Asian Credit Daily

25 April 2024

Market Commentary:

- The SGD SORA curve traded higher yesterday, with short tenors trading 1-2bps higher, belly tenors and 10Y trading 2bps higher.
- Flows in SGD corporates were heavy, with flows in BACR 7.3%-PERP, HSBC 4.75% '34s, UBS 5.75%-PERP, BNP 4.75% '34s, BPCEGP 5% '34s, DB 4.4% '28s, STSP 3.3%.
- Chinese developer Country Garden Holdings Co. won approval to delay payments on three yuan bonds, staving off its first local default. Noteholders voted to extend coupon and principal installment payments to September.
- Bloomberg Asia USD Investment Grade spreads remained flat at 82bps while Asia USD High Yield spreads tightened by 7bps to 609bps. (Bloomberg, OCBC)

Credit Summary:

- **UBS Group AG ("UBS"):** UBS held its annual general meeting yesterday where Chairman Colm Kelleher commented that recent government proposals to increase the minimum capital requirements for UBS were the "wrong remedy" to address systemic risk.
- **Frasers Centrepoint Trust ("FCT"):** FCT reported 1HFY2024 results for the half-year ended 31 March 2024. Underlying results look decent.
- **CK Asset Holdings Limited ("CKA"):** A joint venture ("JV"), CK William, formed by CKA, CK Infrastructure Holdings Limited ("CKIH", stock ticker: 1038 HK), and Power Assets Holdings Limited ("PAH", stock ticker: 6 HK) has reached an agreement to acquire a 100% interest in Phoenix Energy Group Limited ("PEG"), a gas distribution network in Northern Ireland.
- **Suntec Real Estate Investment Trust ("SUN"):** SUN announced its 1Q2024 business updates where operational updates and several key financial highlights were provided. Interest coverage ratio has thinned within expectations while there is no short-term refinancing risk following SUN's recent refinancing.
- **Keppel Ltd ("KEP"):** KEP announced their 1Q2024 business updates where operational updates and some key financial highlights were provided. 1Q2024 revenue was SGD1.5bn versus SGD1.6bn in 1Q2023 (for continuing operations).
- **OUE Real Estate Investment Trust ("OUEREIT"):** OUEREIT reported its 1Q2024 business update. Overall results are encouraging though slightly weaker credit metrics and weaknesses in China were evidenced.

Key Market Movements

	25-Apr	1W chg (bps)	1M chg (bps)		25-Apr	1W chg	1M chg
iTraxx Asiax IG	114	0	11	**Brent Crude Spot ($/bbl)**	88.2	1.2%	1.6%
				Gold Spot ($/oz)	2,320	-2.5%	6.8%
iTraxx Japan	54	2	8	**CRB Commodity Index**	297	0.9%	2.8%
iTraxx Australia	74	2	9	**S&P Commodity Index - GSCI**	592	1.0%	2.1%
CDX NA IG	53	-4	1	**VIX**	16.0	-12.3%	21.1%
CDX NA HY	106	1	-1	**US10Y Yield**	4.65%	2bp	40bp
iTraxx Eur Main	57	-3	2				
iTraxx Eur XO	322	-13	25	**AUD/USD**	0.652	1.5%	-0.3%
iTraxx Eur Snr Fin	65	-4	0	**EUR/USD**	1.073	0.8%	-1.0%
iTraxx Eur Sub Fin	116	-7	1	**USD/SGD**	1.360	0.2%	-1.0%
				AUD/SGD	0.886	-1.3%	-0.7%
USD Swap Spread 10Y	-37	1	-2	**ASX200**	7,683	1.0%	-1.7%
USD Swap Spread 30Y	-76	0	-4	**DJIA**	38,461	1.9%	-2.2%
				SPX	5,072	1.0%	-2.8%
China 5Y CDS	71	0	1	**MSCI Asiax**	654	2.1%	0.4%
Malaysia 5Y CDS	48	2	7	**HSI**	17,222	5.1%	4.5%
Indonesia 5Y CDS	79	1	7	**STI**	3,278	2.8%	2.5%
Thailand 5Y CDS	46	1	2	**KLCI**	1,570	1.7%	2.1%
Australia 5Y CDS	14	0	-1	**JCI**	7,159	-0.1%	-3.0%
				EU Stoxx 50	4,990	1.5%	-1.1%

Source: Bloomberg

Credit Headlines:

UBS Group AG ("UBS")

- UBS held its annual general meeting yesterday where Chairman Colm Kelleher commented that recent government proposals to increase the minimum capital requirements for UBS were the "wrong remedy" to address systemic risk. His views were influenced by an opinion that additional capital requirements were not aligned with global standards that may impact the competitiveness of UBS.
- Mr Kelleher's comments come following a recent Federal Council of Switzerland proposal that systematically important Swiss banks must hold significantly more capital against their foreign units, according to wide-ranking report on banking stability. Bank-specific capital levels should also be increased to take future risks into account. Should these proposals go through, more profits will need to be retained, instead of being distributed to equity holders. The government did not disclose the quantum of additional capital required in the report.
- Separately, UBS 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, Company, OCBC)

Frasers Centrepoint Trust ("FCT")

- FCT reported 1HFY2024 results for the half-year ended 31 March 2024. **Underlying results look decent.**
- **Stronger underlying performance:** 1HFY2024 net property income ("NPI") fell 8.4% y/y to SGD124.6mn due to absence of contribution from Changi City Point ("CCP") which was divested in October 2023 and lower contributions from Tampines 1 due to AEI works. Excluding these two properties, NPI grew 2.1% y/y to SGD112.13mn, with most assets seeing NPI growth.
    - Most malls saw growth in NPI, including NEX (+2.9% y/y), Northpoint City North Wing (+2.9% y/y), Waterway Point (+0.5% y/y), Century Square (+13.2% y/y), Hougang Mall (+2.9% y/y) and Central Plaza (+34.7% y/y), except for Causeway Point (-2.8% y/y), White Sands (-1.8% y/y) and Tiong Bahru Plaza (-0.2% y/y). For Causeway Point, we note that revenue had grown (+1.6% y/y), which indicates that property expenses grew more than proportionally.
- **Retail occupancy remains resilient:** Committed occupancy remains unchanged q/q at 99.9% for the retail portfolio, excluding Tampines 1 which is undergoing AEI works. However, Central Plaza (office) occupancy fell 2.7 ppts q/q to 93.8%.
- **Positive rental reversion:** Positive rental reversions were posted for all properties, with the retail portfolio recording +7.5% reversion overall, based on average vs average, with healthy leasing traction. The outperformers were Causeway Point (+8.3%), Northpoint City North Wing (+7.8%) and Century Square (+9.3%).
- **Tenant sales trending up still:** Tenant sales was up 4.3% y/y for 2QFY2024, with tenant sales higher than pre-COVID levels for January (+14%), February (+31%) and March (+20%).
- **Saving cost by doing good:** A total of 3,534 sqm of solar panels will be installed at Causeway Point, Century Square, Hougang Mall, Northpoint City North Wing, Tampines 1 and White Sands. This is targeted to generated 722,000 kWh of electricity, saving SGD179k in energy costs and reducing 293 tonnes of carbon emissions per annum.
- **Moderate credit metrics:** Aggregate leverage increased 1.3 ppts q/q to 38.5%, with completion of the additional 24.5% effective in NEX on 26 March 2024. Reported interest coverage ratio fell slightly q/q to 3.26x (31 December 2023: 3.35x) even though cost of debt decreased to 4.2% (31 December 2023: 4.3%), which is due to the decline in NPI. (Company, OCBC)

CK Asset Holdings Limited ("CKA")

- **A joint venture ("JV), CK William,** formed by CKA, CK Infrastructure Holdings Limited ("CKIH", stock ticker: 1038 HK), and Power Assets Holdings Limited ("PAH", stock ticker: 6 HK) **has reached an agreement to acquire a 100% interest in Phoenix Energy Group Limited ("PEG"), a gas distribution network in Northern Ireland.**
- This JV, CK William, is currently owned by CKA (40% stake), CKI (40% stake) and PAH (20% stake).
- There will be two rounds of capital raising, totalling HKD9.0bn, by this JV:
  - To fund this acquisition, CKA, CKIH and PAH will be subscribing for shares in the JV at total subscription prices of GBP93.0mn (HKD901mn), GBP93.0mn (HKD901mn) and GBP46.6mn (HKD450mn) respectively. The total amounts to GBP232.6mn (HKD2.25bn)
  - To improve the capital structure of this JV, CKA, CKIH and PAH will also be further subscribing for shares in the JV at total subscription prices of AUD533mn (HKD2.7bn), AUD533mn (HKD2.7bn) and AUD267mn (HKD1.35bn) respectively. The total amounts to AUD1.33bn (HKD6.75bn)
- **This JV will be acquiring PEG for GBP312.6mn (HKD3.0bn) and it is expected to be completed by the end of April 2024.** The acquisition has an enterprise value of GBP757mn (HKD7.4bn), comprising an acquired interest of GBP312.6 million and net liabilities of GBP444.4 million.
- The acquiree, PEG, is one of the three gas distribution network operators licensed to operate in Northern Ireland. It holds a license covering around 48% of the population of Northern Ireland. PEG reported:
  - EBITDA of GBP50.7mn and GBP46.4mn in 2021 and 2022 respectively.
  - Losses after tax of GBP10.1mn and GBP9.8mn in 2021 and 2022 respectively. We estimate the losses are primarily due to depreciation, which is a non-cash expense.
  - Net asset value of GBP84.4mn as at 31 December 2022.
- We believe **the impact is manageable given CKA's strong cash position** of HKD42.5bn versus total debt of HKD54.9bn as at 31 December 2023. CKA's capital outlay totals HKD3.6bn from these two rounds of capital raising by this JV.

Suntec Real Estate Investment Trust ("SUN")

- SUN announced its 1Q2024 business updates where operational updates and several key financial highlights were provided. Interest coverage ratio has thinned within expectations while there is no short-term refinancing risk following SUN's recent refinancing.
- **Slight uptick y/y in overall top line although net property income fell y/y due to overseas assets**
  - 1Q2024 gross revenue was SGD109.8mn, increasing by 1.0% y/y while net property income ("NPI") was SGD73.4mn, decreasing by 3.8% y/y. This was driven by stronger operating performance from Suntec City Office, Suntec City Mall and Suntec Convention (all located in Singapore), offset by lower contribution from 55 Currie Street (Adelaide, Australia), 177 Pacific Highway (Sydney, Australia) and The Minster Building (London, UK).
  - SUN receives sizeable income from joint ventures (stakes in Marina Bay Financial Centre "MBFC Properties") and One Raffles Quay in Singapore, Southgate Complex in Melbourne and Nova Properties in London). Income from joint venture was SGD24.8mn in 1Q2024, which increased 8.8% y/y due to stronger operating performance at MBFC properties and One Raffles Quay, with higher contribution from Nova Properties but lower contribution from Southgate Complex.
  - Operating performance was also negatively impacted by a weaker AUD against the SGD.
- **SUN's reported aggregate leverage on the high side within our coverage while interest coverage ratio has further thinned:** As at 31 March 2024, reported aggregate leverage (not including perpetuals as debt, includes proportionate debt and asset at joint venture) was 42.2%, relatively stable versus the 42.3% as at 31 December 2023. As expected, reported adjusted interest coverage ratio (including perpetual distribution) had fallen below 2.0x to 1.9x for the 12 months to 31 March 2024. As at 31 March 2024, only ~57% of consolidated debt is fixed (31 December 2023: 61%), low among our REIT coverage universe.
- **No short-term refinancing risk:** SUN's weighted average debt maturity had lengthened to 3.57 years as at 31 March 2024 (31 December 2023: 3.0 years). There is no debt due for the remaining of 2024, with SUN having

refinanced SGD950mn of debt due in 2024 and 2026 collectively. In 2025, SUN faces SGD625mn in total debt due (this includes SGD300mn from two SGD-denominated bonds due in February and May respectively).

- **Relatively stable operating metrics though Australia market outlook soft:** SUN's overall portfolio committed occupancy was relatively stable q/q at 95.1% for office as at 31 March 2024 (31 December 2023: 94.9%) and 95.5% for retail as at 31 March 2024 (31 December 2023: 95.2%). Singapore, a resilient market for office and retail for SUN, continues to be the main income contributor to SUN, contributing 71% to net property income plus income from joint venture, taken in aggregate. Per SUN, the Australia office market occupancy is expected to decline due to new supply in 2024. SUN expects revenue to be lower from its Australia portfolio due to leasing downtime and higher incentives required. Although SUN expects the Central London office market to improve, revenue for its UK portfolio is expected to be dragged by leasing downtime for the remaining vacancy at The Minster Building. (Company, OCBC)

Keppel Ltd ("KEP")

- KEP announced their 1Q2024 business updates where operational updates and some key financial highlights were provided. 1Q2024 revenue was SGD1.5bn versus SGD1.6bn in 1Q2023 (for continuing operations).
- The exact net profit for 1Q2024 was not provided although per KEP, 1Q2024 net profit was higher y/y when compared to the net profit from continuing operations in 1Q2023, mainly from stronger performance in Infrastructure and Connectivity. However, when the effects of the legacy offshore & marine assets are included, net profit was lower y/y.
- Per KEP, recurring income increased 51% y/y, driven by higher contributions from asset management and operating income.
- KEP is in the midst of acquiring an initial 50%-stake in Aermont Capital S.à.r.l. (clearance required from regulator received, completion targeted by end-April 2024).
- Reported unadjusted net gearing was 0.90x as at 31 March 2024, flat versus end-2023.
- As at 31 March 2024, 64% of borrowings (including perpetuals) were on fixed rates. Weighted debt tenor has stayed around three years although average interest rates went up to 3.81% as at 31 March 2024 versus 3.75% as at 31 December 2023.
- KEP is undergoing an asset monetisation programme with proceeds intended to go towards new growth areas. Since the start of the programme to date in October 2020, KEP has announced SGD5.5bn of divestments (year-to-date SGD169.9mn, mainly from the sale of a residential project in Wuxi). (Company, OCBC)

OUE Real Estate Investment Trust ("OUEREIT")

- OUEREIT reported its 1Q2024 business update. **Overall results are encouraging though slightly weaker credit metrics and weaknesses in China were evidenced.**
- **Better y/y results amidst rebounded hospitality and commercial properties in Singapore:** 1Q2024 revenue and net property income ("NPI") increased 9.5% and 6.9% y/y to SGD74.9 mn and SGD60.5mn respectively, mainly driven by higher contributions from Hilton Singapore Orchard and the resilient performance of Singapore commercial properties.
- **Singapore Office committed occupancy remained stable q/q at 95.1%** as at 31 March 2024 (Dec 2023: 95.2%). This segment also **recorded positive rental reversion of 12.6%** based on average incoming committed rents versus average outgoing rents.
- **Hospitality NPI increased 15.9% y/y to SGD23.8mn**. Revenue per available room ("RevPAR") increased by 23.3% y/y to SGD280 due to higher room rates supported by the strong concerts and MICE events pipeline in Singapore.
- **Retail remained stable**: Mandarin Gallery's occupancy remained unchanged q/q at 96.6% with positive rental reversion of 22.0% at Mandarin Gallery. 1Q2024 shopper traffic and tenant sales were 108% (1Q2023: 95%) and 85% (1Q2023: 87%) of pre-COVID levels.

- **China Office (7.5% of total assets) weakened substantially:** Shanghai Lippo Plaza, a 36-storey Grade A office building located within the established commercial district of Huangpu - Shanghai, reported substantially weaker q/q committed occupancy of 75.5% as at 31 March 2024 (Dec 2023: 83.3%).
- **OUEREIT smoothed out the debt maturity profile** by obtaining an unsecured sustainability-linked loan ("SLL") of SGD600mn on 23 April 2024 for the early refinancing of existing borrowings due in 2025. Upon completion of the early refinancing, OUE REIT's average term of debt is expected to lengthen to 2.8 years from 2.2 years on a pro forma basis.
- **Credit metrics weakened slightly:** As at 31 March 2024, T12M adjusted interest coverage ratio ("ICR") weakened 0.1x q/q to 2.3x as interest cost rose to 4.5% (Dec 2023: 4.3%, Mar 2023: 3.8%). Meanwhile, aggregate leverage rose 0.6ppts q/q to 38.8%.
- **Stable outlook:** OUEREIT's outlook is still well underpinned by the rebounded Hospitality and resilient Office and Retail in Singapore, which combined accounted for 92.5% of OUEREIT's assets under management. We are not overly concerned over the high debt maturing in 2025 (24.9% of total debt after this SLL) and 2026 (38.5%) given OUEREIT's strong asset quality that is located mostly in Singapore and its investment grade credit rating. Moreover, USD bond is now also an additional option given the investment grade rating. Also, OUEREIT mentioned that they may reduce unitholders distribution to retain capital given the expensive debt costs. (Company, OCBC)

New issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing	Initial Pricing
24 Apr	Indika Energy Tbk PT (Guarantors: Indika Inti Corpindo PT, Tripatra Multi Energi PT, Tripatra Engineering PT, Tripatra Engineers & Constructors PT and Tripatra Singapore Pte Ltd)	Fixed	USD	350	5NC2	8.75%	8.875%
24 Apr	Nanning Communications Investment Group Co Ltd	Sustainability, Fixed	USD	300	3Y	7.3%	7.5% area
24 Apr	Korea Ocean Business Corp	Fixed	USD	300	3Y	5.41%	T+95bps area
24 Apr	Korea Ocean Business Corp	Fixed	USD	300	5Y	5.373%	T+105bps area

Mandates:

- LG Energy Solution is planning to issue USD bonds.
- Korea Expressway Corporation is planning to issue USD bonds with expected tenor of 3Y or 5Y.

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