

Nov 30, 2018

Credit Headlines: 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, with better buying seen in UBS 5.875%-PERPs and HSBC 5.0%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 157bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 618bps.
- Overall, 10Y UST yields fell 2bps to close at 3.03% with the curve flattening after minutes from last Federal Reserve policy-making meeting showed that the October's market volatility would not deter the US central bank from raising interest rates in December and beyond.

Credit Headlines:

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

- KREIT announced that it has entered into an agreement to divest 20.0% interest in Ocean Financial Centre ("OFC") to Allianz Real Estate for SGD537.3mn, bringing down its ownership of the property to 79.9% (another owner owns the remaining 0.1%). An independent valuer has valued OFC at SGD2,624.0mn (20% of property: SGD525.3mn) as at 15 November 2018. The agreed property value for sale of SGD537.3mn is reportedly SGD77.1mn (or 16.8%) higher than the historical purchase of SGD460.2mn, leading to an estimated net gain of SGD6.9mn after deducting estimated transaction costs of SGD5.0mn. Depending on the final amount of debt repaid with the divestment proceeds, management estimated that KREIT's aggregate leverage may reduce by ~3.2% to 35.9% from 39.2%, which was fairly high within our REIT coverage.
- 87.5% of OFC was previously acquired by KREIT from its sponsor on 17 October 2011 at SGD2,013.1mn, including a 5-year rental support of up to SGD170mn. KREIT subsequently increase its stake by 12.39% to 99.9% in mid-2012 for SGD285.7mn, including a rental support of SGD24.1mn (which translates to ~SGD2,380 psf NLA). The cumulative value of acquisition of ~SGD2,300mn was perceived by the market as somewhat expensive, perhaps as a result of the rental support propping up the purchase price. Therefore, KREIT divesting its 20.0% interest in OFC above the purchase value and using divestment proceeds to pay off its sizeable loan aggregating SGD698mn coming due in 2019 is in our view credit positive. (Company, OCBC)

Table 1: Key Financial Indicators

	30-Nov	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	94	-4	3
iTraxx SovX APAC	10	-1	0
iTraxx Japan	65	1	5
iTraxx Australia	86	-4	5
CDX NA IG	74	-6	6
CDX NA HY	105	1	-1
iTraxx Eur Main	80	-1	6
iTraxx Eur XO	343	8	45
iTraxx Eur Snr Fin	103	-2	11
iTraxx Sovx WE	26	-2	-1
AUD/USD	0.732	1.24%	3.53%
EUR/USD	1.139	0.49%	0.72%
USD/SGD	1.370	0.38%	1.17%
China 5Y CDS	70	-4	-2
Malaysia 5Y CDS	113	-7	1
Indonesia 5Y CDS	143	-10	-14
Thailand 5Y CDS	45	-1	1

	30-Nov	1W chg	1M chg
Brent Crude Spot (\$/bbl)	59.51	-4.94%	-23.05%
Gold Spot (\$/oz)	1,224.40	0.11%	0.79%
CRB	182.31	-1.45%	-4.53%
GSCI	408.13	-3.32%	-10.56%
VIX	18.79	-9.66%	-11.49%
CT10 (bp)	3.026%	-1.29	-9.66
USD Swap Spread 10Y (bp)	4	-2	-3
USD Swap Spread 30Y (bp)	-16	-5	-5
TED Spread (bp)	33	5	13
US Libor-OIS Spread (bp)	33	0	7
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,339	3.57%	0.89%
SPX	2,738	3.31%	0.96%
MSCI Asiax	614	2.79%	7.44%
HSI	26,451	1.66%	5.89%
STI	3,109	2.24%	3.00%
KLCI	1,696	0.04%	-0.76%
JCI	6,107	1.94%	4.72%

New issues

- Sunac China Holdings Ltd has priced a USD350mn re-tap of its SUNAC 8.625%'20s (subsidiary guarantors: certain of the company's restricted subsidiaries outside of the PRC) at 9.125%, tightening from its initial price guidance of 9.5%.
- Powerchina Real Estate Group Ltd has priced a USD300mn 3-year bond (guaranteed by Power Construction Corporation of China) at CT3+188bps, tightening from its initial price guidance of CT3+215bps area.
- Franshion Brilliant Ltd has priced a USD300mn Perp NC3 at 6.9%.

Date	Issuer	Size	Tenor	Pricing
30-Nov-18	Sunac China Holdings Ltd	USD350mn	SUNAC 8.625%'20s	9.125%
30-Nov-18	Powerchina Real Estate Group Ltd	USD300mn	3-year	CT3+188bps
30-Nov-18	Franshion Brilliant Ltd	USD300mn	Perp NC3	6.9%
29-Nov-18	New World China Land Ltd	USD310mn	5-year	CT5+200bps
29-Nov-18	Wuhan Metro Group Co Ltd	USD400mn	Perp NC3	6.08%
29-Nov-18	Shandong Iron & Steel Xinheng International Co Ltd	USD450mn	3-year	8.5%
29-Nov-18	Excellence Commercial Properties Co Ltd	USD150mn	3-year	7.6%
29-Nov-18	Sunshine 100 China Holdings Ltd	USD170mn	3NC2	10.5%
29-Nov-18	Hangzhou Fuyang Chengtou Group (HK) Ltd	USD230mn	3-year	6.8%
29-Nov-18	Power Finance Corp	USD500mn	10-year	CT10+310bps
28-Nov-18	Redsun Properties Group Ltd	USD180mn	2NP1	13.5%
28-Nov-18	Eastern Creation II Investment Holdings Ltd	USD400mn	3-year	CT3+133bps
28-Nov-18	Minor International Pcl	USD300mn	PerpNC3	CT3+180bps
28-Nov-18	Hainan Airlines Holding Co Ltd	CNY1.4bn	Perp	7.3%
28-Nov-18	Export-Import Bank of Korea	USD250mn	2-year	3mL+26bps
26-Nov-18	Korea Development Bank	USD250mn	2-year	3mL+28bps
26-Nov-18	Korea Development Bank of Singapore	USD100mn	2-year	3mL+39.5bps

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).