# OCBC TREASURY RESEARCH

## Asian Credit Daily

Wednesday, May 13, 2020

**Market Commentary**

- The SGD swap curve bull-flattened yesterday, with the shorter tenors trading 1-3bps lower while the belly and the longer tenors traded 3-4bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 251bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 9bps to 964bps. The HY-IG Index Spread tightened 7bps to 713bps.
- Flows in SGD corporates were heavy, with flows in FPLSP 4.98%-PERPs, HSBC 4.7%-PERPs, CS 5.625%-PERPs, SPHSP 4.5%-PERPs, STANLN 5.375%-PERPs and UBS 4.85%-PERPs.
- 10Y UST Yields fell 4bps to 0.67%, after U.S. top COVID-19 health official Anthony Fauci warned that states reopening too quickly may be extremely dangerous and a U.S. Republican senator introduced a China sanctions bill related to the outbreak of COVID-19.

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**Credit Summary:**

- **Ausnet Services Ltd ("AST") | Issuer Profile: Neutral (3):** AST reported full year results for the period ended 31 March 2020 ("FY2020"). Revenue was up by 6.2% y/y while EBITDA was up 5.5% y/y. As at 31 March 2020, net gearing was 75%, up from 70% a year ago and AST has AUD710mn of borrowings maturing in FY2021 which can be more than covered using its cash and undrawn bank debt facilities.
- **Frasers Property Ltd ("FPL") | Issuer Profile: Neutral (4):** FPL reported results for 2QFY2020 for the quarter ended 31 March but will be transiting to half-yearly reporting subsequently. Revenue rose 5.7% y/y, with PBIT before fair value change and exceptional items rising 18.9% y/y. Going forward, we think there may be increased impact from COVID-19 outbreak on FPL as 2QFY2020 results recorded performance pre-circuit breaker in Singapore. Credit metrics have weakened q/q mainly due to the redemption of SGD700mn 5% PERP despite the divestment of 2 properties to Frasers Logistics Trust.
- **Sembcorp Industries Ltd ("SCI") | Issuer Profile: Neutral (5) and Sembcorp Marine Ltd ("SMM") | Issuer Profile: Unrated:** SMM (61%-owned by SCI) has changed to half-yearly reporting rather than quarterly reporting although had shared an interim business update for 1Q2020. Per SMM, the company has been adversely affected by the COVID-19 outbreak while the current low and volatile oil price levels have impacted its important customers. The company expects overall business volumes to further weaken in 9M2020, but it has adequate existing loan facilities to refinance short term debt.
- **Commonwealth Bank of Australia ("CBA") | Issuer Profile: Positive (2):** CBA released its trading update for 3Q2020 (period ended 31 March 2020) which is compared to the average of the two quarters for 1HFY2020 (ended 31 December 2019). Cash NPAT was down 40.9% in 3Q2020 to AUD1.3bn against the AUD2.2bn quarterly average in 1HFY2020. Loan quality metrics still appear decent with 90+ days consumer arrears across personal loans, credit cards and home loans down y/y. CBA's capital position remains solid with its APRA compliant CET ratio at 10.7% as of 31 March 2020, still above APRA's minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios in Australia's banking sector.

# Asian Credit Daily

**Credit Headlines**

**Ausnet Services Ltd ("AST") | Issuer Profile: Neutral (3)**

- AST reported full year results for the period ended 31 March 2020 ("FY2020"). Revenue was up by 6.2% y/y to AUD2.0bn while EBITDA was up 5.5% y/y to AUD1.2bn. This was largely due to higher regulated revenues (AUD59mn) and customer contributions (AUD22mn). AST has completed the construction of three connection projects for renewable generators, entered into new contractual arrangements with key suppliers and used technology to improve efficiencies of both operational and support processes.
- EBITDAaL (i.e. EBITDA plus lease interest income) of AUD1.2bn was made up of 46% electricity distribution, 34% electricity transmission, 13% gas transmission which together form its regulated business, and 6% mondo – its contracted business.
- Net profit after tax was up by 14.5% y/y to AUD290.7mn on the back of continued cost efficiency focus, higher incentive revenues, regulated price increases, higher gifted assets and growth in the unregulated infrastructure business.
- Total capex for FY2020 was AUD989mn (+2.0% y/y) with the split between growth and maintenance at 65% and 35% respectively. AUD147mn of which was related to bushfire mitigation and other safety measures.
- As at 31 March 2020, net debt including AUD706mn of hybrid securities was AUD8.9bn (up 17.1% y/y) with net gearing at 75% up from 70% a year ago. Net debt to regulated and contracted asset base though was stable at 67%. AST has AUD710mn of borrowings maturing in FY2021 which can be more than covered using its AUD650mn cash and AUD768mn of undrawn bank debt facilities. EBITDA (including lease income)/Interest was stable at 3.3x.
- AST has collaborated with Energy Networks Australia to provide a COVID-19 Customer Relief Package (applies from 1 April to 30 June 2020) where retailers and residential customers can defer networking charges and also waive certain charges for eligible clients. Interestingly, electricity consumption has fallen ~15% for small and medium business, ~7% for large business while that for residential has increased by ~18% in April 2020 vs April 2019. This led to an overall 2% increase in consumption.
- Looking ahead, AST will continue to invest and grow its asset base with the regulated asset based growth forecast at ~2.5% p.a. to FY2024. As at FY2020, the asset base is AUD10.83bn (up 5.45% y/y). AST is also targeting AUD1.5bn of contracted energy infrastructure assets by FY2024. On the capital management front, net debt to regulated and contracted asset base is targeted to be <70%. We continue to maintain AST at Neutral (3) Issuer Profile. (Company, OCBC)

**Credit Headlines**

**Frasers Property Ltd ("FPL") | Issuer Profile: Neutral (4)**

- FPL reported results for 2QFY2020 for the quarter ended 31 March. While quarterly results are still reported, FPL will be transiting to half-yearly reporting subsequently. Revenue rose 5.7% y/y to SGD2.13bn, with PBIT before fair value change and exceptional items ("Adjusted PBIT") rising 18.9% y/y to SGD790.1mn. However, the stronger results are mainly due to business segments which saw one-off gains while core results appear to have weakened in several segments.
  - Singapore: The growth in Adjusted PBIT for the group is mainly due to Singapore (+33.2% y/y to SGD128.7mn) with the addition of the PGIM Real Estate AsiaRetail Fund portfolio even though 50%-interest in Frasers Tower was divested in June 2019.
  - Industrial & Logistics: Although revenue remained flattish at SGD99mn, Adjusted PBIT rose 20.8% y/y to SGD71.0mn due to sales of land lots at Eastern Creek which offset the lower contributions from divestment of 3 Australian properties and 9 European properties to Frasers Logistics Trust.
  - Hospitality: Revenue fell by 21.1% y/y to SGD142.8mn with Adjusted PBIT at a negative SGD1.5mn (2QFY2020: +SGD20.7mn), driven by lower occupancies and daily rates due to COVID-19 outbreak.
  - Australia: Revenue fell 78.1% y/y to SGD88.3mn with Adjusted PBIT of negative SGD8.2mn (2QFY2020: +SGD49.9mn) due to lower profit recognition from residential property developments.
  - Thailand and Vietnam: Revenue increased sharply to SGD198.9mn (2QFY2019: SGD26.3mn) with PBIT rising 61.1% y/y to SGD46.1mn due to consolidation of Golden Land Property Development Public Co Ltd from Aug 2019.
  - Others (comprises UK and China residential and commercial properties): Revenue grew 146% y/y to SGD227.4mn with Adjusted PBIT higher by 115.3% y/y to SGD109.5mn due to higher levels of settlements at Chengdu Logistics Hub project (China Adjusted PBIT increased by SGD42mn to SGD73mn) and completion and settlements in Nine Riverside Quarter (UK PBIT rose SGD13mn to SGD34mn).
- Going forward, we think there may be increased impact from the COVID-19 outbreak on FPL as 2QFY2020 results recorded performance pre-circuit breaker in Singapore. According to FPL, the operating environment will remain challenging for its various businesses and will have an impact on its revenue and earnings. For example, Frasers Property Ltd and its REITs Frasers Commercial Trust (now merged into Frasers Logistics & Commercial Trust) and Frasers Centrepoint Trust have passed on property tax rebates and more to their tenants.
- In response, FPL is looking to conserve financial resources, for example by suspending its interim dividends, cutting operating expenses and deferring capex as much as possible.
- Credit metrics have weakened q/q with net gearing at 1.12x (1QFY2020: 0.97x). This is mainly due to the redemption of SGD700mn 5% PERP despite the divestment of 2 properties to Frasers Logistics Trust for SGD94.6mn in 1QFY2020.
- Going forward, FPL intends to bring net gearing below 1x, for example through the divestment of its assets to its REITs or a 3rd party. We note that FPL has completed the divestment of 50%-Farnborough Business Park Ltd to Frasers Logistics & Commercial Asset Management Pte Ltd for SGD157.7mn in Apr 2020.
- Due to the weakened credit metrics and challenging operating environment, we are currently reviewing FPL for a downgrade in Issuer Profile. (Company, OCBC)

**Credit Headlines**

**Sembcorp Industries Ltd ("SCI") | Issuer Profile: Neutral (5) and Sembcorp Marine Ltd ("SMM") | Issuer Profile: Unrated**

- SMM (61%-owned by SCI) has changed to half-yearly reporting rather than quarterly reporting although had shared an interim business update for 1Q2020.
- Per SMM, the company has been adversely affected by the COVID-19 outbreak (resulting in execution and completion delays) while the current low and volatile oil price levels have resulted in major oil companies (ie: important customers for SMM) deferring their final investment decisions from projects and cutting their capex significantly for 2020. For example, SMM's negotiation and finalisation of Siccar Point Cambo Floating Production, Storage and Offloading ("FPSO") project has been postponed to 2021.
- While no income statement figures were provided, the delays in execution of existing orders and lack of new orders have resulted in lower revenue recognition per company.
- The company expects overall business volumes to further weaken in 9M2020.
- SMM had shared that it is finalising its refinancing and re-profiling of its short term debt coming due into longer term maturities. While the company did not disclose the exact quantum of loan facilities that is available, the company shared that it has adequate existing loan facilities to refinance short term debt as they fall due. (Company, OCBC)

**Credit Headlines**

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

- CBA released its trading update for 3Q2020 (period ended 31 March 2020) which is compared to the average of the two quarters for 1HFY2020. All told, the above resulted in cash NPAT down 40.9% in 3Q2020 to AUD1.3bn against the AUD2.2bn quarterly average in 1HFY2020. Key themes include:
  - Provision of support to the economy of over AUD9bn to business customers, AUD3.6bn in repayment deferrals on home loans with balances of AUD50bn, and AUD555mn of new lending under the Government's SME Guarantee Scheme;
  - Additional credit provisions of AUD1.5bn, primarily related to changes in macro-economic assumptions; and
  - Sales of non-core assets including Colonial First State, AUSIEX and final regulatory approvals for the divestment of PT Commonwealth Life.
- Loan quality metrics still appear decent with 90+ days consumer arrears across personal loans, credit cards and home loans down y/y however there was a noticeable rise compared to 31 December 2019 although this is seasonal related. Troublesome and impaired assets also rose 3.8% q/q (+12.5% y/y) with stress seen in discretionary retail and agriculture. As a result of the substantial rise in credit provisions, the total provision coverage ratio to credit risk weighted assets was 1.65% as at 31 March 2020, improved from around 1.29% excluding AUD1.5bn in forward looking adjustments to provisions and AUD1.34% as at 31 December 2019.
- CBA's capital position remains solid with its APRA compliant CET ratio at 10.7% as of 31 March 2020, still above APRA's minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios in Australia's banking sector which has been relaxed as part of government relief measures to the banking industry in order to support the economy. Although the ratio is 20bps lower q/q, the current CET1 ratio includes 1H2020 dividend payments of AUD3.5bn (-79bps) and additional provisions for COVID-19 and customer remediation (-35bps) as well as a 20bps impact from higher credit risk weighted assets due to volume growth and a 14bps impact from revaluation of high quality liquid assets given market volatility in March. This was offset by the 18bps positive impact from the CommInsure Life divestment and 51bps from earnings. On an internationally comparable basis, CBA's CET1 ratio was at 16.2% as at 31 March 2020.
- On a proforma basis including expected impacts from remaining proceeds from CommInsure Life divestment and the previously announced divestments of BoComm Life, PT Commonwealth Life, and majority sale of Colonial First State, the APRA compliant ratio improves 67-77bps to 11.4%. The majority sale of Colonial First State was announced today together with earnings. The post-tax gain and CET1 positive impact is expected to be around AUD1.5bn-1.9bn adding 30-40bps to CBA's APRA compliant CET1 ratio. The sale to KKR is still subject to Australian Prudential Regulation Authority and Foreign Investment Review Board approvals with completion expected to occur in 1HFY2021. The sale of Colonial First State has been long planned by CBA but was deferred as it sought to address Australian Transaction Reports and Analysis Centre investigations on contraventions of the Anti-Money Laundering and Counter-Terrorism Financing Act.
- Fundamentals appear solid for CBA with provision coverage high, balance sheet risk manageable (in terms of lending composition, funding and liquidity) and capital position solid. This enabled the bank to accommodate the payment of dividends which it also sees as another form of support for consumers and the economy. That said, management has acknowledged that the ultimate economic and society impacts are hard to assess. The Positive (2) issuer profile remains appropriate in our view. (Company, OCBC).

**Key Market Movements**

| | 13-May | 1W chg (bps) | 1M chg (bps) |
|---|---|---|---|
| **iTraxx Asiax IG** | 116 | -5 | -7 |
| **iTraxx SovX APAC** | 67 | -3 | -3 |
| **iTraxx Japan** | 79 | -1 | -8 |
| **iTraxx Australia** | 118 | -3 | -19 |
| **CDX NA IG** | 93 | -1 | 9 |
| **CDX NA HY** | 94 | 1 | -4 |
| **iTraxx Eur Main** | 84 | -2 | 5 |
| | | | |
| **iTraxx Eur XO** | 503 | -19 | 34 |
| **iTraxx Eur Snr Fin** | 102 | -4 | 9 |
| **iTraxx Eur Sub Fin** | 220 | -10 | 8 |
| **iTraxx Sovx WE** | 30 | -1 | 2 |
| | | | |
| **USD Swap Spread 10Y** | -5 | -1 | -12 |
| **USD Swap Spread 30Y** | -50 | 0 | -14 |
| **US Libor-OIS Spread** | 38 | -2 | -76 |
| **Euro Libor-OIS Spread** | 22 | 1 | -2 |
| | | | |
| **China 5Y CDS** | 50 | -3 | 7 |
| **Malaysia 5Y CDS** | 108 | -3 | 5 |
| **Indonesia 5Y CDS** | 207 | -10 | 1 |
| **Thailand 5Y CDS** | 61 | -4 | -17 |
| **Australia 5Y CDS** | 29 | 1 | -5 |

| | 13-May | 1W chg | 1M chg |
|---|---|---|---|
| **Brent Crude Spot ($/bbl)** | 29.47 | -0.84% | -7.15% |
| **Gold Spot ($/oz)** | 1,703.29 | 1.04% | -0.70% |
| **CRB** | 122.63 | -0.82% | -4.15% |
| **GSCI** | 276.84 | 3.01% | -1.17% |
| **VIX** | 33.04 | -1.70% | -19.75% |
| **CT10 (%)** | 0.659% | -4.40 | -11.23 |
| | | | |
| **AUD/USD** | 0.647 | 1.16% | 1.44% |
| **EUR/USD** | 1.085 | 0.51% | -0.59% |
| **USD/SGD** | 1.417 | 0.27% | -0.09% |
| **AUD/SGD** | 0.917 | -0.79% | -1.53% |
| | | | |
| **ASX 200** | 5,362 | -0.42% | -0.47% |
| **DJIA** | 23,765 | -0.50% | 1.60% |
| **SPX** | 2,870 | 0.06% | 3.93% |
| **MSCI Asiax** | 601 | 1.04% | 3.67% |
| **HSI** | 24,266 | 0.53% | -0.14% |
| **STI** | 2,582 | 0.37% | 0.57% |
| **KLCI** | 1,392 | 1.13% | 2.66% |
| **JCI** | 4,555 | -1.63% | -1.49% |
| **EU Stoxx 50** | 2,884 | 0.29% | -0.30% |

*Source: Bloomberg*

**New Issues**

- REC Ltd priced a USD500mn 3-year bond at 4.86%.
- NWD (MTN) Ltd. (Guarantor: New World Development Co.) priced a USD600mn 10-year bond at T+380bps, tightening from IPT of T+420bps area.
- International Islamic Liquidity Management Corp. sold USD600mn of Sukuk in two tranches: (1) a USD300mn 1-month tenor at profit rate of 0.33%, and (2) a USD300mn 3-month tenor at profit rate of 0.5%.
- Tuan Sing Holdings Limited priced a SGD65mn 2NC1 bond at 7.75%.
- City Developments Limited priced a SGD200mn 5-year bond at 2.3%.
- Greenland Holding Group arranged investor calls commencing 15 May.

| Date | Issuer | Size | Tenor | Pricing |
|---|---|---|---|---|
| 12-May-20 | REC Ltd | USD500mn | 3-year | 4.86% |
| 12-May-20 | NWD (MTN) Ltd.<br>(Guarantor: New World Development Co.) | USD600mn | 10-year | T+380bps |
| 12-May-20 | International Islamic Liquidity Management Corp. | USD300mn<br>USD300mn | 1-month<br>3-month | 0.33%<br>0.5% |
| 12-May-20 | Tuan Sing Holdings Limited | SGD65mn | 2NC1 | 7.75% |
| 12-May-20 | City Developments Limited | SGD200mn | 5-year | 2.3% |
| 11-May-20 | PT Indonesia Asahan Aluminium (Persero) | USD1bn<br>USD1bn<br>USD500mn | 5-year<br>10-year<br>30-year | 4.975%<br>5.75%<br>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<br>(Guarantor: Sun Hung Kai Properties Limited) | USD500mn | 10-year | T+210bps |
| 06-May-20 | Sinopec Group Overseas Development (2018) Limited<br>(Guarantor: China Petrochemical Corporation) | USD1bn<br>USD1.5bn<br>USD500mn | 5-year<br>10-year<br>30-year | T+180bps<br>T+205bps<br>3.35% |
| 05-May-20 | CK Hutchison International (20) Limited<br>(Guarantor: CK Hutchison Holdings Limited) | USD750mn<br>USD750mn | 10-year<br>30-year | T+190bps<br>T+210bps |
| 05-May-20 | PT Bank Mandiri (Persero) Tbk | USD500mn | 5-year | T+455bps |

*Source: OCBC, Bloomberg*

# Treasury Research & Strategy

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