Singapore Mid-Year 2020 Credit Outlook

Treasury Advisory
Corporate FX & Structured Products
Tel: 6349-1888 / 1881

Fixed Income & Structured Products
Tel: 6349-1810

Interest Rate Derivatives
Tel: 6349-1899

Investments & Structured Products
Tel: 6349-1886

OCBC 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

- **By 2Q2020, it was obvious that 2020 will be a watershed year. With the onslaught of COVID-19 driving global economies into lockdown, the shock has been extensive and severe, impacting even traditionally recession proof sectors such as telecommunications, healthcare and retail REITs.**

- **Credit markets globally froze as investors dashed for the exit. While the SGD space was more contained with a smaller correction in prices, the gap between issuer and investor expectations remain wide. Issuance volume remains tepid in the SGD market with a mere SGD8.3bn priced in YTD2020 (1H2019: SGD15.4bn), despite significant support by global central banks and governments.**

- **Heading into 2H2020, significant risks and opportunities abound. Defaults globally are expected to rise and in the SGD market, an issuer has just missed the payment of a bond upon maturity. Interest rates pinned to the floor with an uncertain outlook may turn perpetuals into fodder to buffer balance sheets, as evidenced by the non-call of ARTSP 3.065%-PERP. That said, spreads have widened significantly even for fundamentally sound issuers. With the worst of the credit crunch likely behind us, we think it is opportune for investors to expand beyond the highest grades to consider also Neutral (4) Issuer Profile names.**

- **We expect Financial Institutions' fundamentals and capital buffers to provide the cushion for a difficult 6-12 months ahead. Where buffers eventually land though is still somewhat uncertain and although fundamentals are undoubtedly under pressure, we expect the criticality of services and systemic importance to keep Financial Institutions ticking along. That said, dispersion will rise and a flight to quality will be apparent driving us to focus on better quality credits in the Financial Institutions space.**

- **For REITs, each asset type has been affected to varying extends by the pandemic. We maintain the view that the pursuit for growth through geographical and property type or industry diversification benefit the REIT's financial flexibility and is credit positive though the crux lies in the details.**

- **Within the Office REIT sector, telecommuting is a medium to long term threat though we expect credit profiles to be stable and able to withstand the pain from slowing demand in the next 12 months. For Retail REITs, prolonged operations restrictions may lead to higher vacancy rates and lower rents, apart from the accelerated structural shift towards ecommerce. While industrial properties have been more resilient relative to Retail and Hospitality, we expect credit profiles of Industrial REITs to diverge depending on asset composition with exposure to SME tenants as a downside risk. Even though COVID-19's biggest victim, Hospitality REITs, have some buffers from their Sponsors, credit profiles are expected to be weaker within 12 months and downgrades as likely if international borders remain shut in the near term.**

- **Defying the growth momentum in 2019, 1H2020 URA private residential property prices dipped by ~2.0% as the outlook has turned murky. Property transactions have slowed significantly, exacerbated by the circuit breaker. Although the resale market has held up, developers may be the first to blink with discounts offered on a number of projects. We expect prices to contract by up to high single digit in 2020 though we believe that further downsides are unlikely with government policies lending support against a freefall.**

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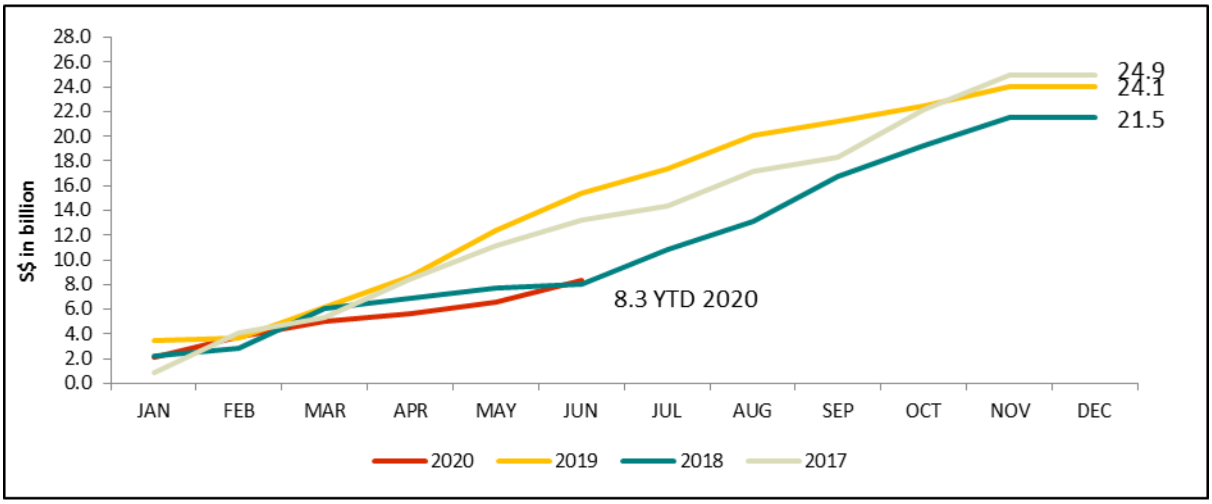
2020 Mid-Year Singapore Corporate Bond Market Review

Weaker overall issuance volume y/y as fundamentals further weaken

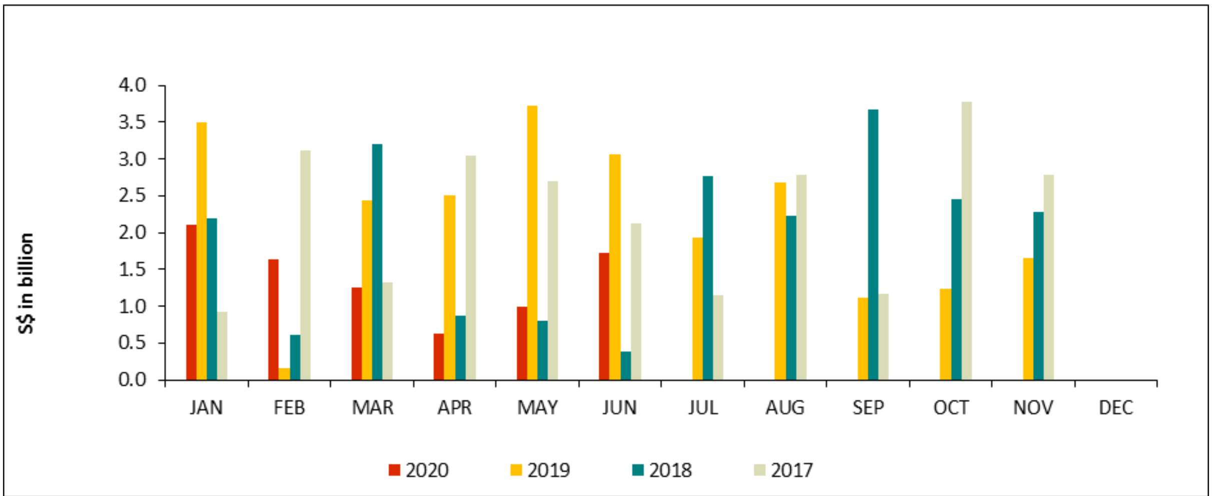
Unlike the first half of 2019 with a near record issuance amount of SGD15.4bn (including statutory boards) across 56 issues, total issuances in the Singapore Corporate bond market in the first 6 months of 2020 fell to around half that of the same period last year at SGD8.3bn across 39 issues. The significant drop in number of issues and issuance size were mainly driven by market volatility and a weaker operating environment brought about by the global outbreak of COVID-19. As an indication of the extent of the impact, a number of issues in 1H2020 were private placement deals that were priced during a period of dislocation in the SGD bond market with a material mismatch between issuer and investor expectations on the price of risk that were moving rapidly with COVID-19 developments. Margin calls and forced selling by investors also contributed to the dislocation.

Figure 1: SGD bond issuances monthly volume (cumulative)



Source: Bloomberg, OCBC Credit Research

Figure 2: SGD bond issuances monthly volume by individual months (non-cumulative)



Source: Bloomberg, OCBC Credit Research

2020 started off quieter than anticipated for the SGD Corporate bond market with SGD2.1bn of issuances in January, down 40% y/y, likely due to the Chinese New Year holidays and despite easing US-China trade tensions with the Phase 1 trade deal signed. From there, investor confidence softened further as the number of COVID-19 cases in China soared and lockdowns of cities were enforced in China. While the number of COVID-19 cases in China appeared to have peaked in February 2020, infections outside of China were starting to get reported. The S&P500 Index crashed 34% from its peak on 19 February 2020, reversing the whole of 2019's gains in just a month and ending the longest ever 11-year bull run. The VIX (Cboe Volatility Index), commonly used as a gauge of market fear, also skyrocketed from 14.4 on 19 February to 82.8, a level not seen in history, on 16 March. As a reference, the VIX reached a peak of 44.1 in 2009. Market sentiments were sour and liquidity in the market was extremely tight as many states and cities globally followed China's footstep and enforced lockdowns, causing a spike in unemployment rates and governments warning of unprecedented damage to the global economy. Citing a material change to the US outlook due to the COVID-19 outbreak, the US Federal Reserve in March unanimously cut the fed fund target rates by an emergency 50bps. As a result of the grim outlook and market instability, total issuances in the Asia ex-Japan USD bond market in March merely summed up to around USD8bn, far from the USD30bn of issuances in February. Similarly, in the SGD corporate bond market, there were only 4 bond issues in March from issuers Aspial Corp Ltd, PSA Treasury Pte Ltd ("PSA"), Maybank Singapore Ltd and SATS Ltd ("SATS"), with all but Aspial Corp Ltd's issue being done wholly on a private placement basis. Notably, PSA's parent PSA International Pte Ltd traditionally refinances through the USD bond market, but as the USD market seemed shut, the group managed to issue a SGD bond – a 10-year SGD500mn bond at 1.63% - though a private placement deal. Due to the weakening of fundamentals and poorer operating environment brought about by the pandemic, we downgraded 14 issuers under our coverage which included Airlines and Hospitality names, with many of the downgrades occurring in February and March. With the quickly evolving situation and no clarity on the end of COVID-19, it was difficult to price risk as evidenced by the drop off in primary market activity and the widening in bid-ask spreads. Selling was driven mostly by forced selling resulting in prices falling materially while buyers preferred to hold onto cash until the future became clearer. This drove bid-ask spreads further and as a result we ceased providing bond-level recommendations until liquidity and price stability slowly returned to the SGD corporate bond market.

As governments and central banks around the world announced massive stimulus to relieve the liquidity crunch and cushion the economic impacts brought about by the pandemic, the U.S. stock market staged a sharp V-shaped recovery, and issuances in the Asia ex-Japan USD bond market bounced back in April. However, the bid-ask spread in the SGD corporate bond market was still wide, and there was still a dislocation in pricing in the SGD secondary market. This may be in part due to worries of the impact from the outbreak of COVID-19 since Singapore is a trade-dependent economy and the number of cases in Singapore had shot up due to infected clusters in foreign worker dormitories. Further adding to investors' worries in April were fraud-related headlines on Hin Leong Trading (Pte) Ltd ("Hin Leong"), one of Singapore's largest independent oil traders, that emerged after crude oil future contracts dropped into negative territory. Excluding Certificate of Deposits (CDs) and issues smaller than SGD50mn, only three issues from Investment-Grade ("IG") issuers were completed in April with two out of the three deals again being private placements. Keppel Corp Ltd kickstarted April with a new 5-year private placement issuance of SGD250mn at 2.25% after more than two weeks since SAT's issuance in end-March. Other issuers in April included SATS (another private placement deal) and Frasers Centrepoint Trust ("FCT") via FCT MTN Pte Ltd. Absent from the bond markets since 2017, FCT's SGD200mn 3-year senior bond issue at 3.2% made headlines as it was the first publicly distributed transaction in around 2 months.

The pick-up in May's issuance volume from April hinted that the worst seemed to be over and we saw tightening bid-offer spreads in the secondary market in May. However, despite low SOR rates and some market stability, issuance volumes in May (SGD1.0bn) still remained below levels seen between January to March and we continued to see the pricing of some private placement deals which included City Development Ltd's SGD200mn 2.3%'23s and National University of Singapore's 1.565% 10-year green bond. June finally saw issuance amounts rise to SGD1.7bn, but this was attributed to the Housing & Development Board's large issuance of SGD800mn. The low issuance volume could be attributed to (1) SGD bond investors hunting for yields as they seek to be compensated for higher risks hence causing a mismatch between what issuers can offer and what investors are willing to accept, and (2) fears of a second resurgence of COVID-19 prompting lockdowns again.

The uncertainty in the COVID-19 situation and subsequent weak operating environment could be further exemplified through Ascott Residence Trust's ("ART") decision in May to not redeem its SGD250mn 4.68%-PERP on 30 June 2020. Far from being in a credit distress situation, ART was the first issuer in the SGD space not in distress to miss the call and in our view, this decision was largely driven by the challenging outlook for the hospitality sector necessitating a need to preserve both (1) immediate liquidity through not redeeming the bond as well as (2) ongoing liquidity through cost savings from the lower interest rate environment and resetting the distribution rate at a lower amount then would have been achieved with a replacement instrument given the higher risk premiums. We continue to underweight the perpetuals asset class. One thing to note however is that ART's non-call did not result in a strong sell off of the ART perpetuals and also did not reprice the secondary perpetuals market lower as investors seem satisfied to continue holding perpetuals, perhaps due to the lack of better alternative investments. Going forward, we see several headwinds existing including (1) the pandemic situation is still uncertain, (2) US-China trade tensions are threatening to rise, and (3) China's strong stance on Hong Kong. Countering these headwinds is the lack of supply in the SGD bond market and likely pent up demand from investors which typically suggest tighter yields are possible. However, we think bond investors would err in the side of caution with the macroeconomic environment and all-time low rates weighing in their minds. This means investors would delicately balance the credit profile of the issuers against yields demanded and we do not expect indiscriminate buying in 2H2020.

Government-linked issuers slow, with Real Estate the forerunner

1H2020 saw a significantly smaller amount of issuances y/y from the Government-linked sector, even though the sector is still a major contributor to total issuance volume, with a total issuance of SGD1.8bn across 3 issues (2019: SGD6.5bn across 8 issues, 1H2019: SGD4.7bn across 5 issues). Through a private placement deal, the National University of Singapore priced its first ever green bond. It is the SGD Corporate bond market's third green bond and also the first green bond since 2017. The remaining two issues from the Government-linked sector were from the Housing & Development Board ("HDB"), a statutory board. Similar to its pace last year, HDB issued a total of SGD1.5bn in 1H2020 across two bonds – a SGD700mn 1.75% 7-year bond in February and a SGD800mn 1.265% 10-year bond in June. This was in-line with the announced expenditure on national development of SGD3.6bn during the February 2020 Budget, with the bulk of this expenditure going into public housing. HDB's statutory board status coupled with the low interest rate environment allowed its 10-year bond to be priced at the cheapest rate across all its currently outstanding bonds. In addition, due to its high credit quality through its government affiliation and the relative lack of supply in the SGD Corporate bond market and government sector space, HDB's issue got up-sized from SGD500mn to SGD800mn. Unlike the past two years, the Land Transport Authority of Singapore ("LTA") did not issue any SGD bonds in 1H2020. The last time LTA tapped the bond market was in May 2019. The reason may be that LTA is not facing immediate refinancing pressure as only one bond of SGD650mn is maturing in the next two years and LTA has already tapped the market significantly in 2018 and 1H2019 with issues totalling up to SGD4.0bn and SGD2.9bn respectively.

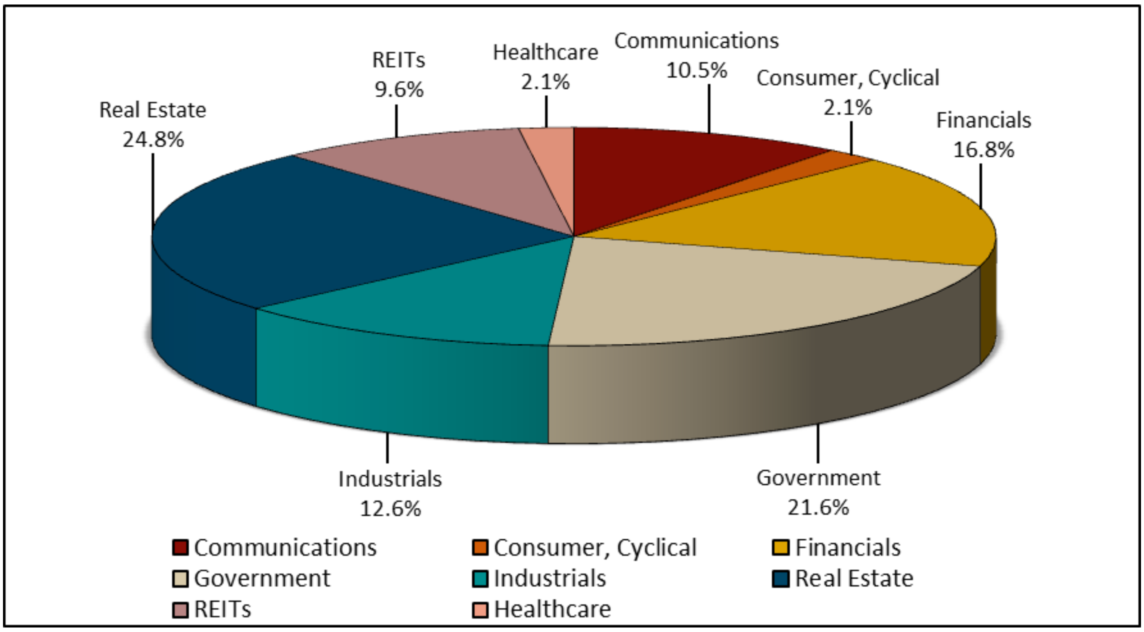
Being the largest contributor to total issuance volume, the Real Estate sector saw a total of SGD2.1bn in issuance amount from 13 issuers. Issuers ranged from foreign players such as CPI Property Group SA who tapped the SGD bond market for the first time to local property developers such as Allgreen Properties Ltd who last tapped the bond market in 2008. City Development Ltd ("CDL") priced two issues and Tuan Sing Holdings Ltd ("Tuan Sing"), a high yield name, issued a SGD65mn 2NC1 bond at 7.75% with a spread of 735bps. Notably, the majority of bond issuance from the Real Estate sector was priced before March. The local property sector was likely severely impacted by the outbreak of COVID-19 with the Singapore government imposing two months of "Circuit Breaker", resulting in a drastic drop in transaction volume as show flats and retail shops were closed and people were told to remain at home. As a lower quality, riskier name, Tuan Sing was a clear victim of the tougher operating environment, as the spread for its 2020 SGD65mn 7.75%'22s issuance was 300bps wider than the initial spread for its SGD150mn 6% '20s priced in 2017.

The S-REITs sector was also not spared from the effects of the pandemic, particularly the Hospitality and Retail REITs. As Singapore's borders were closed and movements were restricted with non-essential businesses closed, retail sales and footfall fell significantly, affecting the top lines of Hospitality and Retail REITs. To provide the REITs with more financial flexibility and debt headroom, the Monetary Authority of Singapore announced on April 16 that the leverage limit for S-REITS will be raised from 45% to 50%. Besides Suntec REIT that issued one SGD200mn 6-year bond in January, the remaining SGD600mn of new issues were priced after the MAS announcement. We may thus continue to see more REITS issuers coming to the SGD bond market in 2H2020. That said, as mentioned in our S-REITs Special Interest Commentary, there are still many ways which the REITs may choose to boost liquidity. With the increased debt headroom, REITs may choose to drawdown on existing credit facilities or seek bank loans instead of issuing new bonds. As the equity price for the FSTREI Index has recovered around 36% from its trough on 23 March, equity raising is also a feasible fundraising option for REITs.

Like the Government-linked and Real Estate sector, the Financials sector was also another large contributor to total issuance volume (16.8%), however, there was no issuance of Additional Tier 1s or Tier 2s in 1H2020. The banks may have been reluctant to issue new capital for a few reasons: (1) credit demand may be weaker as a result of weaker consumer demand and business capex intentions so there is no need for the banks to create extra balance sheet capacity via capital raising, (2) while risk-weighted assets of banks may rise due to the deteriorating macro-economic environment, governments have lowered minimum capital requirements for banks thus also creating balance sheet capacity and reducing capital needs, (3) many banks' capital levels are currently well above the minimum requirement, and (4) credit spreads are much wider now than pre-COVID and given banks' declining earnings from lower net interest margins and high provisions made, banks likely have resisted taking on more expensive capital which would impact their return on equity. With that being said, the banks under our coverage issued new capital instruments in other currencies at the same volume as 1H2019 - while this may hint at the lack of robustness in the SGD bond market these few months, it is more likely due to Financial Institutions under our coverage having the ability to issue in different currencies, which allows them to be opportunistic and minimise their cost of capital. Separately, aside from Bank of China Ltd (Singapore) and Industrial and Commercial Bank of China Ltd (Sydney) who collectively issued four Certificate of Deposits, other issuers in the sector include Insurance companies like Swiss Re Finance UK PLC ("Swiss Re Finance") and China Ping An Insurance Overseas Holdings Ltd ("PINGIN"). Swiss Re Finance's SGD350mn 3.125%'35s marked its debut in the SGD corporate bond market while it was PINGIN's second time tapping the SGD corporate bond market since 2017, this time with a SGD330mn 2.25% 1 year bullet through its subsidiary Vigorous Champion International Ltd. AMTD International Inc ("AMTD"), a subsidiary of AMTD Group Company Limited and a financial services conglomerate, also exchanged a portion of its USD-denominated AMTDGC 7.625%-PERP to SGD50mn of new SGD perpetuals (SGD14.7mn from the exchange offer and SGD35.3mn raised in additional principal). This was AMTD's first SGD-denominated issue.

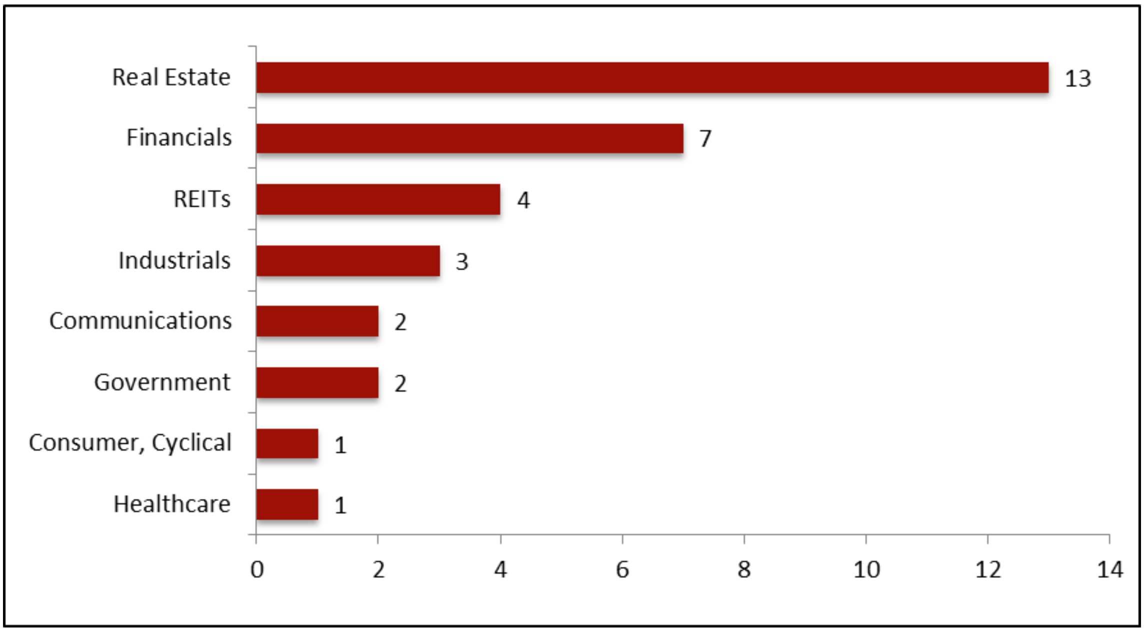
Besides the above mentioned sectors and issuers, we saw Cathay Pacific MTN Financing HK Ltd ("Cathay") returning to the SGD bond market after its last SGD issue in 2012. Following months of social unrest in Hong Kong in 2H2019, Cathay Pacific Airways Ltd, Hong Kong's national carrier, was negatively impacted. Reportedly, Cathay pulled the plug on a proposed USD bond in 2H2019 as investors demanded high rates then though the company saw a better fundraising environment in early 2020. Cathay kickstarted 2020 with a SGD175mn 3Y bullet at 3.375% and privately placed a HKD bond ten days later. Other familiar names in 1H2020 included Singapore Press Holdings Ltd, Thomson Medical Group Ltd, Keppel Corp Ltd and the most recent issuer Singapore Technologies Telemedia Pte Ltd ("STT"). STT, a 100%-owned subsidiary of Temasek Ltd, returned to the bond market with another SGD375mn NC7 perpetual priced at 4.1% after issuing its first perpetuals in 2019. Even though STT is an unlisted company with a lack of updated financial information, STT saw an order book of over SGD2bn at one point due to both its affiliation with Temasek Ltd as well as the high distribution rate in the current low rate environment.

Figure 3: Breakdown of 1H2020 issuance size by sector



Source: Bloomberg, OCBC Credit Research

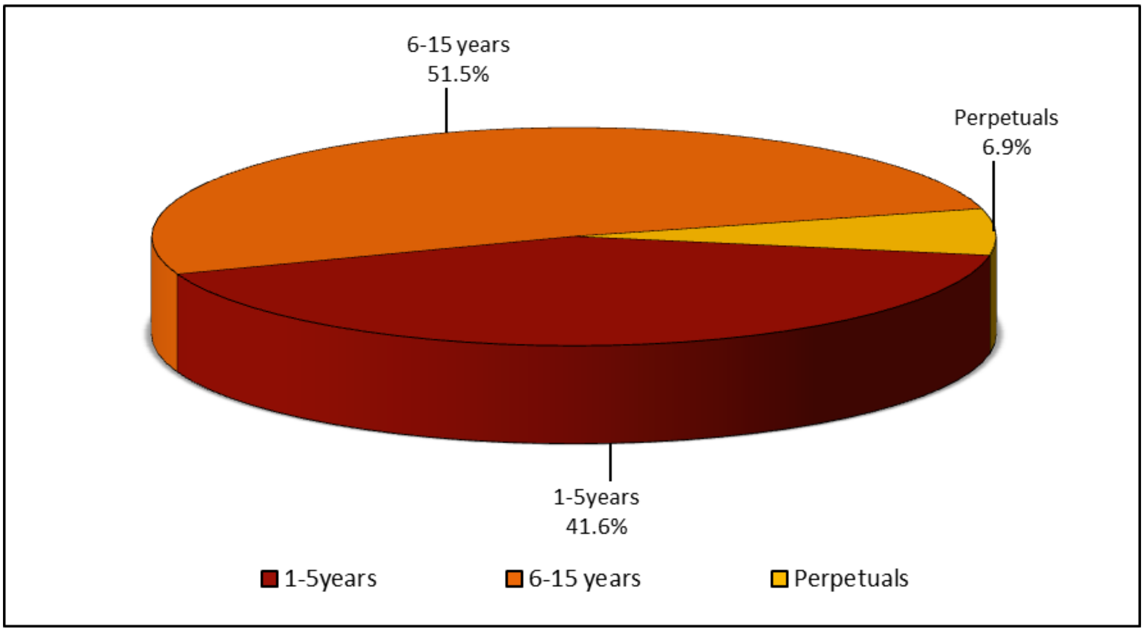
Figure 4: Breakdown of 1H2020 issuers by sectors



Source: Bloomberg, OCBC Credit Research

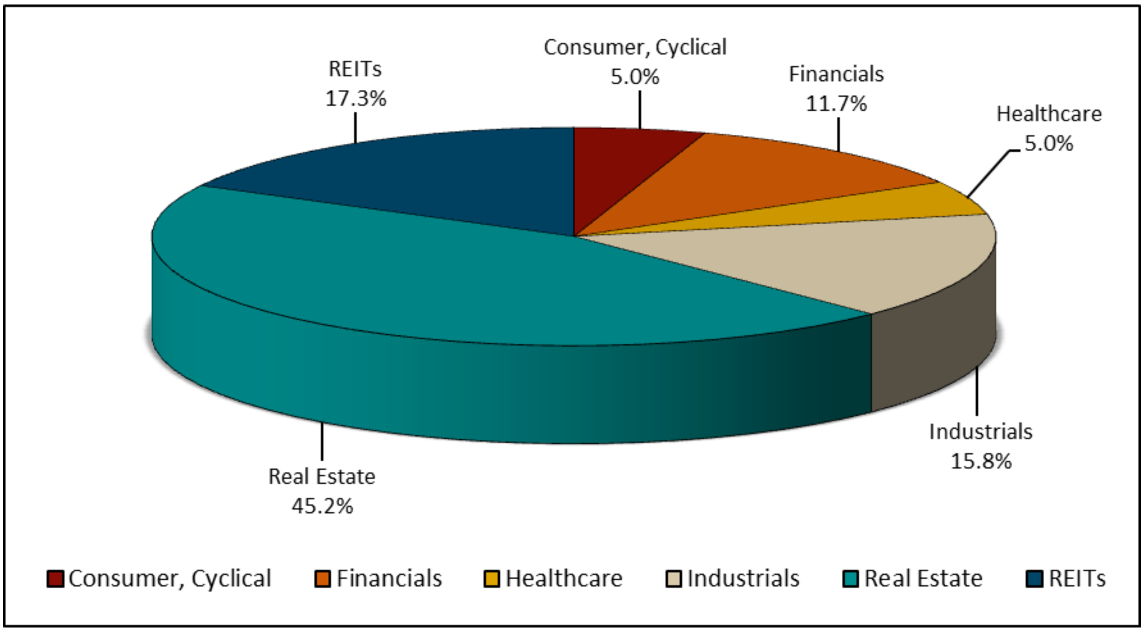
Weakening fundamentals and prevailing technical considerations in 1H2020 (falling rates and unchanged-to-flattening of the SGD swap curve at the longer end) has led to a significant shift towards shorter dated bonds. 25 out of 39 total issues were in the one to five years bucket (64% of total number of issues, 41.6% by total issuance size). 11 issues were in the six to 15 year buckets with 8 issues being 10-year papers and one issue being a 15-year paper, and the remaining were perpetuals. When we look back at 2019, there was a strong preference for longer tenor bonds as we see perpetuals and bonds above 15 years making up 42.4% of total issuances (perpetuals 29.6%, >15years 12.8%). This was driven by (1) a flatter yield curve which enabled issuers to tap the longer end of the curve without having to pay up much, (2) the low interest rates environment encouraging yield-chasing investors to buy longer-dated papers and perpetuals, and (3) issuers wanting to lock in the low rates for longer. However, for the past 6 months there was no issuance of bonds beyond 15 years of tenor despite falling rates and only three companies (CPI Property Group SA, AMTD International Inc and Singapore Technologies Telemedia Pte Ltd) issued perpetuals which totalled up to SGD575mn. Contrary to the past where low interest rates could be a driver for longer dated issues, the current low interest rate environment is actually a reflection of the sharp downgrade of economic forecasts and market uncertainty. Therefore, while investors are still seen to be chasing yields, they are doing so more cautiously and may be unwilling to accept longer tenor papers which may not be compensating them enough for the elevated risks they are taking. Further, with so much uncertainty regarding the COVID-19 situation, it may be in the investors' best interest to stay in the shorter end of the curve. Lastly, the relative absence of government-linked issuers also contributed to the shift away from longer dated bonds as traditionally, government-linked entities tend to issue bonds in the longer-tenors. As a result, perpetuals made up a mere 6.9% of total SGD bond issuances in 1H2020, with all but one of the remaining issues having tenors of ten years or less.

Figure 5: Breakdown of 1H2020 issuance size by tenor



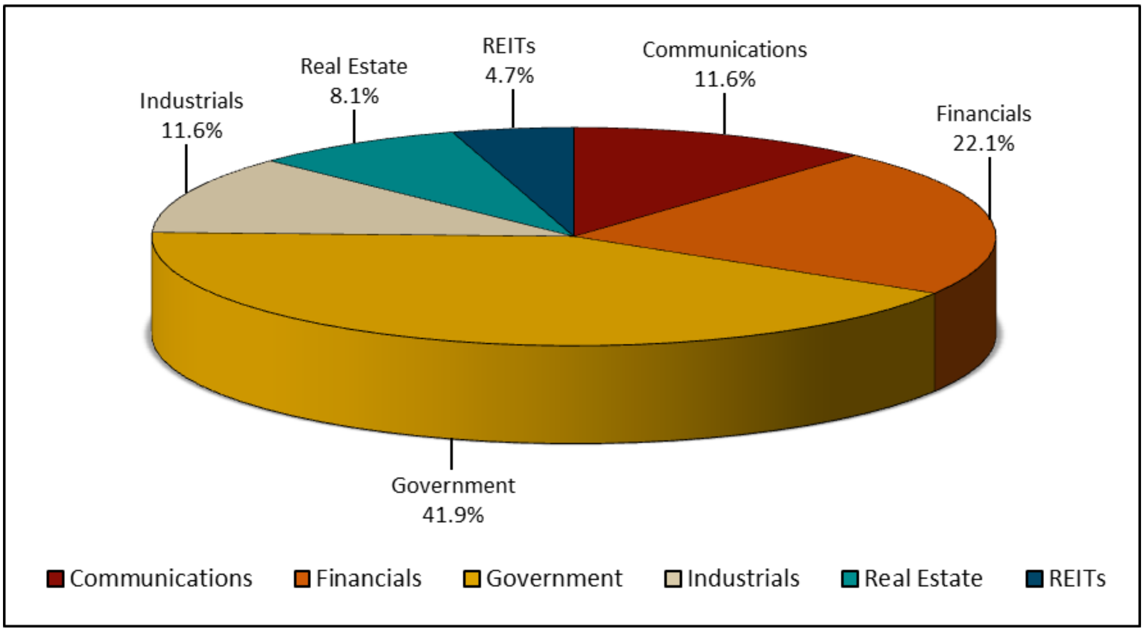
Source: Bloomberg, OCBC Credit Research

Figure 6: Breakdown of 1H2020 issuance size by sector for 1-5Y tenor



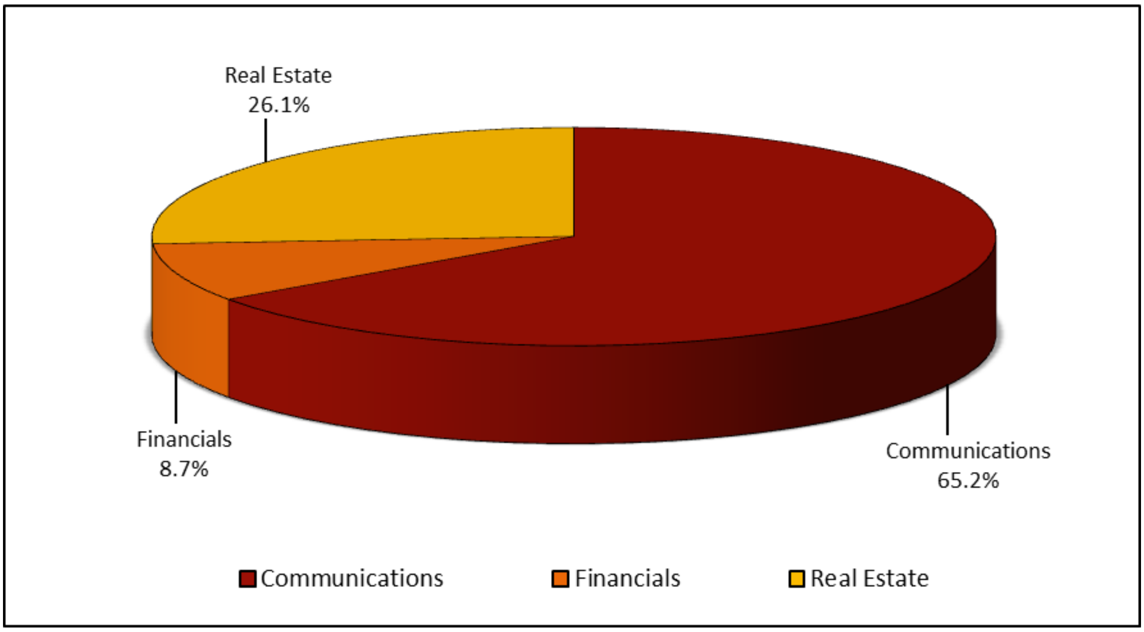
Source: Bloomberg, OCBC Credit Research

Figure 7: Breakdown of 1H2020 issuance size by sector for 6-15Y tenor



Source: Bloomberg, OCBC Credit Research

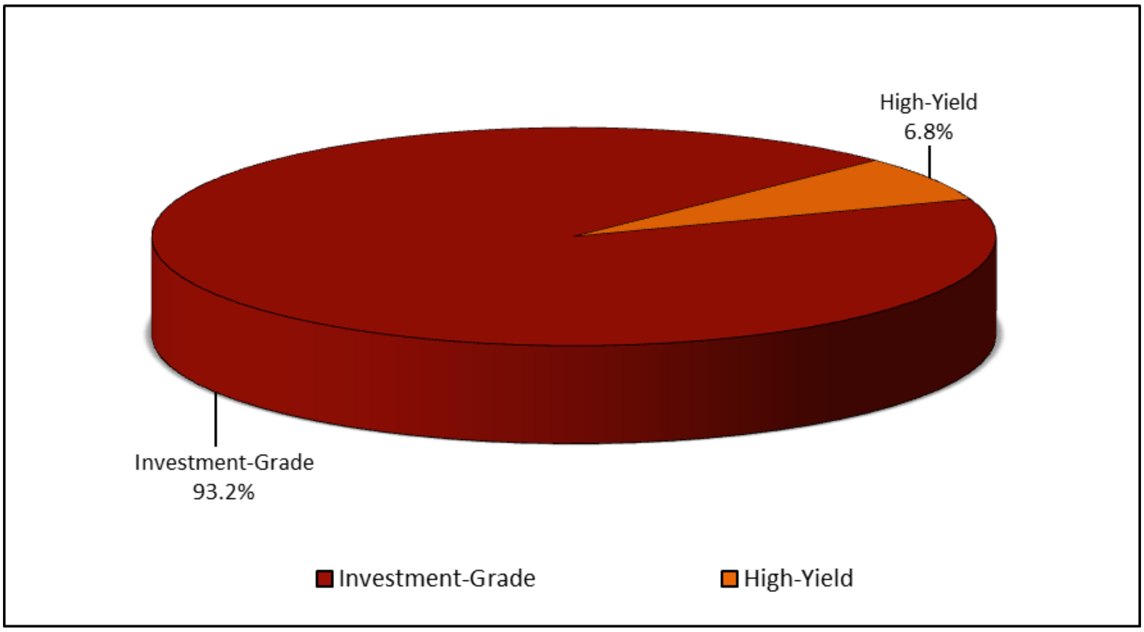
Figure 8: Breakdown of 1H2020 issuance size by sector for perpetuals



Source: Bloomberg, OCBC Credit Research

For 1H2020, the bond market was mostly only accessible by high grade names, many of which have solid bank funding, and there were only five high-yield issues (defined as papers with yields higher than 4.5%). Higher-yielding papers' composition shrank from 2019's 22.6% to 6.8% in 1H2020, with investment-grade papers making up the remaining 93.2% of total SGD bond issuances. This could be attributed to (1) the flurry of private placement deals by high-grade issuers, (2) the lacklustre supply of structurally high-yielding perpetuals, and (3) weaker market sentiment from the sharply reduced economic growth forecasts resulting in investors seeking high quality names and wanting to be compensated even more for weaker fundamentals. The 2018 Hyflux Ltd saga could also still be lingering in investors' minds as there is still no resolution yet after two years. All these factors put upward pressure on yields for bonds from riskier issuers, causing a gap between what the high-yield issuers can pay and what investors are willing to accept. Until there is some clarity on the economic outlook and the COVID-19 situation, the current trend is likely to continue.

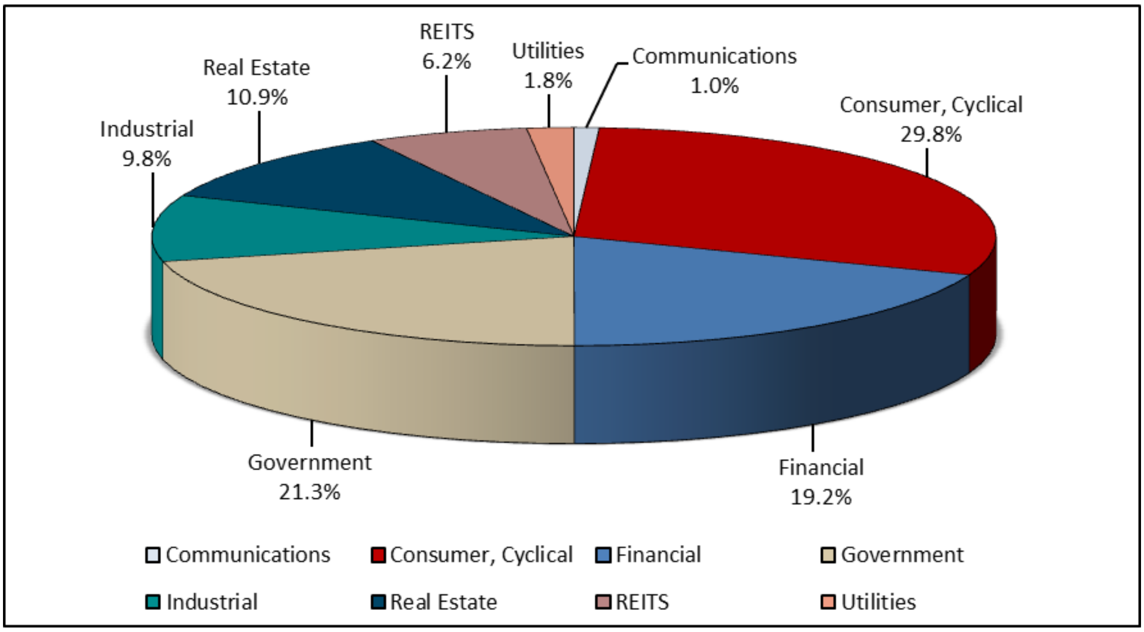
Figure 9: Breakdown of 1H2020 High-Yield issuances (>4.5% coupon rate)



Source: Bloomberg, OCBC Credit Research

As at 30 June, we expect approximately SGD15.6bn of SGD bonds to mature/become callable in the remainder of 2020 (including Singapore Airlines Ltd's SGD3.5bn Mandatory Convertible Bond issued this year and callable at the company's discretion in December) excluding Certificate of Deposits, amounts smaller than SGD50mn, and MAS or Singapore Treasury and government bonds, with the largest segments from Consumer, Cyclical and Government-linked issuers. This amount is almost double that of the same period last year. Consumer, Cyclical relates to Singapore Airlines Ltd ("SIA"). Although we downgraded our views on SIA twice in 1H2020 due to the swift deterioration in industry conditions brought about by COVID-19, the strong financial support shown by its major shareholder Temasek Holdings (Private) Limited through an underwritten capital raising is a credit positive given SIA's stretched internal liquidity situation going into 2H2020 and is supportive of its ability to repay near term financing in our view.

Figure 10: Bond Maturities breakdown by sector for 2H2020



Source: Bloomberg, OCBC Credit Research

Credit Outlook for 2H2020 – Staying defensive

We entered 2020 at an interesting point in the cycle with fundamental and technical drivers delicately balanced. We felt however that technicals would prevail through 2020 leading to a further tightening in credit spreads despite already stretched valuations and weaker fundamentals. This was based on (1) a continuation of solid market liquidity, (2) investors still bullish and on the hunt for yield and (3) a supportive macro outlook with central bank rates to either remain stable or still fall so as to aid an anticipated recovery in economic growth in 2021. Those however were the good old days. Since January, there has been unprecedented mayhem in markets (both the financial markets and supermarkets) and a reckoning of sorts of our existence and everyday way of life. We pay more attention to human interactions, have greater appreciation for the services that were once inconsequential but now seem essential and have had to relinquish many activities we previously took for granted. This has all come with a high human toll that is both seen and unseen but is also perhaps yet to be seen.

Along with these events however has also come unprecedented central bank support. This was necessary to avert disaster on a global scale and brought calm to financial markets when economies and credit fundamentals were experiencing the very first effects of a severe and sudden deterioration in the operating environment. Primary market activity returned with a vengeance despite economies in lockdown and industries severely disrupted as infection rates soared. Credit spreads that widened significantly through the end of February towards the end of March started to retrace at almost an equivalent pace. A measure of the impact of central bank support is seen in the relative peak of the credit spread widening around 23rd of March which was nowhere near the peak of credit spread widening experienced during the Global Financial Crisis despite the VIX rising to historical levels as previously discussed. With rising expectation that this pandemic recession is likely to be longer and deeper than the Global Financial Crisis, it seems that the expectation that technicals will prevail in 2020 somewhat holds true (ignoring of course the drastically different circumstances it has taken to get here).

While credit spreads remain wider than before the COVID-19 outbreak, it remains difficult to say whether where credit spreads are currently is a true reflection of the underlying default risk. This is due to the significant uncertainties that remain in the fight against COVID-19, including the likelihood of subsequent waves of infection, the possibility of mutation and more importantly the emergence of a viable vaccine. Unrelated viruses emerging could yet pose another uncertainty - as at time of writing, it has been reported of the discovery of a new swine flu with pandemic potential. Not only are these developments somewhat unpredictable, their impact on credit spreads are somewhat binary with the first two potentially leading to a sharp widening and the third one possibly resulting in a sharp tightening. The month of June was a good example of what 2H2020 may hold with the early part of the month seeing 10Y UST yields spike from 0.65% to 0.89% on increasing optimism of lockdowns easing, economies re-opening and an economic recovery commencing earlier than anticipated. This optimism dissipated however as infection rates began rising in China, the US and Australia leading to 10Y UST yields retraced down to 0.66% by the end of the month. Although both the Bloomberg Barclays US Aggregate Corporate Index OAS and Bloomberg Barclays US Corporate High Yield Index OAS were tighter m/m by 24bps and 12bps respectively, virus concerns and the weaker economic outlook along with rising bankruptcies led to increased dispersion with the peak to trough movements through the month at 94bps for HY (widening 90bps since hitting the lows) and 28bps for IG (widening 6bps since hitting the lows).

To chart a path ahead in uncertain times, it makes sense to look for things that are more certain. In this regard, there are a few key knowns that can help us see a plausible path forward. The **first** and most obvious is that credit fundamentals are weaker. While this was raised in January in the Singapore Credit Outlook 2020, the trend of deterioration has accelerated due to COVID-19. Revenue destruction and industry disruption has likely wrought severe damage to income statements and balance sheets, the most serious of which we are yet to see until issuers start announcing their 2Q2020 results. **Second**, systemic leverage has risen – with revenue generation significantly impaired, companies raised debt to finance expenditure and this weakened balance sheets. At the same time, leverage has risen at a sovereign level to fund expansive stimulus measures (public debt of developed nations is expected to reach 130% of global GDP according to the International Monetary Fund). As a result, systemic risk is even more elevated than it was at the start of 2020 when global debt was already at record levels according to the International Institute of Finance. **Third**, global central bank rates will likely remain low and range-bound for a considerable time. This is to assist the recovery and also in recognition of the higher systemic leverage and need to keep serviceability costs as low as possible. **Fourth**, despite unprecedented coordination and resource allocation (see OCBC Greater China Treasury Research Covid-19 Special: Routes to normalcy) and a significant number of candidates in development, the development and distribution of a vaccine will take time. **Finally,** sustaining central bank and government support will remain critical in bridging the divide between (a) current fundamentals and the technically driven environment and (b) when a vaccine is found and/or when economies can begin the path to recovery. If credit fundamentals are the oxygen to valuations then governments so far have provided the helium to support technicals, which have made investors high up until the early part of June.

With potentially binary outcomes, elevated systemic risk, and prevailing uncertainty on the virus, we expect market volatility to be higher and shifts in sentiment to be more impactful. We also expect the current weaker operating environment and tighter financing conditions to have the potential to amplify existing underlying weaknesses in fundamentals and lead to increased credit dispersion. With this in mind, we continue to advocate staying in high grade of Neutral (3) issuers and above though also advocate investors to expand into Neutral (4) names, particularly as part of a diverse basket.

- Higher grade issuers benefit not only from solid fundamentals and are more likely to be solid companies in a bad situation with enduring characteristics and a better potential to recover quicker. But they also benefit from a flight to quality.
- On balance it seems that the worst of the credit crunch is likely to be behind us and as such, Neutral (4) issuers have become attractive, especially those with established market positions and where access to bank debt markets remain solid.
- We have yet to see compelling reasons to enter back into true high yield with liquidity still patchy in that space and at risk of deteriorating sharply on negative developments with the virus or the global economy with 2Q2020 results around the corner. High yield companies will most likely be more dependent on external financing in this environment with a constrained ability to absorb higher funding costs from the bond market. At the same time, bank funding may be limited given the broad based pressure on loan books including personal banking loans.

From a technical angle, we think credit should remain attractive to investors given the range bound expectations for rates (yield curve control continues to be in the discussion mix as a path forward for economic recovery, having been implemented in Australia). At the same time, dividend returns look challenging given the weaker earnings environment. Issuers from REITs to Financial Institutions have lowered shareholder payouts to preserve either liquidity or capital.

With yield curves flat, we think shorter duration make sense although we also expect the temptation towards longer duration and subordinated structures for extra yield. In that respect, we continue to emphasise structure as key. Non-call risk rose sharply with the fall in rates and we continue to underweight perpetuals as we see increasing risks of non-call with distribution deferral risks. As always, risk return remains key in our view. While investors may be searching for carry, we are likely facing a long and slow economic recovery that may be influenced by lower consumer demand (social distancing, changing behaviours, virus concerns, lower personal wealth, and income) and higher taxes. With a smaller pie available for all in 2H2020, it is important to ensure that investors are being adequately compensated for the higher risk.

Our expectations in January of another interesting year for credit markets have clearly been surpassed under historic circumstances. We continue to be grateful for our readers' support and feedback and hope you find our publications useful in the rest of the year ahead. We also hope you and your close ones stay healthy in mind and body as we look towards better times ahead.

With appreciation, OCBC Credit Research

Vulnerable industry sectors and our views of default in the SGD-bond market

When we first published our Singapore Credit Outlook 2020, news of a new virus in China was at its early phases and we did not factor in any COVID-19 impact into our views of vulnerable issuers in addressing the question of "Will we see more defaults in the SGD space in 2020?" As a recap, we considered ten issuers to be at risk, totalling SGD1.5bn. As a percentage of total bonds maturing in 2020, this was 10% and we term this percentage as the "at risk ratio". The 10% includes issuers who we think face difficulties re-accessing the SGD-bond market for refinancing. With one funding channel crimped, we think they face higher refinancing risk relative to other SGD-bond issuers. That being said, these issuers may still have access to the bank lending market and the ability to raise bank debt to refinance maturing bonds would not result in a default. In January 2020, we opined that a total of SGD650mn of bonds maturing in 2020 faces the highest risk of default. This SGD650mn was 4.5% of the total bonds maturing in 2020. We term this as the "vulnerability ratio".

Year-to-date, within our SGD-bond coverage, we downgraded 14 issuers and upgraded two issuers. At the beginning of the year, we covered 72 SGD-bond issuers. As at 2 July 2020, we cover 66 SGD-bond issuers, a reduced count on the back of bond maturity, mergers & acquisitions and de-listings. This means that by issuer count, we have downgraded 19% of our portfolio, taking the 72 as base. The downgrades were concentrated in the travel and hospitality sectors where future income within 12 months had become highly uncertain. These included Singapore Airlines Ltd, Ascott Residence Trust and Frasers Hospitality Trust. Those affected by general weakening in their operating environment included HSBC Holdings PLC and Frasers Centrepoint Trust, albeit coming off a strong base. Several issuers downgraded were highly levered issuers, whose liquidity profile had been simultaneously impacted by a more difficult refinancing market. These were mainly already held at Neutral (5) and Negative (6), pre-COVID-19. Overall, even without COVID-19, we had expected to see a downdraft in terms of credit quality for eight of these downgraded issuers, though the negative implications of COVID-19 accelerated the changes in issuer profiles.

The oil and gas sector has also been negatively impacted with Brent prices crashing 67% from February 2020 to the trough in April 2020 before coming back up above USD40 per bbl. The debt restructuring process for KrisEnergy Ltd, an oil and gas issuer 40%-owned by Keppel Corp Ltd ("KEP") who had re-entered into restructuring in August 2019 is still on-going. Other debt restructuring processes which have yet to complete were from the 2016-2017 default wave. KEP and Sembcorp Industries Ltd were likely to be dragged this year from their offshore and marine arm though the latter had announced a two-step transaction which would eventually see the spin-off of this business, strengthening its credit profile.

Among the ten issuers we saw as being higher risk, six had managed to pay down their SGD-bonds, largely from continuous support from bank lenders. As expected, these bond issuers did not return to the SGD-bond market for refinancing. Understandably, market access was made even more unconducive with markets globally facing a credit crunch, particularly at the beginning of March 2020 to mid-April 2020, aside from circumstances specific to these issuers. The SGD-bond primary market was dominated by private placements during this seven week period, with broadly distributed issuances only occurring since end-April 2020. We think the swift budgetary actions taken by the Singapore government and the role that MAS has taken in providing sufficient liquidity to funding markets in Singapore strengthened the transmission mechanism for banks to provide continuous support to corporates in Singapore. The size of the SGD corporate bond market indicates that Singapore corporates are still highly reliant on access to bank lending markets, which in our view continues to provide a "backstop" to refinancing needs.

Against the challenging backdrop and despite recent high profile corporate fallouts in Singapore in the bank lending market, no SGD-bond issuer has defaulted year-to-date on their bonds as of writing. That being said, one issuer had commenced discussions with its lenders on a plan to re-profile its debt while simultaneously in discussions with potential new investors. Another issuer had announced that repayment of its bond would put substantial pressure on its liquidity and its listed shares have been suspended from trading. As of writing, the bond has not been paid. On an aggregate basis, these two issuers have bonds totalling ~SGD160mn, representing 1% of SGD bonds maturing in 2020.

Similar to the approach we have taken at the beginning of the year, we do not think predicting default rates based off historical default rates is meaningful nor justified for the SGD bond market given the (1) relatively short history of the SGD corporate bond market, (2) even shorter history of defaults, and (3) concentrated industry profile of defaulted SGD bonds to the offshore oil and gas sector. As such we have presented our thoughts below for 2H2020 and 1H2021 based on a bottoms up analysis.

2H2020

Excluding perpetuals which are facing their first call dates and callable bonds, SGD7.0bn of corporate bonds will face maturity in 2H2020. This represents 6.5% of the total outstanding SGD corporate bonds (excluding bonds issued by statutory bodies) of SGD107.2bn as at 2 July 2020. Excluding floaters issued by banks and excluding Falcon Energy Group, which was previously restructured, we see six issuers at risk with total bonds maturing in 2H2020 of SGD757.8mn. SGD7.0bn of corporate bonds mature in 2H2020, implying an at risk ratio of 10.8%. We see SGD311.8mn of bonds as more vulnerable to default to the end of the year, implying a vulnerability ratio of 4.4%. This includes the two who have disclosed that they are facing liquidity pressures.

1H2021

Maturities are lighter in 2021 with only SGD8.9bn of bonds maturing, excluding one bond where a delisting put would likely be triggered. Of the amounts maturing, 64% comes due in 1H2021. We see the at risk ratio at 13.7% (totalling SGD795mn), higher than 2H2020 levels while we see the vulnerability ratio lower at 1.7% (totalling SGD100mn).

Table 1: OCBC Credit Research Projections

Period	2H2020	1H2021
Amount of bonds maturing (SGDbn)	7.0	5.7
At risk ratio	10.8%	13.7%
Vulnerability ratio	4.4%	1.7%

Source: OCBC Credit Research tabulated from Bloomberg data
Note: (1) Excluding perpetuals, which are facing their first call dates and excluding callable bonds
(2) Excluding bonds where delisting put is likely to apply for 1H2021
(3) Excluding floaters issued by banks and excluding Falcon Energy Group which was previously restructured

Singapore budget and Impact on companies in Singapore

2020 saw an astonishing four budgets, totalling SGD100bn. This represents 19.2% of Singapore's GDP. This is no doubt a landmark package and perhaps a necessary response to an unprecedented crisis. Companies and businesses have much to benefit from these budgets among others. Across the four budgets, we have seen the government enhance many of the schemes that were pushed out since the first budget.

The Jobs Support Scheme was introduced with the intention of helping enterprises retain local workers. This scheme also helps companies to temporarily reduce their fixed staffing costs. In the Unity Budget, for every local worker in employment, government would offset 8% of wages, up to a monthly wage cap of SGD3,600 for three months. Subsequently in the Resilience Budget, the government raised the percentage of offset to 25%, raised the qualifying wage ceiling to SGD4,600 and extended the period to end2020 while firms in the food services sector will receive higher support at 50% and firms in aviation and tourism sectors will be supported at 75% of wages. In the Solidarity Budget, the government expanded the wage subsidy for all firms to 75% of monthly wages for the first SGD4,600 of wages paid in April 2020 for each local employee. In the fourth budget, government extended that to cover May 2020 as well and for firms that cannot resume operations immediately after the circuit breaker, government will continue to provide wage support at 75% until August 2020 or when they are allowed to reopen, whichever is earlier. This includes retail outlets, gym and fitness studios, and cinemas. Reducing staff costs and allowing employers to retain their staff is the first order effect with job retention as the key policy aim. We think the wage subsidy also enabled businesses to stay viable as effectively the government was helping businesses bear certain costs of operations during this time. This had yield spill over benefits to other stakeholders such as landlords and other stakeholders as these businesses would be ready to operate as soon as it is safe to do so, minimising down time.

Apart from reducing cost of companies via wage subsidy, government has also granted 100% Property Tax Rebate to hotels, serviced apartments, shops and restaurants and 30% to offices and industrial properties. Landlords are mandated to pass on these rebates to tenants via reducing rentals. Landlords are not worse off in our view, in fact, they benefit from having tenants who are in a better position financially as a result. In the Fortitude budget, the government gave cash grants to SME tenants to offset rental costs and mandated that landlords too gave rental rebate to SME tenants who have seen a 35%y/y in revenue. While landlords, including REITs were required to give rental rebate, government has clearly shared the pain which would otherwise fall directly on the REITs. SME tenants are smaller companies who tend to have less access to financial resources and are struggling more than larger corporates amidst the COVID-19 crisis. While this is not a structural policy move that changes the bargaining power between tenants and landlords, without this temporary intervention, SME tenants face heightened risk that their businesses may fold under circumstances outside their control. Businesses have been unable to operate as per usual and simultaneously owe rental payments to their landlord. Therefore, we view the REITs, in particular the retail REITs, as indirect beneficiaries of this scheme.

Other initiatives that are also useful are (1) Corporate Income Tax Rebate (capped at SGD15,000 per company), (2) Enhance several tax treatments under the corporate tax system for one year (some examples are allowing companies to write down their investments in plant and machinery, renovation and refurbishment faster) and (3) Financing schemes such as Temporary Bridging Loan Programme and the Enterprise Financing Scheme. Specifically, government has increased the loan quantum, increased government's risk share of these loans and allowed qualifying businesses to opt to defer principal payments on secured term loans till end of 2020. Announced in the fourth budget, financing schemes have catalysed SGD4.5bn of loans, benefitting 5,000 businesses. This is more than 3x the amount of loans catalysed for the entire 2019.

Finally, the government also put out initiatives to help the aviation and construction industry. The construction sector will benefit from the Foreign Worker Levy waiver and rebate. Specifically, the wavier will be 100% from April to June and 50% in July and the rebate will be SGD750 in June and SGD375 in July. On top of that, the government will co-share the additional costs that will be incurred by business which will need to meet additional requirements in order to resume their existing projects safely. For the aviation sector, the government implemented a suite of measures (totalling SGD350mn), comprising rebates on aircraft landing and parking charges, assistance to ground handling agents, rental rebates for shops and cargo agents at Changi Airport, and also granted a 15% Property Tax Rebate for Changi Airport.

The companies under our coverage are inevitably negatively impacted by COVID-19. Within the SGD-bond universe, REITs, property developers and Singapore Airlines Ltd ("SIA", Issuer profile: Neutral (5)) are being most influenced by the budgets. The budgets together help and serve to reduce the losses these companies would have otherwise suffered. We view them as vital moves towards "damage control" rather than a booster.

The shifting fortunes of industries

COVID-19 has been a crisis like none other in recent memory and while we are all familiar with the concept of a business cycle and its natural evolution, the nature and velocity of the COVID-19 impact has turned industries on their head. Previously high risk activities like trading became a safe haven for Financial Institutions as traditional lending businesses came under pressure from economic shutdowns and requests for loan deferrals from both corporate and retail customers. Historically recession proof sectors such as telecommunications saw margin erosion and reduced earnings due to lower roaming charges, data use and equipment sales that were compounded by supply chain disruptions and lower enterprise spending amidst ongoing competition amongst service providers.

The underlying principle of the four stages of a business cycle is broadly a return to normality but in this expected era of social distancing and possible deglobalisation, the question is what normal really is. In truth, the concept of normality may have not only changed but become less uniform given that the future hinges on perhaps more variables than usual including: (1) pace of easing in restrictions; (2) containment of the virus (both domestically and globally) and possible second waves; (3) discovery of a vaccine; and (4) continuation of government stimulus. This does not consider as well perhaps the most significant variable of how consumers and businesses adapt and evolve to the earlier mentioned variables or if there is actually a strong desire to. In China, consumer activity appears to be lagging the opening up of the economy suggesting lingering concerns on the virus as well as the impact of the economic slowdown with only consumer staples including medicine seeing solid growth in retail demand. At least, it seems there is agreement that the worst is behind us and that we are now on a long and slow path to recovery, albeit a shaky one which is likely to see fits and starts and bouts of volatility.

While it may also be challenging to predict how industries perform in the next 6-12 months given a potentially altered operating environment, there is also reason to believe that the path of the recovery may not be as unpredictable as some may think. For some industries, underlying trends such as digitalisation and remote working have accelerated faster than imagined as have the relevance of environmental, social and governance factors while the order and magnitude of impacts on different industries have somewhat consistent with past recessions. Per McKinsey & Co.'s study from 2009 on the decline and recovery across sectors, there were consistent trends in impacts on certain sectors across the four most recent recessions before the Global Financial Crisis regardless of the stress that initiated them: (1) consumer discretionary businesses were usually impacted first while consumer staples and healthcare remained more immune; (2) the magnitude of the impact was largest in consumer discretionary, materials, energy, and industrials; and (3) economic contraction was sharper than the recovery. Some of these trends have also been seen in 2020, however given the driver of this recession being a highly contagious and hard to detect virus some additional industries have been more highly exposed, namely those that criss-cross discretionary spending and large scale gatherings and also rely on foreign demand or the free movement of people across borders. These industries include arts, entertainment, and education and more obviously travel and hospitality. No country has been spared – for instance while the virus appears to have been contained rather successfully in Australia (albeit at time of writing there seems to be a second wave of infections), its education sector is suffering in the absence of international students, which are mostly from China and India.

With a relatively widespread impact from COVID-19 then, we have cast our views across a variety of sectors to look at the risks and opportunities faced by each and whether the outlook is positive, stable or negative. Whilst disruption and upheaval are never easy, there are also opportunities that arise and a drive to consider alternative realities that may eventually lead to innovation and efficiencies that can take some industries two steps forward after taking one step back.

Table 2: Sector Outlooks

Sector	Risk	Opportunities	Outlook
Public sector	• Leverage increasing among TLCs, credit metrics weakening • Returns on equity lower than historical performance • Pre-COVID-19, dividend pay-outs for some TLCs partly funded by debt	• Strategic reviews to rejig TLC businesses • More "active involvement" by Temasek on key portfolio companies • Selling hard assets to lighten balance sheets and boost ROE • Entering into new businesses	
Infrastructure	• Moving beyond concession based assets may increase earnings volatility • Singapore companies are smaller scale and compete with heavyweights globally, limiting acquisition targets • Bankability of projects in SEA may be questionable	• Expansion by companies including for non-traditional infrastructure (eg: Keppel) • Building capabilities overseas (eg: Sembcorp in India) • Green solutions a core focus such as renewable energy and waste management • Oversupply of electricity in Singapore to subside post-2020 (new genco may be required to meet reserve margins) • Multilateral organisations supportive for SEA projects	
Private Healthcare & Education	• Healthcare: Deferral of non-urgent treatments, and long-term declining trend for medical tourism in Singapore • Education: Closing of centres and possible refund/reduction of fees	• Healthcare: growth in telemedicine services • Education: capability of online courses, and the lack of jobs may drive demand for private education	
Transportation & Offshore	• Aviation: Prolonged demand shock • Shipping: Global supply chain disruption; de-globalisation over the longer term as countries and companies reduce their vulnerability to global supply shocks and dependence on imports to boost resilience	• Lower oil prices i.e. fuel costs • Agility can help reduce pain and outperform peers • Aviation: switch to cargo • Shipping: cutting supply appropriately to maintain or increase freight rates	

Sector	Risk	Opportunities	Outlook
eCommerce (for partnerships & cash)	• Greater competition may push down margins	• Accelerated adoption • Higher successful user conversion rate	
Data centres	• Oversupply may exist in certain cities (eg: outside Tier 1 cities in China where utilisation rates are low) • Scarcity of suitable areas in Singapore may limit growth of data centre operators • Highly polluting sector	• Growth sector with increased data usage • Singapore is the favourite hub though Indonesia, Malaysia and Thailand fast rising as alternatives • Environmentally friendly data centres and alternative locations (eg: floating data centres, conversions of existing buildings)	
REITs	• Balance of power between tenants and landlords under spotlight • Negative rental reversion from reduced demand for space expected to impact operating income • SME tenants defaulting on rental payments post-COVID-19 Act which allows temporary deferral	• Pick up properties at attractive valuations (eg: Frasers Centrepoint Trust with PGIM Real Estate Asia Retail Fund) • REITs may revamp tenant mix, given COVID-19 is likely to accelerate the pace of decline in performance of tenants who have been struggling	
Global commodities	• Low commodity prices (especially oil & gas) leading to higher credit risks. Worst is over but still dealing with supply glut • Aluminium producers given airline sector down	• Metals producers such as copper, zinc, iron ore used in infrastructure • Errant/fraudulent companies brought to light; companies who survive have lower counterparty and credit risk	
Financial Institutions	• Lower returns from falling interest rates, higher risk costs • Weaker economic recovery than baseline could lead to reduction in capital buffers • Rising competition driving margins lower, consolidation and restructuring costs	• Rise in digitalisation to improve efficiency measures and resilience • Chance to acquire new customers with better services and user experience • Stronger banks to become stronger, leverage off existing business and flight to quality • Improving corporate reputation, seen as a solution, not problem	
Real Estate	• Transaction volumes have fallen. Buyers slow to take-up given uncertainty. • Property prices declining with luxury segment appearing to take a bigger hit. • Fall in rental rates may lead to revaluation losses. • Deferral of non-essential capex • Weaker hands may look to offload/sell assets	• Stronger developers make use of the chance to acquire on the cheap, for example in China • Accelerate push towards fund management which provides a truly more recurring income (as opposed to investment properties) • Sale of more properties to REITs and third parties for liquidity and asset light strategies • Put more emphasis on Industrial/logistics/data centres, which are seen as safer assets relative to hospitality and retail	
Tele-communications	• Travel has fallen so has demand for roaming and overseas data leading to lower ARPU and pre-paid subscribers • Lower revenues from Enterprise customers which are deferring capex and projects • Competition still intensifying on mobile and pay TV • 5G rollout might be delayed • Cash conservation / expense control with cost cuts, dividend cuts and slowdown on non-essential spending	• Firms are still spending on cyber security • Players with debt headroom may acquire more in the enterprise / cyber security space • Potential consolidation with margin pressures forcing weaker hands out, which may put the industry towards recovery • New handset sales are down so are churn rates • Reduce subsidy for handset sales, focus on growing SIM-only subscription	
Sustainable/ Green	• Green energy projects put on hold as crude oil prices much lower • Lack of consistency and quality in reporting, definitions • Stampede for green investors leading to 'greenwashing'	• Government and regulatory support initiatives and incentives for green investment • Stronger awareness and demand given positive impacts on economies from reduction in industrial activity.	

Source: OCBC Credit Research

Is privatisation good for bondholders?

Wave of privatisation continues: This year, BreadTalk Group Ltd ("BreadTalk") has been taken private and Perennial Real Estate Holdings Ltd ("PREH") is likely to be privatised, joining the ranks of many before them, such as Neptune Orient Lines Ltd ("NOL"), Global Logistics Properties Ltd ("GLP") and CWT Ltd. In the REITs space, CapitaLand Commercial Trust ("CCT") is looking to merge with CapitaLand Mall Trust ("CMT"), with CCT as the sub-trust. Meanwhile Frasers Commercial Trust ("FCOT") has been acquired by Frasers Logistics & Industrial Trust ("FLT"). Although privatisation is generally good for shareholders, can the same be said for bondholders?

In the following, we will explore the (1) implications for bondholders, (2) motive for companies to privatise and (3) areas which bondholders should focus on.

Implications for bondholders: Often (but not always) companies which turned private are worse off for bondholders. We list the more common reasons in the following:

1. Usually, bondholders will no longer have access to timely updates. For example, by staying listed in the Singapore Exchange, it is mandatory for companies to provide earnings update on a semi-annual basis. Major changes (above a certain threshold) to the company (e.g. acquisition or disposal) will also have to be announced. Companies that are privatised do not usually provide timely earnings update or announce significant changes to the company. Listed companies also tend to disclose more material information, especially in annual reports. We believe that disclosure of material information is useful for investors and potential new investors. Liquidity in the bonds may decline as a result of decline in quality of disclosure.

2. Privatised companies have a much freer hand to do things as they are not subject to shareholder scrutiny. For example, privatised companies can take on a lot more debt and sell away core assets. The shareholder can also opt to withdraw significant amounts of cash. An example is CWT Ltd, which after privatisation saw its warehouses and metals and logistics businesses put up for sale by its indebted shareholder HNA Group Co Ltd ("HNA"). Another example is GLP, which saw its gearing increase substantially following privatisation. These actions are negative for bondholders as they weaken the credit metrics of the company.

3. If the controlling shareholder changes as a result of privatisation, this can also be detrimental to bondholders if the new shareholder is weaker than the original shareholder. One example is GLP, which saw its USD notes maturing in 2025 drop about 10pts from Nov 2016 to Jan 2017 when news broke out about the potential sale of it. Although the buyout parties include decent names such as China Vanke Co Ltd and an investment arm of Bank of China, we note that GLP was previously ~37% held by GIC Pte Ltd (which the market sees as a stronger shareholder). Another example is NOL, which saw its SGD bonds fall more than 30% in value when news broke out that Temasek Holdings Pte Ltd ("Temasek") was selling its 67%-stake to CMA CGM. Although CMA CGM is one of the largest container liners in the world, its credit profile which we currently rate at Negative (6) is considerably weaker than Temasek. We note that a number of SGD bond issuers are Temasek-linked, which investors attach a premium.

Reasons for companies to privatise vary, though we identify three frequent reasons.

1. **Upside by the acquirer.** Upsides can be immediate to the acquirer, for example if the target is trading below book. For example, PREH's offer price puts the price to book ("P/B") at 0.6x while United Engineers Ltd (2019) and Keppel Land Ltd (2015) were taken private below 0.9x P/B. Similarly, the offer to privatise Wheelock & Co Ltd came when the stock price was trading well below 0.5x P/B. That said, book value is not the only measure of value. While Croesus Retail Trust (2017) was taken private at 1.23x P/B, the offer price looks somewhat cheap in comparison to REITs listed on Japan which were trading at higher P/B ratios and lower yields while cap rates had been on a compression trend in Japan. Another example is CapitaMalls Asia Ltd. While the offer price was above 1.2x P/B, there was significant earnings accretion. In general, we think it is tempting for privatisations to take place if the stock market assigns too low a valuation to the company.

2. **Capturing synergies.** Value to the acquirer also comes about from synergies that may materialise. For example, China Vanke Co Ltd was one of the consortium members which bought out GLP as there are strategic fits in the logistics property sector. CMA CGM bought out NOL seeing significant operational synergies and the chance to increase its market share to 11.5% (versus 8.8% for CMA CGM and 2.7% for NOL on a standalone basis). In 2014, Goodpack Ltd was privatised, with KKR's Asia Fund II seeing potential to grow the business through KKR's relationships. CMT is merging with CCT with intentions to emerge as the third largest REIT in APAC, which may result in a better cost of capital. Similarly, FCOT's merger with FLT has placed it into the top 10 S-REIT by market cap with inclusion into the FTSE EPRA/NAREIT Index. In general, synergies exist when the acquirer can enhance the value of the acquisition, therefore the acquirer can be willing to offer a higher price than what the market can fairly value it at.

3. **Management flexibility.** Staying listed requires approval by shareholders (e.g. Annual General Meeting, Extraordinary General Meeting for significant changes to the company) and continuous disclosure, which can slow down the transformation of the company. One key reason for BreadTalk to privatise is to allow the management better flexibility to address challenges, which we think has increased in importance as COVID-19 has impacted the operations of BreadTalk's bakery and restaurant segments. Keppel Corp Ltd privatised Keppel Telecommunications & Transportation Ltd, citing the flexibility to allocate resources and capital more efficiently without the corresponding compliance costs of listing. For SMRT Corp Ltd which was facing significant operating costs (Singaporeans may remember the numerous breakdowns several years ago), the privatisation by Temasek could remove the short-term pressures by shareholders for the company to deliver profits (e.g. by cutting maintenance costs) and focus efforts on delivering higher rail reliability. CITIC Envirotech Ltd was delisted, with one of the reasons being increased control and flexibility while saving on compliance costs. Eu Yan Sang International Ltd was privatised by its then CEO (together with new investors) who wanted control over succession planning. For CapitaLand Ltd, it privatised The Ascott Ltd to "exploit business opportunities" and to fully integrate the REIT platform. In most instances, keeping the company private allows the company to adapt and manage changes more easily.

The reasons to privatise are non-exhaustive. We also note that other issuers in the SGD bond markets have privatised such as CWT Ltd, Biosensors International Group Ltd, Amtek Engineering Ltd, Tat Hong Holdings Ltd and WBL Corp Ltd.

Areas which bondholders should pay attention to: We think it will be useful for bondholders to think about the potential for the issuer to be privatised. If privatisation is a possibility, bondholders may watch out for the covenants provided. Aside from the earlier discussed implications of privatisation, bondholders should also consider the relative strength of the existing controlling shareholder.

1. **Which issuer will be privatised?:** It is challenging to predict the next issuer to be privatised, as it is very difficult to anticipate the synergies by any potential acquirer. Also, the need for more management flexibility by the controlling shareholder is not always clear. That said, we think companies which are more vulnerable to privatisation include those which are trading low on valuations (e.g. share price steeply below book) with an intent shareholder (e.g. controlling shareholder has been increasing stakes). Such companies in our coverage include (1) Wing Tai Holdings Ltd (and possibly Wing Tai Properties Ltd), (2) Hotel Properties Ltd (3) Hong Fok Corp Ltd. In general, COVID-19 has pushed a number of companies to trade even lower on a P/B basis, including Fraser and Neave Ltd, Hongkong Land Holdings Ltd, GuocoLand Ltd, OUE Ltd and Heeton Holdings Ltd, though we acknowledge that it may be more difficult for a few of these controlling shareholders to obtain sufficient financing for privatisation. Other companies trading below book includes those in the finance and insurance sectors. Overall, we think there can be numerous possibilities which can (though not necessarily) result in a privatisation.

2. **How can bondholders be protected?:** We think covenants can confer some protection to bondholders. The most direct ones include delisting put and change of control put, which allows bondholders to put back the bond upon privatisation or change in the controlling shareholder. Alternatively, bonds may be structured with step-ups when privatisation or change or control occurs. An example was GLPSP 5.5% PERP, which was

structured with a step-up of 5%. We think this was sufficiently punitive, resulting in the issuer choosing to exercise the change of control call. However, if the step-up is insufficient, this may not be punitive enough for the issuer to call. For example, CMA CGM (when it acquired NOL) allowed NOLSP 4.4% '19 to step-up by 150bps instead exercising the change of control call. Despite the increase in distribution rates by 150bps, prices of NOLSP 4.4% '19 plunged below 80pts in Jun-Sep 2016. That said, some step-up is better than none; prices of NOLSP 4.65% '20, which does not feature such a step-up, plunged below 70pts.

If there is no direct protection in the form of delisting or change of control put or step-up, bondholders can look to indirect covenants for some protection. These can include financial covenants, negative pledge, limitation on liens, restriction on payments and asset sale. The list of covenants is non-exhaustive and crucially, the degree of protection depends on the tightness of the covenant language (e.g. are there "loopholes"/carve-outs for the issuer to bypass the covenants). To give an example using CWT Ltd ("CWT"), the privatisation by HNA (which is seen as a weak shareholder) resulted in the bond prices correcting by over 20%. While HNA subsequently sold a substantial part of CWT's assets (which HNA could carry out likely due to carve-outs in the covenant on disposal of material subsidiaries), we believe that CWT's financial convents prevented HNA from stripping away more assets from CWT; CWT had to maintain a consolidated tangible net worth of at least SGD300mn while the consolidated net debt to tangible net worth should not exceed 2.0x. Eventually, CWT's bonds were repaid upon maturity.

3. **How much premium is attached to the controlling shareholder?:** In the Singapore bond market, we think a larger impact from privatisation could be driven by the change in shareholder (as shown in GLP's, NOL's and CWT's case). Given that a significant part of the SGD bond market is issued by Temasek-related entities, with investors attaching a significant premium to Temasek, investors should question if such a premium is justified. While certain sectors are currently strategic (e.g. Singapore Airlines Ltd was cited as such by the Singapore government, and we think Singapore Telecommunications Ltd's operations in Singapore are likely strategic), we believe this can change over time and there is no sacred cow in Temasek's portfolio, as demonstrated by the divestment of NOL. According to Temasek, it is an investment company and may increase, hold or decrease its investment holdings. Temasek also announced that it does not issue financial guarantees for the debt of its portfolio companies. We think it is useful if bond investors pay attention to the standalone credit profiles of these companies (especially Temasek-linked ones) and assess if the reward or yield still commensurate with the risks.

What happens if my issuer is being privatised? Beyond looking at the covenants and the profile of the offeror privatising the company, bondholders may assess the chance of the privatisation completing. Factors include the stake and the consenting stake that the offeror already held or obtained, offer price relative to recent trading price and conditions attached to the offer (e.g. regulatory hurdle or other terms). However, we refrain from giving outright recommendations at this point as the conditions surrounding each privatisation can be unique.

Watch out for more privatisations down the road: Recently, KKR & Co Inc ("KKR") raised USD10bn for its third Asia buyout fund, which follows KKR's Asia Fund II (which privatised Goodpack Ltd). KKR is an investment firm which holds numerous private equity investments and has completed a number of leveraged buyouts. The list of privatised companies is non-exhaustive and we can expect the wave of privatisation to continue given the trend.

Getting creative for cash

Credit markets went through what can only be described as a bust then boom cycle as part of the COVID-19 outbreak. Extreme gridlock in bond markets at the end of March as risk off sentiments peaked gave way to an explosion of issuance across April, May and June and record volumes. By 18th June, year to date US Investment Grade issuance was at USD1.14 trillion, surpassing 2019's full year total of USD1.11 trillion. Following a slow start, high yield issuance has also picked up the pace USD199.5bn in issuance by 20th June, well past the USD139.6bn issued in the same period of 2019. Yet at the same time, bankruptcy filings in the US have hit their highest level since 2009 while US unemployment was at 13.3% in May. And it is not only the strongest companies that are in a dash for cash – those in dire need of funds and liquidity that have been hardest hit by the pandemic such as airlines and cruise operators have been able to shore up their balance sheets and get breathing space as business activities and revenues effectively disappeared.

What is helping these deals get done? First and foremost is the strong support given to credit markets by the US Federal Reserve in the second week of April when the Fed effectively backstopped corporate bonds for both primary and secondary markets in US bond markets by [expanding its support for credit markets](), including for "fallen angels" and selectively high yield ETFs. This buoyed market sentiments and attracted investors back into the bond market at a time when the financial system looked to be headed towards collapse as fear enveloped both markets and the world as COVID-19 infections accelerated globally. Risk premiums spiked and corporates stampeded for cash through drawdowns on undrawn banking lines given bond markets had shut and economies were headed into lockdown. This raised liquidity concerns amongst even the strongest banks needing to fund the massive drawdowns, whilst also dealing with tightening wholesale funding markets.

A second reason (which is acting in concert with the Fed) is the wider spreads that deals were getting done at compared to earlier in the year. Issuers needing immediate liquidity that investors felt were solid companies caught in a bad (and hopefully temporary) situation were issuing at valuations highly attractive to investors despite fluctuating developments on the virus front and negative economic data globally. These companies needing immediate liquidity were those most impacted in terms of quantum and visibility at the early stages of the pandemic. With the Fed's help, The Boeing Co. ("Boeing") priced a USD25bn jumbo deal on 30th April across 7 tranches at spreads on average of around 450bps above treasuries across 3yr to 40yr tranches. In comparison, Boeing's last deal for USD5.5bn across 6 tranches on 30 July 2019 attracted spreads from 45bps above treasures for its 2yr USD750mn notes to 140bps for its 40yr USD1bn notes. This was also at a time when there were negative headlines surrounding its 737 max model. Another example was Hyatt Hotel Corp's 10yr USD450mn issue on 21st April that priced at 5.75% or at spreads or around 513bps. In comparison, its most recent 10yr USD400mn 4.375% issue from 7th August 2018 was issued at a spread of 142bps.

The third and final reason bridging technicals and fundamentals was the need for issuers to also get creative in the structures of these issues to entice investors to bite and provide protection against the uncertain outlook. This perhaps most accurately reflects the fundamental picture of demand destruction, supply chain disruption and disappearing revenues. For instance, although Boeing's recent deal referenced above came at materially wider spreads, the deal also came with coupon step up provisions of 25bps per rating agency per notch below investment grade capped at 2.0%. This was absent in its 2019 issue.

Overall though, the most consistent use of creativity for issuers has been to use their balance sheets to offer investors some form of collateral. This has mostly benefited investment grade issuers (or those who were investment grade prior to COVID-19) given their relatively stronger balance sheets compared to high yield issuers. One such company is Royal Caribbean Cruises Ltd which tapped bond markets twice in a month since the pandemic started despite the intense and high profile impact of the virus on the cruise industry. Both issues were similarly structured with priority guarantees linked to a separate collection of ships for each issue, however are still classified as senior unsecured bonds. Under the structure, bond holders have a priority claim on certain assets despite being unsecured through the priority guarantees given by companies that own the ships with this structure allowing Royal Caribbean Cruises Ltd to circumvent covenants in existing loan agreements that limit the amount of secured debt the company could raise based on Royal Caribbean Cruises Ltd's credit ratings. Recognizing the uncertain environment and that investors are effectively funding Royal Caribbean Cruises Ltd's cash burn of around USD250mn per month in the hope that the cruise industry can return before mid-2021, the most recent USD1bn RCL 9.125% '23s have significant coverage under the priority guarantees with ships valued at USD7.7bn linked to the deal. Convertible notes were also issued as part of this most recent deal. The earlier USD3.32bn deal is somewhat better protected and slightly more creative – for one it is linked to 28 ships valued at around USD12bn while due to a collateral cap, half of the bonds are secured in position while the while the rest benefit from a priority guarantee. The collateral cap is again linked to Royal Caribbean Cruises Ltd's credit ratings which are currently speculative grade. Should the company return to investment grade as it was before the crisis then the collateral cap doubles and all of the bonds would become secured.

Other cruise companies have also sought to access their balance sheets to ensure liquidity in the short term although followed a slightly more traditional route in providing collateral. Carnival Corp. issued a USD4bn secured deal in April while both Viking Cruises Ltd and Norwegian Cruise Line Holdings Ltd. issued secured bonds in May. Investor protection through collateral though was somewhat more exotic with Norwegian Cruise Line Holdings Ltd. offering its Great Stirrup Cay island in The Bahamas and Harvest Caye island off the coast of Belize. Meanwhile, Carnival Corp. secured its deal not only with cruise shops but also intellectual property. Finally, Viking Cruises Ltd offered security over 20 river vessels as well as intellectual property comprising trademarks and its passenger database in addition to paying a hefty 13.0% coupon in early May for its 5yr USD675mn VIKCRU 13.0% '25s. Royal Caribbean Cruises Ltd's security also included intellectual property and customer data.

Airlines have been similarly hit throughout the crisis and equally in dire need of liquidity. Funding packages have been creative in terms of the parties involved and the use of instruments such as mandatory convertible bonds by Singapore Airlines Ltd and the bulk of funding for Cathay Pacific Airways Limited's HKD39bn recapitalisation plan being provided by the HKSAR government, an unprecedented move for the HKSAR government to invest directly into an entity that is owned by private companies, signifying the strategic role that Cathay plays for HKSAR. But they have also had to be somewhat creative in the collateral they provide to lenders. Delta Air Lines Inc. used landing slots and gates at New York's JFK and LaGuardia airports, Washington's Ronald Reagan National Airport and Heathrow Airport in London, as well as flight routes in Europe and Latin America to raise USD5.0bn in bonds and loans despite uncertainty around the true ownership and value of these assets.

Entertainment companies as well have offered some unusual assets as collateral albeit those that are integral to their business. Six Flags Entertainment Corp pledged its theme parks and water parks to issue USD725mn in secured bonds while AMC Entertainment Holdings Inc used its movie theatres as collateral to issue USD500mn. The peak of the crisis also saw the birth of super senior lending that will be repaid ahead of all other lenders should the issuer collapse. Likely a favourite of private credit and equity investors, existing lenders may relinquish their position in the capital structure if they feel it not necessary to throw good money after bad and are willing to rely on the issuer's survival through provision of more senior funds in order to save their investment. UK restaurant chain PizzaExpress reportedly accessed GBP70mn in super senior lending.

However not all collateral is acceptable to issuers, even in the strong technical environment over the past two months and despite high yields. United Airlines Holdings Inc had to postpone a USD2.25bn bond issue as the collateral proposed for the deal (360 airplanes) were deemed second tier in nature and likely to be worthless in a few years given their advanced age and weaker efficiency compared to newer planes. It has however since returned to the market offering USD5bn in secured bonds and term loans backed by United Airlines Mileage Plus loyalty program that was established in 1981. Other airlines seeking to tap the market have also had their frequent flyer programs evaluated as a possible source of collateral.

Desperate times call for desperate or creative measures. This started with the Fed's stimulus and has somewhat suppressed the need for creativity by issuers as bond markets returned to a more functional, albeit turbo charged, level. Other measures that looked to be gaining traction earlier in the pandemic such as receivables financing, convertible bond issuance and distressed exchanges (including debt for equity swaps) seem to have taken a pause as bond markets have come back to life. That is not to say though that these avenues won't come back again with fundamental trends continuing to show challenges. Companies have accelerated covenant amendments under existing loan agreements to give themselves greater flexibility to absorb the impact of the COVID-19 pandemic. That said, investors may be on the backfoot in regard to negotiation given covenant quality has in general been weakening in the past 3-4 years in the low yield environment as investor gave up covenant protections in the search for yield. That being said, the power is now firmly in the hands of investors as issuers seek to build a liquidity buffer which should result in an improvement in bond holder protections going forward.

What does a "lower for longer" rates environment mean for SGD bondholders?

Since the outbreak of COVID-19, SGD swap rates have been volatile. Year-to-date, the 3Y swap rate and 5Y swap rate has rallied 104bps and 94bps respectively, with brief dips into negative territory for the overnight or 1M swap rate.

This "lower for longer" rates environment against a recessionary backdrop has thrown up various investing challenges which in our view can be grouped into three main concerns (1) Lack of yield to cover future income needs (2) Threat of future inflation and rate rises and (3) Deteriorating credit profiles among bond issuers.

Lack of yield to cover future income needs

For liability-driven investing such as those employed by pension funds and insurers, investors must often juggle between liability management and making enough returns on their assets to pay for liabilities as they come due in the future. With assets low yielding and holding liability value constant, this means investors would find it harder to invest profitability to meet these liabilities without changing risk appetites. The Organisation for Economic Co-operation and Development ("OECD") in its 2019 annual survey of large pension funds and public pension reserve funds highlighted that the key trend since the survey was launched in 2011 was the gradual decrease in fixed income and cash and listed equities in terms of percentage of asset allocated while allocation to alternative investments have risen. While the alternative asset class varies (eg: within hedge funds there are multiple investment styles), alternative assets are seen as riskier, with underlying returns boosted by leverage (eg: private equity, infrastructure assets) while fund commitments may be locked in for years. We think in a bid to chase returns without needing to ask members to contribute more money, the shift towards higher risk assets would accelerate in the current environment.

On an individual investor level, a low yield environment means that investors will either need to lower current spending (setting aside more for savings), contend with the lower returns (thereby opening up to risk of insufficient income in the future) or take on higher investment risk (for bond investors this means higher credit risk, taking duration risk or investing in subordinated securities). Oftentimes, taking on leverage to boost returns are either unavailable or imprudent for the average individual investor. As such for the purpose of this piece we ignore the discussion of leverage to magnify returns. We also focus our discussion within the SGD-bond universe, being the area that is most relevant to our readers.

Threat of rates rising in the future and inflation

On an absolute level, rates are at the lowest it has been for at least 25 years. We have seen financial asset inflation though muted inflationary pressure in the real economy with economists forecasting inflation in Singapore to be -0.5% y/y for 2020 and 1.0% for 2021. On a relative basis, the last time we saw a trough in yields was in 1H2013, albeit declining over a prolonged period since the aftermath of the Global Financial Crisis.

Existing high grade bondholders would have benefitted from the rates rally, with prices of bonds recovering from the March 2020 lows. However, unless one thinks longer term interest rates will go into negative territory and stay there, a bond buyer entering the market now is subject to the possibility of future rising rates, even if this may take a few years to pan out. While cash prices in SGD tend to be sticky, all things held equal, the price of a high grade bond goes down as rates rise (and vice versa). We observe that some high grade bonds are already trading above pre-COVID-19 levels with rates as low as they are. A negative rate environment is not in our base case and hence we think this means that bond investors should be demanding higher credit spreads to compensate for the possibility of rates rising. As an illustration, during the taper tantrum in 2H2013, the absolute 5Y swap rate more than doubled to 194bps while similarly swap rates also more than doubled by end-2003 after the recession of the early 2000s. Taking duration risk is one way to generate higher returns although with the curve relatively flat (though at least not in inversion unlike mid-2019), we are advocating bond investors to stay in the short-belly part of the curve, particularly those with a total return focus.

Heightened credit risk and market liquidity risk

In a crisis followed by a recessionary environment, it is unescapable for certain companies in an economy to default. Already we have seen a handful of high profile defaults in Singapore though we do not expect default rates to be significant in the 2H2020 and 1H2021. We do expect though that issuers credit profiles will drift downwards in the next 12 months, with SGD issuers entering COVID-19 with levered balance sheets and this time with compressed earnings as well.

For high grade bonds (in our view Positive (2) and Neutral (3) issuer profile), lower yields mean that a single default can set an investor back as it is harder for the rest of the portfolio with low coupons to compensate for that loss. As an illustration, assume an investor holding ten high grade bonds on an equal weightage basis, with each bond paying a return of 2.5%, the remaining nine bonds would be insufficient to cover the loss from one bond default, even assuming a recovery of 35%. Higher diversification would be required to reach breakeven, though we struggle to find 30 high grade SGD-bonds among Positive (2) and Neutral (3) issuers yielding at least 2.5% each.

On the other end where an investor has ten true high yield bonds, the higher returns are likelier to offset for any single loss although in a recessionary environment, credit risk is elevated while the market liquidity for true high yield bonds is thin. This means that unless investors are willing to hold to maturity and perform careful credit selection, this is a high risk strategy.

Structural high yield (eg: corporate perpetuals) worked well as a yielding instrument when rates were stable though the sharp rally in 1H2020 has meant that such securities are facing higher risk of non-call. With perpetuals distribution rates likely to reset lower, particularly for those who are nearing their first reset dates, prices have adjusted downwards (though we would argue insufficiently).

How should investors deal with this conundrum?

There is no simple answer and as with all investments, this is dependent on investor circumstances. In our view, the right approach is to strike a balance of "crossover" bonds at the Neutral (4) level, either by investing in them directly or if diversification is sought to synthetically create a "crossover" portfolio of high grade Positive (2) and Neutral (3) and high yielding bonds.

Our assumptions:

- Investable universe of SGD-bonds, corporate perpetuals and bank capital instruments issued by issuers covered by OCBC Credit Research
- No use of leverage
- No short selling
- Interest rates stay low within a 12 month outlook

Based on our observations, shorter dated bonds (three years or less) issued by Positive (2) and Neutral (3) issuers are generally yielding between 2.0% to 2.5%. Neutral (4) issuers are yielding high-2% for issuers seen as stronger, though stretches all the way to the 4.0% area. Larger dispersion is found as we go down the credit curve. Neutral (5) issuers tend to see the largest variation in terms of asking yields, from issuers whom the market see as closer to crossover and others who are more firmly in the high yield area. Using ten bonds for diversification, it is possible to construct an optimal portfolio in our view yielding ~3.4%, with a maturity/call date of less than 3.5 years and an issuer profile that is less than four when bank capital instruments are introduced.

Table 3: Illustration of portfolio construction

Portfolios	No subordination and non-call risk	Additional credit risk	Optimal portfolio	One hit wonder
Average ask yield	3.06%	3.26%	3.40%	3.99%
Average year to maturity/call	3.4 years	3.4 years	3.2 years	3.2 years
Average issuer profile	3.7	4.1	3.7	4.0
Brief description	Senior papers from mostly Neutral (3) and Neutral (4) issuers	Senior papers from Neutral (4) and Neutral (5) issuers	Additional pick-up from bank capital papers with a short first call in two years making up 20% of portfolio	Additional pick-up due to a short dated true high yield bond making up 10% of the portfolio

Source: OCBC Credit Research
Note: (1) Bloomberg indicative prices as at 2 July 2020

How do SGD bonds compare to Asia USD bonds?

How do Singdollar bonds stack up against Asiadollar bonds? With Asiadollar being a larger market comprising a larger number of issuers, do Singdollar bonds still have a place in an investor's portfolio? Certainly, Singdollar bonds can better cater to local investors who are more familiar with local names and prefer to hold SGD-denominated assets. Aside from investors with home-bias, we believe there are certain advantages (and of course disadvantages) to dabble in the Singdollar market. In our discussion below, we will discuss the key distinctions and differences between Singdollar and Asiadollar bonds.

Uniquely Singapore: Excluding Singapore government bonds, there are 94 issuers which are "unique" to Singapore (which do not have outstanding USD bonds). The outstanding SGD issuances from these issuers total SGD74.3bn as of end-June 2020. Through our discussion in this topic, we include only issues with (1) remaining maturity longer than 1Y, (2) amount outstanding greater than SGD50mn and (3) without the convertible feature. The highest quality issuers, which are the statutory board issuers, contribute a very sizeable part of the outstanding issues. These include Housing & Development Board ("HDB", SGD22.7bn), Land Transport Authority of Singapore ("LTA", SGD9.5bn) and Public Utilities Board ("PUB", SGD1bn). Other SGD-"unique" issuers with significant outstanding issuances (above SGD1.0bn) include Singapore Airlines Ltd (SGD3.68bn), Frasers Property Ltd (SGD2.73bn), Mapletree Investments Ltd (SGD2.48bn), Sembcorp Industries Ltd (SGD2.05bn), City Developments Ltd (SGD1.54bn), Shangri-La Hotel Ltd (SGD1.38bn), GuocoLand Ltd (SGD1.06bn), Ascendas REIT (SGD1.05bn), ARA Asset Management Ltd (SGD1.05bn) and Suntec REIT (SGD1.03bn). We believe that a number of these issuers (including those with outstanding issuances below SGD1.0bn) are of decent quality, which can provide diversification benefits to the average investor.

A venture into 'unrated' territories: The SGD market may look largely unchartered on the surface; while the Asiadollar space is often rated by the big three credit rating agencies, the same cannot be said for SGD issuances. Aside from the above-mentioned highest quality issuers (HDB, LTA, PUB), the big three credit rating agencies rate slightly less than half of the issuers in the SGD space. There are 75 issuers with an outstanding issuance of SGD39.6bn that are rated by rating agencies, compared to 77 unrated issuers with an outstanding issuance of SGD40.3bn. Dissecting the data further, we find that the vast majority of unrated issuers do not have Asiadollar issuance in comparison to the rated issuers. Amongst the SGD issuers which are rated, 48 have Asiadollar issuance while 27 do not. Amongst the unrated SGD issuers, 13 have Asiadollar issuance while 64 do not. At OCBC Credit Research, in addition to covering a number of rated names, we fill part of the gap in the unrated space by providing research coverage on 27 unrated issuers with a total outstanding issuance of SGD19.0bn. The most prominent names include CapitaLand Ltd, Keppel Corp Ltd, Singapore Airlines Ltd, Frasers Property Ltd, Sembcorp Industries Ltd, City Developments Ltd, Shangri-La Hotel Ltd, GuocoLand Ltd and Suntec REIT.

How do yields compare? While it is difficult to have a perfect comparison, in general, we think that the higher quality SGD issuers currently trade roughly in-line with their Asiadollar peers. For example, issuers which we rate at Positive (2) trade at an average yield of 2.41% with an average 6.5 years to maturity with 175bps I-spread. Comparatively (albeit not exactly apples to apples), Credit Suisse Asian Bond A Bucket Yield (ASBO1AYI Index) trades at 2.05% with 168 spread over swap. As swap rates fluctuate, we think there can be opportunities for the Asiadollar investor to find yield pickup in the Singdollar space.

Table 4: Average Yield by Issuer Profile*

OCBC Issuer Profile	Average Yield	Average Years to Maturity	Average I-Spread
Positive (2)	2.36%	6.5	176bps
Neutral (3)	2.37%	4.4	186bps
Neutral (4)	3.00%	3.5	258bps
Neutral (5)	2.93% (3.45%**)	4.0 (3.1**)	244bps (306bps**)
Negative (6)	10.2%	1.9	983bps

Source: OCBC Credit Research tabulated from Bloomberg data

* Excludes callables, perpetuals, maturity shorter than 1Y, amount outstanding SGD50mn or lower, convertibles

** Exclude Singapore Airlines Ltd and Sembcorp Industries Ltd. We recognise these issuers trade at lower yields due to significant support from their majority shareholder (Temasek). However, at OCBC we rate these issuers on a standalone basis.

Table 5: Average Yield by Issuer Profile*

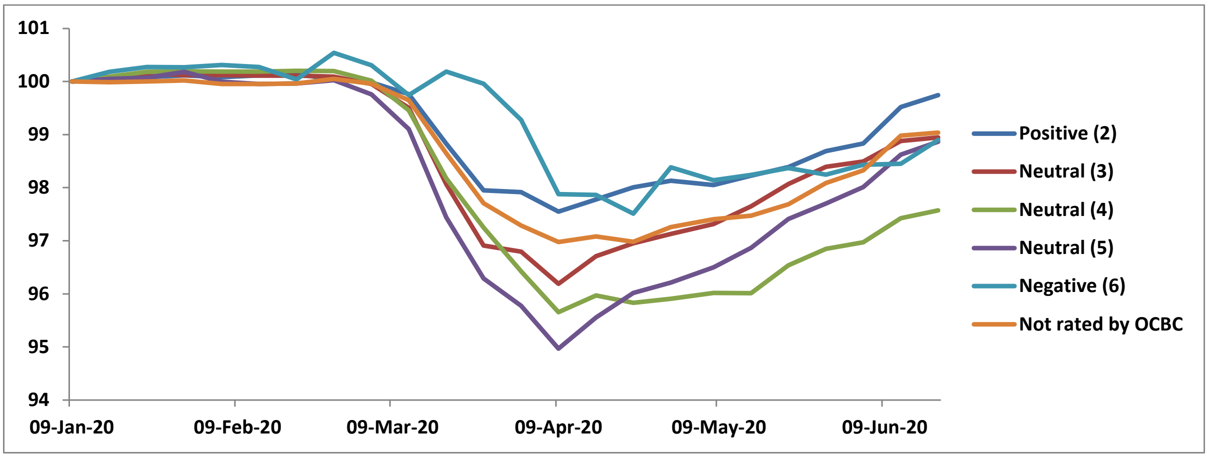
Credit Suisse Asian Bond	Yield	Spread over Swap
“A” Bucket	2.02%	167bps
“BBB” Bucket	3.05%	268bps
“BB” Bucket	5.99%	541bps
“B” Bucket	11.31%	1003bps

Source: Bloomberg, Credit Suisse

Moving down the credit curve, we think that SGD names in the Issuer Profile Rating (4) to (5) may not look as attractive on yields in comparison to their Asiadollar peers. For example, Credit Suisse Asian Bond for “BB” to “BBB” bucket are yielding 3.08% and 5.99% respectively while names which we rate at Issuer Profile Neutral (4) to (5) are yielding around 3.04% to 3.5% on average. That said, it does not necessarily imply that investors of higher yielding SGD papers are poorly compensated; we believe that most (if not all) names that we rate in this bucket do not face elevated risk of default. In general, we are comfortable with these issuers, which should have the capability to continue as a going concern, at least in the foreseeable future.

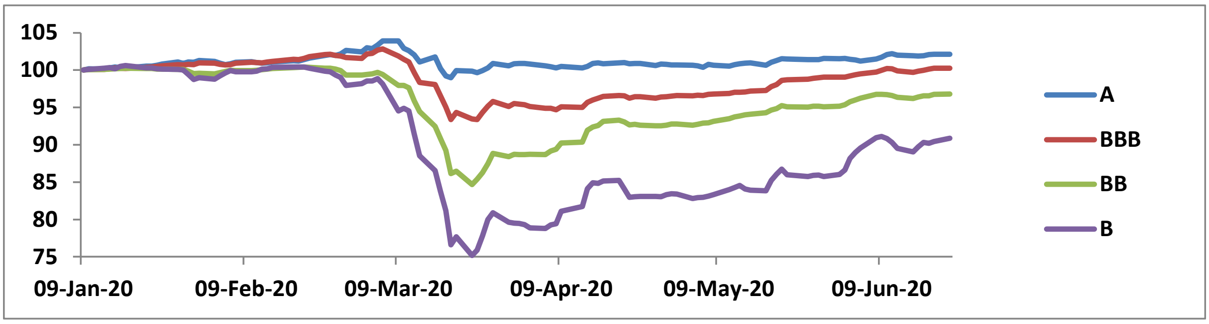
Good price stability…: Despite the outbreak of COVID-19 which have seen significant selloffs in other asset classes, we have not seen a massive bond rout in the SGD space; at the height of the drawdown in early April 2020, the average SGD bond corrected by 3.6% since early Jan 2020, with Neutral (5) Issuer Profile names taking a larger drawdown of 5.0%. While Credit Suisse Asian Bond A Bucket appears to hold relatively resilient with a maximum drawdown of 1.0% since early Jan 2020, we note that other buckets lower in the credit curve saw significantly larger drawdowns, for example in the B Bucket (24.8%) and BB Bucket (15.3%).

Figure 11: SGD bond prices, by Issuer Profile (09-Jan-20 = 100)



Source: OCBC Credit Research tabulated from Bloomberg data

Figure 12: Credit Suisse Asian Bond Bucket Price, by Credit Rating



Source: Bloomberg, Credit Suisse

…though lower drawdowns are not just driven by strong hands but also illiquidity: We think that the lower drawdown in the SGD market is due to two reasons - one negative reason and one positive reason. The first reason is that SGD is less liquid with fewer trades able to take place and consequently prices may not be marked lower when the market is down. However, net-net, we believe that illiquidity can be worse than a larger drawdown as an investor may not be able to liquidate positions even at a loss in an illiquid market. Due to lower market liquidity, we observe that the movement in prices can be delayed relative to Asiadollar bonds as sellers take time to match with buyers. The other reason is that we think SGD bonds are largely held by strong hands, which are not forced to liquidate during times of crisis (though there were small bouts of indiscriminate selling). With Singapore being a wealth management hub, we believe that a substantial number of market participants (e.g. passive investors) may disregard price gyrations as they look to stay invested and hold bonds for a significant amount of time or to maturity.

Figure 13: USDSGD

Source: Bloomberg

A safe haven and a good store of value? In the past two decades, the SGD has held relatively steady against the USD. Aside from having significant reserves (though precise amount is undisclosed) which can be used to defend the currency against speculative attacks, the Singapore government has the highest credit rating in the world. Although the Monetary Authority of Singapore ("MAS") undertook moves to flatten the rate of appreciation of the Singapore Dollar Nominal Effective Exchange Rate ("S$NEER", which is a Singapore's exchange rate against a basket of currencies), S$NEER has historically largely been kept on an appreciation policy. Crucially, for fixed income investors, SGD bonds are still providing positive yields (except for rare instances when SIBOR temporarily dipped into negative yields). With the outbreak of COVID-19, Singapore saw a record rise in local bank deposits, with foreign-currency deposits surging to SGD27.0bn in Apr 2020 (Apr 2019: SGD7.0bn, Jan 2020: SGD21.6bn)) and SGD deposits rising 10.1% y/y to SGD716.6bn (Jan 2020: SGD672.1bn). We think this signifies the faith of investors in the SGD, which should bode well for SGD-denominated bonds.

Top Trade Ideas

Top Picks

Company	Ticker	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM/YTC	Rationale
Frasers Property Ltd	FPLSP	4.150%	23-Feb-27	SGD500mn	101.70	3.86%	Although Frasers Property Ltd is significantly impacted due to COVID-19 and have downgraded its issuer profile, we remain comfortable with its credit profile and Overweight this bond which offers high enough yield.
Keppel REIT	KREITS	3.275%	8-Apr-24	SGD75mn	101.28	2.92%	We expect the office sector to be less impacted by COVID-19 and Keppel REIT's credit profile to be stable. As such, 2.92% for a ~4 year tenor is attractive in our view.
Suntec REIT	SUNSP	2.950%	5-Feb-27	SGD200mn	96.88	3.49%	While we expect Suntec REIT's credit profile to weaken slightly due to the impact of COVID-19, its maturing debt remains manageable. Also its all-in financing cost has come down to 2.92% p.a. Therefore, we like that the SUNSP 2.92%'27s and find its yield of 3.49% attractive.
Keppel Infrastructure Trust	KITSP	4.750%	12-Jun-29	SGD300mn	101.81	4.50%	We are overweight the KITSP 4.75%-PERP with first call date in June 2029. While there are no senior papers issued by KITSP, the senior paper KEPSP 3.66%'29s is trading at a yield of 3.05%, rendering a proxy senior sub-spread of ~145bps.
National Australia Bank Ltd	NAB	4.150%	19-May-23	SGD450mn	103.40	2.90%	The NAB 4.15%'28c23s look better value against domestic peers despite the higher business banking exposure, with spreads more than compensating for the longer duration.

Top Pans

Company	Ticker	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM/YTC	Rationale
Hotel Properties Ltd	HPLSP	4.650%	5-May-22	SGD150mn	97.50	3.83%	Due to COVID-19 outbreak, we are Underweight the perp as we think HPL may follow the path of Ascott REIT and refrain from calling the perpetual. With low interest rates, the perp may reset into lower distribution rates.
Ascott Residence Trust	ARTSP	4.205%	23-Nov-22	SGD200mn	103.62	2.63%	At only YTM of 2.63%, we think bondholders are better off switching into the FHREIT 2.63%'22s which is trading at a YTM of 3.75%. Both are issuers in the hard hit hospitality sector.
Singapore Airlines Ltd	SIASP	3.145%	8-Apr-21	SGD200mn	101.13	1.65%	We are Underweight the SIASP 3.145%'21s which is only paying 1.65% and trading tight versus the KEPSP 3.145%'22s at 2.01%.
Mapletree Logistics Trust	MLTSP	4.180%	25-Nov-21	SGD250mn	101.50	3.06%	We are Underweight the MLTSP 4.18%-PERP which is now only paying YTC of 3.06% (yield-in-perpetuity of 3.26%. Currently, we do not expect a call at first call due to economic cost savings on this perpetual (perpetual may reset lower to ~3.09%).
Barclays PLC	BACR	3.750%	23-May-25	SGD200mn	101.35	3.44%	European banks face multiple challenges which could result in more credit dispersion, with Barclays also facing BREXIT challenges. We see better value across the Euro Tier 2 space compared to BACR 3.75%'30c25s.

Financial Institutions – just how bad is it?

As uncertainty prevailed in 1H2020 and the world went down the fundamental slide, investors and issuers alike were clamouring for something to hold onto in the building storm. This refuge was invariably Financial Institutions with a huge liquidity rush as bond markets froze putting significant pressure on Financial Institution balance sheets. “Virus borrowings” from Financial Institutions were fast and furious in mid-March before governments stepped into calm markets with a ‘win at all costs’ approach to ensure Financial Institutions and systems did not collapse.

Sensing a defining moment, governments focused almost as much attention on supporting banking systems as it did the general public through a variety of measures to ensure that Financial Institutions continued their critical and systemically important role of being a facilitator of funding through the economy. As has been mentioned many times, the role of Financial Institutions in this crisis stands in stark contrast to their role in the Global Financial Crisis, now being seen as a solution for the crisis rather than the cause. This has the potential to provide both tangible and intangible benefits for Financial Institutions in this age of Environmental, Social Responsibility and Governance (“ESG”) awareness, somewhat of an opportunity for Financial Institutions whose reputation has been tarnished in recent times, particular in Australia.

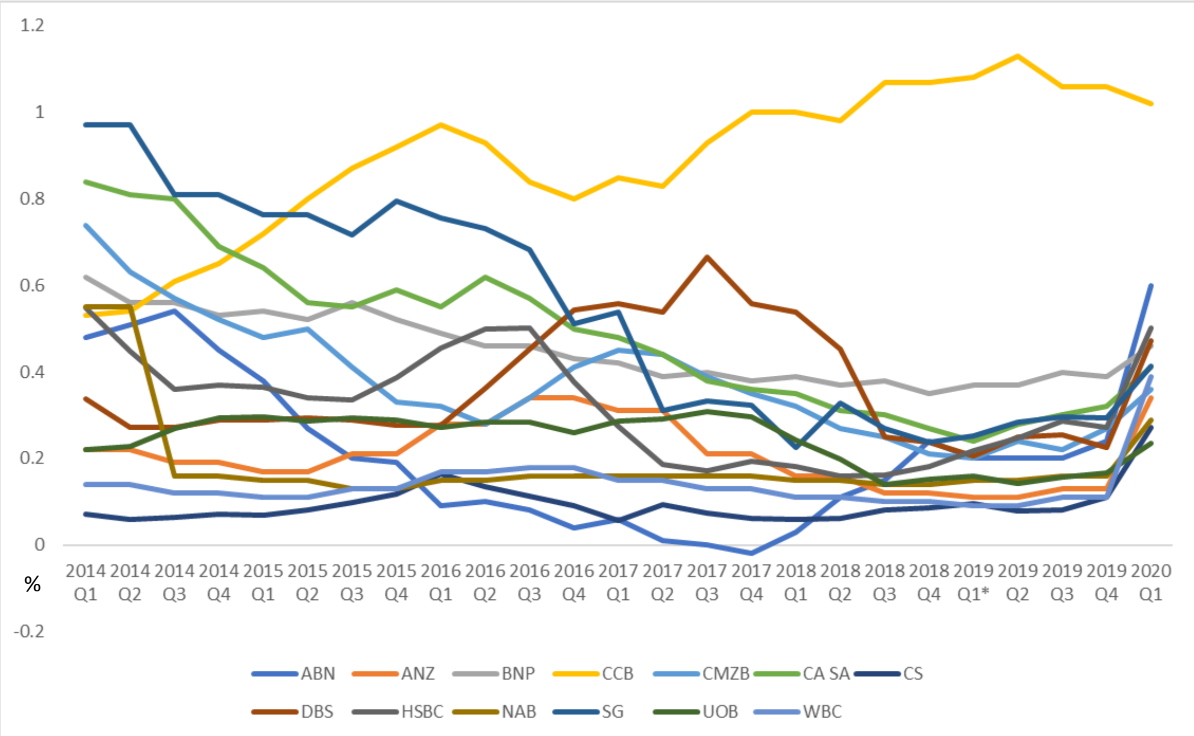
Government support measures for Financial Institutions were somewhat varied across countries but were all more or less focused on getting funds to parts of the economy that needed it most. This was either as direct funding from the government using discount funding facilities (The Reserve Bank of Australia for instance provided a three year fixed rate lending facility at 25bps to provide funding to the economy) or indirect through the provision of government guarantees (according to Bloomberg, the French government has provided over EUR100bn in loan guarantees for companies as at early June while Spain is also considering to significantly increase the size of its EUR100bn loan guarantee fund after receiving strong demand from businesses). Regulatory forbearance was also key with banking regulators relaxing problem loan recognition requirements and lowering minimum capital regulatory requirements along with other targeted capital relief measures aimed at supporting vulnerable borrowers. For example, although Julius Baer Group Ltd’s CET1 capital ratio of 13.8% as at 30 April 2020 was down 20bps compared to 14.0% as at 31 December 2019, the buffer above the regulatory minimum requirement improved due to a 30bps fall in the minimum requirement to 7.9% (previously 8.2%). This highlights the intention of regulatory requirements to build up capital in good times through implementation of the counter-cyclical capital buffer that has been cancelled or reduced to zero during the pandemic to provide added balance sheet capacity for Financial Institutions to support funding needs. We expect further refinements to capital regulations in response to the COVID-19 pandemic (see below).

Countering the government support however was the deferral/suspension or cancellation of dividends as well as planned share buy backs by the majority of Financial Institutions. This was at first recommended by regulators for prudence in maintaining Financial Institution’s capital strength but as time wore on and the virus impact amplified, it became strongly encouraged by regulators and in certain countries a requirement such as New Zealand. This brought some distress to shareholders, particular those of HSBC Holdings PLC given the dividend was previously declared and that many shareholders rely on a previously predictable dividend income from Financial Institutions for passive income. While such moves were detrimental for shareholders, we viewed the reduction of shareholder returns as both (1) <u>necessary</u> considering the anticipated deterioration on capital positions from reduced earnings and potential asset write downs; and (2) <u>prudent</u> considering Financial Institutions were the beneficiaries of (and somewhat dependent on) the regulatory forbearance and funding support provided by the government. We also viewed this as a positive implication for Financial Institution capital instruments given it preserved capital for any capital losses as well as payment of coupons and it reinforced the relative ranking of Financial Institution capital instruments against common equity, notwithstanding both can absorb losses.

<u>Flying blind</u>

While the direction of credit quality was not questioned, the depth of the crisis was heavily debated early on. This was entirely justified by the amount of uncertainty with regards to COVID-19 and the lack of knowledge surrounding the virus. Corporates resorted to withdrawing their previously announced earnings guidance given not only the materially changed operating environment but also because of the uncertainty going forward on the pandemic’s depth and breadth. However, while financial statements are mostly a reflection of what has happened in the past, the results of Financial Institutions are very much influenced by an expectation of what lies ahead. This drives Financial Institutions’ view on asset quality and provisioning strategies both on a specific and generic level considering already identified stresses within its loan or investment portfolio as well as any general deterioration in the economic environment. With uncertainty prevailing during May when most results were released, provisioning levels through income statements seemed very much a best guestimate at the time based on an expectation for the remainder of 2020. In general, this expectation was based on a 2Q2020 peak for both the pandemic and country lockdowns before a gradual recovery and easing of lockdowns begins in 3Q2020 and a more definitive or certain recovery begins in 2021. Governments appear to have had a similar view or hope for the future given a number of wage stimulus and support measures are scheduled to end by the start of 4Q2020. This perhaps indicates that as Financial Institutions were possibly flying blind or with limited visibility, they thankfully had the government as a co-pilot. Financial Institution provisioning levels also lacked certain clarity given the influence of the previously mentioned regulatory forbearance and ongoing government support measures that impact the recognition of non-performing loans.

Figure 14: Provisions for Loan Losses to Total Loans (Credit Costs)



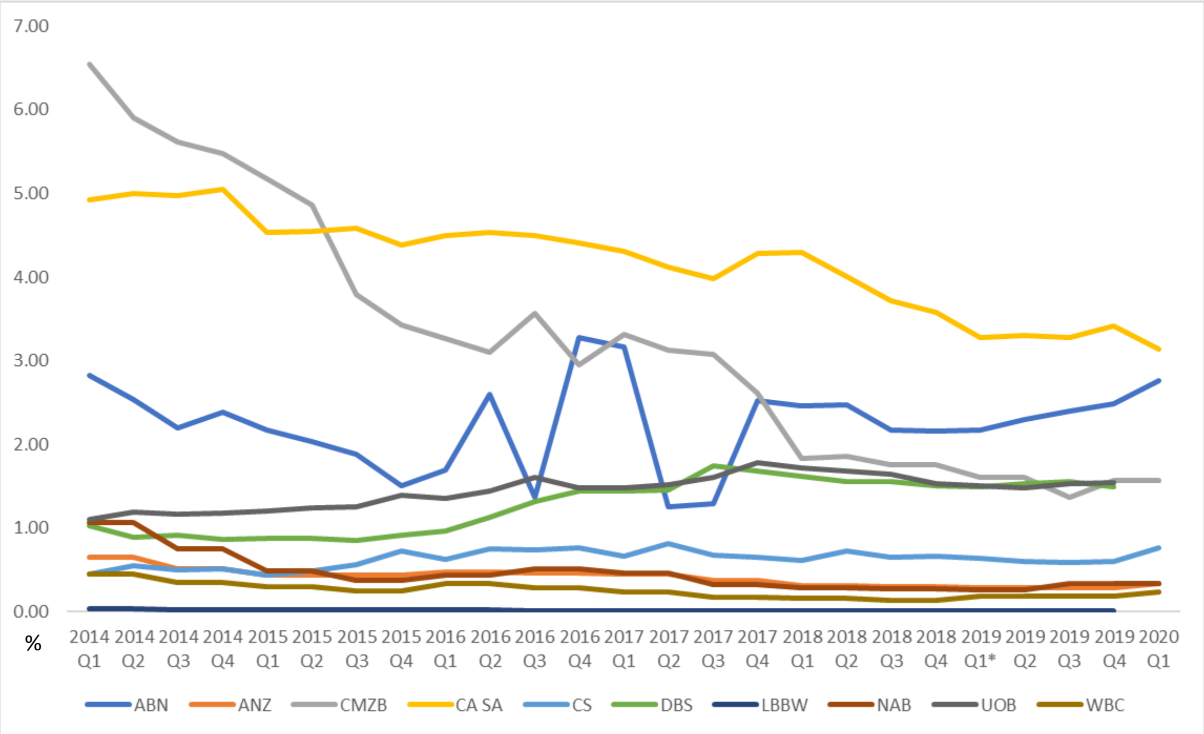
Source: Bloomberg, OCBC Credit Research

<u>Some comfort with clarity</u>

Although we are currently in a global pandemic, virus impacts have not been uniform for a myriad of reasons. As such, we expect that Financial Institutions will respond in different ways depending on the severity of the situation in their domestic economy, their assumptions for future economic activity and each Financial Institution's own underlying fundamentals. That said though, there does appear to be some consistent trends globally that offer some hope or at least a clearer picture of where we are currently at. This is based on several Financial Institutions sounding more positive for 2Q2020 results and the 2H2020 outlook. In a recent Financial Services conference, Credit Suisse Group AG indicated that client activity has increased which has been supportive for trading as well as refinancing and investments businesses. Other Financial Institutions with a positive view on performance include JPMorgan Chase & Co and Bank of America Corp with Deutsche Bank AG CEO Christian Sewing indicating that the positive trading momentum seen in 1Q2020 has continued into 2Q2020. At the same conference, Société Générale which reported a 1Q2020 net loss of EUR326mn due to a material rise in the net cost of risk and a 16.5% y/y fall in net banking income, flagged the potential of an exceptional dividend payment following the cancellation and deferral of European Financial Institution dividends a few months back on the request of the European Central Bank. Australia & New Zealand Banking Group Ltd CEO Shayne Elliot stated in late May that half of the borrowers that deferred mortgage payments under an emergency relief scheme had not suffered a drop in income, providing positive indicators that the impact of COVID loan deferrals may not be as bad as first thought and that repayments can resume later this year. Additionally, of the initial expressions of interest for loan deferrals, around 20% did not take up the offer.

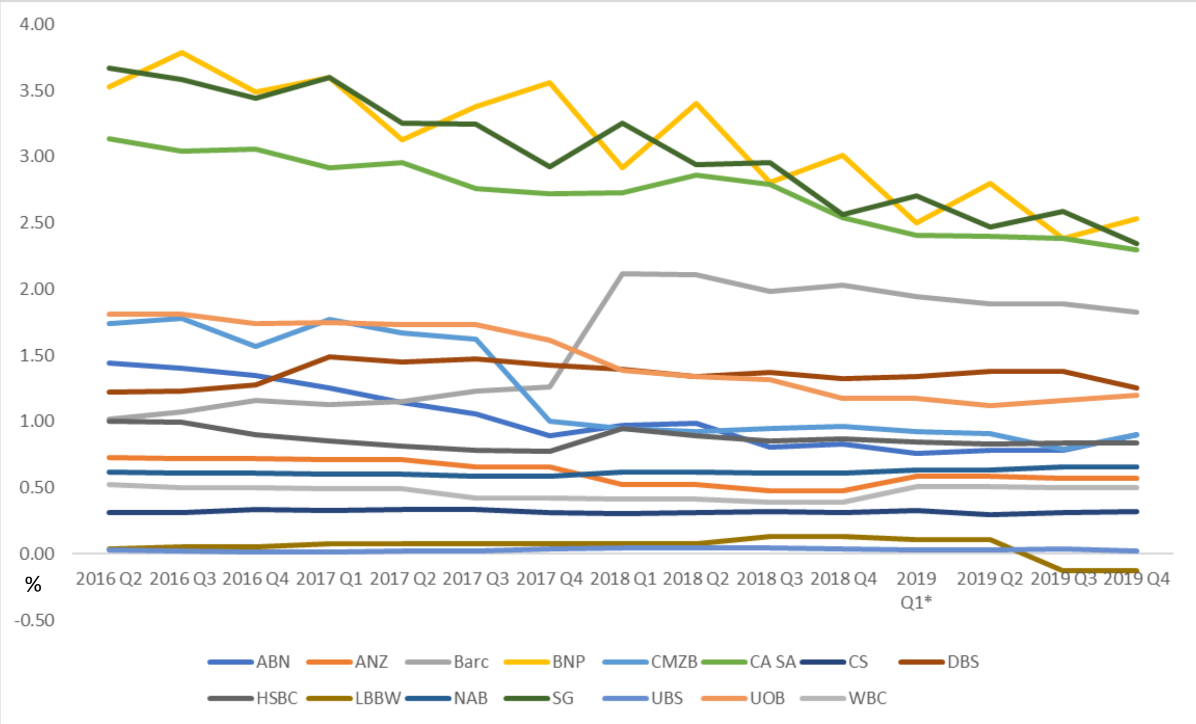
What this indicates in our view in the context of economies gradually reopening and the COVID-19 trajectory despite growing infections in some parts of the world is that (1) the worst is behind us; (2) provisioning assumptions from earlier this year done under a cloud of elevated uncertainty could be adequate, and (3) as a consequence capital positions appear sufficient. This explains relatively supportive sentiment towards Financial Institutions in the past month that allowed both ABN Amro Bank NV and Commerzbank AG to receive large order books for their euro-denominated Additional Tier 1 issues given the lack of deals done since the outbreak and the high-coupons. This sentiment also allowed National Australia Bank Ltd to prepare for potential difficult times ahead and build capital buffers with its recent proposed AUD3.5bn capital raising being increased by AUD750mn to AUD4.25bn following strong demand and thereby satisfying new CEO Ross McEwan's desire to have a strong balance sheet both entering and exiting the crisis.

Figure 15: Non-Performing Loan Ratio



Source: Bloomberg, OCBC Credit Research

Figure 16: Reserve for Loan Losses to Total Loans



Source: Bloomberg, OCBC Credit Research

As our macro-economic research colleague at OCBC Treasury Research recently opined, the relative optimism or resilience in financial markets despite still rising global infections and concerns about the second wave could be due to three factors from a pure COVID-19 perspective: (1) the easing pressure on medical resources and a flattening of the curve with global fatality rates declining; (2) a reducing correlation between new cases and new fatalities which is likely due to better preparedness and expertise of medical systems; and (3) a resurgence does not mean the return to lockdowns as long as mass testing capacity is ready. In addition, vaccine development continues at an unprecedented pace.

Although things are not so clear yet

However with all that said, the future is not going to be the same for all financial institutions. As mentioned above, Financial Institutions will need to respond in different ways given the circumstances at hand that each are facing. The weaker environment is likely to lead to greater dispersion amongst issuers and negative events will have a larger impact than usual with the potential to amplify the existing vulnerabilities in the issuers we rate. Financial Institutions in the midst of restructurings have 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. One such Financial Institution is Commerzbank AG which is in the midst of implementing its "Commerzbank 5.0" strategic programme that was announced in September 2019. With management recently highlighting planning uncertainties, increased risks, and an inability to accurately assess future loan losses, the bank announced the appointment of McKinsey & Co. to review the bank's business model. The importance of certain initiatives such as ongoing digitalisation investment and cost reductions are expected to be amplified to deal with the weaker than expected operating environment while others such as asset sales will likely be deemphasized. This includes the planned sale of Polish Subsidiary mBank SA that was cancelled following weak initial buyer interest that was below CMZB's expectations, and subsequently a reduction in value of mBank SA from the materially weaker operating environment. The outcome of McKinsey & Co.'s review is expected by August when management are expected to update the market of its cost-cutting targets. Management have already tried to present revised cost cutting plans to its supervisory board meeting that include further staff reductions and branch closures, however this has met solid resistance on both sides. Labour union representatives will be expected to fight the level of staff cuts that they deem too high while CMZB's second largest shareholder Cerberus Capital Management LP is putting increasing pressure on CMZB to be more aggressive with cost cuts and seeking immediate management and strategy changes and board seats.

Another is HSBC Holdings PLC which announced a significant overhaul in February centred around a re-orienting of businesses for better returns and USD4.5bn in cost reductions. The rapid COVID-19 impact delayed these plans but as HSBC enters 2H2020 with a little more certainty on the outlook or perhaps more an elevated desperation, its restructuring will not only resume but will likely be accelerated and amplified. HSBC is going ahead with its planned 35,000 job cuts (or 15% of its global workforce) and planned cost reductions that are now even more necessary. At the same time, HSBC's board has apparently ordered a review of HSBC's strategic plan announced in February with more drastic measures needed than those previously announced. With earnings likely to be weaker and credit costs higher than previously planned, a focus on business restructuring and cost cutting will likely increase.

Costs will be a pain point in 2020 and more so than it was in 2019 given the prospect of weaker earnings. Financial Institutions exposed to compliance and litigation costs will find the going tough. ABN Amro Bank NV and Julius Baer Group Ltd have had to, and continue to deal with, potential anti-money laundering ("AML") issues. Westpac Banking Corporation ("Westpac") is also dealing with its substantial AML investigation by Australia's financial crimes intelligence agency ('AUSTRAC'). Westpac and AUSTRAC are currently pursuing a dual track process to resolve AUSTRAC's statement of claim with settlement negotiations continuing alongside a court process which may only be decided in 2021. Westpac has a history of taking matters to court including formal civil proceedings in 2016 by the Australian Securities and Investment Commission ('ASIC') related to the alleged manipulation of the bank-bill swap rate (Australia's equivalent of LIBOR). Only Westpac elected to contest the charges while Commonwealth Bank of Australia ('CBA'), National Australia Bank Ltd ('NAB'), and Australia and New Zealand Banking Group Ltd ('ANZ') settled and this resulted in a lower court approved fine in 2018 for Westpac. With AUSTRAC reportedly seeking a settlement in the range of AUD1.5bn and Westpac setting aside only AUD900mn in provisions for settlement costs, we think this case may drag for a while longer.

At the end of the day however, Financial Institutions will continue to face a changing landscape. The International Monetary Fund ("IMF") recently in its June 2020 World Economic Outlook indicated the impact of COVID-19 to be worse than originally expected and the recovery to be more prolonged. 2020 World GDP growth forecasts have been reduced by 1.9 percentage points to -4.9% while 2021 World GDP growth forecasts have been reduced by 0.4 percentage point to 5.4%. This will cause banks to remain dynamic towards costs from both a loan loss provisioning and operating expense perspective.

Systemic risk has risen and so has systemic importance

As mentioned in our Singapore Credit Outlook 2020, the regulatory focus remains on maintaining systemic stability in recognition of Financial Institutions' larger balance sheets, a global economy that contains higher leverage, and an increasingly interconnected global financial market. This indicated a higher susceptibility of the global financial system to systemic shocks. Little did we know of the systemic shock to come and while the global financial markets have continued to function with the strong support of governments globally, systemic risk has clearly risen. As mentioned above, the IMF expects the current recession to be deeper and longer than previously expected. At the same time, systemic leverage has risen further with revenue destruction and following the surge in borrowing in loan and bond markets that commenced with the US Federal Reserve's back stop. With other governments globally also providing support, the IMF expects public debt of developed nations to reach 130% of global GDP, higher than during World War II. This central bank support has led to a wider dispersion between fundamentals and market technicals and in the context of maintaining systemic stability, we think governments will remain incredibly careful in withdrawing any market support for fear of triggering a systemic shock. Financial Institutions will be somewhat forced to do the same in balancing their social mandate as a provider of credit to the economy and contributor to systemic stability with their profit mandate to shareholders.

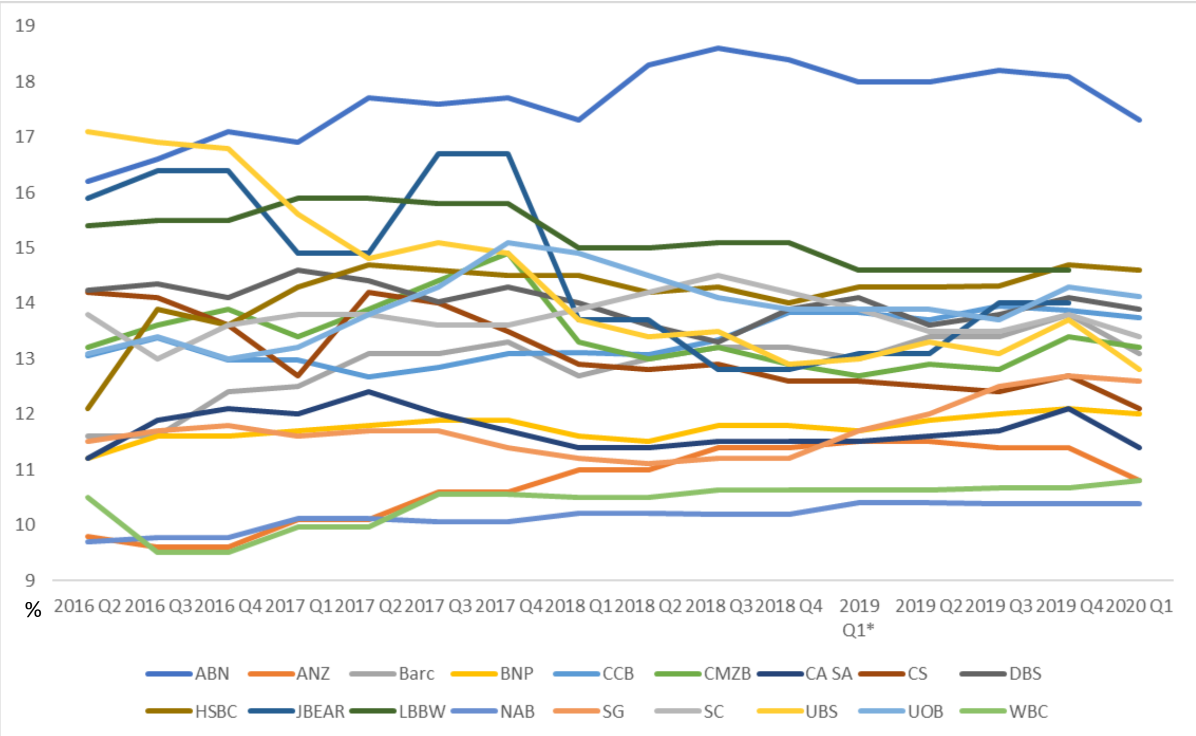
Sailing against the wind

In any case, the path ahead will be long and hard for Financial Institutions and characterised by slower growth and low interest rates that will impact bank earnings. At the same time, expenditure on compliance and technology will continue as the pandemic has amplified underlying trends towards digitalisation while credit costs will likely see upward pressure for the foreseeable future. Market volatility may rise and while this can be a positive for Financial Institution earnings, it does not come without risks. Traditionally, trading businesses were seen as higher risk given the volatility in performance and it may not be a solution in the current crisis, despite moves in the US to reduce some of the protections imposed under the Volcker Rule.

As heavily regulated entities, Financial Institutions have entered this crisis perhaps just as governments had intended them to - well capitalized and able to support government efforts in maintaining systemic stability. It appears to be a perfect time to put current regulations to work and test the theory that the benefit of increased financial stability in times of stress from higher loss absorbing capacity for a banking system far exceeds the potentially higher cost of capital during normal times that may potentially impact economic growth through a reduction in credit availability or rise in the cost of credit. With the current economic environment perhaps worse than those contemplated in central bank stress test scenarios, a longer term consequence of COVID-19 could be the need for banks to hold higher levels of minimum capital requirements based on a more severe stress test scenario. The practice of government intervention in shareholder returns (such as the US Federal Reserve's recent temporary mandate that dividend payouts be driven by a formula based on net income performance) may also become more enshrined going forward to preserve capital strength.

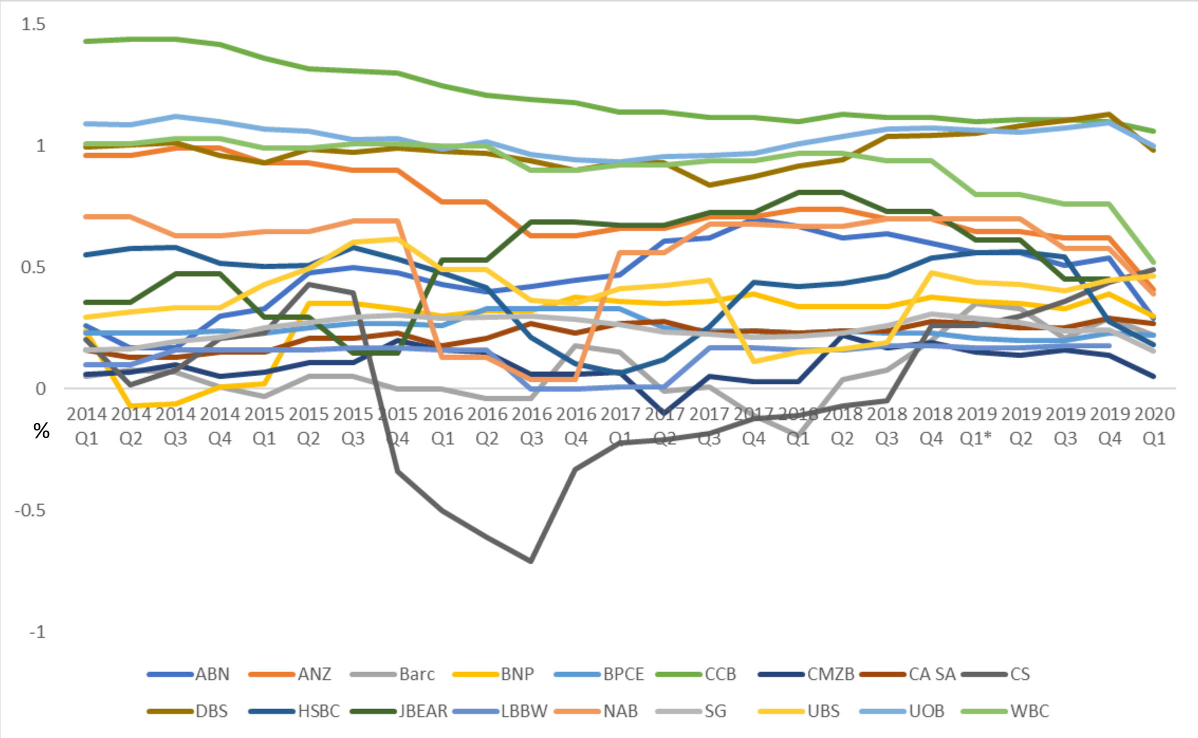
With governments likely to turn their attention towards repairing their balance sheets and funding their large stimulus programs, the systemic importance of Financial Institutions will likely increase. While this indicates a higher willingness to be supportive towards Financial Institutions, governments' capacity to support will be constrained. Instead, Financial Institutions could be left in a way to fend for themselves in this low yield and low growth environment that could put pressure on fundamentals. While regulator influence will seek to remain accretive to stability and credit quality, we expect Financial Institutions' fundamentals and capital buffers to provide the cushion for a difficult 6-12 months ahead. Where buffers eventually land is still somewhat uncertain and although fundamentals are undoubtedly under pressure, we expect the criticality of services and systemic importance to keep Financial Institutions ticking along. As mentioned, dispersion will rise and a flight to quality will be apparent driving us to focus on better quality credits in the Financial Institutions space.

Figure 17: CET1 Capital Ratios



Source: Bloomberg, OCBC Credit Research

Figure 18: Return on Assets



Source: Bloomberg, OCBC Credit Research

S-REITs: An unexpectedly eventful 1H2020

2020 kicked off with a storm brewing. As the virus went global, S-REITs underwent a turbulent period which saw their equity prices plunging in mid-March 2020, though quickly bottomed out by end-March 2020. In a swift succession of events, first borders closed, and we stopped receiving leisure visitors, then the circuit breaker followed where malls closed. This was then followed by telecommuting, which was made compulsory for companies (effectively partly closing offices). As of end-June 2020, Singapore is in phase two of its gradual reopening.

Measures that help

During this trying period, measures were implementing to help the REITs as well as their tenants. The most impactful change in our view was the Monetary Authority of Singapore ("MAS") raising the aggregate leverage limit from 45% to 50% in mid-June. This provides REITs with greater flexibility to manage their capital structure and to raise debt financing. This is especially more so as REIT's asset base may be corroded as a knock-on effect from a decline in rental income. MAS is also giving the REITs further flexibility by deferring the implementation of a new minimum interest coverage ratio requirement of 2.5 times before they are allowed to increase their leverage to beyond the prevailing 45% limit (up to 50%) to 1 January 2022. We have previously written a piece last year on this potential change. We see this change as a ticket for REITs to the use debt (particularly bank borrowings) to smooth its cash flow needs if need be, with no pressure to repay any of its existing or new debt in the short term.

We think that if the REITs are financially stable, they would also be in a better position to take care of their tenants via rental rebates.

That said, the government passed the COVID-19 (Temporary Measures) Act to offer temporary relief to businesses and individuals who are unable to fulfil their contractual obligations due to COVID-19 and property owners were mandated to pass on the property tax rebate which makes up around one month of rental on average to their tenants. The latest move by the government was targeted at Small and Medium Enterprises ("SME") where those with a 35% or more y/y drop in average monthly revenue in April and May 2020 would receive significant waiver of base rent - four months for those at retail properties and two months for those at industrial and office properties. The rent waiver was split 50-50 between the government (including property tax rebate) and the landlord.

Under the same Act, REITs cannot terminate the lease agreement and engage in another lease agreement due to non-payment of rent by tenant or pursue legal actions against their tenants such as court and insolvency proceedings for up to six months from the commencement of the Act (i.e. 8 April 2020) though the six month period can be shortened or extended by the Ministry of Law more than once for payment obligations that have arisen on or after 1 February 2020. While this essentially gives tenants a six months moratorium to make their rent payment, we do not expect tenants to actively tap on this option as much help on the rent front has been extended to them. Should the tenant happen to be a SME and have seen significant drop in revenue, they would have received four months of rent support which would likely cover their rent obligation from April to July (both months inclusive). We would expect that any tapping of relief under this act will be from August 2020 onwards, if their business operations continue to be heavily disrupted.

Apart from raising the aggregate leverage limit, the tax authority IRAS had given the REITs more time to benefit from the tax transparency by pushing out the deadline for distribution of taxable income to the following year. Essentially, REITs have the option to suspend dividend pay-out temporarily and build up cash which it can deploy to fulfil any cash needs. Given REITs typically do not hold much cash, this serves to reduce liquidity stress (if any) as a result of the unexpected turn of events.

REITs in survival mode

Although the option was announced on 16 April 2020, SPH REIT ("SPHR", Issuer profile: Unrated) had earlier on 1 April 2020 become the first Singapore REIT during the pandemic to announce a reduction in dividends for the quarter ended 29 February 2020 as a means to conserve cash. SPHR cut its distribution per unit ("DPU") by 78.8% y/y, translating to a dividend pay-out ratio of ~20% when it had historically paid 100% of its income as dividends. Dividend cuts were swiftly followed by other REITs, although the severity of dividend cuts was largely dependent on their underlying property type.

REITs which have cut more severely were those with properties in the Retail and Hospitality sectors, with dividend pay-out ratios cut to 20% - 50%. Office and Industrial property focused REIT have thus far limited dividend cuts, paying at least 70% of their income as dividends. Out of the fifteen REITs under our coverage which have announced dividends for the first quarter ended March 2020, only three of them have kept dividend payout ratio unchanged versus pre-COVID-19 levels.

Among investors who saw REIT dividends as something sacrosanct, the slew of dividend cuts had caught these investors by surprise. For example, SPHR's equity price dropped 9.3% in the immediate aftermath before recovering. We think the main reason was due to REITs only coming into prominence as an asset class in the past decade and have been steady dividend payers since. To enjoy tax transparency, REITs would need to pay out at least 90% of their taxable income to unitholders. This is one main reason why REITs in Singapore have generally maintained a dividend pay-out ratio of at least 90%. While the taxation rules encourage (and stimulates) a high dividend pay-out ratio, this is not a legal requirement. One REIT, namely Starhill Global REIT ("SGREIT", Issuer profile: Neutral (4)) highlighted that the actual level of distribution is to be determined at the discretion of the manager of the REIT despite its current distribution policy of distribution at least 90% of its taxable income to unitholders. SGREIT has also deferred the actual cash pay-out for 1H2020 to an undetermined time in the future but before 31 December 2021.

Fundraising channels open

In our view, REITs were largely in survival mode in the first few months of 2020, focusing on liquidity preservation rather than growth. We have not seen distress asset sales among Singapore REITs, even among the hardest hit ones. We think this was on the back of strong bank debt access and the existence of committed funding facilities, which meant that important funding channels were still available for REITs to tide over refinancing needs, even if cash buffers are structurally minimal for REITs given lack of cash retention from income generated. For example, ESR-REIT ("EREIT", Issuer profile: Unrated) and Ascott Residence Trust ("ART", Issuer profile: Neutral (4)) both did not return to the SGD-bond market to replace maturing bonds and perpetuals. As the SGD-bond primary markets thawed since late April 2020, we saw REITs gradually returning, with Frasers Commercial Trust ("FCT", Issuer profile: Neutral (4)) raising a SGD200mn 3Y bond, followed by OUE Commercial Trust ("OUE-CT", Issuer profile: Unrated) raising a SGD100mn 5Y bond.

A strong rebound for REIT equity since March 2020 meant that the equity market has also recovered as a fundraising channel. On 23 June 2020, Mapletree Industrial Trust ("MINT", Issuer profile: Neutral (4)) announced that it was buying the remaining 60%-stake in a portfolio of data centres for ~SGD300mn and would be funding this via new equity (MINT already owned the other 40%-stake). Apart from money to pay for the asset, MINT also managed to raise additional equity to partially repay debt. Investor reception towards the equity private placement was strong with an oversubscription of 8.2x. MINT raised SGD410mn, where ~SGD101mn would be used to repay debt and fund general corporate and working capital purposes.

Going into 2H2020, we think many REITs would need to contend with potential tenant fallouts, particularly as government assistance winds down in the coming months. Having gone through challenging financial conditions for much of 1H2020 and swiftly adjusting day-to-day operations in the face of a pandemic, we think REITs would have a laser-like focus on managing tenant retention and leases in 2H2020, rather than being distracted by "mega mergers". From the perspective of REIT unitholders, REIT peers are no longer cheap versus their March 2020 levels, weakening the financial imperatives for REITs to pursue a "mega merger". Having said that, we think from the perspective of REIT managers, they may still be on the lookout for opportunities to increase their assets under management which correlates with their management fees.

There have also been concerns surrounding valuation challenges due to the impact of the COVID-19 pandemic on operations. We are already seeing a revaluation loss of investment properties in Hong Kong and Mainland China on the back of weak economic environment and subsistence of the leasing market. We note that in Shanghai, China, Metro Holdings Ltd ("METRO", Issuer Profile: Neutral (4)) saw a 2.4% y/y dip in valuation for its 26 storey office tower and a 4.4% y/y decline in valuation for its nine storey entertainment centre as at 31 March 2020. Overall, we expect dark clouds continue to gather on the property valuation front for Singapore properties (particularly Hospitality and Retail properties) with company defaults as a potential downside risk for the Retail sector. Given that the REITs revalue their properties once a year, we think those who do so every September or December would comparatively have a higher chance of being spared for now.

In January 2020, we posit that Singapore REITs were becoming more diversified, geographically as well as by property types held, especially after the "mega mergers" were announced and/or completed in 2019. We also observed an intense chase for scale by investors, where scale matters more than underlying property types and REIT yields were converging by size of a REIT, upending the traditional yield differential by property type.

The pandemic has brought back into fore that underlying property types do matter, especially as each asset type is affected differently by broader economic and public health considerations. The variation in dividend cuts reflects this difference as certain asset types took an immediate hit (eg: Hospitality) while some became shakier overtime (eg: Retail) and others still may face longer term structural changes (eg: Offices, Industrial). However, while investors are now more cognizant over the difference in property types, we think these considerations would still take a side-step in a "low rates for longer environment", with investors still chasing larger cap REITs which are perceived to be stronger. Given the prevalence for scale and the positive impact this has on a REIT's financial flexibility, overall, we maintain the view that the pursuit for growth through geographical and property type or industry diversification is credit positive though the crux lies in the details.

Hospitality REITs

Hospitality properties have been the hardest hit from the fallout of COVID-19, exacerbated by countries locking down borders, and restricting the movement of people not just internationally but domestically. COVID-19 became a global issue, and this has negated the historical advantages of such REITs being geographically diversified. The hospitality sector is facing an unprecedented crisis with single digit occupancies in many cities. For Singapore, sector-wide occupancy for April 2020 was 41.1% (April 2019: 85.4%). We think occupancy was boosted by the government's move to house foreign workers and travellers into Singapore serving Stay-Home-Notices ("SHN"). Hospitality properties here also housed healthcare workers. Without which, we think occupancies for all practical purposes would have been near-zero. Inbound visitors into Singapore were 748 people in April 2020 versus 1.6 million in April 2019 per Singapore Tourism Board data.

In 1H2020, Hospitality REITs focused on cash conservation including deferring uncommitted capital expenditure, cutting dividends and ensuring continued access to financing while simultaneously ensuring that their hotel-level operations were adapting to the public health crisis. Some properties were closed to comply with local regulations while others voluntarily closed to save cost.

In our view, domestic leisure travel demand would recover first. The earliest pocket of recovery in China (who has managed to control the spread of the virus since February 2020) was in the domestic leisure travel markets and in the US, drive-to-locations where there is no need for mass transportation have seen greenshoots. We think there are no good accommodation alternatives outside of professionally managed hospitality properties in this environment. At Skift's (a travel industry intelligence provider) May 2020 virtual conference, participants from leading hospitality groups emphasised that the hospitality industry have quickly adapted, by positioning themselves as taking cleanliness and safety seriously (eg: standardised measures, procurement of cleaning agents), revamped protocols and procedures to be reactive to guests needs (eg: flexibility for refunds) and enhancing digital initiatives to reduce physical interaction. These are advantages which home sharing accommodation would find hard to replicate. While a downtime hits income, some hospitality groups are using the opportunity to reconfigure their product and service offering. In Singapore, OUE Commercial Trust ("OUE-CT", Issuer profile: Unrated), a diversified REIT, is repositioning its Orchard Road property into a "Hilton" hotel which would be the largest in Asia-Pacific.

Outside of leisure travel, there is the risk that the reduction in business travel could turn out to be more structural, with many prospective travellers weighing the essentiality of a business trip. Large meetings, incentives, conferencing and exhibitions ("MICE") events, which boost business travel is also unlikely to resume soon. Suntec Convention Centre, a popular venue for MICE events, had on 30 April 2020 announced an extension to the temporary suspension of operations to 2 August 2020. While business travel had traditionally been seen as a necessity and leisure as more discretionary, the public health crisis has thrown these assumptions into question. This is especially more so as technologically-ready companies have adapted to virtual communication without significantly impairing day-to-day operations.

International travel volumes are still moribund and highly dependent on when borders start reopening. For both Ascott Residence Trust ("ART", Issuer profile: Neutral (4)) and FHREIT, we estimate that ~60% of their hospitality assets by value are located in geographies which are reliant on international visitors (eg: Singapore, New York City, UK and across Europe). Historically, having a large portfolio of Singapore hotels was a strength, given the high quality assets with strong occupancies, however this is likely to drag income in 2H2020 and 1H2021 (at the very least) without the resumption of international travel. While SHN notices helped buffer the crisis, these can now be served outside a designated hotel location. We think staycations, even assuming it is allowed, would be insufficient to compensate for the loss of income from international visitors, especially amidst a recessionary environment.

While "green bubbles" have been mooted, the process is likely protracted and limited to a few city/country pairs and for specified travel purposes. For example, we have yet to see mass travel resume between Singapore and Malaysia. Malaysia is geographically Singapore's closest neighbour and also a top five visitor market for Singapore.

There is still much uncertainty over asset valuations for the property sector, including for hospitality assets (as the path of the pandemic is still changing). We think it is likelier for Hospitality REITs to face asset corrosion which would mean an increase in aggregate leverage ratios. ART opted to let its existing perpetual, the ARTSP 4.68%-PERP (which is recognised as equity) reset to a lower distribution rate rather than calling the perpetual at first call to conserve financial flexibility.

In our view, it is very unlikely for Hospitality REITs to see a swift recovery in the next 12 months, with a full recovery hinging upon the resumption of international travel. We are likely to downgrade the Issuer Profiles of companies we cover in the hospitality space if there are no material changes to the reopening of international borders in the near term.

Retail REITs

E-commerce has been a looming threat to the brick-and-mortar retail malls for many years and malls have been engaging activity-based tenants to draw crowds to its properties. The outbreak of the pandemic, which has so far been contained through physical distancing, has been a strong force to push people to purchase goods (including necessities) through online channels and businesses to pursue e-commerce solutions. Aside from businesses moving online for survival and shoppers going online to stay safe, the Singapore government have launched the E-Commerce Booster package to support businesses in taking their business online. The package includes a one-time 90% support on qualifying costs for the fees charged (capped at SGD9,000) and qualifying manpower cost for three headcount for three months.

CapitaLand Mall Trust, for instance, has a new e-commerce platform eCapitaMall and an online food ordering platform Capita3Eats launched on 1 June 2020 to complement sales of its shopping malls in Singapore. eCapitaMall is a curated digital mall featuring the merchandise of retailers. It offers shoppers the flexibility to browse online before purchasing in-store or browse in-store before purchasing online. Capita3Eats is Singapore's first mall-operated food ordering platform that offers consumers three ways to fulfil their food orders – delivery, takeaway or dine-in. Suntec REIT on the other hand created Singapore's first-ever live streaming shopping festival to lure customers back to malls. Evidently there are many ways retail REITs can leverage technology to engage their target audiences and add value to their tenants. Looking ahead, we think dominancy in social media marketing could be a differentiating factor among the retail REITs in Singapore.

Retailers have arguably arrived at a crossroad and picking an omni-channel strategy or an entirely online one may be more sustainable as compared to a physical store only strategy. With monetary support from the government, we expect retailers to jump onto the bandwagon. However, we are not implying that the golden age for malls is over. Instead, we think the sector is undergoing a period of change that is now accelerated by the pandemic, with malls continuing to be relevant in our new normal as they are venues for people to gather and socialise while engaging in the services the malls offer or venues people pass through to carry out their day to day activities.

Back to the COVID-19 pandemic, tenants offering different services are hit to different extents. While dining-in was not allowed at F&B outlets during the circuit breaker period, most of them were still able to offer takeaway services. However, as Singapore slowly exits the circuit breaker, F&B outlets would likely need to operate at significantly reduced seating capacity for many months more to come in order to minimise the spread of the virus. In contrast, apparel stores which were not allowed to open at all during the circuit breaker are now able to operate with some form of crowd control within their shop premises. Expectedly, it would be difficult for retail shops to stay profitable or even breakeven if they are not able to operate at full capacity. Mapletree Commercial Trust ("MCT", Issuer Profile: Neutral (3)), for example, gave its tenants rental support of ~2.5 months on average, on top of support from the government. Apart from qualifying SME tenants, REITs are not required to provide rental rebates to their tenants. Therefore, any rental rebate was on a voluntary basis and different REITs provided varying levels of supports to their tenants. The circuit breaker which has forced shops to close has also brought to attention the possibility of lack of risk sharing in leasing agreements. Announced in late June 2020, the Singapore Business Federation has formed the Fair Tenancy Pro Tem Committee which is made up of landlords, tenants and industry watchers to discuss and develop a framework that would address ongoing issues around tenancy practices. Ultimately, we view Retail REITs supporting their tenants favourably. A conducive business environment, where businesses receive much needed support to tide through a liquidity crunch as a result of being unable to operate at normal levels, benefits the REITs (especially in the long run) among others. As of writing, the Competition and Consumer Commission of Singapore (CCCS) is studying the private retail lease market including to better understand how the market features impact competition in Singapore. According to the Business Times, prior studies by the CCCS have resulted in recommendations to improve market functioning such as legislative changes. At times like this, diversification across tenant types (including essential service providers such as supermarkets) and having a well-staggered lease maturity profile would help the REITs maintain stability and better withstand an economic downturn. In addition, heartland malls which has residential catchment area and cater to necessity shopping would also be more resilient as compared to malls on the Orchard shopping belt which offers more discretionary shopping options.

Over the next 12 months, our worst case scenario assumes an increase in vacancy rate (to as high as 20% assuming that existing vacancies will not be filled and expiring leases within the next 12 months will not be renewed) and lower rental income. We think retail REITs would be extra watchful of its expiring leases and to manage their tenants through offering suitable support to help them tide through this trying period where operations are impacted. That said, we continue to think that there is a high probability of tenants not renewing their expiring leases due to uncertainties surrounding operations and weak economic outlook as it may might more sense from a financial viewpoint to exit the industry for the time being, and return when there are clear signals of recovery. Another concern is also that the retail REITs may not be able to attract new tenants as smoothly as before because these potential tenants are likely to be caught in the pandemic much like everyone else and delaying entering into leasing contracts would make sense. For the smaller retail REITs, we think they may follow the footsteps of the bigger players in investing in digitalisation efforts, particularly, on the marketing and the data analytics front. Having a strong online presence do not render offline presence redundant, we think the complement and support each other. With a strong understanding of its patrons, retailers would be able to scale their presence accordingly and reap the benefits of being omni-channel. Finally, the risk of a COVID-19 infection outburst remains, and the repercussion is tricky to foretell. Should we see a resurgence of COVID-19 cases that leads to another round of circuit breaker, we think it may be the nail in the coffin for the already weak tenants.

Office REITs

The outbreak of COVID-19 brought about large scale telecommuting in Singapore. This is a medium-to-long term threat to office spaces in our view because many companies in Singapore never had such a high proportion of their employees work from home for such a prolonged period. This pandemic has allowed corporations of all sizes and operating in diverse businesses to trial work from home for business continuity purpose and therefore they now have a sense of the impact. Working from home reduces operating cost – rent, maintenance expenses, and utilities expenses for companies (to an extent shifted such costs to employees). As such, we expect management teams within companies to deliberate the value add of traditional office spaces and how crucial is it for employees to show up physically. The technology we have today has made remote working very efficient. Specifically, we have tools that allows for real time text messaging, video conferencing, live streaming, task management, document sharing that work well enough together to overcome physical distance. Having said that, we think these tools are more likely to be adopted swiftly by companies whose existing infrastructure and workforce are more flexible and agile. Therefore, we do not expect the transition to be consistent across the board, and what this means for office spaces is that demand should not drop of a cliff.

Looking ahead, our base case assumption is that working from home is here to stay and that it will become common practice that companies will perpetually have a proportion of employees work from home. The proportion though will vary across industries. We think a hybrid model i.e. mix of working from home and working from office is likely and beneficial for the company, especially in times of economic slump and public health emergencies like the one we are facing today. Currently, we are seeing US corporations' step forward to implement permanent work from home for their employees. Some of the names are Twitter, Square, Facebook and Shopify (mostly tech-related companies) while in India new legislations are being mulled to facilitate industry wide move towards working from home for employees in the tech industry. This concept is not new. Automattic Inc, the company which owns Wordpress.com with over 1,200 employees, has been fully remote since its founding. Take having all employees in office as the left end of the remoteness spectrum and having all employees working remotely on the right end; we think the COVID-19 pandemic has bumped most, if not all companies by varying extents to the right. From an operational angle, we think large companies in particular would undergo reviews including analysing the group of functions they have to determine suitability, design a protocol around working from home, adapt their leaders to lead from afar, enhance ways of communication through technology and most importantly, invest in security and safeguards to avoid information leakages or unauthorised access to confidential information. While the seed for remote working has been planted, we think the pace of pursuit will vary and it will be very much dependent on management teams. For office REITs, we expect to see dwindling of demand for new office space for expansion purposes and small shifts towards working from home dampening existing space required by tenants. As a result, we expect the office sector to experience some pain though manageable in the next 12 months. CapitaLand Commercial Trust ("CCT", Issuer profile: Neutral (3)) for instance offers "core and flex" options (i.e. tenants can have a mix of traditional office space (core) with flexible spaces (flex) in a lease) to accommodate any changes in space requirements.

Having said that, we think positive rental reversion is still possible, especially for the office REITs whose expiring leases were committed years ago when average rent was much lower than present's rate. For Keppel REIT ("KREIT", Issuer profile: Neutral (4)), expiring leases in Singapore in 2020 was SGD9.37 psf pm while its average signing rent in 1Q2020 was SGD12.16 psf pm. For CCT, average expiring leases in 2020 was SGD9.37 psf pm as well while the Grade A office market rent in 1Q2020 was SGD11.50 psf pm. Given the gap between expiring leases and the current market rent of over SGD2.00 psf pm, we think positive rental reversion continues to look promising despite the outbreak of the pandemic.

Separately, some REITs such as KREIT continue to be on a lookout for acquisition opportunities to grow its asset base. As at 31 March 2020, KREIT had an aggregate leverage of 36.2% and SGD566mn of undrawn credit facilities available after accounting for SGD400mn of loans which will be refinanced.

Industrial REITs

Properties which are zoned for industrial usage in Singapore consist of a broad range of property sub-types. Specific Industrial REIT performance would differ given the divergence within portfolios. We divide the Industrial property universe into three main sub-types:

- Business and science park buildings which are "office-like" properties catering to knowledge-intensive industries and R&D centres sitting on industrial zoned land outside the central business district. These are driven by similar drivers to the commercial office market in our view.
- Factories and warehouses where activity carried out can only be done in those properties. These can house multiple-users and single-users.
- High-specification industrial properties which are typically vertical campuses and increasingly data centres.

Outside of Singapore, Industrial REITs listed in Singapore hold properties across the Asia-Pacific region, Australia, the UK and the USA. Overseas properties, properties located in the Asia-Pacific region consist mainly of logistics properties (eg: Mapletree Logistics Trust, ("MLT", Issuer profile: Neutral (4)) while in the USA, these properties comprise of data centres.

Apart from change in day-to-day operations in light of COVID-19, Industrial REIT managers have provided targeted support and relief measures to tenants, outside of those legislated. For example, Ascendas REIT ("AREIT", Issuer profile: Neutral (3)) have suspended rental collection from retail/food & beverage tenants in Australia where restrictions are in place. The Singapore government have mandated that landlords would not be able to terminate the leases for all tenants due to COVID-19-related non-payment of rent. For Australia, the government has mandated that landlords cannot terminate leases of small, medium enterprises ("SME") tenants (annual sales of up to AUD50mn) for the same period in which the Commonwealth JobKeeper programme remains in place. With the exception of MLT, other Industrial REITs have cut dividends, though dividend payout ratios were still within 70-90%.

In our view, there is a higher likelihood that activities which are deemed as essential services are operated out of industrial zone properties. When such activities are allowed to be carried out, we think there is less likelihood for such tenants to default and/or terminate their leases. For example, warehouse landlords have seen an increased in transaction activities (eg: from stocking of essential goods to e-commerce tenants seeing business growth). Aside from warehouses, we consider data centre assets to be critical infrastructure, particularly in this environment and have low risk of lease termination. As an example of the strength of data centres, Mapletree Industrial Trust ("MINT", Issuer profile; Neutral (3)) announced the proposed acquisition of the 60%-stake in a portfolio of US data centres which it did not already own on 23 June 2020. The equity fundraising for the acquisition was heavily oversubscribed.

Against a recessionary backdrop, we think industrial properties are contending with second order effects as tenants face a decline in end-consumer demand for the products and services. In our view, Industrial REITs with a higher proportion of small and medium enterprises ("SME") could find occupancies falling faster. 38% of ARA LOGOS Logistics Trust ("ALLT", Issuer profile Neutral (4)) portfolio by net lettable area ("NLA") are SME tenants while this was 45% for MINT (before the latest data centre announcement). Per data from Experian, an information services company, the hardest hit SMEs are in the retail, construction, hospitality/F&B and property sectors. Singapore classifies SMEs as companies with annual revenue of up to SGD100mn or which employs 200 or less people. In the very near term, tenants are buffered from the various relief measures and moratorium over leases, however, government's financial assistance would not last indefinitely, with business owners having to decide whether to continue their business and if so, how to reconfigure it. A decline in scale would negatively impact demand for leases. For Singapore and Australia, the lease moratorium will last to October 2020, unless extended.

While COVID-19 restrictions have led to construction delays, we expect leasing activities to remain weak as the supply deluge is still looming. 2.2 million square metre of supply were expected to complete in 2020 against an average demand of industrial space in the past three years of 1.0 million square metre and this could dampen an already challenging outlook. The re-emergence of tensions between the US and China could still drag the manufacturing and logistics sector.

Over the next 12 months, we think Industrial REITs would face headwinds though more resilient relative to Hospitality and Retail REITs. Within Industrial REITs, we see logistics properties and data centres as the steadiest sub-type. For warehouses, the growth of e-commerce which was accelerated during the pandemic is likely to stay strong, with consumers moving their purchases online. Landlords would need to consider whether to invest capital expenditure into existing properties while taking into account asset value decay as underlying land leases shorten for their Singapore properties.

Table 6: Summary of sector calls

Property Type	Key Highlights	Sector Direction for 2H2020
Industrial	• Industry property space sector more resilient versus Retail and Hospitality. • Upcoming supply to dampen already weak leasing market from COVID-19. • Credit profiles of the Industrial REITs to diverge depending on asset composition. Portfolios with SME segments face higher risk of tenant defaults and pre-termination of leases.	↓
Office	• Telecommuting to pose a medium to long term threat to office spaces. Expects companies to adopt a hybrid operating model. • Given the average rent of expiring leases for office spaces is much lower than current market rent, positive rental reversion remains possible. • Credit profiles of Office REITs to be stable and able to withstand of pain from dwindling new demand for expansion purposes and small decrease in demand by existing tenants due to small shifts towards working from home.	↓
Retail	• With the outbreak of COVID-19, REITs have started to pursue ecommerce and digitalization strategies. • Downside risk includes increase in vacancy rate and lower rental income from negative rental reversion and lower committed rents going forward. • We may downgrade the Issuer Profiles of Retail REITs if there is prolonged restriction to the capacity tenants in malls can operate at and government support is not extended.	↓↓
Hospitality	• COVID-19 has hit occupancy drastically, negatively impacting income of hospitality properties. • Hospitality REITs have some buffers from their Sponsors although we expect credit profiles to be weaker within 12 months. • We are likely to downgrade the Issuer Profiles of Hospitality REITs if there are no material changes to the reopening of international borders in the near term.	↓↓↓

Source: OCBC Credit Research

Table 7: REIT Statistics (as at 31 March 2020)

	Aggregate Leverage (%)	EBITDA/Interest (Latest available quarter)	EBITDA/Interest (previous year corresponding quarter)	Debt Duration (years)	Debt cost (%)	Proportion of debt fixed/hedged (%)	Unencumbered assets (%)
Industrial							
Ascendas REIT	36.2%	4.1[1]	4.6[1]	3.80	2.90%	76%[2]	93%
Mapletree Logistics Trust	39.3%	5.2	4.6	4.10	2.50%	77%	100%
Mapletree Industrial Trust	37.6%	6.3	6.5	4.70	2.90%	73%	100%
ARA Logos Logistics Trust	40.8%	3.4[1]	4.3[1]	3.70	3.63%	70%	92%[2]
Average:	**38.5%**	**4.8**	**5.0**	**4.10**	**2.98%**	**74%**	**96%**
Office							
CapitaLand Commercial Trust	35.5%	4.6	4.4	3.50	2.30%	85%	91%
Keppel REIT	36.2%	1.3	1.2	3.80	2.58%	79%	72%
Mapletree Commercial Trust	33.3%	4.1	4.6	4.20	2.94%	79%	100%
Suntec REIT	39.9%	1.9[1]	1.7[1]	3.36	2.92%	65%	<96%
Average:	**36.2%**	**3.0**	**3.0**	**3.72**	**2.69%**	**77%**	**90%**
Retail							
CapitaLand Mall Trust	33.3%	4.7	4.6	4.70	3.20%	100%	100%
Frasers Centrepoint Trust	37.4%	4.6	5.8	2.13	2.44%	50%	82%
Lippo Malls Indonesia Retail Trust	42.1%	3.27	4.52	2.80	6.0%	96.2%	100%
Mapletree North Asia Commercial Trust	39.3%	4.0	5.1	3.35	2.33%	77%	81%
Starhill Global REIT	36.7%	3.1	3.6	2.70	3.25%	87%	74%
CapitaLand Retail China Trust	35.8%	3.7[1]	4.4[1]	2.55	2.89%	80%	90%
Average:	**37.4%**	**3.9**	**4.7**	**3.04**	**3.35%**	**82%**	**88%**
Hospitality							
Ascott Residence Trust	35.4%	4.8[1]	5.0[1]	3.40[2]	1.80%	81%	69%
Frasers Hospitality Trust	36.0%	2.1	4.4	4.14	2.40%	73%	94%[3]
Average:	**35.7%**	**3.5**	**4.7**	**3.77**	**2.10%**	**77%**	**82%**
Others							
First REIT	34.5%[2]	4.8[1]	4.3[1]	2.30[3]	4.10%[2]	60%[2]	5%[3]

Source: OCBC Credit Research

Note: (1) For the quarter ended 31 December 2019. Previous year corresponding quarter refers to 31 December 2018

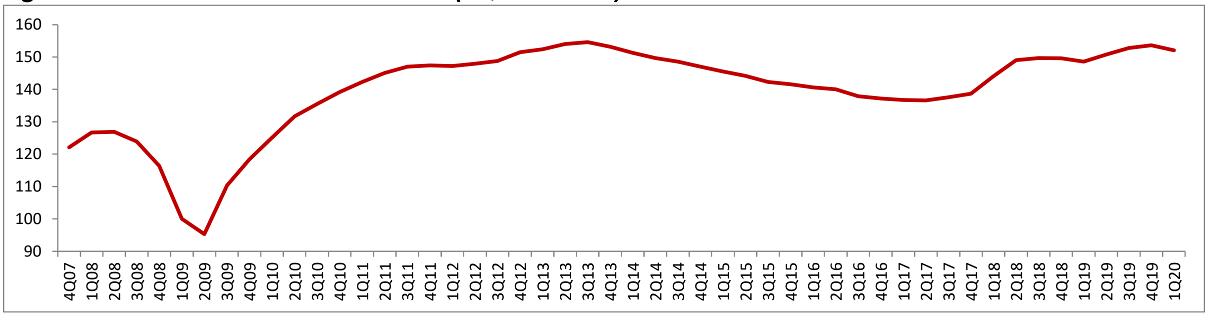
(2) As at 31 December 2019

(3) OCBC Credit Research estimates

Singapore Property – Trajectory derailed, but for how long?

Weighed down by COVID-19: Private residential property prices dipped by 1.1% q/q in 2Q2020, according to URA flash estimates. However, trends diverge within the sub-segments. Core Central Region prices fell by just 0.1% q/q (1Q2020: -2.2% q/q) while Rest of Central Region prices fell 1.9% q/q (1Q2020: -0.5% q/q). Interestingly, prices in Outside Central Region remained unchanged (1Q2020: -0.4% q/q). Overall, prices have fallen by 2.1% since 4Q2019, breaking the trend of three consecutive quarters of gain (+3.4%) and threatening the recovery of the Singapore property sector (prices as of 2Q2020 are 2.7% lower than the highs in 3Q2013). While we were optimistic at the start of the year, the outlook has quickly turned murky due to COVID-19.

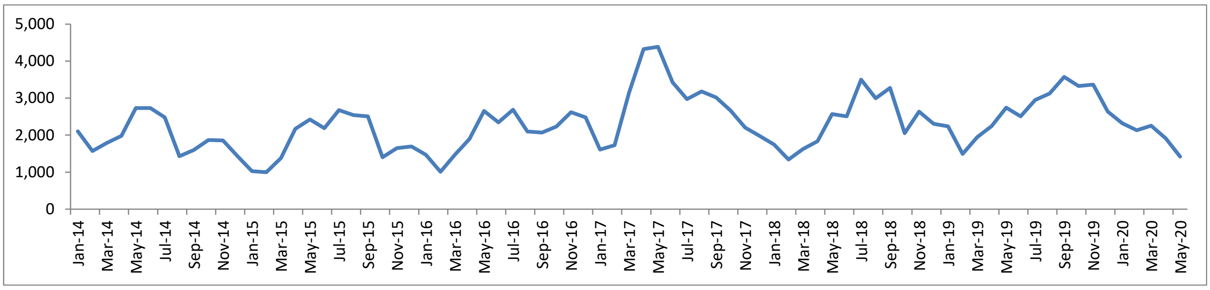
Figure 19: URA Private Residential Index (1Q2009 = 100)



Source: Urban Redevelopment Authority, OCBC Credit Research

Slower property market: While January-March has traditionally been the seasonally slower months, we saw transaction volumes dip further in April-June due to the circuit breaker due to several reasons. Although developers are still allowed to sell online, we believe sales are hampered because buyers prefer the experience at physical show flats (as opposed to virtual ones) before making the decision to purchase a unit. We believe that a number of buyers have also adopted the wait and see approach due to the uncertainties arising from COVID-19. According to the Ministry of Trade and Industry, Singapore's GDP is expected to contract by 4% to 7% in 2020. As of YTD May 2020, developers sold 3017 units (excluding ECs), which is 17% lower y/y. Although sales have reportedly picked up post the Phase 2 reopening of the Singapore economy, which allows show flats to be opened and a number of viewing slots for show flats reportedly fully booked, it remains to be seen if the momentum can be sustained.

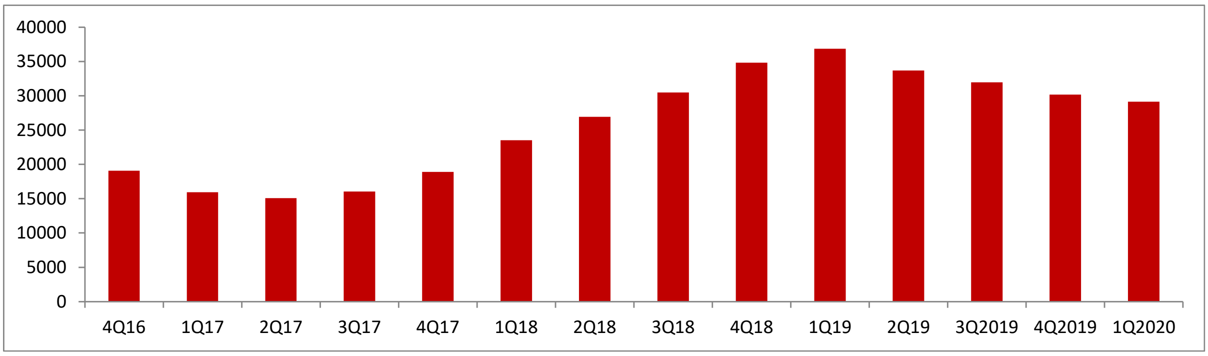
Figure 20: Transaction volumes, trailing 3 months



Source: Urban Redevelopment Authority, OCBC Credit Research

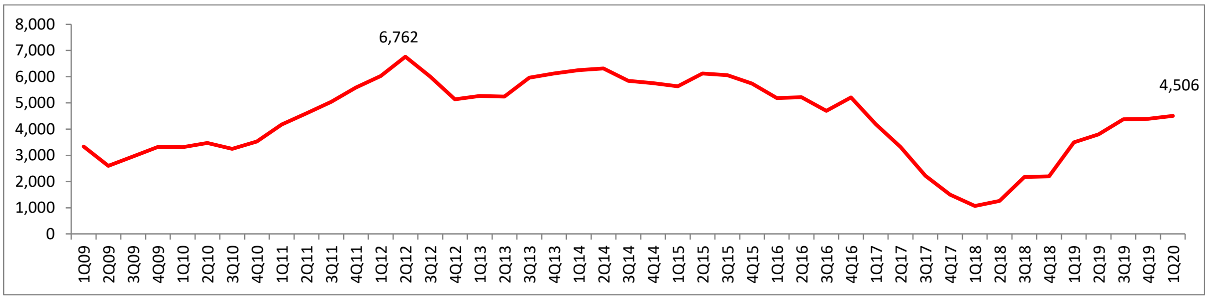
Developers may be the first to blink amidst the softening market: We think developers may be inclined to shade prices somewhat lower to meet the price expectations by buyers. This will likely be motivated by significant inventory remaining in the pipeline (1Q2020: 29,149 units), especially if transaction volumes do not pick up substantially and launched but unsold units continue to rise. According to Business Times, discounts have already been offered on a number of projects, ranging from 1% to 4% during the circuit breaker period. We also picked up a presentation deck from ERA Real Estate providing discounts of 6% or more for projects including Corals at Keppel Bay, Riviere, One Pearl Bank. Certain developments have shaded prices significantly lower, such as at 38 Jervois (the last 16 units were offered discounts in the range of 13% to 24%, ahead of the Additional Buyer Stamp Duty ("ABSD") deadline in Aug 2020) and selected units at 8 Saint Thomas (discounts of 10% or more).

Figure 21: Unsold units in the pipeline



Source: Urban Redevelopment Authority, OCBC Credit Research

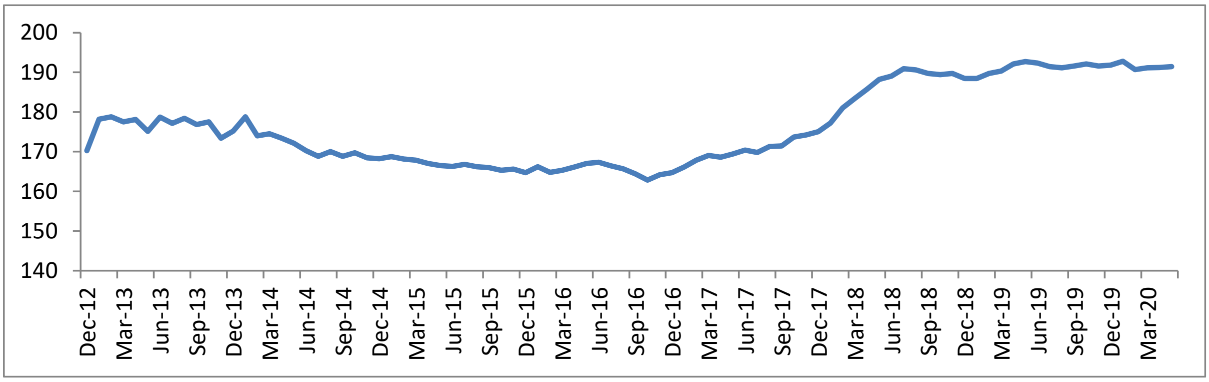
Figure 22: Launched but unsold units



Source: Urban Redevelopment Authority, OCBC Credit Research

How much would prices contract? With risks to the downside as COVID-19 has dampened demand, we think URA private residential index may potentially decline by up to high single digit. We expect the magnitude of correction to be smaller than Global Financial Crisis (2Q2008 – 2Q2009: -24.9%) as the run-up in prices have been smaller due to property cooling measures in place. We do not expect a similar bout of selloff as homeowners likely have stronger holding power this time (given the property cooling measures such as loan-to-value and total debt servicing ratio). According to SRX Price Index for Non-Landed Private Residential Resale, prices remained largely unchanged over the circuit breaker periods in April-May 2020 (+0.1%). We think that most developers will likely refrain from making significant price cuts (for now) as margins are likely tight having bought landbank at a high price.

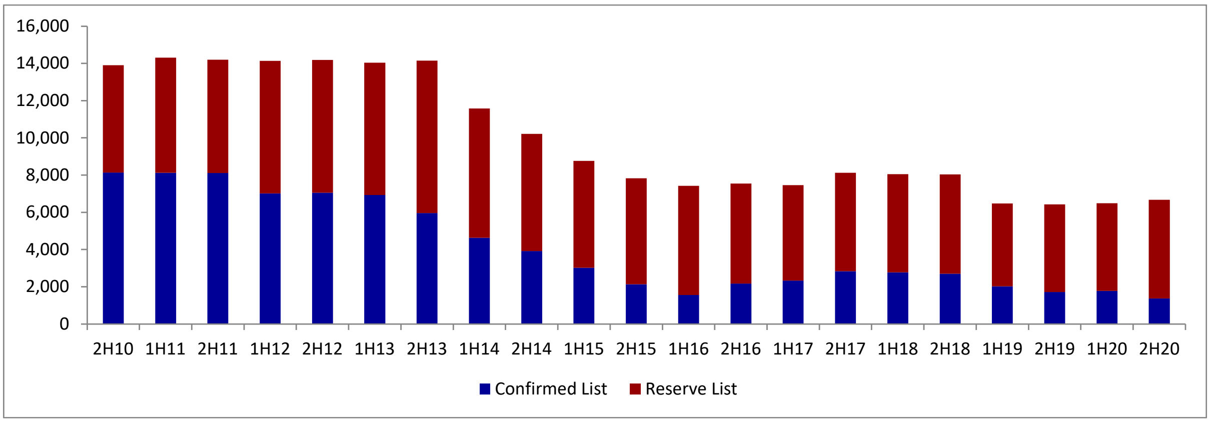
Figure 23: SRX Price Index for Non-Landed Private Residential Resale



Source: SRX, OCBC Credit Research

Government policies to lend support against a freefall: While government policies have traditionally cooled the property market, we think the policies since the onset of COVID-19 have been supportive of the property market. The direct policies include (1) allowing an additional 6 months for property developers to complete the projects and for sale of units in relation to ABSD and qualifying certificate, (2) allowing an additional 6 months for ABSD remission for individuals to sell their first home after the second home is bought and (3) allowing individuals with difficulty in paying mortgage to defer both principal and interest payment. The indirect policies include Job Support Scheme which we believe help cushion against unemployment and retain workers, SGUnited which may create 100,000 jobs and direct cash payouts to individuals. In the event that prices correct significantly (more than GDP declines), we believe there is room by the government to roll back on the property cooling measures. Already, the government has further dialled back on the confirmed list (-22.8% h/h) in the government land sales for 2H2020.

Figure 24: Government Land Sales



Source: Urban Redevelopment Authority, OCBC Credit Research

Pressure on developer profitability: We believe that revenue will likely to be impacted if transaction volumes remain low or if prices move lower. In addition, construction costs are likely to escalate given the safe distancing measures – we think construction companies may pass through part of the increase in costs to developers. With COVID-19 impacting broad segments of the economy including retail and hospitality, as such we believe that even diversified developers holding investment properties may face pressures on earnings in 2020. That said, we believe most developers should be able to tide through for now, especially if they continue to maintain access to financing or take steps to divest assets (e.g. Oxley Holdings Ltd selling Chevron House, Perennial Real Estate Holdings Ltd divesting parts of AXA Tower).

Please note that due to OCBC's engagement in other business activities, we have suspended our coverage on the following names until these activities are completed:

Nil

Please note that OCBC Credit Research has ceased coverage of the following issuers:

a) CITIC Envirotech Ltd
b) Century Sunshine Group Holdings Ltd
c) Wheelock & Co Ltd

OCBC Bank

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Corporate Outlooks

ARA LOGOS Logistics Trust ("ALOG") (formerly Cache Logistics Trust)

Issuer Profile:
Neutral (4)

Ticker:
ALLT

Background

The renaming of Cache Logistics Trust on 28 April 2020 follows a broader strategic transaction between ARA Asset Management ("ARA"), a real estate asset manager and the LOGOS Group ("LOGOS"), a logistics property developer and manager. ARA Logos Logistics Trust ("ALOG"), structured as a REIT is listed on the Singapore Stock Exchange ("SGX") with a market cap of ~SGD614mn as at 1 July 2020. ALOG focuses on logistics warehouse properties with total assets of ~SGD1.4bn as at 31 December 2019 (ten located in Singapore, 17 located in Australia). ALOG is managed by ARA LOGOS Logistics Trust Management Limited ("REIT Manager"). As at 9 March 2020, ~10.3%-stake in ALOG is directly owned by LOGOS Units No. 1 Ltd (itself indirectly majority owned by ARA). ALOG is incorporated in Singapore and the perpetuals are issued by HSBC Institutional Trust Services (Singapore) Limited (in its capacity as trustee for Cache Logistics Trust).

Credit Outlook and Direction

On 5 March 2020, ARA acquired an undisclosed majority stake in LOGOS. As part of the acquisition, ARA completed the transfer of its full ownership in the ALOG REIT Manager and its ~10%-stake in ALOG to LOGOS. ARA continues to retain control via LOGOS. We see this change as credit neutral for now though ALOG may be mobilized for capital recycling impacting ALOG's future credit profile. 1Q2020 gross revenue was SGD28.8mn while net property income ("NPI") was SGD22.0mn, up 5.9% q/q and 7.4% q/q respectively. This was driven by improved occupancies and commencement of new leases. For the quarter, ALOG had withheld 20% of total distributable income versus its historical 100% payout ratio. Including interest on lease liabilities, we find EBITDA/Interest at 3.4x in 4Q2019, acceptable for its issuer profile level in our view. As at 31 March 2020, reported aggregate leverage was 40.8%. Assuming 50% of its perpetuals as debt, we find adjusted aggregate leverage at ~45%, on the high side. As at 31 March 2020, there is no more debt due for the rest of the year. **We expect ALOG's credit profile to be somewhat weaker within 12 months though for now are maintaining its issuer profile at Neutral (4)**. As at 1Q2020, there has been no tenant default amidst COVID-19, though with small, medium enterprises making up 38% of net lettable area across the portfolio in 1Q2020, this is a rising risk in our view.

Bond Recommendation

We are Overweight the ALLTSP 5.5%-PERP, which is trading at equity-like returns. The distribution rate would reset to ~4.5% even assuming non-call a first call.

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTC	Spread	Recommen-dation
ALLTSP 5.5%-PERP	Neutral (4)	01/02/2023	7.47%	712bps	OW
EREIT 4.6%-PERP	Unrated	03/11/2022	7.33%	699bps	NA

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	71.46	68.16	68.59
Net margin (%)	21.36	24.43	-6.77
Gross debt to EBITDA (x)	5.56	5.68	7.55
Net debt to EBITDA (x)	5.37	5.27	7.35
Gross Debt to Equity (x)	0.58	0.58	0.79
Net Debt to Equity (x)	0.56	0.54	0.77
Gross debt/total asset (x)	0.36	0.36	0.43
Net debt/total asset (x)	0.35	0.33	0.42
Cash/current borrowings (x)	0.12	1.19	0.13
EBITDA/Total Interest (x)	4.29	4.46	3.60

Source: Company, OCBC estimates

Ascendas Real Estate Investment Trust ("AREIT")

Issuer Profile: Neutral (3)

Ticker: AREIT

Background

Ascendas REIT ("AREIT") is the largest business space and industrial REIT in Singapore, with a market cap as at 1 July 2020 of SGD11.5bn. Total assets were SGD13.7bn as at 31 March 2020, including interest in joint ventures. AREIT is now sponsored by CapitaLand Ltd ("CAPL", Issuer profile: Neutral (3)), which has a deemed interest of ~19% in AREIT. AREIT announced a change in financial year end from 31 March to 31 December (matching CAPL). The immediately preceding financial year was a nine-month period from 1 April 2019 to 31 December 2019 ("2019") while the current financial year is a 12 month period from 1 January 2020 to 31 December 2020 ("2020"). AREIT is incorporated in Singapore while the SGD perpetual and bonds are issued by HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of AREIT.

Credit Outlook and Direction

Revenue for the third quarter ended December 2019 ("3Q2019") was acquisition-led, up 5.9% y/y to SGD239.7mn mainly due to contribution from the 30 new business park properties bought in December 2019 as well as liquidated damages on a property in Australia. 254 Wellington Road, Melbourne which was bought in October 2019 is not yet contributing as it is being constructed. In the scenario where AREIT's sole perpetual is not called in October 2020, the perpetual distribution rate may decrease to ~3.0% p.a from 4.75% p.a currently. Assuming AREIT does not call, it will pay SGD9.0mn p.a in perpetual distribution (SGD2.3mn per quarter) and taking 50% of this as interest, we find EBITDA/(Interest plus 50% perpetual distribution) at 4.0x. As at 31 March 2020, reported aggregate leverage was higher at 36.2% (31 December 2019: 35.1%), we think due to the purchase of 25%-stake in Galaxis (deal completed on 31 March 2020). As at 31 March 2020, SGD568mn of debt comes due within 2020, representing 11% of total debt and we see refinancing risk as manageable. **We expect AREIT's issuer profile to be stable at Neutral (3) within 12 months, with minimal impact from COVID-19 relative to other REITs under our coverage.**

Bond Recommendation

We are Underweight the AREIT curve as CCTSP and CAPITA is paying more for a similar issuer profile level.

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
AREIT 2.655% '21	Neutral (3)	7/4/2021	1.40%	114bps	UW
AREIT 4.0% '22	Neutral (3)	3/2/2022	1.65%	134bps	UW
AREIT 3.2% '22	Neutral (3)	3/6/2022	1.63%	132bps	UW
AREIT 2.47% '23	Neutral (3)	10/8/2023	2.02%	163bps	UW
AREIT 3.14% '25	Neutral (3)	2/3/2025	2.28%	175bps	UW
CCTSP 2.96% '21	Neutral (3)	13/08/2021	1.66%	138bps	N
CCTSP 2.77% '22	Neutral (3)	04/07/2022	1.99%	167bps	N
CAPITA 3.2115% '23	Positive (2)	09/11/2023	2.05%	162bps	N
CCTSP 3.327% '25	Neutral (3)	21/03/2025	2.32%	177bps	N

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FYE Mar18	FYE Mar19	9M2019
EBITDA margin (%)	66.23	66.30	69.72
Net margin (%)	57.31	56.77	55.48
Gross debt to EBITDA (x)	6.16	6.97	8.05
Net debt to EBITDA (x)	6.12	6.89	7.90
Gross Debt to Equity (x)	0.54	0.59	0.64
Net Debt to Equity (x)	0.54	0.58	0.63
Gross debt/total asset (x)	0.34	0.36	0.38
Net debt/total asset (x)	0.34	0.35	0.37
Cash/current borrowings (x)	0.03	0.09	0.17
EBITDA/Total Interest (x)	5.20	4.64	4.01

Source: Company, OCBC estimates

Ascott Residence Trust ("ART")

Issuer Profile: Neutral (4)

Ticker: ARTSP

Background

ART is the largest hospitality trust listed on the SGX with a market cap of SGD3.1bn as at 1 July 2020. ART holds serviced residences, rental housing and hotels. As at 31 December 2019, total assets at ART was SGD7.4bn with more than 16,000 units (including lyf units at one-North under construction) across its 87 properties in 39 cities. ART is ~40%-owned by its Sponsor, CapitaLand Ltd ("CAPL, Issuer profile: Neutral(3)). Our analysis of ART and issuer profile is on the enlarged ART, factoring in the consolidation of Ascendas Hospitality Trust ("ASCHTS"). ART is incorporated in Singapore. The perpetuals are issued by DBS Trustee Limited (in its capacity as trustee for ART) while the bonds are issued by Ascott REIT MTN Pte. Ltd, guaranteed by DBS Trustee Limited (in its capacity as trustee for ART).

Credit Outlook and Direction

With COVID-19 hitting occupancy and negatively impacting income, **we expect ART's credit profile to be weaker within 12 months and are likely to downgrade the Issuer Profile if there are no material changes to the reopening of international borders in the near term.** Parts of ART's standalone reported gross profits are attributable to properties under Master Leases (4Q2019: 25%) and we note that many of these leases are signed with its Sponsor, CAPL. Assuming the EBITDA on Master Leases were 93% of reported gross profit, this means that EBITDA from Master Leases were SGD15.1mn and covering interest expense by 1.2x, though insufficient to cover perpetual distribution. Minimum guaranteed income from certain ART management contracts and dividend upstream from ASCHTS may help cover this gap. There is no legal requirement for ASCHTS to financially assist ART and vice versa, though in practice we expect ASCHTS to upstream distributions to ART. As at 31 March 2020, ART's reported aggregate leverage was 35.4%. ART's cash balance was SGD300mn and committed credit facilities were ~SGD200mn. ART is also expected to receive SGD163mn in proceeds from the sale of Somerset Liang Court. These are sufficient for to meet ART's SGD404mn of debt due in 2020.

Bond Recommendation

We are Underweight ARTSP with the curve trading tight versus other hospitality names.

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/ Call Date	Ask YTW/YTC	Spread	Recommen-dation
ARTSP 3.065%-PERP[1]	Neutral (4)	30/12/2020	3.55%[2]	246bps	UW
ARTSP 4.205% '22	Neutral (4)	23/11/2022	2.63%	229bps	UW
ARTSP 3.523% '23	Neutral (4)	9/11/2023	2.77%	235bps	UW
ARTSP 4.0% '24	Neutral (4)	22/3/2024	3.27%	282bps	UW
ARTSP 3.88%-PERP	Neutral (4)	4/9/2024	3.81%	332bps	UW
FHREIT 4.45% 'PERP	Neutral (4)	12/5/2021	3.47%[2]	236bps	UW
FHREIT 2.63% '22	Neutral (4)	6/7/2022	3.75%	343bps	N
SHLSP 4.5% '25	Neutral (4)	12/11/2025	3.57%	299bps	N

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC
Note: (1) ARTSP 3.065%-PERP is the ARTSP 4.68%-PERP which had been reset lower
(2) Yield-in-perpetuity

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	42.73	43.23	45.88
Net margin (%)	44.83	29.53	42.01
Gross debt to EBITDA (x)	9.17	8.57	11.18
Net debt to EBITDA (x)	7.96	7.55	10.01
Gross Debt to Equity (x)	0.61	0.61	0.61
Net Debt to Equity (x)	0.53	0.54	0.54
Gross debt/total asset (x)	0.35	0.36	0.36
Net debt/total asset (x)	0.31	0.32	0.32
Cash/current borrowings (x)	0.97	3.25	0.78
EBITDA/Total Interest (x)	4.54	4.72	4.56

Source: Company, OCBC estimates

Aspial Corp Ltd ("Aspial")

Issuer Profile:
Negative (6)

Ticker:
ASPSP

Background

Incorporated in 1970 and listed on the SGX since 1999, Aspial Corp Ltd ("Aspial) has evolved over the years from its roots in jewellery (main brands: Lee Hwa, Goldheart and CITIGEMS) to a diversified company with real estate and pawnshop businesses (Maxi-Cash). Aspial has a market cap of SGD310mn as of 2 Jul 2020. Aspial is ~83%-controlled by the members of the Koh family who are siblings to Mr Koh Wee Meng, the founder of Fragrance Group Ltd.

Credit Outlook and Direction

2019 results were lackluster with reported EBIT lower by 22.7% y/y to SGD60.9mn due to declines in real estate segment (-59.4% y/y to SGD22.3mn) though financial service (+41.2% y/y to SGD30.8mn) and jewellery (turned from loss of SGD2.4mn to profit of SGD2.4mn) performed better. COVID-19 is expected to impact the property segment, which should weigh on sales and delay settlements especially for Australia 108, which is 94% completed as of end Feb 2020. The jewellery business is also likely to be impacted due to closure of retail outlets from circuit breaker and weaker consumer sentiments. Only the financial service business segment which includes pawnbroking is expected to be stable.

Aside from lackluster results, liquidity remains the primary concern. Following the maturity of ASPSP 5.3% '20s, likely financed by cash of SGD146.2mn and issuance of SGD50mn ASPSP 6.5% '23s, another ~SGD700mn remains to be repaid in 2020 (including SGD150mn ASPSP 5.25% '20s). Excluding Maxi-Cash's SGD251.9mn short term debt, more than SGD400mn debt remains on Aspial. As such, Aspial will be reliant on the successful handover of Australia 108, which faces settlement risks due to COVID-19. We think Aspial may have to turn to external financing if bankers are not supportive to rollover debt. Meanwhile, net gearing remains elevated at 2.36x.

Bond Recommendation

Although the yield to maturity looks high and we note that Aspial has been progressively paying off bonds as they mature, we stay Neutral on ASPSP 5.9% '21 as we do not have firm visibility of cashflows going into next year.

Relative Value

Bond	Issuer Profile	Maturity/Next Call Date	Ask YTW	Spread	Recommen-dation
ASPSP 5.9% '21	Negative (6)	19/04/2021	16.3%	1601bps	N
ASPSP 6.25% '21	Negative (6)	11/10/2021	N/A	N/A	N/A
ASPSP 6.5% '23	Negative (6)	20/03/2023	N/A	N/A	N/A

Indicative prices as at 2 Jul 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	5.21	7.39	11.70
Net margin (%)	1.19	4.13	3.31
Gross debt to EBITDA (x)	58.19	17.38	18.15
Net debt to EBITDA (x)	56.03	16.49	15.92
Gross Debt to Equity (x)	3.61	2.84	2.90
Net Debt to Equity (x)	3.47	2.69	2.54
Gross debt/total asset (x)	0.75	0.69	0.69
Net debt/total asset (x)	0.72	0.66	0.61
Cash/current borrowings (x)	0.07	0.11	0.17
EBITDA/Total Interest (x)	0.47	0.98	1.10

Source: Company, OCBC estimates

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables /putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

CapitaLand Ltd ("CAPL")

Issuer Profile: Neutral (3)

Ticker: CAPLSP

Background

CapitaLand Ltd ("CAPL") is Singapore's leading real estate company, with development and investments in retail, office, serviced residences and residential properties. Following the acquisition of Ascendas-Singbridge Pte Ltd ("ASB"), CAPL structured its business segments along (1) CL China, (2) CL Singapore and International (comprising CL Singapore, Malaysia, Indonesia, CL Vietnam & CL International), (3) CL India, (4) CL Lodging, (5) CL Financial (which includes stakes in REIT managers) and (6) Centres of Excellence. Listed on the SGX with a market cap of SGD15.2bn as at 2 July 2020, CAPL holds SGD82.3bn in total assets. CAPL is 51.0%-owned by Temasek.

Credit Outlook and Direction

CAPL's businesses in residential (19% of 2019's reported EBIT), retail (38%) and lodging businesses (13%) are impacted as a result of COVID-19. According to CAPL, 52 out of 485 hospitality properties were closed as of end Apr 2020, and we think that travel restrictions globally may continue to weigh on this sector. Residential sales in Singapore and Vietnam have slowed. While Singapore is emerging from the circuit breaker, it remains to be seen if retail footfall can catch up to pre-COVID levels. Meanwhile, the offices which are nearing completion have yet to reach full committed occupancy, including 79 Robinson Road (70% committed) and CapitaSpring (35% committed).

Despite the headwinds, we remain comfortable with CAPL. Its business parks and logistics, offices and multifamily segment should be relatively resilient. Credit metrics remain manageable for now with net gearing of 0.64x and SGD13.0bn of cash and available undrawn facilities. CAPL has also reported that funding costs have fallen due to lower interest rates.

Bond Recommendation

In general, CAPLSP curve trades slightly tight and we somewhat prefer CITSP curve for higher pickup.

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables /putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/Next Call Date	Ask YTW	Spread	Recommen-dation
CAPLSP 3.8% '24	Neutral (3)	28/08/2024	2.18%	167bps	N
CAPLSP 3.08% '27	Neutral (3)	19/10/2027	2.44%	169bps	UW
CAPLSP 3.15% '29	Neutral (3)	29/08/2029	2.75%	189bps	N
CAPLSP 3.65% PERP	Neutral (3)	17/10/2024	3.05%	253bps	N
CITSP 3% '24	Neutral (3)	17/01/2024	2.64%	219bps	OW
CITSP 3.78% '24	Neutral (3)	21/10/2024	2.54%	203bps	N
CITSP 3.48% '26	Neutral (3)	15/06/2026	2.81%	216bps	N
MINTSP 3.58% '29	Neutral (3)	26/3/2029	2.94%	211bps	N
MLTSP 3.65% PERP	Neutral (3)	28/3/2023	2.81%	170bps	UW
STHSP 3.95% PERP	Neutral (3)	16/6/2022	3.20%	287bps	N

Indicative prices as at 2 Jul 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	36.32	41.29	40.55
Net margin (%)	50.81	50.87	54.75
Gross debt to EBITDA (x)	12.93	10.22	12.43
Net debt to EBITDA (x)	9.29	8.03	9.99
Gross Debt to Equity (x)	0.68	0.71	0.78
Net Debt to Equity (x)	0.49	0.56	0.63
Gross debt/total asset (x)	0.35	0.37	0.38
Net debt/total asset (x)	0.25	0.29	0.31
Cash/current borrowings (x)	2.23	1.58	1.56
EBITDA/Total Interest (x)	3.45	3.63	2.73

Source: Company, OCBC estimates

CapitaLand Integrated Commercial Trust ("CICT")

Issuer Profile:
Positive (2) / Neutral (3)

Ticker:
CAPITA / CCTSP

Background

CapitaLand Integrated Commercial Trust ("CICT") will be the merged entity of CapitaLand Mall Trust ("CMT", Issuer profile: Positive (2)) and CapitaLand Commercial Trust ("CCT", Issuer profile: Neutral (3)). Specifically, CCT will be held as a sub-trust of CMT. CICT will hold a portfolio of 24 office, retail and integrated properties including Raffles City Singapore, Asia Square Tower 2 and CapitaGreen valued at SGD22.9bn as at 31 December 2019. CICT will also own an 11.0% interest in CapitaLand Retail China Trust ("CRCT", Issuer profile: Neutral (4)), a SGX-listed China retail REIT and 10.9% of MRCB-Quill REIT, a commercial REIT listed in Malaysia. CICT will be managed by CapitaLand Mall Trust Management Ltd, while the sub-trust CCT will be managed by CapitaLand Commercial Trust Management Ltd. Both are wholly owned subsidiaries CapitaLand Ltd ("CAPL", Issuer Profile: Neutral (3)). CAPL has a 28.46% stake in CMT and a 39.50% stake in CCT.

Credit Outlook and Direction

While the Extraordinary General Meeting for the proposed merger has yet to be conducted, our base case assumption is that the merger will go through. As such, our calculation would be based on 1Q2020 figures of the CMT and CCT. We estimate that aggregate leverage of the combined entity to be higher at ~38.7% (1Q2020: CMT – 33.3%, CCT – 35.5%) due to the additional ~SGD1.0bn debt drawn to fund the cash portion that will be used to pay CCT unitholders and EBITDA/Interest to remain above 4.0x handle. While CICT has ~SGD425mn of short term borrowings against a cash balance of SGD278mn, more than 95% of its assets are unencumbered. Therefore, we think CICT has the financial flexibility to refinance these borrowings with bank debt if need be. **We expect CICT's Issuer Profile to be at Neutral (3) upon completion of the EGM, though we see room for its credit profile to improve within the next 12 months** on the back of organic growth through its strong positioning as the largest REIT in Singapore and unlocking value through redevelopments/asset enhancement initiatives.

Bond Recommendation

While we are broadly neutral on CCTSP and CAPITA curves, we like CCTSP 3.17% '24s. We think it looks interesting and offers better value relative to peers at 190bps i-spread.

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity	Ask YTW	Spread	Recommen-dation
CCTSP 2.96% '21	Neutral (3)	13/08/2021	1.66%	138bps	N
CCTSP 2.77% '22	Neutral (3)	04/07/2022	1.99%	167bps	N
CAPITA 2.8% '23	Positive (2)	13/03/2023	2.01%	163bps	N
CAPITA 3.2115% '23	Positive (2)	09/11/2023	2.05%	162bps	N
CCTSP 3.17% '24	Neutral (3)	05/03/2024	2.36%	190bps	OW
CAPITA 3.48% '24	Positive (2)	06/08/2024	2.22%	172bps	UW
CCTSP 3.327% '25	Neutral (3)	21/03/2025	2.32%	177bps	N
CAPITA 3.2% '25	Positive (2)	21/08/2025	2.35%	177bps	N
CAPITA 3.15% '26	Positive (2)	11/02/2026	2.49%	186bps	N
CAPITA 3.5% '26	Positive (2)	25/02/2026	2.47%	185bps	N
CAPITA 2.88% '27	Positive (2)	10/11/2027	2.62%	187bps	N
CAPITA 3.35% '31	Positive (2)	07/07/2031	3.02%	207bps	N

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	CMT FY2018	CMT FY2019	CMT 1Q2020	CCT FY2018	CCT FY2019	CCT 1Q2020
EBITDA margin (%)	63.86	64.28	66.08	74.84	72.66	72.11
Net margin (%)	97.02	88.58	61.04	132.72	105.71	78.24
Gross debt to EBITDA (x)	8.14	7.06	6.79	8.87	9.38	9.44
Net debt to EBITDA (x)	7.00	6.66	6.55	8.27	8.69	8.94
Gross Debt to Equity (x)	0.49	0.46	0.47	0.38	0.39	0.39
Net Debt to Equity (x)	0.42	0.43	0.45	0.35	0.36	0.37
Gross debt/total asset (x)	0.34	0.30	0.31	0.27	0.28	0.28
Net debt/total asset (x)	0.30	0.29	0.30	0.25	0.26	0.26
Cash/current borrowings (x)	0.96	0.77	0.19	1.45	4.81	0.75
EBITDA/Total Interest (x)	4.54	4.27	4.69	3.49	4.33	4.61

Source: Company, OCBC estimates

CapitaLand Retail China Trust ("CRCT")

Issuer Profile:	Ticker:
Neutral (4)	CRCTSP

Background

CapitaLand Retail China Trust ("CRCT"), listed on the SGX in 2006, is the first pure-play China shopping mall REIT in Singapore. CRCT has a market cap of SGD1.5bn as at 3 July 2020. As at 31 March 2020, CRCT owns a portfolio of 14 shopping malls located across nine cities in China, including (1) Yuquan Mall which is undergoing fit-out works and is targeted to open by end-2020, (2) CapitaMall Saihan (currently owned by CRCT) which will be handed over to the new owner after Yuquan Mall is operational and (3) CapitaMall Erqi which has been divested on 28 May 2020. Post the portfolio reconstitution, CRCT will hold a portfolio of 12 assets (i.e. excluding CapitaMall Erqi and CapitaMall Saihan) with a total valuation of RMB17.2bn (~SGD3.5bn). CapitaLand Group has a 35.45% effective stake in CRCT, which comprise a 24.54% stake held by CapitaLand Ltd, its Sponsor ("CAPL", Issuer profile: Neutral (3)) and a 10.91% stake held by CapitaLand Mall Trust ("CMT", Issuer profile: Positive (2)).

Credit Outlook and Direction

CRCT has performed well in 2019, with EBITDA up by 12.3% y/y to SGD150.0mn due to new contributions from CapitaMall Xuefu, Yuhuating and Aidemengdun which were acquired on 30 August 2019 and rental growth from the multi-tenanted malls. 1Q2020 though saw the Chinese government closing malls to contain COVID-19, followed by gradual reopening about two months later. CRCT has extended rental rebates of ~SGD23.4mn (34% rebates per month over a quarter) to tenants. Although shopper traffic has doubled and tenants' sales have tripled m/m in March, the pace of the recovery remains uncertain. CRCT also has significant expiring leases in the remaining of 2020 (30% of total rental income). Aggregate leverage has improved to 35.8% as at 31 March 2020 (4Q2019: 36.7%). CRCT has just SGD87.0mn of borrowings coming due this year. Given 90.3% of its assets (excluding share of JV assets) remain unencumbered, we see CRCT's Issuer Profile at Neutral (4) as appropriate and **expects its credit profile to be stable within the next 12 months**.

Bond Recommendation

We are neutral on CRCTSP'22. We think the yield of 2.15% is fair.

Issues outstanding

Senior secured

Senior unsecured bullets

Senior unsecured callables/putable

Senior corporate perpetuals

Subordinated corporate perpetuals

Tier 2 bank capital

Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity	Ask YTW	Spread	Recommen-dation
CRCTSP 3.25% '22	Neutral (4)	04/07/2022	2.15%	183bps	N
MAGIC 3.43% '22	Neutral (4)	09/03/2022	3.07%	276bps	OW
MAGIC 3.96% '22	Neutral (4)	09/11/2022	3.28%	293bps	OW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	59.77	59.96	62.97
Net margin (%)	62.42	57.23	69.96
Gross debt to EBITDA (x)	5.46	7.77	9.41
Net debt to EBITDA (x)	4.10	6.47	8.48
Gross Debt to Equity (x)	0.48	0.66	0.75
Net Debt to Equity (x)	0.36	0.55	0.68
Gross debt/total asset (x)	0.28	0.35	0.37
Net debt/total asset (x)	0.21	0.29	0.33
Cash/current borrowings (x)	N.A	1.08	0.66
EBITDA/Total Interest (x)	5.84	4.92	4.11

Source: Company, OCBC estimates

China Aoyuan Group Limited ("CAPG")

Issuer Profile:	Ticker:
Negative (6)	CAPG

Background

China Aoyuan Group Limited ("CAPG") is listed on the Hong Kong Stock Exchange ("HKSE"). As at 1 July 2020, CAPG has a market cap of HKD25.3bn (~SGD4.5bn). CAPG focuses on property development mainly in China. Headquartered in Guangzhou City, CAPG has an established position in the Greater Bay Area. Mr Guo Zi Wen, CAPG's Chairman is the largest shareholder in CAPG with a ~55%-deemed interest in the company. CAPG still owns a ~54.6%-stake in Aoyuan Healthy Life Group Company Limited ("Aoyuan Healthy"), a property management services company which was spun-off from CAPG in March 2019 and separately listed on the HKSE. Aoyuan Healthy's market cap was HKD6.8bn (~SGD1.2bn) as at 21 May 2020. CAPG is incorporated in the Cayman Islands. The SGD-bond is issued by the listed entity CAPG and guaranteed by certain existing subsidiaries other than those organized under Chinese law.

Credit Outlook and Direction

For 5M2020, CAPG's unaudited property contracted sales were ~RMB33.28bn (5M2019: RMB38.33bn), down 13.2% y/y. Reported revenue and gross profit was RMB50.5bn (up 63% y/y) and RMB15.0bn (up 55.9% y/y) respectively in 2019. The increase was driven by the 57.9% y/y increase in gross floor area ("GFA") of delivered properties to 5.21 million sqm while average selling price increased by 2.4% y/y. EBITDA (based on our calculation which does not include other income and other expenses) was up 63.8% y/y to RMB10.8bn, although cash interest expense was up 90.5% y/y at RMB6.8bn in 2019, resulting in an EBITDA/Cash interest coverage ratio of 1.6x. Including lease liabilities, as at 31 December 2019, unadjusted gross gearing, was 2.6x (30 June 2020: 2.2x). Unadjusted gross debt-to-property assets (we take investment properties and properties for sale) as at 31 December 2019 was 0.57x (30 June 2019: 0.54x). **We lowered CAPG's issuer profile to Negative (6) in June 2020 though expect its credit profile to be stable within 12 months from here**. There exist significant amounts due to non-controlling interest, associates and joint ventures (RMB22.8bn as at 31 December 2019), and while only a small portion of this is interest bearing, the rest are still repayable on demand. Aside from guarantees on mortgages (common across Chinese property developers), CAPG has provided RMB8.0bn in guarantees on credit facilities granted to joint ventures. CAPG has a high proportion of non-controlling interest (along with other matters) which has come under the spotlight in recent months, though the company clarified and denied allegations of an anonymous short seller report. We expect CAPG to refinance a large part of short term debt coming due as cash has competing uses. Continued access to the Asiadollar high yield market would be important for CAPG's refinancing.

Bond Recommendation

We are neutral the CAPG 7.15% '21s which has a near put date in September 2020. We expect investors to put the bonds back to company.

Relative Value

Bond	Issuer Profile	Maturity/ Put Date	Ask YTM	Spread	Recommen-dation
CAPG 7.15% '21	Negative (6)	07/09/2020	n.m	n.m	N
CAPG 7.5% '21-USD	Negative (6)	10/05/2021	5.17%[1]	491bps[1]	NA
LOGPH 6.125% '21	Unrated	16/04/2021	3.12%	286bps	NA

Indicative prices as at 3 July 2020
Note: (1) Ask YTM and spread in SGD-implied terms

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	17.99	21.24	21.35
Net margin (%)	10.21	9.48	10.33
Gross debt to EBITDA (x)	11.74	8.81	8.96
Net debt to EBITDA (x)	4.54	3.34	3.58
Gross Debt to Equity (x)	1.49	1.89	2.61
Net Debt to Equity (x)	0.58	0.72	1.05
Gross debt/total asset (x)	0.32	0.31	0.33
Net debt/total asset (x)	0.12	0.12	0.13
Cash/current borrowings (x)	1.21	1.51	1.38
EBITDA/Total Interest (x)	1.61	1.66	1.45

Source: Company, OCBC estimates

City Developments Ltd ("CDL")

Issuer Profile:
Neutral (3)

Ticker:
CITSP

Background

Listed in 1963, City Developments Ltd ("CDL") is an international property and hotel conglomerate. CDL has three core business segments – property development, hotel operations and investment properties. CDL's hotel operations are conducted through its wholly owned subsidiary, Millennium & Copthorne Hotels PLC ("M&C"), while the investment and development property portfolio is Singapore-centric. CDL is a subsidiary of Hong Leong Group Singapore, a conglomerate controlled by the Kwek family.

Credit Outlook and Direction

While 1Q2020 overall revenues and profits were not given, there was a slowdown in revenues from Singapore property development to SGD278.1mn (1Q2019: SGD516.3mn) due to lower sale value of projects. Due to the circuit breaker in Singapore, we believe that home sales continued to slow in 2Q2020 and transaction volumes may remain somewhat subdued for the remainder of the year. We also note that home sales in overseas markets have similarly slowed. During the circuit breaker, CDL's retail tenants in Singapore were also affected. Meanwhile, hotel operations are severely impacted with 1Q2020 RevPar down 27.0% y/y and such weak results may persist as long as tourism is curbed globally.

Despite the weaker profile, credit metrics remain manageable with net gearing at 44%. Liquidity is ample with SGD3.3bn cash and committed/undrawn credit lines of SGD2.3bn well-exceeding SGD1.8bn of debt maturing in 2020. However, we are wary of significant acquisitions that CDL may potentially undertake, as we note that CDL is acquiring 51.01%-effective stake in Sincere for RMB4.39bn (SGD0.88bn).

Bond Recommendation

We like selected issues within the CITSP curve which trade at a somewhat higher spread. That said, we are mindful if CITSP undertake further significant acquisitions, which may pressure its credit profile.

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables /putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/Next Call Date	Ask YTW	Spread	Recommen-dation
CITSP 2.93% '21	Neutral (3)	24/03/2021	1.73%	147bps	N
CITSP 3.75% '22	Neutral (3)	06/07/2022	2.16%	183bps	N
CITSP 3.48% '23	Neutral (3)	03/04/2023	2.42%	204bps	OW
CITSP 2.8% '23	Neutral (3)	27/06/2023	2.37%	197bps	N
CITSP 3% '24	Neutral (3)	17/01/2024	2.64%	219bps	OW
CITSP 3.9% '24	Neutral (3)	21/03/2024	2.56%	210bps	N
CITSP 3.78% '24	Neutral (3)	21/10/2024	2.54%	203bps	N
CITSP 2.7% '25	Neutral (3)	23/01/2025	2.70%	216bps	OW
CITSP 2.3% '25	Neutral (3)	21/05/2025	N/A	N/A	N/A
CITSP 3.48% '26	Neutral (3)	15/06/2026	2.81%	216bps	N

Indicative prices as at 2 Jul 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	23.58	25.53	22.01
Net margin (%)	17.17	15.65	17.89
Gross debt to EBITDA (x)	5.58	5.87	13.14
Net debt to EBITDA (x)	1.40	3.75	9.44
Gross Debt to Equity (x)	0.43	0.52	0.88
Net Debt to Equity (x)	0.11	0.33	0.63
Gross debt/total asset (x)	0.26	0.30	0.43
Net debt/total asset (x)	0.07	0.19	0.31
Cash/current borrowings (x)	2.98	1.82	1.36
EBITDA/Total Interest (x)	6.29	6.46	3.26

Source: Company, OCBC estimates

CMA CGM SA ("CMACG") (Parent of Neptune Orient Lines)

Issuer Profile:
Negative (6)

Ticker:
CMACG / NOLSP

Background

CMA CGM is the fourth largest container liner in the world. The company serves 420 of the world's 521 commercial ports and operates on over 200 shipping routes. CMA CGM and its subsidiaries operate primarily in the international containerised transportation of goods and in the logistics business. Jacques R. Saadé and family control 74% of CMA CGM through Merit Corporation, while Yildirim Group holds the balance 26%. The Banque Publique d'Investissement ("Bpifrance"), an investment fund established by the French Government has 1 preference share, as well as bonds mandatorily redeemable into CMA CGM's ordinary shares at 31 Dec 2020 (~6% of enlarged ordinary share base). In June 2016, CMA CGM acquired Neptune Orient Lines Ltd ("NOL"). We use performance of CMA CGM (the parent) as a proxy for NOL's performance given that NOL has been delisted. While CMA CGM has not provided a corporate guarantee for NOL's existing bonds, NOL is a material operating subsidiary, and is likely to receive support from CMA CGM in our view.

Credit Outlook and Direction

In 1Q2020, EBITDA (before gains or losses on disposal of PPE and subsidiaries) was up 24.9% y/y on the back of operational efficiency, with EBITDA margin higher at 13.5% vs 10.5% a year ago and stable q/q. CMA CGM recorded a profit of USD55.6mn (vs net loss of USD53.3mn in 1Q2019), though this include a USD184.9mn gain from the disposal of terminals. Net gearing improved q/q to 3.33x from 3.46x at end 2019. Excluding liabilities under IFRS16, net gearing was 1.65x (4Q19: 1.78x). This was due to a larger cash balance (1Q2020: USD2.3bn vs 4Q2019: USD1.8bn) and lower debt (1Q2020: USD19.1bn vs 4Q2019: USD19.5bn). We note that the net gearing does not include the EUR1.05bn loan from a consortium of three banks that took place after quarter end. Of the debt CMA CGM has (excluding liabilities under IFRS16), USD2.6bn are short term. Including the recent EUR1.05bn loan, we estimate CMA CGM has ~USD3.5bn cash on hand which more than covers its short term debt. The recent loan has greatly improved CMA CGM's liquidity position in the short term. CMA CGM continues to fall within the Negative (6) Issuer Profile on account of its highly leveraged balance sheet though **we expect its credit profile to be stable within the next 12 months.**

Bond Recommendation

We are overweight NOLSP'20s and neutral on NOLSP'21s, as default risk has been significantly lowered by the additional EUR1.05bn loan CMA CGM received.

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity	Ask YTW	Spread	Recommen-dation
NOLSP 4.65% '20	Negative (6)	09/09/2020	6.24%	606bps	OW
NOLSP 4.4% '21	Negative (6)	22/06/2021	15.8%	1556bps	N

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2018	FY2019	1Q2020
EBITDA margin (%)	4.93	12.43	13.54
Net margin (%)	0.14	-0.76	0.77
Gross debt to EBITDA (x)	7.93	5.19	4.92
Net debt to EBITDA (x)	6.72	4.73	4.33
Gross Debt to Equity (x)	1.66	3.80	3.78
Net Debt to Equity (x)	1.41	3.46	3.33
Gross debt/total asset (x)	0.45	0.60	0.60
Net debt/total asset (x)	0.38	0.54	0.53
Cash/current borrowings (x)	1.37	0.43	0.51
EBITDA/Total Interest (x)	2.29	2.67	2.82

Source: Company, OCBC estimates

First Real Estate Investment Trust ("FIRT")

Issuer Profile:	Ticker:
Negative (6)	**FIRTSP**

Background

FIRT is a REIT that invests primarily in real estate used for healthcare and healthcare-related sectors. FIRT owns 20 properties (12 hospitals, two integrated hospitals & malls and one integrated hospital & hotel and a hotel & country club in Indonesia, three nursing homes in Singapore and one hospital in South Korea), with a total of gross floor area of 350,850 sqm. Listed on the Singapore Stock Exchange with a market cap of SGD557.6mn as at 1 July 2020. Investment properties totaled SGD1.3bn as at 31 December 2019. OUE Ltd ("OUE", Issuer profile: Neutral (5)) has a ~19%-deemed ownership stake in FIRT while PT Lippo Karawaci Tbk ("LK"), FIRT's original sponsor and main tenant has fully divested its direct stakes in FIRT. FIRT is incorporated Singapore. Upon a trustee replacement in November 2017, the SGD perpetuals are issued by Perpetual (Asia) Limited ("Perpetual"), in its capacity as trustee of FIRT.

Credit Outlook and Direction

In 1Q2020, gross revenue was up by 0.8% y/y to SGD28.9mn while net property income ("NPI") was up by 0.6% y/y to SGD28.2mn, mainly due to higher variable rental component for its Indonesian properties. For 4Q2019, EBITDA (based on our calculation which does not include other income and other expenses) was down 0.7% y/y to SGD25.4mn though finance cost was significantly lower by 11.3% y/y to SGD5.2mn, EBITDA/Interest was thus higher at 4.8x (4Q2018: 4.3x). As at 31 December 2019, FIRT's reported aggregate leverage was 34.5% and ~37%, adjusting 50% of the perpetual as debt. No debt is due until 2021. PT Lippo Karawaci Tbk ("LK"), FIRT's main tenant unilaterally announced that as a result of the COVID-19 outbreak in Indonesia and its material negative impact on PT Siloam International Hospitals Tbk ("Siloam"), a ~55%-owned subsidiary of LK, LK will be initiating a restructuring process with FIRT with regards to the significant rental support that LK provides to FIRT. While LK is the tenant, FIRT's Indonesian hospitals, which form the lion share of income, is operated by Siloam, a well-regarded hospital group in Indonesia where assets owned by FIRT are integral to its operations. **We expect FIRT's credit profile to be weaker within 12 months though are maintaining our issuer profile of Negative (6) for now**. It is not yet clear what the outcome of such restructuring is although leases on five properties come due in 2021. The depreciation of IDR against SGD has become an additional issue that FIRT has to contend with in relation to counterparty credit risk of LK (LK's main income stream is in IDR though pays fixed base rent to FIRT in SGD).

Bond Recommendation

We prefer the LMRTSP 7.0%-PERP over the FIRSTSP 5.68%-PERP as the former allows a pick-up of ~92bps. We do not expect either to call at first call.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
FIRTSP 5.68%-PERP	Negative (6)	08/07/2021	6.74%	569bps	UW
LMRTSP 7.0%-PERP	Negative (6)	27/09/2021	7.69%	659bps	N

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	88.47	88.24	87.67
Net margin (%)	66.16	65.30	42.43
Gross debt to EBITDA (x)	4.85	4.84	4.81
Net debt to EBITDA (x)	4.69	4.57	4.49
Gross Debt to Equity (x)	0.56	0.57	0.57
Net Debt to Equity (x)	0.54	0.54	0.53
Gross debt/total asset (x)	0.33	0.35	0.34
Net debt/total asset (x)	0.32	0.33	0.32
Cash/current borrowings (x)	0.08	0.25	NA
EBITDA/Total Interest (x)	5.51	4.74	4.96

Source: Company, OCBC estimates

Fraser and Neave Ltd ("FNN")

Issuer Profile:
Neutral (4)

Ticker:
FNNSP

Background
Listed on SGX with a market cap of SGD2.0bn as of 2 Jul 2020, Fraser and Neave Ltd ("FNN") is a consumer group primarily engaged in Food & Beverage ("F&B"). FNN is an F&B market leader in Southeast Asia, with brands including 100Plus, F&N Nutrisoy, F&N Seasons, F&N Magnolia and Farmhouse. FNN also owns a Publishing and Printing ("P&P") business ("P&P"), which include Marshall Cavendish and Times Publishing. FNN owns 55.5% stake in Fraser & Neave Holdings Bhd and ~20% stake in Vietnam Dairy Products JSC ("Vinamilk"). FNN is owned by TCC Assets Ltd (59.2%) and Thai Beverage (28.4%), both linked to Thai billionaire Mr. Charoen.

Credit Outlook and Direction
FNN reported decent 1HFY2020 results with revenue growing 4.8% y/y to SGD976.7mn due to growth in Beverages (+2.8% y/y to SGD241.1mn) and Dairies (+7.3% y/y to SGD609.2mn). Looking ahead, we think growth could be somewhat pressured arising from COVID-19, for example with lower consumption of 100Plus due to fewer outdoor activities. That said, we think the impact should be manageable as several off-trade channels saw growth which mitigated the loss of revenue from closure of certain customer channels. Also, operations are still continuing with F&B and printing plants continuing to operate through 3QFY2020.

We remain comfortable with FNN due to its healthy credit metrics, though net gearing has increased q/q to 18.6% (1QFY2020: 15.0%) due 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. That said, we will be wary if FNN utilizes its balance sheet for large-scale acquisitions.

Bond Recommendation
We like FNN for its healthy credit metrics and Overweight FNNSP '27s which still provide over 3% yield.

Issues outstanding
Senior secured
Senior unsecured bullets
Senior unsecured callables /putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/Next Call Date	Ask YTW	Spread	Recommen-dation
FNNSP 3.09% '22	Neutral (4)	23/03/2022	2.10%	178bps	N
FNNSP 2.8% '22	Neutral (4)	22/08/2022	2.25%	191bps	N
FNNSP 3.8% '27	Neutral (4)	21/04/2027	3.38%	265bps	OW
FCTSP 3.2% '23	Neutral (4)	11/05/2023	2.36%	198bps	N
FCTSP 2.77 '24	Neutral (4)	8/11/2024	2.96%	244bps	OW
FHREIT 2.63 '22	Neutral (4)	6/07/2022	3.75%	342bps	N/A
FHREIT 3.08% '24	Neutral (4)	8/11/2024	4.14%	362bps	N/A
FPLSP 4.15% '27	Neutral (5)	23/0/2/2027	3.86%	315bps	OW

Indicative prices as at 2 Jul 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2018	FY2019	1H2020
EBITDA margin (%)	9.48	11.13	12.71
Net margin (%)	9.85	11.16	10.81
Gross debt to EBITDA (x)	5.01	3.92	3.56
Net debt to EBITDA (x)	1.96	1.93	2.56
Gross Debt to Equity (x)	0.28	0.25	0.26
Net Debt to Equity (x)	0.11	0.12	0.19
Gross debt/total asset (x)	0.19	0.18	0.18
Net debt/total asset (x)	0.08	0.09	0.13
Cash/current borrowings (x)	1.42	45.56	7.08
EBITDA/Total Interest (x)	5.70	9.77	9.90

Source: Company, OCBC estimates

Frasers Centrepoint Trust ("FCT")

Issuer Profile: Neutral (4)

Ticker: FCTSP

Background

Frasers Centrepoint Trust ("FCT") is a pure-play suburban retail REIT in Singapore listed on the SGX in July 2006. As at 3 July 2020, FCT had a market cap of SGD2.6bn while its portfolio value was SGD2.85bn as at 30 September 2019. FCT's portfolio comprises seven suburban retail malls in Singapore - Causeway Point, Northpoint City (North Wing), Waterway Point (40%-stake), Changi City Point, YewTee Point, Bedok Point and Anchorpoint. FCT also owns a 31.15% stake in Malaysia-listed Hektar REIT ("H-REIT", a retail focused REIT) and 36.89% stake in PGIM Asia Real Estate Fund ("ARF") which owns, among others, five suburban retail properties in Singapore. The five assets are Tiong Bahru Plaza, Century Square, Hougang Mall, White Sands Mall and Tampines 1. FCT is sponsored by Frasers Property Ltd ("FPL", Issuer Profile: Neutral (5)), which holds a 36.44% interest in FCT. Combined with FPL's 63.1% stake in ARF, the Group fully owns ARF.

Credit Outlook and Direction

For financial period 1 October 2019 to 31 March 2020 ("YTDFY2020"), EBITDA fell by 3.2% y/y to SGD61.2mn. Profit before tax though was up by 24.8% y/y to SGD67.5mn due to contributions from share of results of associates and joint ventures, particularly relating to its 24.8% in PGIM ARF and 40%-stake in Waterway Point. EBITDA/Interest was 4.6x based on our calculation (down from 5.8x a year ago), with aggregate leverage at 36.2% post the acquisition of additional stakes in ARF. While FCT's credit metrics remain manageable, we had earlier lower its issuer profile to Neutral (4) from Neutral (3) in April 2020 on the back of weak operating retail environment as a result of the outbreak of COVID-19 and the measures put in place by the government to significantly reduce people movement. **From here, we see FCT's credit profile as stable within the next 12 months** with the Neutral (4) issuer profile as appropriate even under our worst case scenario where FCT records negative rental reversion and prolonged low occupancy rate.

Bond Recommendation

We like FCTSP '24s as it is offering 2.96% yield to maturity for a ~4 year tenor, which is much more attractive than FCTSP'23s in our view.

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity	Ask YTW	Spread	Recommen-dation
FCTSP 3.2% '23	Neutral (4)	11/05/2023	2.36%	198bps	N
FCTSP 2.77% '24	Neutral (4)	08/11/2024	2.96%	244bps	OW
SUNSP 3.4% '23	Neutral (4)	10/05/2023	2.65%	226bps	N
SUNSP 2.85% '23	Neutral (4)	02/08/2023	2.71%	232bps	OW
SUNSP 3.355% '25	Neutral (4)	07/02/2025	3.11%	257bps	OW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE September	FY2018	FY2019	YTDFY2020
EBITDA margin (%)	62.11	61.47	61.20
Net margin (%)	86.28	104.87	74.05
Gross debt to EBITDA (x)	6.77	8.61	9.35
Net debt to EBITDA (x)	6.58	8.51	8.49
Gross Debt to Equity (x)	0.42	0.42	0.46
Net Debt to Equity (x)	0.41	0.42	0.42
Gross debt/total asset (x)	0.29	0.29	0.31
Net debt/total asset (x)	0.28	0.28	0.28
Cash/current borrowings (x)	0.10	0.04	0.29
EBITDA/Total Interest (x)	5.99	4.90	4.58

Source: Company, OCBC estimates

Frasers Hospitality Trust ("FHREIT")

Issuer Profile: Neutral (4)

Ticker: FHREIT

Background

Frasers Hospitality Trust ("FHREIT") is a stapled group comprising a REIT and Business Trust. As at 1 July 2020, FHREIT's market cap was SGD893mn. FHREIT invests in hospitality assets globally (except Thailand) and currently owns 15 properties across 9 cities with 3,913 keys. As at 31 December 2019, total assets stood at SGD2.5bn. It is sponsored by Frasers Property Limited, a major Singapore-based property developer. FPL owns a deemed 25.2%-stake in FHREIT while TCC Group Investments Limited holds a 37%-stake. Both FPL and TCC are entities controlled by the Sirivadhanabhakdi family (deemed interest in FHREIT at ~62%). FHREIT is incorporated in Singapore. The SGD perpetual are issued by Perpetual (Asia) Limited in its capacity as the trustee of FHREIT while the SGD bonds are issued by FH-REIT Treasury Pte. Ltd. guaranteed by Perpetual (Asia) Limited in its capacity as the trustee of FHREIT.

Credit Outlook and Direction

For the second quarter results for the financial year ending September 2020 ("2QFY2020"), gross revenue was down by 41.5% y/y to SGD20.2mn while net property income ("NPI") was down by 52.0% y/y to SGD12.1mn. The fall was driven by all of FHREIT's markets except Germany (under master lease agreement with a third party). Australia was the largest contributor to FHREIT at 44% of NPI while Singapore contributed 18% to NPI. As at 31 March 2020, FHREIT's reported aggregate leverage was 36.0% and ~38% if we assume 50% of the perpetual as debt. Short term debt coming due at FHREIT is minimal at SGD55mn. With COVID-19 hitting occupancy and negatively impacting income, **we expect FHREIT's credit profile to be weaker within 12 months and are likely to downgrade the Issuer Profile if there are no material changes to the reopening of international borders in the near term.** We estimate total fixed rents of at least ~SGD49mn p.a. The fixed rent for the hospitality assets are under a corporate guarantee that is provided by FPL, and we see little risk that FPL would renege on these payments. SGD49mn is sufficient to cover interest expenses and perpetual distribution by 2.1x. We continue to see FHREIT's ability to pay the perpetual distribution as manageable given the fixed rents that it receives.

Bond Recommendation

We are Underweight the FHREIT 4.45%-PERP and do not expect the perpetual to be called at first call. Distribution rate may fall to 3.15% at that point.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
FHREIT 4.45% 'PERP	Neutral (4)	12/5/2021	3.47%[2]	236bps	UW
FHREIT 2.63% '22	Neutral (4)	6/7/2022	3.75%	343bps	N
ARTSP 3.065%-PERP[1]	Neutral (4)	30/12/2020	3.55%[2]	246bps	UW
ARTSP 4.205% '22	Neutral (4)	23/11/2022	2.63%	229bps	UW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC
Note: (1) ARTSP 3.065%-PERP is the ARTSP 4.68%-PERP which had been reset lower
(2) Yield-in-perpetuity

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here and here for recent write-ups on the issuer.

Key Ratios

FYE September	FY2018	FY2019	1H2020
EBITDA margin (%)	66.77	66.19	63.25
Net margin (%)	42.67	34.55	36.77
Gross debt to EBITDA (x)	8.02	8.62	11.13
Net debt to EBITDA (x)	7.28	7.76	9.74
Gross Debt to Equity (x)	0.54	0.58	0.61
Net Debt to Equity (x)	0.49	0.52	0.53
Gross debt/total asset (x)	0.33	0.35	0.36
Net debt/total asset (x)	0.30	0.31	0.31
Cash/current borrowings (x)	0.19	3.40	1.99
EBITDA/Total Interest (x)	5.05	4.84	4.03

Source: Company, OCBC estimates

Frasers Property Ltd ("FPL")

Issuer Profile: Neutral (5)

Ticker: FPLSP

Background

Frasers Property Ltd ("FPL") is a leading Singapore developer by total assets (SGD38.7bn as of end-Mar 2020) and market cap of SGD3.6bn as at 2 Jul 2020. The core geographies are Singapore (Total assets: SGD14.9bn), Australia (SGD7.9bn) and Europe (SGD7.0bn) while FPL also have a significant presence in Thailand, China, UK and Vietnam. Sponsored REITs include Frasers Centrepoint Trust ("FCT"), Frasers Hospitality Trust ("FHT") and Frasers Logistics & Commercial Trust (which is the surviving entity of Frasers Logistics Trust and Frasers Commercial Trust). Entities related to the Sirivadhanabhakdi family (of Thailand's TCC Group) control ~87% of FPL's stock.

Credit Outlook and Direction

While 2QFY2020 results looked decent with reported PBIT before fair value change and exceptional items rising 18.9% y/y to SGD790.1mn, they were mainly buoyed by one-offs such as the addition of the PGIM Real Estate Asia Retail Fund and sale of land lots. Looking ahead, we believe FPL's segments Hospitality and Retail will weaken due to COVID-19, which account for 6% and 23% of total property assets respectively. Development segment (which account for 19% of total property assets) should also see sales slow. Overall, "recurring income" is expected to fall from both the non-REIT and REIT segments, with payout ratios from Frasers Hospitality Trust and Frasers Centrepoint Trust trimmed.

Despite the weaker outlook with a somewhat elevated net gearing of 1.12x, we remain comfortable with FPL, as FPL may remain cashflow positive given recurring income from its industrial and office assets. Aside from SGD3.88bn of cash balance, we think that FPL should still retain access to financing, which should help FPL refinance a substantial portion of SGD4.67bn debt maturing in the coming 12 months. Meanwhile, FPL is reducing cash outflows by cutting operating expenses and deferring uncommitted capex while exploring sale of assets to its sponsored REITs or 3rd parties.

Bond Recommendation

Although credit metrics has weakened, we remain comfortable with FPL and Overweight the long-dated FPLSP curve.

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables /putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/Next Call Date	Ask YTW	Spread	Recommen-dation
FPLSP 3.95% '21	Neutral (5)	07/10/2021	2.50%	220bps	N
FPLSP 4.25% '26	Neutral (5)	21/04/2026	3.94%	330bps	OW
FPLSP 4.15% '27	Neutral (5)	23/0/2/2027	3.86%	315bps	OW
FPLSP 3.95% PERP	Neutral (5)	05/10/2022	3.42%	231bps	UW
FPLSP 4.38% PERP	Neutral (5)	17/01/2023	4.32%	321bps	N
FPLSP 4.98% PERP	Neutral (5)	11/04/2024	4.81%	435bps	OW
GUOLSP 4% '22	Neutral (5)	31/01/2022	2.88%	257bps	N
GUOLSP 3.4% '25	Neutral (5)	10/08/2025	3.34%	276bps	N
GUOLSP 4.6% PERP	Neutral (5)	23/01/2023	3.77%	266bps	UW

Indicative prices as at 2 Jul 2020 Source: Bloomberg, OCBC

Key Ratios

FYE September	FY2018	FY2019	1H2020
EBITDA margin (%)	25.53	27.96	35.98
Net margin (%)	27.72	28.14	19.13
Gross debt to EBITDA (x)	13.56	16.41	13.28
Net debt to EBITDA (x)	11.21	13.03	10.75
Gross Debt to Equity (x)	1.02	1.08	1.38
Net Debt to Equity (x)	0.84	0.86	1.12
Gross debt/total asset (x)	0.46	0.46	0.53
Net debt/total asset (x)	0.38	0.37	0.43
Cash/current borrowings (x)	0.98	1.03	0.83
EBITDA/Total Interest (x)	2.78	2.04	2.94

Source: Company, OCBC estimates

Golden Agri-Resources Ltd ("GGR")

Issuer Profile: Neutral (5)

Ticker: GGRSP

Background

Golden Agri-Resources Ltd ("GGR") is a major integrated palm oil company. Operations include palm oil cultivation, crude palm oil ("CPO") and palm kernel processing and downstream refining to produce consumer products and biodiesel. GGR owns ~92%-stake in PT Sinar Mas Agro Resources and Technology Tbk, which contributed ~40% of GGR's total revenue in 1Q2020. GGR is ~50.5%-owned by the Widjaja family and is listed on the SGX with a market cap of SGD1.9bn as at 1 July 2020. While palm oil as a sector continues to face sustainability challenges (e.g.: Europe biofuel ban), it is a high yielding oilseed that is unlikely to lose its usage in the long term. GGR is part of the FTSE4Good index (inclusion since 2018), an index that takes into account of environmental, social and governance factors. GGR is incorporated in Mauritius while the bonds are issued by Golden Assets International Investment Pte Ltd, unconditionally and irrevocably guaranteed by GGR.

Credit Outlook and Direction

In its interim business update for 1Q2020, GGR shared that revenue was USD1.7bn and EBITDA of USD84mn, with output down 2.4% y/y to 614,000 MT, though we have seen levels lower than this in 2016. The company recorded net loss of USD95mn in 1Q2020 (1Q2019: net profit of USD18mn), negatively affected by USD35mn in foreign exchange losses and re-imposition of CPO export levy in 1Q2020. Per company, supply chain disruptions at destination markets have also caused delivery of products to be delayed while GGR also prioritized managing counterparty credit risks which limited sales volume in 1Q2020. 2019 EBITDA (based on our calculation) was USD447.5mn while interest expense was USD166.5mn, leading to an EBITDA/Interest coverage of 2.7x (2018: 2.6x). **We expect GGR's credit profile toto be stable at Neutral (5) within 12 months.** As at 31 December 2019, unadjusted net gearing (taking only unpledged cash and including lease liabilities) at GGR was 0.65x. Additionally, GGR provided corporate guarantees to financial intuitions on borrowings of its joint ventures (and entities owned by investees and joint ventures) amounting to USD514.0mn in end-2019. Assuming these as debt, we find GGR's adjusted net gearing at 0.83x in end-2019. As at end-2019, GGR faced USD1.8bn of short term debt, representing 60% of unadjusted gross debt. While high, it is not unusually large relative to GGR's recent history.

Bond Recommendation

While market liquidity of the GGRSP 4.75% '21s is thin, the bond has an ask YTM of 17.9% which in our view is overly punitive, especially given that it only has seven months to maturity.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommendation
GGRSP 4.75% '21	Neutral (5)	25/01/2021	17.92%	1,767bps	OW
OHLSP 5.7% '22	Negative (6)	31/01/2022	9.62%	930bps	OW

Indicative prices as at 3 July 2020 for GGRSP bonds and 2 July 2020 for OHLSP bonds
Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	7.79	6.03	6.96
Net margin (%)	1.05	0.03	3.31
Gross debt to EBITDA (x)	5.12	6.97	7.02
Net debt to EBITDA (x)	4.84	6.52	6.56
Gross Debt to Equity (x)	0.73	0.70	0.70
Net Debt to Equity (x)	0.69	0.65	0.65
Gross debt/total asset (x)	0.37	0.35	0.36
Net debt/total asset (x)	0.35	0.33	0.33
Cash/current borrowings (x)	0.09	0.13	0.11
EBITDA/Total Interest (x)	4.20	2.64	2.69

Source: Company, OCBC estimates

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

GuocoLand Ltd ("GUOL")

Issuer Profile:
Neutral (5)

Ticker:
GUOLSP

Background

Listed on the SGX in 1978 with a market cap of SGD1.8b as at 2 Jul 2020, GuocoLand Ltd ("GUOL") is a property developer headquartered in Singapore, with investments in residential properties, commercial properties and integrated developments. GUOL's properties are located primarily in Singapore (e.g. Guoco Tower, Guoco Midtown) though there is also exposure to China, Malaysia and Vietnam. GUOL is a 69.2%-owned subsidiary of Guoco Group Ltd, which is listed on the HKSE. Guoco Group is in turn a member of the Hong Leong Group Malaysia, one of the largest conglomerates in South East Asia, which is controlled by the Quek family.

Credit Outlook and Direction

2QFY2020 results were strong with revenue rising 110% y/y to SGD299.6mn and net profit surging to SGD26.4mn (2QFY2019: SGD7.4mn) due to strong property sales. However, we believe that COVID-19 will have a significant negative impact going forward, with lower transaction volumes and softer prices. GUOL has yet to fully sell several developments including Meyer Mansion, Midtown Bay, Pacific Mansion and Tan Quee Lan Street, and we think it will be a bigger challenge to sell going forward. Property leasing demand will likely weaken, which we think may somewhat impact rental income generated by Guoco Tower.

That said, we remain comfortable with GUOL though its net gearing is somewhat elevated at 97%. We believe that GUOL should still maintain access to financing to refinance the short term debt of SGD776.6mn. We still expect GUOL to generate cashflows from its existing pre-sales such as Wallich Residences and Guoco Tower may still generate ~SGD100mn recurring income p.a. In the worst case scenario, we believe GUOL can sell assets, such as Guoco Tower and 20 Collyer Quay.

Bond Recommendation

We think the GUOLSP curve looks somewhat tight in general and prefer the FPLSP curve.

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables /putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click <u>here</u> for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/Next Call Date	Ask YTW	Spread	Recommen-dation
GUOLSP 36.2% '21	Neutral (5)	30/03/2021	2.20%	193bps	UW
GUOLSP 4% '22	Neutral (5)	31/01/2022	2.88%	257bps	N
GUOLSP 3.85% '23	Neutral (5)	15/02/2023	3.09%	272bps	N
GUOLSP 3.4% '25	Neutral (5)	10/08/2025	3.34%	276bps	N
GUOLSP 4.6% PERP	Neutral (5)	23/01/2023	3.77%	266bps	UW
FPLSP 3.95% '21	Neutral (5)	07/10/2021	2.50%	220bps	N
FPLSP 4.25% '26	Neutral (5)	21/04/2026	3.94%	330bps	OW
FPLSP 3.95% PERP	Neutral (5)	05/10/2022	3.42%	231bps	UW

Indicative prices as at 2 Jul 2020 Source: Bloomberg, OCBC

Key Ratios

FYE June	FY2018	FY2019	1H2020
EBITDA margin (%)	17.72	23.67	24.48
Net margin (%)	33.85	31.03	12.14
Gross debt to EBITDA (x)	23.96	20.47	18.62
Net debt to EBITDA (x)	19.65	16.71	16.16
Gross Debt to Equity (x)	1.06	0.97	1.11
Net Debt to Equity (x)	0.87	0.79	0.97
Gross debt/total asset (x)	0.47	0.45	0.48
Net debt/total asset (x)	0.38	0.37	0.41
Cash/current borrowings (x)	0.54	2.89	0.89
EBITDA/Total Interest (x)	1.21	1.21	2.73

Source: Company, OCBC estimates

Heeton Holdings Ltd ("HHL")

Issuer Profile: Negative (6)

Ticker: HPLSP

Background

Heeton Holdings Ltd ("HHL") is a property company with assets and revenue predominantly in Singapore and UK. HHL focuses on property development, property investments and hospitality. HHL owns or holds stakes in 13 hospitality assets as of 31 Dec 2019, after having expanded rapidly following the initial entry in 2011. As of 2019, hospitality accounts for 55.7% of segment assets with the rest mainly accounted by property investments (17.1%) and property development (15.2%). The Toh family owns about 70% interest in HHL, which are represented by Heeton Investments Pte Ltd (27.88%), Hong Heng Co Pte Ltd (16.81%), Toh Giap Eng (12.64%), Toh Khai Cheng (6.79%) and Toh Gap Seng (5.83%). HHL is listed on the SGX with a market cap of SGD97.5mn as at 7 Jul 2020.

Credit Outlook and Direction

While 2019 results look decent with revenue rising 17.7% y/y to SGD64.8mn, this was driven by newly acquired hotels in 2018-19. The thrust towards hospitality turned out untimely as hospitality demand will likely be curbed in the near term, and we expect HHL's hospitality assets to deliver operating losses if occupancy remains depressed for a significant time. We note that the hospitality segment was not profitable in the first place, reporting negative SGD0.3mn of losses before tax in 2019 though this was likely due to the new hotels in the portfolio which may take time to stabilize.

We hold HHL at a Negative (6) Issuer Profile due to weak profitability, which should weaken further. HHL's investment properties, which used to provide recurring income, should see dampened incomes from Singapore's circuit breaker. Adjusted EBITDA (reported PBT before depreciation, interest and fair value changes) of SGD26.2mn is barely sufficient to cover SGD20.8mn in interest expense. Although investment properties and hospitality assets worth SGD648.9mn covers SGD509.2mn in gross debt, asset divestment may be tricky in today's environment. That said, we are not overly worried as liquidity is ample with cash and fixed deposits of SGD116.9mn covering short term debt of SGD94.9mn.

Bond Recommendation

Although HHL is significantly impacted by COVID-19, we are Overweight on HTONSP 6.08% '21 as its liquidity is ample for now while yields are higher than peers with similarly stretched credit metrics.

Relative Value

Bond	Issuer Profile	Maturity / Call Date	Ask YTW	Spread	Recommen-dation
HTONSP 6.08% '21	Negative (6)	19/07/2021	8.98%	870bps	OW
OHLSP 5.7% '22	Negative (6)	31/01/2022	9.62%	930bps	OW
CHIPEN 6% '22	Unrated	15/03/2022	8.80%	849bps	N/A
TSHSP 7.75% '22	Unrated	19/05/2021	7.16%	684bps	N/A
PREHSP 3.9% '21	Unrated	12/01/2021	N/A	N/A	Exercise delisting put
FRAG 6.125% '21	Unrated	26/04/2021	6.34%	607bps	N/A

Indicative prices as at 2 Jul 2020 Source: Bloomberg, OCBC

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables /putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	1.32	6.19	25.15
Net margin (%)	132.04	29.42	18.43
Gross debt to EBITDA (x)	386.04	94.95	31.24
Net debt to EBITDA (x)	355.76	79.44	27.32
Gross Debt to Equity (x)	0.71	0.77	1.16
Net Debt to Equity (x)	0.65	0.64	1.02
Gross debt/total asset (x)	0.36	0.38	0.48
Net debt/total asset (x)	0.33	0.32	0.42
Cash/current borrowings (x)	0.24	0.51	0.67
EBITDA/Total Interest (x)	0.06	0.19	0.78

Source: Company, OCBC estimates

Please click here for a recent write-up on the issuer.

OCBC Bank

Hong Fok Corp Ltd ("HFC")

Issuer Profile:	**Ticker:**
Neutral (5)	**HFCSP**

Background

Hong Fok Corp Ltd ("HFC") is an investment holding company listed on the SGX with a market cap of SGD589mn as at 3 July 2020. Its principal activities are property investment, property development, construction and property management. HFC's investment properties, The Concourse and International Building, total over 75,000 sqm by gross floor area. It also owns 610-room YOTEL. The Cheong family substantially controls HFC. Its top shareholders are Hong Fok Land International Ltd (20.95%), Cheong Sim Eng (13.52%), Cheong Kim Pong (11.77%) and P C Cheong Pte Ltd (11.33%).

Credit Outlook and Direction

For full year 2019, EBITDA fell by 11.9%y/y to SGD44.9mn due to lower contribution from sales of its development properties even though revenue from its investment properties has increased. Profit before tax fell significantly by 56.2% y/y to SGD119.8mn in part due to lower revaluation gains of investment properties and the absence of compensation income from its properties. Based on our calculation, EBITDA/interest was 1.47x (FY2018: 1.77x). Net gearing was 28.3%, down from 28.7% a year ago. We like that HFC has sufficient cash on hand (SGD40.4mn) to cover its short term borrowings (excluding lease liabilities) of just SGD0.7mn. Short term borrowings were minimal due to the maturity of HFCSP 4.75% '2019 (SGD120mn) which was redeemed on 22 March 2019. Therefore, its credit metrics remain intact and continue to fall within Neutral (5) Issuer Profile. We also **expect its credit profile to be stable within the next 12 months** despite the possible implications of COVID-19 such as lower occupancy rate at YOTEL Singapore Orchard Road as the hotel and tourism industry is directly impacted and slower sales of residential units of Concourse Skyline. Encouragingly, HFC still expects revenue recognized from sales of its residential units and contribution from its investment properties to remain positive.

Bond Recommendation

We are overweight HFCSP'22s because the yield of 4.82% for a 1 year 8 year tenor is attractive in our view given the manageable credit metrics.

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity	Ask YTW	Spread	Recommen-dation
HFCSP 4.2% '22	Neutral (5)	28/03/2022	4.82%	451bps	OW
METRO 4% '21	Neutral (4)	25/10/2021	3.97%	367bps	OW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	13.25	38.66	46.93
Net margin (%)	319.14	205.11	101.36
Gross debt to EBITDA (x)	86.13	15.32	14.74
Net debt to EBITDA (x)	80.67	14.33	13.98
Gross Debt to Equity (x)	0.36	0.31	0.30
Net Debt to Equity (x)	0.33	0.29	0.28
Gross debt/total asset (x)	0.26	0.23	0.23
Net debt/total asset (x)	0.24	0.21	0.21
Cash/current borrowings (x)	0.28	0.41	22.46
EBITDA/Total Interest (x)	0.37	1.79	1.74

Source: Company, OCBC estimates

HongKong Land Ltd ("HKL")

Issuer Profile:
Positive (2)

Ticker:
HKLSP

Background
Hongkong Land Holdings Limited ("HKL") was established in 1889 and listed in the London Stock Exchange, with secondary listings in Bermuda and Singapore. It is a leading Asian property investment, management and development group, with its main portfolio in Hong Kong where it owns and manages some 450,000 sq. m of prime property. HKL also has a number of high quality residential, commercial and mixed-use projects under development in cities across Greater China and Southeast Asia. In Singapore, its subsidiary, MCL Land, is a well-established residential developer. Its assets and investments are managed from Hong Kong and it is 50.41% owned by Jardine Matheson Holdings Ltd.

Credit Outlook and Direction
In 1Q2020, operating performance was negatively impacted by COVID-19. Areas impacted are contracted sales in the Development Properties business and retail rent in Investment Properties business. For Mainland China, sales offices for properties were closed and construction activities were suspended for about two months though operations have since resumed. Sales activity has started to recover in April, though yet to normalize. Elsewhere, market sentiments have become more cautious and contracted sales levels have been adversely impacted by subdued demand. For its Investment Properties business, vacancy rate for its retail and office properties have risen (Vacancy rate of Hong Kong Retail Portfolio: 1.4% vs 0.3% in previous quarter ended 31 December 2019, Hong Kong Office Portfolio: 4.3% vs 2.9%, Singapore Office Portfolio: 5.5% vs 5.0%). That said, HKL's overall financial position remains strong with sufficient liquidity to fund its ongoing commitments, with net debt at 31 March 2020 at USD3.9bn, up USD263mn (~7%) from end 2019. We note that net gearing at 31 December 2019 was 9%. We expect **HKL's credit profile to be stable within the next 12 months** with the Positive (2) issuer profile as appropriate despite headwinds as HKL has the financial flexibility to tide through the pandemic.

Bond Recommendation
We are neutral on the HKLSP'39s. We do not have a recommendation on HKLSP'38s because it is illiquid.

Relative Value

Bond	Issuer Profile	Maturity	Ask YTW	Spread	Recommen-dation
HKLSP 3.95% '38	Positive (2)	28/11/2038	NA	NA	NA
HKLSP 3.45% '39	Positive (2)	28/03/2039	3.26%	220bps	N

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Issues outstanding
Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	45.60	39.99	49.92
Net margin (%)	285.60	92.19	8.72
Gross debt to EBITDA (x)	4.67	4.63	4.33
Net debt to EBITDA (x)	2.85	3.34	3.10
Gross Debt to Equity (x)	0.11	0.13	0.13
Net Debt to Equity (x)	0.07	0.09	0.09
Gross debt/total asset (x)	0.10	0.11	0.11
Net debt/total asset (x)	0.06	0.08	0.08
Cash/current borrowings (x)	8.51	1.73	1.99
EBITDA/Total Interest (x)	5.83	5.89	5.62

Source: Company, OCBC estimates

Please click here for a recent write-up on the issuer.

Hotel Properties Ltd ("HPL")

Issuer Profile:	Ticker:
Neutral (4)	HPLSP

Background

Listed on the SGX with a market cap of SGD1.7bn as at 2 Jul 2020, the principal activities of Hotel Properties Ltd ("HPL") include hotel ownership, management and operation, property development and investment properties. As of Dec 2019, we estimate that hotels account for ~65% of HPL's total assets, with hospitality revenues split nearly evenly among (1) Singapore, (2) Maldives and (3) other parts of the world including rest of Asia and UK/Europe. Investment properties account for ~28% of HPL's total assets, which are mainly represented by retail malls in Singapore. Managing Director/cofounder Mr. Ong Beng Seng has 21.1% direct and 39.4% deemed interest in HPL while Wheelock and Co Ltd has 22.52% stake in HPL.

Credit Outlook and Direction

Past results are no longer a good guide as results are expected to be significantly impacted due to COVID-19, with HPL reporting that hotels are facing challenging market conditions. We expect weaker hospitality demand to persist for the coming quarters with global travel demand curbed and Singapore Tourism Board warning of steep declines in visitor arrivals. Retail is also expected to be impacted due to Singapore's circuit breaker and rental rebates provided by HPL. Property developments in the UK will likely face delays due to supply chain and labour disruptions.

While credit profile will invariably weaken, we continue to hold HPL at a Neutral (4) Issuer Profile, for now, as we believe HPL will be able to weather the storm given its manageable credit metrics (net gearing declined q/q to 32% as of 4Q2019 from 43%) while liquidity is sufficient with cash of SGD192.3mn against SGD156.6mn of short-term borrowings. SGD170mn was raised through the issuance of HPLSP 3.8% '25s, which should provide HPL with a buffer to tide through in the meantime. However, if tourism remains curbed for a significant time (e.g. beyond 2022), we may downgrade HPL's Issuer Profile.

Bond Recommendation

We are Overweight on HPLSP seniors as HPL's credit metrics are still manageable, which should tide it through the downturn for now. However, we are Underweight on HPL's perpetuals.

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables /putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/Next Call Date	Ask YTW	Spread	Recommen-dation
HPLSP 3.85% '21s	Neutral (4)	27/05/2021	2.76%	248bps	OW
HPLSP 3.8% '25s	Neutral (4)	02/06/2025	3.77%	321bps	OW
HPLSP 4.4% PERP	Neutral (4)	22/10/2024	4.02%	296bps	UW
HPLSP 4.65% PERP	Neutral (4)	05/05/2022	3.82%	271bps	UW t
SLHSP 4.5% '25s	Neutral (4)	12/11/2025	3.78%	319bps	N
ARTSP 4% '24s	Neutral (4)	22/03/2024	3.27%	281bps	UW
ARTSP 3.065% PERP	Neutral (4)	30/12/2020	3.57%	246bps	UW
ARTSP 3.88% PERP	Neutral (4)	04/09/2024	3.39%	228bps	UW

Indicative prices as at 2 Jul 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	21.91	22.83	22.38
Net margin (%)	27.91	21.52	9.83
Gross debt to EBITDA (x)	6.95	5.38	7.63
Net debt to EBITDA (x)	5.49	4.49	6.08
Gross Debt to Equity (x)	0.46	0.32	0.40
Net Debt to Equity (x)	0.36	0.26	0.32
Gross debt/total asset (x)	0.30	0.23	0.27
Net debt/total asset (x)	0.24	0.19	0.21
Cash/current borrowings (x)	1.09	1.24	1.23
EBITDA/Total Interest (x)	5.04	4.81	3.24

Source: Company, OCBC estimates

Keppel Corporation Limited ("KEP")

Issuer Profile:
Neutral (4)

Ticker:
KEPSP

Background

Listed in 1986, Keppel Corp Ltd ("KEP") is a diversified conglomerate operating in the real estate, offshore & marine ("O&M"), infrastructure, logistics, telecommunications, data centres and asset management sectors. As at 1 July 2020, KEP has a market cap of SGD10.9bn. Significant associates include Keppel REIT ("KREIT, Issuer profile: Neutral(4)), Sino-Singapore Tianjin Eco-City Investment and Development Co, Limited, Keppel DC REIT, and Floatel International Limited. KEP is currently ~21%-owned by Temasek though Temasek has announced a voluntary pre-conditional offer for KEP, which, if successful, would bring its shareholding of KEP to ~51%. The remaining shareholding is dispersed. The issuer KEP is incorporated in Singapore. The SGD-bonds are issued by KEP, the listed entity.

Credit Outlook and Direction

In 1Q2020, KEP's reported profit before tax ("PBT") was down 12.7% y/y to SGD246.8mn, despite a reclassification of Keppel Infrastructure Trust ("KIT", Issuer profile: Neutral (4)) as an investment, rather than associate, which saw KEP post a one-off gain of ~SGD131mn. KEP's EBITDA (based on our calculation) was SGD238.7mn, down 2.6% y/y despite the full quarter contribution from M1 in 1Q2020. On the back of higher interest expense from higher average debt balance, EBITDA/Interest coverage had compressed to 3.0x while unadjusted net gearing had inched up to 0.88x as at 31 December 2019. Two of KEP's associates whose operating performance is dependent on a robust crude oil environment are in debt restructuring. **In our view, KEP's credit profile may weaken further within the next 12 months driven by negative developments at its offshore and marine arm.** Despite possible impairments which could trigger the material adverse change clause and impede Temasek's offer for KEP, the Offeror has the discretion to waive this pre-condition. Our current base case assumes the deal will get done. Our issuer profile of Neutral (4) for KEP is on a standalone basis, without factoring further Temasek uplift and we shall continue assessing KEP as such despite the possible shareholding change.

Bond Recommendation

We are overweight both the callables KEPSP 4% '42c32 and KEPSP 3.8% '27c22.

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here and here for recent write-ups on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
KEPSP 3.145% '22	Neutral (4)	14/02/2022	2.01%	170bps	N
KEPSP 3.725% '23	Neutral (4)	30/11/2023	2.34%	192bps	UW
KEPSP 3.0% '24	Neutral (4)	07/05/2024	2.40%	194bps	UW
KEPSP 3.0% '26	Neutral (4)	01/10/2026	2.75%	210bps	UW
KEPSP 3.8% '27c22	Neutral (4)	23/04/2022	2.32%	201bps	OW
KEPSP 3.66% '29	Neutral (4)	07/05/2029	3.05%	222bps	UW
KEPSP 4.0% '42c32	Neutral (4)	07/09/2032	3.58%	261bps	OW
SCISP 2.94% '21	Neutral (4)	26/11/2021	1.68%	139bps	UW
SCISP 3.64% '24	Neutral (4)	27/05/2024	2.50%	203bps	N

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2018	FY2019	1Q2020
EBITDA margin (%)	13.23	15.17	12.85
Net margin (%)	16.03	10.04	8.76
Gross debt to EBITDA (x)	9.56	10.14	13.09
Net debt to EBITDA (x)	7.05	8.59	10.71
Gross Debt to Equity (x)	0.65	1.00	1.08
Net Debt to Equity (x)	0.48	0.85	0.88
Gross debt/total asset (x)	0.28	0.37	0.38
Net debt/total asset (x)	0.21	0.32	0.31
Cash/current borrowings (x)	1.34	0.39	0.42
EBITDA/Total Interest (x)	3.98	3.68	3.00

Source: Company, OCBC estimates

Keppel Infrastructure Trust ("KIT")

Issuer Profile:
Neutral (4)

Ticker:
KITSP

Background
Keppel Infrastructure Trust ("KIT") is structured as a Business Trust and domiciled in Singapore. The trust has nine assets across three main segments, namely Energy, Distribution & Network and Waste & Water. KIT is listed on the Singapore Stock Exchange with a market cap of SGD2.7bn as at 1 July 2020 and is Sponsored by Keppel Infrastructure Holdings Pte Ltd, the infrastructure holding company of Keppel Corp Ltd ("KEP"). KIT's Sponsor is also the largest unitholder holding a ~16.5%-stake. Tembusu Capital Pte Ltd holds a 12.3%-stake in the trust as the second largest unitholder. KIT is incorporated in Singapore and the perpetuals are issued by Keppel Infrastructure Fund Management Pte. Ltd. (in its capacity as trustee-manager of KIT).

Credit Outlook and Direction
KIT provides a breakdown of Funds from Operations ("FFO") for its main assets with FFO defined as income/(loss) before tax, adding back non-cash items and after deducting FFO that is attributable to minority interests. FFO can be used for debt repayment at the asset level, with the excess (what KIT term as "Distributable Cash Flow") upstreamed for KIT-standalone's debt repayment and distribution to the trust unitholders. For 1Q2020, excluding Basslink, FFO was SGD52.6mn, up 30.5% q/q. All segments saw an increase in FFO except Waste & Water. As at 31 March 2020, adjusting finance leases as debt and taking 50% of perpetual as debt (and 50% of perpetual as equity), we find adjusted gross gearing at 1.56x. KIT has obtained a loan facility to refinance the SGD700mn of short term debt due at Keppel Merlimau Cogen ("KMC"). 50% of the principal would be paid as a bullet in June 2027 and the other 50% of principal is to be amortised and repaid between June 2023 and June 2026. This means that the DCF to the holding company would be unchanged for the next three years. In 1Q2020, overall DCF to the holding company was SGD51.1mn and we estimate this was sufficient to cover interest and perpetual distribution at the holding company level by 11.2x. In 1Q2020, KMC's standalone FFO was SGD11.2mn. KIT owns 51%-stake of KMC, assuming the proportionate share of KMC debt at SGD357mn and dividing this equally by three years, it would imply a negative DCF at KMC from June 2023 to June 2026. KIT may still opt to refinance this loan down to road, changing KMC's DCF profile should a refinancing occur. **We expect KIT's credit profile to be stable within 12 months and are maintaining its issuer profile at Neutral (4)**. Three out of four concession-based assets reach the end of their concession period before first call date of the KITSP 4.75%-PERP and whether KIT is able to extend/replace these income stream would emerge as a risk in the medium term.

Bond Recommendation
We think the KITSP 4.75%-PERP is providing a good senior-sub spread of ~145bps against the senior bond of its Sponsor.

Outstanding Issuance
Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
KITSP 4.75%-PERP	Neutral (4)	12/06/2029	4.50%	367bps	OW
KEPSP 3.66% '29	Neutral (4)	07/05/2029	3.05%	222bps	UW
SCISP 3.593% '26	Neutral (4)	26/11/2026	2.81%	214bps	N

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2018	FY2019	1Q2020
EBITDA margin (%)	35.37	18.30	23.74
Net margin (%)	-0.37	0.65	3.44
Gross debt to EBITDA (x)	7.87	7.70	5.69
Net debt to EBITDA (x)	6.84	6.06	4.54
Gross Debt to Equity (x)	1.51	1.29	1.32
Net Debt to Equity (x)	1.31	1.01	1.06
Gross debt/total asset (x)	0.47	0.44	0.45
Net debt/total asset (x)	0.41	0.35	0.36
Cash/current borrowings (x)	0.22	0.35	0.34
EBITDA/Total Interest (x)	1.82	1.97	2.69

Source: Company, OCBC estimates

Keppel REIT ("KREIT")

Issuer Profile: Neutral (4)

Ticker: KREITS

Background

Listed on the Singapore Exchange on 28 Apr 2006, KREIT's portfolio comprises interests in nine office assets located in the central business districts of Singapore, Australian cities – Sydney, Melbourne, Brisbane and Perth, as well as Seoul, South Korea. As at 3 July 2020, market cap of KREIT was SGD3.8bn while its portfolio valuation was SGD7.9bn as at 31 March 2020. Key assets are Ocean Financial Centre ("OFC", 79.9% interest), Marina Bay Financial Centre ("MBFC", 33% interest) and One Raffles Quay ("ORQ", 33% interest). KREIT is 44.43% owned by Keppel Land Ltd, its Sponsor, who is in turn owned by Keppel Corporation Limited ("KEP", Issuer profile: Neutral (4)).

Credit Outlook and Direction

In 1Q2020, EBITDA fell by 10.4% y/y to SGD16.9mn in part due to the absence of property income from Bugis Junction Tower which was divested on 29 November 2019. Profit before tax fell 20.4% y/y to SGD28.8mn due to a SGD7.0mn net decline in fair value of derivatives. Based on our calculation, EBITDA/Interest was 1.3x. Including contributions from associates and joint ventures as EBITDA, EBITDA/Interest would be 3.3x and ~2.6x after adjusting for 50% of perpetual distribution as interest. Aggregate leverage was 36.2%, and higher at 37.1% after adjusting for 50% of perpetual security as debt. Overall, KREIT's credit metrics remain intact with SGD99.1mn cash on balance, against SGD100.0mn borrowing coming due in the short term. Furthermore, 72% of KREIT's assets remain unencumbered. **Within the next 12 months, KREIT's credit profile is expected to be stable** with the Neutral (4) issuer profile as appropriate. Retail and F&B tenants make up just ~1.8% of net lettable area for KREIT. We expect the KREIT's broad portfolio which is made of office tenants to remain resilient in the next 12 months.

Bond Recommendation

We are overweight on KREITS'24s as it is trading at 2.92% and neutral on the KREITS PERP as well as KREITS'22. Given KREITS PERP resets to 5 year SGD swap + 2.705% which is ~3.23%, we think there remains a chance of KREIT not calling its perp.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW/YTC	Spread	Recommen-dation
KREITS 4.98% 'PERP	Neutral (4)	02/11/2020	8.50%	825bps	N
KREITS 3.15% '22	Neutral (4)	11/02/2022	2.24%	194bps	N
KREITS 3.275% '24	Neutral (4)	08/04/2024	2.92%	247bps	OW
SUNSP 3.025% '22	Neutral (4)	16/03/2022	2.30%	198bps	N
SUNSP 3.4% '23	Neutral (4)	10/05/2023	2.65%	226bps	N
SUNSP 2.85% '23	Neutral (4)	02/08/2023	2.71%	232bps	OW
SUNSP 3.355% '25	Neutral (4)	07/02/2025	3.11%	257bps	OW
SUNSP 2.6% '25	Neutral (4)	27/05/2025	2.45%	189bps	UW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2018	FY2019	1Q2020
EBITDA margin (%)	47.50	42.37	43.63
Net margin (%)	93.20	86.36	69.74
Gross debt to EBITDA (x)	29.01	30.52	31.69
Net debt to EBITDA (x)	25.73	28.72	30.22
Gross Debt to Equity (x)	0.43	0.41	0.42
Net Debt to Equity (x)	0.38	0.39	0.40
Gross debt/total asset (x)	0.29	0.28	0.29
Net debt/total asset (x)	0.26	0.27	0.27
Cash/current borrowings (x)	4.32	1.25	0.99
EBITDA/Total Interest (x)	1.11	1.04	1.31

Source: Company, OCBC estimates

Lendlease Group ("LLC")

Issuer Profile: Neutral (3)

Ticker: LLCAU

Background

Founded in 1958, Lendlease Group ("LLC") today is a leading Australian property company listed on the Australian Securities Exchange ("ASX") with a market cap of AUD8.9bn as at 2 Jul 2020. LLC structures its businesses along (1) Development, (2) Construction and (3) Investments. Australia is LLC's core market though LLC has been diversifying into Europe, Asia and America. There is no controlling shareholder.

Credit Outlook and Direction

1HFY2020 results ending 31 Dec was somewhat lackluster. Reported operating EBITDA down 3% y/y to AUD628mn due to decline in contributions from Construction (-9% y/y) to AUD101mn and Investments (-7% y/y to AUD255mn) though Development saw better performance (+4% y/y to AUD272mn). That said, we expect 2HFY2020 profitability to be impacted by COVID-19 and LLC has withdrawn the full year guidance. We expect construction contributions to slow due to the shutdown of cites in various geographies while development segment should also be impacted with slower completion and lower transaction volumes. Meanwhile, we think that it will be challenging to complete the sale of the Engineering business, which LLC made provisions of AUD450mn-AUD550mn.

Despite the negatives, we remain comfortable with LLC. LLC raised AUD1.21bn in equity from placement to institutions and retail, which helps to keep reported gearing levels below 10%. LLC also boasts of cash and undrawn facilities of ~AUD4bn, with an additional AUD900mn of additional facilities, while the only borrowings due in 2020 was AUD225mn LLCAU 6% '20s, which was repaid. In the longer term, we expect earnings to remain anchored with a development pipeline of over AUD100bn, and fees from Funds under Management of AUD35.2bn and Assets Under Management of AUD15.4bn.

Bond Recommendation

Despite negative headlines and expected weaker results due to COVID-19, we are Overweight on LLCAU '27 given the wide spread.

Relative Value

Bond	Issuer Profile	Maturity/Next Call Date	Ask YTW	Spread	Recommen-dation
LLCAU 3.9% '27	Neutral (3)	27/04/2027	3.92%	320bps	OW
CITSP 3.48% '26	Neutral (3)	15/06/2026	2.81%	216bps	N
CAPLSP 3.08% '27	Neutral (3)	19/10/2027	2.44%	169bps	UW

Indicative prices as at 2 Jul 2020 Source: Bloomberg, OCBC

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables /putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE June	FY2018	FY2019	1H2020
EBITDA margin (%)	3.73	0.54	3.96
Net margin (%)	4.79	2.85	5.45
Gross debt to EBITDA (x)	3.81	30.85	7.47
Net debt to EBITDA (x)	1.91	16.19	6.60
Gross Debt to Equity (x)	0.37	0.43	0.52
Net Debt to Equity (x)	0.18	0.22	0.46
Gross debt/total asset (x)	0.14	0.16	0.19
Net debt/total asset (x)	0.07	0.08	0.17
Cash/current borrowings (x)	2.48	5.73	1.76
EBITDA/Total Interest (x)	4.98	0.53	2.34

Source: Company, OCBC estimates

Lippo Malls Indonesia Retail Trust ("LMRT")

Issuer Profile: Negative (6)

Ticker: LMRTSP

Background

Listed on the SGX on 2007 with a market cap of SGD407mn as at 2 Jul 2020, Lippo Malls Indonesia Retail Trust ("LMRT") is a retail REIT with a portfolio of 23 retail malls and 7 retail spaces in Indonesia. LMRT is amongst the largest retail S-REIT by floor space, with an NLA over 900,000 sqm. The malls are mostly located within Greater Jakarta, Bundung, Medan and Palembang, targeted at the middle to upper-middle class domestic consumers. LMRT is 32.32%-owned by its sponsor, Lippo Karawaci Tbk PT ("LK"), which is an Indonesian property group. Sponsor-related parties accounts for ~20% of LMRT's gross revenue.

Credit Outlook and Direction

1Q2020 results were lacklustre with net property income falling 1.9% y/y to SGD39.8mn due to expiry of master leases at Lippo Mall Kemang. That said, past results are no longer the crux in view of the impact arising from COVID-19 outbreak. LMRT has largely closed its retail malls and retail spaces over late March to May, though several malls have resumed business operations towards end-May. Due to mall closure, net property income is expected to be significantly lower in 2Q2020. We think retail sales may remain lackluster for some time, with shopper traffic steeply lower (falling to 50,000 in April versus 300,000 pre COVID-19). Tenants may also face cashflow issues, resulting in further delays in rental payments.

With an uncertain outlook, LMRT reduced dividend payout to 27% and stopped accruing distributions to perpetuals under the statement of distribution. However, the decision was eventually made to pay the distributions on LMRTSP 6.6% PERP. As such, we think distributions for LMRTSP 7% PERP will also be paid. Cash of SGD145.7mn should be sufficient to cover the liabilities in the coming months, including SGD114.9mn in near-term borrowings.

Bond Recommendation

Due to the decision to pay perpetuals distributions, we remain Neutral on both LMRTSP perpetuals.

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables /putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/Next Call Date	Ask YTW	Spread	Recommen-dation
LMRTSP 7% PERP	Negative (6)	27/09/2021	7.69%	659bps	N
LMRTSP 6.6% PERP	Negative (6)	19/12/2022	7.27%	617bps	N
FIRTSP 5.68% PERP	Negative (6)	08/07/2021	N/A	N/A	UW

Indicative prices as at 2 Jul 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2018	FY2019	1Q2020
EBITDA margin (%)	68.84	62.39	59.05
Net margin (%)	26.46	4.95	-0.80
Gross debt to EBITDA (x)	4.25	4.17	5.08
Net debt to EBITDA (x)	3.92	3.53	4.13
Gross Debt to Equity (x)	0.62	0.66	0.87
Net Debt to Equity (x)	0.58	0.56	0.70
Gross debt/total asset (x)	0.34	0.35	0.41
Net debt/total asset (x)	0.32	0.30	0.34
Cash/current borrowings (x)	0.44	1.47	1.27
EBITDA/Total Interest (x)	4.58	4.12	3.27

Source: Company, OCBC estimates

Mapletree Commercial Trust ("MCT")

Issuer Profile:	Ticker:
Neutral (3)	**MCTSP**

Background

Listed on the SGX on 27 April 2011, Mapletree Commercial Trust ("MCT") invests in office and retail assets in Singapore. As at 3 July 2020, MCT had a market cap of SGD6.5bn while its portfolio value was SGD8.9bn as at 31 March 2020, the last valuation date. MCT's portfolio comprises five properties - VivoCity, Mapletree Business City (comprising MBC I and MBC II), Bank of America Merrill Lynch Harbourfront ("MLHF"), PSA Building and Mapletree Anson. MBC II, MCT's latest addition, was acquired on 1 November 2019. MCT is 32.97% owned by Temasek Holdings Ltd ("Temasek") through Mapletree Investments Pte Ltd ("MAPL"), its Sponsor. MAPL is a real estate development, investment and capital management company 100% owned by Temasek.

Credit Outlook and Direction

For financial period 1 April 2019 to 31 March 2020 ("FY2020"), EBITDA rose 8.2% y/y to SGD341.9mn in part due to first time contribution from MBC II of SGD37.5mn and higher y/y contribution from MBC I (NPI: +5.7% y/y) and MLHF (NPI: +2.6% y/y). Profit before tax and fair value change in investment properties was up by 7.3% y/y to SGD263.5mn. EBITDA/Interest dipped to 4.3x in FY2020 from 4.5x in FY2019 based on our calculation, while aggregate leverage was stable y/y at 33.3%. MCT's credit metrics remain intact with cash and undrawn committed facilities of SGD321mn against SGD160mn of debt coming due in FY2021. MCT also has no encumbered assets. MCT has extended support amounting to ~SGD50.0mn (i.e.: in addition to government support) to its retail tenants in light of COVID-19 pandemic. It has exercised prudence in its dividend payout, retaining SGD43.7mn in 1Q2020. With ~63% of its portfolio in office and business parks, **MCT's credit profile is expected to remain stable within the next 12 months** with the Neutral (3) issuer profile as appropriate even under our worst case scenario where the retail segment records negative rental reversion and a prolong low occupancy rate.

Bond Recommendation

We are underweight the front end of the curve and neutral on the other parts. MCTSP is trading in line with its peers.

Issues outstanding

Senior secured

Senior unsecured bullets

Senior unsecured callables/putable

Senior corporate perpetuals

Subordinated corporate perpetuals

Tier 2 bank capital

Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity	Ask YTW	Spread	Recommen-dation
MCTSP 3.2% '21	Neutral (3)	12/04/2021	1.40%	113bps	UW
MCTSP 3.25% '23	Neutral (3)	03/02/2023	1.82%	145bps	UW
MCTSP 3.28% '24	Neutral (3)	23/09/2024	2.21%	170bps	N
MCTSP 3.11% '26	Neutral (3)	24/08/2026	2.49%	183bps	N
MCTSP 3.045% '27	Neutral (3)	27/08/2027	2.64%	186bps	N
MCTSP 3.05% '29	Neutral (3)	22/11/2029	2.88%	201bps	N

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE March	FY2018	FY2019	FY2020
EBITDA margin (%)	71.15	71.19	70.81
Net margin (%)	130.92	131.18	112.48
Gross debt to EBITDA (x)	7.55	7.44	8.80
Net debt to EBITDA (x)	7.41	7.28	8.61
Gross Debt to Equity (x)	0.54	0.51	0.52
Net Debt to Equity (x)	0.53	0.50	0.51
Gross debt/total asset (x)	0.35	0.33	0.33
Net debt/total asset (x)	0.34	0.32	0.33
Cash/current borrowings (x)	0.31	0.98	0.41
EBITDA/Total Interest (x)	4.80	4.51	4.34

Source: Company, OCBC estimates

Mapletree North Asia Commercial Trust ("MNACT")

Issuer Profile: Neutral (4)

Ticker: MAGIC

Background

Listed on the SGX on 7 March 2013, Mapletree North Asia Commercial Trust ("MNACT") is a S-REIT with a mandate to invest in the North Asia region (Greater China and Japan). With a market cap of SGD3.1bn as at 3 July 2020 and total book value of SGD8.3bn as of 31 March 2020, MNACT holds 11 commercial properties located in Hong Kong, China and Japan. MNACT's largest asset, Festival Walk in Hong Kong, make up 61% of its portfolio valuation while Gateway Plaza make up another 16%. Festival Walk is a retail mall with office component in the Kowloon Tong residential area of Hong Kong. Temasek Holdings Pte Ltd ("Temasek") holds a 37.71% stake. Mapletree Investments Pte Ltd, wholly owned by Temasek, is the sponsor of MNACT.

Credit Outlook and Direction

For financial period 1 April 2019 to 31 March 2020 ("FY2020"), EBITDA fell by 16.4% y/y to SGD254.7mn largely due to closure of Festival Walk for around two months from 13 November 2019 to 15 January 2020 and subsequent COVID-19 impact which has disrupted operations. Profit before tax fell significantly by 76.8% y/y to SGD161.7mn. This was a result of a SGD17.9mn decline in fair value of investment properties as compared to a SGD465.2mn gain a year ago. Excluding this, profit before tax would have declined by 22.1%y/y instead. Based on our calculation EBITDA/Interest slipped to 3.4x from 4.1x a year ago with aggregate leverage higher at 39.3%, up from 37.1% as at 31 December 2019. MNACT is going through challenging times with first the social unrest in Hong Kong, then the outbreak of the pandemic. And Festival Walk alone has 15.9% of leases expiring in FY2020 based on gross rental income. That said MNACT has SGD267.0mn of short term borrowings against SGD207.8mn cash balance and SGD374.4mn of undrawn committed and uncommitted credit facilities. Additionally, 81% of its assets remain unencumbered. Therefore, we see the Neutral (4) issuer profile as appropriate despite the headwinds on revenue and occupancy levels and expects **MNACT's credit profile to be potentially weaken within the next 12 months**.

Bond Recommendation

We are overweight on the MAGIC curve despite the headwinds and potentially weaker credit profile because MNACT still has financial flexibility in our view and its bonds are offering attractive yields in the 3% handle for short tenors.

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity	Ask YTW	Spread	Recommendation
MAGIC 3.2% '21	Neutral (4)	08/09/2021	2.89%	262bps	OW
MAGIC 3.43% '22	Neutral (4)	09/03/2022	3.07%	276bps	OW
MAGIC 3.96% '22	Neutral (4)	09/11/2022	3.28%	293bps	OW
MAGIC 3.5% '23	Neutral (4)	22/03/2023	3.34%	297bps	OW
CRCTSP 3.25% '22	Neutral (4)	04/07/2022	2.15%	183bps	N

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE March	FY2018	FY2019	FY2020
EBITDA margin (%)	74.65	74.18	71.26
Net margin (%)	161.74	155.23	35.06
Gross debt to EBITDA (x)	8.91	9.46	13.35
Net debt to EBITDA (x)	8.24	8.87	12.53
Gross Debt to Equity (x)	0.61	0.62	0.71
Net Debt to Equity (x)	0.56	0.59	0.67
Gross debt/total asset (x)	0.36	0.37	0.39
Net debt/total asset (x)	0.33	0.34	0.37
Cash/current borrowings (x)	2.12	0.62	0.59
EBITDA/Total Interest (x)	3.80	4.08	3.37

Source: Company, OCBC estimates

Mapletree Industrial Trust ("MINT")

Issuer Profile: Neutral (3)

Ticker: MINTSP

Background

Listed on the SGX in October 2010, Mapletree Industrial Trust ("MINT") invests in industrial properties in Singapore and data centres worldwide. As at 3 July 2020, MINT had a market cap of SGD6.9bn matching its portfolio value of SGD5.9bn as at 31 March 2020 (SGD6.6bn if we include 100% in Mapletree Redwood Data Centre Trust ("MRDCT")). MINT's portfolio comprises 87 industrial properties including flatted factories, hi-tech business parks, stack-up/ramp-up and light industrial buildings in Singapore and 27 data centers in the US through joint ventures with its sponsor, Mapletree Investments Pte Ltd ("MAPL"). MINT has a 50% stake in Mapletree Rosewood Data Centre Trust ("MRODCT") which holds 10 powered shell data centres and 80% stake in 3 fully fitted hyperscale data centres in US and Canada, and is acquiring the balance 60% stake in joint venture MRDCT which holds a portfolio of 14 data centres in US (expected completion: September 2020) from MAPL. MINT is 29.37% owned by Temasek Holdings Pte Ltd, who owns 100% stake in Sponsor, MAPL.

Credit Outlook and Direction

For financial period 1 April 2019 to 31 March 2020 ("FY2020"), EBITDA rose by 10.6% y/y to SGD283.6mn due to higher contributions from 18 Tai Seng, 30A Kallang Place, 7 Tai Seng Drive and Mapletree Sunview 1. Profit before tax and fair value change in investment properties was up by 16.5% y/y to SGD269.1mn on the back contributions from JVs. EBITDA/Interest dipped to 5.8x from 6.4x in FY2019 based on our calculation, with aggregate leverage higher at 37.6%. That said MINT's credit metrics remain intact with just SGD1.3mn borrowing coming due in the short term against SGD53.4mn cash. MINT's assets are 100% unencumbered. **MINT's credit profile is expected to be stable within the next 12 months** with the Neutral (3) issuer profile as appropriate even with the acquisition of its balance 60% stake in MRCDT. We also expect the eventual aggregate leverage to be ~38% handle post the acquisition.

Bond Recommendation

We are overweight both MINTSP 3.02% '23 and MINTSP 3.79% '26. We think the offer better value relative to peers.

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity	Ask YTW	Spread	Recommen-dation
MINTSP 3.65% '22	Neutral (3)	07/09/2022	1.90%	158bps	UW
MINTSP 3.02% '23	Neutral (3)	11/05/2023	2.09%	170bps	OW
MINTSP 3.16% '24	Neutral (3)	28/03/2024	2.22%	175bps	N
MINTSP 3.79% '26	Neutral (3)	02/03/2026	2.52%	190bps	OW
MINTSP 3.58% '29	Neutral (3)	26/03/2029	2.94%	211bps	N
MCTSP 3.25% '23	Neutral (3)	03/02/2023	1.82%	145bps	UW
MCTSP 3.28% '24	Neutral (3)	23/09/2024	2.21%	170bps	N
MCTSP 3.11% '26	Neutral (3)	24/08/2026	2.49%	183bps	N
MCTSP 3.05% '29	Neutral (3)	22/11/2029	2.88%	201bps	N

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE March	FY2018	FY2019	FY2020
EBITDA margin (%)	68.24	68.15	69.86
Net margin (%)	82.74	72.09	90.46
Gross debt to EBITDA (x)	4.91	5.45	5.15
Net debt to EBITDA (x)	4.76	5.29	4.96
Gross Debt to Equity (x)	0.44	0.46	0.41
Net Debt to Equity (x)	0.42	0.45	0.39
Gross debt/total asset (x)	0.29	0.30	0.28
Net debt/total asset (x)	0.28	0.29	0.27
Cash/current borrowings (x)	0.20	0.53	41.91
EBITDA/Total Interest (x)	7.28	6.39	6.30

Source: Company, OCBC estimates

Mapletree Logistics Trust ("MLT")

Issuer Profile: Neutral (3)

Ticker: MLT

Background

Mapletree Logistics Trust ("MLT") is the first Asia-focused logistics REIT listed in Singapore with a market cap as at 1 July 2020 of SGD7.5bn. Total assets were SGD9.0bn as at 31 March 2020. By asset value, MLT's assets are located in Singapore (29.3%), HKSAR (29.8%), Japan (13.1%), China (8.2%), Australia (6.7%) and others (12.9%). MLT is sponsored by Mapletree Investments Pte Ltd ("MAPL") who also owns ~31% in MLT. MLT is incorporated in Singapore while the SGD perpetuals are issued by HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of MLT.

Credit Outlook and Direction

Gross revenue for the fourth quarter ended March 2020 ("4QFY2020") was up 5.5% y/y to SGD128.1mn mainly due to higher revenue from existing properties and acquisitions in Malaysia, South Korea and Japan, partly offset by absence of revenue from six divestments in FY2020. EBITDA (based on our calculation which does not include other trust income and expenses though includes interest income on shareholder's loan to the 15 joint venture properties of SGD2.8mn) was SGD102.9mn (up 9.9% y/y) while interest expenses declined 1.8% y/y to SGD20.0mn, with resultant EBITDA/Interest of 5.2x. As at 31 March 2020, reported aggregate leverage was on the high side at 39.3% (end-2019: 37.5%), this includes proportionate share of borrowings at joint venture assets (including MLT's proportionate share of debt at its four China joint venture assets). Based on our estimates, assuming 50% of perpetual as debt, adjusted aggregate leverage was ~42%. MLT has minimal refinancing risk in our view. As at 31 March 2020, consolidated short term debt was SGD201.9mn, representing only 6% of total consolidated debt. We **upgraded our issuer profile of MLT to Neutral (3) from Neutral (4) in April 2020 and expect the issuer profile to be stable within 12 months** on the back of expectations that counterparty credit risk to CWT SG (MLT's single largest tenant) has become more manageable while relative to other REITs, logistics focused industrial assets are likely to be more resilient versus other property types amidst COVID-19 (especially against hospitality and retail focused REITs).

Bond Recommendation

We are Underweight the MLTSP 4.18%-PERP. We do not expect a call at first call due to economic cost savings on this perpetual (perpetual may reset lower to ~3.09%).

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW/YTC	Spread	Recommen-dation
MLTSP 4.18%-PERP	Neutral (3)	25/11/2021	3.26%[1]	221bps	UW
MLTSP 3.65%-PERP	Neutral (3)	28/3/2023	3.30%	294bps	UW
FHREIT 4.45% 'PERP	Neutral (4)	12/5/2021	3.47%[1]	236bps	UW
ARTSP 3.88%-PERP	Neutral (4)	4/9/2024	3.81%	332bps	UW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC
Note: (1) Yield-in-perpetuity

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2018	FY2019	FY2020
EBITDA margin (%)	74.1	75.0	78.6
Net margin (%)	119.5	100.5	80.5
Gross debt to EBITDA (x)	8.57	8.79	9.19
Net debt to EBITDA (x)	8.23	8.48	8.80
Gross Debt to Equity (x)	0.66	0.64	0.71
Net Debt to Equity (x)	0.63	0.62	0.68
Gross debt/total asset (x)	0.38	0.37	0.39
Net debt/total asset (x)	0.36	0.36	0.37
Cash/current borrowings (x)	1.90	3.30	0.72
EBITDA/Total Interest (x)	5.42	4.70	4.66

Source: Company, OCBC estimates

Metro Holdings Ltd ("METRO")

Issuer Profile:	Ticker:
Neutral (4)	**METRO**

Background

Metro Holdings Ltd ("METRO") was listed on the SGX in 1973 and has a market cap of SGD615mn as at 3 July 2020. Over the years, METRO has evolved from an established household shopping brand to become a property investment and development group with two retail department stores in Singapore (Metro Woodlands and Metro Paragon). METRO has investment properties in Chengdu as well as first tier cities such as Shanghai and Guangzhou in China. Through its joint ventures and associates, METRO has stakes in properties in Singapore, Indonesia, the UK and Australia too. As at 31 March 2020, METRO has investment properties of SGD109.0mn and stakes in associates and joint ventures of SGD1.13bn.

Credit Outlook and Direction

For financial year ended 30 March 2020 ("FY2020"), revenue jumped 22.3% y/y to SGD210.3mn, on the back of SGD95.2mn sale of property rights of the residential development properties in Bekasi and Bintaro, Jakarta. Profit after tax however fell significantly to SGD39.7mn from SGD108.0mn a year ago due to fair value loss on GIE Tower, Guangzhou of SGD2.5mn (vs gain of SGD14.7mn in FY2019), its associates underperforming and a spike in finance costs. METRO continues to deepen its exposure to Property while shifting away from Retail. Over FY2020, it acquired a 50%-stake in 7 and 9 Tampines Grande in Singapore, 25%-stake in a commercial mall that is part of The Atrium in Chengdu, China, 20%-stake in a portfolio of 14 quality freehold office and retail properties in Australia. Concurrently, METRO closed Metro Centrepoint in Singapore and divested its 50% equity stake in PT Metropolitan Retailmart (Indonesia retail). We note that its retail operations in Singapore is loss making (FY2020: -SGD0.2mn). Net gearing was 9.4% which is higher than 2.2% a year ago but remains low. **METRO's credit profile is expected to be stable within the next 12 months.** METRO has SGD349.4mn cash on hand, sufficient to repay its short term debt of SGD145.2mn as well as its (short term) accounts and other payables and lease liabilities.

Bond Recommendation

We are overweight on both METRO bonds as the yields looks very attractive in the current market environment.

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity	Ask YTW	Spread	Recommen-dation
METRO 4% '21	Neutral (4)	25/10/2021	3.97%	367bps	OW
METRO 4.3% '24	Neutral (4)	02/04/2024	5.13%	467bps	OW
WINGTA 4% '21	Neutral (4)	07/10/2021	2.38%	208bps	N
WINGTA 4.25% '23	Neutral (4)	16/1/2025	3.60%	322bps	OW

Indicative prices as at 3 July 2020 for METRO bonds and 2 July 2020 for WINGTA bonds
Source: Bloomberg, OCBC

Key Ratios

FYE March	FY2018	FY2019	FY2020
EBITDA margin (%)	-11.30	-6.07	5.20
Net margin (%)	117.14	55.64	15.73
Gross debt to EBITDA (x)	-8.88	-22.01	50.99
Net debt to EBITDA (x)	1.47	-3.29	19.06
Gross Debt to Equity (x)	0.09	0.15	0.36
Net Debt to Equity (x)	-0.02	0.02	0.14
Gross debt/total asset (x)	0.08	0.12	0.25
Net debt/total asset (x)	-0.01	0.02	0.09
Cash/current borrowings (x)	1.17	2.43	2.24
EBITDA/Total Interest (x)	-0.49	-1.80	0.58

Source: Company, OCBC estimates

Olam International Ltd ("Olam")

Issuer Profile: Neutral (5)

Ticker: OLAMSP

Background

Olam International Limited ("Olam") is a diversified, vertically-integrated agri-commodities merchandiser, producer and trader. It also generates income from the sale of packaged food products, commodity financial services and holding minority stakes in longer term investments. As at 1 July 2020, Olam's market cap was SGD4.4bn, although the company's free float adjusted market cap was ~SGD770mn. Temasek is the largest shareholder with a ~53.4%-stake, followed by Mitsubishi Corp with ~17.4%. Kelwaram Chanrai Group (a co-founder of Olam) retains a 7%-stake while the management team holds ~6%. Orbis Asset Management, a privately-owned asset manager has been a long time investor in Olam holding a ~7%-stake. Olam is incorporated in Singapore and the SGD-bonds are issued by Olam, the listed entity.

Credit Outlook and Direction

In 1Q2020, Olam's reported revenue was up 4.6% y/y to SGD7.7bn though reported EBITDA was down 7.0% y/y to SGD390.9mn. Per Olam, EBITDA was negatively affected by lower contributions from Edible Nuts, Spices, Coffee, Dairy and Edible Oils, partly compensated by improvements in Cocoa, Grains and Animal Feed & Protein and Cotton. In 1Q2020, the company completed the sale of its 50%-stake in Far East Agri (sugar refining assets in Indonesia) and reduced its effective interest in ARISE Port & Logistics ("ARISE P&L") from 40.5% to 30.6% as part of the restructuring of the Gabon Special Economic Zone (an associate company). Company's reported net gearing was 1.53x as at 31 March 2020, higher than end-2019, driven by higher working capital and weakening of the SGD against USD. Olam has announced a medium-longer term re-organisation of its businesses into two operating groups, one focusing on Food Ingredients ("Olam Food Ingredients") and the other focusing on the agri-businesses ("Olam Global Agri") though it is expected that Olam, the listed holding company and SGD-bond issuer will continue to hold the two new operating groups. This entity would also manage group corporate finance activities (eg: fundraising) which is a competitive edge for its business. **We expect Olam's credit profile to stay stable at Neutral (5) within the next 12 months.** Olam being a food and agriculture business is not directly in the eye of the storm of COVID-19, although we expect lower volumes and some disruption in supply chains as this outbreak drags in the US, a key end-demand market.

Bond Recommendation

We are Overweight OLAMSP which allows a pick-up against other Neutral (5) names, albeit not in the same sector.

Outstanding Issuance

Senior secured

Senior unsecured bullets

Senior unsecured callables/putable

Senior corporate perpetuals

Subordinated corporate perpetuals

Tier 2 bank capital

Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommendation
OLAMSP 5.5% 'PERP	Neutral (5)	11/7/2022	5.12%	481bps	OW
OLAMSP 6% '22	Neutral (5)	25/10/2022	3.85%	351bps	OW
GUOLSP 3.85% '23	Neutral (5)	15/02/2023	3.09%	272bps	N
GUOLSP 4.6%-PERP	Neutral (5)	23/01/2023	3.77%	266bps	UW
FPLSP 3.95%-PERP	Neutral (5)	05/10/2022	3.42%	231bps	UW

Indicative prices as at 3 July 2020 for OLAMSP bonds and 2 July 2020 for GUOLSP and FPLSP bonds
Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	4.63	3.38	3.38
Net margin (%)	2.10	1.06	1.59
Gross debt to EBITDA (x)	9.52	10.93	11.30
Net debt to EBITDA (x)	7.89	8.53	8.45
Gross Debt to Equity (x)	1.75	1.74	1.93
Net Debt to Equity (x)	1.45	1.36	1.44
Gross debt/total asset (x)	0.52	0.48	0.49
Net debt/total asset (x)	0.43	0.37	0.37
Cash/current borrowings (x)	0.43	0.52	0.47
EBITDA/Total Interest (x)	2.29	1.88	1.77

Source: Company, OCBC estimates

OUE Limited ("OUE")

Issuer Profile:
Neutral (5)

Ticker:
OUESP

Background

OUE Limited ("OUE") is an investment holding company owning investment properties. It also owns a ~24%-stake in Gemdale Properties and Investment Corporation Limited ("Gemdale"), a China focus property developer, and OUE has completed the acquisition of a land plot in Jakarta to be developed for mixed use. Outside of property, OUE is invested in healthcare (via OUE Lippo Healthcare Ltd ("OUE-LH") and First REIT ("FIRT", Issuer profile: Negative (6)) and is expanding into F&B. As at 1 July 2020, OUE's market cap was SGD1.08bn. OUE owns a ~48%-stake in OUE-Commercial REIT ("OUE-CT") and a 64.4%--stake in OUE-LH, both of which it consolidates as subsidiaries in its financials. OUE is ~69%-indirectly owned by Lippo ASM Asia Property Limited ("LAAPL"). Hong Kong listed Lippo Limited has a deemed 50%-voting rights in LAAPL although has ~94.3% of the profit share. Argyle Street Management Limited ("ASM") is deemed interested in OUE as well via its voting rights in LAAPL. The remaining shareholding in OUE is dispersed. OUE is incorporated in Singapore. OUE's SGD-bonds are issued by OUE Treasury Pte Ltd, unconditionally and irrevocably guaranteed by OUE.

Credit Outlook and Direction

OUE-HT was no longer recorded as an associate but as a subsidiary of OUE whose results are consolidated (i.e.: similar treatment as OUE-CT standalone). In 2019, OUE reported revenue of SGD930.8mn, with development property being the main contribution. While there have been no new project launches, the company had recognized revenues from properties previously sold under deferred payment schemes and sold a good class bungalow to its Chairman in 2019. Reported profit before tax in 2019 was significant at SGD369.7mn, though driven by large one-off gains from selling its equity stake in Aquamarina Hotel Private Limited and share of results of equity-accounted investees (mainly Gemdale). In its 1Q2020 business update, OUE shared that EBIT was SGD109.1mn (4Q2019 implied EBIT: SGD136.5mn). With EBITDA generation thin, the company's credit profile continues to be underpinned by its asset base. Our preliminary asset-to-debt coverage shows a manageable asset-to-debt coverage ratio of 2.6x, with the market undervaluing OUE's equity or perhaps attributing an overly large conglomerate discount to the company. **We expect OUE's credit profile to deteriorate somewhat within the next 12 months though remain still within Neutral (5).** OUE is negatively affected by COVID-19, being the master lessee of two hotels and providing tenant assistance to its retail properties held by OUE-CT.

Bond Recommendation

We think investors are compensated for taking on the risk associated with OUE at ask YTWs of 3.5%-3.6% for short dated bonds, despite the thinner liquidity versus the GUOLSP curve.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
OUESP 3.75% '22	Neutral (5)	17/04/2022	3.48%	318bps	OW
OUESP 3.55% '23	Neutral (5)	10/05/2023	3.61%	324bps	OW
GUOLSP 3.62% '21	Neutral (5)	30/03/2021	2.20%	193bps	UW
GUOLSP 4.0% '22	Neutral (5)	31/01/2022	2.88%	257bps	N
GUOLSP 3.85% '23	Neutral (5)	15/02/2023	3.09%	272bps	N

Indicative prices as at 3 July 2020 for OUESP bonds and 2 July 2020 for GUOLSP bonds
Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	21.74	26.11	24.14
Net margin (%)	20.80	8.81	34.57
Gross debt to EBITDA (x)	21.24	20.83	17.87
Net debt to EBITDA (x)	17.97	18.39	15.74
Gross Debt to Equity (x)	0.71	0.68	0.66
Net Debt to Equity (x)	0.60	0.60	0.58
Gross debt/total asset (x)	0.39	0.38	0.37
Net debt/total asset (x)	0.33	0.33	0.33
Cash/current borrowings (x)	0.49	0.87	0.36
EBITDA/Total Interest (x)	1.25	1.20	1.32

Source: Company, OCBC estimates

Oxley Holdings Ltd ("OHL")

Issuer Profile: Negative (6)

Ticker: OHLSP

Background

Listed on the SGX in Oct 2010 with a market cap of SGD991m as at 2 Jul 2020, Oxley Holdings Ltd ("OHL") is a developer of residential and commercial projects in Singapore and abroad, including UK, Ireland, Malaysia, China, Cambodia, Myanmar, Indonesia and Cyprus. OHL holds 10%-stake in Aspen Group Holdings Ltd (SGX listed, market cap: SGD63.9mn as at 2 Jul 2020), 20%-stake in Galliard Group Ltd (unlisted UK developer) and 100%- stake in Pindan Group Pty Ltd (unlisted Western Australia property and construction company). OHL's key shareholders are its Chairman and CEO Mr. Ching Chiat Kwong (42.6%- stake), its Deputy CEO and Executive Director Mr. Low See Ching (28.3%-stake) and Mr. Tee Wee Sien (11.2%) who appears to be a passive shareholder.

Credit Outlook and Direction

OHL reported weaker results for 2QFY2020 with revenue falling 12% y/y to SGD311.2mn, due to lower revenue from Royal Wharf. Gross margins fell to 11.9% (2QFY2019: 13.1%) as we estimate the Singapore projects are averaging 10-15% in margins. COVID-19 has compounded the issue as sales volume has slowed significantly during Singapore's circuit breaker over April-May. We think transactions may remain tepid or discounts may have to be given to move more units given the softer economic outlook with Singapore's Ministry of Trade and Industry forecasting GDP to decline by 4% to 7% in 2020. In Singapore, 1065 units remain unsold out of 3,923 units, worth an estimated ~SGD1.6bn, as of 30 Apr 2020.

Credit metrics are somewhat stretched with net gearing at 1.94x as of 2QFY2020. As of 31 Dec 2019, OHL faces SGD828.3mn in short term maturities though we are not overly worried. OHL held cash balance of SGD323.8mn, raised SGD75mn from issuance of OHLSP 6.5% '23s and GBP30mn (~SGD52.7mn) from sale of Galliard while we expect OHL to refinance SGD184mn of investment property loan. OHL should also receive ~SGD200mn proceeds from the sale of Chevron House. Other projects may deliver cashflows too, including over SGD300mn from Royal Wharf in the UK and over SGD100mn from Dublin Landings in Ireland.

Bond Recommendation

We are Overweight on the OHLSP curve as it trades at a higher yield relative to peers.

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables /putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/Next Call Date	Ask YTW	Spread	Recommen-dation
OHLSP 5.7% '22	Negative (6)	31/01/2022	9.62%	930bps	OW
OHLSP 6.5% '23	Negative (6)	28/02/2023	9.61%	924bps	OW
ASPSP 6.5% '23	Negative (6)	20/03/2023	N/A	N/A	N/A
CHIPEN 6% '22	Unrated	15/03/2022	8.80%	849bps	N/A
HTONSP 6.08% '21	Negative (6)	19/07/2021	8.98%	870bps	OW

Indicative prices as at 2 Jul 2020 Source: Bloomberg, OCBC

Key Ratios

FYE June	FY2018	FY2019	1H2020
EBITDA margin (%)	11.16	9.09	10.54
Net margin (%)	23.74	20.07	2.17
Gross debt to EBITDA (x)	26.08	57.41	24.89
Net debt to EBITDA (x)	24.16	49.80	22.30
Gross Debt to Equity (x)	2.34	2.54	2.16
Net Debt to Equity (x)	2.17	2.20	1.94
Gross debt/total asset (x)	0.58	0.59	0.54
Net debt/total asset (x)	0.53	0.51	0.49
Cash/current borrowings (x)	1.03	0.35	0.39
EBITDA/Total Interest (x)	1.02	0.38	0.77

Source: Company, OCBC estimates

Sembcorp Industries Ltd ("SCI")

Issuer Profile: Neutral (4)

Ticker: SCISP

Background

Sembcorp Industries Ltd ("SCI") has a market cap of SGD3.3bn as at 1 July 2020. SCI and its 61%-owned subsidiary Sembcorp Marine Ltd ("SMM") has announced a two-step transaction which eventually would see SMM demerged from SCI. SCI focuses on utilities (energy and water solutions), offshore marine (via its 61%-owned subsidiary SMM) and urban development (focused on development of industrial parks across the region). Temasek is the largest shareholder of SCI with a ~49.3%-stake, the remaining shareholding is dispersed. SCI is incorporated in Singapore and the bonds are issued by Sembcorp Financial Services Pte Ltd ("SFS"), unconditionally and irrevocably guaranteed by SCI.

Credit Outlook and Direction

As part of the demerger, in Step One, SMM would recapitalize itself via a highly dilutive renounceable rights issue of equity ("Rights Issue") of SGD2.1bn. SCI has undertaken to subscribe for up to SGD1.5bn of the rights issue via a debt-to-equity swap while Temasek would sub-underwrite the remaining SGD0.6bn. There will be no additional cash outlay by SCI. In Step Two, SMM would then be spun-off from its parent company SCI via a dividend-in-specie. Upon completion, SCI would no longer own any stake in SMM, allowing SCI to focus on its own growth and obligations. **We expect SCI's credit profile to improve on a normalized basis versus 2019 and as such upgraded the company to Neutral (4) on 12 June 2020 albeit COVID-19 is likely to drag power generation income this year.** On a proforma EBITDA of SGD1.2bn (using 2019 as a starting point and removing SMM EBITDA contribution), we find proforma gross debt-to-EBITDA lower at 7.4x versus 8.9x for SCI-consolidated in 2019. We remove SGD3.2bn of SMM-debt which no longer needs to be consolidated and assume that (1) A senior bond that came due in April 2020 and (2) Two SCI perpetuals which faced first call in 1H2020 were replaced with bank debt. Our issuer profile of Neutral (4) for SCI is on a standalone basis, without factoring further Temasek uplift.

Bond Recommendation

We have turned Underweight on the SCISP 2.94% '21 after the run up in prices and within its curve prefer the belly.

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommendation
SCISP 2.94% '21	Neutral (4)	26/11/2021	1.68%	139bps	UW
SCISP 3.64% '24	Neutral (4)	27/05/2024	2.50%	203bps	N
SCISP 3.593% '26	Neutral (4)	26/11/2026	2.81%	214bps	N
KEPSP 3.145% '22	Neutral (4)	14/02/2022	2.01%	170bps	N
KEPSP 3% '24	Neutral (4)	07/05/2024	2.40%	194bps	UW
KEPSP 3% '26	Neutral (4)	01/10/2026	2.75%	210bps	UW
SIASP 3.145% '21	Neutral (5)	08/04/2021	1.65%	139bps	UW
SIASP 3.03% '24	Neutral (5)	28/03/2024	2.68%	223bps	N
SIASP 3.13% '26	Neutral (5)	17/11/2026	3.03%	236bps	UW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	13.15	9.47	11.72
Net margin (%)	2.77	2.97	2.57
Gross debt to EBITDA (x)	8.97	9.69	10.03
Net debt to EBITDA (x)	6.53	7.96	8.46
Gross Debt to Equity (x)	1.20	1.35	1.43
Net Debt to Equity (x)	0.87	1.11	1.21
Gross debt/total asset (x)	0.42	0.46	0.49
Net debt/total asset (x)	0.31	0.38	0.41
Cash/current borrowings (x)	1.71	1.03	0.66
EBITDA/Total Interest (x)	2.09	2.18	1.92

Source: Company, OCBC estimates

Shangri-La Asia Limited ("SHANG")

Issuer Profile:

Neutral (4)

Ticker:

SLHSP

Background

Incorporated in Bermuda, Shangri-La Asia Limited ("SHANG") is an investment holding company focused on the ownership and management of hotels. In addition, SHANG also holds a portfolio of investment properties and develops properties for sale. SHANG's primary listing is on the Hong Kong Stock Exchange, with a secondary listing in Singapore. SHANG's market cap was HKD23.9bn (~USD3.1bn) as at 1 July 2020. Kerry Group Limited (an unlisted entity owned by members of the Kuok family) holds a 50.45% deemed interest in SHANG. Kerry Group Limited is also the deemed controlling shareholder of Kerry Properties Limited ("KERPRO"). The asset manager Fidelity holds a ~4.4%-stake in the company while Capital Group, another asset manager, holds a ~1.8%-stake. The remaining shareholding is dispersed. The SGD bonds are issued by Shangri-La Hotel Limited though unconditionally and irrevocably guaranteed by SHANG, the listed entity.

Credit Outlook and Direction

Reported revenue in 2019 was down 3.4% y/y to USD2.43bn, driven by a reduction in revenue from Hotel Properties (down 6.4% y/y) to USD2.07bn where all sub-segments saw a y/y revenue decline. The Hotel Management and Related Services, Investment Properties and Property Development segments saw y/y improvements in revenue which helped to partly offset the fall from Hotel Properties. Despite the lower y/y revenue, reported operating profit increased 63.3% y/y to USD294.8mn in 2019. This was driven by USD54.5mn in other gains (driven by fair value gains from investment properties) versus other losses of USD126.4mn recognized in 2018. As at 31 December 2019, SHANG's unadjusted net gearing (including lease liabilities as debt) was 0.76x (30 June 2019: 0.77x) while its gross Debt-to-EBITDA was 10.1x. While no numeric details were provided for 1Q2020, the company shared that occupancy of its hotels has dropped significantly y/y and the company expects to record a significant decline in its 1H2020 and 2020 full year operating profits. With COVID-19 hitting occupancy and negatively impacting income, **we expect SHANG's credit profile to be weaker within 12 months and are likely to downgrade the Issuer Profile if there are no material changes to the reopening of international borders in the near term.** In our view, SHANG's liquidity situation has been crimped but is sufficient for the 12 months from end-2019 despite the very challenging situation facing the hotel industry. We assume no rent from commercial (retail) space but for the overall Investment Properties segment to still be EBITDA positive in 2020. Adjusting for SHANG's effective share, the carrying value of SHANG hotels was USD5.8bn although the replacement cost based on estimated redevelopment cost (excluding land cost) was 69% higher at USD9.9bn.

Bond Recommendation

We prefer the SHLSP 4.5% '25 over the ARTSP 4.0% '24 given its yield compensates for the somewhat longer tenor.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
SHLSP 4.5% '25	Neutral (4)	12/11/2025	3.57%	299bps	N
SHLSP 3.5% '30	Neutral (4)	29/01/2030	3.56%	269bps	UW
ARTSP 4.0% '24	Neutral (4)	22/3/2024	3.27%	282bps	UW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured

Senior unsecured bullets

Senior unsecured callables/putable

Senior corporate perpetuals

Subordinated corporate perpetuals

Tier 2 bank capital

Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	23.87	26.20	23.87
Net margin (%)	6.58	7.30	6.98
Gross debt to EBITDA (x)	9.92	7.79	10.13
Net debt to EBITDA (x)	8.15	6.18	8.38
Gross Debt to Equity (x)	0.74	0.77	0.90
Net Debt to Equity (x)	0.61	0.61	0.75
Gross debt/total asset (x)	0.38	0.39	0.43
Net debt/total asset (x)	0.31	0.31	0.35
Cash/current borrowings (x)	3.93	2.46	2.38
EBITDA/Total Interest (x)	3.53	3.22	2.39

Source: Company, OCBC estimates

Singapore Airlines Ltd ("SIA")

Issuer Profile:
Neutral (5)

Ticker:
SIASP

Background
Singapore Airlines Ltd ("SIA"), has a market cap of SGD11.3bn as at 1 July 2020. Apart from its flagship carrier, Singapore Airlines ("SQ"), the company also operates other airlines and businesses: SIA Engineering Company, SilkAir and Scoot. SIA owns a 20%-stake in Virgin Australia Holdings Limited ("VAH"), a 49%-stake in a low cost airline in Thailand and a 49%-stake in TATA SIA Airlines Limited (operates Vistara Airlines). SIA Group is ~55.5%-owned by Temasek. The Minister of Finance owns one Special Share in SIA. The SGD-bonds are issued by SIA, the listed entity.

Credit Outlook and Direction
Recovery for international travel is likely to be slow given protracted discussions over border re-openings and we continue to expect SIA to rely on shareholder support in the short term. This is more so as compared to other major airlines, as there have been no significant structural cuts to date on SIA's cost base. SIA had completed a rights issue of shares and mandatory convertible bond ("MCB") raising SGD8.8bn in June 2020 with strong support from Temasek. A further SGD6.2bn in MCB may be raised in the future to boost liquidity. In 4QFY2020, SIA's revenue was SGD3.2bn (4QFY2019: SGD4.1bn). **We had downgraded SIA twice to Issuer Profile of Neutral (5) in March 2020.** With creditors likely to take a haircut, no recovery is expected for shareholders from the sale of VAH while its Thai-associate is entering into liquidation. We expect SIA to extend some form of support to Vistara Airlines given the importance of the India market.

Bond Recommendation
We prefer the 3-5Y part of the SIASP curve within its own curve. The shorter dated SIASP 3.145% '21 is trading tight in our view versus KEPSP 3.145% '22.

Outstanding Issuance
Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here and here for recent write-ups on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
SIASP 3.145% '21	Neutral (5)	08/04/2021	1.65%	139bps	UW
SIASP 3.16% '23	Neutral (5)	25/10/2023	2.42%	201bps	N
SIASP 3.03% '24	Neutral (5)	28/03/2024	2.68%	223bps	N
SIASP 3.035% '25	Neutral (5)	11/04/2025	2.83%	230bps	N
SIASP 3.13% '26	Neutral (5)	17/11/2026	3.03%	236bps	UW
SIASP 3.13% '27	Neutral (5)	23/08/2027	3.09%	237bps	UW
KEPSP 3.145% '22	Neutral (4)	14/02/2022	2.01%	170bps	N
KEPSP 3.725% '23	Neutral (4)	30/11/2023	2.34%	192bps	UW
KEPSP 3.0% '24	Neutral (4)	7/05/2024	2.40%	194bps	UW
KEPSP 3.0% '26	Neutral (4)	01/10/2026	2.75%	210bps	UW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE March	FY2018	FY2019	FY2020
EBITDA margin (%)	17.34	15.05	14.09
Net margin (%)	8.51	4.42	-1.06
Gross debt to EBITDA (x)	1.14	2.71	5.24
Net debt to EBITDA (x)	0.20	1.51	4.04
Gross Debt to Equity (x)	0.24	0.49	1.21
Net Debt to Equity (x)	0.04	0.27	0.93
Gross debt/total asset (x)	0.12	0.22	0.35
Net debt/total asset (x)	0.02	0.12	0.27
Cash/current borrowings (x)	124.67	12.74	0.85
EBITDA/Total Interest (x)	30.53	21.16	10.19

Source: Company, OCBC estimates

Singapore Post Limited ("SPOST")

Issuer Profile:
Neutral (3)

Ticker:
SPOST

Background

Singapore Post Ltd ("SPOST") is the incumbent mail operator in Singapore and was granted the Public Postal License in 1992. Apart from postal and parcel delivery, SPOST also engages in logistics businesses – freight forwarding and eCommerce logistics, and the provision of commercial property rental and self-storage business. SPOST, listed on the SGX since 13 May 2003, has a market cap of SGD1.7bn as at 3 July 2020. Through Singapore Telecom Ltd and a few other corporations, Temasek Holdings has an indirect ownership of 22.09% of SPOST. Alibaba Group Holdings is the 2nd largest shareholder with 14.56% stake.

Credit Outlook and Direction

For the quarter ended 31 March 2020, revenue fell by 2.7% y/y to SGD312.2mn due to a 5.7% decline in the Post and Parcel due to COVID-19 disruptions. Profit on operating activities fell by 30.6% y/y to SGD21.3mn. However, with the absence of significant losses from discontinued operations, net profit improved to SGD7.2mn from a loss of SGD75.1mn a year ago. Although EBITDA (based on our calculation) was up 11.3% y/y to SGD40.7mn, EBITDA/Interest was 12.8x, down from 17.0x a year ago due to higher interest expenses (+47.9% y/y). As at 31 March 2020, gross debt-to-equity was 0.22x (up from 0.18x a year ago). Perpetuals make up 12.6% of total capital as at 31 March 2020 and adjusting net debt upwards for the perpetuals (which rank pari passu as unsecured debt at the SPOST holding company level), we find adjusted net gearing at 0.13x. SPOST is in a net cash position of SGD128.6mn (excluding perpetuals). SPOST continues to face headwinds in its postal business with letter volumes declining. This is a structural change in our view and the future for SPOST lies in its ability to transform and capture opportunities within the ecommerce and logistics space. We maintain SPOST at an issuer profile of Neutral (3), and expect its **credit profile to be stable within the next 12 months.**

Bond Recommendation

We are neutral on SPOST PERP as we continue to expect SPOST to call its perpetual at first call given its will reset to 10 year SGD swap + 3.692% which is ~4.58%.

Relative Value

Bond	Issuer Profile	First Call Date	Ask YTC/YTW	Spread	Recommen-dation
SPOST 4.25% 'PERP	Neutral (3)	02/03/2022	2.34%	203bps	N
STHSP 3.95% 'PERP	Neutral (3)	16/06/2022	3.20%	287bps	UW

Indicative prices as at 3 July 2020 for SPOST PERP, 2 July 2020 for STHSP PERP
Source: Bloomberg, OCBC

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Key Ratios

FYE March	FY2018	FY2019	FY2020
EBITDA margin (%)	13.54	16.43	15.87
Net margin (%)	8.24	2.03	6.72
Gross debt to EBITDA (x)	1.19	1.34	2.16
Net debt to EBITDA (x)	-0.34	-0.47	-0.20
Gross Debt to Equity (x)	0.14	0.18	0.27
Net Debt to Equity (x)	-0.04	-0.06	-0.03
Gross debt/total asset (x)	0.09	0.11	0.16
Net debt/total asset (x)	-0.03	-0.04	-0.02
Cash/current borrowings (x)	13.38	1.39	2.80
EBITDA/Total Interest (x)	19.04	26.31	16.48

Source: Company, OCBC estimates

Please click here for a recent write-up on the issuer.

Singapore Telecommunications Ltd ("SingTel")

Issuer Profile:
Positive (2)

Ticker:
STSP

Background
Singapore Telecommunications Ltd ("SingTel") is the largest listed company in Singapore with a market cap of SGD41bn as at 2 Jul 2020. SingTel is a communications company, providing various services including mobile, data, fixed, pay television, internet, video, infocomms technology ("ICT") and digital solutions. Through various subsidiaries and associates, SingTel is the leading mobile player in Singapore, Australia, Indonesia, Philippines, Thailand and India. Temasek Holdings is the majority shareholder with 52.5% stake.

Credit Outlook and Direction
The onset of COVID-19 has somewhat impacted SingTel's results, with 4QFY2020 revenue falling for the Consumer segments in Australia (-8.3 y/y to AUD1/8bn) and Singapore (-13.8% y/y to SGD465mn) with lower roaming revenue from global travel restrictions and weaker consumer spend. Group Enterprise was also impacted with revenue declining 4.5% y/y to SGD1.56bn, due to carriage segments decline impacted by travel restrictions and pricing pressure. That said, regional associates performance have rebounded with 28.6% y/y rise in pre-tax profit to SGD500mn, due to lower pre-tax losses from Airtel (with losses falling 70.9% y/y to SGD42mn) due to tariff improvement and strong growth in customers. Encouragingly, Telkomsel pre-tax profit also grew 4.9% y/y to SGD310mn due to data revenue growth though SingTel cites competition outside Java and pressures on legacy business. Looking ahead, with travel restrictions remaining in place, profitability is likely to be pressured in the quarters ahead.

Overall, credit metrics remains healthy with reported net debt gearing of 31.8% and reported net debt to EBITDA and share of associates' pre-tax profits of 2.0x. We also view favourably the move by SingTel to slash total dividend payment for FY2020 to 12.25cts (from the usual 17.5cts), which conserves cash, especially in view of investments for 5G which are likely to be significant. Meanwhile, other moves to reduce expense include cost controls and support by the government in the form of wage credits.

Bond Recommendation
In general, SingTel's papers are trading somewhat tight and prefer to switch out to CAPITA 2.8% '23s or STHSP 3.08% '22 for yield pickup.

Issues outstanding
Senior secured
Senior unsecured bullets
Senior unsecured callables /putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/Next Call Date	Ask YTW	Spread	Recommen-dation
STSP 2.72% '21	Positive (2)	03/09/2021	1.23%	94bps	N
STSP 2.895% '23	Positive (2)	07/03/2023	1.72%	134bps	N
CAPITA 2.8% '23	Positive (2)	13/3/2023	2.01%	163bps	N
STHSP 3.08% '22	Neutral (3)	12/09/2022	2.15%	180bps	N
ANZ 3.75% '27c22	Positive (2)	23/03/2022	2.73%	227bps	N

Indicative prices as at 2 Jul 2020 Source: Bloomberg, OCBC

Key Ratios

FYE March	FY2018	FY2019	FY2020
EBITDA margin (%)	27.75	25.72	26.37
Net margin (%)	31.57	17.68	6.36
Gross debt to EBITDA (x)	2.19	2.39	3.25
Net debt to EBITDA (x)	2.08	2.27	3.02
Gross Debt to Equity (x)	0.35	0.36	0.53
Net Debt to Equity (x)	0.34	0.34	0.49
Gross debt/total asset (x)	0.22	0.22	0.29
Net debt/total asset (x)	0.21	0.21	0.27
Cash/current borrowings (x)	0.29	0.27	0.25
EBITDA/Total Interest (x)	12.28	11.37	9.45

Source: Company, OCBC estimates

Starhill Global REIT ("SGREIT")

Issuer Profile:	Ticker:
Neutral (4)	SGREIT

Background

Listed on the SGX in September 2005, Starhill Global REIT ("SGREIT") invests primarily in real estate used for retail and office purposes, both in Singapore and overseas. SGREIT's market cap is SGD1.2bn as at 3 July 2020. It owns 10 mid to high end retail properties in five countries, valued at ~SGD3.1bn as at 30 June 2019, the latest valuation date. SGREIT's properties include Wisma Atria (74.23% of strata lots) and Ngee Ann City (27.23% of strata lots) in Singapore, Myer Centre Adelaide, David Jones Building and Plaza Arcade in Adelaide and Perth, Australia, Starhill Gallery and Lot 10 in Kuala Lumpur, Malaysia and 3 other malls in Chengdu, China and Tokyo, Japan. YTL Corp Bhd is SGREIT's sponsor and largest unitholder with ~35.64% stake.

Credit Outlook and Direction

For financial period 1 July 2019 to 31 March 2020 ("9MFY2020"), EBITDA fell by 9.7% y/y to SGD94.4mn largely due to lower contributions from Starhill Gallery in relation to its planned asset enhancement. Profit before tax though was up by 47.2% y/y to SGD61.6mn due to SGD24.7mn dividend income from subsidiaries. Based on our calculation EBITDA/Interest slipped to 3.2x from 3.6x over the same period a year ago. Aggregate leverage was 36.7%, including the recently issued SGREIT 3.15% '25s, we find adjusted aggregate leverage at 38.6%. That said SGREIT's credit metrics remain manageable with SGD155.3mn of short term borrowings against SGD81.4mn cash balance (which has become SGD181.4mn post bond issuance). SGREIT's assets are 74% unencumbered. **SGREIT's credit profile is expected to be stable within the next 12 months** with the Neutral (4) issuer profile as appropriate despite the headwinds in the retail segment. SGREIT has retained the full amount of distributable income of SGD24.0mn for quarter ended 31 March 2020, preferring instead to defer dividend payments We think SGREIT has sufficient financial flexibility to tide through the pandemic.

Bond Recommendation

We are overweight on SGREIT'23s as it is offering 2.78% yield and 240 i-spread. We think it looks attractive at this level.

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity	Ask YTW	Spread	Recommen-dation
SGREIT 3.5% '21	Neutral (4)	26/02/2021	1.51%	125bps	UW
SGREIT 3.4% '23	Neutral (4)	26/05/2023	2.78%	240bps	OW
SGREIT 3.15% '25	Neutral (4)	05/06/2025	2.65%	209bps	UW
SGREIT 3.14% '26	Neutral (4)	03/10/2026	2.78%	211bps	N
SUNSP 3% '21	Neutral (4)	16/07/2021	2.12%	184bps	N
SUNSP 3.4% '23	Neutral (4)	10/05/2023	2.65%	226bps	N
SUNSP 2.85% '23	Neutral (4)	02/08/2023	2.71%	232bps	OW
SUNSP 3.355% '25	Neutral (4)	07/02/2025	3.11%	257bps	OW
SUNSP 2.6% '25	Neutral (4)	27/05/2025	2.45%	189bps	UW
SUNSP 2.95% '27	Neutral (4)	05/02/2027	3.49%	278bps	OW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE June	FY2018	FY2019	9M2020
EBITDA margin (%)	68.15	67.36	65.69
Net margin (%)	40.34	31.81	40.06
Gross debt to EBITDA (x)	7.94	8.15	9.22
Net debt to EBITDA (x)	7.47	7.63	8.57
Gross Debt to Equity (x)	0.57	0.59	0.61
Net Debt to Equity (x)	0.53	0.55	0.57
Gross debt/total asset (x)	0.35	0.36	0.37
Net debt/total asset (x)	0.33	0.34	0.34
Cash/current borrowings (x)	1.05	0.57	0.52
EBITDA/Total Interest (x)	3.72	3.59	3.18

Source: Company, OCBC estimates

StarHub Ltd ("StarHub")

Issuer Profile:

Neutral (3)

Ticker:

STHSP

Background

StarHub Ltd ("StarHub") is a Singapore communications company, providing various services for consumer and corporates including mobile, data, fixed telecommunication, pay television, internet and broadband services. Listed on the SGX with a market cap of SGD2.2b as of 2 Jul 2020, StarHub is 55.8% owned by Asia Mobile Holdings Pte Ltd, which is 75%-owned by STT Communications Ltd, which is in turn a wholly-owned subsidiary of ST Telemedia (a wholly-owned subsidiary of Temasek).

Credit Outlook and Direction

Results in 1Q2020 were lackluster with revenues down 15.2% y/y to SGD506.2mn and reported EBITDA down 15.9% y/y to SGD136.2mn. StarHub has indicated more severe impact into April while withdrawing its guidance for 2020. All its traditional segments were hit, including Mobile (Revenue: -15.0% y/y to SGD163.5mn), Pay TV (-33.8% y/y to SGD46.8mn) and Broadband (-11.4% y/y to SGD41.7mn). In particular, mobile was hit due to COVID-19 with lower IDD and lower excess data usage and roaming with decline in tourists. Weak results are likely to persist with travel restrictions in place and consumers and companies may defer spending.

Despite the weakening profitability, we remain comfortable with StarHub as its credit metrics were healthy to begin with. Reported net debt to EBITDA improved somewhat q/q to 1.4x (31 Dec 2019: 1.51x) while StarHub has refinanced bank loans with no significant maturities till 2022. That said, we will be wary if StarHub undertakes significant acquisitions, noting that capex spend will likely increase in view of the 5G provisional license awarded.

Bond Recommendation

While we remain comfortable with StarHub, we think the seniors are fairly valued while the perpetual does not look attractive on a YTW basis.

Issues outstanding

Senior secured

Senior unsecured bullets

Senior unsecured callables /putable

Senior corporate perpetuals

Subordinated corporate perpetuals

Tier 2 bank capital

Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/Next Call Date	Ask YTW	Spread	Recommen-dation
STHSP 3.08% '22	Neutral (3)	12/09/2022	2.15%	180bps	N
STHSP 3.55% '26	Neutral (3)	08/06/2026	2.86%	221bps	N
STHSP 3.95% PERP	Neutral (3)	16/06/2022	3.20%	287bps	UW
STSP 2.895% '23	Positive (2)	07/03/2023	1.72%	134bps	N
MINTSP 3.65% '22	Neutral (3)	7/9/2022	1.90%	158bps	UW
MCTSP 3.11% '26	Neutral (3)	24/8/2026	2.49%	183bps	N
CAPLSP 3.65% PERP	Neutral (3)	17/10/2024	3.05%	253bps	N

Indicative prices as at 2 Jul 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2018	FY2019	1Q2020
EBITDA margin (%)	23.97	26.00	26.61
Net margin (%)	8.49	7.66	8.32
Gross debt to EBITDA (x)	1.82	1.99	2.22
Net debt to EBITDA (x)	1.52	1.79	1.81
Gross Debt to Equity (x)	1.75	2.08	1.98
Net Debt to Equity (x)	1.47	1.87	1.62
Gross debt/total asset (x)	0.39	0.44	0.44
Net debt/total asset (x)	0.33	0.40	0.36
Cash/current borrowings (x)	3.31	0.27	0.50
EBITDA/Total Interest (x)	18.68	15.82	14.80

Source: Company, OCBC estimates

Suntec REIT ("SUN")

Issuer Profile:	Ticker:
Neutral (4)	SUNSP

Background

Listed on 9 December 2004 on SGX, Suntec REIT ("SUN") owns office and retail properties in Singapore and Australia with a market cap of SGD4.1bn as at 3 July 2020. SUN's portfolio value was ~SGD10.5bn as at 31 March 2020 (including 21 Harris Street) and is managed by an external manager, ARA Trust Management (Suntec) Ltd. Its properties in Singapore are Suntec City (the mall, units in Towers 1 – 3, and Towers 4 & 5), a 66.3%-interest in Convention & Exhibition Centre ("Suntec Singapore"), a one third interest in both One Raffles Quay ("ORQ") and Marina Bay Financial Centre Towers 1 & 2 and Marina Bay Link Mall ("MBFC") and a 30.0%-interest in 9 Penang Road. For Australia, SUN holds 177 Pacific Highway and 21 Harris Street in Sydney, 55 Currie Street in Adelaide and 50%-interest in both Southgate and 477 Collins Street in Melbourne.

Credit Outlook and Direction

With the outbreak of COVID-19, the Convention segment will remain close for business until August 2020 while the Retail segment in Singapore has been dysfunctional for the most parts of 2Q2020. In 1Q2020, Suntec Convention recorded a loss of SGD1.7mn while the retail segment recorded a 9.6% y/y decline in NPI and JV income contribution to SGD22.7mn, led by Suntec City Mall (-10.3% y/y). That said, we take comfort in the stable outlook and single digit percentage of expiring leases at Suntec City Office which contributed to 54% of the REIT's total NPI and Income Contribution from JV in 1Q2020. Credit metrics is weaker but still manageable. Aggregate leverage rose to 39.9% as at 31 March 2020 from 37.7% as at 31 December 2019 due to higher debt, though the all-financing cost has come down to 2.92% p.a. from 3.05% p.a. Although SUN no longer disclose the amount of cash it has on hand on a quarterly basis, with just SGD80mn of bank borrowings coming due in 2020, we think its debt maturity profile remains manageable for now. **We expect SUN's credit profile to weaken within the next 12 months though to still fall within the Neutral (4) Issuer Profile**.

Bond Recommendation

We like the medium to longer end of the SUN curve as we think it is offering decent yield. SUNSP 3.355% '25 for instance is trading at 257bps i-spread.

Issues outstanding

Senior secured

Senior unsecured bullets

Senior unsecured callables/putable

Senior corporate perpetuals

Subordinated corporate perpetuals

Tier 2 bank capital

Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity	Ask YTW	Spread	Recommen-dation
SUNSP 3% '21	Neutral (4)	16/07/2021	2.12%	184bps	N
SUNSP 3.025% '22	Neutral (4)	16/03/2022	2.30%	198bps	N
SUNSP 3.4% '23	Neutral (4)	10/05/2023	2.65%	226bps	N
SUNSP 2.85% '23	Neutral (4)	02/08/2023	2.71%	232bps	OW
SUNSP 3.355% '25	Neutral (4)	07/02/2025	3.11%	257bps	OW
SUNSP 2.6% '25	Neutral (4)	27/05/2025	2.45%	189bps	UW
SUNSP 2.95% '27	Neutral (4)	05/02/2027	3.49%	278bps	OW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	55.22	52.37	50.23
Net margin (%)	64.66	87.53	107.73
Gross debt to EBITDA (x)	16.52	18.34	19.71
Net debt to EBITDA (x)	15.64	17.63	18.85
Gross Debt to Equity (x)	0.56	0.61	0.59
Net Debt to Equity (x)	0.53	0.58	0.57
Gross debt/total asset (x)	0.35	0.37	0.36
Net debt/total asset (x)	0.33	0.35	0.35
Cash/current borrowings (x)	0.73	0.27	0.27
EBITDA/Total Interest (x)	2.02	1.94	1.68

Source: Company, OCBC estimates

Wharf Holdings Ltd ("WHARF")

Issuer Profile:	Ticker:
Neutral (3)	WHARF

Background

The Wharf (Holdings) Limited ("WHARF") was established and listed on the Hong Kong stock exchange in 1886. In November 2017, WHARF spun off its major portfolio of investment properties in Hong Kong which is currently listed as Wharf REIC. WHARF's businesses comprise Investment Properties ("IP"), leasing mainly retail and office properties in Mainland China, Development Properties ("DP") (i.e. activities related to acquisition of land, construction and sales of properties in Hong Kong and Mainland China), Hotels – operating 17 hotels in the Asia Pacific region, four of which owned by the Group and Logistics – container terminal operations in Hong Kong and Mainland China. WHARF is a subsidiary of Wheelock & Co. Ltd, which owns a 70.70% stake in the company.

Credit Outlook and Direction

WHARF had issued a profit warning on 27 April 2020 where it expects to report a loss for 1H2020 due to the disruption caused by COVID-19 to its investment properties and development properties (including the likely unrealized revaluation or impairment losses). In its 2019 results released in March 2020, WHARF expects to provide rental relief to tenants at its investment properties, construction and sales of its development properties to slow due to government instructed closures and hotel revenues to fall. For full year 2019, EBITDA fell by 8.7% y/y to HKD8.6bn, with profit down significantly to HKD3.5bn from HKD6.7bn due to net provision for losses at development properties held by subsidiaries in Mainland China of HKD2.4bn made in respect of certain development properties held by subsidiaries in Mainland China as the government implemented strict controls on selling price. Net debt was HKD19.0bn (2018: HKD25.6bn), leading to a net gearing of 13%. Excluding non-recourse debt (e.g.: those held at subsidiaries), WHARF's own net debt was HKD13.1bn as at 31 December 2019 with adjusted net gearing very manageable at 9.0%. While we expect **WHARF's credit profile to weaken within the next 12 months**, its Neutral (3) issuer profile continues to be appropriate in our view.

Bond Recommendation

We are overweight on WHARF'21s despite the weaker expectations of a weaker credit profile over the next 12 months as we think the yield of 2.19% looks attractive for a short tenor of ~1 year.

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity	Ask YTW	Spread	Recommen-dation
WHARF 4.5% '21	Neutral (3)	20/07/2021	2.19%	192bps	OW
CITSP 2.93% '21	Neutral (3)	24/03/2021	1.73%	147bps	N

Indicative prices as at 3 July 2020 for WHARF bond and 2 July 2020 for CITSP bond
Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	49.82	44.62	50.85
Net margin (%)	52.23	31.87	20.56
Gross debt to EBITDA (x)	1.69	4.59	5.40
Net debt to EBITDA (x)	-0.43	2.73	2.22
Gross Debt to Equity (x)	0.25	0.31	0.32
Net Debt to Equity (x)	-0.06	0.18	0.13
Gross debt/total asset (x)	0.16	0.19	0.19
Net debt/total asset (x)	-0.04	0.11	0.08
Cash/current borrowings (x)	4.51	1.55	2.56
EBITDA/Total Interest (x)	15.60	8.85	5.27

Source: Company, OCBC estimates

Wing Tai Holdings Ltd ("WTH")

Issuer Profile: Neutral (4)

Ticker: WINGTA

Background

Listed on the SGX since 1989, Wing Tai Holdings Ltd's ("WTH") core businesses are in property investment and development, lifestyle retail and hospitality management in key Asian markets such as Singapore, Malaysia, Hong Kong and China. WTH's commercial properties include Winsland House in Singapore while its ~34%-owned associate Wing Tai Properties Ltd ("WTP") owns Landmark East in Hong Kong. WTH has a distribution network of 243 retail stores as of 30 Jun 2019. Brands include Uniqlo, G2000, Topshop, Topman, Dorothy Perkins. The group's Chairman Mr. Cheng Wai Kheung owns a ~51%- stake in WTH. WTH has a market cap of SGD1.39bn as of 2 Jul 2020.

Credit Outlook and Direction

While results are better in 2QFY2020 with net profit rising 58% y/y to SGD26.2mn, COVID-19 would invariably be a dampener going forward. The retail segment which generated SGD40.2mn or 37.5% of total reported EBIT in FY2019 is likely to be impacted by the circuit breaker in Singapore and Movement Control Order in Malaysia, as stores such as Uniqlo are shut or see reduced traffic. Results are likely to be weighed also by WTH's ~34% owned associate WTP, which is expecting to report a loss for the period of Jan-Jun 2020. That said, not all is gloomy with property sales turning out decent with 522-unit "The M" condominium selling 379 units for SGD518.9mn in Feb-Apr 2020, according to URA caveats. We note that the site was acquired by WTH for SGD492mn in Apr 2019. Meanwhile, the 613-unit The Garden Residences (JV with Keppel) has sold 291 units worth SGD295.4mn thus far.

Overall, while we expect earnings pressure due to COVID-19, we remain comfortable due to its healthy credit metrics with net gearing at 13% and net debt to EBITDA at 7.9x (FY2019: 73.6x). No debt is due in 2020 while cash of SGD220.9mn is more than sufficient to cover SGD124.3mn of near-term liabilities.

Bond Recommendation

We prefer WINGTA seniors over its perpetuals as the spread of the seniors does not look attractive. WTH's perps are more vulnerable than WTP's as they trade at lower yields.

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables /putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/Next Call Date	Ask YTW	Spread	Recommen-dation
WINGTA 4.5% '22 (WTH)	Neutral (4)	26/09/2022	N/A	N/A	N/A
WINGTA 4.25% '23 (WTH)	Neutral (4)	15/03/2023	3.60%	322bps	OW
WINGTA 4% '21 (WTH)	Neutral (4)	07/10/2021	2.38%	208bps	N
WINGTA 4.08% PERP (WTH)	Neutral (4)	28/06/2022	3.51%	241bps	UW
WINGTA 4.48% PERP (WTH)	Neutral (4)	24/05/2024	3.64%	255bps	UW
WINGTA 4.25% '22 (WTP)	Neutral (4)	29/11/2022	2.92%	257bps	OW
WINGTA 4.35% PERP (WTP)	Neutral (4)	24/08/2020	4.23%	314bps	UW

Indicative prices as at 2 Jul 2020 Source: Bloomberg, OCBC

Key Ratios

FYE June	FY2018	FY2019	1H2020
EBITDA margin (%)	9.50	1.73	15.33
Net margin (%)	59.24	15.11	17.99
Gross debt to EBITDA (x)	22.00	116.68	12.13
Net debt to EBITDA (x)	net cash	77.64	8.21
Gross Debt to Equity (x)	0.22	0.18	0.19
Net Debt to Equity (x)	net cash	0.12	0.13
Gross debt/total asset (x)	0.17	0.15	0.15
Net debt/total asset (x)	-0.00	0.10	0.10
Cash/current borrowings (x)	NA	9.69	NA
EBITDA/Total Interest (x)	1.09	0.18	1.96

Source: Company, OCBC estimates

Wing Tai Properties Ltd ("WTP")

Issuer Profile: Neutral (4)

Ticker: WINGTA

Background

Listed in 1991 in HKSE, Wing Tai Properties Ltd ("WTP") is principally engaged in property development, property investment, and hospitality management in Hong Kong, China and South East Asia under the brand names of Wing Tai Asia and Lanson Place. WTP has developed an aggregate GFA of over 5mn sq. ft. in the luxury residential property projects and its premium serviced residences are located in China and South East Asia. With a market cap of HKD5.2bn as of 2 Jul 2020, WTP is 34.4% owned by Wing Tai Holdings Ltd and 13.7%-owned by Sun Hung Kai Properties Ltd.

Credit Outlook and Direction

Results have weakened in 2019, with EBITDA falling 26.4% y/y to HKD274.1mn, mainly due to absence of contribution from Winner Godown Building and W Square which were divested in 1H2018. Separately, social activities have impacted the hospitality industry in Hong Kong, resulting in operating loss of Lanson Place Hotel and a corresponding fair value loss of HKD126.4mn. We are not overly worried over the hospitality segment though as it forms just 7.0% of WTP's total assets. We think the worst has yet to come due to the COVID-19 outbreak as construction is delayed and sales have slowed especially for the higher-end segment, which should significantly impact WTP's property development arm (31.7% of total assets). Leasing rates and occupancy at Landmark East, which underpins the WTP property investment and management portfolio (52.7% of total assets), will likely be affected. WTP expects losses in 1H2020 (1H2019: Profit of HKD245.4mn)

That said, we think WTP is in a good position to weather the storm due to its still manageable credit metrics with healthy net gearing of 10% as of 2019 (1H2019: 8%). Even if we account for the contingent liabilities of HKD7.16bn and SGD260mn WINGTA 4.35% PERP as debt, net gearing still looks manageable at 42.6%. Liquidity looks sufficient for now with HKD1.74bn of cash covering HKD147mn of debt maturing in 1-year and another HKD1.26bn of debt maturing in 2 years.

Bond Recommendation

We prefer WINGTA seniors over its perpetuals as the spread of the seniors does not look attractive.

Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables /putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/Next Call Date	Ask YTW	Spread	Recommen-dation
WINGTA 4.25% '22 (WTP)	Neutral (4)	29/11/2022	2.92%	257bps	OW
WINGTA 4.35% PERP (WTP)	Neutral (4)	24/08/2020	4.23%	314bps	UW
WINGTA 4.5% '22 (WTH)	Neutral (4)	26/09/2022	N/A	N/A	N/A
WINGTA 4.25% '23 (WTH)	Neutral (4)	15/03/2023	3.60%	322bps	OW
WINGTA 4% '21 (WTH)	Neutral (4)	07/10/2021	2.38%	208bps	N
WINGTA 4.08% PERP (WTH)	Neutral (4)	28/06/2022	3.51%	241bps	U
WINGTA 4.48% PERP (WTH)	Neutral (4)	24/05/2024	3.64%	255bps	U

Indicative prices as at 2 Jul 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2017	FY2018	FY2019
EBITDA margin (%)	44.73	42.08	33.04
Net margin (%)	188.14	155.93	36.77
Gross debt to EBITDA (x)	12.99	13.52	17.08
Net debt to EBITDA (x)	11.61	5.80	10.73
Gross Debt to Equity (x)	0.22	0.18	0.16
Net Debt to Equity (x)	0.20	0.08	0.10
Gross debt/total asset (x)	0.17	0.14	0.13
Net debt/total asset (x)	0.16	0.06	0.08
Cash/current borrowings (x)	0.47	2.22	11.87
EBITDA/Total Interest (x)	2.96	2.05	1.48

Source: Company, OCBC estimates

Financial Institution Outlooks

ABN AMRO Bank N.V. ("ABN")

Issuer Profile:
Neutral (3)

Ticker:
ABNANV

Background

ABN Amro Bank NV ("ABN") is 56.0% owned by the Dutch government through the Ministry of Finance. It was formed on 1 July 2010 through the merger of Fortis Bank (Nederland) NV with the Dutch activities of ABN AMRO Holding NV. In FY2019, ABN derived 90.1% of operating profit before tax from the Netherlands followed by Europe (5.7%), Asia (3.4%) and USA (1.1%). As at 31 March 2020, it had total assets of EUR405.9bn.

Credit Outlook and Direction

ABN faces mounting challenges from COVID-19, anti-money laundering investigations and exposure to single name exposures that contributed to a net loss for 1Q2020. While ABN's overall loan quality remains decent given its loan book comprises mostly Dutch mortgages (average loan to market value of 63% as at 31 March 2020) and the past due ratio remained constant q/q at 1.2% as at 31 March 2020 this is not the best indicator of loan quality. Rather, the stage 3 impaired ratio rose to 2.8% q/q from 2.5% and management highlighted that COVID-19 loan stress has not yet been incorporated into credit quality indicators. Together with a proposed strategic review, ABN's new CEO has his hands full in his first few months on the job. While uncertainty persists, a key certainty remains ABN's capital position and the strong support orientation from the government. This has seen the buffer above minimum capital requirements increase despite the reported fall in ABN's CET1 capital position. We therefore see the Neutral (3) rating as in a somewhat precarious position. A continued fall in the capital ratios through weaker earnings or losses could necessitate a review.

Bond Recommendation

We are neutral the ABNANV 4.75% '26c21s - while there remain risk events surrounding ABN in addition to COVID-19, thee high reset spread provided technical support for the bond.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
ABNANV 4.75% '26c21s	Neutral (3)	01/04/21	2.85%	258bps	N
BPCEGP 4.50% '26c21s	Neutral (3)	03/06/21	3.18%	291bps	OW
BNP 4.30% '25c20s	Neutral (3)	03/12/20	2.84%	260bps	N
BNP 4.35% '29c24s	Neutral (3)	22/01/24	4.12%	369bps	OW
BPCEGP 4.45% '25c20s	Neutral (3)	17/12/20	3.32%	307bps	OW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2017	FY2018	FY2019
Cost-income Ratio	60.10%	58.80%	61.20%
Loan to Deposit Ratio	116.14%	114.72%	114.09%
Non-Performing Loan Ratio	2.51%	2.17%	2.51%
Allowance/NPLs	35.61%	38.39%	35.99%
Credit Costs	-0.02%	0.24%	0.25%
Equity/Assets	5.43%	5.60%	5.72%
CETier 1 Ratio (Full)	17.70%	18.40%	18.10%
Tier 1 Ratio	18.50%	20.20%	19.90%
Total CAR	21.30%	26.30%	25.90%
Return On Equity	14.50%	11.40%	10.00%
Return On Assets	0.70%	0.60%	0.54%

Source: Company, OCBC estimates

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Australia & New Zealand Banking Group Ltd ("ANZ")

Issuer Profile:
Positive (2)

Ticker:
ANZ

Background

Australia & New Zealand Banking Group Limited ('ANZ') is one of Australia's big 4 banks and the largest bank in New Zealand. It is ranked in the top 25 globally by market capitalization with operations in 33 markets. Its business segments cover retail, commercial and institutional banking as well as wealth management. As at 31 March 2020, the bank had total assets of AUD1,150.0bn.

Credit Outlook and Direction

There is somewhat less overhang on ANZ's fundamentals compared to peers although the growing contribution from its Institutional business could present challenges in the current economic climate. While all business segments recorded y/y falls in cash profits in 1HFY2020 (overall statutory profit before tax was down 42% y/y on AUD1.67bn in provisions and a 13% y/y fall in profit before credit impairments and income tax), the largest fall occurred in Institutional (-40% y/y). While Australia seems ahead of the curve in terms of re-opening its economy and CEO Shayne Elliot recently indicated that the impact of COVID loan deferrals may not be as bad as first thought, steps forward are likely to be slow and carefully managed thus making any economic recovery protracted at best. Government and regulator support along with current fundamentals will drive ANZ's credit profile forward in our view. Its capital position remains sound despite a 70bps y/y fall in the APRA compliant CET1 ratio to 10.8% as at 31 March 2020 with APRA temporarily relaxing the minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios in Australia's banking sector. The recently announced sale of New Zealand-based vehicle finance unit UDC Finance ('UDC') to Shinsei Bank Limited for NZD762mn provides 10bps of level 2 Group CET1 capital and will release more than NZD2bn of funding provided by ANZ New Zealand.

Bond Recommendation

ANZ's Tier 2 paper looks tight compared to peers which reflects relatively lower risk events around the name. That said, the NAB 4.15% '28c23s look better value despite the higher business banking exposure, recently shoring up its capital.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
ANZ 4.0% '25s	Positive (2)	12/02/2025	3.37%	285bps	N
ANZ 3.75% '27c22s	Positive (2)	23/03/2022	2.46%	215bps	N
NAB 4.15% '28c23s	Positive (2)	19/05/2023	2.90%	253bps	OW
WSTP 4.0% '27c22s	Positive (2)	12/08/2022	2.68%	235bps	N
DBSSP 3.8% '28c23s	Positive (2)	20/01/2023	2.14%	179bps	N
UOBSP 3.5% '29c24s	Positive (2)	27/02/2024	1.93%	149bps	UW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured
Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE September	FY2018	FY2019	1H2020
Cost-income Ratio	52.00%	49.50%	53.80%
Loan to Deposit Ratio	97.79%	96.48%	90.33%
Non-Performing Loan Ratio	0.21%	0.19%	0.33%
Allowance/NPLs	232.80%	291.45%	253.24%
Credit Costs	0.11%	0.13%	0.51%
Equity/Assets	6.30%	6.20%	5.34%
CETier 1 Ratio (Full)	11.40%	11.40%	10.80%
Tier 1 Ratio	13.40%	13.20%	12.50%
Total CAR	15.20%	15.30%	15.50%
Return On Equity	10.90%	10.00%	5.10%
Return On Assets	0.68%	0.60%	0.30%

Source: Company, OCBC estimates

Barclays PLC ("Barclays")

Issuer Profile:
Neutral (4)

Ticker:
BACR

Background

Based in the UK, Barclays PLC ('Barclays') operates across two main business segments – Barclays UK and Barclays International. Its scale in the UK and globally makes Barclays systemically important on both a domestic and global level. As at 31 March 2020, it had total assets of GBP1,444.3bn. Its largest shareholders comprise institutional investors including The Capital Group Companies Inc., Qatar Investment Authority, and BlackRock Inc.

Credit Outlook and Direction

Barclays capital position was weaker q/q with its CET1 ratio below the bank's target of 13.5% at 13.1% as at 31 March 2020 (13.8% as at 31 December 2019). This reflected higher growth in risk weighted assets from increased client activity (loan drawdowns) and market volatility (higher market risk weighted assets) that offset the reduced earnings generation as well as the cancellation of the 2019 dividend payment at the request of the UK Prudential Regulation Authority. Going forward, Barclays is exposed not only to developments on the economic front in the UK and the US that influences its earnings and balance sheet, but also the finalisation of BREXIT before the end of 2020. With a still uncertain outcome, the economic outlook for the UK and a potential recovery is further complicated in our view which is a credit negative. At the very least, COVID-19 has delayed its progress at both the government and business levels and while negotiations are continuing, there does not appear any material positive progress towards a resolution. It remains to be seen whether the compressed timeframe to resolve differences is a blessing or a curse. A no deal BREXIT could add more economic headwinds for the economy and Barclays in particular, which has provided significant support for its UK customers through repayment holidays and fee waivers.

Bond Recommendation

European banks face multiple challenges which could result in more credit dispersion. We see better value across the Euro Tier 2 space compared to BACR 3.75% '30c25s.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
BACR 3.75% '30c25s	Neutral (4)	23/05/2025	3.44%	290bps	UW
CMZB 4.875% '27c22s	Neutral (4)	01/03/2022	6.47%	616bps	N
CMZB 4.2% '28c23s	Neutral (4)	18/09/2023	6.65%	625bps	UW
LBBW 3.75% '27c22s	Neutral (4)	18/05/2022s	5.27%	496bps	OW
SOCGEN 4.3% '26c21s	Neutral (4)	19/05/2021	3.51%	324bps	N
STANLN 4.4% '26c21s	Neutral (4)	23/01/2021	1.83%	158bps	UW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2017	FY2018	FY2019
Cost-income Ratio	73.00%	77.00%	71.00%
Loan to Deposit Ratio	81.28%	82.67%	81.56%
Non-Performing Loan Ratio	2.76%	2.55%	2.29%
Allowance/NPLs	51.23%	79.62%	79.62%
Credit Costs	0.71%	0.44%	0.55%
Equity/Assets	5.83%	5.63%	5.76%
CETier 1 Ratio (Full)	13.30%	13.20%	13.80%
Tier 1 Ratio	17.20%	17.00%	17.70%
Total CAR	21.50%	20.70%	21.60%
Return On Equity	-3.60%	3.60%	5.30%
Return On Assets	-0.16%	0.12%	0.22%

Source: Company, OCBC estimates

BNP Paribas SA ("BNPP")

Issuer Profile: Neutral (3)

Ticker: BNP

Background

BNP Paribas S.A. ('BNPP')'s operations span domestic and international retail banking as well as corporate and institutional banking. Concentrated in Europe, its businesses operate in 72 countries. It had total assets of EUR2,673.3bn as at 31 March, 2020 with the Belgian government as its largest shareholder at ~7.7%.

Credit Outlook and Direction

BNPP expects a prolonged recovery with a return to 2019 economic growth no earlier than 2022. While a gradual improvement in economic conditions should commence following the end of lockdown measures, operating conditions will still be constrained through 2020 and as such FY2020 net income is expected to fall 15-20% against FY2019. While both France and the Eurozone face challenged growth prospects, the Neutral (3) issuer profile continues to hold recognizing BNPP's existing business franchise as the largest French bank by assets with broad domestic and international retail banking networks where it holds strong to solid market positions and businesses that are diversified across geographies and business segments. This should help it recover as economies begin to normalize. We also expect evident government support through for example government guarantees on loans to eligible companies impacted by COVID-19 to support banks' operating environment. Key to FY2020 and future performance will be BNPP's ability to control costs in the face of declining net income and rising risk costs. BNPP plans to achieve EUR1.5bn in cost cuts in 2020 primarily through use of technology to enable more remote working capabilities and flexible office spaces while digital tools are expected to raise operational efficiency.

Bond Recommendation

Given BNPP's solid fundamentals, we think the extra duration offered from the BNP 4.35% '29c24s represents good value, notwithstanding the uncertain outlook ahead.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
BNP 4.30% '25c20s	Neutral (3)	03/12/20	2.84%	260bps	N
BNP 4.35% '29c24s	Neutral (3)	22/01/24	4.12%	369bps	OW
ABNANV 4.75% '26c21s	Neutral (3)	01/04/21	2.85%	258bps	N
BPCEGP 4.50% '26c21s	Neutral (3)	03/06/21	3.18%	291bps	OW
BPCEGP 4.45% '25c20s	Neutral (3)	17/12/20	3.32%	307bps	OW
ACAFP 3.8% '31c26s	Neutral (3)	30/04/2026	3.34%	272bps	N
SOCGEN 4.3% '26c21s	Neutral (4)	19/05/21	3.51%	324bps	N
SOCGEN 6.125% 'PERPc24s	Neutral (4)	16/04/24	6.25%	580bps	OW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2017	FY2018	FY2019
Cost-income Ratio	69.40%	71.90%	70.30%
Loan to Deposit Ratio	94.89%	96.15%	96.54%
Non-Performing Loan Ratio	4.99%	4.33%	3.63%
Allowance/NPLs	65.77%	79.20%	76.58%
Credit Costs	0.39%	0.35%	0.39%
Equity/Assets	5.47%	5.18%	5.17%
CETier 1 Ratio (Full)	11.90%	11.80%	12.10%
Tier 1 Ratio	13.20%	13.10%	13.50%
Total CAR	14.80%	15.00%	15.50%
Return On Equity	8.90%	8.20%	8.50%
Return On Assets	0.38%	0.38%	0.40%

Source: Company, OCBC estimates

BPCE SA ("BPCE")

Issuer Profile:	Ticker:
Neutral (3)	BPCEGP

Background

Established in 2009, BPCE S.A. is the central entity of Groupe BPCE ('GBPCE'). Through its retail cooperative networks and subsidiaries, it provides retail and wholesale financial services to individuals, small and medium-size enterprises (SMEs), and corporate and institutional customers in France and abroad. As at 31 March, 2020, it had total assets of EUR1,358.6bn.

Credit Outlook and Direction

GBPCE's credit ratios provide a buffer for now against various support measures implemented including 6 month loan repayment deferrals on 500,000 professional and Micro-company/SME loans totalling around EUR5bn and 80,000 leasing contracts as well as EUR180mn for insurance losses, which is mostly covered by reinsurance. This is in addition to processing EUR22bn in applications for state guaranteed loans as at end of April. With the outlook uncertain, the focus for now remains on buffers to deal with the immediate and short term dislocation to economies. GBPCE's capital position was marginally weaker q/q with its estimated CET1 capital ratio at 15.5% as at 31 March 2020 (15.6% as at 31 December 2019) although it remains well above its maximum distributable amount trigger of 10.82% that considers cancellation of the counter-cyclical capital buffer and lower pillar 2 requirements. GBPCE's Total Loss-Absorbing Capacity and Minimum Requirement for own funds and Eligible Liabilities ratios of 23.4% and 29.8% respectively as at 31 March 2020 also continues to remain above minimum requirements (19.5% and 23.5% respectively). Given improved buffers over minimum requirements (largely driven by reduction in regulatory requirements) and a business skewed towards Retail Banking and Asset and Wealth Management, we think there is tolerance to maintain GBPCE's neutral (3) issuer profile rating for now.

Bond Recommendation

We see better value in the BPCEGP 4.45% '25c20s against the BPCEGP 4.50% '26c21s. Investors. For duration, the BNP 4.35% '29c24s also offers decent value in our view.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
BPCEGP 4.50% '26c21s	Neutral (3)	03/06/21	3.18%	291bps	OW
BPCEGP 4.45% '25c20s	Neutral (3)	17/12/20	3.32%	307bps	OW
BNP 4.30% '25c20s	Neutral (3)	03/12/20	2.84%	260bps	N
BNP 4.35% '29c24s	Neutral (3)	22/01/24	4.12%	369bps	OW
ABNANV 4.75% '26c21s	Neutral (3)	01/04/21	2.85%	258bps	N
ACAFP 3.8% '31c26s	Neutral (3)	30/04/2026	3.34%	272bps	N
SOCGEN 4.3% '26c21s	Neutral (4)	19/05/21	3.51%	324bps	N
SOCGEN 6.125% 'PERPc24s	Neutral (4)	16/04/24	6.25%	580bps	OW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2017	FY2018	FY2019
Cost-income Ratio	72.10%	73.70%	72.30%
Loan to Deposit Ratio	121.55%	124.32%	123.86%
Non-Performing Loan Ratio	3.61%	3.15%	2.96%
Allowance/NPLs	57.64%	59.55%	61.22%
Credit Costs	0.22%	0.19%	0.19%
Equity/Assets	5.96%	5.76%	5.78%
CETier 1 Ratio (Full)	15.40%	15.50%	15.70%
Tier 1 Ratio	15.50%	15.60%	15.70%
Total CAR	19.20%	19.20%	18.80%
Return On Equity	5.50%	5.60%	5.30%
Return On Assets	0.25%	0.30%	0.28%

Source: Company, OCBC estimates

China Construction Bank Corporation ("CCB")

Issuer Profile:
Neutral (3)

Ticker:
CCB

Background

China Construction Bank Corporation ('CCB') was formed as a joint-stock commercial bank in 2004, and listed in Hong Kong and Shanghai in 2005 and 2007 respectively. Founded in 1954, its predecessor, the People's Construction Bank of China, initially provided government funds for construction and infrastructure projects at the direction of the Ministry of Finance before transitioning to a full service commercial bank. Designated as a global systemically important bank, it had total assets of RMB27,110.2bn as at 31 March, 2020.

Credit Outlook and Direction

CCB's credit profile is underpinned by its solid business risk with a relatively higher contribution from the Personal Banking segment that influences both profit before tax contribution and loan composition and quality. That said, we continue to watch how performance in FY2020 will unfold given CCB's role as a state-owned policy bank and both provider of support for the wider economy and a partner in helping the government smooth over the economic disruption from COVID-19. Although China's production staged a V-shaped recovery following the first stage of the pandemic, consumption did not and there are questions on whether recent export growth can be sustained. CCB has already highlighted some of the support measures employed including (1) provision of loans to business involved in pandemic prevention and control; (2) loans using the People's Bank of China's relending program (provides banks with low cost funds to on-lend); and (3) also amending pricing policies to reduce financing costs for enterprises and waiving service charges to manufacturers, small and micro enterprises and private businesses. Other borrowers impacted by COVID-19 also could defer principal repayment and interest payment. All these measures may suppress income generation in the coming quarters. The Chinese government recently requested financial institutions to forego profits this year to help support China's economic recovery through lowering lending rates, def loan repayments and cut fees.

Bond Recommendation

Fundamentals for CCB are driven by its relatively lower risk balance sheet, systemic importance, and a supportive government stance towards the economy. We see better value in the CCB 2.643% '20s against the CCB 2.08% '20s.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
CCB 2.643% '20s	Neutral (3)	21/09/2020	1.95%	173bps	OW
CCB 2.08% '20s	Neutral (3)	26/10/2020	1.76%	152bps	N
ANZ 4.0% '25s	Positive (2)	12/02/2025	3.37%	285bps	N
DBSSP 2.78% '21s	Positive (2)	11/01/2021	0.49%	24bps	N

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2017	FY2018	FY2019
Cost-income Ratio	27.15%	26.61%	26.75%
Loan to Deposit Ratio	76.84%	78.12%	79.17%
Non-Performing Loan Ratio	1.49%	1.46%	1.42%
Allowance/NPLs	171.08%	207.90%	226.93%
Credit Costs	0.99%	1.10%	1.09%
Equity/Assets	8.04%	8.51%	8.71%
CETier 1 Ratio (Full)	13.09%	13.80%	13.88%
Tier 1 Ratio	13.71%	14.40%	14.68%
Total CAR	15.50%	17.24%	17.52%
Return On Equity	14.80%	14.04%	13.18%
Return On Assets	1.13%	1.13%	1.11%

Source: Company, OCBC estimates

Commerzbank AG ("CMZB")

Issuer Profile: Neutral (4)

Ticker: CMZB

Background

Commerzbank AG ('CMZB') is Germany's second largest publicly listed bank after Deutsche Bank AG. Headquartered in Frankfurt, it had total assets of EUR517.3bn as at 31 March, 2020. Its largest single shareholder at 15.6% is Germany's Special Fund for Financial Market Stabilization, set up during the Global Financial Crisis to stabilize Germany's banking system. The remaining shareholdings comprise institutional (~45%) and private (~25%) investors.

Credit Outlook and Direction

Banks in the midst of restructuring like CMZB have 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. At the same time, Germany's economic slowdown has been harsh with industrial production suffering a record drop in output in April and expectations that the economic recovery will be long and arduous. That said, the silver lining could be that the worst is over with growth expected to resume and aided by fiscal stimulus. We expect the German government to watch any restructuring (and resultant impact on Germany's banking sector) closely to ensure systemic stability is maintained. We think this, along with government support measures through grants to small corporates and government backed loans, can provide a floor to the credit profile of Commerzbank for the time being and its Neutral (4) issuer profile. Current shareholder noise from U.S. investor Cerberus Capital Management LP seeking immediate management and strategy changes as well as board seats potentially poses a distraction as management looks to update its cost-cutting targets from its Commerzbank 5.0 strategy program that could be announced in August at the same time as the outcome of McKinsey & Co.'s review of CMZB's business model.

Bond Recommendation

The wider spreads on CMZB's Tier 2 papers reflect multiple challenges internally and externally. We see these challenges persisting so look to better quality names in the Tier 2 space that provide better return for the risk.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommendation
CMZB 4.875% '27c22s	Neutral (4)	01/03/2022	6.47%	616bps	N
CMZB 4.2% '28c23s	Neutral (4)	18/09/2023	6.65%	625bps	UW
LBBW 3.75% '27c22s	Neutral (4)	18/05/2022	5.27%	496bps	OW
SOCGEN 4.3% '26c21s	Neutral (4)	19/05/2021	3.51%	324bps	N
STANLN 4.4% '26c21s	Neutral (4)	23/01/2021	1.83%	158bps	UW
BACR 3.75% '30c25s	Neutral (4)	23/05/2025	3.44%	290bps	UW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2017	FY2018	FY2019
Cost-income Ratio	78.00%	80.30%	78.30%
Loan to Deposit Ratio	88.26%	92.70%	94.88%
Non-Performing Loan Ratio	1.30%	1.30%	1.30%
Allowance/NPLs	49.74%	42.61%	46.72%
Credit Costs	0.29%	0.16%	0.21%
Equity/Assets	6.63%	6.36%	6.61%
CETier 1 Ratio (Full)	14.10%	12.90%	13.40%
Tier 1 Ratio	14.10%	12.90%	13.90%
Total CAR	17.50%	15.90%	16.40%
Return On Equity	0.50%	3.10%	2.30%
Return On Assets	0.19%	0.19%	0.17%

Source: Company, OCBC estimates

Credit Agricole Group ("CAG")

Issuer Profile:
Neutral (3)

Ticker:
ACAFP

Background

Founded in 1894, the Crédit Agricole Group ("CAG") has grown steadily through the years from a local farm co-operative to a universal bank operating across 47 countries. Its businesses comprise mostly domestic retail banking through its retail cooperative networks as well as international retail banking, asset gathering, specialized financial services and financing of large customers. As at 31 March, 2020, it had total assets of EUR2,128.5bn. Total assets of Crédit Agricole SA ("CA") were EUR1,888.1bn in the same period.

Credit Outlook and Direction

While there still remains uncertainty on the COVID-19 duration, we take comfort that CAG's capital position remains solid to weather the storm in the short term. Its CET1 capital position weakened 40bps q/q to 15.5% as at 31 March 2020 due to a rise in risk-weighted assets (mostly in Large Customers from credit line drawdowns) and unrealised losses from market valuations on securities portfolios but remains well above CAG's reduced 8.9% Supervisory Review and Evaluation Process threshold. CAG has emphasized the amount of support they are providing on behalf of the government and in line with their 'societal commitment'. This includes CAG providing 28% of all loans under the state-guaranteed lending scheme (PGE) as well as EUR3.6bn in 6 month loan moratoriums to corporates, SMEs and small businesses impacted by COVID-19, and EUR10bn in aid from CA Italia with 60% to corporates and 40% to SMEs and individuals. This support however appears to be decelerating as COVID-19 infection rates flatten. CAG earlier elaborated on the impact of COVID-19 on activity in March with loans in Regional Banks down 12.5% y/y and new non-life insurance policies down 38.5% y/y during the month. While this likely points to weaker revenue generation, we think CAG's business risk is well placed for a recovery when it happens.

Bond Recommendation

We are neutral the ACAFP 3.8% 31c26s with better value in other Tier 2 papers with a shorter duration to call date.

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
ACAFP 3.8% '31c26s	Neutral (3)	30/04/2026	3.34%	272bps	N
BPCEGP 4.50% '26c21s	Neutral (3)	03/06/21	3.18%	291bps	OW
BPCEGP 4.45% '25c20s	Neutral (3)	17/12/20	3.32%	307bps	OW
BNP 4.30% '25c20s	Neutral (3)	03/12/20	2.84%	260bps	N
BNP 4.35% '29c24s	Neutral (3)	22/01/24	4.12%	369bps	OW
SOCGEN 4.3% '26c21s	Neutral (4)	19/05/21	3.51%	324bps	N
SOCGEN 6.125% 'PERPc24s	Neutral (4)	16/04/24	6.25%	580bps	OW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE December	FY2017	FY2018	FY2019
Cost-income Ratio	65.12%	65.16%	65.44%
Loan to Deposit Ratio	111.24%	108.21%	106.78%
Non-Performing Loan Ratio	2.81%	2.64%	2.47%
Allowance/NPLs	77.08%	84.50%	82.57%
Credit Costs	0.18%	0.20%	0.19%
Equity/Assets	6.11%	6.05%	6.04%
CETier 1 Ratio (Full)	14.90%	15.00%	15.90%
Tier 1 Ratio	15.80%	15.90%	16.60%
Total CAR	18.20%	18.30%	18.90%
Return On Equity	5.88%	6.03%	6.48%
Return On Assets	0.36%	0.36%	0.39%

Source: Company, OCBC estimates

Credit Suisse Group AG ("CS")

Issuer Profile: Neutral (4)

Ticker: CS

Background

Based in Zurich and operating across 50 countries, Credit Suisse Group AG ("CS") operates three regionally focused divisions across (1) Switzerland, (2) Asia-Pacific and (3) Europe, the Middle East, Africa, and Latin America. Providing private banking and other universal banking services, these regional businesses are supplemented by two global investment banking divisions. As at 31 March, 2020 it had total assets under management of CHF1,370.5bn.

Credit Outlook and Direction

Although CS has indicated that increased client activity has been supportive for its trading, refinancing and investments businesses in 2Q2020, CS' outlook appears cautious with management expecting further provision recognition in the remainder of the year, particularly in the Corporate Bank, other loans outside Switzerland, and Asset Management. This could overshadow key supports to 1Q2020 earnings going forward (trading volumes in Global Markets; client activity in markets and Private Banking in Asia Pacific). With COVID-19 developments highly uncertain earlier in 2Q2020, CS sought to preserve their capital position, paying 2019 dividends in phases as requested by FINMA - half was paid first with the rest to be paid later in the year subject to an assessment of the economic impact of the virus and shareholder approval. CS also previously suspended its CHF1.5bn share buyback. Its CET1 ratio of 12.1% as at 31 March 2019 was weaker by 50bs y/y and 60bps q/q due to a rise in risk weighted assets on corporate lending drawdowns and higher market volatility but was still above Basel III minimum ratios as well as higher obligations for systemically important banks under Swiss legislation. This, along with its solid business position and improving fundamentals following its three year restructuring program, should keep its credit profile within our expectations for the Neutral (4) issuer profile in the near term.

Bond Recommendation

Fundamentals for CS have been improving which is timely given the operating environment and its business model could benefit from market volatility. The CS 5.625% PERPc24s presents looks fairly valued against other

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
CS 5.625% 'PERPc24s	Neutral (4)	06/06/2024	5.54%	507bps	OW
SOCGEN 6.125% 'PERPc24s	Neutral (4)	16/04/2024	6.25%	580bps	OW
STANLN 5.375% 'PERPc24s	Neutral (4)	03/10/2024	5.60%	510bps	N
BAERVX 5.75% 'PERPc22s	Neutral (3)	20/04/2022	5.21%	490bps	N
UBS 5.875% 'PERPc23s	Neutral (3)	28/11/2023	4.90%	448bps	N
UBS 4.85% 'PERPc24s	Neutral (3)	04/09/2024	5.11%	462bps	N

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2017	FY2018	FY2019
Cost-income Ratio	90.40%	82.70%	77.60%
Loan to Deposit Ratio	77.29%	79.02%	77.33%
Non-Performing Loan Ratio	0.75%	0.76%	0.71%
Allowance/NPLs	41.80%	41.15%	44.50%
Credit Costs	0.07%	0.08%	0.11%
Equity/Assets	5.30%	5.72%	5.55%
CETier 1 Ratio (Full)	12.80%	12.60%	12.70%
Tier 1 Ratio	17.40%	16.20%	17.10%
Total CAR	18.90%	17.40%	18.20%
Return On Equity	-2.30%	4.70%	7.70%
Return On Assets	-0.12%	0.20%	0.40%

Source: Company, OCBC estimates

DBS Group Holdings Ltd ("DBS")

Issuer Profile:
Positive (2)

Ticker:
DBSSP

Background

DBS Group Holdings Limited ('DBS') primarily operates in Singapore and Hong Kong and is a leading financial services group in Asia with a regional network of more than 280 branches across 18 markets. With total assets of SGD643.0bn as at 31 March 2020, it provides diversified services across consumer banking, wealth management institutional banking, and treasury. It is 30% indirectly owned by the Singapore government through Temasek Holdings Pte Ltd as of 3rd July, 2020.

Credit Outlook and Direction

While the run of record earnings is over, prior earnings have provided a buffer against the difficulties ahead with earnings challenges from lower interest rates for 2020 and lower credit demand as seen in the 8% y/y fall in card fees on lower transactions. That said, in its 1Q2020 trading update, DBS expects FY2020 full year profit before allowances to be roughly stable y/y derived from their base case of lockdowns in major economies lasting until mid-2020 before a gradual recovery in 2H2020 and muted growth in 2021. While there is a relatively more certain outlook for 2H2020 that is in line with DBS's prior assumptions, the key to DBS credit outlook remains its solid business franchise and capital position. This has likely assisted DBS further given the 'flight to quality' seen in 2Q2020 and provides a buffer against exposures to vulnerable industries. DBS highlighted in 1Q2020 that of their SGD374bn loan portfolio, SGD46bn is from impacted industries comprising oil and gas, aviation, hotels, gaming/cruise ships, tourism, retail, food and beverage and shipping. Oil & gas comprises 50% of these exposures with 20% of these exposures or SGD4.6bn needing heightened surveillance. Overall, corporate loans make up the bulk of total loans at 59%, followed by Consumer (30%) and SME loans at 10% (90% of which is in Singapore and Hong Kong and mostly secured against property).

Bond Recommendation

DBS fundamentals are strong with investors seeking a flight to quality in the current environment. The curve is generally fairly valued in our view.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
DBSSP 2.78% '21s	Positive (2)	11/01/2021	0.49%	24bps	N
DBSSP 3.8% '28c23s	Positive (2)	20/01/2023	2.14%	179bps	N
DBSSP 4.7% 'PERPc20s	Positive (2)	22/11/2020	1.03%	79bps	N
DBSSP 3.98% 'PERPc25s	Positive (2)	12/09/2025	2.73%	216bps	N
UOBSP 3.5% '29c24s	Positive (2)	27/02/2024	1.93%	149bps	UW
UOBSP 4.0% 'PERPc21s	Positive (2)	18/05/2021	2.03%	175bps	N
UOBSP 3.58% 'PERPc26s	Positive (2)	17/07/2026	2.73%	209bps	UW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2017	FY2018	FY2019
Cost-income Ratio	43.00%	44.00%	43.00%
Loan to Deposit Ratio	86.47%	87.61%	88.52%
Non-Performing Loan Ratio	1.68%	1.50%	1.49%
Allowance/NPLs	84.65%	88.40%	84.10%
Credit Costs	0.58%	0.20%	0.19%
Equity/Assets	9.62%	9.06%	8.95%
CETier 1 Ratio (Full)	14.30%	13.90%	14.10%
Tier 1 Ratio	15.10%	15.10%	15.00%
Total CAR	15.90%	16.90%	16.70%
Return On Equity	9.70%	12.10%	13.20%
Return On Assets	0.89%	1.05%	1.13%

Source: Company, OCBC estimates

HSBC Holdings PLC ("HSBC")

Issuer Profile: Neutral (3)

Ticker: HSBC

Background

HSBC Holdings PLC ("HSBC") is one of the world's largest banks by asset size and a global systemically important bank ('GSIB'). Based in London, it is the holding company for the HSBC Group which includes global banking operations across 67 countries and territories through major subsidiaries HSBC Bank PLC (in Europe and the UK) and The Hongkong and Shanghai Banking Corporation, Limited (in Asia) amongst others. As at 31 March 2020, it had total assets of USD2,917.8bn.

Credit Outlook and Direction

Previously existing weaknesses in HSBC's fundamentals necessitated the announcement of an updated strategic plan during its FY2019 results announcement in February 2020. This plan sought material changes through re-orienting HSBC's businesses towards better returns and achieving USD4.5bn in cost reductions. The rapid COVID-19 onset delayed these plans however as HSBC enters 2H2020 with a little more certainty, the restructuring not only looks set to resume but will likely be accelerated and amplified given the operating environment is now materially weaker than previously expected. Mixed amongst all these influences are additional challenges from shareholder concerns about HSBC's support of HKSAR's security law and problematic exposures to commodity traders. Even HSBC's decision to cancel dividends at the request of the Prudential Regulation Authority at the height of the pandemic received strong resistance from shareholders. These add to interesting times for new CEO Noel Quinn who remains committed to the previously announced restructuring plan that expects materially weaker earnings from higher expected credit losses and other credit impairment charges, persisting low interest rates and reduced business activity on the economic shutdown while digital investment is expected to remain high.

Bond Recommendation

We are neutral HSBC's AT1s despite the decent spreads. HSBC is facing challenges on multiple fronts which may cast a shadow on the name for the near future.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
HSBC 4.7% 'PERPc22s	Neutral (3)	08/06/22	5.00%	468bps	N
HSBC 5.0% 'PERPc23s	Neutral (3)	24/09/23	4.97%	457bps	N
BAERVX 5.9% 'PERPc20s	Neutral (3)	18/11/2020	6.03%	579bps	OW
BAERVX 5.75% 'PERPc22s	Neutral (3)	20/04/2022	5.21%	490bps	N
UBS 5.875% 'PERPc23s	Neutral (3)	28/11/2023	4.90%	448bps	N
UBS 4.85% 'PERPc24s	Neutral (3)	04/09/2024	5.11%	462bps	N
SOCGEN 6.125% 'PERPc24s	Neutral (4)	16/04/2024	6.25%	580bps	OW
CS 5.625% 'PERPc24s	Neutral (4)	06/06/2024	5.54%	507bps	OW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2017	FY2018	FY2019
Cost-income Ratio	67.81%	64.45%	75.49%
Loan to Deposit Ratio	69.82%	72.04%	72.04%
Non-Performing Loan Ratio	1.55%	1.35%	1.31%
Allowance/NPLs	62.89%	64.62%	63.69%
Credit Costs	0.18%	0.18%	0.26%
Equity/Assets	7.79%	7.59%	7.10%
CETier 1 Ratio (Full)	14.60%	14.00%	14.70%
Tier 1 Ratio	17.40%	17.00%	17.60%
Total CAR	21.00%	20.00%	20.40%
Return On Equity	5.90%	7.70%	3.60%
Return On Assets	0.44%	0.54%	0.28%

Source: Company, OCBC estimates

Julius Baer Group Ltd ("JBG")

Issuer Profile:
Neutral (3)

Ticker:
BAERVX

Background

Present in over 60 locations and 25 countries, Julius Baer Group Ltd. ("JBG") offers private banking services mainly through Bank Julius Baer & Co. Ltd. Headquartered in Zurich, its services include wealth management, financial planning and investments and mortgages and other lending. As at 31 December 2019, JBG had total client assets of CHF499bn. As at 30 April 2020, it had assets under management of CHF392bn.

Credit Outlook and Direction

There were some constructive trends in JBG's 4M2020 results for the first four months ended 30 April 2020. Profitability improved as increased market volatility and trading volumes offset lower net interest income and a moderate rise in expected credit losses. That said, improvement in gross margin was likely due to the 8% YTD fall in average assets under management ("AuM")) as a result of negative market performance and foreign exchange movements despite net new money inflows. JBG's adjusted cost/income ratio also improved to 64% in 4M2020 (71% in FY2019) and was below the medium term target of 67%.This was due to new CEO Philipp Rickenbacher's strategy to simplify the Group's structure and enhance its efficiency with a focus on profitability rather than volume. Capital management was active in 1H2020 at both JBG's and the regulator level with part deferral of 2019 dividends and redemption of Additional Tier 1s. While we previously expected 2020 to be an interesting year for JBG with the new CEO seeking to aggressively drive JBG forward after a period of consolidation and de-risking, it appears that Mr Rickenbacher's focus on cost containment and streamlining the bank could put it in a better position to tackle the uncertainty ahead including anti-money laundering shortcomings that may restrict JBG's ability to grow through acquisitions. As a result, JBG is looking at smaller acquisitions.

Bond Recommendation

We see better value in the BAERVX 5.9% 'PERPc20s against the BAERVX 5.75% 'PERPc22s.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommendation
BAERVX 5.9% 'PERPc20s	Neutral (3)	18/11/2020	6.03%	579bps	OW
BAERVX 5.75% 'PERPc22s	Neutral (3)	20/04/2022	5.21%	490bps	N
UBS 5.875% 'PERPc23s	Neutral (3)	28/11/2023	4.90%	448bps	N
UBS 4.85% 'PERPc24s	Neutral (3)	04/09/2024	5.11%	462bps	N
HSBC 4.7% 'PERPc22s	Neutral (3)	08/06/22	5.00%	468bps	N
HSBC 5.0% 'PERPc23s	Neutral (3)	24/09/23	4.97%	457bps	N
CS 5.625% 'PERPc24s	Neutral (4)	06/06/2024	5.54%	507bps	OW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2017	FY2018	FY2019
Cost-income Ratio	69.00%	70.60%	71.1.%
Loan to Deposit Ratio	68.93%	63.38%	66.42%
Non-Performing Loan Ratio	0.14%	0.21%	0.35%
Allowance/NPLs	46.65%	33.69%	27.79%
Credit Costs	0.08%	0.03%	0.42%
Equity/Assets	5.98%	5.87%	6.07%
CETier 1 Ratio (Full)	16.70%	12.80%	14.00%
Tier 1 Ratio	21.60%	18.40%	21.60%
Total CAR	22.00%	18.70%	22.10%
Return On Equity	12.80%	12.50%	7.60%
Return On Assets	0.73%	0.73%	0.45%

Source: Company, OCBC estimates

Landesbank Baden-Württemberg AG ("LBBW")

Issuer Profile: Neutral (4)

Ticker: LBBW

Background

Based in Stuttgart Germany, Landesbank Baden-Württemberg ('LBBW') is a public law institution providing universal services covering large corporates, capital markets businesses and real estate financing. As at 31 December 2019, it had total assets of EUR256.6bn. As per its website, the bank is 40.5% owned by the Savings Bank Association of Baden-Württemberg, the state capital of Stuttgart (18.9%) and the Federal State of Baden-Württemberg (40.5%).

Credit Outlook and Direction

LBBW is in the middle of Germany's delicate fight against COVID-19 as the government balances the country's economic performance with efforts to contain the outbreak. This is given LBBW's (1) public policy role as a regionally focused state owned bank tasked with supporting economic development in its related regions; and (2) exposure to the 'Mittelstand' or Germany's SME's segment. With SME's the hardest hit by the pandemic, the government enacted various targeted support measures including a state fund to ensure liquidity through either government guarantees or equity injection and amendments to insolvency laws to provide breathing room. That said, COVID-19 has amplified existing underlying weaknesses in Germany's banking sector from high competition and margin pressure and we expect LBBW's higher exposure to SME's that are more export reliant to likely pressure earnings going forward as allowances for losses on loans and securities should rise. Balancing this in our view though is its ownership structure and less commercial role as the central bank for local savings banks. This evidences a strong public policy mandate for the bank and strategic importance for its related states. Its capital position (fully loaded common equity Tier 1 capital ratio at 14.6% as at 31 December 2019) also continues to be above its 2020 minimum common equity Tier 1 capital ratio regulatory capital requirement of 9.75%. Its total capital position was reinforced in 2019 following the issuance of EUR750mn in Additional Tier 1 capital, its first Additional Tier 1 issue.

Bond Recommendation

Although there is a decent spread pick up for the CMZB 4.875% '27c22s, we are overweight the LBBW 3.75% '27c22s as we see further risks down the road for CMZB from union and shareholder fights surrounding its restructure.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
LBBW 3.75% '27c22s	Neutral (4)	18/05/2022s	5.27%	496bps	OW
CMZB 4.875% '27c22s	Neutral (4)	01/03/2022	6.47%	616bps	N
CMZB 4.2% '28c23s	Neutral (4)	18/09/2023	6.65%	625bps	UW
SOCGEN 4.3% '26c21s	Neutral (4)	19/05/2021	3.51%	324bps	N
STANLN 4.4% '26c21s	Neutral (4)	23/01/2021	1.83%	158bps	UW
BACR 3.75% '30c25s	Neutral (4)	23/05/2025	3.44%	290bps	UW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2017	FY2018	FY2019
Cost-income Ratio	76.40%	73.10%	71.80%
Loan to Deposit Ratio	135.56%	132.43%	122.14%
Non-Performing Loan Ratio	0.84%	0.77%	0.85%
Allowance/NPLs	74.78%	100.12%	92.41%
Credit Costs	0.08%	0.13%	0.14%
Equity/Assets	5.61%	5.45%	5.41%
CETier 1 Ratio (Full)	15.80%	15.10%	14.60%
Tier 1 Ratio	16.90%	16.20%	16.50%
Total CAR	22.30%	22.00%	23.00%
Return On Equity	4.00%	4.30%	4.60%
Return On Assets	0.19%	0.18%	0.19%

Source: Company, OCBC estimates

National Australia Bank Ltd ("NAB")

Issuer Profile: Positive (2)

Ticker: NAB

Background

National Australia Bank Ltd ('NAB') provides retail, business and corporate banking services mostly in Australia but also in New Zealand under the Bank of New Zealand brand. These services are complimented by the bank's wealth management division which provides superannuation, investment, and insurance services under various brands. As at 31 March 2020, the bank had total assets of AUD927.6bn.

Credit Outlook and Direction

NAB's 1HFY2020 results highlighted existing challenges with cash earnings down 51.4% y/y to AUD1.4bn. The main impact on the results were extra-ordinary impacts of AUD1.1bn for software capitalisation changes and AUD1.2bn in credit impairment charges, up 159% y/y reflecting AUD828mn in forward looking collective provisions due to the likely economic deterioration from COVID-19. Segment performance was dispersed y/y with better performance in Consumer Banking and New Zealand whilst Business and Private Banking and Corporate and Institutional Banking performance was softer y/y and MLC Wealth cash earnings fell 46.2% y/y. However, earnings composition will be more important going forward with Business and Private Banking contributing 41.1% of total 1HFY2020 cash earnings excluding extra-ordinary items, Corporate Functions, and other charges. This was followed by Corporate and Institutional Banking (20.9%) and Consumer Banking (20.8%) with New Zealand comprising 15.9% and MLC Wealth at 1.3%. Recognizing the earnings challenges ahead from lower interest rates, rising loan losses and high regulatory, compliance and investment costs, NAB reduced its dividend payout by around 64% and announced an AUD3.5bn capital raising to improve its CET1 capital ratio from 10.4% as at 31 March 2020 to 11.2%. Following strong demand, NAB increased the total capital raising to AUD4.25bn comprising an AUD3bn placement to institutional shareholders and the AUD1.25bn placement to retail shareholders. This is in line with new CEO Ross McEwan's desire to have a strong balance sheet both entering and exiting the crisis.

Bond Recommendation

The NAB 4.15% '28c23s look better value against domestic peers despite the higher business banking exposure more than compensating for the longer duration.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
NAB 4.15% '28c23s	Positive (2)	19/05/2023	2.90%	253bps	OW
ANZ 3.75% '27c22s	Positive (2)	23/03/2022	2.46%	215bps	N
WSTP 4.0% '27c22s	Positive (2)	12/08/2022	2.68%	235bps	N
DBSSP 3.8% '28c23s	Positive (2)	20/01/2023	2.14%	179bps	N
UOBSP 3.5% '29c24s	Positive (2)	27/02/2024	1.93%	149bps	UW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Key Ratios

FYE September	FY2018	FY2019	1H2020
Cost-income Ratio	44.60%	44.30%	46.70%
Loan to Deposit Ratio	112.89%	112.58%	110.52%
Non-Performing Loan Ratio	0.27%	0.33%	0.34%
Allowance/NPLs	230.97%	197.77%	256.65%
Credit Costs	0.14%	0.16%	0.38%
Equity/Assets	6.54%	6.56%	6.29%
CETier 1 Ratio (Full)	10.20%	10.38%	10.39%
Tier 1 Ratio	12.38%	12.36%	11.96%
Total CAR	14.12%	14.68%	14.61%
Return On Equity	11.20%	9.10%	8.10%
Return On Assets	0.71%	0.63%	0.26%

Source: Company, OCBC estimates

Please click here for a recent write-up on the issuer.

Société Générale ("SocGen")

Issuer Profile: Neutral (4)

Ticker: SOCGEN

Background

Headquartered in Paris, Société Générale ('SocGen') offers advisory services and financial solutions to individuals, large corporates, and institutional investors. It operates across 67 countries through three core businesses covering retail banking, corporate and investment banking, private banking, and wealth management. As at 31 March, 2020, it had total assets of EUR1,507.7bn.

Credit Outlook and Direction

Earnings weakness was on show in 1Q2020 results where SocGen reported a net loss of EUR326mn against a net profit of EUR686mn in 1Q2019. Half of the movement was due to a material rise in the net cost of risk but other impacts included a 16.8% y/y fall in net banking income with net banking income from French Retail Banking falling 1.2% y/y from a slow-down in retail activities from mid-March amidst the COVID-19 pandemic. The main drag however was a 27.3% y/y fall in net banking income in Global Banking & Investor Solutions from a 98.7% y/y fall in equity linked businesses which all occurred in March due to impacts on structured products activities, dividend cancellations, counterparty defaults, and increased reserves. Together with the weaker operating environment and 2Q2020 performance that may reflect continued weakness in trading and a slow recovery in market conditions, management could be forced to consider additional cost cutting plans and revisit its restructuring plan in Global Banking and Investor Solutions that started in 2019. On the plus side, non-performing loan ratios are at historically low levels and its capital position has strengthened from its restructuring activities. Combined with government support schemes, we will be keeping SocGen at Neutral (4) for now.

Bond Recommendation

We see better value in SocGen's AT1 given the large pick up against its Tier 2s which we believe more than compensates for the structural and duration risk.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
SOCGEN 4.3% '26c21s	Neutral (4)	19/05/21	3.51%	324bps	N
SOCGEN 6.125% 'PERPc24s	Neutral (4)	16/04/24	6.25%	580bps	OW
BPCEGP 4.50% '26c21s	Neutral (3)	03/06/21	3.18%	291bps	OW
BPCEGP 4.45% '25c20s	Neutral (3)	17/12/20	3.32%	307bps	OW
BNP 4.30% '25c20s	Neutral (3)	03/12/20	2.84%	260bps	N
BNP 4.35% '29c24s	Neutral (3)	22/01/24	4.12%	369bps	OW
ACAFP 3.8% '31c26s	Neutral (3)	30/04/2026	3.34%	272bps	N
ABNANV 4.75% '26c21s	Neutral (3)	01/04/21	2.85%	258bps	N

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2017	FY2018	FY2019
Cost-income Ratio	74.30%	71.14%	71.85%
Loan to Deposit Ratio	103.55%	107.30%	107.56%
Non-Performing Loan Ratio	4.86%	3.93%	3.52%
Allowance/NPLs	63.60%	63.53%	66.22%
Credit Costs	0.31%	0.22%	0.28%
Equity/Assets	5.02%	5.03%	5.06%
CETier 1 Ratio (Full)	11.40%	11.20%	12.70%
Tier 1 Ratio	13.80%	13.70%	15.10%
Total CAR	17.00%	16.70%	18.30%
Return On Equity	4.90%	7.10%	5.00%
Return On Assets	0.19%	0.33%	0.26%

Source: Company, OCBC estimates

Standard Chartered PLC ("StanChart")

Issuer Profile:	**Ticker:**
Neutral (4)	**STANLN**

Background

Formed in 1969, Standard Chartered PLC ('StanChart') is a universal bank, offering broad services aligned both globally and regionally. Although headquartered in the UK, StanChart's footprint is skewed towards emerging markets, mostly in Greater China & North Asia (Hong Kong). As at 31 March 2020, it had total assets of USD764.9bn.

Credit Outlook and Direction

StanChart's capital position remains sound despite its CET1/CAR ratios as at 31 March 2020 falling to 13.4%/19.6% against 13.8%/21.2% as at 31 December 2019 from risk weighted assets ("RWA") rising 3% q/q from both volume growth as well as a rise in credit risk (negative credit migration). This is because the CET1 ratio remains above the regulatory minimum requirement of 10.0% (reflects reduced counter-cyclical buffers in the UK and Hong Kong), and is within its 13-14% medium-term target range. CET1/CAR ratios incorporate the recent decision to cancel the final dividend for 2019 and suspend its share buy-back program and does not include an expected 40bps positive impact from of the sale of its 44.56% equity interest in PT Bank Permata Tbk to Bangkok Bank Public Company Ltd. Solid capital buffers will be important given StanChart's emerging market exposures with underlying credit impairments jumping materially q/q to USD956mn from USD78mn in 1Q2019. The rise in credit impairments were due to both increases in stage 1 & 2 impairments (on the weaker economic outlook) and stage 3 impairments (almost half due to two Corporate & Institutional exposures). While stage 3 or impaired loans rose 5% q/q to USD7.8bn, early alert accounts more than doubled to USD11.5bn with COVID-19 leading to entire sectors of exposure being put on early alert.

Bond Recommendation

We see better value in other European bank SGD Tier 2s against STANLN 4.4% '26c21s. The AT1 STANLN 5.375% PERPc24s on the other hand look fair value compared to similar credits and instruments.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
STANLN 4.4% '26c21s	Neutral (4)	23/01/2021	1.83%	158bps	UW
STANLN 5.375% 'PERPc24s	Neutral (4)	03/10/2024	5.60%	510bps	N
BACR 3.75% '30c25s	Neutral (4)	23/05/2025	3.44%	290bps	UW
CMZB 4.875% '27c22s	Neutral (4)	01/03/2022	6.47%	616bps	N
CMZB 4.2% '28c23s	Neutral (4)	18/09/2023	6.65%	625bps	UW
LBBW 3.75% '27c22s	Neutral (4)	18/05/2022s	5.27%	496bps	OW
SOCGEN 4.3% '26c21s	Neutral (4)	19/05/2021	3.51%	324bps	N
SOCGEN 6.125% 'PERPc24s	Neutral (4)	16/04/24	6.25%	580bps	OW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2017	FY2018	FY2019
Cost-income Ratio	72.20%	78.80%	70.90%
Loan to Deposit Ratio	76.19%	65.61%	66.24%
Non-Performing Loan Ratio	3.08%	3.21%	2.70%
Allowance/NPLs	64.23%	76.04%	78.17%
Credit Costs	0.65%	0.32%	0.39%
Equity/Assets	7.81%	7.31%	7.03%
CETier 1 Ratio (Full)	13.60%	14.20%	13.80%
Tier 1 Ratio	16.00%	16.80%	16.50%
Total CAR	21.00%	21.60%	21.20%
Return On Equity	1.70%	1.40%	4.20%
Return On Assets	0.20%	0.30%	0.30%

Source: Company, OCBC estimates

UBS Group AG ("UBS")

Issuer Profile: Neutral (3)

Ticker: UBS

Background

UBS Group AG ("UBS") is the world's largest wealth manager by assets under management. Based in Zurich and operating across 50 countries, UBS also provides Personal & Corporate Banking, Asset Management, and Investment Banking. As at 31 March 2020, it had total invested assets of USD3,236bn. There is no major shareholder of UBS with shareholdings widely spread across institutional investors with BlackRock Inc. and Artisan Partners amongst the 5 largest.

Credit Outlook and Direction

UBS announced a solid set of 1Q2020 results with profit before tax up 30% y/y to USD2.0bn due to strong net interest income performance (+18% y/y on better performance in Investment Bank and Global Wealth Management from higher lending revenues) and net fee and commission income growth (+22% y/y on higher client activity in Global Wealth Management and the Investment Bank from increased market volatility). This offset USD268mn in credit losses (USD89mn were for stages 1 and 2 exposures while USD179mn were for stage 3 or credit-impaired exposures) and drove a 10% y/y rise in total operating income. Operating expense growth was also lower at 4% y/y on lower general and administrative expenses. That said, the focus is on the future and UBS is exposed to a challenging operating environment as highlighted in the Swiss National Bank's Financial Stability Report 2020 that mentioned deteriorating credit quality and potentially lower client activity as key influences from COVID-19 on UBS's performance. On the flipside, UBS's CET1 capital ratio was 12.8% as at 31 March 2020 and remained both within expectations of 12.7%-13.3% and above minimum CET1 capital ratio requirements of 9.7%. We expect UBS's capital position and overall credit profile to remain protected somewhat by its strong business franchise as well as a supportive and pro-active regulatory environment.

Bond Recommendation

We are neutral the UBS SGD curve despite its solid fundamentals. We think the spread pick up for the CS 5.625% PERPc24s offers slightly better value.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommendation
UBS 5.875% 'PERPc23s	Neutral (3)	28/11/2023	4.90%	448bps	N
UBS 4.85% 'PERPc24s	Neutral (3)	04/09/2024	5.11%	462bps	N
BAERVX 5.9% 'PERPc20s	Neutral (3)	18/11/2020	6.03%	579bps	OW
BAERVX 5.75% 'PERPc22s	Neutral (3)	20/04/2022	5.21%	490bps	N
HSBC 4.7% 'PERPc22s	Neutral (3)	08/06/22	5.00%	468bps	N
HSBC 5.0% 'PERPc23s	Neutral (3)	24/09/23	4.97%	457bps	N
CS 5.625% 'PERPc24s	Neutral (4)	06/06/2024	5.54%	507bps	OW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2017	FY2018	FY2019
Cost-income Ratio	81.60%	79.90%	80.50%
Loan to Deposit Ratio	77.88%	76.30%	72.90%
Non-Performing Loan Ratio	0.66%	0.75%	0.95%
Allowance/NPLs	31.55%	32.24%	33.05%
Credit Costs	0.04%	0.04%	0.02%
Equity/Assets	5.60%	5.54%	5.63%
CETier 1 Ratio (Full)	13.80%	12.90%	13.70%
Tier 1 Ratio	17.60%	17.50%	20.00%
Total CAR	21.70%	19.80%	22.00%
Return On Equity	1.80%	8.60%	7.90%
Return On Assets	0.11%	0.48%	0.45%

Source: Company, OCBC estimates

United Overseas Bank Ltd ("UOB")

Issuer Profile: Positive (2)

Ticker: UOBSP

Background

United Overseas Bank Limited ('UOB') is Singapore's third largest consolidated banking group with total assets of SGD404.4bn as at 31 December 2019. It has a global network of around 500 offices in 19 countries in Asia Pacific, Europe, and North America. Business segments comprise Group Retail, Group Wholesale Banking, Global Markets and Others. Wee Investments Pte Ltd and Wah Hin & co Pte Ltd have an 8.0% and 5.15% stake in UOB, respectively, as of 3rd July 2020.

Credit Outlook and Direction

UOB's provisioning strategy appears different to peers with a comparatively lower amount of provisions raised through its income statement in 1Q2020, notwithstanding that impairment charges doubled y/y and that in addition to the SGD286mn 1Q2020 impairment charge, UOB also allocated SGD260mn from previously set aside provisions within its Regulatory Loss Allowance Reserves contained in the balance sheet. Management have indicated that current provisioning levels already include a SGD300mn management overlay for weaker macro-economic assumptions and SGD400mn allocation for credit portfolio deterioration. With a challenging outlook for banks, the lower provisioning levels for UOB could be somewhat aggressive given the slowing business momentum as indicated by management (which appears largely restricted to Singapore and China in 1Q2020) and various support measures employed against COVID-19. This includes loan relief schemes on around 12% of total loans (approx. SGD33bn), moratoriums for existing secured business loans and moratoriums for mortgage borrowers as reported in its 1Q2020 results. That said, credit ratios remain sound with UOB's CET1 ratio down 20bps q/q to 14.1% as at 31 March 2020. This provides some buffer against a likely reduction of operating profit drivers from 1Q2020 in 2Q2020.

Bond Recommendation

We see UOB's curve as relatively tight and see better value in other high quality names including the NAB 4.15% '28c23s.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommendation
UOBSP 3.5% '29c24s	Positive (2)	27/02/2024	1.93%	149bps	UW
UOBSP 4.0% 'PERPc21s	Positive (2)	18/05/2021	2.03%	175bps	N
UOBSP 3.58% 'PERPc26s	Positive (2)	17/07/2026	2.73%	209bps	UW
DBSSP 3.8% '28c23s	Positive (2)	20/01/2023	2.14%	179bps	N
DBSSP 4.7% 'PERPc20s	Positive (2)	22/11/2020	1.03%	79bps	N
DBSSP 3.98% 'PERPc25s	Positive (2)	12/09/2025	2.73%	216bps	N
NAB 4.15% '28c23s	Positive (2)	19/05/2023	2.90%	253bps	OW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Key Ratios

FYE December	FY2017	FY2018	FY2019
Cost-income Ratio	43.70%	43.90%	44.60%
Loan to Deposit Ratio	85.13%	88.21%	85.43%
Non-Performing Loan Ratio	1.78%	1.53%	1.54%
Allowance/NPLs	90.62%	77.09%	77.80%
Credit Costs	0.31%	0.15%	0.16%
Equity/Assets	10.33%	9.74%	9.86%
CETier 1 Ratio (Full)	15.10%	13.90%	14.30%
Tier 1 Ratio	16.20%	14.90%	15.40%
Total CAR	18.70%	17.00%	17.40%
Return On Equity	10.20%	11.30%	11.60%
Return On Assets	0.98%	1.07%	1.08%

Source: Company, OCBC estimates

Westpac Banking Corporation ("Westpac")

Issuer Profile: Positive (2)

Ticker: WSTP

Background

Westpac Banking Corporation ("Westpac") is Australia's oldest bank and second largest by market capitalization and total loans. It offers consumer, business, and institutional banking services as well as wealth management and insurance across Australia and New Zealand using a multi-branded strategy. As at 31 March 2020, it had total assets of AUD967.7bn.

Credit Outlook and Direction

Westpac's balance sheet was sound in 1HFY2020 with its APRA compliant CET1 ratio improved 17bps y/y and 14bps h/h to 10.81% as at 31 March 2020 as cash earnings and the AUD2.8bn capital raising in December 2019 offset the 2HFY2019 dividend paid along with risk weighted asset movements. While Westpac appears to have built up buffers over the years with its CET1 capital position and recently with the material rise in credit impairments, the still uncertain impact of COVID-19 and the eventual penalty related to civil proceedings by Australia's financial crimes regulator ("AUSTRAC") for alleged systemic breaches under the Anti-Money Laundering and Counter-Terrorism Financing Act continue to weigh on Westpac's credit profile and we hold Westpac's issuer profile at a Positive (2) albeit with a cautious outlook. This uncertainty prevailed in relation to capital management with Westpac deferring a decision on paying any dividends until the COVID-19 situation and impact becomes clearer. The impact of the AUSTRAC investigation no doubt also played a part in this decision. It has been reported that AUSTRAC is seeking a settlement in the range of AUD1.5bn while Westpac has set aside AUD900mn in provisions for settlement costs. Westpac is currently pursuing a dual track process to resolve AUSTRAC's statement of claim with settlement negotiations continuing alongside a court process which may only be decided in 2021. Unless the gap between settlement amounts shrinks, the AUSTRAC overhang may persist a while longer.

Bond Recommendation

Westpac's outstanding litigation represents an overhang on its fundamentals. We think NAB 4.15% '28c23s looks better value despite the higher business banking exposure.

Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

Please click here for a recent write-up on the issuer.

Relative Value

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW	Spread	Recommen-dation
WSTP 4.0% '27c22s	Positive (2)	12/08/2022	2.68%	235bps	N
ANZ 3.75% '27c22s	Positive (2)	23/03/2022	2.46%	215bps	N
NAB 4.15% '28c23s	Positive (2)	19/05/2023	2.90%	253bps	OW
DBSSP 3.8% '28c23s	Positive (2)	20/01/2023	2.14%	179bps	N
UOBSP 3.5% '29c24s	Positive (2)	27/02/2024	1.93%	149bps	UW

Indicative prices as at 3 July 2020 Source: Bloomberg, OCBC

Key Ratios

FYE September	FY2018	FY2019	1H2020
Cost-income Ratio	43.79%	48.94%	58.29%
Loan to Deposit Ratio	126.89%	126.90%	123.46%
Non-Performing Loan Ratio	0.20%	0.25%	0.30%
Allowance/NPLs	198.73%	204.65%	240.95%
Credit Costs	0.10%	0.11%	0.62%
Equity/Assets	7.34%	7.23%	6.99%
CETier 1 Ratio (Full)	10.63%	10.67%	10.81%
Tier 1 Ratio	12.78%	12.84%	12.94%
Total CAR	14.74%	15.63%	16.29%
Return On Equity	13.10%	10.65%	3.52%
Return On Assets	0.92%	0.96%	0.25%

Source: Company, OCBC estimates

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Treasury Research & Strategy

Macro Research

Selena Ling
Head of Strategy & Research
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, CFA
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

OCBC Bank

Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7-point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Explanation of Bond Recommendation

Overweight ("OW") – The bond represents **better relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Neutral ("N") – The represents **fair relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Underweight ("UW") – The represents **weaker relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Please note that Bond Recommendations are dependent on a bond's price, underlying risk-free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed. We may also suspend our issuer rating and bond level recommendation in the ordinary course of business if (1) we believe the current issuer profile is incorrect and we have incomplete information to complete a review; or (2) where evolving circumstances and increasingly divergent outcomes for different investors results in less conviction on providing a bond level recommendation.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

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Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons held financial interests in the following above-mentioned issuers or companies as at the time of the publication of this report: Singapore Airlines Ltd, GuocoLand Ltd, Perennial Real Estate Holdings Ltd, Oxley Holdings Ltd, Suntec Real Estate Investment, Mapletree Commercial Trust, Frasers Hospitality Trust, United Overseas Bank Ltd, BreadTalk Group Ltd, CapitaMall Trust and Ascott Residence Trust.

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