Asian Credit Daily

May 3, 2019

Credit Headlines: United Overseas Bank Ltd, BNP Paribas SA, Frasers Property Ltd

Market Commentary

- The SGD swap curve steepened on yesterday, with the shorter tenors trading within 1bps, while the belly and longer tenors (above 10-year) traded 3bps and 2bps higher respectively.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 128bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 462bps.
- Flows in SGD corporates were heavy, with flows from the new Keppel Corp Ltd issues KEPSP 3.66%’29s and KEPSP 3.0%’24s thinning from yesterday. The other flows seen were SOCGEN 6.125%-PERPs, HSBC 4.7%-PERPs, ACAFP 3.8%’31s, CMZB 4.875%’27s, SINTEC 5.0%-PERPs and UBS 5.875%-PERPs.
- 10Y UST yields rose 4bps to 2.54%, on the back of reduced sentiments of a rate cut this year after Fed Chairman Jerome Powell’s bullish comments on the economy. He maintained that economic and job growth has been stronger than expected, amidst a weak inflation climate which may be temporary and due to transitory factors.

Credit Headlines

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

- UOB announced its 1Q2019 results that were similarly robust as DBS Group Holdings Ltd’s were. Net profit before tax was up 5% y/y on solid operating profit before performance (+7% y/y to SGD1.33bn), which was partially offset by higher allowances for credit and other losses.
- Operating profit was driven by growth in net interest income (+8% y/y due to strong y/y growth in loans which mitigated a 5bps fall in net interest margins to 1.79%) and other non-interest income (+40% y/y due to higher trading income and better customer-related income. This offset a 7% y/y fall in net fee and commission income from a fall in wealth management and fund management fees and a 9% y/y increase in operating expenses (higher staff and technology costs).
- The rise in allowances for credit and other losses was due to higher loan volumes with credit costs as a proportion of impaired loans stable at 13 bps. Otherwise, UOB’s non-performing loan ratio fell to 1.5% as at 31 March 2019 from 1.7% as at 31 March 2018 (stable against 31 December 2018). This was due however more to the loans growth which was mostly in the building and construction segment. Non-performing loan balances were stable q/q and fell 2.0% y/y. The building and construction segment represents the lowest industry segment non-performing loan ratio of UOB’s major industry segment at 0.8%.
- Capital ratios remain solid although reduced or were stable against prior periods with CET1/CAR ratios of 13.9%%/17.0% as at 31 March 2019 against 13.9%%/17.0% as at 31 December 2018 and 14.9%/18.8% as at 31 March 2018. This was due to risk weighted assets growth above growth in capital from earnings as well as the call of SGD850mn in AT1. UOB has another SGD500mn in AT1 due to call later in 2019. Nevertheless, ratios remain above minimum capital requirements.
- We see these results as indicative of UOB’s steady credit profile and maintain our Positive (2) issuer profile. (Company, OCBC)

Credit Headlines (cont'd)

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

- BNPP reported 1Q2019 results with pre-tax income up 18.9% y/y to EUR2.68bn. This was driven by other non-operating items of EUR623mn related to an exceptional gain from the sale of 14.3% of SBI Life in India (EUR838mn) that was offset by a EUR318mn goodwill impairment. Excluding this, underlying pre-tax income (which includes share of earnings of equity-method entities) was down 1.2% to EUR2.06bn.
- Slightly weaker underlying performance for BNPP was due to a 25% y/y rise in cost of risk, which was due to higher provision writebacks in 1Q2018. Otherwise, revenues rose 3.2% y/y due to while operating expenses rose 2.3% y/y due to business transformation costs and acquisitions restructuring costs as well as the impact of the full year contribution to the Single Resolution Fund. This translated to a 6.2% rise in gross operating income. On a q/q basis, trends are more supportive. Revenues rose 9.7% while operating expenses were up 10.0% and this translated to a 8.6% q/q rise in operating income. Together with a 14.2% q/q fall in the cost of risk, underlying pre-tax income (which includes share of earnings of equity-method entities) was up 15.7% q/q.
- By operating segment, revenue growth continues to be supported by BNPP's International Financial Services which rose 9.5% y/y. Corporate & Institutional Banking revenues rose 3.5% y/y due to increases in client activity, particularly in Corporate Banking. Domestic Markets remains soft although was broadly stable with revenues down 0.1% y/y as volume growth in specialised businesses offset ongoing low interest rates. However operating expenses rose 0.3% y/y (due mostly to business growth in specialized businesses with costs in the retail network falling) and cost of risk rose 13.2% y/y and as a result, operating income for Domestic Markets was down 7.4% y/y. Corporate & Institutional Banking operating income was also down 6.3% y/y due to relatively higher cost of risk. This makes the relative importance of International Financial Services amplified at the operating income level with operating income up 13.6% y/y. This also changes each segments contribution to overall operating division performance. By revenue, contribution is somewhat balanced with Domestic Markets, International Financial Services and Corporate & Institutional Banking contributing 34%, 39% and 27% respectively in 1Q2019. By operating income, this contribution shifts to 27%, 51% and 22% respectively.
- As mentioned, cost of risk rose 25% y/y however cost of risk at 38bps still remains low compared to average cost of risk over FY2015-2017 although is higher than FY2018 (35bps). Management have indicated that this continues to be the result of risk controls at origination, ongoing low interest rates and improving operating conditions in Italy. Meanwhile, underlying business growth momentum continues with 4.2% y/y growth in loans outstanding for Domestic Markets (+4.1%) in retail networks and specialised businesses and International Financial Services (+9.4%; +6.4% y/y at constant exchange rates). Loan quality was stable with the reported ratio of doubtful loans to gross outstanding loans at 2.6% as at 31 March 2019 (2.6% as at 31 December 2018). However, the coverage ratio was marginally weaker at 75.9% (76.2% as at 31 December 2018) with a lower allowance for loan losses.
- BNPP's fully loaded CET1 ratio inched lower to 11.7% as at 31 March 2018, against 11.8% as at 31 December 2018. Including the impact from first time implementation of accounting standard IFRS16 on leasing, BNPP's fully loaded CET1 ratio was stable q/q. BNPP capital ratios continue to be well above overall minimum CET1 requirements of 9.91% for end 2019 as disclosed in BNPP's 2018 annual report. BNPP still 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 (cont'd)

Frasers Property Ltd ("FPL") | Issuer Profile: Neutral (4)

- FPL announced 2QFY2019 results. Revenue rose 11.1% y/y to SGD934.3mn. This is mainly due to increased contribution from the Australia SBU (+55.1% y/y to SGD481.7mn) which more than mitigated the fall from the Singapore SBU (-32.0% y/y to SGD133.7mn). However, reported EBIT fell 9.9% y/y to SGD191.1mn as share of results of JVs and associates fell 39.9% y/y to SGD31.7mn, which is due to timing of settlements of development projects. Overall, net profit though rose 11.2% y/y to SGD183.7mn due to SGD31.2mn fair value gains on investment properties, despite interest expense increasing 55.1% y/y to SGD108.7mn (interest expense is no longer capitalised following completion of Frasers Tower).
- For the Singapore SBU, the revenue fall is mainly due to the depletion of the development landbank with only SGD2mn revenue recorded for the Singapore development. However, reported EBIT for the segment rose 9.0% y/y to SGD96.6mn, mainly due to increased contribution from retail & commercial (non-REIT portion) which rose to SGD34.3mn (2QFY2018: SGD25mn) following the completion of Frasers Tower (opened in May 2018) and higher occupancy at the south wing of Northpoint City. Meanwhile, the Singapore part of the REITs delivered somewhat higher reported EBIT (+1.6% y/y to SGD50.5mn). Going forward, while the development landbank remains rather dry, this should pick up somewhat from a low base with the upcoming launch at Rivière at Jiak Kim St, which FPL paid SGD955.4mn under a GLS tender.
- For the Australia SBU, the surge in revenue is mainly due to sales and settlements from residential projects at Central Park in Chippendale, New South Wales. Reported EBIT rose 18.6% y/y to SGD100.5mn though this is only partly due to the residential segment (+14.4% y/y to SGD46.1mn). Contribution from listed REITs (+28.7% y/y to SGD44.9mn) is significant, mainly from outperformance at Frasers Logistics and Industrial Trust. While the pre-sold revenue in Australia is still sizeable at SGD0.9bn and 1452 units will be released in 2HFY2019 which should provide earnings visibility in the next 2 years, we note this has shrunk significantly (FY2018: SGD1.5bn, FY2017: SGD2.2bn).
- Meanwhile, Hospitality SBU reported EBIT fell 9.5% y/y to SGD20.7mn in 2QFY2019. While 2QFY2019 figures are not provided, as we note 1HFY2019 RevPAR declines under its non-REIT portfolio for North Asia (-2.7% y/y), Asia Pacific excluding North Asia (-5.3% y/y) and Europe (-0.3% y/y). Meanwhile, Frasers Hospitality Trust ("FHT"), which makes up 78.3% of the SBU's reported EBIT, also saw reported EBIT decline 6.3% y/y to SGD16.2mn. We elaborated on FHT's soft results yesterday.
- For Europe & rest of Asia SBU, reported EBIT fell 17.5% y/y to SGD76.7mn. We understand that this is largely due to the tapering off of sales and settlements from Phase 3B of Baitang One, Suzhou, which delivered higher contributions in 2QFY2018. That said, we think China (which saw EBIT fall 51% y/y to SGD19.8mn) may contribute more going forward with pre-sold revenue increasing to SGD0.7bn in 1HFY2019 (FY2018: SGD0.3bn).
- Overall, the trend continues to show FPL moving away from development, which comprises just 15% of total property assets (FY2018: 17%). Recurring PBIT as of 1HFY2019 forms 68% of the reported operating EBIT (FY2018: 65%).
- Net gearing remains unchanged q/q at 87%. However, we note that this has yet to factor the settlement for ~SGD600mn acquisition of a further 29.99% stake in PGIM Real Estate AsiaRetail Fund Ltd, which should be reflected in 3QFY2019's results. On the other hand, we note the issuance of SGD400mn FPLSP 4.98% PERP. As such, we expect net gearing to trend up to ~89%. While net gearing is higher than peers (e.g. City Developments Ltd, CapitaLand Ltd), we continue to hold FPL at a Neutral (4) Issuer Profile for now given FPL's diversified profile (geographically and by assets), anchored by recurring income from its REITs and investment properties. (Company, OCBC)

Table 1: Key Financial Indicators

	3-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	65	0	-1
iTraxx SovX APAC	42	0	-1
iTraxx Japan	54	0	-3
iTraxx Australia	67	0	-4
CDX NA IG	59	2	-3
CDX NA HY	107	0	1
iTraxx Eur Main	60	1	-1
iTraxx Eur XO	256	6	4
iTraxx Eur Snr Fin	71	-2	-6
iTraxx Sovx WE	16	-2	-3
AUD/USD	0.700	-0.62%	-1.62%
EUR/USD	1.118	0.22%	-0.51%
USD/SGD	1.363	-0.04%	-0.65%
China 5Y CDS	41	0	0
Malaysia 5Y CDS	55	1	-1
Indonesia 5Y CDS	96	1	0
Thailand 5Y CDS	36	0	-4

	3-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	70.61	-2.13%	1.88%
Gold Spot ($/oz)	1,271.66	-1.13%	-1.42%
CRB	181.90	-2.18%	-2.65%
GSCI	440.23	-2.78%	-0.74%
VIX	14.42	8.83%	4.95%
CT10 (bp)	2.541%	0.89	6.73
USD Swap Spread 10Y (bp)	-1	0	1
USD Swap Spread 30Y (bp)	-22	1	3
US Libor-OIS Spread (bp)	18	0	-2
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	26,308	-0.58%	0.34%
SPX	2,918	-0.30%	1.54%
MSCI Asiax	679	0.80%	0.00%
HSI	29,944	0.46%	-0.14%
STI	3,393	0.92%	2.48%
KLCI	1,632	-0.35%	-0.67%
JCI	6,374	-1.14%	-1.57%

OCBC Bank

New issues

- Medco Oak Tree Pte Ltd has priced a USD650mn 7NC4 bond (parent guarantor: Medco Energi Internasional Tbk PT) at 7.70% (priced at 98.266), tightening from IPT of 8.0% area.
- SD International Sukuk Ltd has priced a USD300mn 3-year bond (parent guarantor: Serba Dinamik Holdings Berhad) at 6.30%, tightening from IPT of 6.625% area.
- Barito Pacific Tbk PT has scheduled investor meetings from 3 May for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
2-May-19	Medco Oak Tree Pte Ltd	USD650mn	7NC4	7.70%
2-May-19	SD International Sukuk Ltd	USD300mn	3-year	6.30%
2-May-19	Alam Synergy Pte Ltd	USD125mn	ASRIIJ 6.625%'22s	95.176+accrued
29-Apr-19	Ronshine China Holdings Ltd	USD200mn	RONXIN 10.5%'22s	104.897+accrued
29-Apr-19	Mirae Asset Daewoo Co Ltd	USD300mn USD300mn	3-year 5-year	T3+95bps T5+112.5bps
29-Apr-19	Keppel Corp Ltd	SGD150mn SGD350mn	5-year 10-year	3.0% 3.66%
29-Apr-19	CDL Properties Ltd	SGD300mn	5-year	2.958%
26-Apr-19	Hanrui Overseas Investment Co Ltd	USD280mn	3-year	7.95%
25-Apr-19	Chengdu Tianfu New Area Investment Group Co Ltd	USD300mn	5-year	4.65%
25-Apr-19	Yango Justice International Ltd	USD150mn	SUNSHI 9.5%'21s	99.770+accrued
25-Apr-19	CICC Hong Kong Finance 2016 MTN Ltd	USD300mn USD700mn	3-year 3-year	T+115bps 3M-US LIBOR+117.5bps
25-Apr-19	Xinyuan Real Estate Co Ltd	USD100mn	XIN 14.2%'21s	103.932+accrued
24-Apr-19	Credit Agricole S.A.	SGD325mn	12NC7	3.8%

Source: OCBC, Bloomberg

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