

### Market Commentary

- The SGD swap curve steepened yesterday, with the shorter tenors trading 0-1bps lower (with the exception of the 3-year trading around 1bp higher) while the belly and the longer tenors traded 2-3bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 4bps to 204bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 30bps to 778bps. The HY-IG Index Spread tightened 26bps to 574bps.
- Flows in SGD corporates were heavy, with flows in CS 5.625%-PERPs, UBS 4.85%-PERPs, SOCGEN 6.125%-PERPs, UOBSP 3.58%-PERPs, STANLN 5.375%-PERPs, ABNANV 4.75%'26s, KITSP 4.75%-PERPs, ICICI 5.375%'28s and UBS 5.875%-PERPs.
- 10Y UST Yields fell 2bps to 0.88%, with no specific catalyst while the Fed sold USD44bn of 3-year notes with a higher than average bid-to-cover ratio of 2.55 times.

### Credit Research

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### Credit Summary:

- [Sembcorp Industries Ltd \(“SCI”\)](#) | Issuer Profile: **Neutral (5)** and [Sembcorp Marine Ltd \(“SMM”\)](#) | Issuer Profile: **Unrated**: SCI and SMM (currently 61%-owned by SCI) announced their proposed plans after its trading halt. Firstly, via a highly dilutive rights issue, SMM would raise SGD2.1bn of equity. Secondly, after the equity rights issue is completed, SCI would spin-off SMM to its own shareholders. From a credit perspective, we have viewed SMM as dragging SCI credit profile, as such we view the spin-off as a credit positive.
- [Perennial Real Estate Holdings Ltd \(“PREH”\)](#) | Issuer Profile: **Negative (6)**: PREH has secured SGD425mn in loan facilities with tenure of 2 years, for the purpose of refinancing and working capital needs. As of 31 Dec 2019, we note that SGD1.3bn of debt was due within 12 months. With SGD425mn loan facilities obtained, and over SGD600mn raised from recent divestments and refinancing exercises, the remaining debt balance is over SGD200mn. We continue to maintain PREH at a Negative (6) Issuer Profile and expect operating results to deteriorate due to COVID-19.
- [Cathay Pacific Airways Limited \(“CATHAY”\)](#) | Issuer Profile: **Unrated**, [Swire Pacific Ltd \(“Swire”\)](#) | Issuer Profile: **Unrated** and [Air China Ltd \(“Air China”\)](#) | Issuer Profile: **Unrated**: CATHAY and its two major shareholders Swire and Air China, have been put on trading halt pending an announcement. CATHAY may undergo a HKD40bn restructuring, with the Hong Kong government taking up HKD30bn in the form of loans and an undisclosed stake that may not come with voting rights.
- [Keppel Corporation Limited \(“KEP”\)](#) | Issuer Profile: **Neutral (4)**: KEP announced that its indirect wholly-owned indirect subsidiary Keppel FELS Limited (“Keppel FELS”) under KEP’s offshore and marine arm (“KOM”) had received a notice from Awilco Rig 1 Pte Ltd (wholly-owned subsidiary of Awilco Drilling Plc (“Awilco”)) purporting to terminate the ~USD425mn (~SGD591mn) construction contract for a mid-water semisubmersible drilling rig for harsh environment use.
- [Wesfarmers Limited \(“WESAU”\)](#) | Issuer Profile: **Neutral (3)**: WESAU disclosed an update on retail trading and actions being taken across the company in relation to the COVID-19 outbreak. Sales growth for its retail businesses for January to May 2020 was positive across all key segments with the exception of Target which saw sales declining by 1.8% y/y.

**Asian Credit Daily****Credit Headlines****Sembcorp Industries Ltd (“SCI”) | Issuer Profile: Neutral (5) and Sembcorp Marine Ltd (“SMM”) | Issuer Profile: Unrated**

- SCI and SMM (currently 61%-owned by SCI) announced their proposed plans after its trading halt. They are proposing a two-step deal:
  - **Step one:** Via a highly dilutive rights issue, SMM would raise SGD2.1bn of equity. Out of the SGD2.1bn, SCI would underwrite up to SGD1.5bn via a debt-to-equity swap. As a recap, in [June 2019, SCI had lent SGD1.5bn of debt to SMM](#) (with SCI itself raising that amount via bonds, which Temasek was a subscriber). Temasek (currently the single largest shareholder of SCI holding a ~49.3%-stake) would sub-underwrite the remaining of up to SGD600mn in the equity rights issue. Net-net there is no additional outlay required from SCI. Our base case assumes none of SMM’s current minority shareholders participate in the rights issue. Under this scenario, minority investors stake in SMM would be diluted from 39% to 6.5%, SCI’s stake in SMM would rise to 69.9% while Temasek will own 23.6%-stake in SMM.
  - **Step two:** After the equity rights issue is completed, SCI would spin-off SMM to its own shareholders via a dividend-in-specie. SCI would no longer own any stake in SMM after the dividend-in-specie. Temasek will emerge as the controlling shareholder of SMM holding 58%-stake, SCI’s minority shareholders would hold 35.4% in SMM while SMM’s existing minority shareholders would hold 6.5% (we assume SMM shareholders do not participate in the rights issue per Step One).
- From a credit perspective, we have viewed SMM as dragging SCI credit profile, as such we view the spin-off as a credit positive, especially as this removes debt reliance of SMM on SCI. On 5 June 2020, SMM announced that SGD6.0bn of banking facilities (excluding interest, amounts which have not been drawn down and the revolving credit facility, amounts in relation to early termination of foreign exchange hedging) may be affected by [occurrence of a Change of Control \(“COC”\)](#) where SCI ceases to be (or enters into any arrangement where it announces that it will cease to be) the majority shareholder of the company, where SCI ceases to own more than 50% of SMM. With the latest announcements from SCI and SMM, we think these banking facilities have been affected and negotiations would occur.
- Concurrently, assuming deal completion, there is no longer a need for SCI to fund the operations at SMM with SCI able to focus on its own growth and obligations instead. While the original loan facility provided by SCI to SMM was for SGD2.0bn, only SGD1.5bn had been lent out as at date of the announcements. The remaining SGD0.5bn of balance loan commitment would be cancelled. SCI’s 5 year bond, the SCISP 3.55% ‘24s priced in June 2019 is intended to remain an obligation of SCI. We currently have SCI’s issuer profile at Neutral (5) though reviewing it and monitoring for an upgrade. (Company, OCBC)

**Asian Credit Daily****Credit Headlines****Perennial Real Estate Holdings Ltd (“PREH”) | Issuer Profile: Negative (6)**

- PREH has secured SGD425mn in loan facilities with tenure of 2 years, for the purpose of refinancing and working capital needs.
- This comes on the back of several divestments and refinancing exercise that raises over SGD700mn in capital, including (1) sale of 21.2%-effective stake in AXA Tower which we estimate should free up ~SGD200mn in capital and shareholder loans to AXA Tower when completed (expected around June 2020), (2) [disposal of 30%-equity stake in 111 Somerset Road for SGD155.1mn \(net of debt\)](#) and (3) [securing of SGD250mn loan facility in Apr 2020 for the purpose of refinancing PREHSP 4.55% '20s](#).
- As of 31 Dec 2019, we note that SGD1.3bn of debt was due within 12 months. With SGD425mn loan facilities obtained, and over SGD600mn raised from recent divestments and refinancing exercises, the remaining debt balance is over SGD200mn. This is larger than SGD119.8mn cash as of 31 Dec 2019, though the shortfall looks much more manageable now.
- As such, PREH’s liquidity profile in the near-term is improved, though we expect operating results to deteriorate due to COVID-19. We continue to maintain PREH at a Negative (6) Issuer Profile. (Company, OCBC)

**Cathay Pacific Airways Limited (“CATHAY”) | Issuer Profile: Unrated, Swire Pacific Ltd (“Swire”) | Issuer Profile: Unrated and Air China Ltd (“Air China”) | Issuer Profile: Unrated**

- CATHAY, along with its two major shareholders Swire and Air China, have been put on trading halt pending an announcement. Swire and Air China currently own a 45% and 29.99%-stake in CATHAY respectively.
- The media has reported that CATHAY may undergo a HKD40bn restructuring, with the Hong Kong government taking up HKD30bn in the form of loans and an undisclosed stake that may not come with voting rights. It is unprecedented in HKSAR for the government to take up stakes in a private companies. (South China Morning Post, Company)

**Keppel Corporation Limited (“KEP”) | Issuer Profile: Neutral (4)**

- KEP announced that its indirect wholly-owned indirect subsidiary Keppel FELS Limited (“Keppel FELS”) under KEP’s offshore and marine arm (“KOM”) had received a notice from Awilco Rig 1 Pte Ltd (wholly-owned subsidiary of Awilco Drilling Plc (“Awilco”)) purporting to terminate the ~USD425mn (~SGD591mn) construction contract for a mid-water semisubmersible drilling rig for harsh environment use. Awilco is alleging breaches relating to the project management, schedule, resourcing and compliance.
- Keppel FELS denies the allegations by Awilco and has rejected the purported termination of the contract. Keppel FELS is currently considering its legal options and evaluating potential financial impact.
- This announcement comes on the back of KEP’s announcement that KOM has entered into a [Framework Deed with Borr Drilling Limited \(“Borr”\)](#) and certain of Borr’s subsidiaries where KOM has agreed to defer the scheduled delivery of five jackup rigs to Borr to 2022. We continue maintaining our Neutral (4) issuer profile on KEP, albeit with a cautious outlook. (Company, OCBC)

## Asian Credit Daily

### Credit Headlines

#### **Wesfarmers Limited (“WESAU”) | Issuer Profile: Neutral (3)**

- WESAU disclosed an update on retail trading and actions being taken across the company in relation to the COVID-19 outbreak.
- Sales growth for its retail businesses for January to May 2020 was positive across all key segments with the exception of Target which saw sales declining by 1.8% y/y.
- Bunnings and Officeworks reported sales growth of 19.2% y/y and 27.8% y/y respectively while Kmart the discount department store grew by 4.1% y/y. Catch, the online arm saw gross transaction value grow 68.7% y/y.
- For Bunnings, sales performance was supported by growth in both consumer and commercial markets across its major trading regions in all product categories.
- In Kmart, higher demand was seen in home and living categories while demand at Target has also improved in recent weeks, driven by sales of apparel (change in season).
- For Officeworks, strong sales was driven by demand for technology, home office furniture, learning and education products. (Company, OCBC)

### Key Market Movements

	9-Jun	1W chg (bps)	1M chg (bps)		9-Jun	1W chg	1M chg
iTraxx Asiax IG	81	-17	-36	<b>Brent Crude Spot (\$/bbl)</b>	41.08	3.82%	32.64%
iTraxx SovX APAC	41	-11	-25	<b>Gold Spot (\$/oz)</b>	1,695.25	-1.88%	-0.16%
iTraxx Japan	57	-11	-21	<b>CRB</b>	137.50	3.90%	10.23%
iTraxx Australia	82	-16	-36	<b>GSCI</b>	321.63	2.87%	15.64%
CDX NA IG	67	-9	-26	<b>VIX</b>	25.81	-8.57%	-7.76%
CDX NA HY	103	3	9	<b>CT10 (%)</b>	0.849%	16.34	16.55
iTraxx Eur Main	61	-6	-23				
iTraxx Eur XO	341	-44	-165	<b>AUD/USD</b>	0.698	1.13%	7.49%
iTraxx Eur Snr Fin	70	-8	-34	<b>EUR/USD</b>	1.129	1.07%	4.47%
iTraxx Eur Sub Fin	154	-15	-70	<b>USD/SGD</b>	1.390	0.75%	1.95%
iTraxx Sovx WE	18	-3	-12	<b>AUD/SGD</b>	0.970	-0.41%	-5.16%
<b>USD Swap Spread 10Y</b>	-2	-1	4	<b>ASX 200</b>	6,145	5.60%	13.98%
<b>USD Swap Spread 30Y</b>	-48	1	3	<b>DJIA</b>	27,572	8.23%	13.32%
<b>US Libor-OIS Spread</b>	23	-4	-15	<b>SPX</b>	3,232	5.78%	10.33%
<b>Euro Libor-OIS Spread</b>	12	-2	-11	<b>MSCI Asiax</b>	648	3.87%	7.58%
				<b>HSI</b>	25,218	5.09%	4.08%
<b>China 5Y CDS</b>	44	-8	-5	<b>STI</b>	2,834	8.52%	9.35%
<b>Malaysia 5Y CDS</b>	64	-18	-41	<b>KLCI</b>	1,580	6.00%	14.27%
<b>Indonesia 5Y CDS</b>	110	-36	-96	<b>JCI</b>	5,082	4.84%	10.54%
<b>Thailand 5Y CDS</b>	38	-13	-24	<b>EU Stoxx 50</b>	3,366	9.37%	15.76%
<b>Australia 5Y CDS</b>	26	-2	-2				

Source: Bloomberg

## Asian Credit Daily

### New Issues

- Korea Electric Power Corporation priced a USD500mn 5-year green bond at T+75bps, tightening from IPT of T+120bps area.
- Central China Real Estate Limited priced a USD400mn 3.2NC2.2 bond at 7.8%, tightening from IPT of 8.35% area.
- Greenland Global Investment Ltd (Guarantor: Greenland Holding Group Co. Ltd) priced a USD500mn 2.5NP1.5 bond at 6.45%, tightening from IPT of 7% area.
- Champion MTN Ltd. (Guarantor: Champion Real Estate Investment Trust) priced a USD300mn 10-year bond at T+220bps, tightening from IPT of T+260bps area.

Date	Issuer	Size	Tenor	Pricing
08-Jun-20	Korea Electric Power Corporation	USD500mn	5-year	T+75bps
08-Jun-20	Central China Real Estate Limited	USD400mn	3.2NC2.2	7.8%
08-Jun-20	Greenland Global Investment Ltd (Guarantor: Greenland Holding Group Co. Ltd)	USD500mn	2.5NP1.5	6.45%
08-Jun-20	Champion MTN Ltd. (Guarantor: Champion Real Estate Investment Trust)	USD300mn	10-year	T+220bps
05-Jun-20	Malayan Banking Berhad	USD200mn	40NC5	0%
04-Jun-20	Zhenro Properties Group Limited	USD200mn	3.25NC2.25	8.3%
04-Jun-20	Amber Treasure Ventures Limited (Guarantor: Nan Hai Corporation Limited)	USD350mn	2NC1	2.9%
04-Jun-20	Seazen Group Limited	USD400mn	2-year	6.45%
04-Jun-20	PTTEP Treasury Center Co. (Guarantor: PTT Exploration and Production Public Co.)	USD500mn	7-year	T+195bps
04-Jun-20	Henderson Land MTN Limited (Guarantor: Henderson Land Development Co Ltd)	USD200mn	HENLND 2.375%'25s	2.375%
04-Jun-20	The Export-Import Bank of China	USD150mn	3-year	0.9%
03-Jun-20	Singtel Group Treasury Pte Ltd (Guarantor: Singapore Telecommunications Ltd.)	USD750mn	10-year	T+123bps

Source: OCBC, Bloomberg

# Treasury Research & Strategy

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## Macro Research

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