

May 27, 2019

**Credit Headlines:** Frasers Hospitality Trust, Julius Baer Group Ltd

## **Market Commentary**

- The SGD swap curve flattened last Friday, with the shorter tenors and belly trading 2-3bps lower while the longer tenors traded 4-5bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was little changed at 135bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 493bps..
- Flows in SGD corporates were heavy, with activity in SOCGEN 6.125%-PERPs, KEPSP 3.66%'29s, DBSSP 3.98%-PERPs, METRO 4.3% '24s and FPLSP 4.98%-PERPs.
- 10Y UST yields traded little change at 2.32%, with the slight intraday uptick in yields attributed to profit-taking from investors after Thursday's steep rally in treasury prices.

## **Credit Headlines**

### **Frasers Hospitality Trust ("FHREIT") | Issuer Profile: Neutral (3)**

- Frasers Hospitality Asset Management Pte Ltd, the REIT manager of FHREIT ("FHREITM") and Frasers Hospitality Trust Management Pte Ltd, the trustee-manager of Frasers Hospitality Business Trust announced that Mr Colin Low will become the CEO from 1 July 2019. He will succeed Ms Eu Chin Fen who will return to Frasers Hospitality Pte Ltd ("Frasers Hospitality"), the hospitality arm of Frasers Property Limited (Issuer Profile: Neutral (4)) as Chief Investment Officer. Frasers Property Limited is the Sponsor of FHREIT.
- Mr Low has been part of the FHREIT management team since IPO in 2014 and was most recently Senior Director, Head of Investment. Prior to this, he was Director of Business Development at Frasers Hospitality from 2011 to 2014. Mr Low who would be supported by other members of the management team and is known to investors and analysts alike. We see his appointment as credit neutral at this stage. (Company, OCBC)

## Credit Headlines (cont'd)

### **Julius Baer Group Ltd (“JBG”) | Issuer Profile: Neutral (3)**

- JBG reported its interim management statement for the 4 months ended 30 April 2019 (4M2019) which reflect ongoing strategic actions to address the challenging operating environment which impacted results for FY2018.
- Assets under management (“AuM”) rose 12% year to date (ie since 31 December 2018) to a record CHF427bn. Contributing to the growth was solid market performance, favourable currency impacts along with net new money inflows and the consolidation of NSC Asosores, a wealth management firm based in Mexico following the acquisition of an additional 30% in early March 2019 to increase its stake to 70%.
- Growth in net new money came from wealth management clients in Europe and Asia and offset net outflows from Milan-based Kairos, client exits and persisting negative interest rates.
- Owing to the better market performance, client activity increased and brokerage commissions improved in Asia. Together with better performance fees from Kairos, the overall gross margin improved to 82bps, higher than 79.6bps in 2H2018 but lower than prior full year gross margins (86bps and 90bps in 2018 and 2017 respectively) although this may be due to the higher AuM (gross margin calculated as operating income over monthly average AuM).
- Similarly, the cost to income ratio also improved to below 73% for 4M2019 against 74.3% in 2H2018 but remains weaker than 2018 and 2017 (70.6% and 69.0% respectively), and above the 64-68% medium term target. As a recap, management have turned away from growth towards cost containment and reduction to protect margins. Management have indicated that the benefits of the implementation of the cost reduction program are yet to be seen and will occur in 2H2019 and 2020 although associated costs of this program particularly in relation to headcount reduction were mostly recognized in 4M2019 results.
- JBG’s capital ratios remain sound with its CET1 ratio at 13.1% as at 30 April 2019, up 30bps against 31 December 2018 (12.8%). Its total capital ratio also improved to 19.2% as at 30 April 2019, up 50bps against 31 December 2018 (18.7%). Both ratios remain above JBG’s own floor of 11% for CET1 (and above the regulatory minimum of 8.1%) and 15.0% for total capital (and above the regulatory minimum of 12.3%) as disclosed in JBG’s 2018 annual report.
- While results appear constructive and capital ratios are still solid, JBG continues to undergo a period of transition with staff movements and management changes as well as changes to its business and growth ambitions. This includes (1) CHF100mn in cost reductions by cutting 2% in headcount by end 2019, (2) ongoing investments and rationalization in its network in Latin America, Asia, Switzerland and Europe and (3) searching for a new Chief Executive Officer. According to Bloomberg, JBG has identified a short list of internal and external candidates to replace current Chief Executive Officer Bernhard Hodler with a decision expected by 3Q2019.
- While we are maintaining the current Neutral (3) issuer rating on JBG, we continue to monitor ongoing performance through FY2019 for an improvement in current trends and how management actions to address performance such as cost reductions impact future growth. (Company, OCBC)

**Table 1: Key Financial Indicators**

	27-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	74	1	10
iTraxx SovX APAC	48	1	6
iTraxx Japan	64	2	9
iTraxx Australia	74	1	8
CDX NA IG	65	1	7
CDX NA HY	106	0	-2
iTraxx Eur Main	68	2	10
iTraxx Eur XO	295	11	47
iTraxx Eur Snr Fin	87	4	18
iTraxx Sovx WE	18	0	0
AUD/USD	0.693	0.38%	-1.73%
EUR/USD	1.122	0.44%	0.26%
USD/SGD	1.373	0.24%	-0.85%
China 5Y CDS	52	2	11
Malaysia 5Y CDS	67	2	14
Indonesia 5Y CDS	108	1	14
Thailand 5Y CDS	37	0	1

	27-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	68.78	-4.43%	-4.67%
Gold Spot (\$/oz)	1,287.05	0.72%	0.56%
CRB	178.63	-1.30%	-3.26%
GSCI	427.13	-3.58%	-4.09%
VIX	15.85	-0.69%	24.51%
CT10 (bp)	2.320%	-9.55	-17.80
USD Swap Spread 10Y (bp)	-5	-1	-4
USD Swap Spread 30Y (bp)	-28	0	-5
US Libor-OIS Spread (bp)	15	0	-3
Euro Libor-OIS Spread (bp)	6	0	0
DJIA	25,586	-0.69%	-3.61%
SPX	2,826	-1.17%	-3.87%
MSCI Asiax	616	-1.03%	-8.54%
HSI	27,207	-2.09%	-8.10%
STI	3,161	-1.40%	-5.85%
KLCI	1,599	-0.02%	-2.41%
JCI	6,095	3.17%	-4.79%

## New issues

- There was no new issuance over 24<sup>th</sup> May 2019.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
23-May-19	Huarong Finance 2019 Co. Ltd	USD300mn USD900mn USD700mn	3-year 5-year 10-year	CT3+135bps CT3+165bps CT10+220bps
23-May-19	ESR Cayman Ltd	SGD47.75mn	ESRCAY 6.75%'22s	6.75%
22-May-19	Chouzhou International Investment Ltd	USD600mn	3-year	4.6%
22-May-19	Pingxiang Urban Construction Investment Developing Company Ltd	USD300mn	35-month	4.95%
22-May-19	Horse Gallop Finance Ltd	USD700mn	3-year	CT3+112.5bps
22-May-19	Soar Wise Ltd	USD450mn	3-year	CT3+132.5bps
22-May-19	Kaisa Group Holdings Ltd	USD400mn	3.67NC2 bond	11.625%
21-May-19	China Huadian Overseas Development Management Company Ltd	USD500mn	NC5-perpetual	4.0%
21-May-19	Lee & Man Paper Manufacturing Ltd	USD300mn	NC5-perpetual	5.5%
21-May-19	SDG FINANCE I LIMITED	USD100mn	NC3-perpetual	5.3%
21-May-19	Land Transport Authority of Singapore	SGD1.4bn	35-year	3.3%
17-May-19	Oceanwide Holdings International Development III Co., Ltd	USD134.97mn	2-year	14.5%

Source: OCBC, Bloomberg

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