

Market Commentary

- The SGD swap curve steepened yesterday, with the shorter tenors trading 0-3bps lower while the belly and the longer tenors traded 0-8bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 3bps to 252bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 18bps to 973bps. The HY-IG Index Spread tightened 15bps to 720bps.
- Flows in SGD corporates were heavy, with flows in OLAMSP 6%'22s, STANLN 5.375%-PERPs, HPLSP 3.85%'21s, HSBC 4.7%-PERPs, LOGPH 6.125%'21s and SIASP 3.13%'27s.
- 10Y UST Yields gained 3bps to 0.71%, as a strong pace of IG corporate credit issuances was maintained with the lack of a strong catalyst.

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Credit Summary:

- **[City Developments Ltd \("CDL"\)](#) | Issuer Profile: Neutral (3):** CDL released an operational update for 1Q2020 as it transits away from quarterly reporting. Revenue and profit figures are not given though there are updates to its major business units. All segments have been impacted by the COVID-19 outbreak. Net gearing (including fair value gains) inched up q/q to 44% (4Q2019: 43%) though reported interest cover fell to 6.2x (2019: 14.0x), likely due to weaker profitability. Liquidity profile remains ample with cash of SGD3.3bn and committed/undrawn credit lines of SGD2.3bn well-exceeding SGD1.8bn of debt maturing in 2020.
- **[Fraser and Neave Ltd \("FNN"\)](#) | Issuer Profile: Neutral (4):** FNN reported 1HFY2020 results for the period ending 31 Mar 2020. Revenue grew 4.8% y/y, due to growth in Beverages (+2.8% y/y), Dairies (+7.3% y/y) though Printing and Publishing saw some pressure (-1.6% y/y). Overall, FNN appears largely sheltered from the outbreak of COVID-19 with only slight impact on profitability and revenue. Credit metrics look healthy still though net gearing increased q/q to 18.6% (1QFY2020: 15.0%). Cash of SGD249.2mn significantly covers SGD19.5mn of borrowings and SGD15.7mn of lease liabilities in the next 12 months.
- **[Commerzbank AG \("CMZB"\)](#) | Issuer Profile: Neutral (4):** CMZB has cancelled its planned sale of Polish Subsidiary mBank SA. The sale was a key aspect of CMZB's "Commerzbank 5.0" strategic programme that was announced in September 2019. With the COVID-19 pandemic still running its course in Europe, the materially weaker operating environment has impacted the valuation of mBank SA and likely amplified the need for CMZB to pursue cost reductions more aggressively. Chief Executive Officer Martin Zielke has indicated additional cost cuts to those announced in September 2019 and has also hired McKinsey & Co. to review the bank's business model and to provide the outcome of the review by August when management is expected to update the market of its cost-cutting targets.

Asian Credit Daily**Credit Headlines****City Developments Ltd (“CDL”) | Issuer Profile: Neutral (3)**

- CDL released an operational update for 1Q2020 as it transits away from quarterly reporting. Revenue and profit figures are not given though there are updates to its major business units, including Property Development, Investment Properties and Hotel Operations. All segments have been impacted by the COVID-19 outbreak.
- Property development in Singapore saw a slowdown in revenue to SGD278.1mn with 185 units sold (1Q2019: 173 units sold for SGD516.3mn) due to lower sale value of projects in 1Q2020 which are mass and mid-market including Piermont Grand, Whistler Grand and The Tapestry, as compared to 1Q2019's Boulevard 88 and South Beach Residences. Sales volume are expected to decline as sales galleries have closed due to the circuit breaker. Meanwhile, construction work is affected though we note that TOP for most projects are in 2022-23 and hence should be manageable. Meanwhile, new home sales in overseas markets have slowed significantly, including China, UK and Australia due to the lockdowns implemented.
- Investment properties have also been impacted with 80% of CDL's retail tenants in Singapore not operating. These tenants are given 2.8 months of gross rental rebates (which include rebate from enhanced property tax) and CDL will allow tenants to offset rent using security deposits. Overseas retail properties are also affected and CDL have offered rebates to tenants in Suzhou and Thailand.
- Hotel operations are severely impacted with RevPar lower by 27.0% y/y due to travel restrictions, trip cancellations and postponement of major events. 30% of CDL's 152 hotels were temporarily closed, including most of the hotels in Europe and UK (except for the few which remain open for key essential workers). In Singapore, while the hotels are operational and focused on public-sector businesses including housing those affected by the Malaysia border closure (18 Mar – 12 May) and overseas returnees serving out their Stay-Home Notices, RevPAR for Singapore declined 28.8% due to lower occupancy. According to CDL, the hotels in Singapore maintained a breakeven position in April.
- Net gearing (including fair value gains) inched up q/q to 44% (4Q2019: 43%) though reported interest cover fell to 6.2x (2019: 14.0x), likely due to weaker profitability. Liquidity profile remains ample with cash of SGD3.3bn and committed/undrawn credit lines of SGD2.3bn well-exceeding SGD1.8bn of debt maturing in 2020.
- We continue to maintain CDL at a Neutral (3) Issuer Profile though we are wary of significant acquisitions that CDL may potentially undertake. As a recap, [CDL is acquiring 51.01%-effective stake in Sincere](#) for RMB4.39bn (SGD0.88bn) and CDL has already acquired more stakes in IREIT Global for SGD25.5mn. (Company, OCBC)

Asian Credit Daily**Credit Headlines****Fraser and Neave Ltd (“FNN”) | Issuer Profile: Neutral (4)**

- FNN reported 1HFY2020 results for the period ending 31 Mar 2020. Revenue grew 4.8% y/y to SGD976.7mn, due to growth in Beverages (+2.8% y/y to SGD241.1mn), Dairies (+7.3% y/y to SGD609.2mn) though Printing and Publishing saw some pressure (-1.6% y/y to SGD126.2mn).
- However, reported PBIT rose by a lower 3.9% y/y to SGD141.9mn as Dairies contribution fell to SGD139.2mn (1HFY2019: SGD140.0mn) from higher supply chain costs, unfavourable input costs and higher marketing spend despite increase in Dairies revenue in the major markets including Thailand, Singapore and Malaysia. Meanwhile, Vinamilk (which also contributed to Dairies segment) reportedly grew marginally in contribution to reported PBIT. Overall, PBIT growth was contributed by Beverages (+134% y/y to SGD7.6mn) due to higher sales (from revenue contribution from Emerald Brewery in Myanmar), lower overheads and marketing spend in new markets.
- Overall, FNN appears largely sheltered from the outbreak of COVID-19 with only slight impact on profitability and revenue. Operations are still continuing with F&B and printing plants operating though with reduced staff on-site. Meanwhile the off-trade channel saw growth which mitigated the loss of revenue from closure of certain customer channels.
- Credit metrics look healthy still though net gearing increased q/q to 18.6% (1QFY2020: 15.0%), mainly due to additional SGD41.7mn investments in associated and joint venture company, largely attributable to acquisition of shares in Vinamilk (with stakes boosted to 20.4% from 20.0%). Cash of SGD249.2mn significantly covers SGD19.5mn of borrowings and SGD15.7mn lease liabilities in the next 12 months. As such, while FNN is expecting weaker consumer demand in beverages and dairies in 2HFY2020, we continue to retain FNN at a Neutral (4) Issuer Profile. (Company, OCBC)

Asian Credit Daily**Credit Headlines****Commerzbank AG ("CMZB") | Issuer Profile: Neutral (4)**

- CMZB has cancelled its planned sale of Polish Subsidiary mBank SA. The sale was a key aspect of CMZB's ["Commerzbank 5.0" strategic programme](#) that was announced in September 2019.
- CMZB's current strategic programme was a consequence of both its weaker than expected performance and the unsuccessful exploration of mergers with Deutsche Bank AG and UniCredit AG in the first half of 2019. Key aspects of the plan included a focus on mobile banking and branch network rationalisation as well as digitalisation in the Corporate Clients segment along with portfolio adjustments to improve returns in the persisting challenging domestic operating environment. This plan had already hit roadblocks early with initial interest for mBank SA below CMZB's expectations and shareholder dissatisfaction with the aggressiveness of the plans to improve performance through expected cost reductions of around EUR600mn by 2023 to offset the weak revenue environment. Shareholders and investors also felt that mBank SA was a profitable part of the bank that should be kept.
- With the COVID-19 pandemic still running its course in Europe, the materially weaker operating environment has impacted the valuation of mBank SA and likely amplified the need for CMZB to pursue cost reductions more aggressively. Banks in the midst of restructuring like CMZB have now been caught in a shifting sands moment, needing to revisit strategic plans to adjust to a changed operating landscape and combat already challenged underlying fundamentals that existed before the crisis.
- To address this, Chief Executive Officer Martin Zielke has indicated additional cost cuts to those announced in September 2019 and has also hired McKinsey & Co. to review the bank's business model with a potential timeline to provide the outcome of the review by August when management are expected to update the market of its cost-cutting targets.
- According to Bloomberg, McKinsey's review is not the first and follows a study by Boston Consulting Group that was commissioned by the government, which also recommended more cost cuts.
- CMZB is expected to announce 1Q2020 results on May 13 (Company, Bloomberg, OCBC)

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Key Market Movements

	12-May	1W chg (bps)	1M chg (bps)		12-May	1W chg	1M chg
iTraxx Asiax IG	117	-3	-6	Brent Crude Spot (\$/bbl)	29.73	-4.00%	-5.56%
iTraxx SovX APAC	66	-3	-4	Gold Spot (\$/oz)	1,699.07	-0.40%	-0.95%
iTraxx Japan	78	-2	-8	CRB	122.67	3.50%	-4.02%
iTraxx Australia	118	-3	-19	GSCI	274.10	-0.03%	-0.83%
CDX NA IG	93	3	9	VIX	27.57	-23.35%	-33.84%
CDX NA HY	94	1	-3	CT10 (%)	0.692%	3.05	-2.67
iTraxx Eur Main	84	0	6				
iTraxx Eur XO	507	-3	37	AUD/USD	0.645	0.22%	0.99%
iTraxx Eur Snr Fin	103	-1	10	EUR/USD	1.080	-0.38%	-1.05%
iTraxx Eur Sub Fin	223	-4	11	USD/SGD	1.419	-0.27%	-0.27%
iTraxx Sovx WE	30	-1	3	AUD/SGD	0.915	-0.46%	-1.27%
USD Swap Spread 10Y	-6	-5	-13	ASX 200	5,384	-0.42%	-0.06%
USD Swap Spread 30Y	-51	-4	-15	DJIA	24,222	1.99%	2.12%
US Libor-OIS Spread	38	-5	-76	SPX	2,930	3.08%	5.04%
Euro Libor-OIS Spread	23	5	-1	MSCI Asiax	608	2.97%	4.51%
				HSI	24,248	1.59%	-0.21%
China 5Y CDS	49	0	6	STI	2,584	0.81%	0.51%
Malaysia 5Y CDS	105	-4	2	KLCI	1,381	-1.92%	1.71%
Indonesia 5Y CDS	205	-9	-1	JCI	4,627	0.47%	-0.47%
Thailand 5Y CDS	62	-3	-16	EU Stoxx 50	2,884	2.39%	-0.31%
Australia 5Y CDS	28	1	-5				

Source: Bloomberg

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New Issues

- PT Indonesia Asahan Aluminium (Persero) priced a USD2.5bn deal across three tranches: (1) a USD1bn 5-year bond at 4.975%, (2) a USD1bn 10-year bond at 5.75%, and (3) a USD500mn 30-year bond at 6.325%, tightening from IPT of 5.5%, 6.25%, and 6.875% area respectively.

Date	Issuer	Size	Tenor	Pricing
11-May-20	PT Indonesia Asahan Aluminium (Persero)	USD1bn USD1bn USD500mn	5-year 10-year 30-year	4.975% 5.75% 6.325%
07-May-20	AMTD International Inc	USD50mn	PERPNC5	4.5%
07-May-20	Lenovo Group Ltd	USD350mn	LENOVO 5.875%'25s	5.64%
06-May-20	Sun Hung Kai Properties (Capital Market) Limited (Guarantor: Sun Hung Kai Properties Limited)	USD500mn	10-year	T+210bps
06-May-20	Sinopec Group Overseas Development (2018) Limited (Guarantor: China Petrochemical Corporation)	USD1bn USD1.5bn USD500mn	5-year 10-year 30-year	T+180bps T+205bps 3.35%
05-May-20	CK Hutchison International (20) Limited (Guarantor: CK Hutchison Holdings Limited)	USD750mn USD750mn	10-year 30-year	T+190bps T+210bps
05-May-20	PT Bank Mandiri (Persero) Tbk	USD500mn	5-year	T+455bps
05-May-20	QBE Insurance Group Limited	USD500mn	PERPNC5	5.875%
04-May-20	PT Hutama Karya (Persero) (Guarantor: The Government of the Republic of Indonesia)	USD600mn	10-year	3.8%
30-Apr-20	FCT MTN Pte. Ltd. (Guarantor: Frasers Centrepoint Trust)	SGD200mn	3-year	3.2%
29-Apr-20	Shuifa International Holdingsbvico. Ltd (Guarantor: Shuifa Group Co Ltd)	USD350mn	3-year	4.3%
29-Apr-20	Amber Treasure Ventures Limited (Guarantor: Nan Hai Corporation Limited)	USD500mn	2NC1	3.5%
29-Apr-20	SDSC International Development Limited (Guarantor: Shandong Shipping Corporation)	USD40mn	SDSHIP 5.9%'22s	5.9%
28-Apr-20	Wharf REIC Finance (BVI) Limited (Guarantor: Wharf Real Estate Investment Company Limited)	USD450mn USD300mn	5-year 10-year	T+205bps T+235bps

Source: OCBC, Bloomberg

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