

Oct 8, 2018

Credit Headlines: Australia & New Zealand Banking Group Ltd, Chip Eng Seng Corp Ltd, Lippo Malls Indonesia Retail Trust

Market Commentary

- The SGD swap curve steepened last Friday, with swap rates trading 0-2bps higher across most tenors.
- Flows in SGD corporates were heavy last Friday, with better buying seen in HSBC 5.0%-PERPs and DBSSP 3.98%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 138bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 469bps.
- 10Y UST yields rose 4bps to close at 3.23% last Friday, a seven-year high on the back of a strong payrolls report which fuelled concerns about rising inflation and more interest rate hikes.

Credit Headlines:

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

- ANZ has announced that full year cash earnings for the 12 months ending 30 Sept 2018 will be impacted by an estimated AUD697mn in additional charges that relate to:
 - Customer compensation charges of AUD374mn for refunds and related remediation costs associated with product reviews and provision of inappropriate advice;
 - Accelerated amortization expenses of AUD206mn for software mostly in ANZ’s International business; and
 - Other items including AUD104mn in restructuring charges and AUD55mn in legal costs related to ANZ’s dealings with the Royal Commission into misconduct in the Banking industry.
- This follows the [previously announced](#) impact to full year earnings by Westpac Banking Corp (“Westpac”) of higher provisions that relate to customer refunds, resolutions and litigation.
- The anticipated impact of ANZ’s charges is higher than Westpac’s with the AUD697mn charge expected to represent around 10% of forecast full year cash earnings for FY2018. Management also indicated that the impact on ANZ’s 1H FY2018 Common Equity Tier 1 capital ratio of 11.0% is expected to be less than 10bps.
- That said, ANZ’s fundamentals remain intact. It’s existing capital position is strong and above regulatory minimum requirements including APRA’s minimum CET1 requirement of 10.5% by Jan 1, 2020 for ‘unquestionably strong’ capital ratios as recommended by the 2014 Financial System Inquiry. In addition, like its domestic peers, ANZ continues to benefit from a strong market position, pricing power in the domestic market, and a benign macro environment.
- Impacts from the banking Royal Commission are expected to continue with bank chief executives from Commonwealth Bank of Australia, Westpac and ANZ appearing before the parliamentary banking inquiry this week to discuss the outcomes of the Royal Commission as disclosed in its interim report published a few weeks back. National Australia Bank Ltd will appear next week. Although fundamentals remain solid for now, we will continue to monitor the credit trends of Australia’s big banks given the likely higher compliance and regulatory charges stemming from the Royal Commission.
- ANZ’s full year results will be out on Oct 31. (OCBC, Company)

Credit Headlines (cont'd):

Chip Eng Seng Corp Ltd (“CES”) | Issuer Profile: Negative (6)

- On 5 October 2018, founder of CES – Lim Tian Seng and Deputy Chairman – Lim Tiang Chuan, sold all their shares in CES to Celine Tang, Managing Director of Singhaiyi. Several other shareholders including wife of Chief Executive Officer also sold a significant portion of their holdings. Assuming Tang does not own any of CES’s shares prior to the transaction, we estimate that she will be the sole largest shareholder of CES with approximately 29.73% of total shares while the CEO’s (the next largest shareholder) shareholding is reduced from 4.92% to ~3.33%.
- It is worth noting that Tang paid SGD1.08 per share, a 14 percent premium compared to 4 October 2018’s settlement. (Company, OCBC)

Lippo Malls Indonesia Retail Trust (“LMRT”) | Issuer Profile: Negative (6)

- Following the resignation of [Ms Chan Lie Ling, the previous CEO, with effect from 31 Aug 2018](#), LMRT announced the appointment of Ms Viven Gouw Sitiabudi as Executive Director and CEO.
- Ms Viven is not new to LMRT as she was LMRT’s Executive Director and CEO from its IPO in Nov 2007 to Apr 2013, and continued as its Executive Director (no longer CEO) till March 2017 before handing over to Ms Chan. Ms Viven also previously served under LMRT’s sponsor PT Lippo Karawaci Tbk until 24 March 2016 as its Commissioner. (Company, Bloomberg, OCBC)

Table 1: Key Financial Indicators

	8-Oct	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	84	5	3
iTraxx SovX APAC	10	1	-3
iTraxx Japan	57	1	2
iTraxx Australia	75	2	2
CDX NA IG	61	3	4
CDX NA HY	107	-1	0
iTraxx Eur Main	69	2	8
iTraxx Eur XO	280	8	0
iTraxx Eur Snr Fin	87	2	16
iTraxx Sovx WE	26	1	1
AUD/USD	0.705	-2.35%	-0.86%
EUR/USD	1.153	-0.46%	-0.60%
USD/SGD	1.383	-0.85%	-0.33%
China 5Y CDS	61	6	3
Malaysia 5Y CDS	102	9	-2
Indonesia 5Y CDS	144	15	0
Thailand 5Y CDS	43	3	0

	8-Oct	1W chg	1M chg
Brent Crude Spot (\$/bbl)	83.48	-1.77%	8.66%
Gold Spot (\$/oz)	1,203.51	1.22%	0.64%
CRB	199.04	1.99%	4.56%
GSCI	494.31	1.65%	7.22%
VIX	14.82	22.28%	-0.40%
CT10 (bp)	3.233%	14.92	29.40
USD Swap Spread 10Y (bp)	4	-1	-2
USD Swap Spread 30Y (bp)	-11	-3	-4
TED Spread (bp)	20	0	1
US Libor-OIS Spread (bp)	17	-1	-4
Euro Libor-OIS Spread (bp)	4	0	1
DJIA	26,447	-0.04%	2.05%
SPX	2,886	-0.97%	0.48%
MSCI Asiax	621	-5.15%	-3.55%
HSI	26,573	-4.12%	-1.49%
STI	3,210	-1.45%	2.41%
KLCI	1,777	-0.89%	-1.22%
JCI	5,732	-4.09%	-2.04%

New issues

- The People's Republic of China has scheduled for investor calls from 9 Oct for its potential USD3bn 5Y, 10Y and 30Y bond issuance.
- Zijin Mining Group Co Ltd has scheduled for investor meetings from 8 Oct for its potential USD bond issuance.
- SDG Finance I Limited has scheduled for investor meetings from 8 Oct for its potential USD bond issuance (guaranteed by Shandong Gold Group Co).

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
4-Oct-18	Macquarie Group Ltd	USD850mn	11.25NC10.25	CT10+185bps
2-Oct-18	Aspial Corp Ltd	SGD20.75mn	3-year	6.25%
2-Oct-18	Unibail-Rodamco-Westfield SE	USD500mn	10-year	4.125%
2-Oct-18	Unibail-Rodamco-Westfield SE	USD500mn	10-year	4.625%
27-Sept-18	The Independent State of Papua New Guinea	USD500mn	10-year	8.375%
26-Sept-18	CIFIC Holdings (Group) Co Ltd	USD300mn	CIFIHG 5.5%'22s	8.625% + accrued interest
26-Sept-18	Surbana Jurong Pte Ltd	SGD350mn	7-year	4.11%
24-Sept-18	CFLD (Cayman) Investment Ltd	USD100mn	CHFOTN 9.0%'21s	8.991% + accrued interest
21-Sept-18	Lum Chang Holdings Limited	SGD40mn	3-year	5.8%
20-Sept-18	Soilbuild Business Space REIT	SGD65mn	Perp NC3	6.0%
19-Sept-18	ICICI Bank UK PLC	SGD100mn	10-year	5.375%
19-Sept-18	BOC Aviation Ltd	USD500mn	5-year	3mL+112.5bps
19-Sept-18	Country Garden Holdings Company Ltd	USD425mn	3-year	7.125%
19-Sept-18	Country Garden Holdings Company Ltd	USD550mn	5-year	8.0%

Source: OCBC, Bloomberg

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