OCBC TREASURY RESEARCH

Asian Credit Daily

Tuesday, October 29, 2019

Market Commentary

- The SGD swap curve flattened yesterday, with the shorter tenors and belly mostly unchanged, while the longer tenors traded 1-5bps lower (with exception of the 10-year tenor which was 1bps higher).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 128bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 6bps to 497bps. The HY-IG Index spread tightened 4bps to 369bps.
- Flows in SGD corporates were heavy, with large ticket flows in CAPLSP 3.65%-PERP. We also saw flows in SOCGEN 6.125%-PERPs, MFCCN 3.0%'29s, HSBC 4.7%-PERPs, MAPLSP 3.15%'31s, UBS 5.875%-PERPs and ARASP 5.2%-PERPs.
- 10Y USTs rose 5bps to close at 1.84%, after positive developments on trade issues between the US and China and encouraging earnings boosted risk-on sentiment.

Credit Research

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Credit Summary:

- **Mapletree North Asia Commercial Trust | Neutral (4):** MNACT reported its second quarter results, gross revenue increased 0.9% y/y to SGD105.5mn, while net property income was up by 1.3% y/y to SGD84.7mn. Portfolio occupancy dipped to 98.9% from 99.1% in the preceding quarter. Reported interest coverage ratio was lower at 4.2x versus 4.4x in 1QFY2020. Aggregate leverage increased slightly to 37.1% from 36.9% in the preceding quarter. Debt maturity remains well-staggered.
- **Cache Logistics Trust | Neutral (4):** CACHE announced its financial results for 3Q2019, gross revenue was down 0.3% q/q to SGD27.7mn although net property income was up 3.3% q/q to SGD21.1mn. Calculated EBITDA was SGD19.2mn, up 3.5% q/q although interest expense was down 0.1% q/q, with resultant EBITDA/Interest coverage higher at 4.1x. Reported aggregate leverage was 38.3%, increasing from 37.9% in the previous quarter. Committed portfolio occupancy was decent at 94%.
- **ESR-REIT | Neutral (4):** EREIT announced its financial results for 3Q2019, gross revenue was down 2.8% q/q to SGD62.0mn while net property income was down 5.1% q/q to SGD45.3mn despite portfolio occupancy staying stable q/q at 91.0%. Calculated EBITDA was SGD39.5mn, down 8.7% q/q, while interest expense was down 3.7% q/q, leading to lower EBITDA/Interest coverage at 3.1x. Reported aggregate leverage was 41.6%, increasing from 39.0% in the previous quarter.
- **Commerzbank AG | Neutral (4):** CMZB reported preliminary 3Q2019 results. Operating profit was EUR448mn for 3Q2019, up 50.3% q/q and 29.5% y/y while net profit was EUR294mn, up 8.5% q/q and 34.9% y/y. We will update further on CMZB's full results when they are announced on 7th November.
- **Barclays PLC | Neutral (4):** Barclays announced its 9M2019 results with profit before tax up 4% y/y to GBP3.26bn. Barclays' capital position was positively impacted by better earnings performance alongside regulatory adjustments, with the CET1 ratio as at 30 Sep 2019 at 13.4%, up 20bps y/y. The Neutral (4) issuer profile remains appropriate in our view.
- **HSBC Holdings PLC | Positive (2):** HSBC announced 3Q2019 and 9M2019 results. On an adjusted basis (includes significant items), profit before tax for 3Q2019 of USD5.35bn was down 12.2% y/y. HSBC's capital position remained resilient with a 2.3% q/q fall in risk weighted assets from foreign exchange impacts and methodology and policy changes, and CET1 ratio of 14.3% as at 30 Sep 2019. We continue to look through the numbers.

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Credit Headlines

Mapletree North Asia Commercial Trust ("MNACT") | Issuer Profile: Neutral (4)

- MNACT reported its second quarter results for the financial year started 1 March 2019 ("2QFY2020") results. Gross revenue increased 0.9% y/y to SGD105.5mn, while net property income ("NPI") was up by 1.3% y/y to SGD84.7mn. This was mainly due to higher rental income from Festival Walk, and higher average rate of HKD and JPY, though offset by lower average rate of RMB.
- Portfolio occupancy dipped slightly to 98.9% from 99.1% in the preceding quarter. This was solely due to Gateway Plaza which saw occupancy fall by 0.7% to 96.5% (1QFY2020: 97.2%). We are seeing 16.2% of leases (by gross rental income) expiring for the remaining of FY2020. We think this is manageable as ~7.4% has already been renewed or re-let. Overall, MNACT saw positive rental reversion across all assets with the exception of Gateway Plaza over the half year.
- Weaker economic conditions and protests which started in the of June 2019 continued to dampen consumer sentiment. As a result, Festival Walk saw footfall and retail sales fall by 3.6% y/y and 6.6% y/y respectively from April to Sep 2019. In fact, retail sales across Hong Kong from April-August 2019 contracted by 9.3%. That said, these declines did not result in weaker occupancy or lower rent at Festival Walk.
- Reported interest coverage ratio was lower at 4.2x versus 4.4x in 1QFY2020. Aggregate leverage increased slightly to 37.1% from 36.9% in the preceding quarter. Debt maturity remains well-staggered. We continue to hold MNACT at a Neutral (4) Issuer Profile. (Company, OCBC)

Cache Logistics Trust ("CACHE") | Issuer Profile: Neutral (4)

- CACHE announced its financial results for the quarter ended 30 September 2019 ("3Q2019"). Gross revenue was down 0.3% q/q to SGD27.7mn although net property income ("NPI") was up 3.3% q/q to SGD21.1mn. Per company, NPI was higher due to commencement of new leases while property expenses though were lower. We think the full quarter contribution of 182-198 Maidstone Street, Altona also help lift NPI.
- EBITDA (based on our calculation which does not include other income and other expenses) was SGD19.2mn in 3Q2019, up 3.5% q/q although interest expense (excluding lease liabilities) was down 0.1% q/q, with resultant EBITDA/Interest coverage higher at 4.1x (2Q2019: 3.9x). CACHE had SGD100mn in perpetual outstanding as at 30 September 2019. Assuming CACHE pays out distribution in full, this would be SGD5.5mn per year and SGD1.4mn per quarter, taking 50% of this as interest, we find EBITDA/(Interest plus 50% distribution) at 3.5x, somewhat higher versus 3.4x in 2Q2019.
- As at 30 September 2019, reported aggregate leverage was 38.3%, increasing from the 37.9% as at 30 June 2019. We see refinancing risk as manageable, with short term debt of SGD94.9mn representing 19% of gross debt. As at 30 September 2019, secured borrowings as a percentage of the total assets was only 5%, which allows CACHE to raise secured debt, if need be.
- By gross rental income, only 2.1% of CACHE's leases will expire by end-2019 although 21.1% of leases is due to expire in FY2020, relatively significant in our view. We think CACHE will continue to prioritise occupancy over lease rates for the upcoming renewals. As at 30 September 2019, committed portfolio occupancy was decent at 94% (2Q2019: 90%). We maintain CACHE's issuer profile at Neutral (4). (Company, OCBC)

Credit Headlines

ESR-REIT("EREIT") | Issuer Profile: Neutral (4)

- EREIT announced its financial results for the quarter ended 30 September 2019 ("3Q2019"). Given that EREIT had combined with its peer VIVA Industrial Trust ("VIVA") in October 2018, we think y/y comparison is less meaningful. Gross revenue was down 2.8% q/q to SGD62.0mn, while net property income was down 5.1% q/q to SGD45.3mn, this was despite portfolio occupancy staying stable q/q at 91.0%, in our view, this indicates that rental rates had been weaker in 3Q2019 over 2Q2019. EREIT renewed and leased 1.4mn sqft of space in 3Q2019. As at 30 September 2019, 6.6% of leases by rental income would expire by end-2019. We think EREIT will continue to prioritise occupancies over rental rates in managing these remaining expiries.
- EBITDA (based on our calculation which does not include other income and other expenses) was SGD39.5mn in 3Q2019, down 8.7% q/q while driven by lower average debt balance, interest expense (excluding lease liabilities) was down 3.7% q/q to SGD12.7mn, with resultant EBITDA/Interest coverage lower at 3.1x (2Q2019: 3.3x). EREIT had SGD150mn in perpetual outstanding as at 30 September 2019. Assuming EREIT pays out distribution in full, this would be SGD6.9mn per year and SGD1.7mn per quarter, taking 50% of this as debt, we find EBITDA/(Interest plus 50% distribution) at 2.9x, weakening from 3.1x in 2Q2019.
- As at 30 September 2019, reported aggregate leverage was 41.6%, increasing from the 39.0% as at 30 June 2019. On 14 October 2019, EREIT completed a preferential offering that raised SGD50mn in equity. On a proforma basis, assuming that the full SGD50mn was used to pay down debt, aggregate leverage will fall to 40.1%.
- As at 30 September 2019, short term debt at EREIT was SGD178.4mn, largely consisting of SGD-denominated bonds maturing in April and May 2020 respectively. We see refinancing risk as manageable with short term debt representing only 14% of gross debt. Undrawn available committed facilities had reduced to SGD85.0mn from SGD140mn as at 30 June 2019, we think this was due to EREIT using some of the committed debt facilities to fund its 49%-stake purchase of 48 Pandan Road ("PTC Logistics Hub") which was completed on 7 August 2019. However, all properties at EREIT remains unencumbered, which allows EREIT to raise secured debt, if need be. We maintain EREIT's issuer profile at Neutral (4). (Company, OCBC)

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

- CMZB reported preliminary 3Q2019 results which were better than expectations. Operating profit was EUR448mn for 3Q2019, up 50.3% q/q and 29.5% y/y while net profit was EUR294mn, up 8.5% q/q and 34.9% y/y.
- Overall results were assisted by better lending revenues from volume growth and exceptional items (asset sale) with revenues up 2.0% y/y while costs and risk results fell. According to management, the lower costs were due to better investment allocation and cost management which offset higher compulsory contributions.
- From a segment perspective, operating profit from the Private and Small Business Customers segment rose 69.4% y/y while operating profit from the Corporate Clients segment fell 16.6% y/y.
- As a reminder, CMZB recently announced its cornerstones' of its draft "Commerzbank 5.0" strategic programme, which apparently has garnered lukewarm responses from investors who believe the plan is not ambitious enough.
- We will update further on CMZB's full results when they are announced on 7th November. (Company, OCBC)

Credit Headlines

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

- Barclays announced its 9M2019 results with profit before tax up 4% y/y to GBP3.26bn. Key positives in the results included:
  - Total income up 2% y/y due to a 4% y/y improvement in total income from Barclays International from both Corporate and Investment Bank ("CIB" – better broad based performance in FICC, banking fees and transaction fees) and Consumer, Cards and Payments ("CC&P" – volume growth from US cards merchant acquisition). This offset a 2% y/y decline in Barclays UK from margin pressure and lower activity in UK cards although this was offset to an extent by growth in mortgages and deposits;
  - Stable expense performance from cost efficiencies that offset business investments; and
  - A 22% y/y fall in litigation and conduct expenses.
- These were offset though by a 68% y/y rise in credit impairment charges and other provisions in Barclays International due to the lower base in 9M2018 from a favourable view on US economic performance at the time with these expectations now revised negatively resulting in higher impairment expectations. Of note is that credit impairment charges for Barclays UK fell 2% y/y due to an improved risk profile in UK cards (30 and 90 day arrears decreased y/y) and exposure releases in Business Banking which was partially offset by updates to the UK macro-economic scenario.
- Results also included an additional provision for payment protection insurance ("PPI") of GBP1.4bn due to a material increase in the amount of claims and information requests from customers before the Financial Conduct Authority deadline for lodging of new complaints of 29 August as well as enquiries from the Official Receiver on behalf of bankrupt individuals. As some background, these claims relate to the selling of PPI policies in the UK between 1990 and 2010 together with other products however exclusions in the policies rendered them void and policy holders unable to make a claim.
- Better earnings performance alongside regulatory adjustments had a positive impact on Barclays capital position with the CET1 ratio as at 30 September 2019 of 13.4% up 20bps from a year ago and against 31 December 2018. Regulatory adjustments relate to the removal of the previously applied floor for operational risk risk weighted assets ("RWAs") which resulted in a RWA reduction and a 60bps positive impact to Barclays CET1 ratio. This along with earnings mitigated the impact from dividends, the additional PPI provision, redemption of AT1 securities and higher RWAs from asset growth in CIB. Barclays CET1 ratio compares favourably to minimum CET1 requirements (12%) as well as its revised target level of 13.5% following the aforementioned regulatory adjustment. As part of this adjustment, Barclays overall CET1 fully loaded minimum capital requirement rose to 12.0% (previously 11.7%) and 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 3.0% for Pillar 2A.
- The Neutral (4) issuer profile remains appropriate in our view. (Company, OCBC)

Credit Headlines

HSBC Holdings PLC ("HSBC") | Issuer Profile: Positive (2)

- HSBC announced 3Q2019 and 9M2019 results. While 9M2019 results benefited from a solid 1H2019 (reported profit before tax of USD17.2bn was up 3.7% y/y), underperformance was evident in 3Q2019 numbers with reported profit before tax down 18.3% y/y to USD4.84bn. On an adjusted basis (includes significant items), profit before tax for 3Q2019 of USD5.35bn was down 12.2% y/y.
- The weaker bottom line was due to challenges at all levels of the income statement with reported revenue down 3.2% y/y from lower client activity in Global Markets, weakness in insurance as well as adverse movements in credit and funding valuation adjustments in Global Banking & Markets that offset decent performance in Retail Banking. In addition, operating expenses rose 2.3% y/y on account of higher significant items such as customer redress provisions for payment protection insurance and severance/restructuring costs. Excluding these, operating expenses rose 0.8% y/y.
- Expected credit losses and other credit impairment charges rose 74.2% y/y from unsecured lending in Retail Banking & Wealth Management, Commercial Banking exposures in the UK and Hong Kong as well as an additional charge to reflect the current economic challenges facing Hong Kong.
- From a geographical perspective, HSBC saw weakness mostly in its European businesses (3Q2019 adjusted profit before tax down 93.6% y/y) as well as the US (North America 3Q2019 adjusted profit before tax down 31.6% y/y) while Asia performance was solid with adjusted profit before tax up 5.3% y/y (the only region to see y/y growth). For HSBC's major business segments, all reported weaker y/y adjusted profit before tax - Retail Banking & Wealth Management adjusted profit before tax for 3Q2019 fell 18.1% y/y and Commercial Banking was down 11.2% y/y due to higher expected credit losses and a rise in operating expenses; Global Banking and Markets saw a 29.7% y/y fall in 3Q2019 from lower operating income due to weaker client activity.
- Despite the above challenges, HSBC's capital position remained somewhat resilient due to ongoing capital generation and a 2.3% q/q fall in risk weighted assets from foreign exchange impacts and methodology and policy changes. This offset dividends, a USD1bn share buyback, foreign currency translation differences, and other movements with its CET1 ratio of 14.3% as at 30 September 2019 stable q/q (and up 30bps from 14.0% as at 31 December 2018). This remains well above disclosed CET1 minimum capital requirements of 11.3% and is above HSBC's assumed range of above 14.0% through 2020.
- As mentioned in its 3Q2019 earnings release, management have highlighted that previous strategic plans 'are no longer sufficient to improve performance' for underperforming businesses and that they are 'accelerating plans to remodel them, and move capital into higher growth and return opportunities.' This will entail changes in capital allocation amongst HSBC's businesses, continued adjustments to costs and reducing risk weighted assets. We take management's comments as somewhat forceful and direct of the need for HSBC to refocus, especially with management's intention to sustain dividends, maintain the CET1 ratio above 14.0% and the recognition that the prior return on tangible equity target of 11.0% in 2020 now looks unachievable. Expectations of lower returns is due to a combination of the weaker revenue growth outlook as well as the likelihood of additional restructuring and impairment charges as a result of the strategic refocus. We continue to look through the numbers. (Company, OCBC)

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Key Market Movements

	29-Oct	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	66	-3	-10
iTraxx SovX APAC	30	-1	-5
iTraxx Japan	59	-1	-3
iTraxx Australia	60	-1	-7
CDX NA IG	53	-1	-7
CDX NA HY	108	0	1
iTraxx Eur Main	50	0	-5
iTraxx Eur XO	228	2	-4
iTraxx Eur Snr Fin	57	0	-7
iTraxx Eur Sub Fin	118	4	-22
iTraxx Sovx WE	11	-1	-2
USD Swap Spread 10Y	-8	-1	2
USD Swap Spread 30Y	-38	-2	2
US Libor-OIS Spread	35	1	1
Euro Libor-OIS Spread	3	-1	-2
China 5Y CDS	38	-1	-9
Malaysia 5Y CDS	43	-1	-8
Indonesia 5Y CDS	76	-3	-15
Thailand 5Y CDS	27	-1	-2
Australia 5Y CDS	17	0	-2

	29-Oct	1W chg	1M chg
Brent Crude Spot ($/bbl)	61.56	3.12%	-0.57%
Gold Spot ($/oz)	1,492.30	0.31%	1.35%
CRB	178.28	2.03%	1.46%
GSCI	414.03	1.75%	1.08%
VIX	13.11	-6.36%	-23.87%
CT10 (%)	1.853%	9.19	17.25
AUD/USD	0.685	-0.10%	1.45%
EUR/USD	1.110	-0.23%	1.84%
USD/SGD	1.363	0.00%	1.41%
AUD/SGD	0.933	0.12%	-0.03%
ASX 200	6,743	1.06%	0.40%
DJIA	27,091	0.98%	1.01%
SPX	3,039	1.09%	2.62%
MSCI Asiax	642	0.90%	4.25%
HSI	26,896	0.41%	3.63%
STI	3,214	2.39%	2.83%
KLCI	1,572	0.09%	-0.74%
JCI	6,267	0.67%	1.13%
EU Stoxx 50	3,626	0.71%	2.25%

Source: Bloomberg

New Issues

- Hyundai Capital America priced a USD1.5bn offering in two parts; a USD800mn 3-year bond at T+120bps (tightening from IPT of T+140-145bps area), and a USD700mn 7-year bond at T+175bps (tightening from IPT of T+195-200bps area).
- China Oil and Gas Group Ltd priced a USD30mn re-tap of its existing CHIOIL 5.5%'23s at 5.71%.
- NWD Finance (BVI) Limited (Guarantor: New World Development Company Limited) priced a USD400mn re-tap of its existing NWDEVL 6.25%-Perpetual bond at 5.875%, tightening from IPT of 6.0% area.
- Redsun Properties Group Limited priced a USD100mn 2-year bond at 13.0%.
- Chengdu Jiaozi Financial Holding Group Co., Ltd scheduled investor meetings commencing on 29 Oct for its proposed USD bond issuance.
- Southeast Asia Commercial Joint Stock Bank scheduled investor meetings commencing on 28 Oct for its proposed USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
28-Oct-19	Hyundai Capital America	USD800mn USD700mn	3-year 7-year	T+120bps T+175bps
28-Oct-19	China Oil and Gas Group Ltd	USD30mn	CHIOIL 5.5%'23s	5.71%
25-Oct-19	NWD Finance (BVI) Limited	USD400mn	NWDEVL 6.25%-Perpetual	5.875%
25-Oct-19	Redsun Properties Group Limited	USD100mn	2-year	13.0%
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

Source: OCBC, Bloomberg

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