OCBC TREASURY RESEARCH

Asian Credit Daily

Monday, November 11, 2019

Market Commentary

- The SGD swap curve bear-steepened last Friday, with the shorter tenors traded 0-3bps higher, while the belly and longer tenors traded 3-5bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 126bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 496bps. The HY-IG Index spread tightened 2bps to 370bps.
- Flows in SGD corporates were heavy, with large ticket flows in CELSP 3.9%-PERPs. We also saw flows in CAPLSP 3.08%'27s, UBS 4.85%-PERPs, CAPLSP 3.65%-PERPs, ARASP 5.6%-PERPs, PREHSP 5.95%'20s, LLCAU 3.9%'27s and SOCGEN 6.125%-PERPs.
- 10Y USTs rose by 3bps to close at 1.94%, paring earlier gains to as high as 1.97%, after US President Donald Trump said he has yet to agree to rolling back tariffs sought by China.

Credit Research

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Credit Summary:

- **Credit Agricole Group SA | Neutral (3):** CAG reported its 3Q2019 and 9M2019 results with 3Q2019 underlying net income up 5.9% y/y to EUR1.92bn. 9M2019 underlying net income was down marginally (-0.7%) y/y to EUR5.58bn. CAG's capital ratios improved slightly q/q with its CET1 ratio at 15.5% as at 30 September. This remains well above CAG's 9.7% Supervisory Review and Evaluation Process threshold which includes a global systemically important bank buffer of 1.0%. We continue to review the numbers but see the results as well within the current Neutral (3) issuer profile.
- **Metro Holdings Ltd | Neutral (4):** METRO has acquired a 20% stake in a portfolio of 14 freehold office and retail properties in Australia for AUD95.8mn (~SGD89.7mn) via a joint venture agreement with Sim Lian Holdings Pte Ltd who hold the balance 80% stake. While METRO is expected to fund this via a mix of internal cash sources and external borrowings, we note that METRO has sufficient cash on hand as at 30 June 2019 (SGD286.2mn) to fund the transaction. We are maintaining METRO at Neutral (4) Issuer Profile.
- **DBS Group Holdings Ltd | Positive (2):** DBS announced another round of record results with profit before tax up 18% y/y and 14% y/y for 3Q2019 and 9M2019 to SGD1.96bn and SGD5.84bn respectively. The non-performing loan ratio remains stable q/q to slightly improved y/y at 1.5% as at 30 September 2019. DBS's capital ratios were up y/y and q/q with its fully phased in CET1/CAR ratio of 13.8%/16.4% as at 30 September 2019 compared to 13.6%/16.2% as at 30 June 2019 and 13.3%/16.2% as at 30 September 2018.

Credit Headlines

Credit Agricole Group SA ("CAG") | Issuer Profile: Neutral (3)

- CAG reported its 3Q2019 and 9M2019 results with 3Q2019 underlying net income up 5.9% y/y to EUR1.92bn. 9M2019 underlying net income was down marginally (-0.7%) y/y to EUR5.58bn.
- Key components of 3Q2019 underlying performance include:
  - Gross operating income up 3.2% y/y on higher growth in revenues (+2.9% y/y on solid business volumes and ongoing synergies between specialised business lines and distribution networks, particularly the Asset gathering business (+3.1%) and International Retail banking (+4.4%), and Large Customers (Corporate & Investment Banking, Asset Servicing: +6.2%) which offset weaker revenues in Specialised financial services business lines which were down 2.7% y/y. Revenues from French Retail banking were stable, up +0.2%.
  - This was against growth in operating expenses (+2.7% y/y) from IT investments in Regional Banks and business investment in Asset Gathering (Insurance, Asset Management and Wealth Management). This drove a marginal improvement in the cost to income ratio to 62.7% in 3Q2019 against 62.8% in 3Q2018.
  - This offset an 18.9% y/y rise in cost of risk on one offs in Corporate and Investment Banking (both higher risk costs in 3Q2019 against lower ones in 3Q2018 from net reversals) while risk costs in the Regional Banks were stable. The cost of risk as a proportion of outstandings was 20bps in 3Q2019, up 2bps y/y but remains below CAG's medium term plan assumption of 25bps.
  - Net income was also boosted by lower tax expenses from a lower underlying tax rate and better performance in equity accounted entities and net income on other assets.
- For 9M2019, the underlying net income generation of EUR5.58bn was largely due to higher taxes paid. Otherwise, 9M2019 income before tax was up 0.5% y/y to EUR7.95bn higher growth in revenues (+1.8% y/y) against expense growth (+1.5% y/y) that offset a rise in Single Resolution Fund expenses (+9.4%) and cost of risk (+10.7% y/y)
- For Credit Agricole SA (comprises asset management and insurance, French retail banking International retail banking, specialized financial services and Large Customers), underlying net income was up 8.6% y/y to EUR1.37bn while 9M2019 underlying net income was 2.0% lower y/y at EUR3.72bn. 3Q2019 results were due to 10.3% y/y growth in gross operating income (record inflows at Amundi and solid business momentum in Large Customers while operating costs were under control leading to solid positive JAWS) that offset a 53.2% y/y rise in risk costs for the aforementioned reason. For 9M2019, the weaker underlying net income performance was due to higher tax. Elsewhere, income before tax was stable y/y at EUR5.05bn as higher gross operating income (+2.3%) was offset by the higher risk cost. A 12.5% y/y rise in contributions to the Single Resolution Fund also impacted results.
- CAG's Regional Banks generated EUR689mn in underlying net income for 3Q2019, up 2.7% y/y due to a 56.8% fall in risk costs. This offset a 3.4% y/y rise in operating expenses (excluding Single Resolution Fund expenses) from IT investments while underlying revenues were stable y/y as growth in fee and commission income from banking services and insurance products offset lower interest income.
- CAG's capital ratios improved slightly q/q with its CET1 ratio at 15.5% as at 30 September (15.4% as at 30 June 2019) as earnings generation (+26bps q/q) and unrealised gains (+3bps q/q) offset growth in risk weighted assets (-13bps q/q) and other movements (-8bps). This remains well above CAG's 9.7% Supervisory Review and Evaluation Process threshold which includes a global systemically important bank buffer of 1.0%.
- We continue to review the numbers but see the results as well within the current Neutral (3) issuer profile. (Company, OCBC)

Credit Headlines

Metro Holdings Ltd ("METRO") | Issuer Profile: Neutral (4)

- METRO has acquired a 20% stake in a portfolio of 14 freehold office and retail properties in Australia for AUD95.8mn (~SGD89.7mn) via a joint venture agreement with Sim Lian Holdings Pte Ltd who hold the balance 80% stake.
- The portfolio holds 4 office buildings and 10 retail centres that span across New South Wales, Victoria, Queensland and Western Australia. The total net lettable area is 130,925 sqm with a committed occupancy rate of 96.7% and an overall weighted average lease expiry of ~8 years.
- While METRO is expected to fund this via a mix of internal cash sources and external borrowings, we note that METRO has sufficient cash on hand as at 30 June 2019 (SGD286.2mn) to fund the transaction. We are maintaining METRO at Neutral (4) Issuer Profile. (Company, OCBC)

Credit Headlines

DBS Group Holdings Ltd ("DBS") | Issuer Profile: Positive (2)

- DBS announced another round of record results with profit before tax up 18% y/y and 14% y/y for 3Q2019 and 9M2019 to SGD1.96bn and SGD5.84bn respectively. Key to performance continues to be strong earnings generation which offsets growth in expenses and a rise in allowances.
- For 3Q2019, net interest income rose 8% y/y due to solid y/y growth in customer loans as well as a 4bps improvement in net interest margins to 1.90%. Net fee and commission income (mostly wealth management as well as card and loan related fees) and other non-interest income (net trading income and net income from investment securities) were also up 17% and 35% respectively and as a result total income rose 13% y/y to SGD3.82bn. For 9M2019, total income was up 12% y/y to SGD11.08bn due to 9% y/y growth in net interest income (better margins and volumes again), 8% y/y growth in net fee and commission income (wealth management and cards fees), and 35% y/y rise in other non-interest income (net trading income and net income from investment securities).
- Expenses rose 9% y/y and 8% y/y for 3Q2019 and 9M2019 respectively on higher staff and computerisation costs as revenue related costs were somewhat contained. While allowances for credit and other losses rose 8% y/y and 15% y/y for 3Q2019 and 9M2019 respectively due to recognition of a writeback in the prior period and higher general allowances to factor in prevailing political and economic uncertainty, the rises were not as high as peers and did not moderate strong performance at the profit before tax level.
- By segment performance on a profit before tax ("PBT") basis for 3Q2019, Consumer Banking/Wealth Management PBT rose 25% y/y on record total income from volume and margin growth and lower allowances (down 2% q/q on lower margins, higher expenses and higher allowances), Institutional Banking performance was flat y/y from higher expenses that offset total income growth and lower allowances (q/q saw a 14% decline as stable total income was impacted by higher expenses and allowances), and Treasury Markets saw PBT rise 63% y/y on stable expenses and better income from interest rates, foreign exchange and equity activities (up materially q/q on higher income from interest rates, credit, foreign exchange and equities as well as stable expenses.
- In line with higher allowances, non-performing loans rose 2.6% q/q and 3.5% y/y due to growth in non-performing loans in the Institutional Banking and Others segment. Allowance coverage was down slightly q/q to 96% (181% if collateral is included) as at 30 September 2019 compared at 100% and 181% respectively as at 30 June 2019 but improved compared to 30 September 2018 (93% and 174% respectively). The non-performing loan ratio remains stable q/q to slightly improved y/y at 1.5% as at 30 September 2019 due to loans growth. As mentioned above, DBS' balance sheet continues to grow with customer loans up 4% y/y and 1% q/q. Loans growth continues to be concentrated in non-trade corporate loans and in Singapore and were down marginally y/y in Greater China while consumer loans were stable as a fall in housing loans was offset by growth in other consumer loans. Non-performing loan growth trends were similar with increases in Singapore exposures while Hong Kong non-performing loans are down y/y.
- DBS's capital ratios were up y/y and q/q with its fully phased in CET1/CAR ratio of 13.8%/16.4% as at 30 September 2019 compared to 13.6%/16.2% as at 30 June 2019 and 13.3%/16.2% as at 30 September 2018 as the strong earnings generation boosted capital and compensated for dividend payments and risk-weighted assets growth on higher credit risk-weighted assets from foreign currency impacts and asset growth. The ratios continue to remain above the minimum CET1/ CAR ratio requirements of 9.4%/12.9% as at 30 June 2019. DBS' leverage ratio of 7.0% as at 30 September 2019 improved 10bps q/q and remains well above the 3% minimum requirement.
- With solid and diversified underlying income generation, our issuer profile for DBS at Positive (2) still holds. (Company, OCBC)

Key Market Movements

	11-Nov	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	63	-1	-11
iTraxx SovX APAC	29	0	-6
iTraxx Japan	54	-4	-7
iTraxx Australia	56	-1	-10
CDX NA IG	51	0	-6
CDX NA HY	108	0	1
iTraxx Eur Main	49	0	-5
iTraxx Eur XO	232	6	-8
iTraxx Eur Snr Fin	57	1	-4
iTraxx Eur Sub Fin	117	1	-10
iTraxx Sovx WE	12	0	-1
USD Swap Spread 10Y	-9	-1	-2
USD Swap Spread 30Y	-40	-1	1
US Libor-OIS Spread	35	0	-1
Euro Libor-OIS Spread	6	-1	1
China 5Y CDS	36	-2	-8
Malaysia 5Y CDS	39	-1	-10
Indonesia 5Y CDS	72	-2	-15
Thailand 5Y CDS	26	0	-3
Australia 5Y CDS	17	0	-4

	11-Nov	1W chg	1M chg
Brent Crude Spot ($/bbl)	62.02	-0.18%	2.50%
Gold Spot ($/oz)	1,461.56	-3.20%	-1.84%
CRB	181.28	0.56%	2.98%
GSCI	419.11	-0.02%	2.37%
VIX	12.07	-1.87%	-22.53%
CT10 (%)	1.942%	16.47	21.27
AUD/USD	0.686	-0.41%	0.91%
EUR/USD	1.102	-0.94%	-0.17%
USD/SGD	1.361	-0.15%	0.90%
AUD/SGD	0.933	0.26%	-0.05%
ASX 200	6,759	1.08%	2.31%
DJIA	27,681	1.22%	3.22%
SPX	3,093	0.85%	4.13%
MSCI Asiax	663	0.50%	6.39%
HSI	27,082	-1.69%	2.94%
STI	3,245	0.27%	4.21%
KLCI	1,607	0.20%	3.21%
JCI	6,152	-0.47%	0.75%
EU Stoxx 50	3,700	2.09%	3.63%

Source: Bloomberg

New Issues

- Adani Transmission Limited scheduled investor meetings commencing 10 Nov for its proposed USD bond issuance.
- Geely Automobile Holdings Ltd scheduled investor meetings commencing 11 Nov for its proposed USD perpetual bond issuance.
- Tata Motors Limited scheduled investor meetings commencing 11 Nov for its potential USD bond issuance.
- Henan Zhongyuan Financial Holding Company Limited scheduled investor meetings commencing 11 Nov for its proposed USD bond issuance.
- Shanghai Electric (Group) Corporation scheduled investor meetings commencing 11 Nov for its proposed USD bond issuance.
- China Aluminum International Engineering Corporation scheduled investor meetings commencing on 12 Nov for its proposed USD perpetual bond issuance.

Date	Issuer	Size	Tenor	Pricing
7-Nov-19	Redsun Properties Group Limited	USD150mn	REDSUN 9.95%'22s	12.7%
7-Nov-19	Huarong Finance 2019 Co., Ltd	USD500mn USD500mn	5-year 10-year	T+160bps T+200bps
7-Nov-19	Changsha Pilot Investment Holdings Group Co., Ltd	USD350mn	3-year	3.8%
7-Nov-19	City Development Company of LanZhou	USD300mn	3-year	4.15%
7-Nov-19	Central Plaza Development Ltd	USD500mn	NC5-Perpetual	5.75%
7-Nov-19	Skyfame Realty (Holdings) Limited	USD69mn	SKYFAM 13%'22s	13.0%
6-Nov-19	Haitong International Securities Group Ltd	USD400mn	5.5-year	T+160bps
6-Nov-19	Guangzhou Metro Investment Finance (BVI) Limited	USD200mn	5-year	T+97.5bps
6-Nov-19	Zhengzhou Urban Construction Investment Group Co., Ltd	USD300mn	3-year	3.8%
6-Nov-19	Sun Hung Kai & Co. (BVI) Limited	USD350mn	5-year	5.75%
6-Nov-19	Chengdu Jiaozi Financial Holding Group Co., Ltd	USD300mn	3-year	3.24%

Source: OCBC, Bloomberg

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