Asian Credit Daily

Oct 31, 2018

Credit Headlines: Australia & New Zealand Banking Group Ltd, BNP Paribas SA, Starhill Global REIT, CapitaLand Retail China Trust

Market Commentary

- The SGD swap curve steepened yesterday, with swap rates trading 2-4bps higher across most tenors (with the exception of the 15-year swap rates trading 1bps higher).
- Flows in SGD corporates were heavy yesterday, with better selling seen in SIASP 3.16%'23s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 149bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 16bps to 563bps.
- Overall, 10Y UST yields rose 4bps to close at 3.12% as equities recovered from Monday's sell-off on the back of trade prospects between the US and China.

Credit Headlines:

Australia & New Zealand Banking Group Ltd ("ANZ") | Issuer Profile: Positive (2)

- ANZ announced its full year FY2018 results for the period ended 30 Sept 2018. As previously foreshadowed, cash profits (which excludes non-core items) were down 16% y/y to AUD5.81bn.
- Net interest income was down 2% y/y due to a 12bps fall in net interest margin to 1.87% while other operating income fell 5% y/y due to weaker net fee and commission income, net funds management and insurance income and markets income. With operating expenses rising 3% y/y from accelerated software amortisation charges and costs associated with restructuring, customer remediation, and Royal Commission legal costs, profit before impairments fell 8% y/y to AUD9.97bn.
- Credit impairment charges fell 43% y/y from lower individual credit impairment charges. New individual credit impairments fell 30%, with the largest movements in Institutional (-67% y/y) and Asia Retail & Pacific (-76% y/y).
- However the recognition of AUD682mn loss from discontinued operations against a AUD129mn profit in FY2017 dragged the full year cash profits down by 16% y/y. Main drivers for the AUD682mn loss were a AUD632mn loss on reclassification of Wealth Australia businesses to held for sale and customer remediation expenses of AUD127mn. Excluding losses from discontinued operations, cash profit from continuing operations were down 5% y/y to AUD6.49bn.
- By operating division, Institutional was the weakest performer with cash profits down 20% y/y while Australia cash profits were down 1% y/y and New Zealand cash profits rose 8% y/y. For the smaller operating divisions, Wealth Australia cash profits fell 45% while Asia Retail & Pacific turned to a cash profit of AUD151mn in FY2018 against a net loss of 157mn in FY2017.
- Net loans and advances rose 4% y/y with most growth occurring in Institutional and New Zealand. Australia loans growth was moderate at 2% y/y.
- In line with the fall in credit impairment charges, gross impaired assets fell 16% y/y and together with loans growth, the gross impaired asset ratio improved to 0.33% as at 30 Sept 2018 against 0.41% as at 30 Sept 2017. The largest falls in gross impaired assets was in the Institutional (upgrades) and Asia Pacific & Retail (sale of Asia Retail and Wealth businesses) segments while gross impaired assets rose 9% y/y in Australia due to a single name restructured loan.
- Although weaker y/y, earnings generation was still robust and this contributed to ANZ's APRA CET1 ratio improving y/y to 11.4% against 11.0% as at 31 Mar 2018 and 10.6% as at 30 Sept 2017. A marginal fall in risk weighted assets and asset divestments also contributed to the better capital ratios. On an internationally comparable basis, the CET1 ratio improved to 16.8% against 16.3% for 1HFY2018 from 15.8% for FY2017. (OCBC, Company)

Credit Headlines (cont'd):

BNP Paribas SA ("BNPP") | Issuer Profile: Neutral (3)

- BNPP reported 3Q2018 results with reported operating income down 7.9% y/y to EUR2.39bn. This was due to a marginal fall in revenues (-0.4% due to persisting low interest rates on loans extended), which was partly offset by 4.7% growth in Domestic Markets loans outstanding) as well as higher operating expenses (+2.0% due to business growth in International Financial Services) and higher cost of risk (+2.7% y/y). Non-operating items were up 12.4% y/y, however this did not mitigate the weaker revenues and higher expenses and as such pre-tax income was down 5.3% y/y to EUR2.82bn. By operating division (does not include Other Activities), revenues were up 0.8% due to better y/y performance in International Financial Services ("IFS", +4.3% y/y) which mitigated weaker Domestic Markets ("DM", -1.1% y/y) and Corporate & Institutional Banking ("CIB", -3.5% y/y).
- Reported 9M2018 performance was similarly weak with pre-tax income down 7.2% y/y to EUR8.53bn as a 0.8% y/y fall in revenues and 2.6% y/y rise in operating expenses (business growth in IFS, partially mitigated by cost saving measures in CIB). This overshadowed a 2.8% y/y fall in cost of risk. By operating division, pre-tax income was down 7.6% y/y as revenues were stable, operating expenses were up 1.9% y/y while cost of risk was down by 2.8% y/y.
- By segment for 3Q2018, DM revenues were down 1.3% y/y and 1.5% q/q due to low interest rates, while IFS revenues were up 4.3% on both a y/y and q/q basis. CIB revenues were the main drag, down 3.5% y/y and 13.9% q/q for 3Q2018 due to weakness in fixed income, currencies and commodities. Operating expenses and risk costs appear to be managed or at least perform in line with top line performance with operating income in DM up 0.3% y/y due to a 19.2% y/y fall in risk costs, while operating income in IFS was lower by 8.7% y/y due to 6.1% y/y rise in operating expenses due to business activity and a 19.2% y/y rise in risk costs due to a low base in 3Q2017, increased outstandings in Personal Finance, and higher cost of risk in Europe-Mediterranean exposures. Although operating expenses fell by 0.7% y/y in CIB, it was not enough to compensate for the fall in revenues mentioned previously.
- In terms of core business trends for 9M2018, operating income including cost of risk improved y/y for both DM and IFS by 3.0% and 1.9% respectively due to lower cost of risk and better revenue performance respectively while CIB performance was noticeably weak (-21.2% y/y due to weaker revenues).
- Underlying business growth appears sound with y/y growth in loans outstanding of 4.7% and 4.1% for DM and IFS respectively. In particular, at constant scope (excluding business sales or acquisitions) and exchange rates, loans outstanding at IFS grew 7.3% y/y. Loan quality continues to improve with the reported ratio of doubtful loans to gross outstanding loans falling marginally to 2.8% as at 30 June 2018 from 2.9% as at 30 June 2018 and 3.0% as at 1 January 2018. Reported doubtful loans fell 5.2% since 1 Jan 2018. The coverage ratio as at 30 Sept 2018 was slightly weaker at 79.3% compared with 79.4% as at 30 June 2018 and 80.2% as at 1 Jan 2018.
- Despite the weaker operating income performance and growth in loans, BNPP's fully loaded CET1 ratio improved to 11.7% as at 30 Sept 2018 against 11.5% as at 30 June 2018 and 11.6% as at 31 March 2018 due to a +15bps impact from the sale of 30.3% of First Hawaiian Bank and +10bps from 3Q2018 earnings while risk weighted assets ("RWA") fell due to foreign exchange impacts. Excluding this impact, RWAs were stable compared to 30 June 2018 due to a marginal increase in Retail Banking RWAs and a fall in CIB RWAs. BNPP's capital ratios continue to be well above minimum transitional CET1 requirements of 9.125% for 2018 as disclosed in BNPP's 2017 annual report. (OCBC, Company)

Credit Headlines (cont'd):

Starhill Global REIT ("SGREIT") | Issuer Profile: Neutral (4)

- SGREIT reported its first quarter results for the quarter ended 30 September 2019 ("1QFY2019"). Gross revenue eased 1.8% y/y to SGD52.0mn while net property income ("NPI") was fell 2.3% y/y to SGD40.4mn. This was mainly due to softness in Singapore's retail portfolio and the weakening of AUD, though partly offset by Ngee Ann City (Office) and Plaza Arcade which has completed its asset redevelopment and a stronger MYR.
- On the Singapore office front, Ngee Ann City (Office) saw committed occupancy jumped to 95.3% from 77.9% a year ago partly due to the addition of The Great Room, a co-working space in June 2018. The higher occupancy translated to a 20.6% y/y increase revenue and a 22.3% y/y growth in NPI. Even though lease expiry looks heavy in FY2019 at 37.7% (by gross rent) for Ngee Ann City (Office), we think this is manageable for SGREIT given the recovery seen in Singapore office market.
- For Singapore retail portfolio, Wisma Atria (Retail) saw occupancy rate declined to 91.0% from 97.1% 25.8% while Ngee Ann City (Retail) was stable as it is anchored by Toshin master lease (ie: Takashimaya). Looking forward, 25.8% of lease by gross rent will expire at Wisma Atria (Retail) in FY2019 while Ngee Ann City (Retail) has just 6.7%. As the retail space remains soft, it seems the upcoming expiring lease at Wisma Atria (Retail) may likely offset the anticipated improvement at Ngee Ann City (Office). Overall, committed portfolio occupancy for SGREIT is largely stable q/q at 94.1% (4QFY2018: 94.2%).
- Aggregate leverage remains healthy at 35.4% (4Q2018: 35.5%) with ~92% of its borrowing fixed. Reported interest coverage remained stable at 4.0x. SGREIT has minimal refinancing risk in the near term as it has available undrawn long term committed credit facilities to cover for the SGD109mn debt maturing in Sep 2019. (Company, OCBC)

CapitaLand Retail China Trust ("CRCT") | Issuer Profile: Neutral (4)

- CRCT reported its 3Q2018 results. Gross revenue dipped 0.3% y/y in RMB terms but declined by 1.1% y/y to SGD55.4mn in SGD terms due to weaker RMB. The dip was mainly due to closure of CapitaMall Wuhu and restriction of trading activities at the atrium of CapitaMall Grand Canyon. Net property income ("NPI"), on the other hand, improved by 2.2% higher y/y on the back of overall reduction of operating expenses across most malls.
- Portfolio occupancy as at 30 September 2018 was a healthy 97.7% (2Q2018: 97.4%) with robust rental reversion at 12.1%. WALE is 2.9 years by gross rental income. CRCT has 11% of total (by gross rental income) leases expiring for the remaining of 2018 and a significant portion of 25.3% in 2019. We think that this is largely manageable for CRCT given portfolio shopper traffic and tenant sales were up 19.6% y/y and 21.4% y/y respectively.
- Newer assets such as Rock square saw a strong positive rental reversion of 28.3% with 3Q2018 being the third consecutive quarter of rental reversion above 20%. CapitaMall Xinnan also realised 35.6% rental reversion.
- Aggregate leverage is 35.9% (including the proportionate share of its JV borrowing and deposited property) and interest coverage at 5.6x. Average term to maturity was extended to 3.70 years from 2.97 years following the refinancing of a SGD120mn debt that was maturing in 2019 to 2024. With that CRCT has no refinancing requirements until 2020. (Company, OCBC)

Table 1: Key Financial Indicators

	31-Oct	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	92	2	14
iTraxx SovX APAC	11	0	2
iTraxx Japan	62	2	10
iTraxx Australia	83	3	10
CDX NA IG	69	-1	11
CDX NA HY	105	0	-3
iTraxx Eur Main	76	0	9
iTraxx Eur XO	303	3	30
iTraxx Eur Snr Fin	94	-3	9
iTraxx Sovx WE	27	-1	2
AUD/USD	0.710	0.54%	-1.74%
EUR/USD	1.135	-0.40%	-2.00%
USD/SGD	1.386	-0.32%	-1.01%
China 5Y CDS	72	3	17
Malaysia 5Y CDS	114	4	22
Indonesia 5Y CDS	160	6	31
Thailand 5Y CDS	44	0	4

	31-Oct	1W chg	1M chg
Brent Crude Spot ($/bbl)	75.91	-0.69%	-8.23%
Gold Spot ($/oz)	1,221.81	-0.97%	2.76%
CRB	191.76	-1.65%	-1.74%
GSCI	459.77	-0.92%	-5.45%
VIX	23.35	12.75%	92.66%
CT10 (bp)	3.123%	1.92	6.15
USD Swap Spread 10Y (bp)	7	0	1
USD Swap Spread 30Y (bp)	-11	-1	-3
TED Spread (bp)	21	4	1
US Libor-OIS Spread (bp)	23	0	5
Euro Libor-OIS Spread (bp)	4	0	1
DJIA	24,875	-1.26%	-5.99%
SPX	2,683	-2.12%	-7.94%
MSCI Asiax	571	-2.35%	-12.81%
HSI	24,586	-3.00%	-11.53%
STI	2,966	-2.14%	-8.92%
KLCI	1,686	-0.69%	-5.98%
JCI	5,789	-0.15%	-3.14%

New issues

- Scenery Journey Ltd has priced a USD1.8bn deal across three tranches (guaranteed by Tianji Holding Ltd, keepwell provider: Hengda Real Estate Group Co Ltd) with the USD565mn 2-year bond priced at 11.0%, in line with the final price guidance; the USD645mn 4NC2 priced at 13.0%, in line with the final price guidance and the USD590mn 5NC3 at 13.75%, in line with the final price guidance.
- China CITIC Bank International Ltd has priced a USD500mn PerpNC5 AT1 at 7.1%, tightening from its initial price guidance of 7.3%.
- Soar Wise Ltd has priced a USD350mn 3-year bond (guaranteed by AVIC International Leasing Co Ltd) at CT3+175bps, tightening from its initial price guidance of CT3+190bps area.
- Taizhou Infrastructure Construction Investment Group Co Ltd has priced a USD300mn 3-year bond at 5.8%, tightening from its initial price guidance of 6.1%.
- Guohui International (BVI) Co Ltd has hired banks for its potential USD bond issuance (guaranteed by Shandong Guohui Investment Ltd).

Date	Issuer	Size	Tenor	Pricing
30-Oct-18	Scenery Journey Ltd	USD565mn	2-year	11.0%
30-Oct-18	Scenery Journey Ltd	USD645mn	4NC2	13.0%
30-Oct-18	Scenery Journey Ltd	USD590mn	5NC3	13.75%
30-Oct-18	China CITIC Bank International Ltd	USD500mn	PerpNC5	7.1%
30-Oct-18	Soar Wise Ltd	USD350mn	3-year	CT3+175bps
30-Oct-18	Taizhou Infrastructure Construction Investment Group Co Ltd	USD300mn	3-year	5.8%
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%

Source: OCBC, Bloomberg

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