

Sep 19, 2017

Credit Headlines (Page 2 onwards): Soilbuild Business Space REIT

Market Commentary: The SGD swap curve traded little changed yesterday, with the exception of the 5-year, 7-year and 12-year tenors, which traded 1bps higher. Flows in SGD corporates were heavy, with better buying seen in SIASP 3.13%'27s, OUECT 3.03%'20s, and mixed interest seen in OLAMSP 5.8%'19s, WINGTA 4.35%-PERPs, HSBC 4.7%-PERPs. In the broader dollar space, the spread on JACI IG Corp fell 1bps to 188bps, while the yield on JACI HY Corp traded little changed at 6.79%. 10Y UST yields rose 2bps to 2.23% as investors await Wednesday's FOMC meeting.

New Issues: Hyundai Capital America has priced a three tranche deal, with the USD300mn 3-year fixed rate bond priced at CT3+122bps, tightening from CT3+140bps; the USD250mn 3-year floating rate bond priced at 3mL+100bps, initial guidance was at LIBOR equivalent; and the USD450mn 5-year fixed rate bond priced at CT5+142bps, tightening from initial guidance of CT5+160bps. Kookmin Bank has priced a USD500mn 5.5-year bond at CT5.5+115bps, tightening from initial guidance of CT5.5+135bps area. The expected issue ratings are 'A+/A1/NR'. KWG Property Holding Ltd has priced a USD250mn 5NC3 bond at 5.2%, tightening from initial guidance of 5.6% area. The expected issue ratings are 'NR/NR/BB-'. Mirvac Group Finance Ltd has priced a USD400mn 9.5-year bond (guaranteed by Mirvac Limited Mirvac Funds Limited as Responsible Entity for the Mirvac Property Trust) at CT9.5+147.5bps, tightening from initial guidance of CT9.5+170bps area. The expected issue ratings are 'BBB+/A3/NR'. HSBC Institutional Trust Services (Singapore) Ltd, in its capacity as trustee of Mapletree Logistics Trust, may price a SGD Perp NC5.5 today. The initial price target is at 4% area. Voyage Bonds Ltd has scheduled investor meetings for potential USD bond issuance (guaranteed by Shougang Group Co Ltd) from 20 Sep. The expected issue ratings are 'NR/NR/A-'. Green Fortune Capital Ltd has scheduled investor meetings for potential USD bond issuance (guaranteed by Ever Dragon Investments Group Ltd, a wholly-owned subsidiary of APP China Group Ltd) from 19 Sep.

Table 1: Key Financial Indicators

	19-Sep	1W chg (bps)	1M chg (bps)		19-Sep	1W chg	1M chg
iTraxx Asiax IG	72	-2	-11	Brent Crude Spot (\$/bbl)	55.54	2.34%	5.35%
iTraxx SovX APAC	18	0	-3	Gold Spot (\$/oz)	1,307.18	-1.85%	1.18%
iTraxx Japan	43	0	-2	CRB	183.73	1.14%	3.51%
iTraxx Australia	65	-1	-12	GSCI	394.94	1.75%	3.74%
CDX NA IG	56	0	-6	VIX	10.15	-5.41%	-28.82%
CDX NA HY	107	0	1	CT10 (bp)	2.216%	4.91	2.24
iTraxx Eur Main	50	-2	-8	USD Swap Spread 10Y (bp)	-3	2	2
iTraxx Eur XO	223	-4	-28	USD Swap Spread 30Y (bp)	-33	2	1
iTraxx Eur Snr Fin	48	-2	-8	TED Spread (bp)	29	0	-2
iTraxx Sovx WE	5	-1	-1	US Libor-OIS Spread (bp)	15	-1	0
iTraxx Sovx CEEMEA	41	-2	-6	Euro Libor-OIS Spread (bp)	3	0	0
					19-Sep	1W chg	1M chg
				AUD/USD	0.798	-0.54%	0.47%
				USD/CHF	0.961	-0.06%	0.09%
				EUR/USD	1.197	0.01%	1.30%
				USD/SGD	1.347	0.02%	1.02%
Korea 5Y CDS	66	-1	2	DJIA	22,331	1.24%	3.03%
China 5Y CDS	53	-4	-12	SPX	2,504	0.63%	3.23%
Malaysia 5Y CDS	63	-3	-15	MSCI Asiax	680	1.42%	5.03%
Philippines 5Y CDS	58	-3	-11	HSI	28,199	0.81%	4.26%
Indonesia 5Y CDS	93	-4	-18	STI	3,247	0.36%	-0.14%
Thailand 5Y CDS	48	-2	-11	KLCI	1,783	-0.40%	0.37%
				JCI	5,885	0.22%	-0.16%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
18-Sep-17	Hyundai Capital America	Not Rated	USD300mn	3-year	CT3+122bps
18-Sep-17	Hyundai Capital America	Not Rated	USD250mn	3-year NC5	3mL+100bps
18-Sep-17	Hyundai Capital America	Not Rated	USD450mn	5-year	CT5+142bps
18-Sep-17	Kookmin Bank	'A+/A1/NR'	USD500mn	5.5-year	CT5.5+115bps
18-Sep-17	KWG Property Holding Ltd	'NR/NR/BB-'	USD250mn	5NC3	5.2%
18-Sep-17	Mirvac Group Finance Ltd	'BBB+/A3/NR'	USD400mn	9.5-year	CT9.5+147.5bps
15-Sep-17	Tianjin Lingang Investment Holding Co Ltd	Not Rated	USD360mn	360-day	4.5%
14-Sep-17	FCL Treasury Pte Ltd	Not Rated	SGD308mn	Perp NC5	3.95%
14-Sep-17	Harvest Operations Corp	'AA/Aa2/NR'	USD285mn	5-year	CT5+127.5bps
14-Sep-17	Hong Kong Red Star Macalline Universal Home Furnishings Ltd	'NR/NR/BBB'	USD300mn	5-year	CT5+170bps

Source: OCBC, Bloomberg

New Issues (Cont'd): Hanjin International Corp has scheduled investor meetings for potential USD bond issuance (guaranteed by The Export-Import Bank of Korea) from 19 Sep. The expected issue ratings are 'NR/Aa2/NR'.

Rating Changes: Moody's has assigned Auswide Bank Ltd (Auswide) an issuer rating, deposit rating, Baseline Credit Assessment (BCA) and adjusted BCA of 'Baa2', as well as a Counterparty Risk Assessment of 'Baa1'. The outlook for the ratings is stable. The rating action reflects Auswide's improving credit profile, supported by tighter credit underwriting, improved asset quality metrics, stable earnings, stronger loan growth, and lower operating costs. However, the ratings are constrained by the bank's relatively high exposure to higher-risk mortgage loans, dependence on wholesale funding, as well as a small and concentrated franchise. Moody's has affirmed CNPC Captive Insurance Company Limited's 'A2' insurance financial strength rating. The outlook is stable. The rating action reflects CNPC Captive Insurance Company Limited's strong capital position relative to risk underwritten, and its highly liquid investment portfolio. Moody's has upgraded Yanzhou Coal Mining Company Limited's (Yanzhou Coal) corporate family rating to 'B1' from 'B2'. Similarly, Moody's has upgraded the senior unsecured ratings on the bonds issued by Yancoal International Resources Development Co Ltd that Yanzhou Coal guarantees. The outlook is stable. The rating action reflects the significant improvement in Yanzhou Coal's business, as well as Moody's expectation that the company's refinancing risk will be manageable. Fitch has withdrawn Xuzhou Hi-Tech Industrial Development Zone State-Owned Asset Management Co Ltd's (Xuzhou Hi-Tech) 'BB-' Issuer Default Rating. The outlook was stable. Fitch stated that Xuzhou Hi-Tech has chosen to stop participating in the rating process.

Credit Headlines:

Soilbuild Business Space REIT ("SBREIT"): SBREIT has on 12 September 2017 issued a letter of demand to NK Ingredients Pte Ltd ("NK") for arrears amounting to SGD3.4mn. NK is the Master Leasee at NK Ingredients industrial building located in Tuas. The company is a supplier and distributor of raw materials, including lanolin and cholesterol. SBREIT's trustee holds an insurance guarantee issued in its favour amounting to SGD5.1mn. The insurance guarantee has been called as the tenant is in default under the lease agreement for non-payment of rent. The balance of SGD1.7mn is equivalent to ~4 months of rent. As at 30 June 2017, NK contributed 5.9% of 2QFY2017's gross revenue and the valuation of the property was SGD62.0mn as at 31 March 2017. The NK Ingredients building was part of SBREIT's IPO portfolio and the original lease term was for 15 years from 2013. In 2Q2017, NK Ingredients building contributed 5.9% to gross revenue. Given the still prevailing weakness in the industrial space sector, our base case assumes no replacement tenant in the near term. Headline EBITDA/Interest was 4.3x and adjusted EBITDA/Interest (taking away the revenue still recognised on 72 Loyang Way) was 4.0x in 2Q2017. A further reduction in NK's revenue is likely to bring EBITDA/Interest on an adjusted basis to 3.8x. As at 31 March 2017, the building was valued at SGD62mn, assuming a 40% haircut to valuation, aggregate leverage may rise to 38% (30 June 2017: 37%). This is a credit negative for SBREIT, though we are keeping SBREIT's issuer profile at Neutral in light of the still manageable issuer profile. (Company, OCBC)

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