Asian Credit Daily

9 February 2024

Market Commentary:

- The SGD SORA curve traded lower yesterday, with short tenors trading 1-2bps lower, belly tenors trading 1bps lower, and the 10Y trading 1bps lower.
- Flows in SGD corporates were heavy, with flows in BNP 4.75% '34s, STTGDC 5.7%-PERP, LLOYDS 5.25% '33s, BNP 5.9%-PERP, STANLN 5.375%-PERP, OCBCSP 4.05%-PERP, STTGDC 3.59% '24s
- According to Bloomberg, Shinhan Financial Group Co. has signaled confidence in improving its buffers against a roughly USD1bn exposure to US property. Chief Executive Officer Jin Okdong said his firm's exposure to US and Canadian commercial real estate is about KRW2.4tn (USD1.8bn), with the risky tranche amounting to around KRW1.4tn. Nonperforming assets currently stand at KRW208bn (USD160mn). The firm has already set aside KRW933.3bn (USD703mn) in 2023, up 71% from 2022.
- Yesterday, Bloomberg Asia USD Investment Grade spreads tightened by 2bps to 98bps while the Asia USD High Yield spreads tightened by 7bps to 645bps, per Bloomberg.
- There were no notable bond issuances in the Asiadollar market yesterday.
- There was one notable bond issuance in the Singdollar market yesterday. Mapletree Industrial Trust priced a senior unsecured 3Y SGD50mn bond at 3.751%.

Credit Summary:

- **Singapore Post Ltd ("SingPost"):** SingPost released 3QFY2024 results ended 31 December 2023. We think the overall results are largely adequate while we will continue to monitor the strategic review and development of Australian businesses.
- **Credit Agricole Group ("CAG") / Credit Agricole SA ("CASA"):** CAG announced its 4Q2023 and FY2023 earnings with FY2023 reported net income before tax up 5.0% y/y to EUR11.82bn on 4.8% y/y growth in revenues.
- **StarHub Ltd ("StarHub"):** StarHub reported 2023 results. Overall performance was good, with credit metrics remaining healthy for now (excluding potential acquisitions) while 2024 guidance is stable to positive.
- **Oxley Holdings Ltd ("OHL"):** OHL reported 1HFY2024 revenue for the half year ended 31 December 2023. Results were lacklustre though net gearing has improved. Significant amounts of debt remain due within the next 12 months.
- **Société Générale ("SocGen"):** SocGen announced its 4Q2023 and FY2023 results with net income down 40.2% and up 28.4% respectively y/y to EUR613mn and EUR3.45bn. FY2023 results benefited from the absence of prior year losses from other assets in FY2022 of EUR3.290bn although both reporting periods were impacted by a fall in net banking income.

Key Market Movements

	9-Feb	1W chg (bps)	1M chg (bps)		9-Feb	1W chg	1M chg
iTraxx Asiax IG	101	0	-1	**Brent Crude Spot ($/bbl)**	81.6	5.6%	5.2%
				Gold Spot ($/oz)	2,034	-0.3%	0.2%
iTraxx Japan	58	1	-2	**CRB Commodity Index**	274	1.4%	3.4%
iTraxx Australia	69	0	-6	**S&P Commodity Index - GSCI**	556	3.0%	3.3%
CDX NA IG	55	1	-1	**VIX**	12.8	-7.9%	0.2%
CDX NA HY	106	0	0	**US10Y Yield**	4.14%	12bp	13bp
iTraxx Eur Main	60	1	-2				
iTraxx Eur XO	328	6	-2	**AUD/USD**	0.650	-0.2%	-2.9%
iTraxx Eur Snr Fin	71	2	-1	**EUR/USD**	1.077	-0.1%	-1.4%
iTraxx Eur Sub Fin	131	2	0	**USD/SGD**	1.347	-0.3%	-1.2%
				AUD/SGD	0.875	-0.1%	1.7%
USD Swap Spread 10Y	-36	0	1	**ASX200**	7,648	-0.7%	1.7%
USD Swap Spread 30Y	-72	-1	-3	**DJIA**	38,726	0.5%	3.2%
				SPX	4,998	1.9%	5.1%
China 5Y CDS	64	0	-1	**MSCI AC AsiaxJ**	623	1.2%	0.6%
Malaysia 5Y CDS	44	-1	-2	**HSI**	15,693	1.0%	-3.1%
Indonesia 5Y CDS	74	0	-2	**STI**	3,131	-1.5%	-2.1%
Thailand 5Y CDS	41	1	-2	**KLCI**	1,514	-0.2%	1.0%
Australia 5Y CDS	16	0	0	**JCI**	7,235	0.4%	-0.7%
				EU Stoxx 50	4,711	1.6%	5.5%

Source: Bloomberg

Credit Headlines:

Singapore Post Ltd ("SingPost")

- SingPost released 3QFY2024 results ended 31 December 2023. We think **the overall results are largely adequate while we will continue to monitor the strategic review and development of Australian businesses.**
- **Lower revenue y/y due to forex and normalisation of freight forwarding:** Revenue declined 8.0% y/y to SGD455.4mn due to normalisation of freight forwarding business and forex impacts. On a constant currency basis, revenue would grow by 5% y/y per management.
- **Operating profit affected by the same factors:** Operating profit fell 18.2% y/y to SGD27.7mn. On a constant currency basis, revenue would be lower slightly y/y. Stripping out impacts of freight forwarding and forex, operating profit would increase 20% y/y per management.
- **All businesses** including the domestic postal business **posted positive operating profit in 3QFY2024**.
    - **Domestic Post & Parcel ("DPP") became profitable again** after the postage uprate of 20 cents (to 51 cents) with effect from October 2023. Besides, this segment is also benefited from higher eCommerce volumes growth (+16% y/y)
    - **International Post & Parcel (IPP") recorded better operating profit y/y** as air conveyance costs have fallen 30% y/y, offset by stronger SGD and slowdown in global trade and China exports which impacted cross-border eCommerce volumes globally.
    - **Australia market recorded positive volume growth** of 5% and 14% respectively on the fourth-party logistics ("4PL") and third-party logistics ("3PL") businesses. **That said**, 3PL continued to **face headwinds and significant margin compression** from higher operating costs and competitions. Outlook in Australia is somewhat challenging amidst slower growth rate and weakening market conditions.
    - **Famous Holdings' freight forwarding business was the main underperformer** as the segment's revenue and profit continued to decline due to normalisation of sea freight rates and volumes.
    - **Property revenue and operating profit were relatively steady.** Overall occupancy rate at SingPost Centre declined slightly h/h to 96.3% as at 31 December 2023 (March 2023: 98.2%). Retail mall space was at full occupancy while office space occupancy rate was about 95%.
- **Net debt increased h/h to SGD238.3mn** as at 31 December 2023 (March 2023: SGD128,7mn), due primarily to acquisition of the remaining 12% stake in Freight Management Holdings.
- **SingPost's strategic review is expected to complete before the end of this fiscal year** (30 June 2023).
    - The post office network (55 post office branches per management) is expected to be reduced as these branches remained unprofitable.
    - Though not disclosed by the management, we believe SingPost may consider selling its investment properties (including SingPost Centre) to fully focus on postal and logistic businesses. (Company, OCBC)

Credit Agricole Group ("CAG") / Credit Agricole SA ("CASA")

- CAG announced its 4Q2023 and FY2023 earnings with FY2023 reported net income before tax up 5.0% y/y to EUR11.82bn on 4.8% y/y growth in revenues. This was partially offset by 5.7% y/y growth in operating expenses (excluding the single resolution fund). On an underlying basis, income before tax of EUR11.00bn was down 1.3% y/y on a larger negative JAWS than what was reported as well as higher cost of risk.
- Drivers of underlying performance include:
    - Underlying revenues up 3.8% y/y on record performance at CASA in Corporate and Investment Banking (structured interest rate products, primary credit and securitisation, structured equities) and strong results in Asset Management (EUR26bn in inflows) and Insurance that offset weaker performance in French Retail Banking (lower net interest margins). Other influences include integration of CA Auto Bank and improved leasing and financing activity within Specialised Financial Services, higher net interest margins and loan growth in Poland and Egypt in International Retail Banking.

  - A 6.6% y/y rise in underlying operating expenses (excluding the single resolution fund) on the consolidation of CA Auto Bank, consolidation of other businesses as well as higher staff and IT costs.
- Underlying cost of risk rose 5.9% y/y to EUR2.86bn (+1.7% on a reported basis) – this was driven almost entirely by stage 3 or proven risks (EUR2.55bn).
- CAG's fundamentals remain anchored on its strong capital position with a phased in CET1 capital ratio of 17.5% (17.4% on a fully loaded basis) as at 31 December 2023, down 10bps from 17.6% as at 30 June 2023 and 31 December 2022. The buffer to its 9.3% Supervisory Review and Evaluation Process threshold was 820bps. CAG's capital position on a y/y basis was influenced by:
  - Retained earnings (+100bps).
  - Changes in risk weighted assets from business growth and methodology changes (-71bps).
  - Acquisitions and partnerships (-9bps)
  - Equity transactions including purchase of CASA shares by SAS Rue La Boétie (-23bps).
- The distance to its Maximum Distributable Amount ("MDA") trigger which is defined as the lowest of the respective distances to the SREP requirements for CET1, Tier 1 and total capital was 742bps or EUR45bn in capital as at 31 December 2023 (796bps or EUR46bn in capital as at 31 December 2022). For CASA, the distance for its 11.8% CET1 ratio to its MDA trigger was 323bps or EUR13bn in capital as at 31 December 2023. Its liquidity coverage ratio was 144.3% as at 31 December 2023 with EUR445bn in liquidity reserves at the CAG level. (Company, OCBC)

StarHub Ltd ("StarHub")

- StarHub reported 2023 results. **Overall performance was good, with credit metrics remaining healthy for now (excluding potential acquisitions) while 2024 guidance is stable to positive.**
- **Results are better y/y, driven by most segments**, with revenue up 2% y/y to SGD2.37bn, profit from operations up 46.3% y/y to SGD226.3mn reported EBITDA up 12.1% y/y to SGD467.4mn and reported service EBITDA up 13.8% y/y to SGD431.8mn. While sales of equipment fell 13.0% y/y to SGD381.6mn due to lower volume of handsets sold, service revenue from all segments rose.
- **Mobile (Revenue: +7.9% y/y to SGD609.0mn)** postpaid ARPU rose by SGD1 y/y to SGD33/mth from higher roaming, VAS and voice subscription revenue while subscriber base grew 0.7% y/y due to expansion of giga! subscriber base. Meanwhile, churn rate remains stable at 0.9% in 4Q2023 (4Q2022: 0.8%, 3Q2023: 1.0%).
- **Broadband (+2.6% y/y to SGD248.7mn)** ARPU remains stable y/y and q/q at SGD34/mth while subscribers inched up to 580k in 4Q2023 (3Q2023: 579k, 4Q2022: 578k) with monthly churn rate stable at 0.6%. Higher y/y full year revenue was also due to consolidation of MyRepublic Broadband from 2Q2022.
- **Entertainment (+5.4% y/y to SGD228.0mn)** ARPU rose SGD1 y/y to SGD46/mth though total entertainment subscribers fell to 337k in 4Q2023 (4Q2022: 374k, 3Q2023: 347k). The growth in revenue was due to higher subscription revenue commercial TV and advertising revenue driven mostly by Premier League. However, we note that 2H2023 revenue was 4.8% y/y lower due to absence of contributions from World Cup held in 4Q2022.
- **Enterprise Business (+4.7% y/y to SGD905.9mn)** was due to higher network solutions revenue (+2.1% y/y to SGD373.3mn), Cybersecurity services revenue (+16.3% y/y to SGD350.1mn) while regional ICT services revenue declined (-8.2% y/y to SGD182.5mn).
  - Network solutions was due to 18.1% y/y growth in managed services revenue to SGD100.1mn due to more project completions and higher contributions from data centre-related services. Meanwhile, declines were recorded for Data & Internet (-2.5% y/y to SGD245.0mn) and Voice Services (-5.1% y/y to SGD28.2mn).
  - Cybersecurity services revenue rose due to higher project recognition. However, segment profit fell to SGD1.5mn in 2023 (2022: SGD13.6mn) due to higher opex from staff costs and lower income grant.

    - Regional ICT Services revenue fell 8.2% y/y to SGD182.5mn due to lower hardware sales, due to a decision to refocus on higher-margin contracts. Operating profit inched down to SGD3.0mn in 2023 (2022: SGD3.1mn).
- **Guiding small growth in 2024 revenue**, with a projection of +1% to +3% y/y growth, excluding D'Crypt divestment, Service EBITDA margin is guided at ~22% (2023: 21.7%) and BAU Capex guided at 4% to 6% (including investments: +11% to +13%). StarHub is expecting its consumer (mobile, broadband, entertainment) and Network solutions businesses to remain stable while expecting cybersecurity and regional ICT revenue to grow, excluding effects of D'Crypt. We note that D'Crypt reported an operating loss of SGD0.5mn under the Cybersecurity Services business in 2023. StarHub also flags possible upsides if the Enterprise Group can capitalise on regional enterprise opportunities and if there is less-than-expected price erosion on the consumer segment and traditional enterprise telco services.
- **Credit metrics remain healthy for now,** with reported net debt to EBITDA of 1.36x (2022: 1.38x), reported interest cover of 11.4x and cash of SGD502.2mn more than sufficient to cover SGD11.3mn of near-term borrowings. That said, **we note that StarHub "continues to explore synergistic M&A opportunities**… and augment its market position". Already, StarHub has acquired MyRepublic in 2022. As cash levels significantly exceed near-term liabilities and with StarHub continuing to opt not to redeem its SGD200mn STHSP 3.95% PERP (callable every 6 months), we think StarHub is likely to acquire other players in the local telco scene. In an article with Business Times, StarHub's CEO Nikhil Eapen mentioned that StarHub wants to acquire companies that are more cloud native, and sees consolidation of the market as a regular feature. (Company, OCBC)

Oxley Holdings Ltd ("OHL")

- Reported 1HFY2024 revenue for the half year ended 31 December 2023. **Results were lacklustre though net gearing has improved. Significant amounts of debt remain due within the next 12 months.**
- **Poor results due to lower revenue from development projects:** Revenue decreased 63% y/y to SGD438.4mn and gross profit fell 34% y/y to SGD43.3mn. This is mainly due to lower revenue for Singapore development projects, with Singapore projects already almost fully sold out, partially offset by higher revenue from Oxley Towers KLCC in Malaysia and hotel operations with revenue from hotel operations rising 37% y/y to SGD30.1mn.
- **Overseas project will be the focus going forward**, with future progress billings by effective stake from overseas projects amounting to SGD392mn, and projects are completing in UK, Cambodia and Malaysia in 2024-25. The remaining gross development revenue ("GDV") by effective stake amounts to SGD792mn.
- **Credit metrics improved, though a debt wall is around the corner.** OHL generated SGD149.2mn net cash flow from operating activities, thereby reducing net gearing h/h to 1.50x from 1.66x. However, SGD1.07bn borrowings remain due in the near-term (another SGD347mn of borrowings are non-current). We believe a large part of the debt is taken on Novotel & Mercure Singapore on Stevens while the rest are likely project level debt, given that SGD869.7mn of the near-term debt are secured. We think it will be key for OHL to refinance this as the year progresses. (Company, OCBC)

Société Générale ("SocGen")

- SocGen announced its 4Q2023 and FY2023 results with net income down 40.2% and up 28.4% respectively y/y to EUR613mn and EUR3.45bn. FY2023 results benefited from the absence of prior year losses from other assets in FY2022 of EUR3.290bn. Excluding losses from other assets as well as a EUR338mn exceptional goodwill impairment in FY2023 related to SocGen's African, Mediterranean basin and Overseas activities and Equipment Finance, FY2023 adjusted net income of EUR3.90bn was down 35.5% y/y. Both reporting periods were impacted by a fall in net banking income.
- Net banking income performance was affected by the negative impact of short-term hedges although per management the peak of this impact was reached in 3Q2023. Operating expense performance was muted in

comparison, down 0.8% y/y for 4Q2023 and up 0.6% y/y for FY2023 despite EUR730mn in transformation costs and EUR617mn in integration costs for LeasePlan.

- Net cost of risk performance looks constructive, down 12.6% and 37.8% respectively y/y for 4Q2023 and 2023. The 2023 cost of risk was 17bps of gross customer loans outstanding, below SocGen's strategic target in 2024 of 25-30bps.
- SocGen's CET1 capital ratio as at 31 December 2023 was 13.1%, stable h/h but down 40bps y/y. On a fully loaded basis, the ratio is 13.1%. The ratio is about 340bps above its regulatory requirement of 9.77% as per the European Central Bank's Supervisory Review and Evaluation Process ("SREP").
- Other credit ratios are sound, including the Total Loss Absorbing Capacity ("TLAC") ratio which was 31.9% as at 31 December 2023 and above the 22.1% Financial Stability Board requirement and the Minimum Requirement for Own Funds and Eligible Liabilities ("MREL") ratio, which was 33.7% as at 31 December 2023 and above the 25.72% requirement. The liquidity coverage ratio was 160% as at 31 December 2023 with liquidity reserves of EUR316bn (EUR284bn as at 30 June 2023). (Company, OCBC)

New issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing	Initial Pricing
08 Feb	Mapletree Industrial Trust	Fixed	SGD	50	3Y	3.751%	NA

Mandates:

- Korea Housing Finance Corp. (“KHFC”) is planning to issue a USD-denominated Rule 144A/3c7/Reg S senior unsecured social bond offering with expected tenor(s) of 3- and/or 5Y.

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