

February 3, 2017

Credit Headlines: City Development Ltd, Sabana Shari'ah Compliant Industrial REIT

Market Commentary: The SGD dollar swap curve traded downwards yesterday, with swap rates trading 2-4bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in GUOLSP 4%'22s, GENSSP 5.13%'49s, OLAMSP 7%'49s, and mixed interest in NAB 4.15%'28s, OCBCSP 3.8%'49s, PILLSP 5.9%'17s. In the broader dollar space, the spread on JACI IG Corporates held steady at 196bps. Likewise, the yield on JACI HY Corporates changed little at 6.86%. 10y UST yields also ended little changed at 2.47%, although it dropped 3.9bps after market-implied odds of a Bank of England (BoE) rate hike faded following its policy meeting and news conference. Treasuries later erased gains after Apple Inc.'s 6-tranche bond issuance.

Credit Headlines:

City Development Ltd ("CDL"): CDL announced that it would be acquiring a freehold site in London, UK. The site is located on the south bank of the River Thames, and is a minute's walk to Battersea Park. The site was purchased for GBP58mn (~SGD103.2mn), to be phased in over 18 months, and has an estimated gross development value of GBP222mn (~SGD395mn), with CDL intending to develop a luxury residential project. In general, we believe the impact of the site acquisition on CDL's balance sheet to be minimal, with CDL's pro-forma net gearing for 3Q2016 increasing from 27% to 28% assuming that the site cost will be funded entirely by cash on the balance sheet. More significantly, the site acquisition highlights CDL's comfort in continuing its investments into the UK property market (after factoring this new acquisition, CDL would have invested GBP510.2mn in aggregate over 10 prime freehold properties in the UK) despite the uncertainties that BREXIT brings. We currently hold CDL at Positive Issuer Profile, reflecting its strong credit profile. Full year 2016 results are expected on 23/02/17. (OCBC, Company)

Table 1: Key Financial Indicators

	3-Feb	1W chg (bps)	1M chg (bps)		3-Feb	1W chg	1M chg
iTraxx Asiax IG	111	1	-8	Brent Crude Spot (\$/bbl)	56.87	2.43%	2.52%
iTraxx SovX APAC	32	--	-3	Gold Spot (\$/oz)	1,215.47	2.04%	4.89%
iTraxx Japan	55	1	-2	CRB	193.52	-0.38%	1.77%
iTraxx Australia	93	0	-8	GSCI	400.35	-0.08%	2.48%
CDX NA IG	66	1	0	VIX	11.93	12.23%	-7.16%
CDX NA HY	106	0	0	CT10 (bp)	2.477%	-0.69	3.30
iTraxx Eur Main	72	2	3	USD Swap Spread 10Y (bp)	-9	0	5
iTraxx Eur XO	297	5	17	USD Swap Spread 30Y (bp)	-42	-2	9
iTraxx Eur Snr Fin	89	2	0	TED Spread (bp)	52	-2	2
iTraxx Sovx WE	23	1	3	US Libor-OIS Spread (bp)	35	0	2
iTraxx Sovx CEEMEA	74	-2	-6	Euro Libor-OIS Spread (bp)	2	0	-1
					3-Feb	1W chg	1M chg
				AUD/USD	0.765	1.34%	6.00%
				USD/CHF	0.992	0.72%	3.55%
				EUR/USD	1.077	0.64%	3.49%
				USD/SGD	1.412	1.39%	2.72%
Korea 5Y CDS	46	0	2	DJIA	19,885	-1.07%	0.02%
China 5Y CDS	110	0	-7	SPX	2,281	-0.69%	1.02%
Malaysia 5Y CDS	129	1	-8	MSCI Asiax	548	-0.04%	5.98%
Philippines 5Y CDS	97	1	-10	HSI	23,145	0.42%	4.49%
Indonesia 5Y CDS	149	2	-8	STI	3,042	-0.33%	4.92%
Thailand 5Y CDS	71	-1	-9	KLCI	1,677	-0.40%	2.55%
				JCI	5,360	0.88%	1.59%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
25-Jan-17	China Water Affairs Group Ltd.	"BB+/Ba1/NR"	USD300mn	5NC3	5.5%
25-Jan-17	Jain International Trading BV	"B+/NR/B+"	USD200mn	5NC3	7.375%
24-Jan-17	Vedanta Resources Plc	"B+/B3/NR"	USD1bn	5.5-year	6.375%
24-Jan-17	Fujian Zhanglong Group Co. Ltd. (re-tap)	"NR/NR/BB+"	USD150mn	3-year	4.8%
23-Jan-17	Industrial Bank of Korea	"AA-/Aa2/AA-"	USD300mn	3-year	CT3+85bps
23-Jan-17	Shui On Development (Holding) Ltd.	"NR/NR/NR"	USD500mn	4-year	5.875%
23-Jan-17	Siam Commercial Bank PCL	"BBB+/Baa1/BBB+"	USD400mn	5.5-year	CT5+150bps
23-Jan-17	Biostime International Holdings Ltd. (retap)	"BB-/Ba3/NR"	USD200mn	5-year	104.50

Source: OCBC, Bloomberg

Credit Headlines (Cont'd):

Sabana Shari'ah Compliant Industrial REIT ("SSREIT"): Vibrant Group Limited ("VIBG") and Sabana Real Estate Investment Management Pte Ltd ("the REIT Manager") announced that they are undertaking a strategic review of SSREIT. The scope of the strategic review includes the current shareholding structure, performance of the REIT Manager as well as SSREIT's strategic direction and business. VIBG and its related parties hold 12% of the REIT and a 51% indirect stake in the REIT Manager. It is also the largest tenant of SSREIT, contributing 17% of net property income and leasing ~15.1% of SSREIT's gross floor area. In end-January, there had been news reports that certain retail investors are trying to coordinate and push for the replacement of SSREIT's REIT Manager. Apart from VIBG and its related parties, Tong Jinquan (an investor in various Singapore REITs and REIT Managers) is a substantial unitholder with about 6.2% in SSREIT. Mr. Tong's stake fell post SSREIT's rights issue indicating that he did not subscribe to SSREIT's December 2016's rights issue. Considerable uncertainty remains on the outcome of SSREIT's strategic review. One possible outcome could entail a sale of VIBG's stake in SSREIT and REIT Manager to other strategic parties (including competing REITs and REIT Managers respectively). Should any change in REIT Manager be done properly in accordance to the Trust Deed, this is unlikely to trigger an Event of Default on the SSREIT '18s and '19s. As a commentary on the 17s (which we do not cover at a bond level), we do not see it being converted into equity at current conversion price of SGD0.86/per unit. The '17s has a change of control should there be a change in ownership and control of the REIT Manager. In so far as competing Industrial REITs are concerned, at the right price and deal structure, an acquisition in itself is not a credit negative and we see strategic benefits of consolidation in the Singapore industrial property sector. We continue to maintain a Negative issuer profile on SSREIT and underweight the '18s and '19s. (Company, OCBC)

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