Asian Credit Daily

OCBC Bank

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Credit Headlines (Page 2 onwards): Westpac Banking Corporation, Industry Outlook – Hong Kong Residential

Market Commentary: The SGD swap curve bear-steepened last Friday, with shorter-term rates trading +/- 1bps while the middle to longer term rates traded mostly 2-5bps higher. Flows in the SGD corporates were moderate with better selling seen in GENSSP 5.13%'49s while mixed interest was seen in SCISP 4.75%'49s. In the broader dollar space, the spread on JACI IG Corporates increased 1bps to 207bps while the yield on JACI HY corporates was unchanged at 6.59%. 10y UST decreased 4bps to 1.78% as US election polls continued to tighten in Trump's favour although last week's nonfarm payroll report showed a supportive case for an interest rate hike in December. Better news for Clinton on the email saga may settle markets in the last remaining days ahead of the election.

New Issues: China Nuclear Engineering has priced a CNH1.5bn 3-year bond at 4.3%, tightening from its initial guidance at 4.6%. Export-Import Bank of Korea (EXIM Korea) has priced a re-tap of its existing SGD250mn 2.04%'18s note, amounting to SGD60mn. The issue was rated "NR/Aa2/AA-". Mapletree Commercial Trust has priced a SGD85mn 7-year bond at 2.795%. The expected issue ratings are "NR/Baa1/NR'.

Rating Changes: S&P revised its outlook on AMP Ltd.'s "AA-" corporate credit rating to negative from stable. The outlook revision reflects S&P's concerns over its prospective operating performance and capitalization following the recent announcement of a material reserve strengthening and impairment of goodwill in its wealth protection business. Moody's similarly affirmed its "Aa2" insurance financial strength rating on AMP Life Ltd but revised the rating outlook to negative from stable to reflect the weaker operating environment which has led to weaker performance in AMP Life's life insurance products, which will constrain profitability in 2016 and possibly in 2017.

Table 1: Key Financial Indicators

	7-Nov	1W chg (bps)	1M chg (bps)		7-Nov	1W chg	1M chg
iTraxx Asiax IG	119	1	3	Brent Crude Spot ($/bbl)	45.92	-4.93%	-11.57%
iTraxx SovX APAC	36	1	3	Gold Spot ($/oz)	1,293.22	1.25%	2.87%
iTraxx Japan	59	3	4	CRB	182.50	-3.54%	-3.09%
iTraxx Australia	108	3	3	GSCI	349.10	-5.65%	-6.11%
CDX NA IG	81	2	7	VIX	22.51	39.04%	66.99%
CDX NA HY	103	-1	-2	CT10 (bp)	1.822%	-0.31	10.43
iTraxx Eur Main	76	3	2	USD Swap Spread 10Y (bp)	-14	0	2
iTraxx Eur XO	339	10	6	USD Swap Spread 30Y (bp)	-55	-1	1
iTraxx Eur Snr Fin	100	3	1	TED Spread (bp)	52	-9	-2
iTraxx Sovx WE	19	0	-2	US Libor-OIS Spread (bp)	37	-1	-6
iTraxx Sovx CEEMEA	94	4	4	Euro Libor-OIS Spread (bp)	4	0	-1
					7-Nov	1W chg	1M chg
				AUD/USD	0.767	0.84%	1.20%
				USD/CHF	0.974	1.54%	0.36%
				EUR/USD	1.109	1.01%	-0.97%
				USD/SGD	1.388	0.26%	-1.03%
Korea 5Y CDS	46	4	6	DJIA	17,888	-1.50%	-1.93%
China 5Y CDS	111	1	6	SPX	2,085	-1.94%	-3.18%
Malaysia 5Y CDS	128	3	10	MSCI Asiax	533	-1.68%	-4.26%
Philippines 5Y CDS	117	1	-1	HSI	22,683	-1.10%	-4.90%
Indonesia 5Y CDS	161	6	11	STI	2,801	-0.47%	-2.59%
Thailand 5Y CDS	95	0	12	KLCI	1,648	-1.45%	-1.03%
				JCI	5,363	-0.88%	-0.27%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
7-Nov-16	EXIM Korea (Re-tap of SGD60mn)	"NR/Aa2/AA-"	SGD310mn	3-year	2.04%
7-Nov-16	Mapletree Commercial Trust	"NR/Baa1/NR"	SGD85mn	7-year	2.795%
4-Nov-16	China Nuclear Engineering	"NR/NR/NR"	CNH1.5bn	3-year	4.3%
3-Nov-16	Intl. Bank for Reconstruction & Dev.	"NR/Aaa/NR"	SGD500mn	3-year	1.12%
3-Nov-16	Bank of China Ltd.	"NR/Aa3/NR"	USD500mn	3-year	CT3+95bps
3-Nov-16	Huishang Bank Corp.	"NR/NR/NR"	USD888mn	Perp-NC5	5.5%
1-Nov-16	Wuhan Metro Group Co. Ltd.	"NR/NR/A"	USD290mn	3-year	CT3+180bps
1-Nov-16	Central China Real Estate	"B+/Ba3/NR"	USD200mn	5NC3	6.75%
31-Oct-16	Chalco Hong Kong Investment Co. Ltd.	"NR/NR/BBB"	USD500mn	Perp-NC5	4.25%

Source: OCBC, Bloomberg

Rating Changes (cont'd):

S&P downgraded its corporate credit rating on China Oilfield Services Ltd. to "BBB" from "BBB+" with a stable outlook. The downgrade reflects the company's poor financial performance for this year and S&P expects only a gradual recovery over the next 12 – 24 months. Moody's has placed Caterpillar, Inc. (CAT), Caterpillar Financial services Corp. (CFSC), and various subsidiaries' "A2" credit ratings on review for downgrade. The review's focus is placed on the degree of initiatives undertaken by CAT that could enable the company to strengthen its future operating performance and credit metrics through all phases of the business cycle. CAT's performance is below Moody's expectation given extremely weak business conditions faced by the company. Important considerations include: 1) Pace at which the company's initiatives will strengthen the credit metrics; 2) Degree to which these actions moderate an erosion in performance during future downturns; and 3) CFSC's ability to maintain strong underwriting standards and liquidity.

Credit Headlines:

Westpac Banking Corporation ("WBC"): WBC released its full year results for FY2016 with statutory net profit down 7% y/y to AUD7.5bn. Cash earnings however, which reflect normalized performance and contribution from ongoing operations, was flat y/y at AUD7.8bn. Total revenue was up 3% due to an 8% rise in net interest income due to stronger net interest margins (FY2016: 2.13% against 2.08% in FY2015 due to lending and deposit growth) and a 6% rise in total lending (including an 8% rise in mortgage lending and a 3% rise in Australian business lending, mostly to SMEs). Non-interest income however was weaker by 7% due to lower consumer cards related income, weaker performance at BT Investment Management ("BTIM"), and lower markets activity in Institutional Banking ("IB"). Westpac continues to manage its costs between business growth, ongoing investment in digital platforms and higher regulatory and compliance costs with the reported cost to income ratio more or less stable at 43.9% in FY2016. Costs arising from impairment allowances however continue to increase as expected with impairments up 49% y/y due to institutional exposures that were downgraded in 1H2016. WBC's mortgage portfolio continues to operate soundly with the 21bps increase in 90+ day delinquencies due mostly to reporting changes. Overall from a segment wise perspective, Consumer Bank cash earnings performance continues to be solid up 14% y/y due to loan growth while BTIM and IB cash earnings performance contracted 4% and 18% respectively y/y due to still challenging market conditions in these segments. Business Banking segment performance was stable with cash earnings up 1% due again to loan growth and containment in operating expenses which mitigated higher impairments. WBC's balance sheet remains solid with CET1 capital ratios stable due to solid earnings and capital raising initiatives (dividend reinvestment plan, partial sale of BTIM and AUD3.5bn entitlements offer completed earlier in FY2015) with WBC's FY2016 APRA compliant CET1 capital ratio at 9.5%. These pro-active initiatives were necessary to mitigate an increase in risk weighted assets from APRA's changes to the Australian residential risk weight floor (of which WBC is the most exposed), ongoing high dividend payments and maturing non-compliant Basel III instruments. Based on international Basel III standards, WBC's CET1 ratio improved and remain relatively strong at 14.4% as at 30 September 2016 (13.2% in FY2015), in the top quartile of banks globally according to WBC. Overall, WBC's results (which are less affected by restructurings as opposed to peers) and underlying performance was solid and is supported by its stronger franchise in consumer banking where it remains the second largest mortgage lender in Australia. Loan quality appears to be stabilizing with the moderating growth in impairment charges in 2H2016 (31% lower than 1H2016), which is a trend in line with recent peers results (refer Australia and New Zealand Banking Group Ltd and National Australia Bank Ltd earnings in Asian Credit Daily dd 03/11/2016 and dd 27/10/2016 respectively). We maintain our Neutral issuer profile rating on ANZ and continue to see fair value throughout the Aussie bank SGD T2 space. (Company, OCBC)

Industry Outlook – Hong Kong Residential: Effective November 5, Hong Kong raised the stamp duty to 15% (from 8.5%) for non-first time buyers of residential properties. This is a significant move by the government to cool property prices, which have surged rapidly since June this year. Under our coverage, Henderson Land Development is most exposed to the Hong Kong residential market, and it has suspended sales of one project. Nevertheless, we expect its strong balance sheet (Net debt/equity: 0.14x) to tide it through this period of volatility and expected slow sales. (Bloomberg, South China Morning Post, OCBC)

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