Asian Credit Daily

October 27, 2017

Credit Headlines (Page 2 onwards): Century Sunshine Group Holdings Limited, Wing Tai Properties Ltd, Industry Outlook – Singapore Residential Property, Suntec Real Estate Investment Trust, VIVA Industrial Trust

Market Commentary: The SGD swap curve bull-flattened yesterday, with swap rates trading 3-5bps lower across most tenors. The 20-year tenor traded little changed. Flows in SGD corporates were heavy, with better buying seen in CAPLSP 3.08%'27s, EREIT 4.6%-PERPs, and mixed interest seen in SUNHUN 3.25%'21s. In the broader dollar space, the spread on JACI IG Corp rose 1bps to 177bps, while the yield on JACI HY Corp fell 1bps to 6.84%. 10Y UST yields rose 3bps to 2.46% as speculation surrounding the Fed chair decision continued.

New Issues: Wing Tai Properties Finance Ltd has priced a SGD100mn re-tap of its WINGTA 4.35%-PERP at 100.10. The Ministry of Finance of the People's Republic of China has priced a two-tranche deal, with the USD1bn 5-year bond priced at CT5+15bps, tightening from initial guidance of CT5+30-40bps; and the USD1bn 10-year bond priced at CT10+25bps, tightening from initial guidance of CT10+40-50bps. Hainan Airlines (Hong Kong) Co has priced a USD300mn bond at 6.35% (guaranteed by Hainan Airlines Holding Co), tightening from initial guidance of 6.5% area.

Rating Changes: S&P has affirmed IMB Ltd's (IMB) 'BBB' ratings, while revising the outlook to negative from stable. The rating action reflects IMB's material decrease in its risk-adjusted capital ratio due to the increase in risk weights that Moody's applies to its lending assets, as well as share buybacks by IMB that are ahead of Moody's expectations. Moody's has affirmed POSCO's 'Baa2' senior unsecured rating, while revising the outlook to positive from stable. The rating action reflects Moody's expectation that POSCO's increase in earnings and debt reductions will allow POSCO's financial profile to improve.

Table 1: Key Financial Indicators

	27-Oct	1W chg (bps)	1M chg (bps)		27-Oct	1W chg	1M chg
iTraxx Asiax IG	74	-1	-9	Brent Crude Spot ($/bbl)	59.36	2.79%	2.52%
iTraxx SovX APAC	16	0	-1	Gold Spot ($/oz)	1,267.88	-0.98%	-1.16%
iTraxx Japan	49	-1	2	CRB	185.94	1.01%	1.13%
iTraxx Australia	65	-1	-9	GSCI	408.54	1.53%	1.56%
CDX NA IG	54	2	-3	VIX	11.3	12.44%	14.49%
CDX NA HY	108	0	1	CT10 (bp)	2.457%	7.27	14.69
iTraxx Eur Main	53	-2	-5	USD Swap Spread 10Y (bp)	-3	0	1
iTraxx Eur XO	238	-4	-16	USD Swap Spread 30Y (bp)	-30	1	3
iTraxx Eur Snr Fin	56	-3	-4	TED Spread (bp)	28	0	0
iTraxx Sovx WE	5	0	0	US Libor-OIS Spread (bp)	11	-1	-4
iTraxx Sovx CEEMEA	43	4	1	Euro Libor-OIS Spread (bp)	2	-1	-1
					27-Oct	1W chg	1M chg
				AUD/USD	0.764	-2.32%	-2.71%
				USD/CHF	0.998	-1.40%	-2.61%
				EUR/USD	1.164	-1.25%	-0.92%
				USD/SGD	1.369	-0.53%	-0.67%
Korea 5Y CDS	72	3	-4	DJIA	23,401	1.03%	4.75%
China 5Y CDS	47	-6	-17	SPX	2,560	-0.07%	2.13%
Malaysia 5Y CDS	62	0	-8	MSCI Asiax	684	-0.55%	3.50%
Philippines 5Y CDS	63	0	-4	HSI	28,449	-0.13%	2.92%
Indonesia 5Y CDS	94	-1	-12	STI	3,373	0.97%	4.23%
Thailand 5Y CDS	47	0	-6	KLCI	1,749	0.48%	-0.86%
				JCI	6,012	1.39%	2.54%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
26-Oct-17	Wing Tai Properties Finance Ltd (re-tap)	Not Rated	SGD100mn	WINGTA 4.35%-PERP	100.10
26-Oct-17	People's Republic of China	Not Rated	USD1bn	5-year	CT5+15bps
26-Oct-17	People's Republic of China	Not Rated	USD1bn	10-year	CT10+25bps
26-Oct-17	Hainan Airlines (Hong Kong) Co	Not Rated	USD300mn	Perp NC5	6.35%
25-Oct-17	RBC Investor Services Trust Singapore Limited	Not Rated	SGD150mn	Perp NC5	4.60%
25-Oct-17	Government of Mongolia	'B-/B-/NR'	USD800mn	5.5-year	5.625%
25-Oct-17	Korea Housing Finance Corporation	'NR/Aa1/NR'	USD500mn	5-year	CT5+100bps
25-Oct-17	Korean Air Lines Co Ltd	Not Rated	USD30mn	3-year	3mL+95bps
24-Oct-17	Housing & Development Board	'NR/Aaa/NR'	SGD640mn	12-year	2.598%
24-Oct-17	Asian Development Bank	'AAA/Aaa/AAA'	USD1.5bn	10-year	MS+22bps

Source: OCBC, Bloomberg

Credit Headlines:

Century Sunshine Group Holdings Limited ("CSG"): CSG is seeking to call an EGM on the 21/11/17 to seek shareholder approval for the injection of the part of the magnesium business that it holds directly into its partly-owned listed subsidiary, Group Sense International Limited ("GSIL"). We had previously discussed the transaction in detail (refer to OCBC Asia Credit - Century Sunshine Credit Update (13 Sep). In summary, we had considered the reorganization to be a credit negative, as CSG will then face HoldCo-OpCo subordination as its magnesium assets would be held indirectly via GSIL. In mitigation though, the founding family of CSG continues to be in control of both entities as they are officers of both CSG and GSIL, while CSG's stake in GSIL would increase. GSIL may also benefit in having better access to capital given its larger scale. The existing financial covenants on CSG's bonds also provide some investor protection. We continue to hold CSG at Neutral Issuer Profile, and believe that the risk reward profile supports an Overweight on the CENSUN'20s. The long stop date for the transaction remains 31/12/17. (Company, OCBC)

Wing Tai Properties Ltd ("WTP"): WTP did a SGD100mn retap of its existing 4.35% PERP at 100.10 + accrued interest. We are again surprised that WTP is raising more capital as net gearing is only 12.5% as of 1H2017, which should further improve to 6.2% following the SGD160mn original issuance and SGD100mn retap (treating the PERP as 100% equity). We reiterate that we cannot rule out the potential for privatisation (refer to OCBC Asian Credit Daily – 16 Aug 2017), though WTP did mention in the latest results that it is looking for opportunities to acquire strategic sites and properties for residential, commercial and hospitality developments both domestically and abroad (refer to OCBC Asian Credit Daily – 31 Aug 2017). For now, we will continue to hold WTP at a Positive Issuer Profile. (Company, OCBC)

Industry Outlook – Singapore Residential Property: URA released 3Q2017 real estate statistics. Private residential prices rose 0.7% q/q, breaking a 15 quarter decline streak. The increase is broad-based, with prices in the Core Central Region ("CCR"), Rest of Central Region ("RCR") and Outside Central Region ("OCR") rising by 0.1% q/q, 0.5% q/q and 0.8% q/q respectively. 2,663 units were sold in 3Q2017, which continues to exceed the number of launched units (1,183) for the 3rd consecutive quarter. This also brings the latest 12 month total new sales to 11,018 units, which compares well against the 16,031 unsold and uncompleted units in the pipeline (1,390 were completed but unsold). However, the rental market appears to remain lacklustre with the rental index remaining unchanged and vacancy rate increasing by 0.3 ppt to 8.4%. (URA, OCBC)

Suntec Real Estate Investment Trust ("SUN"): SUN announced 3Q2017 results. Gross revenue and NPI increased 10.6% and 11.6% y/y to SGD91.1mn and SGD63.9mn respectively, mainly from the contribution of 177 Pacific Highway acquired in 2016. Excluding SGD10.5mn NPI contribution from 177 Pacific Highway, NPI would have increased 2.6% y/y, due to improvements at Suntec Singapore (there was growth in both its Retail and Convention components). This helped to mitigate weakness at the Retail component of Suntec City. For SUN's office JVs, income contribution fell 8.2% y/y to SGD22.3mn despite Southgate not yet contributing in 3Q2016. Specifically, NPI contribution from ORQ (-SGD1.91mn) and MBFC (-SGD2.1mn) continued to be soft with SUN's average office rentals for the quarter declining to SGD8.61 psf/mth (2Q2017: SGD8.89 psf/mth), weaker than CBRE's Grade A office average rents of SGD9.10 psf/mth. That said, SUN's total Singapore office occupancy remained healthy at 99.0% (2Q2017: 98.8%) and above the overall Singapore CBD Grade A occupancy rate of 88.1% in 3Q2017. The total office occupancy rate for SUN was 98.6% due to lower % occupancy at SUN's Australian office properties which was primarily driven by the Southgate complex. For both office and retail, the lease maturity profile has improved with 20% and 26.7% of net lettable area for office and retail respectively scheduled to expire in the remainder of FY2017 and FY2018 (2Q2017: 24.3% and 30.7%). Aggregate leverage weakened marginally to 36.8% (2Q2017: 36.1%) following issuance of the SGD100mn SUNSP 2.85%'23s with reported interest coverage also weakening marginally to 4.0x (2Q2017: 4.2x). Debt maturity profile looks manageable with less than 20% of total loans (SGD605mn) due in 2018 including the SUNSP 2.83%'18s. We retain our Neutral Issuer Profile on SUN for now and will update as necessary after further review of the numbers. (Company, OCBC)

Credit Headlines (Cont'd):

VIVA Industrial Trust ("VIT"): VIT reported its 3Q2017 and 9M2017 results. Gross revenue increased 19.8% y/y to SGD83.3mn in 9M2017, driven by contribution from 6 Chin Bee Avenue (acquired in January 2017), 30 Pioneer Road (acquired in April 2016), higher rental and other income from VIVA Business Park, higher rental and income contribution from UE BizHub and partially offset by lower rental at Jackson Square. Removing the effects of the two new acquisitions, gross revenue would have increased by 10% y/y. EBITDA largely rose in line with top line growth to SGD55.3mn in 9M2017 (9M2016: SGD45.7mn). Finance cost was comparatively lower in 9M2017 mainly due to write-off of unamortised debt-related transaction cost and prepayment fees, which helped offset additional interest expense of SGD1.0mn in 9M2017 due to additional borrowings to partly fund the two new acquisitions and asset enhancement works at VIVA Business Park. Headline EBITDA/Interest was hence stronger at 3.6x (9M2016: 2.7x). As at 30 September 2017, aggregate leverage was 39.6%, somewhat higher versus 30 June 2017 and spiking from 37.2% in end-2016 following the completion of the partly-debt financed 6 Chin Bee Avenue acquisition. VIT's sole SGD bond, the SGD100mn VIT'18s is maturing in September 2018. Secured debt makes up 81% of VIT's total assets and 32% of total asset, leaving VIT with less financial flexibility to raise more secured financing versus its closest peers. Nonetheless, with equity markets remains highly accessible for VIT and the next competing debt obligation is only due in 2020, we see a low refinancing risk for VIT'18s. As at 30 September 2017, VIT's portfolio occupancy was 90.9% and total portfolio valuation was SGD1.3bn. This is stable versus the 90.6% occupancy as at 30 June 2017. As at 30 September 2017, only 0.9% of space (by gross rental income) would come due by end-2017. VIT's top 10 tenants account for 43.3% of its monthly committed rental income. Four of these ten tenants comprise of former owners who had sold their buildings to VIT under sales and leaseback structures (collectively making up ~21% of monthly rental income). In our view, VIT's portfolio income has become more concentrated versus 3QFY2016 when such tenant type only made up 15% of rental income. We hold VIT's issuer profile at Neutral and recommend a switch from the FIRT'18s into the VIT'18s for a pick-up of 100bps (more than compensates for VIT's four month longer maturity). (Company, OCBC)

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