

Jan 30, 2019

Credit Headlines: National Australia Bank Ltd, Ascendas Hospitality Trust, Starhill Global REIT

Market Commentary

- The SGD swap curve was higher yesterday, with the shorter tenor swap rates trading 1 bps higher while the longer tenors traded unchanged (with the exception of the 12-year swap rate trading 1bps higher).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 153bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 528bps.
- Flows in SGD corporates were heavy yesterday, with flows seen in UBS 5.875%-PERPs, BNP 4.35%'29s, DBSSP 3.98%-PERPs, HSBC 4.7%-PERPs, SINTEC 5.0%-PERPs, UOBSP 3.5%'29s and HSBC 5.0%-PERPs.
- 10Y UST yields fell 3bps to close the trading session at 2.71% on the back anticipated strong demand for the USD78bn new issue as it coincides with Federal Reserve Chairman Jerome Powell's prior remarks suggesting a pause in the central bank's interest rate hikes. Data showing US consumer confidence at its lowest since July 2017 also weighed in negatively on market sentiments.

Credit Headlines

National Australia Bank Ltd ("NAB") | Issuer Profile: Positive (2)

- NAB released its Monthly Business Survey for December 2018 and although they prefaced this report by saying that data over the Christmas/New Year period can be skewed, NAB nevertheless highlighted an overall concern with some of the results.
- Of note was the noticeable fall in the business conditions index (driven by employment growth, profitability and trading conditions or demand) which fell 9pts to +2 index points. This was the largest monthly fall since the Global Financial Crisis although it nevertheless remained positive due to the strong readings earlier in 2018.
- NAB's business confidence index was unchanged at +3 index points in December although this level remained below the long-run average level of +6 index points. Other weaker indicators include forward orders (below average and falling) and capacity utilization (although it remains high relative to historical measures).
- According to NAB, the weaker results were consistent with falls over the past 6 months and suggest a significant slowing in the momentum of activity in the business sector in 2H2018.
- Overall there is technical pressure on the Aussie bank Tier 2s given that the Australian Prudential Regulation Authority ("APRA") has suggested that building of bank capital buffers should be through Tier 2s rather than bailing in seniors or allowing the issuance of senior non-preferreds. There also remains some fundamental pressures from the expected economic slowdown (which could hit revenues) as well as the expected release of the final report on the Royal Commission into misconduct in the Banking Industry which may impact profitability through higher costs.
- All told, we see better value in ANZ 3.75% '27c22s for its comparatively stronger capital ratios - past repositioning strategies and a solid capital position have put ANZ in a decent position to face potential challenges to future profitability in our view. (OCBC, Company)

Credit Headlines (cont'd)

Ascendas Hospitality Trust (“ASCHT”) | Issuer Profile: Neutral (4)

- ASCHT reported its third quarter financial results for FY2019 (“3QFY2019”). ASCHT had divested its China portfolio on 18 May 2018 and had reported this as part of discontinued operations in its financials. Gross revenue was 13.7% y/y lower at SGD50.1mn while net property income (“NPI”) is declined by 8.0% y/y to SGD23.2mn. The decline in NPI was driven by lower contribution from Australia (down SGD2.3mn or 17.0% y/y), exacerbated by unfavourable FX movement in AUD (-5.1%). The absence of earnings from the China portfolio has been replenished by new contributions from hotels in South Korea and Japan.
- Occupancy rate in its Australia properties fell slightly to 86.0% from 86.7%, revenue per available room (“RevPAR”) was softer by 3.8% y/y. In the near term, the soft market conditions in Australia are largely expected to persist due to higher supply.
- For the Japan portfolio, NPI was up 19.2% y/y due to the contribution from WBF East and WBF West (both acquired in Sep 2018). We note that ASCHT has also completed the acquisition WBF Honmachi on 20 December 2018 and this hotel will start to contribute from 4QFY2019.
- Likewise, for its South Korean portfolio, Splaisir Dongdaemun (acquire on 21 May 2018) contributed SGD1.1mn to NPI and Ibis Insadong, acquired on 12 December 2018, will start to contribute from 4QFY2019.
- Aggregate leverage rose to 33.1% (2QFY2019: 30.8%, 1QFY2019: 23.7%, 4QFY2018: 30.8%) largely due to debt taken up to fund the Ibis Insadong acquisition. EBITDA/Interest fell to 6.8x from 8.6x in the preceding quarter as interest rate rose and to 2.0% from 1.9% in 2QFY2019. Refinancing risk remains minimal as ASCHT has no refinancing requirement until 2020. (Company, OCBC)

Starhill Global REIT (“SGREIT”) | Issuer Profile: Neutral (4)

- SGREIT reported its second quarter results for the financial year ended 30 September 2019 (“2QFY2019”). Gross revenue declined 2.7% y/y to SGD51.0mn while net property income (“NPI”) fell 2.4% y/y to SGD39.5mn. This was mainly due to softness in Singapore’s retail portfolio and the weakening of AUD, though partly offset by the Office portfolio.
- For its Singapore retail portfolio, even though Wisma Atria (Retail)’s actual occupancy rates has improved to 93.5% as at 31 December 2018, from 91.0% in the preceding quarter. This was at the expense of rents. Ngee Ann City (Retail) remained stable as it is anchored by Toshin master lease (ie: Takashimaya). Overall, Singapore retail saw revenue and NPI fall by 6.6% y/y and 6.4% y/y respectively, attributable to Wisma Atria (Retail).
- On the Singapore office front, Ngee Ann City (Office) saw committed occupancy jumped to 97.2% from 88.8% a year ago and 95.3% in 1QFY2019, due to the addition of The Great Room, a co-working space in June 2018. This translated to a 18.7% y/y gain in revenue and 36.4% y/y increase in NPI. Performance at Wisma Atria (Office), however, was flattish with occupancy rate slightly lower by 2.2%.
- Looking forward, in the remaining of FY2019, 7.1% of lease by gross rent will expire at Wisma Atria (Retail) and 22.1% at Wisma Atria (Office) while Ngee Ann City (Retail) has 5.9% and Ngee Ann City Office has 34.2%. Given the positive outlook on Office market and anticipated spillover effect from Grade A office to other assets in the fringe area, we expect the strong performance at SGREIT’s office properties to continue to offset the weakness seen in Retail. Overall, committed portfolio occupancy for SGREIT is largely stable q/q at 94.3% (1QFY2019: 94.1%, 4QFY2018: 94.2%).
- Aggregate leverage remains healthy at 35.6% (1QFY2019: 35.4%) with ~91% of its borrowing fixed. EBITDA/Interest fell to 3.5x from 3.7x in the preceding quarter, due to a 2.6% decrease in EBITDA and a 3.2% increase in interest expect. SGREIT has minimal refinancing risk in the near term as it has available undrawn long term committed credit facilities to cover for the SGD109mn debt maturing in Sep 2019. (Company, OCBC)

Table 1: Key Financial Indicators

	30-Jan	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	85	-2	-11
iTraxx SovX APAC	62	-2	-8
iTraxx Japan	68	-3	-19
iTraxx Australia	83	-2	-12
CDX NA IG	72	-2	-15
CDX NA HY	105	1	3
iTraxx Eur Main	75	-3	-13
iTraxx Eur XO	326	-6	-27
iTraxx Eur Snr Fin	90	-3	-19
iTraxx Sovx WE	24	-2	-2
AUD/USD	0.720	0.76%	2.09%
EUR/USD	1.144	0.54%	-0.21%
USD/SGD	1.351	0.58%	0.88%
China 5Y CDS	58	-2	-8
Malaysia 5Y CDS	85	-4	-24
Indonesia 5Y CDS	119	-4	-19
Thailand 5Y CDS	43	0	-3

	30-Jan	1W chg	1M chg
Brent Crude Spot (\$/bbl)	61.46	0.52%	17.74%
Gold Spot (\$/oz)	1,314.52	2.48%	2.50%
CRB	179.18	0.10%	4.80%
GSCI	407.10	0.33%	8.57%
VIX	19.13	-8.03%	-32.50%
CT10 (bp)	2.717%	-2.40	-0.13
USD Swap Spread 10Y (bp)	3	0	0
USD Swap Spread 30Y (bp)	-18	0	-1
TED Spread (bp)	37	-1	-6
US Libor-OIS Spread (bp)	34	-2	-5
Euro Libor-OIS Spread (bp)	5	0	1
DJIA	24,580	0.72%	6.58%
SPX	2,640	0.27%	6.21%
MSCI Asiax	629	1.93%	5.97%
HSI	27,563	2.05%	8.07%
STI	3,178	0.23%	4.09%
KLCI	1,689	0.07%	-0.16%
JCI	6,449	-0.03%	4.11%

New issues

- LLPL Capital Pte Ltd has priced a USD775mn 20-year bond (guarantor: PT Lestari Banten Energi) at 6.875%, tightening from IPT of 7.25% area.
- The Siam Commercial Bank PCL, Cayman Islands Branch has priced a USD500mn 5-year bond at CT5+137.5bps (tightening from IPT of CT+170bps area) and a USD500mn 10-year bond at CT10+167.5bps (tightening from IPT of CT+200bps area).
- Studio City Finance Ltd has priced a USD600mn 5NC2 bond at 7.25%, tightening from IPT of 7.5%.
- Granda Century Ltd has priced a USD235mn re-tap of its existing SNAGRP 7.5%'21s at 8.375%, in line with IPT.
- Oil India Ltd has priced a USD550mn 10-year bond at CT10+250bps, tightening from IPT of CT+275bps area.
- Champion Sincerity Holdings Ltd has priced a USD100mn perpetual bond (guarantor: Greentown China Holdings Ltd) at 7.75%.
- Suntec REIT MTN Pte Ltd has priced a SGD100mn 6-year bond at 3.355%, in line with IPT.

Date	Issuer	Size	Tenor	Pricing
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%
28-Jan-19	Fantasia Holdings Group Co	USD100mn	FTHDGR 15.0%'21s	15.0%
28-Jan-19	Fortune Star (BVI) Ltd (Fosun International Ltd)	USD500mn	2-year	6.875%
28-Jan-19	Hyundai Capital America (HYNMTR)	USD650mn USD350mn	3-year 5-year	CT3+140bps CT5+173bps
28-Jan-19	Jingrui Holdings Ltd	USD150mn	1.5-year	13.0%
28-Jan-19	Kookmin Bank	USD450mn	10-year Tier 2	CT10+187.5bps

Andrew Wong

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Ezien Hoo, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com

Seow Zhi Qi

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
zhigiseow@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "**Relevant Materials**") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "**Relevant Entity**") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("**MiFID**") and the EU's Markets in Financial Instruments Regulation (600/2014) ("**MiFIR**") (together referred to as "**MiFID II**"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).