

Oct 2, 2018

Credit Headlines: Sabana Real Estate Investment Trust, Standard Chartered PLC, Heeton Holdings Ltd, Oxley Holdings Ltd, Keppel Real Estate Investment Trust, Soilbuild Business Space 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 2-4bps higher.
- Flows in SGD corporates were heavy yesterday, with better buying seen in DBSSP 3.98%-PERPs, SRBJNG 4.11%'25s, HSBC 4.7%-PERPs, CMZB 4.2%'28s and better selling seen in HSBC 5.0%-PERPs.
- Both the Bloomberg Barclays Asia USD IG Bond Index average OAS and the Bloomberg Barclays Asia USD HY Bond Index average OAS were unchanged at 138bps and 466bps respectively.
- 10Y UST yields rose 3bps to 3.09% on the back of the announcement that the United States and Canada had reached a trilateral pact with Mexico. Yields subsequently fell 1bps to close at 3.08%.

Credit Headlines:

Sabana Real Estate Investment Trust (“SSREIT”): | Issuer Profile: Neutral (5)

- SSREIT has announced the proposed sale of 1 Tuas Avenue 4 for SGD11.18mn in cash as a continuation of its plan to divest non-performing/matured assets. This comes on the back of the [proposed sale of 9 Tai Seng Drive for SGD99.6mn](#), where SSREIT would record a significant SGD60mn gain.
- 1 Tuas Avenue 4 had been vacant for some time post expiry of a Master Lease agreement. 1 Tuas Avenue 4 was divested on an “as-is” basis or a potential industrial redevelopment site basis. Per company, the latest September 2018 independent valuation reports valued 1 Tuas Avenue 4 at an average of SGD11.0mn.
- The property's book value was SGD23.3mn as at 30 June 2018 (31 December 2018: SGD24.8mn) which was determined based on assumptions including (1) a master tenant is identified within 12 months and the master tenant will lease the entire asset for 3 year term and (2) further capital expenditure is required to complete the construction to a “tenantable” condition. In effect, SSREIT is selling 1 Tuas Avenue 4 at a loss of SGD12.1mn over book value. (Company, OCBC)

Standard Chartered PLC (“StanChart”) | Issuer Profile: Neutral (4)

- StanChart is reportedly facing a USD1.5bn fine from the US Justice Department, New York's Department of Financial Services and the Manhattan District Attorney for breaches of Iran sanctions.
- These breaches have been under investigation since 2012 following the start of a deferred prosecution agreement with US authorities and relate to transactions conducted after 2007.
- The potential fine is 2-3x above market expectations and presents somewhat of an overhang to the constructive [1H2018 results](#) given the potential impact on FY2018 earnings and StanChart's capital ratios. Reported profit after taxation for 1H2018 was USD1.59bn.
- Exposure to litigation charges and StanChart's ongoing focus on emerging markets (which raises its business risk in our view) are factored into our Neutral (4) issuer profile for StanChart so the news does not impact our fundamental view at this stage. (OCBC, Company)

Credit Headlines (cont'd):

Heeton Holdings Ltd (“HHL”) | Issuer Profile: Neutral (5)

- HHL announced that it has acquired Stewart Apartments in Edinburgh, Scotland. This property comprises 31 serviced apartment units and will be operated by HHL's hospitality management division.
- While the transaction size is not disclosed, we believe the transaction should be manageable for HHL with SGD110.6mn in cash balance even after the [earlier acquisition of Smile Hotel Asakusa](#) in Aug 2018. That said, we expect net gearing (2Q2018: 0.47x) to rise substantially. (Company, OCBC)

Oxley Holdings Ltd (“OHL”) | Issuer Profile: Negative (6)

- OHL sold 87 out of 215 (40%) units at Mayfair Gardens within 2 days of launch at SGD1,900 psf. Despite pricing lower than previously guided (SGD2,000 psf), this is credit positive with some de-risking of its portfolio by pricing to sell and we estimate that gross margins should remain positive at ~14%. We note that buyers comprise 85% Singaporeans.
- We continue to monitor [OHL's projects](#) and reiterate that strong execution to move the pipeline of units will be crucial. According to OHL, another 3 projects will be launched by end-2018 and OHL estimates that total sales for 2018 will reach 2,000 units. (Company, OCBC)

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

- KREIT, according to Bloomberg, is looking to sell Bugis Junction Towers – a 15-story office tower near the central business district.
- As at 30 June 2018, this property (with NLA of 244,579 sf and fully occupied) accounts for 5.6% of portfolio income. It was purchased at SGD159.5mn on 26 April 2006 and is currently valued at SGD525mn (SGD2,147 psf) as at 31 December 2017, approximately 6.2% of KREIT's total assets.
- Depending on the sale price and use of sales proceeds, we think the sale could potentially be credit positive. KREIT has sizeable refinancing commitments totalling SGD762mm in bank loans due in 2019 and has previously stated a desire to commence unit buy-backs of up to 1.5% of issued units over 6 months. These plans necessitate proactive capital management to maintain aggregate leverage at a level which will protect management's desire to maintain the REIT's financial flexibility for strategic opportunities.
- Bugis Junction Towers has seen its NPI contribution to KREIT's total NPI fall 8.53% y/y from 13.1% in 2016 to 11.5% in 2017. Similarly, its property valuation declined 2.78% y/y as at 31 December 2017. Keppel Land, its sponsor, is a principal tenant and makes up 23.9% of total committed monthly gross rent of the property. (Company, OCBC)

Credit Headlines (cont'd):

Soilbuild Business Space REIT ("SBREIT") | Issuer Profile: Neutral (4)

- SBREIT has entered into an unsecured AUD50mn facility agreement to partly fund the [proposed acquisition](#) of an office building and poultry processing facility (collectively AUD120.96mn (~SGD120.96mn)).
- It is worth noting that the AUD loan contains the following change of control provisions:
 - No change in the manager and the trustee;
 - Soilbuild Group Holdings, Mr Lim Chap Huat, Mr Lim Han Feng, Mr Lim Han Qin, and Mr Lim Han Ren to maintain at least 20% cumulative unitholding in SBREIT; and
 - Soilbuild Group Holdings to maintain at least 51% of the share capital in the manager.
- We estimate that the facility agreement with the [SGD65mn perpetual securities raised on 21 September 2018](#) will make up the required funding leading to a post-acquisition aggregate leverage of ~38.5% (2Q 2017: 37.6%) (Company, OCBC)

Table 1: Key Financial Indicators

	2-Oct	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	79	-5	-5
iTraxx SovX APAC	9	-1	-2
iTraxx Japan	56	-2	-1
iTraxx Australia	73	-2	-1
CDX NA IG	58	-4	-2
CDX NA HY	108	0	1
iTraxx Eur Main	67	-2	-1
iTraxx Eur XO	272	2	-26
iTraxx Eur Snr Fin	85	4	1
iTraxx Sovx WE	25	2	-3
AUD/USD	0.723	-0.34%	0.15%
EUR/USD	1.157	-1.64%	-0.39%
USD/SGD	1.372	-0.46%	-0.04%
China 5Y CDS	55	-4	-5
Malaysia 5Y CDS	92	-6	-2
Indonesia 5Y CDS	129	-8	-2
Thailand 5Y CDS	40	-2	-2

	2-Oct	1W chg	1M chg
Brent Crude Spot (\$/bbl)	84.98	4.66%	9.76%
Gold Spot (\$/oz)	1,188.96	-1.02%	-1.02%
CRB	197.79	1.54%	2.50%
GSCI	496.04	3.26%	5.84%
VIX	12	-1.64%	-6.69%
CT10 (bp)	3.086%	-1.09	22.51
USD Swap Spread 10Y (bp)	5	-1	-2
USD Swap Spread 30Y (bp)	-8	-1	-2
TED Spread (bp)	20	-1	-1
US Libor-OIS Spread (bp)	18	-1	-4
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	26,651	0.34%	2.64%
SPX	2,925	0.18%	0.80%
MSCI Asiax	655	0.24%	-1.70%
HSI	27,789	1.13%	-0.36%
STI	3,255	1.13%	1.31%
KLCI	1,792	-0.43%	-1.49%
JCI	5,945	1.06%	-1.23%

New issues

- Unibail-Rodamco-Westfield SE has priced a USD1bn deal across two tranches with the USD500mn 10-year bond priced at 4.125% and the USD500mn 30-year bond at 4.625%.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
2-Oct-18	Unibail-Rodamco-Westfield SE	USD500mn	10-year	4.125%
2-Oct-18	Unibail-Rodamco-Westfield SE	USD500mn	10-year	4.625%
27-Sept-18	The Independent State of Papua New Guinea	USD500mn	10-year	8.375%
26-Sept-18	CIFIC Holdings (Group) Co Ltd	USD300mn	CIFIHG 5.5%'22s	8.625% + accrued interest
26-Sept-18	Surbana Jurong Pte Ltd	SGD350mn	7-year	4.11%
24-Sept-18	CFLD (Cayman) Investment Ltd	USD100mn	CHFOTN 9.0%'21s	8.991% + accrued interest
21-Sept-18	Lum Chang Holdings Limited	SGD40mn	3-year	5.8%
20-Sept-18	Soilbuild Business Space REIT	SGD65mn	Perp NC3	6.0%
19-Sept-18	ICICI Bank UK PLC	SGD100mn	10-year	5.375%
19-Sept-18	BOC Aviation Ltd	USD500mn	5-year	3mL+112.5bps
19-Sept-18	Country Garden Holdings Company Ltd	USD425mn	3-year	7.125%
19-Sept-18	Country Garden Holdings Company Ltd	USD550mn	5-year	8.0%
19-Sept-18	Zhenro Properties Group Ltd	USD280mn	2.25-year	13.70%
19-Sept-18	Easy Tactic Limited	USD200mn	3-year	8.875%

Source: OCBC, Bloomberg

Andrew Wong

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Ezien Hoo, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com

Seow Zhi Qi

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
zhigiseow@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "**Relevant Materials**") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "**Relevant Entity**") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("**MiFID**") and the EU's Markets in Financial Instruments Regulation (600/2014) ("**MiFIR**") (together referred to as "**MiFID II**"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).