

Mar 25, 2019

Credit Headlines: Sabana Shari'ah Compliant Industrial REIT, Keppel Corp Ltd, Westpac Banking Corporation, First Real Estate Investment Trust

Market Commentary

- The SGD swap curve flattened last Friday, with the shorter tenors and belly trading little change while the longer tenors traded 1bps lower (exception: 12-year swap rate trading little change as well).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 135bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 455bps.
- Flows in SGD corporates were heavy, with bulk of the flows made up of HFCSP 4.2%'22s. Other SGD corporates were DBSSP 3.98%-PERPs and OCBCSP 4.0%-PERPs.
- 10Y UST yields plunged 10bps to close the session at 2.44%, on the back of soft data for US manufacturing and services sectors which further reaffirmed market sentiments on an economic slowdown, with a pullback seen across risky assets. Spread between yields on the 3-month and 10-year Treasury, which is used as an indicator of an impending recession, fell below zero for the first time since 2007. Spreads between the 2-10 year Treasury though has not inverted.

Credit Headlines

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

- In September 2018, SSREIT announced the proposed sale of 1 Tuas Avenue 4 to Kim Soon Lee (Lim) Heavy Transport Ltd for SGD11.18mn, 52% below book value of SGD23.3mn as at 30 June 2018. The proposed divestment was conditional on approvals from JTC Corporation (common for industrial property sale to require JTC approvals).
- However, the proposed sale has fallen through as the proposed buyer has not received the relevant approval from JTC and is not prepared to further extend the long stop date. No reason was given as to why JTC did not approve the transaction. 1 Tuas Avenue 4 is a vacant property and was in the midst of being redeveloped by the previous tenant.
- With the deal abandonment, it is yet unclear what SSREIT's plans are with regards to the property although SSREIT has previously stated it does not intend to fund the capital outlay to redevelop the property.
- As at 31 December 2018, SSREIT's aggregate leverage was 36.8%. While this is a credit negative, we are maintaining our issuer profile for SSREIT at Neutral (5) as a completed sale would have been an upside rather than factored into our base case.

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

- Reportedly KEP is considering to buy Shanghai Yi Fang Centre, a commercial building along the Bund in Shanghai for more than RMB4.0bn (~SGD805mn). It is yet unclear if this would be purchased directly by KEP and/or via a KEP-managed fund though we will continue monitoring.
- As at 31 December 2018, SGD2.7bn (representing 24% of KEP's non-current assets) were located in China, focusing on residential and commercial properties. (Bloomberg, OCBC)

Credit Headlines (cont'd)

Westpac Banking Corporation (“Westpac”) | Issuer Profile: Positive (2)

- Westpac has announced an additional AUD260mn provision for customer remediation programs that will be included in its 1H FY2019 results. 90% of the provisions relate to issues from prior financial years with half related to the financial advice business and the rest to business and consumer banking.
- Key remediation items include customer refunds related to on-going advice service fees and refunds for incorrect loan products for consumer and business customers. Including provisions from FY2017 and FY2018, total customer remediation provisions are now AUD659mn.
- Westpac have also indicated that the provisions exclude any allowance for customer refunds in relation to ongoing advice services fees (ie fees for no service) as this is still under determination.
- We estimate that the additional provisions may lower expected 1H2019 profit before tax by around 5%. While this amount is not too material and will not impact our Positive (2) issuer profile, it nevertheless highlights the ongoing profit pressures facing Australian banks from regulatory and compliance costs and customer remediation programs. (OCBC, Company)

First Real Estate Investment Trust (“FIRT”) | Issuer Profile: Negative (6)

- FIRT announced that it has updated its information memorandum to amend the definition of Change of Control Event (“CoC”). Currently, the CoC occurs when (1) there is a CoC of Bowsprit Capital Corporation (the REIT Manager of FIRT, “REIT Manager”) (2) REIT Manager is replaced by a new manager that is not controlled by PT Lippo Karawaci Tbk (“LK”) (3) a takeover offer for FIRT units (4) direct/indirect sale, transfer, conveyance or other disposition of all of the properties or assets of FIRT and its subsidiaries (5) liquidation or dissolution of FIRT.
- Following the amendment, a CoC occurs when (1) OUE Lippo Healthcare Limited (“OUE-LH”) ceases to own (directly or indirectly) at least 8% of FIRT’s units (2) OUE Limited ceases to own (directly or indirectly) an interest in at least 40% of shares in the REIT Manager. The rest of (3) to (5) remains the same.
- In our view, the amendment is to bring the CoC clause in line with the [change in ownership at FIRT and the REIT Manager](#). OUE Ltd (“OUE”) owns a 60%-stake in the REIT Manager while OUE-LH (OUE’s 64.4%-subsidiary) holds the remaining 40%-stake.
- Together with the stake in FIRT held by the REIT Manager and the stake in FIRT held by OUE-LH amounting to 10.6%, OUE now holds a 17.6% deemed ownership interest in FIRT. LK still holds a ~10.7%-stake in FIRT although there is a possibility for LK to sell this stake in the future, with OUE/OUE-LH being the natural buyer.
- Given the stronger credit profile of OUE (Issuer Profile of Neutral (4)), we see this as a credit positive for FIRT although there is no direct impact to the FIRTSP 5.68%-PERP as CoC only applies to notes issued on or after 22 March 2019 and not for perpetuals. For the avoidance of doubt, FIRT only has one perpetual outstanding, the FIRTSP 5.68%-PERP subordinated paper. FIRT has no other outstanding fixed income securities apart from this perpetual. (Company, OCBC)

Table 1: Key Financial Indicators

	25-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	72	7	3
iTraxx SovX APAC	47	-2	-7
iTraxx Japan	60	5	1
iTraxx Australia	76	9	7
CDX NA IG	68	11	8
CDX NA HY	106	0	0
iTraxx Eur Main	70	11	6
iTraxx Eur XO	283	17	1
iTraxx Eur Snr Fin	88	18	10
iTraxx Sovx WE	19	0	-3
AUD/USD	0.708	-0.31%	-1.19%
EUR/USD	1.130	-0.30%	-0.48%
USD/SGD	1.351	-0.01%	-0.12%
China 5Y CDS	49	4	0
Malaysia 5Y CDS	65	5	-2
Indonesia 5Y CDS	104	9	-1
Thailand 5Y CDS	46	3	0

	25-Mar	1W chg	1M chg
Brent Crude Spot (\$/bbl)	66.71	-1.23%	3.01%
Gold Spot (\$/oz)	1,316.43	0.98%	-0.84%
CRB	184.15	0.16%	1.32%
GSCI	434.17	-0.08%	3.24%
VIX	16.48	27.95%	10.98%
CT10 (bp)	2.435%	-16.79	-22.72
USD Swap Spread 10Y (bp)	-2	-4	-2
USD Swap Spread 30Y (bp)	-26	-4	-5
US Libor-OIS Spread (bp)	21	-2	-2
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,502	-1.34%	-2.26%
SPX	2,801	-0.77%	0.16%
MSCI Asiax	664	-0.10%	0.30%
HSI	28,617	-2.69%	-1.18%
STI	3,171	-1.31%	-3.10%
KLCI	1,651	-2.37%	-4.27%
JCI	6,422	-1.34%	-1.58%

New issues

- ESR Cayman Ltd has scheduled for investor meetings from 25 March for its potential bond issuance.
- Caiyun International Investment Ltd (guarantor: Yunnan Metropolitan Construction Investment Group Co Ltd) has scheduled investor meetings from 25 March for its potential USD bond issuance.

<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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