Asian Credit Daily

1 April 2024

Market Commentary:

- The SGD SORA curve traded higher last Thursday, with short tenors trading 1bps higher, belly tenors trading flat and 10Y trading flat.

- Flows in SGD corporates were heavy, with flows in BNP 4.75% '34s, HSBC 4.75% '34s, STTGDC 5.7%-PERP, UBS 5.75%-PERP.

- Country Garden Holdings Co., made an announcement late Thursday that it would delay the reporting of their annual results, saying it needed more information. Meanwhile, China Vanke Co. said net profit tumbled 46% last year, the biggest drop since its 1991 listing. The dire statements, along with a jump in bad loans at some banks with declining annual prices in February for both new and used homes show how China's property industry continues to struggle.

- Bloomberg Asia USD Investment Grade spreads remained flat at 86bps, while the Asia USD High Yield spreads widened by 12bps to 587bps. (Bloomberg, OCBC)

Credit Summary:

- **Industry Outlook - Singapore Property:** URA provided flash estimates, with prices rising 1.5% q/q in 1Q2024 (4Q2023: +2.8% q/q). The increase was broad-based.

- **Keppel Ltd ("KEP") and Keppel Infrastructure Trust ("KIT"):** The Infrastructure Division of KEP and KIT through its Trustee-Manager, propose to enter into an agreement to amend and extend the Capacity Tolling Agreement ("CTA") for the Keppel Merlimau Cogen ("KMC") plant by 10 years from 2030 to 2040.

- **China Construction Bank Corporation ("CCB"):** CCB released its FY2023 results with net profit before tax up 1.5% y/y to RMB389.38bn. This was entirely due to a 11.5% y/y fall in credit impairment losses to RMB136.77bn from RMB154.54bn in FY2022. This offset negative JAWS with net operating income down 2.2% y/y to RMB525.46bn.

- **Keppel Real Estate Investment Trust ("KREIT"):** KREIT announced the proposed acquisition of a 50%-interest in 255 George Street located in the core Sydney central business district (in the vicinity of Circular Quay).

- **Sembcorp Industries Ltd ("SCI"):** SCI announced that its wholly-owned subsidiary Sembcorp Energy ("Shanghai") Holding Co., Ltd ("SESH") has signed a dual currency denominated revolving credit facility with a bank.

Key Market Movements

	1-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	102	-1	5
iTraxx Japan	46	-1	-6
iTraxx Australia	63	-2	0
CDX NA IG	51	-1	0
CDX NA HY	107	0	1
iTraxx Eur Main	54	-1	0
iTraxx Eur XO	298	0	-4
iTraxx Eur Snr Fin	63	-1	-1
iTraxx Eur Sub Fin	114	-1	-2
USD Swap Spread 10Y	-36	-1	1
USD Swap Spread 30Y	-73	0	1
China 5Y CDS	72	1	8
Malaysia 5Y CDS	43	1	4
Indonesia 5Y CDS	73	1	4
Thailand 5Y CDS	44	0	3
Australia 5Y CDS	16	0	0

	1-Apr	1W chg	1M chg
Brent Crude Spot ($/bbl)	86.9	1.8%	4.0%
Gold Spot ($/oz)	2,248	3.5%	7.9%
CRB Commodity Index	290	1.3%	5.5%
S&P Commodity Index - GSCI	582	1.0%	4.4%
VIX	13.0	0.7%	-2.9%
US10Y Yield	4.19%	-5bp	1bp
AUD/USD	0.654	-0.1%	0.1%
EUR/USD	1.080	-0.4%	-0.4%
USD/SGD	1.348	-0.1%	-0.3%
AUD/SGD	0.881	-0.1%	-0.4%
ASX200	7,897	1.5%	2.6%
DJIA	39,807	0.1%	2.1%
SPX	5,254	0.2%	3.1%
MSCI Asiax	655	0.5%	2.0%
HSI	16,541	-1.9%	0.2%
STI	3,224	0.2%	2.6%
KLCI	1,536	-0.3%	-0.1%
JCI	7,289	-0.7%	-0.4%
EU Stoxx 50	5,083	0.6%	4.2%

Source: Bloomberg

Credit Headlines:

Industry Outlook – Singapore Property

- URA provided flash estimates.
- **Prices rose 1.5% q/q in 1Q2024** (4Q2023: +2.8% q/q). The increase was broad-based, with prices in:
  - **Outside Central Region rising by 0.4% q/q** (4Q2023: +4.5% q/q).
  - **Rest of Central Region rising by 0.2% q/q** (4Q2023: -0.8% q/q).
  - **Core Central Region rising by 3.1% q/q (**4Q2023: +3.9% q/q).
  - **Landed Property rising 3.4% q/q** (4Q2023: +4.6% y/y).
- **1Q2024 transaction volumes (up till mid-March) fell by ~20% q/q** to 3,482 units though this is higher by 16% y/y**.**
- **Somewhat strong data print:** In our 1H2024 Credit Outlook, we published our expectations that prices would increase at a more moderate pace of 3-5% in 2024 following a 6.7% increase in 2023. The current pace of price increase of 1.5% is slightly ahead of our expectations. (URA, OCBC)

Keppel Ltd ("KEP") and Keppel Infrastructure Trust ("KIT")

- The Infrastructure Division of KEP and KIT through its Trustee-Manager, propose to enter into an agreement to amend and extend the Capacity Tolling Agreement ("CTA") for the Keppel Merlimau Cogen ("KMC") plant by 10 years from 2030 to 2040. KMC is a combined cycle gas turbine power plant (~1,300 MW generation capacity) located on Jurong Island, Singapore. Currently, Keppel Electric Pte Ltd (a wholly-owned subsidiary of KEP) pays KIT a capacity fee under the CTA, so long as KMC meets the availability and capacity test targets.
- KIT owns a 51%-stake in KMC (and consolidates this asset), with KEP holding the other 49%.
- The CTA if amended and extended is expected to generate up to ~SGD1.1bn in capacity payments for KMC.
- The operations and maintenance contract between KMC and KEP's Infrastructure Division is also proposed to be amended and extended by another 10 years to 2044.
- The proposed amendment and extension of the CTA and the operations and maintenance contract is subject to approval from KEP and KIT unitholders at their respective extraordinary general meetings.
- If the CTA amendments and extensions is approved, the contracted cash flows will allow KMC's existing loan facility to be restructured (eg: delay overall principal payment) and resume distributions to KIT.
- We note that in June 2020, KIT obtained a sustainability-linked loan facility for refinancing, with the amortisation commencing in June 2023. Following the end of the amortisation-free period, KMC did not contribute to KIT's distributable income in 2H2023 (negated by mandatory debt repayment) (2H2022: +SGD20.1mn). (Company, OCBC)

China Construction Bank Corporation ("CCB")

- CCB released its FY2023 results with net profit before tax up 1.5% y/y to RMB389.38bn. This was entirely due to a 11.5% y/y fall in credit impairment losses to RMB136.77bn from RMB154.54bn in FY2022. This offset negative JAWS with net operating income down 2.2% y/y to RMB525.46bn.
- The fall in credit impairment losses reflected improved macro-economic conditions in 2023 and was despite a 12.6% y/y rise in net loans and advances to customers. That said, within the RMB136.77bn in impairment losses was a 3.54% y/y rise in impairment losses for loans and advances to customers. Other items including impairment losses on financial investments and others were the main contributor for the y/y fall. Reflecting the macro-economic conditions somewhat was marginal improvement in CCB's non-performing loan ratio to 1.37% as at 31 December 2023 from 1.38% as at 31 December 2022. Allowances to non-performing loan coverage ratio fell as a consequence to 239.85% from 241.53% y/y and both loan quality indicator ratios remain solid in our view.
- Otherwise, the negative JAWS was driven by a 1.57% y/y fall in operating income due to a 4.11% y/y fall in net interest income. This came from a 31bps y/y decline in net interest margins from higher deposit costs due to market competition that offset the aforementioned loans growth as well as what the bank called "continuous

efforts in surrendering profits to support the real economy". Contained within CCB's efforts was a lowering of the loan prime rate twice in 2023. At the same time, net fee and commission income was down marginally by 0.29% y/y as lower asset management fees from lower business volumes offset a 23.2% y/y rise in bank card fees. These offset a material recovery in other net non-interest income from an improvement in trading gains (+56.5%) and a material improvement in net losses from investment securities.

- Operating expenses rose 0.07% y/y on a rise in staff costs of 2.3% y/y that was mostly offset by lower premises and equipment expenses and lower other expenses. As such, CCB's cost to income ratio of 28.39% for FY2023 was up marginally from 27.96% in FY2022, still solid compared to other Financial Institutions under our coverage.
- Given the growth in net loans and advances to customers and growth in total assets by 10.76% y/y, risk weighted assets rose 13.29% y/y. Combined with the slower growth in common equity Tier 1 capital (after regulatory adjustments) of 8.79% y/y, CCB's CET1 ratio was 13.15% as at 31 December 2023, down 54bps from 13.69% as at 31 December 2022. CCB's leverage ratio was 7.83% as at 31 December 2023, up from 7.73% as at 30 September 2023 and broadly stable y/y (7.85% as at the end of 2022). The liquidity coverage ratio also improved q/q but was down y/y at 133.17% as at 31 December 2023 (128.89% as at 30 September and 148.96% as at 31 December 2022).
- Despite the relatively improved macro-economic conditions, CCB's underlying performance indicates a still challenging operating environment and CCB's focus on continuing its responsibility to support China's real economy through lending growth and inclusive financing.
- The SGD350mn CCB 2.85% '24s mature on 13 June 2024 and we are likely to cease coverage on CCB once the bond matures. (Company, OCBC)

Keppel Real Estate Investment Trust ("KREIT")

- KREIT announced the proposed acquisition of a 50%-interest in 255 George Street located in the core Sydney central business district (in the vicinity of Circular Quay). The property is a 29-level Grade A office tower, with a committed occupancy of 93% and a weighted average lease expiry of 6.8 years as at 31 December 2023 by gross rental income.
- The purchase consideration is AUD363.8mn (~SGD321mn) while the total acquisition cost including acquisition fees and other transaction costs is ~AUD390.1mn (~SGD344.1mn).
- The seller is Mirvac Funds Management Australia Limited, as trustee of Mirvac Wholesale Office Fund I. The seller will hold the other 50%-stake of the property. As part of the acquisition, the seller shall provide up to ~AUD46.8mn (~SGD41.3mn) comprising (1) Rent Guarantee (for existing vacancy tenancies and one specified tenancy and for any new vacant tenancy) (2) An amount committed as rent abatement or rent-free incentives (3) An amount to fund potential incentives and/or leasing commission for existing vacancies and potential expiring tenancy and (4) Committed capital expenditure.
- We note that the seller has been facing redemption requests from unitholders.
- Mirvac Real Estate Pty Limited, the existing property manager, will be appointed as the property manager for three years commencing from completion.
- This is a relatively sizeable acquisition relative to KREIT's total assets of SGD8.2bn as at 31 December 2023 and cash and bank balances of SGD141.6mn. KREIT intends to finance the total acquisition costs with a combination of SGD and AUD-denominated bank loans and/or potential divestment proceeds. KREIT may also consider other forms of financing including bonds or convertible bonds as part of the funding mix. That said, based on existing available credit facilities, sufficient financing has been obtained.
- Assuming full debt funding, Reported Aggregate Leverage is expected to rise to ~41% (31 December 2023: 38.9%). (Company, OCBC)

Sembcorp Industries Ltd ("SCI")

- SCI announced that its wholly-owned subsidiary Sembcorp Energy ("Shanghai") Holding Co., Ltd ("SESH") has signed a dual currency denominated revolving credit facility with a bank.
- This facility, which is guaranteed by Sembcorp Utilities Pte Ltd, will provide SESH with access to offshore RMB400mn or an equivalent amount in HKD. (Company, OCBC)

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing	Initial Pricing
28 Mar	Chengdu Tianfu New Area Investment Group Co Ltd (CDNFNA)	Fixed	USD	300	3Y	5.45%	6.05% area

Mandates:

- There are no Asiadollar mandates today.

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