Asian Credit Daily

Apr 22, 2019

Credit Headlines:

Keppel Corporation Ltd, Perennial Real Estate Holdings Limited, CapitaLand Commercial Trust, Metro Holdings Limited, Hyflux Ltd, CapitaLand Ltd

Market Commentary

- The SGD swap curve flattened last Thursday, with the shorter tenors trading 1bps lower while the belly and longer tenors traded 2-3bps lower (exception being the 12-year swap rates at 4bps lower).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS and the Bloomberg Barclays Asia USD HY Bond Index average OAS traded little change at 130bps and 467bps respectively.
- Flows in SGD corporates were heavy, with significant flows in SOCGEN 6.125%-PERPs. Other flows were seen in CMZB 4.875%'27s, CWTSP 4.8%'20s, CMZB 4.2%'28s, ARASP 4.15%'24s, WINGTA 4.35%-PERPs, LLCAU 3.9%'27s and HSBC 4.7%-PERPs.
- 10Y UST yields fell 3bps to 2.56%, on the back of global economic slowdown concerns arising from weak manufacturing data, specifically from the French, German and Japanese markets. These concerns arose despite broadly stronger-than-expected US data, which had supported the rise in yields in the past trading sessions.

Credit Headlines

Keppel Corporation Ltd ("KEP") | Issuer Profile: Neutral (4)

- KEP announced its 1Q2019 financial results. Gross revenue was up 4.1% y/y to SGD1.5bn on the back of higher revenue from its Infrastructure Division from increased sales in power and gas business and progressive revenue recognition from its Hong Kong Integrated Waste Management Facility and Keppel Marina East Desalination plant project which has been 80% completed. KEP also saw higher revenue from its Investment Division as M1 Limited ("M1")'s results has been consolidated (since 15 February 2019) along with higher revenue from Keppel Capital's asset management business. We estimate that the consolidation of M1 alone contributed ~SGD155mn to top line, without which KEP would have seen a y/y revenue decline. KEP's Offshore & Marine ("KOM") segment saw a flat y/y revenue while the main Property Division segment that is driven more by en-bloc transactions (ie: flows to bottom line but not top line) saw revenue decreased by SGD186mn as there were fewer projects in Singapore.
- EBITDA (based on our calculation which does not include other income and other expenses) was SGD245.0mn, up 5.3% y/y from 1Q2018, although with interest expense rising a whopping 58% y/y to SGD69.0mn, EBITDA/Interest was lower at 3.5x (1Q2018: 5.3x). This was driven by higher average debt balance, as well as recognition of lease payments as interest under the adoption of SFRS (I) 16 Leases, which was insufficient to offset lower cost of borrowing.
- KEP reported pre-tax profits of SGD282.8mn in 1Q2019, down 37% y/y from 1Q2018. KEP reported a SGD158.4mn in fair value gain on measurement of previously held interest upon acquisition of subsidiary (ie: from M1 business combination accounting effects), removing this, we find pre-tax profits of SGD124.4mn. Net profit to shareholders ("PATMI") was SGD202.9mn in 1Q2019 (down 39.9% y/y). By segment the Property Division was the largest contributor at SGD132mn (down from SGD378mn in 1Q2018) as the en-bloc transaction was smaller in 1Q2019 (namely divestment of a 70%-stake in Dong Nai Waterfront City in Vietnam to Nam Long) versus the divestment of Keppel China Marina Holdings Pte Ltd (namely Keppel Cove in Zhongshan, China). During the quarter though, Keppel REIT results were somewhat weaker, with share of results of Property Division associate at SGD14.2mn (down from SGD18.0mn in 1Q2018). In March 2019, KEP announced that its Property Division along with a fund it manage, Alpha Asia Macro Trends Fund III are partnering up to buy Yi Fang Tower, a prime commercial building in Shanghai, we estimate KEP's outlay at SGD273mn – SGD312mn.

Credit Headlines (cont'd)

- While the Property Division continues to be a key contributor, KEP is aiming to have each key division contribute no more than 40% of its annual net profit over the long term.
- The second largest contributor for the quarter was the Investment Division which saw net profit surge to SGD49mn versus a net loss of SGD44mn in 1Q2018, although this was driven by the business combination accounting effect as mentioned above (+SGD125mn impact at PATMI level). Among the losses, in 1Q2019, the Investments Division recognised a SGD40mn net loss from share of KrisEnergy losses (KEP's holds a 40%-stake in this company which it deems as non-strategic) and a SGD19mn impairment of an unnamed associated company (in our view this is likely KrisEnergy) though Keppel Capital reported a net profit of SGD23mn while M1 contributed SGD9mn.
- The Infrastructure Division contributed SGD16mn in 1Q2019, down from SGD26mn, with the data centre business and Keppel Infrastructure seeing narrower profits (one-off costs relating to acquisition of IXOM). The logistics division saw a larger net loss of SGD7.0mn against SGD4.0mn in 1Q2018. On 12 April 2019, the Court has sanctioned the scheme of arrangement for KEP to take-private Keppel Telecommunications & Transportation Ltd ("KPTT"), and we expect KEP to have funded ~SGD226.6mn for this transaction.
- For KOM, the division saw net profit of SGD6.0mn, which is a positive against the SGD23mn in net loss in 1Q2018. While the New Build business continued to report losses of SGD9.0mn, Repairs & Conversions swung to a positive SGD5.0mn while associates (mainly Floatel International Limited, provides accommodation and construction support vessels) contributed SGD10mn to net profit. Net orderbook (excluding the Sete Brasil contracts) was SGD4.7bn (up from end-2018's SGD4.3bn) and encouragingly KEP has shared that it is looking to add 1,800 full-time staff in 2019 for KOM.
- As at 31 March 2019, KEP's net gearing was significantly higher at 0.72x (0.48x in end-2018) though below the internal threshold of 1.0x. While the new lease accounting played a role (~SGD693mn addition to gross debt), the much larger driver in our view was the funding needs for M1 (SGD1.1bn cash outflow, net of cash acquired). Working capital needs had also increased as KOM progressed on its orderbook. In end-2018, off-balance sheet capital commitments continued to be significant at SGD1.4bn (SGD1.1bn in end-2017), of these, 28% relates to commitments to private funds in the Keppel Capital business. With Keppel Capital unwavering from its SGD50bn asset under management target by 2022 (end-2018, asset under management of SGD29bn), we expect these commitments to increase. We maintain KEP's issuer profile at Neutral (4). (Company, OCBC)

Perennial Real Estate Holdings Limited ("PREH") | Issuer Profile: Neutral (5)

- PREH announced that Perennial Chinatown Point LLP (the "Consortium") has entered into a share purchase agreement with a vehicle of a fund managed by Pan Asia Realty Advisors (Singapore) Pte Ltd ("Pan Asia") for the Consortium to sell the retail mall at Chinatown Point and four strata office units ("Chinatown Point Mall") to Pan Asia.
- PREH holds an effective ~50.6%-stake in the Consortium while Pan Asia is a joint venture between CLSA and Mitsubishi Estate Co., Ltd. PREH had acquired additional stakes in Chinatown Point Mall over the years, culminating at ~50.6%.
- The Consortium is selling shares in the entity that holds Chinatown Point Mall for SGD225mn and the assignment of shareholder loans granted by the Consortium to this entity. The consideration on the shareholder's loans is undisclosed. The proposed sale is based on the agreed property price of SGD520mn (SGD2,450 per sq ft on total net lettable area).
- PREH's share of net proceeds from the share sale and the assignment loan is expected to be ~SGD125.3mn with its share of divestment gain of ~SGD17.2mn. This is premised on PREH accounting for Chinatown Point Mall's net asset value at SGD108.1mn. In end-2018, PREH's net assets was SGD4.0bn and this is a relatively small transaction against its net assets although the cash infusion is helpful for PREH in meeting its short term refinancing needs. We are maintaining PREH's issuer profile at Neutral (5) and will review its issuer profile in conjunction with its 1Q2019 result release. (Company, OCBC)

Credit Headlines (cont'd)

CapitaLand Commercial Trust ("CCT") | Issuer Profile: Neutral (3)

- CCT reported 1Q2019 results. Gross revenue and net property income ("NPI") grew by 3.5% y/y and 3.4% y/y to SGD99.8mn and SGD79.8mn respectively. Both of which were due to Asia Square Tower 2 ("AST2") and Gallileo, though partially offset by the divestment of Twenty Anson.
- CCT's portfolio committed occupancy was 99.1% as at 31 March 2019, an improvement from 97.3% a year ago. The increase was primarily due to stronger occupancy rate at AST2 (98.1% up from 90.8%). Besides, 18% of the 29% of office leases expiring in 2019 (based on monthly gross rental income) have already been committed and rental reversions for most of the office leases signed were reported to be positive.
- Having said that, in 1Q2019, CapitaGreen (NPI down 5.2%y/y) saw negative rent reversions and higher marketing expenses while Six Battery Road (NPI down 3.6%y/y) saw occupancy rate fall from 99.8% a year ago to 97.6%. CCT warns of negative rent reversions following through and possibly impacting overall portfolio revenue growth for 2019. We note that CapitaGreen has 0.4% of leases expiring and the average rent of those expiring leases is SGD12.57 psf per month for 1H2019 and 3.6% of leases at SGD10.59 psf pm in 2H2019, while Six Battery Road has 0.2% of leases expiring at SGD9.15 psf pm in 1H2019 and 1.0% of leases at SGD11.60 psf pm for 2H2019. We think negative reversion may come from CapitaGreen in 1H2019 and Six Battery Road in 2H2019, even though Grade A office market rent has been climbing in Singapore, due to the higher base leases that the properties were under.
- Aggregate leverage inched up slightly to 35.2% from 34.9% in 4Q2018, largely due to a SGD9.0mn debt drawdown for CapitaSpring. All-in average cost of debt fell slightly to 2.5% from 2.6% in the previous quarter. Refinancing risk is minimal as CCT only has a JPY bond with an amount outstanding of SGD148mn which it has sufficient bank facilities to refinance coming due in 2019 (4% of total borrowings). Majority of CCT's assets (77.4%) are unencumbered except for CapitaGreen and Gallileo.
- In the quarter, CCT launched flexible spaces and new community activities at Capital Tower. On CapitaSpring, CCT plans to open an interactive marketing showsuite in 2Q2019. We expect CapitaSpring to do well when it opens fully in 2021 given the lack of office supply (~24% committed occupancy as at 31 March 2019).
- On 1 April 2019, CCT returned leasehold interest of Bugis Village to the State and received the agreed compensation sum of SGD40.7mn. CCT has also signed a one-year master lease with the State for Bugis Village with a projected net income of SGD1.0mn. ~84% of tenants at Bugis Village have committed to extend their leases as at 1 April 2019.
- Looking ahead, CCT's growth pipeline includes the call option for the balance 55% of CapitaSpring's commercial component (not currently owned by CCT). The call option is exercisable within five years after the development obtained TOP (expected to be 1H2021). (Company, OCBC)

Metro Holdings Limited ("METRO") | Issuer Profile: Neutral (4)

- METRO has entered in to a 50-50 joint venture with an independent third party (affiliate of SRIF GP Pte. Ltd.) to jointly acquire 7 & 9 Tampines Grande, a premium Grade-A office property in Singapore from Golden Crest Holdings Pte. Ltd.
- The total purchase consideration for the 50% stake is ~SGD45.6mn (SGD19.4mn for 50% stake of the consolidated net asset value of the properties and SGD26.2mn in shareholders loan).
- 7 & 9 Tampines Grande, situated in Tampines Regional Centre, is made up of two blocks of 8-storey office towers linked by a double-volume entrance lobby with retail and F&B outlets on the ground floor. Committed occupancy rate is 91%. We think the property will mostly be classified under Investment Property. While the transaction is ~2.45% of METRO's total assets, it is 47.8% of METRO's total investment property based on figures as at 31 December 2018. Should METRO fund the entire transaction via cash, we expect cash-to-short term debt to fall from 2.02x to 1.56x. (Company, OCBC)

Credit Headlines (cont'd)

Hyflux Ltd ("HYF") | Issuer Profile: Unrated

- On 5 July 2018, HYF, Tuaspring and Maybank the sole secured lender at Tuaspring Pte Ltd ("Tuaspring") had entered into an agreement in relation to the divestment process of Tuaspring and for a binding agreement to be executed with a successful bidder or investor. In return, Maybank had refrained from enforcing its legal rights to foreclose on the asset ("Collaboration Agreement"). The Collaboration Agreement has been extended multiple times since 5 July 2018.
- On 18 April 2019, HYF announced that Maybank has issued a letter terminating the Collaboration Agreement with immediate effect. Maybank has also issued notices to the Public Utilities Board ("PUB") and the Energy Market Authority ("EMA") pursuant to an agreement entered into between Tuaspring, PUB and Maybank on (1) Maybank's enforcement and acceleration of the amounts owing to them on Tuaspring and (2) Maybank's intention to appoint receivers and managers over the assets of Tuaspring apart from the desalination plant and shared infrastructure. As a recap, PUB is in the process of taking over the desalination plant and in our view, the other assets mainly refer to the Tuaspring power plant, leaving little (if anything at all) to be upstream from Tuaspring to HYF. (Company, OCBC)

CapitaLand Ltd ("CAPL") | Issuer Profile: Neutral (3)

- CAPL has set up its first discretionary real estate equity fund, namely CapitaLand Asia Partners 1 (Cap 1) which will invest in value-add and transitional office buildings in key Asian gateway cities, including Singapore, Beijing, Guangzhou, Shanghai, Shenzhen, Osaka and Tokyo. At first close, CAPL had raised USD391.3mn (~SGD528.3mn) post commencement of fundraising in July 2018. This is part of CAPL's strategy to grow its discretionary real estate funds business.
- Earlier in February 2019, CAPL's first discretionary real estate debt fund had achieved first close (raised USD556mn/~SGD753mn). (Company, OCBC)

Table 1: Key Financial Indicators

	22-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	64	0	-8
iTraxx SovX APAC	42	-1	-6
iTraxx Japan	54	0	-7
iTraxx Australia	68	1	-8
CDX NA IG	57	1	-11
CDX NA HY	108	0	2
iTraxx Eur Main	57	-1	-13
iTraxx Eur XO	247	-1	-36
iTraxx Eur Snr Fin	68	-2	-20
iTraxx Sovx WE	17	0	-2
AUD/USD	0.714	-0.43%	0.83%
EUR/USD	1.124	-0.55%	-0.53%
USD/SGD	1.357	-0.26%	-0.29%
China 5Y CDS	40	-1	-9
Malaysia 5Y CDS	53	1	-12
Indonesia 5Y CDS	92	-3	-12
Thailand 5Y CDS	37	-1	-9

	22-Apr	1W chg	1M chg
Brent Crude Spot ($/bbl)	73.63	2.91%	9.85%
Gold Spot ($/oz)	1,279.19	-0.68%	-2.63%
CRB	187.13	-0.10%	1.02%
GSCI	450.85	-0.36%	3.55%
VIX	12.09	-7.14%	-10.84%
CT10 (bp)	2.569%	1.43	12.96
USD Swap Spread 10Y (bp)	-1	0	1
USD Swap Spread 30Y (bp)	-23	1	3
US Libor-OIS Spread (bp)	16	-1	-4
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	26,560	1.59%	2.60%
SPX	2,905	0.58%	2.56%
MSCI Asiax	683	0.35%	2.84%
HSI	29,963	0.41%	1.69%
STI	3,353	0.62%	4.09%
KLCI	1,628	-0.23%	-2.34%
JCI	6,417	0.11%	-0.97%

New issues

- There were no new issuances over 18 April 2019.

Date	Issuer	Size	Tenor	Pricing
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

Source: OCBC, Bloomberg

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