

July 24, 2019

**Credit Headlines: Mapletree Industrial Trust, China Aoyuan Group Ltd, UBS Group AG, Frasers Centrepoint Trust**

## **Market Commentary**

- The SGD swap curve bear-flattened yesterday, with the shorter tenors and belly traded 1-2bps higher, while the longer tenors traded 0-2bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 129bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 479bps.
- Flows in SGD corporates were heavy, with flows in FPLSP 4.98%-PERPs, FPLSP 4.88%-PERPs, FPLSP 3.95%-PERPs, OUESP 3.55%'23s, WINGTA 4.48%-PERPs and UOBSP 3.5%'29s.
- 10Y USTs gained 3bps to 2.08%, as reports of face-to-face trade meetings between the US and China reduced demand for safe-haven treasuries. Spread between 3-month treasury bills and 10-year treasury notes is at +4bps.

## **Credit Headlines**

### **Mapletree Industrial Trust (“MINT”) | Issuer Profile: Neutral (3)**

- MINT reported its 1QFY2020 results for financial year ended 31 March 2020. Gross revenue increased 8.8% y/y to SGD99.6mn, largely due to contribution from 18 Tai Seng, 30A Kallang Place and Mapletree Sunview 1. Likewise, NPI grew by 12.2% y/y to SGD77.9mn, on the back of lower property maintenance expenses. Q/q, revenue and NPI grew by 0.8% and 2.7% respectively.
- Portfolio occupancy improved to 90.8% from 90.2% in the previous quarter, driven by the Hi-Tech Buildings segment in Singapore. US portfolio occupancy rate remained unchanged at 97.4%. We see 12.3% of leases (by gross rental income) expiring in FY2020 and Flatted Factories continue to make up the bulk of these leases (retention rate for this segment is 75.5%).
- We note that Flatted Factories is the largest contributor to MINT’s gross revenue and NPI even though its contributions have been gradually declining and a shift towards Hi-Tech Buildings has been observed.
- MINT is also redeveloping the [Kolam Ayer 2 Flatted Factory Cluster](#) into a high-tech industrial precinct to unlock value for the portfolio and utilize untapped plot ratio. Construction works is expected to commence in 2H2020 and complete in 2H2022. Separately, MINT has also completed the upgrading of 7 Tai Seng Drive on 3rd July, with leases expected to commence on 20 July 2019. This property is 100% committed by Equinix Singapore for a term of 25 years (including 2 months of rent-free period) with annual rental escalations.
- MINT has SGD75mn debt maturing in FY2020 along with a well-distributed maturing debt profile with a maximum of ~19% of total debt maturing each year. We see refinancing risk as manageable. Aggregate leverage improved to 33.4% from 33.8% in 4QFY2019 with interest coverage slightly better at 6.6x. (Company, OCBC).

## Credit Headlines (cont'd)

### **China Aoyuan Group Limited (“CAPG”) | Issuer Profile: Neutral (5)**

- CAPG announced that it has entered into share transfer agreements to buy ~13.86%-stake in Aeon Life Insurance Company Ltd (“Aeon Life”, Issuer profile: Unrated) for RMB3.26bn. Aeon Life is an insurer based in Dalian and we note no relation to Japan-headquartered AEON Financial Service Co., Ltd. The price tag implies an equity valuation of RMB23.5bn and an acquisition multiple using price-to-book of 4.1x, which is high versus listed Chinese insurers.
- CAPG is proposing to buy the stakes from three vendors, namely Dalian City Construction Group Ltd, Dalian Qianhao Kunshi Property Co., Ltd and Dalian Guotai Property Development Co., Ltd. These are understood to be privately held, unlisted companies. The proposed transaction is subject to various conditions precedent, in particular the approval of the China Banking and Insurance Regulatory Commission (“CBIRC”) and update of business registration in respect of the change of shareholders.
- Aeon Life’s revenue and net profit after tax was RMB41.1bn and RMB697.1mn respectively in 2018 (net profit margin of 1.7%). Based on CBIRC’s 1Q2019 data, the sector-wide average solvency ratio and core solvency ratio was 245.3% and 233.4% respectively. The target Aeon Life has a solvency ratio that is significantly lower than sector. Aeon Life’s 2018 solvency ratio and core solvency ratio was at 100.15% and 87.57% respectively, declining from 2017’s solvency ratio and core solvency ratio in 2017 (128.8% and 118.2% respectively).
- While CAPG diversifying beyond property development is not unexpected, it is less apparent what the near term synergies are between an insurance company based in Dalian versus CAPG’s Greater Bay Area focused residential property development business (Bohai Rim makes up ~8% of CAPG’s saleable resources as at end-2018). This is especially more pertinent given the high price tag for AEON Life against its low profitability and below average solvency ratios.
- In December 2018, Greentown China Holdings Limited (“Greentown”, Issuer profile: Unrated), another listed property developer in Hong Kong announced the proposed acquisition of a 11.55%-stake in Aeon Life for RMB2.72bn, though it appears that the transaction has been protracted where regulatory approval has not been obtained at time of writing.
- Whilst CAPG is likely to show a strong set of financial results for 1H2019 which should continue supporting its Neutral (5) issuer profile in the immediate term, we think CAPG’s proposed entry into an unfamiliar business may lead CAPG’s credit ratios to weaken going forward. Additionally, the below average solvency ratios of AEON Life increases the likelihood of future capital calls from shareholders, in our view.
- We will review CAPG’s issuer profile along with its release of its financial results expected next month and may lower our issuer profile of the company at point of transaction completion. (Company, Caixin, OCBC)

**Credit Headlines (cont'd)****UBS Group AG (“UBS”) | Issuer Profile: Neutral (3)**

- UBS reported its 2Q2019 and 1H2019 results with operating profit before tax of USD3.31bn down 13.2% y/y for 1H2019. This was driven by a larger fall in first half operating income (-6.7% y/y) than the fall in operating expenses (-4.7% y/y).
- Operating income performance was dragged by both weaker net interest income (-18.6% y/y due to changes in deposit mix from demand deposits into money market funds and certificates of deposit and loan repricing) and lower net fee and commission income (-6.1% y/y from lower net brokerage fees in Global Wealth Management and the Investment Bank as well as lower investment fund fees and fees for portfolio management and related services mostly in Global Wealth Management).
- Lower operating expenses were driven mostly by lower general and administrative expenses (-22.6% y/y from a reduction in outsourcing costs, litigation, regulatory and similar costs, professional fees and a reallocation of rent expenses following adoption of IFRS16) and a fall in personnel expenses (-1.9% y/y from lower variable and financial advisor compensation and contractor costs that was offset to an extent by higher pension costs). The reported cost to income ratio for 1H2019 of 77.4% improved from 75.7% as at 1H2018.
- By segment, overall y/y operating income performance was impacted mostly by weak performance in the Investment Bank (-16.2% y/y from weaker client activity levels and lower transaction fees in Equity and Debt Capital Markets amongst others) and Global Wealth Management (-6.0% y/y from lower recurring, transaction and net interest income). On the flipside, Corporate Center operating income was marginally positive in 1H2019 (USD17mn) against a USD174mn operating loss in 1H2018. This performance fed through to reported operating profit before tax with the Investment Bank (-42.9% y/y) and Global Wealth Management (-15.8% y/y) driving the 13.2% y/y fall in overall operating profit before tax. Otherwise, other segments most notably the Corporate Center (+79.1% y/y on better net treasury income and lower operating expenses) but also Personal & Corporate Banking (+3.1% y/y on better transaction income, loan growth and credit loss recoveries) and Asset Management (+12.9% y/y on stable operating income and lower operating expenses) improved in 1H2019. Overall, Global Wealth Management continues to contribute more than half (52.6%) of UBS's total 1H2019 operating profit before tax followed by Personal & Corporate Banking (23.5%) and the Investment Bank (19.2%)
- UBS's capital position improved h/h as a result of capital growth and a reduction in risk weighted assets from changes in the asset mix as well as methodology and policy changes and lower regulatory add-ons. Its CET1 ratio as at 30 June 2019 was 13.3%, up from 12.9% as at 31 December 2018 and 13.0% as at 31 March 2019. These remain 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 for UBS which are stringent due to both higher obligations for systemically important banks under Swiss legislation (minimums include both going concern and gone concern requirements), its dominant domestic market position as well as its classification as a global systemically important bank. Its Total Loss- Absorbing Capacity as at 30 June 2019 of 25.3% is also above its minimum requirement of 33.3%.
- UBS is also subject to Swiss leverage ratio requirements for systemically relevant banks with a minimum going concern requirement of 5.0% and minimum total loss-absorbing capacity leverage ratio requirement of 8.8%. As at 30 June 2019, UBS was above these requirements at 5.5% and 9.6% respectively. The results are consistent with our Neutral (3) issuer profile. (Company, OCBC)

## Credit Headlines (cont'd)

### **Frasers Centrepont Trust ("FCT") | Issuer Profile: Neutral (3)**

- FCT reported its third quarter results for financial year ending 30 September 2019 ("3QFY2019"). Gross revenue was up 1.6% y/y to SGD49.1mn. The top line improvement was broad-based, with all malls other than Causeway Point registering higher occupancy relative to a year ago. Occupancy at Causeway Point was affected by the AEI works for the Underground Pedestrian Link which commenced in April 2019. NPI however was down by 1.1% y/y to SGD34.6mn, mainly due to the absence of property tax refund.
- Portfolio occupancy was 96.8% as at 30 June 2019 with 6.8% of FCT's total NLA renewed at an average rental reversion of +3.1% during the quarter. Looking forward, there is a remaining 5.6% of leases by gross rental income coming due in FY2019 (bulk of which is at Anchorpoint) and 37.3% in FY2020.
- Shopper traffic was up 6.1% y/y from Apr – Jun 2019 along with tenants' sales which rose 2.9% y/y over the same period. The gain in shopper traffic was largely registered at Northpoint City North Wing and YewTee Point.
- The financial position of FCT remains firm with aggregate leverage lower at 23.5% (2QFY2019: 28.6%), though reported interest coverage fell to 4.52x (2QFY2019: 5.61x) as average cost of borrowings rose 0.1% to 2.7%. FCT only has a bank borrowing of SGD43mn, 5.7% of total debt maturing in FY2019 (the other amounts have been refinanced). We see refinancing risk as minimal given FCT also has 77.2% of assets unencumbered.
- The improvement in aggregate leverage is a result of FCT having raised SGD437.4mn equity to fund its two significant acquisitions over the quarter (1) 21.13% stake in PGIM ARF and (2) one-third stake in Waterway Point. We are maintaining FCT at Neutral (3) Issuer profile. (Company, OCBC).

**Table 1: Key Financial Indicators**

	24-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	60	-4	-5
iTraxx SovX APAC	39	-1	-3
iTraxx Japan	56	-3	-6
iTraxx Australia	61	-2	-3
CDX NA IG	51	-4	-5
CDX NA HY	107	0	0
iTraxx Eur Main	48	-3	-7
iTraxx Eur XO	243	-6	-14
iTraxx Eur Snr Fin	56	-6	-12
iTraxx Sovx WE	16	1	-1
AUD/USD	0.698	-0.39%	0.29%
EUR/USD	1.115	-0.69%	-2.21%
USD/SGD	1.366	-0.34%	-0.89%
China 5Y CDS	41	-2	-2
Malaysia 5Y CDS	50	-3	-8
Indonesia 5Y CDS	84	-2	-7
Thailand 5Y CDS	32	-1	-1

	24-Jul	1W chg	1M chg
Brent Crude Spot (\$/bbl)	64.02	0.57%	-1.30%
Gold Spot (\$/oz)	1,420.15	-0.45%	0.03%
CRB	179.04	-0.58%	-0.53%
GSCI	419.74	-0.77%	-0.72%
VIX	12.61	-1.94%	-17.37%
CT10 (bp)	2.074%	2.91	5.99
USD Swap Spread 10Y (bp)	-7	0	0
USD Swap Spread 30Y (bp)	-36	-1	-1
US Libor-OIS Spread (bp)	22	-3	3
Euro Libor-OIS Spread (bp)	6	0	1
DJIA	27,349	0.05%	2.33%
SPX	3,005	0.05%	2.04%
MSCI Asiax	653	0.16%	0.36%
HSI	28,466	-0.54%	-0.16%
STI	3,373	0.25%	1.86%
KLCI	1,656	-0.11%	-1.22%
JCI	6,404	0.03%	1.83%

## New issues:

- PT Pertamina Persero has priced a USD750mn 10-year bond at 3.65% (tightening from IPT at 4.0% area), and a USD750mn 30-year bond at 4.7% (tightening from IPT at 5.05% area).
- Hanwha Energy USA Holdings Corporation (Guarantor: Korea Development Bank) has priced a USD300mn 3-year bond at T+70bps, tightening from IPT at T+95bps area.
- Agricultural Bank of China Ltd Hong Kong Branch has priced a USD1.0bn 3-year FRN at 3-month US LIBOR+68bps, tightening from IPT at 3-month US LIBOR+95bps area.
- Frasers Property Treasury Pte. Ltd (Guarantor: Frasers Property Ltd) has priced a SGD200mn re-tap of its existing FPLSP 4.98%-PERP at 4.85%, tightening from initial guidance of 4.9% area.
- Export-Import Bank of India has mandated banks for its potential USD1.0bn 10-year bond issuance.

<u>Date</u>		<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
23-Jul-19	PT Pertamina Persero	USD750mn USD750mn	10-year 30-year	3.65% 4.7%
23-Jul-19	Hanwha Energy USA Holdings Corporation	USD300mn	3-year	T+70bps
23-Jul-19	Agricultural Bank of China Ltd Hong Kong Branch	USD1.0bn	3-year FRN	3M-US LIBOR+68bps
23-Jul-19	Frasers Property Treasury Pte. Ltd	SGD200mn	FPLSP 4.98%-PERP	4.85%
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%

Source: OCBC, Bloomberg

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