

Market Commentary

- The SGD swap curve fell last Friday, with the shorter and the belly tenors trading 2-4bps lower, while the longer tenors traded 4-5bps lower (with the exception of the 30-year trading 10bps lower).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 224bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 896bps. The HY-IG Index Spread tightened 4bps to 672bps.
- Flows in SGD corporates were heavy, with flows in MAPLSP 3.95%-PERPs, CS 5.625%-PERPs, SOCGEN 6.125%-PERPs, STHSP 3.95%-PERPs, HSBC 4.7%-PERPs, HSBC 5%-PERPs, MLTSP 3.65%-PERPs, SPHSP 4.5%-PERPs, ARASP 5.6%-PERPs, CAPLSP 3.15%'29s, MAPLSP 4.5%-PERPs, OCBCSP 4%-PERPs and OLAMSP 6%'22s.
- 10Y UST Yields fell 4bps to 0.65%, as President Trump announced the end of the U.S.' ties with the World Health Organisation (WHO) while on the other hand the President seemed to have kept the U.S.-China Phase 1 deal intact.

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Credit Summary:

- [First Real Estate Investment Trust \("FIRT"\)](#) | **Issuer Profile: Negative (6)**: PT Lippo Karawaci Tbk ("LK"), announced that as a result of the COVID-19 outbreak in Indonesia and its material negative impact on PT Siloam International Hospitals Tbk ("Siloam"), a ~55%-owned subsidiary of LK, LK will be initiating a restructuring process with FIRT with regards to the significant rental support that LK provides to FIRT. Per LK, the COVID-19 outbreak has led to a drastic decline in patient volumes across Indonesia with revenues at some Siloam hospitals down 40-50% y/y. This had been exacerbated by the significant decline in the IDR versus SGD since FIRT's IPO in December 2006 as LK bears the full foreign exchange risk under the master lease agreements that have been entered into with FIRT. While LK in its announcement today positioned its payments to FIRT as a rental support, in our view, similar to other property owners monetising property assets via REITs, LK was a key beneficiary of the IPO proceeds when it injected hospital assets into the FIRT structure.
- [Ascott Residence Trust \("ART"\)](#) | **Issuer Profile: Neutral (4)**: ART announced on 29 May 2020 that they will not be redeeming their SGD250mn ARTSP 4.68%-PERP on 30 June 2020, the first call date on the perpetual. While ART's credit profile had been hampered in our view, the company is far from being in a credit distress situation, making it the first issuer in the SGD space not in distress to miss the call. We think ART's decision was largely driven by cost savings and viewing the perpetuals as more "equity-like" in this environment. Based on 29 May 2020 swap rates, the ARTSP 4.68%-PERP may reset lower to 3.02%. With ART now setting a market precedent, our views on heightened risks of non-call of corporate perpetuals (including REIT perpetuals) is no longer theoretical. This is especially more so for issuances facing first call dates in the near term. Interest rates have rallied further since 10 March 2020 and are expected to stay low as implied by current forward rates.

Asian Credit Daily**Credit Headlines****First Real Estate Investment Trust (“FIRT”) | Issuer Profile: Negative (6)**

- PT Lippo Karawaci Tbk (“LK”), announced that as a result of the COVID-19 outbreak in Indonesia and its material negative impact on PT Siloam International Hospitals Tbk (“Siloam”), a ~55%-owned subsidiary of LK, LK will be initiating a restructuring process with FIRT with regards to the significant rental support that LK provides to FIRT.
- LK and its subsidiaries contributed ~83.3% of FIRT’s rental income in 2019. While LK is FIRT’s main tenant paying the rent, Siloam is the main operator of the hospital assets owned by FIRT.
- LK was the sole Sponsor of FIRT at time of IPO until 3Q2018 when [OUE Limited \(“OUE”, Issuer profile: Neutral \(5\)\)](#) became the other Sponsor of FIRT. While LK and OUE are two separately listed entities, OUE is ~69%-indirectly owned by Lippo ASM Asia Property Limited (“LAAPL”). In turn, Lippo Limited holds a ~94.3% profit share and a deemed 50%-voting rights of LAAPL.
- Per LK, the COVID-19 outbreak has led to a drastic decline in patient volumes across Indonesia with revenues at some Siloam hospitals down 40-50% y/y. This had been exacerbated by the significant decline in the IDR versus SGD since FIRT’s IPO in December 2006 as LK bears the full foreign exchange risk under the master lease agreements that have been entered into with FIRT.
- While LK in its announcement today positioned its payments to FIRT as a rental support, in our view, similar to other property owners monetising property assets via REITs, LK was a key beneficiary of the IPO proceeds when it injected hospital assets into the FIRT structure.
- It is worth noting that (1) At time of FIRT’s listing in 2006, Siloam was an unlisted entity owned by LK. The IPO at Siloam only happened in 2013, which saw LK’s shareholding in Siloam diluted (2) The hospital assets owned by FIRT are integral to the day-to-day operations of Siloam (and by definition, integral to LK too as LK is Siloam’s parent company), rather than third parties and (3) The first batch of master leases entered into between FIRT and LK comes due in 2021 and starting lease negotiations now is par for course in our view.
- In July 2016, we first [highlighted the triumvirate relationship](#) between LK, Siloam and FIRT and again in [January 2018 on the back of a further dilution](#) of LK’s stake in Siloam which may lead to higher uncertainties over future lease payment terms. We maintain [FIRT’s issuer profile at Negative \(6\)](#) and continue monitoring the situation. (OCBC, Business Times, Company)

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Credit Headlines

Ascott Residence Trust (“ART”) | Issuer Profile: Neutral (4)

- ART announced on 29 May 2020 that they will not be redeeming their SGD250mn ARTSP 4.68%-PERP on 30 June 2020, the first call date on the perpetual. While [ART’s credit profile had been hampered](#) in our view, the company is far from being in a credit distress situation, making it the first issuer in the SGD space not in distress to miss the call. We think ART’s decision was largely driven by cost savings and viewing the perpetuials as more “equity-like” in this environment.
- Per the company, it had taken into account the longer term interest of ART and the current macroeconomic environment. Among factors considered by ART included: (1) Softer demand for accommodation from the COVID-19 outbreak which is expected to adversely impact ART’s financial performance (2) Drawing down debt will increase leverage and the (3) Current market conditions is not favourable for the issuance of perpetual securities.
- Based on 29 May 2020 swap rates, the ARTSP 4.68%-PERP may reset lower to 3.02%. With ART now setting a market precedent, our views on heightened risks of non-call of corporate perpetuials (including REIT perpetuials) is no longer theoretical. This is especially more so for issuances facing first call dates in the near term. [Interest rates have rallied further since 10 March 2020](#) and are expected to stay low as implied by current forward rates. (Company, OCBC)

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Key Market Movements

	1-Jun	1W chg (bps)	1M chg (bps)		1-Jun	1W chg	1M chg
iTraxx Asiax IG	103	-4	-12	Brent Crude Spot (\$/bbl)	37.60	5.83%	42.21%
iTraxx SovX APAC	56	-2	-13	Gold Spot (\$/oz)	1,739.17	0.42%	2.28%
iTraxx Japan	70	-8	-9	CRB	132.24	1.32%	12.43%
iTraxx Australia	103	-5	-16	GSCI	307.08	3.07%	19.72%
CDX NA IG	78	-10	-12	VIX	27.51	-6.84%	-26.03%
CDX NA HY	98	2	4	CT10 (%)	0.653%	-0.65	4.08
iTraxx Eur Main	72	-7	-12				
iTraxx Eur XO	429	-50	-83	AUD/USD	0.672	2.73%	4.77%
iTraxx Eur Snr Fin	85	-9	-21	EUR/USD	1.114	2.20%	1.43%
iTraxx Eur Sub Fin	181	-19	-46	USD/SGD	1.408	1.21%	0.55%
iTraxx Sovx WE	23	-5	-6	AUD/SGD	0.947	-1.49%	-4.00%
USD Swap Spread 10Y	0	0	-1	ASX 200	5,793	3.15%	10.42%
USD Swap Spread 30Y	-47	-3	-2	DJIA	25,383	3.71%	6.99%
US Libor-OIS Spread	29	-3	-20	SPX	3,044	3.25%	7.55%
Euro Libor-OIS Spread	16	-3	-4	MSCI Asiax	601	2.01%	-0.78%
				HSI	23,718	3.33%	-3.76%
China 5Y CDS	57	6	7	STI	2,563	2.53%	-2.33%
Malaysia 5Y CDS	89	-6	-23	KLCI	1,488	2.50%	5.73%
Indonesia 5Y CDS	166	-10	-52	JCI	4,754	4.51%	0.79%
Thailand 5Y CDS	53	-1	-8	EU Stoxx 50	3,050	4.98%	4.18%
Australia 5Y CDS	29	0	1				

Source: Bloomberg

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New Issues

- Bank of Communications Co., Ltd. Hong Kong Branch priced a USD100mn 3-year bond at 3m-US LIBOR+75bps.
- Export-Import Bank of Korea priced a USD100mn 5-year bond at 1.3265%.
- Industrial & Commercial Bank of China Ltd. of Sydney priced a USD100mn 3-year bond at 3m-US LIBOR+60bps.
- Xiangtan Urban & Rural Development Group Co Ltd priced a USD105mn 3-year bond at 4%, tightening from IPT of 4.8% area.
- Hejun Shunze Investment Co., Limited (Guarantor: Sichuan Languang Development Co Ltd) priced a USD250mn 2-year bond at 11%, tightening from IPT of 11.875% area.
- Yinchuan Tonglian Capital Investment Operation Co., Ltd has arranged investor calls commencing 2 June for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
29-May-20	Bank of Communications Co., Ltd. Hong Kong Branch	USD100mn	3-year	3m-US LIBOR+75bps
29-May-20	Export-Import Bank of Korea	USD100mn	5-year	1.3265%
29-May-20	Industrial & Commercial Bank of China Ltd. of Sydney	USD100mn	3-year	3m-US LIBOR+60bps
29-May-20	Xiangtan Urban & Rural Development Group Co Ltd	USD105mn	3-year	4%
29-May-20	Hejun Shunze Investment Co., Limited (Guarantor: Sichuan Languang Development Co Ltd)	USD250mn	2-year	11%
28-May-20	Keppel Corporation Limited	USD300mn	5-year	T+210bps
28-May-20	Hongkong Ideal Investment Ltd. (Parent Guarantor: Beijing Hongkun Weiye Real Estate Development Co.)	USD55mn	BJHHWY 14.75%'22s	14.75%
28-May-20	Blue Bright Ltd. (Guarantor: AVIC Capital Co.)	USD400mn	5-year	T+225bps
28-May-20	Jiangsu Yueda Group Co.,Ltd	USD100mn	3-year	5.7%
27-May-20	National University of Singapore	SGD300mn	10-year	1.565%
27-May-20	Tencent Holdings Ltd	USD1bn USD2.25bn USD2bn USD750mn	5-year 10-year 30-year 40-year	T+145bps T+170bps T+180bps T+185bps

Source: OCBC, Bloomberg

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