Asian Credit Daily

July 30, 2019

Credit Headlines: Ascendas Real Estate Investment Trust, Ascott Residence Trust, Mapletree North Asia Commercial Trust

Market Commentary

- The SGD swap curve flattened yesterday, with the shorter tenors traded 0-2bps higher, while the belly and longer tenors traded 0-2bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 127bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 473bps.
- Flows in SGD corporates were heavy, with flows in UOBSP 3.58%-PERPs, STANLN 5.375%-PERPs, HSBC 4.7%-PERPs, OUESP 3.8%'20s, FPLSP 4.98%-PERPs, SOCGEN 6.125%-PERPs, CS 5.625%-PERPs and KITSP 4.75%-PERPs.
- 10Y USTs was unchanged at 2.07%,as investors adopt a wait-and-see stance ahead of the FOMC meeting outcome on Wednesday. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread tightening to -2bps.

Credit Headlines:

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

- AREIT announced a change in financial year end from 31 March to 31 December (matching CapitaLand's financial year end since CapitaLand is now the Sponsor of AREIT), as such the current financial year is a nine-month period from 1 April 2019 to 31 December 2019 ("2019").
- AREIT announced the latest financial results for the quarter ended 30 June 2019 ("1Q2019"). Gross revenue was up 6.1% y/y to SGD229.7mn driven by AREIT's foray into the UK (first portfolio of 12 properties was purchased in August 2018 and another 26 properties purchased in October 2018), additional acquisitions in Australia and the completed redevelopment at 20 Tuas Avenue in Singapore. Removing the gross revenue contribution from the UK, AREIT's gross revenue would have only increased 1% y/y. Comparing to the immediately preceding quarter ended 30 March 2019 ("4QFYE March 2019"), AREIT's gross revenue would have increased by 2.1% q/q. There was no outright asset movements q/q though two properties were decommissioned for redevelopment in 1Q2019 and saw zero occupancy. The increase in 2.1% q/q was driven by positive rental reversions (mostly in Singapore), higher overall occupancies in Singapore though partly offset by lower occupancy in Australia.
- EBITDA (based on our calculation) was up by 11.7% y/y, mainly due to the impact on the adoption of FRS116 (no land rent expenses were included in 1Q2019). Despite the higher EBITDA, interest expense was up by 17.9% y/y (excluding lease liabilities). This was driven by higher average debt balance while average cost of borrowings was also higher (3% as at 30 June 2019 versus 2.9% as at 30 June 2018). Resultant EBITDA/Interest coverage was 4.7x, still manageable versus 4.5x in 4QFYE March 2019 and 5.0x in 1QFYE March 2019.
- Overall portfolio occupancy looked relatively stable at 91.1% (91.9% as at 30 March 2019 and 90.5% as at 30 June 2018). However, the y/y improvement was driven by UK in our view where portfolio occupancy was 100% and Singapore. Australia showed signs of sputtering, with Australia portfolio occupancy dropping sharply to 92.3% (98% as at 30 March 2019 and 98.6% as at 30 June 2018). Post quarter end, one of the Australian properties had been committed to be leased out though would still bring Australia committed occupancy only to 94.9%.
- Of the three suburban offices AREIT owns in Australia, two saw a revaluation loss as at 31 March 2019 versus 31 March 2018 in AUD terms. Of the 32 logistics & distribution centres in Australia, nine saw revaluation losses during this same period in AUD terms.
- As at 30 June 2019, AREIT's reported aggregate leverage was 37.2%, up from 36.3% as at 31 March 2019. AREIT has SGD300mn of perpetuals outstanding as at 30 June 2019 and taking 50% of this as debt, we estimate adjusted aggregate leverage at ~38%. We are maintaining AREIT's Neutral (3) issuer profile on the back of its still manageable, albeit weaker credit metrics and Australia performance. (Company, OCBC)

Credit Headlines (Cont'd)

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

- ART reported its 2Q2019 results. Overall gross revenue increased by 1.5% y/y to SGD132.5mn, mainly driven by higher revenue from the Philippines (Ascott Makati completed refurbishments), the UK and Japan. For the UK, on the back of higher demand by both corporate and leisure demand, revenue went up 11% y/y in local currency terms, while in SGD terms revenue was up by 7% y/y following the depreciation of the GBP against the SGD. All four of ART's properties in the UK are located in London which continues to see strong demand for accommodation notwithstanding Brexit uncertainties. For Japan, revenue increased by 5% in SGD terms on the back of stronger leisure demand.
- Revenue growth was partly offset by lower revenue, mainly from France, Singapore and China. For France, revenue was lower by 9% y/y in SGD terms, driven by the renewal of certain master leases at lower rates and the depreciation of the EUR against the SGD. Master leases in Singapore reduced due to the sale of Ascott Raffles Place in May 2018 though Ascott Orchard (the only remaining property on Master Lease in Singapore) saw higher variable rents y/y. For China, revenue in SGD terms declined by 6% y/y dragged by lower average daily rates in second tier cities and the depreciation of the RMB against the SGD. Of the seven properties in China, four are located in Suzhou, Dalian, Wuhan and Shenyang respectively.
- EBITDA (based on our calculation which does not include other income and other expenses) was SGD63.4mn, up 8.2%, though this was driven by impact of the adoption of FRS116. Per company, while reported gross profit was up by 7.2% y/y, gross profit on a same-store basis and excluding effects of FRS116 would have been up by SGD0.2mn and flattish y/y. Interest expense (excluding lease liabilities) was down by 12.4% y/y mainly due to refinancing of bonds that came due in 2H2018 at lower interest rates and repayment of bank loans using the proceeds from the sale of Ascott Raffles Place. Encouragingly, we saw a stronger EBITDA/Interest coverage of 6.2x (2Q2018: 5.0x). As at 30 June 2019, perpetuals outstanding was SGD400mn. Assuming ART pays out SGD19.2mn p.a (SGD4.8mn per quarter) and taking 50% of this as interest, we find EBITDA/(Interest plus 50% perpetual) at 5.0x, still healthy in our view.
- The ARTSP 5.0%-PERP faces first call in October 2019 and our base assumes that ART would be refinancing this with a replacement perpetual. We see the non-call risk at first call to be low as we think ART is able to replace this by at least ~80bps savings versus the current distribution rate of 5.0%.
- As at 30 June 2018, reported aggregate leverage was low at 32.8% while taking 50% of the perpetual as debt, our estimated adjusted aggregate leverage was ~36%, though we think this is just a blip. During 2Q2019, ART had received the remainder proceeds of SGD300.3mn from the sale of Ascott Raffles Place and completed the acquisition of Citadines Connect Sydney using the proceeds received. ART also paid down debt of SGD234.2mn (net of new borrowings).
- We expect adjusted aggregate leverage to go to ~39% following the investment outlay for Lyf at one-north greenfield development, though factoring in the acquisition of sister REIT Ascendas Hospitality Trust ("ASCHT", Issuer profile: Unrated) and even factoring in the high transaction cost to be borne by ART for the acquisition of ASCHT, we think adjusted aggregate leverage will ultimately be slightly lower at 38% as ASCHT has a lower aggregate leverage of 33.2% on a standalone basis as at 31 March 2019. There are no perpetuals at ASCHT.
- Our base case assumes the combination will be approved by unitholders and we are likely to upgrade ART's issuer profile to Neutral (3) following completion of the combination of ART and ASCHT. (Company, OCBC)

Credit Headlines (Cont'd)

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

- MNACT reported its first quarter results for the financial year started 1 March 2019 ("1QFY2020") results. Gross revenue increased 11.1% y/y to SGD104.9mn, while net property income ("NPI") went up by 10.7% y/y to SGD85.0mn. This was mainly due to Festival Walk (+6.5% y/y in revenue), and full quarter contribution from Japan Properties (acquired on 25 May 2018) and higher average rate of HKD, though offset by lower average rate of RMB.
- Portfolio occupancy dipped slightly to 99.1% from 99.6% in the preceding quarter, solely due to Gateway Plaza which saw occupancy fall by 1.8% to 97.2%. We are seeing 21.3% of leases expiring for FY2020, though ~7.5% has already been renewed or re-let.
- Overall, MNACT saw positive rental reversion across all assets except Gateway Plaza. Sandhill Plaza in particular saw rental reversion of +33% over the quarter, contributed by two leases.
- Rental reversion continues to be double digit (12%) at Festival Walk, even though both footfall and retail sales had fallen by 3.2% y/y and 1.8% y/y. Reason cited for the lower retail sales was a subdued domestic demand stemming from the trade tensions.
- Although we think the protests that have continued into the second month since mid-June 2019 may negatively impact retail, Festival Walk is patronised largely by local shoppers and management expects the mall to stay resilient
- Reported interest coverage ratio was 4.4x. Aggregate leverage increased slightly to 36.9% (4QFY2019: 36.6%). Debt maturity is well-staggered with only SGD109mn of bank debt and SGD96mn of bonds due in FY2020. MNACT has SGD173mn cash and bank balances as at 30 June 2019.
- We continue to hold MNACT at a Neutral (4) Issuer Profile in view of the manageable credit metrics. (Company, OCBC)

Table 1: Key Financial Indicators

	30-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	58	-3	-3
iTraxx SovX APAC	37	-2	-2
iTraxx Japan	55	-1	-4
iTraxx Australia	58	-3	-1
CDX NA IG	53	2	0
CDX NA HY	108	0	0
iTraxx Eur Main	49	2	-2
iTraxx Eur XO	248	5	-1
iTraxx Eur Snr Fin	62	6	0
iTraxx Sovx WE	15	0	-1
AUD/USD	0.690	-1.53%	-0.98%
EUR/USD	1.114	-0.13%	-1.31%
USD/SGD	1.370	-0.33%	-1.04%
China 5Y CDS	40	-1	0
Malaysia 5Y CDS	48	-2	-2
Indonesia 5Y CDS	78	-7	-9
Thailand 5Y CDS	31	-1	-1

	30-Jul	1W chg	1M chg
Brent Crude Spot ($/bbl)	63.98	0.23%	-3.86%
Gold Spot ($/oz)	1,423.27	0.38%	2.82%
CRB	177.80	-0.42%	-1.79%
GSCI	418.52	0.40%	-1.61%
VIX	12.83	-5.17%	-14.92%
CT10 (bp)	2.063%	-1.79	5.82
USD Swap Spread 10Y (bp)	-8	-1	-4
USD Swap Spread 30Y (bp)	-37	-1	-6
US Libor-OIS Spread (bp)	24	3	5
Euro Libor-OIS Spread (bp)	6	-1	0
DJIA	27,221	0.18%	2.34%
SPX	3,021	1.20%	2.69%
MSCI Asiax	644	-1.26%	-1.26%
HSI	28,166	-1.06%	-1.32%
STI	3,345	-0.84%	0.70%
KLCI	1,643	-0.77%	-1.76%
JCI	6,299	-2.09%	-0.94%

New issues:

- Shinhan Financial Group Co Ltd has priced a USD500mn 10.5NC5 Tier 2 bond at T+150bps, tightening from IPT of T+175bps area.
- Sino-Ocean Land Treasure IV Ltd (Guarantor: Sino-Ocean Group Holding Ltd) has priced a USD600mn 10-year bond at T+287.5bps, tightening from IPT of T+320bps area.
- Malayan Banking Berhad has priced a USD850mn 5-year FRN at 3-month US LIBOR+80bps, in line with final guidance.
- National Australia Bank Ltd has priced a USD1.5bn 15NC10 Tier 2 bonds at T+188bps, tightening from IPT of T+200bps area.
- Hong Yang Group Co., Ltd has priced a USD100mn 2-year bond at 11.5%.
- Export-Import Bank of India has scheduled investor roadshows commencing on 30 July for its potential USD bond issuance.

Date		Size	Tenor	Pricing
29-Jul-19	Shinhan Financial Group Co Ltd	USD500mn	10.5NC5	T+150bps
29-Jul-19	Sino-Ocean Land Treasure IV Ltd	USD600mn	10-year	T+287.5bps
29-Jul-19	Malayan Banking Berhad	USD850mn	5-year FRN	US LIBOR+80bps
29-Jul-19	National Australia Bank Ltd	USD1.5bn	15NC10	T+188bps
29-Jul-19	Hong Yang Group Co., Ltd	USD100mn	2-year	11.5%
25-Jul-19	Honghua Group Ltd	USD200mn	3-year	6.375%
25-Jul-19	Mong Duong Finance Holdings B.V.	USD678.5mn	9.8-year	5.125%
25-Jul-19	Coastal Emerald Ltd	USD500mn USD900mn	3-year NC5-Perpetual	3.95% 4.3%
25-Jul-19	FWD Group Ltd	USD250mn	FWDGRP 5.75%'24s	5.5%
25-Jul-19	E-MART Inc	USD320mn	3-year FRN	3M-US LIBOR+85bps
25-Jul-19	China Development Bank Corporation of Hong Kong	USD100mn	3-year FRN	3M-US LIBOR+54bps

Source: OCBC, Bloomberg

Andrew Wong
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Ezien Hoo, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com

Seow Zhi Qi
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
zhiqiseow@ocbc.com