Asian Credit Daily

16 May 2024

Market Commentary:

- The SGD SORA curve traded lower yesterday, with short tenors trading 2-4bps lower, belly tenors trading 6-7bps lower and 10Y trading 7bps lower.

- Flows in SGD corporates were heavy, with flows in TMGSP 5.25% '27s, STANLN 5.375%-PERP, AAREIT 5.375%-PERP, KITSP 4.3%-PERP, MAGIC 3.5%-PERP.

- China is seeking feedback from several provinces and government entities to have local governments / state-owned enterprises purchase millions of unsold homes from struggling developers at significant discounts and converting into affordable housing. This will be funded using loans provided by state banks.

- Bloomberg Asia USD Investment Grade spreads widened by 1bps to 82bps while Asia USD High Yield spreads widened by 2bps to 534bps. (Bloomberg, OCBC)

- There were no issues in the Asiadollar and Singdollar markets yesterday. Outside of these markets, a notable deal was RMB40bn in issuance of total loss-absorbing capacity bonds by Industrial & Commercial Bank of China, which is the first such debt sales by Chinese lenders. Bank of China Ltd may follow suit in issuing.

Credit Summary:

- **ABN Amro Bank N.V. ("ABN"):** ABN's 1Q2024 results showed solid earnings performance driven by q/q growth in net interest income and fee income on business momentum while cost of risk remains low and well below the through the cycle cost of risk of 15-20bps.

- **Commerzbank AG ("CMZB"):** CMZB announced its best quarterly result in 10 years with 1Q2024 pre-tax profit of EUR1.08bn up 24.4% y/y and 101.7% q/q.

- **Keppel Infrastructure Trust ("KIT"):** On 21 December 2023, KIT announced the proposed joint venture and investment in a solar portfolio in Germany. The investment will be made by aptus 2160. GmbH ("BidCo"), a wholly-owned subsidiary of a KIT joint venture. This joint venture is owned by an indirect wholly-owned subsidiary of KIT and Equitix European II Holdco B S.à r.l. ("Equitix HoldCo"). This will be a joint investment with Equitix and Equitix's co-investors. Equitix is an infrastructure developer and fund manager set up in 2007. BidCo has entered into a share purchase agreement and related documentation with Enpal B.V ("Enpal") to buy a ~90%-stake in the various entities that is involved in leasing fully operational rooftop solar systems to homeowners in Germany including planning, equipment sourcing, installation, grid connection as well as ongoing monitoring and maintenance (collectively the Targets).

- **Singapore Airlines Ltd ("SIA"):** SIA reported its financials for the second half and full year of the financial year ended 31 March 2024 ("FY2024"). Operating profit softened from a y/y increase in expenditure, although from a high base.

Key Market Movements

	16-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	97	-6	-19
iTraxx Japan	50	-2	-2
iTraxx Australia	63	-4	-9
CDX NA IG	49	-1	-9
CDX NA HY	107	0	2
iTraxx Eur Main	51	-1	-11
iTraxx Eur XO	293	-7	-49
iTraxx Eur Snr Fin	58	-1	-12
iTraxx Eur Sub Fin	107	-2	-19
USD Swap Spread 10Y	-36	1	2
USD Swap Spread 30Y	-73	3	3
China 5Y CDS	62	-3	-12
Malaysia 5Y CDS	45	-1	-3
Indonesia 5Y CDS	71	-2	-10
Thailand 5Y CDS	43	-1	-5
Australia 5Y CDS	14	0	-1

	16-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	83.1	-0.9%	-7.7%
Gold Spot ($/oz)	2,389	1.8%	0.3%
CRB Commodity Index	290	0.3%	-2.3%
S&P Commodity Index - GSCI	579	0.0%	-3.0%
VIX	12.5	-4.2%	-32.3%
US10Y Yield	4.32%	-13bp	-35bp
AUD/USD	0.668	0.9%	4.3%
EUR/USD	1.088	0.9%	2.5%
USD/SGD	1.344	0.6%	1.6%
AUD/SGD	0.898	-0.2%	-2.6%
ASX200	7,889	2.2%	3.6%
DJIA	39,908	2.2%	5.6%
SPX	5,308	2.3%	5.1%
MSCI Asiax	690	2.4%	8.9%
HSI	19,426	6.1%	17.0%
STI	3,316	1.5%	5.5%
KLCI	1,611	0.6%	5.0%
JCI	7,245	1.7%	1.1%
EU Stoxx 50	5,101	1.2%	3.7%

Source: Bloomberg

Credit Headlines:

ABN Amro Bank N.V. ("ABN")

- ABN's 1Q2024 results showed solid earnings performance driven by q/q growth in net interest income and fee income on business momentum while cost of risk remains low and well below the through the cycle cost of risk of 15-20bps. Despite this, the CET1 ratio of 13.8% as at 31 March 2024 was down 50bps q/q from 14.3% as at 31 December 2023 (down 120bps y/y) due to higher growth in credit risk risk weighted assets (including model adjustments and seasonal influences) against growth in capital with net profit of EUR674mn for 1Q2024 (+29% y/y and +24% q/q) offset by a 50% dividend accrual. That said, capital buffers remain robust and 300bps above ABN's 10.8% maximum distributable amount ("MDA") trigger level that rose 20bps q/q. This equates to a capital buffer of ~EUR4.4bn according to our calculations.
- Net interest income of EUR1.59bn was down 2% y/y and up 6% q/q as net interest margins were broadly stable y/y and up 10bps q/q at 162bps as rates continue to stay elevated. At the same time, both mortgage and corporate loans grew with ABN the market leader in mortgages in 1Q2024. Y/y net interest income performance was also influenced by margin pressure and lower Treasury results from the implementation of zero interest rates on the mandatory cash reserve as of 4Q2023.
- Net fee and commission income of EUR469mn improved 6% y/y and 4% q/q. Y/y performance reflects higher transaction volumes and payment package repricing in Personal & Business Banking, as well as higher assets under management and related fees from stock market developments in Wealth Management. Q/q performance reflects improvement in capital market fees as well as higher payment service fees at Personal & Business Banking and Wealth Management and higher portfolio management fee income at Wealth Management,
- Other operating income of EUR139mn was up materially y/y and q/q to reflect higher asset and liability management results in Treasury and higher profit and loss and balance sheet valuations. Combined with net interest income and net fee and commission income performance, operating income of EUR2.20bn rose 3% y/y and 8% q/q.
- Operating expenses were down 11% y/y and 14% q/q to EUR1.26bn due to lower regulatory levies that offset increases in staff, digitalisation and regulatory program costs. As such, ABN's cost to income improved noticeably to 57.2% in 1Q2024 against 65.6% in 1Q2023 and 71.6% in 4Q2023 and below its 2024 guidance of ~60%. The operating result of EUR940mn was up 28% y/y and 62% q/q.
- Cost of risk of EUR3mn against EUR14mn in 1Q2023 and a EUR83mn writeback in 4Q2023 equated to a 1bps cost of risk in 1Q2024 and was due to net additions in stage 3 exposures within Corporate Banking. This was offset by stage 1 and 2 releases as well as lower management overlays to reflect an improved macro-economic outlook with several macro-economic variable assumptions raised as weightage to positive (15%), baseline (60%) and negative (25%) macro-economic scenarios remained the same q/q.
    - The stage 3 loan ratio was 1.9% as at 31 March 2024, stable q/q while the stage 3 coverage ratio of 22.3% was down from 22.9% over the same period. Stage 3 loans rose 2.8% q/q to EUR4.84bn.
    - The forbearance ratio at 2.2% was also stable q/q and the past due ratio improved 10bps q/q to 0.7% as at 31 March 2024 due to lower residential mortgage arrears. Overall, forborne assets of EUR5.8bn rose 5.45% q/q but this was matched by the aforementioned increase in loans and advances.
    - Per data supplied by ABN from Statistics Netherlands as well as ABN's economists, Dutch bankruptcies remain low compared to historical norms however are rising towards 5-year highs as of 16 April 2024. Management expects impairments to normalise towards the through the cycle cost of risk.
    - Commercial real estate exposure of EUR15.1bn is around 6% of total loans and advances to customers. Of this, 13% or ~EUR2bn relates to office and general loan to value ratios are between 30-60% with ~94% of all commercial real estate exposures below 70% loan to value.
- ABN's capital buffer remains robust and above its 13.5% CET1 Basel IV target (actual Basel IV CET1 ratio was 14.0% as at 31 March 2024) while the domestic economic and earnings outlook appears constructive. Against this however, minimum capital requirements are increasing. The Dutch central bank will increase the countercyclical capital buffer from 1% to 2% and lower the Other Systemically Important Institutions buffer

from 1.50% to 1.25% at the end of May 2024. This, along with other changes to the countercyclical capital buffer in other countries will further increase the MDA trigger level from 10.8% to 11.2% on a pro-forma basis.
- ABN's Minimum Requirement for own funds and eligible liabilities ("MREL") ratio of 31.8% as at 31 March 2024 was up 40bps q/q due to capital instrument issuance and remains above the expected MREL requirement of 28.8% as at 31 May 2024.
- Given the solid business momentum and earnings as well as resilient loan quality, management have affirmed their 2024 guidance. Results remain consistent with ABN's fundamentals in our view. (Company, OCBC)

Commerzbank AG ("CMZB")
- CMZB announced its best quarterly result in 10 years with 1Q2024 pre-tax profit of EUR1.08bn up 24.4% y/y and 101.7% q/q. Y/y performance was driven by a moderate risk result, positive JAWS (with a 3.0% y/y rise in revenues and a 2.2% y/y rise in operating expenses), and a 64.9% y/y fall in compulsory contributions mainly due to significantly lower European banking levy contributions that were suspended. CMZB's CET1 ratio improved 20bps q/q and 70bps y/y to 14.89% as at 31 March 2024 due to lower risk weighted assets on improved ratings on larger corporate exposures, well above its minimum regulatory requirement of 10.34% as of 1 January 2024 (455bps distance to its maximum distributable amount and Supervisory Review and Evaluation Process requirements).
- The 3.0% y/y rise in revenues (+2.4% y/y excluding exceptional items) to EUR2.75bn includes EUR318mn in new provisions for CMZB's Swiss franc portfolio at Polish subsidiary mBank.
    - As a recap, a ruling by the European Court of Justice on Swiss franc foreign currency indexed loan agreements allows customers to avoid paying interest on mortgage loans given their punitive terms and also seek compensation from the bank as a penalty for the unfair clauses that effectively resulted in loan values increasing as the polish currency depreciated.
    - This was more than offset by a 9.2% y/y rise in net interest income to EUR2.13bn on continued elevated interest rates and higher deposit volumes that offset changes in the deposit mix. Given the solid net interest income performance from higher volumes and higher rates, management have further raised its 2024 net interest income forecast from EUR7.9bn to EUR8.1bn.
    - Net commission income also improved 0.5% y/y to EUR920mn due to seasonally strong securities performance and higher income from loan syndication and bond issuance. The result compares favourably to the high prior period base.
- Operating expenses rose 2.2% y/y to EUR1.50bn due to higher costs at mBank from investments for future business growth and foreign currency effects. Other operating expenses were broadly stable as increases in staff costs were offset by cost management. Combined with the lower and suspended compulsory contributions due to achievement of the target volume of the European Single Resolution Fund in 2023, overall 1Q2024 costs fell ~8% y/y with CMZB's cost to income ratio including compulsory contributions at 57.8% in 1Q2024, improved noticeably from 64.6% in 1Q2023 and 67.1% in 4Q2023 and below the 2024 target.
- CMZB's cost of risk was EUR76mn in 1Q2024 or 11bps of customer loans, up marginally from EUR68mn in 1Q2023 (10bps) due to single Corporate Client cases and releases in the top-level adjustment.
    - The non-performing exposure ratio remained low at 0.8% as at 31 March 2024, stable q/q (down from 1.1% as at 31 March 2023) while a top-level adjustment of EUR423mn remains intact (EUR453mn as at 31 December 2023) for inflation, supply chain disruptions and the impact of higher interest rates. The q/q reduction reflects recalculations in both the Corporates Clients and Private and Small-Business Customers segments.
    - CMZB's default portfolio rose ~3.5% q/q to EUR4.92bn as at 31 March 2024 while overall risk provisions were broadly stable at EUR3.89bn with a stage 3 coverage ratio of 47.9%.
    - CMZB's commercial real estate exposure remains contained, contributing ~2% to total exposure at default with 4% of this classified as non-performing or Stage 3. 99% of exposures are located in Germany with an average loan to value ratio of 52%.
- By segment:

  - The Corporate Clients segment had a record quarter due to record revenues and growth in both net commission income and net interest income with operating costs and risk results contained. In particular, the Mittelstand division saw lending business improvement in addition to higher cash management and financial markets performance. International Corporates achieved higher income from lending and deposit businesses while the Institutionals division benefited from deposit and bond issuance business that offset weaker foreign exchange.
  - The Private and Small-Business Customers segment saw earnings growth in securities and deposits that offset lower net commission income from the strong prior year base and the higher provisions at mBank.
  - Corporate Clients contributed ~57% of CMZB's 1Q2024 pre-tax profit (before others and consolidation) while Private and Small-Business Customers contributed ~36% with the remainder contributed by mBank.
- Despite the solid 1Q2024 performance, higher expectations for net interest income, and an improved global economic outlook, management have confirmed its 2024 targets including a 4% y/y rise in net commission income, the cost to income ratio remaining around 60% and 2024 net profit to improve above 2023 levels. Key aspects of the 2027 strategic plan that follows the 2024 strategy include:
  - Reducing reliance on net interest income (~80% of 2023 total revenues) with higher fee income.
  - Financial targets including a 11.5% net return on tangible equity, 13.5% CET1 ratio, and a 55% cost to income ratio.
  - Increasing sustainability linked businesses. CMZB recently acquired a 74.9% stake in asset manager Aquila Capital Investmentgesellschaft ("ACI") that specialises in renewable energies and infrastructure projects. ACI is expected to develop into a leading asset manager for sustainable investment strategies, contributing to the planned commission income growth and 2027 revenue targets. CMZB's Chief Financial Officer Bettina Orlopp indicated possible additional acquisitions in comments following the results announcement although organic growth was the preference. Further acquisitions were also dependent on a conducive political and regulatory environment.
- Management's expectations for 2024 are somewhat tempered by (1) easing policy interest rates (albeit moderately and delayed compared to earlier expectations), (2) an uptick in risk results from the low base with EUR800mn in risk results expected for 2024 including usage of the top-level adjustment, and (3) future developments with regards provisions for CMZB's Swiss franc mortgage portfolio at mBank. Although Russian exposures continue to reduce (EUR171mn as at 31 March 2024 against EUR344mn as at 31 December 2023 and EUR645mn as at 31 March 2023), management also highlighted the ongoing uncertainties with regards current legal proceedings in Russia with damages awarded by a Russian court in March 2024.
- With the CET1 ratio expected to remain above 14.0% and ongoing execution of its strategic plan to 2027, management is also intending to increase the shareholder payout ratio to at least 70% of 2024 profit. This is following the completion of EUR1bn in returns for the 2023 financial year including a EUR600mn share buy-back that equates to a 50% payout ratio for 2023.
- We see CMZB's fundamentals as continuing to improve with its stronger earnings, resilient loan quality and improved capital position which is a consequence of its business segments and a support for management's upbeat tone for 2024 in our view. (Company, OCBC)

Keppel Infrastructure Trust ("KIT")

- On 21 December 2023, KIT announced the proposed joint venture and investment in a solar portfolio in Germany. The investment will be made by aptus 2160. GmbH ("BidCo"), a wholly-owned subsidiary of a KIT joint venture.
- This joint venture is owned by an indirect wholly-owned subsidiary of KIT and Equitix European II Holdco B S.à r.l. ("Equitix HoldCo"). This will be a joint investment with Equitix and Equitix's co-investors. Equitix is an infrastructure developer and fund manager set up in 2007.
- BidCo has entered into a share purchase agreement and related documentation with Enpal B.V ("Enpal") to buy a ~90%-stake in the various entities that is involved in leasing fully operational rooftop solar systems to

homeowners in Germany including planning, equipment sourcing, installation, grid connection as well as ongoing monitoring and maintenance (collectively the Targets). Enpal is an installer of solar photovoltaic systems for residential homeowners in Germany. Post-transaction, Enpal will retain the remaining ~10%-stake in the Targets.

- The transaction is intended to take place in four phases, and it is also intended for KIT to ultimately acquire a 45%-stake in the Targets held indirectly through BidCo as mentioned above.
- KIT announced that the third closing has occurred and in connection to the third closing the partnership agreement has been amended. (Company, OCBC)

Singapore Airlines Ltd ("SIA")

- SIA reported its financials for the second half and full year of the financial year ended 31 March 2024 ("FY2024"). Operating profit softened from a y/y increase in expenditure, although from a high base.
- For the 2HFY2024, revenue grew by 5.3% y/y to SGD9.9bn, driven by an increase in passenger flown revenue. Passenger flown revenue increased on the back of traffic growth rather than passenger yields which declined on intensifying competition amidst progressive restoration of capacity from competing airlines.
- Group passenger load factor was commendable at 86.3% in 2HFY2024, albeit slightly lower than 2HFY2023's 86.8% while Revenue per Available Seat-Kilometre ("RASK") was 10.5 cents per ask for 2HFY2024. This is higher than FY2020's passenger load factor of 82.4% and 7.5 cents per ask.
- Cargo revenue fell 29.7% y/y to ~SGD1.1bn, mainly driven by lower cargo yields with bellyhold cargo capacity increasing across the industry. Cargo yields were 35.9% lower y/y at 37.7 cents per ltk, although still above FY2020 levels by 23.6%. Cargo load factor was 56.3% for 2HFY2024, boosted by e-commerce demand.
- Despite the higher y/y top line, the company's reported operating profit was lower by 19.5% y/y to SGD1.2bn in 2HFY2024, albeit falling from a high base in 2HFY2023. Both fuel and non-fuel expenditure had increased.
- Net profit though was marginally higher by 1.0% y/y at SGD1.2bn in 2HFY2024 despite the lower operating profit, mainly driven by lower taxes (in 3Q2024, it was disclosed that SIA had tax credits of SGD123.5mn that was previously unrecognised) and a surplus on disposal of aircraft, spares and spare engines.
- Reported EBITDA was SGD2.6bn for 2HFY2024 versus SGD2.8bn in 2HFY2023, with resultant reported EBITDA/Interest healthy at 12.7x.
- Book value of equity increased to SGD16.3bn as at 31 March 2024 against SGD15.6bn as at 31 December 2023 though had fallen from SGD19.9bn as at the beginning of FY2024. In FY2024, SIA had redeemed SGD5.1bn of mandatory convertible bonds ("MCB") (recognised as equity, SIA holds the conversion option), though buffered by net profit contribution. Reported gross gearing was 0.82x as at 31 March 2024, slightly lower than the 0.88x as at 31 December 2023 (31 March 2023: 0.77x).
- SIA has access to SGD2.9bn of undrawn committed lines of credit as at 31 March 2024 while cash balance was SGD11.3bn.
- With cash balance and access to undrawn lines ample, we see short term refinancing risk as manageable, notwithstanding SIA's pending redemption of all the remaining outstanding MCBs and announced investment outlay on Enlarged Air India.
- We understand that SIA is awaiting regulatory approval on the proposed merger of Air India and Vistara (49%-owned by SIA). Assuming the transaction is completed (targeted for within calendar year 2024), SIA will have a ~25.1% stake in the Enlarged Air India, with a significant presence in all key Indian airline market segments. (Company, OCBC)

Mandates:

- There are no Asiadollar mandates today.

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