Asian Credit Daily

21 February 2025

Market Commentary:

- The SGD SORA OIS curve traded lower yesterday with shorter tenors trading 4bps lower, belly tenors trading 3-4bps lower and 10Y trading 3bps lower.
- Flows in SGD corporates were heavy, with flows in LREIT 4.75%-PERP, HSBC 5.25%-PERP, BACR 5.4%-PERP, EREIT 2.6% '26s, STSP 3.3%-PERP, UOBSP 2.55%-PERP, GESP 3.928% '39s.
- As per data compiled by Bloomberg, borrowers in the APAC region have issued approximately USD8.5bn in dollar notes this week, marking the largest issuance week for the region since early January.
- According to exchange filings, creditors and shareholders of Vedanta Ltd. have given their approval by a "requisite majority" for a plan to divide the Indian mining conglomerate into at least five distinct businesses.
- Bloomberg Asia USD Investment Grade spreads widened by 1bps to 67bps while Bloomberg Asia USD High Yield spreads tightened by 1bps to 384bps. (Bloomberg, OCBC)

Credit Summary:

- **Suntec Real Estate Investment Trust ("SUN"):** ESR Trust Management (Suntec) Limited, as SUN's REIT Manager, announced that two wholly-owned subsidiaries have entered into AUD loan facilities.
- **StarHub Ltd ("StarHub"):** StarHub released stronger 2024 results as revenue increased 1.4% y/y although we note that revenue grew due to broadband and enterprise that was partly offset by lower revenues from mobile and entertainment. StarHub may make strategic decisions to compete aggressively until market consolidation and price rationalization returns, which we think is in relation to the mobile segment. Meanwhile, StarHub expects the Enterprise managed services and Regional ICT services segments to continue growing.
- **Singapore Airlines Ltd ("SIA"):** SIA reported its third quarter business update for the financial year ending 31 March 2025 ("3QFY2025"), covering the year end peak travelling season with a commendable operating profit of SGD629mn, helped by lower fuel cost and on the back of higher revenue while a one-off accounting gain boosted the bottom line.
- **Singapore Post Ltd ("SingPost"):** SingPost reported 3QFY2025 business updates for the period ended 31 December 2024. Overall results are mixed amidst losses in Singapore and a weak International segment.

Credit Headlines:

Suntec Real Estate Investment Trust ("SUN")

- ESR Trust Management (Suntec) Limited, as SUN's REIT Manager announced that a wholly-owned subsidiary of SUN, has entered into a ~AUD280.3mn syndicated facility agreement while another wholly-owned subsidiary has entered into a ~AUD118.3mn bilateral facility agreement. The proceeds can go towards refinancing and/or for general working capital purposes (including payment of fees in relation to the facilities). (Company)

StarHub Ltd ("StarHub")

- **Stronger 2024 results:** Revenue increased 1.4% y/y to SGD2.36bn and service revenue rose 3.9% y/y to SGD2.02bn (exceeding guidance of at least 1% to 3%) while reported service EBITDA rose 3.1% y/y to SGD437.4mn and net profit was up 7.7% y/y to SGD161.7mn. We note that revenue grew due to broadband and enterprise, partly offset by lower revenues from mobile and entertainment.
- **Mobile revenue fell 5.3% y/y to SGD577.0mn**. Postpaid ARPU fell to SGD29/mth as of 4Q2024 (4Q2023: SGD33/mth) due to lower roaming revenue, lower value-added services revenue, lower voice and data subscriptions, lower SMS, excess data, voice and IDD usages. While Postpaid ARPU fell significantly, there was a strong uptick in postpaid subscribers, which increased to 1,759k in 4Q2024 (4Q2023: 1,577k), which StarHub attributed to the adoption of SIM Only subscriptions. We think this is likely due to the successful rollout of Eight, which rolls out very competitive plans at SGD8 / 30 days aside from giga! Meanwhile, StarHub highlighted that new verticals within mobile contribute over 5% of the mobile revenue and this segment is still growing.
- **Broadband revenue rose 0.6% y/y to SGD250.1mn.** While subscribers fell somewhat y/y to 578k as of end-4Q2024 (4Q2023: 580k), ARPU rose y/y to SGD36/mth (4Q2023: SGD34/mth) due to migration of customers towards higher bandwidth plans (e.g. Ultraspeed) and bundles.
- **Entertainment revenue fell 6.8% y/y to SGD212.4mn.** While ARPU remained largely stable, number of subscribers fell 31k y/y to 306k as of 4Q2024 due to cessation of tactical promotions. In addition, commercial TV and advertising revenue fell.
- **Enterprise revenue rose 14.1% y/y to SGD980.9mn.** This is due to growth from Regional ICT services (+13.1% y/y to SGD154.9mn), Cybersecurity (+26.2% y/y to SGD383.7mn) and Network Solutions (+5.6% y/y to SGD442.3mn). Within Network solutions, managed services grew 16.5% y/y to SGD169.6mn due to Modern Digital Infrastructure platforms and solutions. We note that Cybersecurity segment is mildly profitable, with SGD392.1mn revenue that exceeds SGD390.1mn operating expenses for the segment.
- **Likely to compete aggressively in consumer business while Enterprise delivers growth:** According to StarHub, it may make strategic decisions to compete aggressively until market consolidation and price rationalization returns, which we think is in relation to the mobile segment which has seen significant ARPU compression and revenue decline despite significant growth in the number of subscribers. Meanwhile, StarHub expects the Enterprise managed services and Regional ICT services segments to continue growing.
- **Credit metrics look healthy for now:** StarHub's reported net debt to EBITDA of 1.29x (2023: 1.36x) looks healthy. In addition, StarHub is cash-generative with SGD162.2mn reported free cash flow for 2024 (2023: SGD185.8mn) while holding SGD539.6mn of cash that exceeds SGD447.5mn in borrowings. That said, credit metrics can change as StarHub intends to aggressively scale the Enterprise Business while concurrently exploring M&As.
- **Guiding for stability in 2025:** While DARE+ transformation capex has mostly completed, StarHub guides for reported EBITDA to remain stable y/y with stronger managed services and regional ICT services performance expected in 2025. StarHub also expects its consumer business to defend or grow revenue market share amidst sustained intense market competition, though there will be flexibility retained to make strategic decisions. Meanwhile, capex is guided to be between 9% to 11% of total revenue, though this excludes SGD282mn payment for 700MHz spectrum that is to be paid by June 2025. (Company, OCBC)

Singapore Airlines Ltd ("SIA")

- SIA reported its third quarter business update for the financial year ending 31 March 2025 ("3QFY2025"), covering the year end peak travelling season. SIA reported a commendable operating profit of SGD629mn, helped by lower fuel cost and on the back of higher revenue while a one-off accounting gain boosted the bottom line.
- **Higher passenger and cargo revenue despite falling yields:**
  - SIA reported revenue of SGD5.2bn, up by 2.7% y/y in 3QFY2025, driven by SGD70mn of higher passenger flown revenue (+1.7% y/y) and SGD54mn of higher cargo flown revenue (+9.7% y/y). Passenger yields though dipped by 4.5% y/y to 10.7 cents per revenue passenger-kilometre from higher competition with industry wide increases in capacity.
  - Group passenger load factor remains commendable at 87.2% in 3QFY2025, although dipped 1.0 percentage point y/y.
  - Revenue per Available Seat-Kilometre ("RASK") declined by 7.3% y/y to 10.1 cents per ASK for the flagship Singapore Airlines, although passenger unit cost per ASK fell by 7.4% y/y. For Scoot, RASK declined by 6.2% y/y to 6.1 cents per ASK while the passenger unit cost fell 4.7% y/y. Passenger unit cost for both airlines excluding fuel was stable.
  - The increase in cargo flown revenue was driven by higher cargo loads that was boosted by robust demand from strong e-commerce activity, increase in freighter charters and a boost in perishables traffic.
- **Operating profit in 3QFY2025 higher y/y while net profit boosted by one-off gain:**
  - Group expenditure was only 2.6% higher y/y to SGD4.6bn, driven by higher non-fuel expenditure by 8.6% y/y (although came in below overall capacity growth following cost management measures).
  - Net fuel cost declined by 9.8% y/y, driven by a decline in fuel prices before hedging.
  - As a result, operating profit was SGD629mn for 3QFY2025, higher by 3.3% y/y.
  - Net profit was SGD1.6bn for 3QFY2025 (3QFY2024: SGD658.7mn), boosted by a one-off ~SGD1.1bn non-cash accounting gain following the disposal of Vistara where Vistara was merged with Air India in November 2024. Removing this ~SGD1.1bn of one-off gain, SIA's net profit would have been ~SGD528mn in 3QFY2025. SIA now has a 25.1% stake in the enlarged Air India Group.
  - EBITDA was higher in 3QFY2025 at SGD2.4bn, compared to SGD1.4bn in 3QFY2024. Excluding the one-off accounting gain, EBITDA would be SGD1.35bn in 3QFY2025.
- **Credit profile remains healthy:**
  - The reported shareholders equity as of 31 December 2024 was SGD15.4bn (30 September 2024: SGD13.7bn), boosted by the Vistara accounting gain and the 3QFY2025 profits. Reported gross gearing was 0.87x as at 31 December 2024, falling from the 0.96x as at 30 September 2024.
  - Taking half of the 1HFY2025 finance charges, we find reported EBITDA (excluding one-off gain)/Interest healthy at 13.6x.
  - SIA has access to SGD3.3bn of undrawn committed lines of credit, though cash balances dropped to SGD8.3bn as at 31 December 2024 from SGD9.0bn as at 30 September 2024, likely driven by the cash outlay for Enlarged Air India upon completion (~SGD816mn).
  - With cash balance and access to undrawn lines ample, we see short term refinancing risk as manageable, notwithstanding SIA's projected capex and remaining capital to be called at the Enlarged Air India. (Company, OCBC)

Singapore Post Ltd ("SingPost")

- SingPost reported 3QFY2025 business updates for the period ended 31 December 2024. **Overall results are mixed amidst losses in Singapore and a weak International segment. That said, the outlook is likely to be underpinned by disposals (eg. Australian assets, SingPost Centre and Famous Holdings) and cost optimisation of the local postal business (eg. cutting down branches and relying more automated machines).**

- **Revenue grew 12.1% y/y to SGD510.6mn while operating profit fell 23.8% y/y to SGD21.1mn.** The lower profit was driven primarily by ongoing macro-economic pressures, higher inflation, supply chain disruptions and a highly competitive environment.
    - **Singapore segment delivery volumes grew by 3.4% y/y** as letter mail and printed papers rose 5.4% to 92.0mn items, offset by lower eCommerce of -16.3%. **Singapore postal services recorded an operating loss**, a turnaround from a profit 3QFY2024, amidst high operating costs of the post office network and lower revenue.
    - **Property in Singapore reported improved revenue** due to higher rental income and occupancy rate of 98.2% as of 31 December 2024 (March 2024: 96.2%).
    - **International segment delivery volumes fell by 29.4% y/y** to 2.52mn kg amidst continued contraction in cross border eCommerce volumes and challenging business conditions. Meanwhile, **revenue and profit of freight forwarding improved y/y on the back of higher sea freight rates.**
    - **Australia recorded stronger revenue and operating profit y/y due primarily to consolidation of Border Express** which was acquired in March 2024. As a reference, SingPost entered into a sale and purchase agreement with Pacific Equity Partners (an Australian private equity firm with AUD12bn assets under management) for the proposed divestment of its Australia business for an enterprise value of AUD1.02bn
- **Credit metrics worsened:** As of 31 December 2024, adjusted net debt (including perpetuals) rose 20.8% y/y to SGD725.4mn (March 2024: SGD600.4mn) due to additional bank loans undertaken for the acquisition of Border Express.
- **Positive catalysts ahead despite uncertainties:** We revised SingPost's outlook to negative from stable in our credit update report published on 24 December 2024 amidst governance issues and potential impacts to the business. Thus far, SingPost's business is holding relatively well despite governance issues and challenging environments (e.g. structural decline of letter mail). We believe SingPost's negative outlook may be resolved from the below:
    - **Disposal of Australian assets**: SingPost is expected to record a gain on disposal of SGD312.1mn from this transaction, which is pending approvals from shareholders and the Foreign Investment Review Board of Australia.
    - SingPost is also **offloading other non-core assets** (defined as non-logistic assets) **including SingPost Centre**, which is valued at SGD1.1bn yet approvals from regulators are required possibly due to zone restrictions. Based on our understanding, part of SingPost Centre is restricted for postal usage. Besides, SingPost is also divesting Famous Holdings, a freight forwarding business, for potentially SGD80mn to SGD100mn in proceeds per the Business Times.
    - Management guided that **priority will be given to optimise its balance sheet and gearing** should disposals materialise.
    - SingPost continues to engage with authorities to **reduce the number of post office branches in Singapore which are loss making.** Besides, we believe the government will likely ensure the postal business remains sustainable given the necessity of postal services. (Company, OCBC)

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing
20 Feb	Westpac New Zealand Ltd	Fixed	USD	750	5Y	T+60bps
20 Feb	Perpetual Asia Ltd. in its capacity as trustee of ESR-REIT	Fixed	SGD	100	5Y	4.05%

Mandates:

- There were no notable mandates yesterday.

Key Market Movements

	21-Feb	1W chg (bps)	1M chg (bps)		21-Feb	1W chg	1M chg
iTraxx Asiax IG	68	0	-7	Brent Crude Spot ($/bbl)	76.3	2.1%	-3.7%
				Gold Spot ($/oz)	2,931	1.7%	6.8%
iTraxx Japan	49	0	-3	CRB Commodity Index	317	1.6%	2.5%
iTraxx Australia	65	2	-5	S&P Commodity Index - GSCI	579	1.5%	1.0%
CDX NA IG	47	0	-1	VIX	15.7	-1.4%	4.0%
CDX NA HY	108	0	0	US10Y Yield	4.49%	1bp	-9bp
iTraxx Eur Main	52	1	-2				
iTraxx Eur XO	284	6	-7	AUD/USD	0.639	0.6%	1.8%
iTraxx Eur Snr Fin	56	0	-4	EUR/USD	1.049	0.0%	0.6%
iTraxx Eur Sub Fin	97	-1	-9	USD/SGD	1.336	0.2%	1.2%
				AUD/SGD	0.853	-0.3%	-0.6%
USD Swap Spread 10Y	-39	0	6	ASX200	8,296	-3.0%	-1.3%
USD Swap Spread 30Y	-73	-1	9	DJIA	44,177	-0.4%	0.3%
				SPX	6,118	1.1%	1.1%
China 5Y CDS	44	0	-12	MSCI Asiax	734	0.7%	4.5%
Malaysia 5Y CDS	40	-1	-6	HSI	23,271	2.9%	15.7%
Indonesia 5Y CDS	70	-1	-5	STI	3,932	1.4%	3.6%
Thailand 5Y CDS	39	-1	-4	KLCI	1,584	-0.5%	0.2%
Australia 5Y CDS	11	-1	-1	JCI	6,799	2.4%	-5.3%
				EU Stoxx 50	5,461	-0.7%	5.7%

Source: Bloomberg

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

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