

Oct 18, 2018

Credit Headlines: Keppel Telecommunications & Transportation Ltd, Industry Outlook – Singapore Property, Soilbuild Business Space REIT, CWT International Ltd

Market Commentary

- The SGD swap curve flattened yesterday, with swap rates trading 1-2bps lower across most tenors.
- Flows in SGD corporates were heavy yesterday, with better buying seen in DBSSP 3.98%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 140bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 490bps.
- 10Y UST yields traded little changed in the earlier part of the trading session before rising 6bps to close at 3.20% after the release of the FOMC minutes on its meeting last month which showed signs of more rate hikes.

Credit Headlines:

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

- KPTT has announced its 3Q2018 financial results. In 3Q2018, revenue has increased 6.6% y/y to SGD47.9mn driven by higher data centre facility management income (we estimate that Data Centre segment revenue was up 35% y/y) and increase in revenue from the warehousing channel and channel management business. Nonetheless, the overall Logistics segment would have still seen relatively flat revenue based on our estimation as these were offset by lower revenue from port operations in China.
- Despite the stronger top line, KPTT reported an operating loss of SGD4.0mn (3Q2017 operating profit of SGD3.2mn) driven by higher staff and other costs to drive top line growth. 3Q2017 also saw a large one-off gain on disposal of subsidiary which led to an operating profit that quarter. This was absent in 3Q2018.
- Share of results of associated companies and joint ventures was up 25% y/y to SGD20.1mn, driven by Data Centre and Investments segments associates. This helped KPTT report a profit for the period of SGD12.5mn during the quarter (down 16% y/y).
- As at 30 September 2018, unadjusted net gearing was 0.3x, relatively flat versus 30 June 2018. We continue to expect KPTT to take on more debt to fund capital commitments for the Alpha Data Centre Fund (“Alpha DC Fund”), though these obligations would be progressive. Alpha DC Fund is a data centre focused real estate private equity fund set up by KPTT and its sister company Alpha Investment Partners Limited (owned by KPTT’s parent company, Keppel Corporation Ltd (“KEP”)).
- KEP already owns a ~79%-stake in KPTT and KEP is [proposing to buy the stakes it does not already own in KPTT](#). Our base case assumes that the proposed take-private transaction would be successful, with KPTT eventually delisted from the Singapore Stock Exchange. We are currently maintaining KPTT’s issuer profile at Neutral (4) and would cease coverage of KPTT should the transaction go through.
- There is no change of control on the KPTTSP 2.85% ‘24s. Should the take-private be successful, bondholders would hold the bonds of an unlisted wholly-owned subsidiary of KEP. In our view, it is unlikely for standalone KPTT financials to be made available publicly post delisting. We currently hold KEP’s issuer profile at Neutral (3) though will review this in conjunction with KEP’s 3Q2018 results release (expected 18 October 2018). (Company, OCBC)

Credit Headlines (cont'd):

Industry Outlook – Singapore Property

- The Urban Redevelopment Authority (“URA”) announced yesterday three circulars dealing with (1) a Bonus Gross Floor Area Scheme for indoor recreation spaces in private non-landed residential developments; (2) Revisions to the Balcony Incentive Scheme for private non-landed residential developments; and (3) Revisions to the Guidelines on Maximum Allowable Dwelling Units in non-landed residential developments outside Central Area.
- Of interest is the last circular which seeks to balance the maximum number of apartments allowed for development in certain areas to avoid strain on that area’s infrastructure capacity.
- Following a period of observation, the URA has now revised the maximum number of apartments allowed for development in certain areas (which is derived by dividing the proposed development’s gross floor area (GFA) by a reference unit size) by increasing the reference unit size for developments outside the Central Area from 70 square metres (sqm) to 85sqm.
- URA has also increased the number of areas where the reference unit size of 100sqm is to be applied from 4 areas (Telok Kurau, Kovan, Joo Chiat and Jalan Eunos) to 9 with the combination of Telok Kurau and Jalan Eunos and the addition of Marine Parade, Balestier, Stevens-Chancery, Pasir Panjang, Shelford, and Loyang.
- According to URA, these changes are to promote a wider range of unit sizes and restrict the amount of smaller apartments being developed.
- The first circular is effective immediately while the others are effective from 17 January 2019 and will apply to all new applications received on or after 16 January 2016. Applications submitted before 17 January 2019 that have provisional permission will not be subject to the new guidelines.
- While not strictly labeled as such, we see these new measures as somewhat of a cooling measure by seeking to enhance the sustainability and affordability of the property development sector. (OCBC, URA)

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

- SBREIT reported 3Q2018 results. Reported gross revenue and net property income (“NPI”) fell 3.6% to SGD19.8mn and 8.8% to SGD16.2mn respectively. This was largely due to the divestment of KTL Offshore, lower contribution from West Park BizCentral and Eightrium though partially offset by higher revenue from the conversion of Solaris into a multi-tenanted property on 15 August 2018.
- Other than higher revenue, changes at Solaris also led to higher property operating expenses causing EBITDA to fall by 8.8% y/y to SGD14.9mn. That said, reported EBITDA/Interest remains manageable at 4.08x. Including 50% of perpetual distributions as interest expense, adjusted EBITDA/Interest falls to 4.06x.
- Portfolio occupancy fell marginally to 87.2%. Even though rental reversion improved significantly in Q3 to positive 2.7%, this came solely from Solaris which is currently fully occupied while other industrial properties of SBREIT continued to see negative rental reversion.
- In 3Q2018, SBREIT took up additional debt to finance parts of their acquisitions of two Australian properties – 14 Mort Street and Inghams Burton leading to a higher post-acquisition aggregate leverage of 39.2%. Taking 50% of the perpetual securities issued in September 2018 as debt, adjusted aggregate leverage is ~42%. With just SGD40mn and SGD18.5mn in loans maturing in 2019 and 2020 respectively and SGD868.6mn unencumbered investment properties that can be used as collateral if needed, we think refinancing risk is manageable.
- Separately, SBREIT has received a dividend of SGD3.25mn from Technics Offshore Engineering Pte Ltd as a result of compulsory liquidation. This amount will be included in SBREIT’s 4Q2018’s results.
- We will continue to hold SBREIT’s issuer profile at Neutral (4). (Company, OCBC)

Credit Headlines (cont'd):

CWT International Ltd ("CWTI"): | Issuer Profile: Negative (6)

- Reportedly, Mr Adam Slater, deputy Group CEO and CEO of the Commodity Logistics segment of CWT Pte Limited ("CWT SG") is stepping down from his role. CWT SG, (wholly-owned by CWTI) is the SGD bond issuer of the CWTSP '19s and CWTSP '20s.
- Mr Slater has shared that his departure was not connected to any potential developments at HNA Group (the ultimate controlling shareholder of CWTI). As a recap, to ensure business continuity, certain of CWT SG's senior management team had been retained by the new owners. While the exact list of all the managers retained is unavailable publicly, Mr Loi Poke Yen (Group CEO) and Ms Lynda Goh (CWT SG's Deputy Group CEO and Group CFO) is agreeable to a three year employment term. For now we are not unduly concerned over Mr Slater's departure, though would continue to monitor the situation. (Reuters, OCBC).

Table 1: Key Financial Indicators

	18-Oct	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	86	-2	8
iTraxx SovX APAC	10	0	-2
iTraxx Japan	58	1	6
iTraxx Australia	77	-2	6
CDX NA IG	64	-2	8
CDX NA HY	106	0	-1
iTraxx Eur Main	73	-2	13
iTraxx Eur XO	290	-7	10
iTraxx Eur Snr Fin	90	-3	22
iTraxx Sovx WE	27	0	3
AUD/USD	0.711	-0.15%	-1.47%
EUR/USD	1.150	-0.78%	-1.41%
USD/SGD	1.378	-0.12%	-0.52%
China 5Y CDS	65	-2	9
Malaysia 5Y CDS	102	-5	6
Indonesia 5Y CDS	144	-6	9
Thailand 5Y CDS	43	-2	2

	18-Oct	1W chg	1M chg
Brent Crude Spot (\$/bbl)	80.19	-0.09%	1.47%
Gold Spot (\$/oz)	1,222.90	-0.10%	2.05%
CRB	198.90	0.39%	4.37%
GSCI	477.99	-2.12%	2.18%
VIX	17.4	-24.22%	36.04%
CT10 (bp)	3.203%	5.33	14.80
USD Swap Spread 10Y (bp)	6	1	0
USD Swap Spread 30Y (bp)	-8	2	-1
TED Spread (bp)	16	-1	-4
US Libor-OIS Spread (bp)	18	-1	0
Euro Libor-OIS Spread (bp)	4	0	1
DJIA	25,707	0.42%	-2.06%
SPX	2,809	0.84%	-3.27%
MSCI Asiax	600	2.37%	-6.29%
HSI	25,462	-2.72%	-5.46%
STI	3,071	-1.93%	-2.17%
KLCI	1,741	0.31%	-2.92%
JCI	5,869	0.82%	0.98%

New issues

- Metro Holdings Ltd has priced a SGD150mn 3-year bond at 4.0%.
- Korean Air Lines Co Ltd has hired banks for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
18-Oct-18	Metro Holdings Ltd	SGD150mn	3-year	4.0%
17-Oct-18	Kookmin Bank	USD300mn	3-year	CT3+80bps
17-Oct-18	Development Bank of Mongolia LLC	USD500mn	5-year	7.5%
15-Oct-18	SDG Finance I Ltd	USD600mn	3-year	CT3+255bps
15-Oct-18	Weifang Urban Construction and Development Investment Group Co Ltd	USD250mn	3-year	6.5%
15-Oct-18	Korea Expressway Corp	USD300mn	3-year	CT3+80bps
13-Oct-18	Capital Environment Holdings Ltd	USD50mn	BEICAP 5.625'21s	5.735% + accrued interest
12-Oct-18	Cheergain Group Ltd	USD226mn	3-year	15.0%
12-Oct-18	People's Republic of China	USD1.5bn	5-year	CT5+30bps
12-Oct-18	People's Republic of China	USD1.0bn	10-year	CT10+45bps
12-Oct-18	People's Republic of China	USD500mn	30-year	CT30+70bps
11-Oct-18	Zijin International Capital Co	USD350mn	3-year	CT3+230bps
11-Oct-18	Yieldking Investment Ltd	USD500mn	3-year	4.80%
11-Oct-18	Anhui Provincial Investment Group Holding Co Ltd	USD400mn	3-year	CT3+200bps
11-Oct-18	Beijing Environment (BVI) Co	USD225mn	3-year	5.30%
10-Oct-18	Cagamas Global PLC	SGD160mn	2-year	2.79%

Source: OCBC, Bloomberg

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