

July 29, 2019

Credit Headlines: DBS Group Holdings Ltd

Market Commentary

- The SGD swap curve was higher last Friday compared to Thursday, with all tenors traded 1-2bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 127bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 471bps.
- Flows in SGD corporates were heavy, with flows in FPLSP 4.98%-PERPs, CS 5.625%-PERPs, SOCGEN 6.125%-PERPs, ESRCAY 6.75%'22s, OUESP 3.75%'22s and OUESP 3.55'23s.
- 10Y USTs fell 1bps to 2.07%, rebounding after stronger than expected GDP growth briefly lifted yields. Expectations of a more aggressive 50bps rate cut by the Federal Reserve in the upcoming July meeting also decreased. Spread between 3-month treasury bills and 10-year treasury notes was still inverted, with the spread widening to -4bps.

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

- DBS announced record 1H2019 results with total income up 11% y/y. This was driven by continued strong net interest income growth of 9% y/y (net interest margin rose to 1.90% from 1.84% a year ago on higher rates as well as loans growth). Elsewhere, net fee and commission income was up 3% y/y due to growth in cards, wealth management and transaction services while other non-interest income was up 35% y/y due to higher trading income and net gains on investment securities that was partially offset by absence of net gain on fixed assets (divestment of a Hong Kong property in 1H2018).
- For 2Q2019, total income was up 16% y/y due to strong net interest income growth of 9% y/y and +5% q/q (net interest margin rose to 1.91% from 1.85% a year ago and 1.88% in 1Q2019 on higher rates charged to clients, while rates on interest bearing liabilities grew slower as well as y/y and q/q loans growth). Net fee and commission income was also up 9% y/y and +5% q/q on investment banking, wealth management and cards performance collectively, while other non-interest income was up 88% y/y (flat q/q) due to higher trading income and net gains on investment securities (fall in trading income was offset by higher gains on investment securities q/q).
- Expense growth y/y was lower than total income growth and mostly related to higher staff, occupancy and computerisation costs for 1H2019 and 2Q2019 while allowances for credit and other losses rose 22% y/y for 1H2019 (rise in stage 3 or specific provisions in Singapore and a rise in state 3 provisions for other credit exposures that offset a writeback in general provisions). This was driven by a substantial rise in 2Q2019 (+139% y/y and +230% q/q to SGD251mn) due to a rise in both general and specific allowances (Singapore and South and Southeast Asia) and absence of writebacks for stage 1 and stage 2 expected credit losses (or general provisions) seen in 1Q2019.
- Higher allowances for credit and other losses however did not moderate strong performance at the profit before tax level with SGD3.89bn for 1H2019 and SGD1.91bn for 2Q2019 up 12% and 14% respectively y/y. It did however drive a 3% q/q fall in net profit before tax for 2Q2019.

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Credit Headlines (Cont'd)

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

- In line with higher allowances, non-performing loans rose 3.3% q/q and 1.6% h/h due to growth in new non-performing asset formation that was offset by recoveries and write-offs. Allowance coverage was at 100% and 181% if collateral is included which was stable q/q but improved y/y.
- 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 while consumer loans were stable as a fall in housing loans was offset by growth in other consumer loans.
- Despite the strong earnings performance, DBS's capital ratios were stable y/y and fell q/q with its fully phased in CET1/CAR ratio of 13.6%/16.2% as at 30 June 2019 (similar levels to 30 June 2018 and 14.1%/17.0% as at 31 March 2019. This was due to dividend payments for 2018 and 1Q 2019 totalling \$2.3 billion as well as risk-weighted assets growth on higher credit and market risk-weighted assets and redemption of SGD\$805 million in Additional Tier 1 capital. That said, 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 6.9% as at 30 June 2019 also remains well above the 3% minimum requirement.
- DBS performance highlights DBS' strong underlying fundamentals which are consistent with our issuer profile for DBS at Positive (2). (Company, OCBC)

Table 1: Key Financial Indicators

	29-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	57	-5	-4
iTraxx SovX APAC	37	-2	-2
iTraxx Japan	55	-2	-4
iTraxx Australia	59	-4	-1
CDX NA IG	51	-2	-2
CDX NA HY	108	1	0
iTraxx Eur Main	47	-1	-4
iTraxx Eur XO	242	-7	-7
iTraxx Eur Snr Fin	58	-1	-4
iTraxx Sovx WE	15	0	-1
AUD/USD	0.691	-1.83%	-0.85%
EUR/USD	1.113	-0.70%	-1.38%
USD/SGD	1.369	-0.61%	-0.98%
China 5Y CDS	40	-2	-1
Malaysia 5Y CDS	47	-4	-3
Indonesia 5Y CDS	78	-7	-9
Thailand 5Y CDS	31	-1	-1

	29-Jul	1W chg	1M chg
Brent Crude Spot (\$/bbl)	63.15	-0.17%	-5.11%
Gold Spot (\$/oz)	1,420.36	-0.32%	2.61%
CRB	177.16	-0.80%	-2.14%
GSCI	416.69	0.19%	-2.04%
VIX	12.16	-15.85%	-19.36%
CT10 (bp)	2.070%	1.51	2.35
USD Swap Spread 10Y (bp)	-7	-1	-3
USD Swap Spread 30Y (bp)	-36	-1	-5
US Libor-OIS Spread (bp)	22	0	3
Euro Libor-OIS Spread (bp)	5	-1	0
DJIA	27,192	0.14%	2.23%
SPX	3,026	1.65%	2.86%
MSCI Asiax	649	-0.22%	-0.56%
HSI	28,398	-1.28%	-0.51%
STI	3,364	-0.42%	1.27%
KLCI	1,648	-0.62%	-1.45%
JCI	6,325	-2.03%	-0.53%

New issues:

- There were no new issues or mandates on Friday.

<u>Date</u>		<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
25-Jul-19	Honghua Group Ltd	USD200mn	3-year	6.375%
25-Jul-19	Mong Duong Finance Holdings B.V.	USD678.5mn	9.8-year	5.125%
25-Jul-19	Coastal Emerald Ltd	USD500mn USD900mn	3-year NC5-Perpetual	3.95% 4.3%
25-Jul-19	FWD Group Ltd	USD250mn	FWDGRP 5.75%'24s	5.5%
25-Jul-19	E-MART Inc	USD320mn	3-year FRN	3M-US LIBOR+85bps
25-Jul-19	China Development Bank Corporation of Hong Kong	USD100mn	3-year FRN	3M-US LIBOR+54bps
24-Jul-19	China Great Wall International Holdings IV Ltd	USD400mn USD200mn	NC5-Perpetual 5-year	3.95% T+132.5bps
24-Jul-19	Bright Scholar Education Holdings Ltd	USD300mn	3-year	7.45%
24-Jul-19	Unican Ltd	USD150mn	3-year	3.8%
23-Jul-19	PT Pertamina Persero	USD750mn USD750mn	10-year 30-year	3.65% 4.7%
23-Jul-19	Hanwha Energy USA Holdings Corporation	USD300mn	3-year	T+70bps

Source: OCBC, Bloomberg

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