OCBC TREASURY RESEARCH

Asian Credit Daily

Wednesday, October 23, 2019

Market Commentary

- The SGD swap curve bull-flattened slightly yesterday, with the shorter tenors traded 2-3bps lower, while the belly and longer tenors traded around 3bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 131bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 15bps to 507bps. The HY-IG Index spread tightened by 15bps to 376bps.
- Flows in SGD corporates were heavy, with large ticket flows in CAPLSP 3.65%-PERP. We also saw flows in UBS 4.85%-PERPs, KITSP 4.75%-PERPs and HPLSP 4.4%-PERPs.
- 10Y USTs yields fell 3.9bps to 1.76% on uncertainty regarding Brexit, with UK PM Boris Johnson failing to get his withdrawal agreement deal fast-tracked to prevent further delays in Brexit.

Credit Research

Andrew Wong
+65 6530 4736
WongVKAM@ocbc.com

Ezien Hoo, CFA
+65 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA
+65 6722 2533
WongHongWei@ocbc.com

Seow Zhi Qi
+65 6530 7348
zhiqiseow@ocbc.com

Credit Summary:

- Suntec REIT **| Neutral (4):** SUNTEC reported 3QFY2019 results for the quarter ending 30 Sep 2019. Revenue rose 3.5% y/y to SGD91.9mn with net property income ("NPI") rising 3.2% y/y to SGD58.4mn. Occupancy was at 98.6%, lower q/q (2Q2019: 99.1%). Aggregate leverage is 38.2%, also lower q/q (2Q2019: 38.3%). The credit profile of SUNTEC may evolve due to the pending acquisition and additions to its office portfolio. We continue to hold SUNTEC at an Issuer Profile of Neutral (4) for now.
- UBS Group AG **| Neutral (3):** UBS reported its 3Q2019 and 9M2019 results with 3Q2019 net profit of USD1.0bn down 16.3% y/y. For the 9M2019, net profit was down 14.7% y/y to USD3.6bn. Operating expenses remained stable y/y. UBS's CET1 capital position weakened to 13.1% as at 30 September 2019, down from 13.3% as at 30 June 2019, but still remains above its capital guidance of around 13.0% and minimum CET1 capital ratio requirements of 10.3% as at 1 January 2020.
- CapitaLand Commercial Trust **| Neutral (3):** CCT reported 3Q2019 results. Gross revenue grew by 3.3% y/y to SGD103.8mn. NPI grew by a smaller extent, +0.9% y/y to SGD81.8mn. CCT's portfolio committed occupancy fell slightly to 97.6%, aggregate leverage rose slightly to 35.5%. With the completion of the merger of CAPL and Ascendas-Singbridge, CCT can look forward to a larger pipeline of projects in Singapore from its Sponsor.
- Frasers Centrepoint Trust **| Neutral (3):** FCT reported its fourth quarter results for financial year ended 30 September 2019 ("4QFY2019"). Gross revenue was up 2.8% y/y to SGD49.6mn. Portfolio occupancy was somewhat stable at 96.5% as at 30 Sep 2019. Aggregate leverage climbed to 32.6%. Overall, we think FCT's credit health remains intact and will continue to maintain it's issuer profile at Neutral (3).
- Mapletree Industrial Trust **| Neutral (3):** MINT reported its 2QFY2020 results for financial year ending 31 March 2020. Gross revenue increased 10.5% y/y to SGD101.9mn, portfolio occupancy was somewhat stable at 90.2%. Aggregate leverage of MINT was lower at 29.2%. As at 30 Sep 2019, MINT has SGD224.7mn of cash on hand. As such, we see refinancing risk as very low. We will maintain MINT at Neutral (3) Issuer Profile.

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Credit Headlines

Suntec Real Estate Investment Trust ("SUNTEC") | Issuer Profile: Neutral (4)

- SUNTEC reported 3QFY2019 results for the quarter ending 30 Sep 2019. Revenue rose 3.5% y/y to SGD91.9mn with net property income ("NPI") rising 3.2% y/y to SGD58.4mn.
  - Stronger results are mainly due to higher contribution from Suntec City (Revenue: +4.5% y/y to SGD60.9mn, NPI: +3.4% y/y to SGD180.7mn), with the office component seeing better occupancy and the retail portion recording higher rental rates.
  - In addition, SUNTEC recorded maiden contribution from 55 Currie Street which was acquired on 10 Sep 2019 for AUD148.3mn.
  - However, Suntec Singapore saw smaller scale of events resulting in gross revenue falling 2.0% y/y to SGD20.6mn and NPI falling 6.3% y/y to SGD7.0mn.
  - 177 Pacific Highway remained largely unchanged y/y.
- Meanwhile, SUNTEC's JVs also contributed more (income contribution: +14.4% y/y to SGD26.5mn), which includes one-third interest in One Raffles Quay (+6.2% y/y to SGD6.1mn), one-third interest in MBFC properties (+18.0% y/y to SGD15.8mn) as well as 50%-interest in Southgate Complex (+14.0% y/y to SGD4.6mn).
- Overall, portfolio statistics are decent with occupancy at 98.6% (2Q2019: 99.1%), with the slight dip due to the newly acquired 55 Currie Street with 91.7% committed occupancy. SUNTEC also reported good rent reversions in 3Q2019. Going forward, management expects its Singapore office portfolio to perform well due to positive rent reversions and Suntec City retail to do well.
- SUNTEC's portfolio is expected to evolve due to two new additions to its office portfolio:
  - 9 Penang Road (NLA: 119k sq ft) is expected to complete in 2H2020, which is 100%-pre-leased to UBS. However, we note that UBS is undertaking job cuts globally and we will monitor for developments and the impact to SUNTEC.
  - Olderfleet, 477 Collins Street, Australia (NLA: 312k sq ft) is expected to complete in mid-2020 and is 87% pre-committed.
- In addition, SUNTEC is pending the completion of acquisition of 21 Harris Street, Pyrmont, Sydney for AUD307.7mn (~SGD295.4mn). This property is expected to complete in 1Q2020, with pre-committed occupancy of 65%.
- Aggregate leverage is 38.2%, which has fallen slightly q/q (2Q2019: 38.3%). This is somewhat higher than its REIT peers under our coverage. We note that the credit profile of SUNTEC may evolve due to the pending acquisition and additions to its office portfolio though we continue to hold SUNTEC at an Issuer Profile of Neutral (4) for now. (Company, OCBC)

Credit Headlines

UBS Group AG ("UBS") | Issuer Profile: Neutral (3)

- UBS reported its 3Q2019 and 9M2019 results with 3Q2019 net profit of USD1.0bn down 16.3% y/y. This was driven by a 4.6% y/y fall in operating income with operating expenses stable y/y. For the 9M2019, net profit was down 14.7% y/y to USD3.6bn due to a larger fall in operating income (-6.0% y/y) than the fall in operating expenses (-3.0% y/y).
- The weaker operating income performance for 3Q2019 was due to lower net interest income, lower other net income from financial instruments measured at fair value through profit or loss, and falls in other income and net fee and commission income. Most of the net interest income fall came from the Investment Bank due to challenging market conditions and lower leveraged finance solutions in Corporate Client Solutions.
- At the same time, operating expenses remained stable y/y as lease expenses related to IFRS16 shifted from general and administrative expenses to depreciation, amortization and impairment of property, equipment and software and personnel expenses were higher due to higher salaries and variable compensation and pension and other post-employment benefit plan expenses. As a result, the reported cost to income ratio rose to 80.6% in 3Q2019 from 77.0% in 3Q2018. Credit losses rose to USD38mn in 3Q2019 against USD10mn in 3Q2018 from a single exposure within Personal & Corporate Banking.
- From a segment perspective, operating profit before tax rose 3% and 5% y/y for 3Q2019 respectively for Global Wealth Management and Asset Management. Conversely, Personal & Corporate Banking (-10% y/y for 3Q2019 from higher credit losses and lower net interest income) and Investment Bank (-62% y/y from lower fees in Corporate Client Solutions and lower client activity in Equities as well as higher operating expenses.) performed weaker.
- UBS's CET1 capital position weakened y/y and q/q but still remains above its capital guidance of around 13.0% and minimum CET1 capital ratio requirements of 10.3% (including countercyclical buffer) as at 1 January 2020. This was due to a USD2.5bn rise in risk weighted assets from higher asset growth against the impact of currency effects, regulatory movements and model updates. At the same time, CET1 capital fell USD0.3bn due to accruals for capital returns to shareholders, share repurchase program, and foreign currency effects. Its CET1 ratio as at 30 September 2019 was 13.1%, down from 13.3% as at 30 June 2019, 12.9% as at 31 December 2018 and 13.5% as at 30 September 2018.
- Given the challenging results by segment, UBS has announced it is implementing structural changes at the investment bank through a variety of initiatives to reposition the division towards more profitable activities and position it better to digital transformation. This is expected to result in restructuring expenses of USD100mn in 4Q2019. We continue to review the numbers (Company, OCBC).

Credit Headlines

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

- CCT reported 3Q2019 results. Gross revenue grew by 3.3% y/y to SGD103.8mn. This was largely due to higher contribution from 21 Collyer Quay, Asia Square Tower 2 (also saw an one-off compensation of SGD2.1mn received from a tenant for early surrender of lease), Capital Tower and Galileo and the acquisition of a 94.9% interest in Main Airport Center (completed on 17 Sep 2019). This though was partially offset by the divestment of Twenty Anson and lower contributions from Six Battery Road and Bugis Village.
- NPI grew by a smaller extend (0.9% y/y to SGD81.8mn) 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 fell slightly to 97.6% (30 June 2019: 98.6%, 31 March 2019: 99.1%), largely due to the newly acquired Main Airport Center, which has occupancy of 93.1%. CCT has completed the negotiation for most of its expiring leases for 2019. We note that for 2020, the average rent of leases expiring is SGD9.60psf, against the 3Q2019 Grade A office market rent at SGD11.45psf pm according to CBRE. As such we continue to think that CCT can maintain its positive rental reversion beyond 2019.
- Aggregate leverage rose slightly to 35.5% from 34.8% in the preceding quarter as expected following the acquisition of Main Airport Centre. We think aggregate leverage may continue to rise further to ~37% handle with the upcoming capital requirements – (1) SGD35mn AEI at 6 Battery Road from 1Q2020 to 3Q2021, (2) SGD45mn upgrading works at 21 Collyer Quay from 2Q2020 to 4Q2020 and (3) CapitaSpring, 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 SGD245.7mn. 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 (4% of total borrowings) in 2019. Majority of CCT's assets (78.5%) are unencumbered except for CapitaGreen and Gallileo.
- We note that CapitalSpring has a committed occupancy rate of ~31%, the two new leases are from the Real Estate and Property Services sector with one of them being The Work Project (Commercial) Pte Ptd, a wholly owned subsidiary of the JV between The Work Project and Sponsor, CapitaLand.
- 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 merger of CAPL and Ascendas-Singbridge, CCT can look forward to a larger pipeline of projects in Singapore from its Sponsor. (Company, OCBC)

Credit Headlines

Frasers Centrepoint Trust ("FCT") | Issuer Profile: Neutral (3)

- FCT reported its fourth quarter results for financial year ended 30 September 2019 ("4QFY2019"). Gross revenue was up 2.8% y/y to SGD49.6mn if we were to exclude the effects of FRS116 and FRS109. Improvement was across the portfolio, and largely driven by Northpoint City North Wing. That said, Causeway Point saw revenue dip by ~0.1% y/y due to the construction works of the underground pedestrian link which is targeted for completion in Dec 2019. As a result, occupancy at Causeway Point was lower at 97.0% from 98.4% a year ago. NPI (excluding accounting adjustments) was up by 4.8% y/y to SGD32.6mn, as expenses related to utilities, marketing, and maintenance was lower.
- Portfolio occupancy was somewhat stable at 96.5% as at 30 Sep 2019, it would have been higher at 97.2% if we were to adjust for the pre-committed spaces at Anchorpoint. Average rental reversion for FCT was +4.8% over FY2019, compared to +3.2% in FY2018. Looking forward, FY2020 will see 35.7% of FCT's portfolio by gross rental income coming due. Management has shared that ~44% of which has been pre-committed.
- While shopper traffic was up 8.9% y/y in 4Q2019 (attributed mainly to higher traffic registered at Northpoint City North Wing), tenants' sales was flat y/y over the quarter as the construction work at Causeway Point erased the gains recorded at the other malls. We would expect growth in tenants' sales to become positive again once the underground pedestrian link construction is completed.
- Aggregate leverage climbed to 32.6% (3QFY2019: 23.5%, 2QFY2019: 28.6%). This is in line with our expectation as FCT has earlier acquired 40% stake in Waterway Point. As a result, reported interest coverage was lower at 4.47x (3QFY2019: 4.52x, 2QFY2019: 5.61x) despite flat borrowing cost.
- In FY2020, FCT has SGD295.1mn of borrowings (28.3% of total) coming due. This includes FCTSP 3.0% '20s (issue amount: SGD70mn) and FCTSP 2.365% '20s (issue amount: SGD90mn). Should FCT tap the bond market to refinance these bonds which are currently trading at 2-2.2% yield region, FCT would possibly lower its all-in cost of borrowings which is currently at 2.6%. FCT's assets remain largely unencumbered, except for some of its smaller malls namely Anchorpoint, Yew Tee Point and Changi City Point. Overall, we think FCT's credit health remains intact and will continue to maintain it's issuer profile at Neutral (3) (Company, OCBC).

Credit Headlines

Mapletree Industrial Trust ("MINT") | Issuer Profile: Neutral (3)

- MINT reported its 2QFY2020 results for financial year ending 31 March 2020. Gross revenue increased 10.5% y/y to SGD101.9mn, largely due to contribution from 18 Tai Seng, 30A Kallang Place and Mapletree Sunview 1. NPI moved in tandem and grew by 13.3% y/y to SGD80.0mn, as property operating expenses did not increase as much. Q/q, revenue and NPI grew by 2.3% and 2.7% respectively, due to improved occupancies from Business Park Buildings (81.9% from 79.3%), Flatted Factories (88.1% from 87.9%) and 30A Kallang Place, though partially offset by higher marketing commission.
- Overall, portfolio occupancy was somewhat stable at 90.2%, with US portfolio occupancy rate unchanged at 97.4%. 7.2% of MINT's portfolio leases by gross rental income will come due for the remainder of FY2020. Flatted Factories with a retention ratio of 80% (lowest in MINT's portfolio by segment) continue to make up the bulk of these leases.
- With the acquisition of Data centres announced on 17 Sep 2019, Hi-Tech Buildings will make up 52.9% of MINT's portfolio, followed by Flatted Factories at 27.4%
- MINT's redevelopment of the Kolam Ayer 2 Flatted Factory Cluster into a high-tech industrial precinct is expected to cost SGD263mn. Construction works is expected to commence in 2H2020 and complete in 2H2022. The works will increase the plot ratio from 1.5 to 2.5. We note that 59 out of 108 existing tenants have committed to new leases at alternative MINT clusters, and management has extended a small discount to these tenants.
- Aggregate leverage of MINT was lower at 29.2% from 33.4% in 1QFY2020 and 33.8% in 4QFY2019, as part of the proceeds from the equity fund raising exercise was used to repay some of its debt. Reported interest coverage was stable at 6.6x. MINT has no debt maturing in FY2020 and just SGD100mn debt maturing in FY2021, along with a well-distributed maturing debt profile with a maximum of ~20% of total debt maturing each year. As at 30 Sep 2019, MINT has SGD224.7mn of cash on hand. As such, we see refinancing risk as very low. We also note that its USD investment in JV is matched with USD borrowings, and ~89% of its 3QFY2020 net USD income stream is hedged into SGD. We will maintain MINT at Neutral (3) Issuer Profile (Company, OCBC).

Key Market Movements

	23-Oct	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	69	-3	-4
iTraxx SovX APAC	31	-3	-4
iTraxx Japan	60	1	-2
iTraxx Australia	61	-2	-6
CDX NA IG	55	-2	-5
CDX NA HY	107	0	0
iTraxx Eur Main	50	-2	-5
iTraxx Eur XO	225	-8	1
iTraxx Eur Snr Fin	57	-2	-8
iTraxx Eur Sub Fin	114	-5	-23
iTraxx Sovx WE	12	0	-1
USD Swap Spread 10Y	-7	1	5
USD Swap Spread 30Y	-36	1	6
US Libor-OIS Spread	35	-3	2
Euro Libor-OIS Spread	4	0	-1
China 5Y CDS	39	-4	-7
Malaysia 5Y CDS	44	-4	-5
Indonesia 5Y CDS	79	-6	-9
Thailand 5Y CDS	28	-1	-2
Australia 5Y CDS	18	-1	-2

	23-Oct	1W chg	1M chg
Brent Crude Spot ($/bbl)	59.41	-0.02%	-8.28%
Gold Spot ($/oz)	1,488.92	-0.08%	-2.19%
CRB	175.51	0.43%	-1.76%
GSCI	406.90	0.87%	-3.21%
VIX	14.46	6.79%	-3.02%
CT10 (%)	1.750%	1.07	2.35
AUD/USD	0.685	1.41%	1.20%
EUR/USD	1.113	0.48%	1.20%
USD/SGD	1.364	0.48%	1.06%
AUD/SGD	0.935	-0.92%	-0.18%
ASX 200	6,650	-1.29%	-1.48%
DJIA	26,788	-0.88%	-0.60%
SPX	2,996	0.01%	0.14%
MSCI Asiax	637	0.45%	1.69%
HSI	26,772	0.40%	2.10%
STI	3,153	0.59%	0.32%
KLCI	1,571	-0.25%	-1.38%
JCI	6,225	1.09%	0.31%
EU Stoxx 50	3,605	0.17%	1.92%

Source: Bloomberg

New Issues

- Li & Fung Ltd priced a USD100mn re-tap of its existing LIFUNG 4.375%'24s at 4.375%.
- SEPCO Virgin Limited (Guarantor: Power Construction Corporation of China) priced a USD300mn NC5-Perpetual bond at 3.55%, tightening from IPT of 3.9% area.
- Hotel Properties Ltd priced a SGD15mn re-tap of its existing HPLSP 4.4%-PERPs at 4.4%.
- PCGI Limited mandated banks for its potential 5-year USD bond issuance.
- Ayala Corp.'s AYC Finance mandated banks for its potential USD perpetual bond issuance.

Date	Issuer	Size	Tenor	Pricing
22-Oct-19	Li & Fung Ltd	USD100mn	LIFUNG 4.375%'24s	4.375%
22-Oct-19	SEPCO Virgin Limited	USD300mn	NC5-Perpetual	3.55%
22-Oct-19	Hotel Properties Ltd	SGD15mn	HPLSP 4.4%-PERPs	4.4%
21-Oct-19	Muthoot Finance Ltd	USD450mn	3-year	6.125%
21-Oct-19	Avenue International Holding Limited	USD300mn	363-day	3.475%
21-Oct-19	Bocom Leasing Management Hong Kong Company Limited	USD180mn	3-year FRN	3m-US LIBOR+105bps
21-Oct-19	PTT Treasury Center Company Limited	USD244.955mn USD330.09mn	16-year 23-year	5.875% 4.5%
18-Oct-19	Ronshine China Holdings Ltd	USD120mn	8.95% RONXIN'23s	8.95%
18-Oct-19	Industrial and Commercial Bank of China Limited of Luxembourg	USD100mn	3-year FRN	3m-US LIBOR+66bps
18-Oct-19	China Development Bank Corporation of Hong Kong	USD100mn	3-year FRN	3m-US LIBOR+45bps
17-Oct-19	CITIC Securities Finance MTN Co., Ltd	USD500mn USD200mn	3-year 5-year	T+127.5bps T+142.5bps
17-Oct-19	Yibin Emerging Industry Investment Group Co., Ltd	USD300mn	364-day	5.0%
17-Oct-19	Health and Happiness (H&H) International Holdings Ltd	USD300mn	5NC2	5.625%
17-Oct-19	State Elite Global Limited	USD700mn	5-year FRN	3m-US LIBOR+77bps
17-Oct-19	Soar Wise Limited	USD200mn	NC3-Perpetual	3.45%

Source: OCBC, Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Emmanuel Ng
Senior FX Strategist
NgCYEmmanuel@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu
Hong Kong & Macau
dicksnyu@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

Co.Reg.no.:193200032W