Credit Week in Brief

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Rates and supply contributing to tighter spreads

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- Asiadollar credit spreads continued to tighten last week ahead of the Lunar new year. The Bloomberg Asia USD IG Index average option adjusted spreads tightened by 4bps w/w to 97bps while the Bloomberg Asia USD HY Index average option adjusted spreads tightened by 16bps w/w to 649bps. Higher UST yields (UST 10-year yields rose 16bps w/w to 4.18%) and continued suppressed issuance activity is likely playing its part in driving spreads tighter.
- Issuance activity was not suppressed last week by absolute amount per Bloomberg league tables and OCBC estimates. Issuance in the Asiadollar (ex-Japan) primary market more than doubled to USD4.15bn from USD2.0bn in the prior week The breadth however remains constrained with issuance volumes dominated by two issuers last week that priced dual tranche issuers.
    - Korea Development Bank priced USD3.0bn in 3yr and 5yr notes with USD1.75bn 3Y senior unsecured bonds at SOFR MS+66bps and USD1.25bn 5Y senior unsecured bonds at SOFR MS+78bps. Order books were reportedly around USD4.7bn.
    - Indian based HDFC Bank priced USD750mn across a USD300mn 3Y senior unsecured bonds at T+95bps and USD450mn 5Y senior unsecured bonds at T+108bps. The 3Y tranche is a sustainability bond issued in accordance with the bank's sustainable finance framework.
- The other notable issue was from the Hong Kong SAR ("HKSAR") government that priced USD200mn in digital green bonds as part of a multi-currency USD750mn issue that also included a CNH1.5bn, HKD2bn, and EUR80mm bond. Proceeds from the issue will be used to finance and/or refinance projects that fall under one or more of the "Eligible Categories'' under HKSAR's Green Bond Framework.
- Key developments on the news flow front last week centered on property in different parts of the world. In China, sentiments held up somewhat for the property sector amidst ongoing government support. Country Garden Holdings Co. ("COGARD") has more than 30 of its projects listed by Chinese local governments as suitable for financing support. GOGARD is among at least four other builders that have projects that would receive local government financing support including Shimao Group Holdings Ltd, Jinke Properties Group Co., China Aoyuan Group Ltd. And Sino-Ocean Group Holding Ltd.
- In the US, sentiments towards commercial real estate are souring and creeping into Asia sentiments. Shinhan Financial Group Co. signaled confidence in improving its buffers against a roughly USD1bn exposure to US property. This follows concerns on Japan-based Aozora Bank Ltd that disclosed potential losses tied to US commercial real estate.
- Recent weakness in the commercial real estate sector continues to influence the US regional banking sector, as demonstrated by New York Community

Bancorp Inc., whose shares dropped materially. According to a report by Bloomberg, members of the KBW Regional Banking Index held a combined USD1.07tn of total loans reported in the latest filing period, of which about 30% (USD331.2bn) were tied to commercial real estate. The 30-day delinquency rate on office CMBS loans has increased considerably in major US cities with regional banks' nonperforming loan ratios also rising. At USD28.24bn, Valley National Bancorp held the biggest CRE exposure, followed by Webster Financial Corp., Associated Banc-Corp., Old National Bancorp and FNB Corp. NY Community Bancorp's stood at USD8.5bn. (Bloomberg, OCBC)

Date	Issuer	Type	Currency	Size (mn)	Tenor	Pricing
06 Feb	Korea Development Bank/The (KDB)	Fixed	USD	1,750	3-Yr	SOFR MS+66bps
06 Feb	Korea Development Bank/The (KDB)	Fixed	USD	1,250	5-Yr	SOFR MS+78bps
06 Feb	HDFC Bank Ltd	Sustainability, Fixed	USD	300	3-Yr	T+95bps
06 Feb	HDFC Bank Ltd	Fixed	USD	450	5-Yr	T+108bps
06 Feb	Hong Kong Government International	Green, Digital, Fixed	USD	200	2-Yr	T+30bps
07 Feb	China Ping An Insurance Overseas Holdings Ltd	Fixed	USD	200	3-Yr	T+110bps

Source: Bloomberg, OCBC Research

Some primary activities last week, good and bad results reported in the middle of the earnings season

- **Last week, SGD627mn in new issues were priced** (week prior: SGD100mn).
    - BNP Paribas was the largest issuer, pricing SGD550mn in 10NC5 Tier 2 bank capital at 4.75%.
- **SGD OIS SORA yields traded higher w/w last Friday**, with shorter tenors rising 7-11bps, and belly and 10Y rising 12-14bps. As at 09 February 2024, 10Y SGD OIS SORA 10Y yield was 2.88%.
- **The SGD credit market rose 0.01% w/w despite higher SGD OIS SORA yields**. While longer tenors and mid tenors fell, subordinated papers continued to make gains. 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	0.23%
Tier 2s and Other Non-perp Sub	0.11%
Longer Tenors (>9Y)	-0.25%
Mid Tenors (>3Y to 9Y)	-0.09%
Short Tenors (>1Y to 3Y)	0.05%
Money Market (Up to 12 months)	0.08%

By Issuer Profile	Return w/w
POS (2)	0.09%
N (3)	0.11%
N (4)	0.15%
N (5)	0.12%

Source: Bloomberg, OCBC

As we reach the middle of the earnings season, certain companies are reporting better results while results for others were stable or lacklustre. The strong performers include:

- **DBS Group Holdings Ltd ("DBS") reported record 2023 earnings and stable credit metrics**. Net profit grew 26% y/y, influenced by positive JAWS with strong income performance from the commercial book and net interest income, that offset higher allowances for credit and other losses, and compensated for weaker Treasury Markets Total Income. CET1 ratio at 14.6% as at 31 December 2023 is stable y/y. While net interest margins are expected to trend down going forward, DBS expects loan volumes and fee income to grow.
- **StarHub Ltd ("StarHub") 2023 performance was good while credit metrics remain healthy for now.** Reported EBITDA rose 12.1% y/y, while higher revenues were reported from its major segments including Mobile (+7.9% y/y), Broadband (+2.6% y/y), Entertainment (+5.4% y/y and Enterprise (+4.7% y/y) which offset the decline in sales of equipment (-13.0% y/y). StarHub is guiding for small growth in 2024 revenue and service EBITDA margin to remain flattish. While net debt to EBITDA of 1.36x remains healthy, we think StarHub may deploy its cash of ~SGD500mn as it is exploring "synergistic M&A opportunities" and StarHub's CEO sees consolidation of the market as a regular feature.
- **Fraser and Neave Ltd ("FNN") 1QFY2024 profitability was significantly stronger while credit metrics improved slightly.** Reported PBIT rose 41.9% y/y to SGD80.6mn, driven mainly by Dairies (+49% y/y) though Beverages reported PBIT fell 9% y/y. Dairies benefited from higher canned milk volumes and lower input costs while Vinamilk contributed more (+4% y/y), while Beverages was impacted by unfavourable forex translation and changes in sales mix, as well as higher advertising and promotional spend despite higher soft drinks volumes. Credit metrics remain healthy with reported net gearing down 1.8 ppts q/q to 18.8% with cash of SGD516.5mn more than sufficient to cover debt of SGD231.4mn maturing in 1Y.
- **CapitaLand Integrated Commercial Trust ("CICT") 2023 results were decent while credit metrics remained stable.** NPI rose 7.0% y/y with broad-based increase in asset types including retail (+0.6% y/y), office (+12.8% y/y) and integrated development (+8.6% y/y). Portfolio occupancy rose 1.5 ppts q/q to 97.3% with rent reversion positive for both retail (+8.5%) and office (+9.0%). Tenant sales grew 1.8% y/y, while portfolio valuation gained (+1.2% y/y). Aggregate leverage declined 0.9 ppts q/q to 39.9% while reported interest

coverage remained stable q/q at 3.1x. Potentially, CICT may undertake divestments to reduce aggregate leverage.

Corporates seeing stable or weaker y/y results include:

- **PARAGON REIT ("SPHR") 2023** results showed largely stable performance and credit metrics remain healthy. NPI grew 1.7% y/y mainly due to Singapore assets. Portfolio occupancy improved (+0.3 ppts h/h) while rental reversion was +6.3% for 2023 while property valuations gained 1.9% y/y. While tenant sales were down in Singapore (-2% y/y), potentially SPHR may benefit from the 30-Day Visa exemption between Singapore and China that commenced on 9 February 2024. Aggregate leverage remained largely unchanged h/h at ~30% though reported adjusted interest coverage ratio fell 0.5x h/h to 2.9x.
- **Singapore Post Ltd ("SingPost") 3QFY2024 results were somewhat weaker and its strategic review is expected to complete** by 30 June 2023. Operating profit fell 3.9% y/y on a constant currency basis. While Domestic Post and Parcel became profitable again after the postage uprate, while international post & parcel profitability improved with air conveyance costs falling 30% y/y, freight forwarding business from Famous Holdings underperformed due to normalisation of sea freight rates and volumes while outlook in Australia is somewhat challenging amidst slower growth rate. Meanwhile, property operating profit was stable. We believe the post office network may be reduced for branches that remained unprofitable while SingPost may sell its investment properties (including SingPost Centre).
- **Wing Tai Holdings Ltd 1HFY2024 results were weaker though credit metrics have improved.** Revenue fell 63% y/y and our calculated underlying EBITDA fell 68.2% y/y, mainly due to lower contribution from development properties as major development projects were already sold and completed. Uniqlo continued to perform well, which helped to partially offset the decrease in contribution from Wing Tai Properties Ltd. Adjusted net gearing (including perpetual) improved h/h to 7.1% (30 June 2023: 12.4%) due to cash collection from unbilled revenue for The M at Middle Road though adjusted interest coverage fell to 0.78x (1HFY2023: 3.33x).
- **Oxley Holdings Ltd ("OHL") reported lacklustre results for 1HFY2024. While net gearing has improved, significant amounts of debt remain due.** Gross profit fell 34% y/y to SGD43.3mn. Results were weaker as most Singapore projects were already fully sold out, partly offset by higher revenue from sales in Malaysia and higher hotel operations revenue. Future progress billings amounted to SGD392mn, almost entirely from overseas projects. Net gearing improved h/h to 1.50x (from 1.66x), however SGD1.07bn borrowings remain due in the near-term. SGD869.7mn of the near-term debt are secured, which we believe is majority due to debt taken on Novotel & Mercure Singapore and project level debt. It will be key for OHL to refinance the debt maturity as the year progresses. (Company, OCBC)

Key Market Movements

	13-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	100	0	4
iTraxx Japan	57	0	1
iTraxx Australia	68	-1	-1
CDX NA IG	54	-2	-1
CDX NA HY	106	0	0
iTraxx Eur Main	57	-2	-3
iTraxx Eur XO	313	-15	-16
iTraxx Eur Snr Fin	69	-2	-3
iTraxx Eur Sub Fin	126	-6	-6
USD Swap Spread 10Y	-37	1	3
USD Swap Spread 30Y	-73	0	-2
China 5Y CDS	65	1	2
Malaysia 5Y CDS	43	-2	0
Indonesia 5Y CDS	74	-1	1
Thailand 5Y CDS	40	-1	-1
Australia 5Y CDS	15	-1	-2

	13-Feb	1W chg	1M chg
Brent Crude Spot ($/bbl)	82.1	4.4%	4.8%
Gold Spot ($/oz)	2,018	-0.9%	-1.9%
CRB Commodity Index	273	1.9%	3.4%
S&P Commodity Index - GSCI	558	2.5%	3.7%
VIX	13.9	1.9%	9.7%
US10Y Yield	4.18%	8bp	24bp
AUD/USD	0.652	-0.1%	-2.1%
EUR/USD	1.076	0.1%	-1.7%
USD/SGD	1.346	-0.2%	-1.0%
AUD/SGD	0.878	-0.1%	1.2%
ASX200	7,606	0.3%	1.4%
DJIA	38,797	1.1%	3.2%
SPX	5,022	1.6%	5.0%
MSCI Asiax	621	-0.3%	0.1%
HSI	15,747	1.4%	-3.1%
STI	3,134	0.0%	-1.8%
KLCI	1,524	0.8%	2.5%
JCI	7,244	0.1%	0.0%
EU Stoxx 50	4,746	2.0%	5.9%

Source: Bloomberg

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