OCBC Bank

Apr 30, 2019

Credit Headlines:

CITIC Envirotech Ltd, Bank of China, Mapletree North Asia Commercial Trust, Oxley Holdings Limited, China Construction Bank, Ascott Residence Trust, Ascendas Real Estate Investment Trust, City Development Limited

Market Commentary

- The SGD swap curve flattened yesterday, with most tenors trading 1bps lower, exception being the shorter tenors (below 2-years) and the 12-year swap rate trading a smaller change.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 129bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 474bps.
- Flows in SGD corporates were heavy, with flows in SOCGEN 6.125%-PERPs, ACAFP 3.8%'31s, CMZB 4.2%'28s, FPLSP 4.98%-PERPs, MFCCN 3.0%'29s, HSBC 4.7%-PERPs, HSBC 5.0%-PERPs and LOGPH 6.125%'21s.
- 10Y UST yields rose 3bps to 2.53%, on the back of a surge in US consumer spending in March, the largest increase in more than 9-1/2 years, which boosted market sentiments for growth in US consumption heading into the second quarter, albeit amidst tame inflation weighing down on yields.

Credit Headlines

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

- CEL announced its results for the first quarter ended March 2019 ("1Q2019"), gross revenue was down 72% y/y to SGD72.1mn mainly due to decline in the engineering and membrane system sales segments. Per company the decline in revenue was due to delays on two major projects from adverse weather conditions. The treatment revenue (the most stable income stream) saw revenue increase by 11% y/y at SGD51.5mn.
- Given the lower projects worked on, material purchased, consumables used and subcontractors fees was 83% y/y lower at SGD27.9mn. CEL reported a 86% y/y lower profit before income tax of only SGD8.3mn although this driven by a SGD14.2mn in other income (mainly due to foreign exchange gain). Taking this other income out, CEL would have reported a loss before tax.
- CEL results saw positive operating profit before working capital changes of SGD33.0mn (prior to taking into account of interest expense). Working capital needs though used up cash of SGD74.2mn while investing outflows was SGD13.4mn. The cash gap at CEL was funded by net new borrowings of SGD101.1mn.
- As at 31 March 2019, unadjusted net gearing (assuming perpetual as equity) was 0.8x while adjusted net debt (assuming 100% of perpetual as debt) was 1.2x, increasing from 1.1x in end-2018. As at 31 March 2019, short term debt at CEL amounted to SGD252.7mn and this can be sufficiently covered by the cash balance of SGD397.1mn (if the debt is not refinanced).
- However, in end-2018, capital commitments on the numerous projects CEL has won amounted to SGD709.9mn, which would still need to be funded. We expect gearing levels at CEL to rise as it takes on new debt to work on these projects as in our view CEL's internal cash flow is insufficient to fund both the capital commitments as well as short term debt coming due. We are reviewing the issuer profile of CEL. (Company, OCBC)

Credit Headlines (cont'd)

Bank of China Ltd ("BOC") | Issuer Profile: Neutral (3)

- BOC announced its 1Q2019 results with operating income up 11.6% y/y to RMB141bn. This was driven by a 6.6% y/y growth in net interest income from volume growth (as net interest margin fell 3bps y/y to 1.82%) and a 6.1% y/y growth in net fee and commission income. Other operating income rose 47.7% y/y due to significant y/y improvement in net trading gains as well as net gains on financial instruments.
- Expenses however were a drag on performance with operating expenses up 9.8% y/y while impairment losses on assets rose 76.4% y/y. As we previously mentioned, the increase is reflective of a more challenging operating environment in China in the next 12 months from slowing economic growth.
- Rather than addressing actual deterioration in loan quality. This is because the ratio of allowance for loan impairment losses to non-performing loans was 184.62% as at 31 March 2019 against 168.10% as at 31 March 2018. That said, the slight rise compared to 182.0% as at 31 December 2018 indicates a pick-up in non-performing loan balances with RMB173.1bn rising 3.7% q/q.
- As a result of the higher expenses, profit before tax fell 2.0% y/y to RMB66.4bn.
- BOC's balance sheet continues to grow with total assets up 1.64% q/q. Within this, loans and advances to customers rose 3.7% q/q, mostly in domestic RMB denominated loans. The non-performing loan ratio was 1.42% as at 31 March 2019, stable compared to 31 December 2018 and slightly better than the 1.43% recorded as at 31 March 2018.
- Given the marginally weaker capital generation and growth in loans, BOC's capital ratios were broadly stable compared to 31 December 2018 with BOC's CET1/CAR ratios at 11.4%/15.0% as at 31 March 2019 (10.9%/13.9% as at 31 March 2018).
- Overall, BOC's results in our view reflect the bank's participation in the government's supportive growth policies to stimulate the economy. (Company, OCBC)

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

- MNACT reported its fourth quarter results for the financial year started 1 April 2018 ("4QFY2019") results. Gross revenue increased 16.2% y/y to SGD104.0mn, while net property income ("NPI") went up by 15.3% y/y to SGD84.0mn. This was mainly due to higher rental income from Festival Walk (+3.2% y/y), Gateway Plaza (+2.9% y/y) and Sandhill Plaza (+3.3% y/y), contribution from Japan Properties (acquired on 25 May 2018) and higher average rate of HKD, which more than offset a weaker RMB against SGD.
- Portfolio is resilient with high portfolio occupancy rate of 99.6%. We are seeing 25.4% of leases expiring for FY2020, though ~6.1% has already been renewed or re-let. Overall, MNACT saw positive rental reversion across all assets. Festival Walk in particular saw rental reversion of +28% for retail and +15% for office for the first three months of 2019. Though management saw a more cautious consumer retail sentiment in Hong Kong, Festival Walk continued to record resilient retail sales (FY2019: +2.2% y/y).
- Reported interest coverage ratio remained stable at 4.2x. Aggregate leverage increased to 36.6% (4QFY2018: 36.2%) due to secured JPY onshore borrowings used to acquire the Japan properties, though this resulted in asset encumbrance increasing to 11% of total assets (4QFY2018: 0%). Debt maturity is well-staggered with only SGD108mn of bank debt and SGD96mn of bonds due in FY2020. MNACT has SGD179mn cash and bank balances as at 31 March 2019.
- We continue to hold MNACT at a Neutral (4) Issuer Profile in view of the manageable credit metrics and intact Hong Kong retail environment. (Company, OCBC)

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Credit Headlines (cont'd)

Oxley Holdings Ltd ("OHL") | Issuer Profile: Neutral (5)

- Following the acceptance of an expression of interest for Chevron House on 14 Mar 2019, a sale and purchase agreement was entered. The buyer would purchase Chevron House and take over the existing bank loans for SGD1.025bn ("Consideration").
- However, while SGD210mn of the Consideration would be paid in an earlier phase, the bulk of the remaining payments would only be received upon the completion of (1) AEI works, (2) divestment of the retail and banking units at Chevron House. The AEI works is estimated to cost ~SGD100mn. Post AEI works, the retail area will be increased to 5,960 sqm (before: 4,238 sqm), with the office area increased to 27,219 sqm (before: 20,035 sqm).
- We think completion risks (e.g. buyer walking out) should be manageable given that SGD210mn forms a significant (~20%) part of the total consideration. We understand that the AEI works is already underway while we are not overly worried over the retail area (post AEI) as this would take up just ~18% of the total area.
- We reiterate that this is a credit positive for OHL and see net gearing falling to ~1.6x upon the final completion of the deal. We continue to hold OHL at a Neutral (5) Issuer Profile. (Company, OCBC)

China Construction Bank Corporation ("CCB") | Issuer Profile: Neutral (3)

- CCB announced its 1Q2019 results with operating income up 8.4% y/y to RMB178.8bn. This was driven by a 4.5% y/y growth in net interest income from volume growth (as net interest margin fell 6bps y/y to 2.29%) and a 13.4% y/y growth in net fee and commission income from higher fee income from bank card, electronic banking service and agency service. Other operating income fell 13.9% y/y due to a fall in others (shift in product mix at CCB Life which impacted premium income and insurance cost) as a 33.0% y/y fall in net trading gains (lower y/y revaluation gains from debt securities and income from precious metals leasing business) was offset by a 158.7% y/y rise in net gains arising from investment securities.
- Similar to Bank of China's 1Q2019 results, expenses were a drag on overall performance with operating expenses up 8.7% y/y while impairment losses on assets rose 14.0% y/y. The y/y rise in impairment losses on assets was lower than Bank of China likely due to the better risk profile of CCB's loan portfolio as well as the better ratio of allowance for loan impairment losses to non-performing loans which was 214.23% as at 31 March 2019 (208.4% as at as at 31 December 2018).
- Although expenses rose, profit before tax was 5.9% higher y/y to RMB95.8bn.
- CCB's balance sheet expanded with total assets up 4.2% q/q. Within this, gross loans and advances to customers rose 3.2% q/q. The non-performing loan ratio was 1.46% as at 31 March 2019, stable compared to 31 December 2018.
- Given the still solid capital generation and growth in loans, CCB's capital ratios were broadly stable compared to 31 December 2018 with CCB's CET1/CAR ratios at 13.8%/17.1% as at 31 March 2019. We expect CCB's capital ratios to remain sound given its plans to raise up to RMB40bn in Tier 1 and Rmb80bn in Tier 2 capital. (Company, OCBC)

Credit Headlines (cont'd)

Ascott Residence Trust ("ART") | Issuer Profile: Neutral (4)

- ART announced its results for the first quarter ended March 2019 ("1Q2019"). Gross revenue was up 3% y/y to SGD115.9mn on the back of stronger performance from Singapore, the UK and the Philippines. In Singapore, stronger demand was seen at both the Master Leased properties (namely Ascott Raffles Place Singapore and Ascott Orchard Singapore which lifted variable rents) and the other two properties on management contracts also saw stronger market demand. Overall, Singapore saw revenue up 23% y/y. For the UK, similarly stronger market demand lifted revenue (up 13% y/y) with Revenue Per Available Unit ("REVPAU") up 17% y/y. The Philippines saw a revenue increase of 26% y/y in SGD-terms, driven by completion of asset enhancement initiatives which allowed Ascott Makati to charge higher average daily rates. These helped offset revenue declines elsewhere, chiefly France, USA, Australia and China.
- EBITDA (based on our calculation which does not include other expenses and other income) was up 13% y/y to SGD51.0mn. While some of the decline in costs was attributable to lower professional and audit fees, the biggest difference was the reduction in direct expenses although this was a result of adoption of accounting standard FRS 116. Prior to the change, operating lease expenses was taken in direct expenses and this is no longer the case. Finance expense was 15% y/y higher at SGD13.4mn as interest expense are recognised on lease liability. On a like-for-like basis, finance expense would have been SGD1.0mn lower (down by 9% y/y) as a result of lower effective borrowing cost of 2.1% p.a. As at 31 March 2018, this was 20bps higher at 2.3% p.a. We find EBITDA/Interest manageable at 3.8x though we assume that ART pays out SGD19.2mn p.a in perpetual distribution (SGD4.8mn per quarter). Adjusting 50% of that as interest, we find EBITDA/(Interest plus 50% perpetual distribution) at 3.2x.
- As at 31 March 2019, reported aggregate leverage was 35.7% and manageable although perpetuals was relatively significant at SGD401.2mn. Taking 50% of this as debt, we find adjusted aggregate leverage at 42%.
- Short term debt at ART was only SGD157.4mn, representing only 8% of total debt while secured debt as a percentage of total assets was 16%. ART is in the midst of selling Ascott Raffles Place where asset held for sale recorded was SGD350.1mn (including fair value gains). This transaction is targeted to complete on 9 May 2019. Concurrently, as part of its capital recycling, ART is buying Felix Hotel in Sydney which would be rebranded as Citadines Connect Sydney Airport for ~SGD59mn. Additionally, ART is developing lyf at one-North with a total development cost of SGD117mn. Even assuming that the net proceeds fully fund the lyf development and Citadines Connect Sydney, we expect excess liquidity available to fund the short term debt coming due and see low refinancing risk at ART.
- The ARTSP 5.0%-PERP faces first call in October 2019 (amount outstanding of SGD150mn) and we see high likelihood for this perpetual to be called as ART is able to raise a replacement perpetual at a lower cost of funding. We maintain ART's issuer profile at Neutral (4) though monitoring ART for an upgrade, especially if our expectations of a merger with Ascendas Hospitality Trust ("ASCHT") (Issuer profile: Unrated) comes to fruition. While ASCHT is smaller in scale with total assets of SGD1.9bn, its standalone credit metrics are stronger and an equity-funded merger is likely to lead to an enlarged REIT with a relatively stronger credit profile. (Company, OCBC)

Credit Headlines (cont'd)

Ascendas Real Estate Investment Trust ("AREIT") | Issuer Profile: Neutral (3)

- AREIT announced its results for the fourth quarter ended March 2019 ("4QFY2019"), gross revenue was up **4.3% y/y to SGD225.1mn** mainly due to acquisitions in Australia (four properties in FY2019) and the UK (38 properties acquired in FY2019 in two tranches) and from 20 Tuas Avenue 1 where the redevelopment had been completed in April 2018 and partly offset by non-renewals in Singapore. On a q/q basis though which did not have significant asset movements and hence more reflective of same-store revenue, gross revenue had fallen by 0.6%.
- EBITDA (based on our calculation which does not include other income and other expenses) was 3.3% y/y higher to SGD148.2mn, though lower than the increase in gross revenue, as management fees was higher due to the increased in larger asset size. As at 31 March 2019, total assets was SGD11.4bn, up from SGD10.4bn as at 31 March 2018. AREIT did not earn a performance fee in FY2019, further indicating that top line growth was driven by acquisitions. Finance costs was up 16.9% y/y to SGD33.0mn, driven by higher average debt balance and an increase in weighted average all-in debt cost (up 10bps from 31 March 2018). As such we find EBITDA/Interest coverage lower at 4.5x versus 5.1x in 4QFY2018 although still manageable in our view.
- Reported aggregate leverage was manageable at 36.3% although had increased from 34.4% as at 31 March 2018. Adjusting 50% of the perpetuals at AREIT as debt, we find adjusted aggregate leverage at ~38%. Net-net, following AREIT's push into the UK and the continued expansion in Australia, credit metrics while manageable had deteriorated somewhat y/y.
- Singapore now makes up 79% of AREIT's portfolio value, Australia 14% and the UK 7%. Going forward, AREIT still expects to focus on geographical diversification including looking at assets in Europe (including outside of the UK).
- Additionally, at a price-to-book of 1.4x, should AREIT need to tap equity financing for expansion and refinancing, markets should be highly accessible at reasonable cost. In our view, despite the stretched cash balance at AREIT of SGD4.9mn (less overdraft) as at 31 March 2019, AREIT's financial flexibility remains one of the best in the SREIT space. Short term debt as at 31 March 2019 was SGD611.9mn, representing 15% of total debt and lower than 26% as at 31 March 2018. Unencumbered properties was 90.8% of total investment properties. We are maintaining AREIT's issuer profile at Neutral (3).

City Developments Ltd ("CDL") | Issuer Profile: Positive (2)

- CDL purchased ~50% economic interest in IREIT Global Group Pte Ltd for SGD18.36mn and 78.6mn units in IREIT Global from Mr Tong Jinquan and Mr Lim Chap Huat for SGD59.36mn. IREIT Global is a REIT listed on the SGX with a portfolio of real estate in Europe.
- This is part of CDL's strategy to achieve USD5bn AUM by 2023 while the investment in IREIT Global will be earnings accretive. In addition, CDL has mentioned that there is the potential to recycle capital by injecting properties into IREIT Global.
- As the total transaction size is small relative to CDL's total assets of SGD20.9bn, the transaction is largely credit neutral. We continue to hold CDL at a Positive (2) Issuer Profile. (Company, OCBC)

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Table 1: Key Financial Indicators

	30-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	64	0	-4
iTraxx SovX APAC	42	0	-3
iTraxx Japan	54	1	-4
iTraxx Australia	66	-1	-7
CDX NA IG	58	1	-4
CDX NA HY	108	0	1
iTraxx Eur Main	58	0	-4
iTraxx Eur XO	247	1	-9
iTraxx Eur Snr Fin	69	0	-8
iTraxx Sovx WE	17	-1	-2
AUD/USD	0.704	-0.86%	-1.00%
EUR/USD	1.118	-0.42%	-0.29%
USD/SGD	1.362	-0.39%	-0.58%
China 5Y CDS	41	1	-2
Malaysia 5Y CDS	53	0	-6
Indonesia 5Y CDS	94	1	-7
Thailand 5Y CDS	36	-1	-5

	30-Apr	1W chg	1M chg
Brent Crude Spot ($/bbl)	71.75	-3.70%	4.91%
Gold Spot ($/oz)	1,281.70	0.73%	-0.47%
CRB	184.18	-1.99%	0.23%
GSCI	444.82	-2.51%	2.46%
VIX	13.11	5.56%	-4.38%
CT10 (bp)	2.525%	-6.33	12.02
USD Swap Spread 10Y (bp)	-2	0	-2
USD Swap Spread 30Y (bp)	-24	0	-1
US Libor-OIS Spread (bp)	18	1	-2
Euro Libor-OIS Spread (bp)	6	0	0
DJIA	26,554	0.16%	2.41%
SPX	2,943	1.21%	3.83%
MSCI Asiax	678	-0.44%	2.22%
HSI	29,893	-0.24%	2.90%
STI	3,407	1.60%	6.04%
KLCI	1,637	0.61%	-0.38%
JCI	6,426	0.17%	-0.66%

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New issues

- Ronshine China Holdings Ltd has priced a USD200mn re-tap of its existing RONXIN 10.5%'22s (subsidiary guarantors: certain of company's restricted subsidiaries incorporated outside the PRC) at 104.897 (yield: 8.5%).
- Mirae Asset Daewoo Co Ltd has priced a USD300mn 3-year bond at T3+95bps (IPT of +120bps area) and a USD300mn 5-year bond at T5+112.5bps (IPT of +140bps area).
- Keppel Corp Ltd has priced a SGD500mn deal across 2 tranches, with the SGD150mn 5-year bond at 3.0% (IPT of 3.25% area) and the SGD350mn 10-year bond at 3.66% (IPT of 3.875% area).
- CDL Properties Ltd has priced a SGD300mn 5-year bond at 2.958%.
- Oceanwide Holdings Co Ltd has scheduled investor meetings on 29 and 30 April for its potential USD bond exchange and issuance.

Date	Issuer	Size	Tenor	Pricing
29-Apr-19	Ronshine China Holdings Ltd	USD200mn	RONXIN 10.5%'22s	104.897+accrued
29-Apr-19	Mirae Asset Daewoo Co Ltd	USD300mn USD300mn	3-year 5-year	T3+95bps T5+112.5bps
29-Apr-19	Keppel Corp Ltd	SGD150mn SGD350mn	5-year 10-year	3.0% 3.66%
29-Apr-19	CDL Properties Ltd	SGD300mn	5-year	2.958%
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

Source: OCBC, Bloomberg

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