Asian Credit Daily

4 February 2025

Market Commentary:

- The SGD SORA OIS curve traded mixed yesterday with shorter tenors trading 0-1bps higher, belly tenors trading 0-1bps lower and 10Y trading 1bps lower.
- Flows in SGD corporates were heavy, with flows in HSBC 5.25%-PERP, BPCEGP 4.6% '35s, INCINS 3.1% '50s, TMGSP 4.65% '29s, BACR 5.4%-PERP, ANZ 3.75% '34s.
- Per Bloomberg, Deutsche Bank led the underwriting of Asia ex-Japan G3 high-yield bonds in January, with deal values soaring 1,353% year-over-year. Issuers raised USD2.18bn, up from USD150mn last January.
- China Evergrande New Energy Vehicle Group Ltd. ("Evergrande NEV"), the electric vehicle unit of the defaulted China Evergrande Group, has cut jobs to conserve cash while seeking a buyer or investor, according to a recent filing. Low liquidity has hampered services like site audits for 2024. Evergrande NEV is prioritizing available cash for essential operations, including plant maintenance, as it pursues strategic investors to address its liquidity challenges.
- A London judge has approved Sino-Ocean Group Holding Ltd.'s debt restructuring plan, despite bondholder objections. The plan aims to restructure $5.6 billion in debt after the company's 2023 default on dollar bonds and suspension of offshore borrowings. The judge ruled that the plan fairly distributes value among stakeholders and that two state-owned shareholders will retain at least 15% of Sino-Ocean's equity each for two years post-restructuring.
- Bloomberg Asia USD Investment Grade spreads widened by 2bps to 74bps while Bloomberg Asia USD High Yield spreads tightened by 6bps to 426bps. (Bloomberg, OCBC)

Credit Summary:

- **Singapore Post Ltd ("SingPost"):** SingPost's CEO Singapore, Shahrin Abdol Salam, resigned to pursue opportunities outside the company.
- **Singapore Airlines Ltd ("SIA"):** SIA has signed a Memorandum of Understanding ("MOU") to potentially source neat sustainable aviation fuel ("SAF") from Aether Fuels, a climate technology firm that plans to set up SAF production plants in the USA and South East Asia.
- **Westpac Banking Corporation ("Westpac"):** Westpac announced the appointment of Paul Fowler as Chief Executive, Business & Wealth, replacing acting Chief Executive Peter Herbert.
- **CapitaLand Investment Ltd ("CLI"):** CLI has acquired a freehold land parcel in Osaka to develop its first data centre. 50MW of power capacity has been secured.
- **Singapore Telecommunications Ltd ("SingTel"):** In connection to the conditional voluntary tender offer made by SingTel and other shareholders of the company for Advanced Info Service Public Company Ltd ("AIS"), which we detailed in OCBC Asian Credit Daily – 17 July 2024, we note that no significant number of shares were tendered and purchased.
- **Lendlease Global Commercial REIT ("LREIT"):** LREIT reported 1HFY2025 results ended 31 December 2024.
- **Keppel Infrastructure Trust ("KIT"):** KIT announced their 2H2024 and full year 2024 financials.
- **Julius Baer Group Ltd ("JBG"):** The improvement in JBG's reported 2024 results reflect the absence of higher net credit losses driven by exposures in the private debt business that influenced 2023 reported results.

Credit Headlines:

Singapore Post Ltd ("SingPost")

- SingPost's CEO Singapore, Shahrin Abdol Salam, resigned to pursue opportunities outside the company.
- Shahrin was responsible for SingPost's domestic mail and parcel business and reported to Group Chief Operating Officer, Neo Su Yin.
- Neo will assume additional responsibility as CEO Singapore following Shahrin's departure.
- Shahrin has been with SingPost since 1 April 2024. (Company, OCBC)

Singapore Airlines Ltd ("SIA")

- SIA has signed a Memorandum of Understanding ("MOU") to potentially source neat sustainable aviation fuel ("SAF") from Aether Fuels, a climate technology firm that plans to set up SAF production plants in the USA and South East Asia.
- The agreement outlines SIA's intention to procure neat SAF for five years when Aether plants begin commercial production, with an option for a 5Y extension. (Company)

Westpac Banking Corporation ("Westpac")

- Westpac announced the appointment of Paul Fowler as Chief Executive, Business & Wealth, replacing acting Chief Executive Peter Herbert. Mr Herbert was appointed following the elevation of previous Chief Executive, Business & Wealth Anthony Miller to Chief Executive Officer of Westpac in September 2024.
- Mr Fowler was previously Executive General Manager, Regional and Agribusiness Banking in Business Banking at Commonwealth Bank of Australia.
- Westpac's Business & Wealth segment is the largest contributor to profit before income tax by Segment contributing 33.3% in FY2024 (ended 30 September 2024). (Company, OCBC)

CapitaLand Investment Ltd ("CLI")

- **Developing its first data centre in Japan at an investment of USD700mn:** CLI has acquired a freehold land parcel in Osaka to develop its first data centre. 50MW of power capacity has been secured.
- **Rapid growth in CLI's data centre portfolio:** In total, CLI has added 23 data centres to its global portfolio since 2021. Within the CapitaLand Group, it holds 27 data centres across Asia and Europe with 800MW of power and SGD6bn of assets under management. Since October 2020, CLI has raised USD600mn (~SGD800mn) for data centre development funds in Asia.
- **Designed to be AI-ready and with sustainability in mind:** The data centre will be AI-ready and will be aligned with Leadership in Energy and Environmental Design or an equivalent Japanese green-certification standard. It will integrate energy-saving solutions such as advanced cooling technologies and adopt industry best practices in temperature management to enhance energy and water usage efficiency, utilize products with zero ozone depletion potential or with global warming potential of less than 100.
- **Japan is a core market of CLI:** Japan is one of CLI's focus markets. Japan is also a Tier 1 data center market with 1.4GW capacity, which is the largest data centre market outside of China. According to CLI, the Japan data centre market is projected to grow at a compound annual growth rate of 10% from USD23.8bn in 2023 to USD38.7bn in 2028.
- **Osaka is well-positioned to capture demand:** According to CLI, major cloud service providers such as Amazon Web Services, Google Cloud, Microsoft Azure and Oracle already have a presence in Osaka.
- **97% of investors are planning to increase investments in data centres, and demand outstrips supply:** According to Ms Michelle Lee, Managing Director, Private Funds (Data Centre) of CLI, with the rapid adoption of digitalization and artificial intelligence globally and especially in Asia, data centre demand is expected to enjoy double-digit growth and outstrip new supply. (Company, OCBC)

Singapore Telecommunications Ltd ("SingTel")

- **Update on conditional voluntary tender offer for AIS:** In connection to the conditional voluntary tender offer made by SingTel and other shareholders of the company for Advanced Info Service Public Company Ltd ("AIS"), which we detailed in OCBC Asian Credit Daily – 17 July 2024, we note that no significant number of shares were tendered and purchased. As such, SingTel's direct stake in AIS remains at ~23.3%. We note that the current share price of AIS at around ~TBH280/share is substantially higher than the offer price of THB216.3/share.
- **Will SingTel redeploy its capital?** SingTel was prepared to acquire up to 10% additional stake in AIS which works out to an aggregate consideration of THB64.33bn (~SGD2.38bn). As this has not been utilised, it remains to be seen if SingTel would redeploy the capital for other uses. (Company, OCBC)

Lendlease Global Commercial REIT ("LREIT")

- LREIT reported 1HFY2025 results ended 31 December 2024. **Overall results are largely stable though some concerns from potential non-payment risk from a major tenant and thin adjusted interest coverage ratio. Upcoming perpetual LREIT 5.25%-PERP is more likely to be rolled-over for 6-12 months or refinanced with a new perpetual or senior unsecured debt while waiting for disposal of Jem office and Sky Complex. LREIT's outlook is still well underpinned by its premium assets in Singapore, improved occupancy in Milan, positive rental reversion of Jem office (accounted for 11.2% of gross rental income in FY2024, rental reversion is likely at low-teen % and conclude by February), disposal of its assets and the construction commenced at the multifunctional event space adjacent to 313@somerset (minimal capex required as the tenant will bear most of the construction costs).**
- On a proforma basis after adjusting for the Supplementary Rent, 1HFY2025 gross revenue was 0.4% higher whilst net property income ("NPI") was 2.2% lower y/y.
- **Better occupancy rates and decent rental reversion:** Portfolio committed occupancy improved q/q to 92.3% (September 2024: 89.5%) with new leases committed for Building 3 of Sky Complex. Meanwhile, Singapore retail and office portfolio committed occupancy rate remained stable and robust at 99.9% and 100% respectively. The committed occupancy rate of Sky Complex improved 6.6ppts q/q to 81.6%. 1HFY2025 retail rental reversion remained encouraging at 10.7% (FY2024: 14.0%).
- **Non-payment risk from a major tenant:** Cathay Cineplexes, the top 6th tenant of LREIT and contributing 1.8% of gross rental income, received letters of demand for about SGD2.7mn in rent and other cost owed from the other landlords of its cinema outlets in Century Square and Causeway Point. As of writing, the tenant is not in arrears to LREIT; however, if Cathay Cineplexes halts payments to LREIT, we believe the situation is manageable to LREIT given (1) the strong occupancy rate and visitor footfall of JEM which would not be difficult to find a replacement tenant and (2) losses will also be buffered from deposits.
- **Weaker tenant sales while visitor footfall stable y/y:** 1HFY2025 tenant sales fell 5.2% y/y due primarily to (1) strong SGD which impacted tourist spendings and (2) weaker retail sales (excluding motor vehicle) in Singapore. Visitor footfall during July – December 2024 remained largely stable y/y, underpinned by stronger footfalls y/y during October to December 2024.
- **Largely stable credit metrics though adjusted ICR weakened q/q**: Reported aggregate leverage ratio remained stable at 40.8% (September 2024: 40.7%). 1HFY2025 T12M reported adjusted interest coverage ratio (including perpetuals distribution) fell by 0.1x q/q to 1.5x. As of 31 December 2024, weighted average cost of debt fell to 3.58% (September 2024: 3.74%). Given the adjusted interest coverage ratio is based on trailing 12 months, it will take longer time to reflect the lower interest rate.
- **Ongoing disposals are expected to improve credit metrics substantially though more time needed:** Disposals of Jem office (worth ~SGD450mn) and Sky Complex are still ongoing. However, the disposal of Jem office is most likely to happen after the first call date (11 April 2025) of LREIT 5.25%-PERP (SGD200mn), while the more possible date will be by 2025 calendar year per management.
- **There are few scenarios shared by the management to deal with the upcoming perpetual callable in April 2025**:

- Rollover the perpetual for 6 to 12 months in order to buy more time for the disposals, though the potential reset distribution rate is expensive at around 5.60% based on today rates.
- Issue a new perpetual which will have more attractive distribution rate (potentially high 4% to low 5%) than the potential reset yield of 5.60%.
- Issue a new senior unsecured debt at potentially ~4% coupon, though it will increase the aggregate leverage to 46% (from current 40.8%)
- Combination of perpetual and senior unsecured debt. (Company, OCBC)

Keppel Infrastructure Trust ("KIT")

- KIT announced their 2H2024 and full year 2024 financials. We expect KIT to continue to be highly acquisitive, which points towards a dynamically changing capital structure, especially around the time of acquisitions/major investments.
- **Total operational cash flow falls y/y:**
  - KIT's reported total operational cash flow ("OCF") was SGD168.2mn, higher by 33% y/y where we use the term OCF to refer to cash flow derived from the underlying assets, before taking into account expenses, financing costs, trustee management fees and perpetual distributions at the holding entity level. By absolute amount, the increase was driven by Ventura, Transition Assets (Keppel Merlimau Cogen ("KMC") and Aramco Gas Pipelines Company), Ixom, City Energy and the German Solar Portfolio and Philippine Coastal. Ventura and the German Solar Portfolio were newly added into the portfolio in 2024. These help offset declines at the Renewables Portfolio, Singapore Waste and Water and EMK.
  - According to KIT, the Renewables portfolio saw higher debt repayment, higher tax paid and lower wind production and unplanned grid outage at BKR2 while in Singapore, Senoko Waste-to-Energy saw lower contribution. EMK was dragged by volatility in landfill price which we understand from management was driven by lower construction and industrial waste that had affected the industry.
- **Minimal debt maturing in 2025 but sizeable in 2026:**
  - As at 31 December 2024, KIT faces minimal debt of SGD79mn coming due in 2025 but faces a maturity wall of SGD920mn of debt due in 2026 (~30% of total debt). Bulk of the 2026 debt due relates to debt at Ixom while the SGD200mn KITSP 3.0% '26s comes due in December 2026.
  - KIT has undrawn committed facilities of SGD608mn as at 31 December 2024 and maintains access to funding markets. In 2024, KIT priced SGD200mn in perpetuals as well as SGD200mn in equity funding. These were largely used to repay SGD392mn that was drawn down on a bridge loan where the bridge loan was used to partly help fund the Ventura acquisition.
  - In December 2024, KIT completed the acquisition of a 50%-stake in Marina East Water Pte. Ltd. that gives KIT a 100% economic interest in the Keppel Marina Desalination Plant. While there is debt at the asset level, the cash outlay by KIT on the transaction was small at SGD35mn and this was financed with internal sources as well as existing debt facilities.
- **Higher fixed debt percentage while reported leverage had increased versus last year:**
  - As at 31 December 2024, weighted average term to maturity is 3.75 years. Fixed and hedged debt was higher at 72.9% as at 31 December 2024 versus only ~65.3% as at 30 June 2024.
  - KIT's reported net debt-to-EBITDA based on 12 months trailing EBITDA to 31 December 2024 (including contribution from completed phases of German Solar Portfolio and Ventura since 3 June 2024) was 5.4x, higher than the 4.8x reported for 2023.
- **Selling Philippine Coastal:**
  - KIT and its joint venture partner, Metro Pacific, are selling their combined 100% stake in Philippine Coastal to I Squared Capital, an infrastructure asset manager, for an enterprise value of USD460 million (excluding earn outs). Philippine Coastal which focuses on petroleum storage is an asset where underlying customers are linked to the non-renewable fuel sector.
  - This transaction aligns with KIT's long-term strategy to focus on lower carbon energy segments and will enhance its financial flexibility for future growth initiatives. We note that its sponsor KEP's

portfolio owns infrastructure assets (including communication infrastructure assets) that could be potential acquisition targets for KIT, aside from third party assets.

- The sale was announced in October 2024 with completed expected in early 2025. (Company, OCBC)

Julius Baer Group Ltd ("JBG")

- The improvement in JBG's reported 2024 results reflect the absence of higher net credit losses driven by exposures in the private debt business that influenced 2023 reported results. 2024 adjusted net profit of CHF1,022mn was up materially y/y by ~122% from CHF471.7mn in 2023.
  - On an underlying basis (excludes specific loss allowances), JBG's 2024 adjusted net profit was up ~10.5% while compared to more normalised years, the 2024 result was above 2022's solid results of CHF949.1mn and slightly below its 2021 record result of CHF1.1bn.
  - Overall, the results in our view continue to highlight JBG's resilient business and market positioning within Wealth Management that has supported business volumes despite senior management turnover and uncertainty and lingering regulatory investigations.
- Operating income of CHF3.86bn was up 19% y/y which mostly reflects the impact of specific loss allowances that were recorded in 2023 operating income. Excluding this, underlying operating income rose 1% y/y as solid growth in net commission and fee income (+14% y/y to CHF2.20bn on 10% y/y growth in recurring income (advisory and management fees and commission and fee income on other services) and 26% y/y growth in brokerage commissions and income from securities underwriting from higher client activity) against 11% y/y growth in commission expenses) and net income from financial instruments at fair value through profit or loss (+21% y/y to CHF1.28bn on beneficial rates moves and higher trading income from increased client activity, mostly in structured products) was offset by lower net interest income from higher interest expenses as customers shifted their deposit mix to time and call deposits with net interest income down 55% y/y to CHF377mn. This led to gross margin compression of 5bps in 2024 to 83bps (88bps in 2023).
- Reported and adjusted (excludes M&A related expenses) operating expenses of CHF2.81bn and CHF2.78bn respectively was up 3% y/y due to hiring and technology investments. The reported cost to income ratio of 70.9% in 2024 is improved from 2023 (81.6%) which includes the private debt related loss allowance. Excluding this, the adjusted or underlying cost to income ratio is up 180bps y/y from 69.1% in 2023. With the cost to income ratio still above the 64% target originally set for 2025 and rising y/y, as well as JBG's success in its cost reduction program (CHF140mn gross cost savings on a run-rate basis by end 2024 against its target over 2023–2025 of CHF130mn), new Chief Executive Officer Stefan Bollinger has extended the cost reduction program targeting a further CHF110mn in gross savings by end 2025. Part of this will come from expected staff cuts affecting around 5% of Switzerland staff.
- As mentioned, JBG's business position remains sound with assets under management ("AuM") at a record CHF497bn as at 31 December 2024, up CHF70mn or 16% y/y. The improvement was due to net new money of CHF14bn (3.3% growth rate), a weaker CHF against the USD as well as improved market performance. Including assets under custody, total client assets rose by 15% y/y to a record CHF590bn. Net new money inflows were from clients in Europe (especially the UK, Germany, and Switzerland), Asia (particularly Singapore, Hong Kong, and India), and the Middle East (UAE). Client deleveraging slowed towards the end of the year.
- JBG's capital position has strengthened with its CET1 ratio of 17.8% as at 31 December 2024 up 320bps against 14.6% as at 31 December 2023.
  - The noticeable improvement was due to a 21% rise in capital from earnings and positive valuation impacts on JBG's treasury portfolio, net of dividend accruals.
  - At the same time, risk weighted assets fell 1% from lower market and operational risk. Credit risk positions rose 1% y/y despite the ongoing wind-down of its remaining private debt portfolio (CHF400mn as at 31 December 2024, down from CHF600mn as at 30 June 2024 and CHF800mn as at 31 December 2023, net of loss allowances).
  - JBG's CET1 ratio remains above the Group's 11% floor and 8.3% regulatory minimum.

  - With Basel 3 final standard fully implemented in Switzerland in 2025, the Basel 3 equivalent CET1 ratio as at 31 December 2024 was 14.2% to reflect the inflationary impact on market risk weights due to the fundamental review of the trading book as well as higher operational risk weights to reflect historical internal loss data including operational losses incurred over the preceding ten-year period.
  - On a proforma basis including the recently announced sale of its domestic Brazilian unit to Banco BTG Pactual SA, Latin America's biggest investment bank, for USD101mn (expected to close in 1Q 2025), JBG's CET1 ratio would improve ~30bps to 18.1% as at 31 December 2024).
- In addition to the results, JBG announced a resize of its Executive Boards at JBG and Bank Julius Baer & Co. Ltd. from fifteen members to five with a strategy update including new medium-term targets to come before mid-2025. More details on timing are expected on 17 March 2025 when JBG's annual report is published.
- Concurrent with the results announcement, Swiss regulator Financial Market Supervisory Authority ("FINMA") announced that it has opened enforcement proceedings against JBG over risk failures linked to its exposures to the Signa real estate group and the group's subsequent collapse. Per FINMA's announcement, an enforcement procedure is a formal step that could lead to a reprimand, confiscation of profits or removal of banking licenses. FINMA's initial investigation was prompted by concerns that JBG's business and risk control functions were not sufficiently separate with FINMA looking at reporting lines for structuring loans and credit risk management for private clients.
- While JBG's 2024 results highlight stabilisation in client confidence and business performance, there will remain some uncertainty on future performance depending on the outcome of FINMA's enforcement proceedings and JBG's strategy update.
- Results remain consistent with our fundamental views. (Company, OCBC)

Key Market Movements

	4-Feb	1W chg (bps)	1M chg (bps)		4-Feb	1W chg	1M chg
iTraxx Asiax IG	78	4	1	**Brent Crude Spot ($/bbl)**	75.2	-2.9%	-1.7%
				Gold Spot ($/oz)	2,812	1.8%	6.7%
iTraxx Japan	52	1	1	**CRB Commodity Index**	309	1.2%	4.1%
iTraxx Australia	69	--	2	**S&P Commodity Index - GSCI**	567	0.5%	2.4%
CDX NA IG	49	1	1	**VIX**	18.6	4.0%	15.4%
CDX NA HY	108	0	0	**US10Y Yield**	4.57%	3bp	-3bp
iTraxx Eur Main	55	1	0				
iTraxx Eur XO	295	4	-4	**AUD/USD**	0.619	-1.0%	-0.9%
iTraxx Eur Snr Fin	61	1	0	**EUR/USD**	1.029	-1.3%	-0.9%
iTraxx Eur Sub Fin	107	1	-1	**USD/SGD**	1.360	-0.7%	0.2%
				AUD/SGD	0.842	0.3%	1.1%
USD Swap Spread 10Y	-45	1	0	**ASX200**	8,374	-0.3%	1.5%
USD Swap Spread 30Y	-82	0	-2	**DJIA**	44,422	-0.7%	4.0%
				SPX	5,995	-0.3%	0.9%
China 5Y CDS	57	2	-7	**MSCI Asiax**	694	-1.8%	-1.1%
Malaysia 5Y CDS	47	1	-1	**HSI**	20,655	4.8%	4.5%
Indonesia 5Y CDS	77	2	-1	**STI**	3,823	0.5%	0.6%
Thailand 5Y CDS	45	1	1	**KLCI**	1,560	-0.9%	-4.2%
Australia 5Y CDS	11	0	0	**JCI**	7,082	-2.1%	-1.2%
				EU Stoxx 50	5,218	0.6%	7.1%

Source: Bloomberg

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