

SGD Credit Outlook 1H2025

06 December 2024

Building Defences With SGD Credit In 2025

SGD exceptionalism in recent times? Amidst strong credit market performance driven by lower interest rates and tighter spreads, the SGD credit market returned +6.5% in YTD2024 according to our tracker. In general, stronger performance were delivered by subordinated papers, long-term papers and higher yielding credits. Both spread compression and fall in interest rates have led to the strong performance. At the same time, it was a buoyant year for the SGD primary credit market with YTD2024 issuance of SGD27.8bn already surpassing full-year issuances in recent years and nine debut issuers in 2024.

Tight Credit Spreads are the new norm? While spreads on SGD credits are trading tight in the secondary market, we do not expect too much capital losses in 2025 with credit spreads to remain tight relative to historical levels amidst a stable economic and credit environment, still high yields while interest rates are expected to remain flat or decline in 2025. This supports our overall neutral stance for SGD credit in 1H2025. Within bullets, we are neutral very short and shorter tenors while preferring higher yielding bonds in the belly and longer tenors to mitigate reinvestment risks. We continue to prefer crossover papers in 1H2025 and selected Non-Financial Corporate Perpetuals that are more likely to be called. We also remain neutral on Bank Capital Instruments.

REITs. Following a public consultation, the Monetary Authority of Singapore ("MAS") issued revisions to the Code on Collective Investment Schemes to rationalise leverage requirements for the S-REIT sector with a minimum interest coverage ratio ("ICR") of 1.5x and a single aggregate limit of 50% on all S-REITs imposed. Overall, we see the proposed changes as a friendly move for the S-REIT-sector as S-REIT managers will have higher flexibility in managing their capital and a higher debt headroom for executing growth plans. We expect the market's comfort level for aggregate leverage to stabilise at 43-44% over time and an ICR of ~1.8x to be the market's new "line in the sand". Investors are likely to favour S-REIT managers that practise financial discipline and uphold the market's expectation of S-REITs as lower risk vehicles that generate stable income to pay its capital providers.

SG Property. We think prices may rise by 2-4% in 2025. Transactions have picked up strongly in recent months and may remain high if interest rates decline. Meanwhile, HDB cooling measure introduced in August 2024 has limited impact. While demand should remain firm due to strong holding power, growing aspirations and growth in residents, supply should catch up with higher land sales and significant number of launches in 2025. Developers' profitability and interest coverage should improve with lower cost and lower interest rates, though the trajectory of credit metrics is dependent on their willingness to leverage their balance sheets.

Financial Institutions. 2024 will continue to be a year of challenges, but one that should still see fundamentals remaining stable. Financial Institutions will continue to focus on controlling costs as net interest income declines from high levels while overall defensive strategic positioning in 2024 will mitigate an environment of elevated geopolitical risks and ongoing concerns of financial system stability from higher for longer interest rates and elevated systemic leverage. Our fundamental views continue to consider the strong influence of regulations and governance that we continue to see as positive in managing the influence of internal and external factors.

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2024 SGD Credit Market Review

Buoyant Primary Markets with Solid 2H2024 Performance

Strong credit market performance driven by lower interest rates and tighter spreads: In our 1H2024 outlook, we advised investors to "buy while rates are still high," a strategy that has proven effective. In YTD2024, interest rates have fallen, helped by the 75bps rate cut by the US Federal Reserve ("Fed"). In addition, investment grade ("IG") credit spreads reached all-time lows with Asia USD IG spreads at 69bps while high yield ("HY") spreads dipped to 423bps as of 12 November 2024 according to Bloomberg. These tight spreads were underpinned by strong economic data and ongoing policy support from China and despite heightened geopolitical tensions from conflicts in Ukraine and the Middle East. Asia USD IG returned 5.1% while HY returned 15.3% in YTD2024 (as of 5 December 2024). In the same period, the performance of the SGD credit market was stronger in local currency ("LCY") terms, with the iBoxx SGD Large Cap IG Index ("SGD IG Index") posting gains of 6.6%.

SGD exceptionalism in recent times? Even if the outperformance in 2024 was excluded, the SGD credit market has generally outperformed in LCY terms relative to the Asiadollar markets in recent years. The SGD IG Index posted -8.7% returns in 2022 and +8.6% in 2023 in LCY terms, surpassing the returns of Asia USD IG which returned -11.2% in 2022 and +7.4% in 2023. We dive into deeper details in the section ***SGD Credit: Remaining A Competitive Alternative to Asiadollar in Evolving Climates.***

YTD2024 issuances approach record levels: YTD2024 issuance of SGD27.8bn as of 5 December 2024 has already surpassed full-year issuances in recent years, second only to the SGD31bn recorded in 2012. This is partly because of a stellar run in 1H2024 when total issuances reached SGD15.7bn. While YTD2H2024 (1 July 2024 to 5 December 2024) issuance was somewhat lower at SGD12.2bn, October 2024 also marked one of the strongest months for issuance, surpassing the previous peak issuance of SGD4.1bn in September 2021. In contrast, the Asiadollar market saw a decline, with issuances falling to USD15.7bn in October 2024 (September 2024: USD25.2bn).

Relative stability in SGD: The subdued October issuance in Asiadollar can be partly attributed to the Golden Week holiday in China, during which Chinese issuers typically refrain from issuing. However, rising interest rates likely played a significant role in the decline of issuance in the Asiadollar markets, as rising yields may have deterred issuance while leading to capital losses for unhedged investors. We observe that in the Asiadollar market, IG bond yields rose by ~40bps while yields in the SGD market remained mostly stable or experienced only slight increases.

Sustainability marches on: Green, social, sustainability, and sustainability-linked ("GSSSL") issuances reached just over SGD9.5bn, accounting for 33.9% of SGD credit market's issuance in 2024. This was led by the Housing & Development Board ("HDB"), which priced SGD3.5bn of GSSSL bonds, making up 37% of 2024 GSSSL issuances. The use of proceeds by HDB were designated to finance or refinance Eligible Green Projects under the Project Category of Green Buildings, as well as other initiatives outlined in HDB's Green Finance Framework. While the government (including Singapore Government Bonds) is a major issuer in the GSSSL space, corporates are catching up with 2024 seeing the largest number of GSSSL issuance by issue count and issue amount. We dive into deeper details in the section ***Sustainable Finance 2024 – Singapore is Buzzing.***

A year of new entrants to the SGD credit market: In 2024, the SGD credit market welcomed nine issuers, including Singapore Exchange Limited ("SGX") and iFast Corp Ltd ("iFAST") which we featured in our 2H2024 Credit Outlook (published 28 June 2024). The remaining seven debut issuers in 2H2024 are as follows:

- (i) **Toronto-Dominion Bank/The ("TD"):** This IG-rated Canadian bank priced a SGD250mn Additional Tier 1 ("AT1") bank capital instrument at 5.7% on 2 July 2024.
- (ii) **Ho Bee Land Limited ("Ho Bee"):** A Singapore-based real estate developer, Ho Bee priced a SGD160mn 5Y green bond at 4.35% on 4 July 2024.
- (iii) **Banco Santander SA ("Banco"):** This IG-rated Spanish financial services firm priced a SGD300mn senior non-preferred at 3.6% on 16 October 2024.
- (iv) **PowerDC Holdco Pte Ltd ("PowerDC"):** A member company of Vantage Data Centres, PowerDC is an owner, developer and operator of hyperscale data centre campuses that priced a SGD100mn 5Y bond at 3.625% on 29 October 2024. The issue is guaranteed by Credit Guarantee & Investment Facility ("CGIF") and is externally rated "AA".
- (v) **Wharf REIC Finance BVI Ltd ("Wharf REIC Finance"):** A special purpose entity of IG-rated Wharf Real Estate Investment Company ("Wharf REIC"), a Hong Kong real estate firm, Wharf REIC Finance priced a SGD100mn 5Y issue

at 3.3% on 28 October 2024. Although Wharf REIC is new to the SGD credit market, its sister company The Wharf (Holdings) Ltd and parent company Wheelock & Co Ltd had previously issued in the SGD credit market.

- (vi) **Singapore Medical Group Ltd ("SMG")**: A Singapore healthcare organization with a network of private specialist providers with diagnostic imaging and health screening services, SMG priced a SGD90mn 5Y bond at 3.54% on 11 November 2024. The issue is guaranteed by CGIF and is externally rated "AA".
- (vii) **Korea Housing Finance Corp ("KHFC")**: A government-sponsored enterprise that ensures stable housing finance to enhance citizens' welfare and foster national economic development in Korea, KHFC priced a SGD300mn 2Y social bond at 3.033% on 20 November 2024. KHFC has issued numerous green and social bonds in other countries, with a strong ESG mandate and leadership in supporting sustainability.

Meanwhile, the three issuers that were under our coverage who exited are as follows:

- (i) **PARAGON REIT ("SPHR")**: A Singapore-based REIT which invests in income-producing retail malls in Singapore and Australia, SPHR called its SGD-denominated perpetual in August 2024. With no new issuance, equity issued or sizeable asset disposals, SPHR likely replaced the perpetual with bank debt.
- (ii) **Frasers Hospitality REIT ("FHREIT")**: A Singapore-based REIT focused on hotel and resort properties, FHREIT did not return to the market following the maturity of its SGD120mn 7Y 3.08% issue in August 2024.
- (iii) **Frasers Centrepoint Trust ("FCT")**: A Singapore-based REIT which is one of the largest suburban retail mall owners. FCT did not return to the market following the maturity of its SGD70mn 7Y 2.77% issue in November 2024.

One notable issuer returning to the market is:

- (i) **CapitaLand India Trust ("AIT")**: A wholly owned subsidiary of CapitaLand Investment Ltd, AIT focuses on acquiring, owning, and developing income-producing real estate in India. After a hiatus since its last bond maturity in October 2020, AIT returned to the SGD market, pricing a SGD150mn 3Y bond at 3.7% on 22 August 2024.

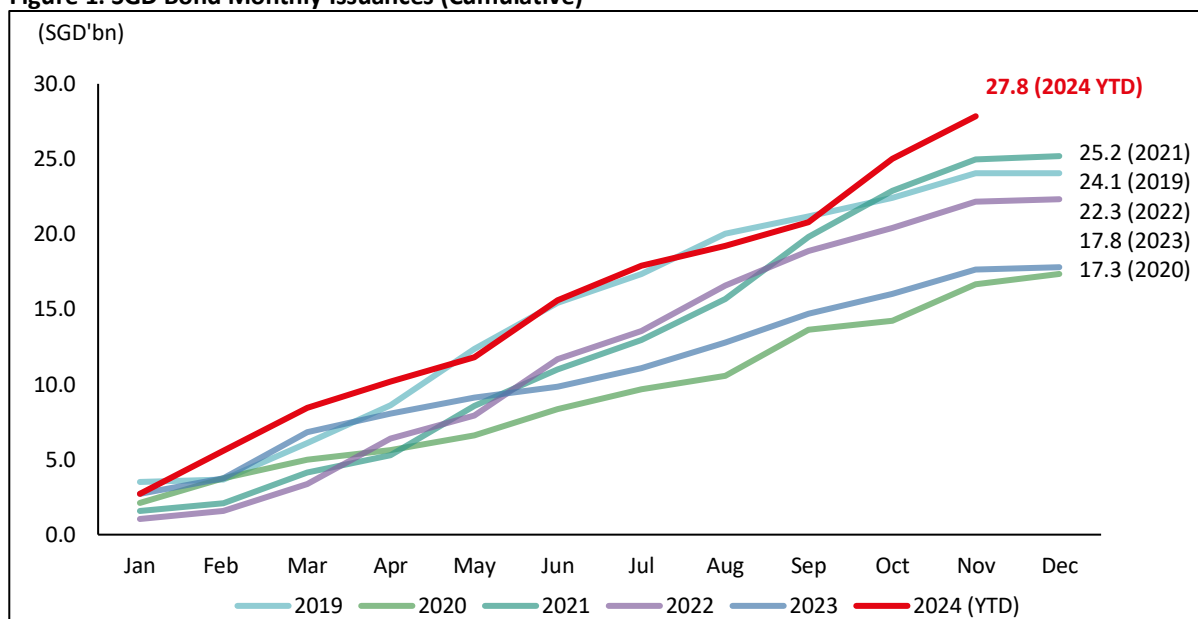
A clean record in YTD2024: The SGD credit market did not have any defaults or losses thus far in 2024, maintaining a strong performance since the last significant loss of SGD750mn due to the write-down of Credit Suisse Group AG's SGD750mn AT1 (CS 5.625% PERP) in March 2023. Thus far, aside from the oil and gas default wave from 2016 to 2018 and other isolated idiosyncratic developments, the SGD credit market has maintained low levels of defaults.

Likely another year of good returns: According to our tracker, the SGD credit market returned +6.5% in YTD2024. In general, stronger performance were delivered by subordinated papers, longer-tenor papers and higher yielding credits. Both spread compression and a fall in interest rates have led to the strong performance of the SGD credit market. We dive into deeper details in the section *Tracking Returns in SGD Credit*.

YTD2024 issuances have tracked strongly above the five preceding years. Factors favouring issuances include:

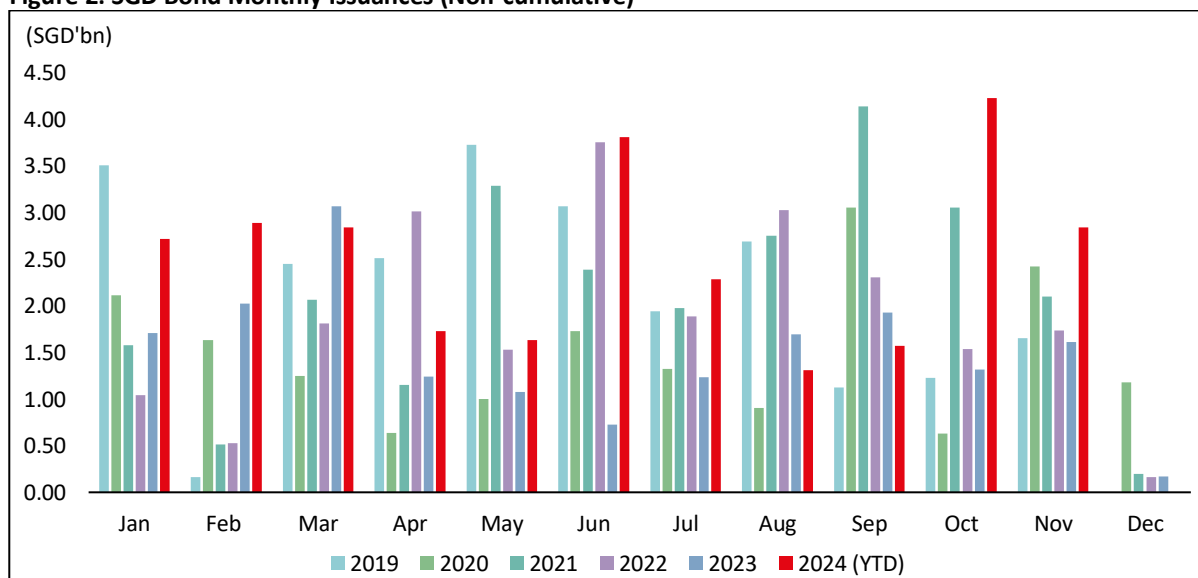
1. **Tight credit spreads:** Favourable environment to issue SGD credit due to tight credit spreads even with interest rates remaining high relative to pre-pandemic and pandemic years.
2. **Demand for SGD credits:** Orderbooks were generally decent despite tight spreads, indicating healthy market interest.
3. **Relative stability of interest rates:** Although yields in the Asiadollar markets have fluctuated, their impact on the SGD market has been limited, contributing to a stable issuance landscape.

Figure 1: SGD Bond Monthly Issuances (Cumulative)



Source: Bloomberg, OCBC Credit Research as of 5 December 2024

Figure 2: SGD Bond Monthly Issuances (Non-cumulative)



Source: Bloomberg, OCBC Credit Research as of 5 December 2024

Financial institutions lead YTD2024 issuances even while statutory boards and real estate gain ground: The financial institutions sector has been the leading contributor to YTD2024 issuances, representing 44% of the total. This is supported by large issuances from HSBC Holdings PLC (SGD1.5bn AT1 priced in 1H2024 and another SGD750mn Tier 2 priced in May 2024) and Standard Chartered (SGD750mn AT1 priced in September 2024). However, the share of issuance from financials has declined from 53% in 1H2024 to 34% in 2H2024. Other sectors saw gains h/h, including statutory boards (+10 ppts h/h), real estate (+6 ppts h/h) and REITs (+4 ppts h/h).

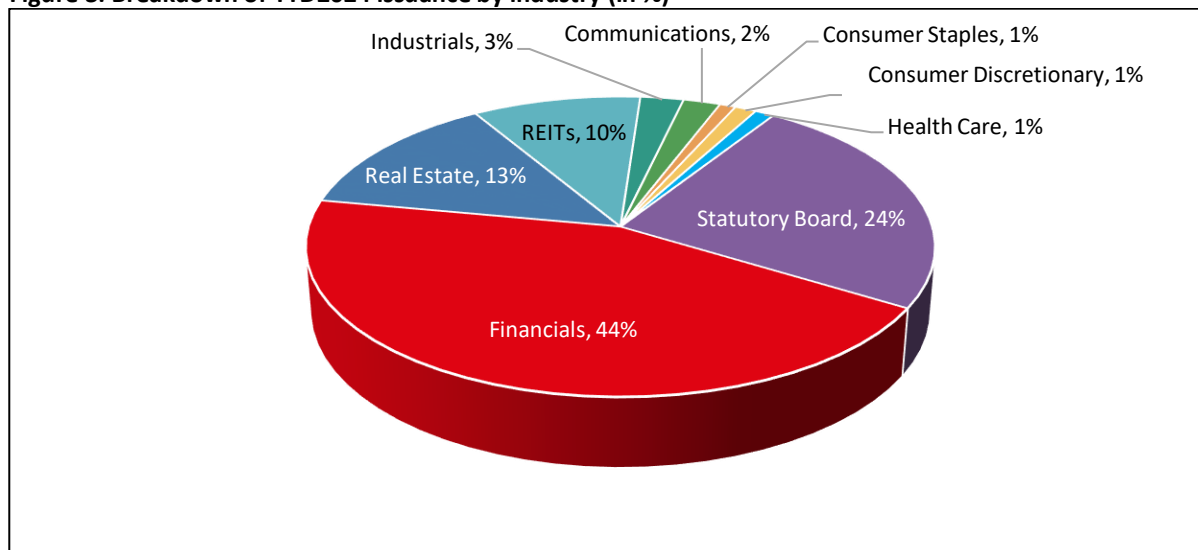
Financials as a mainstay of the SGD credit market: As highlighted in previous outlooks, financial institutions possess both the capability and inclination to issue larger instruments due to several key factors:

1. **Substantial balance sheets:** Financial institutions maintain large balance sheets relative to other SGD credits.
2. **Ongoing funding needs:** Ongoing funding requirements to support balance sheet growth and comply with regulatory capital requirements.
3. **Global presence:** Their established global market presence and strong investor familiarity enable larger issuances.

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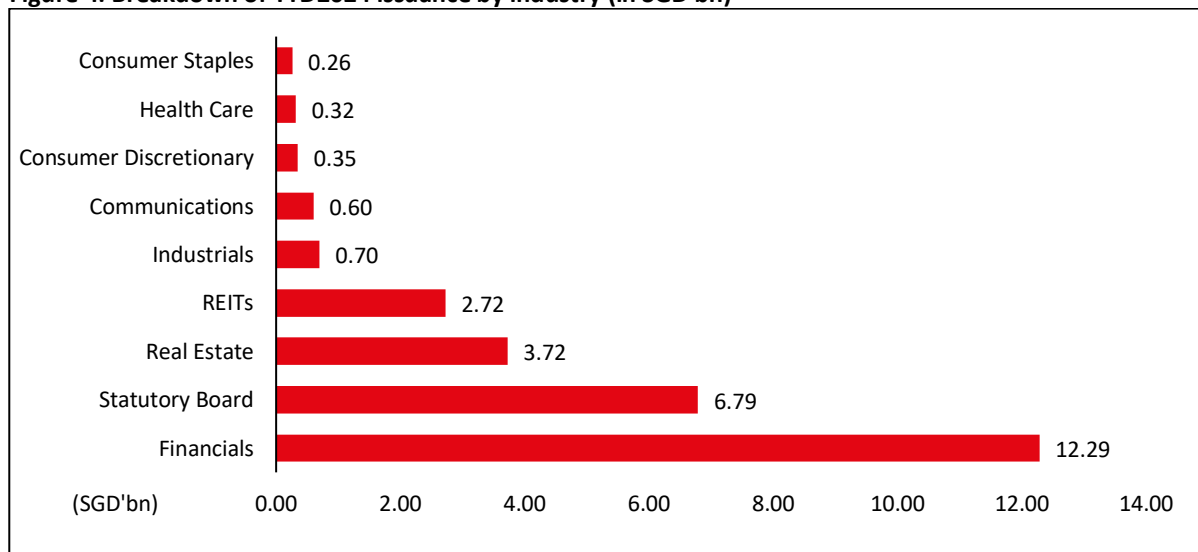
4. **Robust credit fundamentals:** With stable domestic market positions, diversified business segments, regulatory oversight, and government support, financial institutions appeal to credit investors.

Figure 3: Breakdown of YTD2024 issuance by industry (in %)



Source: Bloomberg, OCBC Credit Research as of 5 December 2024

Figure 4: Breakdown of YTD2024 issuance by industry (in SGD bn)



Source: Bloomberg, OCBC Credit Research as of 5 December 2024

HDB as a key issuer in the market: HDB is the most active and dominant issuer within the statutory board segment, raising SGD6.5bn in YTD2024 to finance development programs, working capital needs, and/or refinance existing borrowings. Public Utilities Board ("PUB") was the only other statutory board issuer in YTD2024, which priced a SGD325mn 7Y green bond at 2.502% in September 2024, with proceeds to finance or refinance new or existing eligible green projects under PUB's Green Financing Framework. PUB is not as frequent an issuer as HDB; its prior issuance was a SGD300mn 3Y bond priced in November 2022 at 3.663%. Together, the issues of HDB and PUB account for 24% of total issuances in 2024, second only to financial institutions.

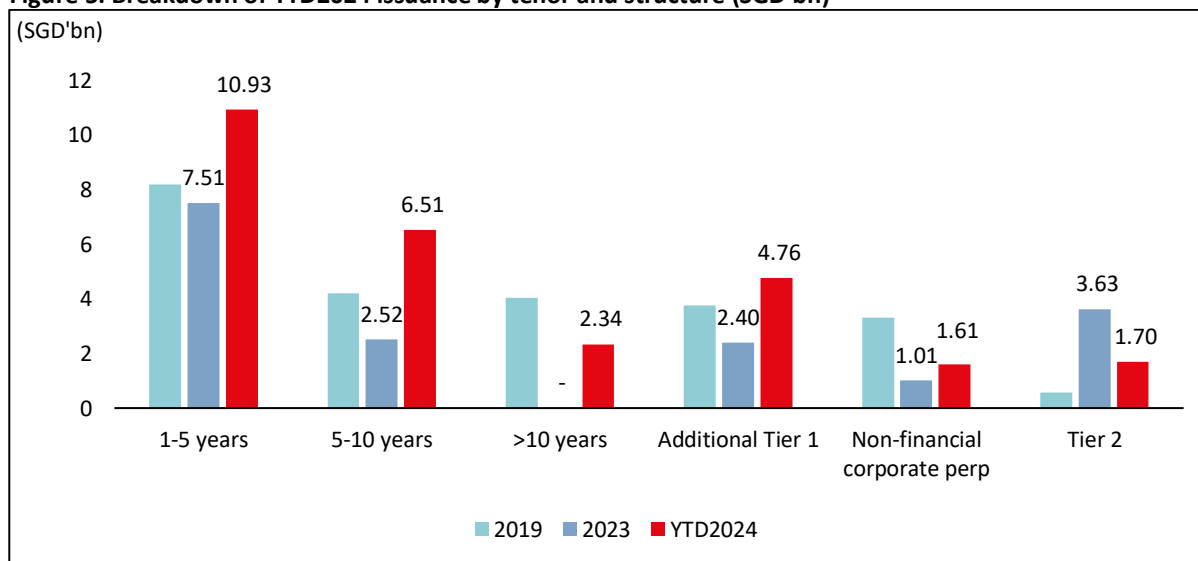
Real estate issuances anchored by several key companies: The real estate sector accounted for ~13% of the total YTD2024 SGD issuances. City Developments Ltd ("CDL") and CDL Properties Ltd led by pricing SGD685mn and SGD400mn respectively, which in total accounted for ~29% of the real estate segment's issuance. This was followed by CapitaLand Group Pte Ltd ("CAPL", SGD425mn) and CapitaLand Investment Ltd (SGD350mn) which together accounted for ~21% of the total. In total, CDL and CAPL and their related entities accounted for 50% of the real estate issuance. Other notable issuers include Mapletree Pte Ltd (SGD385mn), GuocoLand Ltd (SGD380mn), Hotel Properties Ltd (SGD350mn) and OUE Ltd (SGD200mn).

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REITs issuances follow closely behind: The REIT sector accounted for ~10% of the total YTD2024 SGD issuances. CAPL-related REITs and business trusts are major issuers representing ~45% of the REIT market issuances, including CapitaLand Integrated Commercial Trust (SGD500mn), CapitaLand Ascendas REIT (SGD300mn), CapitaLand Ascott Trust (SGD270mn) and CapitaLand India Trust (SGD150mn). This is followed by Mapletree-related REITs including Mapletree Pan Asia Commercial Trust (SGD200mn), Mapletree Logistics Trust (SGD255mn) and Mapletree Industrial Trust (SGD50mn). OUE Real Estate Investment Trust is the largest single name issuer, pricing SGD550mn in total.

Increased issuance driven by duration extension and AT1 issuance: In 2024, y/y issuance picked up across all tenor buckets (1-5Y, 5-10Y, >10Y) and structures (AT1, non-financial corporate perpetuals), with Tier 2s being the notable exception. The largest growth is observed in the 5-10Y (+158% y/y to SGD6.5bn) and >10Y buckets (from zero to SGD2.3bn), likely due to positive responses by issuers to extend duration and lock-in cost of funding amidst declining interest rates and favourable credit spreads. We also note that the credit spread pickup for extending duration has narrowed; issuers do not have to pay significantly more by issuing a longer tenor paper in 2024. AT1 issuances surged by 98% y/y to SGD4.8bn, due to a robust recovery in investor appetite following the write-down of Credit Suisse Group AG's AT1 in 2023 and general market outperformance of this instrument through 2024 as investors chase structurally higher returns. We think this positive sentiment has led financial institutions to favour AT1s over Tier 2s, especially as AT1 spreads have compressed closer to Tier 2s (more details in [Tracking Returns in SGD Credit](#)). While issuance of non-financial corporate perpetuals rose 60% y/y to SGD1.6bn, this remains below pre-pandemic levels, likely due to a series of non-calls in 2022-23. That said, we note that issuers have tended to exercise the call in 2024, with seven perpetuals called in 2024. This includes sizeable perpetual redemptions from SGD600mn FPLSP 4.98% PERP in April 2024 and SGD500mn CAPLSP 3.65% PERP in October 2024.

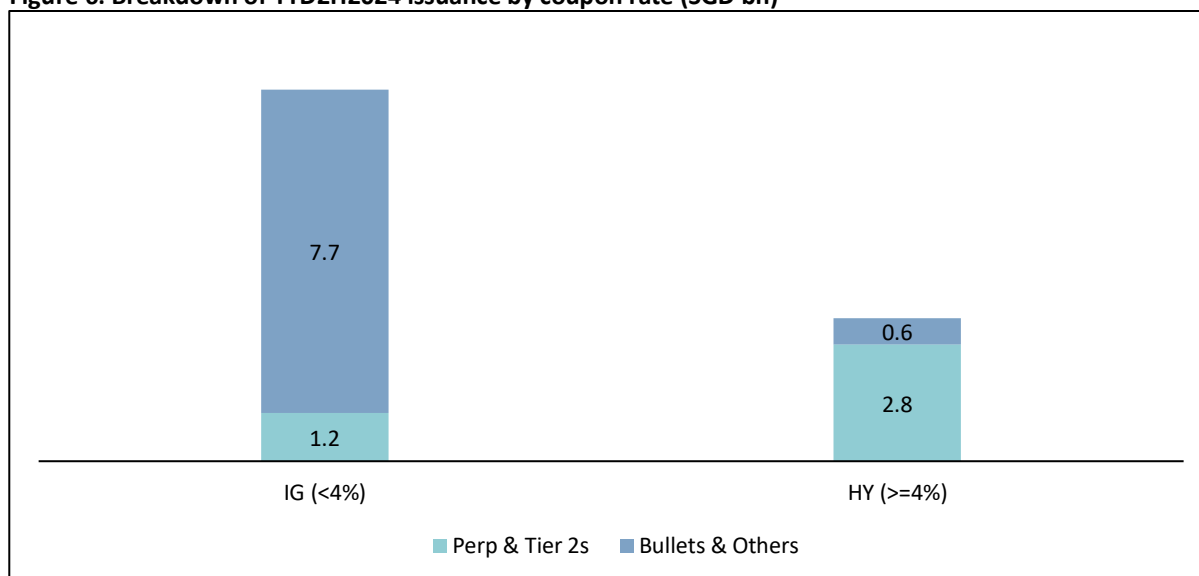
Figure 5: Breakdown of YTD2024 issuance by tenor and structure (SGD'bn)



Source: Bloomberg, OCBC Credit Research as of 5 December 2024

SGD still dominated by IG issues, while structural high yield remains favoured over true high yield: We classify HY issues as having a coupon rate of 4% or more, and IG issues as those below 4%. Using this simplified definition, in YTD2H2024 SGD8.8bn of issuances are IG while SGD3.4bn are HY. We observe that true high yield (non-subordinated) issuance remains low at SGD0.63bn while structural high yield issuance totalled SGD2.8bn.

Figure 6: Breakdown of YTD2H2024 issuance by coupon rate (SGD'bn)

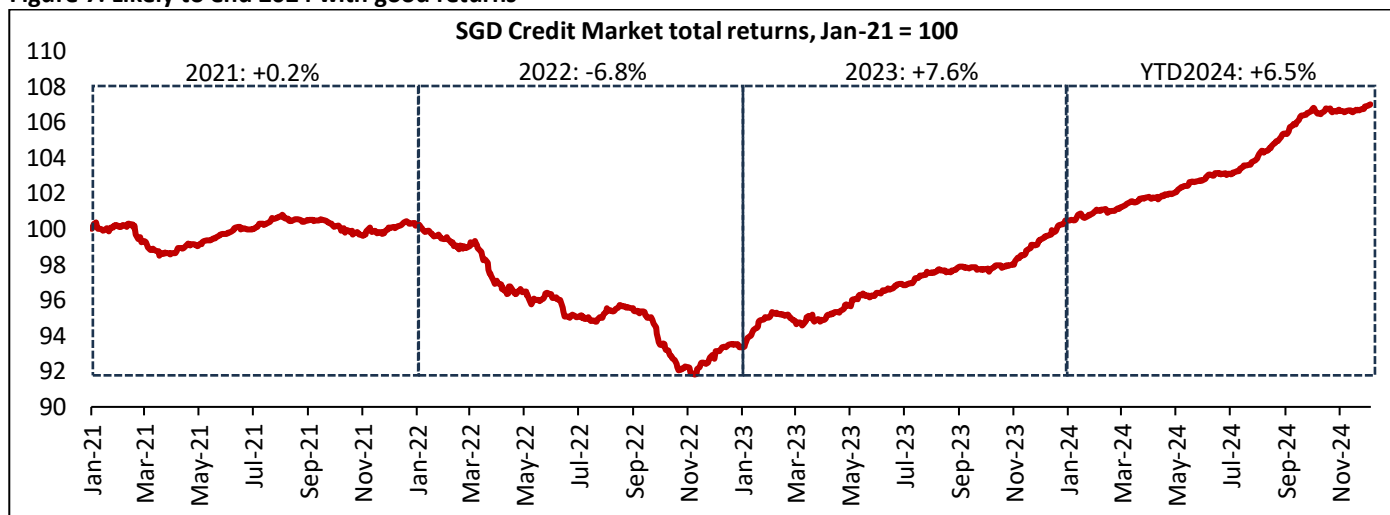


Source: Bloomberg, OCBC Credit Research as of 5 December 2024

Tracking Returns in SGD Credit

Likely another year of good returns: SGD credit market returned +6.5% in YTD2024 (1 January 2024 to 5 December 2024), following strong returns of +7.6% in 2023. The returns were noticeably stronger in YTD2H2024 (+3.8%) versus the first half of the year (+2.7%), driven by outperformance from July to September 2024. Meanwhile, total returns were flattish from October to November 2024.

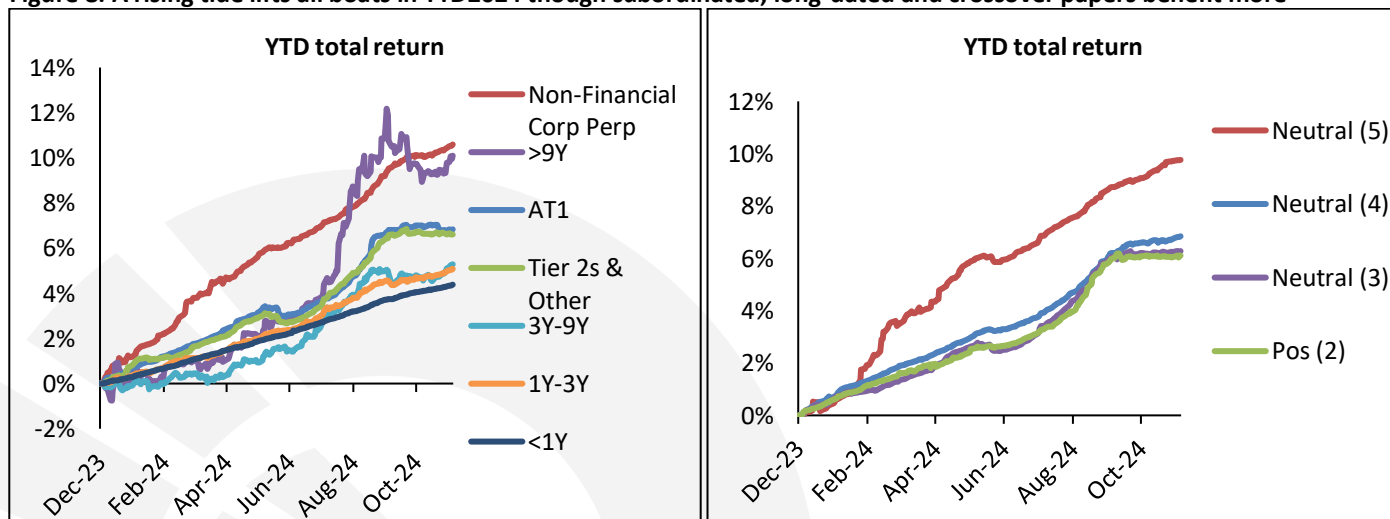
Figure 7: Likely to end 2024 with good returns



Source: Bloomberg, OCBC, as of 5 December 2024

Higher risk, higher return: The top performer by segments in YTD2024 are non-financial corporate perpetuals (+10.6%), bullets that are 9Y or above (+10.1%) and issues from Neutral (5) rated issuers (+9.8%). In other words, investors have been compensated for buying into subordinated papers, long-term papers and higher yielding credits. Conversely, the lowest returning papers are those below 1Y in duration (+4.4%) and issues from Positive (2) rated issuers (+6.1%).

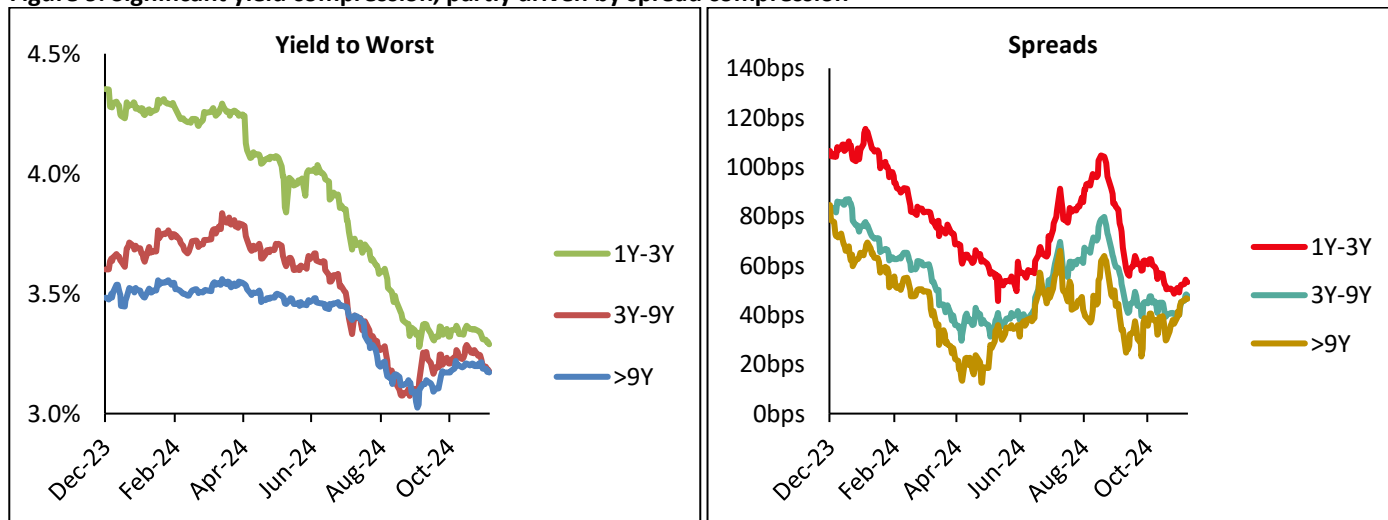
Figure 8: A rising tide lifts all boats in YTD2024 though subordinated, long-dated and crossover papers benefit more



Source: Bloomberg, OCBC, as of 5 December 2024

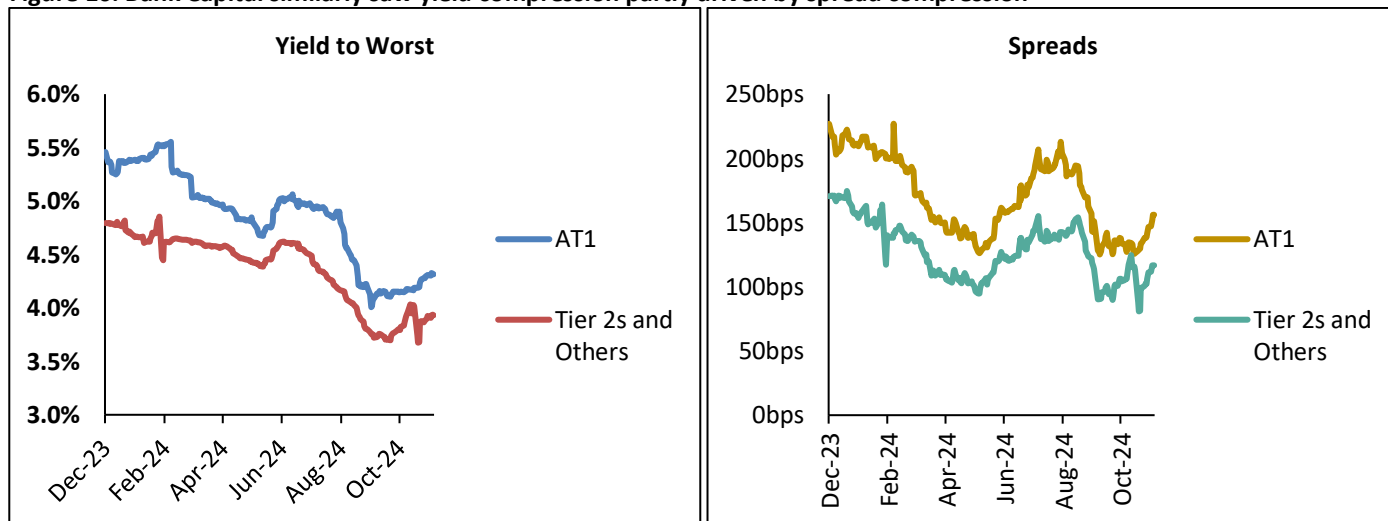
Returns in 2H2024 were driven more by fall in interest rates than spread compression: While spread compression had been a key theme between 2023 and 1H2024 (compressing 100bps or more depending on tenor), spreads as of 5 December 2024 are at levels that are similar to that of the start of 2H2024. Yield to worst had fallen in YTD2H2024 (~60bps for 1Y-3Y papers, 10-20bps for 3Y and above papers) mainly because of the decline in interest rates. Similar trends can be observed for bank capital instruments.

Figure 9: Significant yield compression, partly driven by spread compression



Source: Bloomberg, OCBC, as of 05 December 2024

Figure 10: Bank Capital similarly saw yield compression partly driven by spread compression



Source: Bloomberg, OCBC, as of 05 December 2024

Figure 11: Tracking Returns in SGD Credit: Summary of statistics

	>9Y	3Y-9Y	1Y-3Y
Yield	3.17%	3.18%	3.29%
Spreads	46bps	48bps	53bps
Effective Maturity	23.3Y	5.1Y	2.0Y

	AT1	Tier 2s & Others
Yield	4.32%	3.93%
Spreads	156bps	117bps
Effective Maturity	3.6Y	4.1Y

Source: Bloomberg, OCBC, as of 05 December 2024

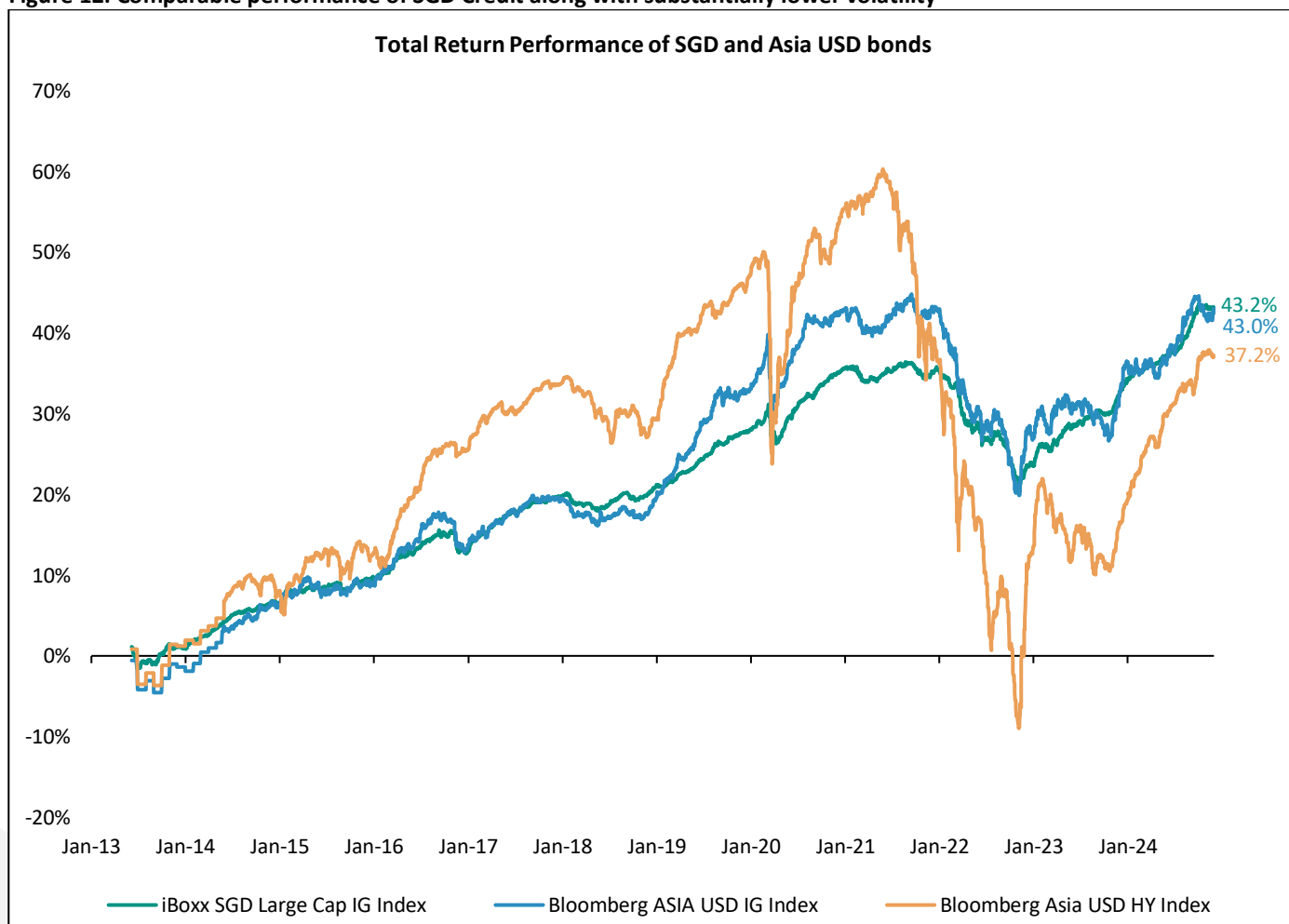
SGD Credit: Remaining A Competitive Alternative to Asiadollar in Evolving Climates

The thesis made from the previous **SGD Credit Outlook 2H2024 (published on 28 June 2024)** regarding the propositions of SGD Credit market remains valid at the time of writing. “SGD Credit market continues to offer (1) comparable returns to Asia USD Credit market, (2) more resilient credit fundamentals of issuers, (3) lower volatility and are more defensive in nature, (4) less vulnerable to rising rates and (5) modest default rates particularly after 2019. That said, we observed SGD Credit market tends to lag against the Asia USD Credit market during booming periods as evidenced in 2014 and 2019”.

We believe **SGD Credit will remain relevant and a competitive alternative to Asiadollar Credit in 2025 amidst potentially higher volatility ahead** with policies to be enacted by President-elect Trump’s upcoming administration and geopolitical uncertainties.

The lower passthrough rate (40%-70% per OCBC Rates Strategist’s estimation) of SGD SORA OIS against USD rates provides an effective hedge against potentially higher yields for the longer end rates. Besides, Singapore’s top-ranked political stability (ranked #1 in Asia per Lowy Institute) and Neutral foreign policy are likely to be less affected by the rising geopolitical risks.

Figure 12: Comparable performance of SGD Credit along with substantially lower volatility

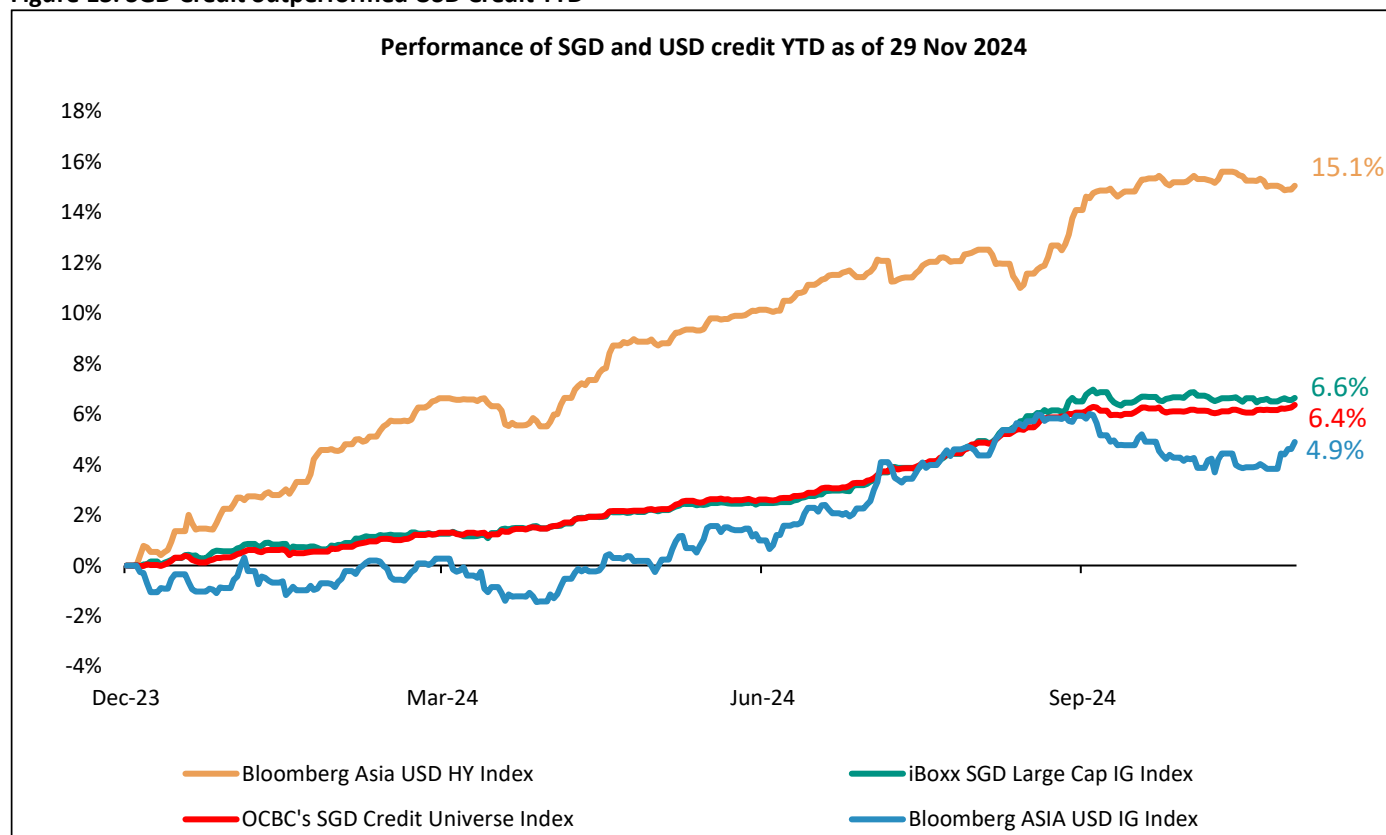


Performance is calculated on the basis of total return and local currency

Source: Bloomberg, OCBC Global Markets Credit Research

As of 29 November 2024, SGD Credit (using OCBC’s SGD Credit Universe Index as a reference) delivered decent YTD performance of 6.4%, outperforming the Asiadollar Investment Grade (“IG”) index by 1.5ppts.

Figure 13: SGD Credit outperformed USD Credit YTD



Performance is calculated on the basis of total return and local currency

Source: Bloomberg, OCBC Global Markets Credit Research

We believe the outperformance of the SGD Credit Universe YTD over Asiadollar IG was attributable primarily to:

- Lower SORA OIS Yields YTD in comparison to higher US Treasury yields (except shorter ends).
- Steeper spread contraction of SGD Credit (excluding non-financial corporate perpetuals and money market) in comparison to Asiadollar IG Credit (-30bps YTD to 74bps)

Figure 14: SORA OIS Yields fell in comparison to higher US Treasury Yields (except shorter ends)

	Tenure	29-Nov-24	29-Dec-23	Difference
	Year	%	%	bps
SORA OIS Yield	2Y	2.52	2.81	-29
SORA OIS Yield	5Y	2.49	2.56	-7
SORA OIS Yield	10Y	2.53	2.58	-5
US Treasury Yield	2Y	4.15	4.25	-10
US Treasury Yield	5Y	4.05	3.85	20
US Treasury Yield	10Y	4.17	3.88	29

Source: Bloomberg, OCBC Global Markets Credit Research

Figure 15: Steeper credit spread compression of SGD Credit against Asiadollar IG Credit YTD

	Spread (bps)	Spread (bps)	Difference (bps)
	29-Nov-24	29-Dec-23	
SGD Credit			
AT1s	147	216	-70
Tier 2s and Other Non-perp Sub	111	171	-59
Longer Tenors (>9Y)	45	78	-33
Mid Tenors (>3Y to 9Y)	45	83	-38
Short Tenors (>1Y to 3Y)	52	104	-52
Non-Financial Corp Perp	n.m.	n.m.	-
Money Market (Up to 12 months)	n.m.	n.m.	-
Asiadollar Credit			
Bloomberg Asia USD IG Bond Index	74	105	-30
Bloomberg Asia USD HY Bond Index	458	781	-323

Source: Bloomberg, OCBC Global Markets Credit Research

Figure 16: Performance of SGD Credit Universe are comparable to Asiadollar IG with meaningfully lower volatility

	OCBC's SGD Credit Universe Tracker	iBoxx SGD Large Cap IG Index (b)	Bloomberg ASIA USD IG Index (c)	Bloomberg Asia USD HY Index	SGD IG vs Asia USD IG (b) - (c)
2013	--	0.9 %	-1.9 %	1.9 %	2.8%
2014	--	5.5 %	8.5 %	6.0 %	-3.0%
2015	--	2.8 %	2.3 %	4.4 %	0.5%
2016	--	3.3 %	4.5 %	11.4 %	-1.2%
2017	--	6.0 %	5.1 %	6.5 %	0.9%
2018	--	1.2 %	0.1 %	-3.3 %	1.1%
2019	--	5.6 %	11.1 %	13.8 %	-5.5%
2020	--	6.0 %	7.5 %	5.7 %	-1.5%
2021	0.2 %	-0.3 %	-0.0 %	-12.3 %	-0.2%
2022	-6.8 %	-8.7 %	-11.2 %	-16.8 %	2.5%
2023	7.6 %	8.6 %	7.4 %	5.1 %	1.2%
YTD @ 29 Nov 24	6.4 %	6.6 %	4.9 %	15.1 %	1.7%
Total Return Since 2013	--	43.2 %	43.0 %	37.2 %	0.1%
Total Return Since 2021	6.9 %	5.5 %	0.0 %	-11.8 %	5.5%

Performance is calculated on the basis of total return and local currency

Source: Bloomberg, OCBC Global Markets Credit Research

1H2025 Outlook – Neutral amid Tight Spreads while Yields Remain High

As we enter 2025, the focus has shifted from whether the Fed will cut rates to how many cuts are anticipated. With President-elect Trump returning to the White House in January 2025, market expectations for future Fed rate cuts have been reduced, even as the FOMC is poised to gradually normalise monetary policy in the near-term. The US economy is expected to moderate in 2025, according to OCBC Economists, though the trajectory may be clouded by the extent of policy shifts under Trump 2.0.

We expect SGD credit spreads will remain tight relative to historical levels, though some mild widening may occur given the current tightness. Demand for credit has been supported by expectations of interest rate cuts. We think credit may remain in demand as interest rates in 2025 are expected to be flat or lower than 2024 according to OCBC strategists. Meanwhile, OCBC Economists project modest GDP growth for Singapore's key trading partners. However, ongoing geopolitical uncertainties, particularly in Israel-Iran, Russia-Ukraine and US-China relations, could lead to episodic widening of credit spreads. If credit spreads remain at historic tight levels, issuers may capitalize on this by issuing more. Credit spreads can widen should supply exceed demand, noting that the balance of demand and supply for credit has likely normalized following near-record issuance in YTD2024.

While the SGD credit market is not fully immune to geopolitical tensions and domestic challenges affecting foreign issuers, most SGD credit issuers are anchored in Singapore and derive their income from domestically. According to the World Bank's Worldwide Governance Indicators ("WGI"), which reflect perceptions of governance quality, Singapore's stability contrasts with the fluctuations seen in major global economies. Consequently, we expect SGD credit markets to continue to act as a relative safe harbour in times of heightened geopolitical stress. We outline our key views for 1H2025 below:

1. **We are Neutral on very short (<1Y) and short tenor (1-3Y) bullets while preferring higher yielding bonds in the belly (>3Y to 9Y) and longer tenors (up to 15Y).** With interest rates expected to remain flat or decline in 2024, we prefer longer duration bonds to lock in yields and mitigate reinvestment risks. Our analysis shows that higher yielding bonds tend to offer better protection, as their carry (income generated from the bond) can offset potential capital losses should interest rates rise. Specifically, as of 4 December 2024, we will find new 10Y high-grade bullets attractive at yields of 3.8% or above. We also note thus far demand has tended to outstrip supply for such long dated papers.
2. **We continue to favour crossover papers in 1H2025**, consistent with our 2024 credit outlook. Defaults in the SGD credit market should remain low with a benign funding environment, economic growth (despite slower projected growth by OCBC economists) and stable credit profiles. The curves of issuers rated Neutral (4) and Neutral (5) have performed well in 2024, and we expect the outperformance to continue. We provided the breakdown of returns under the section **Tracking Returns in SGD Credit**.
3. **We remain positive on selected Non-Financial Corporate Perpetuals that are more likely to be called or those with wide reset spreads.** Based on our analysis, most non-financial corporate perpetuals will likely be redeemed on their first call dates in 2025, as many have coinciding first call and reset dates. The economic incentive to call is high, otherwise these perpetuals could reset to a distribution rate of mid 5% to low 8%, based on benchmark rates as of 25 November 2024 our study. That said, only one corporate perpetual is facing its first call date in 1H2025, with the rest in 2H2025.
4. **We remain neutral on Bank Capital Instruments**, such as Additional Tier 1 ("AT1") and Tier 2 securities, due to tight spreads. Issued by reputable and regulated issuers, bank capital instruments can provide higher returns relative to senior issues as they are usually redeemed at their first call dates. That said, with rising credit dispersion in the Financial Institutions sector, bottom-up selection is crucial. We dive into deeper details in the section **Financial Institutions – Internal Actions Can Offset External Threats**. Similar to non-financial corporate perpetuals, in general we prefer AT1s with higher yields and wider reset spreads.

Although credit spreads are tight, capital losses, if any, should be contained. We expect credit spreads to remain tight relative to historical levels due to (1) a stable economic and credit environment, (2) still high yields which can offset potential capital losses while (3) interest rates are expected to remain flat or lower in 2025. This supports our overall neutral stance for SGD credit in 1H2025.

We look forward to exploring these opportunities with you and continue to be grateful for our readers' support and feedback.

Sustainable Finance 2024 – Singapore is Buzzing

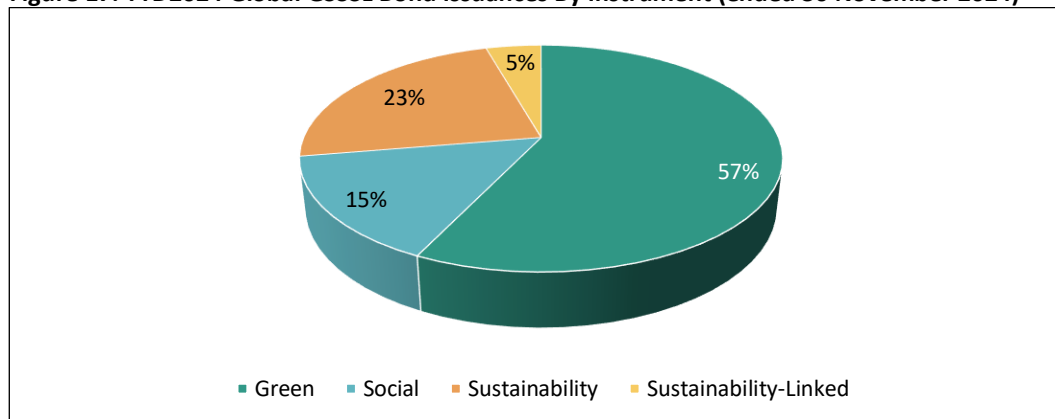
In our “**3Q2024 Sustainable Finance Update – Globally Warming**” published on 23 October 2024, we highlighted the broad global trends with sustainable finance bond issuances (comprising mostly green, social, sustainability, and sustainability-linked (“GSSSL”) bonds). This followed our publication titled “**Transition Bonds: In the shadows of Sustainable Finance**” published on 27 May 2024 that introduced transition bonds as a relatively nascent financing tool that has a somewhat promising outlook, albeit coming from a low base. These articles highlighted the growing depth and breadth of sustainable finance bonds, something that will continue to develop in our view to combat climate change and social issues as well as other items on the sustainability agenda. Amidst positive trends globally and regionally, we see Singapore as a continued leading light in the GSSSL bond space that has seen GSSSL issuance in the SGD credit market grow from SGD500mn in 2019 to just over SGD9.5bn so far in 2024.

Reaching for Records Globally

Sustainable finance bond issuance (comprising mostly green, social, sustainability, and sustainability-linked (“GSSSL”) bonds) continues to be on an uptrend, with global issuances hitting USD990bn as of 30 November 2024, one of its busiest years since the inception of the market in 2007. Growth in overall sustainable finance bond issuance is in the context of a generally buoyant issuing environment for bonds driven by (1) investors taking advantage of higher base rates and expectations for interest rates to fall and (2) issuers taking advantage of tight credit spreads and a soft-landing economic scenario despite elevated geopolitical risks.

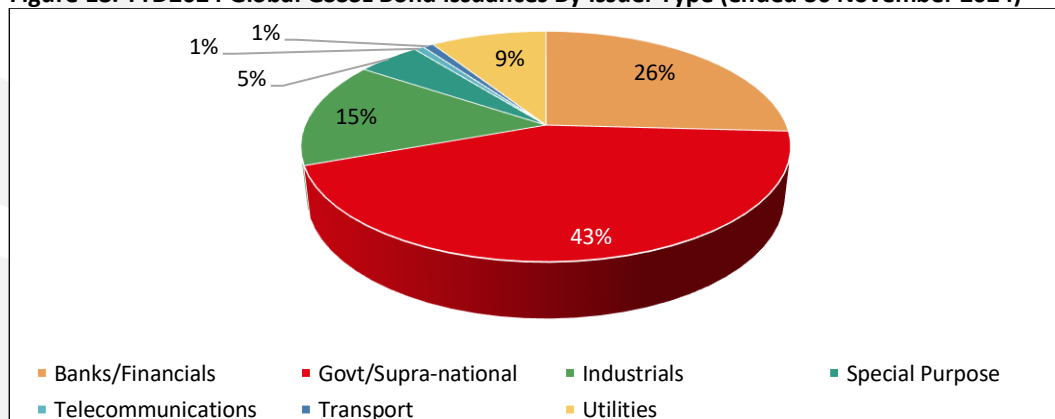
While overall global volumes are rising, trends by GSSSL issuer and issue type have remained consistent as in prior years with ongoing strong issuance of **green bonds** by **sovereigns** to address the more pressing and obvious concern of climate change. Governments globally including supra-national issuers comprise almost half of global sustainable finance issuance per Bloomberg while green bonds contribute over half of global sustainable finance issuance for the year to date (ended 30 November 2024).

Figure 17: YTD2024 Global GSSSL Bond Issuances By Instrument (ended 30 November 2024)



Source: Bloomberg, OCBC Credit Research as of 30 November 2024

Figure 18: YTD2024 Global GSSSL Bond Issuances By Issuer Type (ended 30 November 2024)



Source: Bloomberg, OCBC Credit Research as of 30 November 2024

While green bonds continue to garner favour within sustainable finance, other GSSSL types have also had a solid year in 2024. **Sustainability bonds** as the second largest GSSSL type had their busiest October ever due to strong issuance across currencies by development banks. USD24.5bn of sustainability bonds were issued in October per Bloomberg by governments and corporates, almost double that of the ~USD12.3bn issued in October 2023. Of this, development banks including the World Bank along with supranationals, sovereigns and agencies contributed 73% of the October 2024 sustainability bond issuance, followed by industrials and financials contributing 12.1% and 9% respectively. Corporates have also driven the y/y growth by increasing the number of eligible green or social projects within their sustainability bond frameworks over time according to a report by Barclays PLC. While this has increased the flexibility of issuers to finance projects with sustainability bonds, there remain some drawbacks for investors including potential greenwashing, a lack of certainty as to what the bond proceeds will be used for and what the eventual sustainability impact of the bond will be. Companies usually only report the use of proceeds later when they publish their sustainability or impact report.

Social bonds also had a constructive year, highlighted by April with global social bond sales of USD14.3bn, a record for the month with the previous record being USD12.2bn in April 2022. This was driven by large deals by French unemployment insurance agency Unedic and the Republic of Colombia. Other notable social bonds were from:

- Citigroup Inc (“Citi”) through Citibank NA that priced USD3bn of social bonds in November 2024. Bond proceeds are expected to be used exclusively to finance or refinance social finance assets that meet Citi’s social eligibility criteria according to its social finance framework, including expanding access to financial services to unbanked and underserved individuals and promoting affordable housing.
- In Europe, Deutsche Bank AG was a first-time issuer of social bonds raising EUR500mn in early July 2024. Proceeds will be used to refinance social assets such as provisions of adequate and affordable housing for disadvantaged populations or communities, according to the bank’s sustainable instruments framework.
- In Korea, social bond issuances account for 66% of GSSSL issuances, considering both USD and local currency. Korea Housing Finance Corp (“KHFC”) is one of the key issuers, which facilitates the government’s policy of making home loans more accessible to low- and middle-income households. See below for further information.

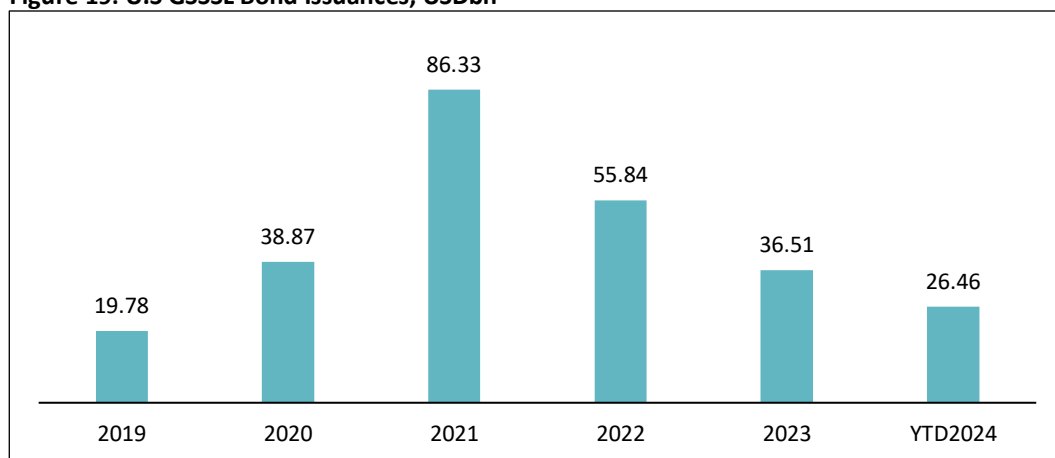
Sustainability linked bonds (“SLB”) however are heading for their third straight year of noticeable decline. Investor reluctance persists around the incentive structure of the instrument, the quality or rigour of the instrument’s sustainability performance indicators (“SPI”) or targets (“SPT”) and the actual impact of the issuance, some of which can come from brown companies that do not disclose any specific use of proceeds, whether green, social or otherwise. Greenwashing concerns are on both sides of the transaction with issuers also concerned about being accused of overstating the benefit of the SLB to the environment or society, whilst also having difficulty deciding what is the right SPI/SPT and what is actually achievable.

US GSSSL also trending down

Amidst generally constructive sustainable finance issuance however, there has been a downward trend in the U.S as various factors have individually and collectively worked to suppress supply and demand of GSSSL out of the US.

1. The high interest rate and inflation environment that is deterring interest from investors and issuers. On the investor front, returns have been more appealing from energy intensive industries. From the issuer perspective, the costs of issuing GSSSL have increased along with investor scrutiny on GSSSL instruments while greeniums have reduced or dissipated.
2. The lack of supply in the US has also reduced the liquidity of GSSSLs.
3. A political backlash against sustainable finance, particularly in Republican states such as Texas and Kansas.
4. Higher scrutiny from investors on GSSSL instruments with a need for issuers to have an effective strategy and implementation process and for regulators to have more transparent frameworks as the market over time places greater emphasis on quality over quantity.

Figure 19: U.S GSSSL Bond Issuances, USDbn

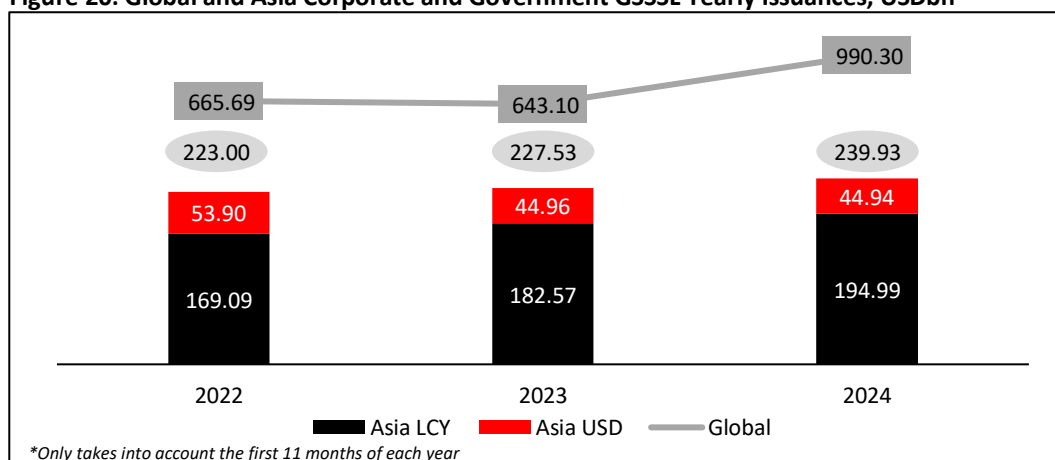


Source: Bloomberg, OCBC Credit Research as of 30 November 2024

GSSSL Trends in Asia

Despite facing multiple challenges from elevated global interest rates, geopolitical tensions, and sector-specific credit disruptions in China, the sustainable bond market in Asia remained strong with overall GSSSL issuance volumes across currencies in Asia up 11.4% y/y up to 30 November 2024.

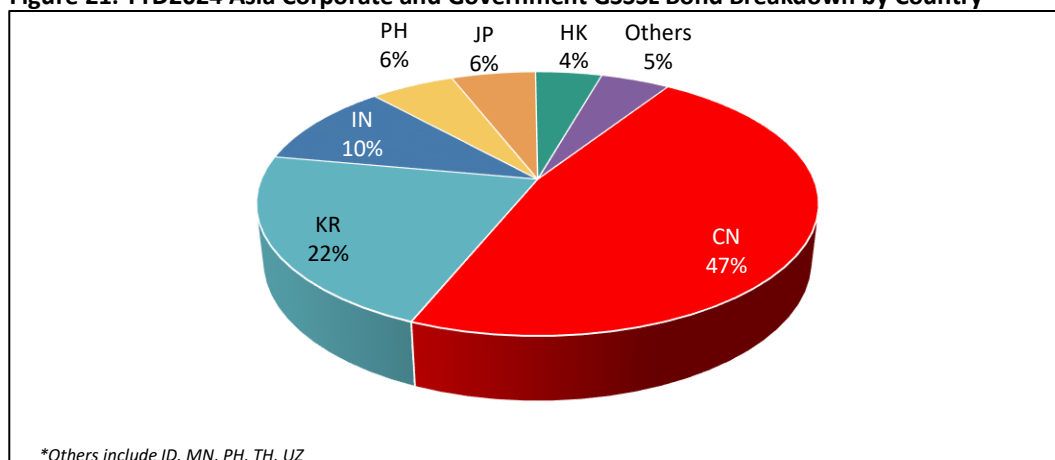
Figure 20: Global and Asia Corporate and Government GSSSL Yearly Issuances, USDbn



Source: Bloomberg, OCBC Credit Research as of 30 November 2024

Despite ongoing macro-economic headwinds, tightened eligibility criteria for projects to be included in onshore green bonds and additional structuring and verification costs for ESG labels that drove Chinese issuers towards conventional bonds with onshore interest rates low, China remains by far the key issuer of GSSSL bonds in Asia, a position it has held since 2015. Out of the total number of issuances YTD2024, 47% of the issuances came from China, amounting to USD21.1bn. Despite these recent pressures in China on GSSSL issuance (Chinese local currency green bond issuance fell by 45% y/y to USD26bn in 1H2024 from USD46bn in 1H2023), there is an expectation that China will continue to be a source of GSSSL issues within Asia. In recent years, mandatory sustainability reporting has been gaining traction globally and Chinese companies are facing stricter sustainability reporting regulations as part of efforts to enhance transparency and align with European requirements. New sustainability disclosure guidelines from China's Ministry of Finance and the three major stock exchanges are expected to improve investor confidence going forward by providing a unified framework for evaluating the financial and impact materiality of ESG factors for onshore listed companies.

Figure 21: YTD2024 Asia Corporate and Government GSSSL Bond Breakdown by Country

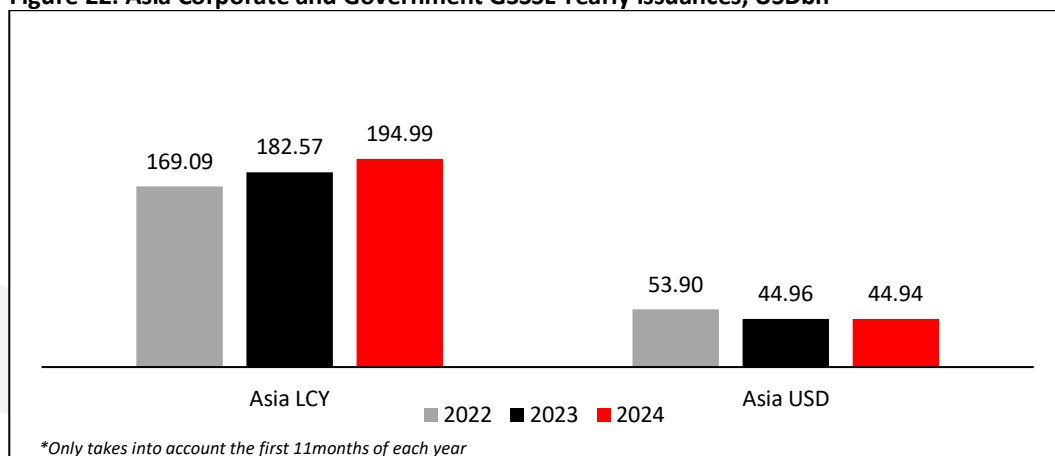


Source: Bloomberg, OCBC Credit Research as of 30 November 2024

The largest USD GSSSL issuances in Asia through 2024 as at time of writing include Korea Electric Power Corp's USD1.2bn Green, Fixed bond, Republic of the Philippines USD1bn Sustainability bond and China Construction Bank Corporation/Hong Kong's USD1bn Green bond. However, these do not even make the top 20 largest GSSSL issuances across currencies in Asia with several mega issues by sovereigns in local currency including Australia's first sovereign green bond that attracted an order book more than three times the AUD7.0bn (USD4.7bn) 10Y issue size and the Japan Government's JPY799.5bn (USD5.3bn) and JPY799.8bn (USD5.3bn) issuances in February with the JPY800bn issue notable as the world's first sovereign climate transition bond to finance the development of clean energy resources to help Japan cut greenhouse gases to zero by 2050 and become a carbon-neutral society.

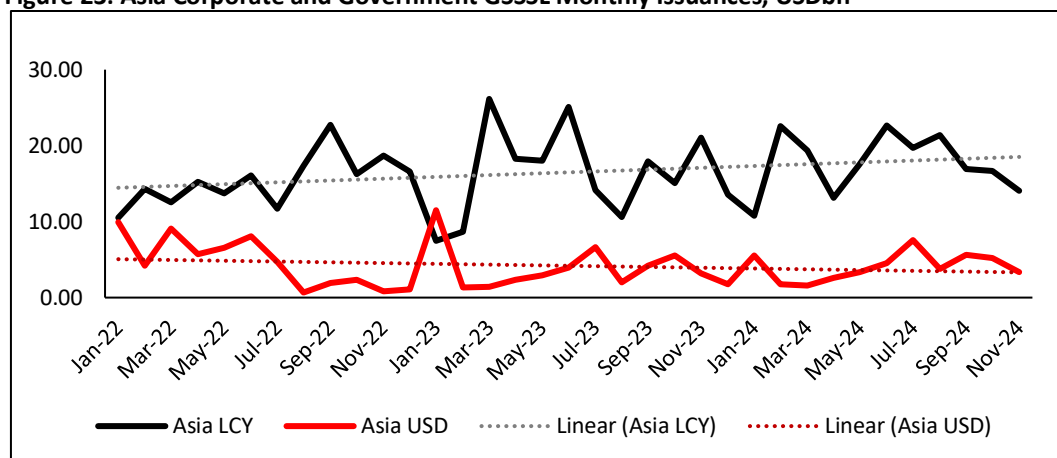
Looking at Asia GSSSL issuance through 2024, we see a growing trend in Asia for local currency ("LCY") issues, while the trend for Asia USD GSSSL is moving in the opposite direction. We also observe that in some months, when there is an increase in LCY issuances, there is a corresponding decrease in USD issuances, and vice versa. Asia LCY issuances grew by 11.4% y/y, while Asia USD fell by 1.0% y/y in when comparing the issuances amount from January to November. Possible reasons for the declining trend in USD issuances in Asia include interest rate differentials with the high USD interest rate environment making China domestic issuances more attractive for financing or refinancing. Another factor is the reduction in overall USD issues by Chinese issuers in recent years amid the fallout from a wave of defaults in the property sector. China's international bond issuances dropped by ~12% y/y to USD108bn in 2023, down from USD122bn in 2022 and USD230bn in 2021.

Figure 22: Asia Corporate and Government GSSSL Yearly Issuances, USDbn



Source: Bloomberg, OCBC Credit Research as of 30 November 2024

Figure 23: Asia Corporate and Government GSSSL Monthly Issuances, USDbn



Source: Bloomberg, OCBC Credit Research as of 30 November 2024

GSSSL in Singapore is buzzing

Aside from 2023 when issuance volumes declined in line with the overall market, GSSSL issuance trends through 2019-2024 within the SGD credit market represent strong adoption of sustainable finance at both the government and corporate level. This is to support Singapore's decarbonisation efforts and boost the country's status as a green finance hub, with ongoing efforts to promote clarity in sustainable finance and deepen sustainable finance capabilities. This has seen GSSSL issuance in the SGD credit market grow from one issue for SGD500mn in 2019 (the Manulife Financial Corp MFCCN 3% '29s that were called on 21 November 2024) to just over SGD9.5bn so far in 2024 (as of 30 November 2024) from 22 issues.

Government leading the way

Recent growth in issuance volumes include the Singapore government's 30Y and 50Y Singapore Government Bonds issued at 3.25% and 3.0% respectively with the recent SGD2.5bn SIGB 3.25% '54s receiving an orderbook ~2.5 times the amount offered in May 2024. These bonds are officially called Green Singapore Government Securities (Infrastructure), with proceeds used to finance expenditures in support of the Singapore Green Plan 2030, including two MRT lines (i.e. Jurong Region Line and the Cross Island Line) that are estimated to reduce greenhouse gas emissions associated with land transport. The Singapore Green Bond Framework along with the Significant Infrastructure Government Loan Act 2021 ("SINGA"), establishes the basis for the issuance of Green Singapore Government Securities (Infrastructure) bonds. The Singapore Green Bond Framework is in accordance with globally recognized market principles, standards, and best practices. Morningstar Sustainalytics has provided a pre-issuance Second-Party Opinion ("SPO") that verified the framework's compliance with the ICMA Green Bond Principles 2021 and the ASEAN Green Bond Standards 2018. It also acts as a national benchmark and reference for statutory boards that plan to issue green bonds, as they are required to align their respective green bond frameworks with the guidelines and standards that are set out in the national framework.

As of 31 March 2024, the Singapore public sector has issued a total of SGD12.5bn of green bonds¹, working closer towards Singapore's commitment to issue up to SGD35bn of green bonds by 2030. The green bond issuances were in the green categories of (i) clean transportation, (ii) waste management, (iii) green buildings and (iv) sustainable water and wastewater management. We can see increasing SGD GSSSL issuance by statutory boards over the years by National Environment Agency (two in 2021), Housing & Development Board (three in 2022, one in 2023, four in 2024), and Public Utilities Board (one in 2022, one in 2024). With these issuances in the public sector, it brings possibility of a higher quality green bond market in Singapore, as corporates will be able use these issuances as a reference, hence improving market liquidity for green bonds and attracting green issuers, capital and investors.

¹ Singapore Green Bond Report For the Financial Year 2023, September 2024, Ministry of Finance

Corporates are catching up

Corporate issuance also has increased with 2024 seeing the largest number of GSSSL issuance by issue count and issue amount. New issuers can be seen entering the SGD market, including Ho Bee Land Ltd (“HOBEE”) which issued their first green bond with SGD160mn outstanding while the largest issuance in 2024 that is not from a statutory board came from ST Telemedia Global Data Centres Pte Ltd (“STT GDC”), a Temasek Holdings (Private) Limited linked company, with a SGD500mn sustainability-linked bond on 8 January 2024. The demand for this bond was strong, with bids over SGD1bn at reoffer for the initial issuance amount of SGD450mn (SGD50mn was a retap on 24 Jan 2024).

Similar to global trends, green bonds dominate SGD GSSSL issuance. This reflects the use of green bonds by the Singapore government and statutory boards. In addition, we can see issuances coming in stronger in the REITs sector for YTD2024. It is worth noting that many REITs and property developers in Singapore hold Building and Construction Authority (“BCA”) Green Mark Buildings, which means that green bonds can be issued by these companies to finance retrofitting, energy efficiency upgrades or renewable energy projects for these buildings. It is also part of Singapore’s target to ‘green’ 80% of local buildings by 2030 according to the Singapore Green Building Masterplan (part of the Singapore Green Plan 2030), meaning there is likely to be more ‘green’ buildings upcoming.

As the leading market for green bonds and loans in ASEAN with a ~ 50% share, Singapore is actively assisting businesses in obtaining green and sustainable financing options. The Monetary Authority of Singapore (“MAS”) offers grant programs that help cover the expenses of external reviews for these financing options, including the Sustainable Bond Grant Scheme and the Green and Sustainability-Linked Loan Grant Scheme.

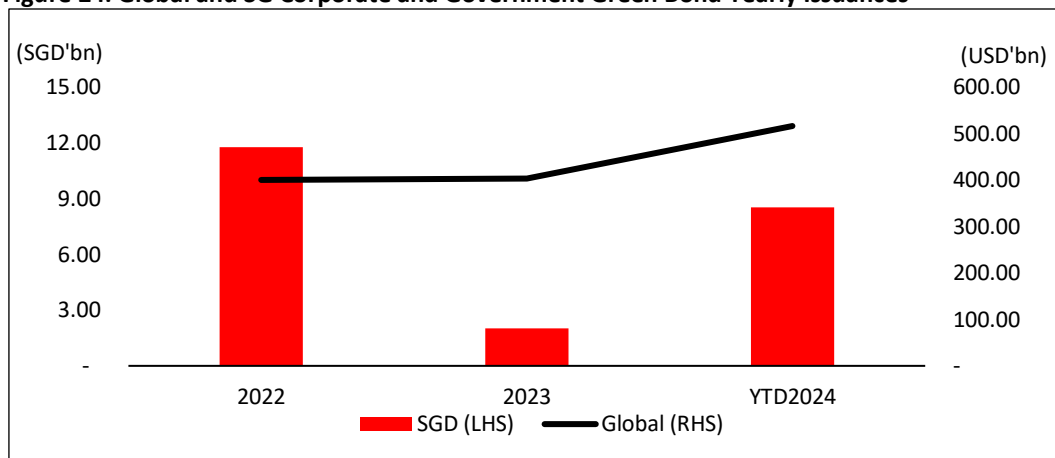
Transitioning to other GSSSL

In its net-zero transition, Singapore plans to fund not only green activities but also transition activities. The MAS has launched the Singapore-Asia Taxonomy for Sustainable Finance which sets out thresholds and criteria for defining green and transition activities, where the latter refers to activities that do not meet green thresholds now but are on the path to net-zero or contributing to net-zero outcomes. This can enable Financial Institutions to support the transition of hard-to-abate sectors towards low-carbon operations, particularly in Asia. To develop a more effective market for green investments, there are plans to update the Singapore Green Bond Framework to align with the Singapore-Asia Taxonomy.

There are also efforts to support the facilitation of cross-border green capital flows and enhance the interoperability of taxonomies across China, the EU and Singapore. Launched at the COP29 climate summit in November 2024, the Multi-Jurisdiction Common Ground Taxonomy (M-CGT) was developed by the People’s Bank of China (PBOC), the European Union Directorate-General for Financial Stability, Financial Services and Capital Markets Union (FISMA), and the MAS. The M-CGT builds on the EU-China Common Ground Taxonomy (CGT) to include the Singapore-Asia Taxonomy, serving as a reference document to allow stakeholders to assess what is considered green across the three jurisdictions. Green bonds that align with the M-CGT criteria can be considered by cross-border investors whose markets reference the taxonomies mapped to the M-CGT. The common standard can therefore help to improve investor confidence and reduce greenwashing concerns, in addition to boosting green capital flows especially for developing economies.

In addition, all listed companies in Singapore will be required to make climate-related disclosures starting FY2025 based on local reporting standards aligned with the International Sustainability Standards Board. This will also apply to large non-listed companies from FY2027. Aligning with global sustainability reporting standards enables companies to retain their attractiveness to a growing pool of investors guided by ESG priorities.

Figure 24: Global and SG Corporate and Government Green Bond Yearly Issuances



Source: Bloomberg, OCBC Credit Research as of 30 November 2024

Table 1: Recent SGD-denominated GSSSL issues, SGDmn

Icon	Type	Issuer	Issue	Amount Outstanding (SGD million)
	Green	Manulife Financial Corp	MFCCN 3% '29s	500 [^]
	Green	National University of Singapore	NUSSP 1.565% '30s	300
	Green	CapitaLand Ascendas REIT	AREIT 2.65% '30s	100
	Green	CapitaLand Ascendas REIT	AREIT 3% -PERP	300
	Sustainability-linked bond	Surbana Jurong Pte Ltd	SRBJNG 2.48% '31s	250
	Green	National University of Singapore	NUSSP 1.62% '31s	300
	Green	Sembcorp Financial Services Pte Ltd	SCISP 2.45% '31s	400
	Sustainability bond	Frasers Logistics & Commercial Trust	FLTSP 2.18% '28s	150
	Green	National Environment Agency	NEASP 2.5% '51s	1,300.00
	Green	National Environment Agency	NEASP 1.67% '31s	350
	Sustainability bond	Frasers Property AHL Ltd	FPLSP 3% '28s	300
	Sustainability-linked bond	Sembcorp Financial Services Pte Ltd	SCISP 2.66% '32s	675
	Sustainability-linked bond	Nanyang Technological University	NTUSP 2.185% '36s	650
	Green	Housing & Development Board	HDBSP 1.845% '27s	1,000.00
	Social	First Real Estate Investment Trust	FIRTSP 3.25% '27s	100
	Green	CapitaLand Ascendas REIT	AREIT 3.468% '29s	208
	Sustainability-linked bond	Ascott REIT MTN Pte Ltd	ARTSP 3.63% '27s	200
	Green	Credit Agricole SA	ACAFA 3.95% '32s	250
	Sustainability-linked bond	Sembcorp Financial Services Pte Ltd	SCISP 3.735% '29s	300
	Green	Housing & Development Board	HDBSP 2.94% '27s	1,100.00
	Green	Singapore Government Bond	SIGB 3% '72s	2,400*
	Green	Public Utilities Board	PUBLSP 3.433% '52s	800
	Green	Frasers Property Treasury Pte Ltd	FPLSP 4.49% '27s	500
	Green	Housing & Development Board	HDBSP 4.09% '27s	1,200.00
	Green	Sembcorp Financial Services Pte Ltd	SCISP 4.6% '30s	350
	Green	National University of Singapore	NUSSP 3.268% '33s	340
	Green	Mapletree Pan Asia Commercial Trust	MCTSP 4.25% '30s	150

	Green	CapitaLand Integrated Commercial Trust	CAPITA 3.938% '30s	400
	Green	Apeiron AgroCommodities Pte Ltd	APEIRO 4.487% '28s	50
	Green	Singapore Government Bond	SIGB 3% '72s	2,800*
	Green	Housing & Development Board	HDBSP 3.104% '28s	740
	Sustainability-linked bond	STT GDC Pte Ltd	STTGDC 5.7% -PERP	500
	Green	Housing & Development Board	HDBSP 2.977% '29s	800
	Green	MPACT Treasury Co Pte Ltd	MCTSP 3.9% '34s	200
	Green	MapletreeLog Treasury Co Pte Ltd	MLTSP 3.81% '31s	75
	Green	Housing & Development Board	HDBSP 3.409% '27s	800
	Green	CapitaLand Ascendas REIT	AREIT 3.73% '34s	300
	Green	Singapore Government Bond	SIGB 3.25% '54s	2,500.00
	Green	OUE REIT Treasury Pte Ltd	OUECT 4.1% '27s	250
	Sustainability-linked bond	Sabana Industrial Real Estate Investment Trust	SSREIT 4.15% '29s	100
	Green	CMT MTN Pte Ltd	CAPITA 3.75% '34s	300
	Green	Ho Bee Land Ltd	HOBEE 4.35% '29s	160
	Green	Housing & Development Board	HDBSP 3.244% '26s	965
	Green	OUE REIT Treasury Pte Ltd	OUECT 3.9% '31s	300**
	Green	Public Utilities Board	PUBLSP 2.502% '31s	325
	Green	OUE Treasury Pte Ltd	OUESP 4% '29s	200***
	Green	Sembcorp Financial Services Pte Ltd	SCISP 3.65% '36s	350
	Green	Housing & Development Board	HDBSP 2.757% '28s	900
	Green	CMT MTN Pte Ltd	CAPITA 3.3% '35s	200
	Social	Korea Housing Finance Corp	KHFC 3.033% '26s	300

Source: Bloomberg, OCBC Credit Research as of 30 November 2024

^called on 21 November 2024

* SIGB 3% '72s total issuance is SGD5.2bn comprising initial SGD2.4bn issue in August 2022 and subsequent retap of SGD2.8bn in August 2023

** OUECT 3.9% '31s total issuance is SGD300mn comprising initial SGD180mn on 19 September 2024 and subsequent retap of SGD120mn on 15 November 2024.

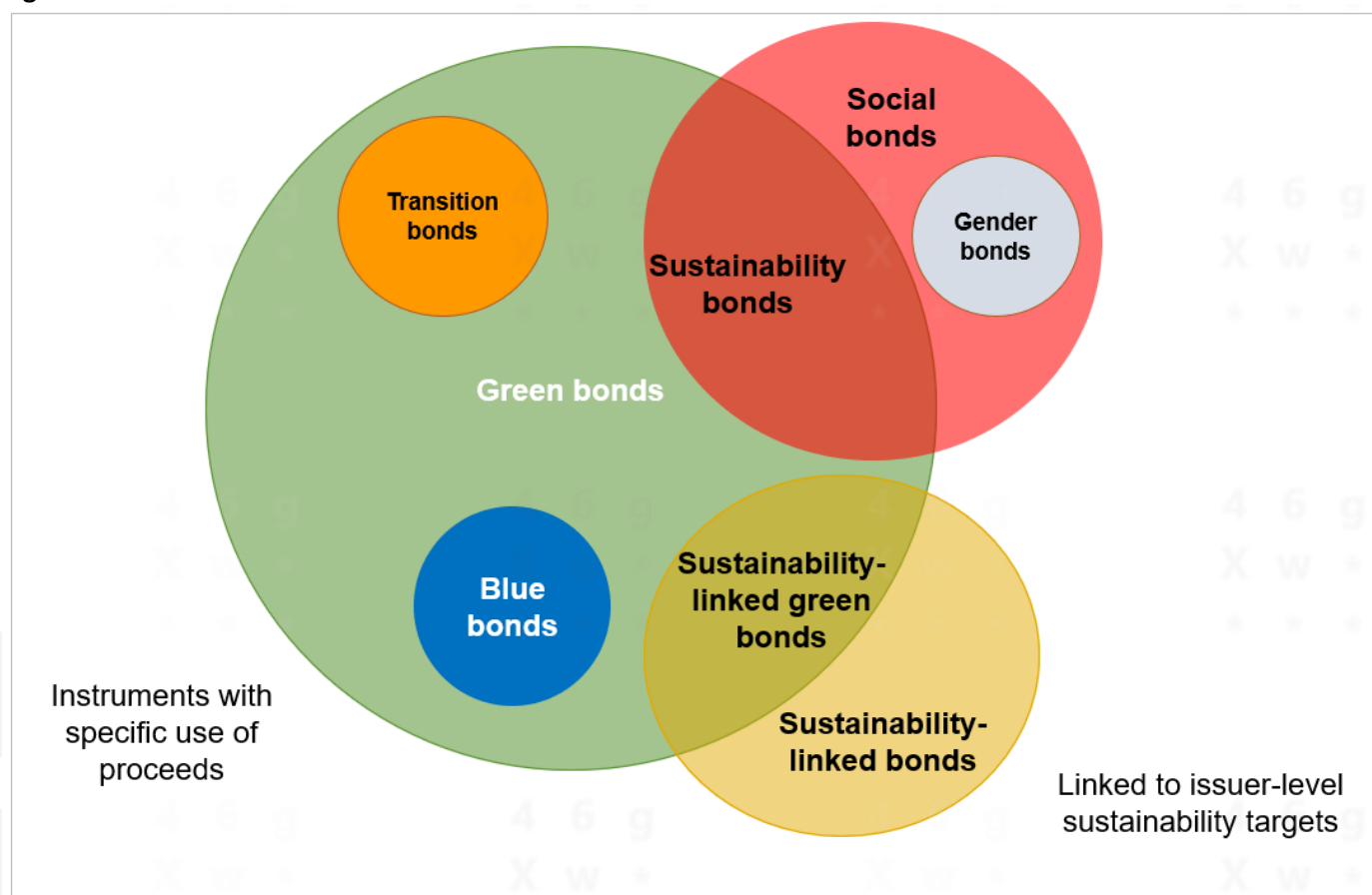
*** OUESP 4% '29s total issuance is SGD200mn comprising initial SGD150mn on 1 October 2024 and subsequent retap of SGD50mn on 22 October 2024.

Table 2: Definitions

	Icon	Type of bonds	Definition
1.		Green bond	Proceeds from these bonds are specifically allocated to financing new and existing projects or activities with positive environmental impacts.
2.		Social bond	To qualify as a social bond, the proceeds must be used to finance or refinance social projects or activities that achieve positive social outcomes and/or address a social issue.
3.		Sustainability bond	Sustainability bonds are issues where proceeds are used to finance or re-finance a combination of green and social projects or activities.
4.		Sustainability-linked bond	These bonds are structurally linked to the issuer's achievement of climate or broader United Nations Sustainable Development Goals ("UN SDG") targets. Sustainable performance target ("SPT")'s that are not met then results in an increase in the instrument's coupon rate. Conversely, a SPT that is met or exceeded could result in a decrease in the instrument's coupon rate.
5.		Gender bond	A type of social bond where proceeds are used to support the specific purpose of raising awareness on gender inequality and women empowerment.
6.		Blue bond	A type of green bond where proceeds are used on projects or strategies leading to a healthy and productive ocean and marine life environment.
7.		Transition bond	A hybrid of green and sustainability-linked bonds where proceeds are used to reduce an issuer's environmental impact through decarbonising fossil fuel and hard-to-abate sectors that would not normally qualify for green bonds.

Source: OCBC Credit Research

Figure 25: Classification of GSSSL bonds



Source: OCBC Credit Research

Financial Institutions – Internal Actions Can Offset External Threats

Our mid-year outlook highlighted elevated external threats to Financial Institutions as identified by various regulators and central banks in their recent Financial Stability Reports. Despite these however, Financial Institutions' operating, and financial performance continues to be solid as the current economic landscape of a global soft-landing narrative and resilient (if not outperforming against initial expectations) GDP growth has led to generally robust operating income performance and stable loan quality metrics. This has offset the rise in operating costs from wages inflation and investments in technology and business growth. Key drivers of the improved operating income performance include:

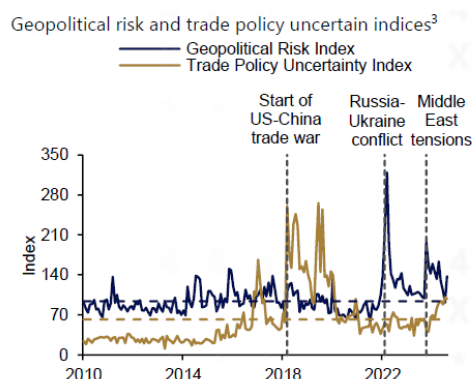
1. Higher for longer interest rates driving net interest income performance: ABN Amro Bank NV affirmed its recently raised net interest income guidance of EUR6.4bn for 2024 in its 3Q2024 results while Barclays PLC improved its net interest income outlook twice in 2024 on expectations of higher rates for longer in the UK. Commerzbank AG's management recently confirmed their improved 2024 outlook while raising net interest income and net commission income targets to EUR8.2bn (from EUR8.1bn) and above 5.0% growth (from 4% growth) respectively.
2. A recovery in Investment Banking performance: Deutsche Bank AG's 5% y/y rise in 3Q2024 total net revenues to EUR7.50bn reflected outperformance in its investment bank with muted y/y performance in Corporate Bank and Private Bank on 11% growth in Fixed Income and Currencies on higher credit trading revenues (distressed and flow business activities) while Origination & Advisory revenues rose 24% y/y on 20% improvement in Debt Origination and 32% y/y growth in advisory revenues due to market leading or market improved positions respectively in a more active market that translated to a growing fee pool. Markets trading income at DBS Group Holdings Ltd had its strongest quarter in the past ten quarters with 3Q2024's SGD331mn up 99% y/y for 3Q2024 with non-interest income up 53% y/y on strong FX, interest rates and equity derivatives performance that offset the continued weakness in net interest income with a SGD199mn loss in 3Q2024.
3. Record wealth management performance from improved market conditions and growth investments: United Overseas Bank Ltd 3Q2024 net fee income rose 7% y/y to a record high of SGD630mn from higher wealth management fees as well as trade activity and higher card fees. Other non-interest income rose 70% y/y to SGD744mn from record-high trading and investment income of AUD709mn as well as strong growth in customer-related flow treasury income (+36% y/y to SGD270mn) and hedging activities along with trading and liquidity management. While Standard Chartered PLC's underlying operating income improvement of 11% y/y for both 3Q2024 and 9M2024 was seen across both net interest income and non-net interest income, the latter's performance was driven by record performance in Wealth Solutions in 3Q2024 from net new sales and new affluent clients, as well as improved growth in Global Markets from flow income (FX and credit trading) and episodic income (higher rates activity).

As much as these external risks are persisting, they seem to be more or less manageable and Financial Institutions have maintained mostly cautiously optimistic outlooks for 2025. That said, an outlier could be a further rise in geopolitical risks, particularly with the prospect of tariff driven policies by the incoming US Republican Party. We previously highlighted this risk as an "unknown unknown" for global credit markets, something reinforced as at time of writing with South Korean President Yoon Suk Yeol declaring emergency martial law late in the evening of 3 December (only for it to be revoked shortly after in an opposition-led Parliament vote), and French politicians preparing to vote on no-confidence motions on 4 December against Prime Minister Michel Barnier. That said, geopolitical risks are becoming more of a "known unknown" influence on global credit markets in our view, given the ongoing tensions in the Middle East, Europe, and US-China with the potential negative impact of a severe adverse geopolitical event likely to be amplified against current expectations of a soft landing, the low-risk premium across asset classes and its interplay with financing conditions as was highlighted by the Reserve Bank of Australia in its March 2024 Financial Stability Review.

An unanticipated geopolitical event could lead to a disorderly adjustment in financial asset prices leading to a hard landing. This could also come in an environment of persisting inflation and high interest rates should US tariffs materialise and China retaliates and/or decides to export inflation to the US rather than absorb the tariff shock, leading to inflationary pressure for the rest of the world as well. According to the International Monetary Fund's ("IMF") April 2024 Global Financial Stability Report, escalating geopolitical tensions from deteriorating US-China relations and Russia's invasion of Ukraine impacted cross-border investment portfolios and bank credit allocation, with a 15-percent decrease in bilateral cross-border allocation of portfolio investments and bank claims between the United States and China. This financial fragmentation can lead to higher bank default risk and hence financial stability risks.

Central banks therefore continue to watch this space closely. In the recently published Financial Stability Review by the Monetary Authority of Singapore (“MAS”), deepening geopolitical conflicts and fragmentation was highlighted along with trade tensions and policy uncertainty as raising the probability of adverse shocks to the global economy despite resilient economic activity and disinflation in 2024. This view was shared by Singapore’s Financial Institutions in the latest MAS Systemic Risk Survey with higher citations of geopolitical risk as a risk in October as opposed to April given the intensifying conflicts in the Middle East and Russia-Ukraine and rising protectionism and trade frictions.

Figure 26: Measuring Geopolitical Risk



Source: Caldara and Iacoviello (2022); and Caldara, Iacoviello, Mollico, Prestipino and Raffo (2020)

Note: Dashed lines indicate the average between 2010–19.

Source: Monetary Authority of Singapore

Figure 27: Financial Institution perceptions of risks to Singapore’s financial system

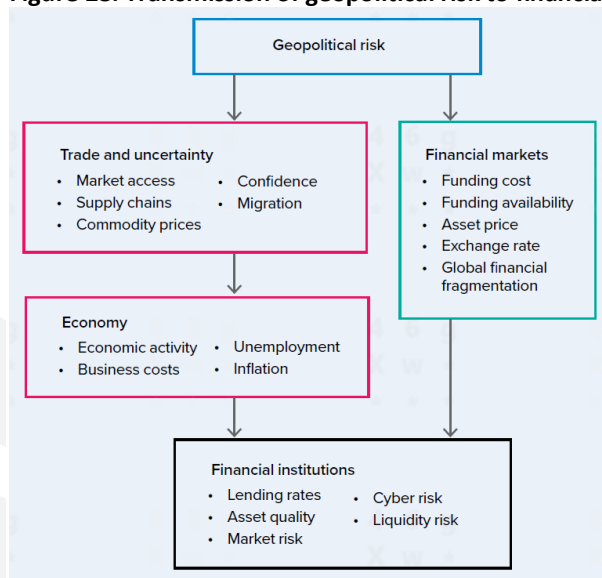
Risk Categories cited by at least 10% of respondents	% of citations		Impact ranking	
	April 2024	October 2024 (Δ)	April 2024	October 2024 (Δ)
Macroeconomic uncertainty (growth slowdown and inflation resurgence)	67	62 (-5)	1	1
Geopolitical risk induced by escalation of ongoing conflicts, as well as trade tensions and uncertain policies of newly elected governments	51	54 (+3)	2	2
Technology and cyber risk	51	46 (-5)	3	3
Money laundering and terrorism financing risks	25	27 (+2)	4	4
Transition and physical risks due to climate change	16	16	5	6 (11)
AI developments	13	11 (-2)	6	5 (11)

Sources: MAS estimates.

Notes: (i) Impact ranking is the aggregate of all respondents’ ranking of each risk by potential impact. (ii) Both runs of the survey had response rates of 98% from 57 FIs.

The Reserve Bank of New Zealand (“RBNZ”)’s “Impacts of geopolitical risk on financial stability” published in November 2024 also highlighted the identification of geopolitical shocks as the biggest threat to banks’ business models in RBNZ’s Reverse Stress Test while quantitative measures of geopolitical risk have increased sharply since 2022 to reflect the invasion of Ukraine by Russia, Middle East conflicts and ongoing US-China tensions. RBNZ also highlighted the interaction between geopolitical tensions and other emerging risks including climate change and artificial intelligence that can produce a cumulative impact in financial stability from transition risks and cyber-attacks.

Figure 28: Transmission of geopolitical risk to financial stability



Source: Reserve Bank of New Zealand

Who may have it worse?

The increasing influence of geopolitical tensions on global financial stability led to several researchers conducting a study on “Geopolitical Risk and Default Risk of Global Systemically Important Banks.” Published on 30 September 2024 in the International Banker, the study examined the effect of geopolitical risks (as quantified by the 2022 Geopolitical Risk Index developed by Caldara and Iacoviello) on the default risk of global systemically important banks (“G-SIBs”) as designated by the Financial Stability Board (“FSB”) compared to non-G-SIBs of similar size and importance by referring to relative movements in the five-year senior credit default swap (“CDS”) spreads that represent 85% of the entire CDS market and are the most liquid. The 2024 list of G-SIBs was recently published with the members and total number remaining the same at 29. G-SIBs are classified as such to represent the elevated risks they pose to the global financial system from a stress and the requirement to hold more loss absorbing capital. Such risks or systemic importance are defined equally by a financial institution’s size, cross-jurisdictional activity, interconnectedness, substitutability/financial institution infrastructure and complexity. The researchers’ study aimed to understand if geopolitical risks affect the perceived default risk of G-SIBs differently than non-G-SIBs with the following conclusions:

1. CDS spreads for G-SIBs are lower than non-G-SIBs throughout the analysis period and that difference increases over time.
2. Geopolitical risk has a negative correlation with G-SIB CDS spreads indicating that rising geopolitical tensions lowers the default risks for G-SIBs. Conversely, there is a significantly positive coefficient between geopolitical risk and non-G-SIB CDS.
3. The results indicate that G-SIBs benefit from a market recognition of their “too big to fail” (“TBTF”) status and likelihood for implicit or explicit government support in times of geopolitical stress.
4. Regulators therefore need to ensure that there is an adequate regulatory framework and bank level risk-management strategies to mitigate moral hazard that could lead to aggressive risk taking and regulatory complacency that could lead to delayed intervention.

The researchers also urged caution in using CDS spreads as the sole indicator of default risk and sought some support for their findings and also reportedly conducted additional studies with other measures of default risk including the 1-year and 5-year Probability of Default metrics from the Credit Research Initiative from the National University of Singapore. The study supported the main conclusion from above that geopolitical risks increase the default risks of non-G-SIBs while reducing the default risks of G-SIBs.

Solving for the known unknown

The above conclusions are important for somewhat disproving one perspective that G-SIBs could face higher default risk from geopolitical risks given their global footprint and interconnectedness, size and complexity while non-G-SIBs would be less exposed due to their more localised operations. The lower perception of default risk by G-SIBs is also likely influenced by the higher capital requirements of these G-SIBs required by the FSB.

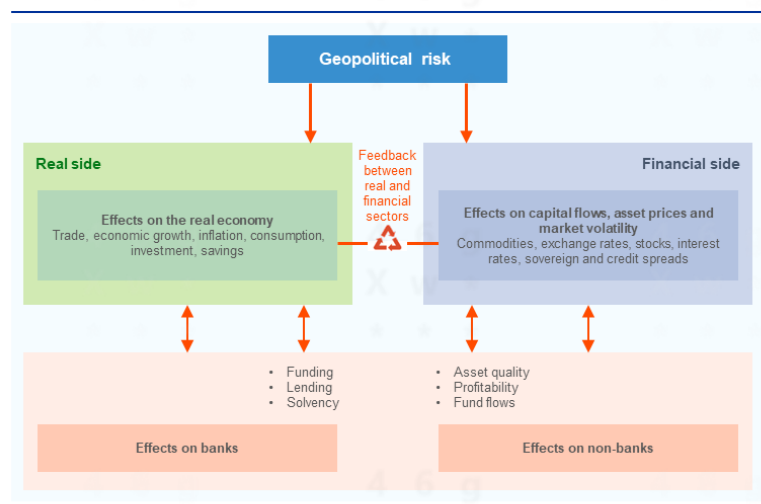
However, further studies have highlighted other fundamental characteristics aside from TBTF perceptions and higher capital requirements that can offset geopolitical risk. A paper published as part of the European Central Bank (“ECB”)’s May 2024 Financial Stability Review titled “Turbulent times: geopolitical risk and its impact on euro area financial stability,” found that geopolitics alone will not result in stress for Financial Institutions but works in combination with existing vulnerabilities in an environment of global economic and financial dis-integration or fragmentation during geopolitical developments. As such, “Financial institutions should apply a combination of sound risk management and business diversification to address geopolitical risk” while regulators at the same time should (1) continuously monitor these risks, (2) assess their impacts on financial stability, and (3) design policy responses in advance to ensure a quick and effective policy response. Regulator supervision remains critical to compensate for differences in the capacity and willingness of Financial Institutions to effectively address geopolitical risks at the individual level. It is also important given the need for international regulatory co-operation as geopolitical risks evolve and intensify.

Expanding further on what Financial Institutions can do, the ECB identified robust capital adequacy and liquidity management frameworks as critical to absorb geopolitical risk shocks. This financial resilience needs to be matched by operational resilience such as having appropriately staffed departments to monitor, anticipate, assess and stress test geopolitical risks and the Financial Institutions resilience against them through established strategies and contingency plans. This could include having appropriate political risk insurance.

Figure 29: Transmission channels of geopolitical risk to financial stability

Figure A.1

Transmission channels of geopolitical risk to financial stability



Source: ECB staff.

Source: European Central Bank

In terms of business diversification, Financial Institutions under our coverage have sought to improve their existing business risk profiles in 2024 through a balance of enhanced diversification away from net interest income towards fee-based income and focusing on core competencies to improve returns on capital. Some (but not all) transactions include:

- BNP Paribas SA (“BNPP”) agreed to buy HSBC Holdings PLC’s (“HSBC”) private banking operations in Germany with the deal expected to double assets under management in BNPP’s German wealth management business to more than EUR40bn. BNPP also in early August announced it is in exclusive negotiations with Axa SA for the 100% acquisition of Axa Investment Managers for EUR5.1bn that would combine with BNPP’s existing assets under management (“AuM”) to create an asset manager with EUR1.5 trillion in AuM.
- ABN Amro Bank NV acquired Hauck Aufhäuser Lampe (“HAL”) from Fosun International. HAL is a German private bank with EUR26bn in assets under management and, once combined with ABN’s existing German private banking entity, Bethmann Bank, will solidify ABN’s top three position in German wealth management with combined assets under management of around EUR70bn. ABN also acquired online broker BUX BV in 2023 to grow its retail investment and digital presence.
- Australia & New Zealand Banking Group Ltd (“ANZ”) recently acquired Suncorp Group Limited’s Suncorp Bank that should further support ANZ’s business profile in our view by growing its retail banking footprint in Queensland thereby improving ANZ’s competitive position and domestic business diversity. Also recently, ANZ sold its remaining holdings in Malaysia’s AMMB Holdings Bhd (“AmBank”) and has also, along with the Gunawan family, appointed an advisor for the sale of its interest in PT Bank Pan Indonesia (“Panin”). Per Reuters and various media reports, the Gunawan family owns ~46.5% in Panin while ANZ owns ~39%. These moves are in line with the bank’s desire to simplify its operations while also looking to reallocate exposures to India, China and Vietnam.
- Barclays PLC announced its new three-year plan in February 2024 in the midst of other strategic actions including the acquisition of Tesco PLC’s (“Tesco”) UK retail banking business and exit of non-priority businesses including the sale of the German consumer finance business and disposal of Italian retail mortgages. These actions are in line with management’s intention to allocate capital to better returning businesses that includes Barclays UK, UK Corporate Bank and Private Bank and Wealth Management. Barclays is expecting GBP50bn in risk weighted asset growth in the next three years to 2026 with GBP30bn allocated to Barclays UK, UK Corporate Bank and Private Bank and Wealth Management and GBP20bn allocated to US Consumer Bank.
- Credit Agricole Group’s results in 2024 were supported by record high assets under management on net inflows, positive market impacts and higher client activity including the acquisition and integration of independent private asset manager Alpha Associates by Amundi and finalisation of the acquisition and integration of the 65% majority stake of Degroof Petercam that was completed in early June 2024 by Indosuez Wealth Management.
- Société Générale (“SocGen”) has recently been actively divesting businesses including its 57.93% stake in subsidiary Société Générale Guinée in Guinea, an agreement to divest its 70% interest in Société Générale Madagasikara in Madagascar, and an

agreement with Swiss bank Union Bancaire Privée, UBP SA (“UBP”) for the sale of UK and Switzerland businesses, SG Kleinwort Hambros and Societe Generale Private Banking Suisse respectively. Chief Executive Officer Slawomir Krupa is currently pursuing a strategic roadmap presented in September 2023, targeting a streamlined, more synergetic and efficient business model with lower costs and a stronger capital base.

- Standard Chartered PLC (“StanChart”) is doubling their investment in wealth management to USD1.5bn over two years with a focus towards affluent and international banking clients and a restructuring its mass retail client segment to drive further growth following record performance in Wealth Solutions. Medium term plans include a 50% increase in relationship managers and affluent income as a percentage of WRB income to rise from 65% in 2023 to 75%. As part of its focus on affluent wealth clients and cross-border CIB clients, StanChart are also looking at selling some or all of businesses where “the strategic rationale is not sufficiently compelling.”
- DBS Group Holdings Ltd is aiming to double fees from wealth management by 2027.
- Westpac Banking Corporation agreed to sell the remainder of its auto finance business including related loans and lease receivables to Resimac Group Limited for AUD1.4-1.6bn. This follows the partial sale in 2021.

Powering on

2024 will continue to be a year of challenges, but one that should still see fundamentals remaining stable. Financial Institutions will continue to focus on controlling costs as net interest income declines from high levels while overall strategic positioning in 2024 has been defensive in an environment of elevated geopolitical risks and ongoing concerns of financial system stability from higher for longer interest rates and elevated systemic leverage. Our fundamental views continue to consider the strong influence of regulations and governance that we continue to see as positive in managing the influence of internal and external factors.

We also expect that Financial Institutions’ governance and their defensive positioning will continue despite a noticeably high turnover in senior management with several Chief Executive Officer changes in 2024 (Commerzbank AG, HSBC Holdings PLC, National Australia Bank Ltd, Westpac Banking Corp), several planned for 2025 (Julius Baer Group Ltd, ABN Amro Bank NV, DBS Group Holdings Ltd), and succession planning discussions commencing for the future (Australia & New Zealand Banking Group Ltd, UBS Group AG). Almost all have confirmed a continuation of current strategic directions given the solid to record earnings results achieved in the past one to two years.

On an instrument level, our neutral call on bank capital instruments continues to hold given the strong valuation performance through 2024. This has seen reset spreads on newly issued bank capital instruments compress noticeably against prior year reset spreads. Higher base rates are playing a part in this as well with recent all-in yields in newly issued bank capital instruments looking attractive against secondary prices on existing curves. We expect the structurally subordinated higher yields will continue to be attractive against the rates outlook and expectations of stable fundamental performance. We see the key risk for bank capital instruments of non-call risk (above distribution risk and write-down risk) as manageable and given the overall stable fundamental outlook for the Financial Institutions under our coverage, favour AT1s with higher coupons.

S-REITs: Sector Update

Strong momentum in equity fundraising market so far in 2H2024: In 1H2024, the iEdge S-REIT Index, regarded as the REIT benchmark for Singapore REIT ("S-REIT") equities saw a negative total return of 11.4%. Since then though, total returns turned positive from 1 July 2024 to 25 November 2024 (as of writing), culminating in a year-to-date ("YTD", 1 January 2024 to 25 November 2024) negative total return of 4.8%. However, between 1 July 2024 to 19 September 2024 (US Fed started to cut rates in the September meeting), total returns were +19.1% before giving up gains. We observe a significant negative correlation between the SORA OIS 10Y yield and the iEdge S-REIT Index, with the index dragged lower as benchmark rates goes higher. In 1H2024, there were only two equity raisings totalling ~SGD361mn) which were priced early in the year. Following a turn in market expectations of interest rate cut trajectory, equity fundraising market for S-REITs turned quiet. However, since September 2024, the equity fundraising market saw a strong momentum, with equity funding becoming a crucial source of capital of new acquisitions. So far in 2H2024 (1 July 2024 to 25 November 2024), ~SGD2.1bn has been raised in new equity in either a private placement or preferential offering.

Figure 30: YTD S-REIT Equity Raising

Issuer	Pricing Date	Equity Raising Method	New Equity Raised (SGDmn)	Discount to VWAP ¹
Frasers Centrepoint Trust ("FCT")	January 2024	Private Placement	200	4.7%
Digital Core REIT ("DCREIT")	February 2024	Private Placement	161.2 ²	5.0%
CapitaLand Integrated Commercial Trust ("CICT")	September 2024	Private Placement	350.3	4.4%
CICT	September 2024	Preferential Offering	757.2	5.9%
Parkway Life REIT ("PREITS")	October 2024	Private Placement	180	4.7%
Keppel DC REIT ("KDC") ³	November 2024	Private Placement	700	5.1%
ESR-LOGOS REIT ("EREIT")	November 2024	Preferential Offering	88.2	5.8% premium

Source: Company, Bloomberg, OCBC Credit Research

Note: (1) For private placements, volume weighted average price ("VWAP") of all trades in the units on the Singapore Stock Exchange for the preceding market day, up to the time the placement agreement was signed

(2) USD120mn was raised, assumed exchange rate at USD1.00: SGD1.34

(3) A preferential offering of new equity has also been launched to raise ~SGD301.3mn

Resurgence of acquisitions: While S-REITs were cautious in 1H2024 with only SGD1.6bn (by purchase price) of acquisitions, S-REITs saw an additional SGD4.7bn of acquisitions in 2H2024, bringing the total acquisitions YTD to SGD6.3bn, using SGX data and our estimation. In contrast, for the full year 2023, there were only SGD3.7bn acquisitions per data compiled by REITAS using information from SGX (2022: SGD7.4bn and 2021: SGD12.8bn). Given the nature of S-REITs as property funds and REIT managers economically incentivised to grow an S-REIT in scale, we expect S-REITs to continue becoming more acquisitive in a more benign rates environment. OCBC Rates Strategist is expecting SORA OIS 3Y, 5Y and 10Y yields to be stable through 2025. S-REITs may also be encouraged to pursue acquisitions as they would less likely need to contend with mark to market losses going into 2025. The single largest acquisition YTD was from CICT, which bought a 50%-stake in ION Orchard from sponsor for an agreed property value of SGD1.85bn (total acquisition outlay of SGD1.1bn).

S-REIT credit market reignited: YTD, including ESR-LOGOS REIT ("EREIT")'s perpetual that was exchanged into new perpetuals, the SGD credit market saw SGD2.7bn of credit issuances from S-REITs across 15 issues from 11 issuers. During the same time last year, there was only SGD970mn of new issuances from S-REITs. By amount outstanding, 2H2024 saw slightly more issuances with 53% of S-REIT paper priced then. Two S-REITs returned to the market YTD (1) Sabana Industrial REIT ("SSREIT") which priced a SGD100mn 5Y bond guaranteed by the Credit Guarantee & Investment Facility, a trust fund of the Asian Development Bank (SSREIT's previous SGD bond that matured in March 2018 was raised under a previous management team) and (2) CapitaLand India Trust ("AIT") which priced a SGD150mn 3Y bond. AIT's past SGD credit tranches were in bite sizes. The largest S-REIT issuer YTD by amount outstanding was OUE Real Estate Investment Trust ("OUEREIT") which priced SGD550mn across two tranches of bonds (one which included a re-tap), followed by CICT with SGD500mn, also across two tranches of bonds. We observe that green, social, sustainability and sustainability-linked ("GSSSL") becoming mainstream among S-REIT issuances. Out of the SGD2.7bn priced YTD, SGD1.7bn (or 63% of the total) was in GSSSL.

Three S-REIT issuers left the SGD credit market: The two S-REITs with perpetuals facing first call dates YTD both called their perpetual at the first call date. Paragon REIT ("SPHR") called and redeemed its perpetual but did not return to the credit market to do so, ceasing to be an SGD credit issuer. We note that as at 30 June 2024, SPHR's reported aggregate leverage was 29.0% although this had increased to 35.9% as at 30 September 2024. With no new equity issued as well as no disposals then, this implies that SPHR had replace the perpetual with bank debt. As a side note, Frasers Hospitality Trust ("FHREIT") and Frasers Centrepoint Trust ("FCT") had also ceased to be SGD credit issuers with the maturity and redemption of their sole outstanding bonds YTD, likely replaced by bank debt.

S-REITs came back to the perpetual market in 2H2024: While there were no new S-REIT perpetuals priced in 1H2024, 2H2024 saw three new perpetual issuances. In July 2024, CapitaLand Ascott Trust ("ART") priced the SGD150mn ARTSP 4.6%-PERP which was likely used to redeem the SGD150mn ARTSP 3.88%-PERP at first call date in September 2024. In August 2024, Mapletree Logistics Trust ("MLT") priced the SGD180mn MLTSP 4.3%-PERP, likely used to redeem the SGD180mn MLTSP 5.2074%-PERP in September 2024 at the fourth call date. This perpetual was originally the MLTSP 3.65%-PERP although was not called at first call date in March 2023. With the credit compression seen YTD, both ART and MLT was able to price the new perpetuals at attractive reset spreads in our view, which economically incentivised both issuers to raise replacement perpetuals. That said, pricing on the EREIT 6.0%-PERP came in somewhat wider than what we would expect for a "crossover" Singapore listed REIT. This could be attributed to the timing of the pricing, which occurred shortly after market volatility due to macroeconomic concerns in early August 2024. Another factor could be EREIT's new acquisition which is expected to lead to some credit deterioration at EREIT.

Figure 31: YTD S-REIT Perpetual Raising

Issue	Pricing Date	Reset Spread	Use of Proceeds
ARTSP 4.6%-PERP	July 2024	SDSOA5 + 1.957%	Redemption of existing perpetual at first call
EREIT 6.0%-PERP	August 2024	SDSOA5 + 3.548%	Exchange offer on an existing perpetual and asset acquisitions
MLTSP 4.3%-PERP	August 2024	SDSOA5 + 1.871%	Redemption of existing perpetual at fourth call

Source: Company, Bloomberg, OCBC Credit Research

View on perpetuals call risk in 2025: By amount outstanding, ~SGD1.3bn of S-REIT perpetuals faces first call dates in 2025, versus only SGD450mn in 2024. Many of these perpetuals facing first call dates in 2025 were priced in 2020 when benchmark rates were very low. S-REIT perpetuals are typically (but not always) priced on a NC5 basis where first call date coincides with the first reset date, five years after issue. In our view, perpetuals with resets in 2025 are likely to be called. Due to the higher opportunity cost of keeping the perpetual, we think issuers are more economically motivated to redeem them and replace them with lower cost alternatives. We note that spot benchmark rates have increased since the YTD lows in September 2024, while 1Y forward 5Y tenure forward rate expectations have also increased to ~2.6% as of writing. All things equal, a perpetual with a wider reset spread will have a higher probability to be redeemed, as this economically incentivises issuers to call. S-REIT perpetuals do not come with step-ups as a criterion to qualify for equity treatment.

Figure 32: S-REIT Perpetuals with First Call Date in 2025

Issue	First Call Date	Reset Spread ¹	Estimated Distribution Rate ²	Probability of Call at First Call
LREIT 5.25%-PERP	April 2025	SDSOA3 + 3.043%	5.6%	50:50 ³
AAREIT 5.65%-PERP	August 2025	SDSW5 + 5.207%	8.1%	High
KREITS 3.15%-PERP	September 2025	SDSW5 + 2.577%	5.5%	High
AREIT 3.0%-PERP	September 2025	SDSW5 + 2.48%	5.4%	High
CRCTSP 3.375%-PERP	October 2025	SDSW5 + 2.875%	5.8%	High
SGREIT 3.85%-PERP	December 2025	SDSW5 + 3.292%	6.2%	High

Source: Company, Bloomberg, OCBC Credit Research

Note: (1) All the S-REIT perpetuals above where reset is linked to SOR has fallback language

(2) Estimated distribution rate if not called at first call; based on forward rate expectations as at 25 November 2024

(3) Likely to be called after first call date in conjunction with timing of asset disposal; asset sale process ongoing

(4) SUNSP 3.8%-PERP faces first call in October 2025; due to OCBC's other business, coverage on Suntec Real Estate Investment Trust is temporarily suspended

Perpetuals which missed the first call and are still outstanding:

- Lippo Malls Indonesia Retail Trust ("LMRT") have the right to call its two outstanding SGD perpetuals amounting to SGD260mn every six months, although both have yet to be called as of writing. LMRT has halted distributions on the perpetuals since March 2023 and June 2023 respectively due to credit stress.
- While ART has called the ARTSP 3.88%-PERP at first call, we think it is still hard to beat the favourable cost that ART is currently paying on its SGD250mn ARTSP 3.07%-PERP. This was originally the ARTSP 4.68%-PERP that not called at first call in June 2020 with distribution rates reset lower at a time of very low 5Y SOR of ~53bps. ART has missed nine call dates on this perpetual as of writing. The ARTSP 3.07%-PERP is facing its second reset date in June 2025, and we see the probability of this perpetual to be called at the June 2025 reset to be high.
- First Real Estate Investment Trust ("FIRT") missed the first call date on the then FIRTSP 5.68%-PERP in July 2021, with the perpetual distribution rate resetting lower to 4.9817%. FIRT had completed its master lease restructuring only in early 2021, resulting in lower rental income, while 5Y SOR was low at ~92bps then. Following a tender offer, ~SGD33.3mn remains outstanding on the FIRTSP 4.9817%-PERP. FIRT has maintained distribution on this perpetual throughout.
- EREIT missed the first call date on then EREIT 4.6%-PERP in November 2022 at a time where the fundraising market for new perpetuals was not conducive, with the perpetual distribution rate resetting higher to 6.632%. In August 2024, EREIT priced SGD100mn of additional new perpetuals and accepted SGD74.75mn of the existing EREIT 6.632%-PERP for an exchange into new perpetuals. The additional new perpetuals and the perpetuals issued as part of the exchange offer will be fungible and consolidated into the same series (the EREIT 6.0%-PERP, first call date in August 2029). Following the exchange offer, SGD75.25mn remains outstanding on the EREIT 6.632%-PERP.

S-REITs still keeping relatively high proportion of fixed debt: Through 2024, amidst optimism of rate cuts, various pundits have opined that this should benefit S-REITs with lower proportion of fixed debt (including hedged debt) as a fall in interest expense would lead to higher income and hence higher distribution per unit. Rather than moving to a lower proportion of fixed debt to benefit directly from expected rate cuts, S-REIT as a sector have maintained relatively similar levels of fixed debt y/y. As at 30 September 2024, S-REITs we track (being the Singapore-listed REITs who are SGD credit issuers) has ~73% of their debt fixed on average versus ~75% at the same time last year. While on hindsight this seemed to be a prudent move as rates stayed higher-for-longer, we also think this was in part because S-REITs did not have much debt maturing in 2024. Based on our estimates as at 30 September 2023, S-REITs on average had ~15% of their total debt maturing in 2024. The numbers also suggested that S-REITs did not unwind hedges early in anticipation of lower rates. As a recap, the market was expecting six rate cuts by end-2024 at the beginning of 2024. Notably, LMRT's proportion of fixed debt had fallen from 39.4% as at 30 September 2023 to only 3.8% (per our estimates) as at 30 September 2024, although in our view this was linked to debt restructuring at LMRT where USD bonds on fixed rates were refinanced with floating rate IDR bank debt.

Despite changing in work formats and at best flat spreads, expect Singapore office value to hold up: Per Cushman & Wakefield ("C&W") data, there has been SGD5.0bn of commercial property (across office and retail) transactions in the underlying investment sales market for 9M2024 (9M2023: SGD2.4bn). There were two notable office transactions in the Singapore market, both sold by S-REITs, being the sale of Mapletree Anson in Tanjong Pagar by Mapletree Pan Asia Commercial Trust ("MPACT") for SGD775mn, completed in July 2024. In November 2024, CICT announced the sale of 21 Collyer Quay located in Raffles Place for SGD688mn (media reports reported that CICT was earlier looking for as much as SGD850mn). That said, 21 Collyer Quay was sold by CICT at 6% above end of 2023 book value and in our view an encouraging exit yield of below 3.5%, based on annualised net property income, especially against the backdrop of office work undergoing a shift to hybrid working and other types of flexible working arrangements. Prime office yields in Singapore are at best flat to cost of borrowing per CBRE data (ie: there is no positive spread to be gained by buyers who are buying with leverage). The office building is 100% leased to WeWork, the co-working operator. Although CICT did not disclose the identity of the purchaser, Business Times later reported that it is likely the family office of Haidilao's co-founder.

.....however, for actual sales to happen still takes time due to pricing gap: Lendlease Global Commercial REIT ("LREIT") is still trying to sell the office component at JEM in Jurong and an office in Milan, Italy. That said, LREIT has kept the market in the loop that more time is needed on a sale happening for JEM office as the offers received are not overly competitive at this juncture. Originally, proceeds from the sale of JEM office was intended to be used to redeem the SGD200mn LREIT 5.25%-PERP at first call in April 2025 although a more likely scenario would now be (1) Rolling the perpetual for six to 12 months to buy more time for the disposals to happen or (2) Issue a new perpetual which will have meaningfully more attractive distribution rate than the potential reset yield of ~5.6% per current forward rates.

MAS proposes leverage changes to S-REITs: On 28 November 2024, the Monetary Authority of Singapore (“MAS”) issued revisions to the Code on Collective Investment Schemes to rationalise leverage requirements for the S-REIT sector. This follows a public consultation process from July to August 2024. MAS has imposed a minimum interest coverage ratio (“ICR”) of 1.5x and a single aggregate limit of 50% on all S-REITs with immediate effect. The previous requirement was that a minimum ICR (or Adjusted ICR for S-REITs with perpetuals outstanding) of 2.5x was imposed only on REITs which intended to increase their aggregate leverage from 45% to 50%.

What are the relevant credit metrics? Conceptually, the ICR is a ratio that measures an S-REIT’s ability to cover its interest expense with its earnings (similar to EBITDA-to-Interest). The aggregate leverage is a ratio that measures the proportion of a S-REIT’s debt to its resources, in this case “deposited property” which forms the bulk of a S-REIT’s asset base. MAS ratios take into account contribution of the income and proportionate assets as well as proportionate debt at joint ventures and associates held by the S-REITs. This is not the first-time the aggregate leverage ratio has been eased although it is the first time for an interest coverage ratio to be imposed as a standard requirement.

- **Details on the ICR ratio:** S-REITs are to have an ICR imposed on them at all times (akin to a maintenance covenant). The ICR for the purposes of comparing against the threshold of 1.5x will be calculated by dividing the trailing 12 months’ earnings before interest, tax, depreciation and amortisation (excluding effects of any fair value changes of derivatives and investment properties, and foreign exchange translation), by the trailing 12 months’ interest expense, borrowing-related fees and distributions on hybrid securities (eg: perpetuals). The minimum ICR requirement will not be considered breached if an S-REIT’s ICR falls below the threshold of 1.5x due to circumstances beyond the control of the manager (eg: business operations being interrupted or closed due to nationalisation, currency restrictions, widespread communicable and infection diseases etc). Volatility in interest rates, foreign exchange and tenant default does not qualify as “circumstances beyond control”. However, regardless of the circumstances under which the REIT’s ICR has fallen below the 1.5x threshold, the REIT should not incur additional borrowings or enter into further deferred payment arrangements. That said, the S-REIT can continue to refinance its existing borrowings. This is similar to the aggregate leverage cap as it currently applies.
- **Details on the aggregate leverage ratio:** MAS has set a single aggregate leverage limit of 50% for all S-REITs. We note that perpetuals are not included as debt for the purposes of the aggregate leverage cap, if these are structured to meet MAS criteria for equity treatment. Currently all S-REIT perpetual outstanding are treated as equity for the purposes of the aggregate leverage cap. Prior to the change, the aggregate leverage cap for REITs is at 45%, or if the S-REIT has an ICR of at least 2.5x, the REIT is allowed to have a higher aggregate leverage cap of 50%. Previously, in the case of REITs which have perpetuals outstanding, the Adjusted ICR (which includes perpetual distributions in the denominator) needs to be at least 2.5x for the higher aggregate leverage cap of 50%. The 2.5x to allow a 50% aggregate leverage is akin to an incurrence covenant.
- **Other changes:**
 - Where ICR has fallen below 1.8x, REIT manager should take steps and/or have plans in place to improve the ICR and disclose this additional information.
 - REITs to disclose sensitivity analyses of the impact to the ICR under the following scenarios (1) A 10% decrease in EBITDA and (2) a 100-basis point increase in the weighted average interest rate of REIT.
 - There is no longer a mention of Adjusted ICR which is reasonable in our view as ICR now includes perpetual distributions in the denominator.

Evaluating the new ICR: In theory, imposing an ICR helps provide financial discipline on how much debt REITs can take. That said, 1.5x is lower than the ICR/Adjusted ICR of the REITs we track. We find that the REITs we track have an average ICR/Adjusted ICR of ~3.0x for the 12 months to 30 September 2024. We exclude CapitaLand Ascott Trust (“ART”), which has perpetuals outstanding but only disclosed its ICR rather than disclosing its Adjusted ICR for the 12 months to 30 September 2024.

The role of market forces: As far as we are aware, current guidelines do not impose a financial penalty on S-REITs that breach the ratios and S-REITs also do not need to immediately comply with the ratios at all costs (eg: selling their assets and/or raise new equity to meet the ratios). In the past, where S-REITs have taken actions to reduce their aggregate leverage levels and/or improve their ICRs, we observe that these have been imposed by their lenders and/or to meet equity market demands and/or to reduce the risk of having their credit rating being cut. With the new disclosure requirement for S-REITs with ICRs of below 1.8x, we think the market will step up their monitoring of S-REITs with thin ICRs. Among the S-REITs we track, we expect that two would need to provide a disclosure of their plans for 4Q2024 while another REIT is nearing these levels.

REIT friendly move to oil the wheels of growth: Overall, we see the proposed changes as a S-REIT-sector friendly move where S-REIT managers will have higher flexibility in managing their capital and a higher debt headroom that allows S-REIT managers to pursue growth plans. Our past observations show that S-REIT aggregate leverage levels have crept up over time and this new easing will lead to a directionally similar outcome. In our view, ultimately, the market (capital markets as well as lenders) will collectively determine where the new comfort level is. We expect the new comfort level is likely to be higher than current levels given MAS' new signpost, rather than 50% for the aggregate cap being where REITs will definitively end up at. It is worth noting that despite allowing a 45% aggregate leverage, bulk of the REITs have maintained their aggregate leverage at five to six percentage points lower, with those persistently exceeding 40% viewed with caution. We expect the market's comfort level for aggregate leverage to stabilise at 43-44% overtime and an ICR of ~1.8x to be the market's new "line in the sand". From an investor's perspective, S-REIT managers that continue to practise financial discipline and uphold the market's expectation of S-REITs as lower risk vehicles that generate stable income to pay its capital source providers are likely to continue to be favoured.

Figure 33: REIT Metrics (as of 30 September 2024 unless otherwise stated)

	Aggregate Leverage (%)	Interest Coverage Ratio ¹	Debt Duration (years)	Debt Cost (%)	Proportion of debt fixed/ hedged (%)	Debt Maturing in 2025 (%) ²	Debt Maturing in 2026 (%) ²
Commercial							
CapitaLand Integrated Commercial Trust	39.4	3.0	3.8	3.6	76.0	13.0	13.0
Keppel REIT	41.9	2.7	2.9	3.4	68.0	22.0	14.0
Mapletree Pan Asia Commercial Trust	38.4	2.8	3.3	3.6	83.6	13.7	12.7
Suntec Real Estate Investment Trust [^]	42.3	1.9	3.1	4.1	61.0	14.8	12.3
Lippo Malls Indonesia Retail Trust	45.0	1.6	6.8	9.1	3.8	3.4	7.7
Starhill Global REIT	37.2	2.9	2.8	3.8	81.0	16.5	20.0
CapitaLand China Trust	41.6	3.0	3.4	3.6	76.0	15.4	14.4
Lendlease Global Commercial REIT	40.7	1.6	2.3	3.7	70.0	25.7	19.9
Average	40.8	2.4	3.6	4.4	64.9	15.6	14.3
Industrial							
CapitaLand Ascendas REIT	38.9	3.5	3.3	3.7	80.2	12.3	13.3
Mapletree Industrial Trust	39.1	4.3	3.4	3.2	80.4	14.8	20.7
Mapletree Logistics Trust	40.2	3.0	3.6	2.7	84.0	10.8	17.5
AIMS APAC Industrial REIT	33.4	2.5	2.8	4.4	74.0	13.2	43.9
Frasers Logistics and Commercial Trust	33.0	5.0	2.4	3.1	73.3	24.1	19.5
ESR LOGOS REIT	36.0	2.6	1.9	4.0	75.4	12.0	51.8
Cromwell European REIT [^]	41.0	3.3	1.8	3.2	88.3	46.8	36.0
Average	37.4	3.5	2.7	3.5	79.4	19.1	29.0
Hospitality							
CapitaLand Ascott Trust	38.3	3.6	3.4	3.0	79.0	16.5	16.2
Average	38.3	3.6	3.4	3.0	79.0	16.5	16.2
Others							
First REIT	39.3	3.6	2.8	5.0	86.0	-	51.9
OUE REIT	39.3	2.2	2.9	4.8	70.5	6.7	38.1
CapitaLand India Trust [^]	40.1	2.6	2.5	6.0	80.3	11.1	19.4
Keppel DC REIT [^]	39.7	5.1	3.4	3.4	71.0	6.3	18.5
Average	39.6	3.4	2.9	4.8	77.0	8.0	32.0

Source: OCBC Credit Research, company financials and investor presentations

** OCBC Credit Research estimates

[^] OCBC Credit Research does not currently maintain official coverage of this name; due to OCBC's other business, coverage on Suntec Real Estate Investment Trust is temporarily suspended

Note: (1) For the trailing 12 months to 30 September 2024; refers to reported Adjusted Interest Coverage Ratio ("Adjusted ICR") where it is provided (CapitaLand Ascott Trust has perpetuals outstanding, however Adjusted ICR was not publicly disclosed for the 12 months to 30 September 2024) (2) As a percentage of total debt for remaining of 2025 and 2026 by calendar year end; calendarised figures for REITs whose financial year end differ from 31 December

Singapore Industrial REITS – New supply pushed to 2025 while rental growth expected to be moderated

In 3Q2024, JTC's q/q price index increased by +0.5% for all industrial properties while on a y/y basis, this was up by 2.1%, superseding pre-pandemic levels. In our view, the valuation of Singapore industrial properties is less susceptible to the higher cost of funding. Industrial properties in Singapore are sold with higher yields (ie: at lower price points) in part due to much shorter land tenures. Per CBRE data, in 3Q2024 the spread of prime industrial yields in Singapore against cost of borrowings was the highest among 12 markets in the Asia-Pacific region at ~250bps to 300bps.

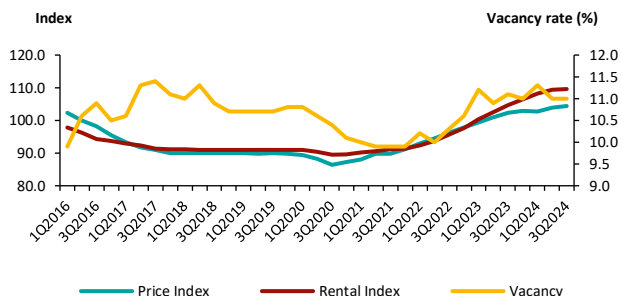
The JTC rental index for all industrial properties increased by 0.3% q/q (+4.8% y/y) in 3Q2024. This represents a sixteenth consecutive quarter where industrial rents have increased, albeit at a noticeably slower growth pace. On a y/y basis, the multiple-user factory and warehouse segments were outperformers, increasing by 5.8% y/y and 4.2% y/y respectively.

Since 1Q2022, the market has reverted to oversupply, which is more common for the Singapore industrial property space sector. All-industrial vacancy rates were stable q/q at 11.0% in 3Q2024 and within historical levels. Of note though, vacancies of the business park segment were above 20% in the past four quarters (3Q2024: 21.2%). The last time vacancies for business park exceeded 20% was in 4Q2014. Changi Business Park specifically had been highlighted as an area where the increase in vacancies was notable. As of 1Q2024, Changi Business Park's overall occupancy was 69.6% versus an average occupancy of 82.4% over the past decade according to the Minister for Trade and Industry. Among the REITs that we track, Capitaland Ascendas REIT has the largest exposure to Changi Business Park at SGD1.3bn, making up ~8% of its total portfolio value as at 31 December 2023. ESR-LOGOS REIT has SGD523mn of assets located in this area, making up ~13% of its portfolio value on the same date.

In 9M2024, the market only saw 0.3 million sqm of new supply added. As at 30 September 2024, the estimated new supply for the rest of the year was only at 0.2 million sqm. This is significantly lower than the earlier estimate of 2.0 million sqm in new supply for 2024 as of end-2023. The lack of completions in 2024 suggest that supply is being pushed into 2025 and beyond. As at 30 September 2024, the new estimate for 2025 supply is 1.6 million sqm versus earlier estimates of 0.9 million sqm as of end-2023.

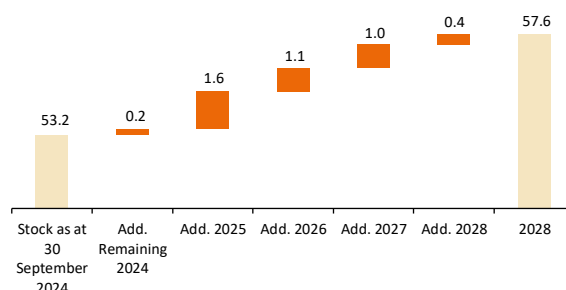
In 3Q2024, Singapore's GDP grew by 5.4% y/y. OCBC's economist's 4Q2024 GDP growth forecast now stands at 3.1% y/y. For 2025, the GDP growth forecast is maintained at 2.7% y/y, while remaining cognisant of the higher 2024 growth base as well as the risks pertaining to what happens after Trump takes office.

Figure 34: Industrial Price, Rental and Vacancy



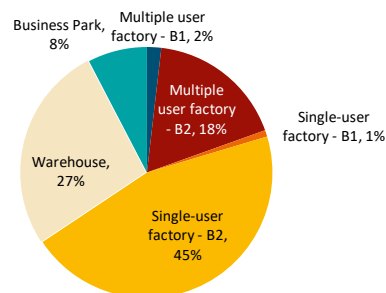
Source: JTC, OCBC Credit Research

Figure 35: Industrial stock and supply pipeline



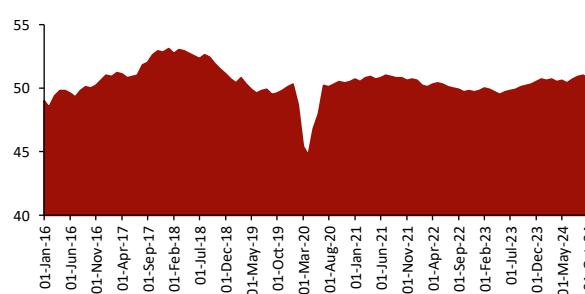
Source: JTC, OCBC Credit Research

Figure 36: Additional supply by sub-segment cumulative 4Q2024 to 2028



Source: JTC, OCBC Credit Research

Figure 37: Singapore PMI – Manufacturing Index



Source: Singapore Institute of Purchasing and Materials Management

Singapore Commercial Office REITS – Expect office values to hold up while new supply tapering

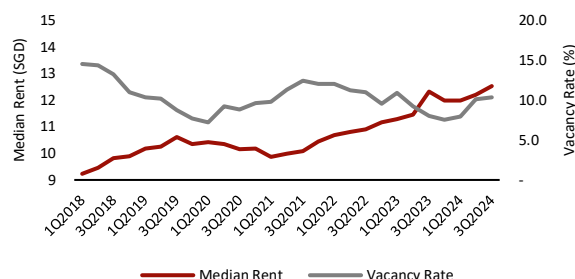
Per Colliers, capital values for Core CBD Premium & Grade A market were flat q/q in 3Q2024. Net yields for the Singapore office market in recent years was ~3.4% to ~3.6% and was 3.6% in 3Q2024. As of writing, SORA OIS 10Y yield was ~2.6%, suggesting minimal (if any) positive spreads for leveraged buyers when credit spreads are considered. Per CBRE data for 3Q2024, prime office yields in Singapore were at best flat to cost of borrowing. Despite this, 21 Collyer Quay at Raffles Place was transacted for SGD688mn in November 2024, reportedly sold to a family office. In our view, the valuation metrics of the transaction (above book value and tight yield), 999Y-leasehold, buyer profile and cash nature of the deal suggest that the property was bought as a “store of value”.

Per Colliers, office rents were +0.3% q/q in 3Q2024 (2Q2024: +0.5% q/q) for the Core CBD Premium & Grade A market and Colliers project 2024 rents to be flat to a +2.0% growth. Office rents per URA data was 2.7% higher q/q in 3Q2024 at SGD12.52 per sq ft per month for office space in buildings located in core business areas in Downtown Core and Orchard Planning Area which are relatively modern or recently refurbished, command relatively high rentals and have large floor plate size and gross floor area. Per C&W, that while office rental activity has rebounded, however, occupiers remain cost conscious. Of note, C&W adds that while rents at the top-end of the Grade A market have slowed, rents for well-located older Grade A stock (which still meet environmental, social and governance requirements) have continued to increase.

Vacancy rates were higher at 10.3% in 3Q2024 (2Q2024: 10.1%) per URA data, though still somewhat lower than recent history. Per C&W, the recent completion of IOI Central Boulevard had added to new supply (total of 1.2 million sq ft in 2024, exceeding the average annual net demand of 0.8 million sq ft), adding pressure on vacancy rates and growth in rental rate. However, the market will enter a tight supply situation between 2025 and 2027. Shaw Tower (located at 100 Beach Road) which was originally set to enter the market in 2025 has been delayed to 2026.

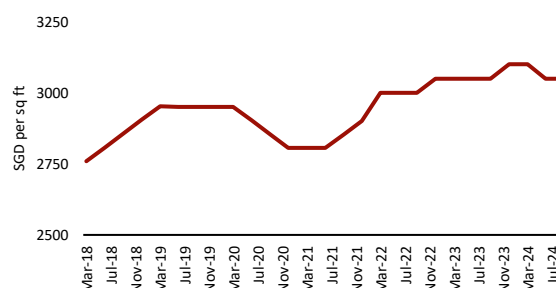
In recent months, discussions over decentralisation have re-emerged. For example, Jurong Lake District and Punggol Digital District (zoned as business park). While these locations may have a role to play in land scarce Singapore over the long term, these locations tend to be further away compared to the central area. Per the Business Times, 66.3% (as of 3Q2024) of Singapore’s overall office stock are in the central area and has stayed at similar levels in 1993. With the unparalleled ease of access to the central area (generally within 45-60 minutes in commuting time from Singapore’s major residential hubs), amenities and linkages to transportation nodes, we do not expect decentralisation as negatively impacting the predominantly centrally located office assets in the portfolios of S-REITs over the short-to-medium term.

Figure 38: Singapore Office Rent and Vacancy



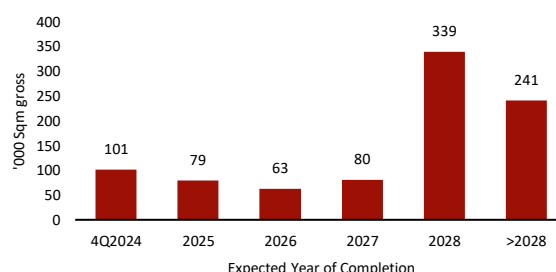
Source: URA, OCBC Credit Research

Figure 39: Singapore Prime Office Capital Value



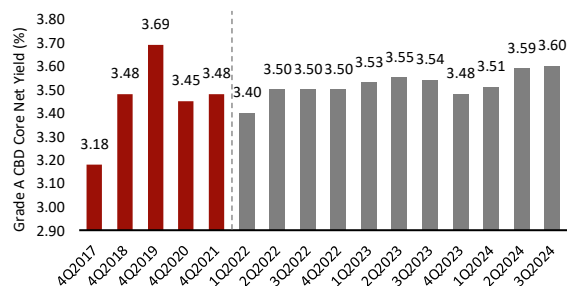
Source: Colliers, OCBC Credit Research

Figure 40: Pipeline of Office Space



Source: URA, OCBC Credit Research

Figure 41: Office Net Yield



Source: CBRE for 4Q2017 to 4Q2021; Colliers for 1Q2022 to 3Q2024, OCBC Credit Research

Singapore Commercial Retail REITS – Expect prime retail mall rental growth to be moderated

We observe that tenant sales for retail REITs we track have tended to be softer y/y in 9M2024, although occupancy levels remained high. Rents of S-REITs are not driven by tenant sales, although softer tenant sales suggest that further growth in retail rents for prime malls may be moderate in 2025, especially for prime malls located in Orchard and centrally located retail properties outside the Orchard area.

In our view, two of the reasons for the relative underperformance of tenant sales at Orchard and other centrally located malls is the rise of hybrid working (workers spend more time in suburbs) and the fact that tourists may be holding back on shopping spend. International visitor arrivals have been recovering (expected to hit ~15 million to 16.5 million in 2024, representing ~78% to ~86% of 2019 numbers). However, shopping as a percentage of total tourism receipts per Singapore Tourism Board (“STB”) data for January to June 2024 was ~17%, lower than the ~21% before the pandemic. We estimate that on an overall basis, ~12% of Singapore’s retail sales (excluding motor vehicles) were attributable to tourists in 6M2024. However, Orchard belt retail malls are more reliant on tourists. Per a quote from a representative from the Orchard Road Business Association (“ORBA”), a trade publication in March 2019, this was 30% to 40%.

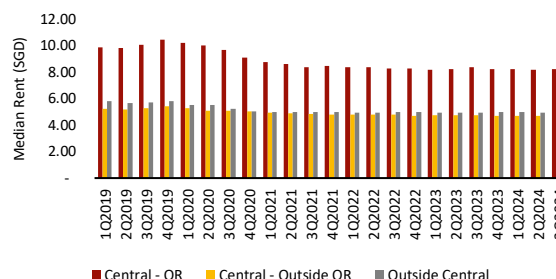
Per URA’s price index, prices of retail space increased in 3Q2024 by 1.7% q/q. Median rents in Orchard, centrally located retail properties outside the Orchard area, and retail properties outside the central area (which are indicative of retail properties located closer to residential neighbourhoods) were all higher q/q in 3Q2024, in particular outside the central area which grew 2.6% q/q.

Retail vacancies had marginally declined to 7.0% for the Orchard area in 3Q2024 (2Q2024: 7.1%) and significantly lower versus the ~12% during the pandemic per URA data. Vacancy rates had declined more for centrally located retail properties outside of Orchard to 7.8% in 3Q2024 (2Q2024: 8.2%) though ticked up marginally for retail properties outside the central area q/q to 6.0%.

Online sales as a percentage of total retail sales (including motor vehicles) were 13.8% in September 2024 (on SGD4.0bn of sales value). This has fallen from the COVID-peak of 24.5% in May 2020 (including motor vehicle sales), though continues to be above the less than 10% before the pandemic.

The investment sales market for retail space continues to be active. CapitaLand Integrated Commercial Trust (“CICT”) bought a 50%-interest in ION Orchard, a destination mall on the Orchard belt from its sponsor, CapitaLand Investment Ltd at an agreed property value of SGD1.85bn.

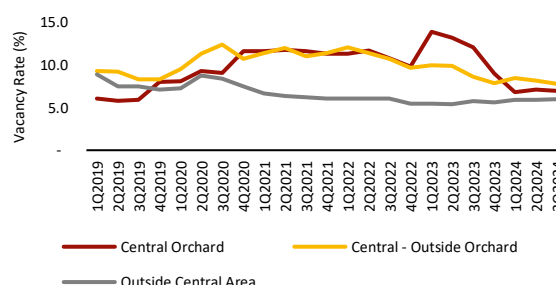
Figure 42: Retail Rents SGD per sq ft per month



Source: URA, OCBC Credit Research

Note: OR refers to Orchard Road

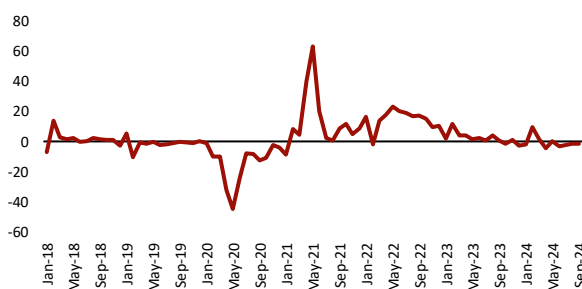
Figure 43: Retail Vacancy Rates (%)



Source: URA, OCBC Credit Research

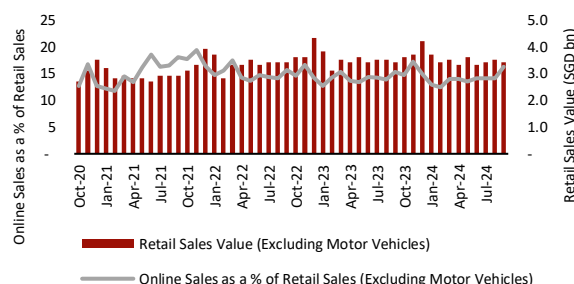
Note: OR refers to Orchard Road

Figure 44: Monthly Retail Sales (excluding Motor Vehicles) y/y % change



Source: Singstat, OCBC Credit Research

Figure 45: Monthly Retail Sales Value (excluding Motor Vehicles) in SGD bn and Online Sales %

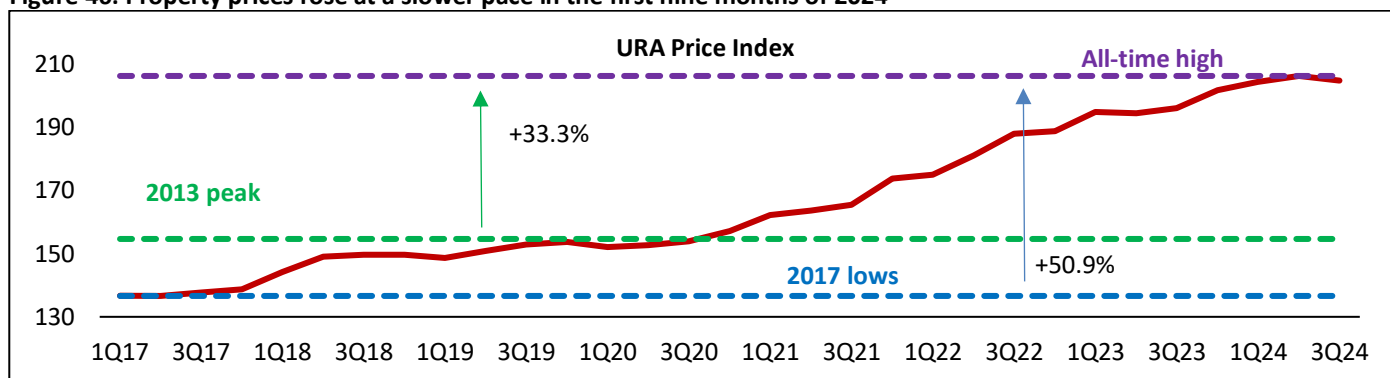


Source: Singstat, Bloomberg, OCBC Credit Research

Singapore Residential Property: Signs of slower growth ahead

Retraced slightly off record highs: Private residential property prices rose 1.6% in the first nine months of 2024, according to URA. This marks a slowdown in gains, in comparison to +3.9% gain over the same period in 2023, as prices retraced 0.7% q/q in 3Q2024, following a record high at the end of 1H2024.

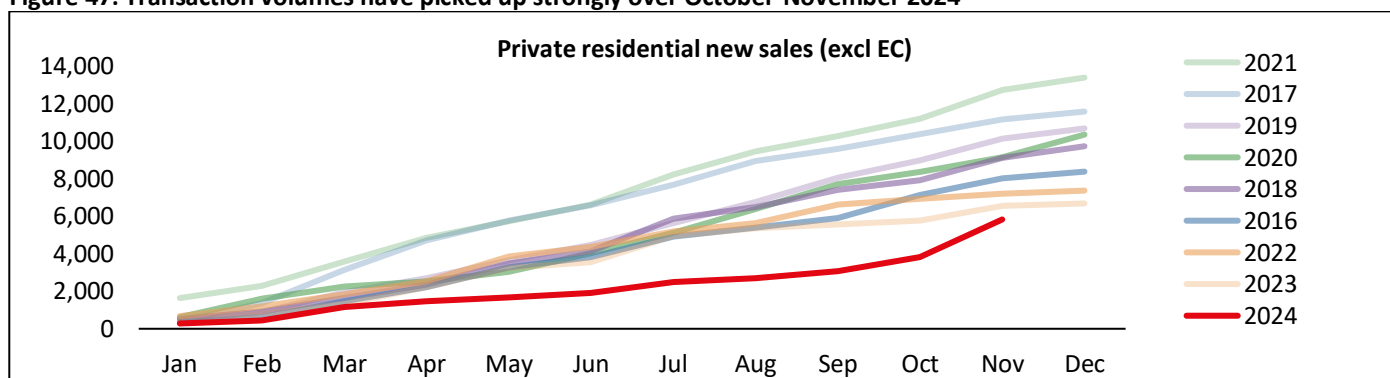
Figure 46: Property prices rose at a slower pace in the first nine months of 2024



Source: URA, OCBC

Prices likely to resume upward trajectory in the remainder of the year with transactions picking up: The small price correction in 3Q2024 is likely due to slow transaction volumes in the first nine months of the year. However, since October 2024, sales volumes have surged, with several launches achieving strong sales rate. We note that the projects that have launched and sold well in October 2024 are projects located in the Rest of Central Region ("RCR") and Outside Central Region ("OCR").

Figure 47: Transaction volumes have picked up strongly over October-November 2024



Source: URA, OCBC

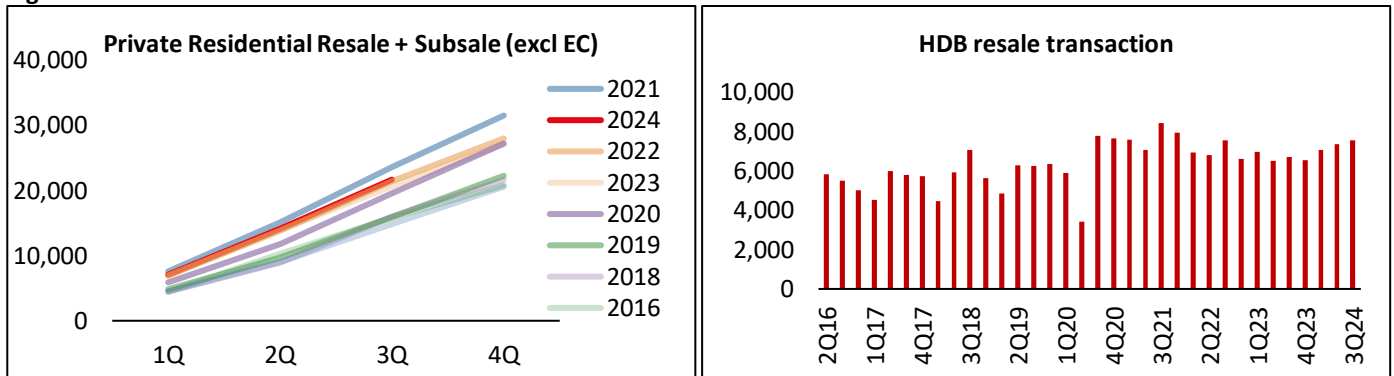
Figure 48: High sales rate at launch for projects launched since October 2024

Project	Units	Sales Rate at Launch	Average Price	District / Location
Meyer Blue	226	50%	SGD3,260 psf	5 / RCR
Norwood Grand	348	84%	SGD2,067 psf	25 / OCR
Chuan Park	916	76%	SGD2,579 psf	19 / OCR
Novo Place (EC)	504	57%	SGD1,654 psf	24 / OCR
Emerald of Katong	846	99%	SGD2,621 psf	15 / RCR
Nava Grove	552	65%	SGD2,448 psf	21 / OCR

Source: URA, Business Times, Company, OCBC

Pick up in transactions for new sales not surprising, as resale is already doing well: While 9M2024 saw a multi-year low in transaction volumes, the resale market showed a different trend, with 9M2024 sales volume exceeding every recent year except for 9M2021. HDB secondary sales volume has remained high, surpassing pre-pandemic levels.

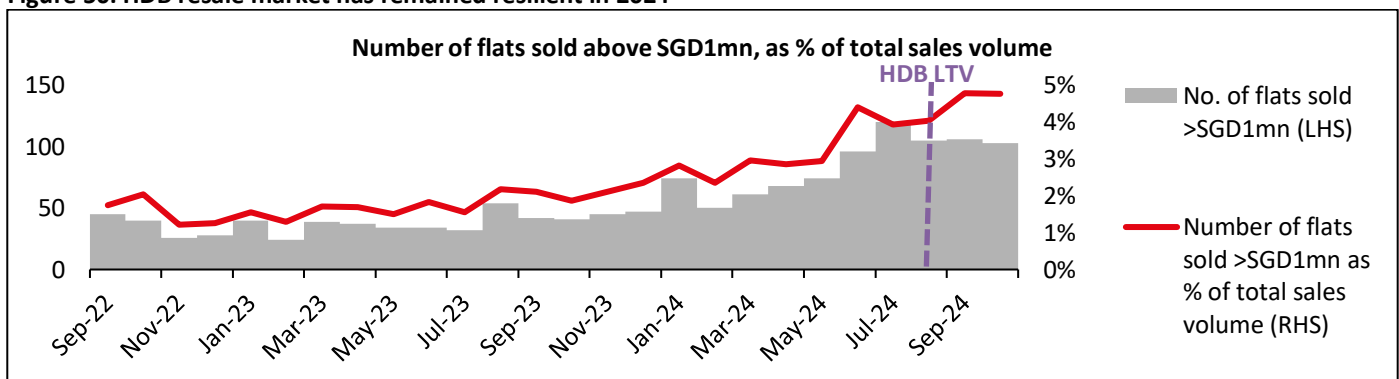
Figure 49: Resale market has remained resilient in 2024



Source: URA, HDB, OCBC

Little impact from HDB cooling measure: With effect from 20 August 2024, HDB housing loans loan-to-value limit was reduced from 80% to 75%. Although this measure aims to cool the market, the proportion of HDB flats sold for SGD1mn or more has continued to rise. In September 2024 and October 2024, this proportion reached a record high of ~4.8% of total transactions. Total HDB resale transactions over September 2024 and October 2024 have grown 4.5% y/y to 4,375 units.

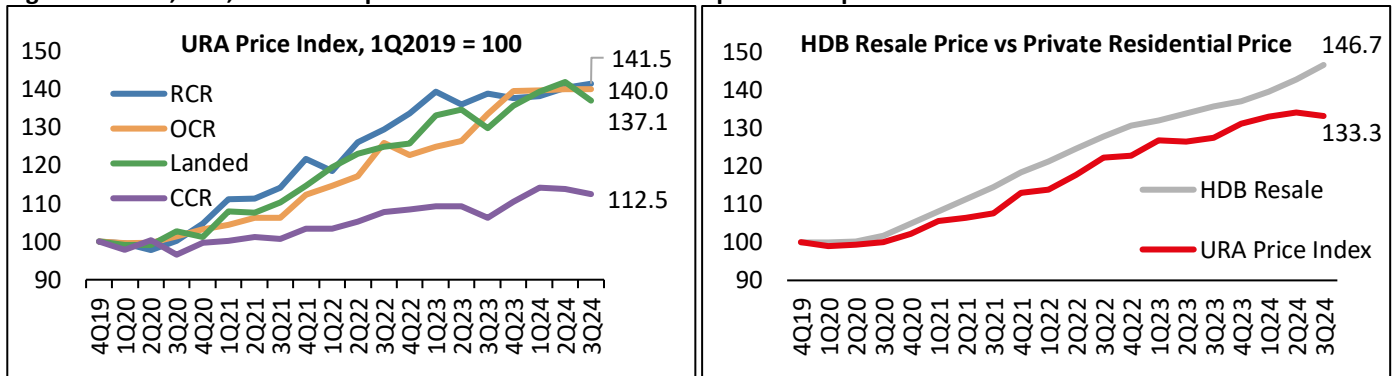
Figure 50: HDB resale market has remained resilient in 2024



Source: HDB, OCBC

Similarities in demand factors versus a year ago, leading to outperformance in areas sought after by residents: In our Credit Outlook published on 3rd January 2024, we highlighted resilience in demand supported by (1) strong holding power, (2) growing aspirations to upgrade and (3) growth in residents. These factors remain relevant with (A) loan-to-value ("LTV") and non-performing loans at or near multi-year lows at 42% and 0.3% respectively in 2Q2024, (B) increasing proportion of younger residents staying in private residential properties (27% of residents aged between 0 and 24 stay in private residences in 2024) and (C) new PRs and new citizens every year continue to exceed 50,000 in total. Meanwhile, foreigners continue to be deterred from buying due to the hike in Additional Buyer's Stamp Duty in April 2023. We believe this is a driving factor resulting in the continued outperformance in the regions sought after by residents, including landed properties, private properties in RCR and OCR and HDB resale.

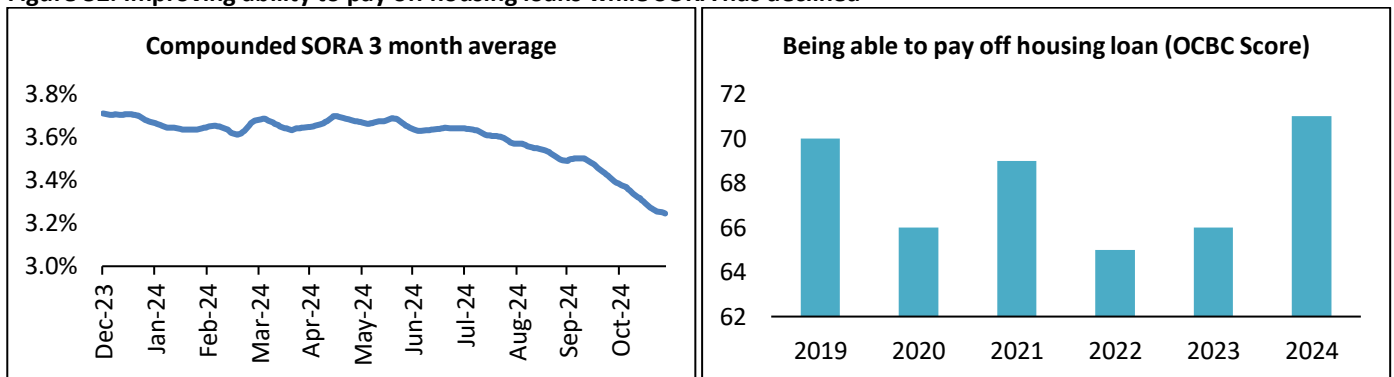
Figure 51: OCR, RCR, Landed outperformed CCR. HDB Resale outperformed private residential



Source: HDB, OCBC

Decline in interest rates may fuel more transactions: We believe the fall in interest rates may have helped sentiments in property purchase, especially for new sales in September 2024 to October 2024. We think this is also reflected in the OCBC Financial Wellness Index, which shows that the ability to pay off housing loans has improved to the highest level since the index began in 2019.

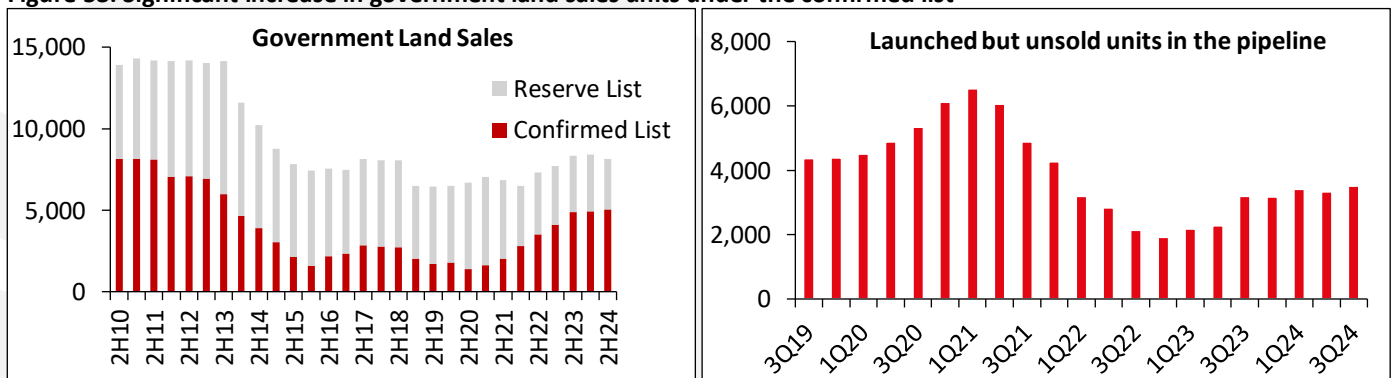
Figure 52: Improving ability to pay off housing loans while SORA has declined



Source: Bloomberg, OCBC Financial Wellness Index, OCBC

Increase in GLS supply has not fully entered the market: We previously highlighted in the Credit Outlook 2024 that land supply has grown. The Confirmed list under the Government Land Sales ("GLS") Programme has more than doubled from ~2,000 units per half year between 1H2018 and 2H2021, to ~5,000 units per half year from 2H2023 to 2H2024. That said, launched but unsold units in the pipeline have not increased by the same magnitude and remains at levels below pre-pandemic.

Figure 53: Significant increase in government land sales units under the confirmed list



Source: URA, OCBC

Actual supply did not fully materialise partly due to rejection of land bids, first time since 2011: Land bids have been weak in YTD2024, with few bids for each site. The government rejected bids for three sites due to low valuations, and no bids were submitted for Upper Thomson Road (Parcel A), resulting in 2,550 units (including 620 serviced apartments) not being released to the market. In contrast, the successful tenders will add 7,690 units (including 435 serviced apartments). Overall, the unsuccessful tenders account for ~25% of the total GLS supply. We think that developers have been cautious on the market given the large land supply, and there is little incentive to bid higher given that competition has dwindled. Separately, we believe that actual supply (launched but unsold units) remains low as developers had likely been holding back in anticipation of better launch opportunities.

Figure 54: Unsuccessful tenders curtailed ~25% of the GLS supply

Site Name	# of bidders	Number of units	Highest Bid	SGD psf ppr
Successful tenders				
Media Circle	3	355	SGD395.3mn	1,191
Orchard Boulevard	4	280	SGD428.3mn	1,617
Zion Road (Parcel A)	1	955	SGD1,107mn	1,202
Holland Drive	3	680	SGD805.4mn	1,285
Upper Thomson Road (Parcel B)	1	610	SGD779.6mn	905
River Valley Green (Parcel A)	2	380	SGD464mn	1,325
Canberra Crescent	3	375	SGD279mn	793
De Souza Avenue	2	355	SGD278.9mn	841
Zion Road (Parcel B) – SA2	2	610	SGD730.1mn	1,304
Margaret Drive	2	460	SGD497mn	1,154
Faber Walk	3	400	SGD349.9mn	900
Total units, excluding ECs		5,860		
Plantation Close (EC)	4	560	SGD423mn	701
Jalan Loyang Besar (EC)	4	710	SGD557mn	729
Tampines Street 95 (EC)	5	560	SGD465mn	768
Total units, including ECs		7,690		
Unsuccessful tenders				
Marina Gardens Crescent	1	790	SGD771mn	984
Upper Thomson Road (Parcel A) - SA2	0	640	N/A	N/A
Media Circle - SA2	1	520	SGD120mn	461
Jurong Lake District	1	600	SGD2,514mn	640
Total units (unsuccessful tenders)		2,550		

Source: URA, OCBC

Deluge of launches in 2025: According to PropNex, an estimated 34 projects with a total of 14,694 units will be launched. If this fully materializes, the number of units launched will be the highest in recent years and exceeds the annual average of ~10,000 units transacted in the private new sale market over 2016-2023. Meanwhile, the number of uncompleted units that remain unsold remains manageable at 19,940 units as of end-3Q2024 (10Y average: 22,428 units).

Expect prices to increase by 2% to 4% in 2025: While prices in the first nine months which increased 1.6% has tracked below our full year 2024 estimates of 3-5% price growth, we keep our 2024 estimates unchanged in view of the strong transaction volumes since October 2024. In 2025, we expect prices to increase by 2-4%. While demand is expected to remain resilient, the pace of increase is expected to moderate (2023: +6.8%, 2024E: 3-5%) given the ramp up in supply, which would provide plentiful choices for the homebuyer and limit the extent of price gains.

Impact on developers depends in part on choice of action (or inaction): Key participants in government land sales within our coverage include City Developments Ltd, CapitalLand Group Pte Ltd, GuocoLand Ltd, Wing Tai Holdings Ltd, and Frasers Property Ltd. Since FY2022 for each of these developers, net gearing levels have generally risen. Though this increase is not solely due to landbank acquisitions in Singapore, this may reflect their willingness to leverage their balance sheets for opportunities that could improve returns. If the pace of land supply continues into 2025 (pending announcement), we will not be surprised if these companies remain active in land tenders. Meanwhile, for property companies (excluding REITs) which have been absent from the recent GLS programme, net gearing levels on average (albeit with a variance) have remained largely stable since FY2022.

Profitability and interest coverage likely to improve: We expect property companies' profitability to improve going forward, as land bids have fallen (lowering costs), while property prices and transaction volumes have increased. Separately, thus far interest coverage has generally fallen as interest rates have risen. With the recent decline in interest rates, we expect interest coverage will recover and improve going forward.

Risks and opportunities ahead: With lower interest rates, we think that property companies may more actively participate or return to the SGD credit market again to issue and lock in a lower rate of funding. Separately, while sales rate and property prices have remained strong, past trends may not necessarily continue. The anticipated surge in launches in 2025, the highest in recent years, could intensify competition if many of these launched units remain unsold. That said, costs are likely to remain stable. Aside from land bids, construction costs are no longer rising, and delays for most projects should be minimal now that the pandemic backlog has mostly been cleared.

Figure 55: Property companies under OCBC Coverage

Figure 55: Property companies under OCBC coverage

Company	Net Gearing			EBITDA/Interest			Latest Financials	Year Ended
	FY22	FY23	Latest	FY22	FY23	Latest		
Property companies active in recent Government Land Sales								
CapitaLand Group Pte Ltd	59%	64%	64%	1.8x	1.3x	1.3x	31-Dec-23	31-Dec
City Developments Ltd	51%	61%	70%	9.8x	2.8x	2.1x	30-Sep-24	31-Dec
Frasers Property Ltd	65%	76%	83%	4.0x	3.1x	2.6x	30-Sep-24	30-Sep
GuocoLand Ltd	86%	76%	77%	1.7x	1.4x	1.2x	30-Jun-24	30-Jun
Wing Tai Holdings Ltd	2%	8%	6%	7.4x	1.0x	0.2x	30-Jun-24	30-Jun
Average	53%	57%	60%	4.9x	1.9x	1.5x		
Property companies (excluding REITs) absent from recent Government Land Sales								
CapitaLand Investment Ltd	52%	56%	59%	2.1x	1.8x	1.8x	30-Jun-24	31-Dec
Mapletree Investments Pte Ltd	59%	65%	59%	4.0x	2.9x	2.7x	31-Mar-24	31-Mar
Hotel Properties Ltd	81%	59%	73%	1.9x	1.5x	1.6x	30-Jun-24	31-Dec
Ho Bee Land Ltd	79%	80%	80%	3.0x	1.6x	1.5x	30-Jun-24	31-Dec
Oxley Holdings Ltd	202%	166%	153%	0.9x	0.5x	0.3x	30-Jun-24	30-Jun
OUE Ltd	45%	39%	49%	2.0x	2.0x	2.0x	30-Jun-24	31-Dec
Average	86%	78%	79%	2.3x	1.7x	1.7x		

Source: Company, OCBC

HKSAR Retail – Muted outlook amidst weak sales and consumption pattern shift

HKSAR 9M2024 and September 2024 retail sales remained weak, falling by 7.6% and 6.9% y/y respectively. The retail sales have fallen for a seventh straight month on y/y basis. That said, the decline of 6.9% y/y in September moderated in comparison to the range of 10 to 15% y/y decline evidenced in April to August 2024, thanks to better consumption sentiments with the Hang Seng index rising 17.5% m/m in September.

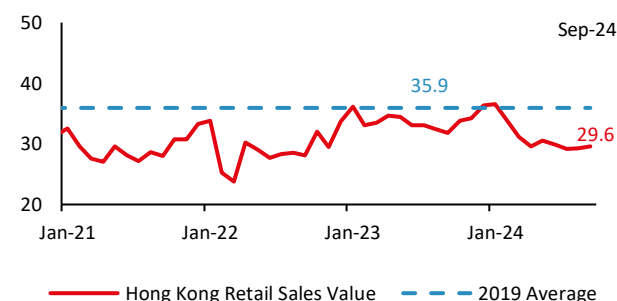
Despite 9M2024 total inbound visitors and visitors from China surging by 40% and 35% y/y respectively, the retail sector continues to face massive headwinds due to the changes in consumption patterns among both visitors and residents. The consumption was affected by (1) uncertain macroeconomic environments of mainland China and HKSAR, (2) still high interest rates, (3) negative wealth effects from weak property and stock markets, (4) retail leakage to nearby more affordable cities (eg: Shenzhen) and (5) lesser spending of local residents and inbound visitors.

Weak rental and price performance: YTD as of 30 September 2024, retail rental index fell 4.3% (2023: +3.3%) while price index fell by a staggering 18.2% (2023: -6.1%) due primarily to impacts of high interest rates and weak investment sentiments.

Retail vacancy appeared to be relatively more stable as of 30 September 2024, weakening by 0.7ppts to 7.6% compared to December 2023. Per S&P Global Ratings, **rated retail landlords (which normally own primer and larger malls) performed better than the high street or strata title outlets** in terms of occupancy and rent levels. In fact, primer malls are taking a greater share of the reduced footfall. Also, the vacancy rates for these retail landlords are less than 5%. This compares with more than 20% for some of the traditional high street properties.

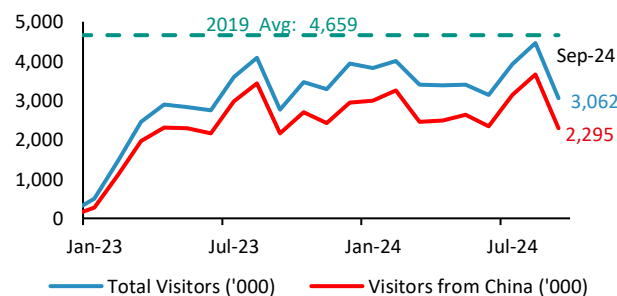
HKSAR retail outlook is likely to remain muted in 4Q2024 and continue into 2025 amidst weak local and tourist spendings. That said, **some improvements in retail are likely in 2025 amidst potential rate cuts**, which will (1) free up locals' disposable income from lower mortgage payments and (2) increase tourist spendings amidst a lower HKD exchange rate. Besides, retail sales are also likely to be supported from an influx of overseas students and talents. OCBC's HKSAR economist expects retail sales in 2025 to see mild expansion of around 2% if the positive wealth effect from asset market rallies is sustained. However, if the property and stock markets fail to recover meaningfully, retail sales are forecast to fall further by a low single digit.

Figure 56: Retail Sales Value, HKD bn



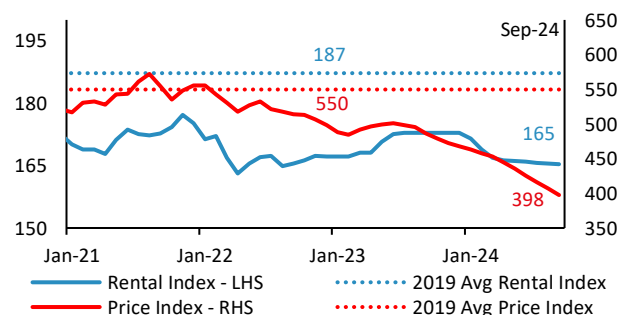
Source: Census and Statistics Department HK, OCBC

Figure 57: HKSAR Inbound Visitors, thousand



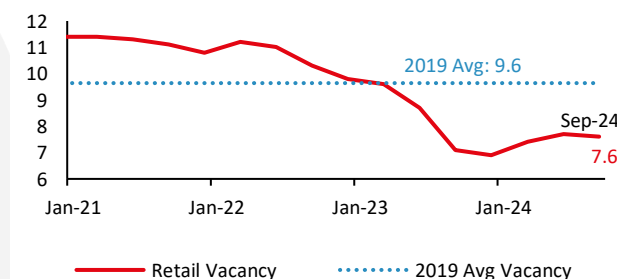
Source: HK Tourism Board, OCBC

Figure 58: Retail Property Rental and Price Indices



Source: HK Rating and Valuation Department, OCBC

Figure 59: Retail Property Vacancy Rate



Source: Colliers, OCBC

HKSAR Commercial Office – Challenging outlook amidst high supply and vacancy

Historic high vacancy rate: As of 30 September 2024, Overall Grade A office and Central Grade A office vacancy rates rose to 16.9% (+1.0ppt YTD) and 15.1% (+2.9ppts YTD) respectively. The total vacant Grade A office stock amounts to nearly 14 million sq ft per Colliers. The Overall Grade A office vacancy rate of 16.9% is also more than double the previous high of 8.0% evidenced in October 2009.

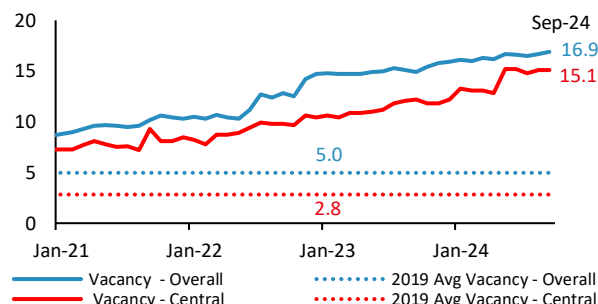
Rents and price fell further: YTD as of 30 September 2024, HKSAR Grade A rents fell 5.3% while prices fell a staggering 21.6%. In comparison to the peak seen in 2019, rents and prices fell by 21.5% and 40.1% respectively. The pale price performance was affected by high interest rates in addition to weakened vacancy and rental rates. In addition, the price was also dragged by the wide negative yield spread (~200bps) of HKSAR office properties over the US 10Y Treasury yield (~4.4%), which suppressed investment in these assets and pushed potential buyers to other Asian markets with higher rental-growth potential and better fundamentals.

Large supply in 2025: Per CBRE, there will be 3.2mn sq ft new supply (~3.4% of Grade A total inventory in 2023 per data from HKSAR Rating and Valuation Department) coming in 2025, of which 90% is located in core submarkets and ~3.6% in Central. With a low pre-commitment rate of 12% for completion in 2025, vacancy pressure is set to escalate further.

Negative outlook in 2025: HKSAR Office outlook remains challenging ahead amidst (1) uncertain macroeconomic environment in Greater China, (2) hybrid work mode, (3) cost-cutting measures by businesses, (4) and substantial supply ahead. It is expected that vacancy, rental and price will worsen further in 2025. Besides, valuation is likely to decline further as current capitalisation rates are still at very tight levels of 3-4% per Colliers' 3Q2024 APAC Cap Rates report, in comparison to SG's 3-3.5%.

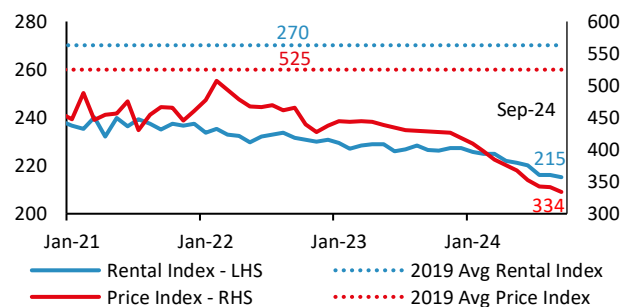
Rent fall by mid- to high-single digit in 2024 and 2025: Amidst the headwinds above, CW expects office rents to fall by 6-8% in 2024. Meanwhile, Colliers expect rents to decline by 8% in 2024, followed by a similar decline in 2025. Also, CBRE expects rents in 2025 to fall by 5-10% while Central will fall at a milder range of 0-5%.

Figure 60: Grade A Office Vacancy Rate (%)



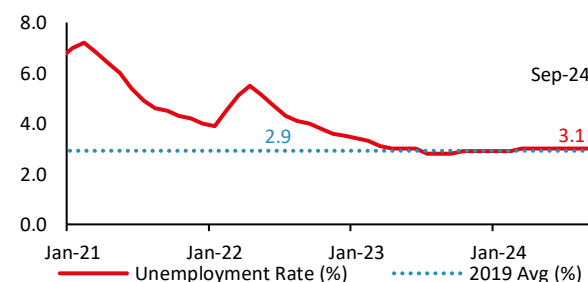
Source: Colliers, OCBC

Figure 61: Grade A Office Rental and Price Indices



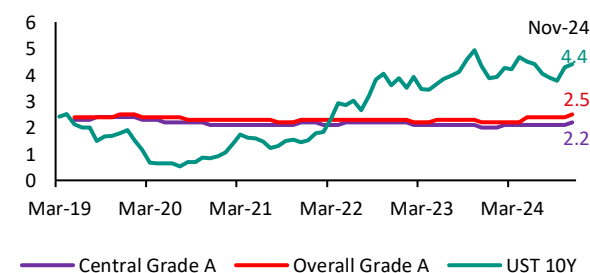
Source: HK Rating and Valuation Department, OCBC

Figure 62: Unemployment Rate (%)



Source: Census and Statistics Department Hong Kong, OCBC

Figure 63: Office Rental Yields vs US Treasury 10Y



Source: Colliers, OCBC

HKSAR Residential Property – Muted outlook amidst high supply and weak sentiments

Divergent trends of home rent and price: As of 31 October 2024, HKSAR home prices fell 7.0% YTD and 28.1% compared to the peak in June 2019. Meanwhile, rent performed well, growing by 5.4% YTD and merely 0.7% lower than the peak evidenced in September 2019. The decent rental performance was primarily driven by the Top Talent Pass Scheme, which had 160k of talents (~2.1% of total population) arriving in HKSAR from 2023 to 3Q2024.

Limited impacts from October's easing measures: Despite easing measures (eg: higher Loan-to-Value and Debt Servicing Ratio) announced in mid-October 2024, these positive measures barely moved the needle as prices merely grew ~1% in November 2024. Besides, homebuyers remained cautious amidst the weak sentiments.

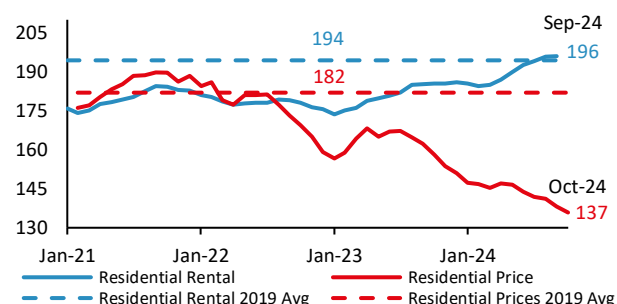
High supply ahead: There will be substantial supply of 108k units (including 20k unsold completed units as of September 2024) in the coming 3 – 4 years per Housing Bureau, equivalent to 22-29k new completions per annum. The new completion in the coming years will be considerably above the 10Y average of 15.7k per annum.

Insufficient rental yield, yet: Despite higher rental yields (size<40sqm) of 3.7%, that is still considerably lower than the US Treasury 10Y yield of ~4.3% and just barely better than the mortgage rates of 3.625%. The investment demands are likely only to improve further in 2025 with further HKD prime lending rate cuts by commercial banks (37.5bps cut in 2025 per OCBC's HKSAR economist)

Recent launch largely well received: Following the September FOMC meeting, developers have increased the pace of launch of primary projects. These projects have generally been well received by the market. Total transactions rose to 4,697 cases in October, well above the monthly average of 3,408 cases in 3Q2024. Nonetheless, general market sentiment remained cautious, while buyers' bargaining power stayed relatively strong in the face of abundant supply.

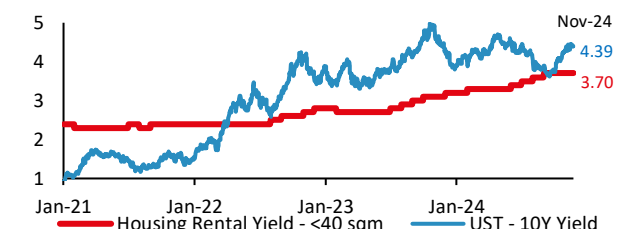
Muted outlook: Still, we expect to see some stabilisation in housing prices down the road in 2025, given the prime rate cut and increased housing demand from talent inflows. However, a more forceful rebound of prices will require help from banks to loosen their mortgage scrutiny, while the world economy continues the soft-landing path. OCBC's HKSAR economist expects the housing price to fall by 6-9% in 2024 and stay flat in 2025.

Figure 64: Residential Rental and Price Index



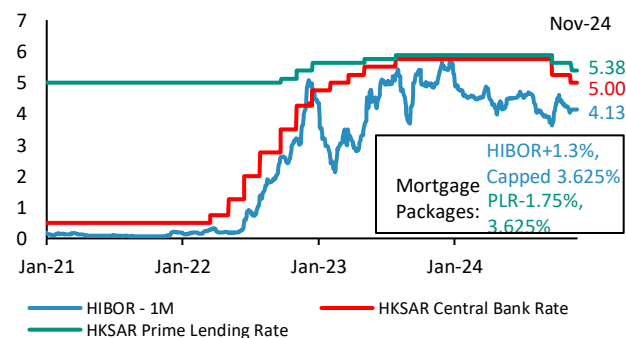
Source: Centaline Property Agency, HK Rating and Valuation, OCBC

Figure 65: Rental Yield vs US Treasury 10Y



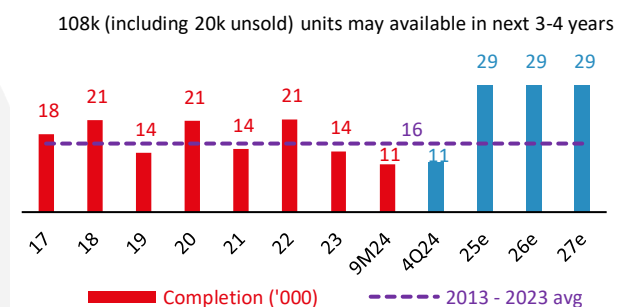
Source: HK Rating and Valuation, OCBC

Figure 66: HKSAR Rates (%)



Source: Bloomberg, OCBC

Figure 67: Private Housing Completed ('000)



Source: Housing Bureau HKSAR, OCBC

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To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7-point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

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Overweight (“OW”) – The bond represents **better relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Neutral (“N”) – The bond represents **fair relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

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OCBC Credit Research team would like to acknowledge and give due credit to the contributions of [Walter Ong Choon Han](#)

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