

Mar 12, 2019

Credit Headlines: PT Lippo Karawaci Tbk, First Real Estate Investment Trust, Lippo Malls Indonesia Retail Trust

Market Commentary

- The SGD swap curve steepened yesterday, with most tenors trading 1bps higher, while the shorter tenors traded little change.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 140bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 495bps.
- Flows in SGD corporates were heavy, with flows seen in MAPLSP 3.58% '29s, GUOLSP 4.6%-PERPs, ESRCAY 6.75%'22s and CAPG 7.15%'21s.
- 10Y UST yields rose 1bps to 2.64% after falling for four consecutive sessions, with risk sentiment improving as technology stocks led the rally on the equity markets. The upcoming pipeline of corporate and government supply this week also induced investors to sell treasuries in a bid to push treasury prices lower and hedge against large interest rate movements.

Credit Headlines

PT Lippo Karawaci Tbk (“LK”) | Issuer Profile: Unrated and First Real Estate Investment Trust (“FIRT”) | Issuer Profile: Negative (6)

- Reportedly LK has announced a strategic transformation plan to focus on urban housing, lifestyle malls and healthcare services. LK is intending to raise a rights issue amounting to USD730mn, with hedge fund manager George Raymond Zage III and a nominee of Chow Tai Fook (listed in Hong Kong) agreeing to subscribe to USD70mn of the rights issue. Mr John Riady, grandson of founder Mr Mokhtar Riady and son of Mr James Riady would be appointed as the new CEO. A new CFO, Mr Surya Tatang has also been appointed. Mr Tatang sits on the board of commissioners of PT Matahari Department Store Tbk (separately listed, also controlled by the Riady family). The LK board of directors and board of commissioners has also been reshuffled, among which, Dr Stephen Riady (Chairman of OUE Ltd, Mr John Riady’s uncle) and Mr. Zage has also been appointed to the board of commissioners.
- The rights issue is intended to reduce LK’s debt and providing a liquidity buffer for interest payments and rental payments to its Sponsored-REITs until end-2020. Additionally the new monies is intended to fund on-going property development projects. In a separate announcement, LK had announced a tender offer to buy-back up to USD150mn of the USD-denominated LPKRIJ 6.75% '26s and LPKRIJ 7.0% '22s.
- The rights issue, which is pending shareholder’s approval on 18 April 2019, will be underwritten by the Riady family and thus far no bank has been named as sub-underwriter(s).
- Notwithstanding knock-on positive sentiment over FIRT, we continue to maintain FIRT’s issuer profile at Negative (6) on account that structurally, FIRT is reliant on LK for rental payments. We are maintaining the issuer profile as such until (1) the LK rights issue completes and LK’s credit profile improves decisively and/or (2) FIRT structurally de-couples from LK. This can happen if end-user PT Siloam International Hospitals Tbk’s (“Siloam”) credit profile improves and FIRT enters into tenancy agreements directly with Siloam or FIRT’s earnings become more diversified. As a recap, FIRT is now both sponsored by LK as well as OUE Ltd. We estimate OUE Ltd’s deemed interest in FIRT at 17.6%. (Liputan, Bloomberg, OCBC)

Credit Headlines (cont'd)

Lippo Malls Indonesia Retail Trust (“LMRT”) | Issuer Profile: Negative (6)

- LMRT is proposing to acquire Lippo Mall Puri for IDR3.7bn (SGD354.7mn) from PT Lippo Karawaci Tbk (“LK”), the sponsor of LMRT. However, the total transaction cost will amount to SGD430.0mn, which includes VAT IDR370bn (SGD35.5mn), Land and Building Acquisition Tax of IDR185bn (SGD17.7mn) and professional and other fees of SGD12.1mn and AEI cost of SGD10.0mn.
- Lippo Mall Puri is the flagship mall of LK with a total NLA of 115,600 sqm. The reported NPI yield of the property is 9.41%, higher than the existing portfolio average of 8.94%. However, the NPI yield includes vendor support from LK.
- Without LK’s vendor support, Cushman & Wakefield (“Cushman”) estimate the property value to be worth IDR3.7bn (SGD354.7mn) while Colliers International estimate the property value to be worth IDR3.8bn (SGD364.9mn). We note the acquisition price of Lippo Mall Puri looks fair as it is in-line with Cushman’s valuation, which is the lower of the two valuations.
- We note that LK has already been falling behind on rental payments to LMRT. The vendor support increases the exposure to LK. We note that the target NPI of Lippo Mall Puri in FY2020 is IDR350bn while the aggregate rental fees from related parties to the sponsor are IDR135.8bn, representing ~39% of the total NPI of Lippo Mall Puri. However, this will be mitigated by IDR70bn (SGD6.65mn) deposit to support LK’s obligation to LMRT.
- As the acquisition size is large, this will require both equity and debt. LMRT estimates that its aggregate leverage will remain below 40% post-acquisition. Based on this, we estimate that up to SGD258.4mn of debt will need to be raised and the rest will likely need to be raised from the equity markets. It is unclear if enough debt can be raised and at reasonable rates to finance the acquisition.
- In our view, raising of equity through rights issue may be highly dilutive. Based on LMRT’s illustrative scenario to fund the acquisition via 58.1% debt and 41.9% equity, 1.5bn new units in LMRT will need to be issued to raise SGD180mn (implying 12 cts per share). Currently, LMRT has 2.86bn outstanding shares with a market cap of SGD572mn (20 cts per share). As such, if cost of equity is high relative to the cost of perpetuals, there may be relatively less incentive for LMRT to redeem its perpetuals (a form of quasi equity) at the first call date. That said, the acquisition should unlock liquidity for LK, which may alleviate headwinds that LK faces.
- We are still pending updates on the completion of the acquisition, which still requires unitholders approval, as well as the funding structure for the acquisition. Meanwhile, we continue to hold LMRT at Negative (6) Issuer Profile. (Company, OCBC)

Table 1: Key Financial Indicators

| | 12-Mar | 1W chg (bps) | 1M chg (bps) |
|--------------------|--------|--------------|--------------|
| iTraxx Asiax IG | 69 | 2 | -8 |
| iTraxx SovX APAC | 52 | 1 | -8 |
| iTraxx Japan | 59 | 3 | -4 |
| iTraxx Australia | 70 | 3 | -6 |
| CDX NA IG | 60 | -1 | -5 |
| CDX NA HY | 106 | 0 | 0 |
| iTraxx Eur Main | 62 | 1 | -9 |
| iTraxx Eur XO | 283 | 9 | -26 |
| iTraxx Eur Snr Fin | 74 | -2 | -16 |
| iTraxx Sovx WE | 20 | -1 | -4 |
| AUD/USD | 0.707 | -0.17% | -0.32% |
| EUR/USD | 1.126 | -0.40% | -0.56% |
| USD/SGD | 1.356 | -0.03% | 0.01% |
| China 5Y CDS | 48 | 2 | -7 |
| Malaysia 5Y CDS | 63 | 3 | -16 |
| Indonesia 5Y CDS | 100 | 4 | -15 |
| Thailand 5Y CDS | 45 | 1 | -2 |

| | 12-Mar | 1W chg | 1M chg |
|----------------------------|----------|--------|--------|
| Brent Crude Spot (\$/bbl) | 66.81 | 1.44% | 7.03% |
| Gold Spot (\$/oz) | 1,296.24 | 0.64% | -1.11% |
| CRB | 180.50 | -0.33% | 1.29% |
| GSCI | 423.79 | -0.14% | 3.27% |
| VIX | 14.33 | -2.05% | -7.13% |
| CT10 (bp) | 2.657% | -5.96 | -3.04 |
| USD Swap Spread 10Y (bp) | 2 | 1 | 0 |
| USD Swap Spread 30Y (bp) | -19 | 0 | -1 |
| US Libor-OIS Spread (bp) | 19 | -1 | -10 |
| Euro Libor-OIS Spread (bp) | 5 | 0 | 0 |
| DJIA | 25,651 | -0.65% | 0.89% |
| SPX | 2,783 | -0.34% | 1.41% |
| MSCI Asiax | 648 | -1.58% | 0.93% |
| HSI | 28,886 | -0.26% | 2.54% |
| STI | 3,221 | -0.40% | 0.63% |
| KLCI | 1,669 | -0.99% | -1.10% |
| JCI | 6,359 | -2.00% | -1.05% |

New issues

- Chongqing Energy Investment Group Co Ltd has priced a USD500mn 3-year bond at 5.78%, tightening from price guidance of 6.25% area.
- AMTD Group Co Ltd has priced a USD57.92mn re-tap of its existing AMTDGC 5.0%'22s at par.
- China National Travel Service Group Corp Ltd has scheduled investor meetings from 11 Mar for its potential USD bond issuance.

| <u>Date</u> | <u>Issuer</u> | <u>Size</u> | <u>Tenor</u> | <u>Pricing</u> |
|-------------|--|----------------------|-------------------|---------------------------|
| 11-Mar-19 | Chongqing Energy Investment Group Co Ltd | USD500mn | 3-year | 5.78% |
| 11-Mar-19 | AMTD Group Co Ltd | USD57.92mn | AMTDGC 5.0%'22s | 5.0% |
| 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% |

Source: OCBC, Bloomberg

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