

Mar 19, 2019

Credit Headlines: Hyflux Ltd, Sabana Shari'ah Compliant Industrial REIT

Market Commentary

- The SGD swap curve flattened yesterday, with the shorter tenors trading 2-3bps lower, while the belly and longer tenors traded 4-5bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 135bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 14bps to 456bps.
- Flows in SGD corporates were heavy, with flows made up entirely by corporate perpetuals, CELSP 3.9%-PERPs, DBSSP 3.98%-PERPs, GUOLSP 4.6%-PERPs and UOBSP 4.0%-PERPs.
- 10Y UST yields rose 1bps to close the session at 2.60%, after a modest treasuries selloff due to the new investment-grade corporate notes priced yesterday. The selloff occurred amidst a muted trading session where investors avoided placing large positions ahead of the conclusion of the Federal Reserve's policy-setting meeting on Wednesday. In light of the soft employment, manufacturing and factory activity data published recently, the US central bank is expected to hold rates steady.

Credit Headlines

Hyflux Ltd ("Hyflux") | Unrated

- Following the [issuance of a default notice by PUB](#), HYF has announced that it has also received a notice from SM Investments Pte Ltd that a "Prescribed Occurrence" has occurred under the [Restructuring Agreement](#) entered into in October 2018. As per HYF, the agreement provides for the Restructuring Agreement to be terminated if a Prescribed Occurrence occurs and is not remedied within 2 weeks (1 April 2019).
- Specifically, the Prescribed Occurrence relates to the potential for Tuaspring to be taken over by Public Utilities Board ("PUB") given certain defaults associated with contractual obligations in the Water Purchase Agreement between PUB and Tuaspring. This would represent the cessation of a part of HYF's ordinary business or, put another way, the exclusion of businesses contemplated by SMI to be included in the Restructuring Agreement.
- Separately over the weekend, HYF also announced the results of its adjudication on the submitted proofs of claims. Of the SGD3.51bn in claims submitted, HYF admitted SGD2.81bn. This includes contingent, trade and other claims.
- The use of these claims for the restructuring however may be mute given the most recent announcement. In our view, the possibility of a successful restructuring is looking increasingly remote with the time to remedy operational defaults shortened. In some respects, the desire to complete the restructuring for SM Investments Pte Ltd may also be wavering. (OCBC, Company)

Credit Headlines (cont'd)

Sabana Shari'ah Compliant Industrial REIT ("SSREIT") | Issuer Profile: Neutral (5)

- In September 2018, SSREIT announced that the tenant at 10 Changi South Street 2 had been in arrears though it had subsequently reached a settlement with the tenant and received the outstanding rental arrears and late payment charges.
- Subsequently in March 2019, SSREIT had received a notice from the tenant asserting its rights to terminate the lease due to a change in shareholders at the tenant level. Under the terms of the lease, the tenant is allowed to terminate the lease by giving no less than nine months' prior written notice upon the (a) scheme of arrangement/amalgamation/merger or (b) the tenant acquires or takeover one or more companies or is itself acquired by or taken over.
- Subject to conditions as JTC may impose, the lease would terminate on 12 December 2019. In the meantime the tenant will continue its lease obligations until the termination date.
- In forming our issuer profile of Neutral (5) for SSREIT we had assumed 17.5% of its rental income "at-risk", including the rents from this tenant which contributes ~6.5% to revenue. In our downside case assuming all of these 17.5% of rents are not forthcoming, EBITDA/Interest would fall to 2.5x (actual 4Q2018: 3.1x).
- Net-net, while the impending termination by December 2019 is a credit negative, we do not see it as sufficiently impactful to lower the issuer profile. (Company, OCBC)

Table 1: Key Financial Indicators

	19-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	65	-2	-9
iTraxx SovX APAC	49	-2	-8
iTraxx Japan	55	-1	-4
iTraxx Australia	67	-2	-5
CDX NA IG	57	-2	-4
CDX NA HY	107	0	0
iTraxx Eur Main	59	-2	-8
iTraxx Eur XO	266	-12	-26
iTraxx Eur Snr Fin	70	-3	-12
iTraxx Sovx WE	19	-1	-5
AUD/USD	0.710	0.30%	-0.87%
EUR/USD	1.134	0.45%	-0.02%
USD/SGD	1.351	0.37%	0.14%
China 5Y CDS	45	-2	-8
Malaysia 5Y CDS	60	-2	-13
Indonesia 5Y CDS	95	-2	-15
Thailand 5Y CDS	42	-1	-6

	19-Mar	1W chg	1M chg
Brent Crude Spot (\$/bbl)	67.55	1.32%	1.66%
Gold Spot (\$/oz)	1,306.26	0.36%	-2.59%
CRB	184.86	2.42%	1.44%
GSCI	434.52	1.99%	2.43%
VIX	13.1	-8.58%	-11.96%
CT10 (bp)	2.596%	-0.54	-3.78
USD Swap Spread 10Y (bp)	2	0	-1
USD Swap Spread 30Y (bp)	-22	-2	-4
US Libor-OIS Spread (bp)	22	3	-2
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,914	1.03%	0.09%
SPX	2,833	1.78%	1.91%
MSCI Asiax	665	1.42%	3.69%
HSI	29,371	1.56%	4.05%
STI	3,211	-0.05%	-1.51%
KLCI	1,694	1.35%	-0.75%
JCI	6,487	2.09%	-0.12%

New issues

- Poly Real Estate Finance Ltd has priced a USD500mn 5-year bond (guarantor: Hengli (Hong Kong) Real Estate Ltd) at CT5+160bps, tightening from IPT of +190bps area.
- Yunnan Provincial Energy has priced a USD400mn re-tap of its existing YUNAEN 6.25%'21s (guarantor: Yunnan Energy Investment Overseas Finance Co Ltd) at 5.5%, tightening from IPT of 6.1% area.
- Canara Bank has scheduled investor meetings from 19 March for its potential USD 5-year bond issuance.
- Mongolian Mining Corporation has scheduled investor meetings from 18 March for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
18-Mar-19	Poly Real Estate Finance Ltd	USD500mn	5-year	CT5+160bps
18-Mar-19	Yunnan Provincial Energy	USD400mn	YUNAEN 6.25%'21s	5.5%
15-Mar-19	Bank of Communications Co Ltd, Hong Kong Branch	USD800mn	3-year	3M-LIBOR +78bps
15-Mar-19	Export-Import Bank of China	USD250mn	5-year	3M-LIBOR +70bps
15-Mar-19	City Developments Ltd	SGD250mn	5-year	3.0%
15-Mar-19	CJ Logistics Asia Pte Ltd	SGD70mn	5-year	2.938%
15-Mar-19	ESR Cayman Ltd	SGD77.25mn	ESRCAY 6.75%'22s	100
14-Mar-19	Sunny Express Enterprises Corp	USD500mn	3-year	CT3+110bps
14-Mar-19	Xinjiang Financial Investment Co Ltd	USD200mn	3-year	7.5%
14-Mar-19	Yango (Cayman) Investment Ltd	USD150mn	1.5-year	12.75%
14-Mar-19	Chengdu Communications Investment Group Co Ltd	USD100mn	CDCOMM 5.125%'21s	100.954
14-Mar-19	Mapletree Industrial Trust Treasury Company Pte Ltd	SGD125mn	10-year	3.58%
13-Mar-19	Joy Treasure Assets Holdings Inc	USD400mn USD300mn	5-year 10-year	CT5+150bps CT10+200bps

Source: OCBC, Bloomberg

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