

Mar 6, 2019

**Credit Headlines:** ESR-REIT, Hyflux Ltd

## **Market Commentary**

- The SGD swap curve flattened yesterday, with shorter tenors trading 1bps lower while the longer tenors traded 2bps lower (with the exception of the 12-year swap rate trading lower by 3bps).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 139bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 490bps.
- Flows in SGD corporates were heavy, with flows seen in ESRCA 6.75%'22s, LLCAU 3.9%'27s, UBS 5.875%-PERPs, OLAMSP 5.8%'19s, GUOLSP 4.6%-PERPs and NOLSP 4.65%'20s.
- 10Y UST yields ended the session relatively flat at 2.72%, as renewed fears regarding the US-China trade talks offset the earlier rise in yields from a report showing an increase in February business activity and spending in non-manufacturing sectors.

## **Credit Headlines**

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

- As at 31 December 2018, EREIT faced a short term debt of SGD281.9mn. On 5 March 2019, EREIT announced that it had entered into a SGD155mn unsecured loan facility agreement with bank lenders which can be used for refinancing, further asset acquisitions and other general working capital purposes. This is a credit positive assuming that all the debt is applied towards refinancing and leaves EREIT with only SGD126.9mn to be refinanced for the year (10% out of gross debt).
- Separately, EREIT also announced that it had filed a proof of claim against Hyflux Ltd (“HYF”) and HYF’s subsidiary Hyflux Membrane Manufacturing (S) Pte Ltd (“Hyflux Membrane”) with regards to the lease agreement at 8 Tuas South Lane. HYF, Hyflux Membrane along with three other HYF subsidiaries are under a debt moratorium. In 4Q2018, this tenant contributed rental income of SGD2.1mn and was the third largest tenant for EREIT (3.5% of rental income). As yet, Hyflux Membrane has not defaulted on any of these rental income and EREIT holds security deposits in the form of bank guarantees amounting to SGD2.1mn (3 months of rental income). While this news is a credit negative, [we have taken into account this tenant as tenant at risk since January 2018 and factored this into our base case for EREIT’s issuer profile of Neutral \(4\)](#). As such we are maintaining EREIT’s issuer profile at Neutral (4). (Company, OCBC)

## Credit Headlines (cont'd)

### **Hyflux Ltd (“HYF”) | Issuer Profile: Unrated**

- The Public Utilities Board (“PUB”) has issued a default notice to Tuaspring Pte Ltd (“Tuaspring”) requiring Tuaspring to remedy certain defaults associated with contractual obligations in the Water Purchase Agreement between PUB and Tuaspring. These defaults relate primarily to operational reliability as well as demonstrating ongoing financial ability to continue running the plant.
- In a separate release by HYF confirming receipt of the default notice, the default cure period end date is 30 days from 6 March which is 5 April, the date of the scheme meeting. Importantly, the notice also states that this date could be extended “as may be reasonable for Tuaspring to consult with PUB”.
- Both releases confirm that should the defaults remain unresolved by the default cure period end date, then PUB has the sole discretion to terminate the Water Purchase Agreement and takeover Tuaspring. As terms of the agreements between PUB and HYF are non-public, it is unknown if any compensation would be paid on the takeover.
- This development follows the recent release of updated unaudited financial information by HYF as at 30 September 2018 which indicate a significant write-down in asset values including Tuaspring. We find total book value of common equity (ie: excluding perpetual and preference shares) to be negative SGD1.0bn as at 30 September 2018, with the company’s liabilities exceeding assets. In contrast, total book value of common equity was SGD112.8mn as at 31 March 2018 based on 1Q2018 unaudited financials and SGD120.2mn as at 31 December 2017 based on 2017 audited financials. This though is not the only factor in the default notice, with operational issues that were previously undisclosed now also apparently plaguing Tuaspring. Operational issues were reported by the media to have started since 2017.
- In our view, if the instances of operational issues at Tuaspring are merited, PUB is well within their rights in issuing a notice of default. The existence of clauses spelling out private party defaults are normal in public-private-partnership agreements to protect offtaker rights and ensure continuity of service delivery, hence PUB’s actions could be merely a matter of process at this stage in reserving their rights to takeover Tuaspring should the Scheme collapse as soon as practical and in accordance with current agreements.
- This announcement comes at a difficult time, as HYF now must deal not only with creditors under the Scheme Arrangement (as well as creditors at the asset level) but also PUB to ensure the overall restructuring can be completed. This is because the restructuring agreement with SM Investments Pte Ltd (“SMI”) is conditional on Tuaspring remaining within HYF’s corporate structure. Should Tuaspring be taken back by PUB, then SMI is entitled to walk away from the Restructuring Agreement hence leading to a collapse of the Scheme. Another complication is the rights and reaction of Maybank (sole secured lender of Tuaspring), whose recovery values are now increasingly uncertain in the face of PUB’s notice of default to potentially takeover the asset. As a recap, terms of the agreements between PUB and HYF are non-public and we are unable to determine the compensation levels (if any) to creditors and equity investors of Tuaspring (ie: HFY).
- In our view, the likelihood of liquidation has increased as a result of this announcement. Even if PUB can be assured that the defaults can be cured, the reputational damage is likely to have lasting impacts on HYF’s ability to win future projects hence diminishing the potential future value of the equity provided for in the proposed restructuring scheme. This means the decision making process will be more driven by short term recovery considerations rather than longer term ones. In the context of our conclusions in our [Special Interest Commentary](#) dated 21 February 2019, we think the Scheme is now harder to reject for bondholders. Conversely the impact for perpetual security and preference share holders depends on the reliance on the proportionately larger component of equity as part of total recoveries. In our view, apart from a more compressed timeline and higher urgency towards negotiating a better outcome, those that already saw little recovery value in the proposed terms are unlikely to view their position as diminished versus before.
- We think in a best case scenario that PUB will need to extend the default cure period on the assumption that operational issues can be resolved but that PUB will need to wait on the results of the Scheme to assess if HYF’s financial issues are resolved. Other scenarios are difficult to hypothesize given the multiple interested parties and their divergent stance. (OCBC, PUB, Company)

**Table 1: Key Financial Indicators**

	6-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	67	-4	-10
iTraxx SovX APAC	50	-4	-8
iTraxx Japan	56	-4	-3
iTraxx Australia	67	-2	-6
CDX NA IG	61	1	-5
CDX NA HY	106	0	0
iTraxx Eur Main	61	-1	-9
iTraxx Eur XO	274	-2	-33
iTraxx Eur Snr Fin	75	2	-12
iTraxx Sovx WE	21	-1	-3
AUD/USD	0.704	-1.44%	-0.99%
EUR/USD	1.129	-0.67%	-0.60%
USD/SGD	1.358	-0.68%	-0.15%
China 5Y CDS	46	-4	-7
Malaysia 5Y CDS	60	-6	-19
Indonesia 5Y CDS	96	-10	-16
Thailand 5Y CDS	44	-2	3

	6-Mar	1W chg	1M chg
Brent Crude Spot (\$/bbl)	65.33	-1.60%	4.21%
Gold Spot (\$/oz)	1,286.37	-2.54%	-1.55%
CRB	181.90	0.27%	0.74%
GSCI	424.39	0.68%	3.01%
VIX	14.74	-2.83%	-4.16%
CT10 (bp)	2.710%	2.71	1.50
USD Swap Spread 10Y (bp)	1	1	-1
USD Swap Spread 30Y (bp)	-19	2	-1
US Libor-OIS Spread (bp)	20	-2	-13
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,807	-0.96%	1.64%
SPX	2,790	-0.15%	2.12%
MSCI Asiax	659	0.02%	2.48%
HSI	29,111	1.23%	4.01%
STI	3,235	-0.45%	1.60%
KLCI	1,686	-1.60%	0.15%
JCI	6,451	-1.15%	-1.48%

## New issues

- Greenland Global Investment Ltd has priced a USD350mn 3-year bond (guarantor: Greenland Holding Group Co Ltd) at 7.25%, tightening from IPT of 7.4% area.
- Export-Import Bank of India has priced a USD500mn 5-year bond at CT5+140bps, tightening from IPT of +165bps area.
- Renew Power Ltd has priced a USD375mn 5NC2 green bond (co-issuers: certain subsidiaries of issuer) at 6.67%, in line with IPT.
- Competition Team Technologies Ltd (guarantor: Hon Hai Precision Industry Co) has priced a USD1.0bn 2-tranche deal, with the USD700mn 5-year bond priced at CT5+125bps (tightening from IPT +155bps area) and the USD300mn 10-year bond at CT10+155bps (tightening from IPT of +185bps area).
- PT Delta Merlin Dunia Textile has priced a USD300mn 5NC3 bond at 8.625%, tightening from IPT of 9.0% area.
- ESR Cayman Ltd has priced a SGD25mn re-tap of its existing ESRCAY 6.75%'22s at par (6.75%).
- Housing and Developmental Board has priced a SGD500mn 7-year bond at 2.495%.
- Mapletree Treasury Services Ltd has priced a SGD250mn 10-year bond (guarantor: Mapletree Investments Pte Ltd) at 3.58%, tightening from IPG of 3.60% area.
- Santos Ltd has scheduled investor meetings on 5 March for its potential USD 10-year bond.
- Xinhu (BVI) 2018 Holding Co Ltd (guarantor: Xinhu Zhongbao Co Ltd) has scheduled investor meetings on 5 and 6 March for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
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

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