

Dec 13, 2018

Credit Headlines: First REIT

Market Commentary

- The SGD swap curve steepened yesterday, with swap rates for the shorter tenors trading 1-2bps higher while the longer tenors traded 3-5bps higher.
- Flows in SGD corporates were heavy yesterday, with flows seen in UBS 5.875%-PERPs and CMZB 4.2%'28s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 161bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 610bps.
- Overall, 10Y UST yields rose 3bps to close at 2.91% on the back of easing tensions on Brexit as well as signs of progression in US-China trade discussions.

Credit Headlines:

First REIT ("FIRT") | Issuer Profile: Negative (6)

- FIRT hosted an analyst briefing yesterday where updates and its medium term strategic plan was shared. This plan aligns FIRT closer to OUE Ltd ("OUE"), which collectively with its ~64.4% owned subsidiary OUE Lippo Healthcare Ltd ("OUE-LH") is now the 100% owner of First REIT's REIT Manager ("FIRTM") and the largest deemed unitholder holding a ~17.6%-stake (10.6% held by OUE-LH and 7% held by FIRTM). FIRT's original Sponsor, PT Lippo Karawaci Tbk ("LK") still holds a 10.7%-stake in FIRT though intends to eventually sell down its stake in the REIT. The stake is valued at ~SGD88mn using 12/12/2018 market cap.
- Among the various plans, FIRT intends to geographically diversify away from Indonesia by acquiring assets in other Asia-Pacific markets. Chiefly, outside Indonesia, FIRT has a right of first refusal on OUE-LH's assets, including 12 nursing homes in Japan which are already operational. As at 31 December 2018, these assets have a book value of ~SGD288mn. This is a near term target which we expect to see FIRT debt funding the assets, with aggregate leverage temporarily spiking above 40% (30 September 2018: 34.9%)
- LK's healthcare business is concentrated in Indonesia and in conjunction with FIRT's geographical diversification, FIRT is likely to see diversification of counterparty credit risk as well away from LK. FIRT aims to have up to 50% of asset value from outside Indonesia in three to five years' time.
- FIRT is now better able to tap diverse source of bank financing, with OUE open to lending credit support to FIRT. In our view, we think it will be par for course for OUE to provide corporate guarantee on FIRT's debt, if need be.
- As at 30 September 2018, FIRT faces SGD110mn in short term debt, with SGD100mn coming due in May 2019. Our base case continues to see FIRT being able to refinance this with bank debt, notwithstanding that overhang from LK's stretched liquidity situation still persist. In 2017, 82.4% of rental income was attributable to LK and its subsidiaries while PT Siloam International Hospitals Tbk ("Siloam", 51%-owned by LK) makes up another 0.43%.
- With OUE also eyeing assets owned by FIRT for redevelopment, there is a good chance also for FIRT to sell assets to OUE. Net-net, OUE's linkages to FIRT is set to rise, though FIRT itself diversifying away from Indonesia would be a credit positive for the REIT.
- In the short-to-medium term though, LK continues to be the main driver to FIRT's credit profile (by way of being FIRT's tenant). As FIRT own assets critical to Siloam's operations, we see the assignment of existing leases and/or new leases signed directly with Siloam as highly probable should LK decide not to renew. The critical issue in our view is the revision of lease terms (eg: lease rates, foreign exchange risk allocation), amidst Siloam's still thin profitability margins which may hamper Siloam's ability to pay similar rents levels as LK. For now we are maintaining OUE at Neutral (4) and Negative (6) for FIRT. (Company, OCBC)

Table 1: Key Financial Indicators

	13-Dec	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	91	-4	2
iTraxx SovX APAC	10	0	0
iTraxx Japan	77	-1	9
iTraxx Australia	88	-3	9
CDX NA IG	78	-1	8
CDX NA HY	104	0	-1
iTraxx Eur Main	81	-6	10
iTraxx Eur XO	330	-18	36
iTraxx Eur Snr Fin	103	-8	14
iTraxx Sovx WE	26	-1	-1
AUD/USD	0.722	-0.26%	-0.01%
EUR/USD	1.138	0.01%	0.75%
USD/SGD	1.372	-0.21%	0.55%
China 5Y CDS	64	-5	-2
Malaysia 5Y CDS	106	-4	-2
Indonesia 5Y CDS	134	-9	-13
Thailand 5Y CDS	44	-1	0

	13-Dec	1W chg	1M chg
Brent Crude Spot (\$/bbl)	60.15	-2.29%	-14.22%
Gold Spot (\$/oz)	1,245.99	0.66%	3.64%
CRB	181.20	-1.39%	-1.81%
GSCI	407.92	-1.88%	-4.34%
VIX	21.46	3.47%	7.19%
CT10 (bp)	2.906%	1.05	-23.37
USD Swap Spread 10Y (bp)	4	-3	-2
USD Swap Spread 30Y (bp)	-14	-2	-4
TED Spread (bp)	39	6	12
US Libor-OIS Spread (bp)	39	-1	10
Euro Libor-OIS Spread (bp)	5	1	1
DJIA	24,527	-2.00%	-3.00%
SPX	2,651	-1.81%	-2.61%
MSCI Asiax	605	-0.05%	1.86%
HSI	26,187	-2.36%	1.53%
STI	3,100	-1.77%	1.52%
KLCI	1,663	-1.48%	-1.44%
JCI	6,116	-0.29%	4.80%

New issues

- Greenland Hong Kong Holdings Ltd has priced a USD200mn 1.5-year bond at 9.875%, in line with the final price guidance.
- Baoji Investment (Group) Co Ltd has priced a USD80mn 3-year bond at 7.0%, tightening from its initial price guidance of 7.25%.
- Chongqing Nan'an Urban Construction & Development (Group) Co Ltd has priced a USD300mn 3.5-year bond at 6.1%, tightening from its initial price guidance of low to mid 6%.

Date	Issuer	Size	Tenor	Pricing
12-Dec-18	Greenland Hong Kong Holdings Ltd	USD200mn	1.5-year	9.875%
12-Dec-18	Baoji Investment (Group) Co Ltd	USD80mn	3-year	7.0%
12-Dec-18	Chongqing Nan'an Urban Construction & Development (Group) Co Ltd	USD300mn	3.5-year	6.1%
11-Dec-18	Kaisa Group Holdings Ltd.	USD300mn	365 day	12.0%
11-Dec-18	Shaoxing City Investment Group Ltd.	USD350mn	3-year	5.95%
10-Dec-18	Shimao Property Holdings Ltd	USD570mn	SHIMAO 6.375%'21s	7.125%
10-Dec-18	Industrial & Commercial Bank of China Ltd/Dubai DIFC	USD100mn	2-year	3mL+60bps
6-Dec-18	Haitong Securities Co Ltd	USD300mn	5-year	CT5+185bps
6-Dec-18	Jinan Hi-Tech Holding Group Co Ltd	USD250mn	3-year	6.4%
6-Dec-18	Industrial & Commercial Bank of China Limited/Dubai DIFC	USD100mn	2-year	3mL+60bps
6-Dec-18	Logan Property Holdings Company Limited	USD370mn	2-year	8.75%
5-Dec-18	Zhuji Development Ltd	USD230mn	3-year	7.0%
4-Dec-18	China Development Bank	USD1bn	3-year	3mL+63bps
4-Dec-18	China Development Bank	USD500mn	5-year	3mL+73bp
4-Dec-18	Baidu Inc	USD250mn	BIDU 4.375%'24s	CT5+162.5bps

Source: OCBC, Bloomberg

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