

Apr 26, 2018

Credit Headlines: Citic Envirotech Ltd, Mapletree Greater China Commercial Trust, Sembcorp Industries Ltd, Lippo Mall Indonesia Retail Trust, Frasers Hospitality Trust

Market Commentary

- The SGD swap curve steepened yesterday, with swap rates trading 1-2bps higher across most tenors. The 1 year, 5 year and 12-year swap rates traded lower however by less than 2bps.
- Flows in SGD corporates were heavy yesterday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 1.29% while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 12 bps to 371bps.
- 10Y UST yields rose 3bps to 3.03%, closing above the strong psychological level of 3% as worries about growing federal borrowing spurred a fresh wave of selling in the bond market.

Credit Headlines

Citic Envirotech Ltd ("CEL") | Issuer Profile: Neutral (4)

- CEL reported 1Q2018 results with total revenues up 133.1% y/y to SGD259.2mn. Revenue growth occurred across all segments with continued growth in the Engineering (+127% y/y) and Treatment (+23% y/y) segments while Membrane system segment performance reversed against FY2017 trends (-50.3% y/y in FY2017) with sales up 361% y/y in 1Q2018. As such, Membrane system segment performance was the largest driver of y/y quarterly revenue growth.
- With revenue growth attributed to large and numerous project wins since 2016, expenses have also risen with materials purchased, consumables used and subcontractors' fees up 148.6% y/y and gross profit up 109% y/y. SGA expenses though rose only 3.5% and as such, EBITDA (based on our calculation which does not include other operating expenses and other income) improved 152.6% y/y to SGD77.8mn.
- Interest coverage ratios improved given strong top line performance with EBITDA/Interest higher at 8.4x (1Q2017: 5.4x). Assuming SGD35.0mn in perpetual distribution is paid out per annum and taking half of that as interest, we find adjusted EBITDA/Interest at 5.7x for 1Q2018.
- As at 31 March 2018, we find CEL's unadjusted net gearing at 0.1x (31 December 2017: 0.1x). As at 31 March 2018, perpetuals made up 26% of total capital. Adjusting net debt upwards for the perpetuals, which in our view is more debt-like, we find adjusted net gearing at 0.7x (31 December 2017: 0.8x), marginally improved due to solid earnings and the previously announced equity placement of new shares in CEL to New Resources LLC.
- During the quarter, CEL's cash used in operating activities (before tax and interest) ("CFO") was an outflow of SGD57.2mn (1Q2017 CFO: outflow of SGD11.3mn), while investing outflows was SGD29.3mn. The cash gap at CEL was funded mainly by the equity raising and drawing down SGD66.6mn in existing cash. As at end-March 2018, CEL's cash balance had declined to SGD568.0mn versus SGD631.3mn in end-2017. We continue to expect CEL to report negative cash outflows in the next 12 months as it continue to progress contract wins. (Company, OCBC)

Credit Headlines (cont'd):

Mapletree Greater China Commercial Trust (“MAGIC”) | Issuer Profile: Neutral (4)

- MAGIC reported FY2018 results for the year ending 31 Mar 2018. Revenue and net property income rose 1.3% y/y and 0.5% y/y to SGD355.0mn and SGD287.2mn respectively mainly due to higher contributions by Gateway Plaza which saw revenue and NPI increasing 7.1% y/y and 3.5% y/y to SGD84.7mn and SGD67.3mn respectively.
- Contributions by Festival Walk and Gateway Plaza remained flattish, as a lower HKD against SGD offset the higher average rental rates achieved. Meanwhile, overall portfolio occupancy remains strong at 98.5%.
- Aggregate leverage fell to 36.2% (3QFY2018: 39.3%) mainly due to sizeable fair value gains of investment properties (SGD417.1mn). However, we expect this to climb to ~38.5% due to the acquisition of [the Japan portfolio \(SGD770.5mn\)](#) which will be partially funded by SGD330.3mn from a recently-announced equity private placement (while we assume the rest will be debt-funded).

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

- Sembcorp Marine Ltd (“SMM”, 61% owned by SCI) reported 1Q2018 results. Revenue spiked 58.3% y/y to SGD1.18bn, driven by the delivery of two jack-up rigs to Borr Drilling and 1 jack-up rig to BOTL. SMM’s results were affected by the adoption of SFRS(I) 15 accounting standard, with SMM only recognizing the revenue from constructed assets upon delivery to clients (versus the percentage of completion method used prior). Prior results were also restated. Excluding the effects of the accounting change, revenue would have increased 15% y/y to SGD858mn.
- Operating profit increased as well to SGD19.5mn (1Q2017: SGD8.8mn) though margins remain weak due to competition. Net profit fell 88.5% to SGD4.3mn, due to the absence of SGD46.8mn disposal gain recognized on the sale of SMM’s 30% stake in Cosco Shipyard Group in 1Q2017. Operating cash flow was modest at SGD6.6mn, reversing from the SGD87.1mn outflow seen in 1Q2017. SMM had also spent SGD43.9mn in capex as well as paid down SGD243.6mn in borrowings during the quarter. The cash gap was funded by SMM’s cash balance, which fell SGD280.9mn q/q to SGD1.02bn. Net gearing was 114%, ticking slightly higher q/q (4Q2017: 111%).
- Looking forward, management had guided that though upstream activity is picking up, the oversupply situation in drilling assets has persisted, pressuring utilization and day rates. As such, the recovery for drilling assets will take some time. SMM’s performance will feed into SCI’s results (expected on 03/05/18), and hence revenue is expected to jump, though profits remain elusive. (Company, OCBC).

Lippo Mall Indonesia Retail Trust (“LMIRT”) | Issuer Profile: Neutral (5) and First REIT (“FIRT”) | Issuer Profile: Neutral (5)

- On the back of the results release by Lippo Karawaci TBK PT (the sponsor for both REITs) and the upcoming results release of LMIRT (targeted on 3 May 2018), we would be reviewing the issuer profiles for both LMIRT and FIRT for a potential downgrade.

Credit Headlines (cont'd):

Frasers Hospitality Trust ("FHT") | Issuer Profile: Neutral (3)

- FHT reported its 2QFY2018 and 1HFY2018 results for the financial year ending September 2018. Gross revenue for 1HFY2018 was down 3.1% y/y to SGD37.5mn and NPI fell 4% y/y to SGD27.8mn due to weaker overall portfolio performance except for its Japan and Singapore portfolio.
- The numbers for Australia portfolio, which makes up 48% of FHT's gross revenue, came in weaker this quarter, with Gross Operating Profit ("GOP") down 7.1% y/y, adjusting for the absence of a AUD0.9mn write-back of consultancy fees for Sofitel Sydney Wentworth's ("SSW") asset enhancement initiatives in 2QFY2017. Novotel Melbourne on Collins ("NMOC") continued to be resilient, mitigating the competitive trading environment (due to soft corporate demand) faced by assets in Sydney. Australia portfolio ADR for 2QFY2018 was 4.1% higher y/y. This was however offset by lower occupancy, partially attributable to renovation works at Novotel Sydney Darling Square ("NDSD").
- Singapore portfolio (20% of FHT's gross revenue) recorded stable performance. InterContinental Singapore ("ICSG") achieved higher RevPar due to higher ADR this quarter. Singapore portfolio RevPar was however 4.1% lower y/y, dragged by lower ADR and occupancy at Fraser Suites Singapore ("FSSG"), which have been plagued by market-wide weakening demand for serviced residences.
- Japan's GOR declined 3.2% y/y due to softer room and banquet performance. However, tighter cost controls, particularly in the F&B areas, led to a rise in GOP by 3.5% y/y to JPY325.1mn (~SGD3.95mn)
- EBITDA (based on our calculation which does not include other income and other expenses) was down 4.6% y/y at SGD24.6mn while interest expense increased 11.1% y/y driven by higher interest rates from taking longer-dated debt and higher market interest rates. In 2QFY2018, EBITDA/Interest coverage was lower at 5.0x (2QFY2017: 5.8x).
- As at 31 March 2018, aggregate leverage was 33.1%, relatively flat against end-2017. SGD118.7mn in short term debt is coming due within calendar year 2018 and we understand that FHT is looking to refinance this.

Table 1: Key Financial Indicators

	26-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	77	3	-3
iTraxx SovX APAC	13	1	-1
iTraxx Japan	52	1	-5
iTraxx Australia	66	3	-5
CDX NA IG	62	3	-4
CDX NA HY	107	-1	0
iTraxx Eur Main	56	3	-6
iTraxx Eur XO	279	7	-15
iTraxx Eur Snr Fin	57	1	-11
iTraxx Sovx WE	17	-1	-2
AUD/USD	0.758	-1.95%	-2.18%
EUR/USD	1.218	-1.34%	-2.12%
USD/SGD	1.327	-1.18%	-1.37%
China 5Y CDS	60	1	-7
Malaysia 5Y CDS	75	4	0
Indonesia 5Y CDS	107	10	1
Thailand 5Y CDS	46	2	-1

	26-Apr	1W chg	1M chg
Brent Crude Spot (\$/bbl)	74.41	0.85%	6.12%
Gold Spot (\$/oz)	1,323.80	-1.62%	-2.19%
CRB	200.69	-1.12%	2.51%
GSCI	472.00	-0.43%	4.10%
VIX	17.84	14.36%	-15.17%
CT10 (bp)	3.030%	11.98	17.76
USD Swap Spread 10Y (bp)	3	0	0
USD Swap Spread 30Y (bp)	-12	1	3
TED Spread (bp)	53	-2	-4
US Libor-OIS Spread (bp)	54	-3	-4
Euro Libor-OIS Spread (bp)	2	0	0
DJIA	24,084	-2.68%	-0.49%
SPX	2,639	-2.56%	-0.72%
MSCI Asiax	705	-3.09%	-2.37%
HSI	30,139	-1.85%	-1.34%
STI	3,570	-0.79%	4.62%
KLCI	1,857	-2.04%	-0.18%
JCI	5,967	-6.11%	-3.75%

Source: OCBC, Bloomberg

New issues

- GSH Corp Ltd has priced a SGD50mn 3-year note at 5.15%.
- CNOOC Finance 2015 USA LLC has priced a USD1.45bn deal (guaranteed by CNOOC Ltd) across two-tranches, with the USD450mn 5-year tranche priced at CT5+105bps (tightening from its initial guidance of CT5+125bps area) and the USD1bn 10-year bond at CT10+140bps (tightening from its initial guidance of CT10+160bps area).
- PT Perusahaan Listrik Negara has scheduled for investor meetings from 26 Apr for its potential USD/IDR bond issuance.
- Federal International Finance has scheduled for investor meetings from 26 Apr for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
25-Apr-18	CNOOC Finance 2015 USA LLC	USD1bn	10-year	CT10+140bps
25-Apr-18	CNOOC Finance 2015 USA LLC	USD450mn	5-year	CT5+105bps
25-Apr-18	GSH Corp Ltd	SGD50mn	3-year	5.15%
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

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