

Mar 22, 2019

**Credit Headlines:** Soilbuild Business Space REIT, Oxley Holdings Ltd, Hyflux Ltd

## **Market Commentary**

- The SGD swap curve flattened yesterday, with the shorter tenors trading 2-4bps lower while the belly and longer tenors traded 5-7bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 134bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 14bps to 451bps.
- Flows in SGD corporates were heavy, with flows most notably made up of HFCSP 4.2%'22s. Other SGD corporates were MAPLSP 3.58%'29s, MRTSP 3.22%'28s, OHLSP 5.0%'19s, SINTEC 5.0%-PERPs, OLAMSP 5.5%-PERPs, SIASP 3.13%'26s, NOLSP 4.65%'20s and DBSSP 3.98%-PERPs.
- 10Y UST yields fell further in the morning session, continuing the bond market rally sparked by the Federal Reserve's dovish statement, before rising to close the session 1bps higher at 2.54%.

## **Credit Headlines**

### **Soilbuild Business Space REIT ("SBREIT") | Issuer Profile: Neutral (5)**

- SBREIT is divesting 72 Loyang Way for SGD34.08mn. We note the property was purchased in 2015 for SGD97mn, and revaluated at SGD65mn in end-2016 and SGD38mn in end-2017. The estimated net gain from the sales is ~SGD0.055mn. Should the funds be used to repay debt, aggregate leverage is expected to fall to ~37.4% from 39.1% as at 31 December 2018.
- 72 Loyang Way has a remaining tenure of 19 years, shortest in SBREIT's portfolio. As at end-2018, it was merely 29.3% occupied, similarly the lowest in the portfolio. This was largely due to the prolonged weakness in the marine offshore and oil & gas sector and JTC's anchor tenant ruling (which requires the anchor tenant to satisfy JTC's requirements regarding usage, value-added, remuneration per worker, as well as occupying at least 70% of the premises' Gross Floor Area). The ruling made it challenging for SBREIT to find a suitable replacement tenant. (Company, OCBC)

### **Oxley Holdings Ltd ("OHL") | Issuer Profile: Neutral (5)**

- OHL has shown its intent to sell the Novotel and Mercure Hotels on Stevens Road again, following the [termination of the letter of intent with the previous potential buyer who did not make a subsequent deposit](#). CBRE Pte Ltd ("CBRE"), Jones Lang LaSalle Property Consultants Pte Ltd and JLL Hotels & Hospitality Group ("JLL") have been appointed as exclusive agents for the sale.
- According to JLL and CBRE, they expect to see strong interest for the Steven's Road. We think that the likelihood of the hotel transaction is high; we agree with the property consultants that (1) there has been strong interest in Singapore's hotel industry given the keen bids at the recent Club St hotel GLS site, (2) the supply of hospitality is low given low new supply between 2020-22 while the existing stock has been tightly held and (3) the hospitality sector is beginning to see a rebound in performance.
- Given our expectation on the completion of the sale of the hotel, we continue to hold OHL at a Neutral (5) Issuer Profile. (Company, OCBC)

## Credit Headlines (cont'd)

### Hyflux Ltd (“Hyflux”) | Unrated

- Following the [issuance of a default notice by The Public Utilities Board \(“PUB”\)](#) 2 weeks back, PUB have issued a further press release confirming that (1) PUB will ‘purchase’ only the Tuaspring Desalination Plant and not the entire Tuaspring integrated water and power project; (2) the purchase price is effectively negative given the Desalination Plant has been generating losses and is expected to continue generating losses; and (3) PUB is entitled to compensation under the Water Purchase Agreement.
- Other key points in the press release is that PUB will waive their right to compensation given HYF (through Tuaspring Pte Ltd (TPL)) does not have the financial capacity to pay the compensation and, in the context of SM Investments Pte Ltd (“SMI”) notice that a “Prescribed Occurrence” has occurred which can result in a termination of the [Restructuring Agreement](#), taking over the asset by PUB would benefit HYF and should not be used as a reason to terminate the restructuring agreement and hence jeopardize the proposed scheme meetings.
- While this development answers one important question regarding the compensation to be paid on any takeover, it doesn’t address many others including the likelihood for the scheme arrangement to continue. It also raises questions on the previously reported asset values of Tuaspring. This development also highlights the following in our view:
  - The strategic importance of Tuaspring for Singapore’s water supply.
  - Mismanagement at the asset level, which could also likely be due to the uncommercial terms of the Water Purchase Agreement.
  - Under estimation of the impact to ‘regulatory risk’ from exposure to the water purchase agreement.
- While SMI have effectively reserved their rights, it remains unclear whether they would be willing to persist with the current proposed scheme arrangement and complete the restructuring. This is because it is unclear how much SMI knew about the severity of issues at Tuaspring prior to PUB’s latest announcements. On the face of it, this development provides more reasons for SMI to walk away if SMI was not aware of the issues, given Tuaspring is losing money and facing operational issues while it comes with significant obligations and penalties, although SMI may have other intentions for wanting to keep Tuaspring as part of HYF. Since January 2019, SMI had disclosed they wanted to keep Tuaspring within Hyflux Ltd.
- That said, we continue to see the possibility of a successful restructuring as looking increasingly remote given the time to remedy defaults shortened, the lack of time to provide updated information to scheme participants and the declining support of scheme voters. (OCBC, Company)

**Table 1: Key Financial Indicators**

	22-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	71	5	0
iTraxx SovX APAC	46	-4	-10
iTraxx Japan	60	4	0
iTraxx Australia	77	8	6
CDX NA IG	64	6	3
CDX NA HY	107	0	0
iTraxx Eur Main	67	7	0
iTraxx Eur XO	268	-1	-24
iTraxx Eur Snr Fin	83	12	1
iTraxx Sovx WE	19	-1	-5
AUD/USD	0.711	0.28%	-0.34%
EUR/USD	1.138	0.44%	0.36%
USD/SGD	1.349	0.30%	0.16%
China 5Y CDS	48	2	-3
Malaysia 5Y CDS	62	1	-8
Indonesia 5Y CDS	101	3	-8
Thailand 5Y CDS	43	0	-3

	22-Mar	1W chg	1M chg
Brent Crude Spot (\$/bbl)	67.71	0.82%	0.88%
Gold Spot (\$/oz)	1,308.97	0.50%	-1.54%
CRB	185.37	1.08%	0.71%
GSCI	438.41	1.37%	2.09%
VIX	13.63	0.96%	0.89%
CT10 (bp)	2.530%	-5.73	-12.20
USD Swap Spread 10Y (bp)	-1	-2	-2
USD Swap Spread 30Y (bp)	-25	-2	-5
US Libor-OIS Spread (bp)	20	-3	-4
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,963	0.98%	-0.27%
SPX	2,855	1.65%	2.23%
MSCI Asiax	665	1.17%	1.38%
HSI	28,895	-0.40%	0.27%
STI	3,213	0.39%	-1.75%
KLCI	1,657	-1.37%	-3.72%
JCI	6,499	0.59%	-0.04%

## New issues

- Bank Rakyat Indonesia (Persero) Tbk has priced a USD500mn 5-year bond at CT5+168bps, tightening from IPT of +195bps area.
- CIFI Holdings (Group) Co Ltd has priced a USD255mn 5NC3 bond (subsidiary guarantors: certain non-PRC subsidiaries of issuer) at 6.55%, tightening from guidance of 6.8% area.
- Gemdale Ever Prosperity Investment Ltd has priced a USD300mn re-tap of its existing GEMDAL 6.0%'21s (guarantor: Famous Commercial Ltd) at 5.7%, tightening from IPT of 6.125% area.
- Chengdu Economic and Technological Development Zone State-Owned Assets Investment Co Ltd has priced a USD250mn re-tap of its existing CDECST 7.5%'22s at 100, in line with IPT of 7.5% area.
- Canara Bank has priced a USD400mn 5-year bond at CT5+170bps, tightening from IPT of +195bps area.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
21-Mar-19	Bank Rakyat Indonesia (Persero) Tbk	USD500mn	5-year	CT5+168bps
21-Mar-19	CIFI Holdings (Group) Co Ltd	USD255mn	5NC3	6.55%
21-Mar-19	Gemdale Ever Prosperity Investment Ltd	USD300mn	GEMDAL 6.0%'21s	5.7%
21-Mar-19	Chengdu Economic and Technological Development Zone State-Owned Assets Investment Co Ltd	USD250mn	CDECST 7.5%'22s	100
21-Mar-19	Canara Bank	USD400mn	5-year	CT5+170bps
20-Mar-19	China South City Holdings Ltd	USD200mn	2-year	12.125%
20-Mar-19	Huayuan Property Co Ltd	USD300mn	2.5-year	8.5%
20-Mar-19	Sunac China Holdings Ltd	USD200mn	SUNAC 8.35%'23s	100
19-Mar-19	Landmark Funding 2019 Ltd	USD450mn	3-year	4.7%
19-Mar-19	KWG Group Holdings Ltd	USD350mn	KWGPRO 7.875%'23s	102.125
19-Mar-19	Singapore Airlines Ltd	SGD200mn	5-year	3.03%
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%

Source: OCBC, Bloomberg

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