# OCBC TREASURY RESEARCH

## Asian Credit Daily

Thursday, April 02, 2020

### Market Commentary

- The SGD swap curve bear-flattened yesterday, with the shorter and the belly tenors trading 1-4bps higher, while the longer tenors traded around 1bp higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 3bps to 270bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 7bps to 1134bps. The HY-IG Index Spread tightened 10bps to 865bps.
- Flows in SGD corporates were heavy, with flows in STANLN 5.375%-PERPs, F 4.125%'24s, ABNANV 4.75%'26s, UOBSP 4%-PERPs, CELSP 3.9%-PERPs and SIASP 3.16%'23s.
- 10Y UST Yields fell 9bps to 0.58%, while U.S. stocks declined, as investors were worried about the impact of COVID-19. Additionally, the Fed announced that it was temporarily easing the supplementary leverage ratio for a year.


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### Credit Summary:

- SPH REIT ("SPHR") **| Issuer Profile: Unrated:** SPHR has announced results for the quarter ended 29 Feb 2020. Gross revenue was up 26.1% y/y while portfolio occupancy was 98.9%. Aggregate leverage for SPHR was 29.3% as at 29 Feb 2020, well below its peers. Like the other REITS, SPHR has announced its support for its tenants. SPHR has cut distribution per unit down by 78.8% y/y which translates to a pay-out ratio of 19.9%.
- Lippo Malls Indonesia Retail Trust ("LMRT") **| Issuer Profile: Negative (6):** In relation to the proposed acquisition of Lippo Mall Puri, the long stop date has been extended to 31 Dec 2020 (original: 30 June 2020). We see this acquisition as the biggest uncertainty ahead given the size of the acquisition relative to LMRT .
- Industry Outlook – Retail Property**:** The Ministry of Law has announced that it intends to introduce the COVID-19 (Temporary Measures) Bill in parliament which offers some protection for tenants. Earlier retail properties were negatively impacted by the lack of tourists but this has broadened to include the lack of domestic footfall. We think the F&B sector which makes up ~40% of Singapore Retail REIT's space is most vulnerable.
- Singapore Property – Industry Outlook: Cautious**:** Singapore private residential property prices fell by 1.2% q/q. We think the decrease is largely due to lower prices offered by developers to move units in view of the outbreak of COVID-19 while we noticed lower activities in showflats. We believe prices may correct this year.
- Westpac Banking Corp ("Westpac") **| Issuer Profile: Positive (2):** Westpac has announced the permanent appointment of Peter King as Chief Executive for a 2 year period. While Mr King was reportedly set to retire before the anti-money laundering proceedings, this appointment is likely seen as necessary given Mr King's long experience as CFO and chief risk officer, and the difficult path ahead for Westpac.
- Industry Outlook – Financial Institutions**; Commonwealth Bank of Australia ("CBA") | Issuer Profile: Positive (2); National Australia Bank Ltd ("NAB") | Issuer Profile: Positive (2); Westpac Banking Corp ("Westpac") | Issuer Profile: Positive (2); Australia & New Zealand Banking Group Ltd ("ANZ") | Issuer Profile: Positive (2):** The Reserve Bank of New Zealand has agreed with New Zealand's major banks to suspend dividend payments and refrain from redeeming non-CET1 capital instruments. With New Zealand's major banks all owned by Australia's big banks, the dividend suspension will have an impact on Australian bank level 1 capital ratios. For the banks we cover, ANZ is the most exposed to New Zealand contributing around 20% of FY2019 profit before tax. As things remain fluid, we expect technical pressure to continue on bank capital instruments.

### Credit Headlines

**SPH REIT ("SPHR") | Issuer Profile: Unrated**

- SPHR has announced results for the quarter ended 29 Feb 2020 ("Q2FY2020"). Gross revenue was up 26.1% y/y to SGD73.3mn while net property income was up 23.3% y/y to SGD56.5mn, in part due to the acquisition of Westfield Marion Shopping Centre on 6 Dec 2019. Portfolio occupancy was 98.9% as at 29 Feb 2020.
- Aggregate leverage for SPHR is 29.3% as at 29 Feb 2020 though up from 27.5% as at 30 Aug 2019 it remains well below their peers.
- As a result of the stricter measures rolled out in the last week of March 2020 to control the spread of COVID-19, SPHR will (1) pass on fully the property tax rebates from IRAS and (2) provide tenant rebates for ~SGD4.6mn for Feb and March 2020. SPHR will continue to support its tenants for April and May with as much as 50% rental rebates for the most affected tenants. Effectively, most affected tenants will have their base rents waived for up to 2 months.
- SPHR has also cut distribution per unit to 0.30cents, down 78.8% y/y to shore up cash buffer in light of the challenging circumstances ahead due to COVID-19. This translates to a pay-out ratio of 19.9% as compared to 98.4% in the same quarter a year ago.
- Please refer to our Special Interest Commentary on SPHR for further information. Please note that we do not currently cover SPHR. (Company, OCBC)

**Lippo Malls Indonesia Retail Trust ("LMRT") | Issuer Profile: Negative (6)**

- In relation to the proposed acquisition of Lippo Mall Puri, the long stop date has been extended to 31 Dec 2020 (original: 30 June 2020). The purchase consideration remains at IDR3.7bn (SGD325mn)
- As mentioned in our Credit Outlook 2020, we see this acquisition as the biggest uncertainty ahead given the size of the acquisition relative to LMRT itself with a market cap just over SGD300mn as of writing. Due to the COVID-19 outbreak, it remains to be seen if the deal will eventually complete given that it has been delayed multiple times over the past 2 years. If the deal goes through, the credit profile of LMRT will hinge on the eventual funding mix, which could impact the credit metrics and financing costs. (Company, OCBC)

**Credit Headlines**

**Industry Outlook – Retail Property**

- The Ministry of Law has announced that it intends to introduce the COVID-19 (Temporary Measures) Bill in parliament which seeks to offer temporary relief to businesses and individuals who are unable to fulfil their contractual obligations because of COVID-19.
- As a knock-on effect of the fallout from COVID-19, parties may be unable to perform their obligations under contracts relating to commercial undertakings for example construction projects, tenancy agreements and event bookings. Individuals or companies who are unable to meet their obligation may have to pay damages or forfeit deposits or may be sued or face possible insolvency.
- For retail properties, we think the biggest impact is on tenancy agreements where even though tenants would still need to repay rents at a later date, they may be shielded for 6 months from defaulting on their tenancy agreements.
- While this new measure offers some protection for tenants (effectively a “moratorium” period), in our view though it is a temporary measure which may not change the longer term business decision-making process of tenants of whether or not to continue operating their business operations (and by implication whether or to continue renting retail space even if it means defaulting on their tenancies). Earlier retail properties were negatively impacted by the lack of tourists though this in our view has broaden to be negatively impacted by the lack of domestic footfall.
- While no Singapore Retail REITs have come out publicly to share their current footfall numbers post the tighter social distancing measures at shopping malls have led to a swift decline in footfall based on our observations. Estimates coming out from neighbouring Malaysia (which is under Movement Control Order) has placed tenant sales to drop by 90% for March 2020.
- We think the F&B sector which makes up ~40% of Singapore Retail REIT’s space is most vulnerable to store closures given their generally tight net margins of less than 5% with non-essential goods tenants also likely feeling the strain of a decline in footfall. Already we are seeing various brand name retailers attempting to stop paying rents to landlords in their home countries and we expect the liquidity situation for independent retailers to be tight as well. (Straits Times, The Star, OCBC)

**Credit Headlines**

**Singapore Property – Industry Outlook: Cautious**

- Singapore private residential property prices fell by 1.2% q/q, according to URA flash estimates. The impact is larger on properties in the Core Central Region (-1.5% q/q), followed by Outside Central Region (-1.0% q/q) and Rest of Central Region (-0.5% q/q).
- We think the decrease is largely due to lower prices offered by developers to move units in view of the outbreak of COVID-19 while we noticed lower activities in showflats.
- As mentioned in our Credit Monthly (31 March 2020), **we have turned cautious on the Singapore Property market** and believe prices may correct this year due to COVID-19. As a recap of our discussion, we see a number of headwinds to the property market.
  - **Discounts by developers:** Developers may continue to provide discounts to move units and raise liquidity.
  - **Rise in unemployment:** With numerous industries impacted directly (businesses shut outright or demand significantly curbed) or indirectly by the outbreak of COVID-19, rising unemployment rates could be the bigger driver of property prices.
  - **Fall in national income:** The Ministry of Trade and Industry is expecting GDP to fall by 1% to 4% in 2020. With incomes falling, we believe big ticket purchases (such as home purchase) may be deferred.
- Primary sales for higher-end projects may be impacted more as travel is curbed.
- We think it will be prudent for developers, especially higher-geared ones, to de-risk by moving more units. Developers most exposed to the Singapore property market include Oxley Holdings Ltd, City Developments Ltd and GuocoLand Ltd.

**Westpac Banking Corp ("Westpac") | Issuer Profile: Positive (2)**

- Westpac has announced the permanent appointment of Peter King as Chief Executive for a 2 year period. Since late November 2019 when previous Chief Executive Brian Hartzer resigned following anti-money laundering proceedings, the previous Chief Financial Officer of Westpac was in a caretaker role.
- This appointment follows the commencement of a new chairman for Westpac in John Mcfarlane who commenced in April 2020 following the retirement on March 31 of previous chairman Lindsay Maxsted. Mr Maxsted had brought forward his retirement as a result of the anti-money laundering proceedings that also claimed Mr Hartzer.
- While Mr King was reportedly set to retire before the anti-money laundering proceedings, this appointment is likely seen as necessary with the current circumstances given Mr King's long experience as CFO and chief risk officer, and the difficult path ahead for Westpac. The distraction of looking for a permanent Chief Executive at this time is likely not needed. (Company, Bloomberg, OCBC)

**Credit Headlines**

**Industry Outlook – Financial Institutions; Commonwealth Bank of Australia ("CBA") | Issuer Profile: Positive (2); National Australia Bank Ltd ("NAB") | Issuer Profile: Positive (2); Westpac Banking Corp ("Westpac") | Issuer Profile: Positive (2); Australia & New Zealand Banking Group Ltd ("ANZ") | Issuer Profile: Positive (2)**

- Following news of other global banking systems either delaying or cancelling dividends and suspending share buy backs, the Reserve Bank of New Zealand ("RBNZ") has agreed with New Zealand's major banks to suspend dividend payments and refrain from redeeming non-CET1 capital instruments. Per RBNZ comments, this is to support financial system stability during COVID-19 and was announced together with other economic support measures including a Term Lending Facility for the banking system.
- With New Zealand's major banks all owned by Australia's big banks, the dividend suspension will have an impact on Australian bank level 1 capital ratios but it will not impact the more widely reported level 2 capital ratios which are at a group level. As such, the capital will be retained within their New Zealand subsidiaries rather than sent to the Australian parent.
- RBNZ appears to be a more conservative regulator compared to peers as evidenced by its final decision in early December 2020 on the proposal to raise minimum regulatory capital requirements for New Zealand banks which recommended a material increase in minimum requirements. That said, its actions follow the broad trend amongst the world's financial regulators and takes it a step further which other regulators may need to follow should the COVID-19 situation continue to worsen. Hence, the precedent has been set.
- For the Australian banks, their capital buffers are currently solid and the Australian Prudential Regulation Authority ("APRA") has enacted several support measures to ensure that Australian bank capital positions remain protected. That said, APRA has lived up to its name and is also taking a prudent stance by engaging Australia's big 4 on their dividend payment strategies as well as distributions to shareholders and employees, although for now the decision to pay dividends continues to rest with the board and with considerations to its regulatory and social obligations to maintain access for the economy to credit.
- For the banks we cover, ANZ is the most exposed to New Zealand contributing around 20% of FY2019 profit before tax. In comparison, its domestic peers get between ~11%-15% from New Zealand although ANZ's CET1 capital ratio compares favourably. In line with RBNZ's guidance, ANZ has informed that it will not redeem its NZD500mn capital notes on 25th May 2020.
- As we have previously mentioned, these measures are overall a credit positive as it helps protect capital buffers and capacity to support the economy. It is necessary on a fundamental level and on a regulatory level given the amount of support and regulatory forbearance being provided to the banks to ensure they continue to feed credit into the economy. Credit is paramount right now in the face of declining cash from investor caution and diminished economic activity from lock downs and it would be difficult for financial institutions to resist such suggestions from regulators in the current environment.
- These capital preservation measures are not static however and could escalate depending on the direction of the current uncertain environment. As things remain fluid, we expect technical pressure to continue on bank capital instruments. As we illustrated in our recent Monthly Credit View for April in Figure 2, bank capital instruments represent relatively higher conceptual risk. (Company, ASX, APRA, RBNZ, Bloomberg, OCBC)

**Key Market Movements**

| | 02-Apr | 1W chg (bps) | 1M chg (bps) |
|---|---|---|---|
| **iTraxx Asiax IG** | 151 | 19 | 81 |
| **iTraxx SovX APAC** | 79 | 13 | 40 |
| **iTraxx Japan** | 131 | 8 | 71 |
| **iTraxx Australia** | 184 | 15 | 117 |
| **CDX NA IG** | 126 | 29 | 61 |
| **CDX NA HY** | 90 | -7 | -15 |
| **iTraxx Eur Main** | 106 | 20 | 39 |
| **iTraxx Eur XO** | 613 | 92 | 309 |
| **iTraxx Eur Snr Fin** | 125 | 26 | 46 |
| **iTraxx Eur Sub Fin** | 270 | 62 | 112 |
| **iTraxx Sovx WE** | 27 | 4 | 11 |
| **USD Swap Spread 10Y** | 12 | 20 | 13 |
| **USD Swap Spread 30Y** | -36 | 22 | 2 |
| **US Libor-OIS Spread** | 138 | 8 | 123 |
| **Euro Libor-OIS Spread** | 9 | -4 | -1 |
| **China 5Y CDS** | 58 | 13 | 9 |
| **Malaysia 5Y CDS** | 132 | 24 | 74 |
| **Indonesia 5Y CDS** | 243 | 50 | 151 |
| **Thailand 5Y CDS** | 92 | 14 | 53 |
| **Australia 5Y CDS** | 38 | -8 | 11 |

| | 02-Apr | 1W chg | 1M chg |
|---|---|---|---|
| **Brent Crude Spot ($/bbl)** | 25.65 | -2.62% | -50.58% |
| **Gold Spot ($/oz)** | 1,586.49 | -2.75% | -0.19% |
| **CRB** | 118.50 | -8.56% | -27.52% |
| **GSCI** | 247.12 | -9.61% | -33.00% |
| **VIX** | 57.06 | -10.77% | 70.74% |
| **CT10 (%)** | 0.569% | -27.55 | -59.40 |
| **AUD/USD** | 0.609 | 0.43% | -6.85% |
| **EUR/USD** | 1.095 | -0.74% | -1.65% |
| **USD/SGD** | 1.436 | -0.31% | -3.15% |
| **AUD/SGD** | 0.874 | -0.75% | 3.98% |
| **ASX 200** | 5,085 | -0.55% | -20.44% |
| **DJIA** | 20,944 | -1.21% | -21.57% |
| **SPX** | 2,471 | -0.20% | -20.05% |
| **MSCI Asiax** | 547 | -1.50% | -15.13% |
| **HSI** | 23,086 | -1.88% | -12.19% |
| **STI** | 2,440 | -1.90% | -18.87% |
| **KLCI** | 1,323 | -0.41% | -9.84% |
| **JCI** | 4,466 | 13.42% | -16.70% |
| **EU Stoxx 50** | 2,680 | -4.28% | -19.72% |

*Source: Bloomberg*

### New Issues

- Baidu Inc priced a USD1bn debt offering in two parts: (1) a USD600mn 5-year bond at T+275bps and (2) a USD400mn 10-year bond at T+285bps, tightening from IPT of T+312bps and T+325bps area respectively.

| Date | Issuer | Size | Tenor | Pricing |
|---|---|---|---|---|
| 01-Apr-20 | Baidu Inc | USD600mn<br>USD400mn | 5-year<br>10-year | T+275bps<br>T+285bps |
| 31-Mar-20 | Guizhou Shuanglong Airport Development & Investment (Group) Co. Ltd. | USD26mn | 2-year 354-day | 4% |
| 31-Mar-20 | AIA Group Limited | USD1bn | 10-year | T+275bps |
| 26-Mar-20 | State Bank of India of London | USD100mn | 2-year | 3m-US LIBOR+80bps |
| 25-Mar-20 | Binjiang Guotou Limited (Guarantor: Taizhou Xinbinjiang Development Co Ltd) | USD219mn | 3-year | 7.0% |
| 25-Mar-20 | HSBC Holdings PLC | USD2.5bn | 10-year | T+415bps |
| 25-Mar-20 | SATS Ltd | SGD200mn | 5-year | 2.88% |
| 23-Mar-20 | Maybank Singapore Limited | SGD500mn | 10-year | 3.7% |
| 24-Mar-20 | Xinhu (BVI) 2018 Holding Company Limited (Guarantor: Xinhu Zhongbao Co Ltd) | USD200mn | 3-year | 11.0% |
| 19-Mar-20 | China Construction Bank (Asia) Corporation Limited | USD500mn | PERPNC5 | 3.18% |
| 13-Mar-20 | Export-Import Bank of Korea | USD425mn | 5-year | 1.375% |
| 13-Mar-20 | PCGI Intermediate Limited (Guarantor: PCGI Ltd) | USD137.46mn | PCGIIN 4.75%'24s | 4.75% |
| 11-Mar-20 | China Cinda (2020) I Management Ltd. (Guarantor: China Cinda (HK) Holdings Co.) | USD700mn<br>USD500mn<br>USD300mn<br>USD500mn | 3-year<br>5-year<br>7-year<br>10-year | T+160bps<br>T+195bps<br>T+240bps<br>T+255bps |
| 11-Mar-20 | Beijing Capital Polaris Investment Co. Ltd. (Guarantor: Beijing Capital Group Co. Ltd.) | USD300mn | 3-year | 2.8% |
| 11-Mar-20 | Xiang Sheng Holding Limited (Guarantor: Shinsun Real Estate Group Co. Ltd.) | USD53mn | SHXREG 12.5%'22s | 12.5% |

*Source: OCBC, Bloomberg*

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