

Asian Credit Daily

29 November 2024

Market Commentary:

- The SGD SORA OIS curve traded lower yesterday, with shorter tenors trading 3-4bps lower while belly tenors and 10Y were trading 4bps lower.
- Flows in SGD corporates were heavy, with flows in BACR 5.4%-PERP, HSBC 5.25%-PERP, INCINS 3.1% '50s, STHSP 3.55% '26s.
- Liquidators for China Evergrande Group have filed a winding-up petition against Tianji Holding, an indirect subsidiary of the company, as reported in a filing with the Hong Kong exchange.
- New World Co Ltd is set to sell its entire 100% stake in New World Sports Development to its major shareholder, Chow Tai Fook, for HKD416.7mn (~USD53.5mn), as stated in a filing with the Hong Kong Stock Exchange (HKEX).
- According to statements from companies and ratings firms compiled by Bloomberg, bonds from at least 76 Chinese companies, amounting to USD53.9bn, are under repayment pressure.
- PT Modernland Realty Tbk is offering to buy back its MDLNIJ 5.0% '25s due June 2025 for 31 cents in cash and 24 cents in new notes maturing in 2027. The notes have ~USD130.7mn outstanding and are currently trading below 40 cents.
- Bloomberg Asia USD Investment Grade spreads and Bloomberg Asia USD High Yield spreads remained unchanged at 74bps and 459 bps respectively due to the US Thanksgiving holiday. (Bloomberg, OCBC)
- There were no new Asiadollar mandates yesterday.

Credit Summary:

- **Industry Outlook – Singapore REITs:** The Monetary Authority of Singapore (“MAS”) has issued revisions to the Code on Collective Investment Schemes to rationalise leverage requirements for the REIT sector.
- **Lendlease Group (“LLC”):** Lendlease announced the sale of 12 Australian master-planned Communities projects for a consideration of AUD1.06bn have been completed.

Credit Headlines:

Industry Outlook – Singapore REITs

- The Monetary Authority of Singapore (“MAS”) has issued revisions to the Code on Collective Investment Schemes to rationalise leverage requirements for the REIT sector. This follows a public consultation process from July to August 2024.
- MAS has imposed a minimum interest coverage ratio (“ICR”) of 1.5x and a single aggregate limit of 50% on all REITs with immediate effect.
- The previous requirement was that a minimum ICR (or Adjusted ICR for REITs with perpetuals outstanding) of 2.5x was imposed only on REITs which intended to increase their aggregate leverage from 45% to 50%.
- Key changes include:
 - REITs to maintain a minimum of 1.5x ICR. The ICR for the purposes of comparing against the threshold of 1.5x will be calculated by dividing the trailing 12 months’ earnings before interest, tax, depreciation and amortisation (excluding effects of any fair value changes of derivatives and investment properties, and foreign exchange translation), by the trailing 12 months’ interest expense, borrowing-related fees and distributions on hybrid securities (eg: perpetuals). There is no longer a mention of Adjusted ICR.
 - Minimum ICR is not considered breached if it is due to circumstances beyond the control of the REIT Manager (volatility in interest rates, foreign exchange and tenant default does not qualify as “circumstances beyond control”). However, if the REIT does not meet ICR of 1.5x, the REIT Manager should not incur additional borrowings or enter into further deferred payment arrangements, although it can refinance debt. This is similar the aggregate leverage cap as it currently applies.
 - Aggregate leverage cap to be increase to 50%. We note that perpetuals are not included as debt for the purposes of the aggregate leverage cap, if the perpetuals are structured to meet MAS criteria for equity treatment. Currently all S-REIT perpetual outstanding are treated as equity for the purposes of the aggregate leverage cap.
- Other changes:
 - Where ICR has fallen below 1.8x, REIT manager should take steps and/or have plans in place to improve the IR and disclose this additional information.
 - REITs to disclose sensitivity analyses of the impact to the ICR under the following scenarios (1) A 10% decrease in EBITDA and (2) a 100 basis point increase in the weighted average interest rate of REIT.
- In our view, ultimately, the market (capital markets as well as lenders) will collectively determine where the new comfort level is. We expect the new comfort level is likely to be higher than current levels given MAS’ new signpost, rather than 50% for the aggregate cap being where REITs will definitively end up at. It is worth noting that despite allowing a 45% aggregate leverage, bulk of the REITs have maintained their aggregate leverage at five to six percentage points lower, with those persistently exceeding 40% viewed with caution.
- We expect the market’s comfort level for aggregate leverage to stabilise at 43-44% overtime and an ICR of ~1.8x to be the market’s new “line in the sand”.
- We think REIT managers that continue to practise financial discipline and uphold the market’s expectation of REITs as lower risk vehicles that generate stable income to pay its capital source providers are likely to continue to be favoured. (MAS, OCBC)

Lendlease Group (“LLC”)

- **Major disposal completed though lower than expectation:** Lendlease announced the sale of 12 Australian master-planned Communities projects for a consideration of AUD1.06bn have been completed. The consideration of AUD1.06bn is lower than the previous announcement of AUD1.3bn as some lots are excluded from the transaction as certain conditions have not been met.
- **More asset recycling ahead amidst new strategy to focus on Australia Development and Global Investment:** This transaction brings the total of announced capital recycling initiatives to AUD1.8bn out of a target of AUD2.8bn for FY2025 (ended 30 June 2025). Processes for further capital recycling initiatives in FY2025 remain

ongoing, including the sales of TRX Retail in Malaysia, China Senior Living and Australian Retirement Living. The sale process of the UK Construction operations to further simplify the Group is also progressing.

- **Net gearing of 5-15% by FY2025, one year sooner than previous estimation:** Lendlease's earnings guidance for FY2025 remains unchanged with Earnings Per Security of AUD0.54 to AUD0.62 anticipated, with a number of transactions targeted for completion. LLC's net gearing (net debt to total tangible assets, less cash) ratio is expected to improve to 5-15% (30 June 2024: 21.1%) by 30 June 2025, one year earlier than the previous estimation.
- **Positive credit event:** We believe the divestment is a credit positive event as LLC is on track to achieve its net gearing ratio target. Besides, LLC's focus on Global Investment and Australia Development segments are likely to improve the net gearing (lesser capital requirement), earnings stability and business risks. (Company, OCBC)

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing
28 Nov	Qingdao Jimo District Urban Tourism Development & Investment Co Ltd	Fixed	USD	171.7	2Y	6.9%

Key Market Movements

	29-Nov	1W chg (bps)	1M chg (bps)		29-Nov	1W chg	1M chg
iTraxx Asiax IG	74	1	3	Brent Crude Spot (\$/bbl)	73.3	-1.3%	2.6%
				Gold Spot (\$/oz)	2,646	-2.6%	-4.6%
iTraxx Japan	53	0	1	CRB Commodity Index	287	0.2%	3.2%
iTraxx Australia	66	0	1	S&P Commodity Index - GSCI	537	-0.5%	1.8%
CDX NA IG	48	0	-4	VIX	13.9	-17.6%	-29.8%
CDX NA HY	108	0	1	US10Y Yield	4.24%	-16bp	-1bp
iTraxx Eur Main	57	0	1				
iTraxx Eur XO	306	-2	-1	AUD/USD	0.651	0.1%	-0.8%
iTraxx Eur Snr Fin	64	0	1	EUR/USD	1.056	1.4%	-2.4%
iTraxx Eur Sub Fin	113	0	1	USD/SGD	1.340	0.5%	-1.2%
				AUD/SGD	0.872	0.4%	-0.4%
USD Swap Spread 10Y	-47	3	2	ASX200	8,412	0.2%	2.0%
USD Swap Spread 30Y	-80	4	2	DJIA	44,722	3.0%	5.5%
				SPX	5,999	1.4%	3.0%
China 5Y CDS	65	2	2	MSCI Asiax	704	-0.3%	-4.7%
Malaysia 5Y CDS	46	1	6	HSI	19,347	0.6%	-6.5%
Indonesia 5Y CDS	75	1	7	STI	3,721	-0.7%	3.7%
Thailand 5Y CDS	40	0	3	KLCI	1,591	0.1%	-1.5%
Australia 5Y CDS	10	-1	-3	JCI	7,200	0.3%	-5.3%
				EU Stoxx 50	4,759	0.1%	-3.9%

Source: Bloomberg

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