

Jul 3, 2017

Credit Headlines (Page 2 onwards): Industry Outlook – Singapore Residential Property, Starhill Global REIT, Suntec REIT, BreadTalk Group Ltd, Mapletree Logistics Trust, Soilbuild Business Space REIT

Market Commentary: The SGD swap curve bear-steepened yesterday, with swap rates trading 1-6bps higher across longer tenors, while shorter tenors traded little changed. Flows in SGD corporates were heavy, with better buying seen in HSBC 4.7%-PERPs, STHSP 3.95%-PERPs, LMRTSP 6.6%-PERPs and mixed interest seen in OLAMSP 4.25% '19s and WINGTA 4.08%-PERPs. In the broader dollar space, the spread on JACI IG Corporates fell by 3bps to 190bps while the yield on JACI HY Corporates fell by 2bps to 6.87%. 10y UST yields rose by 3bps to 2.31%, after results from the Chicago PMI and University of Michigan Sentiment exceeded analysts' estimates.

New Issues: Shandong Yuhuang Chemical Co Ltd will hold an investor call on 3 Jul Co. to update the status of the cross-guarantee with Hongye Chemical.

Rating Changes: S&P has affirmed Shanghai Electric Power Co Ltd's (SEP) 'BBB' long-term corporate credit rating with a negative outlook. S&P has also removed all the ratings from CreditWatch, where they were placed with negative implications. The rating action reflects S&P's expectation that SEP's proposed acquisition of a controlling stake in K-Electric Ltd (KE) will be overall credit negative should it move ahead. Furthermore, S&P anticipates that SEP will face difficulties in its domestic operations in the next 12 months due to pressure from high coal costs and slowing capacity addition. S&P has upgraded Seoul Guarantee Insurance Co's (SGIC) issuer ratings to 'A+' from 'A' with a stable outlook. The rating action reflects S&P's expectation that the government would continue to maintain its strong link to SGIC through Korea Deposit Insurance Corp's (KDIC) ownership in SGIC over the next one to two years.

Table 1: Key Financial Indicators

	3-Jul	1W chg (bps)	1M chg (bps)		3-Jul	1W chg	1M chg
iTraxx Asiax IG	87	2	-1	Brent Crude Spot (\$/bbl)	48.84	6.57%	-2.22%
iTraxx SovX APAC	21	2	2	Gold Spot (\$/oz)	1,237.80	-0.56%	-3.28%
iTraxx Japan	40	0	-1	CRB	174.78	4.19%	-1.79%
iTraxx Australia	84	1	-2	GSCI	372.38	4.75%	-0.52%
CDX NA IG	60	1	0	VIX	11.18	11.58%	14.67%
CDX NA HY	107	0	-1	CT10 (bp)	2.321%	18.44	16.23
iTraxx Eur Main	56	3	-6	USD Swap Spread 10Y (bp)	-2	0	3
iTraxx Eur XO	247	15	-2	USD Swap Spread 30Y (bp)	-30	2	14
iTraxx Eur Snr Fin	53	2	-18	TED Spread (bp)	29	-6	2
iTraxx Sovx WE	7	0	-2	US Libor-OIS Spread (bp)	14	0	3
iTraxx Sovx CEEMEA	55	3	12	Euro Libor-OIS Spread (bp)	3	0	1
					3-Jul	1W chg	1M chg
				AUD/USD	0.767	1.15%	2.47%
				USD/CHF	0.960	1.30%	0.53%
				EUR/USD	1.141	2.00%	1.35%
				USD/SGD	1.378	0.73%	0.26%
Korea 5Y CDS	53	1	-2	DJIA	21,350	-0.21%	0.68%
China 5Y CDS	69	3	-5	SPX	2,423	-0.61%	-0.64%
Malaysia 5Y CDS	85	2	-10	MSCI Asiax	625	-0.93%	0.14%
Philippines 5Y CDS	77	1	0	HSI	25,794	-0.30%	-0.50%
Indonesia 5Y CDS	117	4	-3	STI	3,232	0.71%	-0.24%
Thailand 5Y CDS	63	2	6	KLCI	1,761	-0.93%	-0.90%
				JCI	5,864	2.45%	2.32%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
29-Jun-17	SGSP (Australia) Assets Pty Limited	'A-/A3/NR'	USD500mn	10-year	CT10+132bps
29-Jun-17	Modern Land (China) Co., Ltd	Not Rated	USD130mn	1-year	6.5%
28-Jun-17	Baidu, Inc.	'NR/A3/A'	USD900mn	5-year	CT5+118bps
28-Jun-17	Baidu, Inc.	'NR/A3/A'	USD600mn	10-year	CT10+145bps
28-Jun-17	CSCEC Finance (Cayman) II Ltd	'A/A2/A'	USD500mn	5-year	CT5+112.5bps
28-Jun-17	CSCEC Finance (Cayman) II Ltd	'A/A2/A'	USD500mn	10-year	CT10+135bps
28-Jun-17	Fantasia Holdings Group Co	'B/B3/NR'	USD300mn	5NC3	8.0%
27-Jun-17	FH REIT Treasury Pte Ltd	Not Rated	SGD120mn	5-year	2.63%

Source: OCBC, Bloomberg

Rating Changes (Cont'd): S&P has revised its rating outlook on Red Star Macalline Group Corp. Ltd. (RSM) to negative from stable, while affirming RSM's 'BBB' corporate credit rating. The rating action reflects S&P's expectation that RSM will keep its debt high to support growth opportunities in its real estate development business and the incremental cash flow from the real estate development projects is insufficient to offset the rising financial risk from its sizable increase in leverage. Moody's has downgraded Suntec Real Estate Investment Trust's (Suntec REIT) issuer rating to 'Baa3' from 'Baa2' with a stable outlook. In addition, Moody's has downgraded the backed senior unsecured ratings on the notes issued under the program (established by Suntec REIT MTN Pte Ltd, a wholly-owned subsidiary of Suntec REIT) to 'Baa3' from 'Baa2'. The rating action reflects Moody's view that Suntec REIT's weakened financial profile will not materially improve over the next 18-24 months.

Credit Headlines:

Industry Outlook – Singapore Residential Property: URA flash estimates show that 2Q2017 private residential property price index continued to decline by 0.3% q/q. This marks the 15th consecutive decline in the Singapore property market. However, we note that the pace of decline has been slowing (1Q17: -0.4% q/q, 4Q16: -0.5% q/q), with the rest of central region registering further gains of 0.5% q/q (1Q17: +0.3% q/q), while other categories dipped lower. The slowing deterioration, coupled with the declining inventory levels held by developers, we continue to hold the view that we no longer expect property prices to continue dipping (Refer [OCBC Asia Credit – Singapore Property Sector Update – 030517](#)). (URA, OCBC)

Starhill Global REIT ("SGREIT"): SGREIT has announced that it had entered into a new AUD145mn 4-year secured term loan facility with National Australia Bank Limited. The facility will be used to refinance an existing 3-year facility with the same bank at the same amount maturing May 2018 (the facility was used for SGREIT's acquisition of Myer Centre Adelaide in 2015). The new facility is expected to be drawn in November 2017, which would extend the AUD145mn maturity to November 2021, as well as extend SGREIT's average debt maturity from 2.8 years to 3.3 years. Currently, SGREIT has no further maturities for 4QFY2017 (ending June 2017), and has the AUD145mn original facility and a SGD250mn term loan due for FY2018. FY2018 is actually the peak year for maturity for SGREIT, hence the early refinancing of the AUD145mn facility helps improve SGREIT's maturity profile. SGREIT is currently rated at Neutral Issuer Profile (Company, OCBC).

Suntec REIT ("SUN"): As mentioned earlier, SUN was downgraded by Moody's from Baa2 to Baa3, outlook stable. Key reason given by Moody's was net debt / EBITDA kept at 11 - 12x, as well as the expected acquisition of the balance 25% of Southgate. The rating action was based on 1Q2017 results. It should be noted that 2Q2017 results should be out in the near future, and we expect the results to reflect SUN's lower leverage due to the conversion of ~SGD165mn worth of convertible bonds into equity. The debt-to-equity conversion would bring aggregate leverage lower to an estimated 36%. For now, we will retain our Neutral Issuer Profile on SUN. It is worth noting that SUN had announced ceasing to engage Moody's services as of end-March 2017 (though Moody's can choose to continue to rate SUN). (Company, Moody's, OCBC)

BreadTalk Group Ltd ("BGL"): BGL has entered into a 90-10 JV with Song Fa Holdings Pte Ltd ("Song Fa") with a master franchise to develop and operate Song Fa Bak Kut Teh restaurants in China and Thailand. The first restaurant under the JV will open in Shanghai in 4Q2017. In 2018, two restaurants will be opened in Thailand and three restaurants will be opened in Beijing, Shenzhen and Guangzhou. According to BGL, the investment is not expected to have material impact on the earnings and net tangible assets in FY2017. (Company)

Credit Headlines (Cont'd):

Mapletree Logistics Trust ("MLT"): MLT announced that it has entered into an agreement to sell Zama Centre and Shiroishi Centre in Japan to a third party. The sale consideration is JPY13.5bn (~SGD165.4mn). As at 31 March 2017, the buildings were independently valued at JPY10.2bn (~SGD125mn), in aggregate. Net proceeds from the transaction is expected to be JPY12.5bn (~SGD153.7mn), after taxes and fees. A minimal sum of SGD2.9mn will be distributed to unitholders and the rest will go towards funding committed investments, reducing existing debt and for other purposes. Post MLT's refinancing in April 2017, we estimate that the REIT faces short term debt of SGD109mn against cash balance of SGD92.6mn. We think bulk of the net proceeds (up to SGD90mn) will go towards funding on-going redevelopment in Singapore and China. Our base case remains that MLT will call on its perpetuals (call date 19 September 2017), the MLTSP 5.375%49c17 as the coupon will reset at SDSW5+418bps. We estimate that SGD300mn still needs to be raised to fund the possible call, assuming successful completion of the divestment and cash set aside for repayment remaining short term debt and redevelopment. As at 31 March 2017, adjusted aggregate leverage (based on 50% equity contribution from perpetual securities) was high at 44% vis-à-vis peers, though we see MLT's financial flexibility as considerable. All assets are unsecured and the market of its listed equities remains conducive. We are reviewing the issuer profile of MLT. (Company, OCBC)

Soilbuild Business Space REIT ("SBREIT"): SBREIT has entered into a SGD200mn unsecured facility agreement with a bank. The facility (yet to be drawn down) has a term of three years and bears an interest rate equal to a margin over the 1-month or 3-month SGD Swap Offer Rate. The purpose of the facility is for the refinancing of existing borrowings and the facilities is expected to reduce borrowing costs. The next major refinancing is due in May 2018 (the SBREIT 3.45%'18s) and SGD55mn in interest free loan from Sponsor (due August 2018). (Company, OCBC).

Andrew Wong

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Ezien Hoo, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com

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