July 24, 2018

Credit Headlines: Ascott Residence Trust, CITIC Envirotech Ltd, Mapletree Logistics Trust, Julius Baer Group Ltd

Market Commentary

- The SGD swap curve steepened yesterday, with swap rates for the shorter tenors trading around 1bps higher while the longer tenors traded 2-4bps higher.
- Flows in SGD corporates were light yesterday, with better buying seen in HSBC 4.7%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 142bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 14bps to 510bps.
- Overall, 10Y UST yields rose 6bps to close at 2.95% as investors expect the Fed to continue rate hikes despite criticism from President Donald Trump.

Credit Headlines:

Ascott Residence Trust ("ART") | Issuer Profile: Neutral (4)

- ART reported its 2Q2018 financials. Revenue increased 5.6% y/y to SGD130.5mn, mainly due to additional revenue from new properties acquired in 2017, partly offset by the decrease in revenue from divestments and a SGD0.6mn decline in contribution from existing properties.
- EBITDA (based on our calculation which does not include other income and other expenses) was SGD52.5mn (up 7% y/y) while interest expense increased by 4% y/y due to higher debt took on for acquisitions. EBITDA/Interest coverage improved somewhat to 4.5x (2Q2017: 4.4x). Perpetuals made up 8% of total capital and adjusting 50% of perpetual distribution as interest expense, we estimate that adjusted EBITDA/Interest was 3.7x.
- As at 30 June 2018, ART's reported aggregate leverage was 35.7% and adjusting 50% of perpetuals as debt, adjusted aggregate leverage would be ~39% based on our estimation, slightly lower versus 40% as at 31 March 2018. As at 30 June 2018, short term debt was SGD270.6mn (including a JPY5.0bn (~SGD61mn) bond and SGD100mn bond due in September and November 2018 respectively). This only represents 14% of total gross debt at ART and we see refinancing as manageable.
- In SGD terms, at a gross profit level, properties under management contracts worsened 2% y/y to SGD34.3mn (2Q2017: SGD35.1mn), led by declines in Vietnam, the Philippines and China (though the China decline was mainly due to divestments). Both Vietnam and the Philippines was negatively affected by weaker underlying performance and currency depreciation against the SGD. We maintain ART at an issuer profile of Neutral (4).

CITIC Envirotech Ltd ("CEL") | Issuer Profile: Neutral (5)

- CEL announced that it has secured a RMB134mn (~SGD27.0mn) public-private-partnership project in Maoming City, Guangdong Province. The project involves the design, construction and operation of a municipal wastewater treatment plant. A project company will be set up to undertake this where CEL would own a 70%-stake of the project and the local government will own the remaining 30%. Construction would commence immediately and scheduled to be completed in one year. Given the small scale of this project, we see this transaction itself as credit neutral.
- CEL's USD-denominated CELSP 5.45%- PERP with an outstanding amount of USD355mn faces first call in November 2018. Given the significant step-up margin of 500 bps, we think CEL would likely try to replace this perpetual, though amidst a more challenging funding environment for perpetuals. We have lowered our issuer profile of CEL to Neutral (5) from Neutral (4) in our mid-year 2018 credit outlook. Additionally, since June 2018 to date, the RMB has seen a significant decline of 6.5% (over 6 weeks) and should deterioration continue, this may weigh upon CEL's fundraising cost. (Company, OCBC)

Credit Headlines (cont'd):

Mapletree Logistics Trust ("MLT") | Issuer Profile: Neutral (4)

- MLT reported first quarter results for the financial year ended March 2019 ("1QFY2019"). Revenue declined 1.9% q/q to SGD105.4mn, mainly due to absence of certain one-offs that was in 4QFY2018 results, absence of revenue from a property that was divested and currency impact.
- EBITDA (based on our calculation which does not include other income and other expenses) was down 2% q/q to SGD78.1mn while borrowing cost increased 5.2% due to additional borrowings to fund acquisitions. EBITDA/Interest cover fell to 5.0x (4QFY2018: 5.4x), but is still healthy in our view.
- Perpetuals make up 7% of total capital and adjusting 50% of perpetual distribution as interest expense, we find adjusted EBITDA/Interest at 4.4x. On 6 June 2018, MLT had also completed the acquisition of a 50%-interest in 11 China-based properties ("China Portfolio"). This transaction was fully equity funded. In 1QFY2019, MLT recorded SGD660k in interest income from shareholders' loan extended to the China Portfolio though MLT also recognised a SGD239k share of loss from joint venture, which is likely due to overhead expenses incurred while a number of leases have yet to commence. Per management, the losses from the joint venture will be narrowed or reversed in the coming quarter as tenants who have committed to rent the space start their leases. The shareholder's loan is for a period of 5 years (~SGD180.2mn loan outstanding amount) and this is a recurring source of income for MLT from the joint venture investment.
- As at 30 June 2018, reported aggregate leverage looks manageable at only 36.4% (31 March 2018: 37.7%). Nonetheless, MLT is proposing to acquire five Singapore warehouses from CWT Pte Ltd and its subsidiaries (CWT SG) at a total acquisition cost of SGD806mn. The funding structure for this acquisition structure has not been firmed up. MLT envisages to sell ~SGD200mn worth of assets in Singapore though this is likely to be on a piecemeal basis and timing remains uncertain. Pending the divestments, our base case assumes that MLT would source funding from a mix of perpetuals and debt that will help keep its headline aggregate leverage below 40%. For now we are maintaining MLT's issuer profile at Neutral (4). (Company, OCBC)

Julius Baer Group Ltd ("JBG") | Issuer Profile: Neutral (3)

- JBG reported 1H2018 results with operating income up by 12.4% y/y to CHF1,788.8mn. This was mainly driven by a 129% rise in net trading income and a 10% rise in net commission and fee income (due to a 11% increase in asset-based fee income and a 8% rise in brokerage commissions). Adjusted net profit also grew 19% y/y to CHF479.6mn (CHF403.6mn in 1H2017) as y/y growth in operating expenses (10%) was lower than operating income growth.
- Gross margin increased to 91.5bps in 1H2018 (vs 88bps in 2H2017) and was broadly stable y/y as growth in operating income was higher or in line with growth in monthly average AuM respectively. Cost to income ratio improved to 67.3% in 1H2018 from 69.1% in 1H2017, achieving its medium-term target range of 64-68% as revenue growth more than outpaced expense growth from hiring more staff and relationship managers.
- Asset under Management (AuM) grew 13% y/y and 3% h/h to CHF400bn, as the CHF11bn growth since the end of 2017 was attributed to CHF10bn in net new money along with a CHF4.5bn gain from the acquisition of Reliance Group in Brazil (completed on 4 June 2018). This was partly offset by a CHF4bn negative market performance from stock markets in Switzerland, Europe and Asia.
- JGB's balance sheet remains strong with total assets up 6% h/h to CHF104bn. This was driven by growth in cash and amounts due from banks while total loans were stable at CHF47bn. As deposits rose by 4% to CHF70bn, the loan-to-deposit ratio strengthened to 66% for 1H2018 (69% for 2H2017).
- Capital ratios continue to be sound with JBG's CET1 ratio at 13.7% in 1H2018 (13.5% in 1H2017) due to the accretive acquisition of Reliance Group and residual 20% stake in Kairos which increased its CET1 Capital to CHF2.7bn (vs CHF2.6bn in 2H2017). At the same time, risk weighed assets decreased 1% h/h. JBG's total capital ratio however fell modestly to 20.2% (vs 21.2% in 2H2017) as JGB redeemed its CHF250mn perpetual Tier 1 bonds in March 2018. Overall, both the CET1 and total capital ratio still remain well above the minimum regulatory requirement of 8.1% and 12.3% respectively. (Company, OCBC).

OCBC Bank

Table 1: Key Financial Indicators

	24-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	86	-2	2
iTraxx SovX APAC	13	0	-1
iTraxx Japan	56	2	6
iTraxx Australia	81	0	6
CDX NA IG	62	1	-5
CDX NA HY	107	0	0
iTraxx Eur Main	65	2	-8
iTraxx Eur XO	291	2	-22
iTraxx Eur Snr Fin	80	5	-8
iTraxx Sovx WE	24	0	-2
AUD/USD	0.737	-0.20%	-0.54%
EUR/USD	1.169	0.25%	-0.12%
USD/SGD	1.366	-0.10%	-0.29%
China 5Y CDS	63	-1	2
Malaysia 5Y CDS	91	-4	-16
Indonesia 5Y CDS	116	-1	-20
Thailand 5Y CDS	45	1	-2

	24-Jul	1W chg	1M chg
Brent Crude Spot ($/bbl)	72.99	1.15%	-3.39%
Gold Spot ($/oz)	1,223.93	-0.29%	-3.30%
CRB	192.49	0.69%	-2.55%
GSCI	457.87	1.58%	-2.88%
VIX	12.62	-1.64%	-8.35%
CT10 (bp)	2.956%	9.60	6.11
USD Swap Spread 10Y (bp)	5	-2	-2
USD Swap Spread 30Y (bp)	-7	-3	0
TED Spread (bp)	37	0	-4
US Libor-OIS Spread (bp)	35	-1	-6
Euro Libor-OIS Spread (bp)	4	0	1
DJIA	25,044	-0.08%	1.89%
SPX	2,807	0.31%	1.89%
MSCI Asiax	667	0.09%	-3.08%
HSI	28,256	-0.99%	-3.69%
STI	3,294	1.88%	0.19%
KLCI	1,758	1.81%	3.77%
JCI	5,916	0.18%	1.61%

New issues

- SMBC Aviation Capital Finance DAC has priced a USD500mn 5-year bond (guaranteed by SMBC Aviation Capital Ltd) at CT5+133bps, tightening from its initial price guidance of CT5+155bps area.
- NongHyup Bank has priced a USD500mn 5-year bond at CT5+122.5bps, tightening from its initial price guidance of CT5+145bps area.
- Yuzhou Properties Co Ltd has priced a USD425mn re-tap of its YUZHOU 7.9%'21s (guaranteed by all of the issuer's restricted subsidiaries outside of the PRC) at 8.25%, in line with its initial guidance.
- Industrial & Commercial Bank of China Asia Ltd has priced a USD100mn 2-year bond at 3mL+70bps.
- Land Transport Authority of Singapore has priced a SGD1.5bn 40-year bond at 3.45%, in line with its initial price guidance.

Date	Issuer	Size	Tenor	Pricing
23-Jul-18	SMBC Aviation Capital Finance DAC	USD500mn	5-year	CT5+133bps
23-Jul-18	NongHyup Bank	USD500mn	5-year	CT5+122.5bps
23-Jul-18	Yuzhou Properties Co Ltd (re-tap)	USD425mn	YUZHOU 7.9%'21s	8.25%
23-Jul-18	Industrial & Commercial Bank of China Asia Ltd	USD100mn	2-year	3mL+70bps
23-Jul-18	Land Transport Authority of Singapore	SGD1.5bn	40-year	3.45%
20-Jul-18	Export-Import Bank of China	USD300mn	5-year	3mL+70bps
20-Jul-18	Malayan Banking Bhd	USD280mn	5-year	3mL+90bps
19-Jul-18	Orient HuiZhi Ltd	USD750mn	4.5-year	CT4+170bps
19-Jul-18	Agile Group Holdings Ltd (re-tap)	USD400mn	AGILE 8.50%'21s	100
19-Jul-18	SF Holding Investment Ltd	USD500mn	5-year	CT5+140bps
19-Jul-18	Export-Import Bank of China	USD200mn	3-year	3mL+60bps
18-Jul-18	Korea Hydro & Nuclear Power Co Ltd	USD600mn	5-year	CT5+112.5bps
18-Jul-18	Industrial & Commercial Bank of China Ltd/Hong Kong	USD150mn	2-year	3mL+70bps
17-Jul-18	United Overseas Bank Ltd	AUD600mn	3.5-year	3mBBSW+81bps
17-Jul-18	Housing and Development Board	SGD700mn	5-year	2.42%

Source: OCBC, Bloomberg

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