

May 3, 2017

**Credit Headlines (Page 2 onwards):** Bank of China Ltd, Bank of Communications Co. Ltd.

**Market Commentary:** The SGD swap curve was range-bound yesterday, with swap rates trading around 1-2bps across all tenors. Flows in SGD corporates were heavy last Friday, with better buying seen in BNP 4.3%'25s, FCLSP 5%'49s, HPLSP 4.65%'49s and better selling seen in BNP 3.65%'24s, OUESP 3.75%'22s. The Itraxx Asia ex-Japan IG index closed at 93bps yesterday, changing little from Monday's close. 10y UST yield fell 4bps to 2.28% yesterday, amid oil price declines and changing expectations for potential ultra-long bonds issuance by the US Treasury.

**Rating Changes:** Moody's downgraded Standard Chartered Bank (HK) Limited's Baseline Credit Assessment (BCA) and adjusted BCA to 'A2' from 'A1', issuer rating to 'A1' from 'Aa3', senior unsecured MTN program rating, subordinated debt and program ratings by one notch to 'A3' from 'A2'. The rating action reflects the downgrade of the parent's ratings and takes into account profitability pressures that weigh on the broader group, which has been declining sequentially since 2013 due to narrowing net interest margins and rising credit costs. Other regional branches affected by the parents' downgrade include: Standard Chartered Bank Malaysia Berhad's (SCBM) adjusted BCA to 'Baa1' from 'A3'; Standard Chartered Bank (Thai) Public Co Ltd's (SCBT) adjusted BCA and issuer ratings to 'Baa2' from 'Baa1'. The rating outlooks have been revised to stable from negative. Moody's assigned Orient Securities Company Limited (Orient Securities) a 'Baa3' long-term issuer rating. The ratings outlook is stable. The rating action reflects Orient Securities' standalone assessment of 'Ba2' and a two-notch uplift based on our assumption of a high level of support from Shenergy (Group) Co Ltd and the Chinese government in times of stress. Fitch assigned PT Saka Energi Indonesia's (Saka) USD625 million 4.45% senior notes due 2024 a final rating of 'BB+'. The assignment of the final rating follows a review of the final documentation, which conforms to the draft documentation previously received.

**Table 1: Key Financial Indicators**

	3-May	1W chg (bps)	1M chg (bps)		3-May	1W chg	1M chg
iTraxx Asiax IG	92	0	-2	Brent Crude Spot (\$/bbl)	51.04	-1.51%	-3.92%
iTraxx Sovx APAC	22	-1	1	Gold Spot (\$/oz)	1,256.68	-0.99%	0.25%
iTraxx Japan	43	-1	0	CRB	180.34	-0.86%	-2.27%
iTraxx Australia	81	0	-2	GSCI	378.14	-1.42%	-1.93%
CDX NA IG	63	0	-4	VIX	10.59	-1.58%	-14.46%
CDX NA HY	108	0	1	CT10 (bp)	2.280%	-5.19	-10.71
iTraxx Eur Main	65	-2	-10	USD Swap Spread 10Y (bp)	-3	-1	-2
iTraxx Eur XO	260	-9	-34	USD Swap Spread 30Y (bp)	-46	-3	-8
iTraxx Eur Snr Fin	72	-2	-20	TED Spread (bp)	33	-3	-7
iTraxx Sovx WE	10	0	-3	US Libor-OIS Spread (bp)	18	-1	-4
iTraxx Sovx CEEMEA	43	-2	-9	Euro Libor-OIS Spread (bp)	3	-1	1
					3-May	1W chg	1M chg
				AUD/USD	0.754	0.82%	-0.92%
				USD/CHF	0.991	0.23%	1.06%
				EUR/USD	1.094	0.29%	2.49%
				USD/SGD	1.392	0.27%	0.35%
Korea 5Y CDS	57	2	6	DJIA	20,950	-0.22%	1.45%
China 5Y CDS	80	-1	-2	SPX	2,391	0.11%	1.37%
Malaysia 5Y CDS	106	0	-1	MSCI Asiax	599	0.49%	2.35%
Philippines 5Y CDS	79	0	-4	HSI	24,696	2.31%	1.79%
Indonesia 5Y CDS	125	-1	-4	STI	3,228	2.02%	1.26%
Thailand 5Y CDS	57	2	4	KLCI	1,783	0.99%	2.17%
				JCI	5,676	0.20%	1.23%

Source: OCBC, Bloomberg

**Table 2: Recent Asian New Issues**

Date	Issuer	Ratings	Size	Tenor	Pricing
27-Apr-17	China Southern Power Grid International Finance (BVI) Co. Ltd.	Not Rated	USD600mn	5-year	CT5+100bps
27-Apr-17	China Southern Power Grid International Finance (BVI) Co. Ltd.	Not Rated	USD900mn	10-year	CT10+130bps
27-Apr-17	SOCAM Development Ltd.	Not Rated	USD200mn	3-year	6.25%
27-Apr-17	China Minsheng Banking Corp. Ltd. (Hong Kong Branch)	"BBB/NR/NR"	USD500mn	3-year	CT3+115bps
27-Apr-17	Suncorp-Metway Ltd.	"NR/A1/A+"	USD500mn	5-year	CT5+100bps
27-Apr-17	Heeton Holdings Limited	Not Rated	SGD75mn	3-year	6.1%
26-Apr-17	Hotel Properties Ltd.	Not Rated	SGD150mn	Perp NC5	4.65%
26-Apr-17	State Grid Overseas Investment (2016) Ltd	Not Rated	USD900mn	3-year	CT3+85bps
26-Apr-17	State Grid Overseas Investment (2016) Ltd	Not Rated	USD1.25bn	5-year	CT5+110bps

Source: OCBC, Bloomberg

**Rating Changes (cont'd):** Fitch affirmed the ratings on 10 Japanese insurers and revised their outlooks to stable from negative. The 10 Japanese insurers include: Dai-ichi Life Insurance Company Limited, Daido Life Insurance Co., Fukoku Mutual Life Insurance Co, Meiji Yasuda Life Insurance Company, Mitsui Sumitomo Insurance Company Limited, Nippon Life Insurance Company, Sompo Japan Nipponkoa Insurance Inc., Taiyo Life Insurance Company, and Tokio Marine & Nichido Fire Insurance Co. Ltd. The outlooks on the Issuer Default Ratings (IDR) of The Dai-ichi Life Insurance Company Limited and Fukoku Mutual Life Insurance Co remain Stable. The rating action follows Fitch's revision of the Outlook on Japan to Stable from Negative.

## Credit Headlines:

**Bank of China Ltd ("BOC"):** BOC reported 1Q2017 results late last week with operating income up 5.2% y/y to RMB129.5bn and profit before tax up 2.8% to RMB64.6bn. Results continue to be influenced by margin compression with net interest margins falling to 1.8% in 1Q2017 (1Q2016: 1.97%), however 16.8% growth in non-interest income somewhat mitigated ongoing industry pressures. Non-interest income growth was driven largely by net trading gains and growth in other operating income while net fee and commission income was stable and net gains on financial investments were negligible in 1Q2017 compared to 1Q2016. Non-interest income contribution to total operating income continues to increase, representing 39.3% of total income for 1Q2017, compared to 35.4% for 1Q2016 and 37.0% for FY2016. Profit performance was also assisted by continued solid expense management with operating expenses falling 3.3% y/y, translating to an operating efficiency of 24.2%. Impairment losses continue to rise on a y/y basis, increasing 39.4% to RMB22.2bn, while BOC's non-performing loans (NPLs) rose 10.7% y/y to RMB150.3bn. As such, the ratio of allowance for loan impairment losses to NPLs was 159.5% in 1Q2017, improved from 149.1% in 1Q2016. NPLs to total loans rose slightly y/y to 1.45% (1Q2016: 1.43%) as growth in BOC's loans and advances to customers only grew 3.9%. Total investments grew 4.9%, which is noticeable for its faster growth rate compared to loans and advances and these both contributed to the BOC's total assets growing 4.2% y/y. Given the government's recent focus on growth in entrusted investments and rising financial risks in the economy, future balance sheet growth could be more muted in our view. BOC's capital ratios weakened y/y with the CET1/CAR ratios falling to 11.2%/13.8% in 1Q2017 (FY2016: 11.4%/14.3%) as growth in total capital was likely lower than growth in risk weighted assets. All told, industry pressures continue for BOC but management appears prepared to meet a challenging 2017. We maintain our Neutral issuer profile rating for now as we continue to look through the results. (Company, OCBC)

**Bank of Communications Co. Ltd. ("BoCom"):** BoCom reported its 1Q2017 results. Net interest income fell 8.3% y/y to RMB31.2bn as net interest margins continue to compress to 1.57% for 1Q2017 (1Q2016: 2.01%) and despite solid growth in loans and advances to customers. Net fee and commission income rose 4.7% y/y due to higher service charges and commission fees. However this along was not enough to mitigate pressures on net interest income and a 16.7% y/y fall in other operating income and resulted in profit before income tax falling 2.8% y/y to RMB24.0bn for the quarter. As a result, net interest income contribution to total operating income fell to 56.8% for 1Q2017 vs 69.5% in FY2016, continuing recent performance trends. Expenses also rose with operating costs rising 2.4% and impairment losses rising 8.8% y/y, higher than the full year y/y rise in impairment losses of 4.9% for FY2016. BoCom's balance sheet continues to grow with total assets rising 3.9% q/q (ie from 31 December 2016) due to a 5.9% rise in loans and advances to customers. Most growth occurred in corporate loans which rose 6.8% while individual loans rose 3.7%. Impaired loans grew at a similar pace from the beginning of FY2017, rising 5.5% and this resulted in the impaired loans ratio remaining stable at 1.52% for 1Q2017 against FY2016. The provision coverage ratio for impaired loans was more or less stable at 150.3% against 150.5% for FY2016 as the allowance for loan impairments fell marginally to 2.28% for 1Q2017 against 2.29% for FY2016. As a result of the loans growth and weak profit performance, capital ratios weakened slightly q/q as net core Tier 1 and total net capital growth was lower than growth in risk weighted assets. BoCom's CET1/CAR ratios for 1Q2017 were 10.9%/13.6% against 11.0%/14.0% for FY2016. In summary, BoCom's results highlight the bank's comparatively higher business risk compared to its larger domestic peers and higher exposure to industry pressures within Chinese banking sector. Cooling measures in China's property market and China's ongoing economic rebalancing could suppress volume growth for BoCom which is important for earnings stability given net interest margin pressure. That said, we maintain our Neutral issuer profile on BoCom for now. (Company, OCBC)

**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 and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

Co.Reg.no.:193200032W