Asian Credit Daily

October 19, 2016

Credit Headlines (Page 2 onwards): Keppel REIT, Swissco Holdings Ltd., Capitaland Commercial Trust

Market Commentary: The SGD swap curve bull-flattened yesterday with swap rates trading 4-7bps lower across all tenors as the dollar retreated after mixed data on the world's largest economy supported the case for monetary policy to remain accommodative. Flows in the SGD corporates were heavy with better buying seen in STANLN 4.4%'26s and UOBSP 4%'49s while mixed interests were seen in BAERVX 5.75%'49s, KEPSP 3.8%'27s, SCISP 4.75%'49s, PILLSP 5.9%'17s, FCLSP 4.88%'49s and BTHSP 5.75%'18s. In the broader dollar space, the spread on JACI IG corporates increased 1bps to 207bps while the yield on JACI HY corporates remained levelled at 6.60%. 10y UST yield decreased 2bps to 1.74%.

New Issues: Huai'An Traffic Holding Co. priced a USD300mn 3-year bond at 4.95%, tightening from its initial guidance at 5.2%. The expected issue ratings are "NR/NR/BB+". Yuzhou Properties Co. Ltd. priced a USD250mn 7NC4 at 6% with expected issue ratings of "NR/B1/BB-". Beazley PLC has scheduled investor road shows from 20 – 24 October for a potential USD tier-2 bond with expected issue ratings of "NR/NR/BBB+". BOCOM Financial Leasing has scheduled investor meetings from 21 October for potential USD bond issue with expected issue ratings of "NR/A2/A". Great Wall AMC has scheduled investor meetings from today onwards for a potential USD bond issue.

Rating Changes: S&P revised its outlook on Barminco Holding Ltd.'s "B-" corporate credit rating to positive from stable. The revision reflects S&P's view of further improvement in Barminco's credit metrics through material reduction in adjusted debt and the company's continued good track record of managing its contract book with growth in earnings over the next fiscal year. S&P revised its outlook on Wells Fargo & Co.'s (Wells) "A" issuer credit ratings and the company's main operating subsidiaries' "AA-" issuer credit ratings to negative from stable. The outlook revision reflects the increased business risks for Wells over the past few weeks, stemming from accelerated reputational issues following news of the company's retail accounts sales misconduct over recent years.

Table 1: Key Financial Indicators

	19-Oct	1W chg (bps)	1M chg (bps)		19-Oct	1W chg	1M chg
iTraxx Asiax IG	118	0	8	Brent Crude Spot ($/bbl)	52.14	0.64%	13.47%
iTraxx SovX APAC	34	0	-3	Gold Spot ($/oz)	1,263.39	0.65%	-3.79%
iTraxx Japan	55	-1	3	CRB	189.78	0.33%	4.48%
iTraxx Australia	105	2	7	GSCI	375.56	-0.02%	7.62%
CDX NA IG	75	-1	0	VIX	15.28	-0.52%	-1.61%
CDX NA HY	104	0	0	CT10 (bp)	1.749%	-2.07	3.67
iTraxx Eur Main	72	-2	4	USD Swap Spread 10Y (bp)	-17	0	0
iTraxx Eur XO	331	-5	5	USD Swap Spread 30Y (bp)	-56	-1	-1
iTraxx Eur Snr Fin	98	-1	5	TED Spread (bp)	58	2	0
iTraxx Sovx WE	19	-2	-7	US Libor-OIS Spread (bp)	41	0	0
iTraxx Sovx CEEMEA	94	0	-6	Euro Libor-OIS Spread (bp)	4	1	0
					19-Oct	1W chg	1M chg
				AUD/USD	0.768	1.53%	1.91%
				USD/CHF	0.990	0.07%	-1.00%
				EUR/USD	1.098	-0.26%	-1.76%
				USD/SGD	1.385	-0.12%	-1.70%
Korea 5Y CDS	41	0	1	DJIA	18,162	0.18%	0.23%
China 5Y CDS	107	0	10	SPX	2,140	0.13%	0.02%
Malaysia 5Y CDS	123	2	5	MSCI Asiax	549	0.19%	-0.10%
Philippines 5Y CDS	119	-1	23	HSI	23,394	-0.66%	-0.66%
Indonesia 5Y CDS	154	2	13	STI	2,831	-0.89%	-0.75%
Thailand 5Y CDS	100	-2	18	KLCI	1,668	-0.07%	0.96%
				JCI	5,430	0.89%	2.03%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
19-Oct-16	Huai'An Traffic Holding Co.	"NR/NR/BBB+"	USD300mn	3-year	4.95%
19-Oct-16	Yuzhou Properties Co. Ltd.	"NR/B1/BB-"	USD250mn	7NC4	6%
17-Oct-16	BDO Unibank Inc.	"NR/Baa2/NR"	USD300mn	5-year	CT5+135bps
17-Oct-16	Alam Synergy	"B/B2/B+"	USD245mn	5.5NC3.5	6.75%
17-Oct-16	ICBC Co. Ltd.	"A/A1/NR"	USD1bn	5-year	CT5+120bps
17-Oct-16	Korea National Oil Corp.	"AA/Aa2/AA-"	USD350mn	5-year	CT5+83bps
17-Oct-16	Korea National Oil Corp.	"AA/Aa2/AA-"	USD650mn	10-year	CT10+80bps
13-Oct-16	Modern Land China Co. Ltd.	"NR/B2/B+"	USD350mn	3-year	6.875%
13-Oct-16	Export-Import of Malaysia	"NR/A3/A-"	USD500mn	5-year	CT5+120bps

Source: OCBC, Bloomberg

Rating Changes: S&P assigned a "A-" long term issuer credit ratings to China Great Wall Asset Management Corp. (China Great Wall) with a stable outlook. At the same time, S&P assigned a "BBB+" credit rating to Great Wall Pan Asia International Investment Co. Ltd. (GW PAI). The rating on China Great Wall reflects the company's unsupported group credit profile (GCP) of "bb+" and S&P's view that there is very high likelihood that the government of China may extend extraordinary financial support to China Great Wall if needed. Fitch has also assigned China Great Wall "A" issuer default ratings with a stable outlook while Moody's has assigned China Great Wall a "A3" issuer rating to China Great Wall with a negative outlook. Moody's has revised the outlook on Lippo Karawaci Tbk's (P.T.) "Ba3" corporate family rating to negative from stable. The negative outlook reflects greater uncertainty in Lippo Karawaci's ability to close two planned asset sales totalling IDR1.7tn and achieve around IDR3.5tn of marketing sales before year-end 2016.

Credit Headlines:

Keppel REIT ("KREIT"): The issuer reported 3Q2016 results. Property income declined 6.3% y/y to SGD39.5mn while NPI fell 5.4% y/y to SGD31.6mn. Like previous quarters, the decline was largely driven by the divestment of the 77 King Street office asset in Sydney on 29/01/16. Adjusting for the divestment, KREIT would have seen flattish property income of -0.3% y/y and a slight gain of 0.7% y/y for NPI. On a q/q basis though, results were soft, with property income down 2.5% and NPI down 2.7%. The weakness was driven mainly by Bugis Junction Towers, which saw property income decline 15.4% q/q to SGD4.9mn due to property occupancy falling sharply from 100% to 95.0% q/q. The declines in occupancy at Bugis Junction Tower also caused portfolio occupancy to dip slightly to 99.5% (2Q2016: 99.7%). In aggregate, we still consider KREIT's Singapore portfolio occupancy to be strong at 95%, compared to Singapore's core CBD occupancy of 95.9% (as reported by CBRE for 3Q2016). This reflects sustained demand for KREIT's young and well-located Singapore assets. KREIT was largely able to sustain its high portfolio occupancy by negotiating lease expiries ahead of time. During the period, KREIT was able to complete the renewal of all leases expiring in 2016, as well as sharply reducing the balance of leases due for renewal in 2017 to just 5.2% of NLA (2Q2016: 9.5% of NLA). Balance of leases expiring in 2018 remained steady at 5.4% of NLA. Interestingly, KREIT started to tackle 2019 lease expiries, reducing it to 16.6% (2Q2016: 21.2%). These lease renewal efforts allowed KREIT to extend the WALE for the top 10 tenants (44% of NLA) to ~8.5 years (2Q2016: ~8 years). We note that the strong portfolio occupancy could have been at the expense of lease rates. Though the average rent reversion for YTD was +3% (1H2016: +2%), we note that the average committed rent for new, renewal and forward renewal leases was SGD9.85 psf for the first nine months of 2016. Comparatively, KREIT was able to achieve SGD10.30 psf for 1Q2016 and SGD10.10 psf for 2Q2016. As mentioned in the past, these outcomes are in line with our expectation that commercial REIT managers would aggressively tackle their lease expiries and support occupancy at the expense of lease rates, giving the looming supply of new offices coming into the market in the near future. Aggregate leverage was unchanged q/q at 39.0%. Proportion of fixed rate debt remained steady at 74%, with unencumbered assets at 83% of the portfolio. Interest coverage improved slightly to 4.7x (2Q2016: 4.6x). Cost of debt worsened slightly by 2bps q/q to 2.53%. Weighted average term to maturity remains healthy at 3.7 years, with KREIT having no refinancing needs till 2H2018. As it stands, KREIT's aggregate leverage is currently comparable with peers, particularly after factoring in recent acquisitions by CCT and MCT. As such, we will retain our Neutral Issuer Profile on KREIT. (Company, OCBC)

Swissco Holdings Ltd. ("SWCH"): SWCH announced that it will be holding a second informal noteholders meeting on the 24/10/16, with the aim of updating noteholders on the company's proposed restructuring plan. In separate news, The Straits Times reported that holders of at least 25% of SWCH's SGD100mn of bonds have filed a notice demanding immediate payment with SWCH's trustee on 18/10/16. We will update accordingly when details of the company's restructuring plan is disclosed. (Company, The Straits Times)

Credit Headlines:

Capitaland Commercial Trust ("CCT"): The issuer reported 3Q2016 results. Gross revenue jumped 8.9% y/y to SGD74.4mn while NPI increased 8.3% y/y to SGD57.0mn. This was largely driven by CCT's acquisition of the balance of CapitaGreen (previously CCT only held 40%) which was completed on 31/08/16. The acquisition increased gross revenue by SGD7.0mn and NPI by SGD5.3mn (CapitaGreen's September performance). Excluding the acquisition, performance was softer, with gross revenue declining 1.4% y/y to SGD67.4mn and NPI declining 1.8% y/y to SGD51.7mn. Specifically, property revenue fell at Six Battery Road, One George Street and Golden Shoe during the quarter. Six Battery Road saw its occupancy fall to 97.4% (2Q2016: 99.8%), with CCT upgrading one and a half floors of currently vacate office space. One George Street's committed occupancy rate improved sharply q/q from 91.3% to 96.6%, after being impacted by the departure of RBS earlier this year. The new tenants were likely still in the fitting out period though, which would account for the weaker property revenue. Finally, Golden Shoe saw its occupancy plunge to 76.3% (2Q2016: 98.6%), likely driven by plans by CCT to redevelop Golden Shoe (announced as part of its 3Q2016 results). In aggregate though, CCT was able to increase portfolio committed occupancy to 97.4% (2Q2016: 97.2%), driven by improving occupancies at Wilkie Edge, One George Street and Twenty Anson. This is stronger than CBRE's Singapore core CBD office occupancy of 95.9% for 3Q2016. CCT's portfolio average office rent continues to improve, up sharply to SGD9.22 psf per month (compared to SGD8.98 psf in 2Q2016). The improvements could be driven by CCT's acquisition of CapitaGreen. CCT's portfolio average rents are comparable with the industry Grade A office average of SGD9.30 psf (for 3Q2016, according to CBRE). As mentioned previously, there could be some looming lease pressure with the average 2017 expiring rents at Six Battery Road and One George Street currently higher than the comparable sub-market rents. In aggregate though, CCT has been aggressively renewing its near-term lease expiries, with 2016 lease expiries largely resolved, and about 8% of NLA left to renew for 2017 (of which 1.4% is currently under advance negotiation). This would help CCT sustain its portfolio occupancy in the face of increasing competition due to new offices coming to the market. WALE fell sharply y/y to 6.8 years (2Q2016: 7.4 years), potentially driven by the shorter leases on CapitaGreen relative to portfolio WALE in 2Q2016. Aggregate leverage has worsened sharply to 37.8% (2Q2016: 29.8%), driven by the debt funded acquisition of 60% of CapitaGreen during the quarter. As such CCT's leverage profile is largely comparable to peers. Interest coverage deteriorated as well to 6.5x (2Q2016: 7.2x) due to the additional debt taken. It is worth noting that the CapitaGreen acquisition was funded by a SGD890mn secured bank loan (the only secured borrowing which CCT has) which matures in 2020. This financing resulted in CCT moving from 100% unencumbered asset base to 20% encumbered asset base. Currently, CCT has no further debt maturities in 2016 and just SGD175mn in convertible bonds due in 2017. For now, we will hold CCT's Issuer Profile rating at Neutral. That said, CCT has announced its plans to redevelop its Golden Shoe Car Park asset (it's lease expires in 2081) into an office tower with up to one million sqft. As approvals from various authorities are required for the plan to go through (such as rezoning the land from transport to commercial use), CCT is currently targeting to redevelop Golden Shoe by 2H2017 and complete the redevelopment by 2021. Notwithstanding the pending approvals, CCT has notified tenants today that they are expected to vacate the premises by 31/07/17. The car park facility will also cease on the same day. The impact on CCT's credit profile is uncertain, as CCT is still considering the investment and funding structure for the redevelopment. Due to the revised REIT rules, CCT will be able to hold up to 25% of its total assets in redevelopment assets. CCT's current portfolio is valued at SGD8.7bn. As more details are provided, we will revise our view on CCT accordingly. (Company, OCBC)

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