

June 10, 2019

**Credit Headlines:** City Developments Ltd

## Market Commentary

- The SGD swap curve bear flattened, with shorter tenors 3bps higher, belly of the curve 1-2 higher and longer tenors unchanged.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was flat at 140bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 515bps.
- Flows in SGD corporates were dominated by CS 5.625%-PERPs, SPHSP 4.5%-PERPs, SOCGEN 6.125%-PERPs and KITSP 4.75%-PERPs.
- 10Y UST yields fell by 4bps to 2.08% following slower US jobs and wage growth data which may pressure the Fed to cut rates as early as July. The yield curve between the 3-month treasury bills and 10-year treasury notes continued to be inverted, though narrower at -14bps.

## Credit Headlines

### **City Developments Ltd (“CDL”) | Issuer Profile: Neutral (3)**

- Following the [previous attempt in Oct 2017](#), CDL has launched another takeover attempt of Millennium & Copthorne Hotels PLC (“M&C”) at a higher offer at 685 pence per M&C share. The maximum cash consideration for the transaction will be GBP776.29mn (SGD1.34bn). CDL already holds ~65% in M&C.
- This time, we think that the takeover attempt has a very high likelihood of succeeding, given that several key shareholders against CDL’s previous takeover bid (e.g. International Value Advisers, Classic Fund Management, MSD Partners) have provided irrevocable undertakings to accept CDL’s offer. Together with other minorities (e.g. JNE Partners LLP, BWM AG), the irrevocable undertakings represent 43.6% of M&C shares not owned by CDL. The price offered is also higher than the previous attempt and 37% higher than M&C’s previous closing price while M&C independent directors have been advised that the terms by CDL are fair and reasonable.
- The privatisation of M&C is in-line with CDL’s focus to boost recurring income and CDL is also looking to enhance underperforming assets. In particular, CDL highlighted that significant capex is required across M&C’s properties to unlock value.
- If the takeover attempt is successful, we expect net gearing of CDL to surge to ~60% (1Q2018: 36.2%), taking also into consideration of the acquisitions of [40% in Sims Drive \(SGD383.5mn\)](#) and [SGD1.35bn acquisition of stakes in a China property developer and a China prime commercial asset](#). While the cumulative cash outlays are significant, we believe that CDL has sufficient liquidity given SGD2.18bn cash as of 1Q2019 and we note that CDL has obtained a GBP660mn credit facility to partly finance the acquisition of M&C.
- We continue to hold CDL at a Neutral (3) Issuer Profile. However, we reiterate that the possibility of CDL undertaking significant acquisitions cannot be ruled out, noting CDL’s explicit ambitions to grow its full year recurring income to SGD900mn by 2028 (2018 recurring EBITDA: SGD530mn) and we think there remains headroom for CDL to borrow further. (Company, Business Times, OCBC)

**Table 1: Key Financial Indicators**

	10-Jun	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	75	-7	5
iTraxx SovX APAC	49	-4	3
iTraxx Japan	68	-4	10
iTraxx Australia	74	-6	3
CDX NA IG	63	-8	2
CDX NA HY	106	2	-1
iTraxx Eur Main	63	-8	-2
iTraxx Eur XO	280	-28	-1
iTraxx Eur Snr Fin	80	-9	1
iTraxx Sovx WE	18	0	1
AUD/USD	0.698	0.06%	-0.30%
EUR/USD	1.131	0.64%	0.71%
USD/SGD	1.365	0.13%	-0.16%
China 5Y CDS	54	-7	8
Malaysia 5Y CDS	70	-6	7
Indonesia 5Y CDS	106	-9	4
Thailand 5Y CDS	35	-3	-2

	10-Jun	1W chg	1M chg
Brent Crude Spot (\$/bbl)	63.44	3.52%	-10.17%
Gold Spot (\$/oz)	1,329.53	0.32%	3.38%
CRB	174.42	-0.54%	-2.54%
GSCI	407.17	0.47%	-6.26%
VIX	16.3	-12.88%	1.62%
CT10 (bp)	2.116%	4.45	-35.17
USD Swap Spread 10Y (bp)	-1	4	1
USD Swap Spread 30Y (bp)	-26	3	0
US Libor-OIS Spread (bp)	21	0	5
Euro Libor-OIS Spread (bp)	5	0	-1
DJIA	25,984	4.71%	0.16%
SPX	2,873	4.41%	-0.28%
MSCI Asiax	620	-0.12%	-4.12%
HSI	27,497	2.21%	-6.36%
STI	3,193	2.40%	-2.47%
KLCI	1,656	1.16%	2.81%
JCI	6,292	3.87%	-0.43%

## New issues:

- There were no new issues for the previous trading day.
- Xi'an Municipal Infrastructure Construction Investment and Korea Gas Corp are holding roadshows from today for proposed USD bonds.

<u>Date</u>		<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
06-Jun-19	Gemdale Ever Prosperity Investment Ltd	USD250mn	3-year	5.6%
06-Jun-19	China South City Holdings Ltd	USD60mn	CSCHCN 11.875%'21s	12.12%
06-Jun-19	Ronshine China Holdings Ltd	USD235mn	3-year	9%
06-Jun-19	Cooperatieve Rabobank	SGD15mn	1-year	SORF3M-5bps
04-Jun-19	UHI Capital Ltd	USD500mn	5-year	T+128bps
04-Jun-19	Xinhu (BVI) 2018 Holding Company Limited	USD110mn	3NCNP2-perpetual	11.0%
04-Jun-19	Fuqing Investment Management Ltd	USD400mn	3-year	4.30%
04-Jun-19	Keppel Infrastructure Fund Management Pte Ltd	SGD200mn	NC10-perpetual	4.75%
03-Jun-19	Industrial & Commercial Bank of China Ltd	USD750mn USD750mn	3-year 5-year	3M-US LIBOR+72bps 3M-US LIBOR+83bps
03-Jun-19	Zunyi Road and Bridge Construction (Group) Ltd	USD78mn	3-year	8.0%
03-Jun-19	Shangri-La Hotel Ltd Shangri-La Hotel Ltd	SGD135mn SGD 165mn	5-year 8-year	3.70% 4.10%
31-May-19	Adani Green Energy (UP) Ltd, Prayatna Developers Pte Ltd & Parampujya Solar Energy Pte Ltd	USD500mn	5.5-year	6.25%

Source: OCBC, Bloomberg

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