

May 8, 2019

Credit Headlines: Perennial Real Estate Holdings Ltd, Industry Outlook – Singapore Telecommunications, Hyflux Ltd

Market Commentary

- The SGD swap curve bull-flattened yesterday, with the shorter tenors trading within 1bps lower, while the belly and longer tenors traded 1-2bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 131bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 471bps.
- Flows in SGD corporates were heavy, with large flows from SOCGEN 6.125%-PERPs. The other flows seen were FPLSP 4.98%-PERPs, DBSSP 3.98%-PERPs, ESRCA 6.75% '22s, OCBCSP 4.0%-PERPs and UBS 5.875%-PERPs.
- 10Y UST yields dropped 1bps to 2.46%, as the renewed trade tensions between the US and China continued to spur safe haven demand and impact the global economic growth outlook.

Credit Headlines

Perennial Real Estate Holdings Ltd (“PREH”) | Issuer Profile: Neutral (5)

- Revenue rose 66.3% y/y to SGD24.9mn, mainly due to revenue from Capitol Singapore (consolidated since May 2018) and revenue contribution from Perennial International Health and Medical Hub (“PIHMH”) which started contributing in 2Q2018.
- However, reported EBIT fell 80.9% y/y to SGD4.7mn, mainly due to a fall in contribution from Singapore (-96.8% y/y to SGD0.7mn). This is largely due to the depreciation and staff costs from Capitol Kempinski Hotel which commenced operations in Oct 2018. We note depreciation has increased to SGD3.2mn (1Q2018: SGD0.2mn). Meanwhile, we note that Capitol Singapore (the mall) was still in the midst of repositioning in 1Q2019. As such, we think it is natural for expenses to run ahead at the initial phases while the hotel and the mall takes time to ramp up.
- In addition to the weaker reported EBIT, finance costs rose 76.8% y/y to SGD30.9mn as finance costs previously capitalised for construction of PIHMH were expensed off while Capitol Singapore’s debt were brought onto the balance sheet.
- Going forward, we think results may begin to stabilise as Capitol Singapore has total committed occupancy of 84% as of 31 Mar 2019 and is expected to achieve over 90% by 3Q2019. Gleneagles Chengdu Hospital will also commence operations at PIHMH in 2H2019. In addition, PREH has guided for a profitable 2Q2019 with the disposal of Perennial Chinatown Point LLP for SGD225mn (with SGD17.2mn to be booked as share of divestment gain).
- PREH announced that SGD119mn of loans have been refinanced, which leaves a still substantial near-term borrowings at SGD550.3mn. This is not sufficiently covered by cash of SGD68.7mn and SGD125.3mn net proceeds from sale of Chinatown Point. We understand that PREH is in the process of refinancing the bulk of the remainder. In the worst case scenario that refinancing cannot be obtained, there are assets which we think PREH could divest, if need be, such as AXA Tower. If PREH continues to hold AXA Tower, we understand the intention is to pursue redevelopment. We note that AXA’s floor area could potentially rise under the new masterplan to increase by ~46.5% under the Draft Master Plan 2019
- Net gearing increased to 75.5% (4Q2018: 72.7%), which is due to investments and shareholder’s loans extended to its JVs undertaking developments near China HSR. We continue to expect PREH to commit more for the JVs though the sale of Chinatown Point should cap net gearing levels below 90%. 1Q2019 results overall is very weak, with reported EBIT of SGD4.7mn unable to cover interest expense of SGD30.9mn. However, we understand that this is due to one-offs (core results should recover going forward). We may review PREH’s Issuer Profile if core results do not improve. For now, we continue to hold PREH at a Neutral (5) Issuer Profile, albeit precariously. (Company, OCBC)

Credit Headlines (cont'd)

Industry Outlook – Singapore Telecommunications

- Infocomm Media Development Authority (“IMDA”) has launched a public consultation for 5G, as IMDA intends to facilitate the rollout of 5G network from 2020 and to achieve 50% 5G network coverage islandwide by 2023.
- The rollout will be done through Call for Proposal regulatory process. Notably, this time round an airwave auction will not be conducted but there is the intention to assign 5G airwaves to two winning submissions. In turn, the winning submissions are expected to sell network services wholesale to other mobile operators not issued with the airwaves.
- While this could remove a potential bidding war for airwave, we note that costs to rollout 5G are expected to be high. We will continue to assess the impact on telco operators such as Singapore Telecommunications Ltd and StarHub Ltd. (IMDA)

Hyflux Ltd (“HYF”) | Issuer Profile: Unrated

- Following from [yesterday's update](#), HYF's on-going discussions with Utico FZC and other investors were used to support both (1) the dismissal of applications by HYF's unsecured lenders to place HYF into Judicial Management; and (2) an additional short term extension of the debt moratorium to 29 May 2019.
- As much as the High Court appears to have shown patience given the recent developments, the latitude given to HYF remains thin. The extension of the moratorium is insignificant while the dismissal of the unsecured lenders application does not preclude them from making another application should current discussions not lead to an outcome. (Company, OCBC)

Table 1: Key Financial Indicators

	8-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	69	5	2
iTraxx SovX APAC	45	3	1
iTraxx Japan	56	2	-1
iTraxx Australia	70	4	-1
CDX NA IG	61	2	1
CDX NA HY	107	0	0
iTraxx Eur Main	62	4	0
iTraxx Eur XO	267	17	6
iTraxx Eur Snr Fin	75	6	-1
iTraxx Sovx WE	17	0	-2
AUD/USD	0.702	0.07%	-1.50%
EUR/USD	1.120	0.01%	-0.59%
USD/SGD	1.362	-0.10%	-0.57%
China 5Y CDS	45	4	2
Malaysia 5Y CDS	61	6	4
Indonesia 5Y CDS	101	7	3
Thailand 5Y CDS	40	4	-2

	8-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	70.21	-2.73%	-1.25%
Gold Spot (\$/oz)	1,285.95	0.72%	-0.89%
CRB	179.49	-2.58%	-4.88%
GSCI	435.14	-2.53%	-3.61%
VIX	19.32	47.26%	46.59%
CT10 (bp)	2.464%	-3.61	-5.84
USD Swap Spread 10Y (bp)	-2	-1	0
USD Swap Spread 30Y (bp)	-24	-3	0
US Libor-OIS Spread (bp)	18	-1	0
Euro Libor-OIS Spread (bp)	6	0	0
DJIA	25,965	-2.36%	-1.43%
SPX	2,884	-2.10%	-0.40%
MSCI Asiax	664	-1.81%	-2.46%
HSI	28,987	-2.40%	-3.62%
STI	3,287	-3.33%	-0.86%
KLCI	1,630	-0.73%	-0.86%
JCI	6,297	-2.00%	-2.00%

New issues

- Car Inc has priced a USD172.3mn 3-year bond (subsidiary guarantors: certain of issuer's restricted subsidiaries incorporated outside the PRC) at 8.875%, in line with final guidance.
- Woori Financial Group Inc has priced a USD450mn 5-year FRN at 3-month US LIBOR+77bps, in line with final guidance.
- Qingdao Jiaozhou Bay Development Group Co Ltd has priced a USD80mn re-tap of its existing QDJZWD 6.5%'21s at 7.2%, in line with final guidance.
- Hyundai Capital Services Inc has scheduled investor meetings from 13 May for its potential bond issuance.
- CCB Financial Leasing Corp has mandated banks for its potential USD bond issuance.
- Trade and Developmental Bank of Mongolia LLC has scheduled investor meetings from 9 May for its potential USD bond issuance.
- The Government of the Hong Kong Special Administrative Region of the People's Republic of China has scheduled investor meetings from 10 May for its potential USD Green Bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
7-May-19	Car Inc	USD172.3mn	3-year	8.875%
7-May-19	Woori Financial Group Inc	USD450mn	5-year	3M-US LIBOR+77bps
7-May-19	Qingdao Jiaozhou Bay Development Group Co Ltd	USD80mn	QDJZWD 6.5%'21s	7.2%
2-May-19	Medco Oak Tree Pte Ltd	USD650mn	7NC4	7.70%
2-May-19	SD International Sukuk Ltd	USD300mn	3-year	6.30%
2-May-19	Alam Synergy Pte Ltd	USD125mn	ASRIIJ 6.625%'22s	95.176+accrued
29-Apr-19	Ronshine China Holdings Ltd	USD200mn	RONXIN 10.5%'22s	104.897+accrued
29-Apr-19	Mirae Asset Daewoo Co Ltd	USD300mn USD300mn	3-year 5-year	T3+95bps T5+112.5bps
29-Apr-19	Keppel Corp Ltd	SGD150mn SGD350mn	5-year 10-year	3.0% 3.66%
29-Apr-19	CDL Properties Ltd	SGD400mn	5-year	2.958%
26-Apr-19	Hanrui Overseas Investment Co Ltd	USD280mn	3-year	7.95%

Source: OCBC, Bloomberg

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