

Apr 23, 2019

Credit Headlines:

CWT International Ltd, Frasers Commercial Trust, Mapletree Industrial Trust, Lippo Malls Indonesia Retail Trust, Keppel Real Estate Investment Trust, Hyflux Ltd, GuocoLand Group

Market Commentary

- The SGD swap curve steepened yesterday, with the shorter tenors trading 1bps higher while the belly and longer tenors traded 2bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 129bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 465bps.
- Flows in SGD corporates were heavy, with flows in SOCGEN 6.125%-PERPs, HSBC 4.7%-PERPs, CMZB 4.875%'27s, UBS 5.875%-PERPs, FPLSP 4.98%-PERPs and OLAMSP 5.5%-PERPs.
- 10Y UST yields rose 3bps to 2.59%, ahead of the USD237bn in new supply of treasury notes to be auctioned this week, as the US undertakes more debt to bridge the large budget deficit from President Donald Trump's tax cuts.

Credit Headlines

CWT International Ltd ("CWTI") | Issuer Profile: Negative (6)

- On 16 April 2019, [CWTI had announced that it has failed to pay accrued interest and certain fees which have become due and payable under a HKD1.4bn loan facility](#) and that lenders had given it a deadline of 9am on 17 April 2019 to repay.
- Subsequent to that, on 22 April 2019, CWTI has announced that as it was unable to repay the outstanding amounts to its lenders by the specified deadline and that the security agent has taken enforcement actions over certain of the charged assets on 18 April 2019. The lenders (which are still unnamed by CWTI) is taking possession over 100%-stake in CWT Pte Limited ("CWT SG", a SGD-bond issuer), investment properties located in the USA and golf courses in China. Receivers and managers have been appointed over these charged assets. Effectively, CWT SG would be getting a new shareholder.
- The UK investment property (book value of HKD1.2bn in end-2018) was not mentioned in the latest 22 April 2019 announcement. This property has been pledged for a CWTI loan amounting to HKD744.7mn in end-2018 and we think this is a separate loan to HKD1.4bn loan.
- On 18 April 2019, CWT SG has redeemed the CWTSP 3.9% '19s in full and per the latest CWTI announcement, the operations of CWT SG is continuing as usual.
- There is no Change of Control ("CoC") clause on the outstanding CWTSP 4.8% '20s although certain of CWT SG loan facilities contain CoC-related covenants which may be breached as a result of the change of shareholding at CWT SG.
- Net-net while the CWTI lender/new CWT SG shareholder remains unnamed, in our view, they are likelier to be financially driven and hence incentivised to keep CWT SG's value as intact as possible. We think a negotiated outcome could be achieved on CWT SG's loan facilities in relation to this change in shareholding. We will monitor the situation and update accordingly, though would drop coverage of CWTI upon completion of CWT SG's change in shareholding. (Company, OCBC).

Credit Headlines (cont'd)

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

- FCOT reported 2QFY2019 results for financial year ending 30 September 2019. Reported gross revenue was 9.7% lower y/y at SGD30.4mn, mainly due to lower occupancy rate for Alexandra Technopark (“ATP”) (at 59.2% down from 70.4% a year ago due to the exit of Hewlett-Packard Enterprise Singapore Pte Ltd and Hewlett-Packard Singapore Pte Ltd (“HP”)), divestment of 55 Market Street on 31 August 2018 and effects of the weaker Australian dollar.
- NPI declined in tandem by 10.5% y/y as a result of lower gross revenue, higher property tax for ATP and higher amortisation of lease incentives for Central Park and 357 Collins Street. Including the 50.0% interest in Farnborough Business Park (“FBP”) in the UK which was acquired on 29 January 2018 (and accounted for as a share of results of joint venture), NPI would have been fallen by a small extent of 4.5% y/y instead.
- Portfolio committed occupancy rate as at 31 March 2019 was 81.5% (1QFY2019: 83.8%), dragged by Singapore portfolio whose occupancy rate was 67.5% (1QFY2019: 75.0%) . This was largely due to the exits of HP from ATP. Occupancy rate would have been worse without its Australia portfolio which saw occupancy rate improved to 94.0% from 90.7% at the end of the previous quarter due to a take-up by WeWork at Central Park.
- Aggregate leverage is healthy at 29.1% and FCOT has minimal refinancing needs in FY2019 with just SGD2mn bank borrowings coming due within the financial year.
- Asset enhancement initiative at ATP has been completed during the quarter while that at China Square Central is expected to complete in 2H2019. FCOT is also commencing AEI at Central Park in 2Q2019 and expects completion in 3Q2020.
- Apart from working on stabilising some of its assets especially ATP, FCOT also has the headroom to acquire assets from sponsor, Frasers Property Group given its low leverage level. That said, acquisitions can possibly add pressure to FCOT’s issuer profile unless its core assets strengthen. It is worth noting that FCOT has over SGD4bn in right of first refusal properties from sponsor. (OCBC, Company)

Mapletree Industrial Trust (“MINT”) | Issuer Profile: Neutral (3)

- MINT reported its 4QFY2019 results for financial year ended 31 March 2019. Gross revenue increased 9.3% y/y to SGD98.8mn, largely due to new contribution from 18 Tai Seng, 30A Kallang Place and Mapletree Sunview 1, though partially offset by lower occupancies in the Flatted Factories (occupancy rate - 4QFY2019: 87.9%, 4QFY2018: 88.9%) and Stack-up/Ramp-up Buildings (occupancy rate - 4QFY2019: 91.6%, 4QFY2018: 92.9%) segments. Likewise, NPI grew by 11.7% y/y to SGD75.9mn.
- On a q/q basis, portfolio occupancy improved to 90.2% from 88.2% in the previous quarter. Improvement was due to the Singapore portfolio where all property segments recorded higher occupancies, except for the Business Park Buildings segments (unlike a year ago where Flatted Factories and Stack-up/Ramp-up Buildings recorded lower occupancies instead) while US portfolio occupancy rate remained unchanged at 97.4%. We see 18.2% of leases (by gross rental income) expiring in FY2020 and Flatted Factories continue to make up the bulk of these leases. We note that Flatted Factories is the largest contributor to MINT’s gross revenue and NPI even though its contributions have been gradually declining and a shift towards Hi-Tech Buildings has been observed.
- MINT has SGD75mn debt maturing in FY2020 along with a well-distributed maturing debt profile with a maximum of ~18% of total debt maturing each year. We see refinancing risk as manageable. Aggregate leverage improved to 33.8% from 34.7% in 3QFY2019 with interest coverage stable at 6.5x. MINT has managed to lower its aggregate leverage despite acquiring 18 Tai Seng and upgrading 7 Tai Seng Drive (on track for completion in 2H2019) by using the SGD201mn equity private placement in February 2019 to fund both activities instead of debt. MINT has also stretched out its weighted average tenor debt from 3.1 years as at 31 December 2018 to 4.4 years as at 31 March 2019 with the issuance of a 10-year SGD125mn 3.58% debt. As such, MINT has sufficient financial capacity and flexibility to support investment opportunities. (Company, OCBC).

Credit Headlines (cont'd)

Lippo Malls Indonesia Retail Trust (“LMRT”) | Issuer Profile: Negative (6)

- Lippo Mall announced 1Q2019 results. Gross revenue increased 34.2% y/y to SGD65.9mn largely as result of increase in service charge and utilities recovery directly collected from tenants and costs incurred for maintenance and operations of the malls and retail spaces.
- Net property income though was down 7.8% y/y to SGD40.5mn on higher property and maintenance expenses. EBITDA based on our calculation was down 8.6% y/y to SGD37.0mn with EBITDA/Interest declining to 4.3x from 5.0x during the same time last year. Interest expense has also increased by 7.0% y/y on the back of higher cost of debt. All-in cost of debt excluding perpetuals as at 31 March 2019 was 5.12% while as at 31 March 2018, this was 4.59%.
- Aggregate leverage was slightly lower at 33.9% versus 34.6% in end-2018. As at 31 March 2019, perpetuals was SGD260mn, adjusting 50% of perpetuals as debt, we find adjusted aggregate leverage at ~40%. Portfolio occupancies though have declined to 91.5% versus 92.9% in end-2018. While this has declined, the broad sector occupancies have seen a broader fall to 80.7% in 1Q2019 versus 83.2% in end-2018.
- On a positive note, trade and other receivables had declined to SGD37.3mn against SGD40.5mn in end-2018. Trade receivables before taking into account of allowance for doubtful debts were SGD30.6mn, of which SGD12.7mn (~42%) were due from related party tenants.
- Another SGD6.9mn in trade receivables had been collected post-quarter end. The REIT manager had emphasised since LMRT’s listing, there has been no incidence of non-payment/default from Lippo group of companies and there is no reason to believe that LMRT’s tenants from the Lippo group of companies will not fulfil their rental payments.
- LMRT faces SGD120mn in short term debt due versus cash balance of SGD74.7mn though we maintain that LMRT would be able to refinance this debt coming due. LMRT though has proposed to buy Lippo Mall Puri at a purchase consideration of IDR3,700 bn (~SGD354.7mn) from its Sponsor although it remains to be seen how LMRT would be funding this given the 45% aggregate leverage cap on REITs and significant equity funding cost LMRT is facing. We continue to hold Lippo Malls at Negative (6) issuer profile. (Company, OCBC)

Keppel Real Estate Investment Trust (“KREIT”) | Issuer Profile: Neutral (4)

- KREIT made its maiden entry into Seoul, South Korea office market via the acquisition a 99.38% interest in a freehold CBD Grade A building – T Tower for SGD301.4mn (KRW252.6bn). The balance 0.62% interest will be acquired by Keppel Capital Investment Holdings Pte Ltd (“Keppel Capital”), an indirect wholly-owned subsidiary of Keppel Corporation Limited. We note that Keppel Capital has managed ~SGD3bn of assets with GFA of 5.2mn sqft in South Korea since 2004.
- The total acquisition cost is SGD168.3mn (~KRW141.1bn) and expected to be funded by debt (including proceeds from the convertible bond issued earlier in the month). As a result, aggregate leverage is estimated to rise to 38.1%, from 35.7% as at 31 March 2019.
- The property, a 28-storey office building (NLA: 228,000 sqft), is currently 100% leased with a WALE of 2.8 years and majority of the leases have fixed annual rental escalations of 3%. Following the acquisition (expected to complete in 2Q2019), KREIT’s AUM will grow to SGD8.4bn across 10 properties in Singapore (82.4%), Australia (14.0%) and South Korea (3.6%). Despite the large expected rise in aggregate leverage, we maintain KREIT’s issuer profile at Neutral (4) for now. (Company, OCBC)

Credit Headlines (cont'd)

Hyflux Ltd (“HYF”) | Issuer Profile: Unrated

- HYF announced that HYF and three of its subsidiaries (excluding Hyflux Innovation Centre Pte Ltd (“HIC”)), has filed applications to Court for a further extension of the debt moratorium until 30 July 2019 (originally, the moratorium would end on 30 April 2019). The applications would be heard on 25 April 2019.
- On 22 April 2019, the Securities Investors Association Singapore (“SIAS”) raised that at a meeting with HYF, SIAS was informed that a plan is on the table where perpetual and preference shareholders will be much better off than in liquidation.
- As yet, the said plan has not been disclosed and it remains to be seen if the company would table a tangible alternative proposal which would help its case in gaining an extension of its moratorium. (Company, Straits Times, OCBC)

GuocoLand Group (“GUOL”) | Issuer Profile: Neutral (5)

- GUOL announced the concept and design of Guoco Midtown, a mega mixed-use development in the Beach Road area. GUOL is envisaging it to be a mix of shopping, culture, entertainment, amenities, prime office and residential units. The development would comprise of a 30-storeys Grade A office tower with a gross floor area (“GFA”) of 770,000 sq ft, retail & F&B portion with a GFA of 32,290 sq ft, a 32-storeys residential tower with GFA of 148,480 sq ft (with more than 200 luxury residential units) and public spaces amounting to GFA of 191,000 sq ft.
- GUOL bought the land where Guoco Midtown would sit for SGD1.6bn with total development cost projected at SGD2.4bn (estimated TOP in 2022).
- The Guoco Midtown project is relatively significant relative to GUOL’s total book value equity of SGD4.4bn and significant residential component on the back of our cautious stance over the Singapore property market. We continue to expect net gearing to remain elevated although comfortable with keeping its issuer profile at Neutral (5) for now as GUOL is backed by hard assets. (Company, OCBC)

Table 1: Key Financial Indicators

	<u>23-Apr</u>	<u>1W chg (bps)</u>	<u>1M chg (bps)</u>
iTraxx Asiax IG	64	0	-9
iTraxx SovX APAC	42	0	-6
iTraxx Japan	54	0	-8
iTraxx Australia	68	0	-9
CDX NA IG	58	1	-11
CDX NA HY	107	0	2
iTraxx Eur Main	58	0	-12
iTraxx Eur XO	248	-1	-35
iTraxx Eur Snr Fin	68	-2	-21
iTraxx Sovx WE	17	0	-2
AUD/USD	0.712	-0.74%	0.14%
EUR/USD	1.125	-0.27%	-0.54%
USD/SGD	1.356	-0.14%	-0.46%
China 5Y CDS	41	0	-8
Malaysia 5Y CDS	53	2	-12
Indonesia 5Y CDS	93	-2	-12
Thailand 5Y CDS	37	-1	-7

	<u>23-Apr</u>	<u>1W chg</u>	<u>1M chg</u>
Brent Crude Spot (\$/bbl)	74.35	4.45%	10.92%
Gold Spot (\$/oz)	1,274.10	-0.21%	-3.62%
CRB	187.92	-0.23%	2.05%
GSCI	456.25	0.84%	5.08%
VIX	12.42	3.41%	-24.64%
CT10 (bp)	2.580%	-1.09	14.05
USD Swap Spread 10Y (bp)	-2	-1	3
USD Swap Spread 30Y (bp)	-23	0	5
US Libor-OIS Spread (bp)	17	-3	-4
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	26,511	0.37%	3.96%
SPX	2,908	0.02%	3.83%
MSCI Asiax	681	-0.58%	2.46%
HSI	29,963	0.41%	1.69%
STI	3,358	0.77%	4.53%
KLCI	1,622	-0.57%	-2.68%
JCI	6,415	0.07%	-1.69%

New issues

- There was no new issuance over 22 April 2019.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
17-Apr-19	Ronshine China Holdings Ltd	USD200mn	3.5NC2	8.75%
17-Apr-19	Hejun Shunze Investment Co Ltd	USD330mn	2-year	12.625%
17-Apr-19	Modern Land (China) Co Ltd	USD300mn	2.5-year	12.7%
17-Apr-19	Huai'an Water Conservancy Holding Group Co Ltd	USD300mn	3-year	6.2%
17-Apr-19	Qatar National Bank Finance Ltd	USD850mn	3-year	3M US LIBOR+100bps
17-Apr-19	Melco Resorts Finance Ltd	USD500mn	7NC3	5.25%
16-Apr-19	Industrial & Commercial Bank of China Ltd	USD900mn USD600mn	3-year 5-year	3M US LIBOR+72bps 3M US LIBOR +83bps
16-Apr-19	New Dian Group Pte Ltd	USD200mn	2-year	8.0%
16-Apr-19	SMC Global Power Holdings Corp	USD500mn	NC5-perpetual	6.5%
15-Apr-19	China Evergrande Group	USD200mn USD400mn USD400mn	EVERRE 9.5%'22s EVERRE 10.0%'23s EVERRE 10.5%'24s	9.5% 10.0% 10.5%
15-Apr-19	Central China Real Estate Limited	USD300mn	4NC2	7.5%
15-Apr-19	RongXingDa Development (BVI) Ltd	USD325mn	3NC2	8.375%
15-Apr-19	Shinhan Bank	USD400mn	10-year	T+157.5bps

Source: OCBC, Bloomberg

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