Asian Credit Daily

19 February 2024

Market Commentary:

- The SGD SORA curve traded higher last Friday, with short tenors trading 2bps higher, belly tenors trading 2-3bps higher, and the 10Y trading 4bps higher.

- Flows in SGD corporates were heavy, with flows in UBS 5.75%-PERP, STTGDC 5.7%-PERP, BNP 4.75% '34s, UBS 4.85%-PERP, BNP 5.9%-PERP, HSBC 5.3% '34s, OCBCSP 4.5%-PERP, OCBCSP 4.05%-PERP, HSBC 5.3% '33s, BACR 7.3%-PERP, STANLN 4% '30s.

- According to Bloomberg, Logan Group Co. received more time to continue with its debt restructuring plan, after a Hong Kong court turned down creditor petitions to liquidate two of Logan’s key units. A group of bondholders that initially filed the wind-up petitions planned to no longer pursue liquidation after being satisfied with Logan’s restructuring proposals.

- Last Friday, Bloomberg Asia USD Investment Grade spreads tightened by 2ps to 94bps while the Asia USD High Yield spreads tightened by 14bps to 626bps, per Bloomberg.

- There were no notable bond issues in both the Asiadollar and Singdollar market last Friday.

Credit Summary:

- **Olam Group Ltd ("OG"):** OG has announced an update in relation to allegations by local Nigerian media against OG on its Nigerian business in September 2023.

- **Westpac Banking Corporation ("Westpac") :** Westpac published its 1QFY2024 investor update for the 3 months ended 31 December 2023 with 1QFY2024 net profit of AUD1.5bn down 6% compared to the 2HFY2023 quarterly average. This was driven by a 7% fall in net interest income with a 4bps decline in core net interest margins to 1.80% due to competition and changes in the deposit mix. In addition, impairment charges rose 47% y/y. Excluding notable items (related to hedging items), 1QFY2024 net profit was stable compared to the 2HFY2023 quarterly average.

- **Lendlease Group ("LLC"):** LLC reported 1HFY2024 results ended 31 December 2023.

Key Market Movements

	19-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	100	-1	0
iTraxx Japan	55	-2	-1
iTraxx Australia	66	-1	-4
CDX NA IG	53	-1	-2
CDX NA HY	106	0	0
iTraxx Eur Main	56	-1	-4
iTraxx Eur XO	309	-4	-20
iTraxx Eur Snr Fin	66	-2	-3
iTraxx Eur Sub Fin	124	-2	-6
USD Swap Spread 10Y	-36	0	9
USD Swap Spread 30Y	-73	0	2
China 5Y CDS	64	-1	-1
Malaysia 5Y CDS	41	-2	-3
Indonesia 5Y CDS	71	-3	-3
Thailand 5Y CDS	43	3	2
Australia 5Y CDS	15	0	0

	19-Feb	1W chg	1M chg
Brent Crude Spot ($/bbl)	82.9	1.1%	5.6%
Gold Spot ($/oz)	2,019	-0.1%	-0.5%
CRB Commodity Index	273	-0.6%	2.7%
S&P Commodity Index - GSCI	559	0.0%	3.7%
VIX	14.2	10.1%	7.1%
US10Y Yield	4.28%	10bp	16bp
AUD/USD	0.655	0.3%	-0.7%
EUR/USD	1.079	0.1%	-1.0%
USD/SGD	1.345	0.0%	-0.3%
AUD/SGD	0.881	-0.3%	0.5%
ASX200	7,678	0.8%	3.5%
DJIA	38,628	-0.1%	2.0%
SPX	5,006	-0.4%	3.4%
MSCI AC AsiaxJ	636	2.4%	5.3%
HSI	16,340	2.9%	6.7%
STI	3,226	2.8%	2.3%
KLCI	1,534	1.4%	3.2%
JCI	7,336	1.2%	1.5%
EU Stoxx 50	4,766	1.1%	7.1%

Source: Bloomberg

Credit Headlines:

Olam Group Ltd ("OG")

- OG has announced an update in relation to allegations by local Nigerian media against OG on its Nigerian business in September 2023.
- Per OG, the board of directors had directed the Audit and Risk Committee ("ARC") to conduct a review of the allegations and the review by the ARC (conducted with the assistance of external counsels and independent external accountants) has been completed.
- Based on the scope of the review, the investigation team did not identify evidence that establishes the allegations set out in the media articles. The team did not identify evidence that OG's Nigerian business was involved in any of the specific allegations contained in the articles.
- OG adds that its Nigeria business has cooperated fully with the Nigerian authorities and no charges have been brought against Olam Nigeria or any of its officers by the Nigerian authorities. All of OG businesses in Nigeria continue to operate normally.
- In September 2023, OG was subject to adverse local Nigerian media headlines surrounding the company's operations. Among various allegations, the piece focused on round tripping of the Nigerian Naira. (Company, OCBC)

Westpac Banking Corporation ("Westpac")

- Westpac published its 1QFY2024 investor update for the 3 months ended 31 December 2023 with 1QFY2024 net profit of AUD1.5bn down 6% compared to the 2HFY2023 quarterly average. This was driven by a 7% fall in net interest income with a 4bps decline in core net interest margins to 1.80% due to competition and changes in the deposit mix. In addition, impairment charges rose 47% y/y. Excluding notable items (related to hedging items), 1QFY2024 net profit was stable compared to the 2HFY2023 quarterly average.
- Other key highlights include:
    - Solid loan quality indicators with the stressed assets to total committed exposures at 1.22%, down 4bps q/q although the ratio of 90+ day mortgage delinquencies is up 9bps and 7bps respectively in Australia and New Zealand to 0.95% and 0.40% as at 31 December 2023. 30+ day mortgage delinquencies are also rising and at a faster rate.
    - Reflecting the weakening portfolio quality trend, the impairment charge to average loans rose 3bps compared to the 2HFY2023 quarterly average to 10bps. Most of this was driven by collectively assessed provisions ("CAP") of AUD134mn (partially shifted from mortgage overlay provisions) while individually assessed provisions were AUD55mn. The CAP to credit risk weighted assets rose 2bps to 137bps and is now above AUD5.0bn which is AUD1.5bn above expected losses under Westpac's base case economic scenario.
    - Common Equity CET1 ratio of 12.3%, down 10bps q/q as earnings and lower risk weighted assets due to changes in interest rate risk in the banking book were offset by shareholder returns including the 2HFY2023 dividend and share buyback. That said, the ratio remains above Westpac's target operating range of 11-11.5%. Including the remaining AUD1.3bn in share buybacks, the proforma CET1 ratio falls to 12.0% as at 31 December 2023.
    - On an internationally comparable basis, the APRA compliant Common Equity CET1 ratio improves to 18.4%.
- While management have struck a cautious tone on performance of the mortgage book, the outlook appears constructive with expectations for Australia's economy to remain resilient on reducing corporate sector stress and possible interest rate reductions with cooling inflation. Company, OCBC)

Lendlease Group ("LLC"):

- LLC reported 1HFY2024 results ended 31 December 2023.
- **Statutory losses from investment property valuation, restructuring and UK regulation**: Statutory loss after tax remained largely unchanged y/y at AUD136mn (1HFY2023: AUD141mn), driven primarily by (1) lower investment property valuation by AUD125mn, (2) AUD56mn of restructuring/redundancy costs from business optimisation and (3) AUD22mn provision to retrospective building remediation regulations in the UK.
- **Reported core operating profit after tax fell 42% y/y** to AUD61mn.
    - Investments EBITDA fell 39% y/y to AUD120mn, due primarily to absence of gains from the selldown of the Military Housing Asset Management income stream in 1HFY2023. Excluding this, underlying earnings increased by 1% y/y.
    - Development EBITDA increased 26% y/y to AUD112mn due to benefit of payment received for the San Franciso Bay Area Project and AUD37mn gain on The Exchange TRX, offset by a AUD28mn negative revaluation for Victoria Cross Over Station Development. Development completion guidance in FY2024 is cut to AUD5bn (previous guidance: AUD8bn). The completion guidance is cut lower for FY2024 as perhaps more will be delivered in FY2025 as LLC mentioned "key projects nearing completion are expected to deliver profits and strong net cash inflows in 2HFY2024 and 1HFY2025".
    - Construction EBITDA fell 25% y/y to AUD51mn, impacted by AUD17mn settlement on a prior year UK project.
- **Weaker gearing amidst higher capital investments**: Reported net gearing (net debt to total tangible assets, less cash) as at 31 December 2023 weakened h/h to 22.9% (June 2023: 14.8%), as net debt increased by AUD1.36bn h/h to AUD3.74bn (June 2023: AUD2.38bn) due to ~AUD1.1bn capital deployed on Development (AUD0.9bn) and Investments (AUD0.1bn) projects. Per management, the capital investment is likely to peak as more projects complete or near completion.
- **Gearing expected to improve to mid-teens level with projected cash inflow by June 2024**: Reported net gearing is expected to improve to 10-20% target range by the end of FY2024 (June 2024) as there will be AUD1.5bn cash inflow in 2HFY2024 from settlements at Residences One, One Sydney Harbour (98% pre-sold by value), and first receipts from the sale of 12 Communities projects. Proforma 1HFY2024 net gearing is ~16% should the AUD1.5bn cash inflow take place in 1HFY2024.
    - Meanwhile, a further AUD1.1bn net cash inflow is expected in FY2025 from final Communities sale receipt and One Sydney Harbour Residences Two settlements (94% pre-sold by value).
- **Interest coverage ratio declined meaningfully h/h to 2.2x** in 1HFY2024 (FY2023:3.0x) amidst (1) higher net debt at AUD3.74bn (FY2023: AUD2.38bn), (2) cost of debt at 5.0% (FY2023: 4.3%) and (3) lower reported core operating profit.
- **Share price down post earnings** - Share price of LLC reacted negatively post the earnings, falling by ~17% to AUD6.27 per share as LLC cut the return on equity ("ROE") guidance to 7% from the previous guidance (lower end of 8-10% range) made in August 2023. The lower ROE guidance is due to the higher execution risks because of the challenging global market backdrop. Moreover, per news from Financial Review, the 7% ROE guidance is achievable only if the AUD1.3bn deal with Stockland Corporation Limited announced in December 2023 is completed.
- **Credit fundamentals largely sustainable:** Despite the weaker-than-expected earnings & guidance and weaker credit metrics, the credit fundamentals are still supported by the (1) project cash inflow of AUD2.6bn by FY2025, (2) sustainable and stable earnings from Investment segment and (3) high Development completions in FY25-FY27 amidst high work-in-progress (AUD20.8bn as at 31 December 2023). That said, the ongoing weakening in credit metrics and financial results are outside our expectations and may indicate some pressure on its current fundamentals. (Company, OCBC, Bloomberg, Australian Financial Review)

Mandates:

- There are no Asiadollar mandates for today.

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau
Cindyckeung@ocbcwh.com

Herbert Wong
Hong Kong & Macau
HerberthtWong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
LavanyaVenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
Ahmad.Enver@ocbc.com

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

Ong Shu Yi
ESG Analyst
ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
WongHongWei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
MengTeeChin@ocbc.com

Co.Reg.no.: 193200032W