Asian Credit Daily

6 February 2024

Market Commentary:

- The SGD SORA curve traded higher yesterday, with short tenors trading 9-13bps higher, belly tenors trading 14-15bps higher, and the 10Y trading 13bps higher.

- Flows in SGD corporates were heavy, with flows in STTGDC 5.7%-PERP, BNP 5.9%-PERP, CMZB 6.5% '34s, AIA 2.9%-PERP, BACR 7.3%-PERP

- According to a report by Bloomberg, the recent weakness in the commercial real estate sector demonstrated by New York Community Bancorp Inc., whose shares were almost halved over the past week may be a sign of cracks showing in the troubled US regional banking sector. Members of the KBW Regional Banking Index held a combined USD1.07tn of total loans reported in the latest filing period, of which about 30% of it (USD331.2bn) were tied to commercial real estate. The 30-day delinquency rate on office CMBS loans has increased considerably in major US cities with regional banks' nonperforming loan ratios also rising. At USD28.24bn, Valley National Bancorp held the biggest CRE exposure, followed by Webster Financial Corp., Associated Banc-Corp., Old National Bancorp and FNB Corp. NY Community Bancorp's stood at USD8.5bn.

- Yesterday, Bloomberg Asia USD Investment Grade spreads tightened by 1bp to 100bps while the Asia USD High Yield spreads tightened by 7bps to 658bps, per Bloomberg.

- There were no notable bond issuances in the Asiadollar and the Singdollar market yesterday.

Credit Summary:

- **Oxley Holdings Ltd ("OHL"):** OHL provided a negative profit guidance. Based on a preliminary review, OHL expects to report a net loss for 1H2024 due to lower profit from property development projects, offset by lower finance costs on reduced borrowings.

- **CapitaLand Integrated Commercial Trust ("CICT"):** CICT released 2023 results. Results were decent, with net property income ("NPI") up 7.0% y/y to SGD1.12bn and credit metrics remaining stable.

Key Market Movements

	6-Feb	1W chg (bps)	1M chg (bps)		6-Feb	1W chg	1M chg
iTraxx Asiax IG	102	0	-3	**Brent Crude Spot ($/bbl)**	78.2	-5.7%	-0.7%
				Gold Spot ($/oz)	2,029	-0.4%	0.1%
iTraxx Japan	57	2	-4	**CRB Commodity Index**	268	-1.0%	0.9%
iTraxx Australia	69	1	-8	**S&P Commodity Index - GSCI**	541	-3.6%	-0.1%
CDX NA IG	55	1	-2	**VIX**	13.7	0.5%	2.4%
CDX NA HY	106	0	0	**US10Y Yield**	4.12%	9bp	8bp
iTraxx Eur Main	59	1	-3				
iTraxx Eur XO	328	10	-5	**AUD/USD**	0.651	-1.4%	-3.2%
iTraxx Eur Snr Fin	70	2	-3	**EUR/USD**	1.075	-0.8%	-1.8%
iTraxx Eur Sub Fin	130	5	-2	**USD/SGD**	1.345	-0.4%	-1.3%
				AUD/SGD	0.875	1.0%	2.0%
USD Swap Spread 10Y	-37	-1	2	**ASX200**	7,582	-0.2%	1.2%
USD Swap Spread 30Y	-71	-1	-2	**DJIA**	38,380	0.1%	2.4%
				SPX	4,943	0.3%	5.2%
China 5Y CDS	65	0	-1	**MSCI Asiax**	612	0.3%	-2.2%
Malaysia 5Y CDS	45	0	-1	**HSI**	16,072	2.3%	-2.8%
Indonesia 5Y CDS	75	0	-2	**STI**	3,126	-0.8%	-1.8%
Thailand 5Y CDS	42	0	-3	**KLCI**	1,512	-0.2%	1.6%
Australia 5Y CDS	17	0	0	**JCI**	7,228	0.5%	-1.7%
				EU Stoxx 50	4,655	0.3%	4.3%

Source: Bloomberg

Credit Headlines:

Oxley Holdings Ltd ("OHL")

- OHL provided a negative profit guidance. Based on a preliminary review, OHL expects to report a net loss for 1H2024 due to lower profit from property development projects, offset by lower finance costs on reduced borrowings.
- We continue to review OHL and look to its upcoming results release for further details. (Company, OCBC)

CapitaLand Integrated Commercial Trust ("CICT")

- CICT released 2023 results. **Results were decent,** with net property income ("NPI") up 7.0% y/y to SGD1.12bn and credit metrics remaining stable.
- **The gains in NPI were broad-based across asset types**, with gains in retail (+0.6% y/y to SGD396.3mn), office (+12.8% y/y to SGD391.0mn) and integrated development (+8.6% y/y to SGD328.6mn).
  - Retail: The growth in NPI is likely due to increase in rentals with higher tenant sales (to be discussed in later sections).
  - Office: NPI rose due to full year contributions from acquisitions of 66 Goulburn Street, 100 Arthur Street, and 70% interest in CapitaSky.
  - Integrated development: The growth was due to higher gross rental income across the portfolio led by Raffles City Singapore, as well acquisition of 50% interest in 101-103 Miller Street and Greenwood Plaza.
- **Portfolio occupancy was generally higher,** up 1.5% q/q to 97.3%. Within the sub-segments, retail occupancy was up 0.2 ppts q/q to 98.5%, office was up 2.3ppts q/q to 96.7%, integrated development was up 1.4 ppts q/q to 98.5%. Meanwhile, retention rate was high at 82.8% for retail and 86.5% for office.
  - Retail: Properties that registered higher occupancy includes Funan (+0.7 ppts q/q to 97.4%), Westgate (+0.5 ppts q/q to 98.9%) and Raffles City Singapore (+2.0 ppts q/q to 97.4%).
  - Office: Growth was from Singapore (+0.5 ppts q/q to 98.5%), largely due to higher committed occupancy at Capital Tower (99.3%) and Australia (+0.8 ppts q/q to 88.5%) while Germany fell (-1.0ppts q/q to 94.5%)
- **Rent reversion was positive** for both retail (+8.5%) and office (+9.0%), based on average committed rents for incoming leases versus average rents of expiring leases of the Singapore portfolio.
  - Within the retail portfolio, rental reversions were slightly higher for downtown malls (+8.8% y/y) versus suburban malls (+8.3% y/y).
  - Office rentals continued to grow for CICT's Singapore portfolio, by 0.4% q/q to SGD10.49 psf per month. Major new leases in 4Q2023 were Colliers International (Singapore) Pte Ltd at Asia Square Tower 2 and Arthur J. Gallagher & Co (Aus) Limited at 100 Arthur Street.
- **Tenant sales remained resilient**, growing 1.8% y/y, which CICT attributed to a surge in Singapore tourist arrivals and heightened local consumption while COVID-19 effects have diminished since the lifting of pandemic measures in April 2022. That said, management also highlighted that tenant sales in the last 2 months in 2023 were lower y/y. Occupancy costs fell 0.3 ppts to 16.3%.
  - Larger growth in tenant sales was seen in downtown malls (+2.5% y/y) versus suburban malls (+1.9% y/y). Meanwhile, shopper traffic grew 8.6% y/y, with higher growth in downtown malls (+9.5% y/y) versus suburban malls (+7.8% y/y)
  - Amongst the top 5 trade categories by rental income, performance was divergent with Food & Beverage up 4.1% y/y, Beauty & Health up 2.5% y/y and Fashion up 0.5% y/y though Supermarket fell 1.0% y/y and Home Furnishing fell 8.6% y/y.
  - Top 3 categories by leasing enquiries for retail were (1) Food & Beverage, (2) Beauty & Health and (3) Fashion while that for office were (1) Banking, Insurance & Financial Services, (2) IT, Media and Telecommunications and (3) Manufacturing and Distribution.
- **Portfolio valuation gained,** up by 1.2%, underpinned by Singapore portfolio.

  - Singapore portfolio (93.7% by portfolio value) grew 2.0% y/y. Growth was mainly due to the retail portfolio (+2.9% y/y) and integrated development portfolio (+2.0% y/y) though office portfolio declined (-0.7% y/y).
  - Germany portfolio (2.7% by portfolio value) fell 10.0% y/y due to expansion in terminal cap rate.
  - Australia portfolio (3.6% by portfolio value) fell 9.6% y/y due to wider cap rate.
- **Significant AEIs are planned,** with CICT estimating costs of between EUR175mn and EUR215mn for Gallileo and SGD48mn for IMM Building.
  - For Gallileo, the specific projected cost will depend on single or multi-tenanted scheme, with AEI commencing in February 2024 which will take 18 months. This AEI will upgrade the building to modern Grade A office specifications.
  - For IMM, AEI is for 126k sq ft of net lettable area with target ROI of 8%, to be completed in 3Q2025. Pre-commitment of AEI space is at 70%. The AEI will increase total outlet stores, refresh common area aesthetics and amenities upgrades and install energy-efficient equipment.
  - 101 Miller Street will also undergo AUD9mn in AEI, which will complete in 2Q2024.
  - Meanwhile CQ @ Clarke Quay is in the final stage of its asset enhancement initiative with a committed occupancy of 85%.
- **Stable credit metrics:** Aggregate leverage declined 0.9 ppts q/q to 39.9% while reported interest coverage remained stable q/q at 3.1x. We understand that management would prefer aggregate leverage to be around 37% to 38% levels. Given that portfolio valuations have increased only by a small magnitude, we believe that divestments may be necessary to reduce aggregate leverage more meaningfully. In the absence of divestments, we think that aggregate leverage may creep back up to ~41% due to the upcoming AEIs. (Company, OCBC)

Mandates:

- HDFC Bank Ltd. is planning to issue a benchmark-sized Regulation S (Category 1) offering of USD-denominated 3Y fixed rate sustainability bonds under its sustainable finance framework and 5Y fixed rate bonds.

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