July 16, 2019

Credit Headlines: Singapore Press Holdings Ltd, Suntec Real Estate Investment Trust, Keppel Real Estate Investment Trust, Keppel Infrastructure Trust

Market Commentary

- The SGD swap curve bear-flattened yesterday, with the shorter tenors and belly traded 2-4bps higher, while the longer tenors traded 0-2bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 129bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 469bps.
- Flows in SGD corporates were heavy, with flows in ESRCAY 6.75%'22s, FPLSP 3.95%-PERPs, FPLSP 4.98%-PERPs and WINGTA 4.48%-PERPs.
- 10Y USTs fell 3bps to 2.09%, as investors continue to expect the Federal Reserve to lower rates this July, compounded by lower European government bond yields. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread at -4bps.

Credit Headlines

Singapore Press Holdings Ltd ("SPH") | Not rated

- SPH reported 3QFY2019 results for the quarter ending 31 May 2019. Revenue fell 2.1% y/y to SGD249.6mn, mainly due to declines in the Media segment (-14.5% y/y to SGD143.6mn) from declines in newspaper advertisement revenue (-12.3% y/y) despite higher contribution from the property segment (+45.9% y/y to SGD80.4mn). Correspondingly, PBIT before fair value changes for the media segment fell 63.6% y/y to SGD10.2mn despite gains in the property segment (+22.3% y/y SGD58.2mn), dragging PBIT down 36.1% y/y to SGD46.5mn.
- In 3QFY2019, SPH recorded an impairment of SGD22.8mn (3Q2018: SGD22.3mn) on goodwill and intangibles from the Aged Care business, mainly due to increase in home bed capacity impacting the original business projections of Orange Valley. We believe profitability of the Aged Care business remains weak, noting that the PBIT (before fair value changes) of the 'others' segment (which the Aged Care business sits in) was negative SGD29.5mn, larger than the impairment of SGD22.8mn.
- Due to the weaker core profitability, net profit fell 35.1% y/y to SGD36.4mn despite SGD10.4mn share of gain from sale of Chinatown Point.
- Net gearing increased to 47.5% q/q (2Q2019: 40.5%) mainly due to SGD232.4mn acquisition of the UK PBSA portfolio in Apr 2019, SGD39.8mn cash injection into Konnectivity (which in turn holds M1 Ltd) and SGD41.8mn additions to investment properties. While we expect another USD69.6mn (SGD94.7mn) cash outlay due to the commitment for 6.8%-stake in KBS Prime US REIT and 20%-stake in the REIT manager, we think net gearing may trend back to low 40% due to the issuance of SGD150mn SPHSP 4.5% PERP and proceeds from divestment of Chinatown Point. (Company, OCBC)

Credit Headlines (cont'd):

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

- SUN is acquiring 44 Currie Street, Adelaide, Australia (a freehold Grade A office building) for a total cost of ~SGD145.4mn (AUD151.5mn) which comprises the purchase consideration of ~SGD143.4mn (AUD148.3mn).
- Net property income yield is 8.0% (including a 27-month rent guarantee for the vacant spaces) with potential income growth through rent escalation between 3.50% and 3.75%. The estimated net lettable area is ~282,000 sq ft.
- The property has a committed occupancy of 91.6% with the Commonwealth Government, South Australian Government, Allianz and Data Action as the key tenants. There is also a 27-month rent guarantee for the vacant spaces. WALE of the property is 4.4 years.
- The acquisition will be funded via proceeds from the private placement on 25 April 2019. Transaction is expected to be completed by end August 2019.
- Following the completion of this acquisition, ~17% of SUN's asset under management will be in Australia. (Company, OCBC)

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

- KREIT reported 2Q2019 results. Property income fell by 22.7% y/y to SGD39.9mn from SGD51.7mn. Likewise, net property income ("NPI") slipped by 28.1%y/y to SGD31.1mn. The decline was largely due to lower NPI at Ocean Financial Centre ("OFC") (-37.3 % y/y by SGD12.4mn) and Bugis Junction Towers (-28.8% y/y by SGD1.2mn), though partially offset by maiden contribution from T Tower (acquired on 27 May 2019) of SGD1.3mn and higher NPI from 8 Exhibition Street (+6.4% y/y by SGD0.2mn).
- OFC saw a significant decline in NPI due to (1) lower one-off income from early surrender of leases, (2) absence of rental support and (3) impact from the divestment of a 20% stake. Occupancy at OFC was 98.6% as at 30 Jun 2019, compared to full occupancy a year ago.
- Profit before tax plunged by 48.8% y/y to SGD21.7mn, mainly attributable to higher trust expenses relating to the acquisition of T Tower, unfavourable net change in fair value of derivatives and absence of rental support at one of its associates – Marina Bay Financial Centre Tower 3. This decline was despite the fact that there was no amortisation expenses recorded for 2Q2019 and manager's management fees was paid fully in units of KREIT.
- Overall portfolio committed occupancy was 99.1% (2Q2018: 99.3%). KREIT has just 1.6% of leases expiring for the remainder of 2019. We think this is very manageable.
- Reported aggregate leverage rose to 38.4% following the issuance of SGD200mn of convertible bonds and the drawdown of a loan of ~SGD0.15mn (KRW126.4mn) to fund the acquisition of T Tower. All-in interest rate was 2.86%, and interest coverage ratio improved to 3.7x as at 30 June 2019. KREIT has completed the refinancing of all of its borrowings due in 2019. KREIT had also on 18 June 2019 obtained a green secured loan facility of SGD505mn, SGD375mn of which will be used to refinance its loan maturing in 2022.
- Separately, during the quarter, KREIT continued its unit buy-back programme and purchased and cancelled a total of ~9.7mn issued units.
- Looking ahead, construction at 311 Spencer Street in Melbourne is ongoing, with commencement of the 30-year lease to the Victoria Police expected in 1H2020. Management expects this property to contribute a steady income stream with fixed annual rental escalations. (Company, OCBC)

Credit Headlines (cont'd):

Keppel Infrastructure Trust ("KIT") | Issuer Profile: Neutral (4)

- KIT announced its 2Q2019 financial results. 2Q2019 revenue was SGD418.0mn (2Q2018: SGD142.9mn) mainly due to the consolidation of IXOM, an Australia and New Zealand chemicals company which was acquired in February 2019. 2Q2019 was the first full quarter consolidation of IXOM. EBITDA (based on our calculation which does not include other income and other expenses) was SGD88.2mn (2Q2018: SGD43.4mn), with interest cost increased by 24.5% y/y to SGD38.8mn, mainly due to higher average debt balance with debt partly used for the acquisition of IXOM. Resultant EBITDA/Interest coverage was 2.3x, higher than the 1.4x in 2Q2018.
- In 2Q2019, KIT raised SGD300mn in perpetuals, assuming that KIT pays out 4.75% on the perpetuals (SGD14.25mn per annum / SGD3.6mn per quarter), and taking 50% of that as interest, we find EBITDA/(Interest plus 50% perpetual distribution) at 2.17x.
- As at 30 June 2019, KIT's unadjusted gross gearing (we take debt over equity, though exclude finance lease payables) was 1.20x, significantly down from the 1.86x as at 31 March 2019. The main reason for the reduction was the SGD300mn perpetual raised (recorded as equity) while KIT also completed its preferential offering in April 2019 which raised SGD195.7mn.
- During 2Q2019, the new perpetual and equity raised was used to help pare down debt (SGD402.7mn in net repayment of debt). We use gross debt rather than net debt as KIT has a sizeable advance payment from customers and customer deposits which we think would need to be returned down the road.
- As at 30 June 2019, KIT faced short term debt of SGD1.4bn, this comprises AUD694.4mn (~SGD731mn) at the problematic Basslink asset due in November 2019, of which the company is in negotiation with its syndicate banks. While KIT is in technically breach certain loan covenants on the Basslink debt, it is non-recourse to KIT and does not contribute to distributable cash flow (funds from operations after deducting FFO attributable to minority interests and after debt repayment at the asset level). Additionally, SGD700mn of bullet repayment at Keppel Merlimau Cogen ("KMC") which is coming due in June 2020. While the SGD700mn optically looks large, KIT owns 51% of this asset where Keppel Corporation Ltd ("KEP", Issuer Profile: Neutral (4)), indirectly owns the remaining 49%-stake, rendering the proportionate debt of KMC for KIT at SGD357mn. Per company, the KMC loan is intended to be refinanced upon maturity.
- Our base case assumes that the KMC loan would be able to be refinanced, albeit with principal needing to be amortised and/or cash needs to be accumulated during time for eventual debt repayment to match the tolling agreement until June 2030. Net-net, we think this would decrease the distributable cash flow that can be upstream to KIT for KIT's standalone interest servicing, debt repayment and distributions to other capital source providers.
- In 2Q2019, KIT reported distributable cash flow of SGD45.8mn (2Q2018: SGD36.2mn), which should comfortably cover the interest servicing at KIT-standalone basis given that the KIT-level debt was only SGD100mn as at 30 June 2019. If we assume an interest cost of 3.5% p.a, this would be SGD1.25mn per quarter (we take 3.5% p.a being the average of KIT's interest cost in Singapore). We initiated KIT with an issuer profile of Neutral (4) on 2 July 2019 and maintain it as such. (Company, OCBC)

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Table 1: Key Financial Indicators

	16-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	63	-2	-10
iTraxx SovX APAC	39	-1	-7
iTraxx Japan	59	-1	-9
iTraxx Australia	61	-4	-9
CDX NA IG	53	0	-7
CDX NA HY	107	0	1
iTraxx Eur Main	49	-2	-12
iTraxx Eur XO	243	-5	-32
iTraxx Eur Snr Fin	58	-5	-18
iTraxx Sovx WE	15	-1	-2
AUD/USD	0.704	1.54%	2.66%
EUR/USD	1.126	0.46%	0.37%
USD/SGD	1.356	0.38%	1.08%
China 5Y CDS	42	-1	-8
Malaysia 5Y CDS	51	-3	-15
Indonesia 5Y CDS	85	-4	-17
Thailand 5Y CDS	33	-3	-3

	16-Jul	1W chg	1M chg
Brent Crude Spot ($/bbl)	66.30	3.34%	6.92%
Gold Spot ($/oz)	1,413.29	1.12%	5.50%
CRB	183.08	1.33%	4.73%
GSCI	430.93	2.03%	5.89%
VIX	12.68	-9.17%	-17.02%
CT10 (bp)	2.084%	1.87	0.31
USD Swap Spread 10Y (bp)	-6	0	-1
USD Swap Spread 30Y (bp)	-34	-3	-3
US Libor-OIS Spread (bp)	25	7	7
Euro Libor-OIS Spread (bp)	6	1	1
DJIA	27,359	2.06%	4.87%
SPX	3,014	1.29%	4.41%
MSCI Asiax	652	1.52%	4.37%
HSI	28,498	1.36%	5.09%
STI	3,355	0.76%	4.10%
KLCI	1,668	-0.89%	1.79%
JCI	6,425	0.58%	2.80%

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New issues:

- Korea Western Power Co., Ltd has priced a USD300mn 3-year bond at T+72.5bps, tightening from initial guidance of T+95bps area.
- China Hongqiao Group Ltd (subsidiary guarantors: China Hongqiao Investment Ltd, Hongqiao Investment (Hong Kong) Ltd, Hongqiao International Trading Ltd) has priced a USD300mn 3-year bond at 7.125%, tightening from IPT of 7.5% area.
- Fantasia Holdings Group Co., Ltd has priced a USD200mn 3.25NC2 bond at 12.5%, in line with IPT.
- Maxi-Cash Financial Services Corp Ltd has priced a SGD26.5mn 3-year bond at 6.35%.
- China Oil And Gas Group Ltd has arranged investor meetings in Hong Kong and Singapore commencing 16 July 2019.

Date		Size	Tenor	Pricing
15-Jul-19	Korea Western Power Co., Ltd	USD300mn	3-year	T+72.5bps
15-Jul-19	China Hongqiao Group Ltd	USD300mn	3-year	7.125%
15-Jul-19	Fantasia Holdings Group Co., Ltd	USD200mn	3.25NC2	12.5%
15-Jul-19	Maxi-Cash Financial Services Corp Ltd	SGD26.5mn	3-year	6.35%
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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