

July 12, 2019

Credit Headlines: Keppel Corporation Ltd, Singapore Press Holdings Ltd, SPH REIT, Hyflux Ltd

Market Commentary

- The SGD swap curve bull-steepened yesterday, with the shorter tenors and belly trading 6-7bps lower, and longer tenors trading 3-5bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 129bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 467bps.
- Flows in SGD corporates were heavy, with flows in FPLSP 4.98%-PERPs, DBSSP 3.98%-PERPs, KEPSP 3.66%'29s, WINGTA 4.48%-PERPs, and ARASP 5.2%-PERPs.
- 10Y USTs gained 8bps to 2.14%, after the US recorded the largest gain in underlying consumer prices in 1.5 years, weakening the case for aggressive rate cuts by the Federal Reserve. Spread between 3-month treasury bills and 10-year treasury notes has ceased to be inverted, with the spread now at +0.5bps.

Credit Headlines

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

- KEP announced that Monestine Pte. Ltd. ("MPL"), a wholly-owned subsidiary of Keppel Land Limited ("Keppel Land"), has entered into a sale and purchase agreement ("SPA") to acquire a 60% interest in 2 project companies - Nha Be Real Estate Joint Stock Company ("NBRE") and Phu Loc Real Estate Investment Joint Stock Company ("PLRE") for VND1,304bn (~SGD\$76mn). The acquisition cost will be paid in three tranches.
- The project companies own three plots of land in Ho Chi Minh City, have master plan approvals for the development of high rise residential condominiums with commercial and services components and are currently seeking approvals from the People's Committee of Ho Chi Minh City for the Projects according to KEP.
- Phu Long Real Estate Corporation ("Phu Long") which represents two Vietnamese nationals will hold the remaining 40% interest, and has also entered into joint venture agreements with MPL for the joint development of the above.
- As per KEP's release, both the acquisition and the joint venture establishment are conditional on satisfaction of conditions precedent including regulatory approvals with transaction completion expected by October 2019.
- This transaction is in line with KEP's transformation plans and aim to have each key division contribute no more than 40% of its annual net profit over the long term. As such, KEP has been investing into multiple new areas and increasing the cooperation between various businesses. (Company, OCBC)

Credit Headlines (cont'd)

Singapore Press Holdings Ltd (“SPH”) | Unrated

SPH REIT | Unrated

- SPH REIT reported 3QFY2019 results for the quarter ending 31 May 2019. Revenue rose 12.7% y/y to SGD58.3mn with net property income increasing 14.2% y/y to SGD46.3mn mainly due to contributions from The Rail Mall (acquired in 28 Jun 2018) and Figtree Grove Shopping Centre (acquired in 21 Dec 2018).
- SPH REIT's credit profile remains stable q/q with gearing remaining at 30.1% (unchanged q/q), occupancy at 99% (2QFY2019: 99.2%) while the overall portfolio saw 8.4% positive rental reversion. Shopper traffic is higher by 4.4% y/y in 9MFY2019.
- Dividends to be upstreamed to SPH increased 1.5% y/y to ~SGD24.3mn, which remains more than sufficient to cover interest payments for SPH (2QFY2019 interest expense of SGD4.6mn excluding SPH REIT's portion of interest expense). (Company, OCBC)

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

- Further to the [most recent updates](#) on HYF's restructuring process, HYF and Utico FZC have jointly announced that they are progressing to a definitive deal for investment in HYF by Utico FZC.
- Key details of the Proposed Investment include:
 - Utico FZC injecting SGD300mn for an 88.0% equity stake in HYF and providing a SGD100m shareholder loan.
 - Offer of the cash equivalent of a 4% stake in the enlarged Utico group plus additional cash to preference shares and perpetual capital securities holders.
- Both HYF and Utico FZC have indicated that further details will be provided in townhalls before the next court hearing. Note that HYF's debt moratorium currently ends on August 2nd.
- In our view, there remain a few information gaps to make an informed assessment of how this deal compares with the previous deal proposed by SM Investments Pte Ltd (“SMI”). These include:
 - The enlarged Utico group mentioned in the release and whether this comprises just the acquired assets of Hyflux or a combination of Hyflux plus other assets to be injected by Utico FZC;
 - The amount of the proposed additional cash to be given to preference shares and perpetual capital securities; and
 - The amount of equity to be given to the senior noteholders and the composition of their payout.
- From a financial perspective, Utico's investment is less as it effectively values HYF's equity at SGD341mn (SMI valued it at SGD667mn). That said, Hyflux's asset composition has now changed with the Public Utilities Board takeover of the Tuaspring Desalination Plant. It also potentially means that by giving a 'cash equivalent' to preference shares and perpetual capital securities that they will not be part of the future capital structure and won't be able to share in any future upside. Recall that as part of [SMI's deal](#), the total recovery for preference shares and perpetual capital securities holders was around 10% made up of a cash payout and equity.
- From a business perspective however, we think this represents a better deal conceptually given Utico FZC appears to be a solid strategic investor with expertise in HYF's main business and also appears to have the willingness to engage with various stakeholders to ensure the success of the proposed investment. (Company, OCBC)

Table 1: Key Financial Indicators

	12-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	63	0	-9
iTraxx SovX APAC	40	0	-7
iTraxx Japan	58	0	-9
iTraxx Australia	61	0	-10
CDX NA IG	53	0	-8
CDX NA HY	107	0	1
iTraxx Eur Main	49	-1	-12
iTraxx Eur XO	245	1	-28
iTraxx Eur Snr Fin	60	-2	-19
iTraxx Sovx WE	15	0	-2
AUD/USD	0.699	0.11%	0.87%
EUR/USD	1.127	0.37%	-0.19%
USD/SGD	1.358	0.13%	0.66%
China 5Y CDS	42	1	-9
Malaysia 5Y CDS	51	0	-15
Indonesia 5Y CDS	86	-1	-16
Thailand 5Y CDS	32	0	-4

	12-Jul	1W chg	1M chg
Brent Crude Spot (\$/bbl)	66.93	4.20%	11.61%
Gold Spot (\$/oz)	1,409.20	0.70%	5.67%
CRB	183.68	1.78%	6.03%
GSCI	433.60	2.67%	8.46%
VIX	12.93	2.86%	-18.73%
CT10 (bp)	2.127%	9.35	0.68
USD Swap Spread 10Y (bp)	-5	0	-1
USD Swap Spread 30Y (bp)	-33	-1	-3
US Libor-OIS Spread (bp)	23	8	5
Euro Libor-OIS Spread (bp)	6	1	1
DJIA	27,088	0.45%	4.17%
SPX	3,000	0.14%	4.17%
MSCI Asiax	649	-1.06%	2.87%
HSI	28,510	-0.92%	4.40%
STI	3,362	-0.16%	4.79%
KLCI	1,676	-0.36%	1.56%
JCI	6,420	0.74%	2.30%

New issues:

- Mitsubishi UFJ Financial Group Inc. has priced a USD6.5bn debt offering in four tranches: a USD2.25bn 3-year bond at T+78bps (tightening from IPT of T+95bps area), a USD1.0bn 5-year bond at T+90bps (tightening from IPT of T+105-110bps area), a USD1.75bn 10-year bond at T+105bps (tightening from IPT of T+120bps area), and a USD1.5bn 20-year bond at T+108bps area (tightening from IPT of T+125bps area).
- China Mengniu Dairy Company Limited has priced a USD500mn 5-year bond at T+125bps, tightening from IPT of T+160bps area.
- Chengdu Airport Xingcheng Investment Group Co., Ltd has priced a USD500mn 3-year bond at 6.5%, tightening from IPT of 6.8% area.
- NWD (MTN) Limited (guarantor: New World Development Company Limited) has priced a USD950mn 10-year bond at T+220bps, tightening from IPT of T+250bps area.
- Dawn Victor Ltd (guarantor: Peking University Resources Group Co., Ltd) has priced a USD350mn 363-day bond at 8.45%, tightening from IPT of 8.75% area.
- Shriram Transport Finance Co. Ltd has priced a USD250mn re-tap of its existing SHTFIN 5.95%'22s at 5.375%, tightening from IPT of 5.625% area.
- Haimen Zhongnan Investment Development International Co. Ltd has priced a USD100mn 3-year bond at 11.525%.
- China Development Bank Corporation of Hong Kong has priced two USD200mn 5-year FRN at 3-month US LIBOR+60bps.
- Thomson Medical Group Ltd has priced a SGD225mn 3-year bond at 4.8%, tightening from initial price guidance of 5.0%.

Date		Size	Tenor	Pricing
11-Jul-19	Mitsubishi UFJ Financial Group Inc	USD2.25bn USD1.0bn USD1.75bn USD1.5bn	3-year 5-year 10-year 20-year	T+78bps T+90bps T+105bps T+108bps
11-Jul-19	China Mengniu Dairy Company Limited	USD500mn	5-year	T+125bps
11-Jul-19	Chengdu Airport Xingcheng Investment Group Co., Ltd	USD500mn	3-year	6.5%
11-Jul-19	NWD (MTN) Limited	USD950mn	10-year	T+220bps
11-Jul-19	Dawn Victor Ltd	USD350mn	363-day	8.45%
11-Jul-19	Shriram Transport Finance Co. Ltd	USD250mn	SHTFIN 5.95%'22s	5.375%
11-Jul-19	Haimen Zhongnan Investment Development International Co. Ltd	USD100mn	3-year	11.525%
11-Jul-19	China Development Bank Corporation of Hong Kong	USD200mn USD200mn	5-year FRN 5-year FRN	3M-US LIBOR+60bps 3M-US LIBOR+60bps
11-Jul-19	Thomson Medical Group Ltd	SGD225mn	3-year	4.8%

Source: OCBC, Bloomberg

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