

Credit Research

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Market Commentary:

- The SGD SORA curve traded higher yesterday, with shorter tenors trading 6-8bps higher, belly tenors trading 5-8bps higher, and the 10Y trading 5bps higher.
- Flows in SGD corporates were heavy, with flows in HSBC 5.3% '33s, MAPLSP 3.95%-PERP, and CAPLSP 3.65%-PERP.
- According to Bloomberg, House Speaker McCarthy pledged to work through the long weekend to promptly come to a conclusion before June 1, the estimated date that the US Treasury could run short on cash.
- Asia USD Investment Grade spreads tightened by 3bps to 129bps, and Asia USD High Yield spreads tightened by 9bps to 1022bps, according to Bloomberg..

Credit Summary:

- **Sembcorp Industries Ltd ("SCI"):** SCI announced that its wholly-owned subsidiary has signed a 10Y power purchase agreement to supply electricity to Singapore Telecommunications Limited ("Singtel").
- **Keppel Corporation Ltd ("KEP"):** KEP has signed an agreement to join the Central Queensland hydrogen ("CQ-HQ") project consortium which is developing a hydrogen production facility, among other related infrastructure. The project aims to produce renewable hydrogen with delivery to Japan and Singapore, as well as supplying large domestic customers in Central Queensland.
- **Metro Holdings Ltd ("METRO"):** METRO reported FY2023 results for the full year ended 31 March 2023. Earnings and leverage have improved though occupancy of investment properties declined.
- **UBS Group AG ("UBS") and Credit Suisse Group AG ("CS"):** The European Union ("EU") has approved the planned merger between CS and UBS following a review of its impact on competition within wealth and asset management as well as investment banking. The EU had previously allowed for the merger to proceed prior to approval as usually required given the urgency of developments in March.

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Credit Headlines:

Sembcorp Industries Ltd (“SCI”)

- SCI announced that its wholly-owned subsidiary has signed a 10Y power purchase agreement to supply electricity to Singapore Telecommunications Limited (“Singtel”). The agreement is conditional on Singtel obtaining shareholders’ approval. The annual contract value is ~SGD180mn. (Company)

Keppel Corporation Ltd (“KEP”)

- KEP has signed an agreement to join the Central Queensland hydrogen (“CQ-HQ”) project consortium which is developing a hydrogen production facility, among other related infrastructure. The project aims to produce renewable hydrogen with delivery to Japan and Singapore, as well as supplying large domestic customers in Central Queensland. The other consortium members include Stanwell Corporation (owned by the Queensland government), Iwatani Corporation (a Japan-based company focusing on industrial gas), Kansai Electric Power Company (a Japan-based electricity generation company), Marubeni Corporation (a Japan-based trading company) and KEP.
- Earlier in the month, KEP announced the next phase of its Vision 2030 that will further transform the company into a global alternative real asset manager with operating capabilities. KEP first unveiled Vision 2030 in 2020 where the company signalled that it will move away from being a conglomerate and become more integrated.
- In our view, the May 2023 announcement is mainly an evolution where KEP, who is already in the asset management business, is telegraphing a stronger message that they are turning into becoming a real asset manager (infrastructure, real estate, connectivity) whose differentiating point is their engineering & operating expertise.
- We expect KEP to stay as a listed company with no change to the issuing entity of the KEPSP curve. That said, we expect the equity market to overtime move towards new valuation methodologies. From 1H2023 onwards, KEP will also move towards a new reporting format of its businesses. (Company, OCBC)

Metro Holdings Ltd (“METRO”)

- METRO reported FY2023 results for the full year ended 31 March 2023. **Earnings and leverage have improved though occupancy of investment properties declined.**
- Revenue posted a 16.7% y/y growth to SGD117.2mn as higher contribution from the Retail segment was driven by higher sales from department stores, namely Metro Paragon and Metro Causeway Point.
- Reported net profit increased 7.2% y/y to SGD25.3mn. Net profit excluding one off-factors (eg. fair value adjustments, impairments, forex and non-operating results, (“adjusted net profit”)) increased 34.3% y/y to SGD48.9mn. The stronger adjusted net profit was primarily attributed to (1) higher operating profit from Retail of SGD8.8mn (FY2022: SGD4.2mn) and (2) strong operating results from associates due to higher contributions from the investment properties of associates amidst lower rental rebates and waivers granted to tenants arising from China’s COVID-19 lockdowns in FY2023.
- The average occupancy rate for Metro’s five investment properties – (1) GIE Tower in Guangzhou; (2) Metro City and (3) Metro Tower in Shanghai; (4) office property at 5 Chancery Lane in Central London; and (5) Asia Green in Singapore – weakened to 89.8% as at 31 March 2023 (30 September 2022: 91.1%, 31 March 2022: 93.9%).

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Credit Headlines:

- Total debt declined by 3.3% y/y to SGD644.8mn in FY2023. Based on our calculation, net debt-to-adjusted EBITDA ratio improved to 3.40x (FY2022: 4.61x) owing to improved operating earnings while adjusted EBITDA-to-interest expenses weakened slightly to 3.46x (FY2022: 3.79x) due to rising interest rates. (Company, OCBC)

UBS Group AG (“UBS”) and Credit Suisse Group AG (“CS”)

- The European Union (“EU”) has approved the planned merger between CS and UBS following a review of its impact on competition within wealth and asset management as well as investment banking. The EU had previously allowed for the merger to proceed prior to approval as usually required given the urgency of developments in March.
- Separately, the merger completion could be delayed to sometime in June rather than end of May as previously expected as UBS and the Swiss government are reportedly yet to agree on the terms of the CHF9bn state guarantee. As a recap, the Swiss government will absorb about CHF9bn of losses after UBS bears the first CHF5bn under the terms of a Loss Protection Agreement as part of the government organised transaction. Per reports, UBS and the government are still discussing the regulatory impact of the acquisition on capital requirements and liquidity as well as the definitive terms of the Loss Protection Agreement. Both parties are also still deciding what happens should losses exceed the CHF14bn covered by the Loss Protection Agreement.
- In other developments, the emergency liquidity facilities provided to CS before and during the merger is to be drafted into law as a public liquidity backstop. Prior to the merger, the liquidity support was provided via an emergency ordinance. Usage of this facility would occur once the bank was illiquid and there was an inability for the Swiss National Bank (“SNB”) to provide liquidity against collateral. Such a facility would allow SNB to provide state guaranteed and interest-bearing liquidity on a super priority basis if the bank is eventually declared bankrupt. (Bloomberg, Reuters)

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Key Market Movements:

	26-May	1W chg (bps)	1M chg (bps)		26-May	1W chg	1M chg
iTraxx Asiax IG	126	-1	-7	Brent Crude Spot (\$/bbl)	76.4	1.0%	-1.7%
iTraxx SovX APAC	23	-1	-2	Gold Spot (\$/oz)	1,953	-1.3%	-1.8%
iTraxx Japan	74	0	-10	CRB Commodity Index	258	-1.2%	-2.4%
iTraxx Australia	86	0	-4	S&P Commodity Index - GSCI	541	-0.4%	-2.8%
CDX NA IG	78	-2	-2	VIX	19.2	14.2%	1.9%
CDX NA HY	101	0	0	US10Y Yield	3.80%	13bp	35bp
iTraxx Eur Main	83	0	-3				
iTraxx Eur XO	437	3	-16	AUD/USD	0.652	-2.0%	-1.3%
iTraxx Eur Snr Fin	95	-1	-6	EUR/USD	1.074	-0.6%	-2.8%
iTraxx Eur Sub Fin	177	-6	-20	USD/SGD	1.352	-0.5%	-1.2%
				AUD/SGD	0.881	1.6%	0.1%
USD Swap Spread 10Y	2	2	2	ASX200	7,155	-1.7%	-2.2%
USD Swap Spread 30Y	-41	1	0	DJIA	32,765	-2.3%	-1.6%
				SPX	4,151	-1.1%	2.3%
China 5Y CDS	68	-1	-7	MSCI Asiax	620	-1.4%	-0.8%
Malaysia 5Y CDS	67	-2	-8	HSI	18,747	-5.0%	-5.1%
Indonesia 5Y CDS	91	-1	-8	STI	3,209	0.2%	-2.6%
Thailand 5Y CDS	54	0	2	KLCI	1,402	-1.9%	-0.9%
Australia 5Y CDS	26	0	-1	JCI	6,693	-0.1%	-3.1%
				EU Stoxx 50	4,288	-2.4%	-1.4%

Source: Bloomberg



New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing	Initial Pricing
25-May-23	Industrial & Commercial Bank of China Ltd/Dubai DIFC	FRN	USD	122	3-year	SOFRRATE +65	N.A.

Source: OCBC, Bloomberg

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