

Oct 1, 2018

**Credit Headlines:** CapitaLand Mall Trust, Aspial Corp Ltd, Mapletree Logistics Trust, Sembcorp Industries Ltd, Keppel Corp Ltd, Keppel Real Estate Investment Trust, Ascendas Real Estate Investment Trust

## **Market Commentary**

- The SGD swap curve traded little changed last Friday, with swap rates trading within 1bps across most tenors (with the exception of the 12-year and 15-year swap rates trading 1-2bps lower).
- Flows in SGD corporates were heavy last Friday, with better buying seen in HSBC 5.0%-PERPs, SRBJNG 4.11%'25s, DBSSP 3.98%-PERPs, CMZB 4.2%'28s, OUESP 3.55%'23s, HSBC 4.7%-PERPs, OCBCSP 4.0%-PERPs, DBSSP 4.7%-PERPs and better selling seen in UOBSP 3.5%'29s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 138bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 466bps.
- 10Y UST yields fell 2bps to 3.02% in the earlier part of the trading session as the USD15.3 trillion bond sector recorded its worst month since January due to rising interest rates and government debt supply. Yields subsequently rose 4bps to close at 3.06% on the back of safe haven demand due to concerns over the Italy's proposed 2019 budget which envisaged a large deficit and investors rebalancing their month end portfolios.

## **Credit Headlines:**

### **CapitaLand Mall Trust ("CMT") | Issuer Profile: Positive (2)**

- Funan, closed on 1<sup>st</sup> July 2016 for redevelopment, is slated to open its retail and office (two Grade A office blocks) components a quarter earlier in 2Q 2019. Lyf Funan Singapore, a coliving serviced residence component within Funan, will open in 4Q 2019 instead of 2020.
- Funan will be Singapore's first shopping mall to integrate online, offline, data and logistics to empower retailers' omnichannel strategy and transform the customer experience.
- To date, 72% of the overall construction has already been completed and leasing for Funan's retail and office components has reached 70% and 60% respectively.
- It is worth noting that the underpass connecting Funan and City Hall MRT station is targeted for completion in 2021. (Company, OCBC)

### **Aspial Corp Ltd ("Aspial") | Issuer Profile: Negative (6)**

- Aspial announced the results following the [invitation for bondholders of ASPSP '18s and ASPSP '19s to tender](#).
- For ASPSP '18s, holders of SGD9.25mn have tendered for cash and another SGD3.75mn opted to exchange to ASPSP 6.25% '21s. As such, the outstanding amount of ASPSP '18s should fall to SGD61mn (from SGD74mn).
- For ASPSP '19s, holders of SGD51mn opted to tender for cash though the amount tendered will be capped at SGD15mn. Holders of another SGD25.5mn opted to exchange to ASPSP 6.25% '21s. As such, the outstanding amount of ASPSP '19s should fall to SGD83mn (from SGD123.5mn). (Company, OCBC)

## **Credit Headlines (cont'd):**

### **Mapletree Logistics Trust (“MLT”): | Issuer Profile: Neutral (4) and CWT International Ltd (“CWTI”) | Issuer Profile: Negative (6)**

- MLT has completed the purchase of five logistics properties located in Singapore for a total acquisition cost based on its final funding structure of SGD804.2mn. This is inclusive of purchase consideration of SGD730mn, upfront land premium of SGD45.9mn paid to JTC Corporation on the balance lease terms, transaction fees and stamp duties.
- MLT raised SGD375mn in gross proceeds from its September equity private placement where ~87% was used to help fund the purchase consideration. The remaining ~13% was used to partly fund the upfront land premium, transaction fees and stamp duties.
- The properties were purchased from CWT Pte Ltd and its subsidiaries (“CWT SG”). CWT SG is in turned owned by CWTI. We expect ~SGD541mn of the net consideration received to be used for repayment of CWTI's group financing.
- Earlier in September 2018, owners of CWT SG were [reportedly exploring a sale of the company](#) though as yet there had been no new updates. We will continue to monitor the situation. (Company, OCBC)

### **Sembcorp Industries Ltd (“SCI”): | Issuer Profile: Neutral (4)**

- SCI has announced that one of its majority-owned joint venture wastewater treatment business has been served with a further claim alleging an environmental offence for the discharge of off-specification wastewater.
- In 2017, SCI took a SGD25.4mn provision for potential fines in relation to this matter. The provision in part led SCI to report exceptional losses of SGD120.8mn in 2017 (net profit before exceptional items: SGD260.8mn).
- SCI announced that the joint venture is seeking legal advice and its proportionate share of the total potential fines and claims relating to the matter could amount up to SGD100mn. While the legal outcome is still uncertain, this provision will weigh on SCI's reported net profit. In the downside case where SCI needs to pay out the amount, cash flow from operations would also be negatively affected. We see this as a credit negative event for SCI and will review its issuer profile in conjunction with SCI's upcoming 3Q2018 results. (Company, OCBC)

### **Keppel Corp Ltd (“KEP”): | Issuer Profile: Neutral (3)**

- Keppel Land Limited (“Keppel Land”), a wholly-owned subsidiary of KEP through Keppel Land's 51%-owned subsidiary Keppel Puravankara Development Pte Ltd has entered into agreements to acquire a 3.09 hectare site in Yeshwantpur, Bangalore. The other 49%-stake is owned by Puravankara Ltd, an India-based property developer (market cap of ~SGD285.5mn as at 1 October 2018).
- The commercial site is targeted to be developed into a Grade A office-cum-retail facility with a total development cost (including land cost) of ~SGD207.4mn. Colliers International, a property brokerage & consultancy, expects Grade A office vacancy rates in Bangalore to remain low at 6-9% in 2018 to 2020. While KEP is exposed to the Indian residential market, this is the company's first commercial development in the country. In view of the small scale of the transaction, we see this as a credit neutral event. (Company, OCBC)

## Credit Headlines (cont'd):

### **Keppel Real Estate Investment Trust ("KREIT") | Issuer Profile: Neutral (4)**

- KREIT has announced that Mr Paul Tham, 36 will succeed Mr Tan Swee Yiow as the CEO of Keppel REIT with effect from 1 January 2019. Mr Tham has been with Keppel Group since 2014 and the CFO of Keppel Capital since 2016. He was appointed Deputy CEO of KREIT on 1 February 2018. (Company)

### **Ascendas Real Estate Investment Trust ("AREIT"): | Issuer Profile: Neutral (3)**

- AREIT is proposing to acquire 26 logistics properties in the UK for a total acquisition cost of GBP260.05mn (~SGD463.8mn), comprising GBP253.25mn (~SGD451.67mn) in purchase consideration, with the remaining in transaction fees and insurance premiums.
- In August 2018, AREIT completed its maiden acquisition of a portfolio of [12 logistics properties in the UK](#) for ~SGD369.1mn. This new proposed acquisition is a continuation of AREIT's strategy to expand into the UK logistics market. Since 2015, AREIT had been diversifying away from Singapore, with its first overseas acquisition in Australia.
- Inclusive of rental guarantees provided by vendor, initial post-cost net property income ("NPI") yield with rental support is expected to be 5.39%. In contrast, our estimated last twelve months NPI yield was 6.1% for AREIT though it is worth noting that 25 of the UK properties purchased is on freehold land. The UK portfolio's physical occupancy is 92.4%. Four out of the 26 properties are unoccupied and in our view the rental guarantees may have been provided as a stop-gap measure to smooth out rental income on these.
- Post-acquisition, logistics and distribution centres in the UK will make up 8% of AREIT's portfolio value. Funding of the proposed acquisition is expected to come from GBP local debt and proceeds from an [equity private placement](#) in September 2018.
- Aggregate leverage is expected to decline to 36.7% from 38.0% (before the equity private placement) and 1% higher than the 35.7% as at 30 June 2018. We maintain AREIT's issuer profile at Neutral (3). (Company, OCBC)

**Table 1: Key Financial Indicators**

	1-Oct	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	80	-2	-3
iTraxx SovX APAC	9	-1	-2
iTraxx Japan	56	-1	1
iTraxx Australia	75	0	1
CDX NA IG	60	-3	-1
CDX NA HY	107	0	0
iTraxx Eur Main	68	-1	0
iTraxx Eur XO	273	3	-25
iTraxx Eur Snr Fin	84	3	0
iTraxx Sovx WE	24	1	-4
AUD/USD	0.722	-0.39%	0.14%
EUR/USD	1.161	-1.18%	-0.09%
USD/SGD	1.367	-0.11%	0.33%
China 5Y CDS	56	-2	-4
Malaysia 5Y CDS	94	-2	-1
Indonesia 5Y CDS	130	-4	0
Thailand 5Y CDS	40	-1	-2

	1-Oct	1W chg	1M chg
Brent Crude Spot (\$/bbl)	83.03	2.25%	7.25%
Gold Spot (\$/oz)	1,191.06	-0.66%	-0.85%
CRB	195.16	0.61%	1.14%
GSCI	486.28	2.63%	3.75%
VIX	12.12	3.77%	-5.75%
CT10 (bp)	3.067%	-2.21	20.64
USD Swap Spread 10Y (bp)	6	0	-1
USD Swap Spread 30Y (bp)	-7	0	-1
TED Spread (bp)	20	-1	-1
US Libor-OIS Spread (bp)	18	0	-3
Euro Libor-OIS Spread (bp)	3	0	-1
DJIA	26,458	-1.07%	1.90%
SPX	2,914	-0.54%	0.43%
MSCI Asiax	655	0.47%	-1.61%
HSI	27,789	1.13%	-0.36%
STI	3,257	1.22%	1.36%
KLCI	1,793	-0.97%	-1.46%
JCI	5,977	0.32%	-0.70%

## New issues

- There were no new issuances over 28 Sept 2018.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
27-Sept-18	The Independent State of Papua New Guinea	USD500mn	10-year	8.375%
26-Sept-18	CIFIC Holdings (Group) Co Ltd	USD300mn	CIFIHG 5.5%'22s	8.625% + accrued interest
26-Sept-18	Surbana Jurong Pte Ltd	SGD350mn	7-year	4.11%
24-Sept-18	CFLD (Cayman) Investment Ltd	USD100mn	CHFOTN 9.0%'21s	8.991% + accrued interest
21-Sept-18	Lum Chang Holdings Limited	SGD40mn	3-year	5.8%
20-Sept-18	Soilbuild Business Space REIT	SGD65mn	Perp NC3	6.0%
19-Sept-18	ICICI Bank UK PLC	SGD100mn	10-year	5.375%
19-Sept-18	BOC Aviation Ltd	USD500mn	5-year	3mL+112.5bps
19-Sept-18	Country Garden Holdings Company Ltd	USD425mn	3-year	7.125%
19-Sept-18	Country Garden Holdings Company Ltd	USD550mn	5-year	8.0%
19-Sept-18	Zhenro Properties Group Ltd	USD280mn	2.25-year	13.70%
19-Sept-18	Easy Tactic Limited	USD200mn	3-year	8.875%
19-Sept-18	Maoye Intl Holdings	USD150mn	2-year	13.25%
19-Sept-18	Agricultural Development Bank of China	USD700mn	3-year	3mL+62bps
19-Sept-18	Agricultural Development Bank of China	CNH1.2bn	2-year	4.16%

Source: OCBC, Bloomberg

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