# OCBC TREASURY RESEARCH

## Asian Credit Daily

Friday, November 1, 2019

### Market Commentary

- The SGD swap curve flattened slightly yesterday, with the shorter tenors traded 0-1bps lower (and the 1-3Y tenors trading ~2bps higher), while the belly and longer tenors traded around 2bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 131bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 10bps to 508bps. The HY-IG Index spread widened 7bps to 377bps.
- Flows in SGD corporates were heavy, with large ticket flows in CAPLSP 3.65%-PERP. We also saw flows in UBS 4.85%-PERPs, HRINTH 3.8%'25s and ARASP 5.6%-PERPs.
- 10Y USTs fell 8bps to 1.69%, after US-China trade concerns were renewed again, with Chinese officials reportedly expressing doubts on the possibility of reaching a comprehensive long-term trade deal with the US.


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### Credit Summary:

- **Ascendas REIT | Neutral (3):** AREIT announced 2Q2019 financial results, with gross revenue up 5.3% y/y to SGD229.6mn. EBITDA/Interest coverage was stable at 4.8x (1Q2019: 4.7x). Overall portfolio occupancy was relatively stable at 91.0% (30 June 2019: 91.1%). Reported aggregate leverage was lower at 36.2%. As of the morning of 1 November 2019, AREIT has requested for a trading halt, citing pending announcements to be released as the reason. We are maintaining AREIT's Neutral (3) issuer profile on the back of its still manageable credit metrics.
- **United Overseas Bank Ltd | Positive (2):** UOB announced 3Q2019 and 9M2019 results with net profit before tax up 6% and 7% respectively to SGD1.32bn and SGD3.98bn. Although total income growth was solid of 12% and 10% y/y respectively for 3Q2019 and 9M2019, expense growth was higher at 14% and 11% over the same periods. CET1 ratio was at 13.7%, weaker y/y and q/q though still well above minimum requirements. We see these results as consistent with our Positive (2) issuer profile.
- **BNP Paribas SA | Neutral (3):** BNPP announced its 3Q2019 and 9M2019 results with solid underlying performance. Pre-tax income, excluding effects from sale in 3Q2018 of 30.3% of First Hawaiian Bank was up 9.6% y/y. BNPP's reported fully loaded CET1 ratio improved q/q, up 10bps to 12.0%, well above overall minimum CET1 requirements of 9.91% for end 2019 as disclosed in BNPP's 2018 annual report. Results are consistent with the Neutral (3) issuer profile.
- **Macquarie Group Limited | Neutral (3):** MQG announced its 1HFY2020 results for the half year ended 30 September 2019 with net profit up 11% y/y to AUD1.46bn. H/h results however are softer with 1HFY2020 net profit down 13%. MQG's capital ratios remain solid at 11.4% for CET1 as at 30 September 2019, stable compared to 31 March 2019 and well above APRA's minimum Basel III CET1 requirements of 7.0%. The Neutral (3) rating on MQG holds.

**Credit Headlines**

**Ascendas Real Estate Investment Trust (“AREIT”) | Issuer Profile: Neutral (3)**

- AREIT announced the latest financial results for the quarter ended 30 September 2019 (“2Q2019”). Gross revenue was up 5.3% y/y to SGD229.6mn driven by full quarter contributions from the 38 UK properties acquired (first portfolio of 12 properties was purchased in August 2018 and another 26 properties purchased in October 2018). Removing the gross revenue contribution from the UK, AREIT’s gross revenue would have only increased 1.3% y/y. Comparing to the immediately preceding quarter ended 30 June 2019 (“1Q2019”), AREIT’s gross revenue was stable q/q (1Q2019: SGD229.7mn). Both the UK and Singapore portfolio saw lower occupancy q/q, but the impact was offset by higher occupancy in the Australia portfolio and also liquidated damages received in relation to the pre-termination of a lease in Australia.
- AREIT has completed the 8 Loyang Way 1 property divestment on 18 September 2019, at a sales price of SGD27.0mn, a premium to book value of SGD3.4mn. The pro-forma net property income impact is SGD1.9mn. The buyer of the property is Seow Kim Polythelene Co Pte Ltd.
- EBITDA (based on our calculations) was up by 9.5% y/y, mainly due to the impact on the adoption of FRS116 (no land rent expenses were included in 2Q2019). Despite the higher EBITDA, interest expense was up by 5.6% y/y (excluding lease liabilities). This was driven by higher average debt balance in the previous year (SGD4.14bn as at 30 September 2019 vs SGD3.59bn as at 30 September 2018). Resultant EBITDA/Interest coverage was 4.8x, relatively stable compared to 4.7x in 1Q2019 and 4.7x in 2Q FY18/19.
- Overall portfolio occupancy looked relatively stable at 91.0% (91.1% as at 30 June 2019 and 90.6% as at 30 September 2018). The y/y improvement was driven by Australia where portfolio occupancy was higher at 95.4% (30 Jun 2019: 92.3%). Both the Singapore and UK portfolio saw lower occupancy rates, with Singapore at 88.1% (30 Jun 2019: 88.9%), mainly due to lower occupancies at Logis Hub@Clementi, 31 International Business Park and Plaza 8 (Part of 1,3 & 5 Changi Business Park Crescent). The UK portfolio occupancy was at 97.7% (30 Jun 2019: 100%), mainly due to Units 5 and 13 at Wellesbourne Distribution Park.
- As at 30 September 2019, AREIT’s reported aggregate leverage was 36.2%, down from 37.2% as at 30 June 2019. AREIT has SGD300mn of perpetuals outstanding as at 30 September 2019 and taking 50% of this as debt, we estimate adjusted aggregate leverage at ~37.5%. As of the morning of 1 November 2019, AREIT has requested for a trading halt, citing pending announcements to be released as the reason. We are maintaining AREIT’s Neutral (3) issuer profile on the back of its still manageable credit metrics. (Company, OCBC)

**Credit Headlines**

**United Overseas Bank Ltd ("UOB") | Issuer Profile: Positive (2)**

- UOB announced another solid round of results for 3Q2019 and 9M2019 with net profit before tax up 6% and 7% respectively to SGD1.32bn and SGD3.98bn. Key highlights of the results in our view are:
  - Although total income growth was solid at 12% and 10% y/y respectively for 3Q2019 and 9M2019, expense growth was higher at 14% and 11% over the same periods. Key to income performance in 3Q2019 was solid y/y loans growth (up 8% y/y and 1% q/q) that compensated for a fall in net interest margins to 1.77% for 3Q2019 (1.81% in 3Q2018 and 2Q2019) and drove a 5% y/y rise in net interest income. In addition, net fee and commission income was up 14% y/y due to good fee performance in wealth management, loan-related and credit cards while trading and investment income grew 67% y/y due to improved customer flows and gains from investment securities.
  - Expense growth was across the board with a 13% y/y rise in staff costs and a 16% y/y rise in other expenses (mostly revenue and IT related).
  - 3Q2019 allowances for credit and other losses were higher by 53% y/y (almost all in Singapore) although the non-performing loan ratio was lower marginally by 10bps to 1.5% as at 30 September 2019 as non-performing loans were stable against loans growth. Credit costs on total loans for 3Q2019 and 9M2019 increased to 23bps and 17bps from 18bps and 14bps respectively however this is reasonable given expectations of a weaker operating environment going forward.
  - UOB's CET1 ratio, although weaker y/y and q/q at 13.7% as at 30 September 2019 (14.1% as at 30 September 2018 and 13.9% as at 30 June 2019) due to the aforementioned loans growth that offset earnings generation as well as issuance of SGD750mn AT1. That said, the ratio remains well above minimum requirements.
- From a geographical perspective, 3Q2019 y/y growth in net profit before tax was driven by Singapore. UOB also shared its balance sheet exposure to Hong Kong which is 9% of total assets with the non-performing loan ratio at 0.2% for Hong Kong exposures.
- We continue to review the numbers but see these results as consistent with our Positive (2) issuer profile. (Company, OCBC)

**Credit Headlines**

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

- BNPP announced its 3Q2019 and 9M2019 results with solid underlying performance. While reported pre-tax income was down 0.4% y/y to EUR2.8bn, this was driven by a 88.2% y/y fall in other non-operating items due to the capital gain recognized in 3Q2018 from the sale of 30.3% of First Hawaiian Bank for EUR286mn. Excluding this impact, pre-tax income rose 9.6% y/y.
- Gross operating income for 3Q2019 rose 13.0% y/y due to a larger rise in revenues (+5.3% y/y) against the rise in expenses (+2.0% y/y). Revenues from operating divisions rose 5.1% y/y with growth across all divisions which was a good result, particularly in Domestic Markets with revenues up 0.5% y/y as solid volume growth (outstanding loans up 4.1% y/y) offset low interest rates, especially in specialised businesses. Elsewhere, International Financial Services continues to perform solidly with revenues up 5.1% y/y on 9.3% y/y growth in outstanding loans and net asset inflows while Corporate and Institutional Banking revenues rose 12.0% y/y on strong performance in Fixed Income, Currencies and Commodities (+34.6% y/y) within Global Markets.
- Reported operating expenses growth of 2.0% y/y were due to business growth in International Financial Services (+4.0% y/y) and Corporate and Institutional Banking (+4.8% y/y). Expense growth in Domestic Markets was more muted and only up 0.1% y/y as reduced network expenses (-0.9% y/y) offset higher expenses in specialized businesses. Operating expenses also included EUR256mn in exceptional items including mostly 2020 plan transformation costs and restructuring costs from acquisitions. At constant scope and exchange rates, operating expenses rose 0.4% y/y indicating positive progress in cost reduction measures as part of BNPP's 2020 plan, which apparently is being revised.
- Good performance in revenues and operating costs offset a 23.5% y/y rise in cost of risks which was due to the presence of provision write-backs in 3Q2018. This led to the group cost of risk rising to 41 basis points of outstanding customer loans in 3Q2019 against 30bps in 2Q2019, 38bps in 1Q2019 and 34bps in 3Q2018. Most of the rise reflected in 3Q2019 came from Corporate and Institutional Banking. Overall loan quality however appears to be sound with the reported doubtful loans to gross outstandings as at 30 September 2019 down 20bps compared to 31 December 2018 to 2.4% due to a 1.5% reduction in doubtful loans as well as growth in loan outstandings. Management continue to reiterate that loan quality reflects good risk control at loan origination, the low interest rate environment and continued improvement of credit portfolios in Italy.
- BNPP's reported fully loaded CET1 ratio improved q/q, up 10bps to 12.0% as at 30 September 2019 as earnings generation offset dividend payments while risk weighted assets were stable. 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)

**Credit Headlines**

**Macquarie Group Limited ("MQG") | Issuer Profile: Neutral (3)**

- MQG announced its 1HFY2020 results for the half year ended 30 September 2019 with net profit up 11% y/y to AUD1.46bn. This was driven by MQG's annuity style businesses (Macquarie Asset Management, Corporate and Asset Finance and Banking and Financial Services) which rose 15% y/y while markets-facing activities (Commodities and Global Markets and Macquarie Capital) improved 4% y/y. Annuity style businesses contributed ~60% of total net profit in 1HFY2020.
- H/h results however are softer with 1HFY2020 net profit down 13%. This was driven entirely by markets-facing activities (-42% h/h, mostly in Macquarie Capital with net profit down 56% y/y and 82% h/h) while annuity style businesses rose 11% h/h.
- International income continues to generate the bulk of total income at 69% (30% in Americas, 31% in EMEA and 8% in Asia) and MQG's capital ratios remain solid at 11.4% for CET1 as at 30 September 2019, stable compared to 31 March 2019 and well above APRA's minimum Basel III CET1 requirements of 7.0%.
- All up, the results are consistent with our views on MQG's fundamentals contained in our recent report on a select number of Australian domiciled issuers. The Neutral (3) rating on MQG holds. (Company, OCBC).

### Key Market Movements

| | 1-Nov | 1W chg (bps) | 1M chg (bps) |
|---|---|---|---|
| **iTraxx Asiax IG** | 68 | 0 | -9 |
| **iTraxx SovX APAC** | 30 | 0 | -6 |
| **iTraxx Japan** | 59 | -1 | -2 |
| **iTraxx Australia** | 59 | -1 | -8 |
| **CDX NA IG** | 55 | 2 | -5 |
| **CDX NA HY** | 107 | 0 | 1 |
| **iTraxx Eur Main** | 52 | 1 | -3 |
| **iTraxx Eur XO** | 240 | 12 | 7 |
| **iTraxx Eur Snr Fin** | 60 | 2 | -4 |
| **iTraxx Eur Sub Fin** | 125 | 7 | -14 |
| **iTraxx Sovx WE** | 12 | 0 | -1 |
| **USD Swap Spread 10Y** | -9 | -1 | 1 |
| **USD Swap Spread 30Y** | -39 | 0 | 1 |
| **US Libor-OIS Spread** | 36 | 2 | -1 |
| **Euro Libor-OIS Spread** | 6 | 2 | 2 |
| **China 5Y CDS** | 41 | 3 | -8 |
| **Malaysia 5Y CDS** | 44 | 0 | -9 |
| **Indonesia 5Y CDS** | 77 | 0 | -14 |
| **Thailand 5Y CDS** | 27 | 0 | -3 |
| **Australia 5Y CDS** | 17 | 0 | -2 |

| | 1-Nov | 1W chg | 1M chg |
|---|---|---|---|
| **Brent Crude Spot ($/bbl)** | 59.72 | -3.71% | 1.41% |
| **Gold Spot ($/oz)** | 1,510.65 | 0.40% | 2.13% |
| **CRB** | 176.89 | -0.46% | 1.61% |
| **GSCI** | 407.51 | -2.09% | 1.29% |
| **VIX** | 13.22 | -3.57% | -28.77% |
| **CT10 (%)** | 1.695% | -9.98 | 5.92 |
| **AUD/USD** | 0.691 | 1.26% | 3.06% |
| **EUR/USD** | 1.117 | 0.77% | 2.12% |
| **USD/SGD** | 1.359 | 0.34% | 1.94% |
| **AUD/SGD** | 0.939 | -0.92% | -1.09% |
| **ASX 200** | 6,666 | -1.09% | -1.14% |
| **DJIA** | 27,046 | 0.90% | 1.78% |
| **SPX** | 3,038 | 0.91% | 3.31% |
| **MSCI Asiax** | 646 | 1.24% | 4.56% |
| **HSI** | 26,995 | 1.23% | 3.46% |
| **STI** | 3,219 | 1.59% | 2.33% |
| **KLCI** | 1,591 | 1.26% | 0.09% |
| **JCI** | 6,224 | -0.45% | 1.40% |
| **EU Stoxx 50** | 3,604 | -0.47% | 2.45% |

*Source: Bloomberg*

### New Issues

- HPHT Finance (19) Limited (Guarantors: (1) Hutchison Port Holdings Trust acting through its trustee-manager, initially being Hutchison Port Holdings Management Pte. Limited; and (2) HPHT Limited) priced a USD500mn 5-year bond at T+137.5bps, tightening from IPT of T+160bps area.
- Central China Real Estate Limited (Subsidiary Guarantors: Certain of the Company’s Restricted Subsidiaries outside the PRC) priced a USD200mn 4NC2 bond at 7.9%, tightening from IPT of 8.35% area.
- Changde Economic Development Investment Group Co. Ltd priced a USD100mn re-tap of its existing CHAECO 6.0%'22s bond at 100.74 to yield 6.3%, tightening from IPT of 6.5% area.

| Date | Issuer | Size | Tenor | Pricing |
|---|---|---|---|---|
| 31-Oct-19 | HPHT Finance (19) Limited | USD500mn | 5-year | T+137.5bps |
| 31-Oct-19 | Central China Real Estate Limited | USD200mn | 4NC2 | 7.9% |
| 31-Oct-19 | Changde Economic Development Investment Group Co. Ltd | USD100mn | CHAECO 6.0%'22s | 6.3% |
| 30-Oct-19 | Zhenro Properties Group Limited | USD300mn | 3.5NC2.5 | 9.15% |
| 29-Oct-19 | PT Perusahaan Listrik Negara | USD500mn<br>USD500mn | 10.25-year<br>30.25-year | 3.4%<br>4.4% |
| 29-Oct-19 | Kaisa Group Holdings Ltd | USD200mn | KAISAG 11.95%'22 | 11.625% |
| 29-Oct-19 | CIFI Holdings (Group) Co. Ltd | USD400mn | 5NC3 | 6.45% |
| 29-Oct-19 | Sunac China Holdings Limited | USD650mn | 4.25NC5.25 | 7.75% |
| 29-Oct-19 | SMC Global Power Holdings Corp | USD500mn | NC5.5-Perpetual | 5.95% |
| 28-Oct-19 | Hyundai Capital America | USD800mn<br>USD700mn | 3-year<br>7-year | T+120bps<br>T+175bps |
| 28-Oct-19 | China Oil and Gas Group Ltd | USD30mn | CHIOIL 5.5%'23s | 5.71% |
| 25-Oct-19 | NWD Finance (BVI) Limited | USD400mn | NWDEVL 6.25%-Perpetual | 5.875% |
| 25-Oct-19 | Redsun Properties Group Limited | USD100mn | 2-year | 13.0% |
| 24-Oct-19 | PT Adaro Indonesia | USD750mn | 5NC3 | 4.5% |
| 24-Oct-19 | Agile Group Holdings Limited | USD500mn | NC4.75-Perpetual | 8.09% |

*Source: OCBC, Bloomberg*

# Treasury Research & Strategy

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