Asian Credit Daily

October 26, 2017

Credit Headlines (Page 2 onwards): Mapletree Commercial Trust, Australia and New Zealand Banking Group, Ezra Holdings Ltd, Keppel Corp, AIMS AMP Capital Industrial REIT, ESR-REIT

Market Commentary: The SGD swap curve bear-steepened yesterday, with swap rates trading 3-9bps higher across all tenors. This followed the rise in UST yields on Tuesday. Flows in SGD corporates were heavy, with better buying seen in BAERVX 5.9%-PERPs, CAPLSP 3.08%'27s, CELSP 3.9%-PERPs, and better selling seen in HSBC 4.7%-PERPs. In the broader dollar space, the spread on JACI IG Corp fell 1bps to 177bps, while the yield on JACI HY Corp rose 2bps to 6.84%. 10Y UST yields rose 1bps to 2.43%, after dip-buying helped yields ease off session highs of 2.47% and the 5Y auction came in soft.

New Issues: RBC Investor Services Trust Singapore Limited (in its capacity as trustee of ESR-REIT) has priced a SGD150 Perp NC5 at 4.60%. The Government of Mongolia has priced a USD800mn 5.5-year bond at 5.625%, tightening from initial guidance of 6.125%. The expected issue ratings are 'B-/B-/NR'. Korea Housing Finance Corporation has priced a USD500mn 5-year covered bond at CT5+100bps, tightening from initial guidance of CT5+125bps area. The expected issue ratings are 'NR/Aa1/NR'. Korean Air Lines Co Ltd has priced a USD30mn 3-year bond at 3mL+95bps (guaranteed by Shinhan Bank Co Ltd).

Rating Changes: Moody's has assigned Heungkuk Life Insurance Co Ltd's (Heungkuk Life) an insurance financial strength rating of 'Baa1'. At the same time, Moody's assigned a 'Baa3' rating to Heungkuk's proposed subordinated capital securities issuance. The outlook is stable. The rating action reflects Heungkuk Life's low interest rate risk, balanced distribution channels and conservative investment portfolio.

Table 1: Key Financial Indicators

	26-Oct	1W chg (bps)	1M chg (bps)		26-Oct	1W chg	1M chg
iTraxx Asiax IG	74	-2	-8	Brent Crude Spot ($/bbl)	58.37	1.99%	-0.12%
iTraxx SovX APAC	16	0	-1	Gold Spot ($/oz)	1,279.99	-0.79%	-1.08%
iTraxx Japan	48	-1	2	CRB	185.40	0.77%	1.09%
iTraxx Australia	65	-2	-8	GSCI	406.44	1.35%	1.21%
CDX NA IG	54	1	-5	VIX	11.23	11.52%	10.42%
CDX NA HY	108	0	1	CT10 (bp)	2.424%	10.66	18.87
iTraxx Eur Main	55	-1	-3	USD Swap Spread 10Y (bp)	-2	0	2
iTraxx Eur XO	241	-5	-16	USD Swap Spread 30Y (bp)	-29	1	3
iTraxx Eur Snr Fin	57	-3	-3	TED Spread (bp)	27	-1	-2
iTraxx Sovx WE	5	0	-1	US Libor-OIS Spread (bp)	10	-2	-4
iTraxx Sovx CEEMEA	42	3	0	Euro Libor-OIS Spread (bp)	3	0	0
					26-Oct	1W chg	1M chg
				AUD/USD	0.771	-2.18%	-2.28%
				USD/CHF	0.989	-1.25%	-2.02%
				EUR/USD	1.183	-0.22%	0.28%
				USD/SGD	1.360	-0.27%	-0.43%
Korea 5Y CDS	71	2	-3	DJIA	23,329	0.74%	4.69%
China 5Y CDS	50	-4	-12	SPX	2,557	-0.16%	2.42%
Malaysia 5Y CDS	63	0	-7	MSCI Asiax	686	0.33%	4.09%
Philippines 5Y CDS	63	0	-2	HSI	28,268	0.39%	2.74%
Indonesia 5Y CDS	93	-3	-11	STI	3,351	0.50%	4.34%
Thailand 5Y CDS	47	0	-4	KLCI	1,736	-0.44%	-1.66%
				JCI	6,033	2.08%	2.89%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
25-Oct-17	RBC Investor Services Trust Singapore Limited	Not Rated	SGD150	Perp NC5	4.60%
25-Oct-17	Government of Mongolia	'B-/B-/NR'	USD800mn	5.5-year	5.625%
25-Oct-17	Korea Housing Finance Corporation	'NR/Aa1/NR'	USD500mn	5-year	CT5+100bps
25-Oct-17	Korean Air Lines Co Ltd	Not Rated	USD30mn	3-year	3mL+95bps
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

Source: OCBC, Bloomberg

Credit Headlines:

Mapletree Commercial Trust ("MCT"): MCT reported 2QFY2018 results (ending September 2017), with gross revenue up 21.7% y/y to SGD107.2mn while NPI was up 23.4% y/y to SGD84.4mn. Results continue to be boosted by Mapletree Business City Phase 1 ("MBC"), which was acquired on 25/08/16. That said, MCT's performance remains fair as after adjusting for MBC, MCT still reported 1.2% and 1.5% y/y increase in gross revenue and NPI respectively for the quarter. MCT performance continues to be dominated by VivoCity (NPI up 4.8% y/y), with the property receiving incremental contribution from the optimization of Basement 2 post AEI. The robust performance of VivoCity has led to further AEI plans, with VivoCity intending to open a Public Library (3,000sqm) in 2018 on Level 3 (under CSFS), which in turn would grant VivoCity with bonus GFA. VivoCity intends to utilize this extra GFA to extend Basement 1 with an additional 24,000sqft of retail space. The AEI is expected to commence in 3QFY2018, and is expected to complete in phases by 3QFY2019. Comparatively, MapleTree Anson and the PSA Building have underperformed, reporting declines of 3.4% and 3.2% in property revenue y/y respectively. Mapletree Anson in particular was a disappointment with occupancy falling back to 92.9%, when it just recovered back to 99.2% one quarter back. As a result, portfolio occupancy dipped slightly to 97.6% q/q (1QFY2018: 98.1%). On the bright side, committed occupancy is higher at 98.7%. Weakness at MapleTree Anson and PSA Building may have been responsible for the -4.4% rental reversion for office (excluding MBC). MCT also reported a pre-termination of space at MBC totalling 104,000sqft, which caused overall MCT portfolio rental reversion to decline 2.2%. That said, management had indicated that they already found a replacement lease, which would have caused MCT portfolio rental version to be +1.2%. Tenant retention remains healthy at 80.8%, while Retail rental reversion was +2.0% despite the difficult environment. That said, we note that shopper traffic looks to be negative for 2QFY2018 (flat for 1HFY2018) with management indicating that 1HFY2017 was particularly strong. Tenant sales look to have been slightly impacted as well during 2QFY2018. WALE for both Retail and Office/Business Park remained relatively stable at 2.0 years and 3.5 years respectively. The lease expiry profile looks manageable, with MCT having 2.5% and 0.6% of gross rental revenue expiring for Retail and Office/Business Park respectively for 2HFY2018. Aggregate leverage remained unchanged q/q at 36.4% with MCT's balance sheet relatively unchanged. MCT's portfolio remains entirely unencumbered, while proportion of fixed debt improved slightly q/q to 78.0% (FY2017: 73.7%) due to the refinancing of some bank debt with MCT's recent SGD100mn bond issue. We will retain our Neutral Issuer Profile on MCT, as we don't foresee major near-term changes to MCT's leverage levels. (Company, OCBC)

Australia and New Zealand Banking Group Ltd ("ANZ"): ANZ released its full year results for FY2017 ending 30 September 2017, with profit before tax (PBT) on a cash basis (excluding non-core items) up 20% y/y to AUD9.84bn. While operating income performance was soft (down 1% y/y due to a fall in reported net interest margins by 8bps to 1.99%), overall performance benefited from improvements on the cost side. Operating expenses were down 9% y/y due to higher prior software and restructuring charges in FY2016 and lower personnel expenses in FY2017 (translating to an improved efficiency ratio of 46.1% in FY2017 vs 50.7% in FY2016) while credit impairment charges were down 39% y/y due to a fall in individual impairment charges and release in collective impairment charges from prevailing credit conditions and loan portfolio rebalancing benefits. H/h trends were somewhat consistent with 2HFY2017 operating income down 1% h/h, operating expenses flat and credit impairment charges down 33% and contributing to PBT improving 3% in 2HFY2017 compared to 1HFY2017. Although not as apparent as in FY2016, ANZ's results continue to be influenced by restructuring activities as part of its multi-year transformation, with various initiatives undertaken during FY2017 broadly cancelling each other out. These initiatives included derivative valuation methodology adjustments, gain on sale of 100 Queen St (ANZ's Melbourne headquarters) and sale of ANZ's Asian Retail and Wealth businesses. Supporting the previously mentioned decline in credit impairment charges, gross impaired assets fell 25% y/y and 19% h/h and combined with a 1% y/y and h/h rise in gross loans and advances, ANZ's gross impaired assets ratio fell to 0.41% from 0.55% in FY2016 and 0.51% in 1HFY2017. Despite somewhat stable total assets, total risk weighted assets fell 4% y/y and 1% h/h due to a fall in credit risk weighted assets. Combined with improved earnings results, ANZ's APRA compliant capital ratios improved noticeably with the bank's FY2017 CET1/CAR ratios of 10.6%/14.8% against FY2016 CET1/CAR ratios of 9.6%/14.3% and 1HFY2017 CET1/CAR ratios of 10.1%/14.5%. h/h. Ratios remain above regulatory minimum requirements and are now also above APRA's minimum CET1 requirement of 10.5% by Jan 1, 2020 for banks to have 'unquestionably strong' capital ratios as recommended by the 2014 Financial System Inquiry. Based on international Basel III standards, ANZ's CET1/CAR ratios remain relatively strong at 15.8%/21.2% as at 30 September 2017. We are continuing to review the numbers and will update if necessary. That said, the results are unlikely to impact our Neutral issuer profile rating on ANZ. (Company, OCBC)

Credit Headlines (Cont'd):

Ezra Holdings Ltd ("EZRA"): It was announced that the U.S. Bankruptcy court has approved the application by EZRA to extend the exclusivity period for its Chapter 11 restructuring. As such, EZRA has extended their exclusivity period till 13/11/17 to submit a restructuring proposal, and till 12/01/18 to solicit votes for the proposal. In a separate matter, EZRA had also disclosed that they will not be making the coupon payments (for the EZRASP'18s) due on 24/10/17, as though there are funds held in the Interest Service Account solely for the purpose of servicing these coupon payments, the disposition of these funds will be determined through the bankruptcy restructuring plan. (Company)

Keppel Corp ("KEP"): KEP has announced that it will be divesting its 100% stake in Keppel China Marina Holdings Pte Ltd ("KCMH") to Delight Prime Limited for a total consideration of RMB2.9bn (~SGD597.4mn). The transaction is expected to yield a divestment gain of ~SGD290mn, with payments made across 3 tranches (with the last tranche paid upon completion by end-2017). KCMH indirectly holds an 80% effective stake in a residential cum marina development on Modao Island, Zhongshan City, China. KEP had indicated that the divestment was consistent with their strategy of recycling assets as well as to rebalance their China property portfolio to focus on five key cities (Shanghai, Beijing, Tianjin, Chengdu and Wuxi). We note as well that as reported in KEP's 3Q2017 results (refer to OCBC Asian Credit Daily - 20 October 2017), management had reported a slowdown in the transactions of China residential property, and that this was due to the property market cooling measures implemented. The slowdown in China may have been a factor driving the divestment (particularly when the divestment resulted in a sizable divestment gain). Based on our estimates, the divestment (assuming the consideration is paid in cash and used to deleverage) would cause pro-forma 3Q2017 net gearing to fall from 50% to 45%. We currently hold KEP at Neutral Issuer Profile. (Company, OCBC)

AIMS AMP Capital Industrial REIT ("AAREIT"): AAREIT reported its second quarter results for the financial year ended FY2018 ("2QFY2018") and 1HFY2018. In 1HFY2018, gross revenue was SGD60.0mn, relatively flat versus 1HFY2017, excluding a property tax refund of SGD1.1mn. Similarly, EBITDA was also relatively flat at SGD35.8mn against the previous corresponding period. Nonetheless, interest expense was 1.5% higher at SGD9.6mn as higher borrowings were incurred for the redevelopment of 30 Tuas West Road and 8 Tuas Avenue 20 which were previously capitalised and now expensed. EBITDA/Interest was slightly lower at 3.7x against 3.8x in 1HFY2017. AAREIT holds a 49% stake in the entity holding the Optus Centre property in Sydney, Australia. In 1HFY2018, share of results from this joint venture was SGD7.4mn, and including distribution from this building, we find Adjusted EBITDA/Interest of 4.5x (similar to 1HFY2017 levels). As at 30 September 2017, short term debt at AAREIT amounted to SGD101.8mn. Nonetheless, the REIT has entered into an agreement with lenders to refinance the debt coming due and the facilities would be drawn down when they come due in November 2017. Aggregate leverage as at 30 September 2017 was 37.3%, somewhat higher than the 36.3% as at 30 June 2017. This is within our expectations though as AAREIT was in the midst of redevelopments and building a greenfield built-to-suit development. Secured debt as at 30 September 2017 made up 76% of total debt, about the same levels seen historically. AAREIT announced an updated valuation to its Singapore-based properties and notably, 20 Gul Way, (its largest asset in Singapore) was valued at SGD250.4mn. The building saw a 4.9% dip in valuation versus 31 March 2017's SGD263.2mn. Versus its immediate peers, AAREIT's tenant profile is somewhat concentrated, with the top 10 tenants contributing ~55% of gross rental income. In 2QFY2018, CWT Limited (formerly AAREIT's top tenant) contributed 13.2% in gross rental income. CWT Limited made up 19.2% of AAREIT's gross rental income in 1QFY2018. Portfolio occupancy as at 30 September 2017 was lower at 88.8% (91.0% as at 30 June 2017 and 94.6% as at 31 March 2017). Notwithstanding the weaker occupancy levels and higher than historical aggregate leverage levels, AAREIT is still within our parameters of a Neutral issuer profile. (Company, OCBC)

Credit Headlines (Cont'd):

ESR-REIT ("EREIT"): EREIT has priced a 4.6% SGD150mn NC5 senior perpetual on 25 October 2017. Earlier on 19 October 2017, EREIT announced that it is proposing to acquire Hyflux building under a partial sales and leaseback from Hyflux Ltd. The total purchase price is SGD106.4mn, before transaction costs. EREIT is now highly likely to fund the proposed acquisition with perpetuals. The REIT is also in the midst of divesting two properties which should help generate ~SGD35mn in proceeds. Factoring these net asset movements, we estimate EREIT's headline aggregate leverage to be capped at ~35% and adjusted aggregate leverage, which takes into account 50% of perpetuals as debt, at ~40%, below the 45% credit rating threshold. Interestingly, EREIT had raised more funds than required for the proposed Hyflux acquisition, leaving EREIT with the financial flexibility for further merger and acquisition activities and/or a reduction in its current aggregate leverage levels. In our view, given EREIT's manageable aggregate leverage level, it is far likelier for the cash to be kept as a war chest. Comparing to its own curve and in light of the currently active market for perpetuals, the new EREIT-PERPs may tighten a further 10-20bps. We hold EREIT's issuer profile at Neutral. (Company, OCBC)

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