

Oct 19, 2018

Credit Headlines: Frasers Commercial Trust, Hyflux Ltd, Keppel Corporation Ltd

Market Commentary

- The SGD swap curve steepened yesterday, with swap rates trading 2-3bps higher across most tenors (with the exception of the 30-year swap rates trading 1bps higher).
- Flows in SGD corporates were heavy yesterday, with better buying seen in HSBC 5.0%-PERPs, and METRO 4.0%'21s.
- 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 widened 3bps to 494bps.
- Overall, 10Y UST yields fell 3bps to close at 3.18% on the back of safe haven demand as a stock sell-off resumed due to trade and rate concerns along with weaker than expected reported earnings in the US.

Credit Headlines:

Frasers Commercial Trust ("FCOT") | Issuer Profile: Neutral (4)

- FCOT reported 4Q2018 and FY2018 results. Reported gross revenue for FY2018 was 14.8% lower y/y at SGD133.3mn. This is mainly due to lower occupancy rates for the Singapore properties (75.7%, down from 77.8% as at 30 September 2017), Central Park and 357 Collins Street, divestment of 55 Market Street on 31 August 2018, absence of a one-off payment in relation to a lease termination in Central Park and effects of the average weaker Australian dollar. NPI declined more sharply by 21.6% y/y as a result of lower portfolio gross revenue and higher maintenance expense for Caroline Chisholm Centre.
- As at 30 September 2018, the portfolio committed occupancy rate improved to 83.4% from 81.9% as at 30 June 2018. Low occupancy at Alexandra Technopark (4Q2018: 70.2%, 3Q2018: 64.8%) and Central Park (4Q2018: 70.0%, 3Q2018: 69.8%) continue to drag overall portfolio occupancy despite improvements. FY2019 expiries as a percentage of total gross rental income is 20.1% and reduced to 13.1% after factoring in committed leases secured as at 30 September 2018. The bulk of the expiries at 10.2% of portfolio gross rental income (adjusted for committed leases secured is 8.0%) is due to Alexandra Technopark whose SGD45mn asset enhancement initiative announced in January 2017 is nearing completion.
- Aggregate leverage is significantly lower at 28.3% (3Q2018: 35.4%) following the pay down of SGD197mn debt (including prepayment of SGD157mn debt maturing in 2019) with divestment proceeds 55 market street. As at 30 September 2018, FCOT only has SGD17mn debt maturing in 2019. The low leverage level provides substantial headroom and flexibility for FCOT to acquire assets from sponsor. It is worth noting that FCOT has over SGD4bn in right of first refusal properties from sponsor, Frasers Property Group.
- While FCOT's credit metrics have improved post-divestment of 55 Market Street, we will continue to monitor FCOT's on-going asset performance especially in Singapore. (OCBC, Company)

Credit Headlines (cont'd):

Hyflux Ltd (“HYF”) | Issuer Profile: Unrated

- Following on from the [two week extension](#) granted by Malayan Banking Berhad (“Maybank”), HYF has [announced](#) that SM Investments Pte Ltd has executed binding agreements to inject SGD530mn as part of a Restructuring Agreement.
- SM Investments Pte Ltd (“SMI”) is owned by the Salim Group and Medco Group. The Salim Group owns a diverse range of investments in South East Asia comprising power generation and electricity distribution, water and wastewater treatment as well as oil and gas. The Medco Group is centred around PT Medco Energi International Tbk, which owns assets in upstream oil and gas, gas pipelines, power generation and mining. Both groups view this investment as a strategic fit for their existing business footprints.
- As a recap, HYF was running two concurrent exercises with regards its overall Financial Reorganization Exercise that relate to (1) court orders granting a six-month moratorium over HFY and four of its subsidiaries to pursue strategic investments at the HYF holding company (“holdco”) level; and (2) a separate agreement with Maybank as sole secured creditor at Tuaspring IWPP to conduct a stand-alone sale process for the Tuaspring IWPP.
- Key aspects of the Restructuring Agreement which relate to a strategic investment at the holdco include:
 - SGD400mn equity investment in holdco for a 60% stake in the enlarged equity base;
 - SGD130mn shareholder loan (terms and conditions undisclosed); and
 - SGD30mn working capital loan to be available up to the proposed investment, which is to be senior to existing debt as a form of debtor in possession financing.
 - Completion of Conditions Precedent including (a) necessary approvals from existing shareholders, SGX, and approvals by the Public Utilities Board, National Environment Agency and Energy Market Authority given change of control provisions in various licenses and agreements; and (b) a full and final settlement of outstanding unsecured debt, preference shares, perpetual securities, contingent debt and trade debt through either amendment or redemption.
- According to [HYF's presentation](#) from town hall meetings conducted on 19th and 20th July, there are SGD900mn in preference shares and perpetual securities and SGD803mn in senior unsecured debt at the holdco while the proposed Restructuring Agreement indicates only SGD530mn though the equity investment and shareholder loan can be applied towards settling outstanding unsecured debt, preference shares, perpetual securities, contingent debt and trade debt. As such, we expect some form of restructuring package to be forthcoming in coming weeks. It is still too early to comment on what proposed form this package could take.
- Given this material development, HYF is reportedly now using the two week extension granted to 29 October 2018 to engage with Maybank on the sale process of Tuaspring. So far, only one party has submitted a bid at a level reportedly well below book value. Given the struggles with this sales process, and this proposed investment HYF is expected to negotiate to maintain ownership of the plant based on a more sustainable capital structure going forward, pending finalization of the Restructuring Agreement. Maintaining ownership of the plant is also the preference of SM Investments Pte Ltd and HYF management.
- Although completion of the deal is subject to various stakeholder approvals and negotiation of a final form that fits for all, directionally we think this is a positive development for bondholders, as well as perpetual and preference shareholders as this points towards a potentially better outcome versus a liquidation or a forced sale of Tuaspring at a low price. That said, with the many moving parts we expect the Financial Reorganization Exercise to take some time to complete.
- Completion date for the proposed investment by SM Investments Pte Ltd is defined as 3 business days following completion of all conditions precedent. We will continue to update as necessary. (OCBC, Company)

Credit Headlines (cont'd):

Keppel Corporation Ltd ("KEP") | Issuer Profile: Neutral (3)

- KEP announced its financial results. 3Q2018 revenue was down 19.9% y/y to SGD1.3bn on the back of lower revenue recognition from the Property Division (property trading) and lower revenue from the Investments Division. Offshore & Marine saw an increase in revenue by SGD36mn to SGD416mn while the Infrastructure Division saw revenue increased by SGD48mn to SGD674mn from increased sales in the power and gas business, offset by lower revenue recognition of the Keppel Marine East Desalination project (50% completed, targeted to be ready by early 2020).
- Reported operating profit though was only 8.9% y/y lower at SGD270.4mn as KEP recognised higher operating income of SGD148.0mn (3Q2017 other operating income of SGD24.0mn). For 3Q2018, this was mainly driven by gain on disposal of subsidiaries (including the en-bloc sale of a property development project in Shenyang) and gain from the sale of units held in Keppel DC REIT and Keppel REIT. Encouragingly, the Offshore & Marine segment eked out a net profit of SGD2.0mn on revenue of SGD415.9mn for the quarter. Excluding the Sete Brasil contracts, net orderbook for the segment was SGD4.4bn (down from SGD4.6bn as at 30 June 2018, although above SGD3.9bn in end-2017). There was no significant contract wins in 3Q2018, though we continue to think that orders will pick up.
- KEP reported net profit for the quarter at SGD227.6mn (3Q2017: SGD265.0mn) though foreign exchange translation loss (from the depreciation of RMB against SGD) wiped out much of these profits leading to a total comprehensive income for the period of only SGD2.3mn during the quarter.
- As at 30 September 2018, unadjusted net gearing was stable at 0.4x though KEP is in the midst of various growth initiatives (eg: expansion of Keppel Capital) and proposed acquisitions which could tilt net gearing higher in the next 6 months. We are reviewing the issuer profile for KEP. (OCBC, Company)

Table 1: Key Financial Indicators

	19-Oct	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	89	3	13
iTraxx SovX APAC	10	--	-2
iTraxx Japan	59	2	8
iTraxx Australia	78	0	8
CDX NA IG	67	3	11
CDX NA HY	106	0	-2
iTraxx Eur Main	76	2	15
iTraxx Eur XO	299	5	21
iTraxx Eur Snr Fin	95	2	27
iTraxx Sovx WE	28	1	4
AUD/USD	0.709	-0.30%	-2.34%
EUR/USD	1.146	-0.90%	-1.86%
USD/SGD	1.381	-0.22%	-0.89%
China 5Y CDS	67	3	13
Malaysia 5Y CDS	104	2	10
Indonesia 5Y CDS	147	3	14
Thailand 5Y CDS	44	1	3

	19-Oct	1W chg	1M chg
Brent Crude Spot (\$/bbl)	79.52	-1.13%	0.15%
Gold Spot (\$/oz)	1,225.97	0.73%	1.82%
CRB	196.63	0.00%	2.54%
GSCI	472.80	-1.23%	0.18%
VIX	20.06	-19.70%	70.72%
CT10 (bp)	3.175%	1.35	11.22
USD Swap Spread 10Y (bp)	7	3	1
USD Swap Spread 30Y (bp)	-8	2	-1
TED Spread (bp)	16	-1	-3
US Libor-OIS Spread (bp)	17	-1	-1
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,379	1.30%	-3.89%
SPX	2,769	1.48%	-4.79%
MSCI Asiax	594	-1.31%	-8.21%
HSI	25,455	-2.82%	-7.13%
STI	3,070	0.73%	-3.37%
KLCI	1,738	1.73%	-3.48%
JCI	5,845	2.50%	-0.48%

New issues

- Doosan Power Systems SA has priced a USD300mn 30NC3 bond (guaranteed by The Export-Import Bank of Korea) at CT3+87.5bps, tightening from its initial price guidance of CT3+110bps area.
- Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara has priced a USD1bn deal across two tranches, with the USD500mn 10.25-year priced at 99.004 to yield 5.5%, tightening from its initial price guidance of 5.75% and the USD500mn 30.25-year bond priced at 99.293 to yield 6.3%, tightening from its initial price guidance of 6.6%.
- Industrial and Commercial Bank of China Ltd (London Branch) has priced a USD1bn deal across two tranches, with the USD500mn 3-year FRN priced at 3mL+75bps, tightening from its initial price guidance of 3mL+100bps area and the USD500mn 5-year FRN at 3mL+85bps, tightening from its initial price guidance of 3mL+110bps area.
- Zhenro Properties Group has priced a USD70mn re-tap of its ZHPRHK 12.5%'21s at 13.5%.
- Singapore Airlines Ltd has priced a SGD600mn 5-year bond at 3.16%.
- Interplex Holdings Pte Ltd has scheduled for investor meetings from 22 Oct for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
18-Oct-18	Doosan Power Systems SA	USD300mn	30NC3	CT3+87.5bps
18-Oct-18	Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	USD500mn	10.25-year	99.004
18-Oct-18	Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	USD500mn	30.25-year	99.293
18-Oct-18	Industrial and Commercial Bank of China Ltd (London Branch)	USD500mn	3-year	3mL+75bps
18-Oct-18	Industrial and Commercial Bank of China Ltd (London Branch)	USD500mn	5-year	3mL+85bps
18-Oct-18	Zhenro Properties Group	USD70mn	ZHPRHK 12.5%'21s	13.5%
18-Oct-18	Singapore Airlines Ltd	SGD600mn	5-year	3.16%
17-Oct-18	Metro Holdings Ltd	SGD150mn	3-year	4.0%
16-Oct-18	Kookmin Bank	USD300mn	3-year	CT3+80bps
16-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

Source: OCBC, Bloomberg

Andrew Wong

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Ezien Hoo, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com

Seow Zhi Qi

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
zhiqiseow@ocbc.com

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