

May 17, 2018

Credit Headlines: CapitaLand Commercial Trust, Pacific Radiance, Singapore Telecommunications Ltd, Keppel Corp

Market Commentary

- The SGD swap curve steepened yesterday, with the swap rates for the shorter tenors trading 1-2bps lower while the longer tenors traded 2-3bps higher.
- Flows in SGD corporates were moderate yesterday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 1.32% while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 3bps to 408bps.
- 10Y UST yields rose 2bps to 3.1%, following a bond market selloff spurred by signs that the US economy is on a stronger footing in the second quarter.

Credit Headlines

CapitaLand Commercial Trust (“CCT”) | Issuer Profile: Neutral (3)

- CCT has announced that it will be spending EUR342.7mn (~SGD548.3mn) to acquire 94.9% stake in Gallileo, a Grade A office building (NLA of 436,175 sqft) in the Frankfurt CBD, Germany. The balance 5.1% stake will be acquired by CCT's sponsor. Though it is CCT's first foreign asset, the transaction is not surprising given that management had already disclosed the desire to make foreign acquisitions (in gateway cities, to total 10%-20% of CCT's deposit assets) as part of their 1Q2018 earnings announcement (refer to [OCBC Asia Credit - CCT Earnings Review 1Q2018 \(26 Apr 2018\)](#)) in part to combat the maturing domestic market.
- The transaction values Gallileo at EUR356.0mn, slightly below independent valuation of EUR360.9mn. The NPI yield of the property is 4.0%. 98% of the space is leased to Commerzbank, which has a lease that expires in 2029, but Commerzbank has the option to terminate the lease in 2024 with 24-months' notice. As the seller was not disclosed by CCT, based on our research, Gallileo was last disclosed publically to be controlled by a closed-end fund managed by Patrizia Immobilien AG, a listed German real estate investment firm.
- CCT will be initially funding the transaction via drawing down on a new EUR350mn (~SGD560mn) loan facility, though it has commenced with an equity private placement to issue 130mn new units (for gross proceeds of ~SGD212.0mn) to fund the transaction. Management guided pro-forma figures show aggregate leverage worsening to 39.0% (1Q2018: 37.9%). Given CCT's other capital commitments (such as CapitaSpring) leverage could climb higher. It would seem that in general CCT has been more comfortable with higher levels of aggregate leverage versus its historical levels, particularly given the Asia Square Tower 2 transaction that occurred last year.
- Separately, the Business Times had reported that CCT had retained a broker to gather “unsolicited interest” from parties that had expressed interest in acquiring 20 Anson Road. The asset was last valued at SGD433.0mn as of end-2017. Should the asset be disposed, it could generate debt headroom for CCT. (Business Times, Company, OCBC).

Credit Headlines (cont'd):

Pacific Radiance (“PACRA”) | Issuer Profile: Negative (7)

- PACRA has announced that it will be pursuing its restructuring via a Scheme of Arrangement (“SoA”). This is not surprising to us as we had previously opined that a court-driven restructuring process was a potential result of PACRA failing to pass its consent solicitation exercise (refer to [OCBC Asia Credit - Pacific Radiance Credit Update \(28 Feb 2018\)](#)). Please refer to the previous report for more details regarding what to expect in the case of a SoA-driven restructuring.
- As mentioned, an automatic debt moratorium applies upon court application for the SoA (PACRA had applied on 16/05/18). This would allow PACRA to buy some time, given the potential events of default that PACRA may currently be facing. The moratorium would apply for 6 months, or until further order by the court.
- PACRA had also disclosed that a supplier, Alliance Catering, had filed winding-up applications against PACRA on 14/05/18, for amounts owed totalling ~SGD1.5mn (with the hearing to be heard on 08/6/18). PACRA may have expedited its court filing for SoA in response to the winding-up application.
- Next steps would be for PACRA to provide the scheme documents to noteholders. As a reference, for Nam Cheong Ltd (“NCL”), it made its court application for its SoA on 06/10/17, and provided the scheme documents to creditors on 23/11/17.
- We will monitor the situation closely and update accordingly. (Company, OCBC)

Singapore Telecommunications Ltd (“SingTel”) | Issuer Profile: Positive (2)

- SingTel reported 4QFY2018 results for the year ending 31 March 2018. Revenue (excluding NBN migration) increased 1.7% y/y to SGD4.3bn mainly due to the acquisition of Turn in April 2017. Despite Group Digital Life breaking even for EBITDA, EBITDA (excluding NBN migration) fell 1.7% y/y to SGD1.2bn, dragged down by (1) Group Enterprise (-5.3% y/y to SGD441mn) due to increased mix of lower-margin ICT business and pricing pressures and (2) Group Consumer (-3.7% y/y to SGD807mn, excluding NBN migration) mainly due to a sharp decline in contribution by Singapore (-13.6% y/y to SGD164mn) with declines in post-paid ARPU (-9%) and increase of SIM-only plans.
- Share of results of associates and joint ventures continue to disappoint (-14.6% y/y to SGD400.7mn), with Airtel and Bharti Telecom posting a pre-tax loss of SGD8mn (4QFY2017 pre-tax profit: SGD90mn) with disruptive price competition in India. Telkomsel also fared worse than expected (-22.1% y/y to SGD289mn) due to a steep decline in voice and SMS revenue, with slower data growth and heightened price competition coupled with depreciation in the IDR (-9%).
- Looking forward into FY2019, SingTel expects EBITDA to remain stable for its core businesses in Singapore and Australia. However, we note that the guidance for the mobile segment in Singapore has been shaded lower, with revenue expected to decline by mid-single digits.
- While results are lacklustre, credit metrics held steady on a y/y comparison, with net gearing slightly improved at 24.9% (FY2017: 26.9%) and reported net debt to EBITDA & share of associates pre-tax profits remaining stable y/y at 1.3x (FY2017: 1.3x). SingTel continues to expect SGD1.4bn dividend contribution from associates and SGD1.9bn free cash flow (excluding spectrum payments and associates' dividends) in FY2019. As such, we continue to hold SingTel at a Positive (2) Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd):

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

- KEP had provided a follow-up announcement regarding its intended sale of five existing jack-up rigs to Borr Drilling Ltd (“BORR”) for USD745mn (refer to [OCBC Asian Credit Daily \(16 May\)](#)). It was announced that relevant definitive sale and purchase agreements have been signed with BORR.
- KEP had also disclosed that of the five rigs, two were originally built for Grupo R (the Cantarell V and Paraiso II rigs) and one was for Falcon Energy. KEP had also disclosed that it had terminated the contracts with the respective owners. The balance two rigs were speculative rigs without orders that were built on anticipated demand.
- The rigs are scheduled to be delivered between 4Q2019 and 4Q2020. As mentioned previously, as KEP will be providing vendor financing, BORR will have five years from the delivery of the rig to complete payment upon delivery of each rig. That said, the USD288mn down payment from BORR will be paid within 20 days of the effective date, and hence will be reflected in KEP’s 2Q2018 results.
- Separately, the Business Times had reported that BORR had placed USD350mn in convertible bonds to fund the transaction, as well as arranged a further USD200mn in bank financing. (Business Times, Company, OCBC)

Table 1: Key Financial Indicators

	17-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	76	1	3
iTraxx SovX APAC	13	0	1
iTraxx Japan	51	-1	2
iTraxx Australia	66	0	2
CDX NA IG	61	1	2
CDX NA HY	107	0	0
iTraxx Eur Main	56	1	4
iTraxx Eur XO	274	6	6
iTraxx Eur Snr Fin	61	2	6
iTraxx Sovx WE	19	1	1
AUD/USD	0.755	0.17%	-2.85%
EUR/USD	1.183	-0.73%	-4.38%
USD/SGD	1.339	-0.07%	-2.05%
China 5Y CDS	58	0	0
Malaysia 5Y CDS	84	-11	14
Indonesia 5Y CDS	120	3	24
Thailand 5Y CDS	46	0	2

	17-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	79.40	2.49%	10.92%
Gold Spot (\$/oz)	1,292.95	-2.17%	-4.05%
CRB	203.76	0.03%	2.19%
GSCI	489.20	0.42%	5.24%
VIX	13.42	0.00%	-12.00%
CT10 (bp)	3.098%	13.60	26.97
USD Swap Spread 10Y (bp)	4	-1	0
USD Swap Spread 30Y (bp)	-8	1	5
TED Spread (bp)	43	-5	-16
US Libor-OIS Spread (bp)	43	-6	-15
Euro Libor-OIS Spread (bp)	2	0	-1
DJIA	24,769	0.92%	-0.07%
SPX	2,722	0.91%	0.59%
MSCI Asiax	720	0.26%	0.76%
HSI	31,090	0.91%	3.42%
STI	3,535	-0.07%	1.05%
KLCI	1,861	0.78%	-1.04%
JCI	5,877	-0.52%	-6.50%

Source: OCBC, Bloomberg

New issues

- BlueScope Finance (Americas) LLC has priced a USD300mn 5-year bond (guaranteed by BlueScope Steel Ltd and other guarantors defined in the Offering Circular) at CT5+180bps, tightening from its initial price guidance of CT5+205bps area.
- Greenland Global Investment Ltd has priced a USD500mn 363-day bond at 6.75%, tightening from its initial price guidance of 6.875%.
- First Abu Dhabi Bank PSJC has priced a CNH1.1bn 3-year bond at 4.8%, in line with its initial price guidance.
- Hyundai Marine & Fire has hired banks for its potential USD hybrid bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
17-May-18	First Abu Dhabi Bank PSJC	CNH1.1bn	3-year	4.8%
17-May-18	Greenland Global Investment Ltd	USD500mn	363-day	6.75%
17-May-18	BlueScope Finance (Americas) LLC	USD300mn	5-year	CT5+180bps
15-May-18	Korean National Oil Corp	CHF500mn	5-year	MS+35bps
15-May-18	PT Perusahaan Listrik Negara	USD1bn	30-year	6.2%
15-May-18	PT Perusahaan Listrik Negara	USD1bn	10-year	5.5%
15-May-18	AVIC International Finance & Investment Ltd	USD400mn	3-year	CT3+175bps
14-May-18	NagaCorp Ltd	USD300mn	3NC2	9.625%
14-May-18	KDB Life Insurance	USD200mn	30NC5	7.5%
14-May-18	BOC Aviation Ltd	USD350mn	7-year	3mL+130bps
14-May-18	Industrial & Commercial Bank of China Ltd	USD350mn	ICBCAS FRN 16/04/2023	3mL+85bps
14-May-18	Industrial & Commercial Bank of China Ltd/ Sydney	USD300mn	3-year	3mL+75bps
11-May-18	Suntec REIT MTN Pte Ltd	SGD80mn	SUNSP 3.4%'23s	3.4%
10-May-18	HSBC Holdings PLC	USD2bn	6NC5	3mL+100bps
10-May-18	HSBC Holdings PLC	USD2bn	6NC5	3mL+112bps
10-May-18	HSBC Holdings PLC	USD2bn	3NC2	3mL+60bps

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