

Asian Credit Daily

Monday, November 4, 2019

Market Commentary

- The SGD swap curve bull-flattened last Friday, with the shorter tenors traded 4-5bps lower, while the belly and longer tenors traded 6-11bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 131bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 3bps to 511bps. The HY-IG Index spread widened 3bps to 380bps.
- Flows in SGD corporates were heavy, with large ticket flows in CAPLSP 3.65%-PERP. We also saw flows in ARASP 5.6%-PERPs and HPLSP 4.4%-PERPs.
- 10Y USTs rose 2bps to 1.71%, after the US reported higher than expected domestic job growth numbers, though partially offset by weaker than expected ISM manufacturing data.

Credit Research

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Credit Summary:

- [Ascendas REIT & Capitaland Ltd](#) | **Neutral (3) & Neutral (3)**: AREIT announced that it will be acquiring 30 business park properties from CAPL for SGD1.66bn (SGD1.71bn including transaction costs). The acquisition will be predominantly equity funded via a rights issue to raise gross proceeds of SGD1.3bn. CAPL will realise an estimated gain of SGD95.4mn from the transaction. We expect CAPL to redeploy part of the proceeds to invest in Singapore's development and urban renewal projects and to take advantage of the enlarged CAPL's portfolio following the combination with Ascendas-Singbridge.
- [Singapore Post Limited](#) | **Positive (2)**: SPOST announced its second quarter results for the financial year ending March 2020. Revenue of the continuing operations (i.e. excludes U.S. Subsidiaries) was up by 2.0% y/y to SGD324.4mn. Overall profit on operating activities declined 22.2% y/y to SGD38.7mn. As at 30 Sep 2019, gross debt-to-equity was stable at 0.175x. We maintain SPOST at an issuer profile of Positive (2).
- [Westpac Banking Corporation](#) | **Positive (2)**: WSTP announced its FY2019 results for the year ended 30 September 2019 with operating income from ordinary activities down 6% y/y to AUD20.65bn and net profit after tax down 16% to 6.78bn. WSTP's capital position remains solid with its APRA compliant CET1 ratio as at 30 September 2019 of 10.7%, up from 10.5% as at 30 June 2019 and 10.6% as at 30 September 2019. We continue to review the numbers but for now our Positive (2) issuer profile on WSTP holds.

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Credit Headlines

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

CapitaLand Ltd ("CAPL") | Issuer Profile: Neutral (3)

Background

- AREIT announced that it will be acquiring 30 business park properties from CAPL for SGD1.66bn (SGD1.71bn including transaction costs).

Impact on AREIT

- AREIT's Sponsor is now a wholly owned subsidiary of CAPL. 28 of these properties are located in the USA and two are located in Singapore. The occupancy rate on this portfolio is 93.8% and has a weighted average lease to expiry by gross income ("WALE") of 4.9 years.
- The acquisition will be predominantly equity funded via a rights issue to raise gross proceeds of SGD1.3bn, with its Sponsor and REIT Manager supporting the rights issue via an irrevocable undertaking that it will accept, subscribe and pay in full for its total provisional allotment of the rights units.
- This is relatively significant transaction for AREIT, which as at 30 September 2019 has total assets of SGD12.05bn. We are though maintaining its Neutral (3) issuer profile on the back of expectation that aggregate leverage is expected to fall to 34.6% (30 September 2019: 36.2%).
- The transaction is targeted to be ~76% equity funded while the remaining eventually funded by US debt for the US properties which reduces currency mismatch.

Impact on CAPL

- CAPL will realise an estimated gain of SGD95.4mn from the transaction.
- CAPL is undertaking the disposal as part of its divestment target of SGD3.0bn p.a., with YTD announced divestments at SGD5.2bn exceeding the target.
- The disposal is somewhat credit positive for CAPL by freeing up cash, with CAPL reiterating its target to achieve net gearing of 0.64x by end-2020.
- We expect CAPL to redeploy part of the proceeds to invest in Singapore's development and urban renewal projects and to take advantage of the enlarged CAPL's portfolio following the combination with Ascendas-Singbridge. (Company, Business Times, OCBC)

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Singapore Post Limited (“SPOST”) | Issuer Profile: Positive (2)

- SPOST announced its second quarter results for the financial year ending March 2020 (“2QFY2020”). Starting this quarter, [SPOST deconsolidates its U.S. Subsidiaries](#). Revenue of the continuing operations (i.e. excludes U.S. Subsidiaries) was up by 2.0% y/y to SGD324.4mn, led by higher International post and parcel revenue arising from cross-border eCommerce deliveries, though partially offset by a decline in Domestic post and parcel, and freight forwarding revenue. Losses from discontinued operations (i.e. U.S. Subsidiaries) was SGD4.5mn (lower by 55.8% y/y). Overall profit on operating activities declined 22.2% y/y to SGD38.7mn, due to higher costs incurred for initiatives to improve service quality standards such as hiring of additional postmen and enhancement of their remuneration.
- Post and Parcel segment saw profit on operating activities slide by 20.8% y/y from SGD41.6mn to SGD33.8mn. This was largely due to an accelerated decline in domestic business letter volumes and the partial cessation of advertising mail volumes as well as higher operating costs to improve service quality standards as mentioned above.
- Logistics segment’s loss on operating activities was SGD0.9mn due to onboarding costs for eCommerce customers in Asia Pacific, and lower profits from the freight forwarding business due to lower volumes from the slowdown in global trade.
- Under the Property segment, profit on operating activities rose by 3.1% y/y to SGD13.8mn, with higher contribution from SPC retail mall.
- SPOST ended the quarter with a net profit before tax from continuing operations of SGD40.1mn, lower by 4.9% y/y, despite the steep decline in profit on operating activities (-22.2% y/y) as SPOST saw a 244.8% y/y increase in net interest income and investment income from SGD0.99mn to SGD3.4mn.
- As at 30 Sep 2019, gross debt-to-equity was stable 0.175x. Although 97% of its debt is short term, we think it will be manageable for SPOST as it remains in a net cash position of SGD39.3mn (1QFY2020: ~SGD121mn). Adjusting net debt upwards for the perpetuals (which rank pari passu as unsecured debt at the SPOST holding company level), we find adjusted net gearing higher at 0.188x from 0.137x as at 30 June, due to lower cash balance relative to the preceding quarter. Cash was lower as SPOST paid SGD56.2mn dividends to shareholders and repaid bank term loan of SGD92.0mn over the quarter.
- SPOST will introduce two new postal service categories from 2 Dec 2019
 - Basic Package: A basic letterbox package delivery service which will cost SGD0.90-3.50. With this, Basic Mail will only accept letters and printed papers weighing up to 500g (with rates unchanged). All other items that are not letters or printed papers or weigh more than 500g will be categorised under Basic Package.
 - Tracked Package. An over-the-counter tracked package delivery service which will cost SGD3.20-4.80 (versus the current SGD2.84-5.59). This change increases the rates for the lighter packages but reduces the rate for heavier packages. This captures the high demand for small package deliveries across Singapore Registered Service (Singapore) will only accept letters and printed papers, up to 500g. All other items will be categorised under Tracked Package.
- Furthermore, SPOST will also adjust the rates for International mail. The airmail rates for Mail (Letter/Printed paper) from Singapore will increase by 10-20cents depending on weight and delivery destination, and the Registered Service (International) fee for airmail for both Mail and Packages will increase to SGD3.60 from SGD2.50, on top of applicable postage. Overall, we expect this change to improve profitability for SPOST as higher operating costs is being passed on to customers. We maintain SPOST at an issuer profile of Positive (2). (Company, OCBC)

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Credit Headlines

Westpac Banking Corporation (“WSTP”) | Issuer Profile: Positive (2)

- WSTP announced its FY2019 results for the year ended 30 September 2019 with operating income from ordinary activities down 6% y/y to AUD20.65bn and net profit after tax down 16% to 6.78bn.
- The weaker operating income was driven by 32% y/y fall in net fee income from reclassification of line fees to net interest income and a AUD126 million increase in provisions for estimated customer refunds, payments, associated costs, and litigation (“customer related remediation provisions”). At the same time, net wealth management and insurance income was down 50% y/y due to AUD531mn in additional customer related remediation provisions, as well as higher general insurance claims, exit of the Hastings business in Full Year 2018, changes in platform pricing structures in wealth management and cessation of grandfathered advice commissions.
- This overshadowed a 2% y/y rise in net interest income although the rise was due to the aforementioned reclassification of AUD886mn in line fees from net fee income to interest income that was partially mitigated by AUD239mn in higher customer related remediation provisions. Excluding these impacts, net interest income was stable y/y as 3% growth in average interest earning assets (mostly Australian and New Zealand housing) offset a fall in net interest margins (-1bps to 2.12%). Trading and other income was broadly stable y/y.
- Operating expenses rose 6% y/y on account of higher customer related remediation provisions, escalation in technology investment and regulatory/compliance expenses while impairment charges rose by 12% y/y. These both contributed to profit before income tax falling 17% y/y to AUD9.75bn.
- From a segment perspective, WSTP’s Consumer, Business and Westpac Institutional Bank all saw weaker y/y operating profit before income tax performance (down 4%, 12% and 11% respectively) while Westpac New Zealand saw a 5% rise in operating profit before income tax due to the sale of Paymark, and an impairment benefit.
- Asset quality indicators show a deteriorating trend with the gross impaired exposure to gross loans up to 0.25% as at 30 September 2019 from 0.20% as at 30 September 2018. The provision coverage for gross impaired exposures weakened to 44.92% from 46.12% over the same period which both mortgages 90+ day delinquencies and other consumer loans 90+ day delinquencies rose 15bps and 5bps respectively to 0.82% and 1.69% as at 30 September 2019. While still at a relatively low level, the trend is worth monitoring.
- Although earnings are weaker, WSTP’s capital position remains solid with its APRA compliant CET1 ratio as at 30 September 2019 of 10.7%, up from 10.5% as at 30 June 2019 of 10.5% and 10.6% as at 30 September 2019. This was due to a 1% rise in risk weighted assets y/y and dividend payments that offset continued solid earnings generation. On an internationally comparable basis, the CET1 ratio was 15.9% as at 30 September 2019 against 16.1% as at 30 September 2018.
- Although WSTP’s CET1 ratio remains above the Australian Prudential Regulation Authority’s minimum 10.5% CET1 benchmark for ‘unquestionably strong’ capital ratios in Australia’s banking sector (comes into force January 2020), WSTP has announced a AUD2.5bn capital raising to provide additional capital buffer against minimum requirements. This is given the expected weaker cash earnings going forward from potentially slower growth, lower interest rates and ongoing competition that could impact margins. Regulatory changes and initiatives to increase minimum capital requirements or raise risk weights along with potential ongoing litigation could also pressure capital ratios.
- We continue to review the numbers but for now our Positive (2) issuer profile on WSTP holds. (Company, OCBC)

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Key Market Movements

	4-Nov	1W chg (bps)	1M chg (bps)		4-Nov	1W chg	1M chg
iTraxx Asiax IG	66	-1	-13	Brent Crude Spot (\$/bbl)	61.40	-0.28%	5.19%
iTraxx SovX APAC	30	0	-6	Gold Spot (\$/oz)	1,513.20	1.39%	0.57%
iTraxx Japan	59	-1	-5	CRB	180.27	1.07%	3.91%
iTraxx Australia	59	-1	-10	GSCI	416.88	0.16%	4.36%
CDX NA IG	53	0	-7	VIX	12.3	-2.77%	-27.82%
CDX NA HY	108	0	1	CT10 (%)	1.710%	-8.40	7.50
iTraxx Eur Main	50	0	-8				
iTraxx Eur XO	231	3	-19	AUD/USD	0.691	1.11%	2.11%
iTraxx Eur Snr Fin	57	0	-11	EUR/USD	1.117	0.60%	1.71%
iTraxx Eur Sub Fin	119	1	-24	USD/SGD	1.357	0.39%	1.61%
iTraxx Sovx WE	12	0	-2	AUD/SGD	0.938	-0.70%	-0.50%
USD Swap Spread 10Y	-9	0	0	ASX 200	6,700	-0.61%	2.80%
USD Swap Spread 30Y	-38	0	1	DJIA	27,347	1.44%	2.91%
US Libor-OIS Spread	33	-2	-3	SPX	3,067	1.47%	3.89%
Euro Libor-OIS Spread	6	2	1	MSCI Asiax	649	1.06%	5.75%
				HSI	27,418	1.96%	6.19%
China 5Y CDS	39	0	-10	STI	3,247	1.93%	5.48%
Malaysia 5Y CDS	42	-1	-10	KLCI	1,598	1.78%	2.58%
Indonesia 5Y CDS	75	-1	-17	JCI	6,219	-0.74%	2.60%
Thailand 5Y CDS	27	0	-3	EU Stoxx 50	3,624	-0.03%	5.14%
Australia 5Y CDS	17	-1	-3				

Source: Bloomberg

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New Issues

- Beijing Capital Group Co., Ltd scheduled investor meetings commencing 4 Nov for its potential USD perpetual bond issuance.
- POSCO mandated banks for its potential USD bond issuance.
- Qingdao City Construction Investment (Group) Limited mandated banks for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
31-Oct-19	HPHT Finance (19) Limited	USD500mn	5-year	T+137.5bps
31-Oct-19	Central China Real Estate Limited	USD200mn	4NC2	7.9%
31-Oct-19	Changde Economic Development Investment Group Co. Ltd	USD100mn	CHAECO 6.0%'22s	6.3%
30-Oct-19	Zhenro Properties Group Limited	USD300mn	3.5NC2.5	9.15%
29-Oct-19	PT Perusahaan Listrik Negara	USD500mn USD500mn	10.25-year 30.25-year	3.4% 4.4%
29-Oct-19	Kaisa Group Holdings Ltd	USD200mn	KAISAG 11.95%'22	11.625%
29-Oct-19	CIFI Holdings (Group) Co. Ltd	USD400mn	5NC3	6.45%
29-Oct-19	Sunac China Holdings Limited	USD650mn	4.25NC5.25	7.75%
29-Oct-19	SMC Global Power Holdings Corp	USD500mn	NC5.5-Perpetual	5.95%
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%

Source: OCBC, Bloomberg

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