

July 17, 2018

Credit Headlines: Soilbuild Business Space REIT, Keppel Real Estate Investment Trust

Market Commentary

- The SGD swap curve bull-flattened yesterday, with short end swap rates flat and the longer end trading 3-5bps lower across most tenors.
- Flows in SGD corporates were light yesterday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 146bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 6bps to 550bps.
- 10Y UST yields initially rose 5bps to 2.87% yesterday on the back of strong US domestic retail sales data which sparked a sell-off in US treasuries. Yields subsequently reversed 1bps to close at 2.86%.

Credit Headlines:

Soilbuild Business Space REIT (“SBREIT”) | Issuer Profile: Neutral (4)

- SBREIT reported 2Q2018 results. Gross revenue declined 13.1% y/y in 2Q2018 to SGD18.7mn, on the back of declines at 72 Loyang Way, absence of revenue from the divestment of KTL Offshore building (sold to Sponsor in February 2018) and weaker performance at West Park BizCentral and Eightrium. Net property income declined in tandem to SGD16.2mn. On a quarter-on-quarter basis though, gross revenue only fell 3.7% mainly due to the KTL Offshore divestment.
- Despite the 13.3% y/y fall in EBITDA to SGD14.9mn, we find EBITDA/Interest manageable at 3.9x and within expectations as the loss of revenue from 39 Senoko Way had been alluded to in the previous quarter.
- Reported aggregate leverage was lower at 37.6% (31 March 2018: 40.2%) as SBREIT had paid down its SGD93.5mn bond due in May 2018 in part from the net sale proceeds of the KTL Offshore building.
- The only remaining short term debt due is the SGD55mn in interest-free loan extended by Sponsor in 2015 and 2016 for SBREIT to pay JTC an upfront land premium on Solaris. This loan will come due in August 2018 and SBREIT is in the process of seeking a bank loan for the refinancing.
- We see refinancing risk as highly manageable. As at 30 June 2018, only Solaris has been mortgaged for bank debt while SGD752.1mn of investment properties remains unencumbered and can be used as collateral, if need be.
- While West Park BizCentral saw a dip in occupancy to 81.0% (from 81.5% last quarter), overall SBREIT portfolio occupancy had stabilised at 87.6% (up slightly from 87.5% as at 31 March 2018). While rental reversion for 2Q2018 was still negative 11.9% (1Q2018: negative 7.8%), these reversions were down from those signed in the last rent cycle 3-4 years ago. On a quarter by quarter basis, we note that sector rents are pointing towards stabilisation (rather than continuing to fall).
- We continue to hold SBREIT’s issuer profile at Neutral (4). (Company, OCBC)

Credit Headlines (cont'd):

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

- KREIT reported 2Q2018 results. Property income increased sharply by 29.6% y/y to SGD51.7mn. Likewise, NPI also went up significantly by 35.5% y/y to SGD43.2mn. This is mainly due to an one-off income for early surrender of leases. Excluding the one-off income (which is likely included in other income), property income and NPI fell around 2.6% and 4.8% respectively. Likewise, total return before tax fell by ~6.1% y/y. Weaker total return before tax is also attributable to weaker contributions from associates (-8.5% y/y).
- Overall portfolio occupancy remained robust at 99.3% (1Q2018: 99.4%). While retention rate is 77% down from 93% in Q1, majority of the available space has been leased up. Committed occupancy levels at 275 George Street remained unchanged at 93.4% while 8 Exhibition Street saw a 2.5% dip to 97.2%. Performance was slightly mitigated by Bugis Junction Towers which had 100% committed occupancy levels up from 99.1% in Q1.
- WALE is healthy at 5.2 years. Rental expiry for 2018 was reduced to 2.9% of NLA (1Q2018: 6.2%).
- Aggregate leverage remained stable at 38.6%. All-in interest rate is 2.77% and reported interest coverage is 4.3x (1Q2018: 4.1x). KREIT intends to manage the refinancing of the sizeable bank loans totalling SGD762mm due in 2019 whilst at the same time commence unit buy-backs of up to 1.5% of issued units over 6 months. Prima facie, this method of proactive capital management may push aggregate leverage up towards 40% although management have stated their desire to maintain the REIT's financial flexibility for strategic opportunities (OCBC, Company)

Table 1: Key Financial Indicators

	17-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	88	-3	8
iTraxx SovX APAC	13	-1	0
iTraxx Japan	54	-2	11
iTraxx Australia	81	-1	11
CDX NA IG	61	-1	0
CDX NA HY	107	0	0
iTraxx Eur Main	64	-4	-4
iTraxx Eur XO	289	-13	-9
iTraxx Eur Snr Fin	75	-6	-4
iTraxx Sovx WE	24	0	2
AUD/USD	0.742	-0.59%	-0.11%
EUR/USD	1.171	-0.27%	0.77%
USD/SGD	1.362	-0.34%	-0.76%
China 5Y CDS	65	-2	7
Malaysia 5Y CDS	95	-6	-6
Indonesia 5Y CDS	117	-9	-16
Thailand 5Y CDS	44	-3	-1

	17-Jul	1W chg	1M chg
Brent Crude Spot (\$/bbl)	72.09	-8.58%	-1.84%
Gold Spot (\$/oz)	1,240.74	-1.18%	-2.94%
CRB	191.17	-3.56%	-2.58%
GSCI	450.73	-6.31%	-2.78%
VIX	12.83	1.10%	7.10%
CT10 (bp)	2.864%	1.46	-5.68
USD Swap Spread 10Y (bp)	6	-1	0
USD Swap Spread 30Y (bp)	-5	-2	2
TED Spread (bp)	37	-2	-6
US Libor-OIS Spread (bp)	36	-2	-5
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,064	1.16%	-0.10%
SPX	2,798	0.51%	0.68%
MSCI Asiax	669	-0.36%	-5.74%
HSI	28,540	-0.52%	-5.84%
STI	3,233	0.12%	-3.69%
KLCI	1,727	3.23%	-1.99%
JCI	5,905	1.68%	-1.48%

New issues

- Bank Rakyat Indonesia has priced a USD500mn 5-year bond at CT5+195bps, tightening from its initial price guidance of CT5+215bps area.
- Industrial & Commercial Bank of China Ltd/Hong Kong has priced a USD100mn 2-year bond at 3mL+70bps.
- NongHyup Bank has scheduled for investor meetings from 16 July for its potential USD bond issuance.
- Bayfront Infrastructure Capital Pte Ltd has hired banks for its potential USD bond issuance (collateral manager: Clifford Capital Pte Ltd).

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
16-Jul-18	Bank Rakyat Indonesia	USD500mn	5-year	CT5+195bps
16-Jul-18	Industrial & Commercial Bank of China Ltd/Hong Kong	USD100mn	2-year	3mL+70bps
13-Jul-18	State Bank of India/London	USD200mn	2.5-year	3.197%
12-Jul-18	Korea East-West Power Co Ltd	USD500mn	5-year	CT5+122.5bps
12-Jul-18	Sumitomo Mitsui Financial Group Inc	USD750mn	5-year	CT5+100bps
12-Jul-18	Sumitomo Mitsui Financial Group Inc	USD500mn	5-year	3mL+86bps
12-Jul-18	Sumitomo Mitsui Financial Group Inc	USD750mn	10-year	CT10+110bps
12-Jul-18	KEB Hana Bank	USD315mn	5-year	3mL+80bps
11-Jul-18	Agile Group Holdings Ltd	USD200mn	3NC2	8.5%
11-Jul-18	CDBL Funding 2	USD500mn	3-year	3mL+115bps
11-Jul-18	American Honda Finance Corp	USD500mn	2-year	CT2+50bps
11-Jul-18	American Honda Finance Corp	USD750mn	2-year	3mL+26bps
11-Jul-18	American Honda Finance Corp	USD500mn	5-year	CT5+75bps
10-Jul-18	Public Utilities Board	SGD300mn	15-year	3.01%
10-Jul-18	Legend Fortune Limited	USD250mn	3-year	3mL+128bps
10-Jul-18	Ronshine China Holdings Ltd (re-tap)	USD225mn	RONXIN 8.25%'21	92.971
10-Jul-18	Toyota Motor Corp	USD750mn	3-year	CT3+50bps

Source: OCBC, Bloomberg

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