

Credit Week in Brief

27 February 2024

Tight spreads and tighter purses in Asiadollar

- There was a bump in issuance last week for Asiadollar with 4 deals totalling ~USD1.0bn, up from just USD100mn from one issuer in a holiday affected prior week. The higher issuance however still looks constrained as valuations continue to become challenging. The Bloomberg Asia USD IG Index average option adjusted spreads tightened by 2bps w/w to 92bps while the Bloomberg Asia USD HY Index average option adjusted spreads tightened by 34bps w/w to 592bps.
- Investors seem to need a very good reason to pursue deals in the current market. The largest deal of the week was Korea Housing Finance Corporation (“KHFC”) issuing a USD500mn 3.5-year social bond at 99.787 to yield 4.942%. Use of proceeds is to facilitate access to housing in Korea as contained in KHFC’s sustainable financing framework. The deal received USD1.9bn in orders (including USD105mn in joint lead manager interest) with multiple attractions for this deal including its sustainability credentials, name recognition as a repeat issuer and high external ratings.
- The other notable issue in a week where primary deals were dominated by Korea was a USD300mn Formosa issue from Shinhan Card Co Ltd. This was another highly rated issue that was well received with over USD2.6bn in orders and just USD20mn in joint lead manager interest with the deal priced at 99.672 to yield 5.576% and tightening 35bps from initial price guidance. Shinhan Card Co Ltd last issuance was in June 2021.
- Rounding out last week’s activity were two smaller deals by CIMB Bank Bhd and Bocom Leasing Management Hong Kong Co Ltd with USD120mn and USD130mn deals respectively. In the wider USD space, Westpac New Zealand Ltd issued USD1.5bn across two tranches taking the total issue size last week to USD2.5bn.
- Of note is that pipeline deals highlighted last week (Del Monte Philippines, Inc and Shaanxi Financial Asset Management Co., Ltd) did not come to market whilst there were no notable mandates announced last week.
- News continues to be dominated by negative headlines out of China - Jiayuan International Group announced that they have not paid their remaining outstanding principal of February 2024 notes that matured on 17 February 2024 while property developer Jinke Properties Group Co Ltd (“Jinke”) submitted applications for restructuring to the local court on 21 February 2024, with the aim to prevent further worsening of its debt problems.
- Problems in property will continue to be watched as they are having the potential to become more global. According to the Financial Supervisory Service (“FSS”), South Korean financial firms are facing KRW56.4tn (USD42bn) of property market exposure of which KRW34.5tn (USD26bn) is in North American real estate. Insurers ranked first with KRW31.9tn (USD24bn), followed by banks KRW10.1tn (USD7.6bn) and brokerages KRW8.4tn (USD6.3bn). As of end Sept 2023, KRW2.3tn (USD1.7bn) worth of

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assets was at risk of default, of which KRW0.9tn (USD680mn) of this was in office investment. FSS says there is a likelihood of investments deteriorating due to work from home culture and this period of high interest rates. That said, the FSS also sees limited impact in the financial system as the overseas investments accounts for less than 1% of the overall asset of Korean financial firms.

- Just today was news that China Vanke Co., China’s second-largest developer by sales, was in talks to extend some non-standard debt. (Bloomberg, OCBC)

Date	Issuer	Type	Currency	Size (mn)	Tenor	Pricing
19 Feb	Bocom Leasing Management Hong Kong Company Limited	FRN	USD	130	3-Yr	SOFR+92bps
20 Feb	Westpac New Zealand Ltd (WSTPNZ)	Fixed	USD	750	3-Yr	T+75bps
20 Feb	Westpac New Zealand Ltd (WSTPNZ)	Fixed	USD	750	5-Yr	T+95bps
20 Feb	Korea Housing Finance Corp (KHFC)	Social, Fixed	USD	500	3.5-Yr	T+58bps
21 Feb	CIMB Bank Berhad	FRN	USD	120	5-Yr	SOFR+95bps
22 Feb	Shinhan Card Co Ltd (“SHINCA”)	Fixed	USD	300	5-Yr	T+125bps

Continued primary issuance in the SGD credit space

- **Last week, SGD654mn in new issue was priced** (week prior: SGD650mn).
 - The largest issuer was Singapore Exchange Ltd which priced a SGD300mn 3Y senior unsecured issue at 3.45%.
 - HSBC Bank PLC priced a SGD129mn 2Y senior unsecured issue at 3.6%
 - QNB Finance Ltd priced a SGD125mn 2Y senior unsecured issue at 4.02%.
 - BPCE SA priced a SGD100mn 2Y senior preferred (Bail-in) issue at 3.74%.
- More new issues are likely to come this week, with Daewoo E&C pricing a 5Y senior unsecured bond (CGIF-guaranteed) at 3.88% on 26 February 2024.
- **SGD OIS SORA yields traded higher w/w** last Friday. The shorter tenors traded 4-7bps higher, the belly tenors and 10Y traded 7-8bps higher. As at 23 February 2024, SGD OIS SORA 10Y yield was 3.07%.
- **The SGD credit market gained 0.07% w/w amidst higher SGD SORA yields**, driven primarily by (1) Non-Financial Corp Perp, (2) Short Tenor papers and (3) AT1s though longer tenor papers fell due to higher SGD OIS SORA yields. 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	0.09%
Non-Financial Corp Perp	0.34%
Tier 2s and Other Non-perp Sub	0.01%
Longer Tenors (>9Y)	-0.05%
Mid Tenors (>3Y to 9Y)	0.01%
Short Tenors (>1Y to 3Y)	0.11%
Money Market (Up to 12 months)	0.10%

By Issuer Profile	Return w/w
POS (2)	0.08%
N (3)	0.07%
N (4)	0.10%
N (5)	0.24%

Source: Bloomberg, OCBC

- Company results diverged significantly in the reporting season.** Companies reporting stronger performance include:

 - United Overseas Bank Ltd (“UOB”)** reported record 2023 net profit of SGD6.1bn, up 26% y/y. Influences were similar to DBS Group Holdings Ltd’s results with performance driven by positive JAWS. Total income rose 20% y/y with 16% y/y rise in net interest income from higher net interest margins while non-interest income rose 85% y/y due to record customer-related treasury income, while operating expenses rose 15% y/y. Cost to income fell y/y to 41.5% (2022: 43.3%) though allowances for credit and other losses rose 53% y/y. Capital position remains robust at 13.4%. Going forward, management expects total income growth while cost to income ratio and credit costs are expected to remain stable.
 - Sembcorp Industries Ltd (“SCI”)** 2023 net profit grew 11% y/y to SGD970mn, with better segment profit from (1) Gas and Related Services (+30% y/y to SGD809mn) from stronger performance from Singapore and (2) Renewables (+42% y/y to SGD200mn) due to acquisitions in China and India and increased capacity in Singapore. The company’s reported EBITDA/interest was 4.4x and net debt/EBITDA was 3.6x. While SCI’s profitability was driven by Gas and Related Services, capital expenditure and equity investments have been geared towards the Renewables segment.
- Companies reporting stable or weaker performance include:

 - Singapore Airlines Ltd (“SIA”)** reported 3QFY2024 business update. Operating profit fell 19.3% y/y. While revenue rose 4.9% y/y to SGD5.1bn due to higher passenger flown revenue, there was an increase in expenditure of 9.3% y/y to SGD4.5bn from increase in non-fuel expenditure, due to inflationary effects (e.g. increase in handling charges, passenger costs such as price of meals) while staff costs increased in-line with higher capacity. Proposed merger of Air India and Vistara (49%-owned by SIA) remains on course. SIA sees demand for air travel remaining healthy in the near-term with robust forward sales though passenger yields continue to come under pressure with competitors restoring capacity. Higher passenger aircraft bellyhold capacity should also continue to pressure cargo yield. Separately, from 2026 onwards, all flights departing from Singapore will be required to use sustainable aviation fuel, with 1% as the target in 2026 and plans to increase this to 3-5% by 2030.

Based on estimates, the increase in costs for economy-class passenger will be SGD3 for short-haul flights, SGD6 for medium-haul flights and SGD16 for long-haul flights (based on 1% target).

- **Singapore Telecommunications Ltd (“SingTel”)** 9MFY2024 business update revealed stable underlying performance with reported underlying EBITDA down 0.8% y/y to SGD935mn though performance diverges between segments. While NCS performed well (reported EBITDA: +31.4% y/y to SGD211mn) and Digital InfraCo grew (+2.2% y/y to SGD 167mn), other segments were down including Optus (-8.3% y/y to SGD1.38bn) and Singtel Singapore (-2.4% y/y to SGD1.11bn). For Optus which saw nationwide outage, customer churn has stabilized in 3QFY2024, with AUD60mn in provision booked. Meanwhile, regional associates pre-tax profits was stable y/y at SGD1.71bn.
- Separately, **Olam Group Ltd (“OG”)** announced that the investigation team reviewing the allegations (e.g. round tripping of the Nigerian Naira) by local Nigerian media did not identify evidences that establishes the allegations, and that OG’s Nigeria business has cooperated fully with the Nigerian authorities. No charges were brought against Olam Nigeria. (Company, OCBC)

Key Market Movements

	27-Feb	1W chg (bps)	1M chg (bps)		27-Feb	1W chg	1M chg
iTraxx Asiax IG	97	-2	-5	Brent Crude Spot (\$/bbl)	82.5	0.2%	-1.2%
				Gold Spot (\$/oz)	2,034	0.5%	0.0%
iTraxx Japan	54	-1	-2	CRB Commodity Index	274	0.4%	0.0%
iTraxx Australia	63	-3	-6	S&P Commodity Index - GSCI	556	-0.5%	-1.0%
CDX NA IG	52	0	-1	VIX	13.7	-3.5%	3.6%
CDX NA HY	106	0	0	US10Y Yield	4.27%	-1bp	13bp
iTraxx Eur Main	55	-2	-4				
iTraxx Eur XO	305	-10	-14	AUD/USD	0.654	-0.2%	-1.1%
iTraxx Eur Snr Fin	64	-3	-3	EUR/USD	1.085	0.4%	0.2%
iTraxx Eur Sub Fin	117	-7	-9	USD/SGD	1.344	-0.1%	-0.3%
				AUD/SGD	0.879	0.1%	0.8%
USD Swap Spread 10Y	-38	-2	4	ASX200	7,643	-0.2%	1.2%
USD Swap Spread 30Y	-73	0	3	DJIA	39,069	1.1%	2.5%
				SPX	5,070	1.3%	3.7%
China 5Y CDS	65	-1	0	MSCI Asiax	642	0.9%	4.7%
Malaysia 5Y CDS	39	-1	-6	HSI	16,654	2.5%	4.4%
Indonesia 5Y CDS	70	-2	-7	STI	3,154	-2.8%	-0.2%
Thailand 5Y CDS	42	-2	-1	KLCI	1,551	-0.3%	3.0%
Australia 5Y CDS	16	1	0	JCI	7,273	-1.1%	1.9%
				EU Stoxx 50	4,864	2.1%	4.9%

Source: Bloomberg

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