

May 24, 2018

Credit Headlines: CITIC Envirotech Ltd, Barclays PLC, Standard Chartered PLC, Westpac Banking Corporation

Market Commentary

- The SGD swap curve bull-flattened yesterday, with swap rates for the shorter tenor trading 1-3bps lower while the longer tenor trading 3-5bps lower.
- Flows in SGD corporates were moderate yesterday, with better in SIA 3.13%'26s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS inched 1bps higher at 1.34% while the Bloomberg Barclays Asia USD HY Bond Index average OAS similarly widened 1bps to 414bps.
- The Fed's May meeting reflected that though "it would likely soon be appropriate" to hike rates, mixed levels of conviction regarding inflation had the market interpreting the minutes as being less hawkish than expected, causing the UST curve to bull steepen. 10Y UST yields fell 7bps to close below the 3% handle at 2.99%.

Credit Headlines

CITIC Envirotech Ltd ("CEL") | Issuer Profile: Neutral (4)

- CEL announced that the founder/current CEO Dr. Lin Yucheng has been re-designated as a Non-Executive Director of CEL with effect from 1 June 2018. Mr. Hao Weibao, who is currently the Executive Chairman of CEL will succeed Dr. Lin as the new CEO.
- In addition to being Executive Chairman of CEL, Mr. Hao is also the President and Vice Chairman of CITIC Environment (CEL's immediate parent company, owned by CITIC Group) and before joining the CITIC Group, Mr. Hao worked at Sinopec.
- On 23 May 2018, CEL saw its share price fall ~10% and an SGX trading query was issued. In response, the company added that in addition to the re-designation, CITIC Environment is in talks with Dr Lin and Ms Pan Shuhong (Group COO of CEL) on the potential acquisition of shares held by them in the company. The shares in question comprise less than a third of the stake currently held by each of them.
- Dr Lin has a deemed interest of only ~3.6% interest in the company (based on current outstanding shares) and 30mn options which, if converted, will give ~1.2% additional stake in the company. We think the impact of the re-designation is manageable. CITIC Group is the major shareholder holding a deemed interest of 62.9% as at 14 March 2018. CITIC Group had been an active owner in CEL, helping the company to win new contracts and increasing CEL's access to funding markets.
- CEL has yet to announce funding plans for its investment commitment of SGD1.3bn (from new projects won), our current base case assumes that these would largely be debt/perpetual funded. (OCBC, Company)

Credit Headlines (cont'd):

Barclays PLC ("Barclays") | Issuer Profile: Neutral (4)

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

- Various news reports suggest that Barclays is considering a merger with StanChart.
- Interest in a combination is apparently driven by the increased shareholding of activist investor Edward Bramson's Sherborne Investors in Barclays (5.2%) and seen as a contingency plan to address concerns on Barclay's weak returns.
- Although there appears board level interest, conversations so far are reported to have been private in nature with no formal bids or approaches made.
- Looking at the fundamentals of both banks (we rate both Barclays PLC and Standard Chartered PLC at Neutral (4) Issuer Profile):

Barclays

- Developed market focused with 53% of income from continuing operations as at 31 December 2017 from the UK. This is followed by the Americas at 35%, Europe at 8%, Asia at 3% and Africa and Middle East at 1%.
- Strategy is to focus on core transatlantic consumer, corporate and investment banking businesses in its two home markets of the UK and US with other businesses including its African operations classified as non-core. Capital market activities transitioned to less capital intensive businesses.
- [Recent underlying performance](#) was solid and benefited from improved expense performance with a 45% y/y reduction in credit impairment charges as well as a 6% y/y fall in operating expenses. Balance sheet composition has improved from re-allocation / repositioning of risk weighted assets.

Standard Chartered PLC

- Footprint skewed towards emerging markets. As per its 2017 annual report, 39% of reported operating income was generated in Greater China & North Asia (mostly Hong Kong, then Korea, China, Taiwan, Japan and Mongolia), followed by 27% in ASEAN & South Asia (mostly Singapore and India) and 19% in Africa & the Middle East (mostly United Arab Emirates). Europe & America contributed the lowest at 11%.
- Recent geographic focus is on investing in Africa and expansion in China.
- [StanChart's 1Q2018 results](#) appear constructive with operating income up 7% y/y driven by performance in transaction banking, mortgages, wealth management and deposits. Other segments were also positive although treasury income was lower y/y. What is positive in segment performance from management's view is that y/y growth trends are in line with StanChart's strategic plan implemented in late 2015.
- Key considerations and issues for any potential transaction:
 - A merged entity would create a large globally diversified bank. That said, the minimal geographic overlap is a consequence of its past strategic actions to focus on core markets;
 - Each bank's businesses have been cleaned up from prior year restructuring and major litigation has been largely resolved. However, potential synergy benefits and cost reductions may be limited given existing cost cutting programs;
 - Barclay's strategy is focused on its core US and UK businesses whilst divesting its Africa business so a merger with StanChart which is focusing on China and Africa would be in contrast to current strategy;
 - Both StanChart and Barclays are in the Financial Stability Board's [2017 list of global systemically important banks \(G-SIBs\)](#). An enlarged merged entity would have higher global systemic risk necessitating additional capital buffers.
 - StanChart has already stated that its focus is on executing its own strategy and will not comment on speculation.
 - With conceptual hurdles as well as practical complexities, we view completion risk for such a transaction as high. (Company, OCBC)

Credit Headlines (cont'd):

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

- As previously mentioned (refer to [OCBC Asian Credit Daily \(30 Oct 2017\)](#)), the Australian Securities and Investment Commission (‘ASIC’) commenced formal civil proceedings in 2016 against Commonwealth Bank of Australia (‘CBA’), National Australia Bank Ltd (‘NAB’), Westpac and Australia and New Zealand Banking Group Ltd (‘ANZ’) in relation to the alleged manipulation of the bank-bill swap rate (Australia’s equivalent of LIBOR). Only Westpac elected to contest the charges while CBA, ANZ and NAB settled.
- Westpac has now been cleared of this charge in Federal Court although was found to have engaged in unconscionable conduct. Penalties will be ascribed at a later date with Westpac of the view that their fine for unconscionable conduct will be lower than any fine that would have been paid in a settlement. Previous settlement fines for the other three banks ranged from AUD25mn to AUD50mn.
- The news does not impact our Issuer Profile assessment for Westpac. (Company, OCBC).

Table 1: Key Financial Indicators

	24-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	76	0	0
iTraxx SovX APAC	12	0	0
iTraxx Japan	50	0	2
iTraxx Australia	67	1	2
CDX NA IG	62	1	0
CDX NA HY	107	0	0
iTraxx Eur Main	61	5	6
iTraxx Eur XO	286	14	10
iTraxx Eur Snr Fin	69	8	13
iTraxx Sovx WE	23	4	6
AUD/USD	0.754	0.44%	-0.79%
EUR/USD	1.169	-0.88%	-4.43%
USD/SGD	1.345	-0.20%	-1.70%
China 5Y CDS	56	-1	-3
Malaysia 5Y CDS	84	-1	10
Indonesia 5Y CDS	122	-1	20
Thailand 5Y CDS	44	-1	-1

Source: OCBC, Bloomberg

	24-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	79.57	0.34%	7.73%
Gold Spot (\$/oz)	1,294.24	0.27%	-2.71%
CRB	206.38	1.28%	3.14%
GSCI	495.11	1.21%	5.25%
VIX	12.58	-6.26%	-30.19%
CT10 (bp)	2.981%	-13.06	-1.89
USD Swap Spread 10Y (bp)	3	0	1
USD Swap Spread 30Y (bp)	-11	-2	2
TED Spread (bp)	43	-1	-10
US Libor-OIS Spread (bp)	45	1	-10
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	24,887	0.48%	3.59%
SPX	2,733	0.40%	3.75%
MSCI Asiax	711	-0.65%	-0.15%
HSI	30,666	-1.43%	0.10%
STI	3,508	-0.80%	-2.12%
KLCI	1,773	-4.38%	-4.94%
JCI	5,792	-0.85%	-7.03%

New issues

- Export-Import Bank of Korea (EIBKOR) has priced a USD1.5bn deal across two-tranches with the USD800mn 3-year FRN at 3mL+57.5bps, tightening from its initial price guidance of 3mL+80bps area and the USD700mn 5-year FRN at 3mL+77.5bps, tightening from its initial price guidance of 3mL+100bps area.
- China Merchants Bank Co Ltd/Hong Kong (CHINAM) has priced a USD500mn 3-year FRN at 3mL+77.5bps, tightening from its initial price guidance of 3mL+105bps area.
- FPC Capital Ltd has priced a USD175mn 7NC4 at 5.75%, in line with its initial price guidance.
- Logan Property Holdings Co Ltd has priced a USD100mn re-tap of its LOGPH 6.875%'21 (guaranteed by certain offshore subsidiaries of issuer) at 7.5%, in line with initial price guidance.
- QNB Finance Ltd has priced a CNH600mn 3-year bond (guaranteed by Qatar national Bank QPSC) at 5.2%, in line with its initial price guidance.
- Fuxiang Investment Management Ltd has scheduled for investor meetings from 25 May for its potential USD bond issuance (guaranteed by Ping An Real Estate Capital Ltd, keepwell deed provider: Ping An Real Estate Co Ltd).
- Astrea IV Pte Ltd has scheduled for investor meetings from 25 May for its potential SGD and USD bond issuance (sponsor: Astrea Capital IV Pte Ltd).

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
23-May-18	QNB Finance Ltd	CNH600mn	3-year	5.2%
23-May-18	Logan Property Holdings Co Ltd (re-tap)	USD100mn	LOGPH 6.875%'21	7.5%
23-May-18	FPC Capital Ltd	USD175mn	7NC4	5.75%
23-May-18	China Merchants Bank Co Ltd/Hong Kong	USD500mn	3-year	3mL+77.5bps
23-May-18	Export-Import Bank of Korea	USD700mn	5-year	3mL+77.5bps
23-May-18	Export-Import Bank of Korea	USD800mn	3-year	3mL+57.5bps
18-May-18	DBS Bank Ltd	USD100mn	2-year	3.12%
17-May-18	Top Yield Ventures Ltd	USD120mn	364-day	9.75%
17-May-18	China South City Holdings Ltd	USD150mn	2-year	11%
17-May-18	QNB Finance Ltd	USD1.5bn	3-year	3mL+135bps
17-May-18	Vanke Real Estate Hong Kong Co Ltd	USD650mn	5-year	3mL+155bps
17-May-18	China Great Wall International Holdings III Ltd	USD600mn	5-year	CT5+155bps

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