Asian Credit Daily

OCBC Bank

February 9, 2018

Credit Headlines: Société Générale SA, Commerzbank AG

Market Commentary: The SGD swap curve bear-steepened yesterday, with swap rates trading 6bps higher across most tenors. Flows in SGD corporates were heavy yesterday. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS traded little changed at 109bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS traded tightened 2bps to 345bps. 10Y UST yield rose to a high of 2.88% before closing at 2.82%. 10Y UST yield rose on the back of better than expected results for initial jobless claims. Albeit not hiking rates, markets still reacted to BOE announcement of a probability of hiking rates faster and more frequently than expected to keep inflation in check. However, the rise in yield did not sustain for long as the later-afternoon rout in the equities market sent volatility roaring back, with the VIX surging more than 20% . This resulted in yields falling towards the latter part of the day. Overall, 10Y UST yield fell 1.2bps to 2.82%.

New Issues: Fantasia Holdings Group Co Ltd has priced a USD300mn 2019 bond (guaranteed by certain non-PRC subsidiaries of the issuer) at 7.25%, tightening from its initial guidance of 7.5%. Golden Energy and Resources Ltd has priced a USD150mn 5NC3 bond at 9.375%, tightening from its initial guidance of 9.5% area. The expected issue ratings are 'NR/B1/B+'. Sinochem Offshore Capital Co Ltd has priced a CNH1.0bn 3-year unsecured notes (guaranteed by Sinochem Hong Kong (Group) Co Ltd) at 4.4%, in line with its initial guidance of 4.4%. The expected issue ratings are 'NR/A3/NR'. China National Petroleum Corp Ltd has completed the issuance of CNY20bn exchangeable bonds at 1.40%.

Table 1: Key Financial Indicators

	9-Feb	1W chg (bps)	1M chg (bps)		9-Feb	1W chg	1M chg
iTraxx Asiax IG	74	7	15	Brent Crude Spot ($/bbl)	64.39	-6.11%	-6.44%
iTraxx SovX APAC	13	1	3	Gold Spot ($/oz)	1,317.46	-1.19%	0.35%
iTraxx Japan	46	4	3	CRB	191.77	-	-1.23%
iTraxx Australia	66	7	13	GSCI	438.06	-4.05%	-2.31%
CDX NA IG	60	10	14	VIX	33.46	148.40%	231.94%
CDX NA HY	106	-2	-3	CT10 (bp)	2.829%	-1.17	27.64
iTraxx Eur Main	51	6	7	USD Swap Spread 10Y (bp)	2	-2	3
iTraxx Eur XO	264	16	37	USD Swap Spread 30Y (bp)	-18	-4	3
iTraxx Eur Snr Fin	50	6	6	TED Spread (bp)	28	-3	-3
iTraxx Sovx WE	19	0	-3	US Libor-OIS Spread (bp)	26	1	1
iTraxx Sovx CEEMEA	33	1	-1	Euro Libor-OIS Spread (bp)	2	-1	1
					9-Feb	1W chg	1M chg
				AUD/USD	0.778	-1.94%	-0.60%
				USD/CHF	0.938	-0.75%	4.75%
				EUR/USD	1.225	-1.71%	2.62%
				USD/SGD	1.333	-0.97%	0.22%
Korea 5Y CDS	52	3	9	DJIA	23,860	-8.88%	-6.01%
China 5Y CDS	64	7	21	SPX	2,581	-8.54%	-6.19%
Malaysia 5Y CDS	66	6	15	MSCI Asiax	711	-5.61%	-4.20%
Philippines 5Y CDS	67	6	15	HSI	29,437	-9.71%	-5.08%
Indonesia 5Y CDS	91	7	14	STI	3,364	-4.71%	-4.57%
Thailand 5Y CDS	44	2	5	KLCI	1,824	-2.51%	-0.18%
				JCI	6,473	-2.36%	1.56%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
09-Feb-18	Petroleum Corp Ltd	Not rated	CNY20bn	-	1.40%
09-Feb-18	Sinochem Offshore Capital Co Ltd	'NR/A3/NR'	CNH1.0bn	3-year	4.4%
09-Feb-18	Golden Energy and Resources Ltd	'NR/B1/B+'	USD150mn	5NC3	9.375%
09-Feb-18	Fantasia Holdings Group Co Ltd	Not rated	USD300mn	1-year	7.25%
07-Feb-18	Full Dragon (Hong Kong) International Development Ltd	'NR/NR/BB+'	USD300mn	3-year	5.85%
07-Feb-18	Shangrao Investment Holdings International Co Ltd	Not rated	USD200mn	3-year	6.4%
07-Feb-18	Daegu Bank Ltd	'A-/A2/NR'	USD300mn	5.5-year	CT5+135bps
06-Feb-18	Sunshine 100 China Holdings	Not rated	USD165mn	SUNCH 8.5%'20s	8.5%
2-Feb-18	Greenland Global Investment Ltd	'NR/Ba2/NR'	USD400mn	3-year	5.25%

Source: OCBC, Bloomberg

Credit Headlines:

Société Générale SA ("SG"): SG reported its 4Q2017 and FY2017 results which included similar underlying fundamental trends to European peers but were influenced by extra-ordinary items. Net banking income was up 3.2% y/y and down 5.3% for 4Q2017 and FY2017 respectively. 4Q2017 results were influenced by strong performance in International Retail Banking & Financial Services (better business activity) while Global Banking & Investor Solutions and French Retail Banking performance was soft due to low market volatility and client activity and low interest rates respectively. FY2017 results on the other hand were influenced by extra-ordinary items including the settlement cost with the Libyan Investment Authority, hedging cost adjustment in French Retail Banking, and recognition of proceeds from the disposal of Visa shares in 2016. Excluding these items, underlying net banking income for FY2017 was only down 0.5% y/y. Operating expense performance looks somewhat disappointing at first glance with a 14.2% y/y rise in 4Q2017 and a 6.1% y/y rise in FY2017 however this too was influenced by one-off items including extraordinary restructuring and repositioning costs for the French Retail Banking network, tax rectification expenses and fines. Excluding this impact, underlying operating expenses rose 3.1% and 1.5% for 4Q2017 and FY2017 respectively from ongoing growth investments in International Retail Banking & Financial Services and ongoing restructuring expenses in French Retail Banking. Commercial risk costs continue to fall, down 20% and 45% y/y for 4Q2017 and FY2017 respectively due to improving economic conditions in France and in SG's overseas markets. This saw the bank's reported non-performing loan ratio fall to 4.4% for FY2017 against 5.0% in FY2016. However, reported risk costs included additional provisions for litigation disputes with the US Government/Libyan Investment Authority ('LIA') litigation as well as litigation related to LIBOR rigging and as such, this contributed to reported operating income for 4Q2017 and FY2017 falling 33.3% and 25.4% respectively y/y. The y/y fall in net income for 4Q2017 and FY2017 was larger than the fall in operating income due to additional exceptional expenses in 4Q2017 related to tax reforms in the US but also France. Such impacts were previously flagged by management. Despite the lacklustre earnings performance, capital ratios were more or less stable and remained solid with FY2017 fully loaded CET1/CAR ratios at 11.4%/17.6% (FY2016: 11.5%/17.9%). Including senior non-preferred debt issues and other TLAC adjustments, SG's reported TLAC ratio was 21.4% as at 31 December 2017, above the 2019 minimum requirement. As we mentioned in our 2018 Credit Outlook, SG's balanced business mix has been challenged by industry dynamics and ongoing extra-ordinary impacts to earnings. On the plus side, however, is that capital ratio levels remain solid and insulate the credit profile for now against expected future earnings pressure from ongoing litigation and implementation of SG's 2020 Strategic and Financial Plan. We continue to review SG but maintain our Neutral (4) Issuer Profile for now. (Company, OCBC)

Commerzbank AG (CMZB): Commerzbank announced its 4Q2017 and FY2017 results. Revenues for FY2017 grew EUR39mn to EUR8,607mn (2016: EUR8,568mn), after excluding exceptional items and valuation effects. This is attributable to strong growth in customers and assets which almost completely offset the drag from negative interest rates and lower margins resulting from the competitive pricing environment. Net interest income grew marginally to EUR4,201mn in 2017 and the reduction of provision for loan losses. In FY2017, provision for loan losses was only EUR781mn, helped contribute to the bottom line growth. CMZB'S key execution indicators for the Private and Small-Business growth and Corporate Client has been in line with plan, with all its 2017 targets achieved. The net new customers in its Private and Small-Business grew by 502k since FY2017 and 639k since 4Q2016. Strong net new customers in Corporate Clients and the increase in RWA efficiency has allowed Commerzbank to maintain its market-leading position in Mittelstand. Operating expenses reduced marginally to EUR7,079mn (2016: EUR7,100mn) due to strict cost management and reduction in personnel expenses. Operating profit (including exceptional items) fell 7% y/y to EUR1,303mn for FY2017 (FY2016: EUR1399mn). Excluding the exceptional item, operating profit grew 31.3% to EUR746mn (FY2016: EUR568mn). Loan loss provision for FY2017 declined as CMZB sees improvement in its operating profitability, supported by the stability in the German economy and enhanced asset quality due to accelerated reduction of the Ship Finance portfolio. Operating losses in CMZB's the Asset & Capital Recovery ("ACR") segment, excluding exceptional revenue items, narrowed to EUR364mn (FY2016:operating loss of EUR761mn). Operating losses from Others & Consolidation (excluding exceptional items) narrow from EUR632mn to EUR326mn. However, all in all, after factoring in the EUR808mn restructuring expenses, net profit for FY2017 fell to EUR156mn (FY2016: EUR279mn). On the quarterly basis, CMZB's revenue declined 9% y/y to EUR2,193mn in 4Q2017. After exceptional item and loan loss provision, operating profit was down 53% y/y to EUR159mn. Operating profit for its Corporate Clients segment declined significantly to EUR66mn in Q42017 from EUR363mn in Q42016, primarily due to the EUR202mn increase in loan

Credit Headlines (**Cont'd):**

loss provisions, mainly due to exposure on one corporate client. Reduction in operating losses in its ACR segment is due to a 45.8% decline in its Ship Finance portfolio (4Q2016: EUR4.8bn, 4Q2017: EUR 2.6bn. Excluding exceptional items, CMZB's revenue for 4Q2017 were up 7%y/y to EUR2,253mn (4Q2016: EUR2,111mn). Loan loss provision for 4Q2017 dipped to EUR251mn from EUR290mn in 4Q2016 while operating expenses remained relatively stable y/y at EUR1,782mn. CMZB's capital ratios remain stable with fully loaded CET1 ratio unchanged at 14.1% q/q but improved 1.8% y/y (3Q2017: 14.1%, FY2016: 12.3%), This remains well above its current minimum Supervisory Review and Evaluation Process CET1 requirements of 9% to accommodate Basel IV and IFRS9 capital impacts. CMZB'S fully loaded leverage ratio inched up marginally to a comfortable 5.1% for FY2017 (4.8% for FY2016) and NPL ratio further improved to 1.3% (FY2016: 1.6%) due to CMZB's decision to reduce its ACR Ship Finance portfolio by close to 50%. Per CMZB, the revaluation of its ship finance portfolio under IFRS 9 will also minimise future burdens and has already resulted in a CET 1 ratio of ~13.3% at the beginning 2018. CMZB's capital ratios also improved with phased-in risk weighted assets ("RWA") down EUR6bn in 4Q2017 due to the reduction in market risk, credit risk and OpRisk RWA. Market risk RWA were lowered due to reduction of risk positions and lower volatility for all asset classes and lower credit risk resulted from decrease in ship finance and commercial real estate financing portfolio and positive FX effects. We maintain CMZB's issuer profile at Neutral (4) Issuer Profile for now. (Company, OCBC)

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