Asian Credit Daily

Apr 20, 2018

Credit Headlines: Keppel Corp, Frasers Property Ltd, ESR-REIT, Frasers Commercial Trust

Market Commentary

- The SGD swap curve steepened yesterday with swap rates for the shorter tenors 2-4bps higher while the longer tenors traded 4-6bps higher.
- Flows in SGD corporates were heavy yesterday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS traded little changed at 1.27% while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 349bps.
- 10Y UST yield rose 4bps to 2.91% as the Labor Department reported a fall in new applications for US unemployment benefits, suggesting continued job growth and a tight labour market which often is a precursor of wage inflation in the economy. The Philadelphia Fed Index also came in higher than expected at 23.2 for March compared to the market expectation of 20.5.

Credit Headlines

Keppel Corp ("KEP") | Issuer Profile: Neutral (3)

- KEP reported 1Q2018 results, with total revenue up 17.8% y/y to SGD1.47bn. O&M segment revenue continues to decline (-31.3% y/y to SGD332.1mn) due to reduced volume of work done. The segment managed to generate SGD8mn in operating profit (SGD4mn in 1Q2017), though losses at associates dragged the segment to a net loss of SGD23mn. O&M orderbook stands at SGD4.3bn, up from SGD3.9bn (end-2017) due largely to the USD425mn semi-sub order win from Awilco Drilling (first newbuild drilling asset order since the downturn).
- The Property segment drove the bulk of group revenue gains with revenue up more than 100% y/y to SGD544.3mn. This drove segment pre-tax profit to SGD455.3mn (1Q2017: SGD113.4mn). Performance was largely non-recurring, driven by the divestment of Keppel China Marina Holdings ("KCMH")) with KEP recognizing a SGD336.9mn divestment gain for the quarter. With Singapore inventories declining and overall slowdown in China, there may be some segment revenue pressure in the near future. Already, units sold for the quarter fell sharply to 300 units (1Q2017: 980 units). The resurgence in Singapore residential property market has led management to resume considering the conversion of Keppel Towers into condominiums.
- The Infrastructure segment revenue grew 20.6% y/y to SGD569.1mn, supported by continued improvements in its power and gas business, as well as progressive revenue recognized on its desalination plant project. Segment net profit eased to SGD26mn (1Q2017: SGD32mn) on the absence of the divestment gain from GE Keppel Energy Services Pte Ltd seen in the prior period.
- The KCMH divestments helped group profit surge 27.3% y/y to SGD334.1mn. KEP saw operating cash outflow of SGD10.3mn, largely due to working capital needs (increase in inventory and receivables, while payables declined), though levels are lower than the SGD45.0mn outflow seen in 1Q2017. The KCMH divestment helped boost investing cash flows to SGD246.9mn. KEP also increased net borrowings by SGD277.2mn. These caused KEP's cash balance to increase by 453.4mn to SGD2.70bn. Though gross borrowings increased, net gearing improved q/q from 46% to 42%. Short-term borrowings of SGD1.68bn can be met by the SGD2.74bn cash balance. In general, KEP has persisted with its trend of deleveraging, with O&M deliveries being crystalized while residential inventory is being consumed. We will retain our Neutral (3) Issuer Profile.

OCBC Bank

Credit Headlines (cont'd):

Frasers Property Ltd ("FPL") | Issuer Profile: Neutral (4)

- FPL has announced that it is proposing to inject 21 industrial properties across Germany and Netherlands, held in the entity FPE Logistics B.V ("FPEL"), into Frasers Logistics & Industrial Trust ("FLT") for an aggregate consideration of EUR316.2mn (~SGD515.4mn).
- This would be FLT's maiden investments into European assets. Previously, FLT held only Australian assets. FLT will need to obtain unitholder approval for the transaction via an EGM. In our view, the transaction would be a credit positive for FPL as it would unleash some balance sheet room. That said, given the size of the transaction, it would not change our current Neutral (4) Issuer Profile rating. (Company, OCBC)

ESR-REIT ("EREIT") | Issuer Profile: Neutral (4)

- EREIT reported 1Q2018 results, gross revenue increased 21% y/y to SGD33.6mn, this was driven by the contributions from two acquired properties, namely 8 Tuas South Lane and 7000 Ang Mo Kio Avenue 5 (both acquisitions completed in December 2017). This was partly offset by declines from conversion of 21B Senoko Loop to a multi-tenanted building, expiries and non-renewal of leases at 31 Kian Teck, 1/2 Changi Road, 12 Ang Mo Kio and 30 Toh Guan and the absence of revenue from 9 Bukit Batok Road which had been divested. Net property income was up 21% y/y to SGD23.8mn. Borrowing costs has increased 21% y/y to SGD6.1mn driven by higher borrowings in 4Q2017 to partly fund new acquisitions in December 2017. Interest coverage as measured by EBITDA/Interest was 3.5x (relatively flat against 1Q2017: 3.5x).
- As at 31 March 2018, aggregate leverage was significantly lower q/q at 30.0% (4Q2017: 39.6%). This follows SGD170mn of debt repayment from monies raised at EREIT's preferential offering and proceeds from divestment of 9 Bukit Batok amounting to SGD23.9mn. Assuming 50% of perpetuals at EREIT as debt, we find adjusted aggregate leverage at 35%, significantly reduced from 44% in end-2017.
- As at 31 March 2018, all debt at EREIT remains unsecured and all SGD1.6bn of investment properties (assuming 100% of 7000 Ang Mo Kio) was unencumbered. Short term debt amounted to SGD155.0mn (the EREIT 3.5% '18 bond coming due in November 2018). With available committed bank facilities of SGD213.0mn, we see low refinancing risk at EREIT.
- Portfolio occupancy was 90.7% as at 31 March 2018, falling from 93.0% in end-2017. Ceteris paribus (without factoring in the proposed merger of Viva Industrial Trust ("VIVA")), we expect EBITDA to fall in FY2018 following a tenant downsizing and pre-termination of a separate tenant. Notwithstanding that the downsizing tenant may still take up some space, conservatively, we assume that the full 7.1% is at heightened risk of dropping out of the portfolio in the next 12 months). Another 6.8% of rental income is attributable to Hyflux, which is currently facing liquidity strains. We place EBITDA/Interest at 3.0x in our worst case scenario.
- Merger talks between EREIT and VIVA is still on-going (no definitive agreements signed yet). The current proposed structure envisages an all-share deal where new shares in EREIT will be issued to unitholders at the target. Our base case assumes a successful merger and that no additional debt will be taken by EREIT. We maintain EREIT's issuer profile at Neutral (4). (Company, OCBC)

Credit Headlines (cont'd):

Frasers Commercial Trust ("FCOT") | Issuer Profile: Neutral (4)

- FCOT reported 2QFY2018 results, with gross revenue down 18.0% y/y to SGD33.0mn and NPI down a sharper 25.3% y/y to SGD22.4mn. This was largely as expected, given the exit of HP Enterprise and the staggered exit of HP Singapore from Alexandra Technopark (current committed occupancy stands at 70.4%, down almost 10ppt q/q), which caused property NPI to plunge 34% y/y to SGD6.4mn (Alexandra Technopark is FCOT's largest asset by NPI contribution). China Square Central also saw property NPI fall by 28% to SGD3.2mn due to the closure of the retail podium for its SGD38mn AEI (construction started in 1Q2018), to better position the asset for when the Capri hotel opens in 2019.
- Like the previous quarter, FCOT's other assets were also weak, reporting declines in NPI. FCOT's Australian assets continued to be affected by the weaker AUD, while lower occupancy affected the Central Park and 357 Collins Street. In aggregate, portfolio committed occupancy remained low at 83.5%, though it recovered slightly versus 80.3% (1QFY2018). Lease expiry for FY2018 remains heavy with 10.5% of NLA expiring for 2HFY2018. Given the expected AEI work across various properties, we expect FCOT's numbers to remain weak for at least the next quarter. WALE improved q/q to 4 years (1QFY2018: 3.6 years).
- Aggregate leverage had increased slightly to 35.3% (1QFY2018: 34.8%). The increase was largely driven by the acquisition of 50% of Farnborough Business Park, which was ultimately funded by SGD100mn in rights issue and SGD60mn in bonds. Reported interest coverage stands at 4.1x, with the average borrowing rate at 2.99%. Floating rate borrowings are 18% of gross borrowings. Near-term borrowings look manageable, with SGD136mn in AUD bank loans and SGD40mn in SGD bank loans due. All of FCOT's assets are unencumbered, which offers flexibility. We will retain FCOT at Neutral (4) Issuer Profile. (Company, OCBC)

Table 1: Key Financial Indicators

	20-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	75	-2	7
iTraxx SovX APAC	12	-1	0
iTraxx Japan	51	0	7
iTraxx Australia	64	-2	7
CDX NA IG	60	-1	5
CDX NA HY	107	0	0
iTraxx Eur Main	54	-2	4
iTraxx Eur XO	276	-5	21
iTraxx Eur Snr Fin	57	-2	4
iTraxx Sovx WE	17	-1	-2
AUD/USD	0.772	-0.57%	0.48%
EUR/USD	1.234	0.09%	0.82%
USD/SGD	1.313	-0.04%	0.50%
China 5Y CDS	59	-2	1
Malaysia 5Y CDS	72	0	8
Indonesia 5Y CDS	98	-3	6
Thailand 5Y CDS	44	-1	5

	20-Apr	1W chg	1M chg
Brent Crude Spot ($/bbl)	73.76	1.63%	9.40%
Gold Spot ($/oz)	1,343.86	-0.17%	2.48%
CRB	201.86	1.28%	3.97%
GSCI	474.03	1.53%	6.25%
VIX	15.96	-13.68%	-12.31%
CT10 (bp)	2.912%	8.50	1.58
USD Swap Spread 10Y (bp)	3	-1	-1
USD Swap Spread 30Y (bp)	-13	0	2
TED Spread (bp)	56	-7	12
US Libor-OIS Spread (bp)	57	-2	4
Euro Libor-OIS Spread (bp)	2	-1	0
DJIA	24,665	0.74%	-0.25%
SPX	2,693	1.09%	-0.88%
MSCI Asiax	728	0.73%	-2.14%
HSI	30,708	-0.40%	-2.67%
STI	3,599	3.75%	2.43%
KLCI	1,895	1.15%	2.09%
JCI	6,356	0.71%	1.80%

Source: OCBC, Bloomberg

New issues

- Fragrance Group Ltd has priced a SGD125mn 3NC2 bond at 6.125%, tightening from its initial price guidance of 6.125%.
- ValueMax Group Ltd has priced a SGD50mn 3-year bond at 5.1%, tightening from its initial price guidance of 5.3%.
- Jiayuan International Group Ltd has priced a USD100mn re-tap of its JIAYUA 8.125%'19 (guaranteed by subsidiaries and the JV subsidiaries) at 7.2%, in line with its initial price guidance.
- Meiji Yasuda Life Insurance Company has priced a USD1bn 30NC10 bond at 5.1%, tightening from its initial price guidance of 5.25%.
- Philippine National Bank has priced a USD300mn 5-year + 1-day fixed rate bond at CT5+160bps, tightening from its initial price guidance of CT5+180bps area.
- Envision Energy Overseas Capital Co Ltd has priced a USD300mn 3-year bond (guaranteed by Envision Energy International Ltd) at 7.5%, in line with its initial price guidance.
- China Overseas Finance (Cayman) VII Ltd has priced a USD1.5bn deal (guaranteed by China Overseas Land & Investment Ltd) across two tranches, with the USD750mn 5-year bond at CT5+153bps, tightening from its initial price guidance of CT5+170bps and the USD750mn 10-year bond at CT10+188bps, tightening from its initial price guidance of CT10+210bps area.
- Stockland Trust Management Ltd (SGPAU) has priced an EUR300mn 8-year bond (guaranteed by Stockland Trust Management Ltd)at MS+85bps, tightening from its initial price guidance of MS+95bps.
- China Fujian has priced a USD 10-year general bond at 3.85%.
- State Grid Corp of China may raise a USD3bn bond issuance.
- Doosan Heavy Industries & Construction Co Ltd has scheduled for investor meetings from 23 Apr for its potential USD bond issuance.
- China Great Wall Asset Management Co Ltd is said to have sent requests for proposals to banks for its potential offshore bond issuance.
- China Construction Bank Corp has scheduled for investor meetings on 7 May for its potential bond issuance.

Date	Issuer	Size	Tenor	Pricing
19-Apr-18	Stockland Trust Management Ltd	EUR300mn	8-year	MS+85bps
19-Apr-18	China Overseas Finance (Cayman) VII Ltd	USD1.5bn	Multiple	Multiple
19-Apr-18	Envision Energy Overseas Capital Co Ltd	USD300mn	3-year	7.5%
19-Apr-18	Philippine National Bank	USD300mn	5-year + 1-day	CT5+160bps
19-Apr-18	Meiji Yasuda Life Insurance Company	USD1bn	30NC10	5.1%
19-Apr-18	Jiayuan International Group Ltd	USD100mn	JIAYUA 8.125%'19	7.2%
19-Apr-18	ValueMax Group Ltd	SGD50mn	3-year	5.1%
19-Apr-18	Fragrance Group Ltd	SGD125mn	3NC2	6.125%

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