OCBC TREASURY RESEARCH

Asian Credit Daily

Thursday, February 13, 2020

Market Commentary

- The SGD swap curve fell slightly yesterday, with the shorter tenors trading 1bps lower while the belly and the longer tenors remained mostly unchanged.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 119bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 7bps to 480bps. The HY-IG Index Spread tightened 6bps to 361bps.
- Flows in SGD corporates were heavy, with flows in SLHSP 3.5%'30s, SOCGEN 6.125%-PERPs, PINGIN 2.25%'21s, HPLSP 4.4%-PERPs, CS 5.625%-PERPs, STANLN 5.375%-PERPs, CAPLSP 3.65%-PERPs, TMGSP 4.05%'25s, ARASP 5.6%-PERPs, BREAD 4.0%'23s and GUOLSP 4.6%-PERPs.
- 10Y UST Yields gained 3bps to 1.63%, as investors become more assured after the reported number of new cases of COVID-19 in China dropped.

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:

- Singapore Telecommunications Ltd ("SingTel") | **Issuer Profile: Positive (2):** SingTel reported 3QFY2019 results, with revenue down 5.4% y/y. Reported EBITDA also fell 2.2% y/y. Guidance is negative with EBITDA guided to decline by low single digit (previous: stable) and revenue (ex-NBN migration) to decline by mid-single digit. Overall, credit metrics look intact for now with reported net debt gearing somewhat higher q/q at 31.7% and small improvements q/q in net debt to EBITDA and share of associates' pre-tax profits to 2.0x.
- Wing Tai Holdings Ltd ("WINGTA") | **Issuer Profile: Neutral (4):** WINGTA reported 2QFY2020 results. Revenue declined 10% y/y, which we think is due to declines in revenue from property development. More importantly gross profit increased 22% y/y helped by sale of Le Nouvel Ardmore, which is a high-margin project. Overall, credit metrics remain healthy with net gearing at 13% and net debt to EBITDA at 7.9x.
- United Overseas Bank Limited ("UOB") | **Issuer Profile: Positive (2):** UOB announced a SGD3bn relief fund to assist clients that are impacted by the COVID-19 outbreak. The funds will be allocated to companies to help near-term liquidity needs. UOB will also assist affected retail customers on a case by case basis.
- DBS Group Holdings Ltd ("DBS") | **Issuer Profile: Positive (2):** DBS's profit before tax ("PBT") was up 13% y/y for 4Q2019 and 14% y/y for FY2019. Key to performance continues to be strong earnings generation which offsets growth in expenses. Non-performing loan rate was healthy at 1.5%. CET1/CAR ratio was 14.1%/16.7% for 4Q2019. DBS' forward guidance for 2020 is a 1-2% revenue impact from the COVID-19 virus.
- National Australia Bank Ltd ("NAB") | **Issuer Profile: Positive (2):** NAB announced its 1QFY2020 trading update with unaudited statutory net profit of AUD1.70bn and unaudited cash earnings of AUD1.65bn stable y/y. NAB's CET1 capital ratio improved 60bps y/y to 10.6% as at 31 December 2019. This is due to earnings and the 2HFY2019 dividend reinvestment plan and is now above APRA's minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios in Australia's banking sector (came into force January 2020).
- ABN Amro Bank N.V. ("ABN") | **Issuer Profile: Neutral (3):** ABN announced its 4Q2019 and FY2019 results with net profit stable y/y for 4Q2019 and down 13% y/y for FY2019. Capital ratios remain solid albeit weaker y/y with ABN's CET1 ratio at 18.1%. The CET1 ratio remains within the bank's capital target range and also well above the 2020 Maximum Distributable Amount (MDA) trigger level of 12.09%.

Credit Headlines

Singapore Telecommunications Ltd ("SingTel") | Issuer Profile: Positive (2)

- SingTel reported 3QFY2019 results for the quarter ended 31 Dec. Revenue declined 5.4% y/y to SGD4.38bn with SingTel citing (1) weak business and consumer sentiment and economic slowdown and (2) Price erosion in carriage services. Overall, core results from Singapore and Australia are weak though contribution from associates appear to be stabilising.
- Reported EBITDA also fell 2.2% y/y to SGD1.16bn, with the fall in Group Enterprise (-10.5% y/y to SGD383mn) outweighing the increase in Singapore Consumer (+0.1% y/y to SGD197mn) and Australia Consumer (+10.0% y/y to AUD677mn).
    - Singapore Consumer: Reported EBITDA rose +0.1% y/y to SGD197mn despite 5.2% y/y fell in revenue. The fall in revenue is mainly due to fall in equipment sales (-9.3% y/y to SGD168mn) which is a lower margin segment while broadband (+3.9% y/y to SGD64mn) and pay TV (+1.2% y/y to SGD50mn) recorded increase. Meanwhile, mobile service revenue fell 6.6% y/y to SGD243mn.
    - Australia Consumer: Reported EBITDA rose 10.0% y/y to AUD677mn though this is mainly due to NBN migration revenues (+431.2% y/y to AUD233mn). NBN migration revenues are largely one-off. Without NBN migration revenues, reported EBITDA would have fallen 22.4% y/y to AUD444mn. This is mainly due to fall in equipment sales (-16.7% y/y to AUD528mn) as well as lower revenues from mobile service (-3.1% y/y to AUD860mn) arising from SIM-only plans and intense data price competition which impacted ARPU.
    - Group Enterprise: Reported EBITDA declined 10.5% y/y to SGD383mn. This is mainly due to the revenue decline in the carriage segments (-8.2% y/y to SGD767mn) while the lower-margin ICT revenues remained flattish at SGD769mn. The decline in carriage segment was due to stiff competition and declines in traditional segments (e.g. fixed voice revenue). In particular for Australia, reported EBITDA declined 54% y/y due to intense competition from new entrants re-selling NBN.
- PBT from regional associates rose 15% y/y to SGD393mn mainly due to smaller pre-tax losses from Airtel (-32.2% y/y to SGD87mn) with strong 4G customer net adds. In addition, Globe (+31% y/y to SGD85mn) saw strong growth in mobile and broadband, which helped to offset declines in Telkomsel (-5% y/y to SGD289mn) due to intense competition outside Java.
- Guidance is negative with EBITDA guided to decline by low single digit (previous: stable) and revenue (ex-NBN migration) to decline by mid-single digit.
- Overall, credit metrics look intact for now with reported net debt gearing somewhat higher q/q at 31.7% (2QFY2020: 31.2%) and small improvements q/q in net debt to EBITDA and share of associates' pre-tax profits to 2.0x (2QFY2020: 2.1x). Given the still decent credit metrics, we continue to hold SingTel at a Positive (2) Issuer Profile for now. (Company, OCBC)

Credit Headlines

Wing Tai Holdings Ltd ("WINGTA") | Issuer Profile: Neutral (4)

- WINGTA reported 2QFY2020 results for the quarter ended 31 Dec. Revenue declined 10% y/y to SGD104.2mn, which we think is due to declines in revenue from property development. That said, more importantly gross profit increased 22% y/y to SGD51.4mn helped by sale of Le Nouvel Ardmore, which is a high-margin project.
- Net profit rose 58% y/y to SGD26.2mn, further helped by 12% y/y increase in share of profits of associated and joint venture companies from higher contribution from The Crest in Singapore and additional units sold in Malaren Gardens in Shanghai.
- Meanwhile, 36 units worth SGD34.8mn were sold at 613-unit The Garden Residences (JV with Keppel) during the quarter. Sales progress looks decent; as of writing, 248 units have been sold since its launch in Jun-18. Meanwhile, WTH will also be launching 500-units The M Condo (site was acquired for SGD492mn in Apr 2019).
- Overall, credit metrics remain healthy with net gearing at 13% and net debt to EBITDA at 7.9x (FY2019: 73.6x). We continue to hold WINGTA at a Neutral (4) Issuer Profile. (Company, OCBC)

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

- UOB announced a SGD3bn relief fund to assist clients that are impacted by the COVID-19 outbreak. The funds will be allocated to companies, in particular small- and medium-sized enterprises, to help near-term liquidity needs.
- As per UOB's announcement, customers that are likely to qualify are those with good track records in servicing their debt but need help managing their cash flow through:
  - Converting principal and interest loans to interest only for up to one year;
  - Providing one year working capital financing of up to SGD5mn; and
  - Providing secured liquidity financing.
- UOB will also assist affected retail customers on a case by case basis. UOB is due to report its 4Q2019 and FY2019 results on 21 February 2020. (Company, OCBC)

Credit Headlines

DBS Group Holdings Ltd ("DBS") | Issuer Profile: Positive (2)

- DBS continues to announce record results with profit before tax ("PBT") up 13% y/y for 4Q2019 to SGD1.74bn and 14% y/y for FY2019 to SGD7.58bn. Full-year net profit reached a record SGD6.39bn, up 14% y/y. Key to performance continues to be strong earnings generation which offsets growth in expenses.
- 4Q2019 net interest income rose 4% y/y due to y/y growth in customer loans. However, net interest margins was down 1bps y/y (and down 4bps from the previous quarter) due to lower interest rates. Fee income was up 17% y/y led by wealth management and investment banking. Other non-interest income was up 5% y/y led by net income from investment securities and others which include rental income and share of profits of associates. As a result, total income for 4Q2019 was up 7% y/y to SGD3.46bn.
- 4Q2019 expenses were up 7% y/y to SGD1.60bn, mainly due to the increase in staff count which pushed staff expenses higher 14% y/y. Total allowances declined 40% y/y to SGD122mn from lower specific provisions and higher general provisions write-back.
- For the full-year, total income was up 10% y/y to reach a record SGD14.54bn supported by a 7% y/y growth in net interest income (strong non-trade corporate loan growth and higher net interest margin), record fee income (up 10% y/y) and stronger trading income (up 24% y/y). Total expenses for FY2019 was up 8% y/y to SGD6.26bn, driven by higher staff and computerisation expenses (10% and 13% y/y growth respectively).
- By segment performance on a PBT basis for 4Q2019, Consumer Banking/Wealth Management PBT fell 2% y/y due to lower net interest income and higher expenses and allowances. Institutional Banking PBT rose 12% y/y on the back of higher net interest income, higher net fee and commission income and lower allowances which compensated for higher expenses. Treasury Markets saw a less negative PBT y/y mainly due to an improved net interest income.
- DBS' balance sheet grew with total assets up 5% y/y in FY2019 to SGD578.95bn with customer loans growing 4% y/y. With the growth in balance sheet, total risk-weighted assets increased 5% y/y. Non-performing assets were stable from previous quarter, hence non-performing loan rate was also healthy at 1.5%.
- Despite the growth in risk-weighted assets, the CET1 ratio rose 20bps y/y and 30bps q/q to 14.1% on the back of strong earnings. CAR ratio deteriorated slightly to 16.7% (4Q2018: 16.9%). Both ratios continue to remain above the minimum CET1/CAR requirements of 9.3%/12.8% as at 31 December 2019. DBS' leverage ratio of 7.0% as at 31 December 2019 also remains well above the 3% minimum requirement.
- DBS' forward guidance for 2020 is a 1-2% revenue impact from the COVID-19 virus, assuming the virus is under control by the middle of the year. DBS is also offering a 6 month debt moratorium on principal repayments for property loans extended to SMEs in Singapore and Hong Kong as well as mortgage loans for retail clients in Singapore. The credit impact from this is limited in our view given the affected loans are likely secured.
- With uncertainty surrounding the 2020 operating environment, DBS strong underlying fundamentals and record 2019 results provide a solid buffer and DBS remains consistent with our issuer profile at Positive (2). (Company, OCBC)

Credit Headlines

National Australia Bank Ltd ("NAB") | Issuer Profile: Positive (2)

- NAB announced its 1QFY2020 trading update with unaudited statutory net profit of AUD1.70bn and unaudited cash earnings of AUD1.65bn stable y/y. Results look constructive with cash earnings growth of 1.0% compared to the 2HFY2019 quarterly average against a 3.0% decline in cash earnings in 1QFY2019 compared to the 2HFY2018 quarterly average.
- Better cash earnings were driven by a 21% fall in credit impairment charges compared to the 2HFY2019 quarterly average due to lower New Zealand dairy impairments and improved house prices in 2HFY2019. Elsewhere, revenues rose by less than 1% from higher net interest margins due to home loan repricing that offset low interest rates while expenses rose 3% compared to the 2HFY2019 quarterly average from higher technology and investment spend and compensation costs.
- While credit impairment charges fell to its lowest level since 1QFY2018, the ratio of collective provisions to credit risk weighted assets was steady at 96bps in 1QFY2020. However the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances continues to rise, albeit marginally, to 0.94%, up from 0.93% in 4QFY2019 and 0.72% in 1QFY2019. As such, we would not be surprised if the trends in credit impairment charges reverse in successive reporting periods.
- NAB's CET1 capital ratio improved 20bps q/q and is up 60bps y/y to 10.6% as at 31 December 2019. This is due to earnings and the 2HFY2019 dividend reinvestment plan and is now above APRA's minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios in Australia's banking sector (came into force January 2020). That said, NAB is reportedly planning additional capital raising activities to shore up its capital position including additional tier 1 issuance and conversion of existing capital notes into common equity.
- As mentioned in our Singapore Credit Outlook 2020, there remains some uncertainty on the way forward for NAB given outstanding issues with AUSTRAC and a new CEO, however NAB's approach appears considered and purposeful at this stage with new management and a new chairman at the helm. This will involve a new or revised strategy to drive the way forward and address legacy issues. A stronger capital position and a reduction in misconduct provisions should provide the breathing space to meet external challenges and sector competition. The Positive (2) issuer profile holds for now. (Company, Bloomberg, OCBC)

Credit Headlines

ABN Amro Bank N.V. ("ABN") | Issuer Profile: Neutral (3)

- ABN announced its 4Q2019 and FY2019 results with net profit stable y/y for 4Q2019 and down 13% y/y for FY2019 to EUR316mn and EUR2.0bn respectively.
- Stable y/y 4Q2019 performance was due to a rise in impairment charges on financial instruments (+51% y/y on a rise in impairments on offshore exposures in Corporate & Institutional Banking) which offset solid expense performance (-9% y/y). The fall in operating expenses was larger than the fall in operating income (-3% y/y) due to low interest rates and broadly stable to slightly lower loan volumes. This drove an improvement in the cost to income ratio to 65.9% in 4Q2019 against 70.2% in 4Q2018 and an 11% y/y improvement in operating results to EUR717mn.
- FY2019 results were weaker with a larger fall in operating income (-5% y/y on low interest rates and margin pressure on deposits along with muted loans growth) against the fall in operating expenses (-2% y/y on increasing costs for Detecting Financial Crime that overshadowed IT savings, lower staff numbers and lower restructuring and incidentals). Although impairment charges on financial instruments were stable y/y and remain below the through the cycle cost of risk, profit for FY2019 was down 13% y/y to EUR2.68bn.
- Loan quality indicators continue to be manageable albeit weaker – the stage 3 impaired ratio rose to 2.5% as at 31 December 2019 against 2.2% as at 31 December 2018 while the coverage ratio fell to 29.6% against 33.0% over the same period. Stage 3 loans rose noticeably in Corporates on stresses in the offshore services industry while mortgages Stage 3 loans rose y/y on changes to model calculations. The past due ratio showed slight improvement to 1.2% as at 31 December 2019 against 1.3% as at 31 December 2018 due to better performance in residential mortgages. Consumer and corporate past due loans weakened y/y.
- Capital ratios remain solid albeit weaker y/y with ABN's CET1 ratio at 18.1% as at 31 December 2019 against 18.2% as at 30 September 2019 and 18.4% as at 31 December 2018. This was due to higher growth in risk weighted assets from Targeted Review of Internal Models impacts as well as higher operational risk weighted assets related to updated scenarios connected to anti-money laundering. The CET1 ratio remains within the bank's capital target range of 17.5%-18.5%. The CET1 ratio is also well above the 2020 Maximum Distributable Amount (MDA) trigger level of 12.09% comprising the 2020 12.00% Supervisory Review and Evaluation Process requirements and a 0.09% counter-cyclical buffer. Per the Minimum Requirement for own funds and Eligible Liabilities ("MREL") framework, its estimated ratio of 28.5% was also above its MREL ambition of 27.0%.
- We are keeping the Neutral (3) rating on ABN for now recognizing its solid capital position. Otherwise, the 2019 results reflect a challenging 2020 from earnings pressures, rising impairments and compliance costs and ongoing investigations into KYC, AML and possible implication in tax probe in Germany. As we previously mentioned, ABN announced in early January that the bank's supervisory board will appoint Mr. Robert Swaak as the CEO of ABN for a four year term. Mr. Swaak will succeed the current CEO in April 2020 (next annual general meeting). (Company, OCBC, Bloomberg)

Key Market Movements

	13-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	49	-4	-4
iTraxx SovX APAC	27	-1	1
iTraxx Japan	42	-1	-2
iTraxx Australia	48	-1	1
CDX NA IG	44	-2	0
CDX NA HY	109	0	0
iTraxx Eur Main	42	-1	-2
iTraxx Eur XO	210	-2	2
iTraxx Eur Snr Fin	47	-1	-4
iTraxx Eur Sub Fin	98	-2	-9
iTraxx Sovx WE	10	0	-1
USD Swap Spread 10Y	-4	0	1
USD Swap Spread 30Y	-32	0	0
US Libor-OIS Spread	14	-2	-11
Euro Libor-OIS Spread	5	-1	-1
China 5Y CDS	33	-1	2
Malaysia 5Y CDS	35	-1	1
Indonesia 5Y CDS	60	-2	-1
Thailand 5Y CDS	26	-1	3
Australia 5Y CDS	16	0	0

	13-Feb	1W chg	1M chg
Brent Crude Spot ($/bbl)	55.93	1.82%	-12.88%
Gold Spot ($/oz)	1,570.20	0.23%	1.44%
CRB	171.76	1.31%	-6.15%
GSCI	392.04	1.49%	-8.03%
VIX	13.74	-9.31%	11.53%
CT10 (%)	1.607%	-3.52	-23.89
AUD/USD	0.673	-0.03%	-2.55%
EUR/USD	1.087	-1.00%	-2.34%
USD/SGD	1.387	-0.12%	-2.94%
AUD/SGD	0.933	-0.08%	-0.41%
ASX 200	7,093	0.62%	2.74%
DJIA	29,551	0.89%	2.23%
SPX	3,379	1.34%	2.78%
MSCI Asiax	692	0.82%	-2.84%
HSI	27,779	1.04%	-4.06%
STI	3,225	-0.21%	-0.81%
KLCI	1,542	-0.71%	-2.71%
JCI	5,925	-1.04%	-5.90%
EU Stoxx 50	3,854	2.03%	1.98%

Source: Bloomberg

New Issues

- Tongling Development Investment Group Co. Ltd priced a USD200mn 3-year bond at 3.98%, tightening from IPT of 4.2% area.
- India Infoline Finance Limited priced a USD400mn 3-year 2-month bond at 5.95%, tightening from IPT of 6.2% area.
- Sinosing Services Pte. Ltd (Guarantor: Huaneng Power International, Inc.) priced a USD300mn 5-year bond at T+88bps and a USD300mn 10-year bond at T+108bps, tightening from IPT of T+125bps and T+145bps area respectively.
- Network i2i Ltd. (Guarantor: Bharti Airtel Ltd.) priced a USD250mn re-tap of its BHARTI 5.65%-PERPNC5.5 bond at 5.497%, tightening from IPT of 5.65%.
- Hopson Capital International Group Co. (Guarantors: Hopson Development Holdings Ltd. and certain of the guarantor's restricted subsidiaries outside of the PRC) priced a USD500mn 364-day bond at 6.0%, tightening from IPT of 6.5% area.
- Yuzhou Properties Co Ltd priced a USD400mn 5NC3 bond at 7.7%, tightening from IPT of 8.125% area.

Date	Issuer	Size	Tenor	Pricing
12-Feb-20	Tongling Development Investment Group Co. Ltd	USD200mn	3-year	3.98%
12-Feb-20	India Infoline Finance Limited	USD400mn	3-year 2-month	5.95%
12-Feb-20	Sinosing Services Pte. Ltd (Guarantor: Huaneng Power International, Inc.)	USD300mn USD300mn	5-year 10-year	T+88bps T+108bps
12-Feb-20	Network i2i Ltd. (Guarantor: Bharti Airtel Ltd.)	USD250mn	BHARTI 5.65%-PERPNC5.5	5.497%
12-Feb-20	Hopson Capital International Group Co. (Guarantors: Hopson Development Holdings Ltd. and certain of the guarantor's restricted subsidiaries outside of the PRC)	USD500mn	364-day	6.0%
12-Feb-20	Yuzhou Properties Co Ltd	USD400mn	5NC3	7.7%
11-Feb-20	China ZhengTong Auto Services Holdings Limited	USD13mn	ZHTONG 12%'22s	12.0%
11-Feb-20	Far East Horizon Limited	USD300mn	5-year	T+200bps
11-Feb-20	Chouzhou International Investment Limited (Guarantor: Yiwu State-owned Capital Operation Co., Ltd.)	USD400mn	5-year	4.08%
11-Feb-20	Vigorous Champion International Limited (Guarantor: China Ping An Insurance Overseas (Holdings) Limited)	SGD330mn	364-day	2.25%

Source: OCBC, Bloomberg

OCBC TREASURY RESEARCH

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Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu
Hong Kong & Macau
dicksnyu@ocbcwh.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

Co.Reg.no.:193200032W