

Nov 21, 2018

**Credit Headlines:** Julius Baer Group Ltd, Hyflux Ltd

## **Market Commentary**

- The SGD swap curve flattened yesterday, with swap rates trading 2-4bps lower across most tenors.
- Flows in SGD corporates were heavy yesterday, with better buying seen in UBS 5.875%-PERPs, DBSSP 3.98%-PERPs and TEMASE 2.7%'23s and better selling seen in OCBC 4.0%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 156bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 3bps to 616bps.
- 10Y UST yields fell 3bps to 3.03% in the earlier part of the trading session on the back of safe haven demand as global stock markets declined. Yields subsequently recovered 3bps to close at 3.06% as investors closed positions before Thursday's Thanksgiving holiday.

## **Credit Headlines:**

### **Julius Baer Group Ltd ("JBG") | Issuer Profile: Neutral (3)**

- JBG reported its interim management statement for the 10 months ended 31 October 2018 (10M2018) which reflect difficult operating conditions.
- Positives within the results include a 2% year to date rise in assets under management (AuM) to CHF395bn from the acquisition of Reliance Group and positive currency impacts as well as annualized net new money inflows within its target 4-6% range of 5%. According to management, all regions recorded net inflows, particularly in Asia, UK and Germany.
- However results were overall overshadowed by negative developments from volatile financial markets which reduced client activity. This resulted in AuM falling 1.25% in the 4 months since 30 June 2018 from CHF400bn. Profitability measures were also negatively impacted with the gross margin (defined as operating income divided by average AuM) for 10M2018 falling to 87bps, compared to 91bps for 1H2018 and 90bps for FY2017. In addition, JBG's cost to income ratio for 10M2018 increased to 69%, above its target 64-68% range. To address the above and considering market conditions, management has indicated that it will reduce discretionary spending to bring the ratio back within its target range. The cost to income ratio had improved to 67.3% in 1H2018 as 1H2018 revenue growth more than outpaced expense growth from hiring more staff and relationship managers.
- JBG's capital ratios weakened as at 31 October 2018 with its CET1/CAR ratio at 13.0%/19.0% compared to 13.5%/21.2% as at 31 December 2017. Although capital improved due to the accretive acquisition of Reliance Group (Brazil) in June 2018 as well as the residual 20% stake in Kairos (Italy) in January 2018, this was offset by increased risk weighted assets due to higher financial assets and higher market risk weighted assets. Overall though, both the CET1 and total capital ratio still remain well above the minimum regulatory requirement of 8.1% and 12.3% respectively and JBG's group floor of 11.0%/15.0%.
- While JBG's Neutral (3) issuer profile is not pressured as yet, fundamentals remain somewhat challenged with profitability compressed from recent growth initiatives (relationship manager hiring) and weaker earnings. Given the competitive nature of Private Banking, ongoing investment is necessary to ensure continued growth and support market position. JBG's performance is unlikely to be unique amongst private banks, however we will continue to monitor its relative performance against peers. (Company, OCBC)

## Credit Headlines (cont'd):

### **Hyflux Ltd ("HFY") | Issuer Profile: Unrated**

- HFY announced that a purported notice of termination has been received by Almiyah Attilemcania SpA ("AAS"), the project company and AAS's 51%-shareholder, namely Tlemcen Desalination Investment Company SAS ("Tlemcen"). HFY owns a 30%-stake in Tlemcen (effective 15%-stake in the project). The purported notice is from the offtakers of the Souk Tleta desalination plant
- In addition to the minority stake, a subsidiary of HFY is the operations and maintenance provider for the plant and earns an income from performing these activities. HFY is maintaining that it does not agree or accept the allegations and will seek advice on protection of its rights in the project.
- Earlier on 19 November 2018, HFY announced that its wholly-owned subsidiary, Hyflux Consumer Products Pte Ltd has sold its entire 50%-stake in PT Oasis Waters International ("Oasis"), an Indonesian-based bottled water firm. The purchase consideration (excluding transaction costs) was SGD32mn and this was sold at SGD0.3mn below book value as at 31 March 2018. In November 2015, HFY (via Hyflux Consumer Products Pte Ltd) bought the 50%-stake for SGD50mn. SGD13.9mn from the sale proceeds will be used to repay intercompany payments due to a HFY's wholly-owned subsidiary and the remaining will be used as a subordinated loan from Hyflux Consumer Products Pte to HFY for HFY's working capital purposes. (Company, Business Times, OCBC)

**Table 1: Key Financial Indicators**

	21-Nov	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	99	8	11
iTraxx SovX APAC	11	1	1
iTraxx Japan	64	1	11
iTraxx Australia	89	8	11
CDX NA IG	79	7	12
CDX NA HY	103	-1	-2
iTraxx Eur Main	80	7	7
iTraxx Eur XO	330	29	36
iTraxx Eur Snr Fin	106	15	15
iTraxx Sovx WE	29	2	2
AUD/USD	0.723	-0.07%	2.06%
EUR/USD	1.137	0.54%	-0.81%
USD/SGD	1.376	0.23%	0.29%
China 5Y CDS	75	7	8
Malaysia 5Y CDS	120	7	14
Indonesia 5Y CDS	156	9	8
Thailand 5Y CDS	47	3	4

	21-Nov	1W chg	1M chg
Brent Crude Spot (\$/bbl)	63.23	-4.37%	-20.74%
Gold Spot (\$/oz)	1,221.65	0.89%	-0.04%
CRB	183.78	-0.41%	-6.79%
GSCI	418.37	-1.89%	-11.87%
VIX	22.48	12.29%	13.02%
CT10 (bp)	3.068%	-5.67	-12.38
USD Swap Spread 10Y (bp)	7	0	1
USD Swap Spread 30Y (bp)	-11	0	-1
TED Spread (bp)	29	1	12
US Libor-OIS Spread (bp)	30	0	10
Euro Libor-OIS Spread (bp)	4	0	1
DJIA	24,466	-3.25%	-3.85%
SPX	2,642	-2.95%	-4.55%
MSCI Asiax	598	0.36%	0.42%
HSI	25,716	0.24%	0.60%
STI	3,031	-0.41%	-1.04%
KLCI	1,696	0.53%	-2.06%
JCI	5,966	2.25%	2.21%

## New issues

- Tongliao City Investment Group Co Ltd has hired banks for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
19-Nov-18	Takeda Pharmaceutical Co Ltd	USD1bn	2-year	CT2+105bps
19-Nov-18	Takeda Pharmaceutical Co Ltd	USD1.25bn	3-year	CT3+120bps
19-Nov-18	Takeda Pharmaceutical Co Ltd	USD1.5bn	5-year	CT5+155bps
19-Nov-18	Takeda Pharmaceutical Co Ltd	USD1.75bn	10-year	CT10+200bps
19-Nov-18	DBS Bank Ltd	USD1.25bn	3-year	MS+31bps
19-Nov-18	The Export-Import Bank of Korea	USD500mn	3-year	CT3+67.5bps
19-Nov-18	The Export-Import Bank of Korea	USD500mn	5-year	CT5+87.5bps
19-Nov-18	Scenery Journey Ltd	USD1bn	TIANHL 11.0%'20s	100
19-Nov-18	Times China Holdings Limited	USD300mn	2-year	11.0%
19-Nov-18	Greenland Global Investment Limited	USD200mn	1.5-year	9.25%
19-Nov-18	Shanghai Pudong Development Bank Co Ltd., Singapore Branch	USD300mn	3-year	3mL+87bps
15-Nov-18	Agile Group Holdings Ltd	USD400mn	2-year	9.5%
15-Nov-18	Thaioil Treasury Center Co Ltd	USD400mn	10-year	CT10+165bps
15-Nov-18	Thaioil Treasury Center Co Ltd	USD600mn	30-year	CT30+210bps
15-Nov-18	Aviation PLC	USD50mn	AVTCAP 6.5%'21s	99.75
15-Nov-18	UBS Group Funding (Switzerland) AG	SGD700mn	Perp NC5	5.875%

Source: OCBC, Bloomberg

**Andrew Wong**

Treasury Research & Strategy  
Global Treasury, OCBC Bank  
(65) 6530 4736  
[wongVKAM@ocbc.com](mailto:wongVKAM@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, CFA**

Treasury Research & Strategy  
Global Treasury, OCBC Bank  
(65) 6722 2533  
[WongHongWei@ocbc.com](mailto:WongHongWei@ocbc.com)

**Seow Zhi Qi**

Treasury Research & Strategy  
Global Treasury, OCBC Bank  
(65) 6530 7348  
[zhigiseow@ocbc.com](mailto:zhigiseow@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).