

Jan 31, 2019

**Credit Headlines:** Ascendas Real Estate Investment Trust, Frasers Hospitality Trust, ASL Marine Holdings Ltd

## **Market Commentary**

- The SGD swap curve was higher yesterday, with the shorter tenors trading swap rates trading 1 bps higher while the longer tenors traded unchanged (with the exception of the 10-year, 20-year and 30-year swap rates trading 1bps higher).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 153bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 529bps.
- Flows in SGD corporates were heavy yesterday, with flows seen in DBSSP 3.98%-PERPs, UBS 5.875%-PERPs, CELSP 3.9%-PERPs, SINTEC 5.0%-PERPs, CMZB 4.2%'28s, BNP 4.35%'29s, UOBSP 3.5%'29s, CMZB 4.875%'27s, and BACR 3.75%'30s.
- 10Y UST yields rose 2bps in the earlier part of the trading session on the back of better-than-expected employment data on US private sector jobs. Subsequently, yields fell 6bps to close the trading session at 2.68%, with US equity rallying strongly after a policy statement by the Federal Reserve to pause its interest rate hiking scheme.

## **Credit Headlines**

### **Ascendas Real Estate Investment Trust (“AREIT”) | Issuer Profile: Neutral (3)**

- AREIT announced their third quarter results for the financial year ended March 2019 (“3QFY2019”). Gross revenue was up 4.2% y/y to SGD226.4mn, with the increase coming from acquisitions made in the UK in 2018 and increase in revenue from Australia though was partly offset by a 1.6% y/y decline in Singapore (its main market, 79% contribution to investment property value). In 3QFY2019, AREIT recognised SGD10.0mn in gross revenue from its new UK portfolio, taking out this contribution, AREIT's gross revenue would have been flat y/y.
- EBITDA (based on our calculation which does not include other income and other expenses) was up 6.3% y/y to SGD151.7mn although interest expense expanded 18.7% y/y to SGD32.7mn from higher average debt balance. For 3QFY2019, average debt balance was SGD3.8bn against SGD3.5bn in 3QFY2018. EBITDA/Interest coverage was lower at 4.6x (3QFY2018: 5.2x), although higher versus the immediately preceding quarter of 4.5x.
- Aggregate leverage as at 31 December 2018 was 36.7%, slightly higher than our expectations. As at 30 September 2018, aggregate leverage was 33.2% and leverage had increased from AREIT's acquisitions in the UK. AREIT has SGD300.9mn in perpetuals in end-2018, taking 50% of this as debt, we fund adjusted aggregate leverage at 38.0%, on the high side versus other REITs under our coverage. 91% of its investment properties (~SGD9.7bn) though remains unencumbered while the REIT maintains significant market access which helps in financial flexibility.
- Overall portfolio occupancy was 91.3% as at 31 December 2018 (30 September 2018: 90.6%), with Singapore occupancy dropping slightly to 87.3% from 87.1% as at 30 September 2018. Australia occupancy was 98.1% as at 31 December 2018 (30 September 2018: 98.5%) while UK had full occupancy.
- As at 31 December 2018, short term debt at AREIT was SGD964.0mn, representing 23% of gross debt and manageable. This includes SGD95.0mn in SGD bonds coming due in May 2019. On 30 January 2019, AREIT announced that it has signed an agreement with Grab to build Grab's new headquarters in Singapore for total development cost of SGD181.2mn in one-North. The built-to-suit facility comes with a long lease commitment of 11 years and will be fully leased by Grab. Assuming this is debt-funded, aggregate leverage for AREIT may rise to ~38%. We maintain AREIT's issuer profile at Neutral (3). (Company, OCBC)

## **Credit Headlines (cont'd)**

### **Frasers Hospitality Trust ("FHREIT") | Issuer Profile: Neutral (3)**

- FHREIT announced their first quarter results for the financial year ended September 2019 ("1QFY2019"). Gross revenue was down by 2.0% y/y to SGD40.6mn driven by a 10% y/y decline in Japan and 22% y/y decline in Malaysia. Japan and Malaysia are two of FHREIT's smaller markets where it has a property each in Kobe and Kuala Lumpur respectively. The Kobe property was dragged by weaker F&B revenue and lower positive spill-over effect from Osaka while Kuala Lumpur continued to face intense competition from new five star hotels.
- Australia, the key market for FHREIT (47% contribution to revenue in 1QFY2019) saw overall flat gross revenue at SGD19.1mn. Per management, certain Australia properties received top-up rents by its hotel operators per terms of agreements signed with respective operators, though such terms are non-public.
- Singapore (19% contribution to revenue in 1QFY2019) saw gross revenue down by 1% y/y to SGD7.7mn, with F&B boosting InterContinental's performance while Frasers Suites Singapore saw downward pressure on Revenue Per Available Room ("REVPAR") from a still challenging extended stay market.
- EBITDA (based on our calculation which does not include other income and other expenses) was down 1.1% y/y to SGD27.8mn although interest expense was marginally down by 0.4% y/y, resulting in a healthy EBITDA/Interest coverage of 5.5x (1QFY2018: 5.6x). Assuming FHREIT distributes SGD0.6mn per quarter on its perpetuals, taking 50% of these as interest, we find adjusted EBITDA/Interest at 5.4x.
- Reported aggregate leverage was 34.4% as at 31 December 2018 (30 September 2018: 33.6%), with the increase driven by foreign exchange translation impact in our view. The depreciation of AUD against the SGD has led to lower asset values from Australia in SGD terms, while FHREIT has certain AUD borrowings. By valuation, Australia makes up 33% of FHREIT's total portfolio value as at 30 September 2018. Reportedly, FHREIT has put the Sofitel Sydney Wentworth Hotel up for sale for more than AUD400mn, this property had a book value of AUD307.9mn as at 30 September 2018 (~SGD300mn), representing ~12% of total asset value. While the REIT faces no time nor liquidity pressure to complete a sale, we would see a reduction in concentration risk towards Australia as a credit positive (assuming deal goes through and money is re-deployed well).
- FHREIT faces heavy short-term maturities with SGD428mn of short term debt. Only Westin Kuala Lumpur has been encumbered, leaving SGD2.3bn of unencumbered assets which should aide FHREIT in refinancing if need be. We see FHREIT's refinancing risk as manageable and maintain our issuer profile of Neutral (3). (Company, The Edge, OCBC)

### **ASL Marine Holdings Ltd ("ASL") | Issuer Profile: Unrated**

- As part of its proposed debt restructuring, ASL Marine launched its consent solicitation exercise to amend terms on its Series 006 and Series 007 SGD-bonds. On 30 January 2019, the extraordinary resolutions to effect the CSE for both tranches were passed.
- Series 006 bondholders representing 91.75% of principal amount outstanding voted at the meeting. Of the total votes that were cast, 99.46% were cast in favour.
- Series 007 bondholders representing 89% of principal amount outstanding voted at the meeting. Of the total votes that were cast, 97.75% were cast in favour.
- With bondholders support now formally obtained, we expect ASL to commence finalisation of its discussions with bank lenders and subsequently obtaining shareholders' approval for the issuance of new warrants. (Company, OCBC)

**Table 1: Key Financial Indicators**

	31-Jan	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	83	-2	-13
iTraxx SovX APAC	61	-2	-9
iTraxx Japan	68	-2	-19
iTraxx Australia	81	-3	-14
CDX NA IG	69	-5	-19
CDX NA HY	106	1	4
iTraxx Eur Main	73	-3	-14
iTraxx Eur XO	320	-8	-33
iTraxx Eur Snr Fin	89	-4	-21
iTraxx Sovx WE	23	-1	-2
AUD/USD	0.726	2.37%	3.02%
EUR/USD	1.150	1.73%	0.29%
USD/SGD	1.346	1.10%	1.24%
China 5Y CDS	57	-3	-10
Malaysia 5Y CDS	83	-4	-26
Indonesia 5Y CDS	117	-4	-21
Thailand 5Y CDS	42	-1	-3

	31-Jan	1W chg	1M chg
Brent Crude Spot (\$/bbl)	62.23	1.87%	15.67%
Gold Spot (\$/oz)	1,318.87	2.94%	2.84%
CRB	180.11	0.81%	6.07%
GSCI	410.38	0.92%	9.63%
VIX	17.66	-9.53%	-30.53%
CT10 (bp)	2.681%	-3.47	-0.32
USD Swap Spread 10Y (bp)	3	-1	0
USD Swap Spread 30Y (bp)	-20	-2	-2
TED Spread (bp)	34	-5	-9
US Libor-OIS Spread (bp)	34	-2	-7
Euro Libor-OIS Spread (bp)	5	0	1
DJIA	25,015	1.79%	7.23%
SPX	2,681	1.60%	6.95%
MSCI Asiax	634	1.96%	6.24%
HSI	27,924	2.96%	8.04%
STI	3,186	-0.15%	3.82%
KLCI	1,690	-0.20%	-0.02%
JCI	6,522	0.86%	5.29%

## New issues

- CMT MTN Pte Ltd has priced a SGD100mn 7-year bond at 3.15%.
- Towngas (Finance) Ltd (guarantor: The Hong Kong and China Gas Company Ltd) has scheduled investor meetings from 30 Jan for its potential USD NC5-perpetual bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
30-Jan-19	CMT MTN Pte Ltd	SGD100mn	7-year	3.15%
29-Jan-19	LLPL Capital Pte Ltd (PT Lestari Banten Energi)	USD775mn	20-year	6.875%
29-Jan-19	Siam Commercial Bank PCL, Cayman Islands Branch	USD500mn USD500mn	5-year 10-year	CT5+137.5bps CT10+167.5bps
29-Jan-19	Studio City Finance Ltd	USD600mn	5NC2	7.25%
29-Jan-19	Granda Century Ltd	USD235mn	SNAGRP 7.5%'21s	8.375%
29-Jan-19	Oil India Ltd	USD550mn	10-year	CT10+250bps
29-Jan-19	Champion Sincerity Holdings Ltd (Greentown China Holdings Ltd)	USD100mn	NC3-perpetual	7.75%
29-Jan-19	Suntec REIT MTN Pte Ltd	SGD100mn	6-year	3.355%
28-Jan-19	Baoxin Auto Finance I Ltd (China Grand Automotive Services Co Ltd)	USD300mn	363-day	8.75%
28-Jan-19	CMOC Capital Ltd (China Molybdenum Co Ltd)	USD300mn	3-year	5.48%
28-Jan-19	Fantasia Holdings Group Co	USD100mn	FTHDGR 15.0%'21s	15.0%
28-Jan-19	Fortune Star (BVI) Ltd (Fosun International Ltd)	USD500mn	2-year	6.875%
28-Jan-19	Hyundai Capital America (HYNMTR)	USD650mn USD350mn	3-year 5-year	CT3+140bps CT5+173bps
28-Jan-19	Jingrui Holdings Ltd	USD150mn	1.5-year	13.0%
28-Jan-19	Kookmin Bank	USD450mn	10-year Tier 2	CT10+187.5bps

Source: OCBC, Bloomberg

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