

Aug 24, 2018

Credit Headlines: Westpac Banking Corporation

Market Commentary

- The SGD swap curve flattened yesterday, with swap rates for the shorter tenors trading 1bps higher while the longer tenors traded 1-3bps lower.
- Flows in SGD corporates were heavy yesterday, with better buying seen in OCBCSP 4.0%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 139bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 486bps.
- Overall, 10Y UST yields rose 1bps to close at 2.83% ahead of the speech by Federal Reserve Chairman Jerome Powell on Friday after minutes from the recent US central bank meeting showed that further interest rate hikes are likely soon.

Credit Headlines:

Westpac Banking Corporation (“Westpac”) | Issuer Profile: Positive (2)

- Westpac released its June 2018 Pillar 3 report, which contained key highlights of its 3QFY2018 performance ended 30 June 2018.
- Net interest margin ('NIM') for 3QFY2018 of 2.06% was lower than 1HFY2018 net interest margin of 2.17%, and the lowest since 1HFY2015. This was driven by higher funding costs with a material rise in short term wholesale funding costs (average 90 day bank bill swap rate rose 13.5% in 3QFY2018 compared to 1HFY2018), while NIM was also impacted by reduced contribution from Group Treasury. Net interest income on average contributes around 70-74% to total net operating income.
- Loan quality remains sound with stressed assets to total committed exposures down 1bp to 1.08% and impaired asset levels stable, while Westpac's loan portfolio grew. That said, mortgage 90+ day delinquencies in Australia were up 3bps over the three months ended June 2018 with most States recording some increase. This trend supports the assertion of building stress in the housing sector. In addition, the Australian unsecured 90+ day delinquencies also rose, up 5bps over the three months ended June 2018. Credit quality trends within Westpac's loan portfolio by stressed asset ratios shows improvement in mining and New Zealand dairy exposures while retail trade and commercial property portfolios are showing a deteriorating trend.
- Consistent with Australian Prudential Regulation Authority (“APRA”) guidelines, new interest only lending represented 24% of total limits and resulted in the proportion of interest only lending in Westpac's portfolio continuing to trend down (37% of portfolio at 30 June 2018, down from 40% at 31 March 2018 and 50% as at 31 March 2017). Investment mortgage lending growth was 3.7% as at 30 June 2018. Lower interest only lending also contributed to the fall in NIM.
- The CET1 Capital ratio of 10.4% as at 30 June 2018 was marginally lower than 10.5% as at 31 March 2018 due to growth in market risk weighted assets and dividend payments which offset capital generation. Credit risk weighted assets were broadly stable as portfolio growth was offset by credit quality improvements and FX impacts. The CET1 ratio is also marginally lower than APRA's minimum CET1 requirement by Jan 1, 2020 for 'unquestionably strong' capital ratios. On an internationally comparable basis, the Basel III CET1 ratio is estimated at 16.0% as at 30 June 2018 (16.1% as at 31 March 2018). As a reminder, [APRA recently released a discussion paper](#) on Australia's bank capital framework to gain inputs for draft revised prudential standards planned in 2019 to improve the comparability of Australian bank capital ratios to international standards.
- Credit metrics appear stable for Westpac and continue to reflect its stable and entrenched business positions in Australia and New Zealand. That said, earnings growth may be subdued as asset quality shows some slight weakness, costs are expected to increase and mortgage growth is expected to soften. (OCBC, Company)

Table 1: Key Financial Indicators

	24-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	80	-2	-5
iTraxx SovX APAC	11	0	-2
iTraxx Japan	55	0	-6
iTraxx Australia	75	-1	-6
CDX NA IG	60	-1	-1
CDX NA HY	107	0	0
iTraxx Eur Main	67	-4	1
iTraxx Eur XO	292	-14	0
iTraxx Eur Snr Fin	82	-3	2
iTraxx Sovx WE	28	-1	3
AUD/USD	0.724	-0.96%	-2.42%
EUR/USD	1.154	0.91%	-1.24%
USD/SGD	1.374	-0.20%	-0.78%
China 5Y CDS	59	-3	-4
Malaysia 5Y CDS	89	1	-2
Indonesia 5Y CDS	121	-3	5
Thailand 5Y CDS	42	-1	-3

	24-Aug	1W chg	1M chg
Brent Crude Spot (\$/bbl)	74.71	4.01%	1.73%
Gold Spot (\$/oz)	1,184.25	0.00%	-3.29%
CRB	190.50	1.13%	-1.39%
GSCI	459.30	2.21%	-0.28%
VIX	12.41	-7.73%	0.00%
CT10 (bp)	2.821%	-3.98	-12.79
USD Swap Spread 10Y (bp)	7	0	2
USD Swap Spread 30Y (bp)	-6	1	1
TED Spread (bp)	25	-1	-13
US Libor-OIS Spread (bp)	23	-4	-11
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,657	0.38%	1.64%
SPX	2,857	0.57%	1.30%
MSCI Asiax	660	2.35%	-1.82%
HSI	27,790	2.55%	-3.04%
STI	3,250	0.49%	-1.30%
KLCI	1,811	1.40%	2.72%
JCI	5,983	3.69%	0.86%

New issues

- Redco Properties Group Ltd has priced a USD200mn 2-year bond (guaranteed by certain of the company's restricted subsidiaries incorporated outside of the PRC) at 11.0%, in line with its initial price guidance.
- Mapletree Treasury Services Ltd has priced a SGD300mn 8-year bond (guaranteed by Mapletree Investments Pte Ltd) at 3.4%, tightening from its initial price guidance of 3.45%.
- Perennial Real Estate Holdings Ltd has priced a SGD10mn re-tap on its PREHSP 5.95%'20s at 5.95%, in line with its initial price guidance.
- Vigorous Champion International Limited has scheduled for investor meetings from 27 Aug for its potential USD bond issuance (guaranteed by China Ping An Insurance Overseas (Holdings) Limited).
- Anhui Transportation Holding Group (H.K.) Ltd has scheduled for investor meetings from 27 Aug for its potential USD bond issuance (guaranteed by Anhui Transportation Holding Group Co Ltd).
- CGNPC International Ltd has scheduled for investor meetings from 28 Aug for its potential USD bond issuance (guaranteed by China General Nuclear Power).
- Huafa Group 2018 I Co Ltd has scheduled for investor meetings from 24 Aug for its potential USD bond issuance (guaranteed by Zhuhai Huafa Group Co Ltd).

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
23-Aug-18	Redco Properties Group Ltd	USD200mn	2-year	11.0%
23-Aug-18	Mapletree Treasury Services Ltd	SGD300m	8-year	3.4%
23-Aug-18	Perennial Real Estate Holdings Ltd	SGD10mn	PREHSP 5.95%'20s	5.95%
22-Aug-18	National Australia Bank Ltd	EUR750mn	5-year	MS+36bps
22-Aug-18	National Australia Bank Ltd	EUR1.25bn	10-year	MS+53bps
21-Aug-18	JGC Ventures Pte Ltd	USD150mn	3NC1	10.75%
21-Aug-18	Fufeng Group Ltd	USD350mn	3-year	CT3+325bps
21-Aug-18	Logan Property Holdings Co Ltd	USD300mn	3NC2	7.75%
21-Aug-18	ABN Amro Group NV	USD1bn	3-year	CT3+75bps
21-Aug-18	ABN Amro Group NV	USD1bn	3-year	3mL+57bps
21-Aug-18	Commerzbank AG	EUR1.25bn	5-year	MS+35bps
21-Aug-18	Commerzbank AG	EUR500mn	10-year	MS+65bps

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