July 31, 2019

Credit Headlines: CapitaLand Retail China Trust, Frasers Hospitality Trust, Sembcorp Marine Ltd, Starhill Global REIT

Market Commentary

- The SGD swap curve was unchanged yesterday.
- 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 tightened 1bps to 472bps.
- Flows in SGD corporates were heavy, with flows in UOBSP 3.58%-PERPs, STANLN 5.375%-PERPs, FPLSP 4.98%-PERPs, OUESP 3.55%'23s, F4.125%'24s. BACR 3.75%'30s, SOCGEN 6.125%-PERPs, CS 5.625%-PERPs, UBS 5.875%-PERPs and OUESP 3.8%'20s.
- 10Y USTs fell 1bps to 2.06%,after the US reported encouraging consumer spending and consumer confidence data. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread tightening to -1bps.

Credit Headlines:

CapitaLand Retail China Trust ("CRCT") | Issuer Profile: Neutral (4)

- CRCT announced its 2Q2019 results. In RMB terms, gross revenue was up 1.9% y/y to RMB274.9mn while NPI was up 11.5% y/y to RMB201.1mn. The increase was due to stronger rental growth from the multi-tenanted malls, offset mainly by lower revenue in CapitaMall Grand Canyon and CapitaMall Qibao. In SGD terms however, gross revenue was down by 1.9% y/y while NPI were up 7.3% y/y, weighed down by the stronger SGD against RMB.
- Portfolio occupancy as at 30 June 2019 was marginally lower q/q at 97.0% (1Q2019: 97.4%), as occupancy dipped slightly at multiple properties. Having said that, rental reversion in 2Q2019 was +7.0%, with most malls recording positive rental reversion with the exception of CapitaMall Qibao and CapitaMall Mingzhongleyuan. It is noteworthy that the leases expiring in 2019 constitutes 16.2% of total gross rental income. With shopper traffic and tenants sales higher y/y at +0.3% and +2.8% respectively, we think the expiring leases will be manageable.
- Aggregate leverage (including the proportionate share of its JV's borrowings and deposited property) was 33.8% (1Q2019: 35.5%) due to the repayment of some of its borrowings. Reported interest coverage was stable q/q at 5.0x. CRCT has SGD38.2mn of debt due in 2019 from its unsecured money market line, however with fully-unencumbered assets and SGD155.9mn of cash on hand as at 30 June 019, CRCT's credit metrics remains intact in our view.
- Over the quarter, CRCT have also announced the acquisition of three malls, CapitaMall Xuefu and CapitaMall Aidemengdun in Harbin and CapitaMall Yuhuating in Changsha. This is top of the bundle deal entered in Hohhot to divest CapitaMall Saihan and acquire Yuquan Mall with a target to take over the property in 2H2019. We maintain CRCT's issuer profile at Neutral (4). (Company, OCBC)

Credit Headlines (Cont'd)

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

- FHREIT reported its third quarter results for the financial year ended September 2019 ("3QFY2019"). In 3QFY2019, FHREIT saw revenue declined 8.4% y/y to SGD35.0mn with declines since in master leases, room revenue as well as food & beverage. Based on our estimates, FHREIT's Australia portfolio explains ~86% of the total revenue decline. Net property income ("NPI") saw an 11.0% y/y decline to SGD25.4mn, dragged predominantly by Australia, which comprised 29% of 3QFY2019 NPI.
- While FHREIT does not disclose property by property performance on a quarterly basis, it discloses Gross Operating Revenue ("GOR") and Gross Operating Profit ("GOP") by geography. Both are used in the formula to calculate rents that FHREIT receive. Aside from 1QFY2019 where GOR and GOP grew y/y, Australia's weakness had existed for most of 2QFY2018 to 3QFY2019. In our earnings review for 2QFY2019, we flagged our dimming outlook over Australia hospitality. In AUD-terms, GOR and GOP for Australia had declined 5.4% y/y and 14.8% y/y respectively, a significantly larger decline versus previous quarters. 3QFY2019 RevPAR was lower at AUD186 in 3QFY2019 versus AUD199 in 3QFY2018, on the back of both weaker average daily rates (down 3.1% y/y at AUD216) and lower occupancy rates (-2.5 ppt to 86.7% in 3QFY2019). Three of FHREIT's properties are located in Sydney while one is in Melbourne. In our view, these are quality properties though per company, Sydney was affected by a challenging environment led by softer corporate demand while Melbourne saw lower numbers of sporting and entertainment events which affected leisure demand.
- YTD, there had been various media reports that FHREIT is putting 436-room Sofitel Sydney Wentworth up for sale, while there is no certainty a transaction will take place, we think there is a good possibility that FHREIT is seeking a buyer with the REIT aware of its outsized concentration to Australia.
- With FHREIT's operating performance also hammered this quarter, EBITDA (based on our calculation which does not include other income and other expenses) was down by 11.8% y/y at SGD22.3mn. Interest expense though was somewhat down by 1.4% y/y to SGD4.9mn mainly due to lower amortisation of debt upfront costs. EBITDA/Interest coverage was lower at 4.6x still healthy though lower 3QFY2018's 5.1x. Assuming FHREIT pays the full perpetual distribution of SGD4.45mn p.a (SGD1.1mn per quarter) and taking 50% of this as interest, we find EBITDA/(Interest plus 50% perpetual distribution) at 4.1x.
- As at 30 June 2018, reported aggregate leverage was 35.0% (up somewhat from 34.1% as at 31 March 2019) while taking 50% of perpetual as debt, we estimate adjusted aggregate leverage at 37%, still manageable.
- Short term debt as at 30 June 2018 was SGD436.3mn (representing 51% of total debt) though encouragingly post quarter end in July 2019, FHREIT had refinanced SGD325mn of bank loan facility, MYR95mn (~SGD31.6mn) in asset based securities raised in the MYR bond market and JPY2.35bn (~SGD29.6mn) in Tokutei Mokuteki Kaisha bonds. This means that 89% of all the short term debt due had been refinanced, lowering FHREIT's refinancing risk substantially. We are maintaining FHREIT's issuer profile at Neutral (3), albeit precariously. We would lower this should weakness in FHREIT's operating performance show no sign of stabilising, leading to weaker income generation and stretching its credit profile beyond what is acceptable for a Neutral (3) name. (Company, Sydney Morning Herald, OCBC)

Credit Headlines (Cont'd)

Sembcorp Marine Ltd ("SMM") | Issuer Profile: Unrated

- SMM, a 61%-owned subsidiary of Sembcorp Industries Ltd ("SCI", Issuer profile: Neutral (4)) reported its 2Q2019 financial results. In 2Q2019, SMM's revenue declined 55.1% y/y to SGD731.3mn, this was mainly driven by the decline in top line in the Rigs & Floaters segment and offshore platform projects. The smaller but more stable contributor, Repairs & Upgrades segment, saw a 13% y/y increase to SGD142mn though Offshore Platforms declined by 60% y/y to SGD34mn. While revenue had declined significantly y/y, in 1Q2019, SMM's revenue was down 9.8% q/q. SMM had reported revenue of SGD810.6mn in 1Q2019 (down 31% y/y), signalling a slower pace of business activities.
- Per company, the group's net orderbook excluding Sete Brasil contracts as at 30 June 2019 was SGD2.1bn (31 March 2019: SGD2.65bn and 31 December 2018: SGD3.09bn). Effectively, SMM had not been able to replenish its orderbook with only SGD175mn in new contracts secured in 1H2019. SMM shared that it is expecting losses for 2H2019 to be higher than 1H2019 with 2019 losses projected to be in range with 2018 losses. For 2018, SMM reported a loss for the year (before tax) of SGD100.9mn and after tax credits of SGD78.4mn.
- While the decline in orderbook would continue to drag the profitability of SMM, in our view, this also means that less working capital needs is required in the immediate to near term which reduces the cash outflow of SMM (as a knock on effect reduces further need for SCI to support SMM's working capital). In 1H2019, SMM reported cash flow from operations (after tax but before interest) of SGD296.6mn versus a negative cash outflow of SGD48.7mn in 1H2018.
- In 2Q2018, based on our calculation which does not include other income and other expenses, SMM had a loss before tax, depreciation, amortisation and interest of SGD9.5mn though in 2Q2019, it generated an EBITDA of SGD49.4mn, which covered interest expenses by 1.7x (excluding interest expense on lease liabilities).
- As at 30 June 2019, unadjusted net gearing was 1.42x, reducing somewhat from the 1.47x as at 31 March 2019. On 21 June 2019, SCI announced that it will be lending SMM SGD2.0bn, of which SGD0.5bn will be for working capital and general corporate purposes. Per company, SGD1.5bn was drawn down on 8 July 2019 to help pay down short term borrowings and re-profile the remaining borrowings with longer term maturities. It had stoked us as unusual then that SMM's refinancing (including non-current debt) needed to be fulfilled via a new privately placed bond at the SCI level rather than via existing facilities and banking relationships, indicating that lenders were more comfortable with assuming SCI debt than SMM's.
- Per our 5 July 2019 mid-year credit outlook, we continue to monitor for a downgrade from our Neutral (4) issuer profile on SCI. This is on the back of the stretched credit profile at SMM which may entangle SCI to provide further support to this subsidiary, adverse event risk at SMM and potentially more equity injection to its other subsidiary, Sembcorp Energy India Limited, which is a competing cash flow to debt repayment at SCI, moving SCI away from its deleveraging path. (Company, OCBC)

Credit Headlines (Cont'd)

Starhill Global REIT ("SGREIT") | Issuer Profile: Neutral (4)

- SGREIT reported its fourth quarter results for financial year ended 31 March 2019 ("4QFY2019"). Gross revenue improved 0.4% y/y to SGD51.9mn while net property income ("NPI") dipped by 0.4% y/y to SGD39.9mn. This was largely due to lower contributions from the retail portfolio in Singapore, the weaker AUD and MYR against SGD and higher operating expenses, though partially offset by higher contributions from Myer Centre Adelaide and the office portfolio.
- For its Singapore retail portfolio, actual occupancy improved to 99.4% as at 30 June 2019, largely due to Wisma Atria (Retail) which saw occupancy improve from 91.7% to 99.6% over the quarter. Although the retail portfolio saw better occupancy, we note that Toshin i.e. Takashimaya, the master lease at Ngee Ann City (Retail) (22.9% of portfolio gross rent) did not manage to secure an increase in rent in the June 2019 rent review. Rent review for Takashimaya takes place every 3 years.
- On the Singapore office front, occupancy fell slightly to the 93% handle from 94.4% in the preceding quarter. Specifically, occupancy rate at Wisma Atria (Office) was 89.3% while that for Ngee Ann City (Office) was 95.9%.
- The committed occupancy of Australia's office portfolio was also better at 87.1%, up from 74.9% in the previous quarter, following the exercise of an option by an existing tenant to take up more space.
- Consequentially, overall occupancy at SGREIT improved to 96.3% from 94.2% in the preceding quarter.
- Aggregate leverage crept higher to 36.1% from 35.7% in 3QFY2019. This was due to slightly higher debt by SGD3mn (~0.27% increase) and a lower valuation of investment properties to SGD3.07bn from SGD3.12bn due to negative foreign currency movements mainly in AUD and MYR, given that the downward revaluation of the Singapore properties was offset by upward revaluation of the Malaysia properties.
- Reported interest coverage was somewhat stable q/q at 3.7x. SGREIT has minimal refinancing risk in the near term, as it has SGD128mn worth of borrowings coming due in FY2020 and SGD72.9mn cash on hand, with 73% of its assets unencumbered. Of the SGD128mn includes a SGD108mn medium term notes secured by its Malaysia properties maturing in September 2019 (or FY2020) which SGREIT is currently in the midst of refinancing. We will continue to hold SGREIT at a Neutral (4) Issuer Profile. (Company, OCBC)

Table 1: Key Financial Indicators

	31-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	59	0	-2
iTraxx SovX APAC	37	-1	-2
iTraxx Japan	56	1	-3
iTraxx Australia	59	0	0
CDX NA IG	53	3	0
CDX NA HY	108	0	0
iTraxx Eur Main	51	5	0
iTraxx Eur XO	256	19	7
iTraxx Eur Snr Fin	64	11	2
iTraxx Sovx WE	16	1	0
AUD/USD	0.687	-1.61%	-1.45%
EUR/USD	1.115	0.08%	-1.21%
USD/SGD	1.371	-0.48%	-1.12%
China 5Y CDS	40	0	0
Malaysia 5Y CDS	48	-1	-1
Indonesia 5Y CDS	79	-4	-8
Thailand 5Y CDS	31	-1	-1

	31-Jul	1W chg	1M chg
Brent Crude Spot ($/bbl)	65.13	3.09%	-2.13%
Gold Spot ($/oz)	1,429.19	0.23%	3.25%
CRB	178.34	-0.39%	-1.49%
GSCI	421.65	0.45%	-0.87%
VIX	13.94	10.55%	-7.56%
CT10 (bp)	2.055%	1.17	4.94
USD Swap Spread 10Y (bp)	-9	-1	-5
USD Swap Spread 30Y (bp)	-37	-1	-6
US Libor-OIS Spread (bp)	23	1	4
Euro Libor-OIS Spread (bp)	6	-1	0
DJIA	27,198	-0.55%	2.25%
SPX	3,013	0.26%	2.43%
MSCI Asiax	644	-1.30%	-1.38%
HSI	28,147	-1.32%	-1.39%
STI	3,354	-0.43%	0.97%
KLCI	1,642	-0.85%	-1.82%
JCI	6,377	-0.42%	0.29%

New issues:

- China Aoyuan Group Ltd has priced a USD250mn re-tap of its existing CAPG 7.95%'23s at 6.5%, tightening from initial guidance of 6.66% area.
- Dexin China Holdings Company Ltd has priced a USD200mn 2-year bond at 14.0%, in line with IPT.
- Lotte Property & Development Co., Ltd (Guarantor: Kookmin Bank) has priced a USD300mn 3-year FRN at 3-month US LIBOR+77.5bps, tightening from IPT of 3-month US LIBOR+105bps area.
- Korea Land & Housing Corporation has priced a USD100mn 3-year FRN at 3-month US LIBOR+66bps, and a USD100mn 2-year FRN at 3-month US LIBOR+47bps.
- Emirates NBD PJSC has priced a SGD20mn 7-year bond at 3.06%.

Date		Size	Tenor	Pricing
30-Jul-19	China Aoyuan Group Ltd	USD250mn	CAPG 7.95%'23s	6.5%
30-Jul-19	Dexin China Holdings Company Ltd	USD200mn	2-year	14.0%
30-Jul-19	Lotte Property & Development Co., Ltd	USD300mn	3-year FRN	3M-US LIBOR+77.5bps
30-Jul-19	Korea Land & Housing Corporation Korea Land & Housing Corporation	USD100mn USD100mn	3-year FRN 2-year FRN	3M-US LIBOR+66bps 3M-US LIBOR+47bps
30-Jul-19	Emirates NBD PJSC	SGD20mn	7-year	3.06%.
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	3M-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%

Source: OCBC, Bloomberg

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