

Oct 30, 2018

**Credit Headlines:** Bank Of China, Golden Agri-Resources Ltd, HSBC Holdings PLC

## **Market Commentary**

- The SGD swap curve flattened yesterday, with swap rates trading 3-5bps lower across most tenors (with the exception of the 15-year swap rates trading 2bps lower).
- Flows in SGD corporates were heavy yesterday, with better buying seen in SIASP 3.16%'23s and DBSSP 3.98%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 149bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 6bps to 546bps.
- 10Y UST yields rose 3bps to 3.11% in the earlier part of the trading session as US equities recovered from a dramatic sell-off. Yields subsequently fell 3bps to close at 3.08% after a report stating that President Donald Trump was preparing more tariffs on imports from China.

## **Credit Headlines:**

### **Bank Of China ("BOC") | Issuer Profile: Neutral (4)**

- BOC reported its 9M2018 results with profit before tax up 2.7% y/y to RMB195.6bn. This was driven by net interest income growth of 4.8% y/y due to a 4bps improvement in net interest margin to 1.89% as well as 8.2% y/y loans growth. Non-interest income was down 0.4% y/y as net fee and commission income fell 2.0% y/y.
- Operating expenses rose 1.4% y/y and given the lower growth in expenses, operating profit before impairment losses on assets rose 4.2%. However, of note is the 11.0% y/y rise in impairment losses on assets which resulted in operating profit growth of 2.4% y/y to RMB194.1bn.
- As mentioned above, loans growth was solid in the context of overall balance sheet growth with total assets up 7.7% y/y. Reported non-performing loans grew 9.2% y/y and as a result the non-performing loan ratio weakened slightly to 1.43% as at 30 Sept 2018 against 1.41% as at 30 Sept 2017. Still, the ratio is improved from the 1.45% as at 31 Dec 2017 and given the 11.0% rise in impairment losses, the allowance coverage ratio for loan impairment losses to non-performing loans strengthened to 168.3% as at 30 Sept 2018 against 153.6% as at 30 Sept 2017 and 159.2% as at 31 December 2017.
- Capital ratios were broadly stable y/y and since end-FY2017 with BOC's CET1/CAR ratio at 11.14%/14.16% as at 30 Sept 2018 against 11.15%/13.87% as at 30 Sept 2017 and 11.15%/14.19% as at FY2017. To accommodate further balance sheet growth and meet minimum capital requirements, BOC has announced plans to raise up to RMB120bn in capital through a preference share private placement.
- Ratios however remain well above expected 2018 minimum requirements of 8.5%/11.5% for CET1/CAR ratios respectively including a fully phased in capital conservation buffer of 2.5%. Minimums however do not include any counter cyclical capital buffer (yet to be finalized) nor any capital buffer requirement as a global systemically important bank (currently 1.5% with compliance date in January 2025). (OCBC, Company)

### **Golden Agri-Resources Ltd ("GGR") | Issuer Profile: Neutral (5)**

- GGR issued a statement that two senior officers of its wholly-owned subsidiary PT Binasawit Abadi Pratama ("BAP") and one senior officer of 92.4%-indirectly owned subsidiary PT SMART Tbk are subject to further investigation by the Indonesian corruption eradication commission.
- For now we expect a limited price reaction to the GGRSP '21s and will review GGR's issuer profile in conjunction with the release of GGRSPs' 3Q2018 results (expected on 13 November 2018). (Company, OCBC)

## Credit Headlines (cont'd):

### **HSBC Holdings PLC (“HSBC”) | Issuer Profile: Positive (2)**

- HSBC reported solid results for 3Q2018 with reported profit before tax (“PBT”) of USD5.9bn up 28% y/y. Excluding significant items (transformation costs, litigation and regulatory costs) and foreign exchange impacts, adjusted profit before tax was up 16%.
- PBT performance was driven by 6% growth in revenue due to better performance in all of HSBC’s business segments (Commercial Banking, Retail Banking and Wealth Management, Global Banking & Markets) except Corporate Centre (negative impact of hyperinflation accounting in Argentina and adverse fair value movements) while Private Banking performance was stable. Adjusted revenue growth y/y was 9% in 3Q2018 due to better margins and volume growth in current accounts, savings and deposits in Retail Banking although personal mortgage lending revenue fell. Commercial Banking revenues rose 15% y/y due to better deposit margins and volumes in Global Liquidity and Cash Management and growth in Credit and Lending. Finally, Global Banking & Markets revenue rose 10% y/y from volume growth and foreign exchange flows on market volatility which mitigated lower primary corporate issuances and reduced secondary client activity.
- Operating expenses also fell 7% y/y to USD8.0bn and was mostly due to favourable impacts from significant items (non-recurrence of transformation costs) and favourable currency translation impacts. Excluding these, operating expenses increased by 2% y/y due to investment in growth and digitalization. This mitigated an 18% y/y rise in expected credit losses and other credit impairment charges and loan impairment charges and other credit risk provisions which were located in Mexico, Turkey and UK exposures within Commercial Banking and Retail Banking and Wealth Management. Management also indicated that a charge was applied to reflect the potential negative impact of the trade war on Hong Kong exposures.
- In terms of 9M2018 results, reported PBT was 12% higher y/y to USD16.6bn, Excluding significant items and foreign exchange impacts however, adjusted PBT was up 3.4% y/y to USD18.3bn. Similar to 3Q2018 results, HSBC saw revenue growth across all business segments except Corporate Centre with adjusted net operating income up 10% y/y in Retail Banking and Wealth Management from volume and margin growth in current accounts, savings and deposits; adjusted net operating income up 13% y/y in Commercial Banking from margin and volume growth in Global Liquidity and Cash Management; and adjusted net operating income up 4% y/y in Global Banking & Markets as Global Liquidity and Cash Management and Securities Services mitigated weak Global Markets performance from Rates and Credit.
- Reported loans and advances to customers was broadly stable (+1.0% q/q). However, excluding foreign currency translation differences, adjusted loans and advances rose ~2% q/q. Most q/q growth came from Europe (UK mortgages and term lending and overdrafts). Growth was marginal in Asia and North America.
- Risk weighted assets were lower q/q due to the more moderate loans and advances growth together with the impact of foreign currency translation differences as well as methodology and policy changes. As a result of this and earnings generation, HSBC’s CET1 ratio improved to 14.3% as at 30 September 2018 against 14.2% as at 30 June 2018. This remains above the minimum CET1 requirement of 7.8%. HSBC’s overall leverage ratio was stable q/q as at 30 Sept 2018 at 5.4%, above the 3.0% minimum requirement. Its UK leverage ratio was also stable q/q at 5.9% as at 30 Sept 2018, above the Prudential Regulatory Authority’s 3.95% minimum requirement which includes a minimum leverage ratio requirement of 3.25%, an additional leverage ratio buffer of 0.5% and a countercyclical leverage ratio buffer of 0.2%. (OCBC, Company)

**Table 1: Key Financial Indicators**

	30-Oct	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	92	3	13
iTraxx SovX APAC	10	0	2
iTraxx Japan	63	2	9
iTraxx Australia	82	2	9
CDX NA IG	71	3	13
CDX NA HY	105	-1	-3
iTraxx Eur Main	76	0	9
iTraxx Eur XO	301	0	29
iTraxx Eur Snr Fin	93	-3	8
iTraxx Sovx WE	27	-1	2
AUD/USD	0.706	-0.34%	-2.24%
EUR/USD	1.138	-0.82%	-1.74%
USD/SGD	1.383	-0.33%	-0.85%
China 5Y CDS	72	4	17
Malaysia 5Y CDS	113	6	21
Indonesia 5Y CDS	159	7	30
Thailand 5Y CDS	44	1	4

	30-Oct	1W chg	1M chg
Brent Crude Spot (\$/bbl)	76.81	0.48%	-7.14%
Gold Spot (\$/oz)	1,230.44	0.01%	3.49%
CRB	193.42	-1.94%	-0.89%
GSCI	465.41	-2.09%	-4.29%
VIX	24.7	25.76%	103.80%
CT10 (bp)	3.085%	-8.27	2.37
USD Swap Spread 10Y (bp)	7	0	2
USD Swap Spread 30Y (bp)	-12	-3	-4
TED Spread (bp)	20	3	0
US Libor-OIS Spread (bp)	24	2	5
Euro Libor-OIS Spread (bp)	4	0	1
DJIA	24,443	-3.45%	-7.62%
SPX	2,641	-4.16%	-9.36%
MSCI Asiax	571	-2.92%	-12.81%
HSI	24,812	-5.13%	-10.71%
STI	2,982	-3.14%	-8.46%
KLCI	1,684	-2.25%	-6.10%
JCI	5,755	-1.47%	-3.71%

## New issues

- Shinhan Bank has priced a USD500mn 5-year bond at CT5+105bps, tightening from its initial price guidance of CT5+120bps area.
- Oceanwide Holdings International Development III Co Ltd has priced a USD215mn 3NP1.5 bond at 12.0% (PRC Parent Guarantor: Oceanwide Holdings Co Ltd; Hong Kong Parent Guarantor: China Oceanwide Group Limited, Subsidiary Guarantor: Oceanwide Real Estate International Company Limited), in line with final price guidance.
- Shandong Iron & Steel Group Co Ltd has scheduled for investor meetings from 30 Oct for its potential USD bond issuance.
- Chang Development International Ltd has scheduled for investor meetings from 30 Oct for its potential USD bond issuance (guaranteed by Changchun Urban Development & Investment Holdings (Group) Co Ltd).
- Shaanxi Xixian New Area Fengxi New City Development and Construction (Group) Co Ltd has scheduled for investor meetings from 30 Oct for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
29-Oct-18	Shinhan Bank	USD500mn	5-year	CT5+105bps
29-Oct-18	Oceanwide Holdings International Development III Co Ltd	USD215mn	3NP1.5	12.0%
26-Oct-18	Kaisa Group Holdings Ltd	USD250mn	KAISAG 7.875%'21s	93.417 - 93.478
25-Oct-18	Gansu Provincial Highway Aviation Tourism Investment Group Co Ltd	USD150mn	GSHIAV 6.25%'21s	100.363-100.413
24-Oct-18	SPIC Luxemburg Latin America Renewable Energy Investment Company Sarl	USD300mn	3-year	CT3+135bps
24-Oct-18	SPIC Luxemburg Latin America Renewable Energy Investment Company Sarl	USD500mn	5-year	CT5+170bps
24-Oct-18	Hainan Airlines (Hong Kong) Co Ltd	USD100mn	2NP1	13.17%
24-Oct-18	Sinopec Century Bright Capital Investment Ltd	CNH1bn	3-year	4.5%
23-Oct-18	TNB Global Ventures Capital Berhad	USD750mn	10-year	CT10+170bps
22-Oct-18	Land Transport Authority of Singapore	SGD1.0bn	35-year	3.43%
18-Oct-18	Doosan Power Systems SA	USD300mn	30NC3	CT3+87.5bps
18-Oct-18	Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	USD500mn	10.25-year	99.004
18-Oct-18	Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	USD500mn	30.25-year	99.293

Source: OCBC, Bloomberg

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