# Asian Credit Daily

OCBC Bank

**Jul 19, 2017**

**Credit Headlines (Page 2 onwards):** Keppel REIT, Capitaland Commercial Trust, Industry Outlook – Australian Banks

**Market Commentary:** The SGD swap curve traded upwards yesterday, with swap rates trading 2-4bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in WSTP 4%'27s, HSBC 4.7%-PERPS, OLAMSP 5.5%-PERPS, and mixed interest seen in ANZ 3.75%'27s. In the broader dollar space, the spread on JACI IG Corporates traded little changed at 189bps, while the yield on JACI HY Corporates rose 2bps to 6.90%. 10y UST yields fell 6bps to 2.26% yesterday, as export prices fail to live up to expectations and investors question the strength of the global economy as concerns arise about the US administration's ability to enact reforms.

**New Issues:** Mitsubishi UFJ Financial Group Inc has priced a three-tranche deal, with the USD2bn 5-year fixed rate bond priced at CT5+85bps, tightening from initial guidance of CT5+100-105bps area; the USD1bn 5-year floating rate bond priced at 3mL+79bps; and the USD1bn 10-year bond priced at CT10+103bps, tightening from initial guidance of CT10+120bps. The expected issue ratings are 'A/A1/A'. DBS Group Holdings Ltd has priced a USD500mn 5-year green bond at 3mL+62bps, tightening from initial guidance of 3mL+80bps area. The expected issue ratings are 'AA-/Aa2/NR'. Country Garden Holdings Company Ltd has priced a USD600mn 5NC3 bond at 4.875%, tightening from initial guidance of 5.25% area. The expected issue ratings are 'NR/Ba1/BB+'. Yinchuan Tonglian Capital Investment Operation Co Ltd has priced a USD300mn 3-year bond at CT3+215bps, tightening from initial guidance of CT3+245bps. The expected issued ratings are 'NR/Baa3/NR'. Sinochem International Development Pte Ltd (guaranteed by Sinochem International Corporation) has priced a USD300mn 5-year bond at CT5+135bps, tightening from initial guidance of CT5+165bps. The expected issue ratings are 'BBB+/Baa1/NR'. Korea Hydro & Nuclear Power Co Ltd has priced a USD300mn 10-year bond at CT10+95bps, tightening from initial guidance of CT10+120bps. The expected issue ratings are 'AA/Aa2/NR'.

**Table 1: Key Financial Indicators**

| | 19-Jul | 1W chg (bps) | 1M chg (bps) | | 19-Jul | 1W chg | 1M chg |
|---|---|---|---|---|---|---|---|
| iTraxx Asiax IG | 86 | 0 | 1 | Brent Crude Spot ($/bbl) | 48.80 | 2.22% | 4.03% |
| iTraxx SovX APAC | 21 | -1 | 4 | Gold Spot ($/oz) | 1,241.44 | 1.71% | -0.19% |
| iTraxx Japan | 40 | -1 | 0 | CRB | 176.88 | 1.70% | 3.27% |
| iTraxx Australia | 80 | -4 | -3 | GSCI | 373.57 | 0.91% | 3.37% |
| CDX NA IG | 57 | -3 | -3 | VIX | 9.89 | -9.18% | -4.63% |
| CDX NA HY | 108 | 0 | 0 | CT10 (bp) | 2.271% | -4.63 | 8.35 |
| iTraxx Eur Main | 53 | -2 | -3 | USD Swap Spread 10Y (bp) | -5 | -1 | -3 |
| iTraxx Eur XO | 237 | -10 | 5 | USD Swap Spread 30Y (bp) | -34 | -1 | -1 |
| iTraxx Eur Snr Fin | 51 | -1 | -9 | TED Spread (bp) | 25 | -2 | -2 |
| iTraxx Sovx WE | 6 | 0 | -1 | US Libor-OIS Spread (bp) | 14 | 0 | 2 |
| iTraxx Sovx CEEMEA | 55 | -1 | 3 | Euro Libor-OIS Spread (bp) | 3 | 0 | 0 |
| | | | | | 19-Jul | 1W chg | 1M chg |
| | | | | AUD/USD | 0.793 | 3.23% | 4.29% |
| | | | | USD/CHF | 0.956 | 1.03% | 2.10% |
| | | | | EUR/USD | 1.154 | 1.10% | 3.49% |
| | | | | USD/SGD | 1.368 | 0.71% | 1.40% |
| Korea 5Y CDS | 58 | 0 | 8 | DJIA | 21,575 | 0.77% | 0.21% |
| China 5Y CDS | 67 | 0 | 2 | SPX | 2,461 | 1.45% | 0.29% |
| Malaysia 5Y CDS | 85 | 1 | 2 | MSCI Asiax | 646 | 2.10% | 3.10% |
| Philippines 5Y CDS | 74 | 0 | 0 | HSI | 26,627 | 2.24% | 2.71% |
| Indonesia 5Y CDS | 117 | -1 | 2 | STI | 3,313 | 3.23% | 2.01% |
| Thailand 5Y CDS | 63 | 1 | 4 | KLCI | 1,760 | 0.14% | -1.63% |
| | | | | JCI | 5,816 | -0.05% | 1.29% |

*Source: OCBC, Bloomberg*

**Table 2: Recent Asian New Issues**

| Date | Issuer | Ratings | Size | Tenor | Pricing |
|---|---|---|---|---|---|
| 18-Jul-17 | Mitsubishi UFJ Financial Group Inc | 'A/A1/A' | USD2bn | 5-year | CT5+85bps |
| 18-Jul-17 | Mitsubishi UFJ Financial Group Inc | 'A/A1/A' | USD1bn | 5-year | 3mL+79bps |
| 18-Jul-17 | Mitsubishi UFJ Financial Group Inc | 'A/A1/A' | USD1bn | 10-year | CT10+103bps |
| 18-Jul-17 | DBS Group Holdings Ltd | 'AA-/Aa2/NR' | USD500mn | 5-year | 3mL+62bps |
| 18-Jul-17 | Country Garden Holdings Company Ltd | 'NR/Ba1/BB' | USD600mn | 5NC3 | 4.875 |
| 18-Jul-17 | Yinchuan Tonglian Capital Investment Operation Co Ltd | 'NR/Baa3/NR' | USD300mn | 3-year | CT3+215bps |
| 18-Jul-17 | Sinochem International Development Pte Ltd | 'BBB+/Baa1/NR' | USD300mn | 5-year | CT5+135bps |
| 18-Jul-17 | Korea Hydro & Nuclear Power Co Ltd | 'AA/Aa2/NR' | USD300mn | 10-year | CT10+95bps |
| 18-Jul-17 | China Railway XunJie Co Ltd | 'NR/A3/A-' | USD500mn | 5-year | CT5+110bps |

*Source: OCBC, Bloomberg*

**New Issues (Cont'd):** China Railway XunJie Co Ltd has priced a USD500mn 5-year bond at CT5+110bps, tightening from initial guidance of CT5+110bps. The expected issue ratings are 'NR/A3/A-'. Azure Power Energy Ltd has scheduled investor meetings for potential USD green bond issuance from 19 Jul. Continuum Energy LLC has scheduled investor meetings for potential USD bond issuance from 18 Jul. The expected issue ratings are 'NR/B1/B+'. Jiuding Group Finance Co has priced a USD150mn 3-year bond (guaranteed by Tongchuangjiuding Investment Management Group Co) at 6.5%. The expected issue ratings are 'BB/NR/NR'.

**Rating Changes:** S&P has downgraded Sunshine 100 China Holdings Ltd's (Sunshine) corporate credit rating and long-term rating on its senior unsecured notes to 'CCC+' from 'B-'. S&P has placed all ratings on CreditWatch with negative implications. The rating action reflects S&P's view that Sunshine's high leverage is not sustainable over the longer term and the increasing uncertainty surrounding the refinancing of Sunshine's notes that are due in October 2018. S&P has assigned The Asian Infrastructure Investment Bank (AIIB) an issuer credit rating of 'AAA'. The outlook is stable. The rating action reflects AIIB's strong shareholder support as well as AIIB's sound risk management and governance policies. Moody's has affirmed the Government of Thailand's foreign currency and local currency issuer ratings at 'Baa1' and maintained the stable outlook. The rating action reflects Thailand's substantial fiscal strength and low external vulnerability, as well as easing near-term political. However, Moody's acknowledged that Thailand's growth outlook faces challenge due to diminished competitiveness, which is evident in weakening foreign direct investment (FDI) inflows, as well as an aging population.

**Credit Headlines:**

**Keppel REIT ("KREIT")**: KREIT reported 2Q2017 results. Property income declined 1.7% y/y to SGD39.8mn, while NPI fell 1.7% y/y to SGD31.9mn. Like the previous quarters, Bugis Junction Tower continues to be a drag on overall performance with its property income plunging 16.3% y/y to SGD4.8mn. On the bright side, the committed occupancy levels at Bugis Junction Tower have continued to pick up from the low of 93.7% seen in 4Q2016, and now stands at 97.6%. As such, KREIT could potentially see performance at Bugis Junction Tower improve post the fitting out period for the new tenants. We would remain cautious though as older assets such as Bugis Junction Tower have been badly hit by competition with tenants "upgrading" to newer buildings, and may have conceded on rental rates to bring in tenants. Overall portfolio occupancy remains robust, having improved y/y to 99.8% (1Q2017: 99.4%), trumping industry wide occupancy levels of 94.1% (as per CBRE's Singapore core CBD occupancy for 2Q2017). Notably, although 2H2017 and 2018 will continue to see new office assets entering the domestic market and adding to competition, the trend of KREIT aggressively renewing lease expiries ahead of time seems to be slowing. Lease expiries for 2017 and 2018 in aggregate only fell slightly to 8.6% of NLA (1Q2017: 9.7% of NLA). This could indicate that KREIT is becoming more sanguine with the overall office market, believing that demand would be adequate to absorb its space when these comes due without having to entice tenants ahead of time with lease discounts. Pressure on rental reversions have also continued to moderate, with flat rental reversion for 1H2017 (implying a positive rental reversion for 2Q2017 given 1Q2017's negative 1%). WALE for the portfolio remains healthy at ~6 years while tenant retention for 1H2017 remains strong at 85%. Aggregate leverage worsened slightly q/q to 38.5% (1Q2017: 38.4%). That said, with the recently announced 50%-stake investment in the office development at 311 Spencer Street, Melbourne, KREIT would have to contribute to the construction when work commences in 3Q2017, with expected completion in 4Q2019. Management had previously estimated that if the loans funding the acquisition were fully drawn as of end-2016, it would have increased pro-forma aggregate leverage by 1.8ppt to 40.3%. This would consume most of KREIT's debt headroom. Reported interest coverage worsened slightly to 4.4x (1Q2017: 4.6x). Proportion of fixed rate debt remained steady at 77%, with unencumbered assets at 84% of the portfolio. Cost of debt increased slightly to 2.59%. As it stands, KREIT's aggregate leverage is currently comparable with peers. As such, we will retain our Neutral Issuer Profile on KREIT, though we will monitor closely the expected pick-up in aggregate leverage when work at 311 Spencer Street ramps up. (Company, OCBC)

**Credit Headlines (Cont'd):**

**Capitaland Commercial Trust ("CCT")**: The issuer reported 2Q2017 results. Gross revenue jumped 29.5% y/y to SGD87.5mn while NPI increased 34.3% y/y to SGD61.9mn. Consistent with recent quarters, this was largely driven by CCT's acquisition of the balance of CapitaGreen (previously CCT only held 40%) which was completed on 31/08/16. Excluding the acquisition, performance was more mixed, with adjusted gross revenue decreasing 3.6% y/y to SGD65.2mn while adjusted NPI was flat at SGD51.5mn. The property revenue declines were driven by weaker performance at Six Battery Road (2Q2017 revenue fell 3.3% y/y to SGD17.4mn) and GSCP (2Q2017 revenue fell 36.7% y/y to SGD4.2mn), with the latter being vacated for redevelopment (final operating day is 31/07/17). Occupancy at Twenty Anson also fell quite sharply to 84.2%. This drove portfolio occupancy lower to 97.6% (though it remains stronger than CBRE's Singapore core CBD office occupancy of 94.1% for 2Q2017). With regards to lease rates CCT's portfolio average office rent had remained steady q/q at SGD9.18 psf, but still stronger than CBRE's Grade A office average rents of SGD8.95 psf. As CCT had largely renewed most of its leases expiring in 2017 ahead of time (only 2% of NLA, of which 1.0% is currently under advanced negotiation), CCT is well positioned for 2H2017. The challenge, as highlighted previously by management, would be 2018 and 2019, as CCT still has 12% and 33% of NLA respectively expiring, with the Grade A assets (plus Raffles City Tower) having higher passing rents to meet. For example, the average rent of leases expiring for 2H2017 was SGD10.58psf, compared to market rents of SGD9.18psf. WALE was largely steady at 6.5 years. Aggregate leverage had improved sharply to 35.2% as of 14/07/17 (1Q2017: 38.1%) due to the divestment of One George Street during the quarter, with CCT utilizing the proceeds to pay down debt (though we note that CCT would bear its pro-rata in JV debt). This was driven by the One George Street divestment which caused a re-rating of its valuation. CCT also benefitted from revaluation gains of +2.8% as of end-2Q2017 on its portfolio, as well as the conversion of part of its SGD175mn in convertible bonds (due September 2017) into equity. In addition, the proceeds from the completion of the Wilkie Edge divestment (SGD277mn) are expected to be received in 3Q2017, would further improve CCT's credit profile. This would be balanced against the funding needs for the GSCP redevelopment. CCT's 45% share of the development cost is ~SGD819mn (of which SGD491.4mn will be debt funded, with the balance funded via proceeds from the recent divestments). Reported interest coverage remained stable at 4.9x (1Q2017: 4.8x). Currently, CCT only has SGD45.25mn notional in convertible bonds (maturing September 2017) due for 2017. For now, we will hold CCT's Issuer Profile rating at Neutral, acknowledging the divestments made to bolster CCT's balance sheet for the capital commitments required for the redevelopment. That said, CCT's sponsor, CapitaLand, had express interest in Asia Square Tower 2, which serves as event risk. (Company, OCBC)

**Industry Outlook – Australian Banks:** Australia's banking regulator, the Australian Prudential Regulation Authority (APRA), announced this morning its conclusions on the level of capital required for banks to have 'unquestionably strong' capital ratios, as recommended by the 2014 Financial System Inquiry which endorsed a strong and well capitalized banking system. As such, Australia's banks will need to meet a minimum common equity tier 1 capital ratio of 10.5% by Jan 1, 2020. Current minimum regulatory CET1 minimum requirements are 8.0% with the banks under our coverage (Westpac Banking Corporation ('WBC'), Australia & New Zealand Banking Group Ltd ('ANZ') and National Australia Bank Ltd('NAB')) operating well above these requirements with CET1 ratios as at 1H2017 ~10%%. Higher requirements for 2020 are unlikely to present a problem for the Australian banks under our coverage in our view. Their capital ratios have been improving from risk weighted asset reductions as well as strong earnings with capital improving by between 85-99bps in the first 6 months of FY2017 from solid 1HFY2017 performance. ANZ has further stated that its proforma APRA compliant CET1 ratio is currently 10.5% taking into account recently announced asset sales which are subject to regulatory approval or settlement. As such, the news does not alter our Neutral Issuer Profiles on WBC, NAB or ANZ. (Company, APRA, 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

**Wong Hong Wei**
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com