

Asian Credit Daily

Tuesday, November 5, 2019

Market Commentary

- The SGD swap curve steepened yesterday, with the shorter tenors traded 3-4bps lower, while the belly and longer tenors traded 0-3bps higher (with exception of the 10-year tenor which traded 2bps lower)..
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 129bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 507bps. The HY-IG Index spread tightened 2bps to 377bps.
- Flows in SGD corporates were heavy, with large ticket flows in CAPLSP 3.65%-PERP. We also saw flows in UBS 4.85%-PERPs, STANLN 5.375%-PERPs, ARASP 5.6%-PERPs, CS 5.625%-PERPs and HSBC 4.7%-PERPs.
- 10Y USTs rose 7bps to 1.78%, with optimistic progress seen on the US – China trade war. The US was reportedly debating whether to roll back tariffs on USD112bn of Chinese imports.

Credit Research

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Credit Summary:

- [CapitaLand Ltd](#) | **Neutral (3)**: CAPL announced 3Q2019 results. Due to the acquisition of Ascendas-Singbridge Pte Ltd (“ASB”), the financials are significantly impacted. Revenue rose 37.1% y/y to SGD1.73bn with reported EBIT higher by 30.2% y/y to SGD1.07bn. After acquiring ASB, CAPL is the sponsor of 8 listed REITs. CAPL has restructured its business segments. The main revenue generating segments are (1) CL Singapore and International, (2) CL China, (3) CL India, (4) CL Lodging and (5) CL Financial. Performance for each segment is generally improved due to the acquisition of ASB. Overall, credit metrics improved somewhat q/q, with net gearing declining to 69% in 3Q2019 (2Q2019: 73%) due to healthy cashflows generated from operating activities of SGD800.3mn in 3Q2019. However, credit metrics have deteriorated on a y/y basis based on net gearing (4Q2018: 56%) while net debt to EBITDA has increased to 8.1x (2018: 8.0x). We continue to hold CAPL at Neutral (3) Issuer Profile.

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Credit Headlines

CapitaLand Ltd (“CAPL”) | Issuer Profile: Neutral (3)

- CAPL announced 3Q2019 results. Due to the acquisition of Ascendas-Singbridge Pte Ltd (“ASB”), the financials (including income statement, balance sheet, cashflow) are significantly impacted.
- Revenue rose 37.1% y/y to SGD1.73bn with reported EBIT higher by 30.2% y/y to SGD1.07bn, mainly due to the [acquisition of ASB](#) with an enterprise value of SGD11bn and [acquisition of multifamily portfolio in the US](#) for USD835mn.
- Despite the significant acquisitions, CAPL’s asset mix remains relatively Singapore and China centric, with the former accounting for 37.9% of YTD2019 reported EBIT (YTD2018: 46.9%) and China accounting for 44.8% of YTD2019 reported EBIT (YTD2018: 40.3%). By assets, which consolidated ASB at end-2Q2019, Singapore and China accounts for 42% (1Q2019: 45%) and 37% (1Q2019: 36%) of the total assets of SGD82.9bn respectively. Most of CAPL’s assets and reported EBIT continue to be derived from investment properties (Retail, Commercial, Lodging, Business Park, Industrial & Logistics), which accounts for 82% of CAPL’s total assets and 84% of YTD2019 reported EBIT.
- After acquiring ASB, CAPL is the sponsor of 8 listed REITs. The 3 REITs added from the ASB portfolio are (1) Ascendas REIT, (2) Ascendas Hospitality Trust and (3) Ascendas India Trust. CAPL continues to hold (4) CapitaLand Mall Trust, (5) CapitaLand Commercial Trust, (6) Ascott Residence Trust, (7) CapitaLand Retail China Trust and (8) CapitaLand Malaysia Mall Trust.
- By segment, as mentioned in our [2Q2019 Earnings Review](#), CAPL has restructured its business segments. The main revenue generating segments are (1) CL Singapore and International, (2) CL China, (3) CL India, (4) CL Lodging and (5) CL Financial. Performance for each segment is generally improved due to the acquisition of ASB:
 - CL Singapore and International: This comprises CL Singapore, Malaysia and Indonesia (“CL SMI”), CL Vietnam and CL International. In aggregate, 3Q2019 revenue rose 6.6% to SGD579.0mn with reported EBIT rising 8.1% y/y to SGD484.1mn. This is driven by growth in CL International which mitigated falls in CL SMI and CL Vietnam.
 - ❖ CL SMI: 3Q2019 revenue fell 3.6% y/y to SGD478.8mn and reported EBIT fell 12.8% y/y to SGD371.6mn. Revenue is lower due to lower contributions from residential projects with a largely dry Singapore landbank though contributions from Singapore residential may improve with strong sales at Sengkang Grand Residences (216 units sold) and One Pearl Bank (235 units sold) while reported EBIT fell more due to absence of divestment gain of SGD99.2mn from Westgate that was recorded in 3Q2018. Meanwhile, for YTD2019 the main contributors to reported EBIT are retail (59%), commercial (35%), business park, industrial and logistics (5%) and we note the portfolio for retail and commercial remains relatively stable y/y.
 - ❖ CL International: Revenue surged 185.9% y/y to SGD88.6mn with reported EBIT rising 463.8% y/y to SGD76.6mn mainly from the USA multifamily portfolio. As a result, US accounts for 51% of CL International’s total assets of SGD4.9bn, followed by Japan (35%).
 - ❖ CL Vietnam: Revenue fell 24.8% y/y to SGD11.6mn mainly due to decline in units handed over though reported EBIT surged 340.6% y/y to SGD35.9mn due to one-off fee income from a project in Vietnam.

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Credit Headlines

CapitaLand Ltd (“CAPL”) | Issuer Profile: Neutral (3) [Cont’d]

- CL China: Revenue rose 70.5% y/y to SGD695.7mn with reported EBIT higher by 69.1% y/y to SGD465.4mn. This is mainly due to increased value of the units handed over to RMB2.78bn (3Q2018: RMB2.12bn), addition of business park, industrial and logistics portfolio from ASB, strong NPI growth in China retail and soft opening of Raffles City Chongqing retail mall on 6 Sep 2019. CAPL is cautiously optimistic on China residential. Sales in China continue to be strong with 92% sales rate of launched units as of Sep 2019, with residential sales by value of RMB8.5bn in 9M2019 higher y/y (9M2018: RMB7.5bn).
- CL Lodging: Revenue rose 39.3% y/y to SGD428.1mn and reported EBIT rose 34.7% y/y to SGD110.7mn, mainly contribution from Ascendas Hospitality Trust following the acquisition of ASB and increased contribution from Synergy Global Housing. CAPL continues to affirm the plan to strongly grow CL Lodging, targeting to achieve 160,000 units by 2023 (3Q2019: 112,400 units). This should include 45,400 units that are under development, concentrated mainly in SEA & Australia as well as China.
- CL Financial: Revenue rose 62.7% y/y to SGD87.9mn with reported EBIT higher by 71.9% y/y to SGD47.9mn. This is mainly due to the newly acquired ASB and newly established CAP1 fund investments, which is a discretionary private equity fund.
- CL India: This new business segment of CAPL recorded SGD10.4mn revenue and SGD3.9mn reported EBIT in 3Q2019. The results are mainly related to the acquisition of ASB business park portfolio and share of results from Ascendas India Trust. The total property value is INR133.9bn (SGD2.56bn), which is mainly made up of IT Parks. This segment is slated to grow with CAPL targeting to increase the AUM to SGD7bn by 2024, via deploying more capital to grow the development pipeline and working with capital partners.
- Overall, credit metrics improved somewhat q/q, with net gearing declining to 69% in 3Q2019 (2Q2019: 73%) due to healthy cashflows generated from operating activities of SGD800.3mn in 3Q2019. However, credit metrics have deteriorated on a y/y basis based on net gearing (4Q2018: 56%) while net debt to EBITDA has increased to 8.1x (2018: 8.0x). That said, the announced [SGD1.66bn divestments to Ascendas REIT](#) and issuance of SGD500mn CAPLSP 3.65% PERP should help keep gearing in check, with CAPL reiterating its target to reduce net gearing to 0.64x 2020. We continue to hold CAPL at Neutral (3) Issuer Profile. (Company, OCBC)

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Key Market Movements

	5-Nov	1W chg (bps)	1M chg (bps)		5-Nov	1W chg	1M chg
iTraxx Asiax IG	64	-2	-15	Brent Crude Spot (\$/bbl)	62.13	0.91%	6.44%
iTraxx SovX APAC	29	0	-7	Gold Spot (\$/oz)	1,507.53	1.33%	0.94%
iTraxx Japan	58	-1	-5	CRB	181.09	1.57%	4.38%
iTraxx Australia	57	-2	-12	GSCI	419.20	1.25%	4.94%
CDX NA IG	51	-3	-10	VIX	12.83	-2.14%	-24.71%
CDX NA HY	108	0	2	CT10 (%)	1.791%	-4.74	26.21
iTraxx Eur Main	49	-2	-9				
iTraxx Eur XO	226	-6	-27	AUD/USD	0.688	0.25%	2.21%
iTraxx Eur Snr Fin	56	-3	-12	EUR/USD	1.113	0.15%	1.44%
iTraxx Eur Sub Fin	116	-3	-27	USD/SGD	1.359	0.25%	1.63%
iTraxx Sovx WE	12	0	-1	AUD/SGD	0.935	-0.01%	-0.59%
USD Swap Spread 10Y	-8	1	0	ASX 200	6,688	-0.85%	2.62%
USD Swap Spread 30Y	-38	1	1	DJIA	27,462	1.37%	3.34%
US Libor-OIS Spread	33	-3	-3	SPX	3,078	1.28%	4.28%
Euro Libor-OIS Spread	6	2	2	MSCI Asiax	660	2.55%	7.51%
				HSI	27,547	2.44%	6.69%
China 5Y CDS	38	0	-12	STI	3,236	1.23%	5.13%
Malaysia 5Y CDS	40	-2	-14	KLCI	1,604	1.63%	2.95%
Indonesia 5Y CDS	74	-1	-21	JCI	6,180	-1.36%	1.96%
Thailand 5Y CDS	26	0	-4	EU Stoxx 50	3,665	1.09%	6.34%
Australia 5Y CDS	17	0	-3				

Source: Bloomberg

Asian Credit Daily**New Issues**

- POSCO priced a USD500mn 3-year bond at T+97.5bps, tightening from IPT of T+125bps area.
- Sinopec Group Overseas Development 2018 Ltd (Guarantor: China Petrochemical Corp) priced a USD2.0bn offering in 3 parts; a USD700mn 5-year bond at T+93bps (tightening from IPT of T+120bps area), a USD1.0bn 10-year bond at T+122.5bps (tightening from IPT of T+150bps area), and a USD300mn 30-year bond at 3.44% (tightening from IPT of 3.65% area).
- Hongkong International (Qingdao) Company Limited (Keepwell Deed, Deed of EIPU and Irrevocable Standby Facility Provider: Qingdao City Construction Investment (Group) Limited) priced a USD300mn 3-year bond at 3.90%, tightening from IPT of 4.4% area.
- Vanke Real Estate (Hong Kong) Company Ltd (Keepwell Deed, Deed of EIPU privoder: China Vanke Co., Ltd) priced a USD423mn 5.5-year bond at T+160bps (tightening from IPT of T+190bps area), and a USD300mn 10-year bond at T+183bps (tightening from IPT of T+210bps area).
- Kaisa Group Holdings Ltd priced a USD300mn 4NC2 bond at 11.95%, tightening from IPT of 12.5% area.
- Greentown China Holdings Limited (Subsidiary Guarantors: Certain of the Company's Restricted Subsidiaries incorporated outside the PRC) priced a USD600mn 364-day bond at 4.55%, tightening from IPT of 5.0% area.
- Yango Justice International Limited (Parent Guarantor: Yango Group Co., Ltd) priced a USD250mn 3.25NP2 bond at 11.5% (YTP), tightening from IPT of 11.75% area (YTP).
- Powerlong Real Estate Holdings Limited (Subsidiary Guarantors: Certain non-PRC subsidiaries of the Issuer) priced a USD300mn 3NC2 bond at 7.3%, tightening from IPT of 7.75% area.
- Shui On Development (Holding) Ltd (Guarantor: Shui On Land Ltd) priced a USD300mn 4NC2 Green Bond at 5.75%, tightening from IPT of 6.0% area.
- Zhongyuan Asset Management Co., Ltd scheduled investor meetings commencing 5 Nov for its proposed USD bond issuance.

New Issues

Date	Issuer	Size	Tenor	Pricing
4-Nov-19	POSCO	USD500mn	3-year	T+97.5bps
4-Nov-19	Sinopec Group Overseas Development 2018 Ltd	USD700mn USD1.0bn USD300mn	5-year 10-year 30-year	T+93bps T+122.5bps 3.44%
4-Nov-19	Hongkong International (Qingdao) Company Limited	USD300mn	3-year	3.90%
4-Nov-19	Vanke Real Estate (Hong Kong) Company Ltd	USD423mn USD300mn	5.5-year 10-year	T+160bps T+183bps
4-Nov-19	Kaisa Group Holdings Ltd	USD300mn	4NC2	11.95%
4-Nov-19	Greentown China Holdings Limited	USD600mn	364-day	4.55%
4-Nov-19	Yango Justice International Limited	USD250mn	3.25NP2	11.5% (YTP)
4-Nov-19	Powerlong Real Estate Holdings Limited	USD300mn	3NC2	7.3%
4-Nov-19	Shui On Development (Holding) Ltd	USD300mn	4NC2	5.75%
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%

Source: OCBC, Bloomberg

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