Apr 29, 2019

Credit Headlines: DBS Group Holdings Ltd, Mapletree Logistics Trust

Market Commentary

- The SGD swap curve steepened last Friday, with the shorter tenors trading within 1bps lower while the belly and longer tenors traded within 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 widened 5bps to 476bps.
- Flows in SGD corporates were heavy, with flows in SOCGEN 6.125%-PERPs, ACAFP 3.8%'31s, FPLSP 3.95%-PERPs, CMZB 4.2%'28s and HSBC 4.7%-PERPs.
- 10Y UST yields fell 3bps to 2.50%, on the back of weak inflation data after the US first quarter growth report. Albeit the increase in GDP at an annualised rate of 3.2%, which exceeded economists' estimates, core personal expenditures consumption price index figure, a common metric of inflation, increased at a slower rate quarter on quarter.

Credit Headlines

DBS Group Holdings Ltd ("DBS") | Issuer Profile: Positive (2)

- DBS announced record 1Q2019 results with total income up 6% y/y. This was driven by continued strong net interest income growth of 9% y/y (net interest margin rose to 1.88% from 1.83% a year ago on higher rates as well as loans growth). Elsewhere, net fee and commission income was down 2% y/y due to lower wealth management, brokerage and investment banking fees following a high base in 1Q2018 while other non-interest income was up 5% y/y due to higher trading income and net gains on investment securities. Net trading income recovery was also strong compared to 4Q2018, up 93% q/q.
- Expenses rose 7% y/y due to higher staff, occupancy and computerisation costs however allowances for credit and other losses fell 54% y/y and as a result, profit before tax rose 10% y/y to SGD1.98bn. With regards the allowances however, the improvement was driven entirely by a SGD100mn writeback for stage 1 and 2 expected credit losses (or general provisions) on an expected improvement in portfolio credit quality. Otherwise stage 3 expected credit losses (or specific provisions) rose 10% y/y driven by SGD43mn in stage 3 expected credit losses for contingent items. Stage 3 expected credit losses on loans fell 20% y/y in line with management's view of better portfolio credit quality as well as improved external conditions.
- In terms of segment performance, all reported improved profit before tax y/y in particular Treasury Markets which saw profit before tax up 35.7% y/y while Consumer Banking/ Wealth Management profit before tax was up 15.2% y/y while Institutional Banking profit before tax rose 21.6% y/y.
- As mentioned above, DBS' balance sheet continues to grow with customer loans up 6% y/y and 1% q/q. Loans growth was concentrated in non-trade corporate loans which rose 7.4% y/y while Consumer Banking/ Wealth Management loans grew 2.8% y/y. In line with the lower allowances for credit and other losses, the non-performing loan ratio improved to 1.5% as at 31 March 2019 against 31 March 2018 and was stable compared to 31 December 2018. Non-performing loans were stable while overall loans rose.
- DBS's capital position remains strong with its fully phased in CET1 ratio of 14.1% as at 31 March 2019 against 14.0% as at 31 March 2018 and 13.9% as at 31 December 2018. This was due to earnings growth outpacing growth in risk weighted assets from asset growth and accounting changes related to leases. The ratio continues to remain above the minimum CET1 capital adequacy ratio requirements of 9.4% as at 31 March 2019.
- DBS performance continues to be resilient and the broader improvement in segment performance highlights DBS' strong underlying fundamentals which are consistent with our issuer profile for DBS at Positive (2). (Company, OCBC)

Credit Headlines (cont'd)

Mapletree Logistics Trust ("MLT") | Issuer Profile: Neutral (4)

- MLT announced its fourth quarter and full year results for the financial year ended 2019 ("FYE2019"). For 4QFY2019, gross revenue was up 13% y/y to SGD121.4mn on the back of redeveloped Mapletree Ouluo Logistics Park Phase 1 in China (completed in 2QFY2019), acquisitions in Hong Kong in FY2018 and acquisitions in Singapore, Australia, South Korea and Vietnam in FY2019. Comparing to the immediate preceding quarter, gross revenue was up by 0.5% q/q mainly due to contribution from new acquisitions, net of rental incentive provided on certain Singapore properties.
- EBITDA (including interest income from shareholders' loans extended to 11 joint venture properties), we find EBITDA at SGD93.7mn, up 17% y/y. Interest expense has increased 37% y/y to SGD20.3mn on the back of higher average debt balance as MLT took on debt to partly fund acquisitions in FY2019 and a higher cost of debt. For FY2019, MLT's weighted average annualised interest rate was 2.6% p.a, up 30bps from FY2018. We find EBITDA/Interest lower at 4.6x (4QFY2018: 5.4x). MLT's perpetuals was SGD430mn as at 31 March 2019. Assuming MLT pays out the full SGD17.0mn in distribution p.a (SGD4.3mn per quarter) and taking 50% of these as interest, we find EBITDA/(Interest plus 50% of distribution payments) at 4.2x.
- As at 31 March 2019, reported aggregate leverage including the proportionate share of debt and asset at joint ventures was 37.7%, stable versus 31 March 2018 although slightly lower versus the 38.8% in end-2018. MLT is in the midst of selling five properties in Japan for ~SGD213.3mn and we think it is likelier for MLT to use the proceeds to pursue other investment opportunities. Its Sponsor Mapletree Investments Pte Ltd ("MAPL") has 17 logistics properties which had completed with leasing underway and numerous properties in various stages of development. As at 31 March 2019, short term debt was only SGD31.6mn (1% of total debt of SGD3.0bn) while all the debt remains unsecured. Assuming 50% of perpetuals as debt, we estimate MLT's adjusted aggregate leverage at 43%.
- CWT Pte Ltd and its subsidiaries ("CWT SG") remains the top tenant of MLT, contributing 9.2% to gross revenue while collectively the top 10 customers contributed ~29% to gross revenue. Per MLT, CWT SG has not defaulted on its rental payments and there were no rental arrears due from CWT as at 16 April 2019. CWT SG's parent company CWT International Ltd ("CWTI") announced that it had failed to pay accrued interest and certain fees which have become due and payable under HKD1.4bn loan facility although operations at CWT SG remains as usual. From what we understand, CWT SG is in the process of being placed under receivership although there has been no updates since then.
- In our view, in the unlikely event that CWT SG defaults on its payments to MLT, the impact to MLT would be limited to less than 0.5x to EBITDA/Interest coverage. Under this downside case, while aggregate leverage may spike to above 40% (assuming assets leased to CWT SG are revalued downwards), this would still be below 45% MAS aggregate leverage based on our estimation. Adjusted aggregate leverage though may exceed 45% in such a scenario leading to a negative external rating action. We maintain MLT's issuer profile at Neutral (4). (Company OCBC).

Table 1: Key Financial Indicators

	29-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	64	0	-6
iTraxx SovX APAC	43	1	-4
iTraxx Japan	55	1	-6
iTraxx Australia	67	-1	-9
CDX NA IG	57	-1	-6
CDX NA HY	108	0	1
iTraxx Eur Main	59	1	-6
iTraxx Eur XO	250	3	-18
iTraxx Eur Snr Fin	72	4	-7
iTraxx Sovx WE	18	0	-2
AUD/USD	0.705	-1.12%	-0.59%
EUR/USD	1.116	-0.90%	-0.55%
USD/SGD	1.361	-0.37%	-0.40%
China 5Y CDS	41	1	-4
Malaysia 5Y CDS	54	0	-7
Indonesia 5Y CDS	96	3	-8
Thailand 5Y CDS	36	-1	-6

	29-Apr	1W chg	1M chg
Brent Crude Spot ($/bbl)	71.89	-2.90%	5.12%
Gold Spot ($/oz)	1,285.83	0.85%	-0.51%
CRB	184.66	-1.32%	0.49%
GSCI	445.34	-2.39%	2.58%
VIX	12.73	5.29%	-7.15%
CT10 (bp)	2.498%	-6.14	7.52
USD Swap Spread 10Y (bp)	-1	-1	3
USD Swap Spread 30Y (bp)	-23	-1	5
US Libor-OIS Spread (bp)	18	1	-2
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	26,543	-0.06%	2.37%
SPX	2,940	1.20%	3.72%
MSCI Asiax	673	-1.08%	1.46%
HSI	29,814	-0.50%	2.63%
STI	3,386	0.83%	5.38%
KLCI	1,632	0.63%	-0.69%
JCI	6,406	-0.14%	-0.97%

New issues

- Hanrui Overseas Investment Co Ltd has priced a USD280mn 3-year bond (guarantor: Jiangsu Hanrui Investment Holdings Co Ltd) at 7.95%.
- Azure Power Global Ltd has mandated banks for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
26-Apr-19	Hanrui Overseas Investment Co Ltd	USD280mn	3-year	7.95%
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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