Asian Credit Daily

14 February 2025

Market Commentary:

- The SGD SORA OIS curve traded higher yesterday with shorter tenors trading flat to 3bps higher, belly tenors trading 3-4bps higher and 10Y trading 5bps higher.

- Flows in SGD corporates were heavy, with flows in HSBC 5.25%-PERP, BACR 5.4%-PERP, BNP 5.9%-PERP, BPCEGP 4.6% '35s, OLGPSP 5.375%-PERP, TMGSP 5.5% '28s, ESRCAY 5.65%-PERP, HSBC 5.25% '32s, INCINS 3.1% '50s.

- According to Bloomberg, a BlackRock Inc. fund defaulted on a loan for a Shanghai office complex, resulting in the property being forfeited to Standard Chartered Plc. The fund borrowed around RMB780mn in 2018 to buy the property but could not sell it, even after offering 30% discount.

- Greentown China Holdings Ltd. has priced a $350 million bond aimed at refinancing offshore debt, marking the first dollar-denominated note issued by a significant Chinese property company since 2023.

- Bloomberg Asia USD Investment Grade spreads widened by 2bps to 69bps while Bloomberg Asia USD High Yield spreads widened by 7bps to 396bps. (Bloomberg, OCBC)

Credit Summary:

- **Industry Outlook – Singapore Property, GuocoLand Ltd ("GUOL"):** GUOL was awarded the River Valley Green (Parcel B) by URA for SGD627.8mn, interest in GLS may be heating up and as GUOL continues to participate aggressively in land tenders, we think net gearing levels may increase to ~90%.

- **Commerzbank AG ("CMZB"), UniCredit SpA ("UniCredit"):** CMZB held its Capital Markets Day in conjunction with the release of its 2024 results that confirmed its preliminary and unaudited net result of EUR2.68bn, above its EUR2.4bn target.

- **Suntec Real Estate Investment Trust ("SUN"):** The REIT Manager announced an update on the managed investment trust ("MIT") status of Suntec REIT (Australia) Trust ("Suntec Australia").

- **Barclays PLC ("Barclays"):** Barclays announced its 4Q2024 and 2024 results with solid performance in the Investment Bank as total income from its biggest division rose 7% y/y and 28% y/y for 2024 and 4Q2024 respectively.

Credit Headlines:

Industry Outlook – Singapore Property

GuocoLand Ltd ("GUOL")

- **Awarded River Valley Green parcel for SGD627.8mn:** GUOL was awarded the River Valley Green (Parcel B) by URA for SGD627.8mn (SGD1,420 psf ppr).
- **Interest in GLS heating up?:** In total, fiver bidders participated in the land tender, which is higher than most land tenders in 2024. That said, GUOL's bid is still 18% below Jiak Kim Street (Riviere) which drew a top bid of SGD1,733 psf ppr in December 2017.
- **GUOL may potentially gear up:** As GUOL continues to participate aggressively in land tenders, we think net gearing levels may increase to ~90% (end-1HFY2025: 71%) having already replenished its land bank with successful tenders for land (together with JV partners) including Margaret Drive (460 units, SGD460mn bid), Faber Walk (400 units, SGD400mn bid) and Tengah Garden Avenue (860 units, SGD675mn bid). (Company, OCBC)

Commerzbank AG ("CMZB"), UniCredit SpA ("UniCredit")

- CMZB held its Capital Markets Day in conjunction with the release of its 2024 results that confirmed its preliminary and unaudited net result of EUR2.68bn, above its EUR2.4bn target. The result is its highest on record and up 20% y/y with all 2024 targets exceeded. While the results are constructive and confirm our fundamental views, of more focus for its future credit profile is its strategy update to 2028 amidst the ongoing interest in CMZB from UniCredit.
- CMZB's 2024 operating result of EUR3.84bn is up 12% y/y and reflected the following:
    - A 6.2% y/y rise in total revenues driven by a 7.4% y/y rise in net commission income to EUR3.64bn from the securities business and asset management. This offset EUR46mn and EUR817mn in losses associated with net income from financial assets and liabilities measured at fair value through profit and loss and other income. Net interest income was broadly stable at EUR8.33bn as interest rate cuts were mostly offset by volume growth in deposits and positive changes in the replication portfolio. Net interest income comprised 75% of total revenues.
    - Positive JAWS with a 4.0% y/y rise in operating expenses to EUR6.24bn due to higher salaries, administrative expenses, inflation and higher investment costs, particularly at mBank. Costs were also influenced by the acquisition of a 74.9% stake in asset manager Aquila Capital Investmentgesellschaft ("ACI"). The cost to income ratio for the operating business before compulsory contributions was 56.2% in 2024, improved from 57.4% in 2023 and below its 60% target.
    - Risk results rose 20.2% y/y to EUR743mn due to the challenging operating environment and single name exposures. Otherwise, the non-performing exposure ratio remains low at 1.1% as at 31 December 2024 (up marginally from 0.9% as at 30 September 2024 and 0.8% as at 30 June 2024) and continues to maintain EUR228mn in management overlays for any secondary impacts to loan quality from geopolitical crises and uncertainties from inflation.
    - A 31.9% y/y fall in compulsory contributions due to a lower European bank levy with the Single Resolution Fund achieving its target amount. Including compulsory contributions, the cost to income ratio for the operating business was 58.8% in 2024, improved from 61.4% in 2023.
- CMZB's CET1 ratio remains solid at 15.1% as at 31 December 2024, up from 14.7% as at 31 December 2023 and 14.82% as at 30 September 2024. The ratio remains above its minimum regulatory requirement of 10.31% from 1 January 2025 with its CET1 ratio 485bps above its maximum distributable amount and above its raised CET1 ratio target of ~15% (previous target was above 14%).
- Solid earnings and capital have led to CMZB's raised financial targets for the next strategic operating period covering 2025-2028. CMZB's strategy seeks to increase CMZB's return on tangible equity to 15% by 2028 (9.2% in 2024, above the 8% target) and capital returns through the following:
    - Revenue growth despite expected interest rate cuts with net commission income to continue to grow annually by 7% on average through expansion of its asset and wealth management business. In addition, Corporate Clients segment is expected to focus on deeper client engagement and capital

efficiency.

- Cost containment and efficiency gains through ongoing transformation by way of digitalisation, modernising and streamlining of IT infrastructure and processes including use of AI, and international offshoring. This will result in job changes for CMZB's global staff with the overall amount remaining constant but impacted by reductions of 3,900 by 2028, mostly within central staff functions and operations in Germany and higher staffing levels internationally including at Polish subsidiary mBank. Tasks of staff that will be displaced are expected to be covered by CMZB's digitalisation and artificial intelligence investments. CMZB is expecting the cost to income ratio to be 57% in 2025 and ~50% by 2028.
- CMZB's net result to therefore grow from EUR2.7bn in 2024 to EUR2.8bn in 2025 (before pretax restructuring charges of ~EUR700mn) and EUR4.2bn by 2028 with a planned 2025 payout ratio of 100% of the net result after deducting AT 1 coupons and before transformation restructuring charges.

- On UniCredit's interest, UniCredit Chief Executive Officer Andrea Orcel recently stated in an interview that the bank will decide on the future of its current ~29% ownership no earlier than the end of 2025 or early 2026. This gives UniCredit time to gauge the success of CMZB's strategy as a standalone entity in the capacity of a financial investor, whilst also allowing for emotions and the new German government to stabilise in case it continues to seek a takeover in the capacity of a strategic investor. Mr Orcel had previously characterised CMZB as underperforming.
- CMZB's announcements do not impact our fundamental views. (Bloomberg, OCBC)

Suntec Real Estate Investment Trust ("SUN")

- The REIT Manager announced an update on the managed investment trust ("MIT") status of Suntec REIT (Australia) Trust ("Suntec Australia"). SUN holds its Australian properties through Suntec Australia, which is its' wholly-owned entity. For the financial year 2024 and also prior years, Suntec Australia qualified as a withholding MIT.
    - To qualify as a withholding MIT, several conditions must be met and among these, no foreign individual can directly or indirectly hold, control or have the right to acquire an interest of 10% or more in SUN (and therefore Suntec Australia).
    - However, the foreign resident individual test has been failed to be met in 2025. This follows the substantial unitholding notification announcements by the Tangs that Gordan Tang now holds 13.55% of the units in SUN while Celine Tang now holds 13.65% of the units.
    - Suntec Australia would not qualify as a withholding MIT for 2025 and will not enjoy a preferential Australian withholding tax rate.
    - SUN REIT Manager announced that on a proforma basis, the distribution per unit would be 6.055 cents instead of 6.192 cents if Suntec Australia was subject to a higher effective Australian tax rate (representing a ~2.2% reduction to distribution per unit). Additional deferred tax liability to be recognised would impact net asset value by ~1.0%. (Company)

Barclays PLC ("Barclays")

- Barclays announced its 4Q2024 and 2024 results with solid performance in the Investment Bank as total income from its biggest division rose 7% y/y and 28% y/y for 2024 and 4Q2024 respectively. With positive JAWS and a cost to income ratio of 62% below its 2024 target of 63%, Barclays profit before tax was up 24% for 2024 to GBP8.11bn. The 2024 loan loss rate of 46bps was stable y/y but includes a 4bps impact from the Tesco bank acquisition and is below the through the cycle range of 50-60bps. Overall, the results are constructive and support its fundamental credit profile in our view.
- 2024 total income for Barclays was up 6% y/y (+24% y/y for 4Q2024) on broad based improvement across Barclays divisions:
    - Barclays UK total income was up 9% y/y to GBP8.27bn and reflected predominantly the acquisition of Tesco Bank. Elsewhere, the performance was broadly stable to marginally higher y/y as higher structural hedge income offset mortgage margin compression and higher deposit costs from shifts to

higher cost products. Barclaycard Consumer UK income was down 3% due to higher repayments that reduced interest earning lending balances.
  - Barclays UK Corporate Bank total income of GBP1.78bn was stable y/y as higher deposits offset lower liquidity pool income.
  - The 8% y/y growth in Private Bank and Wealth Management total income to GBP1.31bn reflected the transfer of Wealth Management and Investments from Barclays UK in May 2023 as well as higher client assets.
  - US Consumer Bank total income of GBP3.33bn was up 2% y/y as negative FX movements from the stronger GBP against the USD offset higher card balances.
  - Finally, 2024 Investment Bank total income continues to be the largest contributor at ~44% of total income, rising 7% y/y on solid performance in Investment Banking income (+12% y/y on strong growth in banking fees and underwriting income from a larger fee pool and increased market share in both equity and debt capital markets as well as higher advisory fee income). Global Markets total income rose 4% y/y on higher equities income (+21% y/y) from higher client activity in derivatives and cash products and higher prime financing balances that offset weaker FICC income.
- At the same time, operating costs were 3% and 10% lower y/y for 2024 and 4Q2024 with management highlighting GBP1.0bn in cost efficiency savings delivered in 2024. Positively impacting Barclays' cost performance were materially lower structural cost actions (GBP273mn in 2024 against GBP1.05bn in 2023) that mitigated the impacts of inflation as well as higher investment spend and business growth expenses. This offset higher UK regulatory levies (Bank of England levy scheme and UK bank levy) and higher litigation and conduct charges. Barclays' cost to income ratio was below its FY2024 target and improved from 67% in FY2023.
- As mentioned, Barclays' loan loss rate is below its through the cycle range indicating resilient loan quality metrics. That said, credit impairment charges were higher y/y, particularly for 4Q2024 with the GBP711mn in credit impairment charges up 29% y/y and translating to a loan loss rate of 66bps (54bps in 4Q2023) although this is entirely due to the GBP209mn or 19bps impact from the Tesco Bank acquisition. For 2024, credit impairment charges of GBP1.98bn rose 5% y/y and were also influenced by expected higher US card delinquencies. Management have confirmed the through the cycle range of 50-60bps for the 2025 loan loss rate.
- Barclays CET1 ratio of 13.6% as at 31 December 2024 was down 20bps y/y from 13.8% as at 31 December 2023 and remains within the target range of 13-14%. The y/y movement reflects the positive impacts of earnings (+140bps) that were offset by shareholder distributions (-80bps), higher risk weighted assets (-30bps) and other capital movements (-30bps). The ratio is also above its 12.0% maximum distributable amount ("MDA") minimum requirement comprising the 4.5% Pillar 1 minimum, a 2.5% Capital Conservation Buffer, a 1.5% Global Systemically Important Institution buffer, a 2.6% Pillar 2A requirement and a 1.0% Countercyclical Capital Buffer. Including announced inorganic actions such as the loss on disposal of the German consumer finance business, Barclays CET1 ratio falls to 13.5%.
- Management has a constructive outlook following the achievement of all its financial targets in 2024 with 2025 targets improved or remaining stable. These include group net interest income excluding Investment Bank and Head Office of GBP12.2bn (Barclays UK to contribute GBP7.4bn), cost to income ratio of ~61% with GBP500mn in additional gross efficiency savings, and CET1 capital remaining within the 13-14% target range including higher capital returns compared to 2024. (Company, OCBC)

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing
13 Feb	Hubei United Development Investment Group Co Ltd	Sustainable, Fixed	USD	300	3Y	5.10%
13 Feb	Greentown China Holdings Ltd (guarantor: subsidiaries)	Fixed	USD	350	3NC2	8.45%

Mandates:

- Mirae Asset Securities Co. Ltd is planning a USD denominated 3Y Fixed dual-listed Formosa offering, with a series of fixed income investors calls commencing on 13 February 2025.

Key Market Movements

	14-Feb	1W chg (bps)	1M chg (bps)		14-Feb	1W chg	1M chg
iTraxx Asiax IG	71	-5	-8	**Brent Crude Spot ($/bbl)**	75.3	0.8%	-5.8%
				Gold Spot ($/oz)	2,927	2.3%	9.3%
iTraxx Japan	51	-1	-2	**CRB Commodity Index**	313	1.9%	1.9%
iTraxx Australia	64	-3	-8	**S&P Commodity Index - GSCI**	570	1.4%	-0.4%
CDX NA IG	47	-2	-4	**VIX**	15.1	-2.6%	-19.3%
CDX NA HY	108	0	1	**US10Y Yield**	4.53%	4bp	-26bp
iTraxx Eur Main	52	-2	-7				
iTraxx Eur XO	280	-12	-37	**AUD/USD**	0.632	0.8%	2.1%
iTraxx Eur Snr Fin	57	-3	-9	**EUR/USD**	1.046	1.3%	1.5%
iTraxx Eur Sub Fin	99	-5	-16	**USD/SGD**	1.343	0.8%	1.7%
				AUD/SGD	0.850	0.0%	-0.4%
USD Swap Spread 10Y	-38	4	9	**ASX200**	8,583	0.8%	4.3%
USD Swap Spread 30Y	-69	5	13	**DJIA**	44,711	-0.1%	5.2%
				SPX	6,115	0.5%	4.7%
China 5Y CDS	46	-9	-13	**MSCI Asiax**	721	0.5%	6.8%
Malaysia 5Y CDS	43	-2	-7	**HSI**	22,148	4.8%	15.2%
Indonesia 5Y CDS	73	-2	-7	**STI**	3,873	0.3%	2.2%
Thailand 5Y CDS	42	-1	-2	**KLCI**	1,592	0.4%	1.0%
Australia 5Y CDS	11	0	-1	**JCI**	6,673	-1.0%	-4.1%
				EU Stoxx 50	5,501	2.7%	10.4%

Source: Bloomberg

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