

Apr 18, 2018

Market Commentary

- The SGD swap curve flattened yesterday, with swap rates for the shorter tenors trading 1bps higher while the longer tenors traded 1-3bps lower.
- Flows in SGD corporates were moderate yesterday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS traded little changed at 127 bps while the Bloomberg Barclays Asia USD HY Bond Index average widened 3bps to 349bps.
- 10Y UST yield traded little changed at 2.83%.

Credit Headlines

First Real Estate Investment Trust (“FIRT”) | Issuer Profile: Neutral (5)

- FIRT reported its first quarter results for the financial year 2018 (“1Q2018”). Reported gross revenue was up 5.8% y/y to SGD28.7mn. This was driven by the full quarter contributions from Siloam Hospitals Buton & Lippo Plaza Buton (“Buton”, acquired in October 2017) and Siloam Hospitals Yogyakarta (“Jogja”, acquired in December 2017).
- EBITDA (based on our calculation which does not include other income and other expense) was SGD25.5mn (up 5.7% y/y), while finance cost was 10.7% higher y/y at SGD4.8mn following higher debt to finance the acquisition of Buton, Jogya and the second progress payment for the development of the new Siloam Hospitals Surabaya. Interest coverage as measured by EBITDA/Interest was 5.4x (1Q2017: 5.6x). In 1Q2018, FIRT paid SGD1.7mn in cash to perpetual holders. Taking 50% of this payment as interest, we find Adjusted EBITDA/Interest at 4.5x.
- As at 31 March 2018, aggregate leverage was still manageable at 34% versus 33% in end-2017 though it increased from 31% in end-March 2017. As a non-traditional REIT which owns properties linked to Sponsor’s underlying business operations, in our view, asset valuations tend to be less certain versus a traditional REIT where properties are leased to third parties.
- Short term debt at FIRT was SGD109.9mn as at 31 March 2018, vis-à-vis SGD17.0mn in cash balance. This consist mostly of the SGD100mn in bonds due in May 2018. In January 2018, FIRT had managed to raise SGD400mn in syndicated secured financing facilities from a bank lender. In our view, the short term refinancing risk at FIRT has been significantly reduced.
- Moody’s has placed the “B1” corporate family rating of Lippo Karawaci (“LK”, Sponsor of FIRT) on a [review for downgrade](#). In FY2017, 82.4% of rental income at FIRT was attributable to LK while 12.9% is attributable to PT Metropolis Propertindo Utama and its subsidiary.
- We note a marked increase in trade receivable at FIRT as at 31 March 2018 to SGD31.4mn (end-2017: SGD26.0mn). Since end-2016, day sales receivable at FIRT had more than doubled from 40 days to over 90 days in the current quarter, indicating this could be a knock-on effect from the tight liquidity at LK and a credit negative impact in our view. FIRT though is still within our parameters of a Neutral (5) issuer profile and we are keeping it as such for now. (Company, OCBC)

Credit Headlines (cont'd):

Industry Outlook – Financial Institutions:

- The People's Bank of China ('PBoC') announced a 100 basis point cut in the reserve requirement ratio ('RRR') for most Chinese banks. This will lower the amount of cash banks need to hold as reserves and will take effect from April 25th. The last reduction to the RRR was in September 2017.
- The main impact on the economy is likely to be growth in lending to small and micro companies at lower borrowing costs. For Chinese banks, the move is also expected to alleviate liquidity pressure and lower funding costs given recent higher use of certificates of deposit for funding and current use of the medium-term lending facility.
- Such a move is in response to faster-than-expected economic growth, tight on-shore liquidity, and migration in shadow banking assets into the traditional banking system and resultant demand on bank liquidity positions. The move is likely a welcome action by the government to address the tighter onshore monetary conditions while enforcing the positive trends in system deleveraging and reduction in social financing.
- Please refer to our OCBC China Economist's recent publication [An innovative RRR cut with debt swap feature](#) for further details.

Ascott Residence Trust ("ART") | Issuer Profile: Neutral (4)

- ART reported its first quarter results for the financial year 2018 ("1Q2018"). Reported gross revenue was up 1.4% y/y to SGD112.8mn. This was driven by additional revenue from acquisitions in 2017 (Ascott Orchard Singapore, two serviced residences in Germany and DoubleTree by Hilton Hotel in New York), partly offset by divestments and decline in performance in certain existing properties.
- EBITDA (based on our calculation which does not include other income and other expenses) was SGD50.5mn (up 2.4% y/y). Finance cost was down 2.3% y/y to SGD11.6mn due to refinancing of bank loans at lower interest rates. Resultant interest coverage as measured by EBITDA/Interest was higher at 4.4x versus 4.2x in 1Q2017. Outstanding perpetuals at ART was SGD400mn as at 31 March 2018 and if all the distribution to perpetuals is paid out, ART would pay SGD19.2mn p.a on such distributions. Adjusting 50% of these as interest, we find Adjusted EBITDA/Interest at 3.4x.
- As at 31 March 2018, aggregate leverage was manageable at 35% (flat against end-2017). Adjusting 50% of perpetuals as debt, we find adjusted aggregate leverage at 39%. Short term debt at ART was SGD231.5mn (this includes a JPY5.0bn (~SGD61.2mn) bond due in September 2018 and SGD100mn in bonds due in November 2018), with the remaining in bank debt.
- Further to our expectations of increasingly shorter average length of stay ("ALOS"). In 1Q2018, ALOS at ART was ~3.0 months (excluding properties on master leases, Citadines Biyun Shanghai and Citadines Gaoxin Xi'an which were divested on 5 January 2018). In 1Q2017, ALOS was higher at ~3.4 months. 56% of the rental income was attributable to customers staying for less than a week versus 52% in 1Q2017.
- As at 31 March 2018, cash balance at ART stood at SGD190.9mn. ART has disclosed that it has commenced discussions to refinance the bank debt. We see low refinancing risk at ART given that the cash balance is more than sufficient to cover both the SGD and JPY bonds coming due. We maintain ART's issuer profile at Neutral(4). (Company, OCBC)

Banyan Tree Holdings Limited ("BTH") | Issuer Profile: Neutral (5)

- With regards to BTH's proposed acquisition of a 34.25%-stake in [Laguna Resorts & Hotels Public Company Limited](#) ("LRH"), BTH has announced that it has received valid acceptances in 34.2mn shares (representing ~20.5% of the total issued share capital of LRH) as at the close of the tender offer period. At THB40 per share, this implies a cash outlay of THB1.4bn (~SGD57.6mn), excluding transaction cost. Post completion of the tender offer, BTH would hold 86.28% in the LRH versus 65.75% which it already held prior to the tender offer. (Company, OCBC)

Credit Headlines (cont'd):

Keppel Telecommunications & Transportation (“KPTT”) | Issuer Profile: Neutral (4)

- KPTT reported its first quarter results for the financial year 2018 (“1Q2018”). Reported gross revenue was up 5.1% y/y to SGD42.8mn. This was driven by higher facility and project management fee income from the Data Centre division, partly offset by still-weak performance at KPTT’s China logistics business. Financial advisers has been appointed since November 2017 to assist in a strategic review of KPTT’s China logistics business (including a possible sale of the assets) though as yet there has been no update.
- Other income was negligible at only SGD0.8mn during the quarter and there was no significant disposals of assets made. KPTT reported an operating loss of SGD3.4mn in 1Q2018, a wider operating loss against SGD1.7mn in 1Q2017.
- As a holding company, KPTT’s profitability is driven by its stakes in associates. KPTT receives significant and recurring cash dividends from associates, including from M1 Ltd (Singapore’s third largest telecommunications company) and Keppel DC REIT (of which KPTT holds a 30%-stake in). In FY2017, cash dividends received was SGD46.9mn, taking 25% of these into EBITDA, we find adjusted EBITDA/Interest at only 5.1x, versus the thin unadjusted EBITDA/Interest of 0.5x. We note that dividends from M1 Ltd has been falling (on the back of a challenging domestic telecommunications market).
- As at 31 March 2018, reported net gearing (including amount owed to associates) was 0.4x (relatively flat against end-2017). Going forward though, we continue to expect debt levels to increase as KPTT funds its commitments progressively (chiefly, commitments to Alpha Data Centre Fund, a private equity fund focusing on data centres formed with its sister company, Alpha Investment Partners). As of end-2017, capital commitments at KPTT had ballooned to SGD337.8mn from only SGD250.6mn in end-2016 and these would need to be progressively be funded. We continue to maintain KPTT’s issuer profile at Neutral (4) for now. (Company, OCBC)

Table 1: Key Financial Indicators

	18-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	73	-3	5
iTraxx SovX APAC	12	0	0
iTraxx Japan	50	0	6
iTraxx Australia	63	-5	6
CDX NA IG	59	-3	4
CDX NA HY	107	1	1
iTraxx Eur Main	53	-5	2
iTraxx Eur XO	268	-13	13
iTraxx Eur Snr Fin	55	-5	2
iTraxx Sovx WE	17	-1	-2
AUD/USD	0.776	0.12%	0.60%
EUR/USD	1.237	0.02%	0.28%
USD/SGD	1.312	-0.22%	0.41%
China 5Y CDS	58	-3	1
Malaysia 5Y CDS	71	-1	6
Indonesia 5Y CDS	96	-3	4
Thailand 5Y CDS	44	-1	4

	18-Apr	1W chg	1M chg
Brent Crude Spot (\$/bbl)	71.90	-0.22%	8.59%
Gold Spot (\$/oz)	1,344.58	-0.65%	2.11%
CRB	199.38	1.15%	2.53%
GSCI	464.85	0.80%	4.55%
VIX	15.25	-25.50%	-3.48%
CT10 (bp)	2.834%	5.32	-1.05
USD Swap Spread 10Y (bp)	4	0	0
USD Swap Spread 30Y (bp)	-13	0	2
TED Spread (bp)	58	-5	15
US Libor-OIS Spread (bp)	57	-1	6
Euro Libor-OIS Spread (bp)	3	1	0
DJIA	24,787	1.55%	-0.64%
SPX	2,706	1.86%	-1.66%
MSCI Asiax	715	-1.55%	-4.16%
HSI	30,063	-2.70%	-4.57%
STI	3,530	1.45%	0.51%
KLCI	1,884	0.73%	2.01%
JCI	6,286	-0.63%	-0.30%

Source: OCBC, Bloomberg

New issues

- The Republic of Indonesia has priced a USD1bn 10-year note at 4.13%, tightening from its initial price guidance of 4.4%.
- China Hongqiao Group Ltd has priced a USD450mn 363-day bond (guaranteed by China Hongqiao Investment Ltd, Hongqiao Investment (HK) Ltd, Hongqiao International Trading Ltd) at 6.85%, tightening from its initial price guidance of 7.125%.
- Easy Tactic Ltd has priced a USD600mn 3NC2 bond (Guangzhou R&F Properties Co., Ltd acting as guarantor and provider of benefit of a Keepwell Deed and Equity Interest Purchase Undertaking) at 7%, tightening from its initial price guidance of 7.125%.
- Syngenta Finance NV (SYNNVX) has priced a USD4.75bn deal (guaranteed by Syngenta AG) across 6-tranches, with the USD750mn 2-year Fxd priced at CT2+130bps, tightening from its initial price guidance of CT2+175bps area; the USD750mn 3-year Fxd priced at CT3+140bps, tightening from its initial price guidance of CT3+187.5bps area; the USD1bn 5-year Fxd priced at CT5+175bps, tightening from its initial price guidance of CT5+225bps area; the USD750mn 7-year Fxd priced at CT7+210bps area, tightening from its initial price guidance of CT7+250bps area; the USD1bn 10-year Fxd priced at CT10+235bps, tightening from its initial price guidance of CT10+275bps area, and the USD500mn 30-year Fxd priced at CT30+265bps, tightening from its initial price guidance of CT30+312.5bps area.
- SoftBank Group Corp has priced a USD2.45bn deal across 4 tranches (guaranteed by SoftBank Corp), with the USD300mn 5-year bond priced at 5.5%, in line with its initial price guidance; the USD450mn 7-year bond at 6.125%, in line with its initial price guidance; the EUR1bn 5-year bond priced at 4%, tightening from its initial price guidance of 4.125% and the EUR450mn 7-year bond priced at 4.5%, in line with its initial price guidance.
- Envision Energy Overseas Capital Co Ltd may price a USD 3-year bond as early as 18 Apr (guaranteed by Envision Energy International Ltd).
- PT MNC Investama has scheduled for investor meetings from 18 Apr for its potential USD bond issuance.
- State Grid Overseas Investment (2016) Ltd has scheduled for investor meetings from 18 Apr for its potential USD and EUR bond issuance (guaranteed by State Grid Corp of China)

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
17-Apr-18	SoftBank Group Corp	USD2.45bn	Multple	Multiple
17-Apr-18	Syngenta Finance NV	USD4.75bn	Multple	Multiple
17-Apr-18	Easy Tactic Ltd	USD600mn	3NC2	7%
17-Apr-18	China Hongqiao Group Ltd	USD450mn	363-day	6.85%
17-Apr-18	The Republic of Indonesia	USD1bn	10-year	4.13%
16-Apr-18	Yanlord Land HK Co Ltd	USD300mn	5NC3	6.75%
16-Apr-18	Jingrui Holdings Ltd	USD350mn	3-year	9.45%
16-Apr-18	Central China Real Estate Ltd	USD300mn	2.5-year	7%
16-Apr-18	Hanwha Life Insurance Co Ltd	USD1bn	30NC5	4.7%

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