OCBC TREASURY RESEARCH

Asian Credit Daily

Thursday, August 1, 2019

Market Commentary

- The SGD swap curve was mostly unchanged yesterday, with only the longer tenors trading 0-1bps lower and other tenors unchanged.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 126bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 470bps.
- Flows in SGD corporates were heavy, with flows in TMGSP 4.8%'22s, CS 5.625%-PERPs, OUESP 3.55%'23s, UOBSP 3.58%-PERPs, KITSP 4.75%-PERPs, FPLSP 4.98%-PERPs, UBS 5.875%-PERPs, GUOLSP 4.6%-PERPs, FPLSP 4.15%'27s, HSBC 5.0%-PERPs and STANLN 5.375%-PERPs.
- 10Y USTs fell 4bps to 2.02%, after the Federal Reserve cut interest rates by 25bps and halted its balance sheet normalization two months early. This was compounded by record low yields on German Bunds in anticipation of more stimulus by the ECB. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread widening to -2bps.

Credit Research

Andrew Wong
+65 6530 4736
WongVKAM@ocbc.com

Ezien Hoo, CFA
+65 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA
+65 6722 2533
WongHongWei@ocbc.com

Seow Zhi Qi
+65 6530 7348
zhiqiseow@ocbc.com

Credit Summary:

- **Singapore Telecommunications Ltd | Positive (2):** We reiterate that we may lower SingTel's Issuer Profile rating if the credit metrics were to deteriorate significantly.

- **Singapore Airlines Ltd | Neutral (3):** We maintain SIA's issuer profile at Neutral (3) though may lower this should cash balance continue to dwindle.

- **Credit Suisse Group AG | Neutral (4):** Results appear consistent with expectations of improved performance going forward following the completion of CS's three year restructuring program.

- **BNP Paribas SA | Neutral (3):** Fully loaded CET1 ratio improved q/q, up 20bps to 11.9% as at 30 June 2019. Results are consistent with the Neutral (3) issuer profile.

Credit Headlines

Singapore Telecommunications Ltd ("SingTel") | Issuer Profile: Positive (2)

- Announced by SingTel, S&P revised SingTel's outlook to negative from stable while maintaining its "A+" long term issuer credit rating. This is due to intensifying competition and capex.
- This is not new, as the core segments have already deteriorated significantly as of 3QFY2019 (Dec 2018). Post FY2019 results (year ended 31 Mar), operating results have already weakened with profit at a 16 year low, with weakness seen across all major segments. Competition has been intensifying.
- In the Group Consumer segment, ARPU has been declining; a race to the bottom is the new norm with cheaper price plans offering more data.
- In the Group Enterprise segment, the higher margin legacy services continue to decline, which is not sufficiently mitigated by the growth in ICT services. Despite maintaining its stranglehold on public sector ICT contracts, SingTel disclosed lower prices on renewal.
- Regional associates also disappointed. In particular, Airtel is the main drag which SingTel is still allocating more capital towards. The recovery in Telkomsel has yet to offset the declines in AirTel.
- As mentioned in our Singapore Mid-Year 2019 Credit Outlook (pg 29), aside from the deteriorating operating performance, credit metrics may still weaken somewhat with SingTel's subscription to Airtel's rights (USD525mn) and dividends already represent 101% of reported underlying net profit, though this may be offset if SingTel eventually monetizes the stake in Amobee (e.g. via IPO).
- We reiterate that we may lower SingTel's Issuer Profile rating if the credit metrics were to deteriorate significantly (e.g. heavy capex spend on 5G rollout, deterioration in EBITDA, associates making deepening losses). SingTel will be announcing results on 8 Aug. (Company, OCBC)

Credit Headlines (cont'd)

Singapore Airlines Ltd ("SIA") | Issuer Profile: Neutral (3)

- SIA reported its first quarter results for the financial year ended 2020 ("1QFY2020"). Gross revenue was up 6.7% y/y to SGD4.1bn. Revenue growth was driven by higher passenger flown revenue, led by traffic growth (up 8.1% y/y) and 6.6% y/y growth in capacity. As a result, overall passenger load factor was higher by +1.1 ppt at 83.4%. While SIA does not provide cargo flown revenue number, the company indicated that this had declined by 8.4% y/y (down SGD45mn on absolute terms).
- Reported operating profit though grew by a smaller 3.6% y/y to SGD200mn driven by higher fuel, staff and depreciation costs (though we think depreciation was higher from IFRS 16 impact, so not an apple-to-apple comparison). The parent airline, SQ continue being the main driver of operating profit, generating SGD232mn in operating profit for 1QFY2020 though this quarter both SilkAir and Scoot saw large operating losses of SGD16mn and SGD37mn respectively. SIA Engineering reported operating profit of SGD18mn (1QFY2019: SGD10mn), despite flat revenue.
- Scoot's operating losses were astounding this quarter at -SGD37mn (FY2019: -SGD15mn). While Scoot's traffic growth and capacity growth was both at +6.5% y/y, costs had increased faster while Scoot also did not earn as much in other revenue (eg: fees). We expect Scoot to continue reporting losses in the short term on the back of the intense competition among low cost carriers and Scoot's continuous capacity expansion.
- On 1 April 2019, SIA adopted IFRS16 – Leases which had resulted in higher depreciation while finance charges would have also included interest on lease liabilities. As such we think interest coverage ratio on an EBITDA/Interest basis is not comparable y/y. 1QFY2020 EBITDA (based on our calculation) was SGD704mn, with resultant EBITDA/Interest coverage ratio at 12.2x, still manageable. In 1QFY2019 (before IFRS16 was adopted), EBITDA/Interest coverage was 18.0x.
- As at 30 June 2019, unadjusted net gearing (lease liabilities included as debt) was 0.51x, which optically is still manageable. Unadjusted gross gearing was 0.68x as at 30 June 2019. While SIA's key credit metrics appear weaker post adoption of IFRS 16, this was a known factor and as such the adoption of IFRS 16 in and of itself does not change our view on SIA's credit profile.
- We had observed though that since end-2017, sale in advance of carriage and deferred revenue (both current liabilities) have progressively expanded and as at 30 June 2019, exceeded cash balance by SGD1.3bn (ie: these liabilities collectively were SGD3.4bn as at 30 June 2019 against SGD2.1bn in cash). We think this is indicative of a progressively weakening of internal liquidity. While SIA is free to use the cash on its balance sheet (including for capex and debt repayment), services have yet to be provided and there is no guarantees that customers will not seek refunds. As a countermeasure, SIA still enjoys significant external liquidity from debt capital and bank loan markets, which leads us to view that while weakened, SIA's overall liquidity is acceptable for now.
- For now we maintain SIA's issuer profile at Neutral (3) though may lower this should cash balance continue to dwindle amidst operating performance which has not improve decisively. (Company, OCBC)

Credit Headlines (cont'd)

Credit Suisse Group AG ("CS") | Issuer Profile: Neutral (4)

- CS announced its 2Q2019 and 1H2019 results with pre-tax income up 24% y/y and 12% y/y respectively to CHF1.3bn and CHF2.4bn.
- Driving 2Q2019 performance was stable net revenues (lower advisory and other fees and debt underwriting in Investment Banking & Capital Markets was mitigated by better trading activity in Global Markets and gains on sale of real estate in Swiss Universal Bank performance) and a 5% y/y fall in operating expenses on absence of restructuring expenses and a 2% y/y fall in general and administrative expenses (lower litigation provisions and professional services fees).
- On a q/q basis, pre-tax income was up 23% due to a 4% q/q rise in net revenues (broad based improvement across segments) and stable operating expenses as higher staff expenses were offset by lower occupancy expenses. The 2Q2019 cost to income ratio of 76.2% is improved from 79.9% in 2Q2018 and 78.8% in 1Q2019.
- For 1H2019, net revenue performance was weaker (-2% y/y) although better operating expense performance (-6% y/y) translated to the 12% y/y rise in pre-tax income. The cost to income ratio of 1H2019 was 77.5%, improved from 80.2% in 1H2018.
- Segment wise, 2Q2019 pre-tax income for the Swiss Universal Bank was up 18% y/y as gains on real estate sales and better transaction based revenues along with lower operating expenses mitigated lower recurring revenues and pressure on net interest income as well as further digitilization expenses. International Wealth Management saw pre-tax income rise 3% y/y on solid asset management performance (higher management fees) which offset weaker Private Banking revenue performance (lower net interest income and changes in client product mix) and higher headcount costs. Finally Asia-Pacific pre-tax income grew 9% y/y on stable net revenues (improved client activity and financing volumes in Wealth Management & Connected offset lower equity and fixed income sales and trading) and a marginal fall in operating expenses from absence of litigation provisions and restructuring expenses that was offset by higher staff costs and commission expenses.
- CS's support businesses showed divergent results in 2Q2019 with pre-tax income for Global Markets (sales, trading and execution, prime brokerage and comprehensive investment research on equities, solutions and credit) up 141% y/y on higher fixed income revenues and stable equities and a 6% y/y fall in operating expenses. Conversely, Investment Banking & Capital Markets (mergers & acquisitions, equity underwriting, and leveraged finance) pre-tax income was down 95% y/y on a larger fall in net revenues (lower market activity) than the fall in operating expenses (lower restructuring and a related drop in variable compensation).
- CS' CET1 capital ratio was 10bps weaker at 12.5% compared to 31 March 2019 and 31 December 2018. CET1 capital was stable as share buy backs and dividend payments were offset by earnings generation while risk weighted assets movements were driven by model and parameter updates and movement in mainly credit risk. Ratios remain above Basel III minimum CET1/CAR ratios of 8.0% as well as higher obligations for systemically important banks under Swiss legislation of 10.0%.
- In all, the results appear consistent with expectations of improved performance going forward following the completion of CS's three year restructuring program with solid performance in CS's client businesses and cost containment offsetting weaker markets performance. We maintain our Neutral (4) issuer profile. (Company, OCBC)

Credit Headlines (cont'd)

BNP Paribas SA ("BNPP") | Issuer Profile: Neutral (3)

- BNPP announced its 2Q2019 results with reported consolidated pre-tax income down 2.2% y/y to EUR3.38bn. In terms of operating division performance (excludes other activities), pre-tax income was up 1.8% y/y. This was due to growth in operating division revenues (+2.5% y/y) which was higher than growth in operating division expenses (+1.8% y/y).
- Operating division revenues were supported by decent loans growth in Domestic Markets (retail, specialized businesses and corporate) and stronger loans growth in International Financial Services as well as better performance in Personal Finance, insurance and international retail banking. The Corporate and Institutional Banking operating division saw revenue growth from Corporate Banking and Securities Services which offset weak Global Markets revenues.
- By segment, Domestic Markets performance saw some recovery with operating division revenues up 0.5% y/y from low interest rates that offset ongoing good business volumes from specialized businesses while operating expenses fell 0.4% y/y translating to pre-tax income up 1.5% y/y. International Financial Services continues to offset domestic challenges with operating division revenues up 3.4% y/y on business growth (operating expense growth however was higher, up 4.3% to support business volumes translating to pre-tax income falling 1.1% y/y) while Corporate & Institutional Banking had better performance with operating division revenues up 4.0% y/y from Corporate Banking performance and overall operating expenses only rising 1.3% y/y with pre-tax income up 6.2% y/y. International Financial Services is now the largest contributor to consolidated operating division pre-tax income at 39.5% in 2Q2019 followed by Domestic Markets (31.5%) and Corporate and Institutional Banking (29.0%).
- Although the cost of risk was up 9.5% y/y (+14.3% y/y for operating divisions), the cost of risk in annualized terms (measured by cost of risk as a percentage of customer loans) was broadly consistent y/y at 30bps in 2Q2019 (29bps in 2Q2018) and below 1Q2019 (38bps) and FY2018 levels (35bps). Other loan quality metrics appear solid and actually improved since 31 December due to loans growth and lower doubtful loans with the non-performing loan ratio at 2.5% as at 30 June 2019 (2.6% as at 31 December 2018). The stage 3 coverage ratio on the other hand was at 74.6%, slightly weaker than 76.2% over the same period.
- BNPP's reported fully loaded CET1 ratio improved q/q, up 20bps to 11.9% as at 30 June 2019. BNPP's CET1 capital ratio continues to be well above overall minimum CET1 requirements of 9.91% for end 2019 as disclosed in BNPP's 2018 annual report. BNPP intends to target a CET1 ratio of at least 12% in 2020. Results are consistent with the Neutral (3) issuer profile. (Company, OCBC)

Key Market Movements

	1-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	58	0	-3
iTraxx SovX APAC	37	0	-2
iTraxx Japan	56	2	-3
iTraxx Australia	59	1	-1
CDX NA IG	55	4	2
CDX NA HY	107	0	0
iTraxx Eur Main	50	4	-1
iTraxx Eur XO	253	13	4
iTraxx Eur Snr Fin	64	8	1
iTraxx Sovx WE	16	1	-1
USD Swap Spread 10Y	-7	1	-3
USD Swap Spread 30Y	-36	2	-5
US Libor-OIS Spread	18	-3	0
Euro Libor-OIS Spread	6	1	0
China 5Y CDS	40	1	0
Malaysia 5Y CDS	47	1	-2
Indonesia 5Y CDS	78	-1	-8
Thailand 5Y CDS	31	-1	-2

	1-Aug	1W chg	1M chg
Brent Crude Spot ($/bbl)	64.38	1.56%	-1.05%
Gold Spot ($/oz)	1,410.44	-0.29%	1.90%
CRB	178.53	0.17%	-1.44%
GSCI	422.44	1.19%	-0.71%
VIX	16.12	33.55%	14.65%
CT10 (bp)	2.039%	-4.23	1.47
AUD/USD	0.685	-1.41%	-1.62%
EUR/USD	1.105	-0.88%	-2.10%
USD/SGD	1.376	-0.62%	-1.46%
DJIA	26,864	-1.49%	0.55%
SPX	2,980	-1.30%	0.54%
MSCI Asiax	638	-2.22%	-2.93%
HSI	27,558	-3.62%	-3.45%
STI	3,298	-2.47%	-2.21%
KLCI	1,634	-1.09%	-2.92%
JCI	6,392	-0.15%	0.19%

Source: Bloomberg

New Issues

- Fantasia Holdings Group Company Ltd has priced a USD100mn re-tap of its existing FTHDGR 11.75%'22s at 12.4%.
- ReNew Power Ltd has scheduled investor meetings commencing on 31 July for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
31-Jul-19	Fantasia Holdings Group Company Ltd	USD100mn	FTHDGR 11.75%'22s	12.4%
30-Jul-19	China Aoyuan Group Ltd	USD250mn	CAPG 7.95%'23s	6.5%
30-Jul-19	Dexin China Holdings Company Ltd	USD200mn	2-year	14.0%
30-Jul-19	Lotte Property & Development Co., Ltd	USD300mn	3-year FRN	3M-US LIBOR+77.5bps
30-Jul-19	Korea Land & Housing Corporation	USD100mn USD100mn	3-year FRN 2-year FRN	3M-US LIBOR+66bps 3M-US LIBOR+47bps
30-Jul-19	Emirates NBD PJSC	SGD20mn	7-year	3.06%.
29-Jul-19	Shinhan Financial Group Co Ltd	USD500mn	10.5NC5	T+150bps
29-Jul-19	Sino-Ocean Land Treasure IV Ltd	USD600mn	10-year	T+287.5bps
29-Jul-19	Malayan Banking Berhad	USD850mn	5-year FRN	3M-US LIBOR+80bps
29-Jul-19	National Australia Bank Ltd	USD1.5bn	15NC10	T+188bps
29-Jul-19	Hong Yang Group Co., Ltd	USD100mn	2-year	11.5%

Source: OCBC, Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Emmanuel Ng
Senior FX Strategist
NgCYEmmanuel@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Alan Lau
Malaysia & Indonesia
AlanLau@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu
Hong Kong & Macau
treasuryresearch@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

Co.Reg.no.:193200032W