

Aug 18, 2017

Credit Headlines (Page 2 onwards): REIT Industry News, Sembcorp Industries Ltd, Croesus Retail Trust

Market Commentary: The SGD swap curve traded downwards yesterday, with swap rates trading 1-3bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in SIASP 3.13%'27s, WINGTA 4.35%-PERPs, and mixed interest seen in HSBC 4.7%-PERPs, MCTSP 3.6%'20s, BTHSP 4.875%'19s. In the broader dollar space, the spread on JACI IG Corporates rose 2bps to 189bps while the yield on JACI HY Corp fell 3bps to 6.98%. 10y UST yields fell 4bps to 2.19%, after a terror attack in Barcelona and rumors of yet another senior adviser leaving the White House ignited risk off sentiment.

New Issues: Zhongtai International Bond 2017 (BVI) Company Ltd has priced a USD300mn 3-year bond (guaranteed by Zhongtai Financial International Ltd and supported with a keepwell deed by Zhongtai Securities Co Ltd) at 4.25%, tightening from initial guidance of 4.5%. Lotte Shopping Business Management (Hong Kong) Ltd has scheduled investor meetings from 21 Aug for potential USD bond issuance (guaranteed by The Export-Import Bank of Korea). The expected issue ratings are 'NR/Aa2/NR'. AMP Ltd has scheduled investor meetings for potential AUD NC5.25 Tier 2 subordinated debt issue from 18 Aug. The expected issue ratings are 'BBB+/NR/NR'.

Rating Changes: Moody's has downgraded Panda Green Energy Group Limited's (Panda Green) corporate family rating to 'B1' from 'Ba3'. The outlook is stable. The rating action reflects the heightened credit risk resulting from Panda Green's newly-acquired hydro business, combined with the rapid expansion of its solar power portfolio. Moody's has assigned Medco Energi Internasional Tbk (P.T.) (Medco) a corporate family rating of 'B2'. At the same time, Moody's has assigned a 'B2' rating to the senior unsecured bonds issued by Medco Strait Services Pte Ltd and guaranteed by Medco. The outlook is stable. The rating action reflects the expectation that production growth from Medco's existing fields will improve cash flows and that the company will remain committed to deleveraging.

Table 1: Key Financial Indicators

	18-Aug	1W chg (bps)	1M chg (bps)		18-Aug	1W chg	1M chg
iTraxx Asiax IG	83	-6	-3	Brent Crude Spot (\$/bbl)	50.96	-2.19%	4.34%
iTraxx SovX APAC	22	0	0	Gold Spot (\$/oz)	1,287.77	-0.12%	3.65%
iTraxx Japan	43	0	3	CRB	175.89	-1.69%	-0.56%
iTraxx Australia	75	-5	-5	GSCI	374.90	-2.11%	0.35%
CDX NA IG	62	1	5	VIX	15.55	-3.05%	57.23%
CDX NA HY	106	0	-1	CT10 (bp)	2.201%	1.22	-5.80
iTraxx Eur Main	57	-1	4	USD Swap Spread 10Y (bp)	-5	-1	2
iTraxx Eur XO	245	-6	8	USD Swap Spread 30Y (bp)	-34	-2	1
iTraxx Eur Snr Fin	54	-1	3	TED Spread (bp)	32	4	5
iTraxx Sovx WE	6	0	0	US Libor-OIS Spread (bp)	16	0	1
iTraxx Sovx CEEMEA	45	-4	-10	Euro Libor-OIS Spread (bp)	3	0	0
					18-Aug	1W chg	1M chg
				AUD/USD	0.790	0.04%	-0.24%
				USD/CHF	0.962	-0.06%	-0.79%
				EUR/USD	1.174	-0.73%	1.57%
				USD/SGD	1.365	-0.32%	0.09%
Korea 5Y CDS	64	-5	6	DJIA	21,751	-0.43%	0.82%
China 5Y CDS	65	-3	-2	SPX	2,430	-0.34%	-1.24%
Malaysia 5Y CDS	79	-6	-6	MSCI Asiax	651	1.86%	0.75%
Philippines 5Y CDS	69	-5	-5	HSI	27,067	0.68%	2.04%
Indonesia 5Y CDS	111	-5	-6	STI	3,256	-0.72%	-1.51%
Thailand 5Y CDS	61	-3	-2	KLCI	1,772	0.29%	0.98%
				JCI	5,873	0.80%	0.54%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
17-Aug-17	Zhongtai International Bond 2017 (BVI) Company Ltd	Not Rated	USD300mn	3-year	4.25%
16-Aug-17	Mapletree Commercial Trust Treasury Company Pte Ltd	Not Rated	SGD100mn	10-year	3.045%
16-Aug-17	Phoenix Lead Ltd	'BBB/NR/NR'	USD500mn	Perp NC5	4.85%
16-Aug-17	Medco Strait Services Pte Ltd (re-tap)	'B/B2/B'	USD100mn	MEDCIJ 8.5%'22s	99.005
16-Aug-17	Singtel Optus Pty Ltd	Not Rated	AUD400mn	5-year	3.2825%
15-Aug-17	Wing Tai Properties (Finance) Ltd	Not Rated	SGD160mn	Perp NC3	4.35%
15-Aug-17	CIFI Holdings (Group) Co Ltd	'NR/B1/NR'	USD300mn	Perp NC5	5.375%
14-Aug-17	FNN Treasury Pte Ltd	Not Rated	SGD200mn	5-year	2.80%

Source: OCBC, Bloomberg

Rating Changes (Cont'd): Moody's has assigned Lotte Shopping Business Management (Hong Kong) Limited's (Lotte) senior unsecured notes a rating of 'Aa2'. The outlook is stable. The notes are guaranteed by The Export-Import Bank of Korea (KEXIM). The rating is based on KEXIM's rating, as the guarantee effectively ranks the notes at least pari passu with KEXIM's present and future unsubordinated and unsecured obligations. Moody's has affirmed Barmenco Holdings Pty Limited's 'B1' corporate family rating (CFR), Barmenco Finance Pty Ltd's 'B1' senior secured notes rating, and the 'Ba3' rating on its senior secured revolving credit facility. The outlook is negative. The rating action reflects Barmenco's relatively stable contract volumes but takes into account the loss of the Kundana contract, which will raise the company's financial leverage.

Credit Headlines:

REIT Industry News: The Singapore Exchange ("SGX") and the Singapore Institute of Surveyors and Valuers ("SISV") are jointly reviewing valuation practices and the reporting carried out by real estate valuers that REITs engage. REITs are subject to an aggregate leverage cap of 45% by the MAS. Valuations based on these reports are currently used as an input for investment properties (the largest component of total assets). Property valuations and aggregate leverage ratios are also used in assessing REIT equity valuation and credit strength. SGX and SISV are forming a committee to carry out the review and the committee will be tasked to identify and recommend enhancements to the disclosure framework for real estate valuation and reporting in Singapore. Members of the committee comprise stakeholders including representatives from the listing, product admission, compliance teams of the SGX, the SISV, CapitaLand, JTC, Mapletree and the REIT Association of Singapore ("REITAS"). In our view, property valuations in light of the existence of master leases, rental support structures, related party transactions and valuation of non-traditional property assets pose a higher degree of uncertainty. We will continue to monitor the developments from this review. (Business Times, SGX, OCBC)

Sembcorp Industries Ltd ("SCI"): SCI announced an increase in its stake in Sembcorp Green Infra to around 72% through wholly owned subsidiary Sembcorp Utilities ("SU"). Sembcorp Green Infra is involved in the renewables sector in India with SU subscribing to the entire rights issuance of Sembcorp Green Infra including the unsubscribed portion of its partner IDFC Private Equity Fund III. Note that in SCI's recent 2Q2017 results, management have indicated that the strategic review (which commenced in 2Q2017) is about half way through and is targeted to be completed in 4Q2017. That said, this investment is in line with recent results trends which are supported by SCI's utilities segment, which now accounts for 69% of SCI's total sales. The total cost of the rights issue of around SGD21.4mn does not affect SCI's Neutral Issuer Profile. (Company, OCBC)

Croesus Retail Trust ("CRT"): CRT reported 4QFY17 results. Revenue increased 11.9% y/y to JPY3.0bn and NPI increased 0.1% y/y to JPY1.4bn. The increase in revenue was mainly due to the acquisition of Fuji Grand Natalie on 18 Apr 2016 and Mallage Saga and Feeal Asahikawa on 27 May 2016. Nevertheless, NPI increased by a lower proportion than revenue due to higher expense ratios in the newly acquired malls while expenses were undertaken to refurbish Mallage Shobu. Aggregate leverage reduced to 44.6% (3QFY17: 46.1%) mainly due to asset revaluation gains of 4.4%. All-in cost of debt was stable at 1.69% (3QFY17: 1.68%), though reported interest coverage fell to 4.3x (3QFY17: 4.8x). Nevertheless, interest coverage may improve when the JPY2.96bn local debt maturing in FY18 is refinanced, as CRT is expecting to obtain refinancing at a better rate due to low interest rate environment in Japan. As mentioned in our [Asian Credit Daily – 29 Jun 2017](#), a company advised by Blackstone Real Estate has made a proposal to privatise CRT, and we think it is likely for CRT to be privatised. As a reminder, the privatisation is expected to be completed by the 4th quarter of 2017. We are not overly concerned because if CRT were to be listed from the SGX, holders of the '20s may choose to redeem the bond at par plus accrued interest. We continue to hold CRT at a Neutral Issuer Profile. (Company, OCBC)

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Co.Reg.no.:193200032W