

May 31, 2018

**Credit Headlines:** CIMB Group Holdings Berhad

## **Market Commentary**

- The SGD swap curve bull-flattened sharply, with swap rates for the shorter tenors trading 4-6bps lower while the longer tenors traded 6-8bps lower. This largely mirrored the moves seen in the UST curve.
- Flows in SGD corporates were moderate yesterday, with better buying seen in CMZB 4.875%'27s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 138bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 441bps.
- 10Y UST yield rose by 7bps to 2.86% on the reversal of safe haven flows as financial markets stabilized after Italy sought to end its political turmoil with a plan for a new government.

## **Credit Headlines**

### **CIMB Group Holdings Berhad ("CIMB") | Issuer Profile: Neutral (4)**

- CIMB announced its 1Q2018 results with operating income down 1.3% y/y to MYR4.3bn. This was driven by a 3.5% y/y fall in net interest income (net interest margin fell 15bps y/y to 2.57% in 1Q2018 due to lower interest rates in Indonesia) and deconsolidation of earnings from CIMB Securities International ('CSI'). These overshadowed a 3.8% y/y improvement in non-interest income due to a MYR152mn gain on sale of 50% of CSI.
- Cost performance was solid with overhead expenses down 6.8% y/y and together with continued improvement in loan loss provision performance (-5.4% y/y due to improvement in Consumer and Commercial Banking), CIMB's profit before tax ('PBT') improved 8.0% y/y to a record MYR1.74bn for 1Q2018. Given the sharper fall in expenses compared to operating income, CIMB's reported cost to income ratio improved to 49.8% in 1Q2018 (52.6% in 1Q2017) which is below CIMB's Target 2018 (T18) 50% year-end target for the first time.
- By segments on a PBT basis, CIMB's Consumer Bank (comprises individuals) PBT grew 51.2%/y/y and contributed 49% of Group PBT due to growth in both net interest income and non-interest income and lower loan loss provisions, while Commercial Banking (comprises small and medium-sized enterprises and mid-sized corporations) PBT fell 14.1% y/y from business recalibration in Thailand and Indonesia although lower costs and provisions offset this somewhat. Wholesale Banking (comprises Investment Banking, Corporate Banking, Treasury and Markets, Transaction Banking, Equities and Private Banking) was also weaker (-32.6% y/y) due to weaker corporate banking loans and treasury & markets activity in 1Q2018 as well as the deconsolidation of CSI and higher provisions y/y absent the write-backs seen in 1Q2017.
- Gross loans grew 0.5% y/y. In line with segment PBT performance, growth was due to 3.2% y/y growth in Consumer Banking loans which offset a 3.6% y/y fall in Wholesale Banking loans while Commercial Banking loans were broadly stable. Excluding foreign exchange impacts (the broad strengthen of the MYR), overall gross loans grew 5.3%. Loan quality indicators remain sound with the reported gross impaired loans ratio of 3.2% stable y/y and improved q/q (3.4% as at 4Q2017) while the allowance coverage ratio improved to 105.3% for 1Q2018 against 93.2% and 84.1% for 1Q2017 and 4Q2017 respectively as a result of implementation of MFRS9 (accounting driven movement from allowances to forward looking expected credit losses).
- Similar to peer Malayan Banking Berhad, MFRS9 implementation also impacted capital ratios with CET1/CAR for 1Q2018 at 11.7%/16.4% against 12.2%/16.5% for 4Q2017. Absent the impact of MFRS9, CET1 capital ratios improved marginally q/q by 20bps due to earnings performance. Compared to 1Q2017 however (11.5%/16.4% for CET1/CAR), ratios improved due to earnings and active capital management through new issuance and dividend reinvestment schemes. These levels remain above minimum requirements and CIMB's T18 CET1 target of 12%. (OCBC, Company)

**Table 1: Key Financial Indicators**

	31-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	78	2	4
iTraxx SovX APAC	12	0	0
iTraxx Japan	53	3	6
iTraxx Australia	71	4	6
CDX NA IG	65	3	5
CDX NA HY	106	-1	-1
iTraxx Eur Main	68	6	14
iTraxx Eur XO	306	18	36
iTraxx Eur Snr Fin	86	15	29
iTraxx Sovx WE	30	7	13
AUD/USD	0.757	-0.09%	0.52%
EUR/USD	1.166	-0.53%	-3.48%
USD/SGD	1.340	-0.05%	-1.04%
China 5Y CDS	57	0	0
Malaysia 5Y CDS	89	5	17
Indonesia 5Y CDS	118	-1	14
Thailand 5Y CDS	45	1	2

Source: OCBC, Bloomberg

	31-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	77.31	-1.88%	2.85%
Gold Spot (\$/oz)	1,303.07	-0.12%	-0.94%
CRB	203.29	-1.41%	0.65%
GSCI	483.69	-2.25%	1.67%
VIX	14.94	13.01%	-6.21%
CT10 (bp)	2.842%	-13.47	-11.08
USD Swap Spread 10Y (bp)	4	1	1
USD Swap Spread 30Y (bp)	-10	0	1
TED Spread (bp)	40	0	-15
US Libor-OIS Spread (bp)	42	-1	-11
Euro Libor-OIS Spread (bp)	4	1	1
DJIA	24,668	-0.67%	2.09%
SPX	2,724	-0.02%	2.87%
MSCI Asiax	702	-1.62%	-2.59%
HSI	30,057	-1.99%	-2.44%
STI	3,444	-2.80%	-4.70%
KLCI	1,719	-6.82%	-7.74%
JCI	6,011	4.52%	0.27%

## New issues

- Fuxiang Investment Management Ltd (PINGRE) has priced a USD250mn 363-day bond (guaranteed by Pingan Real Estate Capital Ltd, keepwell deed provider: Ping An Real Estate Co Ltd) at 5.1%, tightening from its initial price guidance of 5.5%.
- ChouZhou International Investment Ltd has scheduled for investor meetings on 1 June for its potential USD bond issuance (guaranteed by Yiwu State-owned Capital Operation Co Ltd).
- Kyobo Life Insurance Co Ltd has plans to sell up to USD1bn of hybrid bonds.
- New Development Bank BRICS has plans to issue USD bonds.

Date	Issuer	Size	Tenor	Pricing
30-May-18	Fuxiang Investment Management Ltd	USD250mn	363-day	5.1%
28-May-18	Central China Real Estate Ltd (re-tap)	USD86mn	CENCHI 6.875%'20s	7.30%
28-May-18	China South City Holdings Ltd (re-tap)	USD100mn	CSCHCN 10.875%'20s	11%
28-May-18	Times China Holdings Ltd	USD450mn	3NC2	7.85%
24-May-18	Tokyo Metropolitan Government	USD500mn	5-year	MS+42bps
24-May-18	China Overseas Grand Oceans Finance IV Cayman Ltd	USD500mn	3-year	CT3+225bps
24-May-18	Housing & Development Board	SGD500mn	12-year	3.08%
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%

Source: OCBC, Bloomberg

**Andrew Wong**

Treasury Research & Strategy  
Global Treasury, OCBC Bank  
(65) 6530 4736  
[wongVKAM@ocbc.com](mailto:wongVKAM@ocbc.com)

**Nick Wong Liang Mian, CFA**

Treasury Research & Strategy  
Global Treasury, OCBC Bank  
(65) 6530 7348  
[NickWong@ocbc.com](mailto:NickWong@ocbc.com)

**Ezien Hoo, CFA**

Treasury Research & Strategy  
Global Treasury, OCBC Bank  
(65) 6722 2215  
[EzienHoo@ocbc.com](mailto:EzienHoo@ocbc.com)

**Wong Hong Wei**

Treasury Research & Strategy  
Global Treasury, OCBC Bank  
(65) 6722 2533  
[WongHongWei@ocbc.com](mailto:WongHongWei@ocbc.com)

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "**Relevant Materials**") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "**Relevant Entity**") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("**MiFID**") and the EU's Markets in Financial Instruments Regulation (600/2014) ("**MiFIR**") (together referred to as "**MiFID II**"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).