Asian Credit Daily

October 21, 2016

Credit Headlines (Page 2 onwards): Ascendas REIT, Ascott REIT, VIVA Industrial Trust, Keppel Corp., Suntec REIT, Frasers Centrepoint Trust, City Development.

Market Commentary: The SGD swap curve mostly traded upward yesterday aside from the belly of the curve with 1-4Y tenors up 1-2bps while the 5Y and 7Y rates were slightly lower and the longer end slightly higher than the previous day. Flows in the SGD corporates were light with mixed interest seen in GENSSP 5.13%'49s and SCISP 4.75%'49s. In the broader dollar space, the spread on JACI IG corporates decreased 1bps to 207bps while the yield on JACI HY corporates also fell 1bp to 6.60%. 10y UST yield rose marginally by 1bp to 1.76%.

New Issues: China Great Wall International Holdings III Ltd. has priced two tranches – a USD700mn 3Y bond at CT3+135bp against IPT of +160bp, and a USD800mn 5Y bond CT5+145bp, against IPT of +170bp. Industrial and Commercial Bank of China Ltd, Sydney branch priced a CNH1.2bn 2yr bond at 3.65%, inside IPT of 3.8% with expected issue ratings of "A/--/--". MMI International (precision manufacturing technology company) has scheduled investor calls and meetings in Asia, Europe, and the US from Oct. 24 for a potential USD bond. The issue is expected to be rated "--/B2/B+". Bright Galaxy International Ltd. (guaranteed by real estate developer Beijing Capital Development Holding (Group) Co. Ltd) has scheduled investor meetings in Hong Kong, Singapore and London from Oct. 24 for a potential USD issue with expected ratings of "--/--/BBB-".

Rating Changes: Moody's has affirmed the ratings (baseline credit assessment ("BCA") of "baa1", senior unsecured rating of "A3") on Wing Lung Bank and revised the rating outlook to stable from negative following similar action on its parent China Merchants Bank Co, Ltd earlier this week. Similarly, Moody's affirmed the ratings on China CITIC Bank International Limited (BCA of "baa2", senior unsecured rating of "Baa1") with its rating remaining on negative outlook, again following similar action on its parent China CITIC Bank Corporation Ltd earlier this week.

Table 1: Key Financial Indicators

	21-Oct	1W chg (bps)	1M chg (bps)		21-Oct	1W chg	1M chg
iTraxx Asiax IG	116	-1	-4	Brent Crude Spot ($/bbl)	51.16	-1.52%	9.25%
iTraxx SovX APAC	34	0	3	Gold Spot ($/oz)	1,264.71	1.09%	-5.28%
iTraxx Japan	57	1	-3	CRB	188.78	-0.19%	2.12%
iTraxx Australia	104	-1	-5	GSCI	374.09	-0.46%	5.40%
CDX NA IG	74	-2	-5	VIX	13.75	-17.62%	3.38%
CDX NA HY	104	0	0	CT10 (bp)	1.750%	-4.74	9.92
iTraxx Eur Main	71	-3	-2	USD Swap Spread 10Y (bp)	-16	1	-1
iTraxx Eur XO	320	-14	-22	USD Swap Spread 30Y (bp)	-56	0	-3
iTraxx Eur Snr Fin	94	-4	-6	TED Spread (bp)	56	-3	-2
iTraxx Sovx WE	19	-2	-4	US Libor-OIS Spread (bp)	40	-2	-4
iTraxx Sovx CEEMEA	94	0	10	Euro Libor-OIS Spread (bp)	4	0	-1
					21-Oct	1W chg	1M chg
				AUD/USD	0.763	0.17%	0.09%
				USD/CHF	0.994	-0.37%	-2.02%
				EUR/USD	1.092	-0.50%	-2.43%
				USD/SGD	1.393	-0.22%	-2.87%
Korea 5Y CDS	41	0	0	DJIA	18,162	0.35%	-0.72%
China 5Y CDS	105	0	1	SPX	2,141	0.41%	-1.01%
Malaysia 5Y CDS	122	0	-4	MSCI Asiax	551	1.31%	-0.46%
Philippines 5Y CDS	116	-3	11	HSI	23,374	0.61%	-1.25%
Indonesia 5Y CDS	152	0	5	STI	2,834	0.68%	-0.57%
Thailand 5Y CDS	96	-4	10	KLCI	1,668	0.52%	0.53%
				JCI	5,404	1.19%	1.14%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
20-Oct-16	China Great Wall International Holdings III Ltd	"NR/Baa1/BBB+"	USD800mn	5-year	CT5+145bps
20-Oct-16		"NR/Baa1/BBB+"	USD700mn	3-year	CT3+135bps
20-Oct-16	ICBC, Sydney Branch	"A/NR/NR"	CNH1.2bn	2-year	3.65%
19-Oct-16	Saudi Arabia	"NR/A1/AA-"	USD5.5bn	5-year	CT5+135bps
19-Oct-16	Saudi Arabia	"NR/A1/AA-"	USD5.5bn	10-year	CT10+165bps
19-Oct-16	Saudi Arabia	"NR/A1/AA-"	USD6.5bn	30-year	CT30+210bps
18-Oct-16	Huai'An Traffic Holding Co.	"NR/NR/BBB+"	USD300mn	3-year	4.95%
18-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

Source: OCBC, Bloomberg

Rating Changes (cont.): Fitch has assigned first time "BBB-" issuer default ratings to Beijing Capital Development Holding (Group) Co. Ltd (Shokai) with a stable outlook. The ratings incorporate a two-notch uplift to reflect Shokai's not-for-profit undertaking in developing and managing affordable housing estates in the Beijing municipality and Shokai's operational and strategic linkage to the Beijing municipal government.

Credit Headlines:

Ascendas REIT ("AREIT"): AREIT reported its 1HFY2017 results yesterday. Gross revenue increased 13.7% y/y to SGD413.0mn, driven by the acquisition of properties in Australia Portfolio and ONE@Changi City. Net property income increased 21.7% y/y to SGD301.9mn mainly due to higher gross revenue from new properties, along with lower utilities and property expenses. While AREIT's portfolio occupancy increased to 89.1% (as at September 2016) from 88.2% (as at June 2016), this is due to improvements in the Australia and China portfolio occupancies. Occupancy at the Singapore portfolio softened to 87.9% (June 2016: 88.3%), with negative rental reversions recorded for the Hi-Specs Industrial and Logistics & Distribution Centres properties. The logistics segment may face further pressure as 579,000 sqm of new supply throughout Singapore in 2017 has not been pre-committed while c.6.6% of AREIT's Singapore leases expiring in FY2017-FY2018 are in the logistics segment. Meanwhile, the island-wide industrial property market vacancy rate worsened to 10.6%. Nevertheless, management still guided for rental reversions in the low-single digit or flat, with a stable performance in FY2017. Aggregate leverage reduced to 34.2% as at 30 September, 2016 (1QFY2017: 37.0%) after redemption of borrowings from divestment proceeds and equity fund raising. Interest Coverage (EBITDA / Gross Interest Expense) decreased to 4.9x for 1HFY2017 (1HFY2016: 5.4x), or 4.3x if the interest expense from the perpetual securities is included. Debt maturity profile remained relatively well-spread with weighted average tenure of debt at 3.8 years. Although Singapore's industrial outlook remains soft, we maintain our Neutral issuer profile as AREIT'S portfolio is well-diversified. (Company, OCBC)

Ascott REIT ("ART"): ART reported its 3QFY2016 results yesterday. Gross revenue and gross profit increased 9% y/y and 4% y/y due to the properties acquired over the preceding 12 months. However, ART's performance is lacklustre on a like-for-like basis. Key markets Japan and Singapore saw noticeably weaker performance, as demand from project groups and corporates fell. The China portfolio also traded weaker due to lower demand in some regional cities. Nevertheless, Ascott's well-diversified portfolio across 38 cities partly mitigates weakness from economic cycles. Gearing and interest cover remains manageable and largely unchanged q/q, at 41% and 4.2x respectively. Debt profile remains well-staggered, with weighted average debt to maturity at 4.6 years. We maintain our Neutral issuer profile. (Company, OCBC)

Viva Industrial Trust ("VIVA"): VIVA reported its 3QFY2016 results this morning. Gross revenue increased 31.9% y/y to SGD24.3mn mainly due to acquisitions of Home-Fix Building, 11 Ubi Road 1 and 30 Pioneer Road, as well as higher rental contribution from Viva Business Park (previously known as Technopark @ Chai Chee). Portfolio occupancy increased to 88.6%, higher by 7.8pp y/y, contributed by new tenants at Viva Business Park while the AEI progresses towards completion. Occupancy at Viva Business Park is expected to continue rising, as 93.4% of white space is committed, while 42.7% of the space has already started contributing to the 3Q2016 income. While AREIT's results portray a challenging industrial market, VIVA differentiates itself with a higher concentration of its portfolio in business parks, which may exhibit higher resilience with no supply in 2017-2018. Lease maturity is well termed-out, with negligible leases expiring this year. Gearing inched lower by 0.2pp q/q to 39.8%. We are currently reviewing VIVA's issuer profile rating. (Company, OCBC)

Credit Headlines (cont.):

Suntec REIT ("SUN"): SUN reported 3Q2016 results. Gross revenue fell 4.3% y/y to SGD82.4mn, largely due to the partial divestment of Park Mall in December 2015, though the decline was mitigated by the opening of Suntec City Phase 3. That said, SUN did benefit from the practical completion of 177 Pacific Highway on 01/08/16. Adjusting for the impact of both Park Mall and 177 Pacific Highway, gross revenue would have still fallen 4.3% y/y largely due to weakness at Suntec Singapore convention centre. Suntec Singapore's revenue fell sharply by 19.8% y/y to SGD18.6mn, with the retail contribution falling sharply by 33.3% y/y. On a q/q basis, gross revenue (adjusting for 177 Pacific Highway) declined as well by 3.0% again driven by weakness by Suntec Singapore's retail contribution. NPI fell slightly by 2.1% y/y to SGD57.2mn, with contributions from 177 Pacific Highway helping to offsetting the Park Mall divestment. Lower property taxes (due to the Park Mall divestment and overprovision in previous years) also supported NPI. However, adjusting for 177 Pacific Highway and Park Mall, NPI would have fallen 3.9% y/y, driven by the 28.8% fall in NPI contribution from Suntec Singapore. Total return was up 8.9% y/y to SGD53.6mn, supported by lower net finance expense as well as higher contributions from its joint ventures. With regards to portfolio performance, office committed occupancy improved slightly to 99.4% (2Q2016: 98.9%) due to improvements seen in both Suntec and ORQ. This is commendable given the overall competitive market for office assets. The inclusion of 177 Pacific Highway (100% occupied) during the quarter also helped boost portfolio occupancies. In addition, SUN was able to lift average lease secured during the quarter by 2.3% q/q to SGD8.78 psf/mth. SUN's office lease expiry profile also improved with 2016 lease expiries largely renewed while 2017 lease expiries fell to 12.2% (2Q2016: 17.4%). The inclusion of 177 Pacific Highway also improved stats given the longer lease tenure of its tenants (building NLA of 434,000 sqft with WALE of 9.25 years). Comparatively, the retail portfolio continues to weaken to an occupancy of 97.3% (2Q2016: 97.7%) with Suntec City mall's occupancy falling to 96.8% (2Q2016: 97.5%). Lease rates were weak as well with overall committed rent on a stabilized basis continuing to drift lower and standing at SGD11.19 psf/mth (2Q2016: SGD11.58 psf/mth). 2017's retail lease expiries remain high at 22.9% (though lower than the 27% seen for 2016 at the beginning of the year). SUN indicated that preserving stronger tenants could be a strategy to drive shopper traffic. This could imply further deterioration to lease rates, but with improvements to occupancy. Aggregate leverage increased to 36.6% (2Q2016: 34.7%). This was largely due to the SGD300mn in convertible bonds issued in August, likely used to finance the acquisition of a 25% effective stake in the Southgate complex in Melbourne, Australia. The current open market valuation for Southgate is AUD578.8mn, with SUN paying AUD154.9mn for the stake (after cost). It should be noted that the vendor has the option to put another ~25% effective stake in the Southgate to SUN within 480 days upon completion of the transaction (expected by December 2016). Liquidity remains manageable with interest coverage improving to 3.9x (2Q2016: 3.6x) and just SGD100mn in loans to refinance by end-2017 (2018 is more challenging with SGD1105mn in borrowings due). We will retain our Neutral Issuer Profile on SUN. (Company, OCBC)

City Development Limited ("CDL"): CDL announced that it will be monetizing its Nouvel 18 (156 unit luxury development on Anderson Road) via CDL's third Profit Participation Securities ("PPS"). The transaction is valued at SGD977.6mn (Nouvel 18 valued at SGD965.4mn or SGD2,750 psf, balance for fees & expenses). The PPS will be the lowest tranche in the capital structure at a notional size of SGD102mn, consisting of both common and preference shares. These are targeted at HNW Singaporeans or companies wholly-owned by Singapore citizens. Holders of the PPS will enjoy a preferred 5% annual IRR and possible upside. We expect holders of PPS to bear some downside as well should the units of Nouvel 18 be sold below a certain price. The balance of the SGD977.6mn will be funded by SGD579.2mn in senior loans (by DBS and UOB), SGD156.4mn in subordinated notes due 2021 to be purchased initially by DBS and SGD140mn in subordinated notes due 2023 to be held by CDL. CDL estimated that the impact of the transaction (to be recognized in 4Q2016 results) would drive pro-forma end-2Q2016 net gearing lower from 27% to 19%. This is consistent with our current Positive Issuer Profile on CDL. (Company, OCBC).

Credit Headlines (cont.):

Frasers Centrepoint Trust ("FCT"): FCT reported 4QFY2016 results, with gross revenue falling 6.0% y/y to SGD44.6mn for the quarter. This was largely due to the fall in occupancy to 70.9% in Northpoint (4QFY2015: 98.2%) due to the commencement of its AEI in 2QFY2016. As a result, Northpoint's gross revenue fell 18.9% y/y to SGD10.3mn. We note that performance at Changi City Point continues to be weak as well with occupancy staying low at 81.1% (management attributed this to transitional vacancy resulting from the fitting out of a new anchor tenant), with property revenue declining 15.4% y/y to SGD5.89mn. In fact, of Northpoint's six properties, only Causeway Point and Yew Tee Point saw y/y increases in property revenue. Despite top line weakness, NPI fell only 0.9% y/y to SGD31.4mn. This was due to property expenses declining 16.4% y/y, driven by lower maintenance expenses (likely utilities) and write backs on bad debt provisions. FCT's largest three malls continue to provide the lion's share of NPI at 85% of portfolio NPI. Portfolio occupancy was 89.4% (FY2015: 96.0%), remaining at the lowest level in years. This was largely driven by the fall in occupancy in Northpoint and Changi City Point (~40% of portfolio valuation). As mentioned before, with management indicating that Northpoint's AEI will continue to keep occupancy at around 80% till the end of 2016 and complete by September 2017, we don't believe that portfolio gross revenue will be able to recovery decisively through the end of this year. Interestingly, despite weak performance at Changi City Point and Bedok Point, there was no change in valuation for these two assets as of end-FY2016. In aggregate, FCT's portfolio valuation was up 2.0% y/y to SGD2.51bn. As for lease reversions, FCT managed an average rental reversion of +4.6% for 4QFY2016 (just 2.6% of NLA was renewed during the quarter though). This was lower than the +9.9% for the whole FY2016 (covering 19.9% of portfolio NLA), as well as weaker than the +8.3% seen in 3QFY2016. In aggregate, we are comforted that FCT was able to renew rental rates at between 10% - 20% higher for its largest three assets during FY2016, though we note a distinct deceleration through the year. FY2017 would likely remain challenging with FCT seeing ~40% of NLA to be renewed in FY2017. Of particular concern would be Bedok Point, with 55% of NLA renewing in FY2017 and -30.0% rental reversion seen in FY2016. Aggregate leverage remained steady at 28.3% (3QFY2016: 28.5%) due to the revaluation gains on the portfolio. Cost of debt improved q/q to 2.1% (3QFY2016: 2.26%) helping to improve EBIT / Interest coverage to 7.4x (3QFY2016: 7.1x). FCT has SGD218mn in borrowings due in FY2017, which includes of SGD30mn bond due in June 2017 SGD90mn unsecured bank loan due to DBS in June 2017, SGD70mn secured bank loan due to DBS in December 2016. Though FCT's cash balance is only SGD18.7mn, we believe that FCT continues to have good access to capital markets, last issuing SGD50mn in 5Y bonds in June 2016. As such, the looming maturities are expected to be refinanced. We will retain FCT's Issuer Profile at Neutral, as we continue to expect the sponsor to inject The Centrepoint asset into FCT once the property stabilizes. (Company, OCBC)

Credit Headlines (cont.):

Keppel Corp ("KEP"): KEP reported 3Q2016 results, with total revenue down 40.2% y/y to SGD1.46bn. The offshore marine ("O&M") segment continues to be challenged, seeing a 63.5% decline y/y in segment revenue to SGD515.6mn. On a q/q basis, segment revenue was also lower by 28.4%. O&M revenue contribution continues to inch lower and is now just 35% of total revenue (3Q2015: 58%). The segment faces sectorial headwinds, with weak upstream activity reducing demand for drilling assets. With more newbuild drilling assets entering supply, we expect it to be difficult for KEP to win new orders for drilling rigs. None of the ~SGD500mn in new orders won YTD were for drilling assets. KEP's net order book (excluding the Sete Brasil orders) have shrunk slightly q/q to SGD4.1bn (2Q2016: SGD4.3bn). On the bright side, no O&M orders were deferred during 3Q2016. Management has reiterated that the provisions during 4Q2015 regarding the Sete Brasil contract remains adequate. Net profit for the segment fell sharply by 93% y/y to SGD11mn (3Q2015: SGD166mn). With no solace in sight, management has continued to cut costs, which includes the reduction of 3080 of its direct workforce (660 in Singapore). Coupled with other cost cuts, KEP managed to keep O&M operating margins at ~12.5% for 9M2016. The property segment saw revenue grow 5.8% y/y to SGD482.1mn, or about 3% q/q with KEP selling 1370 homes during the quarter. YTD, 84% of the units sold were from China. Looking forward, KEP will be launching 1,500 homes in Vietnam during 4Q2016. It is worth noting that KEP's launch-ready home pipeline (till end-2018) has declined distinctly to 16,327 (2Q2016: 18,439), with KEP's China pipeline being consumed quickly. Segment net income remains strong, growing by 23% y/y to SGD157mn, helping to offset weakness at the O&M business. The infrastructure segment continues to be weak, with revenue declining 18.3% y/y to SGD434mn. That said, the segment managed to grind out a q/q revenue gain of 7.4%. In aggregate, management reported SGD238mn in EBITDA for the quarter. Cash flow generation for the quarter was strong, with KEP generating SGD635.2mn in operating cash flow. This was largely driven by monetizing working capital. With just SGD75.3mn in capex for the quarter, KEP generated SGD559.9mn in free cash flow during the quarter. This was used to reduce debt, with KEP's net debt falling to SGD6.8bn (2Q2016: 7.3bn), which in turn helped reduce net gearing to 57% (2Q2016: 62%). Interest coverage for the quarter stood at 4.6x, due to the slump in earnings. We will review KEP's results further and will adjust KEP's current Neutral Issuer Profile if required. (Company, OCBC)

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