OCBC TREASURY RESEARCH

Asian Credit Daily

Monday, March 30, 2020

Market Commentary

- The SGD swap curve bull-flattened yesterday, with the shorter tenors trading 6-9bps lower, while the belly and the longer tenors traded 9-15bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 3bps to 261bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 61bps to 1105bps. The HY-IG Index Spread tightened 58bps to 844bps.
- Flows in SGD corporates were heavy, with flows in UBS 4.85%-PERPs, STANLN 5.375%-PERPs, CS 5.625%-PERPs, SOCGEN 6.125%-PERPs, SPHRSP 4.1%-PERPs, OCBCSP 4%-PERPs, HSBC 4.7%-PERPs, LOGPH 6.125%'21s, UBS 5.875%-PERPs, MAPLSP 4.5%-PERPs and SPHSP 4%-PERPs.
- 10Y UST Yields fell 17bps to 0.68%, as the number of COVID-19 cases in the U.S. surpassed China and the rest of the world.

Credit Research

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Credit Summary:

- **Suntec REIT ("SUN") | Issuer Profile: Neutral (4):** SUN has announced a rental assistance package which will benefit its tenants at Suntec City Mall. Rents for cinemas, karaoke lounges, tuition and enrichment centres tenants have also been suspended from 26 March to 30 April 2020.
- **Frasers Centrepoint Trust ("FCT") | Issuer Profile: Neutral (3):** FCT has announced additional rental rebates for its tenants. FCT also granted rental waiver for all entertainment venues, enrichment centres and tuition centres.
- **CapitaLand Mall Trust ("CMT") | Issuer Profile: Positive (2):** CMT mall tenants will receive rental rebates for April and May, and tenants can also use its security deposit to offset March's rental payments. Rents of bars, leisure and entertainment venues, and tuition and enrichment centres will also be suspended.
- **Frasers Hospitality Trust ("FHREIT") | Issuer Profile: Neutral (4):** FHREIT has announced that there is a significant drop in demand for travel and accommodation, and expects its financial performance for 2Q FY2020 to be adversely impacted y/y. A series of cost containment measures have been implemented.
- **Wing Tai Properties Ltd ("WTP") | Issuer Profile: Neutral (4):** WTP reported 2019 results with revenue and EBITDA falling y/y. We think that the worst has yet to come but WTP will likely weather the storm.
- **Century Sunshine Group Holdings Limited ("CENSUN") | Issuer Profile: Negative (6):** CENSUN and Ming Xin Developments Limited ("Ming Xin", an indirect wholly-owned subsidiary of CENSUN) have granted Mega Prime Development Limited ("Mega Prime") a call option to purchase shares in Rare Earth Magnesium Technology Group Holdings Limited ("REMT") held by Ming Xin. Additionally, REMT will also be issuing a note to Mega Prime.
- **Shangri-La Asia Limited ("SHANG") | Issuer Profile: Neutral (4):** SHANG announced 2019 full year results with revenue falling y/y though reported operating profit increased. SHANG has shared that travel volumes and hotel occupancies in Mainland China and Hong Kong has been significantly negatively affected.
- **China Construction Bank Corporation ("CCB") | Issuer Profile: Neutral (3):** CCB announced FY2019 results with operating income rising y/y. CET1/CAR capital ratios were 13.9%/17.5% as at 31 December 2019.
- **Industry Outlook – Financial Institutions:** The Australian Prudential Regulation Authority has announced the deferral of the scheduled implementation of Basel III reforms by one year. These moves are consistent with our views that regulators remain pragmatic to the health of financial systems in supporting the economy.

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Credit Headlines

Suntec REIT ("SUN") | Issuer Profile: Neutral (4)

- Suntec REIT has announced a SGD16mn rental assistance package (including property tax announced by the government) which will benefit over 97% of its tenants at Suntec City Mall.
- All in, retail tenants will receive up to 2.75 months of relief in their cash flow through a rebates that will accumulate to 1.75 months of rental and the option to use its one-month security deposit to offset rental payments.
- Rents for Suntec City Mall's cinemas, karaoke lounges, tuition and enrichment centres tenants have also been suspended from 26 March to 30 April 2020 due to the government's directive to close. Rents will continue to be suspended if the enforced closure is extended beyond 30 April 2020. (Company, OCBC)

Frasers Centrepoint Trust ("FCT") | Issuer Profile: Neutral (3)

- FCT has announced additional rental rebates amounting to SGD45mn for its tenants. In addition, tenants will receive full property tax rebates announced in the government's Resilience Budget and cash security deposits will also be released to offset one month's worth of rental payments.
- FCT has also granted one-month rental waiver for all entertainment venues, enrichment centres and tuition centres affected by the government-imposed closure announced on 24 March 2020.
- All in, all tenants will get some form of relief from rental payments for April and May.
- Prior to this, FCT had earlier on 26 Feb announced that it will pass on the 15% property tax rebate announced in Budget 2020 by the government and tenants can also convert security deposits paid in cash to Banker's Guarantees. Other measures were flexibility for shorter operating hours and complimentary lunch time parking. (Company, OCBC)

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

- Shopping mall tenants will receive rental rebate of 2 months (April and May) in total (including the half month rental rebate announced on 24 Feb), and tenants can also use its one-month security deposit to offset rental payments for March 2020.
- The above mentioned rental rebates include the property tax relief granted by the government.
- Rents of tenants ordered by government to close will be suspended. The affected tenants are operators of bars, leisure and entertainment venues including cinemas and tuition and enrichment centres. (Company, OCBC)

Credit Headlines

Frasers Hospitality Trust ("FHREIT") | Issuer Profile: Neutral (4)

- FHREIT has announced that the rapid spread of COVID-19 has led to a significant drop in demand for travel and accommodation over the past few weeks, with FHREIT witnessing weaker operating performance across its portfolio.
- In response to orders by the Australia and UK governments to enforce strict social distancing and activities lockdown, FHREIT has temporarily closed its food & beverage outlets in its Sydney and Melbourne hotels and will progressively close its UK properties temporarily.
- FHREIT expects its financial performance for the second quarter ending 31 March 2020 ("2Q FY2020") to be adversely impacted y/y though the full extent of the negative impact cannot be ascertained at this point.
- A series of cost containment measures have been implemented, including temporary closure of rooms and amenities by floors, shortened work hours and unpaid leave for staff, and review of all operating contracts.
- We had on 24 March lowered FHREIT's issuer profile to Neutral (4) from Neutral (3) in light of the negative impact of COVID-19 on FHREIT's operating performance. Given FHREIT's solid asset base, a reversion back to Neutral (3) is possible but only if the COVID-19 situation subsides within the year and occupancy rates return to historical levels approaching ~85% for its key markets. FHREIT receives at least ~SGD49mn p.a in fixed rents from its Sponsor, which covers 2.0x interest expenses and perpetual distribution. There is also minimal refinancing risk at FHREIT, with the next major debt repayment of SGD149mn only due in 2022. (Company, OCBC)

Wing Tai Properties Ltd ("WTP") | Issuer Profile: Neutral (4)

- WTP reported 2019 results. Revenue fell 6.2% y/y to HKD829.5mn mainly due to lower property investment and management revenue following the divestments of Winner Godown Building and W Square in 1H2018. This led to EBITDA falling 26.4% y/y to HKD274.1mn, noting the larger than revenue declines as investment properties command higher-margin.
- Separately, we note that WTP recorded HKD126.4mn loss in fair value of investment properties in 2019, mainly due to operating loss of Lanson Place Hotel in Hong Kong due to social activities affecting room revenue.
- We think that the worst has yet to come due to the COVID-19 outbreak. WTP cites delayed construction and sales will likely slow, especially for the higher-end segment. Leasing rates and occupancy at Landmark East, which underpins the WTP, may also be affected while hotel operations (which is seeing significant falls in occupancy and room rates) will likely continue suffering operating losses.
- That said, we think WTP is in a good position to weather the storm due to its still manageable credit metrics with healthy net gearing of 10% as of 2019 (1H2019: 8%) though net debt to EBITDA is weaker at 10.7x in 2019 (2018: 8.3x). Liquidity for now looks sufficient with HKD1.74bn of cash covering HKD147mn of debt maturing in 1-year and another HKD1.26bn of debt maturing by the 2nd year. (Company, OCBC)

Credit Headlines

Century Sunshine Group Holdings Limited ("CENSUN") | Issuer Profile: Negative (6)

- CENSUN and Ming Xin Developments Limited ("Ming Xin", indirect wholly-owned subsidiary of CENSUN), has granted Mega Prime Development Limited ("Mega Prime", an indirect wholly-owned subsidiary of Greater Bay Area Homeland Investments Limited ("GBA")), a call option in relation to the purchase of up to 200mn shares in Rare Earth Magnesium Technology Group Holdings Limited ("REMT") held by Ming Xin. The call option comes at a non-refundable option fee of HKD2mn and allows Mega Prime to buy up to 200mn of REMT shares, representing ~3.04% of the issued capital in REMT at an exercise price of HKD0.35 per share in REMT (as at 30 March 2020, HKD0.196 per share). If exercised, this would be HKD70mn in aggregate for the shares.
- CENSUN via Ming Xin owns ~72.3% in REMT, which is separately listed on the Hong Kong Stock Exchange and should the option be exercised, CENSUN's stake in REMT will fall to ~69%.
- Additionally, REMT will also be issuing a note with a principal amount of HKD100mn to Mega Prime. While REMT is the borrower, CENSUN is the guarantor on the notes. As at 30 June 2019, CENSUN's consolidated gross debt was HKD2.1bn and this note adds to debt.
- GBA Investments was jointly established by companies including China Resources Group, China Merchants Group, China National Travel Service Group, China Taiping Insurance Group, Bank of China Group Investment, Guangdong Holdings, Sino Group, China Evergrande Group and SenseTime.
- As agreed between the parties, in the event that the volume weighted average price for the last 20 trading days in 2020 (the "Relevant Period") is less than HKD0.41 per REMT Share, Mega Prime shall have the right (the "Cash Settlement Right") but not an obligation to request CENSUN to settle all or a portion of the call option not yet exercised by Mega Prime by cash payment to Mega Prime at the price of HKD0.06 per option share, exercisable on or before 31 January 2021. The maximum net cash outflow (net of the HKD2mn in option fee received by CENSUN) would be HKD10mn. The HKD10mn may kick in even in the event if the option is not exercised.
- In our view, CENSUN has effectively entered into a "contingent acquisition" to gain access of possible further investments by GBA Investments and/or from its network of external financing sources.
- While these are legally separate transactions, HKD10mn is 10% of the HKD100mn of principal amount of the note issuance to Mega Prime. (Company, OCBC)

Credit Headlines

Shangri-La Asia Limited ("SHANG") | Issuer Profile: Neutral (4)

- SHANG announced its full year results for 2019. Reported revenue was down 3.4% y/y to USD2.43bn, driven by a reduction in Hotel Properties revenue where all sub-segments saw a y/y revenue decline. Hotel Management and Related Services, Investment Properties and Property development (from revenue recognition from SHANG's Sri Lankan development) saw improvements in revenue which helped to partly offset the fall.
- Reported operating profit though increased 63.3% y/y to USD294.8mn in 2019. This was driven by a USD54.5mn in other gains versus USD126.4mn of other losses which were recognized in 2018. In 2019, SHANG had recognized USD52.6mn in fair value gains from investment properties whereas in 2018 SHANG had reported large impairment losses of USD123.2mn on certain of its hotel properties.
- Finance cost though had jumped 29.9% y/y to USD233.1mn, on the back of SHANG's increased debt level and higher cost of debt. SHANG ended the year with profit after tax of USD169.7mn (2018: USD183.7mn).
- For the Hotel Properties segment, despite the social unrest which HKSAR faced in 2H2019, SHANG managed to keep occupancy at 69% for 2019 (2018: 84%), which was still stronger than market of luxury hotels while Revenue per Available Room ("RevPAR") was down 27% y/y at USD183. Mainland China saw occupancy at 67%, unchanged y/y though RevPAR was down by 5% y/y. Singapore occupancy was up to 82% (2018: 80%), with RevPAR increasing 2% y/y.
- As at 31 December 2019, net gearing at SHANG was 0.76x (including lease liabilities as debt) and this is similar to levels as at 30 June 2019.
- In the midst of the COVID-19 outbreak, the company has shared that travel volumes and hotel occupancies in Mainland China and Hong Kong has been significantly negatively affected. The year-to-date March 2020 occupancy of SHANG's hotels dropped significantly as compared to the same period last year while its shopping malls in Mainland China has offered rental reduction to tenants.
- As at 31 December 2019, SHANG's cash balance was USD909.4mn while undrawn but committed banking facilities balance was USD1.0bn. Post end-2019, SHANG had also raised a further SGD250mn (~USD185.8mn) in 10 year bonds. We are monitoring the issuer profile of SHANG for a downgrade. (Company, OCBC)

Credit Headlines

China Construction Bank Corporation ("CCB") | Issuer Profile: Neutral (3)

- CCB announced FY2019 results and while decent considering the ongoing trade war through 2019, the focus for now is on the future given the COVID-19 impact to China in 1Q2020 and the growing impact globally that is likely in 2Q2020 and beyond.
- Operating income rose 7.0% y/y to RMB678bn on a 5.0% y/y rise in net interest income (8.8% y/y growth in net loans and advances to customers offset a fall in net interest margins) and a 11.6% and 22.8% y/y rise in Net fee and commission income and Other net non-interest income respectively.
- Expense performance was weaker compared to operating income performance with operating expenses up 7.7% y/y (higher investments in Fintech and digitilisation) and credit impairment losses up 7.9% y/y and as such the profit before tax growth was up 6.0% y/y.
- CCB's capital position remains solid with higher growth in CET1 and total capital (+10.62% y/y and +12.30% y/y respectively) against growth in risk weighted assets (+10.20% y/y) and as such CCB's CET1/CAR capital ratios of 13.9%/17.5% as at 31 December 2019 were up from 13.8%/17.2% as at 31 December 2018.
- So while 2019 results were robust and are supported by CCB's solid business risk with a relatively higher contribution from the Personal Banking segment which influences profit before tax contribution, loan composition and quality, its existing buffers will be needed to address the weaker operating environment. CCB is expected to be a model example of where banks are positioned now as a provider of support for the wider economy and a partner in helping the government smooth over the economic disruption from COVID-19. While banks globally will be enacting their ESG responsibilities, policy banks such as CCB and the other large Chinese banks that are also state owned may be asked to carry additional burden.
- The operating environment for CCB was already weakening somewhat with profitability metrics such as return on assets, return on equity, net interest margins and cost to income ratios all weaker y/y. We continue to look for the influence of the government in using banks to support the economy and what measures the government itself will employ to support the banks fundamentally in doing so. This will be an important factor in assessing bank credit profiles going forward in our view. (Company, OCBC)

Industry Outlook – Financial Institutions

- The Australian Prudential Regulation Authority has announced the deferral of the scheduled implementation of Basel III reforms by one year in a move consistent with the Basel Committee on Banking Supervision's ("BCBS") decision to defer the internationally agreed start dates for Basel III standards from January 2022 to January 2023. Both actions are meant to provide 'additional operating capacity for banks and supervisors' to deal with COVID-19 impacts and ensure financial sector stability.
- These standards broadly cover a variety of principles including the leverage ratio and G-SIB buffer, frameworks for operational risk, CVA and market risk and revised approaches for credit risk for both BCBS and APRA.
- These moves are consistent with our views that regulators remain pragmatic to the health of financial systems in supporting the economy. This impact is obviously now paramount as governments deal with the ongoing fallout from COVID-19. (APRA, BCBS, OCBC)

Key Market Movements

	30-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	134	-85	64
iTraxx SovX APAC	71	-28	32
iTraxx Japan	119	-62	59
iTraxx Australia	173	-83	105
CDX NA IG	111	-12	46
CDX NA HY	95	8	-11
iTraxx Eur Main	94	-20	27
iTraxx Eur XO	573	-118	268
iTraxx Eur Snr Fin	112	-18	33
iTraxx Eur Sub Fin	238	-35	80
iTraxx Sovx WE	24	-6	9
USD Swap Spread 10Y	-2	5	-1
USD Swap Spread 30Y	-50	9	-13
US Libor-OIS Spread	138	26	115
Euro Libor-OIS Spread	12	-1	5
China 5Y CDS	53	-20	4
Malaysia 5Y CDS	117	-70	59
Indonesia 5Y CDS	215	-76	123
Thailand 5Y CDS	77	-45	39
Australia 5Y CDS	38	-14	16

	30-Mar	1W chg	1M chg
Brent Crude Spot ($/bbl)	23.67	-12.43%	-53.15%
Gold Spot ($/oz)	1,620.35	4.32%	1.94%
CRB	123.88	0.00%	-22.30%
GSCI	261.54	-0.02%	-27.03%
VIX	65.54	-0.76%	63.40%
CT10 (%)	0.650%	-13.68	-49.91
AUD/USD	0.614	5.17%	-6.07%
EUR/USD	1.110	3.50%	-0.30%
USD/SGD	1.428	2.28%	-2.65%
AUD/SGD	0.877	-2.87%	3.66%
ASX 200	4,909	7.99%	-23.79%
DJIA	21,637	12.84%	-14.85%
SPX	2,541	10.26%	-13.97%
MSCI Asiax	557	11.27%	-12.70%
HSI	23,484	2.98%	-10.12%
STI	2,529	13.22%	-16.02%
KLCI	1,343	6.60%	-9.41%
JCI	4,546	10.72%	-16.64%
EU Stoxx 50	2,729	7.07%	-18.05%

Source: Bloomberg

New Issues

- There were no new issues or mandates.

Date	Issuer	Size	Tenor	Pricing
26-Mar-20	State Bank of India of London	USD100mn	2-year	3m-US LIBOR+80bps
25-Mar-20	Binjiang Guotou Limited (Guarantor: Taizhou Xinbinjiang Development Co Ltd)	USD219mn	3-year	7.0%
25-Mar-20	HSBC Holdings PLC	USD2.5bn	10-year	T+415bps
25-Mar-20	SATS Ltd	SGD200mn	5-year	2.88%
23-Mar-20	Maybank Singapore Limited	SGD500mn	10-year	3.7%
24-Mar-20	Xinhu (BVI) 2018 Holding Company Limited (Guarantor: Xinhu Zhongbao Co Ltd)	USD200mn	3-year	11.0%
19-Mar-20	China Construction Bank (Asia) Corporation Limited	USD500mn	PERPNC5	3.18%
13-Mar-20	Export-Import Bank of Korea	USD425mn	5-year	1.375%
13-Mar-20	PCGI Intermediate Limited (Guarantor: PCGI Ltd)	USD137.46mn	PCGIIN 4.75%'24s	4.75%
11-Mar-20	China Cinda (2020) I Management Ltd. (Guarantor: China Cinda (HK) Holdings Co.)	USD700mn USD500mn USD300mn USD500mn	3-year 5-year 7-year 10-year	T+160bps T+195bps T+240bps T+255bps
11-Mar-20	Beijing Capital Polaris Investment Co. Ltd. (Guarantor: Beijing Capital Group Co. Ltd.)	USD300mn	3-year	2.8%
11-Mar-20	Xiang Sheng Holding Limited (Guarantor: Shinsun Real Estate Group Co. Ltd.)	USD53mn	SHXREG 12.5%'22s	12.5%
10-Mar-20	Huantaihu International Investment Co., Ltd. (Guarantor: Huzhou Economic Development Group Co., Ltd.)	USD200mn	3-year	4.5%

Source: OCBC, Bloomberg

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