

Market Commentary

- The SGD swap curve bull-flattened yesterday, with the shorter and belly tenors trading 2-3bps lower while the longer tenors traded 4bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 118bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 17bps to 465bps. The HY-IG Index Spread widened 16bps to 347bps.
- Flows in SGD corporates were heavy, with flows in SLHSP 3.5%'30s, CATHAY 3.375%-23s, TMGSP 4.05%'25s, HRINTH 3.8%'25s, SOCGEN 6.125%-PERPs, SLHSP 3.5%'30s, SPHSP 3.2%'30s, STANLN 5.375%-PERPs, CAPLSP 3.65%-PERPs and CS 5.625%-PERPs.
- 10Y UST Yields fell 4bps to 1.73%, due to concerns on the outbreak of Wuhan coronavirus which has killed 18 people.

Credit Research

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Credit Summary:

- [Keppel Corp Ltd \("KEP"\)](#) | **Issuer Profile: Neutral (4)**: KEP announced its 4Q2019 results. Overall revenue for 4Q2019 increased 31.1% y/y. For full year 2019, KEP reported recurring income of SGD260mn against SGD232mn in 2018. As at 31 December 2019, unadjusted net gearing was 0.85x, slightly lower than the 0.88x as at 30 September 2019 and almost doubling from 0.48x from end-2018, mainly due to the acquisition funding of M1 Ltd. KEP had also announced that its subsidiary M1 Ltd is partnering with Starhub to jointly bid for 5G license in the Singapore market. Temasek has announced a conditional partial take-over offer for KEP which could see Temasek being the majority shareholder of KEP holding a ~52%-stake in the company.
- [Frasers Hospitality Trust \("FHREIT"\)](#) | **Issuer Profile: Neutral (3)**: FHREIT announced its first quarter results for the financial year ended September 2020 ("1QFY2020"). Gross revenue was up by 4.3% y/y to SGD42.4mn while net property income ("NPI") was up 6.8% y/y to SGD33.2mn. As at 31 December 2019, FHREIT's reported aggregate leverage was 35.5%, slightly higher than the 35.1% as at 30 September 2019. Short term debt coming due at FHREIT is minimal at SGD40mn (representing ~5% of total debt).

Asian Credit Daily**Credit Headlines****Keppel Corp Ltd (“KEP”) | Issuer Profile: Neutral (4)**

- KEP announced its 4Q2019 results. Overall revenue for 4Q2019 increased 31.1% y/y to SGD2.2bn. Overall revenue had increased from the Offshore & Marine division (“KOM”) from higher revenue recognition from on-going projects while the Infrastructure Division also saw revenue increase from higher revenue recognition from the Hong Kong Integrated Waste Management Facility project. Revenue from the Investment Division increased due to consolidation of M1 and higher revenues from KEP’s asset management business. Revenue from the Property Division was down due to lower revenue from property trading in Vietnam and China and partly offset by projects in Singapore.
- In addition to higher revenue, impairment losses on financial assets (provisions) was lower at SGD61.7mn (4Q2018: impairment losses on financial assets of SGD103.8mn) while higher other operating income, driven by foreign exchange gains and fair value gains of investment properties in China and India, also helped reported operating profit higher to SGD211.3mn (4Q2018: SGD6.4mn).
- EBITDA (based on our calculation which does not include other income and other expenses) was SGD330.7mn (4Q2018: SGD188.5mn), resulting in a stronger EBITDA/Interest coverage of 4.3x in 4Q2019 versus 3.5x in 4Q2018 (3Q2019: 3.4x). This was despite higher interest expense of SGD76.2mn, driven by higher y/y average debt levels at KEP.
- By reported profit before tax (“PBT”), KOM reported a loss before tax of SGD37mn although this was significantly narrower than the SGD97mn in loss before tax reported in 4Q2018 with losses before tax dragged by its associates (impairments taken on Floatel). At the consolidated level, KOM reported an operating profit of SGD13mn. The Property Division reported PBT of SGD242mn with this segment being the largest PBT contributor during the quarter. The Infrastructure Division reported PBT of only SGD25mn (4Q2018: SGD50mn) as fair value losses were taken on certain data centres while Investments Division only saw SGD8mn in PBT. While the asset management business did well, KEP has taken further charges relating to its M1 Ltd acquisition, further write-offs at its associate KrisEnergy (equity value fully written off) and saw lower contribution from the Sino-Singapore Tianjin Eco-City.
- For full year 2019, KEP reported recurring income of SGD260mn against SGD232mn in 2018. Recurring income in 2019 was driven by its Infrastructure business, contribution from its Sponsored REITs and Keppel Infrastructure Trust, its asset management business (historically focused on real estate private equity though KEP is growing infrastructure asset management as well) and M1.
- As at 31 December 2019, unadjusted net gearing was 0.85x, slightly lower than the 0.88x as at 30 September 2019 and almost doubling from 0.48x from end-2018, mainly due to the acquisition funding of M1 Ltd.
- KEP had also announced that its subsidiary M1 Ltd is partnering with Starhub (being the third and second largest mobile operator in Singapore) to jointly bid for 5G license in the Singapore market although as it stands KEP is being silent on the amount of capex that will be required for its 5G bid.
- Temasek has announced a conditional partial take-over offer for KEP which could see Temasek being the majority shareholder of KEP holding a ~52%-stake in the company. We expect an eventual re-organisation of the KEP business portfolio though for now are maintaining KEP’s issuer profile at Neutral (4). (Company, OCBC)

Asian Credit Daily**Credit Headlines****Frasers Hospitality Trust (“FHREIT”) | Issuer Profile: Neutral (3)**

- FHREIT announced its first quarter results for the financial year ended September 2020 (“1QFY2020”). Gross revenue was up by 4.3% y/y to SGD42.4mn while net property income (“NPI”) was up 6.8% y/y to SGD33.2mn. By NPI, all of FHREIT’s markets saw growth with the exception of Germany.
- In 1QFY2020, Australia continued to be the largest contributor to FHREIT at 41% of NPI while Singapore contributed 20% to NPI as the second largest contributor. Led by decline in average daily rates, we saw Revenue per Available Room (“RevPAR”) from Australia declining to AUD226 in 1QFY2020 from AUD234 in 1QFY2019, better cost control on operating expenses led to an overall increase in NPI. Japan’s NPI growth was predominantly driven by cost optimisation, with RevPAR falling from lower occupancy (77.9% in 1QFY2020 versus 81.2% in 1Q2019). Encouragingly, FHREIT saw a strong set of results from Singapore, with both the Intercontinental Bugis and Frasers Suites Singapore both gaining in RevPAR from stronger leisure and corporate demand.
- EBITDA (based on our calculation which does not include other income and other expenses) grew by 7.3% y/y to SGD29.8mn while finance costs was stable at SGD5.0mn. EBITDA/Interest was stronger at 5.9x (1QFY2019: 5.5x). As at 31 December 2019, FHREIT has SGD100mn of perpetual outstanding. Assuming FHREIT pays SGD4.5mn in perpetual distribution per year (SGD1.1mn per quarter) and taking 50% of this as interest, we find adjusted EBITDA/(Interest plus 50% perpetual distribution) at 5.3x, still highly manageable.
- As at 31 December 2019, FHREIT’s reported aggregate leverage was 35.5%, slightly higher than the 35.1% as at 30 September 2019. Assuming 50% of the perpetual as debt, we find adjusted aggregate leverage at ~37%. Short term debt coming due at FHREIT is minimal at SGD40mn (representing ~5% of total debt). Debt at FHREIT remains mostly unsecured, with only the Westin KL being secured which increases the financial flexibility of FHREIT. We maintain FHREIT’s issuer profile at Neutral (3). (Company, OCBC)

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Key Market Movements

	24-Jan	1W chg (bps)	1M chg (bps)		24-Jan	1W chg	1M chg
iTraxx Asiax IG	54	3	1	Brent Crude Spot (\$/bbl)	62.14	-4.18%	-7.53%
iTraxx SovX APAC	28	2	1	Gold Spot (\$/oz)	1,561.13	0.25%	4.12%
iTraxx Japan	43	--	-1	CRB	178.53	-2.28%	-3.78%
iTraxx Australia	49	3	2	GSCI	413.65	-2.77%	-5.12%
CDX NA IG	46	2	1	VIX	12.98	4.51%	2.45%
CDX NA HY	109	-1	-1	CT10 (%)	1.740%	-8.20	-16.01
iTraxx Eur Main	45	2	1				
iTraxx Eur XO	218	11	9	AUD/USD	0.684	-0.52%	-1.14%
iTraxx Eur Snr Fin	53	2	0	EUR/USD	1.105	-0.36%	-0.33%
iTraxx Eur Sub Fin	111	2	-1	USD/SGD	1.351	-0.26%	0.36%
iTraxx Sovx WE	11	0	0	AUD/SGD	0.924	0.21%	1.51%
USD Swap Spread 10Y	-5	-1	-1	ASX 200	7,111	0.67%	4.67%
USD Swap Spread 30Y	-31	0	-2	DJIA	29,160	0.45%	2.26%
US Libor-OIS Spread	22	-2	-17	SPX	3,326	1.10%	3.17%
Euro Libor-OIS Spread	6	0	1	MSCI Asiax	695	-2.67%	1.59%
				HSI	27,909	-3.37%	0.16%
China 5Y CDS	36	7	5	STI	3,235	-1.42%	0.40%
Malaysia 5Y CDS	38	5	2	KLCI	1,574	-1.34%	-1.86%
Indonesia 5Y CDS	64	4	1	JCI	6,249	-0.59%	-0.90%
Thailand 5Y CDS	22	2	-1	EU Stoxx 50	3,737	-0.99%	-0.99%
Australia 5Y CDS	17	0	0				

Source: Bloomberg

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New Issues

- Westpac Banking Corp priced a USD1.5bn 10NC5 Tier 2 bond at T+135bps, tightening from IPT of T+150bps.

Date	Issuer	Size	Tenor	Pricing
23-Jan-20	Westpac Banking Corp	USD1.5bn	10NC5	T+135bps
22-Jan-20	Cyprus Investments, Inc.	USD140mn	3-year	3m-US LIBOR+90bps
21-Jan-20	Scenery Journey Ltd	USD2bn USD2bn	3.75-year 2.75-year	12.0% 11.5%
21-Jan-20	Helenbergh China Holdings Limited	USD250mn	HLBCHN 12.875%'21s	12.25%
21-Jan-20	ReNew Power Pvt Ltd	USD450mn	5.5-year-WAL	5.875%
21-Jan-20	Swire Pacific MTN Financing (HK) Limited	USD500mn	10-year	T+120bps
21-Jan-20	Korea South-East Power Co Ltd	USD300mn	5-year	T+62.5bps
21-Jan-20	Shangri-La Hotel Limited	SGD250mn	10-year	3.5%
20-Jan-20	Dafa Properties Group Limited	USD200mn	364-day	12.75%
20-Jan-20	RongXingDa Development (BVI) Limited	USD300mn	364-day	8.875%
20-Jan-20	Socam Development Ltd	USD180mn	2-year	6.25%
20-Jan-20	Sunshine 100 China Holdings Ltd	USD150mn	SUNCHN 11.5%'21s	12.5%
20-Jan-20	Dexin China Holdings Company Limited	USD200mn	2.25-year	13%
20-Jan-20	Global Prime Capital Pte. Ltd	USD300mn	5NC3	5.95%
20-Jan-20	Wanda Properties Overseas Ltd.	USD400mn	3.5-year	6.875%
20-Jan-20	Thomson Medical Group Limited	SGD175mn	5-year	4.05%

Source: OCBC, Bloomberg

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