OCBC Bank

# Singapore Mid-Year 2021 Credit Outlook

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- **The constructive tone in credit markets at the end of 2020 followed through to 1H2021 with stronger overall issuance volumes y/y as fundamentals and confidence levels took a turn for the better from the improving pandemic situation due to vaccine rollouts and other response measures. This was against the backdrop of rates uncertainty as accommodative monetary policies that drove the constructive tones were increasingly questioned by higher inflation expectations as economic data started to suggest that reflation had arrived in the form of higher prices and more robust economic activity. For now, central banks have sought to calm financial markets for fear of jumping the gun and causing more damaging market volatility.**

- **Several issuances and developments highlighted how the SGD Corporate bond market continues to mature and develop. Surbana Jurong Pte Ltd's SGD250mn 2.48% 10-year sustainability bond was the first sustainability-linked bond in the SGD bond space. Meanwhile, United Overseas Bank Ltd issued the first ever bank capital instruments in the SGD bond market that referenced the Singapore Overnight Rate Average Overnight Indexed Swap rate, instead of the commonly used benchmark, the Singapore Swap Offer Rate. Perpetuals as an asset class saw strong demand for both fundamental and technical reasons.**

- **Although market conditions are somewhat favourable, we are still in uncharted territories given that the fundamental and technical drivers differ vastly from previous financial crises. In our view, the key themes for 2H2021 are the continuation of the K-shaped recovery, the rates trajectory and the continued rise of sustainability and green instruments as well as structural high yield. With these themes in mind, we prefer taking credit risk and subordination risk over interest rate risk to generate returns from the SGD corporate bond market and advocate investors to diversify holdings into three main categories for 2H2021 consisting of (1) Short dated bonds (2) Longer dated "crossover" names and (3) Perpetuals issued by financial institutions and select corporates.**

- **In our view, downside is limited for the Financial Institutions we cover. However, upside is also somewhat limited given the prevailing risks that remain in this post pandemic but COVID-19 endemic world. In essence, the key risks we highlighted in January 2021 have not reduced but evolved. Key themes for Financial Institutions heading into 2H2021 provide both risk and opportunities with the rising influence of digital and cryptocurrencies, inflation and interest rates and sustainability and climate risk.**

- **Commercial REITs appear to be finding opportunities in difficult times. We expect some manageable weakness for office properties and think that this is a good time to do asset enhancement initiatives on older properties to boost competitiveness in the post pandemic world. For retail properties, the road to a full recovery seems arduous and perhaps a full recovery is not the solution but rather a pivot to becoming omni-channel and physical shopping to be an experience would be more enriching and defensible. Looking further into future, as the oldest millennials turn 40 this year, e-commerce could take the center stage. Physical retailing will not be outdated but we think for it to be successful it has to adapt to the change which has been accelerated by the pandemic. Industrial REITs have been resilient, and we expect this trend to be further supported in 2H2021 by delays in new supply addition. For Hospitality REITs, the sector outlook remains challenging with location of assets and counter-party risks relating to master leases to be key determinants of performance in 2H2021.**

- **Private residential property prices rose 3.3% q/q in 1Q2021 and may end the year 7% to 10% higher y/y. We are optimistic as Singaporeans are the real buying force, being increasingly affluent and aspirational. The pandemic has also lifted housing demand by shifting behaviour and curbed supply with shortages in manpower.**

- **There have been a multitude of ESG-related developments, both at the sovereign and corporate level year to date in 2021. With a state-level emphasis on ESG, one may ask where do Singapore corporates stand in terms of their ESG policies and initiatives as compared to in 2020, or even 2019? To answer this, we have introduced relevant ESG and green bond terminology. Given investor interest regarding the sustainability issuance from Surbana Jurong Pte Ltd, we also review what made the issuance unique, as well as add some background on the company.**

# Contents

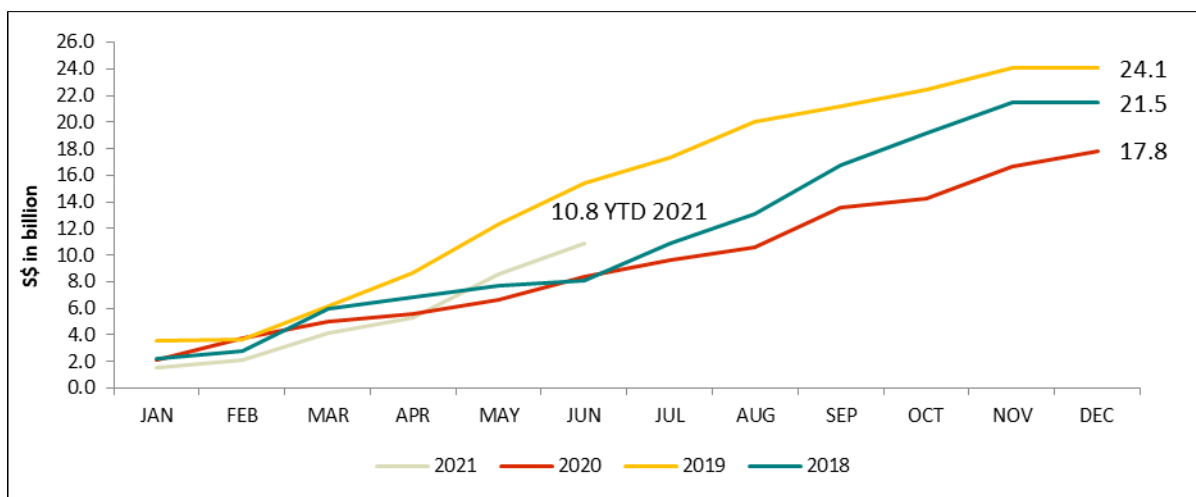
| A. MARKET AND INDUSTRY OVERVIEW | | Page No. |
|---|---|---|
| 1. | 1H2021 Singapore Corporate Bond Market Review | iii |
| 2. | Credit Outlook for 2H2021 | xi |
| 3. | Top Trade Ideas | xiv |
| 5. | Transition Finance – A Bigger Hole to Fill in the World's Transformation | xv |
| 6. | The Problem with Promises in Credit | xx |
| 7. | Why Bond Covenants Matter | xxiii |
| 8. | Digital Assets and Bonds on Distributed Ledger Technologies ("DLT") | xxvi |
| 9. | Implications of Stranded Assets | xxx |
| 10. | The Path to a Greener Singapore | xxxii |
| 11. | Should Investors Buy Singapore REITs ("S-REITs") or Perpetual? | xxxv |
| 12. | Financial Institutions – Stable with Limited Upside and Downside | xxxviii |
| 13. | An Increasingly Unlevel Playing Field for Singapore REITs | ii |
| 14. | Singapore Property – Up, Up, and Away | ii |
| **B. COMPANY OUTLOOKS – CORPORATES** | | 5-46 |
| **C. COMPANY OUTLOOKS – FINANCIAL INSTITUTIONS** | | 47-64 |

## 1H2021 Singapore Corporate Bond Market Review

**Stronger overall issuance volume y/y as fundamentals take a turn for the better**

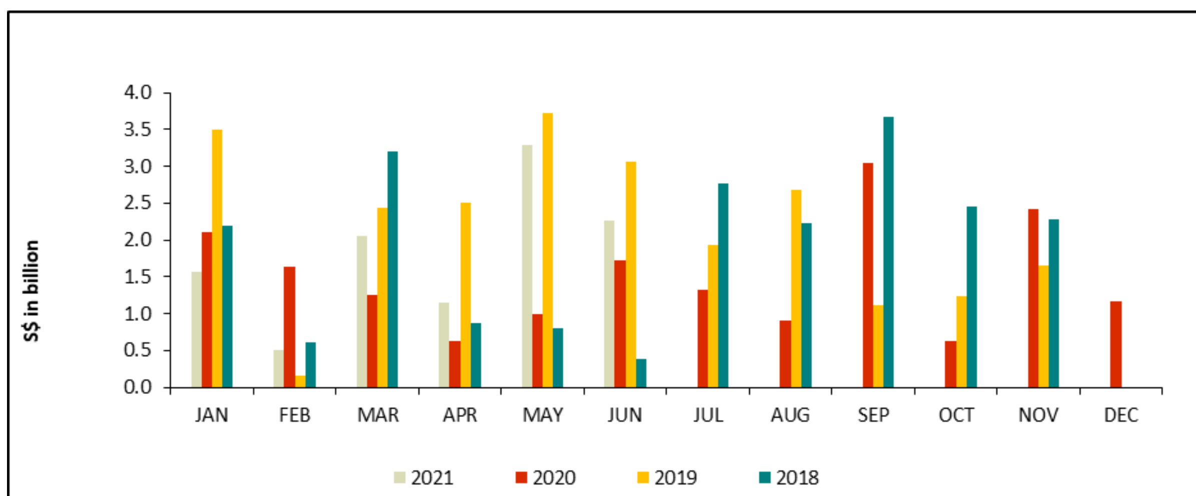
Continuing the momentum from 2H2020, the Singapore corporate bond market remained constructive in 1H2021. Total issuances in the first six months of 2021 rose y/y to SGD10.8bn across 42 issues. The rise in issuance size was largely driven by a stronger economic outlook underpinned by the improving pandemic situation from the vaccine rollout and other response measures which meant a higher confidence level in tackling COVID-19 virus compared to 1H2020 when the market was marked by significant uncertainty as the pandemic accelerated.

**Figure 1: SGD bond issuances monthly volume (cumulative)**




Source: Bloomberg, OCBC Credit Research

**Figure 2: SGD bond issuances monthly volume by individual months (non-cumulative)**




Source: Bloomberg, OCBC Credit Research

As mentioned in our **Singapore Credit Outlook 2021**, normalcy in the market has seen a gradual reversion back to the mean since the second half of April 2020 despite weakened fundamentals as governments and central banks around the world injected massive amounts of liquidity into the markets through implementing easy monetary policy and lowering interest rates to near-zero levels, broadly addressing both liquidity and solvency risks. With no tapering in sight, the Federal Reserve continued its asset purchases in an attempt to further spur economic growth. The increase in broad money circulating in the economy extended US stock market gains to new record highs, erasing the whole downward move in March 2020 caused by the global COVID-19 outbreak, with the NASDAQ adding 43% y/y by the end of FY2020, partly driven by near-zero yields elsewhere. While investors were euphoric on risk-on assets like stocks, the UST 10Y Yields woke up from its slumber on the back of higher inflation expectations as economic data started to suggest that reflation had arrived in the form of higher prices and more robust economic

activity. UST 10Y notes sold off, causing yields to rise over 83bps from January to March 2021. Yield curve steepening and rising inflation expectations came at a gripping time with markets searching for a post-pandemic view as US new daily infections and critical cases began tapering off. Fear of inflation weighed down on equities in mid-March and forced a retracement in the stock market as investors transitioned to defensive sectors and risk-off assets. Although the Federal Reserve subsequently maintained their dovish stance and reinforced the view that they will refrain from interest rate hikes to allow for increased economic growth, this did little to lower inflation expectations as investors placed more emphasis on President Biden's USD1.9tr relief package and USD2tr infrastructure plan, allowing UST 10Y Yields to trade at elevated levels. As market sentiments begin to shift towards risk-off, both the High-Yield and Investment Grade space saw credit spreads tighten as investors carefully positioned themselves to look for optimal risk-adjusted returns. The switch in risk sentiments subsequently set the tone for the rest of 1H2021 as investors were increasingly looking for more yield-generating opportunities, evidenced by the oversubscription of corporate credit across various bond offerings.

The Asiadollar credit market had a strong start with USD53.1bn in bond issuance in January on the back of a pause in trade tensions between the U.S. and China that dovetailed with forecasts of increased stability in interest rates. In contrast, the SGD Corporate bond market was comparatively slow with only SGD1.6bn of issuances, down 24% y/y. The bulk of issuances was contributed by the Housing & Development Board ("HDB")'s SGD800mn offering at an all-time low coupon rate of 0.635% for a 5Y HDB paper. January also saw two perpetuals, with United Overseas Bank Ltd ("UOB") pricing SGD150mn of additional tier 1 ("AT1") capital securities and Olam International Limited ("Olam") pricing a SGD250mn perpetual NC5.5. Notably, the UOB issuance was the first ever AT1 capital instrument in the SGD bond market that referenced the Singapore Overnight Rate Average Overnight Indexed Swap ("SORA-OIS") rate, instead of the commonly used benchmark, the Singapore Swap Offer Rate ("SOR") after the cessation of SOR was first announced in August 2019. Separately, earnings season started less favourably in the second half of January 2021, with several Singapore based issuers including household names announcing reduced profits for 2020 versus 2019 due to asset impairments.

February was a slower month with ~SGD512mn of issuance due to Chinese New Year holidays, reporting season and volatility in SGD swap rates that see-sawed through the month, rising as much as 29bps w/w. Bulk of the issuance was anchored by Surbana Jurong Pte Ltd's SGD250mn 2.48% 10-year sustainability bond, which happens to be the first sustainability-linked bond in the SGD bond space. Interestingly, as the SRBJNG 2.48%'31s traded tighter than its comparable peers, we think that a "greenium" could exist for ESG issues as investors may factor ESG elements into investment considerations as mentioned in our Singapore Credit Outlook 2021. The other key issue was ESR Cayman Ltd's SGD200mn 5.65% PerpNC5, its first perpetual offering since its public listing in November 2019. Having suffered headwinds induced by the COVID-19 pandemic, property-related issuers saw negative developments in their credit profiles. Property heavyweight CapitaLand Ltd ("CAPL") and City Developments Ltd reported significant losses weighed by fair value losses and impairments. At the same time, the Singapore government announced that they will issue up to SGD90bn of infrastructure bonds under the Significant Infrastructure Government Loan Act ("SINGA") with the first issuance tentatively set for 4Q2021. Under SINGA, the Government plans to issue green bonds to fund long-term infrastructure projects which are considered environmentally sustainable, including new MRT lines, pumping stations and tidal walls to protect the country against rising sea levels.

While fundamentals in 1H2021 were largely in a healthier position than 1H2020, March was not spared from idiosyncratic developments in the market with family office, Archegos Capital Management ("Archegos"), defaulting on margin calls from lenders after its leveraged long positions on stocks such as ViacomCBS and Discovery headed south. Eventual liquidations of Archegos' positions placed stress on the balance sheets of lenders such as Goldman Sachs Group Inc., Nomura Holdings, Inc., Deutsche Bank AG, and Morgan Stanley, with Credit Suisse AG Group ("CS") raising a CHF4.43bn provision for losses tied to Archegos which placed stress on its credit profile. Fortunately, albeit being an Additional Tier 1 issuer in the SGD bond market, the effects of the banking mishap was mostly contained in the U.S. markets. In contrast to CS' chain of luckless events, the SGD Corporate bond market saw issuance momentum pick up in March with SGD2.0bn recorded. The biggest issues came from Housing & Development Board (a SGD900mn 7Y bond at 1.37%) and Capitaland Integrated Commercial Trust ("CICT") which priced a SGD460mn 7Y bond at 2.1%. CAPL dominated headlines with a plan to separate its investment and development operations. Investment properties, CAPL-Sponsored REITS and lodging businesses will be held by a new entity, CapitaLand Investment Management ("CLIM") which will be listed on the SGX. It is noteworthy that the real estate development arm of CAPL will be privatised and owned by a unit of Temasek.

April was once again greeted by idiosyncrasies in the market as China Huarong Asset Management Co., Ltd ("Huarong"), a major issuer in the Asiadollar market, spooked investors by announcing a trading suspension and

delay in publication of its annual report. Menaced by the possibility of a bond default, investors frantically rushed for the exit, causing offshore bonds and perpetuals under the HRINTH ticker to trade in a volatile manner towards distressed levels. Though the broader market sees this as a "Huarong" issue, nonetheless there was some contagion with the SGD Corporate bond space slowed to SGD1.15bn in issuance, anchored by Singapore Telecommunications Ltd (which issued a SGD1.0bn PERP NC10 at 3.3%). Notably, this was the first time that the SGD market has seen such a structure, with 25bps step-up at 10Y and another 75bps step-up at 30Y. Despite the thin step-ups, the supply-starved market snapped these up, chasing the perp to ~3.0% Yield-To-Call handle.

Despite the resurgence of COVID-19 and announcement of tighter measures through Phase 2 (Heightened Alert), May marked the busiest month for SGD Credits in 1H2021 with SGD3.3bn of deals printed more than doubling y/y. Key issues included National University of Singapore's SGD300mn 10-year senior unsecured green bond at 1.62% and Changi Airport Group (Singapore) Pte. Ltd.'s ("CAG") debut SGD500mn 10-year senior unsecured bond at 1.88%. Separately, to ease the financial strain brought by the revised restriction measures, Enterprise Singapore reintroduced two booster packages to help F&B and retail businesses defray operational costs and enter the online market while REITs said that they will offer affected retailers help in the form of rental and operating assistance. The Ministry of Finance also announced that half a month of rental relief will be given directly to small and medium-sized enterprises ("SME") as well as non-profit organisations with an annual revenue of not more than SGD100mn that are tenants of privately-owned commercial properties.

Finally, the credit market experienced heightened volatility post-FOMC as the Federal Reserve took on a much more hawkish stance that came as a surprise to investors. Treasury notes traded in a whipsaw fashion with the UST10Y yields climbing 9bps to 1.58% on 16 June to only plunge 7bps to 1.51% on the very next day amidst a big sell-off in commodities. UST10Y yields subsequently touched the 1.35% level before rebounding and stabilising at the 1.50% area. Following the chaotic trading sessions, Fed Chairman Jerome Powell maintained the central bank's accommodative stance and signaled that the Fed is likely to keep monetary policy looser for longer periods of time to support the economy. Likewise, due to market uncertainties, issuance was relatively muted in the SGD space, anchored by UOB's SGD600mn AT1 PerpNC7 at 2.55% which was the bank's second SORA-linked AT1. In line with our Special Interest Commentary on the impact on the SGD Corporate Bond Market of the transition from SOR to SORA, the secondary market continues to use SOR as the reference for relative value given there appears no clear or established understanding of the relative value between SOR and SORA at this stage and there is likely limited liquidity for SORA papers as a result (in addition to lack of supply).

**Government-linked issuers reclaim the first place, followed by Real Estate**

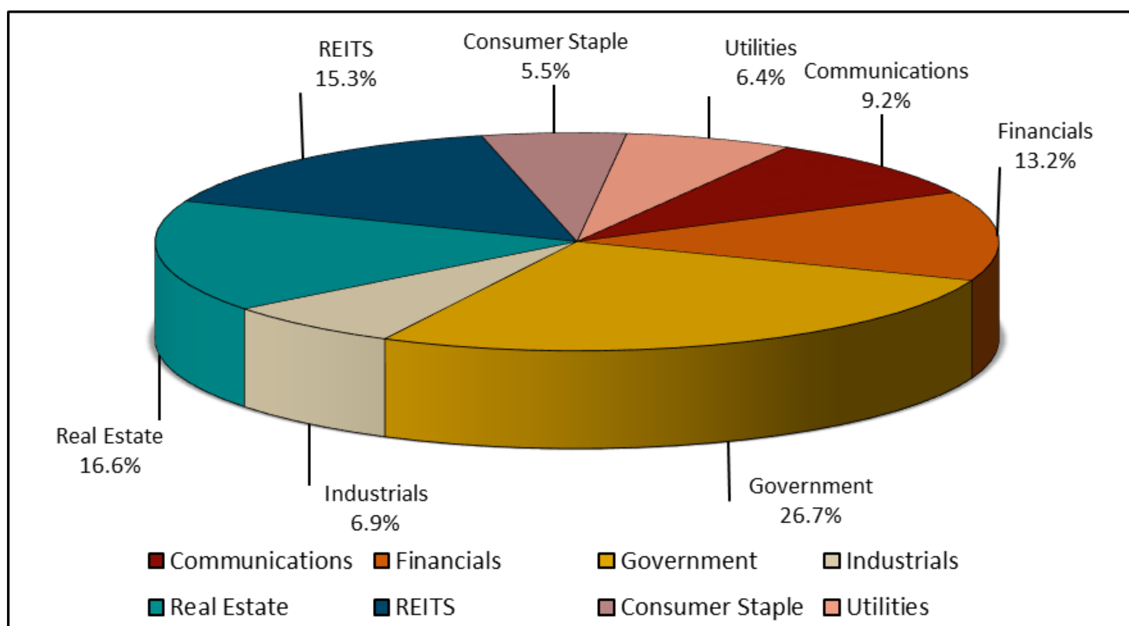
1H2021 saw a larger amount of issuances y/y from the Government-linked sector, with a total issuance of SGD2.9bn across four issues (1H2020: SGD1.8bn across three issues). This accounted for 27% of the total issuance in the SGD Corporate space. Following the success of its inaugural green bond in 2020, the National University of Singapore ("NUS") tapped the credit market in 1H2021, pricing a SGD300mn 10Y green bond under its Green Finance Framework to fund key green infrastructure projects, starting with the recently completed E7 building. The remaining three issues from the Government-linked sector were from the Housing & Development Board ("HDB"), a statutory board. Ramping up the pace from last year, HDB issued a total of SGD2.6bn in 1H2021 across three bonds – a SGD800mn 0.635% 5-year bond in January, a SGD900mn 1.37% 7-year bond in March, and a SGD900mn 1.73% 10-year bond in May under its SGD32bn Multicurrency Medium Term Note ("MTN") Programme.

The Real Estate sector was the second largest contributor to total issuance volume (16.60%) in 1H2021, with issuance volume slowing down to SGD1.8bn across 14 issues (1H2020: SGD2.1bn across 13 issues). High yield real estate issuers included Indonesia-based PT Ciputra Development Tbk which priced a SGD100mn 5-year bond at 6% in January (followed by two additional re-taps of the same tranche in February), ESR Cayman Ltd which priced a SGD200mn junior subordinated PerpNC5 at 5.65%, and Hotel Properties Ltd ("HPL") which priced a SGD125mn 7-year senior unsecured bond at 3.75%. Compared to other issuers in the Real Estate sector, HPL took the heaviest blow from the global pandemic as the hospitality sector makes up a majority of its portfolio, which continues to face significant headwinds given international travel restrictions and weak demand for tourist accommodations. With HPL's revenue down 53.5 y/y, coupled with its inability to reduce expenses and cash outflow sufficiently, we may review HPL's Issuer Profile for a downgrade if the weak outlook persists. Meanwhile, City Developments Ltd ("CDL") priced a SGD235mn 5-year senior unsecured bond at 2.35% and was later seen re-tapping the same issue (CITSP 2.35%'26s). Other issuers that tapped the SGD credit market included Shangri-La Hotel Ltd (a SGD100mn re-tap of its SLHSP 3.5%'30s at 3.5%), Keppel Land Ltd (a SGD200mn 5-year senior unsecured bond at 2%) and Prime Asset Holdings Ltd (a SGD85mn re-tap of its APINVC 1.63%'24s at 1.63%).

Despite facing challenging operating conditions across the sector, S-REITs maintained issuance momentum with SGD1.81bn of bonds priced across eight issues in 1H2021 (2020: 2.1bn across 13 issues) and was the third largest issuing sector. The biggest issue came from Capitaland Integrated Commercial Trust, pricing a SGD460mn 7-year senior unsecured bond at 2.1% under its trustee CMT MTN Pte Ltd. S-REITS continued to tap the market with perpetuals as an alternative way to boost liquidity and raise capital in a cost-efficient manner whilst managing their leverage metrics. Out of the seven debt offerings priced in the S-REITS sector, five were perpetual issuances dispersed across different issuers from the commercial and industrial sectors. First-time perpetual issuers included Mapletree Industrial Trust (SGD300mn PerpNC5 at 3.15%), Lendlease Global Commercial REIT (SGD200mn PerpNC5 at 4.2%) and Mapletree North Asia Commercial Trust (SGD250mn PerpNC5 at 3.5%). Other perpetual issuers were Suntec Real Estate Investment Trust (SGD150mn PerpNC5 at 4.25%) and Keppel Infrastructure Trust (SGD300mn PerpNC10 at 4.3%), a known issuer in the SGD perpetual space.

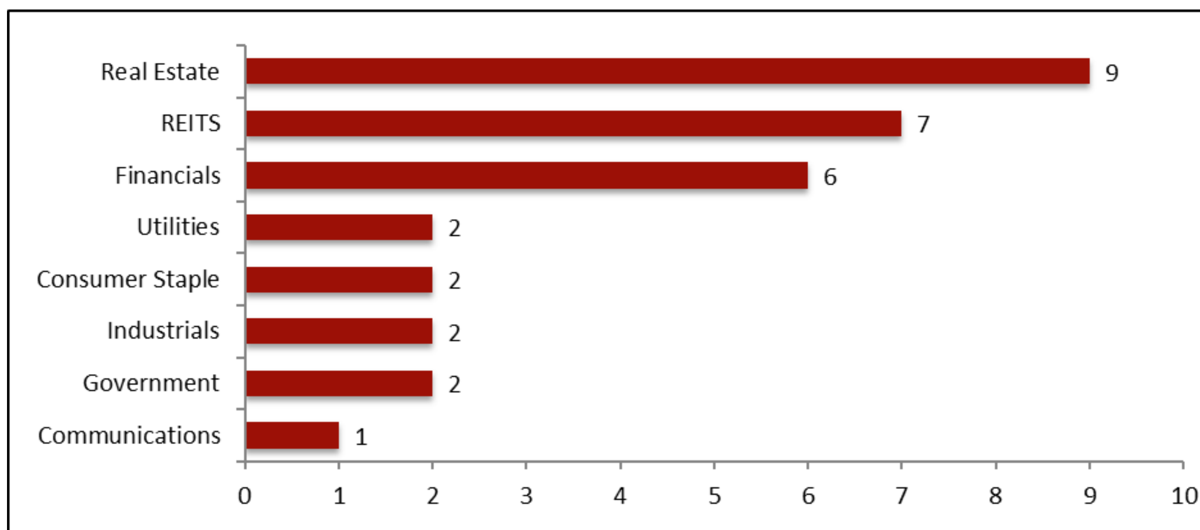
Unlike previous years, issuance from the Financial Institutions Sector was relatively thinner, amounting to only 13.2% of total issuance volume, anchored by insurance provider, AIA Group Ltd (SGD500mn PerpNC10 bond at 2.9%). For Financial Institutions under our coverage, UOB was the only local bank which tapped the markets, pricing a SGD150mn PerpNC5 at 2.25% and a SGD600mn AT1 PerpNC7 at 2.55%. Foreign banks that contributed, though marginally, included Industrial & Commercial Bank of China Ltd/Sydney (SGD15mn 1-year senior unsecured bond at 0.22%) and Kookmin Bank/Hong Kong (SGD30mn 1-year Zero-Coupon-Note). Lacklustre SGD issuances in the Financial Institutions sector could be attributed to their ability to issue bonds in different currencies which allows them to be opportunistic issuers in different currencies in order to minimise their cost of capital. In addition, capital buffers for the Financial Institutions remain well above minimum requirements on regulatory support and with earnings performance hitting record highs on fee income and trading performance, offsetting net interest income pressure from lower interest rates and net interest margins. This may have reduced their need to tap the credit markets. Other issuers include Boustead Industrial Fund (SGD236mn 10-year subordinated bond at 7%), Cagamas Global PLC (SGD130mn 1-year bond at 1%) and Argentum Securities Ireland PLC (SGD12.5mn 1-year bond at 1.25%).

**Figure 3: Breakdown of 1H2021 issuance size by sector**




Source: Bloomberg, OCBC Credit Research

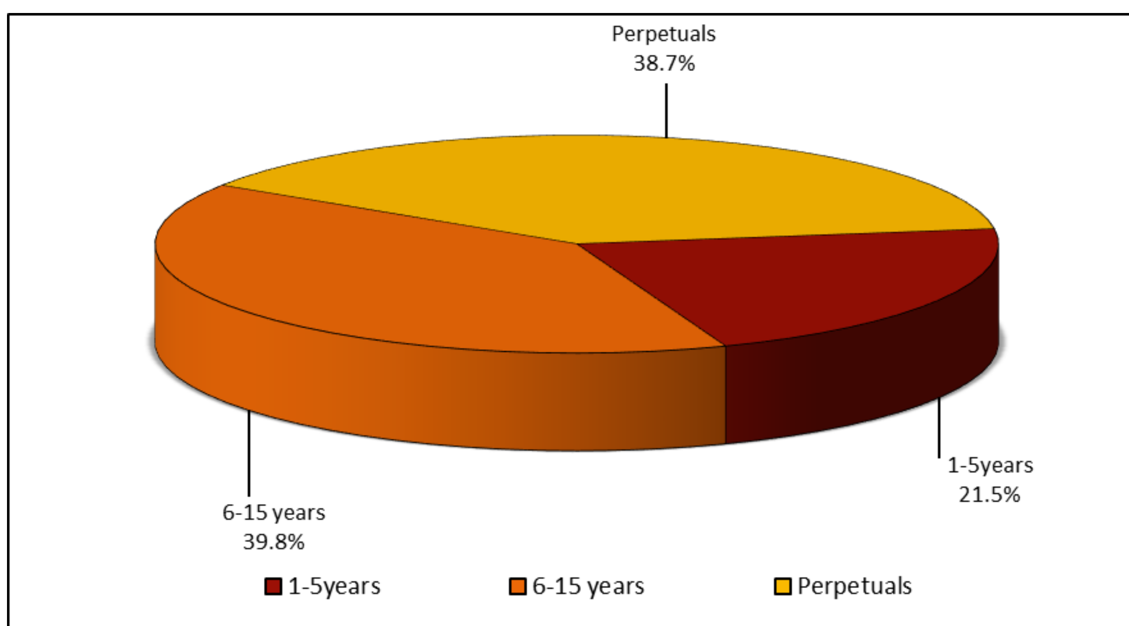
**Figure 4: Breakdown of 1H2021 issuers by sectors**




Source: Bloomberg, OCBC Credit Research

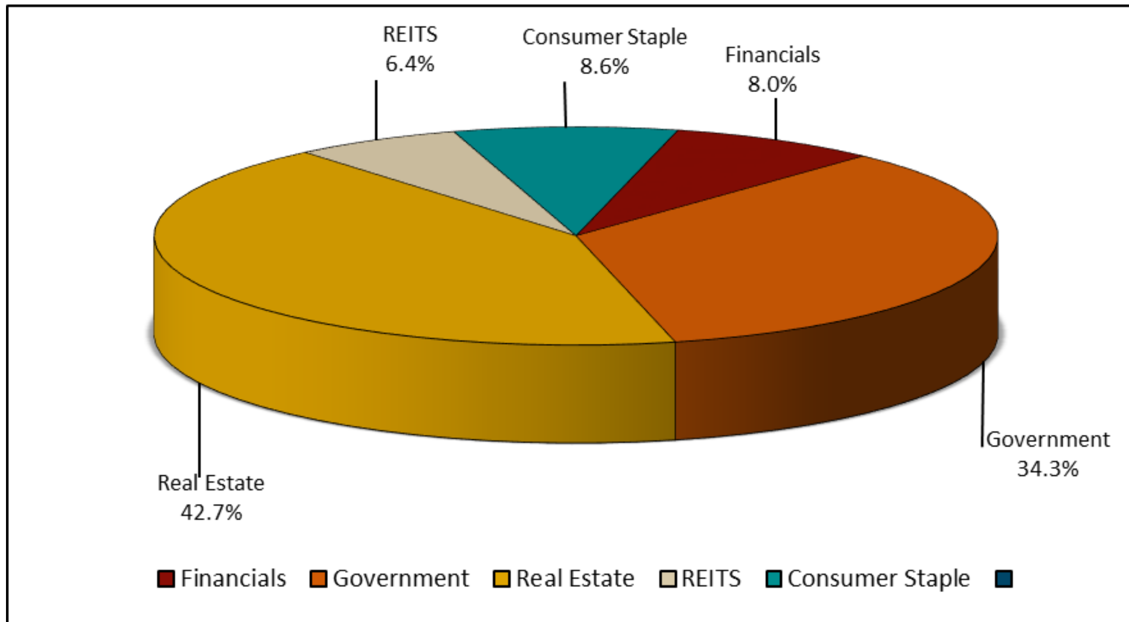
In 1H2021, issuance volume was still largely contained within the belly-to-long end of the curve. Issuances in the 6-15 years bucket contributed 39.8% to total issuances. However, there was a lack of even longer tenor notes as among the ten issues in this 6-15 year bucket, six were 10Y papers while the rest had tenors <10Y. However, there was a drastic shift in issuance behaviour, with perpetual issuances comprising 38.7% of total issuances by deal size, up ~5x y/y (1H2020: 6.9%). The increase in perpetuals could be due to a few reasons: (1) issuers want to lock in cheap funding for a longer duration in view of the rebound in long-term rates, (2) as perpetuals are equity-like, they allow issuers to improve their capital structure while maintaining their credit health, especially when the operating environment remains challenging, (3) the suppressed interest rate environment coupled with lack of supply has starved investors of alternatives, driving yield-hungry investors to chase down the capital structure, which allows issuers to opportunistically tap the corporate perpetual market. Furthermore, SGD perpetuals are also generally structured with resets which helps holders of perpetuals to take advantage of the rising rate environment. Meanwhile, short-dated bonds made up only 21.5% of total issuance volume, but when we look back at 2020, shorter tenors made up 41.6% of total issuance size as the uncertainty from COVID-19 discouraged investors to visit the longer end of the curve. This could be attributed to the issuers' unwillingness to reissue bonds at higher rates in the future due to uncertainties in the rates environment.

**Figure 5: Breakdown of 1H2021 issuance size by tenor**



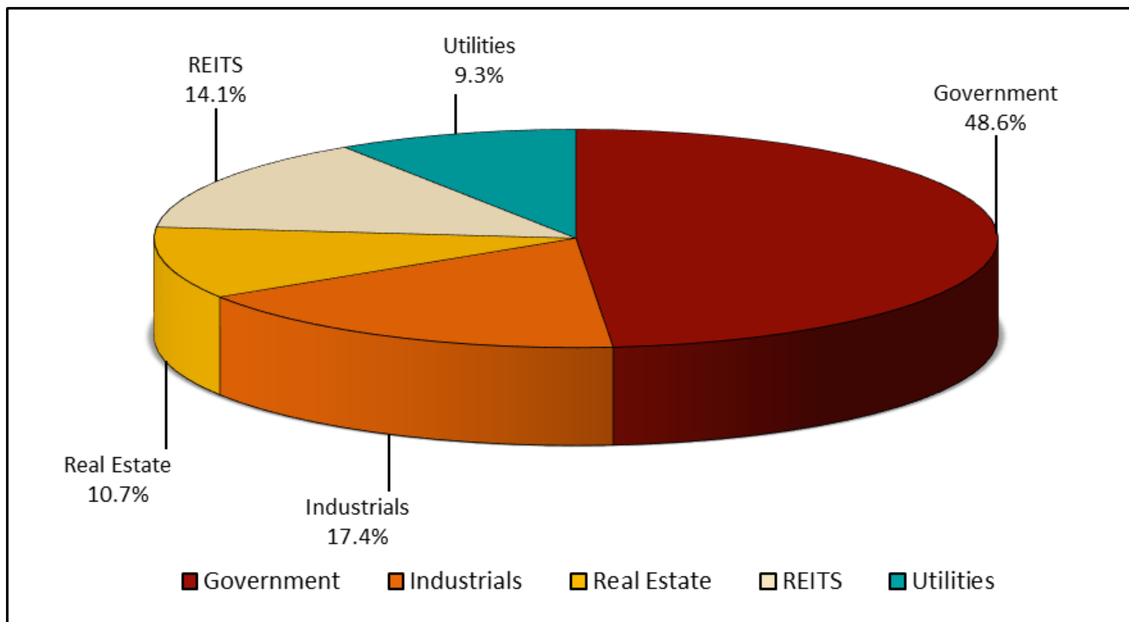

Source: Bloomberg, OCBC Credit Research

**Figure 6: Breakdown of 1H2021 issuance size by sector for 1-5Y tenor**



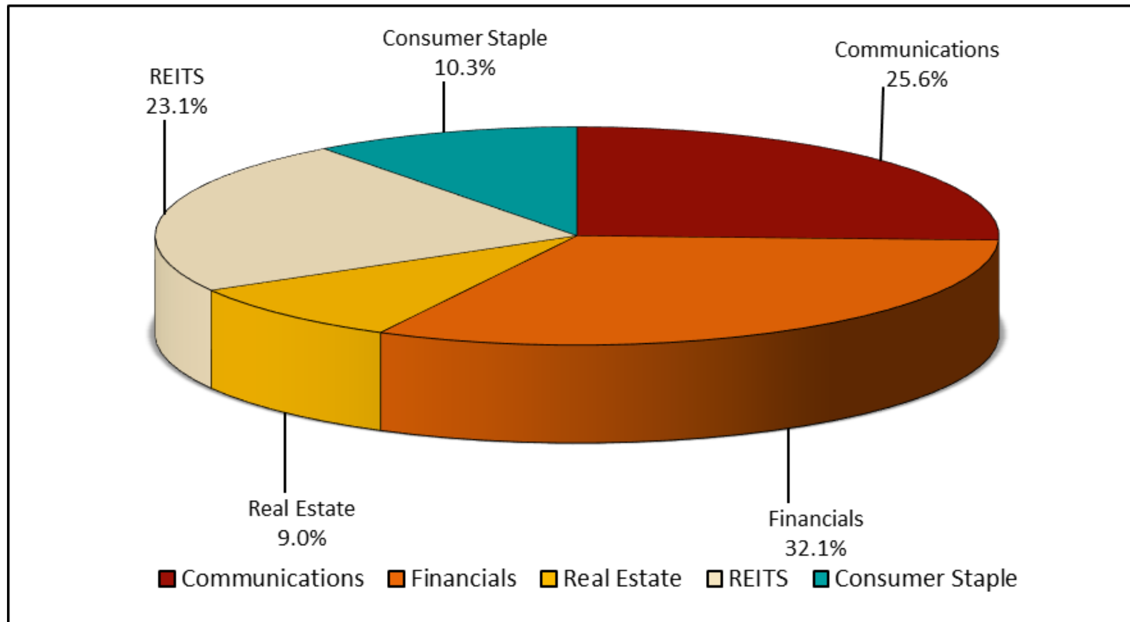

Source: Bloomberg, OCBC Credit Research

**Figure 7: Breakdown of 1H2021 issuance size by sector for 6-15Y tenor**



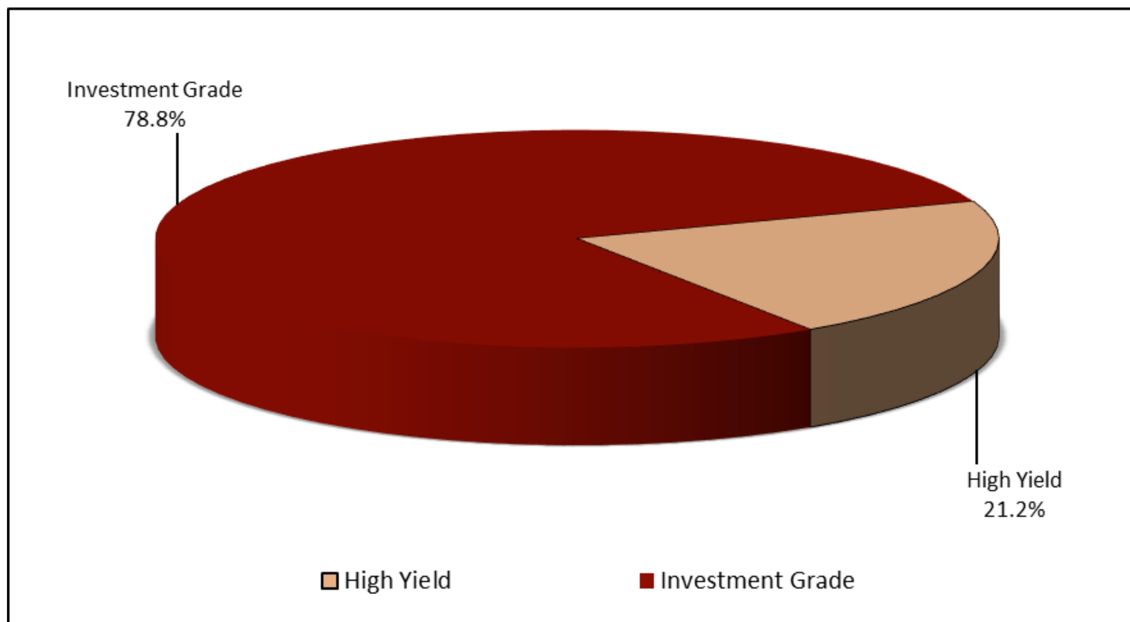

Source: Bloomberg, OCBC Credit Research

**Figure 8: Breakdown of 1H2021 issuance size by sector for perpetuals**




Source: Bloomberg, OCBC Credit Research

**Figure 9: Breakdown of 1H2021 High-Yield issuances (>3.5% coupon rate)**




Source: Bloomberg, OCBC Credit Research

As mentioned in our 2021 Credit Outlook, we revised our definition of High Yield as papers with yields higher than 3.5% (2019: 4.5%) due to the compression in rates through 2020. Under this revised definition, the proportion of high-yielding papers increased marginally to 21.2% in 1H2021 (2020: 20.7%) of total SGD bond issuances, while on an absolute basis the SGD2.7bn issued so far in 2021 is around 20% higher on an annualized basis compared to FY2020. This trend is expected given the recovering macro-economic environment in 1H2021 compared to 2020.

However in this technically driven environment, trying to determine underlying demand for high yield issues through differentiating the implied credit quality of SGD bond issuances by a reference yield has become increasingly misleading. This is because as yields have fallen, an increasing amount of structural high yield papers (ie perpetuals) and cross over names (those on the cusp of IG or borderline high-yield) have been mixed together with true high yield issues in the “high yield” bucket. As an example, around 23% of “high yield” issuances in 2020 under our definition were from perpetuals while this number rose to over 62% in 1H2021. We therefore think it makes sense

to further differentiate and compare “high yield” issuances across four buckets: (1) cross over bullets (2) crossover perpetuals (3) high yield bullets and (4) high yield perps.

Looking at these buckets, we see a broadly stable contribution of issuance from cross-over names at around 63% of total high yield issues. However, this year the bulk of these issuances (~80%) comprise perpetuals whilst in 2020 ~70% were bullets. This highlights how investors have sought yield in 1H2021 through a combination of crossover credit and structural subordination. While issuance by true high yield credits was similarly stable, we also saw a drift towards structural subordination for higher yields with larger high yield perpetual issuance in 1HFY2021, albeit from the one issuer ESR Cayman Ltd. What this differentiation shows is that (1) the market is becoming increasingly comfortable with structural subordination given the increased familiarity with perpetuals and technical and fundamental drivers supporting demand; while (2) demand for true high yield still remains tepid in this recovering environment.

## *Credit Outlook for 2H2021 – The Best Offense Is A Great Defense*

We entered 2021 with a shot at redemption in both the financial markets and global economies. Market conditions seemed to have stabilised amidst ample liquidity against the backdrop of unprecedented central bank support, where fiscal and monetary policies remain accommodative. Most economies are better prepared to deal with the pandemic, companies and workers know how to respond, and vaccines are increasingly made available with vaccination programs underway in many countries. These factors have lent support to business fundamentals and built a robust floor towards economic recovery. This contrasts with 2020 where fundamentals were heavily weakened on the back of Covid-19 restrictions. However, despite the availability of vaccines, the journey towards recovery has hit a temporary speedbump with the resurgence of global cases due to the evolving strains of Covid-19. Even with rigorous vaccination programmes in countries around the world, the battle to achieve effective herd immunity against the virus remains. Although the growing credit supply has been met by a commensurate increase in demand, a chorus is developing that is raising concerns that current trends are poised to unwind.

Although market conditions are somewhat favourable, we are still in uncharted territories given that the fundamental and technical drivers differ vastly from previous financial crises. In our view, the key themes for 2H2021 are as follows:

(1) **K-Shaped Recovery to Continue:** Despite economic activity picking up pace, the unequal nature of economic recovery persists. The slower comeback in several sectors is largely due to concentrated pain in industries that rely on footfall and face-to-face human interaction. Similarly, credit recovery is expected to commence albeit at different speeds across various sectors. Credit markets should stay constructive with default expectations reducing as a result of still low interest rates. However, elevated systemic risk continues to create credit dispersion and uneven prospects.

(2) **All Eyes on Rates and Yields:** History does not repeat itself, but it does often rhyme. An economic life cycle that starts with reflation typically mimics a certain pattern which eventually results in higher prices followed by higher interest rates. In 2020, low interest rates and easy money lifted global economies from the depths of Covid-19-induced recession as it allowed the cost of debt servicing to remain low while providing liquidity to the market. This was possible as central banks were very accommodative with their policies. However, we think the same cannot be said now. In early 2021, the sharp rise in headline inflation spooked global markets, sending treasury yields higher. Supply chain disruptions and pent-up demand have sent commodity prices soaring, resulting in higher costs across goods and services. In a typical central bank's playbook, inflation often results in rate hikes which slows down both growth and the rate of price increment. In this regard, the narrative on tapering and timing of the first rate hike may dominate in 2H2021. Asian countries which still face COVID challenges may see curve steepening amid accommodative monetary and expansionary fiscal policies. Central banks like the Bank of Canada and the Reserve Bank of New Zealand have hinted at rate hikes from late 2022. Beyond the still dispersed rhetoric among the Fed members, overall, the Fed is taking on an increasingly hawkish stance as seen from their intentions to start taper discussions coupled with the significant move up in the dot plot. We think that it is only prudent to account for such event risks and remain defensive on bond selection.

(3) **Rise of Sustainability and Green Instruments:** Environmental considerations are gaining prominence within the credit space as investors are placing more emphasis on sustainability while simultaneously moving away from high carbon intensity issuers such as coal. Though starting from a very low base, the SGD corporate bond market has seen five green issues and one sustainability linked bond so far. With regulators and government entities stepping up in the green space, we think it could add an additional layer of legitimacy and urgency to green projects and investments. Earlier in 2021, the government launched the Singapore Green Plan, which sets out a comprehensive road map towards sustainable development, a green economy, and net zero emissions. In this regard, the Monetary Authority is working with financial institutions to bolster Singapore's financial sector to combat environmental risks. They have rolled out guidelines for financial institutions to make climate-related disclosures from 2022 and committed to provide SGD1.8bn in funds to five asset managers for their investment in climate-related projects. As mentioned, based on how the SRBJNG 2.48%'31s has traded, we think that investors could be willing to pay a premium for green bonds, allowing issuers to raise debt at a cheaper rate. We expect this trend to

continue with more large cap corporates and REITS tapping the market given the lower cost of capital in green issuances.

(4) **Rise of Structural High Yield:** As a percentage of the market, more perpetuals have been priced YTD with SGD4.2bn priced so far in 2021 representing 39% of all new issuances in the SGD corporate bond market (excluding statutory board issuances). In contrast, perpetuals outstanding represent ~23% of the whole SGD corporate bond market (excluding statutory board issuances). We expect this trend to continue moving forward.

**Pockets of Opportunities in SGD bonds**

With that in mind, we have identified a few opportunities in the SGD market, namely:

(1) **SGD corporate bond market seen as somewhat of a safe haven:** The SGD credit market serves as a viable alternative to the lacklustre local equity market. Private bank clients are demanding high grade bonds, no longer just focusing on high yield issues. Funding needs may also grow as issuers look to expand into a recovering global and regional economy.

(2) **Ample market liquidity and recovering economies supportive of supply:** In our observation, prices of high-grade bonds stayed stable or were bid up in 1H2021, indicative of the lack of high-grade supply vis-à-vis new money flowing in. This was despite the possibility of higher inflation which ordinarily leads to a pullback in bond purchases. Investors seeking higher yields have few options in the SGD corporate bond market driven by the spate of defaults during 2015-2018 with poor recoveries and prolonged restructuring processes still plaguing investors. This pushes money into structural high yield or leveraged structures to enhance returns on high grade bonds.

(3) **Maturation of structural high yield market leading to more acceptance and hence higher demand and supply:** Structural high yield should continue to provide a crossover between yields and credit risk for investors whilst allowing issuers to manage their capital structure. We expect bank capital to remain preferred on sound banking system fundamentals from government support and underlying earnings that have preserved capital strength.

**Conclusion**

From a technical perspective, we think that credit could be approaching a tipping point as valuations get stretched further while the direction of inflation expectations and pandemic developments have somewhat less conviction. Amidst the low rates, there is temptation to move down the credit curve in the hunt for yields, but investors are strongly recommended to remain highly selective, especially when uncertain inflation expectations and pandemic developments may lead to rates volatility.

While the recent rates rally may favour positions in long dated bonds (at least in the near term), in our view the rates trajectory is highly uncertain amidst a recovering economic environment and the impending beginning of a rate tightening cycle. We prefer taking some credit risk and subordination risk over interest rate risk to generate returns from the SGD corporate bond market and advocating investors to diversify holdings into three main categories for 2H2021 consisting of (1) Short dated bonds (2) Longer dated "crossover" names and (3) Perpetuals issued by financial institutions and select corporates. As it stands, there is still uncertainty as to when rates would rise though the dot plots are currently suggesting 2023 (with an increased probability that this will be moved to 2022). For now, it seems central banks are cautiously choosing their words to avoid financial markets running ahead of fundamentals and causing unnecessary volatility in financial markets that may jeopardize a post-pandemic recovery.

Rationale

**(1) Shorter dated bonds maturing within 3 years :** Bullet bonds being issued thus far in 2021 mostly have longer tenors. From the issuer's perspective, stretching the tenor of their new bonds would in turn spread out the distribution of the debt maturity profile further into the future. And this is possible in a low-rate environment where the cost of doing so is relatively low. On the flip side, bondholders would have to keep

in mind the risk of rates rising. Should rates go up, prices of longer tenor bonds would fall more than shorter tenor bonds. Given the still uncertain rates environment, we do not have a high conviction over a solely short-dated portfolio either, as many high grade shorter dated bonds are trading at sub-1.5% yields while "crossover" names are not trading much wider.

**(2) Longer dated "crossover" names:** In our view, allocating a portion of the bond portfolio into longer dated bonds allows investors to capture yields from stretching duration. However, we advocate investors to consider select longer dated "crossover" bonds with higher credit spreads to compensate for the potential risk of rising interest rates. Ceteris paribus, while prices of both "crossover" and high grade names should fall when interest rates rise, we think the price decline for "crossover" issues of the same duration should be more muted relative to their higher grade peers.

**(3) Perpetuals issued by financial institutions and select corporates:** Banking fundamentals remain sound on the back of government support and decent underlying earnings which have helped preserved capital strength for banks. In addition, a steepening yield curve could be positive for earnings by boosting net interest margins. Perpetuals and bank capital provide investors a sweet spot between demand for yield while not taking overly large credit risk. With capital buffers ample, we also think there is little supply risk in the SGD financial institution perpetual market in 2H2021. For corporate perpetuals, supply risk has weighed on the performance of recent perpetuals issued by REITs. In addition, the underlying credit quality for corporate perpetuals can be more varied than the underlying credit quality for financial institutions. These two drivers lead us to advocate more selectivity in our recommendations for corporate perpetuals. Whilst valuations are a consideration, we ultimately think that fundamentals should be the starting point for corporate perpetuals given the possibility of investors being a permanent part of the capital structure.

Amidst the low rates environment, the temptation to move down the credit curve on the hunt for yields is hard to resist. However, risk return remains key. In our view, due to survival bias, the current outstanding true high yield issues have higher credit quality versus recent history. That said, it is worth noting that recoveries in default scenarios in the SGD corporate bond space has been poor, limiting risk appetite amongst investors and hence secondary market liquidity. With this in mind, we do not recommend building a portfolio concentrated around true high-yield debt as the returns in our view do not justify the risks.

We continue to be ever grateful for our readers' support and feedback and hope you find our publications useful in the rest of the year ahead. We hope you and your close ones stay healthy in mind and body.

**With appreciation, OCBC Credit Research**

OCBC Bank

## *Top Trade Ideas*

**Table 1**

**Top Picks**

| Company | Ticker | Coupon | Maturity/ Call Date | Amount | Offer Price | Offer YTM/YTC | Rationale |
|---|---|---|---|---|---|---|---|
| Wing Tai Holdings Ltd | WINGTA | 3.680% | 16-Jan-25 | SGD100mn | 102.98 | 3.22% | We like WINGTA 3.68% '30c25 for providing decent yield pickup over other seniors. We think the chance of call is high given the continued repurchase of the curve by the company. |
| GuocoLand Ltd | GUOLSP | 4.600% | 23-Jan-23 | SGD400mn | 101.20 | 3.81% | The strong property market should be supportive of GuocoLand's credit profile. We are Overweight on GUOLSP 4.6% PERP given its wide spreads and we think that the non-call risk is low. |
| Keppel Corporation Ltd | KEPSP | 3.660% | 7-May-29 | SGD350mn | 108.00 | 2.53% | Within senior bonds issued by "crossover" issuers, we think the KEPSP 3.66% '29s provides decent yield pick-up (on a tenor adjusted basis) against other comparable seniors and are Overweight this bond. The company has also announced recent corporate developments which in our view would be credit positive if completed. |
| HSBC Holdings PLC | HSBC | 4.700% | 8-Jun-22 | SGD1bn | 101.55 | 3.03% | HSBC appears to be implementing its restructuring as planned and event risks are reducing in our view. As such we are overweight the HSBC AT1s and see better value in the HSBC 4.7% 'PERPc22s. |
| Starhill Global REIT | SGREIT | 3.850% | 15-Dec-25 | SGD100mn | 99.12 | 4.07% | SGREIT's perp offering a 4.07% yield to call is attractive in our view as the aggregate leverage was 35.9% as at 31 March 2021 which is lower than peers. SGREIT also does not have any debt refinancing requirements until September 2022. |
| Suntec REIT | SUNSP | 3.800% | 27-Oct-25 | SGD200mn | 99.00 | 4.05% | SUN's perps with a yield to call of over 4% is interesting in our view. Even though SUN is more leveraged than peers with aggregate leverage at the 43% to 44% handle, it has adequate facilities to refinance debt maturing throughout 2021. |
| | | 4.250% | 15-Jun-26 | SGD150mn | 100.90 | 4.05% | |

## *Transition Finance – A Bigger Hole to Fill in the World's Transformation*

As we have tracked throughout 2021, sustainability finance related bonds continue to rise almost exponentially. As at 25 June 2021, green, social, sustainability and sustainability-linked bond sales from governments and corporates so far this year total USD531.0bn, 230% higher than the same point last year. But while governments, regulators, issuers and investors strive to improve their sustainability knowledge and activities, a perhaps more pressing need is the role and scope of the concept of Transition Finance. We see sustainability linked loans and bonds as a subset of sustainability finance and are the key investment instrument for transition finance as opposed to green loans and bonds that tie the use of proceeds to green uses or specific projects. They also differ from green loans and bonds in that sustainability linked loans and bonds can be at the entity level rather than be tied at the transaction level as green loans and bonds are. This provides some flexibility for borrowers or issuers and capital providers and can encourage borrowers or issuers to focus on sustainability across its entire business operations rather than solely through its investments.

**Navigating the path to sustainability**

According to the Organisation for Economic Co-operation and Development ("OECD"), Transition Finance is the financing of the journey towards the 2030 Agenda and the achievement of sustainable development. This 2030 Agenda for Sustainable Development was defined by a 2015 United Nations resolution and includes 17 Sustainable Development Goals ("SDGs") that act as a framework towards sustainability that is targeted to be achieved by 2030. Each SDG has specific targets and indicators to ensure they are actionable, and progress can be measured towards the achievement of the SDGs. The scope of the SDGs are broad and the depth of the problems are deep (especially considering the effects of the pandemic) hence the costs of achieving these goals are significant. The scale of the problems to be addressed and the relatively short time frame to achieve them has likely driven the substantial financing flows to date in sustainability finance. According to a previous estimate by the United Nations, USD5 trillion to USD7 trillion is needed annually between 2015 and 2030 to achieve a set of SDGs globally although this estimate has likely changed with the passage of time and impact of COVID-19 and will be highly variable given the scope in terms of tasks and countries.

Of interest though is the difference in problems to be addressed and the current uses of sustainable financing. Although the SDGs are interlinked and integrated (for instance climate change has contributed to a rise in undernourished people), the bulk of them (14 of 17) are focused on social goals. Conversely, we estimate roughly 15 % of all green, social, sustainability and sustainability-linked bonds issued over 2014-2020 are identified as social bonds as a use of proceeds. S&P Global in its report on how sustainability-linked debt has become a new asset class mentions that over 85% of Sustainability Linked Targets ("SLT") or key performance indicators in sustainability-linked bonds are environmental in nature. This is likely due to the imminent threat of global warming and the need to control the production of greenhouse gas ("GHG") emissions to achieve the goal of limiting global warming to well below 2, and preferably below 1.5 degrees Celsius, compared to pre-industrial levels as set out by the Paris Agreement on climate change. To achieve this, countries are expected to reduce GHG emissions by almost 50% by 2030 and achieve climate neutrality or net zero GHG emissions by 2050. It also reflects the belief that risks from climate change represent the biggest influence on the success of all SDGs and that in the world of ESG, there can be no success in "S" without solving "E".

The other difference that exists in sustainable financing is whether all the green and sustainably linked bonds are funding new projects for a greener future or seeking to correct current projects and activities that are contributing to global warming. Indeed, the scale of the funding involved indicates the size of the problems that need to be corrected through both increased investment in low emission technologies and green projects but also through transitioning "brown" industries to become greener and more sustainable. According to the World Bank Group, around USD70bn to USD100bn per year is needed for developing economies to adapt to global warming of 2 degrees Celsius while the International Finance Corporation in 2016 identified USD23tr of climate related investment opportunities in 21 emerging economies by 2030. The United States Environmental Protection Agency breaks down the current largest emitters of GHG by country and industry with China, the United States and India being the three largest emitting countries (the EU-28 as a block is the third largest emitter comprising 28 countries and reflects the progression that EU members have made in their sustainability journeys) while Electricity and Heat Production, Agriculture, Forestry and other Land Use, Industry and Transportation are the four largest emitting economic sectors.

As the largest emitter, China is an interesting case study of current trends in sustainable and transition finance showcasing where it currently is and where it needs to be. China is the world's largest coal producer and consumer with coal comprising almost two thirds of its energy consumption. Declines in coal consumption during 2016-2018 when the government banned new coal fired power plant construction was quickly reversed when the ban expired. New coal fired power plant construction rose and according to the Global Energy Monitor, China built more coal fired power plants in 2020 than the rest of the world by a factor of over three to one. That said, China has announced a series of pledges to combat the impact of climate change. The Council on Foreign Relations has listed these as including:

- Carbon neutrality by 2060;
- Peak carbon dioxide emissions before 2030;
- Renewable energy sources to account for 25% of total energy consumption by 2030;
- Reducing carbon intensity (carbon emitted per unit of GDP) by more than 65% by 2030;
- Installing 1.2 billion kilowatts of combined solar and wind power generation capacity by 2030;
- Increasing forest coverage by around six billion cubic meters by 2030; and
- Banning sales of new gas-powered vehicles by 2035.

**Accelerating the journey**

We believe that as awareness of climate change continues to grow, the focus on transition financing could rise in kind and perhaps at a faster pace. We see three key reasons for rising prominence of transition financing:

1. Increasing evidence of climate change and occurrences of extreme weather events and natural disasters;
2. The still high existence of "brown" industries and brown growth which, according to Senior Environmental Specialist at the World Bank Uwe Deichmann, "relies heavily on fossil fuels and does not consider the negative side effects that economic production and consumption have on the environment". Some of these industries and companies will need time to transition from brown to green whilst at the same time still being significant contributors to GHG emissions; and
3. The need to reduce the possible related social impacts or effects from the wind-down in brown industries and the transition to green.

Historically though, adoption of Transition Financing has been relatively slow compared to the growth in green loans and bonds due to a nascent understanding of Transition Financing and lack of clarity on how meaningful Transition Financing is to achieving global sustainable development. This is notwithstanding that renewable energy is still a minority in the world's energy sources. According to the Center for Climate and Energy Solutions, renewables made up 26.2% of global electricity generation in 2018 and while renewable energy is the fastest-growing energy source in the United States and the only energy source which grew through the 2020 pandemic, renewable energy is only expected to rise to 45% of global electricity generation by 2040 with most growth from solar, wind and hydropower.

With this dual need to invest in new green low emission technologies and also drive transition of brown sectors towards a green future, what are the steps being taken to take advantage of the large investment opportunities, meet the ideals of the Paris Agreement and promote Transition Financing?

Using financial incentives to drive willingness before capacity

The cost to transform is high, especially for those industries where there is no economically or technically feasible option that exists at the moment. At the same time, the timeline for a net zero emission future continues to march on. Bridging the short-term costs for better long-term benefits are sustainability linked loans and bonds. These include funding cost adjustments should the borrower or issuer achieve certain Sustainability Linked Targets ("SLTs"). Categories of SLTs include energy efficiency, GHG emission levels, use of renewable energy, water consumption and sustainable sourcing. Recent examples of a sustainability linked loans and bonds include:

- Indian cement producer UltraTech Cement Ltd.'s USD400mn 2.8% 10-year sustainability linked bond priced at T+167.5bps. Its sustainability performance target ("SPT") is linked to its direct or owned/controlled carbon intensity which is calculated as kilograms of carbon dioxide ("CO2") emissions emitted per ton of cementitious material. This is to be equal to or lower than the lesser of 557 kg CO2/t.cem (reflecting a reduction of 22.2% from a 2017 baseline) or the Science Based Targets initiative ("SBTi")-verified target, as of 1 May 2030 and in any event no later than 1 August 2030. The SBTi is a collaboration between CDP, the United Nations Global Compact, the World Resources Institute and World Wide Fund for Nature to enable companies to limit global warming through setting decarbonisation or GHG emission reduction targets. UltraTech Cement Ltd.'s SBTi-verified target is expected to be available no later than 31 March 2022. Should UltraTech Cement Ltd be unable to achieve its SPT by 1 May 2030 or 1 August 2030 (the Observation Date), then the sustainability linked coupon

will step up by 75bps for the remainder of the bond. While the 75bps step up is around three times the market standard of 25bps according to Bloomberg, the higher rate would only apply for the last six months left until the bond matures.

- National Australia Bank Ltd's ("NAB") first-of-its-kind sustainability-linked loan for Port of Newcastle, Australia's largest east coast seaport. The loan, part of a broader AUD666mn refinancing facility, includes AUD515mn in sustainability-linked loans that offer a lower margin on debt if the seaport hits targets across a range of social and environmental metrics. This is the first sustainability-linked financing by an Australian seaport and the first such loan in Australia to include a modern slavery assessment metric addressing the borrower's suppliers.
- Japfa Comfeed Indonesia priced a USD350mn 5NC3 senior unsecured sustainability-linked bond at 5.375%, with a step-up coupon of 5.5%. The bonds are the first issued in the global agri-food industry and linked to an environmental target that requires the company to build nine water recycling facilities at its operations to reduce water pollution by three months prior to year four.

According to S&P and Bloomberg, green bond issuance was relatively concentrated with utilities comprising 56% of green bond issuance over 2020 followed by consumer discretionary and industrials at 12% each. In contrast, 61% of sustainability-linked bond issuance over 2019-2020 came from three sectors – utilities (24%), materials (19%) and industrials (18%). Consumer staples and consumer discretionary made up a further 22% at 13% and 9% respectively. Even within the product, sustainability linked loans and bonds themselves differ. According to Gilbert and Tobin, the application, disclosure and verification required for sustainability linked bonds is higher or more specific than their loan counterparts.

The benefits of these products are multiple. They are forward looking and provide an economic incentive for brown companies to transition in the short term for their longer-term sustainability. It also helps capital providers to fulfil their own sustainability efforts through the provision of green or sustainability linked financing as part of their net zero carbon plans. As seen from HSBC Holdings PLC's ("HSBC") climate plan announced in October 2020, sustainability ambitions can be multi-layered. HSBC's ambition to support the transition to a net zero global economy by 2050 involves targeting net zero carbon emissions across its entire customer base by 2050 at the latest and provide between USD750bn to USD1trillion in financing to help clients make the transition. To achieve this, financed emissions will align with the Paris Agreement and use the Paris Agreement Capital Transition Assessment Tool ("PACTA") to measure progress while disclosures will follow the Task Force on Climate-related Financial Disclosures. The bank also aims to be net zero in its operations and supply chain by 2030 while a third leg of HSBC's plan involves the creation of HSBC Pollination Climate Asset Management as manager of 'natural capital' as an asset class.

We expect that sustainability linked loans and bonds structures will evolve over time and become tighter or stricter as acceptance increases and sustainability plans progress. At the moment, structures are somewhat lenient with sustainability linked targets only measured towards the end of the loan or bond near its maturity such as those targets for UltraTech Cement Ltd that are mentioned above. Currently, Europe leads in terms of adoption and acceptance of sustainability linked loans and bonds. According to S&P Global, 85% of all sustainability linked loans were issued by European borrowers in 2020, followed by Asia Pacific and North America at 7% and 5% respectively. Similarly, 84% of all sustainability linked bonds were issued by European borrowers in 2020, followed by North America at 9%. That said, issuance trends are diversifying - through early April 2021, European borrowers comprised 66% of all sustainability linked loans issued while European borrowers comprised 68% of all sustainability linked bonds issued, followed by Asia Pacific and North America at 10% and 15% respectively.

Establishing the rules of play

If SDG's and Paris Agreement targets are the goal posts and sustainability linked loans and bonds are the equipment, then players also need to know the rules and amongst other things, a large driver of Europe's adoption of sustainability linked loans and bonds is the European Union's ("EU") Taxonomy Regulation for sustainable activities. Per the EU, the Taxonomy Regulation establishes a classification system or 'framework' that is necessary to drive capital towards the funding of activities to achieve the EU's 2030 climate and energy targets. The taxonomy covers both the definition of a financial product (which is contained in other EU regulations) as well as definitions of "environmentally sustainable" economic activities. These activities must provide a net benefit (ie its contributions should outweigh its harm) to either of six environmental objectives including (1) climate change mitigation; (2) climate change adaptation; (3) sustainable use and protection of water and marine resources; (4) transition to a circular economy; (5) pollution prevention and control; and (6) protection and restoration of biodiversity and ecosystems. Implementation of this regulation is in stages with climate change mitigation and adaptation objectives to be implemented from 1 January 2022 and the following four to be implemented from 1 January 2023.

Other aspects of Taxonomy Regulation that complete its effectiveness and intentions is a requirement that the economic activities should not result in negative social impacts and the inclusion of disclosure obligations. While social issues are being considered for inclusion in addition to broader environmental considerations, the current six "environmentally sustainable" economic activities are heavily focused on environmental considerations. This is possibly another reason why sustainability linked loans and bonds are focused on the achievement of environmental objectives, in addition to the relative ease in setting environmental goals that re easier to quantify and assess than goals related to social or governance. Investors will need to adjust their investment processes and disclosures to conform with this taxonomy.

Establishing the taxonomy is a start. There remains much work to be done on establishing standardized terms and methodologies that are globally recognized and accepted. There also remains further development of the EU Taxonomy in order to enable inclusive transition financing. The EU's Platform on Sustainable Finance, which was established to advise the European Commission on the development of the sustainable finance market with a particular focus on the ongoing development and update of the EU taxonomy, recommended in its March report that: (1) the EU Taxonomy maximise inclusiveness through appropriate communication and reporting requirements that support and enable more transition finance activities for as many parties as possible; (2) there should be opportunities to extend the current EU taxonomy to make the framework more future ready; and (3) there should be an ability to use other non-Taxonomy policies and tools to support transition finance.

Understanding how to play the game

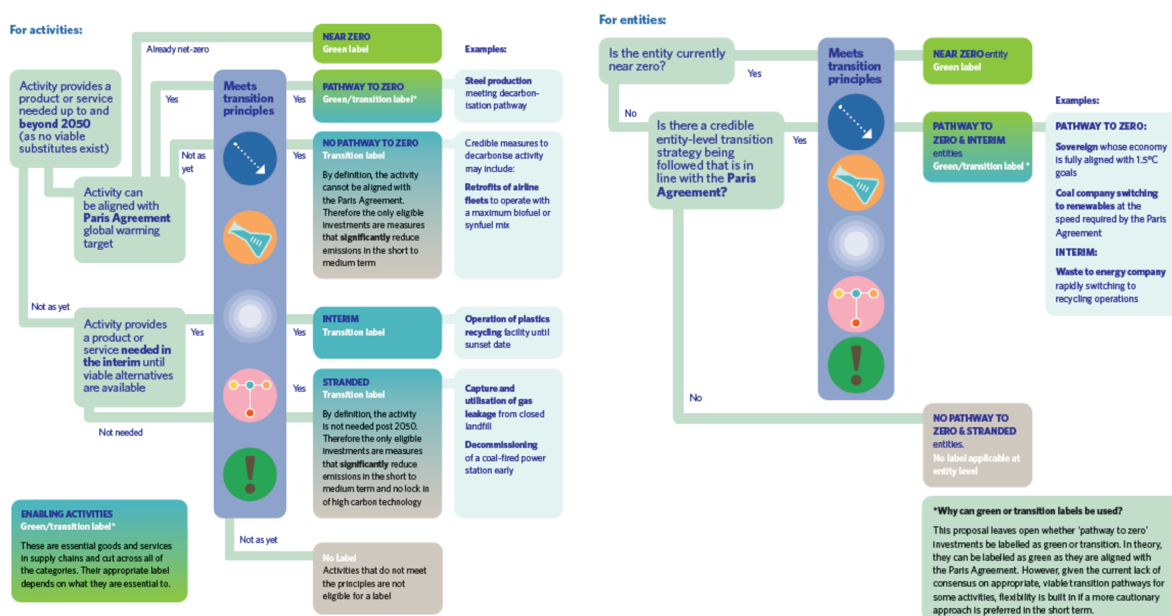
Whilst rules, definitions and frameworks assist players in the sustainability space, understanding and interpreting them is also needed to ensure that the market continues to develop. To this end, sustainability linked loans and bonds themselves are also subject to various principles designed to promote and govern their use including (1) the Sustainability Linked Loan Principles issued in March 2019 by the Loan Markets Association, the Asia Pacific Loan Market Association and the Loan Syndications and Trading Association, and (2) Sustainability-linked Bond Principles that were issued by the International Capital Market Association ("ICMA") in June 2020. Both are designed to provide investors and issuers with a framework to assess if a bond can be classified as transition finance using key criteria including:

- Setting of ambitious performance targets that are tied to the borrower or issuer's sustainability plan to measure progress and overall sustainability of the borrower or issuer;
- Appropriate reporting and verification guidelines; and
- In the case of sustainability linked bonds, the inclusion of credible KPIs and meaningful terms that incentivize the achievement of performance targets.

The Sustainability Linked Loan Principles were recently revised with the key changes including (1) stricter restrictions regarding the selection of KPIs and the scope of SPTs; (2) the requirement for independent and external verification of a borrower's performance level against each KPI and SPT is now mandatory; and (3) the principles have been adjusted to align with Sustainability Linked Bond Principles. Sustainability Linked Bond Principles themselves were supplemented in December 2020 by the release of ICMA's Climate Transition Finance Handbook as additional guidance for bond issuers to ensure their bonds conform to the climate related principles of sustainable financing.

While sustainability linked loans and bonds are the tools or equipment for transition, their sources, uses and application in financing energy transition is not so straight forward. The Organisation for Economic Co-operation and Development's ("OECD") Development Assistance Committee ("DAC") has therefore established a toolkit to give guidance on how to finance transition in the most optimal manner. In particular, the DAC in their role to (1) promote development co-operation to implement the 2030 Agenda for Sustainable Development and (2) achieve a future where no country will depend on aid, studied who is the more effective provider of finance as an economy transitions from being low income to high income. They concluded that (1) domestic financial resources (e.g.: tax revenues) must be a dominant and growing contributor to sustainable financing as opposed to external flows as a country moves towards a high-income status; and (2) while dependence on public external support such as Official Development Assistance ("ODA") is necessary for low income countries and early stages of transition, financing sources should gradually move from public financing sources (ODA, Other Official Flows) to private financing sources (foreign direct investments and remittances). Such substitution is necessary for both effective economic development as well as optimal sustainable development to eliminate any financing gaps that could lead to sustainable development setbacks. Financing sources are not uniform and have different objectives so must conform with the needs of the economy. For instance, external public financing sources are likely to be more focused on social issues while private sources will be more focused on infrastructure development.

Knowing what to use and who best to provide it though may not be enough to achieve effective sustainable development. Understanding where to use financing sources is also important. To this end, the Climate Bonds Initiative ("CBI") together with Credit Suisse Group AG published a white paper on Financing credible transitions that focuses on ensuring that transition financing activities are impactful on the 17 SDGs by (1) being credible and ambitious in significantly reducing GHG emissions; (2) are aligned with Paris Agreement targets and accompanied by an entity-level carbon reduction strategy; and (3) and have clear transition pathways. The whitepaper establishes a framework at both the entity and activity/transaction level that breaks down whether the entity or activity meets, is likely to meet in the future or will have difficulty meeting five identified transition principles and whether the activity is needed up to and beyond 2050. Entities or activities are then labelled on a continuum whether they are green, in transition or stranded. A green entity or activity is needed beyond 2050 and is basically near zero emissions already with little need for further transition (e.g.: wind power). A transition entity is also needed beyond 2050 but is a material emitter and either has a decarbonation plan (e.g.: shipping) or does not (e.g.: long-haul aviation). Finally, a stranded entity or activity is a material emitter, and either cannot meet the five transition principles, is not needed beyond 2050 or has a low emissions substitute (e.g.: coal fired power generation). These transition labels are expected to enable investors to more efficiently allocate capital to the right activities and/or entities that will effect meaningful change and achievement of SDGs. The framework also aims to eliminate greenwashing by helping capital providers avoid mislabeled transition investments that ultimately would not yield progress for SDG achievement due to their inability to transition or the existence of a green substitute.




Source: Climate Bonds Initiative – Financing Credible Transitions: Summary note, September 2020

**Looking to the future - Consistency, Coordination, Commitment**

To support its push to provide USD750bn-USD1trillion in transition financing, HSBC published its own white paper in June 2020 on why transition finance is vital to combat climate change. Whilst highlighting technical, economic and institutional challenges to a timely transition, the bank also highlighted how the UK has successfully transitioned its electricity generation capacity from 75% coal to almost predominantly natural gas and renewables (wind, solar power) in just 10 years over 2010 to June 2020 (coal is still used as a peaking source).

Although the steps mentioned above have been taken to encourage the use and acceptance of transition finance linked instruments, there remain gaps in the market that need to be addressed. One is the difficulty in comparing the relative structures of different sustainability linked loans and bonds from different issuers. Each borrower or issuer's sustainability plan will be different from the next and specific to that borrower or issuer's characteristics. In addition, it will be difficult to compare just how meaningful sustainability linked targets are for the different borrower or issuer's and what that may mean for the capital provider and their own sustainability linked or financial targets.

Reporting and disclosure also remains non-standardized which impacts assessment and verification. Use of third parties to assess if SLTs are met can be done but the cost of implementing SLTs and hiring independent reviewers

can be a disincentive for transition finance and the use of sustainability linked loans and bonds as opposed to the relative ease in understanding and assessing the sustainability impact from implementing green projects that are funded with green bonds. Netherlands-based asset manager NN Investment Partners surveyed institutional investors and found that 45% believed that green bonds make the most positive impact, followed by sustainability-linked bonds (37%), social bonds (11%) and lastly, transition bonds (7%). Transition bonds are the laggard given they are effectively sustainability-linked bonds without KPIs or SPTs and therefore harder to assess as to their sustainability impact. Proponents of transition bonds however see them as another tool to enable transition and providing even more flexibility for borrowers or issuers, albeit at the expense of clarity.

Finally, HSBC in its white paper highlighted some financial factors that can accelerate the growth of transition finance. These include the efficient pricing of climate-related risk and determining a relationship between environmental and credit performance, a comprehensive carbon pricing framework, financial incentives for both borrowers/issuers and investors and regulatory support such as allowing early write-offs of stranded assets. As mentioned above in "Implications on Stranded Assets", policy intent may increase with the world seemingly behind in Paris Agreement targets, hence the changes and impacts on stranded assets will increase with stronger policy intent.

What will be key however through (1) the development of sustainability linked loans and bonds and their related principles; (2) a taxonomy; as well as (3) a toolkit and operational framework is to establish a consistency in approach that provides relevance and clarity on transition pathways and impacts. This should drive more coordination amongst issuers/borrowers, industries, and countries to achieve SDGs and establish a commitment towards a sustainable future.

## *The Problem with Promises in Credit*

*Implicit support sounds good in theory but can be difficult to find in practice*

Developments with China Huarong Asset Management Co., Ltd ("Huarong") in 1H2021 highlighted the pitfalls of over-relying on implicit external support or a "promise". Huarong's USD bond prices fell to distressed levels in April despite the company's investment grade rating following the trading suspension of its equity on the Hong Kong Stock Exchange in early April 2021, the delay in the issuance of its annual report and limited official government announcements on the reasons for the delay. These developments raised questions on Huarong's ability to meet its financial commitments and concerns that Huarong needed to restructure its obligations.

Driving the price movements were investors' perception of or reliance on implicit government support for Huarong that was based on:

1. Huarong's current majority government ownership. China's Ministry of Finance ("MoF") holds a 61.4% stake in Huarong as at 30 June 2020 while the National Council for Social Security Fund holds ~6.3%;
2. Its original policy-driven asset management business that was historically important in reducing non-performing loan balances at the four major state owned banks; and
3. The use of Keepwell Agreements for Huarong's offshore bonds that do not constitute a guarantee (more elaboration on this later).

While Huarong's ownership and business may constitute a sound basis for an expectation of implicit external support at a point in time, the concept itself is not so clear cut. Investors should consider and analyse a variety of factors and circumstances as such expectations of support are usually based on 'history' at best and 'hypotheticals' at worst.

**The promisor**

An assumption of implicit support usually starts and ends with the promisor, the entity expected to provide the support. Logically the promisor is seen to be stronger as this of course strengthens the "financial capacity" to support - a higher capacity to support provides a buffer for any stress in a promisor's related entities. That said, this capacity can evolve over time. In the past for instance, the capacity of governments to support their related entities or state-owned corporates were high. However, the pandemic's significant and wide-reaching impact mean that capacity has become constrained together with governments' need to protect livelihoods. Put simply, governments have competing interests and no longer have the luxury to support each and every entity.

While financial capacity is the start of any analysis of a promisor, the end is invariably tied to the willingness of a promisor to pay the debt obligation of the supported entity. A promisor can have deep pockets but short hands when needed, meaning that capacity can become a wasted resource. Willingness can be influenced by many factors – financial, strategic, and possibly political as well as philosophical reasons (ie: free market versus socialist tendencies). This makes willingness a somewhat qualitative but more important factor that is harder to judge, as opposed to the more quantitative factor of capacity.

Being able to combine an assessment of the two factors though can create a more powerful way to analyse the probability of implicit support from the promisor. A high willingness and capacity would be a positive for implicit support and should be backed by a recognition of a material or significant impact on the promisor should it choose not to support, whether that impact be reputational or financial. Conversely, a negligible impact from not supporting should signify a low willingness, which is likely enough of an assessment for the probability of support without needing to understand the promisor's capacity.

**The promisee**

An analysis of the promisee, or the entity in need of support, is not so much about absolutes but more about relativity. While absolute or fundamental analysis remains important in understanding a promisee's stand-alone capacity to repay its obligations when due, the more important factor to consider in our view from an implicit support perspective is the promisee's relative positioning to the promisor or the strength of its relationship. This can more likely be founded on quantitative or visible factors such as its strategic or financial importance to the promisor. If the promisee is majority owned by the promisor, has board representation (indicating control), or shares the same industry or the same name and branding along with shared support services, then the probability of implicit support will likely be higher for strategic reasons.

Size is also a factor – if the promisee is a significant or material financial contributor to the promisor then the probability of implicit support should also likely be higher but for financial reasons. Despite this intuitive understanding that support will be more available for larger sized promisees though, size may also have its limitations because if the promisee's relative size to the promisor is significant then the ability of the promisor to support is ultimately tied to the stand-alone performance of the promisee. This in turn influences the capacity of the promisor. That is, the higher the performance correlation between the two, the lower could be the likelihood of support.

Finally, relativity is also important from an absolute perspective. If the analysis of the promisee shows a very weak standalone credit profile and a very large gap between their fundamental position and that of the promisor's, then it should call into question the likelihood of support to begin with.

**The promise**

Promises come in many forms and while legally enforceable ones are the best, they are also the hardest to come by. This is because of the contingent liability it creates and the crystallisation of the obligation to support. Even then, a legally enforceable promise to support or guarantee should have certain key characteristics to be effective in transferring credit risk from one entity to another. For one, it should be timely and ensure the punctual payment of debt when it is due as per the documentation. Secondly, it should be full to ensure that there is no shortfall in the payments promised under the original agreement. Finally, it should be unconditional and not dependent on any other event or circumstance. In other words, the enforceability of the guarantee should be unquestionable in its ability to force the guarantor to take the place of the borrower or issuer when the time arises. It should also not create a burden on the lender or investor to prove their ability to enforce the guarantee.

Recently the challenge of getting guarantees has been met more and more by the growth in Keepwell structures – also known as Letters of Comfort. Keepwell structures or agreements sound the same in form as a guarantee in that they can indicate a promisor's willingness to support a related entity in times of stress. However, they are very different in substance. Keepwell agreements are not legally enforceable and do not give rise to a debt-like liability, therefore falling very short of the credit enhancement properties that a guarantee provides. While a lender or investor may be able to sue for damages under breach of contract, any eventual payment for breach of contract will be ultimately conditional on the success of its claim in court. In addition, such payment will not be timely. Still, Keepwell agreements have found favour in the market as a mid-point between a guarantee and implicit support given its tangible nature and its usefulness in allowing Chinese companies to issue offshore bonds without getting

the regulatory approval that guarantees require. According to Bloomberg[1], around 13% or USD119bn of outstanding Chinese offshore bonds use Keepwell deeds, including nearly all of Huarong's USD22bn in bonds.

That said, the effectiveness of Keepwell agreements was challenged in 2020 when a Beijing court-appointed administrator in Peking University Founder Group Limited's ("PKU Founder") court supervised restructuring refused to recognize the claims of bondholders holding USD1.7bn of bonds made under Keepwell agreements. It did however recognise claims under corporate guarantees provided by PKU Founder. While the administrator indicated that these bondholders could object to the court (and some have filed a winding up petition), according to King & Wood Mallesons[2], there is some uncertainty as to the jurisdiction which takes precedence – Chinese courts which accepted the original restructuring application and has jurisdiction over the company; or Hong Kong courts which have jurisdiction to hear any disputes on the enforceability of the Keepwell agreement. While other developments in November 2020 offer some hope with the Shanghai Financial Court recognizing the claims of bondholders under Keepwell provisions in the default of CEFC Shanghai International Group Ltd, it appears that market confidence in Keepwell Agreements and implicit government support are on shaky ground judging by recent pricing action of Huarong's USD bonds. We expect the market will likely start scrutinizing Keepwell Agreements and implicit support assumptions more.

**The problem**

If Keepwell agreements are on shaky ground, then what about implicit support? It stands to reason that these are on even weaker footing given they sit a rung lower on the ladder of enforceability or promise of payment. But it is not just from a legal perspective that this concept is challenging – after all, this concept exists due to lack of legal enforcement. The issue in our view stems from the circumstances surrounding the implicit promise to support. It is a promise that is likely made when times are good and when capacity to support may be high and the likelihood of requiring support is low. If there is no track record, then the support is untested, and the likelihood of support is hypothetical. If there is track record, then there is only a history of support at best and as all good investment disclosures read, "Past Performance Is No Guarantee of Future Results."

Invariably, circumstances change which impacts the likelihood of implicit support. Personnel change too so the person or party who made the promise may no longer be there. This makes it difficult for a lender or investor to rely on (and unsurprisingly, easy for a borrower/issuer or promisor to get out of). The concept of personnel is even more complex when it comes to implicit government support – while one ministry can indicate support, they may not be the one that ultimately writes the cheque. Some state-owned enterprises may come under the purview of multiple ministries complicating any prospect of support. For example, state owned enterprises in some countries within South East Asia can be influenced by the Ministry of Finance, the Ministry for its respective industry and a separate Ministry for State Owned Enterprises. There is also the influence of politics when it comes to implicit government support and not just the issue of different political parties within the same political system but the ability to predict and rely upon implicit government support between different political systems.

Ultimately, implicit support feels like a short-term promise to pay long-term liabilities – a liquidity mismatch of sorts on its own, with the benefit of any implicit support perhaps cancelled out by an illiquidity premium to compensate for the difficulty of relying on this support when times are tough.

**The Path Forward**

While the situation with Huarong continues to play out, current events highlight the risk of relying on too much implicit support. When that support is not forthcoming or has some delay, it drives higher volatility for the affected issuers and investors, particularly when the gap in fundamentals between the promisor and the promisee is wide. This results in a credit cliff scenario. OCBC Credit Research only considers implicit government or parental support in our analysis on a very limited basis and only when this has been demonstratable through past supportive actions. This is because the concept can be unpredictable as we have explained above. We feel it is of more benefit to analyse an issuer on a stand-alone basis and understand its own fundamental capacity to repay its obligations.

[1] QuickTake: What 'Keepwell' Means in Case of China Bond Defaults, Bloomberg News, 15 May 2020 (Updated 15 April 2021)
[2] Keepwell and carry on: enforcement of Keepwell deeds put to the test in China, 23 February 2021

OCBC Bank

## *Why Bond Covenants Matter*

*It is not just about the ability to repay. Genuine promises matter too.*

**Same same but different:** Investors of China Huarong Asset Management Co Ltd ("Huarong")'s offshore bonds were shaken in early April this year. Bond prices fell by nearly half due to the delay of the publication of Huarong's annual report and suspension in trading of its equity on 1st Apr 2021. Meanwhile in onshore China, there was no similar panic; Huarong's onshore bond prices held up relatively well. The large difference in outcome between Huarong's offshore and onshore bonds was due to the difference in structure. Although onshore bonds are directly guaranteed by Huarong, the same cannot be said for Huarong's offshore bonds, for which Huarong is merely a keepwell provider (similar to a gentlemen's agreement) but not a guarantor. In other words, offshore bondholders may not have a direct claim on Huarong's assets should the company go into restructuring.

**Pay attention to the fine-print**

The riskiness of the bond is not only dependent on the credit quality of the issuer, but also covenants that come attached with the bond. The above incident on Huarong is an example that a company's ability to repay is only one side of the equation; enforceability of claims or payment is another issue. That said, the promise to repay is merely one factor to consider. Other fine prints to watch out for include covenants to prioritise payments to bondholders over shareholders, limit indebtedness, prevent to disposal or stripping of important assets from the company and compensate shareholders upon change of control. In the following, we will discuss several (non-exhaustive) covenants which bondholders should pay attention to.

**Promise to remain as a Temasek-linked company**

Investors tend to accord a "Temasek premium" for Temasek-linked companies ("TLCs"), which are companies owned in whole or in part by Temasek Holdings Pte Ltd ("Temasek"), and as such we think it is important to assess if the company will continue to be Temasek-linked. Bonds issued by TLCs tend to trade at lower yields as investors deem such companies to be safer. This is not entirely irrational as we observe better access to financing for TLCs. In addition, Temasek at times have injected capital into TLCs during times of need (e.g. Singapore Airlines Ltd, Olam International Ltd, Sembcorp Industries Ltd) which helped to stabilise their credit profiles. TLCs are prolific issuers in the SGD bond market. Other examples of TLCs include CapitaLand Ltd, DBS Group Holdings Ltd, Singapore Telecommunications Ltd, Mapletree Investments Pte Ltd, Keppel Corp Ltd, as well as their respective REITs and associated companies (more in Credit Outlook 2021, pg xxii - xxiii).

If there is uncertainty in Temasek remaining as a shareholder of the company, investors should assess if there is adequate compensation should Temasek divest its stake. As an example, Neptune Orient Lines ("NOL") saw prices of its NOLSP 4.65% '20s bond fall by ~30% in 2016 when news broke that Temasek was divesting its 67%-stake. This is not surprising as NOL lost its halo as an infallible company; without Temasek's perceived support, investors were worried about NOL as a loss-making indebted company subject to the market cycles and steep competition of the shipping industry. Another NOL bond NOLSP 4.4% '19s which featured a 150bps step-up (which increases coupon from 4.4% to 5.9%) upon a change of controlling shareholder saw prices fall by a smaller ~20%. Clearly, the 150bps step-up was insufficient as compensation, though some compensation is better than none.

In another example, GLP's USD bonds maturing in 2025 fell ~10% in late 2016 when news broke out about its potential sale. GLP was previously ~37% owned by GIC Pte Ltd, which is viewed as a comparatively strong shareholder like Temasek. In general, the weaker the standalone fundamentals of the company, the more significant is the uplift from having Temasek or another strong company as its major shareholder. Investors should consider the risk and mitigations should such a controlling shareholder divest its stake.

**Promise not to strip important businesses or assets from the company**

Assuming no new financing or refinancing, repayment is usually supported through cashflows from operating businesses or divestment of assets. When businesses or assets are stripped from the company, the ability to repay bondholders is generally weakened. In a recent example, CapitaLand Ltd ("CAPL") announced a restructuring which includes spinning out ~48% of CapitaLand Investment Management Ltd ("CLIM"). While shareholders of CAPL cheered with the share price opening higher on the announcement, CAPL bonds and perpetuals traded down. To CAPL bondholders, they gain nothing in return from the restructuring exercise while 48% of CLIM (amongst other

assets) will be lost to the CAPL group. CLIM is important to CAPL bondholders as it generates recurring income for the group and holds the majority of CAPL's assets. Without covenants not to strip away important businesses or assets, we find little recourse for CAPL bondholders. We are currently reviewing CAPL's Neutral (3) Issuer Profile Rating for a downgrade given the expected weakening in the company's credit profile once the restructuring exercise completes.

Stripping away important assets is not uncommon for shareholders wishing to pursue value-maximisation. In another example, CWT Pte Ltd ("CWT") announced plans to sell and leaseback 5 warehouses worth SGD730mn, of which the bulk of the sale proceeds were used to repay debt by a holding company which HNA Group Co Ltd ("HNA") controls. This weakened the financial position of CWT as rental expense had to be paid on its previously owned assets while asset coverage fell. Although CWT had covenanted not to dispose material subsidiaries (as per bond covenants), the detailed definition to understand what constitutes as a material subsidiary is non-public. As such, we were unable to conclusively opine if there was a breach. We note that bondholders did not eventually act against the disposal. By Aug 2018, the price of CWT bonds had fallen by more than 20% from their peak.

Singapore Press Holdings Ltd ("SPH") provides another case-in-point. SPH announced a restructuring to transfer its media business and certain assets worth SGD351.3mn to a not-for-profit entity, which saw its bonds and perpetuals subsequently trading lower on the announcement. While SPH initiated the disposal of its media segment due to the weak performance, bondholders also considered the loss of a strategically important asset and the disposal of other assets. SPH did not seek consent from bondholders to approve of the transaction, despite the media segment accounting for 46.6% of SPH's 1HFY2021 total revenue. Although SPH had a covenant in relation to disposal of principal subsidiaries, this was defined in relation to net assets and profits; the segments proposed to be disposed do not exceed 5% of net assets or net profit, partly as a result of steep declines in the profitability of the media segment. In general, bondholders should study not only the presence of a covenant not to strip away important businesses and assets, but also study the fine-print to assess if the covenant excludes key details.

Although covenants can confer some degree of protection, it is difficult to be spelled out in a manner to cover bondholders from all angles. To illustrate an example, Fraser and Neave Ltd ("F&N") in 2013 announced a spinoff of its property arm Frasers Centrepoint Ltd ("FCL", now renamed as Frasers Property Ltd). FCL accounted for 71% and 72% of F&N's total assets and profit before interest and tax respectively. As bondholders were promised (through a non-disposal covenant) that principal subsidiaries will not be spinoff, F&N sought bondholder's consent to tender the bonds. However, for two bond tranches (SGD108.25mn FNNSP 5.5% '16s, SGD200mn FNNSP 6% '19s), the tender price (price = ~103) was below the market price (~107 for the '16s, ~109 for the '19s). This was viewed as unfair by bondholders given the potential mark-to-market loss. Nevertheless, not consenting looked risky as F&N contemplated triggering a strategic default otherwise. In such a scenario, F&N could pay back bondholders at par (price = 100), which was lower than the tender price. That said, bondholders from the two tranches appeared unfazed and played back the game of chicken by rejecting the bond tender. Eventually, F&N relented by raising the tender prices and averted the technical default. As can be seen, although the covenant not to strip away assets does not provide complete protection to the bondholder, it was useful to compel F&N to negotiate an acceptable outcome with the bondholders; without the covenant, F&N could simply have spun-off FCL without consulting with or providing bondholders with any compensation.

**Promise not to overleverage**

Companies with pristine credit quality may not necessarily remain so, especially given the temptations to borrow in the low interest rate environment. Within our coverage, we had lowered City Developments Ltd's ("CDL") Issuer Profile Rating by twice, once in 2019 and once in 2020, from Positive (2) to Neutral (4), in part because net gearing surged from 0.12x (as of early 2018) to 93% as of end 2020 after a series of acquisitions (e.g. privatisation of Millennium & Copthorne, Sincere Property, landbank in Singapore, investment properties globally). Due to the high debt ratio and significant exposure to the loss-making hospitality segment, it is debatable if investors should continue seeing CDL as a company with strong credit quality.

We also saw Singapore Airlines Ltd ("SIA") turning from a net cash company (from 2005 to 2017) to a company carrying significant net debt (in the latter part of the last decade) due to a planned SGD30.1bn capex for fleet renewal. This turned out untimely due to the onset of the pandemic as SIA is forced to idle most of its fleet. Fortunately for SIA bondholders, the shareholders (especially Temasek) have been highly supportive by injecting significant amounts of fresh capital (worth up to SGD15bn). Not all shareholders have been equally generous; the pandemic has delivered the final blow for over 40 airlines globally.

Note that bonds of both CDL and SIA, like many other companies which are or were once pristine, do not contain covenants to limit the amount of borrowings. In other words, these companies may increase the gearing and debt levels regardless of the support of bondholders. If it is impractical to avoid the high-grade or once high-grade companies, investors may monitor company developments or corporate actions (e.g. acquisition, capex, changes to working capital) requiring significant capital commitment.

**Promise not to prioritise payments to equity holders over debt holders**

When a company defaults on its bonds, bondholders have priority claims over equity holders on the residual value of the company. However, we find that the priority of payment is not always preserved prior to default. As an example, before Hyflux Ltd ("Hyflux")'s suspension of trading and court supervised process for reorganisation in May 2018, Hyflux made a dividend in specie to ordinary shareholders in HyfluxShop Holdings Pte Ltd ("HyfluxShop") worth SGD14mn in Feb 2018. We note that Hyflux had provided another SGD20mn in capital to HyfluxShop via preference shares ("HyfluxShop preference shares"). In total, SGD34mn of value was carved out of Hyflux via HyfluxShop. We also note that Hyflux continued to pay distributions to ordinary shareholders and holders of preference shares and perpetual ("perpholders") that exceeded the profits made. In 2018, SGD12.0mn were paid to preference shareholders despite already recording SGD24.0mn losses by 1Q2018. In 2017, Hyflux made a distribution of SGD64.5mn (SGD2.0mn to ordinary shareholders, SGD24.0mn to preference shareholders, SGD38.6mn to perpholders) despite recording a net loss of SGD115.6mn. In 2016, SGD74.3mn was distributed (SGD9.4mn to ordinary shareholders, SGD24.1mn to preference shareholders, SGD40.8mn to perpholders) despite a mere SGD10.5mn in profit. While stoppages of these distributions may not necessarily have prevented Hyflux from tipping into default (given multiple issues faced by the firm), the total amounts distributed (SGD46.0mn in 2018, SGD64.5mn in 2017, SGD74.3mn in 2016) are significant relative to restructuring proposals received from potential investors (SGD200mn-SGD500mn); if such distributions had been retained, eventual recoveries could be higher. In the latest news, judicial managers have filed an application to wind up Hyflux.

Rickmers Maritime ("Rickmers") provides another example. When Rickmers issued a SGD100mn SGD bond in May 2014, 11 out of 16 of the vessels chartered out on fixed-rate by Rickmers were set to expire in 2014-2016. As the market for charters remained in the doldrums in the period, fixed-rate charters that expired were renewed at rates that were ~70%-80% below previous levels and fleet utilisation fell to ~85% (from 99.9% in 2014). Revenue from chartering fell significantly and Rickmers tipped into net losses. An initial proposal for a debt exchange was floated in Sep 2016, barely over 2 years from the issuance of the bond. While the debt exchange offer was subsequently improved from the initial version, the terms for debt exchange remained unpalatable to bondholders, who were asked to reduce the face value of the bond by 60% (from SGD100mn to SGD40mn) and lengthen the debt maturity by 6.5 years (with the remaining debt converted to equity). Eventually, Rickmers was wound up and bondholders received a recovery of only 12.1%. Through 2Q2014 to 2Q2015, Rickmers distributed USD25.5mn (~SGD34.5mn) in distributions to shareholders before announcing a suspension in dividend in Nov 2015. Had the dividends been suspended earlier from 2Q2014 (upon the bond issuance), Rickmers could have been in a stronger position to negotiate with creditors with an extra SGD34.5mn cash in its balance sheet. Even if the outcome remains the same that Rickmers had to be wound up, we estimate that recoveries could be increased to ~20% (from 12.1%) if the cash savings from suspension of dividends (~SGD34.5mn) were distributed equally amongst the unsecured creditors.

For REIT perpholders, the covenants are the loosest amongst corporate bonds; there is no need to make good on any missed distributions, which allows REITs to effectively subjugate perpetuals to unitholders. For example, it is theoretically possible for a REIT to miss payments to perpholders for the next 10 years to save on interest expense (in doing so, dividends also cannot be paid to unitholders for the same period) though thereafter the REIT can choose to make a single payment to perpholders (worth half a year of distribution) in order to resume payments to unitholders (which in this case, the REIT can pay out 10 years' worth of retained dividend in one go). That said, in normal times, we are not overly worried as unitholders expect regular dividend payouts from REITs. Never say never though as perpholders of Lippo Malls Indonesia Retail Trust ("LMRT") experienced a close shave. LMRT contemplated withholding distributions in June 2020 due to the closure of its malls following the outbreak of the pandemic and subsequently missed the Dec 2020 distributions. Fortunately for the perpholders, this was made good through an optional distribution in Feb 2021 after LMRT completed a rights issue. Thus far, LMRT appear to be the exception to the norm. While REITs have the choice to defer and miss distributions, the vast majority have not elected to do so. Perhaps, the risk of distribution deferral is mitigated by the reliance on perpetuals as part of the capital structure; if a REIT were to miss a distribution, it would be difficult for the REIT to return to the market to

raise a new perpetual. Thus far, most REITs have erred on the side of caution in the face of uncertainty arising from the pandemic by retaining cash and reducing distribution payout ratios to unitholders last year.

**Promises are a shield, not a sword**

Covenants can provide protection against actions by shareholders which injure bondholders (e.g. limit the amount of debt taken, prevent assets from being stripped away) and can also ensure that bondholders are paid before shareholders (e.g. restricting dividend payments if the company is not profitable). Other covenants to consider (non-exhaustive) include not to pledge assets or cashflows to other creditors, compensation when the controlling shareholder changes or when the company delists and not to materially change the line of business. We see covenants as shields that helps to lower the risk in owning the bond.

However, shields are seldom crafted to offer complete protection. Even the most well-meaning covenants allow for certain exceptions such that it does not disrupt the ordinary course of business. For example, developers are allowed to sell properties; it would be impossible to conduct business if the non-disposal covenant restricts developers from selling properties. The example illustrated by F&N also shows that covenants do not directly prevent a determined controlling shareholder from attempting to extract value from the company at the expense of bondholders, though having a shield is better than none.

Aside from protection coverage, there are limitations in the type of protection that covenants confer. Unlike shareholders, bondholders do not have voting rights; bondholders should not expect to significantly influence the direction of the company. Covenants are also not meant to provide effective shelter against bad investments or industry headwinds. For example, a number of offshore & marine companies in 2016-18 (e.g. Swiber Holdings Ltd, Nam Cheong Ltd, Ezra Holdings Ltd, Pacific Radiance Ltd, Ezion Holdings Ltd) reached out to bondholders seeking their consent to waive covenants (e.g. on financial ratios such as limit on leverage and interest coverage) to avoid a technical default. Bondholders were presented with little choice but to agree. Otherwise, recoveries looked uncertain if the companies in stress were to tip into default. Given the significant industry headwinds, with or without well-crafted covenants, most companies in the offshore & marine sector eventually defaulted. In another example, as of writing, onshore Huarong bonds which are structured with better protection than its offshore bonds are beginning to be sold off. This is mainly due to the uncertainty over Huarong's credit profile, the risk which covenants does not help to mitigate.

In conclusion, covenants are essential to safeguard the interest of bondholders. In addition to studying the credit fundamentals of the company, investors should study the adequacy of protection provided by covenants. Fortunately for investors thus far, most companies which offered limited covenants have not defaulted on the bond principal and interest. However, there have been numerous examples as illustrated in this article where a weakening in credit fundamentals of the company increases the importance of the covenants made. While there is the temptation to overlook covenants in a hunt for yield, do not count on the odds to be ever in your favour.

## *Digital Assets and Bonds on Distributed Ledger Technologies ("DLT")*

In the past six months, the terms cryptocurrencies, ledger, and non-fungible tokens ("NFTs") entered mainstream lexicon, with investors interested in finding out more about digital assets. In 1H2021, Bitcoin, the most popular cryptocurrency (and soon-to-be legal tender in El Salvador, a country which does not have its own fiat currency) saw its market capitalisation exceed USD1trillion at one point, while Coinbase Global Inc., a large US cryptocurrency exchange debuted as a listed company on the NASDAQ in April 2021 (market cap as at 14 June 2021 of USD46.7bn). Our macroeconomist colleague has published a special report on the "ABCs of Cryptocurrencies" which serves as a useful glossary. This piece attempts to give a bird's eye view of digital assets, discuss tokenisation, fractionalisation and the nascent space of digital bonds.

**What are digital assets?:** Commonly, digital assets refer to any type of data that is created and stored digitally where the owner is conferred a right to those assets. These include word documents, spreadsheets, picture files, video files, music files etc. Quite often, these assets or a copy of them are tradable too, for example, a copy of a music file downloaded from Apple iTunes and paid for over the internet. The term digital assets now also encompass (1) Cryptocurrencies, seen as alternatives to gold as store of value and alternatives to fiat currencies as a means of payments (2) Tokens, which are a digital representation of an underlying asset and (3) Central bank digital currencies ("CBDC"), which are digitally programmable forms of a fiat currency such as the digital yuan. With economic activity carried out digitally and consumers increasingly accustomed to buying digital products and services (e.g.: Netflix,

online newspapers, in-game purchases for online games), we expect increased acceptance of digital assets overtime. Our macroeconomist colleagues discussed CBDCs further in the "OCBC 2H2021 Global Outlook".

**Blockchain is a type of DLT:** Proper record keeping has been vital for as long as human civilisation have performed economic transactions. Much of this record keeping is still being organised as a centralised function (eg: bank data only accessible to the central bank but not by other companies). A DLT as the name suggest, is a decentralised ledger (or method of record keeping) where the data is shared, replicated, and synchronized among members of a decentralized network, eliminating the need for an intermediary. Members who participate collectively adhere to protocols and govern the network. The Bitcoin-blockchain is a type of DLT, where in this case the blockchain is a permission-less public ledger, anyone is able to participate and visible to all within the network. No centralised party owns the Bitcoin-blockchain. As a sidenote, while we discuss the digital asset Bitcoin (and the Bitcoin-blockchain) here, the term "blockchain" itself is now widely used to refer to a range of DLT, some of which have little similarity to the Bitcoin-blockchain.

**The Bitcoin digital asset is a by-product of the Bitcoin-blockchain technology:** A key part of robust databases is verification of transactions to make sure records are kept properly. Unlike the Bitcoin-blockchain, the owner of a traditional database is typically incentivized to maintain the database for its own economic benefits (e.g.: an online grocery store who owns the database containing customer preferences to improve sales). The inventor (or inventors, whose identity remains unknown) designed the Bitcoin-blockchain technology with an in-built incentive mechanism that would work for something that is not owned by any specific party. Participants in the network receive Bitcoins as rewards for their efforts when their computers successfully verify transactions and thus help to maintain the Bitcoin-blockchain. Early major companies that accepted Bitcoin as payment include Xbox (owned by Microsoft), Expedia and Overstock. Arguably if Bitcoins are not accepted as assets, but rather something that is worthless, there is little incentive for participants to perform the associated work of maintaining the Bitcoin-blockchain. There is currently no wide usage of the Bitcoin-blockchain beyond obtaining Bitcoins, which is the main purpose of participating in the Bitcoin-blockchain (ie: cryptocurrency mining).

**Blockchain in financial services:** Since 2016, a number of banks globally announced that they were trialing blockchain technology. However, more likely than not, these are private, permissioned blockchains (or a hybrid between public and private), in stark contrast to the public and permission-less "anyone can join" nature of the Bitcoin-blockchain. Per a speech by Mr Ravi Menon, Managing Director of the Monetary Authority of Singapore ("MAS"), in a private, permissioned blockchain, participants in the network are known, governed by agreements enforceable outside of the blockchain, are more scalable and more efficient. In our view, this means that the concept of access control in a private, permissioned blockchain is more similar to a traditional database, though with the added advantages gained from decentralisation in an efficient manner. One drawback of a centralised traditional database is a single point of failure (eg: corruption of data where data becomes unusable). This risk is reduced in a blockchain given its distributed nature. Separately, programmable code can be added where agreements are automatically executed and stored on a blockchain when certain conditions are met, known as "smart contracts".

**Singapore as a conducive environment to test out use cases:** While blockchains and smart contracts are not yet commonly used in the mainstream financial industry, these have the potential to be applied for practical use. Between 2016 to 2020, the MAS partnered with financial institutions on a multi-phase project codenamed Project Ubin that explores the usage of blockchain technology in particular for the clearing and settlement of securities. Project Ubin has successfully trialed (1) Tokenisation of the SGD (2) Real time gross settlement (3) Delivery versus Payment settlement of tokenised assets (4) Cross-border payments and settlements and (5) Blockchain-based multicurrency payments network prototypes. The country has more than 490 fintechs per CIO magazine and is a magnet of venture capital funds looking to invest in this sector.

**Tokenisation opens up an efficient way to trade assets globally:** Transfer of money electronically is already commonplace and electronic trading is widely used in certain financial asset classes such as equities, foreign exchanges and government bonds. Some trading activity in corporate bonds now take place over electronic trading platforms. That being said, at the extreme end, buying/selling of illiquid assets is still largely effected through signed pieces of paper with lawyers involved and occurs infrequently. These include artwork, private debt or shares in an unlisted company. In a piece written for the Chartered Alternative Investment Analyst Association ("CAIA"), Mr Jeroen van Oerle, an equity portfolio manager focusing on fintech, explains tokenization as a process of converting partial or full ownership rights to an asset into a digital representation in the form of a token that is stored and administered on a blockchain. He goes on to add that the tokenisation process via blockchain is more efficient than

the current trading methods and adds a global dimension to asset tradability. Given the global nature of technology, this means anyone from anywhere that has access control of the blockchain can freely trade digital tokens.

**……and also allows efficient fractionalisation:** While the term fractionalisation is often linked to tokenisation and blockchain, fractionalisation as a concept is not new. In the context of financial markets, fractionalisation is the hiving/parceling out of an asset to multiple parties where each parcel can be individually owned, bought or sold. Simplistically, fractionalisation leads to fragmented ownership. For example, an equity holder in a publicly traded company holding a fraction of company ownership, a unitholder in a real estate investment trust ("REIT") holding a beneficial interest in the trust, where the trust in turns owns underlying commercial assets and securitisation where mortgages are pooled together with securities backed by these mortgages sold in piecemeal. In our view, smart contracts and tokenisation on a blockchain significantly augments the ability to fractionalise, creating the possibility of smaller fractions than what markets are currently used to. What was once historically prohibitively expensive and difficult to fractionalise may be reduced to a level where it is no longer so. Additionally, it is technologically possible to tokenise assets that were not commonly fractionalised (e.g.: infrastructure assets, private equity, master artworks) and hence tradable in smaller fractions.

**Technology though does not solve the downsides with fragmentation:** Blockchain and tokenisation may magnify the problems associated with fragmented ownership as more owners are involved in an asset. Currently, it is logistically difficult to communicate with disparate asset owners, with collective decision-making cumbersome and time-consuming. In investments, the lack of swift action can impede an asset's marketability and value. An example are strata-titled shopping malls without a professional asset manager to make judgements on the best investment decision on the asset. In our view though, this is more an asset management question (interlinked with legal rights and obligations). In terms of technology, underlying terms and conditions can be programmed on smart contracts, with changes updated in real-time, visible to all participants on the blockchain. As it stands though, smart contracts only allow for binary rules (pass/fail) which means no scope for discretion or judgement calls. Hypothetically, if the terms or conditions can be programmed in binary form, the downsides to fragmented ownership can be partly overcome.

**……and legal and regulatory regimes are still a work-in-progress:** Legal and regulatory issues arising from different sets of securities regulations across jurisdictions and uncertainties over areas such as ownership, voting rights, liabilities and taxation remains as a key issue in the development of digital assets. The MAS has clarified that Singapore's securities rules will apply to digital tokens with features of securities, including those that "constitute or evidence" the indebtedness of the token's issuer (which in our view covers digital bonds). However, as raised by the Singapore Academy of Law, the current regulatory regime in Singapore assumes rather than ensures the legal status of any purely digital asset to which the rules apply. Per the SGX's Fixed Income Digital Assets white paper, the SGX continues to work with its legal and regulatory partners on an appropriate framework for asset digitalistion. In contrast, the contractual rights on conventional bonds such as those represented by the Global Bond Certificate in bearer form is agreed by the broad market as an asset and tradable with current settlement processes well established.

**Other issues also need to be contended with:** As it stands, digital assets tend to be transacted via cryptocurrency, where among the issues are a high price volatility in cryptocurrency, affecting the exchange rate between cryptocurrency and fiat. User interfaces to switch between fiat and cryptocurrency is not seamless and may be legally restricted in some countries. In Singapore, this may not be an overly significant issue given the high prevalence of electronic money transfers, we note that regulated digital exchanges make this process simpler.

**Tokenisation and fractionalisation are game changers for portfolio construction:** With tokenisation in mind, a digital bond then is a digital representation of a bond. In a corporate bond, an investor lends money to a corporate entity in return for interest payments over a period of time, with a view that the principal will be paid back some time in the future. Many corporate bond markets lack an active retail bond market, Singapore is no exception. As of writing, there are nine retail bond issues, of which three were issued by issuers which had defaulted. Minimum ticket sizes are SGD250,000 in the rest of the SGD corporate bond market. In comparison, the equity market has been further fractionalised to 100 shares per lot since January 2015. Along with the rise of Singapore as a wealth hub, the SGD corporate bond market is no longer just the purview of institutional investors where large trading blocks are second nature. However, while high-net-worth individual investors now actively participate in the bond market, the SGD250,000 ticket size prohibits many from being able to construct an optimal portfolio based on risk-return considerations. In practice, individual investors (1) Seeking a well-diversified investment portfolio of bonds are constrained to investing via mutual funds/unit trusts (2) Restrict their investments of higher risk bonds, even

though these have the potential for higher returns and/or (3) Use leverage on higher grade bonds to generate the returns they actually want. While there are various reasons (including the lack of intent and co-ordination) of why fractionalisation did not occur earlier in the bond market, some of these reasons can now be overcome through technology.

**Digital bonds open up possibilities beyond process efficiencies:** The World Bank completed the issuance of the world's first bond to be created, allocated, transferred and managed using DLT, arranged by the Commonwealth Bank of Australia ("CBA") in August 2018. Since then, a number of SGD bond issuers have completed pilot trials of digital bonds. While the pilot trials in Singapore focused on streamlining the pre-trade and post-trade processes, in our view digital bonds open up the possibility for issuers to tap new pools of funding, especially if (1) Regulations allow non-accredited investors to participate and (2) These are fractionalised. Given the backdrop that the structural bull run in bonds of the past decade is nearing its end ended, issuers no longer can take it for granted that the supply of money is as available as before. Bank debt funding is available although bond market funding will continue to serve as an integral funding option, with terms and conditions that are generally less restrictive. Smaller and/or riskier companies who were previously maligned, may also find investors more receptive to a fractionalised digital bond, as the risk of a loss is more manageable.

**Table 2: Selected Digital Bond Developments in Singapore**

| Issuer | Date | Parties Involved | Amount Raised | Brief Description |
|---|---|---|---|---|
| UOB | 15 June 2021 | Marketnode (a joint venture between the SGX and Temasek) | n.m | • Pilot project with a digital bond run in parallel with a conventional issuance process.<br>• NC7 bank perpetual AT1 issuance, priced at 2.55%, reset to SORA which raised SGD600mn. |
| DBS Bank | 31 May 2021 | DBS Digital Exchange ("DDE", 10% owned by SGX) | SGD15mn | • New money raised from the market<br>• Standalone digital bond tranche.<br>• Six months maturity paper priced at 0.6% annualised.<br>• Fractionalised at SGD10,000 minimum size.<br>• Allows secondary trading among investors that have access to DDE. |
| CIMB-CGS | 3 May 2021 | ADDX (formerly known as iSTOX, partly owned by SGX, Heliconia Capital and JIC Venture Growth Investments, Development Bank of Japan) | SGD10mn | • Tokenisation of commercial paper ("CP").<br>• Three-month maturity at 1% on an annualised basis.<br>• First tranche of SGD10mn was issued as part of a SGD150mn programme which will be carried out digitally. |
| Singapore Telecommunications Limited ("Singtel") | 7 April 2021 | Marketnode | n.m | • Pilot project with a digital bond run in parallel with a conventional issuance process.<br>• NC10 corporate perpetual issuance, priced at 3.3%, reset to SOR which raised SGD1bn. |
| Astrea VI | 22 March 2021 | ADDX | | • Tokenisation of the USD-denominated tranches of asset backed securities backed by cash flow from private equity funds.<br>• The Sponsor, Astrea VI is indirectly wholly-owned by Azealea Asset Management.<br>• Fractionalised at SGD20,000 for accredited investors |
| Olam International ("Olam") | 1 September 2020 | HSBC<br>SGX<br>Temasek | n.m | • Pilot project with a digital bond run in parallel with a conventional issuance process.<br>• SGD400mn 5.5Y senior paper, re-tap of SGD100mn.<br>• First public corporate bond issuance on a permissioned ledger operated by the SGX.<br>• SGX utilised DAML, the smart contract language created by Digital Asset Holdings LLC. |

*Source: International Capital Market Association, The Asset, Business Times, company disclosures, OCBC Credit Research*

## *Implications of Stranded Assets*

**Stranded assets in the context of climate change:** The concept of impairments is a familiar one for many users of financial information, with the International Financial Reporting Standards ("IFRS") Foundation spelling out that *"Assets must not be carried in the financial statements at more than the highest amount to be recovered through its use or sale. If the carrying amount exceeds the recoverable amount, the asset is described as impaired".* While the concept is widely understood, impairments are driven by multiple reasons and frequently remain a key area where significant assumptions and judgement are required. Simplistically, "stranded assets" are assets that are susceptible to losing its value, especially in the context of this loss of value being unanticipated and may lead to asset owners taking impairments. In the past decade, "stranded assets" in the context of climate change was used to kick-start conversations about the financial market implications of not adapting to decarbonisation. This has been a highly debated topic and was not originally universally accepted, especially among companies owning such assets with the most to lose. For the purposes of this article, we will focus on the International Energy Agency ("IEA")'s definition of stranded assets. The IEA defines stranded assets as *"investments which have already been made, though at a point in time prior to the end of their economic life (as assumed at the investment decision point), are seen to no longer earn economic returns as a result of changes in the market and regulatory environment brought about by climate policy"*.

**Reasons why assets can become stranded:** Aside from the reasons gleaned from the IEA definition, one additional reason is the risk of assets being damaged due to physical effects of climate change. For example, farmland in climate vulnerable locations or properties at-risk of being submerged due to rising sea levels. Broad changes in market and the regulatory environment (as a result of policy and legal changes) means companies may need to contend with lower asset valuations than what is currently accounted for on their balance sheets, with knock-on implications for investors.

**Table 3: Key Risk Factors**

| Category | Definition | Examples |
|---|---|---|
| **Policy and legal** | Policies or regulations that could impact the operational and financial viability of assets | • Carbon taxes across Europe, South Korea, Japan and Singapore; being discussed in Indonesia<br>• Singapore phasing out internal combustion engine vehicles by 2040<br>• Singapore targeting for 80% of buildings (by floor area) to be green buildings by 2030 |
| **Technology** | Developments in the commercial availability and cost of alternative and low-carbon technologies | • Global shipping sector exploring ammonia as marine fuel<br>• Carbon capture storage systems<br>• Energy storage and batteries<br>• Expansion of renewable energy drives demand for certain metals and minerals (eg: cobalt, nickel, manganese, aluminium)<br>• Floating solar in Singapore |
| **Market and Economic** | Changes in market or economic conditions that would negatively impact assets | • Changes in consumer preferences towards sustainable brands and biodegradables<br>• Technology companies have become the largest corporate buyers of renewable energy in the US<br>• Multinational corporations ("MNCs") demanding green supply chains with knock on impact to companies serving these MNCs<br>• Potential for higher funding costs for the funding of certain assets and businesses as a result of technology, policy and legal risks |

*Source: "Carbon Asset Risk: Discussion Framework" by the World Resources Institute and UNEP Finance Initiative, adapted by OCBC Credit Research*

**"BAU" does not meet Paris Agreement target, more would need to happen:** The Paris Agreement's goal is for the world to limit the global temperature increase to well below 2 degrees Celsius above preindustrial level, preferably to 1.5 degree Celsius. The "business as usual" scenario implies that this target is unlikely to be reached. Climate scientists at the Breakthrough Institute and CICERO of Norway have projected a 3 degrees Celsius increase under a "business as usual" scenario, taking into account decarbonisation progress in the past decade. While governments of the world have managed to agree on the broad goals set out by the Paris Agreement (no small feat in itself), more measures need to be taken to reach the targets. The 26th UN Climate Change Conference of the Parties ("COP26") in

November 2021 would see signatories report and review progress made since 2015 and is expected to establish new initiatives.

**Projections for stranded assets depends on which climate scenario we are working towards** With the Energy sector being the largest emitter, policies including those that encourage renewable energy, new technologies and innovation, carbon pricing, carbon taxes and restricting fossil fuel subsidies will be required for further decarbonization. The stronger the policy intent to reach a 1.5-degree Celsius increase, the more changes are required for the transition. Any of these policies (or combination) can impact fossil fuel prices and the quantum of stranded assets. As an illustration, fossil fuel prices are subsidised in many Southeast Asian countries to the tune of USD35bn in 2018 per the IEA, whilst simultaneously greenhouse gas emissions (the externality) typically went unpriced. A change in either a pullback in subsidies and/or slapping a carbon tax is likely to spur demand for low carbon solutions. In May 2021, the IEA published a report which boldly claimed that the world is able to reach net zero by 2050, setting out a roadmap on how to achieve this. The IEA's net zero path requires significantly higher investments in renewable energy with large declines in the use of fossil fuels and where there are no new oil and gas fields approved for development (beyond the projects already committed for 2021). Under this scenario, production of the remaining oil and gas would be concentrated to a small number of low-cost producers mainly in the OPEC.

**Industries at risk of having more stranded assets:** The main emitter of greenhouse gasses is the energy sector, mainly due to the production of electricity and heat, transportation and for manufacturing and construction. The coal sector has been the obvious target, with a number of countries in Europe already coal-free, while Singapore banks announced their exit from new coal plant lending since 1H2019, followed by other banks and insurers. A resource or infrastructure asset that is not financeable or insurable often means that the potential pool of buyers is highly limited, thus affecting actual marketability of these assets. With the fall in oil price in 2020, the oil and gas sector faced a reckoning, with oil majors taking tens of billions of dollars of impairments on their asset values (though starting from a high base). In February 2020, the Financial Times estimated the stranded asset value of oil and gas companies at USD900bn (~SGD1.2 trillion) under the more aggressive 1.5-degree Celsius scenario. Other industries that are linked to fossil fuels, albeit less directly, which are also at-risk include transportation (airlines and shipping through their fleet), infrastructure (pipelines, electricity grids and storage tanks) and equipment companies to the resources sector (mining excavators, offshore drilling). Within Singapore, Sembcorp Industries Ltd and Keppel Corporation Ltd, formidable rig builders and power generation asset owners and operators, have announced transformation plans and are diversifying away from businesses which indirectly relies on high oil prices.

**Much also depend on jurisdictions:** Whilst major commodities like oil are driven by global prices, stranded assets in other cases are dependent on specific policies that differs by jurisdiction. In our view, intent of policy makers and timing of the transition affects the magnitude of stranded assets. All things equal, a stronger intent to transition with shorter decarbonization timelines increases the magnitude of assets that may become stranded. Policy consistency over a long period of time partly explains why Europe-based companies have leapfrogged others in the transition. In our view, an accelerated shift (such as what is happening in the US) is likelier to lead assets to be stranded as this was outside investment base cases at time of initial investment. As an example, President Joe Biden cancelled the licenses required on the Keystone XL Pipeline ("KXL") on the back of environmental concerns immediately after he took office. KXL was aimed at connecting oil sands in Alberta in Canada to Nebraska in the US and was supported by both the Alberta state and Canadian Federal government. While financiers avoided sinking in the full funding required, the company involved recognized an impairment of CAD2.2bn (~SGD2.2bn) in 1Q2021 due to the suspension of KXL and the reassessment of related projects. On the back of economic reliance on petrochemical industries, fossil fuels for electricity and as a major marine and airline hub, stranded assets are similarly relevant in the context of Singapore.

**How does stranded assets affect corporate credit analysis?** Asset valuation underpins much of corporate creditworthiness. We would see debt being supported by a thinner equity buffer when asset values shrink. Even where management and auditors deem that the threshold has not been met for accounting impairments, we would not be surprised if financial markets react earlier with regards to the threat of stranded assets. Whilst book values of assets provide a useful reference point for credit analysis, in our view, what matters more for immediate fundraising is the market value of equity. Should asset monetisation become a problem, this means that we can no longer assume that an asset can be sold (or collateralised) to generate liquidity, with value based purely on value in use. From a cash flow perspective, the inability of an asset to generate as much income as expected at time of initial investment means companies' ability to generate returns on such investments may be thrown into question. While Singapore companies under our coverage have not publicly discussed risks of stranded assets that are currently on their balance sheet in 2020 through 1H2021, we note that impairments have been taken at a number of Singapore companies which in our view is interlinked with stranded asset risk.

**Financial institutions to monitor risks:** Financial Institutions are not directly high emitters although they lend and facilitate investments to sectors at-risk of having stranded assets. In December 2020, the Monetary Authority of Singapore issued Guidelines on Environmental Risk Management customised to the banking, insurance and asset management sectors. In our view, corporate debt borrowers who are unable or unwilling to transition despite policy, market structure and technological changes are likeliest to be at-risk, as these companies have less time in adapting their business models. This risk looms larger for project financing-based lending given that these tend to be backed by one project with limited recourse. The long-term nature of projects (e.g.: combined cycle power plants and thermal plants have a 25- and 30-years useful life respectively) also means that the investment holding period would likely overlap with periods of changes, even if the regulatory environment was benign at time of initial investment. While divestment has been commonly discussed as a way for financial institutions to mitigate the risk of stranded assets, in our view, this only works if one is earlier than others in divestment plans. In practice, should a large number of sellers try to dispose assets simultaneously and find a limited pool of buyers, asset values tend to face a steep fall.

**Standardisation of disclosures likely to assist credit risk assessment:** Arguably, decreasing exposure to sectors hit by climate change risk (e.g.: coal) and asking questions about other at-risk sectors is no longer just an ESG responsibility, but rather a smart business decision. We expect the disclosure of such risks to be more transparent and measurable going forward. On 9 June 2021, the MAS announced that the MAS and SGX will set out roadmaps for mandatory, legally binding climate-related financial disclosures by financial institutions and listed entities. Details are expected to be rolled out post a public consultation process in 2021. As it stands, SGX listed companies already have to publish sustainability reports on a "comply or explain" basis although based on our observations, information that is disclosed varies between companies. It is envisaged that disclosures would be aligned with recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD"), which is gaining broad acceptance internationally by both information generators and users such as asset managers.

## *The Path to a Greener Singapore*

**A brief re-cap:** In 2019, Global Treasury Research & Strategy introduced a primer on ESG investments, giving readers an understanding of ESG concepts as well as ESG efforts in the Asian market. This was followed by a thought piece regarding the material benefits and costs of factoring in ESG analysis, while looking at top-down initiatives to push the need for green. Following the COVID-19 pandemic that has dominated headlines since 2020, it only seemed fair to question the long-term effects the pandemic has had on ESG and how corporates will look to align their ESG goals with shareholder value. After parsing through a macro-thematic view, the Credit Research team looked at ESG concerns from a debtholder's perspective, and added some thoughts with key ESG influences for covered companies in the annual Credit Outlook for 2021. This was dovetailed with an in-depth piece remarking on how Singapore may prepare for a low carbon future, with emphasis on urban solutions and sustainability.

**A state-level emphasis on ESG:** While there is still work to be done for Singapore to qualify as a heavyweight in the ESG field, the government has been introducing various initiatives to encourage Singapore-based corporates to improve their sustainability frameworks. The Singapore Stock Exchange ("SGX") introduced sustainability reporting on a "comply or explain" basis since 2016. While this came later than the Stock Exchange of Thailand who has a well-established track record in corporate governance rankings and sustainability reporting, Malaysia rolled out its sustainability reporting requirement around the same time as Singapore. All three are ahead of the Hong Kong Stock Exchange in their rollout. The most notable wide-ranging initiative so far has been the Singapore Green Plan 2030. Unveiled in February 2021, the plan is spearheaded by multi-ministries and looks to map Singapore's green targets over the next ten years. Some highlights of the plan include developing Jurong Island to be a sustainable energy and chemicals park, requiring all newly registered cars to be of cleaner-energy models from 2030 onwards, and more than doubling the network of electric vehicle charging points to 60,000 by 2030. The emphasis on green energy and infrastructure is also shown by the commitment to quadruple solar energy deployment by 2025 and to raise sustainability standards of buildings through the next edition of the Singapore Green Building Masterplan. Since 2019, Singapore has a carbon tax on large polluters. While it is currently only at SGD5 per tonne of emissions, the framework has been established where pollution is priced and will be reviewed in 2023.

**The latest updates in ESG development in Singapore:** In May 2021, a joint venture between DBS, Singapore Stock Exchange ("SGX"), Standard Chartered Bank and Temasek Holdings ("Private") Limited ("Temasek") announced plans to launch a new carbon credit platform, Climate Impact X, by the end of the year. The platform will host several nature conservancy projects that companies can invest in, as well as an exchange where offset credits can be traded.

The Monetary Authority of Singapore ("MAS") also introduced a new taskforce, the Green Finance Industry Taskforce, which will seek to provide a "principles-based" approach for financial institutions to assess green trade finance transactions, and issue guidance on recommended industry green certifications for trade finance activities. Additionally, the SGX is in the midst of creating a tool for sustainability disclosures that will allow data to be easily collected from companies and shared with end-users such as data providers and investors.

**The big picture:** The drive towards a low carbon economy affects companies at different scales and at various paces. Some are direct and obvious, for example, companies which fail to transition away from coal amidst a pullback in financing by banks and insurers while others are less direct though consequential all the same. For example, Europe is targeting to expand legislation which will bind companies to conduct environmental and human rights risks due diligence in their supply chains, thus affecting any firm that sells to companies based in Europe. Within the region, Japan-based manufacturers have raised concerns over the lack of a domestic renewable energy supply as this affects their competitive positioning with end-customers who have set clear carbon goals. For the SGD corporate bond market which has a high concentration towards property and REIT-related issuers, this means that property portfolios are increasingly turning green due to increased demand by tenants and a strong policy push. All things being equal, we view issuers who are green laggards today as likely to be credit laggards in time to come. This is especially so if existing business models are negatively impacted over the course of a shorter period of time, with less time to adapt.

**So…… where does that leave us?** There have been a multitude of ESG-related developments, both at the sovereign and corporate level year to date in 2021. Having mentioned interventions at the state level, one may ask, where do Singapore corporates stand in terms of their ESG policies and initiatives as compared to in 2020, or even 2019? This piece will first introduce relevant ESG and green bond terminology. Next, given investor interest regarding the sustainability issuance from Surbana Jurong Group ("Surbana Jurong") in February, the first for the SGD bond market, it is apt to review what made the issuance unique, as well as add some background on the company.

## Terminology

### Carbon Terminology

- **Scope 1 emissions:** Direct emissions from a company's owned or controlled sources.
- **Scope 2 emissions:** Indirect emissions from the generation of purchased energy i.e., steam, electricity, heating, and cooling.
- **Scope 3 emissions:** Includes all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

### Green Bond Terminology

- **Blue Bonds:** Proceeds from these bonds are earmarked for projects deemed ocean friendly. These bonds follow the same quality assurance steps as the International Capital Market Association ("ICMA")'s green or sustainability-linked bonds. In September 2020, the Bank of China priced the first blue bond in the Asiadollar market to fund new and existing marine related green projects with environmental impacts.
- **Green Bonds:** Proceeds from these bonds tend to fund projects eligible for green bond issuance in line with the Green Bond Principles from the ICMA. Some examples of relevant project categories include renewable energy, clean transportation, and green buildings. Green bonds have become increasingly common in the Asiadollar market. The People's Bank of China is collaborating with the European Union to adopt a common green investment standard by end-2021. As of writing, six issues with an amount outstanding of SGD1.9bn in the SGD corporate bond market are green.
- **Social Bonds:** Proceeds from social bond offerings finance or refinance projects or activities that achieve positive social outcomes. The issuance of social bonds is guided by the Social Bond Principles from the ICMA. Examples of eligible project categories include affordable housing, affordable basic infrastructure, food security and sustainable food systems. COVID-19 or pandemic bonds usually fall under this category. Thus far, social bonds are available, although rare in the Asiadollar market. In 2020, the Malaysian government launched MYR500mn of Sukuk Prihatin where proceeds will be used to finance measures announced in the

economic stimulus packages and recovery plan to address the COVID-19 crisis (e.g., medical expenditures, financing for micro enterprises and enhance connectivity for rural schools). The Sukuk Prihatin has a two-year tenor with a profit rate of 2.0% p.a and was sold in retail tranches with a minimum amount of MYR500.

- **Sustainability bonds:** Proceeds from funds raised finance or refinance a combination of green and social projects. Similar to green and social bonds, these follow the Sustainability Bond Guidelines from the ICMA. Eligible projects include those in the green and social bonds categories.

- **Sustainability-linked notes ("SLNs") and bonds ("SLBs"):** These forward-looking instruments are linked to the issuer's achievement of climate or broader United Nations Sustainable Development Goals ("SDGs"). For instance, a covenant could state a target of reducing a corporate's emissions intensity by 25% in the next ten years. SLBs predominantly have a coupon rate step-up or a premium payment if stated progress towards the relevant SDGs through Key Performance Indicators ("KPIs") or Sustainability Performance Targets ("SPTs") is not met by a certain time. The key difference with SLBs and green bonds is that proceeds from a SLB issuance does not necessarily fund green or sustainable purposes, and can instead be used for general corporate purposes etc. However, SLBs are linked to the performance of the aforementioned KPIs. SLBs follow the Sustainability-linked Bond Principles from the ICMA.

- **Transition bonds:** These bonds are traditionally issued by corporates in carbon-intensive sectors i.e., oil and gas, and provide fundraising opportunities to reduce the environmental impact of various businesses. Eligible projects include an energy company financing a solar powered power plant or an oil company seeking to invest into renewable energy. SLNs and SLBs are also tools for energy transition with the difference between these and transition bonds being that transition bonds do not contain KPIs to provide more flexibility in enabling corporates to transition.

**Case Study: Surbana Jurong's Sustainability-Linked Notes ("SLNs")**

**Company Background**

- Surbana Jurong Pte Ltd ("Surbana Jurong") is a Singapore-based urban, infrastructure and managed services consulting firm with several member companies under its umbrella. Some of these companies include AETOS Holdings Pte Ltd ("AETOS"), Atelier Ten, B+H Architects, among others. The group specializes in being a global engineering and design service provider across the entire value chain of the urbanization and infrastructure sector.

- Surbana Jurong is a Temasek Holdings ("Private") Limited ("Temasek")-backed private group, with over 120 offices in ~40 countries. The Group has a workforce of over 16,000 employees.

- Surbana started as the Building and Development Division of the Housing & Development Board (HDB) to provide solutions regarding affordable and high-quality housing for the exponentially growing population. CapitaLand Limited ("CAPL") acquired a 40% stake in Surbana in 2011, with the remaining stake held by Temasek. In 2015, Surbana Jurong was formed after a merger between Surbana and Jurong International Holdings, with a 51%/49% share split between Temasek and JTC Corporation ("JTC"). Temasek then acquired JTC's share in June 2016.

- The Group CEO is Wong Heang Fine, who joined in 2015. Wong was previously the CEO of CapitaLand Residential Singapore Limited and CapitaLand GCC Holdings, and currently sits on the boards of three of Surbana Jurong's member companies: SMEC Holdings Limited ("SMEC"), AETOS and Sino-Sun Architects & Engineers Co. Ltd.

- The board is chaired by Chaly Mah Chee Kheong, who sits on several other boards such as the Monetary Authority of Singapore and CapitaLand Limited. The board consists of 11 men and one woman.

**Key Developments**

- **A first for Southeast Asia:** On 3rd February 2021, the Group priced a SGD250mn 10-year sustainability-linked bond at 2.48%. This was the first Singapore dollar-denominated sustainability-linked bond as well as the first public sustainability-linked bond issuance from a Southeast Asian-based company. Additionally, the offering

was the first Asian-sustainability-linked bond to feature a step-up structure at maturity. At its peak, the offering was over 6x oversubscribed and drew over SGD1.7bn in orders.

- **Memorandum of Understanding with Singtel:** On 13th April 2021, Singapore Telecommunications Ltd ("Singtel") and Surbana Jurong signed a Memorandum of Understanding ("MOU") to integrate technology and infrastructure to create smart city solutions to accelerate the transformation of key industries. The two firms intend on first focusing on smart and sustainable integrated facilities management by integrating Singtel's 5G Multi-access Edge Compute and Surbana Jurong's P24K suite of facility management systems to build an industry-first 5G-powered data aggregation and management platform. This platform will look to track various operations simultaneously to help facility managers drive greater operational efficiency to achieve their sustainable goals.

**Issue Structure**

- **Sustainability performance target 1:** The offering features a sustainability performance target such as a 10% reduction in Scope 1 and 2 carbon dioxide equivalent emissions on a net basis (net of carbon offsets) expressed as total amount in tonnes of carbon dioxide equivalent per full-time employee generated by the Surbana Jurong Campus, AETOS and SMEC ANZ Business by the financial year ending 31 December 2029, calculated on a base year of 2022. These assets accounted for more than 60% of revenue contribution for the Group as of 31 December 2019 and is expected to represent over 50% of Scope 1 and Scope 2 carbon dioxide equivalent emissions for the full year ending 31 December 2022.

- **Sustainability performance target 2:** The second target expects net zero carbon emissions at the Surbana Jurong Campus for areas directly under Surbana Jurong's control, by 30 August 2030.

- **Step-up at maturity:** If the targets mentioned above are not met, Surbana Jurong will have to pay investors a step-up premium of 0.75% of the redemption amount at maturity.

- Proceeds from the issuance will be used to repay existing debt, fund potential M&A activity and fund digitalization of the Group including improving the functions of its Treasury unit.

**OCBC Credit Research Commentary**

- Mainly due to the different use of proceeds (where green bonds cater to specific green projects while SLBs can be applied to a broader range of projects), we view green bonds and SLBs to be two different instruments.
- In our view, it is more important to consider the overall intent of the issuer with regards to its ESG direction. This view is also borne out of necessity with few green projects that SGD corporate bond issuers are able to tap within Singapore.
- We note though that certain specific green funds with stricter mandates have a preference for green bonds as SLBs are seen as an easier way to greenwash (as we cover in "Transition Finance – A bigger hole to fill in the world's transformation," there are multiple initiatives in place to address this concern). As yet, it appears that the SGD corporate bond market does not confer pricing differential between the two.

## *Should Investors Buy Singapore REITs ("S-REITs") or Perpetual?*

We have previously discussed REIT equity against REIT bonds and concluded that they are not substitutes for each other and hold a separate place in a diversified investment portfolio. With the influx of REIT perpetual issuances in the past year, we now have a wider universe of REIT perpetual securities to consider.
REIT perpetuals issued in the past one year can be found in the table below.

**Figure 10: REIT perpetuals issued in the past one year**

| Issue Date | Perpetual | First Call Date | Amount Issued (SGD mn) | Reset Spread |
|---|---|---|---|---|
| 14/08/2020 | AAREIT 5.65% 'PERP | 14/8/2025 | 125 | 520.7 bps |
| 11/09/2020 | KREITS 3.15% 'PERP | 11/9/2025 | 300 | 257.7 bps |
| 17/09/2020 | AREIT 3% 'PERP | 17/9/2025 | 300 | 247.7 bps |
| 27/10/2020 | CRCTSP 3.375% 'PERP | 27/10/2025 | 100 | 287.5 bps |

| | | | | |
|---|---|---|---|---|
| 27/10/2020 | SUNSP 3.8% 'PERP | 27/10/2025 | 200 | 329.5 bps |
| 15/12/2020 | SGREIT 3.85% 'PERP | 15/12/2025 | 100 | 329.2 bps |
| 11/05/2021 | MINTSP 3.15% 'PERP | 11/5/2026 | 300 | 208.2 bps |
| 04/06/2021 | LREIT 4.2% PERP | 04/06/2026 | 200 | 324.0 bps |
| 08/06/2021 | MAGIC 3.5% PERP | 08/06/2026 | 250 | 252.7 bps |
| 09/06/2021 | KITSP 4.3% PERP | 09/06/2031 | 300 | 373.5 bps |
| 15/06/2021 | SUNSP 4.25% PERP | 15/06/2026 | 150 | 329.0 bps |

Source: Bloomberg, OCBC Credit Research

The REIT perpetuals typically have their first call date five years away with no step up in their reset spread. Issuance size is ~SGD200mn on average. Worth noting is that the 5Y swap rate was lower in 2H2020 relative to 1H2021 with 2H2020 averaging at 50bps and 1H2021 averaging at 90bps. With credit spreads for senior REIT bonds and investor demand for compensation over structural subordination structures relatively stable, therefore, all-in yield for perpetual securities priced in 2H2021 are generally higher than their comparable peers in 2020.

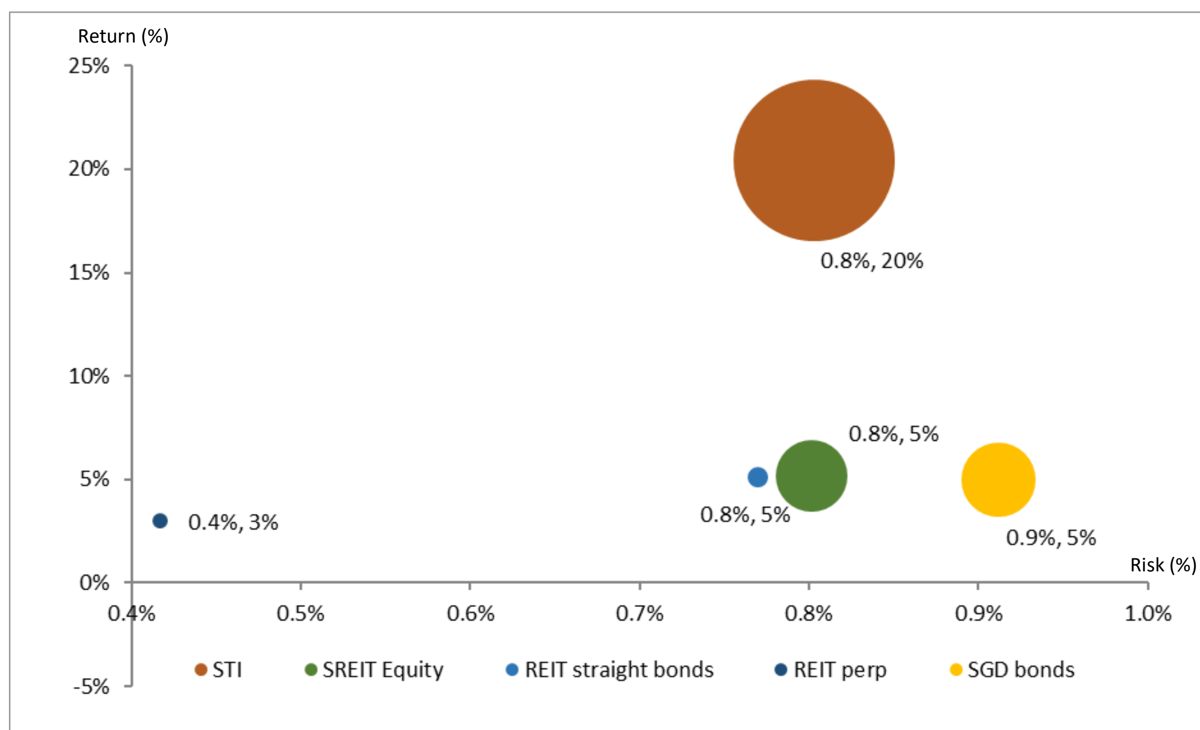
Interestingly, Suntec REIT ("SUN") tapped the perpetual security market twice, raising SGD350mn in total. SUNSP 3.8% PERP was issued in October 2020 while SUNSP 4.25% PERP was issued in June 2021, roughly eight months apart. Both perpetuals are trading at ~4.2% yield to call (SUNSP 3.8% PERP is trading below par) while SUN equity have a dividend yield of 5.1% according to Bloomberg. SUNSP bullet bonds of a comparable tenor to the perpetual securities' first call date have a yield to maturity of ~2.4%. Seemingly, the perpetuals are trading much closer to the equity than bond.

For the case of REITs, Monetary Authority of Singapore ("MAS") impose an aggregate leverage limit at 50%. This caps the amount of straight debt the REIT can take on. On the flip side, subject to the perpetual structure having a set of characteristics of a permanent form of capital, REIT perpetuals do not contribute to the aggregate leverage calculation. Therefore, REITs can issue perpetuals should it require more funds. Having said that, we think under normal business circumstances, the REITs have an implicit obligation to call its perpetual securities at first call to fulfil perpetual holders' expectation and to maintain that the perpetuals issuance market continues to be open.

The step-up margin is a structural mechanism demanded by perpetual investors to make an instrument more "bond-like", as it pushes up the cost of the perpetual and hence incentivising issuers to call by a pre-set date, even if legally the perpetual issuer does not have to. As there is no step-up for REIT perpetuals, if the perpetuals are not called at first call, the coupon rate would reset to SGD 5-year swap rate plus the reset spread which is determined at issuance. Therefore, two main ways perpetual holders can assess the risk of non-call of the perpetual, through forming a view on whether (1) the REIT would be able to raise a new perpetual security at a cheaper rate at current market conditions, (2) the REIT has sufficient funds on hand to repay the perpetuals.

Another point to note is that REIT can also conduct equity rights issuances and private placements to raise capital from time to time. That being said, as these are equity instruments, one's equity holdings may be diluted if one does not participate (including the REIT Sponsor who typically hold a significant stake in the REIT). Typically, if the REIT has a price-to-book of over 1x, it would be more beneficial for the REIT raise new equity than otherwise. It is still possible for REITs to raise straight debt to replace perpetuals, though this is less common, given the benefits for raising perpetuals at the outset.
We have plotted the estimated risk vs. price return of the STI Index, S-REIT instruments, straight REIT bonds, REIT perpetual and SGD bonds. The size of the bubbles represents the size of the market.

**Figure 11: Total Return over Risk**




Source: Bloomberg, OCBC Credit Research
Note: Data was based on period from 25 June 2020 to 25 June 2021. Risk (%) refers to standard deviation.

The figure above is interesting and departs from history. We attribute the observations we will be discussing below to the unique market conditions in the past year due to COVID-19.

First, the equity prices of SREITs underperformed the STI in the past 1 year from 25 June 2021. Under normal business environment in the years before COVID-19, SREITs typically had outperform the STI. We think this is due to the SREITs overall are starting from a higher base and are recovering more slowly from the impact of the pandemic. Banks, a significant sector within the STI have outperformed, while various corporate actions among STI constituents have led to a re-rating by equity investors in the past year. It is worth noting that the STI has just recovered to pre-COVID-19 levels since 2Q2021, while there are bright spots within the SREITs segment e.g., industrial REITs, broadly the fundamentals for REITs are still weaker than a year ago. The hospitality REITs in particular continue to be severely affected with the operations of retail REITs is still down compared to pre-COVID-19 as the adoption of ecommerce and online shopping was accelerated by the pandemic.

Second, in times of volatility, we have seen the benefit for REIT straight bonds which has performed on par with SREITs. That said, in good times, SREITs are expected to generate high single digit returns and outperform REIT straight bonds and even STI.

Another interesting point to note is that REIT perpetuals unperformed on a price change basis. We think there are two main reasons for this. One being the influx of supply of REIT perpetuals in 2H2020 and 1H2021 has weight on the market and the indigestion of the perpetual instruments has dragged the prices of the perpetual securities lower, eroding some of the gains (including accrued interest) made earlier in 1Q2021. Second being a good amount of the REITs (some ~SGD1.2bn) were issued in May and June 2021 as such they have yet to record perpetual distribution payment. On a total return basis (which factors perpetual distribution), we still expect REIT perpetuals to generate positive returns over the next 12 months.

Evidently, the various financial instruments serve to perform better or benefit from certain environment conditions. This in our view offers investors opportunities to enter or exit the market.

Under typical market conditions the following returns and risk distribution is likely to be observed.

In terms of ascending returns:

In terms of ascending risk:

Source: OCBC Credit Research

Finally, we continue to hold our view that while REIT equity, bonds and perpetual securities may be comparable, they remain different investment instruments and are not alternatives for each other. Therefore, we think substituting one for another is not wise. We think investors can first consider their allocation to each asset class and within each asset class, determine the amount one would allocate to REIT vs. other businesses. Equity typically become more preferrable than bonds in the late credit cycle while prices of REIT equity tend to rise more quickly in an environment where rates are coming down. As always, not all REITs are equal.

## *Financial Institutions – Stable with Limited Upside and Downside*

As our macro-economic colleagues opined in the OCBC 2H 2021 Global Outlook, the anticipated recovery from COVID-19 has not been smooth with earlier positive momentum in 2021 hitting a speedbump in 2Q2021. This though is not a concern for Financial Institutions in our view given their solid fundamentals which were not challenged through 2020. As mentioned in our Singapore Credit Outlook 2021, a mix of past actions to improve earnings and balance sheet fundamentals, government support and systemic importance allowed banks to preserve their capital strength and position for the recovery. Several banks announced significant reversals in y/y or past period performance on a recovery in earnings but more so on a significant writeback in credit provisions from the improving economic outlook. Most banks had been carrying through the end of 2020 significantly elevated stage 1 & 2 (or general) provisions on their performing loan books which were raised pre-emptively at the peak of the COVID-19 pandemic. This provided a welcomed earnings boost against recovering underlying earnings that continued to be supported by stabilizing interest rates and still solid capital markets and investment banking performance.

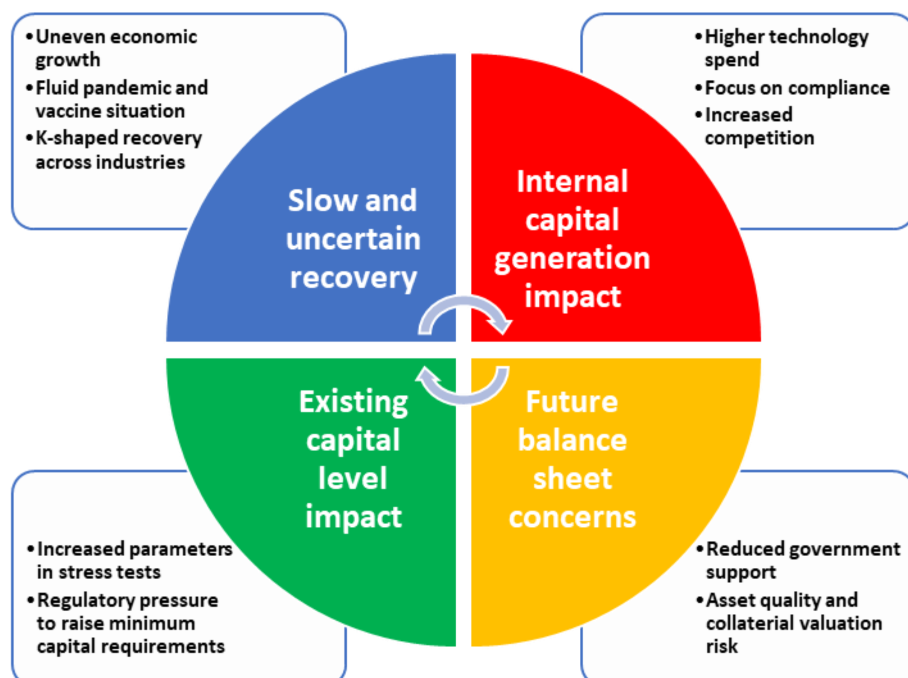
These influences also helped Credit Suisse Group AG ("CS") and (to a lesser extent) UBS Group AG ("UBS") mitigate the material impact of recent losses tied to Archegos Capital Management (as well as Greensill Capital in the case of CS). FY2020 and 1QFY2021 underlying performance for both banks was sound excluding the impacts of Archegos Capital Management and Greensill Capital. On a pre-provision basis, CS FY2020 profit of CHF5.5bn was up 22% y/y to CHF5.5bn while 1Q2020 group pre-tax income excluding significant items (mostly CHF4.43bn in provisions) was CHF3.6bn, up from CHF946mn in 1Q2020. Similarly, UBS FY2020 profit after tax ("PBT") was USD8.3bn, up 47% y/y, and 1Q2021 results were solid with a 14% y/y increase in profit before tax of USD2.3bn including a USD434mn impact from the default of Archegos Capital Management ("Archegos"). However, their relatively strong performance and the positive momentum in their underlying fundamentals has been more or less eroded in our view by the short-term financial impact from the losses as well as possible longer-term implications from reputational impacts and staff departures, client litigation, and regulatory investigations and scrutiny. Both the US Department of Justice and the UK Prudential Regulation Authority have begun investigations into the collapse of Archegos given the potential systemic risks exposed by such an event and the complexity and lack of transparency in the derivatives used in extending leverage to Prime Brokerage clients. Finally the Swiss National Bank in its annual Financial Stability Report highlighted that while UBS and CS remain resilient to the current economic environment due to public support, the resultant recovery in financial markets and their diversified income structure and improved capital positions, the impact of Archegos as well as the results of the Swiss National Bank's stress test scenarios continues to support the importance of "Too Big To Fail" capital requirements and the government

through the Finance Ministry and Swiss National Bank and FINMA continues to look at improving and strengthening bank regulations to ensure adequate risk management and appropriate levels of capital and liquidity.

Elsewhere, recovery was a theme in YTD performance for some of the banks in our coverage that faced pressure in 2020. Société Générale's ("SocGen")1Q2021 results were a reversal of the challenges of a year ago with reported net income of EUR814mn against a net loss of EUR326mn in 1Q2020 from a 20.8% y/y recovery in net banking income due to strong performance in Global Banking & Investor Solutions as well as a 66.3% y/y fall in net risk costs to EUR276mn (EUR820mn in 1Q2020). HSBC Holdings PLC's 1Q2021 results were solid on a y/y and q/q basis although the drivers were different with y/y improvement (reported profit before tax of USD5.78bn was up 79% y/y and adjusted profit before tax of USD6.39bn was up 109% y/y) due to a USD435mn writeback in provisions on a better economic outlook against a USD3.0bn provision in 1Q2020 while q/q performance looks more constructive from a fundamental perspective although movement in impairments were also a feature. At the same time, HSBC's ongoing execution of its strategic plan to 2022 appears to be on track with recent senior appointments in Asia Pacific that bring regional expertise and senior management as it continues its pivot to Asia and recent sales of mass market retail banking businesses in France and the US. Finally, Commerzbank AG's ("CMZB") turnaround looks to have started with 1Q2021 revenue up 35% y/y to EUR2.5bn while risk results or credit loan loss provisions fell 54% y/y to EUR149mn. This drove a marked improvement in operating results to a profit of EUR538mn for 1Q2021 against a EUR278mn loss in 1Q2020. The consolidated profit also recovered to EUR133mn (EUR291mn loss in 1Q2020) and included restructuring charges of EUR462mn that relate primarily to the reduction in staff levels as part of its "Strategy 2024" restructuring program. Overall restructuring costs will increase due to the negotiation of a deal with labour unions on CEO Manfred Knof's planned 10,000 in staff reductions (around 25% of CMZB's domestic workforce). However, this impact may be lessened by CMZB raising its FY2021 revenue expectations following 1Q2021's performance (slight increase expected now in FY2021, previously expected to be stable) and Chief Financial Officer and deputy Chief Executive Officer Bettina Orlopp recently indicating that risk costs in 2Q2021 risk costs would be the same or lower than 1Q2021.

In our view, downside is limited for the Financial Institutions we cover. However, upside is also somewhat limited given the prevailing risks that remain in this post pandemic but COVID-19 endemic world. Select industries will continue to be negatively impacted while the pathway to economies re-opening will remain bumpy. At the same time, government fiscal firepower is constrained while interest rates remain low and overall systemic risks and vulnerability to negative events continue to be elevated from high systemic leverage and stretched valuations. This may likely raise the regulatory pressure on Financial Institutions to maintain adequate capital and liquidity buffers to ensure ongoing financial system resilience. In essence, the key risks we highlighted in January 2021 have not reduced but evolved.

**Key risks for Financial Institutions in 2H2021**




Source: OCBC

In general, the key themes for Financial Institutions in 2021 remain broadly the same but we highlight three specific themes that we feel are more prominent heading into 2H2021 that provide both risks and opportunities.

1. **Digital and Crypto Currencies**

There has been a one way rise in popularity of Digital and Crypto Currencies with investors increasingly viewing them as a viable alternate asset class for transactions and trading. Financial Institutions have sought to keep up with investor interest by offering related services including clearing of crypto futures and crypto currency advisory. JPM Morgan Chase & Co ("JPM") created its own digital coin for payments. The JPM Coin allows its clients to transfer USD held on deposit with JPM although according to the Bitcoin Market Journal, the JPM Coin may not be strictly termed as a Cryptocurrency given its private nature that is only available to a select number of JPM clients.

However, while awareness and interest has been on the up, the same cannot be said for its valuations which have been volatile. Bitcoin for instance rose 119% YTD in 2021 to a high of USD63,416 on 15 April. However following comments by Elon Musk and news of regulatory scrutiny in China, the price dropped ~49% to USD32,588 on 22 June 2021. Regulatory scrutiny will remain high as investor interest grows and Financial Institutions increasingly explore how to provide associated services. This is because of the systemic risks it may pose to Financial Institutions balance sheets should they move to trading digital and cryptocurrencies on a principal basis or even holding them while the market remains somewhat nascent and sensitive to speculation. Regulators as well have been emboldened by what transpired during the pandemic with the importance of financial system stability and financial institution resilience through low-risk balance sheets and adequate capital buffers reaffirmed. Idiosyncratic shocks like Archegos also have heightened regulatory scrutiny in the aftermath of the pandemic's systemic shock.

Recent regulatory developments give insight to this view. The Basel Committee on Banking Supervision ("BCBS") published a consultation paper in early June 2021 on Prudential treatment of cryptoasset exposures for comment by 10 September 2021 and highlighted the risks of these exposures to financial stability and the potential use of them for money laundering and terrorist financing amongst others. That said, the BCBS did not discourage use of cryptoassets but instead is seeking to emphasize its volatility and different risk profile compared to traditional assets (and also within the cryptoasset class itself) through imposing higher capital requirements should a financial institution choose to hold them. As an example, the Consultative Document recommends a 1250% risk weighting for what it classifies as a Group 2 cryptoasset. In addition, the People's Bank of China recently reiterated its ban on China's biggest banks from providing cryptocurrency services. As we covered above, legal, and regulatory issues remain a work in progress, particularly from different sets of securities regulations across jurisdictions. Uncertainties over areas such as ownership, voting rights, liabilities and taxation remains as key issues in the development of digital assets including Digital and Crypto Currencies.

With business in cryptoassets rising, it is inevitable in our view that banks would seek to gain some exposure. That said for now, there is comfort in regulatory intervention for the time being until the market becomes more robust.

2. **Inflation and Rising Interest Rates - Higher Costs Higher Investment Spend**

The market continues to watch inflation prints along with Central Bank rhetoric as investors grapple with whether inflationary pressures are transitory or permanent. Central Bank policy stances have remained largely accommodative although some divergence is beginning to emerge, and Central Bank statements are providing more leeway for the possibility that monetary policy could tighten earlier than previously expected. For now, the markets have more conviction on this then the rate setters themselves. Rising rates may be positive for Financial Institutions' net interest margins and their bottom line but the influences are dispersed, and the eventual impact remains somewhat unclear. Still, given the messaging to date it seems clear that regulators are intent on maintaining financial system stability and ensuring that markets do not disrupt liquidity markets by rushing forward rate hike expectations.

3. **Sustainability and Climate Risk**

Just as Financial Institutions were at the centre of the pandemic, so are they somewhat central to the roadmap towards achieving sustainable development. This is due to the significant amounts of funding involved to achieve the 2030 Agenda, their roles in providing ongoing capital to the global economy, and also their impact on multiple levels in the sustainability value chain as highlighted above in HSBC Holdings PLC's ((“HSBC”)) climate plan announced in October 2020.

We expect sustainability to become an increasing influence on Financial Institutions as we approach 2030 and also as there is increasing recognition of the impact of climate risk. A draft United Nations (“UN”) report from the UN's Intergovernmental Panel on Climate Change, which is reportedly the most in-depth review of climate change and global warming, found that the irreversible point of negative impact from climate change and global warming may be nearer than first thought. Other takeaways in the draft report that is scheduled to be released in February 2022 were largely ominous and include: (1) the climate is already changing in a possibly irreversible and damaging manner resulting in species extinction; (2) the world must prepare for these inevitable changes and strains on natural resources; (3) these changes will have a compounding and cascading effect; but finally (4) there are still actions that can be taken to avoid worst case scenarios with every decimal point counting. Such actions though need to be transformational and all levels of society – from individuals to governments.

Banks have responded in kind with their own sustainability approaches that have been established at board level and filtered down to all levels of the organisation. These approaches target business decisions, operations as well as disclosure and reporting. UBS Group AG recently launched its Green Funding Framework to issue green bonds and announced a plan to develop a road map to achieving net zero GHG emissions across all its operations by 2050. United Overseas Bank Ltd recently appointed Mr. Eric Lim as the bank's first Chief Sustainability Officer to lead a dedicated corporate sustainability office focused on achieving the bank's green goals. This role is an extension of his current position as Head of Group Finance. HSBC announced that it will end financing of coal mining and coal fired power plants in the European Union and OECD countries by 2030 as part of special resolutions on climate change to be presented at its annual general meeting in May.

That said, the pathway to sustainability is not clear cut. As mentioned above in our special interest piece, we think Transition Financing will play an important part in achieving SDGs. And while it is easy to phase out financing of certain ‘brown’ industries, there are other impacts for Financial Institutions to consider in their sustainability choices, be it from a social or governance perspective. In Australia, the big four banks (Australia & New Zealand Banking Group Ltd, National Australia Bank Ltd, Westpac Banking corporation and Commonwealth Bank of Australia) have faced a government inquiry and criticism on recently announced plans to phase out thermal coal lending to combat climate change. Government concerns are based not only on the impact of this investment exclusion on thermal coal's contribution to Australia's exports but also how the Financial Institutions' climate change and sustainability policies (which are aligned to the Paris Agreement) affect other parts of the Australian economy. Australia & New Zealand Banking Group Ltd Chief Executive Officer Shayne Elliot responded that such strategies were aimed at minimizing economic risks and the phasing out of financing to these sectors would be gradual.

But while influence comes from the ground up (ie customers, shareholders) and through clients that have their own sustainability plans, perhaps of most influence will be that of regulators. The Australian Prudential Regulation Authority (“APRA”) released its draft guidance on managing the financial risks of climate change in April 2021 and is currently updating it. The Swiss National Bank (“SNB”) in its annual Financial Stability Report also addresses climate-related risks and its impact on financial stability. Both APRA and SNB highlight similar risks facing Financial Institutions, namely transition risks (stranded assets) and physical risks (asset damage from climate-related natural catastrophes). The Monetary Authority of Singapore (“MAS”) also recently released its inaugural Sustainability Report 2020/2021 which, according to MAS, sets out its strategy on environmental sustainability to strengthen the resilience of the financial sector as well as develop a green finance ecosystem. The multi-faceted report again highlights the pervasive influence of climate risk and sustainability on the financial sector through risk management and disclosure, financing and investments and business practices.

**Facing challenges as usual**

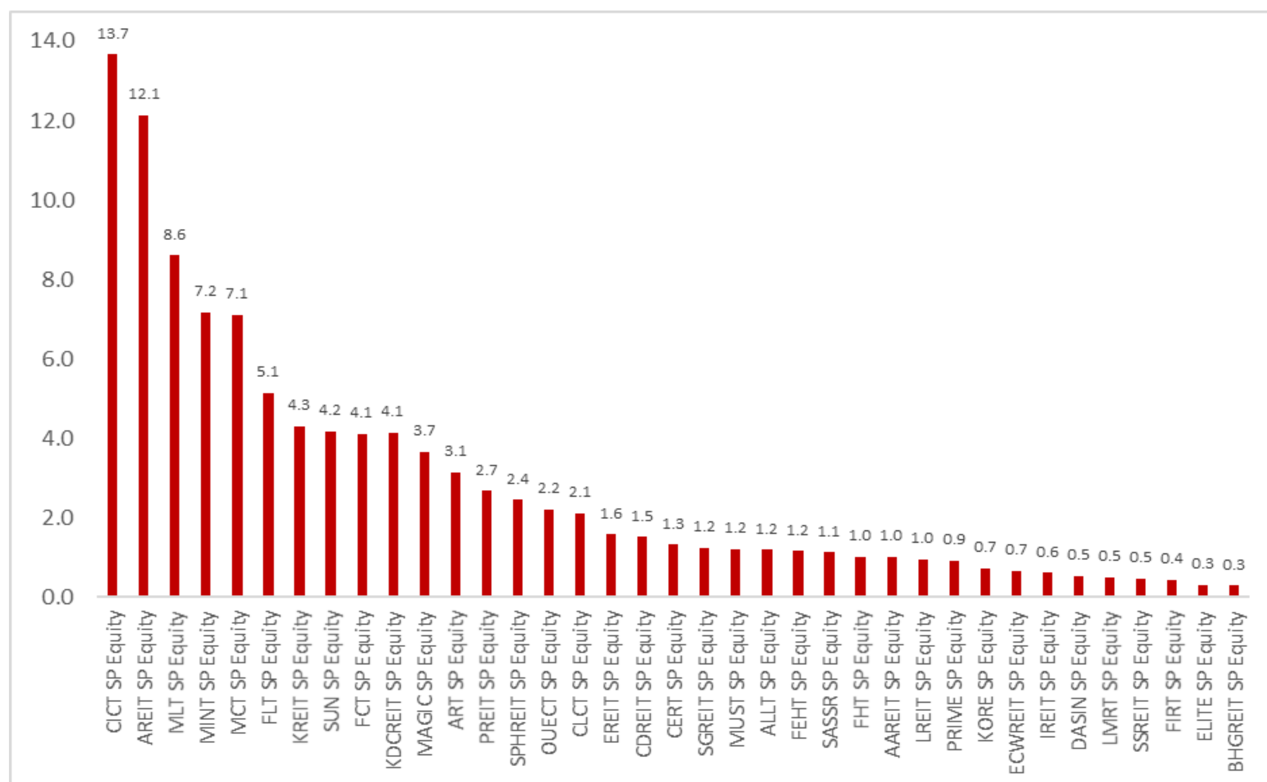
Banks have been somewhat adept at dealing with challenges to risk profiles and earnings. There have been none more so than what transpired in 2020. New and existing risks through the highlighted themes will keep financial institution boards and senior management busy. However, they will be facing these risks together with

solid fundamentals from a capital and liquidity perspective and regulatory oversight. We expect bank credit profiles will remain stable throughout the remainder of 2021.

## *An Increasingly Unlevel Playing Field for Singapore REITs*

The two largest REITs make up an astounding 25% of the total market capitalisation of all the 37 REITs listed on the SGX combined (i.e. REIT market) while the top five largest REITs make up almost half of the REIT market, at 46%. The handful of big REITs are undoubtedly dominating the space though we continue to have some 60% of the REITs by count with a market capitalisation below SGD2.0bn. While some of the smaller REITs are poised to grow in part due to the pipeline of assets available for acquisition from their Sponsor, we expect it will be a gradual process across multiple years. As such, we think it is important to factor in the size of the REITs when making comparisons. In addition, the bigger REITs also tend to be the bigger issuers in the bonds and perpetual space. For instance, CapitaLand Integrated Commercial Trust ("CICT") alone has SGD2.7bn of bonds outstanding while Ascendas REIT ("AREIT") has SGD1.2bn of bonds and perpetual securities outstanding.

**Figure 12: Market capitalisation of REITs listed on the SGX (SGD'bn)**




Source: Bloomberg (Data was retrieved on 17 June 2021)

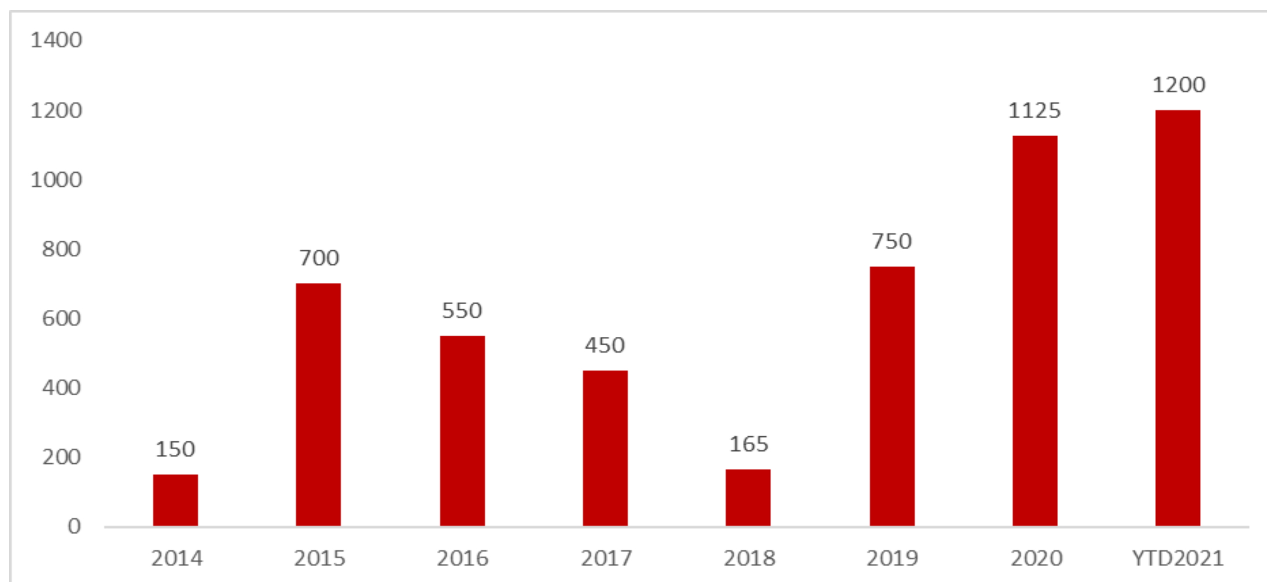
**Aggregate leverage creeping higher as expected**

In April 2020, the Monetary Authority of Singapore lifted aggregate leverage limit for REITs to 50% from 45% to provide the REITs with greater flexibility to manage their capital structure. At present, the REITs have become more levered with an aggregate leverage in the 40% handle region being the norm. Suntec REIT is the most levered REIT under our coverage with an aggregate leverage of 44.4% as at 31 March 2021. Given the low rate environment, we think taking on debt to fund acquisitions and asset enhancement initiatives can be a good decision for the REIT overall though for bondholders, it can mean somewhat higher credit risk.

**REIT perpetuals frenzy**

YTD2021, a total of SGD1.2bn of REIT perpetual securities were issued across five REITs. This is a new record high. Following a busy 2H2020 for REIT perpetual securities, those raised this year came to the market in May and June 2021. First time issuers included Lendlease Global Commercial Trust ("LREIT"), Mapletree North Asia Commercial Trust ("MNACT") and Mapletree Industrial Trust ("MINT"). These three REITs have also acquired more assets along with the perpetual security issuance.

**Figure 13: Total amount of REIT perpetuals issued across the REITs (SGDmn)**




Source: Bloomberg (Data retrieved on 18 June 2021)

Overall, we have observed that most of the REITs have become more levered while the cost of debt has come down. The REITs had earlier in 2020 rushed to refinance their maturing debt obligations and hoarded more cash amid the uncertainty brought about by the pandemic. In 2021, we are seeing the REITs tap on perpetual securities to raise more funds for acquisition purposes without bringing up their aggregate leverage.

**Restructuring of a REIT sponsor – CapitaLand ("CAPL")**

In 2020, we saw REITs expand their mandate and pursue combinations. In March 2021, CapitaLand ("CAPL") announced the restructuring of its business to consolidate the investment management platforms as well as its lodging business into CapitaLand Investment Management ("CLIM") and to place the real estate development business under private ownership. Essentially, CLIM will hold the managers of the REITs and Business Trusts as well as selected unlisted funds currently managed by CAPL. While this change is expected to have minimal impact on bulk of the CAPL-sponsored REITs from a fundamental basis given that the changes are at the parent level, we think the REITs benefit from the perspective of access to the financing market from having CAPL as its sponsor. Other point worth noting is that the REITs would become even further removed from Temasek and fall under CLIM instead of CAPL post the transaction.

We think the pandemic and along with the business disruption it has caused, business and corporations have accelerated their transformation plans both digital plans as well as restructuring plans which includes privatisation or taking their subsidiaries public.

## *Singapore Commercial REITs – Finding opportunities in difficult times*

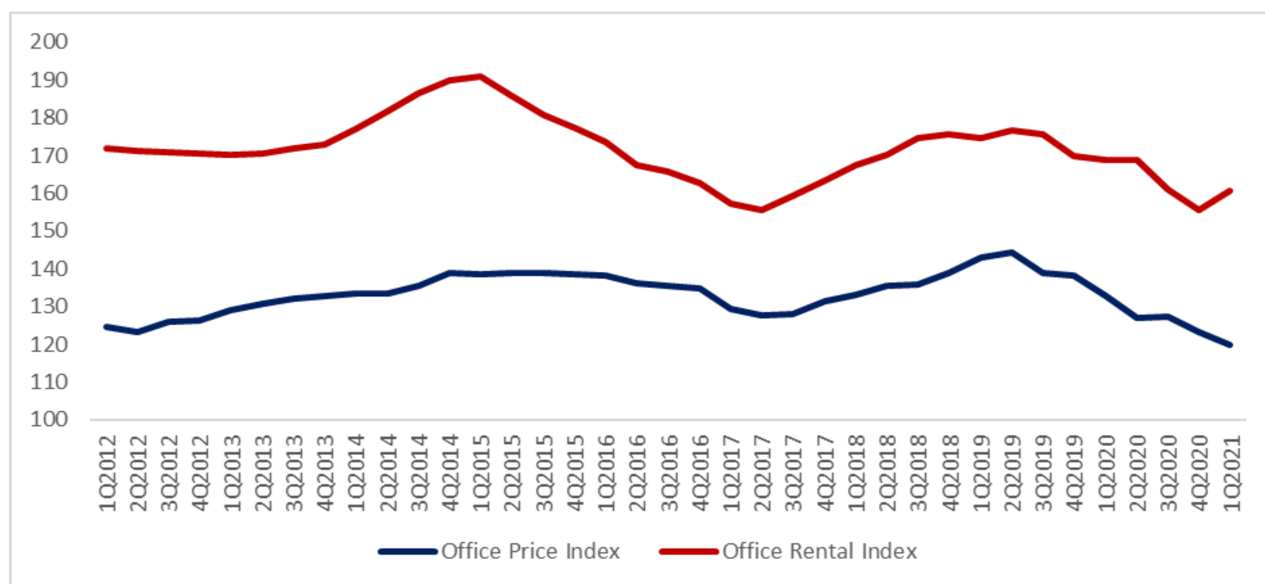
In January 2020, we opined that REITs will become more diversified in the coming 12-24 months, with REIT yield convergence by scale (rather than asset type) a key trend going forward. We have seen this played out through 2020 and 1H2021. As the REITs expanded their mandate and/or undergo combination with another REIT, pure play REITs have becoming increasingly uncommon. Most of the REITs no longer limit itself to certain property types but instead embrace having a mix of property types and the diversification benefits that come with it. We refer to the commercial REIT sector as REITs that comprises both retail and office properties.

**Office**

Grade A office rental market has been on a downtrend in 2020 though seemingly stabilised in 1Q2021 with monthly rent flat q/q. Having said that, the market still recorded a 9.6% y/y decline monthly rent in 1Q2021. We think there remains significant uncertainty within the Grade A office space as the large corporates continues to rethink their real estate footprint amid government's push for remote working to be the default method due to the bouts of outbreak of COVID-19 in Singapore. Thus far, there had been some announced changes among financial institutions,

historically the main demand source for Grade A offices in Singapore. In our view, decisions on whether to reduce real estate footprint also depends on the workplace culture of an organisation and whether human resources issues (eg: performance management) can be navigated to manage an offsite workforce. However, what can probably provide some comfort is that companies occupying spaces in the older properties may seek an upgrade over this period. Also, we are seeing demand from technology firms as well as family offices from overseas. Grade A office aside, the overall office sector saw prices continue to dip lower (-2.7% q/q and -9.5% y/y) while overall office rental was up 3.3% q/q but down 4.8% y/y.

**Figure 14: Overall Office Price and Rental Index**




Source: URA

Island-wide, at end 2020, core CBD office stock is ~51% of the total while fringe CBD make up another 26% and the balance 23% comes from decentralised areas. Roughly of 46% of the core CBD stock is Grade A. On the supply front, annual new supply average 0.7 million sq ft over 2021 to 2025. While this is the lowest in the last decade, we noticed that net demand was negative in 1Q2021. Therefore, even though net supply is low, it has outstripped net demand in 1Q2021. Occupancy rate remains somewhat healthy at 93.9% for core CBD at end March 2021. Island-wide vacancy rate was 11.9% as at 1Q2021 (+0.1ppt q/q). This is indicative of companies holding on to their leases despite low actual number of people working out of offices. Weighted average lease expiry will be a key number to monitor as companies are likelier to need to decide then whether to renew.

**Figure 15: Overall Office Vacancy Rate (%)**

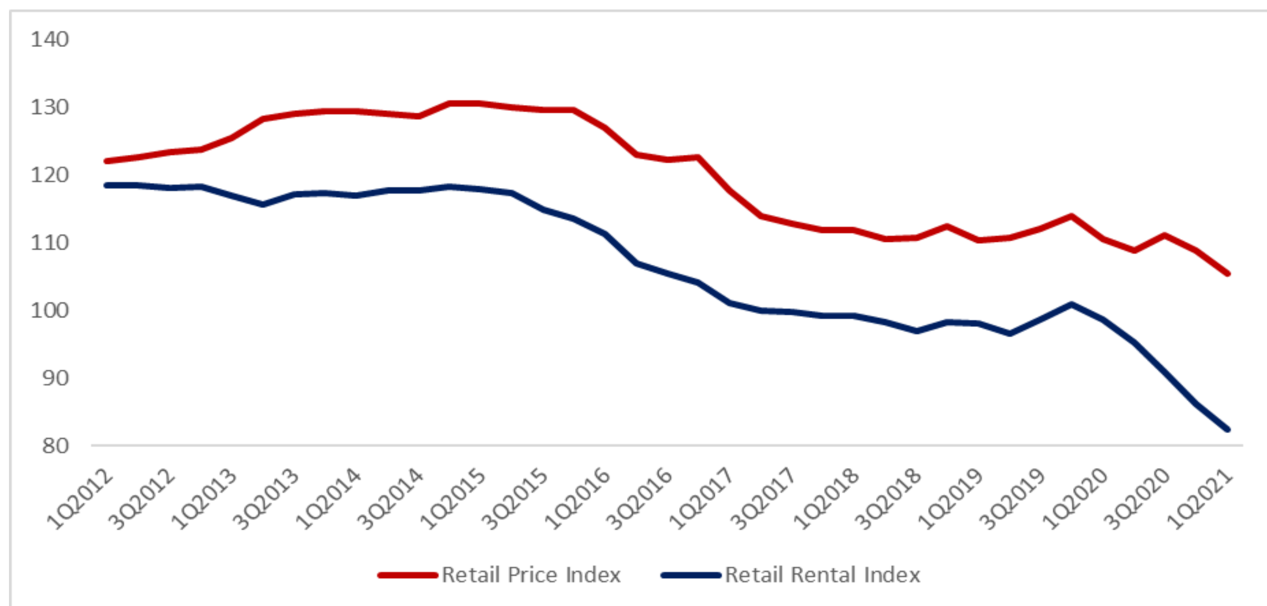
Source: URA

Overall, we are not overly concerned about the performance of office properties. We would expect some manageable weakness in the sector and office components of the properties in the REITs to outperform the sector and be broadly stable over the longer term. All-in-all, we think this is a good time for REITs to do asset enhancement initiatives on their older properties to boost competitiveness in the post pandemic world.

**Retail**

Unlike the office sector, the retail sector has been a lot more volatile. Amid the pandemic, retail rental rates have fallen 4.4% q/q and slipped 16.5% y/y. The circuit breaker implemented last year to contain the spread of the COVID-19 virus has no doubt hurt the sector. Furthermore, Singapore has been struggling to return to normal and we are just exiting the Phase 2 (Heightened Alert). There continues to be measures in place to restrict movement and prevent crowds from forming. For instance, dine-in while available from 21 June 2021, is limited to just two pax. We think such measures are hurting the retailers, not just those in the food and beverage ("F&B") space as this segment makes up some ~30-40% of rental income for some of the malls within the REITs we cover. Therefore, we continue to be cautious on retail properties even with vaccinations being rolled out. Having said that, the malls in the REITs are better quality properties e.g. better location, better tenants and therefore we expect the malls in the REITs to outperform the broad sector.

**Figure 16: Retail Price and Rental Index**

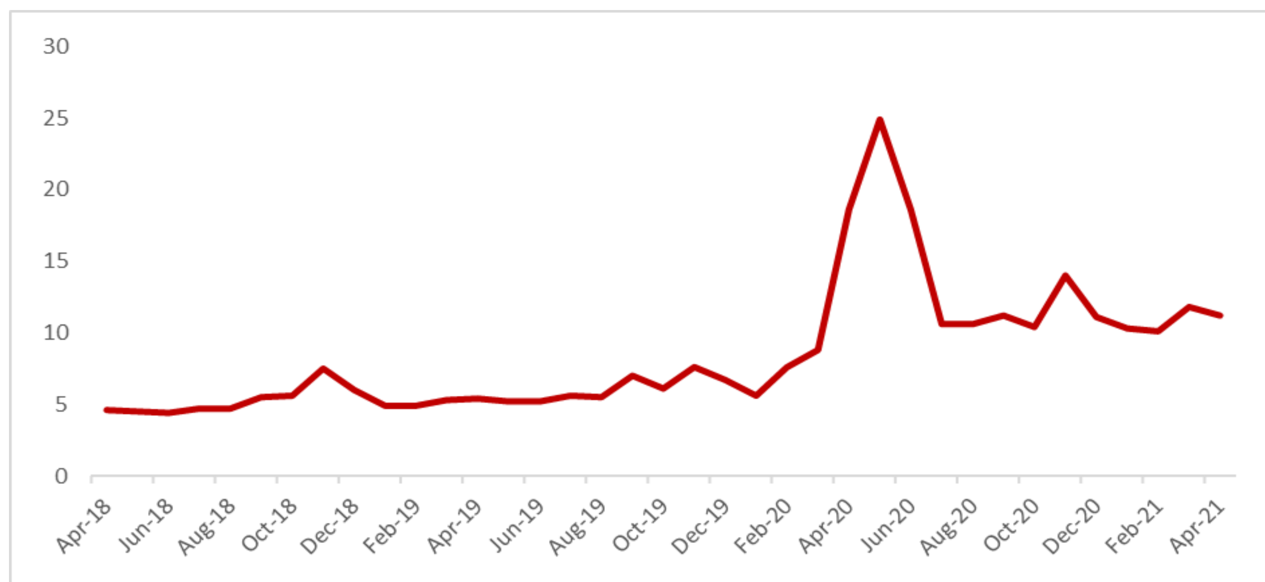



Source: URA

In YTD2021, we have also seen specific malls being closed temporarily for four days to two weeks for cleaning due to a COVID-19 cluster being identified. We think the pandemic situation may continue to take time to resolve and we expect such occurrence to continue to happen in the future. While the malls can operate as per usual with limitations on the size of group of diners, the risk of an outbreak leading to temporary closure remains. We think this limits the growth in rents and can stall the entire retail sector.

On the flip side, online/ ecommerce activities will continue to grow albeit at a moderate pace relative to when the pandemic just hit. Throughout this period we have also seen the various players in the retailing space roll out their digitalisation plans such as the Frasers eStore accessible via the Frasers Experience app which allows shoppers to browse and purchase products. While these are positive changes taken by retail landlord to adapt to the boom in e-commerce, it is too early to measure the success of the initiatives.

**Figure 17: Online sales as a % of Total sales**




Source: Singstat

Supply in the retail space continues to be limited, averaging ~0.3 million sq ft between 2021 to 2023 which is on the low side. The historical annual average supply from 2016 to 2020 was 1.1 million sq ft.

Overall, the retail segment continues to be challenging and the road to a full recovery seems long and arduous. Having said that, perhaps a full recovery is not the solution but rather a pivot to becoming omni-channel and physical shopping to be an experience would be more enriching and defensible. Looking further into future, as the oldest millennials turn 40 this year, e-commerce could take the center stage. Physical retailing will not be outdated but we think for it to be successful it has to adapt to the change which has been accelerated by the pandemic.

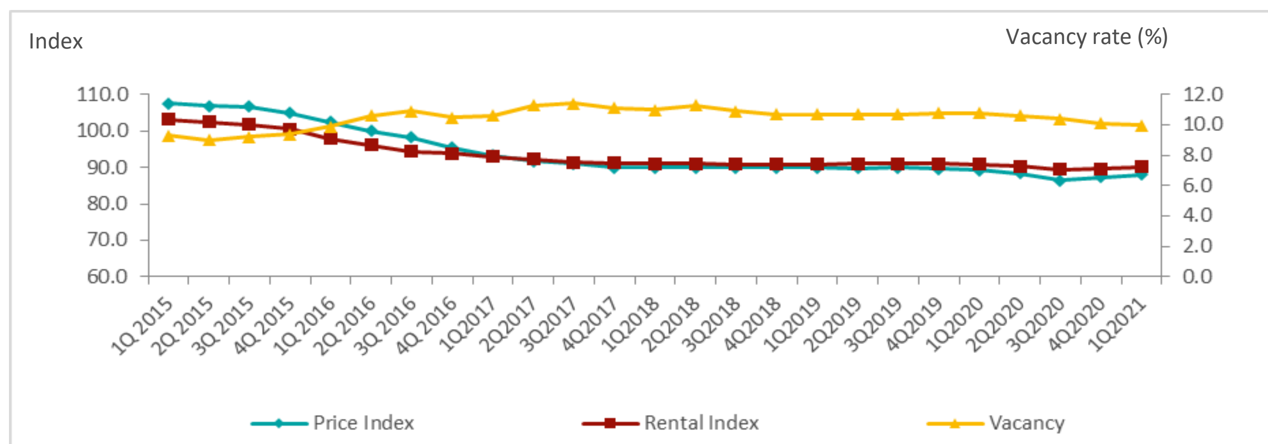
### *Singapore Industrial REITs – Resiliency and strength*

Industrial REITs hold properties which are zoned for industrial usage, in Singapore, this include business and science park buildings which are "office-like" properties catering to knowledge industries and R&D centres, logistics assets such as warehouses, factories and high specification buildings which are typically vertical campuses and increasingly data centres.

While underlying performance may differ, broadly we expect Industrial REITs to be resilient for 2H2021 relative to other REITs. Despite COVID-19, Industrial REITs had been resilient through 2020 and 1H2021 while the manufacturing sector had staged a recovery. The Singapore Purchasing Manager Index rebounded since July 2020 and was at 50.7 in May 2021, despite tapering slightly m/m.

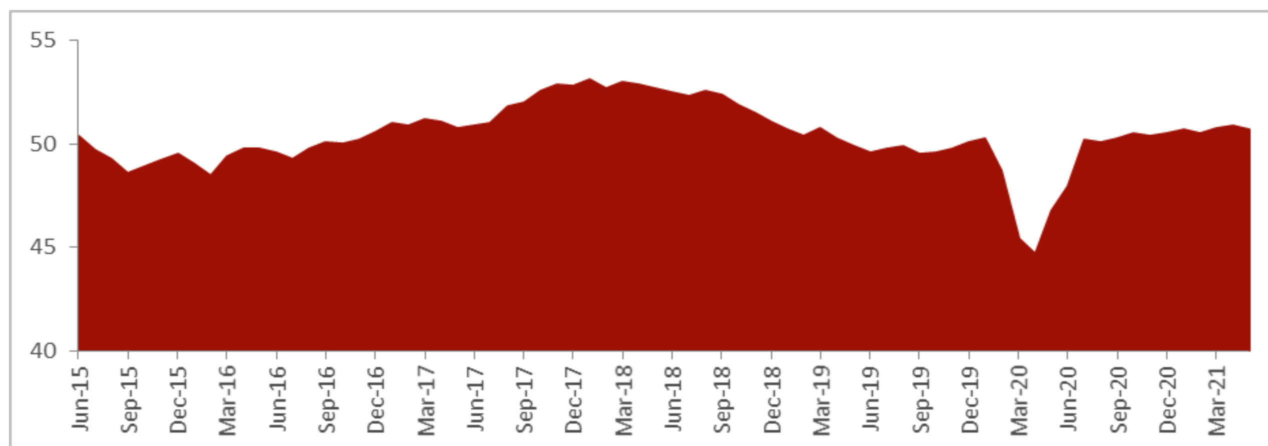
In 1Q2021, q/q price index was up 0.9% (down 1.3% y/y) for all industrial properties, with rents also up by 0.6% q/q (down 0.9% y/y). Overall occupancy was 90%, slightly higher than the historical average in the past five years. Colliers expects flat to 1.3% y/y growth in rental for 2021, with warehouses performing better with the rise in demand for e-commerce.

**Figure 18: Industrial Price, Rental and Vacancy**




Source: JTC, OCBC Credit Research

**Figure 19: Singapore PMI – Manufacturing Index**




Source: Bloomberg

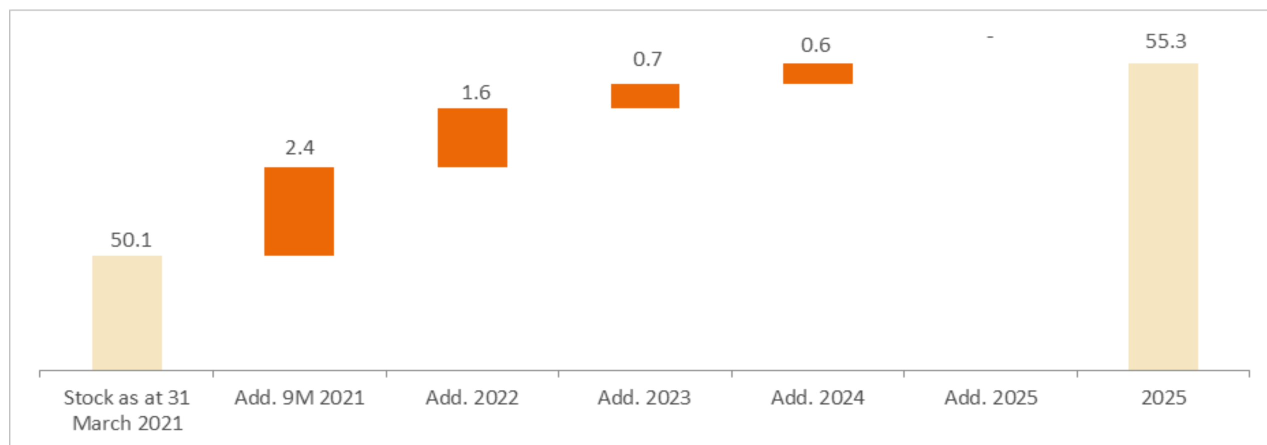
Per data from Colliers, over 1Q2021, Singapore industrial investment sales grew ~141% q/q to SGD1.0bn, mainly due to the establishment of the Boustead Industrial Fund ("BIF") and a number of light industrial transactions. In 1H2021, AIMS APAC REIT ("AAREIT") announced the acquisition of Sime Darby Business Centre at Alexandra Road in a partial sales and lease back transaction while a consortium led by Lian Beng Group announced the acquisition of BreadTalk's international headquarters at Tai Seng, also in a sale and leaseback transaction.

Per JTC's market report for 1Q2021, 2.4mn of new supply is planned to be added in the nine months from 1 April 2021 to 31 December 2021. Per year average new supply was 1.1mn for the three years to end-2019 (pre-pandemic).

It is worth noting though that actual completions in 1Q2021 were only ~131,000 sqm against 1.0mn sqm originally expected per JTC information. Taking the change in available space as proxy of actual completions, only 38,000 sqm was completed in 4Q2020. In stark contrast, the projected new supply for 4Q2020 was 0.6mn sqm in end-3Q2020.

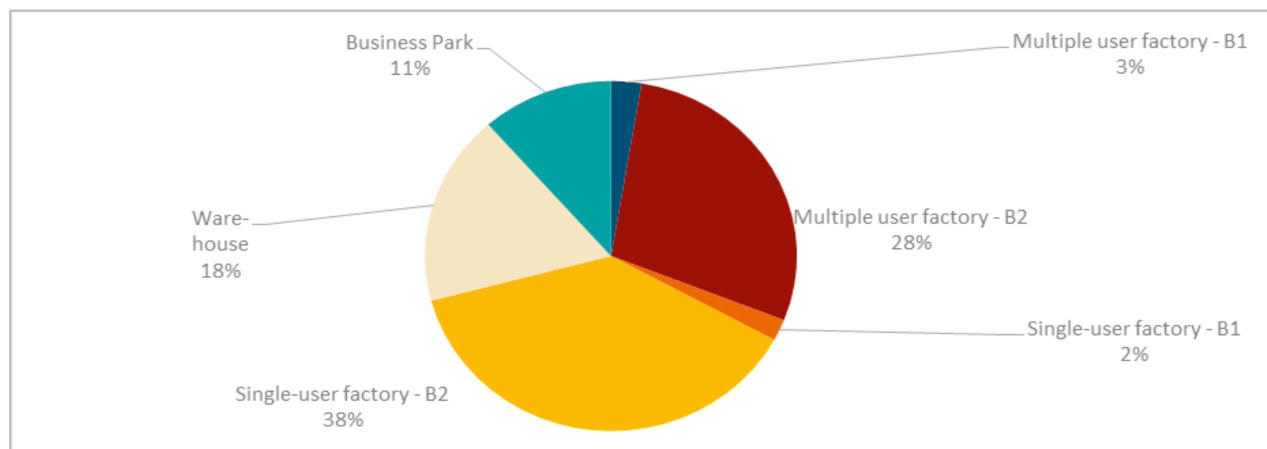
In our view, further construction delays and lack of workers mean that new upcoming supply is unlikely to materialise entirely this year and next, even if the official supply number prima facie looks large. The Construction Industry Joint Committee, a trade group, had submitted an appeal to the multi-ministry task force with regards to entry restrictions for workers. Though as of writing, no changes to the tightened labour restrictions (put in place since early May 2021) have been announced.

**Figure 20: Industrial Stock and Supply Pipeline**




Source: JTC, OCBC Credit Research
Note: Add. 9M2021 refers to the nine months from 1 April 2021 to 31 December 2021

**Figure 21: Additional supply by sub-segment from 2Q2021 to 2025**




Source: JTC, OCBC Credit Research

As at 31 March 2021, Singapore still makes up ~52% of property values of the five Industrial REITs we cover on a combined basis. That being said, we expect contribution from Singapore to fall overtime as Industrial REITs continue to acquire assets overseas. Key targets for the REITs are developed, institutionalised markets. Mapletree Logistics Trust ("MLT") though has a large Sponsor pipeline comprising of assets in China and have announced its intentions to expand into India.

In 1H2021, the Industrial REITs under our coverage announced ~SGD3.3bn of acquisitions (excluding those announced in 2020 but completed in 1H2021), with data centre transactions comprising ~83% of the transactions by value. Among the Industrial REITs we cover, we expect the large cap REITs, namely Ascendas REIT ("AREIT") and Mapletree Industrial Trust ("MINT") to continue buying data centres. Overall, we expect issuer profiles for Industrial REITs to under our coverage to be stable in the next 12 months.

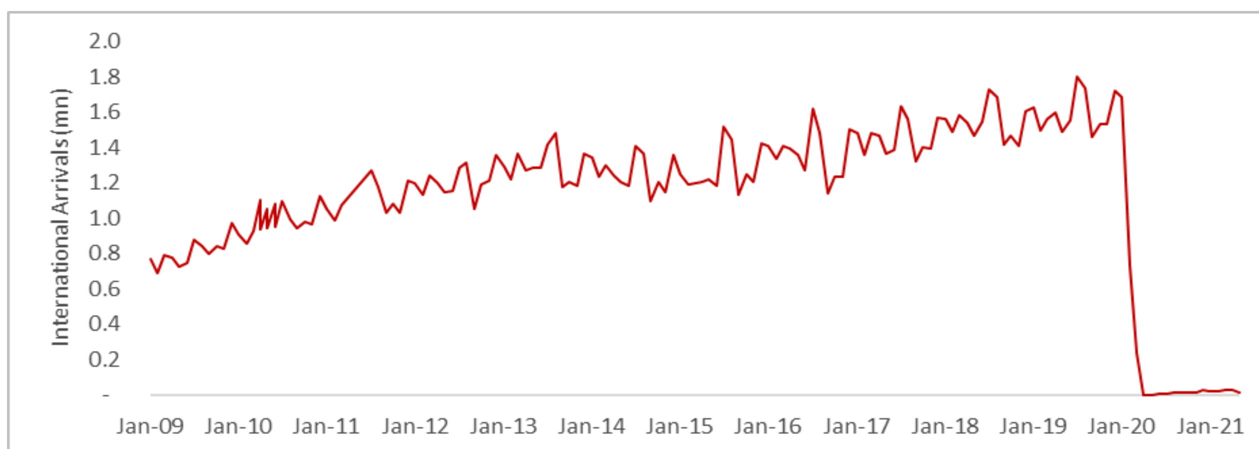
### *Singapore Hospitality REITs – Diversification in progress*

We cover a number of companies operating in the travel and hospitality industry though only two are structured as REITs (stapled with Business Trusts) that focuses on hospitality assets. Both the Hospitality REITs are geographically diversified, which helped with operating performance historically although this was of little help in 2020 and most of 1H2021. That being said, we expect geographical location of assets to make a difference in 2H2021 given the divergent trajectory of vaccination rates and policy intent towards a reopening across regions. Based on data from Amadeus, a travel technology company, global hotel occupancy rate had increased to 46% in April 2021 (from around 30% in January 2021), with China and North America ahead at 62% and 51% respectively. Europe occupancy was still low at 18% in April 2021, we think this was due to travel restriction still in place. However, in our view,

barring the spread of new variants, the outlook for Europe is brighter for 2H2021 as is the region is gradually reopening travel for vaccinated travellers.

In the Asia-Pacific region, governments are still focusing on battling the virus. The relatively low vaccination rates and a lack of coordination towards a regional reopening points towards slower recovery though some markets are likely to perform better than others. Singapore is reliant on international-travel especially from within the region. Asia-Pacific travellers make up ~83% of the number of travellers to Singapore in 2019, with geographies located in the Asia-Pacific region contributing bulk of the Singapore's total tourism receipt. In 2020, total tourism receipts for Singapore were SGD4.8bn (2019: SGD27.7bn), of these, receipts for accommodation were SGD1.0bn (2019: SGD5.5bn). This year's tourism receipts are set to be lower in our view, given that 2020's figures were boosted by normal tourism operations in the first two months of 2020 whilst hotels were also used as temporary housing for non-resident workers. In 9M2020, tourism receipts were reported at SGD4.4bn, implying that the in the last quarter, tourism receipts were just a mere ~SGD0.4bn.

**Figure 22: International Visitor Arrivals to Singapore**




Source: Singapore Tourism Board

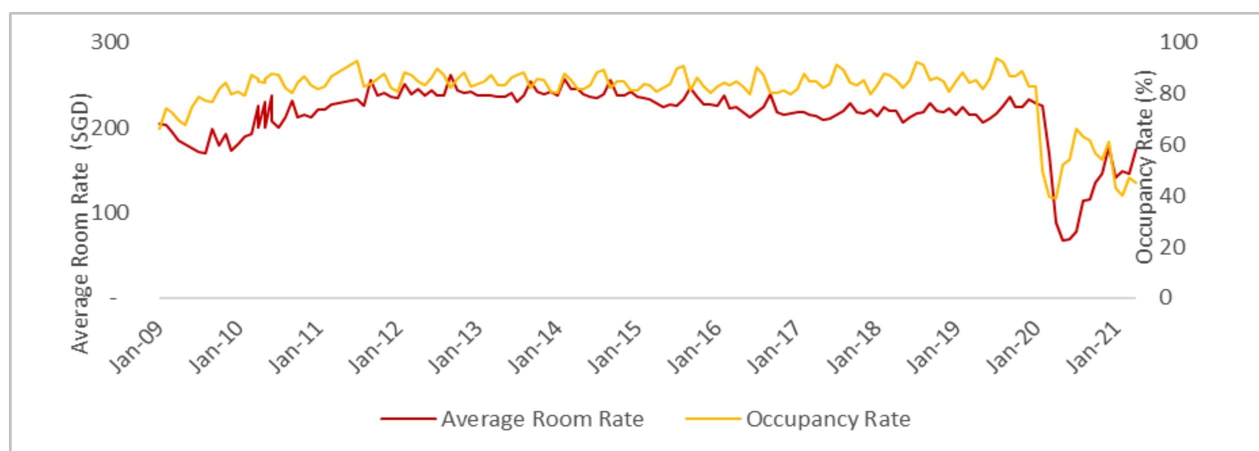
Hospitality assets which cater to domestic leisure tourism are likelier to recover earlier such as those in China, Australia and Japan. Based on China's experience, there is observable pent-up demand for travel and hospitality. For example, figures from the China Ministry of Culture and Tourism captured that during the three-day Dragon Boat Festival in mid-June 2021, domestic tourism revenue recovered to 74.8% of 2019 levels. Further highlighting the importance of domestic tourism, nearly half of the experts responded that they do not see a return to 2019 international tourism levels before 2024 or later in a survey conducted by The World Tourism Organisation in May 2021.

Despite the challenging environment, both Hospitality REITs we cover retained good access to bank loan markets. Outside of expectations, Frasers Hospitality Trust ("FHREIT") called on its perpetuals in May 2021 by replacing it with bank debt instead, lifting its aggregate leverage to ~42%. Secondary prices of Ascott Residence Trust ("ART")'s curve held up though ART has yet to tap primary markets since the start of the pandemic, opting instead to allow its perpetual to reset at a lower distribution rate. Tellingly though, ART has announced an expansion of its investment mandate to also cover student accommodation. ART is targeting to have the rental housing and student accommodation segments make up 15-20% of its property value in the medium term and had announced acquisitions and investments in 1H2021 as part of this plan. On a proforma basis, including the development expenditure on a new greenfield asset and announced but yet completed transactions, ART is 9% exposed to these segments.

Hospitality assets, especially those located in key gateway cities continue to be a store of value, despite suppressed occupancy rates. Encouragingly, there were no asset sales in the hospitality market in Singapore in 1Q2021 while 4Q2020 only saw one hotel change hands, namely the Amber Katong Hotel, which operates in the budget segment. In January 2021, ART completed the sale of Ascott Guangzhou which was announced in July 2020 at 52% above book value and 81% above purchase price in 2012. Based on independent valuation as at 31 December 2020, ART's portfolio valuation had corroded by 7% y/y on a same-store basis while for FHREIT as at 30 September 2020, this was 3.5% y/y.

However, that being said we are seeing weakness in terms of master lease agreements entered into by the Hospitality REITs with third parties. Master leases traditionally provides a level of income stability to REITs, though the continuity of such leases is reliant on a hotel operator's ability to generate revenue. Through 2020 and 1H2021, certain master leases have been renegotiated into less favourable terms for the REITs, while a handful of master lessees have defaulted on their contractual obligations, despite their earlier reputation as solid operators in their respective hospitality markets. While the hospitality REITs hold the rights for asset repossession, it is not yet known if they are able to source for replacement third party master lessees in the short term. In this downturn, we expect the sanctity of master leases provided by Sponsors to be more reliable, given the higher level of alignment of interest with the REIT, compared to third parties whose counterparty credit risks would have also risen significantly (particularly if their main business is predominantly in the travel and hospitality industry). Aside from contractual income from Sponsors, the hospitality REITs under our overage are reliant on drawing down existing liquidity sources.

**Figure 23: Singapore Historical Average Room Rate and Occupancy**




Source: Singapore Tourism Board

**OCBC Credit Research Views on REIT Property Sectors**

**Figure 24: REIT statistics (as of 31 March 2021 unless otherwise stated)**

| | Aggregate Leverage (%) | EBITDA/Interest (Latest available period) | EBITDA/Interest (previous year corresponding period) | Debt Duration (years) | Debt cost (%) | Proportion of debt fixed/hedged (%) |
|---|---|---|---|---|---|---|
| **Commercial** | | | | | | |
| CapitaLand Integrated Commercial Trust | 40.8 | 3.4* | 4.3 | 3.2 | 2.8 | 83.0 |
| Keppel REIT | 35.2 | 1.5* | 1 | 3 | 2.0 | 85.0 |
| Mapletree Commercial Trust | 33.9 | 4.4 | 4.3 | 4.2 | 2.5 | 70.7 |
| Suntec REIT | 44.4 | 1.2* | 1.7 | 3 | 2.5 | 61.0 |
| Frasers Centrepoint Trust | 35.2* | 4.5* | 4.6 | 2.6 | 2.2 | 54.0 |
| Lippo Malls Indonesia Retail Trust | 41.7 | 1.3 | 3.7 | 3.5 | 6.5 | 80.6 |
| Mapletree North Asia China Commercial Trust | 41.5 | 3.7 | 3.4 | 3.1 | 1.99 | 73.0 |
| Starhill Global REIT | 35.8 | 2.6* | 3.2 | 2.3 | 3.28 | 92.0 |
| CapitaLand China Trust | 35.1 | 3.2* | 4.1* | 2.7 | 2.51 | 80.0* |
| SPH REIT | 30.4 | 7.7 | 5.4 | 3.1 | 1.84 | 49.5 |
| **Average:** | **37.6** | **4.3** | **3.5** | **3.1** | **2.81** | **72.1** |
| **INDUSTRIAL** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Ascendas REIT | 38.0 | 4.6* | 4.3* | 3.3 | 2.2 | 69.4 |
| Mapletree Industrial Trust | 40.3 | 5.9 | 6.3 | 3.6 | 2.8 | 76.8 |
| Mapletree Logistics Trust | 38.4 | 5.2 | 4.9 | 3.8 | 2.2 | 75.0 |
| ARA LOGOS Logistics Trust | 37.4 | 4.4* | 3.5* | 2.8 | 3.1 | 69.1 |
| AIMS APAC Industrial REIT | 33.9 | 4.0 | 3.5 | 2.3 | 3.0 | 78.3 |
| **Average:** | **37.6** | **4.8** | **4.5** | **3.2** | **2.7** | **73.7** |
| **HOSPITALITY** | | | | | | |
| Ascott Residence Trust | 36.1 | 2.2* | 4.8* | 3.0 | 1.7 | 78.0 |
| Frasers Hospitality Trust | 37.7 | 2.4 | 4.0 | 3.1 | 2.2 | 74.6 |
| **Average:** | **36.9** | **2.3** | **4.4** | **3.0** | **2.0** | **76.3** |
| **OTHERS** | | | | | | |
| First REIT | 34.6** | 4.4* | 4.9 | 1.78** | 3.6* | 40.0* |

Source: OCBC Credit Research, Company financials and investor presentations
* as at 31 December 2020 or financials for the half year period ended 31 December 2020, as applicable
** Proforma given the completion of debt repayment using equity raised via rights issue

### Figure 25: Distribution of the assets types and geography of the REITs

**CapitaLand Integrated Commercial Trust**

| | Retail Assets | Office Assets | Integrated Development | Total |
|---|---|---|---|---|
| **Singapore** | 33% | 34% | 29% | **96%** |
| **Germany** | | 4% | | **4%** |
| **Total** | **33%** | **38%** | **29%** | **100%** |

By Total Investment Property Value: SGD22.3bn as at 31 December 2020

**Keppel REIT**

| | Office | Total |
|---|---|---|
| **Singapore** | 77% | **77%** |
| **Australia** | 19% | **19%** |
| **South Korea** | 3% | **3%** |
| **Total** | **100%** | **100%** |

By Total Investment Property Value: SGD8.9bn as at 31 March 2021

**Mapletree Commercial Trust**

| | Retail* | Office* | Integrated Development* | Total |
|---|---|---|---|---|
| **Singapore** | 36% | 21% | 43% | **100%** |
| **Total** | **36%** | **21%** | **43%** | **100%** |

By Total Investment Property Value: SGD8.7bn as at 31 March 2021
* OCBC Credit Research estimation

**Suntec REIT**

| | Office* | Retail* | Convention* | Total |
|---|---|---|---|---|
| **Singapore** | 54% | 20% | 2% | **76%** |
| **Australia** | 17% | | | **17%** |
| **UK** | 7% | | | **7%** |

| Total | 78% | 20% | 2% | 100% |
|---|---|---|---|---|

By Total Investment Property Value: SGD11.5bn as at 31 December 2020
* OCBC Credit Research estimation

**Frasers Centrepoint Trust**

| | Retail | Total |
|---|---|---|
| Singapore | 100% | 100% |
| Total | 100% | 100% |

By Total Investment Property Value: SGD6.7bn as at 31 December 2020

**Lippo Malls Indonesia Retail Trust**

| | Retail | Total |
|---|---|---|
| Indonesia | 100% | 100% |
| Total | 100% | 100% |

By Total Investment Property Value: SGD1.8bn as at 31 December 2020

**Mapletree North Asia China Commercial Trust**

| | Commercial | Total |
|---|---|---|
| China | 23% | 23% |
| South Korea | 3% | 3% |
| Japan | 17% | 17% |
| HKSAR | 57% | 57% |
| Total | 100% | 100% |

By Total Investment Property Value: SGD7.9bn as at 31 March 2021

**Starhill Global REIT**

| | Retail | Office | Total |
|---|---|---|---|
| Singapore | 69% | | 69% |
| Australia | 14% | | 14% |
| Malaysia | 14% | | 14% |
| Others | 1% | 2% | 3% |
| Total | 98% | 2% | 100% |

By Total Investment Property Value: SGD2.9bn as at 31 Dec 2020

**CapitaLand China Trust**

| | Retail | Business Park | Total |
|---|---|---|---|
| China | 85% | 15% | 100% |
| Total | 85% | 15% | 100% |

By Total Investment Property Value: SGD4.4bn as at 31 Dec 2020

**SPH REIT**

| | Commercial | Total |
|---|---|---|
| Singapore | 80% | 80% |
| Australia | 20% | 20% |
| Total | 100% | 100% |

By Total Investment Property Value: SGD4.1bn as at 31 Aug 2020

**Ascendas REIT**

| | Logistics | Data Centre* | Business & Science Parks / Suburban Offices | Industrial** | Total |
|---|---|---|---|---|---|
| **Singapore** | 8% | 4% | 27% | 21% | **60%** |
| **Australia** | 10% | | 5% | | **15%** |
| **UK/EU** | 5% | 6% | | | **11%** |
| **US** | | | 14% | | **14%** |
| **Total** | **23%** | **10%** | **46%** | **21%** | **100%** |

By Total Investment Property Value: SGD15.1bn as at 31 March 2021
* OCBC Credit Research estimation
** Industrial includes integrated developments, amenities, light industrials, flatted factories and high-specification industrial

**Mapletree Industrial Trust**

| | Data Centre | Hi-Tech Buildings | Business Park | Flatted Factories | Stack-up Buildings | Others | Total |
|---|---|---|---|---|---|---|---|
| **Singapore** | 6% | 20% | 9% | 22% | 7% | 1% | **65%** |
| **North America** | 35% | | | | | | **35%** |
| **Total** | **41%** | **20%** | **9%** | **22%** | **7%** | **1%** | **100%** |

By Total Investment Property Value: SGD6.8bn as at 29 April 2021

**Mapletree Logistics Trust**

| | Logistics | Total |
|---|---|---|
| **HKSAR** | 25% | **25%** |
| **China** | 17% | **17%** |
| **Japan** | 11% | **11%** |
| **South Korea** | 8% | **8%** |
| **Malaysia** | 5% | **5%** |
| **Vietnam** | 2% | **2%** |
| **India** | 1% | **1%** |
| **Singapore** | 24% | **24%** |
| **Australia** | 8% | **8%** |
| **Total** | **100%** | **100%** |

By Total Investment Property Value: SGD10.8bn as at 31 March 2021

**ARA LOGOS Logistics Trust**

| | Warehouse | Total |
|---|---|---|
| **Singapore** | 65% | **65%** |
| **Australia** | 35% | **35%** |
| **Total** | **100%** | **100%** |

By Total Investment Property Value: SGD1.3bn as at 31 December 2020

**AIMS APAC Industrial REIT**

| | Warehouse | Hi-tech | Business Park | Light Industrial | General Industrial | Total |
|---|---|---|---|---|---|---|
| **Singapore** | 48% | 8% | 5% | 8% | 13% | **81%** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Australia** | | | 16% | 2% | | **19%** |
| **Total** | **48%** | **8%** | **21%** | **10%** | **13%** | **100%** |

By Total Investment Property Value (inclusive of 49% stake in Optus Centre): SGD1.5bn as at 31 December 2020

**Ascott Residence Trust**

| | Hotels, Serviced Residences and Rental Housing | Total |
|---|---|---|
| **Australia** | 15% | **15%** |
| **Belgium** | 1% | **1%** |
| **China** | 7% | **7%** |
| **France** | 7% | **7%** |
| **Germany** | 4% | **4%** |
| **Indonesia** | 1% | **1%** |
| **Japan** | 20% | **20%** |
| **Malaysia** | 1% | **1%** |
| **Philippines** | 2% | **2%** |
| **Singapore** | 16% | **16%** |
| **South Korea** | 3% | **3%** |
| **Spain** | 1% | **1%** |
| **UK** | 7% | **7%** |
| **US** | 12% | **12%** |
| **Vietnam** | 3% | **3%** |
| **Total** | **100%** | **100%** |

By Total Asset Value: SGD6.8bn as at 31 March 2021 (SGD6.8bn is per OCBC Credit Research estimation)

**Frasers Hospitality Trust**

| | Hotels and Serviced Residences | Total |
|---|---|---|
| **Singapore** | 35% | **35%** |
| **Australia** | 32% | **32%** |
| **United Kingdom** | 14% | **14%** |
| **Japan** | 9% | **9%** |
| **Malaysia** | 6% | **6%** |
| **Germany** | 4% | **4%** |
| **Total** | **100%** | **100%** |

By Total Investment Property Value: SGD2.25bn as at 30 Sep 2020

**First REIT**

| | Hospital | Total |
|---|---|---|
| **Singapore** | 4% | **4%** |
| **South Korea** | <1% | **<1%** |
| **Indonesia** | 96% | **96%** |
| **Total** | **100%** | **100%** |

By Total Investment Property Value: SGD940mn as at 31 Dec 2020
Sources: All tables for Figure 24 & 25 are tabulated from company annual reports, financials and investor presentations unless otherwise stated; rounded up

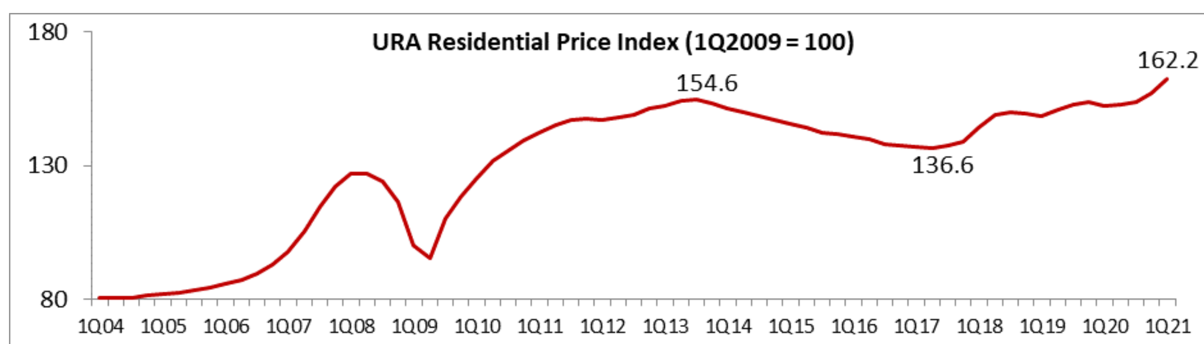
## *Singapore Property – Up, Up, and Away*

**The best time to buy a property was yesterday…:** 1Q2021 private residential property prices rose 3.3% q/q, accelerating from the 2.1% q/q increase in 4Q2020. The magnitude of increase is large in comparison to the average quarterly price increase of 0.38% in the last 10Y (1Q2011-1Q2021) and there were only two quarters during this period (1Q2018: +3.9%, 2Q2018: +3.4%) when the price gain was higher.

A rising tide lifts some boats more than others. Gains were not evenly distributed, with Rest of Central Region (“RCR”) continuing its strong price gains of 6.1% q/q (4Q2020: +4.4% q/q) while Outside Central Region (“OCR”) and Core Central Region (“CCR”) prices increased by a smaller 1.1% q/q (4Q2020: +1.8% q/q) and 0.5% q/q (4Q2020: +3.2% q/q) respectively.

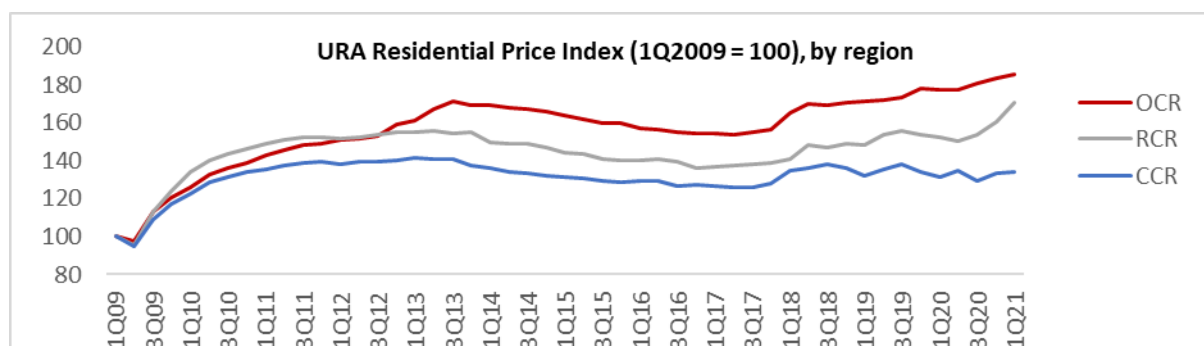
3,493 units were sold in 1Q2021, beating out 4Q2020’s sales by 34.2% and the number of units sold in 1Q2021 represents the best first quarter sales in recent years. Strong sales momentum continued into Apr 2021 with 1,262 units sold in the month, excluding Executive Condominiums (“ECs”).

**Figure 26: Property prices breaks another all-time high as of 1Q2021**



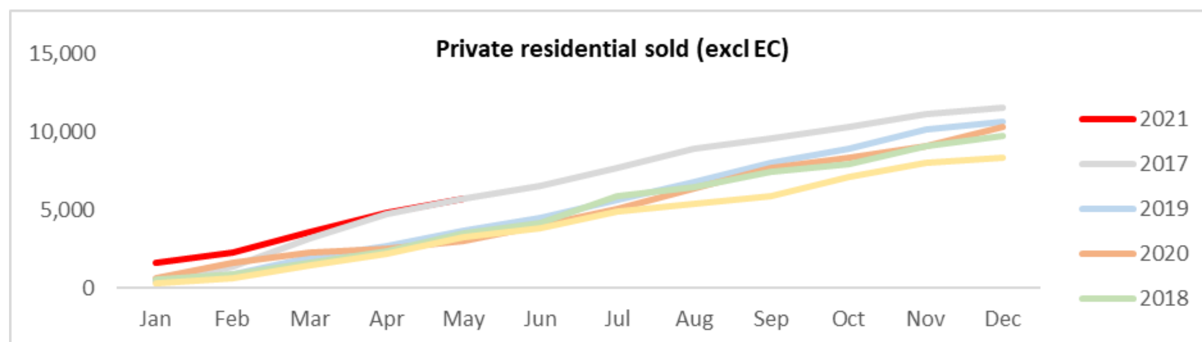

Source: URA, OCBC

**Figure 27: Price growth in OCR and RCR have outpaced CCR**




Source: URA, OCBC

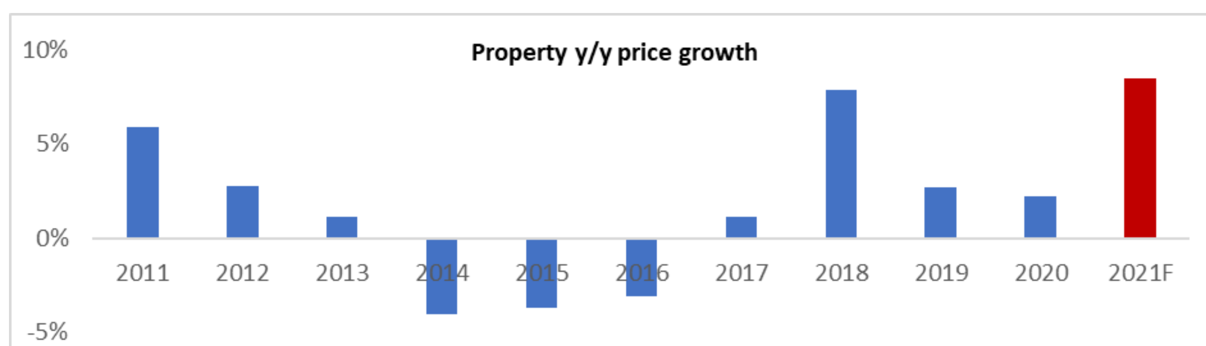
**Figure 28: Very strong sales in first five months in 2021**




Source: URA, OCBC

**… the next best time to buy a property is today:** Given the strength of the property market in 1Q2021, we revise our forecast higher and expect property prices to increase 7%-10% in 2021 (previous expectations: 5 to 8% increase), noting that 1Q2021's annualised pace of price increase is over 13%. We think that the price increase is sustainable due to a confluence of factors including strong real demand, tightening supply and cost-led pressures. If policymakers choose not to intervene, property prices could overshoot our revised forecast.

**Figure 29: We think price growth in 2021 could be the best in 10Y**




Source: OCBC estimates

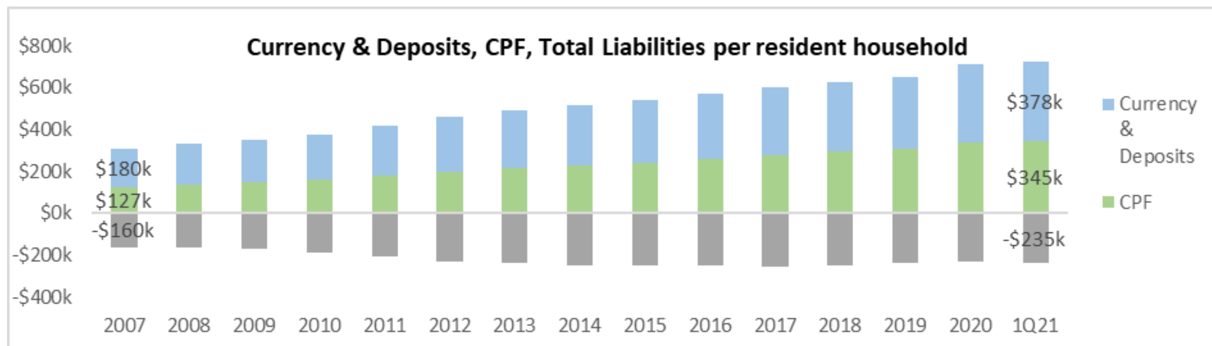
**Singaporeans are crowding out foreigners and permanent residents, helped by strong spending power:** Today, Singaporeans are the true buying force in the property market. Unlike early 2010s when foreigners and permanent residents comprise more than 20% of the total buyers, as of LTM (June 2020 to May 2021) the share has fallen for foreigners (4%) and permanent residents (12%). This is attributable to curbs on immigration and property cooling measures, which impacts foreigners and permanent residents more. Foreign share of buyers accelerated its decline in 2020 and YTD 2021, likely due movement restrictions because of the pandemic. The rising property market despite declining lower foreign demand is a testament of strong Singaporean demand for property.

As mentioned in our previous publications, Singapore households are cash-rich and getting richer quickly asset-wise, with sufficient cash and assets to afford the down payment (based on loan-to-value of 75%) of mass market condominiums priced between SGD1mn and SGD2mn. We also note the rapid growth of Central Provident Fund ("CPF") balances, which can be used to fund the purchase of housing.

Meanwhile, condominium are not out of reach of the median Singapore household by income, with an estimated median wage of ~SGD8000/mth (excluding employer CPF contributions and excluding households without working persons). Although property price per area have generally increased, we think prices has been kept affordable for the mass market (around ~SGD1.5mn in prices) by the decline in floor space. This may not necessarily impact living standards as the number of persons per household have been declining.

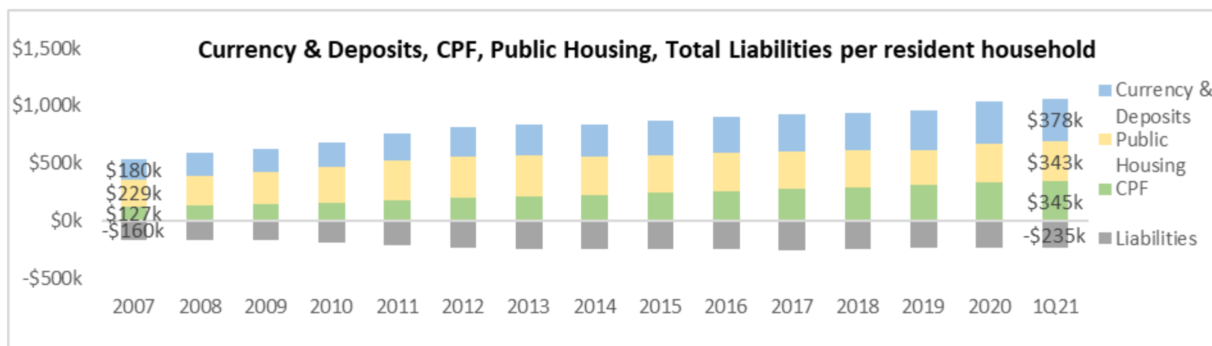
Aside from the strong ability to afford private housing, continued household formation and the aspirations of Singaporeans to upgrade to private property are major drivers of demand. Such aspirations are further supported by rising public housing ("HDB") prices as HDB homeowners can monetise HDB units at higher prices to foot the down payment for private property.

**Figure 30: Cash (currency, deposits) and CPF have grown quickly, more so through the pandemic**



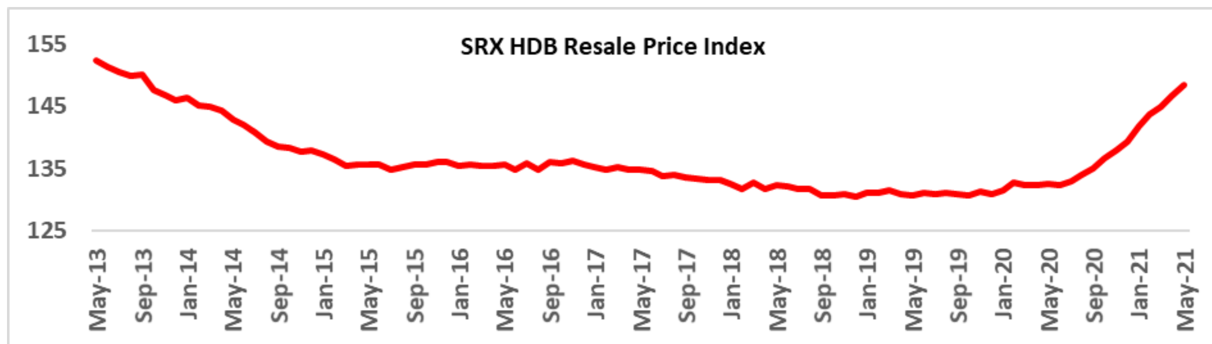

Source: Singstat, OCBC estimates

**Figure 31: Down payment for a condominium looks within reach, especially for HDB upgraders**



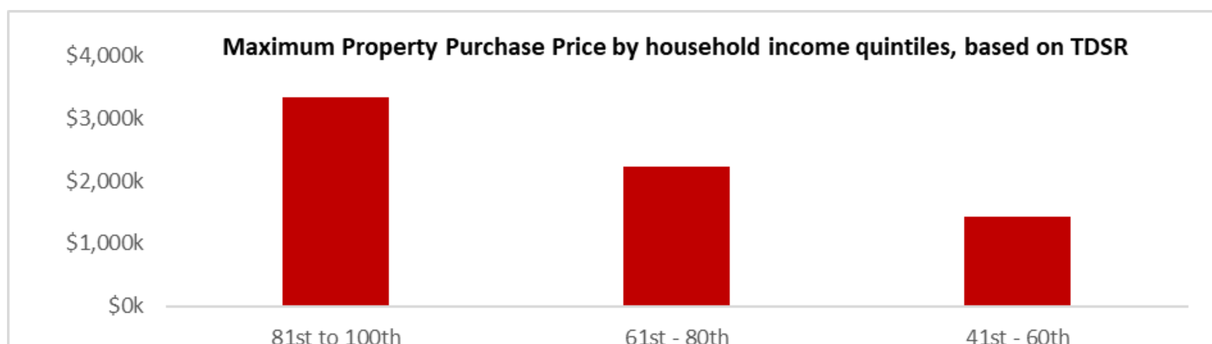

Source: Singstat, OCBC estimates

**Figure 32: Strong HDB resale prices support HDB upgraders who can sell HDBs at higher prices**



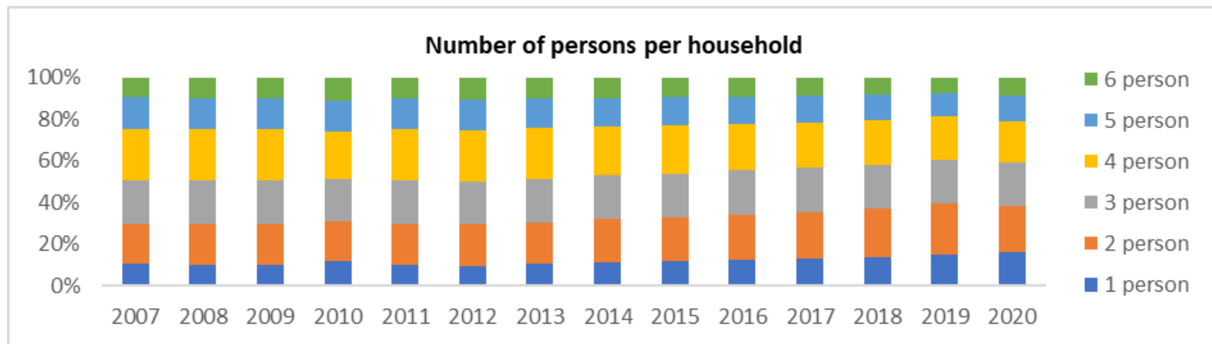

Source: SRX, OCBC

**Figure 33: Majority of households can afford a condominium priced over SGD1mn**



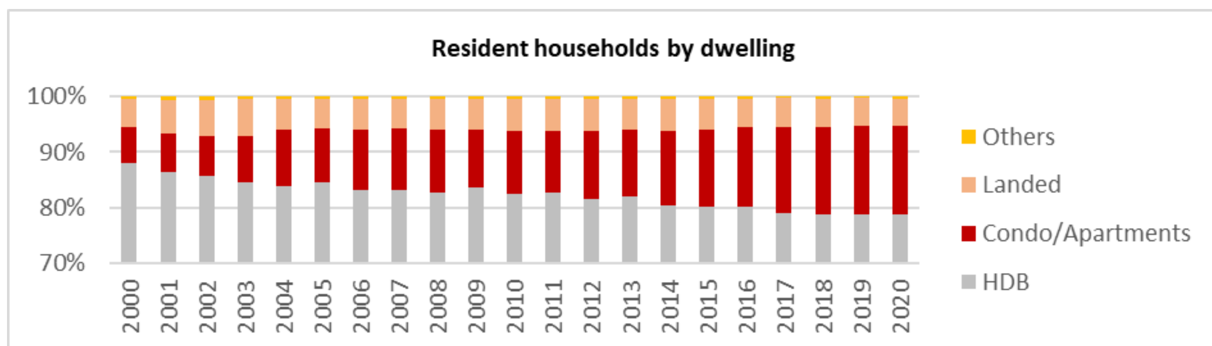

Source: Singstat, OCBC estimates
*Assumes sufficient capital for down payment. Excludes households with no working person. Maximum purchase price based on median income estimate of SGD8k for 41st – 60th quintile, SGD12.5k for the 61st – 80th quintile and SGD18.75k for the 81st to 100th quintile

**Figure 34: Size of the household has been shrinking**



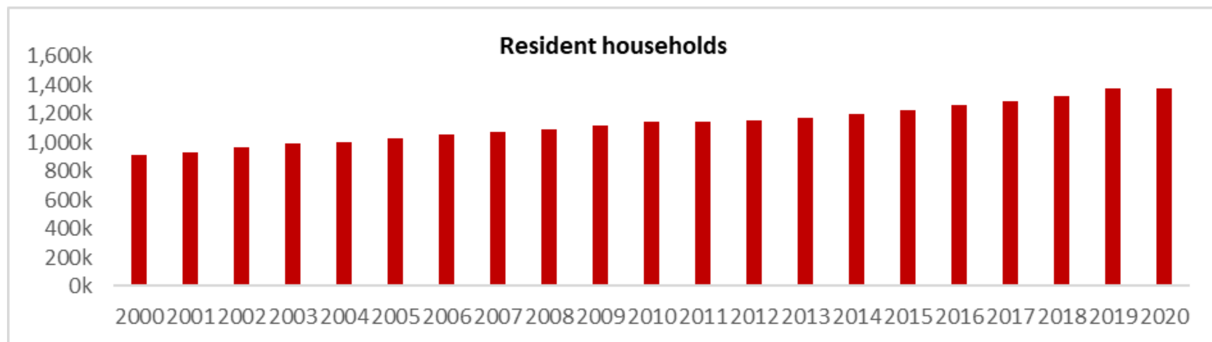

Source: Singstat, OCBC

**Figure 35: Increasingly, households are choosing to live in private property**




Source: Singstat, OCBC

**Figure 36: Continued household formation drives demand**




Source: Singstat, OCBC

**Pandemic is a boon to property demand:** While it appears counterintuitive that property demand increased given the pandemic-triggered recession, this is not unusual compared to the rest of the world where prices have increased by a similar or larger magnitude. The pandemic has shifted behaviour as people are spending more time at home due to movement restrictions. Housing is no longer only used for living but will need to cater for increased work from home arrangements.

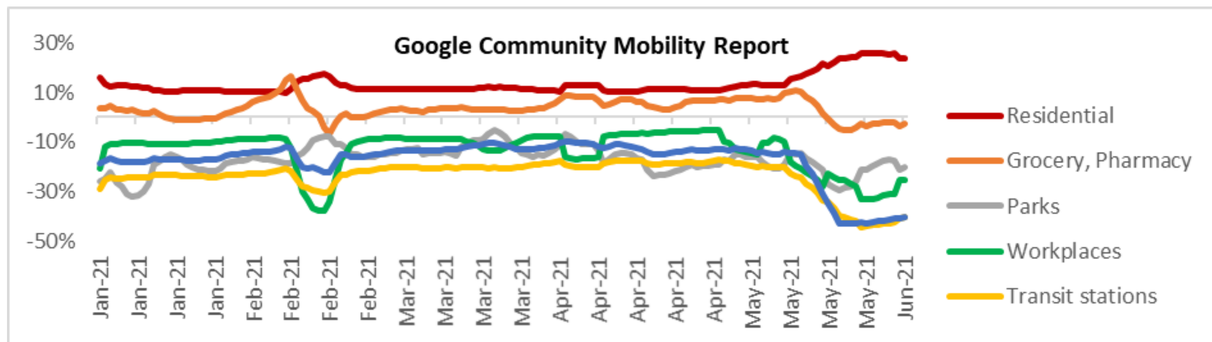
Separately, interest rates which bottomed have helped boost housing affordability. Unlike past recessions, the dip in unemployment rates is shorter and shallower, with Monetary Authority of Singapore ("MAS") expecting unemployment rate to decline. Meanwhile continued economic recovery is underway, albeit a K-shaped one.

Although Singapore entered Phase 2 (Heightened Alert), and has entered Phase 3 (Heightened Alert) which imposed certain restrictions on property viewing, we understand from developers that sales are still healthy. In contrast to the circuit breaker last year, buyers are still allowed to view the property in person and buyers have become more accustomed to viewing properties online.

**Figure 37: Singapore is not an exception, property prices have risen in many parts of the world**

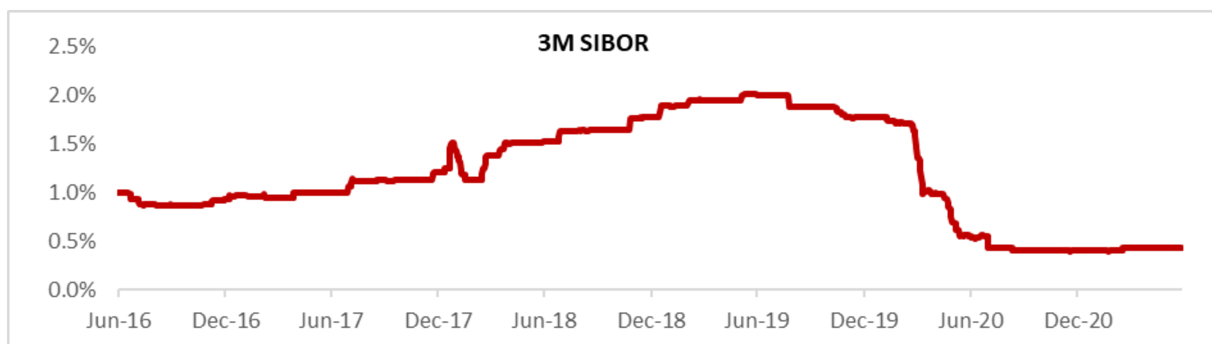
Source: URA, Bank for International Settlements, Federal Housing Finance Agency, STCA - Statistics Canada, Eurostat, Hong Kong Rating and Valuation Department, Australian Bureau of Statistics, Kookmin Bank-International Finance, OCBC
Property price growth as of 31 Mar 2021
*Property price growth as of 31 Dec 2020

**Figure 38: People are spending more time at home, which should shift preference for housing**



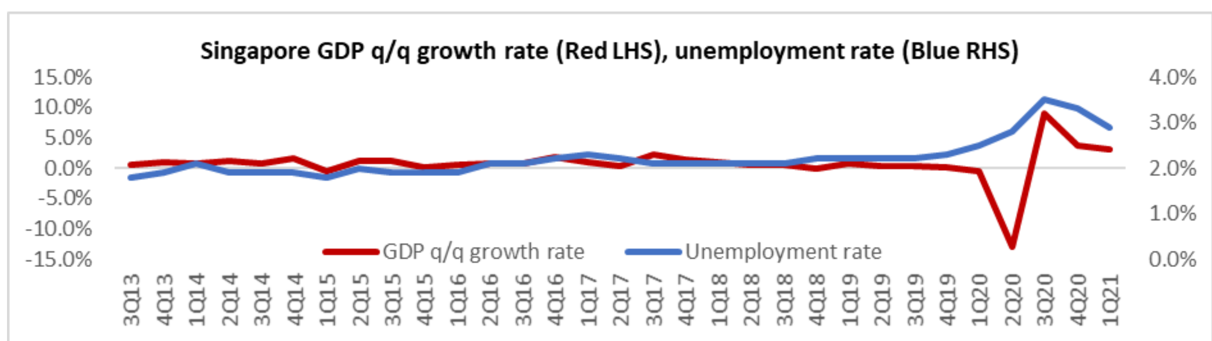

Source: Google, OCBC

**Figure 39: Home loans are cheap as SIBOR nears rock-bottom levels**




Source: The Association of Banks in Singapore, Bloomberg

**Figure 40: Unemployment rates are coming down while GDP growth has strongly rebounded**




Source: Singapore Ministry of Manpower, Ministry of Trade and Industry

**Heading into a supply crunch?:** While property transactions are reaching multi-year highs (see figure 28), new housing supply has reached multi-year lows. Since the end of the en-bloc fever in 2018, developers have depended on government land sales ("GLS") as the primary source of new land supply. However, the confirmed list for GLS has crawled to a trickle with only 3,605 units released over 2021. Including 905 units at Marina View which is triggered for tender from the reserve list, total supply still pales in comparison to 12,636 units sold between May 2020 to Apr 2021.

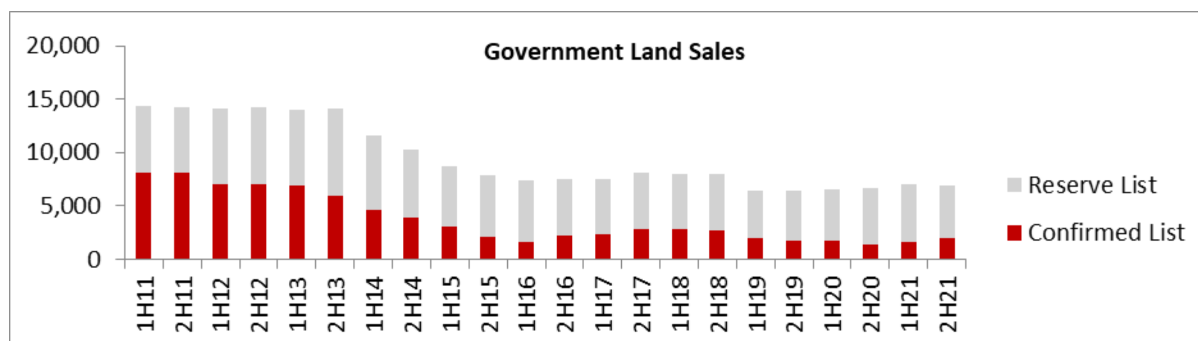
Without insufficient new housing supply to replenish the units sold, unsold units in the pipeline have fallen to levels seen in early 2018 and is expected to fall further if uptake remains strong. We expect 21,602 unsold units in the pipeline to sell out within 2 years. We observe that developers are hungry for land, given the strong interest for sites tendered at Ang Mo Kio Avenue 1 (which attracted 15 bids) and Northumberland Road (10 bids). We think it is too little, and perhaps too late if the government does not release more land soon.

However, we acknowledge that higher land sales may not necessarily achieve a meaningful impact in near to medium-term supply given the severe shortage in manpower. According to a survey conducted by National University of Singapore Real Estate ("NUS+RE"), 100% of developers are concerned about labour (of which 70.8% are very concerned) as of 1Q2021. The Singapore Contractors Association Limited stated that constructions projects are delayed for 9 to 12 months. Reportedly, construction firms have not been able to replace migrant workers who return home. This is compounded by Singapore barring visitors from India and Bangladesh due to the pandemic, countries which are major sources of migrant workers.

While most existing developments in the pipeline are expected to be completed in 2022-24, barring further deterioration in labour conditions, newer developments may face steeper delays. We note that for HDB Build-To-Order ("BTO") flats released in May 2021, buyers are expected to collect their keys in 2026-27 (5-6 years), which is longer than the typical 3-4 years wait pre-pandemic. The long wait for BTO flats is one key reason driving couples to buy a resale HDB flat, which we think should continue supporting HDB prices.

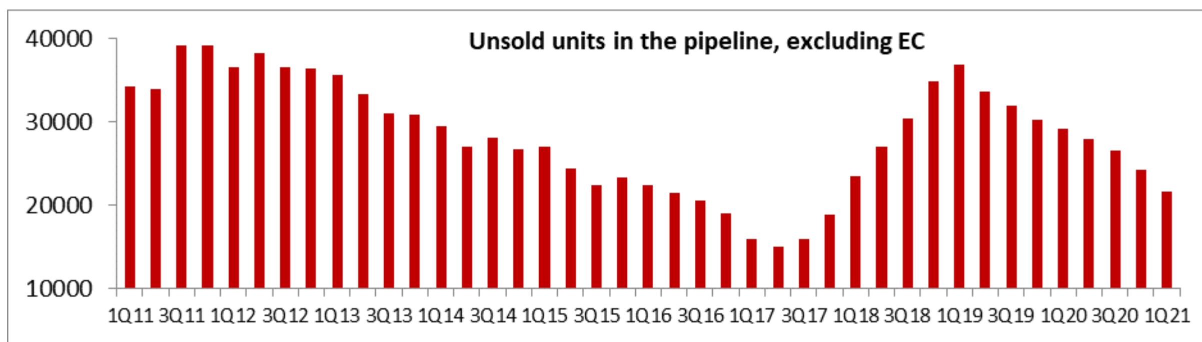
As competition for labour intensifies, the cost of labour and materials has increased by an estimated 30% to 50%. According to NUS+RE survey, nearly half the developers see margins narrowing by 5% to 10% from pre-pandemic levels. If costs increase further, inevitably developers have to pass on the price increase to buyers. We think there is potential to hike prices given the bullish price outlook by the majority of developers.

**Figure 41: Confirmed List is near multi-year lows while reserve list is rarely triggered for sale**



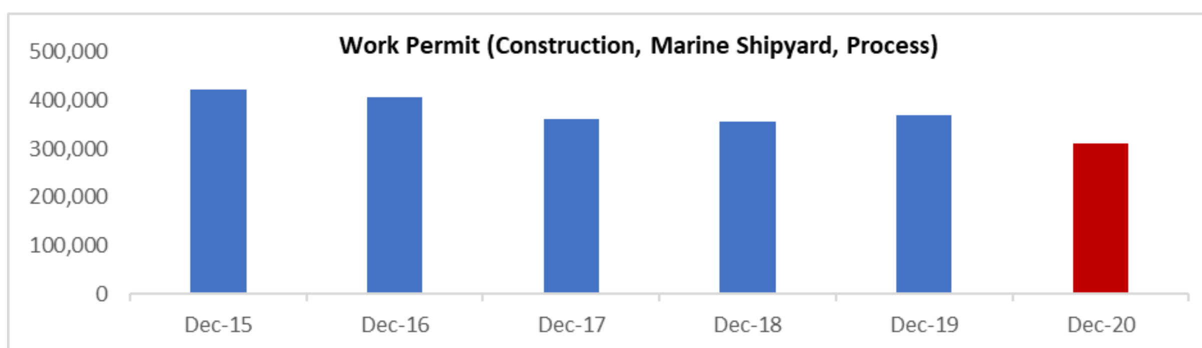

Source: URA

**Figure 42: Unsold units have fallen quickly due to strong demand and insufficient new supply**



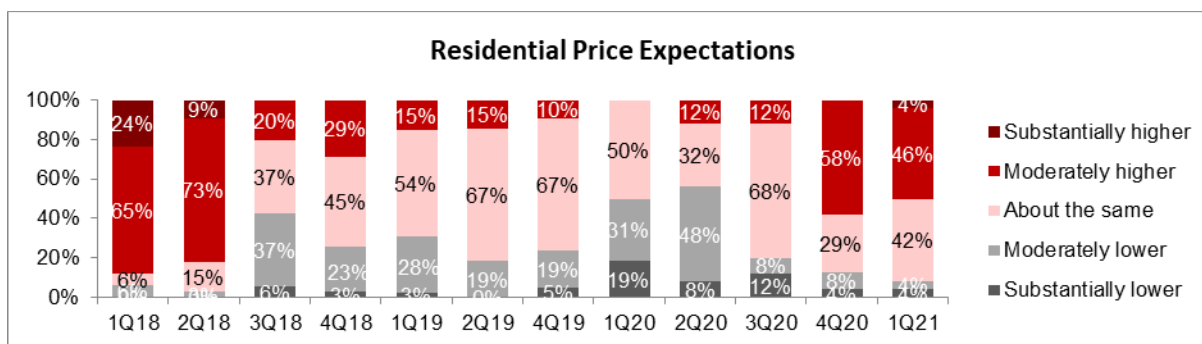

Source: URA

**Figure 43: Number of work permit holders have fallen significantly**




Source: Ministry of Manpower

**Figure 44: Half of the developers are expecting prices to increase**




Source: NUS-RE, OCBC

**Would tighter property cooling measures ensue?:** Rapid increase in prices in the past have typically been met with tighter property cooling measures, though the regulators have not intervened this time, or perhaps not yet. This should not be surprising as unlike the lead up to prior tightening measures, alarm bells have not been sounded, as mentioned in our Credit Outlook published in January. In an interview on 30 Jun 2021, MAS managing director Ravi Menon mentioned that the property market is not considered overheated.

However, going forward, we think that the government will be ready to tighten property cooling measures should property price growth significantly exceed GDP growth. Deputy Prime Minister ("DPM") Heng Swee Keat ("Heng") mentioned in January 2021 that the government is 'paying close attention' to the property market with the intention that the property market does not run ahead of economic fundamentals. Meanwhile, MAS remains "highly vigilant" on home prices, with prolonged divergence from income trends seen as unsustainable. As 1Q2021's property price growth of 3.3% q/q is in-line with GDP growth of 3.1% q/q (7.9% y/y), we think this does not necessitate the government to intervene in the property market. Our colleagues at OCBC Treasury Research expect Singapore's GDP to grow 5-6% y/y in 2H2021, while MAS flagged the possibility for Singapore's GDP growth to exceed the upper end of its 4 to 6% forecast range, which should leave ample room for property prices to rise before the regulators consider tightening of property cooling measures.

We also think that regulators have no urgency to act, for now, from the angle of financial prudence. While we estimate that household debt to GDP has risen 5.9ppts y/y to 68.5%, this is driven more by the fall in GDP rather than surge in household borrowings. In any case, household debt to GDP looks in-line with averages in the past decade. Meanwhile, the average housing loan-to-value ("LTV") ratio has declined to recent year lows, which we think leave sufficient equity cushion.

**Which property cooling measure?:** If the regulators decide to cool property market, we think it is no longer straightforward to select the policy levers. Two of the most effective levers, which are LTV ratio and total debt servicing ratio ("TDSR"), are angled towards financial prudence (we think there is no urgency to react from this angle). With Singaporeans forming most of the buyers, tightening such levers by requiring more down payment or higher income may detract from the objective to ensure affordability of housing to Singaporeans, thereby hurting aspirations to upgrade.

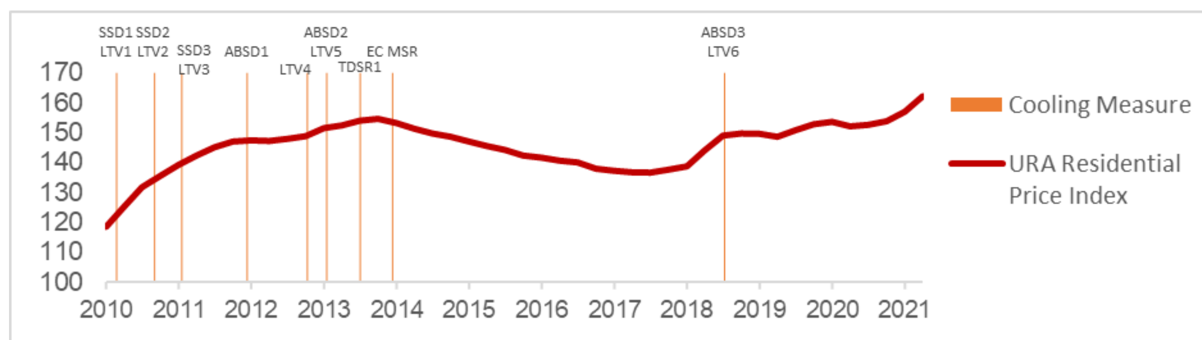
Fewer than 20% of the new housing loans are disbursed for the purpose of investment property (as opposed to owner occupied property), which implies that most of the new sales are made by genuine buyers looking for a place to live. We think hiking the additional buyer's stamp duty ("ABSD") could hold back some investment demand, though we should not expect the same degree of effectiveness like previous cooling measures given the decreasing proportion of foreign buyers and purchases made for the purpose of investment property (rather than owner-occupied).

In the Feb 2021 Budget debate, DPM Heng mentioned that there is scope to review Singapore's wealth taxes and agree to a suggestion that there is a role for property-related taxes. We note property tax was made more progressive in Budget 2013, with higher tax rates for high-end residential properties and larger increases not occupied by their owners. If property taxes are increased significantly for residential investment property, this could dampen investment demand and perhaps trigger owners of investment property to sell.

**Industry and economy less ready today for property cooling measure:** Previous rounds of property cooling measures have reduced the profit margins of property developers. As construction costs have increased, there is less room by the industry to absorb an impact to the property market. A strong property market should help repair the balance sheets of property companies, given that a number have levered up prior to the pandemic.

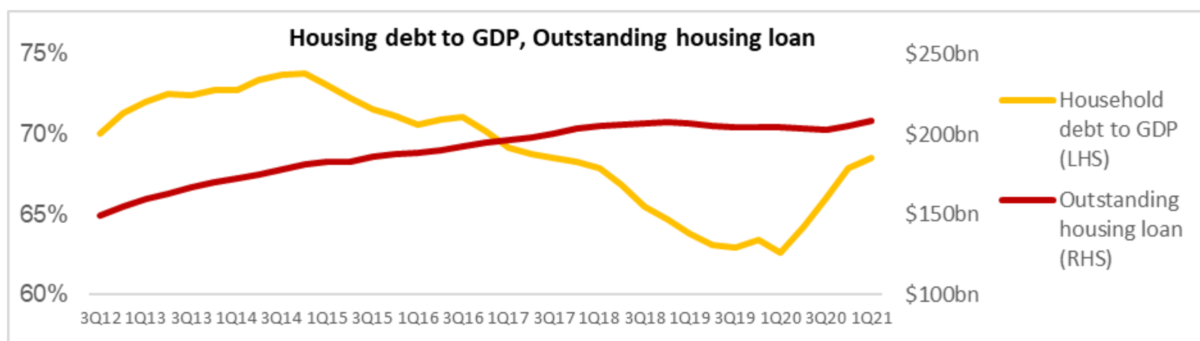
Separately, with the angle that property-related taxes could be used to raise revenue, a stronger property market should lead to better corporate profitability (increased corporate income taxes), increased property transaction (increased stamp duties) and prices (higher property related taxes).

**Figure 45: Property cooling measures used to tighten when prices rise quickly though this time is different**



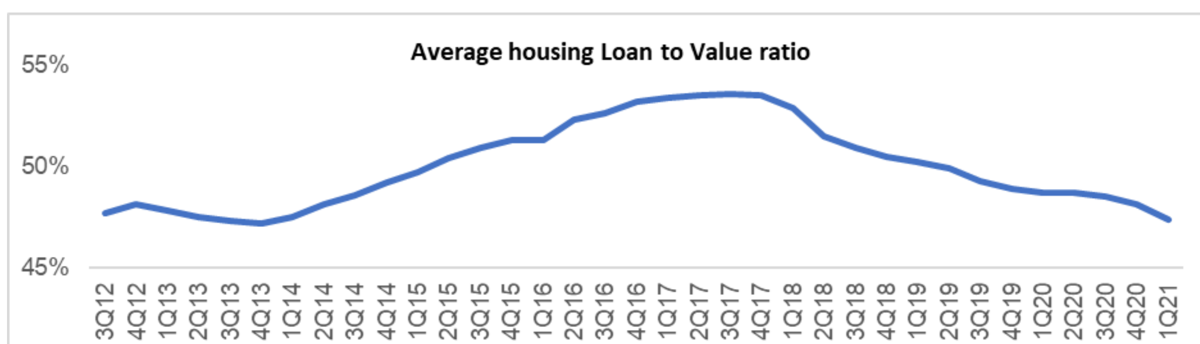

Source: URA, MAS, SRX, OCBC

**Figure 46: Household debt to GDP rose due to declines in GDP, not rise in borrowings**



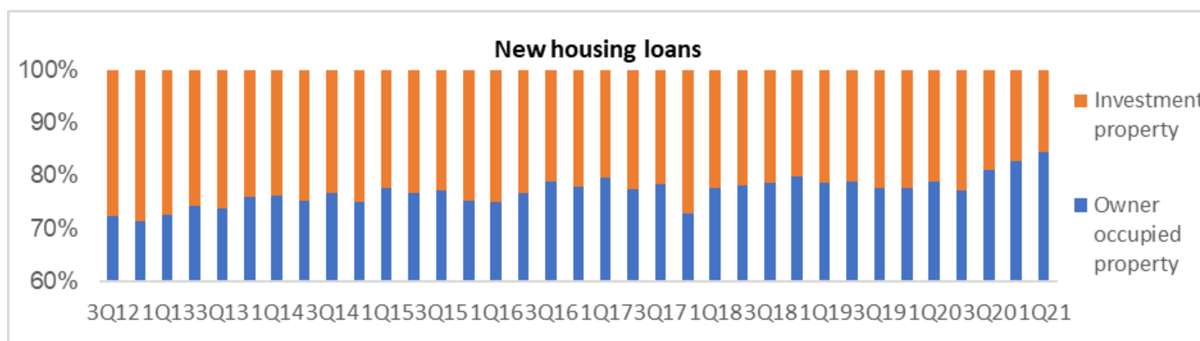

Source: MAS, Singstat, OCBC estimates

**Figure 47: Average Loan to Value ratio has fallen to recent year lows**




Source: MAS, OCBC

**Figure 48: Increasing proportion of properties are owner occupied**




Source: MAS, OCBC

**Challenges to develop properties in the new world:** Although the pandemic has led to a stronger property market, there is more bane than boon to developers.

Developers benefit from greater confidence to move units at higher prices, reducing risks of unsold units. The government has also been accommodative by extending deadlines for project completions.

However, profitability is impacted due to the surge in construction costs, of which part of the costs need to be borne by developers (instead of wholly borne by construction companies) due to legislative changes under Additional Relief Measure under the COVID-19 (Temporary Measures) Act 2020 (“COTMA”). According to a study conducted by the Business Times in March, pre-tax profit margins had fallen to 10-12% or sub-10% for certain housing projects. Construction costs may continue to escalate if the pandemic drags on. Fewer manpower at construction sites will also mean that developments will take longer to complete, thereby impacting cashflows and internal rate of return.

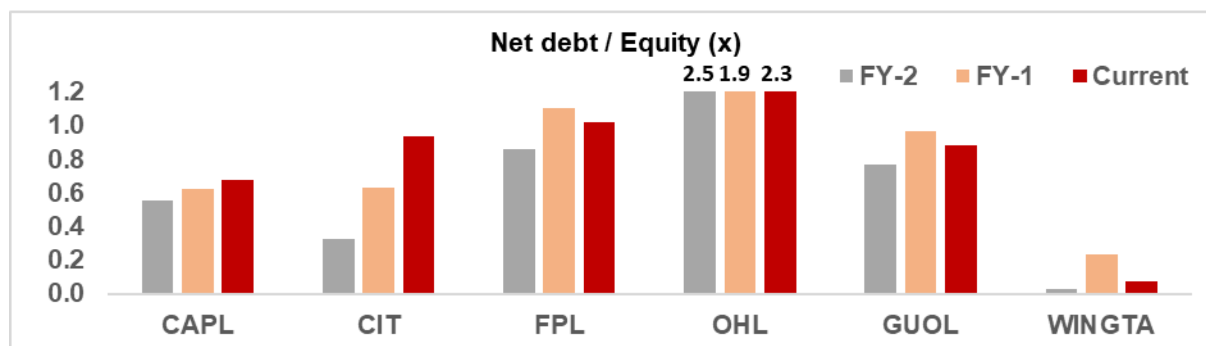
Replenishment of landbank is also costly and difficult, thereby depressing margins for new projects. Land parcels are hotly contested and bided up and few GLS sites are available under the confirmed list. Sites under the reserve list

are also seldom triggered for sale. Meanwhile, developers have turned cautious on enbloc opportunities due to non-remissible 5% ABSD and 25% remissible ABSD which was introduced in 2018.

**Weak credit profiles going into the pandemic, weakened further from the pandemic:** Following the 2017-18 enbloc craze which took gearing levels higher, developers in general have continued to utilise the balance sheet to acquire more development and/or investment properties in a bid to boost return on equity (which has been sagging). Through the pandemic year, several developers also undertook significant fair value losses or impairments which in turn weigh on the equity base. Amongst the six larger developers we cover (CapitaLand Ltd ("CAPL"), City Developments Ltd ("CDL"), Frasers Property Ltd ("FPL"), Oxley Holdings Ltd GuocoLand Ltd, Wing Tai Holdings Ltd), four out of six developers now sport net gearing levels around 1.0x or higher, as opposed to only one out of six developers two years ago.

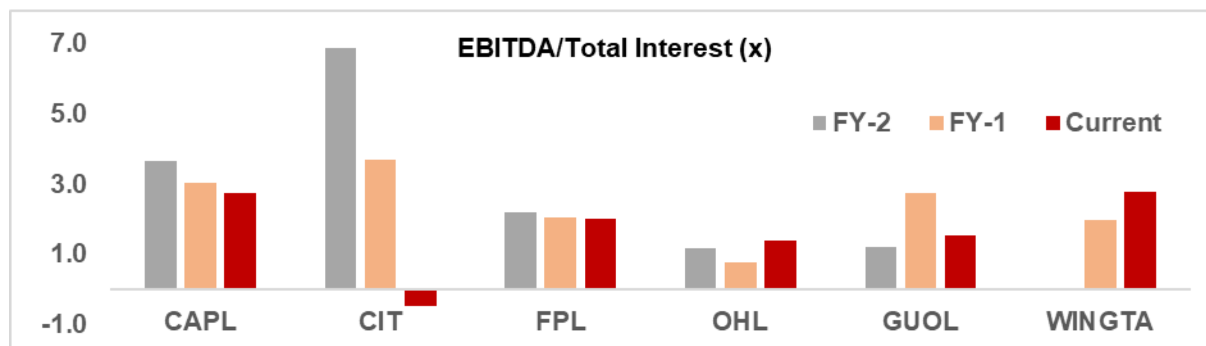
Profitability in general has also weakened through the pandemic. Aside from decreasing margins from development properties, rental income from investment properties and income from hospitality operations have also fallen. Currently, only two out of 6 larger developers we cover have EBITDA/Interest near 3.0x while none exceed 3.0x. Although the worst is likely over, we do not expect that profitability will recover to pre-pandemic levels of profitability in the near-term.

**Figure 49: Gearing in general has increased from two financial years ("FY") ago**




Source: Company, OCBC

**Figure 50: Profitability has fallen in general, resulting in higher EBITDA/Total Interest**




Source: Company, OCBC

**Good times to be a property owner, not so good time to be a developer:** Even though we paint a strongly positive outlook on property prices, this may not translate to good times for property developers. Pace of landbanking and acquisitions have noticeably weakened, partly due to subdued outlook (for the largest developers) but more so due to more challenging refinancing conditions limiting appetites for more indebted developers. For example, we note that Oxley Holdings Ltd has not been active in land bids while its strategy has shifted to completion of the projects in the pipeline.

Developers in Singapore are becoming a rarer breed as more opportunities could be found abroad. For example, in 2020 CAPL sold nearly 10 times the value of units in China (~SGD3.1bn across 5100 units) versus Singapore (SGD334mn across 220 units). Meanwhile, CAPL is restructuring and will likely be de-listed from the Singapore Exchange. For CDL, while it is still acquiring landbank in Singapore, much of its balance sheet headroom were spent in recent years to acquire Millennium & Copthorne, which is a global hospitality group, and Sincere Property in

China. Similarly, FPL also focuses more on acquisition of sites in Australia and China as well as purchase of investment properties in Singapore and abroad, as opposed to building up its Singapore development landbank.

**Is it a good time to be a bondholder of a property developer?:** While credit profiles in general have weakened, significant defaults within the Singapore property sector space should not be expected. This is because a buoyant property market should lend confidence to move and monetise the units, albeit at thinner margins given escalating construction costs. Going forward, the trajectory of each developer's credit profile will depend on the path chosen. Aside from the impact on credit metrics as developers decide to leverage up (or down), business profiles may shift should the developer move away from developing properties in Singapore.

**Please note that due to OCBC's engagement in other business activities, we have suspended our coverage on the following names until these activities are completed:**

1. **CapitaLand China Trust**
2. **City Development Limited**

OCBC Bank

# Contents

**B. COMPANY OUTLOOKS – CORPORATES** **Page No.**

1. AIMS APAC Real Estate Investment Trust 5
2. ARA LOGOS Logistics Trust (formerly Cache Logistics Trust) 6
3. Ascendas Real Estate Investment Trust 7
4. Ascott Residence Trust 8
5. CapitaLand Ltd 9
6. CapitaLand Integrated Commercial Trust 10
7. First Real Estate Investment Trust 11
8. Fraser & Neave Ltd 12
9. Frasers Centrepoint Trust 13
10. Frasers Hospitality Trust 14
11. Frasers Property Ltd 15
12. GuocoLand Ltd 16
13. Heeton Holdings Ltd 17
14. Hong Fok Corp Ltd 18
15. Hongkong Land Holdings Ltd 19
16. Hotel Properties Ltd 20
17. Keppel Corp Ltd 21
18. Keppel Infrastructure Trust 22
19. Keppel Real Estate Investment Trust 23
20. Lendlease Group 24
21. Lippo Malls Indonesia Retail Trust 25
22. Mapletree Commercial Trust 26
23. Mapletree Industrial Trust 27
24. Mapletree Investments Pte Ltd 28
25. Mapletree Logistics Trust 29
26. Mapletree North Asia Commercial Trust 30
27. Metro Holdings Limited 31
28. Olam International Ltd 32
29. OUE Ltd 33
30. Oxley Holdings Ltd 34
31. Sembcorp Industries Ltd 35

**B. COMPANY OUTLOOKS – CORPORATES (cont.)**

**Page No.**

| | | |
|---|---|---|
| 32. | Shangri-La Asia Limited | 36 |
| 33. | Starhub Ltd | 37 |
| 34. | Singapore Airlines Ltd | 38 |
| 35. | Singapore Post Ltd | 39 |
| 36. | SPH REIT | 40 |
| 37. | Singapore Telecommunications Ltd | 41 |
| 38. | Starhill Global REIT | 42 |
| 39. | Suntec REIT | 43 |
| 40. | The Wharf (Holdings) Ltd | 44 |
| 41. | Wing Tai Holdings Ltd | 45 |
| 42. | Wing Tai Properties Ltd | 46 |

OCBC Bank

**C. COMPANY OUTLOOKS – FINANCIAL INSTITUTIONS** **Page No.**


| | | Page No. |
|---|---|---|
| 46. | Australia & New Zealand Banking Group Ltd | 48 |
| 47. | Barclays PLC | 49 |
| 48. | BNP Paribas SA | 50 |
| 50. | China Construction Bank Corporation | 51 |
| 51. | Commerzbank AG | 52 |
| 52. | Crédit Agricole Group | 53 |
| 53. | Credit Suisse Group AG | 54 |
| 54. | DBS Group Holdings Ltd | 55 |
| 55. | HSBC Holdings PLC | 56 |
| 56. | Julius Baer Group Ltd | 57 |
| 57. | Landesbank Baden-Württemberg | 58 |
| 58. | National Australia Bank Ltd | 59 |
| 59. | Société Générale | 60 |
| 60. | Standard Chartered PLC | 61 |
| 61. | UBS Group AG | 62 |
| 62. | United Overseas Bank Ltd | 63 |
| 63. | Westpac Banking Corporation | 64 |

OCBC Bank

# Corporate Outlooks

# AIMS APAC REIT ("AAREIT")

**Issuer Profile:**
**Neutral (4)**

**Ticker:**
**AAREIT**

## Background

AIMS APAC REIT ("AAREIT") is structured as a real estate investment trust ("REIT") and listed on the SGX with a market cap of SGD1.0bn as at 28 June 2021 and total assets of SGD1.8bn as at 31 March 2021. AAREIT focuses on investing in industrial real estate in the Asia-Pacific region. As at 31 March 2021, AREIT owns 28 industrial properties, including one in Queensland and a 49%-stake in a business park property (namely Optus Centre) in Macquarie Park, New South Wales, Australia held as a joint venture. AAREIT is currently sponsored by AIMS Financial Group ("AIMS"), a privately owned non-bank financial services and investment group based in Australia. AAREIT was established in Singapore. The SGD perpetual and AAREIT 3.6% '24s is issued by HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of AAREIT. The AAREIT 3.6% '22 priced earlier in 2017 is issued by AACI REIT MTN Pte. Ltd, unconditionally and irrevocably guaranteed by HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of AAREIT.

## Credit Outlook and Direction

Gross revenue for the fourth quarter for the financial year ended 31 March 2021 ("4QFY2021") was up by 16.1% y/y to SGD32.8mn while net property income ("NPI") was up by 17.0% y/y to SGD24.0mn. Q/q, NPI was up 1.8%, driven by revised estimated additional rental relief to eligible tenants under the Singapore rental relief framework, first time contribution from a new master lease at 541 Yishun Industrial Park A and full quarter contribution from 7 Bulim Street (acquired in October 2020). EBITDA (based on our calculation that does not include other income and other expenses but including distributions from the joint venture that holds Optus Centre) was SGD26.0mn in 4QFY2021 (4QFY2021: SGD22.2mn), with adjusted EBITDA/Interest manageable at 5.0x. Reported aggregate leverage was low at 33.9% as at 31 March 2021. In January 2021, AAREIT announced the proposed acquisition of 315 Alexandra Road (pending JTC approval) for SGD106.6mn, the acquisition is targeted to be fully funded by debt, which we think will lift AAREIT's reported aggregate leverage to ~39%, closer to that of its peers post transaction. We expect AAREIT's income to be resilient in FY2022 and are **maintaining our issuer profile at Neutral (4) and expect this to be stable over a 12 month period**. The REIT faces SGD80.9mn of debt maturing in FY2022 and is in advanced discussions with bank lenders on the refinancing.

## Bond Recommendation

We are Overweight the AAREIT curve, despite its recent tightening, the AAREIT curve continues to provide decent pick-up.

## Relative Value

| Bond | Issuer Profile | Maturity/ First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| AAREIT 3.6% '22s | Neutral (4) | 22/03/2022 | 1.36% | 108bps | OW |
| AAREIT 3.6% '24s | Neutral (4) | 12/11/2024 | 2.93% | 208bps | OW |
| AAREIT 5.65%-PERP | Neutral (4) | 14/08/2025 | 4.28% | 330bps | OW |
| SUNSP 3.8% 'PERP | Neutral (4) | 27/10/2025 | 4.05% | 305bps | OW |
| SUNSP 4.25% 'PERP | Neutral (4) | 15/06/2026 | 4.05% | 297bps | OW |
| SGREIT 3.85% 'PERP | Neutral (4) | 15/12/2025 | 4.07% | 305bps | OW |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Subordinated corporate perpetuals
Subordinated bank capital

## Key Ratios

| FYE March | FY2019 | FY2020 | FY2021 |
|---|---|---|---|
| EBITDA margin (%) | 60.22 | 68.46 | 64.52 |
| Net margin (%) | 42.39 | 71.95 | 42.42 |
| Gross debt to EBITDA (x) | 7.00 | 7.73 | 8.68 |
| Net debt to EBITDA (x) | 6.74 | 7.48 | 8.54 |
| Gross Debt to Equity (x) | 0.54 | 0.66 | 0.63 |
| Net Debt to Equity (x) | 0.52 | 0.64 | 0.62 |
| Gross debt/total asset (x) | 0.34 | 0.38 | 0.37 |
| Net debt/total asset (x) | 0.32 | 0.37 | 0.37 |
| Cash/current borrowings (x) | 0.23 | 0.13 | 0.13 |
| EBITDA/Total Interest (x) | 3.81 | 3.68 | 3.58 |

*Source: Company, OCBC estimates*

*Please click here and here for recent write-ups on the issuer.*

# ARA LOGOS Logistics Trust ("ALOG")

**Issuer Profile:** Neutral (4)

**Ticker:** ALLT

## Background

ARA Logos Logistics Trust ("ALOG", previously known as Cache Logistics Trust), structured as a real estate investment trust ("REIT"), is listed on the Singapore Stock Exchange ("SGX") with a market cap of ~SGD1.2bn as at 28 June 2021. ALOG focuses on logistics warehouse properties with a portfolio value of ~SGD1.3bn as at 31 December 2020, with ten of its properties located in Singapore while 17 are located in Australia. As at 31 December 2021, total assets were SGD1.4bn. The ALOG REIT Manager is ultimately majority-owned by ARA Asset Management ("ARA"). As at 16 March 2021, an ~11.0%-stake in ALOG is directly owned by LOGOS Units No. 1 Ltd, an entity which is indirectly majority owned by ARA. Post quarter end, we expect Ivanhoé to now hold a ~8.8%-stake in ALOG as the second largest unitholder.

## Credit Outlook and Direction

In 1Q2021, ALOG's gross revenue was up 8.2% y/y to SGD31.1mn while its net property income was up 8.7% y/y to SGD23.9mn mainly due to commencement of new leases and the strengthening of AUD against the SGD. While reported aggregate leverage was only 37.4% as at 31 March 2021, reported aggregate leverage has increased post-quarter from the partly-debt funded acquisitions for four properties and stakes in two property funds. One additional property in Brisbane is still being developed. The transaction is targeted to complete in November 2021 and the acquisition debt has not been drawn down yet. On a proforma basis, debt at the fund level is AUD389.8mn (~SGD381.2mn) on a combined basis. We understand that the fund investments will be classified as investments in real estate-related assets where the proportionate debt at the fund-level will not be included in ALOG's reported aggregate leverage. On a proforma basis, including the impact of the Brisbane property, we estimate ALOG's reported aggregate leverage at ~43% and ~46% if we assume 50% of ALOG perpetuals as debt. Since 31 March 2021, ALOG has announced two proposed divestments amounting to SGD59.3mn, which may reduce the reported aggregate leverage. ALOG's reported aggregate leverage is above peers. We are **maintaining our issuer profile of ALOG at Neutral (4) though may lower this if our base case of a more moderated acquisition path fails to materialize**. Through COVID-19, ALOG had reported a resilient income, with EBITDA/Interest coverage for 2H2020 at 4.4x (2H2019: 3.5x) and 3.9x adjusting for 50% of perpetual distributions.

## Bond Recommendation

Despite no step-up we see a good chance for the ALLTSP 5.5%-PERP to be called at first call date versus its closest comparable.

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommendation |
|---|---|---|---|---|---|
| ALLTSP 5.5%-PERP | Neutral (4) | 01/02/2023 | 3.55% | 312bps | N |
| MLTSP 3.65%-PERP | Neutral (3) | 28/03/2023 | 3.08% | 262bps | OW |
| AAREIT 5.65%-PERP | Neutral (4) | 14/08/2025 | 4.28% | 330bps | OW |
| EREIT 4.6%-PERP | Unrated | 03/11/2022 | 4.20% | 249bps | Unrated |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 68.16 | 68.59 | 69.69 |
| Net margin (%) | 24.43 | -6.77 | 38.01 |
| Gross debt to EBITDA (x) | 5.68 | 7.55 | 7.25 |
| Net debt to EBITDA (x) | 5.27 | 7.35 | 6.93 |
| Gross Debt to Equity (x) | 0.58 | 0.79 | 0.76 |
| Net Debt to Equity (x) | 0.54 | 0.77 | 0.73 |
| Gross debt/total asset (x) | 0.36 | 0.43 | 0.42 |
| Net debt/total asset (x) | 0.33 | 0.42 | 0.40 |
| Cash/current borrowings (x) | 1.19 | 0.13 | 0.36 |
| EBITDA/Total Interest (x) | 4.46 | 3.60 | 4.12 |

*Source: Company, OCBC estimates*

# Ascendas Real Estate Investment Trust ("AREIT")

**Issuer Profile:** Neutral (3)

**Ticker:** AREIT

## Background

Ascendas REIT ("AREIT") is the largest business space and industrial REIT in Singapore, with a market cap as at 28 June 2021 of SGD12.0bn while total assets were SGD15.1bn as at 31 December 2020. CapitaLand Ltd ("CAPL", Issuer profile: Neutral (3)) has a deemed interest of ~18% in AREIT. AREIT is established in Singapore while the SGD perpetual and bonds are issued by HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of AREIT.

## Credit Outlook and Direction

AREIT has completed the acquisition of 11 data centres in Europe in March 2021 and completed a Sydney, Australia acquisition in January 2021. In May 2021, AREIT announced the proposed acquisition of the remaining 75%-stake in Galaxis (25% acquired in March 2020). As at 31 March 2021, AREIT's reported aggregate was 38.0%, rising from 32.8% as at 31 December 2020, following the acquisitions. Inorganic expansion drove AREIT to report higher y/y net property income by 7.8% in 2H2020, with a manageable EBITDA/Interest coverage of 4.6x. AREIT's reported interest coverage for the 12 months to 31 March 2021 was 4.6x. SGD963mn of short-term debt comes due in the nine months from 1 April 2021 to 31 December 2021, representing 16% of total debt. AREIT historically maintains little cash on its balance sheet though the REIT has access to financing markets and unencumbered properties as a percentage of total investment properties was 92.1% as at 31 March 2021, allowing the REIT to raise secured debt if need be. In the near term, we see the shake-up at its current Sponsor, CapitaLand Ltd ("CAPL", Issuer profile: Neutral (3)) as having little impact on AREIT's issuer profile. We have historically focused on the underlying performance of AREIT rather than factoring a CAPL uplift on the issuer profile of AREIT. As such, we **maintain AREIT's issuer profile at Neutral (3) and expect this to be stable in the next 12 months.**

## Bond Recommendation

We are Overweight the AREIT 2.47% '23s as it is providing a ~30-40bps pick-up over the shorter dated part of the curve.

## Outstanding Issuance

Senior secured

Senior unsecured bullets

Senior unsecured callables/putable

Subordinated corporate perpetuals

Subordinated bank capital

*Please click here and here for recent write-ups on the issuer.*

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommendation |
|---|---|---|---|---|---|
| AREIT 4.0% '22s | Neutral (3) | 03/02/2022 | 0.51% | 24bps | N |
| AREIT 3.2% '22s | Neutral (3) | 03/06/2022 | 0.60% | 30bps | N |
| AREIT 2.47% '23s | Neutral (3) | 10/08/2023 | 0.94% | 40bps | OW |
| AREIT 3.14% '25s | Neutral (3) | 02/03/2025 | 1.16% | 25bps | UW |
| AREIT 2.65% '30s^ | Neutral (3) | 26/08/2030 | 2.16% | 71bps | UW |
| AREIT 3.0%-PERP^ | Neutral (3) | 17/09/2025 | 2.79% | 180bps | OW |
| CCTSP 2.77% '22s | Neutral (3) | 04/07/2022 | 0.59% | 27bps | N |
| CCTSP 3.327% '25s | Neutral (3) | 21/03/2025 | 1.37% | 46bps | N |
| CAPLSP 3.65%-PERP | Neutral (3) | 17/10/2024 | 2.80% | 197bps | UW |
| MAPLSP 3.58% '29s | Neutral (4) | 13/03/2029 | 2.29% | 95bps | N |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*
*^ Denote green bonds and green perpetuals*

## Key Ratios

| FYE December | FYE Mar2018 | FYE Mar2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 66.23 | 66.30 | 66.60 |
| Net margin (%) | 57.31 | 56.77 | 43.55 |
| Gross debt to EBITDA (x) | 6.16 | 6.97 | 7.57 |
| Net debt to EBITDA (x) | 6.12 | 6.89 | 7.17 |
| Gross Debt to Equity (x) | 0.54 | 0.59 | 0.58 |
| Net Debt to Equity (x) | 0.54 | 0.58 | 0.55 |
| Gross debt/total asset (x) | 0.34 | 0.36 | 0.35 |
| Net debt/total asset (x) | 0.34 | 0.35 | 0.33 |
| Cash/current borrowings (x) | 0.03 | 0.09 | 0.61 |
| EBITDA/Total Interest (x) | 5.20 | 4.64 | 4.34 |

*Source: Company, OCBC estimates*

# Ascott Residence Trust ("ART")

| **Issuer Profile:** | **Ticker:** |
|---|---|
| **Neutral (5)** | **ARTSP** |

## Background

ART has a market cap of SGD3.1bn as at 28 June 2021. ART holds serviced residences, rental housing and hotels. ART's investment mandate has been expanded to include student accommodation. As at 31 March 2021, ART has more than 16,000 units (including lyf units at one-North and the new Somerset Liang Court under development) across its 86 properties in 38 cities. ART's total assets as at 31 March 2021 was SGD7.2bn. ART is ~40%-owned by its Sponsor, CapitaLand Ltd ("CAPL", Issuer profile: Neutral (3)) while remaining units are dispersed. ART is established in Singapore. The perpetuals are issued by DBS Trustee Limited (in its capacity as trustee for ART) while the bonds are issued by Ascott REIT MTN Pte Ltd, guaranteed by DBS Trustee Limited (in its capacity as trustee for ART).

## Credit Outlook and Direction

Recovery in the travel and hospitality sector is expected to only occur over a multi-year period, beyond a maturity wall in 2022 when SGD771mn comes due. ART has expanded into the student accommodation market and is targeting for student accommodation and rental housing to make up 15-20% of its total property value in the medium term. Secondary prices of ART's bonds and perpetual have held up although ART has not tested the primary market since the onset of COVID-2019. We estimate that available funds (including cash, outstanding proceeds from divestments, credit facilities (excluding non-committed credit facilities)) is at ~SGD786mn while 71% of its property value are still unencumbered. Driven by debt repayments as at 31 March 2021, ART's reported aggregate leverage was slightly lower at 36.1% (end-2020: 36.3%). Reported trailing 12 months interest coverage to 31 March 2021 was 2.1x. The ownership stake of ART will shift to CapitaLand Investment Management ("CLIM") as part of the shake-up at its current Sponsor, CAPL. ART receives rental income from CAPL-related entities and we expect these master leases to be subsumed under CLIM. We are **maintaining our issuer profile of ART at Neutral (5), in view of ART's manageable short-term liquidity, albeit with a cautious outlook.**

## Bond Recommendation

We are Underweight the ARTSP seniors as we think these are trading tight amidst the still challenging industry outlook.

## Outstanding Issuance

Senior secured

Senior unsecured bullets

Senior unsecured callables/putable

Subordinated corporate perpetuals

Subordinated bank capital

*Please click here and here for recent write-ups on the issuer.*

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| ARTSP 4.205% '22s | Neutral (5) | 23/11/2022 | 1.03% | 64bps | UW |
| ARTSP 3.523% '23s | Neutral (5) | 09/11/2023 | 1.61% | 100bps | UW |
| ARTSP 4.0% '24s | Neutral (5) | 22/03/2024 | 1.43% | 73bps | UW |
| ARTSP 3.07%-PERP | Neutral (5) | 30/12/2021 | 3.89% | 291bps | N |
| ARTSP 3.88%-PERP | Neutral (5) | 04/09/2024 | 3.89% | 219bps | N |
| FHREIT 2.63% '22s | Neutral (5) | 06/07/2022 | 1.49% | 118bps | UW |
| FHREIT 4.45%-PERP | Neutral (5) | 08/11/2024 | 2.44% | 160bps | UW |
| SLHSP 4.5% '25s | Neutral (4) | 12/11/2025 | 2.62% | 161bps | OW |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*
*Note: (1) Yield-to-perpetuity*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 43.23 | 45.88 | 38.56 |
| Net margin (%) | 29.53 | 42.01 | -60.92 |
| Gross debt to EBITDA (x) | 8.57 | 11.18 | 19.25 |
| Net debt to EBITDA (x) | 7.55 | 10.01 | 15.84 |
| Gross Debt to Equity (x) | 0.61 | 0.61 | 0.68 |
| Net Debt to Equity (x) | 0.54 | 0.54 | 0.56 |
| Gross debt/total asset (x) | 0.36 | 0.36 | 0.38 |
| Net debt/total asset (x) | 0.32 | 0.32 | 0.32 |
| Cash/current borrowings (x) | 3.25 | 0.78 | 1.43 |
| EBITDA/Total Interest (x) | 4.72 | 4.56 | 2.37 |

*Source: Company, OCBC estimates*

# CapitaLand Ltd ("CAPL")

**Issuer Profile:** Neutral (3)

**Ticker:** CAPLSP

## Background

CapitaLand Ltd ("CAPL") is Singapore's leading real estate company, with development and investments in retail, office, serviced residences, and residential properties. Following the completion of the acquisition of Ascendas-Singbridge Pte Ltd ("ASB") in 2019, CAPL structures its business segments along (1) CL China, (2) CL Singapore and International (comprising CL Singapore, Malaysia, Indonesia, CL Vietnam & CL International), (3) CL India, (4) CL Lodging, (5) CL Financial (which includes stakes in REIT managers) and (6) Group Centre of Excellence. Listed on the SGX with a market cap of SGD19.2bn as at 30 June 2020, CAPL holds SGD84.4bn in total assets as at 31 Dec 2020. CAPL is 50.8%-owned by Temasek.

## Credit Outlook and Direction

Although CAPL's bottom line was significantly impacted by fair value losses as a result of the pandemic, reported operating EBIT in 2020 inched up y/y to SGD3.3bn (SGD3.2bn). Heading into 2021, CAPL expects operating and financial performance to improve further with recovery across its asset classes as of the business update in 1Q2021. Retail (which comprises 32% of total assets) has seen higher y/y tenant sales in China (+56.4% y/y) and Singapore (+4.6% y/y) while committed occupancy for workspaces remain resilient in China (84.2%), Singapore (91.1%), Japan (95.5%), South Korea (98.7%) and Germany (95.4%). Meanwhile, Residential sales value have picked up in Singapore (+346% y/y) and China (+363% y/y) though RevPAU for lodging declined 28% y/y for 1Q2021. Credit metrics are somewhat weakened though still manageable with net gearing increasing to 0.65x as of 1Q2021 (end-2019: 0.63x) and EBITDA/Interest weakening to 2.7x as of end-2020 (end-2019: 3.0x). Although we expect the pandemic to leave a transitory impact on CAPL, the proposed restructuring to privatise the holding company of CAPL should significantly weaken CAPL's credit profile as 48.2%-stake in CapitaLand Investment Management Ltd ("CLIM", which comprises the CAPL's listed REITs and investment properties) will be spun-off. CLIM generates recurrent income from investment properties and the listed REITs have been a significant contributor. In addition, HoldCo-OpCo, subordination risk deepens as CAPL will be one step removed from CLIM's operating assets.

## Bond Recommendation

Given the pending restructuring of CAPL which should significantly weaken its profile, we are Underweight the CAPL curve.

## Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Relative Value

| Bond | Issuer Profile | Maturity/Next Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| CAPLSP 3.8% '24 | Neutral (3) | 28/08/2024 | 1.41% | 61bps | UW |
| CAPLSP 3.08% '27 | Neutral (3) | 19/10/2027 | 2.14% | 91bps | UW |
| CAPLSP 3.15% '29 | Neutral (3) | 29/08/2029 | 2.41% | 103bps | UW |
| CAPLSP 2.9% '32 | Neutral (3) | 21/09/2032 | 2.82% | 124bps | UW |
| CAPLSP 3.65% PERP | Neutral (3) | 17/10/2024 | 2.80% | 197bps | UW |
| LLCAU 3.9% '27 | Neutral (3) | 27/04/2027 | 2.53% | 135bps | N |
| WINGTA 4.7% '24 | Neutral (4) | 28/02/2024 | 2.00% | 132bps | N |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 41.29 | 40.55 | 38.17 |
| Net margin (%) | 50.87 | 54.75 | -25.03 |
| Gross debt to EBITDA (x) | 10.22 | 12.43 | 14.10 |
| Net debt to EBITDA (x) | 8.03 | 9.99 | 10.42 |
| Gross Debt to Equity (x) | 0.71 | 0.78 | 0.92 |
| Net Debt to Equity (x) | 0.56 | 0.63 | 0.68 |
| Gross debt/total asset (x) | 0.37 | 0.38 | 0.42 |
| Net debt/total asset (x) | 0.29 | 0.31 | 0.31 |
| Cash/current borrowings (x) | 1.58 | 1.56 | 1.86 |
| EBITDA/Total Interest (x) | 3.63 | 3.01 | 2.73 |

*Source: Company, OCBC estimates*

# CapitaLand Integrated Commercial Trust ("CICT")

**Issuer Profile:** Neutral (3)

**Ticker:** CAPITA / CCTSP

### Background

CICT is the new name of CapitaLand Mall Trust ("CMT") which has combined with CapitaLand Commercial Trust ("CCT") on 21 October 2020. CCT is held as a private sub-trust within CMT. CICT holds 24 office, retail and integrated properties including Raffles City Singapore ("RCS"). With a portfolio valuation of SGD22.3bn at 31 December 2020, CICT is the largest REIT in Singapore. CICT also owns an 8.9% interest in CapitaLand Retail China Trust and 10.9% of MRCB-Quill REIT, a commercial REIT listed in Malaysia. Sponsor, CapitaLand Ltd ("CAPL", Issuer profile: Neutral (3)) has a 36.45% stake in CICT. CICT is established in Singapore and the bonds are issued by HSBC Institutional Trust Services (Singapore) Ltd, in its capacity as the trustee of CMT and CCT.

### Credit Outlook and Direction

In CICT's business update for 1Q2021, both revenue and net property income ("NPI") rose substantially on the back of income contribution from office assets from 21 October 2020 onwards. Revenue split for CICT among retail, office and integrated developments is 42%, 29% and 29% respectively. On same store basis, NPI from retail assets was down 8.2% y/y to SGD101mn with Clarke Quay being the hardest hit (NPI: -82.5% y/y). Portfolio occupancy was 95.5%, with 18.7% of leases expiring in 2021 at end March 2021 (roughly two-third retail, one-third office). We remain cautious over the outlook as retail headwinds persist even though shopper traffic and tenants' sales have shown recovery. Asset enhancement and upgrading works are happening at Lot One Shoppers' Mall, 21 Collyer Quay and Six Battery Road. CapitaSpring is on track to complete in 2H2021. CICT's aggregate leverage was 40.8% as at 31 March 2021 with reported interest coverage at 3.7x. CICT has just SGD355mn of debt coming due in 2021. This is manageable in our view and we **expect CICT's credit profile to continue to fall within Neutral (3) Issuer Profile in the next 12 months.**

### Bond Recommendation

We are Neutral the CICT curve which comprises CCTSP and CAPITA.

### Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

### Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| CAPITA 2.8% '23 | Neutral (3) | 13/03/2023 | 0.87% | 41bps | N |
| CAPITA 3.2115% '23 | Neutral (3) | 09/11/2023 | 1.00% | 39bps | N |
| CAPITA 3.48% '24 | Neutral (3) | 06/08/2024 | 1.15% | 37bps | N |
| CAPITA 3.2% '25 | Neutral (3) | 21/08/2025 | 1.39% | 41bps | N |
| CAPITA 3.15% '26 | Neutral (3) | 11/02/2026 | 1.54% | 50bps | N |
| CAPITA 3.5% '26 | Neutral (3) | 25/02/2026 | 1.57% | 52bps | N |
| CAPITA 2.88% '27 | Neutral (3) | 10/11/2027 | 1.81% | 59bps | N |
| CAPITA 2.1% '28 | Neutral (3) | 08/03/2028 | 1.94% | 69bps | N |
| CAPITA 2.15% '32 | Neutral (3) | 07/12/2032 | 2.22% | 64bps | N |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

### Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 63.86 | 64.28 | 60.17 |
| Net margin (%) | 97.02 | 88.58 | 46.93 |
| Gross debt to EBITDA (x) | 8.14 | 7.06 | 19.48 |
| Net debt to EBITDA (x) | 7.00 | 6.66 | 19.07 |
| Gross Debt to Equity (x) | 0.49 | 0.46 | 0.67 |
| Net Debt to Equity (x) | 0.42 | 0.43 | 0.65 |
| Gross debt/total asset (x) | 0.34 | 0.30 | 0.39 |
| Net debt/total asset (x) | 0.30 | 0.29 | 0.38 |
| Cash/current borrowings (x) | 0.96 | 0.77 | 0.20 |
| EBITDA/Total Interest (x) | 4.54 | 4.27 | 3.36 |

*Source: Company, OCBC estimates*

# First Real Estate Investment Trust ("FIRT")

| **Issuer Profile:** | **Ticker:** |
|---|---|
| **Negative (7)** | **FIRTSP** |

### Background

FIRT is a REIT that invests primarily in real estate used for healthcare and healthcare-related sectors. FIRT owns 20 properties (17 are located in Indonesia, two nursing homes in Singapore and one small hospital in South Korea). FIRT is listed on the Singapore Stock Exchange with a market cap of SGD425.8mn as at 28 June 2021. OUE Ltd has a ~28.5%-deemed ownership stake in FIRT (including from ~64.4% owned OUE Lippo Healthcare Ltd ("OUE-LH") and First REIT Management Limited ("FIRT REIT Manager")). FIRT is established in Singapore. Upon a trustee replacement in November 2017, the SGD perpetuals are issued by Perpetual (Asia) Limited ("Perpetual") (in its capacity as trustee of FIRT).

### Credit Outlook and Direction

In May 2021, FIRT announced that it has completed the restructuring of its master lease agreements and recapitalised its balance sheet. The restructured master lease agreements covering (1) 11 hospitals which FIRT had leased to either PT Lippo Karawaci Tbk ("LK") or LK and certain subsidiaries of PT Siloam International Hospitals Tbk ("Siloam", partly-owned subsidiary of LK) and (2) Leases with PT Metropolis Propertindo Utama ("MPU") on three hospitals, had become effective from 1 January 2021. These leases have been extended to 31 December 2035, with further renewal options. The REITs portfolio has been revalued downwards by 29.9% y/y to SGD939.7mn as at 31 December 2020, taking into consideration the terms from the lease restructuring (memorandum of understanding was announced in end-November 2020) with the impact taken in 2020's balance sheet. As at 31 December 2020, FIRT's reported aggregate leverage was high at 49.0%, though had reduced to 34.6% on a proforma basis following FIRT's highly dilutive equity rights issue and debt repayment. FIRT has SGD60mn of outstanding perpetuals which is unlikely to be called at first call date in July 2021 and is trading at yield-to-perpetuity. FIRT's Sponsors and REIT Manager had undertaken to subscribe for excess rights. We estimate that minority investors took up ~65% of the rights issues (including excess applications), performing better than expected. We maintain our **Negative (7) call on the company though monitoring for an upgrade in the next 12 months** should the counterparty-credit risk of FIRT continue to improve. For 2020, rental and other income fell 30.9% y/y to SGD79.6mn while net property and other income fell 31.4% y/y to SGD77.5mn. FIRT provided a two-month rental relief for all tenants for May and June 2020 and an additional two-month rental relief for September and October 2020 to tenants in Indonesia, on the back of the COVID-19 outbreak which dragged the operating performance of tenants.

### Bond Recommendation

We view the FIRTSP 5.68%-PERP as more equity-like at this point and are neutral the perpetual versus its closest comparables.

### Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommendation |
|---|---|---|---|---|---|
| FIRTSP 5.68%-PERP | Negative (7) | 08/01/2022[1] | 7.65% | 595bps | N |
| LMRTSP 7.0%-PERP | Negative (6) | 27/09/2021 | 8.35% | 663bps | N |
| LMRTSP 6.6%-PERP | Negative (6) | 19/12/2022 | 7.77% | 606bps | N |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*
*Note: (1) Next call date for FIRTSP 5.68%-PERP*

### Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here and here for recent write-ups on the issuer.*

### Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 88.24 | 87.67 | 84.97 |
| Net margin (%) | 65.30 | 42.43 | -442.62 |
| Gross debt to EBITDA (x) | 4.84 | 4.81 | 7.23 |
| Net debt to EBITDA (x) | 4.57 | 4.49 | 6.94 |
| Gross Debt to Equity (x) | 0.57 | 0.57 | 1.05 |
| Net Debt to Equity (x) | 0.54 | 0.53 | 1.01 |
| Gross debt/total asset (x) | 0.35 | 0.34 | 0.49 |
| Net debt/total asset (x) | 0.33 | 0.32 | 0.47 |
| Cash/current borrowings (x) | 0.25 | NM | 0.10 |
| EBITDA/Total Interest (x) | 4.74 | 4.96 | 3.79 |

*Source: Company, OCBC estimates*

# Fraser and Neave Ltd ("FNN")

**Issuer Profile:** Neutral (4)

**Ticker:** FNNSP

## Background

Listed on SGX with a market cap of SGD2.1bn as at 30 Jun 2021, Fraser and Neave Ltd ("FNN") is a consumer group primarily engaged in Food & Beverage ("F&B"). FNN is an F&B market leader in Southeast Asia, with brands including 100Plus, F&N Nutrisoy, F&N Seasons, F&N Magnolia and Farmhouse. FNN also owns a Publishing and Printing ("P&P") business which includes Marshall Cavendish and Times Publishing. FNN owns 55.5% stake in Fraser & Neave Holdings Bhd and ~20% stake in Vietnam Dairy Products JSC ("Vinamilk"). FNN is owned by TCC Assets Ltd (59.2%) and Thai Beverage (28.4%), both linked to Thai billionaire Mr. Charoen.

## Credit Outlook and Direction

FNN demonstrated resilience through the pandemic, reporting higher revenue (+2.0% y/y to SGD988.6mn) and reported PBIT (+8.0% y/y to SGD153.3mn) for 1HFY2021 results for the half year ending 31 Mar 2021. Notably, beverages profitability increased 187% y/y to SGD21.8mn due to maiden profit contributions from Emerald Brewery and losses from printing and publishing reduced 75.0% y/y to SGD2.8mn on cost cutting measures, which offset lower Dairies earnings (-7.9% y/y to SGD12.82mn) due to higher freight and input cost. Dairies was partly impacted by lower profit contribution from Vinamilk, which was the main driver resulting in lower share of results of associated companies (-7.0% y/y to SGD49.9mn). FNN has a healthy credit metrics with cash of SGD354.4mn sufficient to cover SGD203.5mn of debt maturing in 1Y, with net gearing falling h/h to 15.5% (FY2020: 17.5%) due to strong operating cashflows (SGD183.4mn) covering both investing cash outflows (SGD33.9mn) and financing cash outflows (SGD77.3mn). Despite a healthy balance sheet, we note that FNN raised SGD100mn bond in June. Noting that FNN has made several acquisitions in recent years (e.g. Vinamilk in 2014-18, Starbucks Thailand in 2019, Sri Nona group of Companies in 1HFY2021) and FNN's statement that it will seek acquisitions which are value enhancing or capability-enhancing, we will not be surprised if FNN taps more on its balance sheet to fund acquisitions.

## Bond Recommendation

Although the balance sheet looks pristine, FNN raised a bond recently, which could indicate potential acquisition or capex. We are Underweight the FNNSP curve given that the yields have tightened significantly.

## Relative Value

| Bond | Issuer Profile | Maturity/Next Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| FNNSP 3.09% '22 | Neutral (4) | 23/03/2022 | 0.78% | 51bps | UW |
| FNNSP 2.8% '22 | Neutral (4) | 22/08/2022 | 0.95% | 61bps | UW |
| FNNSP 2% '26 | Neutral (4) | 16/06/2026 | 1.94% | 85bps | UW |
| FNNSP 3.8% '27 | Neutral (4) | 21/04/2027 | 2.22% | 105bps | UW |
| FCTSP 3.2 '23 | Neutral (4) | 11/05/2023 | 0.87% | 39bps | N |
| FHREIT 2.63 '22 | Neutral (5) | 06/07/2022 | 1.27% | 96bps | UW |
| FHREIT 3.08% '24 | Neutral (5) | 08/11/2024 | 2.17% | 133bps | UW |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2019 | FY2020 | 1H2021 |
|---|---|---|---|
| EBITDA margin (%) | 11.13 | 11.25 | 14.08 |
| Net margin (%) | 11.16 | 11.33 | 11.91 |
| Gross debt to EBITDA (x) | 3.92 | 4.26 | 3.17 |
| Net debt to EBITDA (x) | 1.93 | 2.87 | 1.89 |
| Gross Debt to Equity (x) | 0.25 | 0.26 | 0.26 |
| Net Debt to Equity (x) | 0.12 | 0.17 | 0.16 |
| Gross debt/total asset (x) | 0.18 | 0.18 | 0.18 |
| Net debt/total asset (x) | 0.09 | 0.12 | 0.11 |
| Cash/current borrowings (x) | 45.56 | 5.01 | 1.64 |
| EBITDA/Total Interest (x) | 9.77 | 8.32 | 11.33 |

*Source: Company, OCBC estimates*

# Frasers Centrepoint Trust ("FCT")

**Issuer Profile:**
**Neutral (4)**

**Ticker:**
**FCTSP**

## Background

Frasers Centrepoint Trust ("FCT") is a pure-play suburban retail REIT in Singapore listed on the SGX in July 2006. FCT has a market cap of SGD4.2bn as at 25 June 2021, while its portfolio value was SGD6.4bn as at end March 2021. FCT's portfolio comprises 10 suburban retail malls in Singapore, including Causeway Point, Northpoint City (North Wing), a 40% stake in Waterway Point and Tiong Bahru Plaza. FCT also owns a 31.15% stake in Malaysia-listed Hektar REIT ("H-REIT", a retail focused REIT). FCT is sponsored by Frasers Property Ltd ("FPL", Issuer Profile: Neutral (5)), which holds a 41.07% interest in FCT. FCT is established in Singapore and its bonds are issued by HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of FCT.

## Credit Outlook and Direction

For first half results of financial year ending 30 September 2021 ("1HFY2021"), revenue and net property income were both up 74% y/y to SGD174mn and SGD126mn respectively, boosted by the acquisition of the balance 63.11% stake in Asia Retail Fund Ltd which was completed on 27 October 2020. Following the acquisition, total assets increased from SGD3.9bn as at 30 September 2020 to SGD6.1bn as at 31 March 2021. Portfolio occupancy was 96.1% with ~50% of expiring leases in FY2021 renewed. Portfolio tenants' sales grew 0.4% y/y in January 2021 and 1.7% in February in 2021. Shopper traffic has remained relatively stable at 60% to 70% of pre-COVID-19 levels. FCT's financial position remains healthy with aggregate leverage of 35.2% as at 31 March 2021. This provides ample debt headroom for acquisitions. In the pipeline is Northpoint City South Wing from Sponsor, FPL and balance 60% stake in Waterway Point from third party. All-in cost of borrowing was 2.16% down from 2.50% a year ago. FCT does not have any debt maturing in CY2021. FCT has divested Anchorpoint on 22 March 2021 and YewTee Point on 28 May 2021. We **expect FCT's Neutral (4) Issuer Profile to remain stable for the next 12 months**. While FCT being a retail landlord has been impacted by the pandemic, its properties are concentrated in the suburban area. Furthermore, with the recent acquisitions we see FCT building scale and working on harvesting the synergies through its initiatives such as the Frasers eStore to provide seamless store-to-door shopping experience for its customers.

## Bond Recommendation

We are neutral on FCTSP'23s and overweight on FCTSP'24s. We also like KREITS'24s.

## Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| FCTSP 3.2% '23 | Neutral (4) | 11/05/2023 | 0.87% | 39bps | N |
| FCTSP 2.77% '24 | Neutral (4) | 08/11/2024 | 1.72% | 88bps | OW |
| KREITS 3.275 '24 | Neutral (4) | 08/04/2024 | 1.99% | 128bps | OW |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

## Key Ratios

| FYE September | FY2019 | FY2020 | 1H2021 |
|---|---|---|---|
| EBITDA margin (%) | 61.47 | 54.91 | 62.20 |
| Net margin (%) | 104.87 | 92.27 | 47.55 |
| Gross debt to EBITDA (x) | 8.61 | 13.88 | 13.95 |
| Net debt to EBITDA (x) | 8.51 | 13.56 | 13.62 |
| Gross Debt to Equity (x) | 0.42 | 0.49 | 0.51 |
| Net Debt to Equity (x) | 0.42 | 0.48 | 0.50 |
| Gross debt/total asset (x) | 0.29 | 0.32 | 0.33 |
| Net debt/total asset (x) | 0.28 | 0.32 | 0.32 |
| Cash/current borrowings (x) | 0.04 | 0.11 | 0.94 |
| EBITDA/Total Interest (x) | 4.90 | 3.27 | 4.47 |

*Source: Company, OCBC estimates*

# Frasers Hospitality Trust ("FHREIT")

| Issuer Profile: | Ticker: |
|---|---|
| Neutral (5) | FHREIT |

**Background**

Frasers Hospitality Trust ("FHREIT") is a stapled group comprising a REIT and Business Trust. As at 28 June 2021, FHREIT's market cap was SGD1.0bn. FHREIT invests in hospitality assets globally (except Thailand) and currently owns 15 properties across nine cities with 3,913 keys. As at 31 March 2021, total assets stood at SGD2.4bn. It is sponsored by Frasers Property Limited ("FPL, Issuer Profile: Neutral (5)). FPL owns a deemed 25.9%-stake in FHREIT while TCC Group Investments Limited holds a ~37%-stake. Both FPL and TCC are entities controlled by the Sirivadhanabhakdi family (deemed interest in FHREIT at ~63%). FHREIT is established in Singapore. The SGD perpetual is issued by Perpetual (Asia) Limited in its capacity as the trustee of FHREIT while the SGD bonds are issued by FH-REIT Treasury Pte. Ltd. guaranteed by Perpetual (Asia) Limited in its capacity as the trustee of FHREIT.

**Credit Outlook and Direction**

On a y/y basis, FHREIT's gross revenue for the first half of financial year ended 20 September 2021 ("1HFY2021") fell by 36.2% y/y to SGD39.9mn. Gross revenue on a h/h basis though saw an encouraging increase of 53.8%. EBITDA (based on our calculation which does not include other income and other expenses) fell 43.3% y/y to SGD22.5mn in 1HFY2021. We find EBITDA/Interest coverage for 1HFY2021 at 2.4x (1HFY2020: 4.0x), doubling that of 2HFY2020. As at 31 March 2021, FHREIT's reported aggregate leverage was 37.7% (31 December 2020: 37.8%). Outside of expectations, FHREIT has redeemed the FHREIT 4.45%-PERP in May 2021, via bank facilities, which means its reported aggregate leverage has risen to ~42.0%. The market conditions for travel and hospitality are expected to remain challenging with recovery in the travel and hospitality sector expected to only occur over a multi-year period. While FHREIT has sufficient liquidity in the near term, this will be tighter in the next two years amidst an increase in its reported aggregate levels. FHREIT faces SGD149mn of debt due in 2022 and another SGD193mn comes due in 2023. We **maintain FHREIT at a Neutral (5) issuer profile, albeit with a cautious outlook over the still challenged travel and hospitality sector over a 12-month period**. FHREIT receives at least SGD49mn p.a from fixed rents under a guarantee from its Sponsor, FPL, which serves as an important buffer during this period. The equity market has started to see FHREIT as a potential take-private target, though it is yet uncertain if this would occur. There is an issuer's redemption option (with make-whole) on the bonds though there are no delisting puts.

## Bond Recommendation

We are Underweight the FHREIT 2.63% '22s as we think these are trading tight amidst the still challenging industry outlook.

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here and here for recent write-ups on the issuer.*

## Relative Value

| Bond | Issuer Profile | Maturity | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| FHREIT 2.63% '22s | Neutral (5) | 06/07/2022 | 1.49% | 118bps | UW |
| FHREIT 3.08% '24s | Neutral (5) | 08/11/2024 | 2.44% | 160bps | N |
| ARTSP 4.205% '22s | Neutral (5) | 23/11/2022 | 1.03% | 64bps | UW |
| ARTSP 3.523% '23s | Neutral (5) | 09/11/2023 | 1.61% | 100bps | UW |
| SLHSP 4.5% '25s | Neutral (4) | 12/11/2025 | 2.62% | 161bps | OW |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

## Key Ratios

| FYE September | FY2019 | FY2020 | 1HFY2021 |
|---|---|---|---|
| EBITDA margin (%) | 66.19 | 56.73 | 56.22 |
| Net margin (%) | 34.55 | -128.06 | 21.41 |
| Gross debt to EBITDA (x) | 8.62 | 17.70 | 19.88 |
| Net debt to EBITDA (x) | 7.76 | 15.86 | 18.27 |
| Gross Debt to Equity (x) | 0.58 | 0.66 | 0.65 |
| Net Debt to Equity (x) | 0.52 | 0.59 | 0.60 |
| Gross debt/total asset (x) | 0.35 | 0.38 | 0.38 |
| Net debt/total asset (x) | 0.31 | 0.34 | 0.35 |
| Cash/current borrowings (x) | 3.40 | 1.85 | 1.45 |
| EBITDA/Total Interest (x) | 4.84 | 2.54 | 2.39 |

*Source: Company, OCBC estimates*

# Frasers Property Ltd ("FPL")

**Issuer Profile:** Neutral (5)

**Ticker:** FPLSP

## Background

Frasers Property Limited ("FPL") is a leading Singapore developer with total assets of SGD39.2bn as at 31 March 2021. The core geographies are Singapore (36% of total property assets, totaling SGD14.2bn), Australia (24%; SGD9.5bn), Thailand (13%; SGD5.1bn) and the UK. FPL also have a significant presence in Continental Europe and Mainland China. FPL is most exposed to Industrial and Logistics properties (26% of AUM, totaling SGD11.1bn). Sponsored REITs include Frasers Centrepoint Trust ("FCT"), Frasers Hospitality Trust ("FHREIT") and Frasers Logistics & Commercial Trust ("FLCT") which is the surviving entity of Frasers Logistics Trust and Frasers Commercial Trust. FPL considers its REITs as subsidiaries and consolidates them even though it only has an average 28% stake in them. Entities related to the Sirivadhanabhakdi family (of Thailand's TCC Group) control ~90% of FPL's stock. FPL is incorporated in Singapore and its bonds and perpetual securities are issued by Frasers Property Treasury Pte Ltd.

## Credit Outlook and Direction

In FPL's first half year ended 31 March 2021 ("1HFY2021"), revenue fell 27% y/y to SGD1.6bn, with profit before interest and tax, before fair value change, exceptional items and gain on change in use of properties held for sale ("PBIT") was down by 39% y/y to SGD479mn due to lower contributions from development projects in China, Australia and Thailand, as well as poorer operating results from its hospitality properties in light of the COVID-19. EBITDA based on our calculation was down 41% y/y to SGD450mn. FPL raised ~SGD1.2bn in net proceeds through a renounceable rights issue exercise, post the half year end, on 5 April 2021. The proceeds are expected to be used to fund acquisitions and investments in areas such as industrial, logistics and business park assets, as well as to establish private funds, joint ventures or similar arrangements with partners to invest in property assets. FPL had also obtained a AUD300mn 5 year sustainability linked loan in Australia on 19 April 2021. Net gearing was 0.98x vs 1.05x at end September 2020, and lower at ~0.85x after accounting for the rights issue. EBITDA/Interest based on our calculation though was weaker at 2.0x vs. 2.9x six months ago. Excluding maturities at its REITs, FPL has SGD1.8bn of debt maturing in the rest of FY2021 and SGD2.9bn maturing in FY2022 against SGD2.2bn of cash on hand. While the operating environment remains challenging, we continue to see **FPL's credit profile as broadly stable within the next 12 months.**

## Bond Recommendation

We are broadly neutral the FPLSP curve. We are overweight on FPLSP'22s as we think the yield is attractive for short dated. We are underweight the FPLSP 3.95% PERP due to higher non-call risk.

## Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Relative Value

| Bond | Issuer Profile | Maturity/Next Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| FPLSP 3.65% '22 | Neutral (5) | 22/05/2022 | 1.56% | 131bps | OW |
| FPLSP 4.25% '26 | Neutral (5) | 21/04/2026 | 2.84% | 178bps | N |
| FPLSP 4.15% '27 | Neutral (5) | 23/02/2027 | 3.12% | 197bps | N |
| FPLSP 3.95% PERP | Neutral (5) | 05/10/2022 | 3.89% | 352bps | UW |
| FPLSP 4.38% PERP | Neutral (5) | 17/01/2023 | 4.33% | 390bps | N |
| FPLSP 4.98% PERP | Neutral (5) | 11/04/2024 | 3.91% | 320bps | N |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

## Key Ratios

| FYE September | FY2019 | FY2020 | 1H2021 |
|---|---|---|---|
| EBITDA margin (%) | 27.96 | 29.39 | 51.57 |
| Net margin (%) | 27.72 | 28.14 | 28.17 |
| Gross debt to EBITDA (x) | 13.56 | 16.41 | 11.82 |
| Net debt to EBITDA (x) | 11.21 | 13.03 | 10.36 |
| Gross Debt to Equity (x) | 1.02 | 1.08 | 1.17 |
| Net Debt to Equity (x) | 0.84 | 0.86 | 1.02 |
| Gross debt/total asset (x) | 0.46 | 0.46 | 0.49 |
| Net debt/total asset (x) | 0.38 | 0.37 | 0.43 |
| Cash/current borrowings (x) | 0.98 | 1.03 | 0.77 |
| EBITDA/Total Interest (x) | 2.78 | 2.17 | 3.60 |

*Source: Company, OCBC estimates*

# GuocoLand Ltd ("GUOL")

## Issuer Profile:
**Neutral (5)**

## Ticker:
**GUOLSP**

### Background

Listed on the SGX in 1978 with a market cap of SGD1.9bn as at 30 Jun 2021, GuocoLand Ltd ("GUOL") is a property developer headquartered in Singapore, with investments in residential properties, commercial properties and integrated developments. GUOL's properties are located primarily in Singapore (e.g. Guoco Tower, Guoco Midtown) though there is also exposure to China, Malaysia and Vietnam. GUOL is a 69.2%-owned subsidiary of Guoco Group Ltd, which is listed on the HKSE. Guoco Group is in turn a member of the Hong Leong Group Malaysia, one of the largest conglomerates in South East Asia, which is controlled by the Quek family.

### Credit Outlook and Direction

Revenue for the half year ended 31 Dec 2020 ("1HFY2021") fell 44% y/y to SGD319.6mn with EBITDA falling 59% y/y to SGD56.9mn, mainly due to lower progressive recognition of sales from the Singapore residential projects while hotel revenue has fallen significantly. Although the pandemic has impacted construction due to labour shortages and increased cost of materials, we understand from GUOL that the cost increase is still within budget and is working with contractors to manage both time and costs. The pandemic has not dented property sales though as we estimate Midtown Modern (launched Mar-21) to be 68% sold, moving 380 units worth SGD713.2mn YTDCY2021. Other projects also saw decent sales YTDCY2021 including Wallich Residence (13 units worth SGD61.1mn), Martin Modern (21 units worth SGSD72.0mn), Meyer Mansion (17 units worth SGD64.7mn), Midtown Bay (7 units worth SGD12.7mn) and The Avenir (33 units worth SGD164.6mn). GUOL also reported that investment properties revenue was largely similar y/y, which suggests that occupancy should remain firm at Guoco Tower and 20 Collyer Quay though demand for office space looking forward may be subdued. Net gearing fell h/h to 88% as of 1HFY2021 (2HFY2020: 89%) with small improvements in EBITDA/Interest to 1.5x (FY2020: 1.15x). We note that while GUOL continues to participate in land tenders, it has not added further landbank to its inventory in recent quarters, which may signify prudence in bidding for land.

### Bond Recommendation

The strong property market should be supportive of GUOL's credit profile. We remain Overweight on GUOLSP 4.6% PERP as we think that the non-call risk is low.

### Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

### Relative Value

| Bond | Issuer Profile | Maturity/Next Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| GUOLSP 4% '22 | Neutral (5) | 31/01/2022 | 0.57% | 30bps | UW |
| GUOLSP 3.85% '23 | Neutral (5) | 15/02/2023 | 1.87% | 143bps | N |
| GUOLSP 3.4% '25 | Neutral (5) | 10/08/2025 | 2.57% | 159bps | N |
| GUOLSP 4.6% PERP | Neutral (5) | 23/01/2023 | 3.69% | 199bps | OW |
| FPLSP 4.25% '26 | Neutral (5) | 21/04/2026 | 2.84% | 177bps | N |
| FPLSP 3.95% PERP | Neutral (5) | 05/10/2022 | 3.90% | 219bps | UW |
| FHREIT 3.08% '24 | Neutral (5) | 08/11/2024 | 2.17% | 133bps | UW |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

### Key Ratios

| FYE December | FY2019 | FY2020 | 1H2021 |
|---|---|---|---|
| EBITDA margin (%) | 23.67 | 24.32 | 20.35 |
| Net margin (%) | 31.03 | 9.56 | 4.45 |
| Gross debt to EBITDA (x) | 20.47 | 22.98 | 39.73 |
| Net debt to EBITDA (x) | 16.71 | 18.91 | 32.06 |
| Gross Debt to Equity (x) | 0.97 | 1.11 | 1.09 |
| Net Debt to Equity (x) | 0.79 | 0.91 | 0.88 |
| Gross debt/total asset (x) | 0.45 | 0.47 | 0.47 |
| Net debt/total asset (x) | 0.37 | 0.39 | 0.38 |
| Cash/current borrowings (x) | 2.89 | 1.29 | 1.28 |
| EBITDA/Total Interest (x) | 1.21 | 1.15 | 1.52 |

*Source: Company, OCBC estimates*

# Heeton Holdings Ltd ("HHL")

**Issuer Profile:** Negative (6)

**Ticker:** HPLSP

## Background

Heeton Holdings Ltd ("HHL") is a property company with assets and revenue predominantly in Singapore and UK. HHL focuses on property development, property investments and hospitality. As of end-2020, hospitality accounts for 55.5% of segment assets with the rest mainly accounted by property investments (22.8%) and property development (15.9%). The Toh family owns about 70% interest in HHL, which are represented by Heeton Investments Pte Ltd (27.88%), Hong Heng Co Pte Ltd (16.81%), Toh Giap Eng (12.64%), Toh Khai Cheng (6.79%) and Toh Gap Seng (5.83%).

## Credit Outlook and Direction

HHL's 2020 results were weak with revenue down 59.6% y/y to SGD26.3mn as a result of movement restrictions impacting hotel operation income (-SGD25.7mn y/y to SGD14.9mn). Adjusted EBITDA (segment profit before tax, depreciation, interest, fair value changes) plunged y/y to SGD1.2mn (2019: SGD30.1mn) with all major segments delivering weaker performance. This includes hospitality which turned into a loss of SGD14.9mn (2019: +SGD9.2mn), property development (-37% y/y to SGD2.5mn) and property investment (-58.5% y/y to SGD6.6mn). According to HHL, Sun Plaza revenue fell to SGD20.0mn in 2020 (2019: SGD24.8mn) while Tampines Mart saw a dip to SGD4.9mn (2019: SGD7.0mn). In 2020, HHL took an impairment of SGD46.6mn (2019: nil) on properties held in the UK given the weak market conditions, though a gain of SGD54.6mn (2019: SGD6.5mn) on investment properties was recorded, mainly attributable to the 100%-stake in 62 Sembawang Road (2019 valuation: SGD12.5mn). While the gain on 62 Sembawang Road looks outsized given its prior valuation, we note that the lettable area is 1,239sqm while it is occupied by Caltex as a petrol station. Potentially, HHL is revaluing the asset in preparation for a potential divestment though pledging the property for loans is also possible. Net gearing rose h/h to 0.96x (1H2020: 0.93x) with SGD20.1mn net cash outflows from operating activities and SGD6.8mn outflows from investing activities. Cash of SGD49.1mn and fixed deposits of SGD14.9mn) are SGD24.6mn short of covering short-term bonds (SGD66mn) and bank loans (SGD22.6mn) despite the issuance of SGD70.3mn HTONSP '23s. Thus, it will be crucial for HHL to undertake asset divestment (e.g. 62 Sembawang Road) or raise cash to meet the shortfall.

## Bond Recommendation

With HTONSP 6.08% '21s maturing in the near-term, it is crucial for HHL to undertake divestment or fundraising to meet the shortfall.

## Relative Value

| Bond | Issuer Profile | Maturity / Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| HTONSP 6.08% '21 | Negative (6) | 19/07/2021 | 8.58% | 842bps | N |
| OHLSP 5.7% '22 | Negative (6) | 31/01/2022 | 7.51% | 724bps | OW |
| CHIPEN 6% '22 | Unrated | 15/03/2022 | 5.76% | 548bps | Unrated |
| HTONSP 6.8% '23 | Negative (6) | 13/11/2023 | 7.40% | 680bps | Unrated |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 6.19 | 25.15 | -12.55 |
| Net margin (%) | 29.42 | 18.43 | -59.95 |
| Gross debt to EBITDA (x) | 94.95 | 31.24 | -146.14 |
| Net debt to EBITDA (x) | 79.44 | 27.32 | -131.20 |
| Gross Debt to Equity (x) | 0.77 | 1.16 | 1.13 |
| Net Debt to Equity (x) | 0.64 | 1.02 | 1.01 |
| Gross debt/total asset (x) | 0.38 | 0.48 | 0.46 |
| Net debt/total asset (x) | 0.32 | 0.42 | 0.41 |
| Cash/current borrowings (x) | 0.51 | 0.67 | 0.55 |
| EBITDA/Total Interest (x) | 0.19 | 0.78 | -0.17 |

*Source: Company, OCBC estimates*

# Hong Fok Corp Ltd ("HFC")

| **Issuer Profile:** | **Ticker:** |
|---|---|
| **Neutral (5)** | **HFCSP** |

### Background

Hong Fok Corp Ltd ("HFC") is an investment holding company listed on the SGX with a market cap of SGD722mn as at 25 June 2021. Its principal activities are property investment, property development, construction and property management. HFC's properties include The Concourse and International Building as well as a 610-room YOTEL located on Orchard Road. The Cheong family substantially controls HFC. Its top shareholders are Hong Fok Land International Ltd (21.02%), Cheong Sim Eng (13.61%), and P C Cheong Pte Ltd (11.38%). HFC is incorporated in Singapore and the bonds are issued by HFC.

### Credit Outlook and Direction

For full year 2020, revenue fell 29%y/y to SGD80.4mn due to lower contribution from sales of its development properties and lower income from investment properties including YOTEL Singapore Orchard Road due to COVID-19. HFC also saw a loss of SGD30.6mn on the revaluation of investment properties vs a gain of SGD103.2mn recorded in 2019. Overall, HFC recorded a loss before tax of SGD22.1mn against a profit before tax of SGD119.8mn in 2019. That said, HFC still saw a SGD26.3mn net cash from operating activities (2019: SGD55.3mn) and an overall increase in cash and cash equivalents by SGD1.5mn to SGD41.1mn, which can more than cover its short-term debt of SGD18.4mn. HFC's gross debt was SGD785.6mn. The proportion of unsecured debt as a percentage of total debt was somewhat stable at 17.2% vs 17.7% a year ago. Total debt over assets as at 31 December 2020 was 23.0% vs 22.5% a year ago. Given that HFC still has more than sufficient cash on hand to cover its short-term borrowings, we think its credit metrics are still manageable. Management expects operation of YOTEL to remain challenging until COVID-19 pandemic is controlled with vaccines widely available, international borders re-open with no travel restriction and tourism confidence returns from its key markets. Sales of residential units of Concourse Skyline will continue to be adversely affected amid uncertainty wrought by COVID-19. Overall, we **expect HFC's credit profile to be broadly stable within the next 12 months and to continue to fall within Neutral (5) Issuer Profile**.

### Bond Recommendation

We are overweight on HFCSP's only bond. We think the bond offers attractive yield for its short duration.

### Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| HFCSP 4.2% '22s | Neutral (5) | 28/03/2022 | 3.26% | 298bps | OW |
| OUESP 3.75% '22s | Neutral (5) | 17/04/2022 | 2.11% | 182bps | UW |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

### Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

### Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 38.66 | 46.93 | 47.34 |
| Net margin (%) | 205.11 | 101.36 | -32.71 |
| Gross debt to EBITDA (x) | 15.32 | 14.74 | 20.65 |
| Net debt to EBITDA (x) | 14.33 | 13.98 | 19.57 |
| Gross Debt to Equity (x) | 0.31 | 0.30 | 0.31 |
| Net Debt to Equity (x) | 0.29 | 0.28 | 0.29 |
| Gross debt/total asset (x) | 0.23 | 0.23 | 0.23 |
| Net debt/total asset (x) | 0.21 | 0.21 | 0.22 |
| Cash/current borrowings (x) | 0.41 | 22.46 | 2.19 |
| EBITDA/Total Interest (x) | 1.79 | 1.74 | 1.66 |

*Source: Company, OCBC estimates*

# HongKong Land Ltd ("HKL")

**Issuer Profile:** Positive (2)

**Ticker:** HKLSP

## Background

Hongkong Land Holdings Limited ("HKL") was established in 1889 and listed in the London Stock Exchange, with secondary listings in Bermuda and Singapore. It is a leading Asian property investment, management, and development group, with its main portfolio in Hong Kong where it owns and manages some 450,000 sqm of prime property. HKL also has several high quality residential, commercial, and mixed-use projects under development in cities across Greater China and Southeast Asia. In Singapore, its subsidiary, MCL Land, is a well-established residential developer. Its assets and investments are managed from HKSAR and it is 50.41% owned by Jardine Matheson Holdings Ltd. HKL is incorporated in the HKSAR and the bond issuer is The Hongkong Land Finance (Cayman Islands) Company Limited.

## Credit Outlook and Direction

Based on the interim management statement for 1Q2020, HKL's HKSAR business saw negative rental reversions. For office, actual vacancy rate as at 31 March 2021 was 7.6%, up from 6.3% at end 2020. For retail, trading conditions have improved marginally y/y though the luxury segment remains weaker relative to pre-pandemic levels. HKL continues to provide temporary rent relief to support its retail tenants on a case-by-case basis. Actual vacancy rate was 1.7% as at 31 March 2021, up from 0.3% at end 2020. For Beijing, trading performance at WF CENTRAL continued to benefit from the strength of luxury retail sentiment in mainland China with tenants' sales in 1Q2021 exceeding that of 1Q2020. In Shanghai, construction has commenced at the mixed-use joint development on the West Bund, with completion in multiple phases to 2027. HKL's attributable interest in contracted sales was USD410mn 1Q2021, up from USD107mn a year ago. This was due to the effect of pandemic-related suspensions of sales and development activities in the prior year. While HKL has participated in several land auctions on the Mainland China over 1Q2021, it remains difficult to secure new sites due to a highly competitive primary land market. In Singapore, office rental reversions were mildly negative for HKL though expected to turn positive by end-June 2021. Actual vacancy rate rose to 7.9% from 2.1% at end-2020 due to the timing of new tenant occupancy. HKL's attributable interest in contracted sales was lower at USD89mn in 1Q2020 vs USD170mn a year ago, due to the timing of sales launches, although buyer sentiment improved. As at 31 March 2021 net debt was USD4.2bn, down from USD4.6bn at end 2020 while committed liquidity was USD4.3bn unchanged from end2020. We expect **HKL's credit profile to be stable within the next 12 months with the Positive (2) issuer profile as appropriate** despite headwinds as HKL has the financial flexibility to tide through the pandemic.

## Bond Recommendation

We are underweight the HKLSP curve which comprises very long dated 2038s and 2039s.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| HKLSP 3.95% '38 | Positive (2) | 28/11/2038 | 3.09% | 142bps | UW |
| HKLSP 3.45% '39 | Positive (2) | 28/03/2039 | 3.09% | 142bps | UW |
| CAPLSP 2.9% '32 | Neutral (3) | 09/21/2032 | 2.81% | 126bps | UW |
| CAPITA 2.15% '32 | Neutral (3) | 07/12/2032 | 2.22% | 64bps | N |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

## Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 39.99 | 49.92 | 18.93 |
| Net margin (%) | 92.19 | 8.72 | -22.17 |
| Gross debt to EBITDA (x) | 4.63 | 4.33 | 8.33 |
| Net debt to EBITDA (x) | 3.34 | 3.10 | 6.07 |
| Gross Debt to Equity (x) | 0.13 | 0.13 | 0.16 |
| Net Debt to Equity (x) | 0.09 | 0.09 | 0.12 |
| Gross debt/total asset (x) | 0.11 | 0.11 | 0.12 |
| Net debt/total asset (x) | 0.08 | 0.08 | 0.09 |
| Cash/current borrowings (x) | 1.73 | 1.99 | 1.64 |
| EBITDA/Total Interest (x) | 5.89 | 5.62 | 3.21 |

*Source: Company, OCBC estimates*

# Hotel Properties Ltd ("HPL")

**Issuer Profile:** Neutral (5)

**Ticker:** HPLSP

## Background

Listed on the SGX with a market cap of SGD1.7b as at 30 Jun 2021, the principal activities of Hotel Properties Ltd ("HPL") include hotel ownership, management and operation, property development and investment properties. As of Dec 2020, we estimate that hotels account for ~64% of HPL's total assets. Properties account for ~28% of HPL's total assets, which are mainly represented by retail malls in Singapore. Managing Director/cofounder Mr. Ong Beng Seng has 21.1% direct and 39.4% deemed interest in HPL while Wheelock and Co Ltd has 22.52% stake in HPL.

## Credit Outlook and Direction

HPL's 2020 results showed significant declines in revenue (53.5% y/y to SGD258.8mn) due to fall in contribution from the hospitality segment (-55.9% y/y to SGD232.7mn) as a result of movement restrictions globally. The most severely impact geography was Asia (excluding Singapore, The Maldives) which saw revenue declining 69.7% y/y to SGD47.7mn. Singapore (-52.0% y/y to SGD90.3mn) could have experienced a similar fall if not for Stay Home Notice supporting occupancy. As Maldives (-40.0% y/y to SGD112.0mn) opened up to visitors, the decline in revenue was less severe. Despite having undertaken costs cuts, certain capex was likely unavoidable resulting in significant cash outflows in 2020 from operating activities (SGD21.4mn) and investing activities (SGD153.9mn). Although net gearing looks manageable at 47% as of end-2020 (1H2020: 43%), EBITDA/Interest has fallen to a mere 0.4x (2019: 3.7x). Cash of SGD95.7mn as of end-2020 was insufficient to cover SGD150.3mn short-term borrowings, thought we note that HPL raised SGD50mn bond in Jan 2021 followed by SGD125mn HPLSP 3.75% '28s in May, which should help HPL to tide through the near-term. Given the significant headwinds in the hospitality sector and inability to reduce expense and cash outflow significantly, we may review HPL's Issuer Profile for a downgrade if the weak outlook persists.

## Bond Recommendation

Although HPLSP curve is trading at wide spreads relative to peers, this is justified given its significant cash outflows. We are Underweight both perpetuals as we see elevated non-call risks.

## Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Relative Value

| Bond | Issuer Profile | Maturity/Next Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| HPLSP 3.8% '25 | Neutral (5) | 02/06/2025 | 3.21% | 225bps | N |
| HPLSP 3.75% '28 | Neutral (5) | 31/05/2028 | 3.75% | 246bps | N |
| HPLSP 4.4% PERP | Neutral (5) | 22/10/2024 | 4.74% | 303bps | UW |
| HPLSP 4.65% PERP | Neutral (5) | 05/05/2022 | 4.49% | 277bps | UW |
| SLHSP 4.5% '25 | Neutral (4) | 12/11/2025 | 2.62% | 161bps | OW |
| ARTSP 4% '24 | Neutral (5) | 22/03/2024 | 1.43% | 73bps | UW |
| ARTSP 3.07% PERP | Neutral (5) | 30/12/2021 | 3.74% | 277bps | N |
| ARTSP 3.88% PERP | Neutral (5) | 04/09/2024 | 3.89% | 309bps | N |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 23.57 | 25.41 | 7.55 |
| Net margin (%) | 21.52 | 9.83 | -72.70 |
| Gross debt to EBITDA (x) | 5.22 | 6.72 | 56.66 |
| Net debt to EBITDA (x) | 4.35 | 5.36 | 51.75 |
| Gross Debt to Equity (x) | 0.32 | 0.40 | 0.52 |
| Net Debt to Equity (x) | 0.26 | 0.32 | 0.47 |
| Gross debt/total asset (x) | 0.23 | 0.27 | 0.33 |
| Net debt/total asset (x) | 0.19 | 0.21 | 0.30 |
| Cash/current borrowings (x) | 1.24 | 1.23 | 0.64 |
| EBITDA/Total Interest (x) | 4.97 | 3.68 | 0.62 |

*Source: Company, OCBC estimates*

# Keppel Corporation Ltd ("KEP")

**Issuer Profile:** Neutral (5)

**Ticker:** KEPSP

## Background

Listed in 1986, Keppel Corp Ltd ("KEP") is a diversified conglomerate operating in the energy and environment, urban development, connectivity and asset management sectors. As at 28 June 2021, KEP has a market cap of SGD10.2bn. Significant associates include: Keppel REIT ("KREIT", Issuer profile: Neutral (4)), Sino-Singapore Tianjin Eco-City Investment and Development Co, Limited, Keppel DC REIT, and Floatel International Limited. KEP is currently ~20%-owned by Temasek Holdings (Private) Limited ("Temasek") which did not proceed with the partial takeover offer. The remaining shareholding is dispersed. The SGD-bonds are issued by KEP, the listed entity.

## Credit Outlook and Direction

Based on our calculation, we find adjusted EBITDA for 2020 at SGD689.4mn, down only 35% y/y, indicating a level of resiliency of KEP's income generation through COVID-19. Adjusted EBITDA/Interest coverage was 2.2x for 2H2020 while total debt-to-adjusted EBITDA was stretched at 18.3x (2019: 10.9x). KEP reported revenue was SGD1.9bn in 1Q2021, in line with 1Q2020. All segments were profitable during the quarter, with the exception of its offshore and marine business ("KOM"). KEP has high capital commitments including for its private funds business, investment properties and new projects where KEP holds joint ventures and minority stakes in. On the back of credit negative event cumulation (beyond what we expected in early January 2021), higher leverage (including from off-balance sheet debt), looming capital expenditure and somewhat compressed financial capacity, we **lowered our issuer profile of KEP to Neutral (5) in May 2021, albeit with a favourable outlook**. In June 2021, KEP announced that it is exploring a combination of parts of KOM with Sembcorp Marine Ltd and the divestment of legacy rigs into a separate company. We see the transactions as credit positive for KEP, if completed, as the company is taking concrete steps to restructure the KOM business.

## Bond Recommendation

We are broadly Overweight the KEPSP curve on the back of the company's recent announcement on KOM.

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here and here for a recent write-up on the issuer.*

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| KEPSP 3.145% '22s | Neutral (5) | 14/02/2022 | 0.81% | 54bps | N |
| KEPSP 3.725% '23s | Neutral (5) | 30/11/2023 | 1.30% | 68bps | OW |
| KEPSP 3.0% '24s | Neutral (5) | 07/05/2024 | 1.51% | 78bps | OW |
| KEPSP 3.0% '26s | Neutral (5) | 01/10/2026 | 2.10% | 99bps | OW |
| KEPSP 3.8% '27c22s | Neutral (5) | 23/04/2022 | 0.77% | 48bps | UW |
| KEPSP 3.66% '29s | Neutral (5) | 07/05/2029 | 2.53% | 118bps | OW |
| KEPSP 4.0% '42c32s | Neutral (5) | 07/09/2032 | 3.41% | 185bps | OW |
| SCISP 3.64% '24s | Neutral (4) | 27/05/2024 | 1.36% | 62bps | UW |
| SCISP 2.45% '31s^ | Neutral (4) | 09/06/2031 | 2.45% | 93bps | UW |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*
*^ Denote green bonds and green perpetuals*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 13.23 | 15.17 | 13.13 |
| Net margin (%) | 16.03 | 10.04 | -7.73 |
| Gross debt to EBITDA (x) | 9.56 | 10.14 | 14.60 |
| Net debt to EBITDA (x) | 7.05 | 8.59 | 11.73 |
| Gross Debt to Equity (x) | 0.65 | 1.00 | 1.13 |
| Net Debt to Equity (x) | 0.48 | 0.85 | 0.91 |
| Gross debt/total asset (x) | 0.28 | 0.37 | 0.39 |
| Net debt/total asset (x) | 0.21 | 0.32 | 0.32 |
| Cash/current borrowings (x) | 1.34 | 0.39 | 0.55 |
| EBITDA/Total Interest (x) | 3.98 | 3.68 | 2.95 |

*Source: Company, OCBC estimates*

# Keppel Infrastructure Trust ("KIT")

**Issuer Profile:** Neutral (4)

**Ticker:** KITSP

## Background

Keppel Infrastructure Trust ("KIT") is structured as a Business Trust and domiciled in Singapore. The trust has nine assets across three main segments, namely Energy, Distribution & Network and Waste & Water. KIT is listed on the Singapore Stock Exchange with a market cap of SGD2.8bn as at 28 June 2021 and is Sponsored by Keppel Infrastructure Holdings Pte Ltd, the infrastructure holding company of Keppel Corp Ltd ("KEP", Issuer profile: Neutral (5)). KEP is the largest unitholder holding a ~16.6%-stake in KIT (KIT is no longer recorded as an associated company of KEP). Tembusu Capital Pte Ltd (a subsidiary of Temasek Holdings (Private) Limited) holds a ~12.3%-stake in the trust as the second largest unitholder. KIT is established in Singapore and the SGD perpetuals are issued by Keppel Infrastructure Fund Management Pte. Ltd. (in its capacity as trustee-manager of KIT).

## Credit Outlook and Direction

KIT's reported Group EBITDA for 1Q2021 was SGD97.9mn, down by 0.2% y/y while reported operational cash flow increased 15.6% y/y to SGD66.5mn. In 1Q2021, KIT completed the acquisition of the Philippine Coastal Storage & Pipeline Corporation ("PCSPC"), which owns a petroleum product storage facility in the Philippines. At time of announcement, KIT's proposed interest in PCSPC was 80%. Immediately following completion, KIT sold down 30% to Metro Pacific Investments Corporation (who already held the other 20%-interest). The reported group EBITDA and operational cash flow includes contribution from KIT's 50%-stake in PCSPC. KIT's reported net debt-to-EBITDA has risen to 4.8x in 1Q2021 versus 4.2x in 4Q2020, mainly driven by additional debt taken to fund the acquisition of PCSPC. KIT provides a breakdown of Operational Cash Flow for its main assets (and semi-annually, funds from operations ("FFO") is also provided). Operational cash flow and FFO is used for debt repayment at the asset level, with the excess, what KIT now terms as free cash flow to equity ("FCFE"), upstreamed for KIT-obligations at the holding company level. In 1Q2021, KIT's FCFE increased 10.7% y/y to SGD56.6mn. Debt at the KIT level was SGD100mn and we assume an interest payment of SGD0.75mn per quarter. KIT's perpetual was SGD300mn as at 31 March 2021, assuming a perpetual distribution of SGD14.25mn p.a and taking a quarter of this as interest payment, we find Adjusted FCFE/Interest of 13.1x in 1Q2021, manageable. KIT's Basslink had concluded an arbitration process with the State of Tasmania and Hydro Tasmania and Basslink is now in discussions with them about the arbitration payment. We expect KIT to be in an acquisition mode to replenish income streams. We **maintain KIT's issuer profile at Neutral (4), albeit cautious over its rising leverage within 12 months**.

## Bond Recommendation

We think the older perpetual, the KITSP 4.3%-PERP provides better value for a two year shorter first call date.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| KITSP 4.75%-PERP | Neutral (4) | 12/06/2029 | 4.03% | 267bps | N |
| KITSP 4.30%-PERP | Neutral (4) | 09/06/2031 | 4.17% | 266bps | UW |
| KEPSP 3.66% '29s | Neutral (5) | 07/05/2029 | 2.53% | 118bps | OW |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 35.37 | 18.30 | 18.79 |
| Net margin (%) | -0.37 | 0.65 | -3.35 |
| Gross debt to EBITDA (x) | 7.87 | 7.70 | 7.71 |
| Net debt to EBITDA (x) | 6.84 | 6.06 | 5.72 |
| Gross Debt to Equity (x) | 1.51 | 1.29 | 1.51 |
| Net Debt to Equity (x) | 1.31 | 1.01 | 1.12 |
| Gross debt/total asset (x) | 0.47 | 0.44 | 0.46 |
| Net debt/total asset (x) | 0.41 | 0.35 | 0.34 |
| Cash/current borrowings (x) | 0.22 | 0.35 | 0.88 |
| EBITDA/Total Interest (x) | 1.82 | 1.97 | 2.11 |

*Source: Company, OCBC estimates*

# Keppel Real Estate Investment Trust ("KREIT")

| **Issuer Profile:** | **Ticker:** |
|---|---|
| **Neutral (4)** | **KREITS** |

## Background

Listed on the Singapore Exchange on 28 April 2006, KREIT's portfolio comprises interests in 11 property assets located in the central business districts of Singapore, Australian cities – Sydney, Melbourne, Brisbane and Perth, as well as Seoul, South Korea. As at 31 March 2021, asset under management is ~SGD8.9bn (Singapore: 77.4%, Australia: 19.2%, South Korea: 3.4%). Key assets are Ocean Financial Centre ("OFC", 79.9% interest), Marina Bay Financial Centre ("MBFC", 33% interest) and One Raffles Quay ("ORQ", 33% interest). KREIT is 41.99% owned by Keppel Land Ltd, it's Sponsor, which is in turned owned by Keppel Corporation Ltd ("KEP", Issuer Profile: Neutral (5)). KREIT is established in Singapore and its bonds are issued by RBC Investor Services Trust Singapore Limited, in its capacity as trustee of KREIT.

## Credit Outlook and Direction

In 1Q2021's business updates, revenue rose 32% y/y to SGD51mn from SGD39mn a year ago. Net property income to unitholders was up 41% y/y to SGD36mn. This is in part due to maiden contribution from Pinnacle Office Park in Sydney which commenced on 1 January 2021. Portfolio committed occupancy was 96.5% vs 97.9% at end last year. Weighted average lease expiry as at 31 March 2021 was 6.7 years. Retention rate was 44% with average signing rent for Singapore office leases at SGD10.64 psf pm against average expiring rents of SGD9.98 psf pm in 2021. The average core CBD Grade A office rents was stable at SGD10.40 psf pm in 1Q2021 with occupancy rate at 93.9% Over 1Q2021, rental collection (excluding rent deferrals) was 99% with outstanding rent deferrals at SGD1.2mn. Tenant relief measures granted was ~SGD0.1mn. While aggregate leverage was 35.2% as at 31 March 2021, down from 37.3% at end 2020, we note that it would be higher at 39.4% upon the completion of the acquisition of Keppel Bay Tower in 2Q2021 from KEP. All-in interest rate was lower year-on-year at 2.01% per annum. KREIT has also obtained loan facilities to refinance all outstanding loans that are maturing this year. Reported interest coverage improved to 3.7x vs 3.4x at the preceding quarter. **Within the next 12 months, KREIT's credit profile is expected to be stable with the Neutral (4) issuer profile as appropriate**.

## Bond Recommendation

We are overweight KREITS'24s which is trading view at a yield of 1.99% and neutral on the perp as SUNSP perps offers better value in our view.

## Relative Value

| Bond | Issuer Profile | Maturity/ First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| FCTSP 2.77% '24 | Neutral (4) | 08/11/2024 | 1.72% | 88bps | OW |
| KREITS 3.275 '24 | Neutral (4) | 08/04/2024 | 1.99% | 128bps | OW |
| KREITS 3.15% PERP | Neutral (4) | 11/09/2025 | 3.69% | 270bs | N |
| SUNSP 4.25 'PERP | Neutral (4) | 15/06/2026 | 4.05% | 297bps | OW |
| SUNSP 3.8% PERP | Neutral (4) | 27/10/2025 | 4.05% | 305bps | OW |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

## Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 47.50 | 42.37 | 47.25 |
| Net margin (%) | 93.20 | 86.36 | 0.16 |
| Gross debt to EBITDA (x) | 29.01 | 30.52 | 29.53 |
| Net debt to EBITDA (x) | 25.73 | 28.72 | 27.60 |
| Gross Debt to Equity (x) | 0.43 | 0.41 | 0.45 |
| Net Debt to Equity (x) | 0.38 | 0.39 | 0.43 |
| Gross debt/total asset (x) | 0.29 | 0.28 | 0.31 |
| Net debt/total asset (x) | 0.26 | 0.27 | 0.29 |
| Cash/current borrowings (x) | 4.32 | 1.25 | 1.02 |
| EBITDA/Total Interest (x) | 1.11 | 1.04 | 1.54 |

*Source: Company, OCBC estimates*

# Lendlease Group ("LLC")

| **Issuer Profile:** | **Ticker:** |
|---|---|
| **Neutral (3)** | **LLCAU** |

## Background

Founded in 1958, Lendlease Group ("LLC") is a leading Australian property company listed on the Australian Securities Exchange ("ASX") with a market cap of AUD7.9b as at 30 Jun 2021. LLC structures its businesses along (1) Development, (2) Construction and (3) Investments. Australia is LLC's core market though LLC has been diversifying into Europe, Asia and America. LLC owns ~25%-stake in Lendlease Global Commercial REIT ("LREIT") as well as stakes in Lendlease Asian Retail Investment Fund ("ARIF") 1 (48.7%), 2 (39.4%) and 3 (15.1%). There is no controlling shareholder.

## Credit Outlook and Direction

The pandemic year saw negative impact for 1HFY2021 with reported EBITDA falling 21.4% y/y to AUD469mn, with fall in contributions from two major segments of Investments (-46.0% y/y to AUD121mn) and Development (-10.3% y/y to AUD244mn) while Construction was up 3.0% y/y to AUD104mn. This is mainly due to fewer asset and performance fees, fewer conversion of development pipeline and delays in construction projects. That said, we believe that clear signs of recovery are under way, with reported EBITDA for 1HFY2021 higher by 272% h/h. LLC is looking to increase production from the development segment to more than AUD8bn p.a. (FY2020 development revenue: AUD2.3bn), backed by a healthy development pipeline of AUD110bn. Reported gearing increased to 12.9% h/h (FY2020: 5.7%) due to operating cash outflows of AUD735mn mainly due to One Sydney Harbour joint venture (AUD500mn) though credit metrics remains manageable with reported interest cover increasing to 6.7x h/h (FY2020: 2.8x). Cash covers current borrowings by 1.68x and LLC maintains sufficient debt headroom with undrawn facilities of AUD3.83bn. Recently, LREIT increased its stake in Jem to 31.8% by purchasing stakes from holders of ARIF 3 and Lendlease Jem Partners Fund Ltd, which demonstrates the financial flexibility of the REIT in monetizing assets held by LLC's funds. Separately, in FY2021 major executive appointments were made with Tony Lombardo succeeding as CEO and Simon Dixon as CFO. With the new management on board or coming on board, it remains to be seen if LLC will undertake a strategic shift post-pandemic.

## Bond Recommendation

We are Neutral on LLCAU 3.9% '27 given the continued price rally. That said, we think it offers a decent alternative to peers with compressed yields.

## Relative Value

| Bond | Issuer Profile | Maturity/Next Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| LLCAU 3.9% '27 | Neutral (3) | 27/04/2027 | 2.53% | 135bps | N |
| CAPLSP 3.08% '27 | Neutral (3) | 19/10/2027 | 2.14% | 91bps | UW |
| CITSP 3.48% '26 | Neutral (4) | 15/06/2026 | 2.47% | 139bps | UW |
| FNNSP 3.8% '27 | Neutral (4) | 21/04/2027 | 2.22% | 105bps | UW |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2019 | FY2020 | 1H2021 |
|---|---|---|---|
| EBITDA margin (%) | 0.50 | -5.49 | 3.18 |
| Net margin (%) | 2.85 | -2.66 | 3.98 |
| Gross debt to EBITDA (x) | 33.11 | -3.74 | 8.66 |
| Net debt to EBITDA (x) | 17.38 | -2.00 | 5.79 |
| Gross Debt to Equity (x) | 0.43 | 0.35 | 0.39 |
| Net Debt to Equity (x) | 0.22 | 0.19 | 0.26 |
| Gross debt/total asset (x) | 0.16 | 0.13 | 0.17 |
| Net debt/total asset (x) | 0.08 | 0.07 | 0.11 |
| Cash/current borrowings (x) | 5.73 | 8.29 | 1.68 |
| EBITDA/Total Interest (x) | 0.49 | -3.24 | 1.89 |

*Source: Company, OCBC estimates*

# Lippo Malls Indonesia Retail Trust ("LMRT")

**Issuer Profile:** Negative (6)

**Ticker:** LMRTSP

## Background

Listed on the SGX on 2007 with a market cap of SGD491mn as at 30 Jun 2021, Lippo Malls Indonesia Retail Trust ("LMRT") is a retail REIT with a portfolio of 23 retail malls and 7 retail spaces in Indonesia. LMRT is amongst the largest retail S-REIT by floor space, with an NLA over 900,000 sqm. The malls are mostly located within Greater Jakarta, Bundung, Medan and Palembang, targeted at the middle to upper-middle class domestic consumers. LMRT is 32.32%-owned by its sponsor, Lippo Karawaci Tbk PT ("LK"), which is an Indonesian property group. Sponsor-related parties accounts for ~20% of LMRT's gross revenue. LMRT is established in Singapore. Upon a trustee replacement in November 2017, the SGD perpetuals are issued by Perpetual (Asia) Limited ("Perpetual") (in its capacity as trustee of LMRT).

## Credit Outlook and Direction

Results continue to show weakness in 1Q2021 with revenue falling 32.8% y/y to SGD43.6mn and net property income falling 35.2% y/y to SGD25.8mn, due to discounts given to tenants as a result of relief adjustments and shortened operating hours. Tenants remain in arrears with trade receivables increasing q/q to SGD38.8mn (4Q2020: SGD27.3mn) though the increase is partly due to the acquisition of Lippo Mall Puri ("Puri") and decline in rental discounts. Before allowance for doubtful debts, trade receivables from related party tenants amount to SGD14.6mn (4Q2020: SGD8.7mn) while trade receivables from non-related party tenants amount to SGD33.4mn (4Q2020: SGD26.9mn). Occupancy has trended down for 5 consecutive quarters to 83.8% as of 1Q2021 and may continue to trend down with visitor traffic recovering only to 53.2% as of 1 Jan to 25 Apr 2021. Recovery to pre-pandemic levels (~90%) looks unlikely till movement restrictions are fully lifted. While operating statistics are likely to remain weak, we are not overly worried given the ample liquidity after the SGD281mn rights issuance. Cash of SGD172.2mn is sufficient to cover debt maturing till 2023 and expected capex of SGD20mn to SGD30mn in 2021. Although amount available for distribution to unitholders has fallen to a mere SGD328k, we think management may continue to make distributions to unitholders (and by inference holders of LMRT's perpetuals) as management is committed to distributions.

## Bond Recommendation

We remain Neutral on the perpetuals as the rights issue and acquisition of Lippo Mall Puri should help restore distributable income and hence increase the certainty of distributions for the perpetuals.

## Relative Value

| Bond | Issuer Profile | Maturity/Next Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| LMRTSP 7.25% '24 (USD) | Negative (6) | 19/06/2022 | 5.39% | 483bps | Unrated |
| LMRTSP 7.5% '26 (USD) | Negative (6) | 09/02/2024 | 6.38% | 548bps | Unrated |
| LMRTSP 7% PERP | Negative (6) | 27/09/2021 | 8.35% | 663bps | N |
| LMRTSP 6.6% PERP | Negative (6) | 19/12/2022 | 7.77% | 606bps | N |
| FIRTSP 5.68% PERP | Negative (6) | 08/01/2022 | 7.65% | 595bps | N |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2019 | FY2020 | 1Q2021 |
|---|---|---|---|
| EBITDA margin (%) | 62.39 | 49.69 | 58.69 |
| Net margin (%) | 4.95 | -153.50 | -2.61 |
| Gross debt to EBITDA (x) | 4.17 | 9.18 | 8.22 |
| Net debt to EBITDA (x) | 3.53 | 7.70 | 6.54 |
| Gross Debt to Equity (x) | 0.66 | 0.88 | 0.82 |
| Net Debt to Equity (x) | 0.56 | 0.74 | 0.65 |
| Gross debt/total asset (x) | 0.35 | 0.41 | 0.41 |
| Net debt/total asset (x) | 0.30 | 0.35 | 0.32 |
| Cash/current borrowings (x) | 1.47 | 0.50 | N/A |
| EBITDA/Total Interest (x) | 4.12 | 1.54 | 1.81 |

*Source: Company, OCBC estimates*

# Mapletree Commercial Trust ("MCT")

## Issuer Profile:
**Neutral (3)**

## Ticker:
**MCTSP**

### Background

Listed on the SGX on 27 April 2011, Mapletree Commercial Trust ("MCT") invests in office and retail assets in Singapore. As at June 2021, MCT had a market cap of SGD7.1bn while its portfolio value was SGD8.7bn as at 31 March 2021. MCT's portfolio comprises five properties - VivoCity, Mapletree Business City (comprising MBC I and MBC II), Bank of America Merrill Lynch Harbourfront ("MLHF"), PSA Building and Mapletree Anson. MBC II, MCT's latest addition, was acquired on 1 November 2019. MCT is 32.5% owned by Temasek Holdings Ltd ("Temasek") through Mapletree Investments Pte Ltd ("MAPL", Issuer Profile: Neutral (4)), its Sponsor. MAPL is a real estate development, investment and capital management company 100% owned by Temasek. MCT is established in Singapore and the and its bonds are issued by DBS Trustee Limited, in its capacity as trustee of MCT.

### Credit Outlook and Direction

For the second half of financial year ended 31 March 2021 ("2HFY2021"), revenue was up 0.6% y/y to SGD260mn while net property income rose 1.8% y/y to SGD206mn, mostly due to Mapletree Business City II's full period contribution and tapering of COVID-19 rental rebates. Committed occupancy rate was 97.1% while actual occupancy rate was 93.5% as at 31 March 2021. MCT has 23.9% of leases by gross rental income expiring in FY2022, comprising of 11.4% retail and 12.5% office. VivoCity which is MCT's largest asset saw committed occupancy rate at 99.1% while actual occupancy rate is 97.1%. At Vivocity, footfall has recovered to 73% of pre-COVID levels while tenants' sales have recovered to 86%. Portfolio valuation has remained stable in the last six months as at 31 March 2021, though lower by 3.5% from a year ago. Aggregate leverage was 33.9% as at 31 March 2021 (end 2020: 34.0%). MCT has refinanced all its debt maturing up till end FY2022. MCT has SGD192.5mn cash on hand and over SGD400mn of undrawn committed facilities. In addition, all its assets are unencumbered. EBITDA/Interest based on our calculation is 5.1x for 2HFY2021. We **maintain MCT at Neutral (3) Issuer Profile and its credit profile is expected to remain stable within the next 12 months.**

### Bond Recommendation

We are Neutral the MCTSP curve as we think it is trading fair.

### Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

### Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| MCTSP 3.25% '23 | Neutral (3) | 03/02/2023 | 0.89% | 46bps | N |
| MCTSP 3.28% '24 | Neutral (3) | 23/09/2024 | 1.16% | 34bps | N |
| MCTSP 3.11% '26 | Neutral (3) | 24/08/2026 | 1.67% | 57bps | N |
| MCTSP 3.045% '27 | Neutral (3) | 27/08/2027 | 1.93% | 73bps | N |
| MCTSP 3.05% '29 | Neutral (3) | 22/11/2029 | 2.20% | 81bps | N |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

### Key Ratios

| FYE March | FY2019 | FY2020 | FY2021 |
|---|---|---|---|
| EBITDA margin (%) | 71.19 | 70.81 | 70.68 |
| Net margin (%) | 131.18 | 112.48 | 14.32 |
| Gross debt to EBITDA (x) | 7.44 | 8.80 | 8.95 |
| Net debt to EBITDA (x) | 7.28 | 8.61 | 8.38 |
| Gross Debt to Equity (x) | 0.51 | 0.52 | 0.53 |
| Net Debt to Equity (x) | 0.50 | 0.51 | 0.50 |
| Gross debt/total asset (x) | 0.33 | 0.33 | 0.34 |
| Net debt/total asset (x) | 0.32 | 0.33 | 0.32 |
| Cash/current borrowings (x) | 0.98 | 0.41 | 2.75 |
| EBITDA/Total Interest (x) | 4.51 | 4.34 | 4.41 |

*Source: Company, OCBC estimates*

# Mapletree Industrial Trust ("MINT")

| **Issuer Profile:** | **Ticker:** |
|---|---|
| **Neutral (3)** | **MINTSP** |

## Background

Listed on the SGX in October 2010, Mapletree Industrial Trust ("MINT") invests in industrial properties in Singapore and data centres worldwide. As at 25 June 2021, MINT had a market cap of SGD7.1bn and an asset under management ("AUM") at SGD8.6bn post the acquisition of 29 data centres in the US. Across MINT's portfolio, data centres will make up 53.6% of AUM, followed by 17.1% flatted factories, 16.1% hi-tech buildings, 6.7% business park buildings, 5.7% stack-up/ramp-up buildings and 0.8% light industrial buildings. MINT is 23.87% owned by Temasek Holdings Pte Ltd, who owns 100% stake in Sponsor, Mapletree Investments Pte Ltd ("MAPL", Issuer Profile: Neutral (4)). MINT is established in Singapore and the and its bonds are issued by DBS Trustee Limited, in its capacity as trustee of MINT.

## Credit Outlook and Direction

For the fourth quarter of financial year ended 31 March 2021 ("4QFY2021"), gross revenue was up by 19% y/y to SGD121mn and net property income was up 17% y/y to SGD92mn, mainly due to the consolidation of revenue from the 14 data centres in the US (MINT had acquired the remaining 50%-interest in 4QFY2021), though partially offset by rental reliefs granted to tenants as well as the redevelopment of Kolam Ayer 2. Portfolio occupancy was somewhat higher at 93.7%. All the properties types saw stable to stronger occupancy rate except for business parks, whose occupancy rate fell to 84.2% from 85.9% in 3QFY2021. In FY2022, bulk of the expiring leases of 14.8% of MINT's portfolio based on gross rental income are coming from flatted factories. Flatted factories have an occupancy rate of 89.9% and a retention rate of 82.2%. Rent in arrears of more than one month for the Singapore portfolio has improved from 1.4% as at 31 Dec 2020 to 1.2% as at 31 March 2021. MINT announced the proposed acquisition of USD1.32bn data centres portfolio in the US on 20 May 2021. Post the acquisition, aggregate leverage is expected to be 40.3% post the proposed acquisition. As at 31 March 2021, MINT has more than enough cash and committed facilities to cover SGD368.0mn of debt maturing in FY2022. MINT also does not have any encumbered assets. Redevelopment of the Kolam Ayer 2 cluster remains on track for completion in 2HCY2022. Overall, we expect **MINT's credit profile to remain stable within the next 12 months and we continue to hold MINT at Neutral (3) Issuer Profile**.

## Bond Recommendation

We are neutral the MINTSP curve as we think it is trading fair.

## Issues outstanding

Senior secured

Senior unsecured bullets

Senior unsecured callables

Subordinated corporate perpetuals

Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| MINTSP 3.65% '22 | Neutral (3) | 07/09/2022 | 0.71% | 35bps | N |
| MINTSP 3.02% '23 | Neutral (3) | 11/05/2023 | 0.93% | 44bps | N |
| MINTSP 3.16% '24 | Neutral (3) | 28/03/2024 | 1.16% | 46bps | N |
| MINTSP 3.15% PERP | Neutral (3) | 11/05/2026 | 2.90% | 183bps | N |
| MINTSP 3.58% '29 | Neutral (3) | 26/03/2029 | 2.17% | 83bps | N |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

## Key Ratios

| FYE March | FY2019 | FY2020 | FY2021 |
|---|---|---|---|
| EBITDA margin (%) | 68.15 | 69.86 | 69.60 |
| Net margin (%) | 72.09 | 90.46 | 36.78 |
| Gross debt to EBITDA (x) | 5.45 | 5.15 | 7.30 |
| Net debt to EBITDA (x) | 5.29 | 4.96 | 7.10 |
| Gross Debt to Equity (x) | 0.46 | 0.41 | 0.58 |
| Net Debt to Equity (x) | 0.45 | 0.39 | 0.57 |
| Gross debt/total asset (x) | 0.30 | 0.28 | 0.36 |
| Net debt/total asset (x) | 0.29 | 0.27 | 0.35 |
| Cash/current borrowings (x) | 0.53 | 41.91 | 0.16 |
| EBITDA/Total Interest (x) | 6.39 | 6.30 | 5.89 |

*Source: Company, OCBC estimates*

# Mapletree Investments Pte Ltd ("MAPL")

**Issuer Profile:** Neutral (4)

**Ticker:** MAPLSP

## Background

MAPL is a real estate development, investment, capital, and property management company headquartered in Singapore. Established in 2000, MAPL's footprint spans across 13 geographical markets. MAPL has an asset under management ("AUM") of SGD66.3bn as of 31 March 2021. More than half of the AUM is held under four Singapore-listed REITs and six private equity real estate funds. MAPL considers its REITs as subsidiaries and consolidates them, even though it only has an average 32% stake in them except for Mapletree Industrial Trust ("MINT", Issuer Profile: Neutral (3)). The private equity real estate funds are held as associated companies (average stake of 32%). MAPL is a private limited liability company and is not listed though it publishes financials annually. MAPL is directly owned by Fullerton Management Pte Ltd, which in turn is 100% owned by Temasek Holdings (Private) Ltd. MAPL is incorporated in Singapore and the bonds and perpetual securities are issued by Mapletree Treasury Services Limited. MAPL is unlisted though publishes annual reports with a full set of financials.

## Credit Outlook and Direction

In the financial year ended 31 March 2021 ("FY2021"), revenue fell 29% y/y to SGD2.7bn partly due to the deconsolidation of MINT and weaker performance of its retail and lodging assets. Recurring profit after tax after minority interest ("PATMI") was SGD633mn, down from SGD752mn a year ago, driven by its existing portfolios and further enhanced by full-year contributions from data centre assets in the US and commercial assets in India. As at 31 March 2021, MAPL reduced its net debt over equity to 60.5% from 62.5% a year ago. MAPL's cash reserve was SGD2.0bn as at 31 March 2021. In FY2021, SGD2.3bn was deployed into logistics and data centres which have outperformed other asset classes during the pandemic. MAPL also expanded its office portfolio with several acquisitions in North America, South Korea and the Netherlands at a total transaction value of ~SGD1.8bn. In line with expectations, MAPL syndicated its first European office fund, Mapletree Europe Income Trust in March 2021 which raised EUR507mn (~SGD813mn) and executed several capital recycling initiatives (totaling SGD3.1bn) to its REITs. **MAPL's credit profile is expected to remain stable within the next 12 months with the Neutral (4) issuer profile as appropriate**.

## Bond Recommendation

We are Neutral the MAPLSP curve as we think it is trading fair. That said, its perps are more attractive than its bullets in our view.

## Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| MAPLSP 4.5% PERP | Neutral (4) | 19/01/2022 | 2.39% | 213bps | N |
| MAPLSP 3.95% PERP | Neutral (4) | 12/11/2022 | 2.58% | 218bps | N |
| MAPLSP 2.85% '25 | Neutral (4) | 29/08/2025 | 1.54% | 56bps | N |
| MAPLSP 3.4% '26 | Neutral (4) | 03/09/2026 | 1.86% | 76bps | N |
| MAPLSP 3.58% '29 | Neutral (4) | 13/03/2029 | 2.29% | 95bps | N |
| MAPLSP 3.15% '31 | Neutral (4) | 03/09/2031 | 2.58% | 106bps | N |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 54.38 | 56.45 | 60.34 |
| Net margin (%) | 58.66 | 52.89 | 42.32 |
| Gross debt to EBITDA (x) | 9.57 | 10.50 | 9.00 |
| Net debt to EBITDA (x) | 8.84 | 9.65 | 7.99 |
| Gross Debt to Equity (x) | 0.70 | 0.83 | 0.72 |
| Net Debt to Equity (x) | 0.64 | 0.76 | 0.64 |
| Gross debt/total asset (x) | 0.39 | 0.43 | 0.39 |
| Net debt/total asset (x) | 0.36 | 0.39 | 0.35 |
| Cash/current borrowings (x) | 0.59 | 0.81 | 0.86 |
| EBITDA/Total Interest (x) | 4.66 | 3.59 | 3.40 |

*Source: Company, OCBC estimates*

OCBC Bank

# Mapletree Logistics Trust ("MLT")

**Issuer Profile:**
**Neutral (3)**

**Ticker:**
**MLTSP**

## Background

Mapletree Logistics Trust ("MLT") is the first Asia-focused logistics REIT listed in Singapore with a market cap as at 28 June 2021 of SGD8.9bn. Total assets were SGD11.2bn as at 31 March 2021. By assets under management, as at 31 March 2021, MLT's assets are located in Singapore (24.0%), HKSAR (24.6%), China (16.6%), Japan (11.2%), South Korea (8.4%) and others (15.2%). MLT is sponsored by Mapletree Investments Pte Ltd ("MAPL", Issuer profile: Neutral (4)) who also owns ~32% in MLT. MLT is established in Singapore while the SGD perpetuals are issued by HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of MLT.

## Credit Outlook and Direction

Gross revenue was SGD157.0mn for the fourth quarter of financial year ended 31 March 2021 ("4QFY2021"), representing a y/y increase of 22.6% and a q/q increase of 12.3%, driven by acquisitions. MLT completed a number of acquisitions during the financial year (amounting to SGD1.3bn of cash outflow in FY2021) including the remaining 50%-interest in 15 properties in China which it did not already own, with income being consolidated. For 4QFY2021, EBITDA/Interest (based on our calculation which does not include other income and other expenses) was very manageable at 5.3x. Assuming that MLT pays out SGD4.3mn per quarter on its perpetuals and we take 50% of this as interest, we find EBITDA/(Interest plus 50% perpetual distribution) at 4.8x, still manageable. As at 31 March 2021, MLT's reported aggregate leverage was 38.4% (31 December 2020: 36.8%) driven by additional debt to help fund acquisitions. Taking 50% of the perpetuals as debt, we estimate that adjusted aggregate leverage was ~40%. As at 31 March 2021, MLT faces minimal debt coming due in FY2022, at only SGD161mn, representing 4% of total debt, sufficiently covered by MLT's available committed credit facilities of SGD668mn. MLT did not win a recent bid for a large portfolio of logistics assets in Australia although the REIT remains acquisitive. We continue to expect MLT to keep its reported aggregate leverage at the 39-40% level. We **maintain MLT's issuer profile at Neutral (3) and expect this to be stable in the next 12 months**.

## Bond Recommendation

We think the MLTSP 3.65%-PERP is providing good value for a large cap REIT at YTW of 3.08%.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| MLTSP 3.65%-PERP | Neutral (3) | 28/03/2023 | 3.08% | 262bps | OW |
| AREIT 3.0%-PERP^ | Neutral (3) | 17/09/2025 | 2.79% | 180bps | OW |
| CAPLSP 3.65%-PERP | Neutral (3) | 17/10/2024 | 2.80% | 197bps | UW |
| MAPLSP 4.5%-PERP | Neutral (4) | 19/01/2022 | 2.39% | 213bps | N |
| MAPLSP 3.95%-PERP | Neutral (4) | 12/11/2022 | 2.58% | 218bps | N |

*Indicative prices as 30 June 2021 Source: Bloomberg, OCBC*
*^ Denote green bonds and green perpetuals*

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here and here for recent write-ups on the issuer.*

## Key Ratios

| FYE March | FY2019 | FY2020 | FY2021 |
|---|---|---|---|
| EBITDA margin (%) | 75.01 | 78.57 | 77.97 |
| Net margin (%) | 100.50 | 80.55 | 82.69 |
| Gross debt to EBITDA (x) | 8.79 | 9.19 | 9.91 |
| Net debt to EBITDA (x) | 8.48 | 8.80 | 9.27 |
| Gross Debt to Equity (x) | 0.64 | 0.71 | 0.71 |
| Net Debt to Equity (x) | 0.62 | 0.68 | 0.66 |
| Gross debt/total asset (x) | 0.37 | 0.39 | 0.39 |
| Net debt/total asset (x) | 0.36 | 0.37 | 0.36 |
| Cash/current borrowings (x) | 3.30 | 0.72 | 1.65 |
| EBITDA/Total Interest (x) | 4.70 | 4.66 | 5.10 |

*Source: Company, OCBC estimates*

# Mapletree North Asia Commercial Trust ("MNACT")

**Issuer Profile:** Neutral (4)

**Ticker:** MAGIC

## Background

Listed on the SGX on 7 March 2013, Mapletree North Asia Commercial Trust ("MNACT") is a S-REIT with a mandate to invest in the North Asia region (Greater China and Japan). With a market cap of SGD3.7bn as at June 2021 and total assets of SGD8.4bn post the acquisition of a freehold office building in Greater Tokyo, Japan. MNACT holds 13 commercial properties located in Hong Kong, China and Japan. MNACT's largest asset, Festival Walk ("FW") in Hong Kong, make up 44% of net property income for FY2021 while Gateway Plaza ("GP") make up another 20%. Festival Walk is a retail mall with office component in Kowloon Tong residential area of HKSAR. 37.56% stake in MNACT is owned by Mapletree Investments Pte Ltd ("MAPL", Issuer profile: Neutral (4)), its Sponsor. MAPL is wholly owned by Temasek Holdings Pte Ltd ("Temasek"). MNACT is established in Singapore and its bonds are issued by Mapletree North Asia Commercial Treasury Co HKSAR Ltd.

## Credit Outlook and Direction

For full year ended 31 March 2021 ("FY2021"), gross revenue increased 10% y/y to SGD391mn, while net property income ("NPI") went up by 5% y/y to SGD292mn due to full-year contributions from mBAY POINT Makuhari ("MBP") and Omori Prime Building ("Omori") acquired on 28 February 2020, and a low base effect as no rentals were collected in 2HFY2020 during the temporary closure of Festival Walk mall from 13 November 2019 to 15 January 2020 and its office tower from 13 to 25 November 2019. Portfolio occupancy was 97.0%. MNACT has 22.2% of leases expiring by gross rental income in FY2022. Portfolio valuation was down 4.8% y/y though higher than -8.1% y/y on a same store basis which excludes The Pinnacle Gangnam (acquired in October 2020). While's occupancy rate at Festival Walk was high at 99.9%, rental reversion was down 21% over FY2021. Footfall fell 30.9% y/y while tenant sales were down 23.1% y/y. This was largely due to the social distancing measures and dine-in bans imposed by authorities to contain the spread of COVID-19. Rental relief granted to tenants was lower at SGD14.9mn in 2HFY2021 vs SGD34.9mn in 1HFY2021. Aggregate leverage was 41.5% and estimated to be higher at 41.9% post the acquisition of the freehold office building in Greater Tokyo, Japan. MNACT has SGD199mn of debt maturing in the short term, which can be more than offset by its SGD252.2mn of cash on hand. MNACT also has SGD514mn of committed and uncommitted undrawn credit facilities. We continue to **hold MNACT at Neutral (4) Issuer Profile and expect MNACT's credit profile to be stable within the next 12 months**.

## Bond Recommendation

We are Neutral the MAGIC curve as it is trading fair though relative to its bullets, we think its perp is comparative more attractive.

## Issues outstanding

Senior secured

Senior unsecured bullets

Senior unsecured callables

Subordinated corporate perpetuals

Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| MAGIC 3.2% '21 | Neutral (4) | 08/09/2021 | 0.81% | 57bps | N |
| MAGIC 3.43% '22 | Neutral (4) | 09/03/2022 | 0.83% | 55bps | N |
| MAGIC 3.5% PERP | Neutral (4) | 08/06/2026 | 3.65% | 257bps | N |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

## Key Ratios

| FYE December | FY2019 | FY2020 | FY2021 |
|---|---|---|---|
| EBITDA margin (%) | 74.18 | 71.26 | 68.59 |
| Net margin (%) | 155.23 | 35.06 | -67.59 |
| Gross debt to EBITDA (x) | 9.46 | 13.35 | 12.18 |
| Net debt to EBITDA (x) | 8.87 | 12.53 | 11.25 |
| Gross Debt to Equity (x) | 0.62 | 0.71 | 0.75 |
| Net Debt to Equity (x) | 0.59 | 0.67 | 0.69 |
| Gross debt/total asset (x) | 0.37 | 0.39 | 0.40 |
| Net debt/total asset (x) | 0.34 | 0.37 | 0.37 |
| Cash/current borrowings (x) | 0.62 | 0.59 | 1.22 |
| EBITDA/Total Interest (x) | 4.08 | 3.37 | 3.75 |

*Source: Company, OCBC estimates*

# Metro Holdings Ltd ("METRO")

**Issuer Profile:** Neutral (4)

**Ticker:** METRO

## Background

Metro Holdings Ltd ("METRO") was listed on the SGX in 1973 and has a market cap of SGD831mn as at 25 June 2021. Over the years, METRO has evolved from an established household shopping brand to become a property investment and development group with two retail department stores in Singapore (Metro Woodlands and Metro Paragon). METRO has investment properties in Chengdu as well as first tier cities such as Shanghai and Guangzhou in China. Through its joint ventures and associates, METRO has stakes in properties in Singapore, Indonesia, the UK and Australia. As at 31 March 2021, METRO has investment properties of SGD112mn and stakes in associates and joint ventures of SGD1.14bn. METRO is incorporated in Singapore and is the issuer of the bonds.

## Credit Outlook and Direction

For financial year ended 31 March 2021 ("FY2021"), gross profit fell 23.2% y/y to SGD15.5mn due to lower sales of residential development properties in Jakarta, Indonesia (-81.2% y/y to SGD17.9mn) and lower retail revenue (-33.2% y/y to SGD72.8mn) due to temporary closures of retail stores from April to June 2020 due to COVID-19. Profit after tax however rose 11.8% y/y to SGD37.0mn due to one-off divestment gain of SGD10.6mn, fair value gain on investment properties of SGD533mn vs a loss of SGD2.5mn recorded in FY2020 (as properties in China saw valuation lifted by the strong recovery in China's economy) and a 14.7% y/y increase in share of results of joint ventures. Profit from operations of the property segment continues to more than offset losses recorded at the retail segment which was -SGD2.1mn in FY2021. Occupancy rate for METRO's investment properties was 91.7% as at 31 March 2021. METRO continues to deepen its exposure to investment properties and has established a purpose-built student accommodation fund, Paideia Capital UK Trust to expand further in the UK in December 2020. METRO also acquired a 26% stake in Boustead Industrial Fund which holds a portfolio of 14 industrial, business park, high-spec industrial and logistics properties in December 2020, and Ropes Crossing Village Shopping Centre in New South Wales in November 2020. Post FY2021, METRO invested SGD16mn into a European Logistics Fund to further diversify into the growing logistics sector. The fund currently has 12 assets, including eight in Poland, three in the UK and one in Spain. Net gearing was 6.3% down from 9.4% a year ago, while total debt (including lease liabilities) to total asset is 24.6%. As at 31 March 2021, METRO has SGD425.7mn cash on hand which is sufficient to repay its short term debt of SGD325.0mn. **METRO's credit profile is expected to be stable within the next 12 months with the Neutral (4) issuer profile as appropriate**.

## Bond Recommendation

We are overweight the METRO curve. We like that both the short dated bullet bonds are paying attractive yields.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| METRO 4% '21 | Neutral (4) | 25/10/2021 | 1.32% | 108bps | OW |
| METRO 4.3% '24 | Neutral (4) | 02/04/2024 | 3.34% | 264bps | OW |
| WINGTA 4.7% '24 | Neutral (4) | 28/02/2024 | 2.01% | 134bps | N |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

## Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE March | FY2019 | FY2020 | FY2021 |
|---|---|---|---|
| EBITDA margin (%) | -6.07 | 5.20 | 2.85 |
| Net margin (%) | 55.64 | 15.73 | 38.03 |
| Gross debt to EBITDA (x) | -22.01 | 50.99 | 208.23 |
| Net debt to EBITDA (x) | -3.29 | 19.06 | 54.56 |
| Gross Debt to Equity (x) | 0.15 | 0.36 | 0.37 |
| Net Debt to Equity (x) | 0.02 | 0.14 | 0.10 |
| Gross debt/total asset (x) | 0.12 | 0.25 | 0.25 |
| Net debt/total asset (x) | 0.02 | 0.09 | 0.06 |
| Cash/current borrowings (x) | 2.43 | 2.2 | 1.27 |
| EBITDA/Total Interest (x) | -1.80 | 0.58 | 0.14 |

*Source: Company, OCBC estimates*

# Olam International Ltd ("Olam")

| **Issuer Profile:** | **Ticker:** |
|---|---|
| **Neutral (5)** | **OLAMSP** |

### Background

Olam International Limited ("Olam") is a diversified, vertically-integrated agri-commodities merchandiser, producer and trader. It also generates income from the sale of packaged food products, commodity financial services and holding minority stakes in longer term investments. As at 28 June 2020, Olam's market cap was SGD5.4bn, although the company's free float adjusted market cap was ~SGD965mn. Temasek is the largest shareholder with a ~53%-stake, followed by Mitsubishi Corp with ~17%. Kelwaram Chanrai Group (a co-founder of Olam) retains a 7%-stake while management team holds ~5%. Orbis Asset Management, a privately-owned asset manager, has been a long time investor in Olam holding a ~7%-stake. Olam is incorporated in Singapore and the SGD-bonds are issued by Olam.

### Credit Outlook and Direction

Olam's underlying profitability (excluding impairments at its Gabon palm oil business) had been resilient through 2H2020 with reported EBITDA and EBIT increasing 19.6% y/y and 20.6% y/y to SGD934.5mn and SGD645.8mn respectively. Unadjusted net gearing increased to 1.8x as at 31 December 2020 from higher agriculture commodity prices and increased volumes though is lower than the company's internal target of 2.0x. Olam has completed the re-segmentation of its business, reporting its financials as Olam Food Ingredients ("OFI") and Olam Global Agri ("OGA") and has also appointed management teams for the two businesses. Olam is looking to carve-out both OFI and OGA by end-2021 and has appointed advisers for the proposed IPO of OFI by 1H2022. Olam continues to reshape its portfolio. While COVID-19 had disrupted certain planned asset sales, the company completed various disposals and divestments in 2020. In February 2021, OFI completed the acquisition of a green chilies business in the US and in May 2021 completed the major acquisition of Olde Thompson. It is currently seeking to partly repay the acquisition debt via an equity rights issue. We still do not discount the possibility that the listed holding company (and bond issuing entity) may be taken-private post completion of OFI's and OGA's IPO as it may not be necessary to have three listed units. Debt is expected to be pushed down to OFI and OGA though details on the targeted capital structure for OFI, OGA and the Olam will only be disclosed at a later date. We **maintain Olam's issuer profile at Neutral (5) for now while we await further information from Olam**.

### Bond Recommendation

We think the OLAMSP 4.0% '26s provides decent value for a senior paper against other true high yield names in the SGD bond market.

### Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

### Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| OLAMSP 5.5%-PERP | Neutral (5) | 11/07/2022 | 3.06% | 274bps | N |
| OLAMSP 5.375%-PERP | Neutral (5) | 18/07/2026 | 5.27% | 418bps | N |
| OLAMSP 6.0% '22s | Neutral (5) | 25/10/2022 | 2.32% | 195bps | N |
| OLAMSP 4.0% '26s | Neutral (5) | 24/02/2026 | 4.13% | 308bps | OW |
| FPLSP 4.25% '26s | Neutral (5) | 21/04/2026 | 2.84% | 178bps | N |
| GUOLSP 3.4% '25s | Neutral (5) | 10/08/2025 | 2.58% | 160bps | N |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

### Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 3.38 | 3.38 | 2.82 |
| Net margin (%) | 1.06 | 1.59 | 0.50 |
| Gross debt to EBITDA (x) | 10.93 | 11.30 | 14.03 |
| Net debt to EBITDA (x) | 8.53 | 8.45 | 10.94 |
| Gross Debt to Equity (x) | 1.74 | 1.93 | 2.35 |
| Net Debt to Equity (x) | 1.36 | 1.44 | 1.83 |
| Gross debt/total asset (x) | 0.48 | 0.49 | 0.53 |
| Net debt/total asset (x) | 0.37 | 0.37 | 0.41 |
| Cash/current borrowings (x) | 0.52 | 0.47 | 0.47 |
| EBITDA/Total Interest (x) | 1.88 | 1.77 | 1.95 |

*Source: Company, OCBC estimates*

# OUE Limited ("OUE")

| **Issuer Profile:** | **Ticker:** |
|---|---|
| **Neutral (5)** | **OUESP** |

## Background

OUE Limited ("OUE") is an investment holding company which owns investment properties and has stakes in healthcare and China property businesses. As at 28 June 2021, OUE's market cap was SGD1.2bn. OUE owns a ~48%-stake in OUE-Commercial REIT ("OUE-CT") and a ~70%-stake in OUE Lippo Healthcare Ltd ("OUE-LH"), both which are consolidated at the OUE-level. OUE also owns a ~23%-stake in Hong Kong-listed Gemdale Properties and Investment Corporation Limited ("Gemdale"), a deemed ~28%-stake in First Real Estate Investment Trust ("FIRT", Issuer profile: Negative (7)) and a deemed 100%-stake in First REIT Management Limited ("FRML", FIRT's REIT Manager). OUE is ~70%-indirectly owned by Lippo ASM Asia Property Limited ("LAAPL"). Lippo Limited has a deemed 50%-voting rights of LAAPL with ~94.3% of the profit share. Argyle Street Management Limited ("ASM") is deemed interested in OUE via its voting rights in LAAPL. The remaining shareholding in OUE is dispersed. OUE is incorporated in Singapore. OUE's SGD-bonds are issued by OUE Treasury Pte Ltd, unconditionally and irrevocably guaranteed by OUE.

## Credit Outlook and Direction

Based on our estimation, OUE would have reported a loss before interest, tax, depreciation and amortization of SGD15.7mn for 2020, if the contribution from OUE-CT was excluded. OUE's credit profile continues to be underpinned by its asset coverage. Based on our preliminary asset coverage analysis, we find OUE's asset-to-debt coverage at 2.8x. On a consolidated basis, OUE's unadjusted net gearing was lower at 0.52x as at 31 December 2020 (30 June 2020: 0.60x). While book value equity had taken a further hit from impairments, OUE received SGD591.3mn in cash proceeds from the sale of the US Bank Tower in 2H2020. OUE's market implied net gearing though remains high at 2.5x. In our view, OUE is more reliant on potential asset sales versus new equity raising as a means of funding. OUE faces little short-term debt due though medium term liquidity looks more stretched without further asset sales. The Singapore hospitality sector remains challenging. On a net basis, OUE had paid a cash outlay to OUE-CT due to the minimum rent on master lease agreements on hotels being higher than the dividends it received from OUE-CT in 2020. With OUE undertaking to financially support its investments, we had been monitoring OUE for a potential downgrade through 1H2021. However, actual outcomes have thus far been more moderate, while recent asset sales at OUE-CT had generated funds that boosted OUE's liquidity. We **maintain OUE's issuer profile at Neutral (5), albeit with a cautious outlook over a 12-month period.**

## Bond Recommendation

We prefer the senior bonds issued by OUE's subsidiary OUE-CT for a decent yield pick-up while OUE-CT sits closer to property assets.

## Relative Value

| Bond | Issuer Profile | Maturity Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| OUESP 3.75% '22s | Neutral (5) | 17/04/2022 | 2.11% | 182bps | UW |
| OUESP 3.55% '23s | Neutral (5) | 10/05/2023 | 2.58% | 210bps | UW |
| OUECT 4.0% '25s | Unrated | 24/06/2025 | 3.59% | 263bps | Unrated |
| OUECT 3.95% '26s | Unrated | 02/06/2026 | 3.70% | 262bps | Unrated |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured

Senior unsecured bullets

Senior unsecured callables/putable

Subordinated corporate perpetuals

Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 26.11 | 24.14 | 36.78 |
| Net margin (%) | 8.81 | 34.57 | -76.31 |
| Gross debt to EBITDA (x) | 20.83 | 17.87 | 17.95 |
| Net debt to EBITDA (x) | 18.39 | 15.74 | 15.08 |
| Gross Debt to Equity (x) | 0.68 | 0.66 | 0.62 |
| Net Debt to Equity (x) | 0.60 | 0.58 | 0.52 |
| Gross debt/total asset (x) | 0.38 | 0.37 | 0.36 |
| Net debt/total asset (x) | 0.33 | 0.33 | 0.31 |
| Cash/current borrowings (x) | 0.87 | 0.36 | 1.33 |
| EBITDA/Total Interest (x) | 1.20 | 1.32 | 1.45 |

*Source: Company, OCBC estimates*

# Oxley Holdings Ltd ("OHL")

**Issuer Profile:** Negative (6)

**Ticker:** OHLSP

## Background

Listed on the SGX in Oct 2010 with a market cap of SGD1.0bn as at 30 Jun 2021, Oxley Holdings Ltd ("OHL") is a developer of residential and commercial projects in Singapore and abroad, including UK, Ireland, Malaysia, China, Cambodia, Myanmar, Indonesia and Cyprus. OHL holds 10%-stake in Aspen Group Holdings Ltd (SGX listed, market cap: SGD158.2mn), 20%-stake in Galliard Group Ltd (unlisted UK developer) and 100%- stake in Pindan Group Pty Ltd (unlisted Western Australia property and construction company). OHL's key shareholders are its Chairman and CEO Mr. Ching Chiat Kwong (42.6%-stake), its Deputy CEO and Executive Director Mr. Low See Ching (28.3%-stake) and Mr. Tee Wee Sien (11.2%) who appears to be a passive shareholder.

## Credit Outlook and Direction

OHL reported decent 1HFY2021 results for the half year ended 31 Dec 2020 with revenue rising 25% y/y to SGD745.3mn and EBITDA rising 24.7% y/y to SGD78.1mn. Stronger results were due to progressive recognition of revenue from development projects in Singapore (84% of total units were sold) as well as development projects in Cambodia and United Kingdom. While the pandemic impacted hotel revenues, OHL flagged that the hotels on Stevens Road are generating positive cashflows from operations, having signed up as government quarantine and stay-home notices. Improvements were also seen in OHL's credit metrics with net gearing lower h/h to 2.31x (2HFY2020: 2.48x) and EBITDA/Interest rising to 1.4x (1HFY2020: 0.8x). After the issuance of USD72mn (~SGD96mn) convertible notes in January, OHL redeemed its USD issue OHLSP 6.375% '21s due in April, of which SGD469mn were outstanding at the beginning of the year. For the remaining borrowings due in 2021, we think OHL will likely refinance SGD206mn corporate loans and SGD132mn investment property loans and repay SGD133mn upon the TOP of Singapore projects including Verandah Residences (3Q2021), Sea Pavilion (1Q2021) and Sixteen35 Residences (2Q2021). 2022's debt maturity looks staggering with SGD1.51bn due though we think OHL may get through given the strong Singapore residential market. In total, Singapore development project's future progress billings total SGD1.6bn with remaining unsold gross development value of ~SGD0.8bn. With credit metrics and cash looking somewhat stretched, we think OHL would be focusing on divestment instead of replenishment of its landbank, for now.

## Bond Recommendation

Although OHL faces significant near-term debt maturity, the strong Singapore property market should support OHL to monetise its developments while we believe credit metrics should improve with continued net divestments.

## Issues outstanding

Senior secured

Senior unsecured bullets

Senior unsecured callables

Subordinated corporate perpetuals

Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Relative Value

| Bond | Issuer Profile | Maturity/Next Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| OHLSP 5.7% '22 | Negative (6) | 31/01/2022 | 7.51% | 724bps | OW |
| OHLSP 6.5% '23 | Negative (6) | 28/02/2023 | 7.46% | 702bps | OW |
| CHIPEN 6% '22 | Unrated | 15/03/2022 | 5.76% | 548bps | Unrated |
| HTONSP 6.08% '21 | Negative (6) | 19/07/2021 | 8.58% | 842bps | N |
| HTONSP 6.8% '23 | Negative (6) | 13/11/2023 | 7.40% | 680bps | Unrated |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Key Ratios

| FYE December | FY2019 | FY2020 | 1H2021 |
|---|---|---|---|
| EBITDA margin (%) | 9.09 | 14.37 | 10.48 |
| Net margin (%) | 20.07 | -22.31 | 5.37 |
| Gross debt to EBITDA (x) | 57.41 | 17.08 | 17.40 |
| Net debt to EBITDA (x) | 49.80 | 14.90 | 15.91 |
| Gross Debt to Equity (x) | 2.54 | 2.84 | 2.53 |
| Net Debt to Equity (x) | 2.20 | 2.48 | 2.31 |
| Gross debt/total asset (x) | 0.59 | 0.59 | 0.58 |
| Net debt/total asset (x) | 0.51 | 0.51 | 0.53 |
| Cash/current borrowings (x) | 0.35 | 0.22 | 0.25 |
| EBITDA/Total Interest (x) | 0.38 | 1.02 | 1.38 |

*Source: Company, OCBC estimates*

# Sembcorp Industries Ltd ("SCI")

**Issuer Profile:** Neutral (4)

**Ticker:** SCISP

## Background

Sembcorp Industries Ltd ("SCI") is listed on the Singapore Stock Exchange with a market cap of SGD3.8bn as at 28 June 2021. In September 2020, SCI spun off Sembcorp Marine Ltd ("SMM") and in May 2021 shared its plans to expand its Sustainability Solutions business (comprising of Renewables Business and Urban Solutions). Temasek is the largest shareholder with a ~49.6%-stake, with the remaining shareholding dispersed. SCI is incorporated in Singapore and the bonds are issued by Sembcorp Financial Services Pte Ltd ("SFS"), unconditionally and irrevocably guaranteed by SCI.

## Credit Outlook and Direction

Despite being exposed to the merchant power business, SCI's Energy business as a portfolio has been relatively resilient in 2020. SCI's revenue from continuing operations fell 17.4% y/y to SGD2.8bn in 2H2020 with its main Energy segment reporting net profit before exceptional items that was lower by 20% y/y at SGD141mn. Including discontinued operations, SCI reported a large net loss to owners of SGD866mn in 2H2020 although we are not overly concerned about this given that the net loss was mainly attributable to the difference between market value and carrying value of SMM on SCI's books. As at 31 December 2020, gross debt (inclusive of lease liabilities) reduced to SGD7.9bn. SCI's unadjusted net gearing at SCI was prima facie high at 1.99x, however leverage measured on a gross debt-to-EBITDA basis had improved to 7.8x in 2020 from 10.6x in 2019. Whilst SCI has entered into the renewable energy business in the past few years, conventional energy is still an important contributor to SCI. As part of a broader plan to greenify its portfolio, the company is targeting for Sustainability Solutions to be 70% of net profits by 2025 (from 40% in 2020). Sustainability Solutions at SCI comprise of (1) Renewable business (wind and solar power generation and energy storage) and (2) Urban Solutions (urban, water, waste and waste-to-resource). **We expect SCI's credit profile to be stable at Neutral (4) for the next 12 months.**

## Bond Recommendation

We think the KEPSP curve provides better value than the SCISP curve at this point and see its short dated and green bond as trading tight.

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| SCISP 3.64% '24s | Neutral (4) | 27/05/2024 | 1.36% | 62bps | UW |
| SCISP 4.25% '25s | Neutral (4) | 30/08/2025 | 1.74% | 74bps | N |
| SCISP 3.593% '26s | Neutral (4) | 26/11/2026 | 1.97% | 84bps | N |
| SCISP 2.45% '31s^ | Neutral (4) | 09/06/2031 | 2.45% | 93bps | UW |
| KEPSP 3.0% '24s | Neutral (5) | 07/05/2024 | 1.51% | 78bps | OW |
| KEPSP 3.0% '26s | Neutral (5) | 01/10/2026 | 2.10% | 99bps | OW |
| SIASP 3.03% '24s | Neutral (5) | 28/03/2024 | 1.52% | 82bps | UW |
| SIASP 3.13% '26s | Neutral (5) | 17/11/2026 | 2.22% | 110bps | N |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*
*^ Denotes green bonds*

## Key Ratios

| FYE December | FY2018 | FY2019* | FY2020* |
|---|---|---|---|
| EBITDA margin (%) | 9.47 | 15.78 | 16.28 |
| Net margin (%) | 2.97 | 4.94 | 3.29 |
| Gross debt to EBITDA (x) | 9.69 | 10.63 | 8.97 |
| Net debt to EBITDA (x) | 7.96 | 9.00 | 7.80 |
| Gross Debt to Equity (x) | 1.35 | 1.43 | 2.29 |
| Net Debt to Equity (x) | 1.11 | 1.21 | 1.99 |
| Gross debt/total asset (x) | 0.46 | 0.49 | 0.59 |
| Net debt/total asset (x) | 0.38 | 0.41 | 0.51 |
| Cash/current borrowings (x) | 1.03 | 0.65 | 1.71 |
| EBITDA/Total Interest (x) | 2.18 | 2.20 | 1.78 |

*Source: Company, OCBC estimates*
** Using continuing operations figures per annual report 2020*

# Shangri-La Asia Limited ("SHANG")

| **Issuer Profile:** | **Ticker:** |
|---|---|
| **Neutral (4)** | **SLHSP** |

## Background

Shangri-La Asia Limited ("SHANG"), incorporated in Bermuda, is an investment holding company focused on the ownership and management of hotels. In addition, SHANG also holds a portfolio of investment properties and develops properties for sale. SHANG's primary listing is on the Hong Kong Stock Exchange, with a secondary listing in Singapore. SHANG's market cap was HKD28.0bn (~USD3.6bn) as at 28 June 2021. Kerry Group Limited (an unlisted entity owned by members of the Kuok family) holds a 50.19% deemed interest in SHANG. Kerry Group Limited is also the deemed controlling shareholder of Kerry Properties Limited ("KERPRO"). The remaining shareholding is dispersed. The SGD bonds are issued by Shangri-La Hotel Limited though unconditionally and irrevocably guaranteed by SHANG, the listed entity.

## Credit Outlook and Direction

With a challenging operating environment through COVID-19, SHANG's reported weighted average hotel occupancy was only 33% and Revenue per Available Room was USD40 (2019 occupancy of 68%). SHANG discloses operating profit after tax (inclusive of results from associates, after minority interest at subsidiaries where SHANG has no full ownership) ("AOP"). In 2020, Hotel Properties AOP was negative USD377.8mn while Hotel Management and Related Services AOP was negative USD84.8m. Investment Properties AOP was down by only 8.9% y/y to USD151.8mn, though insufficient to offset the losses elsewhere, resulting in total AOP of negative USD432.1mn, before non-operating items. **We are maintaining SHANG's issuer profile at Neutral (4) in view of SHANG's access to liquidity and assets.** As at 31 December 2020, unadjusted net gearing (including lease liabilities as debt) was 0.85x increasing from 0.75x as at end-2019 from losses incurred during the year and increase in net debt from debt taken to cover operating shortfalls. SHANG owns significant investment properties and stakes in property owning associates. The directly held investment properties and those via associates are mainly commercial properties in mainland China. The company also reported replacement value of hotel properties is at USD10.6bn versus carrying value of USD5.9bn, indicative of lower net gearing levels per market value of assets. As at 31 December 2020, cash balance was USD990.9mn while undrawn committed facilities were ~USD2.0bn. Per SHANG, as at March 2021, the company has completed about half of its refinancing needs for 2021 and 2022.

## Bond Recommendation

Among the hospitality names, we prefer the SLHSP curve as the company is diversified beyond hotels both on income generation and asset base.

## Relative Value

| Bond | Issuer Profile | Maturity Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| SLHSP 4.5% '25s | Neutral (4) | 12/11/2025 | 2.62% | 161bps | OW |
| SLHSP 3.5% '30s | Neutral (4) | 29/01/2030 | 3.58% | 217bps | OW |
| HPLSP 3.8% '25s | Neutral (5) | 02/06/2025 | 3.21% | 226bps | N |
| ARTSP 4.0% '24s | Neutral (5) | 22/03/2024 | 1.43% | 73bps | UW |
| FHREIT 3.08% '24s | Neutral (5) | 08/11/2024 | 2.44% | 160bps | UW |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 26.20 | 23.87 | -13.57 |
| Net margin (%) | 7.30 | 6.98 | -49.41 |
| Gross debt to EBITDA (x) | 7.79 | 10.13 | -45.54 |
| Net debt to EBITDA (x) | 6.18 | 8.38 | -38.48 |
| Gross Debt to Equity (x) | 0.77 | 0.90 | 1.01 |
| Net Debt to Equity (x) | 0.61 | 0.75 | 0.85 |
| Gross debt/total asset (x) | 0.39 | 0.43 | 0.46 |
| Net debt/total asset (x) | 0.31 | 0.35 | 0.39 |
| Cash/current borrowings (x) | 2.46 | 2.38 | 1.45 |
| EBITDA/Total Interest (x) | 3.22 | 2.39 | -0.59 |

*Source: Company, OCBC estimates*

# StarHub Ltd ("StarHub")

## Issuer Profile:
**Neutral (3)**

## Ticker:
**STHSP**

### Background

StarHub Ltd ("StarHub") is a Singapore communications company, providing various services for consumer and corporates including mobile, data, fixed telecommunication, pay television, internet and broadband services. Listed on the SGX with a market cap of SGD2.1bn as of 30 Jun 2021, StarHub is 55.8% owned by Asia Mobile Holdings Pte Ltd, which is 75%-owned by STT Communications Ltd, which is in turn a wholly-owned subsidiary of ST Telemedia (a wholly-owned subsidiary of Temasek).

### Credit Outlook and Direction

1Q2021 results reveal weakness with reported service EBITDA falling 3.2% q/q to SGD115.4mn (or down 8.2% on a y/y basis). This is mainly due to lower revenues from mobile (-6.5% q/q to SGD129.6mn), with StarHub citing escalating competition and migration to SIM-only plans, which we think may continue to weigh on the outlook. Prepaid ARPU also fell q/q to SGD10/mth as of 1Q2021 (4Q2020: SGD11/mth) and subscribers fell to 534k from 564k. Pay TV (revenue: -4.5% q/q to SGD44.9mn) continued to trend down as customers switched away (down 2.5% q/q to 306k subscribers) while enterprise customers cut back on advertising spend. The only bright spot is Broadband, which saw revenue rising 2.9% q/q to SGD47.0mn with reduction in subscription discounts. Enterprise saw revenue falling 18.0% q/q to SGD154.2mn mostly due to fall in cybersecurity segment (-41.5% q/q to SGD42.5mn) as a result of project delays. That said, StarHub flagged that Cybersecurity is ahead of budget we a strong output for the year should be expected on the back of a strong order book. Given the q/q fall in service revenue in 1Q2021 (-15.9% q/q to SGD375.7mn) and the guidance made in 4Q2020 that service revenue in 2021 should remain stable, it implies that we should see catchup in the remainder of 2021, potentially with Enterprise offsetting the fall in revenues from Mobile and Pay TV. However, service EBITDA is expected to fall with EBITDA margins guided at 24% to 26% (2020: 31.1%) due to change in revenue mix and lower payout from job support scheme. Credit metrics remain healthy for now, with reported net debt to TTM reported EBITDA at 1.29x (4Q2020: 1.41x).

### Bond Recommendation

The Underweight the STHSP seniors which are trading tight. That said, we are Neutral on STHSP 3.95% PERP as we think that the chance of call is high.

### Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

### Relative Value

| Bond | Issuer Profile | Maturity/Next Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| STHSP 3.08% '22 | Neutral (3) | 12/09/2022 | 0.91% | 56bps | UW |
| STHSP 3.55% '26 | Neutral (3) | 08/06/2026 | 1.73% | 64bps | UW |
| STHSP 3.95% PERP | Neutral (3) | 16/06/2022 | 2.73% | 243bps | N |
| STSP 2.895% '23 | Positive (2) | 07/03/2023 | 0.81% | 36bps | N |
| STSP 3.3% PERP | Positive (2) | 14/07/2031 | 3.00% | 148bps | UW |
| CAPLSP 3.08% '27 | Neutral (3) | 19/10/2027 | 2.14% | 91bps | UW |
| CAPLSP 3.65% PERP | Neutral (3) | 17/10/2024 | 2.80% | 197bps | UW |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

### Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 23.97 | 26.00 | 24.47 |
| Net margin (%) | 8.49 | 7.66 | 7.89 |
| Gross debt to EBITDA (x) | 1.82 | 1.99 | 2.68 |
| Net debt to EBITDA (x) | 1.52 | 1.79 | 1.84 |
| Gross Debt to Equity (x) | 1.75 | 2.08 | 2.12 |
| Net Debt to Equity (x) | 1.47 | 1.87 | 1.46 |
| Gross debt/total asset (x) | 0.39 | 0.44 | 0.45 |
| Net debt/total asset (x) | 0.33 | 0.40 | 0.31 |
| Cash/current borrowings (x) | 3.31 | 0.27 | 11.41 |
| EBITDA/Total Interest (x) | 18.68 | 15.82 | 12.17 |

*Source: Company, OCBC estimates*

# Singapore Airlines Ltd ("SIA")

**Issuer Profile:**
Neutral (5)

**Ticker:**
SIASP

## Background

Singapore Airlines Ltd ("SIA"), listed on the SGX, has a market cap of SGD14.2bn as at 28 June 2021. Apart from its flagship carrier, Singapore Airlines ("SQ"), the company also operates other airlines and businesses: SIA Engineering Company, SilkAir and Scoot. SIA owns a 49%-stake in TATA SIA Airlines Limited (operates Vistara Airlines). On a non-diluted basis, assuming no conversion of outstanding securities issued with conversion rights, Temasek has a deemed ~56%-stake in SIA while the remaining shareholding is dispersed. The Minister of Finance owns one Special Share in SIA.

## Credit Outlook and Direction

International borders remain mostly shut though greenshoots are appearing in Europe and the US. SIA's operating performance though is reliant on the Asia-Pacific passenger travel market. Until such time countries increase vaccination rates across the Asia-Pacific region and move away from policies targeted at zero-cases, it is difficult to expect meaningful progress among different governments on international border reopening. Revenue for SIA's 2HFY2021 (six months for the financial year ended 31 March 2021) was SGD2.2bn, up by 33.5% on a h/h basis, while operating losses were narrower at SGD649.6mn in the second half against operating losses of SGD1.9bn in 1HFY2021. Encouragingly, operating cash burn has reduced to SGD100-150mn per month while SIA has managed to negotiate a deferral in capex. We **maintain our issuer profile on SIA at Neutral (5) and expect this to be stable within the next 12 months,** driven by manageable short-term liquidity that is sufficient to cover financial needs to March 2023. SIA has built up liquidity buffers through the pandemic, particularly from major shareholders, serving as a "multiplier effect" for further fundraising from outside investors.

## Bond Recommendation

Within the SIAPSP curve we prefer the long dated bonds which provides ~30bps yield pick up against the Qantas long dated on a SGD-implied basis.

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for recent write-ups on the issuer.*

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| SIASP 3.16% '23s | Neutral (5) | 25/10/2023 | 1.37% | 78bps | N |
| SIASP 3.03% '24s | Neutral (5) | 28/03/2024 | 1.52% | 82bps | UW |
| SIASP 3.75% '24s | Neutral (5) | 08/04/2024 | 1.55% | 84bps | UW |
| SIASP 3.035% '25s | Neutral (5) | 11/04/2025 | 1.91% | 98bps | N |
| SIASP 3.13% '26s | Neutral (5) | 17/11/2026 | 2.22% | 110bps | N |
| SIASP 3.13% '27s | Neutral (5) | 23/08/2027 | 2.39% | 119bps | N |
| SIASP 3.5% '30s | Neutral (5) | 02/12/2030 | 3.20% | 173bps | OW |
| QANAU 4.4% '23s[1] | Neutral (5) | 10/10/2023 | 1.57% | 123bps | OW |
| QANAU 4.75% '26s[1] | Neutral (5) | 12/10/2026 | 2.53% | 159bps | N |
| QANAU 5.25% '30s[1] | Neutral (5) | 09/06/2030 | 3.57% | 209bps | N |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*
*Note: (1) QANAU bonds are denominated in AUD*

## Key Ratios

| FYE March | FY2019 | FY2020 | FY2021 |
|---|---|---|---|
| EBITDA margin (%) | 15.05 | 14.09 | -9.72 |
| Net margin (%) | 4.42 | -1.06 | -112.25 |
| Gross debt to EBITDA (x) | 2.71 | 5.24 | -38.66 |
| Net debt to EBITDA (x) | 1.51 | 4.04 | -17.68 |
| Gross Debt to Equity (x) | 0.49 | 1.21 | 0.88 |
| Net Debt to Equity (x) | 0.27 | 0.93 | 0.40 |
| Gross debt/total asset (x) | 0.22 | 0.35 | 0.38 |
| Net debt/total asset (x) | 0.12 | 0.27 | 0.17 |
| Cash/current borrowings (x) | 12.74 | 0.85 | 5.57 |
| EBITDA/Total Interest (x) | 21.16 | 10.19 | -1.38 |

*Source: Company, OCBC estimates*

# Singapore Post Limited ("SPOST")

| **Issuer Profile:** | **Ticker:** |
|---|---|
| **Neutral (3)** | **SPOST** |

## Background

Singapore Post Ltd ("SPOST") is the incumbent mail operator in Singapore and was granted the Public Postal License in 1992. Apart from postal and parcel delivery, SPOST also engages in logistics businesses – freight forwarding and eCommerce logistics, and the provision of commercial property rental and self-storage business. SPOST, listed on the SGX since 13 May 2003, has a market cap of SGD1.6bn in June 2021. Through Singapore Telecommunications Ltd ("Singtel", Issuer Profile: Positive (2)) and a few other corporations, Temasek Holdings (Private) Limited ("Temasek") has an indirect ownership of 22.00% of SPOST. Alibaba Group Holdings is the 2nd largest shareholder with 14.56% stake. SPOST is incorporated in Singapore and the bond is issued by SingPost Group Treasury Pte Ltd while the perpetual instrument is issued by SPOST.

## Credit Outlook and Direction

In SPOST's full year results for financial year ended March 2021 ("FY2021"), revenue rose 6.9% y/y to SGD1.4bn, led by strong eCommerce volume growth in the Logistics and Domestic Post and Parcel segments, though offset by lower International Post and Parcel revenue. Profit on operating activities fell by 44.8% y/y to SGD79.3mn due to a 13.6% y/y increase in operating expenses, largely due to volume-related expenses (i.e. traffic expenses and cost of sales) which rose 18.5% y/y to SGD429.2mn due to increase in per unit rates for line haul costs as a result of COVID-19 disruptions as well as growth in eCommerce volumes. EBITDA (based on our calculation) fell 32.8% y/y to SGD140.2mn, with EBITDA/Interest at 12.7x, down from 16.5x a year ago. As at 31 March 2021, gross debt-to-equity fell to 0.19x (down from 0.22x as at 31 March 2020). Perpetuals make up 12.7% of total capital as at 31 March 2021 and adjusting net debt upwards for the perpetuals (which rank pari passu as unsecured debt at the SPOST holding company level), we find adjusted net gearing at 0.10x. Excluding perpetual securities, SPOST is in a strong net cash position of SGD178.9mn. Overall, SPOST continues to face headwinds in its postal business with declining letter volumes. We think this is a structural change and the future for SPOST lies in its ability to transform and capture opportunities within the eCommerce / Logistics space. Paul Coutts, Group CEO has submitted his resignation letter on 31 May 2021 to pursue other opportunities. He will support a handover until 31 August 2021 or earlier as may be agreed with SPOST. In the interim, Simon Israel, Chairman of the Board, will provide guidance to and exercise oversight of the senior management leadership team in SPOST. We maintain SPOST at an issuer profile of Neutral (3) and **expect its credit profile to be stable within the next 12 months.**

## Bond Recommendation

We are Neutral on SPOST curve. SPOST continues to be in a net cash position which we think is a strong reason for its bond and perpetual to justify where they are trading at.

## Relative Value

| Bond | Issuer Profile | First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| SPOST 4.25% 'PERP | Neutral (3) | 02/03/2022 | 1.02% | 74bps | N |
| SPOST 2.53% '30 | Neutral (3) | 19/11/2030 | 2.10% | 71bps | N |
| AREIT 2.65% '30 | Neutral (3) | 26/08/2023 | 2.16% | 71bps | UW |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

## Key Ratios

| FYE December | FY2019 | FY2020 | FY2021 |
|---|---|---|---|
| EBITDA margin (%) | 16.43 | 15.87 | 9.98 |
| Net margin (%) | 2.03 | 6.72 | 3.35 |
| Gross debt to EBITDA (x) | 1.34 | 2.16 | 2.90 |
| Net debt to EBITDA (x) | -0.47 | -0.20 | -0.68 |
| Gross Debt to Equity (x) | 0.18 | 0.27 | 0.24 |
| Net Debt to Equity (x) | -0.06 | -0.03 | -0.06 |
| Gross debt/total asset (x) | 0.11 | 0.16 | 0.15 |
| Net debt/total asset (x) | -0.04 | -0.02 | -0.03 |
| Cash/current borrowings (x) | 1.39 | 2.80 | 15.13 |
| EBITDA/Total Interest (x) | 26.31 | 16.48 | 12.71 |

*Source: Company, OCBC estimates*

## Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

# SPH REIT ("SPHR")

| **Issuer Profile:** | **Ticker:** |
|---|---|
| **Neutral (4)** | **SPHR** |

## Background

Listed on the SGX in July 2013, SPH REIT ("SPHR") invests primarily in premier retail real estate in Singapore and Asia Pacific. SPHR's market cap is SGD2.9bn as at 25 June 2021. It owns five retail properties in Singapore and Australia, valued at ~SGD4.1bn as at 31 August 2020. SPHR's properties include Paragon, The Clementi Mall and The Rail Mall in Singapore and 50% interest in Westfield Marion Shopping Centre and 85% stake in Figtree Grove Shopping Centre in Australia. Singapore Press Holdings Ltd is the sponsor and largest unitholder with ~62.93% stake. SPHR is established in Singapore and its bonds are issued by DBS Trustee Limited, in its capacity as trustee of SPHR.

## Credit Outlook and Direction

In the first half of the financial year ending 28 February 2021 ("1HFY2021"), although both gross revenue and net property income grew y/y, it was due to the full six months contributions from Westfield Marion acquired in December 2019. Excluding Westfield Marion, gross revenue was down by 6.0% y/y to SGD105.1mn and net property income down by SGD7.8% y/y to SGD87.6mn. We think this is likely due to the rental reliefs granted to tenants though the amount was not disclosed. Portfolio occupancy was 98.0% as at 28 February 2021. By gross rental income, there is 14% of lease expiries coming due in 2HFY2021. In February 2021, tenant's sales at Paragon have exceeded that of February 2020 while there was no disclosure on footfall. Occupancy rate at Paragon was 97.1% at end-February, slightly lower than a year ago (2019: 99.9%). Aggregate leverage was 30.4% as at 28 February 2020, slightly higher than a year ago (29.3%). If we were to adjust for 50% of its outstanding perpetual security as debt, we find aggregate leverage higher at ~34%. EBITDA/Interest based on our calculation is strong at 7.7x and lower at 6.2x after adjusting for 50% of the distribution to perpetual bondholders as interest. We note that interest expense of SPHR has fallen by 29.6% y/y as its average cost of debt fell to 1.84% p.a. from 2.83% p.a. a year ago. SPHR has also refinanced SGD215mn loan for a new term of five years and does not have any debt maturing in the remaining of FY2021 as at 28 February 2021 except for a SGD50mn loan which will be refinanced in due course. Clementi Mall which is valued at SGD584mn (as at 31 August 2020) and Rail Mall are unencumbered. **SPHR's credit profile is expected to be stable within the next 12 months with the Neutral (4) issuer profile as appropriate** despite the headwinds in the retail segment.

## Bond Recommendation

We are overweight the SPHRSP perp as we think it is attractive (due to its lower aggregate leverage) despite trading tighter than SUNSP and SGREIT perps.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| SPHRSP 4.1% PERP | Neutral (4) | 30/08/2024 | 3.70% | 291bps | OW |
| SPHSP 4.5% PERP | - | 07/06/2024 | 3.88% | 313bps | - |
| SUNSP 3.8% PERP | Neutral (4) | 27/11/2025 | 4.05% | 305bps | OW |
| SUNSP 4.25 'PERP | Neutral (4) | 15/6/2026 | 4.05% | 297bps | OW |
| SGREIT 3.85% 'PERP | Neutral (4) | 15/12/2025 | 4.07% | 305bps | OW |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

## Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE June | FY2019 | FY2020 | 1H2021 |
|---|---|---|---|
| EBITDA margin (%) | 69.82 | 65.64 | 65.63 |
| Net margin (%) | 65.09 | -26.52 | 49.82 |
| Gross debt to EBITDA (x) | 6.84 | 8.19 | 7.11 |
| Net debt to EBITDA (x) | 4.69 | 7.68 | 6.41 |
| Gross Debt to Equity (x) | 0.39 | 0.46 | 0.46 |
| Net Debt to Equity (x) | 0.27 | 0.43 | 0.41 |
| Gross debt/total asset (x) | 0.28 | 0.31 | 0.30 |
| Net debt/total asset (x) | 0.19 | 0.29 | 0.28 |
| Cash/current borrowings (x) | 1.23 | 0.38 | 2.55 |
| EBITDA/Total Interest (x) | 5.24 | 4.82 | 7.75 |

*Source: Company, OCBC estimates*

# Singapore Telecommunications Ltd ("SingTel")

**Issuer Profile:** Positive (2)

**Ticker:** STSP

## Background

Singapore Telecommunications Ltd ("SingTel") is the largest listed company in Singapore with a market cap of SGD38bn as at 30 Jun 2021. SingTel is a communications company, providing various services including mobile, data, fixed, pay television, internet, video, infocomms technology ("ICT") and digital solutions. Through various subsidiaries and associates, SingTel is the leading mobile player in Singapore, Australia, Indonesia, Philippines, Thailand and India. Temasek Holdings is the majority shareholder with 52.5% stake.

## Credit Outlook and Direction

SingTel reported a weak FY2021 results with revenue falling 5.4% y/y to SGD15.6bn and reported EBITDA falling 15.6% y/y to SGD3.83bn. The steep fall is exacerbated by the pandemic, impacting the high-margin roaming revenues and NBN migration revenues (4-7.7% y/y to AUD317mn) have also largely tapered off. Although the ICT segment reported growth (revenue +6.8% y/y to SGD3.26bn) which includes higher systems integration, applications development projects from NCS Group and increased data centre revenue, this cannot fully offset the fall from the high margin legacy carriage segments (revenue -9.9% y/y to SGD2.68bn). That said, it is not all gloom as associates and joint ventures pre-tax profit rose 3.2% y/y to SGD1.80bn, helped by the recovery of Bharti which delivered a small SGD23mn pre-tax profit from FY2020's pre-tax loss of SGD403mn, which offset the declines in other associates including Telkomsel (-21.7% y/y to SGD915mn) which saw intense price competition. Overall, underlying net profit fell 30% y/y to SGD1.73bn though we are not overly concerned with the decline in profitability as dividends to shareholders are shaded down by ~39% y/y. Going forward, SingTel is looking to grow the ICT segment further, riding on NCS to capture both public and private sector projects, with the focus on Australia and Greater China. SingTel is looking to recycle assets, which may include unlocking its infrastructure assets (estimated to be worth ~SGD5bn) such as telecom towers, data centres, satellites and sub-sea cables. Already, SingTel has announced that Amobee and Trustwave will be restructured through a full or partial divestment and shuttering of HungryGoWhere. In relation to SingTel's 21%-stake in Intouch Holdings Public Company Ltd ("Intouch"), we think SingTel is unlikely to divest its stakes at the current offer price (THB65.00 per share) given SingTel's strategic stake in the company while the offer price is not significantly higher than the entry price (THB60.83 per share) in 2016.

## Bond Recommendation

We Underweight the STSP PERP given the weakening credit profile and tight yield.

## Issues outstanding

Senior secured

Senior unsecured bullets

Senior unsecured callables

Subordinated corporate perpetuals

Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Relative Value

| Bond | Issuer Profile | Maturity/Next Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| STSP 2.895% '23 | Positive (2) | 07/03/2023 | 0.81% | 36bps | N |
| STSP 3.3% PERP | Positive (2) | 14/07/2031 | 3.00% | 148bps | UW |
| STHSP 3.08% '22 | Neutral (3) | 12/09/2022 | 0.91% | 56bps | UW |
| STHSP 2.48% '31s | Neutral (3) | 08/01/2031 | 2.31% | 82bps | UW |
| CAPITA 2.8% '23 | Neutral (3) | 13/03/2023 | 0.86% | 40bps | N |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Key Ratios

| FYE December | FY2019 | FY2020 | FY2021 |
|---|---|---|---|
| EBITDA margin (%) | 25.72 | 26.37 | 23.59 |
| Net margin (%) | 17.68 | 6.36 | 3.58 |
| Gross debt to EBITDA (x) | 2.39 | 3.25 | 3.48 |
| Net debt to EBITDA (x) | 2.27 | 3.02 | 3.28 |
| Gross Debt to Equity (x) | 0.36 | 0.53 | 0.49 |
| Net Debt to Equity (x) | 0.34 | 0.49 | 0.46 |
| Gross debt/total asset (x) | 0.22 | 0.29 | 0.27 |
| Net debt/total asset (x) | 0.21 | 0.27 | 0.25 |
| Cash/current borrowings (x) | 0.27 | 0.25 | 0.37 |
| EBITDA/Total Interest (x) | 11.37 | 9.45 | 9.27 |

*Source: Company, OCBC estimates*

# Starhill Global REIT ("SGREIT")

| **Issuer Profile:** | **Ticker:** |
|---|---|
| **Neutral (4)** | **SGREIT** |

## Background

Listed on the SGX in September 2005, Starhill Global REIT ("SGREIT") invests primarily in real estate used for retail and office purposes, both in Singapore and overseas. SGREIT's market cap is SGD1.3bn as at 25 June 2021. It owns 10 mid-to-high end retail properties in five countries, valued at ~SGD2.9bn. SGREIT's properties include Wisma Atria (74.23% of strata lots) and Ngee Ann City (27.23% of strata lots) in Singapore, in Australia - Myer Centre Adelaide, David Jones Building and Plaza Arcade in Adelaide and Perth respectively, The Starhill and Lot 10 in Kuala Lumpur, Malaysia and one mall in Chengdu, China and two malls in Tokyo, Japan. YTL Corp Bhd is SGREIT's sponsor and largest unitholder with ~39% stake. SGREIT is established in Singapore and its bonds are issued by HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of SGREIT.

## Credit Outlook and Direction

In the third quarter for the financial year ending June 2021 ("3QFY2021"), revenue fell 0.6% y/y to SGD46.4mn while net property income was up 0.6% y/y to SGD35.4mn due to lower rental assistance to tenants, lower operating expenses, and the appreciation of AUD against SGD, though partially offset by weaker performance of the Singapore portfolio. Contributions to revenue is ~86% retail and ~14% office. Master/anchor leases with periodic rental reviews make up ~52% of gross rents as at 31 March 2021. For the overall portfolio, actual occupancy rate was 95.5% as at 31 March 2021 with the Singapore portfolio being the lowest at 93.0%. The portfolio sees just 5.6% of leases by gross rent expiring in the remaining of FY2021. Aggregate leverage was 35.9% as at 31 Mar 2021, higher at 36.7% when 50% of perpetual securities is adjusted as debt. The REIT has entered into an unsecured facility agreement in April 2021 mainly to refinance the remaining AUD80mn secured term loan in 4QFY2021 ahead of its maturity in November 2021. This will further increase the unencumbered asset ratio from 73% at end March 2021. Following the above planned refinancing of AUD term loan, SGREIT does not have any debt refinancing requirements until September 2022. Wisma Atria is undergoing interior upgrading works (costing ~SGD15mn) which is estimated to complete by the end of 2022. The mall will remain fully operational throughout the renovation period. Separately, AEI works at The Starhill is currently in progress with expected completion by December 2021. **SGREIT's credit profile is expected to be stable within the next 12 months with the Neutral (4) issuer profile as appropriate** despite the headwinds in the retail segment.

## Bond Recommendation

We are neutral on SGREIT bullets and overweight on SGREIT perp. We think the perp offers significant pick up over its 2025s bullets which more than compensates for the risk.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| SGREIT 3.4% '23 | Neutral (4) | 26/05/2023 | 1.10% | 61bps | N |
| SGREIT 3.15% '25 | Neutral (4) | 05/06/2025 | 1.60% | 65bps | N |
| SGREIT 3.14% '26 | Neutral (4) | 03/10/2026 | 1.99% | 88bps | N |
| SGREIT 3.85% 'PERP | Neutral (4) | 15/12/2025 | 4.07% | 305bps | OW |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

## Issues outstanding

Senior secured

Senior unsecured bullets

Senior unsecured callables

Subordinated corporate perpetuals

Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE June | FY2019 | FY2020 | 1H2021 |
|---|---|---|---|
| EBITDA margin (%) | 67.36 | 62.02 | 62.35 |
| Net margin (%) | 31.81 | -53.89 | 43.36 |
| Gross debt to EBITDA (x) | 8.15 | 10.86 | 10.09 |
| Net debt to EBITDA (x) | 7.63 | 9.82 | 9.01 |
| Gross Debt to Equity (x) | 0.59 | 0.69 | 0.58 |
| Net Debt to Equity (x) | 0.55 | 0.62 | 0.52 |
| Gross debt/total asset (x) | 0.36 | 0.40 | 0.36 |
| Net debt/total asset (x) | 0.34 | 0.36 | 0.32 |
| Cash/current borrowings (x) | 0.57 | 0.73 | 0.36 |
| EBITDA/Total Interest (x) | 3.59 | 2.81 | 2.64 |

*Source: Company, OCBC estimates*

# Suntec REIT ("SUN")

| **Issuer Profile:** | **Ticker:** |
|---|---|
| **Neutral (4)** | **SUNSP** |

### Background

SUN owns office and retail properties in Singapore, Australia and the UK. Its portfolio of ~SGD11.5bn includes Suntec City (the mall, units in Towers 1 – 3, and Towers 4 & 5), a 66.3%-interest in Convention & Exhibition Centre ("Suntec Convention"), a one third interest in both One Raffles Quay ("ORQ") and Marina Bay Financial Centre Towers 1 & 2 and Marina Bay Link Mall ("MBFC") in Singapore. SUN also holds five properties in Australia and the Nova properties in the UK (acquired on 18 December 2020). SUN is managed by an external manager, ARA Trust Management (Suntec) Ltd. SUN is established in Singapore and its bonds and perpetual instruments are issued by HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of SUN.

### Credit Outlook and Direction

COVID-19 continues to affect both the convention and retail businesses. In SUN's 1Q2021 business update, revenue rose 0.2% y/y in 1Q2021 to SGD87mn while net property income ("NPI") increased more, by 10.2% y/y to SGD60mn. For Office, NPI including contributions from joint ventures ("JV") rose 29.9% y/y to SGD73mn due to contributions from 21 Harris Street and 9 Penang Road (both since 6 April 2020) and 477 Collins Street (since 1 August 2020). Occupancy rate of the Singapore Office segment was 96.1%. SUN expects revenue from its Singapore office properties to be stable and rent reversions to remain positive with occupancy rate in the mid-90% range. For Retail, NPI including contributions from JV fell 24.1% y/y to SGD17mn, largely dragged by Suntec City Mall whose NPI fell 21.0% y/y even though Southgate (retail) recorded a loss of SGD0.1mn. Occupancy rate for Singapore retail segment was 92.1%. For Convention, it continues to be loss making with NPI more negative at -SGD2.5mn vs -SGD1.7mn a year ago. Recovery for Suntec Convention is expected to be slow and uncertain as there continues to be restriction on travel. Aggregate leverage was 44.4% as at 31 March 2021 though we expect this to be lower at 43.8% post the divestment of stakes in 9 Penang Mall, Suntec City Office strata units and the acquisition of The Minister Building in London, UK. SUN has adequate facilities of SGD630mn to refinance debt maturing in FY2021 of SGD527mn in total. While we **continue to hold SUN at Neutral (4) Issuer Profile, SUN's credit profile may be pressured in the short term**.

### Bond Recommendation

We are largely overweight the SUNSP curve. We like that SUNSP offers decent yields even though the REIT is more leveraged than peers.

### Issues outstanding

Senior secured

Senior unsecured bullets

Senior unsecured callables

Subordinated corporate perpetuals

Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

### Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommendation |
|---|---|---|---|---|---|
| SUNSP 3.025% '22s | Neutral (4) | 16/03/2022 | 0.98% | 70bps | N |
| SUNSP 3.4% '23s | Neutral (4) | 10/05/2023 | 1.69% | 120bps | OW |
| SUNSP 2.85% '23s | Neutral (4) | 02/08/2023 | 1.79% | 126bps | OW |
| SUNSP 3.355% '25s | Neutral (4) | 07/02/2025 | 2.37% | 148bps | OW |
| SUNSP 2.6% '25s | Neutral (4) | 27/05/2025 | 2.74% | 180bps | OW |
| SUNSP 2.95% '27s | Neutral (4) | 05/02/2027 | 2.84% | 169bps | OW |
| SUNSP 3.8% PERP | Neutral (4) | 27/10/2025 | 4.05% | 305bps | OW |
| SUNSP 4.25% PERP | Neutral (4) | 15/06/2026 | 4.05% | 297bps | OW |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

### Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 52.37 | 50.23 | 45.90 |
| Net margin (%) | 87.53 | 107.73 | -36.67 |
| Gross debt to EBITDA (x) | 18.34 | 19.71 | 33.34 |
| Net debt to EBITDA (x) | 17.63 | 18.85 | 31.77 |
| Gross Debt to Equity (x) | 0.61 | 0.59 | 0.79 |
| Net Debt to Equity (x) | 0.58 | 0.57 | 0.75 |
| Gross debt/total asset (x) | 0.37 | 0.36 | 0.43 |
| Net debt/total asset (x) | 0.35 | 0.35 | 0.41 |
| Cash/current borrowings (x) | 0.27 | 0.27 | 0.34 |
| EBITDA/Total Interest (x) | 1.94 | 1.68 | 1.22 |

*Source: Company, OCBC estimates*

# Wharf Holdings Ltd ("WHARF")

**Issuer Profile:** Neutral (3)

**Ticker:** WHARF

## Background

The Wharf (Holdings) Limited ("WHARF") was established and listed on the Hong Kong stock exchange in 1886. In November 2017, WHARF spun off its major portfolio of investment properties in Hong Kong which is currently listed as Wharf REIC. WHARF's businesses comprise Investment Properties ("IP"), leasing mainly retail and office properties in Mainland China, Development Properties ("DP") (i.e. activities related to acquisition of land, construction and sales of properties in Hong Kong and Mainland China), Hotels – operating 17 hotels in the Asia Pacific region, four of which owned by the Group and Logistics – container terminal operations in Hong Kong and Mainland China. WHARF is a subsidiary of Wheelock & Co. Ltd, which owns a 55.42% stake in the company. WHARF is incorporated in Hong Kong SAR and the issuer of its bond is Wharf Finance (No. 1) Limited, a special purpose entity and subsidiary of WHARF.

## Credit Outlook and Direction

In 2020, revenue rose 24.4% y/y to HKD21.0bn with operating profit up 41.1% y/y to HKD11.1bn, largely due to phased completion of development properties ("DP") in Mainland China and resilient recovery in investment properties ("IP") in Mainland China. Profit attributable to shareholders was HKD3.9bn, up 14.1% y/y. DP in Mainland China reported a 59.1% y/y increase in revenue to HKD11.2bn while operating profit doubled y/y to HKD6.4bn. DP in Hong Kong, which did not generate any revenue over the year, recorded an impairment provision of HKD2.9bn. Overall, the DP segment generated a profit before tax of HKD4.4bn (+287.4% y/y). IP rebounded in 2H2020 in Mainland China, bringing full year revenue to HKD4.4bn (+6.7% y/y) despite rental concessions granted to retail tenants and lower turnover rents. IP operating profit was HKD2.7bn (+9.5% y/y). Hotel was hit hard by the pandemic and recorded a 25.3% y/y decline in revenue to HKD396mn amid low occupancy and depressed room rates. Encouragingly, Mainland China hotels managed to break even in 2H2020 and the segment recorded an operating profit of HKD1mn in 2020. Investment revenue rose 67.9% y/y to HKD1.1bn with operating profit at HKD2.1bn (+451.1% y/y) on the back of investment revaluation gains of HKD1.2bn. Net debt as at 31 December 2020 rose to HKD25.5bn (30 June 2020: HKD23.9bn) due to cash outflow of HKD14.2bn to purchase long term investments. Excluding non-recourse debts, adjusted net debt was HKD20.2bn (30 June 2020: HKD18.1bn). Net gearing was 15.6%, higher than 13.0% in 2019. WHARF continues to have healthy liquidity with short term debt at HKD11.5bn against HKD16.7bn cash on hand. WHARF 4.5% '21s which is maturing in July 2021 has an amount outstanding of SGD260mn (i.e. ~HKD1.5bn). We hold **WHARF's credit profile at Neutral (3) though will be ceasing coverage at maturity of its sole SGD bond.**

## Bond Recommendation

We are neutral on WHARF 4.5% '21s which is maturity on 20 July 2021.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| WHARF 4.5% '21 | Neutral (3) | 20/07/2021 | 0.42% | 25bps | N |

*Indicative prices as at 30 June 2021 Source: Bloomberg, OCBC*

## Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 44.62 | 50.85 | 56.33 |
| Net margin (%) | 31.87 | 20.56 | 22.78 |
| Gross debt to EBITDA (x) | 4.59 | 5.40 | 3.57 |
| Net debt to EBITDA (x) | 2.73 | 2.22 | 2.16 |
| Gross Debt to Equity (x) | 0.31 | 0.32 | 0.26 |
| Net Debt to Equity (x) | 0.18 | 0.13 | 0.16 |
| Gross debt/total asset (x) | 0.19 | 0.19 | 0.17 |
| Net debt/total asset (x) | 0.11 | 0.08 | 0.10 |
| Cash/current borrowings (x) | 1.55 | 2.56 | 1.44 |
| EBITDA/Total Interest (x) | 8.85 | 5.27 | 9.59 |

*Source: Company, OCBC estimates*

# Wing Tai Holdings Ltd ("WTH")

**Issuer Profile:**
**Neutral (4)**

**Ticker:**
**WINGTA**

## Background

Listed on the SGX since 1989, Wing Tai Holdings Ltd ("WTH") has a market cap of SGD1.4bn as of 30 June 2021. WTH's core businesses are in property investment and development, lifestyle retail and hospitality management in Singapore, Malaysia, Hong Kong and China. WTH's commercial properties include Winsland House in Singapore while its ~34%-owned associate Wing Tai Properties Ltd ("WTP") owns Landmark East in Hong Kong. WTH's owned and managed brands include Uniqlo, G2000, Cath Kidston. The group's Chairman Mr. Cheng Wai Kheung owns a ~51%- stake in WTH.

## Credit Outlook and Direction

1HFY2021 revenue for the half-year ended 31 Dec 2020 rose 33% y/y to SGD243.4mn, mainly due to additional units sold in 100%-owned 43-unit Le Nouvel Ardmore (3 units sold for SGD50.9mn) and progressive sales recognition from 100%-owned 522-unit The M at Middle Road. Both projects continue to sell well after the end of 1HFY2021, with another 3 units sold at Le Nouvel Ardmore for SGD50.6mn and 45 units sold for SGD79.8mn at The M. Meanwhile, we estimate that the 613-unit The Garden Residences (Keppel Land-Wing Tai JV) has fully sold out, with 312 units sold for SGD441.6m since July 2020. Meanwhile, distribution costs fell 46% y/y to SGD15.8mn due to lower rental for retail stores. The combined effect of higher revenues and lower costs drove EBITDA higher by 66.1% y/ to SGD46.7mn for 1HFY2021. Credit metrics remain strong, in a net cash position with cash of SGD786.5mn sufficient to cover both short-term borrowings (SGD85.9mn) and long-term borrowings (SGD640.3mn) with EBITDA/Interest rising to 2.8x (1HFY2020: 2.0x). WTH generated SGD162.2mn cash from operations in 1HFY2021 and should remain cashflow generative given the strong property sales achieved. We note that WTH has participated in recent land tenders though the tender price has fallen significantly short of winning, which we think is a good sign of prudency.

## Bond Recommendation

We like WINGTA 3.68% '30c25 for providing decent yield pickup over the other seniors and we think that the chance of call is high given the continued repurchase of the curve by the company.

## Relative Value

| Bond | Issuer Profile | Maturity/Next Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| WINGTA 4.5% '22 | Neutral (4) | 26/09/2022 | 1.15% | 79bps | N |
| WINGTA 4.25% '23 | Neutral (4) | 15/03/2023 | 1.53% | 108bps | N |
| WINGTA 4.7% '24 | Neutral (4) | 28/02/2024 | 2.00% | 132bps | N |
| WINGTA 3.68% '30c25 | Neutral (4) | 16/01/2025 | 3.22% | 219bps | OW |
| WINGTA 4.08% PERP | Neutral (4) | 28/06/2022 | 3.60% | 329bps | N |
| WINGTA 4.48% PERP | Neutral (4) | 24/05/2024 | 3.65% | 291bps | N |
| WINGTP 4.25% '22 | Neutral (4) | 29/11/2022 | 1.81% | 142bps | OW |
| WINGTP 4.35% PERP | Neutral (4) | 24/08/2021 | 1.11% | 89bps | N |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2019 | FY2010 | 1H2021 |
|---|---|---|---|
| EBITDA margin (%) | 1.73 | 19.05 | 19.19 |
| Net margin (%) | 15.11 | 4.23 | 23.64 |
| Gross debt to EBITDA (x) | 116.68 | 11.62 | 7.77 |
| Net debt to EBITDA (x) | 77.64 | 3.05 | -0.65 |
| Gross Debt to Equity (x) | 0.18 | 0.23 | 0.20 |
| Net Debt to Equity (x) | 0.12 | 0.06 | -0.02 |
| Gross debt/total asset (x) | 0.15 | 0.18 | 0.16 |
| Net debt/total asset (x) | 0.10 | 0.05 | -0.01 |
| Cash/current borrowings (x) | 9.69 | 18.12 | 9.15 |
| EBITDA/Total Interest (x) | 0.18 | 2.33 | 2.78 |

*Source: Company, OCBC estimates*

# Wing Tai Properties Ltd ("WTP")

| **Issuer Profile:** | **Ticker:** |
|---|---|
| **Neutral (4)** | **WINGTP** |

## Background

Listed in 1991 in HKSE, Wing Tai Properties Ltd ("WTP") principally engages in property development, property investment, and hospitality management in Hong Kong, China and South East Asia under the brand names of Wing Tai Asia and Lanson Place. It has developed an aggregate GFA of over 5mn sq. ft. in the luxury residential property projects and its premium serviced residences are located in Mainland China and South East Asia. WTP is 34.4% owned by Wing Tai Holdings Ltd and 13.7%-owned by Sun Hung Kai Properties Ltd.

## Credit Outlook and Direction

WTP reported a decent set of 2020 results on the surface with revenue surging to HKD2.78bn (2019: HKD829.5mn) and profit before fair value changes ("Adjusted EBITDA") rising to HKD723.4mn (2019: HKD273.2mn). This is driven by the completion of The Carmel which was 97% sold, driving property development Adjusted EBITDA higher to HKD318.4mn (2019: negative HKD183.5mn). However, the strong result masked weaker results from property investment and management (-9.4% y/y to HKD391.2mn), with Landmark East occupancy falling to 87% as of end-2020 (prior years: 97%-98%), due to weakening in office leasing demand. In addition, WTP recorded HKD1.32bn fair value loss, comprising HKD1.10bn valuation loss on investment properties which is mainly attributable to Landmark East and Lanson Place Causeway Bay hotel, and HKD225mn mark to market loss (partly driven by loss on Suntec REIT units). In the near-term, property development revenues should remain supported by completion of OMA by the sea (252,000 sq ft), which is 74% sold and completing in 2022. However, given the weak high-end residential market, it remains to be seen if units would move at 35%-owned Le Cap and La Vetta (totaling 460,000 sqft), which is around 30% and 32% sold respectively. Due to HKD615.9mn of losses recorded due to fair value losses recorded shrinking the equity base, net gearing inched up to 11.5% (2019: 10.3%). Net gearing may inch up further as WTP purchased 21% interest worth GBP54.2mn (~HKD594.4mn) in 66 Shoe Lane, which is a Grade A office building in The City of London. That said, liquidity remains ample with cash of HKD1.19bn and unutilized revolving loan facilities of HKD2.56bn covering HKD725.9mn of short-term debt.

## Bond Recommendation

We like WINGTP 4.25% '22s as it trades significantly wider than its parent for a comparable credit profile.

## Issues outstanding

Senior secured
Senior unsecured bullets
Senior unsecured callables
Subordinated corporate perpetuals
Subordinated bank capital

*Please click here for a recent write-up on the issuer.*

## Relative Value

| Bond | Issuer Profile | Maturity/Next Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| WINGTP 4.25% '22 | Neutral (4) | 29/11/2022 | 1.81% | 142bps | OW |
| WINGTP 4.35% PERP | Neutral (4) | 24/08/2021 | 1.11% | 89bps | N |
| WINGTA 4.5% '22 | Neutral (4) | 26/09/2022 | 1.15% | 79bps | N |
| WINGTA 4.25% '23 | Neutral (4) | 15/03/2023 | 1.53% | 108bps | N |
| WINGTA 4.08% PERP | Neutral (4) | 28/06/2022 | 3.60% | 329bps | N |
| WINGTA 4.48% PERP | Neutral (4) | 24/05/2024 | 3.65% | 291bps | N |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| EBITDA margin (%) | 42.08 | 33.04 | 18.93 |
| Net margin (%) | 155.93 | 36.77 | -22.17 |
| Gross debt to EBITDA (x) | 13.52 | 17.08 | 8.33 |
| Net debt to EBITDA (x) | 5.80 | 10.73 | 6.07 |
| Gross Debt to Equity (x) | 0.18 | 0.16 | 0.16 |
| Net Debt to Equity (x) | 0.08 | 0.10 | 0.12 |
| Gross debt/total asset (x) | 0.14 | 0.13 | 0.12 |
| Net debt/total asset (x) | 0.06 | 0.08 | 0.09 |
| Cash/current borrowings (x) | 2.22 | 11.87 | 1.64 |
| EBITDA/Total Interest (x) | 2.05 | 1.48 | 3.21 |

*Source: Company, OCBC estimates*

# Financial Institution Outlooks

# Australia & New Zealand Banking Group Ltd ("ANZ")

**Issuer Profile:** Positive (2)

**Ticker:** ANZ

## Background

Australia & New Zealand Banking Group Limited ("ANZ") is one of Australia's big 4 banks and the largest bank in New Zealand. Its business segments cover retail, commercial and institutional banking in Australia and New Zealand as part of operations in 33 markets globally. Its operating segments of Australia Retail & Commercial, Institutional and New Zealand are complemented by a Digital Banking Division. As at 31 March 2021, the bank had total assets of AUD1,018.3bn.

## Credit Outlook and Direction

The main influence on 1HFY2021 results ending 31 March 2021 was the AUD1.6bn net writeback in credit provisions on a h/h basis with a AUD491mn writeback in 1HFY2021 against AUD1.1bn in provisions raised in 2HFY2020. Movements within these totals however indicate the delicate progress of the economic recovery with collective provisions reducing by AUD678mn while AUD187mn in individual provisions were raised indicating still challenging conditions in specific parts of the economy. That said, this total was 53% lower on a h/h basis. Of note is that gross impaired assets still rose 1% h/h to AUD2.5bn although this was driven by higher restructured items and non-performing commitments and contingencies – actual impaired loans fell 3% h/h while gross impaired assets as a percentage of gross loans and advances ratio remained stable h/h at 0.4%. Loan deferral and relief packages were phased out in 1HFY2021 with 94% of home loan support packages and 90% of business loan support reverting back to loan repayments. Capital buffers and progress in the bank's market share in Australia housing loans are key supports as Australia's economy recovers and supports the Positive (2) issuer profile in our view. This will assist ANZ's growth ambitions which may include the pursuit of Citigroup's Australian consumer business. Given the positive outlook, the board has approved an interim dividend of 70 cents, up from 35 cents in FY2020.

## Bond Recommendation

Aussie bank Tier 2 papers are relatively short dated and look expensive to other bank capital. We think European bank AT1s offer better value.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| ANZ 4.0% '25s | Positive (2) | 12/02/2025 | 1.31% | 41bps | N |
| ANZ 3.75% '27c22s | Positive (2) | 23/03/2022 | 0.91% | 63bps | N |
| NAB 4.15% '28c23s | Positive (2) | 19/05/2023 | 1.15% | 66bps | N |
| WSTP 4.0% '27c22s | Positive (2) | 12/08/2022 | 0.81% | 48bps | N |
| DBSSP 3.8% '28c23s | Positive (2) | 20/01/2023 | 1.02% | 58bps | N |
| UOBSP 3.5% '29c24s | Positive (2) | 27/02/2024 | 1.45% | 76bps | N |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured
Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2019 | FY2020 | 1HFY2021 |
|---|---|---|---|
| Cost-income Ratio | 50.20% | 54.50% | 53.80% |
| Loan to Deposit Ratio | 96.48% | 91.18% | 86.94% |
| Non-Performing Loan Ratio | 0.28% | 0.32% | 0.31% |
| Allowance/NPLs | 172.94% | 202.56% | 262.44% |
| Credit Costs | 0.13% | 0.43% | -0.16% |
| Equity/Assets | 6.20% | 5.88% | 6.14% |
| CETier 1 Ratio (Full) | 11.40% | 11.30% | 12.40% |
| Tier 1 Ratio | 13.20% | 13.20% | 14.30% |
| Total CAR | 15.30% | 16.40% | 18.30% |
| Return On Equity | 10.00% | 5.90% | 9.50% |
| Return On Assets | 0.61% | 0.34% | 0.56% |

*Source: Company, OCBC estimates, Bloomberg*

# Barclays PLC ("Barclays")

**Issuer Profile:** Neutral (4)

**Ticker:** BACR

## Background

Based in the UK, Barclays PLC ("Barclays") operates across two main business segments – Barclays UK and Barclays International. Its scale in the UK and globally makes Barclays systemically important on both a domestic and global level. As at 31 December 2020, it had total assets of GBP1,349.5bn. Its largest shareholders comprise institutional investors including BlackRock Inc, Qatar Investment Authority, and The Vanguard Group Inc.

## Credit Outlook and Direction

Barclays' 1Q2021 results highlight the divergent impacts of COVID-19 amidst a relatively better outlook compared to early 2020. Profit before tax ("PBT") of GBP2.4bn was up 162% y/y and due entirely to a ~GBP2bn fall in credit impairment charges y/y. Otherwise, total income fell 6% y/y while total operating expenses rose 10% y/y with pre-provision profit of GBP2.45bn down 19% y/y. The fall in credit impairment charges reflects lower unsecured lending balances, no specific provisions and stable portfolio quality. 30-day and 90-day arrears in UK cards were 1.6% and 0.8% respectively as at 31 March 2021 (1.8% and 0.8% as at 31 March 2020) while credit impairments in Barclays International in 1Q2021 was a net release. While the CET1 ratio remains above its 11.1% minimum requirement, Barclays expects continued pressure on its capital position from further reversals of regulatory reliefs, capital contributions and 'headwinds'. This is likely to keep its CET1 ratio by end 2021 at the top end of its 13-14% range and down a further 50-60bps from 1Q2021 levels. Barclays expects a better 2021 compared to 2020 from rising interest rates and lower credit impairments although earnings and capital challenges will remain that will demand for unsecured lending and lower Consumer, Cards and Payments business. Costs are also expected to increase from higher compensation costs and additional investments and a property portfolio review. These counterbalances should keep Barclays at the Neutral (4) issuer profile through 2021 in our view.

## Bond Recommendation

We continue to see better value in other Euro Tier 2 names on a spread basis compared to BACR 3.75% '30c25s, notwithstanding recovery in Barclay's key markets.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| BACR 3.75% '30c25s | Neutral (4) | 23/05/2025 | 2.37% | 141bps | N |
| CMZB 4.875% '27c22s | Neutral (4) | 01/03/2022 | 2.74% | 246bps | OW |
| CMZB 4.2% '28c23s | Neutral (4) | 18/09/2023 | 3.25% | 268bps | OW |
| LBBW 3.75% '27c22s | Neutral (4) | 18/05/2022 | 3.18% | 288bps | OW |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| Cost-income Ratio | 77.00% | 71.00% | 64.00% |
| Loan to Deposit Ratio | 82.67% | 81.56% | 71.23% |
| Non-Performing Loan Ratio | 2.55% | 2.29% | 2.56% |
| Allowance/NPLs | 79.62% | 79.62% | 92.64% |
| Credit Costs | 0.44% | 0.55% | 1.38% |
| Equity/Assets | 5.63% | 5.76% | 4.96% |
| CETier 1 Ratio (Full) | 13.20% | 13.80% | 15.10% |
| Tier 1 Ratio | 17.00% | 17.70% | 19.00% |
| Total CAR | 20.70% | 21.60% | 22.10% |
| Return On Equity | 3.60% | 5.30% | 3.20% |
| Return On Assets | 0.20% | 0.29% | 0.12% |

*Source: Company, OCBC estimates, Bloomberg*

# BNP Paribas SA (“BNPP”)

## Issuer Profile:
**Neutral (3)**

## Ticker:
**BNP**

### Background

BNP Paribas S.A. (“BNPP”)’s operations span domestic and international retail banking as well as corporate and institutional banking with its Investment & Protection Services division offering savings, investment and insurance solutions. Concentrated in Europe, its businesses operate in 68 countries. As a global systemically important bank, it had total assets of EUR2,660.3bn as at 31 March 2021 with the Belgian government as its largest shareholder at ~7.7%. Remaining shareholders are dispersed.

### Credit Outlook and Direction

BNPP’s FY2020 results were overall influenced by the substantial rise in risk costs from COVID-19. This overshadowed constructive underlying performance with sound operating performance from stable revenues (-0.7% y/y) and a 3.6% y/y fall in operating expenses. Operating division revenues rose 0.2% y/y as Corporate and Institutional Banking performance offset weaker International Financial Services and Domestic Markets due to COVID-19 impacts and lower interest rates. This was followed by improved 1Q2021 results on a y/y and q/q basis with pre-tax income of EUR2.8bn up 57.3% y/y and 26.6% q/q on a y/y recovery in revenues and a fall in risk costs while q/q performance was driven entirely by lower risk costs. Risk costs as a proportion of customer loans were 42bps for 1Q2021, down from 66bps in FY2020. While still elevated, it approximated FY2019 levels (39bps) with a low level of Stage 3 impairments. Q/q revenue performance was also solid (+4% q/q) but higher growth in expenses (+14% q/q on higher taxes and contributions to the Single Resolution Fund and higher business activity) drove a 14.3% q/q fall in operating division operating income to EUR3.2bn for 1Q2021. BNPP’s CET1 ratio reflects earnings performance which offset shareholder returns and risk weighted asset growth and remains above the 12.0% CET1 ratio target as part of its 2020 plan and well above its 2020 CET1 requirement of 9.22%. Results continue to evidence its solid underlying fundamentals and systemic importance from its business franchise and market position.

### Bond Recommendation

We are neutral the BNP 4.35% ‘29c24s given BNPP’s solid fundamentals. For investors happy with higher risk, we are OW the SOCGEN 6.125% PERPc24s.

### Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| BNP 4.35% ‘29c24s | Neutral (3) | 22/01/2024 | 1.63% | 97bps | N |
| ACAFP 3.8% '31c26s | Neutral (3) | 30/04/2026 | 1.89% | 82bps | N |
| SOCGEN 6.125% 'PERPc24s | Neutral (4) | 16/04/2024 | 4.04% | 331bps | OW |
| UOBSP 3.5% '29c24s | Positive (2) | 27/02/2024 | 1.45% | 76bps | N |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

### Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

*Please click here for a recent write-up on the issuer.*

### Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| Cost-income Ratio | 71.90% | 70.30% | 68.20% |
| Loan to Deposit Ratio | 96.15% | 96.54% | 86.03% |
| Non-Performing Loan Ratio | 4.33% | 3.63% | 3.65% |
| Allowance/NPLs | 79.20% | 76.58% | 77.09% |
| Credit Costs | 0.35% | 0.39% | 0.69% |
| Equity/Assets | 5.18% | 5.17% | 4.72% |
| CETier 1 Ratio (Full) | 11.80% | 12.10% | 12.80% |
| Tier 1 Ratio | 13.10% | 13.50% | 14.20% |
| Total CAR | 15.00% | 15.50% | 16.40% |
| Return On Equity | 8.20% | 8.50% | 6.70% |
| Return On Assets | 0.38% | 0.40% | 0.32% |

*Source: Company, OCBC estimates, Bloomberg *annualized*

# China Construction Bank Corporation ("CCB")

**Issuer Profile:** Neutral (3)

**Ticker:** CCB

## Background

China Construction Bank Corporation ("CCB") was formed as a joint-stock commercial bank in 2004 and listed in Hong Kong and Shanghai in 2005 and 2007 respectively. Its predecessor, the People's Construction Bank of China, initially provided government funds for construction and infrastructure projects at the direction of the Ministry of Finance before transitioning to a full-service commercial bank. It had total assets of RMB28,132.2bn as at 31 December, 2020.

## Credit Outlook and Direction

While FY2020 performance trends were expected given the challenging operating environment from COVID-19, the negative impacts for CCB were less severe than other banks under our coverage. Performance was resilient and benefited from China's faster recovery from the pandemic as well as CCB's dominant market position, high quality balance sheet with relatively higher exposure to Personal Banking and systemic importance. In particular, CCB's FY2020 results show a solid recovery in 2H2020 and in particular 4Q2020 as profit before tax for FY2020 rose 3.1% y/y to RMB336.6bn. In comparison, 1H2020 profit before tax was down 11.7% y/y (and included a decent 1Q2020 where profit before tax was up 2.6% y/y) while 9M2020 profit before tax ("PBT") was down 10.2% y/y to RMB249.9bn. Reflective of fundamentals, FY2020 operating income rose 5.3% y/y on a 7.2% y/y rise in net interest income on higher lending volumes that offset lower net interest margins. At the same time, operating expenses were broadly constant, and this offset a 18.7% y/y rise in credit impairment losses. 1Q2021 results showed a continued recovery in performance with operating income up 4.8% y/y and net profit up 2.5% y/y. Performance was assisted by volume growth with total assets up 4.4% y/y and gross loans and advances up 5.3% q/q. CCB though is not out of the woods with non-performing loans growth similar at 5.2% q/q and credit impairment losses rose y/y by 6.4% to RMB52.3bn. This may indicate built up risk in CCB's balance sheet. This is offset however by allowances to non-performing loans which improved to 214.9% as at 31 March 2021.

## Bond Recommendation

Fundamentals for CCB should remain sound given its systemic importance, market position and solid balance sheet.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| CCB 1.073% '23s | Neutral (3) | 25/09/2023 | 1.00% | 43bps | N |
| ANZ 4.0% '25s | Positive (2) | 12/02/2025 | 1.31% | 41bps | N |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| Cost-income Ratio | 26.61% | 26.75% | 25.38% |
| Loan to Deposit Ratio | 78.12% | 79.17% | 78.74% |
| Non-Performing Loan Ratio | 1.46% | 1.42% | 1.55% |
| Allowance/NPLs | 207.90% | 226.93% | 213.27% |
| Credit Costs | 1.10% | 1.09% | 1.13% |
| Equity/Assets | 8.51% | 8.71% | 8.41% |
| CETier 1 Ratio (Full) | 13.80% | 13.88% | 13.62% |
| Tier 1 Ratio | 14.40% | 14.68% | 14.22% |
| Total CAR | 17.24% | 17.52% | 17.06% |
| Return On Equity | 14.04% | 13.18% | 12.12% |
| Return On Assets | 1.13% | 1.11% | 1.02% |

*Source: Company, OCBC estimates*

# Commerzbank AG (“CMZB”)

**Issuer Profile:** Neutral (4)

**Ticker:** CMZB

## Background

Commerzbank AG (“CMZB”) is Germany’s second largest publicly listed bank after Deutsche Bank AG. Headquartered in Frankfurt, it had total assets of EUR537.8bn as at 31 March, 2021. Its largest single shareholder at 15.6% is Germany’s Special Fund for Financial Market Stabilization, set up during the Global Financial Crisis to stabilize Germany’s banking system. The remaining shareholdings comprise institutional and private investors.

## Credit Outlook and Direction

CMZB’s 1H2021 was eventful along with efforts to recover from the pandemic with board changes threatening to be a distraction to CMZB’s new “Strategy 2024” and moving past the EUR233mn operating loss for FY2020 that was before the recognition of EUR1.58bn in impairments on intangibles and EUR814mn in restructuring costs. Including these, CMZB recorded a pre-tax loss of EUR2.6bn for FY2020. Overall risk costs of EUR1.75bn for FY2020 included EUR961mn related to COVID-19 with EUR505mn in additional provisions for expected COVID-19 impacts in FY2021. With key costs recognized in FY2020, a new chairman of its supervisory board and new board members, the focus can now shift to the future and the new CEO’s efforts to improve profitability by sustainably reducing costs while keeping revenues stable. Key to this is (1) further branch network reductions and digitalisation along with related reductions in headcount in Private and Small-Business Customers and (2) a focus on the German Mittelstand and large corporates and on international customers with links to Germany in Corporate Clients. Management is expecting to post an operating profit in FY2021 however owing to EUR900mn in restructuring expenses and elevated loan loss provisions of EUR800mn-EUR1.2bn, it expects to report another loss in FY2021 and its CET1 ratio to fall but remain over 12% by the end of FY2021. That said, we think COVID-19 could present an opportunity to redefine CMZB’s path forward in a more extreme but ultimately beneficial way.

## Bond Recommendation

We are overweight the CMZB Tier 2 papers as we see uncertainties reducing in 2021.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| CMZB 4.875% '27c22s | Neutral (4) | 01/03/2022 | 2.74% | 246bps | OW |
| CMZB 4.2% '28c23s | Neutral (4) | 18/09/2023 | 3.25% | 268bps | OW |
| LBBW 3.75% '27c22s | Neutral (4) | 18/05/2022 | 3.18% | 288bps | OW |
| BACR 3.75% '30c25s | Neutral (4) | 23/05/2025 | 2.37% | 141bps | N |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| Cost-income Ratio | 80.30% | 78.30% | 81.50% |
| Loan to Deposit Ratio | 92.70% | 94.88% | 82.20% |
| Non-Performing Loan Ratio | 1.30% | 1.30% | 1.63% |
| Allowance/NPLs | 42.61% | 46.72% | 47.41% |
| Credit Costs | 0.16% | 0.21% | 0.59% |
| Equity/Assets | 6.36% | 6.61% | 5.64% |
| CETier 1 Ratio (Full) | 12.90% | 13.40% | 13.20% |
| Tier 1 Ratio | 12.90% | 13.90% | 14.70% |
| Total CAR | 15.90% | 16.40% | 17.40% |
| Return On Equity | 3.10% | 2.30% | -11.70% |
| Return On Assets | 0.19% | 0.17% | -0.10% |

*Source: Company, OCBC estimates, * Annualized*

# Credit Agricole Group ("CAG")

**Issuer Profile:** Neutral (3)

**Ticker:** ACAFP

## Background

Founded in 1894, the Crédit Agricole Group ("CAG") has grown steadily through the years from a local farm co-operative to a universal bank operating across 48 countries and 10,000 branches. Its businesses comprise mostly domestic retail banking through its retail cooperative networks as well as international retail banking, asset gathering, specialized financial services and financing of large customers. As at 31 March, 2021, it had total assets of EUR2,269.3bn. Total assets of Crédit Agricole SA ("CA") were EUR2,031.5bn in the same period.

## Credit Outlook and Direction

Underlying performance for CAG has been sound as it continues to provide support to the French and Italian economies. CAG's net exposure to State-Guaranteed Loans in France is around EUR3.1bn (with 2.0% classified as Stage 3 loans) with new processing declining and EUR2.8bn in Italy although processing of State-Guaranteed Loan applications in Italy is rising with net Italian exposure rising 16.7% q/q in 1Q2021. In addition, around 93,000 loans or EUR0.7bn in deferred maturities remain on payment holidays in France (of which 68% are for SME and small business and corporate customers and 32% for households) while 42,000 loans or EUR0.5bn in deferred maturities are on payment holidays in Italy. Per management, payments have resumed on more than 98% of expired payment holidays. Although CAG continues to welcome its supportive role for the economy, we think its solid capital buffers provide a cushion against the recovering operating environment. CAG's capital position remains strong with its phased in 17.3% CET1 ratio (17.0% on a fully loaded basis) well above CAG's 8.9% Supervisory Review and Evaluation Process threshold. The 10bps q/q improvement was driven by retained earnings (+31bps) that offset a rise in risk weighted assets in the Large Customers and Retail Banking segments (-17bps) and dividends and AT1 distributions (-7bps). There is EUR43bn in CET1 capital or 765bps of capital that exists as a buffer above its Maximum Distributable Amount (MDA) trigger. Its capital position has also allowed CAG to increase its market share in Italy through its unsolicited take-over offer for Credito Valtellinese SpA ("CV").

## Bond Recommendation

Despite solid fundamentals, we see better value in other Tier 2 papers with a shorter duration to call date than the ACAFP 3.8% 31c26s.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| ACAFP 3.8% '31c26s | Neutral (3) | 30/04/2026 | 1.89% | 82bps | N |
| BNP 4.35% '29c24s | Neutral (3) | 22/01/2024 | 1.63% | 97bps | N |
| SOCGEN 6.125% 'PERPc24s | Neutral (4) | 16/04/2024 | 4.04% | 331bps | OW |
| UOBSP 3.5% '29c24s | Positive (2) | 27/02/2024 | 1.45% | 76bps | N |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| Cost-income Ratio | 65.16% | 65.44% | 63.30% |
| Loan to Deposit Ratio | 108.21% | 106.78% | 100.21% |
| Non-Performing Loan Ratio | 2.64% | 2.47% | 2.37% |
| Allowance/NPLs | 84.50% | 82.57% | 83.96% |
| Credit Costs | 0.20% | 0.19% | 0.37% |
| Equity/Assets | 6.05% | 6.04% | 5.70% |
| CETier 1 Ratio (Full) | 15.00% | 15.90% | 17.20% |
| Tier 1 Ratio | 15.90% | 16.60% | 17.70% |
| Total CAR | 18.30% | 18.90% | 20.40% |
| Return On Equity | 6.03% | 6.48% | 4.68% |
| Return On Assets | 0.36% | 0.39% | 0.27% |

*Source: Company, OCBC estimates, annualized*

# Credit Suisse Group AG ("CS")

| **Issuer Profile:** | **Ticker:** |
|---|---|
| **Neutral (4)** | **CS** |

## Background

Based in Zurich and operating across 50 countries, Credit Suisse Group AG ("CS") operates three regionally focused divisions across (1) Switzerland, (2) Asia-Pacific and (3) Europe, the Middle East, Africa, and Latin America. Providing private banking and other universal banking services, these regional businesses are supplemented by two global investment banking divisions. As at 31 March, 2021 it had total assets under management of CHF1,596.0bn.

## Credit Outlook and Direction

1Q2021 developments eroded positive FY2020 and 1Q2021 operating performance (before impairments and legal provisions and excluding significant items) and will impact CS for some time to come. This is in addition to impacts that have already occurred including numerous management changes, staff departures and shareholder requested board changes that followed the liquidation of four supply chain funds arranged with Greensill Capital worth USD10bn (with potential client losses of around USD3bn) and the CHF4.43bn in 1Q2021 provisions due to the failure by US-based hedge fund Archegos Capital Management ("Archegos") to meet margin commitments. This negated strong 1Q2021 performance with group pre-tax income (excluding significant items) of CHF3.6bn translating to a reported a pre-tax loss of CHF757mn. The focus now is on how recent events impact future performance of historically strong business franchises. These impacts could be internal through measures to restructure problematic operations, higher risk and compliance costs and internally driven investigations. The more challenging aspect though in our view are the external impacts from regulator-initiated investigations, shareholder dissatisfaction and unresolved issues with the Greensill supply chain funds. Offsetting this for now is CS's capital buffers which were reinforced with the recent raising of USD2bn in Mandatory Convertible Notes.

## Bond Recommendation

Despite continuing uncertainties, we remain OW the CS AT1s as they look priced in against other European bank AT1s. That said, developments in 2021 will need to be monitored for CS.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| CS 5.625% 'PERPc24s | Neutral (4) | 06/06/2024 | 4.39% | 364bps | OW |
| SOCGEN 6.125% 'PERPc24s | Neutral (4) | 16/04/2024 | 4.04% | 331bps | OW |
| STANLN 5.375% 'PERPc24s | Neutral (4) | 03/10/2024 | 3.70% | 287bps | OW |
| BAERVX 5.75% 'PERPc22s | Neutral (3) | 20/04/2022 | 2.10% | 181bps | OW |
| UBS 5.875% 'PERPc23s | Neutral (3) | 28/11/2023 | 3.45% | 283bps | OW |
| UBS 4.85% 'PERPc24s | Neutral (3) | 04/09/2024 | 3.58% | 277bps | OW |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| Cost-income Ratio | 82.70% | 77.60% | 79.60% |
| Loan to Deposit Ratio | 79.02% | 77.33% | 74.67% |
| Non-Performing Loan Ratio | 0.76% | 0.71% | 1.09% |
| Allowance/NPLs | 41.15% | 44.50% | 48.05% |
| Credit Costs | 0.08% | 0.11% | 0.37% |
| Equity/Assets | 5.72% | 5.55% | 5.33% |
| CETier 1 Ratio (Full) | 12.60% | 12.70% | 12.90% |
| Tier 1 Ratio | 16.20% | 17.10% | 18.60% |
| Total CAR | 17.40% | 18.20% | 19.00% |
| Return On Equity | 4.70% | 7.70% | 5.90% |
| Return On Assets | 0.20% | 0.40% | 0.30% |

*Source: Company, OCBC estimates*

# DBS Group Holdings Ltd ("DBS")

**Issuer Profile:** Positive (2)

**Ticker:** DBSSP

## Background

DBS Group Holdings Limited ("DBS") primarily operates in Singapore and Hong Kong and is a leading financial services group in Asia with a regional network across 18 markets. With total assets of SGD660.6bn as at 31 March 2021, it provides diversified services across consumer banking, wealth management institutional banking, and treasury. It is 30% indirectly owned by the Singapore government through Temasek Holdings Pte Ltd as of 30th June, 2021.

## Credit Outlook and Direction

DBS' fundamentals continue to provide a springboard for the future, announcing record 1Q2021 results due to a combination of asset quality stabilisation and a recovery in business volumes. Y/y earnings were assisted by a substantial fall in allowances for credit and other losses to SGD10mn in 1Q2021 (1Q2020: SGD1.1bn) on better-than-expected economic conditions as new non-performing loan formation fell to pre-pandemic levels. 1Q2021 allowances for credit and other losses comprised a SGD190mn writeback in stage 1 and 2 (or general) provisions that offset SGD200mn in stage 3 (specific) provisions raised. Meanwhile, q/q trends were influenced by recovering underlying business volumes with customer loans up 4% q/q (+5% y/y) and record highs in net fee and commission income (higher wealth management, bancassurance, transaction service and investment banking fees) and other non-interest income (seasonal factors as well as higher trading income and investment gains). Non-performing assets of SGD6.6bn were stable y/y and fell 2% q/q despite the amalgamation of Lakshmi Vilas Bank and business volumes recovering, the non-performing loan ratio improved 10bps y/y and q/q to 1.5% as at 31 March 2021. With DBS's capital position similarly improved, DBS has its eyes on growth. Following its India expansion, DBS announced an agreement and receipt of Singapore and China regulatory approval for the acquisition of a 13% stake in Shenzhen Rural Commercial Bank Corporation Ltd ("SRCB") to expand its Greater Bay Area business. DBS is also reportedly interested in bidding for parts of Citigroup's consumer business in Asia.

## Bond Recommendation

DBS fundamental strength was reinforced through recent results. We are overweight the DBSSP 3.98% PERP amidst an overall constructive view for bank capital.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| DBSSP 3.8% '28c23s | Positive (2) | 20/01/2023 | 1.02% | 58bps | N |
| DBSSP 3.98% 'PERPc25s | Positive (2) | 12/09/2025 | 2.34% | 134bps | OW |
| UOBSP 3.5% '29c24s | Positive (2) | 27/02/2024 | 1.45% | 76bps | N |
| UOBSP 3.58% 'PERPc26s | Positive (2) | 17/07/2026 | 2.32% | 122bps | N |
| UOBSP 2.25% 'PERPc26s | Positive (2) | 15/01/2026 | 2.18% | 114bps | N |
| UOBSP 2.55% 'PERPc28s | Positive (2) | 22/06/2028 | 2.56% | 126bps | UW |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured

Senior unsecured callables/putable

Senior corporate perpetuals

Subordinated corporate perpetuals

Tier 2 bank capital

Additional Tier 1 bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| Cost-income Ratio | 44.00% | 43.00% | 42.20% |
| Loan to Deposit Ratio | 87.61% | 88.52% | 79.85% |
| Non-Performing Loan Ratio | 1.50% | 1.49% | 1.60% |
| Allowance/NPAs | 88.40% | 84.10% | 108.91% |
| Credit Costs | 0.20% | 0.19% | 0.81% |
| Equity/Assets | 9.06% | 8.95% | 8.41% |
| CETier 1 Ratio (Full) | 13.90% | 14.10% | 13.90% |
| Tier 1 Ratio | 15.10% | 15.00% | 15.00% |
| Total CAR | 16.90% | 16.70% | 16.80% |
| Return On Equity | 12.10% | 13.20% | 9.10% |
| Return On Assets | 1.05% | 1.13% | 0.75% |

*Source: Company, OCBC estimates, * Annualized*

# HSBC Holdings PLC ("HSBC")

**Issuer Profile:**
**Neutral (3)**

**Ticker:**
**HSBC**

## Background

HSBC Holdings PLC ("HSBC") is one of the world's largest banks by asset size and a global systemically important bank ('GSIB'). Based in London, it is the holding company for the HSBC Group which includes global banking operations across 64 countries and territories through major subsidiaries HSBC Bank PLC (in Europe and the UK) and The Hongkong and Shanghai Banking Corporation, Limited (in Asia) amongst others. As at 31 March 2021, it had total assets of USD2,958.6bn.

## Credit Outlook and Direction

HSBC is showing progress in its significant restructuring with uncertainty reducing and better operating conditions. It recently announced the sale of around 80 US branches in the New York City metro-area market and an online-deposit business to Citizens Financial Group Inc., the sale of its west coast business including 10 branches to Cathay Bank as part of its exit of the US domestic mass market retail banking business and the sale of its French retail unit to private equity firm Cerberus. It also implemented management changes in Asia Pacific with the appointment of David Liao and Surendra Rosha as co-chief executive officers to replace current chief executive officer Peter Wong who will become non-executive chairman of The Hongkong and Shanghai Banking Corp. Both Mr Liao and Mr Rosha have been with HSBC for over 20+ years and with HSBC's push into Asia as part of its strategic plan to 2022 which, by and large, appears to be on track, the appointments look appropriate given the need for regional expertise and management stability. Recent 1Q2021 results were solid on a y/y and q/q basis with y/y improvement due to a USD435mn writeback in provisions while q/q performance was constructive from a fundamental perspective due to revenue growth and lower operating expenses. Other constructive trends include solid growth in strategic focus areas including Asia wealth, trade finance and HK mortgages and improved performance in the UK. Of note is that all regions were profitable on a reported and adjusted basis with strong recovery in Europe.

## Bond Recommendation

HSBC appears to be implementing its restructuring as planned and event risks are reducing in our view. As such we are overweight the HSBC AT1s.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| HSBC 4.7% 'PERPc22s | Neutral (3) | 08/06/2022 | 3.03% | 272bps | OW |
| HSBC 5.0% 'PERPc23s | Neutral (3) | 24/09/2023 | 3.23% | 266bps | OW |
| BAERVX 5.75% 'PERPc22s | Neutral (3) | 20/04/2022 | 2.10% | 181bps | OW |
| UBS 5.875% 'PERPc23s | Neutral (3) | 28/11/2023 | 3.45% | 283bps | OW |
| UBS 4.85% 'PERPc24s | Neutral (3) | 04/09/2024 | 3.58% | 277bps | OW |
| SOCGEN 6.125% 'PERPc24s | Neutral (4) | 16/04/2024 | 4.04% | 331bps | OW |
| CS 5.625% 'PERPc24s | Neutral (4) | 06/06/2024 | 4.39% | 364bps | OW |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| Cost-income Ratio | 64.45% | 75.49% | 68.28% |
| Loan to Deposit Ratio | 72.04% | 72.04% | 63.18% |
| Non-Performing Loan Ratio | 1.35% | 1.31% | 1.84% |
| Allowance/NPLs | 64.62% | 63.69% | 74.80% |
| Credit Costs | 0.18% | 0.26% | 0.84% |
| Equity/Assets | 7.59% | 7.10% | 6.87% |
| CETier 1 Ratio (Full) | 14.00% | 14.70% | 15.90% |
| Tier 1 Ratio | 17.00% | 17.60% | 18.70% |
| Total CAR | 20.00% | 20.40% | 21.50% |
| Return On Equity | 7.70% | 3.60% | 2.30% |
| Return On Assets | 0.54% | 0.28% | 0.18% |

*Source: Company, OCBC estimates, *annualized*

# Julius Baer Group Ltd ("JBG")

**Issuer Profile:**
**Neutral (3)**

**Ticker:**
**BAERVX**

## Background

Present in over 50 locations and 24 countries, Julius Baer Group Ltd. ("JBG") offers private banking services mainly through Bank Julius Baer & Co. Ltd. Headquartered in Zurich, its services include wealth management, financial planning and investments and mortgages and other lending. As at 31 December 2020, JBG had total client assets of CHF505.5bn. As at 31 December 2020, it had assets under management of CHF433.7bn.

## Credit Outlook and Direction

JBG's performance can be summarized as quietly resilient with steady progress on legacy issues and solid operating performance. In 1H2021, it reached a final settlement with the US Department of Justice on investigations regarding money laundering and corruption tied to world soccer federation FIFA with JBG's financial penalty of USD79.7mn already provided for in its FY2020 results. In addition, the Swiss Financial Market Supervisory Authority ("FINMA") lifted a restriction from pursuing large acquisitions that was put in place in February 2020 when FINMA found anti-money laundering shortcomings that occurred between 2009 and 2018 in connection with transactions involving PDVSA and FIFA. Meanwhile, operating performance was constructive through a combination of growth in client assets, improved cost efficiency and absence of credit losses per its interim management statement for the four months ended 30 April 2021. Gross margins improved to around 90bps, up from 84bps in 2H2020 on higher client activity while assets under Management rose to CHF470bn as at 30 April 2021, a year to date rise of 8% and expense performance was influenced by last year's cost-reduction program with the adjusted pre-tax margin at 36bps, up 10bps against 24bps in 2H2020. Performance flowed through to JBG's capital position with its CET1 capital ratio at 16.6% as at 30 April 2021, up from 14.9% as at 31 December 2020 and remaining well above the regulatory minimum requirement of 7.9% and its target of 11.0%. This puts JBG in a position for growth and we think that CEO Philipp Rickenbacher's growth plans could include potential mergers & acquisitions subject to fit and cost.

## Bond Recommendation

Although overweight the BAERVX 5.75% 'PERPc22s, we think other swiss AT1s provide better value with the spread pick-up more than compensating for the longer call duration.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| BAERVX 5.75% 'PERPc22s | Neutral (3) | 20/04/2022 | 2.10% | 181bps | OW |
| UBS 5.875% 'PERPc23s | Neutral (3) | 28/11/2023 | 3.45% | 283bps | OW |
| UBS 4.85% 'PERPc24s | Neutral (3) | 04/09/2024 | 3.58% | 277bps | OW |
| HSBC 4.7% 'PERPc22s | Neutral (3) | 08/06/2022 | 3.03% | 272bps | OW |
| HSBC 5.0% 'PERPc23s | Neutral (3) | 24/09/2023 | 3.23% | 266bps | OW |
| CS 5.625% 'PERPc24s | Neutral (4) | 06/06/2024 | 4.39% | 364bps | OW |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| Cost-income Ratio | 70.60% | 71.1.% | 66.40% |
| Loan to Deposit Ratio | 63.38% | 66.42% | 60.69% |
| Non-Performing Loan Ratio | 0.21% | 0.35% | 0.33% |
| Allowance/NPLs | 33.69% | 27.79% | 52.43% |
| Credit Costs | 0.03% | 0.02% | 0.08% |
| Equity/Assets | 5.87% | 6.07% | 5.90% |
| CETier 1 Ratio (Full) | 12.80% | 14.00% | 14.90% |
| Tier 1 Ratio | 18.40% | 21.60% | 20.30% |
| Total CAR | 18.70% | 22.10% | 21.00% |
| Return On Equity | 12.50% | 7.60% | 11.06% |
| Return On Assets | 0.73% | 0.45% | 0.66% |

*Source: Company, OCBC estimates, *annualized*

OCBC Bank

# Landesbank Baden-Württemberg AG ("LBBW")

| **Issuer Profile:** | **Ticker:** |
|---|---|
| **Neutral (4)** | **LBBW** |

## Background

Based in Stuttgart Germany, Landesbank Baden-Württemberg ("LBBW") is a public law institution providing universal services covering large corporates, capital markets businesses and real estate financing. As at 31 December 2020, it had total assets of EUR276.4bn. As per its website, the bank is 40.5% owned by the Savings Bank Association of Baden-Württemberg, the state capital of Stuttgart (18.9%) and the Federal State of Baden-Württemberg (40.5%).

## Credit Outlook and Direction

Results for LBBW reflect its commercial and public policy roles as a regionally focused state-owned bank tasked with supporting economic development in its related regions. Its ownership structure, together with its less commercial role as the central bank for local savings banks, evidences a strong public policy mandate for the bank and strategic importance for its related states. While FY2020 consolidated profit before tax of EUR252mn was down 58.6% y/y, this was due almost entirely to a ~260% y/y rise in allowances for losses on loans and securities from EUR151mn in FY2019 to EUR544mn in FY2020. This reflected both anticipated impacts from COVID-19 (around 50% of total allowances or EUR276mn for model adjustments to consider the expected economic downturn) as well as a single exposure that was not related to COVID-19 (EUR160mn). Otherwise, underlying revenue performance was solid with a 5.7% y/y rise in net interest income driven by record new business volume of EUR11.4bn from COVID-19 support programs. Per management, LBBW processed around 12,000 or EUR4.5bn in development loans for its own customers and those of its savings banks. Net interest income was also assisted by solid performance in the Capital Markets business and from corporate finance products while net fee and commission income fell 3.6% y/y and operating expenses were contained falling 3.7% y/y. Loan quality remains solid with the non-performing loan ratio at 0.6% as at 31 December 2020 although this is heavily influenced by regulatory forbearance above all else, while its fully loaded common equity Tier 1 ratio at 14.8% as at 31 December 2020 remains above its minimum regulatory capital requirement of 8.73%. LBBW's 2017 strategy of business focus, sustainability, digitalisation and agility remains the same with ongoing focus on targeted growth, disciplined risk policy and cost reductions.

## Bond Recommendation

With Europe in recovery and its solid fundamentals, we remain overweight the LBBW 3.75% '27c22s, which represents better value compared to CMZB Tier 2s.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| LBBW 3.75% '27c22s | Neutral (4) | 18/05/2022 | 3.18% | 288bps | OW |
| CMZB 4.875% '27c22s | Neutral (4) | 01/03/2022 | 2.74% | 246bps | OW |
| CMZB 4.2% '28c23s | Neutral (4) | 18/09/2023 | 3.25% | 268bps | OW |
| BACR 3.75% '30c25s | Neutral (4) | 23/05/2025 | 2.37% | 141bps | N |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| Cost-income Ratio | 73.10% | 71.80% | 70.40% |
| Loan to Deposit Ratio | 132.43% | 122.14% | 113.46% |
| Non-Performing Loan Ratio | 0.77% | 0.85% | 0.90% |
| Allowance/NPLs | 100.12% | 92.41% | 109.79% |
| Credit Costs | 0.13% | 0.14% | 0.50% |
| Equity/Assets | 5.45% | 5.41% | 5.05% |
| CETier 1 Ratio (Full) | 15.10% | 14.60% | 14.80% |
| Tier 1 Ratio | 16.20% | 16.50% | 16.60% |
| Total CAR | 22.00% | 23.00% | 22.80% |
| Return On Equity | 4.30% | 4.60% | 1.90% |
| Return On Assets | 0.18% | 0.19% | 0.08% |

*Source: Company, OCBC estimates*

# National Australia Bank ("NAB")

**Issuer Profile:** Positive (2)

**Ticker:** NAB

## Background

National Australia Bank Ltd ("NAB") provides retail, business and corporate banking services mostly in Australia but also in New Zealand under the Bank of New Zealand brand. It also has operations in Asia, the UK and the US. Following NAB's 2018 decision to exit wealth management and focus on NAB's core banking business, it recently completed the Sale and Purchase Agreement for MLC Wealth to IOOF Holdings Ltd. As at 31 March 2021, the bank had total assets of AUD871.6bn.

## Credit Outlook and Direction

NAB's balance sheet looks resilient from past actions including the significant increase in credit impairments in FY2020, capital management initiatives (institutional placement and share purchase plan and payment of a reduced dividend) and the sale of MLC Wealth to IOOF Holdings Ltd for AUD1.44bn. Its reported CET1 position improved 90bps h/h to 12.37% as at 31 March 2021, above the bank's target range of 10.75-11.25% with a capital buffer now around AUD18bn. On a proforma basis including sale of MLC Wealth and BNZ Life, the ratio improves to 12.75%. Earnings and better asset quality were the main drivers of the improvement. Both impacts reflect the reversal in credit impairments with a net writeback in provisions of AUD1.7bn and AUD1.3bn respectively on a h/h and y/y basis while underlying profit was stable on a h/h and y/y basis which is a solid result given that 1HFY2020 contained a period of normal operating conditions that were before the onset of COVID-19. That said, NAB will need to contend with competitive pressures and changes to the product mix which impacted housing lending margins and, together with lower marked to market gains from Markets and Treasury, led to lower operating income on a h/h basis. NAB also remains mindful that operating conditions are in recovery mode as COVID-19 support measures wind down with most of the impairment writeback due to lower forward looking provisions. Around 88% of the reduction in overall provisions by 5.8% h/h to AUD6.0bn was for collective provisions. AUSTRAC's investigations for breaches of anti-money laundering and counter-terrorism financing laws that relate to customer identification procedures and ongoing customer due diligence will need to be monitored.

## Bond Recommendation

Aussie bank Tier 2 papers are relatively short dated and look expensive to other bank capital. We think European bank AT1s offer better value.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| NAB 4.15% '28c23s | Positive (2) | 19/05/2023 | 1.15% | 66bps | N |
| ANZ 3.75% '27c22s | Positive (2) | 23/03/2022 | 0.91% | 63bps | N |
| WSTP 4.0% '27c22s | Positive (2) | 12/08/2022 | 0.81% | 48bps | N |
| DBSSP 3.8% '28c23s | Positive (2) | 20/01/2023 | 1.02% | 58bps | N |
| UOBSP 3.5% '29c24s | Positive (2) | 27/02/2024 | 1.45% | 76bps | N |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2019 | FY2020 | 1HFY2021 |
|---|---|---|---|
| Cost-income Ratio | 44.30% | 52.40% | 45.80% |
| Loan to Deposit Ratio | 112.58% | 106.65% | 102.77% |
| Non-Performing Loan Ratio | 0.33% | 0.31% | 0.28% |
| Allowance/NPLs | 197.77% | 322.13% | 359.68% |
| Credit Costs | 0.16% | 0.46% | -0.04% |
| Equity/Assets | 6.56% | 7.07% | 7.07% |
| CETier 1 Ratio (Full) | 10.38% | 11.47% | 12.37% |
| Tier 1 Ratio | 12.36% | 13.20% | 14.01% |
| Total CAR | 14.68% | 16.62% | 17.90% |
| Return On Equity | 9.10% | 4.40% | 10.60% |
| Return On Assets | 0.63% | 0.42% | 0.74% |

*Source: Company, OCBC estimates*

# Société Générale ("SocGen")

| **Issuer Profile:** | **Ticker:** |
|---|---|
| **Neutral (4)** | **SOCGEN** |

## Background

Headquartered in Paris, Société Générale ("SocGen") offers advisory services and financial solutions to individuals, large corporates, and institutional investors. It operates across 61 countries through three core businesses covering retail banking in France, International Retail Banking, Insurance and Financial Services and Global Banking and Investor Solutions. As at 31 March 2021, it had total assets of EUR1,503.0bn.

## Credit Outlook and Direction

Positive momentum from 2H2020 has continued for SocGen with 1Q2021 results a reversal of the challenges of a year ago with reported net income of EUR814mn against a net loss of EUR326mn in 1Q2020. This was driven by a 20.8% y/y recovery in net banking income as well as a 66.3% y/y fall in net risk costs to EUR276mn (EUR820mn in 1Q2020). Net banking income performance was assisted by strong performance in Global Banking & Investor Solutions with revenues up 60.4% y/y. In particular, Global Markets had a record quarter with equity structured products rebounding following a review in 2Q2020 and a market recovery while Fixed Income & Currency activity was also strong (+51% q/q). The net cost of risk reduced to 21bps in 1Q2021 (down from 65bps in 1Q2020) and reflected some clarity in loan quality trends with 1Q2021 risk costs comprising EUR300mn in provisions raised for non-performing loans and EUR24mn in loan provision writebacks for performing loans. SocGen's strategy for the remainder of 2021 is centered on its refocusing program including the merger of its domestic networks, conclusion of exclusive negotiations with Amundi for the disposal of Lyxor's asset management business and its new medium term strategy for the Global Banking and Investor Solutions business which is focused on client-centric business growth in financing advisory and transaction banking, cost reduction, and lowering exposure to market movements. The sale to Amundi is estimated to increase SocGen's CET1 ratio by ~18bps when completed, adding to the 450bps buffer above the regulatory requirement and Minimum Distributable Amount requirement of 9.02% as at 31 March 2021. Capital buffers continue to support the Neutral (4) Issuer profile in our view.

## Bond Recommendation

SocGen's fundamentals are improving and amidst our favourable view on bank capital we are overweight the SOCGEN 6.125% 'PERPc24s.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| SOCGEN 6.125% 'PERPc24s | Neutral (4) | 16/04/2024 | 4.04% | 331bps | OW |
| BNP 4.35% '29c24s | Neutral (3) | 22/01/2024 | 1.63% | 97bps | N |
| ACAFP 3.8% '31c26s | Neutral (3) | 30/04/2026 | 1.89% | 82bps | N |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals

Additional Tier 1 bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| Cost-income Ratio | 71.14% | 71.85% | 75.60% |
| Loan to Deposit Ratio | 107.30% | 107.56% | 98.40% |
| Non-Performing Loan Ratio | 3.93% | 3.52% | 3.70% |
| Allowance/NPLs | 63.53% | 66.22% | 68.24% |
| Credit Costs | 0.22% | 0.28% | 0.72% |
| Equity/Assets | 5.03% | 5.06% | 4.58% |
| CETier 1 Ratio (Full) | 11.20% | 12.70% | 13.20% |
| Tier 1 Ratio | 13.70% | 15.10% | 15.70% |
| Total CAR | 16.70% | 18.30% | 18.90% |
| Return On Equity | 7.10% | 5.00% | -1.70% |
| Return On Assets | 0.33% | 0.26% | 0.03% |

*Source: Company, OCBC estimates*

# Standard Chartered PLC ("StanChart")

**Issuer Profile:** Neutral (4)

**Ticker:** STANLN

## Background

Formed in 1969, Standard Chartered PLC ("StanChart") is a universal bank, offering broad services aligned both globally and regionally. Although headquartered in the UK, StanChart's footprint is skewed towards emerging markets, mostly in Greater China & North Asia (Hong Kong) and India. As at 31 March 2021, it had total assets of USD804.9bn.

## Credit Outlook and Direction

StanChart appears positioned for improved operating conditions in the future. Management appears optimistic about an economic recovery, particularly in the US, although expenses will be impacted by StanChart's plans to reduce office space by a third and shrink its branch network by 50% to around 400 branches and improve its digital capability. These trends were evident in StanChart's solid 1Q2021 results with underlying profit before tax ("PBT") up 18% y/y to USD1.45bn as a result of a 98% y/y reduction in credit impairments. This offset weaker underlying operating profit before impairments and taxation due to lower net interest margins and higher expenses on performance related pay normalisation and higher investments for digital transformation. 1Q2021 credit impairment performance looks encouraging with a slight net write-back in stage 1 and 2 impairments from a USD14mn overlay release while stage 3 impairments fell USD450mn y/y to USD55mn (down USD269mn q/q). Per management, there were no additional significant new exposures in 1Q2021 while high risk assets fell for the third straight quarter. Of total gross customer loans and advances growth of 3%, Stage 1 loans grew 5% q/q while Stage 2 loans fell 15% q/q and Stage 3 loans fell 5% q/q. Balance sheet growth fed growth in credit risk weighted assets and resulted in StanChart's CET1 ratio down 40bps q/q, however the ratio remains above the regulatory minimum requirement of 9.9% and at the top of StanChart's 13-14% medium-term target range. Capital buffers provide a cushion against potential future stress, especially in India, which is StanChart's third largest contributor to underlying operating income.

## Bond Recommendation

We remain overweight the STANLN 5.375% PERPc24s on a spread basis. Despite its EM exposure, fundamentals have been resilient and we think the spread pick up compensates for the risk.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| STANLN 5.375% 'PERPc24s | Neutral (4) | 03/10/2024 | 3.70% | 287bps | OW |
| BACR 3.75% '30c25s | Neutral (4) | 23/05/2025 | 2.37% | 141bps | N |
| CMZB 4.875% '27c22s | Neutral (4) | 01/03/2022 | 2.74% | 246bps | OW |
| CMZB 4.2% '28c23s | Neutral (4) | 18/09/2023 | 3.25% | 268bps | OW |
| LBBW 3.75% '27c22s | Neutral (4) | 18/05/2022 | 3.18% | 288bps | OW |
| SOCGEN 6.125% 'PERPc24s | Neutral (4) | 16/04/2024 | 4.04% | 331bps | OW |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals

Additional Tier 1 bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| Cost-income Ratio | 78.80% | 70.90% | 70.40% |
| Loan to Deposit Ratio | 65.61% | 66.24% | 64.12% |
| Non-Performing Loan Ratio | 3.21% | 2.70% | 3.20% |
| Allowance/NPLs | 76.04% | 78.17% | 71.77% |
| Credit Costs | 0.32% | 0.39% | 0.81% |
| Equity/Assets | 7.31% | 7.03% | 6.43% |
| CETier 1 Ratio (Full) | 14.20% | 13.80% | 14.40% |
| Tier 1 Ratio | 16.80% | 16.50% | 16.50% |
| Total CAR | 21.60% | 21.20% | 21.20% |
| Return On Equity | 1.40% | 4.20% | 1.43% |
| Return On Assets | 0.30% | 0.30% | 0.10% |

*Source: Company, OCBC estimates, * YTD annualized*

# UBS Group AG ("UBS")

**Issuer Profile:** Neutral (3)

**Ticker:** UBS

## Background

UBS Group AG ("UBS") is the world's largest wealth manager by assets under management. Based in Zurich and operating across 50 countries, UBS also provides Personal & Corporate Banking, Asset Management, and Investment Banking through its four business divisions. As at 31 March 2021, it had total invested assets of USD1,121bn. Shareholdings of UBS are widely spread across institutional investors with BlackRock Inc. and Norges Bank amongst the 5 largest.

## Credit Outlook and Direction

UBS faced several distractions in 1H2021. These include a court probe in the Netherlands of CEO Ralph Hamers over his involvement in ING Groep NV's ("ING") past failures to comply with anti-money laundering rules, a three week appeal trial in France against a EUR4.5bn penalty for tax fraud and money laundering, a EUR172.4mn fine by the European Commission ("EC") for collusion trading during the global financial crisis, and a USD434mn impact from the default of US prime brokerage client Archegos Capital Management. Through these developments though was solid 1Q2021 results with a 14% y/y increase in profit before tax to USD2.3bn on solid client activity, particularly in Global Wealth Management on higher recurring net fee income from higher average fee-generating assets and higher transaction-based income. Assets (loans, invested assets) also rose y/y while Investment Banking performance was weaker y/y due to the aforementioned prime brokerage impact. For Personal & Corporate Banking, credit loss releases, higher recurring net fee income and new business volume growth offset lower credit card and foreign exchange transactions which impacted transaction-based income. Given 1Q2021 as well as FY2020 results, UBS remains ahead of most of its medium-term return, cost and capital targets. While 2Q2021 results will include impacts from the EC fine as well as residual impacts from the close out of Archegos exposures and restructuring charges for job reductions in UBS's investment bank, wealth management unit and its Swiss Banking business, we expect earnings to stay resilient given its solid business franchises and market position.

## Bond Recommendation

We are overweight UBS AT1s on a fundamental and technical basis. Troubles at peers may cast a regulatory shadow but we expect earnings to remain resilient for UBS.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| UBS 5.875% 'PERPc23s | Neutral (3) | 28/11/2023 | 3.45% | 283bps | OW |
| UBS 4.85% 'PERPc24s | Neutral (3) | 04/09/2024 | 3.58% | 277bps | OW |
| BAERVX 5.75% 'PERPc22s | Neutral (3) | 20/04/2022 | 2.10% | 181bps | OW |
| HSBC 4.7% 'PERPc22s | Neutral (3) | 08/06/2022 | 3.03% | 272bps | OW |
| HSBC 5.0% 'PERPc23s | Neutral (3) | 24/09/2023 | 3.23% | 266bps | OW |
| CS 5.625% 'PERPc24s | Neutral (4) | 06/06/2024 | 4.39% | 364bps | OW |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| Cost-income Ratio | 79.90% | 80.50% | 74.70% |
| Loan to Deposit Ratio | 76.30% | 72.90% | 72.35% |
| Non-Performing Loan Ratio | 0.75% | 0.95% | 0.99% |
| Allowance/NPLs | 32.24% | 33.05% | 38.86% |
| Credit Costs | 0.04% | 0.02% | 0.18% |
| Equity/Assets | 5.54% | 5.63% | 5.32% |
| CETier 1 Ratio (Full) | 12.90% | 13.70% | 13.80% |
| Tier 1 Ratio | 17.50% | 20.00% | 19.45% |
| Total CAR | 19.80% | 22.00% | 22.13% |
| Return On Equity | 8.60% | 7.90% | 11.50% |
| Return On Assets | 0.48% | 0.45% | 0.63% |

*Source: Company, OCBC estimates, * Annualized*

# United Overseas Bank Ltd ("UOB")

**Issuer Profile:** Positive (2)

**Ticker:** UOBSP

## Background

United Overseas Bank Limited ("UOB") is Singapore's third largest banking group with total assets of SGD440.7bn as at 31 March 2021. It has a global network of around 500 offices in 19 countries in Asia Pacific, Europe, and North America. Business segments comprise Group Retail, Group Wholesale Banking, Global Markets and Others. Wee Investments Pte Ltd and Wah Hin & co Pte Ltd have an 7.95% and 5.17% stake in UOB, respectively, as of 30th June, 2021.

## Credit Outlook and Direction

UOB's fundamentals remain sound in our view with results looking solid from an earnings and balance sheet quality perspective. 1Q2021 net profit after tax was up 46% q/q and 18% y/y to SGD1.0bn. Underlying trends were constructive with 11% q/q total income growth against a 4% q/q rise in total expenses leading to 16% q/q operating profit growth to SGD1.4bn. Stable net interest margins at 1.57% on a q/q basis and 4% q/q loan growth assisted net interest income which rose 1% q/q but record net fee and commission income (+22% q/q) from wealth management, loan-related and investment banking activities was the driver of total income performance. Trading and investment income rose 62% y/y from stronger customer flows, trading income and higher gains from investment securities which also supported other non-interest income rising 49% q/q. On a y/y basis, net interest income fell 4% as a 14bps fall in net interest margins offset 5% y/y loan growth, however strong performance in net fee and commission income and other non-interest income (+25% and +7% y/y respectively) translated to a 3% y/y rise in total income for 1Q2021. Overall, this performance appears indicative of UOB's solid business position given that 1Q2020 still contained a period of normal business conditions before the onset of COVID-19. Loan impairments fell by a smaller amount compared to other banks we cover however the benefit is that the non-performing asset allowance coverage ratio remains solid at 112% (or 257% after considering collateral) as at 31 March 2021. This will be meaningful given ongoing pandemic uncertainties in key markets of Indonesia and Malaysia.

## Bond Recommendation

We are neutral and underweight the new SORA linked AT1s for UOB compared to their SOR counterparts. The UOBSP 3.5% '29c24s looks decent compared to the DBSSP 3.8% '28c23s.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| UOBSP 3.5% '29c24s | Positive (2) | 27/02/2024 | 1.45% | 76bps | N |
| UOBSP 3.58% 'PERPc26s | Positive (2) | 17/07/2026 | 2.32% | 122bps | N |
| UOBSP 2.25% 'PERPc26s | Positive (2) | 15/01/2026 | 2.18% | 114bps | N |
| UOBSP 2.55% 'PERPc28s | Positive (2) | 22/06/2028 | 2.56% | 126bps | UW |
| DBSSP 3.8% '28c23s | Positive (2) | 20/01/2023 | 1.02% | 58bps | N |
| DBSSP 3.98% 'PERPc25s | Positive (2) | 12/09/2025 | 2.34% | 134bps | OW |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| Cost-income Ratio | 43.90% | 44.60% | 45.60% |
| Loan to Deposit Ratio | 88.21% | 85.43% | 85.40% |
| Non-Performing Loan Ratio | 1.53% | 1.54% | 1.61% |
| Allowance/NPLs | 77.09% | 77.80% | 92.61% |
| Credit Costs | 0.15% | 0.16% | 0.55% |
| Equity/Assets | 9.74% | 9.86% | 9.53% |
| CETier 1 Ratio (Full) | 13.90% | 14.30% | 14.70% |
| Tier 1 Ratio | 14.90% | 15.40% | 15.80% |
| Total CAR | 17.00% | 17.40% | 18.40% |
| Return On Equity | 11.30% | 11.60% | 7.40% |
| Return On Assets | 1.07% | 1.08% | 0.69% |

*Source: Company, OCBC estimates*

# Westpac Banking Corporation ("Westpac")

**Issuer Profile:** Positive (2)

**Ticker:** WSTP

## Background

Westpac Banking Corporation ("Westpac") is Australia's oldest bank and second largest by market capitalization and total loans. It offers consumer, business, and institutional banking services as well as wealth management and insurance across Australia and New Zealand using a multi-branded strategy. As at 31 March 2021, it had total assets of AUD889.5bn.

## Credit Outlook and Direction

Westpac continues to recover from the impacts of COVID-19 and AUSTRAC proceedings although the road continues to be bumpy. 1HFY2021 headline numbers were strong with statutory net profit of AUD3.4bn up 189% y/y and cash earnings of AUD3.5bn, up 256% y/y. H/h performance was also strong with reported statutory net profit up 213% h/h and cash earnings up 119% h/h. While core earnings of AUD5.1bn were more or less stable h/h and down 11% y/y, the improvement was driven by a AUD1.3bn h/h net writeback in impairment charges against an improved economic outlook. Most of this was due to a AUD640mn writeback in collectively assessed provisions although there still remains a AUD958mn management overlay in total impairment provisions of AUD5.5bn as at 31 March 2021. Other positive developments include confirmation that it did not breach the Banking Act as a result of the AUSTRAC proceedings, approval of its response plan as part of the Enforceable Undertaking, and the sale of Westpac Lenders Mortgage Insurance Limited to Arch Capital Group and the sale of its motor vehicle dealer finance & novated leasing businesses to Angle Finance as per Westpac's simplification strategy that included the combination of its Consumer and Business segments. Westpac recently announced it will not pursue a demerger of its New Zealand business that was studied following a request by the Reserve Bank of New Zealand for independent reviews into Westpac New Zealand Limited's risk governance and liquidity risk management while the Australia Securities and Investments Commission has launched an investigation into possible insider trading with additional charges for unconscionable conduct and breaches of its Australian financial services licensee obligations also possibly pursued. Resilient results though have built a buffer for now.

## Bond Recommendation

Aussie bank Tier 2 papers are relatively short dated and look expensive to other bank capital. We think European bank AT1s offer better value.

## Relative Value

| Bond | Issuer Profile | Maturity/First Call Date | Ask YTW | Spread | Recommen-dation |
|---|---|---|---|---|---|
| WSTP 4.0% '27c22s | Positive (2) | 12/08/2022 | 0.81% | 48bps | N |
| ANZ 3.75% '27c22s | Positive (2) | 23/03/2022 | 0.91% | 63bps | N |
| NAB 4.15% '28c23s | Positive (2) | 19/05/2023 | 1.15% | 66bps | N |
| DBSSP 3.8% '28c23s | Positive (2) | 20/01/2023 | 1.02% | 58bps | N |
| UOBSP 3.5% '29c24s | Positive (2) | 27/02/2024 | 1.45% | 76bps | N |

*Indicative prices as at 30 Jun 2021 Source: Bloomberg, OCBC*

## Outstanding Issuance

Senior secured
Senior unsecured bullets
Senior unsecured callables/putable
Senior corporate perpetuals
Subordinated corporate perpetuals
Tier 2 bank capital
Additional Tier 1 bank capital

*Please click here for a recent write-up on the issuer.*

## Key Ratios

| FYE December | FY2019 | FY2020 | 1HFY2021 |
|---|---|---|---|
| Cost-income Ratio | 48.94% | 63.12% | 56.12% |
| Loan to Deposit Ratio | 126.90% | 118.19% | 117.56% |
| Non-Performing Loan Ratio | 0.25% | 0.40% | 0.30% |
| Allowance/NPLs | 204.65% | 237.68% | 237.23% |
| Credit Costs | 0.11% | 0.45% | -0.11% |
| Equity/Assets | 7.23% | 7.46% | 8.11% |
| CETier 1 Ratio (Full) | 10.67% | 11.13% | 12.34% |
| Tier 1 Ratio | 12.84% | 13.23% | 14.55% |
| Total CAR | 15.63% | 16.38% | 18.43% |
| Return On Equity | 10.65% | 3.37% | 9.92% |
| Return On Assets | 0.96% | 0.25% | 0.77% |

*Source: Company, OCBC estimates*

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OCBC Bank

# Treasury Research & Strategy


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OCBC Bank

**Explanation of Issuer Profile Rating / Issuer Profile Score**

**Positive ("Pos") –** The issuer's credit profile is either strong on an absolute basis or expected to improve to a strong position over the next six months.

**Neutral ("N") –** The issuer's credit profile is fair on an absolute basis or expected to improve / deteriorate to a fair level over the next six months.

**Negative ("Neg") –** The issuer's credit profile is either weaker or highly geared on an absolute basis or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7-point Issuer Profile Score scale.

| IPR | Positive | | Neutral | | | Negative | |
|---|---|---|---|---|---|---|---|
| IPS | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

**Explanation of Bond Recommendation**

**Overweight ("OW") –** The bond represents **better relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

**Neutral ("N") –** The represents **fair relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

**Underweight ("UW") –** The represents **weaker relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

**Please note that Bond Recommendations are dependent on a bond's price, underlying risk-free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.**

**Other**

**Suspension –** We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed. We may also suspend our issuer rating and bond level recommendation in the ordinary course of business if (1) we believe the current issuer profile is incorrect and we have incomplete information to complete a review; or (2) where evolving circumstances and increasingly divergent outcomes for different investors results in less conviction on providing a bond level recommendation.

**Withdrawal ("WD") –** We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

OCBC Bank

*OCBC Credit Research team would like to acknowledge and give due credit to the contributions of **Wu Yao Hua, Chan Ze Feng and Alvin Song Zhiliang**.*

## Analyst Declaration

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