

May 9, 2018

Credit Headlines: Perennial Real Estate Holdings Ltd, Starhill Global REIT, Ezion Holdings Ltd, Keppel Corp, OUE Limited, Fraser and Neave Ltd

Market Commentary

- The SGD swap curve bear-steepened yesterday, with swap rates for the shorter tenors trading 2-4bps higher while the longer tenors traded 1-2bps higher.
- Flows in SGD corporates were light yesterday, with better selling seen in HSBC 4.7%-PERP.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 1.36% while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 9bps to 424bps.
- 10Y UST yield rose 3bps to 2.98% as uncertainty about the fate of the Iran nuclear deal and Italian elections spurred a moderate sell-off.

Credit Headlines

Perennial Real Estate Holdings Ltd (“PREH”) | Issuer Profile: Neutral (5)

- PREH reported 1Q2018 results. Revenue declined 26.1% y/y to SGD14.9mn, largely due to the absence of revenue from TripleOne Somerset from its deconsolidation following the divestment of 20.2% equity stake on 31 Mar 2017. As a result, contribution from Singapore plunged 69.1% y/y to SGD3.2mn. Excluding TripleOne Somerset from 1Q2017, 1Q2018 revenue increased 10.1% y/y, mainly due to 17.8% y/y increase in revenue from China as a result of better performance at Perennial Qingyang Mall in Chengdu.
- Net profit declined 73.0% y/y mainly due to the absence of divestment gains (SGD35.5mn) and re-measurement gains (SGD20.2mn) from TripleOne Somerset, though this is offset by higher share of results from associates and JVs (SGD22.8mn) compared to 1Q2017 (SGD0.7mn) as a result of investments in United Engineers, WBL Corp Ltd and one-off adjustments at Shenyang Red Star Macalline Furniture Mall.
- Short-term maturities appear lumpy with SGD799mn due in 2018. Assuming PREH can rollover the SGD330mn secured loan, PREH will still need to refinance SGD300mn in retail bonds and SGD169mn in unsecured loans. While this cannot be met by PREH's cash of SGD108.9mn, we believe there is room for PREH to refinance with access to the capital markets.
- Net debt to equity remains largely unchanged at 0.58x (4Q2017: 0.57x). Nevertheless, PREH expects net gearing to increase to 0.7x after the acquisition of 50%-stake in Capitol Singapore (~SGD500mn) that PREH does not already own. We expect this to be funded with a newly obtained SGD688mn facility which is secured against Capitol Singapore. We expect net gearing to further increase to ~0.9x when PREH fully commits to its 45%-stake in a consortium to develop projects near high speed railways in China (~SGD707mn) and develop a 40%-owned residential site in Singapore (PREH's share of capital commitment: SGD96.5mn). While reported EBIT/Interest in 1Q2018 remains weak at 1.4x, we expect this to improve when several major projects commence operations, including Perennial International Health and Medical Hub (GFA: 3.1mn sqft) which will officially launch on 1 June 2018 and the 51%-owned Xi'an North HSR Integrated Development Plot 4&5 (GFA: 9.2mn sq ft) which will be completing in 2018-19.

Credit Headlines (cont'd):

Starhill Global REIT ("SGREIT") | Issuer Profile: Neutral (4)

- SGREIT announced that it is selling Nakameguro Place, Tokyo, for a cash consideration of JPY525.0mn (~SGD6.4mn). The transaction would be at a 25% premium to the asset's book value, and consistent with our expectations (refer to [OCBC Asia Credit - SGREIT Earnings Review \(4 May\)](#)) that SGREIT would dispose of assets from its non-core markets.
- The asset is a minute part of SGREIT's portfolio (0.2% of total portfolio value), with the impact on SGREIT's credit profile not expected to be material (Company, OCBC)

Ezion Holdings Ltd ("EZI") | Issuer Profile: Negative (7)

- EZI has provided a profit guidance for its looming 1Q2018 results (to be released on 11/05/18). Management has indicated that the finalizing of EZI's refinancing exercise had led to delays in the re-deployment of some of EZI's assets, adversely affecting the revenue and profitability of the group.
- As such, management expects that EZI would report a net loss for 1Q2018, though operating cash flows are expected to be positive.
- EZI's pressured performance is not unexpected. We have previously mentioned that EZI's core business of leasing / operating jack-up rigs and lift boats (refer to [OCBC Asia Credit - Ezion Credit Update \(24 Oct 2017\)](#)) remain challenged despite the recovery in upstream activities due to the oversupply of such assets. We will review EZI's 1Q2018 results when it is released. (Company, OCBC)

Keppel Corp ("KEP") | Issuer Profile: Neutral (3)

- KEP had announced that it has entered into a sale and purchase agreement ("SPA") to divest Keppel Bay Property Development (Shenyang) Co. Ltd ("KBPDS") to Shenyang Vanke Property Development Co. Ltd. KBPDS owns a residential township project in Shenyang City, China. The divestment consideration is RMB503mn (~SGD105mn), with RMB316mn to be paid upon completion and the balance RMB187mn to be paid upon the satisfaction of certain conditions, or one year from the signing of the SPA, whichever that is earlier. The current NAV of KBPDS is RMB326mn.
- KEP expects to recognize a gain of ~SGD31mn from the divestment. We expect minimal impact on KEP's credit profile. (Company, OCBC)

OUE Limited ("OUE") | Issuer Profile: Neutral (4)

- OUE has announced the termination of the JV between OUE's wholly-owned subsidiary, OUE Baytown, and Epoch Thrive Ltd ("ETL"). The JV was entered into on 31/12/14, with the JV created to invest into Gemdale Properties and Investment Corp Ltd ("Gemdale"). Gemdale is listed on the HKSE, with a market cap of HKD14.6bn.
- The HKD1.17bn in shareholder loans extended by OUE to the JV will be repaid in full via the transfer of 2,353,266,397 shares in Gemdale from the JV to OUE. This is roughly half the shares in Gemdale held by the JV. Based on the current market price of HKD0.91 per share for Gemdale, the share consideration is valued at HKD2.14bn.
- OUE would also sell its 50% stake in the JV to ETL for HKD52.7mn. Management is still assessing the financial impact resulting from the termination of the JV as well as from the related transactions. (Company)

Credit Headlines (cont'd):

Fraser and Neave Ltd ("FNN") | Issuer Profile: Neutral (4)

- FNN reported 2QFY2018 results for the quarter ending 31 March 2018. Revenue increased 4.8% y/y to SGD473.1mn, contributed by (1) Beverages segment (+10.6% y/y to SGD125.6mn) with successful execution of CNY festive promotions and (2) Dairies segment (+4.7% y/y to SGD284.4mn) which benefited from pricing promotions and growth in export sales.
- However, PBIT for Beverages remained lacklustre, posting a small loss of SGD0.8mn though this has improved y/y (2QFY2017 loss: SGD5.2mn) as a result of increased sales and lower sugar input cost. Dairies PBIT surged 29.6% y/y to SGD51.6mn though this is mainly due to the additional profit contribution by associate Vinamilk. Without Vinamilk, PBIT would have declined ~10.3% y/y to ~SGD35mn, mainly due to lower contribution from Malaysia Dairies (affected higher raw material prices).
- Despite weaker core performance, net profit rose 28.4% y/y to SGD30.1mn, mainly due to contribution by Vinamilk, boosting share of associated companies profits to SGD17.1mn (2QFY2017: SGD1.5mn).
- Net gearing climbed q/q to 13.3% (1QFY2018: 8.1%) due to investment in associated company (SGD125.8mn), which should be due to the purchase of additional stakes in Vinamilk. Net gearing may continue to head higher as FNN may continue purchasing additional stakes in Vinamilk, with a gearing policy of up to 80%. FNN is also looking to invest in new markets. Nevertheless, we remain comfortable with FNN as its balance sheet remains healthy, backed by cashflows generated from operations (1HFY2018: SGD45.1mn) which more than covers finance cost (1HFY2018: SGD15.2mn).

Table 1: Key Financial Indicators

	9-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	79	4	2
iTraxx SovX APAC	13	1	0
iTraxx Japan	51	0	-2
iTraxx Australia	67	2	-2
CDX NA IG	62	2	-3
CDX NA HY	107	0	1
iTraxx Eur Main	57	1	-1
iTraxx Eur XO	275	2	-10
iTraxx Eur Snr Fin	61	2	0
iTraxx Sovx WE	17	1	-1
AUD/USD	0.743	-0.80%	-3.43%
EUR/USD	1.185	-0.82%	-3.80%
USD/SGD	1.343	-0.48%	-2.32%
China 5Y CDS	62	4	0
Malaysia 5Y CDS	86	12	14
Indonesia 5Y CDS	130	24	30
Thailand 5Y CDS	46	2	1

	9-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	76.62	4.44%	11.61%
Gold Spot (\$/oz)	1,311.30	0.49%	-1.87%
CRB	202.09	0.41%	3.65%
GSCI	477.01	0.95%	5.56%
VIX	14.71	-5.04%	-32.43%
CT10 (bp)	2.991%	2.47	21.20
USD Swap Spread 10Y (bp)	4	0	1
USD Swap Spread 30Y (bp)	-10	2	6
TED Spread (bp)	51	-3	-12
US Libor-OIS Spread (bp)	51	-1	-8
Euro Libor-OIS Spread (bp)	3	0	0
DJIA	24,360	1.08%	1.59%
SPX	2,672	0.64%	2.25%
MSCI Asiax	714	-0.40%	-0.41%
HSI	30,436	-0.94%	0.68%
STI	3,548	-1.87%	2.83%
KLCI	1,847	-0.30%	-0.17%
JCI	5,745	-4.44%	-8.02%

Source: OCBC, Bloomberg

New issues

- Korea Water Resources Corp has priced a USD300mn 5-year green bond at CT5+110bps, tightening from its initial price guidance of CT5+135bps area.
- Westpac Banking Corp has priced a USD3bn deal across four-tranches, with the USD500mn 2-year bond at CT2+55bps, tightening from its initial price guidance of CT2+70bps area; the USD750mn 2-year FRN at 3mL+28bps, in line with its initial price guidance; the USD1bn 5-year bond at CT5+85bps, tightening from its initial price guidance of CT5+95bps area and the USD750mn 5-year FRN at 3mL+72bps, in line with its initial price guidance.
- ICBCIL Finance Co Ltd (ICBCIL) has priced a USD1.5bn deal across two-tranches (undertaking provider: ICBC Financial Leasing Co Ltd), with the USD900mn 3-year FRN priced at 3mL+95bps, tightening from its initial price guidance of 3mL+100bps area; and the USD600mn 5-year FRN priced at 3mL+110bps, tightening from its initial price guidance of 3mL+115bps area.
- BOCOM International Holdings Co Ltd has hired banks for its potential USD/HKD bond as early as 9 May.
- Southwest International Securities Ltd has hired banks for its USD bond issuance (keepwell deed provider: Southwest Securities Co Ltd).

Date	Issuer	Size	Tenor	Pricing
8-May-18	ICBCIL Finance Co Ltd	USD900mn	3-year	3mL+95bps
8-May-18	ICBCIL Finance Co Ltd	USD600mn	5-year	3mL+110bps
8-May-18	Westpac Banking Corp	USD750mn	5-year	3mL+72bps
8-May-18	Westpac Banking Corp	USD1bn	5-year	CT5+85bps
8-May-18	Westpac Banking Corp	USD750mn	2-year	3mL+28bps
8-May-18	Westpac Banking Corp	USD500mn	2-year	CT2+55bps
8-May-18	Korea Water Resources Corp	USD300mn	5-year	CT5+110bps
7-May-18	Manulife Financial Corp	CAD600mn	10NC5	CT10+115bps
3-May-18	Suntec REIT MTN Pte Ltd	SGD100mn	5-year	3.4%
2-May-18	CMT MTN Pte Ltd	SGD130mn	5-year	3.212%
2-May-18	China Aoyuan Property Group Ltd	USD200mn	3NC2	7.50%
2-May-18	PT Federal International Finance	USD300mn	3-year	CT3+160bps

Source: OCBC, Bloomberg

Andrew Wong

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

Nick Wong Liang Mian, CFA

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

Ezien Hoo, CFA

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

Wong Hong Wei

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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "**Relevant Materials**") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "**Relevant Entity**") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("**MiFID**") and the EU's Markets in Financial Instruments Regulation (600/2014) ("**MiFIR**") (together referred to as "**MiFID II**"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).