

Feb 8, 2019

**Credit Headlines:** National Australia Bank Ltd, Singapore Post Ltd, Societe Generale

## **Market Commentary**

- The SGD swap curve flattened yesterday, with the shorter tenors trading 1bps lower while the longer tenors traded 2bps lower (with the exception of the 12-year swap rate trading 1bps lower).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 149bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 14bps to 475bps.
- Flows in the SGD corporates were moderate yesterday, with flows seen in SINTEC 5.0%-PERPs, OLAMSP 5.5%-PERPs and UBS 5.875%-PERPs.
- 10Y UST yields fell for a third consecutive day, falling 4bps to close the trading session at a one-week low of 2.66%, on the back of safe haven demand as the European Commission and Bank of England issued economic growth warnings and fresh concerns emerged regarding the US-China trade negotiations.

## **Credit Headlines**

### **National Australia Bank Ltd (“NAB”) | Issuer Profile: Positive (2)**

- NAB released its first quarter trading update for 2019, amidst the inquiry into the misconduct of CEO Andrew Thorburn, 53 and Chairman Ken Henry, 61 which has culminated in their resignations. Unaudited cash earnings of AUD1.65bn saw a 3.0% fall y/y in 1QFY2019. Revenue was broadly stable as good growth in housing and SME lending was offset by lower margins and lower markets and treasury income. Expenses fell 3% due to productivity initiatives and lower Royal Commission and marketing costs. Furthermore, NAB may potentially face additional costs arising from the customer remediation programs and regulatory compliance investigations continuing in FY2019, though amounts and timing remain uncertain.
- Bad and doubtful debt charges fell 5% from the preceding quarter to AUD193mn while asset quality remained sound with the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances largely stable at 0.72% (4QFY2018: 0.71%). Meanwhile, capital ratios have weakened due to the payment of the final 2018 dividend with NAB’s CET1 ratio at 10.0% as at 31 December 2018, a 0.2% drop from that at 31 September 2018.
- Mr Thorburn will finish at NAB on 28 February 2019. Meanwhile, the Board has asked Philip Chronican, a current NAB Director with domestic banking experience, to serve as acting CEO effective 1 March (subject to relevant regulatory approvals) until a permanent appointment is made. Dr Henry indicated he would retire from the Board once a new permanent CEO had been appointed. We continue to review NAB. (Company, OCBC)

### **Singapore Post Ltd (“SPOST”) | Issuer Profile: Positive (2)**

- SPOST has been fined SGD100,000 by Infocomm Media Development Authority (“IMDA”) for nine incidents of failing to meet delivery standards in 2017. SPOST has since announced a raft of measures to improve service quality. These include hiring an additional 100 postmen, redeploying 35 mail-drop drivers as full-time postmen and enhancing postmen’s remuneration with incentives for successful deliveries for trackable items to the doorstep. We do not expect this financial penalty to have material impact on SPOST’s credit metrics. (Company, OCBC)

## Credit Headlines (cont'd)

### **Societe Generale (“SOCGEN”) | Issuer Profile: Neutral (4)**

- SOCGEN reported 4Q2018 results. Reversing the better results reported in 9M2018, 4Q2018 posted a 5.8% y/y fall in net banking income to EUR5.9bn (underlying net banking income, adjusted for certain items, similarly fell 4.4% y/y to EUR5.9bn). The significant detractor to results came from:
  - (1) Global Banking & Investor Solutions (“GBIS”) segment which saw revenue decline 6.9% y/y to EUR2.04bn, dragged by weak FICC performance (down 29% y/y to EUR366mn) due to unfavourable market conditions in Rates and Credit and Equities (-16% y/y to EUR550mn) with lower commercial activity.
  - (2) French Retail Banking segment which saw revenue fall 6.8% y/y to EUR1.9bn impacted by negative rate environment. Though the slide in 4Q2018 results resulted in 2018’s revenue falling 1.9% y/y to EUR7.9bn, this is in-line with 2018 revenue guidance.
- Meanwhile, International Retail Banking and Financial Services segment continued to outperform with revenues up 5.1% y/y to EUR2.16bn in 4Q2018.
- Underlying operating expenses is largely stable, rising just 1.2% y/y to EUR4.6bn though underlying net cost of risk increased 34.9% y/y to EUR363mn. That said, the commercial cost of risk (as a fraction of outstanding loans) came in at 21bps, which is the lower end of the expected range between 20-25bps.
- With the underperformance in GBIS, SOCGEN is planning cost reductions of around EUR500mn in the segment to reduce operating expenses. On a net-net basis, operating expenses is targeted to decline to EUR6.8bn in 2019 (2018: EUR7.2bn), with a refocus on FICC and review of less profitable activities with a reduction in risk-weighted assets of around EUR8bn. Meanwhile, SOCGEN will be replacing global markets head Frank Drouet.
- Underlying business momentum appears strong still, with net customer loan outstanding up 4.2% y/y to EUR421bn.
- Reported gross doubtful outstandings ratio declined to 3.6% (3Q2018: 3.8%) continuing the downtrend from previous quarters, though the reported gross coverage ratio for doubtful outstandings inched down to 54% (3Q2018: 55%)
- Fully loaded CET1 ratio is stable q/q at 11.2% though on a pro forma basis after adjusting for the announced disposals, this should improve to 11.5%. SOCGEN is targeting to reach CET1 ratio of 12% by 2020. TLAC ratio inched up to 22.9% (3Q2018: 22.8%), which exceeds the Financial Stability Board’s 2019 and 2022 minimum requirements of 19.5% and 21.5% respectively. (Company, OCBC)

**Table 1: Key Financial Indicators**

	8-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	80	2	-11
iTraxx SovX APAC	60	1	-8
iTraxx Japan	61	0	-19
iTraxx Australia	75	0	-15
CDX NA IG	69	2	-9
CDX NA HY	106	0	2
iTraxx Eur Main	73	2	-13
iTraxx Eur XO	317	8	-27
iTraxx Eur Snr Fin	91	5	-18
iTraxx Sovx WE	25	1	-1
AUD/USD	0.708	-2.40%	-0.90%
EUR/USD	1.134	-1.00%	-0.87%
USD/SGD	1.357	-0.49%	0.10%
China 5Y CDS	56	2	-7
Malaysia 5Y CDS	81	1	-22
Indonesia 5Y CDS	114	2	-17
Thailand 5Y CDS	41	0	-5

	8-Feb	1W chg	1M chg
Brent Crude Spot (\$/bbl)	61.16	-2.53%	4.16%
Gold Spot (\$/oz)	1,308.71	-0.70%	1.81%
CRB	178.10	-0.86%	1.21%
GSCI	406.18	-1.72%	2.97%
VIX	16.37	-1.21%	-20.03%
CT10 (bp)	2.643%	-4.13	-8.51
USD Swap Spread 10Y (bp)	3	0	0
USD Swap Spread 30Y (bp)	-19	0	-3
US Libor-OIS Spread (bp)	34	1	-3
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,170	0.68%	5.81%
SPX	2,706	0.07%	5.11%
MSCI Asiax	641	0.07%	7.58%
HSI	27,850	1.16%	8.68%
STI	3,198	0.74%	2.40%
KLCI	1,686	-0.27%	0.78%
JCI	6,513	-0.30%	4.00%

## New issues

- There were no new issuances over 7<sup>th</sup> 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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