

Market Commentary

- The SGD swap curve traded 1-2bps lower yesterday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS remain mostly unchanged at 126bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 5bps to 522bps. The HY-IG Index Spread widened 5bps to 396bps.
- Flows in SGD corporates were heavy, with flows in CS 5.625%-PERPs, SLHSP 3.5%'30s, BREAD 4.0%'23s, TMGSP 4.05%'25s, UBS 4.85%-PERPs, OLAMSP 6.0%'22s, SIASP 3.13%'27s, STANLN 5.375%-PERPs, HSBC 4.7%-PERPs and CAPLSP 3.65%-PERPs.
- 10Y UST Yields gained 2bps to 1.53%, partly due to an unexpected rebound in January's factory activity in the U.S.

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, CFA
+65 6530 7348
zhiqiseow@ocbc.com

Credit Summary:

- [Julius Baer Group Ltd \("JBG"\)](#) | **Issuer Profile: Neutral (3)**: JBG reported its FY2019 results with net profits down 36.8% to CHF465mn. This was driven by adjustments to general expenses as well as amortisation charges to intangible assets related to previous acquisitions and other intangibles. Excluding these adjustments, underlying net profit was down 4.6%. Despite the reported weaker net profit performance, JBG's capital ratios improved y/y with its CET1 ratio at 14.0% as at 31 December 2019, up 120bps against 12.8% as at 31 December 2018. This is still well above the regulatory minimum requirement and management floor of 8.2% and 11% respectively. Solid capital ratios offset earnings pressures in our view.

Asian Credit Daily**Credit Headlines****Julius Baer Group Ltd (“JBG”) | Issuer Profile: Neutral (3)**

- JBG reported its FY2019 results with net profits down 36.8% to CHF465mn. This was driven by adjustments to general expenses as well as amortisation charges to intangible assets related to previous acquisitions and other intangibles. Excluding these adjustments, underlying net profit was down 4.6% to CHF772mn. These adjustments relate to:
 - 24% y/y rise in general expenses due to a CHF153mn provision from a legacy claim by Bundesanstalt für vereinigungsbedingte Sonderaufgaben (BvS).
 - CHF 99mn non-cash goodwill impairment charge related to JBG’s investment in Italian asset and wealth management subsidiary Kairos.
 - CHF81mn amortisation or impairment charge for prior acquisition related intangible assets.
- On an underlying or adjusted basis, the 4.6% y/y fall in net profit was driven by stable operating income as a 4bps y/y fall in gross margins to 82bps was offset by a 5.0% y/y rise in monthly average assets under management (“AuM”) to CHF414bn. Within this, net fee and commission income rose 1% y/y while net interest income fell 2% y/y. At the same time, underlying operating expenses rose 3.0% despite a slight decline in personnel expenses due to its cost reduction program and a 1% decline in total full time employees which offset one-off severance costs from the cost-reduction program and a 3% rise in the monthly average number of employees.
- The fall in gross margins was due to growth in AuM which rose 11.5% y/y to CHF426bn from better market performance, net new money of CHF11bn and the first-time consolidation of NSC Asesores. While net new money inflows translate to a net new money growth rate of 2.8%, the gross new money growth rate was 4.1% excluding outflows from Kairos. According to management, this was due to underperformance and management departures. Strong inflows continue from Asia and Europe.
- Despite the reported weaker net profit performance, JBG’s capital ratios improved y/y with its CET1 ratio at 14.0% as at 31 December 2019, up 120bps against 12.8% as at 31 December 2018. This was due to a 5% rise in CET1 from net profits and the positive impact from financial assets measured at fair value through other comprehensive income while risk weighted assets fell 4.0% due to a reduction in JBG’s credit risk from lower mortgages and treasury book and lower market risk from reduced market volatility. This is still well above the regulatory minimum requirement and management floor of 8.2% and 11% respectively.
- Solid capital ratios offset earnings pressures in our view. That said, we think 2020 will be an interesting year for JBG with new CEO Philipp Rickenbacher seeking to drive JBG forward after a period of consolidation and de-risking under previous CEO Bernard Hodler. Key to improvement in the current challenging operating environment will be cost containment with the new CEO focused on streamlining the bank. JBG’s mid-term targets mid-term targets have been updated with the cost to income ratio target reduced to 67% from 68% while the target RoCET1 was also reduced to 30% from 32%. The pre-tax margin target remains the same at 25-28bps. Our credit view at Neutral (3) still holds however we will continue to monitor progress of management against its revised targets. (Company, OCBC)

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Key Market Movements

	04-Feb	1W chg (bps)	1M chg (bps)		04-Feb	1W chg	1M chg
iTraxx Asiax IG	57	0	0	Brent Crude Spot (\$/bbl)	54.45	-8.21%	-20.63%
iTraxx SovX APAC	31	2	2	Gold Spot (\$/oz)	1,578.14	0.70%	0.79%
iTraxx Japan	47	1	2	CRB	168.05	-2.96%	-10.08%
iTraxx Australia	54	2	4	GSCI	381.35	-4.26%	-13.98%
CDX NA IG	50	3	4	VIX	17.97	-1.43%	28.17%
CDX NA HY	108	0	-1	CT10 (%)	1.524%	-13.24	-26.43
iTraxx Eur Main	46	1	1				
iTraxx Eur XO	229	8	16	AUD/USD	0.668	-1.15%	-3.69%
iTraxx Eur Snr Fin	54	1	0	EUR/USD	1.106	0.35%	-1.21%
iTraxx Eur Sub Fin	115	3	0	USD/SGD	1.372	-1.03%	-1.65%
iTraxx Sovx WE	11	0	-1	AUD/SGD	0.917	0.14%	2.13%
USD Swap Spread 10Y	-5	1	1	ASX 200	6,933	-0.88%	2.96%
USD Swap Spread 30Y	-33	-1	2	DJIA	28,400	-0.48%	-0.82%
US Libor-OIS Spread	19	-1	-12	SPX	3,249	0.16%	0.43%
Euro Libor-OIS Spread	7	1	0	MSCI Asiax	655	-4.47%	-5.71%
				HSI	26,357	-5.56%	-7.36%
China 5Y CDS	40	1	6	STI	3,116	-3.82%	-3.78%
Malaysia 5Y CDS	41	2	3	KLCI	1,522	-3.23%	-5.55%
Indonesia 5Y CDS	66	1	0	JCI	5,884	-4.06%	-6.95%
Thailand 5Y CDS	29	4	5	EU Stoxx 50	3,661	-0.45%	-2.97%
Australia 5Y CDS	18	0	1				

Source: Bloomberg

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New Issues

- GLL IHT Pte. Ltd. (Guarantor: GuocoLand Limited) priced a SGD200mn 3.4% 5.5-year bond, tightening from IPT of 3.5%.
- Huatai Securities Company Limited arranged investor meetings for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
03-Feb-20	GLL IHT Pte. Ltd. (Guarantor: GuocoLand Limited)	SGD200mn	5.5-year	3.4%
29-Jan-20	Suntec REIT MTN Pte. Ltd	SGD200mn	7-year	2.95%
23-Jan-20	Westpac Banking Corp	USD1.5bn	10NC5	T+135bps
22-Jan-20	Cyprus Investments, Inc.	USD140mn	3-year	3m-US LIBOR+90bps
21-Jan-20	Scenery Journey Ltd	USD2bn USD2bn	3.75-year 2.75-year	12.0% 11.5%
21-Jan-20	Helenbergh China Holdings Limited	USD250mn	HLBCHN 12.875%'21s	12.25%
21-Jan-20	ReNew Power Pvt Ltd	USD450mn	5.5-year-WAL	5.875%
21-Jan-20	Swire Pacific MTN Financing (HK) Limited	USD500mn	10-year	T+120bps
21-Jan-20	Korea South-East Power Co Ltd	USD300mn	5-year	T+62.5bps
21-Jan-20	Shangri-La Hotel Limited	SGD250mn	10-year	3.5%
20-Jan-20	Dafa Properties Group Limited	USD200mn	364-day	12.75%
20-Jan-20	RongXingDa Development (BVI) Limited	USD300mn	364-day	8.875%
20-Jan-20	Socam Development Ltd	USD180mn	2-year	6.25%
20-Jan-20	Sunshine 100 China Holdings Ltd	USD150mn	SUNCHN 11.5%'21s	12.5%
20-Jan-20	Dexin China Holdings Company Limited	USD200mn	2.25-year	13%
20-Jan-20	Global Prime Capital Pte. Ltd	USD300mn	5NC3	5.95%
20-Jan-20	Wanda Properties Overseas Ltd.	USD400mn	3.5-year	6.875%
20-Jan-20	Thomson Medical Group Limited	SGD175mn	5-year	4.05%

Source: OCBC, Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling*Head of Research & Strategy*LingSSSelena@ocbc.com**Howie Lee***Thailand, Korea &**Commodities*HowieLee@ocbc.com**Tommy Xie Dongming***Head of Greater China**Research*XieD@ocbc.com**Carie Li***Hong Kong & Macau*carierli@ocbcwh.com**Wellian Wiranto***Malaysia & Indonesia*WellianWiranto@ocbc.com**Dick Yu***Hong Kong & Macau*dicksnyu@ocbcwh.com**Terence Wu***FX Strategist*TerenceWu@ocbc.com

Credit Research

Andrew Wong*Credit Research Analyst*WongVKAM@ocbc.com**Ezien Hoo***Credit Research Analyst*EzienHoo@ocbc.com**Wong Hong Wei***Credit Research Analyst*WongHongWei@ocbc.com**Seow Zhi Qi***Credit Research Analyst*ZhiQiSeow@ocbc.com

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