

Oct 24, 2018

**Credit Headlines:** Suntec Real Estate Investment Trust, Singapore Telecommunications Ltd, Frasers Centrepoint Trust, Mapletree Industrial Trust

## **Market Commentary**

- The SGD swap curve flattened yesterday, with swap rates for the shorter and longer tenors trading 2-4bps lower while the belly of the curve traded 4-5bps lower.
- Flows in SGD corporates were heavy yesterday, with better buying seen in SIASP 3.16%'23s, DBSSP 3.98%-PERPs SIASP 3.13%'27s and better selling seen in FPLSP 4.15%'27s and HRAM 3.2%'21s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 143bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 9bps to 513bps.
- 10Y UST yields fell 8bps to 3.11% in the earlier part of the trading session, its lowest in almost three weeks on the back of safe haven demand from the ongoing sell-off in equity markets worldwide. Yields subsequently recovered 6bps to close at 3.17% following the USD38bn 2-year note auction which attracted below average demand.

## **Credit Headlines:**

### **Suntec Real Estate Investment Trust ("SUN") | Issuer Profile: Neutral (4)**

- SUN reported its third quarter results. Gross revenue dipped slightly by 2.5% y/y to SGD88.8mn, on the back of lower contributions from 177 Pacific Highway (down 22.2% y/y) as a result of the weakened Australian dollar though partially offset by Suntec Singapore (up 1.9% y/y).
- NPI, however, fell more significantly by 11.4% y/y to SGD56.5mn due to the sinking fund contribution for Suntec City office upgrading works. Excluding the sinking fund contribution, the NPI was 3.9% lower y/y.
- Contributions from JV increased 4.1% y/y, driven by 50% interest in Southgate Complex which more than offset the weakness seen at ORQ (-12.7% y/y) and MBFC (-1.8% y/y).
- Office portfolio committed occupancy remains somewhat resilient though marginally lower at 98.9% (2Q2018: 99.0%, 1Q2018: 99.1%). That being said, 268,000 sq ft leases were signed in the quarter, reducing the balance of expiring leases to just 2.1% of NLA for FY2018 and office committed occupancy for SUN's assets continue to stay above the overall CBD Grade A occupancy rate of 91.6% in 3Q2018.
- On the retail front, committed occupancy also eased slightly to 98.1% (2Q2018: 98.2%, 1Q2018: 98.4%) with 2.3% of NLA expiring for the remaining of FY2018.
- Aggregate leverage inched higher to 38.2% from 37.9% in 2Q2018 while interest coverage is 3.4x (2Q2018: 3.6x). Short term debt is manageable with just SGD105mn outstanding for the remaining for FY2018 which can be covered by SUN's cash and cash equivalents of SGD133mn as at 30 September 2018. (Company, OCBC).

### **Singapore Telecommunications Ltd ("SingTel") | Issuer Profile: Positive (2)**

- SingTel invested USD250mn (~SGD345mn) in Airtel Africa, as part of a USD1.25bn investment ahead of its planned initial public offering.
- Prior to the investment, Airtel Africa was an indirect wholly owned subsidiary of Bharti Airtel Ltd. Airtel Africa provides mobile and mobile payment services across 14 African countries. As of 30 Sep 2018, Airtel Africa has net assets of USD1.17bn.
- As the invested amount is small relative to SingTel's total assets (SGD47.8bn), the credit impact on SingTel should be manageable. (Bloomberg, Company, OCBC)

## **Credit Headlines (cont'd):**

### **Frasers Centrepont Trust ("FCT") | Issuer Profile: Neutral (3)**

- FCT reported its fourth quarter results. Gross revenue was up 0.5% y/y at SGD48.5mn while NPI was 4.9% lower y/y at SGD32.9mn. Much like the previous periods, Northpoint City North Wing ("Northpoint") was the key growth driver with its revenue and net property income (excluding Yishun 10 retail podium) higher by 26.5% y/y and 35.1% y/y respectively, on the back of higher average rental (+0.5% rental reversion) and improved occupancy (at 96.5% up from 92.5%) following the completion of AEI works last year. Changi City Point also saw a 3.5% y/y increase in NPI. These helped to mitigate NPI declines at FCT's other assets, including Bedok Point (-30.8% y/y), Anchorpoint (-15.4% y/y) and YewTee Point (-3.6% y/y). The y/y dip in NPI was largely due to higher maintenance expenses which climbed significantly by 25.2% y/y as a result of the ad-hoc repair and replacement works carried out during the quarter.
- Portfolio occupancy inched higher to 94.7% as at 30 September 2018 with 4.1% of FCT's total NLA renewed at an average rental reversion of +0.2% during the quarter. That being said, Bedok Point and Anchorpoint saw -23.3% and -10.4% in rental reversion respectively. WALE stands at 1.91 years (3Q2018: 2.01 years). Looking forward, 2019 will see 27.1% of leases coming due.
- Shopper traffic and tenants' sales (both excluding Northpoint City) were up +5.0% y/y and +3.6% y/y respectively.
- The financial position of FCT remains strong with aggregate leverage at 28.6% (3Q2018: 29.3%) and interest coverage at 6.25x (3Q2018: 6.33x). FCT also has debt amounting to SGD217mn maturing in 2019 Debt. We see refinancing risk as manageable given FCT has 85.8% of assets unencumbered. We maintain FCT at Neutral (3). (Company, OCBC).

### **Mapletree Industrial Trust ("MINT") | Issuer Profile: Neutral (3)**

- MINT reported its 2Q2019 results. Gross revenue was SGD92.2mn, 0.4% lower y/y largely due to the pre-termination compensation received from J&J in 2Q2018, without which gross revenue would have been higher by 3.1% y/y. NPI declined in tandem by 1.1% y/y.
- EBITDA (based on our calculation which does not include other income and other expenses) was SGD62.8mn, up 1.5% y/y while interest expense was higher by 11.3% y/y (due to debt borrowed to fund the investment in JV and interest incurred in relation to 30A Kallang Place and Mapletree Sunview 1 were being expensed (instead of being capitalised) upon obtaining Temporary Occupation Permit) resulting in a lower EBITDA of 6.1x (1Q2019: 6.7x). Factoring in the share of results from the US JV (which MINT holds a 40%-stake) amounting SGD4.6mn, adjusted EBITDA/Interest is bumped higher to 6.5x (1Q2019: 7.1x).
- Portfolio occupancy declined to 86.7% from 88.3% in the previous quarter. Given occupancy rates at US properties remained unchanged at 97.4%, the dip was largely attributable to the flatted factories and hi-tech buildings in Singapore portfolio. 7 Tai Seng Drive, for instance, is undergoing scheduled termination of leases in preparation for upgrading works and will be fully leased to an established IT company for an initial lease term of 25 years upon completion of upgrading works in 2H2019.
- MINT has SGD125mn debt maturing in FY2019 along with a well-distributed maturing debt profile with a maximum of ~20% of total debt maturing each year. We see refinancing risk as manageable. Aggregate leverage remains stable at 35.1% (1Q2019: 35.0%) with interest coverage at 6.4x (1Q2019: 6.9x). We maintain MINT at Neutral (3). (Company, OCBC).

**Table 1: Key Financial Indicators**

	24-Oct	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	89	3	7
iTraxx SovX APAC	10	0	0
iTraxx Japan	60	2	6
iTraxx Australia	81	4	6
CDX NA IG	68	4	5
CDX NA HY	105	-1	-2
iTraxx Eur Main	76	3	6
iTraxx Eur XO	301	11	30
iTraxx Eur Snr Fin	96	6	15
iTraxx Sovx WE	28	1	4
AUD/USD	0.709	-0.30%	-2.26%
EUR/USD	1.147	-0.26%	-2.36%
USD/SGD	1.378	0.01%	-0.90%
China 5Y CDS	68	3	11
Malaysia 5Y CDS	107	5	12
Indonesia 5Y CDS	151	8	17
Thailand 5Y CDS	43	0	2

	24-Oct	1W chg	1M chg
Brent Crude Spot (\$/bbl)	76.31	-4.67%	-6.02%
Gold Spot (\$/oz)	1,231.25	0.73%	2.69%
CRB	194.97	-2.38%	0.10%
GSCI	464.04	-4.26%	-3.40%
VIX	20.71	17.54%	69.75%
CT10 (bp)	3.162%	-4.31	7.30
USD Swap Spread 10Y (bp)	7	1	1
USD Swap Spread 30Y (bp)	-9	-1	-2
TED Spread (bp)	17	1	-4
US Libor-OIS Spread (bp)	21	2	2
Euro Libor-OIS Spread (bp)	4	0	1
DJIA	25,191	-2.35%	-5.16%
SPX	2,741	-2.46%	-6.12%
MSCI Asiax	589	-1.85%	-9.77%
HSI	25,347	-0.39%	-7.83%
STI	3,031	-0.10%	-5.83%
KLCI	1,698	-2.26%	-5.70%
JCI	5,798	-0.05%	-1.43%

## New issues

- TNB Global Ventures Capital Berhad has priced a USD750mn 10-year bond (Obligor: Tenaga Nasional Berhad) at CT10+170bps, tightening from its initial price guidance of CT10+190bps area.
- Soar Wise Ltd has scheduled for investor meetings from 24 Oct for its potential USD bond issuance (guaranteed by AVIC International Leasing Co Ltd).

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
23-Oct-18	TNB Global Ventures Capital Berhad	USD750mn	10-year	CT10+170bps
22-Oct-18	Land Transport Authority of Singapore	SGD1.0bn	35-year	3.43%
18-Oct-18	Doosan Power Systems SA	USD300mn	30NC3	CT3+87.5bps
18-Oct-18	Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	USD500mn	10.25-year	99.004
18-Oct-18	Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	USD500mn	30.25-year	99.293
18-Oct-18	Industrial and Commercial Bank of China Ltd (London Branch)	USD500mn	3-year	3mL+75bps
18-Oct-18	Industrial and Commercial Bank of China Ltd (London Branch)	USD500mn	5-year	3mL+85bps
18-Oct-18	Zhenro Properties Group	USD70mn	ZHPRHK 12.5%'21s	13.5%
18-Oct-18	Singapore Airlines Ltd	SGD600mn	5-year	3.16%
17-Oct-18	Metro Holdings Ltd	SGD150mn	3-year	4.0%
16-Oct-18	Kookmin Bank	USD300mn	3-year	CT3+80bps
16-Oct-18	Development Bank of Mongolia LLC	USD500mn	5-year	7.5%
15-Oct-18	SDG Finance I Ltd	USD600mn	3-year	CT3+255bps
15-Oct-18	Weifang Urban Construction and Development Investment Group Co Ltd	USD250mn	3-year	6.5%
15-Oct-18	Korea Expressway Corp	USD300mn	3-year	CT3+80bps

Source: OCBC, Bloomberg

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