CIMB PREFERRED INSIGHTS

JUL 2021

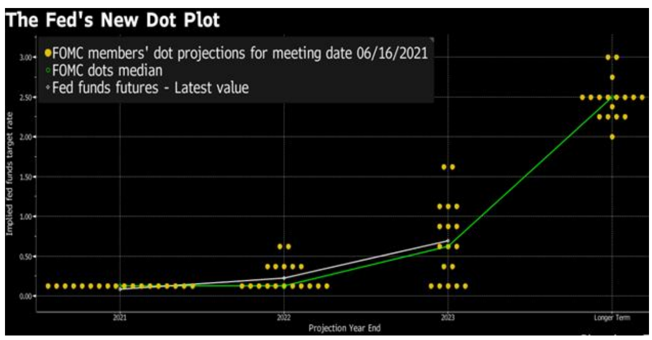
Key Highlights

- **June FOMC update.** The US Fed kept rates on hold (benchmark policy rate at 0–0.25%), with its QE program unchanged at US$120 bn/ month.
- **Receding headwinds to Chinese Equity.** The continued opening up of China's financial markets is a positive development. A-shares also tend to have a lower correlation with global markets. Possible routes to market include:
  - **Aberdeen Standard China A-Share Equity Fund**
  - **Schroders Asian Growth Fund**
  - **Blackrock China Bond Fund**
- **Fixed Income & Equity**. We explore names where customers can participate in the global market recovery:
  - **Walt Disney (DIS UN)**
  - **Morgan Stanley (MS US)**
  - **Advanced Micro Devices (AMD UN)**
  - **Mapletree North Asia Commercial Trust (MAGIC) 3.5% PERP NC 5**
  - **Keppel Infrastructure Trust 4.30% PERP NC 10**

June FOMC update. The US Fed kept rates on hold (benchmark policy rate at 0–0.25%), and its QE program unchanged at US$120 bn/ month.

The Fed Dot Plot median showed an expected rate increase by 2023 to 0.60%. The Dot Plot also indicated 7 officials in favour of 2022 hike; 13 officials see at least 1 hike in 2023.

Meanwhile, the Fed continued to reiterate that the current inflation spikes were largely due to transitory factors. To that extent, Fed is thinking of discussing scaling back bond buying.



Source: Bloomberg

Overall, the June FOMC outcome leaned towards a more hawkish than expected tone. UST yields rose almost 10 bps following the outcome, with 5-to7-year section of the curve leading the way as markets priced-in earlier Fed lift-off. (5Y: 0.87%; 10Y: 1.44%; 30Y: 2.02%).

Notably, we observed that the curve flattened dramatically. In particular, the 5s/30s spread has narrowed by c.20 bps since the beginning of June.

Note: Curve flattening refers to a situation where short term rates rise faster than long term rates (or long term rates may have dropped), which cause the curve to be "flatter".

Receding headwinds to Chinese Equity – Since Nov 2020, headwinds like 1) deleveraging policy, 2) regulatory tightening, and 3) rising economic tensions with the US have shown to be a) non-significant market movers (geopolitics), or b) at the next stage of their development or c) better understood (e.g. internet regulation). We believe the overhangs from regulatory constraints (e.g. education, tech), are likely at the tail end, because key players in the industry have understood, and agree on what needs to be done.

With the China A-shares market correcting since its high in Feb 2021, we believe the risk-reward has improved for Chinese equities.

Over the longer term, the continued opening up of China's financial markets is a positive development. On June 1 2018, A-shares were included in a number of mainstream MSCI indices, including MSCI China, MSCI Asia ex-Japan and the MSCI Emerging Markets Index. MSCI inclusion showed how far China had progressed in its capital market reforms. Currently MSCI has capped the inclusion factor of A-shares at 20%. As it stands, A-shares are still under-represented in global indices. If fully represented, A-shares ought to comprise a higher proportion of the benchmark. We believe it should be a matter of time before a higher inclusion factor for A-shares will be considered and this should be positive.

China A - lower correlation with global markets. Equities on mainland Chinese stock exchanges exhibit a low correlation with other big equity markets. A-shares provide an opportunity to diversify portfolio risk.

US President Joe Biden declared that he has struck an infrastructure deal with a bipartisan group of senators. The infrastructure package may get through Congress with support from both parties. Deciding how to pay for the plan has posed the biggest challenge.

The framework will include $579 billion in new spending, the White House said, including:

- $312 bn will go towards transportation, with $109 bn invested in roads, bridges and other major projects, $66 bn in passenger and freight rail and $49 bn in public transit
- $15 bn will go towards EV infrastructure and electric buses and transit, a fraction of what Biden first proposed
- The plan will put $266 billion into non-transportation infrastructure
- It includes $73 billion for power, $65 billion for broadband and $55 billion for water

FCN and Stock Ideas:

Clients may consider an FCN that comprises of industrial equipment companies such as **Cisco (CSCO US).**

Cisco System (CSCO) is the world's largest hardware and software supplier within the networking solutions sector.

The infrastructure platforms group includes hardware and software products for switching, routing, data center, and wireless applications. Its applications portfolio contains collaboration, analytics, and Internet of Things products. Cisco is actively repositioning its portfolio such as enhancing its business as a one-stop-shop for networking solutions.

Beyond its traditional strength in hardware equipment, it is emphasizing software and applications, to further integrate with hardware. Cisco is also accelerating its move towards a subscription-based revenue model over its previous licensing-based business.

We further expect the rollout of 5G and related networking buildout should benefit well positioned companies such as Cisco.

Key risks of the stock include 1) Large enterprises could look to outsource network infrastructure capabilities or move work-load to the cloud (to external cloud service providers). This move may reduce the opportunity set for traditional network equipment suppliers like Cisco.

Other FCN options that clients can consider: **Walt Disney (DIS UN)** together with **Morgan Stanley (MS US)** and **Advanced Micro Devices (AMD UN).**

- **Morgan Stanley (MS UN)** near term outlook underpinned by continued capital markets strength, the support of substantial net asset inflows in both the Wealth Management and Investment Management businesses, net interest revenue growth on healthy loan demand, and deployment of excess capital. The greater appeal comes from its efforts to advance its strategic transformation to achieve more durable sources of revenue streams, with higher returns through its acquisition of E*Trade and Eaton Vance.

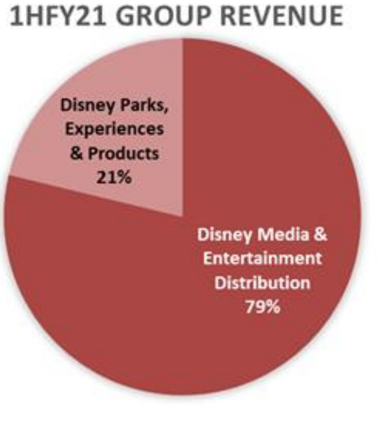
  Key risks include: 1) The performance of the capital markets may impact the Investment Banking capital markets' business; 2) Wealth Management performance and net new assets tend to be geared towards equity markets' performance; 3) Execution risk on the integration of both E*Trade and Eaton Vance may present downside risks.

Advanced Micro Devices (AMD UQ). We expect AMD to continue gain market shares in CPU and especially in servers/ data centers driven by its product roadmap (better products launched in a timely fashion). We also think that its acquisition of Xilinx, Inc. (leader in the field-programmable gate array (FPGA) of the broader chip industry) is synergistic and broadens the group's total addressable market.

Key risks: 1) Uncertainty from ongoing COVID-19 pandemic. 2) Strong competition among the players in the semiconductor industry 3) poor execution and integration of acquisitions of Xilinx 4) Dependency upon third-party intellectual property to deliver new products to market on a timely basis; 5) there are competitive pressures from the ARM architecture and its licensees.

Walt Disney (DIS US).

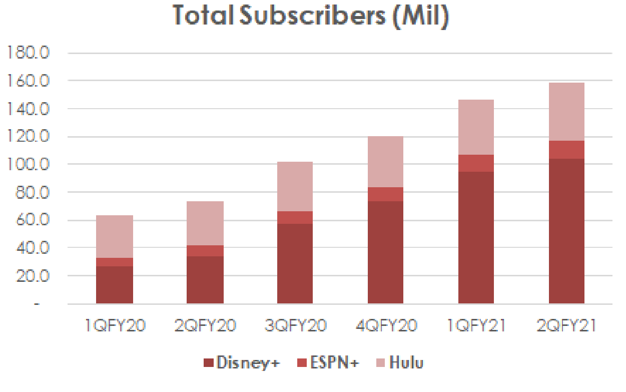
Under the new re-org of its media and entertainment business, Disney's creative engines will focus on developing and producing original content for the company's streaming services, as well as for its legacy platforms, while distribution & commercialization activities will be centralized into a single, global Media and Entertainment Distribution Group which will be responsible for all monetization of content- both distribution and ad sales – and will oversee operations of the company's streaming services.



Source: Compiled from Company Results

Walt Disney is in the process of transiting its businesses to a digital platform, and this is underpinned largely by its subscription-based services namely Disney+ (in the DTC segment). The re-org was a first step.

Clear strategy. Walt Disney's targets of 230-260 mill subscribers by FY24, driven by new market launches, attractive pricing and the debut of Star products bundled within Disney+. We believe Disney has strong content library, high brand equity and good track record to execute and meet its strategy targets.



Source: Compiled from Company Results

Disney is also a recovery play. Current operating income is negative for Disney Parks/ Experiences & Products. The main drag to revenue and profitability was the Parks & Resorts, as theme park operations was severely impacted by the lockdowns globally. This was followed by Studio Entertainment as theatres were closed, and no significant titles were released. All these can turn around when economy re-opens as vaccination progresses. As the market may shift attention to recovery themes, we believe Disney offer investors a quality exposure to that theme.

Recently, share priced dipped post results but we see the subscriber growth slowdown as a blip and would take advantage of weakness in shares, given Disney+ will benefit in FY22 from further market launches, an aggressive ramp in content and price increases flowing through, in addition to Park/Film recoveries.

Key risks: 1) the recovery path of its Parks & Resorts and Studio due to covid-19 impact; 2) competitive landscape for its Subscription streaming services and how it would affect the subscriber growth.

Apple (AAPL US).

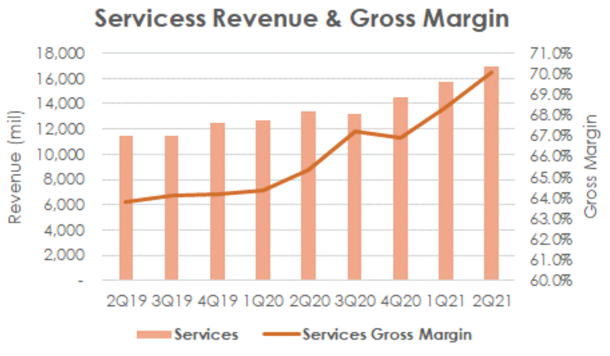
Background. Apple ("AAPL") designs, manufactures, and markets computing and mobile communication devices, as well as software, services, peripherals, and networking solutions. Apple's primary markets are Americas (38%), Europe (25%), Greater China (20%), Japan (9%) and rest of Asia Pacific (8%).

Concerns about iPhone upgrade cycle declines and cyclical WFH demand should be well discounted. There is a worry that the iPhone is entering a more modest upgrade, but we believe the concerns should have been discounted.

Apple recently expanded trade-in, financing, and instalment offers which should improve iPhone affordability. Many existing iPhone users are likely to opt for more expensive devices- lifting ASPs and margins, a sustainable trend given the current strength of consumer balance sheets heading into FY22 (due to savings and government handouts). While 5G adoption is still in the early stages, at 9% installed base penetration globally and 11-21% across Apple's two largest markets (the US and China). This should provide strong upgrade potential ahead.

We believe Apple's ecosystem is a competitive strength underpinned by its large installed base. As of Jan 2021, Apple has an installed base of 1.65 bn devices, including more than 1 bn active iPhones. Such an installed base is a strong competitive moat. Apple's current ecosystem is a powerful client retention tool which helps to reduce churn and elongates time spent inside the ecosystem, which drive upside to life-time value and add-ons that grows revenue per user.

Apple's services can be a growth booster within its ecosystem. CFO recently stated that the company currently has 660 mil paid subscribers for its services with an increase of 145 mil paid subscriptions last year.



Source: Compiled from company release

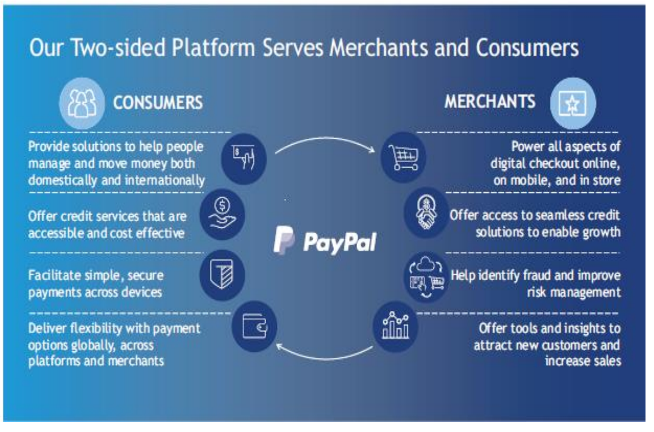
Apple has expanded and improved its offerings. In Oct 2020, it released the Apple One bundle. The bundles can attract customers to subscribe for more services, resulting in increased recurring revenue. An increasing margin and shifting of sales mix towards services can drive high quality growth and stability.

Key risk: 1) Uncertainty from ongoing COVID-19 pandemic. 2) Apple competes in highly competitive markets subject to fast technological development. 3) Apple is facing antitrust scrutiny in the U.S. and Europe for its App Store policies, including its 30% commission fee 4.

PayPal (PYPL US).

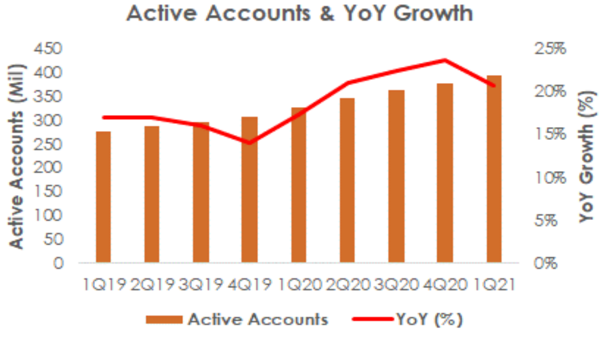
Background. PayPal is a technology platform and digital payments company that seeks to enable digital, mobile payments, in-store transactions between consumers and merchants worldwide, while being both technology and platform agnostic.

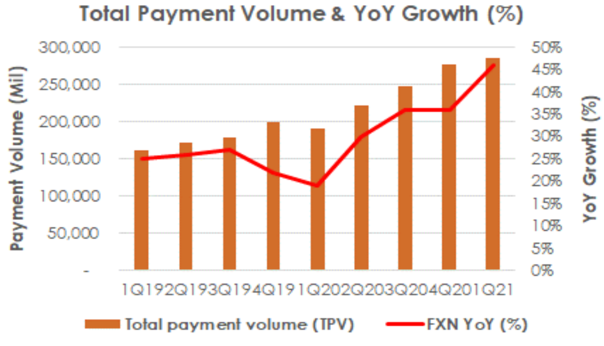
PayPal's 2-sided Platform is built on foundation designed to drive growth and differentiate from competitors.



Source: Company's Report

It is able to achieve Scale— global scale and acquisitions allowed PayPal to drive strong growth. As of Mar 2021, there were 392 million active accounts. In the last 4 quarters, PayPal processed $1,031 billion of TPV (Total Payments Volume).

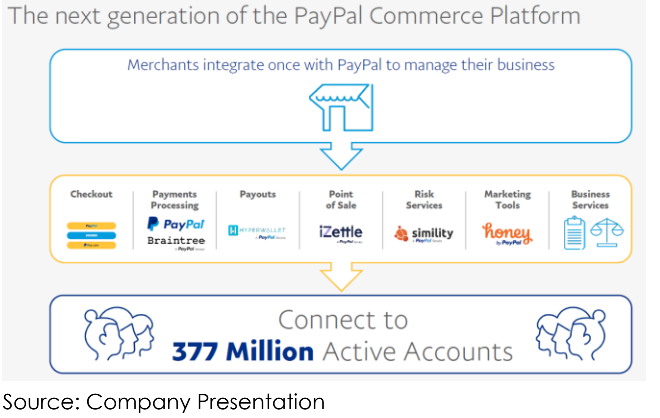




Source: Compiled from company release

PayPal articulated its vision of becoming a super app, complete with payments, shopping and financial services experiences at its Investor Day in Feb, a logical extension given its scale and growing product breadth.

A schematic of the various PayPal solutions:



Source: Company Presentation

PayPal's "Super App" strategy is likely to bring significant follow-on benefits such as reduced churn, improved pricing power, increased activity and potentially higher margins. As new products/services are introduced, PYPL's historical levels of user churn can potentially be lowered, providing its business model with a "built-in" growth accelerator.

Cryptocurrency. On the company's earnings call, CEO Dan Schulman did point to cryptocurrency as a key growth engine for the company, saying that half of crypto users open their PayPal app daily, suggesting increasing engagement from users, noting also its network of 26 million retailers. We believe the opportunity in Crypto-trading can be nascent and we will monitor this closely but for now impact may be longer term.

Key risks: 1) PayPal may increasingly come into competition with larger companies in the future. 2) Alipay and WeChat provide examples of how governments could favor local players, and this could shut PayPal out of some emerging market opportunities. 3) Opportunities to monetize Venmo could be limited; 4) poor execution and integration of acquisitions; 5) high valuation premium may see de-rating if PayPal's structural growth deteriorates.

Bond Ideas.

Mapletree North Asia Commercial Trust (MAGIC) 3.5% PERP NC 5

Ticker: MAGIC 3.50% PERP	
Issuer	DBS Trustee Ltd. (as trustee of Mapletree North Asia Commercial Trust)
ISIN	SGXF49184645
Bond Type/Rank	Subordinated Perpetual Non-call 5
Issue Rating	Unrated
Issuer Rating	Baa3 (neg) by Moody's
Issuance Size	S$ 250 mil; min. denom S$250,000
Maturity Date	N/A; perpetual
1st Call Date	8th June 20326; every 6 months thereafter
Coupon	3.50% p.a
Coupon Reset	5Y SOR + 2.527% at end of year 5; reset every 5 years thereafter
Step-up Margin	NOT APPLICABLE
Distribution Deferral	Yes, at Issuer's discretion, non-cumulative basis
Dividend Stopper	Yes. If distributions scheduled are not made, Issuer shall not & shall procure that none of its subsidiaries shall, among others, declare or pay dividends/distribution on junior obligations or parity obligations.
Dividend Pusher	No

Background.

Mapletree North Asia Commercial Trust ("MAGIC") is a trust with 12 properties across HK, Beijing, Shanghai, JPN and South Korea with AUM of S$7.945 bn. Key assets in portfolio include: Festival Walk, HK and Gateway Place, Beijing. MAGIC has been listed on SGX since 2013.

Key credit metrics for 12-month ending Mar 21:

	FYE03/21	vs FY03/20
Gross Revenue	S$391.4 mio	+10.4% yoy
Net Property Income	S$292.0 mio	5.2% yoy
DPU	6.175 cents	-13.3% yoy
Agg. Leverage Ratio	41.5%	-
Interest Cover Ratio	3.7x	-
Effective Interest Rate	1.99% p.a.	-

The trust's sponsor is Mapletree Investments (37% stake in MAGIC), a wholly owned subsidiary of Temasek Holdings, which is in turn wholly owned by the SG government.

Considerations.

Credit strength includes quality and well located asset portfolio with improving credit metrics given its recent dividend reinvestment plan (which is generally a credit positive to bondholders).

MAGIC had in late May announced its plan to acquire a freehold office building in Greater Tokyo. The sales consideration of S$474.7 mio will be met by combination of debt raised and proceeds from this perpetual bond. Post-acquisition, group leverage is expected to rise to 41.90%. This exercise is considered fairly positive as portfolio diversification will lead to gradual income reliance from Festival Walk.

Credit is also supported by financially sound sponsor, Magic Investments (which is 100% owned by Temasek).

Key risks:

Uncertain and uneven recovery in respect of the operating perfomance of MAGIC's properties given the disruption caused by the pandemic.

Meanwhile, clients with the appropriate risk appetite may re-deploy some proceeds can consider the

Keppel Infrastructure Trust 4.30% PERP NC 10

KEPPEL INFRASTRUCTURE TRUST 4.30% PERP NC 10 (Ticker: KITSP 3.8 perp)	
Issuer	Keppel Infrastructure Fund Management Pte Ltd (as trustee-manager of KITSP)
ISIN	SGXF78346933
Bond Type/Rank	Subordinated Perpetual Non-call 10
Issue Rating	Unrated
Issuance Size	S$300.0 mil; min. denomination of S$250,000
Maturity Date	N/A; perpetual
1st Call Date	9th June 2031; every 6 months thereafter
Coupon	4.30% till 1st Call Date; payable every 9th June & 9th Dec
Coupon Reset	10Y SOR + 2.735% (initial margin) + Step up Margin at the end of year 10; and reset every 10 years thereafter
Step-up Margin	100 bps
Distribution Deferral	Yes, at Issuer's discretion, on cumulative basis
Dividend Stopper	Yes. If distributions scheduled are not made, Issuer shall not & shall procure that none of its subsidiaries shall, among others, declare or pay dividends/distribution on junior obligations or parity obligations.
Dividend Pusher	No
Other Redemption	At par if due to (i) taxation reason; (ii) minimal o/s amount; (iii) cessation or suspension of trading of KITSP.

Background. Keppel Infrastructure Trust ("KITSP") is a diversified business trust listed on SGX with market capitalisation of S$2.70 bn. KITSP's assets are segmented into 3 core sectors namely: distribution & network; energy and waste & water.

Its portfolio of strategic infrastructure business/assets provides essential products and services are expected to deliver resilient cash flow given favourable market dynamics where most of its assets are backed by long term contracts.

The trustee-manager for KITSP is Keppel Infrastructure Fund Management, an indirect wholly-owned subsidiary of Keppel Corp. KITSP is sponsored by Keppel Infrastructure Holdings Pte. Ltd. (wholly-owned subsidiary of Keppel Corp.), which invests in, owns and operates competitive energy and infrastructure solutions and services.

Major shareholders of KITSP include: Keppel Corp. (16.5%); Tembusu Capital Pte Ltd, a Temasek wholly-owned subsidiary (12.26%) etc. Note: Temasek indirect shareholding is approximately 15%; if inclusive of Temasek's 20.41% shareholding in Keppel Corporation.

Considerations.

- **Large diversified infrastructure-focused portfolio.** KITSP's diverse portfolio of infrastructure and infrastructure-like businesses and assets comprise waste treatment, water treatment, power production and transmission, piped town gas production and retailing located across SG, AU, NZ and Philippines.
- **Defensive businesses/assets that provides essential services to customers**. KITSP's assets/businesses are involved in provision of essential services (such as clean water, waste incineration, town gas and supply/availability of power). Resilience in cashflow generation during Covid-19 period demonstrates the defensive qualities of KITSP's diversified portfolio.

However, credit is balanced by elevated gearing level, structural subordination (KITSP is dependent on cashflow distribution from its assets to be up-streamed); as well as risks associated with investing in perpetual securities (coupon deferral risk and non-call risk etc). **Key risks include** 1) KITSP FY20's unadjusted gross gearing (excluding lease liabilities and perpetuals) was 1.45x vs 1.23x in FY19. This was mainly due to lower equity (book value) as KITSP took a S$76.2 mio write off in relation to the arbitration outcome for Basslink. Equity was further eroded due to loss after tax of S$52.06 mio (as a result of divestment loss from IXOM's sales of Latin America business and disposal of KITSP's China life science business; these are non-cashflow items).

In this market backdrop, clients who have concerns on rising yields or still on the side-lines may consider participating in **sub debt and/or perpetual securities with call dates coming in 2022** such as: **FWDGRP 0% zero coupon subordinated perp (call June 22)**

FWD GROUP ZERO COUPON PERPETUAL BOND	
Issuer	FWD Group Ltd ("FWDGRP")
ISIN	XS1628340538
Bond Type/ Rank	Zero-coupon Sub Perpetual Bond
Issuer Rating	Unrated
Maturity Date	Perpetual
1st Call Date	15th June 2022, 6 mths thereafter
Issue Price	72.189
Coupon	NO COUPON
Coupon Reset	5Y UST (current: 0.71%) + 4.865%
Coupon Deferral	Yes, at issuer discretion (applicable, if bond not called on 1st call date)
Dividend Stopper	Yes
CoC Call	At option of Issuer, in whole if, among others, Mr Richard Li or any affiliate ceases to control the Issuer.
IPO Event	Redemption at Issuer's option, in whole only.

We opine that this perpetual securities is suitable for clients with mid-to-high risk appetite that have relatively long investment horizon.

Higher upward rates movement could compel issuers to call the paper. Investors could then get to re-invest proceeds in newer instruments that could have higher coupon in 2022.

Issuer/ Issuance Commentary:

- FWDGRP is the insurance arm of Pacific Century Group ("PCG"). The FWD brand offers, among others, life & medical insurance across 9 regions (JPN, TH, ID, SG, VN, MY, HK & Macau).
- FWDGRP is 75%-owned by PCG, which is wholly-owned by Richard Li. Swiss Re has ownership of 13% in FWDGRP.
- Thailand & Japan business continues to be main revenue driver to FWDGRP at 53% & 42%, respectively. 1H20 revenue was US$3.019 bn (+67% yoy). However, group reported loss of US$184.4 mio given high expenses of US$3 bn due to its aggressive growth weighing on profitability. Total asset stood at US$34.72 bn as of 1H20.
- Operating entities have adequate solvency ratios as required by respective local regulators. FWD Thailand reported ratio of 466% (vs 100% requirement) while FWD Japan reported ratio of 1,089% (vs 200% requirement).
- Instrument is a discounted bond issued at 72.189, with no coupon until 1st Call Date. If not called, holders are compensated by relatively high coupon rate (given punitive coupon reset spread of 4.865%). In view that FWDGRP is still in its growth stage, expenses and debt levels are expected to be elevated; which will continue to weigh on profitability until it reaches maturity stage.

Fund Ideas.

Finally, for customers who prefer a more diversified approach, you may consider **global equities funds** such as 1) **United Global Durable Equities**; and 2) **Allianz Global Sustainability Fund.**

Within Equities, we have a relative Overweight in Asia over Developed Markets. Asia/Asean should be beneficiaries of accelerating growth in DM, through exports (especially tech sector) as well as funds flows.

We saw value-unlocking exercises in Asia (eg Singapore, HK) through a mix of M&A, asset disposals & listings, reorganization or heavy cash return exercises. As such, we highlight **Asian equities funds** such as 1) **Schroders Asian Growth Fund**; 2) **Aberdeen Standard Pacific Equity Fund**

Currency appreciation expectation and crackdown of speculative activities in commodities and crypto currencies may have contributed to the sentiment and index move. According to CGS-CIMB Research, the central government's tone against surging commodity prices has turned much tougher - with the State Council calling some immediate measures to tame commodity prices, including increasing export tariffs and lowering import tariffs. This has helped to tamper concerns over China exporting inflationary pressures.

We highlight **China focused funds**: **JP Morgan China A-Shares Opportunities Fund** or **Schroder China Opportunities Fund**

For Fixed Income, we stay invested in **Fullerton Asian Bond Fund** which is in the Asian Investment Grade space. For clients who prefer a more diversified approach across Asia, you may consider the **Blackrock Asian Tiger Bond Fund.**

Please speak to your Relationship Manager for more details.

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