

October 16, 2017

Credit Headlines (Page 2 onwards): First Real Estate Investment Trust, Soilbuild Business Space Industrial REIT, Banyan Tree Holdings Ltd, Lippo Malls Indonesia Retail

Market Commentary: The SGD swap curve traded mostly upwards Friday, with the 1-year to 4-year tenors, as well as the 20-year tenor, trading 1-2bps higher. The other tenors traded little changed. Flows in SGD corporates were heavy, with better buying seen in CAPLSP 3.08%'27s, CELSP 3.9% PERPs, and better selling seen in SIASP 3.13%'26s, UOBSP 3.5%'29s. In the broader dollar space, the spread on JACI IG Corp traded little changed at 181bps, while the yield on JACI HY Corp fell 1bps to 6.83%. 10Y UST yields fell by 5bps to 2.28%, as CPI data printed below expectations.

New Issues: Prime Asset Holdings Ltd has priced a SGD170mn 7-year bond at 2.9%, tightening from initial guidance of 3.1% area. Zhongrong International Resources Co Ltd has scheduled investor meetings for potential USD bond issuance (guaranteed by Zhongrong Xinda Group Co Ltd) from 16 Oct. The expected issue ratings are 'BB-/NR/BB'. China Construction Bank Corp, Singapore Branch may price a 3-year SGD-denominated bond. The initial price target is at SOR+80bps area and expected issue ratings are 'NR/NR/A'.

Rating Changes: Fitch has affirmed Origin Energy Ltd's Issuer Default Rating (IDR) and its senior unsecured rating at 'BBB'. The outlook on the IDR has been revised to stable from negative. The rating action reflects Fitch's expectation Origin will sustain the improvement in its financial performance. Origin's financial risk profile is also likely to improve if it is able to complete the proposed divestment of its upstream business and reduce debt.

Table 1: Key Financial Indicators

	16-Oct	1W chg (bps)	1M chg (bps)		16-Oct	1W chg	1M chg
iTraxx Asiax IG	77	-1	4	Brent Crude Spot (\$/bbl)	57.81	3.62%	3.94%
iTraxx SovX APAC	16	0	-2	Gold Spot (\$/oz)	1,301.89	1.39%	-0.42%
iTraxx Japan	49	4	7	CRB	184.83	1.03%	0.42%
iTraxx Australia	68	-1	3	GSCI	402.80	2.63%	1.74%
CDX NA IG	55	0	-2	VIX	9.61	4.57%	-5.51%
CDX NA HY	108	0	1	CT10 (bp)	2.287%	-7.16	8.50
iTraxx Eur Main	56	-1	6	USD Swap Spread 10Y (bp)	-4	0	-1
iTraxx Eur XO	243	-5	20	USD Swap Spread 30Y (bp)	-32	0	1
iTraxx Eur Snr Fin	59	-1	11	TED Spread (bp)	29	0	0
iTraxx Sovx WE	5	0	0	US Libor-OIS Spread (bp)	13	-1	-3
iTraxx Sovx CEEMEA	39	-2	-2	Euro Libor-OIS Spread (bp)	3	0	0
					16-Oct	1W chg	1M chg
				AUD/USD	0.787	1.53%	-1.08%
				USD/CHF	0.976	0.36%	-1.52%
				EUR/USD	1.180	0.53%	-1.27%
				USD/SGD	1.352	0.87%	-0.28%
Korea 5Y CDS	69	-1	3	DJIA	22,872	0.43%	2.71%
China 5Y CDS	56	-3	3	SPX	2,553	0.15%	2.12%
Malaysia 5Y CDS	65	-1	2	MSCI Asiax	688	1.95%	2.58%
Philippines 5Y CDS	64	0	7	HSI	28,717	1.38%	3.27%
Indonesia 5Y CDS	98	-3	6	STI	3,327	1.08%	3.67%
Thailand 5Y CDS	48	-1	0	KLCI	1,754	-0.57%	-1.81%
				JCI	5,943	0.48%	1.21%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
12-Oct-17	Prime Asset Holdings Ltd	Not Rated	SGD170mn	7-year	2.9%
12-Oct-17	Well Hope Development Ltd	Not Rated	USD1bn	Perp NC5	3.875%
11-Oct-17	CITIC Envirotech Ltd	Not Rated	SGD240mn	Perp NC3	3.9%
11-Oct-17	United Overseas Bank Ltd	'NR/Baa1/BBB'	USD650mn	Perp NC6	3.875%
11-Oct-17	China Singyes Solar Technologies Holdings Ltd	Not Rated	USD160mn	364-day	6.75%
11-Oct-17	Sumitomo Mitsui Banking Corporation	'NR/A1/NR'	USD750mn	2-year	CT2+57bps
11-Oct-17	Sumitomo Mitsui Banking Corporation	'NR/A1/NR'	USD750mn	2-year	3mL+31bps
11-Oct-17	Sumitomo Mitsui Financial Group Inc	'NR/A1/NR'	USD1.25bn	5-year	CT5+82bps
11-Oct-17	Sumitomo Mitsui Financial Group Inc	'NR/A1/NR'	USD500mn	5-year	3mL+74bps
11-Oct-17	Sumitomo Mitsui Financial Group Inc	'NR/A1/NR'	USD750mn	10-year	CT10+100bps

Source: OCBC, Bloomberg

Credit Headlines:

First Real Estate Investment Trust ("FIRT"): FIRT will be acquiring Siloam Hospitals Yogyakarta ("SHYG") for IDR264.6bn (~SGD27.0mn) from its Sponsor. SHYG commenced operations in July 2017 after obtaining relevant licenses. SHYG is part of an integrated development located in Yogyakarta, Indonesia. The development's retail portion will be acquired by Lippo Mall Indonesia Retail Trust ("LMRT"), a sister company to FIRT. The transactions are subject to unitholder's approval from both FIRT and LMRT (for further information on the joint acquisition, please refer to the paragraph regarding LMRT). The hospital will be acquired on a rental yield of 9.0% based on initial base rent of ~SGD2.43mn p.a. SHYG has a maximum capacity of 220 beds, situated on a total land area of 13,715 sqm and has 10-storeys (including one basement and one mezzanine level). A Master Lease agreement will be entered into with the Sponsor (via Sponsor's indirectly wholly-owned subsidiaries) for a 15 year period, with an option to renew for a further 15 year term. FIRT would be funding SHYG via a mix of debt and internal cash. On 10 October 2017, FIRT also completed the acquisition of Siloam Hospitals Buton and Lippo Plaza Buton (deal first announced in July 2017) for SGD28.5mn. As at 30 June 2017, the investment portfolio at FIRT stood at SGD1.27bn. Buton and SHYG would increase total investment portfolio to SGD1.33bn. We expect that the two acquisitions would push up aggregate leverage slightly to 32% (as at 30 June 2017: 31%). In light of the still manageable aggregate leverage levels, we are holding FIRT's issuer profile at Neutral. (Company, OCBC)

Soilbuild Business Space Industrial REIT ("SBREIT"): SBREIT reported its 3Q2017 and 9M2017 results. In 9M2017, gross revenue increased by 7.8% y/y mainly driven by contribution from Bukit Batok Connection (acquired in September 2016 from Sponsor) as well as improvements at Solaris, Tuas Connection and Tellus Marine. These were offset somewhat by reduction in revenue from 72 Loyang Way. 32% of gross revenue and net property income at SBREIT came from Solaris and Eightrium (both "office-like" business park properties). Finance expense was 11.1% higher at SGD11.9mn mainly due to the loan draw down to partly finance the acquisition of Bukit Batok Connection. With operating expenses relatively stable as a proportion of revenue, EBITDA was up by 8.0% to SGD51.0mn, resulting in EBITDA/Interest of 4.3x (9M2016: 4.4x). As at 30 September 2017, aggregate leverage was 37.9%, staying stable against the previous quarter. SBREIT faces SGD147.0mn in short term debt due within the next 12 months. This comprise of SGD93.5mn of bonds (ie: the SBREIT '18s) and SGD55.0mn in an interest-free loan provided by the Sponsor. We see the refinancing of the SBREIT '18s and the interest-free loan as manageable. As at 30 September 2017, SGD883mn of investment properties still remain unencumbered and if need be, provides financial flexibility for SBREIT to raise secured debt. Secured debt was SGD184.9mn, representing 39% of total gross debt and 14.6% of total assets. Headline numbers though still include contribution from NK Ingredients (6.2% contribution to gross revenue in 3Q2017). NK Ingredients had been in arrears for SGD3.4mn per SBREIT's 18 September 2017 announcement. SBREIT holds a security deposit (in the form of an insurance guarantee) amounting to SGD5.1mn. As of 10 October 2017, SGD3.4mn in cash has been received by SBREIT from the insurance guarantee provider. While the tenant is not yet officially in default on its lease agreement, the likelihood is high. Separately, SBREIT disclosed that the Master Lessee at KTL Offshore building, namely KTL Offshore Pte Ltd ("KTL") had been in arrears for about 7 months. KTL contributed 4.6% in gross revenue in 3Q2017. This is within our expectations given the challenges facing the marine, offshore oil and gas sector. SBREIT had entered into a supplemental deed with the Master Lessee where SBREIT has agreed to refrain from exercising its rights on SGD1.5mn due from KTL. Among the conditions imposed by SBREIT for the forbearance, KTL was required to increase its existing security deposit by SGD1.5mn to SGD5.3mn and to pay 6.0% p.a on the SGD1.5mn owed. The Master Lease with KTL runs through to August 2021, though the SGD1.5mn in arrears have been extended to August 2023. To date, SBREIT has received an insurance bond amounting to SGD5.3mn and for the avoidance of doubt, KTL still remains as Master Lessee of the KTL Offshore building. Assuming a downside scenario where SBREIT gets zero gross revenue from all marine, oil and gas sector tenants and NK Ingredients, we find Adjusted EBITDA/Interest at 3.4x, well within SBREIT's covenanted levels of 1.5x and in line with its closest peers. Given heightened tenant stress, we expect further asset corrosion come 31 December 2017 when the assets are re-valued, though within the 45% regulatory cap. Despite the higher counterparty credit risk, SBREIT's credit profile is within our parameters of a Neutral issuer profile. (Company, OCBC)

Credit Headlines (Cont'd):

Banyan Tree Holdings Ltd (“BTH”): BTH has appointed Mr Sebastien Bazin as non-executive and non-independent director of BTH. This appointment was first indicated in December 2016 as part of BTH and Accor S.A’s strategic partnership announcement. In August 2017, BTH completed the issuance of a (1) Convertible debenture to Accor S.A (SGD24mn principal amount) and (2) An option to Accor S.A to acquire up to 10% of the share capital of BTH on a fully diluted basis. We hold BTH’s issuer profile at Neutral for now and would monitor the ongoing turnaround efforts at the company. (Company, OCBC)

Lippo Malls Indonesia Retail Trust (“LMRT”): LMRT announced the acquisition of two retail malls in Indonesia worth SGD98.1mn. The first is a joint acquisition with First Real Estate Investment Trust (“FIRT”) for Lippo Plaza Jogja (“LPJ”) mall as well as a hospital development in Yogyakarta from their sponsor, PT Lippo Karawaci Tbk (“LK”). LMRT will enjoy only the economic interest from Lippo Plaza Jogja (“LPJ”) while FIRT will enjoy only the economic interest from the hospital development. The purchase by LMRT amounts to SGD61.1mn. We note that the agreement to purchase the development at Yogyakarta was previously terminated (refer to [Asian Credit Daily – 18 Jan 2017](#)) to allow more time for LK to carry out asset enhancement works at the mall and obtain the necessary licenses for the operation of Siloam Hospitals. Together with the acquisition of LPJ, LMRT will also enter into a 5-year master lease agreement with subsidiaries of LK, which will contribute an annual rental income of IDR42.6bn (SGD4.3mn) at LPJ. The rationale LMRT provided for entering into a master lease agreement is because LPJ is still in infancy stage and requires time for rental and occupancy rates to stabilise. The second purchase of SGD37.0mn is for Kediri Town Square. Together, both purchases will boost LMRT’s FY2016 SGD171.9mn NPI by SGD7.6mn on a pro forma basis. In addition to using internal funds, LMRT intends to finance the acquisitions via proceeds from issuance of bonds and/or debt financing facilities. We think more financing is required even though LMRT had SGD149.6mn cash as of end-2Q2017, as LMRT had in July repaid SGD50mn from the maturity of LMRTSP 5.7% ’17 and we estimate the current cash outlay required to be SGD126.5mn [SGD16.1mn due to transfer agreement for the retail wing adjoining Medan Fair, SGD14.5mn due to asset enhancement at Ekalokasari Plaza (refer to [Asian Credit Daily – 10 Oct 2017](#)), SGD10.8mn due to value-added taxes and acquisitions but less SGD13.0mn expected receipt from PT MPU]. We expect asset leverage to remain around low 30% (2Q2017: 30.6%). As such, we continue to hold LMRT at a Neutral Issuer Profile. (Company, OCBC)

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