Asian Credit Daily

July 22, 2016

Credit Headlines (Page 2 onwards): Ascendas REIT, Ezra Holdings, Suntec REIT, Capitaland Mall Trust and Keppel Corp.

Market Commentary: The SGD dollar swap curve flattened yesterday, with the short-to-middle-end rates traded 3-6bps higher while the long-end rates traded 2-3bps higher. Flows in the SGD corporates were heavy yesterday with better buying seen in SOCGEN 4.3%'26s and mixed interests seen in GENSSP 5.13%'49s, BAERVX 5.9%'49s, MFCCN 3.85%'26s, ARTSP 4.68%'49s and STANLN 4.4%'26s. In the broader dollar space, the spread on JACI IG corporates decreased by 1bps to 216bps while the yield on JACI HY corporates increased by 1bps to 6.46%. 10y UST decreased by 3bps to 1.55% despite initial jobless claims and existing home sales beating expectations, as US equities and oil prices fell.

New Issues: ANZ (New Zealand) Ltd. launched a two-tranche deal yesterday, with the USD 750mn 5-year bond priced at CT5+105bps, tightening from its initial guidance of CT5+125bps. The other tranche of USD250mn was priced at 3mL+101bps. The expected issue ratings are "AA-/Aa3/AA-". China Railway Xunjie Co. Ltd. has priced a USD500mn 10-year bond at CT10+170bps, tightening from its initial guidance of CT10+205bps. The expected issue ratings are "NR/A3/A-". Greenland HK has priced a USD450mn 3-year bond deal at 3.88%, tightening from its initial price guidance at 4.625%. The expected issue ratings are "B+/Ba3/BB+".

Rating Changes: S&P assigned first time issuer credit ratings of "AA-" to China Development Bank Capital Corp. Ltd (CDB Capital) with a negative outlook. The assignment reflects S&P's view that CDB Capital is a wholly owned core subsidiary of China Development Bank Corp. (CDB) in carrying out its policy-driven strategic objectives. Due to the company's involvement in these policy-driven businesses, S&P believes that extraordinary government support to the parent bank is indirectly available to CDB Capital if needed. The negative outlook on CDB Capital reflects S&P's outlook on the sovereign credit rating on China, and therefore on its parent bank CDB. At the same time, S&P also assigned first time issuer ratings of "AA-" to China Development Bank International Holdings Ltd. (CDBI), subsidiary of CDB Capital with negative outlook. The assignment follows the same rationale that any extraordinary support given to CDB will indirectly support its subsidiaries.

Table 1: Key Financial Indicators

	22-Jul	1W chg (bps)	1M chg (bps)		22-Jul	1W chg	1M chg
iTraxx Asiax IG	119	-2	-22	Brent Crude Spot ($/bbl)	46.24	-2.88%	-7.30%
iTraxx SovX APAC	48	1	-4	Gold Spot ($/oz)	1,331.76	-0.43%	5.18%
iTraxx Japan	58	5	-9	CRB	183.67	-3.38%	-4.25%
iTraxx Australia	109	-1	-18	GSCI	350.89	-3.14%	-6.93%
CDX NA IG	71	-1	-8	VIX	12.74	-0.62%	-39.82%
CDX NA HY	105	0	2	CT10 (bp)	1.551%	0.00	-13.43
iTraxx Eur Main	67	-4	-11	USD Swap Spread 10Y (bp)	-9	5	4
iTraxx Eur XO	313	-13	-27	USD Swap Spread 30Y (bp)	-42	3	5
iTraxx Eur Snr Fin	88	-9	-10	TED Spread (bp)	41	4	3
iTraxx Sovx WE	26	0	-3	US Libor-OIS Spread (bp)	29	0	3
iTraxx Sovx CEEMEA	129	11	2	Euro Libor-OIS Spread (bp)	6	0	-3
					22-Jul	1W chg	1M chg
				AUD/USD	0.750	-1.04%	-0.03%
				USD/CHF	0.985	-0.26%	-2.72%
				EUR/USD	1.103	-0.06%	-2.37%
				USD/SGD	1.355	-0.52%	-1.22%
Korea 5Y CDS	49	1	-10	DJIA	18,517	0.06%	4.14%
China 5Y CDS	110	--	-13	SPX	2,165	0.07%	3.82%
Malaysia 5Y CDS	134	4	-23	MSCI Asiax	527	0.58%	4.94%
Philippines 5Y CDS	102	4	-12	HSI	22,000	2.04%	5.80%
Indonesia 5Y CDS	162	3	-27	STI	2,940	1.15%	5.54%
Thailand 5Y CDS	93	-4	-25	KLCI	1,658	0.17%	1.21%
				JCI	5,217	2.62%	6.54%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
22-July-16	ANZ Ltd.	"AA-/Aa3/AA-"	USD750mn	5-year	CT5+105bps
22-July-16	ANZ Ltd.	"AA-/Aa3/AA-"	USD250mn	5-year	3mL+101bps
22-July-16	China Railway Xunjie Co. Ltd.	"NR/A3/A-"	USD500mn	10-year	CT10+170bps
22-July-16	Greenland HK	"B+/Ba3/BB+"	USD450mn	3-year	3.88%
20-July-16	China Minmetals Corp.	"NR/Baa1/BBB+"	USD300mn	5-year	CT5+205bps
20-July-16	China Minmetals Corp.	"NR/Baa1/BBB+"	USD700mn	10-year	CT10+265bps
19-July-16	SGSP Assets Pty. Ltd.	"BBB+/A3/NR"	USD500mn	10-year	CT10+175bps
19-July-16	ONGC Videsh	"BBB-/Baa2/NR"	USD400mn	5-year	CT5+175bps

Source: OCBC, Bloomberg

Credit Headlines:

Ascendas REIT ("AREIT"): AREIT reported a 15% increase in gross revenue in 1Q2017 to SGD207.6mn from SGD180.5mn in 1Q2016 mainly due to the acquisition of properties in Australia and One@Changi City. Net property income ("NPI") was 20% higher at SGD149.5mn, driven by higher contribution from new properties and lower utility rates secured for some properties. Gross revenue in 1Q2016 increased by 1.7% compared to its immediately preceding quarter while NPI increased 4.2% (the impact of the Australian acquisitions had been largely reflected in 4Q2016). Aggregate leverage remained stable at 37% although interest coverage declined to 4.8x from 5.3x in 1Q2015 as a result of higher debt incurred as partial funding for acquisitions. Including the impact of perpetual securities which was issued in October 2015, we find EBITDA/(Gross interest plus perpetual distribution) to be 3.9x. AREIT's portfolio occupancy was held steady at 88.2% (1Q2016: 88.8%). Management has guided a flat-to-modest rental reversion for Singapore properties for the remaining of FY2017. Of the ~SGD1bn in short term debt coming due in the next 12 months as at 30 June 2016, SGD158mn has been repaid while SGD456mn relates to revolving debt which we think can be easily rolled over. SGD286mn in exchangeable collaterised securities ("ECS") have an expected maturity in February 2017. Despite the looming debt maturities, we see refinancing risk at AREIT as low. Price-to-NAV of 1.2x gives AREIT ample flexibility to raise equity (if need be) while secured borrowings make up ~25% of total borrowings. (Company, OCBC)

Ezra Holdings (“EZRA”): EZRA announced that EMAS Chiyoda (the subsea division), in partnership with Larsen & Toubro (“L&T”), have been awarded a USD1.6bn EPC contract from Saudi Aramco. EMAS Chiyoda (which is currently 50% owned by Ezra)’s scope of work was estimated by management to be ~40% or USD640mn. The work pertains to the development of the second phase of the Hasbah Offshore Gas Field off the coast of Saudi Arabia. This is the first contract awarded to the EMAS Chiyoda / L&T consortium as part of a six year long-term agreement executed in 2015 with Saudi Aramco (with exercisable options for a further six years). The engineering and fabrication component of the project has commenced, and the offshore execution phase is expected to commence in 4Q2017. We believe this to be a credit positive for EZRA, though it would be some time before the positive impact will be reflected in the financials. We will retain our Underweight Issuer Profile given the current challenging environment, but will reiterate our Overweight recommendation on the EZRASP’18s given the attractive risk reward. (Company, OCBC)

Suntec REIT (“SUN”): SUN reported 2Q2016 results. Gross revenue fell 3.1% y/y to SGD78.9mn, largely due to the partial divestment of Park Mall in December 2015, though the decline was mitigated by the opening of Suntec City Phase 3. On a q/q basis though, revenue was up 0.8%. NPI fell sharply by 7.1% y/y, but the decline q/q was more muted at 2.4%. Property expenses were higher due to higher property tax q/q as well as higher operating costs at Suntec Singapore. DPU was sustained y/y in part due to capital distribution from the Park Mall divestment. It is worth noting that on a q/q basis, both office and retail revenues declined. Total revenue increased q/q due to the 13.0% q/q increase in convention revenue. Portfolio office committed occupancy improved q/q from 98.3% to 98.9% with gains seen in the Suntec and MBFC assets. This was better than the market average of 95.2% for Singapore CBD Grade A Office. However, we are seeing the oversupply situation impact rental reversions, with office leases renewing at SGD8.58 psf compared to SGD8.67 psf for 1Q2016. This is consistent with our view that office REIT managers would focus on occupancy, at the expense of rental reversions. Retail occupancy declined though from 98.6% to 97.7% q/q. This was driven by declines seen at Suntec City mall. Lease pressure was seen at Suntec mall as well, with average passing rents falling from SGD12.00 psf (1Q2016) to SGD11.58 psf (2Q2016). In terms of lease expiring, SUN managed to reduce 2016 outstanding lease expiries to 1.8% of office NLA. 2017 expiries remain sizable at 17.4% of office NLA. The retail lease expiry for 2016 improved sharply from 23.1% (end-1Q2016) to 7.9% (end-2Q2016). Looking forward, 177 Pacific Highway is on track to be completed in August 2016, and should contribute to the trust in 2H2016. Aggregate leverage has remained steady q/q at 36.1%. SUN was able to sharply decrease its financing cost from 2.92% (end-1Q2016) to 2.77% (end-2Q2016). Interest coverage remained unchanged at 3.6x. For 2H2016, SUN has SGD150mn in bonds due in August, of which it has earmarked a SGD250mn loan facility (entered in May 2016) to refinance it. Upon the refinancing of the SUNSP’16s, weighted average term to expiry would extend to 2.83 year. We believe the SGD200mn loan maturing in 2017 to be manageable as well. We will retain our Neutral Issuer Profile on SUN. (Company, OCBC)

Credit Headlines:

Capitaland Mall Trust ("CMT"): CMT reported 2Q2016 results. Gross revenue was up 7.1% y/y to SGD170.9mn while NPI was up 6.0% y/y to SGD116.1mn. This was largely driven by the Bedok Mall acquisition made during 4Q2015. On a q/q basis though, gross revenue was lower by 4.9%, driven by the 5.6% slump in gross rental income. Funan Mall was particularly badly hit, with 2Q2016 gross property revenue just SGD3.3mn (1Q2016: SGD8.0mn). This was largely due to Funan Mall's impending redevelopment, with saw Funan Mall closing completely at the end of 2Q2016. The rest of the q/q decline was spread evenly across CMT's other malls, reflecting the overall soft domestic retail landscape. This could be seen with the deceleration in shopper traffic, which slowed from a 4.9% y/y increase in 1Q2016 to 3.6% y/y increase in 1H2016 (implying a ~1.2% y/y decrease in 2Q2016). Tenant sales psf also painted a similar picture, slowing from 4.6% y/y increase in 1Q2016 to 2.3% y/y increase in 1H2016 (implying a ~2.2% y/y decrease in 2Q2016). Portfolio occupancies have improved slightly q/q from 97.7% to 97.9%. This was commendable, given the challenging retail landscape. Rental reversions for the quarter were +1.7%, though it was sharply lower than the +3.7% seen for 2015. This is consistent with our view that REIT managers would choose to keep occupancy high at the expense of rental reversions. Certain assets (specifically The Atrium and Bugis+) are showing signs of stress given low tenant retention (50% – 60%) and negative rental reversions. WALE remains stable at 2.1 years, while management managed to reduce 2H2016 lease expiries to 8.8% of NLA (2016 started with 23.2% of NLA expiring in 2016). We expect the rest of 2016 to remain challenging for retail, though 3Q2016 may see a bump up on a q/q basis due to the Great Singapore Sale. CMT's leverage remains in line with peers, with aggregate leverage at 35.3% (1Q2016: 35.5%). The improvements were largely driven by the revaluation gains of 90bps seen in 1H2016. Despite Funan Mall closing for redevelopment, CMT recognized a SGD54mn gain (+15%) on the property, reflecting the total land value of the intended development. Net debt / EBITDA was stable as well at 6.0x (1Q2016: 5.8x). Interest coverage was comparable at 5.0x (1Q2016: 5.2x). There are no debt maturities left for 2016, though 2017 and 2018 maturities look heavy at SGD295mn and SGD605.2mn respectively. It is worth noting that CMT continues to actively optimize its capital structure, having issued a HKD560mn 10 year 2.71% bond as well as a SGD150mn 15 year 3.35% bond early July 2016. These issues would help CMT push out its maturity profile. We believe that the funds could be raised in part to fund the Funan Mall redevelopment, and estimate that the borrowings would increase aggregate leverage to pro-forma ~38%. CMT has released preliminary plans for the Funan Mall redevelopment, intending to spend SGD560mn for redevelopment into an integrated asset (56% retail, 30% office and 14% service apartment by GFA). The redevelopment is expected to be completed in 4Q2019 and is expected to generate SGD81.3mn in gross revenue (Funan Mall's 2015 gross revenue was SGD33.8mn). We will continue to hold CMT's Issuer Profile at Neutral, with the expectation that CMT will keep its aggregate leverage below 40%. (Company, OCBC)

Credit Headlines:

Keppel Corp ("KEP"): KEP reported 2Q2016 results, with total revenue down 36.6% y/y to SGD1.6bn. The offshore marine ("O&M") segment continues to be pressured, seeing a 54.4% decline y/y in segment revenue to SGD720.3mn. On a q/q basis, segment revenue was also lower by 11.9%. O&M revenue contribution continues to inch lower and is now just 44% of total revenue (2Q2015: 62%). The segment remains pressured, with the decline in upstream activities reducing demand for drilling assets. Coupled with looming newbuilds from orders made during the boom years, it would be difficult for KEP to win new orders for drilling rigs. The tough environment has already hit KEP's existing order book. Clients have continued to delay their orders (for the quarter, new delays include 3 rigs for Grupo R being pushed to 2017). The Sete Brasil bankruptcy filing has also resulted in its related orders being removed from the O&M order book. In aggregate, the reported order book fell from SGD8.6bn to SGD4.3bn q/q as a result (management has indicated that the outstanding Sete Brasil orders remain valid). Two thirds of KEP's order book is now non-drilling related. Segment pre-tax profit continues to slip, falling 60% y/y to SGD88mn. Management has continued to cut costs, reducing overheads by ~20% y/y in 1H2016, and may consider mothballing yards with low work volumes if required. Management has also reiterated that the SGD230mnm in provisions made in 4Q2015 over the Sete Brasil contract remains adequate. The property segment saw revenue grow 15.3% y/y to SGD468.7mn, with KEP selling 1200 homes during the quarter (~9% higher relative to 2Q2015) with most of the sales derived from China. China continues to be a strong driver for the segment, with KEP generating RMB1.5bn in Chinese sales during 2Q2016. KEP still has a China pipeline of 36,292 units for sale. Pre-tax profit was 7% lower y/y as higher contributions from China was insufficient to offset softer contributions in Singapore. The infrastructure segment revenue slumped 25.3% to SGD404mn, due to lower prices and volume from KEP's power and gas business. Segment pre-tax profit fell 66% y/y due to due to the absence of divestment gains seen in 2Q2015. In aggregate, management reported SGD292mn in EBITDA for the quarter. KEP generated negative SGD7.2mn in operating cash flow for the quarter, with working capital remaining a drag on cash flow. FCF was negative ~SGD70mn. In addition, KEP acquired Cameron's O&M product division, resulting in an outflow of SGD135.5mn. KEP also paid out SGD399.4mn in dividends during the quarter. The cash gap was largely funded by ~SGD700mn increase in net borrowings. As a result, net gearing has worsened from 56% (end-1Q2016) to 62% (end-2Q2016). Interest coverage stood at 5.8x for the quarter. Cash / current borrowings was 1.0x. There are no bond maturities till 2020. We will review KEP's results further and will adjust KEP's current Neutral Issuer Profile if required. (Company, OCBC)

Andrew Wong
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Ezien Hoo, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com