

Aug 13, 2018

**Credit Headlines:** ESR-REIT, ABN Amro Group NV, VIVA Industrial Trust

## **Market Commentary**

- The SGD swap curve flattened last Friday, with swap rates for the shorter tenors trading 1-3bps lower while the longer tenors traded 4-6bps lower.
- Flows in SGD corporates were light last Friday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 138bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 471bps.
- 10Y UST yields fell 5bps to close at 2.87% last Friday on the back of escalated tension between the US and Turkey after US President Donald Trump slapped higher tariffs on Turkish steel and aluminium imports.

## **Credit Headlines:**

### **ESR-REIT ("EREIT") | Issuer Profile: Neutral (4)**

- EREIT announced its 2Q2018 results. Gross revenue was up 18% y/y to SGD32.5mn, driven by full quarter contributions from the acquisitions of 8 Tuas South Lane and 7000 Ang Mo Kio Avenue 5 (both acquired in December 2017) and the rental escalations of certain properties which helped offset revenue declines from master lease conversion of three properties into multi-tenancy properties, expiries and non-renewal of three properties and the absence of revenue from four divested properties.
- On a q/q basis, EREIT's gross revenue fell 3% while net property income ("NPI") fell 1.5%. While no details were provided on the reasons behind the q/q fall, we think this is indicative of the absence of revenue from 9 Bukit Batok Street 22 (divested in March 2018) and lower rents in 2Q2018. For 1H2018, EREIT saw rental reversion of -4.2% versus 1Q2018 rental reversion of only -0.2%. EBITDA (based on our calculation which does not include other income and other expenses) was lower by 0.9% q/q at SGD20.9mn.
- Interest expense was 14.2% lower q/q, following lower levels of debt in 2Q2018 versus 1Q2018. In March 2018, EREIT had raised SGD141.9mn in gross proceeds from an equity preferential offering and bulk of these were used to reduce debt taken to partly fund the acquisition of the 80%-stake in 7000 AMK Pte Ltd (which holds the 7000 Ang Mo Kio Avenue 5 property). Despite the slight fall in EBITDA, EBITDA/Interest had increased to 4.0x from 3.5x in 1Q2018.
- As at 30 June 2018, unadjusted aggregate leverage at EREIT was low at 30.5% while adjusting 50% of perpetuals as debt, we find adjusted aggregate leverage still manageable at 35.0%. Short term debt was SGD155.0mn, comprising the EREIT 3.5% '18 bond due in November 2018. With undrawn available committed facilities of SGD202mn, we see short term refinancing risk as minimal. Another SGD118mn comes due in 2018 (with SGD100mn made up of unsecured bank debt). EREIT is finalizing refinancing of this SGD100mn to 2023 which when completed, will extend weighted average debt expiring to 3.2 years (we estimate weighted average debt expiry at 1.5 years as at 30 June 2018).
- In April 2018, EREIT announced the proposed acquisition of 15 Greenwich Drive 1, a multi-tenanted ramp up logistics facility with ancillary offices for a total acquisition cost of SGD99.9mn. This consist of SGD86.2mn in consideration, SGD9.6mn in estimated upfront land premium payable to JTC and acquisition cost. EREIT has shared that this is likely to be fully debt funded, with targeted completion in 4Q2018. We expect EREIT's unadjusted aggregate leverage to rise to 34% on a standalone basis. EREIT is in the midst of a proposed merger with VIVA Industrial Trust, we maintain EREIT issuer profile at Neutral (4). (Company, OCBC)

## Credit Headlines (cont'd):

### **ABN Amro Group NV ("ABN") | Issuer Profile: Neutral (3)**

- ABN announced its 2Q2018 results with operating income for 2Q2018 down 8% y/y, mainly due to a fall in other operating income (-55% y/y), which was partially offset by higher net interest income (+4% y/y). Excluding the divestment effects of EUR255mn in 2Q2017, other operating income remained almost flat y/y. The fall in other operating income in 2Q2018 was due to lower results for Equity Participation, CVA/DVA/FVA as well as less favourable hedge accounting-related income. This was however largely offset by the divestment in Private Banking (EUR 48mn). Net interest income grew despite the low interest rate environment on the back of higher volumes, improved margins on corporate loans and higher mortgage penalty fees with higher net interest margin ("NIM") of 1.64% (2Q2017: 1.53%). NIM improvement appears driven by the low interest rates favourably impacting ABN's cost of funding.
- Operating expenses continues to trend down by 8% y/y due to cost-saving programs as well as declining FTE levels. Cost-to-income ratios rose marginally to 55.1% as a result of lower income (2Q2017: 54.9%). On a q/q basis, the cost-to-income ratio was lower due to the continuous fall in operating expenses (-6% q/q).
- Net profit for 2Q2018 fell 28% y/y to EUR688mn due to higher impairment charges on certain sectors totaling EUR134mn (mainly energy, trade & commodity finance and healthcare). Despite lower net profit y/y, net profit q/q was up 16% as impairment charges on financial instruments were well below that of 1Q2018 (-36% q/q).
- ABN's total assets was down 0.5% q/q as securities financing assets fell 20.7% q/q, partially offset by both loans and advances to banks and customers which were up marginally by 1.9% and 0.7% q/q respectively. Total liabilities fell by 0.4% q/q, mainly due to lower securities financing liabilities, partly offset by an increase in amount due to customers. Loan quality appears to be improving, with the reported impaired loan ratio stable at 2.5% as at 30 June 2018 compared to 31 March 2018 and 31 December 2017. The past due ratio has improved however to 1.1% as at 30 June 2018 from 1.2% and 1.4% as at 31 March 2018 and 31 December 2017 respectively.
- With the fall in risk-weighted assets to EUR104.5bn (1Q2018: EUR107.9bn) due to lower credit risk coupled with active balance sheet management, ABN's fully-loaded CET1 ratio rose to 18.3% (1Q2018: 17.5%) which positions it comfortably at the upper end of its capital target range for 2018 of 17.5%-18.5% and well above the 2019 fully-loaded Maximum Distributable Amount (MDA) trigger level of 11.75%. ABN's fully loaded leverage ratio also increased to 4.1% for 2Q2018 (1Q2018: 4.0%) achieving its target level of at least 4.0%. (Company, OCBC)

## Credit Headlines (cont'd):

### **VIVA Industrial Trust ("VIT") | Issuer Profile: Neutral (5)**

- VIT announced its 2Q2018 results. Gross revenue was up 3.9% y/y to SGD28.7mn driven by higher rental at UE BizHub, ViVA Business Park, Jackson Square which partly offset lower rental contribution from 11 Ubi Road 1. On a q/q basis, gross revenue was relatively flat (down 0.04% q/q). Net property income ("NPI") though fell more at -0.8% q/q to SGD20.9mn, this was led by declines in the Light Industrial segment.
- EBITDA (based on our calculation that does not take into account other income, rental support and other expenses) was down 3.6% q/q to SGD18.5mn, following higher REIT management fees while interest expense was higher q/q following higher debt levels. This resulted in lower EBITDA/Interest expense of 3.4x against 3.7x in 1Q2018.
- As at 30 June 2018, unadjusted aggregate leverage was 41.0%, slightly higher versus the 40.6% as at 31 March 2018. Short term debt at VIT was SGD100.0mn (the VITSP 4.15% '18s coming due in September 2018). As at 30 June 2018, secured debt only makes up 33% of total assets (SGD1.3bn), so VIT still has some financial flexibility to raise more secured debt, if need be and we see refinancing risk as manageable.
- VIT is in the midst of a proposed merger with ESR-REIT and the transaction will be put through a stapled security holders vote on 31 August 2018. As at 30 June 2018, VIT has SGD436.5mn in secured debt, though the intention is for the merged entity's assets to become 100% unencumbered post-transaction. EREIT's assets are currently all unencumbered indicating a future refinancing at VIT of its existing secured bank debt into unsecured.
- We maintain VIT's standalone issuer profile at Neutral (5). Our base case assumes that the proposed merger will go through with an indicative issuer profile of Neutral (4) for the merged entity. (Company, OCBC)

**Table 1: Key Financial Indicators**

	13-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	83	1	-8
iTraxx SovX APAC	11	0	-4
iTraxx Japan	55	-1	-9
iTraxx Australia	74	-2	-9
CDX NA IG	62	3	0
CDX NA HY	107	0	0
iTraxx Eur Main	68	4	2
iTraxx Eur XO	304	10	7
iTraxx Eur Snr Fin	86	7	7
iTraxx Sovx WE	28	2	3
AUD/USD	0.728	-1.41%	-1.90%
EUR/USD	1.140	-1.38%	-2.48%
USD/SGD	1.374	-0.46%	-0.63%
China 5Y CDS	63	1	-4
Malaysia 5Y CDS	88	2	-11
Indonesia 5Y CDS	120	4	-3
Thailand 5Y CDS	44	0	-2

	13-Aug	1W chg	1M chg
Brent Crude Spot (\$/bbl)	72.83	-1.25%	-3.32%
Gold Spot (\$/oz)	1,210.55	0.24%	-2.71%
CRB	191.69	-0.80%	-1.05%
GSCI	458.18	-0.86%	-1.12%
VIX	13.16	13.06%	8.05%
CT10 (bp)	2.866%	-7.35	3.89
USD Swap Spread 10Y (bp)	6	-1	-1
USD Swap Spread 30Y (bp)	-7	-2	-3
TED Spread (bp)	28	-6	-10
US Libor-OIS Spread (bp)	29	-4	-9
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,313	-0.59%	1.17%
SPX	2,833	-0.25%	1.14%
MSCI Asiax	668	0.84%	-0.51%
HSI	28,367	2.49%	-0.56%
STI	3,285	-0.05%	0.75%
KLCI	1,806	1.44%	4.87%
JCI	6,077	1.16%	2.24%

## New issues

- Nimble City Ltd has priced a USD250mn 2NC1 bond (guaranteed by Beijing Properties (Holdings) Ltd) at 9%, in line with its initial price guidance.

Date	Issuer	Size	Tenor	Pricing
10-Aug-18	Nimble City Ltd	USD250mn	2NC1	9%
8-Aug-18	Tuspark Forward Ltd	USD350mn	3-year	8.50%
8-Aug-18	Powerlong Real Estate Holdings Ltd	USD250mn	PWRLNG 5.95%'20s	9%+accrued interest
7-Aug-18	Shinhan Financial Group	USD500mn	Perp NC5	5.875%
6-Aug-18	SK Broadband Co Ltd	USD300mn	5-year	CT5+117.5bps
2-Aug-18	Power Finance Corp Ltd	USD300mn	10-year	CT10+235bps
2-Aug-18	Sands China Ltd	USD1.8bn	5-year	CT5+175bps
2-Aug-18	Sands China Ltd	USD1.8bn	7-year	CT7+220bps
2-Aug-18	Sands China Ltd	USD1.9bn	10-year	CT10+245bps
2-Aug-18	Wuhan Real Estate Development Investment Group Co Ltd	USD430mn	3-year	5.7%
2-Aug-18	Bank of China Ltd/Macau	USD300mn	3-year	3mL+75bps
31-Jul-18	Lotte Property & Development Co Ltd	USD200mn	3-year	3mL+92.5bps
31-Jul-18	KWG Group Holdings Limited	USD350mn	3NC2	7.875%
31-Jul-18	China Mengniu Dairy Co Ltd	USD500mn	5-year	CT5+148bps
30-Jul-18	CMHI Finance BVI Co Ltd	USD900mn	5-year	CT5+162.5bps
30-Jul-18	CMHI Finance BVI Co Ltd	USD600mn	10-year	CT10+215bps
30-Jul-18	Woori Bank	USD300mn	10-year	CT10+220bps
27-Jul-18	Legend Fortune Ltd	USD300mn	3-year	3mL+128bps

Source: OCBC, Bloomberg

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