Asian Credit Daily

1 February 2024

Market Commentary:

- The SGD SORA curve traded mostly lower yesterday, with short tenors trading flat, belly tenors trading 1bps lower, and the 10Y trading 2bps lower.

- Flows in SGD corporates were heavy, with flows in STTGDC 5.7%-PERP, LLOYDS 5.25% '33s

- According to Bloomberg, the yield on Southeast-Asian high yield dollar bonds dropped to the lowest since early 2023. The average yield for the region's high yield issuers fell 16bps last week to 9.3%, its lowest since February 2023. This contrasts with the average yield for the region's investment grade debt which had little change in the same period.

- Yesterday, Bloomberg Asia USD Investment Grade spreads tightened by 1bps to 102bps while the Asia USD High Yield spreads widened by 9bps to 677bps, per Bloomberg.

- There were two notable bond issuances in the Asiadollar market yesterday. Issuances include Huatong International Investment Holdings Co Ltd (QDHTCO) (Keepwell Provider: Qingdao China Prosperity State-Owned Capital Investment Operation Group Co Ltd) which priced USD280mn 3Y senior unsecured bond with final pricing to yield 6.8% and Science City Guangzhou Investment Group Co Ltd (GZDZCD) priced USD400mn 1.5Y senior unsecured green bond with final pricing to yield 6.8%.

- There was no issuance in Singdollar market yesterday.

Credit Summary:

- **AIMS APAC REIT ("AAREIT"):** AAREIT reported its business update for the third quarter for the year ending 31 March 2024 ("3QFY2024"). AAREIT's credit profile continues to be underpinned by its steady portfolio performance which mitigates its thinner adjusted interest coverage ratio.

- **Julius Baer Group Ltd ("JBG"):** Various news outlets have reported that JBG Chief Executive Officer Philipp Rickenbacher will step down and be replaced by current deputy Chief Executive Officer Nic Dreckmann on an interim basis. This follows the issues surrounding a CHF606mn exposure to the Signa property group that is now entering restructuring.

- **Lippo Malls Indonesia Retail Trust ("LMRT"):** LMRT extended the right to operate Cibubur Junction for an additional 20 years to 29 July 2045. Cibubur Junction is a shopping centre with five levels, a partial roof top level, one basement level and a carpark. The mall is located in Jakarta.

- **Keppel Infrastructure Trust ("KIT"):** KIT reported 2H2023 financials for the six months and full year 2023 ended 31 December 2023. KIT paid out a special dividend to equity holders in 4Q2023 following a recapitalisation, re-levering KIT by end-year.

- **Keppel Ltd ("KEP"):** KEP reported its 2H2023 and full year 2023 financial results. KEP has provided a clearer trajectory towards its evolution in becoming a real asset manager and appears to be successfully executing its strategy to have a more sustainable, recurring income profile.

Key Market Movements

	1-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	101	2	11
iTraxx SovX APAC	0	0	0
iTraxx Japan	56	0	-2
iTraxx Australia	68	-1	-2
CDX NA IG	57	2	0
CDX NA HY	106	0	0
iTraxx Eur Main	60	2	2
iTraxx Eur XO	327	10	16
iTraxx Eur Snr Fin	69	1	1
iTraxx Eur Sub Fin	131	5	8
USD Swap Spread 10Y	-36	0	4
USD Swap Spread 30Y	-71	-1	0
China 5Y CDS	65	1	5
Malaysia 5Y CDS	45	-1	4
Indonesia 5Y CDS	74	-1	5
Thailand 5Y CDS	41	-1	2
Australia 5Y CDS	17	0	0

	1-Feb	1W chg	1M chg
Brent Crude Spot ($/bbl)	81.0	-1.7%	5.2%
Gold Spot ($/oz)	2,047	1.3%	-0.8%
CRB Commodity Index	272	0.5%	3.3%
S&P Commodity Index - GSCI	555	-0.6%	3.6%
VIX	14.4	9.2%	15.3%
US10Y Yield	3.94%	-18bp	6bp
AUD/USD	0.658	-0.2%	-3.5%
EUR/USD	1.082	-0.2%	-2.0%
USD/SGD	1.339	0.1%	-1.4%
AUD/SGD	0.880	0.2%	2.2%
ASX200	7,602	1.1%	0.1%
DJIA	38,150	0.9%	1.2%
SPX	4,846	-0.5%	1.6%
MSCI Asiax	606	-1.6%	-5.5%
HSI	15,692	-3.2%	-8.0%
STI	3,143	-0.1%	-3.0%
KLCI	1,513	1.1%	4.0%
JCI	7,234	0.8%	-0.5%
EU Stoxx 50	4,648	1.8%	2.8%

Source: Bloomberg

Credit Headlines:

AIMS APAC REIT ("AAREIT")

- AAREIT reported its business update for the third quarter for the year ending 31 March 2024 ("3QFY2024"). AAREIT's credit profile continues to be underpinned by its steady portfolio performance which mitigates its thinner adjusted interest coverage ratio.
- **Continued steady portfolio performance**
  - AAREIT reported 9MFY2024 gross revenue and net property income ("NPI") of SGD131.6mn (up 5.1% y/y) and SGD97.8mn (up 6.3% y/y) respectively, driven by AAREIT's Singapore properties. Implied 3QFY2024 gross revenue and NPI was SGD44.8mn (up 6.6% y/y) and SGD33.5mn (up 8.5% y/y) respectively.
  - Singapore properties makes up 74.6% of AAREIT's 3QFY2024 gross rental income, with the remainder coming from properties in Australia.
  - As at 31 December 2023, AAREIT's overall portfolio occupancy was stable q/q at 98.1%. Rental reversion remains strong, recording +13.0% for 3QFY2024 (9MFY2024: +22.7%).
  - In January 2024, AAREIT renewed two master lease renewals with KWE (top four tenant of AAREIT contributing 5.9% to gross rental income) and Aalst Chocolate for a five year and ten year term respectively.
- **Low reported aggregate leverage although has sizeable perpetuals**
  - As at 31 December 2023, reported aggregate leverage was 32.2% (30 September 2023: 32.1%) though management has guided that this may increase to ~34% following planned asset enhancement initiatives on two properties in Singapore. In July 2023, AAREIT completed an equity fundraising that raised SGD100mn in aggregate. AAREIT has two tranches of perpetuals with an amount outstanding of SGD375mn, representing ~17% of AAREIT's total capital as at 30 September 2023 and higher than REITs we track.
  - AAREIT's adjusted interest coverage ratio for the 12 months to 31 December 2023 (includes perpetual distribution) is on the low side at 2.3x, though stable compared to the year before.
  - As at 31 December 2023, there is no debt due for the remaining FY2024. SGD119mn (representing 17% of reported total debt) comes due in FY2025. This includes SGD100mn of SGD bonds due in November 2024 (the AAREIT 3.6% '24s). We see short term refinancing risk as manageable versus SGD189mn of undrawn committed facilities and cash and bank balances.
  - AAREIT faces a maturity wall in FY2027 when SGD396mn of debt comes due, 75% of which comprises AUD bank debt. Our base case assumes that the perpetuals will be replaced at first call by new perpetuals.
  - As at 31 December 2023, 76% are on fixed rates or hedged. However, the average fixed debt tenor is only ~1.9 years, vis-à-vis average debt maturity of 2.6 years. (Company, OCBC)

Julius Baer Group Ltd ("JBG")

- Various news outlets have reported that JBG Chief Executive Officer Philipp Rickenbacher will step down and be replaced by current deputy Chief Executive Officer Nic Dreckmann on an interim basis. This follows the issues surrounding a CHF606mn exposure to the Signa property group that is now entering restructuring.
- As per previous news, JBG is expected to announce a write-off and provisions associated with this exposure that is secured by commercial real estate and luxury retail.
- Aside from financial impacts, the more pressing issue is the reputational impact that prompted an investigation by Swiss regulator FINMA over JBG's risk-control structures and impacted JBG's external ratings with a recent outlook change on the issuer profile and downgrade of the issue ratings on their Additional Tier 1 bank capital instruments.
- JBG is announcing its 2023 results today (Thursday January 25th). (Bloomberg, Reuters, FT, OCBC)

Lippo Malls Indonesia Retail Trust ("LMRT")

- **Extension to operate a mall** - LMRT extended the right to operate Cibubur Junction for an additional 20 years to 29 July 2045.
- Cibubur Junction is a shopping centre with five levels, a partial roof top level, one basement level and a carpark. The mall is located in Jakarta.
- **Some cash outflow over the years** - LMRT is expected to spend IDR254bn (SGD21.6mn) for the extension, comprising:
    - IDR 80bn (SGD6.8mn) paid in cash over the years, of which IDR30bn (SGD2.6mn) to be paid in 2024, IDR18bn (SGD1.5mn) to be paid on 15 January 2025, and IDR32bn (SGD2.7mn) to be paid on an annual basis over 2026 – 2045.
    - Renovation expenditure of IDR168bn (SGD14.3mn) over the management period (2026-2045)
- **Higher investment properties valuation** - Post the extension, valuation of Cibubur Junction is expected to be IDR416.5bn (SGD35.4mn), a substantial increase from IDR65.7bn (SGD5.6mn) as at 31 December 2023. If the extension happened before 31 December 2023, LMRT portfolio valuation would have declined 5.5% instead of 7.7%.
- **Slightly higher funding gap -** Post this extension, there will be an additional cash payment of SGD2.6mn in 2024, raising the funding gap in 2024 slightly to SGD127.3mn based on our calculations. (Company, OCBC)

	SGD'mn
Cash as at 30 September 2023	99
Cash repayment for SGD loan facilities in October 2023	-47
IDR2.5 trillion secured loan	215
First Tender - LMRTSP 7.25% '24s (principal amount USD43.5mn tendered @76.5 cents)	-45
First Tender - LMRTSP 7.5% '26s (principal amount USD38.5mn tendered @ 66.5 cents)	-34
Consent Fee @ 2 cents (Assume all USD bondholders' consent)	-11
Second Tender - LMRTSP 7.25% '24s (principal amount USD49.8mn tendered, assuming @95 cents)	-63
Second Tender - LMRTSP 7.5% '26s (principal amount USD28.4mn accepted, assuming @ 80 cents)	-30
Cash available after two rounds of USD Bonds tenders and IDR2.5tn secured loan and SGD loan facilities completed in Oct 2023	**83**
Remaining LMRTSP 7.25% '24s after second tender @ USD138.4mn	-185
SGD Term Loan due 2 November 2024	-22
Cibubur Junction extension payment in 2024	-3
Additional Funds required to meet 2024 debt	**-127**
Cibubur Junction extension payment in 2025	-2
Debt maturing in 2025 (SGD22mn loan)	-22
Debt maturing in 2026 (SGD22mn loan + Remaining LMRTSP 7.5% '26s after second tender @ USD114.7mn)	-154

Keppel Infrastructure Trust ("KIT")

- KIT reported 2H2023 financials for the six months and full year 2023 ended 31 December 2023. KIT paid out a special dividend to equity holders in 4Q2023 following a recapitalisation, re-levering KIT by end-year.
- **Fall in y/y operational cash flow:**
  - Reported Group EBITDA was SGD447.6mn for 2023 (up 11.3% y/y which implies SGD402.2mn for 2022), excluding one-off acquisition related cost incurred, unrealised exchange gains, fair value gain on the investment in Aramco Gas Pipelines Company ("AGPC"), write-off of fixed assets at Eco Management Korea and reversal of impairment of impairment loss on Lista onshore wind farm in Norway. KIT reported its 1H2023 Group EBITDA at SGD246.3mn, implying 2H2023 Group EBITDA of SGD231.3mn.
  - KIT's reported total operational cash flow ("OCF") was SGD126.4mn in 2H2023, declining by 26.0% y/y. This was driven by a y/y fall in OCF at Ixom, AGPC, City Energy and the European Onshore Wind Platform while Keppel Merlimau Cogen ("KMC") did not contribute to OCF as mandatory debt repayment had kicked in in June 2023. We understand that management is currently reviewing the KMC amortising loan which will be dependent on discussions over extensions on the Capacity Tolling Agreement.
  - During the 2023, KIT completed a capital optimisation at City Energy and Ixom (including recapitalisations where these businesses took on more debt, supported by higher valuations). We think the additional debt at City Energy and Ixom is likely to have drove the y/y OCF fall at Ixom and City Energy. We note that in 2023, finance costs at Ixom had increased 50.7% y/y while for City Energy this had increased by 26.5%.
- **Highly manageable short term debt maturity**
  - As at 31 December 2023, KIT faces minimal debt maturity of only SGD45mn in relation to mandatory debt repayment for its proportionate stake at KMC and debt due is also highly manageable in 2025 amounting to SGD95mn. However, KIT faces a significant maturity wall in 2026 amounting to SGD896mn (representing ~39% of debt (including only KIT's proportionate share of KMC debt)). 58% of the debt due in 2026 are at the Ixom-level. We understand from management that refinancing discussions are typically entered into about a year prior to maturity.
  - As at 31 December 2023, weighted average term to maturity is ~3.3 years with fixed and hedged debt high at 83% (30 September 2023: 78.8%)
- **Lower Adjusted Debt-to-EBITDA in 2023**
  - As at 31 December 2023, KIT has SGD600mn of perpetuals outstanding. Assuming perpetuals as debt and adding it to KIT's consolidated debt (including lease liabilities) of SGD2.8bn and using KIT's 2023 reported EBITDA of SGD447.6mn, we find Adjusted Debt-to-EBITDA at 7.6x in 2023, lower than 2022's 8.9x.
  - We continue to focus on servicing ability at KIT's holding entity level. Assuming an interest rate of 4.25% on the holding entity loans and taking actual coupon rates on bonds, interest expense per year is assumed at ~SGD27mn. Additionally, assuming KIT pays out SGD27.2mn of perpetual distribution per year, we find 2023 OCF of SGD304.5mn to cover interest plus perpetual distribution by 5.6x.
- **Continues to be in expansion mode**
  - In December 2023, KIT announced the proposed joint venture and investment in a solar portfolio in Germany. The investment will be made by aptus 2160. GmbH ("BidCo"), a wholly-owned subsidiary of a KIT joint venture. As at 3 January 2024, phase one of the transaction has completed. At time of announcement, the amount to be paid by BidCo at first closing was EUR91mn (~SGD133mn) and we expect KIT's portion to be EUR45.5mn (~SGD66.5mn). The proposed acquisition of Keppel Marina Desalination Plant remains ongoing.
  - KIT's concession agreement with the National Environment Agency ("NEA") for the Senoko WTE Plant has been extended by three years with an option to extend the concession for up to one year. The

current contract was set to expire in August 2024. We understand that management is in discussions on extending the concession on the SingSpring Desalination Plant.
  - As at 31 December 2023, KIT's asset under management was valued at SGD7.4bn (excluding the first phase of the solar portfolio in Germany). (Company, OCBC)

Keppel Ltd ("KEP")

- KEP reported its 2H2023 and full year 2023 financial results. KEP has provided a clearer trajectory towards its evolution in becoming a real asset manager and appears to be successfully executing its strategy to have a more sustainable, recurring income profile.
- **Operations drives profits**
  - Excluding discontinued operations (the parts of Keppel Offshore & Marine Ltd ("KOM") that was sold to Sembcorp Marine Ltd ("SMM") in February 2023), 2H2023 revenue was SGD3.3bn (-0.4% y/y) where the fall was attributable to lower sale of property and lower sale of goods. Per KEP, recurring income grew by ~54% y/y to SGD773mn in 2023.
  - 2H2023 reported profit from continuing operations were SGD440.3mn (+8.8% y/y). We exclude corporate activities in our proportionate estimation (2023: -SGD256mn). Corporate activities include contributions from investments held at the corporate level, overheads and financing costs not attributable to business segments. Based on our estimations, ~60% were derived from operations (including stakes from funds).
  - Full year profit from continuing operations was reported SGD885mn where ~60% were derived from operations (including stakes from funds). For both 2H2023 and 2023, profit from continuing operations that were operating in nature were mainly derived from the Infrastructure Division while the remaining was from the Connectivity Division.
  - Engineering, Procurement and Construction ("EPC")/Development-type profits and valuation-type income each contributed ~16% while the remaining were asset management-type income.
- **Interest coverage ratio manageable**
  - KEP's unadjusted net gearing was 0.90x as at 31 December 2023, somewhat higher against the 0.86x as at 30 June 2023 and higher versus the 0.78x as at 31 December 2022. On a h/h basis, net debt had fallen slightly although book value equity had declined by ~4%. We think this was in large part driven by KEP's special dividend to its shareholders consisting of units held by KEP in Keppel Real Estate Investment Trust. That said, unadjusted net gearing of 0.90x is in line with historical levels.
  - As at 31 December 2022, KEP faces SGD2.4bn of short term debt due (including lease liabilities), representing 22% of consolidated debt and manageable in our view. While end-2023 figures has not been undisclosed, in end-2022, undrawn credit facilities were SGD5.4bn while KEP has ~SGD1.3bn of cash balance as at 31 December 2023.
  - Based on our EBITDA calculation (does not include other operating income), we find EBITDA at SGD587.3mn. Assuming KEP distributes SGD11.6mn per year in perpetual distribution (SGD5.8mn half a year) and adding this to interest expense, we find EBITDA/Interest at 3.2x. KEP's implied 2H2023 cash dividends from investments, associated companies and joint ventures was SGD148.8mn. Giving credit to this cash dividend inflow as EBITDA, we get to SGD736.1mn, resulting in a higher adjusted EBITDA/Interest of 4.0x. (Company, OCBC)

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing	Initial Pricing
31 Jan	Huatong International Investment Holdings Co Ltd (QDHTCO) (Keepwell Provider: Qingdao China Prosperity State-Owned Capital Investment Operation Group Co Ltd)	Fixed	USD	280	3-Yr	6.8%	7.3% area
31 Jan	Science City Guangzhou Investment Group Co Ltd (GZDZCD)	Green, Fixed	USD	400	1.5-Yr	6.8%	7.2%

Mandates: There are no Asiadollar mandates for today.

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