Asian Credit Daily

2 May 2024

Market Commentary:

- The SGD SORA curve traded mostly lower on Tuesday, with short tenors trading 1-2bps lower, belly tenors and 10Y trading flat.

- Flows in SGD corporates were heavy, with flows in UBS 5.75%-PERP, BACR 7.3%-PERP, HSBC 5.3% '34s, OLGPSP 5.375%-PERP.

- China Vanke Co. ("Vanke") plans to enhance its liquidity by divesting assets and exiting all non-core operations to focus solely on its three main operations, namely property development, real estate management services, and rentals. Yu emphasized the company's commitment to reducing debt and achieving high-quality growth, outlining a plan to reduce interest-bearing debt by over RMB100bn (USD13.8bn) within the next two years.

- Bloomberg Asia USD Investment Grade spreads widened by 3bps to 83bps while Asia USD High Yield spreads tightened by 24bps to 581bps. (Bloomberg, OCBC)

- There were no notable bond issuers in the Asiadollar and Singdollar market yesterday.

Credit Summary:

- **DBS Group Holdings Ltd ("DBS"):** DBS reported a record 1Q2024 result with profit before tax up 15% y/y to SGD3.39bn. Broad based strength in commercial book income was seen with net interest income up 8% y/y to SGD3.65bn, net fee and commission income was up 23% to SGD1.04bn and treasury customer sales and other income was up 44% to SGD621mn.

- **Olam Group Ltd ("OG"):** OG's ~64.6%-owned subsidiary Olam Agri Holdings Limited ("Olam Agri") has lodged an announcement of its intention to make an off-market takeover offer to acquire all of the fully paid ordinary shares of Namoi Cotton Limited ("Namoi") at AUD0.66 cash per Namoi share, subject to obtaining a relevant interest in at least 50.1% of the shares in Namoi.

- **National Australia Bank Ltd ("NAB"):** NAB announced its 1HFY2024 results for the six months ended 31 March 2024, the first results announcement for new Chief Executive Officer Andrew Irvine following the retirement of Ross McEwan from executive roles at the end of March.

- **Standard Chartered PLC ("StanChart"):** StanChart announced its interim management statement for 1Q2024 with reported profit before taxation up 6% y/y to USD1.91bn. Underlying profit before taxation rose at a stronger 25% y/y to USD2.13bn with strong growth in underlying operating income against the rise in operating expenses and credit and other impairments.

Key Market Movements

	2-May	1W chg (bps)	1M chg (bps)		2-May	1W chg	1M chg
iTraxx Asiax IG	111	-5	6	**Brent Crude Spot ($/bbl)**	83.7	-5.9%	-5.8%
				Gold Spot ($/oz)	2,321	-0.5%	1.8%
iTraxx Japan	54	1	8	**CRB Commodity Index**	285	-4.1%	-3.0%
iTraxx Australia	71	-4	7	**S&P Commodity Index - GSCI**	573	-3.7%	-3.0%
CDX NA IG	53	-1	0	**VIX**	15.4	-3.6%	5.3%
CDX NA HY	106	0	-1	**US10Y Yield**	4.62%	-8bp	27bp
iTraxx Eur Main	57	-1	1				
iTraxx Eur XO	325	-3	17	**AUD/USD**	0.653	0.2%	0.2%
iTraxx Eur Snr Fin	65	-1	1	**EUR/USD**	1.072	-0.1%	-0.5%
iTraxx Eur Sub Fin	118	1	1	**USD/SGD**	1.360	-0.1%	-0.6%
				AUD/SGD	0.889	-0.3%	-0.9%
USD Swap Spread 10Y	-37	0	1	**ASX200**	7,607	-1.0%	-3.6%
USD Swap Spread 30Y	-76	1	-1	**DJIA**	37,903	-1.4%	-3.2%
				SPX	5,018	-1.0%	-3.6%
China 5Y CDS	68	-5	-5	**MSCI Asiax**	662	1.8%	0.2%
Malaysia 5Y CDS	47	-2	3	**HSI**	17,983	4.5%	8.7%
Indonesia 5Y CDS	76	-5	0	**STI**	3,303	0.3%	2.1%
Thailand 5Y CDS	44	-3	0	**KLCI**	1,577	0.4%	2.1%
Australia 5Y CDS	14	0	-1	**JCI**	7,173	0.0%	-0.4%
				EU Stoxx 50	4,921	-1.4%	-2.4%

Source: Bloomberg

Credit Headlines:

DBS Group Holdings Ltd ("DBS")

- DBS reported a record 1Q2024 result with profit before tax up 15% y/y to SGD3.39bn. Broad based strength in commercial book income was seen with net interest income up 8% y/y to SGD3.65bn, net fee and commission income was up 23% to SGD1.04bn and treasury customer sales and other income was up 44% to SGD621mn. Markets trading income continues to underperform due to higher funding costs although has improved compared to 2023 which added to the overall solid income performance with total income up 13% y/y to SGD5.56bn.
    - Net interest income performance was driven by an improvement in loan growth which rose 2% y/y and q/q through non-trade corporate loans and the consolidation of Citi Taiwan while net interest margins improved 2bps y/y to 2.14% (up 1bps q/q) on persisting high interest rates and asset repricing.
    - 1Q2024 saw fee income rise above SGD1.0bn for the first time from the consolidation of Citi Taiwan that assisted wealth management (+47% y/y, also due to increased assets under management) and card fees (+33% y/y, also due to higher spending) while loan-related fees rose 30% y/y. Treasury customer sales also reached a new high.
- Supplementing the record result was lower growth in operating expenses (+10% y/y) with half of the increase due to the consolidation of Citi Taiwan. This drove the cost to income ratio lower to 37.4% in 1Q2024 against 38.1% in 1Q2023 (44.0% in 4Q2023). Management is guiding for the cost to income ratio to be in the low 40% range.
- In addition, allowances for credit and other losses were down 16% y/y and 5% q/q to SGD135mn on a substantial fall in stage 1 and 2 (or general) allowances while stage 3 allowances rose 82% y/y. The non-performing loan ratio remains solid at 1.1% as at 31 March 2024, stable y/y and q/q. Total allowances coverage to non-performing assets was 125% as at 31 March 2024 (128% as at 31 December 2023). The ratio improves to 223% as at 31 March 2024 against unsecured non-performing assets (226% as at 31 December 2023).
- DBS's CET1 ratio of 14.7% as at 31 March 2024 was up 10bps q/q from 14.6% as at 31 December 2023, remaining well above the 9.2% minimum regulatory CET1 requirement reported in its FY2023 results. Earnings generation was offset by higher risk weighted assets.
- With the broad-based strength in the results and record performance in fees and treasury customer sales, CEO Piyush Gupta highlighted management optimism that earnings will be better than previously expected on growth in commercial book non-interest income. Net interest income is now expected to be modestly improved y/y in 2024 against prior expectations for net interest margins to continue trending down against higher loan volumes that are expected to grow from Citi Taiwan. As for loan quality, management expect allowances for credit and other losses to normalize to 17-20bps (specific provisions were 10bps in 1Q2024). As such, 2024 net profit is expected to exceed 2023 levels with markets and business segments that DBS operate in resilient to current macro-economic challenges and geopolitical tensions.
- Late Tuesday, the Monetary Authority of Singapore ("MAS") announced that it had ended the six month suspension that restricted DBS from all changes to DBS Bank Ltd's IT systems except those related to security, regulatory compliance and risk management, effectively a pause on non-essential IT changes. This was implemented in early November 2023 along with other restrictions following disruptions to its online banking services. Per MAS's announcement, "the bank "has made substantive progress to address the shortcomings identified from service disruptions experienced by its customers in 2023. In the meantime, DBS (through DBS Bank Ltd) will continue to be subjected to additional capital requirements including a multiplier of 1.8 times of risk weighted assets for operational risk. (MAS, Bloomberg, Company, OCBC)

Olam Group Ltd ("OG")

- OG's ~64.6%-owned subsidiary Olam Agri Holdings Limited ("Olam Agri") has lodged an announcement of its intention to make an off-market takeover offer to acquire all of the fully paid ordinary shares of Namoi Cotton Limited ("Namoi") at AUD0.66 cash per Namoi share, subject to obtaining a relevant interest in at least 50.1% of the shares in Namoi.
- Olam Agri proposes to increase the value of its offer to AUD0.70 cash per Namoi share if it obtains a relevant interest in at least 90% of the Namoi shares before the end of the offer period. Namoi shareholders will obtain the benefit of the increased offer price if the 90% threshold is met even if they have already accepted into the offer and received payment of the AUD0.66.
- Louis Dreyfus Company which already owns a ~17% stake in Australia-listed Namoi is also intending to takeover Namoi.
- With 205.3mn of shares outstanding, the purchase consideration assuming Olam Agri acquires Namoi will be ~AUD144mn (~SGD128mn).
- Earlier this week, LDC revised its January 2024 offer upwards, which likely spurred a response from Olam Agri to revise its offer decisively upwards. (Bloomberg, Company, OCBC)

National Australia Bank Ltd ("NAB")

- NAB announced its 1HFY2024 results for the six months ended 31 March 2024, the first results announcement for new Chief Executive Officer Andrew Irvine following the retirement of Ross McEwan from executive roles at the end of March. Mr Irvine was previously the head of Business and Private Banking, NAB's core operating segment and largest contributor to total cash earnings.
- 1HFY2024 reported statutory net profit was AUD3.49bn (+1.4% y/y) while cash earnings were AUD3.55bn. Cash earnings, which better reflect the bank's underlying performance, was down 3.1% h/h and down 12.8% y/y. The y/y fall in 1HFY2024 cash earnings was due to negative JAWS with net operating income down 3.7% y/y and operating expenses up 5.8% y/y. This was partially offset by a 7.6% y/y fall in credit impairment charges.
- Net operating income was affected by lower margins with net interest margins down 5bps y/y to 1.72% due to competition in housing lending along with higher deposit costs from higher rates and changes in the product mix. Markets and Treasury income also reduced, albeit marginally. This was offset by volume growth in loans (+3.5% y/y) and deposits (+3.8% y/y).
- Operating expense growth was driven by expenditures in technology and compliance (fraud and cyber security capabilities) along with higher staff expenses. This was partially offset by productivity gains.
- Credit impairment charges of AUD363mn were down 7.6% y/y – this was due to a AUD40mn net release of forward-looking provisions as AUD93mn in releases for target sectors was offset by AUD53mn in new forward-looking provisions to reflect uncertainty in future economic expectations. Excluding this, credit impairment charges were stable y/y with underlying charges reflecting volume growth, higher specific charges and higher arrears. The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances rose 13 bps y/y to 0.79% with higher arrears in Australian home lending and business lending portfolios. Loan quality though overall remains resilient with lower impaired assets. The ratio of collective provisions to total credit risk weighted assets remains elevated at 1.47% as at 31 March 2024, stable h/h and up 5bps y/y.
- By segment, all segments reported weaker y/y cash earnings performance with relatively better performance in Business and Private Banking (47.2% of total cash earnings) that was down 2.4% with solid growth in Australian small and medium sized enterprise ("SME") lending (+8.6% y/y) and 6.4% growth in customer deposits. Corporate & Institutional Banking (25.3%) was down 2.8% due to lower Markets income that was partially offset by credit impairment reversals and New Zealand Banking (19.6%) was down 6.7% y/y from higher staff, technology and compliance related expenses. The weakest y/y performance was from Personal Banking (15.6% of total cash earnings), down 29.6% y/y with lower growth in Australian home lending (+3.7% y/y) and margin impacts from higher competition.

- NAB's CET1 capital ratio of 12.15% as at 31 March 2024 was down marginally from 12.22% as at 30 September 2023 but improved from 12.0% as at 31 December 2023. The benefits of earnings, lower risk weighted assets related to Interest Rate Risk in the Banking Book ("IRRBB") and the removal of the Australian Prudential Regulation Authority ("APRA") AUD500mn capital add-on for NAB was offset by AUD1.0bn in share buybacks as well as risk weighted asset inflation from volume growth and weaker asset quality. The capital add-on was imposed in July 2019 due to non-financial risk management and risk culture weaknesses identified in the bank's risk governance self-assessment. APRA indicated it is now satisfied that NAB has completed its remediation program and adequately addressed the issues raised. NAB's CET1 capital ratio remains above the 11-11.5% target range and as such, management have announced a AUD1.5bn increase in its current on-market share buy-back program. Including this and the AUD200mn remaining from the previously announced AUD1.5bn share buyback in August 2023, NAB's proforma CET1 ratio would reduce by ~40bps to 11.75% as at 31 March 2024.
- Despite slower economic growth expectations in the short term, slowing household consumption and continued competition, management view the operating environment as resilient with lower competition and deposit pricing pressures for the remainder of FY2024 although deposit mix changes will impact 2HFY2024 performance. Management are also expecting additional productivity savings in 2HFY2024 to add to the AUD189mn in 1HFY2024 (AUD400mn expected for all of FY2024) and offset AUD1.4bn in investment spend.
- NAB's fundamentals remain sound and within expectations. (Company, OCBC)

Standard Chartered PLC ("StanChart")

- StanChart announced its interim management statement for 1Q2024 with reported profit before taxation up 6% y/y to USD1.91bn. Underlying profit before taxation rose at a stronger 25% y/y to USD2.13bn with strong growth in underlying operating income against the rise in operating expenses and credit and other impairments.
- Underlying operating income rose 17% y/y to USD5.15bn due to a 5% y/y rise in net interest income to USD2.4bn with net interest margins at 1.76% in 1Q2024, improved from 1.63% in 1Q2023 with higher yields on assets and its treasury portfolio against the repricing of StanChart's liability base as well as the roll-off of loss-making short-term hedges.
- Non-interest income of USD2.7bn was up a stronger 37% y/y due to USD234mn in notable items in Treasury and Other products related to revaluation of FX positions in Egypt and hyperinflation in Ghana. Excluding this, non-interest income was up 25% due to broad based improvement including a 17% y/y rise in Markets income from stronger macro trading (rates, foreign exchange, commodities and Credit Trading), a 23% y/y rise in Wealth Solutions from new clients and net new money, and a 17% y/y rise in Lending & Financial Solutions on origination and distribution volumes.
- Operating expenses on an underlying basis rose at a slower 4% y/y to USD2.79bn and reflects investment in business growth within Wealth & Retail Banking and Corporate and Investment Banking as well as inflation. StanChart's underlying cost to income ratio was 54.1% in 1Q2024 against 60.9% in 1Q2023.
- Credit impairments rose materially to USD176mn in 1Q2024 from USD26mn in 1Q2023, USD61mn of which was for stage 1 and 2 exposures and the rest for stage 3 (USD6mn and USD20mn respectively in 1Q2023). The bulk of the increase or USD136mn was from Wealth and Retail Banking ("WRB"). The loan loss rate in 1Q2024 was 23bps, still below the historical through the cycle rate of 30-35bps. Management continued to highlight that its China commercial property exposures are well covered with a stage 3 coverage ratio including collateral of 90% with stage 3 exposures of USD1.5bn and credit loss provisions of USD1.2bn. There also remains a USD129mn management overlay. The higher impairments look pre-emptive with gross stage 3 loans and advances to customers 6% lower to USD7.0bn from repayments, client upgrades, reduction in exposures and write-offs that more than offset inflows. Credit-impaired loans represent 2.4% of gross loans and advances, relatively stable q/q. The stage 3 cover ratio was 63%, up 3ppt q/q, while the cover ratio including collateral was at 81% as at 31 March 2024, up 5ppt given the higher provisions and lower stage 3 loans and advances.

- Other impairments of USD60mn (nil in 1Q2023) relate to the write-off of software assets. There was also a USD100mn provision related to StanChart's contribution to a compensation scheme recommended by the Korean Financial Supervisory Service for Korea equity linked securities (ELS) portfolio.
- StanChart's capital position was down 10bps y/y to 13.6% and down 50bps from 14.1% as at 31 December 2023. Nevertheless, the ratio remains 3.1% above its 10.5% regulatory minimum and towards the upper end of the bank's 13-14% target range. The y/y movement reflects the offsetting effects of earnings (+58bps), higher risk weighted assets from changes in the asset mix, model changes and business growth in Markets (-57bps), as well as StanChart's USD1.0bn share buyback, two thirds of which have been completed.
- Given the solid 1Q2024 performance, management are maintaining their 2024 guidance of operating income rising 5-7% in 2024 with positive JAWS and low single-digit loans growth, and normalisation of loan loss rates to 30-35bps.
- StanChart's results look in line with our current fundamental views. (Company, OCBC)

Mandates:

- There are no Asiadollar mandates for today.

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