Asian Credit Daily

Friday, August 07, 2020

Market Commentary

- The SGD swap curve fell marginally yesterday, with all tenors trading 0-1bps lower while the 15-year traded 1bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 171bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 6bps to 683bps. The HY-IG Index Spread tightened 5bps to 511bps.
- Flows in SGD corporates were heavy, with flows in UBS 4.85%-PERPs, HSBC 4.7%-PERPs, STTGDC 3.13%'28s, NTUCSP 3.1%'50s, CS 5.625%-PERPs, CAPLSP 3.65%-PERPs, FPLSP 4.98%-PERPs, KITSP 4.75%-PERPs, SINTEC 4.1%-PERPs and FPLSP 4.15%'27s.
- 10Y UST Yields fell 1bps to 0.54% ahead of Friday's federal jobs report for July.

Credit Research

Andrew Wong
+65 6530 4736
WongVKAM@ocbc.com

Ezien Hoo, CFA
+65 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA
+65 6722 2533
WongHongWei@ocbc.com

Seow Zhi Qi, CFA
+65 6530 7348
zhiqiseow@ocbc.com

Credit Summary:

- **Hotel Properties Ltd ("HPL") | Issuer Profile: Neutral (4):** HPL provided negative profit guidance with expectation of a net loss for 1H2020.
- **Fraser and Neave Ltd ("FNN") | Issuer Profile: Neutral (4):** FNN provided a business update for 9M2020 ended 30 June 2020. Revenue fell 2.9% y/y to SGD1.38bn though underlying results for each segment differs. Due to the fall in revenue with reduced margins, reported PBIT fell by 7.2% y/y to SGD211mn. Net gearing remains unchanged q/q at 19%.
- **Credit Agricole Group SA ("CAG") | Issuer Profile: Neutral (3):** CAG announced 2Q2020 and 1H2020 results. Stated income before tax was down 28.7%y/y and 31.2%y/y respectively to EUR1.90bn and EUR3.43bn for 2Q2020 and 1H2020. CAG's capital position remains solid with a phased in CET1 ratio of 16.1% as at 30 June 2020, up 60bps from 15.5% as at 31 March 2020 .
- **Frasers Hospitality Trust ("FHREIT") | Issuer Profile: Neutral (4):** FHREIT shared a business update for the quarter ended 30 June 2020. The company did not disclose how much total revenue and income was down, though Revenue per Available Room in each market unsurprisingly was lower y/y. Aggregate leverage was 35.9% as at 30 June 2020, although we think hotel valuation is likely to take a hit when the portfolio gets revalued next quarter, with aggregate leverage pushed up.
- **StarHub Ltd ("StarHub") | Issuer Profile: Neutral (3):** StarHub reported 2Q2020 results. Revenue fell 18.0% y/y to SGD453.4mn with results weakening across most segments. Reported profit from operations fell 9.5% y/y to SGD51.8mn, though the decline of profit is milder than the decline in revenue likely due to cost savings of SGD157.5mn arising from a 3-year cost programme.
- **CapitaLand Ltd ("CAPL") | Issuer Profile: Neutral (3):** CAPL announced 1H2020 results. Revenue fell 4.9% y/y to SGD2.03bn mainly due to rental rebates granted to tenants in Singapore, China and Malaysia as well as lower contributions from shopping malls and residential projects. Most segments saw a fall due to impacts arising from COVID-19, with reported EBIT for CAPL falling 71% y/y to SGD596.8mn. Net gearing inched up h/h to 0.64x and reported interest coverage deteriorated h/h to 4.9x.

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Credit Headlines

Hotel Properties Ltd ("HPL") | Issuer Profile: Neutral (4)

- HPL provided negative profit guidance with expectation of a net loss for 1H2020.
- This is not surprising given that HPL is highly exposed to the hospitality segment, which has seen travel restrictions. Given that the International Air Transport Association has further pushed back expectations of rebound in traffic levels to 2024, we are reviewing HPL's Issuer Profile. (Company, OCBC).

Fraser and Neave Ltd ("FNN") | Issuer Profile: Neutral (4)

- FNN provided a business update for 9M2020 ended 30 June 2020. Revenue fell 2.9% y/y to SGD1.38bn though underlying results for each segment differs.
    - Beverages (-7.9% y/y to SGD339.1mn): Fell due to adverse impact from COVID-19 and flooding in East Malaysia despite the maiden contribution of a new brewery in Myanmar.
    - Dairies (+2.0% y/y to SGD879.3mn): Stronger sales in Thailand, Singapore and Indonesia which outweigh the weaker results from Malaysia from weaker sentiments.
    - Printing and Publishing (-15.2% y/y to SGD161.7mn): Significant fall due to temporary plant closures and deferment of textbook sales orders.
- Due to the fall in revenue with reduced margins, reported PBIT fell by 7.2% y/y to SGD211mn. Net gearing remains unchanged q/q at 19%. We continue to maintain FNN at a Neutral (4) Issuer Profile. (Company, OCBC)

Credit Agricole Group SA ("CAG") | Issuer Profile: Neutral (3)

- CAG announced 2Q2020 and 1H2020 results and while stated results look consistent with peers and show a noticeable drop in income before tax, CAG appears constructive about the outlook given a recovery in the French economy and underlying performance in 2Q2020. In particular, CAG flagged solid growth in home loans and loans to SMEs and small businesses in June with 5.9% y/y growth in 2Q2020 in outstanding loans (excluding state guaranteed loans).
- Stated income before tax was down 28.7%y/y and 31.2%y/y respectively to EUR1.90bn and EUR3.43bn for 2Q2020 and 1H2020. Within these results, gross operating income was weaker y/y but the main drag was the significant rise in the cost of risk which more than doubled despite the non-performing loan ratio remaining stable at 2.4% as at 30 June 2020. As such, 70% of the y/y rise in 2Q2020 provisioning was allocated to performing loans. Otherwise on an absolute level, 35% of the 2Q2020 provision of EUR1.21bn was allocated to performing (stage 1 and 2) loans while the rest was for stage 3 or proven risks. On a segment basis, risk costs rose in all segments and in particular in International Retail Banking, Specialized Financial Services and Large Customers.
- For 2Q2020, stated gross operating income fell 7.0% y/y. This was driven by EUR441mn in costs associated with provisions for home purchase savings plans and support to SME's and small business customers with business interruption insurance. This impact along with EUR107mn in contributions to the Single Resolution Fund led to a 4.6% y/y fall in revenues that overshadowed a 5.1% y/y fall in operating expenses.

(To be continued on the next page…)

Credit Headlines

Credit Agricole Group SA ("CAG") | Issuer Profile: Neutral (3)

- Excluding the extra-ordinary costs, underlying gross operating income actually rose 5.4% y/y due to the fall in operating expenses while revenues were stable as better performance in Large Customers, Regional Banks and Asset Gathering offset weaker performance in Retail Banking (both in France and internationally) and Specialised Financial Services. The offset to an extent to weaker revenue performance in Retail Banking was a reduction in expenses from lower HR and travel costs that drove the overall fall in operating expenses and contributed to a positive JAWS effect on an underlying basis.
- CAG's capital position remains solid with a phased in CET1 ratio of 16.1% as at 30 June 2020, up 60bps from 15.5% as at 31 March 2020 (15.9% as at 31 December 2019). The rise was mainly due to retained earnings (+20bps) including allocation of the 2019 dividend to reserves as requested by the European Central Bank and a dividend provision for 1H2020, methodology and regulatory effects (+59bps from IFRS 9 phasing and an additional SME factor) and unrealised gains and/or losses (+11bps). Capital ratios are impacted by a 2-month waiting period effect for State-guaranteed Loans – excluding this, the phased in ratio would improve to 16.3%. The ratio remains well above CAG's 8.9% Supervisory Review and Evaluation Process threshold that was reduced from 9.7% as at 31 December 2019 due to a decrease in Pillar 2 requirements and a relaxation in counter-cyclical buffers. Its Total Loss Absorbing Capacity also remains above minimum requirements (19.5% including a 2.5% capital conservation buffer and a 1% G-SIB buffer) at 23.8% as at 30 June 2020. Its leverage ratio at 7.5% is also above its 6.0% minimum requirement while there is EUR36bn in CET1 capital that exists as a buffer above its Maximum Distributable Amount (MDA) trigger.
- CAG continues to emphasize the amount of support they are providing on behalf of the government and in line with their 'societal commitment'. This includes 552,000 loan moratoriums in French Retail Banking as at 17 July 2020 with EUR4.2bn in maturities extended (83% of which is for SMEs, small businesses and Corporates). In addition, CAG has received around 23.7% of all state guaranteed loan requests for EUR28.7bn and provided EUR239mn in additional support through business interruption insurance.
- We remain comfortable with the Neutral (3) issuer profile for now on CAG as in addition to what looks like decent underlying trends in existing businesses that remain overshadowed by uncertainty, its capital position and non-performing loan ratio is better than domestic peers. CAG appears to be using this relative strength to continue supporting the government and economy through COVID-19 (Company, OCBC).

Credit Headlines

Frasers Hospitality Trust ("FHREIT") | Issuer Profile: Neutral (4)

- FHREIT shared a business update for the quarter ended 30 June 2020 ("3QFY2020"). The company did not disclose how much total revenue and income was down, though Revenue per Available Room ("RevPAR") in each market unsurprisingly was lower y/y.
- **Australia:** FHREIT's historically largest market (by net property income) saw RevPAR down 75.5% y/y in AUD terms (occupancy of 32.6% in 3QFY2020 versus 86.7% in 3QFY2019) while average daily rates ("ADR") were AUD141 in 3QFY2020 versus AUD216 in 3QFY2019. Two of its four hotels in Australia hosted returning residents serving quarantined orders. Resumption of domestic travel which was seen as a panacea for FHREIT's Australia market is unlikely to occur in the near term given the second wave that has hit the country.
- **Singapore:** Historically the second largest market by NPI, saw RevPAR down 55.2% y/y in SGD terms (occupancy of 80.2% in 3QFY2020 versus 85.3% in 3QFY2019) while ADR were SGD132 in 3QFY2020 versus SGD283 in 3QFY2019. The Intercontinental Bugis hotel is a designated hotel for travellers serving out their Stay-Home-Notices ("SHN") while Frasers Suites Singapore is a serviced residence catered for long stay guests, helping to boost overall Singapore occupancy.
- **UK and Japan**: All six UK properties were closed in 3QFY2020 due to government regulations (gradual re-opening started from early-July 2020 although ibis Styles London is still closed). Demand for domestic travel in Japan had been hampered while banqueting activities had also reduced at FHREIT's ANA Crowne Plaza Kobe. For 3QFY2020, the property reported occupancy of only 9.3% (3QFY2019: 80.8%) and resultant RevPAR was down 88.8% y/y in JPY terms even if ADR was down by only 2.7% y/y.
- **Malaysia:** FHREIT has voluntarily opted to close the Westin KL temporarily in 3QFY2020 until end-August 2020. FHREIT is monitoring the situation on the ground before determining the next steps on re-opening.
- **Germany:** Maritim Hotel Dresden in Germany, a domestic market focused hotel is Master Leased to Maritim Hotels. A moratorium was passed in Germany which allows tenants of private and commercial leases to defer three months' worth of rental payments for two years. Maritim Hotels is also allowed to defer its rental payments to FHREIT. Per FHREIT, it is still in discussion with Maritim Hotels on the way forward in terms of rental arrangements given that the Master Leasee's operating business has been negatively affected.
- Aggregate leverage was 35.9% as at 30 June 2020, although we think hotel valuation is likely to take a hit when the portfolio gets revalued next quarter, with aggregate leverage pushed up. FHREIT's sole perpetual the FHREIT 4.5%-PERP faces first call in May 2021. Our base case assumes that this perpetual would not be called at first call, with FHREIT conserving capital instead. At today's forward rates, the distribution rate on the perpetual is also expected to reset lower to ~3.0% p.a, making it economical for FHREIT not to call as well, in our view. There is no debt due until 2022, which helps.
- Under agreements entered into with its Sponsor, FHREIT is paid at least SGD49mn p.a which more than covers the interest expenses and perpetual distributions. We will be updating the issuer profile for a downgrade. (Company, OCBC)

Credit Headlines

StarHub Ltd ("StarHub") | Issuer Profile: Neutral (3)

- StarHub reported 2Q2020 results. Revenue fell 18.0% y/y to SGD453.4mn with results weakening across most segments.
  - Mobile (-25.4% y/y to SGD143.4mn): Mobile was impacted by significant falls in ARPU to SGD30/mth for post-paid (2Q2019: SGD40/mth) with lower roaming due to significant drop in global travel, lower plan subscriptions, lower IDD and lower excess data usage.
  - Pay TV (-27.6% y/y to SGD46.9mn): Pay TV continues to see a fall in subscriber base to 324k (2Q2019: 374k) and lower ARPU to SGD39/mth (2Q2020: SGD44/mth) due to promotional activities relating to cable to fibre migration.
  - Broadband (-4.2% y/y to SGD43.2mn): While subscribers remain relatively stable, ARPU fell slightly to SGD28/mth (2Q2020: SGD29/mth) due to promotional activities relating to cable to fibre migration and one-time 20% rebate to Home Broadband monthly fee due to service disruption in Apr 2020.
  - Sales of equipment (-30.1% y/y to SGD77.2mn): Fewer handsets were sold due to the circuit breaker.
  - Enterprise Business (+1.7% y/y to SGD142.7mn): The rise was mainly due to cyber security services (+10.1% y/y to SGD39.8mn) though this is not entirely a positive as operating losses from cyber security rose to SGD7.0mn (2Q2020 operating loss: SGD6.0mn). Although data and internet service revenue rose 10.8% y/y to SGD74.3mn, this was mainly due to one-off revenue of SGD10.0mn from delivery of data transmission (without this, data and internet service revenue would have fallen 4.0% y/y due to lower rates from renewals of domestic leased circuits and IP transit). The Enterprise business also saw fewer project completions (likely due to deferral of projects by clients) with managed services falling 25.3% y/y to SGD18.5mn.
- As a result of weaker revenues, reported profit from operations fell 9.5% y/y to SGD51.8mn, though the decline of profit is milder than the decline in revenue likely due to cost savings of SGD157.5mn arising from a 3-year cost programme.
- We are not overly concerned with SGD507.6mn in borrowings as of 30 June as StarHub has since secured SGD300mn of new committed term loan facilities and reported that no further refinancing is required till 2022. In addition. StarHub has SGD300mn of committed revolving credit facilities secured. Reported net debt to EBITDA fell to 1.29x in 2Q2020 (1Q2020: 1.4x, 4Q2019: 1.51x). As a result, StarHub sees debt headroom to fund opportunities – which we would be wary about.
- While the outlook has turned negative with service revenue expected to decline by 10-12% y/y for 2020 (original guidance: growth of 1% to 3%), this is milder than the decline in 2Q2020 (-15.0% y/y), which could indicate signs of stability on a q/q basis (albeit at a new low) in the quarters ahead.
- Capex (excluding spectrum, 5G and IS transformation capex) continues to be guided at 6 to 8% of revenue despite lower revenues. StarHub guided that SGD200mn will be required as initial capital investment over the next 5 years for 5G network deployment in the 50-50 JV with M1. However, we note that the JV will be 85% funded by debt – in essence, StarHub may have SGD1.1bn in off-balance sheet debt by the end of the 5G network deployment after 5 years.
- That said, given that the business remains cashflow generative while the credit metrics are still decent (though deteriorating) with access to liquidity, we continue to hold StarHub at a Neutral (3) Issuer Profile. (Company, OCBC)

Credit Headlines

CapitaLand Ltd ("CAPL") | Issuer Profile: Neutral (3)

- CAPL announced 1H2020 results. Despite the sizeable acquisition of Ascendas Singbridge (which was completed in end June 2019) as well as consolidation of revenue of Raffles City Chongqing (RCCQ) project, revenue fell 4.9% y/y to SGD2.03bn mainly due to rental rebates granted to tenants in Singapore, China and Malaysia as well as lower contributions from shopping malls and residential projects. Most segments saw a fall due to impacts arising from COVID-19, with reported EBIT for CAPL falling 71% y/y to SGD596.8mn.
  - CL SMI, Vietnam, International: Revenue for this segment rose 1.5% y/y to SGD1.05bn but this is mainly due to CL Vietnam (+188.9% y/y to SGD129.7mn) due to handover of units. Otherwise, reported EBIT fell significantly by 89.5% y/y to SGD89.6mn with rental rebates given to tenants and losses on revaluation of investment properties, as opposed to gains recorded in 1H2019. Looking ahead, while Vietnam revenue may remain supported with handovers expected ahead for 40% of SGD584mn of total sales, we note that sales in Vietnam remain muted. Meanwhile, the retail portion (especially in Singapore) may face further headwinds as rental reversions will likely turn negative.
  - CL China: Revenue fell 2.8% y/y to SGD482.9mn with reported EBIT down 56.2% y/y to SGD391.1mn, mainly due to rental rebates and lower handover of residential units. Reported EBIT fell more due to absence of fair value gains and portfolio gains. That said, residential sales appear to hold up still with 1769 residential units sold worth RMB5.6bn in 1H2020.
  - CL Lodging: This segment is significantly impacted with revenue falling 27.5% y/y to SGD433.0mn and reported EBIT down 98.6% y/y to SGD4.2mn, due to travel restrictions arising from COVID-19. Reported EBIT is down more on a y/y basis due to absence of gains arising from divestment of Ascott Raffles Place in 1H2019.
  - CL Financial: Revenue rose 56.6% y/y to SGD158.4mn with reported EBIT up 74.1% y/y to SGD91.8mn mainly due to the addition of the portfolio from Ascendas Singbridge.
- Net gearing inched up h/h to 0.64x (FY2019: 0.63x) and reported interest coverage deteriorated h/h to 4.9x (FY2019: 7.6x). While credit metrics have weakened, we are not overly worried as CAPL has SGD14.0bn of cash and undrawn facilities, which is more than sufficient to cover SGD5.26bn of short-term borrowings. That said, we will be wary if CAPL undertakes significant acquisitions given the balance sheet headroom. We continue to hold CAPL at a Neutral (3) Issuer Profile, albeit with a cautious outlook. (Company, OCBC)

Key Market Movements

	7-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	67	-7	-13
iTraxx SovX APAC	38	-3	-5
iTraxx Japan	60	-1	2
iTraxx Australia	71	-6	-11
CDX NA IG	64	-5	-10
CDX NA HY	105	2	5
iTraxx Eur Main	55	-5	-7
iTraxx Eur XO	348	-28	-17
iTraxx Eur Snr Fin	66	-7	-6
iTraxx Eur Sub Fin	138	-16	-14
iTraxx Sovx WE	16	-1	-2
USD Swap Spread 10Y	0	1	3
USD Swap Spread 30Y	-40	2	9
US Libor-OIS Spread	17	-1	-3
Euro Libor-OIS Spread	0	0	-4
China 5Y CDS	41	-3	-4
Malaysia 5Y CDS	54	-4	-10
Indonesia 5Y CDS	109	-7	-12
Thailand 5Y CDS	40	-1	0

	7-Aug	1W chg	1M chg
Brent Crude Spot ($/bbl)	45.20	4.39%	4.92%
Gold Spot ($/oz)	2,068.35	4.68%	15.24%
CRB	148.60	4.08%	4.97%
GSCI	349.28	3.41%	4.21%
VIX	22.65	-8.52%	-23.04%
CT10 (%)	0.535%	0.64	-10.51
AUD/USD	0.724	1.36%	4.22%
EUR/USD	1.188	0.84%	5.35%
USD/SGD	1.369	0.42%	1.92%
AUD/SGD	0.991	-0.91%	-2.19%
ASX 200	6,006	1.31%	-0.12%
DJIA	27,387	4.08%	5.78%
SPX	3,349	3.17%	6.48%
MSCI Asiax	722	3.06%	5.00%
HSI	24,931	0.89%	-4.02%
STI	2,559	-0.56%	-3.84%
KLCI	1,589	-1.42%	1.39%
JCI	5,178	1.31%	3.83%
EU Stoxx 50	3,240	1.00%	-2.44%

Source: Bloomberg

New Issues

- Huatong International Investment Holdings Co. (Guarantor: Qingdao China Prosperity State-owned Capital Operation (Group) Co., Ltd) priced a USD200mn 3-year bond at 3.35%, tightening from IPT of 3.9% area.
- AIMS APAC REIT Management Limited priced a SGD125mn PerpNC5 at 5.65%.

Date	Issuer	Size	Tenor	Pricing
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 USD400mn	5-year 10-year	T+170bps T+228bps
5-Aug-20	Central China Real Estate Ltd	USD300mn	4NC2	7.35%
5-Aug-20	China South City Holdings Limited	USD200mn	364-day	13.5%
5-Aug-20	Seazen Group Ltd	USD250mn	4-year	6%
5-Aug-20	Yuzhou Group Holdings Co Ltd	USD300mn	6NC4	7.85%
5-Aug-20	Zhongtai International Finance (BVI) Company Limited (Guarantor: Zhongtai Financial International Limited)	USD300mn	3-year	3.85%
5-Aug-20	Industrial and Commercial Bank of China Limited of Luxembourg	USD100mn	3-year	3m-US LIBOR+75bps
5-Aug-20	Export-Import Bank of Korea priced a USD150mn 2-year bond at 0.617%.	USD150mn	2-year	0.617%
5-Aug-20	Aspial Treasury Pte. Ltd. (Guarantor: Aspial Corp Ltd)	SGD55mn	ASPSP 6.25%'21s	6.25%
4-Aug-20	Chouzhou International Investment Limited (Guarantor: Yiwu State-owned Capital Operation Co., Ltd.)	USD500mn	3-year	3.15%
4-Aug-20	Melco Resorts Finance Ltd	USD350mn	MPEL 5.75%'28s	5.75%
4-Aug-20	Aspial Treasury Pte. Ltd. (Guarantor: Aspial Corp Ltd)	SGD10mn	ASPSP 6.25%'21s	6.25%

Source: OCBC, Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu
Hong Kong & Macau
dicksnyu@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

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