# Asian Credit Daily

**Aug 8, 2017**

**Credit Headlines (Page 2 onwards):** ESR-REIT and Sabana Shari'ah Compliant Industrial REIT, Heeton Holdings Ltd, Frasers Centrepoint Limited

**Market Commentary:** The SGD swap curve bear-steepened yesterday, with swap rates trading 1-4bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in HSBC 4.7%-PERPs, BTHSP 4.85%'20s. In the broader dollar space, the spread on JACI IG Corporates fell 1bps to 186bps while the yield on JACI HY Corp traded little changed at 6.99%. 10y UST yields fell 1bps to 2.25% as treasuries experienced light trading volumes while there was heavy issuance in the US IG space.

**New Issues:** Agile Group Holdings Ltd has priced a USD200mn 5NC3 bond (guaranteed by certain restricted subsidiaries incorporated outside of the PRC) at 5.125%, tightening from initial guidance of 5.75% area. The expected issue ratings are 'B+/B1/NR'. The Export-Import Bank of India has priced a USD400mn 5-year bond at 3mL+100bps, tightening from initial guidance of 3mL+115bps. The expected issue ratings are 'NR/Baa3/BBB-'.

**Rating Changes:** S&P has upgraded PT Gajah Tunggal Tbk's (Gajah Tunggal) corporate credit rating and ratings on its senior secured debts to 'B-' from 'CCC'. The outlook is stable. S&P has also removed the ratings from CreditWatch where they were placed with developing implications. The rating action follows Gajah Tunggal's new senior secured notes issuance that provides the company with enough funds to repay USD500mn in notes due February 2018. The rating action also reflects Gajah Tunggal's modest size, margin sensitivity to raw material prices and currency fluctuations, as well as its thin cash flow adequacy ratios. S&P has affirmed Jardine Strategic Holdings Ltd's (Jardine Strategic) 'A' corporate credit rating while revising the outlook to positive from stable. The rating action reflects Jardine Strategic's highly stable earnings and S&P's expectation that Jardine will continue to be disciplined with its investments and capital spending.

**Table 1: Key Financial Indicators**

| | 8-Aug | 1W chg (bps) | 1M chg (bps) | | 8-Aug | 1W chg | 1M chg |
|---|---|---|---|---|---|---|---|
| iTraxx Asiax IG | 80 | -1 | -8 | Brent Crude Spot ($/bbl) | 52.18 | 0.77% | 11.71% |
| iTraxx SovX APAC | 19 | 1 | -3 | Gold Spot ($/oz) | 1,260.18 | -0.68% | 3.77% |
| iTraxx Japan | 41 | 0 | -1 | CRB | 180.97 | -0.92% | 4.87% |
| iTraxx Australia | 75 | -1 | -10 | GSCI | 384.80 | 0.48% | 5.28% |
| CDX NA IG | 58 | 2 | -4 | VIX | 9.93 | -3.22% | -11.26% |
| CDX NA HY | 108 | 0 | 1 | CT10 (bp) | 2.258% | 0.52 | -12.72 |
| iTraxx Eur Main | 52 | 0 | -4 | USD Swap Spread 10Y (bp) | -4 | 0 | 0 |
| iTraxx Eur XO | 232 | -3 | -22 | USD Swap Spread 30Y (bp) | -33 | 2 | 1 |
| iTraxx Eur Snr Fin | 51 | 1 | -2 | TED Spread (bp) | 28 | 4 | 0 |
| iTraxx Sovx WE | 5 | 0 | -1 | US Libor-OIS Spread (bp) | 15 | 0 | 1 |
| iTraxx Sovx CEEMEA | 41 | -4 | -18 | Euro Libor-OIS Spread (bp) | 3 | 0 | 0 |
| | | | | | 8-Aug | 1W chg | 1M chg |
| | | | | AUD/USD | 0.792 | -0.63% | 4.12% |
| | | | | USD/CHF | 0.973 | -0.76% | -0.76% |
| | | | | EUR/USD | 1.181 | 0.08% | 3.62% |
| | | | | USD/SGD | 1.361 | -0.24% | 1.73% |
| Korea 5Y CDS | 57 | 0 | -2 | DJIA | 22,118 | 1.04% | 3.29% |
| China 5Y CDS | 63 | 1 | -6 | SPX | 2,481 | 0.43% | 2.30% |
| Malaysia 5Y CDS | 79 | 0 | -7 | MSCI Asiax | 660 | 0.34% | 6.43% |
| Philippines 5Y CDS | 69 | 0 | -8 | HSI | 27,723 | 0.66% | 9.40% |
| Indonesia 5Y CDS | 109 | -1 | -11 | STI | 3,312 | -0.79% | 2.57% |
| Thailand 5Y CDS | 59 | -1 | -4 | KLCI | 1,777 | 0.67% | 0.97% |
| | | | | JCI | 5,774 | -0.54% | -0.71% |

*Source: OCBC, Bloomberg*

**Table 2: Recent Asian New Issues**

| Date | Issuer | Ratings | Size | Tenor | Pricing |
|---|---|---|---|---|---|
| 7-Aug-17 | Agile Group Holdings Ltd | 'B+/B1/NR' | USD200mn | 5NC3 | 5.125% |
| 7-Aug-17 | Export-Import Bank of India | 'NR/Baa3/BBB-' | USD400mn | 5-year | 3mL+100bps |
| 3-Aug-17 | Vedanta Resources Plc | 'B+/B3/NR' | USD1bn | 7NC4 | 6.125% |
| 3-Aug-17 | PT Gajah Tunggal Tbk | 'B-/Caa1/NR' | USD250mn | 5NC3 | 8.375% |
| 3-Aug-17 | Canara Bank | 'NR/Baa3/BBB-' | USD400mn | 5-year | CT5+150bps |
| 3-Aug-17 | eHi Car Services Ltd | 'BB-/NR/BB-' | USD400mn | 5NC3 | 5.875% |
| 2-Aug-17 | Ascendas REIT | 'NR/A3/A3' | SGD200mn | 6-year | 2.47% |
| 2-Aug-17 | Sunac China Holdings Ltd | 'B/B3/BB-' | USD400mn | 3-year | 7.25% |

*Source: OCBC, Bloomberg*

**Rating Changes (cont'd):** Fitch has affirmed Korea Water Resources Corporation's (K-water) Issuer Default Rating (IDR) and senior unsecured rating at 'AA-'. The outlook on the IDR is stable. K-water's rating is equal to that of Korea, given its status as the state-owned entity solely responsible for many water-related operations in Korea. Fitch then withdrew the ratings of K-water for commercial reasons. Fitch has affirmed SK Innovation Co Ltd's (SKI) Issuer Default Rating (IDR) and senior unsecured rating at 'BBB'. The outlook on the IDR is stable. The rating action reflects SKI's integrated operations, but is constrained by its high dependence on the volatile refining and petrochemical industry.

**Credit Headlines:**

**ESR-REIT ("EREIT") and Sabana Shari'ah Compliant Industrial REIT ("SSREIT"):** Following news reports yesterday that Warburg Pincus-backed e-Shang Redwood ("ESR", Sponsor of EREIT) is in advanced talks to buy SSREIT, both EREIT and SSREIT have issued clarification statements overnight. SSREIT clarified that it is in discussions with EREIT's REIT Manager ("EREITM") to explore options in connection with its strategic review though no legally binding agreement has been entered into. In EREIT's announcement, it clarified that EREITM had been approached by SSREIT to explore options in connection with SSREIT's strategic review though there is no certainty that any agreement will materialise. Admittedly, we had turned bearish over the prospect of a merger between EREIT and SSREIT on expectations that EREIT would be focusing on regional expansion instead of doubling down on Singapore. Factoring in the updated information that the two parties have indeed been in talks, we are still keeping EREIT's issuer profile at Neutral and neutral the bonds. We are also maintaining SSREIT's issuer profile at Negative on account of its weaker coverage ratio versus peers and neutral the SSREIT'18s and SSREIT'19s. Assuming a merger were to happen between the two industrial REITs, we do not think that EREIT would be geared up significantly. MAS imposes a 45% aggregate leverage cap for REITs and EREIT has set an internal targeted leverage of between 30-40% (30 June 2017: 37.9%). A deal, if it were to happen is likely to involve a change in ownership at SSREIT's REIT Manager ("SSREITM") and/or predominantly be in the form of shares as consideration, in our view. (Company, OCBC)

**Heeton Holdings Ltd ("HHL"):** HHL reported 2Q2017 results. Revenue increased 35.3% y/y to SGD18.9mn due to higher sales from Onze@Tanjong Pagar. However, without fair value gains from investment properties (Tampines Mart, Woodgrove) of SGD7.8mn, profits before tax declined 18% y/y to SGD3.8mn. This was mainly due to profit from operations which declined by 16.4% y/y to SGD2.0mn as cost of properties sold related to Onze@Tanjong Pagar increased 91.1% y/y to SGD10.9mn. Meanwhile, share of results from associates/JVs declined 8.1% y/y to SGD4.1mn due to a decrease in progressive profit recognition from completed residential projects (NEWest, KAP and KAP Residences). During the quarter, HHL also spent SGD3.6mn to acquire investment properties at Parr Street, London, UK. Nevertheless, we think that the results reflects an overall credit positive picture as net gearing improved to 0.70x (1Q17: 0.74x) mainly due to reduction in net debt with monetization of Onze@Tanjong Pagar. Going forward, HHL has also launched the 60%-owned Luma Concept London Hotel with 89 rooms in the UK, which may bring in more revenues. We do not currently cover HHL. (Company, OCBC)

**Credit Headlines (Cont'd):**

**Frasers Centrepoint Limited ("FCL"):** FCL reported 3QFY2017 results (ending-June 2017), with total sales jumping 105.1% y/y to SGD1.4bn. This was driven by a surge in revenue contribution by the Australia SBU and International segment, mitigating softness in the Singapore SBU. Specifically, the Singapore SBU reported SGD243.1mn in revenue (-9.2% y/y) with Singapore development properties revenue and PBIT declining 17% y/y and 53% y/y to SGD137mn and SGD17mn respectively. On a q/q basis though, performance improved 38.7% with Singapore development revenue doubling, driven by revenue recognition from North Park Residences as construction progressed (85% sold, 50% completed, targeted for 4QFY2018 completion). FCL's Singapore residential pipeline remains quite bare though, with only ~SGD0.5bn in unrecognized development revenue (this excludes JV contribution). The only future drivers of Singapore development revenue are: Parc Life (EC), completing in 2QFY2018 and North Park Residences completing in 4QFY2018. We note that FCL is now becoming more active in replenishing its land bank, having participated in recent government land sales. FCL was actually the 2nd highest bidder for a plot at Serangoon North Avenue 1, with the winning consortium of Keppel Land / Wing Tai paying 6.6% higher. Looking forward, we expect future land purchases to consume capital (and potentially worsen its credit profile) but necessary to sustain FCL's domestic development revenue. Revenue and PBIT for the Singapore Commercial Properties (largely recurring in nature) increased 4% y/y and 7% y/y respectively to SGD106mn and SGD76mn, benefitting from higher contributions from The Centrepoint (post AEI). Future performance could be supported by the completion of Northpoint City (retail) (soft opening in 4Q2017) as well as Frasers Tower in 1H2018 (currently 50% complete and on track). The Australia SBU reported SGD682.5mn in revenue, surging 274% y/y, while PBIT jumped to SGD161mn (3QFY2016: SGD29mn) driven by the sale and settlement of two student accommodations components at Central Park, Sydney and higher levels of residential settlements during the period. SBU near-term performance looks supported, with SGD2.3bn in unrecognized revenue while the development pipeline stood at SGD7.2bn (across 15,650 units in pipeline assets), with 1,300 units to be released for 4QFY2017 (management indicated ~200 units in sales per month). The risk is that settlement periods have been extending though defaults remain low. Comparatively, performance of its Australian commercial properties (both held directly and via Frasers Logistics Trust ("FLT") has been flattish y/y. Commercial & Industrial pipeline stood at SGD1.5bn. The Hospitality SBU saw revenue and PBIT increase 3% y/y and 16% y/y to SGD200mn and SGD32mn respectively. As mentioned previously, performance benefitted from acquisitions (in Melbourne and Dresden) by Frasers Hospitality Trust. FCL's directly held hospitality assets (majority UK based such as the MHDV Group) have remained soft. As for the International segment, after a soft 2QFY2017, segment revenue and PBIT both surged to SGD273.4mn and SGD87.1mn respectively (3QFY2016: SGD37.8mn and SGD20.9mn), largely due to lumpiness from residential development recognition (specifically the Vauxhall Sky Gardens, UK, 100% sold 237 units were completed and recognized during the quarter). In aggregate, FCL's PBIT jumped 113.8% y/y to SGD356.6mn due to the strong performance at the Australia SBU and International. Operating cash flow (including interest service) was healthy at SGD608.9mn for the quarter, with FCL monetizing development assets. Cash out flow was largely SGD191.5mn in acquisition / development on investment properties (such as Northpoint City) and capex. FCL also paid down ~SGD96mn in borrowings (part of bank borrowings refinanced by SGD302mn in bonds issued during the period). In aggregate, FCL was able to add SGD109.4mn to its cash balance despite paying down debt. Capital markets remain open for FCL with SGD102mn in retap of the FCLSP'27s done during the quarter (with the balance done at the REITS' level). Net gearing remained largely stable q/q at 73% (2QFY2017: 74%). Cash / current borrowings stands at 0.8x. The stronger EBITDA generation helped improve EBITDA / Interest cover to 7.7x (2QFY2017: 5.0x). Looking forward, we expect development income to keep FCL's performance volatile, though its investment properties (~70% of FCL's SGD24.7bn in assets generate recurring PBIT) would help provide recurring cash flow. Though we believe that FCL would continue to pursue both organic and inorganic growth, we don't expect sharp deterioration to its credit profile from current levels. FCL is also supported by SGD0.8bn and SGD2.3bn in unrecognized revenue in Singapore and Australia respectively, as well as its sizable recurring income stream (55% of 9MFY2017 PBIT was reported to be recurring). We will retain our Neutral Issuer Profile. (Company, OCBC)

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