# OCBC TREASURY RESEARCH

## Asian Credit Daily

Wednesday, August 12, 2020

**Market Commentary**

- The SGD swap curve bear steepened yesterday, with the shorter and belly tenors trading 4-7bps higher while the longer tenors traded 8-10bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 167bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 22bps to 664bps. The HY-IG Index Spread tightened 21bps to 496bps.
- Flows in SGD corporates were heavy, with flows in STTGDC 3.13%'28s, UBS 4.85%-PERPs, NTUCSP 3.1%'50s, STANLN 5.375%-PERPs, UOBSP 3.58%-PERPs, HSBC 4.7%-PERPs, NTUCSP 3.65%'27s, OLAMSP 6%'22s, SOCGEN 6.125%-PERPs and UBS 5.875%-PERPs.
- 10Y UST Yields gained 7bps to 0.64%, the highest since 6 July, ahead of the record-size 10-year notes auction this week.


**Credit Research**

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**Credit Summary:**

- Singapore Post Limited ("SPOST") **| Issuer Profile: Neutral (3):** SPOST released a business update for the quarter ended 30 June 2020. Revenue rose 12%y/y to SGD360mn on the back of continued growth in cross-border eCommerce delivery volumes in International Post and Parcel. Profit on operating activities though was SGD22mn, down by 49%y/y due to higher operating expenses from disruption to supply and higher doubtful debt provisions. As at 30 June 2020, SPOST has SGD586mn cash on hand vs SGD364mn borrowings.
- Sembcorp Industries Ltd ("SCI") **| Issuer Profile: Neutral (4) and** Sembcorp Marine Ltd ("SMM") **| Issuer Profile: Unrated:** SMM announced that its shareholders have approved resolutions with regards to (1) The proposed renounceable underwritten rights issue and (2) Whitewash resolution that waives investors' rights to receive a mandatory takeover offer from Temasek. SCI announced that its shareholders have approved the resolution to distribute shares in SMM as a dividend-in-specie.
- Frasers Property Ltd ("FPL") **| Neutral (5):** FPL provided a business update for 9MFY2020 ended 30 June 2020, which generally painted a weaker outlook. Overall, FPL reported pre-sold revenue of SGD1.4bn across Singapore, Australia, China and Thailand. Reported net gearing increased by 6.1% pp from 106.8% as at 31 Mar 2020 to 112.9% as at 30 June 2020. Reported net interest coverage deteriorated to 3x as at 30 June 2020.
- Commonwealth Bank of Australia ("CBA") **| Issuer Profile: Positive (2):** Similar to most bank results, overall performance was dragged by a substantial rise in credit costs with AUD2.52bn set aside, up 110% y/y. Pre-provision profit was otherwise broadly stable, up 0.9% y/y to AUD12.9bn as total income and expenses each rose 1% y/y. On a continuing operations basis, cash net profit after tax fell 11% y/y to AUD7.3bn. The APRA compliant CET1 ratio of 11.6% as at 30 June 2020 is strong - on an internationally comparable basis, the CET1 ratio improves to 17.4%. Other credit ratios were also solid with the average liquidity coverage ratio and net stable funding ratio at 155% and 120% respectively.

**Credit Headlines**

**Singapore Post Limited ("SPOST") | Issuer Profile: Neutral (3)**

- SPOST released a business update for the quarter ended 30 June 2020. Revenue rose 12%y/y to SGD360mn on the back of continued growth in cross-border eCommerce delivery volumes in International Post and Parcel. Profit on operating activities though was SGD22mn, down by 49%y/y due to higher operating expenses from disruption to supply chain (e.g. temporary housing of Malaysian employees in Singapore, delays and increased conveyance costs for international air freight) and higher doubtful debt provisions.
  - **Post and Parcel** saw revenue up by 15%y/y to SGD215mn (Domestic: -14%y/y to SGD56mn, International: +30%y/y to SGD158mn) while profit was down by 62%y/y to SGD14mn. Domestic post continues to decline as expected due to electronic substitution. Business mailing was also down due to the circuit breaker.
  - **Logistics** saw revenue increase by 17%y/y to SGD140mn with profit at SGD3mn vs a loss of SGD2mn a year ago
  - **Property** saw revenue fall by 19%y/y to SGD24mn while profit fell by 16%y/y to SGD11mn. This was in part due to financial assistance SPOST extended to help tenants at SingPost Centre retail mall.
- As at 30 June 2020, SPOST has SGD586mn cash on hand vs SGD364mn borrowings. As such, SPOST remains in a net cash position. We maintain SPOST at an issuer profile of Neutral (3). (Company, OCBC)

**Sembcorp Industries Ltd ("SCI") | Issuer Profile: Neutral (4) and Sembcorp Marine Ltd ("SMM") | Issuer Profile: Unrated**

- SMM announced that its shareholders have approved resolutions with regards to (1) The proposed renounceable underwritten rights issue and (2) Whitewash resolution that waives investors' rights to receive a mandatory takeover offer from Temasek (which is the single largest shareholder of SCI). SMM is currently a ~61%-owned subsidiary of SCI.
  - 98.76% of votes were in favour for Resolution (1) while 87.72% of the votes were in favour for Resolution (2), perhaps reflecting earlier reported sentiments that some shareholders were hoping for a take-private of SMM instead.
- SCI announced that its shareholders have approved the resolution to distribute shares in SMM as a dividend-in-specie. In total, 99.67% of the votes were in favour of the resolution. Temasek, parties acting in concert and non-independent directors were required to abstain from voting.
- With this, key milestones have been cleared. The next step would be the rights issue at SMM where SMM would first recapitalize itself via a highly dilutive renounceable rights issue of equity. SMM will raise ~SGD600mn in new money (sub-underwritten by Temasek), while no new money is required from SCI. Instead, SGD1.5bn of debt that was earlier extended by SCI to SMM would be converted into equity as part of the recapitalisation.
- Subsequent to the recapitalisation, SMM would be spun-out from SCI. We had held that the two-step transaction is a credit positive for SCI and on 12 June 2020 upgraded its issuer profile to Neutral (4). (Business Times, Company, OCBC)

# Asian Credit Daily

**Credit Headlines**

**Frasers Property Ltd ("FPL") | Neutral (5)**

- FPL provided a business update for 9MFY2020 ended 30 June 2020, which generally painted a weaker outlook.
  - **Singapore:** Although the office portfolio is relatively resilient with higher occupancy rates, the retail business has been significantly impacted from COVID-19. To support retail business, FPL has given in total SGD56.8mn tenants support package as at 30 June 2020. Residential sales appear to be lackluster with just 52 units sold with an unrecognized revenue of SGD0.1bn. According to URA caveats, only 58 out of 455-units at Riviere have been sold as of end-Jul 2020.
  - **Australia:** Unrecognised revenue from residential sales totaled SGD1.0bn, which we believe a substantial amount could be recognized going forward given that 700 units are due for settlement in 4QFY2020 though it remains to be seen if settlement risk would rise. Investment portfolio remained solid with occupancy of 95% and Weighted Average Lease Expiry ("WALE") of 5.6 years.
  - **Industrial & Logistics:** Industrial and logistics investment portfolio performed relatively better than other sectors due to active e-commerce business during the COVID-19 outbreak and re-balancing of industrial supply chain amidst US-China trade war. FPL saw 99% occupancy rate in both Australia and Europe, reflecting strong tenant resilience.
  - **Hospitality:** In 3QFY2020, occupancies declined 36.8% y/y to 46.7% and ADR declined by 8.4% y/y to SGD128.8, with significantly weaker results across every region.
  - **Others:** Frasers Property Thailand ("FPT") is expected to complete the acquisition of Golden Land Property Development Plc ("GOLD") within Aug 2020. Thailand's exposure to industrial and commercial properties is less affected by COVID-19 due to long leases though residential projects are pushed back due to weaker market sentiments. China appears to be a relatively brighter spot with 252 out of 269 units sold for Opus One, a residential project launched in Apr 2020. Occupancy remains healthy at FPL's commercial portfolio in China (Suzhou Baitang: 100% occupancy, Gemdale Megacity Phase 1: 90% occupancy).
- Overall, FPL reported pre-sold revenue of SGD1.4bn across Singapore, Australia, China and Thailand. Cash and deposits was SGD3.96mn as at 30 June 20. For 9MFY2020, reported net debt increased 23.2% to SGD17.02bn from SGD13.816bn as at 30 Sep 2019. Reported net gearing increased by 6.1% pp from 106.8% as at 31 Mar 2020 to 112.9% as at 30 June 2020 (Net gearing post-recapitalisation of Northpoint City (South Wing) would be 107.0%). Reported net interest coverage deteriorated to 3x as at 30 June 2020 (2Q2020: 4x). We continue to maintain FPL at a Neutral (5) Issuer Profile. (Company, OCBC)

**Credit Headlines**

**Commonwealth Bank of Australia ("CBA") | Issuer Profile: Positive (2)**

- CBA released its FY2020 results with cash net profit before tax down 10% y/y to AUD10.3bn. Similar to most bank results, overall performance was dragged by a substantial rise in credit costs with AUD2.52bn set aside, up 110% y/y. Pre-provision profit was otherwise broadly stable, up 0.9% y/y to AUD12.9bn as total income and expenses each rose 1% y/y. On a continuing operations basis, cash net profit after tax fell 11% y/y to AUD7.3bn.
- Higher collective provisions (AUD2.0bn or 81.1% of total credit provisions of which AUD1.5bn is related to COVID-19) across all business segments were the main driver for the rise in credit provisions with material increases across Retail Banking Services (+50.3%), Business and Private Banking (+112%) and Institutional Banking and Markets (+19.4x). New Zealand also saw credit provisions increase 186.3%. Underpinning the credit provisions were AUD48bn in home loans deferred across 135,000 accounts (8% of total accounts) with 67% of deferrals having a dynamic loan-to-value ratio less than 80% as well as AUD14bn in business loans, or about 15% of outstanding balances. Both home loan and business lending deferral loan account numbers have been dropping, down 12.3% and 13.4% since their peak as at end of July.
- Recognizing the regulatory guidance provided by the Australian Prudential Regulation Authority ("APRA"), loan arrears remained low despite the volume of deferrals. Arrears greater than 90 days for personal and home loans actually fell y/y to 1.51% (-5bps y/y) and 0.63% (-5bps y/y) respectively however credit card arrears rose 21bps y/y to 1.23%. Troublesome and impaired assets rose 11.7% y/y to AUD8.7bn driven by corporate exposures in transport and storage, manufacturing, culture and recreation, business services, retail and wholesale trade, and discretionary spending other sectors. Given the large credit cost provisioning, total impairment provisions rose 32.6% y/y with the total provision coverage ratio rising to 1.7% as at 30 June 2020 from 1.29% as at 30 June 2019.
- On a segmental basis, cash net profit after tax from continuing operations rose in Retail Banking Services (+2% y/y) while all other segments fell, mostly in Institutional Banking and Markets (-41% y/y) due to a 7% y/y fall in totala operating income while operating expenses rose 1% y/y.
- In terms of the outlook, the CET1 APRA ratio at 11.6% is strong compared to APRA's minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios in Australia's banking sector and up 90bps y/y on earnings performance as well as a positive capital benefit from receipt of sales proceeds of Colonial First State Global Asset Management, PT Commonwealth Life, and the phased divestment of CommInsure Life. On an internationally comparable basis, the CET1 ratio improves to 17.4%. Other credit ratios were also solid with the average liquidity coverage ratio and net stable funding ratio at 155% and 120% respectively, above the 100% minimum requirement on deposit growth and the Reserve Bank of Australia's Term Funding Facility.
- Although highlighting uncertainty on the future, likely ongoing earnings pressure from lower interest rates and lower credit growth and that the next few months will be critical to the recovery, CBA still paid the maximum dividend allowed by regulators declaring a second-half dividend of AUD0.98 per share, down from AUD2.31 a year earlier. This was equal to 49.95% of 2H2020 statutory profit, just shy of APRA's regulatory guidance to keep dividend payouts to less than 50% of earnings during the COVID-19 pandemic.
- CBA's results reflect a mix of solid underlying fundamentals in a challenging environment and the benefits of ongoing government and regulatory support. This enabled the bank to have the confidence to accommodate the payment of dividends which it also sees as another form of support for consumers and the economy. The Positive (2) issuer profile remains appropriate in our view. (Company, OCBC).

### Key Market Movements

| | 12-Aug | 1W chg (bps) | 1M chg (bps) |
|---|---|---|---|
| **iTraxx Asiax IG** | 65 | -3 | -14 |
| **iTraxx SovX APAC** | 37 | -2 | -6 |
| **iTraxx Japan** | 59 | -1 | -1 |
| **iTraxx Australia** | 68 | -2 | -13 |
| **CDX NA IG** | 67 | 2 | -8 |
| **CDX NA HY** | 104 | 0 | 5 |
| **iTraxx Eur Main** | 53 | -2 | -8 |
| **iTraxx Eur XO** | 342 | 0 | -27 |
| **iTraxx Eur Snr Fin** | 62 | -3 | -11 |
| **iTraxx Eur Sub Fin** | 131 | -3 | -20 |
| **iTraxx Sovx WE** | 15 | 0 | -3 |
| **USD Swap Spread 10Y** | 0 | 1 | 2 |
| **USD Swap Spread 30Y** | -39 | 3 | 8 |
| **US Libor-OIS Spread** | 18 | 1 | -1 |
| **Euro Libor-OIS Spread** | -1 | -1 | -4 |
| **China 5Y CDS** | 40 | -1 | -5 |
| **Malaysia 5Y CDS** | 51 | -4 | -14 |
| **Indonesia 5Y CDS** | 105 | -5 | -18 |
| **Thailand 5Y CDS** | 40 | -1 | -3 |

| | 12-Aug | 1W chg | 1M chg |
|---|---|---|---|
| **Brent Crude Spot ($/bbl)** | 44.65 | -1.15% | 3.26% |
| **Gold Spot ($/oz)** | 1,918.04 | -5.89% | 6.39% |
| **CRB** | 146.86 | -0.71% | 3.77% |
| **GSCI** | 347.09 | 0.12% | 2.72% |
| **VIX** | 24.03 | 1.14% | -11.95% |
| **CT10 (%)** | 0.630% | 8.22 | -1.48 |
| **AUD/USD** | 0.715 | -0.63% | 2.98% |
| **EUR/USD** | 1.174 | -1.03% | 3.50% |
| **USD/SGD** | 1.373 | -0.25% | 1.25% |
| **AUD/SGD** | 0.982 | 0.37% | -1.68% |
| **ASX 200** | 6,149 | 2.46% | 3.88% |
| **DJIA** | 27,687 | 3.20% | 6.18% |
| **SPX** | 3,334 | 0.82% | 4.67% |
| **MSCI Asiax** | 712 | -0.91% | 2.02% |
| **HSI** | 24,891 | -0.22% | -3.25% |
| **STI** | 2,544 | 2.38% | -4.09% |
| **KLCI** | 1,565 | -0.71% | -1.70% |
| **JCI** | 5,190 | 2.27% | 3.16% |
| **EU Stoxx 50** | 3,332 | 2.39% | 1.09% |

*Source: Bloomberg*

### New Issues

- Li & Fung Ltd priced a USD300mn 5-year bond at 4.50%, tightening from IPT of 4.90% area.
- Fantasia Holdings Group Co Ltd priced a USD200mn re-tap of its FTHDGR 7.95%'22s at 7.98%, tightening from IPT of 8.375% area.
- Redco Properties Group Limited priced a USD300mn 364-day bond at 9.70%, tightening from IPT of 10.125% area.
- Export-Import Bank of Korea priced a USD100mn 4-year bond at 0.825%.
- Hangzhou Qiantang New District Construction Investment Group Co. Ltd. priced a USD300mn 3-year bond at 3.2%.
- Axiata Group Bhd has arranged investor calls commencing, MTR Corporation Limited and Vedanta Holdings Mauritius II Limited have arranged investor calls commencing 11 August 2020 for their proposed USD bond offerings.
- Hangzhou Qiantang New Area Construction and Investment Group Co. has mandated banks for its proposed USD bond offering.

| Date | Issuer | Size | Tenor | Pricing |
|---|---|---|---|---|
| 11-Aug-20 | Li & Fung Ltd | USD300mn | 5-year | 4.50% |
| 11-Aug-20 | Fantasia Holdings Group Co Ltd | USD200mn | FTHDGR 7.95%'22s | 7.98% |
| 11-Aug-20 | Redco Properties Group Limited | USD300mn | 364-day | 9.70% |
| 11-Aug-20 | Export-Import Bank of Korea | USD100mn | 4-year | 0.825% |
| 11-Aug-20 | Hangzhou Qiantang New District Construction Investment Group Co. Ltd. | USD300mn | 3-year | 3.2% |
| 7-Aug-20 | BPHL Capital Management Limited (Guarantor: Beijing Properties (Holdings) Limited ) | USD150mn | BEIPRO 5.95%’23s | 6.00% |
| 7-Aug-20 | E-House (China) Enterprise Holdings Limited (Guarantors: Fangyou Information Technology Holdings Ltd and Hong Kong Fangyou Software Technology Co Ltd) | USD100mn | EHOUSE 7.625%’22s | 8.375% |
| 6-Aug-20 | Huatong International Investment Holdings Co. (Guarantor: Qingdao China Prosperity State-owned Capital Operation (Group) Co., Ltd) | USD200mn | 3-year | 3.35% |
| 6-Aug-20 | AIMS APAC REIT Management Limited | SGD125mn | PerpNC5 | 5.65% |
| 5-Aug-20 | CMB International Leasing Management Limited | USD800mn<br>USD400mn | 5-year<br>10-year | T+170bps<br>T+228bps |

*Source: OCBC, Bloomberg*

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