

June 17, 2019

Credit Headlines: ESR-REIT, Hyflux Ltd

Market Commentary

- The SGD swap curve bull-flattened over last Friday, with the shorter tenors and belly trading 4-5bps lower, while the longer tenors traded 5bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS saw little changed at 138bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 506bps.
- Flows in SGD corporates were heavy, with flows in KEPSP 3.66%'29s, HSBC 4.7%-PERPs, MAPLSP 3.95%-PERPs and UBS 5.875%-PERPs.
- 10Y UST yields fell 2bps to 2.08%, after the US reported strong consumer spending and manufacturing output data, quelling fears of rapid economic decline and lowering expectations that the Federal Reserve would cut rates at its meeting next week. Spread between 3-month treasury bills and 10-year treasury notes continued to be inverted, albeit narrower at -6bps.

Credit Headlines

ESR-REIT (“EREIT”) | Issuer Profile: Neutral (4)

- EREIT has announced three events. First, the REIT has entered into a 49/51 joint venture (“JV”) with Poh Tiong Choon Logistics Ltd (“PTC”) to acquire leasehold interest over a property at 48 Pandan Road in Singapore for SGD225.0mn. This transaction will be funded through SGD38.6mn from EREIT, SGD40.2mn from PTC, and the balance SGD146.2mn via debt to be taken by the JV itself.
- As such, the total acquisition costs attributable to EREIT are SGD44.4mn and expected completion date is 3Q2019. The property will be leased by the JV as a landlord to PTC as tenant for a term of 10 years with fixed rental escalation per annum.
- Second, EREIT plans to conduct asset enhancement initiatives on two of its existing assets to (1) develop a modern high-specification industrial facility on the site of 7000 Ang Mo Kio Avenue 5 (“7000 AMK”) and (2) rejuvenate UE BizHub EAST to attract and retain tenants. Both development works are estimated to cost ~SGD45.7mn.
- Works at 7000 AMK will increase plot ratio from 1.7 to 2.1 and create an additional GFA of ~270,000 sq ft, with ~225,000 sq ft remaining for further development in the future. Construction is targeted to commence in 4Q2019 and expected to take 18 to 24 months to complete. EREIT holds 80% economic interest in 7000 AMK.
- AEI works at UE BizHub (located in Changi Business Park) are expected to commence in 4Q2019 as well and estimated to take ~12 months for complete. During this period, the property is expected to remain fully operational.
- Third, EREIT has proposed to raise equity funding of up to SGD150mn, comprising of:
 - a private placement of ~146mn new units for an amount ~SGD75mn, with an option to upsize by SGD25mn; and
 - a preferential offering of ~SGD75mn to existing unitholders on a pro rata basis. The Sponsor, ESR Cayman Ltd (subject to approval of the whitewash resolution) may procure the excess new units to the extent that they remain unsubscribed.
- SGD44.4mn (~29.6% of the gross proceeds of the equity fund raising) will be used to fully finance the above acquisition, while SGD45.7mn (30.5% of total) will be used to fund the AEIs and the remaining SGD56.8mn less transaction related expenses (37.9% of total) will be used to repay existing debt.
- Aggregate leverage is estimated to fall to ~40.3% from 42.0% as at 31 March 2019. We will maintain EREIT at Neutral (4) for now. (Company, OCBC)

Credit Headlines (cont'd)

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

- HYF has announced the receipt of a fourth non-binding letter of intent (LOI) for a potential investment, this time it's from a Chinese power service provider. According to HYF, the investor is a subsidiary of a state-owned enterprise that provides power services while its parent has expertise in wind and solar energy solutions, the nuclear industry, medical technology and agriculture.
- As part of the LOI receipt, the potential investor has executed a non-disclosure agreement, commenced preliminary due diligence, and reserved its right to terminate discussions if a judicial manager or liquidator is appointed.
- [As previously disclosed](#) by HYF as part of its court application to extend its debt moratorium in late May, management confirmed that they are in advanced discussions with four potential investors and expected to enter a binding agreement in the short term. Two of these parties include United Arab Emirates utility Utico FZC and investment fund Oyster Bay Fund Ltd, while other interested parties include a South American investment fund and four further infrastructure companies with interests in desalination, power, engineering and waste treatment respectively. As a consequence of this investor interest, the court hearing on May 29th extended HYF's debt moratorium for 2 months to August 2nd.
- It is unclear whether the Chinese power service provider is one of the four infrastructure companies previously mentioned. Negotiations with these parties are not as advanced as those with Utico FZC and Oyster Bay Fund Ltd and HYF is continuing to negotiate with all interested parties. In previous statements, HYF indicated that discussions with Utico FZC were the most advanced with today (June 17) the deadline for executing a binding agreement with Utico FZC [according to the Straits Times](#).
- As a reminder, HYF's proposed timeline that was the basis of its initial application for a four month extension was:
 - Mid June – execute binding agreement with strategic investor
 - End June – engage stakeholders on proposed terms of the restructuring
 - July – file application with the courts to convene scheme meetings
 - August – Hold scheme and shareholder meetings to vote on the scheme
 - September – sanction of approved scheme
- There appears some slippage in this timeline given that as of right now, no binding agreement has been announced. A condition of the debt moratorium extension was (1) ongoing weekly updates with creditors; (2) monthly updates on restructuring costs; and (3) an update on the restructuring on 29 June 2019. This is likely the next key date in HYF's restructuring process along with the August 2nd end to the current extension.
- Any further extensions will be dependent on continued positive progress in restructuring negotiations and (more importantly) the provision of interim liquidity relief. HYF had previously indicated that it only has sufficient liquidity to last until the end of July. As such, HYF is pursuing a concurrent stand-alone process to improve immediate liquidity through the sale of HYF's stake in Hyfluxshop Holdings Ltd to Oyster Bay Fund Ltd or the provision of a secured loan from Utico FZC. (Company, Straits Times, OCBC)

Table 1: Key Financial Indicators

	17-Jun	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	73	1	2
iTraxx SovX APAC	47	0	0
iTraxx Japan	68	2	6
iTraxx Australia	70	0	-3
CDX NA IG	61	1	-2
CDX NA HY	106	0	0
iTraxx Eur Main	62	1	-3
iTraxx Eur XO	275	6	-4
iTraxx Eur Snr Fin	79	2	-3
iTraxx Sovx WE	17	-1	0
AUD/USD	0.688	-1.13%	0.20%
EUR/USD	1.122	-0.80%	0.56%
USD/SGD	1.370	-0.28%	0.53%
China 5Y CDS	51	0	1
Malaysia 5Y CDS	67	0	1
Indonesia 5Y CDS	103	3	-2
Thailand 5Y CDS	35	0	-3

	17-Jun	1W chg	1M chg
Brent Crude Spot (\$/bbl)	62.24	-0.08%	-13.81%
Gold Spot (\$/oz)	1,341.39	1.01%	5.00%
CRB	174.81	0.23%	-3.41%
GSCI	406.96	0.32%	-8.14%
VIX	15.28	-6.26%	-4.26%
CT10 (bp)	2.108%	-4.03	-28.28
USD Swap Spread 10Y (bp)	-7	-5	-2
USD Swap Spread 30Y (bp)	-33	-6	-5
US Libor-OIS Spread (bp)	18	0	2
Euro Libor-OIS Spread (bp)	5	1	0
DJIA	26,090	0.41%	1.26%
SPX	2,887	0.47%	0.96%
MSCI Asiax	625	-0.87%	0.11%
HSI	27,399	-0.65%	-1.96%
STI	3,220	0.99%	0.44%
KLCI	1,638	-1.08%	2.01%
JCI	6,253	-0.58%	7.32%

New issues:

- Franshion Brilliant Ltd has priced a USD250mn 5-year bond at 3.66%.
- China Aoyuan Property Group Ltd has priced a USD200mn 4-year bond at 7.35%.
- Agile Group Holdings Ltd has issued a USD100mn re-tap of its NC4.5-perpetual bond at T+625.4bps, bringing the total outstanding amount to USD700mn.
- Yangzhou Economic and Technological Development Corporation has scheduled investor meetings commencing 17 June for its potential USD bond issuance.
- Zhangzhou Transportation Development Group Co., Ltd. has scheduled investor meetings commencing 18 June for its potential USD bond issuance.
- China Railway Construction Corporation Ltd has scheduled investor meetings commencing on 14 June for its potential USD bond issuance.

<u>Date</u>		<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
14-Jun-19	Franshion Brilliant Ltd	USD250mn	5-year	3.66%
14-Jun-19	China Aoyuan Property Group	USD200mn	4-year	7.35%
14-Jun-19	Agile Group Holdings Ltd	USD100mn	NC4.5-perpetual	T+625.4bps
13-Jun-19	VCREDIT Holdings Ltd	USD100mn	2-year	12.125%
13-Jun-19	Guangzhou Rural Commercial Bank Co., Ltd	USD1.43bn	NC5-perpetual (Additional Tier 1)	5.9%
13-Jun-19	Jinke Properties Group Co., Ltd	USD300mn	2-year	9.0%
13-Jun-19	DianJian HaiYu Ltd	USD300mn USD500mn	3-year NC5-perpetual	T+128bps 4.3%
13-Jun-19	Ford Motor Credit Company LLC	SGD300mn	5-year	4.125%
12-Jun-19	Zhenro Properties Group Ltd	USD200mn	NC2.6-perpetual	10.25%
12-Jun-19	China Merchants Bank Co Ltd, London Branch	USD600mn	3-year	3-month US LIBOR+74bps
12-Jun-19	The Republic of Korea	USD500mn USD1.0bn	5-year 10-year	T+30bps T+55bps

Source: OCBC, Bloomberg

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
zhiqiseow@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).