Apr 27, 2018

Credit Headlines: Westpac Banking Corporation, Industry Outlook – Singapore Property, Barclays PLC, Starhill Global REIT, Industrial property sector, Pacific Radiance Ltd, GuocoLand Ltd, Mapletree Logistics Trust

Market Commentary

- The SGD swap curve bear-steepened yesterday, with swap rates for the shorter tenors trading 2-4bps higher while the longer tenors traded 4-5bps higher (with the exception of the 15-year swap rates trading only 3bps higher while the 30-year swap rates traded significantly higher by 10bps).
- Flows in SGD corporates were heavy yesterday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 1.30% while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 6bps to 377bps.
- 10Y UST yield fell 5bps to 2.98% as buyers emerged following a week-long selloff spurred by concerns about rising inflation and growing borrowing by the U.S government.

Credit Headlines

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

- WBC has responded to the release of results from APRA's 2016 industry review of certain controls on mortgage serviceability requirements as part of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.
- In essence, the review raised questions on the quality of Westpac's mortgage loan book given potentially lower underwriting standards which may have misrepresented borrower's ability to service their mortgages. This is an issue in investors' eyes given Westpac is Australia's second largest mortgage lender with mortgages comprising around 70% of its total loan portfolio.
- WBC however reaffirmed the quality and performance of its mortgage portfolio, in particular drawing attention to the performance of the identified 'at risk' loans in APRA's review as well as WBC's mortgage delinquencies and losses (which remain low by historical and industry averages according to management).
- What is of more interest to note however is the potential impact of the findings of this review as well as the outcomes of the ongoing Royal Commission, which is likely to suppress further growth in Australia's housing market and put downward pressure on house prices. This internal and external pressure on lending standards will likely soften profit outlooks for Australia's big banks.
- We will incorporate this forward view in the review of 1HFY2018 results for WBC, Australia & New Zealand Banking Group Ltd and National Australia Bank Ltd in the coming weeks. (Company, OCBC)

Industry Outlook – Singapore Property

- URA private residential price index increased 3.9% q/q, which is the strongest showing since 4Q2011.
- Separately, bids for 3 government land sale ("GLS") sites were concluded yesterday. A record SGD2,377 psf ppr bid was made for a site along Cuscaden Road in the Orchard Road district (bid amount: SGD410mn). The site in Mattar Road went for SGD223mn (SGD1,109 psf ppr) while the residential site in Silat Avenue received a SGD1.04bn (SGD1,138 psf ppr) bid.
- With a strong price rally while developers are still continuing to put up strong land bids, the property market may continue to remain supported.

Credit Headlines (cont'd):

Barclays PLC ("Barclays") | Issuer Profile: Neutral (4)

- Barclays 1Q2018 results were somewhat mixed with supportive underlying performance overshadowed by large litigation and conduct provisions of GBP2.0bn (comprising a GBP1.4bn settlement with the US Department of Justice for RMBS and a GBP400mn charge for Payment Protection Insurance).
- This translated into a loss before tax for the quarter of GBP236mn and contributed to a reduction in Barclays CET1 ratio to 12.7% as at 31 Mar 2018 (13.3% as at 31 Dec 2017). Capital ratios were also impacted by a GBP4.9bn increase in risk weighted assets. Excluding litigation and conduct charges, profit before tax was GBP1.73bn, up 1% y/y.
- Supporting underlying earnings was improved expense performance with a 45% y/y reduction in credit impairment charges from single name recoveries and a better US economic outlook and a 6% y/y fall in operating expenses. These, along with better performance in Barclays International (particularly in Corporate & Institutional Banking), offset an 8% fall in total income from weaker performance in the UK, USD depreciation and absence of one-off gains in 1Q2017. On the whole, income was supported by a 28% gain in equities income from market volatility, but the caution here is that improved performance has come from a volatile income source. Other sources such as banking fee income and corporate lending were weaker y/y.
- Risk weighted asset growth was driven by business growth in investment banking (derivatives and securities trading activity) which offset USD depreciation. (OCBC, Company)

Starhill Global REIT ("SGREIT") | Issuer Profile: Neutral (4)

- SGREIT reported 3QFY2018 results (ending March 2018). Gross revenue declined 3.0% y/y to SGD51.7mn while NPI fell 2.3% y/y to SGD40.3mn. Similar to previous periods, Singapore office revenue was weak (-10.4% y/y to SGD5.9mn) due to vacancy issues. On the retail front, Wisma Atria reported 1.6% y/y and 1.1% y/y declines in revenue and NPI respectively, driven by 7.2% decline in shopper traffic. Australia's contribution weakened as well by 10.0% y/y to SGD11.0mn, with the AEI at Plaza Arcade, office vacancies at Myer Centre Adelaide and the weaker AUD affecting performance.
- Portfolio committed occupancy looks to offer some relief in the future, with Singapore office committed occupancies increasing to 90.7% (1QFY2018: 83.5%). Occupancy however remains weaker than market occupancy of 94.2% (as reported by CBRE). The lease expiry for Singapore office also looks heavy for FY2019, with 27.1% by gross rent expiring for Wisma Atria, and 40.7% by gross rent expiring for Ngee Ann City. For Australia, with the Plaza Arcade AEI wrapping up, and the new anchor tenant, UNIQLO, having commenced renovation works (the fitting out period), contribution from the asset is expected to improve. Overall, committed occupancy for SGREIT had improved q/q to 94.3% (2QFY2018: 94.1%).
- Aggregate leverage had remained stable q/q at 35.3%. Reported interest cover also remained unchanged at 4.1x q/q. Maturity profile looks manageable with no debt due in FY2018, SGD63mn due in FY2019 and SGD112mn due in FY2020. (OCBC, Company)

Credit Headlines (cont'd):

Industry Outlook – Industrial property sector

- JTC has released its industrial property market report for 1Q2018. Q/q price index for all industrial is down 0.1% to 90 and while it is still down q/q, has narrowed from the q/q decline of 1.1% in 4Q2017.
- The rental index for all industrial is down 0.1% q/q to 91.1 (4Q2017 was also down by just 0.1% q/q), decelerating significantly from levels seen in 2016 and 2017. Single-user factories saw the largest rent declines at -0.8% q/q though there was no q/q change to rents on multiple-user factories.
- All industrial vacancies have declined slightly q/q at 0.1% to 11.0% versus the peak over the last four years of 11.4% in 3Q2017.
- While we have not yet seen broad based rental and price growth, we are encouraged that the market is slowly improving after a challenging period for the industrial space sector.

Pacific Radiance Ltd ("PACRA") | Issuer Profile: Negative (7)

- PACRA has announced the in-principle support from major lenders and anchor investors regarding its restructuring. The restructuring will entail debt forgiveness and debt-to-equity conversion, in consideration of the impairment that PACRA will be making on the value of its assets. Equity injection from investors will be used to pare down debt and for future working capital. PACRA has stated that it will press on with its discussions with the broader stakeholder groups.
- In our view, PACRA has completed a crucial step in its restructuring by resolving tentative terms with its major lenders and anchor investors. Previously, the proposal to noteholders was incomplete (refer to OCBC Asia Credit - Pacific Radiance Credit Update (7 Feb 2018)), providing no details about how other stakeholders were going to participate in the restructuring. We will await for PACRA's updated terms and will follow up accordingly. (OCBC, Company)

GuocoLand Ltd ("GUOL") | Issuer Profile: Neutral (5)

- GUOL reported 3QFY2018 results for the quarter ending 31 Mar. Revenue declined 15% y/y to SGD230.6mn as revenue recognised from residential projects fell, which is likely due to the decline in the unsold inventory. Similarly, net profit declined 21% y/y to SGD23.5mn, with finance costs increasing 35% y/y to SGD29.3mn (borrowings increased while capitalised finance costs fell).
- Net gearing increased to 0.92x (2QFY2018: 0.84x) mainly due to ~SGD1.0bn outlay during the quarter, which is largely related to the completion of the acquisition of the Beach Road commercial site. This is in spite of the increase in total equity due to the issuance of SGD400mn perpetuals in 3QFY2018.
- We note that SGD3.2bn of debt is due within the next 12 months, which far exceeds the SGD989.9mn cash on hand and ~SGD100mn p.a. recurring income from Tanjong Pagar Centre. Nevertheless, we are not overly concerned over refinancing as SGD2.9bn of the short term debt is secured, which may be rolled over. In any case, GUOL still maintains access to the capital markets, and has room to pledge a further ~SGD571mn of investment properties and SGD443.8mn inventories.

Credit Headlines (cont'd):

Mapletree Logistics Trust ("MLT") | Issuer Profile: Neutral (4)

- MLT reported its fourth quarter (and full year results for the financial year ended March 2018 ("FY2018")). In 4QFY2018, gross revenue increased 10.6% y/y to SGD107.5mn driven by higher revenue from existing properties, Mapletree Hub Tsing Yi (acquired on 12 October 2017), contribution from the redeveloped Mapletree Pioneer Logistics Hub and partly offset by a conversion of a building to multi-tenancy in South Korea, lower revenue from Ouluo Logistics Centre (undergoing development), absence of revenue from three divested buildings and currency impact. With property expenses relatively constant, net property income increased 13.7% y/y to SGD91.3mn.
- EBITDA (based on our calculation which does not include other income and other expenses) was SGD80.3mn (also up 13.7% y/y), while interest expense was up 15.0% to SGD14.8mn as MLT took on more debt to fund acquisitions, resulting in a lower EBITDA/Interest coverage of 5.4x (versus 5.5x in 4Q2018). In 4QFY2018, SGD0.7mn was included in gross revenue from a one-off compensation from business interruption insurance, excluding this, we find EBITDA/Interest coverage slightly lower at 5.3x.
- Perpetuals make up 6.8% of total capital as at 31 March 2018, assuming that SGD17.0mn p.a is distributed to perpetual holders and if we take 50% of these as interest, we find Adjusted EBITDA/Interest coverage at 4.7x.
- As at 31 March 2018, aggregate leverage was 37.7% (slightly below the 37.8% in end-2017). Taking 50% of perpetuals as debt, we find adjusted aggregate leverage at 41%.
- As at 31 March 2018, short term debt amounted to SGD53.2mn (representing only 2% of total debt). In April 2018, this debt had been refinanced with a new banking facility and there is no more debt outstanding for the 12 months to end-March 2019.
- MLT has also announced its intention to purchase a 50% economic interest in 11 China-based logistics properties (the "China Portfolio") from its Sponsor and Itochu Corporation. A significant rental contributor to the assets are e-commerce and e-commerce related companies, with JD.com, Inc making up 20.8% of rents and Cainiao (logistics company controlled by Alibaba) making up 19.3% of rents.
- The assets are currently held by 11 Hong Kong special purpose vehicles ("SPV") which in turn holds a 100% interest in China wholly foreign-owned enterprises (which in turn holds the properties). The total acquisition cost of SGD205.3mn comprise of (1) an aggregate share consideration of RMB120.5mn (~SGD25.1mn) and (2) shareholders' loans of RMB864.8mn (~SGD180.2mn) to be extended by MLT to the Hong Kong SPVs. Currently, MLT has indicated an intention to finance the acquisition via an equity placement amounting to SGD200mn. MLT would hold pre-emptive rights to acquire the remaining 50% interest in the properties.
- Taking the proportionate asset value and the indicative funding structure in consideration, MLT has shared that aggregate leverage may reduce slightly by 20bps to 37.5%.
- We think the equity fund raising is intended to be in the form of an equity private placement (where Sponsor gets diluted). Post-equity fundraising, Sponsor's current 35.7% stake in MLT may fall to 33.9%. We maintain MLT's issuer profile at Neutral (4).

Table 1: Key Financial Indicators

	27-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	75	1	-5
iTraxx SovX APAC	12	1	-1
iTraxx Japan	52	1	-6
iTraxx Australia	66	1	-6
CDX NA IG	60	0	-5
CDX NA HY	107	0	0
iTraxx Eur Main	55	0	-7
iTraxx Eur XO	273	-3	-21
iTraxx Eur Snr Fin	56	-1	-13
iTraxx Sovx WE	17	-1	-2
AUD/USD	0.755	-1.59%	-1.68%
EUR/USD	1.211	-1.46%	-2.38%
USD/SGD	1.328	-0.87%	-1.34%
China 5Y CDS	58	0	-8
Malaysia 5Y CDS	74	1	-1
Indonesia 5Y CDS	106	8	0
Thailand 5Y CDS	45	1	-2

	27-Apr	1W chg	1M chg
Brent Crude Spot ($/bbl)	74.53	0.63%	6.30%
Gold Spot ($/oz)	1,317.66	-1.40%	-2.04%
CRB	201.22	-0.32%	2.89%
GSCI	473.53	-0.05%	4.52%
VIX	16.24	1.75%	-27.82%
CT10 (bp)	2.975%	1.51	20.00
USD Swap Spread 10Y (bp)	3	-1	1
USD Swap Spread 30Y (bp)	-12	0	5
TED Spread (bp)	56	0	3
US Libor-OIS Spread (bp)	54	-2	-5
Euro Libor-OIS Spread (bp)	3	1	0
DJIA	24,322	-1.39%	1.95%
SPX	2,667	-0.97%	2.08%
MSCI Asiax	705	-1.86%	-2.98%
HSI	30,134	-0.93%	-2.13%
STI	3,577	0.09%	3.99%
KLCI	1,858	-1.58%	-0.24%
JCI	5,970	-5.81%	-3.86%

Source: OCBC, Bloomberg

New issues

- Hong Seng Ltd has hired banks for its potential USD bond issuance (guaranteed by Hong Yang Group Co Ltd and its certain offshore subsidiaries).
- Yuzhou Properties Co Ltd has hired leads for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
25-Apr-18	CNOOC Finance 2015 USA LLC	USD1bn	10-year	CT10+140bps
25-Apr-18	CNOOC Finance 2015 USA LLC	USD450mn	5-year	CT5+105bps
25-Apr-18	GSH Corp Ltd	SGD50mn	3-year	5.15%
24-Apr-18	CAR Inc	CNH350mn	CARINC 6.5%'21	6.784%
24-Apr-18	Central China Real Estate Ltd	SGD150mn	2-year	6.25%
24-Apr-18	State Grid Overseas Investment 2016 Ltd	EUR350mn	12-year	MS+100bps
24-Apr-18	State Grid Overseas Investment 2016 Ltd	EUR500mn	7-year	MS+75bps
24-Apr-18	State Grid Overseas Investment 2016 Ltd	USD800mn	10-year	CT10+130bps
24-Apr-18	State Grid Overseas Investment 2016 Ltd	USD950mn	5-year	CT5+97.5bps
24-Apr-18	Harvest Operations Corp	USD397.5mn	5-year	CT5+140bps
24-Apr-18	Beijing Enterprises Water Capital Management Holdings Ltd	USD500mn	5-year	5%
24-Apr-18	PT Pelabuhan Indonesia III Persero (PLBIII)	USD500mn	5-year	4.75%
24-Apr-18	Kaisa Group Holdings Ltd	USD330mn	KAISAG 7.25%'20	96.6220

Source: OCBC, Bloomberg

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