

Oct 16, 2018

**Credit Headlines:** Hyflux Ltd, ESR-REIT, CITIC Envirotech Ltd, National Australia Bank Ltd, Keppel Real Estate Investment Trust

## **Market Commentary**

- The SGD swap curve flattened yesterday, with swap rates for the shorter tenors trading 1-3bps lower while the longer tenors traded 3-5bps lower.
- Flows in SGD corporates were heavy yesterday, with better buying seen in DBSSP 3.98%-PERPs, HSBC 5.0%-PERPs and SRBJND 4.11%'25s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 140bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 488bps.
- While 10Y UST yields traded little changed yesterday, yields fell 2bps to 3.14% in the earlier part of the trading session on the back of weaker-than-expected US domestic retail sales data. Yields subsequently recovered 2bps to close at 3.16% ahead of the new treasury supply on Tuesday and Thursday.

## **Credit Headlines:**

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

- The company announced that it has obtained Maybank's in-principle approval for the extension of two weeks with regards to the sale of Tuaspring. As part of an agreement, a binding agreement with a successful bidder or investor needs to be entered into by 15 October 2018.
- The new deadline is now 29 October 2018, two days before the next court hearing on 31 October 2018 where the company was asked to provide an interim update to creditors. (Company, OCBC)

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

- With regards to the [proposed merger of EREIT and VIVA Industrial Trust](#) ("VIVA") by way of a trust scheme of arrangement, the scheme has become effective and binding on 15 October 2018. VIVA is now wholly-owned by EREIT. Stapled security holders at VIVA are expected to get paid on 17 October 2018 while the expected date for delisting of the VIVA stapled securities is on 22 October 2018.
- The sole VIVA bond, the VITSP 4.15% '18 has matured on 19 September 2018 and as such we have ceased coverage on VIVA. (Company, OCBC)

### **CITIC Envirotech Ltd ("CEL") | Issuer Profile: Neutral (5)**

- CEL's shareholders have passed a resolution in an extraordinary general meeting ("EGM") to allow [CEL to enter into loan facilities and a fund placement agreement with CITIC Finance that constitutes interested party transactions](#). CITIC Finance is a subsidiary of CITIC Limited. In turn, CITIC Limited is controlled by the conglomerate CITIC Group. CITIC Group is also the controlling shareholder of CEL (holds an indirect stake of 59.4% in CEL). In effect, CITIC Finance and CEL share the same ultimate controlling shareholders.
- We see the transaction as credit positive as this helps alleviate immediate liquidity needs at CEL. The company faces a first call on its USD355mn perpetual in November 2018. While there is no contractual obligation to call on the perpetual, non-call will lead to the distribution rate stepping up by 500bps and our base case remains that the company will try to replace this perpetual with other sources of funding. (Company, OCBC)

## **Credit Headlines (cont'd):**

### **National Australia Bank Ltd (“NAB”) | Issuer Profile: Positive (2)**

- NAB has announced that additional costs for customer remediation matters will impact FY2018 after tax earnings. This follows the recent announcements of [Australia & New Zealand Banking Group Ltd](#) (Issuer Profile: Positive (2)) and [Westpac Banking Corporation](#) (Issuer Profile: Positive (2)) of similar impacts to full year earnings from additional charges and higher provisions.
- Total additional costs of AUD314mn will comprise charges for:
  - Customer refunds and compensation in NAB's Wealth business;
  - Implementation costs related to remediation processes; and
  - Other regulatory compliance costs.
- NAB also indicated that (1) these charges could be higher for FY2018 as charges do not include costs related to the Royal Commission into misconduct in the Banking industry and that (2) customer remediation programs will stretch into FY2019 with potential additional costs that are not quantifiable at this time.
- This continues the recent trends in NAB's results with 1HFY2018 (ended 31 March 2018) earnings down 16.0% y/y due to restructuring expenses. This overshadowed a benign operating environment with lower credit impairment charges as well as decent underlying performance from its strong market position in Business Banking.
- We will consider the impact of these additional costs when NAB's full year results are released on Nov 1. (OCBC, Company)

### **Keppel Real Estate Investment Trust (“KREIT”) | Issuer Profile: Neutral (4)**

- KREIT reported 3Q2018 results. Property income decreased 9.4% y/y to SGD36.7mn due to lower occupancy at Ocean Financial Centre (committed occupancy fell from full occupancy to 95.5% y/y after ~SGD12mn early surrender of leases in the previous quarter), 275 George Street (3Q2018: 99.3%) and 8 Exhibition Street (3Q2018: 97.2%), though partly offset by Bugis Junction Towers which is currently fully occupied. Net property income (“NPI”) declined in tandem by 10.9% y/y to SGD28.2mn.
- Total return before tax fell sharply by 38.5% y/y to SGD24.6mn, driven largely by lower rental support from MBFC and Ocean Financial Centre (-33.3% y/y) and weaker contributions from associates (-14.3% y/y) and JV (-7.6% y/y), specifically ORQ and MBFC. Given that dividend income from MBFC dipped 26.8% y/y despite a 0.2% higher occupancy rate, rental reversion is likely to be negative for this asset. As KREIT no longer (eff. 1Q2018) discloses rental reversion figures, this cannot be verified directly. HSBC has signed a 10-year lease at MBFC Tower 2 with target occupation by April 2020.
- Other portfolio statistics are also weaker y/y with retention rate at 84% (3Q2017: 91.8%), committed occupancy at 98% (3Q2017: 99.6%) and WALE at 5.7 years (3Q2017: 6 years). KREIT also has 6.7% of portfolio NLA remaining for renewal and review in 2018 unlike 0.5% of portfolio NLA a year ago. That said, with a positive outlook on the office market, climbing rents and contracting supply, we think the dip in occupancy at KREIT's Singapore assets is likely to be transitional and the higher percentage of NLA for renewal and review could be good for KREIT.
- Reported aggregate leverage is higher at 39.1% (2Q2018: 38.6%), likewise all-in interest rate is also higher at 2.80% (2Q2018: 2.77%) with interest coverage ratio lower at 4x (2Q2018: 4.3x). This is in line with our expectations as KREIT has commenced its unit buy-backs with 0.16% of issued units (~5.3mn) purchased and cancelled in 3Q2018. Given KREIT may buy back up to 1.5% of issued units over 6 months, we think aggregate leverage can inch higher. KREIT does not have any outstanding debt for the year and has obtained facility to refinance SGD64mn loan that is due in 2019. However, KREIT has a sizeable loan aggregating SGD698mn due in the coming year. (Company, OCBC)

**Table 1: Key Financial Indicators**

	16-Oct	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	88	3	10
iTraxx SovX APAC	10	0	-2
iTraxx Japan	57	0	8
iTraxx Australia	78	1	8
CDX NA IG	66	4	9
CDX NA HY	106	-1	-1
iTraxx Eur Main	74	3	14
iTraxx Eur XO	294	7	12
iTraxx Eur Snr Fin	93	5	25
iTraxx Sovx WE	27	0	3
AUD/USD	0.713	0.44%	-0.67%
EUR/USD	1.159	0.83%	-0.83%
USD/SGD	1.376	0.53%	-0.26%
China 5Y CDS	66	3	11
Malaysia 5Y CDS	105	1	8
Indonesia 5Y CDS	147	1	10
Thailand 5Y CDS	43	0	2

	16-Oct	1W chg	1M chg
Brent Crude Spot (\$/bbl)	80.88	-4.85%	3.57%
Gold Spot (\$/oz)	1,228.47	3.25%	2.25%
CRB	199.74	0.35%	4.86%
GSCI	483.94	-1.94%	4.21%
VIX	21.3	43.72%	76.47%
CT10 (bp)	3.156%	-5.06	15.98
USD Swap Spread 10Y (bp)	5	0	-2
USD Swap Spread 30Y (bp)	-10	0	-4
TED Spread (bp)	17	-3	-3
US Libor-OIS Spread (bp)	18	0	-1
Euro Libor-OIS Spread (bp)	4	1	1
DJIA	25,251	-4.67%	-3.46%
SPX	2,751	-4.63%	-5.31%
MSCI Asiax	595	-2.75%	-8.25%
HSI	25,445	-2.89%	-6.75%
STI	3,046	-4.26%	-3.65%
KLCI	1,729	-2.65%	-4.16%
JCI	5,727	-0.59%	-3.44%

## New issues

- SDG Finance I Ltd has priced a USD600mn 3-year bond (guaranteed by Shandong Gold Group Co Ltd) at CT3+255bps, tightening from its initial price guidance of CT3+280bps area.
- Weifang Urban Construction and Development Investment Group Co Ltd has priced a USD250mn 3-year bond at 6.5%, tightening from its initial price guidance of 6.75%.
- Korea Expressway Corp has priced a USD300mn 3-year bond at CT3+80bps, tightening from its initial price guidance of CT3+105bps area.
- Changde Urban construction and Investment Group Co Ltd has scheduled for investor meetings from 16 Oct for its potential USD bond issuance.
- Tenaga Nasional Bhd has scheduled for investor meetings from 17 Oct for its potential USD bond issuance.
- Geely Sweden Finance AB has scheduled for investor meetings from 17 Oct for its potential USD bond issuance (guaranteed by Zhejiang Geely Holding Group Company Ltd).

Date	Issuer	Size	Tenor	Pricing
15-Oct-18	SDG Finance I Ltd	USD600mn	3-year	CT3+255bps
15-Oct-18	Weifang Urban Construction and Development Investment Group Co Ltd	USD250mn	3-year	6.5%
15-Oct-18	Korea Expressway Corp	USD300mn	3-year	CT3+80bps
13-Oct-18	Capital Environment Holdings Ltd	USD50mn	BEICAP 5.625'21s	5.735% + accrued interest
12-Oct-18	Cheergain Group Ltd	USD226mn	3-year	15.0%
12-Oct-18	People's Republic of China	USD1.5bn	5-year	CT5+30bps
12-Oct-18	People's Republic of China	USD1.0bn	10-year	CT10+45bps
12-Oct-18	People's Republic of China	USD500mn	30-year	CT30+70bps
11-Oct-18	Zijin International Capital Co	USD350mn	3-year	CT3+230bps
11-Oct-18	Yieldking Investment Ltd	USD500mn	3-year	4.80%
11-Oct-18	Anhui Provincial Investment Group Holding Co Ltd	USD400mn	3-year	CT3+200bps
11-Oct-18	Beijing Environment (BVI) Co	USD225mn	3-year	5.30%
10-Oct-18	Cagamas Global PLC	SGD160mn	2-year	2.79%
9-Oct-18	Maoye International Holdings Ltd	USD100mn	MAOIH 13.25%'20s	100 + accrued interest

Source: OCBC, Bloomberg

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