

Jan 14, 2019

**Credit Headlines:** CapitaLand Ltd, Ascendas REIT, Ascendas Hospitality Trust, Ascendas Pte Ltd, Ascendas India Trust

## **Market Commentary**

- The SGD swap curve flattened last Friday, with the shorter tenors trading within 1bps higher (with the exception of the 6-month swap rate trading 3bps higher) while the longer tenors traded within 1bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 162bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 596bps.
- Flows in SGD corporates were heavy yesterday, with flows seen in DBSSP 3.98%-PERPs, UBS 5.875%-PERPs, NTUCSP 3.65%'27s, LLCAU 3.9%'27s, SIASP 3.13%'27s, MAPLSP 4.5%-PERPs and HSBC 5.0%-PERPs.
- 10Y UST yields fell 3bps to close at 2.70% on the back of safe haven demand from weakening stock prices. The additional USD78bn in new US Treasury notes also weighed in on the drop in yields.

## **Credit Headlines:**

**CapitaLand Ltd (“CAPL”) | Issuer Profile: Neutral (3), Ascendas REIT (“AREIT”) | Issuer Profile: Neutral (3), Ascendas Hospitality Trust (“ASCHTS”) | Issuer Profile: Neutral (4), Ascendas Pte Ltd (“JTCSP”) | Issuer Profile: Unrated and Ascendas India Trust (“AITSP”) | Issuer Profile: Unrated**

- CAPL has announced that it has entered into a sales and purchase agreement with Ascendas-Singbridge Pte Ltd (“Ascendas-Singbridge” / “Vendor”) to buy the entire shareholding of Ascendas Pte Ltd and Singbridge Pte Ltd (subsidiaries of the Vendor). Ascendas-Singbridge is currently 51%-owned by Temasek while the remaining 49% is owned by JTC, a statutory board under the Ministry of Trade and Industry.
- Ascendas-Singbridge is a developer and owner of industrial properties (mainly logistics and business parks) operating across Singapore, China, India, Australia, the UK and the US. It is the Manager and Sponsor of AREIT, ASCHTS and AIT (all three are SGD bond issuers). It owns a 19%, 28% and 23%-stake respectively in these REITs/business trust which has a collective total asset size of SGD14.7bn as at 30 September 2018.
- The total consideration for the purchase by CAPL is SGD6.0bn while the enterprise value is SGD10.9bn (CAPL to assume net debt and minority interest of SGD4.9bn). CAPL will fund the transaction with 50% in consideration shares (~862.3mn of new common shares to be issued). These will be issued at SGD3.50 per share (7% premium to last traded price) while the remaining 50% will be paid in cash to the Vendor and financed by debt to be taken by CAPL.
- Given that this is a related party transaction, the extraordinary general meeting will be held in the first half of 2019, with targeted completion date in 3Q2019. Per CAPL, Temasek is expected to hold 51%-stake in CAPL from 40.8% currently. The exact consideration split at the Ascendas-Singbridge level is not provided, though in our view, this implies that Temasek would receive all the new consideration shares while JTC would be receiving the cash portion.
- While the transaction would allow CAPL immediate scale in the industrials segment and complementing its current portfolio, per company, CAPL's proforma net gearing is expected to rise to 0.72x from 0.51x as at 30 September 2018. The company also expects net debt-to-EBITDA to rise to 5.1x versus 4.2x for last twelve months to end-September 2018. In our view, the transaction is credit negative to CAPL although within our Neutral (3) issuer profile and we maintain it as such.

## **Credit Headlines (cont'd):**

- Apart from shareholders' approval, the transaction is subject to MAS approval for CAPL to acquire effective control of the REIT Managers of the Ascendas-REITs/business trusts.
- We are maintaining the Neutral (3) and Neutral (4) issuer profile for AREIT and ASCHTS respectively.
- Looking ahead for AREIT, we see low risk for the strategic direction to change for now as the REIT is the only industrials platform for CAPL. Our Neutral (3) does not factor in uplift from JTC although the AREIT curve historically has tended to trade 20-30bps tighter versus the CAPL curve. With the announcement, we expect AREIT's curve to adjust wider to be more in line with CAPL's 110bps spread at the belly.
- For ASCHTS, the REIT would be one of two hospitality REITs within the CAPL group (the other being Ascott Residence Trust, albeit ART being more focused on the extended stay segment). This could spur consolidation of the hospitality REIT segment although it is too early for us to say definitively.
- JTCSP would be subsumed as a wholly-owned subsidiary of CAPL. While we do not cover this entity, we think the market has traditionally viewed JTCSP as closer to JTC and a relegation under the CAPL fold would cause the bonds to sell off. Notwithstanding the expected lack of visibility going forward (versus AREIT which is a separate publicly listed entity), we think the JTCSP curve may trade towards CAPL as well. We note that Keppel Land Ltd's KPLDSP 3.8% '22s trades at 83bps versus Keppel Ltd's KEPSP 3.1% '20s at 68bps and in line with each other after adjusting for tenor. Keppel Land Ltd is a private subsidiary owned by publicly listed Keppel Ltd. (Company, OCBC)

**Table 1: Key Financial Indicators**

	14-Jan	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	89	-6	-4
iTraxx SovX APAC	66	-4	-2
iTraxx Japan	77	-9	2
iTraxx Australia	88	-6	1
CDX NA IG	78	-3	-1
CDX NA HY	104	0	0
iTraxx Eur Main	81	-6	0
iTraxx Eur XO	335	-11	1
iTraxx Eur Snr Fin	105	-7	2
iTraxx Sovx WE	26	0	1
AUD/USD	0.720	0.76%	0.42%
EUR/USD	1.147	-0.03%	1.46%
USD/SGD	1.353	0.27%	1.77%
China 5Y CDS	62	-3	-3
Malaysia 5Y CDS	96	-10	-9
Indonesia 5Y CDS	128	-7	-8
Thailand 5Y CDS	44	-2	1

	14-Jan	1W chg	1M chg
Brent Crude Spot (\$/bbl)	60.27	5.13%	-0.02%
Gold Spot (\$/oz)	1,291.25	0.16%	4.22%
CRB	178.08	2.73%	-1.24%
GSCI	402.93	4.17%	-0.78%
VIX	18.19	-14.92%	-15.90%
CT10 (bp)	2,701%	3.30	-17.83
USD Swap Spread 10Y (bp)	2	0	-1
USD Swap Spread 30Y (bp)	-19	-3	-5
TED Spread (bp)	37	-2	-3
US Libor-OIS Spread (bp)	38	-1	-3
Euro Libor-OIS Spread (bp)	5	1	0
DJIA	23,996	2.40%	-0.43%
SPX	2,596	2.54%	-0.14%
MSCI Asiax	612	2.54%	1.66%
HSI	26,308	1.83%	0.82%
STI	3,189	2.77%	3.63%
KLCI	1,676	-0.20%	0.83%
JCI	6,329	0.66%	2.58%

## New issues

- DBS Group Holdings Ltd has priced a USD100mn 2-year floating rate bond at 3-month US LIBOR +41bps.
- Industrial & Commercial Bank of China Ltd of Hong Kong has priced a USD200mn 1-year floating rate bond at 3-month US LIBOR +65bps and a USD100mn 2-year floating rate bond at 3-month US LIBOR +70bps.
- Easy Tactic Ltd has priced a USD200mn re-tap of its GZRFPR 8.75%'21s.
- Singapore Technologies Telemedia Pte Ltd has priced a SGD300mn perpetual (non-call 5-year) at 5.0%.
- Mongolian Mortgage Corporation HFC LLC has mandated Credit Suisse to schedule investor meetings from 14 Jan for its potential USD bond issuance.
- Bharat Petroleum Corporation Ltd has scheduled investor meetings from 14 Jan for its potential USD bond issuance.
- Kookmin Bank has mandated banks to schedule investor meetings from 17 Jan for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
11-Jan-19	DBS Group Holdings Ltd	USD100mn	2-year	3-month US LIBOR +41bps
11-Jan-19	Industrial & Commercial Bank of China Ltd of Hong Kong	USD200mn	1-year	3-month US LIBOR +65bps
11-Jan-19	Industrial & Commercial Bank of China Ltd of Hong Kong	USD100mn	2-year	3-month US LIBOR +70bps
11-Jan-19	Easy Tactic Ltd (Guangzhou R&F Properties HK Co Ltd)	USD200mn	GZRFPR 8.75%'21s	8.87%
10-Jan-19	Singapore Technologies Telemedia Pte Ltd	SGD300mn	PerpNC5	5.0%
10-Jan-19	Sunac China Holdings Ltd	USD600mn	2-year	8.375%
10-Jan-19	Indian Oil Corp	USD900mn	5-year	T+222.5bps
10-Jan-19	Shanghai Commercial Bank Ltd	USD300mn	10NC5 Tier 2	T+250bps
9-Jan-19	RKPF Overseas 2019 (B) Ltd (Road King Infrastructure Ltd)	USD400mn	2-year, 3-month	7.75%
8-Jan-19	City Developments Ltd	SGD150mn	5-year	3.0%
8-Jan-19	Dah Sing Bank Ltd	USD225mn	10NC5 Tier 2	T+255bps
8-Jan-19	Coastal Emerald Ltd (China Shandong Hi-Speed Financial Group Ltd)	USD550mn	363-day	5.95%

Source: OCBC, Bloomberg

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