OCBC TREASURY RESEARCH

Asian Credit Daily

Friday, February 25, 2022

Market Commentary

- The SGD swap curve traded lower yesterday, with shorter tenors trading 3bps lower, belly tenors trading 4-7bps lower, and longer tenors trading 3-5bps lower.
- There were heavy flows in SGD corporates yesterday, with flows in STANLN 5.375%-PERPs, UBS 4.85%-PERPs, UOBSP 3.58%-PERPs, HSBC 4.7%-PERPs, HSBC 5%-PERPs.
- UST 10Y yields traded 3bps lower to 1.96% yesterday after falling nearly 15bps as news of Russia's invasion of Ukraine spread. Demand for safe haven treasuries eased later in the day, as absence of broader US sanctions including on Russian energy exports, may have been interpreted as cause for relief by the market. Separately, Cleveland Fed President, Mester, expressed that barring an "unexpected turn in the economy", she still supports rate hikes in March, and that she does not believe Russia-Ukraine tensions would change the Fed's plans for accommodative measure withdrawal. Additionally, initial jobless claims for the week ended 19 February came in lower than expected at 232,000, compared to Bloomberg median estimates of 235,000.

Credit Research

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Credit Summary:

- **Industry Outlook – European Financial Institutions: Commerzbank AG ("CMZB") | Issuer Profile: Neutral (4), BNP Paribas SA ("BNPP") | Issuer Profile: Neutral (3), Société Générale ("SocGen") | Issuer Profile: Neutral (4), Commerzbank AG ("CMZB") | Issuer Profile, Neutral (4), UBS Group AG: Neutral (3):** The European Central Bank ("ECB") has requested Eurozone banks together with local regulators to assess their exposures and risks to Russia, as Western countries promised sanctions over recent developments. We continue to monitor events, although we do not see a material direct credit impact from exposures to Russia.
- **ARA LOGOS Logistics Trust ("ALOG") | Issuer Profile: Neutral (4) and ESR-REIT ("EREIT") | Issuer Profile: Unrated:** In relation to the proposed combination of ALOG and EREIT, ALOG will seek unitholders approval on resolutions via a scheme meeting and extraordinary general meeting, both on 21 March 2022. ALOG's independent directors are recommending unitholders to vote in favour.
- **CapitaLand Group Pte Ltd ("CAPL") | Issuer Profile: Neutral (4):** CapitaLand Group Pte Ltd ("CAPL")'s ~52%-owned CapitaLand Investment Ltd ("CLI") reported its 2021 results. We continue to maintain its issuer profile at Neutral (4).
- **Qantas Airways Ltd ("Qantas") | Issuer Profile: Neutral (5):** Qantas announced its first half results for the financial year ended 30 June 2022 ("1HFY2022"). Revenue at Qantas for 1HFY2022 was AUD3.1bn (up 31.9% y/y). Qantas is targeting for domestic capacity to be ~68% of pre-COVID-19 levels in March 2022 and 95% by June 2022. We maintain Qantas at an issuer profile of Neutral (5).
- **Singapore Airlines Ltd ("SIA") | Issuer Profile: Neutral (5):** SIA announced its business update for the third quarter of the financial year ended 31 March 2022.
- **Singapore Post Limited ("SPOST") | Issuer Profile: Neutral (3):** SPOST reported its 3QFY2022 business update for the quarter ended 31 December 2021. We continue to maintain SPOST at Neutral (3).

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Credit Headlines

Industry Outlook – European Financial Institutions: Commerzbank AG ("CMZB") | Issuer Profile: Neutral (4), BNP Paribas SA ("BNPP") | Issuer Profile: Neutral (3), Société Générale ("SocGen") | Issuer Profile: Neutral (4), Commerzbank AG ("CMZB") | Issuer Profile, Neutral (4), UBS Group AG: Neutral (3):

- The European Central Bank ("ECB") has requested Eurozone banks together with local regulators to assess their exposures and risks to Russia, as Western countries promised sanctions over recent developments.
- Issues with regards to maintaining operations and impacts on loan books and liquidity will be assessed, both directly from the sanctions and indirectly from the enforcement of these sanctions.
- The ECB had been warning Eurozone banks on possible sanctions risks from escalating tensions since late January as well as the impact of heightened market volatility, whilst also adding that direct exposures are somewhat contained as banks have effectively diversified away from Russia following Russia's annexation of Crimea in 2014 .
- Amidst broad ranging sanctions by the US, 27 members of the European Union as well as Britain, Canada, Japan and Australia are imposing restrictions on 10 of Russia's largest financial institutions that block transactions with US banks and entities.
- Austrian, Italian and French banks are most exposed to Russia according to the Bank For International Settlements with EUR22bn in outstanding claims on Russia as at 30 September 2021, ~60% of which was from Austrian banks.
- So far, SocGen has come out to say that Russian subsidiaries are operating as normal, while BNPP's Ukrsibbank subsidiary has suspended branch operations in parts of Ukraine. CMZB also indicated that exposures to both Russia and Ukraine are manageable, with exposure reduced in prior years.
- UBS marked down the value of debt issued by Russia and Russian corporations, and made margin calls for wealth management clients that use Russian bonds as collateral for their portfolios. Per Bloomberg, UBS had ~USD447mn of exposure through loans and guarantees to Russia in 2020.
- We continue to monitor events, although we do not see a material direct credit impact from exposures to Russia. Most of these bank's earnings are entrenched in their domestic markets where they maintain sizeable market positions. (Agence France-Presse, Euronews, Bloomberg, OCBC)

ARA LOGOS Logistics Trust ("ALOG") | Issuer Profile: Neutral (4) and ESR-REIT ("EREIT") | Issuer Profile: Unrated:

- In relation to the proposed combination of ALOG and EREIT, ALOG will seek unitholders approval on resolutions to effect the transaction via a scheme meeting and extraordinary general meeting ("EGM"), both to be held on the same day on 21 March 2022.
- As a recap, on 22 January 2022, the scheme consideration was stepped up by 2.1% on the cash consideration and 5.8% on the consideration units, in part as a response to concerns pose by proxy advisers.
- ALOG's independent directors are recommending unitholders to vote in favour. In a letter dated 25 February 2022, the independent financial adviser stated that it is "of the opinion that on balance, the revised terms of the scheme are fair and reasonable from the financial point of view".
- EREIT unitholders will also be voting on the transaction on 21 March 2022 at an EGM. (Company)

Credit Headlines

CapitaLand Group Pte Ltd ("CAPL") | Issuer Profile: Neutral (4):

- CapitaLand Group Pte Ltd ("CAPL") is formerly known as CapitaLand Ltd prior to delisting. CAPL's ~52%-owned CapitaLand Investment Ltd ("CLI") reported its 2021 results.
- CLI reported profit after tax of SGD1.35bn, reversing from 2020's net loss of SGD559mn. In particular, operating PATMI rose 12.2% y/y to SGD497mn, driven by higher fee income from fund management and lodging management business, and improved property performance from the investment properties portfolio.
- Revenue rose 15.6% y/y to SGD2.29bn, from (1) higher contributions from CLI's fee-income related business (+15% y/y to SGD905mn) due to higher transaction fees and higher base management fees due to 10% growth in funds under management to SGD86.2bn, and (2) real estate investment business due to better operating performance across various markets.
- Going forward, CLI is looking to grow funds under management to SGD100bn by 2024 and 160,000 lodging units by 2023.
- Reported EBITDA turned to positive of SGD2.47bn (from loss of SGD33mn in 2020). This is attributable to improvement in revenue, as well as recognized revaluation gains. (Company)

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Qantas Airways Ltd ("Qantas") | Issuer Profile: Neutral (5):

- Qantas announced its first half results for the financial year ended 30 June 2022 ("1HFY2022"). Revenue at Qantas for 1HFY2022 was AUD3.1bn (up 31.9% y/y). Qantas reported a statutory loss after tax of AUD456mn, narrowing from a statutory loss after tax of AUD1.1bn in 1HFY2021, mainly driven by a net gain on disposal of assets of AUD653mn in 1HFY2022.
- Similar to other airlines in the region, Qantas' operations continued to be affected by COVID-19. Per company, 1HFY2022 was negatively impacted by the impact of the Delta variant where domestic borders were closed. A reopening was short-lived with outbreak of the Omicron variant widely spread by December 2021. Domestic airlines operated at 42% of pre-COVID flying capacity in 1HFY2022 on average. In contrast, domestic capacity exceeded 50% in 2HFY2021, reaching a high of 92% of pre-COVID levels around June 2021.
- All segments, excluding Qantas Loyalty, reported an underlying loss before interest and tax in 1HFY2022. Qantas Domestic saw underlying loss before interest and tax of AUD613mn (1HFY2021: loss before interest and tax of AUD329mn), dragging overall 1HFY2022 underlying results. Per company, Qantas Domestic was affected by stranded costs in 1QFY2022. We think costs were incurred but flying activity were curtailed when domestic borders were shut down quickly. Underlying EBIT at Qantas Loyalty was resilient, increasing 1.6% y/y to AUD127mn in 1HFY2022.
- Overall underlying loss before interest and tax was AUD1.1bn in 1HFY2022 (1HFY2021 underlying loss before interest and tax of AUD863mn) while Qantas reported an underlying loss before interest, tax, depreciation and amortisation for 1HFY2022 at AUD245mn (1HFY2021: Reported EBITDA of AUD86mn).
- More than 90% of Qantas' fuel cost has been hedged for 2HFY2022, which should help mitigate the impact from higher fuel cost in the very near term.
- Operating cash flow was AUD137mn in 1HFY2022, helped by working capital movement (mainly from revenue received in advance of AUD505mn) as passengers continue to book flights.
- As at 31 December 2021, Qantas had AUD4.3bn in available liquidity (30 June 2021: AUD3.8bn). This includes AUD1.6bn in committed undrawn facilities and AUD2.7bn in cash and cash equivalents. Per the company, it also maintains a more than AUD2.4bn unencumbered asset base. In 1HFY2022, Qantas received AUD754mn in cash from the sale of land at Mascot, Australia.
- In 1HFY2022, Qantas' reported net capital expenditure was AUD385mn with full year expectation only at AUD850mn. However, this is expected to increase in FY2023 to AUD2.3bn-AUD2.4bn where new planes will be received, including deferred aircraft deliveries. Beyond FY2023, we expect capex to be higher than the past two years as Qantas starts its fleet renewal program (subject to board approval, for the Qantas Domestic segment) and also resumes Project Sunrise (point to point ultra-long haul route between Sydney and Melbourne in Australia to London or New York).
- Book value equity was only AUD15mn as at 31 December 2021, with losses accumulating through the pandemic and corroding book value of equity. However, on a market-implied basis, Qantas' gross debt-to-market value of equity was at 0.9x (taking market cap of AUD9.6bn as at 24 February 2022), where access to equity capital markets remains available. Qantas' debt is relatively staggered. As at 31 December 2021, AUD607mn matures in 2HFY2022, representing ~8.6% of total debt, excluding lease liabilities.

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Credit Headlines

Qantas Airways Ltd ("Qantas") | Issuer Profile: Neutral (5):

- The company is expected to share its sustainability strategy in March 2022 which would include interim 2030 targets on emissions reduction and sustainable aviation fuel ("SAF") usage. Qantas is mainly targeting to achieve its carbon reduction plans through using SAF, new aircraft technology and participation in high-integrity carbon markets.
- Qantas has brought back stood down staff in Australia in December 2021 and subject to meeting certain conditions, around 20,000 employees will be eligible to receive 1,000 Qantas shares each as part of employee retention. Qantas is targeting for domestic capacity to be ~68% of pre-COVID-19 levels in March 2022 and 95% by June 2022. We maintain Qantas at an issuer profile of Neutral (5). (Company, OCBC)

Credit Headlines

Singapore Airlines Ltd ("SIA") | Issuer Profile: Neutral (5):

- SIA announced its business update for the third quarter of the financial year ended 31 March 2022 ("3QFY2022") where the company provided some key headline financials.
- Total revenue had increased by 117.1% y/y to SGD2.3bn in 3QFY2022, driven by pent up travel demand and strong cargo demand. Passenger travel rose following the initiation of vaccinated travel lanes in time for the seasonally peak calendar year end travel period. On a group airline basis, passengers carried was ~1.1 million in 3QFY2022 versus 195,000 in 3QFY2021 and ~10 million in 3QFY2020 (which was pre-COVID).
- SIA reported a net profit of SGD85mn in 3QFY2022, the first time the company had reported a profit since the pandemic started. Driven by 3QFY2022 operating performance, operating surplus for 9MFY2022 was SGD322mn (excluding proceeds from forward sales), which is highly encouraging as we expect forward sales to also be a positive contributor to cash flow.
- In 1HFY2022, finance charges were SGD193.6mn (simplistically, SGD96.8mn a quarter). Reported EBITDA was SGD684.7mn in 3QFY2022 (3QFY2021: SGD137.8mn). With interest expense at SGD96.8mn, the derived reported EBITDA/Interest at 7.1x is manageable, in our view.
- Per company, it has stepped up recruiting efforts to prepare the company to increase its route network. In 3QFY2022, as a group, the passenger network covered a total of 85 destinations (including Singapore, the hub), increasing from 65 in 2QFY2022. The company expects passenger capacity to reach 51% by March 2022. This should result in an average capacity of 47% for 4QFY2022, compared to pre-Covid levels and expect to serve more than 70% of its pre-COVID-19 destination by end-FY2022.
- As at 31 December 2021, SIA's reported gross gearing of 0.7x, which remained around the levels as at 30 September 2021, had fallen since the beginning of the financial year following the raising of additional mandatory convertible bonds which is recorded as equity. Capital markets remain accessible, with SIA raising USD600mn (~SGD811mn) in publicly traded bonds in January 2022 (its second USD-bond tranche).
- No updated fuel hedging strategy was provided. When it was last disclosed, as at October 2021, 40% of assumed consumption for 1QFY2023 – 1QFY2024 had been hedged to Brent at USD60 per BBL.
- Capital expenditure will be updated to factor SIA's freighter renewal programme to boost efficiency and reliability of the freighter business, though overall numbers is only expected to be somewhat higher that the projections shared in 1HFY2022. In December 2021, SIA announced that a letter of intent signed with Airbus on this which includes a swap of existing orderbook. We maintain SIA's issuer profile at Neutral (5). (Company, OCBC)

Credit Headlines

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

- SPOST reported its 3QFY2022 business update for the quarter ended 31 December 2021. Freight Management Holdings Pty Ltd ("FMH") was consolidated in this quarter results after it became a subsidiary on 30 November 2021, while the financials from self-storage business General Storage Company Pte Ltd ("GSC") were deconsolidated after it was disposed on 22 December 2021.
- Revenue increased 15% q/q and 24% y/y to SGD437mn. The increase seen is mainly driven by Famous Holdings, eCommerce logistics growth and the consolidation of FMH, though it was partially offset by lower International Post and Parcel ("IPP") revenue. Operating profit increased 20% q/q and 46% y/y to SGD38mn. The increase is contributed by higher profit from Famous Holdings, Domestic Post and Parcel ("DPP") segment, the consolidation of FMH, improved profits from IPP despite lower revenue and higher profits from the Property segment mainly due to lower rental rebates given to tenants.
- DPP volumes rose 23% q/q and 50% y/y to 15.5mn items as a result of higher eCommerce activities as well as one-off nationwide distribution projects like ART kits. Letters & printed papers volume saw a decline of 9% y/y to 108mn due to higher uptake in electronic substitution though comparing q/q, it was an increase of 8% due to year-end seasonal peak.
- Australia last mile delivery consignments maintained its volume q/q and rose 7% y/y to 7.8mn consignments due to higher volume with the addition of FMH's volume and sea freight rates caused by the global supply chain disruption. This performance offset the decline in IPP volume caused by ongoing interruption of international air freight out of Changi Airport due to Covid-19.
- SingPost Centre overall committed occupancy dipped to 92.1%, down 1.2 ppts q/q or 6.4 ppts y/y, due to the sole external tenant in the industrial segment moving out and Office/ Enrichment segment decreasing q/q from 97.6% to 95.7%. The Group is looking to reposition the industrial space and secure a new tenant. The Mall and Other segments retained its occupancy rate with 100% and 98.4% occupied respectively q/q.
- SingPost's net cash position declined from SGD179mn as at 31 March 2021 to SGD111mn with SGD466mn of cash and SGD355mn of borrowings as at 31 December 2021. The decline in cash balance is mainly due to acquisition of FMH and other working capital movements. (Company)

Key Market Movements

	25-Feb	1W chg (bps)	1M chg (bps)		25-Feb	1W chg	1M chg
iTraxx Asiax IG	109	7	19	**Brent Crude Spot ($/bbl)**	101.11	8.09%	14.64%
iTraxx SovX APAC	31	2	7	**Gold Spot ($/oz)**	1,916.11	0.93%	3.68%
iTraxx Japan	63	6	12	**CRB**	269.02	1.42%	8.13%
iTraxx Australia	90	7	17	**GSCI**	667.60	4.00%	9.26%
CDX NA IG	69	0	10	**VIX**	30.32	24.83%	-2.70%
CDX NA HY	105	0	-2	**CT10 (%)**	1.962%	3.31	19.28
iTraxx Eur Main	74	4	17				
iTraxx Eur XO	368	25	90	**AUD/USD**	0.719	0.22%	0.59%
iTraxx Eur Snr Fin	84	5	18	**EUR/USD**	1.122	-0.89%	-0.71%
iTraxx Eur Sub Fin	157	6	33	**USD/SGD**	1.352	-0.42%	-0.55%
iTraxx Sovx WE	5	0	0	**AUD/SGD**	0.972	-0.64%	-1.12%
USD Swap Spread 10Y	9	1	3	**ASX 200**	6,998	-3.10%	0.52%
USD Swap Spread 30Y	-20	-1	-2	**DJIA**	33,224	-4.90%	-3.13%
US Libor-OIS Spread	6	-4	0	**SPX**	4,289	-4.16%	-1.56%
Euro Libor-OIS Spread	-4	0	2	**MSCI Asiax**	739	-5.40%	-4.58%
				HSI	22,829	-6.16%	-5.84%
China 5Y CDS	58	4	9	**STI**	3,301	-3.73%	1.64%
Malaysia 5Y CDS	72	6	14	**KLCI**	1,595	-0.48%	5.73%
Indonesia 5Y CDS	106	7	17	**JCI**	6,880	-0.18%	4.75%
Thailand 5Y CDS	38	4	9	**EU Stoxx 50**	3,829	-6.90%	-6.10%
Australia 5Y CDS	15	1	1				

Source: Bloomberg

New Issues

- Lishui Economic & Technological Development Zone Industrial Development Group (SLBC provider: Bank of Hanzhou Co., Lishui Branch) priced a USD100mn 3-year senior unsecured credit enhanced bond at 2.7%, tightening from an IPT of 2.8% area.
- Pioneer Reward Ltd (Guarantor: Huatai Securities) priced a USD1bn 3-year senior unsecured bond at T+80bps, tightening from an IPT of T+120bps area.
- Qingdao Jiaozhou Bay Development Group Co. has mandated banks for its proposed USD senior unsecured green bonds offering.

Date	Issuer	Size	Tenor	Pricing
24-Feb-22	Lishui Economic & Technological Development Zone Industrial Development Group (SLBC provider: Bank of Hanzhou Co., Lishui Branch)	USD100mn	3-year	2.7%
24-Feb-22	Pioneer Reward Ltd (Guarantor: Huatai Securities)	USD1bn	3-year	T+80bps

Source: OCBC, Bloomberg

Temporary Suspension

- Do note that our official coverage on **BNP Paribas SA, City Developments Limited, Frasers Centrepoint Trust, Lendlease Group** and **Lendlease Global Commercial Trust** is temporarily suspended due to OCBC's other business.

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