

Jul 14, 2017

**Credit Headlines (Page 2 onwards):** Hotel Properties Ltd, Yanlord Land Group Ltd, ESR-REIT (formerly Cambridge Industrial Trust), Global Logistic Properties and China Vanke Co Ltd

**Market Commentary:** The SGD swap curve bull-flattened yesterday, with swap rates trading 4-7bps lower across all tenors. Flows in SGD corporates were heavy, with mixed interest seen in HSBC 4.7%-PERPs, PILLSP 7.25%'18s and NOLSP 4.65%'20s. In the broader dollar space, the spread on JACI IG Corporates rose 2bps to 188bps, while the yield on JACI HY Corporates fell 2bps to 6.85%. 10y UST yields rose 3bps to 2.34% as slightly stronger than expected economic data helped push yields upwards.

**New Issues:** Japan Bank for International Cooperation has priced a four-tranche deal (guaranteed by Japan), with the USD1.5bn 3-year fixed-rate bond priced at CT3+39bps, tightening from initial guidance of CT3+43bps; the USD1bn 3-year floating-rate bond priced at 3mL+39bps, tightening from initial guidance of 3mL+43bps; the USD1.25bn 5-year fixed rate bond priced at CT5+51bps, tightening from initial guidance of CT5+57bps area; and the USD1.25bn 10-year fixed rate bond priced at CT10+67bps, tightening from initial guidance of CT10+72bps area. The expected issue ratings are 'NR/A1/NR'. Korea Gas Corporation has priced a two-tranche deal, with the USD400mn 5-year bond priced at CT5+90bps, tightening from initial guidance of CT5+115bps; and the USD400mn 10-year bond priced at CT10+90bps, tightening from initial guidance of CT10+115bps. The expected issue ratings are 'AA-/Aa2/AA-'. Mitsui Fudosan Co Ltd has priced a USD500mn 10-year bond at CT10+130bps, tightening from initial guidance of CT10+160bps. The expected issue ratings are 'NR/A2/NR'. Doosan Infracore Co Ltd has scheduled investor meetings for potential USD bond issuance (guaranteed by Korea Development Bank) from 17 Jul. The expected issue ratings are 'NR/Aa2/NR'. The Industrial Bank of Korea has scheduled investor meetings for potential USD AT1 bond issuance from 21 Jul. The expected issue ratings are 'NR/Ba2/BB+'.

**Table 1: Key Financial Indicators**

|                    | 14-Jul | 1W chg (bps) | 1M chg (bps) |                            | 14-Jul   | 1W chg  | 1M chg |
|--------------------|--------|--------------|--------------|----------------------------|----------|---------|--------|
| iTraxx Asiax IG    | 84     | -6           | 3            | Brent Crude Spot (\$/bbl)  | 48.40    | 3.62%   | 2.98%  |
| iTraxx SovX APAC   | 22     | -1           | 5            | Gold Spot (\$/oz)          | 1,216.15 | 0.30%   | -3.55% |
| iTraxx Japan       | 40     | -2           | 0            | CRB                        | 174.35   | -0.05%  | 0.77%  |
| iTraxx Australia   | 82     | -4           | 0            | GSCI                       | 370.34   | 1.32%   | 2.29%  |
| CDX NA IG          | 59     | -3           | 0            | VIX                        | 9.9      | -21.05% | -6.95% |
| CDX NA HY          | 107    | 1            | 0            | CT10 (bp)                  | 2,350%   | -3.58   | 22.42  |
| iTraxx Eur Main    | 55     | -3           | -2           | USD Swap Spread 10Y (bp)   | -5       | -2      | -3     |
| iTraxx Eur XO      | 244    | -14          | 9            | USD Swap Spread 30Y (bp)   | -34      | -2      | 3      |
| iTraxx Eur Snr Fin | 51     | -4           | -11          | TED Spread (bp)            | 27       | 0       | 2      |
| iTraxx Sovx WE     | 6      | 0            | -1           | US Libor-OIS Spread (bp)   | 14       | 0       | 4      |
| iTraxx Sovx CEEMEA | 56     | -4           | 8            | Euro Libor-OIS Spread (bp) | 3        | 0       | 0      |
|                    |        |              |              |                            |          |         |        |
|                    |        |              |              |                            | 14-Jul   | 1W chg  | 1M chg |
|                    |        |              |              | AUD/USD                    | 0.774    | 1.79%   | 2.00%  |
|                    |        |              |              | USD/CHF                    | 0.967    | -0.32%  | 0.41%  |
|                    |        |              |              | EUR/USD                    | 1.141    | 0.04%   | 1.67%  |
|                    |        |              |              | USD/SGD                    | 1.377    | 0.40%   | -0.04% |
|                    |        |              |              |                            |          |         |        |
| Korea 5Y CDS       | 58     | -4           | 9            | DJIA                       | 21,553   | 1.09%   | 0.84%  |
| China 5Y CDS       | 66     | -6           | 3            | SPX                        | 2,448    | 1.58%   | 0.41%  |
| Malaysia 5Y CDS    | 83     | -6           | 3            | MSCI Asiax                 | 640      | 3.18%   | 2.30%  |
| Philippines 5Y CDS | 73     | -7           | 2            | HSI                        | 26,332   | 3.91%   | 1.76%  |
| Indonesia 5Y CDS   | 117    | -7           | 7            | STI                        | 3,249    | 0.63%   | -0.13% |
| Thailand 5Y CDS    | 62     | -3           | 5            | KLCI                       | 1,754    | -0.35%  | -2.16% |
|                    |        |              |              | JCI                        | 5,822    | 0.12%   | 0.50%  |

Source: OCBC, Bloomberg

**Table 2: Recent Asian New Issues**

| Date      | Issuer                                   | Ratings       | Size      | Tenor    | Pricing     |
|-----------|--|---------------|-----------|----------|-------------|
| 13-Jul-17 | Japan Bank for International Cooperation | 'NR/A1/NR'    | USD1.5bn  | 3-year   | CT3+39bps   |
| 13-Jul-17 | Japan Bank for International Cooperation | 'NR/A1/NR'    | USD1bn    | 3-year   | 3mL+39bps   |
| 13-Jul-17 | Japan Bank for International Cooperation | 'NR/A1/NR'    | USD1.25bn | 5-year   | CT5+51bps   |
| 13-Jul-17 | Japan Bank for International Cooperation | 'NR/A1/NR'    | USD1.25bn | 10-year  | CT10+67bps  |
| 13-Jul-17 | Korea Gas Corporation                    | 'AA-/Aa2/AA-' | USD400mn  | 5-year   | CT5+90bps   |
| 13-Jul-17 | Korea Gas Corporation                    | 'AA-/Aa2/AA-' | USD400mn  | 10-year  | CT10+90bps  |
| 13-Jul-17 | Mitsui Fudosan Co Ltd                    | 'NR/A2/NR'    | USD500mn  | 10-year  | CT10+130bps |
| 12-Jul-17 | ARA Asset Management Ltd                 | Not Rated     | SGD300mn  | Perp NC5 | 5.2%        |
| 12-Jul-17 | Softbank Group Corp                      | 'B+/Ba3/NR'   | USD2.75bn | Perp NC6 | 6%          |

Source: OCBC, Bloomberg

**Rating Changes:** Moody's has assigned Doosan Infracore Co Ltd (Doosan) a senior unsecured rating of 'Aa2'. The outlook is stable. The rating action reflects the guarantee by Korea Development Bank (KDB) on Doosan's senior unsecured notes, and thus the notes are effectively a senior unsecured obligation of KDB. Moody's has withdrawn Star Energy Geothermal (Wayang Windu) Limited's (Star) corporate credit rating. Fitch has assigned China National Chemical Corporation (ChemChina) a senior unsecured debt rating of 'A-'. The rating action reflects ChemChina's strategic importance to the government in developing the Chinese chemical industry. Fitch has assigned the Asian Infrastructure Investment Bank (AIIB) an Issuer Default Rating of 'AAA'. The outlook is stable. The rating action reflects AIIB's substantial capital base that will support its projected rapid expansion in lending and its high quality governance and comprehensive set of policies that mitigates exposure to risks.

## Credit Headlines:

**Hotel Properties Ltd ("HPL"):** HPL, through its associated company Leisure Ventures Pte Ltd (50% effective stake by HPL), will be acquiring a company that owns Four Seasons Resort Langkawi in Malaysia for USD55mn (SGD76mn). We think the credit impact on HPL will be limited given that HPL has SGD160mn of cash as of 1Q2017 while the size of the acquisition is small relative to the size of its equity of SGD1.9bn. As such, we continue to hold HPL's Issuer Profile Rating at Neutral. (Company, OCBC)

**Yanlord Land Group Ltd ("YLG"):** A YLG-led consortium will be acquiring 33.5% stake in United Engineers Ltd ("UE") at SGD2.60 per share. The acquisition has triggered the mandatory offer for the remaining ordinary shares and preference shares in UE. It remains to be seen if UE will be taken private as the offer price of SGD2.60 per share is below book at 0.88 and below 11<sup>th</sup> July close price of SGD2.71. We do not currently cover YLG. (Company, OCBC)

**ESR-REIT ("EREIT", formerly Cambridge Industrial Trust):** ESR-REIT ("EREIT", formerly Cambridge Industrial Trust): EREIT announced its 1H2017 and 2Q2017 results. In 1H2017, gross revenue was down 2% y/y to SGD55.4mn while net property income ("NPI") declined more (9% down) to SGD38.9mn. This was on the back of loss of revenue as properties transitioned from being single-tenanted to multi-tenanted, property divestments in FY2016 and one-off costs recorded in relation to a fire at 30 Toh Guan Road (on 5 May 2017). In 2Q2017, gross revenue was SGD27.7mn, flat against the immediately preceding quarter while NPI was down 2% to SGD19.2mn q/q. No asset movements were completed between 1Q2017 and 2Q2017 though certain planned disposals has been announced as part of EREIT's asset recycling plans. EREIT has SGD56.6mn of investment properties held for divestment. Aggregate leverage as at 30 June 2017 was flat at 37.9% (31 March 2017: 37.8%) as SGD7.5mn of additional debt was taken for capex purpose. All debt remains unsecured and there is no debt due in the next 12 months. EREIT's next debt is only due in November 2018, the SGD155mn EREIT 3.5% '18s. We had earlier opined that certain gross revenue at EREIT are "at-risk" ([Mid-Year 2017 Credit Outlook](#)). In the latest quarterly results, EREIT shared that the lease with Tellus Marine, the master tenant at 21B Senoko Loop (accounting for 2.4% of total rental income) had been pre-terminated. We take some comfort that a replacement tenant from the construction sector has been found and will start its three year lease term from 1 January 2018. EBITDA/Interest declined slightly to 3.5x in 1H2017 (1H2016: 3.6x). In our downside case assuming a 10% loss in revenue, we still expect EREIT's interest coverage to be comfortably above its covenanted levels of 1.5x. We view the involvement of e-Shang Redwood Group ("ESR") as a positive development given the need for EREIT's portfolio to be rejuvenated. Nonetheless, the exact credit impact can only be determined in conjunction with actual assets injections (impacted by asset price, transaction and funding structure). We currently hold EREIT's issuer profile at Neutral. (Company, OCBC)

**Global Logistics Properties ("GLP") and China Vanke Co. Ltd ("VNRLE"):** According to the Financial Times, a consortium comprising GLP's CEO, Hopu, Hillhouse Capital Management, VNRLE and other China-based parties have been named as preferred bidder for GIC's stake in GLP. Thus far, the GLPSP 3.875% '25 bonds have reacted in favour of this possible winning bidder versus rivals, which in our view is driven by continuity and familiarity with the business. It is not yet certain how GLP's capital structure would change post-acquisition. We currently hold VNRLE at a Neutral issuer profile and do not currently cover GLP. (Financial Times, OCBC)

## Credit Headlines (Cont'd):

### Soilbuild Business Space REIT ("SBREIT"):

- 1) SBREIT has announced that a change of control ("CoC") event has occurred with the transfer of Chairman Lim Chap Huat's 185.5mn units in SBREIT to his sons. As per the notes documentation, note holders have the option of exercising a put to redeem the notes at par plus accrued interest in the event of the change of control. SBREIT has indicated that the redemption date is 12 September 2017 with expiry date of exercising the put option no later than 14 August 2017. As a reminder, the CoC clause is triggered when a) Mr Lim Chap Huat and Soilbuild Group Holdings Ltd ("SBGH") cease to own in aggregate 20% of SBREIT b) SBGH ceases to own at least 51% of the REIT manager for SBREIT. While the company had cash and cash equivalents of SGD10.8mn as at 30 June 2017 against the combined face value of SGD200mn for the SBREIT 3.45%'18s and SBREIT 3.6%'21s, we note that the company recently put in place a SGD200mn unsecured facility agreement. We recommend that note holders continue to hold SBREIT's bonds and not exercise the put option.
- 2) SBREIT's REIT Manager has requested Moody's to withdraw its corporate credit rating on SBREIT. In our view, this could be because ratings are no longer a regulatory requirement and REITs have been able to raise debt without a credit rating. Moody's last held SBREIT's credit rating at Baa3/Negative outlook prior to the withdrawal.
- 3) SBREIT announced its 1H2017 and 2Q2017 results. In 1H2017, gross revenue was up 9.6% to SGD43.5mn, this was largely on the back of the acquisition of Bukit Batok Connection from Sponsor and improvements at Solaris, Tuas Connection and Tellus Marine which helped partially offset reduction in revenue from 72 Loyang Way, West Park BizCentral and Eightrium. EBITDA/Interest was 4.4x, somewhat lower than the 4.6x in 1H2016. Revenue was recognised on 72 Loyang Way until May 2017. Removing the impact of 72 Loyang Way (but including Bukit Batok Connection contribution), we find adjusted gross revenue for 1H2017 at SGD40.2mn and adjusted EBITDA/Interest at 4.0x, healthy in our view, against its covenanted levels of 1.5x. Aggregate leverage was 37.9% as at 30 June 2017, somewhat higher than the 37.5% as at 31 March 2017. This was largely due to a reduction in cash of SGD13.6mn, rendering total assets lower, while gross debt stayed constant. In 1H2017, SBREIT used up the rental security deposits from 72 Loyang Way and refunded Sponsor SGD8mn in cash upon the receipt of an bond insurance (as an alternative to a security deposit). On 30 June 2017, SBREIT entered into a new SGD200mn unsecured facility agreement for refinancing purposes, significantly enhancing the REIT's financial flexibility and likely to assist in the redemption of the bonds. As at 30 June 2017, unencumbered properties amounted to SGD883mn, giving it further flexibility to raise secured debt if need be to redeem the bonds. Otherwise the next major refinancing is due in May 2018 (the SBREIT 3.45%'18s) and SGD55mn in interest free loan from the Sponsor comes due in August 2018. Average all-in interest cost was 3.37% in 30 June 2017, stable versus 1Q2017. We are currently reviewing the issuer and bond level recommendations and will update as necessary. (Company, OCBC)

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