Credit Week in Brief

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Chinese issuers came back to the scene while Rakuten steals the thunder

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- The Asiadollar (ex-Japan) primary market was quieter last week with only USD2.0bn priced per Bloomberg league tables and OCBC estimates versus USD4.1bn the week before.
    - The largest issuer last week was investment grade Hyundai Capital Services, Inc ("Hyundai Capital") which made up half of last week's issuance. Hyundai Capital priced a USD500mn 3Y senior unsecured bond at T+110bps and another USD500mn 5Y senior unsecured bond at T+120bps.
    - Chinese local government funding vehicle ("LGFV") issuers were notably present in the market last week. The largest Chinese issuance was from Science City Guangzhou Investment Group Co Ltd ("GZDZCD"), in a USD400mn 1.5Y green senior unsecured bond while Huatong International Investment Holdings Co Ltd ("QDHTCO") (keepwell provider: Qingdao China Prosperity State-Owned Capital Investment Operation Group Co Ltd) priced USD280mn of 3Y senior unsecured bonds.
- The Bloomberg Asia USD IG Index average option adjusted spreads tightened by 2bps to 101bps while the Bloomberg Asia USD HY Index average option adjusted spreads tightened by 13bps to 665bps.
- Among Japanese issuers, Rakuten Group Inc. ("Rakuten") priced USD1.8bn of 3Y NCL senior unsecured notes to yield 12.125%. The deal was upsized from USD1bn on the back of strong investor interest. The proceeds of the new bond are intended to help fund the buyback of existing bonds. Rakuten is known as a Japan e-commerce player, however the high yield company is involved in multiple technology and telecommunication businesses including launching Rakuten Mobile in 2020. Australia-banking major Westpac Banking Corporation was the main Australian issuer in the USD primary markets last week.
- We may see Greenko Mauritius (wholly-owned subsidiary of Greenko Energy Holdings) pricing a benchmark USD bond this week though it is likely to be a slower week with the start of the Lunar New Year holiday season over the weekend.
- In corporate developments, Japan-based Aozora Bank Ltd ("Aozora") disclosed potential losses tied to US commercial real estate, with loan loss reserves of JPY32.4bn. Aozora is a small bank with a total asset size of JPY7.7 trillion as at 31 December 2023. Listed on the Tokyo Stock Exchange, Aozora is a USD and JPY bond issuer. (Bloomberg, OCBC)

Date	Issuer	Type	Currency	Size (mn)	Tenor	Pricing
29 Jan	Hyundai Capital Services, Inc	Fixed	USD	500	3-Yr	T+110bps
29 Jan	Hyundai Capital Services, Inc	Fixed	USD	500	5-Yr	T+120bps
29 Jan	Haichuan International Investment Co Ltd (Guarantor: Jiangsu Fangyang Group Co Ltd) (SBLC Provider: Postal Savings Bank of China Co., Ltd. Lianyungang Branch)	Green, Fixed	USD	150	3-Yr	5.45%
30 Jan	Rakuten Group, Inc.	Fixed	USD	1,800	3NCL	12.125%
30 Jan	Ji'an Chengtou Holding Group Co Ltd	Fixed	USD	173.68	3-Yr	7.5%
31 Jan	Huatong International Investment Holdings Co Ltd (QDHTCO) (Keepwell Provider: Qingdao China Prosperity State-Owned Capital Investment Operation Group Co Ltd)	Fixed	USD	280	3-Yr	6.8%
31 Jan	Science City Guangzhou Investment Group Co Ltd	Green, Fixed	USD	400	1.5-Yr	6.8%

Source: Bloomberg, OCBC Research

Relatively muted activities in the SGD primary credit market while returns remain positive amidst lower rates

- Last week there were **little activities in SGD primary credit market** with only SGD100mn (previous week: SGD442mn) in issuance:
    - Crédit Agricole Corporate and Investment Bank priced a 2Y SGD100mn senior unsecured bond at 3.6%
- **SGD SORA yields traded considerably lower w/w** last Friday. The shorter tenors traded lower by 3 to 6 bps, belly tenors traded lower by 8 to 11bps and 10Y traded lower by 12bps. As at 02 February 2024, 10Y SORA was 2.75%.

- **The SGD credit market rose 0.26% w/w amidst lower SGD SORA yields**, boosting the (1) Longer Tenors, Mid Tenors and Tier 2s and Other Non-Perpetual Subordinates. For more information on the SGD tracker, please refer to our SGD Credit Outlook 2023 published on 4 January 2023.

Summary of Performance in the SGD Credit Market

By Tenor & Structure	Return w/w
AT1s	0.14%
Non-Financial Corp Perp	0.29%
Tier 2s and Other Non-perp Sub	0.28%
Longer Tenors (>9Y)	0.52%
Mid Tenors (>3Y to 9Y)	0.32%
Short Tenors (>1Y to 3Y)	0.15%
Money Market (Up to 12 months)	0.08%

By Issuer Profile	Return w/w
POS (2)	0.15%
N (3)	0.19%
N (4)	0.24%
N (5)	0.19%

Source: Bloomberg, OCBC

Flurry of results were published last week. Most companies reported stable results, except for Julius Baer Group Ltd (credit losses from private debt business) and Starhill Global REIT (potential lease dispute).

- **Julius Baer Group Ltd ("JBG")** announced its 2023 annual results with **a material drop in net profit from higher loan loss provisions and management changes**. Key details include:
    - Net profit down 52% y/y to CHF454mn reflecting CHF606mn in net credit losses driven by exposures in the private debt business.
    - CEO stepping down by mutual agreement with the board, replaced by current deputy CEO and COO on an interim basis.
    - On an underlying basis, net profit was down 10% y/y to CHF947mn against the strong FY2022 performance.
    - JBG's CET1 ratio of 14.6% as at 31 December 2023 is up y/y (14.0% as at 31 December 2022) but down h/h (15.5% as at 30 June 2023) and nevertheless remains above the Group's 11% floor and 8.3% regulatory minimum.
- **Lendlease Global Commercial REIT ("LREIT")** reported its 1HFY2024 results ended 31 December 2023.
    - Net property income ("NPI") increased 22.2% y/y due to improved operational performance from the retail malls and recognition of supplementary rent from the lease restructure with Sky Italia. Excluding the supplementary rent, NPI increased 5.1% y/y to SGD80.3mn.
    - Strong retail rental reversion of 15.7% in 1HFY2024. Management guided a strong outlook ahead, foreseeing a double-digit rental reversion for FY2024 and FY2025.
    - As at 31 December 2023, aggregate leverage ratio remained stable at 40.5% (September 2023: 40.6%). Meanwhile, adjusted interest coverage ratio (including perpetual distribution) remained unchanged q/q at 1.9x while weighted average cost of debt increased somewhat to 3.37% (September

2023: 2.94%). Excluding the 2-year supplementary rent contribution, we believe the adjusted interest coverage ratio could be ~1.6x.

- **Frasers Hospitality Trust ("FHREIT")** announced the business update for the first quarter of the financial year ending 30 September 2024 ("1QFY2024"). FHREIT's credit metrics remained stable though faces significant maturities in FY2025:
    - Revenue per available room ("RevPAR") for most of the country portfolios were higher y/y in 1QFY2024; however, Singapore and the UK fell y/y.
    - As at 31 December 2023, FHREIT's reported aggregate leverage was healthy at 34.5% though came up slightly from 34.0% as at 30 September 2023 which per company is due to increase in working capital.
    - Interest coverage for the 12 months to 31 December 2023 was 3.4x, higher than the 3.0x from the year before, despite higher cost of debt following the increase in benchmark rates.
    - As at 31 December 2023w, SGD149mn (representing 21% of total debt) is due in the remaining in FY2024. Maturities due in FY2025 is even higher at SGD270mn (representing 37% of total debt). In FY2025, this includes SGD120mn of bonds due in November 2024, FHREIT's sole SGD-denominated bonds. That said, bulk of FHREIT's debt are unsecured debt and the portfolio can be used to raise secured funding if need be.
- **BNP Paribas SA ("BNPP")** announced 2023 results with reported net income of EUR10.98bn up 11.4% y/y due to several one offs including: EUR775mn in net losses for risk of invalidation or non-enforceability on financial instruments granted. Specifically, the amount includes provisions on Polish mortgage loans (EUR450mn), provisions for litigation in Personal Finance (EUR221mn) and provisions for risk on receivables (EUR104mn). EUR2.95bn in net income from discontinued activities that relates to the gain on sale of Bank of the West on 1 February 2023. The cost of risk was down 3.2% y/y to EUR2.91bn. The ratio of doubtful loans to total loans remained stable y/y at 1.7% as at 31 December 2023. The stage 3 coverage ratio fell from 72.5% to 71.7% over the same period. BNPP's CET1 ratio of 13.2% as at 31 December 2023 was down 20bps q/q (13.4% as at 30 September 2023) but up 90bps y/y (12.3% as at 31 December 2022).
- **CapitaLand Ascendas REIT ("AREIT")** announced 2023 results. Overall results are decent with strong rental reversion and performance continued to be underpinned by Singapore assets. The only concern is the considerably lower valuation and occupancy rate of the US assets, in particular the Business Space assets (assets that are similar to office in our view).
    - FY2023 net property income ("NPI") grew 5.6% y/y to SGD1.02bn, underpinned primarily by (1) contributions from acquisitions of four properties and one development completed during 2023, (2) full year contributions from seven Logistics properties in 2022 and (3) positive rental reversions. Meanwhile, 2H2023 NPI grew by 4.6% y/y to SGD514mn.
    - As of 31 December 2023, the occupancy rate for the portfolio fell 0.3ppts q/q and 0.4ppts y/y to 94.2%.
    - Strong average rental reversion of 13.4% for leases that were renewed in 2023:
    - Same-store portfolio valuation was lower by 1.8% y/y SGD16.0bn as at 31 December 2023 (December 2022: SGD16.3bn) due primarily to weaknesses from the US and Australia. US assets declined by 18.5% y/y or SGD466 million to SGD2.05bn, with Business Space (an asset class similar to office in our view) and Logistics falling by 20% y/y to SGD1.72bn and -7% y/y to SGD0.34bn respectively.
    - As of 31 December 2023, the aggregate leverage rose slightly q/q and y/y to 37.9% (September 2023: 37.2%, December 2022: 36.3%). Meanwhile, adjusted interest coverage ratio (including perpetual distribution) weakened to 3.7x (September 2023: 3.8x, December 2022: 5.2x) as weighted average debt cost increased to 3.5% (September 2023: 3.3%, December 2022: 2.5%). Reported net debt / annualised EBTIDA remained stable at 7.8x (June 2023: 7.7x, December 2022: 7.8x).

- **Deutsche Bank AG ("DB")** reported its highest profit before tax result in 16 years with 2023 profit before tax up 1.5% y/y to EUR5.68bn. This was driven by solid net revenue performance that was partially offset by a 23% jump in provisions for credit losses. DB's CET1 ratio of 13.7% as at 31 December 2023 was down 20bps q/q but up 40bps y/y and remains well above its 13.0% ambition. Improvement in the capital position was partially driven by EUR13bn in risk weighted asset ("RWA") reductions as part of its program to achieve EUR25-300bn in RWA efficiency gains by 2025 as well as earnings performance. DB's outlook remains constructive considering its recent financial performance, progress of its restructuring and plans to increase returns to shareholders.
- **AIMS APAC REIT ("AAREIT")** reported its business update for the third quarter for the year ending 31 March 2024 ("3QFY2024").
    - NPI grew 6.3% y/y, driven by AAREIT's Singapore properties.
    - As at 31 December 2023, AAREIT's overall portfolio occupancy was stable q/q at 98.1%.
    - Rental reversion remains strong, recording +13.0% for 3QFY2024 (9MFY2024: +22.7%).
    - As at 31 December 2023, reported aggregate leverage was 32.2% (30 September 2023: 32.1%)
    - AAREIT's adjusted interest coverage ratio for the 12 months to 31 December 2023 (includes perpetual distribution) is on the low side at 2.3x, though stable compared to the year before.
- **Keppel Infrastructure Trust ("KIT")** reported 2023 results.
    - Reported Group EBITDA was SGD447.6mn for 2023 (up 11.3% y/y which implies SGD402.2mn for 2022), excluding one-off and non-operational items.
    - Reported total operational cash flow ("OCF") was SGD126.4mn in 2H2023, declining by 26.0% y/y. This was driven by a y/y fall in OCF at Ixom, AGPC, City Energy and the European Onshore Wind Platform while Keppel Merlimau Cogen ("KMC") did not contribute to OCF as mandatory debt repayment had kicked in in June 2023.
    - Adjusted Debt-to-EBITDA (including perpetual) improved y/y to 7.6x in 2023 (2022: 8.9x). Meanwhile, the OCF of SGD304.5mn to cover interest plus perpetual distribution was 5.6x.
- **Keppel Ltd ("KEP")** reported 2023 financial results. KEP has provided a clearer trajectory towards its evolution in becoming a real asset manager and appears to be successfully executing its strategy to have a more sustainable, recurring income profile.
    - 2H2023 reported profit from continuing operations were SGD440.3mn (+8.8% y/y).
    - KEP's unadjusted net gearing was 0.90x as at 31 December 2023, somewhat higher against the 0.86x as at 30 June 2023 and higher versus the 0.78x as at 31 December 2022.
    - Adjusted EBITDA/Interest of 4.0x.
- **Frasers Logistics & Commercial Trust ("FLCT")** announced 1QFY2024 business update for the quarter ended 31 December 2023. Portfolio statistics remain decent and credit metrics remain healthy. Overall, portfolio occupancy was at 95.8% (30 September 2023: 96.0%) and rental reversions was at +18.2%.
    - Aggregate leverage rose 0.5 ppts q/q to 30.7%, which is at levels lower than peers (mostly around mid-30% to 40%).
    - Meanwhile, reported interest coverage ratio remains healthy at 6.2x, though lower q/q (FY2023: 7.1x) as FLCT refinances at higher rates as debt matures.
- **GuocoLand Ltd ("GUOL")** reported 1HFY2024 results for the half-year ended 31 December 2023. Operating results were good with revenue rising 61% y/y to SGD1.07bn and reported operating profit rising 42% y/y to SGD93.1mn though the rise in interest costs have weighed on credit metrics. Credit metrics was somewhat weaker with net gearing rising 7 ppts h/h to 83%, with the acquisition of the Lentor Mansion site (~SGD435.2mn land parcel, together with Hong Leong and CSC Land) while our calculated interest coverage fell h/h to 1.5x as financing costs surged 87% y/y to SGD113.5mn.

- **Starhill Global REIT ("SGREIT")** SGREIT reported 1HFY2024 results for the period ended 31 December 2023. SGREIT reported stable financial performance, better occupancy in Australia and improved tenant sales and footfall from Wisma Atria.
    - Following the lease renewal of Ngee Ann City, SGREIT's portfolio weighted average lease term expiry increased by 1.6 years to 7.9 years.
    - Reported adjusted interest coverage ratio (including perpetual distribution) based on trailing 12 months interest expenses as at 31 December 2023 was 2.9x (3.0x as at 30 September 2023).
    - Reported gearing (excludes perpetual) improved q/q to 36.8% (30 September 2023: 37.4%).
    - That said, some risks still remain for SGREIT amidst the Myer lease dispute. Myer Pty Ltd ("MPL"), a wholly owned subsidiary of Myer Holdings Ltd ("MYER", stock ticker: MYR AU), is seeking to terminate the lease agreement of Myer Centre Adelaide (the largest CBD shopping mall in Adelaide). The Myer Lease (annual revenue of approximately ~SGD13.5mn) contributed approximately 7.0% and 9.0% of SGREIT's total portfolio revenue and NPI in 1HFY2024. Depending on the outcome of court arbitration, in the worst-case scenario MPL may terminate the tenancy agreement earlier than the actual expiry date of 2032. That should affect the interest coverage ratio of SGREIT. Some relief to the situation were seen in Adelaide's overall CBD retail vacancy, improving 4.6% ppts y/y to 12.4% as at 30 June 2023. Meanwhile, vacancy along Adelaide's retail high streets in 3Q2023 reached the lowest point ever recorded since JLL began tracking the data in 2015. (Company, JLL, OCBC)
- **Keppel Real Estate Investment Trust ("KREIT")** reported 2H2023 financials for the six months ended 31 December 2023. KREIT's Singapore portfolio continue to provide a ballast to operating performance although credit metrics are expected to deteriorate somewhat from higher benchmark rates following refinancing.
    - Property income for 2H2023 was reported at SGD118.2mn, increasing by 7.9% y/y.
    - As at 31 December 2023, overall portfolio committed occupancy was high at 97.1% (30 September 2023: 95.9%).
    - Portfolio rental reversion of +9.9% for 2023 and expects to continue seeing positive rental reversion from its Singapore portfolio this year as leases comes due.
    - As at 31 December 2023, KREIT's reported aggregate leverage was 38.9% (30 September 2023: 39.5%).
- **CapitaLand China Trust ("CLCT")** reported 2023 results. Underlying performance has on average improved, though headline numbers are down y/y mainly due to the weakening of RMB against the SGD.
    - 2023 net property income ("NPI") is down 2.9% y/y to SGD246.7mn. In local currency terms, NPI is up 5.3% y/y to RMB1.29bn.
    - Credit profile has remained stable q/q, with stable aggregate leverage and reported interest coverage.
    - Excluding the temporary draw down of MML due to time lag in cashflow repatriation from China, aggregate leverage inched up 0.3 ppts q/q to 41.5%.
    - Meanwhile, reported adjusted interest coverage has inched up q/q to 3.1x (30 September 2023: 3.0x) due to better performance while cost of debt has remained largely stable.
- **OUE Real Estate Investment Trust ("OUEREIT") reported** decent 2H2023 results amidst strong Hospitality.
    - NPI grew by 15.9% y/y to SGD119.7mn as improvements were evidenced across OUEREIT's portfolio, particularly the Hospitality segment.
    - OUEREIT reported lower gearing and stable adjusted ICR, with aggregate leverage decreasing by 1.2ppts q/q to 38.2% as at 31 December 2023 with no further refinancing requirements until 2H2025.
    - Meanwhile, reported adjusted interest coverage ratio ("ICR") remained stable at 2.4x despite the weighted average cost of debt increased 0.1ppts q/q to 4.3%.
- **Mapletree Pan Asia Commercial Trust ("MPACT")** reported third quarter results for the financial year ending 31 March 2024 ("3QFY2024").

  - Overall top line stable y/y despite overseas assets being a drag with NPI increasing by 1.7% y/y in 3QFY2024.
  - MPACT's portfolio reported a rental reversion of +4.1%, with properties in the Singapore market more than offsetting the negative rental reversion in the overseas portfolio. (-8.1% at Festival Walk in HKSAR, -3.2% for China Properties and -0.4% for Japan Properties).
  - Overall committed portfolio occupancy inched up q/q to 96.7% as at 31 December 2023 (30 September 2023: 96.3%).
  - As at 31 December 2023, MPACT's reported aggregate leverage was 40.8% (30 September 2023: 40.7%).
  - Reported adjusted interest coverage ratio (including perpetual distribution) for the 12 months to 31 December 2023 was 3.0x (December 2022: 3.8x).
- **CapitaLand Ascott Trust ("ART")** reported 2H2023 financials for the six months ended 31 December 2023. Overall improvement in travel and hospitality continues to boost ART's results.
  - ART's 2H2023 reported gross profit increased by ~12% from a combination of stronger operation performance of existing properties and contributions from new properties. Per ART, on a same-store basis, reported gross profit was higher by 5% y/y. Revenue per available unit for the portfolio (excluding master leases, rental housing and student accommodation) increased 4% y/y, mainly driven by higher average daily rates.
  - Whole average portfolio occupancy was stable q/q at 77% in 4Q2023, which per ART is around 92% of pre-COVID levels.
  - For the 12 months to 31 December 2023, ART's Reported Adjusted Interest Coverage Ratio (which does include perpetual distributions in the denominator) was 3.4x (December 2022: 3.6x).
  - As at 31 December 2023, reported aggregate leverage (does not include perpetuals) was 37.9%, somewhat higher than the 35.2% as at 30 September 2023.
- **Industry Outlook – Singapore Property:** Lumina Grand EC sold 53% out of 512 total units at an average price of SGD1,464 psf over a weekend launch. This follows the launch of Hillhaven (sold 33% of 179 units released at SGD1,903 psf) and Arcady (sold 30% out of 172 total units at SGD2,570 psf). Slower sales rate though may indicate less pent-up demand. Take-up for Lumina Grand EC of 53% is lower than other ECs such as Copen Grand EC (73%), Tenet EC (72%), Altura EC (61%). Similarly, we note that the take-up rate of Hillhaven and Arcady at ~30% is lower than the sales-rate of launches in 2022-23 (a number were 50-70% sold previously).
- **CapitaLand Investment Ltd ("CLI")** CLI has formed a RMB2.4bn joint venture with AIA Life Insurance ("AIA") to recapitalize Capital Square Beijing, in which CLI will divest a 95% stake in the Grade A office building to AIA and hold the remaining 5% stake. CLI will provide asset management services for the joint venture. (Company, URA, Business Times, OCBC)

Key Market Movements

	6-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	102	0	-3
iTraxx Japan	57	2	-4
iTraxx Australia	69	1	-8
CDX NA IG	55	1	-2
CDX NA HY	106	0	0
iTraxx Eur Main	59	1	-3
iTraxx Eur XO	328	10	-5
iTraxx Eur Snr Fin	70	2	-3
iTraxx Eur Sub Fin	130	5	-2
USD Swap Spread 10Y	-37	-1	2
USD Swap Spread 30Y	-71	-1	-2
China 5Y CDS	65	0	-1
Malaysia 5Y CDS	45	0	-1
Indonesia 5Y CDS	75	0	-2
Thailand 5Y CDS	42	0	-3
Australia 5Y CDS	17	0	0

	6-Feb	1W chg	1M chg
Brent Crude Spot ($/bbl)	78.2	-5.7%	-0.7%
Gold Spot ($/oz)	2,029	-0.4%	0.1%
CRB Commodity Index	268	-1.0%	0.9%
S&P Commodity Index - GSCI	541	-3.6%	-0.1%
VIX	13.7	0.5%	2.4%
US10Y Yield	4.12%	9bp	8bp
AUD/USD	0.651	-1.4%	-3.2%
EUR/USD	1.075	-0.8%	-1.8%
USD/SGD	1.345	-0.4%	-1.3%
AUD/SGD	0.875	1.0%	2.0%
ASX200	7,582	-0.2%	1.2%
DJIA	38,380	0.1%	2.4%
SPX	4,943	0.3%	5.2%
MSCI Asiax	612	0.3%	-2.2%
HSI	16,072	2.3%	-2.8%
STI	3,126	-0.8%	-1.8%
KLCI	1,512	-0.2%	1.6%
JCI	7,228	0.5%	-1.7%
EU Stoxx 50	4,655	0.3%	4.3%

Source: Bloomberg

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