Asian Credit Daily

7 May 2025

Market Commentary:

- The SGD SORA OIS curve traded mixed yesterday with shorter tenors trading flat to 1bps higher, belly tenors trading flat and 10Y trading 1bps higher.
- Flows in SGD corporates were heavy, with flows in #N/A Invalid Security #N/A Invalid Security% 'tys, BACR 5.4%-PERP, AAREIT 4.7%-PERP, HSBC 5.25%-PERP, IFASTC 4.328% '29s, UBS 5.75%-PERP, OLGPSP 5.375%-PERP, HSBC 5%-PERP, EREIT 5.75%-PERP.
- Per Bloomberg, Chinese local government financing vehicles ("LGFVs") have issued USD14.9bn in dollar bonds this year, the highest amount for this period since 1993. This comes as a record USD35bn in USD bonds are set to mature in 2025, up from USD27.3bn in 2024, according to Bloomberg data. Sherry Zhao from Fitch Ratings' Public Finance team stated that the increase in LGFV USD bond issuances is mainly due to refinancing needs and new debt for investments likely approved by authorities in 2024.
- In other news by Bloomberg, Australia's pension funds hold nearly half of their AUD4.2 trillion in investments in international markets, with more than half of these assets unhedged.
- Bloomberg Asia USD Investment Grade spreads widened by 1bps to 92bps while Bloomberg Asia USD High Yield spreads widened by 4bps to 541bps respectively. (Bloomberg, OCBC)

Credit Summary:

- **AIMS APAC REIT ("AAREIT"):** AAREIT reported the second half results for the financial year ending 31 March 2025 ("2HFY2025") which shows a relatively stable set of operating results; whilst reported aggregate leverage is low at 28.9%, this is expected to be temporary.
- **Frasers Logistics & Commercial Trust ("FLCT"):** FLCT reported 1HFY2025 results for the half year ended 31 March 2025. While the logistics segment remains resilient, the commercial segment continues to see pressure.
- **Macquarie Group Limited ("MQG"):** The Australian Prudential Regulation Authority ("APRA") has imposed conditions on MQG's banking arm Macquarie Bank Limited's banking license to address previous compliance failures. These failures relate to the bank's futures dealing business and over the counter derivatives trade reporting.
- **National Australia Bank Ltd ("NAB"):** NAB announced its 1HFY2025 results for the six months ended 31 March 2025. Cash earnings of AUD3.56bn was up 1.0% y/y and 0.8% h/h while management's tone is constructive with optimism for the underlying growth outlook in Australia and New Zealand amidst global trade tensions and uncertainty. This is somewhat reflected in the h/h trends within the lower 1HFY2025 credit impairment charge that was due to lower individually assessed provisions as well as a lower h/h writeback in collective provisions. Overall fundamentals remain sound in our view with volume growth offsetting margin pressure across all of NAB's business divisions.
- **United Overseas Bank Ltd ("UOB"):** UOB released 1Q2025 performance highlights. While results were stable, guidance for 2025 was suspended and will resume once the situation stabilises while pre-emptive provisions were done.

Credit Headlines

AIMS APAC REIT ("AAREIT")

- AAREIT reported the second half results for the financial year ending 31 March 2025 ("2HFY2025") which shows a relatively stable set of operating results; whilst reported aggregate leverage is low at 28.9%, this is expected to be temporary.
- **Higher revenue y/y though net property income ("NPI") saw a small dip**
    - AAREIT's 2HFY2025 overall revenue increased by 2.9% y/y to SGD93.1mn, however NPI declined by 0.8% y/y to SGD66.2mn. The increase in gross revenue was driven by higher rental and recoveries from AAREIT's logistics and warehouse and industrial properties such as 20 Gul Way, 27 Penjuru Lane, 29 Woodlands Industrial Park E1, 51 Marsiling Road and 7 Bulim Street, partly offset by lower income from 7 Clementi Loop (undergoing asset enhancement initiatives ("AEI")) and lower revenue from Australian properties due to the weakening of the AUD against the SGD. NPI though was lower mainly due to increase in property operating expenses (dragged by higher property tax expenses, higher electricity expenses, higher property management fees and lease management fees).
    - Overall portfolio occupancy was 93.6% as at 31 March 2025 (31 December 2024: 94.5% and 31 March 2024: 97.8%). However, excluding the impact of AEIs and transitory movements by tenants, portfolio occupancy rate based on committed leases is at 95.8% as at 31 March 2025 and we understand from management that post quarter end this has increased to ~96% with new leases firmed up.
    - Overall rental reversion was +28.2% for 3QFY2025 and +15.5% for 4QFY2025 (FY2025: +20%). With more leases now having passing rents that have converged to market rents, management expects rental reversions going forward to be flat-to-positive for FY2026.
- **Manageable first order impact from escalation in trade tariffs**
    - 47.2% of AAREIT's FY2025 gross rental income is derived from the Logistics & Warehouse sector which in our view is more exposed to international trade.
    - We understand that based on a preliminary estimate of its top 20 tenants that collectively makes up one third of its overall portfolio, management's view is less than 10% of AAREIT's revenue is exposed to exports to the US.
- **Reported aggregate leverage has fallen q/q temporarily:**
    - For the 12 months to 31 March 2025, AAREIT's Reported Interest Coverage Ratio (which includes perpetual distribution in the denominator) was 2.4x, stable q/q. Blended debt funding costs was 4.3% as at 31 March 2025 and this is viewed to be the peak interest rate given expectations that interest rates will drop.
    - As at 31 March 2025, reported aggregate leverage (does not include perpetuals) was a low of 28.9% (31 December 2025: 33.7% and 31 March 2024: 32.6%). The fall in q/q reported aggregate leverage is mainly due to SGD125mn proceeds raised from AAREIT's new perpetual (the AAREIT 4.7%-PERP priced in March 2025) being used to pare down revolving debt, pending an expected redemption of the existing AAREIT 5.65%-PERP in August 2025. AAREIT is also expected to spend ~SGD25mn in capital expenditure this year mainly for AEIs on two properties in Singapore. Post-redemption of the AAREIT 5.65%-PERP and factoring the capital expenditure, reported aggregate leverage is expected to rise to 35-36%.
    - AAREIT has announced the proposed divestment of 3 Toh Tuck Link in Singapore for a sale price of SGD24.4mn and the proceeds is expected to be redeployed for acquisitions. We understand that acquisition efforts will be a key focus for FY2026.
    - As at 31 March 2025, there is no debt due in FY2026 although AAREIT faces SGD205mn of debt due in FY2027, representing a fairly sizeable 35% of total debt. That said, AAREIT has undrawn committed facilities and cash and bank balances of ~SGD289.5mn which more than suffices to cover the FY2027 debt due.
    - Compared to other REITs we track, the use of perpetuals at AAREIT is fairly significant with SGD500mn outstanding as at 31 March 2025, although SGD125mn was raised earlier and earmarked as a replacement perpetual, which will bring perpetuals outstanding back to SGD375mn.

- Aside from being a higher debt maturity year in FY2027, AAREIT also faces the first call on the SGD250mn AAREIT 5.375%-PERP in September 2026 and our base case assumes that this perpetual will be called at first call, on the back of the high reset spreads which economically incentivises AAREIT to call.
- AAREIT has a relatively high proportion of its debt on fixed rate at 85%, although we note that this is only for a tenure of ~1.3 years. (Company, OCBC)

Frasers Logistics & Commercial Trust ("FLCT")

- FLCT reported 1HFY2025 results for the half year ended 31 March 2025. While the logistics segment remains resilient, the commercial segment continues to see pressure.
- **Growth in adjusted net property income lags revenue:** Adjusted net property income rose 1.6% y/y to SGD161.3mn, however this trails revenue growth of 7.5% y/y SGD232.3mn, likely because of higher non-recoverable land taxes in Victoria (from January 2024) and Queensland (from July 2024). Revenue growth was due to acquisitions of Ellesmere Port (December 2023), four German logistics properties (March 2024) and 2 South Link 1 (November 2024) while Maastricht Property in the Netherlands achieved practical completion in October 2024.
- **Logistics & Industrial ("L&I") segment (72.4% of portfolio value) continues to do well.** Rental reversion was +33.0%, mainly due to reversion of leases in Australia. Net face rent for Sydney, Melbourne and Brisbane industrial properties continue to grow in 1Q2025, and according to Jones Lang LaSalle, rents are projected to grow further though the rate of growth has slowed. Occupancy for the segment remains resilient at 99.6%.
- **Commercial properties (27.6% of portfolio value) was weighed down by Singapore,** with -8.1% rental reversion for the segment. Alexandra Technopark saw occupancy fall to 77.1% as of 31 March 2025 (31 December 2024: 84.1%). The fall in occupancy is due to Google vacating the space. Only 54% of the former Google space has been backfilled. Leasing demand for Singapore business parks may moderate due to subdued business sentiment. Occupancy for commercial as whole was also 84.1%.
- **Credit metrics remain manageable though interest costs may rise,** with aggregate leverage of 36.1% (31 December 2024: 36.2%). Reported finance costs rose 35.0% y/y to SGD39.4mn, while reported interest coverage fell to 4.5x (31 December 2024: 4.9x). Cost of borrowings may continue to rise closer to ~3.5% levels. We note that FLCT continues to look to increase the proportion of L&I of the portfolio, which we think can include acquisitions of L&I assets and/or divestments of commercial assets.
- **Potential (but not yet actualized) impact from tariffs:** FLCT thinks that preference for strategic locations will drive demand for modern logistics facilities, which may mitigate the impact of tariff. Within FLCT's portfolio, the immediate impact from US tariffs is expected to be small as the logistics properties serve domestic market. FLCT sees potential for reshoring, redirected trade flows potentially diverting goods from tariff-hit markets. According to FLCT, its portfolio of L&I assets is well-positioned, benefiting from sustained demand for quality space.
- **Insufficient natural currency hedge:** While 45.4% of the portfolio by total asset is in Australia, only 8% of the debt is denominated in AUD. According to FLCT, its results has been impacted by lower average exchange rates of AUD against SGD.
- **Progression towards sustainability:** Solar capacity of FLCT's portfolio increased by 1.7MW q/q to 15.1MW. More than 90% of the portfolio has been green-certified (87% as of 31 December 2024), with Alexandra Technopark Block B awarded BCA Green Mark GoldPlus Award while Rhodium Blythe Valley Park awarded Enhanced EPC 'B' rating (from 'E' previously). (Company, OCBC)

Macquarie Group Limited ("MQG")

- The Australian Prudential Regulation Authority ("APRA") has imposed conditions on MQG's banking arm Macquarie Bank Limited's banking license to address previous compliance failures. These failures relate to the bank's futures dealing business and over the counter derivatives trade reporting.
- Macquarie Bank Limited had previously been fined AUD5mn by the Australian Securities and Investments Commission for failing to prevent suspicious orders being placed on the electricity futures market.

- Conditions include the preparation of a remediation plan to address past failures and the appointment of an independent expert to (1) review and report on the adequacy of the remediation plan and (2) assess the effectiveness of the remediation plan in the future. (APRA, Bloomberg)

National Australia Bank Ltd ("NAB")

- NAB announced its 1HFY2025 results for the six months ended 31 March 2025. Cash earnings of AUD3.56bn was up 1.0% y/y and 0.8% h/h while management's tone is constructive with optimism for the underlying growth outlook in Australia and New Zealand amidst global trade tensions and uncertainty. This is somewhat reflected in the h/h trends within the lower 1HFY2025 credit impairment charge that was due to lower individually assessed provisions as well as a lower h/h writeback in collective provisions. Overall fundamentals remain sound in our view with volume growth offsetting margin pressure across all of NAB's business divisions.
- Net operating income for 1HFY2025 was up 1.7% h/h and 1.4% y/y to AUD10.28bn.
    - H/h performance reflects improvement in both net interest income (+1.1%) and other operating income (+4.6%) with net interest income contributing ~82% to net operating income. Net interest income benefited from higher average interest earning assets (gross loans and advances + 2.5% h/h and deposits + 4.1% h/h) while net interest margins (including Markets & Treasury) were stable h/h at 1.70%. Excluding Markets & Treasury, net interest margins fell 3 bps due to deposit impacts, higher wholesale funding costs and lending competition impacting lending margins.
    - Influences on other operating income include movements in economic hedges as well as higher Treasury risk management income while customer risk management income was down 1.7% y/y from lower interest rate sales. This was partially mitigated by a fall in net fees and commissions income (higher cards and business lending fees offset by lower merchant acquiring fee income, housing lending and deposits fees) and higher customer-related remediation charges.
- 1HFY2025 operating expenses rose 1.4% h/h and 3.0% y/y to AUD4.82bn due to higher personnel, compliance (financial crime-related) and technology costs. Management expect FY2025 costs to be less than the FY2025 expense growth of 4.5% on productivity benefits, AUD131mn of which was achieved in 1HFY2025. As such, the underlying profit of AUD5.46bn was up 1.9% h/h and stable y/y.
- 1HFY2025 credit impairment charge of AUD348mn is down 4.7% h/h and 4.1% y/y and comprised AUD390mn in individually assessed or Stage 3 provisions and AUD42mn in collective or stage 1 and 2 write-backs.
    - Of note is that the individually assessed provisions are down ~13% h/h but this was balanced by a lower net writeback in collective provisions that reflect asset quality deterioration in Australian lending and volume growth Australian business lending. Individually assessed provisions was attributed to Australian business lending and unsecured retail exposures while the net writeback in collective provisions includes a AUD194mn release from forward looking provisions although management have mentioned that this release reflects an expectation of asset quality deterioration coming earlier into the current period as opposed the future.
    - The ratio of non-performing exposures as a percentage of gross loans and acceptances rose 10 bps h/h to 1.49% due to broad based weakening in the Business & Private Banking ("B&PB") business lending portfolio and higher Australian home lending arrears. Non-performing exposures rose 1.1% or AUD1.03bn to AUD11.26bn. Of the 1.49% non-performing exposures ratio, the ratio of impaired assets to gross loans and acceptances was 0.22% (+2bps h/h) and the ratio of default but not impaired assets to gross loans and acceptances was 1.27% (+8bps h/h).
    - The collective provisions to credit risk weighted assets ratio of 1.42% as at 31 March 2025 was down by 5bps h/h due to higher credit risk weighted assets and the fall in collective provisions, however remains well above the pre-pandemic ratio of 0.96% as at 30 September 2019. Of the AUD6.04bn in total provisions for credit impairments, around AUD1.7bn is related to forward-looking provisions for potential downside risk in Westpac's outlook.

- By segment, Business and Private Banking continues to be the main contributor to cash earnings with AUD1.63bn or 45.6%. This is followed by Corporate and Institutional Banking at 25.4% or AUD909mn, New Zealand Banking at 19.7% or AUD707mn and Personal Banking at 16.1% or AUD576mn.
    - Business and Private Banking cash earnings rose 1.4% h/h on a fall in impairment charges. Otherwise, pre-provision earnings were lower on margin contraction that offset volume growth while expenses rose due to business growth.
    - Corporate and Institutional Banking cash earnings improved 4.1% h/h despite higher credit impairments and lower margins (excluding Markets) due to solid volume growth and higher Markets income.
    - The 11.2% h/h improvement in New Zealand Banking cash earnings reflected both revenue growth from business volumes and higher Markets & Treasury Income as well as a write-back in credit provisions against lower margins.
    - Personal Banking was the only business division to report weaker cash earnings h/h, down 6.8% due to lower margins and higher credit impairment charges.
- NAB's level 2 APRA compliant CET1 capital ratio of 12.01% as at 31 March 2025 was down 34bps h/h on a reported basis from 12.35% as at 30 September 2024 and down 20bps h/h on a 4QFY2024 proforma basis when including on-market share buybacks.
    - The h/h fall largely reflects the on-market share buy-back (-15bps), dividend payment (-63bps) and credit risk weighted asset growth (-22bps on volume growth, weaker asset quality and model changes) that was offset by earnings (+86bps).
    - The proforma 1HFY2025 CET1 ratio improves to 12.13% when considering the gain on sale of NAB's 20% stake in MLC Life Insurance to Nippon Life Insurance ("Nippon") for AUD500mn announced in December 2024.
        - The ratio remains above management's CET1 target of above 11.25% 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% as at 1 January 2026 to 10.50% as at 1 January 2027.
- As mentioned, management expressed some confidence in the operating environment as it executes its strategy of improving deposit performance and proprietary lending and growing its business banking. Its economic outlook is based on a recovery in the Australian and New Zealand economies with improved household consumption growth in Australia that may improve on slowing inflation and lower cash rates. Management though remain mindful of heightened uncertainty that increases the range of outcomes although Westpac's solid balance sheet in terms of collective provisions and capital levels should maintain its credit profile at current levels. (Company, OCBC)

United Overseas Bank Ltd ("UOB")

- UOB released 1Q2025 performance highlights. While results were stable, guidance for 2025 was suspended and will resume once the situation stabilises while pre-emptive provisions were done.
- **Stable results:** 1Q2025 net profit of SGD1.5bn is in-line with 2024's record net profit of SGD6.0bn. Net interest margin was stable q/q at 2.0% in 1Q2025. While loan growth remained healthy at +6% y/y in 1Q2025, accelerating from +5% in 2024, this was slightly behind previous guidance for 'high single digit loan growth'.
- **Several segments grow strongly.** Net fee income grew strongly, accelerating to +20% y/y to SGD694mn in 1Q2025 (+22% q/q), following 7% y/y growth in 2024. Wealth management income grew strongly by +25% y/y to SGD0.3bn in 1Q2025, continuing the momentum from 2024 (+30% y/y). Meanwhile, trade loans grew 22% y/y, following +20% growth in 2024.
- **Costs were contained,** with expenses declining to SGD1.56bn in 1Q2025 (4Q2024: SGD1.58bn). As a result, cost-to-income ratio fell q/q to 42.6% (4Q2024: 45.6%).

- **Higher NPL:** NPL ratio rose to 1.6% in 1Q2025 (2024: 1.5%). We note that NPL in Hong Kong rose to 2.7% (4Q2024: 1.8%).
- **Turning somewhat defensive with lower Greater China exposure while raising credit costs?** UOB continues to pare exposure to Greater China, with total exposure falling to SGD69.9bn as of March 2025 (June 2024: SGD78.6bn). Credit costs rose from 27bps in 2024 to 35bps in 1Q2025 (exceeding original guidance of 25-30bps), with UOB citing pre-emptive provisioning.
- **Positive on ASEAN and other opportunities:** UOB highlighted continued growth in trade flows (China-ASEAN, inter-ASEAN) amid supply chain shifts. There was also growth in demand for hedging and healthy pipeline of infrastructure funding.
- **Capital and liquidity position remains strong:** CET1 ratio remains stable q/q at 15.5% while liquidity coverage ratio was healthy at 143%.

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing
06 May	Shinhan Bank Co Ltd	Social, Fixed	USD	500	5Y	T+72bps

Mandates:

- There were no notable mandates yesterday.

Key Market Movements

	7-May	1W chg (bps)	1M chg (bps)		7-May	1W chg	1M chg
iTraxx Asiax IG	95	-3	-20	**Brent Crude Spot ($/bbl)**	62.7	-0.7%	-2.4%
				Gold Spot ($/oz)	3,395	3.2%	13.8%
iTraxx Japan	71	1	-9	**CRB Commodity Index**	292	-0.7%	3.3%
iTraxx Australia	92	-0	-7	**S&P Commodity Index - GSCI**	525	1.3%	2.0%
CDX NA IG	64	-4	-12	**VIX**	24.8	2.4%	-47.3%
CDX NA HY	104	1	3	**US10Y Yield**	4.32%	16bp	14bp
iTraxx Eur Main	64	-4	-13				
iTraxx Eur XO	331	-20	-75	**AUD/USD**	0.649	1.3%	8.4%
iTraxx Eur Snr Fin	69	-4	-15	**EUR/USD**	1.136	0.3%	4.1%
iTraxx Eur Sub Fin	120	-8	-32	**USD/SGD**	1.291	1.2%	4.8%
				AUD/SGD	0.837	-0.1%	-3.3%
USD Swap Spread 10Y	-55	-2	-2	**ASX200**	8,178	0.6%	11.4%
USD Swap Spread 30Y	-90	-3	-0	**DJIA**	40,829	0.7%	7.5%
				SPX	5,607	0.8%	10.8%
China 5Y CDS	61	-1	-16	**MSCI Asiax**	738	2.8%	14.1%
Malaysia 5Y CDS	62	-0	-15	**HSI**	22,804	3.8%	15.0%
Indonesia 5Y CDS	97	-1	-29	**STI**	3,866	1.6%	9.2%
Thailand 5Y CDS	61	-1	-17	**KLCI**	1,543	1.8%	6.9%
Australia 5Y CDS	14	-1	-5	**JCI**	6,949	3.0%	6.7%
				EU Stoxx 50	5,263	2.0%	13.0%

Source: Bloomberg

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