OCBC TREASURY RESEARCH

Asian Credit Daily

Tuesday, April 28, 2020

Market Commentary

- The SGD swap curve steepened yesterday, with the shorter tenors trading 1-3bps lower, while the belly and the longer tenors traded 0-2bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 259bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 999bps. The HY-IG Index Spread widened 1bps to 740bps.
- Flows in SGD corporates were moderate, with flows in SOCGEN 6.125%-PERPs, CS 5.625%-PERPs and HSBC 5.0%-PERPs.
- 10Y UST Yields gained 6bps by the end of the day to 0.66%, as the S&P index rose to a 6-week high as major economies planned on reopening.

Credit Research

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Credit Summary:

- ARA Logos Logistics Trust (formerly CACHE Logistics Trust ("CACHE")) | **Issuer Profile: Neutral (4):** CACHE announced that it will be rebranded as "ARA LOGOS Logistics Trust". CACHE has changed to half-yearly reporting rather than quarterly reporting although had shared an interim update for 1Q2020. Gross revenue had fallen 6.6% y/y while net property income had fallen 7.3% y/y. There is no debt due in 2020, with the next debt maturity only occurring in 2021. Per CACHE, there has been no tenant defaults thus far.
- Wesfarmers Ltd ("WESAU") | **Issuer Profile: Neutral (3):** WESAU provided a COVID-19 update on their retail businesses. Furthermore, in addition to WESAU's sale of a 5.2% stake in Coles Group Ltd, WESAU has expanded its available committed debt facilities to AUD5.3bn (increase of AUD2.0bn).
- Lendlease Group ("LLC") | **Issuer Profile: Neutral (3):** Securities of LLC are placed in trading halt in view of the equity raising exercise. Post equity raising, LLC will have AUD3.95bn of cash and committed undrawn bank facilities, which look more than sufficient. We think the move to raise equity is likely to be used to position LLC better defensively and offensively. LLC has withdrawn its forward looking statements.
- Mapletree Industrial Trust ("MINT") | **Issuer Profile: Neutral (3):** MINT reported its 4QFY2020 results for the financial year ended 31 March 2020. Gross revenue was up 3.0%y/y while net property income was up 3.2% y/y. To support its tenants, MINT has prepared rental rebate package of up to SGD13.7mn. MINT has also retained SGD6.6mn of its tax-exempt income to boost its cash reserve.
- Westpac Banking Corporation ("Westpac") | **Issuer Profile: Positive (2):** Westpac has announced it will incur a AUD2.24bn impairment charge in its 1HFY2020 results. Of this amount, AUD1.6bn are related to expected future impairments from COVID-19 impacts which will reduce Westpac's CET1 ratio by 11bps. Still, management expects Westpac's CET1 ratio as at 31 March 2020 to remain stable q/q.
- UBS Group AG ("UBS") | **Issuer Profile: Neutral (3):** UBS announced a solid set of 1Q2020 results with profit before tax up 30% y/y. UBS's CET1 capital ratio was 12.8% as at 31 March 2020, below its capital guidance of around 13.0% but above minimum CET1 capital ratio requirements of 9.7%.
- HSBC Holdings PLC ("HSBC") | **Issuer Profile: Neutral (3):** HSBC announced its 1Q2020 results with reported profit before tax down 48% y/y. HSBC's CET1 ratio was slightly weaker q/q at 14.6% as at 31 March 2020 (14.7% as at 31 December 2019), but still within the CET1 ratio in the range of 14-15%.

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Credit Headlines

ARA Logos Logistics Trust (formerly CACHE Logistics Trust ("CACHE")) | Issuer Profile: Neutral (4)

- CACHE announced that it will be rebranded as "ARA LOGOS Logistics Trust". In December 2019, as part of a broader strategic transaction between ARA Asset Management Limited ("ARA") and LOGOS Group ("LOGOS"), ARA had transferred its entire equity holding in CACHE and CACHE's REIT Manager to LOGOS.
- CACHE has changed to half-yearly reporting rather than quarterly reporting although had shared an interim update for 1Q2020. Per CACHE, gross revenue had fallen 6.6% y/y to SGD28.8mn while net property income had fallen 7.3% y/y to SGD22.0mn. The fall in revenue was mainly attributable to the conversion of Cache Gul LogisCentre to a multi-tenanted property, vacancies between leases, lower rents and a weaker AUD against the SGD though partly offset by rental contribution from a warehouse in Victoria, Australia which was acquired in April 2019.
- Committed portfolio occupancy was 97.1% (up from 95.3% as at end-December 2019).
- As at 31 March 2020, CACHE's aggregate leverage was 40.8%, on the high side while reported interest coverage ratio was manageable at 3.7x.
- CACHE is retaining a certain amount of distributable income available this quarter and will distribute 80% of its total distributable income. CACHE has announced a distribution per unit ("DPU") of SGD0.997 for 1Q2020, which is a 34.1% y/y decline from the DPU in 1Q2019.
- There is no debt due in 2020, with the next debt maturity only occurring in 2021 (SGD bank loan of SGD53.0mn).
- Per CACHE, there has been no tenant defaults thus far though are kept aware of a limited number of tenants who are facing weakness amidst the outbreak. 62% of CACHE's tenants are multinationals though the remaining consist of SMEs who are likely more vulnerable at such times. We are maintaining our issuer profile of Neutral (4) on CACHE. (Company, OCBC)

Wesfarmers Ltd ("WESAU") | Issuer Profile: Neutral (3)

- WESAU provided a COVID-19 update on their retail businesses. Per WESAU, over the past two months, Bunnings (the largest retail contributor to WESAU) and Officeworks have experienced significant demand growth.
- For Kmart and Target, sales growth in the third quarter for the financial year ended June 2020 ("3QFY2020") was broadly in line with levels achieved in 1HFY2020, supported by online sales growth
- In recent weeks though, in-store sales momentum has moderated at Kmart and significantly declined in Target reflecting broader decline in footfall and decline in discretionary retail spending, trends which the company expects to continue as long as social distancing measures persist. WESAU has accelerated its plans to improve the unsatisfactory financial performance of Target and further details will be provided before 30 June 2020 when the strategic review is completed.
- In addition to WESAU's sale of a 5.2% stake in Coles Group Ltd ("Coles"), WESAU has expanded its available committed debt facilities to AUD5.3bn (increase of AUD2.0bn). While the pricing details were undisclosed, per company this was at below WESAU's overall cost of debt. In our view this continues to signal WESAU's strong access to debt markets notwithstanding the challenges due to the COVID-19 outbreak. We think having a cash buffer also provides WESAU the firepower to pursue acquisition opportunities which may arise as a result of the downturn. We continue maintaining WESAU's issuer profile at Neutral (3). (Company, OCBC)

Credit Headlines

Lendlease Group ("LLC") | Issuer Profile: Neutral (3)

- Securities of LLC are placed in trading halt in view of the equity raising exercise worth up to AUD1.15bn. LLC is looking to raise AUD950mn via underwritten institutional placement at AUD9.80 per security and will also undertake a non-underwritten Security Purchase Plan at up to AUD200mn.
- Post equity raising, LLC will have AUD3.95bn of cash and committed undrawn bank facilities, which look more than sufficient in our view. Reported gearing will be between 10-15% as of 30 June 2020. LLC is committed to maintaining its investment grade credit rating.
- The stated rationale of the equity raising is to strengthen the balance sheet. We think the move to raise equity is likely to be used to position LLC better defensively and offensively.
- We think that the additional cash buffer will be useful in case LLC has to keep, or at least continue to operate the Engineering business. As a recap, LLC announced the sale of the Engineering business for AUD180mn. The sale, if completed, is a significant credit positive as it removes uncertainty/earnings volatility of the business while lightening the balance sheet. However, we think there may be completion risks to the sale as LLC highlighted that it is too early to determine if conditions tied to the sale can be satisfied within the time periods required in the sales agreement. LLC also affirmed that the Melbourne Metro project will be retained (which it previously was planning to dispose).
- Meanwhile, LLC remains committed to exit the Engineering business and reiterates that costs to exit non-core business is in the range of AUD450mn-AUD550mn
- We think having excess cash will also provide LLC opportunities to develop its pipeline of development properties (which exceeds AUD100bn) as well as undertake attractive opportunities which may arise as a result of the downturn.
- As an update to its operations, LLC has withdrawn its forward looking statements. We see risks to profitability for its business segments. We think that the development segment's profitability may be impacted as completions and handover are likely to be delayed. There will also be impact from slower productivity in the Construction segment, with shutdown of sites in various geographies including Singapore, Kuala Lumpur, Milan, New York and Boston. While LLC continues to receive management fees for investments with limited exposure to performance fees, there may be impact on asset revaluations though this is too early to be determined.
- While results and operations will undoubtedly be impacted, we think that the equity raising exercise is a prudent one amidst uncertainties arising from COVID-19 outbreak. We continue to hold LLC at a Neutral (3) Issuer Profile. (Company, OCBC)

Credit Headlines

Mapletree Industrial Trust ("MINT") | Issuer Profile: Neutral (3)

- MINT reported its 4QFY2020 results for financial year ended 31 March 2020. Gross revenue was up 3.0%y/y to SGD101.8mn while net property income ("NPI") was up 3.2%y/y to SGD78.3mn. This came on the back of full quarter revenue contributions from 18 Tai Seng, higher contribution from 30A Kallang Place and new contribution from 7 Tai Seng Drive though partially offset by lower revenue due to decantment of tenants of Kolam Ayer 2 Cluster for redevelopment.
- Average overall portfolio occupancy increased to 91.5% from 90.9% in the preceding quarter. Higher occupancies were registered for the hi-tech buildings, business park buildings and stack-up/ramp-up buildings segments in Singapore. In North America, occupancies was up as well from the addition of the ten 100% leased powered shell data centres (completed on 14 Jan 2020).
- Although the top 10 tenants of MINT (mostly MNCs) form ~29% of its portfolio's gross rental income, we note ~45% of its overall portfolio are small and medium-sized enterprises tenants who are more vulnerable. To support its tenants, MINT has prepared a rental rebate package of up to SGD13.7mn (excluding property tax rebates which will be passed through). MINT has also retained SGD6.6mn of its tax-exempt income (distributions relating to joint ventures) to boost its cash reserve amid the uncertainty from the COVID-19 pandemic.
- On the redevelopment of Kolam Ayer 2 into a new high-tech industry precinct, 67 out of the 108 existing tenants at the Kolam Ayer 2 Cluster (up from 62 in the previous quarter) had committed to new leases at alternative MIT clusters. The construction works at Kolam Ayer 2 Cluster is expected to commence in 2H2020 and complete in 2H2022. We think delay to the project is possible as construction works may have to occur at a slower pace due to COVID-19, though it remains to be seen as Singapore is observing the circuit breaker measure till 1 June 2020 for now.
- Aggregate leverage increased q/q from 34.1% to 37.6.% as at 31 March 2020, following the completion of its acquisition of powered shell data centres in North America while EBITDA/Interest based on our calculation has improved to 6.3x from 6.0x in the previous quarter. MINT has refinanced all of its borrowing in the next financial year FY2021 and has just SGD100mn coming due in FY2022 against committed facilities of ~SGD308mn. MINT's credit metrics remain very manageable in our view and we will continue to hold MINT at Neutral(3) issuer profile. (OCBC, Company)

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Credit Headlines

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

- Westpac has announced it will incur a AUD2.24bn impairment charge in its 1HFY2020 results due to be announced on May 4th.
- Of this amount, AUD1.6bn are related to expected future impairments from COVID-19 impacts while a further AUD600mn will relate to individually assessed provisions and net write-offs. Components of the AUD1.6bn additional impairment include:
  - Reduced base case economic forecasts considering lower economic growth, higher unemployment, lower investment and a fall in residential and commercial property prices;
  - Higher weightage applied to the downside economic scenario; and
  - A buffer for additional stress.
- Per management, the AUD1.6bn general provision will reduce Westpac's CET1 ratio by 11bps due to a corresponding reduction in the regulatory expected loss capital deduction.
- Similar to other bank announcements, it appears the provisioning above is being done on a 'best efforts basis' given the COVID-19 impact is still highly uncertain. Provisioning levels will likely remain dynamic as the virus developments continue.
- This announcement adds to the previously announced AUD1.43bn in extra-ordinary impacts to its 1H2020 earnings with the expected total 1HFY2020 charges of AUD3.67bn likely to swamp any potential cash earnings (1HFY2019 reported net profit was AUD3.2bn). Still, management expects Westpac's CET1 ratio as at 31 March 2020 to remain stable q/q at 10.8% and up 20bps from FY2019 (30 September 2019) due to the AUD2.8bn capital raising in November 2019. (Company, OCBC)

UBS Group AG ("UBS") | Issuer Profile: Neutral (3)

- UBS announced a solid set of 1Q2020 results with profit before tax up 30% y/y to USD2.0bn. This was driven by strong net interest income performance (+18% y/y on better performance in Investment Bank and Global Wealth Management from higher lending revenues) and net fee and commission income (+22% y/y on higher client activity in Global Wealth Management and the Investment Bank from increased market volatility).
- This offset USD268mn in credit losses (USD122mn in the Investment Bank, USD77mn in Personal & Corporate Banking, USD53mn in Global Wealth Management, and USD16mn in Non-core and Legacy Portfolio) and drove a 10% y/y ride in total operating income. Breaking down the credit losses further, USD89mn were for stages 1 and 2 exposures while USD179mn were for stage 3 or credit-impaired exposures.
- Operating expense growth was lower at 4% y/y on lower general and administrative expenses. Personnel expenses however were up 7% y/y on higher salaries and variable compensation, as well as restructuring and insourcing expenses.
- UBS's CET1 capital ratio was at 12.8% as at 31 March 2020, below its capital guidance of around 13.0% (but within expectations of 12.7%-13.3%) but above minimum CET1 capital ratio requirements of 9.7%. The fall was driven by a USD27bn rise in risk weighted assets ("RWA") mostly from higher credit-risk RWA and higher market risk RWA.
- As supportive as these numbers are, the focus is on the future in particular the earnings impact from future business volumes and potential credit losses. We continue to review the numbers. (Company, OCBC)

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Credit Headlines

HSBC Holdings PLC ("HSBC") | Issuer Profile: Neutral (3)

- HSBC announced its 1Q2020 results with reported profit before tax down 48% y/y to USD3.2bn. Per other bank results, the main impact was higher expected credit losses and other credit impairment charges of USD3.0bn due to COVID-19 as well as lower oil prices. Credit impairment charges also reflect the recognition of single customer exposures, particularly in Singapore.
- Lower revenue also influenced earnings with reported revenue down 5% y/y. Better performance in Asia, Global Markets and Retail Banking and Global Private Banking was offset by market impacts in life insurance and valuation adjustments in Global Banking and Markets.
- Expense performance was supportive down 5% y/y on a reported basis due to lower performance-related pay and lower discretionary costs which offset continued investment expenditure.
- HSBC's balance sheet grew with total assets up 7.5% q/q to USD2.918tr as lending and deposits rose by USD41bn and USD47bn respectively as corporate customers drew down on their credit lines and deposited them within the bank.
- HSBC's CET1 ratio was slightly weaker q/q at 14.6% as at 31 March 2020 (14.7% as at 31 December 2019), still within the CET1 ratio in the range of 14-15%. The final dividend cancellation had a positive impact on the ratio as did earnings generation and other movements. This was offset by changes in risk weighted assets and foreign currency translation differences. Other credit ratios were adequate with HSBC's leverage ratio at 5.7% (stable q/q) and its liquidity coverage ratio at 156% (150% as at 31 December 2019) as at 31 March 2020.
- Although management have re-affirmed its commitment to the previously announced restructuring plan, management have sounded a cautious tone given the uncertainty surrounding COVID-19 on its impact and duration. Still, the desire to proceed with the restructure reflects the expectation of materially weaker earnings given the potential for higher expected credit losses and other credit impairment charges as well as persisting low interest rates and reduced business activity on the economic shutdown. Although costs remain a focus, management have stated that parts of the transformation including planned reduction in staff numbers will be delayed and will result in lower restructuring costs in 2020 than previously planned.
- We continue to review the numbers. (Company, OCBC)

Key Market Movements

	28-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	122	-3	-28
iTraxx SovX APAC	71	2	-4
iTraxx Japan	83	-1	-45
iTraxx Australia	127	-2	-60
CDX NA IG	93	-5	-15
CDX NA HY	93	1	-2
iTraxx Eur Main	82	-10	-16
iTraxx Eur XO	496	-59	-84
iTraxx Eur Snr Fin	102	-13	-16
iTraxx Eur Sub Fin	223	-28	-29
iTraxx Sovx WE	31	-4	7
USD Swap Spread 10Y	2	-5	2
USD Swap Spread 30Y	-43	-5	5
US Libor-OIS Spread	81	-16	-57
Euro Libor-OIS Spread	28	6	16
China 5Y CDS	50	-1	-10
Malaysia 5Y CDS	116	2	-11
Indonesia 5Y CDS	228	10	1
Thailand 5Y CDS	69	-4	-15
Australia 5Y CDS	30	0	-8

	28-Apr	1W chg	1M chg
Brent Crude Spot ($/bbl)	19.13	-1.03%	-23.27%
Gold Spot ($/oz)	1,702.75	0.98%	4.95%
CRB	108.00	-9.06%	-12.82%
GSCI	230.45	0.97%	-11.89%
VIX	33.29	-24.05%	-49.21%
CT10 (%)	0.656%	8.66	-1.89
AUD/USD	0.644	2.50%	4.26%
EUR/USD	1.083	-0.30%	-2.02%
USD/SGD	1.422	0.70%	0.21%
AUD/SGD	0.915	-1.74%	-3.96%
ASX 200	5,330	2.08%	10.07%
DJIA	24,134	2.04%	11.54%
SPX	2,878	1.96%	13.26%
MSCI Asiax	594	1.87%	6.59%
HSI	24,269	2.00%	3.34%
STI	2,541	-0.41%	0.50%
KLCI	1,372	-0.69%	2.17%
JCI	4,520	0.39%	-0.57%
EU Stoxx 50	2,882	-0.94%	5.62%

Source: Bloomberg

New Issues

- Republic of the Philippines priced a USD1bn 10-year bond at T+180bps, and a USD1.35bn 25-year bond at 2.95%, tightening from IPT of T+220bps and 3.375% area respectively.
- Korea East-West Power Co. Ltd priced a USD500mn 5-year bond at T+150bps, tightening from IPT of T+190bps area.
- Honghe Development Group Co. Ltd priced a USD108mn 3-year USD bond at 7%.
- PT Hutama Karya (Persero) arranged investor calls commencing 28 Apr for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
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
22-Apr-20	BOC Aviation Ltd	USD1bn	5-year	T+300bps
22-Apr-20	Hongkong International (Qingdao) Company Limited (Keepwell deed, Deed of Eipu and Irrevocable Standby Facility Provider: Qingdao City Construction Investment (Group) Limited)	USD300mn	3-year	3.99%
20-Apr-20	Export-Import Bank of Korea	USD700mn	3-year	3m-US LIBOR+120bps

Source: OCBC, Bloomberg

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