

Aug 21, 2017

Credit Headlines (Page 2 onwards): Mapletree Logistics Trust, CWT Ltd, First Real Estate Investment Trust, G8 Education Ltd, EZRA Holdings Ltd

Market Commentary: The SGD swap curve bull-flattened over Friday, with swap rates trading 1-5bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in WINGTA 4.08%-PERPs, and mixed interest seen in SIASP 3.13%'27s, WINGTA 4.35%-PERPs, OLAMSP 5.5%-PERPs, HRAM 3.2%'21s. In the broader dollar space, the spread on JACI IG Corporates rose 1bps to 190bps while the yield on JACI HY Corp fell 1bps to 6.96%. 10y UST yields rose 1bps to 2.19%, as the departure of White House chief strategist Steve Bannon supported risk assets and reversed earlier haven gains.

New Issues: There were no new issuances on 18 August 2017.

Rating Changes: S&P has placed PT Lippo Karawaci Tbk's (Lippo) 'B+' corporate credit rating and senior unsecured rating on CreditWatch with negative implications. The rating action reflect S&P's view that Lippo's interest servicing capacity could reduce due to subdued operating conditions, and that the proposed rights issue at Lippo's healthcare subsidiary PT Siloam International Hospitals Tbk could lead to ownership dilution and limit Lippo's future financial maneuverability. Moody's has downgraded CAR Inc's (CAR) corporate family and senior unsecured ratings to 'Ba3' from 'Ba2' while revising the outlook to stable from negative. The rating action reflects CAR's reduced profitability and moderately high levels of debt leverage, which are unlikely to improve, given the strong competition in China's auto rental industry. The rating action also reflects the company's history of share repurchases, which weakened its financial buffer.

Table 1: Key Financial Indicators

	21-Aug	1W chg (bps)	1M chg (bps)		21-Aug	1W chg	1M chg
iTraxx Asiax IG	83	-3	-1	Brent Crude Spot (\$/bbl)	52.71	3.90%	9.68%
iTraxx SovX APAC	21	-1	1	Gold Spot (\$/oz)	1,286.28	0.32%	2.49%
iTraxx Japan	44	0	5	CRB	177.50	-1.17%	0.47%
iTraxx Australia	77	-2	-2	GSCI	380.68	0.70%	2.56%
CDX NA IG	62	3	5	VIX	14.26	-8.06%	52.35%
CDX NA HY	107	0	-1	CT10 (bp)	2.197%	-2.11	-4.01
iTraxx Eur Main	58	2	7	USD Swap Spread 10Y (bp)	-5	-1	-2
iTraxx Eur XO	251	7	15	USD Swap Spread 30Y (bp)	-34	0	-3
iTraxx Eur Snr Fin	56	2	7	TED Spread (bp)	31	4	6
iTraxx Sovx WE	6	0	2	US Libor-OIS Spread (bp)	16	0	0
iTraxx Sovx CEEMEA	47	-1	-6	Euro Libor-OIS Spread (bp)	3	0	0
					21-Aug	1W chg	1M chg
				AUD/USD	0.793	0.99%	0.18%
				USD/CHF	0.965	0.69%	-2.03%
				EUR/USD	1.176	-0.18%	0.82%
				USD/SGD	1.362	0.03%	0.03%
Korea 5Y CDS	64	-6	7	DJIA	21,675	-0.84%	0.44%
China 5Y CDS	66	-3	-1	SPX	2,426	-0.65%	-1.90%
Malaysia 5Y CDS	78	-3	-6	MSCI Asiax	648	0.37%	-0.44%
Philippines 5Y CDS	68	-3	-4	HSI	27,131	-0.44%	1.59%
Indonesia 5Y CDS	111	-4	-5	STI	3,253	-1.68%	-1.84%
Thailand 5Y CDS	59	-4	-5	KLCI	1,774	0.15%	0.83%
				JCI	5,877	1.93%	1.94%

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

Credit Headlines:

Mapletree Logistics Trust (“MLT”): MLT has announced that it will redeem all the MLT 5.375%-PERP (outstanding amount of SGD350mn) on 19 September 2017. As at 30 June 2017, MLT’s cash balance was SGD95.8mn and short term debt was SGD216.2mn. Aggregate leverage was 39%, which is high among its listed peers though below MAS’s 45% cap. We think it is likelier for MLT to raise equity and/or replacement perpetuals to fund the call on the perpetuals. (Company, OCBC)

CWT Ltd (“CWT”): HNA Group (via its Hong Kong listed-entity) previously announced a pre-conditional offer for CWT in April 2017. The Hong Kong entity, namely HNA Holding Group Co. Limited (“HNA HK”), the listed parent company of the direct offeror has announced that it will be holding a general meeting for shareholders to vote on the CWT deal on 7 September 2017. With this announcement, there is increased certainty of a sale happening and CWT subsumed as a private subsidiary of HNA HK post-transaction. We are maintaining our underweight on the CWTSP ‘19s and the CWTSP ‘20s as we see downside risk on pricing. The CWTSP ‘19s are trading at 99.75 and the CWTSP ‘20s are trading at par. We maintain CWT’s issuer profile at Neutral on the back of its standalone credit profile, though may review this at a later stage. (Company, OCBC)

First Real Estate Investment Trust (“FIRT”): On 18/08/2017, S&P had put its B+ rating on PT Lippo Karawaci Tbk (“LK”) on CreditWatch Negative, indicating that there is a 50% likelihood of a one-notch downgrade within the next three months. FIRT is Sponsored by Lippo Kavaraci (“LK”), where LK and its subsidiaries contributed some 82.3% of rental income to FIRT in FY2016. FIRT’s hospitals are leased by LK under Master Lessee agreements and sub-leased to PT Siloam International Hospital (“Siloam”), a hospital operator listed on the Jakarta Stock Exchange and 62%-owned by LK. As Siloam is still on a high growth phase, we think LK is subsidizing rents on properties that are still in gestation phase. Our neutral issuer profile on FIRT had been premised on FIRT’s strategic importance being the main hospital owner within the LK group and manageable credit metrics. Aggregate leverage was 31% (as at 30 June 2017) and EBITDA/Interest coverage manageable at 5.7x. Nonetheless, Siloam has announced a proposed rights in July 2017, reportedly up to 25% of paid up capital. It is still unknown if LK would subscribe to the rights issue. Assuming a downside case of 25%-dilution, LK’s stake in Siloam would fall to only 46.5%, weakening the link between LK and Siloam and reducing the economic rationale for LK shareholders to continue subsidising Siloam’s rental payments to FIRT. Prior to Siloam’s listing in September 2014, LK owned ~100% of Siloam. We are maintaining FIRT’s neutral issuer profile for now and maintaining our Underweight on the FIRTSP 4.125% ‘18s and neutral the FIRTSP 5.68%-PERP. We do not cover LK and Siloam. (Company, Kontan, OCBC).

G8 Education Ltd (“G8”): G8 reported 1H2017 results. Revenue increased 2.9% y/y to AUD368.3mn, with net profit increasing 22.6% y/y to AUD30.5mn. The revenue growth was mainly due to acquisitions made in 2016 (AUD17.5mn) and 1H2017 (AUD3mn), though there was a revenue reduction in like-for-like (“LFL”) centres of AUD10.3mn as the fee increases were being more than offset by lower occupancy, increased discounts and reduced Long Day Care Professional Development Programme (“LDCPDP”) funding. The surge in net profits is mainly due to a reduction in finance costs by 38% y/y to AUD16.2mn. G8 has also repaid AUD70mn of 7.65% fixed rate AUD notes since June 2017, which will save AUD5.4mn on an annualised basis. While occupancy weakened at LFL centres by 3.4pp y/y to 77.2%, we are not overly worried as G8 continues to grow its underlying EBIT, which improved 6.3% y/y to AUD61.1mn (or up 19.2% y/y without the impact from the reduction in LDCPDP funding). The EBIT growth is due to reduction in wage expense of 4.9% to AUD196.6mn and acquisitions from 2016, as well as a reduction in other expenses (e.g. childcare cost control, savings in repairs and maintenance) of 11.9% y/y to AUD34.3mn. Going forward, we may continue to see EBIT growth, with G8 guiding mid-AUD170mn for the full year in FY2017 (FY2016: AUD160.7mn). We think revenues will grow as G8 has implemented a 4% average fee increase in mid-July, while 8 acquisitions are forecasted to be completed in 2H2017 (7 centres in Australia and 1 in Singapore were acquired in 1H2017), with the earnings contributions from the centres acquired in 2017 to be ~AUD3mn. G8 has also divested 17 centres for a loss on disposal of AUD0.7mn, which had a combined EBIT loss of AUD350k p.a. Reported net debt/EBITDA improved to 1.2x (FY16: 2.2x) mainly due to the AUD195mn equity raising (AUD100mn from institutional placement, AUD95mn from private placement to CFCG Investment Partners Investment Partners). Liquidity is also improved with the establishment of AUD200mn club bank facility and a bank guarantee facility of AUD45mn. We understand that the company’s target net debt/EBITDA is around 1.5x. We continue to hold G8 at a Neutral Issuer Profile. (Company, OCBC)

Credit Headlines (Cont'd):

Ezra Holdings Ltd ("EZRA"): As per Perisai Petroleum Teknologi Bhd's ("PPT") announcement dated 17 Aug 2017, PPT's proposed settlement agreement with EZRA's subsidiary Emas Offshore Ltd ("EMAS") over the put option for 51% of SJR Marine (L) Ltd to EMAS for USD43.0mn has lapsed. As such, the original put option (which was cancelled per the settlement agreement) has now been revived. EMAS is currently seeking legal advice per PPT's announcement. Separately, EZRA has apparently received a time extension of 120 days to 13 Nov 2017 to file its Chapter 11 restructuring plan and 12 Jan 2018 for the solicitation period to vote on the proposed restructuring plan. Note that we ceased our coverage on Ezra in early June (refer to [OCBC Monthly Credit View – 5 Jun 2017](#)) given the restructuring looks to be protracted, and the Monthly Operating Reports lack commentary. (OCBC, Bloomberg, Company)

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