Oct 26, 2018

Credit Headlines: Sembcorp Marine Ltd, Ascendas Real Estate Investment Trust, Frasers Hospitality Trust, United Overseas Bank Ltd, CapitaLand Commercial Trust, ESR-REIT, Industry Outlook - Industrial Property Sector, CITIC Envirotech Ltd, Landesbank Baden-Württemberg, GuocoLand Ltd

Market Commentary

- The SGD swap curve flattened yesterday, with swap rates for the shorter tenors trading 1bps lower while the longer tenors traded 1-3bps lower (with the exception of the 12-year swap rates trading 2bps higher).
- Flows in SGD corporates were heavy yesterday, with better buying seen in SIASP 3.16%'23s and DBSSP 3.98%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 146bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 17bps to 539bps.
- Overall, 10Y UST yields rose 2 bps to close at 3.11% as equities gained amidst the ongoing stock volatility.

Credit Headlines:

Sembcorp Marine Ltd ("SMM") | Issuer Profile: Unrated

- SMM (a 61%-owned subsidiary of Sembcorp Industries Ltd ("SCI"), Issuer profile: Neutral (4)) announced its 3Q2018 results. Revenue was up 60.2% y/y to SGD1.2bn mainly due to higher revenue recognition for rigs and floaters upon the delivery of 2 jack-up rigs to Borr Drilling and revenue recognition on newly secured projects.
- In 3Q2018, SMM recognized a gross loss of SGD12.8mn due to loss from sale of semi-submersible and continued low business volume. While general and administrative expenses declined 5.5% y/y to SGD26.2mn, this was insufficient to offset the gross loss. Additionally, finance costs rose 14% y/y to SGD27mn as a result of higher market interest rates while 3Q2018's foreign exchange gain was smaller at SGD6.9mn against SGD31.3mn in 3Q2017. These tilted SMM to report a loss for the period of SGD30.9mn which is expected to continue to drag the 3Q2018 results at SCI. As a recap, SMM had reported a loss for the period of SGD56.5mn in 2Q2018 while SCI had reported SGD64.6mn in net profit in 2Q2018.
- During the quarter, SMM spent SGD159.8mn in buying property, plant and equipment for Sembcorp Marine Tuas Boulevard yard and intellectual property rights of Sevan Marine ASA and HiLoad LNG AS. In contrast, 3Q2017 recorded an investing inflow of SGD168.8mn (from divestment of stake held in Cosco Shipyard Group Co., Ltd)
- As at 30 September 2018, net gearing was higher at 1.4x (30 June 2018: 1.3x) as more debt was drawndown to fund the investing outflows. Total net orderbook was SGD3.26bn, narrowing from SGD4.15bn as at 30 June 2018. This excludes the Sete Brasil drillship contracts which are suspended. Post quarter end, SMM won a contract from Teekay offshore, estimated at SGD226mn, which should help replenish the orderbook somewhat.
- We maintain that the Utilities segment would still be the main driver at SCI for the next 6 months. (Company, OCBC)

Credit Headlines (cont'd):

Ascendas Real Estate Investment Trust ("AREIT") | Issuer Profile: Neutral (3)

- AREIT announced its second quarter results for the financial year ended March 2019 ("2QFY2019"). Gross revenue increased by 1.3% y/y to SGD218.1mn driven by new acquisitions in Australia and the UK (12 logistics properties bought in August 2018). This was also lifted by completion of redevelopment of two properties in Singapore which was partly offset by lower occupancy of properties in Singapore (overall Singapore occupancy was at 87.1%, down from 88.1% as at 30 June 2018).
- EBITDA (based on our calculation) was SGD143.2mn, down 1.8% y/y due to higher management fees and higher professional and transaction fees on acquisition. Interest expense had increased 16.2% y/y to SGD31.6mn, driven by higher average debt balance in 2QFY2019 against 2QFY2018. Additionally, AREIT's interest cost is now higher (3.0% as at 30 September 2018, 10 bps more than 30 June 2018). Resultant EBITDA/Interest coverage was lower at 4.5x (2QFY2018: 5.4x), and also lower than the immediate preceding quarter was 5.0x.
- As at 30 September 2018, reported aggregate leverage was healthy at 33.2% and lower against the 35.7% as at 30 June 2018. While AREIT's investing outflow was significant at SGD437.2mn for 2QFY2019, this was funded by new equity raised by AREIT's September 2018 private placement, with AREIT paying down debt during the quarter.
- Short term debt coming due as at 30 September 2018 was SGD768.1mn, representing 22% of total debt. We continue to see AREIT's refinancing risk as manageable, with its strong access to capital markets and large unencumbered investment properties of SGD9.6bn. We maintain AREIT's issuer profile at Neutral (3). (Company, OCBC)

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

- FHREIT announced its fourth quarter results for the financial year ended September 2018 ("4QFY2018"). Gross revenue was down 6.9% y/y to SGD38.7mn while net property income went down by 6.7% y/y to SGD29.4mn. The decline in gross revenue was led by weaker trading performance in Australia where corporate demand was softer while Sofitel Sydney Wentworth faced competitive pressures from increased supply in its micro-market. Additionally, Westin Kuala Lumpur saw lower room and food and beverage revenue due to still weak corporate demand while ANA Crowne Plaza in Kobe was affected by one-offs including typhoons that hit the Kansai region and closure of banquet space for renovations. In Singapore, overall it was stable, though this was now driven by improvements at Frasers Suites Singapore (higher occupancy and operating efficiencies) while new entrants around the Bugis area (Andaz and JW Marriot) continue to weigh on average daily rates on InterContinental Singapore.
- EBITDA (based on our calculation which does not include other income and other expenses) was SGD26.1mn, declining 7.4% y/y. Interest expenses though was 1% lower y/y at SGD5.7mn, resulting in a still manageable but lower EBITDA/Interest coverage of 4.6x against 4.9x in 4QFY2017.
- As at 30 September 2018, reported aggregate leverage for FHREIT was 33.6%, somewhat lower than the 34.0% as at 30 June 2018 as FHREIT paid down some debt during the quarter.
- Short term debt as at 30 September 2018 was SGD408.1mn, representing 49% of gross debt. FHREIT would be looking to refinance the debt coming due. With only 3.9% of its total debt being unsecured debt, FHREIT has the ability to raise secured financing, if need be. We maintain FHREIT's issuer profile at Neutral (3). (Company, OCBC)

Credit Headlines (cont'd):

United Overseas Bank Ltd ("UOB") | Issuer Profile: Positive (2)

- UOB's results continue its strong y/y performance with net profit before tax ('PBT') up 16% and 19% respectively for 3Q2018 and 9M2018 to SGD1.25bn and SGD3.72bn.
- Driving the 3Q2018 y/y performance was a 14% rise in net interest income on solid loans growth of 9% and a 2bps improvement in net interest margin to 1.81%. Operating expenses were higher by 12% y/y due to staff and IT cost hikes but this was mitigated by a 57% y/y fall in allowances for credit and other losses due to the higher recognition of allowances for impaired loans to the oil and gas and shipping sectors in 3Q2017.
- 9M2018 results were similarly strong, with y/y total income growth of 9% on better performance in net interest income (9% y/y loans growth and 7bps rise in NIM to 1.83%) and net fee and commission income offsetting an 11% rise in operating expenses but the main driver of bottom line growth was a 55% fall in allowances for credit and other losses due to supportive business conditions and absence of allowances for oil and gas exposures.
- Q/q performance was softer, with total income down 1% q/q due to weaker net fee and commission income and other non-interest income. Loans growth was up 2% q/q while NIM was weaker as average interest rates on liabilities (in particular rates on deposits) rose faster than average interest rates on assets. This was to a build-up in deposit balances to counter future anticipated loans growth. PBT was down 3% q/q due to higher allowances for credit and other losses as well as lower share of profit from associates.
- Loan growth trends were consistent across all industries y/y and q/q with the bulk of the growth coming from building and construction, housing loans and financial institutions. By geography, loans growth was not as broad based and centred on Singapore with solid y/y and q/q loans growth also in China. Y/y loans growth in China contributed to international loans growth of 14% y/y compared to 5% for Singapore.
- Loan quality remains sound with the non-performing loan ratio at 1.6% as at 30 Sept 2018, stable y/y but improved compared to 2Q2018 (1.7%) and FY2018 (1.8%) due to both loans growth as well as marginally lower reported non-performing loans.
- Capital ratios remain strong, albeit weaker against prior periods with CET1/CAR ratios of 14.1%/17.4% as at 30 Sept 2018 against 14.5%/18.4% as at 30 June 2018 and 15.1%/18.7% as at 31 Dec 2017. This was due to capital instrument redemption and lower provisions along with a rise in risk weighted assets due to loans growth. In a further sign of UOB's capital strength, it's leverage ratio of 7.4% as at 30 Sept 2018, while also weaker against prior periods, is well above the regulatory minimum requirement of 3%.
- In all, the 3Q2018 and 9M2018 results are supportive of UOB's Positive (2) issuer profile (OCBC, Company)

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

- CCT reported 3Q2018 results. Top line was very strong with gross revenue up 35.6% y/y to SGD100.5mn, mainly due to contributions from Asia Square Tower 2 ("AST2") and Gallileo though partially offset by the divestments of Wilkie Edge and Twenty Anson. Despite AST2's property tax and other property operating expenses (acquired in 4Q2017), the NPI rose in tandem by 37.3% y/y to SGD80.4mn.
- CCT's total portfolio committed occupancy was 99.2% as at 30 September 2018, an increase from 97.8% as at 30 June 2018. The increase was primarily due to stronger occupancy rate at AST2 (98.1% up from 91.9% in 2Q2018). WALE remains stable at 6 years. CCT has completed all of its lease expiry for 2018 as well as 10% of the 24% of office leases expiring in 2019.
- Aggregate leverage is 35.3% (2Q2018: 37.9%) while the 2.6% average cost of debt is down from 2.8% in the previous quarter. This came about from CCT prepaying higher interest rate borrowings with the proceeds from divestment of Twenty Anson. CCT has also increased its proportion of fixed rate borrowings from 85% to 92% in 3Q2018. With no maturities due in the rest of 2018 and SGD360mn in 2019, we see refinancing risk as manageable given 83% of assets remain unencumbered. (Company, OCBC)

Credit Headlines (cont'd):

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

- EREIT announced its 3Q2018 results. This was still on a standalone basis as the merger with VIVA Industrial Trust only came into effect in October 2018, post quarter end. Gross revenue was up 19.4% y/y to SGD32.4mn while net property income was 15% higher y/y at SGD22.5mn. The increase in revenue was driven by the acquisition of 8 Tuas South Lane and 7000 Ang Mo Kio Avenue 5 ("7000 AMK"), both acquired in December 2017 and partly offset by reduction in revenue from 16 Tai Seng, 21B Senoko Loop, lease expiries at several properties and absence of revenue from four divestments. On a q/q basis, gross revenue declined by 0.6%. There were no asset movements between 2Q2018 and 3Q2018.
- EBITDA (based on our calculation which does not include other income and other expenses) was up 17% y/y to SGD20.2mn while interest expense increased 4% y/y to SGD5.3mn from higher average debt balance and a one-off loan commitment fee. EBITDA/Interest coverage was higher at 3.8x versus 3.4x in 3Q2017.
- As at 30 September 2018, aggregate leverage was 30.3%, slightly lower than the 30.5% as at 30 June 2018. On 25 October 2018, EREIT completed the previously announced acquisition of 15 Greenwich Drive for SGD95.8mn which was funded fully by unsecured bank debt. EREIT is also progressing its SGD12.0mn asset enhance initiatives of 30 Marsiling Industrial Estate Road 8. As such, on a standalone basis, we would expect EREIT's aggregate leverage to increase to 34%.
- As at 30 September 2018, undrawn available committed facilities at EREIT was SGD205mn, providing the financial flexibility for EREIT to redeem its SGD155mn bond due on 7 November 2018 via bank debt. Another SGD115mn in bank debt would come due in 2019 and EREIT is intending to refinance this. All debt at EREIT remains unsecured (same is intended for VIVA Industrial Trust). We continue to maintain our issuer profile of Neutral (4) for the newly expanded EREIT. (Company, OCBC)

Industry Outlook - Industrial Property Sector

- JTC has released its industrial property market report for 3Q2018. Q/q price index for all industrial saw an uptick of 0.1%. This was encouraging, following 2Q2018's q/q price index which was unchanged for the first time, after falling consecutively for 12 quarters since 2Q2015.
- The all industrial rental index though was still down 0.1% q/q to 90.9. Multiple-user factories saw rental index down 0.2% q/q, while Single-User and Business Park saw 0.1% q/q decline. The warehouse rental index was flat.
- Vacancies have also encouragingly declined to 10.9% from 11.3% in 2Q2018. In 4Q2018 and for the full year 2019, 1.8mn sqm of industrial space is projected to come on stream against the average annual demand for the last 3 years of 1.2mn. Overall, an oversupply would still persist in the next 6 months, though we continue to think that this gap would narrow. Notwithstanding the seemingly improving supply-demand situation for the Singapore industrial space sector, we continue to think that Industrial REITs are facing a more structural issue of increasingly older properties that are becoming more out of spec.
- This would necessitate asset enhancement initiatives, reconfiguration of properties into other uses (eg: 7 Tai Seng, likely into a data centre) and other growth activities. Already we have seen Industrial REITs under our coverage buying assets abroad (including into new geographies such as the US and UK) and this trend is not abating. (JTC, OCBC)

Credit Headlines (cont'd):

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

- CEL has issued a notice to redeem all of its USD355mn perpetual on 27 November 2018 (the first call date). We think this call is being funded via new debt that will be taken by CEL. We see the impending redemption as a credit positive as this removes the immediate liquidity risk at the company. (Company, OCBC)

Landesbank Baden-Württemberg ("LBBW") | Issuer Profile: Neutral (4)

- German business newspaper Handelsblatt has reported that 5 public sector regional banks, including LBBW, are exploring a merger that would potentially create Germany's second largest financial institution behind Deutsche Bank AG and ahead of Commerzbank AG.
- According to the report, while a potential combination could occur in stages it is uncertain if the plan can be achieved given the complexity of such a merger and that discussions are preliminary.
- As a reminder, Germany's banking sector is highly fragmented with Landesbanks and Sparkassen (both as public sector banks) comprising one of Germany's three banking pillars. This fragmentation has resulted in a competitive banking landscape, with Europe's low interest rate environment compounding weak returns as a result of the crowded finance sector. This has seen various reports over time suggesting a possible merger between Commerzbank AG and domestic or foreign partners to address the fragmentation. (OCBC, Company)

GuocoLand Ltd ("GUOL") | Issuer Profile: Neutral (5)

- GUOL reported 1QFY2019 results. Revenue fell 54% y/y to SGD168.0mn with lower sales from completed residential units. However, gross profit declined just 26% y/y to SGD50.3mn, which we think is supported by rental income from investment properties including Guoco Tower (which we think commands a high margin). With the absence of contribution from Changfeng Residence, share of profit from associates fell 92% y/y to SGD13.5mn (1QFY2018: SGD170.6mn). As such, net profit fell 83% y/y to SGD29.5mn.
- Despite slower revenue, sales at Martin Modern continued (albeit at a slower pace), moving 30 units worth SGD92.1mn over Jul-Sep 2018 according to the URA caveats. In total, 292 units (out of 450 units) worth SGD746.6mn have been sold as of writing. In addition, 10 units at Wallich Residence has been sold for SGD36.1mn in Jul-Sep 2018. In total, 37 units (out of 181 units) have been sold for SGD133.8mn as of writing. These pre-sales which will be progressively recognised should support GUOL's revenue in the coming quarters.
- Net gearing remained largely unchanged at 0.86x (4QFY2018: 0.87x) despite SGD102.3mn net cash from operating activities (driven by collection of receivables) as total equity fell 0.8% y/y to SGD4.62bn due to SGD70.3mn in translation losses with the weakening of the CNY against the SGD. That said, we think net gearing may remain somewhat elevated as new projects (e.g. Casa Meyfort, Beach Road, Pacific Mansion) will require further capital. Overall, we still remain comfortable with GUOL's credit profile, backed by hard assets while we expect Guoco Tower to generate ~SGD100mn revenue p.a. (Company, OCBC)

OCBC Bank

Table 1: Key Financial Indicators

	26-Oct	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	89	0	9
iTraxx SovX APAC	10	0	1
iTraxx Japan	62	3	6
iTraxx Australia	82	2	6
CDX NA IG	69	2	8
CDX NA HY	105	-1	-2
iTraxx Eur Main	75	2	8
iTraxx Eur XO	300	5	31
iTraxx Eur Snr Fin	95	2	15
iTraxx Sovx WE	27	-1	4
AUD/USD	0.708	-0.62%	-2.52%
EUR/USD	1.137	-1.23%	-3.13%
USD/SGD	1.381	-0.26%	-1.15%
China 5Y CDS	69	2	13
Malaysia 5Y CDS	109	2	15
Indonesia 5Y CDS	153	4	20
Thailand 5Y CDS	43	0	2

	26-Oct	1W chg	1M chg
Brent Crude Spot ($/bbl)	76.48	-4.14%	-5.97%
Gold Spot ($/oz)	1,231.97	0.45%	3.14%
CRB	194.79	-0.94%	0.42%
GSCI	465.11	-1.63%	-3.04%
VIX	24.22	20.74%	87.90%
CT10 (bp)	3.104%	-8.86	5.55
USD Swap Spread 10Y (bp)	6	0	0
USD Swap Spread 30Y (bp)	-10	-2	-4
TED Spread (bp)	19	3	1
US Libor-OIS Spread (bp)	22	3	4
Euro Libor-OIS Spread (bp)	4	1	0
DJIA	24,985	-1.56%	-5.31%
SPX	2,706	-2.28%	-6.90%
MSCI Asiax	580	-2.63%	-11.58%
HSI	24,994	-1.81%	-10.15%
STI	3,013	-1.85%	-6.99%
KLCI	1,687	-2.96%	-6.23%
JCI	5,755	-1.54%	-2.01%

New issues

- Gansu Provincial Highway Aviation Tourism Investment Group Co Ltd has priced a USD150mn re-tap of its GSHIAV 6.25%'21s at 100.363-100.413.
- LG Display Co Ltd has scheduled for investor meetings from 29 Oct for its potential USD green bond issuance.
- Taizhou Infrastructure Construction Investment Group Co Ltd has scheduled for investor meetings from 26 Oct for its potential USD bond issuance.
- Sichuan Communications Overseas Development Co Ltd has scheduled for investor meetings from 26 Oct for its potential USD bond issuance (guaranteed by Sichuan Transportation Investment Group Corporation Ltd).
- Hunan Xiangjiang New Area Development Group Co Ltd has scheduled for investor meetings from 26 Oct for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
25-Oct-18	Gansu Provincial Highway Aviation Tourism Investment Group Co Ltd	USD150mn	GSHIAV 6.25%'21s	100.363-100.413
24-Oct-18	SPIC Luxemburg Latin America Renewable Energy Investment Company Sarl	USD300mn	3-year	CT3+135bps
24-Oct-18	SPIC Luxemburg 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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