Asian Credit Daily

April 27, 2017

Credit Headlines (Page 2 onwards): Mapletree Greater China Commercial Trust, AIMS AMP Capital Industrial REIT, International Healthway Corp, First Sponsor Group Limited, CapitaLand Ltd.,

Market Commentary: The SGD swap curve traded upwards yesterday, with swap rates trading 1-2bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in GUOLSP 4%'22s, BNP 3.65%'24s, SOCGEN 4.3%'26s, SCISP 4.75%'49s, better selling seen in FCL 4.15%'27s, FNNSP 3.8%'27s, and mixed interest in UOBSP 3.5%'29s. In the broader dollar space, the spread on JACI IG corporates fell 1bps to 202bps, while the yield on JACI HY corporates changed little at 6.58%. 10y UST yields fell 3bps to 2.30% yesterday, after the Trump administration released its summarised tax reform plan, prompting investors to cast doubts about the plan's prospects in Congress and its efficacy if passed.

New Issues: State Grid Overseas Investment (2016) Ltd. priced a USD5bn 4-tranche deal (guaranteed by State Grid Corporation of China); with the USD900mn 3-year piece at CT3+85bps, tightening from initial guidance of CT3+110bps; the USD1.25bn piece at CT5+95bps, tightening from initial guidance of CT5+120bps; the USD2.35bn 10-year piece at CT10+120bps, tightening from initial guidance at CT10+145bps; and the USD500mn 30-year piece at 4.00%, tightening from initial guidance of 4.15%. PT Saka Energi Indonesia (upstream subsidiary of Indonesia state-owned gas utility PT Perusahaan Gas Negara (Persero) Tbk.) priced a USD625mn 7-year bond at 4.45%, tightening from initial guidance of 4.875%. The expected issue ratings are 'BB/Ba1/BB+'.

Rating Changes: S&P affirmed Central China Real Estate Ltd.'s (CCRE) 'B+' corporate credit rating and the rating on the company's outstanding senior unsecured notes. In addition, S&P revised its rating outlook to negative from stable. The rating action reflects S&P's expectation that the company's leverage recovery will take time, given pricing pressure in lower-tier cities and the company's new growth plan. Moody's affirmed Western Liberty Group Finance Pty Ltd's (WLGF) 'Ba2' senior secured debt rating. In addition, Moody's revised the outlook on WLGF's 'Ba2' senior secured rating to positive from negative.

Table 1: Key Financial Indicators

	27-Apr	1W chg (bps)	1M chg (bps)		27-Apr	1W chg	1M chg
iTraxx Asiax IG	93	-8	-4	Brent Crude Spot ($/bbl)	51.69	-2.45%	1.85%
iTraxx SovX APAC	23	-2	1	Gold Spot ($/oz)	1,266.52	-1.20%	0.93%
iTraxx Japan	44	-3	0	CRB	181.71	-1.20%	-0.76%
iTraxx Australia	81	-7	-7	GSCI	383.29	-1.14%	1.75%
CDX NA IG	63	-5	-5	VIX	10.85	-27.33%	-13.20%
CDX NA HY	108	1	1	CT10 (bp)	2.316%	8.41	-6.21
iTraxx Eur Main	67	-8	-8	USD Swap Spread 10Y (bp)	-2	1	1
iTraxx Eur XO	269	-22	-25	USD Swap Spread 30Y (bp)	-42	0	-3
iTraxx Eur Snr Fin	74	-17	-14	TED Spread (bp)	36	1	-3
iTraxx Sovx WE	10	-2	-2	US Libor-OIS Spread (bp)	18	-1	-5
iTraxx Sovx CEEMEA	46	-4	-5	Euro Libor-OIS Spread (bp)	3	0	1
					27-Apr	1W chg	1M chg
				AUD/USD	0.749	-0.52%	-1.71%
				USD/CHF	0.993	0.61%	-0.71%
				EUR/USD	1.092	1.85%	0.47%
				USD/SGD	1.395	0.20%	-0.11%
Korea 5Y CDS	55	-2	4	DJIA	20,975	2.80%	2.06%
China 5Y CDS	81	-7	-4	SPX	2,387	2.11%	1.96%
Malaysia 5Y CDS	107	-7	-2	MSCI Asiax	596	2.76%	2.26%
Philippines 5Y CDS	79	-7	-5	HSI	24,549	2.05%	1.47%
Indonesia 5Y CDS	126	-9	-5	STI	3,171	1.06%	1.41%
Thailand 5Y CDS	55	-3	0	KLCI	1,768	1.49%	1.29%
				JCI	5,702	1.70%	2.89%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
26-Apr-17	State Grid Overseas Investment (2016) Ltd	Not Rated	USD900mn	3-year	CT3+85bps
26-Apr-17	State Grid Overseas Investment (2016) Ltd	Not Rated	USD1.25bn	5-year	CT5+110bps
26-Apr-17	State Grid Overseas Investment (2016) Ltd	Not Rated	USD2.35bn	10-year	CT10+120bps
26-Apr-17	State Grid Overseas Investment (2016) Ltd	Not Rated	USD500mn	30-year	4%
26-Apr-17	PT Saka Energi Indonesia	"BB/Ba1/BB+"	USD625mn	7-year	4.45%
25-Apr-17	Rongshi International Finance Ltd.	"A+/A1/A+"	USD500mn	5-year	CT5+115bps
25-Apr-17	Rongshi International Finance Ltd.	"A+/A1/A+"	USD500mn	10-year	CT10+135bps
25-Apr-17	Rusal Capital D.A.C.	"NR/B1/B+"	USD500mn	6-year	5.3%
24-Apr-17	HPCL-Mittal Energy Ltd.	"NR/Ba2/BB-"	USD375mn	10-year	5.25%

Source: OCBC, Bloomberg

Rating Changes (cont'd): The rating action reflects the materially improved refinancing prospects for its 2018 debt maturities, after successful execution of two management initiatives that improve the project's capacity to raise new debt funding under current market conditions. Moody's placed Nord Anglia Education Inc's (NAE) 'B1' corporate family rating and 'B1' ratings on NAE's term loan, credit facility, and secured notes on review for downgrade. The rating action follows the announcement made on 25 April 2017 that a consortium of investors, led by the Canada Pension Plan Investment Board and Baring Private Equity Asia, entered into an agreement with NAE to acquire NAE for a total transaction value of $4.3 billion, including the repayment of debt. According to Moody's there is a significant likelihood of NAE's financial leverage rising upon the completion of the transaction.

Credit Headlines:

Mapletree Greater China Commercial Trust ("MAGIC"): 4QFY17 revenue surged 7.9% to SGD94.8mn, with NPI higher by 6.1% y/y to SGD77.5mn. Festival Walk (which contributes 70% of gross revenue and 69% of NPI) did well, with gross revenue and NPI increasing 4.5% and 5.7% to SGD247.2mn and SGD198.0mn respectively. Overall portfolio occupancy remains healthy at 98.6%. While rental reversion appears to be moderating for Festival Walk amidst the challenging retail market (HK retail sales declined 6.1% y/y in Feb 17), management still expects reversions to remain positive in FY18. For FY18, reversions are also expected to remain positive for Gateway Plaza (4Q17: +10%) and Sandhill Plaza (4Q17: +16%). As such, while MAGIC has a chunky 24% of leases due in the next 12 months that have yet to be renewed, we are not overly worried due to the healthy rental reversion and high portfolio occupancy. Asset leverage ratio inched down to 39.2% (from 3QFY17's 40.5%) mainly due to revaluation gains on all its properties (in local currency terms), which is lifted further due to a stronger HKD against SGD. Reported interest cover is maintained at 3.6x. We continue to hold MAGIC's Issuer Profile at Neutral. (Company, OCBC)

AIMS AMP Capital Industrial REIT ("AAREIT"): AAREIT announced its financial results for the year ended March 2017 ("FY2017"). Revenue declined 3.4% to SGD120.1mn, on the back of lower rental contributions from 4 properties and the loss in revenue due to the redevelopment of 8&10 Tuas Avenue 20. This was partially offset by higher rental at 29 Woodlands Industrial Park E1 and 20 Gul Way. As a result of lower operating expenses as no performance fees was payable, EBITDA (based on our calculation which does not include other income and other expenses) was 1.9% lower at SGD70.3mn. Despite the decline in EBITDA, EBITDA/Interest was higher at 3.8x (FY2016: 3.6x). This was mainly due to lower interest cost during the year. As at 31 March 2017, overall blended funding cost was 3.7% (against 4.2% as at 31 March 2016). AAREIT holds a 49% in a joint venture which owns Optus Centre building in Australia. Assuming the REIT receives a SGD14mn p.a distribution (FY2017: SGD15.0mn), adjusted EBITDA (including the distribution from Optus Centre)/Interest was 4.5x, healthy in our view. Aggregate leverage was 36.1% as at 31 March 2017 (higher against 32.4% as at 31 March 2016). This was largely due to increase in gross debt at the REIT of SGD56mn. AAREIT took on more debt to fund the redevelopment of 2 buildings and the finance the greenfield built-to-suit development in Marsiling (for Beyonics). As at 31 March 2017, secured debt made up 75% of total debt. Short term debt at the REIT was SGD82.6mn (due in November 2017), though we see refinancing risk to be manageable. In April 2017, AAREIT had also received commitment from a banking syndicate to refinance the debt coming due. In 4QFY2017, CWT Limited (along with its subsidiaries, "CWT") made up 20% of AAREIT's gross rental income. In April 2017, HNA Group announced the pre-conditional voluntary general offer to acquire CWT. In so far that CWT's day to-day operations is concerned, we think its leases (and hence AAREIT's rental income stream) should continue as usual. For now, we are maintaining AAREIT's issuer profile at Neutral. (Company, OCBC)

International Healthway Corp ("IHC"): As mentioned previously (refer OCBC Asian Credit Daily - 27 Feb 2017), due to the change in shareholding event that occurred at IHC, the holders of IHCSP'17s and IHCSP'18s could exercise the option of early redemption. Since then, on 25/04/17, IHC has announced that 88.5% of the noteholders of the IHCSP'17s and 78% of the noteholders of the IHCSP'18s have exercised their option for IHC to redeem the bonds early. These amounts, aggregating SGD83.25mn (of SGD100mn in aggregate face value), have been redeemed by IHC via the use of shareholder's loan. We note that the formal maturity of the IHCSP'17s are today (27/04/17). (Company)

Credit Headlines (cont'd):

First Sponsor Group Limited ("FSG"): FSG announced its 1Q2017 financial results. Revenue increased 79% to SGD81.3mn, this was largely due to higher revenue recognition from FSG's property development segment. In 1Q2017, 600 residential units were handed over compared to 324 residential units in 1Q2016. Headline gross profit though only increased by 63% to SGD23.4mn as property development has a lower gross margin contribution of around 20-30% versus property financing where gross profit margin was 100%. EBITDA (based on our calculation that does not take into account other income /expenses) improved to SGD14.7mn (from SGD4.7mn in 1Q2016). The property development business contributed SGD19.8mn to gross profit in 1Q2017 (1Q2016: SGD8.1mn). This segment comprises mainly the (1) Millennium Waterfront Project in Chengdu (China) (2) Star of East Rover Project in Dongguan (FSG still holds 30%) and (3) Netherlands properties with residential development and redevelopment potential. Including units pre-sold but not yet booked as revenue, only 969 out of 7,302 units at the Millennium Waterfront project remain unsold. Assuming an average selling price of RMB6,000 per unit and a unit size of 90 sqm per unit, FSG can still book SGD100-110mn from the Millennium Waterfront project. Property holding contributed gross profit of SGD2.7mn in 1Q2017 (1Q2016: SGD3.7mn). This segment comprises mainly FSG's hotel properties in Wenjiang and properties in the Netherlands. The decline in gross profit was mainly due to gross loss at the Wenjiang hotels. On 7 April 2017, FSG entered into an acquisition (together with an unnamed third party) to acquire a 90% and 10% equity interest respectively in Dongguan East Sun Limited ("East Sun"). East Sun owns 13 properties that are spread across Dongguan valued at RMB260mn (SGD53mn). Property financing only generated gross profit of SGD0.9mn versus SGD2.6mn mainly due to lower interest servicing entrusted loan balance in 1Q2017 versus 1Q2016 (arising from various loan defaults in January 2016). FSG's gearing (gross debt-to-equity) was 0.3x, somewhat lower than 0.4x in end-2016. Cash balance at FSG was SGD304.1mn, higher than cash receipts in advance (a current liability item arising from pre-sales) by SGD102.9mn, which provides the company with financial flexibility for expansions. The increase in cash balance was largely due to collection from one of the earlier problematic loans. There is no short term debt due at the company. We maintain FSG's issuer profile at Neutral (Company, OCBC)

CapitaLand Ltd. ("CAPL"): CAPL reported 1Q2017 results, with revenue flattish at SGD897.5mn (+0.4% y/y). Higher contribution from development projects in China as well as rental revenue from the newly acquired Japanese assets helped offset lower revenue from Singapore development projects. This can be seen with revenue from Singapore slumping 43.7% y/y to SGD238.8mn while revenue from China has surged 65.7% y/y to SGD444.1mn. As such, Singapore's contribution to total revenue is just 27%, while China's contribution is 49%. CapitaLand Singapore's slowing revenue is consistent with our view that CAPL's inventory of Singapore residential projects is running low. 83 units in Singapore were sold for 1Q2017 (versus 222 units sold in 1Q2016) and consists mainly of units from Marina Blue (the new launch) and The Nassim. Singapore's residential inventory stood at SGD1.3bn as of end-1Q2917. For CapitaLand China, revenue jumped 91.2% y/y to SGD374.5mn, with CAPL handing over 1,191 units (1Q2016: 773 units) from developments such as Dolce Vita and Vista Garden in Guangzhou. Looking forward, CAPL has about ~7000 launch-ready units for the next nine months as well as ~RMB6.3bn worth of pre-sold revenue to be recognized over the period. For CapitaLand Mall Asia, revenue was flattish (-1.0% y/y) at SGD145.8mn due to weaker MYR affecting Malaysia malls and lower project management fees from China. This was mitigate by the Japanese assets which CAPL acquired in February 2017. Ascott saw revenue decline 18.4% y/y to SGD209.6mn, as Cairnhill Nine already obtained TOP in 4Q2016 hence had lower contribution. In aggregate, operating PATMI (which excludes divestments, revaluation and impairments) surged by 121.1% to SGD337.8mn, driven by SGD160.9mn gain realized on the sale of 45 units of The Nassim. Excluding this, operating PATMI would have still increased 15.8% y/y due to contributions from CAPL's other development projects in Singapore and China. CFO (including interest service) was negative at SGD205.3mn, largely due to working capital needs. We note as well that CAPL spent ~SGD620mn on the Japanese assets it acquired. The sale of The Nassim (consideration paid was SGD411.6mn in cash) helped mitigate the cash burn. In aggregate though, the cash balance was consumed while net borrowings inched higher, with net gearing climbing to 44% (4Q2016: 41%). Though there has been deterioration, CAPL's pipeline of pre-sales in China, as well as its strong investment property portfolio will continue to support CAPL's credit profile and liquidity. We will retain our Positive issuer profile on CAPL. (Company, OCBC)

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