Asian Credit Daily

30 April 2025

Market Commentary:

- The SGD SORA OIS curve traded lower yesterday with shorter tenors trading flat to 1bps lower, belly tenors trading 1-2bps lower and 10Y trading 1bps lower.

- Flows in SGD corporates were heavy, with flows in HSBC 5.25%-PERP, ANZ 3.75% '34s, INCINS 3.1% '50s, SRENVX 3.75% '31s, TEMASE 2.8% '71s.

- According to data compiled by Bloomberg, Korea Ocean Business has issued a USD300mn bond to finance or refinance projects associated with sustainable marine transport and renewable energy, marking the region's first blue bond of the year.

- In other news by Bloomberg, India may struggle to achieve its green targets without a taxonomy framework that defines eligible climate finance, according to Standard Chartered Plc's head of sustainable financing for South Asia. India requires USD10 trillion to meet its net zero emissions goal by 2070, but current capital sources cover only about two-thirds of that amount.

- Bloomberg Asia USD Investment Grade spreads traded flat at 92bps while Bloomberg Asia USD High Yield spreads widened by 7bps to 540bps respectively. (Bloomberg, OCBC)

Credit Summary:

- **Industry Outlook – Singapore Property:** No bids at a GLS site - the first this year. There were four unsuccessful tenders last year, but we expect that the overall property market will likely still be healthy.

- **China Construction Bank Corporation ("CCB"):** CCB announced its 1Q2025 results with net profit of RMB83.7bn down 3.6% y/y as net interest income was lower despite solid growth in lending volumes. Corporate loans and advances rose 8.2% q/q while personal loans rose 1.9% q/q (domestic loans were up 4.7% q/q while gross loans and advances to customers rose 4.6% q/q).

- **First Real Estate Investment Trust ("FIRT"):** FIRT reported 1Q2025 business updates. Overall results are positive should forex impacts be excluded. Meanwhile, aggregate leverage rose q/q though adjusted interest coverage ratio improved slightly amidst lower average cost of debt. Potential disposals of hospital assets in Indonesia could be beneficial to FIRT amidst lower revenue and geographical concentration risks.

- **HSBC Holdings PLC ("HSBC"):** HSBC's 1Q2025 profit before tax was USD9.48bn, down 25% y/y but influenced by USD3.7bn in prior year net disposal impacts from the sale of its Canadian and Argentinian businesses. Underlying performance remains sound with the constant currency 1Q2025 profit before tax excluding notable items of USD9.8bn up 11.4% y/y.

Credit Headlines

Industry Outlook – Singapore Property

- **No bids at a GLS site, the first this year:** No bids were received for the site at Media Circle (Parcel B).
- **Is this an indication of the property or issue with the site?:** There were four unsuccessful tenders last year, including another site at Media Circle. In addition, Bloomsbury Residences which is located nearby sold only about 25% of the units at launch.
- **Overall property market likely still healthy:** As covered in our OCBC Asian Credit Daily on 25 April 2025, we think market dynamics remain healthy, with property sales remaining decent and new sales keeping up. (URA, Business Times, OCBC)

China Construction Bank Corporation ("CCB")

- CCB announced its 1Q2025 results with net profit of RMB83.7bn down 3.6% y/y as net interest income was lower despite solid growth in lending volumes. Corporate loans and advances rose 8.2% q/q while personal loans rose 1.9% q/q (domestic loans were up 4.7% q/q while gross loans and advances to customers rose 4.6% q/q).
- Net interest income of RMB141.9bn was down 5.2% y/y in 1Q2025 due to a 1bps fall in net interest margins to 1.41%. This, along with a 3.3% y/y fall in net non-interest income on lower net fee and commission income (-4.6% y/y), drove a 4.8% y/y fall in operating income. Other operating income was materially higher due to net gains on derecognition of financial assets and others.
- Offsetting this to an extent was stable to slightly lower operating expenses in 1Q2025 and while the cost to income ratio of 22.97% was up slightly due to the lower operating income, it still remains low within our Financial Institutions coverage.
- Impairment losses were also stable y/y with the non-performing loan ratio remaining low at 1.33% as at 31 March 2025, stable compared to 31 December 2024. This was driven by the higher loan growth mentioned previously against growth in non-performing loans which rose 3.8% q/q. The ratio of allowances to non-performing loans was 236.81% as at 31 March 2025, up ~3.2 percentage points q/q.
- CCB's CET1 ratio was 13.98% as at 31 March 2025, down from 14.48% as at 31 December 2024, likely due to risk weighted asset growth ahead of capital growth due to earnings.
- We expect CCB's fundamentals will continue to be driven more by domestic forces rather than current tariff induced volatility although indirect impacts may surface, particularly through developments in loan prime rates. This may continue to supress net interest margins and income performance despite potential ongoing loan growth as the Chinese government continues to seek Chinese banks' support for the economy. Balancing this is CCB's solid loan quality and relatively conservative balance sheet. (Company, OCBC)

First Real Estate Investment Trust ("FIRT")

- FIRT reported 1Q2025 business updates. **Overall results are positive should forex impacts be excluded. Meanwhile, aggregate leverage rose q/q though adjusted interest coverage ratio improved slightly amidst lower average cost of debt. Potential disposals of hospital assets in Indonesia could be beneficial to FIRT amidst lower revenue and geographical concentration risks.**
- **Lower NPI due to forex impacts:** Net property income ("NPI") fell 2.8% y/y to SGD24.6mn owing to weaker IDR and JPY against SGD. On a local currency basis, rental income in Indonesia, Japan, and Singapore gained 5.5%, 0% and 2% respectively.
- **Mixed credit metrics development:** As of 31 March 2025, aggregate leverage ratio rose q/q to 40.7% (end-2024: 39.6%) as more loan drawdown for working capital purposes. L12M adjusted interest coverage ratio (including perpetual distributions) improved to 3.6x (end-2024: 3.8x) as average cost of debt fell to 4.7% (end-2024: 5.0%).
- As of 31 March 2025, rentals outstanding from PT Metropolis Propertindo Utama ("MPU") in relation to three Hospital Master Lease Agreements ("MLA") widened q/q to SGD5.8mn (December 2024: SGD4.6mn). FIRT mentioned that ~SGD3.3mn of the SGD5.8mn total outstanding amount can be offset by a SGD4.1mn security deposit from SILOAM. The potential exposure from the rental collection risk amounted to SGD2.5mn.

- The security deposit guaranteed by a joint tenant, PT Siloam International Hospitals Tbk ("SILOAM"), of SGD4.1mn may be applied to cover ~SGD3.3mn of outstanding rental if needed.
- **Potential disposals of fourteen hospital assets in Indonesia including three hospitals tenanted by MPU:** On 13 January 2025, FIRT received a preliminary non-binding letter of intent ("LOI") from SILOAM to acquire FIRT's portfolio of hospital assets in Indonesia (for details, refer to Asian Credit Daily on 14 January 2025). The three hospitals tenanted by MPU are also included into the potential disposal. Per management, FIRT will ensure the outstanding rentals will be paid off by SILOAM or MPU should the disposal go through.
- **Positive developments on FIRT's high revenue concentration risks** from SILOAM (44.2% of 1Q2025 revenue), PT Lippo Karawaci Tbk ("LPKR", 31.1%) and MPU (5.8%) given the much-improved credit profile of LPKR. LPKR was upgraded to B- rating with a positive outlook from a credit rating agency in October 2024 following divestment of a partial stake in SILOAM and improved property marketing sales performance. Meanwhile, SILOAM has been delivering solid earnings since 2019. Besides, the potential disposal of FIRT's hospital assets in Indonesia to SILOAM is likely further easing the revenue concentration risks. (Company, OCBC)

HSBC Holdings PLC ("HSBC")

- HSBC's 1Q2025 profit before tax was USD9.48bn, down 25% y/y but influenced by USD3.7bn in prior year net disposal impacts from the sale of its Canadian and Argentinian businesses. Underlying performance remains sound with the constant currency 1Q2025 profit before tax excluding notable items of USD9.8bn up 11.4% y/y.
- Underlying 1Q2025 revenues were up 7% y/y (reported revenues were down 15% y/y) and benefited from higher client activity in HSBC's wealth business within its International Wealth and Premier Banking ("IWPB") segment as well as its Hong Kong business segment. Also supporting performance was market volatility that drove client activity in Foreign Exchange and Debt and Equity Markets in the Corporate and Institutional Banking ("CIB") segment. Underlying net interest income (excluding the business disposals impact) improved y/y despite lower interest rates as the impact was higher on funding costs while a change in the asset mix and structural hedges offset lower asset yields. 1Q2025 net interest margin of 1.59% was down 4bps y/y but was up 5bps q/q.
- At the same time, reported operating expenses were broadly stable at USD8.1bn as the lower expenses related to the disposed Canadian and Argentinian businesses were offset by inflation, higher spending on technology, and restructuring and other related costs related to Chief Executive Officer Georges Elhedery's ongoing organisational simplification strategy. Management have retained its target y/y growth rate for operating expenses in 2025 of 3% that reflects USD300mn in 2025 cost reductions associated with its organisational simplification as well as severance and other costs that may reach USD1.8bn over 2025 and 2026. On a target basis, 1Q2025 operating expenses were USD7.9bn, up USD300mn y/y.
- Allowances for expected credit losses rose 28.6% y/y to USD876mn. This was largely to reflect heightened uncertainty and a deterioration in the forward economic outlook due to geopolitical tensions and higher trade tariffs. Hong Kong commercial real estate expected credit losses were USD100mn in 1Q2025. Management expects expected credit loss charges as a percentage of average gross loans to be between 30-40bps in 2025.
- HSBC's CET1 capital position fell 20bps q/q to 14.7% as at 31 March 2025 (14.9% as at 31 December 2024) due to higher risk weighted assets from foreign currency movements as well as movements in asset quality (Hong Kong and UK) and asset size (UK and US CIB business). This, along with regulatory impacts, offset the positive impact from capital generation net of dividends and share buy backs.
- Despite the uncertain outlook and expectations of muted lending demand, HSBC have maintained all their 2025 targets including a CET1 capital medium term target range of 14.0-14.5% with significantly higher tariffs expected to have manageable direct impacts to revenue (a low single-digit percentage) and expected credit losses (~USD500mn). Muted lending is expected to be offset by continued growth in HSBC's Wealth business over the medium term. In terms of strategic direction:
    - HSBC's business will continue to focus on its home markets of Hong Kong and the UK and grow its Wholesale Transaction Banking and Asian Wealth business amongst others. Net new invested assets were USD22bn in 1Q2025 with USD16bn from Asia.

  - At the same time, mergers and acquisitions operations and equity capital markets activities in the UK, Europe and the US continue to be exited while these same businesses will be retained in Asia and the Middle East.
  - HSBC will also continue to explore or progress the divestment of other non-strategic businesses including its South African and Maltese operations, private banking in Germany, and France life insurance.
  - CIB was the main contributor to segment profit before tax in 1Q2025, contributing 37.1% or USD3.52bn. This was followed by Hong Kong (26.8% or USD2.54bn), UK (16.4% or USD1.55bn) and IWPB (12.5% or USD1.19bn).
- In other developments, HSBC announced that it expects to record a pretax loss of USD1.2bn-1.6bn due to China's Finance Ministry recapitalising Bank of Communications Co, Limited. This will see HSBC’s stake in Bank of Communications Co, Limited fall from ~19% to 16%. HSBC had previously taken a USD3bn impairment loss on its Bank of Communications Co, Limited investment. The impending loss is not expected to materially impact HSBC’s capital ratios per management.
- In our “Monthly Credit View - Post Tariff Announcement Themes & Updated House Views” published 9 April 2025, we highlighted HSBC as an issuer whose fundamentals are more sensitive to the altered operating conditions and volatile funding environments following the US tariff announcements. We continue to monitor HSBC closely in this regard, notwithstanding the solid earnings and management guidance on potential impacts. (Company, OCBC)

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing
29 Apr	ST Engineering RHQ Ltd (guarantor: Singapore Technologies Engineering Ltd)	Fixed	USD	750	5Y	T+50bps
29 Apr	Korea Ocean Business Corp	Blue, Fixed	USD	300	5Y	T+92.5bps

Mandates:

- There were no notable mandates yesterday.

Key Market Movements

	30-Apr	1W chg (bps)	1M chg (bps)		30-Apr	1W chg	1M chg
iTraxx Asiax IG	94	-3	10	Brent Crude Spot ($/bbl)	64.3	-2.8%	-14.0%
				Gold Spot ($/oz)	3,309	0.6%	5.9%
iTraxx Japan	70	-1	12	CRB Commodity Index	294	-1.0%	-4.9%
iTraxx Australia	91	-5	2	S&P Commodity Index - GSCI	529	-0.8%	-7.0%
CDX NA IG	67	-2	5	VIX	24.2	-20.9%	8.5%
CDX NA HY	104	1	-1	US10Y Yield	4.17%	-21bp	-8bp
iTraxx Eur Main	67	-2	3				
iTraxx Eur XO	342	-9	13	AUD/USD	0.640	0.6%	2.4%
iTraxx Eur Snr Fin	71	-2	2	EUR/USD	1.137	0.5%	5.1%
iTraxx Eur Sub Fin	124	-3	4	USD/SGD	1.308	0.6%	2.7%
				AUD/SGD	0.837	-0.0%	0.2%
USD Swap Spread 10Y	-52	1	-3	ASX200	8,082	3.4%	3.0%
USD Swap Spread 30Y	-85	3	-1	DJIA	40,528	3.4%	-3.5%
				SPX	5,561	5.2%	-0.9%
China 5Y CDS	60	-5	8	MSCI Asiax	711	0.7%	-0.4%
Malaysia 5Y CDS	61	-2	7	HSI	21,942	-0.6%	-5.1%
Indonesia 5Y CDS	95	-7	-0	STI	3,817	-0.4%	-3.9%
Thailand 5Y CDS	59	-2	5	KLCI	1,523	1.5%	0.6%
Australia 5Y CDS	15	-0	1	JCI	6,753	1.8%	3.7%
				EU Stoxx 50	5,162	4.0%	-1.6%

Source: Bloomberg

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