

Market Commentary

- The SGD swap curve bear steepened yesterday, with the shorter tenors trading 0-1bps higher while the belly and longer tenors traded 2-4bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 183bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 715bps. The HY-IG Index Spread tightened 1bps to 532bps.
- Flows in SGD corporates were heavy, with flows in UBS 4.85%-PERPs, STTGDC 3.13%'28s, HSBC 5%-PERPs, SOCGEN 6.125%-PERPs, NTUCSP 3.1%'50s, FULIN 3.7%'23s, HSBC 4.7%-PERPs and SOCGEN 4.3%'26s.
- 10Y UST Yields fell 4bps to 0.58% as investors awaited a deal on a coronavirus relief package in the US.

Credit Research

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Credit Summary:

- **[Starhill Global REIT \("SGREIT"\)](#) | Issuer Profile: Neutral (4):** SGREIT reported results for the quarter ended 30 June 2020. Gross revenue declined 27.9% y/y to SGD37.4mn while net property income declined 42.7% y/y to SGD22.9mn. The decline was mainly due to rental assistance for eligible tenants due to COVID-19 pandemic and rental rebate extended to the master tenant during the AEI period of Starhill Gallery in Malaysia. We expect SGREIT to focus on maintaining occupancy levels going forward even if it is at the expense of rental rates.
- **[Credit Suisse Group AG \("CS"\)](#) | Issuer Profile: Neutral (4):** CS is set to announce its 2Q2020 results on 30 July and is reportedly also set to announce some restructurings across its business units. The plans reportedly involve the merging of its investment bank and capital markets businesses with trading. Separately, its risk and compliance units will also be merged.
- **[CapitaLand Retail China Trust \("CRCT"\)](#) | Issuer Profile: Neutral (4):** CRCT has announced 1H2020 results. Gross revenue fell by 7.8%y/y in RMB terms to RMB511.0mn while net property income fell by 17.9%y/y in RMB terms to RMB328.6mn and 18.6%y/y in SGD terms to SGD65.3mn. This was due to rental rebates provided to tenants affected by the COVID-19 situation.
- **[ARA LOGOS Logistics Trust \("ALOG"\)](#) | Issuer Profile: Neutral (4):** ALOG reported its 1H2020 financial results. Gross revenue was down 1.4% y/y to SGD57.8mn driven by transitory downtime between leases at ALOG Cold Centre and Pandan Logistics Hub, rental waivers to be given to qualifying SME tenants and a weaker AUD though partially offset by higher revenue at ALOG Commodity Hub and additional revenue from the Altona property acquired in April 2019.
- **[Industry Outlook – Financial Institutions:](#)** The Australian Prudential Regulation Authority has updated its capital management guidance as a result of somewhat reduced uncertainty on the economic outlook compared with April 2020 as well as after reviewing bank financials and stress testing results. Separately, the European Central Bank released a COVID-19 Vulnerability Analysis report using three scenarios – a EBA 2020 stress test baseline scenario as well as two additional scenarios on 86 Euro area banks.

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Credit Headlines

Starhill Global REIT ("SGREIT") | Issuer Profile: Neutral (4)

- SGREIT reported results for the quarter ended 30 June 2020 ("4QFY2020"). Gross revenue declined 27.9% y/y to SGD37.4mn while net property income ("NPI") declined 42.7% y/y to SGD22.9mn. The decline was mainly due to rental assistance for eligible tenants due to COVID-19 pandemic and rental rebate extended to the master tenant during the AEI period of Starhill Gallery in Malaysia.
- The asset enhancement works at Starhill Gallery is to convert the property into an integrated development with hotel and retail elements. The revamped property will be renamed The Starhill. The mall remains partially open as redevelopment works are set in stages.
- For its Singapore retail properties, actual occupancy was 98.9%, slightly lower than a year ago (30 Jun 2019: 99.4%). Revenue and NPI were lower by 33.4%y/y and 35.5%y/y respectively. For Wisma Atria, tenant sales and footfall traffic fell 80.0%y/y and 86.9%y/y over the quarter due to the 'circuit breaker' measures, minimal tourist arrivals due to travel restrictions and the lower proportion of essential services at the property. For FY2021, 29.6% of gross rent is expiring at Wisma Atria while just 4.0% is expiring at Ngee Ann City.
- On the Singapore office front, actual occupancy fell to 87.6% from 93.2% a year ago though committed occupancy fell by a smaller extent to 90.4%. Revenue fell 30.5%y/y while NPI was down by 37.3%y/y. For FY2021, 38.3% of gross rent will be expiring at Wisma Atria while 24.4% is expiring at Ngee Ann City.
- We expect SGREIT to focus on maintaining occupancy levels going forward even if it is at the expense of rent rates.
- Property valuations fell by 4.0%y/y largely due to its Australia properties (-19.4%y/y) and Wisma Atria (-4.6%y/y). The decline in valuation was largely due to lower passing and market rents in view of the softer retail outlook which was impacted by the COVID-19 pandemic.
- Aggregate leverage rose to 39.7% from 36.7% in 3QFY2020. Reported interest coverage was also lower q/q at 2.9x vs 3.3x in the preceding quarter. SGREIT has SGD162.0mn worth of short-term debt coming due against SGD117.4mn cash on hand and 75% of its assets remain unencumbered. We continue to hold SGREIT at a Neutral (4) Issuer Profile. (Company, OCBC)

Credit Suisse Group AG ("CS") | Issuer Profile: Neutral (4)

- CS is set to announce its 2Q2020 results on 30 July and is reportedly also set to announce some restructurings across its business units.
- The plans reportedly involve the merging of its investment bank and capital markets businesses with trading. Separately, its risk and compliance units will also be merged.
- Both moves are expected to improve performance and efficiency in both businesses and come under new Chief Executive Officer Thomas Gottstein who was appointed in early February. Other business changes could also be announced together with its results (Bloomberg, OCBC).

Asian Credit Daily**Credit Headlines****CapitaLand Retail China Trust (“CRCT”) | Issuer Profile: Neutral (4)**

- CRCT has announced 1H2020 results. Gross revenue fell by 7.8%y/y in RMB terms to RMB511.0mn while net property income fell by 17.9%y/y in RMB terms to RMB328.6mn and 18.6%y/y in SGD terms to SGD65.3mn. This was due to rental rebates provided to tenants affected by COVID-19 situation. On average, 1.2 months equivalent of gross rental income was extended to tenants across the portfolio over 1H2020.
- Portfolio occupancy rate was lower at 91.5% vs 95.4% in the preceding quarter as occupancy rate fell at all of its properties. CapitaMall Grand Canyon was particularly weak with occupancy down to 90.1% from 97.0% as at 31 March 2020, rental reversion was -23.2% in 1H2020 though relating to just 2.9% of the total lettable area.
- For 2020, CRCT has expiring leases worth 22.2% of total gross rental income. This is partly due to an upcoming lease expiry of anchor tenant at CapitaMall Yuhuating, discussions are ongoing.
- In 2Q2020, shopper traffic rose 25.9% q/q while tenants' sales was up 23.7%q/q. Retail sales for June 2020 declined 1.8% from the same period last year, narrowing by 1 percentage point from May 2020. We think possibly the worst is over for malls in most parts of China.
- Aggregate leverage improved to 33.6% from 35.8% as at 31 March 2020 with reported interest coverage at 4.0x (1Q2020: 44.3x). CRCT has refinanced SGD100mn of loans due in 2020 to 2026. This leaves CRCT with just SGD28.6mn of borrowings coming due for the remaining of the year. Given that 89.8% of its total assets (excluding proportionate share of its JV assets) remain unencumbered, and CRCT also has SGD129.4mn of cash on hand and SGD393.7mn of available credit facilities, we will continue to maintain CRCT's Issuer Profile. (Company, OCBC)

Asian Credit Daily**Credit Headlines****ARA LOGOS Logistics Trust ("ALOG") | Issuer Profile: Neutral (4)**

- ALOG reported its 1H2020 financial results. Gross revenue was down 1.4% y/y to SGD57.8mn driven by transitory downtime between leases at ALOG Cold Centre and Pandan Logistics Hub, rental waivers to be given to qualifying SME tenants and a weaker AUD though partially offset by higher revenue at ALOG Commodity Hub and additional revenue from the Altona property acquired in April 2019.
- EBITDA (based on our calculation which does not include other income and other expenses) was down by 0.7% y/y to SGD40.0mn while interest expense was down 1.8% y/y at SGD10.3mn, with resultant EBITDA/Interest manageable for its issuer profile level at 3.9x (1H2019: 3.8x) in our view.
- As at 30 June 2020, reported aggregate leverage was 40.4% (31 March 2020: 40.8%). There is only a minimal amount of SGD25.9mn of short term debt due as at 30 June 2020, representing 5.0% of gross debt (excluding lease liabilities). While secured borrowings as a percentage of total assets have risen, this is at ~9.8%. We estimate that this leaves ~SGD1.2bn of total assets that are unencumbered and can be used to raise secured debt if need be.
- While ALOG's headline numbers look resilient for 1H2020, we continue to watch for potential tenant stress. 38% of its tenants by GRI are made up of SMEs. So far about 20 SMEs in Singapore have enquired about SG government assistance packages, with two formally seeking rental relief. As at 30 June 2020, ALOG has 70 tenants in its portfolio.
- ALOG's committed portfolio occupancy was at 97% as at 30 June 2020, relatively stable q/q. By gross rental income ("GRI"), only 5.2% of the leases are due to expire in 2H2020. However, ALOG faces large looming maturities of 32.8% (by GRI) in 2021. Per ALOG, it has commenced negotiations with existing and potential new tenants to secure early commitments at least six months in advance. We expect ALOG's credit profile to be weaker within the next 12 months though we hold its issuer profile at Neutral (4) for now. We view the logistics sector to be more resilient against other property asset classes in the current environment. (Company, OCBC)

Asian Credit Daily**Credit Headlines****Industry Outlook – Financial Institutions**

- The Australian Prudential Regulation Authority has updated its capital management guidance as a result of somewhat reduced uncertainty on the economic outlook compared with April 2020 as well as after reviewing bank financials and stress testing results. The ongoing COVID-19 pandemic which has seen a resurgence in Victoria and now New South Wales also likely influenced the guidance which recommends maintaining caution when planning capital distributions.
- Key aspects for the remainder of 2020 include:
 - retaining at least half of earnings when deciding on capital distributions and maintaining dividend payout ratios below 50% for 2020;
 - conducting regular stress testing to indicate ongoing lending capacity; and
 - using currently high capital buffers to continue to lend to support households and businesses as they are intended to do in times of stress.
- The focus for banks in APRA's view is maintaining capital resilience to continue supporting the economy with the support of regulators through current measures (regulatory forbearance with the recognition of deferred loans) and future actions (orderly repairing of capital buffers post pandemic).
- Separately, the European Central Bank released a [COVID-19 Vulnerability Analysis](#) report using three scenarios – a EBA 2020 stress test baseline scenario as well as two additional scenarios on 86 Euro area banks. Key findings are:
 - The banking sector remains well capitalised under the baseline scenario of a short-lived deep recession with CET1 ratios falling 1.9bps to 12.6% in 2022 but under the severe scenario, several banks will need to actively manage their capital position to remain above minimum capital requirements with CET1 ratios falling by 5.7bps to 8.8% in 2022.
 - Overall though, the shortfall under the severe scenario should be contained so systemic risk should be contained;
 - Results incorporate recent monetary, supervisory and fiscal support measures but no potential additional support measures; and
 - Authorities should remain ready to implement these further measures if the situation deteriorates.
- The above continues to show the co-operation needed between banks and regulators to see the pandemic through as both seek to avoid an economic and health crisis also becoming a financial crisis (APRA, ECB, OCBC)

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Key Market Movements

	29-Jul	1W chg (bps)	1M chg (bps)		29-Jul	1W chg	1M chg
iTraxx Asiax IG	75	-1	-13	Brent Crude Spot (\$/bbl)	43.39	-2.03%	4.03%
iTraxx SovX APAC	42	1	-6	Gold Spot (\$/oz)	1,959.85	4.73%	10.55%
iTraxx Japan	60	0	1	CRB	143.48	0.68%	4.70%
iTraxx Australia	77	-1	-13	GSCI	341.36	-0.54%	5.19%
CDX NA IG	72	2	-8	VIX	25.44	2.42%	-19.95%
CDX NA HY	102	0	3	CT10 (%)	0.579%	-1.81	-4.44
iTraxx Eur Main	60	2	-10				
iTraxx Eur XO	365	23	-31	AUD/USD	0.717	0.38%	4.38%
iTraxx Eur Snr Fin	70	4	-15	EUR/USD	1.172	1.31%	4.27%
iTraxx Eur Sub Fin	146	6	-30	USD/SGD	1.379	0.50%	1.07%
iTraxx Sovx WE	16	-1	-3	AUD/SGD	0.988	0.12%	-3.16%
USD Swap Spread 10Y	-1	1	1	ASX 200	6,039	-0.60%	3.85%
USD Swap Spread 30Y	-41	5	9	DJIA	26,379	-1.72%	3.06%
US Libor-OIS Spread	20	1	-3	SPX	3,218	-1.19%	5.41%
Euro Libor-OIS Spread	1	0	-5	MSCI Asiax	700	0.40%	8.38%
				HSI	24,773	-3.37%	1.94%
China 5Y CDS	44	2	-8	STI	2,583	-0.45%	0.34%
Malaysia 5Y CDS	60	0	-16	KLCI	1,610	1.45%	7.73%
Indonesia 5Y CDS	119	2	-17	JCI	5,113	-0.03%	4.31%
Thailand 5Y CDS	41	0	-4	EU Stoxx 50	3,304	-2.99%	2.21%

Source: Bloomberg

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New Issues

- China Construction Bank Corporation Hong Kong Branch priced a USD500mn 3-year green bond at T+93bps, tightening from IPT of T+135bps area and another USD700mn 5-year green bond at T+105bps, tightening from IPT of T+150bps area.
- Country Garden Holdings Company Limited priced a USD500mn 5.5NC3.5 bond at 4.2%, tightening from IPT of 4.6% area and another USD500mn 10NC5 bond at 4.8%, tightening from IPT of 5.3% area.
- Haimen Zhongnan Investment Development (International) Co., Ltd. (Guarantor: Jiangsu Zhongnan Construction Group Co., Ltd.) priced a USD200mn 364-day bond at 9.35%, tightening from IPT of 9.75% area.
- CSCIF Asia Limited (Guarantor: CSC Financial Co., Ltd.) priced a USD500mn 5-year bond at T+150bps, tightening from IPT of T+200bps area.
- Adani Ports & Special Economic Zone Ltd priced a USD750mn 7-year bond at 4.2%, tightening from IPT of 4.625% area.

Date	Issuer	Size	Tenor	Pricing
28-Jul-20	China Construction Bank Corporation Hong Kong Branch	USD500mn USD700mn	3-year 5-year	T+93bps T+105bps
28-Jul-20	Country Garden Holdings Company Limited	USD500mn USD500mn	5.5NC3.5 10NC5	4.2% 4.8%
28-Jul-20	Haimen Zhongnan Investment Development (International) Co., Ltd. (Guarantor: Jiangsu Zhongnan Construction Group Co., Ltd.)	USD200mn	364-day	9.35%
28-Jul-20	CSCIF Asia Limited (Guarantor: CSC Financial Co., Ltd.)	USD500mn	5-year	T+150bps
28-Jul-20	Adani Ports & Special Economic Zone Ltd	USD750mn	7-year	4.2%
27-Jul-20	Chong Hing Bank Limited	USD250mn	PerpNC5	5.50%
27-Jul-20	Korea South-East Power Co., Ltd.	USD300mn	5.5-year	T+80bps
27-Jul-20	China Everbright Bank Co., Ltd., Hong Kong Branch	USD700mn	3-year	3m-US LIBOR+85bps
27-Jul-20	DaFa Properties Group Limited	USD150mn	2-year	13.50%
23-Jul-20	Taihu Pearl Oriental Company Limited (Guarantor: Huzhou City Investment Development Group Co., Ltd.)	USD300mn	3-year	3.15%
23-Jul-20	Megaworld Corp.	USD350mn	7-year	4.375%

Source: OCBC, Bloomberg

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