

Jan 18, 2019

In the OCBC Asian Credit Daily sent on 17 Jan 2019, we misstated that Midtown Development Pte Ltd is a subsidiary of OHL. We apologize for the error. A [corrected version](#) of the relevant OCBC Asian Credit Daily has been uploaded to our website.

**Credit Headlines:** ESR-REIT

## **Market Commentary**

- The SGD swap curve flattened yesterday, with the shorter tenors trading 1-3bps higher while the longer tenors traded within 1bps lower (with the exception of the 12-year swap rate trading 1bps higher).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS remained unchanged at 159bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 576bps.
- Flows in SGD corporates were heavy yesterday, with flows in BNP 4.35%'29s, SINTEC 5.0%-PERPs, UBS 5.875%-PERPs and DBSSP 3.98%-PERPs.
- 10Y UST yields rose 4bps to close at 2.75%, reaching near three-week highs, on the back of stronger-than-expected economic data on unemployment filings. New-found optimism regarding the US-China trade talks also weighed in positively on improved risk appetite.

## **Credit Headlines:**

### **ESR-REIT (“EREIT”) | Issuer Profile: Neutral (4)**

- EREIT announced its 4Q2018 and full year results, this is the first time EREIT has disclosed financials consolidating VIVA Industrial Trust (“VIVA”) results which it acquired on 16 October 2018. ~2.5 months of additional contribution from VIVA is included. While the company did not disclose like-for-like consolidated numbers for 4Q2017, we estimate gross revenue on a comparable basis to have increased 14.9% y/y to SGD58.4mn in 4Q2018. This was driven by EREIT itself buying three new properties (two in December 2017 and one in October 2018).
- During the quarter, EREIT reported SGD283.2mn in fair value adjustments relating to the merger (non-cash item) due to write-off of acquisition-related costs. Also EREIT had paid a premium over the fair value of net assets it acquired from VIVA.
- Based on our calculation which does not include other income and other expenses, EBITDA was SGD38.1mn in 4Q2018 with EBITDA/Interest coverage at 3.5x. Adjusting 50% of perpetual distribution as interest, we find EBITDA/(Interest + 50% perpetual distribution) at 3.2x.
- Hyflux Membrane Manufacturing (S) Pte Ltd (part of the troubled Hyflux group) contributed 3.5% to EREIT’s rental income as the third largest tenant. While there has been no indication that the tenant is in arrears, we take this amount as rental “at-risk” and adjusting this rent out we find EBITDA/Interest at 3.4x. Tenant concentration risk at EREIT has declined - as at 31 December 2017, 38.7% of its rental income came from top 10 tenants though post combination with VIVA, the top 10 tenants contribute 30.1% to rental income as at 31 December 2018.
- EREIT’s aggregate leverage has increased to 41.9%, slightly above our expectations of 41% (standalone 30 September 2018: 30.3%). While 90% of the consideration for VIVA was paid via new equity issued by EREIT to the previous unitholders of VIVA, 10% was paid in cash consideration whole transaction costs were also debt-funded. Adjusting 50% of EREIT’s perpetual as debt, we find adjusted aggregate leverage at 44%.
- EREIT’s aggregate leverage is high among our REIT coverage universe. We are maintaining EREIT’s issuer profile at Neutral (4) despite the higher leverage. This is on account of EREIT’s large unencumbered portfolio and REIT sector consolidation dynamics where scale is increasingly important. We are overweight the EREIT curve. (OCBC, Company)

**Table 1: Key Financial Indicators**

	18-Jan	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	88	-1	-4
iTraxx SovX APAC	65	-1	-2
iTraxx Japan	74	-3	-5
iTraxx Australia	87	-1	-1
CDX NA IG	74	-4	-8
CDX NA HY	104	1	2
iTraxx Eur Main	79	-2	-4
iTraxx Eur XO	329	-6	-12
iTraxx Eur Snr Fin	96	-8	-9
iTraxx Sovx WE	25	-1	0
AUD/USD	0.719	-0.30%	0.17%
EUR/USD	1.140	-0.65%	0.30%
USD/SGD	1.356	-0.21%	1.03%
China 5Y CDS	61	-2	-3
Malaysia 5Y CDS	93	-4	-12
Indonesia 5Y CDS	126	-2	-7
Thailand 5Y CDS	44	0	1

	18-Jan	1W chg	1M chg
Brent Crude Spot (\$/bbl)	61.60	1.85%	9.49%
Gold Spot (\$/oz)	1,291.39	0.09%	3.36%
CRB	179.76	0.65%	3.06%
GSCI	406.05	0.07%	4.69%
VIX	18.06	-7.38%	-29.40%
CT10 (bp)	2,745%	4.43	-7.25
USD Swap Spread 10Y (bp)	3	1	1
USD Swap Spread 30Y (bp)	-19	0	-4
TED Spread (bp)	37	1	-2
US Libor-OIS Spread (bp)	37	-1	-4
Euro Libor-OIS Spread (bp)	4	-1	-1
DJIA	24,370	1.53%	2.93%
SPX	2,636	1.51%	3.53%
MSCI Asiax	617	0.76%	3.45%
HSI	26,996	1.23%	4.58%
STI	3,225	0.81%	5.88%
KLCI	1,687	0.24%	3.18%
JCI	6,434	1.14%	5.79%

## New issues

- Country Garden Holdings Co Ltd has priced a USD550mn 3.25NC2 bond at 7.125% (tightening from IPT of 7.5% area) and a USD450mn re-tap of its existing COGARD 8.0%'24s at 8.25% (tightening from IPT of 8.5% area).
- CMB Wing Lung Bank Ltd has priced a USD400mn perpetual NC5 AT1 at 6.5%, tightening from IPT of 6.85% area.
- BOC Aviation Ltd has priced a USD500mn 5-year bond at CT+155bps, tightening from IPT of CT+180bps area.
- Bharat Petroleum Corporation Ltd has priced a USD500mn 3-year bond at CT+187.5bps, tightening from IPT of CT+220bps area.
- Mercatus Co-operative Ltd has priced a SGD100mn 6-year bond at 3.28%, tightening from IPT of 3.32% area.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
17-Jan-19	Mercatus Co-operative Ltd	SGD100mn	6-year	3.28%
17-Jan-19	Bharat Petroleum Corporation Ltd	USD500mn	3-year	CT+187.5bps
17-Jan-19	BOC Aviation Ltd	USD500mn	5-year	CT+155bps
17-Jan-19	CMB Wing Lung Bank Ltd	USD400mn	Perp NC5 AT1	6.5%
17-Jan-19	Country Garden Holdings Co Ltd	USD550mn USD450mn	3.25NC2 COGARD 8.0%'24s	7.125% 8.25%
16-Jan-19	State Bank of India/London	USD1.25bn 2-tranche	USD400mn: 3-year USD850mn: 5-year	CT+157.5bps CT+185bps
16-Jan-19	Greenland Global Investment Ltd	USD300mn	1-year, 9-month	8.0%
16-Jan-19	DBS Group Holdings Ltd	USD100mn	5-year	3.422%
15-Jan-19	Housing & Developmental Board	SGD600mn	10-year	2.675%
15-Jan-19	Bocom Leasing Management Hong Kong Company Ltd	USD1.5bn 2-tranche	USD800mn: 3-year USD700mn: 5-year	3Y FXD+172.5bps 5Y FXD+200bps
15-Jan-19	China Aoyuan Group Ltd	USD500mn	3NC2	8.5%
15-Jan-19	Yuzhou Properties Company Limited	USD500mn	3-year	8.625%
15-Jan-19	Zhenro Properties Group Limited	USD150mn	ZHPRHK 10.5% '20s	10.625%
15-Jan-19	Hanwha Total Petrochemical Co Ltd	USD400mn	5-year	CT5+140bps

Source: OCBC, Bloomberg

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