

Oct 25, 2018

**Credit Headlines:** CapitaLand Mall Trust, Barclays PLC, CITIC Envirotech Ltd, Mapletree Commercial Trust

## **Market Commentary**

- The SGD swap curve flattened yesterday, with swap rates for the shorter tenors trading 1-2bps lower while the longer tenors traded 2-4bps lower (with the exception of the 15-year and 30-year swap rates trading 1bps lower).
- Flows in SGD corporates were heavy yesterday, with better buying seen in SIASP 3.16%'23s, HSBC 5.0%-PREPs and SRBJNG 4.11%'25s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 145bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 10bps to 523bps.
- Overall, 10Y UST yields fell 7bps to close at its three-week lows of 3.10% due to weakness in stocks as well as the ongoing political uncertainty ahead of the US congressional elections.

## **Credit Headlines:**

### **CapitaLand Mall Trust ("CMT") | Issuer Profile: Positive (2)**

- CMT reported 3Q2018 results with gross revenue up 0.7%y/y to SGD170.5mn while NPI increased 1.1% y/y to SGD122.7mn, The slight improvement in performance was mainly due to higher contributions from Junction 8 Shopping Centre, IMM, Plaza Singapura and Tampines Mall which all saw positive rental reversions and better performance from Bedok Mall which is now fully occupied (3Q2017: 98.7%). These performance improvements were partially offset by Sembawang Shopping Centre which was divested on 18 June 2018 and lower occupancy and rental rates contracted on new and renewed leases from JCube and Bukit Panjang Plaza.
- Portfolio occupancy recovered slightly to 98.5% (2Q2018: 98%, 1Q2018: 98.8%) with rental reversion at +0.6%. The lease expiry for the rest of 2018 stands at 4.0% of NLA with the bulk at IMM Building and Lot One. Shopper traffic was down 1.8% y/y for YTD September 2018 while tenants' sales rose 0.5% y/y YTD with electronics being the largest gain (up 10.6% y/y).
- Aggregate leverage is 31.7% (2Q2018: 31.5%) while reported interest coverage remains stable at 5.3x. It is worth noting that interest expense is 13.4% lower y/y largely because CMT managed to refinance its USD400mn debt in March this year at a lower interest rate through loan drawdowns. CMT has no debt coming due for the remaining of 2018. With cash and cash equivalents of SGD347.1mn, CMT can more than offset the SGD319.6mn debt maturing in 2019. As such, we think refinancing risk is minimal.
- Looking forward, the acquisition of the remaining 70.0% interest in Westgate is expected to be completed on 1 November 2018. In addition, Funan which is currently under development is likely to open ahead of schedule in 2Q2019. Contributions from this mall is expected to come in from 2H2019. (Company, OCBC)

## Credit Headlines (cont'd):

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

- Barclays 3Q2018 results follow the constructive tone from prior period results in 2018. Profit before tax was up 32% y/y to GBP1.5bn as a 1% y/y fall in total income (driven by lower net interest income) and a 2% rise in operating expenses from digitisation and investment expenditure was mitigated by a 64% y/y fall in credit impairment charges and other provisions. The lower impairments were due to improved macro-economic forecasts and non-recurrence of a one off charge from 2017.
- Underlying 9M2018 results were somewhat similar with profit before tax (excluding litigation and conduct) up 23% y/y to GBP5.3bn due to flat total income, a 3% y/y fall in operating expenses and a 53% fall in credit impairment charges and other provisions. In contrast, reported profit before tax was 10% lower y/y due to significantly higher litigation and conduct charges that stem from a GBP1.4bn settlement with the US Department of Justice for Registered Mortgage Backed Securities and a GBP400mn charge for Payment Protection Insurance. Foreign currency movements had both a negative and positive impact on results with the weaker USD lowering profits and income but also lowering credit impairment charges and operating expenses.
- By segment, Barclays UK performance was relatively stable despite sentiment pressures from BREXIT although part of the stable performance is due to the restructuring of Barclays' businesses following the [ring fencing restructuring](#) in April 2018 and the re-allocation of personal and business banking customers which offset net interest margin pressure. Barclays International however was the main driver of improved y/y performance with profit before tax (excluding litigation and conduct) up 11% y/y due to a 73% fall in impairment charges as well as a 12% y/y increase in markets income (equities income growth due to improved derivatives performance, increased client activity and stronger equity financing) . This offset a 7% y/y decrease in banking income from lower banking fee and corporate lending income, as well as a 7% y/y fall in consumer, cards and payments income due to absence of one-offs from prior periods. Underlying performance of consumer, cards and payments which excludes one-offs was decent from growth in US cards.
- Barclays' balance sheet has grown with total assets up 3.3% since 31 Dec 2017 and 1.9% since 30 Sept 2017 – within this, loans and advances grew 2.7% and 0.8% respectively over the same period. While y/y growth was driven mostly by UK Personal Banking loans growth, loans growth in FY2018 so far has been driven by both UK Personal Banking and solid loans growth in Corporate & Investment Bank.
- Given loans growth trends (particularly in mortgages and consumer, cards and payments) as well as FX movements and regulatory changes, risk weighted assets rose 5.5% and 6.9% respectively over 31 Dec 2017 and 30 Sept 2017. This was higher than growth in capital as earnings growth so far in FY2018 was offset by the negative capital impacts from litigation and conduct charges and dividends paid. As a result, Barclays CET1 ratio was slightly weaker as at 30 Sept 2018 at 13.2% (13.1% as at 30 Sept 2017; 13.3% as at 31 December 2017).
- That said, the CET1 ratio remains higher than Barclays' end-state target of 13.0% which includes the Capital Requirements Directive IV Mandatory Distribution Restrictions hurdle and fully loaded CET1 regulatory requirement of 11.4% and a 1.6% management buffer. As at 30 Sept 2018, Barclays' 2018 transitional minimum CET1 ratio requirement is 10.2% representing minimum requirements of 4.5% for Pillar 1, 1.9% for Capital Conservation Buffer, 0.3% for Countercyclical Capital Buffer, 1.1% for Global Systemic Importance, and 2.4% for Pillar 2A. (Company, OCBC)

## Credit Headlines (cont'd):

### **CITIC Envirotech Ltd ("CEL") | Issuer Profile: Neutral (5)**

- CEL announced its third quarter results. Revenue was up 4.1% y/y to SGD238.2mn versus the restated 3Q2017 revenue, this was driven by an increase in the Membrane System and Treatment segments. The Membrane System segment saw revenue increased by 147% y/y to SGD65.5mn while the Treatment segment saw revenue increased by 11% y/y to SGD49.8mn. This helped offset the declines in the lumpier Engineering segment where revenue was SGD122.9mn (down 22% y/y) in 3Q2018.
- EBITDA (based on our calculation which does not include other income and other expenses) was SGD47.0mn (down 39.5% y/y), though we think a non-cash foreign exchange translation (recorded within other operating income) drove EBITDA lower in 3Q2018. Removing this impact, we think EBITDA would have been SGD62.4mn (3Q2017: SGD77.0mn), a narrower fall of 19% y/y instead. Per company, despite the growth in top line, revenue for 3Q2018 mainly relate to civil works which comes with lower margins.
- CEL ended the period with a profit before tax and net profit of SGD37.6mn and SGD23.9mn respectively. Other comprehensive losses (from currency translation losses) though wiped out the profits, leading to total comprehensive loss for the period of SGD38.0mn (3Q2017 total comprehensive income of SGD65.8mn). China remains CEL's main market, with income denominated in the local currency though CEL reports its financials in SGD.
- As at 30 September 2018, unadjusted net gearing at CEL was 0.22x (up from 0.18x as at 30 June 2018). Outstanding perpetuals of SGD717.6mn made up 26% of total capital. CEL's perpetuals come with onerous step-up margins and ranks *pari passu* with all other unsecured obligations of the issuer. As such we view the perpetuals as more debt-like. Adjusting net gearing upwards for these, we find adjusted net gearing at 1.0x, with this a better reflection of leverage levels as at 30 September 2018.
- The USD-denominated CELSP 5.45%-PERP faces first call on 27 November 2018 and we think there is a good likelihood that these may be replaced by straight debt instead. In October 2018, [CEL's shareholders had approved interested party transactions](#) with its sister company, CITIC Finance, where among other items, CEL can drawdown loans from CITIC Finance. This perpetual resets at H15T3Y + 9.243%, if not called at first call. At today's rates, this implies that distribution rates will be reset to 12.1% p.a (from 5.45% p.a currently). The issuer has until end-October to issue a call notice, if it so chooses to call. In the off-chance it does not, it can call on any distribution payment date after the first call date (ie: every 6 months after).
- Our base case already factors CEL's adjusted net gearing levels (rather than the lower unadjusted net gearing), as such we are maintaining our Neutral (5) issuer profile of the company. We continue to expect adjusted net gearing to progressively increase as capital commitments are carried out. (Company, OCBC)

## Credit Headlines (cont'd):

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

- MCT reported its second quarter results for the financial year ending March 2019 ("2QFY2019"). Gross revenue was up 2.5% y/y to SGD109.9mn while NPI was up 2.2% y/y to SGD86.3mn. This is mainly due to higher contribution from VivoCity, Mapletree Business City ("MBC I") and Bank of America Merrill Lynch HarbourFront ("MLHF"), offset partially by lower actual occupancies at Mapletree Anson and PSA Building.
- Overall portfolio committed occupancy is 98.7% (including new areas at Vivo City which have been fully committed). We saw slight pickup in actual occupancy at VivoCity at 94.7% (vs 94.2% in 1Q2019). VivoCity still accounts for ~47% of portfolio NPI, in spite of the enlarged NLA following the AEI works. The mall has achieved healthy growth in shopper traffic and tenant sales this quarter of 5.8% y/y and 2.8% y/y respectively. Although MBC 1 saw lower occupancy of 97.8% (1Q2019: 98.6%, though the effects of the step-up rents in existing leases brought about a SGD1.3mn higher revenue.
- In terms of rental reversion, retail became more positive at +4.1% (1Q2019: +2.1%) while office/business park remains weak at -5.1%. Portfolio WALE on a committed basis improved to 2.8 years from 2.6 years in the previous quarter.
- Aggregate leverage remained stable at 34.8% (1Q2019: 34.7%) while reported interest coverage was slightly lower at 4.5x (1Q2019: 4.6x) due to marginally higher annualized weighted average all in cost of debt (2.93% as at 30 September 2018 against 2.91% as at 30 June 2018). It is worth noting that MCT has refinanced its bank loans due in FY2019 and FY2020 and only has a SGD50mn bond coming due in the FY2020 . With assets 100% unencumbered and no more than 20% of debt due for refinancing in any financial year, MCT's financial flexibility remains strong. (Company, OCBC)

**Table 1: Key Financial Indicators**

	25-Oct	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	90	1	7
iTraxx SovX APAC	10	0	0
iTraxx Japan	61	2	5
iTraxx Australia	80	3	5
CDX NA IG	70	3	8
CDX NA HY	105	-1	-2
iTraxx Eur Main	76	0	7
iTraxx Eur XO	300	1	29
iTraxx Eur Snr Fin	97	3	16
iTraxx Sovx WE	28	0	5
AUD/USD	0.707	-0.46%	-2.54%
EUR/USD	1.140	-0.43%	-3.08%
USD/SGD	1.381	0.09%	-1.06%
China 5Y CDS	70	3	11
Malaysia 5Y CDS	110	5	12
Indonesia 5Y CDS	154	6	17
Thailand 5Y CDS	44	0	1

	25-Oct	1W chg	1M chg
Brent Crude Spot (\$/bbl)	75.66	-4.58%	-7.59%
Gold Spot (\$/oz)	1,235.93	0.83%	2.89%
CRB	194.47	-2.23%	-0.34%
GSCI	463.92	-2.94%	-3.85%
VIX	25.23	45.00%	103.14%
CT10 (bp)	3.100%	-7.89	0.33
USD Swap Spread 10Y (bp)	7	0	1
USD Swap Spread 30Y (bp)	-10	-2	-3
TED Spread (bp)	17	2	-3
US Libor-OIS Spread (bp)	21	2	3
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	24,583	-4.37%	-7.21%
SPX	2,656	-5.45%	-8.90%
MSCI Asiax	585	-1.57%	-10.42%
HSI	25,250	-0.83%	-8.18%
STI	3,032	-1.27%	-6.30%
KLCI	1,690	-2.90%	-5.82%
JCI	5,709	-2.71%	-2.81%

## New issues

- SPIC Luxembourg Latin America Renewable Energy Investment Company Sarl has priced a USD800mn deal across two tranches (guaranteed by SPIC Luxembourg Energy Investment Company Sarl), with the USD300mn 3-year bond priced at CT3+135bps, tightening from its initial price guidance of CT3+165bps area and the USD500mn 5-year bond at CT5+170bps, tightening from its initial price guidance of CT5+190bps area.
- Hainan Airlines (Hong Kong) Co Ltd has priced a USD100mn 2NP1 bond (guaranteed by Hainan Airlines Holding Co Ltd) at 13.17%.
- Sinopec Century Bright Capital Investment Ltd has priced a CNH1bn 3-year bond (guaranteed by China Petrochemical Corp) at 4.5%, tightening from its initial price guidance of 4.7%.
- Bluestar Finance Holdings Ltd has scheduled for investor meetings from 25 Oct for its potential USD Perp bond issuance (guaranteed by China National Bluestar (Group) Co Ltd).

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
24-Oct-18	SPIC Luxembourg Latin America Renewable Energy Investment Company Sarl	USD300mn	3-year	CT3+135bps
24-Oct-18	SPIC Luxembourg Latin America Renewable Energy Investment Company Sarl	USD500mn	5-year	CT5+170bps
24-Oct-18	Hainan Airlines (Hong Kong) Co Ltd	USD100mn	2NP1	13.17%
24-Oct-18	Sinopec Century Bright Capital Investment Ltd	CNH1bn	3-year	4.5%
23-Oct-18	TNB Global Ventures Capital Berhad	USD750mn	10-year	CT10+170bps
22-Oct-18	Land Transport Authority of Singapore	SGD1.0bn	35-year	3.43%
18-Oct-18	Doosan Power Systems SA	USD300mn	30NC3	CT3+87.5bps
18-Oct-18	Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	USD500mn	10.25-year	99.004
18-Oct-18	Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	USD500mn	30.25-year	99.293
18-Oct-18	Industrial and Commercial Bank of China Ltd (London Branch)	USD500mn	3-year	3mL+75bps
18-Oct-18	Industrial and Commercial Bank of China Ltd (London Branch)	USD500mn	5-year	3mL+85bps
18-Oct-18	Zhenro Properties Group	USD70mn	ZHPRHK 12.5%'21s	13.5%
18-Oct-18	Singapore Airlines Ltd	SGD600mn	5-year	3.16%
17-Oct-18	Metro Holdings Ltd	SGD150mn	3-year	4.0%

Source: OCBC, Bloomberg

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