

Feb 7, 2019

Credit Headlines: BNP Paribas SA

Market Commentary

- The SGD swap curve was unchanged yesterday in observance of the Lunar New Year holiday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 149bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 10bps to 489bps.
- The SGD corporates saw no flows yesterday.
- 10Y UST yields traded unchanged to close the trading session at 2.69%, after soft demand for the USD27bn new issue of 10-year notes pared the decline in yields earlier in the trading session. The earlier decline in yields continued from the Federal Reserve's dovish tone on its interest rate hikes as well as the slowing growth in Germany which weighed on market sentiments.

Credit Headlines

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

- BNPP reported 2018 results. Continuing the downtrend from 3Q2018's already soft results, 2018's operating income fell 9.7% y/y to EUR11.9bn (exacerbated by 4Q2018's operating income fall of 17.7% y/y to EUR1.59bn). This was due to weaker revenue (-1.5% y/y to EUR42.5bn) while operating expenses increased (+2.1% y/y to EUR30.6bn). The revenue decline was mainly due to Corporate & Institutional Banking (-7.5% y/y to EUR10.8bn) which was impacted by lacklustre market conditions (impacted by 14.2% y/y fall in FICC business) though mitigated by growth in International Financial Services (+3.4% y/y to EUR16.4bn) which saw good growth. Meanwhile, Domestic Markets declined slightly (-0.2% y/y to EUR15.7bn) due to the still low interest rate. Expenses rose mainly due to the growth of expense in IFS (+5.4% y/y to EUR10.2bn) while expenses did not come down sufficiently at CIB (-1.3% y/y to EUR8.2bn) despite the revenue plunge. With a small growth in non operating income (+3.9% y/y to EUR1.04bn) compared to the larger dip in operating income, pre-tax profit fell 9.7% y/y to EUR10.2bn.
- Meanwhile, underlying business growth momentum continues with y/y growth in loans outstanding for Domestic Markets (+4.9%) and IFS (+3.8%). Loan quality continues to improve with the reported ratio of doubtful loans to gross outstanding loans to 2.6% (3Q2018: 2.8%, 4Q2017: 3.0%). However, the coverage ratio was weaker at 76.2% (3Q2018: 79.3%) with a lower allowance for loan losses.
- Despite weaker operating income, BNPP's fully loaded CET1 ratio inched up to 11.8% (3Q2018: 11.7%, 4Q2017: 11.6%) with a ~20bps y/y increase due to earnings (less dividends) in FY2018 (+50bps) that was partially offset by increase in risk weighted assets (-20bps) and risk-weighted assets brought to standard method level (-10bps). BNPP capital ratios continue to be well above the minimum transitional CET1 requirements of 9.125% for 2018 as disclosed in BNPP's 2017 annual report. BNPP still intends to target a CET1 ratio higher than 12%.
- With forecast for 2016-2020 revenue CAGR declining to +1.5% from +2.5%, BNPP is undergoing a review of its business. BNPP targets to exit unprofitable or subscale businesses and industrialisation of CIB to reduce costs (targeting EUR850mn recurring savings by 2020), with an additional EUR600mn cost cuts to bring recurring cost savings target from 2020 to EUR3.3bn. (Company, OCBC)

Table 1: Key Financial Indicators

	7-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	77	-1	-17
iTraxx SovX APAC	58	0	-12
iTraxx Japan	60	-6	-26
iTraxx Australia	73	-4	-22
CDX NA IG	66	0	-15
CDX NA HY	106	0	3
iTraxx Eur Main	70	0	-17
iTraxx Eur XO	307	0	-39
iTraxx Eur Snr Fin	87	3	-25
iTraxx Sovx WE	24	1	-2
AUD/USD	0.711	-2.28%	-0.57%
EUR/USD	1.136	-0.76%	-0.98%
USD/SGD	1.356	-0.74%	0.04%
China 5Y CDS	53	0	-12
Malaysia 5Y CDS	79	-1	-28
Indonesia 5Y CDS	111	0	-23
Thailand 5Y CDS	41	0	-5

	7-Feb	1W chg	1M chg
Brent Crude Spot (\$/bbl)	62.38	0.79%	8.81%
Gold Spot (\$/oz)	1,304.92	-1.24%	1.22%
CRB	180.56	0.25%	3.39%
GSCI	412.00	0.40%	5.86%
VIX	15.38	-12.91%	-28.13%
CT10 (bp)	2.686%	5.66	-1.01
USD Swap Spread 10Y (bp)	3	0	0
USD Swap Spread 30Y (bp)	-19	2	-2
US Libor-OIS Spread (bp)	33	0	-6
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,390	1.50%	7.90%
SPX	2,732	1.89%	7.13%
MSCI Asiax	643	0.42%	7.67%
HSI	27,990	1.50%	9.23%
STI	3,209	0.66%	4.88%
KLCI	1,691	-0.41%	1.24%
JCI	6,544	1.23%	4.08%

New issues

- There were no new issuances over 6th Feb 2019.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
31-Jan-19	Towngas (Finance) Ltd (The Hong Kong and China Gas Company Ltd)	USD300mn	NC5-perpetual	4.75%
31-Jan-19	Mongolian Mortgage Corp (MIK Holding JSC)	USD50mn	MGMTGE 9.75%'22s	9.75%
31-Jan-19	Chengdu Economic & Technological Development Zone State-Owned Assets Investment & Operating Co Ltd	USD250mn	3-year	7.5%
31-Jan-19	AC Energy Finance International Ltd	USD110mn USD75mn	10-year ACNRGY 4.75%'24s	5.3% 4.88%
30-Jan-19	CMT MTN Pte Ltd	SGD100mn	7-year	3.15%
29-Jan-19	LLPL Capital Pte Ltd (PT Lestari Banten Energi)	USD775mn	20-year	6.875%
29-Jan-19	Siam Commercial Bank PCL, Cayman Islands Branch	USD500mn USD500mn	5-year 10-year	CT5+137.5bps CT10+167.5bps
29-Jan-19	Studio City Finance Ltd	USD600mn	5NC2	7.25%
29-Jan-19	Granda Century Ltd	USD235mn	SNAGRP 7.5%'21s	8.375%
29-Jan-19	Oil India Ltd	USD550mn	10-year	CT10+250bps
29-Jan-19	Champion Sincerity Holdings Ltd (Greentown China Holdings Ltd)	USD100mn	NC3-perpetual	7.75%
29-Jan-19	Suntec REIT MTN Pte Ltd	SGD100mn	6-year	3.355%
28-Jan-19	Baoxin Auto Finance I Ltd (China Grand Automotive Services Co Ltd)	USD300mn	363-day	8.75%
28-Jan-19	CMOC Capital Ltd (China Molybdenum Co Ltd)	USD300mn	3-year	5.48%

Source: OCBC, Bloomberg

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