OCBC TREASURY RESEARCH

Asian Credit Daily

Thursday, October 31, 2019

Market Commentary

- The SGD swap curve traded higher across the curve yesterday, with all tenors around 1-2bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 129bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 3bps to 498bps. The HY-IG Index spread widened 2bps to 369bps.
- Flows in SGD corporates were heavy, with large ticket flows in CAPLSP 3.65%-PERP and UBS 4.85%-PERPs . We also saw flows in SOCGEN 6.125%-PERPs, CAPLSP 3.15%'29s and FULIN 3.7%'23s.
- 10Y USTs fell 7bps to 1.77%, after the US Federal Reserve cut interest rates by 25bps for the third time this year, but signalled that monetary easing could be on hold.

Credit Research

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Credit Summary:

- **Standard Chartered PLC | Neutral (4):** StanChart released its 3Q2019 and 9M2019 underlying results which were constructive with statutory profit before tax up 4% y/y and 3% y/y respectively to USD1.1bn and 3.5bn respectively. StanChart's CET1 ratio was 13.5% as at 30 September 2019, stable q/q and down from 14.2% as at 31 December 2018 and 14.5% as at 30 September 2018. In all, the results are in line with our expectations for StanChart's Neutral (4) issuer profile.
- **Singapore Airlines Ltd | Neutral (3):** SIA and Malaysia Airlines Berhad ("MAS") has signed a wide-ranging commercial agreement that will expand the partnership between the two airlines. The proposed agreement will see the two carriers sharing revenue on flights between Malaysia and Singapore. Given there is no equity outlay required for this agreement, we are maintaining SIA at an issuer profile of Neutral (3).
- **China Construction Bank Corporation | Neutral (3):** CCB announced 3Q2019 and 9M2019 abridged results with net profit up 6.4% and 5.8% respectively to RMB71.7bn and 227.4bn. CB's CET1/CAR capital ratios of 14.0%/17.3% were up from 13.7%/17.1% as at 30 June 2019 and 13.8%/17.2% as at 31 December 2018. This remains above regulatory requirements. CCB's credit profile remains within our expectations and we maintain its Neutral (3) issuer profile.
- **Credit Suisse Group AG | Neutral (4):** CS announced its 3Q2019 and 9M2019 results. For 3Q2019, income before taxes were up 70% y/y to CHF1.14bn but down 12% q/q. CS' CET1 capital ratio was 10bps weaker q/q at 12.4% compared to 31 March 2019 and 50bps weaker y/y compared to 30 September 2018. Ratios remain above Basel III minimum CET1/CAR ratios of 8.0% as well as higher obligations for systemically important banks under Swiss legislation of 10.0%.
- **Australia & New Zealand Banking Group Ltd | Positive (2):** ANZ announced its FY2019 full year results for the period ended 30 September 2019. Results were impacted by costs for customer remediation charges with statutory profit of AUD5.95bn down 7% y/y. ANZ's capital position remains solid with its APRA compliant CET1 ratio as at 30 September of 11.4%, albeit down from 11.8% as at 30 June 2019 and 11.5% as at 31 March 2019.

Credit Headlines

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

- StanChart released its 3Q2019 and 9M2019 underlying results which were constructive with statutory profit before tax up 4% y/y and 3% y/y respectively to USD1.1bn and 3.5bn respectively. This was due to operating income growth higher than growth in operating expenses which offset higher credit impairment charges as well as higher restructuring items.
- Operating income rose 7% y/y and 3% y/y for 3Q2019 and 9M2019 to USD4.0bn and USD11.7bn. Net interest margins were stable y/y at 1.56% and 1.58% while StanChart's balance sheet grew (gross loan and advances rose 6% y/y). This along with higher contribution from Financial Markets trading book assets and increased volumes and margins within Cash Management and Retail Deposits drove Net Interest income improvement by 9% y/y and 7% y/y for 3Q2019 and 9M2019 respectively. Operating expenses were stable for 3Q2019 and rose 2% y/y in 9M2019 on ongoing cost control although management has flagged that costs will increase in 4Q2019 due to its strategic initiatives and investment spending.
- With regards to credit impairments, the 143% y/y rise and 31% y/y rise in 3Q2019 and 9M2019 were due to exposures in Corporate & Institutional Banking as well as updates to macro-economic forecasts. This was offset to an extent by a reduction in other impairments (-93% and -80% y/y for 3Q2019 and 9M2019 respectively) due to the discontinuation of StanChart's ship leasing business and reclassification of the associated impairments for these exposures classified as a restructuring charge. This contributed to the material rise in reported restructuring items in 3Q2019 and in 9M2019 along with the run down of StanChart's Principal Finance exposures.
- By segment split for 3Q2019, all client segments saw improvement in performance y/y. Main contributors to performance were Corporate and Institutional Banking with operating income up 13% y/y due to growth in Financial Markets and Cash Management, and Retail Banking performance which improved 4% y/y due to deposits. Both client segments contribute around 80% to total operating income.
- Despite the rise in credit impairments, stage 3 loans fell 14% y/y and the cover ratio of stage 3 loans before/after collateral improved to 61%/82% as at 30 September 2019 against 58%/79% as at 30 September 2018.
- StanChart's CET1 ratio was 13.5% as at 30 September 2019, stable q/q and down from 14.2% as at 31 December 2018 and 14.5% as at 30 September 2018. The y/y fall was due to marginally higher credit risk weighted assets, USD1bn in share buy backs, and dividend payments which offset capital generation. Nevertheless the ratio remains above StanChart's minimum CET1 requirement of 10.2% and within its 13-14% management target range.
- In all, the results are in line with our expectations for StanChart's Neutral (4) issuer profile. (OCBC, Company)

Credit Headlines

Singapore Airlines Ltd (“SIA”) | Issuer Profile: Neutral (3)

- SIA and Malaysia Airlines Berhad (“MAS”) has signed a wide-ranging commercial agreement that will expand the partnership between the two airlines.
- Subject to regulatory approvals from relevant competition authorities, the two carriers are proposing to share revenue on flights between Malaysia and Singapore (under a joint business arrangement), to expand codeshare routes and participate in joint marketing activities to develop tourism in Malaysia and Singapore, targeting long-haul tourists into the region.
- In addition to their respective parent airline, the agreement also involves other airlines within SIA and MAS, namely SilkAir, Scoot and Firefly (part of MAS).
- There is no equity injection by SIA into MAS (and vice versa) nor an equity injection into a new joint venture entity. In our view, the SIA-MAS commercial agreement is akin to “joint venture” strategy which various airlines have taken to allow merger-type benefits, without it being an equity joint venture or legal merger.
- Given there is no equity outlay required for this agreement, we are maintaining SIA at an issuer profile of Neutral (3). This also reduces some of the overhang from merger speculation between SIA and MAS, which came on the back of MAS’s state owners intention to turnaround MAS, including putting the airline up for sale. (Company, Bernama)

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

- CCB announced 3Q2019 and 9M2019 abridged results with net profit up 6.4% and 5.8% respectively to RMB71.7bn and 227.4bn.
- Operating income rose 6.9% and 6.8% y/y respectively for 3Q2019 and 9M2019. Net interest income rose 3.8% y/y for 9M2019 as growth in loans and advances offset lower net interest margins (-7bps to 2.27%). Net fee and commission income also rose by 12.9% y/y due to growth in bank card fees, electronic banking service fees, agency service fees and commissions on trust and fiduciary activities.
- In terms of balance sheet quality compared to end-FY2018, non-performing loans rose 5.2% but as gross loans and advances rose 7.9% over the same period, the non-performing loan ratio fell to 1.43% as at 30 September 2019 against 1.46% as at 31 December 2018. The ratio of allowances to non-performing loans was 218.3%, up from 208.4% over the same period.
- Despite the solid growth in loans, CCB’s CET1/CAR capital ratios of 14.0%/17.3% were up from 13.7%/17.1% as at 30 June 2019 and 13.8%/17.2% as at 31 December 2018 as growth in risk weighted assets (+7.3% since 31 December 2018) was lower than growth in common equity tier 1 capital (+8.3%) and total capital (+8.0%). This remains above regulatory requirements. CCB’s credit profile remains within our expectations and we maintain its Neutral (3) issuer profile. (Company, OCBC)

Credit Headlines

Credit Suisse Group AG ("CS") | Issuer Profile: Neutral (4)

- CS announced its 3Q2019 and 9M2019 results. For 3Q2019, income before taxes were up 70% y/y to CHF1.14bn but down 12% q/q. This was due to movements in net revenues which were up 9% y/y from Global Markets (fixed income trading) and International Wealth Management and down 5% q/q due to weaker Global Markets (lower client activity and underwriting) and Swiss results (lower transaction based revenues). Otherwise, operating expenses were down 1% y/y and 3% q/q for 3Q2019 on absence of restructuring expenses y/y and lower employee costs q/q. Corporate Centre performance was weaker y/y due to inclusion of residual exposures from the Strategic Resolution Unit which ceased to exist as a separate division at the start of 2019 and is now managed in an Asset Resolution Unit.
- For 9M2019, income before taxes were up 26% y/y on a 1% y/y rise in net revenues and a 4% y/y fall in operating expenses and provision for credit losses. This drove the cost to income ratio down to 77.4% for 9M2019 from 81.6% in 9M2018.
- From a segment perspective, 3Q2019 income before taxes in Swiss Universal Bank was down 7.2% q/q (lower transaction based revenues as mentioned previously as well as marginally higher credit losses that were partially offset by a 4% q/q fall in operating expenses) and Global Markets (higher reduction in net revenues against the fall in operating expenses) fell 24.6% q/q while International Wealth Management (additional fund contribution from the transfer of InvestLab) and Asia Pacific (8% q/q fall in operating expenses) rose 21.4% and 4.2% respectively q/q. Excluding Corporate Centre (parent company operations amongst other thingd), Swiss Universal Bank and International Wealth Management continue to contribute the bulk of total income before taxes at 36.9% and 32.7% respectively.
- CS' CET1 capital ratio was 10bps weaker q/q at 12.4% compared to 31 March 2019 and 50bps weaker y/y compared to 30 September 2018. CET1 capital was up 3% y/y as share buy backs and dividend payments were offset by earnings generation, regulatory adjustments and positive foreign exchange movements however this was offset by a 4% rise in risk weighted assets due to model and parameter updates and movement in mainly credit risk. Ratios remain above Basel III minimum CET1/CAR ratios of 8.0% as well as higher obligations for systemically important banks under Swiss legislation of 10.0%. Its CET1 leverage ratio however was stable q/q at 4.1% and up 10bps compared to 30 September 2018 against minimum phase in CET1 leverage ratio requirements of 3.2%.
- We continue to look through the numbers but the results do not alter our Neutral (4) issuer profile on CS (Company, OCBC)

Credit Headlines

Australia & New Zealand Banking Group Ltd ("ANZ") | Issuer Profile: Positive (2)

- ANZ announced its FY2019 full year results for the period ended 30 September 2019. As previously flagged, results were impacted by costs for customer remediation charges with statutory profit of AUD5.95bn down 7% y/y.
- Results were also driven by a 6% y/y fall in operating income. Net interest income was down 1% y/y from lower interest rates, changes in the asset and business mix to lower margin products as well as competition that weakened net interest margins and offset asset growth in Institutional banking and New Zealand home loans. Other operating income also fell 19% y/y. With operating expense reduction (-4% y/y from absence of higher software amortisation charges in FY2018, lower restructuring expenses and Royal Commission legal costs, lower employees and others) lower than the fall in operating income, profit before credit impairments and tax fell 8% y/y to AUD9.71bn.
- Credit impairment charges rose 15% y/y from a rise in collectively assessed credit impairment charges compared to the prior period which has credit impairment charge releases and more customer upgrades and this contributed to a 10% y/y fall in profit before income tax.
- In terms of asset quality, gross impaired assets fell 5% y/y due to repayments in the Institutional division while impaired assets in the Australia Retail and Commercial division rose due to single name impaired loans in the Commercial portfolio. The reported individually assessed provision coverage ratio on impaired assets was 40.1% as at 30 September 2019, lower than 43.0% as at 30 September 2018. While total new impaired assets also fell 5% y/y, this was driven by a 81% fall in restructured items – though impaired loans (which is a subset of assets) rose 4% y/y.
- On a cash basis (excludes non-core items), cash profit rose 6% y/y to AUD6.16bn while on a continuing operations basis (discontinued operations include Wealth Australia), cash profit of AUD6.47bn was stable y/y as the fall in operating income and higher credit impairment charges were offset by lower operating and tax expenses).
- ANZ's capital position remains solid with its APRA compliant CET1 ratio as at 30 September of 11.4%, albeit down from 11.8% as at 30 June 2019 and 11.5% as at 31 March 2019. The y/y change was driven by dividends, share buybacks, remediation impacts and regulatory and capital modelling impacts that offset solid earnings generation and proceeds from asset divestments. ANZ's capital position remains well above APRA's minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios in Australia's banking sector (comes into force January 2020). On an internationally comparable basis, the CET1 ratio was 16.4%, down from 16.8% as at 31 September 2018 and 16.9% as at 31 march 2019.
- We continue to review the numbers. While we are mindful of challenges facing the operating environment for Australian banks, we continue to take comfort in ANZ's past restructuring endeavours which had improved its business sustainability in our view, as well as its solid capital position supported by its earnings generation capacity. (Company, OCBC)

Key Market Movements

	31-Oct	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	67	-1	-9
iTraxx SovX APAC	30	-1	-5
iTraxx Japan	59	0	-3
iTraxx Australia	60	-1	-7
CDX NA IG	55	0	-5
CDX NA HY	107	0	1
iTraxx Eur Main	51	0	-4
iTraxx Eur XO	236	5	4
iTraxx Eur Snr Fin	59	1	-5
iTraxx Eur Sub Fin	124	3	-16
iTraxx Sovx WE	12	0	-1
USD Swap Spread 10Y	-8	-1	2
USD Swap Spread 30Y	-38	0	2
US Libor-OIS Spread	37	2	4
Euro Libor-OIS Spread	5	0	0
China 5Y CDS	40	1	-7
Malaysia 5Y CDS	43	-1	-8
Indonesia 5Y CDS	76	-3	-14
Thailand 5Y CDS	27	-1	-2
Australia 5Y CDS	17	0	-2

	31-Oct	1W chg	1M chg
Brent Crude Spot ($/bbl)	60.68	-1.61%	-0.16%
Gold Spot ($/oz)	1,496.48	-0.50%	1.63%
CRB	178.31	0.57%	2.51%
GSCI	411.73	-0.25%	2.01%
VIX	12.33	-11.99%	-24.08%
CT10 (%)	1.775%	0.90	11.04
AUD/USD	0.691	1.39%	2.43%
EUR/USD	1.116	0.53%	2.42%
USD/SGD	1.361	0.20%	1.54%
AUD/SGD	0.941	-1.18%	-0.87%
ASX 200	6,667	-0.40%	-0.32%
DJIA	27,187	1.31%	1.00%
SPX	3,047	1.41%	2.35%
MSCI Asiax	643	0.78%	4.08%
HSI	26,668	0.38%	2.21%
STI	3,208	2.02%	2.82%
KLCI	1,580	0.71%	-0.25%
JCI	6,296	0.61%	2.05%
EU Stoxx 50	3,620	0.37%	1.42%

Source: Bloomberg

New Issues

- Zhenro Properties Group Limited (Subsidiary Guarantors: Certain non-PRC restricted subsidiaries of the Issuer) priced a USD300mn 3.5NC2.5 bond at 9.15%, tightening from IPT of 9.40% area.
- Hutchison Port Holdings Trust scheduled investor meetings commencing 30 Oct for its proposed 5-year USD bond issuance.
- Qingdao West Coast Development (Group) Co., Ltd scheduled investor meetings commencing 31 Oct for its proposed USD bond issuance.
- Zhengzhou Urban Construction Investment Group Co., Ltd scheduled investor meetings commencing 31 Oct for its proposed USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
30-Oct-19	Zhenro Properties Group Limited	USD300mn	3.5NC2.5	9.15%
29-Oct-19	PT Perusahaan Listrik Negara	USD500mn USD500mn	10.25-year 30.25-year	3.4% 4.4%
29-Oct-19	Kaisa Group Holdings Ltd	USD200mn	KAISAG 11.95%'22	11.625%
29-Oct-19	CIFI Holdings (Group) Co. Ltd	USD400mn	5NC3	6.45%
29-Oct-19	Sunac China Holdings Limited	USD650mn	4.25NC5.25	7.75%
29-Oct-19	SMC Global Power Holdings Corp	USD500mn	NC5.5-Perpetual	5.95%
28-Oct-19	Hyundai Capital America	USD800mn USD700mn	3-year 7-year	T+120bps T+175bps
28-Oct-19	China Oil and Gas Group Ltd	USD30mn	CHIOIL 5.5%'23s	5.71%
25-Oct-19	NWD Finance (BVI) Limited	USD400mn	NWDEVL 6.25%-Perpetual	5.875%
25-Oct-19	Redsun Properties Group Limited	USD100mn	2-year	13.0%
24-Oct-19	PT Adaro Indonesia	USD750mn	5NC3	4.5%
24-Oct-19	Agile Group Holdings Limited	USD500mn	NC4.75-Perpetual	8.09%
24-Oct-19	Shanghai Pudong Development Bank Co., Ltd., London Branch	USD300mn	3-year	3m-US LIBOR+70bps
24-Oct-19	Radiance Capital Investments Ltd	USD250mn	2-year	12.5%

Source: OCBC, Bloomberg

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