

January 18, 2018

**Credit Headlines (Page 2 onwards):** Soilbuild Business Space REIT, First Real Estate Investment Trust

**Market Commentary:** The SGD swap curve bull-steepened yesterday, with swap rates for the short tenors trading 2—3bps higher while the longer tenors traded 4-5bps higher. Flows in SGD corporates were heavy yesterday. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS traded little changed at 108bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 327bps. The 10Y UST yield rose 5bps to 2.59%, driven by both news of China's holding of Treasuries slumping to its lowest level since July, as well as the Fed's latest Beige Book reporting the US economy and inflation expanding at a modest-to-moderate pace late last year.

**New Issues:** West Banking Corp has priced a USD2.5bn deal across three-tranches, with the USD1bn 3-year Fxd priced at CT3+52bps, tightening from its initial guidance of CT3+52-58bps area; the USD500mn 3-year floating rate note priced at 3mL+34bps, in line with its initial guidance of 3mL+34bps area and the USD1bn 10-year Fxd priced at CT10+87bps, tightening from its initial guidance of CT10+87-93bps area. The expected issue ratings are 'AA-/Aa3/NR'. Golden Asset International Investment Pte Ltd has priced a SGD150mn 3-year bond (guaranteed by Golden-Agri Resources Ltd) at 4.75%, tightening from its initial guidance of 5%.

**Rating Changes:** Moody's has revised Sunac China Holdings Ltd's outlook to stable from negative. The rating action reflects Sunac's ability to deleverage through equity issuances and strong contracted sales growth and Moody's expectation that Sunac will improve its profitability. However, Moody's acknowledged that it has viewed Sunac's investment in Leshi as credit negative, but it expects that Sunac will manage the size of any further investment in Leshi cautiously. Moody's has affirmed Shoko Chukin Bank Ltd's 'A1' ratings and revised its outlook to negative from stable for the bank's long-term deposit ratings. The affirmation of its 'A1' rating reflects Moody's assumption that the bank will receive full support from Government of Japan, in case of need. However the revision of the outlook to negative was attributed to a potential.

**Table 1: Key Financial Indicators**

	18-Jan	1W chg (bps)	1M chg (bps)		18-Jan	1W chg	1M chg
iTraxx Asiax IG	61	0	-9	Brent Crude Spot (\$/bbl)	69.38	0.26%	9.73%
iTraxx SovX APAC	10	--	-3	Gold Spot (\$/oz)	1,327.81	0.41%	5.19%
iTraxx Japan	43	-1	-3	CRB	196.40	1.16%	5.93%
iTraxx Australia	54	1	-7	GSCI	452.74	0.97%	7.51%
CDX NA IG	48	1	-2	VIX	11.91	18.15%	24.97%
CDX NA HY	109	0	0	CT10 (bp)	2,587%	5.00	19.25
iTraxx Eur Main	44	-1	-3	USD Swap Spread 10Y (bp)	1	2	2
iTraxx Eur XO	233	2	-2	USD Swap Spread 30Y (bp)	-16	4	3
iTraxx Eur Snr Fin	43	-1	-3	TED Spread (bp)	31	2	1
iTraxx Sovx WE	0			US Libor-OIS Spread (bp)	24	-1	3
iTraxx Sovx CEEMEA	32	-3	-3	Euro Libor-OIS Spread (bp)	2	0	0
					<b>18-Jan</b>	<b>1W chg</b>	<b>1M chg</b>
				AUD/USD	0.795	0.72%	3.72%
				USD/CHF	0.965	1.11%	2.13%
				EUR/USD	1.219	1.30%	3.45%
				USD/SGD	1.326	0.23%	1.58%
Korea 5Y CDS	43	0	-13	DJIA	26,116	2.88%	5.34%
China 5Y CDS	48	3	-4	SPX	2,803	1.86%	4.18%
Malaysia 5Y CDS	53	2	-7	MSCI Asiax	750	1.79%	7.53%
Philippines 5Y CDS	55	2	-6	HSI	31,983	2.93%	10.10%
Indonesia 5Y CDS	80	1	-11	STI	3,542	0.61%	3.72%
Thailand 5Y CDS	40	0	-5	KLCI	1,829	0.31%	4.40%
				JCI	6,445	1.15%	5.06%

Source: OCBC, Bloomberg

**Table 2: Recent Asian New Issues**

Date	Issuer	Ratings	Size	Tenor	Pricing
18-Jan-18	Golden Asset International Investment Pte Ltd	Not rated	SGD150mn	3-year	4.75%
18-Jan-18	West Banking Corp	'AA-/Aa3/NR'	USD1bn	10-year	CT10+87bps
18-Jan-18	West Banking Corp	'AA-/Aa3/NR'	USD500mn	3-year	3mL+34bps
18-Jan-18	West Banking Corp	'AA-/Aa3/NR'	USD1bn	3-year	CT3+52bps
17-Jan-18	CIFI Holdings Co Ltd	'B+/B1/BB'	USD300mn	5NC3	5.625%
17-Jan-18	Concord New Energy Group Ltd	'BB-/NR/BB'	USD200mn	3-year	7.9%
17-Jan-18	Sunny Optical Technology Company Ltd	'NR/Baa2/NR'	USD500mn	5-year	CT5+150bps
17-Jan-18	SSMS Plantation Holdings Pte Ltd	'NR/B1/B+'	USD300mn	5NC3	8%
17-Jan-18	ANZ New Zealand (Int'l) Ltd (London Branch)	'AA-/A2/AA-'	USD500mn	10-year	CT10+95bps
17-Jan-18	ANZ New Zealand (Int'l) Ltd (London Branch)	'AA-/A2/AA-'	USD500mn	3-year	CT3+63bps

Source: OCBC, Bloomberg

**Rating Changes (cont'd):** reduction in Moody's government support assumption for the Shoko Chukin, if it becomes more likely that the bank will successfully restructure and develop a standalone business model over the next four years. Moody's has assigned a rating of 'Ba2' for GCL New Energy Holdings Ltd a first-time corporate family rating and 'Ba3' for its USD senior unsecured notes. The outlook is stable. The rating action reflects GCL New Energy's leading market position as one of the largest solar farm operators in China, coupled with its diversified asset portfolio with stable cashflows as well as the favourable industry and policy environment in China. Moody's however acknowledged that the company's weak financial profile is attributed to its relatively short operating track record under its current scale and aggressive expansion strategy.

#### Credit Headlines:

**Soilbuild Business Space REIT ("SBREIT"):** SBREIT announced its full year results for FY2017. Gross revenue was up 4.5% y/y to SGD84.8mn while net property income ("NPI") improved 4.0% to reach SGD73.5mn. This was largely due to the full year contribution of Bukit Batok Connection ("BBC") and higher contribution from Solaris, Tuas Connection, NK Ingredients and KTL Building, partly offset by reduction of revenue at 72 Loyang Way. EBITDA was SGD67.3mn (per our calculation which does not include other income and other expenses) and we find EBITDA/Interest at 4.3x (FY2016: 4.4x). As at 31 December 2017, aggregate leverage was 40.6% (end-December 2016: 37.6%). With gross debt stable, the increase in aggregate leverage was largely due to asset corrosion amidst tenant and rental weakness which had occurred over the past two years [OCBC Asia Credit - Soilbuild Business Space Trust Credit Update \(23 Oct\)](#). In FY2017, SBREIT took a fair value loss of SGD80.5mn, driven by revaluation losses for 72 Loyang Way, West Park BizCentral, Eightrium and NK Ingredients. SGD80.5mn represents a 6.5% hit to the portfolio valuation as at 31 December 2016. SBREIT is in the midst of selling KTL Building to its Sponsor for SGD55.0mn, shareholders' approval is required and an extraordinary general meeting is targeted to be held in 1Q2018. Assuming the deal goes through, this will release SGD55.0mn which can go towards various purposes, including part-refinancing of SBREIT's upcoming SGD bond maturity in May 2018, the SBREIT'18s which has an outstanding amount of SGD93.5mn. As at 31 December 2017, SBREIT's secured debt was only 15.7% of total assets and there is still SGD803mn in unencumbered investment properties. This provides the REIT with the financial flexibility to raise secured debt for refinancing, if need be. KTL building and NK Ingredients contributed 13% to 4QFY2017 gross revenue in aggregate. NK Ingredients tenant has been in arrears and SBREIT has yet to take possession of the building. Taking out the rental contribution from KTL building (which is being sold) and NK Ingredients, we find adjusted EBITDA/Interest at 3.7x, still manageable versus its peers. We see manageable refinancing risk at SBREIT and are keeping our issuer profile of the REIT at Neutral(4).

**First Real Estate Investment Trust ("FIRT"):** FIRT announced its full year financial results for FY2017. Gross revenue was up 3.7% y/y to SGD111.0mn while EBITDA (per our calculation which does not include other income and other expenses) increased 3.5% y/y to SGD98.2mn. Finance cost increased somewhat due to higher loan amounts to finance the acquisition of Siloam Hospital Labuan Bajo ("Bajo") and to fund the second progress payment for development of Siloam Hospitals Surabaya. We find EBITDA/Interest at 5.5x (FY2016: 5.3x). If we include 50% of cash paid to perpetual holders into interest coverage, we find adjusted EBITDA/Interest at 5.0x. Perpetuals make up only a small portion of total capital at 4.6%. The acquisitions of Siloam Hospitals Buton and Lippo Plaza Buton ("Buton") and Siloam Hospitals Yogyakarta ("Jogja") was only completed in 4Q2017, with the full impact on finance cost only to be seen in 2018. In FY2017, SGD63.2mn in cash was paid for acquisitions and these were funded via debt. As at 31 December 2017, FIRT's reported aggregate leverage while having risen, was still moderate at 33.6% (end-December 2016: 31.1%). FIRT faces significant short term debt due of SGD198.3mn, comprising of SGD100mn in SGD bond due in May 2018 and secured bank loan facilities due in December 2018. FIRT has entered into committed syndicated secured loan facilities of up to SGD400mn in January 2018 to refinance the existing term loans and to fund future acquisitions. We see this as a credit positive as this removes FIRT's near-term refinancing risk. FIRT faces Lippo Karawaci ("LK") (its largest unitholder holding ~28%-stake) as its main credit counterparty due to master leases taken by LK at various portfolio properties. LK contributes more than 80% of rental income to FIRT and in December 2017, S&P had downgraded LK's credit rating by one notch to "B". For now we continue to hold FIRT's issuer profile at Neutral(5), on the back of its still moderate aggregate leverage though we may revisit this should LK's credit profile deteriorate further. (Company, OCBC)

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