

### Market Commentary

- The SGD swap curve traded higher yesterday, with shorter tenors trading 2-4bps higher, belly tenors trading 4-7bps higher, and longer tenors trading 6-7bps higher.
- There were light flows in SGD Corporates yesterday, with flows in SINTEC 4.2%-PERPs.
- UST 10Y yields traded 12bps higher to 1.63% yesterday, exceeding 1.60% for the first time since the emergence of the Omicron variant in late November last year. This was registered amidst growing investor expectations of three rate hikes by the Fed in 2022, alongside investors' selling of treasuries to hedge their purchases of corporate bonds.

### Credit Research

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### Credit Summary:

- **Industry Outlook - Singapore Property:** We turned out to be too bearish on SG private property prices. 4Q2021 flash estimates are up 5.0% q/q (3Q2021: +1.1% q/q), lifting full year prices up 10.6% and beating our 7-10% growth forecast. Despite the property cooling measures implemented on 16 Dec 2021, we retain our growth forecast of 5-7% in 2022 .
- **Ascott Residence Trust ("ART") | Issuer Profile: Neutral (5):** ART announced that it had entered into two conditional sale and purchase agreements to buy four student accommodation properties in the US. Following this, student accommodation and rental housing will be ~16% of its total portfolio value.
- **BNP Paribas SA ("BNPP") | Issuer Profile: Neutral (3):** BNPP announced in December 2021 the sale of its US retail business, Bank of the West, to Bank of Montreal. The USD16.3bn deal is still subject to regulatory approval. These developments do not impact our Neutral(3) issuer profile on BNPP.
- **Landesbank Baden-Württemberg ("LBBW") | Issuer Profile: Neutral (4):** LBBW is reportedly in talks to acquire Berlin Hyp from Landesbank Berlin Holding AG ("LBBH") for EUR1bn. While additional details remain limited, this announcement does not impact LBBW's Neutral(4) issuer profile.
- **Mapletree Commercial Trust ("MCT") | Issuer Profile: Neutral (3) and Mapletree North Asia Commercial Trust ("MNACT") | Issuer Profile: Neutral (4):** On 31 December 2021, MCT and MNACT jointly announced the combination of the two REITs to form the third largest REIT by free float listed on the Singapore Stock Exchange ("SGX"). We maintain MCT's issuer profile at Neutral (3) for now although with a cautious outlook. Similarly, we maintain MNACT's issuer profile at Neutral (4) for now; although should the combination be successful, we will cease our issuer-level coverage of MNACT.
- **UBS Group AG ("UBS") | Issuer Profile: Neutral (3):** UBS is appealing its recent order from a French Court of Appeals to pay USD2bn for helping French clients avoid taxes through 2004 to 2012. As a consequence of the filing, the USD2bn fine will be suspended. We see UBS' capital position as being able to absorb any course of action.

## Asian Credit Daily

### Credit Headlines

#### Industry Outlook - Singapore Property:

- We turned out to be too bearish on SG private property prices. 4Q2021 flash estimates are up 5.0% q/q (3Q2021: +1.1% q/q), lifting full year prices up 10.6% and beating our [7-10% growth forecast](#).
- Growth was broad-based though higher growth was registered in Rest of Central Region (“RCR”, +7.3% q/q) and Outside Central Region (“OCR”, +5.4% q/q) relative to Core Central Region (“CCR”, +2.5% q/q) and Landed Property (+3.7% q/q). For the full year, prices rose in the RCR, OCR and CCR by 16.9%, 8.4% and 3.7% respectively.
- However, note that the prices are compiled based on transactions up till mid-December, which does not incorporate the property market cooling measures that kicked in on 16 December 2021.
- We think this attests to the strong property demand driven by the increasing wealth of Singaporeans and aspirations to upgrade while a supply crunch is looming, [as mentioned our Global Outlook 1H 2022](#), and such strong growth figures most likely triggered the government to intervene. Despite the property cooling measures implemented on 16 Dec 2021, we retain our growth forecast of 5-7% in 2022 ([Credit Outlook 2022 published on 31 Dec 2021](#)) as the latest measures do not significantly impact first-time homebuyers and HDB upgraders who are a significant source of demand. (URA, OCBC)

#### Ascott Residence Trust (“ART”) | Issuer Profile: Neutral (5):

- On 27 December 2021, ART announced that it had entered into two conditional sale and purchase agreements to buy four student accommodation properties in the US for a total acquisition cost of USD219.9mn (~SGD300.6mn). The properties are located in Philadelphia (Pennsylvania), Wilmington (North Carolina), Kent (Ohio) and Raleigh (North Carolina).
- Following the acquisition, student accommodation and rental housing will be ~16% of ART’s total portfolio value, with ART continuing to target longer-stay assets at 20% of total portfolio value in the medium term.
- On 30 December 2021, ART completed the acquisition of three (out of four) of the student accommodation properties. Completion of the property in Kent is targeted for February 2022.
- Separately on 3 January 2022, ART announced that it has renewed the master lease for its Citadines Les Halles property in Paris for nine years commencing on 1 January 2024. The master leasee will carry out renovations to the property amounting to EUR8.5mn (~SGD13mn) that is expected to complete by 2023. The master lessee Citadines SA is wholly-owned by The Ascott Limited, in turned owned by CapitaLand Investment Management. The new rent is 39% higher than the existing rent where the variable rent in our view had been dragged by the pandemic. The new rent is the same level as per 2019 per company. (Company, OCBC)

## Asian Credit Daily

### Credit Headlines

#### **BNP Paribas SA ("BNPP") | Issuer Profile: Neutral(3):**

- BNPP announced in December 2021 the sale of its US retail business, Bank of the West, to Bank of Montreal. Bank of the West is part of BNP's International Financial Services and comprised around 6.4% of BNP's total risk weighted assets as at 31 December 2020.
- The USD16.3bn deal is still subject to regulatory approval with BNPP to reportedly use the proceeds for share buybacks and bolt-on acquisitions. BNPP's capital ratio will increase by around 110bps should the sale be approved. As a reminder, BNPP's CET1 capital ratio was 13.0% as at 30 September 2021, above the 12.0% CET1 ratio target announced in 2017 as part of its 2020 plan, and well above its 2020 CET1 requirement of 9.23% that translates to a EUR26.7bn distance to its Maximum Distributable Amount restrictions level.
- With a strong position to pursue growth, organic and inorganic growth strategies will likely become clearer when BNPP's new strategic plan is announced on 8th February, on the release of its FY2021 results.
- These developments do not impact our Neutral (3) issuer profile on BNPP which is underpinned by its diversified business and strong market positions that translate to solid earnings and fundamental performance. (Company, Bloomberg, OCBC)

#### **Landesbank Baden-Württemberg ("LBBW") | Issuer Profile: Neutral(4):**

- LBBW is reportedly in talks to acquire Berlin Hyp from Landesbank Berlin Holding AG ("LBBH") for EUR1bn. LBBH is a commercial real estate financier and like LBBW, is also a member of the German Savings Banks Finance Group or Sparkassen-Finanzgruppe.
- As at 30 June 2021, LBBH had total assets of EUR35.4bn and total mortgage loans of EUR25.4bn and a CET1 ratio of 13.9%. Total assets for LBBW were EUR304bn as at 30 June 2021, with total loans and advances to customers of EUR111bn.
- While additional details on the transaction remain limited, this announcement does not impact LBBW's Neutral (4) issuer profile. LBBW's CET1 capital position of 14.9% as at 30 June 2021 remains well above its 2021 minimum common equity Tier 1 capital ratio regulatory capital requirement of 8.73% (previously 8.98% for 2020) which is set by the European Central Bank based on the Supervisory Review and Evaluation Process and includes the counter cyclical capital buffer and Pillar II guidance requirement. (Company, Bloomberg, OCBC)

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### Credit Headlines

#### **Mapletree Commercial Trust ("MCT") | Issuer Profile: Neutral (3) and Mapletree North Asia Commercial Trust ("MNACT") | Issuer Profile: Neutral (4):**

- On 31 December 2021, MCT and MNACT jointly announced the combination of the two REITs to form the third largest REIT by free float listed on the Singapore Stock Exchange ("SGX"). Assuming a successful combination, the enlarged REIT will be named as Mapletree Pan Asia Commercial Trust ("MPACT"). As at 30 September 2021, total assets at MCT and MNACT were ~SGD8.9bn and ~SGD8.5bn respectively.
- The combination is expected to be effected through a trust scheme of arrangement, where MNACT will become a sub-trust of MCT and delisted from the SGX. The transaction is subject to MCT and MNACT unitholders' approval, among other preconditions.
- The REITs are sister REITs. Both MCT and MNACT are sponsored by Mapletree Investments Pte Ltd ("MAPL"). MAPL owns the REIT Managers of both MCT and MNACT. Sponsor holds a 32.6% stake in MCT and 38.1% stake in MNACT as of 27 December 2021.
- This is largely an equity deal where MNACT unitholders will be given the option of taking their consideration in the form of:
  - Option A: 100% equity where the consideration of each MNACT unit will be 0.5963 new units in MCT. MAPL has elected to receive only new equity as consideration, or
  - Option B: A combination comprising of (1) 0.5009 new MCT units plus (2) SGD0.1912 in cash
- MCT unit price had fallen to SGD1.92 per unit as at 3 January 2022 (4% lower versus the last price before trading halt), which means that Option B is worth more as at 3 January 2022.
- Indicatively, the effective date of the combination will be in end-May 2022, with the delisting of MNACT to happen in mid-June 2022.
- As at 30 September 2021, MCT's reported aggregate leverage was only 33.7% while MCT only had straight debt at that point. In contrast, the reported aggregate leverage for MNACT was 41.5% as at 30 September 2021 while perpetual outstanding, which is not included in the reported aggregate leverage figure, was SGD250mn.
- Based on the provided proforma as at 30 September 2021, the reported aggregate leverage for the combined REIT will be 38.0% (under Option A) and 39.2% (under Option B). The funding structure though assumes that the cash portion in Option B is only partly funded by debt, with SGD200mn coming from a perpetual. In our view, if the SGD200mn was taken as debt instead, the proforma reported aggregate leverage will be ~40%.
- In terms of credit profile impact, we think the transaction is somewhat credit negative for MCT given the acquisition of a higher levered REIT whose assets profile is weaker versus MCT standalone. That being said, we do not expect this to drag the external credit rating of MCT given that reported aggregate leverage will move towards high 30s-to-breaching 40%. We think this is a credit positive transaction for MNACT. The disclosures do not explicitly state that the bonds and perpetuals issued at MNACT will be guaranteed by MCT and we do not expect there to be an explicit guarantee based on previous REIT combinations.

**Continued on the next page.**

**Asian Credit Daily****Credit Headlines****Mapletree Commercial Trust (“MCT”) | Issuer Profile: Neutral (3) and Mapletree North Asia Commercial Trust (“MNACT”) | Issuer Profile: Neutral (4):**

- Even though MNACT and MCT will remain as two separate entities, we observe that enlarged REITs are managed as one REIT after combinations. We expect spreads on MNACT and MCT’s bonds and perpetuals to gradually converge.
- We maintain MCT’s issuer profile at Neutral (3) for now although with a cautious outlook. We maintain MNACT’s issuer profile at Neutral (4) for now although should the combination be successful, we will cease our issuer-level coverage of MNACT. We may consider subsuming coverage of the MNACT curve as part of our coverage on MCT instead. (Company, OCBC)

**UBS Group AG (“UBS”) | Issuer Profile: Neutral (3):**

- UBS is appealing its recent order from a French Court of Appeals to pay USD2bn for helping French clients avoid taxes through 2004 to 2012. The appeal was filed with the French Supreme Court.
- As a consequence of the filing, the USD2bn fine that is comprised of a EUR800mn award for damages to the French state and a EUR1bn confiscation order will be suspended. During this time, UBS will determine the best next steps in the interest of its stakeholders.
- Driving the appeal is the EUR1bn confiscation order which is reportedly outside of UBS’ expectations. As [previously mentioned](#), UBS has reportedly provided EUR450mn for the case and, depending on the success of the appeal and its course of actions, may need to take at least EUR350mn or up to EUR1.35bn in provisions in its 4Q2021 results. This could wipe out its 4Q2021 pre-tax earnings that are expected to be around the same amount. UBS’ 3Q2021 profit before tax (“PBT”) was USD2.9bn.
- The appeal comes despite the long running nature of the case – the case relates to dealings done through 2004-2012 with first discussions on a settlement in 2014 – and that the USD2bn (EUR1.8bn) order is well below initial expectations of a fine of EUR4.5bn.
- We see UBS’ capital position as being able to absorb any course of action - UBS’ 3Q2021 CET1 ratio was 14.9% as at 30 September 2021, above its ~13% guidance and well above its minimum CET1 capital ratio requirements of 10%. This represents a buffer of USD14.8bn and USD5.7bn respectively. (Bloomberg, OCBC)

### Key Market Movements

	04-Jan	1W chg (bps)	1M chg (bps)		04-Jan	1W chg	1M chg
iTraxx Asiax IG	77	-3	-16	Brent Crude Spot (\$/bbl)	78.98	0.48%	13.02%
iTraxx SovX APAC	21	-1	-4	Gold Spot (\$/oz)	1,804.61	-0.09%	1.46%
iTraxx Japan	46	0	-6	CRB	233.00	-0.58%	5.60%
iTraxx Australia	63	-1	-12	GSCI	564.48	-0.36%	7.49%
CDX NA IG	50	0	-7	VIX	16.6	-6.11%	-45.88%
CDX NA HY	109	0	1	CT10 (%)	1.619%	13.86	27.63
iTraxx Eur Main	48	0	-9				
iTraxx Eur XO	242	2	-39	AUD/USD	0.720	-0.46%	2.07%
iTraxx Eur Snr Fin	55	-1	-11	EUR/USD	1.130	-0.05%	0.17%
iTraxx Eur Sub Fin	108	-1	-18	USD/SGD	1.354	0.02%	1.11%
iTraxx Sovx WE	4	0	0	AUD/SGD	0.974	0.47%	-0.91%
USD Swap Spread 10Y	5	-2	-4	ASX 200	7,538	2.04%	4.10%
USD Swap Spread 30Y	-20	-3	-7	DJIA	36,585	0.78%	5.80%
US Libor-OIS Spread	9	-2	-2	SPX	4,797	0.11%	5.69%
Euro Libor-OIS Spread	-8	1	-2	MSCI Asiax	790	0.56%	0.44%
				HSI	23,275	0.22%	-2.07%
China 5Y CDS	40	-1	-12	STI	3,134	0.97%	1.04%
Malaysia 5Y CDS	45	-1	-14	KLCI	1,549	0.99%	3.15%
Indonesia 5Y CDS	74	-2	-12	JCI	6,665	1.56%	1.94%
Thailand 5Y CDS	26	-1	-5	EU Stoxx 50	4,332	1.02%	6.17%
Australia 5Y CDS	14	0	0				

Source: Bloomberg

## Asian Credit Daily

### New Issues

- Airport Authority has mandated banks and arranged investor calls commencing 04 January for its proposed USD bond offering.

### Temporary Suspension

- Do note that our official coverage on **Keppel Corporation Ltd** and **City Development Limited** is temporarily suspended due to OCBC's other business.

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