CIMB PREFERRED INSIGHTS

SEP 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]What a week for global equities! It was a risk-on week as market participants took heart from the previous Friday Fed chair's dovish Jackson Hole comments.

To recap, the Fed chair Powell signalled a cautious and gradual withdrawal of pandemic-era Federal Reserve economic support in the annual Jackson Hole Symposium, a gathering of central bankers and policy makers. He said the US central bank may start paring bond purchases this year but is in no hurry to raise interest rates and would be guided by the macro data to weigh risks from the delta virus variant. He didn't give a specific timeline for scaling back stimulus.

The MSCI Asia-Pacific gauge (MSCI EM) rose for a sixth day on Friday (Sep 3), the longest streak since January. For the week, the MSCI EM rose 3.4%.

Meanwhile, big US tech shares edged higher on Friday, helping the benchmark world stock index post a sixth straight closing high, after a weaker-than forecast US jobs report likely pushed back the timetable for when the US central bank reduces its massive support of the world largest economy. But, the latest data also showed wages increasing more than expected, raising inflation fears leading to higher longer-dated US Treasury yields.

MSCI's all-country world index, which is heavily weighted to big US tech, notched a new record to lift the NASDAQ 0.2% or 1.6% on week to a fresh closing high. The DJIA and S&P500 fell marginally as slower US jobs growth raised questions about the pace of the recovery. For the week, the DJIA fell 0.2% but the S&P500 gained 0.6%.

[1] Adapted from "Sentiments from the week before", Song Seng Wun, 6 Sep 2021

The yields on the benchmark US10Y Treasury note rose almost 4 bps to a six session high of 1.32% on the back of the wage growth strength. The US10Y was 1.18% at the start off August. The US$ DXY index ended the week down 0.7% at 92.04, its lowest level since end-July.

Over in Europe, the broad STOXX Europe 600 index of pan-regional stocks closed down 0.6%. The European Central Bank will be meeting this week amid calls from several hawkish members to slow its pandemic-era asset purchase program.

Brent crude ended Fri down 0.6% but rose 1.3% on week at US$72.61 a barrel. Gold advanced 1% to US$1827.7 an ounce, its highest in 2½-months as weak US jobs growth drove the US dollar lower and cast doubts on the Fed's tapering timeline.

Finally, the latest IHS Markit PMI data showed global economic expansion slowing to a seven-month low during August as growth eases across manufacturing (Manufacturing PMI 54.1 vs. 55.4 in July) and services industries (Service PMI 52.9 vs. 56.3). Economic activity fell in China, Japan and Australia while weaker expansions were seen in the US and Europe. On the price front, average input costs and output charges both continued to increase at substantial rates in August according to the August IHS Markit PMI surveys. This largely reflected rising raw material prices caused by supply-chain disruptions, alongside increasing staff costs in some markets and sectors due to labour market constraints. That said, inflation of input costs and selling prices both eased to four-month lows in August.

There are a handful of central bank policy meetings to watch out for. The central banks from Eurozone, Australia, Canada, Poland, Malaysia, Peru, Ukraine and Russia are holding policy meetings. All eyes and ears will be on the ECB as European policymakers debate when to shift the institution away from its extraordinary support measures.

The expectations are that the net asset purchases under the Pandemic Emergency Purchase Programme may slow from this month amid brighter prospects for the bloc's economic outlook. That said, the uncertainty caused by the latest Delta variants may encourage a more dovish stance.

Meanwhile in the US, key pandemic unemployment benefits are set to expire on Monday (Sep 6). About half of US states have already halted the payments (of US$300 per week and other aid), saying the cash disincentivised Americans from looking for work. States and local governments can still use pandemic-relief funds for help beyond the deadline amid the surge of the delta variant.

Notable data to watch: US Aug producer prices, Beige Book & job openings; Canada Aug jobs report; UK monthly GDP; Eurozone final Q2 GDP data, and Germany Aug factory orders.

Notable data & events in Asia: Australia and Malaysia monetary policy; China Aug CPI, PPI and trade; Japan revised Q2 GDP, July household spending and cash earnings; Malaysia, India July factory output; Aug CPI data from Thailand, Philippines and Taiwan. Finally, the first travellers in the "vaccinated travel lane" program will arrive in Singapore on Wednesday (Sep 8) from Brunei and Germany, as the city-state takes steps to gradually open its borders. The new travel corridor allows people who are fully vaccinated to leave and enter Singapore without quarantining, regardless of the purpose of their visit.

Notable ASEAN macro news-

- The IHS Markit ASEAN Manufacturing PMI dipped to a 13-mth low of 44.5 in August, pointing to the third straight month of contraction in regional factory activities as restrictions were tightened amid a rise in Covid-19 variants infections. For the first time since last May, each of the seven constituent countries recorded deteriorations in manufacturing activities in August: Myanmar (36.5), Thailand (48.3), Philippines (46.4), Spore

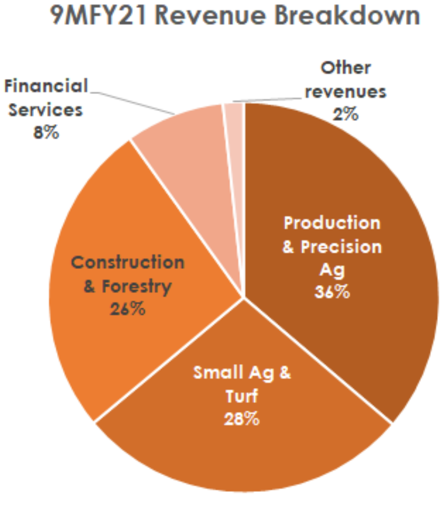
(44.3), Indonesia (43.7), Malaysia (43.4) & Vietnam (40.2).

- Indonesia Aug CPI rose to a three month high of 1.6% YoY, mainly due to a faster rise in prices of food, drinks and tobacco (3.31% vs 2.74%), housing & utilities (0.39% vs 0.36%), transport (0.34% vs 0.25%). Annual core CPI inched down to a four-month low of 1.3%. On a monthly basis, consumer prices were basically unchanged, following a 0.1% rise in July.

Singapore's retail sales rose a marginal 0.2% YoY in July, after an upwardly revised 26.0 % jump in June. Although this was the sixth straight month of growth in retail sales, it was the softest in the sequence. On a monthly basis, retail sales grew 0.8%, after gaining an upwardly revised 1.9% rise in June. Meanwhile, F&B takings rose nearly 19% m-o-m to a daily average of S$20.3m in July from S$17.7m per day in June 2021, the first monthly increase in four months when dining-in was only allowed for groups of two. However, on a YoY basis, total food & beverage sales value fell 6% to S$630m this July, the first year-on-year decline in five months. That was due to the implementation of stricter dine-in restrictions from late July. To recap, dining-in for groups of up to five was allowed for the whole month of July last year. But this July, dining-in (for groups of two or five people) was allowed from July 1st to 22nd but that was suspended from July 22nd due to a jump in local Covid-19 infections. F&B takings continued to below pre-Covid levels with average daily sales of S$21.9m for the January-July period vs. S$28.86m a day for the same period in 2019.

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.

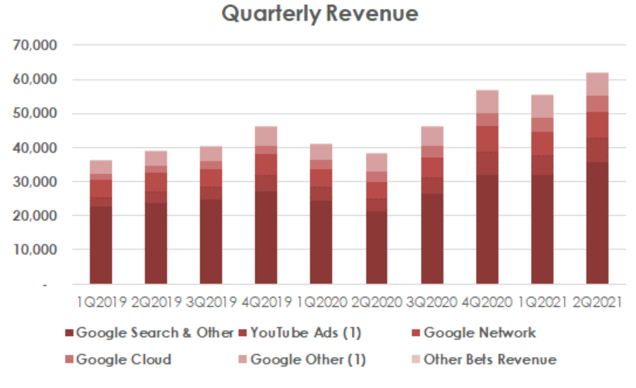
Beneficiary of infrastructure spending a bonus. Its Construction business may benefit from incremental demand from the implementation of Biden's infrastructural spending proposals (if passed successfully).

Strong results performance. Recent quarterly results had been positive and guidance remained optimistic, attesting to the near term positive backdrop of its end markets.

Key risks: 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.

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.

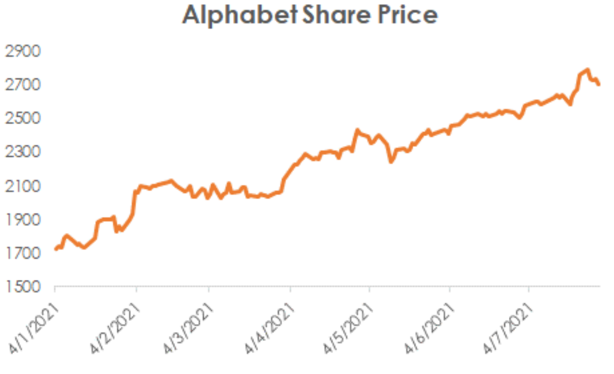
Risks include 1) Company expects higher operating expense due to investments; 2) potential growth drivers such as Cloud & Waymo may not materialize; 3) increased competition leading to pricing weakness; 4) regulatory risks: because of Alphabet's strength, size, scale, it is drawing attention from the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

FCN Idea.

Investors may consider basket callable Daily Knock-Out FCN that is centered around related tech-counters that have recently announced results. The basket can include **Alphabet (GOOG US), Microsoft (MSFT US)** and **Facebook (FB US).**

Alphabet (GOOG US). We like Alphabet's strong moat to drive durable growth led by innovation, continued investments to leverage on its scale, positioning into growth areas (Cloud/ YouTube), and monetization of key digital properties. .

Key risks: 1) higher spending; 2) potential growth drivers may not materialize; 3) increased competition; 4) regulatory risks.

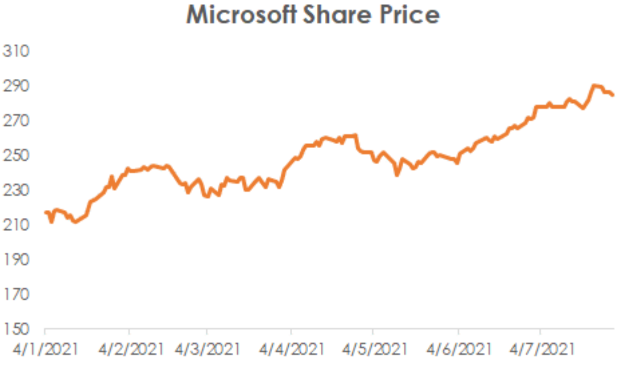


Source: Bloomberg

Microsoft (MSFT US). MSFT 4QFY21 results were strong. It continues to leverage on the strengths of its diversified portfolio that is stacked with cloud offerings and productivity solutions, and aided by positive trends around working, learning and playing from home.

MSFT capitalizes on its dominant position of on-premises architecture to allow customers to move to the cloud easily. Teams collaboration platform and Office 365 should drive its Productivity and Business Process segment. Gaming products has the potential to boost the More Personal Computing segment.

Key risk include: Microsoft's re-rating is the reward for its transition to a subscription-based model and strong growth area like Azure which is unlikely to maintain a high growth rate over time. The risk is any structural drop in growth momentum may result in de-rating.



Source: Bloomberg

Facebook (FB US). Company reported better than expected 2Q top- and bottom-line results driven by user growth and growing monetization. Economic recovery continues to drive higher ad spending, with a significant portion likely allocated to Facebook. Company should benefit on the rising adoption of e-commerce and further monetization of its platform. We believe a slowdown as the pandemic effect wears off can be offset by stronger ad spending and new businesses turn to Facebook for marketing.

Key risks include 1) Facebook said it will likely see a potential revenue impact from changes to Apple Inc.'s iOS 14 software on the iPhone, which will require that apps get explicit user permission to track their activity; 2) Slowing engagement, especially in younger demographics and more mature markets; 3) online and mobile ad dollars from Google, TikTok, and other companies; 4) regulatory changes.

Source: Bloomberg

Bond Idea

We are highlighting the **PCGI Intermediate Holdings USD Senior 5Y** with a Buy and Hold till maturity.

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)*

Consideration

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 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).

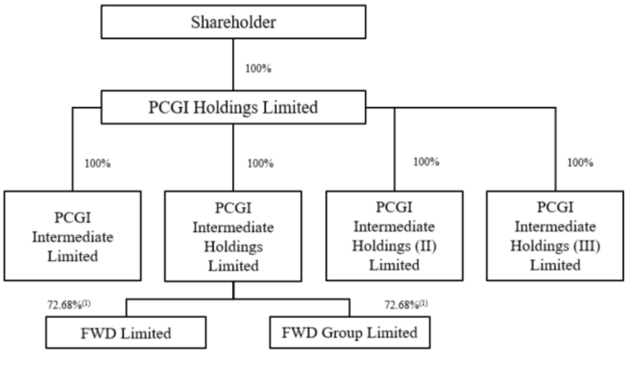
Background

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 billionaire 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.

Overall Corporate Structure Overview:



Note: PCGI Intermediate Ltd is the issuer for PCGIHD 4.75% 2024; PCGI Intermediate Holdings (II) Ltd is the issuer for PCGIHD 5.50% 2024; while PCGI Intermediate Holdings (III) Ltd is the issuer for PCGIHD 4.50% 26. All 3 bonds are guaranteed by the Guarantor.

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, is a wholesale provider of reinsurance, with credit rating of AA- by S&P.

PCGIIH's Robust 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, with 6,100 employees 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.

The proposed IPO should be 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.

FWD Group will also 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.

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$123mil 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. Notably, finance cost increase by 92% to US$209 mil.

By market segment, Hong Kong (US$141 mil; + 10% yoy), Thailand (US$86 mil; +110% yoy) and Japan (US$100mil; +41% yoy) continued to report operating profit before tax while its Emerging Market segment saw operating loss of US$81 mil (-11% yoy).

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.

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. The 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.

Please speak to your Relationship Manager for more details.

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