Asian Credit Daily

October 24, 2017

Credit Headlines (Page 2 onwards): First Real Estate Investment Trust, Lippo Malls Indonesia Retail Trust, Wing Tai Holdings Ltd, Mapletree Logistics Trust, Ascott Residence Trust, Sabana Shari'ah Compliant Industrial REIT

Market Commentary: The SGD swap curve bear-steepened yesterday, with swap rates trading 4-10bps higher across all tenors. This mirrored the surge in Treasury yields that occurred last Friday with the progress made on Trump's tax reform package. Flows in SGD corporates were heavy, with better buying seen in CAPLSP 3.08%'27s, and mixed interest seen in CELSP 3.9%-PERPs, HSBC 4.7%-PERPs. In the broader dollar space, the spread on JACI IG Corp traded little changed at 178bps, while the yield on JACI HY Corp rose 1bps to 6.83%. 10Y UST yields fell 2bps to 2.36% as investors await the Fed Chair decision, causing light future volumes and options activity.

New Issues: Huaneng Hong Kong Capital Ltd has priced a USD500mn Perp NC5 (guaranteed by China Hua Neng Group Hong Kong Ltd and supported with a keepwell deed and an equity interest purchase undertaking agreement by China Huaneng Group) at 3.60%, tightening from initial guidance of 3.95% area. Press Metal (Labuan) Ltd has priced a USD400mn 5NC3 bond (guaranteed by Press Metal Aluminium Holdings Berhad and certain subsidiaries) at 4.80%, tightening from initial guidance of 5.25% area. The expected issue ratings are 'BB-/Ba3/NR'. Asian Development Bank is expected to price a 10-year benchmark bond today. The initial price guidance is set at MS+24bps area. PT Chandra Asri Petrochemical Tbk has scheduled investor meetings for potential USD bond issuance from 24 Oct. The expected issue ratings are 'B+/Ba3/NR'. Avation Group (s) Pte has scheduled investor meetings for potential USD bond issuance from 25 Oct. The expected issue ratings are 'B+/NR/B+'. ESR-REIT has hired banks to schedule investor meetings for potential SGD bond issuance.

Table 1: Key Financial Indicators

	24-Oct	1W chg (bps)	1M chg (bps)		24-Oct	1W chg	1M chg
iTraxx Asiax IG	75	-3	-5	Brent Crude Spot ($/bbl)	57.36	-0.90%	0.88%
iTraxx SovX APAC	16	-1	-1	Gold Spot ($/oz)	1,281.23	-0.30%	-2.25%
iTraxx Japan	49	-1	2	CRB	184.71	0.05%	0.62%
iTraxx Australia	65	-3	-8	GSCI	402.94	-0.42%	1.23%
CDX NA IG	53	-2	-7	VIX	11.07	11.71%	15.43%
CDX NA HY	109	0	2	CT10 (bp)	2.366%	6.66	11.65
iTraxx Eur Main	54	-1	-4	USD Swap Spread 10Y (bp)	-3	-1	1
iTraxx Eur XO	239	-2	-19	USD Swap Spread 30Y (bp)	-30	0	2
iTraxx Eur Snr Fin	58	0	-2	TED Spread (bp)	27	-2	-4
iTraxx Sovx WE	5	0	0	US Libor-OIS Spread (bp)	11	-1	-4
iTraxx Sovx CEEMEA	41	2	-2	Euro Libor-OIS Spread (bp)	3	0	0
					24-Oct	1W chg	1M chg
				AUD/USD	0.782	-0.38%	-1.52%
				USD/CHF	0.985	-0.64%	-1.84%
				EUR/USD	1.176	-0.06%	-0.75%
				USD/SGD	1.361	-0.35%	-0.71%
Korea 5Y CDS	70	0	-4	DJIA	23,274	1.38%	4.14%
China 5Y CDS	52	-5	-11	SPX	2,565	0.29%	2.51%
Malaysia 5Y CDS	62	-4	-8	MSCI Asiax	686	-0.63%	2.17%
Philippines 5Y CDS	62	-3	-4	HSI	28,249	-1.56%	1.32%
Indonesia 5Y CDS	94	-5	-11	STI	3,350	0.81%	4.02%
Thailand 5Y CDS	46	-2	-4	KLCI	1,743	-0.64%	-1.57%
				JCI	5,955	0.13%	0.74%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
24-Oct-17	Huaneng Hong Kong Capital Ltd	Not Rated	USD500mn	Perp NC5	3.60%
24-Oct-17	Press Metal (Labuan) Ltd	'BB-/Ba3/NR'	USD400mn	5NC3	4.80%
20-Oct-17	Bank of Jinzhou Co Ltd	Not Rated	USD1,496mn	Perp NC5	5.7%
19-Oct-17	Koh Brothers Group Ltd	Not Rated	SGD70mn	5-year	5.1%
19-Oct-17	China Merchants Bank Co	'BB-/NR/NR'	USD1bn	Perp NC5	4.4%
19-Oct-17	Jiangsu Nantong Sanjian International Co	'NR/B2/NR'	USD300mn	3-year	7.8%
19-Oct-17	Zhongrong International Resources Co	'BB-/NR/BB'	USD500mn	3-year	7.25%
19-Oct-17	Kia Motors Corp	'A-/Baa1/NR'	USD600mn	5.5-year	CT5.5+120bps
19-Oct-17	Kia Motors Corp	'A-/Baa1/NR'	USD300mn	10-year	CT10+125bps
19-Oct-17	Central Nippon Expressway Company Ltd	'NR/A1/NR'	USD425mn	4-year	MS+56bps

Source: OCBC, Bloomberg

Rating Changes: S&P has affirmed MLC Ltd's (MLC) 'A+' insurer financial strength and issuer credit ratings, while revising the outlook to stable from negative. The rating action reflects S&P's expectation that MLC's capitalization will remain robust and continue to underpin its creditworthiness. S&P then withdrew the ratings at MLC's request. Moody's has affirmed Kirin Holdings Company Limited's (Kirin) 'A3' long-term issuer rating and senior unsecured rating. The outlook has been revised to stable from negative. The rating action reflects the improvement in Kirin's leverage and profitability. Fitch has affirmed Daido Life Insurance Company (Daido Life) and Taiyo Life Insurance Company's (Taiyo Life) insurer financial strength ratings at 'A'. The outlook is stable. At the same time, Fitch withdrew the rating of Taiyo Life for commercial reasons. The rating on Daido Life reflects its sound operating performance and robust capitalization, while the rating on Taiyo Life reflects its adequate performance and capitalization. Fitch has assigned Goldman Sachs Financial Markets Pty Ltd (GAUS) a long-term issuer default rating of 'A'. The outlook is stable. Fitch has equalized the rating of GAUS to that of the Goldman Sachs Group (GS) as any potential default of GAUS would constitute large reputational risk to GS, and therefore Fitch believes that GS's consolidated operations would unquestionably support the GAUS entity.

Credit Headlines:

First Real Estate Investment Trust ("FIRT"): FIRT announced its 3Q2017 and 9M2017 results. Gross revenue was 3.0% higher y/y in 9M2017 to SGD82.4mn mainly due to contributions from Siloam Hospital Labuan Bajo ("SHLB") which was acquired by FIRT in December 2016. With expenses steady as a percentage of revenues, net property income and EBITDA similarly rose 3.0% each. Interest expense for 9M2017 decreased 4.6% to SGD12.9mn mainly due to lower debt levels between January 2017 and end-September 2017 versus the previous corresponding period. Debt levels were lower as perpetuals were issued in 3Q2016 to pare down debt. Headline EBITDA/Interest was healthier at 5.6x (9M2016: 5.2x). Adding 50% of cash distributed to perpetual holders as interest expense, we find adjusted EBITDA/Interest to have fallen somewhat to 5.0x (9M2016: 5.2x). Despite the steady headline numbers, trade receivables at FIRT had expanded to SGD24.0mn as at 30 September 2017 against only SGD11.8mn in end-2016. We think this is due to slower payments from FIRT's lessees (the sponsor, Lippo Karawaci, and its subsidiaries contributed 82.3% of rental income in FY2016). This is within expectations given Lippo Karawaci's weaker credit profile in recent months. In August 2017, S&P had placed Lippo Karawaci's "B+" credit rating on CreditWatch Negative, which signals a one-in-two likelihood of a one-notch downgrade within the next three months. On a cash flow from operations before tax ("CFO") basis, we find CFO/Interest paid to have decreased to 5.4x in 9M2017 (5.9x in 9M2016). Headline aggregate leverage was 32.6% as at 30 September 2017, somewhat higher than the 31.1% as at end-2016. As at 30 September 2017, perpetuals amounted to SGD60.0mn and represented ~5% of total capital. Including 50% of perpetuals as debt, we find adjusted aggregate leverage at 34.7%. As at 30 September 2017, FIRT's cash balance was SGD47.7mn, though we expect this to have decrease following the completion of the Siloam Hospitals Buton and Lippo Plaza Buton ("Buton") for SGD31.2mn (including value-added tax). On 13 October 2017, FIRT announced that it will be resuming the joint acquisition of an integrated development in Yogyakarta, comprising a hospital component, namely Siloam Hospitals Yogyakarta ("SHYG") and a retail mall component, namely Lippo Plaza Jogja with sister company Lippo Mall Indonesia Retail Trust ("LMIRT"). FIRT is proposing to buy SHYG for SGD27.0mn while LMIRT will be buying the mall component. The transaction is subject to unitholder approvals at both FIRT and LMIRT. In our view, the heightened counterparty credit risk has weakened FIRT's credit profile, though still within our parameters of a Neutral issuer. OCBC Credit Research does not cover Lippo Karawaci. (Company, OCBC)

Lippo Malls Indonesia Retail Trust ("LMRT"): Yesterday, Bloomberg reported that LMRT is (1) considering a SGD500mn rights offering to (2) fund acquisitions and reduce debt, though (3) this is in the early stages and as such may not result in a deal. This morning, LMRT partly confirms (1) that it has sought the views of investment banks in carrying out a rights offering (while leaving the part on the size of the offering unsaid) and confirms (3) that the deliberations may not result in the deal, and does not expect any equity fund raising this year. LMRT has also mentioned that it is considering other means of equity fund raising. We think that a potential SGD500mn rights offering looks large compared to its market cap (SGD1.2bn) and unitholder's equity (SGD1.0bn). Nevertheless, the impact on the credit profile depends on the eventual amount raised, use of proceeds and capital structure. We continue to hold LMRT at a Neutral Issuer Profile. (Company, OCBC)

Credit Headlines (Cont'd):

Wing Tai Holdings Ltd ("WTH"): WTH reported 1QFY2018 results for the quarter ending 30 Sep. Revenue declined 4.4% y/y to SGD67.1mn, which we think is the shift in geographical mix as the current quarter's revenue is attributable to additional units sold in Le Nouvel Ardmore in Singapore (1 unit was sold for SGD16mn), Le Nouvel KLCC and Verticas Residences in Malaysia. Net profit surged to SGD8.3mn (1QFY2017: SGD0.7mn) mainly due to SGD16.7mn gain on the disposal of a property development project located at Shanghai (refer to OCBC Asian Credit Daily – 7 Jun 2017), though we note the 25% higher Administrative Expenses (potentially due to the privatization of Wing Tai Malaysia Bhd). Meanwhile, share of profits of associated and JV companies increased by 16.5% y/y to SGD6.7mn due to higher contributions from Wing Tai properties. Meanwhile, The Crest which obtained TOP in Feb 2017, has moved 18 units in 1QFY2018 worth SGD38mn. During the quarter, the largest cash outlay was for the privatization of Wing Tai Malaysia for SGD70.7mn. Nevertheless, WTH is in a net cash position (versus 4QFY2017: 2% net gearing) due to the SGD272.6mn cash receipts from the disposal of the Shanghai property development project. While we like WTH's strong balance sheet, we note that WTH has raised the SGD150mn perpetual bond despite having ample cash on hand. As such, we would not rule out the use of cash for further land bids (e.g. JV with Keppel for a site in Serangoon North). We continue to hold WTH at a Neutarl Issuer Profile. (Company, OCBC)

Mapletree Logistics Trust ("MLT"): MLT announced its second quarter results for the financial year ended 2018 ("2QFY2018") and 1HFY2018. In 1HFY2018, gross revenue was up 4.6% y/y driven by higher revenue from existing properties in Hong Kong, acquisitions in Australia, Malaysia and Vietnam completed in FY2017 and higher translated revenue due to the stronger HKD, AUD and KRW against SGD. This is partly offset by lower revenue from a multi-tenanted building in South Korea and the lack of revenue from Ouluo Logistics Centre in China which is undergoing redevelopment for one block of the building, absence of revenue from three divestments and the negative impact from a weaker JPY and MYR against the SGD. Mainly as a result of higher top line, EBITDA similarly increased 5% to SGD139.4mn. Interest expense though increased 8.6% to SGD25.4mn mainly due to increased borrowings to fund acquisitions. Headline EBITDA/Interest was somewhat lower at 5.5x (1HFY2017: 5.7x). As at 30 September 2017, perpetuals amounted to SGD430mn and represented 8% of total capital, this has come down from the 11% as at 30 June 2017 following MLT's recent fundraising exercises, which includes SGD640mn in new equity raised (OCBC Asia Credit - MLT Credit Update (16 Oct)). Including 50% of distribution to perpetuals as interest, we find Adjusted EBITDA/Interest at 4.3x, lower versus 1HFY2017's 4.7x. As at 30 September 2017, headline aggregate leverage was 33.7%, lower versus the 39.0% as at 30 June 2017. Including 50% of perpetuals as debt, we find adjusted aggregate leverage at 38% (30 June 2017 aggregate leverage of 44%). The large scale acquisition of Mapletee Logistics Hub Tsing Yi in Hong Kong from its Sponsor for SGD848mn was completed only on 12 October 2017 (ie: post quarter end). The proposed divestment of 7 Tai Seng Drive to its Sponsor is pending regulatory approval. On a pro-forma basis, we expect aggregate leverage to rise to ~38% and adjusted aggregate leverage at ~41% after accounting for all the recent net asset movements. MLT's overall portfolio occupancy was 95.8% as at 30 September 2017, relatively stable against 30 June 2017. Between 1 October 2017 and end-March 2018, 9.4% of leases by net lettable area is expected to come due. This is slightly lower than the 10.1% seen as at 30 September 2016. In light of MLT's lower adjusted aggregate leverage going forward, we see MLT's credit profile as having improved and are maintaining its issuer profile at Neutral. Moody's has lifted the Negative outlook on MLT's Baa1 rating to Stable. (Company, OCBC)

Credit Headlines (Cont'd):

Ascott Residence Trust ("ART"): ART announced its 3Q2017 and 9M2017 results. Gross revenue was higher by 3.7% y/y to SGD361.8mn mainly due to SGD15.2mn additional contribution from acquisitions in FY2016 and 9M2017 and SGD1.4mn from improvements in existing properties. These were partially offset by declines in revenue from divestments. ART's gross revenue was relatively flat on a same-store basis. ART's Vietnam and Philippines properties saw improvements, though this was partly offset by lower revenue in UK (depreciation of GBP against SGD), weaker market demand in Singapore and Malaysia. Revenue per available unit ("REVPAU") on a same store basis was flat versus 9M2016. Despite the stronger top-line revenue, gross profit (based on our adjustments which excludes depreciation and amortisation expenses) only saw a 0.7% increase. Using company's disclosed gross profit numbers, overall gross profit margins stayed flat for properties under Master Leases and those under management contracts with minimum guaranteed income. Properties under management contracts saw gross profit margin contracted to 37% in 9M2017 (9M2016: 39%). In absolute terms, gross profit fell SGD1.4mn for properties under management contracts. The drag was from Indonesia, USA, Japan, Malaysia and Singapore. Finance cost fell 7.8% to SGD34.4mn and this help boost headline EBITDA/Interest to 4.5x (9M2016: 4.1x). As at 30 September 2017, perpetuals amounted to SGD401.9mn and represented 8% of total capital. Assuming 50% distribution to perpetual as interest, we find Adjusted EBITDA/Interest at 3.9x versus 3.6x in 9M2016. As at 30 September 2016, headline aggregate leverage was 32% while adjusted aggregate leverage (including 50% of perpetuals as debt) was 35%. ART completed the acquisition of Ascott Orchard Singapore ("AOS") on 10 October 2017 while two properties in China, namely Citadines Biyun Shanghai and Citadines Gaoxin Xi'an are being divested to a third party (targeted completion in 4Q2017). AOS was partly funded by a rights issue which raised ~SGD443mn in equity in April 2017. On a pro-forma basis, ART expects aggregate leverage to rise to 36% after accounting for all the recent net asset movements. In 9M2017, 56% of rental income (excluding properties on Master Leases) were attributable to guests staying for 1 week or less and average length of stay was about three months (same period last year, four months). We hold ART's issuer profile on Neutral. (Company, OCBC)

Sabana Shari'ah Compliant Industrial REIT ("SSREIT"): SSREIT announced its 3Q2017 and 9M2017 results. Gross revenue decreased 6.4% to SGD64.8mn due lower contribution from properties which were divested, discontinuation of revenue recognition from 1 Tuas Avenue 4 and 6 Woodlands Loop from 3Q2017 as collections from these Master Lessees were no longer probable and lower contribution from a property which had been converted into multi-tenanted. Additionally, six properties recorded lower contribution though this was offset by improvements by 9 Tai Seng Drive and 15 Jalan Kilang Barat. During 9M2017, SSREIT's REIT Manager ("SSREITM") took a reduction in 75% of its fees for 1Q2017 and 25% of its fees for 2Q2017. This, combined with lower total assets, led to a 38.6% reduction in manager's fees in 9M2017 to SGD2.5mn (SGD4.0mn in 9M2016). As such, despite the larger fall in revenue, EBITDA only fell 4.6% to SGD36.9mn. Finance cost was 14.2% lower at SGD13.5mn mainly due to lower outstanding borrowings. During 9M2017, SSREIT had paid down debts using sale proceeds from divestments and proceeds from a rights issue. The proceeds from rights issues were originally intended to partly fund the acquisition of three new properties though such plans were shelved. Overall, EBITDA/Interest was boosted to 2.7x from 2.5x in 9M2016. As at 30 September 2017, SSREIT's aggregate leverage was 36.0%, somewhat lower than the 37.0% as at 30 June 2017 although significantly down from the 43.2% as at end-2016. SSREIT's portfolio occupancy was 88.4% as at 30 September 2017, rising slightly from the 87.3% as at 30 June 2017. As at 30 September 2017, 25% of SSREIT's leases (by net lettable area) are due to expire in the next three months. Of these, 17.3% relates to properties Master Leased to Sponsor-related companies. Depending on the outcome of SSREIT's strategic review, there is no certainty that the master leases for such properties would be renewed. Under a downside scenario where these 25% of space are not renewed, EBITDA/Interest may fall to 2.0x based on our estimations. This is still above SSREIT's financial covenanted level of 1.5x. SSREIT is still in the midst of discussions with EREIT's REIT Manager ("EREITM") with regards to the on-going strategic review at SSREIT. No binding agreements have been entered into and there is no assurance that a transaction will eventually materialise. We are putting our issuer profile of SSREIT under review. (Company, OCBC)

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