

Market Commentary

- The SGD swap curve bull flattened yesterday, with the shorter and belly tenors trading 2-4bps lower while the longer tenors traded 5-7bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 197bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 754bps. The HY-IG Index Spread widened 3bps to 557bps.
- Flows in SGD corporates were heavy, with flows in NTUCSP 3.1%'50s, HSBC 5%-PERPs, TMGSP 4.05%'25s, OLAMSP 6%'22s, SINTEC 4.1%-PERPs, STANLN 5.375%-PERPs, OLAMSP 5.5%-PERPs, FPLSP 3.95%-PERPs, METRO 4%'21s and NOLSP 4.65%'20s.
- 10Y UST Yields fell 1bp to 0.62% due to concerns that further recovery in the US economy would be stymied by new economic shutdowns.

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Credit Summary:

- [OUE Limited \("OUE"\)](#) | **Issuer Profile: Neutral (5):** OUE's indirect wholly-owned subsidiary Beringa Capital has entered into a sale and purchase agreement for the sale of US Bank Tower to USBT Property Owner LP (as purchaser) for a purchase consideration of USD430mn (~SGD597.7mn), which is ~34% lower versus its last appraised value as at 31 December 2019. The sale allows the company to recycle capital and allows the company to reduce net gearing.
- [Keppel Corporation Ltd \("KEP"\)](#) | **Issuer Profile: Neutral (4) and [KrisEnergy Ltd \("KrisEnergy"\)](#) | Issuer Profile: Unrated:** KEP's 40%-owned associate KrisEnergy is undergoing a debt restructuring. KrisEnergy's proposal mainly comprises a debt-to-equity swap. Unsecured SGD-bonds (the KRISSP 4.0% '22s and KRISSP 4.0% '23s), unsecured term loans and other unsecured creditors are proposed to be fully equitized into 35% of post-restructuring equity while existing shareholders are proposed to be diluted to 7.5% of post-restructuring equity. In our view, the key valid argument is the allocation of the 7.5% for existing shareholders of KrisEnergy as existing shareholders rank below the unsecured bondholders. In our view, KEP's credit profile may weaken further within the next 12 months. Other than KrisEnergy (which is held under KEP's Investment Division), Floatel International Ltd, an associate in the Offshore & Marine division is also under debt restructuring.
- [Westpac Banking Corporation \("WSTP"\)](#) | **Issuer Profile: Positive (2):** Westpac is facing a class action lawsuit with regards to commissions paid to auto dealers to incentivize them to offer high interest loans. Westpac also released today a report on its reassessment of its culture, governance and accountability remediation plan, stating that certain aspects of Westpac's financial risk culture are immature and reactive and shortcomings in Westpac's three lines of defence require further changes. As a result, Westpac is commencing on a new change program named "Customer Outcomes and Risk Excellence (CORE)".

Asian Credit Daily**Credit Headlines****OUE Limited ("OUE") | Issuer Profile: Neutral (5)**

- Since January 2019, OUE had commenced the marketing of US Bank Tower, a 72-storey Class A property located in Los Angeles. OUE's indirect wholly-owned subsidiary Beringa Capital has entered into a sale and purchase agreement for the sale of US Bank Tower to USBT Property Owner LP (as purchaser) for a purchase consideration of USD430mn (~SGD597.7mn). The property was bought by Beringa Capital in June 2013 for USD367.5mn (~SGD459.4mn) and reportedly OUE had spent USD50mn-100mn (~SGD62.5-125mn, using the exchange rate in June 2013) on renovations. The ultimate beneficial owner of USBT Property Owner LP was undisclosed though in June 2020 it was reported that Silverstein Properties, an unlisted property group based in New York City, was in discussions to buy the US Bank Tower.
- However, as at 31 December 2019, the property had an appraised value of USD650mn (~SGD881.3mn), which means that the property is sold at ~34% lower versus its last appraised value. The price tag was also significantly lower than market expectations in January 2019 of more than USD700mn (~SGD975mn).
- The company disclosed that one reason for the lower valuation is due the outbreak of COVID-19 which had affected occupancy and rental income from the property. However, the sale allows the company to recycle capital and allows the company to reduce net gearing.
- Excluding borrowings at 48%-owned OUE Commercial Trust ("OUE-CT") and ~64%-owned OUE Lippo Healthcare Ltd ("OUE-LH"), as at 31 March 2020, OUE had SGD641mn of borrowings due in 2020. In April 2020, the company had redeemed SGD300mn of bonds while it was in the midst of refinancing SGD264mn of bank loan. We expect the proceeds to be used to partly pay down debt, fund a mixed development it has in Jakarta, targeted to complete in 2026 and fund rental support to its investment properties held by OUE-CT.
- The company continues to have low recurring income, with its credit profile buffered by its assets.
- Separately, OUE-CT announced that it decline to exercise its first right of refusal on the US Bank Tower property as based on the proposed terms, it would not be accretive to OUE-CT's distribution per unit. (Los Angeles Business Journal, Company, OCBC)

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Credit Headlines

Keppel Corporation Ltd (“KEP”) | Issuer Profile: Neutral (4) and KrisEnergy Ltd (“KrisEnergy”) | Issuer Profile: Unrated

- KEP’s 40%-owned associate KrisEnergy is undergoing a debt restructuring. In June 2020, KrisEnergy [disclosed updates from its second informal investor meeting](#).
- Reportedly, KrisEnergy’s unsecured bondholders are opposing the disproportionate allocation for the largest shareholder (ie: KEP) and are uniting to push for a better deal.
- KrisEnergy’s proposal mainly comprises a debt-to-equity swap. In addition to being the largest shareholder of KrisEnergy, KEP is a major holder of the KRISSP 0% ‘24s. The total amount outstanding of this zero coupon bond is SGD139.5mn. 55% of the amount outstanding is proposed to be extended by around one year to December 2025 while the remaining 45% is proposed to be converted into 57.5% of post-restructuring equity.
- Unsecured SGD-bonds (the KRISSP 4.0% ‘22s and KRISSP 4.0% ‘23s), unsecured term loans and other unsecured creditors is proposed to be fully equitized into 35% of post-restructuring equity while existing shareholders are proposed to be diluted to 7.5% of post-restructuring equity.
- Unlike the unsecured bonds, the KRISSP 0% ‘24s has a second ranking security package over KrisEnergy assets and first ranking security over the shares and certain accounts of SJ Production Barge Ltd (a wholly-owned subsidiary of KrisEnergy).
- While it is beyond us to opine whether the specific percentage split is fair under this proposal, under a liquidation scenario, priority of ranking would allow secured creditors to be compensated first from the liquidated assets, before other classes of creditors. Given that the proposal contemplates a large equitization even for holders of the KRISSP 0% ‘24s, it is unlikely that liquidated assets is sufficient to fully cover secured creditors.
- KEP also has an economic exposure amounting to SGD274.3mn from an agreement entered into between KEP and a bank lender of KrisEnergy that encouraged the bank lender to continue providing KrisEnergy with a revolving credit facility (“RCF”). KEP may be required to make-whole the bank lender under this agreement though benefit from interest income. Additionally on 30 April 2020, KrisEnergy (via two of its indirect subsidiaries) have entered into a credit facility agreement with Kepinvest Singapore Pte. Ltd. (“Kepinvest”, a subsidiary of KEP) as lender where Kepinvest has agreed to grant a project financing loan of up to USD87mn (~SGD124mn) at 15% p.a that is intended to fund the development of an offshore oil and gas asset located in the Khmer Basin. Failure to complete first oil production by 31 December 2020 could lead to termination of the concession rights.
 - With external financing access crimped, it is arguable whether KrisEnergy would still be able to operate as an on-going concern without KEP assuming the economic exposure of the RCF and recent funding from KEP.
- In our view, the key valid argument is the allocation of the 7.5% for existing shareholders of KrisEnergy as existing shareholders rank below the unsecured bondholders.
- We maintain KEP’s issuer profile at Neutral (4), albeit precariously. In our view, KEP’s credit profile may weaken further within the next 12 months. Other than KrisEnergy (which is held under KEP’s Investment Division), Floatel International Ltd, an associate in the Offshore & Marine division is also under debt restructuring. (Business Times, Company, OCBC)

Asian Credit Daily

Credit Headlines

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

- Westpac is facing a class action lawsuit with regards to commissions paid to auto dealers to incentivize them to offer high interest loans. These commissions were banned by the Australian Securities and Investments Commission in 2018. There appears no mention of quantum and no statement of claim has been served as yet.
- Separately, [Westpac released today a report](#) on its reassessment of its culture, governance and accountability remediation plan (CGA reassessment). The report was initiated following AUSTRAC’s statement of claim for alleged systemic breaches under the Anti-Money Laundering and Counter-Terrorism Financing Act and is a follow up to its first CGA reassessment In November 2018 following the Royal Commission on misconduct in the Banking industry.
- The report’s main conclusion is that certain aspects of Westpac’s financial risk culture are immature and reactive and shortcomings in Westpac’s three lines of defence require further changes. As a result, Westpac is commencing on a new change program named “Customer Outcomes and Risk Excellence (CORE)”.
- These developments highlight the ongoing influence of compliance and regulatory initiatives on place prior to the COVID-19 outbreak, which will add to management’s tasks in dealing with the operating environment ahead. (Company, Bloomberg, OCBC)

Key Market Movements

	17-Jul	1W chg (bps)	1M chg (bps)		17-Jul	1W chg	1M chg
iTraxx Asiax IG	79	-2	-5	Brent Crude Spot (\$/bbl)	43.41	0.39%	6.63%
iTraxx SovX APAC	44	0	-1	Gold Spot (\$/oz)	1,798.84	0.01%	4.16%
iTraxx Japan	60	-2	4	CRB	140.82	0.26%	3.25%
iTraxx Australia	81	-2	-4	GSCI	338.30	1.33%	5.18%
CDX NA IG	73	-1	1	VIX	28	-4.31%	-16.34%
CDX NA HY	101	1	-1	CT10 (%)	0.620%	-2.63	-11.96
iTraxx Eur Main	62	-2	-3				
iTraxx Eur XO	367	-10	-5	AUD/USD	0.698	0.39%	1.35%
iTraxx Eur Snr Fin	71	-6	-3	EUR/USD	1.139	0.81%	1.31%
iTraxx Eur Sub Fin	146	-13	-12	USD/SGD	1.392	-0.06%	0.11%
iTraxx Sovx WE	20	2	1	AUD/SGD	0.971	-0.47%	-1.23%
USD Swap Spread 10Y	-2	0	1	ASX 200	6,040	2.05%	0.81%
USD Swap Spread 30Y	-46	0	5	DJIA	26,735	4.00%	2.35%
US Libor-OIS Spread	20	1	-3	SPX	3,216	2.02%	3.28%
Euro Libor-OIS Spread	3	0	-6	MSCI Asiax	680	-2.60%	5.53%
				HSI	24,971	-4.73%	2.00%
China 5Y CDS	45	-1	-5	STI	2,624	-1.72%	-1.72%
Malaysia 5Y CDS	65	-2	-4	KLCI	1,573	-0.63%	3.08%
Indonesia 5Y CDS	128	2	7	JCI	5,098	0.90%	2.22%
Thailand 5Y CDS	43	-1	-1	EU Stoxx 50	3,365	3.19%	3.00%

Source: Bloomberg

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New Issues

- Globe Telecom Inc priced a USD300mn 10-year bond at T+190bps, tightening from IPT of T+230bps area and another USD300mn 15-year bond at T+245bps, tightening from IPT of T+280bps area respectively.
- Redsun Properties Group Limited priced a USD155mn re-tap of its REDSUN 9.7%'23s at 10.2%, tightening from IPT of 10.6% area.
- DoubleDragon has mandated banks for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
16-Jul-20	Globe Telecom Inc	USD300mn USD300mn	10-year 15-year	T+190bps T+245bps
16-Jul-20	Redsun Properties Group Limited	USD155mn	REDSUN 9.7%'23s	10.2%
15-Jul-20	Greenland Global Investment Ltd. (Guarantor: Greenland Holding Group Co.)	USD400mn USD250mn	2.75-year 4.5-year	6.45% 7.5%
15-Jul-20	Goodman HK Finance (Guarantors: Goodman Hong Kong Logistics Fund and Goodman HK Investments)	USD300mn	10-year	T+240bps
14-Jul-20	Skyfame International Holdings Limited (Guarantor: Skyfame Realty (Holdings) Limited)	USD87.5mn	364-day	13%
14-Jul-20	Doosan Infracore Co., Ltd. (Guarantor: The Korea Development Bank)	USD300mn	3-year	T+87.5bps
14-Jul-20	CCBL (Cayman) 1 Corporation Limited (Guarantor: CCB Leasing (International) Corporation Designated Activity Company)	USD500mn	5-year	CT5+175bps
14-Jul-20	Yun-Top International Investment Co. (BVI) Ltd. (Guarantor: Yunnan Construction and Investment Holding Group Co.)	USD500mn	3-year	5.1%
14-Jul-20	Melco Resorts Finance Limited	USD500mn	8NC3	5.75%
13-Jul-20	VLL International Inc. (Guarantor: Vista Land & Lifescapes Inc.)	USD200mn	7NC4	7.25%
13-Jul-20	Bank of Communications Co., Ltd. Hong Kong Branch	USD650mn USD400mn	3-year 5-year	3m-US LIBOR+80bps 3m-US LIBOR+90bps
13-Jul-20	RongXingDa Development (BVI) Limited (Guarantor: RiseSun Real Estate Development Co., Ltd.)	USD250mn	364-day	9.25%
13-Jul-20	NongHyup Bank	USD500mn	5-year	T+100bps

Source: OCBC, Bloomberg

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