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INSIGHTS

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Key Highlights

- **China – NPC Updates.** Monetary and Fiscal policies will provide short-term support. Longer term support will be driven by broader economic policy changes that aim to grow total factor productivity.
- **Focus on reopening of US economy.** Recovery will be stretched out with more impact coming in 2H20. Low inflation and strong policy response mean bond yields are likely to remain low.
- **Capitalise on US recovery**. Focus on names that are well positioned to capture the US recovery.
- **Fixed Income Strategy**. Consider Asian Investment Grade credits as these tend to offer a more attractive yield pickup vis-à-vis their US peers.

Investment Updates

China - Post National People's Congress update. China's 2020 National People's Congress (NPC) commenced in Beijing on 22-May. Premier Li presented the government's 2020 working report to detail China's 2020 macro development targets.

- **More room for fiscal stimulus**. The budget deficit target for 2020 is expected at no less than 3.6% of GDP, up 0.8% yoy and exceeding the implicit ceiling of 3%. The target is also slightly above the market expectation of 3.5%. The scale of special treasury bonds for COVID-19 control is RMB1tr.
- **Strong support for local government finance**. CGS-CIMB Research notes very strong support for local government finance and infrastructure projects: (i) issuance of special local government bonds will increase from RMB2.15tr in 2019 to RMB3.75tr in 2020; and (ii) the central government will transfer RMB2tr to local governments this year. China thus leaves enough room for further stimulus if downward pressure on the economy continues to grow in 2H20. China has also pledged to give priority to new infrastructure, new urbanization initiatives and major projects - such as 5G applications, public health and so on.
- **Accommodative monetary policy.** Although there are no specific targets for M2 growth or total social financing this year, Premier Li Keqiang mentioned the growth rates of these two indicators should be significantly higher as compared to 2019.
- **Long-term goal to raise total factor productivity**. While fiscal and monetary policy will be used to help achieve short-term economic goals, issues such as new infrastructure, industrial policy, the opening of markets to foreign investors, and the coordination of regional development are important for long-term economic growth. In particular, China aims to push forward market reforms to support the growth of total factor productivity.
- **Stable property market should be supportive to the Chinese real estate market**. Some stabilizing factors include (1) supportive monetary policy and (2) more dynamic property policy with stabilisation as the dominant target.

Some developments that occurred could potentially be de-stabilizing for US-China relations. Firstly, the US Senate passed a bill to tighten stock listing requirements for foreign companies. It will ban the listing of companies from any of the US stock exchanges if they fail to comply with the US Public Company Accounting Oversight Board's (PCAOB) audits for three consecutive years. Public companies are also required to disclose whether or not a foreign government owns or controls them. While the bill still needs to pass the House of Representatives before

the President can sign it as law, it has increased uncertainty for Chinese listings in the US.

Secondly, China's NPC is planning to pass legislation on a national security bill that will be included into Hong Kong's Basic Law without requiring a further vote by HK's Legislative Council (LegCo). There are few details on what is included in the new law, but it is expected to be interpreted that any protest against Chinese rule can be construed as subversion, terrorism or treason. As such, this has triggered large-scale protests.

Potential implications. If the law is introduced, more than just street protests, this will likely stir up geo-political dimensions beyond HK and China.

- **Domestic Hong Kong companies may be impacted**. Hong Kong companies involved in Hong Kong property and other domestic activities may suffer in the short-term. Other companies perceived to be aligned with the Chinese government (e.g. Chinese government-owned banks and other entities) may also be subject to boycotts in HK.
- **Further conflict with the US**. In 2019, US Congress passed the Hong Kong Human Rights and Democracy Act, which allows the US to withdraw trading and economic privileges extended to HK only (and not China) if the secretary of State determines HK's autonomy is being eroded.

Covid-19 Updates: Re-opening and potential recovery. With the corporate earnings results season largely over in the US, the focus will increasingly shift towards how Covid-19 restrictions can be relaxed, and the economy's gradual path to recovery.

A more staggered approach by the states (in US) and industry mix is coming into view. The reopening plans are likely to be more stretched out. Businesses facing a more staggered opening will see slower initial growth rates of recovery. Hence we expect the initial bounce will be less pronounced, and will see a greater shift towards 2H20.

We highlight the following factors that may shape the recovery:

- **Inflation outlook**. The drop in oil prices is likely to restrain headline inflation trends and consumer prices till end-2020.
- **Policy response strong**. In terms of monetary policy, the Fed is offering its full support to the economy. Low to Zero rates, along with liquidity and funding platforms have been effected. Unprecedented fiscal responses have also been introduced.
- **Bond yields likely remain low** underpinned by the Fed as it embraces ultra-low rates for the foreseeable future and inflation pressures are low. The Fed is signaling a commitment to low rates for an extended period. This combination implies low long-term bond yields.
- **(Geo)-political Risk**. 2020 is the US presidential election year. The economic pullback and Trump's Covid-19 strategy has been seen as unfavorable to his re-election thus far. Hence, talks on China tariffs have re-surfaced and tensions between the superpowers may rise.

We highlight selected USD equity names that are better positioned to capitalize on any potential recovery. We reiterate **McDonald's (MCD US), Starbucks (SBUX US)** as well as highlight **Cisco System (CSCO US)** this week**.**

We expect the recovery of McDonald's operations will take time (gradually). Over the medium term, McDonald's will likely win market share from weaker players given its technology investments, value platform, and franchisee health.

Starbuck's China business recovery serves as a good playbook for managing their re-opening of the US business. SBUX had already been building out its mobile ordering capabilities even before the Covid-19, and this mode should mean a stronger position in the recovery.

We believe Cisco has weathered well against a cautionary enterprise spending environment. Cisco is actively repositioning its portfolio and has been accelerating its move towards a subscription-based revenue model. The net impact of this should be a steady improvement of margins and higher revenue visibility.

Conclusion. We expect China-US relations to remain tense until at least after the US elections, but we consider the issue an incremental negative rather than a major driver. The issue on the potential de-listing of Chinese firms does not affect the stocks' fundamentals, and US institutional investors would likely still be able to trade stocks re-listed in Hong Kong. The transition is also likely to take time (i.e gradual rather than disruptive) as there will be impact to US investors.

Our concern is a possible return to weaponization of tariffs. Having said that, the situation could play out on multiple fronts with rhetoric and non-tariff regulations on tech, financing and portfolio investment more likely than tariff escalation.

We prefer to invest via actively managed and diversified China funds and reiterate **JPMorgan China A-Share Opportunities Fund** to capitalize on such market opportunities. China's recovery from Covid-19, stimulus responses and infrastructure spending are likely to benefit domestic companies more. They are also less likely to bear the brunt from the trade war rhetoric.

We reiterate Asian high quality credits in the fixed income space. Policy response from the US Federal Reserve has been strong, which may underpin low rates. Furthermore, Asian sovereigns' fundamentals are in a better state compared to previous crisis.

Investment Grade ("IG") corporates credit profile are generally strong and have access to good funding channels. Credit metrics for IG corporates are likely to weather soft patches as the leverage levels of Asian USD issuers have improved over the last three years.

Asia IG credits remained attractive and spreads are wider than its US peers. Long term valuation for Asia credit offer attractive compensation for the credit risks.

We continue advocating participation in Asian credits via funds. For Bond funds, we highlight **Fullerton Asian Bond Funds** and the **United Asian Bond Fund**.

For individual credits, we feature 1) **Longfor Group USD 3.85% Senior Secured Jan 2032** and 2) **China Huarong Asset Management USD 3.875% Senior Unsecured Nov 2029**

Unit Trust Fund: JPM China A-Shares Opportunities Fund

Objective. To provide long-term capital growth by investing primarily in companies of the People's Republic of China (PRC).

Philosophy. The investment objective of the China A-Share Opportunities Fund is to provide long-term capital growth by investing primarily in companies of the People's Republic of China (PRC). The Fund uses an investment process based on a fundamental, bottom-up stock selection process. It uses a high conviction approach to finding the best investment ideas and seeks to identify high quality companies with superior and sustainable growth potential.

At least 67% of assets invested in China A-Shares of companies that are domiciled, or carrying out the main part of their economic activity, in the PRC through the China-Hong Kong Stock Connect Programmes, the RQFII and QFII quotas. These investments may include small capitalisation companies. The Fund may be concentrated in a limited number of securities or sectors from time to time.

Top 10 Holdings	*%*
Ping An Insurance	*8.1*
Kweichow Moutai	*5.4*
China Merchants Bank	*4.5*
Jiangsu Hengrui Medicine	*4.4*
China Vanke	*3.9*
Luxshare Precision Industry	*3.6*
Midea	*2.8*
Ping An Bank	*2.6*
BOE Technology	*2.5*
Hangzhou Tigermed	*2.5*

Source: Fund Factsheet (Feb 2020)

Sector Breakdown	*%*
Financials	24.0
Information Technology	21.4
Health Care	17.9
Consumer Staples	16.5
Industrials	8.3
Consumer Discretionary	6.5
Utilities	2.4
Materials	1.0
Others	0.9
Cash	1.1

Source: Fund Factsheet (Feb 2020)

According to the factsheet, the Fund has a 1-Yr Beta of 0.91, and 1-Yr volatility of 15.47%

The Fund may be suited for investors who seek long-term capital gain, wish to find exposure to fixed income in Asian region, with the appetite for opportunities that come with the volatility and risks of a fund exposed to the Chinese equity market.

Fixed Income Fund: Fullerton Asian Bond Fund

Objective. The Fund invests primarily in debt securities denominated in USD and Asian currencies; issued by companies, governments and quasi-governments, agencies or supra-nationals in the Asian region.

The Asian countries include, but are not limited to; China (including Hong Kong SAR and Taiwan), South Korea, India, Thailand, Malaysia, Singapore, Indonesia, the Philippines, Pakistan and Vietnam.

The benchmark for the Fund is the JACI Investment Grade Total Return.

Philosophy. The fund manager aims to capture sources of alpha in interest rate, credit and currency via its investment process of top-down macro analysis, as well as bottom-up credit selection and yield curve positioning. The objective is to achieve long-term capital appreciation for investors.

Within this framework, the Investment Manager will evaluate whether bond markets offer value, the relative value across markets and the outlook for credit. These views form the basis for formulating their duration, bond market allocation, currency and credit strategies. Foreign Direct Investments ("FDIs") may be used for efficient portfolio management purposes.

Top5 Holdings	***%***
Dai-Ichi Life Insurance 5.1% Oct 2049	1.6
PTTEP Treasury Center Co 3.903% Dec 2059	1.5
Parkway Pantai 4.25% PERP	1.5
Sands China Ltd 5.4% Aug 2028	1.3
Pertamina Persero Pt 6.5% May 2041	1.3

Source: Fund Factsheet (Mar 2020)

Rating Breakdown	***%***
AAA	0.4
AA	0.0
A	14.5
BBB	60.0
BB	11.9
B	10.4
C	0.1
Cash and Cash Equivalents	2.6

Source: Fund Factsheet (Mar 2020)

Geographic Breakdown	***%***
Australia	3.1
China	34.4
France	1.6
Hong Kong	8.6
India	6.5
Indonesia	13.4
Japan	3.2
Korea	3.2
Macau	1.6
Singapore	13.0
Thailand	2.7
UK	2.0
Others	4.1
Cash and Cash Equivalents	2.6

Source: Fund Factsheet (Mar 2020)

According to the factsheet, the Fund has an Average Duration of 5.2 years and Yield-to-Worst of 5.8%. The average credit rating of the portfolio is BBB.

According to Bloomberg, the Fund has a 1-year Sharpe Ratio of 5.09, a 1-year Volatility of 1.70% and a Trailing-Twelve-Months Dividend Yield of 3.87%.

The Fund may be suited for investors who seek long-term capital gain, wish to find exposure to fixed income in Asian region, with the appetite for opportunities that come with the volatility and risks of a fund exposed to debt securities denominated in USD and Asian currencies (which may include non-investment grade securities).

Fixed Income Fund: United Asian Bond Fund

Objective. The Fund invests primarily in debt securities in SGD; issued by corporations, financial institutions and their agencies (including money market instruments) in Asia.

The Fund invests in, but are not limited to, Singapore, Malaysia, Thailand, Indonesia, Philippines Hong Kong SAR, South Korea, Taiwan China, Australia, New Zealand and Japan.

The Fund adopts the JP Morgan Asia Credit Index Total Return Composite as its current benchmark for its performance.

Investment Philosophy and Approach. The Fund is actively managed with respect to its yield and a suitable risk premium. There is no preference between sovereign and corporate bonds where yield is mainly dependent on the prevailing credit spread.

The Fund investment methodology is based on the probability of credit upgrades and the degree in which pricing has been reflected in its corresponding credit. The portfolio of investments will be reviewed regularly to provide flexibility in replacing overvalued securities with undervalued securities. In general, investment horizon is long-term and the Fund policy is to save when markets are evidenced to be disproportionately overvalued.

Top Holdings	%
United Asian High Yield Bond Fund – Class SGD Dist	8.04
Huarong Finance 2019 Company 05/29 4.5	3.80
GUANGXI COMM INVEST GR 09/22 3.5	3.75
Perusahaan Listrik Negar 05/27 4.125	3.69
Franshion Brilliant Ltd Company 07/29 4.25	3.49

Source: Fund Factsheet (Mar 2020)

Geographic Breakdown	%
China	50.03
Indonesia	13.05
Singapore	12.22
Hong Kong	9.74
South Korea	5.17
Thailand	2.58
India	1.90
Mongolia	1.65
Netherlands	0.88
Cash	2.77

Source: Fund Factsheet (Mar 2020)

Sector Breakdown	*%*
Financials	28.69
Real Estate	22.51
UT/Funds	12.22
Utilities	11.46
Consumer Discretionary	6.76
Industrials	5.38
Energy	3.74
Materials	2.34
Others	4.13
Cash	2.77

Source: Fund Factsheet (Mar 2020)

According to the factsheet, the Fund has an Effective Duration of 4.57 years and a Weighted Average Yield to Maturity of 7.12%. The average credit rating of the portfolio is BBB+.

This Fund is suitable for investors who desire stable cash flows and capital appreciation, are looking for exposure to Asian debt securities and are satisfied with the volatility and risks associated with investing in Asian debt instruments/ securities.

Equity: McDonald's (MCD US)

Summary. Market took McDonald's ("MCD") latest results in good stride, and share price probably had looked past supposedly weak Mar-April figures. We expect the recovery of its operations will take time (i.e gradually), though we believe MCD will be able to recover faster than many other peers (especially the smaller players). Over the medium term, MCD will likely gather market share from those weaker players on the premise of its technology investments, value platform, and franchisee health. We believe MCD operations will recover and has strong potential to come out stronger.

Background.

As of year- end 2019, McDonald's has a total of 38,695 stores worldwide, of which there are 13,846 stores in the US, 10,465 stores in International Operated Markets ("IOM"), 14,384 stores under International Developmental Licensed Markets ("IDLM").

Of the 38,695 stores as at end FY19, 36,095 were franchised (which is ~93% of McDonald's restaurants).

About 55% of group FY19 revenue came from franchised restaurants and remainder from company-operated restaurants.

MCD's franchised restaurants are owned and operated under one of the following- conventional franchise, developmental license or affiliate.

Considerations

1QFY20 Results was in-line. US Same-Store-Sales ("SSS") growth were 0.1%, International Operated Markets ("IOM") SSS were –6.9%, International Developmental Licensed Markets ("IDLM") SSS were -4.3%.

Same Store Sales Growth (%)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
US	4.5%	5.7%	4.8%	5.1%	0.1%
Int'l Operated Markets	6.0%	6.6%	5.6%	6.2%	-6.9%
Int'l Development Licensed Markets & Corp	6.0%	7.9%	8.1%	6.6%	-4.3%
Total	**5.4%**	**6.5%**	**5.9%**	**5.9%**	**-3.4%**

Source: Compiled from company release

For the first 2 months (end Feb), SSS was generally strong, but SSS began to decline markedly in March due to the Covid-19, which caused significant restaurant closures and "shelter-in-place" guidance. In the US, substantially all restaurants are operating Drive-through, Delivery & Take-away only. Only those in malls are closed.

In the Int'l Operated Markets (IOM), markets such as Australia, Canada, Germany, Russia have limited operations which may include Drive-Throughs, Delivery and/ or Take-away. Several markets such as France, Italy, Spain and the UK had closed substantially all restaurants.

In the Int'l Developmental Licensed Markets (IDLM), China has resumed operations in 99% of restaurants, although market continues to see reduced level of demand as consumers yet to return fully to their pre-Covid routines

Near term outlook. The weak SSS in US will extend into April, but there had been some "improvement". US SSS were approximately -25% in late March to mid-April, though have recovered to -15% in recent weeks, likely driven by benefits from a reduction in pantry loading, home cooking fatigue and stimulus provided through policy response.

IOM SSS in late March through April was -70%, as roughly 55% of restaurants remain closed. While the US SSS improvement is encouraging, slower trends and opening variations of international markets could suggest the recovery will take time, and likely be gradual.

MCD is offering deferral of rent and royalties across the system as liquidity assistance, though terms vary globally. MCD has also temporarily converted its rent to variable. MCD reiterated the majority of franchisees were at or near all-time high cash flows at the end of 2019

Trends in the US appear to be recovering faster than China likely attributable to less disruption as stores have remained open in the US (vs many China stores closed) and a higher US drive-thru mix (~95% US stores vs 15% in China).

Long Term Track record. While the company must still contend with Covid 19-related guest traffic pressures, aggressive industry promotional activity, and other competitive threats across many global markets, we believe MCD's technology investments, value platform, and franchisee health will allow it to sustain mid-single-digit system sales growth over longer horizon, with operating margins improving due to its ongoing initiatives (e.g. through new menu innovations, modernized customer experience including a more personalized digital experience).

Strong ship in choppy waters. On a relative basis, smaller F&B outlets may not be able recover as fast as MCD, nor have the sufficient means to compete post Covid-19. Investors should prioritize those that have the scale to be more aggressive on pricing near-term, have developed robust mobile platforms, and have healthy balance sheets. Clearly MCD is such a player and it is well positioned to compete for market share lost by the smaller players once the economy recovers from Covid-19.

Key risks: protracted impact from the Covid-19, further social distancing and affecting in-dining traffic, higher competition from other delivery aggregators.

Equity: Starbucks (SBUX US)

Summary. We opined that Starbuck's China business is on a path to recovery which serves as a good playbook for managing their re-opening of the US business (current core market). Its US business is entering the phase of reopening stores. Spending should recover as SBUX had already been building out its mobile ordering capabilities even before the Covid-19, which means they are better positioned to recover post Covid-19 than smaller weaker peers.

Starbucks should be well-positioned to leverage its digital assets and new operating formats, like contact-less pickup to expand service to customers. Starbucks still has domestic potential. More importantly, it should expand its long-term channel and geographic growth potential such as in China and other emerging markets.

Background.
Starbucks ("SBUX") has a global chain of stores (~32K globally) with 18.3K in Americas and 13.7K internationally (including about 4.4K in China).

The company distributes packaged beverages and pastries under the Starbucks and Teavana brands under the Global Coffee Alliance partnership with Nestle. In addition, Starbucks markets bottled beverages, ice creams, and liqueurs through partnerships with Pepsi, Anheuser-Busch, Tingyi, and Arla.

In FY2019, Starbucks' Americas segment (including the U.S.) represented ~69% of total revenue, International segment (including China) at 23%, then channel development at ~8%.

Considerations

2QFY20 Results - management outlook points to recovery confidence. Near the end of the 2QFY20 (Mar end), the pandemic started to materially impact its business outside of China, and in the US. As a result, consolidated revenue in Q2 was $6 bn, reflecting a 5% decline yoy due to a 10% contraction in same-store-sales ("SSS") globally, driven by temporary store closures, modified store operations and slower traffic, partially offset by strength in Channel Development.

SBUX maintained its DPS as per prior quarter (USD 0.41).

Comparable Store Sales	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Comparable Store Sales						
Group SSS	4%	3%	6%	5%	5%	-10%
Americas	4%	4%	7%	6%	6%	-3%
International	2%	2%	5%	3%	1%	-31%
-China	1%	2%	6%	5%	3%	-50%

Source: Compiled from company release

Management has a recovery playbook from China. Currently, approximately 98% of stores in China are open, though many with limited seating, reduced hours and other safety protocols in place. Starbucks stores that remain closed in China are primarily located in cinemas and in closed entertainment venues, along with international travel hubs and certain tourist zones where restrictions are still in effect.

Management believes China's SSS will continue to improve in the 2H of fiscal 2020, relative to the 50% decline reported for Q2, expecting it to decline 25% to 35% in Q3, and trending towards roughly flat by the end of Q4, yielding a decline of 15% to 25% in China's SSS for the full FY.

To apply to its US (core market) business. Prior to mid-March, revenue growth in US accelerated to the strongest level in over four years, driven by SSS growth of 8%, led by strong contributions from both Starbucks Rewards members and occasional customers. SBUX's focus on the customer experience, beverage innovation and digital customer relationships has led to this strong pre-covid momentum.

During 2QFY20, 90-day active Starbucks Rewards members, their highly routinized, highly engaged and loyal customer base with whom SBUX could directly communicate digitally, increased to 19.4 million in the US, up 15% from a year ago.

Based on the experience from China, SBUX is well prepared for this mitigate-and-contain phase in the US. SBUS expects to have ~90% of all company-operated US stores reopened by early June with enhanced safety protocols and modified schedules. Pre-COVID, 80% of SBUX's customer occasions in stores in US were for to-go/ takeaway. By augmenting the in-store experience with mobile ordering and contactless pickup, SBUX believes it can serve a reasonable volume of customers without having the cafe seating area actually opened.

SBUX is leveraging more digital tools that enable it to monitor the COVID-19 situation in every community across the US, and leverage a variety of service options from contactless service, entry-way pickup, curb side delivery where parking is available, and at-home delivery that allow SBUX to thoughtfully reopen stores and scale up operations.

Selling Starbucks products through multiple channels amplifies the brand and extends its reach beyond its retail store. Through the Global Coffee Alliance with Nestlé and its ready-to-drink partners, including Pepsi and Tingyi, SBUX offers a wide range of Starbucks products down the aisle in grocery stores, at mass merchants, in convenience stores and online. In Q2, this segment's revenue grew by 15%, which includes a 5% favourable impact primarily related to the Global Coffee Alliance transition-related activity boosting its share of the coffee market outside of specialty retail.

Financial flexibility. Starbucks had further enhanced its financial flexibility, and that includes issuing $1.75 billion of bonds in March with the proceeds used to pay down outstanding commercial paper balances, temporarily suspending share repurchase

program, deferring certain capital expenditures and reducing discretionary spending. It did maintained its DPS.

Key risks 1) extend delay from Covid-19 or a 2nd wave infection; 2) stiffer competition leading to low footfall and pricing pressure; 3) poor execution of strategy to stall its growth.

Equity: Cisco Systems (CSCO US)

Summary. Cisco is one of the few companies that reported earnings that covered up to April (which is the first month to feel the full brunt of the Covid-19 pandemic) and the results gave investors reason for a sigh of relief. We believe Cisco had weathered a cautionary spending environment well, and that the company had done well in managing costs in challenging times as its margins improved.

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 increasingly 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. The net impact of this should be a steady improvement of margins and higher revenue visibility.

Background. Cisco is the world's largest hardware and software player within the networking solutions sector. It is the dominant supplier of switches, routers, firewalls and related networking products. Revenue by segments are as follows:

- Infrastructure Platform (54% of 3QFY20 revenue) consist of hardware and software products for switches, routers, data center products and wireless applications.
- Applications (11% of 3QFY20 revenue) includes collaboration, analytics and IoT products
- Security (6% of 3QFY20 revenue) includes firewall and software-defined security products.
- Services (28% of 3QFY20 revenue) includes technical support and advanced services offerings.

Considerations.

Cisco's results generally beat expectations: Supply chain-related issues (rather than demand issues) in manufacturing and procuring components hurt infrastructure platforms. Applications was down but Cisco saw growth in conferencing and another quarter of double-digit growth for application monitoring via AppDynamics. Security strength was led by unified threat management, cloud security etc.

Revenues by products and services (mil)	3Q19	4Q19	1Q20	2Q20	3Q20
Infrastructure Platforms	7,545	7,877	7,538	6,528	6,430
Applications	1,431	1,487	1,499	1,349	1,363
Security	707	714	815	748	776
Other Products	39	42	26	46	28
Total Products	**9,722**	**10,120**	**9,878**	**8,671**	**8,597**
Services	3,236	3,308	3,281	3,334	3,386
Total revenues	**12,958**	**13,428**	**13,159**	**12,005**	**11,983**

Source: Compiled from company release

Near term trends supportive for Cisco divisions. Despite COVID-19, Cisco is seeing an acceleration from service providers to deploy 5G. It expects work-from-home (WFH) to persist to some degree beyond COVID-19. Additionally, WFH trends are benefitting Cisco's Applications and Security solutions. Cisco is offering more flexible payment terms for customers during Covid-19 and this will likely lead to more customer loyalty and purchases over time. There was an acceleration in telco carrier deployment of 5G networks and that the WFH trend benefitted Cisco's security and application segments. This trend could eventually benefit the core infrastructure business as customer refresh their outdated networks.

Shifting to software. Cisco has been increasing its focus on software. Its security and application segments are both software heavy and some of its switching and routing products come bundled with software & services. We noted that the shift in mix (to more software) helped improve Cisco's gross margins.

To note, certain parts of Cisco's software business did well during the pandemic, namely video-conferencing and AppDynamics (Cisco acquired in 2017) and this should persist. In short, Cisco (predominantly a hardware company) had been shifting towards software and services, security and bundling, a strategic step in the right direction which we believe will help it improve its margins over time. (See table below for trends in quarterly margins)

Shift towards subscriptions provide more revenue stability. Despite Cisco's commanding position in switches and routers, IT professionals are increasingly shifting computer workloads to the cloud. As the company adjusts its strategy such as changing its product offerings, Cisco is moving product sales toward subscription-based offerings, which should be the preferred method of consumption for cloud-based resources. We understand that Cisco is rolling this sales model to additional products and that customers look to purchase bundles with analytics and security. A shift to subscription based business should lend greater revenue visibility as well as topline stability. We see progress being made here.

Staying ahead by re-positioning itself. Cisco is evolving its portfolio at a more rapid rate to stay ahead. Cisco is proliferating software, analytics, wireless, and security offerings, and we see Cisco as becoming a one-stop-shop networking vendor. We expect Cisco to continue looking to acquisitions to bolster its capabilities in areas that can offset pressure in maturing market segments. Given its business scale and robust balance sheet, Cisco should be well positioned to engage in both inorganic and organic opportunities to synergize capabilities like networking and security, together to provide comprehensive solutions for clients.

Key risks

- Large enterprises could look to out-source 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. In the networking space, barriers to entry to new players for software is likely to be lower than hardware, and

this raises the competitive threats for the incumbents like Cisco.

- Unlike software business, Cisco's product suite is a mix of hardware and software application which makes subscription-based business potentially less defensible than a pure software vendor.
- The current US-China trade tension/ tariff war may impact Cisco's chances to expand its businesses beyond its traditional customers-base.

Fixed Income: Longfor Group USD 3.85% Senior Unsecured Jan 2032

Background: Longfor Group Holdings Ltd. ("Longfor") is a leading Chinese develop focusing in residential & commercial segment; total landbank of 68.1 mil sqm in gross floor area, spanning across China (Bohai Rim: 33%; West China: 28%; Yantze River Delta: 19%; Central China: 10%; South China/ HK: 10%). Longfor had 233 development projects with 62 mil sqm in 48 cities, and 80 investment project with 10mn sqm in 19 cities.

Salient Terms of Bond (ISIN: XS2098650414)	
Issuer	Longfor Holdings Ltd.
Issue Size	US$400 mil (Min denom.: S$250k)
Issue Rating	Baa3 (pos) /BBB- (stb)/BBB (stb) by Moody's/S&P/ Fitch
Maturity	13th Jan 2032
Coupon	Fixed at 3.85% p.a.
Ask Price/ YTC^	100.26/ 3.59% (indic)
Ranking	Senior Unsecured
Early Redemption	Issuer may redeem notes at greater of 100% of principal or sum of PV of principal discounted at treasury rate plus 50 basis points.
Change of Control Put	Yes, at 101%.

**Source: Bloomberg (as of 21st May 20); on gross basis.*

Investment Considerations:

Consistent earnings growth track record. FY19 contracted sales of RMB242.5 bn (+21% yoy). Revenue rose 30% yoy to RMB151 bn, of which 93.2% contributed from development, 3.8% from property investment (+41% yoy) and balance 3.4% from property management. Longfor has developed a sizeable investment property portfolio, which offers some degree of buffer against challenging market conditions (10 mil sqm).

Healthy liquidity position & prudent liquidity management: Noted that Longfor has no offshore maturities until FY22. There is an estimated RMB8.0 bn of onshore debt maturing in FY20, but liquidity remains strong, as evidenced by cash/short term debt of 4x. Besides, YTD Longfor has issued USD650m offshore bonds; RMB 5.8 onshore bond; these proceeds are expected to be partially utilised for refinancing activities.

Key Risks:

Impact of Covid-19 outbreak on property sales. Despite reporting weak Feb & Mar presales, noted that presales for April has rebounded (RMB22.05 bn) as China eased restrictions. YTD presales until Apr stood at RMN60.2 bn (-6% yoy), which is commendable in view of current market backdrop.

Increasing debt level to fund land banking and growth. Total debt grew significantly to RMB147 bn for FY19 vs RMB57.87 bn in FY16. Debt was undertaken to fuel its aggressive growth in contracted sales, which grew 175% to RMB242 bn over the same period. That said, leverage level (debt/EBITDA) remained at manageable level of 3.6x in FY19. EBITDA interest coverage ratio stood at >6x. We do not expect any rating downgrade n near term given that S&P recently upgraded Longfor, and will maintain stable outlook if debt/EBITDA is kept at 3.0x level. Moody's had also revised its outlook to positive.

Fixed Income: China Huarong Asset Management USD 3.875% Senior Unsecured Nov 29

Background: China Huarong Asset Management Co. Ltd. ("Huarong") is 1 of the 4 state-owned asset management companies. Huarong helps banks, non-bank financial institutions and corporations dispose of their distressed assets; it has an entrenched position in China's distressed asset market.

Salient Terms of Bond (ISIN: XS2076078786)	
Issuer	Huarong Finance 2019
Guarantor	China Huarong International Holdings Ltd.
Keepwell Provider	China Huarong Asset Management Co. Ltd.
Issue Size	US$500 mil (Min denom.: US$200k)
Issue Rating	Baa1(stb)/A (stb) by Moody's/Fitch
Rating of Keepwell Provider	A3 (Moody's)/ BBB+ (S&P)/ A (Fitch)
Maturity	13th Aug 2029
Coupon	3.875% p.a.
Ask Price/ YTC*	103.33/ 3.46% (indic)
Ranking	Senior Unsecured
Keepwell Deed & Equity Interest Purchase Undertaking ("EIPU")	China Huarong had undertaken to, among others, (i) to directly/indirectly hold at least 50.1% of voting shares of the Issuer and Guarantor; and (ii) to procure each of the Issuer and Guarantor to have sufficient liquidity to make timely payment of amount payable in respect of the notes, coupons and guarantee.

**Source: Bloomberg (as of 21st May 20); on gross basis.*

Investment Considerations:

Credit is underpinned by its (i) modest profitability despite higher impairment cost (FY19 ROA: 0.1%; ROE: 1.20%); (ii) slower asset growth as Huarong heeded government's call to refocus on core distressed asset business (FY19 total asset: RMB1,705 bn vs FY17: RMB1,870 bn); and (iii) diversified funding channels due to its state-owned enterprise status. We opine credit presents decent risk-to-reward for an IG credit as it presently offers >300 bps above 10Y UST.

Key Risks:

No direct guarantee from onshore China Huarong. Despite the lack of guarantee (keepwell agreement and EIPU by China Huarong), ratings assigned reflect the high probability of strong support by Huarong and Chinese govt. A failure to support offshore debt obligations would result in significant damage to credit profile and reputation.

Asset Quality Deterioration. Group reported overdue ratio of 14.2% (FY18: 13%). Impact of Covid-19 will likely lead to further deterioration in their distressed asset. However, asset quality risk is partially mitigated by the large amount of impairment losses that Huarong charged for its credit assets (FY19 asset impairment losses expanded 32% yoy to RMB26.5 bn).

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