

Market Commentary

- The SGD swap curve mostly fell yesterday, with the shorter tenors trading 0.5-1bps lower, while the belly and the longer tenors traded 2-3.5bps lower (with the exception of the 20-year and 30-year tenors trading 0.5bps and 1.5bps higher respectively).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 262bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 973bps. The HY-IG Index Spread widened 4bps to 710bps.
- Flows in SGD corporates were heavy yesterday, with flows seen in SOCGEN 6.125%-PERPs, MAPLSP 3.15%'31s, STANLN 4.4%'26s, SOCGEN 4.3%'26s and HSBC 5%-PERPs.
- 10Y UST Yields fell marginally by 0.4bps to 0.63% at the end of the day despite the U.S. indices rallying with Nasdaq up 1.66%, as U.S. weekly unemployment numbers were released and U.S. housing numbers were worse than expected. However, President Trump said that he will announce new guidelines on reopening the U.S. economy.

Credit Summary:

- [Perennial Real Estate Holdings Ltd \("PREH"\)](#) | **Issuer Profile: Negative (6)**: PREH announced that it has disposed its 30%-equity stake in 111 Somerset Road for SGD155.1mn (net of debt) to Shun Tak Holdings Ltd which holds the other 70%-stake. While the asset disposal and refinancing to date are credit positive, we think more will need to be done. We estimate that another ~SGD800mn of debt remains due in the next 12 months which exceeds ~SGD100mn cash on the balance sheet while PREH has been generating negative operating cashflow.
- **Industry Update – SREITs**: SREITs have been given more time by the tax authority IRAS to distribute at least 90% of their taxable income earned this FY2020 to qualify for tax exemption. This gives the SREITs the option to temporarily suspend dividend payout and build up its cash. We see this as credit positive because SREITs, which typically distribute bulk of their income to unitholders and have lower cash reserves as a result, will have more flexibility to manage their cash flows. Along with this announcement, MAS is raising the leverage limit for SREITs from 45% to 50% with immediate effect. MAS is also giving the SREITs further flexibility by deferring the implementation of a new minimum interest coverage ratio requirement of 2.5 times before they are allowed to increase their leverage to beyond the prevailing 45% limit to 1 Jan 2022. Broadly, we expect aggregate leverage to creep up and settle at a new norm. The greater capital structure flexibility also signals higher credit risk for REITs as sector.

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

- PREH announced that it has disposed its 30%-equity stake in 111 Somerset Road for SGD155.1mn (net of debt) to Shun Tak Holdings Ltd which holds the other 70%-stake.
- The expected gain on disposal is approximately SGD25mn.
- While the asset disposal and refinancing to date are credit positive, we think more will need to be done. We estimate that another ~SGD800mn of debt remains due in the next 12 months which exceeds ~SGD100mn cash on the balance sheet while PREH has been generating negative operating cashflow. As such, we continue to hold PREH at a Negative (6) Issuer Profile for now. (Company, OCBC)

Industry Update – SREITs

- SREITs have been given more time by the tax authority IRAS to distribute at least 90% of their taxable income earned this FY2020 to qualify for tax exemption. Specifically, for the taxable income that is derived by an SREIT during FY2020, the SREIT will have up to 31 March 2021 if FY2020 ended on 31 March 2020 and 31 December 2021 if FY2020 ended on 31 December 2020 to distribute up to 90% of it to unitholders.
- This gives the SREITs the option to temporarily suspend dividend payout and build up its cash. We see this as credit positive because SREITs, which typically distribute bulk of their income to unitholders and have lower cash reserves as a result, will have more flexibility to manage their cash flows.
- Along with this announcement, MAS is raising the leverage limit for SREITs from 45% to 50% with immediate effect. This provides SREITs greater flexibility to manage their capital structure and to raise debt financing. MAS is also giving the SREITs further flexibility by deferring the implementation of a new minimum interest coverage ratio requirement of 2.5 times before they are allowed to increase their leverage to beyond the prevailing 45% limit (up to 50%) to 1 Jan 2022. We have previously written [a piece last year to address this potential change](#). Broadly, we expect aggregate leverage to creep up and settle at a new norm. The greater capital structure flexibility also signals higher credit risk for REITs as sector.
- While emphasized in the piece that REIT managers can be expected to practise financial discipline to maintain the trust of its investors’ and investors’ trust in the sector, we note that the piece was written pre-COVID-19 and the changes introduced by MAS and IRAS also serve as measures to help REITs navigate the operating challenges they are currently going through. (MAS, IRAS, OCBC)

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Key Market Movements

	17-Apr	1W chg (bps)	1M chg (bps)		17-Apr	1W chg	1M chg
iTraxx Asiax IG	120	-7	-21	Brent Crude Spot (\$/bbl)	28.56	-9.28%	-0.59%
iTraxx SovX APAC	66	-2	-18	Gold Spot (\$/oz)	1,708.55	0.70%	11.79%
iTraxx Japan	85	-2	-45	CRB	123.63	-4.31%	-5.11%
iTraxx Australia	120	-16	-44	GSCI	270.66	-2.32%	-1.17%
CDX NA IG	88	6	-36	VIX	40.11	-7.47%	-47.16%
CDX NA HY	96	-3	1	CT10 (%)	0.688%	-3.09	-39.02
iTraxx Eur Main	85	6	-33				
iTraxx Eur XO	495	28	-118	AUD/USD	0.638	0.44%	6.28%
iTraxx Eur Snr Fin	104	11	-39	EUR/USD	1.087	-0.60%	-1.15%
iTraxx Eur Sub Fin	229	17	-78	USD/SGD	1.422	-0.64%	0.51%
iTraxx Sovx WE	32	4	-6	AUD/SGD	0.907	-1.00%	-5.47%
USD Swap Spread 10Y	7	-1	16	ASX 200	5,546	6.52%	4.78%
USD Swap Spread 30Y	-37	-2	29	DJIA	23,538	0.44%	10.83%
US Libor-OIS Spread	106	-9	13	SPX	2,800	1.80%	10.69%
Euro Libor-OIS Spread	21	-3	11	MSCI Asiax	586	0.71%	7.46%
				HSI	24,477	2.11%	5.21%
China 5Y CDS	44	3	-31	STI	2,661	3.49%	8.42%
Malaysia 5Y CDS	103	7	-61	KLCI	1,404	3.42%	11.73%
Indonesia 5Y CDS	205	4	-6	JCI	4,481	-3.62%	0.54%
Thailand 5Y CDS	71	-8	-16	EU Stoxx 50	2,812	-1.59%	11.14%
Australia 5Y CDS	31	-4	-17				

Source: Bloomberg

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New Issues

- Sunny Express Enterprises Corp. (Guarantor: China National Travel Service Group Corporation Limited) priced a USD300mn 5-year bond at T+230bps, and a USD600mn 10-year bond at T+255bps, tightening from IPT of T+280bps and T+295bps area respectively.

Date	Issuer	Size	Tenor	Pricing
16-Apr-20	Sunny Express Enterprises Corp. (Guarantor: China National Travel Service Group Corporation Limited)	USD300mn USD600mn	5-year 10-year	T+230bps T+255bps
15-Apr-20	Kingdom of Saudi Arabia	USD2.5bn USD1.5bn USD3.9bn	5.5-year 10.5-year 40-year	T+260bps T+270bps T+327bps
14-Apr-20	Petronas	USD2.25bn USD2.75bn USD1bn	10-year 30-year 40-year	T+290bps 4.55% 4.8%
14-Apr-20	Sumcowry Co. Ltd	USD200mn	3-year	2.69%
13-Apr-20	Keppel Corp Ltd	SGD250mn	5-year	2.25%
07-Apr-20	Qatar	USD2bn USD3bn USD5bn	5-year 10-year 30-year	T+300bps T+305bps 4.4%
07-Apr-20	Korea Development Bank	USD500mn	3-year	3m-US LIBOR+145bps
06-Apr-20	Republic of Indonesia	USD1.65bn USD1.65bn USD1bn	10.5-year 30.5-year 50-year	3.9% 4.25% 4.5%
06-Apr-20	Mitsubishi UFJ Lease & Finance Co Ltd	USD450mn USD350mn	5-year 10-year	3m-US LIBOR+320bps 3m-US LIBOR+330bps
01-Apr-20	Baidu Inc	USD600mn USD400mn	5-year 10-year	T+275bps T+285bps
31-Mar-20	Guizhou Shuanglong Airport Development & Investment (Group) Co. Ltd.	USD26mn	2-year 354-day	4%
31-Mar-20	AIA Group Limited	USD1bn	10-year	T+275bps
26-Mar-20	State Bank of India of London	USD100mn	2-year	3m-US LIBOR+80bps

Source: OCBC, Bloomberg

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