

Market Commentary

- The SGD swap curve traded higher yesterday, with shorter tenors trading 2-3bps higher, belly tenors trading 1-3 bps higher and longer tenors trading 1-4bps higher.
- There were heavy flows in SGD corporates yesterday, with flows in OLAMSP 6%'22s, OLAMSP 5.5%-PERPs, OLAMSP 5.375%-PERPs, AVSING 3.375%'31s, UBS 4.85%-PERPs, STSP 3.3%-PERPs, FPLSP 4.98%-PERPs, CHAAIR 1.88%'31s and UOBSP 2.55%-PERPs.
- UST 10Y yields jumped 9bps higher to 1.86% yesterday following the FOMC monetary policy decision and press conference which the market interpreted with a hawkish take. Powell noted the risk of prolonged inflation, and signaled that the Fed is ready to hike rates in March "assuming that the conditions are appropriate for doing so". He also conveyed intentions to undertake quantitative tightening following the hike, and notably declined to mention that the Fed would rule out tightening at every meeting this year.

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Credit Summary:

- **Industry Outlook – Swiss Financial Institutions: UBS Group AG ("UBS") | Issuer Profile: Neutral (3):** The Swiss National Bank ("SNB") and Swiss Financial Market Supervisory Authority ("FINMA") proposed an increase in minimum capital buffers for Swiss banks by reactivating the sectoral countercyclical capital buffer ("CCyB"). UBS is expected to update its strategic direction when the bank announces its FY2021 results on 1st February 2022. We maintain a Neutral (3) issuer profile on UBS.
- **AIMS APAC REIT ("AAREIT") | Issuer Profile: Neutral (4):** AAREIT announced its business update for the third quarter ("3QFY2022") ended 31 December 2021. With a decent credit and liquidity profile, we continue to hold AAREIT's issuer profile at Neutral (4).
- **GuocoLand Ltd ("GUOL") | Issuer Profile: Neutral (5):** GUOL reported 1HFY2022 results for the half-year ended 31 Dec 2021. Notably, margins have held up despite escalation in construction costs. We continue holding GUOL at a Neutral (5) Issuer Profile given its decent profitability.
- **Keppel Infrastructure Trust ("KIT") | Issuer profile: Neutral (4):** KIT reported its 2H2021 and 2021 financial results and outcome from its strategic review. We maintain KIT with a Neutral (4) issuer profile and are staying cautious over a 12 month period.
- **Landesbank Baden-Württemberg ("LBBW") | Issuer Profile: Neutral (4):** Subject to regulatory approvals, LBBW has announced the acquisition of Berlin Hyp from Landesbank Berlin Holding AG ("LBBH"). This announcement does not impact LBBW's Neutral (4) issuer profile.
- **Mapletree Industrial Trust ("MINT") | Issuer profile: Neutral (3):** MINT announced its third quarter results for the financial year ending 31 March 2022. We maintain MINT's issuer profile at Neutral (3) and expect this to be stable in the next 12 months.
- **Olam International Limited ("Olam") | Issuer profile: Neutral (5):** Olam has issued a notice of (1) Scheme meeting and (2) Extraordinary General meeting where both meetings will take place on 18 February 2022, to be conducted wholly by electronic means.

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Credit Headlines

Industry Outlook – Swiss Financial Institutions: UBS Group AG (“UBS”) | Issuer Profile: Neutral (3):

- The Swiss National Bank (“SNB”) and Swiss Financial Market Supervisory Authority (“FINMA”) are proposing to increase minimum capital buffers for Swiss banks by reactivating the sectoral countercyclical capital buffer (“CCyB”). The buffer will be set at 2.5% of risk weighted exposures secured by residential property in Switzerland. The sectoral buffer was deactivated in March 2020 in response to the COVID-19 pandemic to give Financial Institutions added capacity to continue lending to the economy. The deadline for compliance is 30 September 2022.
- Driving the reactivation is a relative receding of the pandemic impacts compared to March 2020 and potential negative impacts to banking sector resilience from higher than expected growth in mortgage lending and residential property prices. Reflecting the higher risk to bank balance sheets from a correction in Switzerland’s property markets and SNB’s views that housing is overvalued, the reactivated buffer is 50bbps higher than its previous level of 2.0% before March 2020.
- This move reflects the solid regulatory environment in Switzerland which is on support for our fundamental views on the Swiss banks we cover. It is also consistent with our views in the Singapore Credit Outlook 2022 (published 31 December 2021) of heightened regulator interest to raise minimum requirements given the benefits of holding excess capital at the heights of the pandemic.
- Separately, UBS has agreed to buy robo-advisor Wealthfront for USD1.4bn. Wealthfront is a US based wealth manager with over USD27bn in assets under management and over 470,000 clients in the US. The robo-advisor’s focus is on millennial and Gen Z investors and represents an expansion in UBS’ client scope in line with the establishment of a digital wealth manager in the US in October and the hiring of CEO Ralph Hamers who was expected to leverage his prior experience in fintech to increase digitalisation at UBS.
- UBS is expected to provide an update of its strategic direction and set new financial targets when the bank announces its FY2021 results on 1st February 2022. The transaction does not impact our Neutral (3) issuer profile on UBS. (Company, Bloomberg, OCBC)

AIMS APAC REIT (“AAREIT”) | Issuer Profile: Neutral (4):

- AAREIT announced its business update for the third quarter (“3QFY2022”) ended 31 December 2021. Revenue and net property income (“NPI”) increased by 14.5% y/y and 14.8% y/y to SGD36.8mn and SGD27.1mn respectively mainly contributed by rental from newly acquired Woolworths Headquarters in Sydney (acquisition completed on 15 November 2021) and higher gross revenue from 20 Gul Way, 27 Penjuru Lane and 541 Yishun Industrial Park A (rental contribution from master tenant commenced on January 2021).
- Reported adjusted interest coverage ratio (“ICR”, based on trailing twelve months) remained status quo y/y at 3.3x as at 31 Dec 2021 which is above MAS’s 2.5x ICR requirement. Meanwhile, aggregate leverage as at 31 December 2021 was higher at 37.3% versus 33.9% reported as at 31 March 2021. Though the reported aggregate leverage saw an increase, it is still within aggregate limits of 50% set by Monetary Authority of Singapore and more in line with its other REIT peers.
- Per the business update, AAREIT has a weighted average debt maturity of 3.2 years and healthy liquidity position with SGD212.6mn in undrawn committed facilities and SGD24.6mn in cash and bank balances. The REIT has sufficient resources to repay its debts for the next 3 years according to the reported debt maturity profile.

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AIMS APAC REIT ("AAREIT") | Issuer Profile: Neutral (4):

- As at 31 December 2021, overall portfolio occupancy saw a slight increase to 97.6% from the previous quarter. This is above the industrial average of 90.1% per JTC 3Q2021 statistics. Lease expiry and renewal are also well managed with 7.1% of leases expiring for FY2022 and an extended weighted average lease expiry ("WALE") of 4.85 years, an increase from 3.94 years y/y.
- The earlier announced acquisition of 315 Alexandra Road is currently still pending regulatory approval. The company expects to provide an update in the next quarter.
- With a decent credit and liquidity profile, we continue to hold AAREIT's issuer profile at Neutral (4). (Company, OCBC)

GuocoLand Ltd ("GUOL") | Issuer Profile: Neutral (5):

- GUOL reported 1HFY2022 results for the half-year ended 31 Dec 2021. Revenue increased 42% y/y to SGD452.7mn while gross profit rose 48% y/y to SGD140.2mn, mainly due to higher progressive recognition of sales from the residential projects in Singapore. Notably, margins have held up despite escalation in construction costs while GUOL expects the Singapore projects to meet their revised targets for completion despite labour shortages.
- By new sales in 1HFY2022, we note that Meyer Mansion, Midtown Bay, Midtown Modern moved 50 units worth SGD132.0mn while Wallich Residence and Martin Modern moved 7 units worth SGD36.9mn and 27 units worth SGD73.8mn respectively. In particular, Martin Modern has been fully sold while sales have progressed for the remainder of the properties including Wallich Residence (77% sold), Midtown Modern (72% sold), Meyer Mansion (41% sold) and Midtown Bay (32% sold).
- Aside from GuocoLand Singapore segment delivering higher revenue (+43.5% y/y to SGD349.2mn), GuocoLand China (+412.2% y/y to SGD51.1mn) saw higher contribution from sales at Guoco Changfeng City in China.
- According to GUOL, revenue from investment properties increased by 3% while revenue from hotel business had increased by close to 10%. Specifically, Guoco Tower saw a rental reversion of more than 10% and is nearly 100% leased (100% occupancy for office and 99% for retail) while 20 Collyer Quay's occupancy is 92%. According to GUOL, both Guoco Tower and Guoco Midtown received strong leasing interest from sectors including technology, finance, private equity, life sciences, trading and consumer related companies looking to set up regional headquarters in Singapore. GUOL expects demand for Grade A office space in the CBD to remain resilient.
- In 1HFY2022, GUOL has completed the disposal of its Vietnam subsidiaries, which are reported as discontinued business in the income statement.
- With the acquisition of Lentor Central site which GUOL bid at SGD576mn, net gearing rose h/h to 91% (FY2021: 81%). Net gearing is expected to increase further in 2HFY2022 as GuocoLand, together with its consortium members Intrepid Investments Pte Ltd and TID Residential Pte Ltd, bought a 17,136.9 sqm land parcel at Lentor Hills Road site for SGD586.6mn. GUOL has 30%-stake in this land parcel. That said, we continue holding GUOL at a Neutral (5) Issuer Profile given its decent profitability while the outlook for Singapore residential and office remain strong. (Company, OCBC)

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Keppel Infrastructure Trust (“KIT”) | Issuer profile: Neutral (4):

- KIT reported its 2H2021 and 2021 financial results and outcome from its strategic review. KIT reported a Group EBITDA (excluding one-offs) of SGD317.6mn, declining by 3.2% y/y. The decline was driven by timing differences in City Energy’s (previously known as City Gas) fuel price pass through gas tariff mechanism. The new brand comes as the business has been expanded to include green energy solutions such as smart-living solutions using Internet of Things and electric vehicle charging.
- Excess operational cash flow after paying debt at the asset level, financing costs and perpetual distribution, what KIT now terms as free cash flow to equity (“FCFE”), is upstreamed for KIT-obligations at the holding company level (“Holdco”). In 2021, KIT’s FCFE declined by 14.8% y/y to SGD192.2mn. In addition to City Energy, we think the decline in FCFE is also driven by the higher level of perpetual distribution at KIT. In 2020, KIT had raised SGD300mn of new perpetuals, bringing its total perpetuals outstanding as at 31 December 2021 to ~SGD600mn from ~SGD300mn in the previous year.
- KIT has deconsolidated Basslink. In November 2021, Basslink entered voluntary administration and is now under receivership. In 2021, KIT recognised SGD142.8mn in losses from discontinued operations (from Basslink), resulting in a reported loss for the year of SGD142.8mn. However, as part of the deconsolidation, KIT no longer recognised the Basslink liability and asset. The Basslink liabilities are non-recourse at the KIT holding company level (ie: where its SGD-denominated curve is issued). Per management, there are no contingent liabilities left at Basslink.
- KIT has outstanding shareholders loans with Basslink (ie: KIT is a creditor of Basslink) and may be able to recoup some cash from Basslink depending on the outcome of the restructuring. Recoveries from Basslink is not within our base case. Basslink debt has been bought over by Australia based infrastructure company APA Group, who was previously seeking to buy Basslink’s equity.
- Using annualised EBITDA, KIT’s reported net debt-to-EBITDA has declined to only 2.9x for 2021 (3Q2021: 3.9x and in 2020: 4.2x). However, like other perpetuals, KIT perpetuals are not recorded as debt.
- As part of KIT’s strategic plan under its new CEO who joined KIT in August 2021, KIT will focus on:
 - Growing existing businesses through bolt-on acquisitions (eg: various bolt on acquisitions have happened at IXOM to grow new business lines) and portfolio optimisation.
 - Growth inorganically via third party acquisitions as well as from Sponsor’s pipeline of infrastructure assets. KIT’s Sponsor is a significant infrastructure developer and operator mainly in Singapore and some other selected cities especially in water, waste and electricity generation. New acquisitions would include renewable energy (eg: solar) as well as social infrastructure with a multiplier effect on GDP and a community’s wellbeing (eg: pathology and education).
- Per management, it continues to aim for the holding company debt level to be at similar levels to current, with debt taken up at the asset levels. We maintain KIT with a Neutral (4) issuer profile and staying cautious over a 12 month period due to the potential impact of its asset plans on KIT. KIT has a decently sized war chest at SGD817.1mn as at 31 December 2021 and we expect KIT to step up acquisitions in the short term. The asset sizes which KIT is aiming for are relatively sizeable in our view and is likely to reduce its cash balances. (Company, OCBC)

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Landesbank Baden-Württemberg (“LBBW”) | Issuer Profile: Neutral (4):

- LBBW has announced the acquisition of Berlin Hyp from Landesbank Berlin Holding AG (“LBBH”) which is in turn fully owned by the German Savings Banks. The transaction remains subject to regulatory approvals.
- 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. Within LBBW’s loan portfolio, there is around EUR26bn in commercial real estate financing hence the acquisition is seen as adding scale to LBBW’s existing business although Berlin Hyp will continue to operate as a separate brand and subsidiary.
- Financial details were not disclosed however it was previously reported that the acquisition cost was around EUR1bn.
- 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. This translates to a buffer of around EUR5bn. (Company, OCBC)

Mapletree Industrial Trust (“MINT”) | Issuer profile: Neutral (3):

- MINT announced its third quarter results for the financial year ending 31 March 2022 (“3QFY2022”). MINT reported gross revenue of SGD162.4mn in 3QFY2022, increasing 31.3% y/y and net property income (“NPI”) of SGD122.7mn (up 24.1% y/y). On a q/q basis, the increase was 4.4% and 2.0% respectively. The y/y increases was largely due to MINT’s portfolio acquisition of 29 data centres across the USA bought on 23 July 2021 and a data center bought in 4QFY2021. Q/q, MINT recorded full quarter contribution from these data centres.
- MINT’s reported overall portfolio occupancy was 93.6% as at 31 December 2021 (30 September 2021: 93.7%), dragged by light industrial buildings and slightly in data centers.
- MINT’s reported aggregate leverage (which includes proportionate debt and assets at the joint venture) was 39.9%, slightly higher than the 39.6% as at 30 September 2021 which rose significantly after buying the data centres in July 2021. Reported interest coverage with perpetual distribution as interest (“Adjusted Interest Coverage”) was manageable at 6.4x.
- We see refinancing risk at MINT as manageable, with debt relatively well spread out. As at 31 December 2021, MINT only faces SGD273mn of debt (10% of total) due in FY2022 and SGD341.3mn (13% of total) in FY2023.
- We maintain MINT’s issuer profile at Neutral (3) and expect this to be stable in the next 12 months. (Company, OCBC)

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Olam International Limited (“Olam”) | Issuer profile: Neutral (5):

- Olam has issued a notice of (1) Scheme meeting and (2) Extraordinary General meeting where both meetings will take place on 18 February 2022, to be conducted wholly by electronic means.
- A shareholder’s circular has also been published that contains more information on these meetings and the proposed resolutions which will be voted on by shareholders (including major shareholders).
- Olam’s shareholding is highly concentrated where we estimate free float of only ~15% (excluding a privately-owned asset manager and long-time investor). Our base case assumes that the resolutions will be passed, where various transactions will take place to effect Olam’s broader reorganisation.
- Such broader reorganisation may trigger an Event of Default (“EoD”) at the issuer and as a recap, a Consent Solicitation Exercise (“CSE”) has been launched on Olam’s widely traded perpetuals and bonds to seek various approvals, including waiver of EoD.
- The early consent deadline is 31 January 2022 and expiry is on 7 February 2022. The CSE is conditional on the scheme being sanctioned by courts but not the completion of the transactions. (Company, OCBC)

Key Market Movements

	27-Jan	1W chg (bps)	1M chg (bps)		27-Jan	1W chg	1M chg
iTraxx Asiax IG	88	2	8	Brent Crude Spot (\$/bbl)	89.42	1.18%	13.77%
iTraxx SovX APAC	24	0	3	Gold Spot (\$/oz)	1,814.65	-1.34%	0.14%
iTraxx Japan	51	2	3	CRB	251.93	0.80%	7.50%
iTraxx Australia	72	2	8	GSCI	619.55	1.33%	9.36%
CDX NA IG	60	3	11	VIX	31.96	34.00%	80.77%
CDX NA HY	107	-1	-2	CT10 (%)	1.835%	3.12	35.96
iTraxx Eur Main	56	2	8				
iTraxx Eur XO	268	6	28	AUD/USD	0.707	-2.12%	-2.29%
iTraxx Eur Snr Fin	65	3	9	EUR/USD	1.122	-0.84%	-0.98%
iTraxx Eur Sub Fin	123	9	19	USD/SGD	1.350	-0.23%	0.48%
iTraxx Sovx WE	4	0	0	AUD/SGD	0.955	1.94%	2.86%
USD Swap Spread 10Y	6	1	-1	ASX 200	6,838	-6.74%	-7.84%
USD Swap Spread 30Y	-17	1	-1	DJIA	34,168	-2.46%	-5.88%
US Libor-OIS Spread	4	-2	-7	SPX	4,350	-4.03%	-9.21%
Euro Libor-OIS Spread	-6	1	4	MSCI Asiax	773	-3.69%	-1.17%
				HSI	23,598	-5.43%	1.61%
China 5Y CDS	47	1	6	STI	3,247	-1.47%	4.58%
Malaysia 5Y CDS	56	2	11	KLCI	1,513	-0.94%	-1.34%
Indonesia 5Y CDS	87	0	11	JCI	6,597	-0.46%	0.32%
Thailand 5Y CDS	29	-1	2	EU Stoxx 50	4,165	-2.43%	-2.88%
Australia 5Y CDS	14	0	0				

Source: Bloomberg

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New Issues

- Kia Corporation has arranged investor calls commencing 27 January for its proposed USD senior unsecured green bond offering.

Temporary Suspension

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

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