

Asian Credit Daily

Monday, August 30, 2021

Market Commentary

- Shorter tenors traded 0-1bps lower, while belly and longer tenors (except for 30-year yields trading 1bps lower) traded 0-2bps higher on Friday across the SGD swap curve.
- There were heavy flows in SGD Corporates on Friday, with flows in MAPLSP 3.7%-PERPs, KREITS 3.15%-PERPs, UBS 4.85%-PERPs, and MAGIC 3.5%-PERPs.
- 10Y UST Yields traded 4bps lower to 1.31% on Friday amidst the Fed Chairman Jerome Powell signaling that the central bank would begin tapering its USD120 billion monthly bond buy-back program by the end of the year, but rate hikes were still a ways off. He added that “substantial further progress” has been made on the first of the Fed’s duo mandate of stable inflation and maximum employment, and that “clear progress” has been met on the latter.

Credit Research

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Credit Summary:

- [Barclays PLC \(“Barclays”\)](#) | **Issuer Profile: Neutral (4)**: Barclays announced the acquisition of a USD3.8bn portfolio of credit cards from Gap Inc. The bank will issue co-branded and private label credit cards in the U.S. to Gap customers from 2Q2022 in an effort to boost its American credit cards business. We will maintain the neutral (4) issuer profile on Barclays.
- [China Construction Bank Corporation \(“CCB”\)](#) | **Issuer Profile: Neutral (3)**: CCB reported 1H2021 results. Operating performance and capital position remains adequate for its Neutral (3) issuer profile which we maintain.
- [Keppel Infrastructure Trust \(“KIT”\)](#) | **Issuer Profile: Neutral (4)**: APA Group (“APA”), listed on the Australian Stock Exchange, announced that it has submitted a confidential, conditional and incomplete proposal to KIT regarding the potential acquisition of Basslink Pte Limited (“Basslink”).
- [Keppel Real Estate Investment Trust \(“KREIT”\)](#) | **Issuer Profile: Neutral (4)**: KREIT announced that Mr Paul Tham will step down as Chief Executive Officer (“CEO”) on 20 October 2021 to pursue other opportunities.
- [United Overseas Bank Ltd \(“UOB”\)](#) | **Issuer Profile: Positive (2)**: UOB announced the establishment of a private wealth business dedicated to high-net-worth individuals as part of its goal to double wealth management fee income. To head the new business, UOB has hired Mr Chew Mun Yew who was previously Group Head Greater China at Julius Baer.
- [Shangri-La Asia Limited \(“SHANG”\)](#) | **Issuer Profile: Neutral (4)**: SHANG reported its 1H2021 results. SHANG is also in the midst of selling an 80%-stake in its Kyoto hotel project where cash consideration is expected at ~USD68.4mn, subject to adjustments by the end of the year. We maintain SHANG’s issuer profile at Neutral (4).
- [Wing Tai Holdings Ltd \(“WTH”\)](#) | **Issuer Profile: Neutral (4)**: WTH reported 2HFY2021 results. Although profitability has increased with a clean balance sheet, we continue to hold WTH at a Neutral (4) Issuer Profile as we think WTH may look to acquire or replenish its landbank.
- [Wing Tai Properties Ltd \(“WTP”\)](#) | **Issuer Profile: Neutral (4)**: WTP reported 1H2021 results. We continue to hold WTP at a Neutral (4) Issuer Profile.

Asian Credit Daily**Credit Headlines****Barclays PLC (“Barclays”) | Issuer Profile: Neutral (4):**

- Barclays announced the acquisition of a USD3.8bn portfolio of credit cards from Gap Inc. The bank will issue co-branded and private label credit cards in the U.S. to Gap customers from 2Q2022 in an effort to boost its American credit cards business.
- Barclays will finance the transaction from existing sources and expects its CET1 capital ratio to reduce 20bps. Barclays CET1 capital position was at 15.1% as at 30 June 2021 (14.6% at 31 March 2021, 15.1% as at 31 December 2020) as solid earnings improvement was offset by the reversal of regulatory forbearance measures announced in FY2020, dividends paid and accrued as well as other payments (pensions deficit contributions). The ratio remains well above its minimum capital requirement and maximum distributable amount (“MDA”) hurdle of 11.2%. With its capital position sound, there is adequate balance sheet capacity for the transaction. We will maintain the neutral (4) issuer profile on Barclays. (Company, OCBC)

China Construction Bank Corporation (“CCB”) | Issuer Profile: Neutral (3):

- CCB reported 1H2021 results with profit before tax of RMB184.5bn up 9.3% y/y but down 3.5% against 1H2019. Y/y performance was assisted by growth in average balances of net loans and advances (~11.2% y/y) and higher average balances of financial investments that offset a 7bps y/y fall in net interest margins to 2.13% for 1H2021. This drove a 5.2% y/y rise in net interest income while net fee and commission income also recovered 6.8% y/y on wealth management and higher agency service fees. Operating expenses rose 10.5% y/y due to a lower base and higher staff costs as well as a rise in general and administrative expenses which is likely tied to higher business activity. The cost to income ratio of 22.2% for 1H2021 remains at a sound level compared to other banks we cover.
- In terms of asset quality, its non-performing loan ratio improved marginally h/h to 1.53% as at 30 June 2021 (1.56% as at 31 December 2020) while credit impairment losses only fell 2.75% y/y. The slight improvement in the non-performing loan ratio though was driven by loans growth with overdue loans and advances (classified as overdue for more than three months) rising 7.8% h/h while non-performing loans rose 6.2% h/h.
- CCB’s capital position remained solid (albeit lower h/h by 39bps) at 13.23% due to payment of dividends and higher growth in risk weighted assets (+6.3% h/h) against growth in CET1 capital (+3.3% h/h). Its liquidity coverage ratio was 134.20% as at 30 June 2021 while the leverage ratio remained broadly stable at 7.79%. Operating performance and capital position remains adequate for its Neutral (3) issuer profile which we maintain. (Company, OCBC)

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Keppel Infrastructure Trust (“KIT”) | Issuer Profile: Neutral (4):

- APA Group (“APA”), listed on the Australian Stock Exchange, announced that it has submitted a confidential, conditional and incomplete proposal to KIT regarding the potential acquisition of Basslink Pte Limited (“Basslink”). Basslink owns and operates a 370km electricity interconnector between Victoria and Tasmania. APA is in exclusive discussions though no definitive agreement has been reached between the parties.
- This asset of KIT does not contribute free cash flow to equity (previously known as distributable cash flow) to the KIT trust level. Basslink had concluded an [arbitration process](#) with the State of Tasmania and Hydro Tasmania and was in discussions over the arbitration payment. While Basslink is non-recourse to KIT, debt refinancing at Basslink in the recent years had been on a short-term basis.
- While we have long viewed the knock-on negative impact to KIT’s credit risk as manageable, a sale (assuming with little contingent liability left at KIT) would still be a net positive in our view as it removes the reputational overhang surrounding ownership of Basslink. (Company, OCBC)

Keppel Real Estate Investment Trust (“KREIT”) | Issuer Profile: Neutral (4):

- KREIT announced that Mr Paul Tham will step down as Chief Executive Officer (“CEO”) on 20 October 2021 to pursue other opportunities. Mr Tham was appointed as CEO of the KREIT REIT Manager on 1 January 2019. Prior to his appointment as CEO of KREIT, Mr Tham was the Deputy CEO.
- The Board is currently evaluating potential CEO candidates. Ms Shirley Ng, currently the Deputy CEO and Head of Investment of the KREIT REIT Manager will assume the role of acting CEO. (Company).

United Overseas Bank Ltd (“UOB”) | Issuer Profile: Positive (2):

- UOB announced the establishment of a private wealth business dedicated to high-net-worth individuals as part of its goal to double wealth management fee income. The high-net-worth segment currently generates half of all wealth management fee income.
- To head the new business, UOB has hired Mr Chew Mun Yew who was previously Group Head Greater China at Julius Baer. Mr Chew will join the bank in December, and report to Mr Eddie Khoo, head of Group Retail. (Company, Bloomberg, OCBC)

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Shangri-La Asia Limited (“SHANG”) | Issuer Profile: Neutral (4):

- SHANG reported its 1H2021 results, which saw an improvement in operating metrics. In 1H2021, SHANG’s reported weighted average hotel occupancy was 38% (2020: 33%) while Revenue per Available Room (“RevPAR”) was USD45 (2020: USD40).
- SHANG discloses operating profit after tax (inclusive of results from associates, after minority interest at subsidiaries where SHANG has no full ownership) (“AOP”). In 1H2021, Hotel Properties AOP was negative USD137.9mn though narrowing significantly from the negative USD226.8mn in 1H2020, mainly driven by the narrowing of losses at its Mainland China hotels. Weighted occupancy for Mainland China was 50% in 1H2021 versus 24% in 1H2020. Investment Properties AOP improved slightly by 2.1% y/y to USD77.9mn in 1H2021. Total AOP (before non-operating items) for 1H2021 was negative USD61.9mn though significantly narrowed from the negative total AOP of USD198.2mn in 1H2020.
- As at 30 June 2021, unadjusted net gearing (including lease liabilities as debt) was 0.88x versus 0.85x as at 31 December 2020 from losses incurred in 1H2021. Despite a reduction in gross debt by USD177.5mn, cash had also fallen more.
- As at 30 June 2021, cash balance was USD743.4mn while undrawn committed facilities were ~USD1.7bn against short term debt (excluding lease liabilities) of USD945.6mn. SHANG is also in the midst of selling an 80%-stake in its Kyoto hotel project where cash consideration is expected at ~USD68.4mn, subject to adjustments by the end of the year. We maintain SHANG’s issuer profile at Neutral (4). (Company, OCBC)

Wing Tai Holdings Ltd (“WTH”) | Issuer Profile: Neutral (4):

- WTH reported 2HFY2021 results. Revenue rose 16% y/y to SGD218.0mn, which is mainly due to increased development properties sales (+28.6% y/y to SGD172.0mn). This is helped by sales of 3 units at Le Nouvel Ardmore for ~SGD50mn, according to URA caveats, and progressive recognition from the development at The M at Middle Road. Meanwhile, Investment properties revenue inched down to SGD20.3mn (2HFY2020: SGD21.2mn).
- Overall reported EBIT grew from SGD1.6mn to SGD15.4mn as development properties saw reported EBIT growing to SGD78.7mn (2HFY2020: SGD56.8mn) as a result of stronger revenue.
- With strong property sales driving the monetization of inventory, WTH turned to a net cash position from 5% net gearing. Cash of SGD773.0mn is sufficient to cover SGD150.9mn borrowings in the near-term. We think the strong property outlook should continue supporting sales including Garden Residences and Le Nouvel Ardmore.
- Although profitability has increased with a clean balance sheet, we continue to hold WTH at a Neutral (4) Issuer Profile as we think WTH may look to acquire or replenish its landbank. (Company, OCBC)

Asian Credit Daily**Credit Headlines****Wing Tai Properties Ltd (“WTP”) | Issuer Profile: Neutral (4):**

- WTP reported 1H2021 results. Revenue fell to HKD496.8mn (1H2020: HK1.96bn), mainly due to the decline in revenue from property development which fell to HKD159.5mn (1H2020: HKD1.59bn) with fall in revenue recognition due to absence of first-time revenue recognition from The Carmel which was completed and handed over in 1H2020.
- Reported EBIT before change in fair value of investment properties and financial instruments (“Adjusted EBIT”) surged to HKD625mn (1H2020: HKD348.3mn). This is mainly due to property development which saw Adjusted EBIT rise to HKD465.0mn (1H2020: HKD142.4mn), mainly due to HKD472mn one-off valuation gain from distribution in specie of La Vetta in May 2021. Without the valuation gain, reported EBIT from this segment would be around breakeven. Meanwhile, reported EBIT from investment properties and management fell to HKD161.2mn (1H2020: HKD209.1mn), in-line with the fall in revenue to HKD283.7mn (1H2020: HKD311.5mn).
- The fall in investment properties revenue is mainly due to the fall in occupancy of Landmark East (from 92% in 1H2020 to 84% in 1H2021) and Shui Hing Centre (from 91% to 84%). WTP also disclosed that rentals have headed south. As such, WTP also recorded revaluation loss of HKD474mn from its investment properties, which is primarily due to Landmark East.
- According to WTP, office leasing in Hong Kong remains sluggish given the lockdown with corporate tenants downsizing and relocating. We think this could continue to weigh on the occupancy and rentals of WTP’s portfolio going into 2H2021.
- We expect a net outflow of cash in 2021 given that WTP completed the tender for a residential site adjacent to Fanling Golf Course, which was purchased for HKD2.6bn. That said, this will be partly mitigated by cash inflows from OMA OMA which is expected to be completed and handed over to buyers in 4Q2021, noting that 87% of the 466 residential units have been sold.
- Net gearing remained unchanged h/h at 12% and HKD1.54bn of cash and HKD2.46bn of unutilised revolving loan facilities covers HKD1.4bn of bank and other borrowings due within a year. We continue to hold WTP at a Neutral (4) Issuer Profile. (Company, OCBC)

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Key Market Movements

	30-Aug	1W chg (bps)	1M chg (bps)		30-Aug	1W chg	1M chg
iTraxx Asiax IG	70	-3	-22	Brent Crude Spot (\$/bbl)	73.39	6.75%	-3.85%
iTraxx SovX APAC	25	-1	-3	Gold Spot (\$/oz)	1,819.28	0.77%	0.28%
iTraxx Japan	44	-2	-3	CRB	219.18	5.90%	0.50%
iTraxx Australia	61	-1	-3	GSCI	529.10	7.01%	-2.22%
CDX NA IG	47	-2	-3	VIX	16.39	-11.69%	-10.14%
CDX NA HY	110	0	1	CT10 (%)	1.302%	5.03	7.97
iTraxx Eur Main	45	-1	-1				
iTraxx Eur XO	229	-3	-7	AUD/USD	0.732	1.47%	-0.39%
iTraxx Eur Snr Fin	52	-1	-2	EUR/USD	1.180	0.47%	-0.59%
iTraxx Eur Sub Fin	0	0	0	USD/SGD	1.346	0.79%	0.65%
iTraxx Sovx WE	5	0	0	AUD/SGD	0.984	-0.66%	1.05%
USD Swap Spread 10Y	2	1	-1	ASX 200	7,509	0.25%	1.57%
USD Swap Spread 30Y	-26	2	-2	DJIA	35,456	0.96%	1.49%
US Libor-OIS Spread	4	0	1	SPX	4,509	1.52%	2.60%
Euro Libor-OIS Spread	-6	0	0	MSCI Asiax	814	2.59%	-0.75%
				HSI	25,408	2.25%	-2.13%
China 5Y CDS	34	-1	-6	STI	3,081	-0.71%	-2.72%
Malaysia 5Y CDS	46	-2	-5	KLCI	1,590	4.75%	6.39%
Indonesia 5Y CDS	71	-3	-11	JCI	6,041	0.18%	-0.47%
Thailand 5Y CDS	35	-1	-5	EU Stoxx 50	4,191	1.05%	2.49%
Australia 5Y CDS	15	0	0				

Source: Bloomberg

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New Issues

- Jinan Financial Holding Group Co. Ltd. has arranged investor calls commencing 30 August for its proposed USD bond offering.
- Adani Green Energy Ltd has arranged investor calls commencing 27 August for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
26-Aug-21	Singapore Exchange Ltd	USD250mn	5-year	T+40bps
26-Aug-21	Taizhou Urban Construction and Investment Development Group Co Ltd	USD500mn	3-year	2.05%
26-Aug-21	Huafa 2021 I Co Ltd (Guarantor: Zhuhai Huafa Group Co Ltd)	USD200mn	3.5-year	2.95%
26-Aug-21	Huainan Construction Development Holdings Group Co Ltd (SBLC Provider: Huishang Bank Corporation Limited)	USD200mn	3-year	2.8%
26-Aug-21	Agile Group Holdings Ltd	USD400mn	364-Day	4.85%
26-Aug-21	New Lion Bridge Co Ltd (Guarantor: Lionbridge Capital Co Ltd, Keepwell provider: CCB Trust Co.)	USD150mn	364-Day	5.8%

Source: OCBC, Bloomberg

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