

Apr 19, 2018

## Market Commentary

- The SGD swap curve twisted, with shorter tenors traded 1-2bps higher while the longer tenors traded 1-2bps lower.
- Flows in SGD were heavy yesterday, with better selling seen in HRAM 3.2%'21s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 1.26% while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 347bps.
- 10Y UST yield rose 4bps to 2.87%, as investors warmed to the idea the Federal Reserve could raise interest rate four times in 2018. This was due to Wednesday's Beige Book report which stated that robust business borrowing, rising consumer spending and tight labour markets indicated that the US economy remains on track for continued growth.

## Credit Headlines

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

- KREIT reported 1Q2018 results, with property income down 0.3% y/y to SGD39.7mn while NPI declined 0.6% y/y to SGD31.2mn. Performance was affected by the lower occupancy at 275 George Street (committed occupancy fell from 99.3% to 93.4% y/y) likely due to Telstra returning some space (portfolio NLA attributed fell 1.2ppt to 3.2%). Performance was mitigated by improvements at Bugis Junction Towers on occupancy recovery.
- Total return before tax fell sharply by 11.8% y/y to SGD37.1mn, driven largely by weaker contributions from associates (-10.9% y/y) and JV (-5.7%) with dividend income from ORQ and MBFC falling sharply. As occupancy remains almost full for both assets, the assets could be facing negative rental reversion pressure. As KREIT no longer (effective 1Q2018) discloses rental reversion data, it can't be verified directly. As a reference, KREIT reported -4% rental reversion for 2017.
- Other portfolio statistics remain strong with committed occupancy at 99.4% (4Q2017: 99.7%), retention rate at 93.0% and WALE at 5.3 years. Occupancy rates remain higher than market averages for the Singapore and Australia markets. Rental expiry for 2018 was reduced to just 6.2% of NLA (4Q2017: 8.3%)
- Aggregate leverage remained stable at 38.6% (4Q2017: 38.7%) though all-in interest rate increased to 2.75% (versus 2.62% for 2017). This caused reported interest coverage to weaken to 4.1x (2017: 4.3x). KREIT has no maturities due in 2018, though it's worth noting that KREIT has sizable bank loans aggregating SGD762mn due in 2019. We believe that KREIT would maintain its credit profile at current levels and hence will retain our Neutral (4) Issuer Profile.

### **Capitaland Mall Trust ("CMT") | Issuer Profile: Neutral (3)**

- CMT announced the divestment of Sembawang Shopping Centre ("SSC") for SGD248.0mn to a JV between Lian Beng Group Ltd and Apricot Capital Pte Ltd. CMT will be booking a net gain of SGD119.6mn, with the last book value of SSC at SGD126.0mn. SSC is a small part of CMT's portfolio (CMT has SGD10.5bn in total assets).
- Assuming that proceeds are used to retire debt, aggregate leverage would fall from 34.2% (end-4Q2017) to ~32.2%. This would be a credit positive.
- That being said, with the new debt headroom, CMT may consider further acquisitions. One possible sponsor asset would be the balance 70% stake in Westgate, which was valued at SGD675.5mn as of end-2017. We will retain our Neutral (3) Issuer Profile for now.

**Table 1: Key Financial Indicators**

|                    | 19-Apr | 1W chg (bps) | 1M chg (bps) |
|--------------------|--------|--------------|--------------|
| iTraxx Asiax IG    | 73     | -3           | 6            |
| iTraxx SovX APAC   | 12     | -1           | 0            |
| iTraxx Japan       | 50     | 0            | 6            |
| iTraxx Australia   | 64     | -4           | 6            |
| CDX NA IG          | 59     | -4           | 4            |
| CDX NA HY          | 107    | 1            | 1            |
| iTraxx Eur Main    | 54     | -4           | 3            |
| iTraxx Eur XO      | 272    | -12          | 17           |
| iTraxx Eur Snr Fin | 56     | -4           | 3            |
| iTraxx Sovx WE     | 17     | -1           | -2           |
| AUD/USD            | 0.779  | 0.49%        | 0.96%        |
| EUR/USD            | 1.237  | 0.38%        | 0.32%        |
| USD/SGD            | 1.310  | 0.18%        | 0.50%        |
| China 5Y CDS       | 58     | -3           | 1            |
| Malaysia 5Y CDS    | 71     | -2           | 6            |
| Indonesia 5Y CDS   | 96     | -5           | 4            |
| Thailand 5Y CDS    | 44     | -1           | 4            |

|                            | 19-Apr   | 1W chg  | 1M chg  |
|----------------------------|----------|---------|---------|
| Brent Crude Spot (\$/bbl)  | 73.92    | 2.64%   | 11.92%  |
| Gold Spot (\$/oz)          | 1,349.97 | 1.13%   | 2.52%   |
| CRB                        | 202.97   | 2.08%   | 5.22%   |
| GSCI                       | 474.78   | 1.72%   | 7.59%   |
| VIX                        | 15.6     | -22.92% | -17.98% |
| CT10 (bp)                  | 2.865%   | 2.96    | 0.99    |
| USD Swap Spread 10Y (bp)   | 3        | -1      | -1      |
| USD Swap Spread 30Y (bp)   | -14      | -1      | 1       |
| TED Spread (bp)            | 58       | -5      | 15      |
| US Libor-OIS Spread (bp)   | 56       | -2      | 5       |
| Euro Libor-OIS Spread (bp) | 2        | -1      | -1      |
| DJIA                       | 24,748   | 2.31%   | 0.56%   |
| SPX                        | 2,709    | 2.51%   | -0.16%  |
| MSCI Asiax                 | 720      | -0.53%  | -2.71%  |
| HSI                        | 30,284   | -1.99%  | -3.90%  |
| STI                        | 3,558    | 2.57%   | 1.70%   |
| KLCI                       | 1,879    | 0.30%   | 1.70%   |
| JCI                        | 6,320    | -0.64%  | 0.48%   |

Source: OCBC, Bloomberg

## New issues

- Vertex Capital Investment Ltd has priced a USD500mn 364-day bond (guaranteed by Guangzhou Industrial Investment Fund Management Co Ltd) at 4.15%, tightening from its initial price guidance of 4.5%.
- Logan Property Holdings Co Ltd has priced a USD300mn 3NC2 bond (guaranteed by certain offshore subsidiaries of the issuer) at 7%, tightening from its initial price guidance of 7.125%.
- New Metro Global Ltd has priced a USD300mn 3NC2 bond (guaranteed by Future Land Holdings Co Ltd) at 6.8%, in line with its initial price guidance.
- CICC Hong Kong Finance 2016 MTN Ltd has priced a USD600mn 3-year FRN (guaranteed by China International Capital Corp (HK) Ltd) at 3mL+120bps, tightening from its initial price guidance of 3mL+150bps.
- Samsonite Finco Sarl has priced a EUR350mn 8NC3 bond at 3.5%.
- Tongyi (BVI) Ltd has scheduled for investor meetings from 19 Apr for its potential USD bond issuance (guaranteed by Tongyi Industrial Group Co Ltd, Tongyi Group (HK) Ltd).
- MCC Holding (HK) Corp Ltd has scheduled for investor meetings from 18 Apr for its potential USD bond issuance (guaranteed by Metallurgical Corp of China Ltd).
- Proven Glory Capital Ltd has scheduled for investor meetings from 18 Apr for its potential USD 10-year/EUR 5-7 year bond issuance (guaranteed by Huawei Investment & Holding Co Ltd).
- KDB Life Insurance Co Ltd has scheduled for investor meetings from 19 Apr for its potential USD bond issuance.
- Harvest Operations Corp has scheduled for investor meetings from 19-20 Apr for its potential USD 5-year/7-year bond issuance (guaranteed by Korea National Oil Corp).

| <u>Date</u> | <u>Issuer</u>                       | <u>Size</u> | <u>Tenor</u> | <u>Pricing</u> |
|-------------|-------------------------------------|-------------|--------------|----------------|
| 18-Apr-1    | Samsonite Finco Sarl                | EUR350mn    | 8NC3         | 3.5%           |
| 18-Apr-18   | CICC Hong Kong Finance 2016 MTN Ltd | USD600mn    | 3-year       | 3mL+120bps     |
| 18-Apr-18   | New Metro Global Ltd                | USD300mn    | 3NC2         | 6.8%           |
| 18-Apr-18   | Logan Property Holdings Co Ltd      | USD300mn    | 3NC2         | 7%             |
| 18-Apr-18   | Vertex Capital Investment Ltd       | USD500mn    | 364-day      | 4.15%          |
| 17-Apr-18   | SoftBank Group Corp                 | USD2.45bn   | Multiple     | Multiple       |
| 17-Apr-18   | Syngenta Finance NV                 | USD4.75bn   | Multiple     | Multiple       |
| 17-Apr-18   | Easy Tactic Ltd                     | USD600mn    | 3NC2         | 7%             |
| 17-Apr-18   | China Hongqiao Group Ltd            | USD450mn    | 363-day      | 6.85%          |

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