OCBC TREASURY RESEARCH

Asian Credit Daily

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Market Commentary

- With the exception of tenors 20 years and beyond, the SGD swap curve traded lower last Thursday, with the shorter and the belly tenors trading 3-5bps lower while the longer tenors traded 1-4bps lower. Friday 1st May 2020 was a public holiday in Singapore.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS on Friday remained mostly unchanged at 258bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 992bps. The HY-IG Index Spread tightened 3bps to 734bps.
- Flows in SGD corporates were heavy on Thursday, with flows in SOCGEN 6.125%-PERPs, CS 5.625%-PERPs, KITSP 4.75%-PERPs, HSBC 4.7%-PERPs, PINGIN 2.25%'21s, STANLN 5.375%-PERPs, UBS 5.875%-PERPs, OLAMSP 6%'22s, ARASP 5.2%-PERPs, UBS 4.85%-PERPs and HSBC 5%-PERPs.
- 10Y UST Yields on Friday fell 3bps by the end of the day to 0.61%, as the S&P fell 2.8%, with investors worried about the U.S.-China trade war when President Trump blamed China for the spread of COVID-19 and threatened tariffs.

Credit Research

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Credit Summary:

- **Ascott Residence Trust ("ART") | Issuer Profile: Neutral (4):** ART has change to half-yearly reporting although had shared a business update for 1Q2020, with overall Revenue per Available Unit dropping 23% y/y. Per ART, portfolio occupancies are significantly lower but still above breakeven level. SGD404mn (16% of total debt) comes due in 2020 and the company does not foresee issues with refinancing. ART faces a first call on its ARTSP 4.68%-PERP in June 2020 but there is an increasing likelihood that ART would not call its perpetual at first call.
- **Lippo Malls Indonesia Retail Trust ("LMRT") | Issuer Profile: Negative (6):** LMRT reported 1Q2020 results. Net property income dipped by 1.9% y/y. As a result of the COVID-19 outbreak, LMRT has slashed the payout ratio for unitholders from 100% to 24.1% and we think LMRT may also defer distributions to its perpetual holders. Although credit metrics have deteriorated, liquidity continues to be sufficient for LMRT for now.
- **Suntec Real Estate Investment Trust ("SUN") | Issuer Profile: Neutral (4):** SUN has announced the extended temporary suspension of operations of Suntec Singapore to 2 Aug 2020 and we think this closure can help reduce losses in 2Q2020 and is a credit positive move. In 1Q2020, revenue from Suntec Convention fell 46.6% y/y.
- **CapitaLand Mall Trust ("CMT") | Issuer Profile: Positive (2):** CMT reported 1Q2020 results. Gross revenue was up by 6.0% y/y while NPI was up by 5.9% y/y. Due to the ongoing 'Circuit Breaker', ~25% of the portfolio's tenants are operational (mainly essential services). CMT has retained 69% of CMT's 1Q2020 taxable income, leading to a 70.3%y/y decline in distributable income. CMT's financial position remains firm with aggregate leverage healthy.
- **CapitaLand Ltd ("CAPL") | Issuer Profile: Neutral (3):** CAPL provided a business update in lieu of results as it transited to half-yearly reporting. CAPL is anticipating more requests for rental relief and lower rental reversions amidst the challenging business outlook. Credit metrics remain manageable for now with net gearing of 0.64x (2019: 0.63x) with SGD13.0bn of cash and available undrawn facilities.
- **Westpac Banking Corporation ("Westpac") | Issuer Profile: Positive (2):** Westpac has announced its 1HFY2020 results with reported profit before tax down 52% y/y due to impairment charges related to COVID-19 impacts as well as other extra-ordinary impacts. Impairment charges rose almost 600% y/y. However, Westpac's APRA compliant CET1 ratio improved 17bps y/y to 10.81% as at 31 March 2020.

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Credit Headlines

Ascott Residence Trust ("ART") | Issuer Profile: Neutral (4)

- ART has changed to half-yearly reporting rather than quarterly reporting although had shared a business update for 1Q2020. On 9 April 2020, we had lowered our issuer profile of ART to Neutral (4) from Neutral (3) as income generation has become increasingly uncertain amidst the COVID-19 outbreak, among other reasons.
- ART did not share income statement items in its 1Q2020 update though shared that overall Revenue per Available Unit ("RevPAU") dropped 23% y/y to SGD103 (from properties which are under management contracts and management contracts with minimum guaranteed income, excluding properties on master leases)
- Per ART, portfolio occupancies are significantly lower but still above breakeven level while average day rates were relatively stable. As at 30 April 2020, 18 of ART's properties have temporarily closed (including 11 properties in France though properties in France are under master lease arrangements).
- Reported aggregate leverage was 35.4% as at 31 March 2020 (31 December 2019: 33.6%). ART holds SGD300mn in cash and is expected to receive SGD163mn in proceeds from the sale of Somerset Liang Court and SGD200mn of committed credit facilities (we think another SGD225mn are in uncommitted credit facilities).
- SGD404mn (representing 16% of ART's total debt) comes due in 2020 and the company does not foresee issues with refinancing given its liquidity access and continued bank debt support. 69% of its total property value remains unencumbered. That being said, ART has flagged that it "may exercise prudence in review of distribution payout". We take it to mean that ART may cut its equity dividend payout ratio to conserve cash. ART pays dividends semi-annually.
- ART faces a first call on its ARTSP 4.68%-PERP in June 2020 (with SGD250mn outstanding). While we think ART has the ability to replace the perpetual with debt, ART may want to conserve capital instead. This is especially more so as the perpetual is likely to reset into a lower distribution rate of 3.20%, which in our view is cheaper than what it can access in the SGD bond market for 5 year senior bonds currently.
- ART's market cap has fallen 31% since the outbreak and it could opt for the perpetuals to be an equity buffer instead during this period. In the event that the perpetuals are not called in June 2020, ART may call the perpetuals every six months. We think there is an increasing likelihood that ART would not call the perpetual at first call. (Company, OCBC)

Credit Headlines

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

- LMRT reported 1Q2020 results. Net property income dipped by 1.9% y/y to SGD39.8mn mainly due to the expiry of master leases at Lippo Mall Kemang (which reduced rental income by SGD2.1mn) though partially offset by positive rental reversion of 4.1% in 1Q2020.
- However, 1Q2020 results are no longer the crux in view of the impact arising from COVID-19 outbreak. As a result, LMRT has slashed the payout ratio for unitholders from 100% to 24.1%.
- **We think LMRT may also defer distributions to its perpetual holders** as no distributions attributed to perpetuals have been accrued under the statement of distribution. As such, we now expect LMRT to miss the distributions in June for LMRTSP 6.6% PERP and September for LMRTSP 7% PERP.
- The retail environment has softened with occupancy dipping q/q to 90.9% (end-2019: 91.5%). **We expect more pain** to come as LMRT has largely closed its retail malls and retail spaces since late March, with daily shopper traffic falling to 50,000 in April (from 300,000 pre COVID-19).
- LMRT guided that net property income is expected to be significantly lower in 2Q2020 due to mall closures. While the stated closure is till 13 May 2020, which we think is still manageable with about 1.5months net loss of rentals, there is no guarantee that the closure will not be extended. With shopper traffic steeply lower, retail sales may remain lacklustre for some time. Tenants may also face cashflow issues, resulting in further delays in rental payments.
- Credit metrics have deteriorated with gearing increasing to 42.1% (4Q2019: 35.9%) mainly due to fall in total assets to SGD1.88bn (4Q2019: SGD2.01bn) as IDR weakened by ~10% q/q in 1Q2020 while borrowings increased.
- Liquidity continues to be sufficient for LMRT for now with cash of SGD145.7mn covering SGD114.9mn in near-term borrowings. As such, despite the headwinds due to COVID-19, we continue to maintain LMRT at a Negative (6) Issuer Profile. (Company, OCBC)

Suntec Real Estate Investment Trust ("SUN") | Issuer Profile: Neutral (4)

- SUN has announced an extended temporary suspension of operations of Suntec Singapore to 2 Aug 2020. This is due to the prevailing regulations that do not permit any events up to end May and most events until August has been postponed to later dates. As such, with a lack of clarity on when the situation would improve, SUN is implementing proactive measures to control costs, protect jobs and prepare for the resumption of business in the near future.
- Suntec Singapore consists of Suntec Singapore Convention & Exhibition Centre and 141,959 sq ft of net lettable area at Suntec City Mall.
- In 1Q2020, revenue from Suntec Convention fell 46.6% y/y to SGD7.8mn from SGD14.6mn a year ago and recorded a net loss in property income of SGD1.7mn over the quarter from a net property income of SGD2.3mn in 1Q2019.
- We think this closure can help reduce losses in 2Q2020 and is a credit positive move. (Company, OCBC)

Credit Headlines

CapitaLand Mall Trust ("CMT") | Issuer Profile: Positive (2)

- CMT reported 1Q2020 results. Gross revenue was up by 6.0% y/y to SGD204.3mn while NPI was up by 5.9% y/y to SGD148.3mn. This was mainly due to contributions from Funan (re-opened in June 2019), which more than offset rental rebates granted to tenants affected by COVID-19.
- Portfolio occupancy fell slightly to 98.5% from 99.3% in the preceding quarter, with rental reversion at +1.6% over the quarter. Lease expiry for the remaining of 2020 is 11.9% of gross rental income. Shopper traffic fell 9.1% y/y while tenants' sales was down by 7.5%y/y. That said, shopper traffic has fallen by 40% in the first week April 2020 as compared to the first week of January. Therefore, there is clearly more uncertainties and challenge ahead.
- Due to the ongoing 'Circuit Breaker', ~25% of the portfolio's tenants is operational (mainly essential services). Unsurprisingly, Supermarket saw tenant sales increase 13.1%y/y while all the other trade categories were down y/y, led by Shoes & Bags (-23.0% y/y).
- As of 31 March 2020, CMT has committed a rental relief package totalling ~SGD114mn (inclusive of property tax rebates), which translates into 100% rental rebates for April and May 2020 for almost all of its retail tenants. For eligible tenants, CMT has waived their turnover rent and permitted the use of one-month security deposit to offset rents in March 2020.
- To maintain financial resilience amid the uncertainties, CMT has retained SGD69.6mn of taxable income in 1Q2020 (69% of CMT's 1Q2020 taxable income), leading to a 70.3%y/y decline in distributable income. CMT is suspending all non-essential operating and capital expenditure. Asset enhancement and development initiatives are also being deferred except for the ongoing upgrading works at Lot One Shoppers' Mall. CMT is equipped with bank facilities for working capital requirements for FY2020 and FY2021.
- CMT's financial position remains firm with aggregate leverage healthy at 33.3% and its assets 100% unencumbered. Reported interest coverage was stable at 4.6x. CMT has SGD310.2mn of debt maturing in 2020, including CAPITA 3.15% '20s (maturity date: 18 Dec 2020) against SGD131.3mn of cash on hand and sufficient bank facilities in place for refinancing of debt due in 2020. Overall, the maturing debt remains very manageable for CMT.
- Separately, the respective managers of CapitaLand Mall Trust ("CMT") and CCT have jointly announced the proposed merger of CMT and CCT to create a diversified commercial REIT to be named "CapitaLand Integrated Commercial Trust" ("CICT"). CICT is expected to be the third largest REIT in Asia Pacific and the largest REIT in Singapore, with a market capitalisation of SGD16.8bn and a combined property value of SGD22.9bn. (Company, OCBC)

Credit Headlines

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

- CAPL provided a business update in lieu of results as it transited to half-yearly reporting. The business update provides a glimpse of the impact arising on COVID-19, with heavier impacts on the residential, retail and lodging businesses.
  - **Retail seeing severe impact:** While malls in China have reopened, only 85% of the tenants are back in operation and footfall and sales have yet to return to pre-COVID levels. In Singapore, only 25% of the retail tenants remain open and shopper traffic is down ~10% in 1Q2020 (expected to be significantly down more in 2Q2020).
  - **Hospitality headwinds to last for a while:** 52 out of 485 properties owned or operated by CAPL remained closed as of end Apr 2020. We think the outlook remains bleak as CAPL expects travel restrictions and lockdowns to remain for some time.
  - **Residential sales muted in Singapore and Vietnam:** Due to the "Circuit Breaker", sales have been muted for One Pearl Bank and Sengkang Grand Residences. We also turned cautious on the Singapore property market. Meanwhile, CAPL is facing delayed handovers in Vietnam as international travel restrictions prevented buyers from finalising documentation. In China, residential sales in 1Q2020 are RMB900mn (slower than 1Q2019's RMB2.57bn).
- Meanwhile, the office, business parks, logistics and multifamily are relatively more resilient. Base fee income is also stable from REITs, Business Trusts (which form 74%) and PE Funds (26%) though performance fee and transaction fees are expected to decline due to poorer operating performance and reduced capital recycling.
- However, CAPL is anticipating more requests for rental relief and lower rental reversions amidst the challenging business outlook. We note that the upcoming offices have yet to reach full committed occupancy, including 79 Robinson Road (70% committed) and CapitaSpring (35% committed).
- Credit metrics remain manageable for now with net gearing of 0.64x (2019: 0.63x) with SGD13.0bn of cash and available undrawn facilities. Interestingly, CAPL reported that its funding cost is lower due to lower interest rates. However, we think reported interest coverage ratio may weaken further from 7.0x in 1Q2020 (2019: 7.6x) due to expectation of weaker results. We continue to hold CAPL at a Neutral (3) Issuer Profile. (Company, OCBC)

Credit Headlines

Westpac Banking Corporation ("Westpac") | Issuer Profile: Positive (2)

- Westpac has announced its 1HFY2020 results with reported profit before tax down 52% y/y and 58% h/h to AUD2.2bn despite a 6% y/y rise in net operating income before expenses and impairments. As previously announced, the drop in earnings was due to impairment charges related to COVID-19 impacts as well as extra-ordinary impacts including potential fines related to AUSTRAC proceedings as well as estimated customer refunds, payments, associated costs and litigation. These combined reduced net profit before tax by AUD3.0bn.
- The rise in net operating income was due to a 9% y/y rise in net interest income from a 2% y/y rise in average interest earning assets and a 12bps y/y rise in net interest margins. Net wealth management and insurance income rose 43% y/y although this was due to lower notable items y/y related to financial planning included in 1HFY2019 – otherwise underlying net wealth management and insurance income fell 39% y/y on higher bushfire and severe weather event claims, writeoffs in group life insurance and lower platforms and superannuation income. Reported trading income rose 5% y/y. These offset a 9% y/y fall in net fee income from lower product volumes and exit of the Advice business.
- With regards to the impairment charges of AUD2.24bn which rose almost 600% y/y, AUD1.6bn is related to expected future impairments from COVID-19 impacts while a further AUD600mn will relate to individually assessed provisions and net write-offs. These individual exposures relate to a few large names in Westpac Institutional Bank and New Zealand. The stressed exposures ratio as a percentage of total committed exposures only rose 22bps y/y and 12bps h/h to 1.32% as at 31 March 2020 (gross impaired exposures to gross loans similarly remained low at 0.30% as at 31 March 2020, up 6bps y/y and 5bps h/h) however as management has mentioned, the full stress within Westpac's exposures is yet to be seen given the economic impact amplified at the end of March. Westpac has indicated that so far AUD39bn in mortgages (9% of total balances) and AUD8bn in business loans have been deferred and are not treated as impaired per Australian Prudential Regulation Authority ("APRA") guidelines. Given the rise in impairment charges, the total provisions to gross loans rose to 80bps against 56bps as at 31 March 2019 and 54bps as at 30 September 2019.
- Westpac's APRA compliant CET1 ratio improved 17bps y/y and 14bps h/h to 10.81% as at 31 March 2020 as cash earnings and the AUD2.8bn capital raising in December 2019 offset the 2HFY2019 dividend paid along with risk weighted asset movements. On an internationally comparable basis, the ratio remains solid at 15.81% albeit down 36bps y/y and broadly stable h/h. Other credit metrics also were solid with the liquidity coverage ratio at 154% and the net stable funding ratio at 117% as at 31 March 2020. Although the capital position is decent, the threat of ongoing uncertainty with regards COVID-19 prevailed in management's eyes in relation to capital management and similar to ANZ, Westpac also deferred a decision on paying any dividends until the situation and impact becomes clearer. The impact of the AUSTRAC investigation no doubt played a part in this decision. Dividend deferral is likely part of Westpac's updated capital management strategy in light of APRA's adjustments to its capital framework to enable banks to continue lending to Australia's economy.
- While Westpac appears to have built up buffers both over the years as evidenced by its CET1 capital position and recently with the material rise in credit impairments, the influence of uncertainties related to COVID-19 and the eventual penalty related to civil proceedings by Australia's financial crimes regulator ('AUSTRAC') for alleged systemic breaches under the Anti-Money Laundering and Counter-Terrorism Financing Act continue to weigh on Westpac's credit profile. We continue to look through the numbers but continue to hold Westpac at a Positive (2) issuer profile, albeit with a cautious outlook. (Company, OCBC)

Key Market Movements

	4-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	115	-6	-26
iTraxx SovX APAC	69	-2	-9
iTraxx Japan	78	-5	-41
iTraxx Australia	119	-8	-57
CDX NA IG	90	-3	-26
CDX NA HY	94	0	2
iTraxx Eur Main	84	2	-20
iTraxx Eur XO	512	16	-72
iTraxx Eur Snr Fin	106	3	-12
iTraxx Eur Sub Fin	227	5	-33
iTraxx Sovx WE	29	-2	2
USD Swap Spread 10Y	1	-3	-9
USD Swap Spread 30Y	-45	-3	-7
US Libor-OIS Spread	50	-27	-82
Euro Libor-OIS Spread	20	-5	9
China 5Y CDS	50	0	-5
Malaysia 5Y CDS	112	-4	-6
Indonesia 5Y CDS	218	-10	-24
Thailand 5Y CDS	60	-9	-30
Australia 5Y CDS	28	-1	-7

	4-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	25.69	28.51%	-24.68%
Gold Spot ($/oz)	1,696.70	-1.01%	2.15%
CRB	117.63	4.32%	-8.07%
GSCI	256.49	6.23%	-6.88%
VIX	37.19	3.51%	-20.53%
CT10 (%)	0.612%	1.10	2.86
AUD/USD	0.639	-1.13%	4.99%
EUR/USD	1.095	1.15%	1.48%
USD/SGD	1.418	0.05%	1.02%
AUD/SGD	0.906	1.19%	-3.80%
ASX 200	5,227	-1.77%	3.16%
DJIA	23,724	-0.22%	12.69%
SPX	2,831	-0.21%	13.74%
MSCI Asiax	606	2.05%	10.30%
HSI	24,644	2.78%	4.41%
STI	2,558	1.60%	4.84%
KLCI	1,384	1.05%	4.66%
JCI	4,716	2.67%	5.61%
EU Stoxx 50	2,928	4.23%	9.95%

Source: Bloomberg

New Issues

- FCT MTN Pte. Ltd. (Guarantor: Frasers Centrepoint Trust) priced a SGD200mn 3-year bond at 3.2% last Thursday, tightening from IPT of 3.35% area.
- QBE Insurance Group arranged investor calls commencing 4 May for its proposed USD PERP.

Date	Issuer	Size	Tenor	Pricing
30-Apr-20	FCT MTN Pte. Ltd. (Guarantor: Frasers Centrepoint Trust)	SGD200mn	3-year	3.2%
29-Apr-20	Shuifa International Holdingsbvico. Ltd (Guarantor: Shuifa Group Co Ltd)	USD350mn	3-year	4.3%
29-Apr-20	Amber Treasure Ventures Limited (Guarantor: Nan Hai Corporation Limited)	USD500mn	2NC1	3.5%
29-Apr-20	SDSC International Development Limited (Guarantor: Shandong Shipping Corporation)	USD40mn	SDSHIP 5.9%’22s	5.9%
28-Apr-20	Wharf REIC Finance (BVI) Limited (Guarantor: Wharf Real Estate Investment Company Limited)	USD450mn USD300mn	5-year 10-year	T+205bps T+235bps
27-Apr-20	Republic of the Philippines	USD1bn USD1.35bn	10-year 25-year	T+180bps 3.375%
27-Apr-20	Korea East-West Power Co. Ltd	USD500mn	5-year	T+150bps
27-Apr-20	Honghe Development Group Co. Ltd	USD108mn	3-year	7%
24-Apr-20	Perennial Real Estate Holdings Limited	SGD33.5mn	2-year	3.9%
23-Apr-20	Kookmin Bank	USD500mn	5-year	T+150bps
23-Apr-20	Pingdu State-owned Assets Management Co., Ltd. (Guarantor: Pingdu Construction Investment Development Co., Ltd.)	USD200mn	3-year	5.75%
23-Apr-20	PSA Treasury Pte Ltd (Guarantor: PSA International Pte Ltd)	USD650mn	10-year	T+165bps
22-Apr-20	Xiaomi Best Time International Limited (Guarantor: Xiaomi Corp)	USD600mn	10-year	T+290bps
22-Apr-20	ST Engineering RHQ Ltd. (Guarantor: Singapore Technologies Engineering Ltd.)	USD750mn	5-year	T+120bps

Source: OCBC, Bloomberg

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