Asian Credit Daily

Feb 22, 2019

Credit Headlines: CWT International Ltd, United Overseas Bank Ltd, Hyflux Ltd, Barclays PLC, Standard Chartered PLC

Market Commentary

- The SGD swap curve steepened yesterday, with the shorter tenors trading within 1-2bps higher while the belly and longer tenors traded 2-3 bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 144bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 501bps.
- Flows in SGD corporates were heavy yesterday, with flows seen in UBS 5.875%-PERPs, OUESP 3.8%'20s, FPLSP 4.25%'26s, ARTSP 4.68%-PERPs and ARASP 5.65%-PERPs.
- 10Y UST yields rose 5bps to 2.69%, on the back of encouraging signs of progress in the US-China trade talks and despite the soft US economic data released, which was attributed to the idiosyncratic events of the US government shutdown and the ongoing trade war.

Credit Headlines

CWT International Ltd ("CWTI") | Issuer Profile: Negative (6)

- CWTI, the parent company of CWT Pte Ltd ("CWT SG"), announced changes in its board of directors and CEO. CWT SG is the issuer of two SGD bonds that remain outstanding (SGD100mn due in April 2019 and SGD100mn due in March 2020). We have no insights as to what has transpired which has led to these changes.
- The board of directors of CWTI has appointed Mr. Mung Kin Keung as Executive Director and Co-Chairman of the Board and a member of the Executive Committee of the company with effect from 20 February 2019. Mr. Mung and Mr. Xu Haohao (who was most recently the CEO of CWTI) would be the other Co-Chairman of the board.
- Among his various past positions, Mr. Mung was an executive director and vice chairman of a listed company in Hong Kong (where HNA Group is majority shareholder) from February 2018 to August 2018.
- At the same time, the board also announced the appointment of Mr. Li Tongshuang with effect from 20 February 2019 to replace Mr. Xu as CEO. Mr. Xu had expressed his disagreement with the board over the decision to change CEO at the present time given the instability and risks that may be created by an abrupt change in the CEO role. Mr. Xu abstained from voting on the resolution of the board approving the change in his role.
- Among his various past positions, Mr. Li was a Director of CWTI from October 2013 to November 2016 (prior to CWTI buying CWT SG). Mr. Li was appointed an Executive Director and the Managing Director in October 2013, and was re-designated as a Non-executive Director in February 2015. From July 2016 to December 2016, Mr. Li was an executive director and the chairman of the same listed company where Mr. Mung was vice chairman from February 2018 to August 2018.
- Per CWTI's 1H2018 financials, CWTI entered into a USD550mn one year debt facility with expected maturity in September 2019 and we had previously opined that the levered situation at CWTI is untenable over the medium term unless further assets are sold (including the sale of CWT SG itself). We continue to monitor the situation. (Company, OCBC)

Credit Headlines (cont'd)

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

- UOB announced its 4Q2018 and FY2018 results with 4Q2018 total income of SGD2.2bn down 5% q/q. This was driven by a 42% q/q fall in other non-interest income (lower trading and investment income) and a 4% q/q fall in net fee and commission income (lower wealth management and loan-related fees from weaker markets. This offset a 1% q/q rise in net interest income as 3% q/q loan growth offset marginally lower net interest margins (down 10bps q/q to 1.80%). While average rates on interest bearing assets continued to rise in 4Q2018 (+8bps q/q), this was offset by a larger rise in average rates on interest bearing liabilities.
- Operating expenses were down 3% q/q on reduced employee related costs and IT expenses however higher allowances for credit and other losses in Singapore and Indonesia and the absence of profits from associates and joint ventures led to an 11% q/q fall in 4Q2018 net profit before tax.
- Y/y trends for 4Q2018 and FY2018 were more constructive given the strong 9M2018 results with profit before tax up 2% and 15% respectively largely driven by strong y/y growth in net interest income from 11% y/y growth in net customer loans as well as lower allowances for credit and other losses.
- In terms of loans growth, loans to manufacturing fell marginally q/q otherwise growth was broad based by industry. Y/y growth was also broad based with noticeable y/y growth in building and construction loans. By geography, growth was also well spread. Given the fairly strong loans growth and stable deposits, UOB's loan to deposit ratio rose to 88.2% as at 31 December 2018 against 85.1% as at 31 December 2017 and 85.7% as at 30 September 2018. Non-performing loans growth was lower than overall loans growth and as such the non-performing loan ratio improved to 1.5% as at 31 December 2018 against 1.6% as at 30 September 2018 and 1.8% as at 31 December 2017. In terms of segment trends for non-performing loans, transport, storage and communication continues to have the highest non-performing loan ratio of 8.0% although the trend is improving. The manufacturing non-performing loan ratio rose q/q which is a function of both higher non-performing loans and the reduction in customer loans in the manufacturing segment.
- Capital ratios remain solid although reduced against prior periods with CET1/CAR ratios of 13.9%%/17.0% as at 31 December 2018 against 14.1%/17.4% as at 30 September 2018 and 15.1%/18.7% as at 31 December 2017. This was due to risk weighted assets growth above growth in capital from earnings. During FY2018, there was also capital instrument redemption. In a further sign of UOB's on-going capital strength, it's leverage ratio of 7.6% as at 31 December 2018 remains well above the regulatory minimum requirement of 3%. We continue to review the numbers. (OCBC, Company)

Hyflux Ltd ("HYF") | Issuer Profile: Unrated

- The Singapore High Court has granted HYF's application to convene creditor meetings on April 5th, in line with HYF's proposed restructuring plan announced in its recent affidavit.
- As such, the next key dates under the plan will be 5th April which is the tentative date for scheme meetings. In between today and the company organized scheme meeting date, there are additional meetings organized by the Securities Investors Association (Singapore) including a town hall on Monday February 25th.
- We published a Special Interest Commentary yesterday on the preliminary restructuring terms to shine a light on areas that creditors need to understand in order to evaluate the best path forward before the final terms are announced. For senior unsecured creditors, the preliminary terms are hard to reject given that recoveries are significantly higher than liquidation with the potential for further upside. Conversely for junior creditors (ie: perpetual security and preference share holders), the terms are hard to accept given the substantial write-down of principal and equitisation of claims. (OCBC, Company)

Credit Headlines (cont'd)

Barclays PLC ("Barclays") | Issuer Profile: Neutral (4)

- Barclays announced its FY2018 results with reported net operating income up 5% y/y to GBP19.7bn. This was driven by a 37% y/y fall in credit impairment charges and other provisions due to single name recoveries, updates to macro-economic forecasts, and lower y/y charges from single-names and repositioning of the US cards portfolio to lower risk. Otherwise, total income was stable as weaker personal banking performance in the UK was offset by growth in Barclaycard Consumer UK and Business Banking. It should be noted that within the credit impairment charges and other provisions was a GBP150mn specific charge for anticipated negative impacts from BREXIT in the UK.
- Operating costs fell 2% y/y on lower legacy costs, productivity savings and a lower bank levy charge however a Guaranteed Minimum Pensions charge of GBP140mn related to estimated increase in pension obligations and higher litigation and conduct charges stemming from the GBP1.4bn settlement with the US Department of Justice for Residential Mortgage Backed Securities led to profit before tax of GBP3.5bn for FY2018 being more or less stable y/y. Excluding litigation and conduct charges, profit before tax rose 20% y/y to GBP5.7bn.
- Given the aforementioned charge for BREXIT related uncertainty (GBP100mn allocated), Barclays UK underlying profit before tax (excluding litigation and conduct charges) fell 3% y/y. This offset otherwise stable income performance as lower net interest margins were offset by solid balance sheet growth while operating expenses rose 1% y/y on investment spending. On a reported basis, profit before tax was up 12% y/y principally on noticeably lower litigation and conduct charges.
- Barclays' International business performance was solid with PBT up 15% y/y due to income growth in Markets and Consumer Cards and Payments as well as the substantially lower credit impairment charges as mentioned above. Expenses were also lower in this segment from reduced restructuring charges.
- Barclays CET1 capital ratio was weaker y/y yet remains above its end-state target of 13.0%. Its CET1 capital ratio of 13.2% as at 31 December 2018 was marginally lower than 13.3% as at 31 December 2017 as CET1 capital reduced from dividend payments and redemption of capital instruments while risk weighted assets remained stable. Barclays CET1 ratio remains above its 31 December 2018 transitional minimum CET1 ratio requirement of 10.4% representing minimum requirements of 4.5% for Pillar 1, 1.9% for Capital Conservation Buffer, 0.5% for Countercyclical Capital Buffer, 1.1% for Global Systemic Importance, and 2.4% for Pillar 2A. It is also above its fully loaded CET1 regulatory requirement of 11.7% and includes 4.5% for Pillar 1, 2.5% for Capital Conservation Buffer, 0.5% for Countercyclical Capital Buffer, 1.5% for Global Systemic Importance, and 2.7% for Pillar 2A.
- We continue to review the results but expect to keep our Neutral (4) issuer profile on Barclays (Company, OCBC)

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

- StanChart has announced that it is setting aside USD900mn in its 4Q2018 results to cover potential regulatory fines.
- This may add to weaker 4Q2018 results from challenging operating conditions that have reduced full year results for other banks under our coverage. As per our Singapore Credit Outlook 2019, StanChart's 1H2018 results were constructive.
- While negative for current earnings, the higher provision could set the scene for future earnings performance in the context of StanChart's new 3 year strategic plan which will be presented as part of the FY2018 results announcement next week.
- We expect the potential for on-going restructuring costs as a result of the new plan, keeping earnings growth depressed in the near term. (OCBC, Company).

Table 1: Key Financial Indicators

	22-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	72	-4	-15
iTraxx SovX APAC	57	-1	-8
iTraxx Japan	59	-2	-11
iTraxx Australia	71	-3	-14
CDX NA IG	62	-1	-14
CDX NA HY	106	0	2
iTraxx Eur Main	66	-3	-12
iTraxx Eur XO	293	-7	-38
iTraxx Eur Snr Fin	81	-6	-15
iTraxx Sovx WE	24	-1	-1
AUD/USD	0.710	-0.64%	-0.41%
EUR/USD	1.134	0.35%	-0.22%
USD/SGD	1.354	0.16%	0.41%
China 5Y CDS	52	-1	-10
Malaysia 5Y CDS	71	-3	-20
Indonesia 5Y CDS	110	-1	-15
Thailand 5Y CDS	47	-1	3

	22-Feb	1W chg	1M chg
Brent Crude Spot ($/bbl)	66.92	1.01%	8.81%
Gold Spot ($/oz)	1,325.19	0.20%	3.11%
CRB	183.41	2.63%	2.47%
GSCI	428.19	2.87%	5.31%
VIX	14.46	-7.60%	-30.48%
CT10 (bp)	2.682%	1.98	-5.68
USD Swap Spread 10Y (bp)	1	-2	-2
USD Swap Spread 30Y (bp)	-20	-3	-2
US Libor-OIS Spread (bp)	26	-2	-11
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,851	1.20%	5.93%
SPX	2,775	0.79%	5.39%
MSCI Asiax	652	2.50%	5.49%
HSI	28,545	2.31%	5.70%
STI	3,264	0.74%	2.23%
KLCI	1,718	1.75%	0.95%
JCI	6,490	1.58%	0.33%

OCBC Bank

New issues

- The Chugoku Electric Power Co. has priced a USD300mn 5-year bond CT5+100bps (reoffer at 100 to yield 3.488%), tightening from IPT of +130bps.
- Shui On Development (Holding) Ltd has priced a USD500mn 2-year, 9-month bond (guarantor: Shui On Land Ltd) at 6.25%, tightening from IPT of 6.5% area.
- E-House (China) Enterprise Holdings Ltd has priced a USD200mn 2-year bond (subsidiary guarantors: certain existing subsidiaries incorporated outside the PRC) at 8.625%, tightening from IPT of 8.75% area.
- CFLD (Cayman) Investment Ltd has priced a USD530mn 2-year bond (guarantor: China Fortune Land Development Co.) at 8.625%, tightening from IPT of 9.25% area.
- KWG Group Holdings Ltd has priced a USD350mn 4.5NC2.5 bond (subsidiary guarantors: certain non-PRC subsidiaries of issuer) at 7.875%, tightening from IPT of 8.0% area.
- Henderson Land MTN Ltd has priced a USD300mn 10-year bond (guarantor: Henderson Land Development Co. Ltd) at CT10+140bps, tightening from IPT of +160bps area.
- Indian Railway Finance Corp has mandated banks for its potential USD bond issuance.
- Sunrise (Cayman) Ltd has scheduled for investor meetings from 22 Feb for its potential USD bond issuance.
- Canara Bank has issued a request for proposals from banks for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
21-Feb-19	The Chugoku Electric Power Co	USD300mn	5-year	CT5+100bps
21-Feb-19	Shui On Development (Holding) Ltd	USD500mn	2-year, 9-month	6.25%
21-Feb-19	E-House (China) Enterprise Holdings Ltd	USD200mn	2-year	8.625%
21-Feb-19	CFLD (Cayman) Investment Ltd	USD530mn	2-year	8.625%
21-Feb-19	KWG Group Holdings Ltd	USD350mn	4.5NC2.5	7.875%
21-Feb-19	Henderson Land MTN Ltd	USD300mn	10-year	CT10+140bps
20-Feb-19	China Construction Bank Corporation	USD1.85bn	10NC5	CT10+188bps
20-Feb-19	ENN Clean Energy International Investment Ltd	USD250mn	2-year	8.35%
20-Feb-19	Guangzhou R&F Properties Co Ltd	USD450mn USD375mn	4-year 5-year	8.125% 8.625%
20-Feb-19	Modern Land (China) Co Ltd	USD200mn	MOLAND 15.5%'20s	14.0%
20-Feb-19	Shriram Transport Finance Co Ltd	USD400mn	3-year	5.7%

Source: OCBC, Bloomberg

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