

Mar 26, 2019

**Credit Headlines:** Keppel Corp Ltd

## **Market Commentary**

- The SGD swap curve flattened yesterday, as most tenors traded 1-2bps lower with the exception of the 30-year swap rate trading little change.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 136bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 8bps to 463bps.
- Flows in SGD corporates were heavy, with significant flows in HFCSP 4.2%'22s. Other SGD corporates were GUOLSP 4.6%-PERPs, ESRCAY 6.75%'22s and CAPLSP 3.8%'24s.
- 10Y UST yields fell 4bps to close the session at 2.40%, the lowest since December 2017, as follow through trade from last Friday continued into the week, exacerbated by weaker equity markets and international growth which drove safe-haven demand into low-risk assets. Meanwhile, spread between yields on the 3-month and 10-year notes inverted even further to around 5bps.

## **Credit Headlines**

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

- KEP announced that Alpha Asia Macro Trends Fund III (“AAMTF III”) and Keppel Land China Limited through their respective wholly-owned subsidiaries and together with other co-investors have entered into an agreement with North Bund Keppel Pte Ltd (“JV”).
- The JV is currently owned by a wholly-owned subsidiary of AAMTF III, a fund that is managed by KEP’s asset management arm. AAMTF III targets to invest in multi-asset classes across gateway cities in the Asia-Pacific region (retail, accommodation, offices, business parks and logistics assets). It is expected that post-subscription of shares in the JV, the shareholding will be as follows: AAMTF III (42.1%), Keppel Land China Limited (29.8%), other co-investors in JV (28.1%).
- The JV has entered into a framework agreement to acquire Yi Fang Tower, a prime Grade A office and retail mixed-use development located in the Bund, Shanghai from Yi Fang Jing Yi Enterprise Management Co. Ltd for RMB4.6bn (~SGD916mn), with completion targeted in 2Q2019.
- Based on the shareholding structure of the JV, we expect KEP’s minimum outlay to be SGD273mn as KEP owns 100% of Keppel Land China Limited. It is undisclosed as to how much KEP’s effective stake in AAMTF III is. Although we expect KEP to also be invested in AMMTF III, alongside other third party investors. Assuming an effective stake of 10% in AMMTF III, KEP’s total investment outlay may reach ~SGD312mn. With KEP’s significant investment outlay (eg: offer for M1 Ltd, take private of Keppel Telecommunications & Transportation Ltd), we expect debt levels at KEP to rise, even if this acquisition is not consolidated at the KEP level. As at 31 December 2018, KEP’s net gearing was 0.48x and we expect this to rise beyond 0.6x. (Company, OCBC)

**Table 1: Key Financial Indicators**

	<u>26-Mar</u>	<u>1W chg (bps)</u>	<u>1M chg (bps)</u>
iTraxx Asiax IG	73	9	3
iTraxx SovX APAC	47	-1	-8
iTraxx Japan	62	7	3
iTraxx Australia	77	10	7
CDX NA IG	69	11	8
CDX NA HY	106	-1	0
iTraxx Eur Main	69	12	6
iTraxx Eur XO	283	24	6
iTraxx Eur Snr Fin	89	21	14
iTraxx Sovx WE	20	0	-3
AUD/USD	0.712	0.42%	-0.95%
EUR/USD	1.132	-0.32%	-0.64%
USD/SGD	1.350	0.11%	-0.17%
China 5Y CDS	48	4	-1
Malaysia 5Y CDS	65	7	-2
Indonesia 5Y CDS	104	10	-2
Thailand 5Y CDS	44	2	-2

	<u>26-Mar</u>	<u>1W chg</u>	<u>1M chg</u>
Brent Crude Spot (\$/bbl)	67.29	-0.47%	3.19%
Gold Spot (\$/oz)	1,321.00	1.11%	-0.60%
CRB	184.31	-0.30%	1.60%
GSCI	434.29	-0.25%	3.03%
VIX	16.33	24.66%	7.65%
CT10 (bp)	2.423%	-18.93	-21.27
USD Swap Spread 10Y (bp)	-4	-5	-5
USD Swap Spread 30Y (bp)	-28	-5	-7
US Libor-OIS Spread (bp)	21	0	-1
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,517	-1.53%	-2.08%
SPX	2,798	-1.22%	0.16%
MSCI Asiax	654	-1.81%	-0.97%
HSI	28,665	-2.72%	-0.37%
STI	3,211	-0.31%	-1.56%
KLCI	1,648	-2.32%	-4.10%
JCI	6,466	-0.23%	-1.15%

## New issues

- Indian Railway Finance Corp Ltd has priced a USD500mn 5-year bond at CT5+150bps, tightening from IPT of +175bps area.
- LG Chem Ltd has scheduled investor meetings from 1 April for its potential USD bond issuance.
- Vertex Capital Investment Ltd (guarantor: Guangzhou Industrial Investment Fund Management Co Ltd) has scheduled investor meetings on 25-27 March for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
25-Mar-19	Indian Railway Finance Corp Ltd	USD500mn	5-year	CT5+150bps
21-Mar-19	Bank Rakyat Indonesia (Persero) Tbk	USD500mn	5-year	CT5+168bps
21-Mar-19	CIFI Holdings (Group) Co Ltd	USD255mn	5NC3	6.55%
21-Mar-19	Gemdale Ever Prosperity Investment Ltd	USD300mn	GEMDAL 6.0%'21s	5.7%
21-Mar-19	Chengdu Economic and Technological Development Zone State-Owned Assets Investment Co Ltd	USD250mn	CDECST 7.5%'22s	100
21-Mar-19	Canara Bank	USD400mn	5-year	CT5+170bps
20-Mar-19	China South City Holdings Ltd	USD200mn	2-year	12.125%
20-Mar-19	Huayuan Property Co Ltd	USD300mn	2.5-year	8.5%
20-Mar-19	Sunac China Holdings Ltd	USD200mn	SUNAC 8.35%'23s	100
19-Mar-19	Landmark Funding 2019 Ltd	USD450mn	3-year	4.7%
19-Mar-19	KWG Group Holdings Ltd	USD350mn	KWGPRO 7.875%'23s	102.125
19-Mar-19	Singapore Airlines Ltd	SGD200mn	5-year	3.03%
18-Mar-19	Poly Real Estate Finance Ltd	USD500mn	5-year	CT5+160bps
18-Mar-19	Yunnan Provincial Energy	USD400mn	YUNAEN 6.25%'21s	5.5%

Source: OCBC, Bloomberg

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