May 16, 2019

Credit Headlines: Frasers Centrepoint Trust, ABN Amro Group NV, Hotel Properties Ltd, Metro Holdings Ltd

Market Commentary

- The SGD swap curve was little changed yesterday, with most tenors trading little change with the exception of the 1-year and 2-year swap rates trading 1bps higher and lower respectively.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was widened 1bps to 135bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 495bps.
- Flows in SGD corporates were heavy, with flows seen in SOCGEN 6.125%-PERPs, WINGTA 4.35%-PERPs, CMZB 4.2%'28s, UBS 5.875%-PERPs, DBSSP 3.98%-PERPs, CMZB 4.875%'27s, ARASP 4.15%'24s, HSBC 4.7%-PERPs and WINGTA 4.08%-PERPs.
- 10Y UST yields fell 4bps to 2.37%, as expectations that the Federal Reserve will cut rates this year mounted after US retail sales and industrial output declined in April, adding onto the growing indications of slowing growth.

Credit Headlines

Frasers Centrepoint Trust ("FCT") | Issuer Profile: Neutral (3)

- FCT will acquire a one-third interest in Waterway Point for SGD433.3mn. The total outlay is ~SGD440.6mn (made up of SGD240.8mn for a one-third of the total issued units of Sapphire Star Trust, SGD191 for the pro rata share of a bank loan, SGD8.8mn for fees and expenses).
- FCT has expressed to raise gross proceeds of ~SGD421.7mn (up to SGD437.4mn) through:
  - Private placement of ~SGD312.0mn based on the minimum issue price and ~SGD323.1mn based on the maximum issue price, with an upsize option of up to SGD369.6mn.
  - Pro rata and non-renounceable preferential offering of ~SGD109.7.0mn based on the minimum issue price and ~SGD113.7mn based on the maximum issue price.
- ~SGD245.3mn of the gross proceeds is intended to be used to finance part of Waterway Point, while ~SGD176.4mn will be used to pare down bridging loans taken up to acquire a stake in PGIM Real Estate AsiaRetail Fund Limited ("PREA Fund") announced on 28 Feb 2019 and 21 March 2019.
- Management guided that aggregate leverage is expected to rise to 33.2% from 28.8% in 1Q2019 post both Waterway Point and PREA Fund transactions.
- Waterway Point, located in Punggol Central, has a NLA of 371,200 sq ft and committed mall occupancy of 98.1%. Net property income ("NPI") for FY2018 was SGD61.1mn, which translates to a NPI yield of 4.7%. We estimate that Waterway Point will account for ~13.6% of the new portfolio valuation and account for ~12.3% of portfolio's new NPI.
- Given the largely equity funded transaction, we are keeping our Neutral (3) issuer profile. (Company, OCBC)

OCBC Bank

Credit Headlines (cont'd)

ABN Amro Group NV ("ABN") | Issuer Profile: Neutral (3)

- ABN announced its 1Q2019 results. Operating results before impairment charges fell 23% y/y to EUR754mn. This was driven by an 11% y/y fall in operating income to EUR2.08bn from softness in all income lines. Net interest income was down 6% y/y to EUR1.57bn due to a 6bps y/y fall in net interest margins from low interest rates and liquidity management costs (impact mostly in retail segment from lower residential mortgage performance, while corporate income was higher y/y on loan growth) while net fee and commission income was down 4% y/y to EUR414mn due to weaker market activity which impacted Private Banking asset management fees and clearing fees and commissions in Corporate & Institutional Banking. Other operating income fell 59% y/y to EUR94mn due to incidentals and other items including provisions for client compensation related to SME derivative-related issues lower results from equity participation, and absence of revaluation gain on the stake in equensWorldline from 1Q2018.
- Operating expenses fell 2% y/y to partially mitigate the weaker income – operating expenses fell due to a 10% y/y fall in personnel expenses on lower full time employees. Other expenses rose 6% y/y due to higher regulatory costs (Single Resolution Fund contribution) but due to the larger fall in operating income, the cost to income ratio worsened to 63.8% in 1Q2019 against 57.9% for 1Q2018.
- Impairment charges fell 51% y/y on derisking of the Corporate & Institutional Banking loan portfolio and as a result the operating profit before tax fell 16% y/y to EUR652mn.
- Q/q performance shows much better trends with operating profit before tax up 51% q/q as a 4% q/q fall in operating income was more than offset by both a 12% q/q fall in operating expenses and a 51% q/q fall in impairment charges.
- Loan balances grew by 1.3% q/q and this was due to loan growth in Commercial and Corporate & Institutional Banking. This offset a fall in residential mortgages due to competitive pressures, primarily in new production.
- Loan quality appears to be slightly softer. Although the Stage 3 impaired ratio was stable q/q, this was because the growth in stage 3 loans were offset by growth in total loans and advances. Higher stage 3 loans were observed in corporate & institutional loans (mainly industrial goods & services and the food & beverage sector) while commercial banking stage 3 loans also rose (related to construction and materials, industrial goods & services and the food & beverage sector). Stage 3 residential mortgages remained low while consumer stage 3 loans fell due to write-offs.
- Elsewhere, the past due ratio was slightly weaker at 1.4% as at 31 March 2019 against 1.3% as at 31 December 2018. This was due to a rise in the consumer loan past due ratio to 4.0% as at 31 March 2019 against 3.2% as at 31 December 2018. Corporate loan past due ratios also weakened to 1.5% as at 31 March 2019 against 1.2% as at 31 December 2018.
- Although earnings were soft, ABN's overall credit profile remains supported by its solid capital position with its CET1 ratio at 18.0% as at 31 March 2019, down from 18.4% as at 31 December 2018. It fell by 40bps q/q due to RWA asset growth and the non-inclusion of interim profits. Its fully loaded leverage ratio was 4.1% as at 31 March 2019 against 4.2% as at 31 December 2018. Both the CET1 and leverage ratios remain within or above the bank's capital target range of 17.5%-18.5% and leverage ratio target of 4.0%. The CET1 ratio is also well above the 2019 Maximum Distributable Amount (MDA) trigger level of 12.32% comprising the 2019 11.75% Supervisory Review and Evaluation Process requirements, counter-cyclical buffer and an Additional Tier 1 shortfall. As a reminder, the 2018 European Banking Authority stress test announced early November 2018 showed that in a stress scenario, ABN would fare better than other European banks under our coverage.
- On balance, the weaker y/y results are in line with expectations that 2019 earnings may face challenges from BREXIT and expectations that economic growth will gradually slow over 2018-2020. All up, the results would not alter ABN's neutral (3) issuer profile. (OCBC, Company)

Credit Headlines (cont'd)

Hotel Properties Ltd ("HPL") | Issuer Profile: Neutral (4)

- HPL reported results for the quarter ending 1Q2019. Revenue fell 12.2% y/y to SGD152.2mn with lower revenue from property development due to the absence of contribution from Tomlinson Heights development which was fully sold last year. Net profit fell to SGD17.4mn (1Q2018: SGD92.8mn), more than revenue, mainly due to decline in share of results of associates and jointly controlled entities to SGD4.4mn (1Q2018: SGD66.7mn) due to the absence of profit booked for Holland Park Villas development in London. In addition, HPL recorded SGD3.5mn net loss on investments (1Q2018: net gain of SGD12.3mn).
- Meanwhile, cash from operating activities fell to SGD9.9mn (1Q2018: SGD48.4mn) though we note that HPL remains cashflow generative with profit before working capital changes at SGD46.8mn (1Q2018: SGD54.7mn).
- With a rather dry development landbank, we expect results to be anchored by HPL's investment properties and hotels going forward. Net gearing remains relatively unchanged q/q at ~26%. (Company, OCBC)

Metro Holdings Ltd ("METRO") | Issuer Profile: Neutral (4)

- Metro has acquired a 50% stake in Xiamen CICC Qihang Equity Investment Partnership ("CICC Qihang Fund") for RMB200mn (~SGD39.8mn). This is a fund set up by China International Capital Corporation Capital ("CICC Capital") which is the private equity arm of China International Capital Corporation ("CICC").
- CICC Qihang Fund has formed a 50/50 joint venture with another fund – Xiamen ARA Qihang Equity Investment Fund LLP ("ARA Qihang Fund") to purchase a commercial mall, The Atrium in Chengdu, PRC. As such, METRO holds an effective 25% stake in The Atrium, while the manager of ARA Qihang Fund is responsible for the asset enhancement and property management of the commercial mall.
- The Atrium (123,170 sq m) is a mixed-use development comprising a mall (NLA: 26,078 sq m), a Class A office tower, luxury residences and premier serviced apartments. It is located in the heart of Chengdu's central business district and the Dacisi business corridor.
- METRO intends to fund this acquisition with internal cash sources and external borrowings. As at 31 Dec 2018, METRO has SGD200.8mn cash on hand. (Company, OCBC)

Table 1: Key Financial Indicators

	16-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	72	0	8
iTraxx SovX APAC	47	0	5
iTraxx Japan	61	2	7
iTraxx Australia	73	0	5
CDX NA IG	64	1	6
CDX NA HY	106	0	-1
iTraxx Eur Main	67	0	9
iTraxx Eur XO	283	3	34
iTraxx Eur Snr Fin	82	2	12
iTraxx Sovx WE	18	1	1
AUD/USD	0.691	-1.09%	-3.65%
EUR/USD	1.121	-0.05%	-0.64%
USD/SGD	1.368	-0.31%	-1.02%
China 5Y CDS	49	1	8
Malaysia 5Y CDS	65	-1	13
Indonesia 5Y CDS	106	-1	11
Thailand 5Y CDS	37	-1	-1

	16-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	72.14	2.49%	0.59%
Gold Spot ($/oz)	1,295.90	0.92%	1.50%
CRB	180.66	0.51%	-3.54%
GSCI	439.63	1.30%	-2.52%
VIX	16.44	-15.26%	34.98%
CT10 (bp)	2.370%	-7.26	-22.07
USD Swap Spread 10Y (bp)	-4	-3	-3
USD Swap Spread 30Y (bp)	-29	-3	-5
US Libor-OIS Spread (bp)	17	1	-2
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,648	-1.23%	-3.04%
SPX	2,851	-0.99%	-1.93%
MSCI Asiax	636	-1.17%	-7.11%
HSI	28,289	-2.46%	-6.11%
STI	3,219	-1.54%	-3.39%
KLCI	1,610	-0.54%	-1.21%
JCI	5,965	-3.76%	-7.96%

New issues

- Zhuzhou City Construction Development Group Co Ltd has priced a USD400mn 3-year bond at 5.70%, tightening from IPT of low 6% area.
- Liuzhou Dongtong Investment & Development Co Ltd has priced a USD140mn 3-year bond at 7.0%, in line with final guidance.
- Export-Import Bank of Thailand has priced a USD300mn 5-year FRN at 3-month US-LIBOR +85bps, tightening from IPT of 3-month US-LIBOR+120bps area.
- Zunyi Road and Bridge Construction (Group) Ltd has priced a USD78mn re-tap of its existing ZYRDBG 8.0%'22s at par.
- New Metro Global Ltd has priced a USD300mn 3-year bond (parent guarantor: Seazen Holdings Co Ltd) at 6.75% (6.50% at 99.331), tightening from IPG of 6.90% area.
- Wing Tai Holdings Ltd has priced a SGD150mn perpetual bond at 4.48%, tightening from IPT of 4.75% area.
- UOL Treasury Services Pte Ltd has priced a SGD200mn 5-year bond at 3.0%.
- Subsidiaries of Adani Green Energy Ltd has scheduled investor meetings from 16 May for its potential USD bond issuance.
- China Huadian Corp Ltd has scheduled investor meetings from 16 May for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
15-May-19	Zhuzhou City Construction Development Group Ltd	USD400mn	3-year	5.70%
15-May-19	Liuzhou Dongtong Investment & Development Co Ltd	USD140mn	3-year	7.0%
15-May-19	Export-Import Bank of Thailand	USD300mn	5-year	3M-US LIBOR+85bps
15-May-19	Zunyi Road and Bridge Construction (Group) Ltd	USD78mn	ZYRDBG 8.0%'22s	100 + accrued
15-May-19	New Metro Global Ltd	USD300mn	3-year	6.75%
15-May-19	Wing Tai Holdings Ltd	SGD150mn	NC5-perp	4.48%
15-May-19	UOL Treasury Services Pte Ltd	SGD200mn	5-year	3.0%
14-May-19	Housing and Developmental Board	SGD700mn	5-year	2.164%
10-May-19	Bank of China/Hong Kong	USD100mn	2-year	2.90%
10-May-19	Zhongrong International Bond 2019 Limited	USD301.41mn	3NP2	7.60%
9-May-19	Asian Infrastructure Investment Bank	USD2.5bn	5-year	MS+6bps
9-May-19	Yankuang Group (Cayman) Limited	USD500mn	YGCZCH 6.0%'22s	5.5%

Source: OCBC, Bloomberg

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