Oct 29, 2018

Credit Headlines: Sabana Shari'ah Compliant REIT, Mapletree Logistics Trust, Sembcorp Marine Ltd, Mapletree North Asia Commercial Trust, Wing Tai Holdings Ltd, Cache Logistic Trust, China Eastern Airlines Ltd

Market Commentary

- The SGD swap curve bull flattened last Friday, with swap rates for the shorter tenors trading 2-4bps lower while the longer tenors traded 4-6bps lower.
- Flows in SGD corporates were heavy last Friday, with better buying seen in TEMASE 2.7%'23s, SIASP 3.16%'23s, SRBJNG 4.11%'25s and DBSSP 3.98%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 148bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 540bps.
- Overall, 10Y UST yields fell 3bps to close at 3.08% on the back of safe haven demand after stocks sank in volatile trading.

Credit Headlines:

Sabana Shari'ah Compliant REIT ("SSREIT") | Issuer Profile: Neutral (5)

- SSREIT announced its 3Q2018 results. Gross revenue was down 4.8% y/y to SGD19.9mn in 3Q2018 on the back of lower contribution from certain multi-tenanted properties (3Q2018 multi-tenancy occupancy of 79.1% against 3Q2017's 80.4%), negative rental reversions on certain master leases though these were partly offset by higher contribution from 10 Changi South Street 2, 39 Ubi Road 1 and 15 Jalan Kilang Barat.
- Net property income though saw a larger y/y decrease of 5.7% to SGD12.6mn following higher utilities expenses incurred on multi-tenanted properties which was insufficient to offset the lower impairment losses on trade receivables on the previous master tenants of 1 Tuas Avenue 4 and 6 Woodlands Loop and lower property expenses elsewhere. On a q/q basis though, gross revenue and net property income would have declined 1.1% and 0.5% respectively. We think this is due to the absence of rental from 21 Joo Koon Crescent which has become vacant as at 30 September 2018 (was occupied as at 30 June 2018).
- EBITDA (based on our calculation which does not include other income and other expenses) was down 5.8% y/y to SGD11.4mn though finance cost had declined even more at SGD3.7mn (down 8.2% y/y) due to lower average debt in 3Q2018 versus 3Q2017 as net proceeds from the divestment of two properties were used to repay debt. Resultant EBITDA/Interest coverage was held steady at 3.0x versus 3Q2017 despite the fall in EBITDA.
- As at 30 September 2018, aggregate leverage was 38.6%, slightly higher versus 30 June 2018's aggregate leverage of 38.2%. There are no refinancing due until the SGD100mn SSREIT 4.25% '19s come due in April 2019. While SSREIT's financial flexibility is lower versus other Industrial REITs under our coverage, we take note of the company's progress in divesting assets where proceeds have been used to reduce debt. As at 30 September 2018, unencumbered assets stood at SGD251.3mn which can go towards raising secured financing to fund the repayment of the bond if need be. Assuming a loan-to-value ratio of 70%, SSREIT can raise ~SGD176mn from these assets. Additionally, SSREIT is in the midst of selling two properties (1 Tuas Avenue 4 and 9 Tai Seng Drive) for SGD110.8mn (book value of SGD62.9mn as at 30 June 2018). The sale of 1 Tuas Avenue 4 is below book (revaluation loss of SGD12.3mn recorded in 3Q2018) though SSREIT is expected to record a SGD60mn gain from the sale of 9 Tai Seng Drive. We maintain SSREIT's issuer profile at Neutral (5). (Company, OCBC)

Credit Headlines (cont'd):

Mapletree Logistics Trust ("MLT") | Issuer Profile: Neutral (4)

- MLT announced the proposed acquisition of Coles Distribution Centre, located in Brisbane, Australia for AUD105mn (~SGD102.2mn) from a third party. The property is a freehold property and marks MLT's first acquisition in Brisbane. The property is fully leased to Coles Supermarkets ("Coles"), a major supermarket chain in Australia until January 2023 where initial net property income yield of the property is 5.7%. Total transaction cost is estimated to be ~AUD7.9mn and the acquisition fee payable to the REIT Manager is ~AUD1.05mn (total of AUD8.95mn/~SGD8.8mn), bringing total acquisition cost to ~SGD111.2mn.
- The proposed acquisition is intended to be funded via proceeds from the SGD22.4mn in sale proceeds of 531 Bukit Batok Street 23, Singapore (completed on 18 October 2018), cash retained via MLT's distribution reinvestment plan and debt, with MLT's aggregate leverage ratio projected to rise slightly to 38.5% post-transaction (30 September 2018: 38.1%). Post-transaction, MLT's exposure to Australia (by value) will rise to 8.3% from 6.9% as at 30 September 2018. (Company, OCBC)

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

- 61%-owned subsidiary of Sembcorp Industries Ltd, SMM announced that it has won two new projects worth more than SGD200mn.
- SMM has entered into an agreement with Ørsted Wind Power, a subsidiary of Optimus Wind Limited for the engineering, procurement, construction, hook-up and commissioning works on two topsides. These two topsides are intended to be deployed at the Hornsea 2 Offshore Wind Farm (UK North Sea) and will be fabricated at SMM yards for delivery in 1Q2021.
- SMM has also won its first design and construction of a roll on/roll off passenger ("ROPAX") ship project comprising three identical hybrid plug-in ropax ferries. These vessels will be for delivery to Norled AS (one of Norway's largest ferry and express boat operators) in 4Q2020. As at 30 September 2018, 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. With the new project wins, SMM's post-quarter end contract wins have amounted to more than SGD400mn. (Company, OCBC)

Mapletree North Asia Commercial Trust ("MNACT") | Issuer Profile: Neutral (4)

- MNACT reported its second quarter results for the financial year started 1st April 2018 ("2Q2019") results. Gross revenue increased 18.7% y/y to SGD104.6mn, while net property income ("NPI") went up by 18.0% y/y to SGD83.6mn. Much like 1Q2019, this was mainly due to higher rent from Festival Walk, Gateway Plaza and Sandhill Plaza, and contribution from Japan properties following the completion of acquisition on 25 May 2018, offset by lower average rate of HKD.
- Portfolio performance is stable with high portfolio occupancy rate of 99.6% and strong positive rental reversions was seen at Festival Walk due to renewal of a key tenant. While 9.1% of leases by gross rental income expires in FY2019, approximately 5.4% has already been renewed or re-let. Portfolio WALE is 3.0 years.
- Aggregate leverage was 39.0% (1Q2019: 38.8%, 4Q2018: 36.2%) largely due to the acquisition of Japan properties, with interest coverage ratio unchanged at 4.1x. MNACT has no debt coming due for the remainder of FY2019 post the early refinance of SGD260mn of debt due in FY2019 and FY2021 through four loan facility transactions between August and September 2018. We see no near term refinancing risk. The average term to maturity is 3.96 years. (Company, OCBC)

Credit Headlines (cont'd):

Wing Tai Holdings Ltd ("WINGTA") | Issuer Profile: Neutral (4)

- Revenue increased 8% y/y to SGD77.9mn due to sale of vacant land at Langgak Golf in Kuala Lumpur. However, gross profit fell 7% y/y to SGD31.8mn, likely due to lower margins from its development projects. Coupled with other gains falling 90% y/y to SGD2.4mn due to the absence of one-off gain from disposal of subsidiary, WINGTA incurred an operating loss of SGD1.1mn. However, net profit remained positive (-86% y/y to SGD2.2mn) with share of profits of associated and joint venture companies increasing 14% y/y to SGD9.3mn, likely due to better performance from Wing Tai Properties Ltd and Uniqlo.
- Meanwhile, sales at The Garden Residences (40%-owned JV with Keppel) sold just 10 units (SGD9.5mn) in Jul-Sep 2018, noticeably slower compared to 61 units (SGD69.2mn) in June 2018 before the latest round of property cooling measures. In total, according to the URA caveats, The Garden Residences sold only 75 out of 613 units. Meanwhile, The Crest (40%-owned) sold 35 units for SGD78.2mn in Jul-Sep 2018. According to WINGTA, the 469 units The Crest was over 70% sold as of 30 June 2018. Going forward, WINGTA plans to market Phase 2 (estimated: 112 units) of Malaren Gardens in Shanghai in late 2018.
- WINGTA remains in net cash. After adjusting for perpetuals as debt, net gearing remains healthy at just 2% (4QFY2018: 4%). As such, despite the weak results, we continue to hold WINGTA at a Neutral (4) Issuer Profile. (Company, OCBC)

Cache Logistic Trust ("CACHE") | Issuer Profile: Unrated

- CACHE announced its 3Q2018 results. Gross revenue increased by 14.8% y/y to SGD31.5mn driven by the 9 Australia warehouses acquired on 15 February 2018, higher revenue from a new lease agreement at Schenker's, top-up to market rental post resolution at 51 Alps Avenue, as well as contribution from CWT Commodity Hub due to the conversion in structure from master lease to multi-tenancy lease. This was partially offset by the lower contribution from the divestment of 40 Alps Avenue.
- Net Property Income for the quarter rose by 8.1% y/y to SGD23.1mn despite the higher property expenses from the newly acquired Australian portfolio. That said, net income fell 4.5% y/y to SGD13.4mn (3Q2017: SGD14.0mn) due to the unrealised foreign exchange losses incurred from loan to Australian subsidiary.
- CACHE's total portfolio committed occupancy remains stable at 96.9% as at 30 September 2018 while Weighted Average Lease Expiry ("WALE") weakened slightly to 3.3 years in 3Q2018 (3Q2017: 3.5 years). Going forward, CACHE will be ceasing its exposure in China through the divestment of its only property in China (Jinshan Chemical Warehouse in Shanghai) and focus mainly on its Australia and Singapore portfolio.
- As at 30 September 2018, aggregate leverage was manageable at 35.6% (3Q2018: 35.3%). Interest expenses had decreased 7.1% y/y to SGD4.4mn mainly driven by the SGD163.4mn partial repayment of the 4-year SGD185mn term loan from the proceeds from CACHE's October 2017 rights issue and disposal of 40 Alps Ave which was partially offset by additional interest cost from a SGD110.0mn loan drawn to finance the Australian portfolio acquisition in February 2018.
- Short term debt coming due as at 30 September was SGD400mn and it has been partially refinanced with a new unsecured 5.5-year SGD200mn term loan draw down on 23 October 2018. With a sharp rise in unencumbered investment properties from 37% to 88% (SGD1.1bn), we see refinancing risk as manageable. (Company, OCBC)

Credit Headlines (cont'd):

China Eastern Airlines Ltd ("CHIEAS") | Issuer Profile: Neutral (4)

- CHIEAS announced its 3Q2018 financials based on China Accounting Standards for Business Enterprises. Gross revenue was up 13% y/y to RMB33.5bn (we think led by increase in capacity) though reported operating profit was down significantly by 39% y/y to RMB2.9bn. Operating costs (which would include fuel cost) had increased 16% y/y. Finance expenses was RMB2.6bn in 3Q2018 versus only RMB0.3bn in 3Q2017, we think this was primarily driven by foreign exchange losses (from appreciation of the USD against RMB). Overall, CHIEAS reported only RMB2.4bn in net profit (down 37% y/y).
- As at 30 September 2018, unadjusted net gearing was optically manageable at 0.8x, down from 1.0x in end-2017, driven by lower debt balance and a 9% uptick in book value equity. Like the other Big Three Chinese airlines, finance leases (mainly for planes) was significant and adjusting these into net gearing, we find adjusted net gearing at 1.9x (down from 2.0x as at end-2017). Finance lease obligations are typically secured against fixed assets (eg: aircraft). As at 30 September 2018, total fixed assets was RMB171.9bn and historically ~51% of these related to assets held under finance leases. This represents a finance lease over assets under finance lease coverage of 0.76x.
- Despite the relatively levered profile of CHIEAS, CHIEAS is in the midst of raising new equity via a private placement of up to ~RMB14.5bn (largely for plane purchases).
- The proposed equity placement comprises of an A-share tranche of up to RMB11.8bn and a H-share tranche of up to ~HKD3.55bn. Bulk of the new A-shares (up to RMB9.8bn) is proposed to be placed out to private companies, namely Juneyao Airlines, Juneyao Group (parent of Juneyao Airlines) and a Juneyao Group subsidiary while the remaining RMB2.0bn is proposed to be placed to the China Structural Reform Fund, a state-backed private equity fund which had taken stakes in other state-owned companies as part of China's mixed ownership reform. The proposed equity placement is pending approval by regulatory authorities including the Civil Aviation Administration of China and the China Securities Regulatory Commission. With signs pointing towards a deleveraging at CHIEAS, we are maintaining our Neutral(4) issuer profile for CHIEAS. (Company, OCBC)

Table 1: Key Financial Indicators

	29-Oct	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	93	5	14
iTraxx SovX APAC	10	0	1
iTraxx Japan	63	4	10
iTraxx Australia	83	5	10
CDX NA IG	70	3	12
CDX NA HY	105	-1	-3
iTraxx Eur Main	77	4	10
iTraxx Eur XO	305	11	32
iTraxx Eur Snr Fin	95	4	10
iTraxx Sovx WE	28	0	3
AUD/USD	0.710	0.21%	-1.77%
EUR/USD	1.140	-0.58%	-1.55%
USD/SGD	1.380	-0.03%	-0.63%
China 5Y CDS	72	5	17
Malaysia 5Y CDS	113	7	21
Indonesia 5Y CDS	159	10	30
Thailand 5Y CDS	44	1	4

	29-Oct	1W chg	1M chg
Brent Crude Spot ($/bbl)	77.72	-2.64%	-6.04%
Gold Spot ($/oz)	1,232.69	0.87%	3.68%
CRB	195.51	-0.85%	0.18%
GSCI	468.08	-1.40%	-3.74%
VIX	24.16	21.47%	99.34%
CT10 (bp)	3.081%	-11.67	1.99
USD Swap Spread 10Y (bp)	6	0	1
USD Swap Spread 30Y (bp)	-11	-2	-3
TED Spread (bp)	20	3	0
US Libor-OIS Spread (bp)	24	3	5
Euro Libor-OIS Spread (bp)	4	0	1
DJIA	24,688	-2.97%	-6.69%
SPX	2,659	-3.94%	-8.76%
MSCI Asiax	574	-4.98%	-12.48%
HSI	24,718	-3.30%	-11.05%
STI	2,972	-2.95%	-8.75%
KLCI	1,683	-2.83%	-6.14%
JCI	5,785	-0.90%	-3.21%

New issues

- Kaisa Group Holdings Ltd has priced a USD250mn re-tap of its KAISAG 7.875%'21s via a USD75mn re-tap at 93.478 and a USD175mn re-tap at 93.417.
- PT Indonesia Asahan Aluminium (Persero) has scheduled for investor meetings from 29 October for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
26-Oct-18	Kaisa Group Holdings Ltd	USD250mn	KAISAG 7.875%'21s	93.417 - 93.478
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%

Source: OCBC, Bloomberg

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