Asian Credit Daily

May 3, 2018

Credit Headlines: United Overseas Bank Ltd, Standard Chartered PLC, National Australia Bank Ltd, Sembcorp Industries Ltd.

<u>Market Commentary</u>

- The SGD swap curve rose by 2-4bps across the curve yesterday.
- Flows in SGD corporates were moderate yesterday with better buying seen in HSBC 4.7%-PERP, CENCHI 6.25% ‘20s, CELSP 3.9%-PERP, HPLSP 4.65%-PERP and LOGPH 6.125% ‘21s
- The Bloomberg Barclays Asia USD IG Bond Index average OAS traded relatively unchanged at 1.30% while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 3.9bps to 385bps.
- 10Y UST yields continued to trade around 2.96%-2.97% region, remaining below the 3.0% handle.

<u>Credit Headlines</u>

United Overseas Bank Ltd (“UOB”) | Issuer Profile: Positive (2)

- UOB’s 1Q2018 results were strong with total income up 9% y/y to SGD2.2bn. Net interest income grew on 13% y/y to a new record high on customer loans growth of +5% y/y and +2% q/q and net interest margin growth of +9bps y/y and +3bps q/q to 1.84%). Net fee and commission income performance was also strong, up 18% y/y growth due to strong wealth management and fund management performance while loan-related fee income increased 24% while credit card fees rose 11% year on year. These results were balanced by a 22% y/y fall in other non-interest income mainly from lower net trading income.
- All business segments delivered good performance y/y. Group Retail reported y/y income growth of 6%, mainly from wealth management and fee based products. Group Wholesale Banking income grew 4% supported by higher cash management, trade and investment banking activities while Global Markets net income grew 20% y/y and benefitted from favourable foreign exchange movements.
- Operating expense growth was similarly high due to staff and IT related expenses and as expense growth of 11% y/y was higher than total income growth, the improvement in operating profit was slightly more moderate at 7% y/y.
- Credit loss allowances fell 57% y/y due to improved macro environments and this translated to net profit before tax improving 18% y/y. The better operating environment meant loan growth mentioned previously was broad-based across most territories and industries.
- Capital ratio improvement on a y/y basis was noticeable with UOB’s CET1 ratio up 170bps to 14.9% due to earnings performance and a y/y fall in risk weighted assets from changes to the risk weighted asset computation methodology. The CET1 ratio was however down 20bps q/q due to a higher rise in risk weighted assets from loans growth (OCBC, Company)

Credit Headlines (cont'd):

Standard Chartered PLC ("StanChart") | Issuer Profile: Neutral (4)

- StanChart's results appear constructive in its 1Q2018 interim management statement.
- Operating income of USD3.9bn was up 7% y/y (+5% y/y on a constant currency basis) driven by performance in transaction banking, mortgages, wealth management and deposits. Other segments including credit cards, personal loans and corporate finance performance was also positive although treasury income was lower y/y due to absence of one-off gains from 1Q2017.
- Operating expenses of USD2.2bn increased 5% y/y or 1% on a constant currency basis as prior year cost efficiency programs appear to be paying off as per management's statements. Regulatory costs were also lower y/y and supporting the decline in costs. Impairment expenses were lower (-4% y/y and -29% q/q) with management indicating that this is the result of portfolio rebalancing and improved macro conditions in Stanchart's main markets. The larger q/q fall was due to the inclusion of a one-off provision in South Korean retail banking following a change in regulation.
- Segment wise – operating income growth was seen across all segments (Corporate & Institutional Banking, Retail Banking, Commercial Banking, Private Banking).
- Net loans and advances grew 3% q/q and 9% y/y while asset quality was stable q/q and improved y/y. Management continues to wind down its liquidation portfolio with management indicating that coverage ratios for credit-impaired loans remain broadly stable.
- StanChart's CET1 ratio improved 26bps q/q to 13.9% due to earnings growth and stable risk weighted assets. (OCBC, Company)

National Australia Bank Ltd ("NAB") | Issuer Profile: Positive (2)

- NAB reported 1HFY2018 results for the 6 months ended 31 March 2018. Revenue was up 2.5% y/y on growth in housing and business lending and a 5bps y/y improvement in net interest margins from repricing and lower funding costs. Markets and treasury income was lower however.
- Underlying expenses rose 5% y/y due to continued investments. Including restructuring-related costs, expenses were up 25.3% y/y. This was previously foreshadowed by NAB, with cash earnings down 16.0% y/y due to restructuring expenses. Excluding these, underlying profit improved 0.4%.
- Credit impairment charges fell 5.3% y/y, as lower specific provisions more than offset higher collective provisions and asset quality continues to improve. The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances improved 14bps y/y to 0.71% as New Zealand dairy performance improved and workouts in Australian business lending are bearing fruit. H/h loan quality weakened slightly indicating some loan weakness in certain sectors and this likely necessitated the higher collective provisions.
- The benefit to capital ratios from NAB's earnings were somewhat muted given the high restructuring related costs, with NAB's CET1 ratio up marginally y/y to 10.2% for 1HFY2018 from 10.1% in FY2017 (ended Sept 2017). (OCBC, Company)

Credit Headlines (cont'd):

Sembcorp Industries Ltd ("SCI") | Issuer Profile: Neutral (4)

- SCI reported 1Q2018 results. Revenue surged 30.0% y/y to SGD2.76bn, with Utilities (+14.2% y/y to SGD1.51bn) and Marine (+58.3% y/y to SGD1.18bn) both reporting strong revenue growth.
- The Utilities segment was driven by sustained recovery in the domestic power generation business (due to higher HSFO prices), which drove Singapore's revenue contribution up 10.2% y/y to SGD826.2mn. The other big contributor was India, which saw revenue increase 21.7% y/y to SGD441.1mn due to the ramp up in of the 2nd thermal power plant at Sembcorp Gayatri Power Limited ("SGPL"). Utilities net profit increased 27.1% to SGD70.3mn (net margin of 4.7%), largely due to China's net profit contribution surging 48.0% y/y to SGD32.7mn. Management attributed this to the Songzao, Chongqing power plant. Comparatively, despite strong revenue growth, net profit from Singapore was flattish while India continued to generate losses. That being said, management expects the India energy operations to turnaround to profitability in 2018.
- The Marine segment (which we reviewed previously, refer to OCBC Asian Credit Daily (26 Apr 2018)) saw revenue spiked due to the delivery of two jack-up rigs to Borr Drilling and 1 jack-up rig to BOTL. The adoption of SFRS(I) 15 accounting standard also resulted in some changes to how revenue is being recognized (revenue to be recognized for constructed assets upon delivery versus percentage of completion). Margins remain weak due to competition, while segment net profit fell 92.0% to SGD1.8mn, due to the absence of SGD46.8mn disposal gain recognized on the sale of Marine's 30% stake in Cosco Shipyard Group in 1Q2017.
- Aggregate net profit fell 40.0% y/y to SGD78.5mn, as aside from the contributions from Utilities and Marine, SCI's Urban Development segment reported a 74.2% y/y decline in net profit to just SGD9.6mn, given the absence of gains on Nanjing land sales seen in 1Q2017. Operating cash flow (including interest service) was fair at SGD97.6mn. Given SGD50.5mn in capex, free cash flow was SGD47.1mn. In terms of outflows, SCI paid down SGD223.5mn in net debt. It had also spent SGD291.6mn acquiring non-controlling interests (this relates to SCI's reorganizing of its India energy business). In total, SCI saw a cash outflow of SGD440.6mn during the quarter, which was funded by its cash balance (ended 1Q2018 at SGD2.23bn). This drove net gearing higher q/q to 89% (4Q2017: 88%). Short-term debt of SGD1.81bn can be met by SCI's cash balance.
- In the near term, the thing to watch would be SCI's IPO of its India energy business (refer to OCBC Asian Credit Daily (26 Feb 2018)) which would allow SCI to continue with its deleveraging trend. (Company, OCBC)

Table 1: Key Financial Indicators

	03-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	75	0	-2
iTraxx SovX APAC	12	0	-1
iTraxx Japan	51	-1	-6
iTraxx Australia	65	-1	-6
CDX NA IG	61	1	-5
CDX NA HY	107	0	1
iTraxx Eur Main	55	0	-6
iTraxx Eur XO	271	-2	-18
iTraxx Eur Snr Fin	58	2	-7
iTraxx Sovx WE	17	0	-1
AUD/USD	0.752	-0.46%	-2.16%
EUR/USD	1.198	-0.98%	-2.33%
USD/SGD	1.333	-0.44%	-1.63%
China 5Y CDS	58	0	-4
Malaysia 5Y CDS	75	1	2
Indonesia 5Y CDS	108	3	7
Thailand 5Y CDS	44	0	-2

	03-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	73.13	-2.15%	7.35%
Gold Spot ($/oz)	1,309.34	-0.57%	-1.76%
CRB	201.60	0.45%	4.34%
GSCI	472.52	-0.21%	5.73%
VIX	15.97	-10.48%	-24.31%
CT10 (bp)	2.966%	-5.96	23.65
USD Swap Spread 10Y (bp)	3	0	0
USD Swap Spread 30Y (bp)	-11	1	5
TED Spread (bp)	54	1	-5
US Libor-OIS Spread (bp)	51	-2	-8
Euro Libor-OIS Spread (bp)	2	-1	-1
DJIA	23,925	-0.66%	-0.45%
SPX	2,636	-0.14%	0.81%
MSCI Asiax	717	1.69%	0.07%
HSI	30,224	-0.34%	0.14%
STI	3,560	-0.24%	4.32%
KLCI	1,856	0.23%	0.29%
JCI	5,872	-3.41%	-5.73%

Source: OCBC, Bloomberg

New issues

- China Aoyuan Property Group Ltd has priced a USD200mn 3NC2 bond (guaranteed by certain non-PRC subsidiaries of the issuer) at 7.5%, tightening from initial guidance of 7.8% area.
- PT Federal International Finance has priced a USD300mn 3yr bond at CT3+160bps (or 4.125% at 99.654 to yield 4.249%), tightening from initial guidance of CT3+175bps.

Date	Issuer	Size	Tenor	Pricing
2-May-18	China Aoyuan Property Group Ltd	USD200mn	3NC2	7.50%
2-May-18	PT Federal International Finance	USD300mn	3-year	CT3+160bps
30-May-18	Global Prime Capital Pte Ltd	USD50mn	BSDEIJ 7.25% '21	100.125+accrued
27-Apr-18	Central American Bank for Economic Integration	CNH2bn	5-year	4.85%
27-Apr-18	Hong Seng Ltd	USD250mn	363-day	8.75%
27-Apr-18	Ease Trade Global Ltd	USD150mn	POLHON 5.2%'21	99.996
25-Apr-18	CNOOC Finance 2015 USA LLC	USD1bn	10-year	CT10+140bps
25-Apr-18	CNOOC Finance 2015 USA LLC	USD450mn	5-year	CT5+105bps
25-Apr-18	GSH Corp Ltd	SGD50mn	3-year	5.15%
24-Apr-18	CAR Inc	CNH350mn	CARINC 6.5%'21	6.784%
24-Apr-18	Central China Real Estate Ltd	SGD150mn	2-year	6.25%
24-Apr-18	State Grid Overseas Investment 2016 Ltd	EUR350mn	12-year	MS+100bps

Source: OCBC, Bloomberg

Andrew Wong
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@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