Singapore Credit Outlook 2H2023

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- **1H2023 turned out to be very different h/h for credit markets. While certain conditions remained similar versus 2H2022, such as rate hikes, inflation and geopolitical tensions, a regional banking crisis erupted in the US as rising interest rates exposed vulnerabilities in bank balance sheets while weakness in sentiments contributed Credit Suisse Group AG's forced merger with UBS Group AG. During this time, volatility was almost unprecedented – 2Y UST yields posted its biggest 3-day decline since the stock market crash of 1987.**

- **The Singapore market was not spared, with the Singapore Overnight Rate Average ("SORA") yields reflecting the movements in UST yields. Despite this, the SGD credit market managed to price SGD8.9bn of new issuances in 1H2023. With the hiking cycle in play for much of 1H2023 and markets plagued by periods of high uncertainty, there was a clear favouritism towards issuance within the shorter-to-belly part of the curve. There was no issuance in the >15 years tenor basket (aside from Additional Tier 1 bank capital instruments) and no corporate perpetuals were issued in 1H2023.**

- **With familiar influences, our credit outlook for the remaining six months of 2H2023 remains consistent with our six-month view from January's Singapore Credit Outlook 2023 but with some adjustments. We continue to advocate staying short on duration including the shorter part of the belly as it continues to offer the best risk adjusted returns in our view. Given prevailing risks and recession concerns amidst higher for longer rates, we favour going higher up the credit curve. We are turning Neutral from Underweight for long dated high grade issuers despite spread compression throughout 2023 and we continue to remain Neutral overall towards structurally subordinated papers including perpetuals and bank capital with some selective value given the recent sell off.**

- **We expect Singapore private residential property prices to rise by 3-5% in 2023 still. Despite further property cooling measures in April 2023, property sales rose in May 2023, supported by resident demand. The increase in 2H2023 government land sales should alleviate the supply crunch over time and provide opportunities for developers which have been starved of land to refocus on property development in Singapore.**

- **Despite some recoveries evidenced across S-REITs, rising funding costs have affected S-REITs on several fronts including (1) the average S-REITs' interest coverage ratios falling considerably to 3.67x for the last 12 months to 31 March 2023, (2) S-REITs becoming more cautious over acquisitions in 1H2023 though there were some acquisitions from larger industrial REITs like MLT and MINT and (3) fewer SGD bonds issued by S-REITs as only half of the SGD1bn maturing bonds were refinanced in the SGD credit market.**

- **Following reopening of borders in early February, HKSAR inbound visitors for April 2023 recovered to 62% of the average of 2019 (pre-Covid) levels. Retail space rebounded strongly with April 2023 vacancy rates improving to the average of 2019 levels (9.6%). Retail space is expected to improve further in 2H2023. However, office space outlook remained dimmed amidst ample office space supply in 2023 – 2026 and prevalence of hybrid work schedules. Office vacancy and rentals are expected to weaken further in 2H2023 and onwards.**

- **The past six months have highlighted three key influences for Financial Institutions and how the interplay between them impacts the risk return profile for bank capital instruments. In particular, regulator intent and the structure of bank capital instruments combined with fundamental concerns and prevailing uncertainty surrounding interest rates and the economic outlook during March and April to create heightened volatility for the operating environment of Financial Institutions and a crisis of confidence for the sector. We expect there to be lasting changes in the Financial Institutions sector. While this will likely result in higher credit dispersion in the future, it will create a sector more resilient to future volatility. This should strengthen the investing environment for bank capital instruments with selective opportunities for the remainder of 2023.**

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1H2023 Singapore Corporate Bond Market Review

The first half of 2023 was a period of many ups and downs. Certain conditions in 2H2022 persisted in 1H2023, including rate hikes that were deployed to beat persistent inflationary pressures. The US unemployment rate remained low despite slower US GDP growth rate in 1Q2023. Geopolitical tensions continued in Russia-Ukraine while the US debt ceiling issue was resolved again despite political differences.

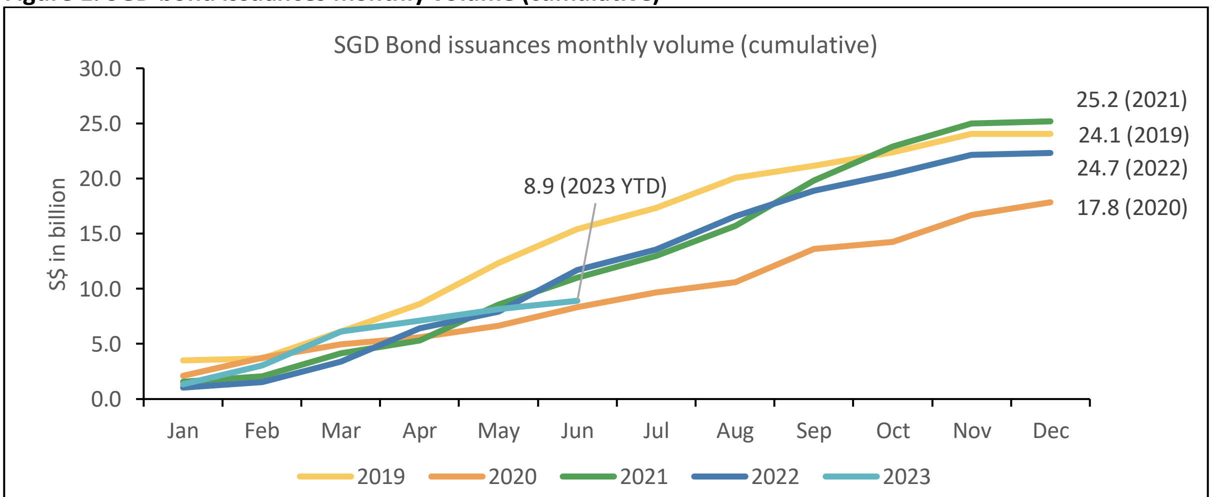
However, 1H2023 has turned out to be very different h/h for the credit markets. A regional banking crisis erupted in the US as rising interest rates exposed vulnerabilities in bank balance sheets and asset-liability mismatches while costs of deposits climbed. This, alongside other inherent factors such as concentrated business portfolios, ultimately lead to Silicon Valley Bank's ("SVB") demise as mentioned in our "Silicon Valley Bank – A New Fear of Contagiousness" piece. SVB's collapse crushed confidence and sent panic waves across the globe, especially in the US, as depositors subsequently rushed to withdraw their funds from Signature Bank, realising it possessed similar qualities as SVB. This resulted in yet another bank run in less than a week, which was followed by the seizure of First Republic Bank by regulators. Beyond the US, weakness in sentiments contributed to asset and deposit outflows at Credit Suisse Group AG ("CS") which resulted in its forced merger with UBS Group AG ("UBS") and the repricing of bank capital instruments following the write-down of CS's Additional Tier 1 bank capital instruments against prevailing expectations that shareholders would face losses before bank capital instrument holders. During the period of the banking crisis, UST yield volatility was almost unprecedented – 2-year treasury yields posted its biggest 3-day decline since the stock market crash of 1987.

The Singapore market was not spared from the complications that occurred in the US, with the Singapore Overnight Rate Average ("SORA") yields reflecting the movements in UST yields. Over this remaining piece, we will further dive into the market drivers, as well as the performance of the Singapore primary credit market over the first six months of 2023. We also present the YTD performance of our model portfolio in later sections.

Resilient issuance volumes against risks of a global slowdown

Amidst significant risk events in the first six months of the year, the SGD credit market priced SGD8.9bn of new issuances in YTD2023 (1 January 2023 to 28 June 2023), lagging behind 2021 (SGD11.0bn) and 2022 (SGD11.7bn) figures in the same period.

Figure 1: SGD bond issuances monthly volume (cumulative)

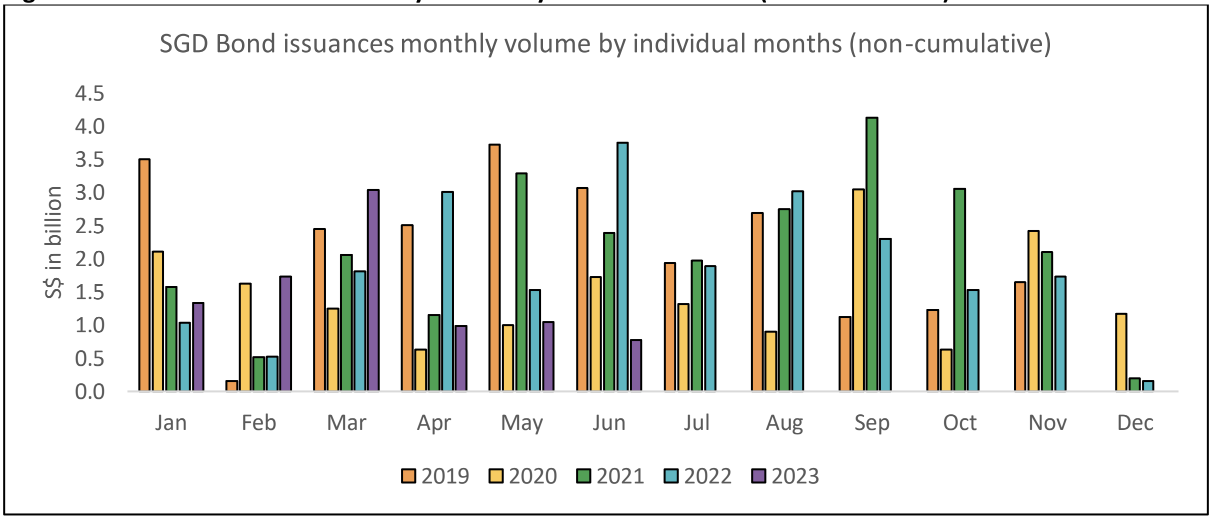


Source: Bloomberg, OCBC Credit Research

Considering that Housing & Development Board ("HDB"), a government-related issuer with deals that are typically very large, was absent amongst SGD bond issuers in 1H2023, excluding HDB from prior years paints a more precise comparison in analysing SGD issuance trends. Excluding HDB's deals, this year's volume of SGD8.9bn is comparable with 1H2022 levels (~SGD8.8bn) and above 1H2021 levels (SGD8.4bn). 1H2023 issuance however was ahead of pandemic lows; new issuances totalled SGD8.3bn during the very risk-off period of 1H2020 with SGD1.5bn of that from HDB. This indicates some level of resilience for the SGD Corporate bond market. By comparison, year to date Asia ex-Japan G3 issuances are down ~35% y/y per Bloomberg, as at time of writing.

The highest volume of issuance was in March (~SGD3bn), however ~67% of deals were priced prior to the collapse of SVB and resultant banking turmoil. Subsequent months have seen lower volumes of bond supply due to heightened uncertainty surrounding interest rates and the growth outlook, translating to a gap between what issuers are willing to pay and investors are willing to accept.

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

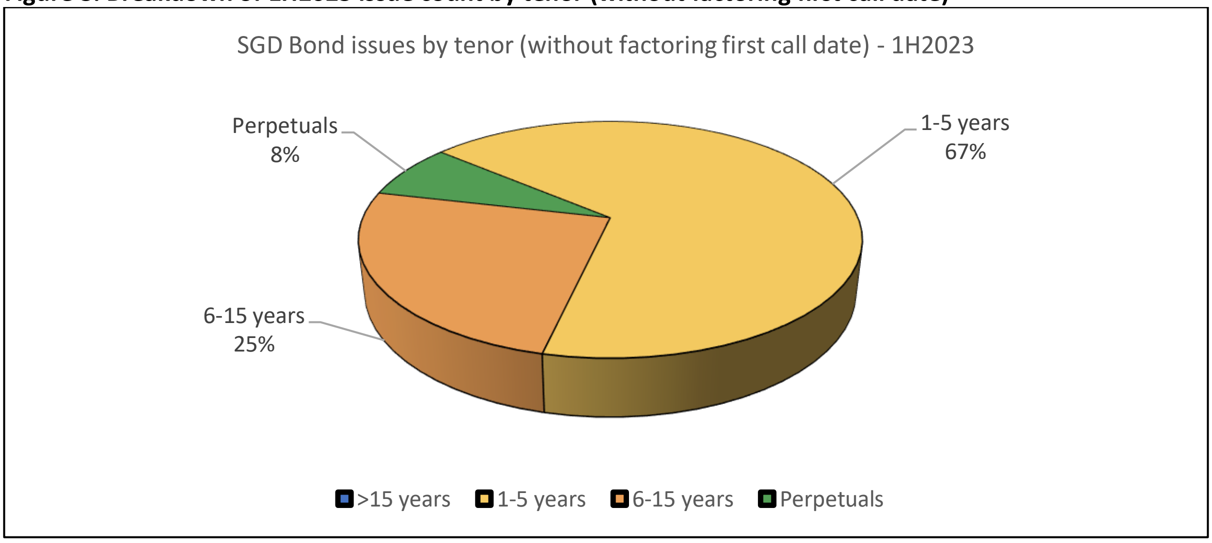


Source: Bloomberg, OCBC Credit Research

Playing it safe

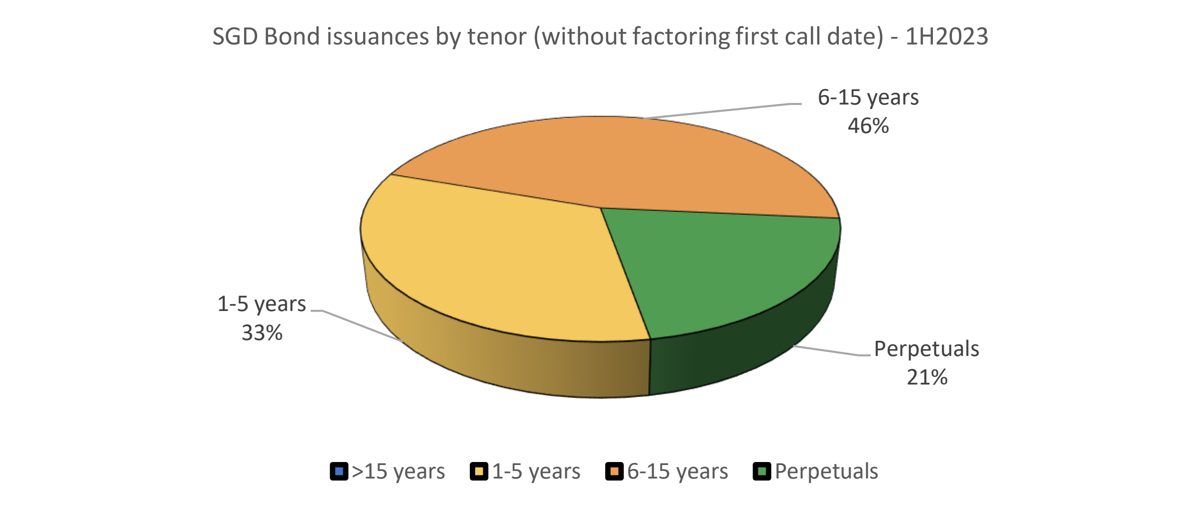
With the hiking cycle in play for much of 1H2023 and markets plagued by periods of high uncertainty, there was a clear favouritism towards bonds with shorter tenors (1-5yr tenor basket) by issue count in 1H2023. In contrast however, the 6-15 years tenor basket was dominant by issuance volumes. There was no issuance in the >15 years tenor basket (aside from perpetuals) as 1H2023 issuance volumes were largely contained within the shorter-to-belly part of the curve (we loosely define the belly as anything with maturity up to ~7-9 years).

Figure 3: Breakdown of 1H2023 issue count by tenor (without factoring first call date)



Source: Bloomberg, OCBC Credit Research

Figure 4: Breakdown of 1H2023 issuance size by tenor (without factoring first call date)

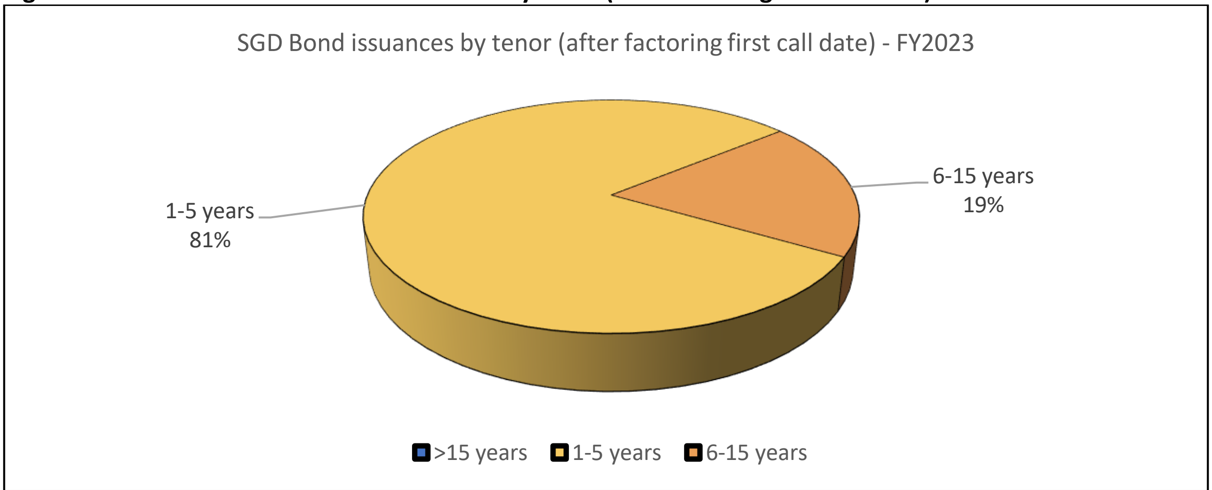


Source: Bloomberg, OCBC Credit Research

The difference in tenor trends between issue count and issuance size is due to the larger average issuance sizes of Financial Institutions given the sheer scale of their business operations and that Financial Institutions made up an even larger majority of issuers by issuance volumes in 1H2023 compared to 1H2022. Financial Institutions were also the reason for the different contribution of perpetuals to tenor trends by issue count and issuance size with all the perpetuals issued in 1H2023 being Additional Tier 1 ("AT1") bank capital instruments from BNP Paribas SA (BNP 5.9% 'PERPc28s), Barclays PLC (BACR 7.30% 'PERPc28s) and United Overseas Bank Ltd (UOBSP 5.25% 'PERPc28s). There were no corporate perpetuals issued in 1H2023.

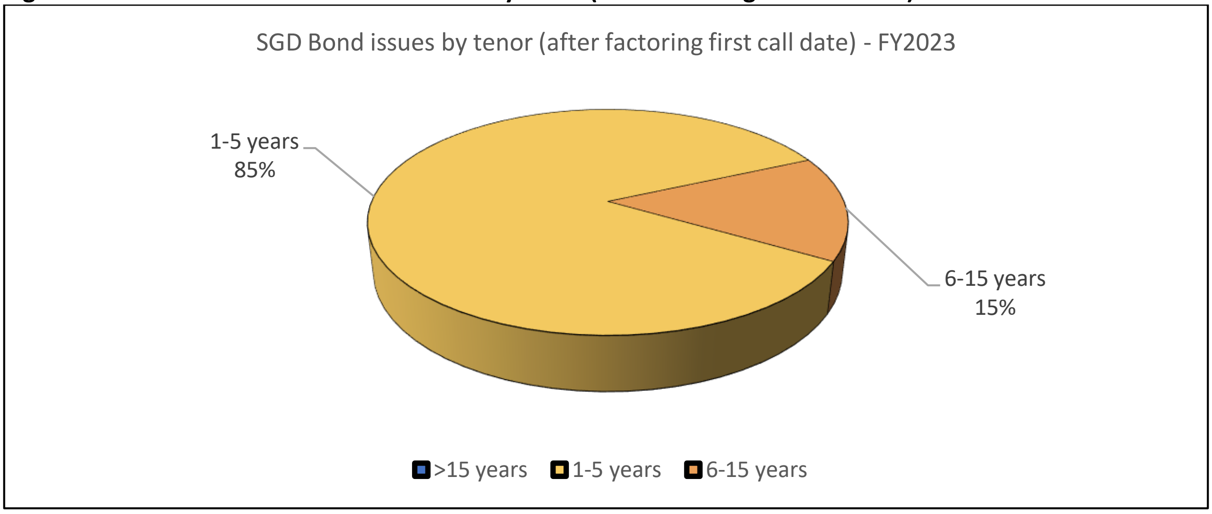
All of the perpetuals or AT1s were issued with a call date in 2028. Without factoring in these first call dates, ~79% or ~SGD7.0bn of 1H2023's new SGD issuance volumes by issue size were issuances maturing between 1 to 15 years. Factoring in the first call date for the AT1s as well as the Tier 2 bank capital instruments from Credit Agricole SA (ACAFP 4.85% '33c28s), HSBC Holdings PLC (HSBC 5.30% '33c28s) and Commerzbank AG (CMZB 5.70% '33c28s) shows an even greater favouritism towards bonds with shorter tenors (1-5yr tenor basket). This was likely influenced by the inverted yield curve through 1H2023 that was steeper at the front end as well as investors and issuers' unwillingness to take on duration risks. Within the 6-15 years tenor basket, we note that corporates issued at the ~7 years tenor on average.

Figure 5: Breakdown of 1H2023 issuance size by tenor (after factoring first call date)



Source: Bloomberg, OCBC Credit Research

Figure 6: Breakdown of 1H2023 issue count by tenor (after factoring first call date)



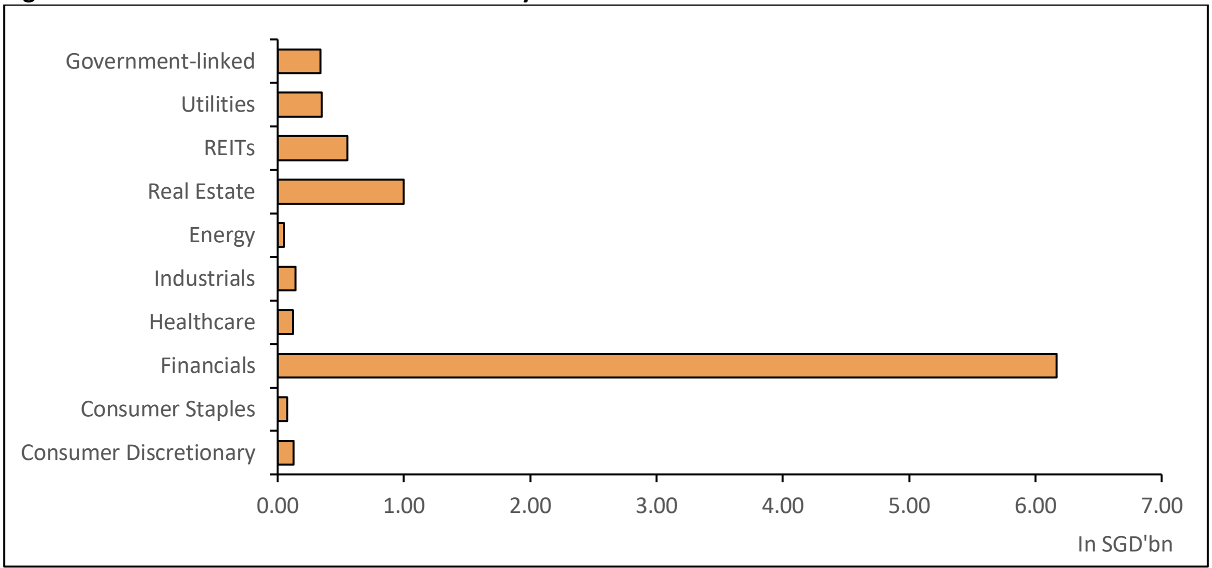
Source: Bloomberg, OCBC Credit Research

Financial Institutions surpassing corporate issuers

The largest contributor to 1H2023 total issuance volumes was the Financial Institutions sector, making up around 69% of bond issuances. This was due to the absence of HDB issues as mentioned above, as well as the fact that Financial Institutions are in constant need of capital and sensitive to movements in interest rates given their highly leveraged balance sheets and the impact to their cost of capital. In the context of likely higher future capital requirements due to the circumstances surrounding the SVB collapse as well as the government forced takeover of CS, Financial Institutions may have been incentivised to issue before rates rise further. Financial Institutions are also sensitive to interest rates on the revenue side with most Financial Institutions under our coverage reporting strong to record operating income from rising interest rates and higher net interest margins in the past few reporting periods and hence creating the capacity to issue bank capital against the higher issuing costs. The large issue sizes from Financial Institutions also reflects their comparatively larger balance sheet with HSBC Holdings PLC ("HSBC") pricing the largest issuance, a SGD1.0bn 10NC5 Subordinated Tier 2 at 5.3% in early March. The second largest issuance was from United Overseas Bank Ltd ("UOB") which priced a SGD850mn PerpNC5 AT1 at 5.25% in mid-January, the only local bank to price a bond this year.

Unlike Financial Institutions, high borrowing costs act against corporate issuers, raising the barriers to entry and therefore driving down the supply of SGD credit. While this partly explains a relative lack of corporate issuances, other influences may also have been lower investment plans against recession concerns and inflated asset prices as well as a supportive bank loan market to compete with credit issuance for refinancing or existing investment plans. Outside of the three AT1 bank capital instruments, there were no corporate perpetuals issued in 1H2023. This, in our view, is likely due to rising rates which caused prices of perpetuals to plunge, essentially raising issuers' funding costs. With less expansion needs, there is also lack of a need for corporate perpetuals to stand-in as lower cost non-dilutive equity.

Figure 7: Breakdown of 1H2023 issuance size by sector



Source: Bloomberg, OCBC Credit Research

Win-win scenario?

There were eight issues priced in the first half of 2023 that contain an issuer's call option. While this is not new (with seven of the eight being loss absorbing AT1 or Tier 2 bank capital instruments that contain call dates to manage the funding cost), two of the issuers were corporate bonds that included an issuer's call option which thus far is relatively rare in the SGD credit market.

The first is Thomson Medical Group ("TMG"), a private healthcare services provider based in Singapore, that priced a 5NC1 bond at 5.5% ("TMGSP 5.5% '28c24s"). The issuer's call option is at the end of year one to redeem all (not partially) at par plus half coupon. This may serve to narrow the gap for issuers who are reluctant to lock in rates at current levels for a longer period. In our view, such a structure gives issuers the option to redeem, for example in the event of a large fall in interest rates. Similar in intent but different in structure, Keppel Offshore & Marine Ltd. issued a SGD500mn 3-year floating rate bond ("KEPSP Float '26c23s") with a call option at the end of six months (ie 28 August 2023) from the issue date. While the fixed vs floating rate is one difference in structure, the other more material difference is the call option per details on Bloomberg. The KEPSP Float '26c23s can reportedly be called in full or in part on the call date and any time after this date. Conversely, the TMGSP 5.5% '28c24s can only be called at the end of year one and in full.

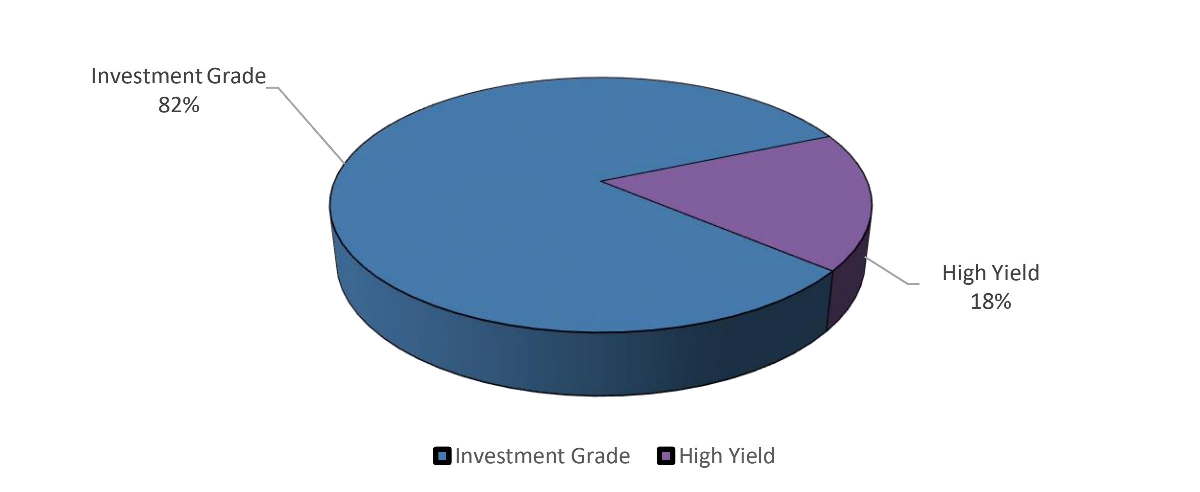
The second is HSBC Holdings PLC's SGD600mn 6NC5 senior unsecured issue at 4.5% ("HSBC 4.5% '29c28s") which has a call date 12 months prior to maturity at par. Although senior, this bond can also be classified as loss absorbing under the European Union's total loss absorbing capacity ("TLAC") and Minimum Requirement for Own Funds and Eligible Liabilities ("MREL") regulations, albeit sitting higher up the capital structure than Tier 2s and AT1s. This is due to the United Kingdom's single resolution entity framework that recognises senior bonds issued at the holding company as being resolution instruments for operating subsidiaries of the banking group. For senior unsecured bonds to qualify under TLAC and MREL however, they must have a maturity of at-least one year. Structuring the HSBC 4.5% '29c28s this way allows it to issue a senior unsecured bond that qualifies for capital treatment under MREL and TLAC until 7 June 2028, thereby fulfilling two purposes at the same time – funding and meeting minimum regulatory requirements.

Higher preference for Investment Grade issuances

In our "Singapore Credit Outlook 2023", we redefined High Yield in this largely unrated space with ask yield-to-worst of more than 5.5%, due to the elevated rates environment. Using this as a cut-off and considering the market influences mentioned previously, it is no surprise that investment grade issues under our definition continue to dominate with ~82% of issuance in 1H2023. That said, the bulk of the higher yielding issues by issue size were bank capital instruments issued by European Financial Institutions including Commerzbank AG ("CMZB 5.7% '33c28s"), BNP Paribas SA ("BNP 5.9% PERPc28s") and Barclays PLC ("BACR 7.3% PERPc28s"). These issues were hence structurally subordinated and actually externally rated at the lowest end of the investment grade rating spectrum. Nevertheless, their pricing was affected by their structural loss absorbing features as well as general risk aversion towards the Financial Institution space that existed since early 2H2022 when non-call risks were heightened by rising interest rates.

If we were to exclude these structurally high yield instruments, then the proportion of 'true' high yield issuers in 1H2023 was only ~3.5%.

Figure 8: Breakdown of 2022 High-Yield issuances (>5.5% Ask Yield-to-Worst)*



Source: Bloomberg, OCBC Credit Research

<u>Green, social, sustainability and sustainability-linked bonds ("GSSSL") continue to feature</u>

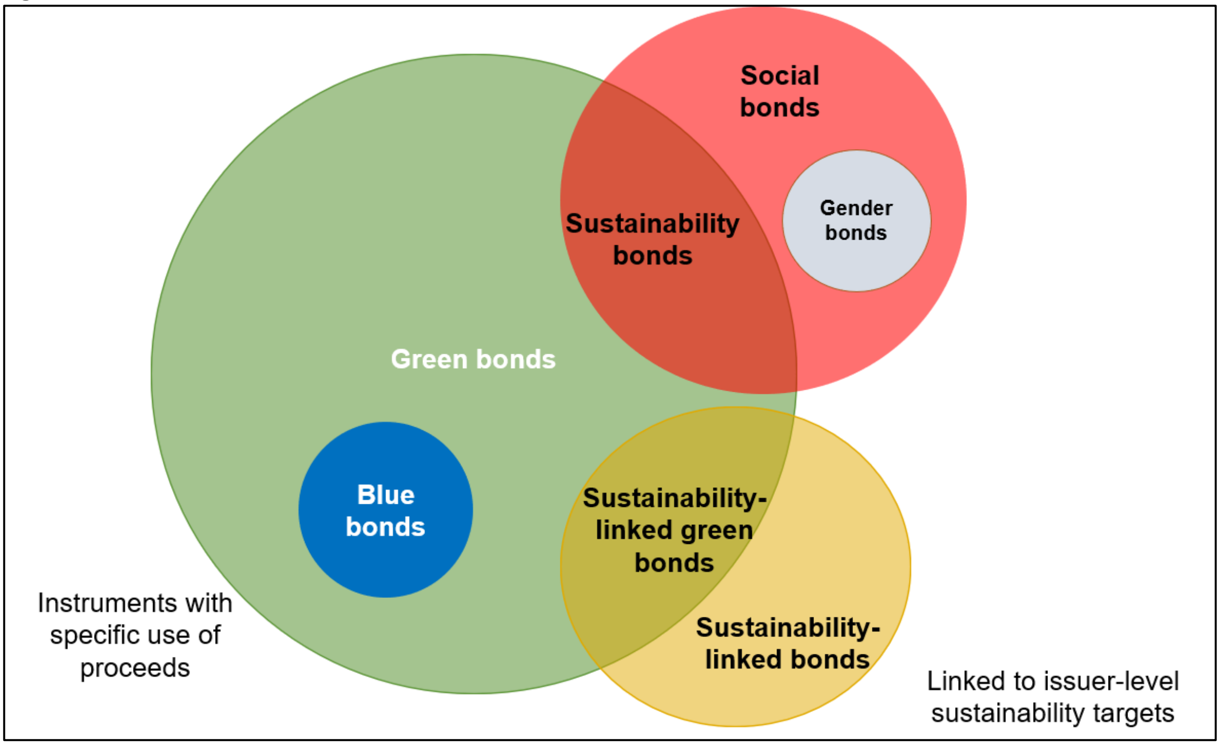
There were fourteen issues coming from industry sectors other than Financial Institutions in 1H2023 with a total issuance volume of SGD2.7bn. Of these, three issues with issuance volume of SGD900mn were green bonds. Two of these green bonds were priced in the tricky month of March 2023 where, in our view, only high-grade issuers could tap markets. We observe that overtime, higher grade issuers have affirmed their commitment to become more sustainable with GSSSL funding a key part of their capital raising strategy. We expect more of these issuers to tap the SGD GSSSL credit market. In our view, at times of credit stress, GSSSL issuances may serve as an expedient market signal over likely credit quality.

GSSSL and more: For ease of identification of the various bonds, at OCBC Credit Research, we are opting to use the following stand-out icons to label these GSSSL instruments specifically going forward.

Icon	Type of bonds	Definition
	Green bond	Proceeds from these bonds are specifically allocated to financing new and existing projects or activities with positive environmental impacts.
	Social bond	To qualify as a social bond, the proceeds must be used to finance or refinance social projects or activities that achieve positive social outcomes and/or address a social issue.
	Sustainability bond	Sustainability bonds are issues where proceeds are used to finance or re-finance a combination of green and social projects or activities.
	Sustainability-linked bond	These bonds are structurally linked to the issuer's achievement of climate or broader United Nations Sustainable Development Goals ("UN SDG") targets. Sustainable performance target ("SPT")'s that are not met could result in a decrease or increase in the instrument's coupon rate.
	Gender bond	A type of social bond where proceeds are used to support the specific purpose of raising awareness on gender inequality and women empowerment.
	Blue bond	A type of green bond where proceeds are used on projects or strategies leading to a healthy and productive ocean and marine life environment.

Source: OCBC Credit Research

Figure 9: Classification of GSSSL bonds



Source: OCBC Credit Research
Note: As far as we are aware, there have not been any SGD blue, sustainability-linked green bond, or gender bonds (also known as orange bonds) yet.

Credit Outlook for 2H2023 – Searching for Sunshine

Our outlook at the start of 2023 was somewhat of a holding statement considering the uncertainty that existed almost six months ago and the range of possible scenarios depending on the interest rate trajectory and timing of any recession. Against these, we appear to be more closely tracking the second and more moderate of the three scenarios we previously contemplated – interest rate hikes potentially resuming after a pause. The difference however six months on is that despite the emergence of an unexpected new risk (banking sector volatility and the US regional banking crisis), an outright or painful recession in late 2023 or early 2024 is currently not our base case (see **OCBC Global Outlook 2H 2023 - From stagflation to recession?**). This highlights the persisting uncertainty and multiple influences impacting global markets – that despite a 1H2023 where treasury yields were especially volatile, we are somewhat close in sentiments to where we started at the beginning of 2023. The recent march to Moscow by the Wagner Group has also highlighted how the key themes in our Singapore Mid-Year 2022 Credit Outlook of slowing economic growth, higher borrowing costs and prolonged geopolitical risks continue to exist.
Given these familiar influences, our credit outlook for the remaining six months of 2H2023 remains consistent with our six-month view from January's Singapore Credit Outlook 2023 but with some adjustments:

1. We continue to advocate staying short on duration including the shorter part of the belly. This tenor continues to offer the best risk adjusted returns in our view with repayment risks mitigated by ample liquidity in the bank loan market for refinancing.
2. Given prevailing risks and recession concerns amidst higher for longer rates, we favour going higher up the credit curve. In particular, we see increasing opportunities for Korean, Australian and Japanese issuers given China's weak recovery and structural index changes. With possible laggard effects of higher rates and a better than even chance of credit spreads widening, we still see select opportunities in crossover credits, but investors should continue to focus on bottoms-up analysis as the funding environment has become increasingly tighter for high yield issuers. Credit rating agencies are also highlighting rising fallen angel risk (ie investment grade issuers falling into speculative grade) in the rated credit universe.
3. We are turning Neutral from Underweight for long dated high grade issuers despite spread compression throughout 2023 as our OCBC Rates Strategist expects rates to trend down beginning early 2024 assuming there are no additional rate hikes. Per our SGD credit market tracker, longer tenors have been the best performer in the SGD credit market for the year to date. We do not expect a risk aversion situation leading to significant rates rally at the long end (such as what was experienced in 2020-2021).
4. We continue to remain Neutral overall towards structurally subordinated papers including perpetuals and bank capital with some selective value given the recent sell off. While these papers have found favour again given their structurally higher return and lower prices, structure and bottom-up selection remain key. For corporate perpetuals, this continues to mean a focus on non-call risk for those looking to receive their principal within a set timeframe. That said, given the small negative price reaction on high-grade perpetuals that were not called in the past nine months, we infer that there is currently a higher willingness among investors to accept non-call risk for higher yield-in-perpetuity. For bank capital instruments, we recommend focusing on more strategically important Financial Institutions given higher credit dispersion in the Financial Institutions sector. This will somewhat compensate for structural risks and potential sector volatility although investors are reminded to continue to look at the risk return balance between Additional Tier 1 and Tier 2 bank capital instruments.

We are no longer underweight on any sectors within the SGD credit market – this is due to its relatively resilient performance so far in 2023 and that credit as an asset class can act as insurance against a possible recession. While value may be hard to come by given the chase for SGD denominated papers so far in 2023, we think any potential drop in rates and credit spread widening will uncover opportunities for investors. The key for 2H2023 therefore is to "carry on carrying on". We look forward to uncovering these opportunities with you for the remainder of 2023 and continue to be grateful for our readers' support and feedback.

Taking stock of returns in the SGD credit market

Differentiated YTD2023 performance in a market recovery: Total returns in the SGD credit market was around +3.3% in YTD2023, according to our estimates. The outperformers are papers that are longer tenors (above 9Y) which returned ~7.2% and partly reversed the 2021 losses. The next best performer was non-financial perpetuals which returned ~4.5%. While most of the other papers delivered positive total returns, the underperformer was AT1s which returned -2.7%, dragged by the writedown of the Credit Suisse Group AG ("CS") AT1. Excluding CS, AT1s would have returned 2.3%, recovering largely from the significant drawdown in March. Overall total returns for the SGD credit market since Jan 2021 is an estimated -1.6%. We estimate that spreads in general have tightened by 50bps or more since Jan 2023.

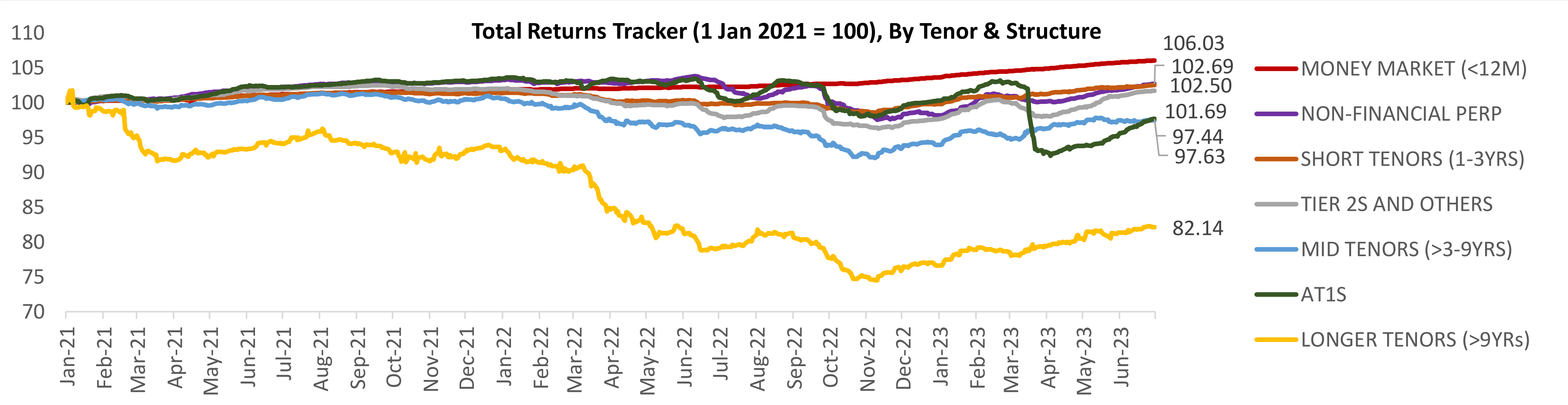
Table 1: Summary of performance in the SGD credit market

	Key Statistics					Returns					
	(1 Jan 2021 = 100)	OAS	Eff Mty	YTW	Market Cap	w/w	m/m	y/y	YTD2023	Since Jan 2021	Description
By Tenor & Structure											
AT1S	97.6	269bps	2.5Y	6.19%	$10,641m	0.40%	2.31%	-3.27%	-2.65%	-2.43%	AT1s
NON-FINANCIAL PERP	102.7	282bps	11.2Y	6.73%	$12,838m	0.14%	0.87%	-0.23%	4.58%	2.53%	Non-financial corporate perpetuals
TIER 2S AND OTHERS	101.7	167bps	4.2Y	5.16%	$10,900m	0.10%	0.87%	3.57%	4.14%	1.54%	Tier 2s and other subordinated papers
LONGER TENORS (>9YRS)	82.1	124bps	23.9Y	3.83%	$12,502m	0.01%	0.95%	3.82%	7.18%	-19.25%	Bullets above 9Y to maturity
MID TENORS (>3Y-9YRS)	97.4	91bps	5.3Y	4.03%	$39,399m	0.02%	-0.01%	1.52%	3.74%	-2.62%	Bullets >3Y to 9Y to maturity
SHORT TENORS (1-3YRS)	102.5	104bps	1.9Y	4.56%	$23,812m	0.12%	0.28%	2.69%	2.72%	2.47%	Bullets 1 to 3Y to maturity
MONEY MARKET (<12M)	106.0	79bps	0.6Y	4.69%	$10,477m	0.06%	0.28%	3.71%	2.32%	6.00%	Bullets less than 12M to maturity
By Issuer Profile Rating											
POS (2)	100.2	137bps	8.9Y	4.57%	$7,001m	0.11%	0.45%	1.56%	4.05%	0.10%	All issues with Issuer profile at Pos (2)
N(3)	101.7	129bps	3.1Y	5.14%	$15,785m	0.22%	1.27%	2.82%	3.23%	1.67%	All issues with Issuer profile at N (3)
N(4)	101.4	172bps	6.4Y	5.09%	$26,073m	0.16%	0.78%	1.28%	3.98%	1.31%	All issues with Issuer profile at N (4)
N(5)	98.9	181bps	3.3Y	5.66%	$6,772m	0.23%	1.26%	-3.93%	-2.66%	-1.15%	All issues with Issuer profile at N (5)
OCBC MODEL PORTFOLIO	104.5	325bps	1.9Y	6.90%	$5m	0.31%	2.35%	-0.43%	-0.32%	4.46%	OCBC Credit Research's model portfolio

Source: Bloomberg, OCBC

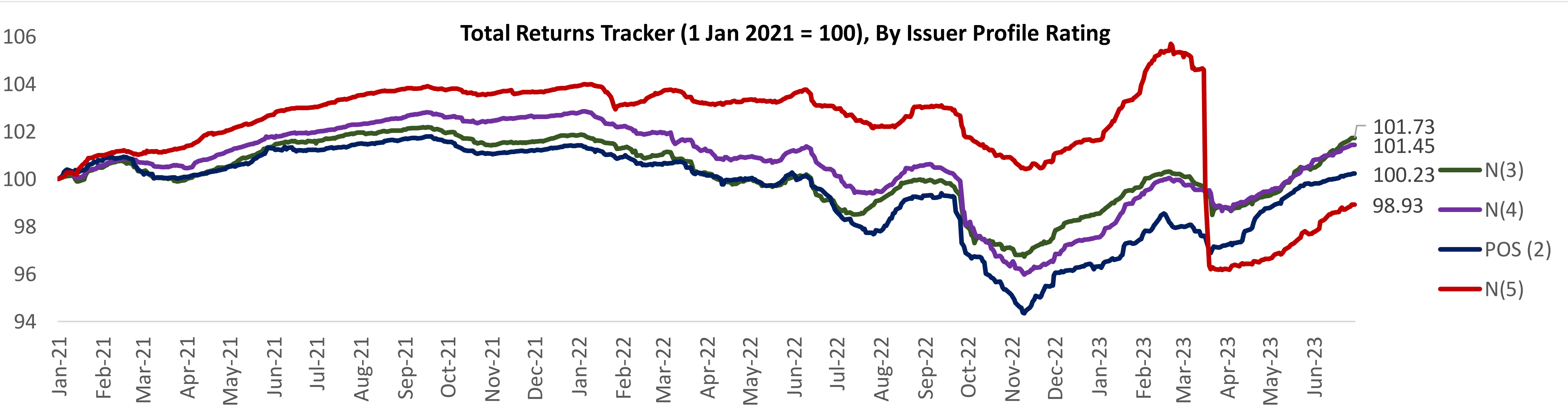
Returns broadly consistent by Issuer Profile excluding CS: CS was downgraded to the Neutral (5) Issuer Profile in late 2022, which impacted the YTD returns in this bucket. Excluding CS, Neutral (5) issues would have returned ~5.3% YTD (instead of negative 2.7%), edging out the performance of issues in the Positive (2), Neutral (3) and Neutral (4) buckets.

Figure 10: Total Returns by Tenor and Structure (Jan 2021 = 100)



Source: Bloomberg, OCBC

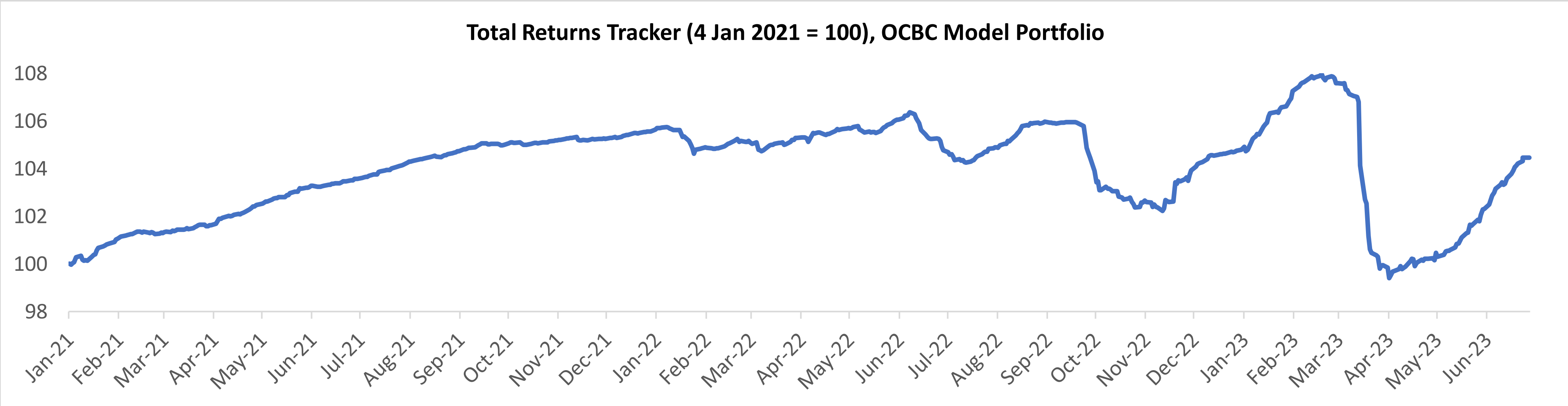
Figure 11: Total Returns by Issuer Profile (Jan 2021 = 100)



Source: Bloomberg, OCBC

Model portfolio in YTD loss against gains in broader market: The model portfolio posted a YTD loss of 0.32%, underperforming the broader market by ~365bps. This is mainly dragged by the inclusion of CS in the portfolio, and the outsized exposure to AT1s.

Figure 12: Total Returns of Model Portfolio (Jan 2021 = 100)



Source: Bloomberg, OCBC

Remain somewhat short dated with a selective overweight in credit/structure: We think that the risk-reward looks decent for shorter dated papers, which provide decent yield for a short maturity, noting the inversion in the yield curve. Our positioning in the shorter end also factors the expectation of our rates strategist for the yield curve to steepen and become less inverted with a forecast 150bps rate cut in 2024. Meanwhile, we note that spreads have tightened significantly h/h, especially for higher grade bullets. As such, while we are Neutral towards perpetuals in general, the portfolio has a heavier weight towards perpetuals as these still provide significant pick up. The focus will be on bottoms-up selection, avoiding those that are not structured with resets. Despite the drawdown faced from AT1s, AT1s continue to feature significantly in the model portfolio, noting that there is no longer a 'slightly wobbly' global systemically important bank, according to Barclays PLC Group Chief Executive C.S. Venkatakrishnan while we believe there is still room for spreads to tighten.

Table 2: Model Portfolio constituents, 30 June 2023

Issue Name	OCBC Issuer Profile Rating	Yield to Worst	Maturity / First Call Date / Reset Date	Cost of investment (incl. acc. interest)	Current Value (incl. acc. interest)	Total coupons received	Total Gain/Loss
Property Developers							
OUECT 4.2 05/05/27	5	4.88%	05/05/2027	$242,063	$244,434	$0	$2,370
METRO 4.3 04/02/24	4	4.44%	02/04/2024	$254,397	$251,757	$26,890	$24,249
GUOLSP 4.6 PERP	5	5.48%	23/01/2025	$243,735	$250,954	$5,750	$12,969
CITSP 3 01/17/24	4	3.94%	17/01/2024	$248,627	$251,862	$3,719	$6,954
FPLSP 3 10/09/28	5	4.50%	09/10/2028	$227,004	$233,230	$0	$6,226
REITs							
SPHRSP 4.1 PERP	4	6.31%	30/08/2024	$245,856	$246,962	$5,139	$6,244
AAREIT 5.65 PERP	4	6.32%	14/08/2025	$258,838	$250,957	$28,250	$20,369
CERTSP 5 PERP	Unrated	6.48%	24/11/2026	$248,181	$227,937	$18,750	-$1,494
Financial Institutions							
UBS 5 7/8 PERP	3	6.79%	28/11/2023	$265,397	$248,852	$36,719	$20,174
SOCGEN 6 1/8 PERP	4	7.82%	16/04/2024	$264,948	$235,754	$38,197	$9,004
CS 5 5/8 PERP	Unrated			$264,341	$0	$28,125	-$236,216
STANLN 5 3/8 PERP	4	6.80%	03/10/2024	$262,020	$248,153	$33,594	$19,726
CMZB 4.2 09/18/28	4	5.99%	18/09/2023	$253,029	$246,911	$10,500	$4,382
HSBC 5 PERP	3	5.79%	24/09/2023	$256,992	$252,114	$12,500	$7,622
UBS 4.85 PERP	3	6.56%	04/09/2024	$258,118	$245,776	$12,125	-$217
BACR 8.3 PERP	4	8.05%	15/09/2027	$262,992	$252,808	$15,563	$5,379
BACR 7.3 PERP	4	7.58%	15/06/2028	$225,743	$225,743	$0	$0
SOCGEN 8 1/4 PERP	4	8.64%	15/07/2027	$260,149	$236,322	$20,625	-$3,202
DB 5 09/05/26	4	5.02%	05/09/2025	$251,649	$252,316	$6,250	$6,917
Others							
OLAMSP 4 02/24/26	Unrated	4.68%	24/02/2026	$253,341	$247,895	$24,959	$19,513
OLGPSP 5 3/8 PERP	5	6.59%	18/07/2026	$244,179	$246,928	$0	$2,749
ESRCAY 5.65 PERP	Unrated	6.47%	02/03/2026	$255,577	$247,986	$35,313	$27,722
SITB 07/25/23	Unrated	3.84%	25/07/2023	$15,963	$15,963	$0	$0
SGD					$15		

Source: Bloomberg, OCBC

Fixed-For-Life ("FFL") perpetuals – Diamonds in the rough?

Recent volatility in interest rates have re-emphasized the importance of structure with prices of certain perpetuals having fallen significantly. While the current interest rate environment has diminished the likelihood of a call for FFL perpetuals, reinvestment risks have also reduced in our view. For such perpetuals with subdued reinvestment risks, it will be key to assess the continuity of distributions with the attractiveness of such instruments hinging on the longer-term interest rates outlook.

Influence of Structure Remains Key

Our introduction to SGD Corporate Perpetuals in September 2017 highlighted the importance of structure including resets and step-ups, cumulative and compounding coupons, dividend pushers and dividend stoppers. To this end, we have stayed Neutral on perpetuals as an asset class despite the rise in interest rates. We reasoned in "Perpetual Series 7: Valuations reloaded" that perpetuals, which are commonly structured with resets, allow holders to take advantage of rising interest rates as distribution rates would be reset higher. This continues to be our view for perpetuals with resets.

However, prices of certain perpetuals have fallen significantly, especially for perpetuals with fixed distribution rates that do not step-up or reset such as FFLs. While such perpetuals were once the charm to yield-hunters in a declining or low interest rate environment, the rise in interest rates have dampened the appetite of such instruments. This is because FFL perpetuals see a diminished probability of call as issuers are unlikely to find a cheaper source of funding (e.g. reissue a replacement perpetual) to replace such FFL perpetuals that were issued during periods of very low interest rates.

Without sufficient economic incentive for issuers to redeem, the 'effective maturity' would likely extend well beyond the first call date. As such, we think FFL perpetuals have become similar to very long dated bonds in terms of duration, which have higher sensitivity to movements in interest rates. Given that interest rates have risen, FFL perpetuals issued during times of low interest rates have seen prices fall significantly from the price at issuance (typically at par). Examples include CKPH 3.38% PERP (~71.5 cts, 4.66% ask YTW), CKPH 3.8% PERP (~71 cts, 5.35% ask YTW), and NANFUN 5% PERP (~79 cts, 6.33% ask YTW). We think FFL perpetuals are also highly similar (or sometimes almost identical) to preference shares that pay regular fixed-for-life dividends. Like preference shares, FFL perpetuals rank higher than ordinary shares in liquidation, carry no voting rights and are typically cheaper for the companies to issue versus ordinary shares.

Not All Bad News?

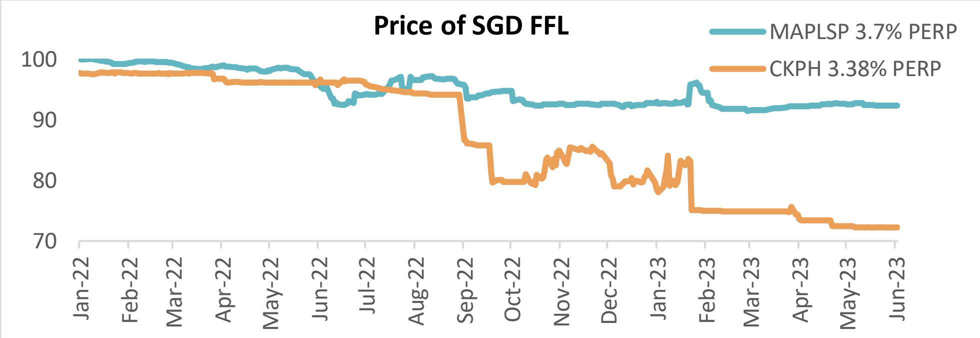
Although the current interest rate environment diminishes the likelihood of issuers exercising the call of FFLs, reinvestment risks have also reduced for such FFLs in our view, given the unchanging distribution rates and low chance of redemption in the near-term. In addition, such FFL perpetuals which are in general currently significantly underwater can enjoy upsides if interest rates fall or if credit spreads compress (when prices increase from low cash price levels). Such upside potential should be larger for perpetuals with subdued reinvestment risks (such as FFL perpetuals) relative to perpetuals where issuers are likely to exercise the call (typically at par). Should interest rates fall so significantly that the issuer could exercise the call (e.g. at par) and replace it with a cheaper cost of funding, reinvestment risks would arise though this should also lead to significant capital gains (see Figure 4 below). On the flip side, if interest rates continue to rise significantly or if credit spreads widen, FFL perpetuals may be exposed to further price downsides.

Focusing On What's Important

For such perpetuals with subdued reinvestment risks, it will be key to assess the continuity of distributions, as perpetuals typically allow distributions to be deferred. This will be contingent on the strength of the credit profile and structures (see Perpetual Series 1: An Introduction to SGD Corporate Perpetual Bonds) which incentivize distributions to be paid out. Especially for FFL perpetuals with no visibility of 'effective maturity,' it will be crucial to assess the issuer for its ability to upkeep such distributions over the long term, such as having diversified income streams, business/assets which generate stable cashflows for the long term and healthy credit metrics.

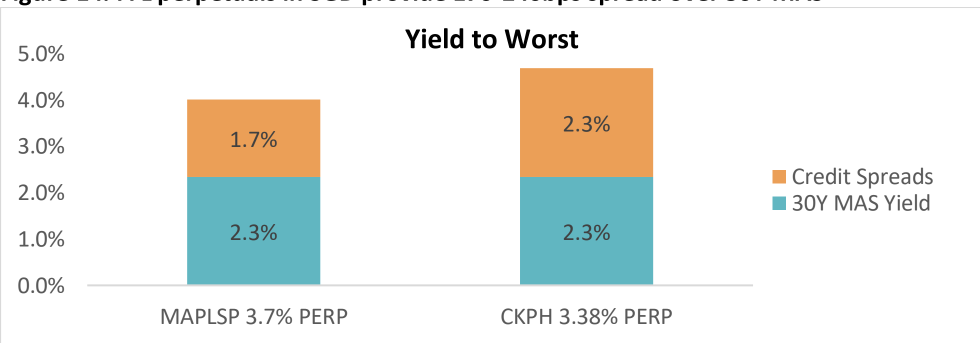
Given that distributions can be deferred, the willingness to pay will also be critical, which will be influenced by the presence of structures such as having deferred distributions which are cumulative and compounding (without which, issuers can defer distributions without penalty), having dividend stoppers and/or pushers (without which, issuers can pay dividends to shareholders without paying perpetual holders), and if the issuer is listed with a history of paying dividends and expectation that it will continue to distribute dividends. For FFL perpetuals which have high continuity of distributions, we think the attractiveness of such instruments will hinge on the longer-term interest rates outlook.

Figure 13: Price movements of FFL perpetuals in SGD space since issuance at par



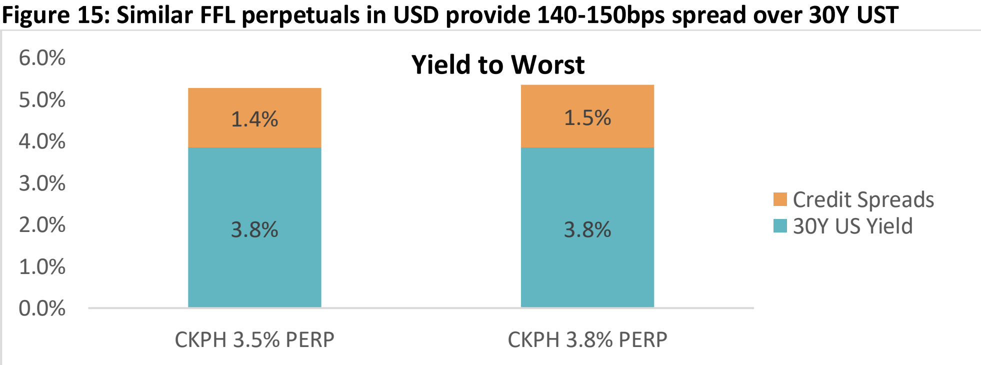
Source: Bloomberg, OCBC

Figure 14: FFL perpetuals in SGD provide 170-240bps spread over 30Y MAS



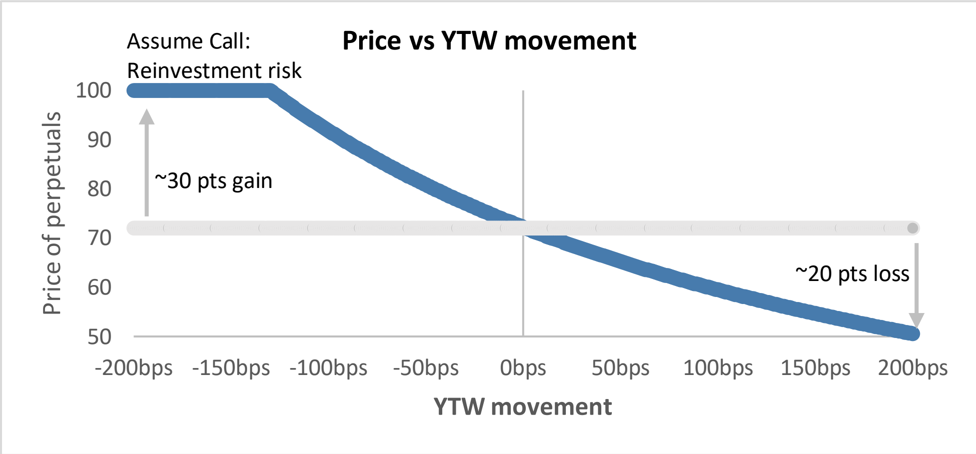
Source: Bloomberg, OCBC
Modified duration of 30Y MAS is ~21Y, CKPH 3.38% PERP is ~21Y and MAPLSP 3.7% PERP is ~24Y

Figure 15: Similar FFL perpetuals in USD provide 140-150bps spread over 30Y UST



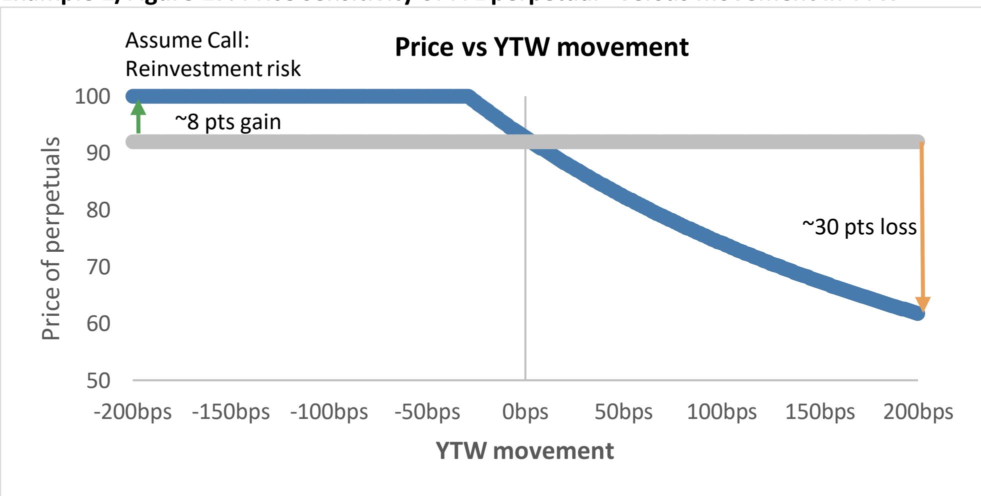
Source: Bloomberg, OCBC

Example 1/Figure 16: Price sensitivity of FFL perpetuals* versus movement in YTW



Source: Bloomberg, OCBC
*Used CKPH 3.38% PERP as an illustration where it is currently trading at ~4.68% (at ~72 pts). If YTW compresses at least 130bps (e.g. if interest rates fall), we assume that the issuer will exercise the call and hence price is capped at 100. However, if YTW expands 200bps, there is ~20 pts impact to the price of the perpetual.

Example 2/Figure 17: Price sensitivity of FFL perpetual* versus movement in YTW



Source: Bloomberg, OCBC
*Used MAPLSP 3.7% PERP as an illustration where it is currently trading at ~3.99% (at ~92 pts). If YTW compress at least 30bps (e.g. if interest rates fall), we assume that the issuer will exercise the call and hence price is capped at 100. However, if YTW expands 200bps, there is ~30 pts impact to the price of the perpetual.

In Exploration of Bond Indices

Introduction

A bond index fund ("BIF") is a diversified portfolio of bonds that are chosen to align with the performance of a specific bond index. Some of the most common bond indices attempt to track the U.S. investment-grade ("IG") bond market and Asiadollar credit market. Essentially, a BIF invests in those securities in the index to closely match that performance. A BIF can come in many forms, including bond mutual funds and exchange-traded funds ("ETFs") that invest in bonds.

BIFs are still relatively young with the first bond ETF launched in 2002 by iShares. ETFs simplified how investors all over the globe access fixed-income markets. Investors can use ETFs for convenient, low-cost exposure to thousands of bonds. As of 23 June 2023, bond ETFs have grown to USD1.88tn in assets under management (AUM) and more than 1,780 ETF products around the world.

Despite the benefits, BIFs also hold several disadvantages, such as difficulty to replicate, high tracking error and weightage problem (more indebted issuers get higher weightage).

Pros

A BIF provides investors with primarily two major advantages: diversification and low-cost investments. Investors can gain exposure to a wide selection of bonds with different maturities, credit ratings, and issuers. This provides diversification benefits and helps to reduce the risk of investing in individual bonds. Also, most bond indices are constituted by thousands of bonds. For instance, the most commonly used U.S. IG and Asiadollar credit market indices are constituted by 13,000 and 1,700 bonds respectively.

BIF are also generally considered to be a low-cost investment option, as they typically have lower fees than actively managed bond funds and require less frequent trading. The passive management style of a BIF comes with lower management and operating costs. Those savings can be passed on to investors in the form of lower fees.

Cons

Most indebted bond issuers get the highest weightage

Equity indices (e.g S&P 500 & Hang Seng) are created on a meritocracy basis: the market capitalization of their constituent companies determines the weight each company represents in the index. As a result, the best-performing stocks within the index over time represent a bigger percentage of the index while the poor performers decrease as a proportion of the index.

What many investors do not recognize though, is that, unlike passive equity indexes, passive bond indices are typically weighted by the amount of debt outstanding by the various issuers. In other words, corporations or governments that issue the most debt represent the largest proportion of the index. So essentially, a passive bond index is heavily weighted toward the most indebted issuers. Depending on the creditworthiness of those issuers, that may represent a substantial amount of additional credit risk.

For instance, in Asia, China Evergrande Group ("EVERRE") and its subsidiary Scenery Journey Ltd accounted for 7.0% of a high-yield subindex of the leading Asiadollar index as of January 2021. At the time, EVERRE was the second-largest property developer in China by sales and the world's most-indebted property developer, the high-yield subindex provides exposure to USD-denominated high-yield debt securities issued by companies in Asia. Besides, the China Property sector accounted for 12% of the leading Asiadollar index as of end-2020, only declining to 3.3% in June 2023 after all the defaulted issuers were excluded from the index. As a result, BIF investors may be taking substantially higher credit risk without realizing it.

In the US, the leading U.S. IG bond index, that is widely considered to be the benchmark for the U.S. IG bond fund managers focused on the corporate bond market, may not be representative either. The index is a widely adopted benchmark that measures the investment grade, U.S. dollar-denominated fixed-rate taxable bond market issued by mostly U.S. issuers. However, based on 23 June 2023 data, around 72.8% of the index was contributed by AAA-rated bonds guaranteed by the U.S. government, of which 40.8% was from government treasury, 2.5% from government-backed entities and 29.5% from U.S. Agency mortgage securitized bonds. The index is described as an investment grade index, yet most investors do not realize such a huge weightage on government-guaranteed bonds while corporate bonds merely accounted for 24.3% of the index. As a result, investors may unknowingly put too much weightage on government bonds and miss out on the better risk-return dynamic of corporate bonds. Having said that, because the index owns so much U.S. government bonds, where there is little risk of credit default, it holds up well in financial meltdowns.

Difficult to replicate and higher tracking error

Precise replication of the index is difficult given the high number of bonds in the index (13,000 bonds in the leading US IG bond index as of 23 June 2023). Also, indices do not include trading costs, fees, or taxes among other considerations. The situation is complicated by the more expensive trading costs and weaker liquidity of bonds compared to equity.

For instance, a BIF that seeks to track the performance of the Asiadollar credit market bond index recorded a 1-year total return of 3.12% while the 1-year total return of the index as of 23 June 2023 was 3.84%, implying a tracking error of 0.72%.

The tracking error would be even larger for the Singapore dollar bond market given the thinner liquidity of Singapore dollar bonds (compared to equity and the US dollar bond market). A bond index comprising of merely over 230 bonds from more than 90 issuers (as of 31 January 2020) that is designed to reflect the performance of Singapore dollar bonds recorded 1-year total returns of 1.77% as at 23 June 2023, while a local BIF that tracks its performance recorded 1-year total returns of 1.43% over the same period. This implies a tracking error of 0.24% between the bond index and BIF.

Return uncertainty

While an individual bond has a periodic, fixed payment and an indicated maturity date at which the principal is repaid, bond funds operate perpetually and pay interest that fluctuates over time. This means that while bond buyers receive a known yield over a fixed period until maturity when they buy a bond, BIF investors do not know what total return they might receive in any given period.

Also, investors should understand that bond funds and individual bonds are fundamentally different instruments, unlike equity funds and individual stocks which share many investment characteristics. With rising rates, individual bonds held to maturity are poised to deliver a better performance than bond funds held for similar periods.

Bonds are an attractive financial asset class but passively investing in them may not be ideal

Passive investing through index replication may have a place in certain asset classes. But we think active investing is more suitable for bonds. This is in part primarily due to a bond index being (1) a passive bond index that is heavily weighted toward the most indebted issuers; (2) difficult to replicate precisely due to a high number of constituents; (3) exposed to the relatively illiquid nature of bonds; and (4) the relatively high trading cost of bonds. Nevertheless, BIFs can be a useful investment option for investors who want exposure to diversification, with lower fees and the benefits of passive investing. However, like all investment options, BIFs have risks and limitations, which investors should carefully consider before investing.

Examining Singapore's unrated credit market

Credit ratings are entrenched in fixed income markets: Credit ratings have been an integral part of fixed income markets for over a century. The big international Credit Rating Agencies ("CRA") were birthed in the early 1900s, a period that was marked by rapid growth of railway infrastructure in the US. Such infrastructure assets were financed by bonds, with investors relying on information provided by CRAs. Endorsed by regulators, CRAs have become entrenched in fixed income markets over time, becoming important financial intermediaries that disseminate independent opinions about the creditworthiness of issuers. For example, asset managers may be required to use credit ratings provided by CRAs as part of their investment decisions. Currently, the CRA market is highly concentrated. According to a paper published last year by a group of academics in the Journal of Accounting and Economics, titled "Market Power and Credit Rating Standards: Global Evidence", S&P and Moody's accounted for over 90% of the market share in the US in 2019. Outside the US where there are domestic CRAs, the market shares of S&P and Moody's are still significant at ~70%. Outside of the US, there are a myriad of domestic CRAs, with varying standards of quality. Domestic CRAs tend to focus on local currency bond markets and where rating scales are not harmonised with the Big Three (S&P, Moody's and Fitch). Regionally, the Association of Credit Rating Agencies in Asia ("ACRAA"), established in 2001 to promote cooperation among members for the improvement of rating quality, counts 28 CRAs as members.

Why have credit ratings persisted despite conflicts of interest? Potential conflicts of interest arise as issuers pay rating agencies for providing credit ratings. This is evidenced by the 2007-2008 Global Financial Crisis ("GFC") where a certain class of credit ratings were found to be inflated, while there was an over-reliance on credit ratings by investors and financial professionals which contributed to the subprime mortgage crisis. Despite the problems seen in the GFC, credit ratings by CRAs continue to be widely used following certain reforms put in place post the GFC. In our view, a key reason is due to economies of scale. The Big Three US credit rating agencies collectively employ more than 4,000 ratings analysts globally. In contrast, the asset management industry is highly dispersed, with even the largest having fewer than 100 credit research analysts. Many firms would not have the scale to individually assess the fixed income market in-depth, and on a globally comparable basis, without the information provided by CRAs, as it is time prohibitive to perform the in-depth research required. Meanwhile, the fixed income market has also grown beyond financing infrastructure projects, with issuers spanning across sovereigns, municipals and corporates (financial institutions and non-financial institutions). As of writing, there are around 309,000 unique corporate credit issues outstanding, including instruments issued by financial institutions (but excluding issuances from sovereigns and statutory boards), according to data gathered on Bloomberg. While the existence of CRAs is unique to the fixed income market but not present in the equities market, economies of scale is similarly an important reason why sell-side and independent equity research teams exists.

Singapore dollar market is unique, being largely unrated: Given the continued use of credit ratings, and the objective for market participants to gain useful information about the creditworthiness of issuers and their issuances, in 2014, the Monetary Authority of Singapore was reported to be working with industry participants to encourage more rated instruments in the market. Between June 2017 and March 2022, a grant was in place to encourage issuers to obtain credit ratings, where the grant could help defray rating costs. However, there were no plans to make credit ratings compulsory, and this remains so today. The Singapore dollar credit market currently stands out as being a predominantly unrated market. The Big Three CRAs have only a 34% to 50% market share in Singapore (34% if we assume full overlap between Moody's and S&P and 50% if we assume that Fitch ratings is additive rather than overlapping), tabulating data from the same paper by the Journal of Accounting and Economics where market share is defined as the proportion of dollar value of new bonds rated by the CRA out of the total dollar value of all new bond issuances. In contrast to other major markets, there is no domestic rating agency in Singapore, which implies that the remaining 50% to 66% of the Singapore dollar market remains unrated. That said, some issuers may have gone through a rating assessment but not made the credit ratings public. This low penetration of credit ratings is despite the Singapore dollar market being a relatively active local currency market with SGD109.3bn of credit issuances outstanding (excluding issuances from sovereigns and statutory boards), according to data gathered on Bloomberg as at 28 June 2023. The Singapore dollar credit market is also the third largest local currency bond market in Southeast Asia by total amount outstanding.

……and likely to remain unrated: While CRAs are not able to catch all defaults with a 100% hit rate, ultimately, the main purpose of an opinion from a CRA is to allow market participants to gain useful information about the present and future creditworthiness of issuers and their issuances. In our view, issuers in the Singapore credit market will still opt to be unrated if it is an infrequent issuer (typically smaller scale), or if they can access the market at competitive cost without a credit rating. Despite being unrated, we think many of the issuers have a commendable credit standing based on our work on credit fundamentals and their operating environment. Many will likely be at least in the "crossover" bucket between investment grade and high yield, if not stronger in our view. Additionally, deals could get easily placed for unrated issuances with declining interest rates prior to 2022.

Implications of a broadly unrated market: The unrated Singapore dollar bond market poses challenges for investors, who must rely on their own research and financial advisers to make informed investment decisions. While this requires each market participant to form a view of the issuer, the lack of credit ratings is offset by having direct access to company information. Many Singapore dollar credit issuers are publicly listed and are obliged to provide on-going disclosure, which can help credit investors assess creditworthiness. However, for unlisted issuers (which includes companies that have been taken private), current levels of disclosures may leave much to be desired. Despite the difficulty of accurately assessing the credit standing of such issuers, we understand that numerous unrated issuances by unlisted issuers are routinely marketed based on name familiarity of the issuer (e.g. well-known names to the market), as well as the existence of a perceived strong shareholder (e.g. related to investment holding companies owned by the government). Oftentimes, there is no explicit guarantee provided by the shareholder. While current requirements typically stipulate that audited financials would need to be provided to existing credit investors, this may be inaccessible to prospective investors. Even when information is available, the content and quality vary widely.

Disclosures as a differentiator to credit selection: In our view, investors will be better served with stronger informational rights especially as Singapore dollar credit issues which are widely disseminated and frequently traded. At the very least, bulk of the issuances are intended to be frequently traded. Even in private markets, informational rights are negotiated and demanded by investors. At OCBC Credit Research, we tend to be conservative in assigning issuer profile ratings if disclosure is lacking and where we are unable to accurately monitor an issuer's credit profile trajectory. With loose credit conditions something of the past, we expect the availability of information and accountability to investors (or lack of) to be a differentiator in credit selection.

A version of this special interest commentary authored by Ezien Hoo, Andrew Wong, Wong Hong Wei and Chin Meng Tee was first published in The Edge on 3 May 2023

S-REITs adapting to "new normal" for higher rates for longer

Rebound in REIT equity market with active equity raising: The iEdge S-REIT Index, regarded as the REIT benchmark for Singapore REIT ("S-REIT") equities reported a positive total return of 1.2% year-to-date ("YTD", 1 January 2023 to 14 June 2023). This had followed a challenging period for S-REITs where total return fell 11.9% in 2022 (main drag happened in 2H2022) amidst high inflation and rate hike cycle which had soured risk taking appetite among investors. While the performance of S-REITs is still below the beginning of 2022, there has been a revival in equity raising by issuers among high-grade and "crossover" S-REITs. We see the primary equity market being reopen as a positive development for the credit profiles of the S-REITs, particularly those where the discount rates were small. YTD, S-REITs have raised ~SGD1.3bn in new equity.

Figure 18: YTD S-REIT Equity Raising

Issuer	Pricing Date	Equity Raising Method	New Equity Raised (SGDmn)	Discount to VWAP[1]
ESR-LOGOS REIT	February 2023	Private Placement	150	5.8%
ESR-LOGOS REIT[2]	February 2023	Preferential Offering	150	7.2%
Mapletree Logistics Trust	March 2023	Private Placement	200	2.9%
CapitaLand Ascendas REIT	May 2023	Private Placement	500	5.1%
Mapletree Industrial Trust	May 2023	Private Placement	204.8	2.6%
AIMS APAC REIT	May 2023	Private Placement	70	8.0%
AIMS APAC REIT[3]	May 2023	Preferential Offering	30	9.9%

Source: Company, Bloomberg, OCBC Credit Research
Note: (1) Volume weighted average price ("VWAP") of all trades in the units on the Singapore Stock Exchange for the preceding market day, up to the time the placement agreement was signed
(2) Preferential offering for ~SGD150mn was announced on the same date as the private placement; launched in March 2023 and completed in April 2023
(3) Preferential offering for ~SGD30mn was announced in the same date as the private placement; launched and completed in June 2023

REITs still cautious over acquisitions though larger industrial REITs have reignited acquisition interest: Since 3Q2022 to date, we have seen few REITs we track being active in acquisitions. Frasers Centrepoint Trust ("FCT"), which jointly acquired a 50%-stake in NEX with its Sponsor, Frasers Property Ltd for ~SGD653mn. NEX is a major shopping mall in Serangoon, Singapore, though in our view this was opportunistic where a rare asset was made available by the vendor. That said, within the industrial REIT space, larger REITs have reignited their acquisition interest. Mapletree Logistics Trust ("MLT") and Mapletree Industrial Trust ("MINT") which had curtailed their investment appetites in FY2023 versus recent history have announced relatively significant acquisitions YTD, especially in Japan. In March 2023, MLT announced the proposed acquisition of eight logistics assets (six in Japan, one in Australia and one in South Korea) where total acquisition costs are ~SGD947mn and has signalled further acquisitions in China (although also potentially selling an asset in HKSAR). In May 2023, MINT announced the proposed acquisition of its debut asset in Japan, a data centre in Osaka for ~SGD505.9mn in acquisition outlay. Japan has become the key focus likely due to still positive spreads in the market where rental yields are still above cost of debt. In November 2022, Keppel REIT completed its debut acquisition in Japan where it bought a small office in Ginza, Tokyo while in September 2022, First REIT bought two more nursing homes in Japan. In May 2023, CapitaLand Ascendas REIT ("AREIT") announced the proposed acquisition of Seagate's R&D facility in Singapore for ~SGD218mn, although completed a larger SGD500mn equity fundraising as war chest for an identified potential acquisition in Europe and redevelopment of a logistics property in Singapore.

……however, we also see REITs selling assets: Two REITs namely ESR LOGOS REIT ("EREIT") and Cromwell European REIT ("CEREIT") have announced disposals of existing assets. EREIT, which has a relatively more levered profile against its REIT peers, is proposing to sell seven non-core assets (six in Singapore, one in Australia) totalling SGD337mn (31 December 2022 total assets of SGD5.7bn). CEREIT is going through a divestment process of its non-core assets over the next two to three years. On 30 June 2023, CEREIT announced that it has completed the sale of an office asset in Milan for ~EUR94mn (31 December 2022 total asset of EUR2.6bn) and in June 2023 announced the proposed divestment of its Bari asset for an undisclosed amount (independently valued at EUR73.3mn as at 31 December 2022). Net proceeds from the sales are expected to eventually go towards acquisitions and/or redevelopment of assets, such that their portfolio is more future-ready. Unlike EREIT and CEREIT which are mainly looking to upgrade their portfolio, credit-stressed Manulife US REIT (not a SGD-credit issuer) and Lippo Mall Indonesia Retail Trust ("LMRT") are looking at divestments for very different reasons. For MUST, this is linked to a need to reduce leverage (S-REITs reported aggregate leverage are capped) and for LMRT, to generate short-term liquidity. Other REITs which have announced an interest in asset divestments include CapitaLand China Trust, Mapletree Pan Asia Commercial Trust ("MPACT") and Suntec Real Estate Investment Trust. In our view, REIT managers are tilted to grow a REIT's asset under management, rather than scaling down and as such recent moves in the S-REIT market may be indicative of a more prudent management strategy in light of currently more challenging funding conditions.

Resets on REIT perpetuals valuable in a rising rate environment: In March 2023, MLT opted not to call its MLTSP 3.65%-PERP at the first call date (coincides with reset date). This was despite distribution rate on the perpetual resetting upwards to 5.2074% instead. While the non-call is in line with our expectations, we had premised our base case on cost of a new replacement perpetual being potentially higher than the reset distribution rate, which makes it more cost effective not to call. However, with rates expectations falling, issuers are likely to also consider the option value of retaining existing perpetuals and only replace them when replacement funding is less costly. In the case of the MLT perpetual (now the MLTSP 5.2074%-PERP), the issuer has the right to call the perpetual every six months. We expect issuers to exercise their call option and capture the lower cost funding window should interest rates fall significantly. Interestingly, immediately following the non-call announcement, the price of the perpetual stayed stable (rather than fall on the back of the non-call). S-REIT perpetuals outstanding do not have step-up margins, and hence the reset mechanism is particularly valuable in a rising rate environment.

……although perpetuals are hybrids: In our view should interest rates stay constant, perpetuals issued by higher grade REITs are more akin to "preference share" in our view, with reset distribution rates of 5-6% p.a. We think this is an undemanding funding costs for REITs, if the perpetual instruments are seen as non-dilutive equity. There are no S-REIT perpetuals with first call dates in 2H2023, though the first call dates for two REIT perpetuals would occur in 2024 (PARAGON REIT's sole perpetual, the SPHRSP 4.1%-PERP and CapitaLand Ascott Trust ("ART")'s ARTSP 3.88%-PERP). The first call dates for a significant number of S-REIT's perpetuals occur in 2025 and 2026.

Credit risk still all important: S-REITs are not contractually obligated to pay the distribution on perpetuals. An S-REIT that opts not to pay the distribution or does not redeem a perpetual cannot be put into a legal default, all things equal. S-REIT perpetual distributions are non-cumulative (to satisfy MAS criteria of perpetuals being treated as equity for the purpose of the aggregate leverage cap) and if missed, there is no obligation for the REIT to pay back past payments even if equity dividends are reinstated. Under usual circumstances when a REIT is performing, we see a dividend stopper as providing protection to perpetual holders. The market equity valuation of an S-REIT hinges on its ability to pay continuous equity dividends and with a dividend stopper, a REIT will need to pay the distribution on perpetuals. However, when a REIT is not performing and facing credit stress, the REIT Manager may opt to exercise its' right to stop perpetual distribution as well as equity dividends. LMRT which is facing an adverse USD funding market for high yield issuers and whose occupancy levels have been negatively impacted by COVID has halted perpetual distributions on both of its SGD-denominated perpetuals to conserve liquidity. As at 31 March 2023, occupancy was 80.4% versus 91.5% as at 31 December 2019 (pre-COVID). In our view, LMRT is on the path towards a debt reorganisation.

Few S-REITs returned to the SGD credit market YTD: S-REITs face SGD1.6bn of bonds maturing in 2023. Another two S-REITs had perpetuals facing first calls (one called, one did not call) amounting to SGD280mn in 1H2023. Of the bonds maturing, SGD1.0bn faced the maturity dates in 1H2023, however, only two S-REIT issuers came to market, raising SGD550mn. The two issuers were MPACT which raised SGD150mn in 7Y green senior unsecured bonds while CapitaLand Integrated Commercial Trust raised SGD400mn, also in a 7Y green senior unsecured bonds. With S-REITs typically holding little cash on balance sheet, we infer that bulk of the issuers refinanced via the bank loan market. The lack of primary issuances in the S-REIT sector have likely drove the recently priced CAPITA 3.938% '30s tighter in the secondary market.

S-REITs actively managing foreign exchange debt: We have previously raised that the bulk of the S-REITs we track now have a sizeable portfolio value of assets located outside of Singapore and that the balance sheet exposure of REITs to assets located overseas is not necessarily naturally hedged at the same level versus the overall portfolio's reported aggregate leverage level (simplistically total debt over total assets). In May 2023, MINT disclosed that it will be taking on JPY loan to help fund its debut acquisition in Japan (a data centre in Osaka). MINT raised SGD205mn in new equity to partially fund the proposed acquisition where MINT's total acquisition outlay is ~SGD505.9mn. We expect MINT to raise ~SGD500mn equivalent in JPY loan (a little less than illustrated in disclosures given more equity raised), where ~SGD300.9mn will be funded by JPY loan and the excess used towards refinancing of MINT's existing non-JPY debt. As of writing, MINT raised ~SGD160mn via two JPY-denominated bonds. Perhaps not coincidentally, MINT was one of the REITs that had bonds due in May 2023 but did not return to the credit market for refinancing. In a scenario where the foreign currency weakens against SGD and everything else stays constant, reported aggregate leverage would fall since the debt (as a proportion of total debt) is higher than the asset value (as a proportion of total asset). However, should SGD weaken against foreign currencies, the flipside could occur with reported aggregate leverage increasing. Whilst the JPY had weakened against the USD (and SGD) in 2021 and 2022, there is no certainty that this would continue through 2023.

US CRE problems little direct linkage to Singapore CRE: As detailed in OCBC 2H2023 Global Outlook's "US Commercial Real Estate", as mobility fell rapidly during the pandemic, the potential negative effect on commercial real estate ("CRE") demand was highlighted by various media outlets. However, concerns over the US CRE sector by financial market participants became more pronounced in recent months, accelerating since the collapse of several regional banks in the US and the rising threat of an economic slowdown amidst a high interest rates environment. The US CRE market includes a range of real estate segments with vastly different supply and demand drivers. The National Association of Real Estate Investment Trust ("NAREIT") using primarily CoStar data, estimates the total dollar value of US CRE to be within a range of USD18 trillion to USD22 trillion in 2Q2021, with a point estimate of USD20.7 trillion. In our view, the Office and Retail segment are the most stressed (makes up 16% and 14% of the US CRE market respectively). US office vacancy rates have increased to 18.6% in 1Q2023 (5.5 percentage points higher than when the pandemic first hit, according to data from Cushman & Wakefield ("C&W"), a real estate services firm, though there are large differences among the 92 US cities tracked. We think the direct linkages stemming from a slowdown in US CRE to Singapore CRE will be limited, although episodic US regional banking stress may lead to weakened sentiment elsewhere. In our view, the specific-demand-supply factors and trajectory of interest rates (affects funding costs and cap rates) in will have a larger impact to the performance of Singapore CRE.

Three S-REITs we track have US exposure: Out of the 21 S-REITs we track, three have a sizeable presence to US CRE.

- **AREIT:** As at 31 March 2023, AREIT has SGD2.5bn in the US (representing 15% of total investment properties by asset value). These mainly consists of "office-like" Business Space in Portland, Raleigh, San Diego and San Francisco. AREIT has two sizeable Business Space properties in San Francisco, a city where city-wide vacancies have increased to 24.8% in 1Q2023 versus 5.4% in 4Q2019 (pre-pandemic) per C&W data. These two properties were valued at ~SGD818mn collectively as at 31 December 2022.
- **MINT:** 50.3% of MINT's reported asset under management of SGD8.8bn as at 31 March 2023 is in North America (mainly in the US). These assets are data centres and have different supply-demand dynamics from US office and retail. The key states where MINT's US data centres are located, by asset value include Virginia, California, Georgia, Texas, Colorado and Tennessee.
- **ART:** 21.0% of ART's reported total assets of SGD8.0bn as at 31 December 2022 is in the USA. The assets include three hotels (all three in New York City), seven operational student accommodation across different cities and one more student accommodation property under development in South Carolina. These have different supply-demand dynamics from US office and retail.

Figure 19: REIT Metrics (as of 31 March 2023 unless otherwise stated)

	Aggregate Leverage (%)	Interest Coverage Ratio[1]	Debt Duration (years)	Debt Cost (%)	Proportion of debt fixed/ hedged (%)	Debt Maturing in 2023 (%)[2]	Debt Maturing in 2024 (%)[2]
Commercial							
CapitaLand Integrated Commercial Trust	40.9	3.4	4.2	3.1	77.0	4.3	15.9
Keppel REIT	38.7	3.2	3.0	2.9	75.0	4.3	22.1
Mapletree Pan Asia Commercial Trust	40.9	3.5	3.0	2.7	75.5	8.2	19.0
Suntec Real Estate Investment Trust	42.8	2.2	2.2	3.7	72.0	15.1	21.0
Frasers Centrepoint Trust	39.6	4.4	1.9	3.6	76.4	22.1	18.9
Lippo Malls Indonesia Retail Trust	42.9	2.2	1.6	7.7	38.7	17.7	48.7
Starhill Global REIT	37.1	3.2	2.7	3.5	82.0	18.3	13.3
CapitaLand China Trust	40.0	3.4	3.7	3.5	75.0	6.6	13.8
PARAGON REIT	29.8[3]	4.7[3]	2.5	3.7	84.0	7.3	18.1
Lendlease Global Commercial REIT	39.3	2.0	2.3	2.5	61.0	21.2	26.5
Average	**39.2**	**3.2**	**2.7**	**3.7**	**71.7**	**12.5**	**21.7**
Industrial							
CapitaLand Ascendas REIT	38.2	4.5	3.2	3.3	77.0	15.4	13.0
Mapletree Industrial Trust	37.4	4.6	3.7	3.5	75.5	4.6	4.8
Mapletree Logistics Trust	36.8	3.5	3.8	2.7	84.0	6.0	10.3
AIMS APAC Industrial REIT	36.1	2.3	3.1	3.4	88.0	-	20.6
Frasers Logistics and Commercial Trust	27.8	8.4	2.4	1.8	76.2	10.6	27.2
ESR LOGOS REIT^	41.6	2.7	2.7	4.0	72.7	2.4	24.2
Cromwell European REIT^	40.6	4.5	2.7	2.7	84.0[4]	-	23.4
Average	**36.9**	**4.4**	**3.1**	**3.1**	**79.6**	**5.6**	**17.6**
Hospitality							
CapitaLand Ascott Trust	38.7	4.4	3.9	2.3	75.0	13.6	18.9
Frasers Hospitality Trust	35.0	3.4	2.1	2.9	75.1	9.6	38.4
Average	**36.9**	**3.9**	**3.0**	**2.6**	**75.1**	**11.6**	**28.6**
Others							
First REIT	39.0	4.2	3.1	4.7	62.8	-	-
OUE Commercial Trust	39.0	2.3	2.7	3.8	69.4	11.3	-
Average	**39.0**	**3.3**	**2.9**	**4.3**	**66.1**	**5.6**	**-**

Source: OCBC Credit Research, company financials and investor presentations
** OCBC Credit Research estimates
^ OCBC Credit Research does not currently maintain official coverage of these names
Note: (1) For the trailing 12 months to 31 March 2023; refers to reported Adjusted Interest Coverage Ratio ("Adjusted ICR") where it is provided (Capitaland Ascott Trust, Lippo Malls Indonesia Trust and First REIT have perpetuals outstanding, however Adjusted ICR was not publicly disclosed for the 12 months to 31 March 2023) (2) As a percentage of total debt for remaining of 2023 and 2024 by calendar year end; calendarised figures for REITs whose financial year end differ from 31 December (3) PARAGON REIT reported aggregate leverage as at 31 December 2022; Adjusted ICR for the 12 months to 31 March 2023 (4) Fixed debt percentage until 4Q2024

Singapore Industrial REITS – Vacancy rising on the back of new supply

Per C&W, most industrial property types saw rental growth in 1Q2023, though rents on conventional factory space have stayed flat. It adds that prime logistics properties saw rents growing by +7.5% q/q in 1Q2023 and +3.1% q/q for conventional warehouses.

In 1Q2023, JTC's q/q price index increased by 1.5% for all industrial properties while on a y/y basis this was up by 6.9%, superseding pre-pandemic levels. In our view, Singapore industrial properties are less susceptible to the increase in cost of funding given wider cap rates, especially for creditors who have a shorter-term exposure. Industrial properties in Singapore are sold with higher yields (lower price points) in part due to much shorter land tenures.

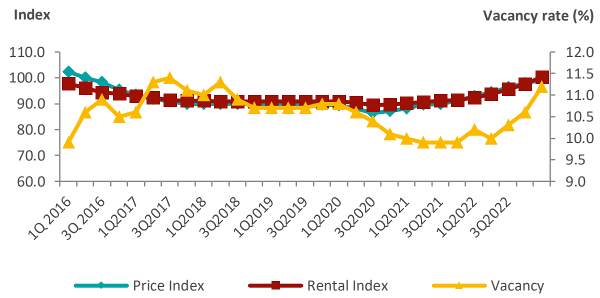
Per JTC data, rental index for all industrial properties increased by 2.8% q/q (up 8.8% y/y) in 1Q2023. This represents a tenth consecutive quarter where industrial rents have increased and notably high relative versus the segment's historical performance. On a y/y basis in 1Q2023, the multiple-user factory and warehouse segments were outperformers, increasing by 10.5% and 9.4% respectively.

Construction works have resumed, with the market seeing 1.3mn sqm added in 2022 and ~0.4mn sqm added in 1Q2023. As at 1Q2023, estimated new supply would be relatively heavy at ~1.0mn sqm for the remaining of 2023 and 1.7mn sqm in for 2024. Since 1Q2022, the market is no longer in an under-supply situation and has moved towards more of an oversupply situation, which is more common for the Singapore industrial property space. All industrial vacancies have edged up to 11.2% in 1Q2023 (4Q2022: 10.6%), driven by new supply.

Rental growth for the industrial sector is likely to diverge by property type. The manufacturing outlook continues to be soft, with May 2023's manufacturing purchasing manager index for Singapore at 49.5. OCBC Bank economist is maintaining full-year 2023 GDP growth forecast for the Singapore economy at 1.5% y/y. This points towards a softer rent environment for factories in 2023. However, C&W expects that prime logistics space may see double-digit rental growth in 2023 due to resilient demand from logistics occupiers while vacancies remain tight and rents are at a low base. The real estate consultancy expects moderate rental growth for high-tech factories and business parks.

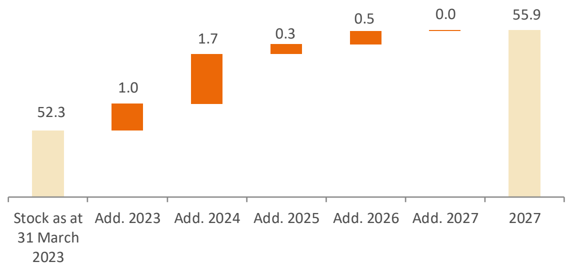
While sustainability has not been a key focus for industrial property owners in the past, we note that institutional owners of industrial properties such as Industrial REITs are focusing more on their sustainability efforts.

Figure 20: Industrial Price, Rental and Vacancy



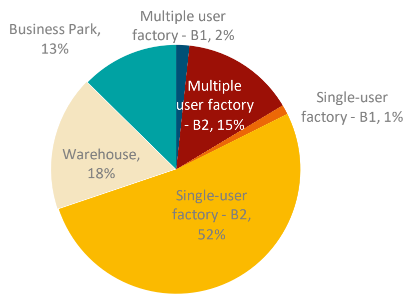
Source: JTC, OCBC Credit Research

Figure 21: Industrial stock and supply pipeline



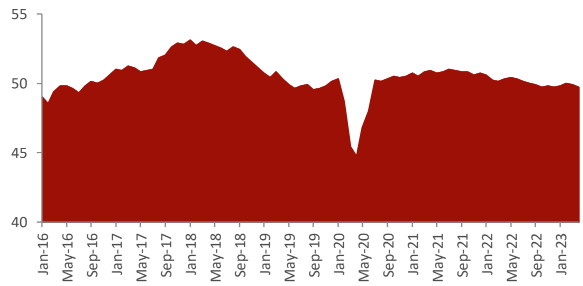
Source: JTC, OCBC Credit Research

Figure 22: Additional supply by sub-segment cumulative 2Q2023 to 2027



Source: JTC, OCBC Credit Research

Figure 23: Singapore PMI – Manufacturing Index



Source: Singapore Institute of Purchasing and Materials Management

Singapore Commercial Office REITS – Continues to see demand though pace of rental growth falling

Per Colliers, a real estate consultancy, capital values for Core CBD Premium & Grade A market were stable in 1Q2023 versus 4Q2022, though there was a lack of significant transactions in the underlying physical office market. Net yields for the Singapore office market in recent years was ~3.4%-3.5%. This widened slightly to 3.53% in 1Q2023 from 3.50% in 4Q2022 per Colliers data. Unlike the previous quarter, Colliers raised the possibility of negative yield spreads and repricing pressures amidst higher rates for longer. We expect capital values for the Singapore office space to stay relatively flat in 2023, supported by holding power of office owners and the still strong positive outlook over rental rates. Vacancy rates may increase somewhat in 2023, though from currently relatively low levels.

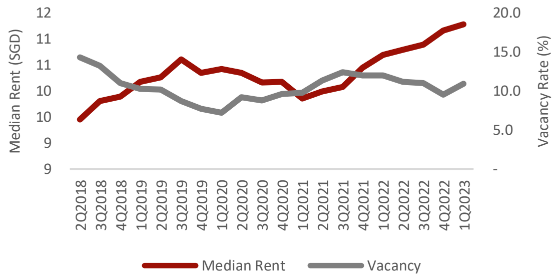
Office rents continued to show an uptick, per Colliers this was +0.5% q/q in 1Q2023 for the Core CBD Premium & Grade A market, driven by tight supply. IOI Central Boulevard Towers in the Marina Bay area is the main property to be added into the core CBD market (targeted to complete in 2H2023). Amazon has been reported to take up space in this property as a key tenant. Guoco Midtown has achieved Temporary Occupancy Permit ("TOP"), though this building is located on Beach Road and not in the core CBD area. The property reportedly was ~80% pre-committed as of January 2023.

Office rents per URA data continued to rise in 1Q2023, by 1.1% q/q (5.5% y/y) to SGD11.28 per sq ft per month for office space in buildings located in core business areas in Downtown Core and Orchard Planning Area which are relatively modern or recently refurbished. These areas command relatively high rentals and have large floor plate size and gross floor area. This represents an eight consecutive quarter where rents have risen. Vacancy rates rose somewhat to 10.9% in 1Q2023 (4Q2022: 9.5%).

The economic growth outlook is more cautious for 2H2023 while the job market in Singapore is expected to ease (although from very tight levels in 2022). The pace of office rental growth is expected to fall, though Colliers is projecting office rents (for core CBD Premium & Grade A market) to grow +2% to 3% y/y for full year 2023 versus +5.9% y/y growth for full year 2022. Per Cushman & Wakefield and CBRE, shadow space has risen, driven by technology companies. The Singapore market though has a diversified tenant base and continues to see relocation of companies to Singapore.

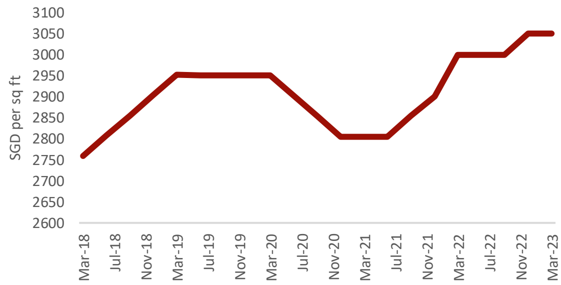
Singapore aims to have more flexible work arrangements in the workplace and new guidelines are expected to be rolled out in 2024. That said, we think the Grade A rental market in Singapore is already normalising. At Keppel REIT, actual utilisation at its Singapore properties are at high-70%-high 80% versus committed occupancy 98%-100%, corresponding to 1-2 work from home days.

Figure 24: Singapore Office Rent and Vacancy



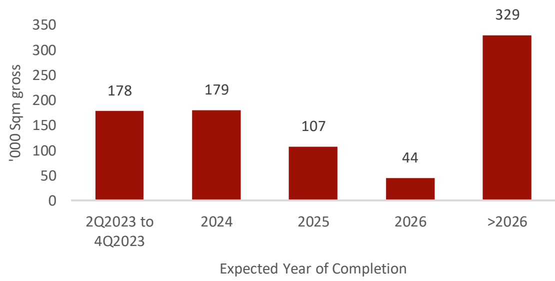
Source: URA, OCBC Credit Research

Figure 25: Singapore Prime Office Capital Value



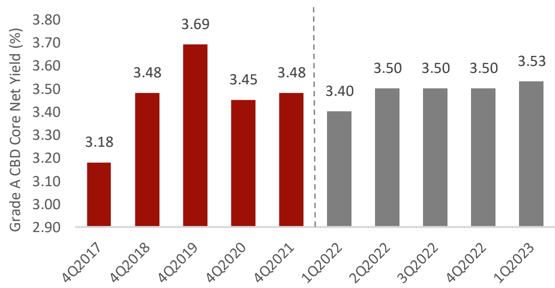
Source: Colliers, OCBC Credit Research

Figure 26: Pipeline of Office Space



Source: URA, OCBC Credit Research

Figure 27: Office Net Yield



Source: CBRE for 4Q2017 to 4Q2021; Colliers for 1Q2022 to 1Q2023, OCBC Credit Research

Singapore Commercial Retail REITS – Neighbourhood malls to continue to outperform

Per C&W data, island wide prime retail rents were positive at +0.6% q/q in 1Q2023, on the back of rising shopper traffic and tenant sales. Prime malls (which are the type of retail space held by Singapore REITs) saw ~98%-100% committed occupancy as at 31 March 2023. C&W is projecting a growth of +1.5% to +2.5% y/y increase in prime retail rental rate for full year 2023.

Per URA's overall price index, prices of retail space continued to fall in 1Q2023, though at a slower pace of 0.9% q/q (4Q2022: -2.1%), on a y/y basis this was a 7.3% decline. Median rents in the Orchard area fell 1.1% q/q while centrally located retail properties outside the Orchard area saw rents increased by +0.8% q/q. Retail properties outside the central area which is indicative of retail properties located closer to residential neighbourhoods fell by 0.8% q/q. On a per sq ft per month basis, outside central median rents have hovered at 58%-60% that of rents in the Orchard area for the past eight quarters since 2Q2021. Orchard rents was SGD8.19 in 1Q2023 in contrast to the more than SGD10 pre-pandemic.

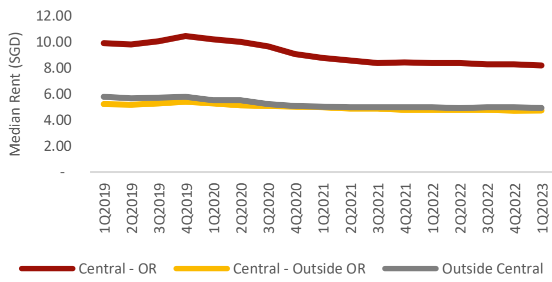
Vacancies for the Orchard area and centrally located retail properties increased in 1Q2023, though based on observation vacancies are concentrated in certain malls. Outside the central areal, vacancies have stayed low at only 5.5% in 1Q2023 per URA data. Limited new prime mall openings in 2023 should contain the rise in vacancies. New malls in 2023 are smaller retail spaces linked to residential development.

Online sales as a percentage of total retail sales (excluding motor vehicles) were 13.6% in April 2023 (on SGD3.4bn of sales value). Given that Singapore reopened its economy, we see this as a stabilised percentage of total retail sales that is done online. It is unlikely that we will return to the less than 10% of total retail sales done online prior to the pandemic.

In our view, the move towards retail malls adapting to activity base tenants is a structural trend. Per C&W, food & beverages establishments continue to be a key retail property demand driver. An observable trend is the expansion of coffeehouse brands in Singapore including Luckin Coffee, Gloria Jean, Kopi Kenangan, Tim Horton. Mister Doughnut is expected to open its first permanent outlet in Singapore in May 2023.

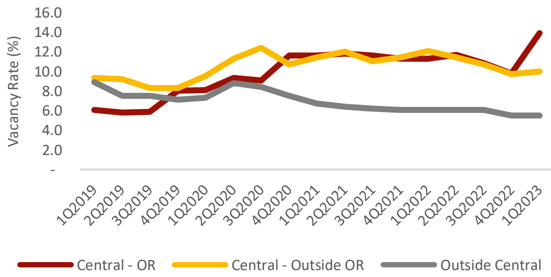
Outside of Central area, investment sales for retail mall have been very active year-to-date. In March 2023, Link REIT completed the acquisition of Jurong Point and Swing By@Thompson Plaza while in February 2023, Frasers Centrepoint Trust and its Sponsor, Frasers Property Ltd completed the joint acquisition of a 50%-interest in NEX at Serangoon. By purchase consideration, these total ~SGD2.8bn.

Figure 28: Retail Rents SGD per sq ft per month



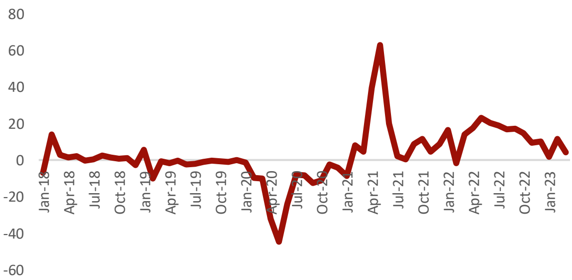
Source: URA, OCBC Credit Research
Note: OR refers to Orchard Road

Figure 29: Retail Vacancy Rates (%)



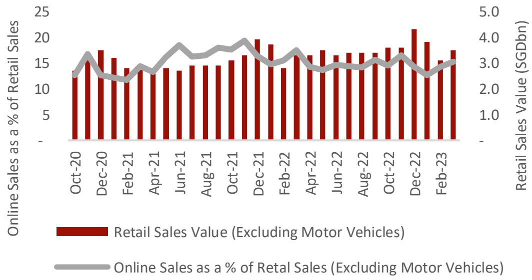
Source: URA, OCBC Credit Research
Note: OR refers to Orchard Road

Figure 30: Monthly Retail Sales (excluding Motor Vehicles) y/y % change



Source: Singstat, OCBC Credit Research

Figure 31: Monthly Retail Sales Value (excluding Motor Vehicles) in SGDbn and Online Sales %



Source: Singstat, Bloomberg, OCBC Credit Research

Singapore Hospitality REITS – Issuers continue to diversify into new hospitality sub-segments

Globally, tourism has recovered strongly in 1Q2023. Per the UNWTO, percentage of 1Q2019 international tourist arrivals has recovered to 80% in 1Q2023 (based on provisional data). However, regional difference exists, with the fastest recoveries seen in the Middle East, followed by Europe, Africa and the Americas. Asia-Pacific's recovery, led by China, is still slower than the rest of the world. While there has been a resumption in international tourist volumes from China (eg: in the case of Thailand), full recovery will take some time. According to data from Amadeus Hospitality, a data service provider focusing on the travel and hospitality industry, the Asia-Pacific region saw healthy hotel occupancy in 1Q2023 at 61.7%.

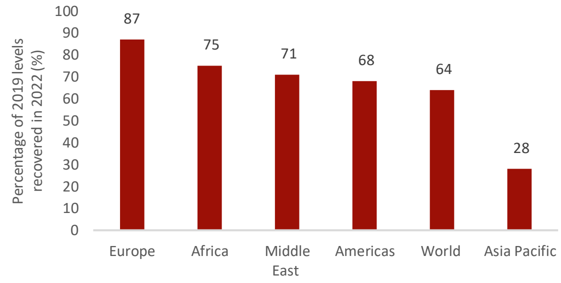
International visitors to Singapore have recovered strongly since the reopening. In May 2023, Singapore saw 1.1 million visitors to the country, the third consecutive month where visitor numbers have been above 1.0 million and reached 75% of pre-COVID levels (using May 2019 numbers). Hotel occupancies and average room rates have exceeded pre-pandemic levels at ~SGD272 per night in April 2023 versus ~SGD215 per night in April 2019 (before COVID), while occupancy have reached levels that are more in line to pre-pandemic levels.

As at 31 March 2023, there were 70,383 hotel rooms in Singapore (31 December 2022: 69,472). The number of new rooms in the pipeline is relatively high versus recent history. Between 2Q2023 to 4Q2023, another 2,743 rooms are expected to be added per URA data. Based on our estimates this is a +4% increase versus 31 March 2023. New hotels in the pipeline include Pan Pacific Orchard, Mondrian Singapore Duxton, The Singapore Edition, The Artyzen Singapore, Raffles Sentosa Resort & Spa and The Standard.

Issuers under our coverage are diversifying their presence into the student accommodation sector and rental housing. Aside from CapitaLand Ascott Trust who is tilting towards longer-stay properties, City Developments Ltd (owns Millennium & Copthorne Hotels Limited) announced its first acquisition of five purpose-built student accommodation ("PBSA") in the UK in December 2022. According to JLL data, investments in PBSA was USD17.7bn globally in 2022, marking the second highest amount of investment in 15 years. While still considered an alternative investment segment, PBSA is attracting institutional capital looking to invest in scale.

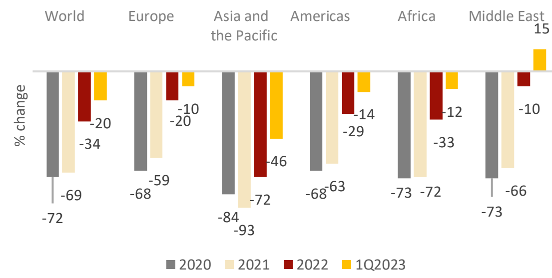
Recently in May 2023, Frasers Hospitality, the hospitality arm of Frasers Property Limited ("FPL") announced the formation of two joint ventures to acquire its first premium rental apartment assets in Shenzhen (China) and Osaka (Japan) for ~SGD170mn. FPL is the sponsor of Frasers Hospitality Trust, a REIT which owns hotels and serviced apartments.

Figure 32: International tourism receipts: Percentage of 2019 levels recovered in 2022[1] (%)



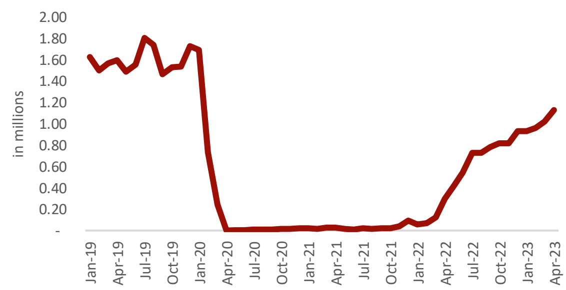
Source: UNWTO
Note: (1) Percentage of 2019 receipts recovered in 2022, calculated in USD (preliminary data)

Figure 33: Change in International Tourist Arrivals (% compared to 2019)



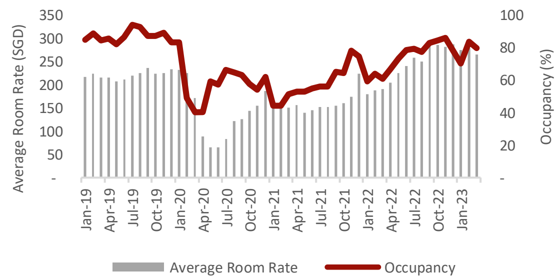
Source: UNWTO

Figure 34: International Visitors to Singapore



Source: Singapore Tourism Board

Figure 35: Singapore Average Room Rate and Occupancy



Source: Singapore Tourism Board

HKSAR Retail – Strong recovery in the retail environment continues into 2H2023

April 2023 retail sales soared by 15.0% y/y (YTD to April: 21.7% y/y) to HKD34.7bn in the fifth consecutive month of growth amidst improved consumer sentiments, eased pandemic restrictions and strong inbound visitors' recovery post reopening of borders in early February 2023. Sales of luxury goods (eg: jewellery, watches, clocks, and valuable gifts), which were primarily bought by mainland tourists before the pandemic, increased 75% y/y in April 2023.

Inbound visitors to HKSAR in April 2023 recovered strongly to 2.89mn post border reopening, rebounding to 51.9% and 62.1% of April-2019 and average of 2019 levels respectively. China remained the biggest contributor (79.8%) to the inbound visitors to HKSAR.

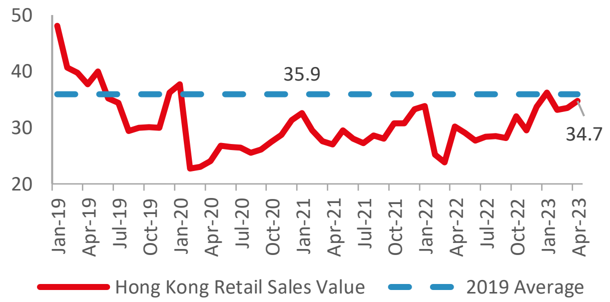
Per Colliers, overall high street retail rents increased by 1.1% q/q in 1Q2023, driven primarily by tourism dependent sectors like cosmetics and pharmacies. At least 15 new leasing deals were committed by these types of tenants in core districts in 1Q2023. Meanwhile, luxury goods demand like jewellery and watches have also picked up and retailers committed new leases on high streets. The favourable trend is expected to continue into 2H2023 following reopening of borders.

Based on government data, the retail rental increased by 1.1% in April 2023 compared to end of 2022. Compared to pre-pandemic levels in end of 2018 (-10.5%) and 2019 (-7.0%), the fall in retail rents was still largely manageable for landlords, despite being affected by the challenging events of social unrest (2019-2020) and pandemic (2020-2023).

Retail vacancy rate recovered strongly since 2H2022 with vacancy rate falling to 9.6% in March 2023 compared to 11% in June 2022. Moreover, the 9.6% vacancy rate in March 2023 is a highly encouraging level, which is the average levels evidenced in 2019.

Looking ahead, the revival of inbound tourism and local consumption demand should continue to help the retail sector's performance. Rental income is likely to improve in 2H2023 amidst rising occupancy rates and tenant sales. Savills projects y/y growth of (1) 8-12% for high street rents and (2) 10% for prime shopping malls. This positive growth forecast is also shared by Colliers, who foresee 8% growth for high street rent in 2023.

Figure 36: Retail Sales Value, HKD bn

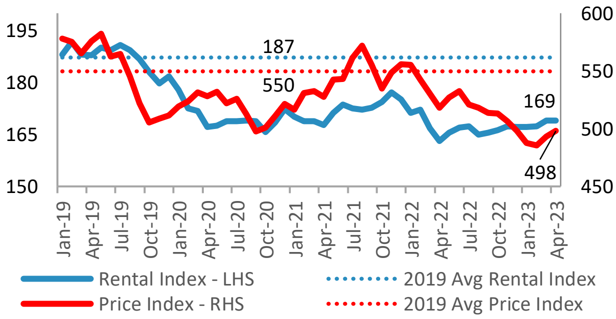


Source: Census and Statistics Department HK, OCBC

Figure 37: HKSAR Inbound Visitors, thousand

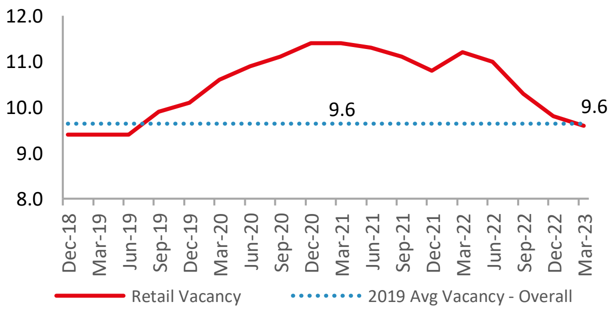
Source: HK Tourism Board, OCBC

Figure 38: Retail Rental and Price Indices



Source: HK Rating and Valuation Department, OCBC

Figure 39: Retail Vacancy Rate



Source: Colliers, OCBC

HKSAR Commercial Office Space – Stabilizing but meaningful recovery is unlikely in 2023 - 2025

HKSAR's office market continued to struggle in 1Q2023 with vacancies in HKSAR and Central HKSAR escalating to 14.7% and 10.9% respectively as at 31 March 2023. That said, the surge in vacancies appeared to be stabilising post the border being fully reopened in early-February 2023.

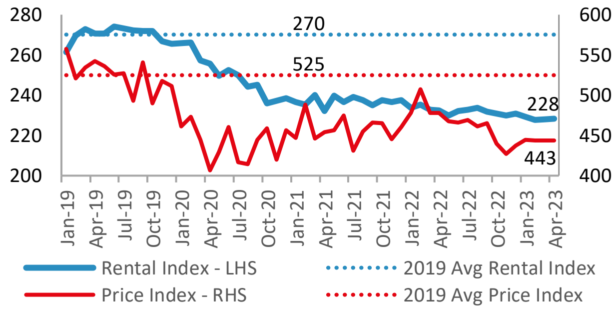
Per Colliers, reopening of borders benefited the office market as there was an increase in enquiries and inspections from mainland companies. 1Q2023 net absorption was 93,000 sq. ft. and the better leasing activities has largely contained the HKSAR office vacancy rate at 14.7%. That said, demand for office space in HKSAR may struggle to rebound meaningfully even after the reopening of the borders. The office spaces outlook may still be restricted by hybrid work schedules (eg. work from home) as flexible work is gaining popularity in HKSAR. Per Bloomberg, about two-thirds of survey respondents stated that it's an important factor when choosing employers.

Grade A office rental in April 2023 fell 1.0% compared to December 2022 as landlords became more flexible in negotiations with tenants amidst high vacancy rates. The grade A office rental rate in April 2023 implied a discount of 15.6% over the average levels in 2019. Savills' (which has a forecast of -5% to -10% for 2023 office rents) thinks there could be more downside risks to the office rental market in 2H2023.

A minor recovery was evidenced on grade A office prices in April 2023, which gained 1.3% compared to end-2022. That said, grade A office prices have depreciated substantially over the years as April 2023 prices imply discounts of 13.3% and 25.6% compared to the end of 2019 and 2018 respectively. Similar to rental trend, office prices are expected to fall further in 2H2023 with more distressed sales (eg. One HabourGate East Tower and China Evergrande Centre) coming to the market. Distressed Chinese property developers and property owners may sell their office assets at a loss to raise more funds amidst high borrowing costs and weak market sentiments.

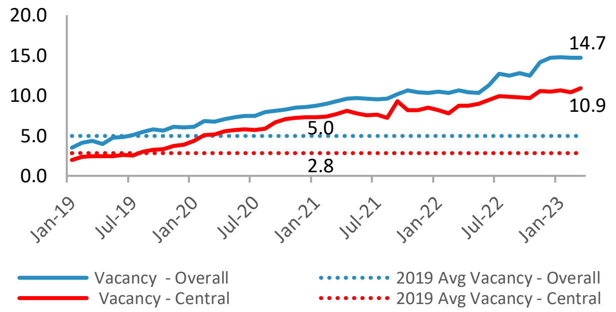
Looking forward to 2H2023, office vacancy rates and rentals are unlikely to improve by end of 2023 amidst ample new supply. Savills expect 7.5mn sq. ft. of office supply to come online over 2023 – 2026. On a mid-term outlook, the office vacancy rate is expected to increase from 13.4% in 1Q2023 to ~16% in 2025, assuming that take-up over the period recovers to pre-COVID levels of ~1.3mn sq ft per annum. As a result, there could be more downside risks to office rentals with ample supply and hybrid work schedules. These factors could further drag down office rentals by another 10% to 20% from 2023 – 2025. With the lower rental and high interest rates, office investment may become unattractive with yields likely to stay below 3%, substantially lower than the current cost of funds of around 5.5% to 6.5%.

Figure 40: Grade A Office Rental and Price Indices



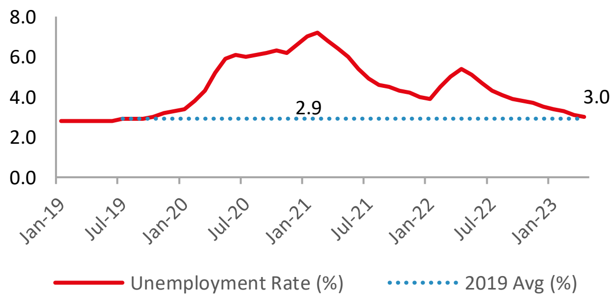
Source: HK Rating and Valuation Department, OCBC

Figure 41: Grade A Office Vacancy Rate (%)



Source: Colliers, OCBC

Figure 42: Unemployment Rate (%)



Source: Census and Statistics Department Hong Kong, OCBC

Singapore Property Developers – Will interest in Singapore property remain?

Expect property prices to rise by 3-5% in 2023 still: We retain our full year growth forecast for Singapore private residential prices at +3% to +5% despite the increase in Additional Buyer's Stamp Duty ("ABSD") from 27 April 2023. There was no increase in ABSD for the 1st purchase by residents, though the increase was steep foreigners and entities buying property (ABSD adjusted upwards by 30 ppts). ABSD was also adjusted upwards for residents buying second and subsequent properties, with ABSD adjusted upwards by 3-5 ppts. As discussed in our Special Interest Commentary publication titled "Singapore Residential Property – Stirred but not Shaken", we believe that the increase in ABSD will have minimal impact on the bulk of the property market, anchored by Singapore residents (predominantly Singaporeans, as well as Singapore Permanent Residents) who form ~90% of the buyers of new home sales. While demand from foreigners could fall, resident demand is likely to remain persist. Factors contributing to resilient resident demand remain the same as detailed in the 2023 Global Outlook publication "SG Residential: A home and an asset", as Singaporean buyers are increasingly wealthy and aspirational.

Uptick in property sales post property cooling measures: The impact of ABSD appears to be limited. Two days after the increase in ABSD on 29 April 2023, 275-unit Blossoms By the Park that was launched sold 73% of the units. The average price transacted was SGD2,423 psf, suggesting that discounts were not required to entice buyers. According to the developer, the buyers were mainly Singaporeans and PRs, comprising 96% of the total. The strong performance is not idiosyncratic, with private home sales rising to one-year high of 1,038 units in the month of May 2023. This is contributed by strong sales at 732-unit The Reserve Residences which sold 71% of its units at an average price of SGD2,460 psf during its weekend launch, with residents comprising 99% of buyers. The other major launch was 816-unit The Continuum which sold 26.5% of units at SGD2,732, positioned as a luxury development (priced ~SGD1,000 psf higher than existing smaller developments in the vicinity). Meanwhile, resale property prices continued its upward trajectory, with SRX Property Price Index for May up 0.9% m/m.

Units with higher foreigner demand as potential casualties? Although projects that target and attract resident demand appear unaffected by ABSD, projects that likely depend on foreigner demand are impacted. City Developments Ltd ("CDL") deferred the launches of 246-unit Newport Residences (located at Anson Road), citing that time is needed for the market to absorb the news of the ABSD increase. The Straits Times also reported that eight new condominium projects have offered significant discounts in April and May, most of which are located in the Core Central Region ("CCR"). It is not surprising for CCR properties to see some impact as foreigners have been a significant source of demand in this area.

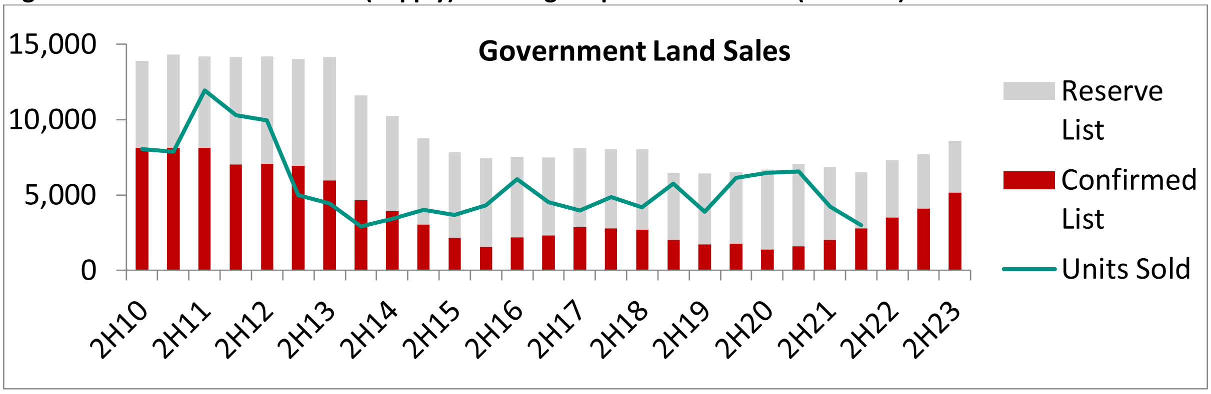
Figure 43: Properties in OCR and RCR have higher resident demand relative to CCR

Status	OCR	RCR	CCR	Landed	HDB
Condo new sales by residential status, Jun 2022 – May 2023					
Foreigner	2%	7%	17%	0%	0%
Perm. Resident	9%	12%	13%	0%	100%*
SG Citizen	89%	81%	70%	100%	

Source: URA, HDB, OCBC Credit Research
*OCBC Credit Research estimates

Uptick in land supply is late but this will be a gamechanger if levels persist: The Confirmed List of Government Land Sales ("GLS") in 2H2023 increased 26% h/h to 5,160 units, lifting the total Confirmed List supply to 9,250 units, which is the highest level since 2013. With the number of units sold averaging ~10k p.a. in the recent years, we think supply has finally caught up with demand, if the GLS supply remains at similar levels going forward, which should alleviate the supply crunch over time.

Figure 44: Rise in Confirmed List (Supply) has caught up with Units Sold (Demand)



Source: URA, HDB, OCBC Credit Research

Mixed demand for land supply: While the land supply has been increased in recent periods, demand has not always followed through. The GLS site at Hillview Rise received only four bids while that at Bukit Timah Link received only five bids in November 2022. A low point was reached when only one bid was made (by GuocoLand-Hong Leong Holdings JV) for the GLS land parcel at Lentor Gardens in early April 2023 (before the recent ABSD increase). **That said, we believe developers are still somewhat hungry for land**. The recent Marina South site attracted four bids, with the top bid at SGD1.03bn (SGD1,402 psf ppr) while the highest bid for Tampines Avenue 11 site was SGD1.21bn (SGD884.59 psf ppr). The demand is highest for executive condominium sites, with Plantation Close in Tengah attracting 9 bidders.

Developers may refocus on Singapore, though to a limited extent: Over the years, established developers in Singapore have been reducing its focus on property development in Singapore. Several of the larger developers (e.g. CapitaLand, Frasers Property) have been entirely absent from land bids prior to the June 2023 land sales; we note that these developers in general have been allocating capital towards other property assets (e.g. commercial, industrial) or other geographies (e.g. Australia, Europe, China). Similarly, CDL may have a lower emphasis on Singapore residential property development going forward, declaring that "the Group should not be overly reliant on a specific country or asset class" post the hike in ABSD. Meanwhile, Oxley Holdings which has reported lower margins from Singapore property development is intending to focus on United Kingdom and Ireland. We infer that property development in Singapore is no longer sufficiently profitable for the risk undertaken. That said, with increased opportunities to undertake property development given the increase in land supply, which may in turn reduce land prices, we think Singapore property developers may return to the market when risk-reward become enticing again.

Still comfortable with Singapore property developers despite rise in interest rates: The business profiles of Singapore property developers have generally shifted towards investment properties where income is more recurring. Most still hold significant investment properties in Singapore (e.g. CDL, GuocoLand, Frasers Property) which still see occupancy and rentals holding firm for their retail, office, hospitality and industrial (if any) assets. The firm property market thus far has also helped the developers move the units even though margins have compressed.

Financial Institutions – Lessons in Regulator Intent and Structure

The past six months have highlighted three key influences for Financial Institutions and how the interplay between them impacts the risk return profile for bank capital instruments. While our past sector outlooks have focused on the fundamental outlook that evolves over time given the cyclical nature of the banking sector, it was the equally determinant influences of regulator intent and the structure of bank capital instruments that were more prominent during March and April. These combined with fundamental concerns and prevailing uncertainty surrounding interest rates and the economic outlook to create heightened volatility for the operating environment of Financial Institutions and a crisis of confidence for the sector. This started with the collapse of Silicon Valley Bank for idiosyncratic reasons in our view and spread through US regional banks to the rest of the world, culminating in a spike in the credit default swaps of Deutsche Bank AG in late March. The paradox in this development was that the concern was partially driven by Deutsche Bank AG ("DB") announcing plans to redeem its USD1.50bn subordinated Tier 2 notes due 2028 on 24 May 2023 at 100% of their principal amount and interest. This announcement was 60 days before its call date and the earliest day that it could announce, suggesting that the announcement was to allay any fears of a non-call. The other contradiction was that DB had reported in early February its highest result in 15 years with FY2022 profit before tax up 65% to EUR5.6bn. This forced German Chancellor Olaf Scholz to publicly back the lender at a news conference in Brussels calling DB a "very profitable bank" and stating that banking oversight in Europe is "robust and stable."

Public and investor sentiments have improved since early April although they are yet to fully repair compared to the fourth quarter of 2022. The recovery in confidence though through bank debt and bank capital issuance trends has been somewhat predictable with the covered bond market recovering first followed by a tentative recovery in the AT1 market through issuances by stronger Financial Institutions including Sumitomo Mitsui Financial Group Inc.'s sale of JPY140bn of AT1 notes in April. It should be noted that Japanese regulators were quite firm following the write-down of Credit Suisse Group AG's AT1s on protecting the creditor hierarchy with Japan's finance minister in late March reassuring the market that AT1s issued by Japanese banks have lower risk of a write-down similar to the circumstances surrounding Credit Suisse Group AG as Japanese banks' AT1s do not have a similar discretionary clause and documentation for Japanese banks is a little more mechanical when it comes to write downs. More recently in mid-June, Banco Bilbao Vizcaya Argentaria SA ("BBVA") and Bank of Cyprus Holdings Plc priced AT1s in Europe, the first European bonds since the Credit Suisse Group AG write-downs. Both deals were well received with BBVA receiving more than EUR3bn in orders for its EUR1bn deal while Bank of Cyprus received more than EUR2.75bn in orders for its EUR220mn issue. This allowed BBVA to price at 8.375% which was inside of its three existing euro AT1 notes.

1H2023 contained more significant developments for the Financial Institutions sector than there have been in the recent few years in our view. While some expected and others unexpected, we nevertheless expect there to be lasting changes in the sector. This will likely result in higher credit dispersion in the future but ultimately create a sector more resilient to future volatility. This should strengthen the investing environment for bank capital instruments with selective opportunities for the remainder of 2023.

Regulator Intent – More Pragmatic than Proactive?

We have previously discussed the intent of regulators to be pragmatic and pro-active, more recently in the context of assessing non-call risk for bank capital instruments. We have seen this intent repeatedly in the past, both pre-pandemic with the selective use of existing bank resolution regulations depending on idiosyncratic developments, and through the pandemic with the relaxation of various prudential regulatory requirements to create balance sheet buffer for Financial Institutions to continue lending.

The developments surrounding Silicon Valley Bank, First Republic Bank and Credit Suisse Group AG in 1H2023 have not altered our view. The solutions arrived at for each of these banks were dependent on the idiosyncrasies of their individual circumstances with the aim of protecting systemic risk. At the same time, regulators sought to be pro-active against the crisis of confidence with multiple statements of support for the resilience of global, regional and domestic banking systems and fundamentals of larger Financial Institutions against an outflow of deposits from weaker banks. Perhaps the strongest example of regulator pragmatism was the acquisition of Credit Suisse Group AG ("CS") by UBS Group AG ("UBS"). This was likely a less ideal outcome for Switzerland's longer term financial system stability but necessary in March to preserve domestic and global financial system stability at that point in time. Various measures including the government support provided to UBS also highlight the pragmatic approach needed to force the acquisition of two global systemically important banks over a weekend. This intent tends to be lost in our view against the surprising actions by the Swiss government to force losses on AT1s ahead of the shareholders of CS.

Amidst the various comments and speeches by central bankers, regulators and ratings agencies at the time was a statement by the Monetary Authority of Singapore ("MAS") surrounding the treatment of bank capital instruments in a resolution. MAS highlighted its intention to follow the hierarchy of claims in liquidation during a resolution with shareholders absorbing losses first followed by Additional Tier 1 capital and Tier 2 capital instruments. That said, MAS also made clear the possibility that this hierarchy may not always be followed and that any deviation from this intention, that results in holders of Additional Tier 1 capital and Tier 2 capital instruments receiving less in a resolution than they would in a liquidation, would result in holders being able to claim compensation from a resolution fund that is funded by the financial industry. This compensation mechanism would operate where there is a need to deviate from the creditor hierarchy to preserve financial systemic stability in a resolution scenario and/or benefit all creditors in the system as a whole. The MAS statement is nuanced compared to a statement from the Hong Kong Monetary Authority and a joint statement from the Single Resolution Board, the European Banking Authority and the ECB Banking Supervision confirming that junior creditors (ie holders of Additional Tier 1 capital) would only be written down after common equity instruments absorb losses first and that there is a clear order for loss absorption. In practice though, we think that the answer may not be so clear if the entire sector is at risk from the stress of one bank.

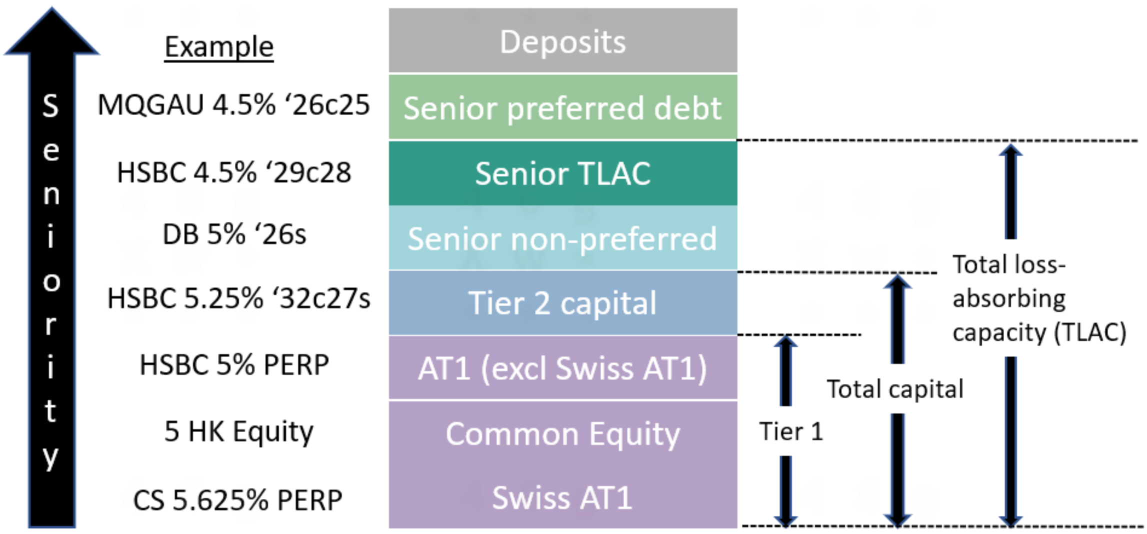
Rethinking Structure

As far as regulator intent is concerned, the 'What' and 'Why' of developments in 1H2023 was not surprising in our view. That said, the 'How' of developments in 1H2023 caught many market participants off guard. While bank capital instruments are accepted to be loss absorbing, and mostly at the discretion of the regulator, their relative position within the capital structure was thought to be protected by the "No Creditor Worse Off" principle that, per the Single Resolution Board, ensures in the implementation of a resolution scheme "that the affected shareholders and creditors will not be worse off in resolution than in the case where the bank had entered into normal insolvency proceedings." Such a structure is necessary to justify the relative pricing of bank capital instruments and balance the cost of capital with a Financial Institution's minimum capital requirements.

The write-down of CS's AT1s and the better recovery for shareholders has highlighted that this principle may be overridden, particularly where it is pragmatic to do so. However, this should be seen as an extreme scenario and regulators have gone to great lengths since the CS AT1 write-down to either reinforce this principle and/or provide supportive comments for the recovery of the AT1 market. The European Banking Authority held talks during May on ways to boost investor interest in the AT1 market, raising ideas such as a ban on banks paying dividends before they consider skipping an AT1 coupon to preserve capital during times of stress and a requirement to pay out skipped AT1 coupons at a later stage rather than allowing them to be cancelled altogether.

We expect regulator pragmatism to also influence the bank capital market through reinforcing the relative hierarchy of bank capital instruments. This is necessary to manage a Financial Institution's cost of capital, particularly in the likely event of higher capital and liquidity requirements. To this end, structure continues to remain an important consideration in the context of a Financial Institution's underlying fundamentals that, as in the case of CS, can amplify the risks of investing in bank capital instruments.

Figure 45: Illustration of Bank Capital Instruments



Source: OCBC

Changing Focus Without Changing Direction

Developments for Financial Institutions in 1H2023 were somewhat intense in both speed and direction. Banking regulations will likely change as a result and while the intent of regulations will remain the same (ie strengthening financial sector resilience), the focus will likely shift with greater focus on Financial Institution liquidity and minimum capital requirements to the extent that it can protect or restore confidence in the Financial Institution during a crisis that can develop faster than previously anticipated. It was previously reported that following the regional banking crisis, US regulators were looking at raising overall capital requirements by around 20% depending on business activities, with the biggest increases for US Financial Institutions with larger trading operations. Regulator tool kits and action plans will also need to adjust to ensure that regulators remain pro-active in the face of a more volatile operating environment.

The silver lining from 1H2023 developments is that market participants have gained a better understanding of industry and structural risks. This is evident in the observations of the Swiss National Bank ("SNB") that were contained in its recently released 2023 Financial Stability Report. The observations were made in the context of strengthening banks' resilience to avoid a loss of confidence and ensuring there are effective measures to stabilise, recover or wind down a systemically important bank in the event of a crisis:

- Compliance with capital requirements is necessary but not sufficient to protect a loss of confidence from clients, market participants and rating agencies. In particular, there exist certain vulnerabilities in the calculation of the bank's CET1 capital buffer given the inclusion of certain assets in the group's regulatory capital than can lose value as the bank suffers through stress or initiates a restructure that results in impairments.
- CS's AT1s did not operate as intended as early loss absorption instruments on a going concern basis and instead absorbed losses more on a 'gone concern' basis (ie when point of non-viability was imminent and government intervention was needed). For example, CS did not cancel AT1 coupon payments as losses accelerated and confidence was diminishing. That said, this was likely due to the anticipated negative market reaction that may have accelerated the decline in confidence or increased the difficulty for CS's refinancing activities given CS's capital ratios were well above the mechanical or quantitative trigger.
- Capital requirements that exist as early warning indicators could delay corrective action in a period of stress given these historical measures did not address concerns surrounding CS's present situation or future prospects including its profitability outlook, reputational issues and execution risks tied to its transformation plan. These forward-looking considerations more influenced the bank's ability to raise capital and address immediate liquidity concerns.
- The scale and pace of deposit outflows was more severe than previously contemplated under current liquidity regulations with the existing liquidity coverage ratio insufficient to cover the increasing liquidity requirements requested from counterparties and the central bank.

The observations have therefore highlighted the need to revisit Switzerland's too big to fail ("TBTF") framework and SNB's ability to provide adequate and timely actions in a stressed situation. The focus for a review of TBTF regulations and minimum liquidity requirements according to SNB appears to be both on designing more effective tools for a bank to recover on its own and ensuring such tools can be implemented earlier. The importance of a stronger resolution framework has increased given the higher systemic importance now of UBS which is a much larger part of Switzerland's (and the world's) financial system. The Basel Committee on Banking Supervision is similarly reviewing existing regulations including supervision measures and liquidity and interest rate monitoring tools.

Wider but Stronger for Financial Institutions

We believe that 1H2023 developments and a better understanding of industry and structural risks will be positive for the overall resiliency of the Financial Institutions sector. As Barclays PLC Group Chief Executive C.S. Venkatakrishnan recently commented, UBS's acquisition of CS has overall led to more stability for the financial system as there is no longer a "slightly wobbly" global systemically important bank. This though is in the context of (1) persisting structural concerns, recovering investor confidence and regulator initiatives to address them; and (2) a tighter operating environment with potential economic slowdown concerns, peaking net interest margins and possibly higher loan losses.

This will lead to higher credit dispersion in the Financial Institutions sector from increased vulnerability of weaker Financial Institutions to structural concerns and the weaker operating environment. At the same time, stronger, more entrenched and strategically important Financial Institutions will continue to benefit from a flight to quality. Credit dispersion was highlighted in the US Federal Reserve's annual stress test results that highlighted that the 23 large banks in scope had sufficient capital to absorb more than USD540bn in losses under stressed conditions and still continue to lend to the economy. While Vice Chair for Supervision Michael S. Barr commented that the results "confirm that the banking system remains strong and resilient," there was a divergence in the results with certain banks benefitting from the reversal of current unrealized losses on securities portfolios as interest rates decline under the stress test with smaller declines in post-stress capital ratios. Conversely, banks more exposed to traditional lending saw larger declines in post-stress capital ratios. Of note was the US Federal Reserve highlighting 'the need for humility' in these stress tests and the need for them to continue to evolve to reflect a wider range of risks, these needs reinforced by recent events in the global banking sector. Mr Barr also commented that "this stress test is only one way to measure that strength. We should remain humble about how risks can arise and continue our work to ensure that banks are resilient to a range of economic scenarios, market shocks, and other stresses."

Overall, we believe that the investing environment for bank capital instruments remains solid with selective opportunities for the remainder of 2023. We advocate sticking to more strategically important Financial Institutions that benefit from both scale and potential government or regulatory oversight/support. These institutions will be able to better accommodate a possible rise in regulatory requirements. In terms of structure, we think the stronger underlying fundamentals of strategically important Financial Institutions can somewhat compensate for structural risks and recommend investors to continue to look at the risk return balance between AT1s and Tier 2s.

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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 bond 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 bond 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 Credit Research team would like to acknowledge and give due credit to the contributions of **Goh Li Xuan, Glenda**.*

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons held financial interests in the following above-mentioned issuers or companies as at the time of the publication of this report: Singapore Airlines Ltd, GuocoLand Ltd, Oxley Holdings Ltd, Frasers Centrepoint Trust, Suntec Real Estate Investment Trust, Mapletree Pan Asia Commercial Trust, Frasers Hospitality Trust, Lendlease Global Commercial REIT, CapitaLand Ascott Trust, Frasers Property Ltd.

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