Asian Credit Daily

Friday, August 30, 2019

Market Commentary

- The SGD swap curve bear-steepened yesterday, with the shorter tenors traded 1-2bps higher, while the longer tenors (>5yr) traded 2-4bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2 bps to 135bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 564bps.
- Flows in SGD corporates were heavy, with large ticket flows in UBS 4.85%-PERPs, CAPLSP 3.15%'29s, ARASP 5.65%-PERPs, UOBSP 3.58%-PERPs, HSBC 5.0%-PERPs, ARASP 5.2%-PERPs, CS 5.675%-PERPs, ARTSP 3.88%-PERPs, UBS 5.875%-PERPs and SOCGEN 6.125%-PERPs. We also saw flows in SPHRSP 4.1%-PERPs, TMGSP 4.8%'22s, MAPLSP 3.15%'31s, FPLSP 4.98%-PERPs, OSBCSP 4.0%-PERPs, FPLSP 4.15%'27s, BACR 3.7%'30s, BAERVX 5.75%-PERPs, CMZB 4.2%'28s, SCISP 4.75%-PERPs, FPLSP 4.38%-PERPs, SPHSP 4.1%-PERPs, CELSP 3.9%-PERPs, OUESP 3.55%'23s and HSBC 4.7%-PERPs.
- 10Y USTs rose 2bps to 1.5%, as sentiment on the US-China trade war turned positive after China's commerce ministry said Beijing and Washington are discussing the next round of face-to-face trade talks scheduled for September. Spread between the 2-year treasury notes and 10-year treasury notes remains inverted, with the spread at -3bps, while the spread between 3-month treasury bills and 10-year treasury notes has narrowed to -47bps.

Credit Research

Andrew Wong
+65 6530 4736
WongVKAM@ocbc.com

Ezien Hoo, CFA
+65 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA
+65 6722 2533
WongHongWei@ocbc.com

Seow Zhi Qi
+65 6530 7348
zhiqiseow@ocbc.com

Credit Summary:

- China Construction Bank Corporation **| Neutral (3):** CCB announced its 1H2019 results with net operating income up 7.2% y/y to RMB265.8bn. Net interest margin fell by 7bps to 2.27% for 1H2019 against 2.34% in 1H2018. Net fee and commission income performance was solid, up 11.2% y/y. Cost-income ratio of 21.93% in 1H2019 down 22bps from 22.15% in 1H2018, while credit and other impairment losses rose 11.9% y/y. CCB's balance sheet grew with total average assets as at 30 June 2019 up 4.4% y/y, with total assets as at 30 June 2019 up 5.0% h/h to RMB24.383bn. Corporate loans and advances rose 5.4% h/h, while personal loans and advances rose 5.0% h/h. Loan quality appears sound with the reported non-performing loan ratio at 1.43% as at 30 June 2019. Given the solid growth in loans, CCB's capital ratios of 13.7%/17.1% were marginally down as at 30 June 2019 compared to 31 December 2018. Risk weighted assets rose 5.0% h/h while common equity tier 1 capital and total capital rose 4.0% and 4.2% h/h respectively. This remains above regulatory requirements. CCB's credit profile remains within expectations in our view and we maintain its Neutral (3) issuer profile.

- CWT International Ltd & CWT Pte Ltd **| Unrated:** CWTI announced its preliminary financials for 1H2019. Revenue from continuing operations was HKD29.6bn in 1H2019 while reported gross profit was HKD807.9mn. Adjusted EBITDA was HKD278.3mn, insufficient to cover finance costs of HKD411.7mn. CWTI ended 1H2019 with a loss for the period from continuing operations of HKD127.2mn. The largest contributor to revenue from continuing operations was the Commodity Marketing segment. As at 30 June 2019, unadjusted net gearing of CWTI was 1.3x, lower than the 1.5x as at end-2018 while consolidated total liabilities-to-total assets was 1.2x. The SGD100mn CWTSP 4.8% '20s bonds issued at CWT SG faces maturity date in April 2020 and we continue to look out for further asset stripping at the company that is to the detriment of bondholders.

Credit Headlines

China Construction Bank Corporation ("CCB") | Issuer Profile: Neutral (3)

- CCB announced its 1H2019 results with net operating income up 7.2% y/y to RMB265.8bn. This was due to a 6.7% y/y rise in operating income to RMB344.4bn while operating expenses rose 5.2% y/y to RMB78.5bn.
- Operating income performance was driven by a 4.6% y/y rise in net interest income – specifically interest income rose 9.4% y/y however was somewhat mitigated by a 16.8% y/y rise in interest expense. This resulted in CCB's net interest margin falling 7bps to 2.27% for 1H2019 against 2.34% in 1H2018 with overall net interest income performance supported by a 7.5% y/y rise in total average interest-earning assets amidst competition which suppressed growth in net interest income.
- Net fee and commission income performance was solid, up 11.2% y/y (improved performance in credit cards, agency insurance services and syndicated loans as well as asset custody and wealth management products) while other operating income was up 21.2% y/y as higher net gains from investment securities and derecognition of financial assets measured at amortised cost offset lower trading gains.
- As mentioned, growth in operating expenses was lower than growth in operating income. This was due to controlled expense growth for staff costs and premises and equipment expenses in line with business growth with the cost-income ratio of 21.93% in 1H2019 down 22bps from 22.15% in 1H2018.
- Credit and other impairment losses rose 11.9% y/y and this was centred on higher impairment losses on loans and advances to customers and financial investments while impairment losses on off-balance sheet items fell y/y. Combined with share of profits of associates and joint ventures, profit before tax rose 5.4% y/y to RMB191.2bn.
- By segment, Personal Banking continues to contribute the bulk of 1H2019 profit before tax at 44.9%, followed by Treasury business (25.0%) and Corporate Banking (23.0%). Segment performance y/y shows different trends with Personal Banking profit before tax up 6.4% y/y on better operating income and lower operating expenses and credit losses, while Treasury business profit before tax rose 23.4% y/y on strong growth in net interest income. On the flipside, Corporate Banking profit before tax fell 10.7% y/y in 1H2019 from higher operating expenses and higher credit impairment losses.
- CCB's balance sheet grew with total average assets as at 30 June 2019 up 4.4% y/y driven by the rise in average interest-earning assets. Similarly, total assets as at 30 June 2019 of RMB24.383bn were up 5.0% h/h against RMB23.223bn as at 31 December 2018 with loans and advances to customers up 5.4% over the same period. Corporate loans and advances rose 5.4% h/h to infrastructure, small and micro enterprises and private enterprises sectors while personal loans and advances rose 5.0% h/h from growth in residential mortgages (+6.4% h/h) and credit card loans (+3.2% h/h) as personal consumer loans fell 19.9% h/h. Corporate loans and advances continue to contribute the most to gross loans and advances at 47.1% as at 30 June 2019 with personal loans and advances contributing 42.2%.

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Credit Headlines

China Construction Bank Corporation ("CCB") | Issuer Profile: Neutral (3) (cont'd)

- Loan quality appears sound with the reported non-performing loan ratio at 1.43% as at 30 June 2019 (1.46% as at 31 December 2018) although this was due to the better growth in gross loans and advances against growth in non-performing loans (+3.6% h/h). Within the growth in non-performing loans was a 12.0% h/h rise in substandard loans and a 23% h/h fall in loan losses. Of note as well is a 4.8% h/h rise in special mention loans indicating some underlying weakness and likely driving the rise in credit and other impairment losses.
- Given the solid growth in loans, CCB's capital ratios of 13.7%/17.1% were marginally down as at 30 June 2019 compared to 31 December 2018 (13.8%/17.2%). Risk weighted assets rose 5.0% h/h while common equity tier 1 capital and total capital (both after regulatory adjustments) rose 4.0% and 4.2% h/h respectively. This remains above regulatory requirements. CCB's credit profile remains within expectations in our view and we maintain its Neutral (3) issuer profile. (Company, OCBC)

Credit Headlines

CWT International Ltd ("CWTI") | Issuer Profile: Unrated and CWT Pte Ltd ("CWT SG") | Issuer Profile: Unrated

- CWTI announced its preliminary financials for 1H2019. For 1H2019, CWTI no longer reports its UK operations (ie: the office building in London), US operations and Mainland China operation (mostly golf courses) as part of continued operations. With continuing operations referring to CWT SG and holding company related cost (eg: interest expense on acquisition debt in relation to CWTI's acquisition of CWT)
- Revenue from continuing operations was HKD29.6bn in 1H2019 while reported gross profit was HKD807.9mn. EBITDA (based on our calculations which does not include other income and other expenses) was HKD278.3mn, insufficient to cover finance costs of HKD411.7mn. Finance cost though included HKD153.4mn of unallocated finance costs which in our view are non-attributable to CWT SG. Hence we assume the remainder HKD258.3mn as finance cost attributable to CWT SG. Given that the EBITDA was likely only attributable to CWT SG, we estimate that EBITDA/Interest expense at the CWT SG level to be 1.1x.
- CWTI ended 1H2019 with a loss for the period from continuing operations of HKD127.2mn with the company's conditions indicating the existence of material uncertainty over its ability to continue as a going concern. As a mitigating factor, CWTI continues to pursue sale of its UK, US and Mainland China operations. In relation to CWT SG, the company stated they are committed to focus on logistics services though intends to dispose "certain operations engaging in business activities other than those related to logistics services". In our view, this means parts of CWT SG excluding Logistics. For 1H2019, it was also disclosed that CWTI has received expressions of interest and actively negotiated with potential buyers for these businesses.
- Within expectations, the largest contributor to revenue from continuing operations was the Commodity Marketing segment which is a trading volume-based though thin margin business. Per company, the energy products and refined metals business were negatively affected as trade lines were pulled back from CWTI's earlier default. The segment though eked out a profit before tax ("PBT") of HKD54.8mn.
- Other profitable segments on a PBT basis included Engineering and Financial Services, at HKD17.9mn and HKD50.6mn respectively while the asset-heavy Logistics segment saw a loss before tax of HKD19.7mn. Per company, warehousing and integrated logistics saw a decline in profitability while freight logistics and commodity logistics were stronger. Per company, this was driven by lower volume of trade flow and a slowdown in manufacturing activity in Singapore though in our view, the sales and leaseback of five major warehouses to Mapletree Logistics Trust ("MLT", Issuer profile: Neutral (4)) hampered the Logistics segment. We estimate that CWT SG had needed to pay ~ HKD140mn per half year just on rental expenses to MLT. Additionally, the new lease accounting standard had kicked in which had led to higher depreciation and interest expense at the Logistics segment.
- As at 30 June 2019, unadjusted net gearing of CWTI was 1.3x, lower than the 1.5x as at end-2018 while consolidated total liabilities-to-total assets was 1.2x. CWT SG's standalone balance sheet is undisclosed, although its total liabilities to total assets was 0.8x, less levered versus CWTI on a consolidated basis. The SGD100mn CWTSP 4.8% '20s bonds issued at CWT SG faces maturity date in April 2020 and we continue to look out for further asset stripping at the company that is to the detriment of bondholders. (Company, OCBC)

Key Market Movements

	30-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	65	-3	6
iTraxx SovX APAC	41	-1	4
iTraxx Japan	63	2	7
iTraxx Australia	64	0	5
CDX NA IG	54	-5	1
CDX NA HY	107	1	-1
iTraxx Eur Main	48	-5	-4
iTraxx Eur XO	250	-20	-6
iTraxx Eur Snr Fin	58	-6	-6
iTraxx Sovx WE	16	-2	0
USD Swap Spread 10Y	-10	-2	-1
USD Swap Spread 30Y	-40	-1	-3
US Libor-OIS Spread	27	-2	6
Euro Libor-OIS Spread	8	1	2
China 5Y CDS	46	-4	6
Malaysia 5Y CDS	52	-3	4
Indonesia 5Y CDS	92	-2	13
Thailand 5Y CDS	31	0	-1

	30-Aug	1W chg	1M chg
Brent Crude Spot ($/bbl)	61.00	2.80%	-5.75%
Gold Spot ($/oz)	1,526.20	-0.05%	6.66%
CRB	172.08	1.03%	-3.51%
GSCI	403.61	1.42%	-4.28%
VIX	17.88	7.19%	28.26%
CT10 (%)	1.508%	-2.71	-55.00
AUD/USD	0.671	-0.64%	-2.31%
EUR/USD	1.105	-0.85%	-0.95%
USD/SGD	1.389	-0.15%	-1.34%
DJIA	26,362	0.42%	-3.07%
SPX	2,925	0.06%	-2.94%
MSCI Asiax	602	-0.61%	-6.46%
HSI	25,914	-1.02%	-7.93%
STI	3,109	-0.05%	-7.21%
KLCI	1,604	-0.33%	-2.35%
JCI	6,316	0.97%	-0.95%

Source: Bloomberg

New Issues

- Suzhou City Construction Investment Group (Holding) Co., Ltd has priced a USD300mn 3-year bond at 4.6%, tightening from IPT of 4.8% area.
- Bocom Leasing Management Hong Kong Co., Ltd has priced a USD600mn deal in 2 tranches: a USD200mn 5-year bond at T+135bps (tightening from IPT of T+165bps area), and a USD400mn 5-year FRN at 3m-US LIBOR+117.5bps (tightening from IPT of 3m-US LIBOR+150bps area).
- United Overseas Bank Ltd has priced a USD500mn 3-year covered bond at MS+32bps, in line with guidance.
- ARA Asset Management Ltd has priced a SGD350mn NC7-Perpetual bond at 5.6%, tightening from IPG of 5.8% area.
- Zhangzhou Jiulongjiang Group Co., Ltd has scheduled investor meetings commencing on 30 Aug for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
29-Aug-19	Suzhou City Construction Investment Group (Holding) Co., Ltd	USD300mn	3-year	4.6%
29-Aug-19	Bocom Leasing Management Hong Kong Co., Ltd	USD200mn USD400mn	5-year 5-year	T+135bps 3m-US LIBOR+117.5bps
29-Aug-19	United Overseas Bank Ltd	USD500mn	3-year	MS+32bps
29-Aug-19	ARA Asset Management Ltd	SGD350mn	NC7-Perpetual	5.6%
28-Aug-19	Hysan (MTN) Ltd	USD500mn	10-year	T+140bps
28-Aug-19	Korean Air Lines Co.	USD300mn	3-year	T+70bps
28-Aug-19	Times China Holdings Ltd	USD100mn	TPHL 6.75%'23s	6.75%
28-Aug-19	PSA Treasury Pte. Ltd	USD500mn	10-year	T+77.5bps
28-Aug-19	UBS Group AG	SGD750mn	NC5-Perpetual	4.85%
27-Aug-19	Chengdu Economic & Technological Development Zone Construction Development Co. Ltd	USD200mn	3-year	6.4%
26-Aug-19	Mapletree Treasury Services Ltd	SGD300mn	12-year	3.15%

Source: OCBC, Bloomberg

OCBC TREASURY RESEARCH

Asian Credit Daily

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Emmanuel Ng
Senior FX Strategist
NgCYEmmanuel@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Alan Lau
Malaysia & Indonesia
AlanLau@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu
Hong Kong & Macau
dicksnyu@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

Co.Reg.no.:193200032W