

July 19, 2018

Credit Headlines: Capitaland Commercial Trust, Wheelock & Co Ltd, Keppel Telecommunications & Transportation Ltd, Pacific Radiance Ltd

Market Commentary

- The SGD swap curve flattened yesterday, with swap rates for the shorter tenors trading 1-3bps higher while the longer tenors traded 1bps lower.
- Flows in SGD corporates were moderate yesterday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 145bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 546bps.
- 10Y UST yields fell 1bps to 2.85% initially on the back of US home construction data which came in at a nine-month low yesterday. Yields recovered 2bps to close at 2.87% towards the later part of the trading session as Federal Reserve Chairman Jerome Powell remained positive about a healthy economy in front of Congress.

Credit Headlines:

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

- CCT reported broadly expected results for 2Q2018. Gross revenue increased 12% y/y to SGD98.0mn. Similarly, NPI increased 12.5% y/y to SGD77.7mn. This is mainly driven by Asia Square Tower 2 (acquired in Nov 2017), acquisition of 94.9%-stake in Gallileo (completed on 18 Jun 2018) and stronger performance by CapitaGreen though the gains were partly offset by divestments of 50% interest in One George Street, Golden Shoe Car Park and Wilkie Edge.
- On the portfolio development front, CCT's 45% integrated development CapitaSpring secured JP Morgan as an anchor tenant for 24% of the office NLA. Balance development costs for the project of SGD276.3mn will be incurred progressively until 2021. In addition, the divestment of Twenty Anson (SGD516mn) is expected to be completed by 3Q2018.
- Average office rent of CCT eased by 0.5% q/q (2Q2018: SGD9.65 psf) despite a 4.1% q/q increase in CBRE's Grade A office market rent. However, the pace of decline may not sustain as the gap between the expiring rents in 2018 and market rents continues to narrow. With more restrained office supply forecasted in 2H2018 and 2019, market rents are expected to continue picking up.
- WALE is healthy at 6 years. Majority of expiring leases has been completed with only 2% of office space and 1% of retail space leases expiring in 2018.
- Aggregate leverage remained stable at 37.9% despite the acquisition of Gallileo as CCT saw slight revaluation gains on most of its major investment properties with the overall valuation up 1.3% from 4Q2017. This was due to lower discount rates assumed and compression of capitalization rates. Reported interest coverage improved slightly to 5.3x (1Q2018: 5.1x). CCT has no maturities due in 2018, all of which has been refinanced. (Company, OCBC)

Wheelock & Co Ltd (“WHEELK”) | Issuer Profile: Positive (2)

- WHEELK announced the privatisation of Wheelock Properties Ltd at SGD2.10 per share (yesterday's close: SGD1.74) amounting to SGD598mn in total acquisition cost for the ~24% shares it does not already own. With WHEELK holding HKD56.5bn (SGD9.7bn) in cash, we think the credit impact is minimal. As such, we continue to hold WHEELK at Positive (2) Issuer Profile Rating.

Credit Headlines (cont'd):

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

- KPTT announced its 2Q2018 results. Revenue declined 4.9% y/y to SGD45.3mn due to lower project management fee income from data centres and lower container throughput at its Chinese ports though warehousing and channel management business did better.
- Operating expenses though increased 7.1% y/y mainly due to higher costs incurred in the Logistics Division. Reported operating profit though was significantly higher at SGD16.0mn (2Q2017: SGD2.4mn), driven by a one-off item. In May 2018, KPTT's associate Keppel DC REIT (“KDC REIT”) did an equity private placement that raised SGD303.1mn in gross proceeds. Prior to the equity placement, KPTT held 30%-stake in KDC REIT though this has fallen to 25% post the equity placement. Mainly as a result of dilution gain from the change in equity interest in its associate, KPTT had recognised other income of SGD19.1mn.
- EBITDA (based on our calculation which does not include other income and other expenses) was thin at SGD2.1mn. KPTT though receives significant dividend income from its investments (mainly KDC REIT and M1 Ltd). Adjusting for the lower stake in KDC REIT, we estimate that KPTT receives SGD10.7mn per quarter in dividends. Adding this into EBITDA, we find adjusted EBITDA/Interest manageable at 5.1x though significantly lower than 6.6x in 2Q2017.
- As at 30 June 2018, gross gearing was slightly lower at 0.45x (31 March 2018: 0.50x) though in end-2017, KPTT shared that capital commitment was SGD337.8mn (mainly on capital commitment to the Alpha DC Fund, the data centre focused private equity fund set up by KPTT and its sister company Alpha Investment Partners Limited (“AIP”, sits outside the KPTT corporate structure). We expect net gearing at KPTT to rise in the coming quarters as it progressively funds such commitments. (Company, OCBC)

Pacific Radiance Ltd (“PACRA”) | Not Rated

- PACRA completed the second informal meeting with noteholders and made changes to the proposed restructuring of the notes. The salient changes include:
 - For option 1, which originally featured 5% cash payment upfront and 5% cash payment in Year 4, the new proposal includes another 5% cash payment in Year 7.
 - However, less shares will be received upfront (only 2.104mn shares instead of the original 2.2295mn).
 - For option 2, this features a convertible bond. Instead of the original mandatory conversion of the full principal at Year 9 if not redeemed, this is revised to a cash payment of 20% principal with conversion of the remainder 80%.
 - For both options, the accompanying warrants (125k warrants for every SGD250k in notes) will have a longer exercise period (4 years instead of the original 3 years).
 - As another sweetener, shareholders can participate in the share placement, for a maximum of SGD10mn at SGD0.014 per share, instead of the original SGD350k.
- Overall, we think that the terms have materially improved from the first informal noteholders meetings. As a reminder, the consent solicitation exercise is expected to take place on 24 August.

Table 1: Key Financial Indicators

| | 19-Jul | 1W chg (bps) | 1M chg (bps) |
|--------------------|--------|--------------|--------------|
| iTraxx Asiax IG | 87 | -4 | 6 |
| iTraxx SovX APAC | 13 | -1 | -1 |
| iTraxx Japan | 54 | -1 | 10 |
| iTraxx Australia | 82 | -1 | 10 |
| CDX NA IG | 61 | -1 | -2 |
| CDX NA HY | 107 | 0 | 0 |
| iTraxx Eur Main | 64 | -3 | -5 |
| iTraxx Eur XO | 291 | -6 | -10 |
| iTraxx Eur Snr Fin | 76 | -3 | -3 |
| iTraxx Sovx WE | 24 | 0 | 1 |
| AUD/USD | 0.740 | -0.07% | 0.30% |
| EUR/USD | 1.165 | -0.21% | 0.50% |
| USD/SGD | 1.365 | -0.15% | -0.60% |
| China 5Y CDS | 64 | -3 | 6 |
| Malaysia 5Y CDS | 94 | -5 | -10 |
| Indonesia 5Y CDS | 116 | -7 | -23 |
| Thailand 5Y CDS | 45 | 0 | -1 |

| | 19-Jul | 1W chg | 1M chg |
|----------------------------|----------|---------|--------|
| Brent Crude Spot (\$/bbl) | 72.99 | -1.96% | -2.78% |
| Gold Spot (\$/oz) | 1,227.84 | -1.57% | -3.67% |
| CRB | 191.47 | -0.71% | -1.21% |
| GSCI | 454.30 | -1.11% | -1.80% |
| VIX | 12.1 | -11.23% | -9.36% |
| CT10 (bp) | 2.880% | 3.48 | -1.65 |
| USD Swap Spread 10Y (bp) | 7 | 0 | 0 |
| USD Swap Spread 30Y (bp) | -4 | -1 | 2 |
| TED Spread (bp) | 34 | -4 | -7 |
| US Libor-OIS Spread (bp) | 35 | -2 | -6 |
| Euro Libor-OIS Spread (bp) | 3 | -1 | -1 |
| DJIA | 25,199 | 2.02% | 2.02% |
| SPX | 2,816 | 1.50% | 1.92% |
| MSCI Asiax | 666 | -0.26% | -3.40% |
| HSI | 28,117 | -0.69% | -4.58% |
| STI | 3,241 | -0.26% | -1.84% |
| KLCI | 1,753 | 3.81% | 2.20% |
| JCI | 5,891 | -0.04% | -1.72% |

New issues

- Korea Hydro & Nuclear Power Co Ltd has priced a USD600mn 5-year green bond at CT5+112.5bps, tightening from its initial price guidance of CT5+140bps area.
- Industrial & Commercial Bank of China Ltd/Hong Kong has priced a USD150mn 2-year bond at 3mL+70bps.
- Republic of Korea 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-Jul-18 | Korea Hydro & Nuclear Power Co Ltd | USD600mn | 5-year | CT5+112.5bps |
| 18-Jul-18 | Industrial & Commercial Bank of China Ltd/Hong Kong | USD150mn | 2-year | 3mL+70bps |
| 17-Jul-18 | United Overseas Bank Ltd | AUD600mn | 3.5-year | 3mBBSW+81bps |
| 17-Jul-18 | Housing and Development Board | SGD700mn | 5-year | 2.42% |
| 17-Jul-18 | Mitsubishi UFJ Financial Group Inc | USD750mn | 3-year | CT3+85bps |
| 17-Jul-18 | Mitsubishi UFJ Financial Group Inc | USD750mn | 3-year | 3mL+65bps |
| 17-Jul-18 | Mitsubishi UFJ Financial Group Inc | USD1bn | 5-year | CT5+100bps |
| 17-Jul-18 | Mitsubishi UFJ Financial Group Inc | USD800mn | 5-year | 3mL+86bps |
| 17-Jul-18 | Mitsubishi UFJ Financial Group Inc | USD500mn | 20-year | CT20+132bps |
| 17-Jul-18 | Mitsubishi UFJ Financial Group Inc (re-tap) | USD800mn | MUFG 3.961%'28s | CT10+120bps |
| 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 |

Source: OCBC, Bloomberg

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