Asian Credit Daily

OCBC Bank

27 Jul 2017

Credit Headlines (Page 2 onwards): ESR-REIT, CWT Ltd, Oxley Holdings Ltd, AIMS AMP Capital Industrial Trust

Market Commentary: The SGD swap curve bear-steepened yesterday, with swap rates trading 2-4bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in HSBC 4.7%-PERPs, WINGTA 4.08%-PERPs, SCISP 3.7%-PERPs, better selling seen in STHSP 3.95%-PERPs, GRCHAR 6%'17s, and mixed interest seen in OLAMSP 5.5%-PERPs, GEMAU 5.5%-PERPs. In the broader dollar space, the spread on JACI IG Corporates fell 2bps to 188bps, while the yield on JACI HY Corporates rose 3bps to 6.90%. 10y UST yields fell 5bps yesterday, as even though the FOMC left rates unchanged and announced that balance sheet normalization would be implemented 'relatively soon', there were some alternations to the Fed's statement regarding inflation, which led to short covering in UST markets.

New Issues: Suntec REIT MTN Pte Ltd has priced a SGD100mn 6-year bond (guaranteed by Suntec Real Estate Investment Trust) at 2.85%, unchanged from the initial guidance.

Rating Changes: S&P has affirmed ITOCHU Corp's (ITOCHU) corporate credit rating and senior unsecured ratings at 'A-', while revising the outlook to positive from stable. The rating action reflects S&P's view that ITOCHU will achieve higher profits than most peers and that it is able to maintain its conservative investment policy and financial discipline which would further improve its capital adequacy. S&P has upgraded the counterparty credit ratings on ING Group's core subsidiaries – ING Bank NV, ING Belgium SA/NV and ING Financial Markets LLC to 'A+' from 'A'. S&P has also upgraded ING Bank (Australia) Ltd's counterparty credit ratings to 'A' from 'A-' while affirming ING Groep NV's counterparty credit rating at 'A'. The rating action reflects S&P's expectation that ING Group will build a sizable buffer which protects the bank's senior creditors, while maintaining strong capital adequacy due to resilient financial performance, supportive internal capital generation and a broadly similar risk profile.

Table 1: Key Financial Indicators

	27-Jul	1W chg (bps)	1M chg (bps)		27-Jul	1W chg	1M chg
iTraxx Asiax IG	82	-2	-3	Brent Crude Spot ($/bbl)	50.83	3.10%	8.96%
iTraxx SovX APAC	20	-1	1	Gold Spot ($/oz)	1,262.61	1.46%	1.24%
iTraxx Japan	40	0	1	CRB	179.45	0.45%	5.55%
iTraxx Australia	77	-2	-6	GSCI	381.32	1.18%	6.02%
CDX NA IG	56	-1	-5	VIX	9.6	-1.94%	-13.20%
CDX NA HY	108	0	1	CT10 (bp)	2.277%	1.76	7.14
iTraxx Eur Main	51	-1	-3	USD Swap Spread 10Y (bp)	-4	-1	-1
iTraxx Eur XO	233	-1	-4	USD Swap Spread 30Y (bp)	-33	-3	-2
iTraxx Eur Snr Fin	50	1	-3	TED Spread (bp)	20	-2	-11
iTraxx Sovx WE	5	0	-1	US Libor-OIS Spread (bp)	15	1	2
iTraxx Sovx CEEMEA	50	-4	-3	Euro Libor-OIS Spread (bp)	3	0	0
					27-Jul	1W chg	1M chg
				AUD/USD	0.804	0.99%	5.99%
				USD/CHF	0.951	0.02%	0.98%
				EUR/USD	1.174	0.93%	3.53%
				USD/SGD	1.356	0.74%	2.29%
Korea 5Y CDS	55	-2	3	DJIA	21,711	0.32%	1.88%
China 5Y CDS	64	-2	-4	SPX	2,478	0.16%	2.42%
Malaysia 5Y CDS	82	-2	-2	MSCI Asiax	653	0.56%	3.63%
Philippines 5Y CDS	71	-2	-5	HSI	27,043	1.13%	4.66%
Indonesia 5Y CDS	112	-3	-2	STI	3,346	1.62%	3.94%
Thailand 5Y CDS	63	-1	2	KLCI	1,769	0.75%	-0.60%
				JCI	5,811	-0.24%	-0.32%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
26-Jul-17	Suntec REIT MTN Pte Ltd	Not Rated	SGD100mn	6-year	2.85%
25-Jul-17	CDBL Funding 2	'NR/A2/A+'	USD600mn	5-year	CT5+125bps
25-Jul-17	PT ABM Investama Tbk	'NR/Ba3/BB-'	USD300mn	5NC3	7.375%
24-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): Moody's has placed China Travel Service (Holdings) Hong Kong Ltd's (CTS) 'Baa3' issuer rating, and its subsidiary, King Power Capital Limited's (King) 'Baa3' senior unsecured rating under review for upgrade. The rating action reflects CTS' improving financial leverage due to strong earnings growth, despite the slight increase in debt. Fitch has downgraded Hengdeli Holdings Limited's (Hengdeli) Issuer Default Rating (IDR) to 'B-' from 'B+'. The outlook is stable. Fitch has removed the ratings from Rating Watch Negative, and has also withdrawn the senior unsecured rating as the 2018 notes were repaid early. The rating action reflects Hengdeli's loss of position as a market leader and the severe shrinkage in its operating scale after the disposal of Xinyu and Harvest Max.

Credit Headlines:

ESR-REIT ("EREIT", formerly Cambridge Industrial Trust): EREIT has announced that it has requested Moody's to withdraw its credit rating on EREIT. In Moody's latest credit opinion dated 26 July 2017. The rating had been affirmed at Baa3/Stable outlook immediately prior to the withdrawal. Moody's opined that weak operating environment will pressure earnings in FY2017 and FY2018. The stable outlook though reflects Moody's expectation that EREIT will continue to generate stable cash flows from its current portfolio and maintain its credit profile while pursuing growth. We maintain EREIT's issuer rating at Neutral. (Company, Moody's, OCBC)

CWT Ltd ("CWT"): In April 2017, a pre-conditional voluntary offer was made by HNA Belt and Road Investments (Singapore) Pte Ltd (the "Offeror"), a wholly-owned subsidiary of Hong Kong-listed HNA Holding Co. Limited ("HNA HK Listco") (collectively, the "HNA Group"). The offer comes with pre-conditions, one which requires shareholders of HNA HK Listco to approve the deal in a general meeting. CWT's board had written to HNA Group for an update on when the general meeting will be held. Following this request, HNA Group had announced that it is preparing for the general meeting and that this meeting is scheduled to be convened between end-August 2017 and early-September 2017. Nevertheless, the exact date, timing and venue for the general meeting will only be disclosed later in the notice for general meeting. The long-stop date for conditions to be fulfilled is on 9 September 2017 (or such other date as the Offeror and CWT may determine in consultation with Singapore's Securities Industry Council). Pre-conditions in relation to anti-trust has been satisfied. The third pre-condition relates to there being no Material Adverse Effect at CWT. Effectively, the ball is now on HNA Group's court to carry out a general meeting for its shareholders to vote. We are still 50:50 on whether the deal will happen. Despite seeing HNA Group as a motivated buyer, we think broader financing and strategic concerns have led to increased uncertainty on deal completion. We have updated our view to put CWT bonds on Underweight on 25 July 2017 (refer to OCBC Asian Credit Daily (25 Jul)). (Company, OCBC)

Oxley Holdings Ltd ("OHL"): An OHL-led JV will be acquiring Serangoon Ville with 27,583.9 sqm in site area through a collective sale for SGD499mn. Another SGD195mn is estimated to be payable to top-up the lease and redevelop the site, with the transaction completion only likely towards year end. The shareholders of the JV are OHL (40%), Lian Beng (20%), Apricot Capital (20%) and Unique Invesco (20%). Together with the acquisition of the sites at Rio Casa and Pasir Panjang, we expect net gearing of OHL to reach 2.5x (3QFY17: 1.9x). Even after accounting for the estimated cash proceeds of SGD1bn from the sale of Royal Wharf, net gearing may remain elevated at around 1.5x. As such, we continue to hold OHL at a Negative Issuer Profile. (Company, OCBC)

Credit Headlines (Cont'd):

AIMS AMP Capital Industrial Trust ("AAREIT"): AAREIT announced its financial results for the quarter ended June 2017 ("1QFY2018"). Excluding the impact from a one-off property tax refund in 1QFY2017, gross revenue in 1QFY2018 was marginally higher at SGD30.5mn (up SGD0.2mn y/y). This was on the back of contribution from 30 Tuas West Road (purpose-built redevelopment with CWT Limited as Master Lessee) and partially offset by the expiry of maser lease of a building and lower rental from 20 Gul Way (the property was converted into multi-tenanted leases). Property expenses in 1QFY2018 was SGD10.4mn, up SGD0.5mn from the adjusted property expenses in 1QFY2017. This was mainly due to higher cost arising from the conversion. Management fees stayed relatively constant and no performance fee was paid 1QFY2018. EBITDA (based on our calculation which does not include other income and other expenses) was 1.6% lower at SGD18.3mn. Despite the decline in EBITDA, EBITDA/Interest was relatively flat y/y at 3.8x. This was mainly due to lower interest cost during the quarter. As at 30 June 2017, overall blended funding cost was 3.6% (against 4.1% as at 30 June 2016). AAREIT holds a 49% in a joint venture which owns Optus Centre building in Australia. Assuming the REIT receives a SGD14mn p.a distribution (and SGD3.5mn per quarter), adjusted EBITDA (including the distribution from Optus Centre)/Interest was 4.6x, healthy in our view. Aggregate leverage was 36.3% as at 31 March 2017 (slightly higher than the 36.1% as at 31 March 2017). This was due to increase in gross debt at the REIT of SGD5.1mn as it took on debt for capex. In 1QFY2018, cash flow from operations (before interest) was SGD18.5mn, but paid out SGD22.8mn in dividends and interest in aggregate. This was funded via using up SGD4.3mn of its existing cash balance, resulting in a lower cash balance as at 30 June 2017 of SGD7.4mn (31 March 2017: SGD11.7mn). As at 30 June 2017, secured debt made up 76% of total debt. Short term debt at the REIT was SGD88.7mn (due in November 2017), though we see liquidity risk as low. In April 2017, AAREIT had received commitment from lenders to refinance the facility. The REIT's undrawn committed facilitates stood at SGD126.6mn. Portfolio occupancy was 91% as at 30 June 2017, decreasing from 94.6% as at 31 March 2017. We see further downsides to occupancy, with logistics making up ~35% of 1QFY2018's gross rental income and impending supply of warehouses in Singapore. As at 31 March 2017, JTC estimates an additional 0.8mn sqm of warehousing space to be added by end-2017. 98% of these are already under construction and hence likelier to enter the market this year. Nonetheless, we are comforted by AAREIT's manageable leverage and coverage levels and as such maintaining AAREIT's issuer profile at Neutral. (Company, OCBC)

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