OCBC TREASURY RESEARCH

Asian Credit Daily

Thursday, May 6, 2021

Market Commentary

- The SGD swap curve bull flattened yesterday, with shorter tenors trading at 1bps lower. Belly tenors traded 1-2bps lower while longer tenors traded 3bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 142bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 606bps. The HY-IG Index Spread tightened 3bps to 464bps.
- There were heavy flows yesterday including in STSP 3.3%-PERPs, OLAMSP 4%'26s, OLAMSP 5.375%-PERPs, CAPITA 2.1%'28s and CS 5.625%-PERPs.
- 10Y UST Yields fell 2bps to 1.57% on the back of weaker-than expected payroll data. Automatic Data Processing Inc. reported that the private sector had gained 742,000 jobs in April, which was just short of the 800,000 forecast from economists surveyed by Dow Jones.

Credit Research

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Credit Summary:

- **Hongkong Land Ltd ("HKL") | Issuer Profile: Positive (2):** HKL issued an interim management statement for 1Q2021. As at 31 March 2021 net debt was USD4.2bn down from USD4.6bn at end 2020 while committed liquidity was USD4.3bn unchanged from end 2020.
- **National Australia Bank Ltd ("NAB") | Issuer Profile: Positive (2):** NAB announced its 1HFY2021 results for the six months ended 31 March 2021 with cash earnings before tax and distributions up 58.2% h/h and 92.2% y/y to AUD4.7bn. Rounding out the results is NAB's solid capital buffers with its CET1 position improving 90bps h/h to 12.37% as at 31 March 2021, above the bank's target range of 10.75-11.25%. We maintain the Positive (2) issuer profile on NAB.
- **Singapore Press Holdings Ltd ("SPH") | Issuer Profile: Unrated:** Following the announcement in end March 2021 to conduct a strategic review, SPH will be restructuring its media business by transferring its media business to a not-for-profit entity ("SPH Media"). Post restructuring, SPH Media will be deconsolidated and removes any future funding requirements / losses. Reported gearing (based on net debt / total assets) would increase 1.5ppt to 32.4% post restructuring as net asset value falls by SGD238mn. We note that the restructuring exercise reduces net asset value by SGD238mn, while the Media segment is loss-making.
- **Singapore Post Limited ("SPOST") | Issuer Profile: Neutral (3):** SPOST announced second half and full year results for financial year ended March 2021 ("FY2021"). Revenue rose 6.9% y/y to SGD1.4bn, led by strong eCommerce volume growth in the Logistics and Domestic Post and Parcel segments, offset by lower International Post and Parcel revenue for FY2021. EBITDA (based on our calculation) fell 32.8% y/y to SGD140.2mn, with EBITDA/Interest was at 12.7x, down from 16.5x a year ago. We maintain SPOST at an issuer profile of Neutral (3).
- **Scentre Group ("SCG") | Issuer Profile: Positive (2):** SCG released its 1Q2021 operational update. Portfolio occupancy remained strong at 98.5% at end March 2021. At the end of April 2021, footfall was equivalent to 93% of 2019 levels. Specialty in-store sales over 1Q2021 were up 6.3% y/y while majors sales was down 0.4% y/y. Gross rent collected was AUD802mn from Jan to April 2021, including AUD601mn during 1Q2021.
- **United Overseas Bank Ltd ("UOB") | Issuer Profile: Positive (2):** UOB's 1Q2021 trading update was solid on an underlying and reported basis with net profit after tax up 46% q/q and 18% y/y to SGD1.0bn. Underlying trends were constructive with 11% q/q total income growth against a 4% q/q rise in total expenses leading to 16% q/q operating profit growth to SGD1.4bn. The y/y operating profit growth was 6%. Loans growth led to a 40bps q/q dip in the CET1 ratio to 14.3% as at 31 March 2021. Overall the results look solid from an earnings and balance sheet quality perspective and with sound fundamentals in our view, we will keep the positive (2) issuer profile.

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Credit Headlines

Hongkong Land Ltd ("HKL") | Issuer Profile: Positive (2)

- HKL issued an interim management statement for 1Q2021.
- Hong Kong: Both Office and Retail segments saw negative rental reversions. For office, actual vacancy rate as at 31 March 2021 was 7.6%, up from 6.3% at end 2020. For retail, trading conditions have improved marginally y/y though the luxury segment remains weaker relative to pre-pandemic levels. HKL continues to provide temporary rent relief to support its retail tenants on a case-by-case basis. Actual vacancy rate was 1.7% as at 31 March 2021, up from 0.3% at end 2020.
- Mainland China: For Beijing, trading performance at WF CENTRAL continued to benefit from the strength of luxury retail sentiment in mainland China with tenants sales in 1Q2021 exceeding that of 1Q2020. In Shanghai, construction has commenced at the mixed-use joint development on the West Bund, with completion in multiple phases to 2027. HKL's attributable interest in contracted sales was USD410mn 1Q2021, up from USD107mn a year ago. This was due to the effect of pandemic-related suspensions of sales and development activities in the prior year. While HKL has participated in a number of land auctions on the Mainland China over 1Q2021, it remained difficult to secure new sites due to a highly competitive primary land market.
- Singapore: Office rental reversions were mildly negative though expected to turn positive by end June. Actual vacancy rate rose to 7.9% from 2.1% at end 2020 due to the timing of new tenant occupancy. HKL's attributable interest in contracted sales was lower at USD89mn in 1Q2020 vs USD170mn a year ago, due to the timing of sales launches, although buyer sentiment improved.
- Rest of Southeast Asia: Construction activities remain partially curtailed by the pandemic and market sentiment remains subdued.
- As at 31 March 2021 net debt was USD4.2bn down from USD4.6bn at end 2020 while committed liquidity was USD4.3bn unchanged from end 2020. (OCBC, Company)

Credit Headlines

National Australia Bank Ltd ("NAB") | Issuer Profile: Positive (2)

- NAB announced its 1HFY2021 results for the six months ended 31 March 2021 with cash earnings before tax and distributions up 58.2% h/h and 92.2% y/y to AUD4.7bn. The driver for the improvement that is similar to the other Australian bank results was the reversal in credit impairments with a net writeback in provisions of AUD1.7bn and AUD1.3bn respectively on a h/h and y/y basis. Y/y performance was also assisted by the absence of large notable items in 1HFY2021 compared to 1HFY2020.
- Otherwise, underlying profit was stable on a h/h and y/y basis which is a solid result given that 1HFY2020 contained a period of normal operating conditions that were before the onset of COVID-19. That said, there was lower operating income on a h/h basis on competitive pressures and changes to the product mix which impacted housing lending margins as well as lower marked to market gains from Markets and Treasury. Operating expenses fell as well on a h/h basis although not as much as the fall in operating income with movements driven by lower restructuring-related costs, higher use of annual leave entitlements and productivity benefits as well as lower occupancy and depreciation expenses. These offset higher staff expenses for performance-based compensation and additional resources for COVID-19 support and business growth.
- As mentioned, credit impairments fell by AUD1.7bn on a net basis h/h – this was due to a AUD1.0bn reduction in forward looking provisions to reflect the improved operating environment against prior period expectations. Underlying provisions also improved by AUD687mn on lower individual impaired exposures and collective provisioning requirements. Individual impairment trends were supported by reduced impairments in Business and Private Banking in general and a small number of larger exposures in New Zealand banking along with writebacks while COVID-19 support assisted with low charges in Personal Banking and improve delinquencies in the unsecured retail portfolio.
- As for its peers, Australia's economic outlook is improving, and this drove the AUD1.4bn reduction in collective credit impairment charges. In particular, the movements for NAB reflect:
  - Partial release and non-repeat of prior period economic adjustments for COVID-19;
  - Reduced forward looking adjustments for targeted sectors impacted by COVID-19;
  - Improved delinquencies in the Australian unsecured retail portfolio;
  - Absence of rating downgrade related charges in business lending exposures; and
  - Improved outlook for the Australian mortgage portfolio.

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Credit Headlines

National Australia Bank Ltd ("NAB") | Issuer Profile: Positive (2)

- Overall provisions decreased by 5.8% h/h to AUD6.0bn although 88% of the reduction was for collective provisions indicating that NAB continues to keep provisions in place for specific exposures to indicate still challenging operating conditions for select borrowers particularly as COVID-19 support measures wind down. The ratio of 90+ days past due loans to gross loans and acceptances increased 23bps to 0.95% due to the expiration of COVID-19 deferrals mostly in the Australian mortgage portfolio but also in business lending exposures within Business and Private Banking. However, the ratio of gross impaired assets to gross loans and acceptances fell 3bps to 0.28% due to improvements in a small number of larger exposures within Corporate and Institutional Banking and business lending in New Zealand.
- Rounding out the results is NAB's solid capital buffers with its CET1 position improving 90bps h/h to 12.37% as at 31 March 2021, above the bank's target range of 10.75-11.25%. On a proforma basis including sale of MLC Wealth and BNZ Life, the ratio improves to 12.75% as at 31 March 2021. Earnings were the main driver of the improvement (+78bps) as well as asset quality improvement and other movements which reduced risk weighted assets (+14bps) against a 20bps reduction for dividends. The capital buffer is now around AUD18bn. On an internationally comparable basis, NAB's CET1 ratio was at 17.01% as at 31 March 2021.
- NAB's balance sheet looks resilient while the operating environment is expected to further improve. We maintain the Positive (2) issuer profile on NAB (Company, OCBC)

Credit Headlines

Singapore Press Holdings Ltd ("SPH") | Issuer Profile: Unrated

- Following the announcement in end March 2021 to conduct a strategic review, SPH will be restructuring its media business by transferring its media business to a not-for-profit entity ("SPH Media").
  - The not-for-profit entity will be a newly formed public company limited by guarantee ("CLG"), which SPH will provide more details.
- The transfer amounts to a total value of SGD351.3mn (SGD252.3mn if key leases are accounted for as book value), which will include:
  - Target Shares worth SGD88.8mn in book value, including Media OpCo, New Beginnings Management Consulting (Shanghai) Company Ltd, Singapore Press Holdings (Overseas) Ltd, Straits Digital Innovation Co Ltd, SPH (Americas) Pte Ltd, Focus Publishing Ltd, Red Anthill Ventures Pte Ltd. Associated companies will also be part of the transfer, which includes Target Media Culcreative Pte Ltd, Singapore Media Exchange Pte Ltd, AsiaOne Online Pte Ltd, DC Frontiers Pte Ltd.
  - Key Leases worth SGD147.0mn according to market valuation (book value: SGD48.0mn), which include 1000 Toa Payoh North, S318994 ("News Centre") and 2 Jurong Port Road, S619088 ("Print Centre"). The News Centre which is used for SPH's headquarters has a GFA of 584k sq ft with lease expiring in 2031 while the Print Centre which is used for SPH's printing facilities has a GFA of 1.1mn sq ft with lease expiring in 2034.
  - 23,446,659 units in SPH REIT worth SGD21.4mn in book value. This represents around 0.84% of the total units in SPH REIT. Prior to the transfer, SPH holds 66.23% stake in SPH REIT.
  - 6,868,132 shares in SPH worth SGD14.1mn in book value. This represents around 0.43% of the total shares in SPH.
  - SGD80mn minimum cash balance.
- In addition, SPH will assume certain liabilities, costs and expenses potentially arising from the proposed restructuring.
- Post restructuring, SPH Media will be deconsolidated and removes any future funding requirements / losses. Excluding Job Support Scheme grant of SGD12.8mn, SPH Media made a loss of SGD9.7mn in 1HFY2021. Management anticipates the segment to face further financial losses. In addition, post transaction SPH will no longer be bound by the provisions of the Newspaper and Printing Presses Act.
- Reported gearing (based on net debt / total assets) would increase 1.5ppt to 32.4% post restructuring as net asset value falls by SGD238mn.

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Credit Headlines

Singapore Press Holdings Ltd ("SPH") | Issuer Profile: Unrated

- SPH is looking to tailor its capital and funding structure and explore strategic options in respect of other businesses to unlock and maximise value for SPH shareholders. The other key businesses post transaction include its 65.4% stake in SPH REIT (worth ~SGD1.58bn), The Seletar Mall (valued at SGD480mn as of 31 Aug 2020), The Woodleigh Residences (sold 412 units, or 62% of total units at SGD1,923 psf as of 22 Mar 2021), Aged Care segment (including Orange Valley in Singapore and Japan Aged Care), 27 purpose-built student accommodation ("PBSA") in the UK worth GBP784.3k (~SGD1.46bn) and 1 purpose built student accommodation ("PBSA") in Germany worth EUR16.4mn (~SGD26.3mn) as of 31 Aug 2020.
- According to the SPH's multicurrency debt issuance program, non-disposal covenant applies for the straight bonds (SGD500mn SPHSP 3.2% '30s) though the same covenant does not apply for its perpetuals. Non-disposal covenant spells out that "none of its Principal Subsidiaries will… transfer… or otherwise dispose of… all or substantially all of its assets". Principal Subsidiaries is defined as any subsidiary whose net assets is at least 5% of the net assets of SPH (5% of SGD5.25bn in net assets as at 28 February 2021 was SGD262.7mn) and whose profits is at least 5% of the consolidated profits attributable to shareholders of the Group. We note that the restructuring exercise reduces net asset value by SGD238mn, while the Media segment is loss-making. (Company, OCBC)

Credit Headlines

Singapore Post Limited ("SPOST") | Issuer Profile: Neutral (3)

- SPOST announced second half and full year results for financial year ended March 2021 ("FY2021"). Revenue rose 6.9% y/y to SGD1.4bn, led by strong eCommerce volume growth in the Logistics and Domestic Post and Parcel segments, offset by lower International Post and Parcel revenue for FY2021. That said, profit on operating activities fell by 44.8% y/y to SGD79.3mn due to a 13.6% y/y increase in operating expenses, largely due to volume-related expenses (i.e. traffic expenses and cost of sales) which rose 18.5% y/y to SGD429.2mn due to increase in per unit rates for line haul costs as a result of COVID-19 disruptions as well as growth in eCommerce volumes. Underlying net profit was SGD60.1mn, down 40.0% y/y.
    - Post & Parcel: In FY2021, revenue fell 2.7% y/y to SGD742.8mn while profit on operating activities was down by 63.7% y/y to just SGD43.5mn. International margins were largely eroded due to COVID-19 air freight disruption (led to higher conveyance costs), though partially offset by growth in domestic eCommerce contribution.
    - Logistics: Revenue rose 23.5% y/y to SGD619.1mn. Profit on operating activities was SGD11.3mn vs a loss of SGD5.5mn a year ago. Increased adoption of eCommerce activities in APAC resulted in more customers coming on board for eCommerce solutions – leading to improved revenue and economies of scale.
    - Property & Self Storage: Revenue fell 4.7% y/y to SGD115.4mn. Profit on operating activities fell 7.2%y/y to SGD50.0mn. Committed occupancy at SingPost Centre retail mall fell to 94.1% from 99.8% at end 2020 while that for the office was lower at 96.6% vs 98.1% at end 2020. For 2HFY2021, footfall was down 22% y/y while tenant sales was down 13% y/y. In FY2022, 29% of leases by net lettable area at the mall will expire while that for the office part of the property is 21%.
- EBITDA (based on our calculation) fell 32.8% y/y to SGD140.2mn, with EBITDA/Interest was at 12.7x, down from 16.5x a year ago. As at 31 March 2021, gross debt-to-equity fell to 0.19x (down from 0.22x as at 30 March 2020). Perpetuals make up 12.7% of total capital as at 31 March 2021 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 0.10x. Excluding perpetual securities, SPOST is in a strong net cash position of SGD178.9mn. We maintain SPOST at an issuer profile of Neutral (3). (Company, OCBC)

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Credit Headlines

Scentre Group ("SCG") | Issuer Profile: Positive (2)

- SCG released its 1Q2021 operational update. Portfolio occupancy remained strong at 98.5% at end March 2021. At the end of April 2021, footfall was equivalent to 93% of 2019 levels. Specialty in-store sales over 1Q2021 were up 6.3% y/y while majors sales was down 0.4% y/y. Gross rent collected was AUD802mn from Jan to April 2021, including AUD601mn during 1Q2021. This is an increase of 27% or AUD169mn compared to the 4 months to 30 April 2020.
- The AUD55mn entertainment, leisure and dining precinct development at Westfield Mt Druitt is progressing well and is expected to open at the end of 2021 and works on behalf of Cbus Property to design and construct the residential and commercial tower in Sydney's CBD, are progressing well, with completion expected in 2023. (Company, OCBC)

Credit Headlines

United Overseas Bank Ltd ("UOB") | Issuer Profile: Positive (2)

- UOB's 1Q2021 trading update was solid on an underlying and reported basis with net profit after tax up 46% q/q and 18% y/y to SGD1.0bn. Underlying trends were constructive with 11% q/q total income growth against a 4% q/q rise in total expenses leading to 16% q/q operating profit growth to SGD1.4bn. The y/y operating profit growth was 6%.
- Stable net interest margins at 1.57% on a q/q basis and 4% q/q loan growth assisted net interest income which rose 1% q/q but record net fee and commission income (+22% q/q) from wealth management, loan related and investment banking activities was the driver of total income performance. Trading and investment income rose 62% y/y from stronger customer flows, trading income and higher gains from investment securities which also supported other non-interest income rising 49% q/q.
- On a y/y basis, net interest income fell 4% as a 14bps fall in net interest margins offset 5% y/y loan growth, however strong performance in net fee and commission income and other non-interest income (+25% and +7% y/y respectively) translated to a 3% y/y rise in total income for 1Q2021. Overall, this performance appears indicative of UOB's solid business position given that 1Q2020 still contained a period of normal business conditions before the onset of COVID-19.
- Despite total income growth, operating expenses remained contained rising 4% q/q and stable y/y translating to positive JAWS on a q/q and y/y basis. Operating expense performance was due to staff expenses and investments in digitalisation and technology but mitigated by lower discretionary spending. The cost to income ratio was 43.8% for 1Q2021 against 46.7% in 4Q2020 and 45.1% in 1Q2020.
- Impairments fell by 49% q/q and 29% y/y to SGD201mn which is not as noticeable as other banks we cover compared to prior periods but nevertheless assisted with overall earnings performance. Total credit costs as a percentage of total loans fell to 29bps against 55bps in 4Q2020 and 36bps in 1Q2020. Loan quality trends are supportive of the lower impairments with the non-performing loan ("NPL") ratio at 1.5% as at 31 March 2020 against 1.6% as at 31 December 2020. Overall loan quality appears stable with moderate new NPL formation (although loans growth also assisted the NPL ratio) and total non-performing assets falling on higher upgrades and recoveries while the non-performing asset allowance coverage ratio remains solid at 112% or 257% after considering collateral as at 31 March 2021.
- Loans growth led to a 40bps q/q dip in the CET1 ratio to 14.3% as at 31 March 2021. Its liquidity coverage ratio and net stable funding ratio remained well above the minimum regulatory requirements at 139% and 121% respectively as at 31 March 2021.
- Overall the results look solid from an earnings and balance sheet quality perspective and with sound fundamentals in our view, we will keep the positive (2) issuer profile. (Company, OCBC)

Key Market Movements

	6-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	79	-1	15
iTraxx SovX APAC	26	0	-1
iTraxx Japan	48	0	3
iTraxx Australia	61	0	0
CDX NA IG	51	1	-1
CDX NA HY	110	0	0
iTraxx Eur Main	50	0	0
iTraxx Eur XO	252	2	6
iTraxx Eur Snr Fin	59	1	1
iTraxx Eur Sub Fin	108	-9	-1
iTraxx Sovx WE	6	0	0
USD Swap Spread 10Y	-1	-1	-4
USD Swap Spread 30Y	-26	-1	-4
US Libor-OIS Spread	10	0	-3
Euro Libor-OIS Spread	-5	0	0
China 5Y CDS	37	0	4
Malaysia 5Y CDS	46	1	3
Indonesia 5Y CDS	78	1	-7
Thailand 5Y CDS	41	0	3
Australia 5Y CDS	15	0	-12

	6-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	68.46	-0.15%	9.12%
Gold Spot ($/oz)	1,784.52	0.70%	2.37%
CRB	204.14	1.89%	9.85%
GSCI	519.21	2.83%	10.81%
VIX	19.15	10.82%	5.68%
CT10 (%)	1.580%	-5.42	-7.59
AUD/USD	0.774	-0.28%	1.04%
EUR/USD	1.200	-0.97%	1.07%
USD/SGD	1.336	-0.69%	0.23%
AUD/SGD	1.035	-0.41%	-0.80%
ASX 200	7,087	0.06%	2.92%
DJIA	34,230	1.21%	2.39%
SPX	4,168	-0.37%	2.30%
MSCI Asiax	871	-2.71%	-1.53%
HSI	28,418	-2.25%	-1.80%
STI	3,154	-2.05%	-1.68%
KLCI	1,576	-1.93%	-0.21%
JCI	5,976	0.02%	-0.45%
EU Stoxx 50	4,003	-0.30%	0.82%

Source: Bloomberg

New Issues

- NAVER Corp priced a USD300mn re-tap of its NHNCOR 1.5%'26s at T+85bps, tightening from IPT of T+110bps area.
- Korea Expressway Corporation has arranged investor calls commencing 6 May for its proposed USD sustainability bond offering.

Date	Issuer	Size	Tenor	Pricing
05-May-21	NAVER Corp	USD300mn	NHNCOR 1.5%'26s	T+85bps
04-May-21	Dua Capital Ltd.	USD400mn USD600mn	5-year 10-year	T+85bps T+120bps
04-May-21	Shinhan Financial Group Co Ltd	USD500mn	PerpNC5	2.875%
04-May-21	PT Sarana Multi Infrastruktur Persero	USD300mn	5-year	2.05%
04-May-21	Newcastle Coal Infrastructure Group Pty Ltd (Guarantor: NCIG Holdings Pty Ltd)	USD450mn	10-year	T+320bps
04-May-21	Changi Airport Group (Singapore) Pte. Ltd.	SGD500mn	10-year	1.88%
03-May-21	Mapletree Industrial Trust	SGD300mn	PerpNC5	3.15%

Source: OCBC, Bloomberg

OCBC TREASURY RESEARCH

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