Feb 1, 2019

Credit Headlines: Commerzbank AG, CapitaLand Retail China Trust, GuocoLand Ltd, Singapore Post Limited

Market Commentary

- The SGD swap curve flattened yesterday, with swap rates trading 4bps lower across most tenors (with the exception of the 7-year and 12-year swap rates trading only 3bps lower).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 151bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 6bps to 523bps.
- Flows in SGD corporates were heavy yesterday, with flows seen in UBS 5.875%-PERPs, SINTEC 5.0%-PERPs, ESRCAY 6.75%’22s, BNP 4.35%’29s, DBSSP 3.98%-PERPs, LLCAU 3.9%’27s, HSBC 4.7%-PERPs, SLHSP 4.5%’25s, CMZB 4.875%’27s, UOBSP 3.5%’29s, ARASP 5.2%-PERPs, CMZB 4.2%’28s, SIASP 3.13%’27s and SOCGEN 4.3%’26s.
- 10Y UST yields fell 5bps to close the trading session at 2.63%, after weaker-than-expected wage inflation data and a sharp increase in weekly jobless claims, the largest rise in claims since September 2017, strengthened the Federal Reserve’s view that a pause in interest rate hikes is necessary.

Credit Headlines

Commerzbank AG (“CMZB”) | Issuer Profile: Neutral (4)

- Noise is building regarding a possible merger between CMZB and Deutsche Bank AG (Unrated by OCBC) with the concept apparently gaining traction with regulators.
- The incentive for such a transaction (and to an extent the location of noise) lies with Deutsche Bank AG given its comparatively weaker credit profile with the rumours gathering steam as Deutsche Bank prepares to release its results later today. Results are expected to reflect a challenging operating environment for Deutsche Bank’s trading business. As per FY2017 results, Deutsche Bank AG generates over half of its net revenues from Corporate & Investment Bank with over 30% of Corporate & Investment Bank net revenues coming from sales and trading. For 3Q2018, Corporate & Investment Bank generated 50% of net revenues with sales and trading making up 44% of this segment.
- In contrast, CMZB’s recent underlying performance has been solid and benefited from the execution of its “Commerzbank 4.0” strategy. In line with this strategy, CMZB is in the process of selling its Equity Markets & Commodities business (EMC) to Société Générale. The EMC business comprises the manufacturing and market making of flow and structured trading and investment products including market making for exchange-traded funds (‘ETFs’) under its ETF brand, Comstage with the sale of this business to help CMZB focus on streamlining its core operating segments towards Private and Small Business Customers and Corporate Clients to reduce complexity and free up capital for investment in its core segments.
- Those being considered however, both banks remain exposed to a potential slowdown in Europe’s and Germany’s economic growth with sensitivity to a slow down amplified by Germany’s competitive banking sector. As such, rumours of consolidation in Germany’s banking sector have become somewhat par for the course.
- We continue to monitor developments. (OCBC, Bloomberg)

Credit Headlines (cont'd)

CapitaLand Retail China Trust ("CRCT") | Issuer Profile: Neutral (4)

- CRCT reported its 4Q2018 results. In RMB terms, gross revenue was up 6.1% y/y while NPI was up 12.2% y/y. The improvement was largely due to stronger rental growth across the multi-tenanted malls (all of these malls recorded better occupancy rates with the exception of CapitaMall Grand Canyon) and a one-off compensation from CapitaMall Wuhu which has closed following the departure of its anchor tenant. In SGD terms, however, gross revenue and NPI were up by a smaller extent of 3.0% y/y and 8.8% y/y due to the stronger SGD against RMB.
- Portfolio occupancy as at 31 December 2018 was marginally lower at 97.5% (3Q2018: 97.7%) and rental reversion for 2018 was 10.9%. WALE is 2.9 years by gross rental income. Expiring leases for 2019 make up 27.5% of total gross rental income. While this looks significant, we think this is manageable for the REIT as tenants' sales at CRCT's multi-tenanted malls grew 18.8% y/y, while shopper traffic was up 19.4% y/y in 2018.
- Aggregate leverage (including the proportionate share of its JV borrowing and deposited property) was 35.4% (3Q2018: 35.9%) and CRCT has completed its refinancing requirements for this year, with 80% of the total debt on fixed interest rates.
- Separately, CRCT has announced that it has entered into a bundle deal in Hohhot to divest CapitaMall Saihan and acquire a new mall (Yuquan Mall) that is double in size and has a longer balance tenure. The purchase consideration is SGD159.6mn CRCT has guided that it will fund 60% of the transaction with divestment proceeds (~SGD94.7mn) and the remaining with a mix of cash and debt. We note that CRCT holds SGD174mn cash as of 31 Dec 2018. We note that the deal is structured to minimise income disruption as the closure and divestment of CapitaMall Saihan will take place after the new mall is operational in 2H 2020. (Company, OCBC)

GuocoLand Ltd ("GUOL") | Issuer Profile: Neutral (5)

- GUOL announced 2QFY2019 results for the quarter ending 31 Dec. Revenue declined 61% y/y to SGD142.9mn. This is due to lower sales as the inventory of completed unsold units have fallen following the substantial sales of Sims Urban Oasis, with Sims Urban Oasis moving just 7 units worth SGD16.0mn in 2QFY2019.
- That said, decent presales in 2QFY2019 continue to be achieved at Martin Modern (24 units sold for SGD82.0mn) and Wallich Residence (11 units sold for SGD27.8mn).
- Mainly due to the fall in revenue, net profit fell 88% y/y to SGD7.4mn.
- Net gearing fell to 0.77x (1QFY2019: 0.86x), mainly due to (1) operating cash inflow of SGD236.8mn due to collection of receivables from units previously sold and (2) SGD443.3mn repatriation of proceeds from a China JV, likely from the completion of Changfeng Residence, which we previously mentioned was substantially sold and completed as at 1QFY2018.
- Liquidity profile is also improved with short term debt falling to SGD271.5mn (1QFY2019: SGD1.48bn), which is well-covered by SGD1.2bn of cash, after refinancing SGD1.2bn of short-term loans.
- While the results show an overall credit positive trend with improvements in net gearing and liquidity in spite of weaker profit, we continue to hold GUOL at a Neutral (5) Issuer Profile as its net gearing remains higher than peers. (Company, OCBC)

Credit Headlines (cont'd)

Singapore Post Limited ("SPOST") | Issuer Profile: Positive (2)

- SPOST announced its third quarter results for the financial year ended March 2019 ("3QFY2019"). Revenue increased 7.6% y/y to SGD441.4mn, with growth across all business segments (Post and Parcel: +9.0% y/y, Logistics: +3.6% y/y, eCommerce: +8.7% y/y, Property: +4.0% y/y) while overall profit on operating activities declined 8.5% y/y in 3QFY2019.
- Post and Parcel segment saw profit on operating activities rise 10.0% y/y (from SGD43.3mn to SGD47.6mn), on the back of increased eCommerce-related deliveries. Logistics segment recorded the greatest gain of 67.4% y/y (from SGD1.0mn to SGD1.7mn), mainly due to a reduction in losses at Quantium Solutions, which was successful in reviewing unfavourable contracts and improving profitability of its customers. Under the Property segment, profit on operating activities rose 18.2% y/y (from SGD11.7mn to SGD13.8mn), due to rental income from the SingPost Centre retail mall, which commenced operations in October 2017 after a period of redevelopment and is 99% occupied as at 31 Dec 2018.
- The eCommerce segment, however, recognised an operating loss of SGD13.4mn (-196.2% y/y), largely due to the US businesses. SPOST stated that competitive pressures have intensified in the US and the industry has seen an increase in bankruptcies. Even though the segment saw revenue growth, costs to support the businesses rose more significantly, resulting in compressed margins and a loss during the critical peak season. We expect the weakness in this segment to persist going forward.
- SPOST ended the quarter with higher net profit to owners of SGD50.2mnm (+ 15.6% y/y) due largely to exceptional items (Exceptional gain in 3QFY2019: SGD31.mn due to gain on dilution of interest in 4PX, an associated company). Excluding which, net profit to owners would have declined 7.5% y/y due to higher losses from the US businesses.
- As at 31 December 2018, gross debt-to-equity was stable 0.17x. SPOST has reverted to a net cash position of SGD52.7mn (30 Sep 2018: net debt SGD8.5mn, 30 June 2018: net cash SGD129.4mn). Perpetuals make up 17.1% of total capital as at 30 December 2018 and adjusting net debt upwards for the perpetuals (which rank pari passu as unsecured debt at the SPOST holding company level), we find adjusted net gearing at 0.17x (30 Sep 2018: 0.21x) as the amount of perpetuals is almost equivalent to the cash balance available. We maintain SPOST at an issuer profile of Positive (2). (Company, OCBC)

Table 1: Key Financial Indicators

	1-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	78	-5	-18
iTraxx SovX APAC	59	-3	-12
iTraxx Japan	65	-1	-21
iTraxx Australia	77	-5	-17
CDX NA IG	66	-6	-21
CDX NA HY	106	1	4
iTraxx Eur Main	70	-4	-17
iTraxx Eur XO	307	-14	-45
iTraxx Eur Snr Fin	84	-5	-24
iTraxx Sovx WE	23	-1	-3
AUD/USD	0.725	0.92%	2.72%
EUR/USD	1.144	0.32%	-0.20%
USD/SGD	1.348	0.39%	1.12%
China 5Y CDS	54	-4	-13
Malaysia 5Y CDS	80	-5	-30
Indonesia 5Y CDS	111	-6	-27
Thailand 5Y CDS	41	-2	-4

	1-Feb	1W chg	1M chg
Brent Crude Spot ($/bbl)	60.83	-1.31%	13.07%
Gold Spot ($/oz)	1,318.34	1.00%	2.79%
CRB	179.64	0.22%	5.79%
GSCI	407.89	0.30%	8.97%
VIX	16.57	-12.28%	-34.82%
CT10 (bp)	2.638%	-12.04	-4.61
USD Swap Spread 10Y (bp)	3	0	0
USD Swap Spread 30Y (bp)	-20	-3	-2
US Libor-OIS Spread (bp)	33	-1	-7
Euro Libor-OIS Spread (bp)	5	0	1
DJIA	25,000	1.82%	7.17%
SPX	2,704	2.34%	7.87%
MSCI Asiax	640	1.42%	7.28%
HSI	27,896	1.19%	7.93%
STI	3,191	-0.34%	3.99%
KLCI	1,684	-0.59%	-0.42%
JCI	6,568	1.32%	6.04%

New issues

- Towngas (Finance) Ltd has priced a USD300mn NC5-perpetual bond (guarantor: The Hong Kong and China Gas Company Ltd) at 4.75%, tightening from IPT of 5.3% area.
- Mongolian Mortgage Corp has priced a USD50mn re-tap of its existing MGMTGE 9.75%'22s (guarantor: MIK Holding JSC) at 9.75%, in line with final guidance.
- Chengdu Economic & Technological Development Zone State-Owned Assets Investment & Operating Co Ltd has priced a USD250mn 3-year bond at 7.5%.
- AC Energy Finance International Ltd has priced a USD110mn 10-year bond at 5.3% (99.616 reoffer at 5.25%) and a USD75mn re-tap of its existing ACNRGY 4.75%'24s at 4.88% (99.451 reoffer at 4.75%).
- Republic of Indonesia has scheduled investor meetings from 4 Feb for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
31-Jan-19	Towngas (Finance) Ltd (The Hong Kong and China Gas Company Ltd)	USD300mn	NC5-perpetual	4.75%
31-Jan-19	Mongolian Mortgage Corp (MIK Holding JSC)	USD50mn	MGMTGE 9.75%'22s	9.75%
31-Jan-19	Chengdu Economic & Technological Development Zone State-Owned Assets Investment & Operating Co Ltd	USD250mn	3-year	7.5%
31-Jan-19	AC Energy Finance International Ltd	USD110mn USD75mn	10-year ACNRGY 4.75%'24s	5.3% 4.88%
30-Jan-19	CMT MTN Pte Ltd	SGD100mn	7-year	3.15%
29-Jan-19	LLPL Capital Pte Ltd (PT Lestari Banten Energi)	USD775mn	20-year	6.875%
29-Jan-19	Siam Commercial Bank PCL, Cayman Islands Branch	USD500mn USD500mn	5-year 10-year	CT5+137.5bps CT10+167.5bps
29-Jan-19	Studio City Finance Ltd	USD600mn	5NC2	7.25%
29-Jan-19	Granda Century Ltd	USD235mn	SNAGRP 7.5%'21s	8.375%
29-Jan-19	Oil India Ltd	USD550mn	10-year	CT10+250bps
29-Jan-19	Champion Sincerity Holdings Ltd (Greentown China Holdings Ltd)	USD100mn	NC3-perpetual	7.75%
29-Jan-19	Suntec REIT MTN Pte Ltd	SGD100mn	6-year	3.355%
28-Jan-19	Baoxin Auto Finance I Ltd (China Grand Automotive Services Co Ltd)	USD300mn	363-day	8.75%
28-Jan-19	CMOC Capital Ltd (China Molybdenum Co Ltd)	USD300mn	3-year	5.48%

Source: OCBC, Bloomberg

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