

July 20, 2018

Credit Headlines: CapitaLand Mall Trust, Olam International Limited, Hyflux Ltd, Keppel Corporation Limited

Market Commentary

- The SGD swap curve steepened yesterday, with swap rates for the shorter tenors trading around 1-2bps higher while the longer tenor traded 2-4bps higher (with the exception of the 30-year swap rates trading 1bps lower).
- Flows in SGD corporates were moderate yesterday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 145bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 16bps to 530bps.
- 10Y UST yields rose 2bps in the earlier part of the trading session as US jobless claims data hit its lowest level in 48.5 years and the Philly Fed's business index came in higher-than-expected. However, yields subsequently fell 4bps to close at 2.84% after US president Donald Trump made remarks that he was "not thrilled" about the rate hikes along with lingering concerns over trade tension among investors.

Credit Headlines:

CapitaLand Mall Trust ("CMT") | Issuer Profile: Positive (2)

- CMT reported 2Q2018 results with gross revenue up 1.6% y/y to SGD171.4mn while NPI increased 2.8% to SGD120.8mn. The slight improvement in performance was largely driven by higher gross rental income from Plaza Singapura, Bedok Mall, Bugis Junction and Tampines Mall. The increase was partially offset by lower occupancy and rental rates contracted on new and renewed leases at JCube and Bukit Panjang Plaza, and lower gross revenue from Sembawang Shopping Centre which was divested on 18 June 2018.
- Rental reversion remained stable at +0.8% from 1Q2018. Retention rate is higher at 83.8% (1Q2018: 82.9%) with Clarke Quay and IMM Building being the key contributors.
- Portfolio occupancy dipped slightly to 98% q/q (1Q2018: 98.9%). Lease expiry for the balance of 2018 stands at 9.2% of NLA, with largest expiries at IMM Building and Lot One. Areas of concern include shopper traffic (1H2018: -2.4% y/y) as well as tenant sales (1H2018: -0.2% y/y).
- Aggregate leverage had improved, falling q/q to 31.5% (1Q2018: 33.5%) as CMT repaid debt with cash on hand. Reported interest coverage had also improved q/q to 5.7x (1Q2018: 5.4x). SGD200mn unsecured bank loans due 2019 has been repaid, thereby reducing 2019 maturities by 32% to SGD419.6mn. (Company, OCBC)

Olam International Limited ("OLAM") | Issuer Profile: Neutral (5)

- OLAM announced that its wholly-owned subsidiary Olam Americas Inc ("OAI") has priced a USD100mn 5 year bond via private placement.
- The bonds were priced at a fixed coupon of 4.35% p.a and at a spread of 160 bps above 5 year US treasury. The bonds will be used by OLAM's US business for debt repayment and general corporate purposes.
- We think cost benefit was the main motivator behind the issuance. This bond is significantly tighter than OLAM's USD-denominated OLAMSP 4.375% '23 which is trading at an ask YTM of 5.73% (300 bps above 5 year US treasury). The OLAMSP 4.375% '23 bond (along with bulk of OLAM's US and SGD-denominated ones) is issued at the listed parent level and sits further from the US-based assets. (Company, OCBC)

Credit Headlines (cont'd):

Hyflux Ltd (“HYF”) | Issuer Profile: Unrated

- HYF held townhalls yesterday with several classes of investors to share information on HYF’s current situation and updates on the restructuring process.
- Effectively there were no new details shared on the restructuring progress, including the sale of the Tuaspring integrated water and power project, aside from building expectations for investors of the likely protracted process to finalize a restructuring package that the various creditor groups will agree to.
- Similarly, the sale process for Tuaspring could also take time given the need for approval of the sale by the Public Utilities Board (“PUB”, offtaker of the water portion) as well as an apparent gap between price expectations for HYF and prospective bidders. According to media reports, there are 8 interested parties in Tuaspring at various stages of the approval process for inspecting both the plant and data room. No firm offers have been received as yet.
- As a [reminder](#), HYF has reached an agreed timeline with Malayan Banking Berhad as the secured creditor at Tuaspring to sell the asset with a binding purchase agreement to be executed by 15 October 2018 and final approval for the sale by the PUB and/or the Singapore High Court (if required) by 11 December 2018.
- HYF’s debt moratorium ends 19 December 2018. (Company, Business Times, The Straits Times, OCBC)

Keppel Corporation Limited (“KEP”) | Issuer Profile: Neutral (3)

- KEP announced its 2Q2018 results. Revenue declined 2.0% y/y to SGD1.5bn mainly due to decline in property trading from China and Singapore. Reported operating profit was up 73.6% y/y to SGD257.4mn though this was largely driven by other operating income of SGD120.3mn versus an other operating expense of SGD50.5mn in 2Q2017. In 2Q2018 there was a gain on disposal of subsidiaries (sale of China development projects), gain on disposal of an associate in Vietnam, and certain fair value gains and write-backs. EBITDA (excluding other operating income and other operating expenses) fell 29% to SGD180.6mn, though interest expense was down 1.3% y/y, resulting in still manageable EBITDA/Interest of 3.7x (2Q2017: 5.1x)
- Notwithstanding the lower top line, the property segment reported SGD243mn in pre-tax profit in 2Q2018 versus SGD121mn in 2Q2017, driven by sales of whole-development projects (in contrast to unit-by-unit sales). The property segment was the largest contributor to pre-tax profit in 2Q2018 contributing 86.5%.
- Infrastructure and investments was profitable from a pre-tax profit basis, collectively at SGD49mn (down from SGD79mn in 2Q2017) though the offshore & marine segment posted a pre-tax losses of SGD11mn. While offshore & marine continued to post a pre-tax loss, we take some comfort that at the operating level, this segment is breaking-even and reporting a small operating profit of SGD6.0mn.
- As at 30 June 2018, net gearing was 0.40x, falling slightly from last quarter’s 0.42x. During the quarter, KEP had paid down debt (repayment of SGD1.2bn against SGD0.4bn in new borrowings) and bought back a small amount of shares amounting to SGD21.9mn.
- Earlier in May 2018, KEP had entered into an option agreement with CBD Aether Centre Ltd (“Aether”) for Aether to acquire KEP’s 51%-stake in Aether Limited, held via Keppel Land Ltd. Aether Limited is the holding company of a company that owns and is developing a prime commercial site in Chaoyang District in Beijing. As part of the agreement, KEP had granted an option to purchase (“OTP”) to Aether at option price of ~SGD125.2mn with consideration for the stake at ~SGD396.3mn. On 19 July 2018, the OTP had been exercised. If the deal is completed, KEP expects to recognise a gain of ~SGD114mn from the proposed divestment. We maintain KEP at an issuer profile of Neutral (3). (Company, OCBC)

Table 1: Key Financial Indicators

	20-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	88	-2	9
iTraxx SovX APAC	13	-1	0
iTraxx Japan	54	0	10
iTraxx Australia	81	-1	10
CDX NA IG	62	1	-1
CDX NA HY	107	0	0
iTraxx Eur Main	66	1	-2
iTraxx Eur XO	295	3	-6
iTraxx Eur Snr Fin	81	4	3
iTraxx Sovx WE	24	0	1
AUD/USD	0.736	-0.85%	-0.10%
EUR/USD	1.165	-0.31%	0.67%
USD/SGD	1.370	-0.28%	-0.80%
China 5Y CDS	66	-1	9
Malaysia 5Y CDS	93	-4	-9
Indonesia 5Y CDS	119	-1	-14
Thailand 5Y CDS	45	--	0

	20-Jul	1W chg	1M chg
Brent Crude Spot (\$/bbl)	72.82	-3.33%	-2.57%
Gold Spot (\$/oz)	1,221.99	-1.79%	-3.62%
CRB	191.42	-1.33%	-1.83%
GSCI	455.18	-1.36%	-1.85%
VIX	12.87	2.31%	0.63%
CT10 (bp)	2.851%	2.38	-8.80
USD Swap Spread 10Y (bp)	7	0	1
USD Swap Spread 30Y (bp)	-5	-1	2
TED Spread (bp)	36	-3	-6
US Libor-OIS Spread (bp)	36	-1	-4
Euro Libor-OIS Spread (bp)	4	0	1
DJIA	25,065	0.56%	1.65%
SPX	2,804	0.22%	1.34%
MSCI Asiax	663	-1.34%	-4.54%
HSI	28,011	-1.65%	-5.68%
STI	3,278	0.76%	-1.16%
KLCI	1,759	3.27%	2.89%
JCI	5,871	-0.62%	-0.22%

New issues

- Agile Group Holdings Ltd has priced a USD400mn re-tap of its AGILE 8.50%'21s (guaranteed by certain of the Issuer's restricted subsidiaries incorporated outside of the PRC) at 100, in line with its initial price guidance.
- SF Holding Investment Ltd has priced a USD500mn 5-year bond at CT5+140bps, tightening from its initial price guidance of CT5+160bps.
- Export-Import Bank of China has priced a USD200mn 3-year bond at 3mL+60bps.
- China Mengniu Dairy Company Ltd has scheduled for investor meetings from 23 July for its potential bond issuance.

Date	Issuer	Size	Tenor	Pricing
19-Jul-18	Agile Group Holdings Ltd (re-tap)	USD400mn	AGILE 8.50%'21s	100
19-Jul-18	SF Holding Investment Ltd	USD500mn	5-year	CT5+140bps
19-Jul-18	Export-Import Bank of China	USD200mn	3-year	3mL+60bps
18-Jul-18	Korea Hydro & Nuclear Power Co Ltd	USD600mn	5-year	CT5+112.5bps
18-Jul-18	Industrial & Commercial Bank of China Ltd/Hong Kong	USD150mn	2-year	3mL+70bps
17-Jul-18	United Overseas Bank Ltd	AUD600mn	3.5-year	3mBBSW+81bps
17-Jul-18	Housing and Development Board	SGD700mn	5-year	2.42%
17-Jul-18	Mitsubishi UFJ Financial Group Inc	USD750mn	3-year	CT3+85bps
17-Jul-18	Mitsubishi UFJ Financial Group Inc	USD750mn	3-year	3mL+65bps
17-Jul-18	Mitsubishi UFJ Financial Group Inc	USD1bn	5-year	CT5+100bps
17-Jul-18	Mitsubishi UFJ Financial Group Inc	USD800mn	5-year	3mL+86bps
17-Jul-18	Mitsubishi UFJ Financial Group Inc	USD500mn	20-year	CT20+132bps
17-Jul-18	Mitsubishi UFJ Financial Group Inc (re-tap)	USD800mn	MUFG 3.961%'28s	CT10+120bps
16-Jul-18	Bank Rakyat Indonesia	USD500mn	5-year	CT5+195bps
16-Jul-18	Industrial & Commercial Bank of China Ltd/Hong Kong	USD100mn	2-year	3mL+70bps
13-Jul-18	State Bank of India/London	USD200mn	2.5-year	3.197%

Source: OCBC, Bloomberg

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