

1 Aug 2017

**Credit Headlines (Page 2 onwards):** Industry Outlook – Singapore Industrial, International Healthway Corp, BreadTalk Group Ltd, Perennial 8 Shenton Investors Pte Ltd

**Market Commentary:** The SGD swap curve traded downwards yesterday, with swap rates trading 1-2bps lower across all tenors (with the exception of 7Y swaps). Flows in SGD corporates were heavy, with better buying seen in HSBC 4.7%-PERPs, BAERVX 5.9%-PERPs, UOBSP 3.5%'20s, WINGTA 4.08%-PERPs, and better selling seen in OLAMSP 5.5%-PERPs, GRCHAR 6%'17s. In the broader dollar space, the spread on JACI IG Corporates fell 1bps to 187bps, while the yield on JACI HY Corporates rose 13bps to 7.03%. 10y UST yields traded little changed at 2.90%, as investors lacked directional catalysts while awaiting for economic data to be released in the coming week.

**New Issues:** KT Corporation has priced a USD400mn 5-year bond at CT5+92.5bps, tightening from initial guidance of CT5+110bps area. The expected issue ratings are 'A-/A3/A-'. New Metro Global Ltd has scheduled investor meetings for potential USD bond issuance (guaranteed by Future Land Holdings Co) from 31 Jul. The expected issue ratings are 'NR/Ba3/BB-'. eHi Car Services Ltd has scheduled investor meetings for potential USD bond issuance from 1 Aug. The expected issue ratings are 'BB-/NR/BB-'. Gajah Tunggal Tbk (PT) has scheduled investor meetings for potential USD bond issuance from 1 Aug.

**Rating Changes:** S&P has placed Gajah Tunggal Tbk's (PT) (Gajah Tunggal) 'CCC' corporate credit rating and issue rating on its outstanding senior unsecured debt on CreditWatch with developing implications. S&P has also assigned a 'B-' issue rating to Gajah Tunggal's proposed senior secured notes due 2022. The rating action follows Gajah Tunggal's announcement to refinance its bonds that are maturing in February 2018 through a new bond issuance, which would reduce refinancing risk if successful. Moody's has similarly placed Gajah Tunggal Tbk's (PT) (Gajah Tunggal) 'Caa1' corporate family rating and senior unsecured rating on review for an upgrade. The rating action follows the announcement of Gajah Tunggal's plans to refinance its notes maturing in February 2018, and this would materially address liquidity concerns.

**Table 1: Key Financial Indicators**

	1-Aug	1W chg (bps)	1M chg (bps)		1-Aug	1W chg	1M chg
iTraxx Asiax IG	82	-2	-5	Brent Crude Spot (\$/bbl)	52.81	5.20%	10.20%
iTraxx SovX APAC	19	-2	-2	Gold Spot (\$/oz)	1,269.87	1.58%	4.07%
iTraxx Japan	40	0	1	CRB	182.64	3.64%	4.50%
iTraxx Australia	77	-1	-6	GSCI	388.07	2.98%	4.21%
CDX NA IG	57	1	-3	VIX	10.26	8.80%	-8.23%
CDX NA HY	108	0	1	CT10 (bp)	2,300%	-3.58	-0.41
iTraxx Eur Main	53	1	-2	USD Swap Spread 10Y (bp)	-5	-1	-2
iTraxx Eur XO	235	-1	-10	USD Swap Spread 30Y (bp)	-34	-2	-5
iTraxx Eur Snr Fin	50	0	-2	TED Spread (bp)	24	10	-4
iTraxx Sovx WE	5	1	-1	US Libor-OIS Spread (bp)	15	0	1
iTraxx Sovx CEEMEA	47	-7	-8	Euro Libor-OIS Spread (bp)	3	0	0
					1-Aug	1W chg	1M chg
				AUD/USD	0.803	1.17%	4.82%
				USD/CHF	0.967	-1.48%	-0.32%
				EUR/USD	1.183	1.54%	4.07%
				USD/SGD	1.356	0.48%	1.98%
Korea 5Y CDS	58	1	4	DJIA	21,891	1.76%	2.54%
China 5Y CDS	64	-1	-5	SPX	2,470	0.02%	1.93%
Malaysia 5Y CDS	81	-3	-4	MSCI Asiax	656	0.56%	4.90%
Philippines 5Y CDS	71	-2	-6	HSI	27,496	2.40%	6.72%
Indonesia 5Y CDS	112	-4	-5	STI	3,330	0.06%	3.20%
Thailand 5Y CDS	61	-3	0	KLCI	1,769	0.30%	0.28%
				JCI	5,836	0.39%	0.11%

Source: OCBC, Bloomberg

**Table 2: Recent Asian New Issues**

Date	Issuer	Ratings	Size	Tenor	Pricing
31-Jul-17	KT Corporation	'A-/A3/A-'	USD400mn	5-year	CT5+92.5bps
31-Jul-17	Olam International Limited (re-tap)	Not Rated	SGD50mn	OLAMSP 5.5%-Perp	100.25
28-Jul-17	Powerlong Real Estate Holdings Ltd (re-tap)	'B-/B2/NR'	USD100mn	PWRLNG 5.95%'20s	99.196
27-Jul-17	BNZ International Funding Ltd	'NR/A1/NR'	USD650mn	5.25-year	CT5.25+85bps
27-Jul-17	Incitec Pivot Finance LLC	'BBB/Baa2/NR'	USD400mn	10-year	CT10+167.5bps
27-Jul-17	Azure Power Energy Ltd	'NR/Ba3/BB-'	USD500mn	5.25NC3	5.5%
27-Jul-17	Shougang Group	'NR/NR/A-'	EUR400mn	3-year	CT3+145.2bps
26-Jul-17	Suntec REIT MTN Pte Ltd	Not Rated	SGD100mn	6-year	2.85%

Source: OCBC, Bloomberg

**Rating changes (Cont'd):** S&P has placed China Merchants Port Holdings Co Ltd's (CMPH) 'BBB+' corporate credit and long-term senior unsecured issue rating on CreditWatch with negative implications. The rating action reflects S&P's expectation that CMPH's acquisition of Hambantota Port will cause its debt leverage to further deteriorate. Moody's has affirmed the Asian Development Bank's (ADB) issuer and senior unsecured debt ratings at 'Aaa'. The outlook remains stable. The rating action reflects the recent strengthening of ADB's capital base as the recent merger between ADB's ordinary capital resources and its Asian Development Fund's lending operations provide stronger buffers against potential losses. Moody's has assigned Future Land Holdings Co Ltd (FLH) a corporate family rating and a senior unsecured rating on its proposed notes of 'Ba3'. The outlook is positive. The rating action reflects FLH's long and solid track record in Jiangsu Province, as well as its strong sales execution, ability to grow in scale, and improving geographic diversification. However, the rating factors in Future's concentrated exposure to the regional economy of the Yangtze River Delta, and the execution risks from its fast-paced expansion. Fitch has also assigned Future Land Holdings Co Ltd (FLH) an Issuer Default Rating (IDR) of 'BB-'. At the same time, Fitch has assigned a 'BB-' rating on FLH's proposed senior notes. The rating action reflects Fitch's view that FLH's focus on the Yangtze River Delta region continues to support its scale, and that its leverage is likely to improve as sales rise faster than land acquisitions. Moody's has assigned Tunas Baru Lampung Tbk (PT) (TBLA) a corporate family rating and a senior unsecured rating of 'Ba3'. The outlook is stable. The rating action reflects TBLA's dual-commodity business model of crude palm oil and sugar, which are underpinned by favorable long-term, domestic demand fundamentals. However, TBLA's rating are constrained by its small scale of operations relative to peers, exposure to cyclical crude palm oil prices, and uncertainties on securing import quotas for raw sugar.

## Credit Headlines:

**Industry Outlook – Singapore Industrial:** JTC issued its 2Q2017 industrial property market report. Price index is now 91.8 (fell 1.6% against the previous quarter) and represents the 9th consecutive quarter where prices have softened. The rental index only fell 0.8% Q-on-Q. Conversely, between 1Q2016 and 2Q2016, the rental index fell 1.7%. Overall, we have seen a flattening out in the decline in rental index. This is an encouraging sign, though we are not ready to call it the bottom and expect further rental declines in the multiple-user factory, single-user factory and warehouse sub-segments in 2017 given the onslaught of supply. Vacancy rate was 11.3% in 2Q2017, increasing from 10.6% in 1Q2017. The warehouse sub-segment was hard hit, with vacancy rates increasing 1.8 pt to 11.9%. We expect bulk of our Industrial REIT issuers to be able to withstand the sector downturn, on the back of still-manageable aggregate leverage levels and interest coverage ratios. (JTC, OCBC)

**International Healthway Corp ("IHC", 86% owned subsidiary of OUE Limited ("OUE")):** IHC has filed its delayed 1Q2017 and 2Q2017 financial results. As IHC became a subsidiary of OUE on 02/03/17, its results were partially reflected in OUE's 1Q2017 results, and will be fully reflected in OUE's 2Q2017 results (to be released later today after the market closes). For 2Q2017, IHC reported SGD10.8mn in revenue, a decline of 20.4% y/y. The decline was largely driven by the divestment of IHC's Australian investment properties (SGD2.4mn revenue impact). Comparatively, the rental income from IHC's Japanese nursing homes and Wuxi hospital have remain relatively stable. The decline in revenue caused gross margin compression with gross margin falling to 44.6% (2Q2016: 50.3%). The period also saw IHC record SGD15.5mn in impairments on trade and other receivables. SG&A was higher by 33% to SGD4.0mn, driven by higher staff costs and legal and professional fees incurred (post acquisition by OUE). Finance expenses were relatively unchanged y/y. Due to the large impairment and lower gross profit, IHC generated a loss after tax of SGD20.6mn (versus a loss of SGD0.9mn in 2Q2016). In terms of cash flow generation, though the impairment was non-cash, IHC still saw SGD10.2mn in operating cash outflow, due to working capital needs and interest paid. The cash burn was funded by additional borrowings. As a result, we expect OUE's consolidated 2Q2017 results and cash flows to be weighed by IHC's performance. On the bright side, it is worth noting that on 14/07/17 IHC managed to refinance the TMK bonds tied to its Japanese nursing homes, paying down JPY11.7bn in outstanding TMK bonds (3M JPY Libor + 3.20%) by raising JPY10.0bn in new TMK bonds (3M JPY Libor + 1.03%). (Company, OCBC)

## Credit Headlines (Cont'd):

**BreadTalk Group Ltd ("BGL"), Perennial 8 Shenton Investors Pte Ltd ("P8"):** P8, which is the owner of AXA Tower, is looking to sell AXA Tower at no less than SGD1.65bn (SGD2,150 psf). Including the SGD140mn that is planned for AEI, the post-AEI value would be worth SGD2,333 psf, based on the post-AEI total strata area of 767,358 sq ft. The asking price compares favourably to the average to-date strata-sale price of AXA Tower at SGD2,559 psf, and we note separately that the unutilised GFA post-AEI is 185,850 psf. P8 acquired AXA Tower in early 2015 for SGD1.17bn (SGD1,735 psf). As at end-2016, the total assets and net assets of P8 is worth SGD1.3bn and SGD431mn respectively. If AXA Tower were sold at SGD1.65bn, we expect profits before tax (incl transaction taxes) to be worth SGD350mn. The other owners of AXA Tower include BGL (5.3%), Mr Kuok Khoon Hong (10.1%) who is the CEO of Wilmar, Low Keng Huat Singapore Ltd (20%) and a SGD1.5bn market cap developer listed in Singapore (31.2%). We expect the sale of AXA Tower, if it were to be concluded eventually, to be credit positive for BGL as its stake in P8 is worth SGD22.8mn. BGL also stands to receive any attributable profits. We continue to maintain BGL at a Neutral Issuer Profile. We do not currently cover P8. (Company, OCBC)

**Andrew Wong**

Treasury Research & Strategy  
Global Treasury, OCBC Bank  
(65) 6530 4736  
[wongVKAM@ocbc.com](mailto:wongVKAM@ocbc.com)

**Nick Wong Liang Mian, CFA**

Treasury Research & Strategy  
Global Treasury, OCBC Bank  
(65) 6530 7348  
[NickWong@ocbc.com](mailto:NickWong@ocbc.com)

**Ezien Hoo, CFA**

Treasury Research & Strategy  
Global Treasury, OCBC Bank  
(65) 6722 2215  
[EzienHoo@ocbc.com](mailto:EzienHoo@ocbc.com)

**Wong Hong Wei**

Treasury Research & Strategy  
Global Treasury, OCBC Bank  
(65) 6722 2533  
[WongHongWei@ocbc.com](mailto:WongHongWei@ocbc.com)

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