

May 9, 2019

Credit Headlines: Hongkong Land Ltd, Commerzbank AG

Market Commentary

- The SGD swap curve flattened yesterday, with most tenors trading 1bps lower with the exception of the one-year and 12-year swap rates trading 2bps lower.
- The Markit iTraxx Asia ex-Japan Investment Grade index widened 1bps to 70bps.
- Flows in SGD corporates were heavy, with flows seen in SOCGEN 6.125%-PERPs, LOGPH 6.125%'21s, CENCHI 6.25%;20s and FPLSP 4.98%-PERPs.
- 10Y UST yields rose 3bps to 2.48%, as the dip in yields earlier in the session due to the escalating US-China trade worries was reversed by the sell-off in treasuries after a weak auction for USD27bn of 10-year treasury notes. Yields earlier Wednesday, at a 5-week low, proved too low to investors for upside, resulting in a dismal auction despite the strong initial expectations from safe haven demand.

Credit Headlines

Hongkong Land Ltd (“HKL”) | Issuer Profile: Positive (2)

- In 1Q2019, HKL saw positive rental reversions across its Central office in Hong Kong (vacancy rate: 2.1% vs 1.4% at 31 Dec 2018) as well as its Singapore's office portfolio (vacancy rate: 2.8% vs 2.5% at 31 Dec 2018), despite slightly higher vacancy.
- HKL's Central retail portfolio remained fully occupied with mildly positive rental reversions.
- In Beijing, WF CENTRAL performed in line with expectations. A prominent luxury brand has committed to open its mainland China flagship store within the complex later this year while its hotel component, Mandarin Oriental Wangfujing, opened in March 2019.
- For Development Properties in mainland China, even though market sentiment remained stable, contracted sales for the quarter were also lower at USD193mn (vs USD300mn in 1Q2018) due to the timing of sales launches. Both completions and contracted sales are expected to be stronger in 2H2019.
- In Singapore, pre-sales continued at the Margaret Ville and Parc Esta projects with satisfactory results, while sales at Tulip Garden are expected to commence in 2H2019. The Lake Grande project, which has been fully pre-sold, will complete later this year.
- Elsewhere in Southeast Asia, contracted sales levels were satisfactory.
- HKL's financial position remains strong, with net debt at 31st March 2019 broadly similar to the position at the end of 2018. Net debt is expected to move modestly higher as committed land and other payments are made. (OCBC, Company)

Credit Headlines (cont'd)

Commerzbank AG ("CMZB") | Issuer Profile: Neutral (4)

- CMZB released its 1Q2019 results with pre-tax profit from continuing operations of EUR244mn down 5.4% y/y. This was driven by lower net income from financial assets and liabilities at fair value through profit or loss (-58.3% y/y to EUR85mn and relates to trading income and net re-measurement gains or losses and realised profit or loss) and a 71.2% y/y fall in other net income (relates to provisions and income and expenses from operating leases as well as profit or loss and re-measurement gain or loss from associated companies and jointly controlled entities) due to absence of asset sale recognized in 1Q2018. Net commission income was also soft, down 4.2% y/y due to lower income from securities transactions and intermediary business and a fall in net provision income while commission expenses were 1.7% higher y/y.
- This more than offset a 12.1% y/y rise in net interest income from solid growth in lending, mostly from residential mortgages within the Private and Small Business Customers segment that offset margin pressure. The Corporate Client segment also saw solid lending volumes as well as better capital market performance while the Asset & Capital Recovery segment saw its income before risk results and operating expenses 75.5% y/y in line with its portfolio wind down.
- Expenses fell 4.2% y/y as a marginal rise in personnel expenses was mitigated by a 26.1% y/y fall in administrative expenses that was largely due to lower occupancy expenses. CMZB has also separated what it terms compulsory contributions related to the European banking levy, deposit insurance, and Polish bank tax and these rose 8.6% y/y. Cost of risk was stable y/y at EUR78m, with a fall in risk costs in Germany offset by higher impairment costs in the corporate segment. Management however expects an uptick in consumer financing non-performing loans in line with the weaker than expected performance for the German economy.
- While the above all translated to the 5.4% y/y fall in operating results, excluding compulsory contributions which is seasonal then underlying operating results (including exceptionals) of EUR509mn was 1.4% higher y/y.
- CMZB's balance sheet grew with total assets up 8.8% q/q. Within this, financial assets rose 5.9% q/q due to the aforementioned rise in lending within the Private and Small Business Customers and Corporate Client segments. The non-performing loan ratio was 0.9% as at 31 March 2019, stable against 31 December 2018.
- Given balance sheet growth and implementation of IFRS 16, risk weighted assets rose but at a slower pace than total assets at 2.6% q/q. At the same time, the bank's Tier 1 common equity was broadly stable and as a result, CMZB's CET1 ratio fell to 12.7% as at 31 March 2019 from 12.9% as at 31 December 2018 (13.3% as at 31 March 2018). Including the impact of IFRS 16, the CET1 ratio was stable q/q. That said, the CET1 ratio is now below its target CET1 ratio of 12.75% in 2019. This is following the 25bps reduction in the supervisory review and evaluation process ("SREP") requirements by the European Central Bank with its previous CET1 target ratio as per its "Commerzbank 4.0" strategy being 13.0% by 2020.
- In all, underlying performance appears decent in the context of on-going industry challenges with revenue pressure offset by lower expenses and higher business volumes. Combined with the [end of merger talks with Deutsche Bank AG](#) (Unrated by OCBC Credit Research), CMZB appears content with its current "Commerzbank 4.0" strategy, albeit with some fine tuning with CMZB expected to announce any updated targets by end-September 2019. That doesn't mean the option of a merger is completely off the table however. Potential acquirers are still likely to be interested although this will be tempered by the challenges raised in the previously explored Deutsche Bank AG merger.
- The results do not impact our Neutral (4) issuer profile on CMZB (OCBC, Bloomberg)

Table 1: Key Financial Indicators

	9-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	70	5	3
iTraxx SovX APAC	45	3	1
iTraxx Japan	58	3	1
iTraxx Australia	70	3	-1
CDX NA IG	62	3	1
CDX NA HY	107	-1	0
iTraxx Eur Main	63	3	2
iTraxx Eur XO	268	11	10
iTraxx Eur Snr Fin	75	5	1
iTraxx Sovx WE	17	1	-2
AUD/USD	0.697	-0.37%	-2.11%
EUR/USD	1.119	0.16%	-0.65%
USD/SGD	1.364	-0.07%	-0.73%
China 5Y CDS	46	5	3
Malaysia 5Y CDS	62	7	6
Indonesia 5Y CDS	103	7	5
Thailand 5Y CDS	38	1	-3

	9-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	69.79	-1.36%	-1.16%
Gold Spot (\$/oz)	1,279.98	0.73%	-1.85%
CRB	179.75	-2.13%	-4.68%
GSCI	436.78	-0.78%	-2.87%
VIX	19.4	31.08%	35.85%
CT10 (bp)	2.462%	-7.96	-3.88
USD Swap Spread 10Y (bp)	-2	-1	-1
USD Swap Spread 30Y (bp)	-25	-2	-1
US Libor-OIS Spread (bp)	18	1	0
Euro Libor-OIS Spread (bp)	6	0	0
DJIA	25,967	-1.75%	-0.70%
SPX	2,879	-1.52%	0.04%
MSCI Asiax	657	-3.13%	-3.90%
HSI	28,850	-3.65%	-4.34%
STI	3,274	-3.51%	-1.54%
KLCI	1,626	-0.37%	-0.96%
JCI	6,239	-2.13%	-3.79%

New issues

- CCBL (Cayman) 1 Corporation Ltd (guarantor: CCB Leasing (International) Corporation Designated Activity Company) has priced a USD500mn 5-year bond at T+130bps (IPT of T+160bps area) and a USD200mn 10-year bond at T+155bps (IPT of T+195bps area).
- MGM China Holdings Limited has priced a USD1.5bn deal in two tranches, with the USD750mn 5NC2 bond at 5.375% (IPT of 5.5%-5.75% area) and the USD750mn 7NC3 bond at 5.875% (IPT of 6%-6.25% area).

Date	Issuer	Size	Tenor	Pricing
8-May-19	CCBL (Cayman) 1 Corporation Ltd	USD500mn USD200mn	5-year 10-year	T+130bps T+195bps
8-May-19	MGM China Holdings Limited	USD750mn USD750mn	5NC2 7NC3	5.375% 5.875%
7-May-19	Car Inc	USD372.3mn	3-year	8.875%
7-May-19	Woori Financial Group Inc	USD450mn	5-year	3M-US LIBOR+77bps
7-May-19	Qingdao Jiaozhou Bay Development Group Co Ltd	USD80mn	QDJZWD 6.5%'21s	7.2%
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	SGD400mn	5-year	2.958%
26-Apr-19	Hanrui Overseas Investment Co Ltd	USD280mn	3-year	7.95%

Source: OCBC, Bloomberg

Andrew Wong

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Ezien Hoo, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com

Seow Zhi Qi

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
zhigiseow@ocbc.com

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