

Sept 7, 2018

Credit Headlines: Soilbuild Business Space REIT, StarHub Ltd, Industry Outlook – Financial Institutions, Ascendas REIT, Commerzbank AG

Market Commentary

- The SGD swap curve traded little changed yesterday, with swap rates trading within 1bps lower across most tenors (with the exception of the 10-year and 15-year swap rates trading 1-2bps higher).
- Flows in SGD corporates were heavy yesterday, with better buying seen in DBSSP 3.98%-PERPs and OCBCSP 4.0%-PERPs and better selling seen in UOBSP 3.5%'29s and GEMAU 5.5%'19s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 142bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 6bps to 496bps.
- Overall, 10Y UST yields fell 3bps to close at 2.87% on the back of safe-haven demand as emerging market stocks fell for the sixth consecutive day.

Credit Headlines:

Soilbuild Business Space REIT (“SBREIT”) | Issuer Profile: Neutral (4)

- SBREIT has proposed to acquire an office building in Canberra CBD – 14 Mort Street and a poultry processing facility in Adelaide – Inghams Burton (collectively AUD120.96mn (~SGD120.96mn)). This is SBREIT's maiden venture out of Singapore, and as a result both portfolio's valuation expected to increase by 10.8% from SGD1.11bn to SGD1.23bn while NPI is expected to increase by 10.1% from SGD73.5mn to SGD80.9mn.
- 14 Mort Street is an 8-storey commercial office building fully occupied by the Commonwealth of Australia on a lease expiring on 24 March 2025 with two successive 5 year options (ie: 5 + 5 options). Weighted average lease expiry (“WALE”) of the property is 6.5 years and total acquisition cost is AUD58.85mn (~SGD58.85mn).
- Inghams Burton is a substantial production and processing facility which includes high clearance and cold room, modern office and workshop facilities and expansive hardstand areas. Inghams Group Ltd occupies the facility on a triple net lease expiring 28 October 2034 and five further 10-year option periods. WALE of the property is 16.1 years and acquisition cost is AUD62.11mn
- Both properties will improve SBREIT's portfolio occupancy (from 87.6% to 88.6%) and WALE by net lettable area (from 3.1 years to 3.9 years). Apart from providing geographical diversification to SBREIT, the tenants at both properties are from stable, non-cyclical sectors.
- SBREIT will finance the acquisition through a combination of perpetual securities ranging from SGD60mn – SGD100mn and onshore AUD debt. Depending on the amount of perpetual issued, the indicative pro forma aggregate leverage can range from 35.6% to 38.8% (30 June 2018: 37.6%), within SBREIT desired range of 35-40%. (Company, OCBC)

StarHub Ltd (“StarHub”) | Issuer Profile: Neutral (3)

- StarHub will be falling out of the STI Index, which is not too surprising given the ~42% drop in share price YTD. We think the impact on StarHub's credit profile will be minimal as StarHub does not tap the equity markets for funding. However, [StarHub continues to be plagued by challenges to its mobile and pay TV segments](#). We will continue to monitor its credit metrics, which has been deteriorating as StarHub has been borrowing to fund its dividends. (Business Times, OCBC)

Credit Headlines (cont'd):

Industry Outlook – Financial Institutions / Australia & New Zealand Banking Group Ltd (“ANZ”) | Issuer Profile: Positive (2) / Westpac Banking Corporation (“Westpac”) | Issuer Profile: Positive (2)

- ANZ announced yesterday that it was raising its key home loan interest rate. This follows a similar announcement by Westpac last week with National Australia Bank Ltd (Issuer Profile: Positive (2)) expected to follow in the near future.
- The key rationale for the increase (despite expectations that the Reserve Bank of Australia will not raise rates until 2H2019) is the recent rise in short term domestic funding costs, rising US interest rates with Australian banks dependent on offshore wholesale funding, and the slowing domestic housing market. This is reducing volumes and necessitating competitive actions to gain market share.
- The move will have a positive impact on profitability given the dominant share of mortgages in Australian loan books and comes at a time of expected higher regulatory and compliance costs which will arise from the Royal Commission into misconduct in the Banking industry.
- We see the credit profiles of Australian banks as resilient given their strong capital positions and solid market shares which provides them some ability to dictate pricing above competitive pressures. (OCBC, Company)

Ascendas REIT (“AREIT”) | Issuer Profile: Neutral (3)

- AREIT has raised SGD452mn in gross proceeds from an overnight equity private placement. The net proceeds is intended to partly fund two previously unannounced acquisitions/investments. SGD250mn is intended to partly fund the proposed acquisition of a second UK logistics portfolio while ~SGD109mn is intended to partly fund the proposed development of a build-to-suit facility in Singapore. Another ~SGD88.9mn would be used for debt repayment and future acquisitions while the remaining to pay for fees and expenses including those incurred on the private placement.
- If the two proposed acquisitions/investments does not happen, AREIT has the discretion to use the proceeds for other purposes including to repay debt and fund capital expenditures. Uncommonly within the S-REIT space, the equity fundraising was successfully completed, despite details lacking over the proposed acquisitions/investments (eg: yield, asset type, lease structure, agreed asset value, independent valuation) and discretion given to management on how to use the monies should the proposed acquisitions/investments does not happen. In our view, this exhibits AREIT's strong financial flexibility from capital markets.
- Additionally, AREIT shared that its maiden acquisition of a portfolio of 12 logistics assets in the UK that was announced on 26 July 2018 had completed on 16 August 2018. The total acquisition cost for this transaction was ~SGD373.2mn.
- As at 30 June 2018, AREIT's reported aggregate leverage was 35.7%. Though company has shared that this has increased to 38.0% following the recent completion of the (1) Maiden UK portfolio (2) Divestment of No. 41 Changi South Avenue 2 for SGD13.6mn (completed on 20 August 2018) and (3) Assuming that the ~SGD33.9mn acquisition of Cargo Business Park, Brisbane (announced on 2 August 2018) has been completed. The proposed acquisition of 1-7 Wayne Goss Drive for ~SGD30.8mn has been excluded, perhaps as the expected completion date will only occur later in 3QFY2019.
- Immediately post the equity placement and pending deployment of the net proceeds, AREIT's aggregate leverage may fall to 33.8% though this is expected to increase again to 37.7% should the proposed UK acquisition and Singapore built-to-suit development happen. We maintain AREIT's issuer profile at Neutral (3).

Credit Headlines (cont'd):

Commerzbank AG (CMZB) | Issuer Profile: Neutral (4)

- CMZB will no longer be part of Germany's benchmark stock index DAX. This is due to the rapid rise in Wirecard AG's share price and recent decline in CMZB's share price at the same time during 2018. CMZB's share price is currently trading 40% below its' 2018 high. CMZB will move to the Deutsche Borse AG DAX Mid-Cap Index.
- While the move, may negatively impact CMZB's share price and liquidity, we do not see equity markets as a probable source for maintaining CMZB's capital ratios should it need to.
- CMZB's CET1 ratio as at 30 June 2018 was 13.0% (13.3% as at 1 March 2018; 14.1% as at 31 December 2017) and reflected recent growth in risk weighted assets and Germany's competitive banking environment.
- We are maintaining CMZB's Neutral (4) issuer profile. (OCBC, Company)

Table 1: Key Financial Indicators

	7-Sep	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	83	-1	3
iTraxx SovX APAC	13	2	3
iTraxx Japan	54	0	1
iTraxx Australia	74	0	1
CDX NA IG	60	0	2
CDX NA HY	107	0	0
iTraxx Eur Main	65	-4	2
iTraxx Eur XO	290	-10	-2
iTraxx Eur Snr Fin	78	-7	1
iTraxx Sovx WE	26	-2	1
AUD/USD	0.718	-0.07%	-3.19%
EUR/USD	1.162	0.14%	0.16%
USD/SGD	1.376	-0.25%	-0.81%
China 5Y CDS	59	-1	-1
Malaysia 5Y CDS	103	8	21
Indonesia 5Y CDS	142	14	31
Thailand 5Y CDS	43	1	1

	7-Sep	1W chg	1M chg
Brent Crude Spot (\$/bbl)	76.59	-1.07%	2.60%
Gold Spot (\$/oz)	1,201.51	0.03%	-0.78%
CRB	189.78	-1.64%	-2.42%
GSCI	459.79	-1.75%	-1.47%
VIX	14.65	19.59%	34.03%
CT10 (bp)	2.873%	1.27	-9.99
USD Swap Spread 10Y (bp)	6	-1	0
USD Swap Spread 30Y (bp)	-8	-2	-2
TED Spread (bp)	19	-1	-15
US Libor-OIS Spread (bp)	19	-2	-12
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,996	-0.49%	1.43%
SPX	2,878	-1.24%	0.69%
MSCI Asiax	643	-3.42%	-3.82%
HSI	26,975	-4.22%	-4.51%
STI	3,148	-2.42%	-5.76%
KLCI	1,799	-1.21%	0.42%
JCI	5,776	-4.04%	-5.17%

New issues

- Toyota Tsusho Corp has priced a USD500mn 5-year bond at CT5+95bps, tightening from its initial price guidance of CT5+120bps area.
- Anhui Transportation Holding Group (H.K.) Ltd has priced a USD350mn 3-year bond (guaranteed by Anhui Transportation Holding Group Co Ltd) at 5.0%, tightening from its initial price guidance of 5.3%.
- Export-Import Bank of China has priced a USD300mn 5-year bond at 3mL+70bps.
- Expand Lead Ltd has scheduled for investor meetings from 7 Sept for its potential USD bond issuance (keepwell deed provider: China Minmetals Corp)

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
6-Sept-18	Toyota Tsusho Corp	USD500mn	5-year	CT5+95bps
6-Sept-18	Anhui Transportation Holding Group (H.K.) Ltd	USD350mn	3-year	5.0%
6-Sept-18	Export-Import Bank of China	USD300mn	5-year	3mL+70bps
5-Sept-18	Sinopec Group Overseas Development (2018) Limited	USD750mn	5-year	CT5+110bps
5-Sept-18	Sinopec Group Overseas Development (2018) Limited	USD500mn	7-year	CT7+135bps
5-Sept-18	Sinopec Group Overseas Development (2018) Limited	USD750mn	10-year	CT10+145bps
5-Sept-18	Sinopec Group Overseas Development (2018) Limited	USD400mn	30-year	4.60%
5-Sept-18	Credit Suisse Group AG	USD1.5bn	PerpNC7	7.25%
5-Sept-18	Mizuho Financial Group Inc	USD1.1bn	6NC5	CT6+115bps
5-Sept-18	Mizuho Financial Group Inc	USD650mn	6NC5	3mL+100bps
5-Sept-18	Mizuho Financial Group Inc	USD1bn	11NC10	CT11+135bps
5-Sept-18	Granda Century Ltd	USD300mn	3-year	7.5%
5-Sept-18	Future Land Development Holdings Ltd	USD300mn	2-year	7.0%
5-Sept-18	HSBC Holdings PLC	USD2bn	3NC2	3mL+65bps
5-Sept-18	HSBC Holdings PLC	USD2.5bn	8NC7	CT8+145bps
5-Sept-18	HSBC Holdings PLC	USD750mn	8NC7	3mL+138bps

Source: OCBC, Bloomberg

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