

July 31, 2018

Credit Headlines: Mapletree North Asia Commercial Trust, Ascendas Real Estate Investment Trust

Market Commentary

- The SGD swap curve steepened yesterday, with swap rates trading 1-2bps higher across most tenors (with the exception of the 7-year and 12-year swap rates trading 5-6bps higher).
- Flow in SGD corporates were moderate yesterday, with better buying seen in HSBC 4.7%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 139bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 465bps.
- 10Y UST yields rose 3bps to 2.99% in the earlier part of the trading session on the back of growing speculation that the Bank of Japan may adjust its ultra-loose monetary policy this week. Yields subsequently fell 2bps to close at 2.97% as investors sought for safe havens after the equities sell-off yesterday.

Credit Headlines:

Mapletree North Asia Commercial Trust (“MNACT”) | Issuer Profile: Neutral (4)

- MNACT reported its first quarter results for the financial year started June 2018 (“1QFY2019”) results. Gross revenue increased 6.2% y/y to SGD94.4mn, while net property income (“NPI”) went up by 6.7% y/y to SGD76.8mn. This is mainly due to new contribution from Japan properties following the completion of acquisition on 25 May 2018, which reported SGD5.1mn in revenue and SGD3.9mn in NPI. Meanwhile, rental reversions remained firmly in the positive region for Festival Walk (+14%), Gateway Plaza (+11%) and Sandhill Plaza (+18%) though Festival Walk’s revenue fell in SGD terms by 1.5% y/y to SGD60.8mn due to the depreciation of the HKD against SGD on a y/y basis.
- MNACT expects continued positive rental reversions in local currency terms for Festival Walk, Gateway Plaza and Sandhill Plaza. For Festival Walk, it is expected to benefit from a firming market and rising tourist arrivals. We note that recovery at Festival Walk has accelerated in 1QFY2019 with 10.9% y/y growth in retail sales and 7.2% y/y growth in footfall, in-line with strong growth in Hong Kong retail sales (May 2018: +12.9%).
- Portfolio is resilient with high portfolio occupancy rate of 99.6% (4QFY2018: 98.5%) with only 6.4% of lease expiring in the remainder of FY2019. Meanwhile, debt maturity is well-staggered with only SGD115mn of bank debt due in FY2019.
- Reported interest coverage ratio remained unchanged at 4.1x. Aggregate leverage increased to 38.8% (4QFY2018: 36.2%) due to secured JPY onshore borrowings used to acquire the Japan properties, though this resulted in asset encumbrance increasing to 11% of total assets (4QFY2018: 0%). However, aggregate leverage increased somewhat more than our expectations (38.5%) as CNY weakened by ~5.3% against HKD q/q in 1QFY2019 while RMB FX exposure remains largely unhedged with only 2% of debt in RMB while 25% of assets in RMB. We note that the RMB has weakened against HKD by another ~2.9% since end 1QFY2019. We remain cautious of the unhedged FX position though we continue to hold MNACT at a Neutral (4) Issuer Profile in view of the manageable credit metrics and firmer Hong Kong retail environment. (OCBC, Company)

Credit Headlines (cont'd):

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

- AREIT reported its first quarter results for the financial year ended March 2019 ("1QFY2019"). Gross revenue was up 0.4% q/q at SGD216.6mn driven by increased contribution from the redeveloped 20 Tuas Avenue 1 in Singapore and the acquisitions of 169-177 Australis Drive in Melbourne on 4 June 2018 which was partly offset by the divestments of 84 Genting Lane and 30 Old Toh Tuck (both Singapore properties). 1314 Ferntree Gully Drive (Melbourne) was acquired on 26 June 2018 and should contribute next quarter.
- EBITDA was up 0.6% q/q at SGD144.4mn, driven by lower operating expenses from retrospective downward revisions in the annual value of certain properties. EBITDA/Interest coverage was 5.0x, slightly below 5.1x in 4QFY2018, led by higher average gross debt in 1QFY2019 versus the previous quarter.
- As at 30 June 2018, aggregate leverage looks to be manageable at 35.7% while adjusting 50% of perpetuals as debt, we find adjusted aggregate leverage at 37.1%. AREIT though is in the midst of acquiring a portfolio of 12 properties in the UK for a total acquisition cost of ~SGD369.1mn as part of AREIT's geographical diversification. In addition to the UK portfolio, AREIT's proposed acquisition of 1-7 Wayne Goss Drive in Brisbane is only targeted to complete in 3QFY2019. Factoring in cash proceeds from a small divestment in Singapore, we think these asset movements may lead AREIT's aggregate leverage and adjusted aggregate leverage to move higher to ~38% and ~40% respectively, above its historical levels.
- Short term debt was SGD1.1bn as at 30 June 2018, representing 30% of gross debt while debt coming due for the six months to end-March 2019 was SGD0.7bn. Post-quarter end, SGD200mn in bank loan facility was drawn down to refinance existing revolvers and we estimate that short term debt has reduced to SGD0.9bn. Despite the relatively significant debt coming due, we see refinancing risk at AREIT as manageable given its bankable credit profile and unencumbered investment portfolio of SGD9.2bn. We maintain AREIT's issuer profile at Neutral (3). (OCBC, Company)

Table 1: Key Financial Indicators

	31-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	79	-7	-16
iTraxx SovX APAC	12	-1	-4
iTraxx Japan	57	1	-9
iTraxx Australia	73	-7	-9
CDX NA IG	59	-3	-9
CDX NA HY	107	0	1
iTraxx Eur Main	63	-3	-12
iTraxx Eur XO	287	-4	-40
iTraxx Eur Snr Fin	77	-3	-15
iTraxx Sovx WE	25	0	0
AUD/USD	0.741	-0.22%	0.91%
EUR/USD	1.171	0.18%	0.59%
USD/SGD	1.361	0.17%	0.60%
China 5Y CDS	58	-5	-13
Malaysia 5Y CDS	82	-9	-30
Indonesia 5Y CDS	110	-5	-31
Thailand 5Y CDS	43	-2	-7

	31-Jul	1W chg	1M chg
Brent Crude Spot (\$/bbl)	74.97	2.61%	-5.63%
Gold Spot (\$/oz)	1,222.74	-0.15%	-1.55%
CRB	195.75	1.70%	-2.31%
GSCI	469.41	2.52%	-3.70%
VIX	14.26	13.00%	-11.37%
CT10 (bp)	2.969%	2.05	10.90
USD Swap Spread 10Y (bp)	6	1	-1
USD Swap Spread 30Y (bp)	-5	2	0
TED Spread (bp)	36	-1	-6
US Libor-OIS Spread (bp)	33	-1	-6
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,307	1.05%	4.27%
SPX	2,803	-0.16%	3.10%
MSCI Asiax	676	0.58%	0.54%
HSI	28,733	1.69%	-0.77%
STI	3,307	0.41%	1.18%
KLCI	1,770	0.70%	4.66%
JCI	6,028	1.90%	3.94%

New issues

- CMHI Finance BVI Co Ltd has priced a USD1.5bn deal across two tranches (guaranteed by China Merchants Port Holdings Company Limited) with the USD900mn 5-year bond priced at CT5+162.5bps, tightening from its initial price guidance of CT5+195bps area and the USD600mn 10-year bond at CT10+215bps, tightening from its initial price guidance of CT10+250bps area.
- Woori Bank has priced a USD300mn 10-year bond at CT10+220bps, tightening from its initial price guidance of CT10+240bps.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
28-Jul-18	CMHI Finance BVI Co Ltd	USD900mn	5-year	CT5+162.5bps
28-Jul-18	CMHI Finance BVI Co Ltd	USD600mn	10-year	CT10+215bps
28-Jul-18	Woori Bank	USD300mn	10-year	CT10+220bps
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%

Source: OCBC, Bloomberg

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