

Asian Credit Daily

Monday, February 3, 2020

Market Commentary

- The SGD swap curve rose last Friday, with almost all tenors trading around 2bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 126bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 8bps to 516bps. The HY-IG Index Spread widened 7bps to 390bps.
- Flows in SGD corporates were heavy, with flows in SLHSP 3.5%'30s, BREAD 4.0%'23s, UBS 4.85%-PERPs and TMGSP 4.05%'25s.
- 10Y UST Yields fell 8bps to 1.51%, due to continued uncertainties regarding the Wuhan coronavirus as investors braced for a likely decline in the Chinese markets on Monday when the onshore financial markets resume following the Lunar New Year break.

Credit Research

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Credit Summary:

- [Keppel Corp Ltd \("KEP"\)](#) | **Issuer Profile: Neutral (4)**: KEP's asset management arm namely Keppel Capital Holdings Pte Ltd has entered into a shareholder's deed with Australian Unity Limited to form a 50:50 joint venture. The joint venture will focus on establishing funds focused on the Australian office sector in city areas and is aimed at deepening Keppel Capital's presence in Australia.
- [Sembcorp Industries Ltd \("SCI"\)](#) | **Issuer Profile: Neutral (5)** and [Sembcorp Marine Ltd \("SMM"\)](#) | **Issuer Profile: Unrated: SMM**, the ~61%-owned subsidiary of SCI has shared an update that the Ministério Público Federal in Brazil (akin to the Public Prosecutor) has filed charges against an ex-employee of SMM in connection with the ongoing investigations in relation to Operation Car Wash in Brazil.
- [Ascendas Real Estate Investment Trust \("AREIT"\)](#) | **Issuer Profile: Neutral (3)**: AREIT announced its quarterly results for the financial year ended December 2019 ("3Q2019"). AREIT's gross revenue was SGD239.7mn, up 4.4% q/q, while net property income ("NPI") was SGD182.3mn, up 2.4% q/q. EBITDA (based on our calculation which does not include other income and other expenses) was SGD164.5mn (up 1.7% q/q) while finance costs (including interest on lease liabilities) was up 1.1% q/q. AREIT's reported aggregate leverage was 35.1% (30 September 2019: 36.2%).
- **Industry Outlook – Industrial Space Sector**: JTC reported its quarterly market report for 4Q2019. The price index for all industrial was down q/q by 0.2%. The rental index was flat, and all industrial vacancies was up 0.1% q/q. We continue to expect a weakening in the next 12 months given the large impending supply of new industrial space and we expect a significantly larger market oversupply versus 2019.

Asian Credit Daily

Credit Headlines

Keppel Corp Ltd (“KEP”) | Issuer Profile: Neutral (4)

- KEP’s asset management arm namely Keppel Capital Holdings Pte Ltd (“Keppel Capital”) has entered into a shareholder’s deed with Australian Unity Limited to form a 50:50 joint venture. Australian Unity Limited provides healthcare, financial services, retirement and living services.
- The joint venture will focus on establishing funds focused on the Australian office sector in city areas and is aimed at deepening Keppel Capital’s presence in Australia. Simultaneously, the joint venture has entered into an agreement to acquire the responsible entity (dual role of manager/trustee) of a small ASX-listed REIT, namely the Australian Unity Office Fund which has an asset under management of AUD668mn as at end-2019. (Company, OCBC)

Sembcorp Industries Ltd (“SCI”) | Issuer Profile: Neutral (5) and Sembcorp Marine Ltd (“SMM”) | Issuer Profile: Unrated

- SMM, the ~61%-owned subsidiary of SCI has shared an update that the Ministério Público Federal in Brazil (akin to the Public Prosecutor) has filed charges against an ex-employee of SMM in connection with the ongoing investigations in relation to Operation Car Wash in Brazil. The ex-employee is the former President of SMM’s Brazilian subsidiary. Thus far there has been no formal charges against any SMM nor any other SMM related entities though we are monitoring the situation.
- While it [is too premature for us to comment on the knock on effects](#), we note that Keppel Corp Ltd (“KEP”) (Issuer profile: Neutral (4)), whose subsidiary in Brazil was affected in Operation Car Wash, took a one-off hit from global resolution and related costs of SGD619mn in FY2017. SCI is yet to make any similar adjustment at this time. (Company, OCBC)

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

- AREIT announced its quarterly results for the financial year ended December 2019 (“3Q2019”). On 24 July 2019, AREIT had changed its financial year end from 31 March to 31 December, with the current financial year for a nine month period from 1 April 2019 to 31 December 2019 (“2019”).
- In 3Q2019, AREIT’s gross revenue was SGD239.7mn up 4.4% q/q while net property income (“NPI”) was SGD182.3mn, up 2.4% q/q. The q/q revenue increase was driven by the contributions from the portfolio of 28 business parks in the USA and two Singapore business parks which AREIT acquired on 11 December 2019 from its Sponsor. The NPI increase was smaller due to higher management fees and professional fees from the larger portfolio size (SGD13.9bn in total assets as at end-2019 versus SGD12.0bn in total assets as at 30 September 2019).
- EBITDA (based on our calculation which does not include other income and other expenses) was SGD164.5mn (up 1.7% q/q) while finance costs (including interest on lease liabilities) was up 1.1% q/q, driven by the increase in average debt balance at AREIT. Resultant EBITDA/Interest though was somewhat stronger at 4.1x (2Q2019: 4.0x).
- AREIT’s reported aggregate leverage was 35.1% (30 September 2019: 36.2%), this was despite higher debt levels as debt was drawn down to help pay for the new business parks (debt drawdown, net of debt repayment of SGD452.8mn in 3Q2019) as AREIT had part funded the December 2019 acquisition with SGD1.3bn of equity in what became the largest equity raising among Singapore REITs for 2019. As at 31 December 2019, perpetuals outstanding was SGD300mn. Assuming 50% of this as debt, we find adjusted aggregate leverage at ~36% and manageable. We maintain AREIT’s issuer profile at Neutral (3). (Company, OCBC)

Asian Credit Daily

Credit Headlines

Industry Outlook – Industrial Space Sector

- JTC reported its quarterly market report for 4Q2019. Key headline measures showed a stable-to slight deterioration in the Singapore industrial space sector.
- The price index for all industrial was down q/q by 0.2%, with both multiple-user and single-user factories showing q/q declines versus a q/q uptick of 0.1% for all industrial price index in 3Q2019.
- The rental index was flat, although the multiple user sub-segment was down 0.1% q/q.
- All industrial vacancies was up 0.1% q/q, with the vacancy of single-user factory at 9.2% versus 8.9% in the previous quarter while vacancies for warehouse was 12% against 11.9% in 3Q2019.
- We continue to expect a weakening in the next 12 months given the large impending supply of new industrial space and we expect a significantly larger market oversupply versus 2019. In 2020, 2.2mn sqm of new supply is expected to come into the market versus the average annual supply of 1.1 mn sqm in the past three years and annual demand of 1.0mn sqm in the past three years.
- In December 2019, the Singapore Purchasing Manager Index had inched up to 50.1 (September 2019: 49.5) although the recent coronavirus outbreak may lead to uncertainty to near-term business and consumer sentiments.
- With the exception of Cache Logistics Trust, the industrial REITs under our coverage mostly consist of larger Industrial REITs (Ascendas Real Estate Industrial Trust, Mapletree Logistics Trust, Mapletree Industrial Trust and ESR-REIT) who had went through the previous supply glut in 2014-2017. Barring debt-fuelled acquisitions, we expect the four large Industrial REITs under our coverage to be able to weather this new cycle of supply glut with unchanged issuer profiles. (JTC, OCBC)

Asian Credit Daily

Key Market Movements

	03-Feb	1W chg (bps)	1M chg (bps)		03-Feb	1W chg	1M chg
iTraxx Asiax IG	59	1	4	Brent Crude Spot (\$/bbl)	56.22	-5.23%	-18.05%
iTraxx SovX APAC	31	2	3	Gold Spot (\$/oz)	1,583.38	0.08%	2.01%
iTraxx Japan	47	0	3	CRB	170.31	-3.10%	-8.88%
iTraxx Australia	55	5	6	GSCI	388.80	-4.30%	-12.30%
CDX NA IG	50	1	4	VIX	18.84	29.40%	34.38%
CDX NA HY	108	0	-1	CT10 (%)	1.532%	-7.56	-25.57
iTraxx Eur Main	46	0	1				
iTraxx Eur XO	231	2	21	AUD/USD	0.670	-0.89%	-3.58%
iTraxx Eur Snr Fin	54	-1	0	EUR/USD	1.108	0.58%	-0.70%
iTraxx Eur Sub Fin	115	0	1	USD/SGD	1.366	-0.59%	-1.20%
iTraxx Sovx WE	11	0	-1	AUD/SGD	0.915	0.31%	2.54%
USD Swap Spread 10Y	-6	0	-2	ASX 200	6,921	-2.40%	2.78%
USD Swap Spread 30Y	-33	-1	-2	DJIA	28,256	-2.53%	-1.32%
US Libor-OIS Spread	19	-2	-12	SPX	3,226	-2.12%	-0.29%
Euro Libor-OIS Spread	6	1	0	MSCI Asiax	658	-4.53%	-5.31%
				HSI	26,163	-6.26%	-8.04%
China 5Y CDS	43	-1	10	STI	3,125	-3.54%	-3.50%
Malaysia 5Y CDS	42	-1	6	KLCI	1,522	-3.21%	-5.52%
Indonesia 5Y CDS	68	0	4	JCI	5,940	-4.87%	-6.06%
Thailand 5Y CDS	26	4	3	EU Stoxx 50	3,641	-3.66%	-3.51%
Australia 5Y CDS	17	1	2				

Source: Bloomberg

Asian Credit Daily

New Issues

- There were no new issues or mandates.

Date	Issuer	Size	Tenor	Pricing
29-Jan-20	Suntec REIT MTN Pte. Ltd	SGD200mn	7-year	2.95%
23-Jan-20	Westpac Banking Corp	USD1.5bn	10NC5	T+135bps
22-Jan-20	Cyprus Investments, Inc.	USD140mn	3-year	3m-US LIBOR+90bps
21-Jan-20	Scenery Journey Ltd	USD2bn USD2bn	3.75-year 2.75-year	12.0% 11.5%
21-Jan-20	Helenbergh China Holdings Limited	USD250mn	HLBCHN 12.875%'21s	12.25%
21-Jan-20	ReNew Power Pvt Ltd	USD450mn	5.5-year-WAL	5.875%
21-Jan-20	Swire Pacific MTN Financing (HK) Limited	USD500mn	10-year	T+120bps
21-Jan-20	Korea South-East Power Co Ltd	USD300mn	5-year	T+62.5bps
21-Jan-20	Shangri-La Hotel Limited	SGD250mn	10-year	3.5%
20-Jan-20	Dafa Properties Group Limited	USD200mn	364-day	12.75%
20-Jan-20	RongXingDa Development (BVI) Limited	USD300mn	364-day	8.875%
20-Jan-20	Socam Development Ltd	USD180mn	2-year	6.25%
20-Jan-20	Sunshine 100 China Holdings Ltd	USD150mn	SUNCHN 11.5%'21s	12.5%
20-Jan-20	Dexin China Holdings Company Limited	USD200mn	2.25-year	13%
20-Jan-20	Global Prime Capital Pte. Ltd	USD300mn	5NC3	5.95%
20-Jan-20	Wanda Properties Overseas Ltd.	USD400mn	3.5-year	6.875%
20-Jan-20	Thomson Medical Group Limited	SGD175mn	5-year	4.05%

Source: OCBC, Bloomberg

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