

Aug 1, 2018

Credit Headlines: Standard Chartered PLC

Market Commentary

- The SGD swap curve steepened moderately yesterday, with swap rates for the shorter tenors trading 1bp higher and the belly trading 1-2bps lower while 30-year swap rates traded 1bps higher.
- Flows in SGD corporates were moderate yesterday, with better buying seen in UOBSP 3.5%'26s and better selling seen in HSBC 4.7%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 138bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 463bps.
- 10Y UST yields fell 4bps to 2.93% initially after Bank of Japan said that it would maintain its ultra-loose monetary policy. Yields subsequently recovered 3bps to close at 2.96% on the back of widespread expectations that the Fed will leave interest rates unchanged.

Credit Headlines:

Standard Chartered PLC ("StanChart") | Issuer Profile: Neutral (4)

- StanChart's 1H2018 results continued the constructive tone in its 1Q2018 interim management statement with operating income up 6% y/y to USD7.6bn while operating profit before impairments rose 3% y/y to USD2.5bn. The lower growth in operating profit before impairments was due to higher regulatory and operating costs from investments in business growth and system enhancements while the income growth was driven by better performance in transaction banking, wealth management and deposits. This more than offset weaker income y/y performance in Corporate Finance and Treasury from margin pressure and absence of 1H2017 one-off gains respectively. Net interest margin in 1H2018 was stable compared to 1H2017 and 2H2017 at 1.6%.
- Impairment costs continue to fall (-50% y/y) from portfolio rebalancing and improved macro conditions in StanChart's main markets and together with higher profits from associates in China and Indonesia, underlying profit before tax was up 23% y/y to USD2.4bn. The lower impairment charges mainly came from higher recoveries as well as lower impairments in CIB and RB while CB impairments rose 150% to USD106mn due to Africa and Middle East exposures.
- Restructuring costs (from Principal Finance and reduction of liquidation portfolio) were also down 52% y/y contributing to a 34% y/y improvement in statutory profit before tax of USD2.3bn.
- Segment wise, growth in Private Banking ('PB') income was highest at 12% y/y followed by Retail Banking ('RB', +9% y/y), while Corporate & Institutional Banking ('CIB') and Commercial Banking ('CB') income was up 7% y/y respectively. That said, PB continues to be the smallest segment contributor to total group income (3.9%) with CIB (44.7%) and RB (34.2%) the main income generators. By geography, Greater China & North Asia saw the strongest y/y growth (+11%) and continues to contribute the bulk of income (40.8%) followed by ASEAN & South Asia (27.6%) and Africa & Middle East (18.4%). While Europe & Americas is the lowest contributor by geographic region (11.8%), its y/y income growth of 8% was relatively solid owing to transaction banking performance (partially offset by weaker Financial Markets) while loans and advances to customers in this segment rose 23% y/y.

Credit Headlines (cont'd):

Standard Chartered PLC ("StanChart") | Issuer Profile: Neutral (4) (cont'd)

- Supporting the improved operating environment, loans and advances to customers rose 4% y/y due mostly to CIB loans growth. In line with the lower impairment costs, StanChart's balance sheet risk profile appears to have improved with exposure to investment grade corporates rising to 61% in 1H2018 from 54% in 1H2017. At the same time, stage 3 or non-performing loans fell 12% h/h (driven mainly by a fall in loans within the liquidation portfolio) and expected credit loss provisions fell 13% h/h translating to a slightly weaker loan loss coverage ratio of 57% as at 30 June 2018 (60% as at 1 Jan 2018). Including collateral, the loan loss coverage ratio improves to 79% as at 30 June 2018.
- All told, the above developments translated to a 60bps h/h improvement in StanChart's CET1 ratio to 14.2% as at 30 June 2018 with earnings growth of 60bps and a 20bps fall in risk weighted assets (from favourable impacts through lower operational and market RWA and FX translation) offset a 20bps fall in capital from dividends (including Tier 1 distributions).
- In summary, the positive trends in recent results reflect successful execution of its 2015 strategic plan with growth in focus business segments (wealth management and transaction banking) and a better quality balance sheet lifting overall ROE. (OCBC, Company)

Table 1: Key Financial Indicators

	1-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	79	-4	-16
iTraxx SovX APAC	11	-2	-5
iTraxx Japan	56	0	-8
iTraxx Australia	74	-3	-8
CDX NA IG	58	-3	-10
CDX NA HY	107	0	1
iTraxx Eur Main	61	-3	-15
iTraxx Eur XO	282	-6	-45
iTraxx Eur Snr Fin	74	-3	-18
iTraxx Sovx WE	24	0	-1
AUD/USD	0.742	-0.46%	1.10%
EUR/USD	1.169	-0.33%	0.44%
USD/SGD	1.362	-0.25%	0.54%
China 5Y CDS	58	-4	-14
Malaysia 5Y CDS	83	-5	-29
Indonesia 5Y CDS	112	-2	-30
Thailand 5Y CDS	43	-1	-7

	1-Aug	1W chg	1M chg
Brent Crude Spot (\$/bbl)	73.94	0.01%	-6.92%
Gold Spot (\$/oz)	1,224.04	-0.62%	-1.45%
CRB	194.53	0.69%	-2.92%
GSCI	464.83	0.92%	-4.64%
VIX	12.83	3.38%	-20.26%
CT10 (bp)	2.954%	-2.04	9.41
USD Swap Spread 10Y (bp)	7	2	-1
USD Swap Spread 30Y (bp)	-4	3	1
TED Spread (bp)	34	-2	-8
US Libor-OIS Spread (bp)	33	-1	-7
Euro Libor-OIS Spread (bp)	4	0	1
DJIA	25,415	0.69%	4.71%
SPX	2,816	-0.15%	3.60%
MSCI Asiax	675	-0.49%	0.34%
HSI	28,583	-0.28%	-1.29%
STI	3,320	0.83%	1.56%
KLCI	1,784	1.21%	5.48%
JCI	5,936	0.08%	2.37%

New issues

- Lotte Property & Development Co Ltd has priced a USD200mn 3-year FRN at 3mL+92.5bps, tightening from its initial price guidance of 3mL+120bps area.
- KWG Group Holdings Limited has priced a USD350mn 3NC2 bond at 7.875%, tightening from its initial price guidance of 8.2%.
- China Mengniu Dairy Co Ltd has priced a USD500mn 5-year bond at CT5+148bps, tightening from its initial price guidance of CT5+175bps area.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
31-Jul-18	Lotte Property & Development Co Ltd	USD200mn	3-year	3mL+92.5bps
31-Jul-18	KWG Group Holdings Limited	USD350mn	3NC2	7.875%
31-Jul-18	China Mengniu Dairy Co Ltd	USD500mn	5-year	CT5+148bps
30-Jul-18	CMHI Finance BVI Co Ltd	USD900mn	5-year	CT5+162.5bps
30-Jul-18	CMHI Finance BVI Co Ltd	USD600mn	10-year	CT10+215bps
30-Jul-18	Woori Bank	USD300mn	10-year	CT10+220bps
27-Jul-18	Legend Fortune Ltd	USD300mn	3-year	3mL+128bps
26-Jul-18	Trade Horizon Global Ltd (JUDA)	USD400mn	3-year	3mL+257.5bps
26-Jul-18	China Aoyuan Property Group Ltd (re-tap)	USD175mn	CAPG 6.35%'20s	98.516
26-Jul-18	Industrial Bank of Korea	USD500mn	3-year	3mL+60bps
25-Jul-18	Greenland Global Investment Ltd (re-tap)	USD300mn	GRNLGR'21s	3mL+485bps
25-Jul-18	Temasek Financial I Ltd	USD1.35bn	10-year	CT10+72bps
25-Jul-18	Posco	USD500mn	5-year	CT5+130bps
25-Jul-18	Export-Import Bank of China	USD140mn	3-year	3mL+60bps
24-Jul-18	CFLD Cayman Investment Ltd	USD200mn	3-year	9.0%
24-Jul-18	Sino-Ocean Land Treasure IV Ltd	USD700mn	3-year	3mL+230bps
24-Jul-18	Sunac China Holdings Ltd	USD400mn	2-year	8.625%

Source: OCBC, Bloomberg

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