

Asian Credit Daily

14 May 2024

Market Commentary:

- The SGD SORA curve traded higher yesterday, with short tenors trading 2-4bps higher, belly tenors trading 4-5bps higher and 10Y trading 5bps higher.
- Flows in SGD corporates were moderate, with flows in TMGSP 5.25% '27s, GESP 3.928% '39s.
- Chinese developer Agile Group Holdings Ltd has defaulted on interest payments due on its USD483mn AGILE 6.05% '25s. The 30-day grace period on the payments ended on 13th May. This is the company's first default on its dollar bonds and is reportedly engaging an external financial adviser and legal adviser to assess its structure and liquidity.
- China is set to commence the sale of the initial portion of its RMB1tn (USD138bn) ultra-long special sovereign bonds this week. As per an announcement from the Ministry of Finance, the central government will initiate this year's series of bond sales by issuing RMB40bn worth of 30-year bonds on Friday. These bonds, which are only the fourth of their kind in the past 26 years, aim to provide support to the economy.
- Bloomberg Asia USD Investment Grade spreads widened by 1bps to 80bps while Asia USD High Yield spreads tightened by 2bps to 550bps. (Bloomberg, OCBC)

Credit Summary:

- **ESR Group Ltd ("ESR"):** Subsequent to trading halt on Monday, ESR announced that on 25 April 2024, the company received a non-binding and conditional proposal from a consortium of investors in relation to a possible privatisation of ESR, which could result in a delisting of the company from the Hong Kong Stock Exchange.
- **UBS Group AG ("UBS"):** UBS announced that four Additional Tier 1 instruments issued since November 2023 totalling around USD5bn are now subject to equity conversion provisions. This includes the SGD650mn UBS 5.75% Perpc29s.
- **ESR-LOGOS REIT ("EREIT"), Suntec Real Estate Investment Trust ("SUN"):** EREIT and SUN are sponsored by ESR Group Ltd ("ESR"), along with two other REITs listed on the Singapore Stock Exchange. We see events at ESR to be credit neutral to EREIT and SUN for now.

Key Market Movements

	14-May	1W chg (bps)	1M chg (bps)		14-May	1W chg	1M chg
iTraxx Asiax IG	99	-2	-13	Brent Crude Spot (\$/bbl)	83.4	0.3%	-7.8%
				Gold Spot (\$/oz)	2,343	1.2%	-1.7%
iTraxx Japan	52	1	2	CRB Commodity Index	288	0.0%	-3.4%
iTraxx Australia	65	-1	-3	S&P Commodity Index - GSCI	579	0.3%	-3.1%
CDX NA IG	51	0	-7	VIX	13.6	0.8%	-21.4%
CDX NA HY	107	0	1	US10Y Yield	4.48%	3bp	-4bp
iTraxx Eur Main	53	0	-8				
iTraxx Eur XO	298	-1	-37	AUD/USD	0.660	0.0%	2.5%
iTraxx Eur Snr Fin	60	0	-7	EUR/USD	1.079	0.3%	1.5%
iTraxx Eur Sub Fin	109	1	-15	USD/SGD	1.354	0.0%	0.7%
				AUD/SGD	0.894	0.0%	-1.8%
USD Swap Spread 10Y	-37	1	-6	ASX200	7,728	-0.8%	-0.8%
USD Swap Spread 30Y	-75	1	-7	DJIA	39,432	1.5%	3.8%
				SPX	5,221	0.8%	1.9%
China 5Y CDS	64	0	-10	MSCI Asiax	686	1.3%	4.9%
Malaysia 5Y CDS	46	2	-1	HSI	19,137	3.6%	14.4%
Indonesia 5Y CDS	71	0	-8	STI	3,302	0.1%	2.6%
Thailand 5Y CDS	44	2	-2	KLCI	1,605	0.0%	3.5%
Australia 5Y CDS	13	0	-1	JCI	7,113	-0.3%	-2.4%
				EU Stoxx 50	5,079	2.5%	2.5%

Source: Bloomberg

Credit Headlines:**ESR Group Ltd (“ESR”)**

- ESR was on trading halt on Monday, pending the release of an announcement in relation to inside information of the company pursuant to the Hong Kong Code on Takeovers and Mergers. Subsequently, the company announced that on 25 April 2024, the company received a non-binding and conditional proposal from a consortium of investors comprising Starwood Capital Operations, L.L.C (for and on behalf of entities controlled by Starwood Capital Group) (“Starwood”, private equity asset manager focused on real estate) and Sixth Street Partners, LLC (on behalf of itself and its affiliated funds and entities) in relation to a possible privatisation of ESR, which could result in a delisting of the company from the Hong Kong Stock Exchange. The company is no longer on trading halt as of writing.
- This comes after a Starwood Capital affiliate agreed to buy a 10.7% stake in ESR in March 2024 and previous news reports that ESR’s owners were studying options, including taking the company private.
- Under the indicative proposal, it is contemplated that shareholders will have the ability to choose to receive cash consideration or roll their shares into the go-forward private company (subject to terms of final rollover agreements). No consideration amount has been announced as of writing. The consortium has a ~15.7% interest in the company’s total issued shares.
- Prior to its listing, ESR was a private equity backed company, led by Warburg Pincus LLC (“Warburg Pincus”, a global private equity asset manager). Warburg Pincus has a ~14.0% interest in the company’s total issued shares while the founders (Mr Stuart Gibson, Mr Charles de Portes and Mr Jinchu Shen) has a ~7.4% interest in the company. Aside from that, the founders also have share options in the company. ESR’s Chairman, Mr Jeffrey David Perlman, is simultaneously President at Warburg Pincus and a member of the Executive Management Group at Warburg Pincus.
- Per ESR’s announcement, Warburg Pincus is not a member of the consortium and not a party to the indicative proposal although Warburg Pincus and the founders are in discussions with the consortium and are welcoming of the indicative proposal.
- The company has formed an independent board committee (not including any of the founders or Mr Perlman) to consider the indicative proposal and has retained a financial adviser to assist in evaluation of the indicative proposal. The indicative proposal is at a preliminary stage and there is no certainty that it will ultimately lead to an offer.
- As far as we are aware, there is no delisting put on ESR’s SGD-denominated bullet nor the SGD-denominated perpetual. Change of control puts also do not apply. Barring an issuer buyback (the company is not compelled to buyback), holders of these instruments will be holding debt capital market instruments issued by an unlisted entity, assuming the take-private is successful and the company gets delisted. (Company, Bloomberg, OCBC)

UBS Group AG (“UBS”)

- UBS announced that four Additional Tier 1 instruments issued since November 2023 totalling around USD5bn are now subject to equity conversion provisions. This includes the SGD650mn UBS 5.75% Perpc29s.
- This follows UBS’s recent annual general meeting where shareholders approved an amendment to UBS’s articles of association that allows recently issued Additional Tier 1 bonds to be convertible into equity rather than written down if loss clauses are triggered.
- This development was previously flagged as part of recent Additional Tier 1 issuances. (Bloomberg, Reuters, Company, OCBC)

ESR-LOGOS REIT (“EREIT”)**Suntec Real Estate Investment Trust (“SUN”)**

- EREIT and SUN are sponsored by ESR Group Ltd (“ESR”), along with two other REITs listed on the Singapore Stock Exchange.
- ESR has received an indicative proposal in relation to a possible privatisation of ESR, which could result in a delisting of the company from the Hong Kong Stock Exchange and a change in ownership at the sponsor level.
- Between the two, we consider EREIT to be more linked to the sponsor (eg: sharing sponsor’s name, acquiring assets from sponsor and sponsor-linked funds, hold assets that are sponsor’s core focus). SUN holds office and retail assets which are outside the sponsor’s core focus.
- A change of ownership at the sponsor level could lead to a change (or accelerate a change) in management and strategic direction at either of these REITs, including a possible disposal of sponsor’s stake in the REITs.
- That said, our credit opinions on EREIT and SUN focuses on the standalone credit strength of these two REITs, with sponsor strength (where applicable and negative influences) as secondary considerations. As such, we see events at ESR to be credit neutral to EREIT and SUN for now. There is currently no proposal to take EREIT nor SUN private and our base case assumes that EREIT and SUN remain as listed entities. (OCBC)

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing	Initial Pricing
13 May	Oversea-Chinese Banking Corp Ltd	Fixed, Tier 2	USD	500	10NC5	T+103bps	T+145bps area

Mandates:

- There are no Asiadollar mandates for today.
-

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau
Cindyckung@ocbcwh.com

Herbert Wong
Hong Kong & Macau
HerberhtWong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
LavanyaVenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
Ahmad.Enver@ocbc.com

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

Ong Shu Yi
ESG Analyst
ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
WongHongWei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
MengTeeChin@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced, or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to, and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation, or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).