

Oct 9, 2018

Credit Headlines: Chip Eng Seng Corp Ltd, ASL Marine Holdings, Hyflux Ltd, Ascendas Real Estate Investment Trust, ESR-REIT

Market Commentary

- The SGD swap curve bear-steepened yesterday, with swap rates for the shorter tenors trading 2-3bps higher while the longer tenors traded 4-5bps higher.
- Flows in SGD corporates were heavy yesterday, with better buying seen in HSBC 5.0%-PERPs and DBSSP 3.98%-PERPs.
- Both the Bloomberg Barclays Asia USD IG Bond Index average OAS and the Bloomberg Barclays Asia USD HY Bond Index average OAS were unchanged at 138bps and 469bps respectively.
- 10Y UST yields remain unchanged at 3.23% as US markets were closed for a public holiday.

Credit Headlines:

Chip Eng Seng Corp Ltd (“CES”) | Issuer Profile: Negative (6)

- As a clarification to [yesterday's credit headline](#), founder of CES – Lim Tian Seng and Deputy Chairman – Lim Tiang Chuan, as well as other related shareholders who are immediate family members, entered into a sale and purchase agreement on 5 October 2018 and only completed the sale of the shares on 8 Oct 2018 (instead of 5 Oct as we previously stated).
- Following the sale, we estimate that the shareholding of Lim Tiam Seng and his immediate family has decreased from ~37% prior to the transaction to ~7% post the transaction. Per Clause 6(e)(ii) of the Information Memorandum dated 8 May 2017, this decrease to below 25% is expected to trigger a change of control event for holders of SGD125mn CHIPEN 4.9% '22s and SGD120mn CHIPEN 4.75% '21s. Under this clause, CES has 7 days to notify noteholders of the change of control and then redeem the bonds at the option of the noteholder at par plus accrued interest within 60 days from the date of the notice.
- We are seeking further information from the issuer. According to Business Times, CES's CEO is not able to comment on the change in ownership as it was a family decision though there will be some changes following a board meeting. We note that as at 30 June 2018, CES had cash and short term deposits of SGD320.7mn. (Company, Business Times, OCBC)

ASL Marine Holdings (“ASL”) | Issuer Profile: Unrated

- ASL has announced that its independent auditor, Ernst and Young LLP has highlighted a material uncertainty related to going concern in respect of ASL and its subsidiaries (collectively, the Group) to continue as going concerns in ASL's latest audited report for the financial year ended 30 June 2018. As at 30 June 2018, ASL at a consolidated level has ~SGD502.1mn in total borrowings, of which ~SGD113.4mn were classified as current liabilities.
- Earlier on 19 September 2018, ASL completed its first informal meetings with SGD bondholders on a possible restructuring of the bonds. It was shared then that the company is in discussions with principal lenders on possible additional working capital and re-profiling of loans. Per company, principal lenders are willing to continue to extend help provided that bondholders and other stakeholders are willing to also extend help. The company will keep bondholders updated on ongoing discussions with key lenders and expect to provide an update by end-Oct 2018. Possible changes that may be proposed to bondholders include extension of maturity, lower principal sum amortisation, reduction of interest rates and relaxation of some covenants. (Company, OCBC)

Credit Headlines (cont'd):

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

- HFY and four of its subsidiaries has shared some updates on its reorganisation process at a 8 October 2018 status conference. An affidavit dated 1 October 2018 was also publicly shared. This status conference was part of the court’s requirement for granting the firm a six-month moratorium in June 2018.
- It was shared that the company is progressing on various measures including (a) liquidity support plans for the ongoing construction and completion of the TuasOne Waste-to-Energy Project in Singapore, Qurayyat Independent Water Project in Oman, and Khurais Project (a project awarded by a subsidiary of Saipem SpA for the design, manufacture and supply of a seawater reverse osmosis and sulphate removal facilities package in Khurais, Saudi Arabia), (b) divestment of existing investments such as Tuaspring Integrated Water Power Project (“Tuaspring”), (c) obtaining rescue financing and (d) discussions with strategic investors for all business segments including engineering, procurement, construction services, operation & maintenance services and project investments. The Company expects to receive binding term sheets from potential strategic investors and to enter into a final agreement subject to court approval in early November 2018. Reportedly, the Company is in advanced talks with two strategic investors.
- It was shared that there were eight interested parties in Tuaspring, though no details were given on the number of actual bids received, background and bid price. It disclosed that the sale process is structured as a competitive bidding process so as to increase recovery values. Interested parties are subject to pre-qualification by the offtaker (namely the Public Utilities Board, “PUB”) and HFY is working with PUB and interested parties to maximise the number that are pre-qualified. Based on our past experiences with infrastructure assets in the region, concession agreements for strategic infrastructure assets typically contain certain rights for the offtaker (eg: offtaker approvals, veto rights in a sale process, foreign ownership restrictions, safeguards in case of concessionaire’s financial failure etc). It would be more surprising to us if the asset can be freely transacted without offtaker approvals. The significant scale of the asset and financing required to complete a transaction further limits possible pool of buyers in our view.
- The entity holding Tuaspring is not subject to a moratorium as an agreement had been reached in July 2018 with its sole secured lender, Malayan Banking Berhad (“Maybank”). [We continue to expect the Company will negotiate an extension](#) with Maybank, given the deadline of 15 October 2018 where as part of the agreement, the Company was required to enter into a binding agreement with a successful bidder/investor by then. In the scenario where the bid price for Tuaspring is insufficient to be upstreamed to the holding company (ie: the issuer of SGD bonds, preference shares and perpetuals), we see a conversion into equity (at least in part) as base case. In such a scenario, a successful introduction of new strategic investor(s), identity and sums involved could determine recovery levels for debt, perpetual and preference shareholders.
- The next key milestones are October 31st (court hearing to further update creditors) and week of November 19th (status conference prior to end of debt moratorium on December 19th). (Channel News Asia, Company, OCBC)

Credit Headlines (cont'd):

Ascendas Real Estate Investment Trust | Issuer Profile: Neutral (3) and ESR-REIT (“EREIT”) | Issuer Profile: Neutral (4)

- Reportedly, a tenant of AREIT and EREIT, namely Hyflux (“HFY”) has been unable to pay rent on two offices owned by the AREIT. While the latest rental contribution from HFY to AREIT is undisclosed, Hyflux Innovation Centre and Hyflux Building, both owned by AREIT only made up 2.3% of AREIT’s total investment properties as at 31 March 2018. As at 31 March 2018, the two buildings collectively were valued at SGD231.3mn against AREIT’s investment properties of SGD10.2bn on the same date. For the financial year ended March 2018, the collective gross revenue was SGD19.5mn against SGD862.1mn in gross revenue.
- EREIT also owns a property that is partially leased to a subsidiary of HFY. EREIT bought the property, 8 Tuas South Lane, from HFY via a sale and partial leaseback in December 2017. As of May 2018, all rental payments from HFY had been prompt though there is no further information whether this is still the case. We had previously considered such rents to be “at-risk”. In 2Q2018, the HFY tenant was the second largest tenant to EREIT, contributing 7.1% of EREIT’s rental income while the top ten tenants account for 41.6% of rental income.
- EREIT is in the midst of a merger with VIVA Industrial Trust and post-merger, tenant concentration risk will significantly reduce. On a pro-forma basis assuming that the merger had completed as at 31 March 2018, HFY would have only contributed 3.7% to rental income and the top ten tenants would have only accounted for 28.7% of total rental income. Our estimated number based on 30 June 2018 financials would have seen HFY only contributing 2.7% to rental income.
- Despite being credit negative to both REITs, this is manageable in our view and we are maintaining both the issuer profiles for AREIT and EREIT at Neutral (3) and Neutral (4) respectively. (Channel News Asia, Company, OCBC)

Table 1: Key Financial Indicators

	9-Oct	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	85	5	4
iTraxx SovX APAC	10	1	-3
iTraxx Japan	57	1	4
iTraxx Australia	77	2	4
CDX NA IG	62	3	4
CDX NA HY	107	-1	0
iTraxx Eur Main	71	2	10
iTraxx Eur XO	287	8	6
iTraxx Eur Snr Fin	90	1	18
iTraxx Sovx WE	27	2	2
AUD/USD	0.707	-1.66%	-0.65%
EUR/USD	1.149	-0.48%	-0.88%
USD/SGD	1.384	-0.80%	-0.38%
China 5Y CDS	64	7	6
Malaysia 5Y CDS	103	9	0
Indonesia 5Y CDS	148	13	4
Thailand 5Y CDS	43	3	1

	9-Oct	1W chg	1M chg
Brent Crude Spot (\$/bbl)	83.99	-0.96%	9.32%
Gold Spot (\$/oz)	1,190.74	-1.05%	-0.43%
CRB	199.76	1.00%	4.94%
GSCI	493.51	-0.51%	7.04%
VIX	15.69	30.75%	5.44%
CT10 (bp)	3.231%	16.78	29.21
USD Swap Spread 10Y (bp)	4	-2	-2
USD Swap Spread 30Y (bp)	-11	-3	-4
TED Spread (bp)	20	0	1
US Libor-OIS Spread (bp)	16	-2	-4
Euro Libor-OIS Spread (bp)	4	0	1
DJIA	26,487	-0.62%	2.20%
SPX	2,884	-1.37%	0.44%
MSCI Asiax	613	-4.59%	-4.74%
HSI	26,203	-5.71%	-2.86%
STI	3,181	-2.27%	1.50%
KLCI	1,776	-0.93%	-1.30%
JCI	5,761	-3.09%	-1.54%

New issues

- Shimao Property Holdings Ltd has priced a USD250mn 3NC2 bond (guaranteed by certain of the company's restricted subsidiaries outside the PRC) at 6.375%, in line with its initial price guidance.
- Kasikornbank PCL has priced a USD100mn 5-year bond at 3mL+95bps.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
8-Oct-18	Shimao Property Holdings Ltd	USD250mn	3NC2	6.375%
8-Oct-18	Kasikornbank PCL	USD100mn	5-year	3mL+95bps
4-Oct-18	Macquarie Group Ltd	USD850mn	11.25NC10.25	CT10+185bps
2-Oct-18	Aspial Corp Ltd	SGD20.75mn	3-year	6.25%
27-Sept-18	The Independent State of Papua New Guinea	USD500mn	10-year	8.375%
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%

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

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).