

Asian Credit Daily

29 January 2024

Market Commentary:

- The SGD SORA curve traded lower last Friday, with short tenors trading 3bps lower, belly tenors trading 2-3bps lower, and the 10Y trading 1bps lower.
- Flows in SGD corporates were heavy, with flows in STTGDC 5.7%-PERP, BNP 5.9%-PERP, CMZB 6.5% '34s, OCBCSP 4.05%-PERP, ARTSP 3.07%-PERP, BACR 7.3%-PERP, CMZB 5.7% '33s
- According to Bloomberg, China Evergrande Group received a liquidation order from a Hong Kong court. Liquidation of the most indebted developer (>USD300bn of total liabilities) is likely to send ripples through financial markets.
- Last Friday, Bloomberg Asia USD Investment Grade spreads tightened by 2bps to 102bps while the Asia USD High Yield spreads tightened by 12bps to 677bps, per Bloomberg.
- There was one issuance in the Asiadollar (ex-Japan) market last Friday. China Industrial Securities International Financial Group Limited priced a 3Y floating USD senior unsecured note at SOFR +90bps.
- There were no issuances in the SGD market last Friday.

Credit Summary:

- **Industry Outlook - Singapore Property:** Recent property launches: Lumina Grand EC sold 53% out of 512 total units at an average price of SGD1,464 psf over the weekend launch. This follows the launch of Hillhaven (sold 33% of 179 units released at SGD1,903 psf) and Arcady (sold 30% out of 172 total units at SGD2,570 psf).
- **Julius Baer Group Ltd ("JBG"):** Per local media reports, JBG is expected to announce a CHF400mn write off that is connected with its largest exposure within the private debt loan book, the Signa property group. JBG previously announced a provision of CHF70mn that was booked post 31 October 2023 against a CHF606mn exposure that is now entering restructuring and is secured by commercial real estate and luxury retail.
- **CapitaLand Ascott Trust ("ART"):** ART reported 2H2023 financials for the six months ended 31 December 2023. Overall improvement in travel and hospitality continues to boost ART's results.

Key Market Movements

	29-Jan	1W chg (bps)	1M chg (bps)		29-Jan	1W chg	1M chg
iTraxx Asiax IG	101	-3	11	Brent Crude Spot (\$/bbl)	83.7	4.5%	8.6%
iTraxx SovX APAC	0	0	0	Gold Spot (\$/oz)	2,024	0.1%	-1.9%
iTraxx Japan	56	0	-3	CRB Commodity Index	274	3.1%	3.7%
iTraxx Australia	69	0	0	S&P Commodity Index - GSCI	561	4.2%	4.8%
CDX NA IG	54	-1	-3	VIX	13.3	-0.3%	6.5%
CDX NA HY	106	0	0	US10Y Yield	4.13%	2bp	25bp
iTraxx Eur Main	58	-1	-1				
iTraxx Eur XO	315	-8	4	AUD/USD	0.659	0.3%	-3.2%
iTraxx Eur Snr Fin	67	-2	-1	EUR/USD	1.085	-0.3%	-1.7%
iTraxx Eur Sub Fin	124	-4	1	USD/SGD	1.341	0.0%	-1.6%
				AUD/SGD	0.884	-0.3%	1.6%
USD Swap Spread 10Y	-37	0	4	ASX200	7,579	2.1%	1.0%
USD Swap Spread 30Y	-71	-1	0	DJIA	38,109	0.6%	1.1%
				SPX	4,891	1.1%	2.5%
China 5Y CDS	65	-2	5	MSCI Asiax	613	2.3%	-4.5%
Malaysia 5Y CDS	45	1	5	HSI	15,952	6.6%	-6.4%
Indonesia 5Y CDS	76	3	6	STI	3,163	0.4%	-2.4%
Thailand 5Y CDS	42	0	3	KLCI	1,509	1.5%	3.7%
Australia 5Y CDS	17	0	0	JCI	7,137	-1.2%	-1.9%
				EU Stoxx 50	4,635	4.2%	2.5%

Source: Bloomberg

Credit Headlines:**Industry Outlook – Singapore Property**

- **Recent property launches:** Lumina Grand EC sold 53% out of 512 total units at an average price of SGD1,464 psf over the weekend launch. This follows the launch of Hillhaven (sold 33% of 179 units released at SGD1,903 psf) and Arcady (sold 30% out of 172 total units at SGD2,570 psf).
- **Sales anchored by resident demand, younger residents and upgraders....:** According to Far East Organization, all buyers for Hillhaven (near Hillview MRT) are Singaporeans and Permanent Residents. Buyers aged 31 to 50 years old make up 70% of the total number of buyers. For Arcady, the CEO of Huttons Asia commented the buyers were predominantly Singaporeans and Permanent Residents. Meanwhile, CEO of City Developments Ltd commented that there were keen interest among first-time buyers and HDB upgraders for Lumina Grand EC, with the quota of 30% reached for second-time buyers.
- **Slower sales rate indicating less pent-up demand:** Take-up for Lumina Grand EC of 53% is lower than other ECs such as Copen Grand EC (73%), Tenet EC (72%), Altura EC (61%). Similarly, we note that the take-up rate of Hillhaven and Arcady at ~30% is lower than the sales-rate of launches in 2022-23 (a number were 50-70% sold previously). We think this indicates that demand is currently less pent-up. (Company, Business Times, OCBC)

Julius Baer Group Ltd (“JBG”)

- Per local media reports, JBG is expected to announce a CHF400mn write off that is connected with its largest exposure within the private debt loan book, the Signa property group. JBG previously announced a provision of CHF70mn that was booked post 31 October 2023 against a CHF606mn exposure that is now entering restructuring and is secured by commercial real estate and luxury retail.
- JBG’s exposure to the Signa group has prompted an investigation by Swiss regulator FINMA over JBG’s risk-control structures and impacted JBG’s external ratings with a recent outlook change on the issuer profile and downgrade of the issue ratings on their Additional Tier 1 bank capital instruments.
- JBG is announcing its 2023 results this Thursday January 25th. (Bloomberg, OCBC)

CapitaLand Ascott Trust (“ART”)

- ART reported 2H2023 financials for the six months ended 31 December 2023. Overall improvement in travel and hospitality continues to boost ART’s results.
- **Overall portfolio performance improved y/y though underlying markets differed:**
 - ART’s 2H2023 reported revenue and reported gross profit both increased by ~12% y/y to SGD397.6mn and SGD183.9mn respectively from a combination of stronger operation performance of existing properties and contributions from new properties. Per ART, on a same-store basis, reported gross profit was higher by 5% y/y. Revenue per available unit for the portfolio (excluding master leases, rental housing and student accommodation) increased 4% y/y, mainly driven by higher average daily rates. Whole average portfolio occupancy was stable q/q at 77% in 4Q2023, which per ART is around 92% of pre-COVID levels.
 - In terms of absolute contribution in SGD-terms for reported gross profit, we note that the main y/y increase was in Japan – Management Contracts and USA – Management Contracts as well as the UK – Management Contracts with Minimum Guaranteed Income, though the properties in Australia and Singapore saw lower reported gross profit y/y. Both ART’s Australia and Singapore properties were negatively affected by higher staff costs, operation & maintenance expense and marketing expenses while a weaker AUD against the SGD further dragged results.
 - ART’s 2H2023 reported gross profit was 106% of 2H2019 pro forma levels which assumes the inclusion of the Ascendas Hospitality Trust portfolio. The combination of ASCHTS with ART was completed on 31 December 2019.
- **Short term refinancing risks manageable:**

- For the 12 months to 31 December 2023, ART's Reported Adjusted Interest Coverage Ratio (which does include perpetual distributions in the denominator) was 3.4x. In contrast, for the 12 months to 31 December 2022, this was 3.6x, which in our view was driven by higher effective borrowing cost at ART and higher debt levels y/y. We note that in 2023, ART's debt drawdown, net of debt repayments was ~SGD80mn. While effective borrowing cost still appears low at 2.4% as at 31 December 2023, had increased from 1.8% as at 31 December 2022.
- As at 31 December 2023, reported aggregate leverage (does not include perpetuals) was 37.9%, somewhat higher than the 35.2% as at 30 September 2023. As at 31 December 2023, ART has two tranches of perpetuals outstanding amounting to SGD400mn.
- As at 31 December 2023, ART faces SGD563mn of debt due in 2024 (representing 18% of gross debt). This includes the SGD120mn ARTSP 4.0% '24s due in March 2024 and EUR80mn ARTSP 2.75% '24s due in December 2024. Per ART, committed credit facilities amounted to ~SGD461mn while cash on hand was ~SGD430mn. With accessible liquidity higher than the short-term debt due, we see short term refinancing risks as manageable.
- ART continue to have a high proportion of its debt fixed or hedged into fixed rate at 81%, somewhat lower than the 83% in the previous quarter.
- **Portfolio is greening and continues to tilt towards longer-stay assets:**
 - In 2H2023, 54% of reported gross profit are considered as stable income while 46% are considered as growth income. 29% of stable income (being 15.6% of 54%) is contributed by longer-stay assets in aggregate, specifically rental housing in Japan and student accommodation in the US. ART continues to target to increase its asset allocation in longer-stay assets to 25-30% in the medium term. As at 31 December 2023, ~17% of portfolio value is currently in longer-stay accommodation.
 - As at 31 December 2023, 49% of ART's gross floor area were green certified, up from 37% as at 31 December 2022. ART is on track to meet 50% target in 2025 and 100% target in 2030. ART's sustainability-linked bonds are linked to meeting a 50% gross floor target by 2025. (Company, OCBC)

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing	Initial Pricing
26 Jan	China Industrial Securities International Financial Group Limited (Guarantor: Industrial Securities Co Ltd)	FRN	USD	300	3-Yr	SOFR+90bps	SOFR+140bps area

Mandates:

- There are no mandates for today.
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