OCBC TREASURY RESEARCH

Asian Credit Daily

Thursday, July 30, 2020

Market Commentary

- The SGD swap curve bull flattened yesterday, with the shorter tenors trading 1-2bps lower while the belly and longer tenors traded 1-3bps lower and the 15-year traded 5bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 182bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 713bps. The HY-IG Index Spread remained relatively unchanged at 531bps.
- Flows in SGD corporates were heavy, with flows in CS 5.625%-PERPs, STTGDC 3.13%'28s, UBS 4.85%-PERPs, KITSP 4.75%-PERPs, NTUCSP 3.1%'50s, FPLSP 4.98%-PERPs, BAERVX 5.75%-PERPs, FPLSP 4.15%'27s, HSBC 4.7%-PERPs, OLAMSP 5.5%-PERPs and UBS 5.875%-PERPs.
- 10Y UST Yields remained mostly unchanged at 0.58% after Fed pledged to keep interest rate near zero and would use all tools available to help the economy to recover from COVID-19 fallout.

Credit Research

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Credit Summary:

- Barclays PLC ("Barclays") | **Issuer Profile: Neutral (4):** Barclays announced its 1H2020 results with broadly similar trends to prior bank results. Barclays CET1 capital position improved compared to 13.8% as at 31 December 2019, coming in at 14.2% as at 30 June 2020. This was due to earnings, regulatory changes and cancellation of the FY2019 dividend payment at the request of the UK Prudential Regulation Authority that offset growth in risk weighted assets.
- Sembcorp Industries Ltd ("SCI") | **Issuer Profile: Neutral (4):** SCI announced the completion of the divestment of its water business in Chile for CLP27.8bn (~SGD53.6mn). With the completion, SCI has exited the Chilean market.
- OUE Limited ("OUE") | **Issuer Profile: Neutral (5):** OUE announced a negative profit warning for 1H2020 where the company is expected to report a loss in 1H2020, mainly due to fair value losses of SGD310mn from the sale of the USA Bank Tower located in Los Angeles, USA at lower than book value.
- Hongkong Land Ltd ("HKL") | **Issuer Profile: Positive (2):** HKL reported 1H2020 results. Although revenue was up 2.0%y/y to USD820.2mn, HKL recorded an operating loss of USD1.6bn vs an operating gain of USD428.0mn a year ago due to significant decrease in fair value of investment properties of USD2.1bn on the back of lower open market rents. HKL's financial position remains strong, with net debt higher at USD5.6bn at 30 June 2020 from USD3.6bn at end 2019.
- Singapore Airlines Ltd ("SIA") | **Issuer Profile: Neutral (5):** SIA announced its business update for the first quarter for financial year ending 31 March 2021. Revenue was down by 79.3% y/y to SGD851mn in 1QFY2021 mainly due to lower passenger flights due to closure of borders and dampening demand in international travel.
- Industry Outlook – Financial Institutions: Monetary Authority of Singapore called on local banks to cap dividend per share for FY2020 at 60% of FY2019's dividend per share and offer shareholders the option to receive scrip dividends. MAS also encourages banks to exercise restraint in discretionary expenditure and management compensation.

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Credit Headlines

Barclays PLC ("Barclays") | Issuer Profile: Neutral (4)

- Barclays announced its 1H2020 results with broadly similar trends to prior bank results with profit before tax down 58% y/y as total income growth of 8% y/y that was higher than operating expense growth of 3% y/y was offset by a 300% rise in credit impairment charges.
- Pre-provision profits rose 27% y/y due to strong performance in Corporate and Investment Bank (income up 31% y/y due to solid markets performance). This offset a 21% y/y fall in income from Consumer, Cards and Payments on lower balances and consumer spending volumes. The weaker performance in Barclays UK (-11% y/y) on lower interest rates and UK cards balances was also impacted by customer support actions such as payment holidays to over 600,000 customers and GBP22bn in support to business clients as well as lower fees.
- On a positive note, cost performance was supportive, with a lower rise in operating expenses from cost efficiencies and discipline and translated to an improved cost to income ratio of 57% for 1H2020 against 64% in 1H2019.
- Impairment charges were driven primarily by weaker economic scenarios with GBP600mn due to a single name wholesale exposure. Of note though is that impairment coverage for vulnerable sectors is at 4.0% and although higher than FY2019, it appears somewhat low. The coverage ratio for the unsecured consumer lending portfolio was 12.0%.
- Barclays CET1 capital position improved compared to 13.8% as at 31 December 2019, coming in at 14.2% as at 30 June 2020. This was due to earnings, regulatory changes and cancellation of the FY2019 dividend payment at the request of the UK Prudential Regulation Authority ("PRA") that offset growth in risk weighted assets. The buffer against its maximum distributable amount hurdle has improved as a result of the higher capital ratio as well as a lower hurdle of 11.2% (previously 11.5%).
- Management's outlook is conservative for 2H2020 which is reasonable given persisting COVID-19 influences and still prevailing uncertainty. Credit impairments could continue to weigh on 2H2020 results while markets businesses may moderate. Earnings challenges are offset for now by a larger capital buffer so we do not see a reason to alter the Neutral (4) issuer profile although continue to monitor banks at the lower end of our ratings spectrum given the potential for higher credit dispersion in 2020. (Company, OCBC)

Sembcorp Industries Ltd ("SCI") | Issuer Profile: Neutral (4)

- SCI announced the completion of the divestment of its water business in Chile for CLP27.8bn (~SGD53.6mn). With the completion, SCI has exited the Chilean market. (Company, OCBC)

OUE Limited ("OUE") | Issuer Profile: Neutral (5)

- OUE announced a negative profit warning for 1H2020 where the company is expected to report a loss in 1H2020, mainly due to fair value losses of SGD310mn from the sale of the USA Bank Tower located in Los Angeles, USA at lower than book value.
- This is a non-cash item although would negatively impact its book value of equity. (Company, OCBC)

Credit Headlines

Hongkong Land Ltd ("HKL") | Issuer Profile: Positive (2)

- HKL reported 1H2020 results. Although revenue was up 2.0%y/y to USD820.2mn (Investment Properties: -8.8%y/y to USD530.3mn, Development Properties: +30.2%y/y to USD289.9mn), HKL recorded an operating loss of USD1.6bn vs an operating gain of USD428.0mn a year ago due to significant decrease in fair value of investment properties of USD2.1bn on the back of lower open market rents.
- Overall HKL reported loss after tax of USD1.8bn vs profit after tax of USD411.3mn a year ago as its contributions from associates and joint ventures was also in the negative region due to revaluation losses.
- For Investment Properties:
  - For Hong Kong office, vacancy was 5.0% at end June 2020 (End 2019: 2.9%) with rental reversions mildly positive at HKD121 per sqft (2H2019: HKD119 per sqft).
  - For Hong Kong retail, vacancy was 0.4% vs 0.3% at end 2019. Although retail rental reversion were mildly positive at an average of HKD230 per sqft, temporary rent relief and decreased turnover rent resulted in average retail rents declining to HKD151 per sqft in 1H2020 vs HKD239 per sqft in 1H2019 and HKD205 per sqft in 2H2019.
  - For Singapore office, vacancy was 1.5% vs 5.0% at end 2019 with rental reversions being positive.
- For Development Properties:
  - On Mainland China, HKL's attributable interest in contracted sales in 1H2020 was USD591mn, vs USD643mn in 1H2019 and USD1.2bn in 2H2019. At 30 June 2020, HKL had USD2.2bn in sold but unrecognised contracted sales compared with USD1.9bn at end of 2019.
  - For Singapore, HKL's attributable interest in contracted sales in 1H2020 was USD3.1mn, vs USD255mn in 1H2019 and USD414mn in 2H2019.
  - These were largely due to temporary closure of sales galleries and suspension of construction activities for ~2 months as a result of the pandemic.
- HKL's financial position remains strong, with net debt higher at USD5.6bn at 30 June 2020 from USD3.6bn at end 2019 primarily due to land payments for the recently acquired site in Shanghai, China. Net gearing rose to 16% vs 9% at end 2019. Although net gearing is higher, we remain comfortable with HKL has it has USD362.8mn of short term debt against USD927.6mn of cash on hand. Also, EBITDA/Interest based on our calculation is still good at 4.4x (30 June 2019: 5.1x).
- Management expects 2H2020 to benefit from higher Development Properties completion in Mainland China though uncertainty surrounding the duration of the pandemic and the effects it will have on HKL remains. (OCBC, Company)

Credit Headlines

Singapore Airlines Ltd ("SIA") | Issuer Profile: Neutral (5)

- SIA announced its business update for the first quarter for financial year ending 31 March 2021 ("1QFY2021"). While the full set of financial statements were not provided, key financials and updates were provided.
- Revenue was down by 79.3% y/y to SGD851mn in 1QFY2021 mainly due to lower passenger flights due to closure of borders and dampening demand in international travel (passenger revenue was down 98.8% y/y). As a result, cargo is now the major contributor to revenue (77.8%). Engineering services and others (driven by SIA's ~78%-owned subsidiary SIA Engineering Co Ltd was down by 47.5% y/y mainly due to contraction in its line maintenance services businesses as there were less flights at Changi Airport.
- During the quarter, SIA had significantly narrowed its y/y cost base, largely from savings on variable expenses given the capacity cuts. Fuel ineffectiveness expenses (which can be seen as an extraordinary item in our view) was SGD464mn. Excluding this, total operating expenses was SGD1.4bn, historically depreciation and amortisation was ~SGD500mn, indicating that cash expenses at SIA for 1QFY2021 was ~SGD900mn.
- The company is in the process of negotiating with its key suppliers Airbus and Boeing on adjusting aircraft deliveries and changing the schedule of progress payments to reduce near term cash outflows. SIA has not provided an updated capex plan given negotiations are on-going. As at 30 September 2019, projected capex for FY2021 was SGD6.0bn (~SGD1.5bn per quarter).
- Including existing committed credit lines which have been renewed, new committed credit lines and short term unsecured loans, new secured loans (secured on aircraft) and completion of SIA's rights issue, SIA's had raised SGD11bn of liquidity. The company has the option to tap an additional SGD6.2bn of liquidity via mandatory convertible bonds ("MCB"). SIA did not disclose the existing cash balance as at 30 June 2020 though we expect these cash (if any) would need to be set aside for airticket refunds.
- Assuming no change to capex plans in the short term, no additional secured loans secured on aircraft and SIA refinances short term debt coming due rather than pay down the debt and assuming expiry of government support schemes, we estimate that the SGD17.2bn of liquidity sources may cover 20 months of operating expenses at the current run-rate. India remains a strategic market for SIA and we expect potential equity injection into Vistara by SIA going forward, which may reduce the 20 months estimation, ceteris paribus.
- Reported gross debt-to-equity has improved significantly to 0.68x as at 30 June 2020 from 1.27x as at 31 March 2020 following SIA's recent rights issue. The MCBs that were issued as part of the rights issue are recorded as equity in SIA's books.
- The company is undergoing a review of its network which is expected to complete by end-1HFY2021. This could bring about material impairments to its existing fleet and in our view, other structural changes in terms of scale is also likely to happen should there be a change in fleet size. For now we maintain SIA's issuer profile at Neutral (5). (Company, OCBC)

Credit Headlines

Industry Outlook – Financial Institutions

- Monetary Authority of Singapore ("MAS") called on local banks to cap dividend per share for FY2020 at 60% of FY2019's dividend per share and offer shareholders the option to receive scrip dividends. This is a shift in stance by MAS from April when it indicated that there was no need to restrict dividends, though the policy to cap dividends is in-line with regulators elsewhere including The Australian Prudential Regulation Authority yesterday which guided banks to retain at least half of earnings when deciding on capital distributions.
- While MAS acknowledges that the local banks entered the crisis with strong capital positions, the dividend restrictions are pre-emptive to ensure sufficient capital to buffer against economic shocks and bolster the ability of banks continue lending to business and individuals.
- MAS also encourages banks to exercise restraint in discretionary expenditure and management compensation.
- We think this demonstrates the focus to prevent the economic and health crisis from also becoming a financial crisis. (MAS, Straits Times, OCBC)

Key Market Movements

	30-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	74	-1	-11
iTraxx SovX APAC	41	1	-6
iTraxx Japan	60	1	1
iTraxx Australia	77	1	-10
CDX NA IG	70	0	-6
CDX NA HY	103	1	3
iTraxx Eur Main	60	2	-7
iTraxx Eur XO	362	22	-21
iTraxx Eur Snr Fin	69	3	-10
iTraxx Eur Sub Fin	144	6	-23
iTraxx Sovx WE	16	0	-3
USD Swap Spread 10Y	-1	0	1
USD Swap Spread 30Y	-42	1	7
US Libor-OIS Spread	20	2	-4
Euro Libor-OIS Spread	1	0	-3
China 5Y CDS	44	1	-6
Malaysia 5Y CDS	59	-1	-13
Indonesia 5Y CDS	117	2	-14
Thailand 5Y CDS	41	0	-2

	30-Jul	1W chg	1M chg
Brent Crude Spot ($/bbl)	43.75	1.02%	6.32%
Gold Spot ($/oz)	1,963.41	4.03%	10.24%
CRB	144.34	0.71%	4.62%
GSCI	343.38	0.50%	5.50%
VIX	24.1	-0.90%	-20.80%
CT10 (%)	0.572%	-0.50	-8.37
AUD/USD	0.718	1.10%	3.95%
EUR/USD	1.177	1.50%	4.77%
USD/SGD	1.375	0.81%	1.37%
AUD/SGD	0.987	-0.28%	-2.49%
ASX 200	6,042	-0.86%	2.44%
DJIA	26,540	-1.73%	2.82%
SPX	3,258	-0.54%	5.10%
MSCI Asiax	702	0.44%	8.24%
HSI	24,952	-1.23%	2.15%
STI	2,545	-2.58%	-1.73%
KLCI	1,605	-0.11%	6.91%
JCI	5,100	-0.88%	3.96%
EU Stoxx 50	3,300	-2.09%	2.04%

Source: Bloomberg

New Issues

- State Grid Overseas Investment 2016 Ltd (Guarantor: State Grid Corp of China) priced a USD300mn 5-year bond at T+88bps, tightening from IPT of T+140bps area and another USD1.15bn 10-year bond at T+118bps, tightening from IPT of T+165bps area.
- Sunac China Holdings Ltd priced a USD500mn 4NC2 bond at 6.85%, tightening from IPT of 7.25% area.
- Ronshine China Holdings Ltd priced a USD200mn 4NC2 bond at 6.75%, tightening from IPT of 7.25% area.
- Chong Hing Bank Limited priced a USD50mn re-tap of its CHOHIN 5.50%'PerpNC5.
- CIFI Holdings Group Co Ltd. priced a USD200mn re-tap of its CIFIHG 5.95%'25s.
- Korea Development Bank priced a SGD20mn 1-year bond at 3m-SIBOR+26bps.

Date	Issuer	Size	Tenor	Pricing
29-Jul-20	State Grid Overseas Investment 2016 Ltd (Guarantor: State Grid Corp of China)	USD300mn USD1.15bn	5-year 10-year	T+88bps T+118bps
29-Jul-20	Sunac China Holdings Ltd	USD500mn	4NC2	6.85%
29-Jul-20	Ronshine China Holdings Ltd	USD200mn	4NC2	6.75%
29-Jul-20	Chong Hing Bank Limited	USD50mn	CHOHIN 5.50%'PerpNC5	5.50%
29-Jul-20	CIFI Holdings Group Co Ltd.	USD200mn	CIFIHG 5.95%'25s	5.95%
29-Jul-20	Korea Development Bank	SGD20mn	1-year	3m-SIBOR+26bps
28-Jul-20	China Construction Bank Corporation Hong Kong Branch	USD500mn USD700mn	3-year 5-year	T+93bps T+105bps
28-Jul-20	Country Garden Holdings Company Limited	USD500mn USD500mn	5.5NC3.5 10NC5	4.2% 4.8%
28-Jul-20	Haimen Zhongnan Investment Development (International) Co., Ltd. (Guarantor: Jiangsu Zhongnan Construction Group Co., Ltd.)	USD200mn	364-day	9.35%
28-Jul-20	CSCIF Asia Limited (Guarantor: CSC Financial Co., Ltd.)	USD500mn	5-year	T+150bps
28-Jul-20	Adani Ports & Special Economic Zone Ltd	USD750mn	7-year	4.2%
27-Jul-20	Chong Hing Bank Limited	USD250mn	PerpNC5	5.50%

Source: OCBC, Bloomberg

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