

Aug 7, 2018

Credit Headlines: HSBC Holdings PLC

Market Commentary

- The SGD swap curve flattened yesterday, with swap rates for the shorter tenors as well as the belly trading 2-4bps lower while the longer tenors traded 2-3bps lower.
- Flows in SGD corporates were moderate yesterday.
- 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 1bps to 481bps.
- 10Y UST yields fell 3bps to 2.92% in the earlier part of the trading session, hitting a two-week low on the back of safe-haven demand due to trade conflict between US and China. Yields subsequently recovered 2bps to close at 2.94% ahead of the sale of USD78bn new supply of treasury notes this week.

Credit Headlines:

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

- HSBC announced its 2Q2018 results with reported revenues up 3% y/y to USD13.6bn. Costs were up marginally by 1% y/y but together with a 44% fall in loan impairment charges and better performance from associates (+20% y/y), profit before tax for 2Q2018 rose 13% y/y to USD6.0bn.
- 1H2018 results were softer with revenues up 4% y/y to USD27.3bn but higher loan impairment charges (+39% y/y) and higher expenses (+7% y/y) translated to a more moderate growth in profit before tax (+5% y/y) to USD10.7bn.
- On an adjusted basis (adjusted for one-offs which were higher in prior periods), profit before tax for 2Q2018 and 1H2018 were down 1% and 2% y/y respectively primarily due to higher investment spending on growth and technology. As mentioned previously, elevated expenses are likely to continue as the bank continues to push into technology and the operating environment for HSBC remains supportive with decent underlying business and revenue growth in all business segments.
- On a segment basis, 1H2018 adjusted results were driven by weaker performance in the Corporate Centre (valuation differences on long term debt and associated swaps, higher interest expense from MREL costs, higher losses on disposal of legacy portfolios) which offset a 15% y/y improvement in Commercial Banking (better margins and loan volumes) and 7% y/y improvement in Retail Banking and Wealth Management (better deposit revenues). Adjusted profit before tax for Global Banking & Markets and Global Private Bank also rose by 1% (muted markets activity) and 32% (solid inflows in discretionary and advisory mandates) y/y respectively.
- Net interest margins (“NIMs”) in 1H2018 rose 2bps y/y to 1.66% on better lending yields and higher deposit margins in Asia which offset a material fall in Europe NIMs (-17bps y/y) due to higher liquidity and funding costs connected to HSBC’ regulatory restructuring and ringfencing. This somewhat drove geographical segment trends with adjusted profit before tax continuing to be supported by Asia (+14% y/y) and North America (+17% y/y) while Europe PBT was down 78% y/y.
- Reflecting business growth, loans grew 5% h/h and 3% q/q on a constant currency basis. Most of this growth was in Asia and primarily Hong Kong, in line with its recently announced strategy update. Non-performing loan ratio improved slightly q/q to 1.4% from 1.6% in 1Q2018.
- Despite a fall in risk weighted assets, HSBC’s CET1 ratio at 14.2% was weaker as at 30 June 2018 compared to the 14.5% as at 31 March 2018 and 31 December 2017 due to dividend payments, the previously announced share buy-back and foreign exchange differences. (OCBC, Company)

Table 1: Key Financial Indicators

| | 7-Aug | 1W chg (bps) | 1M chg (bps) |
|--------------------|-------|--------------|--------------|
| iTraxx Asiax IG | 82 | 3 | -14 |
| iTraxx SovX APAC | 11 | -1 | -4 |
| iTraxx Japan | 55 | -1 | -10 |
| iTraxx Australia | 75 | 1 | -10 |
| CDX NA IG | 59 | 0 | -5 |
| CDX NA HY | 107 | 0 | 1 |
| iTraxx Eur Main | 65 | 2 | -5 |
| iTraxx Eur XO | 296 | 9 | -9 |
| iTraxx Eur Snr Fin | 79 | 2 | -4 |
| iTraxx Sovx WE | 26 | 1 | 1 |
| AUD/USD | 0.739 | -0.51% | -1.08% |
| EUR/USD | 1.156 | -1.15% | -1.65% |
| USD/SGD | 1.368 | -0.50% | -0.86% |
| China 5Y CDS | 62 | 5 | -9 |
| Malaysia 5Y CDS | 84 | 2 | -22 |
| Indonesia 5Y CDS | 115 | 4 | -19 |
| Thailand 5Y CDS | 43 | 0 | -5 |

| | 7-Aug | 1W chg | 1M chg |
|----------------------------|----------|---------|---------|
| Brent Crude Spot (\$/bbl) | 73.75 | -1.63% | -4.36% |
| Gold Spot (\$/oz) | 1,208.74 | -1.26% | -3.89% |
| CRB | 193.93 | -0.93% | -2.08% |
| GSCI | 464.50 | -1.05% | -3.38% |
| VIX | 11.27 | -20.97% | -15.71% |
| CT10 (bp) | 2.940% | -2.03 | 11.78 |
| USD Swap Spread 10Y (bp) | 7 | 0 | -1 |
| USD Swap Spread 30Y (bp) | -5 | -1 | -2 |
| TED Spread (bp) | 34 | -2 | -3 |
| US Libor-OIS Spread (bp) | 32 | -1 | -6 |
| Euro Libor-OIS Spread (bp) | 4 | 0 | 0 |
| DJIA | 25,502 | 0.77% | 4.28% |
| SPX | 2,850 | 1.71% | 3.28% |
| MSCI Asiax | 663 | -1.77% | 0.27% |
| HSI | 27,820 | -3.18% | -1.75% |
| STI | 3,285 | -0.66% | 2.93% |
| KLCI | 1,780 | 0.54% | 6.97% |
| JCI | 6,101 | 1.21% | 7.13% |

New issues

- SK Broadband Co Ltd has priced a USD300mn 5-year bond at CT5+117.5bps, tightening from its initial price guidance of CT5+145bps area.

| <u>Date</u> | <u>Issuer</u> | <u>Size</u> | <u>Tenor</u> | <u>Pricing</u> |
|-------------|---|-------------|----------------|----------------|
| 6-Aug-18 | SK Broadband Co Ltd | USD300mn | 5-year | CT5+117.5bps |
| 2-Aug-18 | Power Finance Corp Ltd | USD300mn | 10-year | CT10+235bps |
| 2-Aug-18 | Sands China Ltd | USD1.8bn | 5-year | CT5+175bps |
| 2-Aug-18 | Sands China Ltd | USD1.8bn | 7-year | CT7+220bps |
| 2-Aug-18 | Sands China Ltd | USD1.9bn | 10-year | CT10+245bps |
| 2-Aug-18 | Wuhan Real Estate Development Investment Group Co Ltd | USD430mn | 3-year | 5.7% |
| 2-Aug-18 | Bank of China Ltd/Macau | USD300mn | 3-year | 3mL+75bps |
| 31-Jul-18 | Lotte Property & Development Co Ltd | USD200mn | 3-year | 3mL+92.5bps |
| 31-Jul-18 | KWG Group Holdings Limited | USD350mn | 3NC2 | 7.875% |
| 31-Jul-18 | China Mengniu Dairy Co Ltd | USD500mn | 5-year | CT5+148bps |
| 30-Jul-18 | CMHI Finance BVI Co Ltd | USD900mn | 5-year | CT5+162.5bps |
| 30-Jul-18 | CMHI Finance BVI Co Ltd | USD600mn | 10-year | CT10+215bps |
| 30-Jul-18 | Woori Bank | USD300mn | 10-year | CT10+220bps |
| 27-Jul-18 | Legend Fortune Ltd | USD300mn | 3-year | 3mL+128bps |
| 26-Jul-18 | Trade Horizon Global Ltd (JUDA) | USD400mn | 3-year | 3mL+257.5bps |
| 26-Jul-18 | China Aoyuan Property Group Ltd (re-tap) | USD175mn | CAPG 6.35%'20s | 98.516 |
| 26-Jul-18 | Industrial Bank of Korea | USD500mn | 3-year | 3mL+60bps |

Source: OCBC, Bloomberg

Andrew Wong

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

Ezien Hoo, CFA

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

Wong Hong Wei, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
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).