Asian Credit Daily

3 May 2024

Market Commentary:

- The SGD SORA curve traded mostly lower yesterday, with short tenors trading 1-3bps lower, belly tenors trading 2-3bps lower and 10Y trading 2bps lower.

- Flows in SGD corporates were heavy, with flows in BPCEGP 5% '34s, HSBC 4.75% '34s, UBS 5.75%-PERP, ARASP 5.6%-PERP, GESP 3.928% '39s.

- The trustee of China South City Holdings Ltd. (“CSC”), a developer, has sent five letters to Shenzhen Special Economic Zone Construction & Development Group Co. Ltd. (“Shenzhen SEZ Construction”), a state-owned company, requesting payment for dollar notes that were backed by keepwell deeds. Citicorp International has claimed that Shenzhen SEZ Construction breached the agreements by failing to ensure the solvency of CSC and its ability to secure enough funds to fulfill debt obligations. Barclays PLC announced that it will call a USD2bn Additional Tier 1 instrument at first call on 15 June 2024. LeasePlan Corporation NV also announced it will redeem a EUR500mn Additional Tier 1 instrument at first call on 29 May 2024.

- Bloomberg Asia USD Investment Grade spreads tightened by 1bps to 82bps while Asia USD High Yield spreads tightened by 3bps to 578bps. (Bloomberg, OCBC)

Credit Summary:

- **Macquarie Group Limited ("MQG"):** MQG reported FY2024 results for the period ended 31 March 2024, maintaining a solid capital position with the CET1 ratio at 13.6%, up from 13.4% as at 31 December 2023 and 13.2% as at 30 September 2023 but down marginally from 13.7% as at 31 March 2023.

- **Keppel Infrastructure Trust ("KIT"):** KIT announced their 1Q2024 business updates where operational updates and some key financial highlights were provided. Group Adjusted EBITDA was SGD130.7mn, increasing by 3.8% y/y, excluding one-off acquisition related costs, unrealized gains and performance fees recognized.

Key Market Movements

	3-May	1W chg (bps)	1M chg (bps)		3-May	1W chg	1M chg
iTraxx Asiax IG	107	-8	4	**Brent Crude Spot ($/bbl)**	83.8	-6.4%	-6.2%
				Gold Spot ($/oz)	2,302	-1.5%	0.1%
iTraxx Japan	53	-2	6	**CRB Commodity Index**	285	-4.3%	-3.5%
iTraxx Australia	71	-4	7	**S&P Commodity Index - GSCI**	573	-3.8%	-3.7%
CDX NA IG	52	0	0	**VIX**	14.7	-4.5%	2.4%
CDX NA HY	106	0	-1	**US10Y Yield**	4.58%	-12bp	23bp
iTraxx Eur Main	55	0	0				
iTraxx Eur XO	316	1	13	**AUD/USD**	0.658	0.7%	0.2%
iTraxx Eur Snr Fin	63	0	-1	**EUR/USD**	1.073	0.4%	-0.9%
iTraxx Eur Sub Fin	115	2	0	**USD/SGD**	1.353	0.7%	-0.4%
				AUD/SGD	0.890	0.1%	-0.5%
USD Swap Spread 10Y	-37	4	0	**ASX200**	7,637	0.8%	-1.9%
USD Swap Spread 30Y	-76	3	-3	**DJIA**	38,226	0.4%	-2.3%
				SPX	5,064	0.3%	-2.8%
China 5Y CDS	67	-5	-6	**MSCI Asiax**	667	1.4%	1.8%
Malaysia 5Y CDS	47	-2	3	**HSI**	18,380	6.3%	9.9%
Indonesia 5Y CDS	74	-4	-1	**STI**	3,307	0.6%	2.6%
Thailand 5Y CDS	44	-2	-1	**KLCI**	1,585	1.0%	3.1%
Australia 5Y CDS	14	0	-2	**JCI**	7,105	-0.7%	-0.9%
				EU Stoxx 50	4,891	-1.0%	-3.5%

Source: Bloomberg

Credit Headlines:

Macquarie Group Limited ("MQG")

- MQG reported FY2024 results for the period ended 31 March 2024, maintaining a solid capital position with the CET1 ratio at 13.6%, up from 13.4% as at 31 December 2023 and 13.2% as at 30 September 2023 but down marginally from 13.7% as at 31 March 2023.
    - This translates to a capital surplus of AUD10.7bn against the 10.5% minimum under the Australian Prudential Regulation Authority's "Unquestionably Strong" bank capital framework, up from AUD10.5bn as at 30 September 2023 and down from AUD12.6bn as at 31 March 2023.
    - On an internationally comparable Basel III basis, the CET1 ratio was 18.7% as at 31 March 2024, up from 18.2% as at 31 December 2023 and 18.4% as at 31 March 2023.
    - Management is continuing to progress its previously announced AUD2bn share buyback given the bank's surplus capital position with AUD644mn completed as at 31 March 2024. The buyback completion remains subject to market conditions and business opportunities.

  MQG's sound capital buffers support its fundamental credit profile at current levels in our view.
- FY2024 financial performance with net profit of AUD3.52bn for MQG is down 32% y/y however this is against a record FY2023 performance from strong performance in its market businesses. Both annuity and markets facing businesses faced a slowdown in FY2024 with earnings before unallocated corporate costs, profit share and income tax for annuity businesses (Macquarie Asset Management ("MAM"), Banking and Financial Services ("BFS") and certain businesses in Commodities and Global Markets ("CGM")) down 27% y/y to AUD3.0bn due to lower asset realisations in green investments and green energy portfolio investment in MAM. Markets facing businesses (Macquarie Capital ("MC") and most businesses in CGM) reported earnings before unallocated corporate costs, profit share and income tax down 40% y/y to AUD3.70bn on normalisation of operating conditions following exceptionally high volatility in commodity markets that led to the record FY2023 performance.
- FY2024 performance in terms of net profit contribution reflects:
    - Underperformance in MAM (-48% y/y, ~18% of FY2024 net profit) from lower asset realisations in green investments and higher green energy portfolio investments that rose to AUD2.4bn in carrying value as at 31 March 2024 (AUD1.4bn as at 31 March 2023). MAM green investments include 57% in development, 24% in operation and 19% in construction. Assets under management rose 7% y/y to AUDA938.3bn from favourable market movements, investments by MAM Private Markets-managed funds and favourable foreign exchange movements.
    - Normalisation of CGM performance (-47% y/y, ~47% of FY2024 net profit) from lower inventory management and trading income in North American Gas and Power, lower commodities risk management and client hedging along with stabilisation of commodity prices.
    - Marginally improved performance in BFS (+3% y/y, ~19% of FY2024 net profit) from home and business banking loan (+10% and +22% y/y respectively) portfolio and deposit (+10% y/y) growth as well as credit impairment reversals that offset lower margins and higher expenses.
    - Strong improvement in MC (+31% y/y, ~16% of FY2024 net profit) due to higher investment related income in the private credit portfolio and net impairment reversals.
- While net operating income was down 11.7% y/y driven by net interest and trading income and investment income, total operating expenses were down 0.6% y/y driving a 29% y/y fall in operating profit before income tax. Operating expense performance reflected stable employment costs (lower variable pay offset by higher headcount and inflation) and brokerage, commission, and fee expenses while other operating expenses fell 3.9% y/y as lower legacy and transaction related charges and reduced professional fees offset higher compliance costs and technology investment as well as foreign exchange movements.
- Despite an improvement in the economic outlook, management is maintaining its cautious and conservative outlook. (Company, OCBC)

Keppel Infrastructure Trust ("KIT")

- KIT announced their 1Q2024 business updates where operational updates and some key financial highlights were provided. Group Adjusted EBITDA was SGD130.7mn, increasing by 3.8% y/y, excluding one-off acquisition related costs, unrealized gains and performance fees recognized.
- KIT's reported total operational cash flow ("OCF") was SGD86.5mn, lower by 6.4% y/y. The decline was mainly driven by lower OCF from the Renewables Portfolio (consisting of wind farms in Europe), though boosted by the contribution from the German Solar Portfolio (first and second close of the acquisition completed in 1Q2024), stronger performance at the Aramco Gas Pipelines Company and resumption of distribution from Keppel Merlimau Cogen ("KMC", undergoing restructuring of its debt following extension of capacity tolling agreement). Per KIT, the Renewables Portfolio (wind farms) saw lower distribution as 1Q2023's debt repayment was funded using retained cash prior to acquisition completion while debt was repaid out cash flow generation in January 2024.
- As at 31 March 2024, KIT's total assets were relatively stable q/q at SGD5.6bn.
- As at 31 March 2024, KIT faces minimal debt maturity of only SGD45mn in relation to mandatory debt repayment for its proportionate stake in KMC and debt due is also highly manageable in 2025 amounting to SGD95mn. KIT faces a significant maturity wall in 2026 amounting to SGD890mn (representing ~39% of debt (including only KIT's proportionate share of KMC debt)). 58% of the debt due in 2026 are at the Ixom-level. We understand from management that refinancing discussions are typically entered into about a year prior to maturity.
- As at 31 March 2024, weighted average term to maturity is ~3.1 years with fixed and hedged debt high at ~82% (31 December 2023: 83%).
- As at 31 March 2024, KIT has SGD600mn of perpetuals outstanding. Assuming perpetuals as debt and adding it to KIT's consolidated debt (we assume lease liabilities stayed constant q/q) of SGD2.8bn and annualising KIT's 1Q2024 reported EBITDA of SGD522.8mn, we find Adjusted Debt-to-EBITDA at 5.4x. (Company, OCBC)

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing	Initial Pricing
02 May	Cathay Life Insurance Co., Ltd.	Fixed	USD	187	10Y	5.8%	N.A

Mandates:

- There are no Asiadollar mandates for today.

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