

April 20, 2017

Credit Headlines (Page 2 onwards): Keppel REIT

Market Commentary: The SGD swap curve traded downwards yesterday, with swap rates trading 1-4bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in GENSSP 5.13%'49s, better selling in MFCCN 3.85%'26s, ABNANV 4.7%'22s, and mixed interest in BNP 3.65%'24s, IOCLIN 4.1%'22s. In the broader dollar space, the spread on JACI IG corporates was rose 1bps to 206bps, while the yield on JACI HY remained flattish at 6.55%. 10y UST yields rose 4bps yesterday to 2.21%, as safe haven flows sparked by geopolitical concerns faded.

New Issues: Industrial and Commercial Bank of China Ltd. (Singapore Branch) priced a USD2bn 2-tranche deal; with the USD550mn 3-year piece at 3mL+77bps, tightening from initial guidance of 3mL+100bps, and the USD1.45bn 5-year piece at 3mL+95bps, tightening from initial guidance of 3mL+115bps. The expected issue ratings is 'A/NR/NR'. Halcyon Agri Corporation Ltd. priced a USD150mn Perp NC2 at 4.5%, tightening from initial guidance of 4.75%. Times Property Holdings Ltd. priced a USD225mn 5NC3 bond at 5.75%, tightening from initial guidance of 6%. The expected issue ratings are 'B/B2/B+'. QBE Insurance Group Ltd. has mandated banks for a potential USD 5.5-year green bond issuance. Japan International Cooperation Agency has set initial price guidance for USD500mn 10-year bond (guaranteed by the government of Japan) at MS+65bps. The expected issue ratings are 'A+/NR/NR'.

Rating Changes: S&P affirmed China-based gas distributor ENN Energy Holdings Ltd.'s (ENN) 'BBB' corporate credit rating and 'BBB' issue rating on the company's senior unsecured notes yesterday. In addition, S&P revised ENN's outlook to positive from stable. The rating action reflects S&P's expectations for ENN's credit profile to improve modestly on higher gas sales, stable profitability, and disciplined capital spending.

Table 1: Key Financial Indicators

| | 20-Apr | 1W chg (bps) | 1M chg (bps) | | 20-Apr | 1W chg | 1M chg |
|--------------------|--------|--------------|--------------|----------------------------|----------|--------|--------|
| iTraxx Asiax IG | 102 | 2 | 5 | Brent Crude Spot (\$/bbl) | 53.29 | -4.60% | 3.24% |
| iTraxx SovX APAC | 25 | 1 | 4 | Gold Spot (\$/oz) | 1,279.17 | -0.68% | 3.64% |
| iTraxx Japan | 48 | 2 | -2 | CRB | 183.92 | -2.17% | -0.47% |
| iTraxx Australia | 90 | 1 | -1 | GSCI | 388.83 | -2.81% | 1.74% |
| CDX NA IG | 69 | 1 | 1 | VIX | 14.93 | -0.93% | 31.66% |
| CDX NA HY | 107 | 0 | -1 | CT10 (bp) | 2.211% | -2.67 | -25.00 |
| iTraxx Eur Main | 77 | 0 | 0 | USD Swap Spread 10Y (bp) | -5 | -2 | -2 |
| iTraxx Eur XO | 299 | 5 | 3 | USD Swap Spread 30Y (bp) | -44 | -3 | -6 |
| iTraxx Eur Snr Fin | 92 | -2 | 0 | TED Spread (bp) | 35 | 1 | -7 |
| iTraxx Sovx WE | 12 | -1 | -3 | US Libor-OIS Spread (bp) | 21 | 0 | -3 |
| iTraxx Sovx CEEMEA | 50 | -2 | 4 | Euro Libor-OIS Spread (bp) | 3 | 0 | 1 |
| | | | | | | | |
| | | | | | 20-Apr | 1W chg | 1M chg |
| | | | | AUD/USD | 0.751 | -0.83% | -2.92% |
| | | | | USD/CHF | 0.999 | 0.75% | 0.00% |
| | | | | EUR/USD | 1.071 | 0.93% | -0.25% |
| | | | | USD/SGD | 1.399 | -0.01% | -0.13% |
| | | | | | | | |
| Korea 5Y CDS | 59 | -1 | 13 | DJIA | 20,404 | -1.20% | -2.40% |
| China 5Y CDS | 89 | 1 | 3 | SPX | 2,338 | -0.66% | -1.49% |
| Malaysia 5Y CDS | 115 | 0 | 8 | MSCI Asiax | 577 | -1.45% | -1.61% |
| Philippines 5Y CDS | 85 | -1 | 0 | HSI | 23,920 | -0.70% | -2.38% |
| Indonesia 5Y CDS | 136 | -1 | 6 | STI | 3,134 | -1.63% | -1.00% |
| Thailand 5Y CDS | 57 | 0 | 2 | KLCI | 1,740 | 0.12% | -0.52% |
| | | | | JCI | 5,606 | -0.39% | 1.19% |

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

| Date | Issuer | Ratings | Size | Tenor | Pricing |
|-----------|---|---------------|-----------|----------|------------|
| 19-Apr-17 | Industrial and Commercial Bank of China Ltd. (Singapore Branch) | "A/NR/NR" | USD550mn | 3-year | 3mL+77bps |
| 19-Apr-17 | Industrial and Commercial Bank of China Ltd. (Singapore Branch) | "A/NR/NR" | USD1.45bn | 5-year | 3mL+95bps |
| 19-Apr-17 | Halcyon Agri Corporation Ltd. | Not Rated | USD150mn | Perp NC2 | 4.5% |
| 19-Apr-17 | Times Property Holdings Ltd. | "B/B2/B+" | USD225mn | 5NC3 | 5.75% |
| 18-Apr-17 | Korea Resources Corporation | "A+/A1/NR" | USD425mn | 5-year | CT5+130bps |
| 18-Apr-17 | Cagamas Global PLC | "NR/A3/NR" | USD350mn | 3-year | CT3+115bps |
| 12-Apr-17 | Oxley MTN Pte Ltd. | Not Rated | USD200mn | 4-year | 6.375% |
| 12-Apr-17 | CCB Life Insurance Company Ltd. | "BBB/Baa3/NR" | USD500mn | 60NC5 | 4.5% |
| 12-Apr-17 | Daiwa Securities Group, Inc. | "A-/Baa1/NR" | USD1bn | 5-year | CT5+130bps |

Source: OCBC, Bloomberg

Credit Headlines:

Keppel REIT (“KREIT”): KREIT reported 1Q2017 results. Property income declined 3.2% y/y to SGD39.9mn, while NPI fell 4.6% y/y to SGD31.4mn. As mentioned previously, the sharp declines were partly driven by the divestment of the 77 King Street office asset in Sydney on 29/01/16. Adjusting for the divestment, property income would have declined 1.6% y/y while NPI would have fallen 3.1% y/y. Like the previous quarter, the declines were largely driven by lower contributions from Bugis Junction Tower (property revenue down 20.2% y/y), which saw occupancy plunge to 93.7% during 4Q2016. Though its occupancy recovered to 95.9% as of end-1Q2017, there is likely some lag effect before the improvements are reflected in the top line. In aggregate, portfolio occupancy has improved q/q to 99.4% (4Q2016: 99.2%) and remains strong when compared to market occupancy (CBRE reported Singapore core CBD office occupancy at 95.6% for 1Q2017). Despite the looming supply of new office assets in the domestic market, KREIT remains well positioned given its low lease expiries of 2.8%, 6.9% and 11.8% (as percentage of NLA) for 2017, 2018 and 2019 respectively. Pressure on rental reversions also look to have moderated to -1% for the quarter (compared to -9% for 2016). That said, we caution that only ~82,700 sqft of leases were committed during the quarter versus ~2.2mn sqft for the whole of 2016. WALE for the portfolio remains healthy at ~6 years while tenant retention for the quarter remains strong at 87%. Aggregate leverage improved slightly q/q to 38.4% (4Q2016: 38.5%), though we note that KREIT raised SGD75mn of bonds early April. Management had indicated that these bonds will be used to refinance existing debt (though KREIT does not have any maturities due in 2017, it does have SGD464mn due in 2018). Reported interest coverage remains stable at 4.6x (4Q2016: 4.7x). Proportion of fixed rate debt remained steady at 75%, with unencumbered assets at 84% of the portfolio. Cost of debt increased slightly to 2.57%. As it stands, KREIT’s aggregate leverage is currently comparable with peers. As such, we will retain our Neutral Issuer Profile on KREIT. (Company, OCBC)

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