

Jan 25, 2019

**Credit Headlines:** National Australia Bank Ltd, Industry Outlook – Singapore Property, Keppel Corporation Ltd, Olam International Ltd, Sabana Shari’ah Compliant Industrial Trust

## **Market Commentary**

- The SGD swap curve flattened yesterday, with swap rates trading 1bps lower across most tenors.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 154bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 10bps to 553bps.
- Flows in SGD corporates were heavy yesterday, with flows seen in UBS 5.875%-PERPs, BNP 4.35%'29s, SINTEC 5.0%-PERPs, LLCAU 3.9%'27s and HSBC 5.0%-PERPs.
- 10Y UST yields fell 2bps to close the trading session at 2.71%, hitting a one-week low as fears regarding slowing global growth and the US-China trade tensions continued from the latter half of Wednesday's trading session.

## **Credit Headlines**

### **National Australia Bank Ltd (“NAB”) | Issuer Profile: Positive (2)**

- NAB has announced that it will raise the interest rate on its variable home loans for owner occupiers and residential investors. Rates will increase by 12bps for owner occupier principal and interest loans and 16bps for investor principal and interest loans and interest only loans for both owner occupier and investors.
- The reason given by NAB for the rise in interest rates was pressure on funding costs and comes over 4 months later than [similar increases](#) in interest rates by Australia & New Zealand Banking Group Ltd (Issuer Profile: Positive (2)), Westpac Banking Corporation (Issuer Profile: Positive (2)) and Commonwealth Bank of Australia (unrated by OCBC). At the time, [NAB decided against](#) raising its standard variable home loan interest rates.
- The increase will be effective from Jan 31<sup>st</sup>. As an aside, the final report on the Royal Commission into misconduct in the Banking Industry is due to be released next week. (OCBC, Company)

## Credit Headlines (cont'd)

### **Industry Outlook – Singapore Property**

- Singapore private residential property prices fell by 0.1% q/q according to URA, in-line with flash estimates. The decline is due to landed properties (-2.0% q/q) and non-landed properties in the Core Central Region (-1.0% q/q) while non-landed properties in Rest of Central Region (+1.8% q/q) and Outside Central Region (+0.7% q/q) saw increases.
- Unsold units in the pipeline with planning approvals increased to 34,824 (3Q2018: 30,467). Compared to 8,795 units sold in the whole of 2018 (2017: 10,566), this suggests that the unsold pipeline may take more than 3 years to clear. In addition, there is another potential 9,800 units from Government Land Sales sites and awarded en-bloc sale sites that have not been granted planning approval.
- We note that launched but unsold units remains low in 4Q2018 at 2,195 units (3Q2018: 2,172 units). However, we expect this to surge with a number of launches expected this year and this could in turn pressure prices. Reiterating the view in our [Singapore Credit Outlook 2019](#), the 2019 outlook of Singapore property looks subdued with the impending supply overhang. (URA, OCBC)

### **Keppel Corporation Ltd (“KEP”) | Issuer Profile: Neutral (4)**

- KEP announced its 4Q2018 and FY2018 financial results. In 4Q2018, gross revenue had increased 8.5% y/y to SGD1.7bn, driven by revenue increases in offshore and marine (“O&M”), infrastructure and investments.
- On a profit before tax (“PBT”) basis, adjusting out the one-off penalty KEP took last year, KEP’s 4Q2018 PBT was SGD164mn versus SGD202mn in 4Q2017. We think PBT is more reflective of KEP’s results given that the company generates significant share of income from its associates. During the period, KEP took a SGD61.7mn in impairment of investments and associated companies and another SGD167mn in provision for expected loss on legacy contracts with troubled Sete Brazil which dragged PBT down in our view. While the O&M segment still reported a loss before tax of SGD97mn, this has much narrowed versus the SGD256mn loss before tax in 4Q2017. In 4Q2018, Infrastructure PBT was relatively stable at SGD40mn (versus SGD42mn) while Property and Investments both saw lower PBT (down 40% y/y and 19% y/y respectively).
- As at 31 December 2018, KEP’s unadjusted net gearing was 0.48x, increased from the 0.41x as at 30 September 2018 and we expect net gearing to tilt up in the next 6 months from its simultaneous take-private of 79%-owned Keppel Telecommunications & Transportation Ltd and general offer for M1 Ltd (together with Singapore Press Holdings). The exact impact on gearing levels though would depend on how much KEP eventually buys in M1 Ltd. Thus far, excluding the offeror and concert parties, other M1 Ltd shareholders holding only ~1% has tendered their shares.
- Secured debt as a proportion of tangible assets have increased somewhat to 2.2% (1.2% as at 30 September 2018) though still very low in our view and adds to KEP’s considerable financial flexibility. We are reviewing KEP’s issuer profile in conjunction with its latest result release. (OCBC, Company)

## Credit Headlines (cont'd)

### **Olam International Ltd (“Olam”) | Issuer Profile: Neutral (5)**

- Olam announced its 2019-2024 strategic plan (covering the next two 3 year periods). The four key financial metrics that the company is targeting are (1) Return on Equity of 12% or more from 2021 onwards (2) EBITDA-to-Invested Capital of 13% or more from 2021 onwards (3) Positive free cash flow to equity from 2020 onwards and (4) Maintaining net gearing of less than 2.0x throughout the plan period.
- The company is estimating a USD3.5bn in total capex over the six year plan period (including maintenance capex of USD1.0bn) while at the same time release USD1.6bn from asset sales. During the 6 year period, Olam will continue investing in Edible Nuts, Grains and Animal Feed, Cocoa & Coffee, Cotton, Spices, Edible Oils, Infra & Logistics, Dairy, Rice, Packaged Food Business and Commodity Financial Services. Four businesses which it would be looking to divest and partly sell-down include Rubber, Sugar, Wood Products and Fertiliser.
- Olam is engaging financial advisors to explore options of unlocking value from its businesses, this is expected to commence in mid-March 2019 and to complete by 4Q2019. In our view, this means Olam is ready to part with assets and commencing the process to do so. We will review Olam’s issuer profile in conjunction with its 4Q2018 financials when it is released though prima facie, we see Olam’s continued commitment to maintaining its net gearing below 2.0x positively. We maintain Olam’s Neutral (5) issuer profile for now. (Company, OCBC)

### **Sabana Shari’ah Compliant Industrial Trust (“SSREIT”) | Issuer Profile: Neutral (5)**

- SSREIT announced their 4Q2018 and 2018 results. In 4Q2018, SSREIT’s gross revenue declined 1.8% y/y to SGD20.0mn, driven by lower occupancies on certain multi-tenanted properties, lower contribution from 21 Joo Koon Crescent, negative rental reversions for certain master leases, though these were offset by stronger contribution from 10 Changi South Street 2 and improved occupancies from three other properties.
- In 4Q2018, EBITDA (based on our calculation which excludes other income and other expenses) was down 6% y/y to SGD11.7mn while interest expense increased 2.5% y/y to SGD3.8mn, with EBITDA/Interest declining to 3.1x in 4Q2018 from 3.4x in 4Q2017. We estimate that Sponsor makes up about 11% of SSREIT rental income and we deem this amount as “at-risk”, taking this out from EBITDA, we estimate the EBITDA/Interest at 2.7x. SSREIT’s Sponsor, Vibrant Group is a high yield bond issuer whose subsidiaries have been subject to a special audit.
- As at 31 December 2018, aggregate leverage was 36.8%, down from 38.6% last quarter. Short term debt at SSREIT was SGD127.8mn as at 31 December 2018 (including SSREIT’s sole SGD100mn bond which matures in April 2019). We see moderate refinancing risk at SSREIT. Unencumbered assets was SGD240.8mn, which should help raise funding if need be while SSREIT still maintains access to bank debt markets. We maintain SSREIT at a Neutral (5) issuer profile. (Company, OCBC)

**Table 1: Key Financial Indicators**

	25-Jan	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	85	0	-14
iTraxx SovX APAC	63	-1	-9
iTraxx Japan	70	-2	-15
iTraxx Australia	84	0	-13
CDX NA IG	74	1	-21
CDX NA HY	105	0	4
iTraxx Eur Main	77	0	-15
iTraxx Eur XO	328	8	-36
iTraxx Eur Snr Fin	93	-1	-22
iTraxx Sovx WE	25	0	-1
AUD/USD	0.711	-0.82%	1.04%
EUR/USD	1.132	-0.36%	-0.61%
USD/SGD	1.359	-0.02%	1.00%
China 5Y CDS	59	1	-11
Malaysia 5Y CDS	88	-1	-24
Indonesia 5Y CDS	121	-3	-22
Thailand 5Y CDS	43	0	-3

	25-Jan	1W chg	1M chg
Brent Crude Spot (\$/bbl)	61.86	-1.34%	22.57%
Gold Spot (\$/oz)	1,281.87	-0.02%	1.05%
CRB	179.24	-0.23%	6.46%
GSCI	406.65	0.15%	10.72%
VIX	18.89	-0.79%	-47.63%
CT10 (bp)	2.726%	-5.78	-1.19
USD Swap Spread 10Y (bp)	3	0	1
USD Swap Spread 30Y (bp)	-17	0	-3
TED Spread (bp)	37	0	-7
US Libor-OIS Spread (bp)	36	1	-5
Euro Libor-OIS Spread (bp)	5	0	3
DJIA	24,553	1.43%	12.67%
SPX	2,642	1.00%	12.39%
MSCI Asiax	622	-0.07%	5.42%
HSI	27,517	1.57%	7.27%
STI	3,218	-0.21%	5.46%
KLCI	1,698	0.87%	0.82%
JCI	6,489	0.64%	5.29%

## New issues

- Sino-Ocean Land Treasure IV Ltd has priced a USD500mn 3.25-year bond (guarantor: Sino-Ocean Group Holding Ltd) at CT+287.5bps, tightening from IPT of CT+330bps area.
- Celestial Miles Ltd has priced a USD800mn NC5-perpetual bond (guarantor: NWS Holdings Ltd) at 5.75%, tightening from IPT of 6.3% area.
- ESR Cayman Ltd has priced a SGD150mn 3-year bond at 6.75%, in line with IPT.
- Hainan Airlines held a non-deal roadshow with investors for its potential USD bond issuance.
- CMO Capital Ltd has scheduled investor meetings from 24 Jan for its potential USD bond issuance (guarantor: China Molybdenum Co Ltd).

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
24-Jan-19	Sino-Ocean Land Treasure IV Ltd (Sino-Ocean Group Holding Ltd)	USD500mn	3.25-year	CT+287.5bps
24-Jan-19	Celestial Miles Ltd (NWS Holdings Ltd)	USD800mn	NC5-perpetual	5.75%
24-Jan-19	ESR Cayman Ltd	SGD150mn	3-year	6.75%
23-Jan-19	Export-Import Bank of China	USD130mn	2-year	3M US LIBOR +55bps
23-Jan-19	Nuoxi Capital Ltd (Peking University Founder Group Company Ltd)	USD150mn	3-year	7.5%
23-Jan-19	Yankuang Group (Cayman) Ltd (Yankuang Group Co)	USD215mn	3-year	6.0%
23-Jan-19	KEB Hana Bank	USD300mn USD300mn	3-year 5-year	CT+87.5bps CT+102.5bps
22-Jan-19	AC Energy Finance International Ltd (AC Energy Inc)	USD225mn	5-year	4.875%
22-Jan-19	Central China Real Estate Ltd	USD200mn	363-day	7.325%
22-Jan-19	Johnson Electric Holdings Ltd	USD300mn	5.5-year	CT+165bps
22-Jan-19	Mongolian Mortgage Corporation HFC LLC (MIK Holding JSC)	USD250mn	3-year	9.75%
22-Jan-19	Suhyup Bank	USD300mn	5-year	CT+110bps
22-Jan-19	China Evergrande Group	USD1.1bn USD875mn USD1.025bn	EVERRE 7.0%'20s EVERRE 6.25%'21s EVERRE 8.25%'22s	8.25% 9.5% 10.5%
22-Jan-19	Export-Import Bank of China	USD100mn	EXIMCH Float'21s	3M US LIBOR +60bps
22-Jan-19	Centurion Corporation Ltd	SGD56mn	3-year	5.5%

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