Asian Credit Daily

Friday, February 14, 2020

Market Commentary

- The SGD swap curve broadly flattened yesterday, with the shorter tenors trading 0-1bps higher, while the belly and the longer tenors traded 0-1bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS remain mostly unchanged at 119bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 477bps. The HY-IG Index Spread tightened 4bps to 357bps.
- Flows in SGD corporates were heavy, with flows in TMGSP 4.05%'25s, GUOLSP 3.4%'25s, ARASP 5.6%-PERPs, DBSSP 3.98%-PERPs and UBS 4.85%-PERPs.
- 10Y UST Yields fell 1bps to 1.62%, on negative headlines over COVID-19. The U.S. CDC said new cases are expected in the near future, while certain US media outlets suggested possible under-reporting.

Credit Research

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Credit Summary:

- **Commerzbank AG ("CMZB") | Issuer Profile: Neutral (4):** CMZB reported 4Q2019 and FY2019 results with FY2019 pre-tax profits down 9.4% y/y. CMZB's CET1 ratio improved to 13.4% as at 31 December 2019 (31 December 2018: 12.9%). This was driven by a fall in risk weighted assets. CMZB's results characterize its current strategic programme but still weak income generation from low interest rates and higher risk costs continues to highlight CMZB's vulnerability to the operating environment.
- **Barclays PLC ("Barclays") | Issuer Profile: Neutral (4):** Barclays released its FY2019 results with profit before tax up 25% y/y. Barclays' CET1 ratio was 13.8% as at 31 December 2019, above Barclay's overall CET1 capital requirement of 12.1%. Although Barclays' return on tangible equity excluding litigation and conduct charges was in line with its FY2019 target, management have guided that its 2020 target of above 10% will be difficult to achieve.
- **Credit Suisse Group AG ("CS") | Issuer Profile: Neutral (4):** CS announced its 4Q2019 and full-year results. For 4Q2019, income before taxes was up 104% y/y and 6% q/q. Total assets grew 2.4% y/y, and risk-weighted assets grew 2.1% y/y. CS' CET1 ratio was up 10bps y/y and 30bps q/q at 12.7% as at 31 December 2019, above Basel III minimum CET1/CAR ratios of 8.0% as well as higher obligations for systemically important banks under Swiss legislation of 10.0%. In all, the results appear solid as CEO Tidjane Thiam steps down following recent reports on spying allegations.
- **Telstra Corp Ltd ("Telstra") | Issuer Profile: Positive (2):** Telstra reported 1HFY2020 results. While reported EBITDA grew 12.1% y/y, underlying EBITDA (without the net one-off impact from nbn) fell 6.6% y/y. Credit metrics remains healthy with reported gearing at 53.7% (FY2019: 50.3%), while reported debt servicing remains healthy at 1.9x (FY2019: 1.8x).

Credit Headlines

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

- CMZB reported 4Q2019 and FY2019 results with FY2019 pre-tax profits down 9.4% y/y to EUR1.1bn. This was driven by a 39.0% y/y rise in risk results due to individual stresses in International Corporates but mostly driven by EUR101mn in restructuring expenses recognized in 4Q2019 for CMZB's "Commerzbank 5.0" strategic programme. Excluding these, FY2019 pre-tax profits would instead be down 1.1% y/y.
- Revenues were broadly stable y/y due to better y/y performance in exceptional items from absence of losses on hedging & valuation adjustments that occurred in 4Q2018. Excluding exceptionals, revenues rose marginally by 0.8% y/y due to solid customer and loans volume growth in the Private and Small Business Customers and Corporate Clients segments that drove better net interest income. At the same time, operating expenses fell 2.2% y/y due to ongoing cost management, selective investments and reduced employee numbers. Including compulsory contributions which rose 7.1% y/y, adjusted operating expenses fell 1.7% y/y. Given the better performance of the revenue line, operating results of EUR1.24bn were up 1.3% y/y.
- From a segment perspective, performance of Private and Small Business Customers was solid with operating results up 15.1% y/y on revenue growth and lower operating expenses. Performance of Corporate Clients and Asset & Capital Recovery (ceased in 2H2019) however was weaker with operating results down 45.1% and 291.3% respectively due to lower revenues and higher risk results.
- Despite the rise in risk results, loan quality continues to look benign with the ratio of non-performing loans and advances to total gross loans and advances at 0.9% as at 31 December 2019 (1.0% as at 31 December 2018).
- CMZB's CET1 ratio improved to 13.4% as at 31 December 2019 against 12.8% as at 30 September 2019 and 12.9% as at 31 December 2018. This was driven by a fall in risk weighted assets ("RWA") from regulatory model enhancements and updated loss history in operational risk RWAs, positional changes and sale of the EMC business in market risk RWAs and portfolio optimisation in credit risk RWAs. The current ratio is above its target CET1 ratio of 12.75% in 2020. Its Minimum Requirement for own funds and Eligible Liabilities ("MREL") ratio of 28.3% as at 30 September 2019 (the FY2019 number will be available in 1Q2020) is above the minimum 27.27% requirement that is expected to apply after 30 June 2020. Further capital issuance is being contemplated to improve capital buffers following issuance of the bank's inaugural USD1bn AT1 issue in July 2019.
- CMZB's results characterize its current strategic programme however still weak income generation from low interest rates and higher risk costs continues to highlight CMZB's vulnerability to the operating environment. We maintain our Neutral (4) issuer profile but continue to watch closely CMZB's performance as it implements its strategy which is focused on cost containment to improve returns. (Company, OCBC)

Credit Headlines

Barclays PLC (“Barclays”) | Issuer Profile: Neutral (4)

- Barclays released its FY2019 results with profit before tax up 25% y/y to GBP4.4bn. This was due to a 16% y/y fall in litigation and conduct charges; excluding these costs, adjusted or underlying profit before tax still improved 9% y/y.
- Better underlying profit before tax was driven by a 2% y/y rise in total income due to better performance in Barclays International (improved markets income and transaction banking income) while income from Barclays UK was stable as margin pressure and lower UK cards activity was offset by volume growth in mortgages and deposits. At the same time, operating costs fell 2% y/y generating positive JAWS and a fall in the cost to income ratio to 63% in FY2019 against 66% in FY2018. Risk costs rose 30% y/y due to changes in macro-economic assumptions and a previous favourable macroeconomic scenario in 2018.
- Results also included an additional provision for payment protection insurance (“PPI”) of GBP1.4bn due to a material increase in the amount of claims and information requests from customers before the Financial Conduct Authority deadline for lodging of new complaints of 29 August 2019 as well as enquiries from the Official Receiver on behalf of bankrupt individuals. As some background, these claims relate to the selling of PPI policies in the UK between 1990 and 2010 together with other products however exclusions in the policies rendered them void and policy holders unable to make a claim.
- By segment, Barclays UK reported profit before tax was down 48% y/y to GBP1bn due to litigation and conduct charges (PPI related); excluding these, underlying profit before tax was up 8.3% y/y to GBP2.6bn on stable income (mortgage and deposit growth offset margin pressures) and a 2% y/y fall in operating expenses. Profit before tax for Barclays International rose 7.9% y/y due to solid income performance in both Corporate and Investment Bank (+5% y/y on FICC performance) and Consumer, Cards and Payments (+4% y/y growth in US co-branded cards and payments partnerships) while operating expenses also fell 2% y/y due to cost efficiencies.
- Loan quality metrics appear decent with a 3.6% y/y fall in stage 3 loans. With stage 3 allowances falling 3.1% y/y, the coverage ratio improved slightly to 37.1% as at 31 December 2019 against 36.9% as at 31 December 2018. The stage 3 exposures to gross exposures ratio improved marginally to 1.3% from 1.4% over the same period.
- Barclays’ capital position improved y/y with its CET1 ratio at 13.8% as at 31 December 2019, up from 13.4% as at 30 September 2019 and 13.2% as at 31 December 2018. This was due to earnings, a reduction in operational risk risk weighted assets, and depreciation of the USD against the GBP. Barclay’s capital levels fell marginally as underlying capital generation was mitigated by dividends paid and the additional PPI provision as well as other movements. The ratio remains above Barclay’s overall CET1 capital requirement of 12.1% comprising 4.5% for Pillar 1, 2.5% for Capital Conservation Buffer, 0.6% for Countercyclical Capital Buffer, 1.5% for Global Systemic Importance, and 3.0% for Pillar 2A.
- Although Barclays return on tangible equity excluding litigation and conduct charges improved to 9.0% in FY2019 (8.5% in FY2018) and was in line with its FY2019 target, management have guided that its 2020 target of above 10% will be difficult to achieve. The neutral (4) issuer profile continues to hold in our view. (Company, OCBC)

Credit Headlines

Credit Suisse Group AG ("CS") | Issuer Profile: Neutral (4)

- CS announced its 4Q2019 and full-year results. For 4Q2019, income before taxes was up 104% y/y and 6% q/q to CHF1.21bn. This was mostly due to higher net revenues from Swiss Universal Bank and International Wealth Management, partially offset by lower net revenues from Global Markets. As a result, net revenues was CHF6.19bn (+29% y/y, +16% q/q).
- Total operating expenses for 4Q2019 also rose 16% y/y to CHF4.83bn, primarily driven by a 21% increase in compensation and benefits (higher salaries and variable compensation), and a 22% increase in general and administrative expenses (increased litigation provisions of CHF413mn, in connection with mortgage-related matters recorded in the Corporate Center, and expenses related to real estate disposals). Provision for 4Q2019 was up 147% y/y and 103% q/q to CHF146mn, due to net provisions of CHF43mn in Swiss Universal Bank (4Q2018: CHF26mn), CHF39mn in Investment Banking & Capital Markets (4Q2018: CHF5mn) and CHF31mn in Global Markets (4Q2018: CHF5mn).
- For the full-year, income before taxes was CHF4.72bn, up 40% y/y. This was mainly driven by strong trading revenues (CHF1.74bn, +179% y/y) and other revenues (CHF2.57bn, up 84% y/y). Total operating expenses (which included net litigation provisions of CHF623mn, mainly in connection with mortgage-related matters) increased slightly by 1% y/y to CHF17.44bn, while provisions increased 32% y/y to CHF324mn.
- From a segment perspective, 4Q2019 income before taxes in Swiss Universal Bank was CHF886mn (+46% q/q, due to an increase in net revenues), International Wealth Management was CHF632mn (+17% q/q, mainly due to an increase in net revenues), Asia Pacific was CHF235mn (-5% q/q despite an increase in net revenues and decline in provisions, dragged down by an increase in total operating expenses), Global Markets was CHF48mn (-82% q/q due to lower net revenues, increased provisions and total operating expenses), Investment Banking and Capital Markets was -CHF60mn (more negative as compared to 3Q2019's -CHF15mn, as provisions and total operating expenses increased) and Corporate Center was -CHF527mn (more negative than 3Q2019's -CHF505mn, mainly due to a spike in total operating expenses from CHF207mn in 3Q2019 to CHF643mn in 4Q2019).
- Total assets grew 2.4% y/y to CHF787.30bn, with net loans increasing 3.2% y/y to CHF296.78bn. Risk-weighted assets grew proportionately with total assets at 2.1% y/y to CHF290.46bn.
- CS' CET1 ratio was up 10bps y/y and 30bps q/q at 12.7% as at 31 December 2019, as share buy backs and dividend payments offset earnings generation while risk-weighted assets fell 4% q/q due FX impacts and model and parameter updates. These ratios remain above Basel III minimum CET1/CAR ratios of 8.0% as well as higher obligations for systemically important banks under Swiss legislation of 10.0% as disclosed in CS's 3Q2019 financial results.
- In all, the results appear solid as CEO Tidjane Thiam steps down. Mr Thiam's resignation followed recent reports on spying allegations and he will be replaced by Mr Thomas Gottstein who has been with CS for more than 20 years. We will continue to see if prior year improving momentum will continue under CS' new leader but for now we maintain CS at Neutral (4). (Company, OCBC)

Credit Headlines

Telstra Corp Ltd ("Telstra") | Issuer Profile: Positive (2)

- Telstra reported 1HFY2020 results for the half year ended 31 Dec. While reported EBITDA grew 12.1% y/y to AUD4.77bn, underlying EBITDA (without the net one-off impact from nbn) fell 6.6% y/y to AUD3.9bn, impacted by nbn headwind on recurring earnings of ~AUD360mn (as a recap, while Telstra receives one-off gains from nbn from the transfer of the network, Telstra will not only lose the wholesale business but also have to make payments to nbn to use the network).
- Mobile segment remained somewhat pressured in 1HFY2020 with reported EBITDA down by 2.4% y/y to AUD1.89bn though this is expected to stabilise with minimum monthly commitment increasing by AUD2 to AUD3.
- Aside from the abovementioned fall in contribution due to nbn, other segments have performed well with NAS (+367.9% y/y to AUD248mn) recording significant growth due to lower costs and improved product mix with a focus on profitability rather than revenue opportunities and Global connectivity (+34.3% y/y to AUD231mn) recording growth from focus on profitable products, one-offs and FX benefits.
- Credit metrics remains healthy with reported gearing at 53.7% (FY2019: 50.3%), which increased h/h due to adoption of AASB16. Reported debt servicing remains healthy at 1.9x (FY2019: 1.8x). Capex for FY2020 is guided at AUD2.9bn to AUD3.3bn, which looks manageable with guided free cashflow after operating lease payments at AUD3.3bn to AUD3.8bn. We continue to hold Telstra at a Positive (2) Issuer Profile. (Company, OCBC)

Key Market Movements

	14-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	50	-4	-3
iTraxx SovX APAC	27	-1	1
iTraxx Japan	42	-1	-2
iTraxx Australia	48	-2	1
CDX NA IG	44	-2	-1
CDX NA HY	109	0	0
iTraxx Eur Main	42	-2	-2
iTraxx Eur XO	212	-4	2
iTraxx Eur Snr Fin	48	-1	-3
iTraxx Eur Sub Fin	99	-3	-8
iTraxx Sovx WE	10	-1	-1
USD Swap Spread 10Y	-5	-1	-1
USD Swap Spread 30Y	-33	-1	-2
US Libor-OIS Spread	14	-2	-12
Euro Libor-OIS Spread	5	-1	-1
China 5Y CDS	34	-3	3
Malaysia 5Y CDS	36	-3	1
Indonesia 5Y CDS	61	-4	0
Thailand 5Y CDS	26	-1	4
Australia 5Y CDS	17	0	0

	14-Feb	1W chg	1M chg
Brent Crude Spot ($/bbl)	56.34	2.57%	-12.24%
Gold Spot ($/oz)	1,577.35	0.44%	2.00%
CRB	172.28	1.06%	-6.19%
GSCI	394.01	1.76%	-7.88%
VIX	14.15	-5.41%	14.21%
CT10 (%)	1.599%	1.51	-21.24
AUD/USD	0.672	0.64%	-2.69%
EUR/USD	1.084	-1.01%	-2.63%
USD/SGD	1.391	-0.09%	-3.16%
AUD/SGD	0.934	-0.73%	-0.48%
ASX 200	7,106	1.19%	2.07%
DJIA	29,423	0.15%	1.67%
SPX	3,374	0.84%	2.77%
MSCI Asiax	690	1.42%	-3.11%
HSI	27,730	0.86%	-4.00%
STI	3,220	-0.35%	-1.54%
KLCI	1,539	-0.88%	-2.62%
JCI	5,872	-1.92%	-7.17%
EU Stoxx 50	3,847	1.08%	1.90%

Source: Bloomberg

New Issues

- Bank of New Zealand priced a USD750mn 5-year bond at T+68bps.
- CCCI Treasure Ltd. (Guarantor: China Communications Construction Co.) priced a USD1bn PERPNC5 at 3.425% and a USD500mn PERPNC7 at 3.65%, tightening from IPT of 3.7% area and 4.0% area respectively.
- Kaisa Group Holdings Ltd priced a USD400mn 364-day bond at 6.75%, tightening from IPT of 7.125% area.
- PT Pertamina (Persero) priced a USD650mn 10.5-year bond at 3.10% and a USD800mn 40-year bond at 4.15%, tightening from IPT of 3.35% area and 4.45% area respectively.
- SF Holding Investment Ltd. (Guarantor: S.F. Holding Co.) priced a USD700mn 10-year bond at T+137.5bps, tightening from IPT of T+170bps area.
- Shanghai Electric Group Global Investment Ltd. (Guarantor: Shanghai Electric (Group) Corp.) priced a USD300mn 5-year bond at T+92.5bps, tightening from IPT of T+130bps area.
- First Sponsor Group Limited priced a SGD100mn 5-year bond at 3.29%, tightening from IPT of 3.4% area.

Date	Issuer	Size	Tenor	Pricing
13-Feb-20	Bank of New Zealand	USD750mn	5-year	T+68bps
13-Feb-20	CCCI Treasure Ltd. (Guarantor: China Communications Construction Co.)	USD1bn USD500mn	PERPNC5 PERPNC7	3.425% 3.65%
13-Feb-20	Kaisa Group Holdings Ltd	USD400mn	364-day	6.75%
13-Feb-20	PT Pertamina (Persero)	USD650mn USD800mn	10.5-year 40-year	3.10% 4.15%
13-Feb-20	SF Holding Investment Ltd. (Guarantor: S.F. Holding Co.)	USD700mn	10-year	T+137.5bps
13-Feb-20	Shanghai Electric Group Global Investment Ltd. (Guarantor: Shanghai Electric (Group) Corp.)	USD300mn	5-year	T+92.5bps
13-Feb-20	First Sponsor Group Limited	SGD100mn	5-year	3.29%
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

Source: OCBC, Bloomberg

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