

## Asian Credit Daily

24 April 2024

## Market Commentary:

- The SGD SORA curve traded higher yesterday, with short tenors trading 2-4bps higher, belly tenors trading 4bps higher and 10Y trading 4bps higher.
- Flows in SGD corporates were heavy, with flows in HSBC 4.75% '34s, LLOYDS 5.25% '33s, UBS 5.75%-PERP, BPCEGP 5% '34s, STANLN 5.375%-PERP, BACR 7.3%-PERP, GESP 3.928% '39s, ABNANV 5.5% '32s.
- Financial firms including T. Rowe Price Group Inc. and Nomura Holdings Inc. are expressing concern over stress in shadow loans in South Korea as the real estate sector has been showing cracks at home and abroad after interest rates rose. Delinquency rates at one key group of Korean lenders nearly doubled to 6.55% last year, while economists at Citigroup Inc. estimate KRW111tn (USD80bn) of project-finance debt is “troubled.” Korean shadow-bank financing to the real estate sector rose to a record KRW926tn last year according to the Korean Market Institute, over four times a decade ago.
- Bloomberg Asia USD Investment Grade spreads widened by 1bps to 83bps while Asia USD High Yield spreads widened by 4bps to 610bps. (Bloomberg, OCBC)
- There were no notable bond issuances in the Asiadollar and Singdollar market yesterday.

## Credit Summary:

- **CapitaLand Ascott Trust ("ART"):** ART announced the appointment of Deloitte & Touche LLP as new auditors, in place of the retiring auditors, KPMG LLP ("KPMG").
- **Westpac Banking Corporation ("Westpac"):** Westpac announced that notable items of AUD164mn will be included in 1HFY2024 reported net profit after tax for the six months ended 31 March 2024. The items relate to unrealised fair value gains and losses on economic hedges and net ineffectiveness on qualifying hedges that will reverse over time.
- **Keppel Real Estate Investment Trust ("KREIT"):** Contribution from 2 Blue Street lifts y/y property income: KREIT announced its 1Q2024 business updates where operational updates and some key financial highlights were provided.
- **CapitaLand Ascendas REIT ("AREIT"):** AREIT announced 1Q2024 business updates. Overall results are still healthy with strong rental reversion, though modest weaknesses were evidenced across occupancy rates and credit metrics.
- **ESR-LOGOS REIT ("EREIT"):** EREIT announced its 1Q2024 business updates. Top line fell from absence of revenue from divested assets.

**Key Market Movements**

|                     | 23-Apr | 1W chg<br>(bps) | 1M chg<br>(bps) |                            | 23-Apr | 1W chg | 1M chg |
|---------------------|--------|-----------------|-----------------|----------------------------|--------|--------|--------|
| iTraxx Asiax IG     | 114    | -2              | 10              | Brent Crude Spot (\$/bbl)  | 87.4   | -2.9%  | 2.4%   |
|                     |        |                 |                 | Gold Spot (\$/oz)          | 2,331  | -2.2%  | 7.3%   |
| iTraxx Japan        | 55     | 3               | 9               | CRB Commodity Index        | 298    | 0.1%   | 4.3%   |
| iTraxx Australia    | 75     | 3               | 10              | S&P Commodity Index - GSCI | 590    | -1.2%  | 2.7%   |
| CDX NA IG           | 54     | -3              | 2               | VIX                        | 16.9   | -11.9% | 29.7%  |
| CDX NA HY           | 106    | 1               | -1              | US10Y Yield                | 4.61%  | -5bp   | 42bp   |
| iTraxx Eur Main     | 58     | -4              | 3               |                            |        |        |        |
| iTraxx Eur XO       | 325    | -17             | 28              | AUD/USD                    | 0.646  | 0.8%   | -1.3%  |
| iTraxx Eur Snr Fin  | 66     | -4              | 2               | EUR/USD                    | 1.066  | 0.4%   | -1.7%  |
| iTraxx Eur Sub Fin  | 119    | -8              | 3               | USD/SGD                    | 1.361  | 0.3%   | -1.1%  |
|                     |        |                 |                 | AUD/SGD                    | 0.879  | -0.6%  | 0.2%   |
|                     |        |                 |                 |                            |        |        |        |
| USD Swap Spread 10Y | -38    | 1               | -7              | ASX200                     | 7,688  | 1.0%   | -1.1%  |
| USD Swap Spread 30Y | -76    | 0               | -8              | DJIA                       | 38,240 | 1.3%   | -3.1%  |
|                     |        |                 |                 | SPX                        | 5,011  | -1.0%  | -4.3%  |
| China 5Y CDS        | 70     | -3              | 0               | MSCI Asiax                 | 635    | 0.2%   | -2.8%  |
| Malaysia 5Y CDS     | 48     | 0               | 7               | HSI                        | 16,512 | 1.6%   | 0.1%   |
| Indonesia 5Y CDS    | 79     | -2              | 7               | STI                        | 3,253  | 3.5%   | 1.1%   |
| Thailand 5Y CDS     | 46     | -1              | 2               | KLCI                       | 1,563  | 1.8%   | 1.4%   |
| Australia 5Y CDS    | 15     | 0               | -1              | JCI                        | 7,074  | -2.9%  | -3.8%  |
|                     |        |                 |                 | EU Stoxx 50                | 4,937  | -1.0%  | -1.9%  |

Source: Bloomberg

**Credit Headlines:****CapitaLand Ascott Trust (“ART”)**

- ART announced the appointment of Deloitte & Touche LLP as new auditors, in place of the retiring auditors, KPMG LLP (“KPMG”).
- KPMG has served as the auditors for ART REIT for 18 years since 2006 and auditors of the stapled group (comprising of the REIT and the business trust) for five years since 2019. Per ART, the change in auditors is part of ART’s ongoing good corporate governance initiatives. (Company)

**Westpac Banking Corporation (“Westpac”)**

- Westpac announced that notable items of AUD164mn will be included in 1HFY2024 reported net profit after tax for the six months ended 31 March 2024. The items relate to unrealised fair value gains and losses on economic hedges and net ineffectiveness on qualifying hedges that will reverse over time.
- As a recap, Westpac previously announced 1QFY2024 net profit of AUD1.5bn for the 3 months ended 31 December 2023 and 2HFY2023 profit before tax down of AUD4.68bn for the 6 months ended 30 September 2023.
- In addition, Westpac confirmed that operating segments have been restated following the separation of the Consumer and Business & Wealth operating segments and the closure of the Specialist Businesses operating segment.
- Westpac’s 1HFY2024 results will be announced on 6 May 2024. (Company, OCBC)

**Keppel Real Estate Investment Trust (“KREIT”)**

- **Contribution from 2 Blue Street lifts y/y property income:** KREIT announced its 1Q2024 business updates where operational updates and some key financial highlights were provided. Property income for 1Q2024 was reported at SGD61.3mn, increasing by 6.3% y/y. Property income relates to income from directly held properties including Ocean Financial Centre, 50% interest in 8 Exhibition Street office building and 100% interest in the three adjacent retail units, 50% interest in Victoria Police Centre, Pinnacle Office Park, T Tower, Keppel Bay Tower, KR Ginza II (acquired in November 2022) and 2 Blue Street (formerly Blue & William, achieved practical completion on 3 April 2023). The increase in property income was driven by higher rentals from Ocean Financial Centre and contribution from 2 Blue Street. KREIT also owns significant minority stakes in other properties which are equity accounted for. In 1Q2024, share of results of associates and joint ventures was SGD27.6mn (1Q2023: SGD25.7mn) in aggregate.
- **Committed occupancy fell somewhat q/q but still relatively high:** As at 31 March 2024, overall portfolio committed occupancy was 96.4% versus 97.1% as at 31 December 2023. Committed occupancy for KREIT’s Singapore portfolio remains high at 98.8% as at 31 March 2024 (marginally lower than the 99.0% as at 31 December 2023) while Australia occupancy was at 91.6% and North Asia at 97.9%. Per KREIT, 2 Blue Street has achieved committed occupancy of 66.4% and is receiving rental support on unlet space of up to three years from the practical completion date.
- **Slight corrosion in credit metrics:** KREIT reported adjusted interest coverage ratio (includes perpetual distribution) for the 12 months to 31 March 2024 at 2.9x, somewhat lower than the 3.0x for the 12 months to 31 December 2023 while reported aggregate leverage (excluding perpetual) has increased to 39.4% (31 December 2023: 38.9%). We note that the all-in interest rate was 3.18% p.a as at 31 March 2024, increasing from 2.89% as at 31 December 2023.
- **Short term refinancing risk reduced:** As at 31 March 2024, the company faces relatively sizeable debt due in 2024 of SGD800mn (representing 22% of total debt). However, in April 2024, SGD129mn of debt coming due has been redeemed/repaid. Per KREIT, it is in the final stage of financing documentation for the remaining SGD671mn (consisting of bank loans).
- **Increasing Australia exposure:** In April 2024, KREIT announced the proposed acquisition of a 50% interest in 255 George Street, an office property in the Sydney core central business district. The purchase

consideration is AUD363.8mn (~SGD321mn) while the total acquisition cost including acquisition fees and other transaction costs is ~AUD390.1mn (~SGD344.1mn). 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. As at 31 March 2024, Singapore makes up ~79% of total portfolio value of SGD9.2bn and form the core assets of KREIT. Australia makes up 16.5%, South Korea 3.3% and Japan 0.9%. Assuming transaction completion, KREIT's exposure to Australia is expected to rise to ~19%. Assuming fully funded by debt, reported aggregate leverage is expected to increase to ~41%. That said, per company it continues to pursue capital recycling opportunities which can help strengthen its balance sheet. (Company, OCBC)

## CapitaLand Ascendas REIT ("AREIT")

- AREIT announced 1Q2024 business updates. **Overall results are still healthy with strong rental reversion, though modest weaknesses were evidenced across occupancy rates and credit metrics.**
- **1Q2024 portfolio occupancy weakened modestly q/q to 93.3%** (end-2023: 94.2%), with weaknesses across all regions:
  - Singapore (64% of AREIT's total investment properties): fell 0.4% q/q to 92.3%.
  - US (12% of AREIT's total investment properties): fell 0.9% q/q to 89.5%, dragged by tenant movements in Perimeter One (a business space property in Raleigh) and Lackman Business Centre (a logistics property in Kansas City).
  - Australia (13% of AREIT's total investment properties): fell 2.1% q/q to 96.6%, dragged by a single-tenant lease expiry of 16 Kangaroo Avenue (a logistics property in Sydney).
  - UK/Europe (11% of AREIT's total investment properties): fell 1.8% q/q to 97.5%, dragged by a single-tenant lease expiry of Welwyn Garden City (a data centre in London).
- **1Q2024 portfolio rental reversion remained strong at 16.9%** on the basis of new average gross rents (from renewed leases) over old average gross rents.
  - Singapore: +16%.
  - US: +28.7%.
  - Australia: no new lease was signed.
  - UK/Europe: no new lease was signed.
- **Slightly weaker credit metrics q/q:** Aggregate leverage as at 31 March 2024 rose slightly q/q to 38.3% (end-2023: 37.9%) and 1Q2024 reported adjusted interest coverage ratio ("ICR") weakened slightly q/q to 3.6x (2023: 3.7x). The slightly weaker reported adjusted ICR is expected to be contributed by higher weighted average interest costs of 3.8% in 1Q2024 (2023: 3.5%). Meanwhile, reported net debt / annualised EBITDA weakened slightly q/q to 7.6x (2023: 7.8x). (Company, OCBC)

## ESR-LOGOS REIT ("EREIT")

- **Top line fell from absence of revenue from divested assets:** EREIT announced its 1Q2024 business updates. Reported gross revenue and net property income ("NPI") declined by 8.9% y/y to SGD89.0mn and declined by 10.8% y/y to SGD62.9mn respectively. In 2023, EREIT divested ten non-core properties as part of its capital recycling strategy. Per EREIT, on a same-store basis, gross revenue had increased 1.3% y/y while NPI had declined marginally by 0.2% y/y. Per EREIT, the decline in same-store NPI was due to increase in property tax and higher utilities expenses.
- **Occupancy fell somewhat:** As at 31 March 2024, EREIT reported occupancy of 91.7%, falling from the 92.8% as at 31 December 2023. This was mainly due to EREIT's Singapore portfolio which as at 31 March 2024, occupancy was 88.5% against 89.9% as at 31 December 2023. Australia and Japan saw full occupancy.
- **Slight corrosion in credit metrics:** EREIT reported adjusted interest coverage ratio (includes perpetual distribution) for the 12 months to 31 March 2024 was 2.6x, somewhat higher than the 2.5x for the 12 months to 31 December 2023 while reported aggregate leverage (excluding perpetual and lease liabilities

but including proportionate debt and asset at joint venture) increased to 37.1% as at 31 March 2024 (31 December 2023: 35.7%). Per EREIT, on a proforma basis assuming the divestment of 182-189 Maidstone Street was completed on 31 March 2024 and the net proceeds were fully used to repay debt, reported aggregate leverage may fall to ~36%. In April 2024, EREIT announced the proposed divestment of this property located in Australia for a sale consideration of AUD65.5mn (~SGD57.6mn). We note that the all-in cost of debt was 4.11% as at 31 March 2024 versus 3.91% as at 31 December 2023.

- **No short-term refinancing risk:** As at 31 March 2024, EREIT faced SGD163mn of debt due for the remaining of 2024. However, in April 2024, EREIT had refinanced the debt with EREIT's first sustainability linked loan ("SLL") facility. 2025 is also a low maturity year with SGD260mn coming due. That said, EREIT is expected to face a maturity wall in 2026 with SGD805mn of debt coming due, including the new SLL and the SGD125mn EREIT 2.6% '26s (representing 49.6% of total debt). (Company, OCBC)

## Mandates:

- There are no Asiadollar mandates for today.
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