

June 5, 2018

Credit Headlines: Société Générale, Ascendas Real Estate Investment Trust

Market Commentary

- The SGD swap curve steepened yesterday, with swap rates trading around 1-2bps higher across most tenors.
- Flows in SGD corporates were light yesterday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 138bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 464bps.
- 10Y UST yields rose 4bps to 2.94% as investors pared safe-haven holdings of lower-risk government debt due to fading fears about political turmoil in Italy and Spain.

Credit Headlines

Société Générale ("SG") | Issuer Profile: Neutral (4)

- SG and the US Department of Justice ('DoJ') announced an agreement to pay USD860mn in fines to settle DoJ charges that SG manipulated LIBOR rates and bribed Libyan officials. The fine payable for the bribery (USD585mn) will be shared with France's Parquet National Financier under a coordinated resolution that deals with SG's payments of bribes to a broker to secure deals with Libyan state institutions. SG has already paid a separate fine of EUR963mn to the Libyan Investment Authority for the same issue.
- The LIBOR issue related to historical LIBOR submissions which were lower than SG's actual funding costs and impacted pricing of financial products by driving them lower. Connected with this, SG is to pay USD275mn in settlement fines which adds to USD475mn in regulatory penalties that SG has agreed to pay to the Commodity Futures Trading Commission (CFTC).
- Total fines of USD1.3bn are fully covered according to management with SG's provisions for disputes at EUR2.4bn as at 31 December 2017 (part of overall provisions for financial instruments and disputes of EUR3.8bn).
- We previously highlighted earnings pressure on SG from on-going litigation and implementation of SG's 2020 Strategic and Financial Plan (refer to <u>OCBC Asian Credit Daily (9 February 2018)</u> and <u>OCBC Asian Credit Daily (7 May 2018)</u>), however resolution of these charges should result in lower uncertainty going forward with regards earnings. Still, SG's solid capital ratios insulate its <u>credit profile</u> for now.
- Separately, and following on from <u>yesterday's news</u> of a contemplated merger between SG and UniCredit SpA, SG released a statement that there are no board discussions regarding any potential merger. (OCBC, DoJ, Company)



Credit Headlines (cont'd):

Ascendas Real Estate Investment Trust ("AREIT") | Issuer Profile: Neutral (3)

- AREIT announced the completion of 169-177 Australis Drive, Derrimut, Melbroune ("Derrimut") for a total consideration of AUD36.3mn (~SGD36.8mn), including transaction costs and fees. Derrimut's acquisition was funded by debt.
- One more proposed acquisition in Australia (namely, 1-7 Wayne Goss Drive, Berrinba, Brisbane, "Berrinba") for a purchase consideration of SGD30.8mn is still on-going and estimated to complete in the third quarter ended March 2019 ("3QFY2019").
- The redevelopment of 20 Tuas Avenue 1 for SGD61.4mn is estimated to complete in 1QFY2019 while the proposed divestment of 30 Old Toh Tuck Road for SGD24.0mn has also been completed on 30 April 2018.
- Given the small scale of the transactions, we see these as credit neutral collectively. (OCBC, Company)



Table 1: Key Financial Indicators

	<u>5-Jun</u>	1W chg (bps)	1M chg (bps)	
iTraxx Asiax IG	77	-2	-1	
iTraxx SovX APAC	13	0	0	
iTraxx Japan	51	-1	3	
iTraxx Australia	69	-1	3	
CDX NA IG	64	-4	2	
CDX NA HY	107	1	0	
iTraxx Eur Main	65	-8	9	
iTraxx Eur XO	288	-30	14	
iTraxx Eur Snr Fin	74	-16	14	
iTraxx Sovx WE	25	-8	8	
AUD/USD	0.765	1.89%	1.73%	
EUR/USD	1.170	1.40%	-1.85%	
USD/SGD	1.336	0.70%	-0.07%	
030/300	1.330	0.7076	-0.07 /6	
China 5Y CDS	56	-2	-5	
Malaysia 5Y CDS	93	5 11		
Indonesia 5Y CDS	123	5 -4		
Thailand 5Y CDS	45	0	-1	

	<u>5-Jun</u>	1W chg	1M chg
Brent Crude Spot (\$/bbl)	75.46	0.09%	0.79%
Gold Spot (\$/oz)	1,292.18	-0.51%	-1.68%
CRB	198.86	-2.20%	-2.16%
GSCI	470.50	-2.40%	-1.87%
VIX	12.74	-3.63%	-13.74%
CT10 (bp)	2.937%	15.59	-1.28
USD Swap Spread 10Y (bp)	6	2	2
USD Swap Spread 30Y (bp)	-7	3	3
TED Spread (bp)	41	-2	-12
US Libor-OIS Spread (bp)	41	-4	-11
Euro Libor-OIS Spread (bp)	4	0	1
DJIA	24,814	0.24%	2.27%
SPX	2,747	0.94%	3.13%
MSCI Asiax	723	1.40%	2.40%
HSI	30,998	0.67%	3.58%
STI	3,467	-1.30%	-2.20%
KLCI	1,755	-2.72%	-4.71%
JCI	6,015	1.15%	3.84%

Source: OCBC, Bloomberg



New issues

- DBS Group Holdings Ltd has priced USD750mn 10.5NC5.5 Fxd-to-Fxd Tier 2 subordinated notes at CT10+173bps, tightening from its initial price guidance of CT10+200bps area.
- Hyundai Capital America has priced a USD1.3bn deal across three-tranches with the USD350mn 3-year bond priced at CT3+115bps, tightening from
 its initial price guidance of CT3+130bps area; the USD650mn 3-year bond priced at 3mL+94bps, in line with its initial price guidance and the
 USD300mn 5-year bond priced at CT5+135bps, tightening from its initial price guidance of CT5+145bps area.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
4-June-18	Hyundai Capital America	USD300mn	5-year	CT5+135bps
4-June-18	Hyundai Capital America	USD650mn	3-year	3mL+94bps
4-June-18	Hyundai Capital America	USD350mn	3-year	CT3+115bps
4-June-18	DBS Group Holdings Ltd	USD750mn	10.5NC5.5	CT10+173bps
1-June-18	China Construction Bank Corp Hong Kong Branch	USD900mn	3-year	3mL+73bps
1-June-18	China Construction Bank Corp Hong Kong Branch	USD600mn	5-year	3mL+83bps
31-May-18	Bank of China Ltd	USD500mn	5-year	3mL+83bps
31-May-18	Bank of China Ltd	USD500mn	3-year	3mL+73bps
31-May-18	Full Dragon Hong Kong International Development Ltd (re-tap)	USD100mn	ZHANLO 5.6%'21	97.8+ accrued interest
31-May-18	Korea Western Power Co Ltd	USD300mn	5-year	CT5+112.5bps
30-May-18	Fuxiang Investment Management Ltd	USD250mn	363-day	5.1%
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%

Source: OCBC, Bloomberg



Andrew Wong

Treasury Research & Strategy Global Treasury, OCBC Bank (65) 6530 4736 wongVKAM@ocbc.com Ezien Hoo. CFA

Treasury Research & Strategy Global Treasury, OCBC Bank (65) 6722 2215 EzienHoo@ocbc.com **Wong Hong Wei**

Treasury Research & Strategy Global Treasury, OCBC Bank (65) 6722 2533 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 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).

Co.Reg.no.:193200032W