

Asian Credit Daily

Friday, October 22, 2021

Market Commentary

- Shorter tenors (with the exception of the 1-year and 18M trading 0-1bps higher) traded 2bps lower, belly tenors traded 0-1bps lower, and longer tenors (with the exception of the 10-year and 12-year trading 0-1bps higher) traded 1-2bps lower yesterday across the SGD swap curve.
- There were light flows in SGD corporates yesterday, with flows in STSP 3.3%-PERPs.
- UST 10Y Yields rose 4bps to 1.70% yesterday amidst a lower-than-expected weekly jobless claims released by the US Department of Labour. Initial jobless claims for the week ending 16 October came in at 290,000, lower than the 300,000 forecasted by economists surveyed by Dow Jones.

Credit Research

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Credit Summary:

- [Ascendas Real Estate Investment Trust \(“AREIT”\)](#) | **Issuer Profile: Neutral (3)**: AREIT announced the acquisition of 11 logistics properties located in Kansas City, United States, for SGD207.8mn. Given the small acquisition size relative to the total investment properties size (SGD16.2bn), we maintain AREIT at Neutral (3) Issuer Profile.
- [Barclays PLC \(“Barclays”\)](#) | **Issuer Profile: Neutral (4)**: Barclays announced its 3Q2021 results. Barclay’s outlook appears constructive but cost pressure could erode profitability given income performance is less predictable. Management expects that Barclays’ capital position will also trend lower heading into 2022 from reduced regulatory benefits and may settle within the 13-14% target range with further reversal of regulatory benefits, capital distributions and acquisition payments to overshadow expected 2022 earnings. Still, Barclays retains adequate buffers to absorb any unforeseen volatility in the operating environment at the current Neutral (4) issuer profile level in our view.
- [Suntec Real Estate Investment Trust \(“SUNTEC”\)](#) | **Issuer Profile: Neutral (4)**: SUNTEC announced 3Q2021 business updates. We may review SUNTEC’s issuer profile for SUNTEC for a potential downgrade.

Asian Credit Daily**Credit Headlines****Barclays PLC (“Barclays”) | Issuer Profile: Neutral (4):**

- Barclays announced its 3Q2021 results with a record group profit before tax of GBP2.0bn as ongoing solid performance in Corporate and Investment Bank (“CIB”) was accompanied by a recovery in the consumer businesses from economic re-openings and rising interest rates. 9M2021 group profit before tax was GBP6.9bn.
- Total income for 9M2021 was flat at GBP16.8bn as Barclays UK income rose 2% y/y to offset a 2% y/y fall in Barclays International income. Driving Barclays UK performance was solid UK mortgage and deposit volumes and improved Business Banking income while in Barclays International, Consumer, Cards and Payments total income was down 6% y/y due to lower cards balances. CIB total income was down slightly (-1% y/y) as higher investment banking fees and equities income was offset by lower FICC income.
- With revenue generation stable, Barclays appears focused on balancing total expenditure through cost efficiency and investments in high returning businesses with several structural cost actions planned for 4Q2021. Operating expenses rose 6% y/y for 9M2021 against stable total income performance due to a 2Q2021 real estate review, higher performance costs and ongoing investments. Its cost to income ratio though has remained stable compared to FY2020 at 64.0% for 3Q2021 and 9M2021.
- Given the improved operating environment and performance of the credit portfolio, Barclays recognised a net credit impairment release of GBP0.6bn for 9M2021 against GBP4.3bn raised in 9M2020 due to the peak impact of COVID-19 uncertainty. This reversal in position drove the 186.9% y/y rise in group profit before tax.
- The net release includes a GBP1.1bn reversal in non-default charges or general provisions while there was still a GBP0.5bn charge which is expected to remain below historical levels in the next few quarters due to reduced unsecured lending balances and a higher proportion of secured loans. Management have also indicated that management overlays for potential deterioration remain in place given that government support programs are expected to reduce with loan coverage ratios for unsecured and wholesale loan portfolios remain elevated.
- Barclays’ capital position further improved 30bps q/q to 15.4% as at 30 September 2021 (15.1% as at 30 June 2021 and as at 31 December 2020). Solid earnings improvement offset the reversal of regulatory forbearance measures announced in FY2020, dividends paid as well as other payments (pensions deficit contributions). Risk weighted assets were broadly stable compared to the start of the year as lower consumer lending was balanced by growth in UK mortgages. The ratio remains above its 13-14% target range for FY2021 and well above its minimum capital requirement and maximum distributable amount (“MDA”) hurdle of 11.2%.
- Barclays outlook appears constructive but cost pressure could erode profitability given income performance is less predictable. Management expects that Barclays’ capital position will also trend lower heading into 2022 from reduced regulatory benefits and may settle within the 13-14% target range with further reversal of regulatory benefits, capital distributions and acquisition payments to overshadow expected 2022 earnings. Still, Barclays retains adequate buffers to absorb any unforeseen volatility in the operating environment at the current Neutral (4) issuer profile level in our view. (Company, OCBC)

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Ascendas Real Estate Investment Trust (“AREIT”) | Issuer Profile: Neutral (3):

- AREIT announced the acquisition of 11 logistics properties located in Kansas City, United States, for SGD207.8mn. This will increase the proportion of logistics properties owned by AREIT to 22% of the total portfolio (from 21%).
- This will be financed through existing debt facilities. Given the small acquisition size relative to the total investment properties size (SGD16.2bn), we maintain AREIT at Neutral (3) Issuer Profile. (Company, OCBC)

Suntec Real Estate Investment Trust (“SUNTEC”) | Issuer Profile: Neutral (4):

- SUNTEC announced 3Q2021 business updates. Revenue increased 16.5% y/y to SGD92.7mn while net property income (“NPI”) increased 45.5% y/y to SGD68.8mn. Joint venture income rose 21.7% y/y to SGD30.3mn. A large part of the increase was due to contributions from properties which are newly acquired such as the Minster Building (contributed SGD4.5mn revenue and SGD4.1mn NPI, acquired on 28 Jul 2021) and Nova Properties (contributed SGD8.2mn NPI). Meanwhile, Suntec City Mall saw higher revenue (+12.9% y/y to SGD23.7mn) due to lower rent assistance and higher occupancy and 177 Pacific Highway saw a 25.7% y/y bump in revenue to SGD12.7mn due to a one-off surrender fee.
- Performance of the underlying properties though may diverge.
 - Singapore office portfolio occupancy rate was 96.1% as at 3Q2021 and SUNTEC expects positive rental reversion for 2021 with revenue growth from higher occupancy and cumulative positive rent reversion from this segment.
 - Meanwhile, rent reversion for Suntec City mall is -10% excluding anchor leases, with tenant sales in 3Q2021 24% lower than 2019’s. SUNTEC expects rent reversions to remain weak due to uncertainty in the operating environment though mall occupancy is on track to remain around 95%.
 - Recovery for Suntec convention is expected to be slow due to weak international business and leisure travel.
 - Meanwhile, the extended lockdowns in Sydney and Melbourne has dampened economic recovery, with nationwide CBD office vacancy of 14% expected to increase further while CBD retail in Melbourne is expected to remain challenging with slow return of workforce.
- Reported adjusted interest coverage ratio (“ICR”, based on trailing twelve months) fell q/q to 2.7x (2Q2021: 2.8x), a figure which is borderline above MAS’s 2.5x ICR requirement which will kick in Jan 2022.
- Aggregate leverage rose q/q to 44.3% (2Q2021: 43.1%) following the completion of the acquisition of the Minster Building (28 Jul 2021). We may review SUNTEC’s issuer profile for SUNTEC for a potential downgrade. (Company, OCBC)

Key Market Movements

	22-Oct	1W chg (bps)	1M chg (bps)		22-Oct	1W chg	1M chg
iTraxx Asiax IG	85	-1	0	Brent Crude Spot (\$/bbl)	84.62	-0.28%	11.06%
iTraxx SovX APAC	25	-1	0	Gold Spot (\$/oz)	1,785.01	0.98%	0.95%
iTraxx Japan	48	-2	0	CRB	236.60	-0.64%	8.37%
iTraxx Australia	68	-2	3	GSCI	585.83	-0.02%	10.72%
CDX NA IG	52	0	0	VIX	15.01	-10.97%	-38.38%
CDX NA HY	109	0	0	CT10 (%)	1.689%	11.84	38.81
iTraxx Eur Main	50	0	1				
iTraxx Eur XO	257	1	15	AUD/USD	0.746	0.53%	2.94%
iTraxx Eur Snr Fin	57	-1	0	EUR/USD	1.163	0.21%	-0.53%
iTraxx Eur Sub Fin	0	0	0	USD/SGD	1.347	0.10%	0.48%
iTraxx Sovx WE	4	0	0	AUD/SGD	1.005	-0.43%	-2.39%
USD Swap Spread 10Y	1	1	-2	ASX 200	7,409	0.64%	1.54%
USD Swap Spread 30Y	-22	1	2	DJIA	35,603	1.98%	4.96%
US Libor-OIS Spread	5	1	0	SPX	4,550	2.51%	4.49%
Euro Libor-OIS Spread	-6	0	0	MSCI Asiax	829	1.44%	2.78%
				HSI	26,018	4.23%	7.41%
China 5Y CDS	48	-1	5	STI	3,189	0.75%	4.61%
Malaysia 5Y CDS	57	-2	9	KLCI	1,592	-0.55%	4.09%
Indonesia 5Y CDS	83	-3	3	JCI	6,633	1.47%	8.59%
Thailand 5Y CDS	39	-2	0	EU Stoxx 50	4,156	0.16%	0.13%
Australia 5Y CDS	15	0	0				

Source: Bloomberg

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New Issues

- Zhaoqing Guolian Investment Holdings Co Ltd priced a USD300mn 3-year senior unsecured sustainability bond at 2.68%, tightening from an IPT of 3% area.
- Industrial & Commercial Bank of China Ltd/Singapore priced a USD1.05bn 3-year senior unsecured green bond at T+30bps, tightening from an IPT of T+70bps area. Meanwhile, Industrial & Commercial Bank of China Ltd/Hong Kong priced a USD1.0bn 5-year senior unsecured green bond at T+45bps, tightening from an IPT of T+85bps area.
- Far East Horizon Ltd priced a USD300mn 5-year senior unsecured bond at T+320bps, tightening from an IPT of T+340bps area.
- Huzhou City Investment Development Group Co Ltd priced a USD200mn 5-year senior unsecured bond at 2.95%, tightening from an IPT of 3.25% area.
- Chongqing Southern New City Industrial Investment Group Co. Ltd. has arranged investor calls commencing 21 October for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
21-Oct-21	Zhaoqing Guolian Investment Holdings Co Ltd	USD300mn	3-year	2.68%
21-Oct-21	Industrial & Commercial Bank of China Ltd/Singapore	USD1.05bn	3-year	T+30bps
21-Oct-21	Industrial & Commercial Bank of China Ltd/Hong Kong	USD1.0bn	5-year	T+45bps
21-Oct-21	Far East Horizon Ltd	USD300mn	5-year	T+320bps
21-Oct-21	Huzhou City Investment Development Group Co Ltd	USD200mn	5-year	2.95%

Source: OCBC, Bloomberg

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