

July 27, 2016

Credit Headlines (Page 2 onwards): Mapletree Industrial Trust, VIVA Industrial Trust, First Sponsor Group, Mapletree Commercial Trust

Market Commentary: The SGD dollar swap curve traded downward yesterday, trading 1-4bps lower all tenors. Flows in the SGD corporates were heavy with better buying seen in OLAMSP 6%'22s while mixed interests were seen in NPLSP 4.25%'17s, MFCCN 3.85%'26s and NAB 4.15%'28s. In the broader dollar space, the spread on JACI IG corporates increased by 1bps to 214bps while the yield on JACI HY corporates decreased by 1bps to 6.39%. 10y UST yield decreased 1bps to 1.56%.

New Issues: Bank of America Corp. priced a two-tranche deal yesterday, with the AUD550mn 5-year bond priced at 3mBBSW+155bps. The other tranche of AUD200mn was priced at 3.3%. The expected issue ratings are "NR/Baa1/A". China Minsheng Investment has launched a USD 3-year bond with final guidance set at 3.9-4%, tightening from its initial guidance at 4.13%. CDB Capital has launched a USD 5-year bond with final guidance at CT5+120bps, tightening from its initial guidance at CT5+145bps. The expected issue ratings are "AA-/NR/A+".

Rating Changes: S&P revised its rating outlook on Tingyi (Cayman Islands) Holdings Corp. to negative from stable, and affirmed its rating at "BBB+". The revision reflects S&P's view that prolonged intense competition and Tingyi's lack of commercially successful product innovation in recent quarters could increase the company's financial leverage over the next 12-24 months. S&P upgraded EnergyAustralia Holdings Ltd.'s (EA) corporate credit rating to "BBB" from "BBB-" with positive outlook. The upgrade reflects a step-change in EA's financial risk profile and the positive outlook reflects S&P expectation that the ratings could transition higher within the next couple of years if the company successfully resolves the fuel supply issues at Mt. Piper, maintains operational stability and sustains its target leverage. S&P has discontinued its corporate credit rating on China Fishery Group Ltd. given that the company's results for FY2015 and beyond is unavailable. The rating prior to the announcement was "D". Moody's revised its rating outlook on SK Innovation Co. Ltd. (SKI), SK Global Chemical Co. Ltd. (SKGC) and SK Global Chemical Investment HK Ltd. (SKGC HK) to positive from stable and affirmed all ratings at "Baa2". The revision in ratings outlook for SKI reflects Moody's view that the company's financial profile will improve significantly in 2016, and stay strong for its current "Baa2" ratings level over the next 1-2 years.

Table 1: Key Financial Indicators

	27-Jul	1W chg (bps)	1M chg (bps)		27-Jul	1W chg	1M chg
iTraxx Asiax IG	121	2	-31	Brent Crude Spot (\$/bbl)	44.87	-3.84%	-7.31%
iTraxx Sovx APAC	49	1	-7	Gold Spot (\$/oz)	1,319.47	0.26%	-0.39%
iTraxx Japan	60	3	-18	CRB	181.22	-2.62%	-3.38%
iTraxx Australia	112	1	-32	GSCI	344.35	-3.09%	-5.42%
CDX NA IG	74	4	-17	VIX	13.05	9.02%	-45.28%
CDX NA HY	104	-1	3	CT10 (bp)	1.561%	-1.90	12.34
iTraxx Eur Main	68	-1	-30	USD Swap Spread 10Y (bp)	-10	2	3
iTraxx Eur XO	320	0	-98	USD Swap Spread 30Y (bp)	-44	1	4
iTraxx Eur Snr Fin	97	4	-39	TED Spread (bp)	45	5	7
iTraxx Sovx WE	26	-1	-11	US Libor-OIS Spread (bp)	31	2	4
iTraxx Sovx CEEMEA	131	-2	-6	Euro Libor-OIS Spread (bp)	6	0	-3
					27-Jul	1W chg	1M chg
				AUD/USD	0.752	0.49%	2.52%
				USD/CHF	0.992	-0.49%	-1.38%
				EUR/USD	1.099	-0.25%	-0.34%
				USD/SGD	1.358	-0.10%	0.38%
Korea 5Y CDS	51	3	-11	DJIA	18,474	-0.46%	7.78%
China 5Y CDS	111	1	-22	SPX	2,169	0.25%	8.43%
Malaysia 5Y CDS	142	10	-27	MSCI Asiax	528	0.55%	8.86%
Philippines 5Y CDS	102	3	-21	HSI	22,130	2.11%	9.41%
Indonesia 5Y CDS	166	5	-35	STI	2,933	0.48%	7.46%
Thailand 5Y CDS	92	1	-33	KLCI	1,661	-0.55%	1.96%
				JCI	5,224	1.00%	8.03%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
26-July-16	Bank of America Corp.	"NR/Baa1/A"	AUD550mn	5-year	3mBBSW+155bps
26-July-16	Bank of America Corp.	"NR/Baa1/A"	AUD200mn	5-year	3.3%
25-July-16	Kookmin Bank	"A/A1/NR"	USD500mn	3-year	CT3+88bps
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

Source: OCBC, Bloomberg

Rating Changes (cont'd): Moody's assigned a first time corporate rating of "B2" to Fenghui Leasing Co. Ltd. with a stable outlook. The rating reflects the company's (1) faster-than-system average asset growth, (2) high sector and borrower concentration, and (3) high-reliance on short-term funding. These credit challenges are supported by the company's main credit strengths of strong profitability and low financial leverage. Similarly, Fitch also assigned a first time "B2" rating to Fenghui Leasing Co. Ltd. reflecting the company's faster-than-system average asset growth, high sector and borrower concentration, and high reliance on short-term funding. Partly offsetting these credit challenges are the company's strong profitability and low financial leverage.

Credit Headlines:

Mapletree Industrial Trust ("MINT"): Gross revenue increased 3% to SGD84.1mn in 1QFY2017 (1QFY2016: SGD81.6mn) mainly driven by higher rental rates achieved across all property segments and higher occupancies achieved in the h-tech buildings segments. Due to lower maintenance, utilities and property expenses, net property income ("NPI") was 6% higher at SGD63.8mn. Driven by higher earnings, EBITDA/Gross interest improved to 8.8x from 8.3x in the previous corresponding quarter. Aggregate leverage remained stable at 28% whilst all debt at the REIT remains unsecured. Portfolio occupancy was somewhat lower at 93% (4QFY2016: 94.6%), driven by the declines in occupancies in light industrial buildings (11% fall in occupancy). MINT's development for Hewlett-Packard is on track for completion in 2QFY2017 while the asset enhancement initiatives at Kallang Basin 4 cluster is on track for completion in 1QFY2018. Going forward, it is likely that MINT will intensify its redevelopment of older and more generic buildings. Its currently low aggregate leverage provides ample headroom for it to pursue such opportunities. With only SGD36.4mn of debt due in the next 12 months against cash balances of SGD43.9mn, refinancing risk at MINT is low. We maintain MINT at a Neutral Issuer Profile. (Company, OCBC)

VIVA Industrial Trust ("VIVA"): Gross revenue increased by 26.2% to SGD45.3mn in 1H2016 (1H2015: SGD35.9mn) mainly driven by acquisition of new properties and higher rental from VIVA Business Park and Jackson Square. Net property income ("NPI") grew stronger at 34% to SGD33mn (1H2015: SGD24.6mn). On a quarterly basis, gross revenue was SGD23.4mn, growing by 31% from 2Q2015, with 64% attributable to 3 new acquisitions and the remainder largely driven by improvements at VIVA Business Park. Despite the earnings growth, EBITDA/Gross Interest declined to 2.7x in 1H2016 from ~3.0x in 1H2015, due to higher debt which was taken to partially fund acquisitions. Rental support for 1H2016 amounted to SGD6.4mn (1H2015: SGD7.32mn), adjusting EBITDA/Gross Interest for such rental support, interest coverage rises to 3.3x (1H2015: 3.9x). VIVA's financial covenant includes rental support. Aggregate leverage was 39% as at 30 June 2016, rising from 37% as at 31 March 2016. Portfolio occupancy improved to 87.9% (86.9% as at 31 March 2016), driven by the improvement at VIVA Business Park which is undergoing asset enhancement. We maintain VIVA at a Negative Issuer Profile due to the impending lapse of its rental support in November 2018 which is likely to (1) impose downside risk on the valuation of its investment properties (2) interest coverage ratios. However, we are currently neutral on the VITSP 4.15 '18s, maturing in September 2018 (prior to the expiry of rental support), given YTM have tightened to 3.9% since our last recommendation on 11 July 2016. (Company, OCBC)

First Sponsor Group Limited ("FSG"): FSG announced its 2Q2016 results this morning with revenue up 40.8% y/y to SGD42.2mn but gross profit down 11.5% y/y to SGD14.0mn. In line with the first quarter, strong revenue contribution from the sale of development properties (242 residential units, 17 commercial units and 49 car park lots in the Millennium Waterfront project) and full quarter contribution from the Zuiderhof I and Arena Towers investment properties helped to offset the sharp y/y fall in property financing revenue which fell by 90.7%. These factors, together with higher sales costs recognized from development properties, contributed to the weaker gross profit performance in 2Q2016. Despite these challenges, 1H2016 performance continues to be somewhat stronger y/y due to the strong performance from the property development segment, in line with the overall upward trend in China's property sector. Management continue to have a positive view on the recovery prospects for the current loan defaults within the property financing segment with favorable court judgments received for 6 of the 9 loans that remain outstanding, although there remains uncertainty on the time to resolve these loans. Balance sheet remains steady with FSG's debt-to-equity ratio at 0.4x and net debt-to-equity ratio at 0.3x. We are currently reviewing FSG's Neutral Issuer Profile for any potential changes (Company, OCBC)

Credit Headlines:

Mapletree Commercial Trust (“MCT”): 1QFY2017 results (ending June 2016) reported gross revenue up 5.2% y/y to SGD73.4mn, while net property income (“NPI”) was up 3.7% y/y to SGD56.3mn. This was largely driven by improvements across most of MCT’s assets. The higher gross revenue supported NPI growth, though higher property expenses (certain promotional expenses to celebrate Vivocity’s 10th anniversary) squeezed NPI margins slightly. Vivocity reported SGD2.1mn higher revenue y/y, due to higher rental income achieved for new and renewed leases, as well as step-ups on existing leases. More importantly, for MCT’s office assets MapleTree Anson and PSAB, both saw occupancy improved y/y as well as higher rental income achieved for new and renewed leases. Originally, the two assets faced some pressure, with occupancy in the low 90s. As of end-1Q2017, occupancy is now 96.5% and 94.7% for PSAB and MapleTree Anson respectively, and committed occupancy is even stronger at 98.5% and 100% respectively. This is commendable given the challenging market for office assets. In addition, the manager was able to keep rental reversion strong at +14.0% for office assets, and retention rate high at 80.8%. It is worth noting that MCT restructured its MLHF lease during the quarter (earlier expiry for ~25% of the lease, extension of the balance ~75% beyond FY2021) which could have resulted in the strong showing. The MLHF lease restructuring also allowed office portfolio WALE to be extended from 2.8 years to 3.3 years. Given that MLHF was the main office lease expiring in FY2018, the lease restructuring also resulted in just ~19% of office leases (by rental revenue) left expiring by end FY2018. Vivocity’s occupancy remains strong at 98.9% (committed occupancy: 99.9%). More importantly, retail tenant retention was strong at 94.3%, while rental reversion was strong as well at +12.0%. This was despite the challenging retail environment, and highlights Vivocity’s unique positioning. Retail WALE improved as well q/q from 2.0 years to 2.2 years. It should be noted that some softness in shopper traffic was seen, falling by 3.6% y/y, but tenant sales were held steady despite the tenant relocation and fit-out works due to the AEI. The Vivocity AEI is on track for completion by end-July 2016. Aggregate leverage remained largely unchanged q/q at 35.0% (though this would change post the Mapletree Business City Phase 1 (“MBC”) acquisition). Cost of debt increased from 2.52% (end-FY2016) to 2.73% (end-1Q2017) as MCT increased its proportion of fixed debt (from 74% to 78%) as well as due to the higher cost of interest rate swaps. These factors caused interest coverage to dip slightly to 4.8x (FY2016: 5.0x). MCT’s portfolio remains entirely unencumbered. For the remaining 9 months of FY2017, MCT has about SGD185.5mn in bank loans maturing. It should be noted that unitholders have voted and approved of the SGD1.86bn MBC acquisition. MCT has also announced a ~SGD1.0bn equity private placement (~SGD515mn) and preferential offering (~SGD504mn). The balance of the acquisition will be funded by term loans, and would likely drive MCT’s aggregate leverage higher to 38.4% based on management estimates. The term loans are currently staggered out at 2, 4 and 6 year maturities, and are ~SGD300mn each. It is worth noting that Moody’s has commented on and reiterated MCT’s current credit rating of Baa1 / Stable post the MBC acquisition announcement. We believe that the MBC acquisition would help diversify MCT’s future cash flows, helping to reduce the concentration of Vivocity from 66% of NPI (based on FY2016 numbers) to 45%. MBC has also benefited from tenants shifting away from the CBD area (MCT estimates that ~78% of MBC’s current tenant base relocated from the Central Area) as well as the flight to quality from older developments. Though we believe that MCT’s portfolio will be more robust post the MBC acquisition, we also believe that MCT’s management would likely keep aggregate leverage at around 38% – 39%, in line with its peers. As such, we will retain our Neutral Issuer Profile on MCT. (Company, OCBC)

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