Asian Credit Daily

October 25, 2017

Credit Headlines (Page 2 onwards): Mapletree Industrial Trust, China Vanke Co Ltd, Frasers Centrepoint Trust

Market Commentary: The SGD swap curve traded mixed yesterday, with the shorter tenors trading relatively little changed, while the 15-year to 30-year tenors traded 1-3bps lower. Flows in SGD corporates were moderate, with better buying seen in CAPLSP 3.08%'27s, and mixed interest seen in CTRAIJ 4.85%'21s. In the broader dollar space, the spread on JACI IG Corp traded little changed at 178bps. Similarly, the yield on JACI HY Corp traded little changed at 6.83%. 10Y UST yields rose 5bps to 2.42% following a report that suggested Fed Chair candidate John Taylor has won the Senate GOP Fed straw poll.

New Issues: The Housing & Development Board has priced a SGD640mn 12-year bond at 2.598%. The expected issue ratings are 'NR/Aaa/NR'. Asian Development Bank has priced a USD1.5bn 10-year bond at MS+22bps, tightening from initial guidance of MS+24bps. The expected issue ratings are 'AAA/Aaa/AAA'. Baoxin Auto Finance I Ltd has priced a USD400mn Perp NC3 (guaranteed by China Grand Automotive Services Co and China Grand Automotive Services (Hong Kong) Ltd) at 5.625%, tightening from initial guidance of 6% area. The expected issue ratings are 'NR/NR/B+'. BOC Aviation Ltd has priced a USD200mn re-tap of its BOCAVI 3.5%'27s at 100.163. The expected issue ratings are 'A-/NR/A-'. Boral Finance Pty has priced a two-tranche deal (guaranteed by Boral Ltd and certain of its subsidiaries), with the USD450mn 5-year bond priced at CT5+105bps, tightening from initial guidance of CT5+135bps area; and the USD500mn 10-year bond priced at CT10.5+140bps, tightening from initial guidance of CT10.5+170-175bps. The Export-Import Bank of Korea has priced a three-tranche deal, with the USD400mn 3-year fixed rate bond priced at CT3+90bps, tightening from initial guidance of CT3+110bps; the USD1bn 5-year fixed rate bond priced a CT5+100bps, tightening from initial guidance of CT5+120bps; and the USD600mn 5-year floating rate bond priced at 3mL+92.5bps, with the initial guidance at Libor equivalent. The expected issue ratings are 'NR/Aa2/AA-'. ESR-REIT has scheduled investor meetings for potential SGD Perp NC5 issuance at 4.75% area.

Table 1: Key Financial Indicators

	25-Oct	1W chg (bps)	1M chg (bps)		25-Oct	1W chg	1M chg
iTraxx Asiax IG	75	-2	-5	Brent Crude Spot ($/bbl)	58.38	0.40%	-1.08%
iTraxx SovX APAC	15	-1	-1	Gold Spot ($/oz)	1,274.44	-0.52%	-2.77%
iTraxx Japan	49	0	3	CRB	185.82	0.86%	0.66%
iTraxx Australia	66	-1	-8	GSCI	406.76	0.85%	0.62%
CDX NA IG	53	-1	-7	VIX	11.16	8.24%	9.30%
CDX NA HY	109	0	1	CT10 (bp)	2.415%	6.88	19.55
iTraxx Eur Main	54	-1	-4	USD Swap Spread 10Y (bp)	-2	0	2
iTraxx Eur XO	237	-6	-21	USD Swap Spread 30Y (bp)	-29	2	3
iTraxx Eur Snr Fin	58	-2	-2	TED Spread (bp)	26	-1	-5
iTraxx Sovx WE	5	0	0	US Libor-OIS Spread (bp)	11	-1	-4
iTraxx Sovx CEEMEA	41	2	-2	Euro Libor-OIS Spread (bp)	3	0	0
					25-Oct	1W chg	1M chg
				AUD/USD	0.773	-1.52%	-2.65%
				USD/CHF	0.991	-0.95%	-2.46%
				EUR/USD	1.176	-0.23%	-0.74%
				USD/SGD	1.362	-0.37%	-0.79%
Korea 5Y CDS	71	1	-3	DJIA	23,442	1.93%	5.14%
China 5Y CDS	52	-4	-11	SPX	2,569	0.38%	2.90%
Malaysia 5Y CDS	62	-2	-8	MSCI Asiax	685	-0.97%	3.27%
Philippines 5Y CDS	63	-1	-3	HSI	28,350	-1.26%	3.09%
Indonesia 5Y CDS	94	-3	-10	STI	3,340	0.33%	3.86%
Thailand 5Y CDS	47	-2	-4	KLCI	1,735	-0.79%	-1.92%
				JCI	5,981	0.88%	1.47%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
24-Oct-17	Housing & Development Board	'NR/Aaa/NR'	SGD640mn	12-year	2.598%
24-Oct-17	Asian Development Bank	'AAA/Aaa/AAA'	USD1.5bn	10-year	MS+22bps
24-Oct-17	Baoxin Auto Finance I Ltd	'NR/NR/B+'	USD400mn	Perp NC3	5.625%
24-Oct-17	BOC Aviation Ltd	'A-/NR/A-'	USD200mn	BOCAVI 3.5%'27s	100.163
24-Oct-17	Boral Finance Pty	Not Rated	USD450mn	5-year	CT5+105bps
24-Oct-17	Boral Finance Pty	Not Rated	USD500mn	10-year	CT10.5+140bps
24-Oct-17	Export-Import Bank of Korea	'NR/Aa2/AA-'	USD400mn	3-year	CT3+90bps
24-Oct-17	Export-Import Bank of Korea	'NR/Aa2/AA-'	USD1bn	5-year	CT5+100bps
24-Oct-17	Export-Import Bank of Korea	'NR/Aa2/AA-'	USD600mn	5-year	3mL+92.5bps
23-Oct-17	Huaneng Hong Kong Capital Ltd	Not Rated	USD500mn	Perp NC5	3.60%

Source: OCBC, Bloomberg

Rating Changes: S&P has assigned Yango City Group Co Ltd (Yango) a 'B' long-term corporate credit rating. The outlook is stable. The rating action reflects S&P's view that Yango City will continue to maintain high leverage to support its expansion into higher-tier cities. S&P has affirmed CIMIC Group Ltd's (CIMIC) 'BBB' corporate credit rating, while revising the outlook to negative from stable. The rating action follows the same action on CIMIC's parent, HOCHTIEF AG and is not reflective of any changes in CIMIC's stand-alone credit quality. S&P has assigned Press Metal Aluminium Holdings Bhd (PMB) a long-term corporate credit rating of 'BB-'. At the same time, S&P has assigned a 'BB-' rating to PMB's senior unsecured notes. The rating action reflects PMB's modest production and scale, single-asset and single-metal exposure, debt-funded expansions and sensitivity to fluctuation in aluminum prices. S&P has downgraded the long-term issuer ratings on Arab Bank Plc and Jordan Islamic Bank. The outlook on these banks are stable. The rating action follows the recent downgrade in Jordan as S&P views that these banks are vulnerable to sovereign stress in Jordan.

Credit Headlines:

Mapletree Industrial Trust ("MINT"): MINT announced its second quarter results for the financial year ended 2018 ("2QFY2018") and 1HFY2018. Gross revenue was up 7.8% to SGD181.4mn mainly due to the contribution from HP and a one-off pre-termination compensation received from J&J (amounting to SGD3.1mn). This was partly offset by lower occupancies. Excluding the J&J compensation, gross revenue would have increased by 5.9%. EBITDA improved 9.4% to SGD124.1mn though finance cost had increased by 24.9% to SGD16.4mn. This was mainly due to higher hedged rates (as existing hedges expired) and interest incurred on HP building (which had reached completion). Instead of being capitalised, interest related to HP is now expensed. As a result, headline EBITDA/Interest was lower at 7.6x versus 8.6x in 1HFY2017. Portfolio occupancy was 90.4% as at 30 September 2017, lower versus the 92.6% as at 30 June 2017. 8.4% of leases by gross renal income will be due to expire between 1 October 2017 and end-March 2018. This is higher than the 6.8% seen as at 30 September 2016 and 5.5% as at 30 September 2015. As at 30 September 2017, aggregate leverage was relatively flat at 30% versus the 29.8% as at 30 June 2017. On 24 October 2017, MINT also announced that it will be entering into a joint venture with its Sponsor, Mapletree Investments Pte ltd ("MIPL") to acquire a portfolio of 14 data centres in the USA for USD754.2mn (SGD1.0bn), inclusive of transaction cost. MINT would be holding 40% in the joint venture entity, with the Sponsor holding the remaining 60%. While MINT would only hold 40% at the outset, MINT has a right of first refusal to acquire MIPL's 60% stake. The vendor of the portfolio, Carter Validus Mission Critical REIT, is a non-traded REIT which had reportedly put its assets up for sale in March 2017. The data centre portfolio has a longer weighted average lease expiry ("WALE") of 6.7 years versus MINT's existing portfolio of 3.7 years. With a 40% stake, we do not expect MINT to consolidate the assets and distributions to MINT would be in the form of dividend upstream from the joint venture. On a proforma basis, MINT projects aggregate leverage which takes into account of MINT's proportionate share of borrowings of joint ventures and assets at ~34%, which is still healthy in our view. MINT is targeting to fund its portion amounting to SGD414.6mn partly with equity and partly with bank debt (including MINT's share of onshore USD bank debt of USD184mn (~SGD258mn)). A private placement had been carried out on 24 October 2017, raising SGD155.7mn in gross proceeds. Of these, SGD152.7mn will be applied towards the acquisition. Post-acquisition, AT&T, which contributes 45% of rent to the data centre portfolio, is projected to be the second largest tenant of MINT contributing 3.3%. Post-acquisition, 9.9% of MINT's portfolio value will be made up of US assets, reducing its reliance on Singapore. We see this transaction as strategically benefitting MINT. Currently 41.2% of MINT's portfolio (by value) is made up of flatted factories all located in Singapore. We estimate that at least 40% of this was built more than 20 years ago, with increasingly challenging leasing dynamics. We maintain MINT's issuer profile at Neutral. (Company, OCBC)

China Vanke Co Ltd ("VNKRLE"): Shenzhen Metro Group Co ("Shenzhen Metro"), the new single largest shareholder of VNKRLE is planning to sell a 65%-stake in its wholly-owned subsidiary, Shenzhen Metro Qianhai International Development Co. ("Qianhai") and VNKRLE is potentially looking to acquire this asset. Qianhai is engaged in construction and development of rail and other transport-related infrastructure projects. No transaction value has been provided. Earlier in 2016, VNKRLE intended to acquire 100% of Qianhai for RMB45.6bn via new shares to be issued to Shenzhen Metro. The deal though did not go ahead as the major shareholders at that time were opposed to the proposed acquisition (existing shareholders would have been significantly diluted). As at 30 June 2017, VNKRLE's net assets was RMB161.2bn. Assuming RMB45.6bn is the full value of Qianhai, a 65%-stake may be valued at RMB29.6bn. This will be a significant acquisition if VNKRLE acquires the stake as it will represent 18% of VNKRLE's net assets. (Yicai Global, Bloomberg, OCBC)

Credit Headlines (Cont'd):

Frasers Centrepoint Trust ("FCT"): FCT reported 4QFY2017 and full-year FY2017 results. For FY2017, revenue was down 1.2% to SGD181.6mn, largely due to the impact of the AEI at Northpoint (which caused occupancy to plunge). The poor performance at Bedok Point also impacted FCT (property NPI fell 13.5% to SGD3.66mn) , though this was mitigated by its low percentage contribution to FCT (Bedok Point was just 2.8% of portfolio NPI). Diving into 4QFY2017 results, gross revenue was up 8.1% y/y to SGD48.2mn. Excluding the contribution from the Yishun 10 Retail Podium acquisition (completed on 16/11/16), portfolio gross revenue would have still increased 7.7% y/y. The strong performance was driven by improving property gross revenue from most of FCT's assets (with the exception of Bedok Point). This was an improvement over 3QFY2017, which only saw Causeway Point providing positive property income growth during the quarter. More importantly, it would seem that the negative impact of Northpoint's AEI has finally bottomed out, with property occupancy recovering to 81.6% from 65.9% q/q. This helped boost Northpoint's property income by 22.8% y/y (excluding the contribution from Yishun 10 Retail Podium). The performance at Northpoint was better than originally expected with actual occupancy better than projected occupancy for 4QFY2017 (reversing from the opposite seen in 3QFY2017). We note though that management revised the projected occupancy figures lower during 3QFY2017. Based on the original figures disclosed in 2QFY2017, they would have underperformed. Management had also disclosed that the reduction in Northpoint's NLA (resulting from the AEI) was worse than expected, reducing by 7.5% (compared to the projected 4.0%) due to the creation of additional corridor and common area. Looking forward though, the low base effect and ramping up of AEI reconfigured space should support Northpoint's performance in the near-term. The stronger portfolio gross revenue helped boost 4QFY2017 NPI higher by 10.0% y/y to SGD35.6mn (which also benefited from lower property expenses at Causeway Point and Changi City Point). In aggregate, portfolio occupancy improved distinctly q/q to 92.0% (3QFY2017: 87.1%), with material improvements seen in Northpoint (81.6%), Changi City Point (88.5%) and Bedok Point (85.2%). FCT's average rental reversion of +8.3% for 4QFY2017 (for 4.8% of portfolio NLA) was also a sharp improvement over the weak +0.4% seen in 3QFY2017, though this was largely driven by the outperformance of Causeway Point (which accounted for 84% of the 51,400sqft renewed) which reported +7.6% average rental reversion. This brings full-year rental reversion (representing 27.7% of portfolio NLA) to +5.1%, sharply lower than the +9.9% seen in FY2016, but commendable given the weak retail environment. FY2018's rental reversion looks manageable as well. Of the 268,103sqft expiring (27% of portfolio NLA), Causeway Point, Northpoint and Changi City Point account for 40%, 14% and 20% respectively, and these three large assets have reported decent positive rental reversions in FY2017. Portfolio expiry profile remains well spaced out at ~30% of NLA per year through FY2020, reflecting a WALE of 1.82 years. One area of concern would be the sharp decline in shopper traffic (-9.9% y/y, -5.0% q/q) for the quarter, which management attributed to the AEI at Northpoint. With the AEI largely completed though, we hope to see recoveries in shopper traffic going forward. FCT had indicated that more than 95% of the reconfigured space at Northpoint has been leased and handed over to tenants for fitting out. Aggregate leverage slightly improved q/q to 29.0% (3QFY2017: 30.0%), as total borrowings remained stable at SGD798mn while FCT reported portfolio revaluation gains. Portfolio value increased 6.3% y/y (boosted by the Yishun 10 Retail Podium acquisition as well as the capitalization of the AEI at Northpoint). The compression of cap rates (due to the supportive secondary transactions in the retail commercial real estate space) have helped support portfolio valuation despite the declines in cash flows at assets such as Bedok Point (which still saw a slight decline in valuation). FY2018 debt maturities look manageable with ~19% coming due (which include SGD60mn in bonds and SGD92mn in unsecured loans), as FCT continues to have access to capital markets. FCT just refinanced SGD30mn in bonds due in June 2017 by issuing new bonds. Reported EBIT / Interest remains healthy at 6.8x (3QFY2017: 7.6x). We will retain FCT's Issuer Profile at Neutral. (Company, OCBC)

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