# Asian Credit Daily

**January 26, 2017**

**Credit Headlines (Page 2 onwards):** Mapletree Commercial Trust, VIVA Industrial Trust, Sabana Shari'ah Compliant Industrial REIT, Perennial Real Estate Holdings Ltd., BreadTalk Group Ltd., OUE Ltd.

**Market Commentary:** The SGD swap curve bear-steepened yesterday, with swap rates rising by 1-3bps at the shorter end of the curve, and around 5bps at the medium and longer end of the curve. Flows in SGD corporates were heavy, with better buying seen in MAPLSP 4.5%'49s, GENSSP 5.13%'49s, BAERVX 5.9%'49s, GUOLSP 4%'22s. better selling seen in OCBCSP 3.8%'49s, GUOLSP 4%'22s, GLPSP 5.5%'49s, and mixed interest in FCLSP 4.88%'49s, FCLSP 5%'49s and MAPLSP 5.13%'49s. In the broader dollar space, the spread on JACI IG Corporates fell 2bps to 195bps, while the yield on JACI HY Corporates rose 1bps to 6.82%. 10y UST yields rose 5bps yesterday to 2.51%, amidst a global stocks rally that drove the Dow Jones Industrial Average above 20,000 for the first time.

**New Issues:** China Water Affairs Group Ltd. priced a USD300mn 5NC3 bond at 5.5%, tightening from initial guidance of 5.75%. The expected issue ratings are 'BB+/Ba1/NR'. Jain International Trading BV priced a USD200mn 5NC3 bond (guaranteed by Jain Irrigation Systems Ltd.) at 7.375%, tightening from initial guidance of 7.5%. The expected issue ratings are 'B+/NR/B+'.

**Rating Changes:** S&P downgraded Global AT&T Electronics Ltd.'s (GATE) corporate credit rating to 'CCC+' from 'B-', with a negative outlook. In addition, S&P downgraded the issue rating on the senior secured notes to 'CCC+' from 'B-'. The rating action reflects the mounting pressure on the long-term sustainability of GATE's capital structure and the rising liquidity risk due to negative cash flows over the next one to two years. S&P downgraded Pactera Technology International Ltd.'s (Pactera) corporate credit rating to 'B' from 'B+', with a stable outlook. In addition, S&P downgraded the issue rating on Pactera's USD275mn senior unsecured notes (issued by BCP (Singapore) VI Cayman Financing Co. Ltd.) to 'B' from 'B+'. The rating action reflects S&P's expectations for the company's debt leverage to stay high over the next 12 months due to weak profitability and rising working capital needs for lengthening revenue collection periods.

**Table 1: Key Financial Indicators**

| | 26-Jan | 1W chg (bps) | 1M chg (bps) | | 26-Jan | 1W chg | 1M chg |
|---|---|---|---|---|---|---|---|
| iTraxx Asiax IG | 112 | -4 | -9 | Brent Crude Spot ($/bbl) | 55.41 | 2.31% | 0.45% |
| iTraxx SovX APAC | 33 | -2 | -4 | Gold Spot ($/oz) | 1,199.65 | -0.43% | 5.85% |
| iTraxx Japan | 55 | -1 | 6 | CRB | 193.98 | 0.32% | 1.81% |
| iTraxx Australia | 92 | -6 | -10 | GSCI | 397.93 | 0.70% | 1.54% |
| CDX NA IG | 64 | -2 | -3 | VIX | 10.81 | -13.38% | -5.51% |
| CDX NA HY | 107 | 0 | 0 | CT10 (bp) | 2.521% | 4.70 | -1.64 |
| iTraxx Eur Main | 68 | -1 | -2 | USD Swap Spread 10Y (bp) | -10 | 1 | 1 |
| iTraxx Eur XO | 286 | 0 | 2 | USD Swap Spread 30Y (bp) | -42 | 5 | 2 |
| iTraxx Eur Snr Fin | 84 | -3 | -8 | TED Spread (bp) | 53 | 4 | 4 |
| iTraxx Sovx WE | 20 | -1 | 0 | US Libor-OIS Spread (bp) | 34 | -1 | 0 |
| iTraxx Sovx CEEMEA | 77 | -3 | -4 | Euro Libor-OIS Spread (bp) | 3 | 0 | 0 |
| | | | | | 26-Jan | 1W chg | 1M chg |
| | | | | AUD/USD | 0.757 | 0.08% | 5.21% |
| | | | | USD/CHF | 0.998 | 0.79% | 2.89% |
| | | | | EUR/USD | 1.076 | 0.88% | 2.90% |
| | | | | USD/SGD | 1.414 | 0.87% | 2.38% |
| Korea 5Y CDS | 45 | -2 | 1 | DJIA | 20,069 | 1.33% | 0.68% |
| China 5Y CDS | 109 | -5 | -9 | SPX | 2,298 | 1.17% | 1.53% |
| Malaysia 5Y CDS | 128 | -4 | -12 | MSCI Asiax | 545 | 1.35% | 7.73% |
| Philippines 5Y CDS | 98 | -2 | -14 | HSI | 23,242 | 0.84% | 7.73% |
| Indonesia 5Y CDS | 147 | -5 | -9 | STI | 3,048 | 1.33% | 6.17% |
| Thailand 5Y CDS | 72 | -2 | -7 | KLCI | 1,690 | 1.43% | 4.53% |
| | | | | JCI | 5,305 | 0.12% | 5.52% |

*Source: OCBC, Bloomberg*

**Table 2: Recent Asian New Issues**

| Date | Issuer | Ratings | Size | Tenor | Pricing |
|---|---|---|---|---|---|
| 25-Jan-17 | China Water Affairs Group Ltd. | "BB+/Ba1/NR" | USD300mn | 5NC3 | 5.5% |
| 25-Jan-17 | Jain International Trading BV | "B+/NR/B+" | USD200mn | 5NC3 | 7.375% |
| 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 |

*Source: OCBC, Bloomberg*

**Rating Changes (Cont'd):**

Moody's upgraded Bayerische Motoren Weke Aktiengesellschaft's (BMW) and its rated subsidiaries' long-term ratings to 'A1' from 'A2'. In addition, the outlook has been changed to stable from positive. The rating action reflects the company's track record of robust operational performance in recent years supported by a continued successful product renewal program and the ongoing expansion of BMW Group's product portfolio as well as regional presence. Fitch withdrew Asuransi Kredit Indonesia (Persero) PT's 'BBB-' Financial Strength rating.

**Credit Headlines:**

**Mapletree Commercial Trust ("MCT")**: 3QFY2017 results (ending December 2016) reported gross revenue up 47.4% y/y to SGD108.8mn while NPI was up 49.0% y/y to SGD84.4mn. The strong performance was largely driven by the full-quarter contribution by Mapletree Business City Phase 1 ("MBC"), which was acquired on 25/08/16. Excluding the MBC impact, gross revenue would have been up 5.3% y/y while NPI would have been up 4.1% for 3QFY2017. This was largely driven by strong performance at VivoCity (NPI up 3.5% y/y) as well as Mapletree Anson (NPI up 9.1% y/y). Portfolio occupancy was strong at 99.0% (3QFY2016: 98.4%), though we note that q/q PSA office building's occupancy slipped from 98.5% to 96.2%. It is also worth noting that MCT had successfully found a tenant for the space on the sixth floor of Bank of America Merrill Lynch HarbourFront which was vacated by Bank of America Merrill Lynch. In general, we consider MCT's performance to be robust given the challenging environment for office and retail assets. MCT performed well, seeing occupancy pick up from 98.3% to 99.0% q/q. NPI generated by MBC for 3QFY2017 at SGD25.4mn was also higher than the SGD49.7mn projected over 2HFY2017 (after averaging). YTD lease reversions also remained strong at +13.5% for Retail (though q/q saw a slight decline) and +9.7% for Office (excludes MBC). This is despite the challenges faced by MCT's peers in the office and retail space. VivoCity performance continues to be resilient, with Shopper Traffic up 6.7% y/y and Tenant Sales up 2.0% y/y for the quarter. Retention rates are strong as well at 95.4% for Retail and 87.3% for Office/Business Park. WALE for both Retail and Office/Business Park remained relatively stable at 2.1 years and 3.6 years respectively. The lease expiry profile looks manageable, with MCT having 10.7% and 5.4% of gross rental revenue expiring for Retail and Office/Business Park respectively over the next 15 months. Aggregate leverage improved q/q to 37.0% (2QFY2017: 37.3%) after climbing due to the MBC acquisition in 2QFY2017. This was despite the SGD85mn in bonds due 2023 issued in November 2016 (which MCT used to refinance SGD35mn due in FY2017 and 47.4mn due in FY2018). As a result, MCT has no debt due till FY2019. Cost of debt remained stable at 2.64% (2QFY2017: 2.66%). MCT's portfolio remains entirely unencumbered, while proportion of fixed debt improved to 81.2% due to the bond issue (2QFY2017: 74%). YTD interest coverage remains stable at 4.9x. In aggregate, MCT's credit profile has stabilized post the MBC acquisition while underlying operational performance has been strong. 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 ("VITSP"):** VITSP reported full-year results for FY2016. Gross revenue increased 28.6% to SGD95.1mn mainly due to (i) additional rental contribution of SGD12.5mn from 3 acquired properties (11 Ubi Road, 30 Pioneer Road, Home-Fix Building); and (ii) higher rental and other income contribution of S$7.3 million from Viva Business Park ("VBP") which arose from its asset enhancement initiatives. Occupancy at VBP increased to 78.0% (4Q2015: 68.3%) and is expected to continue rising, with 94.9% of committed white space and 58% (3Q2016: 42.7%) of the space already contributing to 4Q2016 revenue. EBITDA/Interest coverage was 2.87x, in line with 2.92x in FY2015. NPI plus Rental Support over Interest for FY2016 was 3.45x, falling from FY2015 at 3.79x, due to lower rental support from existing properties. VITSP managed to renew over 90% of leases that expired in 2016 and lease maturity is well termed-out. VITSP also managed to achieve positive rental reversion of 5.2% for 2016, despite operating in the challenging industrial market. FY2016 gearing ratio improved slightly to 37.2% from FY2015's 38.6%. In light of VITSP's steady performance, we continue to hold VITSP's issuer profile at Neutral. (Company, OCBC)

**Credit Headlines (cont'd):**

**Sabana Shari'ah Compliant Industrial REIT ("SSREIT"):** SSREIT announced its FY2016 results. Gross revenue decreased 8.9% mainly due to (i) negative rental revisions for certain master leases; (ii) lower contribution from buildings which were converted into multi-tenanted buildings; and (iii) non-renewal of lease on one property. The fall in net property income ("NPI") was significant (20.5% fall to SGD56.9mn). This was driven by rental renewal terms which were less favorable to SSREIT as well as higher net impairment losses on trade receivables. NPI margin was 62%, against 71% in FY2015. As a result of weakened profitability, EBITDA/Interest was lower at 2.5x (FY2015: 3.1x). As at 31 December 2016, aggregate leverage was 43.2%, higher versus 41.7% as at 31 December 2015. In January 2017, SSREIT completed a rights issue exercise which per management's estimates would bring down aggregate leverage to around 40%. Gross proceeds from the rights issue is expected to go towards funding 3 acquisitions announced in December 2016 and to stem the rise in aggregate leverage (as a result of higher asset corrosion). As at 31 December 2016, SSREIT's investment portfolio was valued at SGD990.6mn (excluding 218 Pandan Loop which is an asset held for divestment). This was 3.6% lower than the valuation as at 30 June 2016. As at 31 December 2016, SSREIT faces SGD130mn in short term debt due, while cash balances stood at SGD9.2mn. Our base case remains that SSREIT will be able to refinance the upcoming debt due albeit at higher cost. Unencumbered properties were SGD331.5mn as at 31 December 2016 which can help raise secured debt, if required. While SSREIT's near-term liquidity risk has been reduced post the rights issue, we think the REIT's standalone financial flexibility from equity markets has been hampered. Based on a Straits Times newspaper article on 25 January 2017, a group of retail investors are trying to coordinate and push for the replacement of SSREIT's REIT manager. This is an unprecedented move for an S-REIT and it is too early for us to opine on an outcome. Nevertheless, it is worth noting that based on SSREIT's bond documentation, a change in REIT manager itself does not trigger an Event of Default, should such change be done in a proper manner in accordance to the Trust Deed. We continue to hold SSREIT's issuer profile at Negative and are Underweight the curve. (Company, Straits Times, OCBC)

**Perennial Real Estate Holdings Ltd. ("PREH"):** PREH is leading a consortium to sell a 70% stake in TripleOne Somerset to a wholly owned subsidiary of Shun Tak Holdings Ltd, which is listed in Hong Kong. Shun Tak is also PREH's partner for its Beijing Tongzhou Integrated Development and Zhuhai Hengqin Integrated Development in China. PREH's share of divestment amounts to SGD101mn (20.2% stake) with PREH expecting to record a pre-tax gain of SGD34.3mn. Post-transaction, PREH will still retain a 30% stake in TripleOne Somerset. We view the transaction as mildly credit positive, with PREH proving flexibility in monetising its investment properties while net gearing is expected to improve to 0.59x post transaction, based on 3Q2016 financials (0.63x). We retain our Neutral issuer profile on PREH. (Company, OCBC)

**BreadTalk Group Ltd. ("BGL"):** Together with the PREH led consortium, BGL will be divesting its stake in TripleOne Somerset for SGD26.5m, with a gain of SGD9.3mn expected to be recorded. We see the transaction as a strong credit positive as net gearing would improve substantially to 0.34x (3Q2016: 0.55x) while net debt/EBITDA would improve to 1.2x (3Q2016: 1.7x). We note that as of 3Q2016, the SGD112.5mn cash on hand already exceeds the short-term debt of SGD30.2mn. We previously understood from management that they have been focusing on repaying short-term debt maturities and the excess cash may be used for M&A / expansion when new licenses are obtained to operate in other countries. We look forward to updates from BGL post its results blackout period and meanwhile we will retain our Neutral issuer profile on BGL. (Company, OCBC)

**OUE Ltd. ("OUE")**: OUE Hospitality Trust (OUEHT), a SGD1.2bn market cap company which is 36.9%-owned by OUE, reported its 4Q2016 results. Revenues of SGD33.2mn and net property income of SGD29.6mn were up y/y by 0.7% and 2.5% respectively. Higher revenues were due to new contribution from the acquisition of the Crowne Plaza extension from OUE in 3Q2016 which offset weaker performance at Mandarin Orchard Singapore due to weaker corporate demand . NPI improvement came from higher master lease income from the hospitality segment and lower property expenses in the retail segment. That said, overall contribution from the retail segment was lower due to lower average occupancy rates and lower rental rates. We expect OUEHT's performance to remain under pressure in coming quarters from the weaker retail and hospitality outlooks. We do not cover OUEHT. (Company, OCBC)

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