Asian Credit Daily

January 30, 2018

Credit Headlines (Page 2 onwards): Starhill Global REIT, ESR-REIT, Ascendas Hospitality Trust

Market Commentary: Market Commentary: The SGD swap curve bear-steepened yesterday, with swap rates trading 5-8bps higher for the shorter tenors while the longer tenors traded 8-10bps higher. Flows in SGD corporates were heavy yesterday, with better selling seen in RHTSP 4.5%'18s. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS narrowed 1bps to 107bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS narrowed 3bps to 329bps. 10Y UST yields rose 3.4bps to 2.695% as it hit 2.722%, its highest level since 2014, amid renewed bets on faster inflation in the world's biggest economy and hawkish comments on growth and inflation from central bank officials in Europe.

New Issues: Poly Real Estate Finance Ltd has priced a USD500mn 5-year bond (guaranteed by Hengli (Hong Kong) Real Estate Ltd, with Poly Real Estate Group Co Ltd as a Keepwell/EIPU provider) at CT5+155bps, tightening from its initial guidance of CT5+185bps area. The expected issue ratings are 'BBB-/Baa3/BBB'. Yes Bank Ltd (acting through its International Financial Services Centre Banking unit) has priced a USD600mn 5-year bond at CT5+130bps, tightening from its initial guidance of CT5+150bps area. PT Sulfindo Adiusaha has scheduled for investor meetings from 30 Jan for its potential USD bond issuance. The expected issue ratings are 'NR/B2/B'. Shangrao Investment Holdings International Co Ltd (guaranteed by Shangrao Investment Holdings Group Co Ltd) scheduled for investor meetings from 30 Jan for its potential USD bond issuance.

Rating Changes: Moody's has assigned a first-time 'B2' corporate family rating to PT Sulfindo Adiusaha (Sulfindo). The outlook is stable. The rating action reflects Sulfindo's established market position in Indonesia's chlor-alkali and polyvinyl chloride industries, low cost operations and improved operating performance. The rating also reflects Moody's expectation that the proposed refinancing will materially reduce Sufindo' dependence on short term funding. Fitch has assigned a 'B+' final rating with Recovery Rating of 'RR4' to Soechi Lines Tbk's (Soechi) senior unsecured

Table 1: Key Financial Indicators

	30-Jan	1W chg (bps)	1M chg (bps)		30-Jan	1W chg	1M chg
iTraxx Asiax IG	63	0	-4	Brent Crude Spot ($/bbl)	69.46	0.62%	3.87%
iTraxx SovX APAC	11	0	-2	Gold Spot ($/oz)	1,338.51	-0.20%	2.74%
iTraxx Japan	42	0	-3	CRB	199.54	1.69%	2.93%
iTraxx Australia	55	0	-3	GSCI	460.59	1.82%	4.10%
CDX NA IG	46	0	-3	VIX	13.84	25.48%	25.36%
CDX NA HY	109	0	0	CT10 (bp)	2.710%	9.73	30.50
iTraxx Eur Main	43	0	-2	USD Swap Spread 10Y (bp)	3	0	4
iTraxx Eur XO	234	5	1	USD Swap Spread 30Y (bp)	-14	0	6
iTraxx Eur Snr Fin	41	-1	-3	TED Spread (bp)	36	4	11
iTraxx Sovx WE	19	0	-4	US Libor-OIS Spread (bp)	24	0	-2
iTraxx Sovx CEEMEA	34	3	1	Euro Libor-OIS Spread (bp)	1	-1	0
					30-Jan	1W chg	1M chg
				AUD/USD	0.809	1.18%	3.70%
				USD/CHF	0.938	2.10%	3.94%
				EUR/USD	1.237	0.57%	2.97%
				USD/SGD	1.312	0.44%	1.86%
Korea 5Y CDS	46	1	-6	DJIA	26,439	0.86%	6.96%
China 5Y CDS	52	2	2	SPX	2,854	0.73%	6.73%
Malaysia 5Y CDS	56	1	-2	MSCI Asiax	775	0.78%	8.67%
Philippines 5Y CDS	57	1	-2	HSI	32,967	1.77%	10.19%
Indonesia 5Y CDS	80	0	-5	STI	3,577	0.21%	5.12%
Thailand 5Y CDS	41	0	-4	KLCI	1,871	2.04%	4.10%
				JCI	6,681	2.77%	5.11%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
29-Jan-18	Yes Bank Ltd	'NR/Baa3/NR'	USD600mn	5-year	CT5+130bps
29-Jan-18	Poly Real Estate Finance Ltd	'BBB-/Baa3/BBB'	USD500mn	5-year	CT5+155bps
25-Jan-18	Roshine China Holdings Ltd	'NR/NR/B+'	USD325mn	3-year	9%
25-Jan-18	Tsinghua Unic Ltd	Not rated	USD200mn	10-year	6.875%
25-Jan-18	Tsinghua Unic Ltd	Not rated	USD750mn	5-year	5.75%
25-Jan-18	Tsinghua Unic Ltd	Not rated	USD900mn	3-year	5.125%
25-Jan-18	FWD Ltd	'NR/Ba2/BB+'	USD200mn	Perp NC5	5.5%
25-Jan-18	Export-Import Bank of India	'NR/Baa2/BBB-'	USD1bn	10-year	CT10+125bps
25-Jan-18	BOC Aviation Ltd	'A-/NR/A-'	USD300mn	5-year	CT5+115bps

Source: OCBC, Bloomberg

Rating Changes (cont'd) : notes. The outlook is stable. The rating action reflects Soechi's stable shipping business, supported by growing demand, a robust market position and regulatory protection. Fitch however acknowledged that the shipyard segment has underperformed relative to their expectations and has been a drag on Soechi's leverage profile. S&P has revised its outlook on ORIX Life Insurance's (ORIX Life) 'A-' rating to stable from negative. The rating action follows the outlook revision on its parent company, ORIX Corp, to stable from negative and the affirmation of S&P's 'A-' rating on ORIX Life's parent company. The rating action reflects S&P's view that ORIX Life is a strategically important subsidiary within the ORIX group. S&P has upgraded the long term corporate credit rating on Metallugrical Corp of China Ltd (MCC Ltd) to 'BBB+' from 'BBB'. The outlook is stable. The rating action is driven by S&P's reassessment of China Minmetals Corp's (Minmetals) group credit profile, the ultimate parent of MCC Ltd. S&P expects Minmetals to maintain its competitive position in the metallurgical engineering and construction and the metals and mining sectors, with enhanced resilence and synergy following the merger with China Metallurgical Group Corp.

Credit Headlines:

Starhill Global REIT ("SGREIT"): For 2QFY2018 (ended December 2017) results, revenue was down 3.0% y/y to SGD52.5mn while NPI was down 2.2% y/y to SGD40.5mn. Australia was the main laggard for the quarter, with geographical revenue contribution declining 8.7% y/y to SGD11.6mn while NPI declined 12.4% to SGD7.3mn. The on-going AEI at Plaza Arcade, Perth, has continued to disrupt income, though it is on schedule to be completed by 3QFY2018. SGREIT had brought in UNIQLO as an anchor tenant, the chain's first in Western Australia. This would help boost Australia's contribution upon completion. Aside from this, Australia's performance was also affected by the continued lower office occupancy at Myer Centre Adelaide as well as the weakening of the AUD against SGD. SGREIT's Singapore assets (which contributed ~63% of total revenue) have continued to be soft with revenue contribution lower by 1.1% y/y to SGD32.8mn while NPI fell 2.6% y/y to SGD25.7mn. Singapore's office revenue continues to be challenged, falling 13.2% y/y to SGD5.7mn with declines seen at both Wisma Atria and Ngee Ann City. Singapore office NPI also fell sharply by 20.0% y/y to SGD4.0mn. This was driven by the plunge in Singapore office vacancy to 89.4% (2QFY2017: 95.9%), though it is an improvement over the 83.5% seen in 1QFY2018. As such, we expect contributions from Singapore office to start improving from the low after the rent-free fitting out period lapses. That said, we expect performance to remain tricky as CBD grade A office assets have largely recovered at the expense of older assets, or assets outside of the CBD area (SGREIT's offices are along Orchard Road). One bright area would be Wisma Atria's retail performance, which saw revenue and NPI up 3.5% y/y and 2.6% y/y respectively (Ngee Ann City is under a Master Lease structure and hence is steady). Though tenant sales at the property declined 6.3% y/y on the back of a 6.2% dip in shopper traffic during the quarter, this was largely due to the renovation of the food court (which since commenced operations in November 2017). With tourism statistics remaining strong, Wisma Atria may be able to see stronger numbers in 2018. Malaysia's contribution had improved largely due to the appreciation of the MYR against the SGD. In aggregate, portfolio occupancy improved to 94.1% (1QFY2018: 93.4%). WALE by NLA remains decent at 6.4 years by NLA (though numbers are skewed by the relatively longer lease on the Toshin master lease as well as on Australian assets). Retail lease expiries look manageable at 6.4% of gross rents for 2HFY2018, while for office leases it stands at 9.4% of gross rent. FY2019 is more tricky, with the Malaysia retail master lease (held by the sponsor, YTL) coming due in June 2019 (though we expect this to be renewed) while for office 35.1% of gross rent will expire. Aggregate leverage remained stable q/q at 35.3%. Reported interest coverage remained unchanged q/q at 4.1x. Unencumbered assets ratio stands at 73%. With regards to SGREIT's debt maturity profile, FY2018 maturities have all been refinanced, with FY2019 and FY2020 maturities manageable at just SGD66mn and SGD108mm respectively. As such, SGREIT is unlikely to come to market unless they are financing opportunistically. We will reiterate SGREIT's Neutral (4) Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd) :

ESR-REIT ("EREIT") / VIVA Industrial Trust ("VIT"): EREIT announced that it has submitted a proposal to the managers of Viva Industrial Trust ("VIT") for the proposed merger of all the issued and paid-up stapled securities of VIT and units of EREIT. The parties are in exclusive discussions and the exclusivity will expire on the earlier of (1) execution of a definitive implementation agreement and (2) 31 March 2018 (or such other date as the VIT Managers and REIT Manager of EREIT may agree in writing). It is proposed that EREIT would acquire all of the stapled securities of VIT by way of a trust scheme of arrangement. It is contemplated that new units of EREIT would be issued to VIT's stapled security holders as purchase consideration for their full stake in VIT. Details on valuation (and as a corollary the share swap ratio) and the exact transaction structure has not been released yet. The transaction if it happens will create the fourth largest Industrial REIT by asset base. On a pro-forma basis, the combined entities would have an asset base of SGD3.0bn. We are reviewing the impact of this proposed merger on issuer profiles and will update accordingly. (Company, OCBC)

Ascendas Hospitality Trust ("ASCHTS"): ASCHTS through its business trust, Ascendas Hospitality Business Trust ("AHT") has entered into a sale and purchase agreement in relation to the sale of Beijing Novotel Sanyuan and Ibis Beijing Sanyuan and Ibis Beijing Sanyuan at a combined RMB1.16bn (~SGD235.9mn), to be adjusted for working capital. AHT would also receive a look fee of RMB23.6mn (~SGD4.9mn). The purchase price represents a 101.5% premium to latest independent valuation as at 31 October 2017 and 178% to the initial purchase price (when the assets were purchased at IPO). TPG, a private equity firm and NASDAQ-listed China Lodging (a hotel operator in China) had formed a 80:20 joint venture to acquire these properties. The joint venture is targeting to renovate the hotels with China Lodging to serve as the operators of the hotels. Post divestment, ASCHTS would no longer have any properties in China. In 1HFY2018, China contributed 10% to NPI. The net proceeds from the divestment is intended to be substantially used for repayment of existing debt, asset enhancements, future acquisitions and working capital. A portion of the net proceeds is intended to be distributed to Stapled Security holders following completion (targeted in 1HFY2019). As at 30 September 2017, ASCHTS' aggregate leverage was manageable at 32.6%. Assuming that SGD160mn in debt is paid down, aggregate leverage may fall to 23%. We think it is far more likely that the reduction in leverage (from proceeds of divestments in China) will be temporary, with aggregate leverage rising on the back of new acquisitions elsewhere. For example, in December 2015, ASCHTS entered into an agreement with UEM Sunrise Berhad to acquire the serviced apartment component of a mixed used development in La Trobe Street for AUD120mn (~SGD127mn). This transaction is expected to complete in the second half of 2019. (Company, OCBC)

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