Asia Credit Research

OCBC Bank

CapitaLand Ltd / Ascendas Pte Ltd / Ascendas REIT and Ascendas Hospitality Trust: Credit Update

Friday, 18 January 2019

Deal of the year in the making

- CapitaLand ("CAPL") announced the proposed acquisition of Ascendas Pte Ltd ("ASC") and Singbridge Pte Ltd ("SBG") for a total consideration of SGD6.0bn and an enterprise value of SGD10.9bn. In effect, ASC, SBG and the entities they own will be subsumed under CAPL.
- 50% of the transaction will be paid in new shares (to be issued) to Temasek while we think the remaining 50% which will be paid in cash will largely go to JTC, the other owner of ASC and SBG. CAPL will take on debt to fund the cash portion. We see the likelihood of deal completion as high.
- Having had a few days to digest the development, this paper will focus on the pricing implications on the CAPL curve and the various curves that would be directly impacted by the proposed acquisition. Overall, the enlarged CAPL will manage eight publicly listed REITs, with broader implications on the REIT market.
- In our view, the credit profile of CAPL will deteriorate from higher leverage though still within our Neutral (3) issuer profile which we are maintaining. Given Temasek already holds a substantial stake of 40.8% in CAPL prior to the transaction, we do not think that higher implicit support will necessarily follow, especially for bond pricing. In our view, possible supply risk would also weigh on CAPLSP's pricing levels going forward.
- We are maintaining Ascendas REIT's ("AREIT") issuer profile at Neutral (3) and Ascendas Hospitality Trust ("ASCHTS") at Neutral (4).
- **Recommendation:** We see the fair value of the CAPLSP curve at 95-105bps above swap for short-dated papers and at the longer-end at 140-150bps above swap (i.e.: 15-25bps wider than City Development Ltd's CITSP). We hold CITSP at an Issuer Profile of Positive (2). We are underweight the CAPLSP curve. We expect the curves of AREIT, ASCHTS and ASC (i.e.: the JTCSP, Issuer Profile: Unrated) to converge to the CAPLSP bond family.
- On a stabilised basis, we think:
    - i) JTCSP will trade in line with CAPLSP at 95-105bps above swap at the short-end and 140-150bps above swap at the long-end, with widening at CAPLSP driving widening of JTCSP.
    - ii) We see no reason for a change to existing spreads on the CAPL REIT curves (i.e.: CapitaLand Commercial Trust ("CCTSP"), CapitaLand Mall Trust ("CAPITA"), Ascott Residence Trust ("ARTSP") and CapitaLand Retail China Trust ("CRCTSP")).
    - iii) By implication of our fair value call on CAPL, this means we think a wider spread between CAPL REITs and CAPL itself is justified.
    - iv) AREIT to widen by 10-15 bps and trade closer to CCTSP curve, which trades tighter than CAPLSP, given both are blue chip publicly listed REITs owning a portfolio of quality assets. We hold both the Issuer Profiles of AREIT and CCT at Neutral (3). We are overweight the AREIT 4.75%-PERP and underweight the AREIT short-dated seniors.
    - v) ASCHTS to widen by 20bps and trade closer to ARTSP, CAPL's hospitality REIT. We hold the Issuer Profiles of both ASCHTS and ARTSP at Neutral (4) and underweight the ASCHTS 3.3% '20s.

OCBC Credit Research currently does not cover Ascendas Pte Ltd ("JTCSP") given that it is a privately held company that only publishes financials annually.

Treasury Advisory
Corporate FX & Structured Products
Tel: 6349-1888 / 1881
Interest Rate Derivatives
Tel: 6349-1899
Investments & Structured Products
Tel: 6349-1886

GT Institutional Sales
Tel: 6349-1810

OCBC Credit Research

Wong Hong Wei, CFA
+65 6722 2533
WongHongWei@ocbc.com

Ezien Hoo, CFA
+65 6722 2215
EzienHoo@ocbc.com

Seow Zhi Qi
+65 6530 7348
zhiqiseow@ocbc.com

Background

On 14 January 2019, CAPL announced that it has entered into a sales and purchase agreement with Ascendas-Singbridge Pte Ltd ("Ascendas-Singbridge") to buy the entire shareholding of Ascendas Pte Ltd ("ASC") and Singbridge ("SBG") Pte Ltd (both wholly-owned subsidiaries of Ascendas-Singbridge). Ascendas-Singbridge is currently 51%-owned by Temasek while the remaining 49% is owned by JTC, a statutory board under the Ministry of Trade and Industry. Ascendas-Singbridge is a developer and owner of properties (mainly industrial properties, logistics and business parks) though it also owns hospitality (via ASCHTS) and office assets with total assets under management of SGD22.3bn as at 31 March 2018. It is the Manager and Sponsor of AREIT, ASCHTS and Ascendas India Trust (all three are SGD bond issuers). CAPL is not required to make a mandatory general offer of the units in the REITs currently sponsored by Ascendas-Singbridge. While the proposed transaction is contemplated at the ASC and SBG level only, in our view, this would impact several names in our coverage universe and ASC's own curve (i.e. the JTCSP, Issuer Profile: Unrated).

Table 1: REITs/Business Trust Sponsored by Ascendas-Singbridge

REIT / Business Trust	Brief Description	Ascendas-Singbridge Ownership	Total assets (SGDbn) as at 30 September 2018	REIT Manager
AREIT	171 industrial properties across Singapore, Australia and the UK (inclusive of second UK portfolio acquired in October 2018)	18.9%	10.8	Ascendas Funds Management (S) Limited*
ASCHTS	ASCHT is a stapled group comprising Ascendas Hospitality Real Estate Investment Trust ("A-HREIT") and Ascendas Hospitality Business Trust ("A-HBT"). 14 hotels across Australia, Korea, Japan and Singapore (inclusive of the second Korea property and fifth Japan property acquired in December 2018)	27.8%	1.9	A-HREIT: Ascendas Hospitality Fund Management Pte. Ltd* A-HBT: Ascendas Hospitality Trust Management Pte. Ltd*
AIT	7 IT parks and 6 modern warehouses in India (Bangalore, Chennai, Hyderabad, Pune and Mumbai).	22.6%	2.0	Ascendas Property Fund Trustee Pte. Ltd*

** 100% owned by Ascendas-Singbridge*
Source: Bloomberg, company financials

For the financial year ended 31 March 2018, Ascendas Singbridge consolidates the result of ASCHTS while AREIT and AIT are classified as associated companies.

Table 2: Selected balance sheet items of Ascendas-Singbridge

FYE March	31 March 2018	31 March 2017
Cash (SGD bn)	0.75	0.87
Gross debt (SGD bn)	7.00	6.88
Net debt (SGD bn)	6.25	6.01
Total equity (SGD bn)	2.75	2.52
Net gearing (x)	2.27	2.38

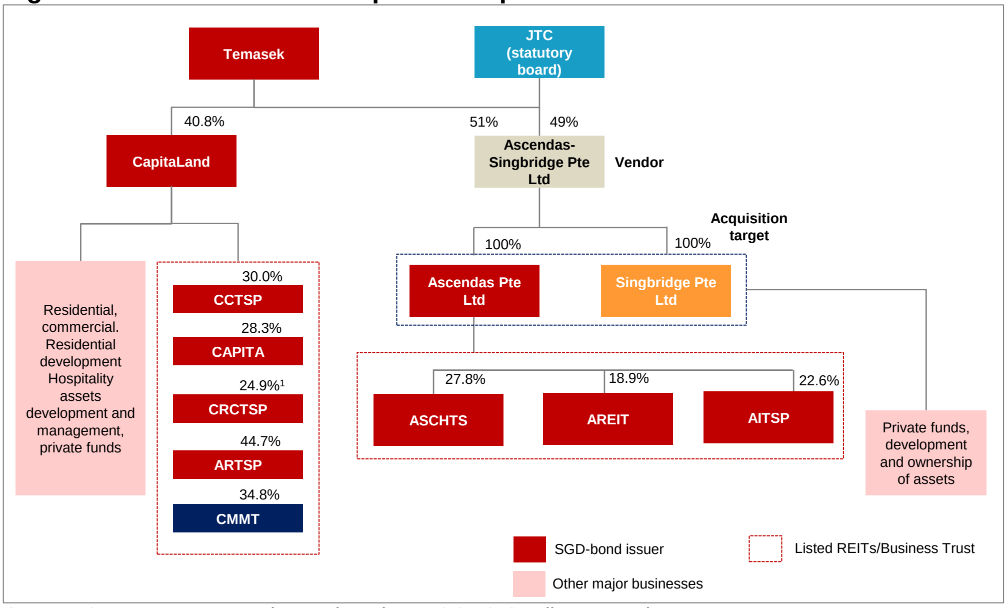
Source: Company's financials, OCBC Credit Research

Table 3: Selected income statement items of Ascendas-Singbridge

FYE March (SGD bn)	2018	2017
Revenue	0.84	0.72
EBITDA	0.50	0.45
Finance cost	0.23	0.22
Profit before tax	0.52	0.39
Tax expenses	0.13	0.14
Net profit	0.39	0.25
Net profit after minority interest	0.31	0.19

Source: Company's financials, OCBC Credit Research

Figure 1: Pre-transaction simplified corporate structure



Source: Company presentations, Bloomberg, OCBC Credit Research
Note: (1) Effective stake as CAPITA holds a 12.5%-stake in CRCTSP

Relevant key terms in the transaction announcement

Acquirer: CAPL is Singapore's leading real estate developer and operates in Singapore, Malaysia, Indonesia, China, Vietnam and other parts of the world. While CAPL does not have a significant presence in the industrial segment (for now), CAPL holds assets across multiple segments including residential development, commercial, serviced residences as well as stakes in four listed SGX-listed REITs (CapitaLand Mall Trust, CapitaLand Commercial Trust, Ascott Residence Trust, CapitaLand Retail China Trust) and real estate fund management.

Figure 2:
Breakdown of assets by region*

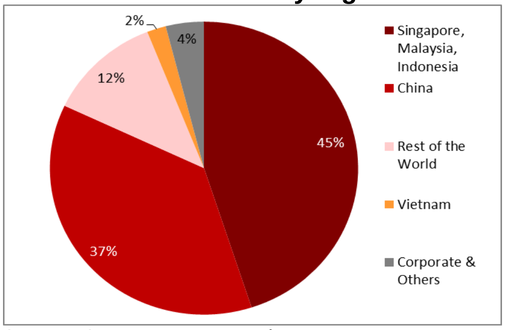
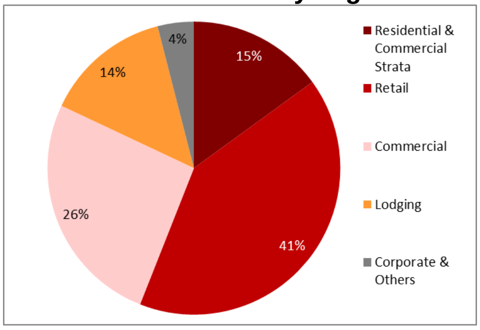
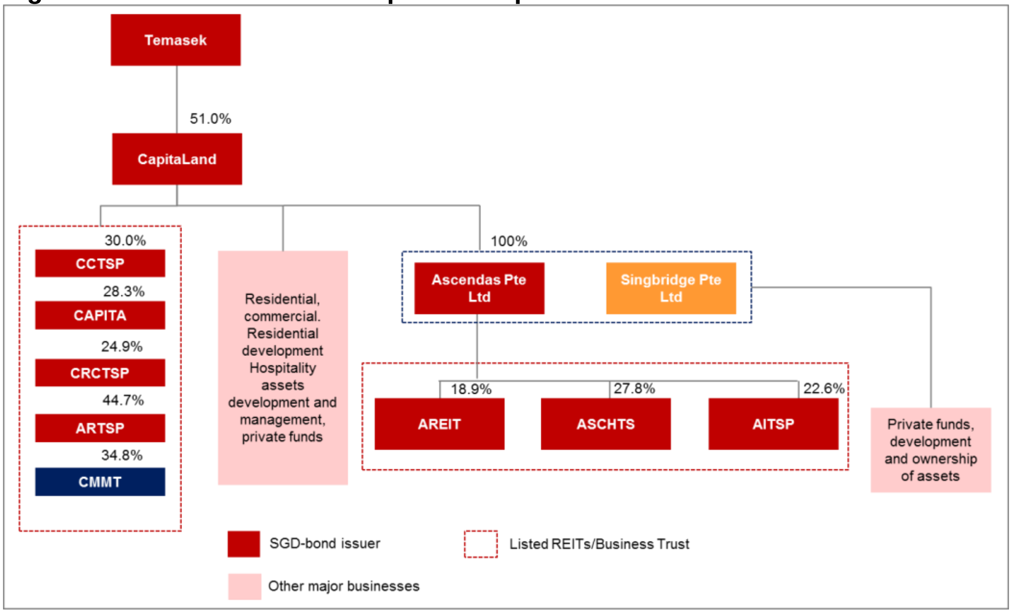


Figure 3:
Breakdown of assets by segment*



Source: Company presentations
**as of 30 September 2018*
Note: Total asset is SGD63.1bn as at 30 September 2018

Figure 4: Post-transaction simplified corporate structure



Source: Company presentations, Bloomberg, OCBC Credit Research
Note: (1) Effective stake as CAPITA holds a 12.5%-stake in CRCTSP

Financing of the deal: The total consideration for the purchase by CAPL is SGD6.0bn while the enterprise value is SGD10.9bn (CAPL to assume net debt and minority interest of SGD4.9bn). CAPL will fund the transaction with 50% in consideration shares (~862.3mn of new common shares to be issued). These will be issued at SGD3.50 per share (7% premium to last traded price prior to the announcement) while the remaining 50% will be paid in cash to Ascendas-Singbridge and financed by debt to be taken by CAPL. The exact consideration split at the Ascendas-Singbridge level is not provided, though in our view, this implies that Temasek would receive all the new consideration shares while JTC would largely be receiving the cash portion.

Pre-conditions: The proposed transaction is conditional on the satisfaction or waiver of the following, among others:

(A) **Shareholders of CAPL approving the deal:** Given that this is a related party transaction, an extraordinary general meeting will be held in the first half of 2019, with targeted completion date in 3Q2019. Shareholders' approval is also required on the proposed issuance of the consideration shares. Per CAPL, Temasek is expected to hold 51%-stake in CAPL from 40.8% currently.

(B) **MAS approval for the REIT Managers:** The deal is conditional on CAPL getting MAS approval for it to acquire the REIT managers of AREIT, ASCHTS and AIT and Ascendas Asia Real Estate Fund Management Pte Ltd (a fund management entity). This is important in our view, given the significant income earned through management of the underlying REITs and other private funds. We do not think that approval will be withheld given CAPL's significant experience in managing REITs.

(C) **Securities Industry Council waivers:** Waiver from making a general offer of the shares not already held by Ascendas-Singbridge and its concerned parties.

<u>**What does the transaction mean to CAPL bond holders**</u>

- **More downsides than upsides:** Overall, credit metrics will weaken post-transaction, which should outweigh benefits from an enlarged scale amidst other considerations in our view.

    - **Weaker credit metrics:** CAPL expects net gearing to increase to 0.72x (3Q2018: 0.51x) and reported net debt to EBITDA to increase to 5.1x (LTM Sep 2018: 4.2x) due to the cash outlay for the transaction.

    - **Willing to step up on gearing:** With this transaction, we think it confirms CAPL's willingness to step up on gearing, given that a number of big-ticket assets were already acquired in 2018 including a prime mixed-use site in Chongqing (RMB5.7bn), 2 prime residential sites in Guangzhou (RMB2.05bn), and a mixed-use site in Guangzhou (RMB882mn). Via its 41.7%-owned fund, CAPL also acquired Shanghai's tallest twin towers (RMB12.8bn) and in 2019 CAPL acquired 70% of Pufa Tower in Shanghai for RMB2.75bn, in a 50-50 JV with an unrelated third party. Even with the 0.64x net gearing target by Dec 2020, this still represents an increase from 3Q2018's net gearing of 0.51x.

  - **Enlarged scale with increased diversification:** CAPL would absorb AUD23.6bn in AUM, which would increase its total AUM to SGD116bn and rank it amongst the top 10 global real estate investment managers. CAPL would also diversify into industrial properties. However, we think that enlarged scale with increased diversification will only marginally benefit bond holders given that CAPL already has significant scale and is sufficiently diversified across real estate segments.

  - **Temasek's shareholding to increase:** Temasek would have more skin in CAPL with an increased 51% shareholding (from 40.8%). However, we do not think that higher support from Temasek may necessarily follow as Temasek already held a substantial stake in CAPL.

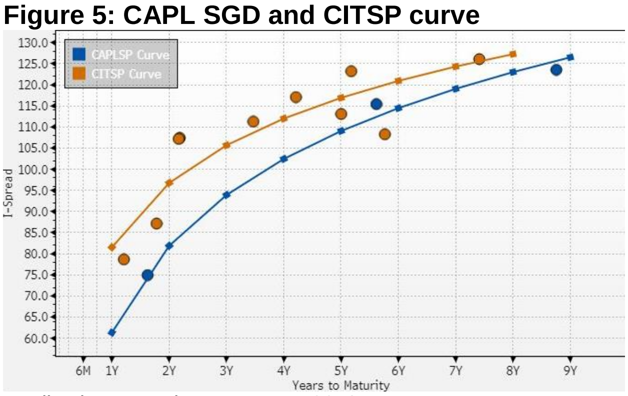
- **CAPL bonds looking not so attractive:** In addition to weaker credit metrics, we think the significant capital requirements for acquisitions may find its way to the capital markets. While there is no close comparable, we think the CAPLSP curve should trade 15-25bps wider than the CITSP curve (instead of trading in-line with CITSP). Post transaction, the net gearing of CAPLSP (0.72x) would tower over that of CITSP (0.24x).

Table 4: CAPL SGD bonds and relative value

Issue	Maturity / First Call Date	Outstanding Amount (SGDmn)	Ask Price	Ask YTW	I-spread (bps)
CAPLSP 4.3% '20	31/08/2020	350	102.5	2.70	72
CAPLSP 3.8% '24	28/08/2024	500	103.1	3.19	111
CAPLSP 3.08% '27	19/10/2027	500	97.3	3.45	120
CITSP 3% '20	02/04/2020	125	100.3	2.74	76
CITSP 3.78% '24	21/10/2024	140	103.4	3.13	104
CITSP 3.48% '26	15/06/2026	150	100.5	3.40	122

Indicative prices as at 18Jan 2018
Source: Bloomberg

Figure 5: CAPL SGD and CITSP curve



CAPL SGD curve currently trades tighter than CITSP curve. Post transaction, we expect CAPL SGD curve to widen and trade 15-25bps wider than the CITSP curve. We estimate that this translates to a fair value of ~115bps for a 2Y tenor, ~145bps for a 5Y tenor and ~160bps for a 8Y tenor.

Indicative spreads as at 17Jan 2018
Source: Bloomberg

<u>What does the transaction mean to AREIT bond and perpetual holders</u>

- **Some deterioration in credit metrics in the last 12 months:** Acquisitions have helped drive top-line growth at AREIT. Since 2015, AREIT has diverged away from being a purely Singapore-focused REIT. This has been a regular theme despite management changes. In September 2015, it acquired its first portfolio of Australian industrial assets from GIC for ~SGD1.0bn and has successively increased its presence in the country. In August 2018, AREIT bought its first portfolio in the UK for ~SGD360mn. The portfolio consists of 12 logistics properties and subsequently in October 2018, AREIT completed the acquisition of its second UK portfolio for ~SGD459mn. We estimate that aggregate leverage would have risen back to ~36% (30 September 2018: 33.2%). We see manageable refinancing risk at the company, with short term debt as at 30 September 2018 of SGD768mn representing 22% of total debt. EBITDA/Interest coverage for the second quarter of the financial year ending 31 March 2019 ("2QFY2019") was lower at 4.5x, driven by higher management fees, higher professional and transaction fees and an increase in interest from additional debt carried. Within the next 12 months though, we do not expect AREIT's credit profile to change significantly.

- **Financial flexibility unlikely to be hampered:** AREIT is the largest Industrial REIT listed on the SGX and enjoys ample financial flexibility from capital markets. For example, in September 2018, AREIT completed an equity placement raising ~SGD452mn in gross proceeds, even though details of the proposed second UK acquisition were lacking. This is rare among REITs in Singapore as more typically, equity investors would only buy into a deal when they are comfortable with the target acquisition. AREIT's financial flexibility is underpinned by its large portfolio of unencumbered assets, diversified across 1,340 tenants. The top ten customers of AREIT only contribute 20.2% of its total rental income. As at 30 September 2018, total assets was SGD10.8bn (unencumbered properties made up SGD9.6bn). By total value, 35% of AREIT's assets are in Singapore - Business & Science Parks, and 20% in Singapore - High-specification Industrial and Data Centres which should benefit from Singapore's long-term strategy of decentralisation of high-value activities across various regions in the city-state and changing nature of manufacturing activities. Based on our calculation weighted by net lettable area in sqm, AREIT's Singapore Business & Science Park's portfolio occupancy has been low at 81% as at 30 September 2018 (and even lower at 78% if we take out 12, 14 & 16 Science Park Drive which were acquired in February 2017). While connectivity and amenities are still lacking, there is potential for these properties to be redeveloped. In February 2017, Dyson opened a SGD587mn R&D centre in the vicinity and recently SHOPEE (the e-commerce arm of Sea Ltd) has fully leased a 240,000 sq ft property at Science Park Drive.

- **No change to strategic direction:** Following the various equity fundraisings, Ascendas Pte Ltd's ownership interest in AREIT had fallen to only 18.9% prior to CAPL's announcement. This was 20% as at May 2016. Our Neutral (3) issuer profile on AREIT does not factor in uplift from JTC and we see low risk for the strategic direction to change for now as the REIT is the only industrials platform for CAPL. As such, we are maintaining AREIT's Neutral (3) issuer profile despite the proposed change in Sponsorship / ownership to CAPL and AREIT losing its' ownership linkage to JTC (JTC's effective stake: 9.3%). Net-net, we think AREIT's underlying credit strength rather than its linkages to JTC has been more crucial for its credit profile.

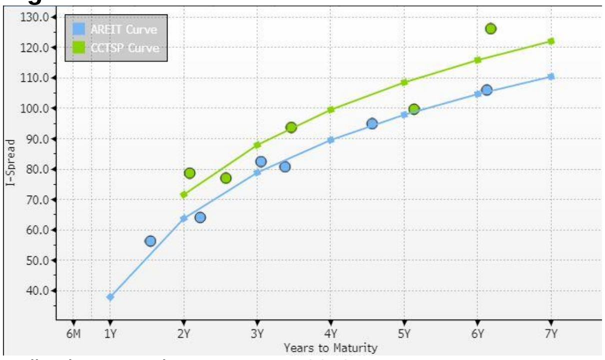
- **Curve to trade wider, though to track CCTSP:** The AREIT curve trades tighter versus the CAPLSP curve. With the announcement, we expect AREIT's curve to widen by 10-15 bps and converge with the stabilised CCTSP curve (which is tighter than CAPLSP). Both are blue chip REITs with a large portfolio of quality assets and we hold both at Issuer Profile of Neutral (3).

Table 5: AREIT SGD bonds and perpetuals

Issue	Maturity / First Call Date	Outstanding Amount (SGDmn)	Ask Price	Ask YTW / YTC	I-spread (bps)
AREIT 2.5% '19	16/05/2019	95	100.1	2.33	39
AREIT 2.95% '20	03/08/2020	100	100.7	2.52	53
AREIT 4.75% 'PERP	14/10/2020	300	102.1	3.49	150
AREIT 2.655% '21	07/04/2021	130	100.2	2.58	60
AREIT 4% '22	03/02/2022	200	103.6	2.77	77
AREIT 3.2% '22	03/06/2022	150	101.4	2.76	76
AREIT 2.47% '23	10/08/2023	200	98.1	2.93	90
AREIT 3.14% '25	02/03/2025	200	100.1	3.12	101

Indicative prices as at 18 Jan 2018
Source: Bloomberg

Figure 6: AREIT and CCTSP curve



Indicative spreads as at 17 Jan 2018
Source: Bloomberg

AREIT curve currently trades tighter than CCTSP curve. Post transaction, we expect AREIT curve to widen and trade closer to CCTSP curve, though still tighter than CAPL curve. We estimate that translates to fair value of ~85bps for a 2Y tenor, ~115bps for a 5Y tenor and ~125bps for a 7Y tenor.

What does the transaction mean to ASCHTS bond holders

- **Geographically diversified:** ASCHTS ventured into South Korea through two hotels – Ibis Ambassador Seoul Insadong and Splaisir Dongdaemun and expanded its exposure to Japan through three WBF hotels (WBF West, WBF East and WBF Honmachi) in Osaka in 2018. ASCHTS also divested its China portfolio in the same year. We estimate that ASCHTS will have a NPI exposure of ~8% to South Korea and Osaka, Japan will account for ~28% of its portfolio based on number of rooms (from ~18% prior to the transaction). These changes helped to diversify ASCHTS' income streams and reduced the reliance on a single market. Having said that, ASCHTS has six properties across Sydney, Melbourne and Brisbane, accounting for 76.3% of portfolio revenue but only 50.2% of NPI in 2QFY2019 due to underperformance and unfavourable FX movement. Properties in Sydney were the worst hit due to availability of new supply. Management expects the soft market conditions in Sydney to persist in the near term, Melbourne to see large new supply over the next few years and performance to be moderate in Brisbane.

- **Low refinancing risk despite higher aggregate leverage:** Aggregate leverage as at 31 October 2018 was 30.8%. Adjusting for the acquisition transactions, we estimate that pro forma aggregate leverage will jump to ~35.7%. As at Sep-18, ASCHTS has just SGD14.9mn in debt coming due in the remainder of 2018, none in 2019 and SGD75mn in 2020. With SGD160.3mn cash on hand, refinancing risk is minimal. Further, we do not expect ASCHTS to fund its near-term external funding needs with short term debt hence refinancing risk should remain low.

- **Merger speculated:** Following the transaction, CAPL will hold a 27.8%-stake in ASCHTS and a 44.7%-stake in ARTSP. Should both hospitality REITs come under CAPL, we think this may possibly spur a merger of the REITs to realise the synergies between them.

    - **Mutual gains:** ARTSP is around three times the size of ASCHTS in terms of asset size and is far more diversified geographically. Having said that, ARTSP does not have any exposure to South Korea unlike ASCHTS. Delving deeper into the exposure of each REIT, we find that ARTSP does not have any property in Osaka, Japan where four out of five of ASCHTS' Japan properties are located. Likewise, we do not see cannibalisation across the other geographies such as Australia and Singapore. ARTSP has a stronger focus on serviced apartments while ASCHTS has a portfolio of hotels. These properties typically cater to a different audience with unique needs. Another point to note is that ASCHTS is the smallest hospitality REIT listed on SGX while majority of the REITs have an asset size of ~SGD2.5bn. As such, we see mutual gains should a merger occur further down the road.

    - **Current Sponsor's pipeline is empty:** Ascendas Pte Ltd does not have any other hospitality assets beyond what ASCHTS holds. Therefore, there is no pipeline of property that can be injected into ASCHST from its Sponsor, Ascendas Pte Ltd.

- **Stock price gained:** Following the announcement, the stock price of ASCHTS went up by 2.50% from SGD0.80 before trading halt to SGD0.82 post trading halt on 15 Jan 2019. The STI Index, on other hand, gained 1.22% from 14 Jan 2019 to 15 Jan 2019. Given ASCHTS gained more than the STI Index, we think that ~1.28% gain can be attributed CAPL's sale and purchase announcement.

Table 6: Features of ASCHTS and ARTSP

	ASCHTS	ARTSP
Date of listing	August 2012	March 2006
Total Asset (SGD bn)	1.8	5.3
Number of properties	14	73
Geographical Exposure	Australia (36.2% by asset value), Japan (35.7% by asset value), Korea (10.5% by asset value), Singapore (17.7% by asset value)	Australia (5.5% by asset value), Japan (13.1% by asset value), Singapore (18.8% by asset value), China, Vietnam, Malaysia, Indonesia, Philippines, United Kingdom, Belgium, Germany, Spain, France, United States of America

- **Underweight on ASCHTS' only bond:** We continue to underweight ASCHTS' 20s as a YTW of 2.52% for a >1Y tenor paper with an issuer profile of Neutral (4) looks tight. We are seeing better value elsewhere. Separately, we expect that ASCHTS should trade nearer to ARTSP, even though there is no direct comparison due to the difference in the tenor of the bonds. We think there is room for ASCHTS' 20s to widen by ~20bps.

Table 7: ASCHTS SGD bonds and relative value

Issue	Maturity / First Call Date	Outstanding Amount (SGDmn)	Ask Price	Ask YTW / YTC	I-spread (bps)
ASCHTS 3.3% '20	07/04/2020	75	100.9	2.52	54
ARTSP 4.205% '22	23/11/2022	200	104.3	3.00	100
ARTSP 4.68% 'PERP	30/06/2020	250	100.9	4.03	205

Indicative prices as at 18 Jan 2018
Source: Bloomberg

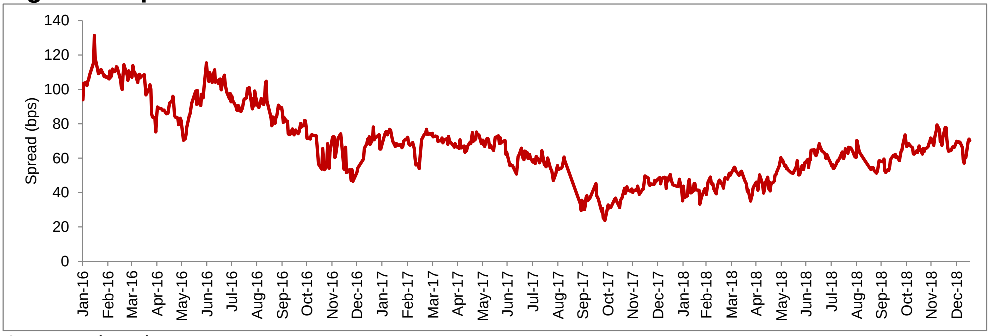
<u>What does the transaction mean to ASC bondholders (ie: the JTCSP curve)</u>

- **ASC has been issuing bonds since 2000:** Ascendas-Singbridge is the holding company of both ASC and SBG. Prior to the business combination of ASC and SBG in June 2015, ASC, a provider of business solutions (development, project management, estate management, property investments and fund management) was wholly-owned by JTC. SBG is involved in the investment and development of integrated cities and specialist industry clusters in China. It was an indirect wholly-owned subsidiary of Temasek. Historically, JTC the statutory body was a bond issuer, though the last of such bonds were issued in 2000 and matured in October 2012 per Bloomberg data. Bonds have been issued out of ASC as early as 2008 and this continued even after the combination with SBG. The most recent ASC bond was issued in August 2018. While we think the businesses between ASC and SBG may have been integrated, the entities have been kept as standalone legal entities. This is implied through CAPL buying out both ASC and SBG. There are no bonds issued out of Ascendas-Singbridge or SBG.

- **No more "stat-board" uplift though CAPL's own widening matters more:** We think the market has traditionally viewed ASC as closer to JTC, even though there are no explicit JTC guarantees. This is likely due to the outright JTC ownership link (albeit having fallen from 100% to 49%) and also legacy reasons with ASC being a bond issuing entity within the structure in the recent past. Within expectations, the relegation of ASC under the CAPL fold has caused long end spreads to widen ~20bps since the announcement. Ascendas-Singbridge now releases annual financials. Notwithstanding the expected lack of visibility going forward as a privately-held subsidiary of CAPL, we think the JTCSP curve may trade towards CAPLSP as well. We note that Keppel Land Ltd's KPLDSP 3.8% '22s trades at a spread of 85bps versus Keppel Ltd's KEPSP 3.1% '20s at 67bps and in line with each other after adjusting for tenor. Keppel Land Ltd is a private subsidiary owned by publicly listed Keppel Ltd after being taken over in 2015.

JTCSP has historically traded at a spread above quasi-sovereign (eg: the Housing Development Board) though there has been various periods in the past where it has traded tighter than CAPLSP, implying some "stat-board" uplift. That being said, we expect widening in JTCSP spreads to be driven more by our expectations of widening at CAPL.

Figure 7: Spread differential between JTCSP 3.5% '23s versus HDBSP 2.5% '23s



Source: Bloomberg
Note: The JTCSP 3.5% '23s matures on 18 January 2023 while the HDBSP 2.5% '23s matures on 29 January 2023

Table 8: ASC SGD bonds

Issue	Maturity / First Call Date	Outstanding Amount (SGDmn)	Ask Price	Ask YTW	I-spread (bps)
JTCSP 2.965% '21	16/03/2021	100	100.5	2.75	76
JTCSP 2.68% '21	10/05/2021	130	99.8	2.77	78
JTCSP 3.5% % '23	18/01/2023	200	102.1	2.94	93
JTCSP 3.265% '25	06/09/2025	200	100.3	3.21	107
JTCSP 3.5% '26	24/03/2026	75	100.3	3.46	129

Indicative prices as at 18 Jan 2018
Source: Bloomberg

Recommendation: The credit profile of CapitaLand Ltd ("CAPL") is expected to deteriorate though it would still be within our Neutral (3) issuer profile. We are maintaining a Neutral (3) and Neutral (4) issuer profile for Ascendas REIT ("AREIT") and Ascendas Hospitality Trust ("ASCHTS") respectively. We see the fair value of the CAPLSP curve at 95-105bps above swap for short-dated papers and at the longer-end at 140-150bps above swap (ie: 15-25bps wider than City Development Ltd's CITSP) and for the other impacted curves to converge to the CAPL bond family with time. We are underweight the CAPL curve. We see no reason for the spreads on the existing CAPL REIT curves (ie: CCTSP, CAPITA, ARTSP and CRCTSP) to change. By implication of our fair value call on CAPL, this means we think a wider spread between CAPL REITs and CAPL itself is justified. We expect AREIT curve to trade closer to CCTSP given both are publicly listed REITs owning a portfolio of quality assets. We also hold both AREIT and CCT's Issuer Profile at Neutral (3). For ASCHTS, we think it will converge to ARTSP level. We are underweight the AREIT short dated papers though overweight the AREIT 4.75%-PERP. We are underweight the ASCHTS 3.3% '20s.

Treasury Advisory **Corporate FX & Structured Products** Tel: 6349-1888 / 1881 **Interest Rate Derivatives** Tel: 6349-1899 **Investments & Structured Products** Tel: 6349-1886 **GT Institutional Sales** Tel: 6349-1810	**Credit Research** **Andrew Wong** +65 6530 4736 WongVKAM@ocbc.com **Ezien Hoo, CFA** +65 6722 2215 EzienHoo@ocbc.com **Wong Hong Wei, CFA** +65 6722 2533 wonghongwei@ocbc.com **Seow Zhi Qi** +65 6530 7348 ZhiQiSeow@ocbc.com

Explanation of Issuer Profile Rating ("IPR") / Issuer Profile Score ("IPS")

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings ("IPR") into a 7 point Issuer Profile Score ("IPS") scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold securities in the above-mentioned issuer or company as at the time of the publication of this report.

Co.Reg.no.:193200032W