

Phillip Model Bond Portfolio

Launch 18 August 2020



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SINGAPORE | STRATEGY | SGD CORPORATE BONDS

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We launch our Phillip Model Bond Portfolio consisting of wholesale corporate bond picks (minimum denomination of S\$250k) for fixed income investors. The list includes bullet and perpetual corporate bonds denominated in SGD. Corporate bond investing provides a means for generating a stable and predictable income stream through the receipt of promised regular coupon payments and your invested principal back at a specified date.

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Strategy commentary: Our bond picks are diversified across issuers with resilient credit profiles to weather downturns, and across a range of industries, some proving to be beneficiaries of COVID-19 trends. Singapore bond prices have rallied strongly in response to depressed interest rates, thus we're increasingly selective for reasonable cash ask prices that offer decent yields above government bonds and inflation. The portfolio will be reviewed on a monthly basis.

Figure 1: The Phillip Model Bond Portfolio

| Bond | Maturity/Call Date | Ask Px | YTW% | YTC% | Issue Size (S\$m) | Features* |
|-------------------------------|--------------------|---------|--------------|---------------|-------------------|--|
| 1. TMGSP 4.8% | 18-Jul-22 | 103.100 | 3.110 | - | 225 | 1. Cessation Put |
| 2. ARASP 4.15% | 23-Apr-24 | 101.850 | 3.607 | - | 100 | 1. Change of Control Put |
| 3. ESRCAY 5.1% | 26-Feb-25 | 99.350 | 5.625 | - | 225 | |
| 4. OLAMSP 4% | 24-Feb-26 | 99.950 | 4.011 | - | 400 | |
| 5. FPLSP 4.25% | 21-Apr-26 | 102.100 | 3.833 | - | 280 | 1. Make Whole Call |
| 6. ARASP 5.2% Perp | 19-Jul-22 | 99.550 | 5.321 | 5.435 | 300 | 1. Change of Control Call 2. Cumulative Deferral 3. Dividend Stopper 4. Dividend Pusher (12M) |
| 7. MLTSP 3.65% Perp | 28-Mar-23 | 100.750 | 2.718 | 3.341 | 180 | 1. Non-cumulative Deferral 2. Dividend Stopper |
| 8. SPHRSP 4.1% Perp | 30-Aug-24 | 99.050 | 4.359 | 4.359 | 300 | 1. Non-cumulative Deferral 2. Dividend Stopper |
| 9. UBS 4.85% Perp | 04-Sep-24 | 100.250 | 4.371 | 4.775 | 750 | 1. Loss Absorption 2. Non-cumulative Deferral 3. Dividend Stopper |
| 10. AAREIT 5.65% Perp | 14-Aug-25 | 100.50 | 5.529 | 5.529 | 125 | 1. Optional Payment 2. Non-cumulative Deferral 3. Dividend Stopper |
| Total Portfolio Yield: | | | | 4.248% | | |

Source: Bloomberg, indicative pricing as at 18 Aug 2020

*Definitions on page 2

Portfolio commentary: Issuers are diversified across various industries including healthcare, real estate management, logistics and e-commerce, real estate development, retail and industrial REITs, commodity, and banking. All issuers are listed entities except for ARA Asset Management; a private company previously delisted from the Singapore Exchange. There is a balanced mix of 5 bullet bonds and 5 perpetual bonds. We identify with investor wariness on perpetual bonds after the non-call event by Ascott Residence Trust, which was in response to the lower reset rates caused by the lower interest rate environment. However, given record low interest rates currently, and the perpetual bonds in our portfolio with call dates around 2 years away, we argue that there are opportunities for perpetual bonds now with a longer term view that interest rates rise as the economy recovers from the pandemic over the next 2 years.

Within the bond list, we classify the TMGSP 4.8%, ARASP 4.15%, FPLSP 4.25%, OLAMSP 4%, and MLTSP 3.65% as high grade bonds, and the ESRCAY 5.1%, ARASP 5.2%, SPHRSP 4.1%, UBS 4.85%, and AAREIT 5.65% as high yield bonds.

Issuer Commentary:

| Issuer | Ticker | Comment |
|----------------------------------|--------|---|
| 1. Thomson Medical Group Limited | TMGSP | Healthcare business provide stable cash flows, albeit affected by restrictions on non-essential procedures and lower medical tourism. Capex on Malaysian healthcare projects expected to push gearing higher. Owner Peter Lim highly vested (88.2% stake), Singapore's 14 th richest man in 2019 by Forbes. |
| 2. ARA Asset Management | ARASP | Management fee income (55% FY19 revenue) provide stickiness and income stability amid COVID-19, while major shareholders Warburg Pincus (48.7% stake) and John Lim are credit positive for access to funding. Potential IPO of the group or its private funds are catalysts for liquidity, while high step-up margins for ARASP perps further reduce non-call risk. The group achieved S\$110bn AUM in June 2020. |
| 3. ESR Cayman | ESRCAY | A beneficiary of e-commerce shine amid COVID-19, with high cash pile of USD884mn after IPO to tide heavy capex for expansion. Range of capital partners, with key shareholders including Warburg Pincus, SK Holdings, JD.com drive growth and sources of funds. |
| 4. Olam International | OLAMSP | Undertaking a 6-year strategic plan to divest non-performing businesses, with the aim to spin-off business segments within 3 years to unlock cash. Food revenues remain resilient despite weaker overall results from lockdowns and commodity prices, and results are expected to recover as restrictions relax. 53.4% owned by Temasek and 17.4% owned by Mitsubishi help lower cost of funding. |
| 5. Frasers Property Ltd | FPLSP | Combination of recurring income (80% of assets, 63% of PBIT in 1H20), pre-sold property development revenues of S\$1.3bn, and avenues for asset monetisation through REITs bolster cash flows amid uncertainty. 83% owned by TCC Group, one of Thailand's largest conglomerates. |
| 6. Mapletree Logistics Trust | MLTSP | Demand for industrial space keep occupancies high at 97.2% with majority of tenants returned to operations. Very healthy balance sheet with Investment Grade Baa2 stable rating by Moody's. |
| 7. SPH REIT | SPHRSP | Non-existent tourist arrivals that key asset Paragon focused on luxury brands in Orchard Road rely on will affect outlook. That said, low gearing levels provide high debt headroom and buffer for potential asset revaluations. |
| 8. UBS Group AG | UBS | Posted good results amid COVID-19 driven by investment banking income, with strong CET1 ratio 13.3% providing adequate buffer to threshold of 7%, while guidance for credit losses are in line with consensus and priced in. Investment grade S&P/Moody's/Fitch ratings: A+/Aa3/AA- respectively. |
| 9. AIMS APAC REIT | AAREIT | High debt headroom with no refinancing needs until Nov 2021, while demand for industrial space stabilise occupancies amid conversions of master leases to multi-tenancies. |

Bond feature definitions

Change of Control Call/Put. With a Change of Control Call, in the event that certain "Change of Control Events" occur, the issuer is obliged to immediately re-pay the bondholders their nominal amount invested. With a Change of Control Put, the bondholder has the option to oblige the issuer to redeem the bond in a "Change of Control Event". The change of control clause is designed to protect investors from the bond issuing company being taken over by another person or entity during the life-time of the bond, thus changing the overall risk profile that the original bond investors signed up for.

Cumulative and Non-cumulative Deferral. If coupon payments are deferred or unpaid by the issuer, bondholders are entitled to all outstanding arrears if the bond has a Cumulative Deferral clause, whereas coupons payment are foregone if there is a Non-cumulative Deferral clause.

Dividend Stopper. The issuer and its subsidiaries shall not declare or pay any dividends if they opt to defer or not pay coupon payments to bondholders. **Dividend Pusher.** A trigger where the bond coupon must be paid as a consequence of a decision made by the general shareholders' meeting to pay share dividends. The look-back period determines how far back accrued interest payments will be made to bondholders, which in some way counteracts the Cumulative Deferral clause.

Optional Payment. An option given to the issuer to, at its discretion, elect not to pay a distribution.

Loss Absorption. A common feature for bank bonds where the issuer can write-down a bond's face value (your principal) either temporarily or permanently upon a trigger event, usually if its CET ratio falls below a certain level.

Cessation Put. Should the issuer's shares cease to be traded on the exchange or are suspended for a certain period, the issuer is obligated to redeem the bond with interest accrued.

Make Whole Call. A provision allowing the issuer to redeem the bond early.

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