

October 19, 2017

Credit Headlines (Page 2 onwards): Keppel REIT, ESR REIT, CWT Ltd

Market Commentary: The SGD swap curve traded upwards on Tuesday, with swap rates trading 2-3bps higher across all tenors. Singapore markets were closed yesterday for the Deepavali holidays. Flows in SGD corporates were heavy on Tuesday, with better buying seen in CELSP 3.9%-PERPs, CAPLSP 3.08%'27s, better selling seen in PILLSP 7.25%'18s, and mixed interest seen in F 3.7%'19s, OLAMSP 6%'22s. In the broader dollar space, the spread on JACI IG Corp fell 1bps to 180bps on Tuesday, before falling another 2bps to 179bps on Wednesday. The yield on JACI HY Corp traded little changed on both days, closing at 6.80%. On Tuesday, 10Y UST yields traded little changed at 2.30% before rising 5bps to 2.35% on Wednesday as traders brace for the potential impact of President Trump's pick for the next Fed chair.

New Issues: Genting Singapore PLC has priced a JPY20bn 5-year bond at 0.669%. Singapore Airlines Ltd has priced a SGD200mn re-tap of its SIASP 3.13%'26s. CDBL FUNDING 1 has priced a two-tranche deal (guaranteed by CDB Aviation Lease Finance Designated Activity Company with China Development Bank Financial Leasing Co being a keepwell provider), with the USD400mn 5.5-year bond priced at CT5+117.5bps, tightening from initial guidance of CT5+150bps area; and the USD400mn 10-year bond priced at CT10+127.5bps, tightening from initial guidance of CT10+155bps area. The expected issue ratings are 'NR/A2/A+'. Maoye International Holdings Ltd has priced a USD300mn 364-day bond at 7% (guaranteed by certain restricted subsidiaries incorporated outside of the PRC), tightening from initial guidance of 7.375%-7.5%. SDOE International Finance I Company Ltd has priced a USD200mn 3-year bond (guaranteed by Shandong Marine Group Ltd) at 5.45%, tightening from initial guidance of 5.75%. Tewoo Group No 4 Ltd has priced a USD500mn 359-day bond (guaranteed by Tewoo Group Co Ltd) at 3.70%, tightening from initial guidance of 4.125% area. Gemstones International Limited has priced a USD175mn re-tap of its LVGEM 8.5%'20s at 8.248%, tightening from initial guidance of 8.49% area. The issue ratings are 'NR/B3/B+'. Prudential plc has priced a USD750mn Perp NC5.25 Tier 2 bond at 4.875%, tightening from initial guidance of 5.25% area. The issue ratings are 'A-/A3/BBB+'.

Table 1: Key Financial Indicators

	19-Oct	1W chg (bps)	1M chg (bps)		19-Oct	1W chg	1M chg
iTraxx Asiax IG	76	-2	4	Brent Crude Spot (\$/bbl)	58.05	3.20%	5.28%
iTraxx SovX APAC	16	0	-2	Gold Spot (\$/oz)	1,278.14	-1.20%	-2.52%
iTraxx Japan	49	2	8	CRB	183.99	0.27%	0.77%
iTraxx Australia	67	-2	3	GSCI	403.32	1.31%	2.49%
CDX NA IG	54	-2	-1	VIX	10.07	2.23%	-1.08%
CDX NA HY	108	0	1	CT10 (bp)	2.341%	2.34	9.65
iTraxx Eur Main	55	-1	6	USD Swap Spread 10Y (bp)	-3	2	1
iTraxx Eur XO	243	-2	24	USD Swap Spread 30Y (bp)	-30	2	3
iTraxx Eur Snr Fin	60	1	13	TED Spread (bp)	28	0	-1
iTraxx Sovx WE	5	0	0	US Libor-OIS Spread (bp)	12	-2	-4
iTraxx Sovx CEE/MEA	38	-1	-4	Euro Libor-OIS Spread (bp)	3	0	0
					19-Oct	1W chg	1M chg
				AUD/USD	0.785	0.38%	-2.00%
				USD/CHF	0.981	-0.51%	-1.82%
				EUR/USD	1.180	-0.26%	-1.63%
				USD/SGD	1.359	-0.46%	-0.84%
Korea 5Y CDS	70	1	5	DJIA	23,158	1.24%	3.52%
China 5Y CDS	55	-2	3	SPX	2,561	0.24%	2.18%
Malaysia 5Y CDS	65	-1	3	MSCI Asiax	691	0.68%	2.01%
Philippines 5Y CDS	64	0	8	HSI	28,671	0.74%	2.21%
Indonesia 5Y CDS	97	-2	6	STI	3,342	1.88%	3.09%
Thailand 5Y CDS	49	0	2	KLCI	1,745	-0.69%	-2.16%
				JCI	5,922	-0.06%	0.36%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
18-Oct-17	Genting Singapore PLC	Not Rated	JPY20bn	5-year	0.669%
17-Oct-17	Singapore Airlines Ltd	Not Rated	SGD200mn	SIASP 3.13%'26s	-
17-Oct-17	CDBL FUNDING 1	'NR/A2/A+'	USD400mn	5.5-year	CT5+117.5bps
17-Oct-17	CDBL FUNDING 1	'NR/A2/A+'	USD400mn	10-year	CT10+127.5bps
17-Oct-17	Maoye International Holdings Ltd	Not Rated	USD300mn	364-day	7%
17-Oct-17	SDOE International Finance I Company Ltd	Not Rated	USD200mn	3-year	5.45%
17-Oct-17	Tewoo Group No 4 Ltd	Not Rated	USD500mn	359-day	3.70%
17-Oct-17	Gemstones International Limited	'NR/B3/B'	USD175mn	LVGEM 8.5%'20s	8.248%
17-Oct-17	Prudential plc	'A-/A3/BBB+'	USD750mn	Perp NC5.25	4.875%
17-Oct-17	Korea Development Bank	'AA/Aa2/NR'	USD300mn	5-year	3mL+30bps

Source: OCBC, Bloomberg

New Issues (Cont'd): The Korea Development Bank has priced a USD300mn 5-year bond at 3mL+30bps, in line with earlier guidance of 3mL+80-82bps. The expected issue ratings are 'AA/Aa2/NR'. Jiangsu Nantong Sanjian Construction Group Co Ltd has scheduled investor meetings for potential bond issuance from 18 Oct.

Rating Changes: S&P has assigned Australian Technology Innovators Pty Ltd (ATI) an issuer credit rating of 'B'. At the same time, S&P has assigned a 'B' issue rating to ATI's term loan facility. The outlook is stable. ATI is the combined entity of InfoTrack Group Pty Ltd and LEAP Legal Software Pty Ltd. The rating action reflects S&P's assessment of ATI's leading market position, strong customer retention and renewal rates. Moody's has assigned MyState Bank Limited (MyState) issuer and bank deposits ratings of 'Baa1'; a Baseline Credit Assessment (BCA) and an adjusted BCA of 'Baa1'; and a Counterparty Risk Assessment (CR Assessment) of 'A3'. The outlook is stable. The rating action reflects MyState's very strong asset quality and conservative underwriting. However, the rating is constrained by the bank's geographic concentration, exposure to wholesale funding, and ongoing profitability pressures. Moody's has upgraded China Travel Service (Holdings) Hong Kong Ltd's (CTS) issuer rating and senior unsecured rating issued by its subsidiary to 'Baa1' from 'Baa3'. The outlook is stable. The rating action reflects Moody's expectation that CTS's leverage will continue to improve, underpinned by a solid rise in earnings, despite a slight increase in debt. Fitch has affirmed Beijing Capital Development Holding (Group) Co Ltd's (known by its abbreviated Chinese name of Shokai Group) Issuer Default Rating and senior unsecured rating at 'BBB-', while revising the outlook to negative from stable. The rating action reflects Shokai Group's aggressive land banking, which has led to an increase in leverage.

Credit Headlines:

Keppel REIT ("KREIT"): KREIT reported 3Q2017 results. Property income increased 2.3% y/y to SGD40.4mn, while NPI increased 0.3% y/y to SGD31.7mn. The improvements were driven in part by Bugis Junction Tower with its property income (which increased 2.4% q/q to SGD4.9mn) catching up with gains in committed occupancy seen last quarter. KREIT had also highlighted stronger performance at its Australian assets as supporting overall performance. That said, we note some softness in KREIT's Singapore associates (its 1/3 interests in ORQ and MBFC) with contributions dipping 9.1% y/y. This was driven by declining rental support at MBFC and weaker dividend income from ORQ. Overall portfolio occupancy remains strong, though it dipped slightly q/q to 99.6% (2Q2017: 99.8%). Occupancy remains stronger than industry wide occupancy levels of 92.5% (as per CBRE's Singapore core CBD occupancy for 3Q2017). Like the previous quarter, we note the distinct trend of KREIT decelerating its pace of advance lease renewals. Lease expiries for 2017 and 2018 in aggregate only fell slightly to 7.2% of NLA (2Q2017: 8.6% of NLA), with just 0.5% of NLA left to renew for 4Q2017. Though there continues to be meaningful office supply entering the market by the end of 2018, signs that Grade A rents are bottoming, coupled with strong secondary transactions as well as commercial land sales, mean that office landlords have less reasons to pre-emptively fill out their buildings. That said, KREIT surprisingly reported a negative 3% rental reversion for 9M2017 (versus flat rental reversion reported for 1H2017), which implies sharply negative rental reversions for 3Q2017. Based on our estimates, majority of the leases executed during the quarter look to be from KREIT's associate assets (ORQ, MBFC), which may have faced competition from the ramping up of the neighbouring Marina One. Aside from this though, WALE for the portfolio remains healthy at ~6 years while tenant retention for 9M2017 remains strong at 91.8%. Aggregate leverage worsened slightly q/q to 38.8% (2Q2017: 38.5%). As noted previously, construction on 50%-owned 311 Spencer Street, Melbourne development has commenced, with pro-rata contributions from KREIT (we note ~SGD145mn in purchase and expenditure into investment properties during the quarter, as well as net loan drawdown of SGD48.8mn). Though we expect KREIT's leverage to creep up due to fund the development (completion is expected in 4Q2019), expected portfolio revaluation gains come year end would limit the deterioration to aggregate leverage. Reported interest coverage remained steady at 4.4x. Proportion of fixed rate debt fell slightly to 76%, with unencumbered assets at 84% of the portfolio. Cost of debt decreased slightly to 2.58%. As it stands, KREIT's aggregate leverage remains comparable with peers. We will retain our Neutral Issuer Profile on KREIT. (Company, OCBC)

Credit Headlines (Cont'd):

ESR REIT ("EREIT"): EREIT announced its 9M2017 and 3Q2017 results. Gross revenue was down 2.1% y/y to SGD82.5mn in 9M2017 while net property income was down 6.5% to SGD58.5mn. The fall in NPI was mainly driven by the loss of revenue during the transition phase of the properties moving from being single-tenanted to multi-tenanted, increase in property operating expenses from conversion, higher maintenance costs, property divestments and one-off costs due to the fire at 30 Toh Guan Road. EBITDA was lower by 6.8% to SGD52.0mn for similar reasons. EBITDA/Interest was relatively stable at 3.4x (9M2016: 3.5x) following a reduction in borrowing cost of 5.2%. Borrowing costs was lower due to the lower debt balance in 9M2017 versus 9M2016 and lower related transaction costs. As at 30 September 2017, aggregate leverage was somewhat lower at 36.5% (end-December 2016: 37.3%). Portfolio occupancy was significantly lower at 91.1% as at 30 September 2017 against 95.4% three months ago. The AEI works at 120 Pioneer Road had been completed and thus re-included back into portfolio occupancy calculations. In addition, CWT, the tenant at 3 Pioneer Sector 3 (which was earlier under a three year lease) did not renew the lease in mid-2017. During the same time last year, CWT made up 3.9% of the rental income at EREIT. Both buildings are being marketed at the moment. In 3Q2017, 56.7% of rental income is contributed by multi-tenanted properties. Rental income from Tellus Marine Engineering Pte Ltd was still recognised in 3Q2017 (2.5% contribution) even though the lease was pre-terminated in 2Q2017. In aggregate, we see ~10-12% of the gross rental income as "at-risk". This includes tenants from industries facing generalised weakness and those who had announced plans for consolidation into a single-location, which may eventually see them moving out of EREIT properties. On 18 October 2017, EREIT announced that it has entered into an agreement with Hyflux Membrane Manufacturing (S) Pte. Ltd ("Hyflux") to purchase 8 Tuas South for SGD95.0mn payable to Hyflux and an upfront land premium to JTC of SGD11.4mn (total purchase price SGD106.4mn, before transaction costs). The property comprises of five detached factories, a warehouse and four dormitory buildings. Hyflux would leaseback a majority of the space for 15 years, subject to completion of the proposed acquisition. The deal is subject to JTC approval and also (a) written confirmation from the SGX that the approval requirement from Hyflux shareholders is waived or (b) approval from Hyflux shareholders at a general meeting (if written confirmation from the SGX is not obtained). EREIT currently intends to finance the Hyflux building acquisition via debt, though the exact funding structure will be determined at a later date. A 10% deposit has been paid for the property and the property is currently unencumbered. Assuming the transaction is fully debt-funded, we estimate EREIT's aggregate leverage will go up to ~42%. As yet, there is no updates with regards to the discussion between EREIT and Sabana Shari'ah Compliant Industrial REIT ("SSREIT") with regards to the strategic review process at SSREIT. Despite the impending higher leverage profile at EREIT and lingering event risk, EREIT is still within our parameters of a Neutral issuer profile. We are however Underweight the EREIT curve. We see EREIT's credit profile as on par with SBREIT and both REITs has similarly dropped their credit ratings in July 2017. The SBREIT'18s which matures 5.5 months earlier is providing a 80bps pick up versus the EREIT'18s. For a one year extension in maturity, the SBREIT'21s is providing an 80 bps pick up versus the EREIT'20s. (Company, OCBC)

CWT Ltd ("CWT"): As of end of business day on 17 October 2017, valid acceptances to the offer was 90.10% of the total issued CWT shares. Given that the offeror (namely HNA Belt and Road Investments (Singapore) Pte Ltd) is holding more than 90% of the total number of CWT shares, the trading of CWT shares would be suspended at the close of the offer. The close of offer is at 5.30pm on 2 November 2017 (unless extended). (Company)

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