OCBC TREASURY RESEARCH

Asian Credit Daily

Friday, November 8, 2019

Market Commentary

- The SGD swap curve bear-steepened yesterday, with the shorter tenors traded 0-1bps lower, while the belly and longer tenors traded 0-3bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 126bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 8bps to 498bps. The HY-IG Index spread tightened 5bps to 372bps.
- Flows in SGD corporates were heavy, with large ticket flows in CELSP 3.9%-PERPs, CAPLSP 3.65%-PERPs and SPHSP 4.0%-PERPs. We also saw flows in ARASP 5.6%-PERPs, F4.125%'24s, UBS 4.85%-PERPs and SIASP 3.13%'27s.
- 10Y USTs rose 9bps to 1.92% after both the US and China agreed to roll back tariffs as part of the phase one trade deal, spurring risk-on sentiment.

Credit Research

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Credit Summary:

- **Lippo Malls Indonesia Retail Trust | Negative (6):** LMRT reported 3Q2019 results. Revenue rose 6.8% y/y to SGD69.2mn with net property income rising 11.8% y/y to SGD44.1mn. Collections were stronger this quarter, and occupancy stable q/q at 92.2%. Aggregate leverage fell to 34.7%. We may upgrade its Issuer Profile, dependent on collections improvement and acquisition funding mix.
- **SPH REIT | Unrated:** SPHR is acquiring a 50% interest in Westfield Marion Shopping Centre, Adelaide, South Australia, from a subsidiary of Lendlease Corp Ltd. Total acquisition cost is estimated to be ~AUD691.3mn (SGD656.7mn). The acquisition will be funded by the SGD300mn perp raised in August 2019, and debt and/or equity fund raising for the remaining amount.
- **Hongkong Land Ltd | Positive (2):** HKL issued its Interim Management Statement for 3Q2019. Hong Kong portfolio remained strong, while Singapore portfolio saw vacancy rate drop to 1.3% as at end September. Net gearing based on our estimation is ~9.4% compared to 10.1% q/q.
- **Commerzbank AG | Neutral (4):** CMZB reported full 9M2019 results. Operating profit was EUR990n, up down 1.5% y/y while net profit was EUR684mn, up 8.9% y/y. CET1 ratio was down 10bps to 12.8%, above its target CET1 ratio of 12.75%. Fundamentals remain appropriate for the Neutral (4) Issuer Profile but we will continue to monitor CMZB's performance.
- **Aspial Corp Ltd | Negative (6):** Aspial reported 3Q2019 results. Revenue fell 60% y/y to SGD138.7mn with profit before tax declining 62% y/y to SGD12.2mn. Net gearing rose q/q to 2.28x, while liquidity is tight with cash of SGD30.8mn insufficient to cover SGD745.7mn debt due in the next 12 months.
- **Heeton Holdings Ltd | Neutral (5):** HHL reported 3Q2019 results. Revenue rose 59.4% y/y to SGD20.5mn and profit before tax rose 134.7% to SGD1.3mn. Net gearing rose to 87.3% q/q, though we are comfortable as cash and fixed deposits of SGD107.7mn is nearly sufficient to cover SGD112.8mn of debt maturing in the next 12 months.
- **Groupe BPCE / BPCE SA | Neutral (3):** GBPCE reported its 3Q2019 and 9M2019 results with net income up 18.5% y/y and down 8.1% y/y. Capital position remains stable with estimated CET1 capital ratio at 15.5%, above its regulatory minimum of 9.77%. Its Neutral (3) Issuer Profile continues to hold.

Credit Headlines

Lippo Malls Indonesia Retail Trust ("LMRT") | Issuer Profile: Negative (6)

- LMRT reported 3Q2019 results. Revenue rose 6.8% y/y to SGD69.2mn with net property income rising 11.8% y/y to SGD44.1mn due to positive rental reversion of 5.0% and appreciation of IDR against the SGD by 0.8%. In addition, LMRT booked a net reversal of allowance for doubtful debts of SGD1.9mn (3Q2018: net allowance of doubtful debts of SGD2.1mn).
- This set of results revealed stronger collections, with trade and other receivables falling q/q to SGD38.9mn (2Q2019: SGD40.4mn). Trade receivables (net of allowance for doubtful debts) fell q/q to SGD25.8mn (2Q2019: SGD26.4mn) and other receivables fell to SGD13.1mn (2Q2019: SGD14.0mn). In particular, before taking into account allowance for doubtful debts, trade receivables fell q/q to SGD29.6mn (2Q2019: SGD32.5mn), with the portion due from related parties falling to SGD13.2mn (2Q2019: SGD14.7mn) and SGD16.4mn due from non-related parties (2Q2019: SGD17.8mn). LMRT continues to affirm that there is no reason to believe that Lippo group of companies will not be able to fulfill their payment obligations, with no incidence of non-payment or default of rental payments thus far.
- Interestingly, LMRT is opting to retain SGD1.8mn from amount available for distribution, which effectively cuts its payout ratio from income available for distribution from 100% to 90%. LMRT is doing so for 'capital management and ensuring stability of distributions'. Our interpretation is that LMRT may likely deploy the conserved capital for investments (e.g. Lippo Mall Puri).
- Separately, LMRT faces the impending expiry of master lease at Lippo Mall Kemang. Assuming LMRT assumes the leases with the underlying tenants, LMRT estimates that its pro forma 9M2019 NPI would fall 8.7% y/y. This is likely because the growth fell short of initial projections (which were most likely over aggressive). We note that the underlying shopper traffic at the mall has seen healthy increases annually since 2015 (this mall was acquired in 17 Dec 2014), growing from 6.0mn in 2015 to 10.3mn in 9M2019 with a stable occupancy of 93.7%. Meanwhile, portfolio statistics at LMRT is stable q/q with occupancy at 92.2%.
- Meanwhile, aggregate leverage fell q/q to 34.7% (2Q2019: 35.2%), mainly due to FX gains (SGD74.4mn). Overall, this set of results is credit positive for LMRT with the overhang from tenant risk subsiding. We may upgrade LMRT's Issuer Profile if collections from tenants improve more substantially though this is also dependent on the funding mix that LMRT will employ to acquire Lippo Mall Puri, which will amount to SGD430mn in transaction cost (Company, OCBC).

Credit Headlines

SPH REIT ("SPHR") | Not rated

- SPHR is acquiring a 50% interest in Westfield Marion Shopping Centre, Adelaide, South Australia from an unrelated third party, Lendlease Real Estate Investments Ltd (a subsidiary of Lendlease Corp Ltd. (Lendlease Group which consists of Lendlease Corp Ltd and its controlled entities has an Issuer Profile of Neutral (4))) for a purchase consideration of AUD670mn (SGD636.5mn). Total acquisition cost is estimated to be ~AUD691.3mn (SGD656.7mn).
- Westfield Marion (a freehold property) is South Australia's largest shopping centre, with Gross Lettable Area ("GLA") of ~1.5mn sqft (3 storey retail mall with 5 storeys of office space). Anchor tenants are departmental stores, supermarkets and a cinema. Occupancy of the mall is 99.3% and weighted average lease expiry ("WALE") is 6.7 years by GLA and 4.2 years by income. Scentre Group (Broadening Horizons: Page 23 of 49) who manages the mall owns the other 50% stake.
- This transaction is expected to increase SPHR's portfolio value by ~17% from SGD3.6bn to SGD4.2bn, and raise its exposure to Australia from ~5% to ~20%.
- SPHR will be funding the acquisition using the SGD300mn perp raised in Aug 2019, and debt and/or equity fund raising. Assuming full debt funding, we expected aggregate leverage to climb to 34.2% from 30.3% as at end Aug 2019 based on our calculation. The transaction is expected to be completed by end 2019.
- Please refer to our Special Interest Commentary on SPHR for further information. Please note that we do not currently cover SPH. (Company, OCBC)

Hongkong Land Ltd ("HKL") | Issuer Profile: Positive (2)

- HKL has issued its Interim Management Statement for 3Q2019. Although its Hong Kong's portfolio remains strong (positive rental reversion for Central Office with vacancy lower at 2.4% at 30 Sep from 2.8% at 30 June as tenants took up space previously committed), management guided that it remains too early to measure the potential impact of the current social unrest in Hong Kong.
- Its Singapore's portfolio saw vacancy rate decline from 3.3% in the preceding quarter to 1.3% at end Sep.
- For Development properties, HKL saw higher contracted sales y/y in mainland China over the quarter due to a greater number of sales launches and changes in product mix, as market sentiment remains stable. 9M2019 contracted sales was USD1.2bn (9M2018: USD0.8bn).
- Overall, HKL's balance sheet remains strong with net debt at 30 Sep down by USD253mn to USD3.6bn (30 June 2019: USD3.9bn). As a result, net gearing based on our estimation is ~9.4% (30 June 2019: 10.1%). That said, management expects net debt to move modestly higher by end of the year due to payments for land purchased in mainland China. (OCBC, Company)

Credit Headlines

Commerzbank AG ("CMZB") | Issuer Profile: Neutral (4)

- CMZB reported its full 9M2019 results following its preliminary announcement late last month. As a recap, operating profit was EUR448mn for 3Q2019, up 29.5% y/y while net profit was EUR294mn, up 34.9% y/y. For 9M2019, operating profit was EUR990mn, down 1.5% y/y while net profit was EUR684mn, down up 8.9% y/y.
- Results for 3Q2019 were driven by a material rise in other income (asset sale) as well as a 3.0% y/y rise in net interest income from higher business volumes, particularly in the Private and Small Business Customers segment. This offset weaker net commission income and net fair value and led to income before risk result up 2.0% y/y to EUR2.18bn. 9M2019 results were influenced by a 73.9% y/y fall in net fair value from financial assets and liabilities through profit or loss which overshadowed a 7.2% y/y rise in net interest income.
- 3Q2019 operating expenses were down 2.9% y/y while the risk result was also down 13.9% y/y which helped the y/y improvement in operating profit. Operating expense performance was similarly solid for 9M2019 due to CMZB's cost reduction program and internalisation of previously outsourced activities, down 3.5% y/y however risk results rose 26.6% y/y on absence of provision write-backs that occurred in 9M2018. Overall loan quality though remains solid with the non-performing loan ration of 0.8% as at 30 September 2019 improved 10bps y/y.
- From a segment perspective for 9M2019, operating profit from the Private and Small Business Customers segment rose 25.6% y/y on disposal gain from the sale of comdirect subsidiary ebase GmbH as well as growth in customer numbers and mortgage loan and securities volumes that offset margin pressure. Operating expenses also fell (-3% y/y) on cost efficiency measures. Conversely, operating profit from the Corporate Clients segment fell 40.9% y/y despite corporate loan growth due to margin pressure, absence of contributions from legacy portfolios and negative valuation effects. This drove a larger fall in revenues than the fall in segment operating expenses.
- CMZB's CET1 ratio was 12.8% as at 30 September 2019, down 10bps compared to 31 December 2018 due to a rise in risk weighted assets following the regulatory review of internal risk models (Targeted Review of Internal Models or "TRIM") that was above the positive impact from earnings generation. The CET1 ratio remains above its target CET1 ratio of 12.75% in 2019. CMZB's overall capital position was stable at 16.3% due to issuance of the bank's inaugural USD1bn AT1 issue in July.
- CMZB is undertaking its "Commerzbank 5.0" strategic programme to fortify CMZB against difficult operating conditions stemming from a fragmented and competitive banking industry in Germany, the uncertain economic outlook and low interest rates. This has resulted in management revising down its expectations for full year performance. While fundamentals remain appropriate for the Neutral (4) issuer profile, we will be monitoring CMZB's performance as it implements its strategy. We see CMZB as more vulnerable to weaker operating conditions than other banks under our coverage. (Company, OCBC)

Credit Headlines

Aspial Corp Ltd ("Aspial") | Issuer Profile: Negative (6)

- Aspial reported 3Q2019 results. Revenue fell 60% y/y to SGD138.7mn with profit before tax declining 62% y/y to SGD12.2mn. This is mainly due to a fall in real estate revenue to SGD40.5mn in 3Q2019 (2Q2019: SGD268mn). As a result, profit before tax fell 31% y/y to SGD39.7mn.
- The other segments appear to be holding up better, with financial services seeing 27.4% y/y rise in revenue to SGD65.1mn with 132% y/y rise in pre-tax profit to SGD6.5mn due to higher revenue from the pawnbroking and secured lending operations. Jewellery business saw revenue rise 15.3% y/y to SGD34.7mn, with pre-tax losses narrowing to SGD0.3mn (3Q2018 pre-tax losses: SGD2.1mn) from higher sales from overseas operations and a reduction in operating costs.
- Net gearing rose q/q to 2.28x (2Q2019: 2.23x) with Aspial incurring SGD10.1mn operating cash outflows mainly due to working capital consumed of SGD18.5mn mainly due to increase in development properties for on-going construction at Australia 108 and other overseas projects. Meanwhile, near-term liquidity seems tight with cash of SGD30.8mn insufficient to cover SGD745.7mn debt due in the coming 12 months.
- Aspial's intends to repay a significant portion of the debt through cash proceeds from the settlement and handover of units for Australia 108. However, we note that the sales rate on Australia 108 has fallen significantly as of 1Q2019 to 88% from its height of 98% in 1Q2018, which we infer that buyers have been walking away from settlements. In our view, **successful settlement and completion of Australia 108 is critical for Aspial to pare down its debt.**
- Curiously though, Aspial stopped disclosing the sales rate of Australia 108 since 2Q2019 and we will not be surprised if the cancellation rate has further escalated. According to the Australian Financial Review ("AFR"), several buyers indicated that the valuations have plunged by as much as 25%. As such, with a deposit of just 10%, it seems more economical for the buyer to walk away. In addition, we understand that there have been complaints of noises and construction defects at Australia 108 – residents have been moving in since 2018 despite the slated completion date in 2020. If settlement rates continue to fall short very significantly or if Aspial faces significant contingent claims, we may revise downwards Aspial's Issuer Profile. (Company, OCBC, The Age, AFR)

Heeton Holdings Ltd ("HHL") |Issuer Profile: Neutral (5)

- HHL reported 3Q2019 results. Revenue rose 59.4% y/y to SGD20.5mn, mainly due to SGD7.8mn revenue increase from newly acquired hotels (Indigo Hotel in Scotland, Smile Hotel Asakusa in Japan, Stewart Aparthotel in Scotland and Crowne Plaza London Kensington in London). As a result, reported profit from operations rose 126.4% y/y to SGD4.1mn, with profit before tax up 134.7% y/y to SGD1.3mn.
- Net gearing rose to 87.3% q/q (2Q2019: 83.5%) due to SGD10.4mn operating cash outflows from working capital of SGD9.9mn. While profit from operations of SGD4.1mn does not cover SGD5.5mn in finance expense, this is offset by SGD1.5mn in finance income (which should be due to SGD49.0mn in fixed deposits). We are not overly worried as we expect finance expense to reduce when SGD75mn HTONSP 6.1% '20s are redeemed. We remain comfortable as cash and fixed deposits of SGD107.7mn is nearly sufficient to cover SGD112.8mn in debt that will be maturing in the next 12 months – with HHL likely to obtain refinancing for the balance. We continue to hold HHL at a Neutral (5) Issuer Profile. (Company, OCBC)

Credit Headlines

Groupe BPCE ("GBPCE") / BPCE SA | Issuer Profile: Neutral (3)

- GBPCE reported its 3Q2019 and 9M2019 results with net income up 18.5% y/y and down 8.1% y/y. The 3Q2019 performance was an improvement compared to 2Q2018 thus improving the 9M2019 results.
- For 3Q2019, gross operating income rose 7.0% y/y. This was due to a 0.5% y/y rise in net banking income on growth in Asset & Wealth Management revenues as well as better performance in Corporate & Investment Banking and a 2.1% y/y fall in operating expenses. Risk costs were also slightly improved.
- 9M2019 performance remains weaker y/y as net banking income performance (-0.8% y/y) continues to be weaker than operating expense reduction (-0.5% y/y) although the shortfall improved compared to 1H2019 (which was down 12.5% y/y). Cost of risk also remains higher y/y up 4.2% for 9M2019 due to weakness in large corporates although the non-performing loan ratio remains low at 2.7% as at 30 September 2019, stable q/q and down 10bps against 31 December 2018. The impaired loans coverage ratio weakened marginally to 74.8% as at 30 September 2019 against 75.6% as at 30 June 2018 but is up against 74.5% as at 31 December 2018.
- From a segment perspective for 9M2019, Retail Banking and Insurance income before tax was up 1.3% y/y largely due to 7.6% y/y growth in loan outstandings as well as better performance in Insurance. Asset and Wealth Management income before tax was up 6.9% y/y on growth in Assets under Management. On the other hand, Corporate & Investment Banking income before tax performance was 33.7% y/y weaker due to a relatively strong 9M2018. 3Q2019 comparative performance was better for Corporate & Investment Banking with income before tax down 2.9% y/y on an improvement in net banking income (+3.2% y/y on Global Finance performance) and a 0.6% y/y fall in operating expenses.
- GBPCE's capital position remains stable q/q with its estimated CET1 capital ratio at 15.5% as at 30 September 2019 and down from 15.8% as at 31 December 2018. Q/q saw stability in the CET1 capital ratio despite risk weighted asset growth (-19bps) and methodology changes (-12bps) given the positive impacts from capital generation (+21bps), issue of co-operative shares (+6bps) and other changes (+5bps). This remains above GBPCE's minimum 9.77% as defined in the 2018 Supervisory Review and Evaluation Process. This includes Pillar 1 and Pillar 2 requirements as well as buffers for capital conservation and global systemic importance. Including the acquisition of 50.1% in Oney Bank (completed Oct 2019), the proforma CET1 ratio as at 30 September 2019 is 15.4%. GBPCE's Total Loss-Absorbing Capacity (TLAC) ratio declined marginally to 23.0% as at 30 September 2019 (23.2% as at 30 June 2019) and remains above the target level in its TEC 2020 strategic plan of more than 21.5%.
- In general, GBPCE's performance appears resilient with strategic actions supporting quarterly performance. Its neutral (3) issuer profile rating continues to hold in our view. (OCBC, Company)

Key Market Movements

	8-Nov	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	63	-3	-17
iTraxx SovX APAC	29	-1	-8
iTraxx Japan	55	-3	-7
iTraxx Australia	56	-3	-12
CDX NA IG	51	-2	-12
CDX NA HY	108	0	2
iTraxx Eur Main	49	-1	-11
iTraxx Eur XO	232	1	-27
iTraxx Eur Snr Fin	57	0	-13
iTraxx Eur Sub Fin	116	-3	-30
iTraxx Sovx WE	12	0	-1
USD Swap Spread 10Y	-9	0	1
USD Swap Spread 30Y	-39	0	2
US Libor-OIS Spread	35	2	-3
Euro Libor-OIS Spread	4	-2	-1
China 5Y CDS	36	-3	-14
Malaysia 5Y CDS	39	-3	-15
Indonesia 5Y CDS	72	-3	-22
Thailand 5Y CDS	26	-1	-5
Australia 5Y CDS	17	0	-3

	8-Nov	1W chg	1M chg
Brent Crude Spot ($/bbl)	62.29	3.42%	6.75%
Gold Spot ($/oz)	1,468.99	-2.99%	-2.43%
CRB	180.98	2.31%	4.42%
GSCI	418.70	2.75%	4.81%
VIX	12.73	-3.71%	-37.23%
CT10 (%)	1.916%	20.52	38.66
AUD/USD	0.689	-0.26%	2.35%
EUR/USD	1.105	-1.06%	0.83%
USD/SGD	1.358	-0.02%	1.80%
AUD/SGD	0.935	0.32%	-0.53%
ASX 200	6,723	0.81%	1.97%
DJIA	27,675	2.32%	5.77%
SPX	3,085	1.57%	6.64%
MSCI Asiax	667	2.79%	8.50%
HSI	27,847	3.50%	7.55%
STI	3,286	1.73%	5.62%
KLCI	1,609	0.71%	3.24%
JCI	6,166	-1.01%	2.09%
EU Stoxx 50	3,707	2.84%	7.98%

Source: Bloomberg

New Issues

- Redsun Properties Group Limited (Subsidiary Guarantors: Certain of the Company's Restricted Subsidiaries incorporated outside the PRC) priced a USD150mn re-tap of its existing REDSUN 9.95%'22s at 12.7%, tightening from IPT of 12.9% area.
- Huarong Finance 2019 Co., Ltd (Guarantor: China Huarong International Holdings Limited; Keepwell/EIPU Provider: China Huarong Asset Management Co., Ltd) priced a USD500mn 5-year bond at T+160bps (tightening from IPT of T+190bps area) and a USD500mn 10-year bond at T+200bps (tightening from IPT of T+230bps area).
- Changsha Pilot Investment Holdings Group Co., Ltd priced a USD350mn 3-year bond at 3.8%, tightening from IPT of 4.35% area.
- City Development Company of LanZhou (Guarantor: Lanzhou Construction Investment (Holding) Group Co., Ltd) priced a USD300mn 3-year bond at 4.15%, tightening from IPT of 4.75% area.
- Central Plaza Development Ltd (Guarantor: International Financial Center Property Ltd; Keepwell/EIPU Provider: Beijing Capital Group Co., Ltd) priced a USD500mn NC5-Perpetual bond at 5.75%, tightening from IPT of 6.25% area.
- Skyfame Realty (Holdings) Limited priced a USD69mn re-tap of its existing SKYFAM 13%'22s at 13.0%.
- Adani Transmission Ltd scheduled investor meetings commencing 10 Nov for its proposed USD bond issuance of up to USD500mn.

Date	Issuer	Size	Tenor	Pricing
7-Nov-19	Redsun Properties Group Limited	USD150mn	REDSUN 9.95%'22s	12.7%
7-Nov-19	Huarong Finance 2019 Co., Ltd	USD500mn USD500mn	5-year 10-year	T+160bps T+200bps
7-Nov-19	Changsha Pilot Investment Holdings Group Co., Ltd	USD350mn	3-year	3.8%
7-Nov-19	City Development Company of LanZhou	USD300mn	3-year	4.15%
7-Nov-19	Central Plaza Development Ltd	USD500mn	NC5-Perpetual	5.75%
7-Nov-19	Skyfame Realty (Holdings) Limited	USD69mn	SKYFAM 13%'22s	13.0%
6-Nov-19	Haitong International Securities Group Ltd	USD400mn	5.5-year	T+160bps
6-Nov-19	Guangzhou Metro Investment Finance (BVI) Limited	USD200mn	5-year	T+97.5bps
6-Nov-19	Zhengzhou Urban Construction Investment Group Co., Ltd	USD300mn	3-year	3.8%
6-Nov-19	Sun Hung Kai & Co. (BVI) Limited	USD350mn	5-year	5.75%
6-Nov-19	Chengdu Jiaozi Financial Holding Group Co., Ltd	USD300mn	3-year	3.24%

Source: OCBC, Bloomberg

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