Asian Credit Daily

OCBC Bank

January 25, 2017

Credit Headlines (Page 2 onwards): Keppel REIT, Suntec REIT, China Vanke Co. Ltd., Ascendas Real Estate Investment Trust, Mapletree Industrial Trust, Cambridge Industrial Trust

Market Commentary: The SGD swap curve traded lower yesterday, with swap rates decreasing by 1-2bps across all tenors. Flows in SGD corporates were heavy, with better buying seen in MAPLSP 4.5%'49s, MAPLSP 5.13%'49s, GENSSP 5.13%'49s, FCLSP 5%'49s, better selling seen in OCBCSP 3.8%'49s, GUOLSP 4.1%'20s, and mixed interest in FCLSP 4.88%'49s, BNKEA 4.25%'22s. In the broader dollar space, the spread on JACI IG Corporates rose 2bps to 197bps, while the yield on JACI HY Corporates fell 2bps to 6.81%. 10y UST yield rose 7bps yesterday to 2.47%, amid supply-induced weakness in most European government bond markets.

New Issues: Vedanta Resources Plc priced a USD1bn 5.5-year bond at par to yield 6.375%, tighter than initial guidance of 6.75%. The expected issue ratings are 'B+/B3/NR'. Fujian Zhanglong Group Co. Ltd. priced a USD150mn tap from its 4.5%'19s at 4.8%, in line with initial guidance. The expected issue ratings are 'NR/NR/BB+'. Neerg Energy Ltd. (operating entity under ReNew Power Ventures Private Limited) scheduled investor roadshows from 24 January – 1 February for a potential USD bond issue. The expected issue ratings are 'NR/Ba3/B+'.

Rating Changes: S&P downgraded Toshiba Corp's corporate credit rating to 'CCC+' and short-term corporate credit and commercial paper program ratings to 'C', all by one notch. In addition, S&P downgraded Toshiba's senior unsecured debt rating to 'B-' from 'B+'. S&P continues to place Toshiba's ratings on CreditWatch with negative implications. The rating action reflects S&P's view that uncertainties are growing over Toshiba's ability to continue to fulfill its financial commitments in the long term, and the growing likelihood that the losses the company will recognize related to its U.S. nuclear power business will exceed JPY500 billion. S&P upgraded Australian REIT (AREIT) Vicinity Centres' corporate credit rating to 'A' from 'A-', with a stable outlook. In addition, S&P upgraded AREIT's issue rating on its unsecured debt to 'A+' from 'A'.

Table 1: Key Financial Indicators

	25-Jan	1W chg (bps)	1M chg (bps)		25-Jan	1W chg	1M chg
iTraxx Asiax IG	114	-3	-8	Brent Crude Spot ($/bbl)	55.44	-0.05%	0.51%
iTraxx SovX APAC	33	-1	-4	Gold Spot ($/oz)	1,208.84	0.38%	6.67%
iTraxx Japan	56	0	7	CRB	194.95	-0.10%	2.32%
iTraxx Australia	96	-2	-6	GSCI	400.17	-0.18%	2.11%
CDX NA IG	65	-1	-2	VIX	11.07	-6.74%	-3.23%
CDX NA HY	106	0	0	CT10 (bp)	2.454%	2.46	-8.31
iTraxx Eur Main	70	0	0	USD Swap Spread 10Y (bp)	-11	1	0
iTraxx Eur XO	289	0	5	USD Swap Spread 30Y (bp)	-44	4	0
iTraxx Eur Snr Fin	85	-1	-6	TED Spread (bp)	54	4	5
iTraxx Sovx WE	21	0	0	US Libor-OIS Spread (bp)	35	0	1
iTraxx Sovx CEEMEA	76	-4	-5	Euro Libor-OIS Spread (bp)	3	0	0
					25-Jan	1W chg	1M chg
				AUD/USD	0.759	1.17%	5.58%
				USD/CHF	1.001	0.62%	2.60%
				EUR/USD	1.073	0.92%	2.61%
				USD/SGD	1.421	0.63%	1.88%
Korea 5Y CDS	47	-1	2	DJIA	19,913	0.43%	-0.11%
China 5Y CDS	111	-3	-7	SPX	2,280	0.54%	0.72%
Malaysia 5Y CDS	130	-2	-10	MSCI Asiax	542	0.68%	7.25%
Philippines 5Y CDS	99	2	-12	HSI	22,950	0.48%	6.37%
Indonesia 5Y CDS	150	-2	-6	STI	3,042	0.97%	5.95%
Thailand 5Y CDS	73	-1	-6	KLCI	1,681	1.06%	3.93%
				JCI	5,292	0.48%	5.26%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
24-Jan-17	Vedanta Resources Plc	"B+/B3/NR"	USD1bn	5.5-year	6.375%
24-Jan-17	Fujian Zhanglong Group Co. Ltd. (re-tap)	"NR/NR/BB+"	USD150mn	3-year	4.8%
23-Jan-17	Industrial Bank of Korea	"AA-/Aa2/AA-"	USD300mn	3-year	CT3+85bps
23-Jan-17	Shui On Development (Holding) Ltd.	"NR/NR/NR"	USD500mn	4-year	5.875%
23-Jan-17	Siam Commercial Bank PCL	"BBB+/Baa1/BBB+"	USD400mn	5.5-year	CT5+150bps
23-Jan-17	Biostime International Holdings Ltd. (retap)	"BB-/Ba3/NR"	USD200mn	5-year	104.50
23-Jan-17	GLL IHT Pte. Ltd.	Unrated	SGD200mn	5-year	4%
20-Jan-17	Blue Skyview Company	"NR/NR/NR"	USD250mn	Perp NC3.5	7.125%

Source: OCBC, Bloomberg

Rating Changes (Cont'd):

The rating action reflects S&P's increased confidence that the group will deliver on its portfolio repositioning strategy, raising overall asset quality and enhancing earnings stability. Moody's has affirmed Bank of America Corporation's (BAC) 'Baa1' senior debt rating, and revised BAC's ratings outlook to Positive from Stable. The outlook change applies for BAC's subsidiaries and its principal bank subsidiary Bank of America N.A (BANA) as well. In addition, Moody's affirmed BANA's 'A1' deposit issuer and senior debt ratings, as well as their baseline credit assessment of 'Baa2'. The rating actions reflect Moody's view that there is an increased likelihood that Bank of America's profitability will strengthen on a sustainable basis over the next twelve to eighteen months, while the bank continues to adhere to its conservative risk profile, lowering its earnings volatility. Moody's has confirmed China Oilfield Services Limited's (COSL) 'Baa1' issuer rating and 'Baa1' senior unsecured debt rating on the bonds (guaranteed by COSL) issued by COSL Finance (BVI) Limited. The outlook on the ratings is Negative. The rating action reflects Moody's view that the noticeable decline in COSL's standalone credit quality is offset by the resilience of its business franchise in China; the strong support from its parent, China National Offshore Oil Corporation, rated Aa3 negative (CNOOC); and the role it plays in the Chinese government's strategy to develop energy independence. Moody's has confirmed Shanghai Electric Power Company Limited's (SEP) 'Baa2' issuer rating. In addition, Moody's has confirmed the 'Baa2' guaranteed senior unsecured debt rating of Shanghai Electric Power Finance Limited. The outlook on the ratings is Negative. The rating action reflects SEP's weakened standalone credit profile, balanced by Moody's assessment of likely high support in a distressed situation from its parent State Power Investment Corporation (SPIC, A2 stable), which has the capability of providing such support. Fitch affirmed Wharf (Holdings) Limited's (Wharf) Issuer Default Rating (IDR) at 'A-', and revised the rating outlook to Positive from Stable. The rating action reflects Wharf's improved financial profile and the increasing stability of its China portfolio, on top of the disposal of Wharf T&T (Wharf's telecom business) that has strengthened its cash position.

Credit Headlines:

Keppel REIT ("KREIT"): The issuer reported full-year 2016 results. Property income declined 5.3% y/y to SGD161.3mn, while NPI fell 6.6% y/y to SGD128.4mn. As mentioned previously, the sharp declines were largely driven by the divestment of the 77 King Street office asset in Sydney on 29/01/16. Adjusting for the divestment impact, property income would have seen a slight increase of 0.5% y/y, while NPI dipped 0.9% y/y. 4Q2016 however showed distinct weakness as after adjusting for the divestment, quarterly property income still declined 1.3% y/y to SGD40.0mn, while NPI fell sharply by 4.6% y/y to SGD31.4mn. The declines were largely driven by lower contributions by Bugis Junction Tower, which saw occupancy plunge to 93.7% (4Q2015: 100%), causing its property income to fall 15.3% y/y. This was consistent with our view that older assets (Bugis Junction Towers was completed in the early 1990s) would bear the brunt of tenants upgrading to the newer properties coming on stream. The decline in occupancy at Bugis Junction Tower also caused overall portfolio occupancy to dip slightly q/q to 99.2% (3Q2016: 99.5%), though we note that it remains distinctly higher than market occupancy of 95.9% for core CBD assets in Singapore (as reported by CBRE for 4Q2016). Performance at KREIT's Australian assets remain robust as well. KREIT's strategy of aggressively tackling lease expiries ahead of time has worked out well, with KREIT seeing just 3.9% of NLA expiring in 2017 and 7.1% of NLA expiring in 2018. In fact, KREIT is now aggressively tackling 2019 expiries, bringing it down to just 11.7% of NLA (end-2015: 21.2%). These efforts kept WALE relatively long at 6.1 years. Tenant retention has also been strong at 95%. These renewals and high retention though looked to be driven by lease concessions, with rental reversion down a sharp 9% during 2016 and the average signing lease at SGD9.60 psf (9M2016: SGD9.85 psf). Comparatively, CBRE's 4Q2016 market rent for Grade A assets is SGD9.10 psf. With continued new supply of office assets hitting the market this year, we believe that lease rate pressure will continue. Aggregate leverage improved slightly q/q to 38.5% (3Q2016: 39.0%), driven by revaluation gains (Singapore assets saw +0.7% over 2016). That said, there was a sharp decline in revaluation gains, with 2016 seeing SGD91.2mn increase in fair value compared to SGD218.0mn seen in 2015. Proportion of fixed rate debt remained steady at 75%, with unencumbered assets at 84% of the portfolio. Reported interest coverage improved y/y to 4.7x (2016: 4.4x). Cost of debt remained at 2.51%. Weighted average term to maturity remains healthy at 3.5 years, with KREIT having no refinancing needs till 2H2018. As it stands, KREIT's aggregate leverage is currently comparable with peers. As such, we will retain our Neutral Issuer Profile on KREIT. (Company, OCBC)

Credit Headlines (cont'd):

Suntec REIT ("SUN"): SUN reported full-year 2016 results, with gross revenue down 0.3% y/y to SGD328.6mn while NPI was down 2.0% y/y to SGD224.6mn. The slide in performance was largely due to the partial divestment of Park Mall in December 2015, though the ramping up of Suntec City Phase 3 and completion of 177 Pacific Highway in August helped to mitigate the declines. 4Q2016 saw gross revenue increase 1.6% y/y to SGD88.9mn, largely driven by contributions from 177 Pacific Highway. However, weakness at Suntec Singapore convention centre persisted from the previous quarter, with property revenue down 14.3% y/y to SGD21.8mn. NPI from Suntec Singapore fell even harder by 27.7% y/y to SGD8.4mn while NPI contribution from Suntec City fell 7.6% to SGD43.4mn. The former was driven by lower convention revenue, with management highlighting tough comparables given one-off events in 2015, while the latter was driven by some softness in Suntec City's office segments. These factors, coupled with higher operating expenses at Suntec Singapore, drove overall NPI for 4Q2016 lower by 2.9% y/y. Total return for the quarter fell sharply by 41.6% to SGD129.2mn, largely driven by lower revaluation gains at both directly owned assets (+SGD70.9mn in 4Q2016 versus +SGD128.7mn in 4Q2015), as well as those held by JV / associates. The end to income support for MBFC (ended in 2015) had a SGD13.8mn impact as well. Looking forward, the full contribution from 177 Pacific Highway as well as SUN's 25% effective stake in Southgate, Melbourne (acquired early November 2016) could help support performance though we expect the office and retail real estate markets in Singapore to remain soft. With regards to portfolio performance, Singapore office committed occupancy remained steady y/y at 99.3%, with some dips at Suntec City offset by gains at MBFC and ORQ. Occupancy at 177 Pacific Highway remained at 100%, while Southgate stood at 86.1% (compared to total occupancy (office / retail) of 88% upon acquisition). We consider SUN's Singapore occupancy to be decent and retention rate firm at 80% given the challenges of the office market, but note that it is likely at the expense of lease rates (Suntec City's office lease rates declined q/q from SGD8.78 psf to SGD8.52 psf). Office lease expiry profile remains a challenge with 9.3% of NLA due in 2017 and a further 21.3% due in 2018. On the retail front, portfolio occupancy managed to sustain at 97.9% y/y. On the bright side, the slide in rents seem to have stabilized at Suntec City with rents improving slightly to SGD11.20 psf / mth for 4Q2016 compared to SGD11.19 psf / mth in 3Q2016. There is no data for Suntec Singapore's retail segment though. We expect there to be continued pressure for SUN's retail segment in general given 22.5% of NLA expiring in 2017 and 20.7% of NLA expiring in 2018 (with Singapore retail portfolio WALE at 2.26 years). We continue to expect the emphasis to be on keeping occupancy up at the expense of rents. Aggregate leverage remained stable q/q at 37.7% (3Q2016: 37.8%) after the 3Q2016 resulting from SGD300mn convertible bonds issued in August (likely to fund Southgate). We noted that the vendor has the option to put another ~25% effective stake in the Southgate to SUN within 480 days from November 2016 (for ~SGD155mn). There is also more news regarding the 9 Penang Road development (formerly Park Mall), with the development cost approximately SGD800mn (SUN to provide 30%, or SGD240mn) with completion targeted for end-2019. Though SUN only has SGD100mn in refinancing needs left for 2017 (versus SGD182.5mn in cash as of end-2016), liquidity needs for 9 Penang Road as well as potentially another 25% stake in Southgate may see SUN revisiting capital markets. 2018 financing needs also look challenging at SGD1.1bn. Reported interest coverage remained stable at 4.0x (3Q2016: 3.9x). We will retain our Neutral Issuer Profile on SUN. (Company, OCBC)

China Vanke Co. Ltd ("VNKRLE"): The share transfer of China Resources' ~15.3%stake in VNKRLE to Shenzhen Metro Group Co., Ltd ("Shenzen Metro") has been approved by the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC"). The share transfer between the parties has been completed. Shenzhen Metro is now the second largest shareholder in VNKRLE and there remains no controlling shareholder of the company. We maintain our Neutral issuer profile on VNKRLE. (Company, OCBC)

Credit Headlines (cont'd):

Ascendas Real Estate Investment Trust ("AREIT"): AREIT reported results for the 9 months ended 31 December 2016. Gross revenue increased 11.6% to SGD622mn, while Net Property Income ("NPI") was up 17% to SGD456.9mn on the back of full year contribution from the properties acquired in Australia and ONE@Changi City, which partially offset the divestments in China and Four Acres Singapore. Headline EBITDA/Interest was 5.0x (a small fall from 5.2x in 9M2016). Nevertheless, if we include 50% of perpetual distribution into coverage, we find EBITDA/(Interest plus 50% perp) to have weakened to 4.6x. This follows AREIT's maiden perpetual issuance in October 2015. As at 31 December 2016, aggregate leverage was 31.8% (31 December 2015: 37.3%). Adjusting 50% of perpetual as debt, we find adjusted aggregate leverage at 33.4%. On 13 December 2016, AREIT announced its intention to redeem all outstanding Exchangeable Collateralised Securities ("ECS") with aggregate principal amount outstanding of SGD80mn then. Given that the ECS was in-the-money and that AREIT allowed an extension in timeline for exchange into AREIT units (effectively conversion into equity), there is no longer a need for AREIT to fund this redemption via cash/debt. Removing impact of ECS, we think AREIT's short term debt stands at SGD237.9mn and it faces a potential SGD437.5mn in acquisition obligations (including transaction cost). In December 2016, AREIT announced a proposed acquisition of buildings in Science Park from its Sponsor (pending unitholder approval). Our base case assumes the deal goes through and that SGD100mn is funded via equity, with the remaining in debt. We think headline aggregate leverage will rise to 33% and adjusted aggregate leverage will rise moderately to 35%. We maintain AREIT's issuer profile at Neutral. (Company, OCBC)

Mapletree Industrial Trust ("MINT"): MINT reported results for the 9 months ended 31 December 2016 ("9M2017"). Gross revenue increased 2.1% to SGD252.8mn from higher rental rates across all segments, higher occupancies in the Hi-Tech Buildings segment and revenue contribution from Hewlett-Packard Phase One (a built-to-suit building Master Leased to HP). Net property income ("NPI") was up 4.2% to SGD190.9mn, driven by lower operating expenses (lower property maintenance expenses, utilities and property taxes despite higher marketing commissions). EBITDA/Interest was 8.5x, in line with 8.4x in 9M2016. As at 31 December 2016, aggregate leverage was low at 29.4% (31 December 2015: 29.3%). Johnson & Johnson (currently MINT's 4th largest tenant by gross rental income and contributes 2.2%) would be early terminating its lease at The Strategy (International Business Park) on 30 September 2017 (9 months earlier than original lease expiry) and paying MINT a compensation of SGD3.1mn. As International Business Park is an older business park property, we take this as a sign of flight to quality given alternatives available in both newer business parks and decrease in rental rates of 8.3% in city area office space. MINT faces SGD214.9mn in short term debt though we see low refinancing risk. Cash balances is SGD59.6mn and all assets remain unencumbered. About a third of MINT's leases will expire within 15 months, while this is within levels seen historically, we see high risk of negative rental reversion as this coincides with a weakened industrial space market domestically. Nevertheless, we view MINT's credit profile as defensible and thus keep MINT's issuer profile at Neutral. (Company, OCBC)

Cambridge Industrial Trust ("CREIT"): CREIT reported results for FY2016. Gross revenue decreased 1% to SGD109.4mn while net property income fell further by 5.4% to SGD79.7mn. As a result, NPI margin was lower at 73% versus 76%. This was mainly due to loss in revenue and its associated expenses during the transition of properties from single-tenant to multi-tenanted and property divestments in FY2016. EBITDA/Interest was 3.3x and was in line with FY2015's 3.4x. As at 31 December 2016, aggregate leverage was moderate at 37.5% though have risen from 36.9% as at 31 December 2015. While gross debt levels have fallen, CREIT's asset base has shrunk to SGD1.37bn from SGD1.43bn as a result of (i) divestment of assets as part of its FY2016 asset recycling plans (ii) revaluation loss on investment properties**.** All of CREIT's properties remain unencumbered and there is no short term debt due. We think there is further downside on NPI margin as 21.5% of leases is due to expire in FY2017 amidst weakened industrial property REIT sector. CREIT's next major refinancing will only come due in 2H2018. In 4Q2016, e-Shang Redwood ("e-Shang") has emerged as the major owner of the REIT manager and owns an option that when exercised would allow e-Shang to own ~10.7% in the REIT (purchase from existing shareholders). e-Shang is a logistics developer, owner and operator backed by private equity firm Warburg Pincus. We are keeping CREIT's issuer profile at Neutral but may adjust such view if e-Shang's strategic involvement leads to a marked credit deterioration. (Company, OCBC)

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