

Jan 24, 2019

**Credit Headlines:** CapitaLand Commercial Trust, Keppel Telecommunications & Transportation Ltd, Mapletree Commercial Trust

## Market Commentary

- The SGD swap curve steepened yesterday, with the shorter tenors trading around 1bps higher, while longer tenors traded relatively unchanged (with the exception of the 5-year swap rate trading 1bps higher).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 155bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 12bps to 563bps.
- Flows in SGD corporates were heavy yesterday, with flows seen in SINTEC 5.0%-PERPs, UBS 5.875%-PERPs, BNP 4.35%'29s, DBSSP 3.98%-PERPs, MLTSP 4.18%-PERPs, CMZB 4.875%'27s and TEMASE 2.7%'23s.
- 10Y UST yields ended stable at 2.74%, after resurgent concerns regarding slowing economic growth in the latter half of the trading session eroded a 4bps rise in yields on the back of a rallying equity market.

## Credit Headlines

### **CapitaLand Commercial Trust (“CCT”) | Issuer Profile: Neutral (3)**

- CCT reported 4Q2018 results. Gross revenue grew 14.8% y/y to SGD99.0mn, mainly due to contributions from Asia Square Tower 2 (“AST2”) and Gallileo though partially offset by the divestments of Twenty Anson. Having said that, NPI rose by a greater extent of 16.6% y/y to SGD79.3mn, due to the lower operating expenses arising from the divestment of Twenty Anson which helped offset the higher operating expenses at AST2.
- CCT’s total portfolio committed occupancy was 99.4% as at 31 December 2018, an improvement from 97.3% a year ago. The increase was primarily due to stronger occupancy rate at AST2 (98.1% up from 90.5% in end-2017). Tenant retention remained healthy at 77%. Furthermore, CCT has completed 12% (3Q2018: 10%) of the 24% of office leases expiring in 2019.
- Aggregate leverage is 34.9%, down from 35.3% in 3Q2018, as a result of a higher deposited property value. The weighted average term to maturity was 3.9 years (up from 3.6 years in the previous quarter) while all-in average cost of debt was stable at 2.6%. CCT has no maturities due in the remaining of 2018 and just SGD148mn in 2019 (4% of total borrowings). As such, we see refinancing risk as manageable even though proportion of unencumbered assets has fallen to 78% from 83% in 3Q2018.
- Looking forward, CCT’s growth pipeline includes the call option for the balance 55% of CapitaSpring’s commercial component (not currently owned by CCT). The call option is exercisable within five years after the development obtained TOP (expected to be 1H2021). (Company, OCBC)

### Credit Headlines (cont'd)

#### **Keppel Telecommunications & Transportation Ltd (“KPTT”) | Issuer Profile: Neutral (4)**

- KPTT announced their 4Q2018 and full year results. Gross revenue increased 8% y/y to SGD47.2mn in 4Q2018, driven by the increase in the Data Centre segment (up 65% y/y SGD13.1mn) which more than offset the 5% y/y decline in the Logistics segment.
- KPTT functions more as an investment holding company in our view. Given the importance of minority stakes held in various businesses, we look more towards the performance of KPTT’s profit before taxation (“PBT”). In 4Q2018, profit before tax had declined 3.8% y/y to SGD20.5mn (4Q2017: SGD21.3mn). Based on our calculation of implied 4Q2018 segmental breakdown, the Logistics segment showed a loss before tax of SGD15.2mn, with the Data Centre and Investments segment showed PBT of SGD27.2mn and SGD8.5mn respectively. During 4Q2018, other operating expenses ballooned by 87% y/y to SGD6.6mn of which the company disclosed was due to higher legal and professional fees, sales and marketing expenses and shared services cost. KPTT ended the quarter with net profit of SGD21.2mn.
- KPTT’s operating cash outflows (before taking into account interest and tax) was SGD12.1mn and insufficient to pay its cash interest of SGD3.0mn. Simultaneously, investing outflows was SGD58.9mn in 4Q2018 versus 4Q2017’s investing outflow of only SGD8.1mn. We think cash outflows went in part towards funding its capital commitment at Alpha DC Fund. The cash gap at KPTT was funded by the drawdown of additional borrowings and existing cash balance.
- As at 31 December 2018, unadjusted net gearing at KPTT was 0.4x versus 0.3x as at end-September 2018, though we expect this to progressively increase as it continues funding its capital commitments.
- In September 2018, Keppel Corporation (“KEP”) which already owns ~79%-stake in KPTT announced the proposed take-private of KEP. We see good reasons for the take-private. Given the cross-holdings between KPTT and various entities within the KEP structure, a successful take-private would allow KEP to simplify KPTT’s corporate structure while also allowing KPTT’s minority shareholders to cash out. Notwithstanding the weak interest coverage of KPTT on a standalone basis, we are overweight on the KPTTSP ‘24s. Assuming the take private is successful, KPTT would be subsumed as a private wholly-owned subsidiary of KEP (ie: no publicly available standalone financials). There is no change of control and no delisting put on the bond. Post-delisting, we will cease coverage on KPTT though will continue to cover KEP which we currently hold at an issuer profile of Neutral (4). (Company, OCBC)

#### **Mapletree Commercial Trust (“MCT”) | Issuer Profile: Neutral (3)**

- MCT reported its third quarter results for the financial year ending March 2019 (“3QFY2019”). Gross revenue was up 2.6% y/y to SGD112.5mn while NPI moved in tandem by 2.2% y/y to SGD87.9mn. This was largely driven by higher year-on-year contribution from VivoCity (revenue: +4.6% y/y, SGD2.4mn). Having said that, Bank of America Merrill Lynch HarbourFront (“MLHF”) (revenue: +6.6% y/y, SGD0.3mn), Mapletree Anson (revenue: +3.6% y/y, SGD0.3mn), and PSA building (revenue: +0.6% y/y, SGD0.08mn) also saw higher revenue, on the back of better occupancies and effects of step-up rents in existing leases.
- Overall portfolio actual occupancy is 98.1%, up from 95.9% as at 30 September 2018, though committed occupancy remained unchanged at 98.7%. As at 31 December 2018, VivoCity was 99.9% occupied based on the enlarged NLA following the AEI. The mall saw shopper traffic increase by 1.8% YTD while tenant sales fell 1.2% YTD largely due to the transitory phase VivoCity underwent.
- MCT recorded positive YTD rental reversion of 5.8% for the portfolio, with retail at +4.0% and that for office/business park (including rent review) at +8.7%. We note that the expiring leases for the remaining of FY2019 are 0.5% of gross rental income each for retail and office/business park.
- Aggregate leverage remained unchanged at 34.8% while reported interest coverage was stable at 4.5x. It is worth noting that MCT does not have any maturing debt for the remaining of FY2019 and only has a SGD50mn bond coming due in the FY2020. With assets 100% unencumbered and no more than 20% of debt due for refinancing in any financial year, MCT’s financial flexibility remains strong. (Company, OCBC)

**Table 1: Key Financial Indicators**

	<u>24-Jan</u>	<u>1W chg (bps)</u>	<u>1M chg (bps)</u>
iTraxx Asiax IG	87	-1	-12
iTraxx SovX APAC	64	-1	-7
iTraxx Japan	71	-3	-14
iTraxx Australia	85	-2	-12
CDX NA IG	74	0	-21
CDX NA HY	104	0	4
iTraxx Eur Main	78	-1	-14
iTraxx Eur XO	332	3	-32
iTraxx Eur Snr Fin	93	-3	-21
iTraxx Sovx WE	25	0	0
AUD/USD	0.716	-0.50%	1.53%
EUR/USD	1.139	-0.02%	-0.17%
USD/SGD	1.358	-0.14%	1.16%
China 5Y CDS	61	0	-9
Malaysia 5Y CDS	89	-3	-22
Indonesia 5Y CDS	123	-2	-19
Thailand 5Y CDS	43	-1	-3

	<u>24-Jan</u>	<u>1W chg</u>	<u>1M chg</u>
Brent Crude Spot (\$/bbl)	61.20	0.03%	21.26%
Gold Spot (\$/oz)	1,284.57	-0.58%	1.21%
CRB	178.66	-0.18%	6.12%
GSCI	405.75	0.33%	10.47%
VIX	19.52	4.95%	-45.88%
CT10 (bp)	2.746%	-0.42	0.79
USD Swap Spread 10Y (bp)	3	0	1
USD Swap Spread 30Y (bp)	-18	1	-4
TED Spread (bp)	39	4	-6
US Libor-OIS Spread (bp)	37	0	-5
Euro Libor-OIS Spread (bp)	5	1	1
DJIA	24,576	2.12%	12.77%
SPX	2,639	1.09%	12.23%
MSCI Asiax	617	0.13%	4.72%
HSI	27,075	1.20%	5.55%
STI	3,185	-0.91%	4.40%
KLCI	1,689	0.93%	0.29%
JCI	6,451	0.59%	4.67%

## New issues

- KEB Hana Bank has priced a USD600mn 2-tranche deal with the USD300mn 3-year bond priced at CT+87.5bps (tightening from IPT of CT+110bps area) and the USD300mn 5-year bond priced at CT+102.5bps (tightening from IPT of CT+130bps area).
- Yankuang Group (Cayman) Ltd has priced a USD215mn 3-year bond (guarantor: Yankuang Group Co) at 6.0%, in line with the final price guidance.
- Nuoxi Capital Ltd has priced a USD150mn 3-year bond (guarantor: Peking University Founder Group Company Ltd) at 7.5%, in line with the final price guidance.
- Export-Import Bank of China has priced a USD130mn 2-year floating rate note at 3-month US LIBOR +55bps.
- Baoxin Auto Finance I Ltd has scheduled for investor meetings from 24 Jan for its potential USD bond issuance (guarantors: China Grand Automotive Services Co and China Grand Automotive Services (Hong Kong) Ltd).
- Chongqing Banan Economic Park Development & Construction Co has mandated banks for its potential SGD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
23-Jan-19	Export-Import Bank of China	USD130mn	2-year	3M US LIBOR +55bps
23-Jan-19	Nuoxi Capital Ltd (Peking University Founder Group Company Ltd)	USD150mn	3-year	7.5%
23-Jan-19	Yankuang Group (Cayman) Ltd (Yankuang Group Co)	USD215mn	3-year	6.0%
23-Jan-19	KEB Hana Bank	USD300mn USD300mn	3-year 5-year	CT+87.5bps CT+102.5bps
22-Jan-19	AC Energy Finance International Ltd (AC Energy Inc)	USD225mn	5-year	4.875%
22-Jan-19	Central China Real Estate Ltd	USD200mn	363-day	7.325%
22-Jan-19	Johnson Electric Holdings Ltd	USD300mn	5.5-year	CT+165bps
22-Jan-19	Mongolian Mortgage Corporation HFC LLC (MIK Holding JSC)	USD250mn	3-year	9.75%
22-Jan-19	Suhyup Bank	USD300mn	5-year	CT+110bps
22-Jan-19	China Evergrande Group	USD1.1bn USD875mn USD1.025bn	EVERRE 7.0%'20s EVERRE 6.25%'21s EVERRE 8.25%'22s	8.25% 9.5% 10.5%
22-Jan-19	Export-Import Bank of China	USD100mn	EXIMCH Float'21s	3M US LIBOR +60bps
22-Jan-19	Centurion Corporation Ltd	SGD56mn	3-year	5.5%
21-Jan-19	Export-Import Bank of Korea	USD150mn	3-year	3M US LIBOR +44 bps

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