Asian Credit Daily

6 December 2024

Market Commentary:

- The SGD SORA OIS curve traded lower yesterday, with shorter tenors trading 2-3bps lower, and belly tenors and 10Y trading 2bps lower.

- Flows in SGD corporates were moderate, with flows in BACR 5.4%-PERP, TMGSP 4.65% '29s.

- China plans to expedite bond issuance to enhance the utilization of proceeds while firmly controlling the emergence of new hidden debts, according to Finance Minister Lan Fo'an in an article for an official publication affiliated with the country's Publicity Department.

- According to a Swiss Re press release, estimated losses from natural catastrophes are expected to exceed USD135mn in 2024, the fifth consecutive year that Global insurers will face over USD100mn in insured losses. Two thirds of these losses are in the US due to Hurricane Helene and Hurricane Milton as well as a high frequency of severe thunderstorms while Europe and the Middle East were impacted by major floods. Losses are expected to increase as climate change intensifies extreme weather events while asset values increase in high-risk areas due to urban sprawl and rebuilding costs increase according to the Swiss Re Institute.

- Bloomberg Asia USD Investment Grade spreads remained flat at 75bps while Bloomberg Asia USD High Yield spreads remained flat at 456bps. (Bloomberg, OCBC)

- There were no new Asiadollar mandates yesterday.

Credit Summary:

- **Industry Outlook – SGD Credit Outlook 1H2025:** Our recently published SGD Credit Outlook for 1H2025 contains five key takeaways including strong SGD credit market performance with +6.5% YTD2024 returns due to spread compression and lower interest rates. With tight credit spreads possibly persisting, we prefer higher yield bonds in the belly and longer tenor as well as crossovers and selected non-financial corporate perpetuals and bank capital.

- **ESR-LOGOS REIT ("EREIT"):** We think sentiment over corporate actions at its sponsor ESR Group Ltd ("ESR") as well as corporate actions at its sister REIT may spillover to ESR-LOGOS REIT ("EREIT"), capping the price upside of EREIT's perpetuals given the uncertainty of owning perpetuals of unlisted issuers.

- **GuocoLand Ltd ("GUOL"):** GUOL announced it is redeeming the SGD400mn 4.6% PERP on 23 January 2025.

- **Hongkong Land Holdings Ltd ("HKL") and The Hongkong Land Company Ltd ("HKCL"):** Per Bloomberg, HKL is seeking to divest a wholly-owned Singapore Property Development arm, MCL Land Ltd ("MCL"), at a premium to its book value of SGD1.1bn (USD820mn or ~2.7% of total book value as at 30 June 2024).

- **Singapore Post Ltd ("SingPost"):** According to an SGX announcement, SingPost was placed on Negative CreditWatch by S&P Global Ratings ("S&P") while the ratings of the issuer and SPOST 4.35%-PERP are unchanged at "BBB" and "BB+" respectively.

Credit Headlines:

Industry Outlook – SGD Credit Outlook 1H2025:

- Our recently published SGD Credit Outlook for 1H2025 contains five key takeaways:
    1. SGD exceptionalism. Strong performance with +6.5% YTD2024 returns due to spread compression and lower interest rates. Issuance of SGD27.8bn is highest in recent years.
    2. Tight credit spreads may persist. Neutral very short and short bullets, preferring higher yield bonds in the belly and longer tenor. Prefer crossovers and selected non-financial corporate perpetuals and bank capital.
    3. REITs aggregate limit of 50% and ICR of 1.5x are friendly moves for S-REITs. New comfort level may stabilise at 43-44% aggregate leverage and 1.8x ICR. Investors may favour REITS with financial discipline.
    4. SG Property prices may rise 2-4% in 2025, with demand remaining firm though supply should catch up. Developers' profitability and interest coverage should improve.
    5. Financial institutions fundamentals should remain stable. Strong influence of regulators and governance are positive in managing influence of internal and external factors.
- We also shared the following:
    1. SGD credit is a competitive alternative to Asiadollar
    2. Sustainable finance buzzing in the market
    3. Outlook for Singapore Industrial, Office and Retail REITs
    4. Outlook for Hong Kong Retail, Commercial and Residential Property
    5. Our 8 Top Trade Ideas. (OCBC)

ESR-LOGOS REIT ("EREIT")

- We think sentiment over corporate actions at its sponsor ESR Group Ltd ("ESR") as well as corporate actions at its sister REIT may spillover to ESR-LOGOS REIT ("EREIT"), capping the price upside of EREIT's perpetuals given the uncertainty of owning perpetuals of unlisted issuers.
- A take private of ESR is now near certain while a new corporate action has been announced at its sister REIT. For the avoidance of doubt, there are currently no announced plans to take private EREIT. (OCBC)

GuocoLand Ltd ("GUOL")

- **Calling GUOLSP 4.6% PERP:** GUOL announced it is redeeming the SGD400mn 4.6% PERP on 23 January 2025.
- **Rationale for calling?** We note that GUOL skipped the first call of the perp ~2Y ago on 23 January 2023. We think that the perp is called this time because the call date on 23 January 2025 coincides with the reset and step-up date. The initial spread of the perp was 260.9bps and the step-up is 100bps.
- **Impact on credit metrics:** Based on FY2024 financials, we expect net gearing levels to rise from 77% as of end-FY2024 to ~90% following the redemption of the perpetual. We think net gearing levels should remain high as GUOL has been successfully tendering for land with JV partners, including for Margaret Drive (SGD460mn bid) and Faber Walk (SGD400mn bid). (Company, OCBC)

Hongkong Land Holdings Ltd ("HKL") and The Hongkong Land Company Ltd ("HKCL")

- Per Bloomberg, HKL is seeking to divest a wholly-owned Singapore Property Development arm, MCL Land Ltd ("MCL"), at a premium to its book value of SGD1.1bn (USD820mn or ~2.7% of total book value as at 30 June 2024).
- MCL has an extensive portfolio of prime residential properties primarily in Singapore and partly in Malaysia. Notable developments include Copen Grand, Piccadilly Grand, Leedon Green, Parc Esta and Margaret Ville in Singapore, as well as Sfera, Quinn, Seri Riana and Riana Green East in Wangsa Maju, Kuala Lumpur, Malaysia.
- Per Bloomberg, "deliberations are ongoing, and Hongkong Land could still opt to keep the assets". This potential disposal is largely in line with HKL's new strategy of focusing on recurring income and exiting Development Properties announced on 29 October 2024.

- We believe the new strategy is a positive credit event for bondholders as the recurring income from rental and management fees are substantially more stable compared to the Development Properties segment. In addition, the large exposure of Development Properties in China has been dragging down the financial performance and capital of HKL. As of 30 June 2024, HKL's Investment Properties and Development Properties assets were USD31.7bn and USD9.6bn respectively. HKL's Development Properties assets were located in (1) mainland China (82%), (2) Southeast Asia (16%) that is primarily in Singapore and (3) HKSAR (2%) as of 31 December 2023. (Company, OCBC)

Source: Company, OCBC

Singapore Post Ltd ("SingPost")

- According to an SGX announcement, **SingPost was placed on Negative CreditWatch by S&P Global Ratings** ("S&P") while the ratings of the issuer and SPOST 4.35%-PERP are unchanged at "BBB" and "BB+" respectively.
- The CreditWatch placement reflects a heightened probability that S&P could lower SingPost's ratings by one notch following a strategy reset and the sale of its Australia business.
- S&P is concerned that SingPost will lose its key earnings pillar following the disposal of its Australia business (58% of 1HFY2025 total revenue). Besides, the disposal will introduce uncertainty over the future strategy and earnings contributions, despite expectations that SingPost's balance sheet will materially strengthen following the debt repayment plan.
- This is a contrast with our view previously mentioned in the OCBC Asian Credit Daily published on 2 December 2024 that "**We believe the divestment is a positive credit event** as debt will be reduced substantially and the Australian businesses are still facing considerable headwinds from softer business environments and stiff competitions. Per management, SingPost is likely to return to net cash position after the transaction. As of 30 June 2024, including a SGD250mn perpetual, adjusted gross debt and adjusted net debt were SGD1.13bn and SGD660mn respectively".
- We believe the difference between our view versus S&P's is primarily due to our concerns on the outlook of SingPost's Australian assets, which still face substantial economic headwinds with reduced volumes in B2B and B2C sectors. Besides, there remains substantial execution risks and stiff competition in Australia's logistics segment (FMH is the fifth largest logistics player in Australia). In our view, the likelihood of management selling its Australian assets is low if the business can be competitively run by SPOST. Besides, the gain on disposal of SGD312.1mn is commendable but not an amount that is "too good to refuse".
- Net-net, we emphasise instead the improvement of SingPost's capital structure. We reiterate the disposal is a positive credit event unless SingPost aggressively expands to other riskier business segments in the future. (Company, OCBC)

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing
05 Dec	Zhengzhou Urban Construction Investment Group Co Ltd	Fixed	USD	210	3Y	5%
05 Dec	Industrial & Commercial Bank of China Limited/Dubai	FRN	USD	100	3Y	SOFRIX+55bps

Key Market Movements

	6-Dec	1W chg (bps)	1M chg (bps)		6-Dec	1W chg	1M chg
iTraxx Asiax IG	70	-3	-1	**Brent Crude Spot ($/bbl)**	71.9	-1.5%	-4.1%
				Gold Spot ($/oz)	2,620	-0.9%	-1.5%
iTraxx Japan	52	0	1	**CRB Commodity Index**	286	-0.1%	1.8%
iTraxx Australia	64	-3	-2	**S&P Commodity Index - GSCI**	535	-0.4%	-1.3%
CDX NA IG	47	0	-2	**VIX**	13.5	-4.0%	-16.8%
CDX NA HY	109	0	1	**US10Y Yield**	4.17%	1bp	-26bp
iTraxx Eur Main	54	-2	-3				
iTraxx Eur XO	293	-7	-9	**AUD/USD**	0.642	-1.4%	-2.2%
iTraxx Eur Snr Fin	60	-3	-3	**EUR/USD**	1.057	-0.1%	-1.5%
iTraxx Eur Sub Fin	106	-5	-4	**USD/SGD**	1.340	-0.1%	-0.6%
				AUD/SGD	0.861	1.3%	1.7%
USD Swap Spread 10Y	-47	-1	2	**ASX200**	8,431	-0.1%	2.8%
USD Swap Spread 30Y	-79	0	3	**DJIA**	44,766	0.1%	2.4%
				SPX	6,075	1.3%	2.5%
China 5Y CDS	63	-2	-1	**MSCI Asiax**	718	2.1%	-3.3%
Malaysia 5Y CDS	44	-2	1	**HSI**	19,587	0.8%	-4.6%
Indonesia 5Y CDS	72	-3	0	**STI**	3,810	1.9%	5.7%
Thailand 5Y CDS	39	-2	-1	**KLCI**	1,613	1.2%	-1.3%
Australia 5Y CDS	10	0	-4	**JCI**	7,308	2.7%	-1.0%
				EU Stoxx 50	4,952	4.1%	3.1%

Source: Bloomberg

GLOBAL MARKETS RESEARCH

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com

Co.Reg.no.: 193200032W