OCBC TREASURY RESEARCH

Asian Credit Daily

Friday, October 25, 2019

Market Commentary

- The SGD swap curve bull-steepened yesterday, with the shorter tenors traded around 2bps lower, while the belly and longer tenors traded 0-2bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was little changed at 131bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 506bps. The HY-IG Index spread was little changed 375bps.
- Flows in SGD corporates were heavy, with large ticket flows in CAPLSP 3.65%-PERP. We also saw flows in HPLSP 4.4%-PERPs, UBS 5.875%-PERPs, KITSP 4.75%-PERPs, and SOCGEN 6.125%-PERPs.
- 10Y USTs traded rangebound last night, closing little changed at 1.77%, following the release of mixed US economic data which suggested a weakening economy, but not yet in recession territory. Investors also await the result of the FOMC meeting next week, with expectations of another interest rate cut.

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:

- **GuocoLand Ltd | Neutral (5):** GUOL reported 1QFY2020 results for the quarter ended 30 Sep. Revenue rose 62% y/y to SGD272.5mn, while other income fell 39% y/y to SGD7.2mn. Share of profit of associates and joint ventures fell 55% y/y to SGD6.0mn.
- **Industry Outlook – Singapore Residential Property:** URA released 3Q2019 real estate statistics.
- **Industry Outlook – Industrial Space Sector:** JTC reported its quarterly market report for 3Q2019.
- **Perennial Real Estate Holdings Ltd | Neutral (5):** PREH has lifted the trading halt after they completed the sale of its 32.5% effective stake in Yanlord Perennial Investment (Singapore) Pte Ltd for SGD202.7mn to Yanlord. We see this as a credit positive as the divestment helps PREH to par down debt somewhat and alleviate near-term liquidity.
- **BreadTalk Group Ltd | Neutral (5):** BGL is featured on the Business Times and provided guidance/targets for BGL including improving net profit margin to 8% by 2022 (1H2019: 1.0%) and expansion in Toast Box, Food Court count and Din Tai Fung restaurants in London and Thailand. Pending the release of the upcoming 3Q2019 results, we continue to hold BGL at a Neutral (5) Issuer Profile.
- **CapitaLand Retail China Trust | Neutral (4):** CRCT announced its 3Q2019 results. In RMB terms, gross revenue was up 9.8% y/y to RMB300.9mn while NPI was up 14.4% y/y to RMB208.0mn. Portfolio occupancy was largely stable q/q at 97.1%. Aggregate leverage was higher at 37.2%, while reported interest coverage was lower at 4.9x.
- **CITIC Envirotech Ltd | Neutral (5):** CEL announced its 3Q2019 results. Gross revenue was down 31.0% y/y to SGD164.3mn, EBITDA was down 10.9% to SGD43.8mn. Unadjusted net gearing was 1.0x, while adjusted net debt was 1.4x.

Credit Headlines

GuocoLand Ltd ("GUOL") | Issuer Profile: Neutral (5)

- GUOL reported 1QFY2020 results for the quarter ended 30 Sep. Revenue rose 62% y/y to SGD272.5mn due to progressive recognition of sales from Martin Modern. We note that over the quarter, 27 units worth SGD67.7mn were moved at Martin Modern, 5 units worth SGD35.3mn were moved at Wallich Residence and 30 units worth SGD95.8mn were moved at Meyer Mansion.
- Meanwhile, other income fell 39% y/y to SGD7.2mn mainly due to net foreign exchange loss of SGD0.5mn (1QFY2019: net foreign exchange gain of SGD6.1mn). Share of profit of associates and joint ventures fell 55% y/y to SGD6.0mn due to lower share of profit from the Shanghai joint venture as costs incurred for Singapore joint venture (which likely includes Pacific Mansion which has not book any sales as it is not yet launched).
- Net gearing rose q/q to 81% (4QFY2019: 79%) due to (1) SGD71.5mn deposits for land due to progressive payment of ~10% for the acquisition in Sep 2019 of Tan Quee Lan Street Site for SGD800.19mn (GUOL owns 60%-stake in this) as well as (2) SGD115.7mn for inventories which is likely due to ongoing construction of properties in Singapore including Martin Modern, Meyer Mansion, Pacific Mansion. We continue to hold GUOL at a Neutral (5) Issuer Profile. (Company, OCBC)

Industry Outlook – Singapore Residential Property

- URA released 3Q2019 real estate statistics. Prices of private residential properties rose 1.3% q/q (2Q2019: +1.5% q/q). While growth is broad-based, we are seeing a divergence in growth rates; Core Central Region grew by 2.0% q/q (2Q2019: +2.3% q/q), which is higher than Rest of Central Region which grew 1.3% q/q (2Q2019: +3.5% q/q) while Outside Central Region grew 0.8% q/q (2Q2019: +0.4% q/q).
- Encouraging, the supply situation continues to ease with unsold units falling to 31,948 (2Q2019: 33,673), down sharply from the peak of 36,839 in 1Q2019. This is driven by an (1) increase in take-up to 3,281 units in 3Q2019 (2Q2019: 2,350 units) while (2) new supply has fallen as developers are no longer active on the en bloc market while the confirmed list on government land sales has fallen significantly to 3,740 units in 2019 (2018: 5,480 units).
- Launched but unsold units continue to creep up to 4,377 units (2Q2019: 3,798 units) as launches exceed take-up, which is a negative.
- That said, overall, **we think sentiments have improved. We revise our outlook on the Singapore residential property sector and expect prices to remain stable or inch slightly higher going forward**. We believe that the supply of unsold units, while still significant, should continue to trend down. Hence, we expect developers under our coverage to move and monetise a significant portion of their Singapore residential portfolio, which is credit positive on the sector. (URA, OCBC)

Credit Headlines

Industry Outlook – Industrial Space Sector

- JTC reported its quarterly market report for 3Q2019. Key headline measures showed a stable-to-slight improvement in the Singapore industrial space sector.
- Q/q price index for all industrial was up 0.1% to 89.9. Single-user factory saw a 0.3% q/q uptick while multiple-user factory was flat q/q.
- The rental index for all industrial was flat q/q, although the rental index for the Warehouse sub-segment was down by 0.2% q/q (was also down 0.2% q/q in 2Q2019).
- All industrial vacancies was flat at 10.7% and has been constant since 4Q2018. By sub-segment, vacancy for warehouses deteriorated to 11.9% (2Q2019: 11.3%) while multiple-user factory deteriorated slightly by 0.1% to 12.9%. Single-user factory and Business Park both saw improving occupancies.
- **<u>While 3Q2019 numbers has held up, we expect a weakening in the next 12 months given the large impending supply of new industrial space</u>**. At the beginning of the year, the expected supply for 2019 and 2020 was only 1.5mn sqm and 1.2mn sqm respectively (ie: collectively 2.7mn sqm across two years). However, we estimate that in 9M2019, 0.9mn sqm of new supply had been added into the market, with 0.3mn sqm more expected in 4Q2019. Based on the updated supply expectation, another 1.9mn sqm will come in 2020 (collectively, 3.1mn sqm across these two years).
- In September 2019, the Singapore Purchasing Manager Index had declined further to 49.5, indicating a continued bearish outlook over the manufacturing sector. Despite our bearish outlook, we expect credit profiles of the Industrial REITs to broadly be steady at their current issuer profiles. (JTC, OCBC)

Credit Headlines

Perennial Real Estate Holdings Ltd ("PREH") | Issuer Profile: Neutral (5)

- PREH has lifted the trading halt, together with Yanlord Land Group Ltd ("Yanlord") and United Engineers Ltd ("UE"). This is because PREH has completed the sale of its 32.5% effective stake in Yanlord Perennial Investment (Singapore) Pte Ltd ("Yanlord-Perennial JV") for SGD202.7mn to Yanlord.
- The transaction values Yanlord-Perennial JV's shares of UE at SGD2.60 per share and SGD2.5947 per WBL Corp share. It is curious that the transaction price for WBL Corp share is significantly higher (by 25.3%) while the transacted price of UE shares remains the same (at SGD2.60 per share), which is the share price that Yanlord-Perennial acquired in Jul 2017.
  - As a background, we note that in Dec 2017, UE made an offer to pay SGD2.07 per share in shares of WBL Corp it does not already own, which was blocked by minority shareholders of UE (including Oxley Holdings Ltd) with questions if UE was paying a fair price for WBL Corp. As UE did not buy the shares in WBL Corp, Yanlord-Perennial JV had to take up the shares in WBL Corp instead.
  - We do not have sufficient access to information of WBL Corp to assess if the prospects and financials of WBL Corp have improved very significantly in the past 2 years.
- PREH's rationale for the divestment is to realign its portfolio to focus on investments with direct value creation opportunities and to recycle capital. We think that the latter could be the more compelling reason for divestment, noting that SGD60.5mn cash as of 2Q2019 would be insufficient to cover SGD560mn of bonds coming due in 2020.
- We see this as a credit positive as the divestment (worth SGD202.7mn) helps PREH to par down debt somewhat and alleviate near-term liquidity. That said, further concrete plans on divestments (e.g. divestment of AXA Tower) will still be needed as there is still insufficient liquidity to cover the near-term debt coming due. (Company, OCBC)

BreadTalk Group Ltd ("BGL") | Issuer Profile: Neutral (5)

- BGL is featured on the Business Times ("BT") today, which provided guidance/targets for BGL including (1) improving net profit margin to 8% by 2022 (1H2019: 1.0%), (2) expansion in Toast Box outlets in Indonesia, increase in Food Court count from 78 to 100 and increase in Din Tai Fung restaurants in London and Thailand.
- We think that net profit margins should improve as 1H2019 results have been weighed down by start-up costs including Din Tai Fung in London, Song Fa Bak Kut Teh in China and Wu Pao Chun Bakery and Tai Gai in Singapore. In addition, the changes in SFRS (I) 16 Leases also weighed slightly on profitability as it results in expenses being front-loaded.
- However, given the laid-out expansion plans, which looks somewhat aggressive, these could incur significant start-up costs which could again weigh on margins.
- Furthermore, expansion of Food Court and Din Tai Fung restaurants are capex intensive, which could weigh on the debt profile of BGL. Pending the release of the upcoming 3Q2019 results, we continue to hold BGL at a Neutral (5) Issuer Profile. (Business Times, OCBC)

Credit Headlines

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

- CRCT announced its 3Q2019 results. In RMB terms, gross revenue was up 9.8% y/y to RMB300.9mn while NPI was up 14.4% y/y to RMB208.0mn. The increase was largely due to maiden contributions from the newly acquired CapitaMall Xuefu ("Xuefu"), CapitaMall Yuhuating and CapitaMall Aidemengdun. Excluding contributions from these new acquisitions, revenue growth would have moderated to 1.1% y/y (RMB276.9mn) with NPI growth (excluding effects of FRS116) at 5.1% y/y (RMB192.7mn). In SGD terms, gross revenue was up 7.5% y/y to SGD59.5mn while NPI was up 11.9% y/y to SGD41.1mn, slightly weighed down by a weaker RMB against the SGD over the quarter
- Portfolio occupancy as at 30 September 2019 was largely stable q/q at 97.1% (2Q2019: 97.0%), as higher occupancy at Xuefu and Rock Square (which CRCT has a 51% interest in) were offset by the dip in occupancy at CapitaMall Qibao ("Qibao") and CapitaMall Minzhongleyuan ("MZLY").
- Rental reversion in YTD2019 was +7.5%, with most malls recording positive rental reversions except Qibao (-5.3%) and MZLY (-5.1%). 2020 will see 30.9% of total gross rental income expire, with that for the remaining of 2019 at 10.6%. With YTD shopper traffic and tenants sales higher y/y at +7.3% and +8.4% respectively, we think the CRCT will be able to retain its tenants especially at the stronger malls.
- Aggregate leverage (including the proportionate share of its JV's borrowings and deposited property) was higher at 37.2% (2Q2019: 33.8%, 1Q2019: 35.5%) due to higher borrowings to fund the acquisition of the three new malls. Reported interest coverage was lower q/q at 4.9x (2Q2019: 5.0x). CRCT has just SGD38.0mn of borrowings coming due in 2019, which it can more than cover with its SGD170.3mn cash on hand. 85.4% of its total assets (excluding proportionate share of its JV assets) remain unencumbered. CRCT's issuer profile continues to fall within Neutral (4). (Company, OCBC)

Credit Headlines

CITIC Envirotech Ltd ("CEL") | Issuer Profile: Neutral (5)

- CEL announced its 3Q2019 results. Gross revenue was down 31.0% y/y to SGD164.3mn mainly due to the decline in the Engineering and Membrane segments (down 61.2% y/y and 18.3% y/y respectively). We think this was due to lower project volumes worked on. Treatment revenue though saw a 26.7% y/y rise to SGD63.1mn.
- However, on an EBITDA level (based on our calculation which does not include other income though includes other operating expenses) was SGD43.8mn, down only 10.9% y/y. Per company, gross margins was higher in 3Q2019 from membrane-based engineering projects.
- CEL though reported large foreign exchange losses of SGD26.0mn (3Q2018: foreign exchange losses of only SGD2.2mn) which dragged profitability along with a higher finance cost of SGD17.2mn (3Q2018: SGD10.7mn), resulting in a profit before tax of SGD5.0mn (3Q2018: SGD37.6mn).
- Finance cost at CEL had increased by 60.2% y/y, mainly from additional debt taken to help fund new projects and redeem its USD-perpetual. Resultant EBITDA/Interest coverage was 2.6x.
- As at 30 June 2019, unadjusted net gearing (assuming perpetual as equity) was 1.0x, increasing from 0.9x as at 30 June 2019 while adjusted net debt (assuming 100% of the perpetual as debt) was 1.4x, up from 1.3x as at 30 June 2019. We continue to expect this number to rise.
- CEL faces SGD166.6mn in short term debt while the SGD150mn SGD-perpetual faces first call in October 2020. We see this perpetual as more debt-like given they rank pari passu with all other present and future unsecured obligations of the issuer and a high step up margin. As at 30 September 2019, cash balance of SGD520.6mn covers short term debt and the perpetual by 1.6x. Our base case though assumes that CEL would be aiming to refinance the perpetual with debt/replacement perpetual rather than paying it down given large capital commitments on project wins.
- Whilst the company's ability to generate free cash flow continues to be constrained, we are maintaining our issuer profile of Neutral (5) on the back of its improved access to debt financing since October 2018.
- In October 2019, CEL announced that it is proposing to change its current auditor, namely Deloitte & Touche LLP ("Deloitte") to KPMG LLP ("KPMG") as Deloitte has served as the external auditor of CEL since 2003. Several other companies in the CITIC Group (parent company of CEL) have appointed or will also appoint KPMG or its local affiliates as their auditors. (Company, OCBC)

Key Market Movements

	25-Oct	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	69	-1	-8
iTraxx SovX APAC	31	-1	-5
iTraxx Japan	60	-1	-4
iTraxx Australia	61	-1	-6
CDX NA IG	54	-1	-6
CDX NA HY	107	0	0
iTraxx Eur Main	51	-2	-5
iTraxx Eur XO	231	-1	-1
iTraxx Eur Snr Fin	58	-2	-10
iTraxx Eur Sub Fin	121	1	-23
iTraxx Sovx WE	12	0	-2
USD Swap Spread 10Y	-8	-2	5
USD Swap Spread 30Y	-38	-1	6
US Libor-OIS Spread	36	1	5
Euro Libor-OIS Spread	5	1	0
China 5Y CDS	39	-2	-9
Malaysia 5Y CDS	44	-2	-7
Indonesia 5Y CDS	79	-4	-11
Thailand 5Y CDS	28	0	-2
Australia 5Y CDS	17	0	-2

	25-Oct	1W chg	1M chg
Brent Crude Spot ($/bbl)	61.34	3.23%	-1.68%
Gold Spot ($/oz)	1,502.50	0.84%	-0.10%
CRB	177.71	1.24%	0.61%
GSCI	414.49	1.82%	0.67%
VIX	13.71	-0.58%	-14.10%
CT10 (%)	1.752%	-0.16	1.48
AUD/USD	0.682	-0.60%	0.95%
EUR/USD	1.110	-0.57%	1.46%
USD/SGD	1.364	0.00%	1.07%
AUD/SGD	0.930	0.60%	0.11%
ASX 200	6,726	1.14%	0.23%
DJIA	26,806	-0.82%	-0.61%
SPX	3,010	0.41%	0.85%
MSCI Asiax	638	0.86%	2.90%
HSI	26,702	-0.07%	2.92%
STI	3,174	1.92%	1.54%
KLCI	1,571	-0.02%	-1.18%
JCI	6,340	2.57%	3.14%
EU Stoxx 50	3,621	0.91%	3.08%

Source: Bloomberg

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New Issues

- PT Adaro Indonesia (Guarantor: PT Adaro Energy Tbk) priced a USD750mn 5NC3 bond at 4.5%, tightening from IPT of 4.875%.
- Agile Group Holdings Limited priced a USD500mn NC4.75-Perpetual bond at 99.196 to yield 8.09%, tightening from IPT of 8.25% area.
- Shanghai Pudong Development Bank Co., Ltd., London Branch priced a USD300mn 3-year green bond at 3m-US LIBOR+70bps, tightening from IPT of 3m-US LIBOR+100bps area.
- Radiance Capital Investments Ltd (Parent Guarantor: Radiance Group Co., Ltd) priced a USD250mn 2-year bond at 12.5%, in line with final guidance.

Date	Issuer	Size	Tenor	Pricing
24-Oct-19	PT Adaro Indonesia	USD750mn	5NC3	4.5%
24-Oct-19	Agile Group Holdings Limited	USD500mn	NC4.75-Perpetual	8.09%
24-Oct-19	Shanghai Pudong Development Bank Co., Ltd., London Branch	USD300mn	3-year	3m-US LIBOR+70bps
24-Oct-19	Radiance Capital Investments Ltd	USD250mn	2-year	12.5%
23-Oct-19	Republic of Indonesia	USD1.0bn	30-year	3.75%
23-Oct-19	AYC Finance Limited	USD400mn	NC5-Perpetual	4.85%
23-Oct-19	CLP Power HK Finance Ltd	USD500mn	NC5.25-Perpetual	3.6%
23-Oct-19	PCGI Intermediate Limited	USD250mn	5-year	4.75%
23-Oct-19	Yuzhou Properties Company Limited	USD500mn	5NC3	8.375%
23-Oct-19	Huayi Finance I Ltd	USD350mn	5-year	T+153bps
23-Oct-19	Mianyang Investment Holding	USD300mn	3-year	5.95%
23-Oct-19	Rugao Economic and Trade Development Company	USD150mn	3-year	6.0%
23-Oct-19	Hotel Properties Ltd	SGD10mn	HPLSP 4.4%-PERPs	4.4%
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%

Source: OCBC, Bloomberg

OCBC TREASURY RESEARCH

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Treasury Research & Strategy

Macro Research

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

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

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@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
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

Co.Reg.no.:193200032W