

July 01, 2019

Credit Headlines: Keppel Corporation Ltd, Suntec Real Estate Investment Trust, Industry Outlook – Singapore Property

Market Commentary

- The SGD swap curve was bullish across all tenors last Friday, with all tenors trading 1-2bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 135bps while the Markit iBoxx USD Asia ex-Japan China High Yield TRI Index increased 0.2 to 305.7.
- Flows in SGD corporates were heavy, with flows in SOCGEN 6.125%-PERPs, HSBC 4.7%-PERPs, ESRCA 6.75%'22s, SRBJNG 4.11%'25s, STHSP 3.95%-PERPs, LLCAU 3.9%'27s, UBS 5.875%-PERPs and DBSSP 3.98%-PERPs.
- 10Y UST yields fell 1bps to 2.01% on muted trading, as investors took a wait-and-see approach due to uncertainties regarding the outcome of trade talks between the US and China at the G20 summit. Spread between 3-month treasury bills and 10-year treasury notes continued to be inverted, with the spread narrower at -8bps.

Credit Headlines

Keppel Corporation Ltd (“KEP”) | Issuer Profile: Neutral (4)

- KEP announced that its indirect wholly-owned subsidiary held under Keppel Capital Holdings Pte Ltd (“Keppel Capital”) is acquiring a 30%-stake in KBS US Prime Property Management Pte Ltd (“Prime US REIT Manager”) for USD21.6mn (~SGD29.2mn). Prime US REIT Manager is the proposed REIT Manager of Prime US REIT, a US-focused commercial real estate investment trust with 11 assets.
- Per media reports, Prime US REIT has been priced at USD0.88 per unit, with a total offering size of USD612mn (~SGD828.5mn), cornerstone investors include Keppel Capital, Singapore Press Holdings (“SPH”), Hiap Hoe Investment and AT Investments. Prime US REIT is targeting to be listed on the Singapore Stock Exchange in the next 30 days.
- Keppel Capital would hold 6.765% of the units in Prime US REIT immediately following the completion of the IPO of Prime US REIT (Keppel to pay cash consideration of USD55mn / ~SGD74.45mn).
- The other shareholders of Prime US REIT Manager are KBS Asia Partners Pte Ltd (“KBS Asia”), holding a 60%-stake and another shareholder linked to AT Investments holding a 10%-stake. SPH (via a wholly-owned subsidiary) holds a three month call option to require KBS Asia to sell to it a 20%-stake if exercised. The first date of the option exercise period is when MAS approves the application for SPH to be a substantial shareholder of the Prime US REIT Manager. (Company, Business Times, OCBC)

Credit Headlines (cont'd)

Suntec Real Estate Investment Trust ("SUN") | Issuer Profile: Neutral (4)

- SUN is acquiring 21 Harris Street in Sydney (a freehold Grade A office building) which is currently under development for a total cost of AUD307.7mn (~SGD295.4mn). This comprises a purchase price of AUD119mn (~SGD114.2mn) and expected fees for development services of ~AUD178mn (~SGD170.9mn).
- Net property income yield is 5.5% (including rent guarantee provided by the developer for a period of 3 years) and expected completion date is in 1Q2020 with an estimated net lettable area of ~203,400 sq ft.
- 21 Harris Street is 91.2% pre-committed. The weighted average lease expiry of the property is approximately 10.2 years (by NLA) with an annual rental escalation of between 3 to 4%.
- Following the completion of this acquisition, ~14% of SUN's asset under management (totalling SGD10.2bn) will be in Australia. The acquisition will be funded by a mix of AUD bank borrowings and equity. We estimate the pro-forma aggregate leverage to be ~36.3% should SGD167.5mn of the equity funds raised in late April be used to fund this acquisition. (Company, OCBC)

Industry Outlook – Singapore Property

- Private residential property price rose 1.3% q/q, according to URA flash estimates. This is due to broad-based increase in Rest of Central Region (+3.0% q/q), Core Central Region (+1.5% q/q) and Outside Central Region (+0.5% q/q).
- We note the rise in prices has erased 0.8% price fall over 4Q2018-1Q2019. For now, we continue to maintain a cautious stance given the significant supply in the market while we think sentiments in the property market has yet to fully recover post Jul 2018 cooling measures. We will reassess when the full URA figures are published, which is expected towards the end of July. (URA, OCBC)

Table 1: Key Financial Indicators

	<u>1-Jul</u>	<u>1W chg (bps)</u>	<u>1M chg (bps)</u>
iTraxx Asiax IG	65	-1	-17
iTraxx SovX APAC	41	-1	-11
iTraxx Japan	61	-1	-11
iTraxx Australia	63	-1	-17
CDX NA IG	54	-1	-16
CDX NA HY	108	0	3
iTraxx Eur Main	52	-2	-18
iTraxx Eur XO	255	-3	-53
iTraxx Eur Snr Fin	64	-4	-25
iTraxx Sovx WE	17	0	-1
AUD/USD	0.701	0.60%	0.40%
EUR/USD	1.135	-0.40%	1.00%
USD/SGD	1.354	-0.01%	0.95%
China 5Y CDS	44	0	-17
Malaysia 5Y CDS	53	-4	-23
Indonesia 5Y CDS	90	-1	-25
Thailand 5Y CDS	33	0	-5

	<u>1-Jul</u>	<u>1W chg</u>	<u>1M chg</u>
Brent Crude Spot (\$/bbl)	65.80	1.45%	2.03%
Gold Spot (\$/oz)	1,393.88	-1.82%	5.17%
CRB	181.04	1.41%	3.24%
GSCI	425.36	1.00%	4.31%
VIX	15.08	-2.08%	-19.40%
CT10 (bp)	2.038%	2.36	-8.67
USD Swap Spread 10Y (bp)	-4	4	1
USD Swap Spread 30Y (bp)	-31	4	-3
US Libor-OIS Spread (bp)	19	0	2
Euro Libor-OIS Spread (bp)	6	0	1
DJIA	26,600	-0.45%	7.19%
SPX	2,942	-0.29%	6.89%
MSCI Asiax	653	0.37%	6.06%
HSI	28,543	0.24%	6.10%
STI	3,356	1.35%	7.65%
KLCI	1,679	0.20%	1.74%
JCI	6,359	0.68%	2.41%

New issues:

- There were no new issues or mandates.

<u>Date</u>		<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
27-Jun-19	Sunshine 100 China Holdings Ltd	USD200mn	2-year	12.5%
27-Jun-19	Mitsubishi Corporation	USD500mn	5-year	T+84bps
27-Jun-19	ESR Cayman Ltd	USD175mn	ESRCAY 7.875%'22s	7.25%
26-Jun-19	Qingdao Jiazhou Bay Development Group Co., Ltd	USD300mn	3-year	5.8%
26-Jun-19	Gansu Provincial Highway Aviation Tourism Investment Group Co. Ltd	USD300mn	3-year	3.95%
26-Jun-19	Adani Ports and Special Economic Zone Ltd	USD750mn	10-year	T+237.5bps
26-Jun-19	Weibo Corporation	USD800mn	5-year	T+172.5bps
26-Jun-19	Liuzhou Dongtong Investment & Development Co., Ltd	USD40mn	LZDTID 7.0%'22s	7.0%
26-Jun-19	New Momentum International Ltd	USD100mn	2-year	9.5%
26-Jun-19	Celestial Miles Ltd	USD1.3bn	NC4.5-perpetual	5.75%
25-Jun-19	Standard Chartered PLC	SGD750mn	NC5.25-perpetual	5.375%
25-Jun-19	Kookmin Bank	USD500mn	NC5-perpetual	4.35%
25-Jun-19	Qingdao Jiazhouwan Development Co., Ltd	USD300mn	3-year	5.8%

Source: OCBC, Bloomberg

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