

Feb 11, 2019

Credit Headlines: Julius Baer Group Ltd

Market Commentary

- The SGD swap curve flattened last Friday, with the shorter tenors trading 1-3bps lower while the longer tenors traded 3-4bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 150bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 46bps to 429bps.
- Flows in the SGD corporates were heavy last Friday, with flows seen in UBS 5.875%-PERPs, SINTEC 5.0%-PERPs, DBSSP 3.98%-PERPs and BACR 3.75%'30s.
- 10Y UST yields fell 2bps to close the trading session at 2.64%, falling for the fourth consecutive day on the back of global equity losses, as concerns over a no trade deal between the US and China looms larger nearing the 1 March deadline.

Credit Headlines

Julius Baer Group Ltd (“JBG”) | Issuer Profile: Neutral (3)

- JBG reported 2018 results. JBG saw a decline in AuM by 2% y/y to CHF382.1bn despite CHF17.4bn of net new money, mainly due to CHF22.2bn decline from market performance due to the weak equity markets in 2018. The net new monies were mainly due to RMs joining in 2018 (~25%) and RMs joining in 2016-2017 (~60%).
- Overall operating income increased 4% y/y to CHF3.4bn though this is lower than the growth in monthly average AuM (up 9% y/y to CHF394bn), resulting in a decline in gross margin to 86bps in 2018 (2017: 90bps).
 - The slower growth is partly due to a decline in net commission and fee income (-1% y/y to CHF1.9bn) as brokerage commissions fell (-6% y/y) due to declines in client transaction volumes from weaker market environment.
 - Overall growth is attributable to net trading income (+75% y/y to CHF530mn) with further internationalisation of structured products issuance and treasury swap income (+88% y/y to CHF194mn) due to swap income arising from an increase in excess USD deposits swapped into Swiss francs.
 - As a result of recording swap income in trading (as opposed to interest), net interest/dividend income declined 7% y/y to CHF919mn. The decline is also partly due to lower interest income from lower average size of treasury portfolio, higher interest expense and higher USD term and call deposit volume though partly mitigated by interest income from higher US rates and average loans.
- Meanwhile, operating expenses (+6% y/y to CHF2.39bn) overtook growth in operating income due to increase in personnel expenses (+5% y/y to CHF1.62bn) due to ~6% increase in full-time equivalents and general expenses (+9% y/y to CHF681mn). As a result, cost/income rose y/y to 70.6% (2017: 69.0%), above the 64-68% medium term target. We note that higher regulatory and legal costs are major contributors to the increase in general expenses as well as higher expense from increase in staff. As a result of cost increase, despite increases in operating income, net profit is stable y/y at CHF810mn.

Credit Headlines (cont'd)

Julius Baer Group Ltd (“JBG”) | Issuer Profile: Neutral (3)

- With cost/income ratio at an elevated level, JBG is looking to cut CHF100mn in costs and reverse its headcount trend by cutting 2% in headcount by end 2019.
- Meanwhile, CET1 ratio fell 70bps y/y to 12.8% despite 3% y/y growth in CET1 capital mainly due to ~9% growth in risk-weighted assets, with ~90bps impact from the acquisition of 20% stake in Kairos (Italy) in Jan 2018 and acquisition of Reliance Group (Brazil) in June 2018. That said, CET1 ratio remains above JBG’s own floor of 11% and above the regulatory minimum of 8.1%. Total capital ratio of 18.7%, while lower y/y (2017: 21.2%) also remains above JBG’s own floor of 15.0% and regulatory minimum of 12.3%. (Company, OCBC)

Table 1: Key Financial Indicators

	11-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	82	4	-7
iTraxx SovX APAC	61	2	-6
iTraxx Japan	64	4	-13
iTraxx Australia	76	1	-12
CDX NA IG	67	3	-10
CDX NA HY	106	0	2
iTraxx Eur Main	74	2	-7
iTraxx Eur XO	319	7	-16
iTraxx Eur Snr Fin	93	4	-12
iTraxx Sovx WE	25	1	-1
AUD/USD	0.710	-1.77%	-1.62%
EUR/USD	1.132	-1.01%	-1.28%
USD/SGD	1.357	-0.28%	-0.24%
China 5Y CDS	58	4	-5
Malaysia 5Y CDS	83	3	-14
Indonesia 5Y CDS	116	4	-11
Thailand 5Y CDS	43	2	-1

	11-Feb	1W chg	1M chg
Brent Crude Spot (\$/bbl)	61.60	-1.46%	1.85%
Gold Spot (\$/oz)	1,311.46	-0.06%	1.64%
CRB	178.04	-1.39%	-0.02%
GSCI	407.89	-1.16%	1.23%
VIX	15.72	-2.60%	-13.58%
CT10 (bp)	2.634%	-5.03	-9.41
USD Swap Spread 10Y (bp)	3	0	0
USD Swap Spread 30Y (bp)	-18	0	-3
US Libor-OIS Spread (bp)	30	-3	-8
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,106	0.17%	4.63%
SPX	2,708	0.05%	4.30%
MSCI Asiax	638	-0.35%	4.24%
HSI	28,047	1.46%	5.17%
STI	3,182	-0.26%	-0.52%
KLCI	1,684	-0.01%	0.04%
JCI	6,521	-0.27%	2.50%

New issues

- Zhenro Properties Group Ltd may price a 2.5-year USD bond today, with IPT of 11.25% area.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
31-Jan-19	Towngas (Finance) Ltd (The Hong Kong and China Gas Company Ltd)	USD300mn	NC5-perpetual	4.75%
31-Jan-19	Mongolian Mortgage Corp (MIK Holding JSC)	USD50mn	MGMTGE 9.75%'22s	9.75%
31-Jan-19	Chengdu Economic & Technological Development Zone State-Owned Assets Investment & Operating Co Ltd	USD250mn	3-year	7.5%
31-Jan-19	AC Energy Finance International Ltd	USD110mn USD75mn	10-year ACNRGY 4.75%'24s	5.3% 4.88%
30-Jan-19	CMT MTN Pte Ltd	SGD100mn	7-year	3.15%
29-Jan-19	LLPL Capital Pte Ltd (PT Lestari Banten Energi)	USD775mn	20-year	6.875%
29-Jan-19	Siam Commercial Bank PCL, Cayman Islands Branch	USD500mn USD500mn	5-year 10-year	CT5+137.5bps CT10+167.5bps
29-Jan-19	Studio City Finance Ltd	USD600mn	5NC2	7.25%
29-Jan-19	Granda Century Ltd	USD235mn	SNAGRP 7.5%'21s	8.375%
29-Jan-19	Oil India Ltd	USD550mn	10-year	CT10+250bps
29-Jan-19	Champion Sincerity Holdings Ltd (Greentown China Holdings Ltd)	USD100mn	NC3-perpetual	7.75%
29-Jan-19	Suntec REIT MTN Pte Ltd	SGD100mn	6-year	3.355%
28-Jan-19	Baoxin Auto Finance I Ltd (China Grand Automotive Services Co Ltd)	USD300mn	363-day	8.75%
28-Jan-19	CMOC Capital Ltd (China Molybdenum Co Ltd)	USD300mn	3-year	5.48%

Source: OCBC, Bloomberg

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