Asian Credit Daily

5 May 2025

Market Commentary:

- The SGD SORA OIS curve traded mixed last Friday with shorter tenors trading 2bps lower to flat, belly tenors trading 1bps lower to flat and 10Y trading 1bps higher.
- Flows in SGD corporates were heavy, with flows in HSBC 5.25%-PERP, HSBC 5%-PERP, ANZ 3.75% '34s.
- According to data compiled by Bloomberg, the issuance of sustainable debt in Asia has reached USD104.7bn this year, reflecting a 20% decline compared to the same period last year. This figure was bolstered by USD8.09bn in the past two weeks.
- Bloomberg Asia USD Investment Grade spreads tightened by 3bps to 90bps while Bloomberg Asia USD High Yield spreads tightened by 10bps to 537bps respectively. (Bloomberg, OCBC)
- There were no notable issuances in the Asiadollar and Singdollar markets last Friday.

Credit Summary:

- **CapitaLand Integrated Commercial Trust ("CICT"):** Selling serviced residences of CapitaSpring: CICT and joint venture partners have entered into a unit purchase agreement with unrelated third-party purchasers to sell a 100% stake of 299-unit serviced residences of CapitaSpring. CICT holds a 45% stake in the 299-unit serviced residences of CapitaSpring.
- **ESR-REIT ("EREIT"):** Ms Karen Lee has resigned from her role as Deputy CEO of the ESR-REIT ("EREIT") REIT Manager to pursue personal interests on 30 April 2025.
- **Keppel Real Estate Investment Trust ("KREIT"):** Keppel REIT Management Limited, as manager of KREIT ("KREIT REIT Manager"), announced that Keppel REIT Fin. Company Pte Ltd (a wholly-owned subsidiary of KREIT) has obtained a SGD150mn green loan facility guaranteed by HSBC Institutional Trust Services (Singapore) Limited (in its capacity as trustee for KREIT).
- **Standard Chartered PLC ("StanChart"):** StanChart announced a decent y/y improvement in underlying profit before taxation for 1QFY2025, up 7% to USD2.28bn. From the previous quarter, underlying profit before taxation rose 117% from USD1.05bn. Underlying operating income rose by 5% y/y to USD5.39bn and offset a 5% increase in operating expenses to USD2.9bn.
- **Westpac Banking Corporation ("Westpac"):** Westpac announced its 1HFY2025 results for the six months ended 31 March 2025. Despite marginally lower net profit after tax of AUD3.3bn including notable items (-1% y/y) and likely lower interest rates and net interest income, management's outlook appears constructive given the solid quality of its loan book and the resilience of the Australian economy, which should improve with the lower interest rates.

Credit Headlines

CapitaLand Integrated Commercial Trust ("CICT")

- **Selling serviced residences of CapitaSpring:** CICT and joint venture partners have entered into a unit purchase agreement with unrelated third-party purchasers to sell a 100% stake of 299-unit serviced residences of CapitaSpring. CICT holds a 45% stake in the 299-unit serviced residences of CapitaSpring.
- **Selling at a minor premium:** The agreed property value is SGD280mn on a 100% basis (SGD126mn based on CICT's 45% stake), equivalent to 0.54% premium over the SGD278.5mn valuation as of 31 December 2024. The exit yield is ~3.6%.
- **Slight improvement on aggregate leverage ratio:** CICT's share of the sale proceeds is estimated to be ~SGD37.8mn after taking into consideration of repayment of the existing loans. Per CICT, the pro forma aggregate leverage as of 31 March 2025 is expected to reduce from 38.7% to ~38.4% if the net proceeds to CICT were fully used to repay existing debt. (Company, OCBC)

ESR-REIT ("EREIT")

- Ms Karen Lee has resigned from her role as Deputy CEO of the ESR-REIT ("EREIT") REIT Manager to pursue personal interests on 30 April 2025.
- Ms Karen Lee was formerly the CEO of the ARA LOGOS Logistics Trust ("ALOG")'s REIT Manager and became Deputy CEO of ESR-REIT when ALOG was combined with EREIT in May 2022.
- Currently there is no announcement that the Deputy CEO role will be replaced. (Company, OCBC)

Keppel Real Estate Investment Trust ("KREIT")

- Keppel REIT Management Limited, as manager of KREIT ("KREIT REIT Manager"), announced that Keppel REIT Fin. Company Pte Ltd (a wholly-owned subsidiary of KREIT) has obtained a SGD150mn green loan facility guaranteed by HSBC Institutional Trust Services (Singapore) Limited (in its capacity as trustee for KREIT). (Company)

Standard Chartered PLC ("StanChart")

- StanChart announced a decent y/y improvement in underlying profit before taxation for 1QFY2025, up 7% to USD2.28bn. From the previous quarter, underlying profit before taxation rose 117% from USD1.05bn. Underlying operating income rose by 5% y/y to USD5.39bn and offset a 5% increase in operating expenses to USD2.9bn.
- 1Q2025 underlying operating income improvement was seen across both net interest income and non-net interest income with balanced contributions (net interest income and non-net interest income contributed ~52% and ~48.0% of underlying operating income):
  - Net interest income rose 5% y/y and decreased 6% q/q for 1QFY2025. Performance was influenced by improved mix and roll-off of legacy short-term hedges which was partly offset by impact of lower interest rates and margin compression.
  - Non-net interest income was up 4% y/y and 40% q/q. The rise in non-net interest income was supported by sustained momentum in Wealth Solutions, with double-digit growth across both Investment Products and Bancassurance, alongside robust performances in Global Banking driven by higher origination volumes, and in Global Markets fuelled by strong growth in both flow and episodic income.
- Credit impairment for 1QFY2025 was USD219mn, up USD43mn y/y and USD89mn from q/q, representing an annualised loan-loss rate of 25bps. Of the USD219mn impairment, USD112mn related to stage 1 and stage 2 exposures, a 35% decrease from the previous quarter and an 84% increase from 1QFY2024, while USD107mn related to stage 3 exposures was up from a USD42mn release last quarter but down 7% from 1QFY2024.
  - Movements reflect stage 1 and 2 loans that have actually risen q/q by 8% while stage 3 loans have decreased by 2%. On a y/y basis stage 1 and 2 loans have increased by a cumulative 19% while stage 3 loans decreased by 13%.

  - Movements also reflect non-linearity impacts that rose by USD23mn or 53% to USD66mn, reflecting a higher probability weighting from 10% to 15% for the Global Trade and Geopolitical Trade Tensions scenario given the heightened uncertainty around trade tariffs.
  - The Group maintains a USD73mn management overlay for China commercial real estate and a USD47mn overlay for Hong Kong commercial real estate exposures, down USD11mn q/q following client downgrades.
  - Wealth and retail banking accounted for USD179mn, driven by elevated interest rates impacting credit card and personal loan repayments in select markets, along with higher flows from digital partnerships. Ventures recorded a USD10mn charge, down USD18mn y/y, reflecting improved delinquency rates at Mox. In corporate and investment banking, a net USD30mn charge was recorded as new impairments were partially offset by releases.
- StanChart's capital position was down ~39bps q/q to 13.8% as at 31 March 2025 and up 25bps y/y from 13.6% as at 31 March 2024. The ratio is ~330bps above its 10.5% regulatory minimum and well within its 13-14% target range. The ratio includes a 61bps impact from the share buyback of USD1.5bn announced in February 2025. Additionally, there was 65bps of CET1 accretion from profits, which was partially offset by a 41bps increase in risk-weighted assets, while FX movements, fair value gains in OCI, and regulatory adjustments contributed an additional 5bps uplift.
- Management has retained its 2025 and 2026 guidance, with 2025 growth expected to be in the range of 5-7% and return on tangible equity to approach 13% in 2026. StanChart's 1Q2025 results are in line with our expectations. That said, we highlighted StanChart as an issuer whose fundamentals are more sensitive to the altered operating conditions and volatile funding environments following the US tariff announcements in our "Monthly Credit View - Post Tariff Announcement Themes & Updated House Views" published 9 April 2025.
- We continue to monitor StanChart closely in this regard, notwithstanding the solid earnings performance. (Company, OCBC)

Westpac Banking Corporation ("Westpac")

- Westpac announced its 1HFY2025 results for the six months ended 31 March 2025. Despite marginally lower net profit after tax of AUD3.3bn including notable items (-1% y/y) and likely lower interest rates and net interest income, management's outlook appears constructive given the solid quality of its loan book and the resilience of the Australian economy, which should improve with the lower interest rates.
- 1HFY2025 reported results include several notable items that management believe are non-recurring and non-business related such as unrealised fair value gains/(losses) on economic hedges that do not qualify for hedge accounting, net ineffectiveness on qualifying hedges and large items including asset write-downs, sales and revaluations, provisions for remediation, litigation, fines and penalties and restructuring costs. Excluding these, profit before tax of AUD5.05bn was stable y/y. Drivers of the performance include:
  - A 2% y/y rise in net operating income driven by net interest income performance. This rose 2% y/y to AUD9.57bn and comprised 87.0% of total net operating income as higher average interest-earning assets (mostly business loans) offset a 2bps y/y fall in net interest margins to 1.92%. Core net interest margins that exclude Treasury & Markets) was stable y/y at 1.80% in 1HFY2025 and as such, core net interest income rose 3% y/y. Treasury & Markets income is a relatively small contributor to net interest income at ~6% and was down 11% on prior period strong performance.
  - Conversely, non-interest income was down 3% y/y to AUD1.42bn with trading and other income down 15% y/y due to lower sales and risk management income, net loss on the sale of the auto finance portfolio and lower derivative valuation adjustments. Otherwise, net fee income was flat as higher card fees and institutional lending fees from higher loans offset lower Australian merchant income, while net wealth management income rose 10% y/y on higher funds under administration and lower remediation costs.
  - Operating expenses of AUD5.70bn, up 6% y/y on higher technology spend and salary costs that offset lower occupancy costs. Management is in the process of executing its UNITE program as part of its transformation that is focused on technology enabled simplification. Given the negative JAWS, the

1HFY2025 pre-provision profit excluding notable items of AUD5.30bn was down 2% y/y while the expense to income ratio rose to 51.8% in 1HFY2025 against 49.9% in 1HFY2024.

- Offsetting the higher operating expenses was a 31% y/y fall in impairment charges to AUD250mn. This translated to credit impairment charges of 6bps of average loans in 1HFY2025, down from 9bps in 1HFY2024. Collectively assessed provisions contributed AUD203mn to the 1HFY2025 amount while individually assessed provisions were AUD47mn, mostly for the services and trade sector exposures.
    - Supporting this are improvements in Westpac's credit quality metrics with a fall in 90+ day mortgage delinquencies to 0.83% as at 31 March 2025 (1.05% h/h and 1.00% y/y) and stable stressed exposures as a percentage of total committed exposures at 1.36% as at 31 March 2025 (1.45% h/h). Management sees resilience in its customer base with fewer customers behind in their loan repayments and the economy performing well. As such, the prior period movements in impairment charges reflect both lower collectively assessed provisions (-25% y/y) and lower individually assessed provisions (-49% y/y).
    - The ratio of gross impaired exposures to gross loans remains low at 0.25% as at 31 March 2025, albeit higher than 0.19% as at 31 March 2024 and 0.24% as at 30 September 2024.
    - That said, the h/h movements are somewhat more reflective of the current global operating environment with stable individually assessed provisions and higher collectively assessed provisions with a higher weight of 2.5% to Westpac's downside scenario due to the rise in geopolitical instability and weaker international trading relationships.
    - Credit impairment provisions of AUD5.07bn as at 31 March 2025 are AUD1.7bn above the provisions required under Westpac's base case economic scenario.
- Westpac's CET1 capital ratio of 12.24% as at 31 March 2025 was down 25bps h/h from 12.49% as at 30 September 2024 and down 31bps y/y from 12.55% as at 31 March 2024. On an internationally comparable basis, Westpac's CET1 ratio improves to 18.22% as at 31 March 2025, down from 18.27% h/h and 18.55% as at 31 March 2024.
    - The h/h movement reflected dividends (-58bps) and share buybacks (-13bps) as well as higher risk weighted assets (-31bps) that offset earnings (+74bps) and other movements (+3bps).
    - The ratio remains above management's target CET1 operating capital range of 11.0-11.5% in normal conditions as well as the 10.5% minimum under the Australian Prudential Regulation Authority's ("APRA") "Unquestionably Strong" bank capital framework.
    - Under APRA's updated capital framework that will be effective from 1 January 2027, the 1.5% requirement for Additional Tier 1 capital instruments will be phased out and replaced with 1.25% of Tier 2 capital and 0.25% of CET1 capital. As such, the minimum CET1 requirement will increase from 10.25% to 10.50%.
- Westpac's results reflect its strategic focus on business and institutional banking with solid growth in business lending (+14% y/y) and institutional lending (+15% y/y) and improved net profit contribution by segment from Institutional Banking to 22% in 1HFY2025, up 19% in 1HFY2024. Consumer and Business & Wealth remain the larger contributors at 31% and 32% respectively. Growth in Australian housing loans of 5% was below market (0.9x of system growth based on relevant Australian Prudential Regulation Authority monthly statistics) as the strategic focus for the Consumer segment is on returns amidst strong competitive pressures.
- Management expect Australia's economy to recover in 2025 on improved private demand and housing credit growth despite the uncertain outlook. This is based on lower interest rates going forward which are expected to drive overall credit demand in both Australia and New Zealand and insulate against global trade tensions. We see Westpac's fundamentals as sound and expect its credit profile to remain stable for the remainder of 2025. (Company, OCBC)

Key Market Movements

	5-May	1W chg (bps)	1M chg (bps)		5-May	1W chg	1M chg
iTraxx Asiax IG	93	-1	-22	**Brent Crude Spot ($/bbl)**	59.1	-10.2%	-9.9%
				Gold Spot ($/oz)	3,264	-2.4%	9.4%
iTraxx Japan	70	1	-11	**CRB Commodity Index**	290	-2.7%	0.6%
iTraxx Australia	90	-0	-8	**S&P Commodity Index - GSCI**	520	-2.8%	-0.5%
CDX NA IG	64	-3	-12	**VIX**	22.7	-8.7%	-49.9%
CDX NA HY	104	1	3	**US10Y Yield**	4.31%	7bp	18bp
iTraxx Eur Main	65	-1	-13				
iTraxx Eur XO	332	-9	-73	**AUD/USD**	0.647	0.6%	8.1%
iTraxx Eur Snr Fin	69	-2	-15	**EUR/USD**	1.134	-0.7%	3.9%
iTraxx Eur Sub Fin	121	-2	-31	**USD/SGD**	1.293	1.2%	4.6%
				AUD/SGD	0.836	0.7%	-3.2%
USD Swap Spread 10Y	-54	-3	-10	**ASX200**	8,182	2.3%	6.7%
USD Swap Spread 30Y	-87	-1	-10	**DJIA**	41,317	3.0%	7.8%
				SPX	5,687	2.9%	12.1%
China 5Y CDS	59	-2	-17	**MSCI Asiax**	733	3.5%	3.3%
Malaysia 5Y CDS	61	-1	-16	**HSI**	22,505	2.7%	-1.5%
Indonesia 5Y CDS	96	1	-30	**STI**	3,842	0.5%	0.4%
Thailand 5Y CDS	61	2	-17	**KLCI**	1,546	2.4%	2.8%
Australia 5Y CDS	15	0	-5	**JCI**	6,834	2.3%	5.0%
				EU Stoxx 50	5,285	2.5%	8.3%

Source: Bloomberg

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com

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