

Apr 25, 2019

Credit Headlines: Suntec Real Estate Investment Trust, CapitaLand Retail China Trust

Market Commentary

- The SGD swap curve flattened yesterday, with the shorter tenors trading 1-2bps lower while the belly and longer tenors traded 3-4bps lower (exception being the 12-year swap rate at 7bps lower).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 131bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 472bps.
- Flows in SGD corporates were heavy, with flows in SOCGEN 6.125%-PERPs, CMZB 4.875%'27s, FPLSP 4.98%-PERPs, WINGTA 4.35%-PERPs, ARASP 4.15%'24s, ARASP 5.2%-PERPs, DBSSP 3.98%-PERPs and GUOLSP 4.6%-PERPs.
- 10Y UST yields fell 5bps to 2.52%, on the back of safe haven demand due to weak data released out of Germany and Australia, lowering of growth forecast by Bank of Canada and strong demand seen during the auction of USD41bn 5-year treasury notes.

Credit Headlines

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

- SUN raised ~SGD200mn of gross proceeds via an equity private placement (net proceeds of ~SGD195.9mn after deducting transaction costs). The units were placed out at SGD1.80 per unit representing a discount of 2.5% to the adjusted volume weighted average price of all trades on the full market day on 24 April 2019 (less of cumulative distribution). At launch, SUN had expressed to raise gross proceeds of ~SGD147.7mn based on the minimum issue price and ~SGD149.9mn based on the maximum issue price but with an upsized option of SGD50mn which was exercised.
- ~SGD167.5mn of the gross proceeds is intended to be used to finance the purchase of Australian asset(s), while ~SGD28.4mn is intended for the refinancing of existing debt and/or funding asset enhancement and capex.
- In May 2018, SUN had increased its stake in Southgate Complex to 50% from 25%, the balance 50% stake for Southgate Complex is ~SGD350mn and in our view this fundraising will partly go towards the funding for the remaining 50%-stake. As at 31 March 2019, Southgate Complex had improved its committed occupancy to 99.5% (end-2018: committed occupancy of 98.8%). (Company, OCBC)

Credit Headlines (cont'd)

CapitaLand Retail China Trust ("CRCT") | Issuer Profile: Neutral (4)

- CRCT announced its 1Q2019 results. In RMB terms, gross revenue was up 4.5% y/y to RMB279.6mn while NPI was up 10.7% y/y to RMB198.9mn. The improvement was largely driven by stronger rental growth across the core multi-tenanted malls (except CapitaMall Qibao which saw a small dip of 0.9% y/y in revenue), offset mainly by lower revenue in CapitaMall Wuhu ([closed during process of divestment](#)) and CapitaMall Minzhongleyuan (undergoing tenant mix adjustments). In SGD terms however, gross revenue and NPI were up by a smaller extent of 1.1% y/y and 7.0% y/y respectively, weighed down by the stronger SGD against RMB.
- Portfolio occupancy as at 31 March 2019 was marginally lower q/q at 97.4% (4Q2018: 97.5%), due to the ongoing stabilisation process at CapitaMall Minzhongleyuan. Rental reversion in 1Q2019 was +9.5% while weighted average lease expiry ("WALE") by gross rental income as at 31 March 2019 was 2.8 years. It is noteworthy that the leases expiring in 2019 constitutes 23.9% of total gross rental income. While this is a significant portion, the number includes leases under CapitaMall Saihan which is in the process being divested and majority of the expiring leases are from CRCT's multi-tenanted malls which remain attractive to tenants in our view (with improvements in total shopper traffic and tenants' sales of 14.0% y/y and 9.8% y/y respectively in 1Q2019).
- Aggregate leverage (including the proportionate share of its JV's borrowings and deposited property) was 35.5% (4Q2018: 35.4%) and reported interest coverage dropped to 5.0x (4Q2018: 5.3x). CRCT has SGD77.1mn of debt due in 2019 from its unsecured money market line, however with fully-unencumbered assets and SGD159.3mn of cash on hand as at 31 March 2019, we think that CRCT's credit metrics remains intact.
- [The bundle deal entered in Hohhot to divest CapitaMall Saihan and acquire Yuquan Mall](#) is still under progress and CRCT targets to take over the property in 2H2019. Meanwhile, CRCT has paid SGD32.4mn as deposit for the acquisition. We maintain CRCT's issuer profile at Neutral (4). (Company, OCBC)

Table 1: Key Financial Indicators

	25-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	64	0	-9
iTraxx SovX APAC	42	0	-5
iTraxx Japan	54	0	-8
iTraxx Australia	66	-2	-11
CDX NA IG	58	1	-11
CDX NA HY	107	0	2
iTraxx Eur Main	59	2	-10
iTraxx Eur XO	252	5	-31
iTraxx Eur Snr Fin	71	3	-18
iTraxx Sovx WE	18	1	-1
AUD/USD	0.702	-1.82%	-1.28%
EUR/USD	1.116	-0.64%	-1.36%
USD/SGD	1.362	-0.44%	-0.87%
China 5Y CDS	41	1	-7
Malaysia 5Y CDS	54	1	-12
Indonesia 5Y CDS	93	1	-11
Thailand 5Y CDS	36	-1	-8

	25-Apr	1W chg	1M chg
Brent Crude Spot (\$/bbl)	74.63	4.20%	11.04%
Gold Spot (\$/oz)	1,276.56	0.06%	-3.43%
CRB	186.49	-0.42%	1.19%
GSCI	455.09	1.16%	4.79%
VIX	13.14	7.88%	-19.53%
CT10 (bp)	2.515%	-4.51	11.62
USD Swap Spread 10Y (bp)	-2	-1	3
USD Swap Spread 30Y (bp)	-24	-1	5
US Libor-OIS Spread (bp)	18	2	-3
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	26,597	0.55%	4.23%
SPX	2,927	0.69%	4.61%
MSCI Asiax	679	-0.59%	3.89%
HSI	29,782	-1.15%	4.41%
STI	3,358	0.27%	5.49%
KLCI	1,634	0.85%	-0.95%
JCI	6,403	-1.22%	-0.14%

New issues

- Credit Agricole S.A. has priced a SGD325mn 12NC7 bond at 3.8%, tightened from IPG of 4.125% area.
- China International Capital Corp Ltd has scheduled investor meetings from 24 April for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
24-Apr-19	Credit Agricole S.A.	SGD325mn	12NC7	3.8%
23-Apr-19	Redco Properties Group Ltd	USD180mn	2-year	99.337+accrued
23-Apr-19	Metro Holdings Ltd/Singapore	SGD35mn	METRO 4.3%'24s	100+accrued
17-Apr-19	Ronshine China Holdings Ltd	USD200mn	3.5NC2	8.75%
17-Apr-19	Hejun Shunze Investment Co Ltd	USD330mn	2-year	12.625%
17-Apr-19	Modern Land (China) Co Ltd	USD300mn	2.5-year	12.7%
17-Apr-19	Huai'an Water Conservancy Holding Group Co Ltd	USD300mn	3-year	6.2%
17-Apr-19	Qatar National Bank Finance Ltd	USD850mn	3-year	3M US LIBOR+100bps
17-Apr-19	Melco Resorts Finance Ltd	USD500mn	7NC3	5.25%
16-Apr-19	Industrial & Commercial Bank of China Ltd	USD900mn USD600mn	3-year 5-year	3M US LIBOR+72bps 3M US LIBOR +83bps
16-Apr-19	New Dian Group Pte Ltd	USD200mn	2-year	8.0%
16-Apr-19	SMC Global Power Holdings Corp	USD500mn	NC5-perpetual	6.5%
15-Apr-19	China Evergrande Group	USD200mn USD400mn USD400mn	EVERRE 9.5%'22s EVERRE 10.0%'23s EVERRE 10.5%'24s	9.5% 10.0% 10.5%
15-Apr-19	Central China Real Estate Limited	USD300mn	4NC2	7.5%

Source: OCBC, Bloomberg

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