

Apr 11, 2019

Credit Headlines: First Real Estate Investment Trust, BreadTalk Group Ltd, CWT International Ltd, Mapletree Logistics Trust

Market Commentary

- The SGD swap curve flattened yesterday, with the shorter tenors and belly trading 1bps lower (with the exception of the 12-year swap rates trading 1bps higher) while the longer tenors of 20-year onwards traded 2bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was little changed at 135bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 470bps.
- Flows in SGD corporates were heavy, comprising largely of FPLSP 4.98%-PERPs. Other flows seen were GUOLSP 4.6%-PERPs, SIASP 3.03%'24s, FPLSP 4.38%-PERPs, ESRCAY 6.75%'22s and OCBCSP 4.0%-PERPs.
- 10Y UST yields fell 3bps to close the session at 2.47%, after data showed subdued US inflation in March, highlighting an ongoing trend of inflation underperformance which reaffirms market expectations that the Federal Reserve will keep a dovish stance on interest rates. The rally in the European bond market, after gloomy comments on the economy by European Central Bank President Mario Draghi, further weighed in on market sentiments.

Credit Headlines

First Real Estate Investment Trust (“FIRT”) | Issuer Profile: Negative (6)

- FIRT announced its first quarter results for 2018, rental and other income declined 0.2% y/y mainly as there was a drop in variable income portion of rents from Indonesian assets.
- EBITDA (based on our calculation) though was 1.5% lower y/y due to higher property operating expenses and slightly higher management fees. Driven by higher interest costs on its bank loans and a higher average debt balance in 1Q2019 versus 1Q2018, finance costs was 7.0% higher y/y, with resultant EBITDA/Interest lower at 4.9x (1Q2018: 5.4x).
- FIRT has SGD99.9mn in short term debt that is coming due in the next 12 months. Also FIRT disclosed that it has commenced refinancing and is waiting for lending banks to provide the mandate and commitment letter. Unadjusted aggregate leverage is still low at 34%, though this is 36% adjusting for 50% of perpetual as debt. For now, we view FIRT perpetuals (ie: the FIRTSP 5.68%-PERP) as more equity-like, although we think the risk of FIRT missing the call at first call to be lower than its sister REIT, namely Lippo Malls Indonesia Retail Trust. We expect FIRT to lever up to buy new properties in the next 12 months though think FIRT will fund this optimally with some equity.
- FIRT's rental income is still highly concentrated with PT Lippo Karawaci Tbk (“LK”), with LK and LK's partly-owned subsidiary PT Siloam International Hospitals Tbk comprising ~84% of FIRT's 2018 rental income. That being said, FIRT has longer term plans to diversify from the Indonesian market, which we think is more possible now given its new Sponsor.
- In March 2019, LK announced its strategic transformation which includes a significant rights issue of USD730mn, asset divestments of USD280mn to help improve liquidity at LK, senior management and board changes. [While we view the improving sentiment at LK positively, on account of FIRT's still significant structural links with LK](#), we are maintaining the issuer profile for FIRT at an issuer profile of Negative (6). (Company, OCBC)

Credit Headlines (cont'd)

BreadTalk Group Ltd (“BGL”) | Issuer Profile: Neutral (5)

- BGL is acquiring 20%-stake in NPPG (Thailand) PCL at a price of 1.50 THB per share for a total consideration of THB570mn (SGD24.2mn).
- According to BGL, there is a lot of hidden assets in NPPG “whose intrinsic value could be realised with the right management and expertise”.
- The acquisition will take place in two tranches. The first tranche consisting 15%-stake in NPPG worth THB427.5mn (SGD18.2mn) is expected to complete by 23 Apr 2019 while the second tranche worth THB142.5mn (SGD6.1mn) is expected to complete by 15 Feb 2020.
- On a pro-forma basis, based on 4Q2018’s figures, we expect net gearing to increase to 40% (4Q2018: 0.26x). We continue to hold BGL at a Neutral (5) Issuer Profile. (Company, OCBC)

CWT International Ltd (“CWTI”) | Issuer Profile: Negative (6)

- On 10 April 2019, CWTI entered into a trading halt pending publication of an announcement for inside information. As a recap, CWTI is the parent company of CWT Pte Ltd (“CWT SG”) who is the issuer of two SGD bonds, one with an outstanding amount of SGD100mn due next week on 18 April 2019. [We had on 2 April 2019 took a judgement call that CWTI's immediate liquidity concerns have been alleviated](#) via the sale and leaseback of five of CWT SG’s warehouses and new borrowings of HKD1.4bn borrowings due in October 2019, with a cash balance of HKD1.7bn as a welcome buffer against CWT SG’s bond due next week.
- That being said, until CWTI’s material uncertainty over ability to continue as a going concern is resolved, we continue to consider CWT SG as a stressed issuer and unable to give a definitive view on whether the CWTSP 4.8% ‘20s which matures in March 2020 would be able to be redeemed.
- At this stage, we are unaware of the circumstances leading to CWTI’s trading halt and would continue monitoring the situation. (Company, OCBC)

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

- MLT announced that is divesting five warehouse properties in Japan held by its special purpose entities for a total sale consideration of JPY17.52bn (~SGD213.3mn). MLT would be selling these for cash to Godo Kaisha T&C, a third party.
- Including debt held at its Chinese joint venture, MLT’s reported aggregate leverage was already at 38.8% as at 31 December 2018, which means that any further acquisitions would likely need to be equity funded. With the sale of the Japanese assets, we think it is likelier for MLT to use the proceeds to pursue other investment opportunities.
- The sale consideration is 21% above the valuation as at 31 March 2019 and 13% above the original purchase cost including capex and other costs injected during MLT’s investment holding period. As at 31 March 2019, MLT’s total assets was SGD7.9bn and this will be reduced to SGD7.7bn.
- In the third quarter of the financial year ended 2019 (“3QFY2019”), MLT’s gross revenue was somewhat concentrated on CWT Pte Ltd (“CWT SG”), owned by CWT International Ltd (“CWTI”, Issuer Profile: Negative (6)). CWT SG was the largest tenant for MLT contributing 9.1% of gross revenue. Please refer to the above paragraph on CWTI for further information. (Company, OCBC)

Table 1: Key Financial Indicators

	11-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	67	1	-2
iTraxx SovX APAC	44	0	-8
iTraxx Japan	57	-1	-2
iTraxx Australia	71	0	1
CDX NA IG	59	-2	-1
CDX NA HY	107	0	1
iTraxx Eur Main	60	-1	-2
iTraxx Eur XO	254	-1	-28
iTraxx Eur Snr Fin	73	-5	-1
iTraxx Sovx WE	19	0	-2
AUD/USD	0.716	0.65%	1.24%
EUR/USD	1.128	0.51%	0.29%
USD/SGD	1.353	0.10%	0.35%
China 5Y CDS	43	0	-5
Malaysia 5Y CDS	56	-1	-7
Indonesia 5Y CDS	99	1	-1
Thailand 5Y CDS	41	1	-4

	11-Apr	1W chg	1M chg
Brent Crude Spot (\$/bbl)	71.45	2.95%	7.31%
Gold Spot (\$/oz)	1,306.17	1.08%	0.99%
CRB	189.66	1.51%	5.08%
GSCI	453.84	2.23%	7.09%
VIX	13.3	-3.20%	-7.19%
CT10 (bp)	2.470%	-4.49	-16.91
USD Swap Spread 10Y (bp)	-2	0	-4
USD Swap Spread 30Y (bp)	-25	0	-5
US Libor-OIS Spread (bp)	18	-1	-2
Euro Libor-OIS Spread (bp)	6	0	0
DJIA	26,157	-0.23%	1.97%
SPX	2,888	0.52%	3.77%
MSCI Asiax	684	0.96%	5.55%
HSI	29,849	-0.46%	4.72%
STI	3,335	0.57%	4.50%
KLCI	1,628	-1.03%	-2.19%
JCI	6,433	-0.94%	1.05%

New issues

- Bank of China Ltd has priced a USD1.35bn deal across three tranches, with a USD500mn 3-year FRN at 3-month US LIBOR +72bps (IPT 3-month US LIBOR +95bps area), a USD550mn 5-year bond at T+88bps (IPT T+120bps area) and a USD300mn 10-year bond at T+120bps (IPT T+160bps area).
- Fantasia Holdings Group Co Ltd has priced a USD200mn 3NC2 bond at 98.472 (yield: 12.375%), tightening from IPT of 12.625% area.
- Xihui Haiwai I Investment Holdings Co Ltd has priced a USD300mn 3-year bond (guarantor: Wuxi Construction and Development Investment Co Ltd) at 99.723 (yield: 4.6%), in line with the final guidance.
- JSW Steel Ltd has priced a USD500mn 5-year bond at 5.95%, tightening from IPT of 6.25% area.
- Minera y Metalurgica del Boleo has priced a USD400mn 5-year bond (guarantor: Korea Resources Corp) at T+102.5bps, tightening from IPT of T+130bps area.
- IFC Development (Corporate Treasury) Ltd has priced a USD500mn 10-year bond (guarantor: IFC Development Ltd) at T+125bps, tightening from IPT of T+145bps area.
- Southwest Securities International Securities Ltd has priced a USD200mn 2-year bond at 6.9%, tightening from IPT of 7.25% area.
- Huai'an Water Conservancy Holding Group Co Ltd has scheduled investor meetings from 11 April for its potential USD bond issuance.
- SMC Global Power Holdings Corp has scheduled investor meetings from 11 April for its potential USD bond issuance.
- Peking University Found Group Co Ltd has mandated banks for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
10-Apr-19	Bank of China Ltd	USD500mn USD550mn USD300mn	3-year 5-year 10-year	3M US LIBOR+72bps T+88bps T+120bps
10-Apr-19	Fantasia Holdings Group Co Ltd	USD200mn	3NC2	98.472
10-Apr-19	Xihui Haiwai I Investment Holdings Co Ltd	USD300mn	3-year	99.723
10-Apr-19	JSW Steel Ltd	USD500mn	5-year	5.95%
10-Apr-19	Minera y Metalurgica del Boleo	USD400mn	5-year	T+102.5bps
10-Apr-19	IFC Development (Corporate Treasury) Ltd	USD500mn	10-year	T+125bps
9-Apr-19	21Vianet Group Inc	USD300mn	2.5-year	8.0%
9-Apr-19	DBS Group Holdings Ltd	USD750mn	3-year	T+58bps
9-Apr-19	Societe Generale SA	SGD750mn	NC5-perp	6.125%

Source: OCBC, Bloomberg

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