Asian Credit Daily

July 23, 2019

Credit Headlines: Frasers Commercial Trust, CapitaLand Mall Trust, Mapletree Logistics Trust, Julius Baer Group Ltd, ESR REIT

Market Commentary

- The SGD swap curve bear-steepened yesterday, with the shorter tenors and belly traded 2-4bps higher, while the longer tenors traded 3-6bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 130bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 482bps.
- Flows in SGD corporates were light, with flows in GUOLSP 4.6%-PERPs.
- 10Y USTs fell 1bps to 2.05%, as dovish central bank policy globally supported demand for government debt. Spread between 3-month treasury bills and 10-year treasury notes ceased to be inverted, with the spread at +5bps.

Credit Headlines

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

- FCOT reported 3QFY2019 results for financial year ending 30 September 2019. Reported gross revenue was 7.0% lower y/y at SGD30.2mn, mainly due to lower occupancy rate for Alexandra Technopark ("ATP"), divestment of 55 Market Street on 31 August 2018 and effects of the weaker Australian dollar. If we were to exclude 55 Market Street from the y/y comparison, we find gross revenue lower by 3.2% y/y instead.
- NPI declined by 3.0% y/y as a result of lower gross revenue, higher property tax for ATP and higher amortisation of lease incentives for Central Park and 357 Collins Street. Including the 50.0% interest in Farnborough Business Park ("FBP") in the UK which was acquired on 29 January 2018 (and accounted for as a share of results of joint venture), NPI would have been increased by 7.0% y/y instead.
- Portfolio committed occupancy rate as at 30 June 2019 was 94.1% (2QFY2019: 81.5%), lifted by ATP which saw committed occupancy rise to 93.7% from 59.2%, on the back of lease commitments secured from Google Asia Pacific Ptd Ltd (leases will commence in 1Q2020). We note that ATP completed its SGD45mn AEI over the quarter and saw signing rents increase to SGD4.00-4.60 psf/mth (above average passing rent of SGD3.97 psf/mth as at Dec-2018).
- Aggregate leverage is healthy at 29.3% and FCOT has minimal refinancing needs in FY2019 with just SGD2mn bank borrowings coming due within the financial year.
- Separately, SGD38mn AEI at China Square Central is in progress and expected to complete in 2H2019, while that for Central Park (cost is SGD23mn) is targeted to complete in 3Q2020.
- Even though FCOT also has the headroom to acquire assets from sponsor, Frasers Property Ltd, given its low leverage level, the REIT had in late June 2019 declined the opportunity to acquire a 50% interest in Frasers Tower. We view this favourably as large acquisitions can add pressure to FCOT's issuer profile at this point as the REIT is undergoing AEI or has just completed AEI for half of its assets. (OCBC, Company)

Credit Headlines (cont'd)

CapitaLand Mall Trust ("CMT") | Issuer Profile: Positive (2)

- CMT reported 2Q2019 results. Gross revenue and NPI for the quarter grew by 10.6% and 10.2% y/y to SGD189.5mn and SGD133.2mn respectively. This came largely on the back of the acquisition of the balance 70%-stake in Westgate on 1 Nov 2018 (+SGD18.4mn to gross revenue) and the reopening of Funan on 28 June 2018 (+SGD0.9mn to gross revenue), though partially offset by the divestment of Sembawang Shopping Centre in Jun 2018.
- Portfolio occupancy was 98.3% (slightly lower than 98.8% recorded at 31 March 2019), with rental reversion at ~+0.6%. In fact, all its properties saw positive rental reversion so far in 2019 except Raffles City Singapore. The lease expiry for 2019 stands at 8.1% of NLA (down from 19.1% of NLA at end March) with the bulk of it at Raffles City Singapore and IMM Building. In 1H2019, shopper traffic grew 1.9% y/y while tenants' sales rose 0.9% y/y with sporting goods with a 8.5% y/y gain.
- Aggregate leverage reverted back to 34.2% while reported interest coverage fell to 4.7x (1Q2019: 4.9x, 4Q2018: 5.2x). Reported net debt/EBTIDA improved slightly to 6.7x from 6.5x. We think net debt/EBITDA may improve further as contributions from Funan progressively roll in since debt had been drawn down for the development works.
- CMT has SGD360.1mn worth of debt coming due within this year. SGD157.6mn of which is a JPY10.0bn 1.309% bond, while the balance is a bank loan secured against Westgate. Given that CMT has SGD396.6mn cash and cash equivalents and only Westgate is encumbered (89.8% of assets are unencumbered), we see refinancing risk as low.
- CMT will be rejuvenating Lot One from 3Q2019. We think another mall that may possibly be enhanced in the near future is JCube. (Company, OCBC)

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

- MLT announced its financial results for quarter ended 30 June 2019 ("1QFY2020"). Gross revenue was up 13.6% y/y to SGD119.8mn on the back of the completed redevelopment of Mapletree Ouluo Logistics Park Phase 1 in China and acquisitions in Singapore (five logistics facilities from CWT Pte Ltd and its subsidiaries), Australia (Coles Distribution Centre in Brisbane), South Korea (Wonjin Logistics) and Vietnam (warehouse in Binh Duong), partly offset by absence of revenue from sale of properties in Japan in April 2019, and two properties in Singapore, and a weaker AUD, RMB and KRW against the SGD. On a q/q basis, gross revenue was down 1.3% mainly due to the absence of revenue from the sale of properties in Japan.
- EBITDA (based on our calculation which does not include other income and other expenses though including SGD2.0mn in interest income from shareholders' loans extended to 11 joint venture properties) was SGD94.5mn, up 20.1% y/y although interest expense (excluding lease liabilities) was up by 29.6% y/y, mainly due to an increase in debt taken to fund new acquisitions and an increase in interest rate. Resultant EBITDA/Interest coverage was 4.7x (1QFY2019: 5.1x).
- As at 30 June 2019, MLT has SGD430mn of perpetuals outstanding, assuming that distributions are fully paid out ,this is SGD17.0mn p.a or SGD4.3mn per quarter. Taking 50% of this as interest, EBITDA/(Interest plus 50% perpetual distribution) was 4.2x (1QFY2019: 4.5x), still manageable.
- As at 30 June 2019, reported aggregate leverage which includes the proportionate share of borrowings and assets at joint ventures (ie: the 11 joint venture properties in China) was 36.8%, down from 37.7% as at 31 March 2019. During the quarter, MLT generated SGD208.6mn in cash from the sale of properties in Japan and paid down SGD150.6mn (net of repayment of borrowings). Including 50% of the perpetuals as debt, we estimate adjusted aggregate leverage at 42.1% as at 30 June 2019, which is on the high side within our REIT coverage. As at 30 June 2019, MLT faces minimal short term debt of SGD83.6mn, making up only 3% of gross debt.
- We continue to expect MLT to be acquisitive, including from its Sponsor pipeline although there are no announced but yet completed acquisition obligations. We maintain MLT's issuer profile at Neutral (4). (Company, OCBC)

OCBC Bank

Credit Headlines (cont'd)

Julius Baer Group Ltd ("JBG") | Issuer Profile: Neutral (3)

- JBG reported its 1H2019 results which show weaker y/y performance but an improvement on a h/h basis with profit before taxes down 23.0% y/y but up 18.8% h/h to CHF417.5mn.
- Operating income was down 5.0% y/y to CHF1.70bn. This was driven by softer y/y performance in net interest and dividend income (-6.9% y/y due to higher growth in interest expense against interest and dividend income), net commission and fee income (-5.9% y/y due to a drop in client transaction activity leading to lower brokerage commissions and income from securities underwriting, and advisory and asset management fees) and net trading income (-4.4% y/y due to weaker debt and equity trading which was offset by foreign exchange). This was partially offset by better performance in other ordinary results (comprises income from associates, rental income and net gains/losses from the disposal of financial assets).
- On a h/h basis, operating income was up 7.6% due to better performance in net interest and dividend income (+40.9% y/y due to better dividend income on trading portfolios), net commission and fee income (+7.7% y/y due to a recovery in brokerage commissions and income from securities underwriting, and advisory and asset management fees) and other ordinary results. This offset a 39.1% h/h fall in net trading income due to weaker debt and equity trading and stable foreign exchange performance.
- Operating expenses rose 2.8% y/y and 4.4% h/h. Y/y performance was driven by the adoption of IFRS16, while h/h performance was driven by both IFRS16 adoption and a 7.8% h/h rise in personnel expenses. This offset solid general expense performance which rose 1.1% y/y but fell 12.0% h/h on lower occupancy expenses and lower service expenses, fees and taxes.
- Assets under management ("AuM") rose 7.9% year to date (ie since 31 December 2018) to CHF412.3bn, but was down from the record CHF427bn as at 30 April 2019. Contributing to the growth was solid market performance along with net new money inflows and the consolidation of NSC Asosores, a wealth management firm based in Mexico following the acquisition of an additional 30% in early March 2019 to increase its stake to 70%. Growth in net new money of CHF6.2bn in 1H2019 (down from CHF9.9bn in 1H2018 and CHF7.5bn in 2H2018) came from wealth management clients in Europe, Asia and the Middle East and offset net outflows from Milan-based Kairos, client exits from JBG's ongoing client risk review project and persisting negative interest rates. The annualised net new money growth rate of 3.2% was below JBG's medium-term target range of 4–6%.
- Owing to the above mentioned operating income performance and movements in AuM, reported gross margin (calculated as operating income over monthly average AuM) of 83.2bps was below 1H2018 (91.5bps) but higher than 2H2018 (79.6bps). Operating income performance also drove the cost to income ratio performance of 71.0% in 1H2019 which was weaker y/y (67.3% in 1H2018) but improved h/h (74.3% in 2H2018). Performance still remains weaker than the 68% target by 2020. As a recap, management have turned away from growth towards cost containment and reduction to protect margins. Management have indicated that the benefits of the implementation of the cost reduction program are yet to be seen and will occur partially in 2H2019 and fully in 2020 although associated costs of this program particularly in relation to headcount reduction were mostly recognized in 4M2018 results.
- JBG's capital ratios remain sound given the profit before tax performance with its CET1 ratio at 13.1% as at 30 June 2019, up 30bps against 31 December 2018 (12.8%). Its total capital ratio also improved to 20.7% as at 30 April 2019, up 200bps against 31 December 2018 (18.7%) due to issuance of a CHF350mn in Additional Tier 1 capital. Both ratios remain above JBG's own floor of 11% for CET1 (and above the regulatory minimum of 8.2%) and 15.0% for total capital (and above the regulatory minimum of 12.4%).
- As we previously mentioned, we have fewer questions on JBG's credit profile compared to earlier in the year and the weak 2H2018 performance. That said, JBG continues to go through a period of transition leading up to the commencement of Philipp Rickenbacher as its new chief executive officer from 1 September, replacing current CEO Bernard Hodler. We maintain the current Neutral (3) issuer rating on JBG. (Company, OCBC)

Credit Headlines (cont'd)

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

- EREIT announced its financial results for the quarter ended 30 June 2019 ("2Q2019"). Given that EREIT had combined with its peer VIVA Industrial Trust ("VIVA") in October 2018, we think y/y comparison is less meaning. Gross revenue was down 1.6% q/q to SGD63.8mn, driven by lower occupancies (91% in 2Q2019 versus 92% in 92%) while the sale of 31 Kian Teck Way in Singapore on 28 June 2019 would have had some small impact. There was no other asset movements in 2Q2019.
- EBITDA (based on our calculation which does not include other income and other expenses) was SGD43.3mn in 2Q2019, down 2.6% q/q while interest expense (excluding lease liabilities) was up 2.6% q/q to SGD13.2mn, resulting in a lower EBITDA/Interest coverage of 3.3x (1Q2019: 3.5x). EREIT had SGD150mn in perpetual outstanding as at 30 June 2019. Assuming EREIT pays out distribution in full, this would be SGD6.9mn per year and SGD1.7mn per quarter, taking 50% of this as debt, we find EBITDA/(Interest plus 50% distribution) at 3.1x, weakening from 3.2x in 1Q2019.
- As at 30 June 2019, reported aggregate leverage was 39.0%, declining from the 42.0% as at 31 March 2019. During the quarter, EREIT raised SGD100mn in new equity and paid down SGD86mn in debt (net of new borrowings). Including 50% of the perpetuals as debt, we estimate adjusted aggregate leverage at 41% as at 30 June 2019, reducing from the 44% as at 31 March 2019. As at 30 June 2019, MLT faces minimal short term debt of SGD178.2mn, making up only 15% of gross debt and manageable. On 17 June 2019, EREIT entered into has entered into a joint venture with a logistics company where the joint venture will buy a property in Singapore for SGD225mn (EREIT holds 49%-stake in the joint venture). The property will be funded by debt at the joint venture level and contribution from EREIT and the joint venture partner.
- As of writing, this acquisition has not been completed yet. In terms of funding, undrawn available committed facilities was SGD140mn which should help fund the proportionate required from EREIT. We think this would tilt reported aggregate leverage back up to ~41%. We maintain EREIT's issuer profile at Neutral (4). (Company, OCBC)

Table 1: Key Financial Indicators

	23-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	63	-1	-3
iTraxx SovX APAC	39	0	-3
iTraxx Japan	57	-2	-6
iTraxx Australia	62	-1	-2
CDX NA IG	53	-1	-3
CDX NA HY	107	0	0
iTraxx Eur Main	48	-2	-6
iTraxx Eur XO	249	2	-8
iTraxx Eur Snr Fin	59	-2	-9
iTraxx Sovx WE	16	1	-1
AUD/USD	0.703	0.20%	0.90%
EUR/USD	1.120	-0.12%	-1.76%
USD/SGD	1.362	-0.26%	-0.63%
China 5Y CDS	42	-1	-2
Malaysia 5Y CDS	51	0	-6
Indonesia 5Y CDS	85	0	-7
Thailand 5Y CDS	33	-2	-1

	23-Jul	1W chg	1M chg
Brent Crude Spot ($/bbl)	63.28	-1.66%	-2.94%
Gold Spot ($/oz)	1,416.71	0.75%	-0.21%
CRB	178.55	-2.48%	0.02%
GSCI	416.86	-3.26%	-1.02%
VIX	13.53	6.70%	-12.14%
CT10 (bp)	2.055%	-4.75	0.11
USD Swap Spread 10Y (bp)	-7	0	0
USD Swap Spread 30Y (bp)	-35	-1	-1
US Libor-OIS Spread (bp)	19	-3	1
Euro Libor-OIS Spread (bp)	6	0	1
DJIA	27,172	-0.68%	1.69%
SPX	2,985	-0.97%	1.17%
MSCI Asiax	650	-0.55%	0.13%
HSI	28,371	-0.87%	-0.36%
STI	3,365	0.14%	1.30%
KLCI	1,656	-0.80%	-1.59%
JCI	6,434	0.24%	1.87%

New issues:

- Dalian Deta Holding Co., Ltd has priced a USD300mn 3-year bond at 6.0%, tightening from IPT at 6.25% area.
- KWG Group Holdings Ltd has priced a USD300mn 4.6NC2.6 bond at 7.45%, tightening from IPT at 7.75% area.
- Greenko Solar (Mauritius) Ltd (guarantor: Greenko Energy Holdings Ltd) has priced a USD500mn 5.5NC2.5 bond at 5.55% (tightening from IPT at 5.875% area), and a USD450mn 7NC3 bond at 5.95% (tightening from IPT at 6.25% area).
- China Development Bank Corporation of Hong Kong has priced a USD150mn 3-year FRN at 3-month US LIBOR+54bps, and a USD230mn 5-year FRN at 3-month US LIBOR+64bps.
- Coastal Emerald Ltd has priced a USD100mn 10NC7 bond at 4.3%.
- Changde Economic Construction Investment Group Co., Ltd has scheduled investor meetings commencing on 23 July for its potential USD bond issuance.
- Shandong Hi-Speed Group Co., Ltd has scheduled investor meetings commencing on 22 July for its potential USD bond issuance.

Date		Size	Tenor	Pricing
22-Jul-19	Dalian Deta Holding Co., Ltd	USD300mn	3-year	6.0%
22-Jul-19	KWG Group Holdings Ltd	USD300mn	4.6NC2.6	7.45%
22-Jul-19	Greenko Solar (Mauritius) Ltd	USD500mn	5.5NC2.5	5.55%
22-Jul-19	China Development Bank Corporation of Hong Kong	USD150mn USD230mn	3-year FRN 5-year FRN	3M-US LIBOR+54bps 3M-US LIBOR+64bps
22-Jul-19	Coastal Emerald Ltd	USD100mn	10NC7	4.3%
18-Jul-19	FWD Group Ltd	USD250mn	FWDGRP 5.75%'24s	5.5%
18-Jul-19	Jingrui Holdings Ltd	USD260mn	3-year	12.0%
18-Jul-19	Xingsheng (BVI) Company Ltd	USD500mn	3-year	T+160bps
18-Jul-19	China Oil and Gas Group Ltd	USD320mn	3.5NC2	5.7%,
18-Jul-19	REC Ltd	USD650mn	5-year	T+167.5bps

Source: OCBC, Bloomberg

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