

July 25, 2018

Credit Headlines: Barclays PLC, Mapletree Industrial Trust, Sembcorp Industries Ltd, Banyan Tree Holdings Limited, Frasers Centrepoint Trust, Suntec Real Estate Investment Trust

Market Commentary

- The SGD swap curve steepened yesterday, with swap rates for the shorter tenors trading 1-2bps higher while the longer tenors traded 2-4bps higher.
- Flows in SGD corporates were heavy yesterday, with better buying seen in HRAM 3.2%'21s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 140bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 9bps to 501bps.
- 10Y UST yields rose 2bps in the earlier part of the trading session on the back of continued concerns over global central banks turning less accommodative and ahead of a USD36bn new supply in 2-year notes. Yields subsequently fell 2bps to close at 2.95%, in line with yesterday's levels.

Credit Headlines:

Barclays PLC ("Barclays") | Issuer Profile: Neutral (4)

- Barclays has announced that the UK's Serious Fraud Office ('SFO') is attempting to reinstate fraud charges in the High Court against Barclays that are related to activities during the 2008 global financial crisis.
- Specifically, the charges relate to advisory engagements between Barclays Bank PLC and Qatar Holding LLC in June and October 2008 that are possibly connected with Barclay's capital raisings in June and November 2008. The charge is that the agreements were not primarily related to the provision of advisory services but potentially to mask Qatar's participation in Barclays' capital raisings at the time leading to concerns on disclosure and integrity. In addition, a USD3bn loan to the State of Qatar was also investigated.
- The Financial Conduct Authority ('FCA') has a concurrent investigation although this has been delayed pending the outcome of the SFO proceedings. The US Department of Justice and Securities and Exchange Commission are also investigating the advisory agreements while PCP Capital Partners LLP and PCP International Finance Limited ('PCP') have also filed a civil claim on Barclays Bank PLC.
- These charges had been previously dismissed by a lower court in May 2018, however according to Barclays' management, it was expected that the SFO would likely seek to reinstate these charges by application to the High Court.
- Barclays has disclosed in its 2017 annual report that "It is not currently practicable to provide an estimate of the financial impact of the actions described on the Group or what effect that they might have upon the Group's operating results, cash flows or financial position in any particular period." Nevertheless, it was stated that (1) the financial penalty under the FCA investigation is GBP50mn while PCP's claim for damages is for up to GBP1.48bn plus interest and costs.
- Barclays 1Q2018 results were impacted by large litigation and conduct provisions of GBP2.0bn that were adequately covered by total provisions of GBP3.54bn as at 31 December 2017. While Barclays intends to continue to defend these charges, the buffer within provisions has reduced meaningfully after 1Q2018 meaning there could be further pressure on future earnings and capital ratios. As at 31 March 2018, Barclays' CET1 ratio was 12.7%, above its regulatory minimum requirement of around 11.4%.
- We will continue to monitor developments and Barclays' issuer profile for any potential changes. (Company, OCBC)

Credit Headlines (cont'd):

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

- MINT reported its first quarter results for the financial year ended March 2019 ("1QFY2019"). Gross revenue was up 1.2% to SGD90.4mn q/q mainly attributed to early termination compensation sums received from a tenant HGST Singapore Pte Ltd and partly offset by lower portfolio occupancy. As at 30 June 2018, portfolio occupancy was 88.3% (31 March 2018: 90.0%).
- EBITDA (based on our calculation which does not include other income and other expense) was SGD61.9mn, up 2.3% q/q while interest expense was only 1% higher q/q resulting in a slightly higher EBITDA/Interest of 6.6x (4QFY2018: 6.5x).
- Share of result from the US joint venture (which MINT holds a 40%-stake) was SGD4.3mn. Adding this into EBITDA, we find adjusted EBITDA/Interest at 7.1x, very healthy in our view.
- On 27 June 2018, MINT completed the SGD68.0mn acquisition of 7 Tai Seng Drive from its sister REIT Mapletree Logistics Trust. The property is undergoing upgrading works targeted for the second half of 2019.
- Post quarter end, MINT completed Mapletree Sunview 1 (12 Sunview Drive), a built-to-suit data centre where the lease has been 100% commitment by a data centre operator.
- In 1QFY2019, MINT's investing outflow was SGD100.3mn while net cash flow (before interest) was SGD53.0mn. Within expectations, the acquisitions and investing activities were largely debt funded and we find aggregate leverage higher at 35.0% as at 30 June 2018 (31 March 2018: 33.1%). We maintain MINT's issuer profile at Neutral (3). (Company, OCBC)

Sembcorp Industries Ltd ("SCI") | Issuer Profile: Neutral (4)

- SCI announced that it has entered into an agreement to sell its 49%-stake in Wuxi Singapore Property Investment Co ("Wuxi Co.") for RMB323mn (~SGD68mn). Wuxi Co. is a property holding company in China which holds a residential development in Wuxi, the Hongshan Mansion which is currently under development. The sale consideration will be in cash and completion is targeted for end-2018.
- SCI is expected to report a net gain of SGD12mn in FY2018 from this proposed sale. While a small transaction, this transaction is likely to help boost bottom line and as such a small credit positive, especially more so given the [still weak performance at Sembcorp Marine Ltd](#), its 61%-owned subsidiary. (Company, OCBC)

Banyan Tree Holdings Limited ("BTH") | Issuer Profile: Neutral (5)

- BTH announced that it has entered into a conditional share purchase agreement to sell its entire asset portfolio in Seychelles comprising the Banyan Tree Resort Seychelles and land plots it owns in Seychelles. BTH will continue to manage the resort under a hotel management agreement.
- The assets are held by Seychelles subsidiaries and the buyer will be buying these subsidiaries (rather than an asset sale) for USD70mn (~SGD95.3mn), subject to post-completion adjustment.
- Conditions precedent to completion include (1) Written consent from the Ministry of Habitat, Infrastructure & Land Transport and (2) Regulations pertaining to change of control of the Seychelles subsidiaries. Based on our estimation, BTH may recognise a net gain of ~SGD4.7mn from this sale. We see this sale as a credit positive given the near-term generation of liquidity to BTH.
- As at 31 March 2018, BTH faces SGD187.9mn in short term debt (SGD70mn in bonds due on 31 July 2018 and SGD50mn due on 26 November 2018) against cash balance which we estimate have declined to ~SGD110mn post-acquisition of an additional ~21%-stake in Laguna Resorts & Hotels. We maintain BTH's issuer profile at Neutral (5). (Company, OCBC)

Credit Headlines (cont'd):

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

- FCT reported its third quarter results for the financial year ended September 2018 ("3QFY2018") results. Gross revenue increased 10.9% y/y to SGD48.3mn, while net property income ("NPI") was up 13.7% y/y to SGD35mn. Q/q figures on the other hand was relatively stable. Similar to the previous period, the key driver of performance were Northpoint City North Wing ("Northpoint") which reported 59.8% y/y higher NPI to SGD10.3mn due to higher rental revenue and occupancy compared to a year ago and Changi City Point which saw a 22.2% y/y increase in NPI. This helped mitigate NPI declines at FCT's other assets, including Bedok Point (-34.7% y/y), Anchorpoint (-25.9% y/y) and YewTee Point (-3.7% y/y).
- Portfolio committed occupancy remained at 94.0% unchanged q/q. Portfolio rental reversion was strong at +5%, with Northpoint City (North Wing) reporting +25.8% in rental reversion. This is mainly attributed to one lease renewal which accounted for approximately 50% of the mall's NLA due for renewal during the quarter. Anchorpoint, however, saw -32.8% in rental reversion due to two small units, including a kiosk. Near-term lease expiries look manageable at 4.6% of NLA with most of the expiring leases at Causeway Point. The following financial year though would see 26.2% of leases coming due. WALE stands at 2.01 years (2Q2018: 2.10 years).
- Traffic and tenant sales (both excluding Northpoint City) were +1.2% y/y and +3.4% y/y respectively.
- Aggregate leverage remains low at 29.3% (2Q2018: 29.2%) while reported interest coverage was slightly lower at 6.3x (2Q2018: 6.6x). Debt due for the remaining of FY2018 is manageable at SGD95mn, with 89.3% of FCT's asset unencumbered. (Company, OCBC)

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

- SUN reported 2Q2018 results. Gross revenue was up 3.7% y/y to SGD90.5mn while NPI was up 2.2% y/y to SGD60.7mn. Contributions from JV improved 3.7% y/y to SGD22.6mn due to the acquisition of the additional 25% interest in Southgate complex. Elsewhere for JVs, contribution from ORQ and MBFC remain soft from lower rental reversions and transitory downtime respectively.
- In general, performance on SUN's office portfolio continues to be soft (-3.2% y/y) and driven by Suntec City as some committed leases will commence progressively while Australia (177 Pacific Highway and Southgate Complex) performance improved y/y and reversed 1Q2018 weakness. Retail performance was marginally positive y/y (+1.0%) while convention revenue improvement (+30.9% y/y) drove overall performance from higher exhibition revenue. Office continues to be the main contributor of gross revenues at 46% followed by retail (34%) and convention (20%).
- Similar trends are seen in 2Q2018 NPI performance with convention NPI growth mitigating weaker y/y NPI from office while segment contribution to consolidated NPI is broadly similar with office, retail and convention contributing 55%, 36% and 9% respectively. Including JVs, office, retail and convention contributes 65%, 28% and 7% respectively.
- Office portfolio committed occupancy remains somewhat resilient however in line with continued weakness in results, it continued to decline to 99.0% (1Q2018: 99.1%; 4Q2017: 99.2%). Similarly retail committed occupancy also eased q/q to 98.2% (1Q2018: 98.4%; 4Q2017: 98.8%). On a positive note however, office committed occupancy for SUN's assets are above the overall CBD Grade A occupancy of 90.8% in 2Q2018 and rent trends continue to improve.
- Aggregate leverage was 37.9% as at 2Q2018, higher than 36.6% as at 1Q2018 while reported interest coverage of 3.6x was lower than 1Q2018 (3.8x). Deterioration in credit metrics was expected given the debt funded acquisition of the 25% stake in Southgate with SUN issuing the SGD180mn SUNSP 3.4%'23s in 2Q2018. Short term debt maturities appear to be covered with ~SGD200mn due in the remainder of FY2018 possibly addressed by the SUNSP 3.0%'21s, although there are SGD800mn in maturities in FY2019. Weighted average maturity of debt was 2.82yrs as at 30 June 2018.
- These developments are in line with our expectations, and we are unlikely to alter our Neutral (4) issuer profile. (Company, OCBC)

Table 1: Key Financial Indicators

	25-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	83	-5	-1
iTraxx SovX APAC	12	-1	-2
iTraxx Japan	56	3	2
iTraxx Australia	77	-5	2
CDX NA IG	61	0	-6
CDX NA HY	107	0	1
iTraxx Eur Main	64	0	-10
iTraxx Eur XO	288	-2	-26
iTraxx Eur Snr Fin	77	3	-11
iTraxx Sovx WE	25	0	-1
AUD/USD	0.743	0.42%	0.20%
EUR/USD	1.169	0.41%	-0.15%
USD/SGD	1.364	0.08%	-0.15%
China 5Y CDS	62	-2	1
Malaysia 5Y CDS	88	-7	-18
Indonesia 5Y CDS	113	-3	-23
Thailand 5Y CDS	44	-2	-3

	25-Jul	1W chg	1M chg
Brent Crude Spot (\$/bbl)	73.66	1.04%	-1.43%
Gold Spot (\$/oz)	1,225.70	-0.15%	-3.16%
CRB	193.19	1.10%	-1.10%
GSCI	460.61	2.00%	-1.21%
VIX	12.41	2.90%	-28.39%
CT10 (bp)	2.943%	7.38	6.27
USD Swap Spread 10Y (bp)	6	-1	-1
USD Swap Spread 30Y (bp)	-7	-3	0
TED Spread (bp)	36	2	-7
US Libor-OIS Spread (bp)	34	-3	-7
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,242	0.49%	4.08%
SPX	2,820	0.39%	3.80%
MSCI Asiax	672	0.88%	-0.74%
HSI	28,663	1.71%	-1.03%
STI	3,293	1.61%	0.98%
KLCI	1,763	0.56%	5.06%
JCI	5,932	1.20%	1.24%

New issues

- CFLD Cayman Investment Ltd has priced a USD200mn 3-year bond (guaranteed by China Fortune Land Development Co Ltd) at 9.0%, tightening from its initial price guidance of 9.5%.
- Sino-Ocean Land Treasure IV Ltd has priced a USD700mn 3-year FRN (guaranteed by Sino-Ocean Group Holding Ltd) at 3mL+230bps, tightening from its initial price guidance of 3mL+250bps area.
- Sunac China Holdings Ltd has priced a USD400mn 2-year bond at 8.625%, tightening from its initial price guidance of 9.0%.
- China Merchants Port Holdings Co Ltd has scheduled for investor meetings from 25 July for its potential USD bond issuance.
- Lotte Property & Development Co Ltd has scheduled for investor meetings from 26 July for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
24-Jul-18	CFLD Cayman Investment Ltd	USD200mn	3-year	9.0%
24-Jul-18	Sino-Ocean Land Treasure IV Ltd	USD700mn	3-year	3mL+230bps
24-Jul-18	Sunac China Holdings Ltd	USD400mn	2-year	8.625%
23-Jul-18	SMBC Aviation Capital Finance DAC	USD500mn	5-year	CT5+133bps
23-Jul-18	NongHyup Bank	USD500mn	5-year	CT5+122.5bps
23-Jul-18	Yuzhou Properties Co Ltd (re-tap)	USD425mn	YUZHOU 7.9%'21s	8.25%
23-Jul-18	Industrial & Commercial Bank of China Asia Ltd	USD100mn	2-year	3mL+70bps
23-Jul-18	Land Transport Authority of Singapore	SGD1.5bn	40-year	3.45%
20-Jul-18	Export-Import Bank of China	USD300mn	5-year	3mL+70bps
20-Jul-18	Malayan Banking Bhd	USD280mn	5-year	3mL+90bps
19-Jul-18	Orient HuiZhi Ltd	USD750mn	4.5-year	CT4+170bps
19-Jul-18	Agile Group Holdings Ltd (re-tap)	USD400mn	AGILE 8.50%'21s	100
19-Jul-18	SF Holding Investment Ltd	USD500mn	5-year	CT5+140bps
19-Jul-18	Export-Import Bank of China	USD200mn	3-year	3mL+60bps
18-Jul-18	Korea Hydro & Nuclear Power Co Ltd	USD600mn	5-year	CT5+112.5bps

Source: OCBC, Bloomberg

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