OCBC TREASURY RESEARCH

Asian Credit Daily

Thursday, May 14, 2020

Market Commentary

- Excluding the 1-year tenor which rose around 1bp, the SGD swap curve bull-flattened yesterday, with the shorter tenors trading 0-3bps lower while the belly and the longer tenors traded 4-10bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 252bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 6bps to 958bps. The HY-IG Index Spread tightened 7bps to 706bps.
- Flows in SGD corporates were heavy, with flows in HSBC 4.7%-PERPs, SOCGEN 6.125%-PERPs, NOLSP 4.65%'20s, STANLN 5.375%-PERPs, FPLSP 4.15%'27s, CS 5.625%-PERPs, DBSSP 3.98%-PERPs, HSBC 5%-PERPs, OLAMSP 6%'22s, UBS 4.85%-PERPs, UOBSP 3.58%-PERPs and BAERVX 5.9%-PERPs.
- 10Y UST Yields fell 2bps to 0.65% by the end of the day, after Fed Chairman Powell said that the outbreak of COVID-10 puts the U.S. economy at risk of a lasting economic damage but he also said that negative rates are currently not under consideration.

Credit Research

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Credit Summary:

- **CMA CGM (acquired Neptune Orient Lines, "NOL") | Issuer Profile: Negative (6):** CMA CGM has secured a EUR1.05bn loan from BNP Paribas, HSBC and Societe Generale, and the loan is 70% guaranteed by the French government. The loan has an initial one-year maturity and an extension option for up to 5 additional years and significantly strengthens CMA CGM's cash and liquidity position.
- **Golden Agri-Resources Ltd ("GGR") | Issuer Profile: Unrated:** GGR has changed to half-yearly reporting rather than quarterly reporting although had shared an interim update for 1Q2020. For 1Q2020, revenue was up 2% y/y while reported EBITDA was down 30% y/y. GGR's unadjusted net gearing (including short term investments as cash) was 0.56x as at 31 March 2020 (31 December 2019: 0.52x).
- **Olam International Limited ("Olam") | Issuer Profile: Neutral (5):** Olam has changed to half-yearly reporting although had shared an interim update for 1Q2020. Revenue was up 4.6% y/y but reported EBITDA was down 7.0% y/y. Olam believes that 80-85% of its revenues is driven by food categories where demand is less sensitive to economic down cycles, allowing it to be relatively more defensive.
- **Commerzbank AG ("CMZB") | Issuer Profile: Neutral (4):** CMZB announced its 1Q2020 results with a pre-tax loss of EUR277mn, partly due to a 318% y/y rise in risk results to EUR326mn. According to management, the COVID-19 impacts to earnings was EUR479mn. CMZB's default portfolio rose 5.3% q/q but its non-performing exposure ratio improved marginally. CMZB's fully loaded CET1 ratio fell q/q to 13.2% as at 31 March 2020 but remains above its revised target CET1 ratio of 12.50% in 2020.
- **ABN Amro Bank N.V. ("ABN") | Issuer Profile: Neutral (3):** ABN released weak 1Q2020 results with a net loss before tax of EUR487mn, down from EUR652mn profit before tax in 1Q2019 and EUR403mn profit before tax in 4Q2019. One of the key drivers was a material jump in impairment charges to EUR1.1bn (EUR102mn and EUR314mn in 1Q2019 and 4Q2019 respectively). Capital ratios fell noticeably but still remain above regulatory minimum requirements. ABN's CET1 ratio was 17.3% as at 31 March 2020, down 80bps q/q and 70bps y/y which was a larger drop compared to peers.

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Credit Headlines

CMA CGM (acquired Neptune Orient Lines, "NOL") | Issuer Profile: Negative (6)

- CMA CGM has secured a EUR1.05bn loan from BNP Paribas, HSBC and Societe Generale. This loan, which is 70% guaranteed by the French government, is part of France's State-guaranteed loan scheme established at the end of March in response to the COVID-19 pandemic. The loan has an initial one-year maturity and an extension option for up to 5 additional years and significantly strengthens CMA CGM's cash position.
- Total short term borrowings (excluding lease liabilities under IFRS 16) as at 31 Dec 2019 was USD1.9bn. CMA CGM had cash and cash equivalents of USD1.3bn as at 31 Dec 2019 and had subsequently in 1Q2020 sold its stakes in 8 terminals for an all-cash consideration of USD815mn. These two items totalled USD2.0bn. Including the EUR1.05bn (~USD1.1bn) loan, we estimate that CMA CGM would have ~USD3.3bn cash on hand. Evidently, the loan has provided CMA CGM with a timely liquidity boost and helped CMA CGM cope with refinancing and operations needs amid the market uncertainties. We will continue to hold CMA CGM at Negative (6) Issuer Profile for now. (Company, OCBC)

Golden Agri-Resources Ltd ("GGR") | Issuer Profile: Unrated

- GGR has changed to half-yearly reporting rather than quarterly reporting although had shared an interim update for 1Q2020.
- For 1Q2020, revenue was USD1.7bn (up 2% y/y) although reported EBITDA was USD84mn (down 30% y/y). GGR reported a net loss of USD95mn in 1Q2020 versus a net profit of USD18mn in 1Q2019 which the company shared was in part due to foreign exchange losses in 1Q2020 while there was a foreign exchange gain in 1Q2019.
- The q/q change was even more stark with reported EBITDA of USD392mn and a net profit of USD240mn in 4Q2019.
- Per GGR, the small y/y increase in revenue was driven by higher average selling prices although volumes, particularly for downstream products, were significantly impacted from supply chain logistics issues due to lockdowns imposed from COVID-19. The fall in reported EBITDA was driven by a newly imposed CPO export levy (resumed in January 2020), additionally the supply disruption had led to higher cost. For April 2020 though, the export levy has reportedly been exempted given decline in CPO prices.
- GGR's unadjusted net gearing (including short term investments as cash) was 0.56x as at 31 March 2020 (31 December 2019: 0.52x). (Company, Xinhua, OCBC)

Credit Headlines

Olam International Limited ("Olam") | Issuer Profile: Neutral (5)

- Olam has changed to half-yearly reporting rather than quarterly reporting although had shared an interim update for 1Q2020.
- For 1Q2020, revenue was SGD7.7bn (up 4.6% y/y) although reported EBITDA was SGD390.9mn (down 7.0% y/y). Olam reported a net profit of SGD166.4mn (up 4.8% y/y). Net profit included one-off divestment gains. On an operational profit after tax basis to owners, this has fallen 24.9% y/y to SGD135.9mn, dragged by the lower reported EBITDA, higher depreciation and amortisation and higher financing costs.
- Per company, reported EBITDA had declined due to lower contributions from Edible Nuts, Spices, Coffee, Dairy and Edible Oils though partly offset by stronger contributions from Cocoa, Grains and Animal Feeds & Protein and Cotton. Reported net gearing was 1.53x as at 31 March 2020, higher than end-2019's 1.38x.
- Olam believes that 80-85% of its revenues is driven by food categories where demand is less sensitive to economic down cycles, allowing it to be relatively more defensive although the impact from the COVID-19 fallout is still highly uncertain for 9M2020. We maintain Olam's issuer profile at Neutral (5). (Company, OCBC)

Credit Headlines

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

- CMZB announced its 1Q2020 results with a pre-tax loss of EUR277mn. Driving the loss was a 318% y/y rise in risk results to EUR326mn, a 13.6% y/y rise in compulsory contributions (+16.8% y/y rise in annual banking levy for the European single resolution fund) as well as EUR295mn in net valuation losses on financial assets and liabilities measured at fair value through profit or loss. According to management, the COVID-19 impacts to earnings was EUR479mn.
- The EUR326mn provisioning includes EUR185mn for COVID-19 impacts related to adjusted macro-economic assumptions, larger exposures and a higher estimated probability of default. On the other hand, the 1Q2019 risk result was mostly within the private and small business customer segment, the 1Q2020 result is evenly split between private and small business customers and corporate clients. Management have forewarned that given the dynamic nature of the situation and the IFRS9 expected credit loss model, what was included in the results is an initial assessment and assumptions will continue to be reviewed as the situation unfolds. Management expects total provisioning of EUR1.0-1.4bn in FY2020 based on a two month lockdown followed by a gradual economic recovery. A second lockdown is not expected. CMZB's provisioning also includes risks contained in its contingent liabilities of EUR117.5bn which includes guarantees and indemnity agreements as well as irrevocable lending commitments at their nominal value.
- CMZB's default portfolio rose 5.3% q/q to EUR3.9bn. However, owing to solid business momentum prior to the COVID-19 outbreak, its non-performing exposure or loan ratio improved marginally to 0.8% as at 31 December 2020 from 0.9% as at 31 December 2019. The loan loss coverage ratio excluding and including collateral was constant at 47% and 73% respectively over the same period. Exposure to at risk industries looks manageable with 1.5% of CMZB's portfolio from retail (88% investment grade), 1.0% from travel (airline exposures mostly secured) and 0.9% to oil and gas (more than 50% have maturities less than 12months).
- CMZB's fully loaded CET1 ratio fell 20bps q/q to 13.2% as at 31 March 2020 (13.4% as at 31 December 2019) but remains above its revised target CET1 ratio of 12.50% in 2020 as well as its maximum distributable amount requirement of 10.78%. Movements in the ratio reflect the net loss recorded which was offset by the exclusion of any dividend payment as requested by the European Central Bank as well as higher credit risk weighted assets from framework adjustments and higher lending volumes from drawdowns of committed lines in March. The fully loaded leverage ratio fell 40bps q/q to 4.7% as at 31 March 2020, while its liquidity coverage ratio remained above the 100% minimum requirement at 129.94% for the same period. Its Minimum Requirement for own funds and Eligible Liabilities ("MREL") ratio of 30.6% as at 31 December 2019 is above the minimum 27.66% requirement.
- With management highlighting planning uncertainties, increased risks and an inability to accurately assess future loan losses, future operating performance looks challenging from higher volatility, lower asset valuations and reduced credit demand. As such, the bank announced the appointment of McKinsey & Co. to review the bank's business model. In our view, the impact of COVID-19 will amplify the existing vulnerabilities in the issuers we rate and could lead to a more drastic or faster repositioning than previously expected. While this increases execution risk along with underlying fundamental challenges, we expect the German government to watch any restructuring of CMZB (and resultant impact on Germany's banking sector) closely to ensure systemic stability is maintained. We think this, along with government support measures through grants to small corporates and government backed loans, can provide a floor to the credit profile of Commerzbank for the time being and will keep the Neutral (4) issuer profile for now. (Company, OCBC)

Credit Headlines

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

- ABN released weak 1Q2020 results with a net loss before tax of EUR487mn, down from EUR652mn profit before tax in 1Q2019 and EUR403mn profit before tax in 4Q2019. Key drivers were a larger fall in operating income (-8% y/y) against the fall in operating expenses (-2% y/y) and a material jump in impairment charges to EUR1.1bn (EUR102mn and EUR314mn in 1Q2019 and 4Q2019 respectively).
- The big story as it is for other banks is the substantial rise in impairment charges. This was somewhat foreshadowed by management in earlier announcements. The EUR1.1bn charge can be broken down into specific charges of EUR460mn for two large clients, EUR235mn for a US client of ABN AMRO Clearing that missed margin calls on its trading position and EUR225mn for a potential fraud case within trade and commodity finance in Singapore. EUR140mn relates to regular impairments. In addition, there was upfront collective provisioning of EUR511mn too reflect the economic impact of COVID-19, a deterioration in credit risk within the existing portfolio and additional coverage provisions to accommodate the sharp fall in oil prices. The cost of risk rose in 1Q2020 to 132bps, up from 46bps in 4Q2019 and 15bps in 1Q2019 and the FY2019 quarterly average of 24bps, highlighting the depth of the situation. By segment, cost of risk for Retail Banking (“RB”), Commercial Banking (“CB”), Private Banking (“PB”) and Corporate & Institutional Banking (“CIB”) was 14bps, 202bps, 37 bps and 412bps respectively. The EUR1.1bn charge was also broken down into EUR36mn for consumer exposures (EUR4mn for residential mortgages), and EUR861mn for corporate exposures.
- ABN’s overall loan quality remains decent given its loan book comprises mostly Dutch mortgages that have an average loan to market value of 63% as at 31 March 2020 (down from 64% as at 31 December 2019). Residential mortgages comprised 58.3% of total client loans as at 31 March 2020. Corporate loans (equally split between CB and CIB) comprised 37% of total client loans while the remainder is from consumer loans. In addition to these on-balance sheet commitments, ABN also has contingent exposures of EUR109.7bn of which EUR49.9bn are committed credit facilities, down 8.8% q/q due to drawdowns of committed undrawn amounts with EUR215mn of impairment charges related to these and other off-balance sheet exposures.
- Capital ratios fell noticeably but remain above regulatory minimum requirements. ABN’s CET1 ratio was 17.3% as at 31 March 2020, down 80bps q/q and 70bps y/y which was a larger drop compared to peers. The fall was driven by both a 1.7% rise in risk weighted assets (mostly increased credit risk from loan drawdowns and weaker risk assumptions in CIB as well as higher market risk) and a 3.0% q/q fall in CET1 capital from the net loss. As previously highlighted, ABN announced in late March that it will (1) delay a decision to pay its previously proposed final 2019 dividend and will reassess once the COVID-19 impact becomes clearer (no earlier than early October) and (2) will not pay an interim 2020 dividend in August. This is in line with the recommendations by the European Central Bank (“ECB“) on all Eurozone banks to preserve capital in this environment until at least October. The CET1 ratio excludes the final dividend reserve of EUR639mn (57bps) and is now below the bank’s capital target range of 17.5%-18.5%. That said, the CET1 ratio remains well above the 2020 revised Maximum Distributable Amount (MDA) trigger level of 9.7% per ECB and DNB capital relief measures (previously 12.09%). Per the Minimum Requirement for own funds and Eligible Liabilities (“MREL”) framework, its estimated ratio of 28.8% was also above its MREL ambition of 27.0% by 2022 while its 12-month rolling average liquidity coverage ratio at 133% was also above the regulatory minimum as at 31 March 2020.
- While uncertainty persists, a key certainty remains ABN’s capital position and the strong support orientation from the government. We will therefore maintain the Neutral (3) rating for now, albeit somewhat precariously. (Company, OCBC)

Key Market Movements

	14-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	118	-2	3
iTraxx SovX APAC	67	-1	3
iTraxx Japan	80	0	-3
iTraxx Australia	119	-3	4
CDX NA IG	97	5	15
CDX NA HY	93	-1	-5
iTraxx Eur Main	88	2	12
iTraxx Eur XO	521	6	73
iTraxx Eur Snr Fin	106	-1	12
iTraxx Eur Sub Fin	227	-1	20
iTraxx Sovx WE	29	-2	1
USD Swap Spread 10Y	-4	0	-11
USD Swap Spread 30Y	-50	-1	-14
US Libor-OIS Spread	37	-2	-73
Euro Libor-OIS Spread	23	1	1
China 5Y CDS	54	3	13
Malaysia 5Y CDS	110	2	18
Indonesia 5Y CDS	209	-1	25
Thailand 5Y CDS	63	-3	-9
Australia 5Y CDS	29	1	0

	14-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	29.04	-1.43%	-1.89%
Gold Spot ($/oz)	1,715.29	-0.04%	-0.68%
CRB	120.63	-0.75%	-4.27%
GSCI	272.90	0.57%	-2.03%
VIX	35.28	3.40%	-6.57%
CT10 (%)	0.638%	-0.30	-11.41
AUD/USD	0.644	-0.89%	-0.08%
EUR/USD	1.081	-0.18%	-1.51%
USD/SGD	1.421	-0.42%	-0.49%
AUD/SGD	0.915	0.48%	-0.40%
ASX 200	5,358	-0.12%	-2.37%
DJIA	23,248	-1.76%	-2.93%
SPX	2,820	-1.00%	-0.92%
MSCI Asiax	603	1.52%	2.54%
HSI	23,846	-0.56%	-2.41%
STI	2,539	-2.03%	-3.62%
KLCI	1,391	0.13%	1.43%
JCI	4,542	-1.44%	-3.49%
EU Stoxx 50	2,811	-1.17%	-3.67%

Source: Bloomberg

New Issues

- Korea Electric Power Corp has mandated banks for a possible USD ESG bonds.
- NongHyup Bank has mandated banks for a proposed USD bond.

Date	Issuer	Size	Tenor	Pricing
12-May-20	REC Ltd	USD500mn	3-year	4.86%
12-May-20	NWD (MTN) Ltd. (Guarantor: New World Development Co.)	USD600mn	10-year	T+380bps
12-May-20	International Islamic Liquidity Management Corp.	USD300mn USD300mn	1-month 3-month	0.33% 0.5%
12-May-20	Tuan Sing Holdings Limited	SGD65mn	2NC1	7.75%
12-May-20	City Developments Limited	SGD200mn	5-year	2.3%
11-May-20	PT Indonesia Asahan Aluminium (Persero)	USD1bn USD1bn USD500mn	5-year 10-year 30-year	4.975% 5.75% 6.325%
07-May-20	AMTD International Inc	USD50mn	PERPNC5	4.5%
07-May-20	Lenovo Group Ltd	USD350mn	LENOVO 5.875%'25s	5.64%
06-May-20	Sun Hung Kai Properties (Capital Market) Limited (Guarantor: Sun Hung Kai Properties Limited)	USD500mn	10-year	T+210bps
06-May-20	Sinopec Group Overseas Development (2018) Limited (Guarantor: China Petrochemical Corporation)	USD1bn USD1.5bn USD500mn	5-year 10-year 30-year	T+180bps T+205bps 3.35%
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

Source: OCBC, Bloomberg

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