Asian Credit Daily

July 26, 2018

Credit Headlines: CITIC Envirotech Ltd, Sabana Shari'ah Compliant Industrial Real Estate Investment Trust, Frasers Commercial Trust

Market Commentary

- The SGD swap curve flattened yesterday, with the short end flat while swap rates longer than 6mths traded around 3bps lower.
- Flows in SGD corporates were heavy yesterday, with better buying seen in HSBC 4.7%-PERPs and MAPLSP 3.95%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 139bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 9bps to 492bps.
- 10Y UST yields fell 2bps to 2.93% in the earlier part of the trading session as investors do not expect Bank of Japan to make an actual change to its stimulus program in July. However, yields subsequently rose 5bps to close at 2.97% as US President Donald Trump met European Commission President Jean-Claude Juncker and agreed to suspend new tariffs during trade negotiations yesterday.

Credit Headlines:

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

- CEL reported its 2Q2018 results. Gross revenue was up 136.1% to SGD291.0mn y/y, driven by increase in the engineering and membrane segments. Engineering increased 111% y/y to SGD112.5mn while membrane increased 432% to SGD122.8mn. In 2Q2018, treatment which tends to be more stable and recurring made up 19% of total revenue while in 2Q2017 this was 34%.
- Driven by the stronger top line, EBITDA was 99.8% higher y/y at SGD78.9mn, leading EBITDA/Interest coverage higher at 7.5x despite the 11% higher interest expense from higher average borrowings over 2Q2018 versus 2Q2017.
- Net profit for the period was similarly higher at SGD43.5mn versus SGD19.3mn in 2Q2017 though much was wiped out at the total other comprehensive income level as CEL reported a SGD25.0mn currency translation loss. While this is not a cash flow item, it is indicative of the sharp decline in RMB which makes up bulk of CEL's income versus the SGD. CEL ended 2Q2018 with a total comprehensive income of SGD18.5mn (down 26% y/y).
- As at 30 June 2018, perpetuals made up 27% of total capital, relatively stable versus the previous quarter though adjusted net debt over straight equity which assumes the full amount of perpetual as debt had inched higher to 0.9x from 0.7x as at 31 March 2018. Unadjusted net gearing (without factoring in perpetual as debt) had also risen, to 0.2x from 0.1x in the previous quarter. We expect net gearing levels to rise as CEL progresses on its project wins.
- CEL ended the quarter with cash balance of SGD328.2mn versus SGD568.0mn when it begun the quarter as cash had been used to help fund investing outflows, paying down debt and paying out distributions to perpetual and equity holders. CEL faces first call on its USD355mn perpetual in November 2018 and our base case assumes that CEL would try to replace this (rather than take the 500bps step up). Though given the current volatile funding environment for high yield, it is not yet certain if CEL is able to replace this on a like-for-like basis. Assuming it does not, we think CEL may try and replace this with debt. We maintain CEL's issuer profile at an issuer profile of Neutral (5). (Company, OCBC)

Credit Headlines (cont'd):

Sabana Shari'ah Compliant Industrial Real Estate Investment Trust ("SSREIT") | Issuer Profile: Neutral (5)

- SSREIT reported its 2Q2018 results. Gross revenue was down 4.4% q/q to SGD20.1mn. 1 Tuas Avenue 4 was non-contributing following the surrender of master lease in 1Q2018 while 6 Woodlands Loop was also divested on 29 March 2018. 1 Tuas Avenue remains vacant.
- Net property income though declined significantly at 13.8% q/q. In 1Q2018, there was a write-back of previously impaired losses on trade receivables, which was absent in 2Q2018 and may have helped inch expenses higher during the quarter. EBITDA (based on our calculation which does not include other income and other expenses) was also lower at SGD11.3mn. In 1Q2018, the manager had elected to forgo 20% of its fees though fees were re-instated to the full amount in 2Q2018.
- As at 30 June 2018, aggregate leverage was 38.2%, slightly higher than the 38.1% as at 31 March 2018.
- Interest coverage as measured by EBITDA/Interest was 3.1x, lower than the 3.4x in 1Q2018 driven by the lower EBITDA generation.
- Short term debt as at 30 June 2018 was SGD141.8mn (including the SGD100mn SSREIT 4.25% '19 due in April 2019).
- There are 8 properties under master leases (3 leased to Sponsor) and one property is being contemplated for a divestment. Of the 6 other master leases that were coming due this year, encouragingly one had been renewed on 6 April 2018. It remains uncertain if Sponsor will be renewing its 3 leases. In total the remaining lease expiries for 2018 was 33% of net lettable area as at 30 June 2018 (down from 42% as at 31 December 2017). We maintain SSREIT's issuer profile at Neutral (5) for now. (Company, OCBC)

Frasers Commercial Trust ("FCOT") | Issuer Profile: Neutral (4)

- FCOT reported its third quarter results for the financial year ended September 2018 ("3QFY2018") results. Gross revenue dipped 15.2% y/y to SGD32.5mn, while net property income ("NPI") was down more significantly at 26.9% y/y to SGD20.4mn. Decrease for q/q figures was milder at -1.6% q/q and -9.2% q/q respectively. This is mainly due to lower occupancy rate for Alexandra Technopark (exit of HP Enterprise and the staggered exit of HP Singapore) and the effects of the average weaker AUD, offset partially by higher occupancy rate and average rents achieved for China Square Central. Higher maintenance expense for Caroline Chisholm Centre led to the lower NPI.
- In aggregate, the lower occupancy at the Singapore assets drove portfolio average committed occupancy lower to 81.9% (2Q2017: 83.5%). Although the lease expiry profile for the remainder of FY2018 is 7.1% of NLA and down from 10.5% in the previous quarter, it looks challenging with lease expiries mainly due to Central Park (22.9% of property's gross rental). FY2018 expiries as a percentage of gross rental income is 9.6%. WALE remains stable at 4 years.
- Aggregate leverage remains stable at 35.4% (2Q2018: 35.3%) - we expect it to fall however to around 27% following the sale of 55 Market Street for SGD216.8mn earlier this month. Reported interest coverage is lower at 3.5x (2Q2018: 4.1x).
- Debt profile is well-spread and assets are 100% unencumbered, hence SGD55mn due for the remaining of FY2018 is manageable.
- Pressure on FCOT's asset portfolio is mitigated by the expected fall in aggregate leverage for now. We will continue to monitor FCOT's on-going asset performance against its capital structure, with over SGD4bn in right of first refusal properties from Frasers Property Group. (Company. OCBC)

Table 1: Key Financial Indicators

	26-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	80	-8	-5
iTraxx SovX APAC	13	0	-1
iTraxx Japan	56	2	-1
iTraxx Australia	74	-8	-1
CDX NA IG	59	-1	-7
CDX NA HY	107	0	1
iTraxx Eur Main	63	-1	-10
iTraxx Eur XO	285	-6	-29
iTraxx Eur Snr Fin	76	0	-12
iTraxx Sovx WE	25	0	-1
AUD/USD	0.746	1.30%	0.85%
EUR/USD	1.173	0.77%	0.72%
USD/SGD	1.358	0.94%	0.37%
China 5Y CDS	60	-5	-2
Malaysia 5Y CDS	85	-9	-22
Indonesia 5Y CDS	109	-7	-27
Thailand 5Y CDS	43	-2	-4

	26-Jul	1W chg	1M chg
Brent Crude Spot ($/bbl)	74.62	2.81%	-2.21%
Gold Spot ($/oz)	1,233.22	0.84%	-2.05%
CRB	194.66	1.66%	-1.31%
GSCI	465.30	2.42%	-1.64%
VIX	12.29	1.57%	-22.80%
CT10 (bp)	2.969%	13.10	9.24
USD Swap Spread 10Y (bp)	5	-2	-2
USD Swap Spread 30Y (bp)	-7	-2	0
TED Spread (bp)	34	0	-9
US Libor-OIS Spread (bp)	33	-3	-7
Euro Libor-OIS Spread (bp)	4	1	1
DJIA	25,414	0.85%	4.66%
SPX	2,846	1.08%	4.52%
MSCI Asiax	678	2.31%	0.42%
HSI	28,921	2.86%	0.14%
STI	3,327	2.66%	1.40%
KLCI	1,764	0.61%	5.25%
JCI	5,934	0.73%	1.86%

New issues

- Greenland Global Investment Ltd has priced a USD300mn re-tap of its GRNLGR'21s at 3mL+485bps, in line with its initial price guidance.
- Temasek Financial I Ltd has priced a USD1.35bn 10-year bond (guaranteed by Temasek Holdings Pte Ltd) at CT10+72bps, tightening from its initial price guidance of CT10+90-95bps area.
- Posco has priced a USD500mn 5-year bond at CT5+130bps, tightening from its initial price guidance of CT5+155bps areas.
- Export-Import Bank of China has priced a USD140mn 3-year bond at 3mL+60bps.

Date	Issuer	Size	Tenor	Pricing
25-Jul-18	Greenland Global Investment Ltd	USD300mn	GRNLGR'21s	3mL+485bps
25-Jul-18	Temasek Financial I Ltd	USD1.35bn	10-year	CT10+72bps
25-Jul-18	Posco	USD500mn	5-year	CT5+130bps
25-Jul-18	Export-Import Bank of China	USD140mn	3-year	3mL+60bps
24-Jul-18	CFLD Cayman Investment Ltd	USD200mn	3-year	9.0%
24-Jul-18	Sino-Ocean Land Treasure IV Ltd	USD700mn	3-year	3mL+230bps
24-Jul-18	Sunac China Holdings Ltd	USD400mn	2-year	8.625%
23-Jul-18	SMBC Aviation Capital Finance DAC	USD500mn	5-year	CT5+133bps
23-Jul-18	NongHyup Bank	USD500mn	5-year	CT5+122.5bps
23-Jul-18	Yuzhou Properties Co Ltd (re-tap)	USD425mn	YUZHOU 7.9%'21s	8.25%
23-Jul-18	Industrial & Commercial Bank of China Asia Ltd	USD100mn	2-year	3mL+70bps
23-Jul-18	Land Transport Authority of Singapore	SGD1.5bn	40-year	3.45%
20-Jul-18	Export-Import Bank of China	USD300mn	5-year	3mL+70bps
20-Jul-18	Malayan Banking Bhd	USD280mn	5-year	3mL+90bps
19-Jul-18	Orient HuiZhi Ltd	USD750mn	4.5-year	CT4+170bps
19-Jul-18	Agile Group Holdings Ltd (re-tap)	USD400mn	AGILE 8.50%'21s	100

Source: OCBC, Bloomberg

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