CIMB PREFERRED INSIGHTS

OCT 2021

Key Highlights

- We take a look at some ideas within the technology and financials space:
  - **Alphabet (GOOG US)**
  - **DEERE (DE US)**
  - **Microsoft (MSFT US)**
  - **Facebook (FB US)**
  - **PCGI Intermediate Holdings USD Senior 5Y**

[1] It was another tough week for Asian Pacific equities due to a combination of concerns over the debt crisis at China Evergrande Group, jitters ahead of key central bank policy meetings, and the return of macro growth concerns. It was a holiday-shortened week for several North Asian countries because of the Mid-Autumn/Harvest Moon holidays. It was also a week that the Chinese central bank said on its website that all cryptocurrencies are not fiat currencies and cannot be circulated on the market.

MSCI's broadest index of Asia-Pacific shares outside Japan fell 0.5% on Friday (Sept 24) and 1.3% on week, its third weekly loss in a row. The MSCI Asia Pacific Index rose 0.2% on Friday but fell 1.0% on week, its second consecutive weekly loss.

On the other hand, although US and European equities tanked on Monday (Sept 27) , dip-buying and the return of reflation trade lifted market sentiment in the second half of the trading week despite the concerns over the debt problems at China Evergrande Group. For the week, the Dow gained 0.6% and the S&P 500 climbed 0.5% while the Nasdaq gained a marginal 0.02%. US equities gained after Fed Chair Powell reinforced that tapering was not meant to start a countdown to US interest rates hikes despite more voting Fed officials (two more than in the June meeting) expecting a rate increase next year, instead of 2023. Powell said a reduction in bond purchases could come as soon as November and the process could be complete in the middle of next year.

The Fed sees the economy growing 5.9% in 2021, less than 7% in the June projection but to expand faster in both 2022 (3.8% vs 3.3% in the June projection) and 2023 (2.5% vs 2.4%). Private Consumption Expenditure

[1] Adapted from "Sentiments from the week before", Song Seng Wun, 27 Sep 2021

or PCE inflation, the Fed's preferred measure of inflation, is seen higher in 2021 (4.2% vs 3.4%) and 2022 (2.2% vs 2.1%). The unemployment rate is also expected higher this year (4.8% vs 4.5%). Market participants took heart from the reflation trade – defined as an upswing in macro growth accompanied by rising inflation. Stronger growth won over the fear of higher inflation.

Meanwhile monetary policy planners in the UK also turned more hawkish last week. While the Bank of England (BoE) kept its monetary policy stance unchanged, as expected in its September policy meeting, it too said that the case for a modest tightening had strengthened. The BoE Governor said a gradual tapering of its asset purchases program could start in November, and just as with the US central bank, the UK central banks also saw more voting members joining the hawkish side of its board.

At the end of a volatile trading week, the MSCI's gauge of stocks across the globe gained a marginal 0.06%, the first gain, albeit a marginal one in three weeks. This despite it posting its biggest percentage drop in two months on Monday on heightened fears linked to debt-laden property group China Evergrande.

With the monetary policy planners in the US and the UK turning more hawkish, bond yields jumped in the second half of the week.

In summary…

- The yield on US30Y note gained 4 bps to 1.983%, a 3-month high,
- The yield on US10Y gained 2 bps to 1.45%, a 3-month high,
- The yield on US2Y gained 1 bps to 0.27%, a post-pandemic high,
- Germany's 10Y yield gained 3 bps to -0.23%, a 12-week high, and
- Britain's 10Y yield gained 2 bps to 0.92%, the highest since end-May 2019.

Meanwhile in the currency trading…

- The US$ DXY Index rose 0.3% on Friday, & 0.14% on week, its third consecutive weekly gain
- The euro fell 0.2% to US$1.1719 (last Friday: US$1.1725)
- The British pound fell 0.3% to US$1.3672 (last Friday: US$1.3741)
- The Japanese yen fell 0.4% to 110.76 per dollar (last Friday: 109.93)

Stronger growth outlook lifted commodities…

- Brent crude rose 1.1% on Friday and 3.7% on week to over a three-year high of US$78.09 a barrel
- Gold rose 0.4% to US$1,750.4 an ounce, but it fell 0.2% on week, the third weekly loss on the back of the stronger US$
- Bloomberg Commodity Index gained 0.8% on Friday and 1.5% on week, to stay at over a six -year high
- LMEX metal index gained 0.5% on Friday and 0.9% on week, staying at over a 10-year high

Looking into the new trading week…

It will be a busy final week of September and Q3 2021. There are the usual month-end as well as the start of new- month macro data releases. Market participants will continue to follow Evergrande news. The heavily-indebted Chinese property group failed a payment to its foreign bondholders last week. The Evergrande limbo is likely set to continue because the company has a 30-day grace period before any default could be declared. Do take note that it will be another long weekend for China as the nation celebrates the week-long National Day Golden Week holiday from 1 to 7 October.

Over the weekend, Germans went to the polls to vote for a successor to Angela Merkel, who has been chancellor since 2005. At the time of writing, the election failed to produce a clear winner, raising investor concerns of a prolonged decision on the leadership of Europe's biggest economy. This Wednesday, Japan's ruling coalition will choose a new leader who will go on to become Japan's latest prime minister. Market participants have been very hopeful that a new PM will mean more fiscal measures to support the country's weak economic recovery, sending Japanese stocks to over a three decade high. There were some profit-taking last week with the Nikkei 225 declining 0.8% during the holiday-shortened week.

In the US, Treasury Secretary Yellen and Fed Chair Powell will be heading to Capitol Hill for a couple of testimonies. They will testify at a Senate Banking Committee hearing Tuesday, and the House Financial Services Committee on the Fed & Treasury's pandemic response, on Thursday (Sept 30). All eyes will be on the progress of US President Biden's reconciliation bill and infrastructure bill, too.

Meanwhile, a two-day ECB Forum on Central Banking will be keenly watched for more clues on the monetary policy outlook. It will feature presentations from central bank heads from the ECB, the Fed, the BoJ and the BoE.

On the US macro data releases front, traders will look out fresh macro data including the weekly jobless claims, private consumption expenditure price data or PCE (the Fed's preferred measure of inflation), the second revision of Q2 GDP, September Conference Board consumer confithe fi September reading for the University of Michigan Sentiment index, September ISM manufacturing index, and the final September Markit manufacturing PMI.

The prelim Markit PMI for September that was released last week showed the rate of growth of the world's four largest developed economies deteriorated for a fourth month running. The pace of macro activities slowed in the US, UK and Eurozone, while Japan remained in contraction for a fifth straight month. Meanwhile, price growth accelerated to fall just shy of June's all-time high in the eleven- year series history as costs rose at an unprecedented rate, linked in turn to growing material shortages and supply chain constraints. Incidentally, global container freight rates are still climbing, based on Drewry's World Container Index (WCI). It rose to a fresh record high of US$10,377 per forty foot container last week.

Finally, from around this region, the notable macro releases include China and region-wide September PMIs, Australia August job vacancies, building approvals and the month-end data dump from Japan that will include August retail sales, PPI, housing starts, industrial production, jobs report as well as the BoJ Q3 Tankan Survey, Vietnam is set to release Q3 GDP which will reflect the Delta variant impact on its economy.

Notable ASEAN macro news…

- Southeast Asia's economic growth is expected to grow by 3.1% this year before expanding by 5% next year, according to an update to Asian Development Outlook, ADB's widely followed economic publication. The new 2021 outlook is lower than the 4% forecast in July, which was already a downward revision from the bank's original projection of 4.4% in April. Vietnam, which has extended the lockdown in commercial capital Ho Chi Minh City to bring down infections, is expected to grow 3.8% this year, down from the 5.8% forecast in July. The growth projection for next year is 6.5%. Indonesia, Southeast Asia's largest economy, is down to 3.5% growth from the previously forecast 4.1%, with 4.8% expected next year. Malaysia is now on course for 4.7% growth in 2021, down from the 5.5% estimated in July, with 6.1% predicted next year. The Philippines' growth forecast remains unchanged at 4.5% this year and 5.5% in 2022. Myanmar, which is battling coronavirus infections amid political turmoil is expected to contract by 18.4% this year - double the initial forecast. Larger developing Asia is meanwhile on course for 7.1% growth this year, slightly behind the 7.2% projected in July. The region is predicted to expand 5.4% next year. The forecast for China, Asia's largest economy, remains at 8.1% this year and 5.5% next.

- Malaysia Aug CPI eased to a five- month low of 2% YoY, below market consensus of 2.2% YoY. On a monthly basis, consumer prices were flat in August, after declining 0.6% in July.
- Car sales in Thailand fell 38.8% YoY to 42,176 units in August, following an 11.6% fall in July. It was the second straight month of decline in car sales, amid stricter restriction measures to combat the third wave of coronavirus infections.
- Thailand unexpectedly registered a trade deficit of US$1.22bn in August, missing market consensus of a surplus of US$854mn. This was the first trade gap since January, as exports grew by 8.9% YoY, while imports rose at a faster 47.9% YoY.
- Singapore Aug CPI rose 2.4% YoY, in line with market expectations and little changed from July's near 8-year high of 2.5%. On a monthly basis, headline CPI rose by 0.5% in August, the most in 3 months, after a 0.2% drop in July. MAS Core CPI rose 1.1% YoY up from July's 1.0%.
- Singapore Aug manufacturing output rose by stronger-than-forecast 11.2% YoY in August although it was the weakest pace expansion in four months. On a monthly basis, manufacturing output grew by 5.7%, compared with consensus of a 3.1% gain and after a revised 2.8% drop in July.

Fed Messaging. At the last FOMC, US Federal Reserve Chairman Jerome Powell signalled that tapering was imminent and that he expected to start tapering "soon". The Fed in its statement stated that "If progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted" vs statement in June where the Fed merely stated "the committee will continue to assess progress in coming meetings."

Powell said a reduction in bond purchases could come as soon as November and the process could be complete by the middle of 2022. Powell reinforced that tapering was not meant to start a countdown to US interest rates hikes despite more voting Fed officials (two more than in the June meeting) expecting a rate increase next year, instead of 2023.

The Fed sees the economy growing 5.9% in 2021, less than 7% in the June projection but to expand faster in both 2022 and 2023. Private Consumption Expenditure or PCE inflation, the Fed's preferred measure of inflation, is seen higher in 2021 and 2022 (2.2% vs 2.1%). The unemployment rate is also expected higher this year (4.8% vs 4.5%).

In the wake of Wed's FOMC, Treasury yields leaped as markets position themselves for Fed rate liftoff bets:

- 10Y UST: 1.45% (+ 9bps w/w)
- 30Y USY: 1.99% (+ 13 bps w/w)

Outlook. According to CIMB Treasury & Markets Research (report 24 Sep 2021), it sees economic recovery spurring upward pressure on global inflation – driven by higher demand but also partly due to the low base effect from 2020. It projected inflation to remain above the Fed's 2% price stability target in 2022-2024 due to robust domestic demand, fiscal tailwinds, elevated commodity prices, labour shortages and supply disruptions.

Economic conditions are expected to facilitate greater pass through of cost pressures into average selling prices and CPI inflation over the medium term. Inflation trends are expected to be sufficiently enduring and broad-based to exert more pressure on central banks to recalibrate policy stances.

CIMB Treasury & Markets Research expects the Fed to announce the logistics of Taper at the Nov meeting, with a Dec start date. Its assumption is for a monthly reduction in purchases of US$10bn of US Treasuries from US$80bn currently and US$5bn of mortgage backed securities from US$40bn currently, implying the completion of the Taper process by Jul 2022.

	4Q21	1Q22	2Q22	3Q22	4Q22
Bond yields					
UST 2Y	0.30	0.40	0.50	0.60	0.70
UST 10Y	1.50	1.65	1.75	1.90	2.00

Source: CIMB Treasury & Markets Research

CIMB Treasury & Markets Research base case forecasts the first Fed Fund Rate (FFR) hike in 1Q23.

Investment ideas. Given the above backdrop, we **favour equities** that should benefit from a cyclical tailwind (such as higher infrastructure spending) or higher inflationary pressures (such as elevated commodity prices) underpinning a steepening yield curve and eventual policy rate increases.

We highlight stocks a) **Deere (DE US)** - a leading manufacturer of agricultural equipment as a play on infrastructure spending and positive agricultural backdrop plus its initiative to win wallet share; b) **Morgan Stanley (MS US)** - as a financial institutions, it should benefit from a steepening yield curve (if Fed taper and raise rates as economy strengthen). Furthermore, its business transformation enabled it to strengthen its business model as it taps higher fee based revenues; c) **Alphabet (GOOG US)** which we see as a beneficiary of cyclical recovery in advertising revenue within the structural trend of rising advertising share in digital space. Alphabet's revenue had already surpassed pre-Covid 19 levels driven by growth across pillars such as Google Services (Including Ads, Youtube) and Cloud.

For Funds, we believe the cyclical backdrop is further underpinned by infrastructure spending, especially in the areas of climate change which is a long term theme. As such, we highlight **Blackrock Sustainable Energy Fund**. The fund invests in sustainable energy companies such as those engaged in alternative energy and energy technologies including: renewable energy technology; renewable energy developers; alternative fuels; energy efficiency; enabling energy and infrastructure.

REITs had been one of the key beneficiaries amid the global search for yield and Asia Pacific REITs tend to offer relatively attractive forward yields compared to equities and government bonds. Importantly, **Asia REITs have shown resiliency amid rising Treasury yields in the past**. While a spike in yields could bring initial pressure to rate sensitive assets like REITs, the dividend growth potential of REITs could help buffer rising yields trend in the medium to long term. Historical data has shown that **Asia REITs have delivered positive total returns during periods of rising Treasury yield over the past decade**.

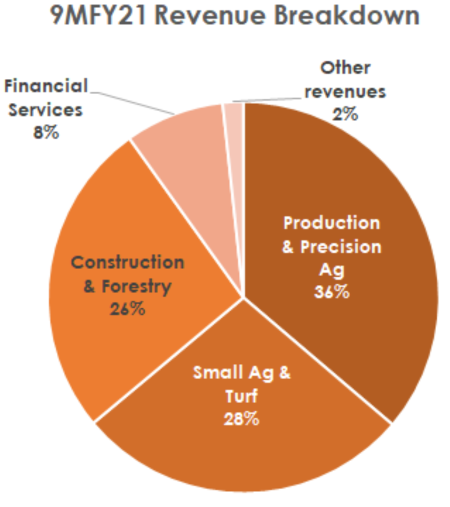
Historically, REITS had been a good hedge against inflation. Inflation that is a result of economic growth tends to translate into greater demand for real estate and subsequent higher occupancy rates, supporting growth in REIT cash flow and dividends. The anatomy of a lease may include annual step-ups and rental increases that are tied to CPI. We reiterate **Manulife Asia Pacific REITs Fund** for income-seeking investors in the growing REITs space in this region.

For Fixed Income, we take a look at **PCGI Intermediate Holdings 4.5% USD Senior 5Y** (Bloomberg Ticker: PCGIHD 4.5 26). We have a constructive view on this credit underpinned by PCGIIH's expanding insurance business via FWD Entities. PCGIIH's credit is balanced by strong sponsor i.e. Guarantor is wholly-owned by Mr Richard Li (ranked 22nd on Forbes' 2021 HK Richest List) and its proposed IPO in US, which is deemed a credit positive (Note: PCGIIH announced it had submitted draft registration with US SEC back in June 2021).

Given the recent Macau gaming sector crackdown as China tightens its grip on this sector, clients who are interested in gaining exposure in gaming sector may consider the **GOHL Capital Ltd 4.25% Senior Unsecured Notes Jan 2027.** These senior unsecured notes are issued by GOHL Capital Limited ("Issuer"). Notes are presently rated Baa1 by Moody's and is guaranteed by Genting Overseas Holdings Ltd ("Guarantor"). The Guarantor is a wholly-owned subsidiary of Genting Berhad ("GENB"). Guarantor is an investment holding company that holds ≈ 53% of Genting Singapore Ltd ("GENS"), the owner and operator of Resorts World Sentosa integrated resort.

Stock Idea

Deere (DE US). Deere is a leading manufacturer of agricultural equipment. It has four reportable segments: Production and Precision Agriculture (36% of 9MFY21 revenue), Small Agriculture and Turf (~28% of 9MFY21 revenue), Construction and Forestry (26% of 9MFY21 Revenue), and John Deere Capital Corporation which mainly provide financial and leasing sales services.



Source: Compiled from company release

Smart industrial Strategy and execution should lay the foundations for accelerated growth. In 2020, the company introduced the Smart Industrial Operating Model, with the aim of making the firm more efficient and responsive. Three essential building blocks comprises the new operating model: i) Production Systems; ii) Technology Stack; iii) Lifecycle Solutions

Source: Company presentation

We like Deer's Smart Industrial Strategy as it sets the framework and foundation for the next leg of growth. John Deere will deliver intelligent, connected machines and applications that will revolutionize production systems in agriculture and construction to unlock customer economic value across the lifecycle in ways that are sustainable for all.

This strategy should see Deere being less dependent on sales of new equipment and more about growers/ contractors day-to-day lives. Deere has a better chance to grow their customer's wallets, while also gaining wallet share from peers.

Conducive backdrop. Elevated crop prices, healthy farm fundamentals and strengthening construction markets may drive strong topline revenue growth at Deere in 2021, with sustained double-digit gains in 2022.

Increased precision-ag adoption and a leaner and more efficient operating model underpin structurally higher profitability.

Beneficiary of infrastructure spending a bonus. Its Construction business may benefit from incremental demand from the implementation of Biden's infrastructural spending proposals (if passed successfully).

Key risk: 1) Uncertainty from end markets demand which can be cyclical 2) increasing global production and rising input costs may challenge farmer economics/ sentiment into 2022 and beyond.

Morgan Stanley (MS US) recently announced to double its dividend to $0.70 from $0.35 per quarter and has a $12 bn share repurchase authorization through June 30, 2022. The group has a strong capital position with a CETI ratio of 18.4% as of 2Q, which is above its internal target.

MS's Strategic Transformation advances in its Business Mix towards Balance Sheet; light and more durable sources of revenue. In 2020, Morgan Stanley made two acquisitions – first on the purchase of E*Trade (an online brokerage and financial services platform), which officially closed on Oct 2 for US$13 bn; and then on Eaton Vance (announced on Oct 7) for US$7 bn.

The acquisition should leverage E*Trade's capabilities as a tech-driven company that grants access to the next generation of millennial investors. E*Trade complements MS's Wealth Management segment in servicing the full spectrum of wealth, and offers further growth opportunities on international digital wealth platform.

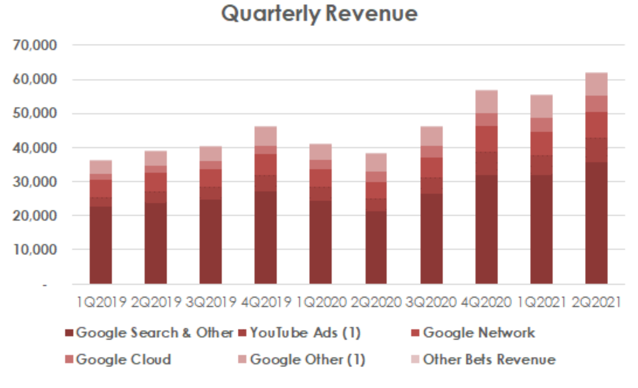
Eaton Vance ("EV") is a high-quality asset manager. There are complementary platforms in terms of investment capabilities and key growth areas.

The combination, after the acquisition and integration of E*Trade and Eaton Vance, would advance MS's strategic transaction towards a balance sheet that is light, with more durable lower-risk sources of revenue. Wealth and Asset Management tend to be relatively more stable than Investment Banking, and have higher returns on capital.

Key risks include: 1) The performance of the capital markets may impact the Investment Banking capital markets' business; 2) The US, as well as other major economies, could experience a sharper slowdown, with a corresponding deterioration in credit quality; 3) Wealth Management performance and net new assets tend to be geared towards equity markets' performance; 4) Execution risk on the integration of both E*Trade and Eaton Vance may present downside risks.

Alphabet (GOOG US). Bulk of Alphabet's revenue comes from Google Search & Others, followed by YouTube Ads. It also has Google Cloud services which currently ranked third behind Microsoft's Azure and Amazon's AWS. Alphabet's moonshot investments are in Other Bets which include self-driving vehicles tech (Waymo), among many others.

Alphabet's 2QFY21 results were strong, where most businesses beat expectations. Its 2Q advertising beat led by Search and YouTube growth, reinforces our macro view about the structural acceleration for online advertising. Given the performance, we believe there is meaningful runway across Search and YouTube ads as ROI improves and TV dollars shift more online and Google will be the prime destination for these dollars.



Source: Compiled from company releases

Alphabet's cloud segment is benefiting from digital transformation and wider adoption of cloud by businesses. Google Cloud is still in investment mode as it scales up, and the momentum so far has been very encouraging. As a matter of perspective, group revenue had already surpassed pre-Covid 19 levels driven by growth across key pillars such as Google Services (Including Ads, Youtube) and Cloud.

Risks include 1) Company expects higher operating expense due to investments; 2) potential growth drivers such as Cloud & Waymo may not materialize; 3) increased competition leading to pricing weakness; 4) regulatory risks: because of Alphabet's strength, size, scale, it is drawing attention from the regulators.

Blackrock Sustainable Energy Fund.

Investment Objective. The Fund seeks to maximise total return by investing globally at least 70% of its total assets in the equity securities of sustainable energy companies.

Sustainable energy companies are those which are engaged in alternative energy and energy technologies including: renewable energy technology; renewable energy developers; alternative fuels; energy efficiency; enabling energy and infrastructure.

Reference Index. This Fund does not have a benchmark.

Investment Universe. The Fund invests in global equity markets whose companies are largely in the (1) clean power, (2) energy efficiency and (3) clean transportation business. To give some examples:-

1. Clean utilities; renewable energy technology
2. Insulation; smart buildings; industrial efficiency
3. Electric vehicle manufacturers and related sub-suppliers; emissions reduction equipment suppliers for traditional ICE (internal combustion engine) vehicles

More broadly, the Fund's investment universe includes any company that benefits from or enables the transition to a lower carbon economy. The Fund's investment universe is therefore not pre-defined and so the team has mapped their own bespoke investment universe. This involved identifying a list of companies connected to the themes above, by leveraging on their existing research.

The investment team then worked with a third-party provider who used algorithms, data scraping tools and supply chain analysis to identify other related stocks.

Focusing on the most relevant and applying liquidity restrictions, they will home in on companies that have at least 10% of revenues to be related to the Sustainable Energy theme and for the theme to be a key strategic driver of the business.

Sector exclusions on this ESG-conscious Fund are:-

- Coal and consumables
- Oil and gas exploration and production
- Integrated oil and gas

Why this fund?

- Clear investment philosophy
- Large AUM will help diversification and reducing drawdowns
- Long track record

Investor Considerations.

A global portfolio is helpful for diversification. However, international investing carries key risks like currency risk or changes to economic, political, or regulatory conditions.

Investors need to be aware that this is a thematic fund with specific exposure to clean energy companies. Hence, the Fund would be more suited to investors looking for specific concentrated exposure to this niche.

Share Class	ISIN	Currency	Distribution Policy
A2	LU0124384867	USD	ACC
A2	LU1978683503	SGD-H	ACC
A4	LU0408221868	EUR	DIST
A2	LU0171289902	EUR	ACC

Please refer to the fund factsheet for more detailed information.

Equity Fund: Manulife Asia Pacific REIT Fund

Investment Objective. The fund aims to provide long-term capital appreciation and income generation primarily through investment in REITs in the Asia Pacific ex-Japan region.

Reference Index. This Fund does not have a benchmark.

Investment Universe. The fund will invest at least 70% of its net assets in REITs constituted in and/or primarily invested in underlying assets in the Asia Pacific ex-Japan region. The remaining assets may be invested in real estate-related securities, closed-ended non-Asia Pacific ex-Japan REITs listed on any regulated market, and cash and cash equivalents.

There is a risk metric in place to limit a maximum of 10 percent per individual position. Private equity and/or unlisted investments are not permitted.

Why this fund?

- Listed REITs has been a long term total return enhancer relative to stocks and bonds. REITs provide exposure to real estate with a lower beta than stocks.
- Listed REITs provide diversification through low correlations to other asset classes and within real estate itself, across geographies and property types.
- The fund has an unconstrained investment approach which is helpful when seeking alpha as it gives the managers freedom during securities-selection for the portfolio
- ESG capabilities which aligns with CIMB Group's direction

Investor Considerations.

The key risk for a thematic fund is concentration risk.

This Fund is suitable for investors looking for a holistic and highly focused approach to investing in the real estate space globally. In the current low interest rate environment, REITs can be an attractive income-stream as well. Investors need to be acclimatised to the concentration risks associated with sectoral funds.

As the Fund tends to focus on dividend-focused companies that offer more sustainable dividend payment under general conditions; the Fund should be more suited to clients who wish to gain core exposure to Asian and Asean equities as part of their diversified portfolio, with regular income distribution as key consideration.

Please refer to the fund factsheet for more detailed information.

Share Class	ISIN	Currency	Distribution Policy
AA	LU1813982136	USD	DIST
AA	LU1813982219	AUD-H	DIST
AA	LU1813982482	HKD	DIST
S	LU1935355260	SGD	DIST
S	LU1935355344	SGD-H	DIST

Please speak to your Relationship Manager for more details.

Bond Idea: PCGI Intermediate Holdings 4.5% USD Senior 5Y

PCGI INTERMEDIATE HOLDINGS USD SENIOR 5Y (Bloomberg Ticker: PCGIHD 4.5 26)	
Issuer	PCGI Intermediate Holdings (III) Ltd.
ISIN	XS2370772613
Guarantor	PCGI Holdings Ltd.
Bond Type/Rank	Senior unsecured
Issue/Issuer Rating	Unrated
Issuance Size	US$225.0 mil; min. denomination of US$200,000
Maturity Date	23rd Aug 2026
1st Call Date	23rd Aug 2024
Coupon	4.50% p.a.
Issuer Call	Yes, applicable. At Make Whole Redemption Price prior to 1st Call Date; At 101.00 from 23rd Aug 2024 onwards; At 100.50 from 23rd Aug 2025 onwards.
Make Whole Redemption Price	Largely defined as present value of principal amount + interest payable discounted at prevailing UST + 50 basis points.
Redemption Upon Change of Control	Yes, at bondholder's option at 101%
Change of Control	Including but not limited to, in the event Mr Richard Li & affiliate; (i) ceases to own 100% of Guarantor's share capital; (ii) ceases to control Issuer and PCGI Intermediate Holdings Ltd. Note: Control means acquisition of more than 50% of voting rights of issued share capital OR the right to appoint/remove majority of the board director members.
Cross Acceleration Event of Default	Yes, Applicable to indebtedness of Issuer, Guarantor or PCGIIH if not paid, and subject to minimum of US$20.0 mil.

**Source: CIMB Treasury (indicative)*

Summary/ Recommendation:

Buy and Hold till Maturity. We have a constructive view on this credit underpinned by PCGIIH's expanding insurance business via FWD Entities. The insurance business, despite loss making, continues to show growth prospect and has expanded to 10 regions since it began operations in 2013.

In view of its aggressive expansion, costs are expected to weigh on PCGIIH's profitability in the near term as company grow to gain economies of scale in its respective operating markets. In addition, we take cognisant of PCGIIH's high leverage ramped up its business across the region. That said, credit is balance by strong sponsor i.e. Guarantor is wholly-owned by Mr Richard Li (ranked 22nd on Forbes' 2021 HK Richest List) and its proposed IPO in US, which is deemed a credit positive (Note: PCGIIH announced it had submitted draft registration with US SEC back in June 2021).

Background

PCGI Intermediate Holdings Ltd. ("PCGIIH") is a holding company where its subsidiaries are principally engaged in provision of life insurance, general insurance and investment related products and services via operations of FWD Limited and FWD Group Limited (collectively "FWD Entities"). PCGIIH presently owns 72.68% in each FWD Entities; while the remaining shareholding are owned by Swiss Reinsurance and other minority shareholders. The Issuer and PCGIIH (both sister companies) are wholly-owned subsidiaries of PCGI Holdings Ltd ("Guarantor"), which is in turn wholly-owned by Mr Richard Li Tzar Kai (son of Hong Kong billionaires Li Ka-Shing).

FWD Ltd started operations in 2013 when it completed acquisition of ING Groep's insurance business in HK and Macau. Subsequently, FWD Group Ltd expanded its footprint to other ASEAN countries via various acquisitions/ minority stake investments in various local entities. For instance, FWD Group entered Malaysian market in 2019 via acquisition of HSBC Amanah Takaful while it acquired 100% of PT Commonwealth Life and its subsidiary in Indonesia.

Key Credit Considerations/ Risks:

Strong Guarantor and Shareholder Support. The issuance is guaranteed by PCGI Holdings Ltd, which is in turn directly owned by Mr Richard Li. The Issuer acts as a financing vehicle for its sponsor to conduct capital injections into PCGIIH for its onward transmission to its subsidiaries (i.e. FWD Entities). FWD Entities benefit from the support of its main shareholder, Mr Richard Li (indirect interest of 72.68%) as well as the expertise of its 2nd largest shareholder Swiss Re Principal Investments Asia Ptd Ltd (11.31%. Swiss Re group, founded in 1863, is a renowned wholesale provider of reinsurance, with credit rating of AA- by S&P.

PCGIIH's Insurance Business & Rapid Expansion. Since starting its business operations in HK and Macau in 2013, PCGIIH via its FWD Entities have expanded to 10 markets across Asia offering life and medical insurance, general insurance, employee benefits and family takaful. Since then, the FWD brand name started operations in Thailand, Philippines (2014), Singapore (2016); Vietnam (2016); Japan (2017); Indonesia (2018); Malaysia (2019) and Cambodia (2020). The group caters to over 9 mil customers, and 33,000 agents as of 2020.

Potential IPO & Group Wide Supervision by Regulator. In June 2021, it was announced that PCGIIH filed a draft registration with US Securities and Exchange Commission ("SEC") for a planned IPO. According to Bloomberg, FWD is considering raising about US$2.0 bn in the US listing, which is expected to take place in the later part of 2021 (subject to review and market conditions). We opine that the proposed IPO as a credit positive event as equity funding is expected to strengthen capital/solvency, diversify its investor base, improve access to capital markets and enhance disclosure and governance standards of the overall FWD group. In addition, FWD Group will be subject to a group-wide supervision ("GWS") by Hong Kong Insurance Authority. Thus, enhancing the group's governance, supervision and risk assessment that is consistent with international standards

Recent Re-organisation & Group Restructuring. As part of its preparation for the IPO, PCGIIH and FWD Entities have launched a re-organisation and debt restructuring plan. PCGIIH is expected to be the listed entity. As part of its effort to centralise treasury functions, bonds issued under FWD Entities will be novated and transferred to PCGIIH (Note: Bondholders' approval has been sought via a consent solicitation back in June). Upon completion of debt restructuring, the indebtedness under PCGIIH is expected to be rated at least Baa3/BBB by Moody's and Fitch. Further reorganisation is expected prior to, and in some case conditional upon the IPO. These include: (i) Changing PCGIIH's name to FWD Group Holdings Ltd; and (ii) issuance of ordinary shares by PCGIIH to the non-controlling interest holders (including Swiss Re) of FWD Entities in exchange for their shareholding in FWD Entities. Pursuant to the issuance, FWD Entities will be wholly-owned subsidiaries of PCGIIH (instead of current 72.68%).

Rapid Expansion & Higher Expenses Pressuring Profitability. PCGIIH's acquisitative nature is evident in its consolidated revenue, which had grown 52% yoy to US$9.48 bn. Based on disclosure, PCGIIH's value of new business ("VNB") for FY19 and FY20 was US$498 mil and US$617 mil, respectively (vs US$123 mil in FY14). Meanwhile, VNB margin was 36% on an overall basis. That said, PCGIIH continues to incur high expenses of US$9.7 bn (+48% yoy), which led to loss before tax of US$218 mil for FY20. Finance cost increase by 92% to US$209 mil. By market segment, Hong Kong (US$141 mil), Thailand (US$86 mil) and Japan (US$100mil) continued to report operating profit before tax while its Emerging Market segment saw operating loss of US$81 mil.

Gearing to Remain High. PCGIIH's consolidated gearing ratio, as measured by debt-to-equity ratio stood at 0.77x (adjusted for its existing perpetual securities). Gearing level is expected to remain elevated possibly until its impending IPO, where proceeds are expected to pare down indebtedness. As for the Guarantor, its standalone gearing ratio stood at 0.56x (Note: This computation is not inclusive of US$225 mil PCGIHD 4.50% 26; US$250 mil PCGIHD 5.50% 2024; and US$387.46 mil PCGIHD 4.75% 2024)

Solvency Ratios of PCGIIH's key operating companies are well above regulatory requirements.

Markets	FY20 Solvency Ratio	YoY change (ppt)	Min. Regulatory Requirement
HK	290%	-31	100%
Thailand	436%	+101	100%
Japan	1151%	+108	200%

Repayment Capability & Subordination Risk. The bond does not benefit from any form of guarantee from Mr Richard Li, PCGIIH or operating companies i.e. FWD Entities. Given that there has been no dividend payout from operating companies to Guarantor and Guarantor does not have any ongoing business operations, repayment capability of Issuer is dependent upon its abiliity to raise future financing and receipt of top down equity injection from Mr Richard Li. Given the corporate structure, obligations of Issuer and Guarantor are structurally subordinated to the liabilities/indebtedness of PCGIIH and its subsidiaries i.e. FDW Entities. Notwithstanding that, bond terms have incorporated a Change of Control put option at 101% and cross acceleration event on default on Issuer, Guarantor or PCGIIH.

Bond Idea: GOHL Capital Ltd 4.25% Senior Unsecured Notes Jan 2027

GOHL CAPITAL LTD. 4.25% SENIOR UNSECURED NOTES JAN 2027 (Bloomberg Ticker: GENTMK 4.50% 2027)	
Issuer	GOHL Capital Ltd.
Guarantor	Genting Overseas Holdings Ltd.
Issue Size	US$1.50 bln
Min Denom.	US$200,000
Type	US$ REGS Senior Unsecured
Issue Rating	Baa2 (neg) /BBB (neg) by Moody's/Fitch
Guarantor Rating	Baa2 (neg) /BBB (neg) by Moody's/Fitch Note: Genting Berhad is rated Baa2/BBB/BBB (neg outlook) by M/S/F
Issue Date	24 Jan 2017
Maturity	24 Jan 2027
Coupon	4.25%; payable annually
Keepwell Agreement	Between Issuer, Guarantor and Genting Berhad.
Make Whole Call	Yes, at prevailing Treasury rate + 50 bps points

**Source: CIMB Treasury @ 20th Sept 21; on gross basis.*

Summary/ Recommendation:

Given the recent Macau gaming sector crackdown as China tightens its grip on this sector, we saw price declines/spread widening in Macau gaming bonds, particularly in names such as Sands China, Melco Resorts, MGM China, Studio City etc. It is still unclear what regulations may be imposed as officials will begin a 45-day public consultation period to discuss the legal revisions with respect to the sector. According to Bloomberg, license renewals to concessions, local party participation, as well as length of concession agreement are likely to be key topics.

We opine that clients who are interested in gaining exposure in gaming sector may consider GENTMK as an alternative. The present negative outlook on GOHL and Genting Berhad reflects the slower than anticipated recovery affecting the group's operating performance as travel restrictions are still being imposed (in varying degrees) in South East Asia, where Genting Berhad's key assets i.e. Resorts World Genting and Resorts World Singapore are located.

We take note that the group's recovery trajectory will be dependent on the ramp up of the new Resorts World Las Vegas (opened in June 21) and easing of travel restrictions across the region.

That said, the resiliency of GENB (ultimate holding company) and the duopoly market position of GENS (subsidiary) continues to underpin this credit. Buy and hold till maturity date.

Background / Credit Profile:

- Senior unsecured notes are issued by GOHL Capital Limited ("Issuer"). Notes are presently rated Baa1 by Moody's and is guaranteed by Genting Overseas Holdings Ltd ("Guarantor").
- The Guarantor is a wholly-owned subsidiary of Genting Berhad ("GENB"). Guarantor is an investment holding company that holds ≈ 53% of Genting Singapore Ltd ("GENS"), the owner and operator of Resorts World Sentosa integrated resort.
- Both the notes and the Guarantor are rated Baa2 by Moody's. In addition the issuance is supported by a keepwell deed by GENB; whereby GENB will among others:
    - Directly or indirectly own 100% of Guarantor;
    - Procure the Issuer's consolidated net-worth to be positive;
    - Ensure that Guarantor's consolidated net-worth to be at least US$100.0 mil.

Key Considerations/Risks:

- Steady state of cash inflow from Resorts World Sentosa, which is one of the 2 casino licences granted by Singapore government. Rating agencies are of the view that Issuer's debt servicing ability is adequately covered by dividend cash inflow from GENS. Despite the pandemic, we take note that GENS declared dividend of S$302 mil for FY20, which translates to net dividend payout ratio of ≈ 243%.

- GOHL's BBB-rating mirrors that of GENB, given the close links between the two companies. Furthermore, GOHL is considered an important subsidiary to GENB with operations closely aligned with those of GENB. We opine that GOHL is of strategic importance to GENB given the former's 53% shareholding in GENS.
- Longer-than-expected impact from pandemic: all 3 agencies have had negative rating action on GENB in view of the longer recovery period expected due to recurring waves of infection. Travel restrictions will limit recovery prospects in the short to medium term as destinations such as Singapore is mainly driven by inbound travellers.
- GENB's Baa2/BBB ratings are underpinned by its excellent liquidity and good access to funding. We observed that GENB has cash and cash equivalent of c. RM23.19 bn in 1HFY21 against short term debt of approximately RM2.0bn. There are no significant offshore US$ debt due till 2027. In addition, the group has been able to tap the bond market given its brand name. Notably, there have been 2 US$ issuances in recent months namely US$1.0 bn GENMMK 3.882% 31 and US$350.0 mil RWLVCA 4.625% 2031 in Apr 21.
- Despite GENB's high debt/EBITDA ratio for FY20 as group has been weighed on by the pandemic (FY19: 4.08x; FY20: 12.34x). Based on rating agencies estimates, they are only expecting improvement in debt/ EBITDA in FY22 onwards. This is further supported by the recent opening of Resorts World Las Vegas integrated resorts. S&P expects RWLV to contribute 18% (US$180 mil) of EBITDA to the group by FY22.
- GENB's investment cycle is expected to peak in 2021 and is likely to decline in 2022 given that capex over the past 3 years will decline due to completion of a land purchase in Singapore, a theme park in Genting Highlands, and an expansion project at Genting New York level. The Yokohama IR plan fell through in Aug 21, this is likely to bode well to the GENS' credit profile as well.
- Robust bond structure i.e. maintenance of an interest reserve account – not less than 1 coupon payment in USD terms so long as the notes are outstanding.

Disclaimer

CIMB Bank Berhad, Singapore Branch has produced this publication/email/report/commentary for private circulation to CIMB Preferred Clients in Singapore only. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed, published, circulated, reproduced or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB Bank Berhad, Singapore Branch.

This publication/email/report/commentary has been prepared by CIMB Bank Berhad and/or its related and affiliated companies and/or any individuals connected with the aforementioned entities (hereinafter "CIMB") and is solely for information and discussion and information purposes only. This publication/email/report/commentary should not be construed as a recommendation, an offer to sell or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. CIMB is also not acting as an advisor or agent to any person to whom this report is directed in respect of its contents. A copy of the prospectus of each fund is available and may be obtained from the relevant fund manager or any of its approved distributors. Potential investors should read the prospectus for details on the relevant fund before deciding whether to subscribe for, or purchase units in the fund. The value of the units in the funds and the income accruing to the units, if any, may fall or rise. Please refer to the prospectus of the relevant fund for the name of the fund manager and the investment objectives of the fund.

Whilst CIMB has taken all reasonable care to ensure that the information herein has been compiled from sources believed to be reliable and is not untrue or misleading at the time of publication, CIMB assumes no responsibility and makes no representations or warranties, of any kind, as to the accuracy or completeness of this publication/email/report/commentary and this publication/email/report/commentary does not purport to contain all the information that a recipient may require. CIMB makes no express or implied warranty as to the accuracy or completeness of any such information and opinion contained in this report. The information and any opinion contained in this publication/email/report/commentary are subject to change without notice. Neither CIMB nor any of its affiliates, advisers or representatives are obliged to update any such information subsequent to the date hereof. Any reference to a company, financial product or asset class is used for illustrative purposes and does not represent a recommendation in any way. The projections, valuations and statistical analyses herein may be based on subjective assessments and assumptions and may use one of many methodologies that produce different results and to the extent that they are based on historical information, they should not be relied upon as an accurate prediction of future performance. The price and value of any investments and indicative incomes herein contained may fluctuate either positively or negatively. It should be noted that investments in emerging markets are subject to increased levels of volatility than more established markets. Some of the reasons for this volatility relates to the respective economy, political climate, credit worthiness, currency and general market within that country. When investing in investments denominated in a foreign currency these transactions are also subject to fluctuation in exchange rates.

Certain transactions mentioned in this material may give rise to substantial risks and may not be suitable for all recipients. Please refrain from acting on the information herein without first independently verifying its contents.

This publication/email/report/commentary is intended for general circulation only. Nothing in this publication/email/report/commentary constitutes a representation that any recommendation herein is suitable or appropriate to a recipient's individual circumstances. This publication/email/report/commentary does not take into account the specific objectives, financial situation or particular needs of any recipient given that it is not possible for CIMB to have regard to the investment objectives, financial situation and particular needs of each person who reads this report. Before you make an investment, please consult your CIMB relationship manager regarding the suitability of any investment product based on your investment objectives, financial situation or needs. If you choose not to do so, you should consider whether the investment product is suitable for you. Please seek independent professional legal and financial advice as to the contents of this publication/email/report/commentary and the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you commit to purchasing a product. For the avoidance of doubt, the recipient of this publication/email/report/commentary should not treat such content as advice relating to legal, accounting, taxation, technical or investment matters.

Neither CIMB nor any of their directors, employees or representatives accept any liability for any loss, damage, costs, charges or expenses of whatsoever nature and howsoever arising (including but not limited to direct, indirect, special or consequential loss or loss of profits or loss of opportunity) suffered by you or any third party in connection with the use of this publication/email/report/commentary or its content (including any error, omission or misstatement herein, even if CIMB has been advised of the possibility thereof). CIMB, its affiliates and its related companies do and seek to do business with the company(ies) covered in this publication/email/report/commentary and may from time to time act as market maker or have assumed an underwriting commitment in the securities or instruments mentioned in this publication/email/report/commentary and, together with its associates and related companies, their directors, officers, employees and/or agents, may have or take positions or other interests in, and may effect transactions in securities or instruments mentioned herein and may also perform or seek to perform broking, investment banking and other banking or financial services for the companies or issuers mentioned herein and the affiliates of such companies or issuers.

The views expressed in this report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this publication/email/report/commentary. CIMB prohibits the analyst(s) who prepared this publication/email/report/commentary from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular company. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations and the research personnel involved in the preparation of this publication/email/report/commentary may also participate in the solicitation of the businesses as described above.

The authors of the report do not own any specific securities that are recommended (shares and bonds). However, they may own units of mutual funds but these are diversified in nature and do not benefit from the price movement from single securities.

The authors are not privy to whether or not CIMB is involved in any relationship with any of the recommendations detailed in this report.

In addition, any opinions or views of third parties in this report are those of the third parties identified, and not those of CIMB. CIMB may have alliances with product providers, for which we may receive a fee. Product providers may also receive a fee from investors.

This publication/email/report/commentary is private and confidential and is for the addressee's attention only. This publication/email/report/commentary is intended for clients of the Preferred Banking Department of CIMB Bank Berhad, Singapore Branch only. If you are not the intended recipient and have received this publication/email/report/commentary, you may not use, copy or disseminate the information contained herein or hereto attached. Please also notify the sender/originator of the publication/email/report/commentary of the error and destroy the publication/email/report/commentary and/or delete the publication/email/report/commentary from your computer and system. We do not assure the security of information electronically transmitted, and your communication with us or request for communication through such means shall signify your acceptance of such risk.

The information herein is not directed to, or intended for distribution to, or use by, any person or entity who is a citizen or resident of a locality in any jurisdiction, state or country where such distribution, publication, availability or use would be contrary to law or regulation.

If at any time any provision or part of any provision, of this disclaimer is, or becomes, illegal, invalid or unenforceable in any respect under the law of Singapore, that shall not affect the legality, validity or enforceability of any other provision, or part of that provision, of this disclaimer.

CIMB Bank Berhad (13491-P)