

July 30, 2018

**Credit Headlines:** Starhill Global REIT, Industrial property sector

## Market Commentary

- The SGD swap curve steepened last Friday, with swap rates trading 2-3bps higher across most tenors (with the exception of the 7-year and 12-year swap rates trading within 1bps higher).
- Flows in SGD corporates were moderate last Friday, with better buying seen in OCBCSP 3.8%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 138bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 468bps.
- Overall, 10Y UST yields fell 2bps to close at 2.95% as the US gross domestic product data came in slightly lower-than-expected despite growing at its fastest pace in nearly four months.

## Credit Headlines:

### **Starhill Global REIT (“SGREIT”) | Issuer Profile: Neutral (4)**

- SGREIT reported its fourth quarter results for the financial year ended June 2018 (“4QFY2018”) results. Gross revenue declined 3.9% y/y to SGD51.6mn while net property income (“NPI”) was fell 3.3% y/y to SGD40mn. This was mainly due to weaker contributions from the office portfolio, lower revenue from Wisma Atria Property (Retail), Myer Centre Adelaide (Retail) and China Property. Singapore office revenue was weak (-5.3% y/y to SGD6.1mn) due to lower average occupancies. On the retail front, Wisma Atria reported 3.6% y/y and 1.8% y/y decline in revenue and NPI respectively, driven by 12.7% decline in shopper traffic partly due to tenant’s renovations. Ngee Ann City Retail, on the other hand, was largely stable on the back of the Toshin master lease (ie: Takashimaya). Australia’s contribution continued to be weak at SGD11.2mn (-9.9% y/y) with office vacancies at Myer Centre Adelaide and the weaker AUD affecting performance.
- Portfolio committed occupancy looks to offer some relief in the future, with Singapore office committed occupancies increasing further to 95% (3QFY2018: 90.7%). However, the lease expiry for Singapore office looks heavy for FY2019, with 33.4% (Q12018: 29.8%) by gross rent expiring for Wisma Atria (offices), and 41.3% (Q12018: 20.4%) by gross rent expiring for Ngee Ann City (offices). Given that lease expiry for Ngee Ann City’s office space is significantly higher than in FY2018, we think that this could potentially be an area of concern. Overall, committed occupancy for SGREIT is largely stable q/q at 94.2% (3QFY2018: 94.3%).
- Aggregate leverage remains healthy at 35.5% (3Q2018: 35.3%) while reported interest coverage is marginally lower at 4.0x (3Q2018: 4.1x). SGREIT has secured commitment to early refinance the A\$63mn secured loan for 5 years (from July 2018) ahead of its maturity in June 2019. As such, there is no refinancing requirement for until Sep 2019.
- SGREIT’s portfolio of ten properties across five countries was independently revalued at SGD3.1bn down only 0.57% y/y. Valuation for Singapore properties was stable. The decrease was mainly due to downward revaluation of Starhill Gallery, Myer Centre Adelaide and China Property, divestment of Nakameguro Place, as well as negative net movement in foreign currencies in relation to the overseas properties during the current period. (Company, OCBC)

## Credit Headlines (cont'd):

### **Industrial property sector**

- JTC has released its industrial property market report for 2Q2018. Q/q price index for all industrial was flat, after falling consecutively for 12 quarters since 2Q2015.
- The all industrial rental index though was still down 0.1% q/q to 91.0 (1Q2018 and 4Q2017 was also down by 0.1% q/q respectively). Single-user factories again saw the largest declines at 1.6% q/q (1Q2018: decline of 0.8%). Multiple-user factories though saw rental index up by 0.2% q/q (recording the first uptick in rents since 2Q2015) after flattening out in 1Q2018.
- Despite the encouraging rental and price indicators, all industrial vacancies have deteriorated q/q by 0.3% to 11.3%, with vacancies for multiple-user factories at 14%.
- While we continue to be encouraged that the market looks to be flattening out with slight uptick, we do not expect to see broad based growth in 2018. While we think the oversupply situation will taper off significantly versus 2016-2017, some oversupply is still likely to persist. In 2H2018 and 2019, an additional 2.0mn sqm of industrial space is estimated to come on line. Over the past three years, average demand for industrial space was 1.2mn sqm a year (indicating ~1.8mn in an 18 month period). (JTC, OCBC)

**Table 1: Key Financial Indicators**

	30-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	77	-10	-15
iTraxx SovX APAC	12	-1	-3
iTraxx Japan	56	2	-7
iTraxx Australia	73	-8	-7
CDX NA IG	58	-3	-9
CDX NA HY	107	0	1
iTraxx Eur Main	61	-5	-12
iTraxx Eur XO	282	-14	-38
iTraxx Eur Snr Fin	75	-7	-15
iTraxx Sovx WE	25	0	-1
AUD/USD	0.740	0.24%	0.80%
EUR/USD	1.166	-0.30%	0.15%
USD/SGD	1.362	0.23%	0.52%
China 5Y CDS	56	-8	-11
Malaysia 5Y CDS	82	-11	-25
Indonesia 5Y CDS	108	-11	-28
Thailand 5Y CDS	42	-4	-7

	30-Jul	1W chg	1M chg
Brent Crude Spot (\$/bbl)	74.29	1.68%	-6.48%
Gold Spot (\$/oz)	1,222.48	-0.17%	-1.57%
CRB	194.16	0.80%	-3.11%
GSCI	464.66	1.55%	-4.67%
VIX	13.03	1.32%	-19.02%
CT10 (bp)	2.960%	0.57	9.97
USD Swap Spread 10Y (bp)	6	1	-2
USD Swap Spread 30Y (bp)	-6	2	0
TED Spread (bp)	36	-1	-6
US Libor-OIS Spread (bp)	33	-2	-6
Euro Libor-OIS Spread (bp)	3	-1	-1
DJIA	25,451	1.57%	4.86%
SPX	2,819	0.61%	3.70%
MSCI Asiax	679	1.66%	0.95%
HSI	28,804	2.05%	-0.52%
STI	3,325	0.82%	1.72%
KLCI	1,769	0.82%	4.59%
JCI	5,989	1.98%	3.27%

## New issues

- Legend Fortune Ltd has priced a USD300mn 3-year bond at 3mL+128bps.
- Intiland Development Tbk PT has scheduled for investor meetings from 30 July for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
27-Jul-18	Legend Fortune Ltd	USD300mn	3-year	3mL+128bps
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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