

Sept 27, 2018

Credit Headlines: Sabana Shari'ah Compliant Industrial Real Estate Investment Trust, Mapletree Logistics Trust, Keppel Corp Ltd, Keppel Telecommunications & Transportation Limited, CapitaLand Mall Trust, CapitaLand Ltd

Market Commentary

- The SGD swap curve bull flattened yesterday, with swap rates for the shorter tenors trading 2-4bps lower while the longer tenors traded 4-6bps lower.
- Flows in SGD corporates were heavy yesterday, with better buying seen in HSBC 5.0%-PERPs, HSBC 4.7%-PERPs and DBSSP 3.98%- PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 139bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 472bps.
- 10Y UST yields fell 5bps to close at 3.05%, retreating from four-month highs as the Fed signalled it would remain on a gradual rate-hike path in response to solid economic growth after raising rates for the third time in 2018 from a target range of 2.0% to 2.25%.

Credit Headlines:

Sabana Shari'ah Compliant Industrial Real Estate Investment Trust ("SSREIT") | Issuer Profile: Neutral (5)

- SSREIT is proposing to sell 9 Tai Seng Drive for SGD99.6mn. The property had an open market value of SGD39.6mn based on the latest available property valuation report dated 30 June 2018. As at 31 December 2017, independent valuation of 9 Tai Seng Drive was SGD40.5mn, making up 4.3% of total investment properties (by value) and contributed 4.7% to FY2017 rental income. The sale is subject to JTC Corporation approval, among other conditions precedents to be fulfilled.
- 9 Tai Seng Drive is zoned as an industrial property though has an authorized business use as a colocation centre/data centre which we think was the main reason why SSREIT was able to fetch a significant gain of SGD60.0mn over book value. A deposit of SGD10.0mn has been paid with the remainder to be paid at completion, targeted in early 2019.
- We see this as a credit positive transaction for SSREIT and assuming that cash proceeds are used to help pay down debt, we expect aggregate leverage to decrease significantly to ~29% (30 June 2018: 38%). (Company, OCBC)

Mapletree Logistics Trust ("MLT") | Issuer Profile: Neutral (4)

- On 5 July 2018, [MLT announced the proposed acquisition of five properties](#) in Singapore from CWT Pte Limited ("CWT SG") and CWT SG subsidiaries for a total acquisition cost of SGD805.9mn. The acquisitions was subject to (a) JTC Corporation approval and (b) approval of shareholders of CWT International Limited ("CWTI", being the parent company of CWT SG) as this constituted a very substantial disposal under Hong Kong listing rules where CWTI is listed.
- MLT has announced that it has received in-principle approval from JTC Corporation over the sale of the properties by CWT SG to MLT and also the lease of the properties by CWT SG and its subsidiaries as master lessee. Earlier in August 2018, CWTI shareholders also approved the deal.
- With MLT having also completed the equity raising to raise SGD375mn that will help pay for the purchase, the deal completion is imminent in our view. (Company, OCBC)

Credit Headlines (cont'd):

Keppel Corp Ltd (“KEP”): | Issuer Profile: Neutral (3) and Keppel Telecommunications & Transportation Limited (“KPTT”) | Issuer Profile: Neutral (4)

- KEP has announced two concurrent proposed transactions: (i) Proposed acquisition by KEP of all the shares in KPTT that it does not already hold via a scheme of arrangement (“KPTT Deal”) and (ii) Pre-conditional general offer together with third party Singapore Press Holdings (“SPH”) for shares in M1 Ltd (“M1”). This excludes the stake in M1 already owned by KPTT (“M1 Joint Deal”).
- **KPTT Deal:** KEP owns 442.9mn shares, representing a ~79.2%-stake in KPTT, a subsidiary of KEP, separately listed on the Singapore Stock Exchange. KEP has announced that it is proposing to buy the remaining stake it does not already own in KPTT for SGD1.91 in cash per share (40% premium to last traded price before KPTT going into trading halt). Other than shares KEP already owns, we estimate that there are 116.2mn shares already outstanding that are not owned by KEP and additionally 2.5mn of potential new shares that may be issued as part of awards granted under KPTT’s restricted share plan and performance share plan. The scheme of arrangement does not automatically extend to holders of these contingent shares, though it does mean that the final share count that KEP will buy could be higher than 116.2mn if these contingent shares are converted beforehand. Including the 2.5mn of potential new shares, the maximum purchase consideration is ~SGD266.6mn and these will be funded by bank debt.
- **M1 Joint Deal:** KEP and SPH has set up an offer vehicle, namely Konnectivity Pte Ltd (“Konnectivity”), to make a proposed general offer for stakes in M1. The actual offer is subject to approval from the Info-communications Media Development Authority (“IMDA”). Konnectivity is currently owned by KEP and SPH on a 80:20 basis. Konnectivity is offering SGD2.06 in cash per M1 shares (26% premium to last traded price before M1 going into trading halt). This offer will also be extended to all new shares in M1 that will be issued before closing date of the offer (eg: from M1’s share option scheme and outstanding awards granted under M1’s share plan). Assuming all these potential new shares are fully issued, Konnectivity would buy a maximum of 776.8mn shares. The total maximum cash outlay by KEP is SGD1.28bn (representing its 80%-stake in Konnectivity). SPH’s 124.4mn shares in M1 will be rolled-over into Konnectivity, where instead of cash, SPH would receive new shares in Konnectivity. Konnectivity intends to gain majority control of M1 though it remains to be seen if M1 will remain as a separate listed company. For now, Konnectivity had only shared its intention of a delisting if free float requirement is unmet. Konnectivity is yet to disclose how the transaction would be funded. Axiata Group Berhad (“Axiata”), the largest shareholder of M1 holding a ~28.7%-stake is seeking financial advisers input on the evolving situation though reportedly may reject Konnectivity’s offer. We do not yet know if there is any validity to these reports though we believe that Axiata would take into account the interest of its shareholders, including its largest shareholder Khazanah who holds a 37%-stake in Axiata. It is worth noting that Khazanah has recently gone through significant board changes and its future investment/divestment plans remains uncertain.
- In our view, KEP has the financial wherewithal to complete both transactions (30 June 2018 cash balance: SGD2.2bn) though we will be reviewing KEP’s credit profile. For KPTT, our base case assumes that the take-private by KEP would be successful and may cease coverage on the issuer post-delisting. (Company, Reuters, OCBC)

Credit Headlines (cont'd):

CapitaLand Mall Trust ("CMT") | Issuer Profile: Positive (2) / CapitaLand Ltd ("CAPL") | Issuer Profile: Neutral (3)

- On 28 August 2018, [CMT announced the proposed acquisition of the balance 70% of Westgate](#) from CAPL for a total acquisition cost of SGD805.5mn including a cash outlay of SGD405.6mn. Should the transaction be fully funded by debt, company reported aggregate leverage is expected to rise to ~36% from 31.5% as at 30 June 2018. CMT indicated they may also utilise a combination of debt and equity with up to ~30% equity leading to company reported aggregate leverage at ~34%. The funding decision is dependent on then prevailing market conditions, interest rate environment, and availability of alternative funding options.
- Although aggregate leverage will inch higher, we think this transaction (~8% of total assets) will be credit positive for CMT in the long term given Westgate is expected to enable CMT to redeploy capital from recent divestments with exit yields in the 3% to 4% range at a higher property yield of ~4.3%. Further, the agreed value of SGD2,746 per sq ft of NLA is reasonable and Westgate will reduce CMT's reliance on any single property in terms of gross revenue.
- As previously mentioned, we see this transaction as credit neutral to CAPL given the small scale versus CAPL's total asset of SGD62.5bn as at 30 June 2018.
- Unitholders of CMT will vote for or against CMT's proposed acquisition of the balance 70% of Westgate in the extra-ordinary general meeting scheduled for October 25th. (Company, OCBC)

Table 1: Key Financial Indicators

	27-Sep	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	81	-3	3
iTraxx SovX APAC	9	-2	-1
iTraxx Japan	58	-2	3
iTraxx Australia		-1	3
CDX NA IG	60	0	2
CDX NA HY	107	0	0
iTraxx Eur Main	68	0	2
iTraxx Eur XO	269	3	-16
iTraxx Eur Snr Fin	80	1	-1
iTraxx Sovx WE	23	-1	-5
AUD/USD	0.726	-0.44%	-1.24%
EUR/USD	1.176	-0.19%	0.66%
USD/SGD	1.366	-0.08%	-0.24%
China 5Y CDS	57	-2	2
Malaysia 5Y CDS	93	-6	8
Indonesia 5Y CDS	133	-7	17
Thailand 5Y CDS	41	-2	0

	27-Sep	1W chg	1M chg
Brent Crude Spot (\$/bbl)	82.25	4.51%	7.93%
Gold Spot (\$/oz)	1,196.71	-0.87%	-1.21%
CRB	193.97	1.15%	0.57%
GSCI	479.69	1.64%	3.15%
VIX	12.89	9.70%	6.00%
CT10 (bp)	3.054%	-0.90	20.77
USD Swap Spread 10Y (bp)	6	0	-1
USD Swap Spread 30Y (bp)	-6	0	-2
TED Spread (bp)	18	1	-5
US Libor-OIS Spread (bp)	17	-2	-6
Euro Libor-OIS Spread (bp)	4	1	1
DJIA	26,385	-0.08%	1.29%
SPX	2,906	-0.07%	0.32%
MSCI Asiax	656	0.76%	-2.06%
HSI	27,817	2.70%	-1.61%
STI	3,239	1.97%	0.42%
KLCI	1,799	-0.11%	-0.71%
JCI	5,873	-0.01%	-2.53%

New issues

- CIFIC Holdings (Group) Co Ltd has priced a USD300mn re-tap of its CIFIHG 5.5%'22s (subsidiary guarantors: certain non-PRC subsidiaries of issuer) at 8.625%, in line with the initial price guidance.
- Surbana Jurong Pte Ltd has priced a SGD350mn 7-year bond at 4.11%, tightening from its initial price guidance of 4.25%.
- Kookmin Bank has scheduled for investor meetings from 3 Oct for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
26-Sept-18	CIFIC Holdings (Group) Co Ltd	USD300mn	CIFIHG 5.5%'22s	8.625% + accrued interest
26-Sept-18	Surbana Jurong Pte Ltd	SGD350mn	7-year	4.11%
24-Sept-18	CFLD (Cayman) Investment Ltd	USD100mn	CHFOTN 9.0%'21s	8.991% + accrued interest
21-Sept-18	Lum Chang Holdings Limited	SGD40mn	3-year	5.8%
20-Sept-18	Soilbuild Business Space REIT	SGD65mn	Perp NC3	6.0%
19-Sept-18	ICICI Bank UK PLC	SGD100mn	10-year	5.375%
19-Sept-18	BOC Aviation Ltd	USD500mn	5-year	3mL+112.5bps
19-Sept-18	Country Garden Holdings Company Ltd	USD425mn	3-year	7.125%
19-Sept-18	Country Garden Holdings Company Ltd	USD550mn	5-year	8.0%
19-Sept-18	Zhenro Properties Group Ltd	USD280mn	2.25-year	13.70%
19-Sept-18	Easy Tactic Limited	USD200mn	3-year	8.875%
19-Sept-18	Maoye Intl Holdings	USD150mn	2-year	13.25%
19-Sept-18	Agricultural Development Bank of China	USD700mn	3-year	3mL+62bps
19-Sept-18	Agricultural Development Bank of China	CNH1.2bn	2-year	4.16%
19-Sept-18	Asian Development Bank	USD750mn	10-year	MS+11bps

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
zhigiseow@ocbc.com

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