

May 23, 2019

**Credit Headlines:** ESR-REIT, Sabana Shari'ah Compliant Industrial REIT

## **Market Commentary**

- The SGD swap curve traded higher yesterday, with most tenors trading ~1bps higher aside from the shorter tenors (6m and less).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 133bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps yesterday to 485bps.
- Flows in SGD corporates were moderate, with activity in GUOLSP 4.6%-PERPs, ARASP 4.15% '24s, FPLSP 4.98%-PERPs, SLHSP 4.5% '25s, STHSP 3.95%-PERPs, FPLSP 4.15% '27s and METRO 4.3% '24s.
- 10Y UST yields fell 5bps to 2.38%, as the Federal Reserve's minutes from May confirmed a patient approach to rates for some time and escalating trade tensions related to technology companies led to a fall in US stocks

## **Credit Headlines**

**ESR-REIT ("EREIT") | Issuer Profile: Neutral (4) and Sabana Shari'ah Compliant Industrial REIT ("SSREIT") | Issuer Profile: Unrated**

- InfinitySub Pte Ltd, an indirect wholly-owned subsidiary of ESR Cayman Limited ("ESR") has entered into an agreement to buy a 51%-stake in the managers of SSREIT (both the REIT manager and property manager of SSREIT) and a 9.9%-stake in SSREIT itself from Vibrant Group Limited (SSREIT's current Sponsor).
- Along with previous stakes bought, this brings ESR's indirect stake in the managers of SSREIT to 93.8% and a 21.4%-stake in SSREIT itself. In our view, post completion, SSREIT would have a new Sponsor in ESR. ESR is also the Sponsor of EREIT (31 March 2019 total asset of SGD3.3bn). As a recap, [EREIT had combined with its peer VIVA Industrial Trust](#) in October 2018.
- While this transaction has no direct impact to EREIT yet, we continue to expect EREIT to eventually combine with SSREIT to form a large REIT with total assets of SGD4.3bn (SSREIT's total asset as at 31 March 2019 was SGD1.0bn) as a follow on effect.
- EREIT's unadjusted aggregate leverage was 42% as at 31 March 2019, high within the REIT sector and we think any combination with SSREIT would need to come in the form of an equity deal.
- For now we maintain EREIT's issuer profile at Neutral (4) though are underweight the EREIT 4.6%-PERP given our expectations of a low probability of a call at first call in November 2022. SSREIT's last outstanding bond the SSREIT 4.25% '19s had matured in April 2019 and redeemed. We think the consolidation would negatively affect the financing ability of the remaining subscale industrial REITs (sub-SGD1.5bn of total assets) unless they consolidate among themselves or combine with one of the other larger REITs. (Company, OCBC)

**Table 1: Key Financial Indicators**

	23-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	72	2	9
iTraxx SovX APAC	47	2	5
iTraxx Japan	61	1	7
iTraxx Australia	73	1	6
CDX NA IG	63	1	7
CDX NA HY	106	0	-1
iTraxx Eur Main	67	3	9
iTraxx Eur XO	285	10	38
iTraxx Eur Snr Fin	85	5	15
iTraxx Sovx WE	18	0	-1
AUD/USD	0.687	-0.35%	-3.29%
EUR/USD	1.115	-0.22%	-0.69%
USD/SGD	1.380	-0.57%	-1.70%
China 5Y CDS	50	3	10
Malaysia 5Y CDS	65	3	12
Indonesia 5Y CDS	106	3	14
Thailand 5Y CDS	37	0	0

	23-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	70.62	-2.75%	-5.22%
Gold Spot (\$/oz)	1,274.17	-0.98%	0.14%
CRB	179.54	-0.62%	-4.29%
GSCI	436.07	-2.04%	-4.62%
VIX	14.75	-10.28%	20.11%
CT10 (bp)	2.375%	-1.94	-19.00
USD Swap Spread 10Y (bp)	-5	0	-3
USD Swap Spread 30Y (bp)	-28	0	-4
US Libor-OIS Spread (bp)	14	-1	-2
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,777	0.50%	-3.30%
SPX	2,856	0.19%	-2.64%
MSCI Asiax	622	-1.82%	-8.73%
HSI	27,333	-3.33%	-8.78%
STI	3,156	-1.95%	-5.89%
KLCI	1,598	-0.05%	-1.46%
JCI	5,987	1.54%	-7.37%

## New issues

- Kaisa Group Holdings Ltd. priced a USD400mn 3.67NC2 bond (Subsidiary guarantors: Certain restricted subsidiaries incorporated outside the PRC) at 11.625%, tightening from IPT of 11.75% area.
- Soar Wise Ltd priced a USD450mn 3 year bond (Guarantor: AVIC International Leasing Co., Ltd) at CT3+132.5bps, tightening from IPT of CT3+170bps area.
- Horse Gallop Finance Ltd. issued a USD700mn 3 year bond (Guarantor: ICBC International Holdings Ltd.) at CT3+112.5bps, tightening from IPT of CT3+140bps area.
- Pingxiang Urban Construction Investment Developing Company Ltd issued a USD300mn 35 month bond (Standby letter of credit provider: Bank of Jiujiang Co., Ltd.) at 4.95%, tightening from IPT of 5.2% area.
- Chouzhou International Investment Ltd issued a USD600mn 3 year bond (Guarantor: Yiwu State-owned Capital Operation Co., Ltd.) at 4.6%, tightening from IPT of low 5% area.
- Astrea V Pte has scheduled investor meetings from May 23.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
22-May-19	Chouzhou International Investment Ltd	USD600mn	3-year	4.6%
22-May-19	Pingxiang Urban Construction Investment Developing Company Ltd	USD300mn	35-month	4.95%
22-May-19	Horse Gallop Finance Ltd	USD700mn	3-year	CT3+112.5bps
22-May-19	Soar Wise Ltd	USD450mn	3-year	CT3+132.5bps
22-May-19	Kaisa Group Holdings Ltd	USD400mn	3.67NC2 bond	11.625%
21-May-19	China Huadian Overseas Development Management Company Ltd	USD500mn	NC5-perpetual	4.0%
21-May-19	Lee & Man Paper Manufacturing Ltd	USD300mn	NC5-perpetual	5.5%
21-May-19	SDG FINANCE I LIMITED	USD100mn	NC3-perpetual	5.3%
21-May-19	Land Transport Authority of Singapore	SGD1.4bn	35-year	3.3%
17-May-19	Oceanwide Holdings International Development III Co., Ltd	USD134.97mn	2-year	14.5%

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