Jan 22, 2019

Credit Headlines: Oxley Holdings Ltd, Frasers Centrepoint Trust, Keppel Real Estate Investment Trust, Soilbuild Business Space REIT, Keppel Corporation Ltd, Keppel Telecommunications & Transportation Ltd, Mapletree Logistics Trust, Hyflux Ltd

Market Commentary

- The SGD swap curve steepened yesterday, with swap rates trading 1-2bps higher across most tenors.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS and the Bloomberg Barclays Asia USD HY Bond Index average OAS remained unchanged at 157bps and 572bps respectively.
- Flows in SGD corporates were heavy yesterday, with flows seen in UBS 5.875%-PERPs, SINTEC 5.0%-PERPs, BNP 4.35%'29s, DBSSP 3.98%-PERPs, LLCAU 3.9%'27s, MAPLSP 3.95%-PERPs and ICICI 5.375%'28s.
- 10Y UST yields also remained unchanged at 2.78% as the market was closed yesterday to observe Martin Luther King, Jr. Day.

Credit Headlines:

Oxley Holdings Ltd ("OHL") | Issuer Profile: Negative (6)

- OHL announced that it has entered into an agreement to sell No.4 and No.5 Dublin Landings for a total of EUR204mn (~SGD315.6mn) to Central Bank of Ireland. Upon completion, OHL will receive 79.5% of the sale consideration.
- OHL guided that the sale will contribute positively to the earnings and net tangible assets. The completion of the sale will be a credit positive for OHL. Assuming that the sale of the Stevens Road hotel also completes, we expect net gearing to improve to ~1.5x (1QFY2019: 2.45x). (Company, OCBC)

Frasers Centrepoint Trust ("FCT") | Issuer Profile: Neutral (3)

- FCT reported its first quarter results. Gross revenue was up 2.9% y/y to SGD49.3mn while NPI was 2.5% higher y/y to SGD35.4mn. This was led by Changi City Point (+12.7% y/y in gross revenue and +18.7% y/y in NPI) and Northpoint City North Wing (+4.5% y/y in gross revenue and +2.1% y/y in NPI) from higher average gross rental rate, better turnover rent and improvement in occupancy rate compared with the same period last year. These helped to mitigate declines at FCT's smaller assets - Bedok Point (-9.0% y/y in gross revenue and -12.7% y/y in NPI), Anchorpoint (-1.4% y/y in gross revenue and -19.0% y/y in NPI due to higher marketing and additional car park related expenses) and YewTee Point (-1.1% y/y in gross revenue and -3.9% y/y in NPI).
- Portfolio occupancy improved further to 96.4% from 94.7% as at 30 September 2018 with 10.7% of FCT's total NLA renewed at an average rental reversion of +6.9% during the quarter. That being said, Northpoint City North Wing, Bedok Point and Anchorpoint saw -1.3%, -2.8% and -12.1% in rental reversion respectively. WALE stands at 2.02 years (4Q2018: 1.91 years). Looking forward, 2019 will see 18.0% of leases coming due.
- Shopper traffic (both excluding Northpoint City) was up +3.5% y/y. In fact, all malls except Bedok Point saw higher shopper traffic during the quarter. That said, tenants' sales dipped 0.9% y/y over a three-month period from Sep to Nov.
- The financial position of FCT remains strong with aggregate leverage at 28.8% (4Q2018: 28.6%) and reported interest coverage at 5.92x (4Q2018: 5.61x). While FCT also has debt amounting to SGD222mn maturing in 2019, it has secured refinancing and prepayment for SGD190mn. Therefore, we see refinancing risk as minimal given FCT also has 85.8% of assets unencumbered. Going forward, we expect FCT's newer and stronger assets to continue to help mitigate weaknesses at the its smaller assets and the overall portfolio is remain largely stable. We maintain FCT at Neutral (3). (Company, OCBC).

Credit Headlines (cont'd):

Keppel Real Estate Investment Trust ("KREIT") | Issuer Profile: Neutral (4)

- KREIT reported 4Q2018 and FY2018 results. Property income decreased 14.8% y/y to SGD37.8mn due to lower contribution from 3 properties - Ocean Financial Centre ("OFC") (down 16.6% y/y), 275 George Street (down 23.2% y/y) and 8 Exhibition Centre (down 10.7% y/y). Net property income declined in tandem by 15.8% y/y to SGD30.5mn. Ocean Financial Centre saw occupancy rate dip to 96.1% from full occupancy a year ago (we also note that 4Q2017 property income at OFC was higher than usual as previously written here), while the above two properties in Australia are likely to be impacted by both a slight dip in occupancy rate as well as a weakening AUD against SGD.
- Total return before tax fell sharply by 27.4% y/y to SGD60.8mn, largely driven by lower NPI contributions from properties listed above (down 14.8% y/y), lower fair value gain on investment properties (down 35.9% y/y) as well as lower share of results of associates and joint ventures (down 12.6% y/y, mainly due to MBFC which saw dividend income fall by 25.3% y/y despite a 0.3% higher occupancy rate).
- Overall portfolio committed occupancy stood at 98.4% (1Q2018: 99.7%). Given there are just 4.2% and 0.4% of leases by net lettable area expiring and due for review respectively in 2018, we think there is little room for KREIT to ride the recovery wave in the office market at this point.
- Reported aggregate leverage fell to 36.3% following the repayment of SGD300mn of loans with parts of the proceeds from divesting a 20%-stake in Ocean Financial Centre. All-in interest rate inched higher to 2.81% from 2.80% in the previous quarter while interest coverage ratio is 3.9x (4Q2018: 4.0x). KREIT continued its unit buy-backs in 4Q2018 and has purchased and cancelled ~28.3mn issued units in 2018. We think the SGD538mn debt (18% of total debt) coming due within the year is manageable given KREIT has SGD259mn cash and only Bugis Towers out of all its assets is encumbered.
- 8 Exhibition Street in Melbourne will undergo AEI in 1H2019. Looking further ahead, 311 Spencer Street in Melbourne which is currently under construction will see the commencement of the 30-year lease to the Victoria Police in 1H2020. Management expects this property to contribute a steady income stream with fixed annual rental escalations. (Company, OCBC)

Soilbuild Business Space REIT ("SBREIT") | Issuer Profile: Neutral (5)

- SBREIT reported 4Q2018 and FY2018 results. Reported gross revenue and NPI grew 24.3% y/y to SGD25.8mn and 15.3% y/y to SGD15.3mn respectively mainly due to the liquidation proceeds received from Technics Offshore Engineering (SGD2.8mn), conversion of Solaris into a multi-tenanted property and the maiden contribution from its two Australia properties. Excluding the one-off proceeds received, revenue would have increased by 10.6% y/y instead.
- Portfolio occupancy rose to 89.5% from 87.2% in 3Q2018 largely due to its fully occupied Australia properties. Negative rental reversion of 12.6% was recorded for new and renewal leases during the quarter (total rental reversion was negative 8.6% for FY2018). In 2019, SBREIT has 12.0% (~481,800 sqft) of portfolio's net lettable area due for renewal.
- Over the quarter, SBREIT recorded a revaluation gain of SGD1.4mn on its investment properties due to an uplift in Solaris' valuation by SGD21.6mn, though significantly offset by revaluation losses at Bukit Batok Connection (SGD6.4mn), Loyang Way (SGD4.0mn) and the write-off of acquisition costs for the Australia portfolio (~SGD4.5mn).
- Reported EBITDA/Interest is 4.2x and though falls to ~3.76x when adjusted for 50% of perpetual distributions as interest expense. Aggregate leverage remained high at 39.1%. Given management's guidance to keep aggregate leverage below 40%, SBREIT only has a debt headroom of ~18.1mn. Including 50% of perpetual as debt, adjusted aggregate leverage is ~41.8%. Having said that, we think the SGD40mn debt coming due this year is manageable as SBREIT has ~68% of its investment properties (~SGD847mn) are unencumbered. We will continue to hold SBREIT's issuer profile at Neutral (5).

Credit Headlines (cont'd):

Keppel Corporation Ltd ("KEP") | Issuer Profile: Neutral (4) and Keppel Telecommunications & Transportation Ltd ("KPTT") | Issuer Profile: Neutral (4)

- Konnectivity Pte Ltd, the "Offeror" for M1 Ltd and jointly owned by KEP and Singapore Press Holdings Limited ("SPH"), announced that (1) It does not intend to increase the offer price of SGD2.06 in cash per offer price under any circumstances; and (2) The closing date of the Offer will be extended from 4th February 5.30pm to 18th February 2019 5.30pm (or such later date(s) that may be announced from time to time).
- Additionally, as at 21 January 2019, shares owned, controlled or agreed to be acquired by the Offeror and its Concert Parties represented ~34.4% of M1 Ltd's share capital. Though some 33.3% was from concert parties.
- CLSA, the Independent Financial Adviser to the Recommending Directors, are of the opinion that the financial terms of the offer are fair and reasonable and not prejudicial to the interests of shareholders as a whole. They have also advised Recommending Directors to recommend that shareholders accept the offer.
- The current levels of acceptances from non-concert parties is tepid and Axiata Group Bhd has yet to show its hand on whether it will accept the KEP/SPH deal. It is still not certain how much investment outlay KEP will spend on buying M1 Ltd. We have assumed SGD1.28bn (the maximum outlay) as our base case for our Neutral (4) issuer profile for KEP and maintain it as such for now.
- We are not sure what future plans KEP and SPH has for M1 Ltd, given the highly challenging outlook for domestic mobile. In our view, should KEP eventually spend less money on M1 Ltd versus our base case, this is a credit positive for KEP. We will continue monitoring the situation. (Company, OCBC)

Mapletree Logistics Trust ("MLT") | Issuer Profile: Neutral (4)

- Mapletree Logistics Trust announced their results for the financial year ended March 2019 ("3QFY2019"). Gross revenue was 23% higher y/y mainly due to higher revenue from existing properties, contribution from the completed redevelopment of Phase 1 of the Mapletree Ouluo Logistics Park in November 2018, acquisitions in Hong Kong, Singapore (5 logistics properties from CWT Pte Ltd), Australia and South Korea, partly offset by absence of revenue from the sale of 7 Tai Seng Drive.
- EBITDA (based on our calculation which includes SGD2.5mn in interest income from shareholder's loan extended to 11 joint venture properties) was SGD93.4mn (up 29.5% y/y) while interest expense has increased 43% y/y to SGD19.9mn on the back of higher debt taken for acquisitions. As such EBITDA/Interest was lower at 4.7x in 3QFY2019 against 5.2x in 3QFY2018
- Reported aggregate leverage at MLT is now 38.8% (including the proportionate debt taken at the China joint venture with Sponsor). Adding 50% of perpetuals as debt, adjusted aggregate leverage at MLT is 44%, high among Singapore REITs under our coverage.
- CWT Pte Ltd (owned by CWT International Ltd (Issuer Profile: Negative (6)) is the largest tenant of Mapletree Logistics contributing 9.1% of gross revenue, more than double that of MLT's second largest tenant Coles Group which contributes 4.3% of gross revenue. We maintain MLT at an issuer profile of Neutral (4). We prefer Ascott Residence Trust' ARTSP 4.68%-PERP over MLTSP 4.18%-PERP. The ARTSP 4.68%-PERP is yielding 4.03% to first call in June 2020 versus the MLTSP 4.18%-PERP yielding 4.05% to first call, though with first call in November 2021. (Company, OCBC)

Credit Headlines (cont'd):

Hyflux Ltd ("HYF") | Issuer Profile: Unrated

- HYF held its second town hall meetings last Friday Jan 18th. Two meetings were held, one for senior notes holders and another for holders of the Perpetual Capital Securities and Preference Shares. Subsequently, HYF shared the various materials from the meeting including the main presentation. Key developments from the meeting are as follows:
- Timetable – a restructuring plan is expected to be out by February 15th with the aim to wrap up the entire restructuring process by the end of April, which is the end date for the extended moratorium.
- Recoveries – HYF shared that in a liquidation scenario, senior unsecured obligations (which noticeably now includes SGD915mn in contingent creditors) would likely receive a recovery of between 3.8% and 8.7% on a low case and high case scenario, while the subordinated unsecured obligations (Perpetuals and Preference shares) will receive nothing.
- Agenda – the presentation was mostly made up of both an update on the restructuring process as well as a presentation by proposed new strategic investor, SM Investments Pte. Ltd ("SMI").
- We see the significance of these last two developments as possibly foreshadowing that perpetual and preference share holders will at best need to co-exist with SMI in any proposed restructuring, and that by SMI providing details on their background and experience in water and energy as well as their business plan for, and synergies with HYF, perpetual and preference shareholders would feel incentivized to support any restructure as opposed to go for liquidation. In all, the townhall appears to be as much about providing an update as softening subordinated unsecured creditors up to the thought of taking equity in the new Hyflux.
- As we previously discussed when changes to the court restructuring process were passed on 10th March 2017, under a scheme of arrangement (which is being proposed for HYF) multiple classes of creditors will need to vote on the proposals. While in principal no less than 75% of each creditor class must vote in favour for the proposal to pass, the Court now has the power to "cram down" the proposal to a dissenting creditor class by approving the proposal and forcing the terms on all creditor classes. That said, the court's "cram down" power is conditional on at least one class of creditor supporting the proposal (ie a majority of 75% in value of one creditor class approves the proposal) and the Court being convinced that 1) a majority in number of creditors to be bound by the proposal have agreed to the proposal; 2) that these majority of affirming creditors totalling more than 75% in value in affected claims (in aggregate across all creditor classes); and 3) that the cram down would still be fair and equitable to the dissenting class.
- This may provide a tricky situation for the courts should the perpetual and preference share holders vote against the proposal while other classes are in support. As we mentioned in our recently published Singapore Credit Outlook 2019, we expect investor angst to rise should they have to contend with access to old financial information when assessing any restructuring or reorganization proposal, inadequate disclosure from management, and more so if an eventual plan results in an equitization.
- Next steps include the release of the restructuring proposal by mid-February, followed by a third town hall in mid-March to discuss the restructuring proposal and a scheme meeting by the end of March. (Company, OCBC)

Table 1: Key Financial Indicators

	22-Jan	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	86	-3	-13
iTraxx SovX APAC	64	-2	-8
iTraxx Japan	70	-6	-14
iTraxx Australia	84	-4	-13
CDX NA IG	72	-4	-23
CDX NA HY	105	1	4
iTraxx Eur Main	76	-5	-16
iTraxx Eur XO	319	-16	-45
iTraxx Eur Snr Fin	91	-11	-23
iTraxx Sovx WE	25	-1	0
AUD/USD	0.716	-0.64%	1.50%
EUR/USD	1.137	-0.37%	-0.31%
USD/SGD	1.359	-0.17%	1.07%
China 5Y CDS	59	-2	-11
Malaysia 5Y CDS	89	-6	-23
Indonesia 5Y CDS	122	-5	-20
Thailand 5Y CDS	42	-2	-3

	22-Jan	1W chg	1M chg
Brent Crude Spot ($/bbl)	62.63	3.28%	16.37%
Gold Spot ($/oz)	1,279.29	-0.79%	0.79%
CRB	182.21	2.32%	5.86%
GSCI	413.20	2.55%	8.65%
VIX	17.8	-2.14%	-40.88%
CT10 (bp)	2.768%	5.68	-2.22
USD Swap Spread 10Y (bp)	4	1	1
USD Swap Spread 30Y (bp)	-18	3	-3
TED Spread (bp)	37	-1	-4
US Libor-OIS Spread (bp)	35	-2	-6
Euro Libor-OIS Spread (bp)	5	0	1
DJIA	24,706	2.96%	10.07%
SPX	2,671	2.87%	10.51%
MSCI Asiax	623	1.30%	5.15%
HSI	27,206	1.40%	5.64%
STI	3,216	0.11%	5.57%
KLCI	1,694	1.09%	1.45%
JCI	6,451	1.81%	4.66%

New issues

- Export-Import Bank of Korea has priced a USD150mn 3-year bond at 3-month US LIBOR +44bps.
- Land Transport Authority of Singapore has priced a SGD1.5bn 40-year bond at 3.38%.
- Pepper Group Ltd has scheduled for investor meetings in the week of 4 Feb for its potential EUR, AUD and USD bond issuance.
- Oil India Ltd has mandated banks for its potential USD bond issuance.
- GLP China Holdings Ltd has scheduled for investor meetings on 23 Jan for its potential USD and/or HKD bond issuance.
- Celestial Miles Ltd has scheduled for investor meetings from 21 Jan for its potential USD perpetual bond issuance (guarantor: NWS Holdings Ltd).

Date	Issuer	Size	Tenor	Pricing
21-Jan-19	Export-Import Bank of Korea	USD150mn	3-year	3M US LIBOR +44 bps
21-Jan-19	Land Transport Authority of Singapore	SGD1.5bn	40-year	3.38%
18-Jan-19	Easy Tactic Ltd	USD300mn	3.5NC2	9.25%
17-Jan-19	Mercatus Co-operative Ltd	SGD100mn	6-year	3.28%
17-Jan-19	Bharat Petroleum Corporation Ltd	USD500mn	3-year	CT+187.5bps
17-Jan-19	BOC Aviation Ltd	USD500mn	5-year	CT+155bps
17-Jan-19	CMB Wing Lung Bank Ltd	USD400mn	Perp NC5 AT1	6.5%
17-Jan-19	Country Garden Holdings Co Ltd	USD550mn USD450mn	3.25NC2 COGARD 8.0%'24s	7.125% 8.25%
16-Jan-19	State Bank of India/London	USD1.25bn 2-tranche	USD400mn: 3-year USD850mn: 5-year	CT+157.5bps CT+185bps
16-Jan-19	Greenland Global Investment Ltd	USD300mn	1-year, 9-month	8.0%
16-Jan-19	DBS Group Holdings Ltd	USD100mn	5-year	3.422%
15-Jan-19	Housing & Developmental Board	SGD600mn	10-year	2.675%
15-Jan-19	Bocom Leasing Management Hong Kong Company Ltd	USD1.5bn 2-tranche	USD800mn: 3-year USD700mn: 5-year	3Y FXD+172.5bps 5Y FXD+200bps
15-Jan-19	China Aoyuan Group Ltd	USD500mn	3NC2	8.5%
15-Jan-19	Yuzhou Properties Company Limited	USD500mn	3-year	8.625%

Source: OCBC, Bloomberg

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