

Apr 18, 2019

Credit Headlines: Hyflux Ltd, Keppel Real Estate Investment Trust

Market Commentary

- The SGD swap curve steepened yesterday, with the shorter tenors trading 1-2bps higher while the belly and longer tenors traded 3-4bps higher (exception being the 12-year swap rates at 6bps higher).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 130bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 466bps.
- Flows in SGD corporates were heavy, with comprising mainly of SOCGEN 6.125%-PERPs. Other flows were seen in FPLSP 4.98%-PERPs, CWTSP 4.8%'20s, UBS 5.875%-PERPs, FPLSP 4.15%'27s, CACHE 5.5%-PERPs and ARASP 4.15%'24s.
- 10Y UST yields traded little change at 2.59%, as yields uplift on the back of strong Chinese economic data earlier in the trading session, this was though offset by weaker equities performance.

Credit Headlines

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

- Tuaspring Pte Ltd (“Tuaspring”) has received a notice of termination of the Water Purchase Agreement entered into between the Public Utilities Board (“PUB”) and Tuaspring in 2011 (“WPA”). The termination notice has a 30-day notice period. Post that, the WPA will be terminated.
- Earlier on [5th March 2019, PUB had issued a default notice to Tuaspring](#) requiring Tuaspring to remedy certain defaults associated with contractual obligations in the Water Purchase Agreement between PUB and Tuaspring. These defaults relate primarily to operational reliability as well as demonstrating its ongoing financial ability to continue running the plant.
- In our view, PUB’s latest move is unsurprising especially with the deal with SM Investments Pte Ltd (“SMI”) falling through and since then no alternative proposal have been tabled to resurrect the company’s financial standing.
- Given the increasingly difficult circumstances at Hyflux over the past few weeks and barring a new proposed investor emerging, in our view, a liquidation scenario looks increasingly likely with miniscule (if any at all) recovery to perpetual and preference shareholders.
- Perpetual and preference shareholders are creditors at the holding company level, not lenders to Tuaspring. In our view, these investors would only benefit if Tuaspring has a positive asset value far in excess of liabilities at Tuaspring and/or the existence of Tuaspring as part of HYF (without associated liabilities to PUB) increases the attractiveness of HYF to potential new equity investors.
- Assuming that Tuaspring has little-to-zero residual value, whether or not Tuaspring is part of HYF in practice makes little difference to outcomes to perpetual and preference shareholders at liquidation in our view. For HYF bondholders, the situation is more complicated as it is unclear whether or not earlier tabled recovery values (ie: 3.8% to 8.7%) in a liquidation scenario by HYF’s financial advisor had factored in liabilities to PUB. With the plant being taken away, PUB would also be absolving its liabilities against HYF.
- The valuation of Tuaspring has been the subject of much discourse, with SMI and creditors perceiving the plant to be an asset and PUB is effectively now taking away this “asset”. It is worth noting though that PUB saw the plant’s value as negative. (OCBC, Company)

Credit Headlines (cont'd)

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

- KREIT reported 1Q2019 results. Property income rose marginally by 0.7% y/y to SGD40.0mn from SGD39.7mn. One-off income from Bugis Junction Towers has more than offset the lower contributions from Ocean Financial Centre (“OFC”) (down 1.7% y/y), 275 George Street (down 4.0% y/y) and 8 Exhibition Street (down 2.2% y/y). These Australian properties saw the depreciation of AUD against SGD erode their better operating performance. Net property income (“NPI”) moved in tandem and rose by 0.3%y/y to SGD31.3mn.
- Profit before tax, however, fell by 2.6% y/y to SGD36.1mn. The decline was largely attributable to a lower share of results of associates and joint ventures (down 7.1% y/y, mainly due to One Raffles Quay which saw dividend income fall by 13.0% y/y as occupancy rate was lower at 96.1% vs 100% at 1Q2018) and unfavourable foreign exchange differences.
- Overall portfolio committed occupancy was 98.7% (1Q2018: 99.4%). Given KREIT has just 2.7% (down by 4.2% reported at end-2018) and 0.4% of leases by net lettable area expiring and due for review respectively for the remaining of 2019, we think the room for KREIT to ride the recovery wave in the office market is somewhat small. That said, KREIT appears to have done well in its leasing in 1Q2019 with the average signing rent for KREIT’s Singapore office leases at SGD12.03 psf pm, above the market average of SGD11.15 psf pm. KREIT’s FY2018 average signing rent was SGD11.10 psf pm.
- Reported aggregate leverage fell to 35.7% (4Q2018: 36.3%, 3Q2018: 39.1%) and stood at ~36.9% after taking 50% of its perpetual as debt. The improvement from the previous quarter was largely due to a further net repayment SGD96.4mn of loans with parts of the proceeds from divesting a 20%-stake in Ocean Financial Centre (in 4Q2018). While all-in interest rate rose to 2.88% from 2.81% from 4Q2018, interest coverage ratio improved from 3.9x to 4.1x as at 31 March 2019. KREIT has received commitments to refinance the loans coming due in 2019. It holds SGD105mn cash as at 31 March 2019 and has SGD650mn bank loans maturing in 2020. We see refinancing risk as low as KREIT has unutilised facilities of SGD1.0bn available and only Bugis Towers in its portfolio of assets is encumbered.
- Separately, we expect KREIT’s all-in interest rate to fall to ~2.80% and aggregate leverage to rise to ~37.7% (~38.9% as adjusted 50% of perpetual as debt) as it has issued a SGD200mn 5-year convertible bond on 10 April 2019 at 1.9%. Aggregate leverage may also inch higher if unit holders approve of the continuation of the unit buy-back programme (a total of ~34mn issued units has been bought back since 3Q2018).
- 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)

Table 1: Key Financial Indicators

	18-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	63	-4	-2
iTraxx SovX APAC	41	-3	-8
iTraxx Japan	54	-3	-2
iTraxx Australia	67	-4	0
CDX NA IG	58	-1	0
CDX NA HY	108	0	1
iTraxx Eur Main	58	-1	-1
iTraxx Eur XO	248	-3	-18
iTraxx Eur Snr Fin	69	-1	-1
iTraxx Sovx WE	17	-1	-2
AUD/USD	0.718	0.81%	1.10%
EUR/USD	1.129	0.36%	-0.38%
USD/SGD	1.353	0.24%	-0.13%
China 5Y CDS	39	-4	-6
Malaysia 5Y CDS	51	-3	-9
Indonesia 5Y CDS	90	-9	-5
Thailand 5Y CDS	37	-3	-6

	18-Apr	1W chg	1M chg
Brent Crude Spot (\$/bbl)	71.48	0.92%	5.83%
Gold Spot (\$/oz)	1,272.47	-1.55%	-2.40%
CRB	186.60	-1.62%	0.94%
GSCI	449.86	-0.88%	3.53%
VIX	12.6	-5.26%	-3.82%
CT10 (bp)	2.581%	8.43	-2.20
USD Swap Spread 10Y (bp)	-1	1	-3
USD Swap Spread 30Y (bp)	-23	3	-1
US Libor-OIS Spread (bp)	19	0	-4
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	26,450	1.12%	2.07%
SPX	2,900	0.42%	2.38%
MSCI Asiax	686	0.99%	3.19%
HSI	30,042	0.68%	2.15%
STI	3,348	0.51%	4.19%
KLCI	1,616	-0.53%	-4.45%
JCI	6,482	-0.04%	0.32%

New issues

- Ronshine China Holdings Ltd has priced a USD200mn 3.5NC2 bond (subsidiary guarantors: certain of issuer's restricted subsidiaries incorporated outside the PRC) at 8.75%, tightening from IPT of 9.25% area.
- Hejun Shunze Investment Co Ltd has priced a USD330mn 2-year bond (parent guarantor: Sichuan Languang Development Co Ltd) at 12.625%, tightening from IPT of high 12% area.
- Modern Land (China) Co Ltd has priced a USD300mn 2.5-year bond (subsidiary guarantors: certain non-PRC restricted subsidiaries of the issuer) at 12.7%, tightening from IPT of 12.85%.
- Huai'an Water Conservancy Holding Group Co Ltd has priced a USD300mn 3-year bond at 6.2%, tightening from IPT of 6.5% area.
- Qatar National Bank Finance Ltd has priced a USD850mn 3-year FRN at 3-month US LIBOR+100bps, tightening from IPT of +110bps area.
- Melco Resorts Finance Ltd has priced a USD500mn 7NC3 bond at 5.25%, tightening from IPT of 5.5% area.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
17-Apr-19	Ronshine China Holdings Ltd	USD200mn	3.5NC2	8.75%
17-Apr-19	Hejun Shunze Investment Co Ltd	USD330mn	2-year	12.625%
17-Apr-19	Modern Land (China) Co Ltd	USD300mn	2.5-year	12.7%
17-Apr-19	Huai'an Water Conservancy Holding Group Co Ltd	USD300mn	3-year	6.2%
17-Apr-19	Qatar National Bank Finance Ltd	USD850mn	3-year	3M US LIBOR+100bps
17-Apr-19	Melco Resorts Finance Ltd	USD500mn	7NC3	5.25%
16-Apr-19	Industrial & Commercial Bank of China Ltd	USD900mn USD600mn	3-year 5-year	3M US LIBOR+72bps 3M US LIBOR +83bps
16-Apr-19	New Dian Group Pte Ltd	USD200mn	2-year	8.0%
16-Apr-19	SMC Global Power Holdings Corp	USD500mn	NC5-perpetual	6.5%
15-Apr-19	China Evergrande Group	USD200mn USD400mn USD400mn	EVERRE 9.5%'22s EVERRE 10.0%'23s EVERRE 10.5%'24s	9.5% 10.0% 10.5%
15-Apr-19	Central China Real Estate Limited	USD300mn	4NC2	7.5%
15-Apr-19	RongXingDa Development (BVI) Ltd	USD325mn	3NC2	8.375%
15-Apr-19	Shinhan Bank	USD400mn	10-year	T+157.5bps

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