Asian Credit Daily

April 26, 2017

Credit Headlines (Page 2 onwards): Industry Outlook - Financial Institutions, Golden Agri-Resources, Croesus Retail Trust, CITIC Envirotech Limited, Mapletree Industrial Trust, VIVA Industrial Trust, Ascendas Real Estate Investment Trust, Suntec Real Estate Investment Trust

Market Commentary: The SGD swap curve was relatively flattish yesterday, with swap rates trading mostly within a 1bps range. 30y swap rates was the exception, trading 2bps lower. Flows in SGD corporates were heavy, with better buying seen in HRAM 3.2%'21s, and mixed interest in BAERVX 5.9%'49s. In the broader dollar space, the spread on JACI IG corporates rose 2bps to 203bps, while the yield on JACI HY corporates rose 1bps to 6.58%. 10y UST yields rose 6bps yesterday to 2.33%, as investors turned risk-on with equities continuing to grind higher. Treasuries also trailed steeper declines for European Government Bonds (EGBs) following the European Financial Stability Facility's (EFSF) EUR8bn dual-tranche deal and Dutch 10y auction.

New Issues: Rongshi International Finance Ltd. priced a USD1bn 2-tranche deal (guaranteed by State Development & Investment Corporation); with the USD500mn 5-year piece at CT5+115bps, tightening from initial guidance of CT5+145bps; and the USD500mn 10-year piece at CT10+135bps, tightening from initial guidance of CT10+170bps. The expected issue ratings are 'A+/A1/A+'. Rusal Capital D.A.C. priced a USD500mn 6-year bond (guaranteed by United Company Rusal Plc) at 5.3%, tightening from initial guidance of 5.325%. The expected issue rating are 'NR/B1/B+'.

Rating Changes: S&P placed on CreditWatch with negative implications The Bank of East Asia's (BEA) 'A' issuer credit rating. The rating action reflects S&P's belief that there is at least a one-in-two likelihood of Financial Institutions Resolution Ordinance (FIRO) becoming operational within 90 days, after which S&P expects that the likelihood of Hong Kong government support for private-sector banks to decline.

Table 1: Key Financial Indicators

	26-Apr	1W chg (bps)	1M chg (bps)		26-Apr	1W chg	1M chg
iTraxx Asiax IG	94	-8	-3	Brent Crude Spot ($/bbl)	52.04	-1.68%	2.44%
iTraxx SovX APAC	23	-2	2	Gold Spot ($/oz)	1,264.50	-1.23%	0.77%
iTraxx Japan	45	-3	1	CRB	181.91	-2.48%	-0.85%
iTraxx Australia	83	-8	-5	GSCI	383.57	-1.35%	1.44%
CDX NA IG	62	-6	-5	VIX	10.76	-25.38%	-16.98%
CDX NA HY	108	1	1	CT10 (bp)	2.332%	11.79	-8.01
iTraxx Eur Main	66	-10	-8	USD Swap Spread 10Y (bp)	-2	3	1
iTraxx Eur XO	266	-33	-28	USD Swap Spread 30Y (bp)	-42	2	-3
iTraxx Eur Snr Fin	74	-17	-14	TED Spread (bp)	36	0	-3
iTraxx Sovx WE	9	-3	-2	US Libor-OIS Spread (bp)	18	-3	-5
iTraxx Sovx CEEMEA	45	-5	-6	Euro Libor-OIS Spread (bp)	3	0	1
					26-Apr	1W chg	1M chg
				AUD/USD	0.752	0.25%	-1.34%
				USD/CHF	0.993	0.58%	-0.71%
				EUR/USD	1.094	2.11%	0.67%
				USD/SGD	1.393	0.42%	0.06%
Korea 5Y CDS	54	-5	3	DJIA	20,996	2.30%	1.94%
China 5Y CDS	81	-7	-3	SPX	2,389	1.98%	1.90%
Malaysia 5Y CDS	108	-7	0	MSCI Asiax	594	3.07%	1.70%
Philippines 5Y CDS	80	-5	-5	HSI	24,586	3.19%	0.94%
Indonesia 5Y CDS	127	-9	-3	STI	3,170	1.38%	0.85%
Thailand 5Y CDS	54	-3	-1	KLCI	1,768	1.70%	1.30%
				JCI	5,691	2.03%	2.22%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
25-Apr-17	Rongshi International Finance Ltd.	"A+/A1/A+"	USD500mn	5-year	CT5+115bps
25-Apr-17	Rongshi International Finance Ltd.	"A+/A1/A+"	USD500mn	10-year	CT10+135bps
25-Apr-17	Rusal Capital D.A.C.	"NR/B1/B+"	USD500mn	6-year	5.3%
24-Apr-17	HPCL-Mittal Energy Ltd.	"NR/Ba2/BB-"	USD375mn	10-year	5.25%
20-Apr-17	Huarong Finance 2017 Co. Ltd.	"NR/Baa1/A"	USD500mn	3-year	3mL+77bps
20-Apr-17	Huarong Finance 2017 Co. Ltd.	"NR/Baa1/A"	USD570mn	5-year	3mL+95bps
20-Apr-17	Huarong Finance 2017 Co. Ltd.	"NR/Baa1/A"	USD1bn	Perp NC2	4.5%
20-Apr-17	Huarong Finance 2017 Co. Ltd.	"NR/Baa1/A"	USD700mn	5NC3	5.75%
20-Apr-17	Huarong Finance 2017 Co. Ltd.	"NR/Baa1/A"	USD200mn	5-year	CT5+130bps

Source: OCBC, Bloomberg

Rating Changes (cont'd): S&P upgraded Japan-based regulated electric utility company Tokyo Electric Power Company Holdings Inc.'s (TEPCO Holdings) corporate credit ratings by one notch to 'BB' from 'BB-'. In addition, S&P affirmed TEPCO Holding's 'BB+' senior secured debt ratings. The outlook on the corporate credit ratings is stable. The rating action reflects S&P's view that TEPCO Holdings has meaningfully reduced downside risk in its profit and is likely to maintain solid profitability over the next year. S&P downgraded PT Gajah Tunggal Tbk's (Gajah Tunggal) corporate credit rating and issue rating on Gajah Tunggal's senior secured notes to 'CCC' from 'CCC+'. The outlook is developing. The rating action reflects the rising refinancing risk related to the company's US$500 million senior secured notes maturing in early February 2018. Moody's upgraded Yanlord Land Group Limited's (Yanlord) corporate family and senior unsecured debt ratings to 'Ba2' from 'Ba3'. In addition, Moody's upgraded to 'Ba2' from 'Ba3' the senior unsecured rating of the USD notes (guaranteed by Yanlord) issued by Yanlord Land (HK) Co. Limited. Moody's revised the ratings outlook to stable from positive. The rating action reflects Moody's expectation that Yanlord's credit metrics will be stronger and better than those of its 'Ba3' rated Chinese property peers, as it will continue its track record of prudent financial and liquidity management. Fitch assigned AIA Group Limited (AIA) an 'A+' Issuer Default Rating (IDR). The Outlook is Stable. The rating action reflects AIA's solid market franchise, sound financial performance, conservative investment mix and strong capitalisation.

Credit Headlines:

Industry Outlook - Financial Institutions: S&P's rating announcement on BEA was somewhat expected given the potential weakening of government support for the banking sector since the passing of the Financial Institutions Resolution Ordinance in June 2016. The ordinance seeks to rely more heavily on loss absorbing instruments rather than public funds to bail out banks in distress, the process of which has become clearer with the release of an expected implementation timeline. Hong Kong's stance on bail-in remains an outlier within the region with government support in other banking sectors in Asia more certain. As we previously mentioned, this policy divergence is a consequence of the Hong Kong banking sector's relatively unique structure where 4 of the top 5 banks by domestic loan market share are subsidiaries of large international banking groups which are potentially more exposed to external risks than local banks but can also receive support from their overseas parents if needed. Further, there is a need for a consistent resolution framework for the large international banking groups to ensure a more efficient resolution process in case of stress, necessitating Hong Kong's bail-in stance to be aligned with that of overseas jurisdictions, namely the UK. That said, Hong Kong's government support for banks remains ambiguous with the government leaving open the possibility for banks to be bailed out by the government if they pose a systemic risk. This is given the strategic importance of the banking sector to Hong Kong's economy and is consistent with the Hong Kong Monetary Authority's track record of strong oversight and regulatory support against a build-up of systemic risk. As such, the Bank of East Asia's rating is expected to lose only one notch from the current two notches of government support given its classification as a domestic systemically important bank. (S&P, OCBC)

Golden Agri-Resources ("GGR"): GGR has announced the appointment of (1) Mr. William Chung Nien Chin as a Non-Executive Independent Director of the board and (2) Mr. Foo Meng Kee as Non-Executive Independent Director and a member of the Audit Committee, Nominating Committee and Remuneration Committee. Mr. Chung is a Tax Partner at Kemp Chatteris, Chartered Accountants, Mauritius. He was a Non-Executive Independent Director at GGR between December 2008 and December 2010. Mr. Foo is the principal owner of MK Capital Pte Ltd and MK Marine Pte Ltd and also sit on boards of other listed and unlisted firms. Until April 2017, Mr. Foo was the Lead Independent Director at Sinarmas Land Ltd ("Sinarmas"). Sinarmas is an entity which is ~70%-owned by the Widjaja family's Flambo International Ltd ("Flambo"). We view these appointments as credit neutral. (Company, OCBC)

Croesus Retail Trust ("CRT"): CRT announced that it is in preliminary discussion that may lead to a potential takeover of CRT. If CRT were to be delisted from the SGX, holders of CROESP '20s may choose to redeem the bond at par plus accrued interest. We continue to hold CRT at a Neutral Issuer Profile. However, given the uncertainty over the potential takeover, we downgrade CROESP '20s from Overweight to Neutral. (Company, OCBC)

OCBC Bank

Credit Headlines (cont'd):

CITIC Envirotech Limited ("CEL"): CEL has announced its 1Q2017 financial results. Revenue at CEL has increased by 14.3% to SGD113.7mn. This was on the back of higher engineering revenue (up SGD22.1mn) and a small increase in the water treatment segment (up SGD1.7mn) which offset declines in membrane sales (down SGD9.6mn). While CEL does not break down its segmental operating profits for the quarter, the membrane segment traditionally has the highest operating margin (44% in FY2016 against overall group operating margin of ~30%). EBITDA (based on our calculation which does not take into account of other income and other expenses) has declined 33% to SGD31.8mn. EBITDA/Interest was higher though at 5.2x (1Q2016: 4.5x) as CEL's SGD100mn bond with a coupon of 7.25% p.a was redeemed in September 2016. The bond was issued in August 2013, prior to CITIC and KKR coming in as significant shareholders of the company. As at 31 March 2017, CEL has SGD481.3mn in perpetual outstanding. Taking half of CEL's proportionate perpetual distribution for one quarter (ie: SGD3.3mn), we find EBITDA/(Interest plus 50% perpetual distribution) at 3.4x. Perpetuals now make up 23% of the company's total capital. CEL's headline gearing number is moderate at 0.4x. However, from the perspective of a SGD bondholder, the perpetuals do not provide an equity buffer as they rank pari passu with the CELSP'18s. Adjusting debt upwards for such perpetuals, we find gross debt-to-equity at 1.0x. As at 31 March 2017, short term debt at the company was SGD66.7mn, against cash balance of SGD399.5mn. Following project wins, CEL's cash outflows for investments was SGD101.7mn, this was largely funded via drawing down on cash balances from fundraising activities in end-FY2015. We maintain our Neutral issuer profile on the company. (Company, OCBC)

Mapletree Commercial Trust ("MCT"): MCT reported FY2017 full year results (ending March 2017), with gross revenue up 31.3% y/y to SGD377.7mn while NPI was up 32.4% y/y to SGD220.7mn. This was mainly due to contribution from Mapletree Business City Phase 1 ("MBC"), which was acquired on 25/08/16. Stripping out the MBC impact, gross revenue was up 5.3% y/y, while NPI was up 4.7% y/y for FY2017. This was largely driven by strong full-year performance at VivoCity (NPI up 3.5% y/y) as well as Mapletree Anson (NPI up 15.8% y/y). Most notably, building occupancy at Bank of America Merrill Lynch HarbourFront ("MLHF") plunged to 79.2% from 100% q/q, due to Bank of America Merrill Lynch vacating the sixth floor. However, as mentioned previously (refer to Asian Credit Daily – 26 Jan 2017), MCT has found a replacement tenant, allowing committed occupancy for MLHF to remain supported at 91.6%. Portfolio occupancy improved y/y despite the dent from MLHF, to 97.9% in FY2017 from 96.6%. Overall portfolio committed occupancy still remains healthy at 98.8%. Retention rates are strong as well at 95.4% for Retail and 87.3% for Office/Business Park. VivoCity (accounting for 53% of total gross revenue) performance continues to be resilient, with FY2017 Shopper Traffic up 4.8% y/y and Tenant Sales up 1.3% y/y. WALE for both Retail and Office/Business Park remained relatively stable at 2.0 years and 3.4 years respectively. The lease expiry profile looks manageable, with MCT having 8.2% and 4.5% of gross rental revenue expiring for Retail and Office/Business Park respectively over the next 12 months. Lease reversions also remained strong at +13.5% for Retail and +8.5% for Office (excludes MBC). This is despite the challenges faced by MCT's peers in the office and retail space. Aggregate leverage rose y/y to 36.3% (FY2016: 35.1%), mainly due to total outstanding debt climbing to SGD2.33bn (FY2016: SGD1.55bn) from financing the acquisition of MBC. MCT's portfolio remains entirely unencumbered, while proportion of fixed debt improved to 81.2% (FY2016: 73.8%). We will retain our Neutral Issuer Profile on MCT, as we don't foresee major near-term improvements to MCT's leverage levels. (Company, OCBC)

VIVA Industrial Trust ("VIT"): Subsequent to VIT's announcement on 24 April 2017, we have confirmed that the Master Lessee for Jackson Design Hub (29 Tai Seng Street), namely Jackson Global Pte Ltd, is an entity sharing the same Company Director as Jackson International Private Limited ("JIPL"). Jackson Global Pte Ltd is not in liquidation nor has it defaulted on its lease agreement at Jackson Design Hub. Assuming no rental support nor rents from the subsidiaries of JIPL and conservatively, also zero rental from Jackson Design Hub, VIT's EBITDA plus rental support over interest will fall to ~3.3x based on our estimation (FY2016: 3.5x). In FY2016, rental income from Jackson Design Hub was SGD2.2mn (representing 2.4% of VIT's total revenue in FY2016). This property is less than 3% of VIT's total portfolio value. While the liquidation of JIPL is a credit negative event, we are maintaining VIT's issuer at credit neutral for now given the manageable credit impact. We are however Underweight the VITSP'18s on valuation. (OCBC)

Credit Headlines (cont'd):

Ascendas Real Estate Investment Trust ("AREIT"): AREIT reported its financial results for the full year ended 31 March 2017 ("FY2017"). Gross revenue increased by 9.1% to SGD830.6mn, with the increase driven by the full year contribution from the properties acquired in Australia, ONE@ Changi City and the Science Park buildings acquired in February 2017 which helped offset the divestment of Four Acres in Singapore, properties in China (namely, A-REIT Jiashan Logistics Centre, Ascendas Z-Link and A-REIT City@Jinqiao). Property operating expenses decreased by 3.4% mainly due to lower utilities expenses and lower property taxes due to retrospective downward revisions in the annual value of certain properties which more than offset higher operating expenses from the acquisition of new properties. As a result, there was an 18% growth in EBITDA to SGD550.2mn. Nevertheless, between the beginning of FY2016 and end-FY2016, gross debt at AREIT grew significantly from SGD2.7bn to SGD3.7bn, resulting in an increase in interest expense burden in FY2017. EBITDA/Interest was 4.7x in FY2017, lower than the 5.0x in FY2016. In October 2015, AREIT also raised SGD300mn via perpetuals. Including 50% of perpetual distribution, we find EBITDA/(Interest plus 50% perpetual distribution) at 4.4x. As a result of conversion of Exchangeable Collateralised Securities ("ECS") into units, divestment proceeds that were used to pare down debt, and equity private placement, AREIT's aggregate leverage decreased to 33.8% as at 31 March 2017 (31 March 2016: 37.2%). Assuming 50% of perpetual as debt, adjusted aggregate leverage decreased to 35.3% from 38.7%. As at 31 March 2017, short term debt is SGD824.2mn (maturing in the 12 months ending March 2018), of which SGD592.6mn comes due this calendar year. As at 31 March 2017, AREIT only has a cash balance of SGD22mn, having drawndown on cash balances in FY2017. Cash flow from operations during the year was insufficient to cover payments to capital sources (ie: distribution paid to unitholders, interests and perpetual holders). Nevertheless, financial flexibility from public equity markets remain considerable and AREIT's unencumbered properties totalling SGD8.8bn (make up 89.3% of AREIT's total portfolio) allows it to raise secured debt, if need be. We maintain AREIT's issuer profile at Neutral. (Company, OCBC)

Suntec Real Estate Investment Trust ("SUNTEC"): SUNTEC announced 1Q17 results. Revenue and NPI increased 12.9% and 14.6% y/y to SGD88.4mn and SGD61.8mn respectively, mainly from the contribution of 177 Pacific Highway acquired in 2016. Excluding SGD9.5mn NPI contribution from 177 Pacific Highway, NPI would have fallen 3.9% y/y, mainly due to the weaker performance in the retail segments of Suntec City (-SGD1.1mn) and Suntec Singapore (-SGD1.5mn). For SUNTEC's office JVs, income contribution increased 7% y/y to SGD22.8mn, due to contribution from Southgate Complex while the income increase in One Raffles Quay (+SGD2.0mn) was largely offset by the rental declines at MBFC Towers 1&2 (-SGD1.9mn). While the office rent secured by SUNTEC in 1Q17 appears to have stabilised at SGD8.66 psf/mth (4Q17: SGD8.65 psf/mth), the overall CBD office rents further softened to SGD8.44 psf/mth – which may adversely impact the rental rates on 5.9% of leases expiring in FY17 and 21.1% of leases expiring in FY18. That said, we expect SUNTEC to maintain a high office committed occupancy (1Q17: 98.9%) given the proactive lease renewal strategy. With regards to SUNTEC's retail segment, there may be further pressures to the lease rates given that 20.8% and 20.9% of leases will expire in 2017 and 2018 respectively, though SUNTEC may continue holding occupancy up (1Q17: 98.4%). Aggregate leverage remains constant q/q at 37.7%, though SUN may be revisiting the capital markets to early-refinance the chunky SGD1.15bn of debt expiring in FY18. Reported interest coverage ratio improved to 4.3x (from 4.0x). We will retain our Neutral Issuer Profile on SUN. (Company, OCBC)

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