PhillipCapital

Phillip Model Bond Portfolio

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SINGAPORE | STRATEGY | SGD CORPORATE BONDS

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The Phillip Model Bond Portfolio outperformed the benchmark for the month and displayed lower volatility in returns throughout. The total portfolio return was 1.1% vs the Singapore Fixed Income index total return of 0.3% (Figure 2). In the portfolio, the FPLSP 4.25% bond showed the biggest price appreciation of 2.9%, while ARASP 4.15% bond lagged with -1.3% (Figure 4). In terms of portfolio return, 0.8% gains was from price appreciation while 0.3% was gained in yield.

Strategy commentary: To outperform the benchmark iEdge SFI Total Return Index on a total return basis with lower volatility, the strategy considers both issuer and bonds. For issuers, we picked a range of sectors for diversification. Sectors include healthcare, real estate development, logistics and e-commerce, retail and industrial REITs, and banking. More importantly, we focused on issuers with established stakeholders to ensure price stability. As issuers grapple with cash flow concerns and bank moratorium expiries, shown by 2 bond exchange programs the past month, established stakeholders can provide financial stability during such periods of stress. Recent examples of such support include GSH Corp management buying its own bonds to refinance upcoming maturities, and Centurion Corp stakeholders participating in the bond exchange offer. In these cases, bond prices were stabilised by the support. For our bond picks, we focused on yields, relative value, and tenors. We limited yields to above 3% for the portfolio's yield attractiveness, and performed sector relative valuations for bond value attractiveness. Our bond tenors are kept short in light of potential bear steepening, where long term interest rates rise faster than short term interest rates. The Fed only holds short term interest rates low, and the anticipated post-COVID economic recovery could push long term rates higher (Figure 3), which could lead to long-term bond underperformance. We maintain the portfolio holdings.

Figure 1: Phillip Model Bond Portfolio

Bond	Maturity/Call Date	Ask Px	YTW%	YTC%	Industry	Features*
1. TMGSP 4.8%	18-Jul-22	102.85	**3.09**	-	Healthcare	1. Cessation Put
2. ARASP 4.15%	23-Apr-24	100.55	**3.98**	-	Real Estate	1. Change of Control Put
3. ESRCAY 5.1%	26-Feb-25	100.70	**4.92**	-	Logistics E-comm	-
4. OLAMSP 4%	24-Feb-26	99.95	**4.01**	-	Commodities	-
5. FPLSP 4.25%	21-Apr-26	105.05	**3.24**	-	Real Estate	1. Make Whole Call
6. ARASP 5.2% Perp	19-Jul-22	100.45	**4.91**	**4.91**	Real Estate	1. Change of Control Call 2. Cumulative Deferral 3. Dividend Stopper 4. Dividend Pusher (12M)
7. MLTSP 3.65% Perp	28-Mar-23	101.65	**2.35**	**2.94**	REIT - Logistics	1. Non-cumulative Deferral 2. Dividend Stopper
8. SPHRSP 4.1% Perp	30-Aug-24	101.05	**3.80**	**3.80**	REIT - Retail	1. Non-cumulative Deferral 2. Dividend Stopper
9. UBS 4.85% Perp	04-Sep-24	102.15	**3.92**	**4.24**	Banking	1. Loss Absorption 2. Non-cumulative Deferral 3. Dividend Stopper
10. AAREIT 5.65% Perp	14-Aug-25	99.75	**5.70**	**5.70**	REIT - Industrial	1. Optional Payment 2. Non-cumulative Deferral 3. Dividend Stopper
Total Portfolio Yield:			**3.99%**			

Source: Bloomberg, indicative pricing as at 23 Oct 2020
**Definitions in Figure 5. YTW: Yield to Worst, YTC: Yield to Call*

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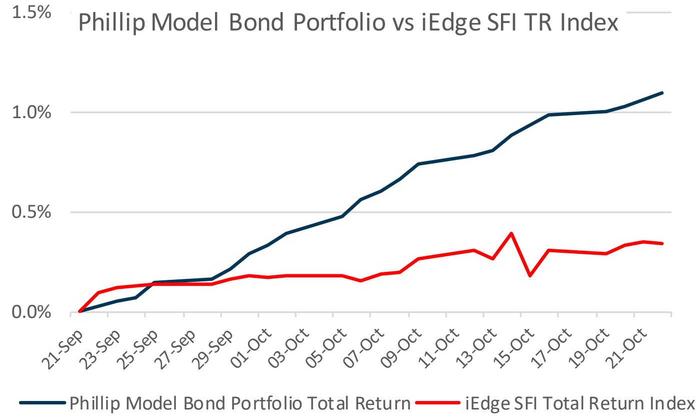
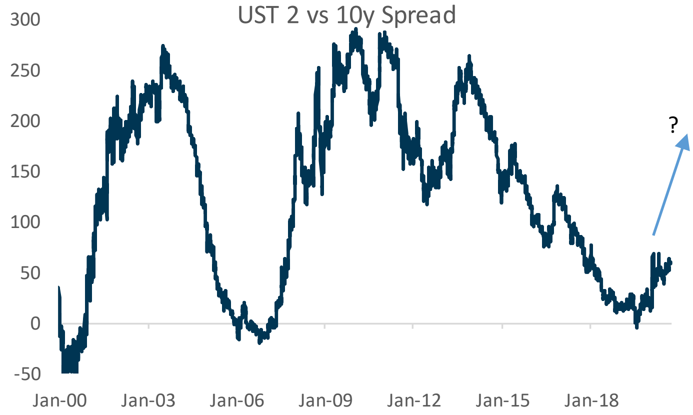
Figure 2: The model bond portfolio beat the Singapore Fixed Income Total Return Index by 0.7% M-o-M with lower volatility.



Source: Bloomberg, PSR

Figure 3: Potential faster increase in long term interest rates vs short term interest rates in post-COVID economic recovery?



Source: Bloomberg, PSR

Figure 4: Biggest price % gain in the portfolio was by FPLSP 4.25%

Issuer	Bond	Ask price 21 Sep	Ask price 23 Oct	Chg%
Thomson Medical Group Limited	TMGSP 4.8% '22s	103.10	102.85	-0.24%
ARA Asset Management	ARASP 4.15% '24s	101.85	100.55	-1.28%
ESR Cayman	ESRCAY 5.1% '25s	99.35	100.70	1.36%
Olam International	OLAMSP 4% '26s	100.05	99.95	-0.10%
Frasers Property Ltd	FPLSP 4.25% '26s	102.10	105.05	2.89%
ARA Asset Management	ARASP 5.2% Perp NC24	99.55	100.45	0.90%
Mapletree Logistics Trust	MLTSP 3.65% Perp NC23	100.75	101.65	0.89%
SPH REIT	SPHRSP 4.1% Perp NC24	99.05	101.05	2.02%
UBS Group AG	UBS 4.85% Perp NC24	100.25	102.15	1.90%
AIMS APAC REIT	AAREIT 5.65% Perp NC25	100.50	99.75	-0.75%
				0.76%

Source: Bloomberg, PSR

Figure 2: Bond feature definitions

Feature	Definition
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 a 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.

Figure 3: Issuer commentary

Issuer	Ticker	Comment
1. Thomson Medical Group Limited	**TMGSP**	Specialist obstetrics and gynaecology healthcare affected by restrictions on non-essential procedures and lower medical tourism. Healthy liquidity of 28x cash to ST debt able to sustain 1 year of operations as reopening ensues. Stakeholder and owner Peter Lim, Singapore's 14th richest man in 2019 by Forbes, has a 88% stake.
2. ARA Asset Management	**ARASP**	REIT management income is sticky with 75% of total management fee as base fees. The private company has an asset light real estate management business model, which could be affected by asset impairments. However, significant buffers of cash 18x to ST debt and assets 2x cover of perpetuals exist, while stakeholders Warburg Pincus (48% stake) are funding sources.
3. ESR Cayman	**ESRCAY**	APAC logistics giant shines from e-commerce triumph. Strong growth comes with heavy expansion which pushes gearing higher with potential capital calls from its real estate funds. Despite this, we're comfortable with gearing levels within management targets of between 20-30% net debt to total assets. Logistic properties are minimally impacted by COVID-19.
4. Frasers Property Ltd	**FPLSP**	A real estate giant with total assets of S$39bn. Further headwinds for gearing as property impairments expected. We take comfort strong funding sources, notably in TCC Group's 83% stake, one of Thailand's largest conglomerates. Others include S$1bn in pre-sold revenues offering months of development revenue visibility and 80% of assets deriving recurring income.
5. Mapletree Logistics Trust	**MLTSP**	Occupancies remain high at 97.2% with resilient demand for logistics space. Majority of tenants have returned to operations. Solid balance sheet with Investment Grade Baa2 stable rating by Moody's.
6. SPH REIT	**SPHRSP**	Largest asset Paragon hardest hit, -3.8% loss in value in last update. COVID-19 impact is harsh on retail; rental rebates could continue, and lease expiries could be weak (25% GRI expiring FY21). That said, very low gearing of 30% provide adequate buffers for any funding needs.
7. UBS Group AG	**UBS**	3Q20 results was best in a decade, driven by wealth management income, leading to dividends declared. Healthy CET1 ratio of 13.5% providing adequate buffer to the threshold of 7%. Investment grade S&P/Moody's/Fitch ratings: A+/Aa3/AA- respectively.
8. AIMS APAC REIT	**AAREIT**	Successfully renewed lease for biggest asset Optus Centre (14% 1Q21 GRI). Gearing at 39% provides adequate asset loss buffers, though leasing demand for logistics and warehouse properties remain resilient. No refinancing needs until Nov 2021.

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