Asian Credit Daily

May 30, 2018

Credit Headlines: Landesbank Baden-Württemberg, Malayan Banking Berhad, Australia & New Zealand Banking Group Ltd, Ezion Holdings Ltd

Market Commentary

- The SGD swap curve remained unchanged yesterday as markets were closed for a public holiday.
- Flows in SGD corporates were moderate on Monday, with better buying seen in CMZB 4.875%'27s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 137bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 22bps to 439bps.
- 10Y UST yields fell 15bps to 2.78%, on the back of Italy's on-going political tension.

Credit Headlines

Landesbank Baden-Württemberg ("LBBW") | Issuer Profile: Neutral (4)

- LBBW released its 1Q2018 results with total operating income down 7.9% y/y to EUR634mn. This was driven by a 41.8% y/y fall in net gains on disposal due to lower earnings from sale of securities and equity holdings and absence of non-recurring income from the prior year. Net interest income was down marginally y/y (-1.0% y/y as lending and deposit volumes partially offset ongoing low interest rates and Germany's competitive banking environment) while net fee and commission income was also weaker y/y by 3.8% y/y.
- Expense performance however was improved y/y due to well controlled administrative expenses (-5.6% y/y due to inclusion of expenses in 1Q2017 from investment in new core banking systems) and absence of state guarantee commission (following the sale of the Sealink portfolio) and restructuring expenses which more than offset higher bank levy and deposit guarantee fees (full year Single Resolution Fund payments which are system wide expenses). Combined with lower tax expense, net consolidated profit improved 6.3% y/y for 1Q2018 to EUR84mn. Consolidated profit before tax (PBT) was down 7.2% y/y.
- In terms of PBT by segment under LBBW's new reporting segment model, Corporate Customers were down 20.7% due to absence of non-recurring equity sales, competitive pressures impacting margins and higher regulatory and growth expenses despite higher lending volumes to medium sized and large enterprises; the Real Estate/Project Finance segment was down 25.4% due to absence of one-off from 1Q2017, competition and weaker project financing growth compared to commercial real estate; and Capital Markets was down 53.5% from lower sales of securities and lower primary market activities. PBT from Private Customers/Savings Banks however improved materially due to lower administrative expenses and better deposit volumes which generated higher demand for investment solutions.
- Previously mentioned loans growth translated into a 3% q/q rise in risk weighted assets and together with first time adoption of IFRS9 (which resulted in a reduction in equity), LBBW's capital ratios weakened with LBBW's fully loaded CET1/CAR capital ratios at 15.1%/21.5% against 15.7%/22.2% as at 31 Dec 2017. This remains above regulatory minimum capital requirements, which have increased in line with the EU's Capital Requirements Regulations, which are set annually by the ECB on the basis of the Supervisory Review and Evaluation Process (SREP) with LBBW's phased in CET1/CAR 2018 capital requirement of 8.80%/12.30%.
- LBBW's leverage ratio also weakened to 4.2% as at 31 Mar 2018 against 4.6% as at 31 Dec 2017 but also continues to exceed the minimum 3.0% target. (OCBC, Company)

Credit Headlines (cont'd):

Malayan Banking Berhad ("Maybank") | Issuer Profile: Neutral (3)

- Maybank reported its 1Q2018 results with total operating income up 3.9% y/y to MYR7.18bn as marginally lower net interest income (-0.5% y/y due to lower net interest margin y/y by 4bps to 2.9%) and lower other operating income (-7.4% y/y) was more than compensated for by higher income from Islamic Banking Scheme operations (+11% y/y) and net earned insurance premiums (+20.5% y/y). The group reported gross loan growth of 1.5% y/y, though it dipped 0.1% q/q.
- Overhead expenses were flat while overall allowances for impairment losses fell 7.7% y/y. These translated to operating profits up 15.4% y/y.
- Group gross impaired loans ratio improved y/y to 2.37% from 2.40% but was slightly higher q/q (4Q2017: 2.34%) while the loan loss coverage ratios improved both y/y and q/q due to implementation of MFRS9 from 1 Jan 2018 resulting in the release of excess regulatory reserves. Gross impaired loans rose in Malaysia and Indonesia while Singapore gross impaired loans remained constant.
- As a result of MFRS9, Maybank's capital ratios weakened with CET1/CAR ratios (before proposed dividend) at 14.3%/19.1% as at 31 Mar 2018 against 14.8%/19.4% for FY2017. Excluding the impact of MFRS9, Maybank's CET1 ratio fell 10bps from 14.4% as at 1 Jan 2018. These remain well above minimum requirements.
- Maybank are maintaining their economic forecasts for Malaysia on the back of the recent election with potential improvements in consumer spending balanced by potential slowdown in business investment until the new government's policies become clearer. (Company, OCBC)

Australia & New Zealand Banking Group Ltd ("ANZ") | Issuer Profile: Positive (2)

- ANZ has announced the sale of OnePath Life NZ Ltd to Cigna Corporation by ANZ Bank New Zealand Ltd for NZD700mn. According to management, the transaction price was at a slight premium with an expected gain on sale of NZD50mn.
- As part of the sale, ANZ will continue to sell life insurance under a 20 year strategic alliance with Cigna with Cigna responsible for insurance policy manufacturing.
- This transaction is consistent with previously announced sales including the sale of OnePath pensions and investments (OnePath P&I) to IOOF Holdings Limited in October 2017.
- Management have stated that the transaction will be accretive to ANZ's capital ratios with stand-alone and consolidated CET1 ratios to improve by ~5bps and ~15bps respectively. (Company, OCBC)

Ezion Holdings Ltd ("EZI") | Issuer Profile: Negative (7)

- EZI had disclosed that 53.6% of its SGD333.0mn in Series B convertible bonds have been converted into shares (or SGD178.55mn worth). Similarly, 63.2% (SGD75.55mn) of its SGD119.50mn in amended Series 008 perpetual securities have also been converted.
- The conversion of the Series B convertible bonds into equity has helped EZI to deleverage, with management providing pro-forma financial ratios showing gearing falling from 325% (1Q2018 results adjusted for restructuring steps taken as of 09/05/18) to 289% (as of 28/05/18).
- That being said, the bulk of EZI's borrowings remain bank debt, with the restructured bonds (Series A, B and C) accounting for just ~USD205mn of USD1,229.2mn in net borrowings. With just SGD154.45mn in Convertible B bonds left outstanding, even if these entirely get converted into equity, EZI's leverage would remain elevated. (Company, OCBC)

Table 1: Key Financial Indicators

	30-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	79	3	5
iTraxx SovX APAC	12	0	0
iTraxx Japan	52	2	6
iTraxx Australia	70	3	6
CDX NA IG	68	6	7
CDX NA HY	106	-1	-1
iTraxx Eur Main	73	11	18
iTraxx Eur XO	318	32	47
iTraxx Eur Snr Fin	91	21	34
iTraxx Sovx WE	33	10	16
AUD/USD	0.750	-0.77%	-0.37%
EUR/USD	1.155	-1.29%	-4.40%
USD/SGD	1.345	-0.11%	-1.41%
China 5Y CDS	58	1	1
Malaysia 5Y CDS	88	4	16
Indonesia 5Y CDS	118	-4	14
Thailand 5Y CDS	45	1	2

	30-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	74.87	-6.18%	-0.40%
Gold Spot ($/oz)	1,300.79	0.57%	-1.11%
CRB	201.82	-1.88%	-0.08%
GSCI	477.08	-3.24%	0.28%
VIX	17.02	30.12%	6.84%
CT10 (bp)	2.817%	-17.65	-13.61
USD Swap Spread 10Y (bp)	4	0	1
USD Swap Spread 30Y (bp)	-11	-1	0
TED Spread (bp)	40	0	-15
US Libor-OIS Spread (bp)	46	0	-7
Euro Libor-OIS Spread (bp)	3	0	0
DJIA	24,361	-2.61%	0.82%
SPX	2,690	-1.58%	1.58%
MSCI Asiax	713	0.24%	-1.09%
HSI	30,109	-1.81%	-2.27%
STI	3,461	-2.33%	-3.25%
KLCI	1,738	-5.81%	-6.74%
JCI	6,068	5.83%	2.52%

Source: OCBC, Bloomberg

New issues

- Times China Holdings Ltd has priced a USD450mn 3NC2 bond (guaranteed by certain of the issuer's restricted subsidiaries incorporated outside of the PRC) at 7.85%, tightening from its initial price guidance of 8%.
- China South City Holdings Ltd has priced a USD100mn re-tap of its CSCHCN 10.875%'20s (guaranteed by certain of the issuer's restricted subsidiaries incorporated outside of the PRC) at 11%, in line with its initial price guidance.
- Central China Real Estate Ltd has priced a USD86mn re-tap of its CENCHI 6.875%'20s (guaranteed by certain of the issuer's restricted subsidiaries incorporated outside of the PRC) at 7.30%, in line with its initial price guidance.

Date	Issuer	Size	Tenor	Pricing
28-May-18	Central China Real Estate Ltd (re-tap)	USD86mn	CENCHI 6.875%'20s	7.30%
28-May-18	China South City Holdings Ltd (re-tap)	USD100mn	CSCHCN 10.875%'20s	11%
28-May-18	Times China Holdings Ltd	USD450mn	3NC2	7.85%
24-May-18	Tokyo Metropolitan Government	USD500mn	5-year	MS+42bps
24-May-18	China Overseas Grand Oceans Finance IV Cayman Ltd	USD500mn	3-year	CT3+225bps
24-May-18	Housing & Development Board	SGD500mn	12-year	3.08%
23-May-18	QNB Finance Ltd	CNH600mn	3-year	5.2%
23-May-18	Logan Property Holdings Co Ltd (re-tap)	USD100mn	LOGPH 6.875%'21	7.5%
23-May-18	FPC Capital Ltd	USD175mn	7NC4	5.75%
23-May-18	China Merchants Bank Co Ltd/Hong Kong	USD500mn	3-year	3mL+77.5bps
23-May-18	Export-Import Bank of Korea	USD700mn	5-year	3mL+77.5bps
23-May-18	Export-Import Bank of Korea	USD800mn	3-year	3mL+57.5bps
18-May-18	DBS Bank Ltd	USD100mn	2-year	3.12%
17-May-18	Top Yield Ventures Ltd	USD120mn	364-day	9.75%
17-May-18	China South City Holdings Ltd	USD150mn	2-year	11%

Source: OCBC, Bloomberg

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