

July 26, 2018

Credit Headlines: CITIC Envirotech Ltd, Sabana Shari'ah Compliant Industrial Real Estate Investment Trust, Frasers Commercial Trust

Market Commentary

- The SGD swap curve flattened yesterday, with the short end flat while swap rates longer than 6mths traded around 3bps lower.
- Flows in SGD corporates were heavy yesterday, with better buying seen in HSBC 4.7%-PERPs and MAPLSP 3.95%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 139bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 9bps to 492bps.
- 10Y UST yields fell 2bps to 2.93% in the earlier part of the trading session as investors do not expect Bank of Japan to make an actual change to its stimulus program in July. However, yields subsequently rose 5bps to close at 2.97% as US President Donald Trump met European Commission President Jean-Claude Juncker and agreed to suspend new tariffs during trade negotiations yesterday.

Credit Headlines:

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

- CEL reported its 2Q2018 results. Gross revenue was up 136.1% to SGD291.0mn y/y, driven by increase in the engineering and membrane segments. Engineering increased 111% y/y to SGD112.5mn while membrane increased 432% to SGD122.8mn. In 2Q2018, treatment which tends to be more stable and recurring made up 19% of total revenue while in 2Q2017 this was 34%.
- Driven by the stronger top line, EBITDA was 99.8% higher y/y at SGD78.9mn, leading EBITDA/Interest coverage higher at 7.5x despite the 11% higher interest expense from higher average borrowings over 2Q2018 versus 2Q2017.
- Net profit for the period was similarly higher at SGD43.5mn versus SGD19.3mn in 2Q2017 though much was wiped out at the total other comprehensive income level as CEL reported a SGD25.0mn currency translation loss. While this is not a cash flow item, it is indicative of the sharp decline in RMB which makes up bulk of CEL's income versus the SGD. CEL ended 2Q2018 with a total comprehensive income of SGD18.5mn (down 26% y/y).
- As at 30 June 2018, perpetuals made up 27% of total capital, relatively stable versus the previous quarter though adjusted net debt over straight equity which assumes the full amount of perpetual as debt had inched higher to 0.9x from 0.7x as at 31 March 2018. Unadjusted net gearing (without factoring in perpetual as debt) had also risen, to 0.2x from 0.1x in the previous quarter. We expect net gearing levels to rise as CEL progresses on its project wins.
- CEL ended the quarter with cash balance of SGD328.2mn versus SGD568.0mn when it begun the quarter as cash had been used to help fund investing outflows, paying down debt and paying out distributions to perpetual and equity holders. CEL faces first call on its USD355mn perpetual in November 2018 and our base case assumes that CEL would try to replace this (rather than take the 500bps step up). Though given the current volatile funding environment for high yield, it is not yet certain if CEL is able to replace this on a like-for-like basis. Assuming it does not, we think CEL may try and replace this with debt. We maintain CEL's issuer profile at an issuer profile of Neutral (5). (Company, OCBC)

Credit Headlines (cont'd):

Sabana Shari'ah Compliant Industrial Real Estate Investment Trust ("SSREIT") | Issuer Profile: Neutral (5)

- SSREIT reported its 2Q2018 results. Gross revenue was down 4.4% q/q to SGD20.1mn. 1 Tuas Avenue 4 was non-contributing following the surrender of master lease in 1Q2018 while 6 Woodlands Loop was also divested on 29 March 2018. 1 Tuas Avenue remains vacant.
- Net property income though declined significantly at 13.8% q/q. In 1Q2018, there was a write-back of previously impaired losses on trade receivables, which was absent in 2Q2018 and may have helped inch expenses higher during the quarter. EBITDA (based on our calculation which does not include other income and other expenses) was also lower at SGD11.3mn. In 1Q2018, the manager had elected to forgo 20% of its fees though fees were reinstated to the full amount in 2Q2018.
- As at 30 June 2018, aggregate leverage was 38.2%, slightly higher than the 38.1% as at 31 March 2018.
- Interest coverage as measured by EBITDA/Interest was 3.1x, lower than the 3.4x in 1Q2018 driven by the lower EBITDA generation.
- Short term debt as at 30 June 2018 was SGD141.8mn (including the SGD100mn SSREIT 4.25% '19 due in April 2019).
- There are 8 properties under master leases (3 leased to Sponsor) and one property is being contemplated for a divestment. Of the 6 other master leases that were coming due this year, encouragingly one had been renewed on 6 April 2018. It remains uncertain if Sponsor will be renewing its 3 leases. In total the remaining lease expiries for 2018 was 33% of net lettable area as at 30 June 2018 (down from 42% as at 31 December 2017). We maintain SSREIT's issuer profile at Neutral (5) for now. (Company, OCBC)

Frasers Commercial Trust ("FCOT") | Issuer Profile: Neutral (4)

- FCOT reported its third quarter results for the financial year ended September 2018 ("3QFY2018") results. Gross revenue dipped 15.2% y/y to SGD32.5mn, while net property income ("NPI") was down more significantly at 26.9% y/y to SGD20.4mn. Decrease for q/q figures was milder at -1.6% q/q and -9.2% q/q respectively. This is mainly due to lower occupancy rate for Alexandra Technopark (exit of HP Enterprise and the staggered exit of HP Singapore) and the effects of the average weaker AUD, offset partially by higher occupancy rate and average rents achieved for China Square Central. Higher maintenance expense for Caroline Chisholm Centre led to the lower NPI.
- In aggregate, the lower occupancy at the Singapore assets drove portfolio average committed occupancy lower to 81.9% (2Q2017: 83.5%). Although the lease expiry profile for the remainder of FY2018 is 7.1% of NLA and down from 10.5% in the previous quarter, it looks challenging with lease expiries mainly due to Central Park (22.9% of property's gross rental). FY2018 expiries as a percentage of gross rental income is 9.6%. WALE remains stable at 4 years.
- Aggregate leverage remains stable at 35.4% (2Q2018: 35.3%) - we expect it to fall however to around 27% following the sale of 55 Market Street for SGD216.8mn earlier this month. Reported interest coverage is lower at 3.5x (2Q2018: 4.1x).
- Debt profile is well-spread and assets are 100% unencumbered, hence SGD55mn due for the remaining of FY2018 is manageable.
- Pressure on FCOT's asset portfolio is mitigated by the expected fall in aggregate leverage for now. We will continue to monitor FCOT's on-going asset performance against its capital structure, with over SGD4bn in right of first refusal properties from Frasers Property Group. (Company, OCBC)

Table 1: Key Financial Indicators

| | 26-Jul | 1W chg (bps) | 1M chg (bps) |
|--------------------|--------|--------------|--------------|
| iTraxx Asiax IG | 80 | -8 | -5 |
| iTraxx SovX APAC | 13 | 0 | -1 |
| iTraxx Japan | 56 | 2 | -1 |
| iTraxx Australia | 74 | -8 | -1 |
| CDX NA IG | 59 | -1 | -7 |
| CDX NA HY | 107 | 0 | 1 |
| iTraxx Eur Main | 63 | -1 | -10 |
| iTraxx Eur XO | 285 | -6 | -29 |
| iTraxx Eur Snr Fin | 76 | 0 | -12 |
| iTraxx Sovx WE | 25 | 0 | -1 |
| AUD/USD | 0.746 | 1.30% | 0.85% |
| EUR/USD | 1.173 | 0.77% | 0.72% |
| USD/SGD | 1.358 | 0.94% | 0.37% |
| China 5Y CDS | 60 | -5 | -2 |
| Malaysia 5Y CDS | 85 | -9 | -22 |
| Indonesia 5Y CDS | 109 | -7 | -27 |
| Thailand 5Y CDS | 43 | -2 | -4 |

| | 26-Jul | 1W chg | 1M chg |
|----------------------------|----------|--------|---------|
| Brent Crude Spot (\$/bbl) | 74.62 | 2.81% | -2.21% |
| Gold Spot (\$/oz) | 1,233.22 | 0.84% | -2.05% |
| CRB | 194.66 | 1.66% | -1.31% |
| GSCI | 465.30 | 2.42% | -1.64% |
| VIX | 12.29 | 1.57% | -22.80% |
| CT10 (bp) | 2.969% | 13.10 | 9.24 |
| USD Swap Spread 10Y (bp) | 5 | -2 | -2 |
| USD Swap Spread 30Y (bp) | -7 | -2 | 0 |
| TED Spread (bp) | 34 | 0 | -9 |
| US Libor-OIS Spread (bp) | 33 | -3 | -7 |
| Euro Libor-OIS Spread (bp) | 4 | 1 | 1 |
| DJIA | 25,414 | 0.85% | 4.66% |
| SPX | 2,846 | 1.08% | 4.52% |
| MSCI Asiax | 678 | 2.31% | 0.42% |
| HSI | 28,921 | 2.86% | 0.14% |
| STI | 3,327 | 2.66% | 1.40% |
| KLCI | 1,764 | 0.61% | 5.25% |
| JCI | 5,934 | 0.73% | 1.86% |

New issues

- Greenland Global Investment Ltd has priced a USD300mn re-tap of its GRNLGR'21s at 3mL+485bps, in line with its initial price guidance.
- Temasek Financial I Ltd has priced a USD1.35bn 10-year bond (guaranteed by Temasek Holdings Pte Ltd) at CT10+72bps, tightening from its initial price guidance of CT10+90-95bps area.
- Posco has priced a USD500mn 5-year bond at CT5+130bps, tightening from its initial price guidance of CT5+155bps areas.
- Export-Import Bank of China has priced a USD140mn 3-year bond at 3mL+60bps.

| Date | Issuer | Size | Tenor | Pricing |
|-----------|--|-----------|-----------------|--------------|
| 25-Jul-18 | Greenland Global Investment Ltd | 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 |
| 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 |

Source: OCBC, Bloomberg

Andrew Wong

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Ezien Hoo, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "**Relevant Materials**") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "**Relevant Entity**") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("**MiFID**") and the EU's Markets in Financial Instruments Regulation (600/2014) ("**MiFIR**") (together referred to as "**MiFID II**"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).