# Asian Credit Daily

**May 25, 2017**

**Credit Headlines (Page 2 onwards):** BNP Paribas SA, Westpac Banking Corporation, CIMB Group Holdings Berhad , Keppel Corp

**Market Commentary:** The SGD swap curve bear-steepened yesterday, with swap rates trading 1-2bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in FCLSP 4.15%'27s, RHTSP 4.5%'18s, better selling seen in GEMAU 5.5%'19s, mixed interests in BNP 3.65%'24s, STANLN 4.4%'26s, GENSSP 5.13%'49s, SOCGEN 4.3%'26s, CHIPEN 4.9%'22s, HRAM 3.2%'21s, FNNSP 3.8%'27s. In the broader dollar space, the spread on JACI IG corporates fell 1bps to 197bps, while the yield on JACI HY corporates changed little at 6.85%. 10y UST yields fell 3bps to 2.25%, after markets unravel latest US Federal Reserve ("Fed") minutes which focused on "transitory" nature of economic slowdown kept June rate hike firmly on the table. However, Fed's tone was cautious, and the policy path on balance sheet normalization was viewed as more dovish than expected.

**New Issues:** National University of Singapore priced a SGD250mn 5-year bond at 1.85%. RHT Health Trust priced a SGD60mn re-tap of the RHTSP 4.5%'18s at 99.50**.** CNRC Capitale Ltd. priced a USD600mn Perp NC5 (guaranteed by China National Chemical Corporation at 3.9%, tightening from initial guidance of 4.2%. The expected issue ratings are 'NR/Baa2/BBB+'. Korea Gas Corp scheduled investor roadshow from 5 Jun for a potential USD bond issuance. Rural Electrification Corp Ltd. is planning to issue potential USD green bond.

**Rating Changes:** S&P affirmed Indonesia-based petrochemical producer PT Chandra Asri Petrochemical Tbk.'s (Chandra Asri) 'B+' corporate credit rating, and upgraded the company's stand-alone credit profile (SACP) to 'BB-' from 'B+'. In addition, S&P revised Chandra Asri's outlook to developing from positive. The rating action reflects the uncertain direction of the credit profile of and leverage at parent company PT Barito Pacific Tbk. following a major corporate reorganization at Barito Pacific which started at the end of 2016.

**Table 1: Key Financial Indicators**

| | 25-May | 1W chg (bps) | 1M chg (bps) | | 25-May | 1W chg | 1M chg |
|---|---|---|---|---|---|---|---|
| iTraxx Asiax IG | 91 | -3 | -3 | Brent Crude Spot ($/bbl) | 54.45 | 3.69% | 4.51% |
| iTraxx SovX APAC | 19 | -2 | -3 | Gold Spot ($/oz) | 1,257.35 | 0.82% | -0.54% |
| iTraxx Japan | 42 | -2 | -3 | CRB | 183.92 | 0.37% | 1.10% |
| iTraxx Australia | 84 | -1 | 1 | GSCI | 391.92 | 1.97% | 2.18% |
| CDX NA IG | 62 | -2 | 0 | VIX | 10.02 | -35.73% | -6.88% |
| CDX NA HY | 108 | 0 | 0 | CT10 (bp) | 2.257% | 2.77 | -7.51 |
| iTraxx Eur Main | 62 | -2 | -4 | USD Swap Spread 10Y (bp) | -6 | 2 | -4 |
| iTraxx Eur XO | 254 | -6 | -13 | USD Swap Spread 30Y (bp) | -44 | 3 | -3 |
| iTraxx Eur Snr Fin | 68 | -3 | -6 | TED Spread (bp) | 29 | 0 | -6 |
| iTraxx Sovx WE | 8 | -1 | -1 | US Libor-OIS Spread (bp) | 11 | -1 | -7 |
| iTraxx Sovx CEEMEA | 45 | -9 | 0 | Euro Libor-OIS Spread (bp) | 3 | 0 | 0 |
| | | | | | 25-May | 1W chg | 1M chg |
| | | | | AUD/USD | 0.750 | 1.04% | -0.52% |
| | | | | USD/CHF | 0.973 | 0.70% | 2.13% |
| | | | | EUR/USD | 1.122 | 1.07% | 2.71% |
| | | | | USD/SGD | 1.385 | 0.59% | 0.67% |
| Korea 5Y CDS | 56 | -3 | 2 | DJIA | 21,012 | 1.97% | 0.08% |
| China 5Y CDS | 80 | -2 | -2 | SPX | 2,404 | 2.01% | 0.66% |
| Malaysia 5Y CDS | 101 | -4 | -7 | MSCI Asiax | 613 | 0.97% | 3.19% |
| Philippines 5Y CDS | 80 | -2 | 0 | HSI | 25,494 | 1.42% | 4.24% |
| Indonesia 5Y CDS | 125 | -7 | -2 | STI | 3,237 | 0.46% | 2.29% |
| Thailand 5Y CDS | 58 | 1 | 4 | KLCI | 1,775 | 0.43% | 0.51% |
| | | | | JCI | 5,703 | 1.57% | 0.40% |

*Source: OCBC, Bloomberg*

**Table 2: Recent Asian New Issues**

| Date | Issuer | Ratings | Size | Tenor | Pricing |
|---|---|---|---|---|---|
| 24-May-17 | National University of Singapore | Not Rated | SGD250mn | 5-year | 1.85% |
| 24-May-17 | RHT Health Trust (re-tap) | Not Rated | SGD60mn | RHT 4.5%'18s | 99.50 |
| 24-May-17 | CNRC Capitale Ltd | "NR/Baa2/BBB+" | USD600mn | Perp NC5 | 3.9% |
| 23-May-17 | China Construction Bank Corporation (Hong Kong) | "NR/A1/NR" | USD1.2bn | 3-year | 3mL+77bps |
| 23-May-17 | Beijing Gas Singapore Capital Corporation | "A-/A3/A" | USD500mn | 5-year | CT5+116bps |
| 22-May-17 | Hong Seng Ltd. | "B-/NR/B" | USD250mn | 3-year | 8.25% |
| 22-May-17 | Korea Eximbank | "AA/Aa2/AA-" | EUR750mn | 5-year | MS+40bps |
| 22-May-17 | Nan Fung Treasury (II) Ltd. | "NR/Baa3/NR" | USD500mn | Perp NC3 | 5.5% |
| 22-May-17 | MCC Holding (Hong Kong) Corporation Ltd | "NR/Baa2/NR" | USD500mn | 3-year | CT3+155bps |

*Source: OCBC, Bloomberg*

**Rating Changes (cont'd):** Following Moody's downgraded China's sovereign rating, Moody's affirmed the baseline credit assessment (BCA) of Bank of China Limited (BOC), China Construction Bank Corporation (CCB), and Industrial and Commercial Bank of China Limited (ICBC) at 'Baa2', Agricultural Bank of China Limited's (ABC) BCA And Adjusted BCA at 'Baa3', put Bank of Communications Co. Ltd's (BoCom) BCA and Adjusted BCA of 'Baa3' on review for downgrade. Moody's downgraded the issuer ratings and/or senior unsecured debt ratings of three Chinese policy banks, Agricultural Development Bank of China (ADBC), China Development Bank Corporation (CDB), and the Export-Import Bank of China (CEXIM), to 'A1' from 'Aa3'. Moody's has also affirmed the 'A1' long-term issuer ratings of CCB Financial Leasing Corporation Ltd (CCB Leasing) and ICBC Financial Leasing Co., Ltd (ICBC Leasing), put the 'A2' issuer rating of Bank of Communications Financial Leasing (BoCom Leasing) and the 'A3' issuer rating of BoCom Leasing Development HK Co. Ltd. (BLDHK) on review for downgrade, and downgraded the long-term issuer rating of China Development Bank Financial Leasing (CDB Leasing) to 'A1' from 'Aa3'. Apart from financials, Moody's downgraded 26 Chinese non-financial corporate and infrastructure government-related issuers (GRIs) and rated subsidiaries by one notch from their previous levels. At the same time, Moody's has changed to stable from negative the rating outlooks of 24 out of the 26 GRIs and rated subsidiaries. The outlooks on the two remaining GRI subsidiaries are negative.

**Credit Headlines:**

**BNP Paribas SA ("BNPP")**: BNPP has been fined USD350mn by New York's Department of Financial Services in connection with foreign-exchange manipulation through 2007-2013. BNPP stated that the penalty can be covered by existing provisions. According to its 2016 Annual Report, BNPP disclosed that it had EUR1.64bn in provisions for litigations therefore the fine does not impact our Neutral Issuer Profile on BNPP. (Company, OCBC)

**Westpac Banking Corporation ("WBC")**: WBC announced the sale of a further stake in BT Investment Management (BTIM), part of WBC's wealth management and insurance division (BT Financial Group). Following the sale, which is through an institutional offer, WBC's ownership in BTIM will reduce from 29% to 10% with the sale expected to generate atleast around AUD615mn based on the lower end of the price range. According to WBC, the sale is expected to add 10bps to WBC's CET1 ratio (1HFY2017: 10.0%). Management further indicated the likely sell down of the remaining 10% ownership, subject to market conditions. Overall, the move is consistent with the broad actions of Australian banks to streamline operations and focus on core business segments. Such moves are important to solidify capital positions to meet rising capital requirements and address earnings pressure. While WBC's stronger franchise in consumer banking should underpin continued solid earnings generation, we expect future earnings growth to be constrained from regulatory pressure to reduce risks in Australia's housing market. (Company, OCBC)

**CIMB Group Holdings Berhad ("CIMB"):** CIMB reported 1Q2017 results with total operating income up 17.1% y/y and 1.1% q/q with strong y/y growth in both net interest income (loans growth and net interest margin improvement) and net non-interest income (stronger capital markets activity). Combined with somewhat moderate growth in operating expenses (+7.4% y/y and +2.9% q/q) and a fall in impairment allowances (-11.6% y/y and -48.7% q/q), pre-provision operating profit grew 30% y/y while profit before tax grew 43.7% to MYR1.6bn on its way to its highest ever quarterly net profit performance. By segment performance, all major segments saw y/y operating income growth with consumer banking and commercial banking up 11.5% and 12% y/y respectively while wholesale banking net income grew 9.8%. Group Asset Management and Investments net income fell 14% y/y due to the absence of equity accounting for the Bank of Yingkou (sale announced early January 2017). As mentioned, loans grew y/y by 12.1% but were flattish q/q with y/y loans growth in housing loans and revolving credits and half of the y/y loan growth occurring in Malaysia. Loan quality issues still persisted however with impaired loans rising faster than overall loans, up 17.1% y/y with growth in impaired loans in Singapore, Indonesia and Thailand. As a result, the impaired loan ratio weakened to 3.17% for 1Q2017 from 3.04% in 1Q2016. Trends are more promising q/q however with impaired loans falling 3.3% q/q and the impaired loan ratio of 3.17% lower than the 3.29% as at 4Q2016. CIMB's capital ratios weakened against 4Q2016 ratios with CIMB's reported CET1/CAR capital ratios of 10.8%/15.9% in 1Q2017 against 11.6%/16.2% in FY2016 due to higher growth in risk weighted assets against growth in capital which was impacted by higher regulatory adjustments. In all, CIMB's results remain resilient with strategic initiatives continuing to positively influence results, largely through growth in better performing segments and improved efficiency ratios. We maintain our Neutral Issuer Profile on CIMB. (Company, OCBC)

**Credit Headlines (cont'd):**

**Keppel Corp ("KEP"):** KEP had recently announced two separate order wins for its offshore marine segment (O&M).The first was an order for potentially two dredgers, worth approximately SGD120mn, for the Jan De Nul Group. KEP had previously secured contracts in July 2016 from the same client to build 3 dredgers. The first dredger is expected to be completed in 2H2019 while the second is still an option (exercisable within the next 6 months). The other order win was to build two LNG carriers (7,500 cubic meter) in a contract worth SGD103mn for Stolt-Nielsen Gas. These carriers are expected to be delivered in 2Q2019 and 3Q2019. In addition, Stolt-Nielsen Gas has the option to order 3 more similar LNG carriers from KEP (with the options exercisable within 6, 12 and 18 months from now). In aggregate, it remains challenging for KEP to rebuild its O&M order book, particularly for orders for drilling assets. As of end-1Q2017, KEP reported SGD3.5bn in net order book. As mentioned previously, one bright spot would be the previously announced sale of 5 jack-up rigs currently under construction by KEP from Transocean Inc to Borr Drilling Ltd. These rigs had an original contract value of USD1.1bn, and now had their delivery dates brought forward to 2017/2018 (for the first 3 rigs), which could support O&M segment revenue in the near future. In aggregate thought, we expect earnings from the O&M segment to remain anemic (when compared to historical levels of percentage contribution to total earnings) due to fixed costs. As such, KEP's property segment would likely continue to support overall firm performance. That said, with the recent pickup in activity in the domestic property market, we may see KEP start to invest in Singapore land bank again. Aside from liquidity from the possible sale of their stake in telco M1, we do not expect KEP's credit profile to deviate greatly from current levels. We currently hold KEP at Neutral Issuer Profile. (Company, OCBC)

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