Apr 24, 2019

Credit Headlines:

Mapletree Commercial Trust, Olam International Ltd, ESR-REIT, CapitaLand Mall Trust, Suntec Real Estate Investment Trust, Frasers Centrepoint Trust

Market Commentary

- The SGD swap curve steepened yesterday, with the shorter tenors trading within 1bps higher while the belly and longer tenors traded 1-2bps higher (exception being the 12-year swap rate at 4bps higher).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS traded little change at 130bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 469bps.
- Flows in SGD corporates were heavy, with flows in SOCGEN 6.125%-PERPs, GUOLSP 4.6%-PERPs, ARASP 4.15%'24s, FPLSP 4.98%-PERPs, CMZB 4.2%'28s, CMZB 4.875%'27s, METRO 4.3%'24s, HSBC 5.0%-PERPs, SLHSP 4.5%'25s, STHSP 3.95%-PERPs and FPLSP 4.15%'27s.
- 10Y UST yields fell 2bps to 2.57%, on the back of strong demand for the new US treasury debt supply (USD40bn of 2 year notes) which was in turn fuelled by the rise in yields from the lows in late-March with improvement in economic outlook.

Credit Headlines

Mapletree Commercial Trust ("MCT") | Issuer Profile: Neutral (3)

- MCT reported its 4Q2019 results for the financial year ended 31 March 2019. Gross revenue was up 3.7% y/y to SGD112.9mn, mainly driven by higher contribution from VivoCity (revenue: +4.8% y/y, SGD2.5mn), with increased rental income from new and renewed leases, step-up rents in existing leases and reopened spaces from the completion of its asset enhancement initiatives ("AEI"). PSA Building (gross revenue: +11.6% y/y, SGD1.4mn) and Bank of America Merrill Lynch Harbourfront ("MLHF") (gross revenue: +4.7% y/y, SGD 0.2mn) also saw higher revenue, on the back of higher rental income from renewed leases and full occupancy recorded in the quarter respectively. This was less than offset by higher property operating expenses (+3.0% y/y at SGD25.3mn) due to compensation paid to terminate leases, higher staff costs and property management fees. NPI, however, still moved in tandem with gross revenue, and increased by 3.9% y/y to SGD87.6mn.
- As at 31 March 2019, overall actual portfolio occupancy remained unchanged q/q at 98.1%, while committed occupancy was 98.5%. More notably, VivoCity was 99.4% occupied based on the enlarged NLA following the opening of the public library in January 2019 while MLHF maintained its 100% actual and committed occupancy rate. Despite the transitory impact from AEI and shuffling of tenant mix, VivoCity saw an increase of 0.5% y/y to 55.2mn in shopper traffic in FY2019, though tenant sales dropped 2.0% y/y to SGD939.1mn.
- MCT achieved a positive rental reversion of 5.4% for FY2019, with retail at +3.5% and office/business park (including rent review) at +8.7%. Weighted average lease expiry for MCT's portfolio is 2.9 years. It is noteworthy that the expiring leases for the upcoming FY2020 for retail and office/business park are 6.6% and 3.7% of gross rental revenue respectively.
- Reported aggregate leverage dropped 1.7% q/q to 33.1% while reported interest coverage was stable q/q at 4.5x. MCT only has a SGD50mn bond in debt due for FY2020 and a well-distributed debt maturity profile with less than 20% of total debt due in any upcoming financial year. Coupled with fully-unencumbered assets, MCT's credit metrics remains intact in our view. (Company, OCBC)

Credit Headlines (cont'd)

Olam International Ltd ("OLAM") | Issuer Profile: Neutral (5)

- OLAM announced that it has submitted a binding offer to buy a 100%-stake in Dangote Flour Mills Plc ("Dangote"), a leading flour and pasta manufacturer in Nigeria for an enterprise value of NGN 130bn (~SGD493mn), on a debt free, cash free basis. Dangote is listed on the Nigerian Stock Exchange with an enterprise value of NGN60.9bn (~SGD231mn) in end-2018 per Bloomberg data, with a full year net loss in 2018 of NGN1.2bn (~SGD4.4mn). The transaction is subject to approvals from Dangote's shareholders, regulatory approval, sanction of the Federal High Court of Nigeria and the absence of a material adverse change in Dangote. Dangote will be delisted upon fulfilment of the conditions.
- Per OLAM, this proposed acquisition is in line with its strategy to grow its Grain and Animal Feed business, which was identified as a prioritised segment in its strategic review.
- OLAM had also shared that it was targeting a cash release of ~SGD2.17bn via orderly exiting certain businesses on a partial or full basis businesses in the Rubber, Sugar, Wood Products and Fertiliser segments and we had seen this as a credit positive that the company is refocusing on its strength.
- We continue to monitor the company for divestments, YTD we have not seen a major announcement on this front. While it is too early for us to say if Olam is able to turnaround the Dangote business, it is worth noting that this is a large impending outflow for the company. For the next 6 years (2019 to 2024), Olam is targeting to spend ~SGD4.75bn in total capex, of which ~SGD1.36bn is catered for maintenance capex (ie: ~SGD3.39bn as growth capex). The Dangote transaction represents ~15% of growth capex target. For the full year 2018, OLAM had only spent SGD417.0mn in investing outflows (net of cash receipts from disposals). For now we are maintaining OLAM's issuer profile at Neutral (5) although would review this should Olam's capex expands beyond its plan. (Company, OCBC)

ESR-REIT ("EREIT") | Issuer Profile: Neutral (4)

- EREIT announced its 1Q2019 results (consolidating a full quarter of VIVA Industrial Trust ("VIVA") results which it acquired on 16 October 2018) and the full quarter contribution from three new properties which EREIT acquired. The company did not disclose like-for-like consolidated numbers for 1Q2019.
- During the quarter, EREIT reported SGD62.8mn in gross revenue and SGD48.6mn in net property income. Based on our calculation which does not include other income and other expenses, EBITDA was SGD44.4mn in 1Q2019 with EBITDA/Interest coverage at 3.5x. Adjusting 50% of perpetual distribution as interest, we find EBITDA/(Interest + 50% perpetual distribution) at 3.2x.
- Aggregate leverage (excluding effects of FRS 116 – Leases) though EREIT's aggregate leverage remains higher than peers at 42.0% although not unexpected (end-2018: 41.9%) given that it had combined with VIVA (10% of the consideration and transaction costs were debt-funded). Adjusting 50% of perpetuals as debt, we find adjusted aggregate leverage at ~44%.
- Earlier on 5 March 2019, EREIT announced that it has entered into a new SGD155mnn unsecured bank loan facility, which we think was predominantly used to refinance short term debt. As at 31 March 2019, short term debt was down to SGD173.2mn (representing 13% of gross debt) versus cash balance of SGD12.0mn and undrawn available committed facility of SGD15.0mn. All of EREIT's investment properties as at 31 March 2019 remains unencumbered, which should help support the raising of secured debt if need be.
- Hyflux Membrane Manufacturing (S) Pte Ltd (part of the troubled Hyflux group) contributed 3.7% to EREIT's rental income as the third largest tenant. We take this amount as rental "at-risk" and adjusting this rent out we find EBITDA/Interest at 3.3x. Post combination with VIVA, the top 10 tenants now only contribute 30.7% to rental income as at 31 March 2019 (38.7% in end-2017, before the combination)
- We are maintaining EREIT's issuer profile at Neutral (4). This is on account of EREIT's large unencumbered portfolio and REIT sector consolidation dynamics where scale is increasingly important. (OCBC, Company)

Credit Headlines (cont'd)

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

- CMT reported 1Q2019 results. Gross revenue for the quarter grew 10.0% y/y to SGD192.7mn while NPI increased 11.5% y/y to SGD140.1mn. The came largely on the back of the acquisition of the balance 70%-stake in Westgate (on 1 Nov 2018) (+SGD19.1mn), though partially offset by the divestment of Sembawang Shopping Centre (in Jun 2018). Bedok Mall (+SGD0.7mn) and Tampines Mall (+SGD0.6mn) also contributed to the increase in gross revenue.
- Portfolio occupancy was 98.8% (slightly lower than 99.2% recorded at 31 Dec 2018) with rental reversion at +1.2%. In fact, all its properties saw positive rental reversion except Raffles City Singapore. The lease expiry for 2019 stands at 19.1% of NLA (down from 29.4% of NLA at 31 Dec 2018) with the bulk of it at Bugis Junction. In 1Q2019, shopper traffic was grew 2.0% y/y while tenants' sales rose 0.4% y/y with toys and hobbies recording the largest gain of 36.5% y/y, following by sporting goods with a 10.7% y/y gain.
- Aggregate leverage crept higher to 34.4% from 34.2% in 4Q2018. Reported interest coverage fell to 4.9x (4Q2018: 5.2x) while reported net debt/EBTIDA fell to 6.5x from 6.8x as at 31 Dec 2018. We think net debt/EBITDA will improve once contributions from Funan start rolling in as debt has been drawn down for the development works. After using the USD300mn 10-year debt issued earlier in April 2019 to refinance its existing bank borrowings maturing 2019, 2020 and 2022, CMT has SGD360.1mn worth of debt coming due within this year. SGD157.6mn of which is a JPY10.0bn 1.309% bond, while the balance is a bank loan secured against Westgate. CMT has SGD401.4mn cash and cash equivalents and only Westgate is encumbered (89.8% of assets are unencumbered), we see refinancing risk as low.
- Looking forward, Funan will be opening in mid-2019 and about 90% leased at this point. CMT looks to continue to enhance its existing assets - possibilities include LotOne and JCube. (Company, OCBC)

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

- SUN reported its 1Q2019 results. Gross revenue was down by 1.1% y/y to SGD89.7mn, mainly due to lower revenue from Suntec Singapore (-12.6% y/y by SGD2.1mn), 177 Pacific Highway due to the weaker AUD against SGD. This was partially offset by an increase in revenue from the retail arm in Suntec City (+5.5% y/y by SGD1.7mn).
- NPI was down further by 7.6% y/y to SGD58.2mn. This was mainly attributable to the sinking fund contribution for Suntec City Office upgrading works amounting to SGD4.8mn. Excluding the sinking fund contribution, Suntec City's NPI (made up of retail and office) would have increased by SGD2.7mn.
- Contributions from joint ventures (ORQ, MBFC Properties and Southgate Complex) increased 5.7% y/y, mainly due to the additional 25%-interest in Southgate Complex, which was more than offset by weakness seen at ORQ (-10.9% y/y) partly due to a 3.9% dip in occupancy to 96.1% from full occupancy a year ago.
- Office portfolio committed occupancy remains somewhat resilient though marginally lower at 98.9% (1Q2018: 99.1%). Balance of office leases expiring in FY2019 looks manageable at 6.0% of total office NLA.
- On the retail front, committed occupancy dipped slightly to 97.4% (1Q2018: 98.4%). We note that the tenant retention ratio for the retail portfolio was 39% in 1Q2019, versus 55% in FY2018, and it has a balance of 19.0% of NLA will be expiring in FY2019.
- Aggregate leverage is high at 38.6% (4Q2018: 38.1%) while interest coverage was 2.9x (4Q2018: 3.3x). While aggregate leverage is above average, SUN has refinance SGD400mn worth of borrowings earlier this month and does not have any maturing borrowings for the remaining of this year.
- Office space within 9 Penang Road, Singapore will be leased fully to UBS (who will move out of ORQ and Suntec City) and is on track to complete in 4Q2019. 477 Collins Street, Australia due for completion in mid-2020 is 61% completed as of 31 March 2019. (Company, OCBC).

Credit Headlines (cont'd)

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

- FCT reported its second quarter results for financial year ending 30 September 2019 ("2QFY2019"). Gross revenue was up 2.3% y/y to SGD49.7mn while NPI was 4.8% higher y/y to SGD36.4mn. The improvement was broad-based, led by Changi City Point (+12.0% y/y and +24.6% y/y growth in gross revenue and NPI respectively).
- Portfolio occupancy fell slightly to 96.0% from 96.4% as at 31 Dec 2018 with 3.7% of FCT's total NLA renewed at an average rental reversion of +2.0% during the quarter. The higher occupancy at Changi City Point of 96.7% (from 94.8% in the previous quarter) came with a negative rental reversion of 5.0%. Looking forward, there is a remaining 11.4% of leases by gross rental income coming due in FY2019 and 37.8% in FY2020.
- Shopper traffic was up 2.4% y/y from Jan – Mar 2019 while tenants' sales dipped 1.3% y/y over a three-month period from Dec to Feb 2019.
- The financial position of FCT remains firm with aggregate leverage at 28.8% (1QFY2019: 28.6%) and reported interest coverage at 6.0x (1QFY2019: 5.9x). FCT only has a bank borrowing of SGD99mn, 12.2% of total debt maturing in FY2019 (the other amounts have been refinanced). We see refinancing risk as minimal given FCT also has 85.8% of assets unencumbered. We are maintaining FCT at Neutral (3) Issuer profile. (Company, OCBC).

Table 1: Key Financial Indicators

	24-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	64	1	-9
iTraxx SovX APAC	42	1	-6
iTraxx Japan	54	0	-8
iTraxx Australia	67	0	-10
CDX NA IG	57	-1	-12
CDX NA HY	108	0	2
iTraxx Eur Main	58	0	-11
iTraxx Eur XO	246	-2	-37
iTraxx Eur Snr Fin	69	0	-20
iTraxx Sovx WE	18	1	-1
AUD/USD	0.703	-2.03%	-1.11%
EUR/USD	1.121	-0.81%	-0.95%
USD/SGD	1.360	-0.49%	-0.69%
China 5Y CDS	40	1	-8
Malaysia 5Y CDS	53	3	-12
Indonesia 5Y CDS	92	2	-12
Thailand 5Y CDS	37	0	-7

	24-Apr	1W chg	1M chg
Brent Crude Spot ($/bbl)	74.23	3.50%	10.74%
Gold Spot ($/oz)	1,270.18	-0.30%	-3.91%
CRB	187.58	0.09%	1.86%
GSCI	457.18	1.38%	5.30%
VIX	12.28	-0.32%	-25.49%
CT10 (bp)	2.549%	-4.53	10.97
USD Swap Spread 10Y (bp)	-2	-1	3
USD Swap Spread 30Y (bp)	-24	-1	5
US Libor-OIS Spread (bp)	17	0	-3
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	26,656	1.03%	4.53%
SPX	2,934	0.97%	4.75%
MSCI Asiax	681	-0.72%	2.56%
HSI	29,839	0.10%	2.49%
STI	3,359	0.82%	4.58%
KLCI	1,636	0.90%	-1.87%
JCI	6,437	0.02%	-1.36%

OCBC Bank

New issues

- Redco Properties Group Ltd has priced a USD180mn 2-year bond (subsidiary guarantors: certain of company's restricted subsidiaries incorporated outside the PRC) at 99.337 (yield: 10.25%), tightening from IPT of 10.5%.
- Metro Holdings Ltd/Singapore has priced a SGD35mn re-tap of its existing METRO 4.3%'24s at par (yield: 4.3%), in line with IPT.
- PT Medco Energi Internasional Tbk PT has scheduled investor meetings from 24 April for its potential USD bond issuance.
- Korea Electric Power Corp has mandated banks for its potential USD bond issuance.
- Serba Dinamik Holdings Bhd has scheduled investor meetings from 24 April for its potential USD Sukuk bond issuance.

Date	Issuer	Size	Tenor	Pricing
23-Apr-19	Redco Properties Group Ltd	USD180mn	2-year	99.337
23-Apr-19	Metro Holdings Ltd/Singapore	SGD35mn	METRO 4.3%'24s	100
17-Apr-19	Ronshine China Holdings Ltd	USD200mn	3.5NC2	8.75%
17-Apr-19	Hejun Shunze Investment Co Ltd	USD330mn	2-year	12.625%
17-Apr-19	Modern Land (China) Co Ltd	USD300mn	2.5-year	12.7%
17-Apr-19	Huai'an Water Conservancy Holding Group Co Ltd	USD300mn	3-year	6.2%
17-Apr-19	Qatar National Bank Finance Ltd	USD850mn	3-year	3M US LIBOR+100bps
17-Apr-19	Melco Resorts Finance Ltd	USD500mn	7NC3	5.25%
16-Apr-19	Industrial & Commercial Bank of China Ltd	USD900mn USD600mn	3-year 5-year	3M US LIBOR+72bps 3M US LIBOR +83bps
16-Apr-19	New Dian Group Pte Ltd	USD200mn	2-year	8.0%
16-Apr-19	SMC Global Power Holdings Corp	USD500mn	NC5-perpetual	6.5%
15-Apr-19	China Evergrande Group	USD200mn USD400mn USD400mn	EVERRE 9.5%'22s EVERRE 10.0%'23s EVERRE 10.5%'24s	9.5% 10.0% 10.5%
15-Apr-19	Central China Real Estate Limited	USD300mn	4NC2	7.5%

Source: OCBC, Bloomberg

Andrew Wong
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Ezien Hoo, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com

Seow Zhi Qi
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
zhiqiseow@ocbc.com