

Nov 22, 2018

Credit Headlines: Hyflux Ltd, Sabana Shari'ah Compliant Industrial REIT, Banyan Tree Holdings Limited

Market Commentary

- The SGD swap curve steepened yesterday, with swap rates trading 3-4bps higher across most tenors (with the exception of the 12-year swap rates trading around 2bps higher).
- Flows in SGD corporates were heavy yesterday, with better buying seen in UBS 5.875%-PERPs, DBSSP 3.98%-PERPs and TEMASE 2.7%'23s and better selling seen in OCBCSP 4.0%-PERPs.
- In the broader dollar space, the spread on the Itraxx Asia ex-Japan IG Index traded 3.1bps lower to 96.2bps.
- 10Y UST yields rose 2bps to 3.08% in the earlier part of the trading session as stock prices rebounded but fell 2bps to close at 3.06% after data showed that new orders for US made capital goods were weaker than expected.

Credit Headlines:

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

- HYF's [application to extend the moratorium](#) by four months (to April 2019) as well as its [super-priority financing](#) as part of its [Restructuring Agreement with SM Investments Private Limited](#) is scheduled in Singapore's High Court on Monday 26th November.
- We see this as a highly critical event, especially in the context of other recent developments including receipt of a [notice of termination](#) with respect to a seawater desalination plant in Algeria, sale of assets and [extension](#) by secured creditor Maybank for HYF to find a binding bid for Tuaspring. We feel the situation for HYF could be deteriorating for the following reasons:
 - The Restructuring Agreement with SM Investments Private Limited could be faced with challenges to implementation, particularly given its heavily conditional nature and need for approvals from various stakeholders;
 - HYF appears to be receiving little support from current creditors. This includes Maybank which agreed to a short term extension only until the end of November find a buyer, effectively emphasizing its sole right to decide whether or not Tuaspring stays within the HYF group;
 - Offtakers as well could be withdrawing support. We [previously flagged](#) that Hyflux's debt moratorium could provide sufficient grounds for customers to seek a termination of its concession agreements in the absence of any reassurance of HYF's ability to continue as a going concern.
 - The longer that time goes on, it is becoming clearer that HYF's business or industry is strategically important to the government, and not HYF itself as a company.
- Although the [Minister for the Environment and Water Resources](#) has more or less stated that foreign ownership at HYF (hence agreement with SM Investments Private Limited) is not an issue and is a commercial matter, this in our view is not so much the constraint for HYF as the restriction on foreign parties owning at the asset level. This has compromised HYF's ability to get more bidders for the sale of Tuaspring.
- Next key date is Monday 26th November where the Singapore High Court will review Hyflux's applications to extend its debt moratorium by four months and establish its debtor-in-possession financing. (OCBC)

Credit Headlines (cont'd):

Sabana Shari'ah Compliant Industrial REIT ("SSREIT") | Issuer Profile: Neutral (5)

- InfinitySub Pte Ltd (an indirect wholly-owned subsidiary of ESR Cayman Limited ("ESR")) has entered into an agreement to buy a **60%-stake** in Blackwood Investment Pte Ltd ("Blackwood") from two individuals, one being the former CEO of SSREIT and the other being the current Chief Operating Officer of SSREIT. As REIT Managers are regulated, the buyer has obtained approval from the MAS for the proposed acquisition.
- Indirectly, Blackwood holds a **45%-stake** in SSREIT's REIT Manager. In effect, ESR would buy an indirect **27%-stake** in SSREIT's REIT Manager. The remaining shareholders of the REIT Manager include Vibrant Group (the Sponsor, holding a **51%-stake**), Atrium Asia Capital Partners Pte Ltd (a boutique investment manager) and other individuals. As the REIT Manager holds **41.2mn** shares in SSREIT itself, ESR's deemed interest in the REIT has increased to **11.8% (direct interest of 7.9%)**.
- ESR is controlled by the private equity manager, Warburg Pincus. ESR is the Sponsor of ESR-REIT ("EREIT") and holds a **67.3%-stake** in EREIT's REIT Manager.
- Earlier SSREIT and EREIT were in exclusive talks on a potential deal though in **November 2017**, the talks ended, with EREIT focusing on its merger with VIVA Industrial Trust ("VIT").
- We view this as early signs pointing towards a roll-up of SSREIT into EREIT. We estimate EREIT now has an asset base of **SGD3.1bn** versus SSREIT's **SGD937.9mn** as at 30 September 2018. Until we see further developments, we are maintaining EREIT's issuer profile at Neutral (4). The Industrial REITs sector is relatively fragmented beyond the Big Three. We see benefits in scale and should a roll-up happen, the number of Industrial REITs may be reduced to seven (from nine before October 2018). Should this scenario happen, the remaining REITs with smaller scale (sub-SGD1.5bn in assets) may face increasing tenancy risk and hampered accessibility to capital markets. (Company, OCBC)

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

- BTH announced that its 96.3%-subsidiary, namely Banyan Tree China Pte. Ltd ("BTC") has sold an 18.6%-stake in Banyan Tree Assets (China) Holdings Pte. Ltd ("BTAC") at a cash consideration of SGD78.6mn. Immediately prior to the transaction, BTC owned a 22.8% in BTAC. As at 31 December 2017, BTC had owned a 50%-stake in BTAC though this had been diluted from April 2018.
- BTC faces SGD50mn in bonds due on 26 November 2018 and we see refinancing risk for this bond as manageable. (Company, OCBC)

Table 1: Key Financial Indicators

| | 22-Nov | 1W chg (bps) | 1M chg (bps) |
|--------------------|--------|--------------|--------------|
| iTraxx Asiax IG | 96 | 4 | 8 |
| iTraxx SovX APAC | 10 | 0 | 1 |
| iTraxx Japan | 64 | 2 | 9 |
| iTraxx Australia | 88 | 5 | 9 |
| CDX NA IG | 78 | 5 | 11 |
| CDX NA HY | 104 | -1 | -2 |
| iTraxx Eur Main | 78 | 2 | 4 |
| iTraxx Eur XO | 320 | 6 | 26 |
| iTraxx Eur Snr Fin | 103 | 6 | 12 |
| iTraxx Sovx WE | 28 | 1 | 1 |
| AUD/USD | 0.727 | -0.16% | 2.60% |
| EUR/USD | 1.139 | 0.55% | -0.65% |
| USD/SGD | 1.373 | 0.14% | 0.50% |
| China 5Y CDS | 72 | 4 | 5 |
| Malaysia 5Y CDS | 116 | 3 | 10 |
| Indonesia 5Y CDS | 150 | 2 | 2 |
| Thailand 5Y CDS | 47 | 3 | 4 |

| | 22-Nov | 1W chg | 1M chg |
|----------------------------|----------|--------|---------|
| Brent Crude Spot (\$/bbl) | 63.48 | -3.99% | -20.43% |
| Gold Spot (\$/oz) | 1,225.72 | 1.02% | 0.30% |
| CRB | 185.00 | -1.62% | -6.21% |
| GSCI | 422.13 | -2.47% | -11.19% |
| VIX | 20.8 | -2.12% | 5.91% |
| CT10 (bp) | 3.063% | -4.76 | -13.51 |
| USD Swap Spread 10Y (bp) | 6 | 0 | 0 |
| USD Swap Spread 30Y (bp) | -11 | 0 | -2 |
| TED Spread (bp) | 27 | -1 | 10 |
| US Libor-OIS Spread (bp) | 30 | 0 | 10 |
| Euro Libor-OIS Spread (bp) | 3 | -1 | -1 |
| DJIA | 24,465 | -2.46% | -3.37% |
| SPX | 2,650 | -1.91% | -3.84% |
| MSCI Asiax | 599 | -0.95% | 0.64% |
| HSI | 25,971 | 1.24% | -0.69% |
| STI | 3,039 | -0.15% | -1.28% |
| KLCI | 1,695 | 0.46% | -1.57% |
| JCI | 5,948 | 1.93% | 1.84% |

New issues

- Yunnan Energy Investment Overseas Finance Company Ltd has priced a USD200mn 3-year bond (guaranteed by Yunnan Provincial Energy Investment Group Co Ltd) at 6.75%, tightening from its initial price guidance of 6.9%.
- Hongkong Land Treasury Services (Singapore) Pte Ltd has priced a SGD140mn 20-year bond at 3.95%.

| <u>Date</u> | <u>Issuer</u> | <u>Size</u> | <u>Tenor</u> | <u>Pricing</u> |
|-------------|--|-------------|------------------|----------------|
| 21-Nov-18 | Yunnan Energy Investment Overseas Finance Company Ltd | USD200mn | 3-year | 6.75% |
| 21-Nov-18 | Hongkong Land Treasury Services (Singapore) Pte Ltd | SGD140mn | 20-year | 3.95% |
| 19-Nov-18 | Takeda Pharmaceutical Co Ltd | USD1bn | 2-year | CT2+105bps |
| 19-Nov-18 | Takeda Pharmaceutical Co Ltd | USD1.25bn | 3-year | CT3+120bps |
| 19-Nov-18 | Takeda Pharmaceutical Co Ltd | USD1.5bn | 5-year | CT5+155bps |
| 19-Nov-18 | Takeda Pharmaceutical Co Ltd | USD1.75bn | 10-year | CT10+200bps |
| 19-Nov-18 | DBS Bank Ltd | USD1.25bn | 3-year | MS+31bps |
| 19-Nov-18 | The Export-Import Bank of Korea | USD500mn | 3-year | CT3+67.5bps |
| 19-Nov-18 | The Export-Import Bank of Korea | USD500mn | 5-year | CT5+87.5bps |
| 19-Nov-18 | Scenery Journey Ltd | USD1bn | TIANHL 11.0%'20s | 100 |
| 19-Nov-18 | Times China Holdings Limited | USD300mn | 2-year | 11.0% |
| 19-Nov-18 | Greenland Global Investment Limited | USD200mn | 1.5-year | 9.25% |
| 19-Nov-18 | Shanghai Pudong Development Bank Co Ltd., Singapore Branch | USD300mn | 3-year | 3mL+87bps |
| 15-Nov-18 | Agile Group Holdings Ltd | USD400mn | 2-year | 9.5% |
| 15-Nov-18 | Thaioil Treasury Center Co Ltd | USD400mn | 10-year | CT10+165bps |

Source: OCBC, Bloomberg

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