Asian Credit Daily

26 July 2024

Market Commentary:

- The SGD SORA curve traded lower yesterday, with short tenors trading 8-10bps lower, belly tenors trading 7-8bps lower and 10Y trading 6bps lower.

- Flows in SGD corporates were heavy, with flows in HSBC 5.25%-PERP, SGXSP 3.45% '27s, BNP 5.9%-PERP, HSBC 4.75% '34s, AIA 5.1%-PERP, SLHSP 3.5% '30s, UBS 5.75%-PERP.

- Per Bloomberg, approximately 87 Chinese companies are facing repayment pressure on bonds totalling USD56.3bn. This includes RMB337.5bn of onshore notes and USD9.7bn of offshore bonds. The onshore subsidiary of Greentown China Holdings, a Chinese builder, plans to raise up to RMB1.5bn through a green bond, with two tenors. The price guidance for the bond includes four-year notes with a put option in two years at 3.3%-4% and five-year notes with a put option in three years at 3.6%-4.4%. The bond is expected to be marketed in early August.

- Bloomberg Asia USD Investment Grade spreads remained flat at 83bps while Bloomberg Asia USD High Yield spreads widened by 5bps to 476bps. (Bloomberg, OCBC)

Credit Summary:

- **Industry Outlook - Singapore Property:** URA released real estate statistics for 2Q2024. Private housing rose 0.9% q/q in 2Q2024 (1Q2024: +1.4% q/q).

- **First Real Estate Investment Trust ("FIRT"):** FIRT reported its 1H2024 results. Overall results and credit metrics are largely stable if not affected by forex impacts.

- **Julius Baer Group Ltd ("JBG"):** JBG released its 1H2024 results for the six months ended 30 June 2024 with adjusted net profit of CHF459.7mn down 15.0% y/y but up materially h/h as 2H2023 results were affected by significantly higher net credit losses driven by exposures in the private debt business as first mentioned in November 2023.

- **Singapore Telecommunications Ltd ("SingTel"):** SingTel provided responses to questions in advance of its Annual General Meeting and released its Annual Report 2024.

Credit Headlines:

Industry Outlook – Singapore Property

- **Prices rose but gains were uneven:** URA released real estate statistics for 2Q2024. Private housing rose 0.9% q/q in 2Q2024 (1Q2024: +1.4% q/q).
    - Landed properties rose 1.9% q/q (1Q2024: 2.6%)
    - Non-landed properties in Core Central Region fell 0.3% q/q (1Q2024: +3.4% q/q)
    - Non-landed properties in Rest of Central Region rose 1.6% q/q (1Q2024: +0.3% q/q)
    - Non-landed properties in Outside Central Region rose 0.2% q/q (1Q2024: +0.2% q/q)
- **Government land sales to be maintained going forward?** According to URA, the "Government will continue to release a steady supply of private residential units, with supply calibrated to account for prevailing economic and property market conditions to maintain market stability." In addition, "the government will continue to calibrate housing supply to cater to demand so as to promote a stable and sustainable property market." We think this implies that government land sales may be maintained around current levels going forward (>10k units released per year) if prices are growing around the current pace.
- **Risk may emerge for market correction if supply continues:** However, with new sale volumes (excluding ECs) falling to multi-quarter lows of 725 units in 2Q2024 (1Q2024: 1,164 units), we think that the market may become oversupplied in the future if the pace of government land sales remain. That said, we think that supply in the market is not excessive for now.
- **Not much change in supply:** Excluding ECs, 20,566 units remain unsold, inching up q/q (1Q2024: 19,936 units). However, launched but unsold units dipped slightly to 3,329 units (1Q2024: 3,405 units).
- **Fall in housing rents:** Private housing rents fell 0.8% q/q in 2Q2024 (1Q2024: -1.9% q/q) with vacancy rate dipping 0.7 ppts q/q to 6.1%. We note that 3,600 private residential units (including ECs) were completed in 1H2024, while many more units (7,675 units) are expected to complete in 2H2024). With significant number of completions, potentially housing rents may continue to decline going forward.
- **Pickup in HDB prices:** While private residential property price gains decelerated, HDB resale prices grew at a faster pace of 2.3% q/q in 2Q2024 (1Q2024: +1.8% q/q). Against falling transaction volumes for private residential, HDB resale transaction volumes continued to increase, rising to 7,352 units in 2Q2024 (1Q2024: 7,068 units, 2Q2023: 6,514 units). With more HDB units transacted at higher prices, we think this can fuel upgrader demand going forward.
- **Keeping 2024 forecast unchanged:** We reiterate our expectations for 2024 private residential price to increase by 3-5%. (URA, HDB, OCBC)

First Real Estate Investment Trust ("FIRT")

- FIRT reported its 1H2024 results. **Overall results and credit metrics are largely stable if not affected by forex impacts. Our primary concerns still revolve around FIRT's high revenue concentration and associate risks posed by weaker tenants.**
- **Revenue and NPI affected by forex**: 1H2024 revenue and net property income ("NPI") fell 3.7% and 4.1% y/y to SGD52.0mn and SGD50.3mn, respectively. The weaker numbers are due to impact of weaker IDR and JPY against SGD. In local currency term, revenue increased 4.4% y/y in Indonesia and 2.0% y/y in Singapore, while remaining stable in Japan.
- **Credit metrics weakened modestly amidst forex impacts:** (1) reported adjusted interest coverage ratio (including perpetual distribution) declined to 3.7x (Dec 2023: 3.9x), (2) gearing ratio rose to 39.5% (Dec 2023: 38.7%) despite total debt falling to SGD452.3mn (Dec 2023: SGD458.9mn) as total assets fell 3.6% h/h to SGD1.15bn (affected by weaker IDR and JPY). Meanwhile, interest cost remained stable h/h at 5.0%.
- As at 30 June 2024, rentals outstanding from a tenant PT Metropolis Propertindo Utama ("MPU") in relation to three Hospital Master Lease Agreements ("MLA") amounted to approximately SGD6.4mn (Dec 2023: SGD4.0mn)

- Our concerns on FIRT still revolve around the **high revenue concentration risks, in particular from LPKR and MPU:** PT Siloam International Hospitals Tbk ("SILOAM, 40.0%), PT Lippo Karawaci Tbk (LPKR, 34.3%) and MPU (6.1%) collectively contributed 80.4% of FIRT's total rental income in 1H2024. We believe the risks are somewhat concerning from LPKR and MPU given (1) LPKR's weak credit fundamentals, which is rated CCC+ by external rating agencies, (2) MPU owed SGD6.0mn as at 30 June 2024 though MPU is divesting assets in order to pay back the outstanding rents. That said, SILOAM has been performing strongly as evidenced from the substantially improved earnings and revenue. (Company, OCBC)

Julius Baer Group Ltd ("JBG")

- JBG released its 1H2024 results for the six months ended 30 June 2024 with adjusted net profit of CHF459.7mn down 15.0% y/y but up materially h/h as 2H2023 results were affected by significantly higher net credit losses driven by exposures in the private debt business as first mentioned in November 2023. H/h performance was influenced by a 4.2% y/y fall in operating income and a 0.6% y/y rise in adjusted operating expenses.
- Assets under management ("AuM") rose 11% h/h or CHF46bn to CHF474bn due to improved equity markets (+CHF28bn), a weaker CHF mostly against the USD (+CHF21bn) as well as net new money of CHF3.7bn. 1H2024 included the deconsolidation of CHF4.8bn in AuM following the sale of Kairos Partners SGR SpA as well as client deleveraging. The monthly average AuM rose 5% y/y to CHF457bn. Given the lower operating income and rise in monthly average AuM, the gross margin for 1H2024 fell to 85bps vs 93bps in 1H2023. Including assets under custody of CHF91bn, total client assets were up 10.4% h/h to CHF 564.3bn as at 30 June 2024.
- Operating income of CHF1.94bn was impacted by a 51.9% fall in net interest income driven by higher funding costs on amounts due to customers (deposit switching to time and call deposits) and due to banks, that offset higher interest income on debt instruments. This also overshadowed a 13.5% y/y rise in net commission and fee income from higher client activity. This drove brokerage commissions to rise 24% y/y while recurring income rose 9% y/y, above the rise in monthly average assets under management. Net income from financial instruments measured at fair value through the profit or loss was up 6.9% due to client activity and volatility within foreign exchange, precious metals and structured products.
- Adjusted operating expenses were influenced by growth investments, specifically in personnel that rose 3.6% y/y with a 7% y/y rise in monthly average number of employees. This was partially balanced by a 7.5% y/y fall in general expenses that was due to lower other provisions and losses. Excluding these, adjusted operating expenses were up 5% y/y on higher professional service fees and IT expenses. IT investments influenced depreciation and amortisation expenses. Given the negative JAWS, JBG's adjusted cost to income ratio worsened to 71.0% in 1H2024 from 65.3% in 1H2023. The adjusted expense margin (defined as adjusted operating expenses excluding other provisions and losses to monthly average AuM) was at 60.5% in 1H2024, down from 60.8% in 1H2023.
- Net credit losses/(recoveries) on financial instruments normalized to CHF7.5mn (CHF1.8mn reversal in 1H2023). This translates to a 4bps cost of risk to gross loans in 1H2024, down from 5bps in 2023 (153bps including credit losses related to private debt exposures).
- JBG's CET1 ratio of 16.3% as at 30 June 2024 is up 170bps against 14.6% as at 31 December 2023 (15.5% as at 30 June 2023). The noticeable improvement was due to a 10% rise in capital from earnings and positive valuation impacts on JBG's treasury portfolio, net of dividend accruals. At the same time, risk weighted assets fell 2% from lower credit and operational risk. Market risk also reduced. JBG is continuing with the wind-down of its remaining private debt portfolio, reducing by 25% h/h to CHF600mn as at 30 June 2024, net of loss allowances. The ~CHF800mn in remaining private debt exposures as at 31 December 2023 represented 2% of JBG's total loan book. JBG's CET1 ratio remains above the Group's 11% floor and 8.4% regulatory minimum.
- JBG's 1H2024 results highlight some stabilisation in client confidence and business performance although recovery is likely to be ongoing and dependent on market conditions and ongoing business performance, as well as any outcomes from Swiss regulator Financial Market Supervisory Authority ("FINMA")'s investigation into JBG's exposure to the Signa group and JBG's risk-control structures. Net interest driven gross margins are expected to stabilise in 2H2024 and management will likely be looking for continued improvement in net new money inflows which were lower in 1H2024 compared to 1H2023 and 2H2024.

- There may be limited positive catalysts until new Chief Executive Officer Stefan Bollinger commences no later than 1 February 2025 and until then, JBG will likely continue to focus on regaining client confidence through its ongoing relationship manager hiring (50-60 net new relationship managers targeted for 2024 – 21 achieved in 1H2024) and sustaining its financial performance through a refocus on its Lombard and mortgage lending and cost efficiency programs. JBG has achieved CHF120mn of cumulative run rate savings as at 1H2024 under its CHF145mn cost program to 2025 and expects to meet its FY2024 target of CHF140mn from workforce streamlining, internalisations, real estate optimisation and lower external provider costs. (Company, OCBC)

Singapore Telecommunications Ltd ("SingTel")

- SingTel provided responses to questions in advance of its Annual General Meeting and released its Annual Report 2024. We share certain highlights and key takeaways below:
- **Strategic Reset (FY2022-24) scorecard.**
    - **Achieved synergies and efficiencies:** Consolidated consumer and enterprise businesses in Singapore and Australia (more details in OCBC Asian Credit Daily – 28 April 2023). Established Optus-TPG regional network sharing (more details in OCBC Asian Credit Daily – 29 April 2024). Combined fixed with mobile for its associate, integrating IndiHome with Telkomsel in Indonesia (more details in OCBC Asian Credit Daily – 06 April 2023) and 3BB with AIS in Thailand (more details in OCBC Asian Credit Daily – 20 October 2022).
    - **Embarking on growth:** Formed Nxera as data centre arm which is developing data centre in Singapore, Indonesia and Thailand (more details in OCBC Asian Credit Daily – 1 October 2021). NCS expanded into private sector and the region and expanded in Australia. GXS launched in Singapore ((more details in OCBC Asian Credit Daily – 17 May 2021), Indonesia and Malaysia.
    - **Exited loss-making investments and recycled capital:** Recycled SGD8bn in capital, established capital partnerships such as KKR's investment in Nxera (more details in OCBC Asian Credit Daily – 18 September 2023), Redevelopment of Comcenter with Lendlease (more details in OCBC Asian Credit Daily – 23 February 2022) and AustralianSuper's investment in Indara (more details in OCBC Asian Credit Daily – 1 October 2021).
- **Singtel28 as the next phase of growth:** Following the Strategic Reset (FY2022-24), SingTel has embarked on Singtel28 ("ST28)" as the next growth plan centered on lifting business performance and smart capital management (more details in OCBC Asian Credit Daily – 23 May 2024). Thus far, initiatives include:
    - Jointly investing into ST Telemedia Global Data Centres with KKR (more details in OCBC Asian Credit Daily – 19 Jun 2024)
    - Partnering with Telekom Malaysia to develop data centres in Malaysia (more details in OCBC Asian Credit Daily – 19 Jun 2024)
    - Supporting the amalgamation of Intouch and Gulf Energy to simplify AIS holding structure (more details in OCBC Asian Credit Daily – 17 Jul 2024).
- **SingTel's take on market environment in Singapore, Australia, data centres:**
    - **Competition in Singapore mitigated by breadth of offerings:** Mobile market continues to be competitive, though mobile ARPU has been resilient due to breadth of brands and offerings covering all segments, differentiated network quality and focus on superior service. SingTel looks to scale up on new growth areas (e.g. 5G network slicing / quantum safe network).
    - **Better trends in Optus consumer** with customer growth and ARPU increase due to repricing on postpaid plans.
    - **Growing Enterprise business in Singapore** through pivoting to higher margin net-work centric security services deals and defocusing low margin hardware deals. SingTel intends to drive 5G slicing, Communications Platform as a Service ("CPaas") adoption for enterprise communications, expanding

IoT connectivity, modernising enterprise network infrastructure with scalable, cloud-centric solutions through Singtel CUBΣ (unified network services for cloud-centric digital infrastructure).
    - **Growing Enterprise business in Australia** through growing the Small Business segment via digital channels, enhancing mid-market offerings, maintaining Enterprise profitability through standardisation and strategic vendor relationship. Optus Enterprise has secured deals including Services Australia and Tesla.
    - **No legal proceedings related to Optus network outage**, which was a severe outage impacting all Optus customers using its mobile, internet and broadband (more details in OCBC Asian Credit Daily – 08 November 2023).
    - **Mitigating potential oversupply in data centre:** SingTel differentiates through strong connectivity with its subsea fibre-optic cables providing good country-to-country connectivity in Asia Pacific, and has deep relationships with local partners with leading connectivity and energy players. SingTel sees Singapore remaining as a tier 1 data centre market, evidenced by tight supply demand situation and high capacity utilisation though Singapore can be used as a network hub for core workloads while Johor data centres can be used for additional / spill over cloud and AI training deployments. Currently, SingTel sees few data centres ready to handle high power density AI workloads while Nxera's new build should capture this demand with fourth generation, high power density and sustainable AI data centres.
- **Taking minority stakes and partnering with local know-hows outside SG and AU:** Following the exit of Amobee and Trustwave, SingTel has taken minority stakes for its data centre portfolio in the region, and co-investing with local partners who have the requisite local knowledge and expertise. (Company, OCBC)

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing	Initial Pricing
25 Jul	Industrial & Commercial Bank of China Ltd. (ICBC) of Doha	Fixed	USD	100	3Y	4.40%	NA
25 Jul	Bank of Communications Co Ltd/Hong Kong	FRN	USD	550	3Y	SOFR+55 bps	SOFR+105bps area
25 Jul	Dongxing Securities Co., Ltd. (Guarantor: Dongxing Securities Co., Ltd.)	Fixed	USD	350	3Y	5.3%	5.8% area

Mandates:

- There were no new Asiadollar mandates yesterday.

Key Market Movements

	26-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	98	0	-2
iTraxx Japan	54	3	0
iTraxx Australia	67	1	-4
CDX NA IG	52	1	-2
CDX NA HY	107	0	0
iTraxx Eur Main	55	1	-7
iTraxx Eur XO	300	4	-24
iTraxx Eur Snr Fin	64	2	-9
iTraxx Eur Sub Fin	112	0	-17
USD Swap Spread 10Y	-45	-2	-5
USD Swap Spread 30Y	-83	-3	-5
China 5Y CDS	66	0	-1
Malaysia 5Y CDS	44	0	-2
Indonesia 5Y CDS	76	-1	-3
Thailand 5Y CDS	42	0	-3
Australia 5Y CDS	13	0	0

	26-Jul	1W chg	1M chg
Brent Crude Spot ($/bbl)	82.6	0.0%	-3.1%
Gold Spot ($/oz)	2,376	-1.0%	3.4%
CRB Commodity Index	280	-2.1%	-4.0%
S&P Commodity Index - GSCI	555	-0.2%	-3.9%
VIX	18.5	15.9%	47.1%
US10Y Yield	4.25%	1bp	-8bp
AUD/USD	0.655	-2.0%	-1.5%
EUR/USD	1.086	-0.2%	1.6%
USD/SGD	1.343	0.1%	1.1%
AUD/SGD	0.880	2.3%	2.6%
ASX200	7,935	-0.5%	2.0%
DJIA	39,935	-1.8%	2.1%
SPX	5,399	-2.6%	-1.4%
MSCI Asiax	686	-1.4%	-1.7%
HSI	17,112	-1.8%	-5.4%
STI	3,430	-0.5%	3.0%
KLCI	1,612	-1.5%	1.3%
JCI	7,283	-0.2%	5.5%
EU Stoxx 50	4,811	-1.2%	-2.1%

Source: Bloomberg

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