

July 11, 2018

**Credit Headlines:** CITIC Envirotech Ltd, GuocoLand Ltd, Frasers Commercial Trust, China Eastern Airlines

## **Market Commentary**

- The SGD swap curve traded little changed yesterday, with swap rates trading within 1bps across most tenors (with the exception of the 12-year swap rates trading 1bps higher).
- Flows in SGD corporates were moderate yesterday, with better buying seen in HSBC 4.7%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 147bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 571bps.
- 10Y UST yields rose 1bps to 2.87% in the earlier part of the trading session, ahead of the additional USD22bn 10-year notes to be sold by the Federal Reserve on Wednesday. However, yields subsequently fell by 2bps to close at 2.85% following a Bloomberg report, citing sources that US President Donald Trump is ready to release an additional USD200bn tariffs on Chinese goods.

## **Credit Headlines:**

### **CITIC Envirotech Ltd (“CEL”) | Issuer Profile: Neutral (5)**

- CEL announced that its wholly-owned subsidiary Memstar Pte Ltd (“Memstar”) has opened a USD15mn (~SGD20mn) membrane manufacturing facility in Texas, USA. This is CEL’s first plant outside of Asia.
- Additionally, CEL has also announced the launch of its new wholly-owned subsidiary, Singapore Envirotech Accelerator Pte Ltd (“Accelerator”). The Accelerator will identify promising small and medium enterprises to fund and mentor. Additionally, to bring their innovations to market and eventually a potential listing on the Singapore Stock Exchange. CEL has committed to invest SGD30mn into the Accelerator over a four-year period and employ at least 35 technology personnel. The Accelerator is in advanced talks with a few parties.
- Given the spaced-out timeframe of the investments, these developments are credit neutral in our view. We will continue to monitor the funding structure of CEL’s capital commitments on project wins. (Company, OCBC)

### **GuocoLand Ltd (“GUOL”) | Issuer Profile: Neutral (5)**

- Following the resignation of Mr Lai Tak Loi as the CFO on 06 Jul 2018 (after the property cooling measures were announced on 05 Jul 2018), GUOL appears to remain bullish on the Singapore property market. GUOL undertook an enbloc acquisition of Casa Meyfort, located along Meyer Road for SGD319.88mn (SGD1,580 psf ppr including SGD57.2mn development charge).
- Notably, the acquisition price is below the reserve price of SGD340mn last December, suggesting that the price expectations by homeowners could have adjusted post the property cooling measures.
- We expect GUOL’s net gearing to increase to around 1.0x (3Q2018: 0.92x) with GUOL funding the acquisition via internal resources and bank borrowings, taking also into account the [acquisition of Pacific Mansion](#). (Company, Business Times, OCBC)

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

### **Frasers Commercial Trust ("FCOT") | Issuer Profile: Neutral (4)**

- FCOT announced the sale of 55 Market Street for SGD216.8mn, a 45% premium to valuation of SGD150mn as at 1 July 2018 and almost 3x the original purchase price from 2006. Estimated gain from the transaction will be SGD76.5mn over its book value of SGD139mn as at 30 September 2017.
- 55 Market street represented 6.3% of FCOT's total portfolio by asset value but only 3.5% by net property income ('NPI') as at 31 March 2018. It had a committed occupancy rate of 87.9% as at 31 March 2018, WALE by income of 1.8yrs with 8.1% and 36.4% of leases expiring in FY2018 and FY2019 respectively. Other details announced by management is that the property is the smallest in its portfolio and non-core with the sale price implying an annualised NPI yield based on NPI for 2Q2018 (ended 31 March) of 1.7%.
- The transaction is consistent with FCOT's strategy to actively enhance and rejuvenate its portfolio through both acquisitions and asset enhancement initiatives with sale proceeds to be used primarily to repay debt as well as for capital expenditure and/or other general corporate purposes.
- Assuming all net divestment proceeds are used to repay existing debt, FCOT's aggregate leverage as at 31 March 2018 would reduce from 35.3% to 27.4% on a pro-forma basis. While the potentially improved aggregate leverage would be lower than office REIT peers under our coverage (ranges between 35%-39%), we see no impact to FCOT's Neutral (4) Issuer Profile. This is given FCOT's comparatively smaller scale, transitional issues with its Singapore assets, and potential future asset injections by the sponsor which may burden FCOT's balance sheet.
- The transaction is expected to complete by the end of August. (OCBC, Company)

### **China Eastern Airlines ("CHIEAS") | Issuer Profile: Neutral (4)**

- CHIEAS is planning to raise up to USD2.2bn (~RMB14.6bn) from a proposed share sale in China and Hong Kong to fund fleet expansion. This expansion includes the purchase of 18 planes.
- Although a successful equity placement could improve unadjusted and adjusted (to include operating leases and finance leases) net gearing to 0.7x and 1.9x from 0.9x and 2.4x respectively as at 31 March 2018, we do not expect the proposed equity placement to result in a lasting improvement in CHIEAS' credit metrics
- We expect CHIEAS' credit profile to face pressure from its capital expenditure program as well as a near term decline in profitability from rising fuel prices in 2Q2018. As at end-2017, CHIEAS' total capital commitment was RMB94.8bn of which RMB87.0bn was contracted for aircraft, engines and flight equipment. In 1Q2018, CHIEAS had spent RMB4.1bn in investing outflow.
- As such, we retain the neutral (4) issuer profile. (OCBC, Company)

**Table 1: Key Financial Indicators**

	11-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	92	-3	13
iTraxx SovX APAC	14	-1	1
iTraxx Japan	54	-3	10
iTraxx Australia	81	-2	10
CDX NA IG	62	-5	-2
CDX NA HY	107	1	0
iTraxx Eur Main	67	-7	-4
iTraxx Eur XO	301	-19	1
iTraxx Eur Snr Fin	80	-9	-4
iTraxx Sovx WE	24	0	-1
AUD/USD	0.742	0.50%	-2.44%
EUR/USD	1.173	0.63%	-0.46%
USD/SGD	1.360	0.41%	-1.81%
China 5Y CDS	67	-1	11
Malaysia 5Y CDS	101	-7	4
Indonesia 5Y CDS	124	-13	-4
Thailand 5Y CDS	46	-3	1

	11-Jul	1W chg	1M chg
Brent Crude Spot (\$/bbl)	78.44	0.26%	2.59%
Gold Spot (\$/oz)	1,254.65	-0.03%	-3.52%
CRB	198.29	0.40%	-0.55%
GSCI	480.64	0.22%	1.11%
VIX	12.64	-18.97%	2.35%
CT10 (bp)	2.833%	0.18	-11.89
USD Swap Spread 10Y (bp)	8	0	2
USD Swap Spread 30Y (bp)	-3	3	4
TED Spread (bp)	38	-1	-4
US Libor-OIS Spread (bp)	37	-1	-4
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	24,920	2.52%	-1.59%
SPX	2,794	2.46%	0.43%
MSCI Asiax	671	1.60%	-7.36%
HSI	28,682	0.48%	-7.67%
STI	3,275	1.20%	-4.85%
KLCI	1,687	0.40%	-4.99%
JCI	5,882	4.40%	-1.87%

## New issues

- Legend Fortune Limited has priced a USD250mn 3-year bond (guaranteed by CMB International Capital Corporation Ltd) at 3mL+128bps, tightening from its initial price guidance of 3mL+150bps area.
- Ronshine China Holdings Ltd has priced a USD225mn re-tap of its RONXIN 8.25%'21s (guaranteed by certain restricted subsidiaries of Ronshine China Holdings Ltd incorporated outside of the PRC) at 92.971, tightening from its initial price guidance of 11.5% area.
- Toyota Motor Corp has priced a USD2bn deal across three tranches, with the USD750mn 3-year bond priced at CT3+50bps, tightening from its initial price guidance of CT3+60-65bps area; the USD750mn 5-year bond priced at CT5+65bps, tightening from its initial price guidance of CT5+75-80bps area and the USD500mn 10-year bond priced at CT10+80bps, tightening from its initial price guidance of CT10+95-100bps area.
- Public Utilities Board has priced a SGD300mn 15-year bond at 3.01%.
- PT Bank Rakyat Indonesia Persero Tbk has scheduled for investor meetings from 11 July for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
11-Jul-18	Public Utilities Board	SGD300mn	15-year	3.01%
11-Jul-18	Legend Fortune Limited	USD250mn	3-year	3mL+128bps
11-Jul-18	Ronshine China Holdings Ltd (re-tap)	USD225mn	RONXIN 8.25%'21	92.971
11-Jul-18	Toyota Motor Corp	USD750mn	3-year	CT3+50bps
11-Jul-18	Toyota Motor Corp	USD750mn	5-year	CT5+65bps
11-Jul-18	Toyota Motor Corp	USD500mn	10-year	CT10+80bps
10-Jul-18	Westpac Banking Corp	EUR850mn	10-year	MS+62bps
10-Jul-18	Westpac Banking Corp	EUR650mn	5.25-year	MS+50bps
10-Jul-18	Commonwealth Bank of Australia	USD1.25bn	5-year	MS+40bps
10-Jul-18	SK Innovation Co Ltd	USD500mn	5-year	CT5+140bps
9-Jul-18	Suntec REIT MTN Pte Ltd	SGD150mn	3-year	3.0%
5-Jul-18	CCBL Cayman 1 Corp Ltd	USD400mn	5-year	3mL+125bps
3-Jul-18	New Dian Group Pte Ltd	USD100mn	2-year	7.50%
27-Jun-18	CapitaLand Retail China Trust	SGD130mn	4-year	3.25%

Source: OCBC, Bloomberg

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