

July 17, 2019

Credit Headlines: CapitaLand Commercial Trust

Market Commentary

- The SGD swap curve bull-flattened yesterday, with the shorter tenors and belly traded 2-3bps lower, while the longer tenors traded 4bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2 bps to 127bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 466bps.
- Flows in SGD corporates were light, with flows in MAPLSP 3.95%-PERPs.
- 10Y USTs rose 1bps to 2.10%, after the US released data that showed stronger than expected retail sales. This was partially offset by Fed Chairman Jerome Powell's reiteration of the Fed's willingness to sustain the US economic expansion. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread at -4bps.

Table 1: Key Financial Indicators

	17-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	64	1	-9
iTraxx SovX APAC	40	0	-7
iTraxx Japan	58	-1	-10
iTraxx Australia	63	1	-7
CDX NA IG	54	2	-6
CDX NA HY	107	0	1
iTraxx Eur Main	50	1	-11
iTraxx Eur XO	246	--	-29
iTraxx Eur Snr Fin	61	0	-16
iTraxx Sovx WE	15	-1	-2
AUD/USD	0.701	0.70%	2.26%
EUR/USD	1.121	-0.34%	-0.04%
USD/SGD	1.360	-0.14%	0.77%
China 5Y CDS	42	1	-8
Malaysia 5Y CDS	51	0	-15
Indonesia 5Y CDS	85	-1	-17
Thailand 5Y CDS	35	2	0

	17-Jul	1W chg	1M chg
Brent Crude Spot (\$/bbl)	64.53	-3.70%	5.89%
Gold Spot (\$/oz)	1,404.87	-1.00%	4.87%
CRB	180.08	-0.34%	3.25%
GSCI	423.02	-2.56%	4.56%
VIX	12.86	-8.73%	-16.22%
CT10 (bp)	2.097%	3.60	0.31
USD Swap Spread 10Y (bp)	-6	-1	-1
USD Swap Spread 30Y (bp)	-34	-3	-3
US Libor-OIS Spread (bp)	23	0	5
Euro Libor-OIS Spread (bp)	6	1	1
DJIA	27,336	2.06%	4.68%
SPX	3,004	0.82%	3.96%
MSCI Asiax	654	1.51%	5.02%
HSI	28,534	1.17%	4.80%
STI	3,358	0.53%	4.68%
KLCI	1,663	-0.96%	1.50%
JCI	6,385	-0.40%	3.14%

Credit Headlines (cont'd):

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

- CCT reported 2Q2019 results. Gross revenue and net property income (“NPI”) grew by 3.0% y/y and 0.8% y/y to SGD101.0mn and SGD78.4mn respectively. This was largely due to Gallileo (acquired on 18 June 2018) and better performance at Asia Square Tower 2 (“AST2”), 21 Collyer Quay and Capital Tower, though partially offset by the divestment of Twenty Anson and lower revenue from Bugis Village and 6 Battery Road.
- NPI grew by a smaller extend mostly due to higher property operating expenses from rental charges payable to Singapore Land Authority for Bugis Village and higher marketing expenses.
- CCT’s portfolio committed occupancy was fell slightly to 98.6% (31 March 2019: 99.1%), largely due to AST2 which saw occupancy fall from 981% to 95.8% following the departure of a tenant. Besides, 23% of the 29% of office leases expiring in 2019 (based on monthly gross rental income) have already been committed and rental reversions for most of the office leases signed were reported to be positive. In addition, the average expiring rent for 2019 is SGD10.35 psf pm which is lower than 2Q2019 market rent of SGD11.30 psf pm according to CBRE. As such, we think CCT is most likely able to continue to secure positive rent reversion.
- Aggregate leverage improved slightly to 34.8% from 35.2% in 1Q2019 (though expect to rebound with the acquisition mentioned below and possibly climb further to ~37% over time with that upcoming capex requirements also mentioned below from 2020 to 2021). All-in average cost of debt remained stable at 2.5%. Refinancing risk is minimal as CCT only has a JPY bond with an amount outstanding of SGD148mn which it has sufficient bank facilities to refinance coming due in 2019 (4% of total borrowings). Majority of CCT’s assets (77.4%) are unencumbered except for CapitaGreen and Gallileo.
- CCT is acquiring a 94.9% interest in Main Airport Centre, Frankfurt, Germany for a purchase consideration of ~SGD205.3mn from Sponsor, CapitaLand Ltd (“CAPL”) (which will hold the balance 5.1% interest) and Lum Chang Holdings Ltd.
 - The property a freehold multi-tenanted office building (NLA: ~60,200 sqm) with a committed occupancy of 90% as at 30 June 2019 and a NPI yield is 4.0%.
 - The total outlay of ~SGD390mn which comprises the purchase consideration, ~SGD178.4mn bank loan and ~SGD6.3mn fees and expenses will either fully funded by debt (in euro) or a mix of debt and equity.
 - The acquisition will increase CCT’s overseas exposure from 5% to 8% of its portfolio property value (totaling SGD11.1bn), and is aligned with CCT’s guidance of having up to 20% of portfolio property value overseas.
- Separately, CCT will be leasing 21 Collyer Quay (which HSBC will vacate from in April 2020) to WeWork. Leases will start in early 2Q2021 for a period of 7 years. CCT will incur an estimated SGD45mn to upgrade the property.
- CCT will also undertake ~SGD35mn asset enhancement initiative at 6 Battery Road upon the expiry of Standard Chartered Bank’s (“SCB”) lease in 2020. SCB will remain an anchor tenant and continue to lease office space and house their flagship branch there.
- CapitalSpring, a 51 storey integrated development comprising Grade A office, serviced residences and retail and food centre, is expected to be completed in 1H2021 with a capex of SGD256.5mn (which will most likely be funded by SGD213.8mn debt and SGD42.7mn of equity). Committed occupancy is ~24%.
- Looking ahead, CCT’s growth pipeline includes the call option for the balance 55% of CapitaSpring’s commercial component (not currently owned by CCT). The call option is exercisable within five years after the development obtained TOP (expected to be 1H2021). Besides, with the completion of the merge of CAPL and Ascendas-Singbridge, CCT can look forward to a larger pipeline of projects in Singapore from its Sponsor. (Company, OCBC)

New issues:

- Powerlong Real Estate Holdings Ltd has priced a USD170mn 4NC2 bond at 7.25%, in line with guidance.
- Ronshine China Holdings Ltd has priced a USD300mn 3.5NC2.5 bond at 8.95%, tightening from IPT of 9.25% area.
- Franshion Brilliant Ltd (guarantor: China Jinmao Holdings Group Ltd) has priced a USD500mn 10-year bond at T+220bps, tightening from IPT of T+250bps area.
- Korea Water Resources Corp has priced a USD100mn 3-year FRN at 3-month US LIBOR+65bps, in line with final guidance.
- Adani Ports and Special Economic Zone Ltd has priced a USD650mn 5-year bond at T+150bps, tightening from IPT of T+175bps area.
- Kaisa Group Holdings Ltd has priced a USD300mn 4NC2 bond at 11.0%, tightening from IPT of 11.375% area.
- The Hong Kong Mortgage Corp Ltd has priced a SGD15mn 1-year FRN at SORF3M-4bps.

<u>Date</u>		<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
16-Jul-19	Powerlong Real Estate Holdings Ltd	USD170mn	4NC2	7.25%
16-Jul-19	Ronshine China Holdings Ltd	USD300mn	3.5NC2.5	8.95%
16-Jul-19	Franshion Brilliant Ltd	USD500mn	10-year	T+220bps
16-Jul-19	Korea Water Resources Corp	USD100mn	3-year FRN	US LIBOR+65bps
16-Jul-19	Adani Ports and Special Economic Zone Ltd	USD650mn	5-year	T+150bps
16-Jul-19	Kaisa Group Holdings Ltd	USD300mn	4NC2	11.0%
16-Jul-19	The Hong Kong Mortgage Corp Ltd	SGD15mn	1-year FRN	SORF3M-4bps
15-Jul-19	Korea Western Power Co., Ltd	USD300mn	3-year	T+72.5bps
15-Jul-19	China Hongqiao Group Ltd	USD300mn	3-year	7.125%
15-Jul-19	Fantasia Holdings Group Co., Ltd	USD200mn	3.25NC2	12.5%
15-Jul-19	Maxi-Cash Financial Services Corp Ltd	SGD26.5mn	3-year	6.35%
11-Jul-19	Mitsubishi UFJ Financial Group Inc	USD2.25bn USD1.0bn USD1.75bn USD1.5bn	3-year 5-year 10-year 20-year	T+78bps T+90bps T+105bps T+108bps
11-Jul-19	China Mengniu Dairy Company Limited	USD500mn	5-year	T+125bps

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