Asian Credit Daily

7 May 2024

Market Commentary:

- The SGD SORA curve traded mostly lower yesterday, with short tenors trading 4-7bps lower, belly tenors trading 8-9bps lower and 10Y trading 8bps lower.

- Flows in SGD corporates were heavy, with flows in MAPLSP 3.7%-PERP, BPCEGP 5% '34s, VRTVEN 3.3% '28s, BACR 7.3%-PERP, HSBC 5.3% '33s.

- China Vanke Co. Ltd ("Vanke") has reportedly informed certain investors that it has prepared funds to repay its RMB1.45bn (USD201mn) note, which is due on 25th May. Bloomberg-compiled data indicates that the security is valued at 97.6, indicating investors' strong belief that the issuer will be able to fully repay the debt upon maturity.

- Elsewhere, GLP Pte Ltd has also reportedly confirmed to investors it has resources to repay upcoming maturities, in particular the USD1bn GLPSP 3.875% '25s due June 2025. Sources may include debt refinancing and loans from its relationship banks with 46% of the company's debt maturing in 2024.

- Bloomberg Asia USD Investment Grade spreads tightened by 2bps to 81bps while Asia USD High Yield spreads tightened by 10bps to 566bps. (Bloomberg, OCBC)

Credit Summary:

- **Keppel Infrastructure Trust ("KIT"):** The Chief Financial Officer ("CFO") of Keppel Infrastructure Fund Management Pte Ltd, Mr Ng Tiang Poh (Eric), has resigned to pursue other opportunities.

- **Qantas Airways Ltd ("Qantas"):** Qantas has reached an agreement with the Australian Competition and Consumer Commission ("ACCC") to resolve court proceedings in relation to flight cancellation processes.

- **Singapore Airlines Ltd ("SIA"):** SIA has signed an agreement to buy 1,000 tonnes of sustainable aviation fuel ("SAF") from Neste.

- **Frasers Logistics & Commercial Trust ("FLCT"):** FLCT reported 1HFY2024 results for the half year ended 31 March 2024. Results were overall stable, with credit metrics remaining manageable.

- **Australia & New Zealand Banking Group Ltd ("ANZ"):** ANZ announced 1HFY2024 results for the six months ended 31 March 2024 with profit before income tax of AUD4.90bn down 4% h/h and 3% y/y. Overall fundamentals are still sound in our view.

- **Lendlease Global Commercial REIT ("LREIT"):** LREIT reported its 3QFY2024 business update ended 31 March 2024.

- **PARAGON REIT ("SPHR"):** SPHR reported 1Q2024 business update. While financial statements were not provided, portfolio statistics and credit metrics remain stable.

- **AIMS APAC REIT ("AAREIT"):** AAREIT reported the second half results for the financial year ending 31 March 2024 ("2HFY2024").

Key Market Movements

	7-May	1W chg (bps)	1M chg (bps)		7-May	1W chg	1M chg
iTraxx Asiax IG	101	-11	-4	**Brent Crude Spot ($/bbl)**	83.5	-4.9%	-8.4%
				Gold Spot ($/oz)	2,322	1.6%	-0.7%
iTraxx Japan	52	-1	6	**CRB Commodity Index**	288	-2.6%	-3.4%
iTraxx Australia	66	-5	0	**S&P Commodity Index - GSCI**	577	-1.6%	-4.1%
CDX NA IG	50	-3	-1	**VIX**	13.5	-8.0%	-15.8%
CDX NA HY	107	1	0	**US10Y Yield**	4.47%	-21bp	7bp
iTraxx Eur Main	54	-2	0				
iTraxx Eur XO	308	-10	8	**AUD/USD**	0.660	1.9%	-0.1%
iTraxx Eur Snr Fin	61	-2	-1	**EUR/USD**	1.076	0.9%	-0.9%
iTraxx Eur Sub Fin	111	-5	-1	**USD/SGD**	1.353	0.9%	-0.4%
				AUD/SGD	0.893	-1.0%	-0.3%
USD Swap Spread 10Y	-38	-1	-2	**ASX200**	7,787	1.6%	0.2%
USD Swap Spread 30Y	-77	-1	-2	**DJIA**	38,852	1.2%	-0.1%
				SPX	5,181	1.3%	-0.5%
China 5Y CDS	63	-6	-8	**MSCI Asiax**	677	2.2%	3.2%
Malaysia 5Y CDS	44	-4	0	**HSI**	18,490	4.2%	10.6%
Indonesia 5Y CDS	71	-6	-4	**STI**	3,308	0.8%	2.8%
Thailand 5Y CDS	42	-3	-3	**KLCI**	1,609	1.7%	3.5%
Australia 5Y CDS	13	-1	-2	**JCI**	7,129	-0.4%	-2.2%
				EU Stoxx 50	4,957	-0.5%	-1.2%

Source: Bloomberg

Credit Headlines:

Keppel Infrastructure Trust ("KIT")

- The Chief Financial Officer ("CFO") of Keppel Infrastructure Fund Management Pte Ltd (Trustee-Manager of KIT) responsible for financial functions, including reporting functions, accounting, taxation, treasury and compliance matters for KIT and its subsidiaries, Mr Ng Tiang Poh (Eric) has resigned to pursue other opportunities.
- Mr Raymond Bay Teong Ming has been appointed as CFO of KIT, effectively from June 2024. Currently, Mr Bay is Director, Transaction Advisory (Corporate Finance) at Keppel Capital International Pte Ltd, an entity that is part of the fund management and investment business of Keppel Ltd ("KEP"), KIT's sponsor. Prior to KEP, Mr Bay was in debt capital markets. (Company)

Qantas Airways Ltd ("Qantas")

- Qantas has reached an agreement with the Australian Competition and Consumer Commission ("ACCC") to resolve court proceedings in relation to flight cancellation processes.
- Under the settlement agreed with the ACCC, Qantas will commence a AUD20mn projected remediation program for impacted passengers (payments to customers ranging from AUD225 to AUD450 for domestic/trans-Tasman flights and international flights respectively) and subject to the approval of the Federal Court of Australia, pay a AUD100mn civil penalty.
- The payment to customers is on top of any refund or alternative flight already offered to these customers.
- Per the Australian Financial Review ("AFR"), the total payout will be less than half of the amount initially expected when the ACCC launched it legal action in relation to allegations that Qantas has misled customers by selling air tickets for flights that were already cancelled. (Company, AFR)

Singapore Airlines Ltd ("SIA")

- SIA has signed an agreement to buy 1,000 tonnes of sustainable aviation fuel ("SAF") from Neste. The flagship "SIA" and "Scoot" airlines will be the first carriers to receive SAF produced at Neste's refinery in Singapore, at Changi Airport.
- Per Straits Times, before the pandemic, SIA's airlines used more than 5 million tonnes of jet fuel annually.
- In November 2023, "SIA" and "Scoot" announced targets of replacing 5% of their total fuel requirements with SAF by 2030.
- From 2026 onwards, all flights departing from Singapore will be required to use SAF, with 1% as the target in 2026 and plans to increase this to 3-5% by 2030. Based on estimates, the increase in costs for economy-class passenger will be SGD3 for short-haul flights, SGD6 for medium-haul flights and SGD16 for long-haul flights (based on 1% target. (Company, Straits Times)

Frasers Logistics & Commercial Trust ("FLCT")

- FLCT reported 1HFY2024 results for the half year ended 31 March 2024. **Results were overall stable, with credit metrics remaining manageable.**
- **Small increase in adjusted net property income**, which rose 1.8% y/y to SGD158.7mn. The increase is largely due to increase in revenue (+3.9% y/y to SGD216.0mn) though partly offset by a faster increase in property operating expenses (+14.3% y/y to SGD57.2mn).
  - Revenue increased mainly due to positive rent reversions and rental escalations, and contributions from Ellesmere Port (forward-funding logistics development in the UK which was completed in December 2023) and practical completion of two logistics and industrial properties in the UK (Connexion II and Worcester).
  - Higher property expenses were driven by higher non-recoverable land taxes in Australia, as a result of an increase in Victorian absentee owner land tax rate with effect from 1 January 2024 (from 2% to 4%) and higher assessed land value, with land and property tax increasing 19.0% y/y to SGD13.2mn,

and higher property maintenance and related expenses (+26.6% y/y to SGD21.0mn) with higher utilities, repair and maintenance expenses.

- **Reversions still positive though the rate of increase is decelerating:** FLCT posted +14.2% rental reversion in 2QFY2024 (1HFY2024: +18.3%), with the logistics & industrial segment posting +10.7% reversion and the commercial segment posting +14.9% reversion. According to FLCT, rentals are expected to continue growing, albeit at a slower rate. For the last 12 months to 1Q2024, prime rents have increased in Melbourne (10%), Sydney (7%) and Brisbane (14%).
- **Occupancy fell 1.5 ppts q/q to 94.3%**, despite logistics & industrial portfolio remaining fully occupied as commercial portfolio occupancy fell 4.4 ppts q/q to 85.0%. The decline is mainly due to Alexandra Technopark ("ATP") in Singapore (-17.3 ppts q/q to 78.5%) due to Google departing as a tenant, Central Park in Australia (-1.0 ppts q/q to 95.3%) due to downsizing of tenants with WeWork handing back 2 floors. Otherwise, occupancy has remained stable, or increased at other properties such as 357 Collins Street in Australia (+5.4 ppts q/q to 85.7%) due to new leases signed, Blythe Valley Business Park (+2.5 ppts q/q to 85.5%) and Farnborough Business Park (+0.4 ppts q/q to 75.8%). It remains to be seen if there will be further occupancy and rental pressure at ATP when Google fully exits the building by December 2024, especially in a challenging market where vacancies in the business park sector is at 21%. ATP accounts for 10.0% of FLCT's total portfolio value.
- **Increase in property valuation against the cap rates headwinds:** Investment property valuation increased by 4.3% h/h to SGD6.94bn due to acquisition of 89.9% interest in 4 property holding companies (EUR129.5mn purchase price) which hold 4 logistic properties in Germany, acquisition of land as part of fund through development in Maastricht, capex incurred for completion of Ellesmere Port development and higher AUD/SGD, EUR/SGD and GBP/SGD exchange rates.
- **Still manageable credit metrics (for now) despite aggregate leverage rising 2.0 ppts q/q to 32.7%**, which is mainly due to the acquisition of the interest in the Germany logistic properties. Meanwhile, reported interest coverage was at 5.9x (31 December 2023: 6.2x).
- **Steering more towards logistics & industrial:** Following the acquisition of the Germany logistics properties, logistics & industrial properties account for 70.9% of the portfolio, followed by suburban office & business Parks (21.0%) and commercial (8.1%). We think FLCT may continue acquiring in the logistics & industrial segment as there is still balance sheet headroom. (Company, OCBC)

Australia & New Zealand Banking Group Ltd ("ANZ")

- ANZ announced 1HFY2024 results for the six months ended 31 March 2024 with profit before income tax of AUD4.90bn down 4% h/h and 3% y/y. This was largely due to higher expense growth against operating income performance which was down h/h and stable y/y. This overshadowed a 38% h/h and 47% y/y fall in credit impairments.
- Operating income was down 2% h/h due to lower net interest income from a 10bps h/h fall in net interest margins to 1.55% that overshadowed higher average interest earning assets. Lower margins reflect higher funding costs on commodity assets in ANZ's Markets segment, higher wholesale funding rates and ongoing competition in Australia Retail and Commercial segment. Other operating income was stable h/h as higher net foreign exchange earnings and other financial instruments income was mitigated by lower net fee and commission income and other adjustments for recent sales and disposals related to UDC Finance and AmBank amongst other impacts.
- The 2% h/h rise in operating expenses was driven by personnel expenses mostly as well as higher technology and restructuring costs. This came despite ongoing productivity savings which resulted in AUD168mn lower other expenses.
- As mentioned, credit impairments of AUD70mn in 1HFY2024 were down noticeably h/h and y/y with most raised in the Australia Retail and Australia Commercial segments. The fall was due to lower net individually assessed (stage 3) impairments of AUD38mn (AUD123mn in 2HFY2023) from lower impairments h/h

(AUD201mn) and higher writebacks and recoveries (AUD163mn) while collectively assessed (stage 1 and 2) impairments rose h/h to AUD32mn from a previous writeback of AUD11mn in 2HFY2023. This comprised AUD169mn for credit risk deterioration, AUD63mn for portfolio growth, and AUD5mn for a weaker economic outlook. Offsetting this was mostly a AUD205mn writeback in management overlays with risks captured in the overlay now incorporated into the weaker credit risk assumptions. Total allowances for expected credit losses were AUD4.37bn as at 31 March 2024, down ~1% h/h and 2.0% y/y.

- By segment cash profit before tax (AUD5.10bn for 1HFY2024 was down 1.0% h/h), Institutional contributes the bulk at 41.8% followed by Australia Retail (22.2%), New Zealand (21.5%) and Australia Commercial (18.6%). Australia Retail under performance h/h (-10% h/h) was due to lower net interest income as net interest margins compressed 58bps while Australia Commercial also underperformed (-5.2% h/h) also due to a similar fall in net interest income though the fall in net interest margins was not as high. This was offset by improved h/h performance in New Zealand and Institutional, primarily from the Markets business across income segments (Foreign exchange, Rates, Commodities, Credit and Capital Markets).
- With confidence in ANZ's business segments and balance sheet, the bank announced a new AUD2.0bn share buyback. Factoring in the buy-back (-46bps) as well as the recently authorized acquisition of Suncorp Group Limited's Suncorp Bank (-123bps), ANZ's proforma CET1 ratio of 11.8% as at 31 March 2024 remains above the Australian Prudential Regulation Authority's ("APRA") 'Unquestionably Strong' benchmark of 10.25%. The reported CET1 ratio was 13.5% or 19.7% on an internationally comparable basis. The APRA compliant CET1 ratio was up 20bps h/h and 30bps y/y and reflected earnings (+83bps), disposal of ANZ's AmBank investment (+15bps) and lower risk weighted assets (+12bps). This was offset by dividends (-64bps) and capital deductions (-6bps).
- Other credit ratios remain sound with the liquidity coverage ratio at 134% as at 31 March 2024 (132% as at 30 September 2023, 128% as at 31 March 2023) while the net stable funding ratio was 118% (116% and 119% respectively).
- Suncorp's acquisition should further support ANZ's business profile in our view with the acquisition now subject to legislative amendments by the Queensland Parliament and approval by the Federal Treasurer. Overall fundamentals are still sound in our view. (Company, OCBC)

Lendlease Global Commercial REIT ("LREIT")

- LREIT reported its 3QFY2024 business update ended 31 March 2024. **Overall operating metrics are improving though credit metrics weakened slightly amidst higher rates and capex.**
- **Strong operating metrics:** LREIT recorded year-to-date retail rental reversion of 15.3% on a weighted average basis. The strong trend was also partly contributed by recovery from the low base effect from COVID. 3QFY2024 tenant sales recorded growth of 2.6% y/y while visitation increased 6.1% y/y.
- LREIT's **portfolio committed occupancy increased q/q to 88.8%** (end-2023: 87.9%) as at 31 March 2024, as 8.1% of Sky Complex Building 3's net lettable area was committed during the quarter. Meanwhile, occupancy of Jem and 313 Somerset remained robust at 99.8% and 98.7% as at 31 March 2024.
  - As a reminder, Sky Complex Building 3 was returned to LREIT in December 2023. In return, LREIT will get two years of supplementary rent from Sky Italia.
- **Considerable savings from new electricity contract:** LREIT secured a two-year electricity tariff contract for Jem and 313@somerset at 30% lower rate. Per management, the new tariff may translate to saving of SGD4-5mn per year (~3% of LREIT's FY2023 net property income).
- **Weakened metrics q/q:** As at 31 March 2024, aggregate leverage ratio weakened q/q to 41.0% from 40.5% as ~SGD20mn debt was drawn for renovation of Sky Complex Building 1 and 2. Meanwhile, T12M adjusted interest coverage ratio weakened to 1.8x q/q from 1.9x amidst higher debt and cost of debt at 3.50% (end-2023: 3.37%).
- **Potential divestments:** LREIT is exploring the idea of divesting investment properties including Jem Office and Sky Complex Building 3. Per management, LREIT has received two offers for Jem Office, though the offers are below net asset value.

- Per management, LREIT is more likely to redeem the two existing perpetuals should LREIT is able to divest its assets or if the interest rates remain high. (Company, OCBC)

PARAGON REIT ("SPHR")

- SPHR reported 1Q2024 business update. While financial statements were not provided, **portfolio statistics and credit metrics remain stable.**
- **Somewhat better y/y performance:** Revenue rose 2.5% y/y to SGD73.8mn, with the key assets performing better such as Paragon (+4.2% y/y to SGD44.5mn) and The Clementi Mall (+7.4% y/y to SGD1.6mn) while The Rail Mall revenue remained flat y/y at SGD1.6mn. In local currency terms, revenue grew for Westfield Marion (+1.4% y/y to AUD14.1mn) while Figtree Grove revenue remained flat y/y at AUD4.3mn.
- **Stable portfolio occupancy:** Portfolio occupancy remained flat q/q at 98.1%, with the key assets Paragon and The Clementi Mall remaining fully occupied. While occupancy increased 4.5 ppts q/q to 100% for The Rail Mall, Figtree Grove occupancy fell 0.1 ppts q/q to 97.8% while Westfield Marino occupancy remained flat q/q at 97.0%.
- **Higher visitor traffic, not much higher tenant sales:** While Paragon visitor traffic rose y/y to 3.8mn (1Q2023: 3.5mn), tenant sales dipped slightly y/y to SGD169.2mn (1Q2023: SGD170.5mn). We think that while tourists including those from China have boosted visitor numbers, tenant sales from the increase in tourists have not been equally forthcoming. Meanwhile, The Clementi Mall saw y/y increase in both visitor traffic (from 6.0mn in 1Q2023 to 6.6mn in 1Q2024) and tenant sales (from SGD63.2mn in 1Q2023 to SGD67.7mn in 1Q2024). Meanwhile, tenant sales declined slightly for Westfield Marion (-1.0% y/y to AUD191.8mn) and for Figtree Grove tenant sales was largely flat (+0.2% y/y to AUD46.7mn).
- **Stable credit metrics though cost of debt has increased:** Aggregate leverage dipped slightly q/q to 29.9% (31 December 2023: 30.0%). However, adjusted interest coverage ratio weakened 0.1x q/q to 2.8x, likely due to increase in cost of debt (+0.3 ppts q/q to 4.6%). While the debt headroom looks high given that aggregate leverage is lower than peers, we think SPHR may likely redeem SGD300mn SPHRSP 4.1% PERP which is callable in August 2024. If the redemption is funded by debt, we expect SPHR's aggregate leverage to increase to high 30s. (Company, OCBC)

AIMS APAC REIT ("AAREIT")

- AAREIT reported the second half results for the financial year ending 31 March 2024 ("2HFY2024"). Resilient operating performance mitigates thin interest cover.
- **Stronger y/y operating performance led by higher rents:**
  - AAREIT's 2HFY2024 overall revenue and net property income ("NPI") increased by 7.4% y/y and 8.7% y/y to SGD90.4mn and SGD66.7mn, respectively. Gross revenue increased mainly due to higher rental and recoveries from AAREIT's logistics and warehouse and industrial properties, partly offset by lower income from the divestment of 541 Yishun Industrial Park A (divestment completed in September 2023) and weaker AUD against the SGD.
  - Overall portfolio occupancy as at 31 March 2024 was 97.8%, marginally lower than the 98.1% as at 31 December 2023. The decline was due to lower occupancy in the Singapore portfolio while AAREIT's Australia portfolio continued to be fully occupied.
  - Overall rental reversion was high at +31.7% in 4QFY2024 (FY2024: +24.3%), attributable to its Singapore properties as its Australia properties are under a long-term lease. 4QFY2024 rental reversion was led by a +51.2% rental reversion for Logistics & Warehouse although it is driven AAREIT bringing to market a lease that was on low rates. AAREIT expects rental reversion to taper off as more existing leases gets progressively renewed.
- **Stable credit metrics with minimal short term refinancing risk:**
  - For the 12 months to 31 March 2024, AAREIT's Reported Adjusted Interest Coverage Ratio (which includes perpetual distribution in the denominator) was 2.4x versus 2.3x a year ago and 2.3x for the

12 months to 31 December 2023. Blended debt funding costs was 4.1% as at 31 March 2024 compared to the 3.4% a year ago (31 March 2023: 4.0%), however, following higher EBITDA generation and lower debt levels, Reported Adjusted Interest Coverage Ratio had improved y/y.

- As at 31 March 2024, reported aggregate leverage (does not include perpetuals) was 32.6%, relatively flat q/q. As at 31 March 2024, the use of perpetuals is significant with SGD375mn of perpetuals outstanding across two tranches. The first call date on the SGD125mn AAREIT 5.65%-PERP is in August 2025. We expect AAREIT to prefer coming to market to refinance the perpetual with a new perpetual, although this is subject to funding conditions closer to the first call date.
- As at 31 March 2024, AAREIT faces SGD100mn of debt due in the short term (AAREIT 3.6% '24s are due in November 2024). This represents ~14% of reported gross debt. We note that AAREIT is in advanced discussions on refinancing (including potentially in bank debt, on a floating basis). With undrawn committed facilities and cash and bank balances of ~SGD153.5mn, we see the short-term refinancing risk as manageable. FY2026 is a low maturity year where only SGD74mn comes due although AAREIT faces SGD375mn or ~54% of its reported gross debt coming due in FY2027.
- AAREIT has a relatively high proportion of its debt on fixed rate at 75% (including forward interest rate swaps), although we note that this is only for a tenure of ~1.6 years. In contrast AAREIT's weighted average debt maturity is 2.3 years. Per management, in view of a potential fall in rates, AAREIT is disinclined in locking in rates at the current elevated level for the long term and prefer flexibility in managing its interest rate exposure. (Company, OCBC)

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing	Initial Pricing
06 May	Thomson Medical Group Ltd	Fixed	SGD	140	3Y	5.25%	5.6% area

Mandates:

- Security Bank Corp. is planning to issue 5Y USD-denominated senior unsecured notes.

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