Asian Credit Daily

21 February 2024

Market Commentary:

- The SGD SORA curve traded lower yesterday, with short tenors trading 1bps lower, belly tenors trading 0-1bps lower, and the 10Y trading flat.

- Flows in SGD corporates were heavy, with flows in UBS 5.75%-PERP, BNP 4.75% '34s, UBS 4.85%-PERP, SGXSP 3.45%-‘27s, STTGDC 5.7%-PERP, BNP 5.9%-PERP.

- According to Bloomberg, Jiayuan International Group says they have not paid their remaining outstanding principal of February 2024 notes that matured on 17 February 2024. Some notable dates for debt distressed cases include Zhongliang which has a sanction hearing of the company’s scheme on 23 February 2024 and a winding-up petition adjourned to 4 March 2024. Taeyoung has a creditor’s meeting to discuss new loans on 23 February 2024.

- Yesterday, Bloomberg Asia USD Investment Grade and High Yield spreads remained unchanged at 94bps and at 626bps respectively.

Credit Summary:

- **First Real Estate Investment Trust ("FIRT"):** FIRT reported 2023 full year results. Overall results are decent with stable valuation, better net property income ("NPI") and credit metrics. The concerns remain the high revenue concentration risks to PT Lippo Karawaci Tbk ("LPKR") and PT Metropolis Propertindo Utama ("MPU").

- **Julius Baer Group Ltd (“JBG”):** JBG has confirmed the departure of market head for Switzerland Gilles Stuck. Mr Stuck becomes the latest departure influenced by the material drop in 2023 net profit from higher loan loss provisions including CHF606mn in net credit losses driven by exposures in the private debt business as first mentioned in November 2023.

- **Barclays PLC (“Barclays”):** Barclays announced its 4Q2023 and 2023 results with 4Q2023 profit before tax of GBP110mn down 92% y/y. This was largely due to higher operating costs from GBP927mn in restructuring items along with business growth, acquisitions and inflationary impacts.

- **Singapore Airlines Ltd (“SIA”):** SIA reported its business update for the third quarter for the financial year ended 31 March 2024 (“3QFY2024”) where the company provided some key headline financials for 3QFY2024 and 9MFY2024.

- **National Australia Bank Ltd ("NAB"):** NAB announced its 1QFY2024 trading update for the three months ended 31 December 2023 with unaudited cash earnings (that provides a better reflection of underlying performance according to management) of AUD1.80bn, down 16.9% y/y and down 3.0% compared to the quarterly average of the 2HFY2023 results ended 30 September 2023 for continuing operations.

Key Market Movements

	21-Feb	1W chg (bps)	1M chg (bps)		21-Feb	1W chg	1M chg
iTraxx Asiax IG	99	-4	-5	**Brent Crude Spot ($/bbl)**	82.5	1.1%	5.0%
				Gold Spot ($/oz)	2,029	1.8%	0.4%
iTraxx Japan	55	-3	-1	**CRB Commodity Index**	271	-0.9%	2.0%
iTraxx Australia	66	-2	-3	**S&P Commodity Index - GSCI**	554	-1.0%	2.8%
CDX NA IG	53	-1	-2	**VIX**	15.4	10.7%	15.9%
CDX NA HY	106	0	0	**US10Y Yield**	4.28%	2bp	15bp
iTraxx Eur Main	57	-1	-2				
iTraxx Eur XO	316	-2	-8	**AUD/USD**	0.656	1.1%	-0.1%
iTraxx Eur Snr Fin	67	-1	-2	**EUR/USD**	1.081	0.8%	-0.7%
iTraxx Eur Sub Fin	124	-4	-4	**USD/SGD**	1.343	0.4%	-0.1%
				AUD/SGD	0.882	-0.7%	0.0%
USD Swap Spread 10Y	-36	-1	2	**ASX200**	7,608	0.8%	2.5%
USD Swap Spread 30Y	-72	0	-2	**DJIA**	38,564	-0.6%	1.8%
				SPX	4,976	-0.9%	2.8%
China 5Y CDS	65	1	-2	**MSCI Asiax**	636	2.1%	5.4%
Malaysia 5Y CDS	40	-3	-4	**HSI**	16,539	4.2%	8.0%
Indonesia 5Y CDS	72	-1	-2	**STI**	3,225	2.7%	2.3%
Thailand 5Y CDS	43	2	1	**KLCI**	1,550	1.4%	4.3%
Australia 5Y CDS	15	-1	0	**JCI**	7,295	1.2%	0.9%
				EU Stoxx 50	4,760	1.5%	7.0%

Source: Bloomberg

Credit Headlines:

First Real Estate Investment Trust ("FIRT")

- FIRT reported 2023 full year results. **Overall results are decent with stable valuation, better net property income ("NPI") and credit metrics. The concerns remain the high revenue concentration risks to PT Lippo Karawaci Tbk ("LPKR") and PT Metropolis Propertindo Utama ("MPU").**
- **Better NPI due to acquisitions and built-in increment of rental**: NPI excluding rental straight-lining adjustment (actual NPI for the period) increased by 1.1% y/y to SGD90.1mn. The improvements were due to (1) built-in increment of rental income in Indonesia (4.5% for ten hospitals and 2% for one hospital) and Singapore and (2) full year contribution of 14 nursing homes that were acquired in March (12 units) and September (2 units) 2022.
    - Meanwhile, three hospitals achieved a performance-based rent that is 8.0% of each hospital's gross operating revenue.
- **Valuation remained stable**, falling merely 0.5% y/y to SGD1.14bn, due primarily to weaker JPY against SGD.
    - Indonesia assets rose 2.8% (local currency: +3.7%) y/y to SGD849.1mn amidst higher rent, lower discount rate and lower terminal rate.
    - Japan assets fell 9.9% (local currency: -0.4%) y/y to SGD258.7mn.
    - Singapore assets fell 2.5% y/y to SGD31.7mn, due to decreasing land tenure.
- **Stable gearing and healthy ICR**: Reported gearing ratio as at 31 December 2023 improved by 0.3ppts q/q to 38.7%. Interest coverage ratio for the trailing 12 months to 31 December 2023 was healthy at 4.1x (September 2023: 3.9x) while debt cost remained unchanged q/q at 5.0%.
- **No debt maturing until May 2026:** There are little liquidity risks as there are no refinancing requirements until May 2026, after FIRT completed the early refinancing of TMK bond due May 2025.
- **High revenue concentration risks particularly from LPKR and MPU:** PT Siloam International Hospitals Tbk ("SILOAM") (38.7%), LPKR (34.9%) and MPU (5.8%) collectively contributed 79.4% of FIRT's total rental income in 2023. We believe the risks are somewhat concerning particularly from LPKR and MPU given that (1) LPKR has high refinancing needs amidst looming debt maturity risks despite somewhat improved financial performance in 9M2023 with marginal underlying net profit after tax (turnaround from losses during 2018 – 2022), (2) MPU is owing SGD4.0mn as at 31 December 2023 though MPU is divesting assets in order to pay back the outstanding rents. That said, SILOAM has been performing strongly as evidenced from the substantially improved earnings and revenue. (Company, OCBC)

Julius Baer Group Ltd ("JBG")

- JBG has confirmed the departure of market head for Switzerland Gilles Stuck. Mr Stuck becomes the latest departure influenced by the material drop in 2023 net profit from higher loan loss provisions including CHF606mn in net credit losses driven by exposures in the private debt business as first mentioned in November 2023. This resulted in recent announcements of the wind-down and exit from the private debt business that is reflected in the full loss allowance of CHF586mn for JBG's largest private debt exposure.
- Other recent changes in management composition and compensation included Chief Executive Officer Philipp Rickenbacher stepping down by mutual agreement with the board and current deputy Chief Executive Officer and Chief Operations Officer Nic Dreckmann being appointed on an interim basis. In addition, Chair of the Governance and Risk Committee, David Nicol, is not standing for re-election at 2024 Annual General Meeting. (Bloomberg, OCBC)

Barclays PLC ("Barclays")

- Barclays announced its 4Q2023 and 2023 results with 4Q2023 profit before tax of GBP110mn down 92% y/y. This was largely due to higher operating costs from GBP927mn in restructuring items along with business growth, acquisitions and inflationary impacts. Other influences include:
    - A 3% y/y fall in total income to GBP5.60bn due to absence of one-off items (hedging arrangements related to the prior year over issuance of securities) as well as lower Global Markets income following a strong 4Q2022.
    - A 11% y/y rise in credit impairment charges to GBP552mn. The loan loss rate rose to 54bps in 4Q2023 from 49bps in 4Q2022.
- Similar influences were contained in 2023 performance with profit before tax of GBP6.56bn down 6% y/y on negative JAWS (operating costs rose 12% y/y to GBP16.71bn on the higher restructuring costs and investment spend while total income improved 2% y/y to GBP25.38bn from rates driven higher net interest income and higher US cards and Private Bank balances that were offset by weaker Global Markets and Investment Banking performance) while credit impairment charges rose 54% y/y to GBP1.88bn due to higher balances and delinquencies in US cards. 30- and 90-day arrears were at 2.9% and 1.5% respectively as at 31 December 2023, up from 2.2% and 1.2% y/y. The total coverage ratio for US cards is improved however to 10.2% as at 31 December 2023, up from 8.1% as at 31 December 2022. The 2023 loan loss rate of 46bps remains below the 50-60bps through the cycle guidance range.
- Barclays reported its results along its current business segments of Barclays UK (includes Corporate and Investment Bank and Consumer, Cards and Payments), Barclays International and Head Office. However, going forward, Barclays will be restructured into five business segments as follows reflecting the bank's UK and US business franchises:
    - Barclays UK: the ring fenced bank that comprises personal banking, Barclaycard UK and business banking.
    - Barclays UK Corporate Bank
    - Barclays Private Bank and Wealth Management
    - Barclays Investment Bank including Global Markets, Investment Banking and International Corporate Banking.
    - Barclays US Consumer Bank comprising partner credit cards.
- Barclays CET1 ratio of 13.8% as at 31 December 2023 was down 20bps q/q and 10bps y/y and remains at the top of its CET1 ratio target range of 13-14% and above its 12.0% maximum distributable amount ("MDA") minimum requirement. The y/y movement reflected higher growth in risk weighted assets than growth in capital as well as higher shareholder returns. On a proforma basis including the announced GBP1.0bn FY2023 buyback, the CET1 ratio falls to 13.5% as at 31 December 2023. Its liquidity coverage ratio and net stable funding ratio remained at solid levels of 161% and 138% respectively as at 31 December 2023, well above the 100% minimum requirement and improved y/y.
- In addition to its restructured business divisions, Barclays announced its new three-year plan in the midst of other strategic actions including the acquisition of Tesco Bank and exit of non-priority businesses including the sale of the German consumer finance business and disposal of Italian retail mortgages. This appears in line with management's intention to allocate capital to better returning businesses that includes Barclays UK, UK Corporate Bank and Private Bank and Wealth Management. Barclays is expecting GBP50bn in risk weighted asset growth in the next three years to 2026 with:
    - GBP30bn allocated to Barclays UK, UK Corporate Bank and Private Bank and Wealth Management. GBP8bn of this relates to the recently announced agreement to acquire most of Tesco PLC's ("Tesco") UK retail banking business; and
    - GBP20bn allocated to US Consumer Bank, mostly related to the transition to internal ratings-based models.
    - Risk weighted assets within the Investment Bank are expected to remain broadly stable but declining in contribution to total group risk weighted assets from 58% as at 31 December 2023 to ~50% by end 2026.
- Income quality is expected to improve with more stable income sources including retail and corporate lending (defined as Barclays UK, Barclays UK Corporate Bank, Barclays Private Bank and Wealth Management, the

International Corporate Bank, Barclays US Consumer Bank and Head Office) and Financing (client financing within Global Markets) to generate over 70% of group income by 2026. Barclays aim is to be a UK centred leader in global finance. (Company, OCBC)

Singapore Airlines Ltd ("SIA")

- SIA reported its business update for the third quarter for the financial year ended 31 March 2024 ("3QFY2024") where the company provided some key headline financials for 3QFY2024 and 9MFY2024. Revenue was higher by 4.9% y/y to SGD5.1bn on the back of higher passenger flown revenue (+10.6% y/y) to SGD4.2bn in 3QFY2024 despite a fall in passenger yields. Group passenger load factor remained high at 88.2% while Revenue per Available Seat-Kilometre ("RASK") was 9.9 cents per ask for 3QFY2024. This is higher than pre-pandemic's passenger load factor of 82.4% and 7.5 cents per ask.
- However, the increase in passenger revenue was partly offset by cargo flown revenue which fell by 35.1% y/y to SGD559mn. Whilst cargo yields were still above pre-pandemic levels by 32.1% when compared to FY2020 numbers, cargo yields were 37.4% lower y/y at 40.3 cents per ltk. Cargo load factor was 55.5% for 3QFY2024, boosted by e-commerce demand versus the quarter before and 1.2 percentage points higher than 3QFY2023.
- While the softer cargo outlook and possibility of softer passenger yield was highlighted in past updates, SIA's 3QFY2024 was also dragged by an increase in expenditure by 9.3% y/y to SGD4.5bn, mainly attributable to an increase in non-fuel expenditure and a lower fuel hedging gain. We understand from management that non-fuel expenditure had increased in part due to inflationary effects, as handling charges and passenger costs (eg: prices of meals) have increased following supply contract renewal while staff costs increased in line with higher capacity.
- Consequently, SIA's 3QFY2024 reported operating profit was SGD609mn, declining by 19.3% y/y. 3QFY2023 was a strong quarter with the continued strong demand for travel since the reopening of international borders. We note that before the pandemic in 3QFY2020, SIA's reported operating profit was SGD449mn.
- Net profit though was higher by 4.9% y/y at SGD658.7mn in 3QFY2024 despite the lower operating profit, mainly driven by tax credits of SGD123.5mn that was previously unrecognised while associated companies contributed to a share of profit against a share of losses in the prior year.
- Reported EBITDA was SGD1.37bn in 3QFY2024 versus SGD1.44bn in 3QFY2023.
- Book value of equity fell to SGD15.6bn as at 31 December 2023 against SGD17.7bn as at 30 September 2023. This is due to the redemption of mandatory convertible bonds that were issued in 2021 (recognised as equity, SIA holds the conversion option), though buffered by net profit contribution during the quarter. Resultant reported gross gearing as at 31 December 2023 was 0.88x (30 September 2023: 0.85x and 31 March 2023: 0.77x).
- SIA has access to SGD2.8bn of undrawn committed lines of credit as at 31 December 2023, higher than the SGD2.4bn disclosed in 2QFY2024 while cash balance as at 31 December 2023 was SGD10.5bn (30 September 2023: SGD13.9bn). SGD SIA faces two tranches of SGD-denominated bonds coming due in March and April 2024 respectively, amounting to a total of ~SGD1.0bn.
- With cash balance and access to undrawn lines ample, we see short term refinancing risk as manageable, notwithstanding SIA's intention to redeem the remaining outstanding mandatory convertible bonds, announced investment outlay on Enlarged Air India and the adverse equity price reaction on the back of its 3QFY2024 results announcement.
- The proposed merger of Air India and Vistara (49%-owned by SIA) remains on course. The Competition Commission of India has approved the merger transaction in September 2023.
- Assuming the transaction is completed (targeted for the first few months of calendar year 2024), SIA will have a ~25.1% stake in the Enlarged Air India, with a significant presence in all key Indian airline market segments.
- Per SIA, demand for air travel remains healthy in the near term with forward sales robust supported by demand for leisure travel although passenger yields continue to come under pressure with capacity restoration by competitors. The outlook for air cargo is expected to be seasonally lower demand in 4QFY2024

while the increase in passenger aircraft bellyhold capacity in the market is likely to continue pressurising cargo yield.

- The Civil Aviation Authority of Singapore ("CAAS") has announced that from 2026 onwards, all flights departing from Singapore will be required to use sustainable aviation fuel ("SAF"), with a 1% SAF uplift target in 2026, with plans to increase this to 3% to 5% by 2030. The Business Times reports that per early estimates from CAAS, economy-class passenger may incur an additional SGD3 for short-haul flights, SGD6 for medium-haul flights and SGD16 for long-haul flights based on the 1% target. The cost is expected to be passed through to passengers. (Company, Business Times, OCBC)

National Australia Bank Ltd ("NAB")

- NAB announced its 1QFY2024 trading update for the three months ended 31 December 2023 with unaudited cash earnings (that provides a better reflection of underlying performance according to management) of AUD1.80bn, down 16.9% y/y and down 3.0% compared to the quarterly average of the 2HFY2023 results ended 30 September 2023 for continuing operations.
- The result compared to 2HFY2023 quarterly average reflects a higher tax rate. Otherwise, the underlying result was broadly stable as lending growth of 1%, that includes 2% growth in Australian SME business lending in NAB's Business & Private Banking division, offset ongoing competitive and inflationary cost pressures. Overall revenues rose 1% with net interest margins also higher while expenses rose 2% due to higher compensation, technology costs, and compliance investment for financial crime capabilities.
- Credit impairment charges of AUD193mn for 1QFY2024 was up 17.0% q/q and 22.2% y/y although down 5.6% compared to 2HFY2023 quarterly average. The q/q increase reflected higher Australian home lending arrears and higher business lending exposures. This did not impact specific charge and forward looking/economic adjustment levels as well as 90+ days past due and gross impaired assets to gross loans and acceptances ratio that remained stable q/q at 0.75%. As such, the ratio of collective provisions to credit risk weighted assets rose slightly by 2bps to 1.49%.
- NAB's Common Equity Tier 1 ratio of 12.0% as at 31 December 2023 remains above the 11-11.5% target range and includes NAB's current on market share buy-back. On a proforma basis including the remaining AUD900mn of share buy-backs, the ratio falls to 11.7% as at 31 December 2023.
- NAB's outlook is optimistic based on a resilient, albeit slowing economy that is being addressed through higher provisions.
- NAB recently announced the retirement of current Chief Executive Officer Ross McEwan from executive roles at the bank. He will be replaced by Andrew Irvine, the current head of Business and Private Banking. His appointment will commence on 2 April 2024.(Company, OCBC)

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing	Initial Pricing
20 Feb	BPCE SA	Fixed	SGD	100	2-Yr	3.74%	NA
20 Feb	HSBC Bank PLC	Fixed	SGD	83.9	2-Yr	3.6%	NA
20 Feb	Westpac New Zealand Ltd (WSTPNZ)	Fixed	USD	750	3-Yr	T+75bps	T+100bps
20 Feb	Westpac New Zealand Ltd (WSTPNZ)	Fixed	USD	750	5-Yr	T+95bps	T+120bps
20 Feb	Korea Housing Finance Corp (KHFC)	Social, Fixed	USD	500	3.5-Yr	T+58bps	T+90bps area

Mandates:

- LG Electronics Inc. is arranging a series of fixed investor update meeting and calls.
- IIFL Finance Ltd is planning to issue as much as USD400mn in 3Y notes.

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