Asian Credit Daily

26 Jul 2017

Credit Headlines (Page 2 onwards): Suntec Real Estate Investment Trust, Viva Industrial Trust, Mapletree Industrial Trust, CITIC Envirotech Ltd, Sabana Shari'ah Compliant Industrial REIT

Market Commentary: The SGD swap curve traded upwards yesterday, with swap rates trading 1-2bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in HSBC 4.7%-PERPs, STHSP 3.95%-PERPs, and mixed interest seen in HYFSP 6%-PERPs, WINGTA 4.08%-PERPs. In the broader dollar space, the spread on JACI IG Corporates fell 1bps to 189bps, while the yield on JACI HY Corporates rose 1bps to 6.87%. 10y UST yields rose 8bps yesterday, as crude oil rallied after a report released by the American Petroleum Institute showed that US crude inventories shrank by the most since September.

New Issues: CDBL Funding 2 has priced a two-tranche deal (guaranteed by Metro Excel Ltd and supported by a keepwell and asset purchase deed with China Development Bank Financial Leasing Co.), with the USD400mn 3-year bond priced at CT3+120bps, tightening from initial guidance of CT3+145bps area; and the USD600mn 5-year tranche priced at CT5+125bps, tightening from initial guidance of CT5+150bps area. The expected issue ratings are 'NR/A2/A+'. PT ABM Investama Tbk has priced a USD300mn 5NC3 bond at 7.375%, tightening from initial guidance of 7.625%. The expected issue ratings are 'NR/Ba3/BB-'. CCTI 2017 Ltd has scheduled investor meetings for potential USD bond issuance (guaranteed by China Chengtong Investment Company Ltd) from 25 Jul. Minejesa Capital BV has scheduled investor meetings for potential USD bond issuance (guaranteed by PT Paiton Energy) from 26 Jul. The expected issue ratings are 'NR/Baa3/BBB-'. China Logistics Property Holdings Co has scheduled investor meetings for potential USD bond issuance from 26 Jul. The expected issue ratings are 'NR/B3/B'.

Rating Changes: S&P has upgraded EnergyAustralia Holdings Ltd (EA) and its subsidiaries' corporate credit rating to 'BBB+' from 'BBB'. The outlook is stable. The rating action reflects S&P's view that EA will continue its stable performance and that it will solve its fuel supply issues at Mt Piper.

Table 1: Key Financial Indicators

	26-Jul	1W chg (bps)	1M chg (bps)		26-Jul	1W chg	1M chg
iTraxx Asiax IG	84	0	-1	Brent Crude Spot ($/bbl)	50.58	1.77%	10.36%
iTraxx SovX APAC	21	0	2	Gold Spot ($/oz)	1,247.18	0.48%	0.20%
iTraxx Japan	40	0	0	CRB	177.67	0.45%	5.40%
iTraxx Australia	78	-2	-5	GSCI	376.84	-0.28%	6.00%
CDX NA IG	56	-1	-3	VIX	9.43	-4.65%	-4.75%
CDX NA HY	108	0	1	CT10 (bp)	2.318%	4.79	18.05
iTraxx Eur Main	52	-1	-2	USD Swap Spread 10Y (bp)	-4	0	-2
iTraxx Eur XO	236	2	4	USD Swap Spread 30Y (bp)	-32	0	-1
iTraxx Eur Snr Fin	50	0	-1	TED Spread (bp)	16	-9	-19
iTraxx Sovx WE	4	-1	-3	US Libor-OIS Spread (bp)	15	1	1
iTraxx Sovx CEEMEA	55	--	3	Euro Libor-OIS Spread (bp)	3	0	0
					26-Jul	1W chg	1M chg
				AUD/USD	0.792	-0.47%	4.35%
				USD/CHF	0.952	0.36%	2.12%
				EUR/USD	1.165	1.17%	4.19%
				USD/SGD	1.363	0.43%	1.88%
Korea 5Y CDS	56	-1	5	DJIA	21,613	0.18%	0.95%
China 5Y CDS	65	-1	-2	SPX	2,477	0.67%	1.56%
Malaysia 5Y CDS	84	0	1	MSCI Asiax	652	0.40%	3.35%
Philippines 5Y CDS	73	0	-3	HSI	26,851	0.67%	3.78%
Indonesia 5Y CDS	116	0	2	STI	3,328	0.08%	3.68%
Thailand 5Y CDS	65	1	4	KLCI	1,762	0.28%	-0.97%
				JCI	5,824	0.31%	-0.09%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
26-Jul-17	CDBL Funding 2	'NR/A2/A+'	USD400mn	3-year	CT3+120bps
26-Jul-17	CDBL Funding 2	'NR/A2/A+'	USD600mn	5-year	CT5+125bps
26-Jul-17	PT ABM Investama Tbk	'NR/Ba3/BB-'	USD300mn	5NC3	7.375%
25-Jul-17	Industrial Bank of Korea	'NR/Ba2/BB+'	USD300mn	Perp NC5	3.95%
20-Jul-17	Oceanwide Holdings International 2017 Co	'B/NR/B'	USD400mn	3-year	7.75%
20-Jul-17	China Life Insurance (Overseas) Company Ltd, Hong Kong Branch	'A/NR/NR'	USD250mn	10NC5	3.35%
20-Jul-17	China Jinjiang Environment Holding Company Ltd	'BB-/Ba3/NR'	USD200mn	3-year	6.25%
20-Jul-17	Parkway Pantai Ltd	Not Rated	USD500mn	Perp NC5	4.25%

Source: OCBC, Bloomberg

Rating changes (Cont'd): S&P has affirmed Shimao Property Holdings Ltd's (Shimao) corporate credit rating and senior unsecured rating at 'BB+' and 'BB' respectively while revising its outlook to stable from negative. The rating action reflects S&P's view that Shimao's leverage will continue to improve and the company will maintain a prudent expansion strategy.

Credit Headlines:

Suntec Real Estate Investment Trust ("SUN"): SUN announced 2Q2017 results. Revenue and NPI increased 10.6% and 12.8% y/y to SGD87.3mn and SGD59.4mn respectively, mainly from the contribution of 177 Pacific Highway acquired in 2016. Excluding SGD7.8mn NPI contribution from 177 Pacific Highway, NPI would have fallen 2.0% y/y, mainly due to the weaker performance in the retail segments of Suntec City (-SGD1.2mn) and Suntec Singapore (-SGD1.2mn). For SUN's office JVs, income contribution increased 0.5% y/y to SGD21.8mn. NPI from the JVs was mixed, with gains from Southgate Complex (+SGD1.2mn) helping to mitigate income declines at One Raffles Quay (-SGD0.34mn) and MBFC Towers 1&2 (-SGD1.07mn). SUN managed to increase its office rentals for the quarter to SGD8.89 psf/mth (1Q2017: SGD8.66 psf/mth), with rates better than market averages **(**overall CBD office rents stand at SGD8.49 psf/mth). Office tenant retention remains healthy at 74%, while office occupancy remains healthy at 98.7%. SUN mentioned that it is in final negotiations for 20.8% of leases expiring in 2018. For the retail segment, occupancy improved to 99.0% (1Q2017: 97.7%), driven by improvements at Suntec City Mall. The lease maturity profile looks a bit more manageable, with 8.8% of retail NLA due for renewal in 2H2017 (compared to 20.8% as of end-1Q2017). SUN had also indicated that YTD footfall improved by 11.0% while tenant sales per sq ft improved 5.3%. Aggregate leverage improved to 36.1% (1Q2017: 37.7%), driven by the partial conversion of SUN's convertible bonds during the quarter. Reported interest coverage remained steady at 4.2x (1Q2017: 4.3x). The biggest impact on SUN's credit profile though, would be the announced 50% acquisition of 477 Collins Street, Melbourne, for AUD414.7mn. This development asset would only be ready in 2020. SUN had indicated that the acquisition would be debt funded which, based on our estimate, would increase pro-forma end-2Q2017 aggregate leverage above 40%, making SUN the most leveraged amongst the office REITs that we cover. We will retain our Neutral Issuer Profile on SUN, though we note that SUN no longer has debt headroom left, with the potential acquisition of the balance 25% in the Southgate, Melbourne a potential credit negative. (Company, OCBC)

VIVA Industrial Trust ("VIT"): VIT announced its 2Q2017 financial results. Gross revenue increased 18% y/y to SGD27.6mn in 2Q2017, largely on the back of contribution from VIVA Business Park and 6 Chin Bee. Jackson International Private Limited ("JIPL"), the rental support provider at Jackson Square building had filed a liquidation notice, though its subsidiaries (occupying 24% of space) at Jackson Square has not filed for liquidation. They continue to be tenants and have provided additional security deposits of SGD1.73mn. Manager fees was up 40.6% y/y to SGD2.2mn due to higher distributable income (from higher gross revenue and rental support). Nonetheless, we expect manager fees to revert to ~SGD1.8mn (per 1Q2017) in the next quarter as a large portion of rental support in 2Q2017 was driven by a one-off item. During the quarter, VIT recorded rental support of SGD7.1mn (2Q2016: SGD3.0mn). This was largely driven by VIT drawing down the rental support bank guarantee of SGD3.9mn pursuant to the settlement agreement entered into with JIPL. Post the settlement, JIPL had been fully released and discharged from its rental support arrangement. Earlier, there were some concerns on vacancy risk at Jackson Square as its major tenant, McDermott have moved out (following exit from Singapore). VIT has managed to backfill some of the space with a new tenant in 2Q2017. The building is now 89% occupied (versus 91% in 2Q2016 when McDermott was still a major tenant) though q/q gross revenue had fallen SGD0.4mn. The impact from the decline in gross revenue at Jackson Square is manageable as the rest of VIT's portfolio is stable, with growth seen at VIVA Business Park (gross revenue up 3% q/q) and UE Business Park. EBITDA (based on our calculation which does not include rental support, other income and other expenses) was SGD18.0mn, up 15%. Interest expense was somewhat higher at SGD5.1mn (up 5.8%), resulting in EBITDA/Interest of 3.5x. The sum of Net Property Income ("NPI") and rental support (excluding the one-off) was SGD22.5mn, leading to NPI plus adjusted rental support over interest expense of 4.4x, above the 2.5x covenanted level. Aggregate leverage as at 30 June 2017 stayed relatively flat at 39.1% versus 31 March 2017. Refinancing risk at VIT is low in our view. The next major refinancing needs is expected in September 2018 when the SGD100mn VITSP'18s comes due. We maintain VIT's issuer profile at Neutral. (Company, OCBC)

Credit Headlines (Cont'd):

Mapletree Industrial Trust ("MINT"): MINT announced its results for the quarter ended June 2017 ("1QFY2018"). Gross revenue was up 5.6% y/y to SGD88.8mn driven mainly by the contribution of the Phase One completion of a built-to-suit ("BTS") facility for HP Singapore in October 2016. EBITDA (based on our calculation which does not include other income and other expenses) was 7.4% higher at SGD60.9mn though interest expense was 21% higher at SGD7.9mn, leading to a sizable decline in EBITDA/Interest to 7.7x (1QFY2017: 8.7x). The higher interest expenses was due to higher weighted average interest rate of 2.8% versus 2.6% in 1QFY2017. In addition, interest incurred in relation to HP Phase One was expensed off following completion of Phase One (instead of being capitalised during construction). We estimate that growth of gross revenue between 1QFY2018 and 4QFY2017 was flat (removing one-offs). As at 30 June 2017, aggregate leverage remained low at 29.8% (though increased from 29.2% as at 31 March 2017). In 1QFY2018, cash flow from operations (before interest) was SGD54.1mn while the REIT paid out SGD57.8mn in distributions to unitholders and interest. Capex spent was SGD26.0mn, largely for property development. The cash gap at MINT was funded via the drawdown of debt. Gross debt increased 3.0% from the immediately preceding quarter and all debt remains unsecured. During the quarter, Phase Two of the HP Singapore building reached TOP. In 1QFY2018, HP Singapore was the most significant tenant contributing 5.3% to rental income. We expect HP Singapore to contribute ~10% going forward, in line with the completion of the purpose-built facility. MINT is carrying out two redevelopment/development projects (1) The asset enhancement at 30A Kallang Place and Kallang Basin 4 Cluster and (2) A new BTS data centre with 100% of the space committed by tenant, in line with MINT's strategy to grow its Hi-Tech segment. In July 2017, MINT also completed the divestment of 65 Tech Park Crescent. The sales price of SGD17.7mn is expected to go towards the funding of committed development projects. Earlier MINT had guided that if the development projects are all debt-funded, aggregate leverage will rise to 32%. As at 30 June 2017, MINT's portfolio occupancy was 92.6% (declining from 93.1%). We see further downsides to occupancy as 20.4% of leases (by gross rental income) is expiring by end-FY2018. Of these, about half are flatted factories, a relatively generic sub-segment of the industrial space market in our view. While MINT's credit profile has declined over the course of the sector downturn, it is starting from a high base. Short term debt due was SGD114.6mn, representing ~10% of total gross debt. Financial flexibility at MINT remains commendable and all debt remains unsecured. We are maintaining MINT's issuer profile at Neutral. (Company, OCBC)

CITIC Envirotech Ltd ("CEL"): CEL announced its results for 2Q2017. Gross revenue decreased by 4.0% to SGD134.4mn. While the Engineering and Water Treatment segment saw collective revenue improving SGD2.3mn, this was insufficient to offset the fall in revenue in the Membrane segment (down SGD7.9mn). Nevertheless, EBITDA (based on our calculation which does not include other operating expenses and other income) improved 8.0% to SGD56.3mn following lower materials purchased, consumables used and sub-contractor fees. This helped offset the 5.8% increase in employee benefit expenses to SGD11.7mn. As at 30 June 2017, perpetuals outstanding was SGD481.3mn, constant versus 31 March 2017 though it only made up 21% of total capital. During the quarter, CEL had drawn down on significant levels of debt, which enlarged its capital base. In 2Q2017, net borrowings was SGD219.9mn. In 2Q2017, CEL's cash generated from operations (before interest paid) was SGD50.1mn. Capex was SGD82.6mn while the company paid out SGD36.4mn in cash dividends. During the quarter, cash balances at the company increased by SGD140mn to SGD539.6mn. We estimate that around a third of the new borrowings was used to fund capex at the company with the remainder retained to cover short term debt and future equity portion required on announced projects. As at 30 June 2017, CEL's headline net gearing had risen to 0.2x (31 March 2017: 0.1x). We have maintained that from the perspective of an existing SGD bondholder, the USD perpetuals does not constitute an "equity cushion". Adjusting "net debt" upwards, we find adjusted net gearing at 0.7x as at 30 June 2017 (increasing from 0.6x as at 31 March 2017). We expect CEL's adjusted net gearing to rise above 1.0x, falling within the range of its larger water treatment/environmental peers as it progresses on developing new plants. As at 30 June 2017, CEL faces significant amounts of short term debt due of SGD289.6mn (representing 37% of total gross debt), nonetheless, we are not overly concerned given that cash/short term borrowings was 1.9x. 77% of the short term debt due relates to the CELSP 4.7%'18s which is due in April 2018. We maintain CEL's issuer profile at Neutral. (Company, OCBC)

Credit Headlines (Cont'd):

Sabana Shari'ah Compliant Industrial REIT ("SSREIT"): SSREIT reported 2Q2017 financial results. Gross revenue was down 2.9% to SGD22.0mn mainly due to lower contribution from five buildings, one building which was converted into a multi-tenanted building which was partially offset by stronger performance at 9 Tai Seng Drive and 15 Jalan Kilang Barat. Net property income declined more significantly (down 7.4%) to SGD12.9mn largely due to higher net impairment losses on trade receivables arising from arrears in excess of security deposit held at two Master Leased buildings (1 Tuas Avenue 4 and 6 Woodlands Loop). We had earlier flagged (refer to Singapore Mid-Year 2017 Credit Outlook) that these two buildings were "at-risk". Independent valuations were carried out and specifically, these two buildings were valued assuming that the Master Leases had terminated their leases as at 30 June 2017. On a combined basis, the two buildings were valued at SGD37.5mn (down from SGD46.5mn as at 31 December 2016). SSREIT's remaining portfolio (excluding 218 Pandan Loop which is in the midst of being sold) was valued at 2% lower than 31 December 2016. Manager fees was only SGD0.9mn as manager had forgone 25% of its fees for 2Q2017 (75% of management fees was forgone in 1Q2017). Resultant EBITDA was 5.1% lower at SGD11.9mn. Interest expense was 17.8% lower at SGD4.1mn, this was largely due to lower debt levels at SSREIT following repayment from divestment proceeds in FY2016 and net proceeds from the rights issue in January 2017. In December 2016, SSREIT announced the proposed acquisition of three buildings (one was intended to be from Sponsor), though to date, all three of these proposed acquisitions has been terminated. Net proceeds from rights issue effectively had went towards debt repayment. As at 30 June 2017, aggregate leverage was 37%, marginally higher than 36.1% as at 31 March 2017 from asset corrosion since gross debt has stayed constant. In end-2016, aggregate leverage levels were high at 43.2%. SSREIT had announced the proposed divestment of 218 Pandan Loop for SGD14.8mn. The transaction is conditional upon receipt of approvals from authorities and IS expected to be completed in 1Q2017 (to date has not been completed). As at 30 June 2017, short term debt at SSREIT was SGD147.5mn, of which SGD57.8mn is due by end-2017. Of these, SGD42.8mn relates to a convertible sukuk, though with SSREIT's equity trading at SGD0.455 per unit, it is unlikely the conversion would happen. As at 30 June 2017, unencumbered assets stood at SGD323.3mn which can be used to raise secured debt if need be. The Strategic Review at SSREIT is still on-going. Of the 32.3% of leases expiring (by net lettable area) by end-year, 54% is Master Leased to Sponsor-related companies. There is no certainty that these leases will be renewed should the Sponsor's involvement with SSREIT cease. Net-net though, a re-rating of SSREIT would only occur if a non-Sponsor credible bidder emerges. We maintain SSREIT's issuer profile at Negative though may change our view following conclusion of the Strategic Review. (Company, OCBC)

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