Asian Credit Daily

Apr 25, 2018

Credit Headlines: AIMS AMP Capital Industrial, Mapletree Commercial Trust, Suntec Real Estate Investment Trust, ESR-REIT, Frasers Centrepoint Trust, Capitaland Commercial Trust

Market Commentary

- The SGD swap curve flattened yesterday, with swap rates for the shorter tenors trading 1-2bps lower while the belly of the curve traded 2-5bps lower. Longer tenors (>15 years) traded 7 bps lower.
- Flows in SGD corporates were light yesterday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 1.27% while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 6bps to 359bps.
- 10Y UST yields rose 3bps to hit 3% for the first time in more than four years. The move towards the closely watched threshold comes as bond investors grew more wary of signals that inflation is picking up coupled with the sentiment that the Fed is in no mood to stop its own rate-hiking programme. 10Y UST yields retraced and closing slightly lower at 2.99%.

Credit Headlines

AIMS AMP Capital Industrial ("AAREIT") | Issuer Profile: Neutral (4)

- AAREIT reported its fourth quarter (and full year results for the financial year ended March 2018 ("FY2018")). Gross revenue decreased 8.4% y/y to SGD28.0mn, mainly due to lower rental and recoveries from 20 Gul Way as certain parts of the property is now under multi-tenanted leases, expiry of the master lease at 3 Tuas Avenue 2 and lower occupancies at 27 Penjuru Lane. This was partly offset by rental contribution from 30 Tuas West Road and the newly redeveloped property at 8 Tuas Avenue 20 (TOP obtained on 29 August 2017, 83.2% occupied). Despite the top line decline, property operating expenses declined less at only 2.5% y/y, resulting in a fall in net property income of 11.5% y/y to SGD17.7mn.
- EBITDA (based on our calculation which does not include other income and other expenses) was 12.6% lower y/y at SGD15.8mn. Interest expense rose 3.9% y/y to SGD4.9mn mainly due to interest expense that was previously being capitalised (during development of two properties) is now being expensed instead given that they have reached TOP, resulting in EBITDA/Interest of 3.3x in 4QFY2018 against 3.9x in 4QFY2017.
- In the 12 months for FY2018, AAREIT received SGD15.7mn in cash dividends, taking a quarter of this dividend as EBITDA, we find Adjusted EBITDA/Interest at 4.1x. AAREIT holds 49%-stake in a joint venture which owns Optus Centre in Macquarie Park and we think this better reflects interest coverage at AAREIT.
- As at 31 March 2018, aggregate leverage was healthy at 33.5% (slightly down versus 33.8% in end-2017). Short term borrowings was SGD188.2mn as at March 2018, significant at 38% of total debt. The company has shared that in April 2018, AAREIT had refinanced existing secured facilities due in November 2018 and February 2019 to FY2023 and FY2024 instead, thus significantly reducing refinancing risk.
- Secured debt was 25% of total assets, which was higher versus its immediate peers in the industrial REITs space though undrawn committed available facilities of SGD132.3mn helps provide financial flexibility to AAREIT (eg: to fund property redevelopments).
- In 4QFY2018, CWT Pte Limited (formerly CWT Ltd) is now the second largest tenant contributing 13.0% to rental income, significantly lower than the 20% in 4QFY2017. AAREIT's reported portfolio occupancy was higher at 90.5% (though this excludes 3 Tuas Avenue 2), higher than 88.4% in 3QFY2018. (Company, OCBC)

Credit Headlines (cont'd):

Mapletree Commercial Trust ("MCT") | Issuer Profile: Neutral (3)

- MCT reported 4QFY2018 / full-year FY2018 results (ending March 2018). For FY2018, gross revenue was up 14.8% to SGD433.5mn while NPI was up 15.9% to SGD338.8mn. Results were largely boosted by the full-year contribution from MBC. For 4QFY2018, gross revenue was up 1.3% y/y to SGD108.9mn while NPI was up 1.2% y/y to SGD84.3mn. VivoCity, MBC and MLHF performed, mitigating continued weakness seen at PSAB and Mapletree Anson.
- On the bright side, PSAB and Mapletree Anson have high committed occupancy of 98.7% and 100% respectively, versus the current actual occupancy of 96.1% and 86.6%. As such, performance is expected to pick up for these two assets. Overall portfolio committed occupancy had also improved q/q as well to 98.4% (3QFY2018: 94.6%). In terms of rental reversion, retail remained positive at +1.5% for FY2018, though it had fallen from the +2.3% seen in 9MFY2018. Office remains weak at -4.2%, while for MBC adjusted rental reversion was -0.7%. Portfolio WALE remained constant at 2.7 years.
- VivoCity (45% of portfolio NPI) continued to show strong performance. Though shopper traffic dipped 1.4% to 55.0mn, tenant sales increase 0.7% y/y to SGD958.2mn. The ongoing AEI to extend basement 1 is ongoing, and is expected to be completed by 3QFY2019. Conversely, performance at MCT's office assets are expected to be sluggish (in rental terms).
- Aggregate leverage had improved, falling q/q to 34.5% (4QFY2018: 36.3%). This was largely driven by strong portfolio revaluation gains of 5.4% to SGD6.7bn (largely driven by VivoCity). Reported interest coverage was stable at 4.8x. Short-term debt due in FY2019 is manageable at SGD144.0mn, as MCT had just refinanced SGD120mn via a 6-year bond. MCT has no encumbered assets, which provides financial flexibility. (Company. OCBC)

Suntec Real Estate Investment Trust ("SUN") | Issuer Profile: Neutral (4)

- SUN reported 1Q2018 results. Gross revenue was up 2.6% y/y to SGD90.7mn while NPI was up 1.9% y/y to SGD63.0mn. Contributions from JV declined by 6.5% y/y to SGD22.7mn, due to weakness seen at ORQ (-SGD1.99mn y/y). In general, revenue contribution for SUN's office assets was soft (-3.8% y/y), mitigated by better performance at retail (+3.7% y/y) and convention (+21.0% y/y). Specifically, Suntec City revenue fell 1.5% y/y to SGD58.4mn, 177 Pacific Highway revenue fell 2.0% y/y to SGD10.5mn while Suntec Singapore increased 18.2% y/y to SGD21.9mn.
- It should be noted that despite the weakness seen in office, office portfolio committed occupancy remains strong at 99.1% (4Q2017: 99.2%). Management had indicated that some of these committed occupancy are commencing progressively, hence the decline in Suntec's office contribution. A bright spot would be average office rents secured at SGD9.02 psf/mth, higher than the SGD8.50 psf/mth seen in 4Q2017, and reversing the downward trend seen the last couple of quarters. Outstanding expiring office leases are manageable at 9.0% of NLA for the balance of 2018. Office WALE stands at 3.62 years.
- For retail, committed occupancy eased q/q to 98.4% (4Q2017: 98.8%). Retail lease expiries look heavy at 21.1% of NLA for the balance of 2018. Retail WALE stands at 2.22 years. Operational statistics were strong for retail though with footfall up 12.7% y/y, while tenant sales were up 5.2% y/y.
- Aggregate leverage remained relatively stable q/q at 36.6% (4Q2017: 36.4%). Reported interest coverage worsened slightly to 3.8x (1Q2018: 3.9x). Short-term debt looks manageable at SGD237.0mn, as SUN had secured a SGD400mn 5-year loan facility. As noted previously (refer to OCBC Asian Credit Daily (28 Feb 2018)), SUN will be acquiring a further 25% stake in the Southgate, Melbourne (completion expected in 2Q2018). Assuming that the acquisition is funded via debt, it could drive aggregate leverage higher to above ~38%. (Company, OCBC)

Credit Headlines (cont'd):

ESR-REIT ("EREIT") | Issuer Profile: Neutral (4)

- EREIT announced that they are proposing to acquire 15 Greenwich Drive, a logistics facility in Tampines tenanted to two tenants and is currently 100% occupied.
- The total acquisition price including land premium payable, stamp duties and other transaction costs is SGD99.9mn. EREIT is intending to fund this wholly via debt financing (exact financing structure to be determine closer to completion). If EREIT uses all debt, aggregate leverage is targeted to rise to 33.9% from 30.0% as at 31 March 2018 and adjusting 50% of perpetuals as debt, we think adjusted aggregate leverage would reach 38% (31 March 2018: 35%)
- The conditions precedent include approval from JTC Corporation and any other relevant authorities and completion of due diligence, among other matters.
- Given the still manageable post-transaction aggregate leverage, we are maintaining EREIT's issuer profile at Neutral (4). (Company, OCBC)

Frasers Centrepoint Trust ("FCT") | Issuer Profile: Neutral (3)

- FCT reported 2QFY2018 results. Gross revenue increased 6.3% y/y to SGD48.6mn, while NPI was up 6.9% y/y to SGD34.8mn. Similar to the previous period, the biggest driver of performance was Northpoint City North Wing ("Northpoint") which reported 31.7% y/y higher property income to SGD13.3mn and 44.8% y/y higher NPI to SGD9.95mn as it completed its AEI and occupancy ramped back up to 94.0% (compared to the low of 60.7% seen in 2QFY2017). This helped mitigate NPI declines at most of FCT's other assets, including Causeway Point (-0.2% y/y) and Changi City Point (-9.7% y/y).
- Portfolio committed occupancy had improved q/q to 94.0% (1QFY2018: 92.6%). The situation at Bedok Mall continues to be challenging with committed occupancy falling further to 77.8% (1QFY2018: 85.3%). Portfolio rental reversion was strong at +9.1%, as 62% of the leases executed were at Causeway Point (one of FCT's better performing assets), with Causeway Point reporting +18.9% in rental reversion. Surprisingly, Northpoint City (North Wing) reported -6.1% rental reversion (though for just 2.1% of mall NLA). Near-term lease expiries look manageable at 9.1% of NLA for 2HFY2018 with most of the expiring leases at the larger malls as well as YewTee Point. WALE stands at 2.1 years. Traffic and tenant sales (both excluding Northpoint City) were +0.5% y/y and -1.2% y/y respectively.
- Aggregate leverage remains strong at 29.2% (1QFY2018: 29.4%). Reported interest coverage was stable at 6.6x. Debt due in FY2018 is manageable at SGD91mn, with 35% of FCT's debt secured. (Company. OCBC)

Credit Headlines (cont'd):

Capitaland Commercial Trust ("CCT") | Issuer Profile: Neutral (3)

- CCT reported 1Q2018 results. Gross revenue increased 7.7% y/y to SGD96.4mn. This was largely driven by the acquisition of Asia Square Tower 2 (completed early November 2017). The acquisition helped to offset the 50% divestment of One George Street (June 2017), divestment of Wilkie Edge (September 2017) and Golden Shoe Car Park redevelopment (closed July 2017). On a same-store basis, performance at Twenty Anson was weak with property revenue down 19.3% y/y to SGD4.6mn. As committed occupancy for the building remains high at 94.3% (1Q2017: 93.0%), some tenants may be still in the rent-free / fitting out period.
- Portfolio NPI benefited from the higher revenue, increasing 10.5% y/y to SGD77.2mn. Looking forward, CCT seems to indicate that its rental reversion is finally starting to trend positive, with committed rents higher than expiring rents for the quarter. Things may remain volatile for the balance of 2018 as average expiring rents stand at SGD10.82 psf/mth while 1Q2018 Grade A market rents (source: CBRE) were SGD9.70 psf/mth. The bar is set to fall with average expiring rents in 2019 and 2020 declining to SGD10.37 psf/mth and SGD9.45 psf/mth respectively. Conversely, market clearing rents are expected to pick up given the sharp decline in office supply for 2019 and 2020.
- WALE is healthy at 5.7 years. Just 5% of NLA remains outstanding for 2018 lease expiry. In fact, CCT has started to work on 2019's sizable lease expiries (31% of NLA), having extended 4% of NLA and a further 6% of NLA in advance talks. Portfolio committed occupancy remained unchanged at 97.3% q/q. It should be noted that committed occupancy at Asia Square Tower 2 only improved slightly q/q to 90.8% (4Q2017: 90.5%).
- Aggregate leverage inched higher to 37.9% (2017: 37.3%) due to additional borrowings taken. CCT had managed to extend its average debt maturity to 3.9 years (4Q2017: 2.4 years), in part with its SGD300mn 6-year bond issued in February 2018 and SGD200mn 7-year bond issued in March 2018. CCT also refinanced SGD1120mn in bank loans (these were the bridge financing taken to acquire Asia Square Tower 2) due 2019 to 2022 (SGD448mn) and 2023 (SGD300mn). This largely resolves 2018 and 2019 maturities. Reported interest coverage remains healthy at 5.1x. (Company, OCBC)

Table 1: Key Financial Indicators

	25-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	76	3	-4
iTraxx SovX APAC	12	0	-1
iTraxx Japan	51	2	-7
iTraxx Australia	65	2	-7
CDX NA IG	62	3	-3
CDX NA HY	106	-1	0
iTraxx Eur Main	55	3	-7
iTraxx Eur XO	275	7	-18
iTraxx Eur Snr Fin	57	1	-12
iTraxx Sovx WE	17	-1	-2
AUD/USD	0.760	-2.38%	-1.92%
EUR/USD	1.223	-1.16%	-1.72%
USD/SGD	1.323	-1.00%	-1.07%
China 5Y CDS	60	2	-7
Malaysia 5Y CDS	73	3	-2
Indonesia 5Y CDS	102	6	-4
Thailand 5Y CDS	46	2	-1

	25-Apr	1W chg	1M chg
Brent Crude Spot ($/bbl)	74.04	0.76%	5.10%
Gold Spot ($/oz)	1,330.53	-1.40%	-1.70%
CRB	200.08	0.35%	1.95%
GSCI	470.42	1.20%	3.35%
VIX	18.02	18.16%	-27.54%
CT10 (bp)	2.996%	12.30	18.23
USD Swap Spread 10Y (bp)	3	0	-1
USD Swap Spread 30Y (bp)	-13	0	2
TED Spread (bp)	53	-7	-5
US Libor-OIS Spread (bp)	55	-3	-4
Euro Libor-OIS Spread (bp)	3	1	1
DJIA	24,024	-3.08%	2.09%
SPX	2,635	-2.65%	1.79%
MSCI Asiax	712	-1.08%	-0.41%
HSI	30,636	1.91%	1.08%
STI	3,585	0.75%	4.77%
KLCI	1,865	-0.74%	0.01%
JCI	6,230	-0.89%	0.30%

Source: OCBC, Bloomberg

New issues

- Kaisa Group Holdings Ltd has priced a USD330mn re-tap of its KAISAG 7.25%'20 bond at 96.6220.
- PT Pelabuhan Indonesia III Persero (PLBIII) has priced a USD500mn 5-year bond at 4.75%, tightening from its initial price guidance of 4.85%.
- Beijing Enterprises Water Capital Management Holdings Ltd has priced a USD500mn 5-year bond (guaranteed by Beijing Enterprises Holdings Ltd) at 5%, tightening from its initial price guidance of 5.25%.
- Harvest Operations Corp has priced a USD397.5mn 5-year bond (guaranteed by Korea National Oil Corp) at CT5+140bps, tightening from its initial price guidance of CT5+165bps.
- State Grid Overseas Investment 2016 Ltd has priced a USD1.75bn deal (guaranteed by State Grid Corp of China) across two-tranches, with the USD950mn 5-year bond at CT5+97.5bps, tightening from its initial price guidance of CT5+125bps area and the USD800mn 10-year bond at CT10+130bps, tightening from its initial price guidance of CT10+155bps area.
- State Grid Overseas Investment 2016 Ltd also priced a EUR850mn deal (guaranteed by State Grid Corp of China) across two-tranches, with the EUR500mn 7-year bond priced at MS+75bps, tightening from its initial price guidance of MS+95bps area and the EUR350mn 12-year bond at MS+100bps, tightening from its initial price guidance of MS+130bps area.
- Central China Real Estate Ltd has priced a SGD150mn 2-year bond (guaranteed by certain non–PRC subsidiaries of issuer) at 6.25%, tightening from its initial price guidance of 6.5%.
- CAR Inc has priced a CNH350mn re-tap of its CARINC 6.5%'21 bond at 6.784%, in line with its initial price guidance.
- Power Finance Corp Ltd has hired banks for its potential 10-year USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
24-Apr-18	CAR Inc	CNH350mn	CARINC 6.5%'21	6.784%
24-Apr-18	Central China Real Estate Ltd	SGD150mn	2-year	6.25%
24-Apr-18	State Grid Overseas Investment 2016 Ltd	EUR350mn	12-year	MS+100bps
24-Apr-18	State Grid Overseas Investment 2016 Ltd	EUR500mn	7-year	MS+75bps
24-Apr-18	State Grid Overseas Investment 2016 Ltd	USD800mn	10-year	CT10+130bps
24-Apr-18	State Grid Overseas Investment 2016 Ltd	USD950mn	5-year	CT5+97.5bps
24-Apr-18	Harvest Operations Corp	USD397.5mn	5-year	CT5+140bps
24-Apr-18	Beijing Enterprises Water Capital Management Holdings Ltd	USD500mn	5-year	5%
24-Apr-18	PT Pelabuhan Indonesia III Persero (PLBIII)	USD500mn	5-year	4.75%
24-Apr-18	Kaisa Group Holdings Ltd	USD330mn	KAISAG 7.25%'20	96.6220

Source: OCBC, Bloomberg

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