Asian Credit Daily

Apr 26, 2019

Credit Headlines: GuocoLand Ltd, Industry Outlook – Singapore Property, Starhill Global REIT, Commerzbank AG, Huflux Ltd, Barclays PLC

Market Commentary

- The SGD swap curve steepened yesterday, with the shorter tenors and belly trading little change while the longer tenors from 10-year onwards traded 1bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was little changed at 131bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 471bps.
- Flows in SGD corporates were heavy, with flows in ACAFP 3.8%'31s, SOCGEN 6.125%-PERPs, FPLSP 4.98%-PERPs, CMZB 4.875%'27s, HSBC 4.7%-PERPs, LLCAU 3.9%'27s and CMZB 4.2%'28s.
- 10Y UST yields rose 1bps to 2.53%, amidst mixed US economic data with both US jobless claims and non-defence capital goods orders both rising.

Credit Headlines

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

- GUOL reported 3QFY2019 results. Revenue rose 27% y/y to SGD292.5mn due to higher contribution from residential sales. As a result, net profit rose 10% y/y to SGD34.1mn.
- Thus far, property sales which have been launched are progressing. According to the URA caveats, Wallich residence moved 5 units worth SGD13.8mn, Martin Modern moved 14 units worth SGD39.6mn. We estimate that Wallich Residence is about 30% sold and Martin Modern is more than 70% sold.
- However, we reiterate our caution on the Singapore property market and we are uncertain if demand for higher-end projects, especially those in the pipeline, can be sustained. Fresh data from URA also indicated that 1Q2019 private residential property prices have fallen 0.7% q/q. Residential projects in the pipeline yet to be launched include Casa Meyfort (acquired for ~SGD320mn, 100% stake) and Pacific Mansion (acquired for SGD980mn via 40%-stake in a JV).
- Net gearing fell to 75% (2QFY2019: 77%) due to SGD127.7mn cash generated from operations. However, we note that a number of mega projects have yet to commence, which could drive gearing higher going forward. In addition to the earlier discussed residential projects, GUOL is also developing a SGD2.4bn mixed-use development project at Beach Road slated to complete in 1H2022, which GUOL acquired for SGD1.6bn via 70%-stake in a JV.
- Meanwhile, liquidity is ample with SGD1.1bn of cash well-covering SGD276.9mn of short term loans and borrowings. (Company, OCBC)

Industry Outlook – Singapore Property

- URA just released the 1Q2019 real estate statistics. Residential prices declined 0.7% q/q, weighed down mainly by prices of non-landed properties in the Core Central Region (-3.0% q/q) and Rest of Central Region (-0.7% q/q) while Outside Central Region saw an increase of 0.2% q/q.
- Take-ups of property continue to lag launches. As of 1Q2019, excluding ECs, 36,839 units remained unsold in the pipeline, which marks a further increase from 34,824 units in 4Q2018. The unsold number of units is at its highest point in recent years, which is higher than any point during the prior property downturn in 2014 to early 2017.
- We reiterate our caution on the Singapore property market due to the supply overhang and continue to expect prices to fall by low single digits in 2019 as mentioned in our Singapore Credit Outlook 2019.

Credit Headlines (cont'd)

Starhill Global REIT ("SGREIT") | Issuer Profile: Neutral (4)

- SGREIT reported its third quarter results for financial year ending 30 September 2019 ("3QFY2019"). Gross revenue eased 0.9% y/y to SGD51.3mn while net property income ("NPI") declined by 1.8% y/y to SGD39.6mn. This was largely due to lower contributions from Wisma Atria in Singapore (retail) and the weaker AUD against SGD which more than offset the better performance seen at Myer Centre Adelaide, Plaza Arcade and Ngee Ann City Property (Office).
- For its Singapore retail portfolio, we see resilience as the committed occupancy improved to 99.7% from 99.1% at the preceding quarter, though this came at the cost of a softer rent. Separately, even though Toshin master lease (21.9% of portfolio gross rent) is due for rent review in June 2019, management has guided that it will most likely be at a flat or higher rent.
- On the Singapore office front, occupancy improved to 94.4% from 90.7% a year ago. This translated into revenue growth of 4.2% y/y and NPI growth of 3.8% y/y. We think this came about from the recovery seen in the office space in Singapore.
- Overall actual occupancy at SGREIT improved to 95.7% as at 31 March 2019 from 94.3% in the preceding quarter, largely due to Myer Centre Adelaide (Office) as the lease to new anchor tenant has commenced.
- Aggregate leverage remains stable at 35.7% (2QFY2019: 35.6%) while reported interest cover slightly better at 3.8x (2QFY2019: 3.7x). SGREIT has minimal refinancing risk in the near term, as it has more than sufficient cash of SGD68.5mn to repay the SGD14mn worth of borrowings coming due within this financial year. The following maturing borrowing is a SGD110mn medium term notes secured by its Malaysia properties maturing in September 2019 (or FY2020). SGREIT is refinancing negotiations, though it has available undrawn long term committed SGD revolving credit facilities to cover this maturing medium term notes.
- Looking forward, SGREIT has some upcoming AEI works (~SGD58.1mn) related to the successful extension of its master leases (expiring 27 June 2019) at Starhill Gallery and Lot 10 Property, which could bump its aggregate leverage higher. (Company, OCBC)

Commerzbank AG ("CMZB") | Issuer Profile: Neutral (4)

- CMZB and Deutsche Bank AG (Unrated by OCBC Credit Research) have announced an end to its merger discussions which commenced formally in early to mid-March 2019.
- A key reason for the end of the talks was that the ultimate goal of creating a stronger combined entity was looking increasingly unlikely due to the significant restructuring costs involved. This would negate any potential revenue and synergy benefits from a larger entity and impact the combined entity's capital position.
- General market reaction was positive for CMZB given the relatively weaker credit profile of Deutsche Bank AG with spreads on CMZB's credit default swaps falling. Conversely, Deutsche Bank AG's credit default swap spreads rose after the news.
- That said, the initial problems that a merger was seeking to address remains and status quo appears to be an unpalatable situation. Consolidation within the European banking sector appears a necessity and given the strong desire amongst European banks to be pro-active in any industry rationalization, we expect noise on European bank mergers to continue especially with CMZB effectively now back on the shelf.
- In terms of steps forward, CMZB has announced a further fine tuning of is "Commerzbank 4.0" strategy with a plan to announce updated targets by end-September 2019. Key aims of the plan involve simplifying the bank's business model, focusing on better return and risk profile segments (increasing retail earnings) and improving efficiency through digitalization and this is expected to continue, albeit with revised targets. (OCBC, Bloomberg)

Credit Headlines (cont'd)

Hyflux Ltd ("HYF") | Issuer Profile: Unrated

- **Moratorium extension:** The High Court has allowed HYF's debt moratorium to be extended by a month until 24 May 2019, though HYF had applied for a three-month extension. Based on HYF's most recent affidavit and announcements, the company is working on two separate restructuring plans to stave off liquidation. Although indicative of growing impatience, a group of unsecured bank lenders are intending to apply to the Court to place HYF (the holding company) and Hydrochem (S) Pte Ltd under interim judicial management and/or judicial management.
- **Updates on Tuaspring:** Maybank, the sole secured lender at Tuaspring Pte Ltd ("Tuaspring"), had sent a letter to Tuaspring declaring that SGD509.1mn and USD44.5mn (collectively ~SGD570mn) is due and payable immediately with Maybank demanding Tuaspring make payments by 30 April 2019. Maybank is reserving its rights under hedging agreements (as at 31 March 2019, estimated aggregate amount: SGD28.0mn). These amounts are fluctuating and per HFY it is unable to precisely determine the exact amount payable.
  - As a recap, PUB is taking over the water desalination plant and shared infrastructure while Maybank is claiming all the other assets (ie: power plant). It is expected that the receivers and managers will conduct a sale process for the power plant and remaining assets with the proceeds (less cost of receivership) going towards discharging the debt owed to Maybank. In our view, Maybank does not have further recourse over HYF (the holding company) to make-whole Maybank's debt.
  - As far as we are aware, there are no foreign ownership restriction of power assets, which broadens the pool of buyers. Our base case assumes that sale of the power plant and other assets would be insufficient to cover Maybank in full, with no excess to be upstreamed to HYF. This is on the back of the persisting power oversupply in Singapore which limits the sales value of the power plant in our view.
- **Proposed restructuring plans – option 1:** Given that the SM Investments Pte Ltd ("SMI") deal has fallen through, HFY has disclosed two new proposed restructuring plans which were used as arguments in favour of an extension of its debt moratorium. In the first proposed plan, HYF intends to restructure the engineering, procurement and construction ("EPC") business, with selected assets and projects transferred into a new entity ("New Hyflux"), which HFY would hold a significant minority stake while a new strategic investor would be the majority investor.
  - The new investor would inject fresh money into New Hyflux where a portion of cash will be used to pay down unsecured debt holders (unsecured bank lenders and bondholders) and contingent liabilities with another portion kept in New Hyflux as working capital. The split has not been disclosed. Perpetuals and preference shares are envisaged to stay at HYF, which would now own certain existing assets and shares in New Hyflux.
- **Second alternative proposed plan:** This assumes there is no new strategic investor on terms acceptable to creditors, certain ongoing projects and assets would be transferred into a special purpose vehicle to be wholly-owned by HYF. The shares in the special purpose vehicle though would be pledged to senior unsecured creditors (which we assume to be the same as unsecured debt holders identified in option 1) in exchange for partial retirement of their debt. HYF would continue managing these assets while allowing the assets to continue generating a return. Potential investment/divestments of the assets can still occur. Per HYF, this alternative plan is still favoured over judicial management and/or liquidation as it avoids the termination of concession agreements or trigger step-in/takeover rights by offtaker/joint venture partner or project financiers.
  - Under this alternative plan, the EPC business will be retained by HYF and restructured with injection of fresh funds from an investor. The investor, unsecured creditors and HYF would receive a stake in the restructured EPC business. Perpetuals and preference shares are envisaged to stay at HYF. Versus the first proposed plan, HYF would in practice be an EPC-focused business given that operating assets are pledged to senior unsecured creditors.

Credit Headlines (cont'd)

- **On-going discussions with investors:** HYF also shared that it is in the midst of discussions with multiple new possible investors and relevant advisors and to date have signed non-disclosure agreements with two parties. These possible investors include unnamed sovereign funds, investment funds and a private utilities company. Reportedly, HYF has also received a non-binding bid for SGD400mn from a strategic investor.
  - In our view, the swiftness of these events suggest that these parties could have already been in the picture, although for reasons unknown to us, SMI's proposed deal was preferred by the company in October 2018. As a recap, the SMI deal fell through in early April 2019.
  - On the surface, the two proposed plans look to be more favourable for perpetuals and preference shareholders versus SMI's proposed deal which sought for full and final settlement of the perpetuals and preference shares in return for miniscule recoveries via cash and equity. However, it is worth noting that under these two proposed plans, there is no upfront cash component and recoveries are highly reliant on the ability of HYF to be resurrected as a healthy going concern to pay distributions on a timely basis and redeem the perpetuals and preference shares eventually.
  - For bondholders, whether the first proposed plan is better depends on the cash amount that they would receive, which is unknown at this stage. Under the second proposed plan, whether or not it is better depends on the pledged asset value, which is similarly unknown.
- In our view, under the current management team, HYF could find it highly challenging to convince financing markets and customers alike in winning new business, even if it continues as an on-going concern. Without a better idea of (1) Real valuation of assets (2) Projected income stream of these assets (3) Detailed terms and critically (4) What the new management team of HYF and New HFY looks like, any proposed plans remain theoretical in our view at this point. (Company, OCBC)

Barclays PLC ("Barclays") | Issuer Profile: Neutral (4)

- Barclays announced its 1QFY2019 results with reported profit before tax of GBP1.48bn significantly higher y/y against a net loss before tax of GBP236mn in 1QFY2018. This is due to the absence of litigation and conduct charges (GBP1.96bn in 1QFY2018). Excluding litigation and conduct charges, normalized profit before tax of GBP1.54bn was 10.5% lower y/y.
- Total income fell 2.0% y/y – this was driven by Barclays International which saw income fall 6% y/y as performance in the Corporate and Investment Bank ('CIB') was affected by lower client activity and lower volatility from challenging markets. This offset continued growth in consumer, cards and payments. Performance for Barclays UK continues to be resilient despite persistent Brexit uncertainty with normalized profit before tax (excluding litigation and conduct charges) up 1% y/y as a 1% y/y decline in total income from lower margins was offset by balance sheet growth as well as a 1% y/y fall in operating expenses and a 5% y/y fall in credit impairment charges.
- While operating expenses were lower y/y by 3% (cost to income ratio improved marginally to 62% in 1QFY2019 from 63% in 1QFY2018), a drag on normalized results was a 56% y/y rise in credit impairment charges and other provisions. This was due to the absence of a favourable US macro-economic forecast in Barclays International.
- Given the better profitability, capital ratios improved y/y with Barclay's CET1 capital ratio of 13.0% as at 31 March 2019 up 30bps from 12.7% as at 31 March 2018. Capital ratios however were weaker q/q by 20bps (13.2% as at 31 December 2018) due to a 2.5% q/q rise in risk weighted assets (due to seasonal impacts according to management). That said, the CET1 ratio remains at its end-state target of 13.0% and above its fully loaded CET1 regulatory requirement of 11.7% which includes 4.5% for Pillar 1, 2.5% for Capital Conservation Buffer, 0.5% for Countercyclical Capital Buffer, 1.5% for Global Systemic Importance, and 2.6% for Pillar 2A.
- We continue to review the results but expect to keep our Neutral (4) issuer profile on Barclays (Company, OCBC)

Table 1: Key Financial Indicators

	26-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	65	2	-5
iTraxx SovX APAC	44	2	-2
iTraxx Japan	54	1	-6
iTraxx Australia	67	-1	-9
CDX NA IG	58	1	-10
CDX NA HY	107	0	1
iTraxx Eur Main	60	2	-8
iTraxx Eur XO	255	8	-22
iTraxx Eur Snr Fin	73	5	-12
iTraxx Sovx WE	18	1	-1
AUD/USD	0.703	-1.73%	-1.50%
EUR/USD	1.114	-0.90%	-1.08%
USD/SGD	1.362	-0.51%	-0.72%
China 5Y CDS	43	3	-3
Malaysia 5Y CDS	56	3	-6
Indonesia 5Y CDS	97	5	-3
Thailand 5Y CDS	37	0	-5

	26-Apr	1W chg	1M chg
Brent Crude Spot ($/bbl)	74.17	3.06%	9.12%
Gold Spot ($/oz)	1,281.96	0.50%	-2.57%
CRB	185.96	-0.35%	0.39%
GSCI	452.83	0.44%	3.60%
VIX	13.25	5.16%	-9.74%
CT10 (bp)	2.527%	-3.26	10.40
USD Swap Spread 10Y (bp)	-2	-1	2
USD Swap Spread 30Y (bp)	-24	-1	5
US Libor-OIS Spread (bp)	18	2	-2
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	26,462	0.05%	3.13%
SPX	2,926	0.89%	3.82%
MSCI Asiax	673	-1.44%	2.67%
HSI	29,580	-1.81%	3.55%
STI	3,349	0.03%	4.63%
KLCI	1,635	0.81%	-0.89%
JCI	6,376	-2.02%	-1.46%

New issues

- Chengdu Tianfu New Area Investment Group Co Ltd has priced a USD300mn 5-year bond at 4.65%, tightening from IPT of 5.0%.
- Yango Justice International Ltd has priced a USD150mn re-tap of its existing SUNSHI 9.5%'21s (parent guarantor: Yango Group Co Ltd) at 99.770 (yield: 9.625%), tightening from IPG of high 9% area.
- CICC Hong Kong Finance 2016 MTN Ltd (guarantor: China International Capital Corp (Hong Kong) Ltd) has priced a 1bn deal across two tranches, with the USD300mn 3-year bond at T+115bps (IPT of +145bps area) and the USD700mn 3-year FRN at 3-month US LIBOR+117.5bps (IPT of +145bps area).
- Xinyuan Real Estate Co Ltd has priced a USD100mn re-tap of its existing XIN 14.2%'21s at 103.932 (yield: 12.3%), in line with the final price guidance.
- Jiangsu Hanrui Investment Holding Co Ltd has mandated banks for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
25-Apr-19	Chengdu Tianfu New Area Investment Group Co Ltd	USD300mn	5-year	4.65%
25-Apr-19	Yango Justice International Ltd	USD150mn	SUNSHI 9.5%'21s	99.770+accrued
25-Apr-19	CICC Hong Kong Finance 2016 MTN Ltd	USD300mn USD700mn	3-year 3-year	T+115bps 3M-US LIBOR+117.5bps
25-Apr-19	Xinyuan Real Estate Co Ltd	USD100mn	XIN 14.2%'21s	103.932+accrued
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%

Source: OCBC, Bloomberg

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