Asian Credit Daily

July 27, 2018

Credit Headlines: Singapore Airlines Ltd, Hongkong Land Holdings Ltd, Perennial Real Estate Holdings Ltd, Mapletree Commercial Trust, Frasers Hospitality Trust, Ascendas Real Estate Investment Trust ("AREIT"), Industry Outlook – Singapore Property

Market Commentary

- The SGD swap curve bear steepened yesterday, with the short end to belly of the curve trading 1-2bps higher while the longer end traded 2-4bps higher.
- Flows in SGD corporates were heavy yesterday, with better buying seen in HSBC 4.7%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 138bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 20bps to 472bps.
- 10Y UST yields rose 1bps to 2.98% as reports of a US-EU trade agreement and stabilizing equity markets mitigated earlier weakness in NASDAQ futures from Facebook's post earnings share slump.

Credit Headlines:

Singapore Airlines Ltd ("SIA") | Issuer Profile: Neutral (3)

- SIA reported its first quarter results for the financial year ending March 2019 ("1QFY2019"). Gross revenue was down marginally at 0.5% y/y to SGD3.8bn, reported operating profit was down significantly by 52.3% y/y to SGD193.1mn. This was driven by the absence of one-off items in 1QFY2018 and a significant increase in fuel cost which was not fully hedged. Removing the one-off items from 1QFY2018 (KrisFlyer breakage rate adjustments and compensation for changes in aircraft delivery slots), adjusted operating profit would be down 16% y/y.
- Fuel cost increased by 17% y/y to SGD1.1bn. In the 4QFY2018 announcement, SIA shared that only 20% of jet fuel had been hedged at USD65/BBL for FY2019 though as of 1QFY2019 announcement, SIA has hedged 46.3% of its fuel requirements for the remaining 9 months of the financial year.
- EBITDA/Interest expense, while still very healthy, is now only 18.0x versus 30.9x for FY2018 though we expect this to decline along with SIA progressing its capex plan.
- By segment, SIA Cargo had been re-integrated into the parent airline company (namely SQ). SQ's reported operating profit was down to SGD181mn from SGD370mn in 1QFY2018 though removing one-off items, we think operating profit was down 7% y/y. Encouragingly, indicative of a gradual improvement in core operations, SQ's passenger operations broke-even on seats sold in 1QFY2019. In FY2018, SQ was still reporting negative spreads of 1.3% between passenger load factor and breakeven load factor.
- The rest of the segments reported weaker performance: (1) SilkAir reporting a marginal operating profit of SGD0.2mn (1QFY2018: SGD8mn) (2) Scoot reporting SGD1.0mn in operating profit (1QFY2018: SGD3.0mn) (3) SIA Engineering reporting operating profit of SGD10.0mn (1QFY2018: SGD19.0mn).
- As at 30 June 2018, SIA's unadjusted net gearing was 0.12x, still very low though notably tripling from 0.04x in the previous quarter. This was mainly due to capex spent (largely for plane purchases) that was funded by bank borrowings (largely secured) and drawing down of existing cash balance. Sales in advance of carriage (cash receipts before services provided) was SGD2.5bn against end-June 2018 cash balance of SGD1.9b. SIA is targeting to spend SGD6.2bn in capex for FY2019 though only SGD1.9bn has been spent so far. We expect net gearing to increase, including fundraising from the debt markets though given SIA's manageable credit metrics, we are keeping its issuer profile at Neutral (3) for now. (Company, OCBC)

Credit Headlines (cont'd):

Hongkong Land Ltd ("HKL") | Issuer Profile: Positive (2)

- HKL reported 1H2018 results. Revenue surged 85.8% y/y to USD1.5bn mainly due to a large increase in sales of properties to USD955.4mn (1H2017: USD303.2mn). Meanwhile, rental income also increased 8.7% y/y to USD484.1mn. On the back of higher revenue, operating profit increased 14.7% y/y to USD518.7mn as a result of increases in contribution from investment properties (+5.3% y/y to USD456.6mn) and development properties (+82.9% y/y to USD96.0mn).
- Despite strong operating profit, underlying profit fell 3% y/y to USD455.1mn, mainly as a result of declines in share of associates and JVs to USD73.6mn (1H2017: USD135.5mn) due to a decline in net profit from associates and JVs from development properties, which contributed just USD30.7mn in 1H2018 (1H2017: USD91.9mn).
- Net profit fell 64% y/y to SGD1.1bn, though this is mainly due to smaller revaluation gains of USD661mn in 1H2018 (1H2017: USD2.6bn).
- Rental reversion at the Hong Kong Central office portfolio remains positive, with rent rising to HKD111 psf (2H2017: HKD109 psf) while vacancy rates remain healthy at 1.9% at end-1H2018, though increased slightly h/h (end-2017: 1.4%). Meanwhile, Singapore's office rent remains largely unchanged at SGD9.1 psf with occupancy remaining low at 0.1% (end-2017: 0.3%).
- We remained comforted that operating profit from investment properties (USD456.6mn) well-covers financing charges (USD78.2mn) by 5.8x in 1H2018. While net gearing has inched up to 8% (end-2017: 7%) and is expected to still increase modestly due to payments for committed land purchase (e.g. joint tender for SGD906.9mn en-bloc acquisition of Tulip Garden, under a JV with Yanlord Land Group in Apr 2018), we think the overall credit metrics remain healthy.
- Looking ahead in 2H2018, HKL expects the investment properties to continue delivering and development properties to benefit from higher sales completions in Mainland China. (OCBC, Company)

Perennial Real Estate Holdings Ltd ("PREH") | Issuer Profile: Neutral (5)

- PREH announced that its 45%-owned joint venture ("JV") vehicle will be investing RMB2.7bn (SGD564.3mn) in Tianjin South High Speed Railway ("HSR") Integrated Development. This follows PREH's announcement that it will be leading a consortium to invest up to USD1.2bn in such HSR projects in China.
- As part of the development, the JV vehicle has been awarded three plots of land (76,900 sqm) adjacent to Tianjin South High Speed Railway Station at RMB718mn (SGD150.3mn). The property will comprise medical care, eldercare, hospitality and retail components, with progressive completion from 2022.
- As mentioned in our Mid-Year 2018 credit outlook, we are already expecting net gearing to increase to ~0.9x when PREH fully commits to its 45% share (USD540mn) in the JV which targets USD1.2bn in projects. As such, we continue to hold PREH at an Issuer Profile of Neutral (5). (OCBC, Company)

Credit Headlines (cont'd):

Mapletree Commercial Trust ("MCT") | Issuer Profile: Neutral (3)

- MCT reported its first quarter results for the financial year starting April 2018 ("1QFY2019"). Gross revenue was up marginally by 0.7% y/y to SGD108.5mn while NPI was up 2.1% y/y to SGD85.9mn. This is mainly due to higher contribution from Bank of America Merrill Lynch HarbourFront ("MLHF"), PSA Building and Mapletree Business City ("MBC I"), offset partially by lower occupancy and lower advertising revenue from Mapletree Anson and VivoCity respectively.
- Overall portfolio committed occupancy remains strong at 99.2%. In terms of rental reversion, retail became more positive at +2.1% (4Q2018: +1.5%) while office remains weak at -5.3%. Portfolio WALE remained stable at 2.6 years.
- VivoCity (45.6% of portfolio NPI) continued to show consistent performance with shopper traffic up 0.4%y/y and lower tenant sales (-4.1%y/y) due to spaces vacated for a public library and concept stores.
- Aggregate leverage remained stable at 34.7% (4QFY2018: 34.5%) while reported interest coverage was slightly lower at 4.6x (4QFY2018: 4.8x) due to marginally higher annualized weighted average all in cost of debt (2.91% as at 30 June 2018 against 2.75% as at 31 March 2018). With approximately SGD$1.2bn debt headroom, assets 100% unencumbered and no more than 20% of debt due for refinancing in any financial year, MCT's financial flexibility remains strong. (Company. OCBC)

Frasers Hospitality Trust ("FHREIT") | Issuer Profile: Neutral (3)

- FHREIT reported its third quarter results for the financial year ending Sept 2018 ("3QFY2018"). Gross revenue was down 1.8% y/y to SGD38.2mn while net property income ("NPI") declined 2.8% y/y to SGD28.5mn. By geography, Australia and Malaysia saw the largest declines in NPI. Australia was dragged by a more competitive environment in Sydney which saw softer corporate demand while Malaysia saw a pullback in both corporate and government spending. Australia makes up 34% of NPI while Malaysia makes up 4%. Singapore (the second largest market which contributed 22% to NPI) saw a decline in average revenue per available room as FHREIT lowered its daily rates on Frasers Suites Singapore ("FSS") to drive volume though we think growth in InterContinental Singapore more than made up for the weakness in FSS.
- EBITDA based on our calculation was down 3.0% y/y to SGD25.3mn while interest expense increased 9.1% y/y to SGD5.0mn following higher levels of debt, higher interest rates from longer term financing and higher base rates. Resultant EBITDA/Interest was 5.1x versus 5.7x in 3QFY2017 though slightly higher than the 5.0x in 2QFY2018.
- As at 30 June 2018, aggregate leverage was 34%, slightly up from the 33.1% as at 31 March 2018. FHREIT has perpetuals outstanding of SGD100mn and taking 50% of this as debt, we find adjusted aggregate leverage moderate at 36%.
- Short term debt was SGD160.5mn, representing 19% of total debt. We see refinancing risk as manageable at FHREIT, with only the Westin KL being encumbered for financing. The rest of the portfolio amounting to SGD2.3bn remains unencumbered and can provide financial flexibility to raise secured debt if need be. We maintain FHREIT at an issuer profile of Neutral (3). (Company, OCBC)

Credit Headlines (cont'd):

Ascendas Real Estate Investment Trust ("AREIT") | Issuer Profile: Neutral (3)

- AREIT announced that it is proposing to acquire 12 logistics properties located in the UK for a total acquisition cost of ~SGD369.1mn. The properties are fully occupied and have a significantly longer weighted average lease expiry ("WALE") of 14.6 years versus AREIT's overall portfolio WALE of 4.2 years (as at 31 March 2018). Post-acquisition, AREIT's portfolio WALE will increase to 4.4 years.
- This is AREIT's first acquisition in Europe, having historically focused on Singapore and Australia (since 2015). The initial NPI yield on the portfolio post cost is 5.2% versus the pre-transaction NPI yield, which we estimate at 6.2%, making it harder to justify funding the transaction via equity.
- AREIT is intending to fully fund the proposed acquisition with GBP loans. On a proforma basis, AREIT expects aggregate leverage to increase to 36.7% from 34.4% before the transaction.
- While a small transaction versus AREIT's total assets of SGD10.4bn, we think this is indicative of AREIT's continued push towards geographically diversifying its portfolio. (Company, OCBC)

Industry Outlook – Singapore Property

- URA released 2Q2018 real estate statistics, which showed prices increasing 3.4% q/q, continuing the trend from 1Q2018 (+3.9% q/q) with property prices higher by 9.1% since the recent trough in 2Q2017. Consistent with the flash estimates, prices in the Rest of Central Region rose the fastest at 5.6% q/q which appears to be a catch-up from a slower increase in 1Q2018 (+1.2% q/q). Comparatively, the increase was slower in Core Central Region at +0.9% q/q (1Q2018: +5.5% q/q) and Outside Central Region at +3.0% q/q (1Q2018: +5.6% q/q).
- While launches (2,437 units) exceed new sales (2,366 units) in 2Q2018, the number of launched but unsold units remain very low at 1,264 units (though higher than 1Q2018's 1,066 units), compared to the average in prior years including 2017 (average: 2,808 units), 2016 (5,076 units) and 2015 (5,888 units).
- Despite the recent property cooling measure, we continue to maintain that optimism would sustain through 2H2018 due to strong technicals. As shown above, supply has yet to fully come on stream with launched but unsold units remaining near multi-year lows. Reiterating our discussions from our May 2018 update, displaced homeowners from collective sales will need to look for replacement homes. Meanwhile, we expect developers to hold up prices (with limited cuts to prices) as their breakeven costs are high with aggressive land bids.
- That said, we continue to remain wary going into 2019. In the pipeline, 26,961 units with planning approvals remain unsold as of 2Q2018 (1Q2018: 24,193), sharply increased y/y (2Q2017: 17,827 units). We think that a significant number of enblocs may be launch-ready in 2019 which adds to the risk of the upcoming supply. In addition, the enbloc transactions which have fuelled property sentiments appear to have cooled significantly.
- Tee Land announced that it has called off the SGD60mn purchase of Teck Guan Ville, which it had announced only in 28 June 2018. This looks like the first casualty following the government's announcement of fresh cooling measures with Tee Land citing impact on market sentiments and purchasers' interest as the reasons. We are monitoring if other previously announced deals will be called off. (OCBC, URA)

Table 1: Key Financial Indicators

	27-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	76	-10	-14
iTraxx SovX APAC	12	-1	-2
iTraxx Japan	56	1	1
iTraxx Australia	73	-8	-4
CDX NA IG	58	-4	-10
CDX NA HY	107	1	1
iTraxx Eur Main	60	-6	-14
iTraxx Eur XO	277	-18	-42
iTraxx Eur Snr Fin	72	-9	-17
iTraxx Sovx WE	25	0	-1
AUD/USD	0.738	-0.46%	0.56%
EUR/USD	1.165	-0.67%	0.79%
USD/SGD	1.364	-0.04%	0.28%
China 5Y CDS	56	-8	-10
Malaysia 5Y CDS	82	-10	-26
Indonesia 5Y CDS	107	-12	-32
Thailand 5Y CDS	42	-4	-9

	27-Jul	1W chg	1M chg
Brent Crude Spot ($/bbl)	74.46	1.90%	-4.07%
Gold Spot ($/oz)	1,223.86	-0.46%	-2.27%
CRB	194.99	1.87%	-1.99%
GSCI	467.01	2.60%	-2.96%
VIX	12.14	-5.67%	-32.22%
CT10 (bp)	2.978%	8.52	15.27
USD Swap Spread 10Y (bp)	5	-1	-2
USD Swap Spread 30Y (bp)	-7	-1	-1
TED Spread (bp)	36	-1	-6
US Libor-OIS Spread (bp)	33	-2	-7
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,527	1.85%	5.84%
SPX	2,837	1.17%	5.10%
MSCI Asiax	678	1.63%	1.99%
HSI	28,735	1.81%	1.33%
STI	3,322	0.73%	2.06%
KLCI	1,763	0.46%	5.80%
JCI	5,946	1.28%	2.74%

New issues

- Trade Horizon Global Ltd (JUDA) has priced a USD400mn 3-year FRN (guaranteed by Beijing Capital Grand Ltd) at 3mL+257.5bps, tightening from its initial price guidance of 3mL+285bps.
- China Aoyuan Property Group Ltd has priced a USD175mn retap (guaranteed by Certain non-PRC subsidiaries of issuer) of its CAPG 6.35%'20s at 98.516 to yield 7.45% plus accrued interest, tightening from its initial guidance of ~7.7%.
- Industrial Bank of Korea has priced a USD500mn 3-year bond at 3mL+60bps, tightening from its initial price guidance of 3mL+85bps.
- SK Broadband is scheduled to meet investors from July 30 for a potential USD bond issue.

Date	Issuer	Size	Tenor	Pricing
26-Jul-18	Trade Horizon Global Ltd (JUDA)	USD400mn	3-year	3mL+257.5bps
26-Jul-18	China Aoyuan Property Group Ltd (re-tap)	USD175mn	CAPG 6.35%'20s	98.516
26-Jul-18	Industrial Bank of Korea	USD500mn	3-year	3mL+60bps
25-Jul-18	Greenland Global Investment Ltd (re-tap)	USD300mn	GRNLGR'21s	3mL+485bps
25-Jul-18	Temasek Financial I Ltd	USD1.35bn	10-year	CT10+72bps
25-Jul-18	Posco	USD500mn	5-year	CT5+130bps
25-Jul-18	Export-Import Bank of China	USD140mn	3-year	3mL+60bps
24-Jul-18	CFLD Cayman Investment Ltd	USD200mn	3-year	9.0%
24-Jul-18	Sino-Ocean Land Treasure IV Ltd	USD700mn	3-year	3mL+230bps
24-Jul-18	Sunac China Holdings Ltd	USD400mn	2-year	8.625%
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

Source: OCBC, Bloomberg

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