OCBC TREASURY RESEARCH

Asian Credit Daily

Wednesday, May 06, 2020

Market Commentary

- The SGD swap curve mostly rose yesterday, with the shorter and the belly tenors trading 0-3bps higher, while the longer tenors traded 0-2bps higher with the exception of the 30-year trading around 1bp lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 258bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 1005bps. The HY-IG Index Spread widened 2bps to 747bps.
- Flows in SGD corporates were heavy, with flows in CS 5.625%-PERPs, SOCGEN 6.125%-PERPs, FCTSP 3.2%'23s, UBS 5.875%-PERPs, OLAMSP 6%'22s and BAERVX 5.9%-PERPs.
- 10Y UST Yields gained 3bps to 0.66%, as risk appetite rose on the back of plans to reopen major economies such as Italy and the U.S.

Credit Research

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Credit Summary:

- **United Overseas Bank Ltd ("UOB") | Issuer Profile: Positive(2):** UOB announced abridged 1Q2020 results with net profit falling 19% y/y. While operating performance was broadly stable (-1% y/y) on unchanged operating income and a slight rise in operating expenses, impairment charges doubled y/y to SGD286mn. UOB's provisioning strategy appears different to peers with a relatively lower amount of provisions raised through its income statement. Credit ratios remain sound given the muted impact of COVID-19 on 1Q2020 results. Its CET1 ratio fell 20bps q/q to 14.1% as at 31 March 2020 while its all-currency liquidity coverage ratio and net stable funding ratio was at 139% and 109% respectively as at 31 March 2020. The outlook for banks remains uncertain, hence the lower provisioning levels for UOB could be somewhat aggressive given the slowing business momentum as indicated by management and various support measures employed against COVID-19.
- **BNP Paribas SA ("BNPP") | Issuer Profile: Neutral (3):** BNPP reported 1Q2020 results and while not as challenged as Société Générale, there were consistent trends evident with pre-tax income down 33.1% y/y. Driving results was a 85.4% y/y rise in the cost of risk due to a 10 fold increase in Corporate & Institutional Bank and a 72.7% increase in International Financial Services. Other impacts highlighted by BNPP as being COVID-19 related include a EUR184mn impact to revenues from dividend restrictions that impacted Equity & Prime Services revenues in Global Markets and a EUR384mn impact from mark-to-market impacts on certain portfolios in BNPP's insurance business within International Financial Services. Capital ratios remained broadly stable albeit slightly weaker with BNPP's CET1 ratio at 12.0% as at 31 March 2020 against 12.1% as at 31 December 2019. This was due to risk weighted asset inflation from COVID-19 that impacted credit, market and counterparty risk. BNPP expects a prolonged recovery with a gradual recovery to commence following the end of lockdown measures but still constrained operating conditions through 2020. As such, they expect FY2020 net income to fall 15-20% against FY2019.

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Credit Headlines

United Overseas Bank Ltd ("UOB") | Issuer Profile: Positive (2)

- UOB announced abridged 1Q2020 results with net profit falling 19% y/y to SGD855mn. While operating performance was broadly stable (-1% y/y to SGD1.32bn) on unchanged operating income and a slight rise in operating expenses, impairment charges doubled y/y to SGD286mn.
- UOB's provisioning strategy appears different to peers with a relatively lower amount of provisions raised through its income statement. However in addition to the SGD286mn impairment charge, UOB also allocated SGD260mn from previously set aside provisions within its Regulatory Loss Allowance Reserves contained in the balance sheet.
- Loan quality metrics have not changed much compared to FY2019 and like other banks are not reflective of current business conditions with the non-performing loan ratio up 10bps to 1.6% as at 31 March 2020 and the non-performing assets coverage ratio improved from the higher impairment charge at 88% or 206% including unsecured non-performing assets only (87% and 202% respectively as at 31 December 2019). Management have indicated that current provisioning levels already include a SGD300mn management overlay for weaker macro-economic assumptions and SGD400mn allocation for credit portfolio deterioration.
- Business segment performance gives some indication of challenges ahead with some of the operating profit drivers in 1Q2020 likely to reduce in 2Q2020. Operating profit from Group Retail rose 9% y/y on wealth management contributions from higher assets under management – this offset lower interest rates. Global Markets operating profit rose 31% y/y on higher net interest income that mitigated lower trading and investment income, However, Group Wholesale Banking's operating profit fell 5% y/y as loans growth was not enough to offset a reduction in loan-related and investment banking fees from the decline in business activity through UOB's network. Per management's disclosures, cross border income contributes 27% to Group Wholesale Banking's income.
- Credit ratios remain sound given the muted impact of COVID-19 on 1Q2020 results. Its CET1 ratio fell 20bps q/q to 14.1% as at 31 March 2020 while its all-currency liquidity coverage ratio and net stable funding ratio was at 139% and 109% respectively as at 31 March 2020 (149% and 111% respectively as at 31 December 2019).
- The outlook for banks remains uncertain, hence the lower provisioning levels for UOB could be somewhat aggressive given the slowing business momentum as indicated by management (which appears largely restricted to Singapore and China in 1Q2020) and various support measures employed against COVID-19. This includes loan relief schemes on around 12% of total loans (approx. SGD33bn), moratoriums for existing secured business loans and moratoriums for mortgage borrowers. We are maintaining our Positive (2) issuer profile but continue to closely monitor our bank portfolio. (Company, OCBC)

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Credit Headlines

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

- BNPP reported 1Q2020 results and while not as challenged as Société Générale, there were consistent trends evident with pre-tax income down 33.1% y/y and 29.0% q/q to EUR1.8bn. Driving results was a 85.4% y/y rise in the cost of risk to EUR1.4bn due to a 10 fold increase in Corporate & Institutional Bank and a 72.7% increase in International Financial Services. Cost of risk only rose 2.2% in Domestic Markets. Other impacts highlighted by BNPP as being COVID-19 related include a EUR184mn impact to revenues from dividend restrictions that impacted Equity & Prime Services revenues in Global Markets and a EUR384mn impact from mark-to-market impacts on certain portfolios in BNPP's insurance business within International Financial Services.
- Of the EUR1.4bn in risk costs, management have indicated EUR502mn of this relates to changes in macro-economic assumptions as a result of COVID-19. The rest is related to specific impacts on credits in at-risk sectors including hotels, tourism and leisure, non-food retailing (excluding home furnishings & e-commerce), transport & logistics, and oil & gas. These comprise around 8.2% of BNPP's total gross commitments. Loan quality metrics improved somewhat q/q with the ratio of doubtful loans to loans at 2.1% as at 31 March 2020 (2.2% as at 31 December 2019) and the Stage 3 coverage ratio at 73.2% as at 31 March 2020 (74.0% as at 31 December 2019).
- While reported gross operating income performance was decent and up 1.3% y/y as a 2.3% y/y fall in revenues was offset by a 3.5% y/y fall in operating expenses and depreciation, this was due to better performance in performance in 'Others Activities' (positive impact from revaluation of own credit risk in derivatives). Otherwise on an operating division basis, gross operating income was down 11.1% y/y. Domestic Markets continues to be challenged by low interest rates with gross operating income down 5.1% y/y while International Financial Services was down 19.2% y/y on the aforementioned valuation impacts that offset solid business volumes. While Corporate & Institutional Bank gross operating income performance was solid y/y (+2.6%), the aforementioned material rise in risk costs led to a 61.7% y/y drop in operating income. Similarly, International Financial Services operating income fell 53.0% y/y including both risk costs and the weaker gross operating income, while the fall in Domestic Markets operating income was more contained at 8.7% y/y. As such, the y/y fall in operating income from the operating divisions (-43.1%) was higher than the reported fall including Others Activities (-32.2% y/y).
- Capital ratios remained broadly stable albeit slightly weaker with BNPP's CET1 ratio at 12.0% as at 31 March 2020 against 12.1% as at 31 December 2019. This was due to risk weighted asset ("RWA") inflation from COVID-19 that impacted credit, market and counterparty risk amongst others that was mostly offset by allocating the 2019 dividend to reserves rather than paying it out to shareholders as recommended by the European Central Bank ("ECB") to preserve capital in this environment. BNPP's ratio is now at the 12.0% CET1 ratio target announced in 2017 as part of its 2020 plan and well above its 2020 CET1 requirement of 9.31% that was recently lowered due to the removal of Countercyclical Buffers. The liquidity coverage ratio was 130% as at 31 March 2020, up 5bps against as at 31 December 2019. BNPP is also far above its Maximum Distributable Amount Restrictions.
- BNPP expects a prolonged recovery with a gradual recovery to commence following the end of lockdown measures but still constrained operating conditions through 2020. As such, they expect FY2020 net income to fall 15-20% against FY2019. Although France is still battling the COVID-19 outbreak and the Eurozone faces challenged growth prospects, the Neutral (3) issuer profile continues to hold recognizing BNPP's existing business franchise that should help it recover as economies begin to normalize. We also expect evident government support to the economy to support banks' operating environment. (Company, OCBC)

Key Market Movements

	6-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	120	2	-22
iTraxx SovX APAC	69	0	-10
iTraxx Japan	80	-2	-40
iTraxx Australia	121	-1	-55
CDX NA IG	90	3	-27
CDX NA HY	94	-1	2
iTraxx Eur Main	85	8	-19
iTraxx Eur XO	509	43	-75
iTraxx Eur Snr Fin	104	9	-14
iTraxx Eur Sub Fin	228	15	-33
iTraxx Sovx WE	31	0	4
USD Swap Spread 10Y	-1	-2	-5
USD Swap Spread 30Y	-47	-4	-5
US Libor-OIS Spread	46	-18	-82
Euro Libor-OIS Spread	19	-3	5
China 5Y CDS	49	3	-6
Malaysia 5Y CDS	109	-2	-9
Indonesia 5Y CDS	215	1	-28
Thailand 5Y CDS	65	-4	-26
Australia 5Y CDS	29	1	-7

	6-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	31.07	37.84%	-5.99%
Gold Spot ($/oz)	1,703.27	-0.59%	2.55%
CRB	123.64	14.27%	-3.45%
GSCI	274.17	11.44%	0.91%
VIX	33.61	0.12%	-25.71%
CT10 (%)	0.662%	4.90	6.71
AUD/USD	0.643	-1.91%	5.65%
EUR/USD	1.084	-0.32%	0.42%
USD/SGD	1.417	-0.36%	1.09%
AUD/SGD	0.912	1.57%	-4.33%
ASX 200	5,363	-0.56%	1.45%
DJIA	23,883	-0.91%	5.30%
SPX	2,868	0.18%	7.69%
MSCI Asiax	590	-2.39%	4.90%
HSI	24,045	-0.97%	1.25%
STI	2,597	1.32%	5.11%
KLCI	1,392	1.44%	3.75%
JCI	4,623	2.05%	-3.93%
EU Stoxx 50	2,876	-1.92%	2.86%

Source: Bloomberg

New Issues

- CK Hutchison International (20) Limited (Guarantor: CK Hutchison Holdings Limited) priced a USD750mn 10-year bond at T+190bps and a USD750mn 30-year bond at T+210bps, tightening from IPT of T+235bps and T+255bps area respectively.
- PT Bank Mandiri (Persero) Tbk priced a USD500mn 5-year bond at T+455bps, tightening from IPT of T+490bps area.
- QBE Insurance Group Limited priced a USD500mn PERPNC5 AT1 at 5.875%, tightening from IPT of 6.5% area.

Date	Issuer	Size	Tenor	Pricing
05-May-20	CK Hutchison International (20) Limited (Guarantor: CK Hutchison Holdings Limited)	USD750mn USD750mn	10-year 30-year	T+190bps T+210bps
05-May-20	PT Bank Mandiri (Persero) Tbk	USD500mn	5-year	T+455bps
05-May-20	QBE Insurance Group Limited	USD500mn	PERPNC5	5.875%
04-May-20	PT Hutama Karya (Persero) (Guarantor: The Government of the Republic of Indonesia)	USD600mn	10-year	3.8%
30-Apr-20	FCT MTN Pte. Ltd. (Guarantor: Frasers Centrepoint Trust)	SGD200mn	3-year	3.2%
29-Apr-20	Shuifa International Holdingsbvico. Ltd (Guarantor: Shuifa Group Co Ltd)	USD350mn	3-year	4.3%
29-Apr-20	Amber Treasure Ventures Limited (Guarantor: Nan Hai Corporation Limited)	USD500mn	2NC1	3.5%
29-Apr-20	SDSC International Development Limited (Guarantor: Shandong Shipping Corporation)	USD40mn	SDSHIP 5.9%’22s	5.9%
28-Apr-20	Wharf REIC Finance (BVI) Limited (Guarantor: Wharf Real Estate Investment Company Limited)	USD450mn USD300mn	5-year 10-year	T+205bps T+235bps
27-Apr-20	Republic of the Philippines	USD1bn USD1.35bn	10-year 25-year	T+180bps 3.375%
27-Apr-20	Korea East-West Power Co. Ltd	USD500mn	5-year	T+150bps
27-Apr-20	Honghe Development Group Co. Ltd	USD108mn	3-year	7%
24-Apr-20	Perennial Real Estate Holdings Limited	SGD33.5mn	2-year	3.9%

Source: OCBC, Bloomberg

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