

Asian Credit Daily

23 February 2024

Market Commentary:

- The SGD SORA curve traded higher yesterday, with short tenors trading 0-2bps higher, and belly tenors and 10Y trading 2bps higher.
- Flows in SGD corporates were heavy, with flows in UBS 5.75%-PERP, BNP 4.75% '34s, OCBCSP 4.05%-PERP, STTGDC 5.7%-PERP, BNP 5.9%-PERP, BACR 7.3%-PERP
- According to Bloomberg, South Korean financials have a property market exposure of KRW56.4tn (~USD42bn) of which KRW34.5tn (~USD26bn) was in North American real estate, according to the Financial Supervisory Service ("FSS"). Insurers had the largest exposure totaling KRW31.9tn (~USD24bn), followed by banks with KRW10.1tn (~USD7.6bn) and brokerages with KRW8.4tn (~USD6.3bn). As of end Sept 2023, KRW2.3tn (USD1.7bn) worth of assets was at risk of default, of which KRW0.9tn (USD680mn) was in office investment. That said, the FSS sees limited impact in the financial system as the overseas investments accounts for less than 1% of the overall asset of Korean financial firms.
- Yesterday, Bloomberg Asia USD Investment Grade spreads tightened by 2 bps to 91bps while the Asia USD High Yield spreads tightened 10 bps to 593bps, per Bloomberg.

Credit Summary:

- **Singapore Telecommunications Ltd ("SingTel"):** SingTel announced its 9MFY2024 and 3QFY2024 business update for the period ended 31 December 2023. Underlying results was stable y/y, however performance diverges between segments.
- **Qantas Airways Ltd ("Qantas"):** Qantas announced its half year results for the financial year ended 31 December 2023 ("1HFY2024") with statutory profit after tax of AUD869mn in 1HFY2024, lower than the AUD1.0bn in 1HFY2023. Despite higher revenue of AUD11.1bn in 1HFY2024 (driven by higher net passenger revenue) against AUD9.9bn the year before, expenditure at Qantas increased from higher salaries, wages and other benefits, aircraft operating variable, fuel and other expenses.

Key Market Movements

	23-Feb	1W chg (bps)	1M chg (bps)		23-Feb	1W chg	1M chg
iTraxx Asiax IG	96	-4	-6	Brent Crude Spot (\$/bbl)	83.2	-0.4%	4.6%
				Gold Spot (\$/oz)	2,019	0.3%	-0.5%
iTraxx Japan	54	-1	-1	CRB Commodity Index	274	1.5%	2.2%
iTraxx Australia	64	-2	-5	S&P Commodity Index - GSCI	559	0.6%	2.5%
CDX NA IG	51	-2	-5	VIX	14.5	1.1%	15.9%
CDX NA HY	106	0	1	US10Y Yield	4.32%	9bp	22bp
iTraxx Eur Main	54	-2	-6				
iTraxx Eur XO	305	-4	-24	AUD/USD	0.657	0.6%	-0.2%
iTraxx Eur Snr Fin	64	-2	-5	EUR/USD	1.082	0.4%	-0.3%
iTraxx Eur Sub Fin	116	-8	-14	USD/SGD	1.344	0.2%	-0.2%
				AUD/SGD	0.883	-0.4%	-0.1%
USD Swap Spread 10Y	-36	-5	-2	ASX200	7,644	-0.2%	2.2%
USD Swap Spread 30Y	-72	-2	-6	DJIA	39,069	1.7%	3.1%
				SPX	5,087	1.7%	4.6%
China 5Y CDS	63	-1	-2	MSCI Asiax	645	1.4%	6.9%
Malaysia 5Y CDS	39	-2	-5	HSI	16,749	2.5%	9.1%
Indonesia 5Y CDS	69	-2	-6	STI	3,187	-1.1%	1.2%
Thailand 5Y CDS	42	-2	0	KLCI	1,546	0.8%	3.7%
Australia 5Y CDS	16	1	1	JCI	7,275	-0.8%	0.4%
				EU Stoxx 50	4,855	2.4%	8.7%

Source: Bloomberg

Credit Headlines:**Singapore Telecommunications Ltd (“SingTel”)**

- SingTel announced its 9MFY2024 and 3QFY2024 business update for the period ended 31 December 2023. **Underlying results was stable y/y, however performance diverges between segments.**
- **Stable performance on constant currency basis, dragged by FX otherwise:** Excluding Trustwave (held for sale), reported underlying EBITDA fell 0.8% y/y to SGD935mn in 3QFY2024 and fell 3.7% y/y to SGD2.77bn in 9MFY2024. In local currency terms, reported underlying EBITDA would be stronger, up 0.9% y/y in 3QFY2024 and down 0.3% y/y in 9MFY2024.
- **By reported EBITDA, NCS performed well while other segments were lacklustre. By reported EBITDA:**
 - **NCS grew 47.1% y/y to SGD75mn in 3QFY2024 (9MFY2024: +31.4% y/y to SGD211mn).** All segments of NCS saw growth, with cost and resource optimization boosting margins, and new bookings of SGD2.1bn. NCS is expanding into enterprise & outside of Singapore.
 - **Optus fell 1.8% y/y to SGD465mn in 3QFY2024 (9MFY2024: -8.3% y/y to SGD1.38bn).** Mobile service revenue fell 3.3% y/y in constant currency terms, with the number of mobile customers falling 2.2% y/y (-2.3% q/q). Meanwhile, revenue from fixed enterprise declined from price erosion and higher cost from energy and content. On the positive note, customer churn arising from the network outage has stabilized in 3QFY2024. Thus far, AUD60mn provision were booked for costs related to network outage.
 - **Singtel Singapore fell 4.9% y/y to SGD372mn (9MFY2024: -2.4% y/y to SGD1.11bn).** The decline was due to challenging trading environment with lower ICT sales, inflationary cost increases, higher depreciation from IT & network investments. Mobile service revenue fell 1.8% y/y to SGD327mn in 3QFY2024 though this was up 2.1% y/y to SGD973mn in 9MFY2024. Fixed broadband revenue was stable y/y at SGD124mn for 3QFY2024 and up 2.6% y/y to SGD375mn for 9MFY2024.
 - **Digital InfraCo fell 2.7% y/y to SGD55mn (9MFY2024: +2.2% y/y to SGD167mn).** Nxera (which is SingTel’s data centre business) is scaling up with revenue up 15.6% y/y for 3QFY2024 and up 13.6% y/y for 9MFY2024, however its margins were impacted by ramp up in capabilities.
- **Regional associates pre-tax profits for 9M2023 was largely stable y/y at SGD1.71bn** (+4% y/y in constant currency)
 - **Airtel inched up 0.6% y/y to SGD523mn** (+7% y/y in constant currency), with strong performance impacted by weak Nigerian Naira (-SGD130mn) & higher Bharti Telecom losses
 - **Telkomsel fell 9% y/y to SGD609mn** (-4% y/y in constant currency) due to dilution of stake
 - **Globe fell 8% y/y to SGD205mn** (-4% y/y in constant currency) due to healthy mobile growth offset by increase in network cost
 - **AIS grew 12% y/y** (+14% y/y in constant currency) due to revenue growth across all businesses
 - **Intouch grew 35% y/y to SGD112mn** (+36% y/y in constant currency). (Company, OCBC)

Qantas Airways Ltd (“Qantas”)

- Qantas announced its half year results for the financial year ended 31 December 2023 (“1HFY2024”) with statutory profit after tax of AUD869mn in 1HFY2024, lower than the AUD1.0bn in 1HFY2023. Despite higher revenue of AUD11.1bn in 1HFY2024 (driven by higher net passenger revenue) against AUD9.9bn the year before, expenditure at Qantas increased from higher salaries, wages and other benefits, aircraft operating variable, fuel and other expenses.
- On an underlying basis, profit before tax was reported at AUD1.2bn in 1HFY2024, against AUD1.4bn in 1HFY2023. In 1HFY2024, on an underlying basis, profit before tax for Qantas Domestic fell by 18% y/y to AUD641mn while Qantas International (including freight) fell 31% y/y to AUD322mn. Qantas Domestic saw operating margin of 17.1% in 1HFY2024 (1HFY2023: 21.6%), impacted by moderating unit revenue, customer-related expenses, temporary costs from delayed exit of a certain fleet and higher airport and security charges.

- Per company, operating margin for Qantas International (including freight) was 7.4% in 1HFY2024 (1HFY2023: 12.2%), reflecting normalization of unit revenue as capacity returned, incremental customer investment and decline in international freight yields.
- Jetstar Group and Qantas Loyalty saw underlying profit before tax increased by 84% y/y to AUD325mn and 23% y/y to AUD270mn respectively. Jetstar Group saw capacity increasing with resumption of international markets while Qantas Loyalty saw consumer spending strong with one million new members added in the last 12 months and 40,000 members joining Qantas Business Rewards.
- Qantas reported underlying EBITDA (also before impairments) of AUD2.2bn in 1HFY2024, on finance cost of AUD164mn, resultant reported underlying EBITDA/Interest was a healthy 13.4x.
- As at 31 December 2023, gross debt (including liabilities, significant for Qantas) was AUD6.1bn, we find gross debt-to-EBITDA at only 1.4x.
- 1HFY2024's net capex was AUD1.5bn. FY2024 net capex has been guided at AUD3.0bn to AUD3.2bn and for FY2025 at AUD3.7bn to AUD3.9bn, driven by aircraft renewal.
- Qantas' short term debt (including lease liabilities) is AUD661mn and we see refinancing risk as manageable (30 June 2023: AUD1.4bn). This represents only 11% of gross debt (including lease liabilities) as at 31 December 2023. Committed undrawn facilities of AUD1.4bn as at 31 December 2023 helps with short term liquidity needs in our view. (Company, OCBC).

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing	Initial Pricing
22 Feb	Shinhan Card Co Ltd ("SHINCA")	Fixed	USD	300	5-Yr	T+125bps	T+160bps area

Mandates:

- Bank of Philippine Islands is looking to refinance its USD300mn bond.
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