

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)

**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.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
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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