Apr 24, 2018

Credit Headlines: Mapletree Industrials Trust, Fraser and Neave Ltd, Australia & New Zealand Banking Group Ltd, Ascendas REIT, Sabana Shari'ah Compliant REIT

Market Commentary

- The SGD swap curve steepened yesterday, with swap rates for the shorter tenors trading 5bps higher while the longer tenors traded roughly 6-9bps higher. The 12 year swap rates continue to put a kink in the curve spiking up by ~16bps.
- Flows in SGD were heavy yesterday, with better buying seen in MMASIA 7%'21s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 1.28% while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 3bps to 353bps.
- 10Y UST yields rose 2bps to 2.98%, as concerns about inflation returned. Investors are taking the view that the global inflation climate is worsening with the combination of trade friction and sanctions leading to higher prices for oil, metal and other goods that are hit with tariffs.

Credit Headlines

Mapletree Industrials Trust ("MINT") | Issuer Profile: Neutral (3)

- MINT reported its fourth quarter (and full year results for the financial year ended March 2018 ("FY2018")). Gross revenue increased 2.9% y/y to SGD90.4mn, mainly due to revenue contribution from the build-to-suit project for HP Singapore, partly offset by lower portfolio occupancies across all segments except light industrial. With expenses in-check, net property income simultaneously increased 2.9% y/y to SGD67.9mn.
- EBITDA (based on our calculation which does not include other income and other expenses) was 2.8% higher y/y to SGD60.5mn. Interest expense though was significantly higher at SGD9.3mn, resulting in an EBITDA/Interest coverage of 6.5x (4QFY2017: 8.1x). The higher interest expense was driven by MINT taking up debt to fund its investment in its new joint venture (the 14 data centres in the USA acquired in December 2017). MINT's Sponsor is MINT's joint venture partner for the investment. While MINT currently holds a 40%-stake in the joint venture, it has a right of first refusal to acquire Sponsor's 60%-stake.
- Adjusting EBITDA to include SGD3.2mn (being the share of USA joint venture, excluding net fair value gain on the investment properties), we find Adjusted EBITDA/Interest at 6.9x, which in our view better reflects MINT's interest coverage going forward.
- By value, Singapore now makes up 90.4% of total portfolio value and the remainder are US assets.
- As at 31 March 2018, aggregate leverage (taking into account MINT's proportionate debt and asset at the JV level) was 33.1%, still healthy (and slightly below end-2017), though had increased from levels seen in FY2016 and FY2017.
- Short term debt was SGD184.9mn as at 31 March 2018, SGD125mn of this relates to the MINTSP 3.75% '19s which will come due on 8 March 2019 while the remainder consist of bank borrowings. All investment properties totalling SGD3.86bn remains unencumbered, providing MINT to raise secured debt if need be. We see low refinancing risk at MINT. (Company, OCBC)

Fraser and Neave Ltd ("FNN") | Issuer Profile: Neutral (4)

- After purchasing an additional 50,000 Vinamilk shares, FNN reported that it now holds 20.0% of Vinamilk.
- As mentioned previously, we expect FNN's net gearing to increase to the low teens.
- As the purchase consideration is small (SGD532k), this does not materially impact FNN and we continue to hold FNN at a Neutral (4) Issuer Profile.

Credit Headlines (cont'd):

Australia & New Zealand Banking Group Ltd ("ANZ") | Issuer Profile: Positive (2)

- Similar to National Australia Bank Ltd, ANZ has released its earnings guidance for 1HFY2018 ending March 2018, with results to be released 1 May 2018.
- Specifically, the classification of recently sold and retained Wealth businesses including the recognition of a AUD632mn loss from the sale of OnePath pensions and investments (OnePath P&I) to IOOF Holdings Limited in October 2017 and the sale of the life insurance business to Zurich Financial Services Australia in December 2017.
- Restructuring charges for 1HFY2018 will also be higher than in prior half year results while ANZ is also anticipating higher legal and other costs in connection with the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.
- As mentioned previously, we expect ANZ's results to continue to reflect its on-going restructuring initiatives and await the release of 1HFY2018 results to evaluate if the broadly positive trends seen in ANZ's Basel III Pillar 3 disclosure as at 31 December 2017 (OCBC Asian Credit Daily (20 Feb 2018)) have continued.
- For now, across the Aussie bank Tier 2 space we see the ANZ 3.75% '27c22s as being the better value while the WSTP 4.0% '27c22s look a little rich. (Company, OCBC)

Ascendas REIT ("AREIT ") | Issuer Profile: Neutral (3)

- AREIT reported its fourth quarter (and full year results for the financial year ended March 2018 ("FY2018")). Gross revenue increased 3.3% to SGD215.7mn mainly due to acquisitions of three new properties in Australia acquired from September 2017 to April 2017, full period contribution from 197-201 Coward Street Sydney (acquired in September 2016) and 12, 14, 16 Science Park Drive (acquired in February 2017). This was partly offset by divestment of Ascendas Z-Link and A-REIT City @Jinqiao and three properties in Singapore. AREIT no longer owns properties in China. By value of investment properties, Singapore assets now make up 85% while Australia makes up the rest.
- Property-related expenses increased 5.5% y/y to SGD57.9mn in 4QFY2018, driven by the absence of a one-off property tax refund that was included in 4QFY2017. Growth in resultant net property income was thus narrower at 2.5% y/y at SGD157.9mn.
- EBITDA (based on our calculation which does not include other income and other expenses) was 4.4% higher y/y at SGD143.5mn. Reported finance cost was 22.3% lower at SGD28.2mn versus 4QFY2017. 4QFY2017's finance cost though incorporate a loss on Exchangeable Collateralised Securities ("ECS") and other borrowing costs. Taking only interest expense given that the last of the ECS have all been exchanged into AREIT units and cancelled, we find Adjusted EBITDA/Interest at 5.3x in 4QFY2018 versus 5.9x in 4QFY2017.
- As at 31 March 2018, aggregate leverage was manageable at 34.4% (down somewhat from 35.2% in end-2017). Perpetuals outstanding was SGD304.4mn. Taking 50% of these as debt, we find adjusted aggregate leverage at 35.9%.
- Short term debt was SGD909.9mn as at 31 March 2018, representing 26% of total gross debt (representing relatively significant refinancing coming due). Nonetheless, 68% of these relate to revolving credit facilities which we think will be rolled forward. The remainder consist of bank borrowings.
- With unencumbered investment properties of SGD9.1bn as at 31 March 2018 (representing 89.7% of total investment properties), we see refinancing risk as manageable at AREIT. (Company, OCBC)

Credit Headlines (cont'd):

Sabana Shari'ah Compliant REIT ("SSREIT") | Issuer Profile: Neutral (5)

- SSREIT announced its first quarter results for the quarter ended March 2018 ("1Q2018"). Gross revenue declined 4.4% y/y to SGD21.0mn in 1Q2018, we think on the back of weaker occupancy and ongoing rental rate pressures. As at 31 March 2018, portfolio occupancy at SSREIT had fallen to 84.1% versus 87.3% as at 31 March 2017.
- Despite the fall in gross revenue, net property income increased 9.4% y/y to SGD14.6mn, driven by (1) a reversal of impairment losses on recovery of trade receivables from the former master tenant at 6 Woodlands Loop (previously an impairment was taken) and (2) lower impairment losses on trade receivables from 1 Tuas Avenue 4 and (3) lower property expenses from 218 Pandan Loop which was divested in 3Q2017.
- EBITDA (based on our calculation which does not include other income and other expenses) was higher by 4.8% y/y to SGD13.5mn while finance cost declined 24.7% y/y to SGD4.0mn as a result of lower outstanding borrowings as proceeds from the rights issue was used to pay down debt, refinancing at lower cost of facilities and absent a one-time break fee that was recognised in 1Q2017. Resultant EBITDA/Interest coverage was stronger at 3.4x (1Q2017: 2.4x).
- As at 31 March 2018, aggregate leverage was 38.1%, stable against end-2017. Short term debt at 31 March 2018 was only SGD47.0mn (representing only 13% of gross debt and made up of debt drawn down from revolving facilities). In March 2018, SSREIT had drawn down new bank facilities taken in December 2017 to refinance SGD117.0mn in debt. (Company, OCBC)

Table 1: Key Financial Indicators

	24-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	78	3	-4
iTraxx SovX APAC	12	0	-1
iTraxx Japan	52	2	-5
iTraxx Australia	66	2	-5
CDX NA IG	62	2	-6
CDX NA HY	107	-1	1
iTraxx Eur Main	55	1	-6
iTraxx Eur XO	275	4	-17
iTraxx Eur Snr Fin	57	0	-11
iTraxx Sovx WE	16	-1	-2
AUD/USD	0.760	-2.11%	-1.88%
EUR/USD	1.221	-1.29%	-1.88%
USD/SGD	1.325	-1.05%	-1.23%
China 5Y CDS	61	1	-8
Malaysia 5Y CDS	74	2	-2
Indonesia 5Y CDS	102	5	-5
Thailand 5Y CDS	45	1	-3

	24-Apr	1W chg	1M chg
Brent Crude Spot ($/bbl)	74.71	4.61%	6.05%
Gold Spot ($/oz)	1,324.73	-1.69%	-2.13%
CRB	200.73	0.59%	2.27%
GSCI	473.52	1.94%	4.03%
VIX	16.34	-1.33%	-34.30%
CT10 (bp)	2.975%	14.85	16.17
USD Swap Spread 10Y (bp)	3	-1	-1
USD Swap Spread 30Y (bp)	-13	0	2
TED Spread (bp)	56	-4	10
US Libor-OIS Spread (bp)	56	-2	-3
Euro Libor-OIS Spread (bp)	3	0	1
DJIA	24,449	-0.51%	3.89%
SPX	2,670	-0.28%	3.17%
MSCI Asiax	713	-0.28%	-0.37%
HSI	30,254	-0.20%	-0.18%
STI	3,580	2.35%	4.62%
KLCI	1,880	0.09%	0.81%
JCI	6,308	0.34%	1.57%

Source: OCBC, Bloomberg

New issues

- Global Prime Capital Pte Ltd has priced a USD250mn 3NC2 bond (guaranteed by PT Bumi Serpong Damai Tbk and certain of its subsidiaries) at 7.25%, in line with its initial price guidance.
- BOC Aviation Ltd has priced a USD500mn 3-year FRN at 3mL+105bps , tightening from its initial price guidance of 3mL+130bps area.
- MCC Holding Hong Kong Corp Ltd has priced a USD500mn Perp NC3 bond (guaranteed by Metallurgical Corp of China Ltd) at 4.95%, tightening from its initial price guidance of 5.125%.
- Ausgrid Finance Pty Ltd has priced a USD1bn deal across 2 tranches, with the USD500mn 5-year bond at CT5+105bps (tightening from its initial price guidance of CT5+120bps) and the USD500mn 10.25-year tranche at CT10+140bps (tightening from its initial price guidance of CT10+150bps area).
- CNOOC Finance (2015) U.S.A LLC has scheduled for investor meetings from 23 Apr for its potential USD bond issuance (guaranteed by CNOOC Ltd).
- Central China Real Estate Ltd is proposing to issue Singapore Dollar senior notes.

Date	Issuer	Size	Tenor	Pricing
23-Apr-18	Ausgrid Finance Pty Ltd	USD500mn	10.25-year	CT10+140bps
23-Apr-18	Ausgrid Finance Pty Ltd	USD500mn	5-year	CT5+105bps
23-Apr-18	MCC Holding Hong Kong Corp Ltd	USD500mn	Perp NC3	4.95%
23-Apr-18	BOC Aviation Ltd	USD500mn	3-year	3mL+105bps
23-Apr-18	Global Prime Capital Pte Ltd	USD250mn	3NC2	7.25%
20-Apr-18	Landsea Green Group Co Ltd	USD150mn	2-year	9.875%
20-Apr-18	Yuexiu REIT MTN Co Ltd	USD400mn	3-year	CT3+243bps
20-Apr-18	Rizal Commercial Banking	USD150mn	RCBPM 4.125%'23	CT5+165bps
20-Apr-18	mm2 Asia Ltd	SGD50mn	3NC2	7%
19-Apr-18	Stockland Trust Management Ltd	EUR300mn	8-year	MS+85bps
19-Apr-18	China Overseas Finance (Cayman) VII Ltd	USD1.5bn	Multiple	Multiple

Source: OCBC, Bloomberg

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