

Mar 11, 2019

**Credit Headlines:** ESR Cayman Ltd, ESR-REIT, Keppel Corp Ltd, Commerzbank AG, Hyflux Ltd

## **Market Commentary**

- The SGD swap curve flattened last Friday, with the shorter tenors trading 1bps lower (with the exception of the 6-month swap rates trading 1bps higher) while the belly to longer tenors traded 2-4bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS traded little change at 140bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 6bps to 496bps.
- Flows in SGD corporates were heavy, with flows seen in MAPLSP 3.58% '29s, SINTEC 5.0%-PERPs, GUOLSP 4.6%-PERPs and CHIPEN 6.0%'22s.
- 10Y UST yields remained relatively stable and only fell 1bps to 2.63%, despite the sharp drop in February's US job growth, contributed by the contraction in payrolls for construction and other sectors. While this raised concerns about a sharp slowdown in economic activity, other indicators such as unemployment rate and annual wage growth data were strong.

## **Credit Headlines**

### **ESR Cayman Ltd ("ESR") | Unrated and ESR-REIT | Neutral (4)**

- ESR, the Sponsor of ESR-REIT, listed on the SGX has filed for an initial public listing ("IPO") on the Hong Kong Stock Exchange. ESR is the issuer of the USD-denominated perpetual, the ESRCA 8.25%-PERP and SGD-denominated ESRCA 6.75% '22s.
- ESR, ~38%-owned by the private equity firm Warburg Pincus, is the largest Asia-Pacific focused logistics real estate company by value of assets owned directly and those owned by the funds and investment vehicles it manages. Reportedly, ESR is looking to raise USD1.0bn to USD1.5bn in the IPO.
- There is no direct impact to ESR-REIT as we had based its issuer profile more on the underlying strength of the REIT (rather than its Sponsor). That being said, we view a successful listing positively for ESR given the higher level of disclosures, allowing investors to better assess the company's performance and trajectory. (Company, OCBC, Business Times)

### **Keppel Corp Ltd ("KEP") | Neutral (4)**

- KEP, via its wholly-owned subsidiary Keppel FELS Limited has secured an order with Awilco Drilling Plc ("Awilco") for the construction of a mid-water semisubmersible drilling rig for harsh environment use worth ~USD425mn (~SGD577mn). Awilco had earlier contracted KEP to build a similar rig and held options to order up more similar rigs.
- Per Awilco, they had exercised the first of its three options because it sees growing demand for such rights in North West Europe. In end-2018, KEP's offshore & marine orderbook was SGD4.3bn (excluding Sete Brasil contracts). With the new contract win, we expect KEP's offshore & marine segment's working capital needs to increase, although encouragingly the segment has been able to break even before taking into account of provisions and impairments. (Company, OCBC)

## Credit Headlines (cont'd)

### **Commerzbank AG (“CMZB”) | Neutral (4)**

- Deutsche Bank has decided to hold tentative merger talks with CMZB. Reportedly, both banks were responding to a push by the German federal government which is expecting a decision in the coming weeks (before elections at the European Parliament elections in May 2019). The German government who has a ~15.5%-stake in CMZB is in favour of strong banks while a merger is also seen by some commentators as a way for CMZB to avoid takeover by a foreign buyer.
- This news comes on the back of prevalent merger speculation since 2018. We are holding CMZB’s issuer profile for now and monitoring the situation. (Reuters, Welt Am Sonntag, OCBC)

### **Hyflux Ltd (“Hyflux”) | Unrated**

- On 8 March 2019, Hyflux announced that it has received SGD3.5bn from purported claimants who filed proofs of claim. Of these, ~SGD0.1bn relates to subordinated scheme parties (eg: interparty related debt owed by Hyflux to its subsidiaries) which would only receive a nominal amount. The alleged claimants number is high versus that as disclosed in Hyflux’s Scheme Explanatory Statement dated 22 February 2019 (total of SGD2.6bn, excluding trade claimants). While some of these alleged claimants may have no basis, the significant difference of ~SGD0.8bn adds a layer of complexity as to what cash recoveries would actually be for both juniors (preference and perpetuals) as well as senior unsecured creditors. It is worth noting that junior creditors have claimed for SGD970.0mn while bondholders have claimed for SGD277.7mn. In our view, junior creditors may have included claims on accrued distribution. A more accurate claim number is targeted to be available on 16 March 2019.
- Separately, Hyflux announced that the Scheme terms will be amended. Previously, payouts set aside for contingent claims that do not crystallise will be paid towards only the senior creditors. The new terms will see the cash portion of the payout shared with perpetual and preference shareholders. If the contingent claims do not crystallise, junior creditors which are the preference shareholders and perpetuals holders will see cash recoveries increasing from 3% to ~7.5% based on assumptions in its explanatory statement dated 22 February 2019 (ie: SGD717mn for senior unsecured lenders, SGD278mn on bondholders, SGD678mn of contingent liability and SGD900mn on junior creditors). This cash recovery though is only an indicative number given that alleged claims as mentioned above are significantly higher than the explanatory statement.
- For the senior creditors, recoveries under the revised proposal if no contingent liability crystallise will be lower (down from an indicative 38.3% to 35.9%) mainly due to payout reallocated to the junior creditors, though the reduction in payout is partly mitigated as half of the payout originally set aside to the management recipients will be reallocated under the amended Scheme terms.
- On the same date, Hyflux announced that MAA Kuthari Global LLC had filed a notice of arbitration against Hyflux EPC LLC (a subsidiary of Hyflux) over a subcontract dated March 2016 for the Qurayyat desalination facility and the company is yet able to assess the financial impact of arbitration proceedings on Hyflux on a consolidated basis. This comes on the back of the [Public Utilities Board’s issuance of a notice of default to Tuaspring Pte Ltd](#). Notwithstanding the theoretical equity value of SGD667mn (based on the 60%-stake which the strategic investor SMI is coming in at), we maintain the view that equity recovery of Hyflux is highly uncertain and therefore we focus more on the cash recovery.
- If junior creditors do not support the revised proposal, recoveries will most likely be zero in a liquidation scenario. However, we think it is still uncertain if the amended proposal will pass. While the revised proposal calls for a somewhat more equitable mechanism, junior creditors may not be satisfied given that proposed recoveries are still small and the revised proposal may still be seen as unfair, as the equity portion from payout set aside for contingent claims that do not crystallise is not shared. (Company, OCBC, Business Times)

**Table 1: Key Financial Indicators**

	11-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	72	5	-9
iTraxx SovX APAC	54	3	-6
iTraxx Japan	60	4	-4
iTraxx Australia	72	6	-4
CDX NA IG	64	4	-4
CDX NA HY	105	-1	0
iTraxx Eur Main	64	3	-9
iTraxx Eur XO	289	12	-26
iTraxx Eur Snr Fin	77	2	-14
iTraxx Sovx WE	20	-1	-4
AUD/USD	0.704	-0.73%	-0.31%
EUR/USD	1.124	-0.92%	-0.35%
USD/SGD	1.359	-0.31%	0.15%
China 5Y CDS	52	4	-5
Malaysia 5Y CDS	66	6	-14
Indonesia 5Y CDS	104	7	-12
Thailand 5Y CDS	48	5	4

	11-Mar	1W chg	1M chg
Brent Crude Spot (\$/bbl)	66.04	0.56%	7.36%
Gold Spot (\$/oz)	1,298.58	0.92%	-0.73%
CRB	180.67	-0.45%	2.01%
GSCI	421.84	-0.29%	3.83%
VIX	16.05	18.28%	0.50%
CT10 (bp)	2.639%	-8.30	-1.43
USD Swap Spread 10Y (bp)	2	1	0
USD Swap Spread 30Y (bp)	-20	0	-2
US Libor-OIS Spread (bp)	19	-1	-9
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,450	-2.21%	1.59%
SPX	2,743	-2.16%	1.23%
MSCI Asiax	642	-2.40%	0.34%
HSI	28,387	-1.98%	0.87%
STI	3,195	-1.72%	-0.35%
KLCI	1,671	-1.35%	-1.03%
JCI	6,374	-1.94%	-1.87%

## New issues

- Nuoxi Capital Ltd has priced a USD200mn re-tap of its existing HKJHCC 7.5%'22s (guarantor: Peking University Founder Group Co Ltd) at par, tightening from IPT of 7.875% area.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
8-Mar-19	Nuoxi Capital Ltd	USD200mn	HKJHCC 7.5%'22s	7.5%
7-Mar-19	AMP Group Finance Services Ltd	USD300mn	2.5-year	CT3+160bps
7-Mar-19	XINHU (BVI) 2018 Holding Co Ltd	USD275mn	3NPNC2	11.0%
7-Mar-19	Hong Kong Mortgage Corp Ltd	USD125mn	5-year	3M-LIBOR +16bps
6-Mar-19	Santos Finance Ltd	USD600mn	10-year	CT10+265bps
6-Mar-19	CES Treasury Pte Ltd	SGD100mn	3-year	6.0%
5-Mar-19	Greenland Global Investment Ltd	USD350mn	3-year	7.25%
5-Mar-19	Export-Import Bank of India	USD500mn	5-year	CT5+140bps
5-Mar-19	Renew Power Ltd	USD375mn	5NC2	6.67%
5-Mar-19	Competition Team Technologies Ltd	USD700mn USD300mn	5-year 10-year	CT5+125bps CT10+155bps
5-Mar-19	PT Delta Merlin Dunia Textile	USD300mn	5NC3	8.625%
5-Mar-19	ESR Cayman Ltd	SGD25mn	ESRCAY 6.75%'22s	6.75%
5-Mar-19	Housing and Developmental Board	SGD500mn	7-year	2.495%
5-Mar-19	Mapletree Treasury Services Ltd	SGD250mn	10-year	3.58%
4-Mar-19	Guotai Junan Holdings Ltd	USD500mn	3-year	CT3+147.5bps
4-Mar-19	CDBL Funding 2	USD700mn	3-year	CT3+125bps

Source: OCBC, Bloomberg

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