kong credits. For yield seekers, we recommend some high-quality unrated names or subordinated papers. In India, we are comfortable with the fundamentals of PSUs as oil price continue to look stable, but remain watchful on possible M&A risks. In the private sector, the Indian mobile landscape continues to evolve quickly but we expect incumbent player's metrics to hold, while we see some value in infrastructure names.

On **China**, while we expect overall corporate fundamentals to hold in 2017, largely driven by the improved commodity pricing. Nonetheless, technical factors will remain a key driver in bond pricing. **We expect high quality credits to be largely immune to portfolio outflows given the undying support of onshore money. We anticipate demand for Asia IG to continue to be strong where onshore investors' liquidity remains ample with a mixture of banks, real money and private bank clients continue to seek investment opportunities in USD assets. From a supply perspective, Exhibit 5 shows our expectation on the issuance volume for 2017 where we believe overall supply will increase ~20% y-o-y to USD40bn for China IG corporates. We believe this supply should quite easily be absorbed by the available China-driven liquidity in the market.** However, we do note that high quality supply will likely decline or be balanced out by redemptions, especially given onshore funding has once again become cheaper (see Exhibit 6) and the incentive to print dollar notes should theoretically be lower for issuers now. While one might argue onshore inflation may drive onshore yields back up, a similar argument is looming offshore where Trumponomics may create a similar yield climb parallelly in the dollar space. As a result, we expect the onshore pricing advantage argument to largely persist in 2017. Key volume driver will in fact continue to be new LGFV issues. All-in-all, we expect the China SOE space to be largely stable in 2017, with high quality and/or cheaper names potentially compressing further, while the LGFV space will see further credit differentiation.

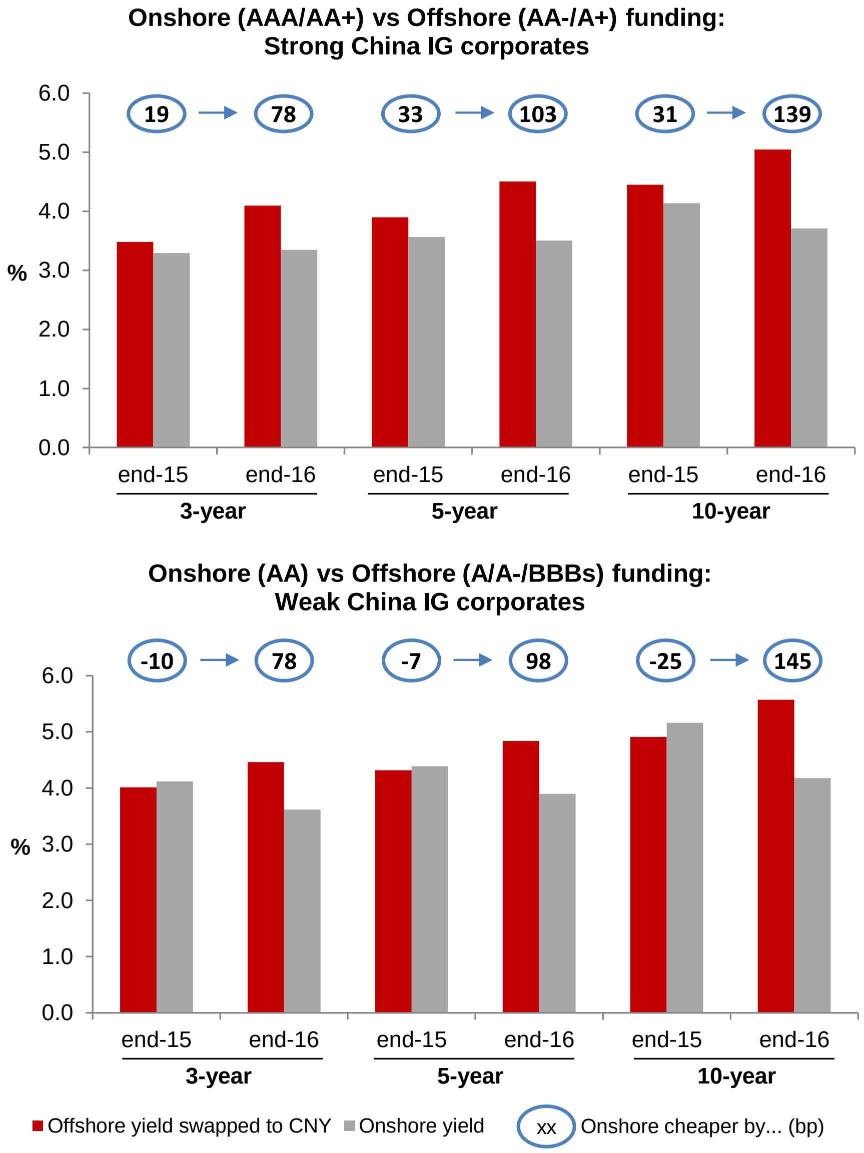
Exhibit 5. China IG corporate issuance – historic and forecast

Segments	FY16F from last year	11M16 Actual	Remarks on 2016 actual	FY17F	Remarks on 2017 forecast
Mega issuers (Oil majors, and other strong AA/A)	14	10	**Overestimated:** CNPC did not issue while CNOOC only issued in 1H. Overall sizes for Sinopec and State Grid have reduced	10	Minimal maturities in the O&G space may lead to even lower gross issuance. Expect M&A and capex appetite to remain subdued, but CNPC may come back. Factors above offsetting each other should bring total roughly flat to previous year
Tech names	2	3	**Underestimated:** despite no new supply from BAT, Huawei USD2bn and JD a newcomer	5	All three of BAT have 2017 bonds maturing (total USD2.5bn), and we expect some new comers in this space from US listed Chinese tech players as M&A consolidation continues. Huawei / Lenovo may return
IG SOEs	14	13	**In-line with expectations:** composed of issuers in A to BBB rated central SOEs, but the heavy Belt & Road issuers did not come as expected	15	Continue to expect some Belt & Road issuers to come for long-term refinancing in addition to existing serial issuers. We see moderate issuance grwoth from previous year
LGFVs	4	7	**Underestimated:** the issuance frequency and size are ~2 deals per month at ~USD300m per deal for the year	10	Strong pipeline expected. Similar to 2H16 we see ~2 or even 3 deals per month averaging ~USD300m each (sizes are growing), so we expect total to be tangibly higher than last year
Total China IG corps	**34**	**33**		**40**	

Source: Nomura

In general, we expect China's economic stability to be largely upheld in 2017. Recent economic pointers appear manageable, including 1) RMB devaluation continues but at a gradual and controlled pace; 2) GDP growth looks to be holding up at mid-6% area and hard-landing headlines have subsided; 3) foreign reserves still north of RMB3trn and looks stable as the country's fight to defend the currency becomes more relaxed; 4) housing market curbs appear restrained which should pose limited impact on GDP in the near term; and 5) overall all loan growth in 2H came substantially under expectations signaling a slowing debt snowball, among other metrics we track. As a result, we expect China's sovereign rating to be stable at least for FY17. Therefore, **we are generally comfortable with the overall centrally-owned SOE space. Even if China's sovereign rating comes under threat, we have seen rating agencies shown their willingness to avoid downgrading SOEs directly as a result. Hence, we also believe credit spreads of centrally-owned SOEs to remain stable throughout 2017.**

Exhibit 6. Onshore vs offshore funding, RMB equivalent yield



Source: Chinabond, Nomura

For Chinese oil majors, we now hold a largely Neutral stance on the sector given oil price recovery looks slow. Nomura's house view is for average crude price is USD60/bbl for 2017 and USD70/bbl for 2018, which will unlikely bring major improvements on credit fundamentals of any of the players. With the upstream CNOOC series continue to be ~15-20bp outside of the downstream Sinopec and the vertically integrated CNPC somewhere in between; we believe these are all relatively fairly-valued. **In the tech sector, we believe Baidu's fundamentals will continue to face pressure** as earnings recovery continues to be slow after the government cracked down on medical related searches. **Alibaba and Tencent both look stable with continued growth trajectory monetizing on their respective strategies,** but we note that Alibaba's headline risk remains on our radar given the SEC investigation on accounting practices including GMV definitions are still ongoing. Tencent is also prone to credit deterioration after the mega-sized Supercell deal and possible further M&A appetite. We have turned more comfortable with JD.com where the company is now planning to spin off its loans business, which should significantly de-risk the overall profile and we are turning Small Overweight the curve. We remain Overweight the Huawei seeing it as a strong single A in our shadow rating but it continues to trade 30bp outside its fair value.

Across other centrally-owned SOEs in the A to BBB rated space we are turning more constructive on metal names, especially those with strong central SASAC linkage and have been trading wide due to weak fundamentals. We believe the worst is past for many metals producers and 2017 should be a turnaround year. Steel, aluminium and copper prices, have turned around significantly since the beginning of 2016 (see Exhibit 75), and future prices indicate the market expects these to hold in 2017. We expect the capacity cut and stringent restrictions in adding any new capacity implemented by the central government (see Exhibit 7 for a summary) should produce more lasting price stability. We believe Baosteel, Chalco, Minmetals and China Metallurgical should benefit most. Despite SOE reforms have resulted in many of these incumbent names being injected with weaker subsidiaries, we are generally not that concerned, as we believe the resulting companies have stronger strategic roles.

Exhibit 7. **Brief summary of China supply side reform measures**

	Aluminium	Copper	Steel	Coal
Existing capacity reduction	Top smelters to reduce ~5mt by end FY16; resumption of suspended production prohibited	Top smelters to cut production by 250kt in 2016	China to reduce 100-150mt by 2020, where SOE has to cut ~10% production by 2017 and 15% by 2020	Reduce 500mt by 2020, where central SOEs mush cut 10% production by 2017 and 15% by 2020; reduce annual working days of mines by ~60 days a year
New capacity restriction	Postpone all new capacity schedule by at least 1yr	All new capacity will require stricter approval processes	All new capacity will require stricter approval processes	No new mines can be approved between 2016 and 2018
Other measures		Merging CHMETL in to MINMETAL to create cost synergies for higer efficiency production	Government funded at RMB100bn redundancy support fund effectively allowing larger scale layoffs in SOE steelmakers; merging Baosteel and Wuhan Steel	Share redundancy fund with steel sector to support layoffs; encourage vertically integration by exploring injecting coal companies in thermal gencos

Source: Nomura

Finally, in the **LGFV space**, we recommend only a handful of names which matches these criteria: 1) from a high administrative hierarchy, such a provincial government-backed; 2) owns strategic, monopolistic assets or have central mandates (e.g. power supply/distribution, metro/rail, environmental protection, etc.) which are difficult to be replaced; 3) have scale in both business operations and financial metrics such as revenues and total asset; 4) have strong government support track record with clear and transparent support mechanism. Finally, names which suit these criteria should be reasonably priced but many of them are already too tight. **Names which fit all the above requirements now include only YUNAEN, TRTHK and GXCMIN.** On the other hand, we would avoid LGFVs which have possible fallen angel risk, which are generally either trading too tight or have weak underlying fundamentals. **We believe names with the highest fallen angel risk are ZZCITY, GSHIAV and QDCCIZ.** We have summarized the fundamentals of the LGFVs we cover in Exhibit 48, and we have tabulated an LGFV RV table outlining their respective premiums over similarly rated SOEs in Exhibit 49.

Across in **Korea, we believe the DM-like spreads are not justified** for its political risk with a possible President Park's impeachment ahead and a possible lengthy period of political instability, continued aggression from the North, as well as quasi-sovereign fundamentals not improving much while the Korea's fiscal strength improvement remains stagnant. We remain mindful of the heavy supply from KOROIL where it may need more cash to bailout Harvest (YTD the company has issued USD2.5bn equivalent of offshore bonds, making up half of the entire corporate issuance in Korea IG corporates which is USD5.1bn YTD). Moreover, credit fundamentals of other resources names like KORGAS, KORWAT and KORESC remain very weak, with gross leverage at over 10x for all three. In fact, KORESC has just been downgraded to be one notch below the Korean sovereign by S&P and we expect similar action from Moody's soon. We reiterate the Korean quasis have no explicit government guarantee and they are too tight. We would only be comfortable owning Genco names and our favorite is KOHNPW which has the highest strategic value to the country, in our view, as all the others are vanilla thermal players.

We see Hong Kong names being more attractive compared to Korean corporates. In the quasi-sovereign space, the sovereign-rated MTRC is, in our view, still 5-10bp wider than the much weaker Korean quasis like KOROIL and KORGAS. We recommend a switch from Korea to Hong Kong here. In the privately-owned corporate space, Korean corporates continue to face operational headwinds (e.g. weak sales numbers and lack of attractive models for Hyundai, handset explosion in new Samsung phones, etc.), as well as corporate governance problems (e.g. Lotte family scandal and chairman prosecution), which make their credits look expensive, in our view. In contrast, Hong Kong privately-owned names are much more stable and less headline-prone. **We continue to recommend picking up high quality unrated HK names which pay good unrated premium, such as the PCCW holdco bond and the HKHKD. For investors willing to go down the ranking and structure, we see some value in the NWDEVL and the LIFUNG fixed-for-life perp but these remain largely carry plays as we see limited support on their cash prices especially after the recent recovery from their lows**. For a summary of perp RVs, refer to Exhibit 59. Finally, **we continue to be Underweight LIHHK which we see very real fallen angel risk**, where the company has won a bid for a land parcel in Hong Kong at HKD7.4bn, which we believe will push the company into net debt and become a fallen angel.

In India, we are quite comfortable with the underlying fundamentals of the state-owned oil E&P (ONGC, Oil India), refining companies (IOCL, BPCL), regulated power producer (NTPC) and power grid operator (Power Grid). Our house view is for Brent to average ~USD60/bbl in CY2017 which should bode well for the E&P companies. Recent improvement in the Singapore complex refining margins together with increased production capacities should be positive for the refiners. That said, recent acquisition of Russian assets is likely to increase leverage for all the four state-owned oil companies, with Oil India being the most impacted. We also expect these companies to tap the USD bond markets early next year to refinance bridge loans taken for these acquisitions.

We like the regulated nature of Adani Transmission's business and structure of the USD bonds which limits the company from injecting new assets & associated debt into the obligor group. We expect Adani Ports to report better earnings as robust growth in high margin container volumes offsets weakness in coal volumes. The company has reduced some of its related party loans in 1HFY17 and has committed to eliminating it by March 2017. That said, risk appetite is quite high and we would not be surprised if the company makes further port acquisitions. We expect UPL to report reasonable revenue growth, modest improvement in margins, low capex and maintain stable leverage metrics.

We like RIL's strong operations in its refining and petrochemical businesses which could offset near-term cash burn in its telecom operations. That said, we will be watching closely developments on the telecom front. Off late, there have been a few disconcerting headlines such as RJio likely to offer handset subsidies, possibly extending its free offering for another 3 months beyond December, quality of its services deteriorating as more customers come on the network and so on. The Indian telecom sector has traditionally been extremely competitive with at least 8 market participants vis-a-vis only 3-4 in most developed markets. With the entry of RJio, competition is only likely to increase. That said, we think that

Bharti has executed pretty well so far in this competitive environment with EBITDA margins in its India mobile operations inching up over the last few years to ~42% in 2QFY17 from the lows of ~30% in FY13. Also, we view positively on Bharti's intent to divest a significant stake in its ~72%-owned tower subsidiary, Bharti Infratel to preserve its financial profile.

Last but not the least, **we are largely Neutral on most Southeast Asian names as their tight pricing is largely balanced out by scarcity in supply.** We are comfortable with the credit fundamentals of the companies in the PTT complex but mindful of possible acquisitions/large capex outlay for PTTEPT/PTTGC. In the Malaysia space, we could see bond supply coming from Petronas (for capex) and Axiata for bridge loan refinancing. Petronas is likely to decide whether to proceed with a USD27bn LNG plant in Canada by April 2017.

Outlook for High Yield Corporates

We expect earnings outlook and credit metrics of the issuers under our coverage to remain largely steady or report moderate growth in 2017. These issuers will include the China property developers (though contracted sales growth will slow due to tightening measures), China industrials (except for the oil names), Indonesian property and industrials, Indian steel names and mining companies (like Vedanta, Indika). We expect more bond supply this year mainly from China property and industrials as well as Indian companies as onshore market has closed for property developers while rising onshore bond yields and tight offshore spreads will potentially lead to more first-time issuers going offshore. We also expect a number of China property and Indonesian companies to conduct corporate actions such as calling their bonds, tender offer / and debt exchange to deal with their upcoming bond maturities.

On China property, we expect to see some cooling in subsequent months in response to recent tightening measures. **We expect moderate decline in sales volume on a nationwide basis in 2017, while ASP is likely to hold due to developers' strong liquidity and high land price this year. Leading developers will still outperform the industry and grab market share.** Meanwhile, the tightening in financing to developers including onshore bond issuance and bank financing for land purchase will cool down the overheated land market. However, tightening policies are mainly targeting surging property price in 21 overheated cities supported by better supply-demand situation and we do not expect the policy to spread across the nation as destocking and economic growth is still the primary goal of the government. Thus, **we expect developers to be complacent and will not treat de-leveraging as priority over growth in 2017, but rather take advantage of the cooling land market as a window to replenish much needed landbank in higher tier cities. As such, we expect to see 10-15% growth in contracted sales (versus 40-50% in 2016), flat to moderately better margins and a 15-20% growth in earnings, while debt/EBITDA leverage should stay elevated in 2017 given the load-up of debt usage.**

On the technical side, with ongoing RMB depreciation, we believe the onshore bid will continue to play an important role in supporting the space, but at better valuations. At the same time, however, onshore bond issuance becomes less favorable due to regulatory tightening and rising onshore rates (up 30-40bp since mid-October), and repatriation of onshore funds for refinancing continues to be tightly controlled. **We expect USD bond supply to pick up in coming months mostly for refinancing purposes while some may even seek USD bond for land acquisitions as regulator has restricted the use of onshore bond proceeds – in Q1 and Q2 of 2017 respectively, there will be USD8.4bn and USD2.2bn equivalent of offshore bonds either maturing or subject to call and we expect total redemption size in 1H17 to be ~USD8bn (of which only USD2bn is prefunded by recent USD issuance). For the full year, we expect total offshore bond redemption to be ~USD14bn, majority of which is expected to be funded by new USD bonds.**

In terms of credit selection with a medium term view (especially when looking at recent and upcoming new issues), our preference has not changed too much from six months ago and base our views on a couple of factors including quality of landbank (city exposure and age/cost of landbank), stage and appetite of growth, combined with management mentality. For developers with sizeable landbank and operation scale, we hold on to our view that some (Longfor, Shimao, Guangzhou R&F) are in a much better position in the sense that there is no urgency to expand or reconfigure landbank and the relatively cheap cost of land is able to support a healthy margin going forward as we expect muted ASP growth. On the other hand, Country Garden and Agile are still in their transition period as they continue to look for landbank reconfiguration. For smaller developers, some are more aggressive and growth oriented such as Times, Logan, Future Land and China SCE. The landbank of these developers in core cities are depleting fast given strong sales this year (sustainable for just around three years). We believe they are intrinsically associated with higher concentration risk as single projects are becoming more capital intensive and sales execution in a slowing market can be a big swing factor to the company's credit profile.

Meanwhile, some small players are stuck with unfavorable landbank (such as Central China and Fantasia) – what makes things worse is that they do not enjoy low funding cost compared to bigger players to be competitive and do not have the financial war chest to do material landbank adjustment. In comparison, we view that KWG is in the better position with a high-quality low-cost landbank in the right cities, while Yuzhou and Aoyuan have accumulated a reasonable landbank in higher tier cities over the past 2-3 years that fit into their development scale for the next 4-5 years. Also, we are cautious on commercial and logistics property segment due to low rental yield on investment, especially in lower tier cities, hence our cautious view on Wanda, Powerlong, Future Land and China South City that have a material focus in the development of commercial/logistics investment properties in lower tier cities. Lastly, what has made it more difficult to monitor the full picture of the capital structure of the developers is the increasing usage of JV structure and hidden liabilities (such as Sunac, CIFI, Times, Central China, Modern Land).

On China industrials, we do not see much value there but expect more bond supply mainly from first-time issuers over the next 12 months. On the consumer product names, we are generally cautious due to tight valuation, and specifically, we are mindful of the lack of visibility related to the financial and business health of distributors amid intense industry competition for Degree, the declining sales revenue amid regulatory uncertainty and brand loyalty risk for Biostime, and on-going M&As and policy risk for Yestar. On the other hand, earnings outlook of the department store operators will remain mixed. We expect GERGHK will continue to turn around its business with the gradual transformation from traditional department stores into more lifestyle malls. Its ability to issue onshore bonds has also alleviated potential liquidity concerns as the company will need to spend more capex on this transformation. While Parkson's earnings will likely remain weak, the company's liquidity profile should improve post the disposal of its Beijing property and its working capital usage should be well contained. While we are Neutral on both names, we prefer PRKSON bonds due to its short tenor. We are Neutral on Maoye as it is our base case that the company will be able to tap various onshore financing to for refinancing including the 2017 bonds. On the car rental operators like eHi and CAR, we expect both companies will spend more capex to further gain market share. CAR will likely generate some positive free cashflow and we are Neutral on both EHICAR and CARINC bonds.

On oil related names, we are Neutral on ANTOIL, MIEHOL and HONHUA, with a preference of ANTOIL and relative dislike of HONHUA, after recent 10-15pt rally which we believe have priced in the positive event of each (which have either shored up its liquidity enough for at least 12 months in the case of Anton and MIE) and we don't think the underlying business are out of the woods in the current oil price environment to take care of the refinancing of USD bonds in 2-3 years.

On others such as HONGQI, YINGDZ and ZOOMLI, we expect earnings of HONGQI will continue to grow to reflect steady profit margins (with higher aluminum prices offsetting high coal costs) and volume growth though capex will remain high and will not rule out the possibility of new bond supply. We do not like HONGQI bonds due to tight valuations and rising debt usage. With the recent news of new share placement at Yingde, we are less concerned with its near-term liquidity position as it should be able to repay its short term debt of about RMB900m and are Neutral on YINGDZ bonds. It remains to be seen if there will be any major changes in the business and financial strategy, corporate disclosure and receivables collection of the company post the shareholder and management changes. We also do not expect ZOOMLI's credit profile to improve due to its lackluster earnings outlook and high debt usage. We therefore do not see much value in ZOOMLI 2022 bonds. That said, we expect the company will be able to redeem its 2017 bonds.

On the gaming sector, the Macau government expects gross gaming revenue (GGR) to be flat to a low-single digit growth in 2017 as compared to that in 2016 while S&P expects a flat to 10% increase in 2017 versus a decline of 3-6% in 2016 and a sharp drop of 34% in 2015. In terms of revenue mix, it will shift away from VIP gamblers toward the more profitable mass market gaming segment. Our equity analyst expects the tracking November GGR will likely increase 9-13% y-o-y to HKD17.6-18.2bn. It seems like the sector is recovering with GGR rising 1% y-o-y in August to 7% in September, 9% in October and an estimated 9-13% in November. That said, **one needs to closely monitor the data as there will be more capacity additions in Macau over the next six months (such as MGM Cotai, SJM, The 13). Competition will become more intense especially on the premium direct customers. We are therefore more comfortable with MPEL's strong credit ratios and STDCTY secured bonds given the uncertainty over the industry's sustainable recovery. On the other hand, we do not like WYNMAC given its high leverage ratio and expensive bond valuation.** It remains to be seen if the new Wynn Palace will generate some incremental earnings for the group.

For India HY, in the commodities space, we expect all three companies (JSW Steel, TATA Steel and Vedanta) to exhibit better credit metrics in the near term. After a robust 1QFY17, both the steel companies reported a weak 2QFY17 due to lower steel price realizations and higher iron ore and coking coal costs. **The sharp increase in coking coal prices over the last few months could continue to hurt steelmakers' profitability. However, we note that both companies have been raising steel prices since September (Please see Exhibit 78) and/or adjusting their coal sourcing mix (i.e. lowering proportion of hard coking coal and increasing proportion of semi soft coking coal on which price increase has not been that severe) and this could partially offset the increase in raw material costs.** For Vedanta, post completion of the Vedanta Ltd – Cairn India merger, the company could, in our view, use a significant amount of Cairn India's cash (i.e. ~USD3.6bn) to pay down debt at the Vedanta Ltd level. With an improving credit profile, the company now has better access to the bond markets to successfully refinance its upcoming maturities at the Vedanta plc hold co level.

Companies in the auto sector are likely to see continued high capex (for TATA Motors) and possible acquisitions (for Motherson) and hence; free cash flow generation could remain elusive. Nevertheless, we remain quite comfortable with their credit metrics due to their relatively low leverage levels and sound liquidity which provides these companies with reasonable financial headroom in their current ratings. **Within the pharma space, capex requirements are relatively low and both Glenmark and Jubilant should be able to generate some positive FCF and deleverage in the near term.** That said, regulatory risk is fairly high for this sector and significant delays in receiving approvals for new drugs or non-compliance with US FDA quality standards could pose considerable downside risk to earnings growth. **We like the regulated and monopolistic nature of Delhi Airport's business though near term risk is a possible tariff reduction that could cause its leverage levels to spike up.** Also, the company is likely to incur significant capex over the next few years. On others like HT Global, while earnings have been stable with more new contracts and clients being added, we are Neutral and turning less constructive on their business outlook going into 2017 with uncertainty over how it will be negatively impacted by Brexit and their exposure to the financial and airline sectors. In the TMT space, **we are a bit concerned about the underlying business fundamentals & liquidity position of GCX and expected high leverage levels at RCom post the restructuring of its wireless business and sale of towers.**

On Indonesian corporates, we are more constructive on the earnings outlook of the industrials as compared to that of the property developers in 2017. Our economists remain upbeat on the country's economic recovery with an estimated GDP growth of 5.2% in 2016 and 5.6% in 2017. While we expect IDR/USD to weaken from the current 13,473 to about 13,600 by end 2017, we do not expect their earnings to be materially impacted as the macro backdrop will be better as compared to the last weak FX cycle in 2015. We believe industrial names such as MPM, Gajah, Japfa, Sritex, Multipolar, MNC Investama should benefit from better consumer sentiment. That said, companies such as Gajah, Japfa, Sritex and MNC Investama will be exposed to some FX risk in their operations and / or debt profile.

On the other hand, **we view the market has priced in a much stronger recovery in the Indonesian property sector with repatriated funds from the tax amnesty law. That said, we only expect a mild recovery with sales picking up in 2H17 as potential buyers may take a wait-and-see attitude in 1H and weaker FX could dampen consumer sentiment. We therefore expect residential sales will remain soft with flat to single digit growth which will impact most of the property developers especially those with long-dated bonds.** We are more constructive on industrial sales, expecting FDI to gradually improve. This will be positive to Jababeka and Modernland.

We may see potential bond supply or loans from Indonesian corporates to refinance their existing ones as coupon of current bonds is high – This includes Pakuwon, Modernland, Multipolar and Tower Bersama. Going into 2017, corporates with 2018 bond maturity will be on the radar screen. We expect there will be potential corporate actions from issuers such as MLPL, Gajah and Indika. We see a high probability that the bonds will be called next year and management is working on alternatives to take out the bonds. On Gajah, management is looking for different alternatives such as bilateral loans or / and local currency bonds to partially repurchase its USD bonds. We expect Indika will look for different alternatives to refinance its 2018 bonds and will conduct an investor-friendly outcome. **We are more concerned with the refinancing risk of MNC Investama given no concrete plans to deal with the bond maturity thus far and we therefore revise our recommendation to Neutral from Overweight.**

Trade ideas

Asian Sovereigns and Quasi-Sovereigns

Overweight INDOIS 4.325% 2025 (Z+217bp) and INDOIS 4.55% 2026 (Z+229bp)

- We are constructive on Indonesia's fundamentals and expect further structural reforms and greater fiscal headroom from the tax amnesty program (which has made solid progress) to continue to drive the domestic demand-led recovery. While S&P has effectively taken an upgrade off the table at its upcoming December review, we believe that Indonesia should do enough to win an upgrade to IG by mid-2017 given positive momentum on growth and reforms. We also think that Indonesia is better placed to deal with capital outflow risks now than it was during the 2013 "taper tantrum".
- While valuations are not outright cheap, we think the INDON/INDOIS complexes still look attractive to similarly-rated sovereigns like ROMANI and REPHUN and would Overweight INDOIS 2025 and 2026. Sukuks were recently made eligible for inclusion into JPMorgan's EM indices (i.e. EMBI, JACI, etc.) and shorter-dated INDOIS sukuks have converged towards (and in some cases trade inside of) comparable INDON conventional bonds. In contrast, INDOIS 2025 and 2026 continue to offer ~20-30bp of pickup over comparable INDONs. Likewise, we think it makes sense for existing holders of INDON 2025 and 2026 to consider switching into INDOIS 2025 and 2026.

Underweight tight Indonesian quasi-sovereign bonds – PERTIJ 4.3% 2023 (Z+227bp) and PLNIJ 5.5% 2021 (Z+192bp)

- PERTIJ exhibits the largest rating headroom among the Indonesian quasi-sovereigns. It is the only quasi-sovereign that S&P cites as having an "almost certain" likelihood of government support, and has its rating equalized to that of the Indonesian sovereign. Plans to establish PERTIJ as the main energy holding company in Indonesia will also enhance its already high strategic importance, which could prompt Moody's to raise PERTIJ's support assumption to "very high" from "high" at present.
- That said, PERTIJ 2023 are trading close to their historical tights versus the INDON sovereign and we see scope for them to underperform. PERTIJ 2023 have rallied over ~155bp YTD versus ~80bp for INDON 2023 with the basis of PERTIJ 2023 over INDON 2023 compressing to historical tights of ~50bp compared to the 1-year historical average of ~85bp and wides of ~175bp in late January.
- PLNIJ, as Indonesia's largest electricity producer, is also highly strategically important to Indonesia. However, PLNIJ's standalone rating was lowered by one notch to b+ by S&P in June on the back of persistently high leverage. PLNIJ's outlook was concurrently revised to Stable from Positive, which implies that it will not be upgraded if the Indonesia sovereign is upgraded. However, PLNIJ bonds, particularly the 5-year part of the curve, trade very tight to comparable INDON sovereign bonds and we expect them to Underperform. For instance, the basis of PLNIJ 2021 over INDON 2021 has compressed to historical tights of ~25bp at present compared to wides of ~125bp in late January.

Buy CDS protection on the Malaysian sovereign (169bp)

- We are cautious on Malaysia as it is vulnerable to capital outflows given the high foreign ownership of government bonds (foreign ownership of outstanding MGS has increased to 51.9%) but has, in our view, limited policy options to counter such outflows. For instance, there is no room for BNM to raise rates given slowing economic growth and it has been employing administrative measures to support the falling MYR, such as pressuring foreign banks to restrict trading in the offshore NDF market. While we do not expect more draconian controls, such measures have hurt sentiment even more. We expect outflow pressure to persist and recommend buying CDS protection on Malaysia.

Switch from PLBIII 4.875% 2024 (Z+264bp) to PLBIIJ 4.25% 2025 (Z+286bp)

- We view Pelindo II (PLBIIJ) as a stronger credit than Pelindo III (PLBIII). Although capex is likely to remain elevated over the next few years, PLBIIJ's credit profile is supported by strong recurring rental income from JVs formed with established port operators like Hutchison Ports, which provide some buffer to volatility in trade volumes. In contrast, PLBIII, which operates its own terminals, does not benefit from such recurring incomes, leading Moody's to rate PLBIII's standalone rating (ba1) one notch lower than that of PLBIIJ (baa3). Further, although both are wholly government-owned, PLBIIJ is arguably a more strategically important SOE. PLBIIJ is the largest port operator in Indonesia and handles ~45% of the country's container throughput, compared to ~33% for PLBIII.

- By switching out of PLBIII 2024 into PLBIIJ 2025, investors extend duration by just 0.6-year but switch into a fundamentally stronger credit, and take out ~6 points and pick up ~20bp of spread in the process. It is also worth highlighting that PLBIIJ 2025 still offers ~90bp of pickup to comparable INDONs versus ~65bp for PLBIII 2024, ~50bp for PERTIJ 2023 and ~25bp for PLNIJ 2021.

Switch from PKSTAN 5.5% 2021 (101.45, Z+339bp) to SRILAN 5.75% 2022 (99.62, Z+404bp)

- Following the agreement of a three-year USD1.5bn Extended Fund Facility (EFF) with the IMF, we think the stage is set for Sri Lanka to introduce structural reforms and place its public finances on a sounder footing. Such ambitions are supported by recent parliamentary approval to raise the value added tax (VAT) to 15% from 11%, expanding the government's revenue base. On the other hand, we see a less favorable fundamental trajectory for Pakistan, and believe the recent improvement in its fundamentals is unlikely to be sustained without the discipline imposed by IMF programs (the recent three-year IMF EFF program was concluded in September). Further, upcoming elections in 2018 could lead to an increase in political noise and slippage in the fiscal consolidation stance.
- The PKSTAN 2021 sukuks have outperformed since issuance and we think it makes sense for investors to switch into the SRILAN 5.75% 2022. Investors extend duration by just 0.3-year but position in a better-rated sovereign – SRILAN (B1/B+/B+) is still rated 1-2 notches higher than PKSTAN (B3/B/B) – with a positive fundamental trajectory and pick up ~65bp of spread.

Asian Financials

Overweight wide Chinese leasing seniors – ICBCIL 3.25% 2020 (Z+153bp) and ICBCIL 3.2% 2020 (Z+149bp)

- We view leasing companies that are sponsored by commercial banks as key subsidiaries of their parent banks and expect this strategic importance to remain intact for the foreseeable future. This view is shared by the rating agencies, which have equalized the ratings on the leasing companies with the ratings of their parent banks. While the leasing-to-bank senior premium has compressed to ~50bp on average from wides of ~80bp in March, we continue to view leasing company seniors as offering an attractive pickup to banks' seniors for limited additional risk and would Overweight them.
- Within the leasing senior complex, we prefer to position in ICBCIL 3.25% 2020 (Z+153bp) and ICBCIL 3.2% 2020 (Z+149bp) over ICBCIL 2.75% 2021 (Z+147bp) and ICBCIL 2.5% 2021 (Z+150bp) given the inverted ICBCIL 2020-21 curve. On the other hand, we prefer to avoid the recently issued CMBLEM seniors – CMBLEM 2.625% 2019 (Z+126bp) and CMBLEM 3.2% 2021 (Z+161bp) – which trade pretty much flat to comparable ICBCILs and, in our view, do not adequately compensate investors for parent CMB's smaller size and systemic importance relative to ICBC, which is reflected in its two notch lower rating (Baa1/BBB+/BBB versus ICBC's A1/A/A).

Overweight WOORIB 4.75% 2024 T2s (Z+246bp)

- Woori has continued to see an improvement in its fundamental profile. Bad loans have continued to decline with the NPL ratio improving to 1.07% in 3Q16 from 1.22% in June. While the bank's capital position continues to lag those of peers like Kookmin (CET1 ratio of 14.35%), KEB Hana (13.55%) and Shinhan (12.12%), Woori has made good progress in improving its capitalization, with its CET1 ratio improving to 9.04% from 8.30% a year earlier. The Tier 1 ratio also improved to 11.14% from 10.20% a year earlier following the issuance of offshore AT1s. This improvement has not gone unrecognized with

S&P upgrading Woori's standalone rating by one notch to bbb+ in September, which also resulted in the rating on the WOORIB T2s being raised by one notch to BBB.

- In our view, the KDIC's recent sale of a 29.7% stake in Woori to seven investors for USD2.1bn should reduce the ownership uncertainty that has hung over the bank for years. On the back of the stake sale, Moody's affirmed Woori's A2 rating and revised the outlook to Stable from Negative.
- We continue to view the WOORIB 2024 T2s, which are one of the widest T2s in Asia, as attractive as they offer ~135bp of pickup to comparable seniors versus ~85-115bp for other Korean banks' bullet T2s and ~85-90bp for Chinese banks' bullet T2s. We acknowledge that the split rating on the WOORIB T2s could be a technical drag, although we believe it is largely priced in at current levels.

Overweight Singapore banks' T2s – UOBSP 2.88% 2027c2022 T2s (Z+185bp) and UOBSP 3.5% 2026c2021 T2s (Z+182bp)

- We think valuations of the UOBSP 2027c2022 T2s and the UOBSP 2026c2021 T2s look attractive as: 1) they are trading wider than Chinese banks' 10nc5 T2s like the CCB 2024c2019 T2s, the BOCOM 2024c2019 T2s and the ICBCAS 2024c2019 T2s despite being rated two to three notches higher, 2) they are trading ~50-55bp wide of the older UOBSP 2024c2918 T2s for 2-2.5-years of extension, which we view as quite steep given the bond's high ratings, and 3) DBSSP AT1s are trading just ~60bp wide of both UOBSP T2s – we believe some decompression in the AT1-to-T2 premium for Singapore banks is appropriate and see greater scope for the T2s to outperform.
- We continue to view UOB as having solid fundamentals. Impairments have risen on the back of its oil & gas exposure – like peer DBS, UOB has exposure to troubled oil services company Swiber, although management noted that it has fully provided for this exposure. However, the bank's strong NPL coverage and capitalization should also allow it to comfortably absorb a rise in impairments.

Overweight CBAAU 3.375% 2026c2021 T2s (Z+210bp)

- The CBAAU 2026c2021 T2s rallied ~10bp post issuance although they have since given those gains back. Nevertheless, we continue to see value in the T2s. At current levels, they exhibit a T2-to-senior multiple of ~2.5x, one of the highest among Asia Pacific banks' 10nc5 T2s. In contrast, Chinese banks' 10nc5 T2s have ratios of ~1.6-2.3x while Singapore banks' 10nc5T2s have ratios of ~1.8-2.3x. Likewise, the T2-to-senior pickup on the CBAAU T2s of ~125bp is markedly higher than those on Chinese banks' 10nc5 T2s (~65-95bp) and Singapore banks' 10nc5 T2s (~75-85bp).
- The CBAAU 2026c2021 T2s also look attractive versus the recently issued WSTP 2031c2026 T2 – they trade just ~15bp inside of the WSTP 2031c2026 T2s despite having an effective duration (to the first call date) that is 5.1-years shorter – and versus AUD FRN T2s like the NAB 2026c2021 T2s (DM+200bp, Z+177bp in USD terms) and the WSTP 2026c2021 T2s (DM+197bp, Z+174bp in USD terms). Consequently, we recommend holders of both the WSTP 2031c2026 T2s and the AUD FRN T2s to consider switching into the CBAAU 2026c2021 T2s.

Underweight Chinese joint-stock bank (JSB) seniors – INDUBK 2% 2019 (Z+82bp) and INDUBK 2.375% 2021 (Z+127bp)

- Fundamentally, we are cautious on the Chinese JSBs given: 1) their lower potential for government support, given their smaller size and systemic importance, 2) weak capitalization, with CET1 ratios in the ~8-9% range compared to ~10-13% at the big four banks, 3) lax NPL recognition, with >90 day overdue loans-to-NPLs in the ~120-160% range compared to ~80-110% at the big four banks.
- INDUBK in particular exhibits the largest shadow-lending exposure among the Chinese banks with USD bonds outstanding, with investment receivables making up 34% of assets. In contrast, the big four banks have receivables exposure of just ~2-3% of assets. Its capital position is also relatively weak with a CET1 CAR of just 8.87%. Finally, we view government support as being weaker for INDUBK versus the big four banks as the Fujian government only has an 18% stake in the banks.

- The INDUBK 2019 and 2021 are trading just ~5-10bp wide of comparable BCHINA seniors, which we view as unjustified. While they currently benefit from supportive technicals given strong demand from Chinese accounts, they are, in our view, the most overvalued JSB seniors and are likely to underperform should concerns on the Chinese banking system intensify.

Underweight tight Chinese AMC seniors – ORIEAS 2.375% 2021 (Z+142bp) and ORIEAS 5% 2024 (Z+239bp)

- ORIEAS took advantage of the favorable pre-Trump market backdrop to price their seniors at very tight levels. Although the ORIEAS complex arguably benefit from supportive technicals, given the smaller amount of ORIEAS (USD2.75bn) bonds outstanding versus HRAM (USD12.5bn, including the HRAM senior perps) and CCAMCL (USD8.2bn, including the CCAMCL AT1s), we do not think it is justified for ORIEAS 2021 to trade ~55bp inside of comparable HRAMs. Further, they trade just ~25bp wide of comparable BCHINAs versus the current average AMC-to-bank senior premium of ~70bp. We also view OREIAS 2024 (Z+239bp) as trading tight to CCAMCL 2024 (Z+244bp).
- We view ORIEAS as being fundamentally weaker than HRAM/CCAMCL. With assets of CNY411bn, ORIEAS is significantly smaller than HRAM (CNY1,073bn) and CCAMCL (CNY1,009bn), which could potentially imply a lower level of government support. ORIEAS is also less well capitalized than its peers, the main reason behind S&P's decision to rate its standalone rating one notch lower than peers, bb versus bb+ at HRAM and CCAMCL. That said, plans to reorganize itself as a joint-stock company with a view towards an eventual IPO should resolve this in the medium-term.

Underweight CCAMCL 4.45% c2021 AT1s (97.725, YTC: 4.99%)

- Despite some decompression of late, the CCAMCL AT1s continue to trade tight extremely tight. At current levels, the AT1-to-senior pickup on the CCAMCL AT1s (~145bp) is significantly tighter than the ~155-190bp pickup for Chinese banks' AT1s. The AT1-to-senior multiple (~1.8x) is also much lower than the ratio for Chinese banks' AT1s (~2.4-2.7x). Although the CCAMCL AT1s benefit from the strong onshore repackage bid at present, the higher-beta AMC space is likely to underperform in a risk-off scenario, with such underperformance likely to be amplified in the AT1s, in our view.

Switch from CINDBK 4.25% c2021 AT1s (98.0, YTC: 4.71%) or CINDBK 7.25% c2019 AT1s (106.575, YTC: 4.33%) to ICBCAS 4.25% c2021 AT1s (96.625, YTC: 5.07%)

- ICBC Asia exhibits stronger standalone fundamentals, i.e., significantly larger scale and superior asset quality and capitalization than CITIC Bank International, which is reflected in its one-notch higher Moody's baseline credit assessment (BCA) of baa1 versus CITIC Bank International's baa2. In addition, ICBC Asia arguably benefits from stronger parental support from ICBC, China's largest bank, which in turn benefits from a very high likelihood of support from the government.
- Switching from the CINDBK 4.25% AT1s into the ICBCAS 4.25% AT1s enable investors to position in a stronger bank and pick up ~35bp of yield. Meanwhile, by switching from the CINDBK 7.25% AT1s into the ICBCAS 4.25% AT1s, investors extend duration by 2.2-years (assuming both AT1s are called at their first call dates) but get to take out ~10 cash points and pick up ~75bp of yield.

Switch from WOORIB 5% c2020 AT1s (YTC: 4.53%, Z+293bp) to WOORIB 4.5% c2021 AT1s (YTC: 5.22%, Z+345bp)

- Compared to the old WOORIB 5%AT1s, the new WOORIB 4.5% AT1s are 1.3-year longer to their call date and have a slightly weaker structure with respect to coupon collation. Specifically, the new AT1s have an additional stipulation restricting coupon distribution to a certain percentage (ranging from 0-60%) of the bank's annual consolidated net income (as opposed to available distributable reserves previously) if its CET1 CAR, Tier 1 CAR and Total CAR fall below 5.375%, 6.875% and 8.875% respectively. These thresholds step up in stages to 8%, 9.5% and 11.5% by January 2019.

- In our view, the duration extension and stricter coupon distribution language are worth at most ~35-40bp, implying that the new WOORIB 4.5% AT1s are still ~30-35bp cheap to the old WOORIB 5% AT1s. Further, the AT1-to-senior ratio/spread on the new WOORIB AT1s of ~3.2x / ~240bp is also markedly higher than the ~2.8x / ~185bp ratio/spread on the old WOORIB AT1s.

IG Corporates

China corporates

Overweight SBSG 2018 at Z+145bp and 2020 at Z+183bp

- We believe the improvement in steel price in 2016 benefits the group. Although we expect the injection of Wuhan Steel will be credit negative to the fundamentals, the strategic importance would increase for the resulting group. Rating agencies have recently reaffirmed Baosteel's rating at Baa1/BBB+. While Moody's placed the company on Negative Outlook and S&P placed it on CreditWatch Negative, we believe bond prices already reflect a one-notch downgrade, and they are cheap compared to other central SOE names.
- The SBSG 2018 is guaranteed by an offshore vehicle, Bao-trans, 100%-owned by Baoshan Iron and Steel Co. (BISC), the flagship listco for the steel business of the Group which has a majority 80% stake in it. This results in a bond rating of Baa2/BBB+. We equate the credit strength of BISC to its parent, Baosteel, given the former makes up a large part of the latter (~72% revenue contribution and ~45% of total assets). Also, this particular keepwell structure is one of the strongest in the market, such that an irrevocable, SAFE pre-approved cross-border standby facility exists as a liquidity support to the issuer. This should render the structural premium minimal compared to other keepwell enhanced bonds. Nonetheless, the SBSG 2018 looks cheap compared to other 2yr central names in the market such as CHCONS, CMHI and COFCO which average Z+100-120bp, more than pricing in the potential downgrade.
- The SBSG 2020, on the other hand, has Baosteel Resources International (BRI) as guarantor which is the flagship 100%-owned subsidiary of Baosteel Group for its ore resources. In this issue, Baosteel Group provides the keepwell enhancement which is, in our view, a touch stronger than the bond above, which only has a keepwell from the listco. This bond is rated Baa2/BBB where S&P puts it a notch weaker than the bond above, while we argue that the two should be flat. However, this bond has a vanilla keepwell structure that is weaker than that of the 2018. Given Baosteel is the key credit strength provider; the impact on these bonds should be similar to that of the above under a potential merger with Wuhan Steel. The SBSG 2020 is ~40bp wider than the 2018s above which looks too steep (cheap) on the already cheap 2018s. A fair 2yr tenor difference should be ~15-20bp. We see even more upside in this name. 2020 is also a roll bond which should see more benefit next year.

Overweight MINMET 2020 at Z+165bp and 2025 at Z+235bp

- The MINMET continues to trade flat to the COSL curve but we believe the former should tighten much further in. COSL is in much worse shape due to continued decrease in day rate and utilization as CNOOC continues to curb capex and it has now been downgraded to a notch lower than MINMET. In contrast, other strong 100% central SASAC-owned are much tighter e.g. the SINOCH 2020 at Z+138bp mid. By the same argument, the 2025s are even cheaper displaying a ~75bp 5s10s versus peer average of ~60bp.
- While Minmetals' latest results showed a material increase in leverage (from ~11x to ~17x) due to a 38% drop in top-line, we believe the credit metrics have bottomed out and should show signs of improvement in end-2016 numbers. In particular, we are positive with three key developments:
  - Upcoming merger with China Metallurgical Group (CMG) will be credit positive. With CMG a much better credit than Minmetals, forecasted gross leverage for the merged company will reduce to ~10x and negative free cash flow to reduce from RMB40bn a year to ~RMB30bn a year. It will be

double the size in terms of assets and revenues, significantly increasing its strategic importance to China which should warrant more parental support.

- Minmetals' recent acquisition of Brazilian copper mine Las Bambas has recently commenced production and should be fully ramped up by 2H16. This will add to the company's cash flow substantially, with ~300k tonnes of copper concentrate production expected for FY16, and a production cost of ~USD0.8-0.9/lb (within the first quartile in the global cost curve).
- We see base metal prices increasing to support margins. While Minmetals' top line dropped, its EBIT actually swung to profit from RMB1bn loss to RMB10m profit. While this may seems small, it signifies a turning point in profitability and with 2016 prices still on the rise; we expect margins to continue to improve.

Overweight HUAWEI 2025 at Z+200bp

- We believe HUAWEI should not trade substantially wider than its A rated TMT peers in China. We apply a 10-20bp premium for the HUAWEI's unrated nature and RegS only status, given US investors are sizeable in the Chinese TMT space. With the BAT 10yr averaging ~Z+165bp mid or 35bp tighter, the HUAWEI is at least ~20bp cheap in our opinion. In fact, we believe Huawei's metrics are no worse than those of Alibaba and Tencent, which means it can trade as tight as the TENCNT 2025 which is now at Z+145bp.
- We see Huawei as a strong single A name given the extremely robust credit fundamentals. 2015 net cash grew to RMB84bn (up ~64% y-o-y), while EBITDA grew 20% y-o-y to RMB56bn. The smart device business drove impressive topline growth to approach ~RMB400bn, as Huawei is now the third-largest smartphone brand globally by number of devices shipped.

Overweight CHALUM 2021 at Z+256bp

- The CHALUM bullet bond continues to be exceptionally cheap considering the cheapest SOE names CNBG 2021 is ~60bp tighter. We continue to like it over its perpetual counterparts.
- This flagship subsidiary (2600.HK) of the group has reported improving 3Q results which further consolidates the turnaround trajectory we saw since the 1H16 results were reported. Profit swung to RMB50m from a loss of RMB973m one year ago, cash flow has significantly improved as we have predicted earlier, largely due to aluminium price recovery. Quarterly EBIT was RMB302m versus a loss of RMB1.2bn one year ago. 9M16 OCF reached RMB7.4bn from RMB3bn last year. Our EBITDA forecast for the year is now RMB10bn. Total debt continues to come down, now at RMB99bn compared to RMB110bn at end-June. Liquidity looks much better with forward interest coverage at ~2x. As a result, S&P has removed the company's Negative Outlook and reaffirmed the rating at BBB- (Stable), thereby largely eliminating immediate fallen angel risk. Downgrade trigger continues to be 1x interest coverage, which we now see a whole lot more headroom.
- Chinalco has very high strategic value to the Chinese government as the sole aluminium platform at the central SASAC level which owns important onshore and offshore bauxite mines. We reiterate our view that the credit positive results of Chalco should accurately reflects that of Chinalco (the credit strength provider of this bond via a keepwell). We believe the standalone credit rating at S&P for both Chalco and Chinalco to be flat to each other – a fair assumption given the major business and financial metrics overlap. Looking at how Chalco's BBB- rating is constructed, its BB- standalone rating is uplifted by three notches to BBB-. Given Chalco is only ~40% owned by Chinalco, and considering other 100% centrally owned have larger parental uplifts, we believe if Chinalco is rated, it should be BBB or better.

Switch from CHGRID 2026 at Z+137bp to CHGRID 2021 at Z+105bp

- The CHGRID curve is exceptionally flat with a 5s10s at just 32bp on Z-spread, while the industry average is ~60bp. With our expectation of a more volatile long end due to treasury movements, we recommend the switch which allows investors shorten duration by giving up a very small spread.
- We remain very comfortable with CHGRID's fundamentals as the overwhelmingly larger of the two duopoly players in the distribution industry in China. We are also highly comfortable with its high

strategic value to the government and expect the ratings, which are flat to the sovereign, to remain very stable in the medium term.

Switch from SHENGY 2025 at Z+160bp to 2020 at Z+128bp

- Similar to arguments presented in the CHGRID switch above, the SHENGY curve is also very flat at 32bp for the 5s10s versus peer average of ~60bp. A switch allows investors shorten duration by 5yrs but give up only a small amount of spread.
- We feel very comfortable with the fundamentals of Shenhua, where the coal producer is also integrated downstream into thermal generation which buffers out coal price volatility. We also expect the company to post good FY16 results for the mining segment, given the significant increase in coal price this year. With FY15 EBITDA at RMB63bn, we expect at least a 10% y-o-y increase to ~RMB70bn for FY15. During the year, Shenhua has been massively cash generative where net debt has been reduced significantly from RMB60bn to ~RMB15bn, a 75% reduction.
- Nonetheless, while the merger rumors (with CGN) have subsided, we shall not be surprised Shenhua will be asked by the central government to absorb some bad assets. In which case we do not expect the rating of Shenhua nor credit spread of the curve to change materially in an event of an injection, given its excellent metrics and extremely high strategic value to China.

Switch from TENCNT 2025 at Z+143bp to BABA 2024 at Z+168bp

- The switch allows investor reduce tenor by 1 year, move up one notch to an A+ credit and pick up credit spread by 25bp. With cash price of the TENCNT 2025 at 102 mid and the BABA 2024 at 99 mid, investor also takes out ~3 points in the switch.
- Tencent 3Q16 results showed heightened net cash reduction after prefunding for the massive Supercell deal. Total debt grew 7% q-o-q as new loans have been raised in preparation for M&A while cash was stable. Net cash retreated to just RMB2bn (Q2: RMB17bn). With FCF at ~RMB40-50bn per year, we expect a comfortable net cash balance to be replenished in 2017. All-in-all, we feel comfortable that Tencent will sell-down of 50% of the purchasing consortium’s voting right, such that the overhang of Tencent having to swallow the entire deal has been erased. That said, we remain mindful of the fact that this USD9bn deal will bring only strategic value to Tencent instead of immediate cash flow contribution, where management noted that no SuperCell dividends have been planned in the first year. We continue to believe the TENCNT curve is expensive especially at the 10yr trading 25bp inside the BABA and 20bp inside the Sinopec.
- Alibaba remained an excellent A+ credit. 3Q16 results showed core e-commerce segment continued to grow and the cloud business surging. Total revenues were up 55% y-o-y in which e-commerce grew 41% and Aliyun grew 130%. EBITDA was RMB15.9bn maintaining a margin of an impressive 46%. FCF was RMB13.9bn resulting in a net cash position at RMB100bn after an M&A-heavy 1H as we predicted. We remain very comfortable with Alibaba’s A+ rating, while we remain watchful on the SEC investigations. Nonetheless, we believe BABA should be flat to or inside of the TENCNT.

Underweight COSL series

- With COSL 2020, 2022 and 2025 now trading Z-spread mid of +166bp, +184bp and +216bp, these are still trading inside strong central SASAC names like MINMET and CHITRA, which have more solid government linkage as well as better fundamentals and prospects. We continue to be underweight the entire curve believing it should trade closer to weaker IG names like Chalco and CNBG, i.e. widen out 20-30bp.
- 1H16 results continued to deteriorate. Revenues were almost halved y-o-y to RMB7bn and EBITDA was RMB1.2bn for the first half due to a higher-than-expected COGS and staff cost coming down much slower than what was needed. EBITDA margin has slumped to just 14% versus ~30% last year. Drilling segment’s utilization and day rates both declining together at ~30-40% y-o-y. Recent recovery in oil price has not improved operations as we expect upstream price changes usually take 12-18 month to benefit oil services players. CNOOC, COSL’s largest captive client, continues to post ~30% capex

reduction y-o-y. We now see FY16 EBITDA at ~RMB2.5bn which would render forward gross and net leverage at 13x and 10x; and a negative FCF of ~RMB3bn for the year. S&P has since downgraded COSL to BBB and Moody's placed the Baa1 on Review for Downgrade. We are now getting very bearish on this name and see it as a very weak BBB-.

LGFVs

Overweight TRTHK 2019 at Z+149bp and 2021 at Z+174bp

- The TRTHK curve has been constantly ~20bp wider than those of its counterparts, where the 2019 pays ~35bp and 2021 pays ~25bp of LGFV premium versus the sector average of just 16bp.
- Metro-LGFVs are our preferred group of LGFV bonds to own, given they generally have clear central mandate and transparent support mechanisms. However, these tend to trade very tight with almost no LGFV premium. TRTHK is an outlier where its offshore rating is a touch low compared to its onshore rating, hence they are trading wider in the dollar market. The parent entity of TRTHK is rated A3/A by Moody's and Fitch, flat to GUAMET and a notch weaker than BEIJII, but it is AAA onshore (by Lianhe), flat to its Chinese metro peers (in fact, GUAMET is a touch weaker onshore as one onshore agency rates it AAA-).

Overweight YUNAEN 2019 at Z+185bp

- The YUNAEN pays ~50bp of LGFV premium over similarly rated SOE peers, which looks generous compared to the sector average of ~30bp. With the YUNAEN still trading ~10bp outside of the YUNINV, we believe there is still some good potential upside in this name.
- We like provincial level LGFVs which are high on the administration hierarchy. We are comfortable with the fiscal health of Yunnan as a province (where our Economics team ranks it at 17th riskiest out of 30 provincial jurisdictions which is relatively low risk). YUNAEN is an AAA rated name onshore, with arguably better credit quality than fellow Yunnan names YUNINV and YUNMET, in our view. YUNAEN holds the most valuable energy assets of YUNINV and should warrant a similar, if not stronger, level of strategic importance to its parent, and is clearly a stronger entity than YUNMET. However, Fitch is the only offshore agency which rates these entities and has placed YUNAEN lower than its Yunnan counterparts, with which we reiterate our disagreement.

Underweight ZZCITY 2019 at Z+195bp

- The ZZCITY bonds are not trading particularly cheap, at Z+195bp mid and pay ~45bp of LGFV premium over the peer average of ~35bp which seems fair given its weak IG status, in our view. We do not believe this compensates for the weak metrics and the potential fallen angel risk. Similarly priced weak LGFVs like the Yunnan complex or the Gansu are better to own as they are at least backed by a provincial level government.
- We are concerned with the fiscal fundamentals of ZZCITY's backing government, Zhuzhou, which is a small city in the already mediocre province Hunan. The administration hierarchy is relatively low as we prefer LGFVs coming from governments higher up the administrative ladder of the country. While the province is ranked 10th in GDP out of 31 provincial jurisdictions, Zhuzhou is only the 5th largest city in the province with a very small municipal GDP of RMB230bn. Moreover, the liquidity of the company is very bad even within the LGFV spectrum, with only 0.4x interest coverage. The company is rated AA+/AA- onshore by Chengxin and CCRC, but Baa3/BBB- by Moody's and Fitch offshore, which we feel is too aggressive.

Underweight CSPLIN 2019 at Z+205bp

- CSPLIN is rated BBB- by S&P but receives an AA+/AA onshore rating with Chengxin/Dagong; which reflects CSPLIN is weaker than other capital city level LGFVs normally rated at AAA onshore. Given the JNXCCC is rated BBB- by S&P and we believe this new CSPLIN must be weaker, and we remain doubtful whether CSPLIN is a real IG name. We see tangible fallen angle risk on this name and should it cross-over to HY, we expect it to trade at high-4% indicating ~130bp of potential downside. All-in-all, we do not see value in this issue and the risk-reward of owning this name does not make sense.

- This is another Hunan name but we would expect the capital city Changsha to produce higher quality LGFVs compared to Zhuzhou above. However, CSPLIN is one of the weaker LGFVs we have covered. S&P noted the city is of high liquidity risk given debt-to-operating income is at 270% and is one of the weakest municipals in the country. CSPLIN fundamentals are very weak even by an LGFV yardstick, with 74x gross leverage as of FY15 and maintains an interest coverage of only 0.1x, and cash-to-ST debt at ~0.8x, casting some doubt on the immediate liquidity of the company. Earnings are particularly lumpy where revenues dropped from ~RMB6bn two years ago to just RMB1bn now as Changsha government curbed land sales, and the future income stability of the company will be entirely dependent on the municipal government's land policy.
- The scale of CSPLIN is lower than peers at ~RMB54bn total asset (JNXCCC RMB77bn, CHDXCH at RMB67bn, similar to fellow Hunan name ZZCITY at RMB52bn), and it is not by any measures the largest SOE within Changsha (e.g. total assets ranked #3, total revenue ranked #5, tax paid ranked #5). We are mindful that CSPLIN does not hold any strategic assets / businesses for the Changsha government (it is mainly involved in primary land development), but take comfort that CSPLIN is mandated as the sole developer of the Xiangjiang New District (which is a central mandate, similar to the development of Pudong, Binhai, etc.).

Hong Kong corporates

Overweight CKHH 2027 at Z+150bp

- While on-the-run tenors look largely fairly valued, we like the 2027 as it will become a full 10yr paper next year. Compared to fellow HK corporate CHINLP, the CKHH curve is around 10bp wider everywhere else but at the 2027, the CKHH is 20bp wider. We see good value in the 2027s.
- Recent Hutch results showed that the company's metrics remain very robust with limited impact from Brexit and GBP weakness, as the group is naturally hedged with a substantial amount of GBP debt and interests to be paid each year, while its UK business are heavily regulated and incomes are highly recursive. The company guided another 10% depreciation in GBP will move EBITDA down by ~HKD1.6bn (less than 4% of the group's annual total) while the natural hedging would render no change in gross leverage. We continue to feel very comfortable with the blue chip HK conglomerate.

Overweight HKHKD 2023 at Z+220bp

- The unrated HKHKD 2023 continues to trade wide compared to other HK corporates. With the PCCW holdco 2022 bond trading at Z+176bp mid and the opco 2023 is at Z+152bp. Weak BBB- names like NANFUN 2022 are in the Z+160bp area. All comparables indicate the HKHKD is at least 60bp cheap and this 2023 will have the added benefit of rolling down next year.
- Fundamentals continue to be strong for the HK mobile operator. FY16 end-June results continue to be encouraging. Revenues and EBITDA were holding stable after a weak 2015, at HKD18.3bn and HKD2.7bn, respectively. Postpaid ARPU increased 2% y-o-y while churn is maintained stably at the excellent rate of 0.9%. Credit metrics and liquidity continues to be strong with gross leverage just ~1x and a HKD570m net cash position. We expect near term fundamentals to remain stable.

Switch from KOROIL 2026 at Z+104bp to MTRC 2026 at Z+100bp

- We like the MTRC which has excellent fundamentals and is majority controlled by the Hong Kong government, with company rating matched to that of the sovereign which is effectively AAA or roughly one notch stronger than KOROIL. This switch allows investor to move into a better, more stable and scarcer credit at the same tenor, giving up only ~5bp of spread.
- KNOC is one of the weakest quasi-sovereign oil companies in the region in terms of operating metrics. Revenues have been in consistent decline due to low volumes and a recent low oil price environment.

Group revenues have dropped from KRW11trn in FY12 down to just KRW3trn in FY15. EBITDA reduced from KRW3.2trn to just KRW1.2trn. During the same period, the company's net cash position of KRW800bn became a massive net debt of KRW13trn. Gross leverage increased from 0.6x to 12x in the past few years. Although fundamentals should play a small part in bond price as government support remains implicit, the staggering decline in credit metrics is no doubt concerning.

- KNOC's liquidity is also under pressure which could lead to more bond supply. The company has ~KRW2trn of cash now (including the bonds it raised in 2H16) based on our estimates, but its recent protective stance on its offshore subsidiary Harvest Operations indicates a bail-out of the troubled Canadian oil-sand company is near-certain (KNOC recently exchanged Harvest's 2017 USD bonds with its own 2021 senior bonds). We expect all of Harvest's USD1.3bn (KRW1.5trn) of maturities in 2017 will need to be supported by KNOC, while KNOC is running at ~KRW1trn of negative FCF per year itself. We expect all these require raising debt at KNOC, given the company is delisted and it does not have much cash. We expect new issuance of up to ~USD2bn of KOROIL bonds in 2017 to fund this ~KRW2.5trn funding gap.

Underweight LIHHK series

- We believe LIHHK is a near-certain fallen angel. With strong double-B names like DALWAN (2024 at ~5.8% or Z+385bp) and COGARD (2021 at 4.6% or Z+360bp and 2023 at 5.5%) still trading much wider than the LIHHK 2022 (4.5% or Z+260bp) and 2025 (5.3% or Z+323bp) which dropped substantially after the deal announcement. We see a further ~100bp of downside for both bonds. In a Ba1 scenario using the above comparables, the LIHHK 2022 currently at ~98 cash can go down to 93 (5pt drop); the LIHHK 2025 currently at ~94 cash can go down to 91 (3pt drop). We believe a fallen angel event is near-certain when the deal closes, and even if the agency somewhat keeps it at IG, the deterioration in Lifestyle's fundamental credit profile certainly do not warrant current prices. We reiterate our Strong Underweight stance on the curve.
- The company has won a bid for a HKD7.4bn land plot in Hong Kong, which the company noted it plans to build another large store in Kowloon. Under our most conservative assumptions, we still expect the company to lose its net cash position and should push all of Moody's current downgrade triggers pass their thresholds. We do not see the new store bringing in new cash flow any time soon as construction time will be at least 2yrs. Moreover, the company has been shrinking organically, where top-line has been down mid-single digit year-on-year and EBITDA margin has narrowed from ~50% two years ago to just 40% now, due to a difficult retail environment in Hong Kong and its near-single asset status concentrated in only one area in the city (Causeway Bay).

Indian and South East Asian corporates

Overweight BHARTI 2024 (Z+263bp)

- Since we wrote our 2H16 outlook, BHARTI bonds have widened considerably and we like the risk reward here, particularly on the BHARTI 2024s. Looking across Asia, one notch better rated AXIATA 2026 is trading at Z+204bp which makes the Bharti bonds look at least ~30bp cheap.

- The potential catalyst to drive Bharti's spreads tighter would be a significant stake sale in its ~72%-owned tower subsidiary, Bharti Infratel which we think could happen over the next 12 months. Media reports suggest that there are a few PE players interested in acquiring ~40% stake. At Bharti Infratel's current market cap of USD9.7bn, a 40% stake sale would earn Bharti ~USD3.9bn. This is nearly half Bharti's current outstanding gross debt of ~USD8.3bn or ~20% of adjusted debt i.e including deferred spectrum liabilities, finance and operating leases. On a proforma basis, assuming that the entire proceeds are used to repay debt and striping out EBITDA of the tower business, this would cause leverage to improve to ~2.9x from ~3.3x currently (proforma for the latest ~USD2.1bn spectrum acquisition) bringing it below Moody's downgrade trigger of 3.0x-3.25x. EBITDA would have to decline by ~10% from LTM September 2016 levels for the company to breach Moody's downgrade trigger, which we view as unlikely.

- We also view positively the company's ongoing debt reduction efforts having successfully sold towers across 11 countries and exited operations in 2 African countries raising ~USD3.25bn and using the entire proceeds for debt reduction.
- In the near term, there could be some pressure on margins due to RJio's free services and currency demonetization in India. That said, consolidation has slowly begun in the sector with some players merging and some exiting the market which should be positive for the Indian telco sector and Bharti over the medium term.

Small overweight ADTIN 2026 (Z+249bp)

- We see FV of ADTIN 2026 at ~Z+239bp. We arrive at this FV by adding ~30bp to PWGRIN 2023 (Z+184bp) for additional maturity (assuming ~10bp per year based on the PWGRIN 2023 and NTPCIN 2026 curve) and ~25bp for smaller size/lack of government ownership partly offset by ADTIN's strong bond structure.
- We like the structure of the ADTIN bonds being the only secured bond in the India IG space. The bonds benefit from an operating account waterfall to prevent cash leakage outside the obligor group. The obligor Group cannot invest in greenfield capex and new assets can be brought into the group only once they are operational subject to confirmation from two rating agencies that the transaction has no rating impact.
- The assets of the obligor group have an average life of ~25 years with a renewal option of 10 years and earn regulated returns. These returns are a function of the availability of the transmission lines and not the plant load factor meaning that there is no volume offtake risk for the company. Hence its credit profile is expected to be largely stable. With limited capex requirements, the company is expected to generate some FCF to reduce absolute debt. EBITDA margin is ~88%, leverage is ~4.5x and S&P expects this to trend down to ~3.4-3.6x in FY17 and ~2.4x-2.6x by FY18. These metrics are in fact better than Power Grid's ~87% margin and leverage of ~6x.

Switch from OINLIN 2019 (Z+122bp) or OINLIN 2024 (Z+221bp) to ADSEZ 2020 (Z+209bp) or UPLLIN 2021 (Z+196bp)

- By switching out of OINLIN 2019 into ADZEZ 2020 or UPLLIN 2021, investors would be extending maturity by just 1-2 years, but could pick-up decent spread of ~70 to 90bp while at the same time retaining exposure to good BBB- credits. This switch also provides diversification out of the oil sector. Alternatively, by switching out of OINLIN 2024 into ADSEZ 2020 or UPLLIN 2021, investors could reduce duration risk (~3 to 4 years) while sacrificing small spread (~12 to 25bp).
- Oil India's credit metrics are likely to deteriorate on the back of ~USD1bn spend on acquiring stakes in two Russian oil fields. This is ~65% of FY16 gross debt and ~2x EBITDA. Even after factoring possible EBITDA generation from these assets of ~USD250-300m at brent of ~USD60/bbl, our estimates suggest that net leverage could worsen to ~1.5x-1.7x range in FY18 from ~0.1x in FY16 based on a brent price assumption of USD48/bbl for FY17 and USD60/bbl for FY18.
- UPL has a long operating history, a leading market position in the post patent crop protection market and is well diversified geographically. The company's credit metrics have been largely stable over the last three years; EBITDA margins in the 19%-20% range, gross leverage of ~2x in LTM September 2016. Going forward, capex requirements are small and the company is likely to generate decent amount of free cash flow and report further improvement in leverage metrics. The company has a conservative financial policy of maintaining debt/EBITDA under 2x.
- Adani Ports is amongst the largest and most efficient port operators in India with EBITDA margins of ~66%. However, these strong operating metrics are slightly offset by related party exposures and high

capex/acquisition appetite which has caused the company to report negative FCF for the last few years. That said, the company is committed to reducing its related party loans. From ~INR25bn as of March 2016, the company reduced it by ~INR10bn in 1H17 and expects the remainder loans to be repaid by March 2017. This, together with expected improvement in operating performance could likely result in positive FCF in FY18 and rating agencies could revise its outlook back to Stable.

Switch from BPCLIN 2022 (Z+178bp), BPCLIN 2025 (Z+215bp) to RILIN 2022 (mid Z+183bp), RILIN 2025 (mid Z+215bp);

or Switch from IOCLIN 2021 (Z+175bp), IOCLIN 2023 (Z+206bp) to RILIN 2022 (Z+183bp), RILIN 2025 (Z+215bp)

- We recommend investors to make the above switches in order to gain exposure to a one to two notch better rated credit for similar/ slight spread pick-up. RIL's refineries are superior to those of IOCL/BPCL as reflected in it reporting GRMs that are consistently significantly above the Singapore complex refining margin vs IOCL/BPCL's margins typically being at a discount to the benchmark. This has resulted in better EBITDA margins for RIL.
- Although both IOCL and BPCL have reported improved credit metrics over the last few years on account of the removal of subsidies on petrol/diesel in India, capex is likely to remain high over the next few years. Both companies have also recently spent ~USD1bn each to acquire some Russian oil assets and hence, leverage might probably stay range bound.
- On the other hand, RIL is nearing the end of its high capex cycle in which it spent close to USD16bn in refining and petrochemical projects and USD18bn in telecom. With tapering capex and additional EBITDA generation from the newly commissioned projects, the company is likely to deleverage.

Switch from PTTEPT 2021 (Z+109bp) to TOPTB 2023 (Z+155bp) or RILIN 2022 (Z+183bp)

- By switching out of PTTEPT 2021 (Baa1/BBB+) into TOPTB 2023, investors get more than compensated for the increase in duration and one notch lower rating of Thai Oil (S&P rating). Alternatively, if investors want to switch out of the Thai space, we recommend buying the RILIN 2022 (Baa2 Positive/BBB+) to get a significant spread pick-up for an equally good credit.
- Thai Oil reported decent 3Q16 results with marginally weaker EBITDA but stable leverage metrics. Net leverage remains comfortable at 0.7x. Going forward, with the Singapore complex refining margins showing an uptrend, the company's earnings are likely to improve.
- After several years of extremely high capex, RIL would start seeing increased EBITDA generation from those expansion projects from FY18 and is likely to deleverage. On the other hand, due to declining gas reserves in Thailand, PTTEPT is likely to see increased capex over the next few years. Recently, PTTEPT has expressed interests to acquire some oil & gas assets in SE Asia.

Switch from PTTTB 2022 (Z+114bp) to PTTGC 2022 (Z+143bp)

- This trade would enable investors to move from a hold co debt to an opco debt while picking up ~30bp in spread.
- PTTTB's key assets are its stakes in its subsidiaries/affiliates i.e PTTEPT, Thai Oil and PTTGC. On the other hand, PTTGC is an operating company in the petrochemical space with good credit metrics; net leverage of ~1.2x.

High Yield Corporates

China Property

Overweight short dated 2017-callable bonds for carry:

GZRFPR curve at 4.7-5.3% YTC/ 6.1-7.0% (Z+480-550bp) YTM

KWGPRO curve at 4.2-4.8% YTC/5.7-6.4% (Z+425-530bp) YTM

SHUION perp at 4.4% (Z+275bp)

FUTLAN 2019 at 4.7% YTC/6.7% (Z+530bp) YTM

LOGPH 2019 at 4.5% YTC/7.3% (Z+590bp) YTM

TPHL 2019 at 4.5% YTC/8.4% (Z+700bp) YTM

FANHAI 2019 at 5.9% YTC/7.7% (Z+620bp)

- These are the bonds that we believe have a very high chance to be called and provide decent carry, while yield-to-maturity also provides good yield pickup in a non-call scenario.

Underweight COGARD 2020c18 at 5.0% (Z+380bp) YTC/5.3% (Z+375bp) YTM and COGARD 2023new at 5.4% (Z+345bp) YTM

- Strong sales this year will not translate into an improving credit due to weaker-than-peers' cash collection and aggressive land acquisitions. By October, the company achieved RMB272bn contracted sales, of which RMB207bn is attributable. Land acquisition by September amounted to RMB85bn on an attributable basis, representing 49% of attributable contracted sales, which is aggressive as expected. We will not be surprised if the company fail to deliver their cash flow guidance to the market again with lower-than-guided cash collection (management assumed an aggressive mid-90% cash collection ratio, versus low-mid-80% historically), higher than budgeted construction capex (which is only 20% higher than 2015 despite much larger landbank and accelerated construction to fuel a 60%+ sales growth) and large land acquisitions. As such, we expect net gearing continue to be weak at high-80% (or ~100% factoring guarantees for JV debt) by year-end.

Underweight YUZHOU 2023 at 6.2% (Z+425bp)

- We dislike the valuation of this long-end bond despite our neutral view on the fundamentals. Management is confident to achieve its revised full year sales target of RMB22.6bn (93% achieved by Oct) and expect 10-20% growth in contacted sales in 2017. Land acquisition accelerated this year (RMB18.7bn gross and RMB12.3bn attributable). This is on the aggressive end, representing 54% of its sales target. This may drive up the net debt of the company meaningfully by 30-40% in 2H16 and keep its debt/EBITDA at over 7x, although headline net gearing may inch higher in a much milder pace (~80%) on equity will be boosted by minority interests of JV projects - the flip side of relying on JV partner's funding is increasing subordination risk for offshore bondholders. The call of the 2019s bonds is prefunded with USD400m syndicated loan obtained in September and this USD250m new 2023 bonds.

Underweight ROADKG 2021 at 5.8% (Z+410bp)

- While Road King has been prudent in its land acquisitions over the past few years, and maintained a largely stable credit profile, the unsold land bank has shrunk to a small 4.1m sqm GFA currently, of which 60% is in less favorable third-tier cities (Zhenjiang, Changzhou and Luoyang); the existing land bank will be enough for only three years' sales and we believe the company will need to accelerate land acquisitions which will be likely to lead a weaker credit profile in the near term – YTD, the company has made several land acquisitions or stake repurchases of ~RMB10bn in total (~RMB6bn attributable) in Shanghai, Tianjin, Suzhou, Jinan, Langfang and Hong Kong, and we expect the company to incur negative free cash flow of RMB2bn, or a meaningful expansion of net debt of ~25% in 2H16 (assuming no more land acquisitions). While the recurring income from toll road operations of HKD500m/year (and potentially a spin-off) provides some cushion, the small existing land bank compared to peers puts the company at a disadvantage in managing its investment and cash flow through the cycle.

Underweight SHUION 2019 at 4.7% (Z+320bp)

- SHUION has chunky offshore refinancing to take care in 2017, including RMB2.5bn CNH bond due in February, USD500m of SHUION 2017s in November and USD500m of 10.125% perpetual bonds that are highly likely to be redeemed as there is a 300bp coupon step-up in December. Also, SHUION 2019s (USD550m) and SHUION 2020s (USD202m) are callable next June and May, respectively.
- To fund the refinancing, the company issued a new USD250m 3-year bond and is currently working on a syndicate loan of USD300m (potentially upsized to USD700m). We believe the company will very likely tap offshore bond market for refinancing (up to USD2.1bn in total). Despite a gradual deleveraging over the past two years, the company still has a high net gearing of 94% and debt/EBITDA leverage of over 10x. We believe further deleveraging would be done at a gradual pace (small positive operating cash flow in 2H16 as guided) without major asset disposals.

Underweight CSCHCN 2021 at 7.7% (Z+590bp)

- We maintain our cautious view on the credit, given a weakening credit profile, declining liquidity and little visibility of deleveraging under the weak economy backdrop.
- We expect to see HKD5-6bn of negative free cash flow in FY16/17, on our estimates of HKD7bn of construction capex, HKD2.2bn interest expenses, HKD2.5bn SG&A and HKD1.5bn of taxes, offset by HKD5-6bn of sales proceeds and HKD1.8bn of recurring income.
- While the company proved its good access to onshore bond market, some sign of tightening of the onshore bond market and caution of onshore investors to the company have been observed. The company recently announced that South China International (local rating AA) would issue RMB1.2bn of 1yr commercial paper at 4.9%. Recall that the company planned to issue a new commercial paper of RMB2.2bn in mid-August to refinance the old paper of RMB2.1bn maturing on 9 September, but failed citing market volatility. This latest new issue is smaller and is priced 60bp more expensive than the old paper issued a year ago (4.3%).

Switch from PWRLNG 2021 at 7.0% (Z+520bp) to CAPG 2019 at 6.0% (Z+465bp)

- This trade will allow investors to shorten duration by 2.5 years and switch into a slightly better credit by giving up only 60bps.
- While Powerlong has steadily improved its liquidity and leverage in the past two years, current valuation of the long-dated bond is stretched. The company sits on a high total debt balance of RMB26bn as of June 2016, which is at the high end (1.7x) among peers in comparison to its full-year sales target of RMB15bn. YTD the company acquired RMB5bn of new land, much higher than RMB3bn budget. As a result, net gearing is expected to stay high in 2H16 at mid-80% and management does not expect it to come down in the near future with large pipeline of shopping malls under construction (4-6 malls to be completed each year). This is alleviated by the company's growing recurring income which is expected to reach RMB1.35bn this year (up 23% y-o-y), covering around 0.77x of interest expenses – however, note that half of the top-line recurring income is from property management services which has a low operating margin (10%), and rental income of RMB600-700m/year is still not particularly impressive on the back of investment properties of RMB30bn carrying value (1.4x of the company's total equity). Currently only RMB6-7bn investment property loans have been obtained on RMB30bn worth of completed malls, which is probably a reflection of conservative views on its malls by onshore banks.
- For Aoyuan, management is confident to achieve RMB22-23bn contracted sales this year (versus original sales target of RMB17bn). Assuming 60% sell-through ratio next year, strong sales growth is expected in 2017 to RMB30bn. Land acquisition will be maintained at a reasonable 30-40% of

contracted sales. Management reiterated the plan to call the 2019s bond next January, to be funded by a combination of 1) new USD bonds, 2) club loans, and 3) repatriation of onshore cash. Average funding cost is likely to be reduced to 8% by year-end (8.4% at June-16) and in 7%-handle in 1H17. All three rating agencies have positive outlook on the ratings.

Underweight AGILE perp at 8.3% YTC (Z+700bp), Switch from AGILE 2020c18 at 6.1% YTC (Z+485bp)/6.3% YTM (Z+475bp) to GZRFPR 2020c17 at 5.3% YTC (Z+440bp)/7.0% (Z+545bp)

- With two offshore bonds maturing next Feb/Mar (RMB7bn equivalent in total) and USD500m 2019 bonds callable next Feb, we see high supply risk for Agile in the near term. In addition, call probability of AGILE 2020 has declined and the bonds look expensive on YTM basis.
- Due to heavy land acquisition spending (RMB20bn YTD), we expect RMB11-13bn negative FCF in 2H16 and management expects net gearing to surge to be above end-2015 level (or 84% treating perp as debt). With an ambition to grow sales from RMB50bn this year to RMB100bn in 2019/20, we are mindful of risks of overspending in the already overheated land market as more than half of the company's existing landbank is located in unfavorable Tier 3 and 4 cities.
- Management of Guangzhou R&F is taking a relatively cautious view on the land market and plans to stay prudent in scale expansion. Its existing landbank of 38m sqm GFA with RMB409bn saleable resources (only 11% in Tier 3 cities) at a cost of RMB1,700/sqm is sufficient to targeted 10% annual sales growth for the next three years at above industry margins. We expect full year FCF to be breakeven and liquidity has improved significantly by RMB42bn onshore bond issuance. As such, we see high likelihood of GZRFPR 2020 to be called, and even it is not called, the switch provides 70bp pick up in yield.

Switch from CIFIHG 2020c18 at 4.7% YTC (Z+350bp) /5.2% YTM (Z+365bp) to KWGPRO 2020c17 at 4.1% (Z+315bp) YTC/ 6.8% (Z+530bp) YTM

- We see a high likelihood for KWG to call the remaining three USD bonds by a combination of existing cash and new USD bonds. Even it is not called, the switch allow investors to pick up 165bp in spread in a similar rated credit.
- KWG has a favorable landbank in higher tier cities sufficient for 4-5 years development and superior margins among peers. This provides buffer in a downturn market with sufficient headroom in terms of interest coverage (2.9x as of June-16). Liquidity is strong with RMB11.3bn panda bonds raised in 2H16 and the company's make-whole of KWGPRO 2017 recently showed its determination of reducing USD debt exposure.
- Call probability of CIFIHG 2020 has declined at current market prices and the bond looks expensive on YTM basis. CIFI achieved strong growth in contracted sales by leveraging a large number of JV projects (attributable contracted sales account for only 55% of gross sales in 1H16). We estimate the effective net gearing of CIFI including JV debt at high-70% as of June-16. The company currently has a landbank of 13.5m sqm GFA (8.7m sqm attributable), 20% of which is carparks and ancillary facilities – at a run-rate of ~3m sqm GFA contracted sales/year and targeted annual growth of 30%, we believe landbank replenishment is needed next year.

China industrials

Small Overweight SANYPH 2018 at 5.9%

- We continue to feel comfortable with the credit and bond prices look reasonable compared to BB peers in the market (e.g. DEGREE, BTSDF) which are in the mid-5% handle. We also feel SANYPH is a more robust credit compared to the unrated CERCG which also trades in the high-5% for a 3yr bond. With the SANYPH 2018 at 6.0/5.7%, 2019 at 6.2/5.9% and the 2021 at 6.7/6.5%, we believe the shortest bond looks most balanced between pricing and tenor, we are therefore Small Overweight the SANYPH 2018.

- HNA had been relatively opaque reporting only consolidated financial but it had never disclosed subsidiary cash flow status. However, during our recent Nomura HY conference, the company's IR team shed some light on its liquidity status as well as other corporate information. The bond issuer is ~50% owned by a charity fund (likely held by key owners but the team did not explicitly confirm), and 20% held by an employee union. The team did not disclose details on the remaining 30%. The company did not have JV and associates contribution available, but noted investors can assume only listcos pay dividends (the group has 12 listed subsidiaries). HNA also disclosed some liquidity metrics, noting it has ~RMB2bn of offshore cash with ~RMB20bn of bank credit lines available; and 40% of the group's consolidated assets are offshore. The group is inclined to continue to use operational entities for future acquisitions (i.e. subsidiaries rather than the holdco). Each M&A has a different hurdle depending on business / industry nature, but in general management would seek at least double-digit IRR.
- HNA's liquidity does not look to be under immediate threat. On a consolidated basis, it has ~RMB128bn of cash at end-1H16 and has a strong track record of refinancing its bank loans which makes up over 80% of HNA's short term maturities. HNA maintains interest coverage of ~2.5x. The holdco has been successful in issuing three bonds in 2H totaling ~RMB5bn (RMB3bn offshore and RMB2bn onshore) but more importantly, subsidiaries have raised more than RMB56bn since 2015 via various equity issuances. HNA noted recently announced major acquisitions by the group have all secured financing.

Underweight DEGREE 2021 at 5.3% (Z+375bp)

- We view DEGREE bonds are expensive given the intense competition from global majors and local brands (e.g., NIKE reported 33% y-o-y growth for FY16 ending May in footwear sales in China and 17% y-o-y growth in apparel sales – more than double 361 Degree's growth) and execution risk on its overseas expansion.

- We are also mindful of the lack of visibility related to the financial and business health of its distributors and the longer than industry norm receivable days (~5-6 months vs 1-3 months for peers). Sportswear typically has a short shelf life of 6 months. On one hand, trade fair orders for new products selling in the past 6 quarters ending June-16 reported low-to-mid-teens growth (i.e. growth of channel in-take); on the other hand, retail stores in the same period registered a lower SSSG of 7-8% while store number even shrank by 10% – this may imply a rising channel inventory or a deeper retail discount. This, however, may be due to a sampling issue for SSSG reporting (~50% of total stores).

- Management did not provide specific rationale of keeping significant cash on hand despite immaterial spending needs for overseas expansion, while not hedging the USD debt exposure.

Underweight HONGQI 2017 at 5.0% (Z+402bp) and 2018 at 5.1% (Z+388bp)

- We view HONGQI bonds are expensive despite their short tenor. Given the ongoing capex spending and rising onshore bond yields, we would not rule out the possibility that the company will issue new offshore bonds next year.
- While we cannot confirm the allegations of the short seller report related to the recent acquisitions being related companies, we are concerned with the company's ongoing negative free cashflow, aggressive acquisition strategy and plan to potentially expand to downstream business. This may imply higher debt usage and no deleveraging in the near term.
- For the full year 2016, the company expects sales volume to reach 5.5m tons (versus 2.73m in 1H) while capacity will increase to 7m tons and will be capped at this level. In terms of self-sufficiency, the company generates 80% of the required alumina (with the remaining 20% sourcing from Gaoxin based on long term contracts) and will become 90% by the end of 2017 and aims to become 100% eventually. The company will also increase its self-generating electricity from the current 85% to 90% by the end of

2017. Capex for 2016 is estimated to be RMB17-18bn and RMB13bn for 2017 of which RMB8bn will be on power generation and RMB3bn will be on alumina.

Underweight ZOOMLI 2022 at 7.1% (Z+522bp)

- While we expect the company's liquidity position will remain manageable in the near term and are Neutral on ZOOMLI 2017, we are concerned with its longer-term business viability of the company, considering its rising working capital requirements related to its sales in environmental and agricultural machinery as well as receivables collection risk.
- We do not expect the heavy machinery industry to recover in the near term which will weigh on its earnings outlook and leverage profile. Moreover, the company's expansion risk appetite remains high and has recently invested about RMB500m to set up a fund management company to conduct finance business in order to integrate with its core machinery business.

Switch from BTSDF 2021 at 5.6% (Z+400bp) into XINHD 2018 at 4.9% (Z+375bp)

- We prefer to stay with shorter dated bonds of XINHD while the 25bp pick up in spread of BTSDF bonds does not compensate enough for the industry policy uncertainties, the execution risk of new sales channel buildup of a young brand, and severe competition.
- IMF industry is still under pressure with channel inventory level staying high at 26 days. VHMS segment sees some easing in destocking pressure, but streamlining sales channel remains to be seen. Also, we expect SG&A/sales ratio to rise on heavier spending on brand building in both segments and new sales channel build-up for VHMS. As such, we expect a softer 2H16 in top-line growth and a 10-20% h-o-h decline in EBITDA.
- Regulatory uncertainty in the VHMS sector, short track record of Swisse and new sales channel build-up, intensifying completion from global brands and untested brand loyalty remains our concerns for next year.
- The tender exercise of Hengdeli in June reflects its satisfactory liquidity and expected positive free cash flow. XINHD 2018 provides decent carry for less than 1.5 years and there is chance for it to be called next January.

Indian corporates

Overweight JSTLIN 2019 at 5.3% (Z+376bp); Switch from TATAIN 2020 at 4.7% (Z+314bp) or TATAIN 2024 at 6.4% (Z+436bp)

- JSTLIN 2019 looks attractive not just in the Indian HY context but also looking at steel names across the globe: MTNA 2020 (Ba2/BB) is at ~Z+218bp, EVRAZ 2020 (- / B+ Neg) is at Z+388bp. With JSTLIN rated at Ba3 i.e. between MTNA and EVRAZ, we see FV for JSTLIN 2019 at ~Z+300bp. Investors could also consider switching out of TATA Steel bonds into JSTLIN 2019 to gain exposure to a better credit story without sacrificing any yield.
- We think that JSW Steel is on a path of recovery with additional capacity coming on stream in FY17 and tapering down of capex. Although EBITDA margins in 2HFY17 could likely be negatively impacted by recent sharp increase in coking coal prices, on average, margins for full year FY17 should still be significantly better than FY16. We expect gross leverage to trend down to <4x by March 2017. This would be a considerable improvement from 6.6x in FY March 2016 and would most likely result in Moody's revising their Outlook on the credit back to Stable. Looking into FY18, with much lower capex of ~INR27bn (from ~INR43bn in FY17), we expect the company to generate decent FCF and achieve absolute debt reduction. However, one potential risk is possible bond supply next year to refinance its existing debt.

- TATA Steel's domestic business could likely outperform JSW's in 2H17 due to the former's backward integration (~100% for iron ore and ~35% for coking coal) which could protect margins in a rising raw material price environment. That said, profitability in the European operations, although improved, is still quite weak and debt is at uncomfortably high levels. Gross leverage (Moody's calculation) is at ~10.2x for LTM September 2016; still significantly above the downgrade trigger of 6.5x. This compares to JSW's gross leverage of ~5.1x which is only slightly above the downgrade trigger of 5x. In addition, pension issues at TATA Steel's UK business remain an overhang. Also, recent management changes at the promoter company, TATA Sons could create near-term headline risk.

Overweight GKOLN 2019 at 4.4% (YTC)

- Given the high coupon (8%) of the 2019 bonds, we expect the company will likely call and refinance the bonds in August 2017. We will not rule out the possibility that the company may issue a new bond then by including the assets acquired from Sun Edison.
- We see the recent acquisition of SunEdison's India portfolio as slight credit positive. The company will acquire about 390MW of solar and wind power generation assets in India that are operational or will be operational soon. This is about 39% of what the company currently has in terms of capacity. The company will make a cash payment of USD42m and assume project-level debt of USD350m. It will also take over SunEdison's pipeline of solar generation projects in India with a total capacity of 653MW at no additional cost. We see the deal will help diversify the company business (from wind, hydro and thermal) into solar. Besides, about 343MW of solar power generation assets are either operational or close to be operational. They are also supported by 20-25 year-term power purchase agreements with tariffs ranging from INR5.1-7.0/k Wh. Fitch expects the new generation portfolio will generate an EBITDA of USD37m in FY17 and USD75m in FY18.This implies a gross leverage of about 4.7x and Fitch expects the ratio to be about 5x.

Underweight DIALIN 2026 at 5.8% (Z+363bp)

- We recommend an Underweight on DIALIN 2026 as it is trading quite tight to the DIALIN 2022 (4.8% or Z+303bp) i.e. only ~60bp wider or 13bp per year. This is similar to the Z spread differential seen in much stronger ONGCIN 2022/ONGCIN 2026 curve (~12bps) which we think is not justified for a weaker credit like DIALIN. DIALIN 2026 also appears tight when compared to TATAIN 2024 (6.4% or Z+436bp which itself is tight) and also to stable utility credits such as CIKLIS 2026 (5.4% or Z+323bp).
- Near term cash flows are likely to be negatively impacted by a possible reduction in tariffs to compensate for higher tariffs charged in the previous years. In the worst case scenario if tariffs are reduced by ~90%, we estimate leverage to be >10x from current ~3x.
- While capex for FY17 is expected to be small at just ~INR800m, cumulative capex over the FY18 to FY22 period is expected to be in the range of ~INR40-70bn as the company embarks on the next phase of development. This capex is likely to be more back ended with the exact amount of spending to be decided shortly in consultation with various stakeholders such as AAI, airline companies etc. The company might need to raise additional debt to fund this capex in the FY20-FY22 period.

Underweight RCOMIN 2020 at 6.2% (Z+454bp)

- We do not like the risk reward for RCOMIN bonds as we think that the current pricing does not reflect the high rating downgrade risk.
- Post the merger of the company's wireless business with that of Aircel, to be housed in a separate SPV (50:50 owned by RCom and Aircel), the USD bonds will remain at the RCom level and will no longer have full access to the key operating cash flows of RCom's wireless business.
- The company has recently announced the signing of a non-binding term sheet with Brookfield Infrastructure Group for the sale of its tower assets. However, the upfront cash payment of ~INR110bn is not large enough to create a meaningful reduction in leverage at the RCom level. Based on our

estimates, post these transactions, gross leverage at RCom level would be in ~7.8x to 9.8x range which is worse than the 6.5x reported in FY16.

- Moody's has RCom's Ba3 ratings on review for downgrade and we see high likelihood of a downgrade by at least one notch, if not more, considering that post demerger of the wireless business and sale of tower business, residual RCom will mainly comprise B2 rated GCX and other small businesses such as data centre, fibre optic and DTH and leverage will remain well above Moody's downgrade trigger of 4x.

Switch from GNPIN 2021 at 4.7% (Z+293bp) to MSSIN 2021 at 4.8% (Z+303bp)

- In this switch, investors can move into a one notch better rated credit while at the same time picking up ~10bp in spread.
- Samvardhana Motherson has a strong market position in its key products. Although the company is quite acquisitive, it has a good track record of turning around companies that it has acquired in the past. The company also has a sound financial policy with a target to maintain net debt/EBITDA below 2.5x. Recently, the company's India-listed parent completed a QIP to raise ~USD297m equity and another USD84m through preferential share allotment to one of its major shareholders. This could possibly be infused into Samvardhana Motherson for future acquisitions. The company reported a decent set of 2Q17 results with sequential improvement in EBITDA margin and narrowing of negative FCF position. Net leverage remains moderate at ~1.8x for LTM September 2016.
- Glenmark is a reasonably small player in the highly competitive generics space of the pharmaceutical industry. The company is likely to post strong revenue growth in 2HFY17 on the back of the launch of gZetia drug in the US in December. However, ongoing revenue growth is highly dependent on successful receipts of product approvals from various regulatory authorities (USFDA in particular). WC requirements are also quite high at close to 100 days and so EBITDA conversion into cash is weak. We also have some concerns around the company's exposure to LATAM (~10% of revenue) and Russia (~12% of revenue) where it faces currency risk. Also, Glenmark's R&D spending at ~11% of sales is significantly above that of peers and the company is yet to effectively monetize those investments.

Switch from VEDLN 2018 at 5.7% (Z+451bp), VEDLN 2019 at 6% (Z+467bp) or VEDLN 2023 at 8% (Z+613bp) to VEDLN 2021 at 7.4% (Z+570bp)

- We are Neutral on VEDLN bonds. Across the curve, we see most value in the VEDLN 2021. It is trading just ~43bp inside the VEDLN 2023 for 2 years lesser maturity. VEDLN 2021 also provides ~103bp/119bp pick up over VEDLN 2019/VEDLN 2018 for only 1.5/2 years additional maturity.
- Our Neutral view on the credit is driven by the company's improved prospects on the back of the better commodity price environment, additional capacity coming on stream in aluminium and power businesses, receipt of shareholder approval for the Vedanta Ltd – Cairn India merger and limited near-term refinancing risk. That said, these positives are slightly offset by possibility of the Cairn tax issue causing some delays in the merger approval process and structural subordination/weak liquidity at the Vedanta plc hold co level. The outstanding intercompany loan from Vedanta Ltd to Vedanta plc stands at just ~USD380m and in the future, Vedanta Ltd will either have to pay dividends/do share buybacks to upstream cash to Vedanta plc. Both these options are not exactly efficient uses of cash on account of dividend distribution tax/leakage to minority shareholders.

Indonesian corporates

Overweight JPFAIJ 2018 at 5.7% (Z+450bp)

- We continue to like JPFAIJ 2018 bonds at 5.7% (Z+450bp) considering the improving credit metrics of the company with positive free cashflow to reduce its debt. We also expect the gradual recovery of the macro economy should support chicken demand and prices which will underpin its stable earnings growth.

- On the anti-trust issues, management does not expect the penalty to be substantial as it is capped at IDR25bn on a one-off basis. For 4Q, the company expects its earnings to be similar or slightly lower than that in 3Q. With limited capex guidance focusing on the downstream business going forward, the company will generate more free cashflow and will likely increase its dividend payout ratio which is now at 20%.
- The company is working on the issuance of local currency bonds to raise up to IDR1trn in December to refinance the maturing IDR1.5trn bond maturity in 2017. With an A rating by Pefindo and A+ rating by Fitch, management expects its 3-year tranche to be priced at about 9.0-9.5% and the 5-year tranche to be priced at about 9.5-10.0%. The issuance program will expire in two years with a total amount of IDR3trn. The company has not hedged its USD bond and will look to hedge the principal when it becomes short term debt.

Overweight MLPL 2018 at 6.7% (YTW)

- We see a high likelihood that the bonds will be called next year. The company is working on refinancing the bond with a new USD bond or USD loan. Current bond price of 104.25 versus call price of 104.875 implies a low expectation of the bond to be called with YTC at 17.4%. Note that Temasek still has the right to initiate a leverage recap in Matahari Putra Prima (MPPA) with total debt / EBITDA of 3x before January 2017. Management has not received any notice or indication whether or not Temasek will do this. Should this happen, a mandatory bond redemption at the current call price will be materialized. We therefore see sufficient credit protection to bondholders.
- While both Matahari Department Stores (LPPF) and MPPA results were soft, we are not too concerned with the credit profile of MLPL considering its holdings in these two companies and other property assets. Note that MLPL has sold 3% stake in LPPF at a consideration of IDR1.6trn. Current cash balance of the company was about IDR1.9trn. Management indicated that it will use the proceeds for some new businesses and will not use the proceeds to call the USD bonds. The company may consider declaring a special dividend which will be decided in the next AGM to be held next year.

Overweight GJTLIJ 2018 at 92.75 (14.6%)

- The company is working on the refinancing of the USD bond via a combination of local currency bonds and / or bank loans etc. The company has already obtained a A+ local rating from Pefindo and the consent solicitation on the bonds will pave the way for the company to implement bond refinancing plans. We expect the company will obtain a bilateral loan later this or early next year while IDR bond will be issued next year. Management has not finalized if they will conduct a tender offer or do a partial bond redemption.
- Management expects 4Q sales growth to remain solid to reflect strong demand in domestic replacement and export markets which will more than offset the flattish OEM segment. Management reiterates their full year guidance of 10-15% sales growth and EBITDA of USD160-165m for 2016. There is no guidance on 2017 capex as yet.

Overweight INDYIJ 2018 at 96 (10.1%) and 2023 at 76 (11.9%)

- While we are constructive on both bonds, we have a preference of 2018 over 2023 bonds given its shorter tenor and our expectations that it will be taken out at par. We view the company has a high willingness to pay and even if the company needs to restructure the 2018 bonds, we believe it will be an investor-friendly outcome - with minimal or no haircut on the principal amount and no substantial reduction in coupon.
- The company is still considering different alternatives to deal with the 2018 bond maturity. Management intends to pay the 2018 bond at par and may consider a new bond, bond exchange into a new one or the existing 2023 closer to the maturity date. There is no final decision as yet as there are still moving parts such as trend of coal prices or potential asset sale.

- It seems like thermal coal price will normalize (come down) in 2017 based on futures prices. Using Newcastle coal price at USD75 per ton and cash cost of USD30 per ton, we estimate the net profit of Kideco to be about USD220m in 2017 which implies a dividend payout of about USD100m to be received by Indika in 2018, up from USD40m in 2017.
- For 2017, management expects cashflow at Indika's holding company level to break even considering dividend of about USD40m from Kideco, dividend of USD11m from Cotrans and KPI, payments of USD7m from Cirebon, operating expenses of about USD45m (including MUTU's cash cost of USD58-60 per ton on production of 1.2-1.5m tons), an estimated cash profit of USD26m from MUTU (assuming ASP at USD90 per ton) and interest expenses of about USD40m.

Underweight ASRIIJ 2022 at 7.4% (Z+564bp), Switch to MDLNIJ 2019 at 7.1% (Z+575bp)

- ASRIIJ 2022 does not look cheap versus ASRIIJ 2020 at Z+534bp or MDLNIJ 2019 at Z+575bp. We therefore recommend switching out of ASRIIJ 2022 into MDLNIJ 2019 for shorter tenor but similar spreads. Should market conditions improve, MDLNIJ may also be called with YTC at 7.4%.
- We view MDLNIJ has better sales execution and the joint venture being set up with Hongkong Land and Astra Land Indonesia has improved its liquidity position. The company will receive IDR1.7trn (50% of the transaction value of IDR3.4trn) based on three instalments namely 40% in October 2016, 30% in October 2017 and 30% in April 2018. On the other hand, we also expect the company to launch more projects going forward. Note that the company signed a commercial land sale deal in Jakarta Garden City with IKEA at IDR297bn.
- On Alam, while we appreciate its landbank quality, it remains uncertain if the office tower sales and the land sale of 4.5ha at IDR1.1trn will materialize given the overcapacity in the office market and the slow recovery in the property market. Besides, there is also execution risk in its annual land sales of 1m sqm to China Fortune over the next five years.

Underweight BSDEIJ 2023 at 5.5% (Z+351bp)

- We view BSDEIJ is expensive given our expectations of rising UST while its credit profile will slowly deteriorate.
- Going into 4Q, our equity analyst expects the company to book revenues of about IDR1.5trn to reflect supportive regulations and mortgage environment. Moreover, the lower revenue booking this year may imply some being shifted to 2017, with expected revenue growth of 10-15%. As of September, the company achieved marketing sales of IDR4.1trn versus management guidance of IDR6.9trn. We therefore see a high likelihood that it will miss the target.
- While we acknowledge the company's reasonable rental income (expected to be IDR1.2trn in 2016) and good landbank quality, we expect the company's credit metrics will gradually weaken as the company will spend IDR7trn from 2016-2018 to expand its investment property portfolio to over 30 properties. Capex for 9M16 amounted to IDR540bn.

Switch from LPKRIJ 2026 at 7.6% (Z+552bp) to 2022 at 6.5% (Z+497bp)

- We view the LPKRIJ curve should be steeper and expect LPKRIJ 2026 to underperform. Overall we do not like the long-dated property bonds due to the sector's high earnings volatility and rising UST risk.
- We do not expect LPKRIJ's property sales to improve sharply in 1H. Management does not expect property sales to recover substantially as it will take time for the repatriated funds from the tax amnesty law to be invested into the property market.
- We also do not expect the company's credit metrics to improve substantially as its asset sales will likely be gradual. This may increase potential rating downgrade risk. That said, the company may opt to sell more stake in Siloam International Hospitals as long as it maintains a majority stake. On the asset sale update, management expects it will complete the sale of Lippo Mall Kuta in December and receive

proceeds of IDR800bn. Besides, First REIT paid SGD20m to acquire Siloam Hospitals Labuan Bajo from Lippo which was announced recently. On the other hand, management is still awaiting for the permit related to the Lippo Plaza Jogya and Siloam Hospitals Yogyakarta and does not expect the sale to materialize soon.

Other corporates

Overweight FMGAU 2022 (unsecured) at 5.9% YTW April 2020 (Z+438bp) and FMGAU 2022 (secured) at 4.7% YTC March 2018 (Z+350bp)

- We think that both the FMGAU bonds provide decent carry. The unsecured bonds are callable from April 2017 and the secured bonds are callable from March 2018. We see a good probability of the company calling the secured bonds on first call date considering the high coupon of 9.75%.
- FMG's credit metrics continue to be on an improving trend. The company has reduced its operating costs and used its free cash to reduce debt. Gross debt has fallen from ~USD9.6bn as of June 2015 to ~USD6bn as of September 2016. The company plans to continue using its free cash to reduce debt.

Overweight MPEL 2021 at 5.1% (Z+345bp)

- We continue to like MPEL 2021 and do not expect the new STDCTY bonds will affect its performance. We see more relative value in the bond as compared to WYNMAC 2021.
- We maintain our stable credit view on MCE Finance due to its strong credit metrics – with a cash balance of USD1.4bn and total debt of USD1.96bn. It has solid standalone credit metrics with decent revenues and earnings mainly from Manila and Macau as well as it is a holder of the gaming licenses.

Underweight WYNMAC 2021 at 5.3% (Z+360bp), Switch to STDCTY 2021 at 6.8% at Z+523bp or MPEL 2021 at 5.1% (Z+345bp)

- We view WYNMAC bonds are expensive considering its high leverage ratio and uncertain earnings outlook despite the launch of Wynn Palace in August. The bonds are also unsecured in nature. We recommend switching into STDCTY 2021 to pick up 160bp or MPEL 2021 to move up the credit curve.
- With the issuance of the new STDCTY secured bonds, the company will not face any near-term liquidity problems considering its EBITDA of USD200m and interest expenses of about USD155m. On paper, asset coverage is 2x though we acknowledge that the gaming license is not part of the collateral package. Gross leverage will still remain high at 10x.
- The Macau gaming industry has shown some recovery and it remains to be seen if it will be sustainable and whether the new supply could potentially impact the earnings outlook of the existing operators including STDCTY and MPEL.

Underweight NOBLSP 2018 at 92.2 (10.1%) and 2020 at 82.5 (13.7%), Switch to INDYIJ 2018 at 96 (10.1%)

- We reiterate our cautious view on the credit considering its weak earnings, uncertainty over its earnings outlook post the sale of NAES, ongoing negative working capital as well as refinancing risk of its bank loans due next year. We see better risk-reward in other names such as INDYIJ 2018 considering the above-mentioned risks and Noble's relatively weak corporate disclosure.
- 3Q results were weaker than our expectations, characterized by a widened EBIT loss and ongoing negative working capital. Management reiterated that the sale of Noble Americas Energy Solutions (NAES) to Calpine Corporation will be completed by the end of this year. It remains to be seen how the P/L will be impacted by the sale of this profitable business. The company is also in the progress of selling its European power and gas business whose business viability is highly dependent on an investment grade rating. That said, management did not disclose the expected consideration of this potential sale.

Underweight GATSP 2019 at 78.75 (22.9%)

- We do not see much value in the bonds considering the company's lackluster earnings outlook and market position in the industry, as well as its high debt level. The company will continue to generate negative FCF, which will add liquidity stress to the company in 2H17. There is also limited visibility on the timing and extent of the disposal of non-core assets.
- While the 3Q results were better than our expectations, it remains to be seen if the current run rate is sustainable. Even if we assume a quarterly EBITDA of USD44m (or annualized at USD176m), we estimate the company's cash balance will fall below USD100m again considering interest expenses of USD113.2m, capex of USD70m and working capital, tax payments and litigation costs amounting to USD10-15m. We are also concerned with the under-investment in the business which may affect its earnings generation in the future.

Appendix – Data and Chart Pack

Exhibit 8. US economic outlook

%		1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	2016	2017	2018
GDP	Previous	0.8	1.4	2.9	1.6	2.1	1.9	1.7	1.7	1.6	1.7	1.5	1.5	1.5	1.9	1.6
	New				1.8	2.1	2.0	2.0	2.1	1.9	1.8	1.4	1.4	1.5	2.0	1.8
PCE	Previous	1.6	4.3	2.1	2.1	2.2	2.0	1.8	1.6	1.6	1.5	1.5	1.5	2.6	2.2	1.6
	New				2.2	2.2	2.0	2.0	2.1	2.1	1.9	1.5	1.5	2.6	2.2	1.9
Nonresidental Investment	Previous	-3.4	1.0	1.1	2.5	3.1	3.0	3.0	2.6	2.7	2.6	2.6	2.6	-0.5	2.5	2.7
	New				2.5	3.1	3.0	3.0	2.8	2.8	2.8	2.4	2.3	-0.5	2.5	2.8
Residential Investment	Previous	7.8	-7.8	-6.2	2.9	5.3	4.8	7.5	7.7	6.3	6.9	6.5	5.5	4.2	2.8	6.7
	New				8.0	5.3	4.8	7.5	7.7	6.0	6.0	5.0	4.5	4.2	2.8	6.2
Exports	Previous	-0.7	1.8	10.0	1.4	2.5	2.8	2.8	3.0	3.0	3.5	3.5	3.7	0.7	3.3	3.2
	New				1.4	2.5	2.8	2.7	2.9	2.8	3.3	3.3	3.3	0.7	3.2	3.0
Imports	Previous	-0.6	0.2	2.4	2.7	4.3	4.3	4.3	4.0	4.0	3.7	3.7	3.5	0.8	3.5	3.9
	New				2.7	4.3	4.5	4.5	4.4	5.0	4.5	3.9	3.5	0.8	3.6	4.5
Government Expenditures	Previous	1.6	-1.7	0.5	-0.3	0.3	0.3	0.3	0.3	0.1	0.1	0.1	0.1	0.7	0.1	0.2
	New				-0.3	0.3	1.0	1.0	0.9	1.2	0.5	0.5	0.4	0.7	0.4	0.8
Contribution to GDP:																
Final Sales	Previous	1.2	2.6	2.3	1.6	1.8	1.7	1.6	1.6	1.5	1.5	1.5	1.5	1.9	1.8	1.5
	New				1.8	1.8	1.8	1.7	1.8	1.9	1.7	1.4	1.4	1.9	1.9	1.7
Net Trade	Previous	0.0	0.2	0.8	-0.2	-0.3	-0.3	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1	0.0	-0.1	-0.2
	New				-0.2	-0.3	-0.3	-0.3	-0.3	-0.4	-0.3	-0.2	-0.1	0.0	-0.1	-0.3
Inventories	Previous	-0.4	-1.2	0.6	0.0	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	-0.4	0.1	0.1
	New				0.0	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	-0.4	0.1	0.1
Federal Funds Target Range	Previous	0.25-0.50	0.25-0.50	0.25-0.50	0.50-0.75	0.50-0.75	0.75-1.00	0.75-1.00	0.75-1.00	1.00-1.25	1.00-1.25	1.25-1.50	1.25-1.50	0.50-0.75	0.75-1.00	1.25-1.50
	New				0.50-0.75	0.50-0.75	0.75-1.00	0.75-1.00	1.00-1.25	1.25-1.50	1.50-1.75	1.75-2.00	1.75-2.00	0.50-0.75	1.00-1.25	1.75-2.00
Core CPI (y-o-y)	Previous	2.3	2.2	2.2	2.2	2.0	2.0	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.1	2.2
	New				2.2	2.0	2.0	2.1	2.2	2.2	2.3	2.3	2.3	2.2	2.1	2.3
Core PCE (y-o-y)	Previous	1.6	1.6	1.7	1.8	1.7	1.8	1.7	1.8	1.8	1.8	1.8	1.8	1.7	1.8	1.8
	New				1.8	1.7	1.8	1.7	1.8	1.9	1.9	1.9	1.9	1.7	1.8	1.9
Nonfarm Payrolls (ch., in thous.)	Previous	196	146	206	160	135	125	125	115	105	100	90	80	177	125	94
	New				160	140	140	145	150	135	115	95	90	177	150	110
Unemployment Rate	Previous	5.0	4.9	4.9	4.8	4.7	4.7	4.6	4.6	4.6	4.5	4.5	4.5	4.9	4.6	4.5
	New				4.9	4.8	4.8	4.7	4.6	4.5	4.5	4.4	4.4	4.9	4.7	4.5
Average Weekly Hours	Previous	34.5	34.4	34.4	34.4	34.4	34.4	34.4	34.4	34.4	34.3	34.3	34.3	34.4	34.4	34.3
	New				34.4	34.4	34.4	34.5	34.5	34.5	34.5	34.5	34.5	34.4	34.5	34.5
Labor Force Participation Rate	Previous	62.9	62.7	62.8	62.8	62.8	62.8	62.8	62.8	62.7	62.7	62.6	62.6	62.8	62.8	62.7
	New				62.8	62.8	62.8	62.8	62.8	62.7	62.7	62.6	62.6	62.8	62.8	62.7
Memo: 10-year Treasury Yield		1.78	1.49	1.60	2.20	2.05	2.60	2.25	2.50	2.50	2.50	2.50	2.75	2.20	2.50	2.75

Notes: Quarterly real GDP and its contributions are seasonally-adjusted annualized rates. The unemployment rate is a quarterly average as a percentage of the labor force. Nonfarm payrolls are average monthly changes during the period. Housing starts and other labor market indicators are averages. The annual numbers are annual average growth rates or annual averages. The table reflects data available as of 22 November 2016. Source: Nomura Global Economics, BEA, BLS

Source: Nomura Global Economics

Exhibit 9. Nomura's macro forecast on growth, inflation and policy rates

	Real GDP (% y-o-y)			Consumer Prices (% y-o-y)			Policy Rate (% end period)		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Asia/Pacific	5.4 ↑	5.3 ↑	5.0	2.2	2.7	2.4	2.47	2.29	2.24
Japan	0.8 ↑	1.2 ↑	0.5	-0.2	0.3 ↑	0.7	-0.10	-0.20	-0.20
Australia	2.8	2.2	2.6	1.3	1.9 ↓	2.0	1.50	1.25	1.75
New Zealand	2.4	2.4	2.5	0.6	1.4	1.8	1.75	1.75	2.00
Asia ex Japan, Aust, NZ	6.1 ↑	5.8	5.6	2.6	3.0	2.6	2.82	2.62	2.52
China	6.7 ↑	6.1	5.5	1.9	2.4	1.5	1.50	1.25	1.00
Hong Kong**	1.2	0.5	2.5	2.4	0.4	-0.2	0.90	1.15	1.65
India	7.3	7.7	7.6	5.0	5.1	5.2	6.25	6.00	6.00
Indonesia	5.2	5.6	5.8	3.5	4.2	4.4	4.75	4.75	4.75
Malaysia	4.1	3.9	4.2	2.1	2.8	2.5	2.75	2.75	2.75
Philippines	6.9 ↑	6.3	6.1	1.7	3.3	3.7	3.00	3.50	3.50
Singapore**	1.1	1.0	1.5	-0.5	0.5	0.5	0.95	1.25	1.65
South Korea	2.7	2.0	1.7	0.9	1.3	1.5	1.25	0.75	1.00
Taiwan	1.2	1.1	2.2	1.3	1.3	1.2	1.38	1.25	1.25
Thailand	2.8	3.0	3.0	0.2	1.4	1.4	1.50	1.00	1.00

Source: Nomura Global Economics

Exhibit 10. Nomura's forecast for Asia Ex Japan FX rates as of November 28, 2016

Currency	2016	2017	2018
CNY	6.97	7.30	7.40
CNH	6.98	7.30	7.40
HKD	7.78	7.82	7.80
INR	67.0	68.2	69.2
IDR	13,200	13,600	14,000
MYR	4.19	4.23	4.27
PHP	48.6	49.8	49.8
SGD	1.39	1.45	1.46
KRW	1130	1180	1200
TWD	32.0	33.2	33.6
THB	35.2	36.5	36.8

Source: Nomura Global Economics

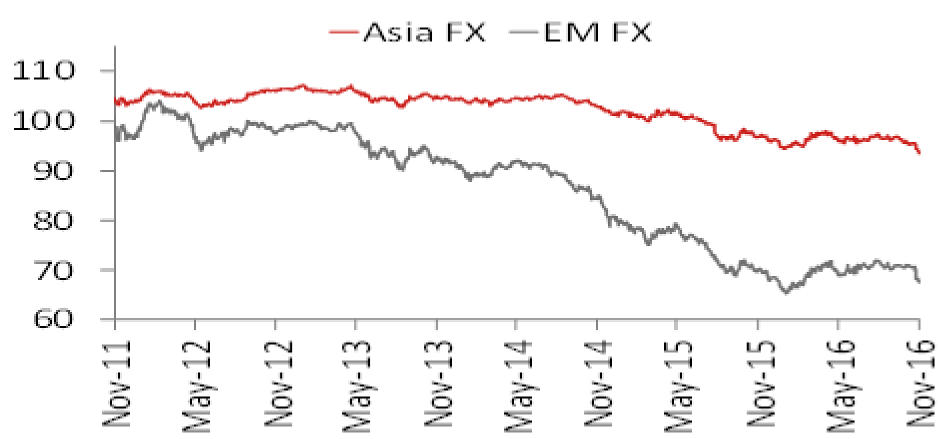
Exhibit 11. Cash Credit Spreads in different regions

Regions	Current Value	1Y Value	1Y Tights	1Y Wides	1Y Avg	1Y % Range	Change: Tight(-)/Wide(+) 1Y	1W	1M	YTD	1Y Range T-G/W-R
US	149	174	148	227	173	54%	-25	1	-5	-25	
EM	282	362	273	432	341	58%	-80	6	-8	-92	
Asia	193	248	181	285	223	57%	-55	8	5	-49	
LATAM	423	537	402	671	523	67%	-114	4	-19	-162	
EMEA	279	346	271	438	338	62%	-67	5	-11	-82	

Current Value: ▲
Average Value: ●

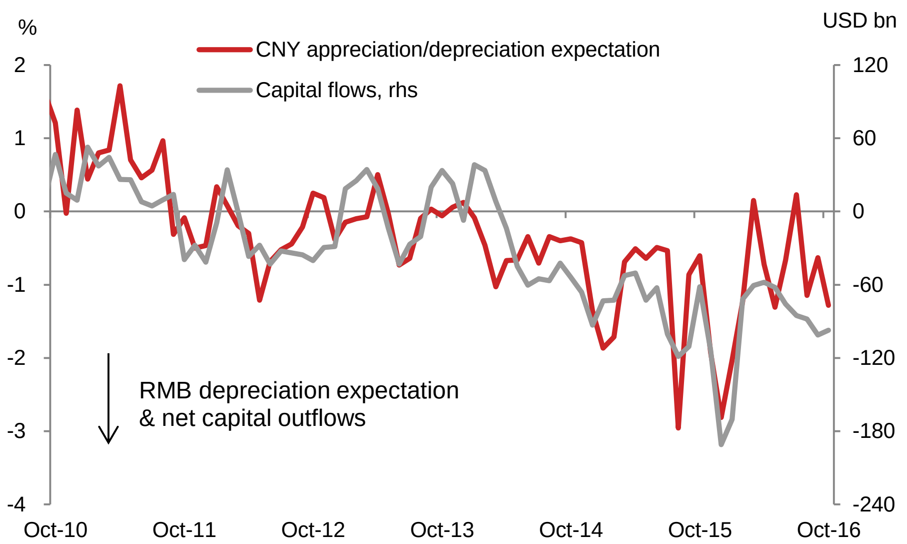
Source: Bloomberg, Nomura

Exhibit 12. Asia FX also outperforming EM FX



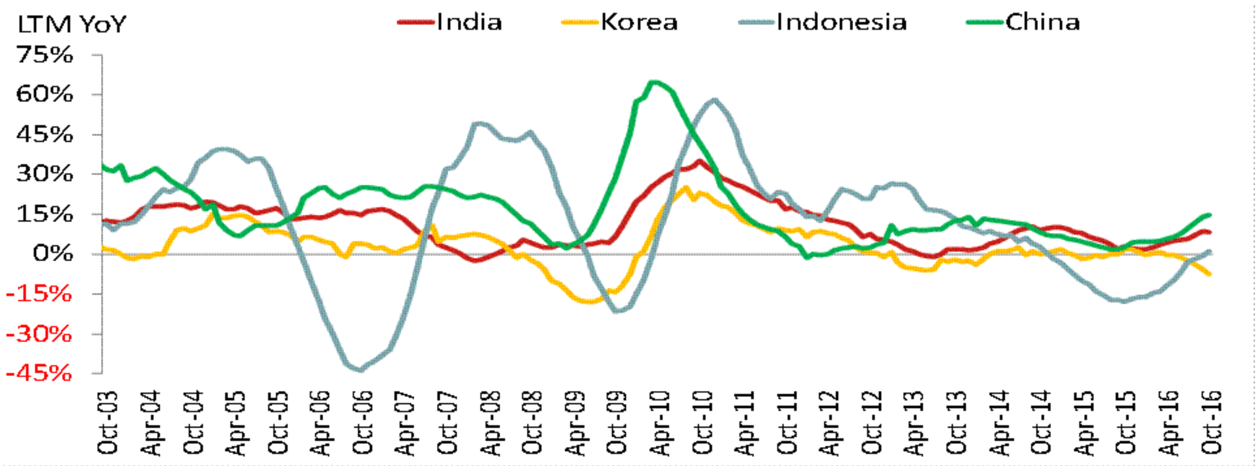
Rebase to 100 (July 2010)
Source: Bloomberg, Nomura

Exhibit 13. Capital outflows in China will likely continue with CNY depreciation expectation



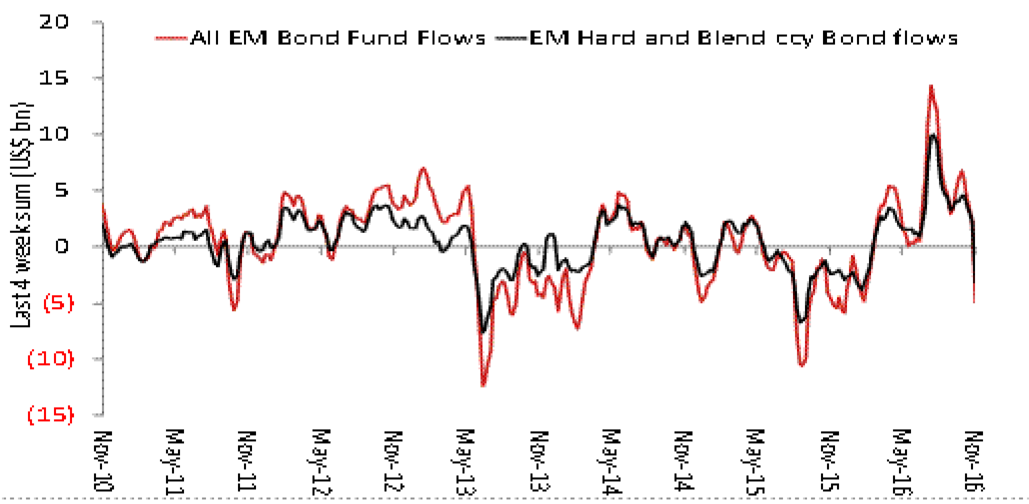
Source: CEIC, Bloomberg

Exhibit 14. Asia – Auto sales as an economic indicator slowly recovering except for Korea



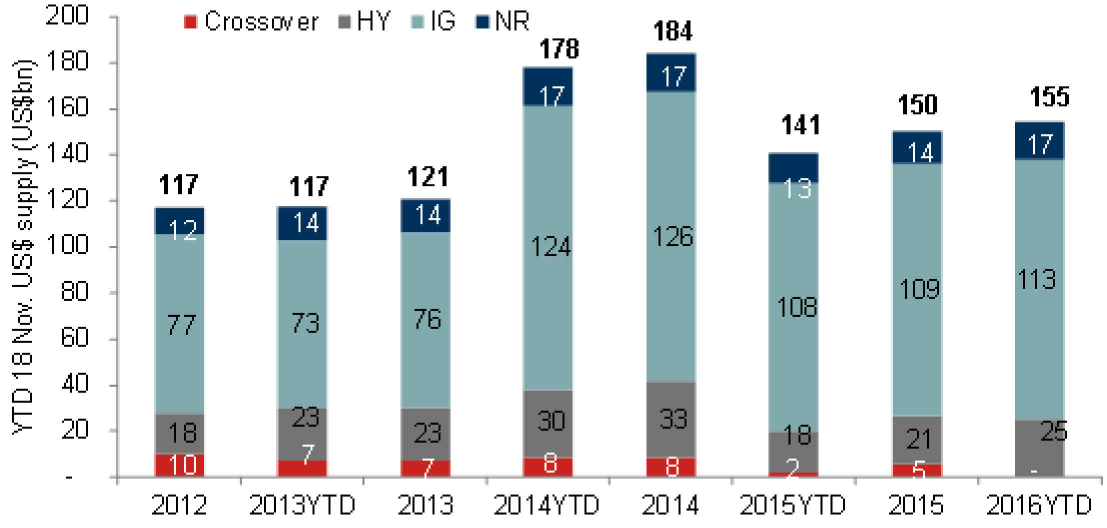
Source: CEIC, Nomura

Exhibit 15. Recent fund outflows led to spread widening in Asia credit



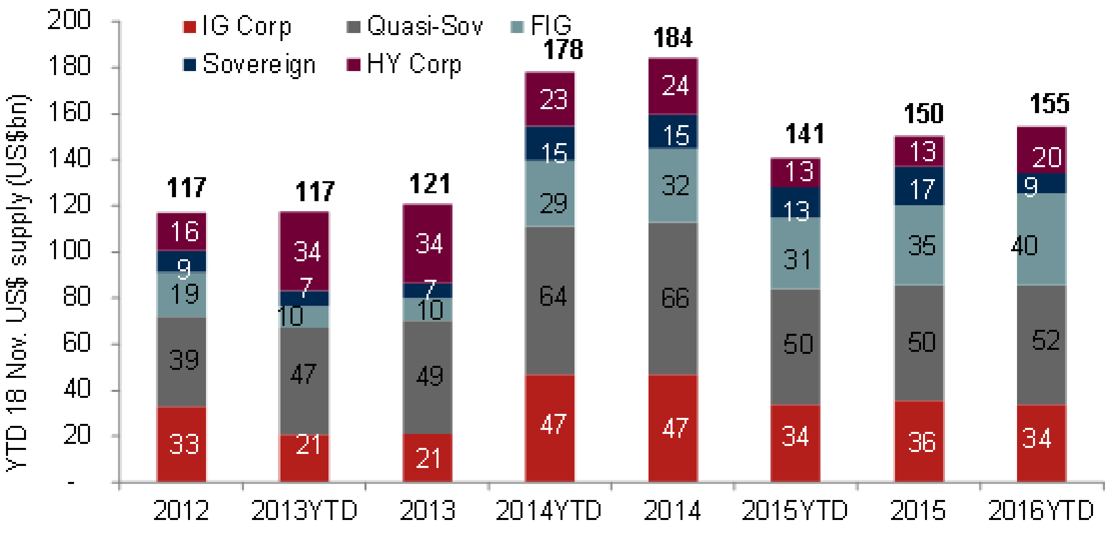
Source: EPFR, Nomura

Exhibit 16. Year-to-date bond supply has surpassed last year's figure



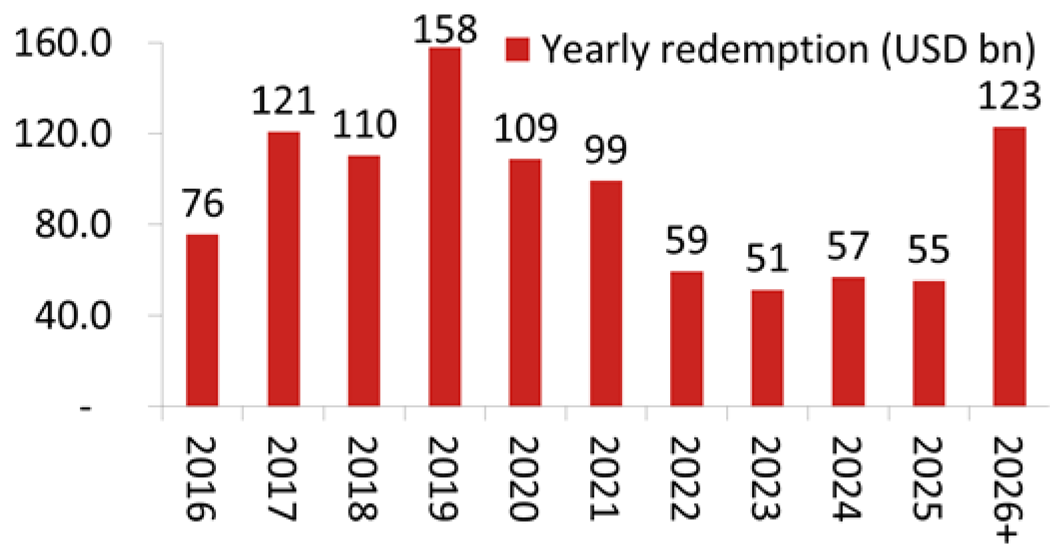
Source: Bloomberg, Nomura

Exhibit 17. Supply by Sector – HY and FIG issuance picking up in 2016



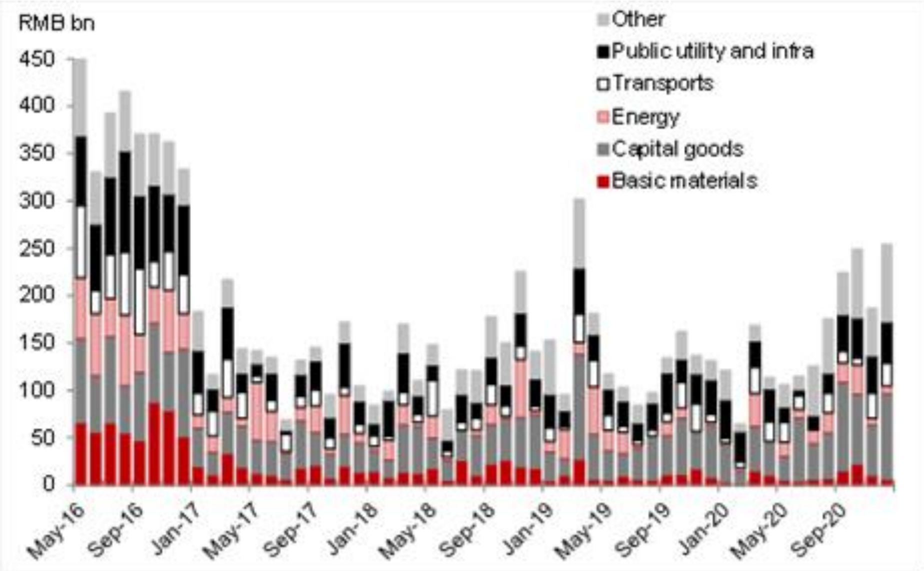
Source: Bloomberg, Nomura

Exhibit 18. High offshore bond redemption over the next few years



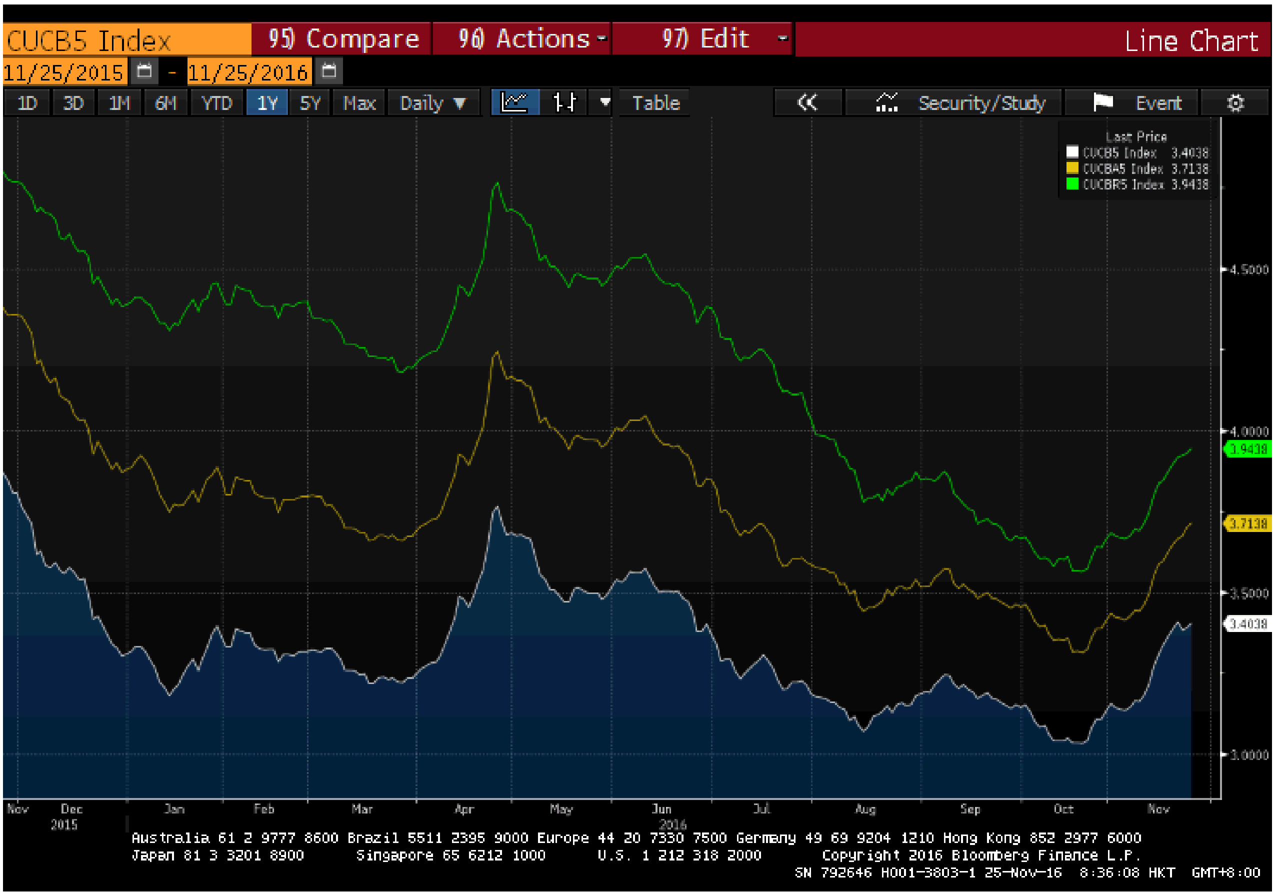
Source: Nomura

Exhibit 19. **Manageable onshore bond maturity in 2017…**



Source: Nomura China Economics Research team, see China: "Hard redemption" practice softens by Yang Zhao and team

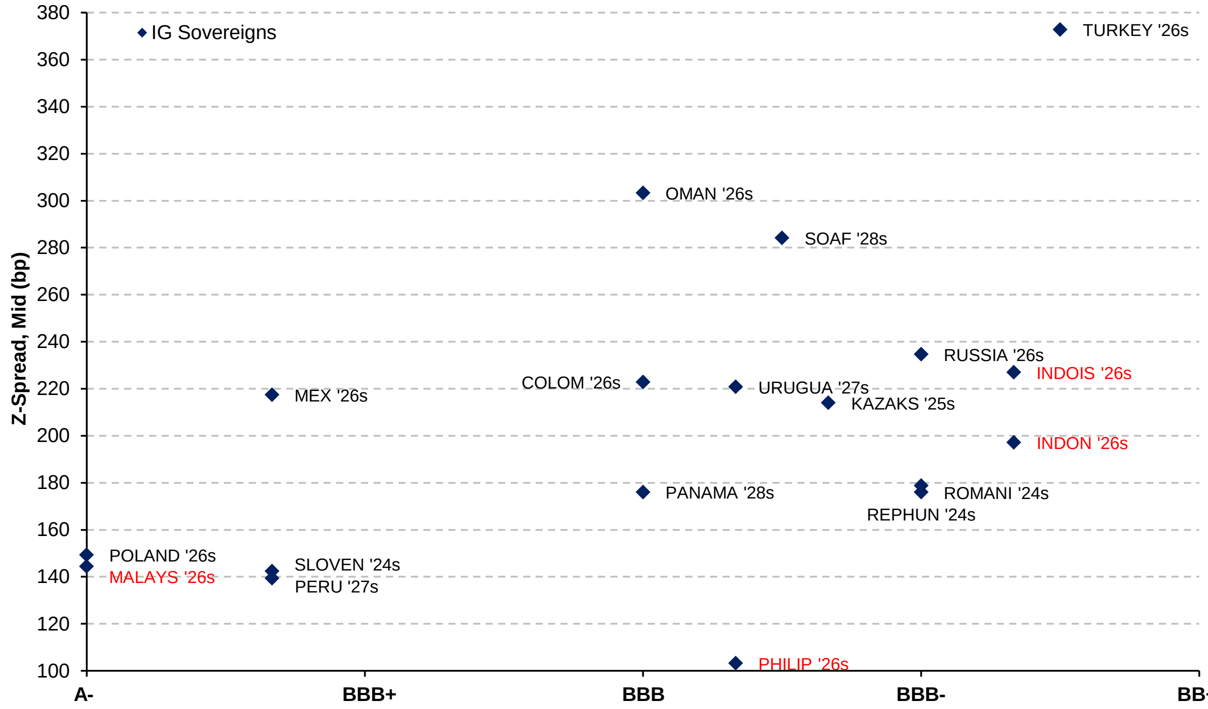
Exhibit 20. **…but rising onshore bond yields could be a potential concern**



Source: Bloomberg

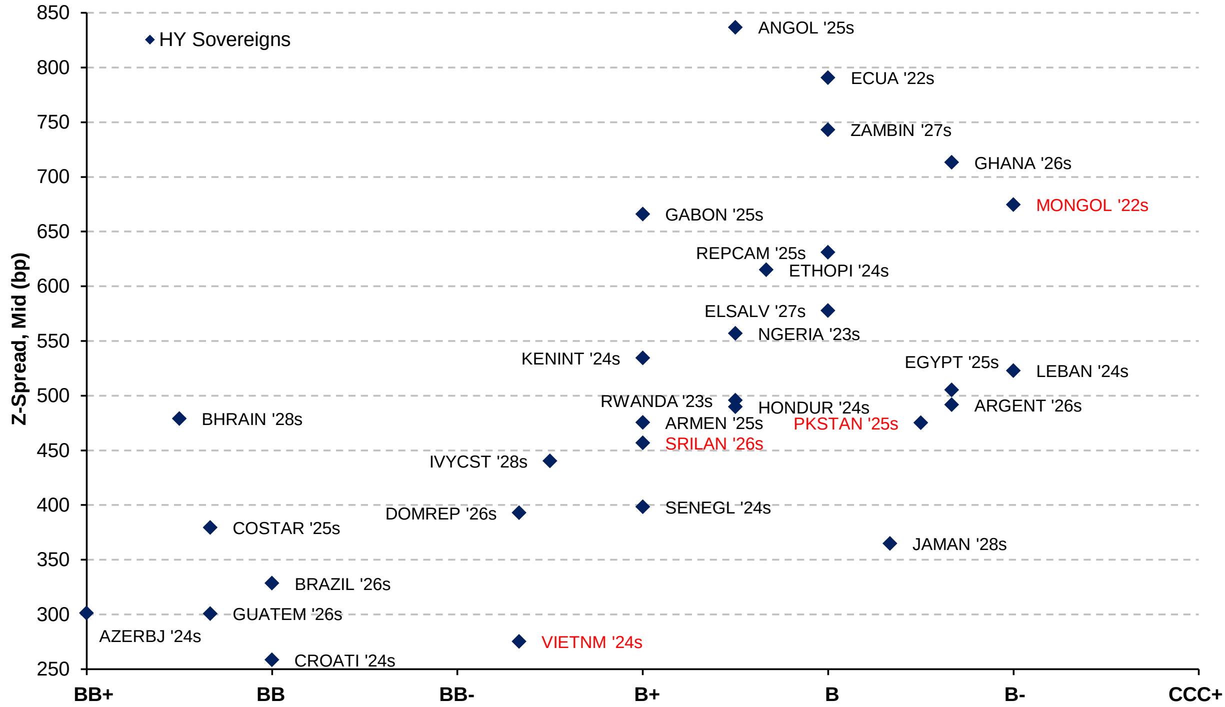
Sovereigns and Quasi-Sovereigns

Exhibit 21. Investment Grade Sovereigns – Relative Value



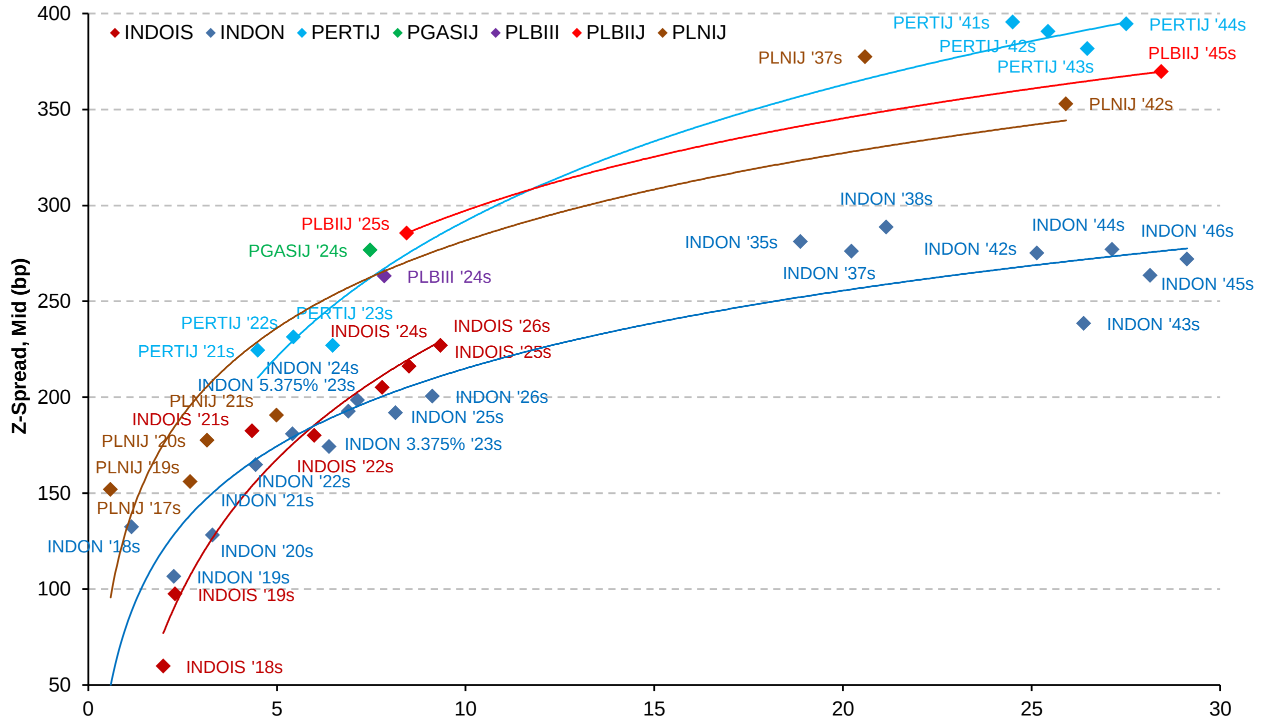
Source: Bloomberg, Nomura

Exhibit 22. High Yield Sovereigns – Relative Value



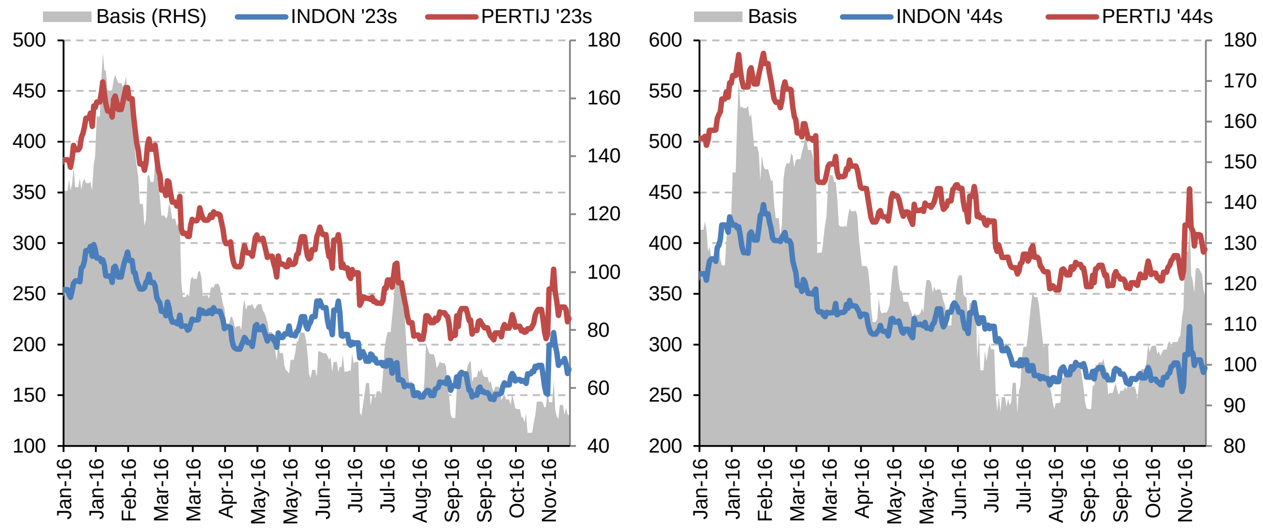
Source: Bloomberg, Nomura

Exhibit 23. Indonesian Sovereigns and Quasi-Sovereigns – Relative Value



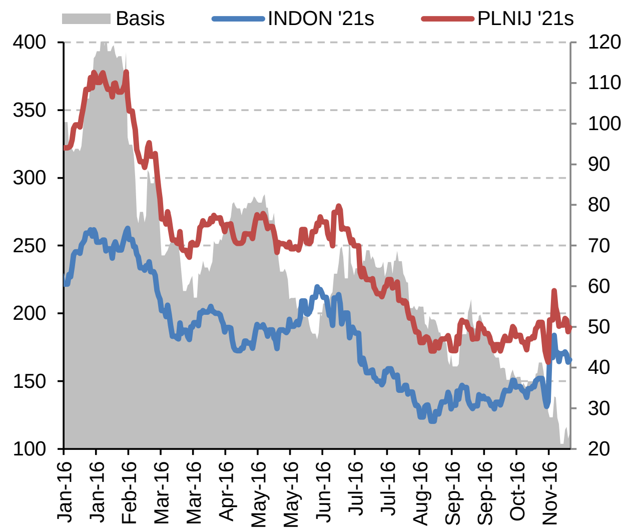
Source: Bloomberg, Nomura

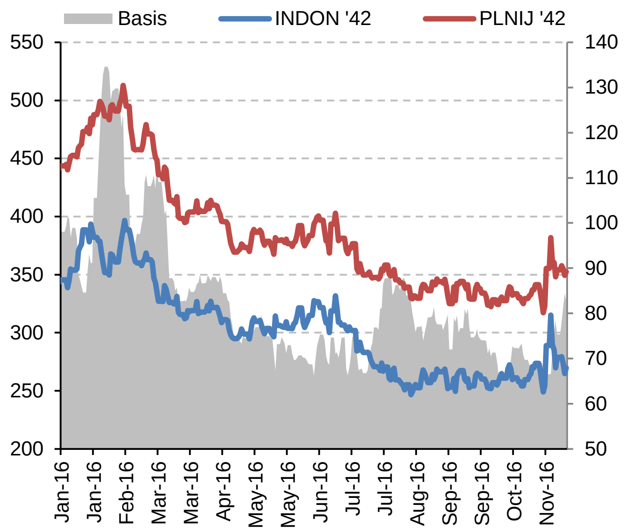
Exhibit 24. PERTIJ 2023 trade just ~50bp over INDON 2023 versus its one-year average of ~90bp; PERTIJ 2044 trade ~115bp over INDON 2044, close to its one-year average of ~120bp.



Source: Bloomberg, Nomura

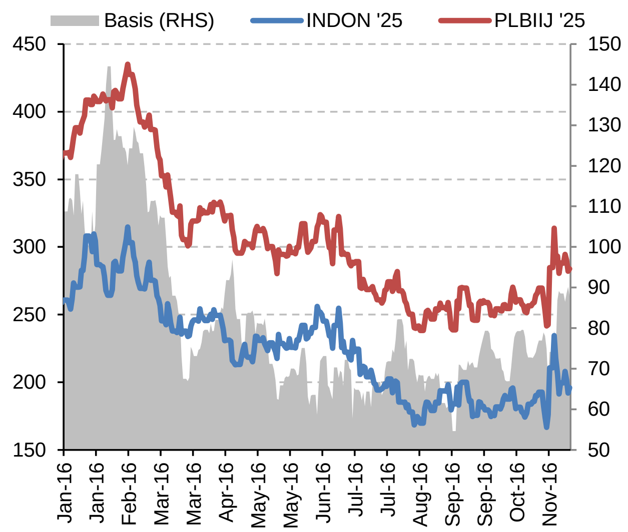
Exhibit 25. PLNIJ 2021 trade just ~20bp wide of INDON 2021 versus its one-year average of ~70bp; the basis of PLNIJ 2042 over INDON 2042 currently at its one-year average of ~85bp.

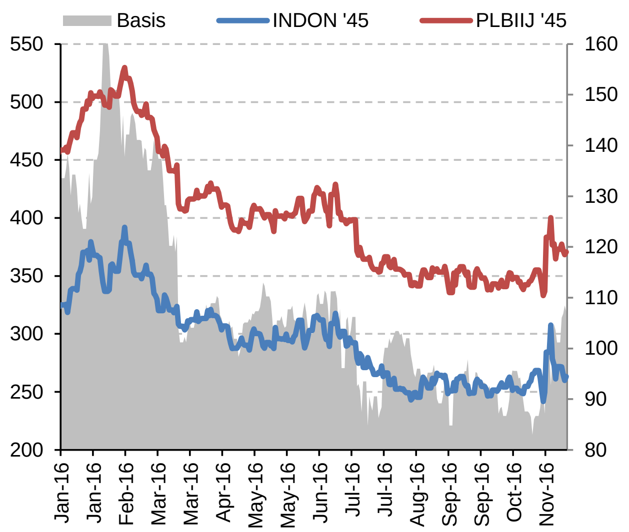




Source: Bloomberg, Nomura

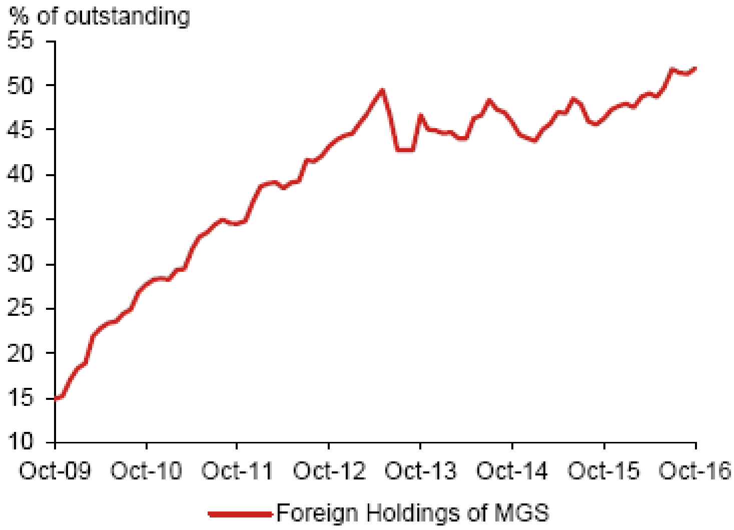
Exhibit 26. PLBIIJ 2025 trade ~90bp over INDON 2025, wider than its one-year average of ~85bp; likewise, the basis of PLBIIJ 2045 over INDON 2045 currently at its one-year average of ~110bp.





Source: Bloomberg, Nomura

Exhibit 27. Malaysia – Vulnerable to capital outflows given the high foreign ownership of MGS



Source: CEIC, Nomura Global Economics

Exhibit 28. Chinese Banks – Key Financial Metrics

	Snr Bond Rtg			Standalone Rtg			Total	9M16	9M16	9M16	NPL Ratio			Receiv.	LLR /	Basel 3
(CNY bn)	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Assets	ROAA	ROAE	LDR	9M15	9M16	1Y Chg	% of Assets	NPLs	CET1 %
State-Owned Commercial Banks																
ICBC	A1 (-)	A	A	baa2	bbb+	bb	23,646	1.3%	15.9%	72.7%	1.44%	1.62%	0.18%	1.4%*	136.1%	12.58%
China Construction Bank	A1 (-)	A	A	baa2	bbb+	bb	20,501	1.3%	17.3%	75.4%	1.45%	1.56%	0.11%	2.8%	148.8%	13.37%
Agricultural Bank of China	A1 (-)	A (-)	A	baa3	bbb	bb	19,064	1.1%	16.3%	64.1%	2.02%	2.39%	0.37%	3.2%	172.7%	10.35%
Bank of China	A1 (-)	A	A	baa2	bbb	bb	17,858	1.0%	13.3%	76.1%	1.43%	1.48%	0.05%	2.4%	155.8%	11.29%
Bank of Communications	A2 (-)	A- (-)	A	baa3	bbb-	bb-	8,092	0.9%	12.2%	85.1%	1.42%	1.53%	0.11%	4.3%	150.3%	11.10%
Joint-Stock Commercial Banks																
Industrial Bank	Baa3	NR	BB+	ba3	NR	b	5,817	1.1%	17.8%	78.1%	1.57%	1.71%	0.14%	34.0%	224.7%	8.87%
China Minsheng Bank	NR	BBB (-)	BB+	NR	bb+	b+	5,637	1.0%	16.6%	81.7%	1.45%	1.57%	0.12%	19.1%	154.4%	9.07%
Shanghai Pudong Dev Bank	Baa2	BBB	BBB-	ba2	bb+	b+	5,564	0.8%	16.1%	85.9%	1.36%	1.72%	0.36%	23.9%	200.1%	8.81%
China Merchants Bank	Baa1	BBB+	BBB	ba1	bbb	bb-	5,564	1.3%	18.4%	87.8%	1.60%	1.87%	0.27%	9.4%	186.4%	12.43%
China Everbright Bank	Baa2 (-)	NR	BBB	ba2	NR	b+	3,836	0.9%	13.8%	82.2%	1.43%	1.51%	0.08%	17.1%	154.1%	8.54%
City Commercial Banks																
Huishang Bank*	NR	NR	NR	NR	NR	NR	695	1.0%	16.2%	59.1%	0.97%	1.02%	0.05%	20.0%	267.5%	8.89%

Source: Company reports, Rating agencies, Nomura

Exhibit 29. Indian Banks – Key Financial Metrics

	Snr Bond Rtg			Standalone Rtg			Total	Govt	1H17	1H17	1H17	Impaired (% of Loans)			LLR /	Basel 3
(INR bn)	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Assets	Owns'p	ROAA	ROAE	LDR	NPAs	Restr.	Total	NPLs	CET1 %
Public Sector Banks																
State Bank of India	Baa3 (+)	BBB-	BBB-	ba1	bbb-	bbb-	23,855	60.2%	0.4%	6.2%	77.1%	7.14%	2.47%	9.61%	62.1%	10.28%
Bank of Baroda	Baa3 (+)	NR	BBB-	ba2	NR	bb+	6,620	59.2%	0.3%	4.7%	62.4%	11.35%	3.66%	15.01%	63.0%	10.09%
Bank of India	Baa3 (+)	BB+	BBB-	ba3	bb	bb-	6,033	73.7%	-0.2%	-3.8%	71.9%	13.45%	3.09%	16.54%	55.2%	7.93%
Canara Bank	Baa3 (+)	NR	BBB-	ba3	NR	bb	5,621	66.3%	0.2%	3.7%	67.5%	9.81%	3.87%	13.68%	51.8%	8.25%
Union Bank of India	Baa3 (+)	BB+	NR	ba3	bb	NR	4,320	63.4%	0.2%	3.0%	73.4%	10.73%	2.03%	12.76%	50.5%	8.06%
IDBI Bank	Baa3	BB+	BBB-	b1	bb-	bb-	3,765	74.0%	0.2%	2.1%	82.3%	13.05%	6.61%	19.66%	54.9%	7.36%
Syndicate Bank	Baa3 (+)	BB+	NR	ba2	bb	NR	3,064	72.9%	0.1%	2.5%	76.1%	7.72%	2.24%	9.96%	53.7%	7.19%
Indian Overseas Bank	Ba1 (-)	BB	NR	b3	b-	NR	2,519	79.6%	-1.7%	-28.7%	69.6%	21.77%	5.61%	27.38%	50.2%	7.64%
Export-Import Bank of India*	Baa3 (+)	BBB-	BBB-	ba3	bb	NA	1,139	100.0%	-1.1%	-10.7%	NM	7.93%	NA	NA	80.2%	NA
Private Sector Banks																
HDFC Bank	Baa3 (+)	BBB-	NR	baa3	bbb+	NR	7,888	0.0%	1.8%	17.5%	83.6%	1.02%	0.10%	1.12%	70.6%	12.27%
ICICI Bank	Baa3 (+)	BBB-	BBB-	baa3	bbb-	bbb-	7,519	0.0%	1.4%	11.6%	101.2%	6.82%	1.34%	8.16%	59.6%	12.63%
Axis Bank	Baa3 (+)	BBB-	BBB-	baa3	bbb	bbb-	5,577	0.0%	0.7%	7.0%	92.9%	4.17%	1.71%	5.88%	60.0%	11.58%

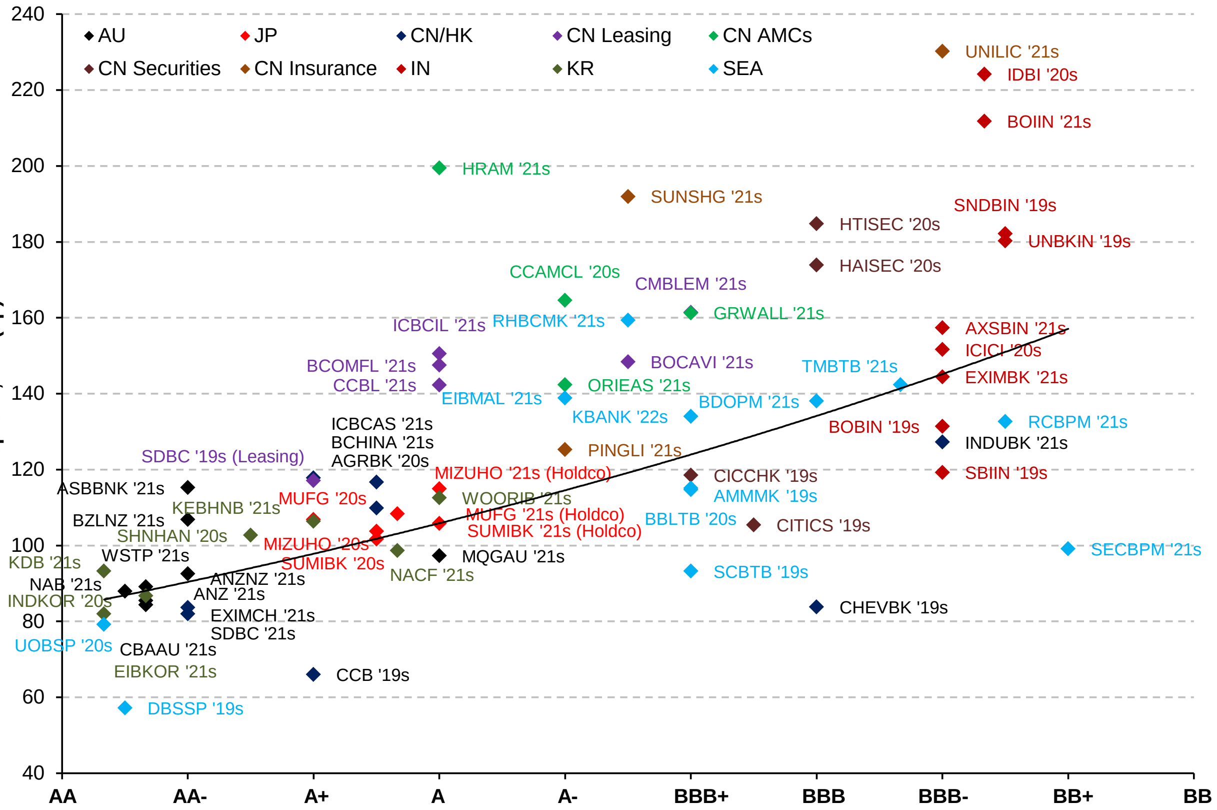
Source: Company reports, Rating agencies, Nomura

Exhibit 30. Korean Banks – Key Financial Metrics

	Snr Bond Rtg			Standalone Rtg			Total	9M16	9M16	9M16	NPL Ratio			LLR /	Basel 3
(KRW bn)	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Assets	ROAA	ROAE	LDR	9M15	9M16	1Y Chg	NPLs	CET1 %
Policy Banks															
Industrial Bank of Korea	Aa2	AA-	AA-	baa2	bbb	NA	252,888	0.5%	7.1%	NM	1.42%	1.42%	0.00%	168.4%	8.51%
Korea Development Bank	Aa2	AA	AA-	ba2	bb-	NA	224,461	-0.9%	-7.5%	NM	2.49%	5.68%	3.19%	78.7%	11.58%
Export-Import Bank of Korea	Aa2	AA	AA-	NA	bb	NA	81,890	0.0%	0.2%	NM	2.02%	3.24%	1.22%	79.9%	8.94%
Commercial Banks															
Shinhan FG	Aa3 (-)	A+	A	a3	a-	a	398,990	0.8%	9.6%	97.3%	0.85%	0.79%	-0.06%	178.3%	12.12%
KB FG (Kookmin Bank)	A1	A+	A	baa1	a-	a	351,835	0.7%	7.7%	98.6%	1.06%	0.88%	-0.18%	174.5%	14.35%
KEB Hana Bank	A1 (-)	A+	A-	baa1	a-	a-	331,809	0.5%	7.5%	99.2%	1.08%	1.02%	-0.06%	143.1%	13.55%
Woori FG	A2	A	A-	baa3	bbb+	bbb+	312,832	0.5%	7.7%	97.9%	1.65%	1.07%	-0.58%	159.8%	9.04%
BNK FG (Busan Bank)	A2 (-)	A-	BBB+	baa1	bbb	bbb+	92,847	0.6%	9.2%	97.1%	1.01%	0.91%	-0.10%	162.8%	10.80%
DGB FG (Daegu Bank)	A2 (-)	A-	NR	baa1	bbb	NR	61,303	0.6%	8.7%	95.2%	1.12%	1.24%	0.12%	125.8%	11.05%

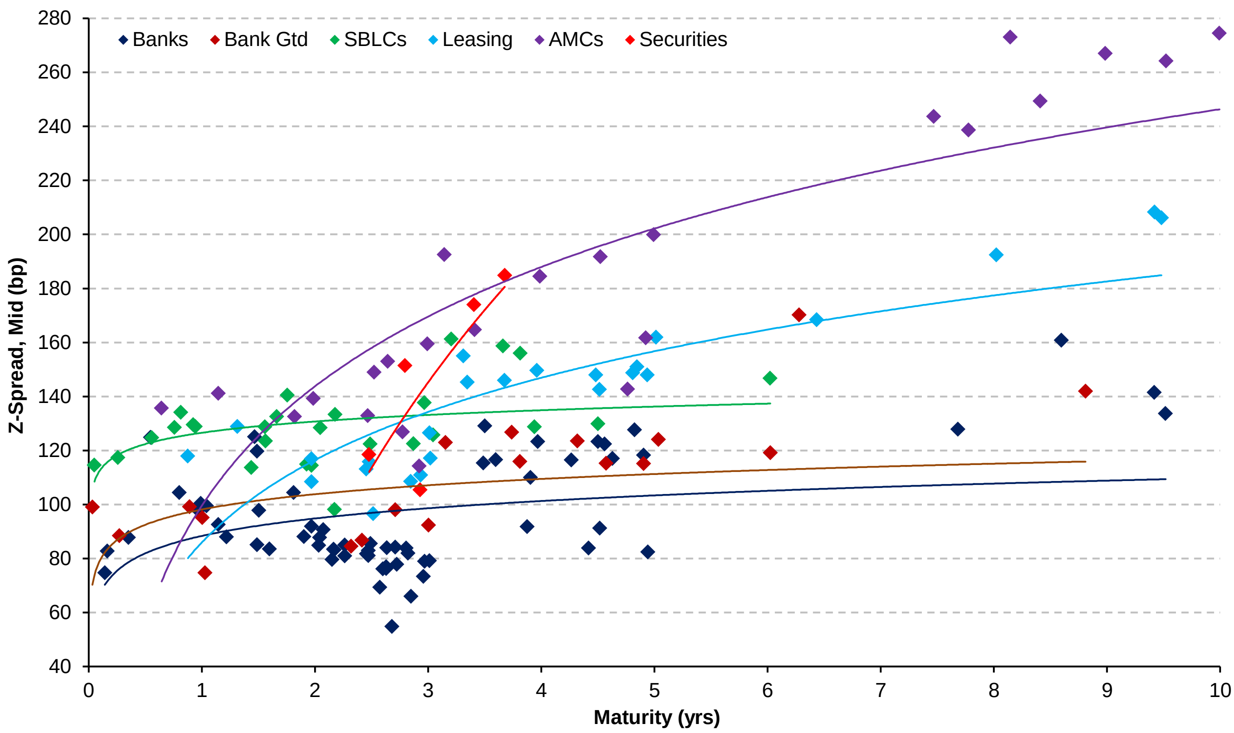
Source: Company reports, Rating agencies, Nomura

Exhibit 31. Asian Banks – Senior Bonds Relative Value



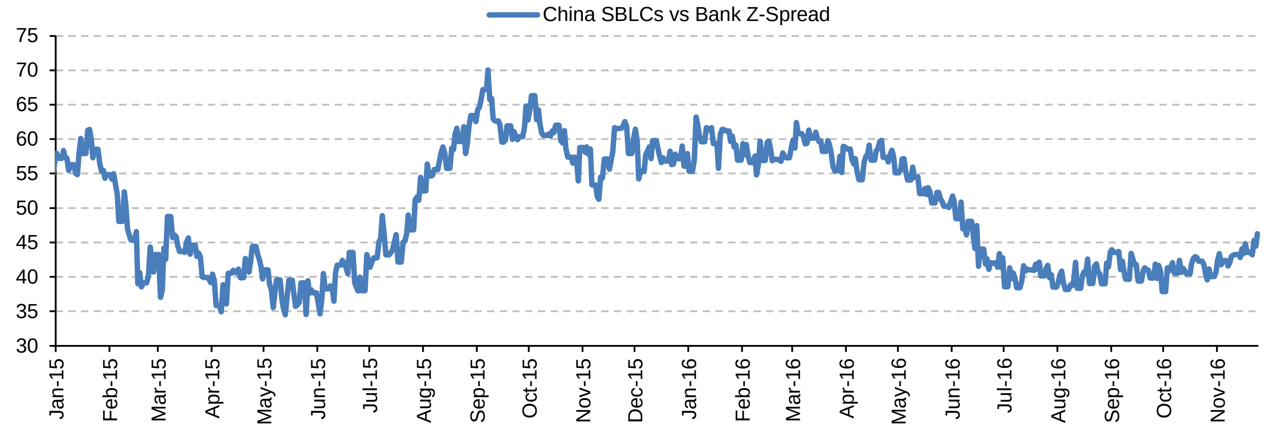
Source: Bloomberg, Nomura

Exhibit 32. Chinese Financials – A fair pecking order to be bank seniors, bank guaranteed seniors (+5-15bp), SBLCS (+40-50bp), Leasing (+50-60bp), AMCs (+70-80bp).



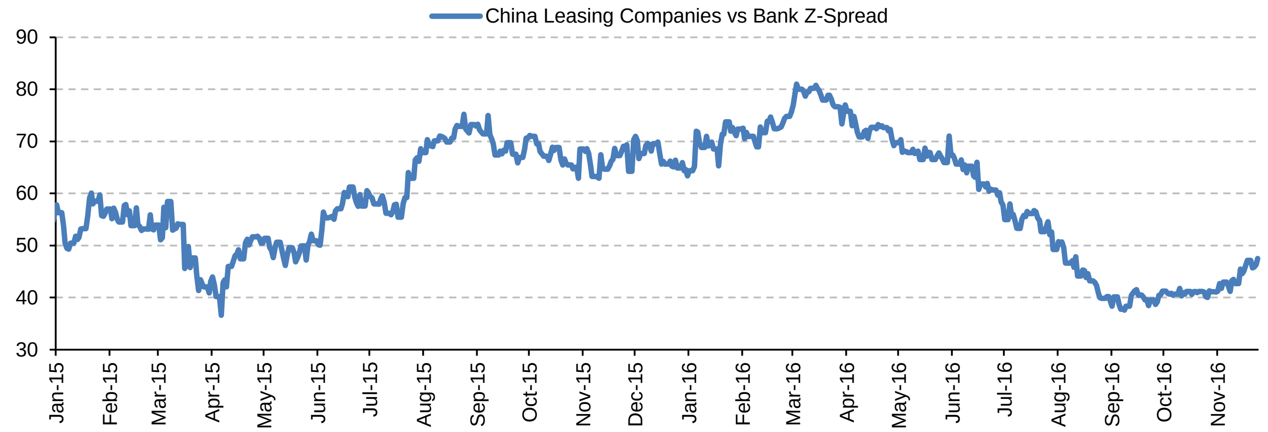
Source: Bloomberg, Nomura

Exhibit 33. China SBLCs – Current premium over banks' seniors of ~45bp is close to the one-year historical average of ~50bp.



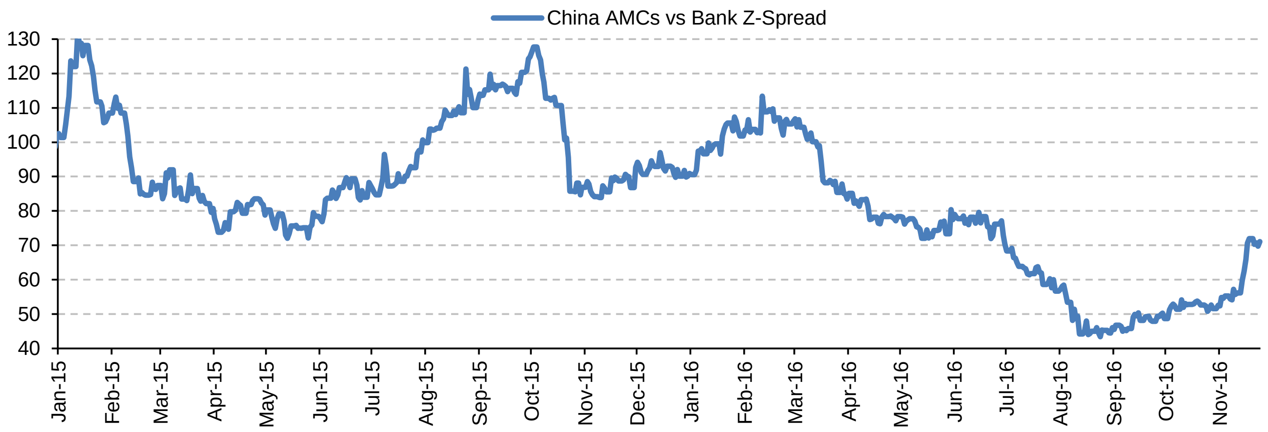
Source: Bloomberg, Nomura

Exhibit 34. China Leasing Companies – Current premium over banks' seniors of ~50bp slightly tighter than the one-year historical average of ~60bp.



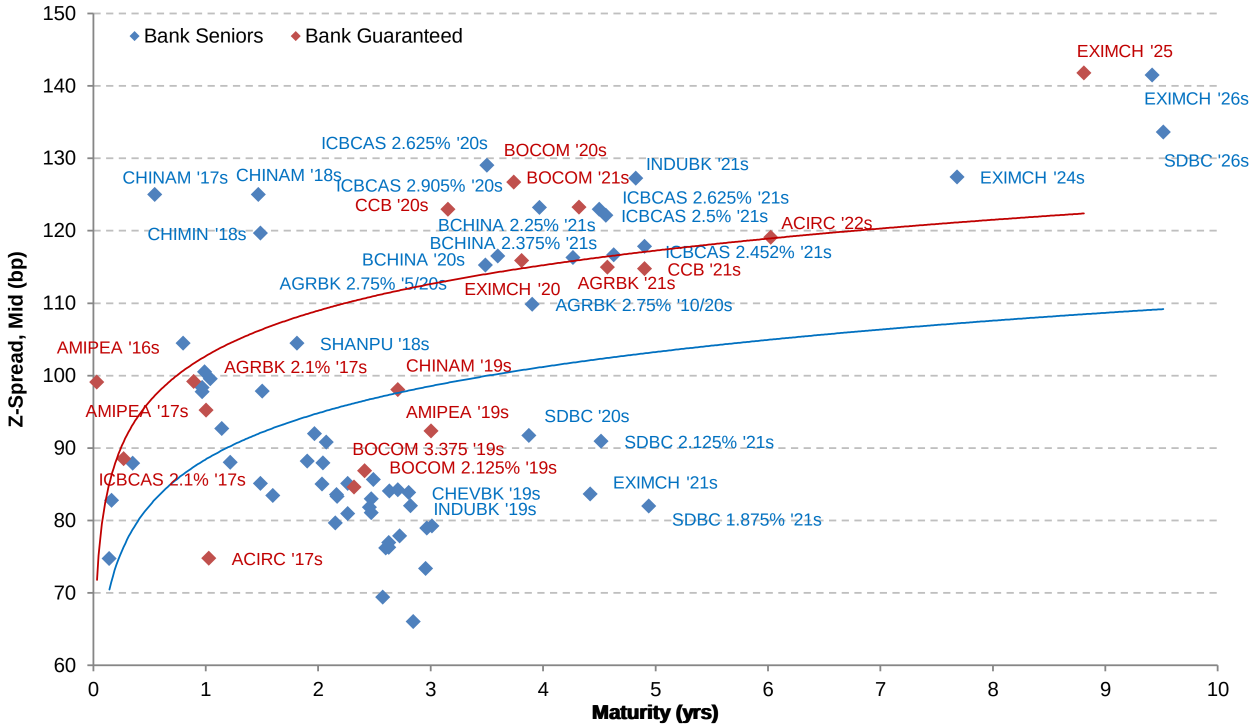
Source: Bloomberg, Nomura

Exhibit 35. China AMC Seniors – Current premium over banks' seniors of ~70bp tighter than the one-year historical average of ~75bp.



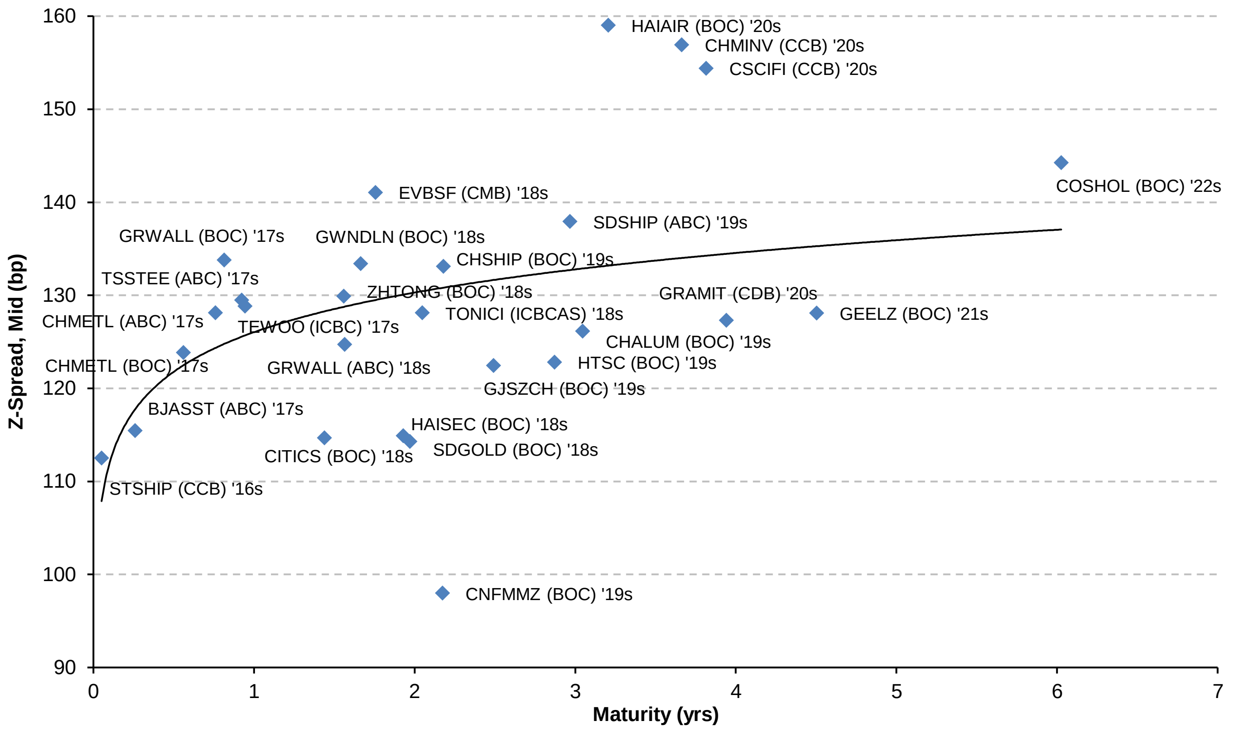
Source: Bloomberg, Nomura

Exhibit 36. Chinese Banks – Senior Bonds Relative Value



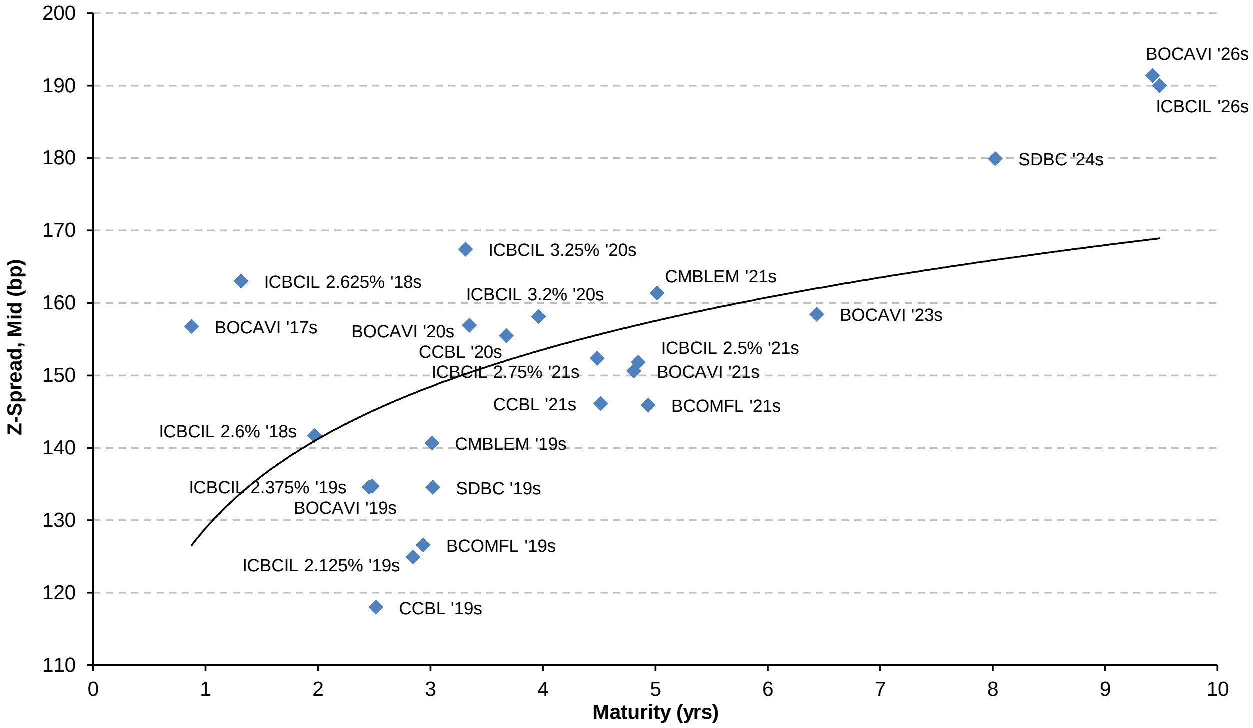
Source: Bloomberg, Nomura

Exhibit 37. Chinese SBLCs – Senior Bonds Relative Value



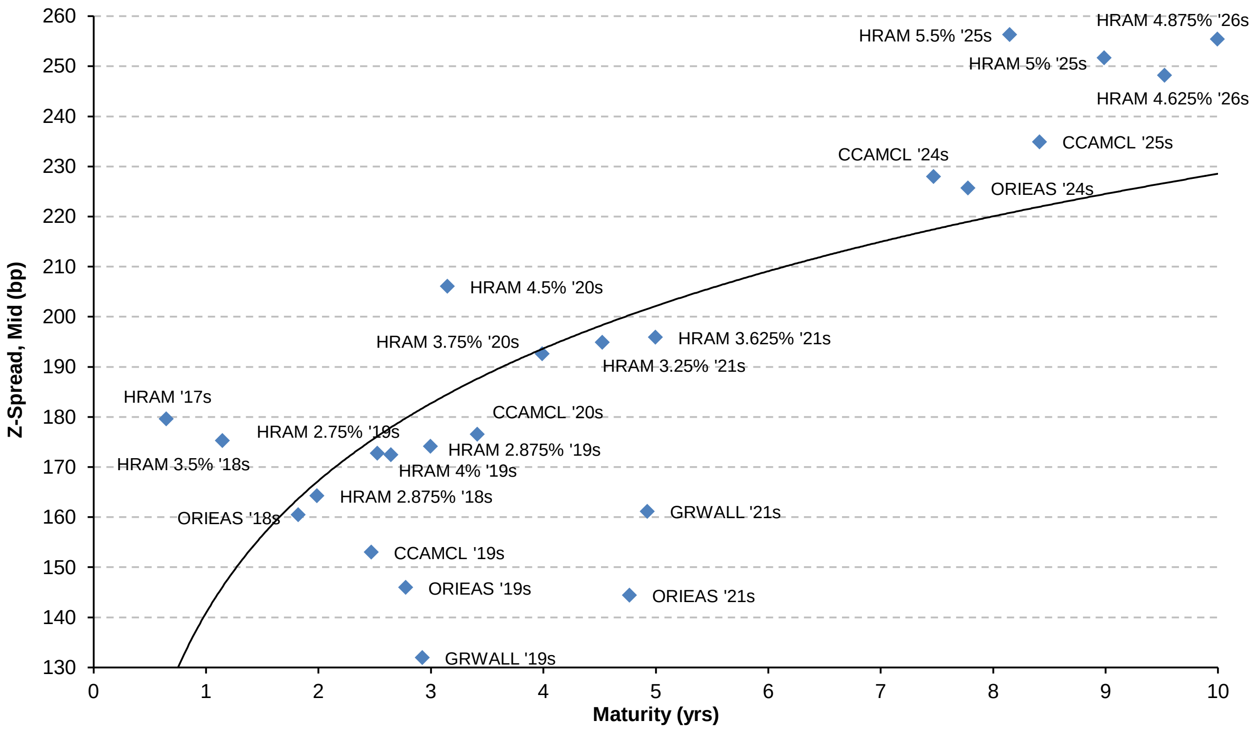
Source: Bloomberg, Nomura

Exhibit 38. Chinese Leasing Companies – Senior Bonds Relative Value



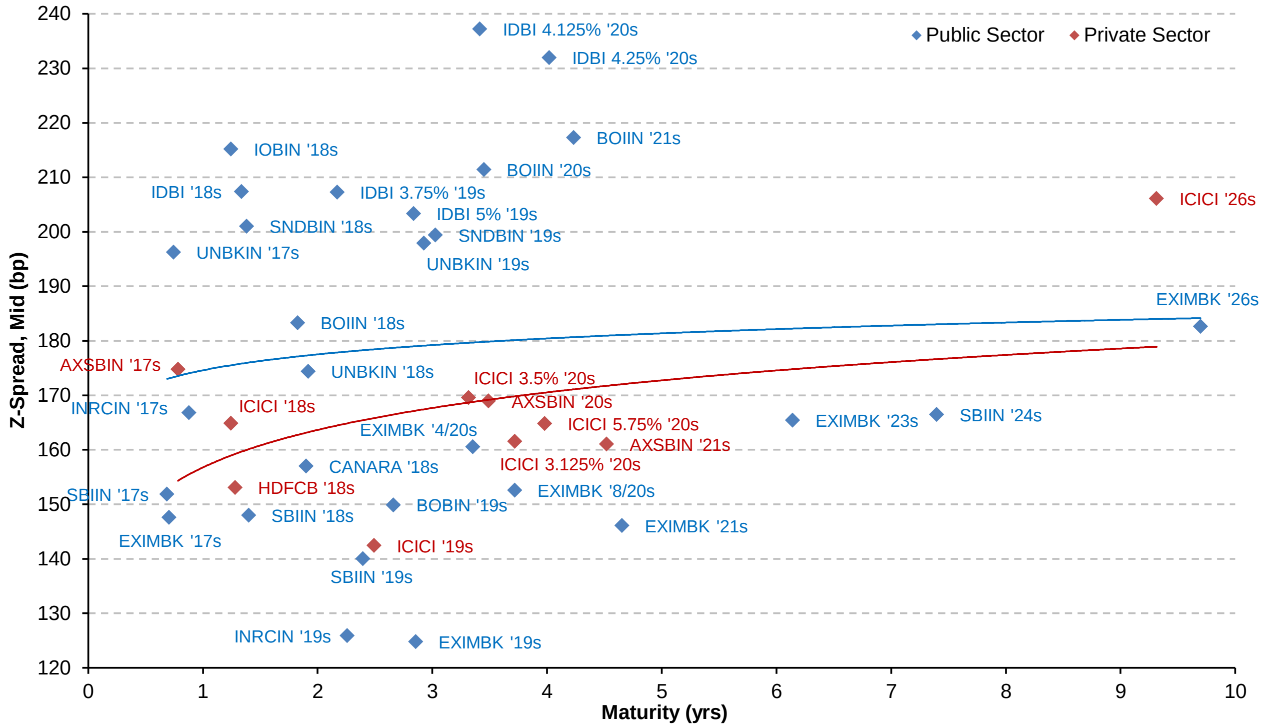
Source: Bloomberg, Nomura

Exhibit 39. Chinese AMCs – Senior Bonds Relative Value



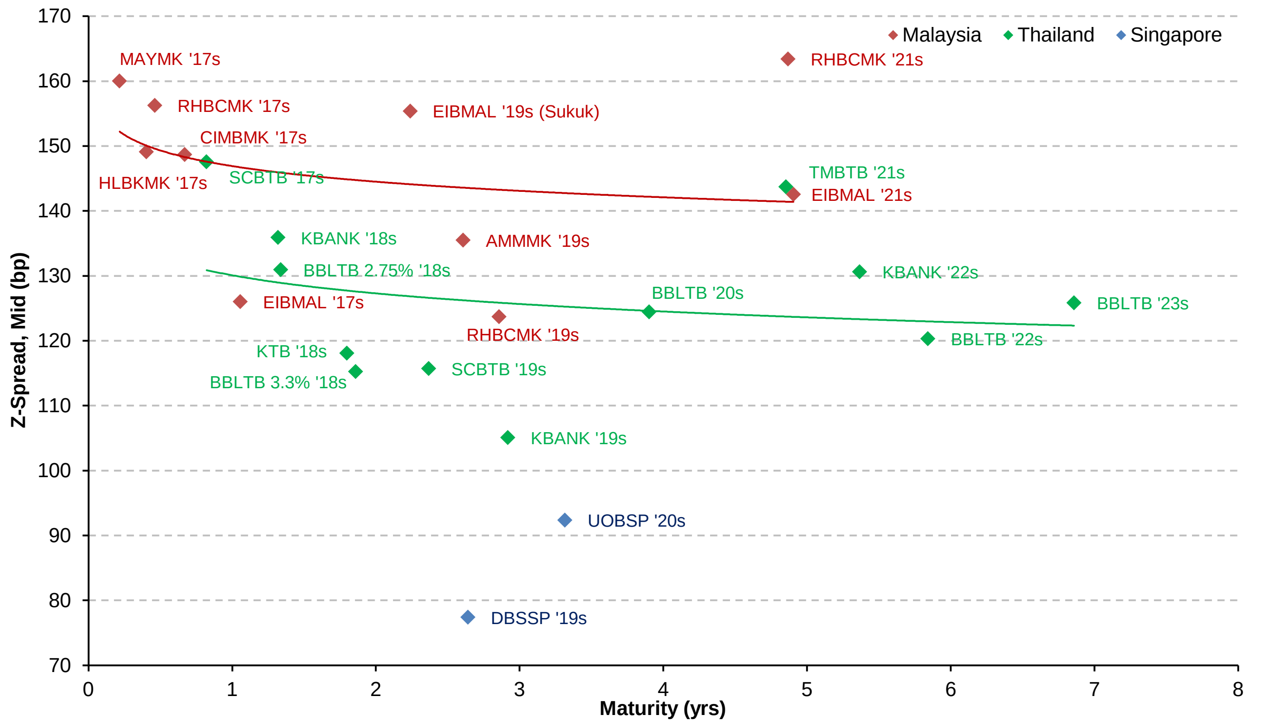
Source: Bloomberg, Nomura

Exhibit 40. Indian Banks – Senior Bonds Relative Value



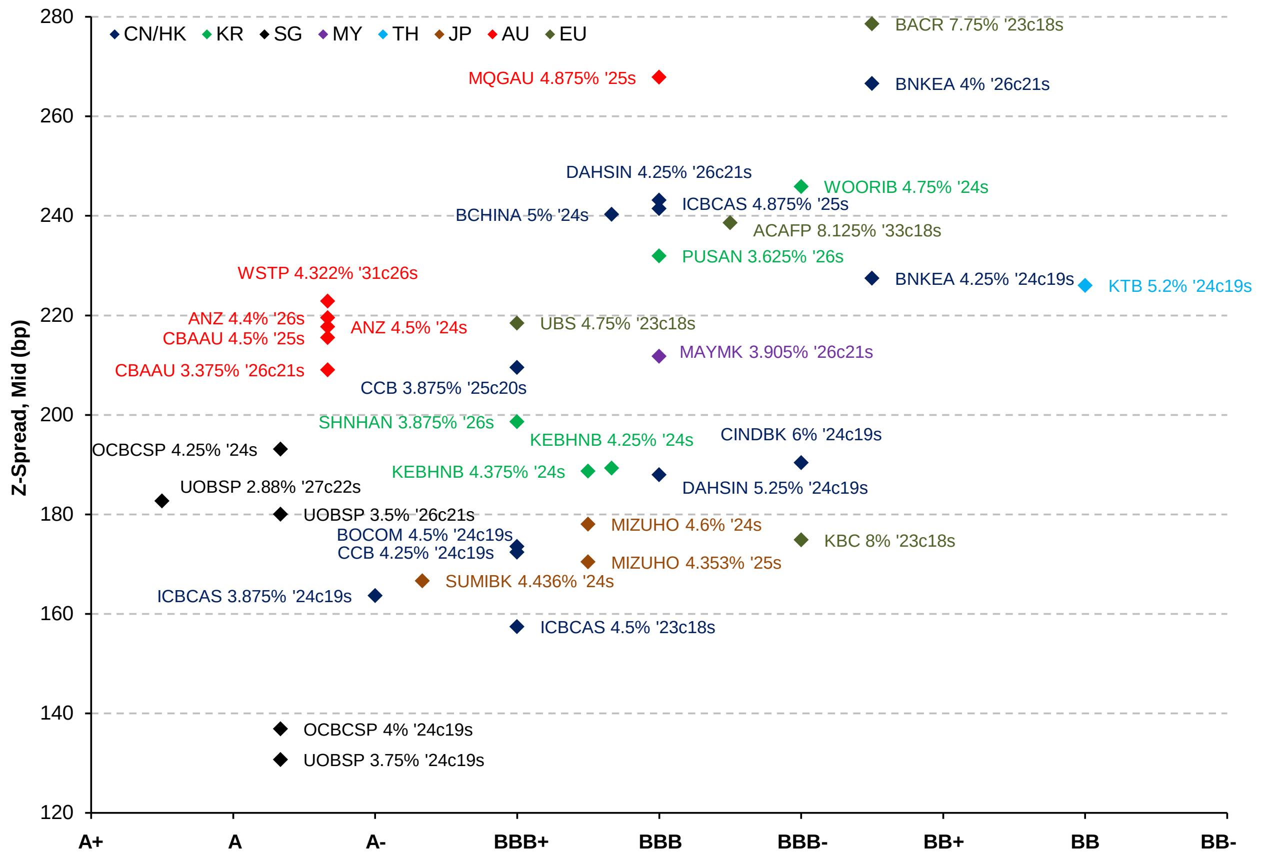
Source: Bloomberg, Nomura

Exhibit 41. Southeast Asian Banks – Senior Bonds Relative Value



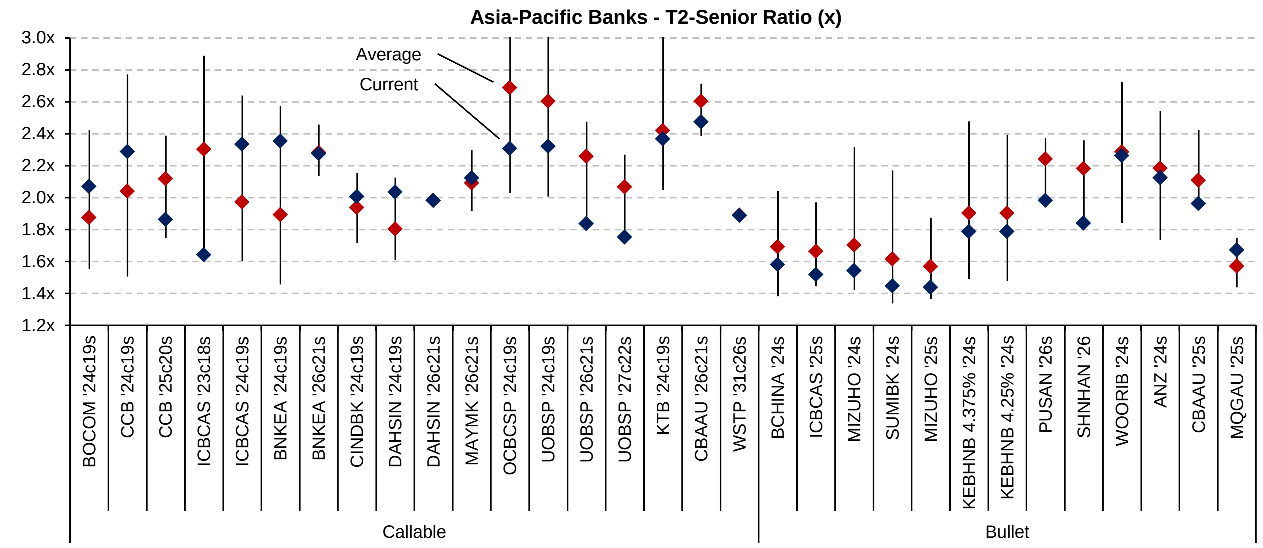
Source: Bloomberg, Nomura

Exhibit 42. Asian Banks – T2 Bonds Relative Value



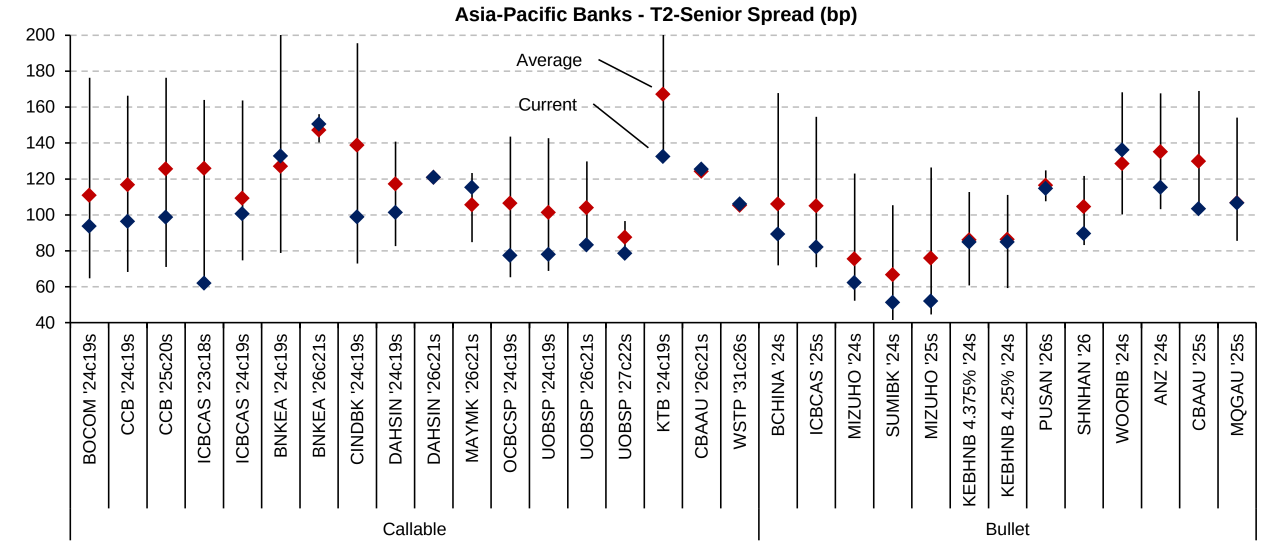
Source: Bloomberg, Nomura

Exhibit 43. Asian Banks – T2-to-Senior Multiple



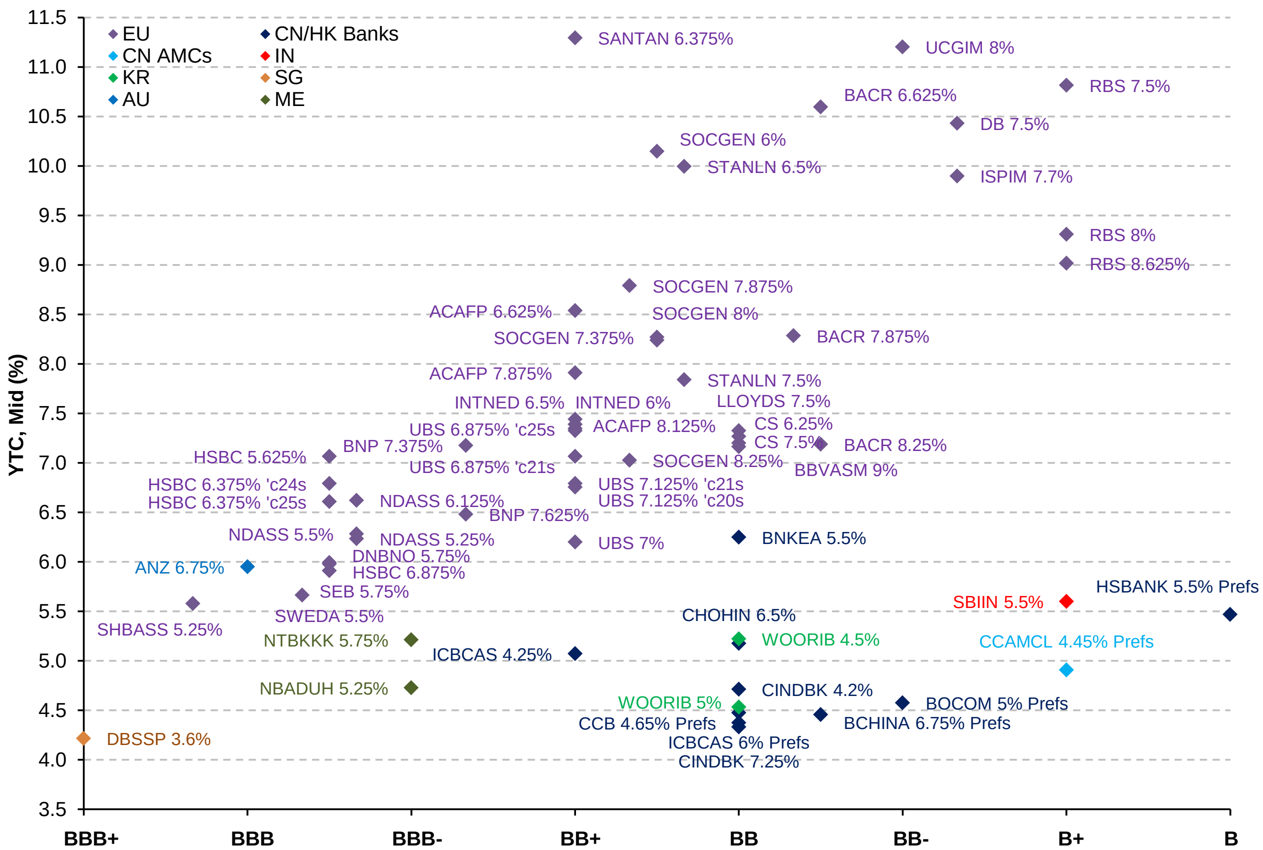
Source: Bloomberg, Nomura

Exhibit 44. Asian Banks – T2-to-Senior Spread



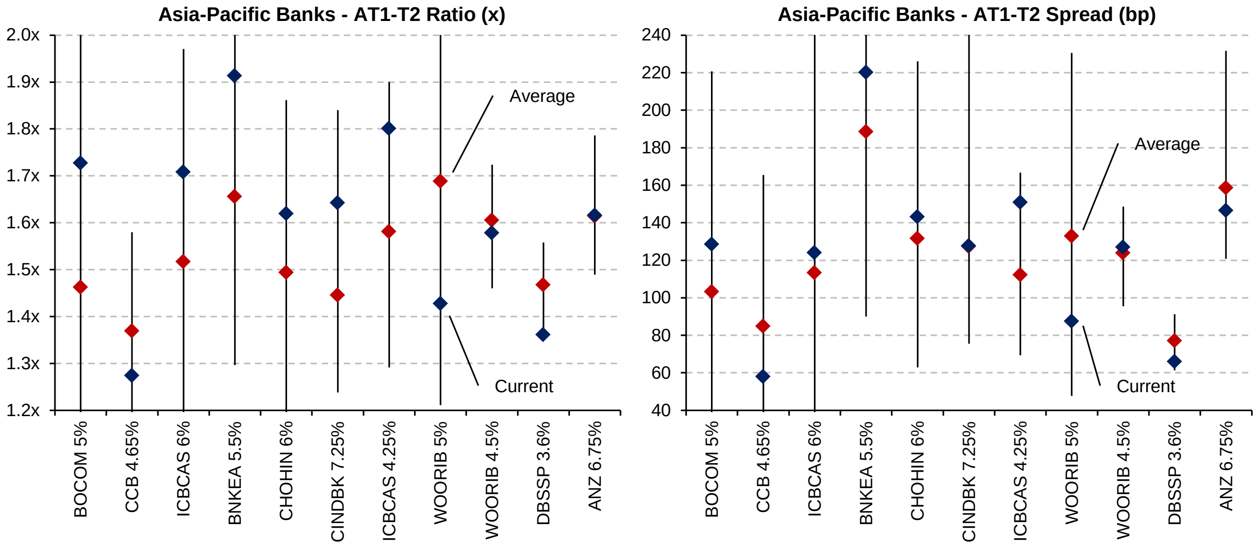
Source: Bloomberg, Nomura

Exhibit 45. Asian Banks – AT1 Bonds Relative Value



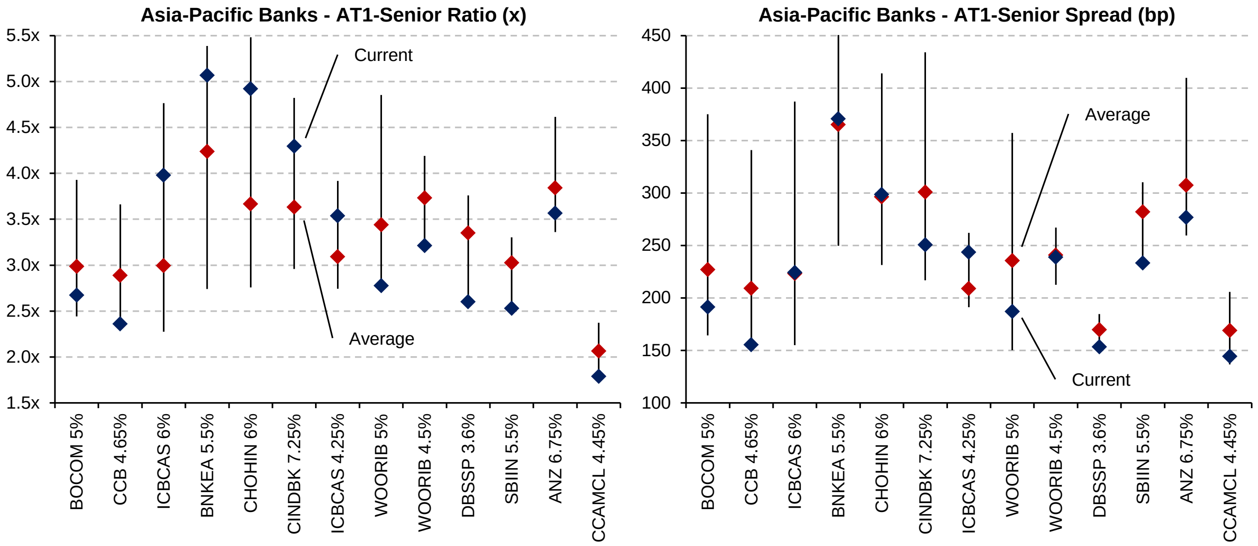
Note: The HSBANK 5.5% AT1s are unrated but we assume they are rated B. Source: Bloomberg, Nomura

Exhibit 46. **Asian Banks – AT1-to-T2 Multiple/Spread**



Source: Bloomberg, Nomura

Exhibit 47. **Asian Banks – AT1-to-Senior Multiple/Spread**



Source: Bloomberg, Nomura

Exhibit 48. Summary of LGFVs' credit profile under our coverage

	BEIJII	AHTRHK	GXCMIN	TRTHK
Company name	Beijing Infrastructure Investment Group Co Ltd	Anhui Transportation Holding Group Co Ltd	Guangxi Communications Investment Group Corporation. Ltd	Tianjin Rail Transit Group Co Ltd
Bond structure	Keepwell	Keepwell	Direct Issuance	Keepwell
Parental notch-up (M/S)	+4/+8	+3/--	+4/--	+7/+6
Bond rating (M/S/F)	A2/A/A+	Baa1/--/BBB+	Baa3/--/BBB	A3/A-/A
Onshore standalone rating (Chengxin/CCRC /SBCR/Dagong/Lianhe)	AAA/AAA/--/--/--	--/AA+/--/AAA/AAA	--/AA-/--/AA+/AAA	--/--/--/--/AAA
Financials Metrics (RMB mm)	**FY15**	**FY15**	**FY15**	**FY15**
Revenue	17,544	27,022	19,304	2,379
EBITDA	6,578	12,660	4,580	841
Total Asset	404,508	207,573	192,168	231,276
Operating Cash Flow - Investing Cash Flow	-29,097	-5,426	-16,801	-28,369
Total Debt / EBITDA	*33.7x*	*9.7x*	*23.8x*	*123.4x*
EBITDA / Interest Expense	*0.5x*	*1.8x*	*0.7x*	*0.2x*
Total Debt / (Total Debt + Equity)	*61%*	*65%*	*64%*	*49%*
Cash / Short-term Debt	*1.2x*	*0.4x*	*1.0x*	*0.8x*
Government and Fiscal Info (2015)	**Beijing**	**Auhui**	**Guangxi**	**Tianjin**
Administration level (1: Highest; 4: Lowest)	**Direct-controlled Municipality**	**Province**	**Province**	**Direct-controlled Municipality**
	1	**1**	**1**	**1**
Provincial GDP (RMB bn)[1]	**2,301**	**2,201**	**1,680**	**1,654**
Rank: Provincial level / Provincial divisions[1]	**13/31**	**14/31**	**17/31**	**19/31**
City GDP (RMB bn)[1]	n/a	n/a	n/a	n/a
Rank: City / Other cities in the province[1]	n/a	n/a	n/a	n/a
District (RMB bn)[2]	n/a	n/a	n/a	n/a
Rank: District / Other districts in the city[2]	n/a	n/a	n/a	n/a
Government Type 1 debt (RMB bn)[3]	573	511	404	225
Government Type 1 debt / GDP	25%	23%	24%	14%
Provincial Risk (1: Riskiest; 31: Safest)[4]	**Beijing**	**Anhui**	**Guangxi**	**Tianjin**
Standalone fiscal balance-to-GDP (2014)	27	13	10	25
Estimated LGFV debt-to GDP ratio (2014)	6	15	12	1
Average LGFV debt-to-operating income ratio (H2 2013-H1 2014)	4	29	24	1
Average share of short-term debt in total LGFV debt (H2 2013-H1 2014)	7	9	23	17
Ratio of land sales revenue to fiscal revenue (2010-14)	14	5	18	11
Overall fiscal risk rank	**9**	**11**	**25**	**2**

Source: Company filings, government bond filings, S&P, Moody's, Fitch, Wind and Nomura

Note:

1. Provincial and city GDP in 2015 are sourced from National Bureau of Statistics, quoted from CEIC.
2. District GDP for Tianjin is from http://www.bh.gov.cn//UpLoadPath/2016/4/27/899029d9166d25-99cd-4be6-8593-9bc484d4072f.pdf. District GDP for Chongqing is from http://www.phbang.cn/finance/data/152421.html.
3. Government Type I debt is sourced from latest government onshore bond OC.
4. Provincial risk measures are provincial rankings of each financial ratio, based on Nomura's Asia Special Report - The geography of China risk, 2 June 2015.

Exhibit 48. Summary of LGFVs' credit profile under our coverage (continued)

TJNCON	YUNMET	YUNINV	YUNAEN	SXROBR	GSHIAV
Tianjin Infrastructure Construction & Investment Group Co	Yunnan Metropolitan Construction Investment Group Co	Yunnan Provincial Investment Holdings Group	Yunnan Provincial Energy Investment Group Co Ltd	Shanxi Road & Bridge Construction Group Co Ltd	Gansu Provincial Highway Aviation Tourism Investment Group Co Ltd
Direct Issuance	Guarantee	Direct Issuance	Keepwell	Direct Issuance	Direct Issuance
--/+6	--/--	--/--	--/--	--/+3	--/+1
--/A-/A	--/--/BBB+	--/--/BBB+	--/--/BBB	--/BB/--	--/BBB-/BBB-e
--/AAA-/--/--/AAA	--/AA-/AA/--/AAA	AAA/AA-/--/AA+/--	AAA/AA/--/--/--	--/--/--/AA-/--	--/AA-/AAA/AAA/--
FY15	**FY15**	**FY15**	**FY15**	**FY15**	**FY15**
14,330	13,702	53,826	41,887	6,420	30,419
5,609	3,851	5,399	2,155	797	5,343
670,447	123,458	155,761	74,187	37,293	259,824
-12,145	-12,356	-17,376	-9,395	-3,849	-15,790
72.1x	*19.4x*	*17.5x*	*18.6x*	*29.3x*	*29.2x*
0.2x	*1.0x*	*1.3x*	*1.1x*	*0.5x*	*0.7x*
65%	*73%*	*64%*	*58%*	*74%*	*62%*
0.7x	*0.7x*	*0.7x*	*0.7x*	*0.7x*	*0.7x*
Tianjin	**Yunnan**	**Yunnan**	**Yunnan**	**Shanxi**	**Gansu**
Direct-controlled Municipality	**Province**	**Province**	**Province**	**Province**	**Province**
1	**1**	**1**	**1**	**1**	**1**
1,654	**1,362**	**1,362**	**1,362**	**1,277**	**679**
19/31	**23/31**	**23/31**	**23/31**	**24/31**	**27/31**
n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a
225	623	623	623	203	159
14%	46%	46%	46%	16%	23%
Tianjin	**Yunnan**	**Yunnan**	**Yunnan**	**Shanxi**	**Gansu**
25	6	6	6	17	2
1	8	8	8	23	5
1	15	15	15	17	25
17	26	26	26	12	19
11	15	15	15	29	28
2	**17**	**17**	**17**	**27**	**22**

Source: Company filings, government bond filings, S&P, Moody's, Fitch, Wind and Nomura

Note:

1. Provincial and city GDP in 2015 are sourced from National Bureau of Statistics, quoted from CEIC.
2. District GDP for Tianjin is from http://www.bh.gov.cn//UpLoadPath/2016/4/27/899029d9166d25-99cd-4be6-8593-9bc484d4072f.pdf. District GDP for Chongqing is from http://www.phbang.cn/finance/data/152421.html.
3. Government Type I debt is sourced from latest government onshore bond OC.
4. Provincial risk measures are provincial rankings of each financial ratio, based on Nomura's Asia Special Report - The geography of China risk, 2 June 2015.

Exhibit 48. Summary of LGFVs' credit profile under our coverage (continued)

GUAMET	GZHCIG	JNXCCC	CHDXCH	WHMTR	CSPLIN
Guangzhou Metro Group Co Ltd	Guangzhou Communications Investment Group Co Ltd	Jinan West City Investment and Development Group Co Ltd	Chengdu Xingcheng Investment Group Co Ltd	Wuhan Metro Group Co Ltd	Changsha Pilot Investment Holdings Co Ltd
Keepwell	Keepwell	Direct Issuance	Direct Issuance	Direct Issuance	Direct Issuance
+2/--	+3/--	--/+4	--/--	--/--	--/+5
A3/--/A	Baa2/--/A-	--/BBB-/--	--/--/BBB+e	--/--/A	--/BBB-/BBB-
AAA/AAA-/--/--/--	AAA/--/--/--/--	--/--/--/--/AAA	--/--/--/--/AAA	AAA/--/--/--/--	AA+/--/--/AA/--
FY15	**FY15**	**FY15**	**FY15**	**FY15**	**FY15**
6,026	4,733	4,778	2,421	3,123	1,203
2,369	3,319	2,602	909	830	321
198,354	67,631	76,557	66,609	152,086	53,974
-18,157	-4,558	-14,316	-1,265	-21,559	-2,691
25.1x	*10.5x*	*10.8x*	*34.9x*	*110.8x*	*73.9x*
0.7x	*1.6x*	*1.5x*	*0.5x*	*0.2x*	*0.1x*
41%	*66%*	*51%*	*64%*	*66%*	*46%*
0.9x	*1.3x*	*0.6x*	*1.8x*	*2.6x*	*0.8x*
Guangzhou	**Guangzhou**	**Jinan**	**Chengdu**	**Wuhan**	**Changsha**
Sub-provincial Capital City	**Sub-provincial Capital City**	**Sub-provincial Capital City**	**Sub-provincial Capital City**	**Sub-provincial Capital City**	**Sub-provincial Capital City**
2	**2**	**2**	**2**	**2**	**2**
7,281	7,281	6,300	3,005	2,955	2,890
1/31	1/31	3/31	6/31	8/31	9/31
1,810	**1,810**	**610**	**1,080**	**1,091**	**851**
1/21	**1/21**	**3/17**	**1/21**	**1/13**	**1/14**
n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a
914	914	953	747	470	615
13%	13%	15%	25%	16%	21%
Guangdong	**Guangdong**	**Shandong**	**Sichuan**	**Hubei**	**Hunan**
29	29	24	9	20	16
21	21	26	9	16	19
13	13	27	23	19	3
14	14	1	22	8	30
23	23	8	10	4	13
28	**28**	**10**	**21**	**5**	**26**

Source: Company filings, government bond filings, S&P, Moody's, Fitch, Wind and Nomura

Note:

1. Provincial and city GDP in 2015 are sourced from National Bureau of Statistics, quoted from CEIC.
2. District GDP for Tianjin is from http://www.bh.gov.cn//UpLoadPath/2016/4/27/899029d9166d25-99cd-4be6-8593-9bc484d4072f.pdf. District GDP for Chongqing is from http://www.phbang.cn/finance/data/152421.html.
3. Government Type I debt is sourced from latest government onshore bond OC.
4. Provincial risk measures are provincial rankings of each financial ratio, based on Nomura's Asia Special Report - The geography of China risk, 2 June 2015.

Exhibit 48. Summary of LGFVs' credit profile under our coverage (continued)

XANCON	QDCCIZ	XIHUI	XZETDZ	ZGCHGI	HRINT
Xi'an Municipal Infrastructure Construction Investment Group Corporation Ltd	Qingdao City Construction Investment Group Ltd	Wuxi Construction & Dev Invst Co Ltd	Xuzhou Economic Technology Development Zone State Owned Asset Management Co Ltd	Jiangsu Zhongguancun Science Park Holding Group Co Ltd.	Jiangsu Hanrui Investment Holdings Co Ltd
Direct Issuance	Keepwell	Keepwell	Guarantee	Guarantee	Keepwell
--/--	--/+6	--/+7	--/--	--/--	--/--
--/--/BBB	--/BBB-/BBB+	--/BBB/BBB+	--/--/BB+	--/--/--	--/--/BB+
AAA/AA/--/AA+/AA+	--/--/--/AAA/--	--/--/AAA/--/AAA	--/--/--/AA/--	--/--/--/--/--	--/--/AA/--/--
FY15	**FY15**	**FY15**	**FY15**	**FY15**	**FY15**
10,581	5,183	2,014	2,273	892	7,092
1,718	1,618	921	650	430	1,015
93,544	102,069	43,802	27,345	20,284	100,208
-18,061	-18,128	411	-3,233	-7,956	-20,394
28.3x	*19.1x*	*22.2x*	*9.3x*	*12.2x*	*46.3x*
0.7x	*1.2x*	*0.5x*	*1.7x*	*3.8x*	*0.2x*
61%	*47%*	*58%*	*35%*	*43%*	*59%*
1.7x	*0.8x*	*0.7x*	*0.5x*	*0.6x*	*0.4x*
Xi'an	**Qingdao**	**Wuxi**	**Xuzhou**	**Changzhou**	**Zhenjiang**
Sub-provincial Capital City	**Sub-provincial City**	**Prefectural City**	**Prefectural City**	**Prefectural City**	**Prefectural City**
2	**2**	**3**	**3**	**3**	**3**
1,802	6,300	7,012	7,012	7,012	7,012
15/31	3/31	2/31	2/31	2/31	2/31
581	**930**	**852**	**532**	**527**	**350**
1/10	**1/17**	**3/13**	**5/13**	**6/13**	**10/13**
n/a	n/a	n/a	n/a	74	n/a
n/a	n/a	n/a	n/a	2/6	n/a
468	953	1,056	1,056	1,056	1,056
26%	15%	15%	15%	15%	15%
Shaanxi	**Shandong**	**Jiangsu**	**Jiangsu**	**Jiangsu**	**Jiangsu**
14	24	28	28	28	28
13	26	10	10	10	10
6	27	12	12	12	12
16	1	3	3	3	3
25	8	3	3	3	3
16	**10**	**4**	**4**	**4**	**4**

Source: Company filings, government bond filings, S&P, Moody's, Fitch, Wind and Nomura

Note:

1. Provincial and city GDP in 2015 are sourced from National Bureau of Statistics, quoted from CEIC.
2. District GDP for Tianjin is from http://www.bh.gov.cn//UpLoadPath/2016/4/27/899029d9166d25-99cd-4be6-8593-9bc484d4072f.pdf. District GDP for Chongqing is from http://www.phbang.cn/finance/data/152421.html.
3. Government Type I debt is sourced from latest government onshore bond OC.
4. Provincial risk measures are provincial rankings of each financial ratio, based on Nomura's Asia Special Report - The geography of China risk, 2 June 2015.

Exhibit 48. Summary of LGFVs' credit profile under our coverage (continued)

HUAHK	HACOMM	NLHLK	FANGYA	SQEDCO	SXINV
Huai' An Development Holdings Co Ltd	Huai'an Traffic Holding Co Ltd.	Jiangsu Newheadline Development Group Co Ltd	Jiangsu Fang Yang Group Co Ltd	Suqian Economic Development Corporation	Shaoxing City Investment Group
Keepwell	Direct Issuance	Keepwell	Keepwell	Keepwell	Keepwell
--/--	--/--	--/+4	--/--	--/--	--/--
--/--/BB+	--/--/BB+	--/BB/BB+	--/--/BB	--/--/BB	--/--/BBB+
AA/--/--/--/--	--/--/--/--/AA+	--/A+/--/AA/--	--/--/--/--/AA	--/--/--/--/AA	AA+/AA-/--/--/--
FY15	**FY15**	**FY15**	**FY15**	**FY15**	**FY15**
2,424	560	2,653	2,449	2,784	3,131
461	325	614	419	727	1,075
38,578	15,140	30,744	34,074	29,808	29,843
-5,622	-3	-1,857	-2,606	-3,054	-1,878
33.8x	*12.8x*	*25.7x*	*34.6x*	*13.4x*	*12.6x*
10.5x	*0.8x*	*0.7x*	*0.6x*	*0.7x*	*1.8x*
52%	*52%*	*55%*	*52%*	*50%*	*52%*
0.3x	*1.4x*	*0.3x*	*0.9x*	*0.6x*	*0.9x*
Huai'an	**Huai'an**	**Lianyungang**	**Lianyungang**	**Suqian**	**Shaoxing**
Prefectural City	**Prefectural City**	**Prefectural City**	**Prefectural City**	**Prefectural City**	**Prefectural City**
3	**3**	**3**	**3**	**3**	**3**
7,012	7,012	7,012	7,012	7,012	4,289
2/31	2/31	2/31	2/31	2/31	4/31
275	**275**	**216**	**216**	**213**	**447**
11/13	**11/13**	**12/13**	**12/13**	**13/13**	**4/11**
n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a
1,056	1,056	1,056	1,056	1,056	919
15%	15%	15%	15%	15%	21%
Jiangsu	**Jiangsu**	**Jiangsu**	**Jiangsu**	**Jiangsu**	**Zhejiang**
28	28	28	28	28	26
10	10	10	10	10	18
12	12	12	12	12	14
3	3	3	3	3	15
3	3	3	3	3	1
4	**4**	**4**	**4**	**4**	**7**

Source: Company filings, government bond filings, S&P, Moody's, Fitch, Wind and Nomura

Note:

1. Provincial and city GDP in 2015 are sourced from National Bureau of Statistics, quoted from CEIC.
2. District GDP for Tianjin is from http://www.bh.gov.cn//UpLoadPath/2016/4/27/899029d9166d25-99cd-4be6-8593-9bc484d4072f.pdf. District GDP for Chongqing is from http://www.phbang.cn/finance/data/152421.html.
3. Government Type I debt is sourced from latest government onshore bond OC.
4. Provincial risk measures are provincial rankings of each financial ratio, based on Nomura's Asia Special Report - The geography of China risk, 2 June 2015.

Exhibit 48. Summary of LGFVs' credit profile under our coverage (continued)

ZZCITY	BAORON	BINHCO	CQNANA	CQLGST
Zhuzhou City Construction Development Group Co Ltd	Tianjin Free Trade Zone Invest Group Co Ltd	Tianjin Binhai New Area Construction Group Co Ltd	Chongqing Nan'an Urban Construction & Development Group	Chongqing Western Modern Logistics Industry Zone Dev Construction Co Ltd
Direct Issuance	Keepwell	Keepwell	Direct Issuance	Direct Issuance
+4/--	+6/--	+8/+7	--/+7	--/--
Baa3/--/BBB-	Baa2/--/BBB+	Baa1/BBB+/A-	--/BBB+/BBB+	--/--/BBB
AA+/AA-/--/--/AA+	--/AA/AA+/--/AA+	--/AA+/--/--/AAA	AA+/--/--/--/--	AA+/--/--/--/--
FY15	**FY15**	**FY15**	**FY15**	**FY15**
2,277	7,298	7,376	631	1,373
550	4,276	1,470	619	629
52,737	106,586	187,792	45,925	31,716
-5,079	-1,744	-5,427	-2,190	-2,630
35.6x	*15.4x*	*59.6x*	*19.9x*	*18.6x*
0.4x	*1.2x*	*0.3x*	*1.2x*	*0.8x*
44%	*65%*	*54%*	*38%*	*43%*
1.9x	*1.0x*	*1.7x*	*2.5x*	*1.2x*
Zhuzhou	**Tianjin Binhai New Area**	**Tianjin Binhai New Area**	**Nan'an District**	**Shapingba District**
Prefectural City	**Sub-provincial District**	**Sub-provincial District**	**District**	**District**
3	**2**	**3**	**4**	**4**
2,890	**1,654**	**1,654**	1,572	1,572
10/31	**19/31**	**19/31**	20/31	20/31
234	n/a	n/a	n/a	n/a
5/14	n/a	n/a	n/a	n/a
n/a	927	927	**68**	**71**
n/a	1/16	1/16	8/38	6/38
615	225	225	338	338
21%	14%	14%	21%	21%
Hunan	**Tianjin**	**Tianjin**	**Chongqing**	**Chongqing**
16	25	25	18	18
19	1	1	3	3
3	1	1	2	2
30	17	17	20	20
13	11	11	2	2
26	**2**	**2**	**1**	**1**

Source: Company filings, government bond filings, S&P, Moody's, Fitch, Wind and Nomura

Note:

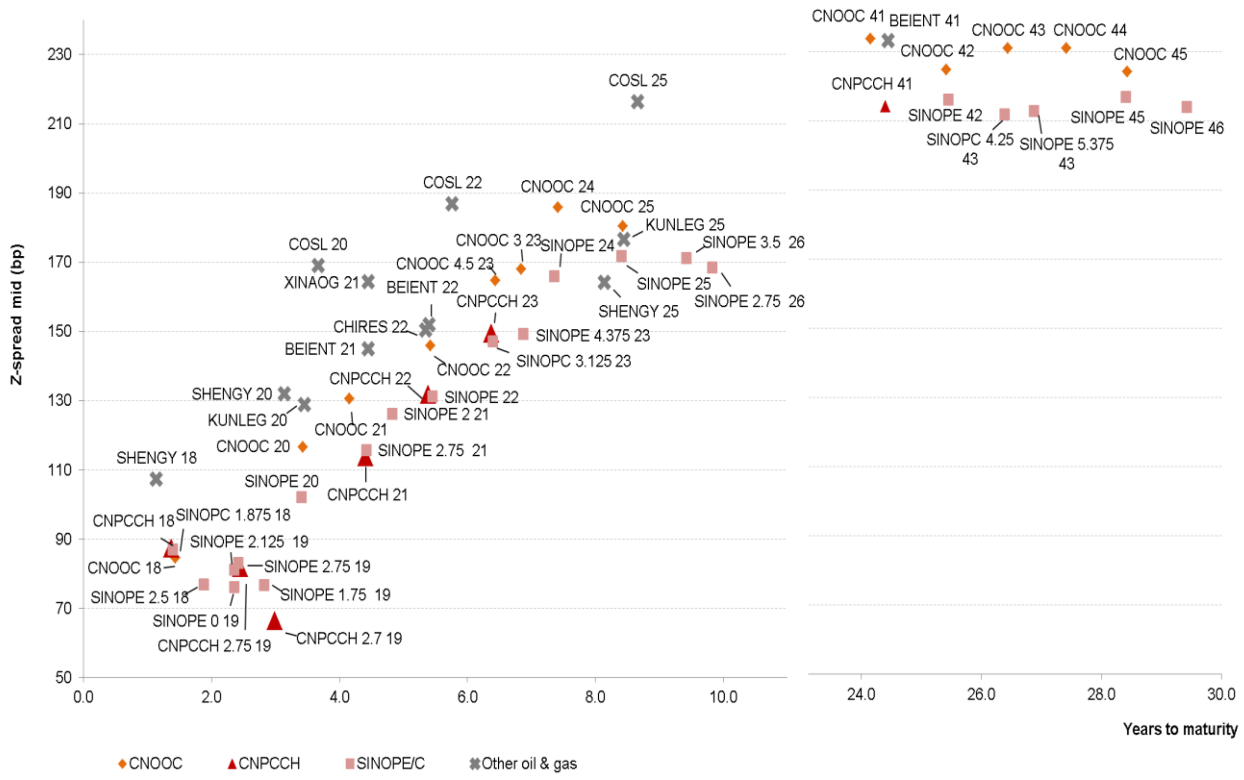
1. Provincial and city GDP in 2015 are sourced from National Bureau of Statistics, quoted from CEIC.
2. District GDP for Tianjin is from http://www.bh.gov.cn//UpLoadPath/2016/4/27/899029d9166d25-99cd-4be6-8593-9bc484d4072f.pdf. District GDP for Chongqing is from http://www.phbang.cn/finance/data/152421.html.
3. Government Type I debt is sourced from latest government onshore bond OC.
4. Provincial risk measures are provincial rankings of each financial ratio, based on Nomura's Asia Special Report - The geography of China risk, 2 June 2015.

Exhibit 49. LGFVs' offshore bond spread vs. non-LGFV peers' bond spread

LGFV bond	Size (USD m)	Composite rating	YTM (%)	LGFV bond Z-spread mid (bp)	Average Z-spread of non-LGFV peers of same rating and tenor (bp)	Spread premium (bp)	Spread multiple (bp)
TRTHK 2 1/2 05/13/19	200	A-	2.72	128	97	**31**	**1.32x**
BEIJII 3 1/4 01/20/20	300	A	3.02	145	112	**33**	**1.29x**
BEIJII 2 5/8 11/20/17	925	A	2.25	112	94	**18**	**1.19x**
TRTHK 2 7/8 05/13/21	300	A-	3.36	159	139	**20**	**1.14x**
BEIJII 3 5/8 03/20/19	300	A	2.48	108	99	**9**	**1.09x**
GUAMET 2 7/8 12/03/18	400	A-	2.40	105	97	**8**	**1.08x**
GUAMET 3 3/8 12/03/20	200	A-	3.08	137	139	**-2**	**0.99x**
WHMTR 2 3/8 11/08/19	290	A-	2.59	106	129	**-24**	**0.82x**
Metro LGFV average						**12**	**1.12x**
QDCCIZ 4 3/4 02/12/20	500	BBB	3.73	215	144	**72**	**1.50x**
YUNMET 3 1/8 07/12/19	500	BBB+	3.50	203	135	**68**	**1.50x**
YUNINV 3 3/8 04/01/19	300	BBB+	3.15	174	121	**53**	**1.44x**
BINHCO 3.1 07/23/18	300	BBB+	3.00	173	121	**52**	**1.43x**
YUNAEN 3 04/26/19	300	BBB	3.25	182	138	**44**	**1.32x**
ZZCITY 2.98 10/19/19	300	BBB-	3.46	193	150	**43**	**1.29x**
AHTRHK 2 7/8 06/11/18	300	BBB+	2.78	153	121	**32**	**1.27x**
GZHCIG 3 06/04/18	400	BBB+	2.78	153	121	**33**	**1.27x**
BINHCO 4 07/23/20	500	BBB+	3.65	200	165	**36**	**1.22x**
CQNANA 4 1/2 08/17/26	200	BBB+	4.81	264	220	**44**	**1.20x**
CQLGST 3 1/4 09/06/21	500	BBB	3.83	202	170	**32**	**1.19x**
CQNANA 3 5/8 07/19/21	500	BBB+	3.77	198	167	**31**	**1.18x**
GSHIAV 3 11/18/19	500	BBB-	3.31	177	150	**27**	**1.18x**
JNXCCC 3 1/8 10/11/21	300	BBB-	3.92	209	180	**29**	**1.16x**
BAORON 3 5/8 12/09/18	500	BBB	2.93	158	138	**20**	**1.15x**
GXCMIN 3 11/04/19	300	BBB	3.17	164	144	**20**	**1.14x**
CQNANA 2 7/8 07/19/19	300	BBB+	2.99	152	135	**17**	**1.12x**
CHDXCH 3 1/4 11/29/21	300	BBB-	3.78	194	180	**14**	**1.08x**
XIHUI 3 1/4 06/27/19	300	BBB	2.97	151	144	**7**	**1.05x**
XANCON 2.8 09/13/19	500	BBB	2.81	131	144	**-13**	**0.91x**
TJNCON 2 3/4 06/15/19	500	A-	2.60	114	129	**-15**	**0.88x**
LGFV average						**29**	**1.16x**
HRINT 4.9 06/28/19	490	BB+	5.90	445	241	**203**	**1.84x**
HUAHK 4 3/4 07/14/19	300	BB+	5.00	354	241	**113**	**1.47x**
HACOMM 4.95 10/25/19	300	BB+	4.81	329	241	**88**	**1.36x**
SXROBR 4.85 11/04/19	250	BB	5.43	390	304	**86**	**1.28x**
NHLHK 6.2 01/11/19	300	BB	4.88	351	304	**47**	**1.16x**
XZETDZ 4 1/2 06/16/19	300	BB+	4.13	268	241	**27**	**1.11x**
HY LGFV average*						**94**	**1.37x**

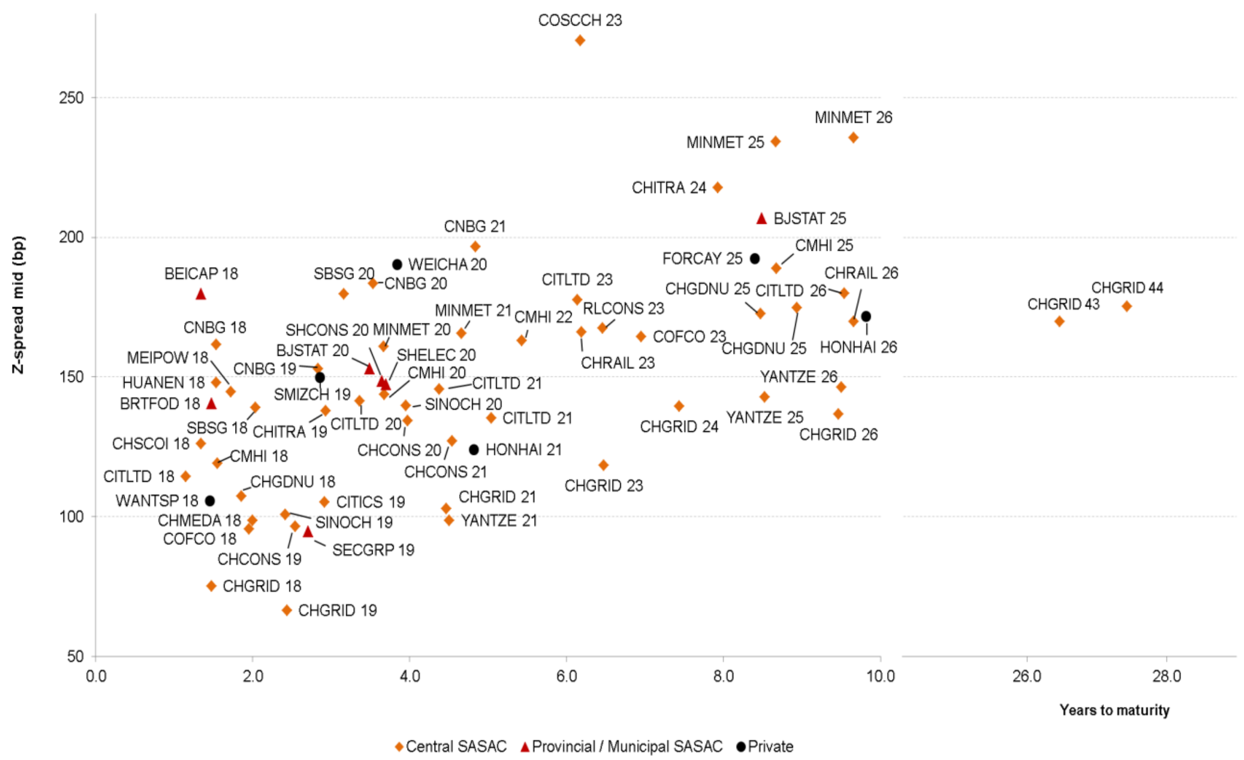
Source: Bloomberg and Nomura

Exhibit 50. RV chart – China IG oil majors



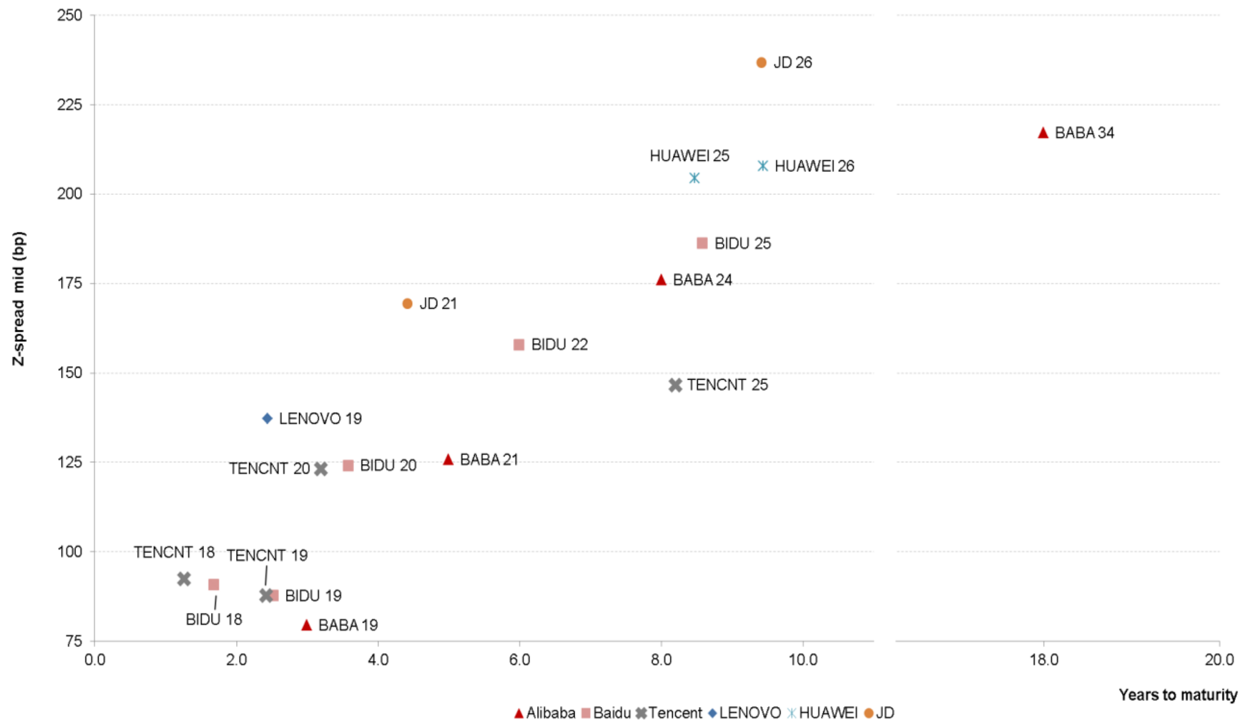
Source: Bloomberg as of Nov 24, 2016

Exhibit 51. RV chart – China IG non-oil corporates



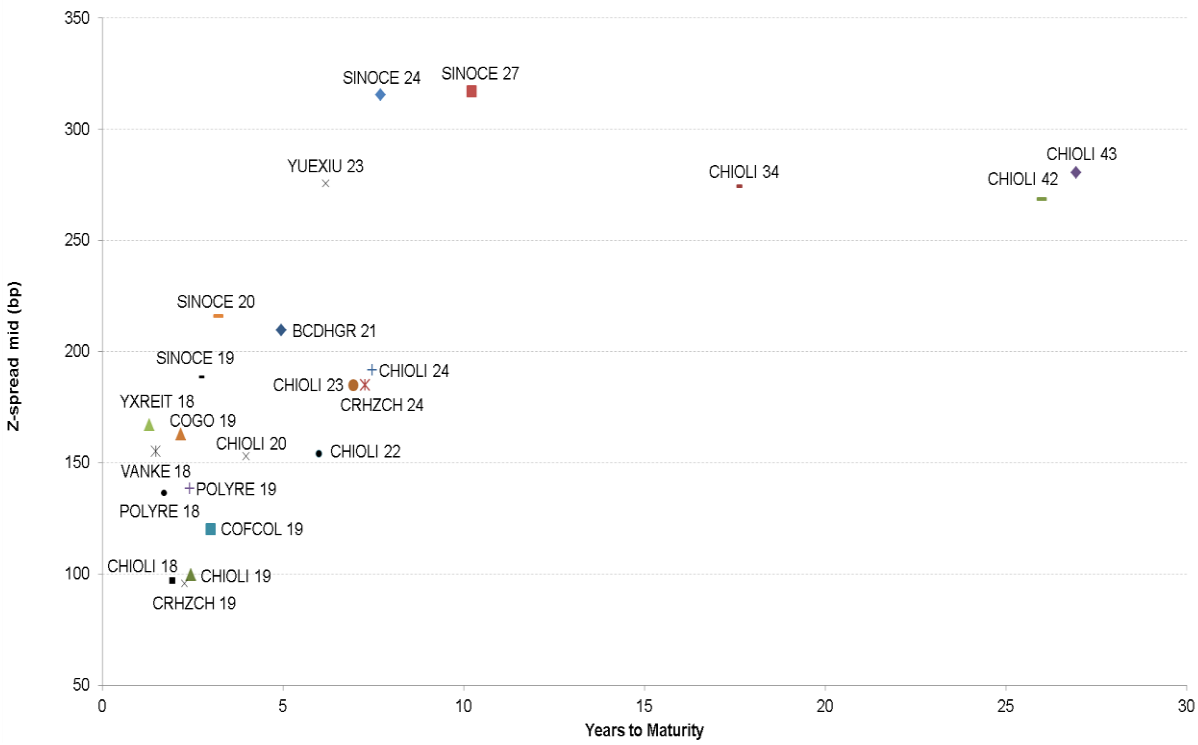
Source: Bloomberg as of Nov 24, 2016

Exhibit 52. RV chart – IG TMT sector



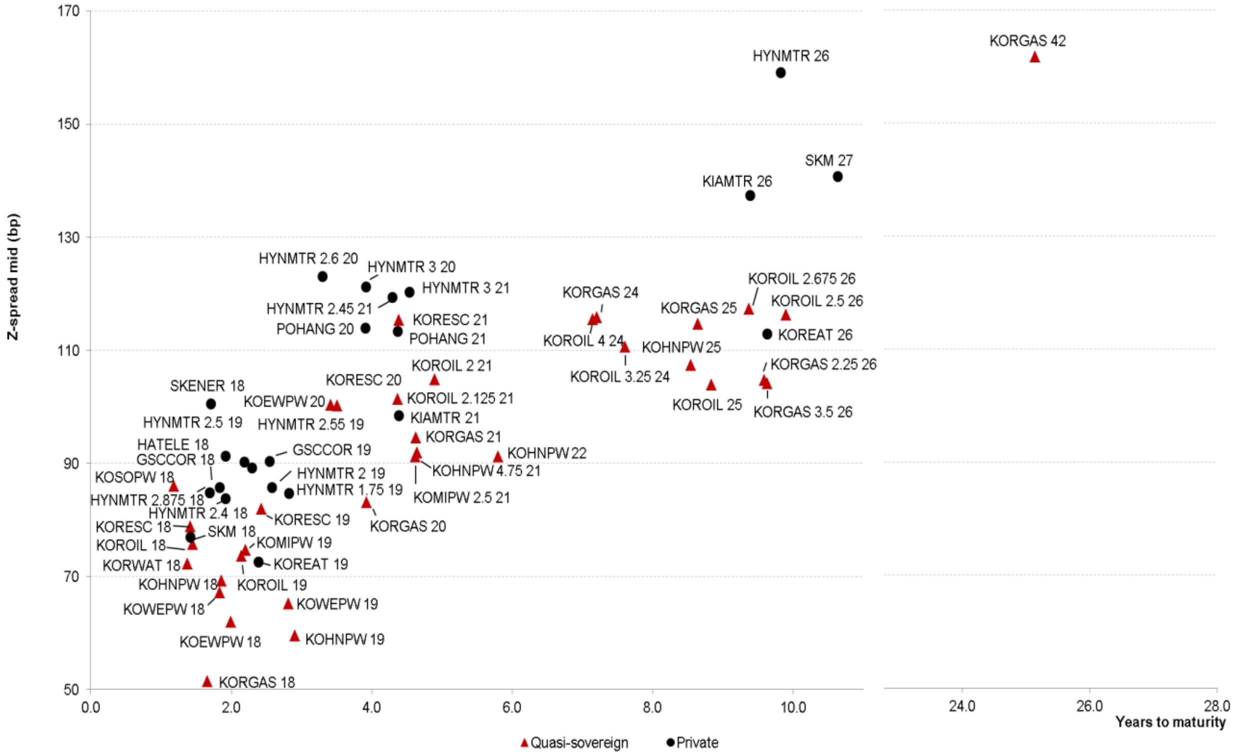
Source: Bloomberg as of Nov 24, 2016

Exhibit 53. IG China IG property issuers



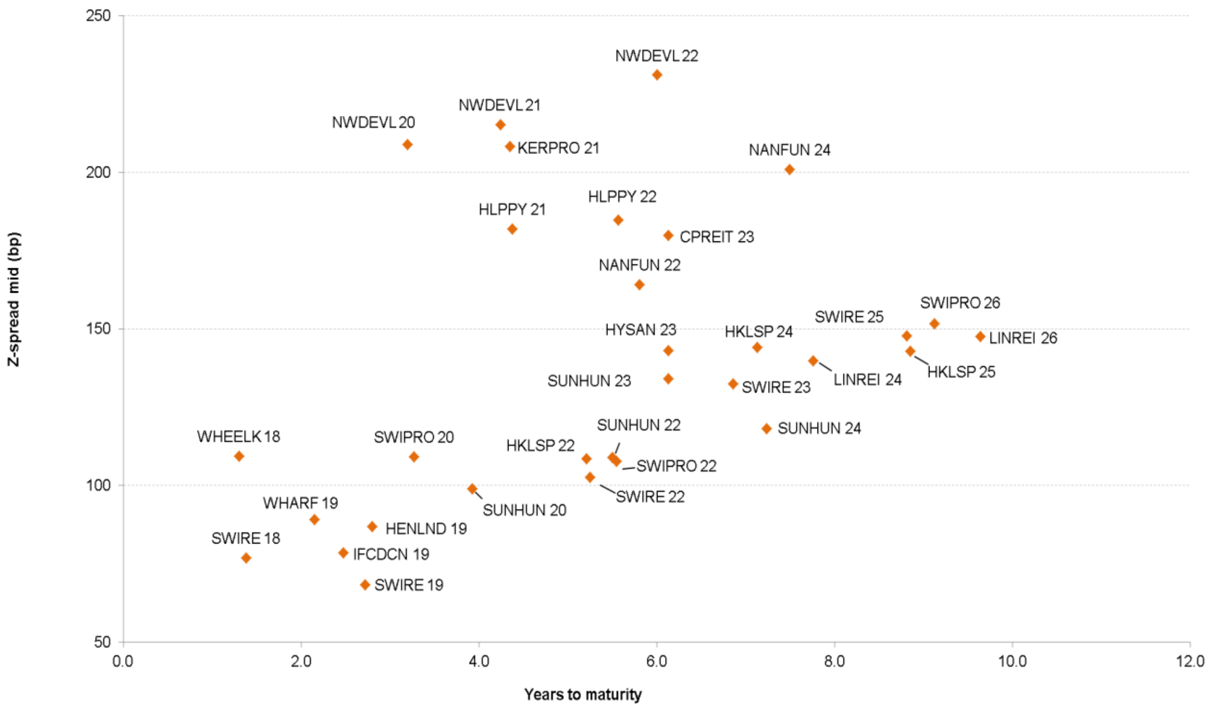
Source: Bloomberg as of Nov 24, 2016

Exhibit 54. RV chart – Korean IG corporates



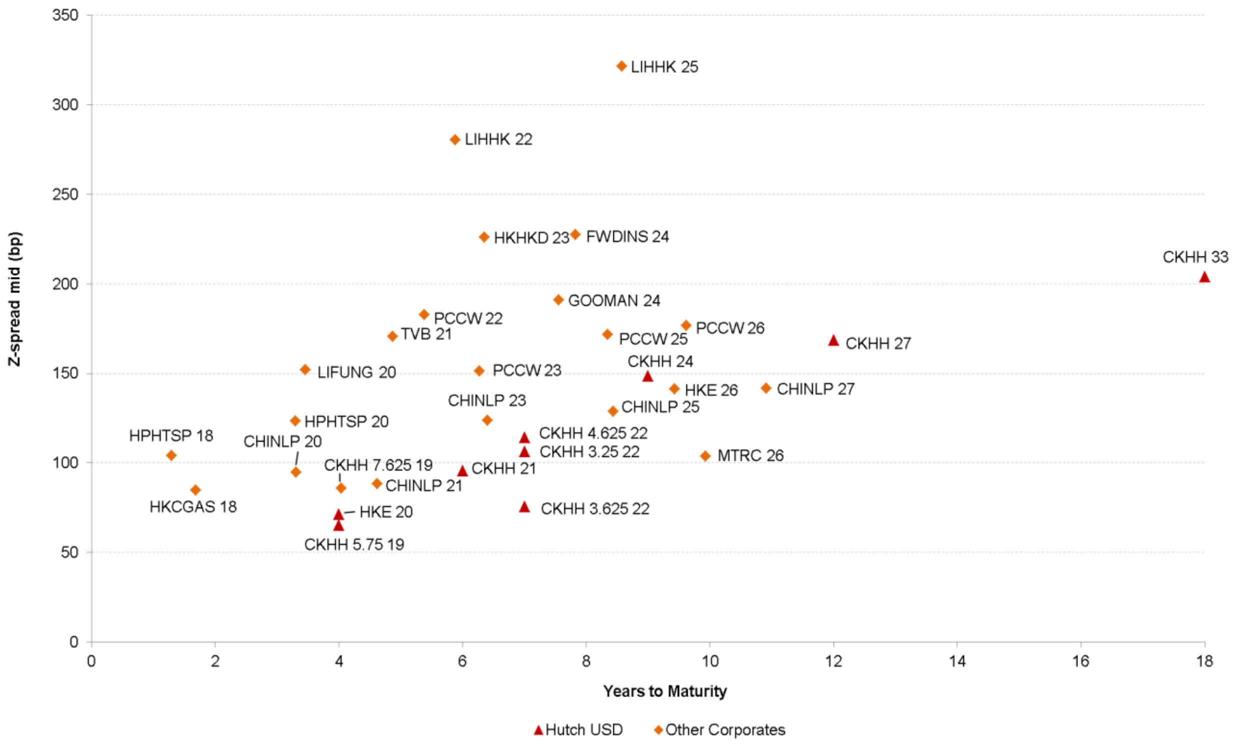
Source: Bloomberg as of Nov 24, 2016

Exhibit 55. RV chart - Hong Kong IG property issuers



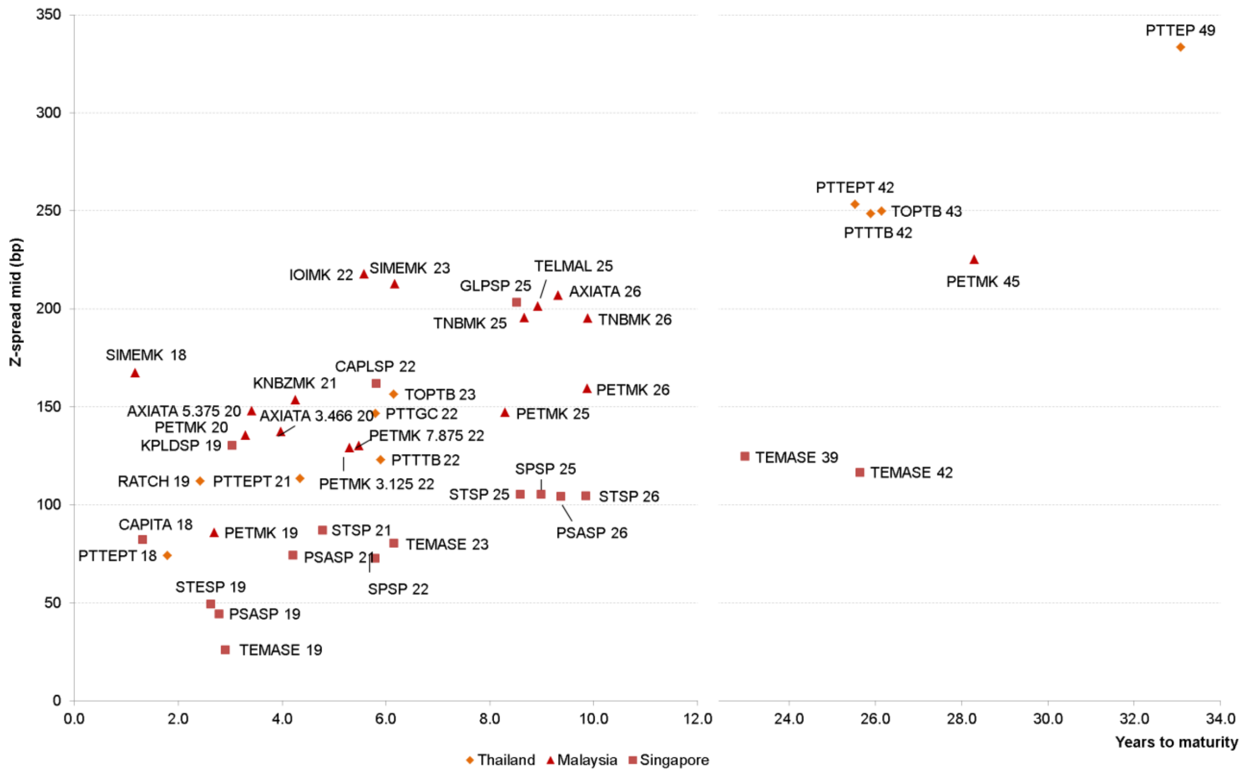
Source: Bloomberg as of Nov 24, 2016

Exhibit 56. RV chart - Hong Kong IG non-property issuers



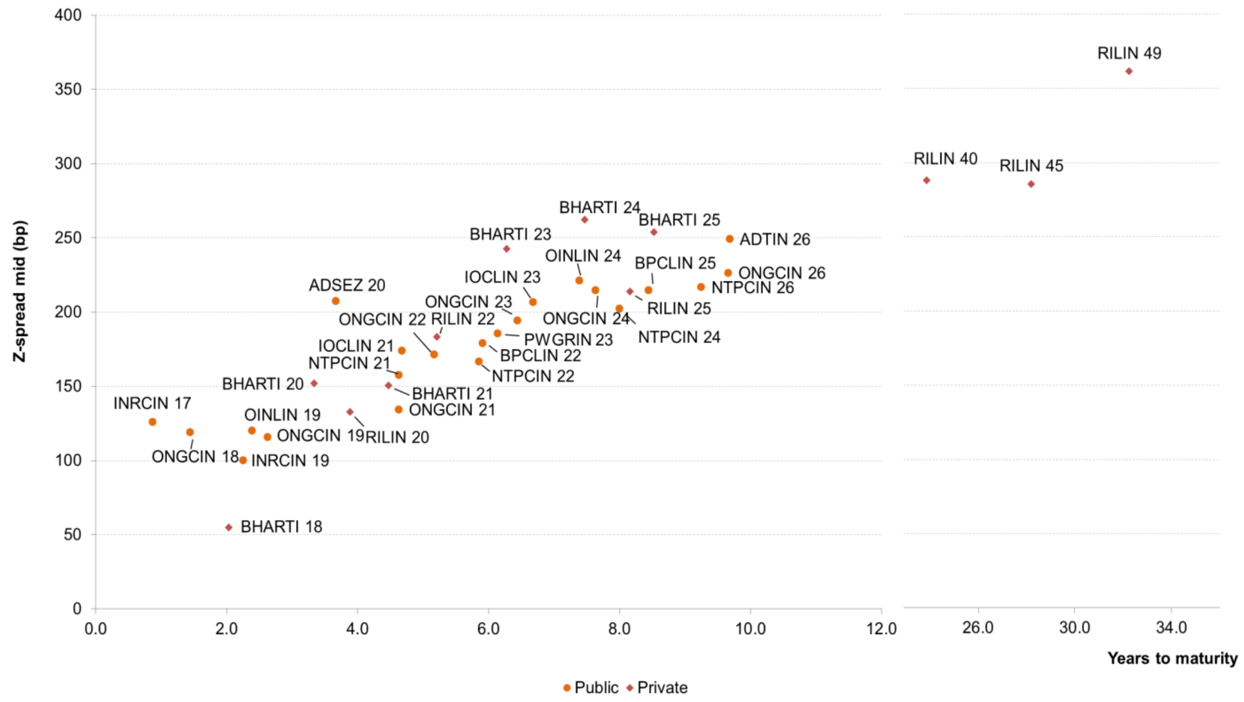
Source: Bloomberg as of Nov 24, 2016

Exhibit 57. RV chart – South East Asian IG corporates



Source: Bloomberg as of Nov 24, 2016

Exhibit 58. RV chart – Indian IG corporates



Source: Bloomberg as of Nov 24, 2016

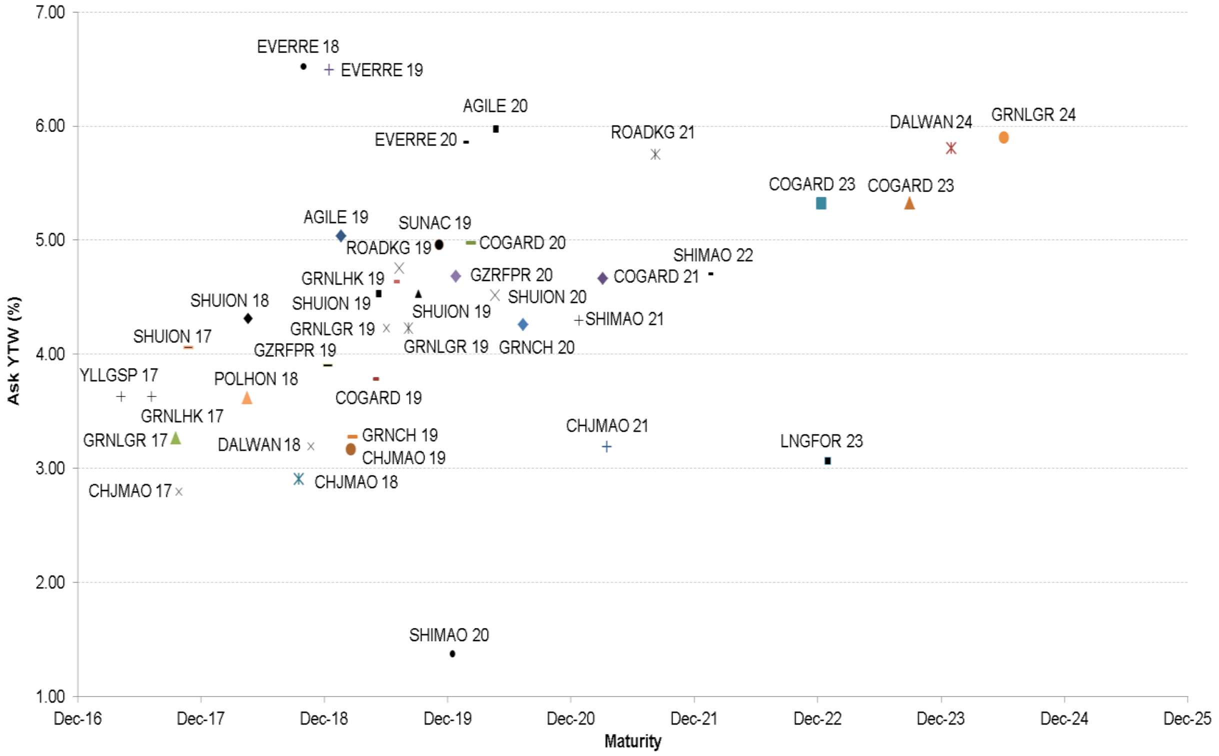
Exhibit 59. Asian IG corporate perpetuals spread multiples and premiums

Ranking / structure		Perpetual bond	Assumed call date	Mid YTC[1]	Perp Z-sprd (bp)	Corresponding seniors or proxies	Senior Z-sprd, adjusted by tenor (bp)	Perp / Senior premium (bp)	Avg premium (bp)	Perp / Senior multiple	Avg multiple
Senior		RLCONS 3.95 02/28/49	Aug/19	3.03%	154	RLCONS 3 1/2 05/16/23	134	21	68	1.2x	1.4x
		CHPWCN 4.05 10/29/49	Oct/19	3.14%	161	RLCONS 3 1/2 05/16/23	136	26		1.2x	
		CHCOMU 3 1/2 12/29/49	Apr/20	3.16%	154	RLCONS 3 1/2 05/16/23	140	15		1.1x	
		CNBG 4 3/8 12/29/49	Dec/18	4.86%	210	CNBG 3 1/2 06/11/18	167	42		1.3x	
		CELSP 5.45 12/29/49	Nov/18	4.79%	343	CITLTD 6 7/8 01/21/18+150bp	274	69		1.3x	
		ICTPM 6 1/4 12/29/49	May/19	4.36%	293	ICTPM 7 3/8 03/17/20	160	133		1.8x	
		ICTPM 5 1/2 12/29/49	May/21	4.76%	299	ICTPM 7 3/8 03/17/20	176	124		1.7x	
		ICTPM 4 7/8 12/29/49	May/24	6.08%	404	ICTPM 5 7/8 09/17/25	291	113		1.4x	
Keepwell senior		CHALUM 6 1/4 04/29/49	Apr/17	3.46%	234	CHALUM 4 08/25/21	221	13	37	1.1x	1.2x
		CHALUM 6 5/8 10/29/49	Oct/18	3.96%	258	CHALUM 4 08/25/21	233	25		1.1x	
		CHALUM 6 7/8 08/29/49	Feb/17	3.55%	261	CHALUM 4 08/25/21	226	35		1.2x	
		CHALUM 4 1/4 12/29/49	Nov/21	4.82%	299	CHALUM 4 08/25/21	226	73		1.3x	
Sub-ordinated	RCC	CKHH 6 05/29/49	May/17	2.91%	183	CKHH 1 5/8 10/31/17	56	127	75	3.3x	2.2x
		CITLTD 8 5/8 05/29/49	Nov/18	2.82%	146	CITLTD 6 7/8 01/21/18	122	24		1.2x	
	Cliff	HKCGAS 4 3/4 01/29/49	Jan/19	2.83%	145	HKCGAS 6 1/4 08/07/18	89	56	96	1.6x	1.8x
		CHINLP 4 1/4 05/29/49	Nov/19	3.01%	147	CHINLP 4 3/4 03/19/20	93	54		1.6x	
		LIFUNG 6 11/25/49	May/18	4.51%	301	LIFUNG 5 1/4 05/13/20	139	162		2.2x	
		SINOCH 5 12/29/49	Nov/18	3.37%	200	SINOCH 3 1/4 04/29/19	97	103		2.1x	
		OLAMSP 5.35 12/29/49	Jul/21	6.02%	424	OLAMSP 4 1/2 04/12/21	318	105		1.3x	
	Cross-over	PTTEPT 4 7/8 12/29/49	Jun/19	4.78%	332	PTTEPT 5.692 04/05/21	100	232	824	3.3x	3.1x
		YUKONG 4 7/8 11/29/49	Nov/19	5.43%	388	SKENER 3 5/8 08/14/18	112	276		3.5x	
		NOBLSP 6 06/24/49	Jun/19	33.25%	3179	NOBLSP 6 3/4 01/29/20	1214	1965		2.6x	
Fixed-for-life	Price to perpe-tuity	RILIN 5 7/8 02/28/49	Feb/18	6.00%	358	RILIN 4 1/2 10/19/20	114	244	208	3.2x	3.0x
		CKINF 5 7/8 12/29/49	Feb/21	5.67%	325	CKHH 1 7/8 10/03/21	102	223		3.2x	
		CKHH 5 3/8 01/29/49	Jan/18	5.31%	290	CKHH 7 5/8 04/09/19	63	227		4.6x	
		NWDEVL 5 3/4 12/29/49	Oct/21	5.98%	355	NWDEVL 5 1/4 02/26/21	219	136		1.6x	
		LIFUNG 5 1/4 12/29/49	Nov/21	6.17%	378	LIFUNG 5 1/4 05/13/20	166	211		2.3x	
	Price to first call	RILIN 5 7/8 02/28/49	Feb/18	7.21%	603	RILIN 4 1/2 10/19/20	114	490	349	5.3x	4.0x
		CKINF 5 7/8 12/29/49	Feb/21	5.05%	332	CKHH 1 7/8 10/03/21	102	230		3.3x	
		CKHH 5 3/8 01/29/49	Jan/18	4.51%	335	CKHH 7 5/8 04/09/19	63	272		5.3x	
		NWDEVL 5 3/4 12/29/49	Oct/21	6.46%	465	NWDEVL 5 1/4 02/26/21	219	246		2.1x	
		LIFUNG 5 1/4 12/29/49	Nov/21	8.54%	671	LIFUNG 5 1/4 05/13/20	166	505		4.0x	

Source: Bloomberg and Nomura

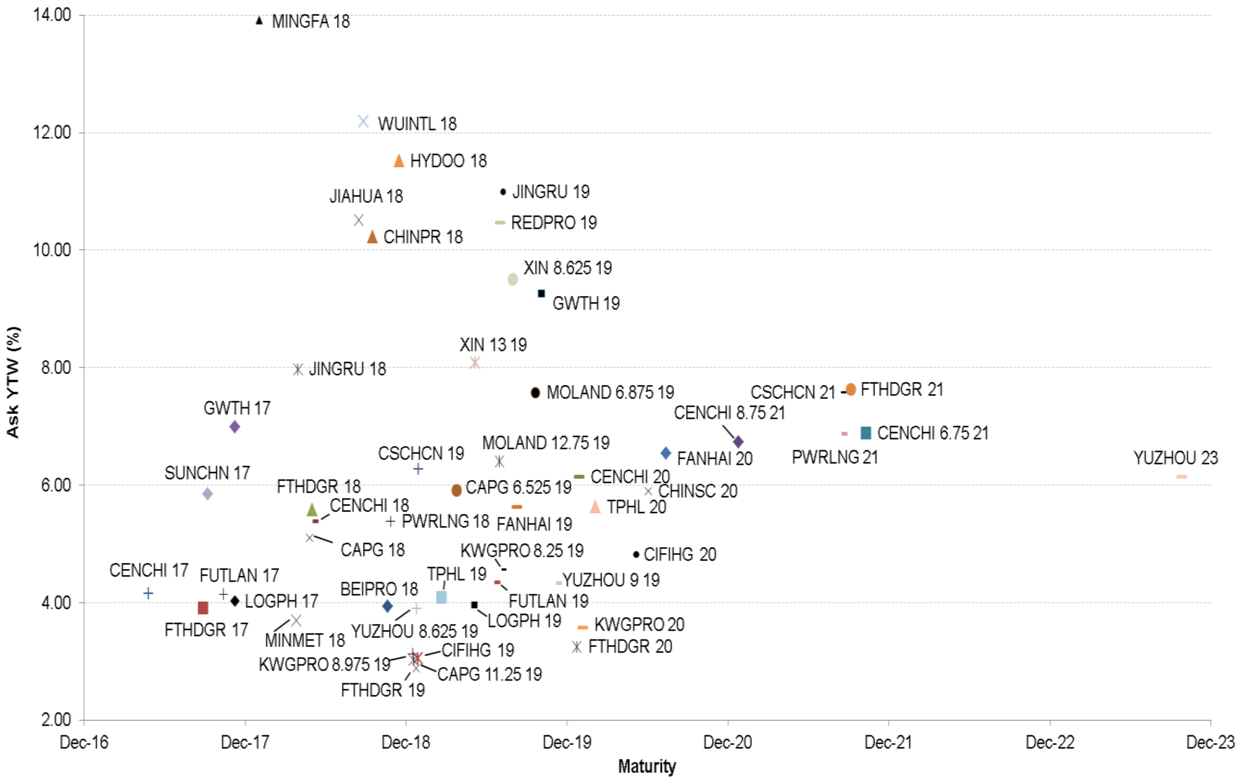
Note: 1. All yield presented in the table are YTC, except for fixed-for-life bonds priced to perpetuity, for which YTW is presented.

Exhibit 60. RV chart – China HY large cap property issuers



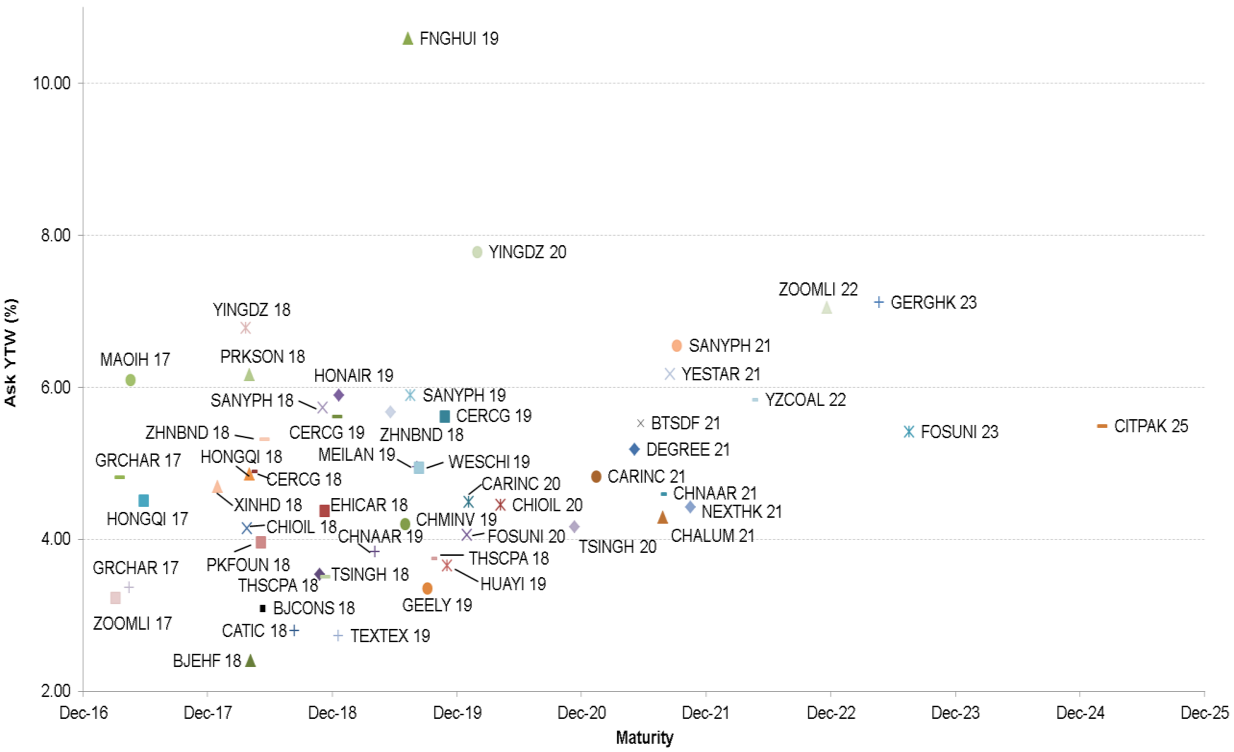
Source: Bloomberg as of Nov 24, 2016

Exhibit 61. RV chart – China HY small cap property issuers



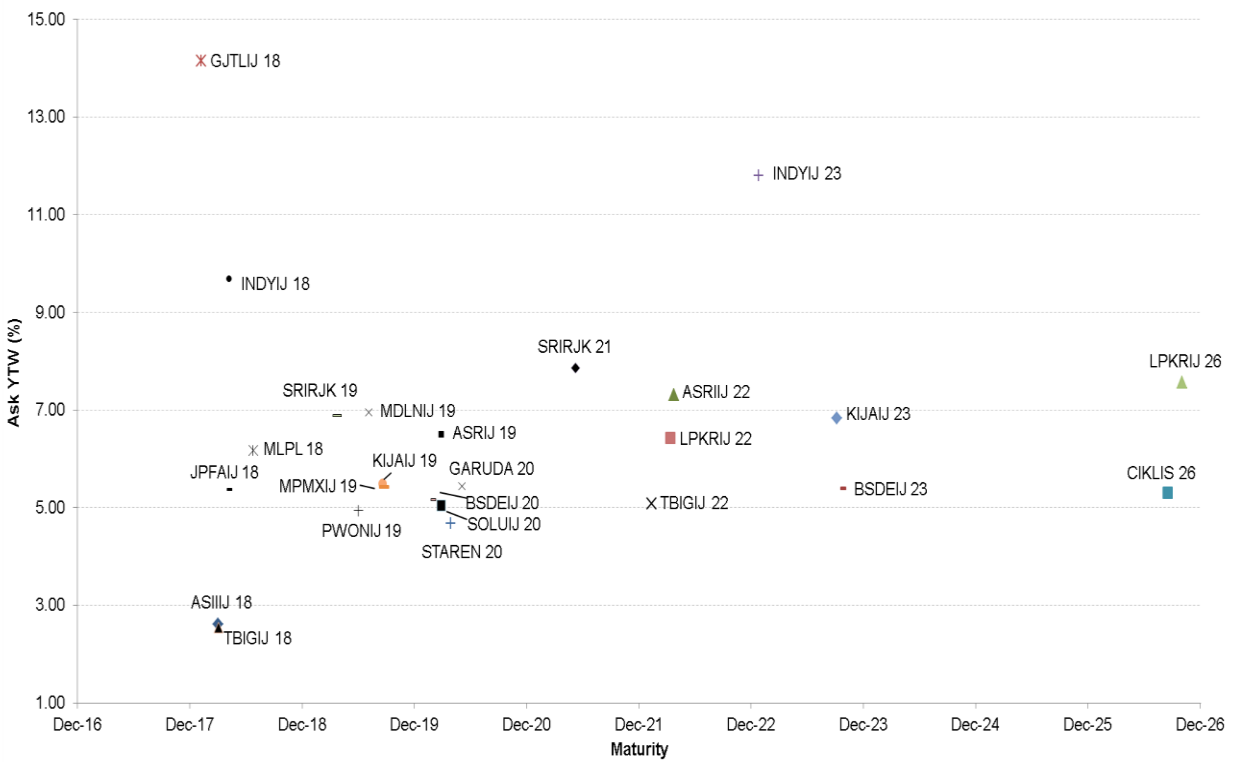
Source: Bloomberg as of Nov 24, 2016

Exhibit 62. RV chart – China HY Industrials issuers



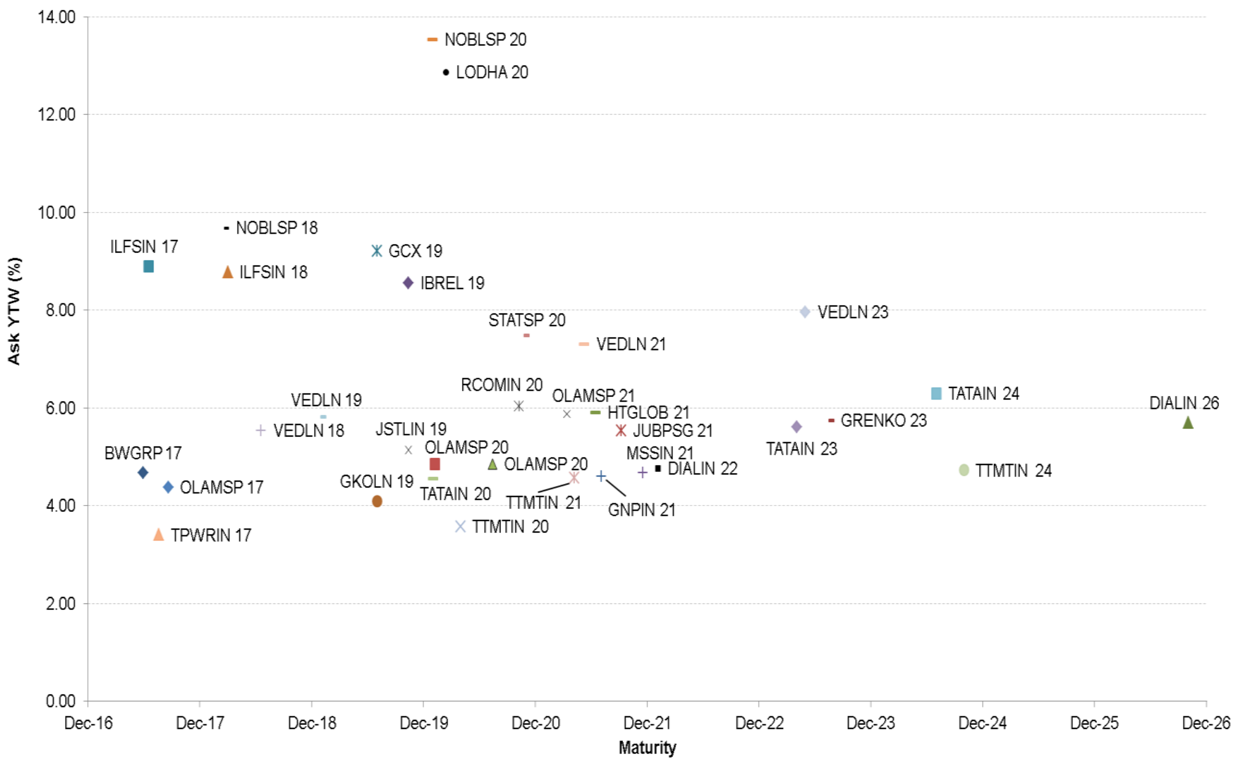
Source: Bloomberg as of Nov 24, 2016

Exhibit 63. RV chart – Indonesian HY corporates



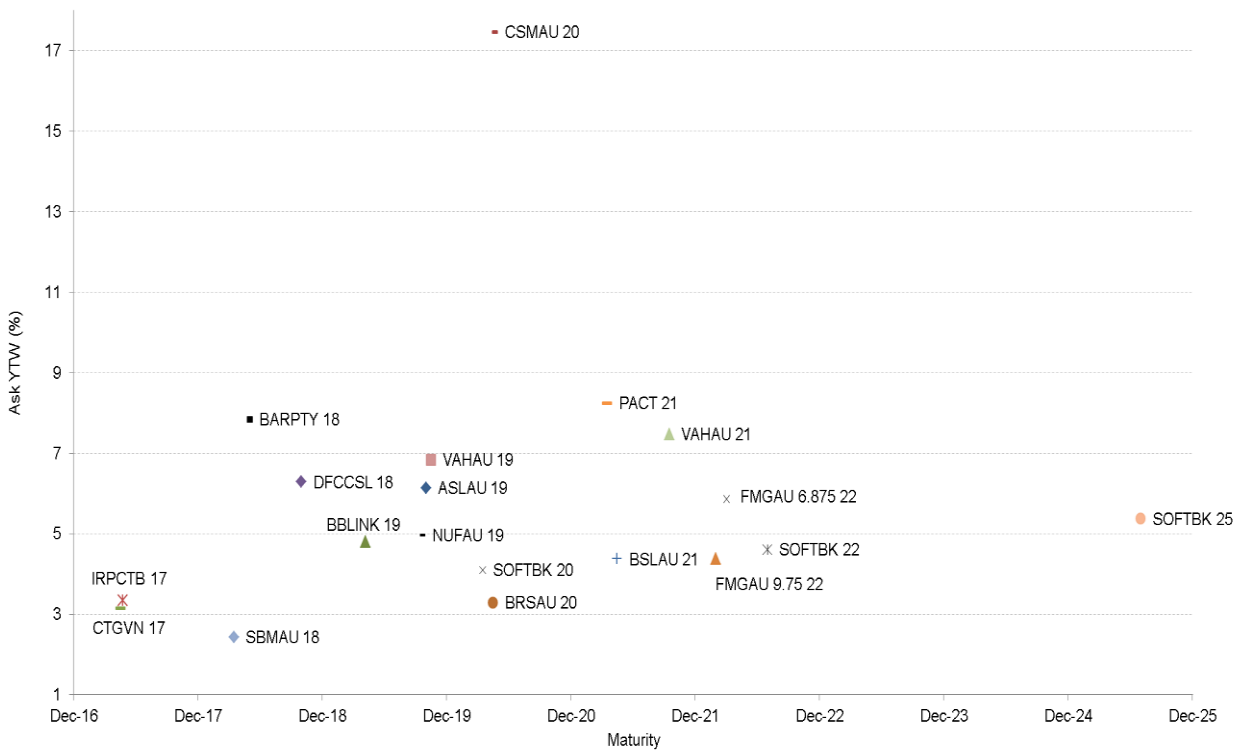
Source: Bloomberg as of Nov 24, 2016

Exhibit 64. RV chart – Indian and Singapore HY corporates



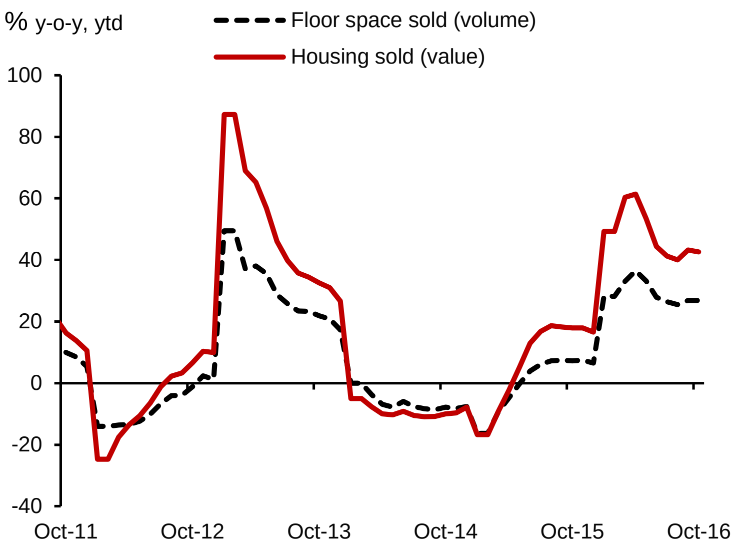
Source: Bloomberg as of Nov 24, 2016

Exhibit 65. RV chart – Australian and Other HY corporates



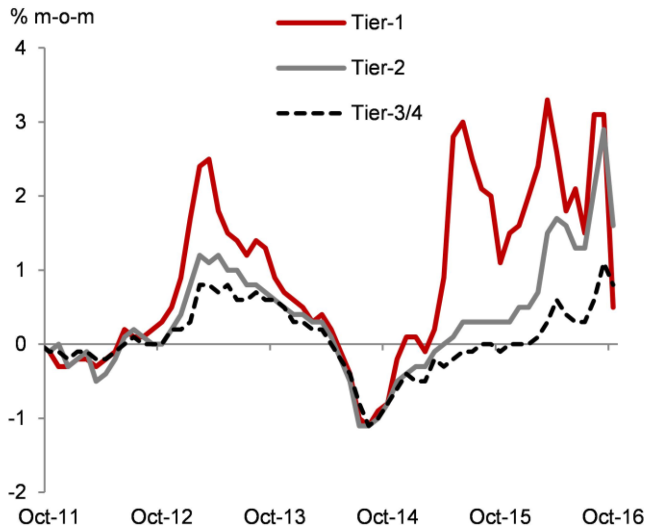
Source: Bloomberg as of Nov 24, 2016

Exhibit 66. YTD China property sales growth has slowed in recent months



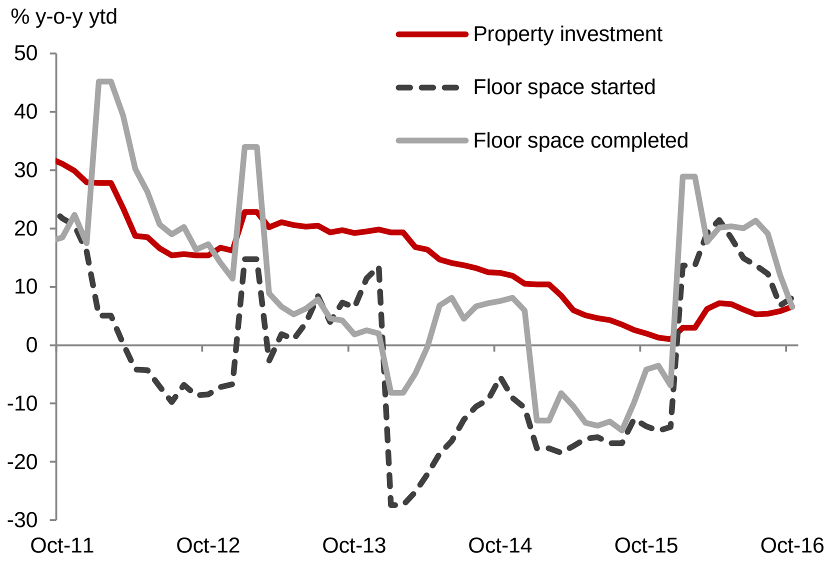
Source: CEIC, Nomura

Exhibit 67. 70-city property price inflation by city tier – deceleration of ASP growth started, especially in Tier 1 and 2 cities



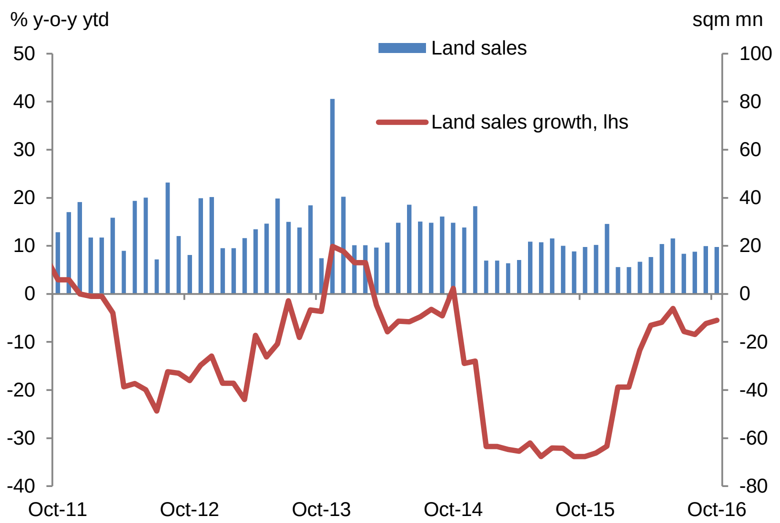
Source: CEIC, Nomura

Exhibit 68. Property investment vs floor space completed/started – moderate pick up in investment driven by destocking and new starts growth decelerated in recent months



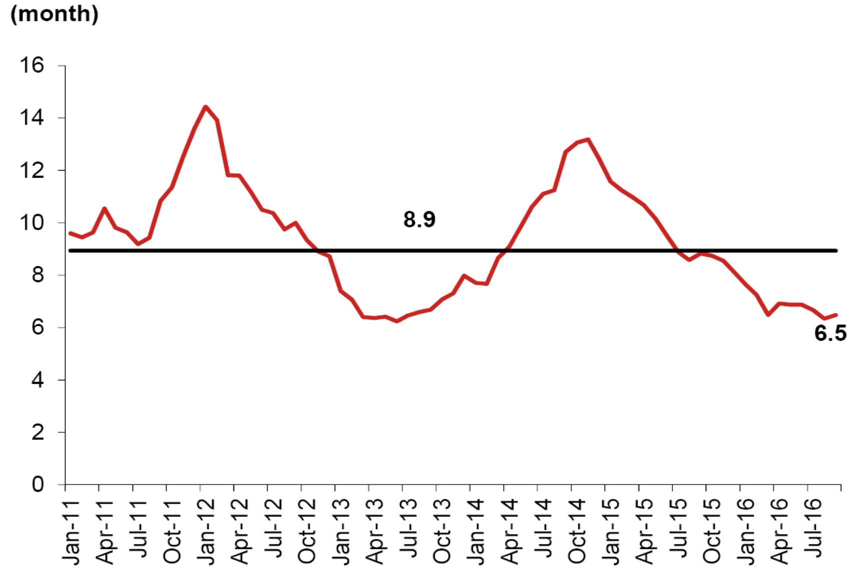
Source: CEIC, Nomura

Exhibit 69. Land purchase by property developers – lack of land purchase appetite on a nationwide basis



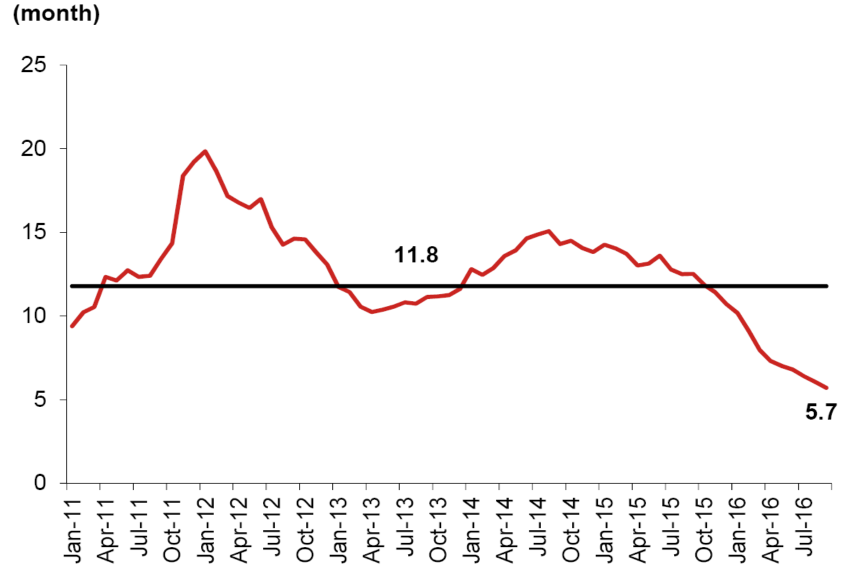
Source: CEIC, Nomura

Exhibit 70. Tier 1 cities have the lowest inventory level since 2011



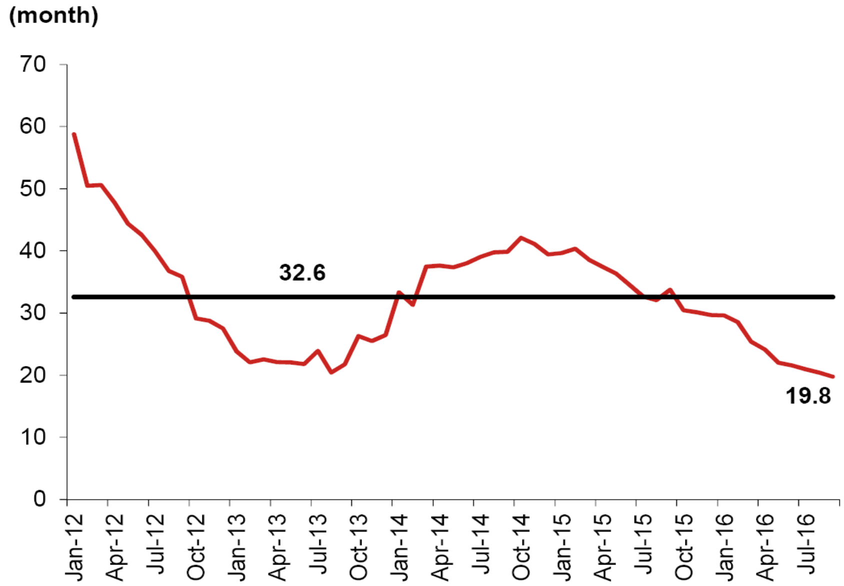
Source: CREIS, Nomura Equity Research

Exhibit 71. …so are Tier 2 cities at 6 months



Source: CREIS, Nomura Equity Research

Exhibit 72. **Absolute inventory levels in Tier 3 cities remains high despite some improvement…**



Source: CREIS, Nomura Equity Research

Exhibit 73. **Schedule of maturing bonds in China property sector**

Bond	Currency	Maturity	Notional	USD mm eq.
ROADKG 6 12/03/16 CNH	CNH	12/3/2016	2,200	319
CHIOLI 4.875 02/15/17	USD	2/15/2017	750	750
BJCAPT 5 ¾ 02/17/17 CNH	CNH	2/17/2017	3,000	435
AGILE 9.875 03/20/17	USD	3/20/2017	700	700
YLLGSP 6.200 05/08/17 SGD	SGD	5/8/2017	400	281
CENCHI 6.500 05/26/17 SGD	SGD	5/26/2017	200	141
GRNLHK 4.375 08/07/17	USD	8/7/2017	500	500
GRNLGR 4.300 09/16/17	USD	9/16/2017	300	300
PWRLNG 10 ¾ 09/18/17 CNH	CNH	9/18/2017	620	90
FTHDGR 13.750 09/27/17	USD	9/27/2017	250	250
SUNCHN 12.750 10/08/17	USD	10/8/2017	215	215
GRNLGR 3.500 10/17/17	USD	10/17/2017	500	500
CHJMAO 4.700 10/26/17	USD	10/26/2017	500	500
FUTLAN 6.250 11/12/17	USD	11/12/2017	250	250
SHUION 8.700 11/24/17	USD	11/24/2017	500	500
GWTH 9.500 12/08/17 CNH	CNH	12/8/2017	100	14
LOGPH 9.750 12/08/17	USD	12/8/2017	250	250
Total				**5,995**

Source: Bloomberg, Nomura

Exhibit 74. Schedule of callable bonds in China property sector

Bond	Currency	Call date	Call price	Notional	With call premium	Chance of call	Cost savings per year (%)
MOLAND 13.875 11/04/18	USD	12/2/2016	106.938	150	160		9.7
MINGFA 13 ¼ 02/01/18	USD	12/23/2016	106.625	100	107		6.3
GLOPRO 13.250 03/04/18	USD	12/23/2016	106.625	400	427		6.8
CENCHI 6.500 06/04/18	USD	12/23/2016	103.250	400	413		3.5
WUINTL 13.750 09/26/18	USD	12/27/2016	106.875	300	321		9.2
CHINPR 13 ½ 10/16/18	USD	12/23/2016	106.750	250	267		9.2
EVERRE 8.750 10/30/18	USD	12/23/2016	104.375	1,500	1,566		5.8
GZRFPR 8.500 01/10/19	USD	1/10/2017	104.250	1,000	1,043	**Very likely**	5.9
SHIMAO 6.625 01/14/20	USD	1/14/2017	103.313	800	827	**Very likely**	5.2
KWGPRO 8.975 01/14/19	USD	1/14/2017	104.488	600	627	**Very likely**	6.2
CAPG 11.250 01/17/19	USD	1/17/2017	105.625	300	317	**Very likely**	7.9
FTHDGR 10.750 01/22/20	USD	1/22/2017	105.375	250	263	**Very likely**	8.6
FTHDGR 10.625 01/23/19	USD	1/23/2017	105.313	300	316	**Likely**	7.4
GZRFPR 8.750 01/24/20	USD	1/24/2017	104.375	600	626	**Very likely**	7.0
YUZHOU 8.625 01/24/19	USD	1/24/2017	104.313	300	313	**Very likely**	6.0
CIFIHG 8.875 01/27/19	USD	1/27/2017	104.438	400	418	**Very likely**	6.1
CENCHI 8.000 01/28/20	USD	1/28/2017	104.000	200	208	**Likely**	6.3
CSCHCN 8.250 01/29/19	USD	1/29/2017	104.125	400	417		5.7
KWGPRO 8.625 02/05/20	USD	2/5/2017	104.313	300	313	**Very likely**	6.8
AGILE 8.375 02/18/19	USD	2/18/2017	104.188	500	521	**Likely**	5.8
TPHL 12.625 03/21/19	USD	3/21/2017	106.313	305	324	**Very likely**	8.9
GRNCH 8.000 03/24/19	USD	3/24/2017	104.000	237	246	**Very likely**	5.5
SHUION 9.750 05/19/20	USD	5/19/2017	104.875	202	212	**Very likely**	7.8
COGARD 7.875 05/27/19	USD	5/27/2017	103.938	550	572	**Very likely**	5.4
LOGPH 11.250 06/04/19	USD	6/4/2017	105.625	300	317	**Very likely**	7.9
XIN 13.000 06/06/19	USD	6/6/2017	106.500	200	213		9.2
SHUION 9.625 06/10/19	USD	6/10/2017	104.813	550	576	**Very likely**	6.7
FUTLAN 10.250 07/21/19	USD	7/21/2017	105.125	350	368	**Very likely**	7.2
MOLAND 12.750 07/31/19	USD	7/31/2017	106.375	125	133	**Likely**	9.0
REDPRO 13.750 08/01/19	USD	8/1/2017	106.875	125	134		9.8
KWGPRO 8.250 08/05/19	USD	8/5/2017	104.125	400	417	**Very likely**	5.7
JINGRU 13.625 08/08/19	USD	8/8/2017	106.813	105	112		9.7
FANHAI 11.750 09/08/19	USD	9/8/2017	105.875	320	339	**Very likely**	8.3
COGARD 7.250 04/04/21	USD	10/4/2017	103.625	750	777	**Very likely**	5.9
SUNAC 8.750 12/05/19	USD	12/5/2017	104.375	400	418	**Likely**	6.0
YUZHOU 9.000 12/08/19	USD	12/8/2017	104.500	250	261	**Likely**	6.2
SHUION 10.125 12/10/49	USD	12/10/2017	100.000	500	500	**Very likely**	
Total				**15,119**	**15,799**		

Source: Bloomberg, Nomura

Note: Cost savings per year assuming 100bp issuance expenses.

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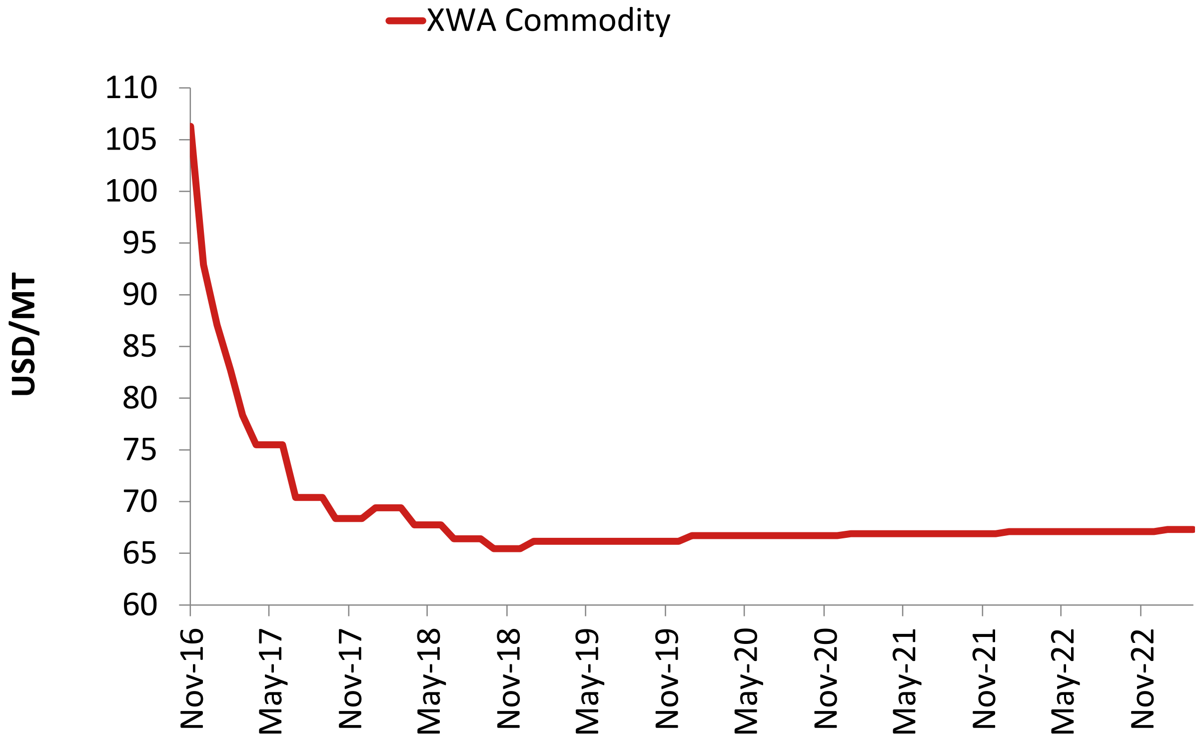
Exhibit 75. Commodity rally likely to continue; One year futures for most commodities above 2016 average price

Commodity Price Forecast	CY13	CY14	CY15	CY10-CY14 Average	CY16 YTD	Spot	CY16F(4Q)	CY17F	CY18F	CY19F
Zinc (USD/tonne)										
Historic	1,909	2,164	1,928	2,074	2,032	2,711				
Future Prices								2,602	2,547	2,462
Forecasts - Consensus							2,527	2,723	2,584	2,415
Forecasts - S&P							2,200	2,200	2,200	
Forecasts - Moody's							1,874	1,874	1,984	
Aluminium (USD/tonne)										
Historic	1,846	1,869	1,662	2,061	1,592	1,773				
Future Prices								1,731	1,761	1,800
Forecasts - Consensus							1,725	1,776	1,801	1,838
Forecasts - S&P							1,600	1,650	1,650	
Forecasts - Moody's							1,543	1,543	1,653	
Copper (USD/tonne)										
Historic	7,328	6,866	5,503	7,700	4,782	5,854				
Future Prices								5,569	5,586	5,600
Forecasts - Consensus							5,346	5,869	5,856	5,838
Forecasts - S&P							4,600	4,850	5,100	
Forecasts - Moody's							4,740	4,960	5,181	
Iron Ore (USD/tonne)										
Historic	135	97	55	135	54	58				
Future Prices								63	54	47
Forecasts - Consensus							66	64	55	36
Forecasts - S&P							50	45	45	
Forecasts - Moody's							50	45	45	
Brent (USD/bbl)										
Historic	109	99	54	102	44	49				
Future Prices								52	55	56
Forecasts - Consensus							50	53	55	56
Forecasts - S&P							43	45	50	55
Forecasts - Moody's							40	45	50	
Nomura equity research							40	60	70	
Gold (USD/oz)										
Historic	1,411	1,266	1,160	1,429	1,259	1,180				
Future Prices								1,222	1,239	1,260
Forecasts - Consensus							1,230	1,200	1,216	1,237
Forecasts - S&P							1,300	1,250	1,200	
Forecasts - Moody's							1,250	1,250	1,150	
Thermal Coal (USD/tonnes)										
Historic	85	71	58	94	63	101				
Future Prices										
Forecasts - Consensus							96	72	67	65
Forecasts - S&P										
Forecasts - Moody's							55	55	55	
Coking Coal (USD/tonnes)										
Historic	141	117	90	126	129	309				
Future Prices										
Forecasts - Consensus							266	195	151	148
Forecasts - S&P										
Forecasts - Moody's							85	90	90	

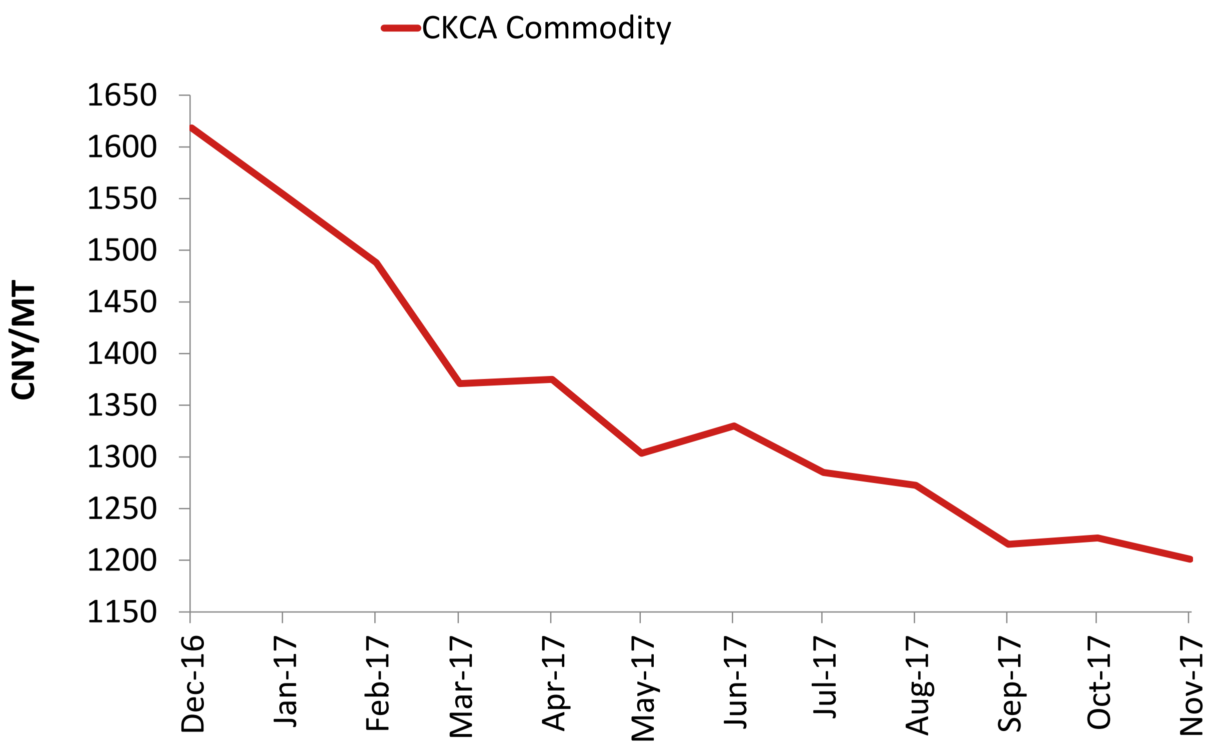
Source: Nomura, Bloomberg, S&P, Moody's

Exhibit 76. Thermal coal price to decline in 2017 based on futures price…



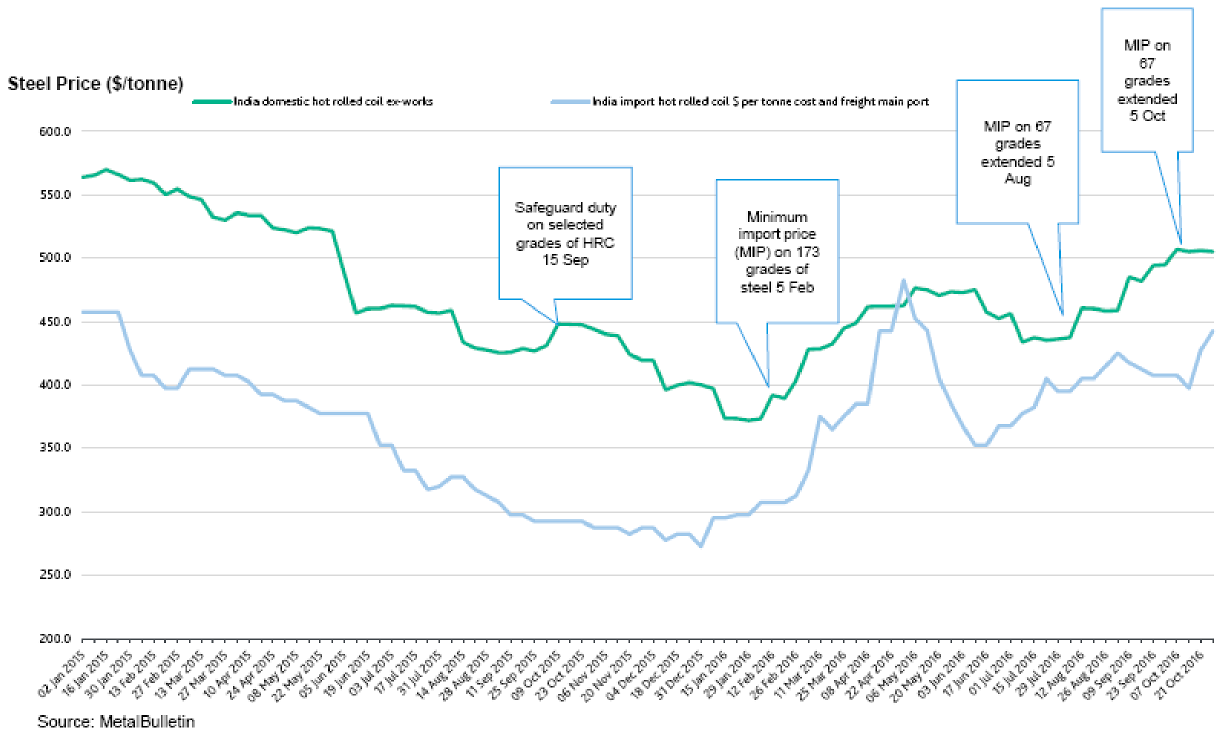
Source: Bloomberg

Exhibit 77. …same for coking coal prices



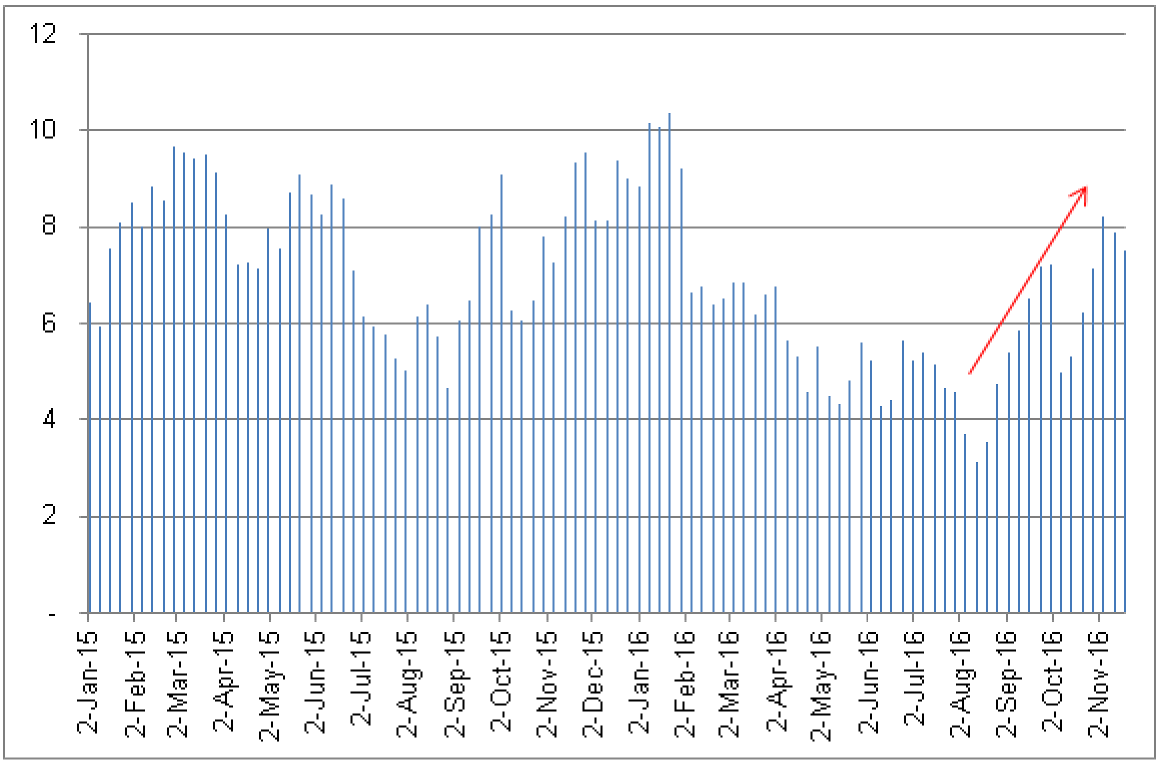
Source: Bloomberg

Exhibit 78. India domestic steel prices have recovered from the lows in February



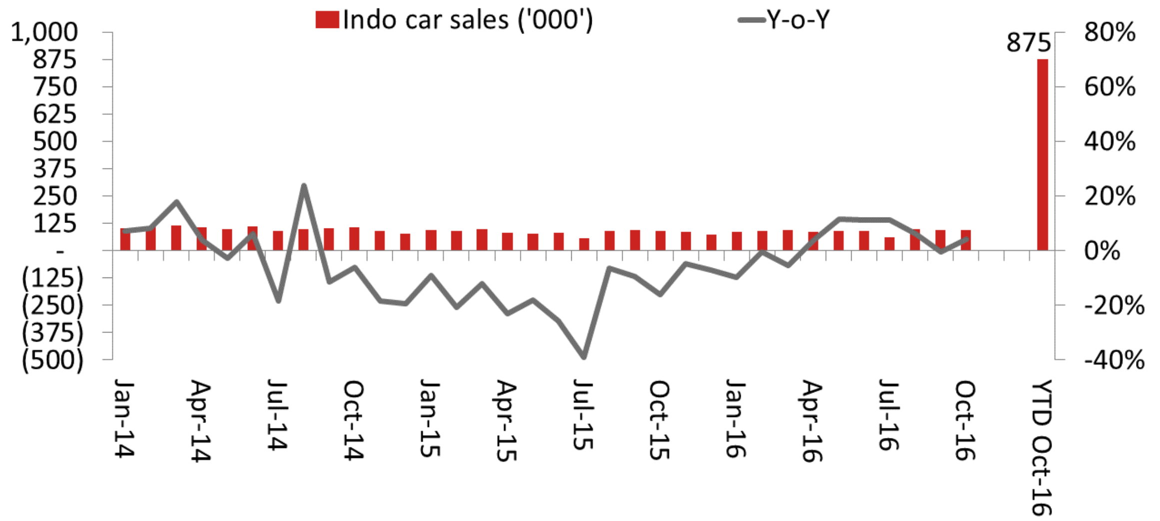
Source: MetalBulletin

Exhibit 79. Singapore complex GRMs on an uptrend; Positive for refiners



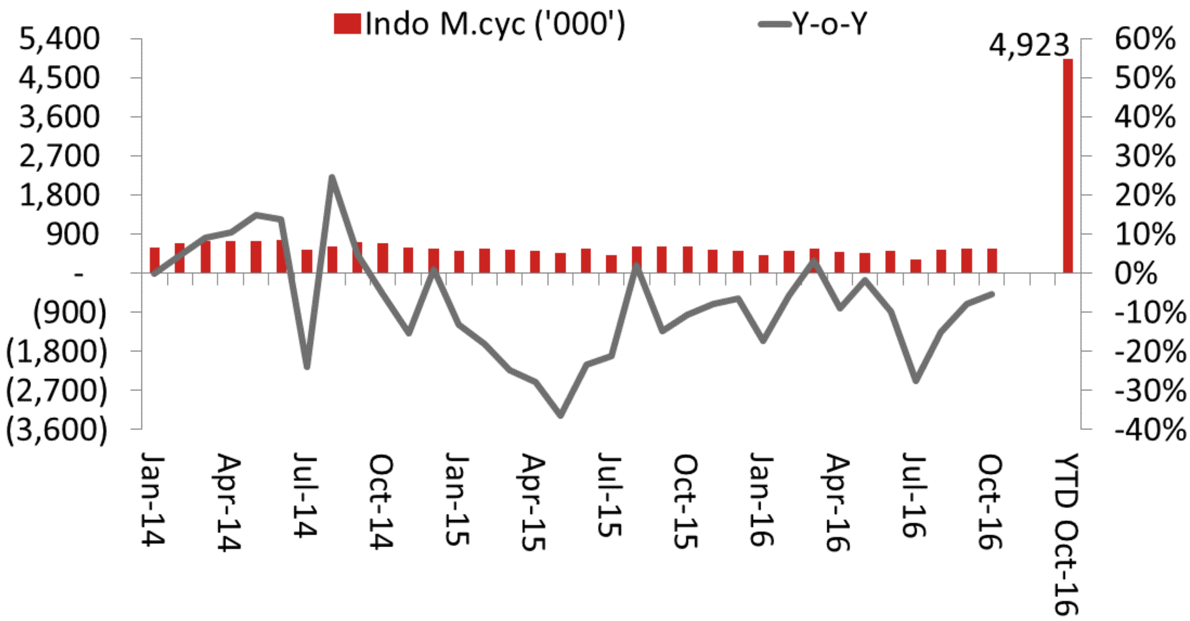
Source: Reuters

Exhibit 80. Auto sales in Indonesia slowly picking up…



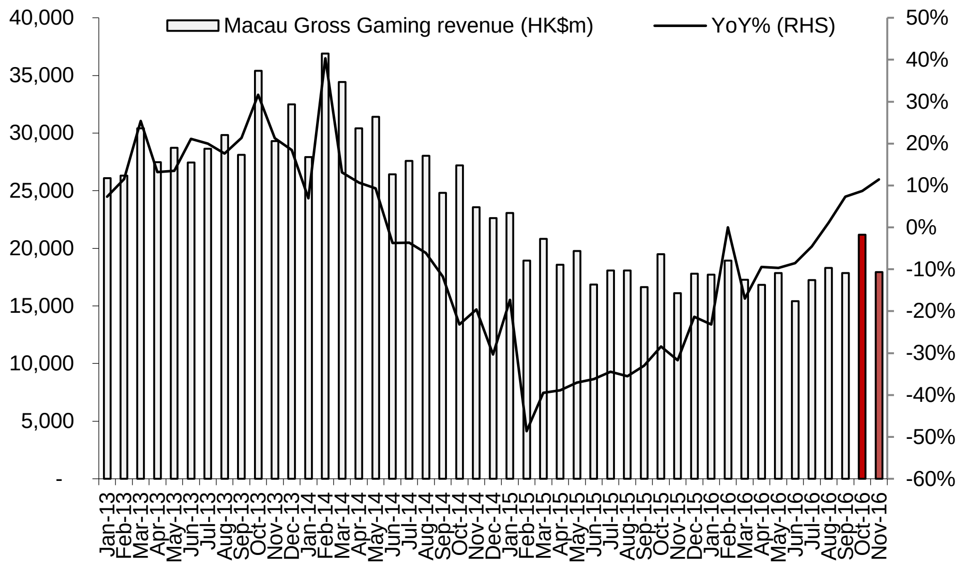
Source: Bloomberg, Nomura

Exhibit 81. Similar trend for motorcycle sales…



Source: Bloomberg, Nomura

Exhibit 82. Improving monthly trend on gross gaming revenue (GGR) in Macau



Source: DICJ, Nomura Equity Research

Exhibit 83. Forecast on GGR in Macau

	2012	2013	2014	2015	2016F	2017F	2018F
Total GGR (USDbn)	38.0	45.1	43.9	28.9	27.7	30.4	31.9
YoY chg	14%	19%	-3%	-34%	-4%	9%	5%
VIP GGR (USDbn)	26.3	29.6	26.1	14.5	12.4	13.0	13.0
YoY chg	8%	13%	-12%	-45%	-14%	5%	0%
As a % of total	69%	66%	59%	50%	45%	43%	41%
Mass GGR (USDbn)	10.0	13.5	15.8	12.9	13.8	15.6	16.9
YoY chg	30%	35%	17%	-19%	7%	13%	8%
As a % of total	26%	30%	36%	44%	50%	51%	53%
Slots GGR (USDbn)	1.7	1.9	2.0	1.6	1.6	1.8	2.0
YoY chg	20%	12%	3%	-18%	-3%	12%	13%
As a % of total	5%	4%	5%	6%	6%	6%	6%

Source: Nomura Equity Research

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