

# SGD Bonds Strategy

Relative value search – corporate bond ideas



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SINGAPORE | CORPORATE BONDS

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- We scan the local corporate bond universe on a relative value basis to discover bonds trading cheaper on a relative basis.
- In a follow up to our report on rising non-call risk for callable bonds, we name some perpetual bonds we find interesting even in the event of non-call.

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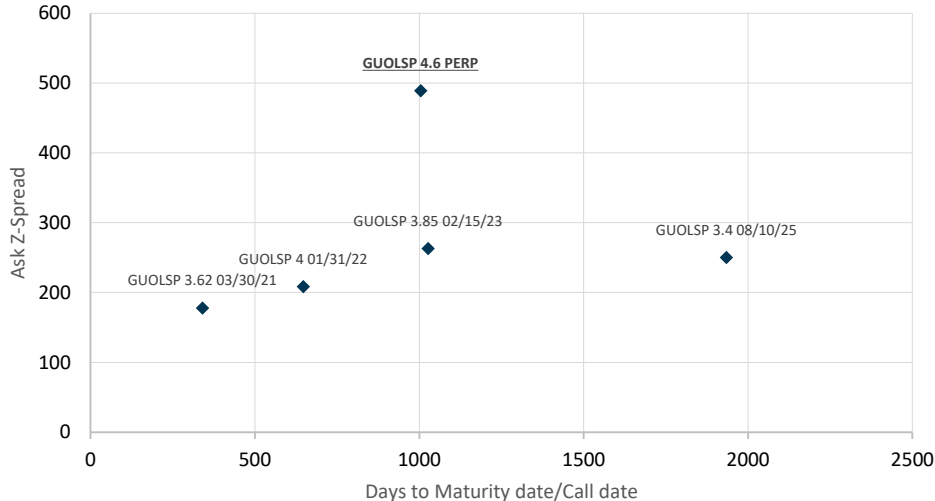
In our previous report [‘Rising Risk of Non-Calls’](#), we discussed the rising risk of non-call in this low interest rate environment, which we mentioned could lead to potentially lower refix coupons for several callable bonds if they are not called. That said, we still find value in some perpetuals in the market, even if they’re refixed in the event of non-call.

### Perpetual bonds: Some offer value over their senior counterparts even if refixed

#### GUOLSP 4.6% Perpetual Corp (SGD) - GuocoLand Ltd

GUOLSP 4.6% Perp (6.09% yield to call) has its next coupon reset date on 23 January 2025, refixing its coupon to the prevailing SGD 7-year Swap Offer Rate (SOR) plus the initial spread of 260.9bps and a coupon step-up of 100bps. Using the SGD 7-year SOR as at 23 April 2020 of c.0.8925%, the coupon will refix to 4.5% (vs 4.6% originally at issue) and represents a yield to worst (YTW) of 4.66% at prevailing prices, an attractive senior-sub yield pick up of 132bps to the GUOLSP 3.4% ‘25s senior.

Figure 1: GUOLSP 4.6% Perp provides a substantial sub-senior spread pick up if called



Indicative pricing as at 23 Apr 2020, Source: Bloomberg

Figure 2: GUOLSP 4.6% Perp still attractive if not called

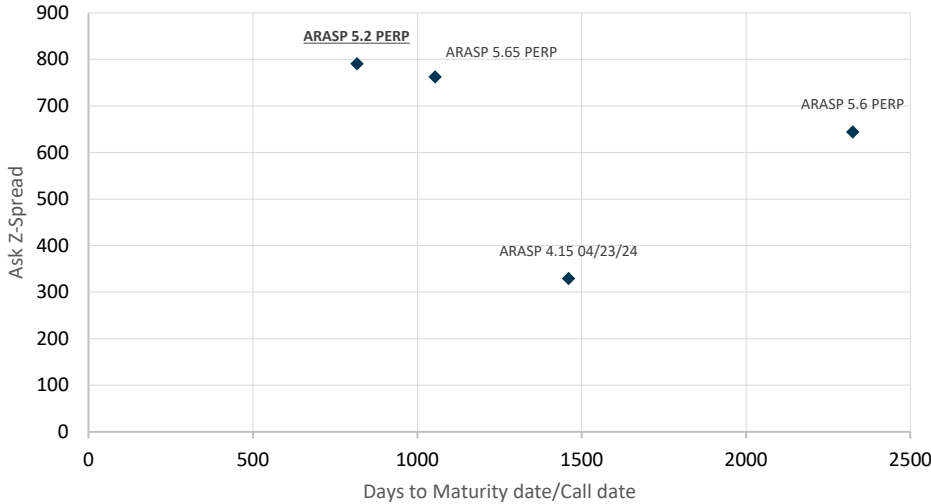
Issuer	Bond	Currency	Maturity date/ Call date	Size (SGDmn)	Gearing% (D/A)	Ask YTM/ YTC	Ask Z-Spread (bps)	Comment
GLL IHT PTE LTD	GUOLSP 4.6% Perp	SGD	23/01/2023	400	44.8	5.58%	489	YTW = c.4.66%, refix on 01/25
GLL IHT PTE LTD	GUOLSP 4% '22s	SGD	31/01/2022	285	44.8	2.72%	208	
GLL IHT PTE LTD	GUOLSP 3.4% '25s	SGD	10/08/2025	200	44.8	3.34%	250	
GLL IHT PTE LTD	GUOLSP 3.85% '23s	SGD	15/02/2023	170	44.8	3.31%	263	
GLL IHT PTE LTD	GUOLSP 3.62% '21s	SGD	30/03/2021	125	44.8	2.45%	178	

Indicative pricing as at 23 Apr 2020, Source: Bloomberg

**ARASP 5.2% Perpetual Corp (SGD) - ARA Asset Management Ltd**

All ARA perpetual bonds come with a 300bps step up at their respective refix dates and are among the highest yielding perpetual bonds in the market. We see value in the ARASP 5.2% PERP with an 8.57% yield to call and a yield to worst of 7.05%, representing an almost 300bps YTW senior-sub yield pick up to the Senior Unsecured ARASP 4.15% '24s. And, in the inverted ARA curve, the ARASP 5.2% PERP offers a 28bps spread pick up to the ARASP 5.65% PERP callable 238 days later. The ARASP 5.2% PERP resets on 19 July 2024 (2 years after the upcoming call date) at the prevailing SGD 7-year SOR plus the initial spread of 312bps and a step-up of 300bps.

**Figure 3: ARASP 5.2 PERP offers the highest spread in the inverted ARA curve. ARA perps are among the highest yielding perpetuials in the market.**



Indicative pricing as at 23 Apr 2020, Source: Bloomberg

**Figure 4: Even with yield to worst, ARA perpetual bonds offer a substantial senior-sub yield pick up**

Issuer	Bond	Currency	Maturity date/ Call date	Size (SGDmn)	Gearing% (D/A)	Ask YTM/ YTC	Ask Z-Spread (bps)	Comment
ARA ASSET MANAGEMENT LTD	ARASP 5.6% PERP	SGD	04/09/2026	350	16.0	6.97%	644	YTW = 6.97%, refix on 09/26
ARA ASSET MANAGEMENT LTD	<b>ARASP 5.2% PERP</b>	SGD	<b>19/07/2022</b>	<b>300</b>	<b>16.0</b>	<b>8.57%</b>	<b>791</b>	<b>YTW = 7.05%, refix on 07/24</b>
ARA ASSET MANAGEMENT LTD	ARASP 5.65% PERP	SGD	14/03/2023	300	16.0	8.30%	763	YTW = 6.76%, refix on 03/28
ARA ASSET MANAGEMENT LTD	ARASP 4.15% '24s	SGD	23/04/2024	100	16.0	4.07%	329	

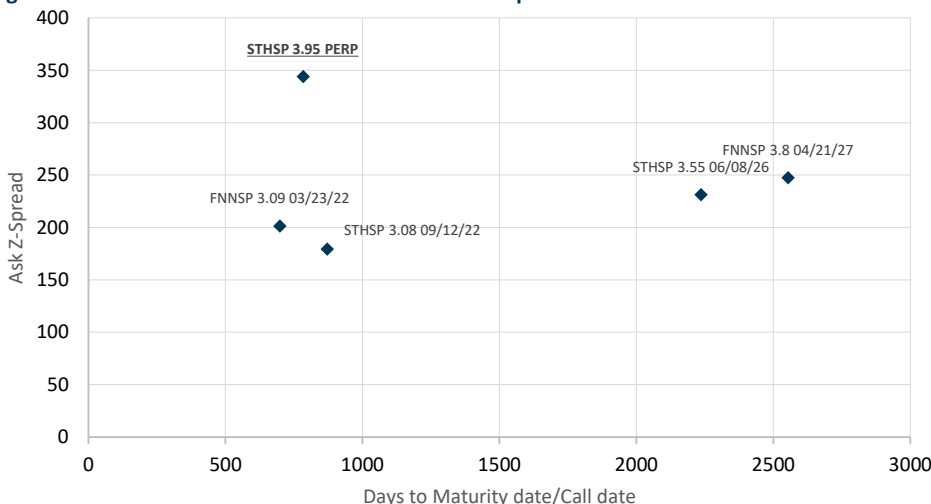
Indicative pricing as at 23 Apr 2020, Source: Bloomberg

**STHSP 3.95% Perpetual Corp (SGD) – Starhub Ltd**

Similarly, STHSP 3.95% PERP offers a coupon step-up of 100bps at its reset date of 16 June 2027 and will refix to the prevailing SGD 10-year SOR plus initial spread of 171.5bps. The resulting yield to worst of 3.78% is a modest 73bps yield pick up to the senior STHSP 3.55% '26s.

We also find the FNN curve interesting within the consumer sector, with a similar market cap (\$\$2.08bn) to Starhub (\$\$2.39bn) and a lower gearing profile of 17.6% debt to asset (vs Starhub’s 44.0%) while trading at a more attractive spreads.

**Figure 5: STHSP 3.95% PERP offers value over its comparable senior bonds**



Indicative pricing as at 23 Apr 2020, Source: Bloomberg

Figure 6: List of consumer sector bonds

Issuer	Bond	Currency	Maturity date/ Call date	Size (SGDmn)	Gearing% (D/A)	Ask YTM/ YTC	Ask Z-Spread (bps)	Comment
F&N TREASURY PTE LTD	FNNSP 3.8% '27s	SGD	21/04/2027	100	17.6	3.39%	247	
F&N TREASURY PTE LTD	FNNSP 3.09% '22s	SGD	23/03/2022	160	17.6	2.65%	201	
<b>STARHUB LTD</b>	<b>STHSP 3.95% PERP</b>	<b>SGD</b>	<b>16/06/2022</b>	<b>200</b>	<b>44.0</b>	<b>3.80%</b>	<b>344</b>	<b>YTW = 3.78%, refix at 06/27</b>
STARHUB LTD	STHSP 3.55% '26s	SGD	08/06/2026	300	44.0	3.07%	231	
STARHUB LTD	STHSP 3.08% '22s	SGD	12/09/2022	220	44.0	2.24%	179	

Indicative pricing as at 23 Apr 2020, Source: Bloomberg

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**Neutral ("N")** – We expect the issuer's specific bond to perform in line with the issuer's other bonds, bonds of issuers operating within the same sector, or bonds with similar tenors but from different sectors over the next six months.

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**Positive ("Pos")** – We view the issuer's credit profile as strong or expected to become strong over the next six months.

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