

Market Commentary

- The SGD swap curve fell yesterday, with the shorter tenors trading 0-2bps lower, while the belly and the longer tenors traded 2bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 119bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 476bps.
- Flows in SGD corporates were heavy, with flows in TMGSP 4.05%'25s, HSBC 4.7%-PERPs, SLHSP 3.5%'30s, UBS 4.85%-PERPs, ARASP 5.6%-PERPs and SOCGEN 6.125%-PERPs.
- 10Y UST Yields fell 3bps to 1.59%, following soft January U.S. retail sales data and concerns on the spread of the COVID-19.

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:

- **[Credit Agricole Group SA \(“CAG”\)](#) | Issuer Profile: Neutral (3):** CAG reported its 4Q2019 and FY2019 results with 4Q2019 underlying net income of EUR2.0bn up 22.1% y/y on positive JAWs and a marginal reduction in the cost of risk. Underlying performance excludes the EUR200mn positive impact of specific items from a favourable tax decision with regards CAG’s sale of Greek bank Emporiki that resulted in a provision write back (EUR1.04bn) that was offset by a goodwill impairment in CAG’s French retail business of EUR664mn and other costs. CAG’s capital position remains solid with its CET1 ratio at 15.9% as at 31 December 2019, well above CAG’s 9.7% Supervisory Review and Evaluation Process threshold which includes a global systemically important bank buffer of 1.0%. Fundamentals for CAG remain solid in our view given its diversified business model and relatively less reliance on domestic Retail Banking.
- **[Singapore Airlines Ltd \(“SIA”\)](#) | Issuer Profile: Neutral (3):** SIA announced its third quarter result for the financial year ended March 2020 (“3QFY2020”). Reported operating profit grew 15.7% y/y to SGD448.5mn for 3QFY2020. EBITDA (based on our calculation) was SGD1.0bn, while interest expense (including interest on lease liabilities) was SGD55mn, resulting in an EBITDA/Interest of 18.2x for 3QFY2020. On the back of COVID-19, SIA had cut back its capacity significantly and we expect the company to face two weak quarters at the very least. We also expect SIA’s net gearing to tilt up from capex spend, refunds and reduction in sales in advanced of carriage. Longer term, SIA continues to face a highly competitive environment and we expect it to continue its investment outlay in growing its India business. We are monitoring SIA for a downgrade to Neutral (4).

Asian Credit Daily**Credit Headlines****Credit Agricole Group SA (“CAG”) | Issuer Profile: Neutral (3)**

- CAG reported its 4Q2019 and FY2019 results with 4Q2019 underlying net income of EUR2.0bn up 22.1% y/y on positive JAWs and a marginal reduction in the cost of risk. Underlying performance excludes the EUR200mn positive impact of specific items from a favourable tax decision with regards CAG’s sale of Greek bank Emporiki that resulted in a provision write back (EUR1.04bn) that was offset by a goodwill impairment in CAG’s French retail business of EUR664mn and other costs.
- For 4Q2019, revenue growth of 6.7% y/y superceded operating expense growth of 2.3% y/y. Driving revenue growth was improved performance across almost all business lines. Large customers (Corporate and Investment Bank) was up +20.7% y/y, Asset Gathering (inc. insurance, asset and wealth management) rose 10.4%, Regional Banks (part of Retail Banking) rose 5.7% y/y while International Retail Banking was up 1.5% y/y. Specialized Financial Services (consumer finance, factoring and lease finance) was down 2.6% y/y however according to management this does not include automotive partnerships which is equity accounted. Operating expenses rose 2.3% y/y due to expenditure in IT and continued investments CAG’s Asset Gathering and Large Customers segments. The underlying cost to income ratio improved 2.7% to 64.7% for 4Q2019.
- The slight improvement in the cost of risk was due to improved performance in Regional Banks. This offset a rise in the cost of risk in Large Customers against a net writeback in 4Q2018. The cost of risk on outstandings (calculated as average loan loss reserves over the last four rolling quarters annualised to total outstandings) was at 20bps in 4Q2019, below the medium term plan assumption of 25bps while the non-performing loan ratio was stable q/q at 2.5%. The non-performing loan coverage ratio was marginally down to 82.6% as at 31 December 2019 against 83.5% as at 30 September 2019.
- For FY2019, results were still solid with underlying net income of EUR7.2bn up 5.0% y/y on 3.0% y/y growth in revenues against a 1.7% y/y growth in operating expenses (excluding Single Resolution Fund contributions) and 7.1% y/y rise in the cost of risk from Large Customers exposures. By segment contribution, Asset Gathering contributed 38% to group underlying net income, followed by Large Customers at 29%, Retail Banking (18%) and Specialized Financial Services (15%).
- CAG’s capital position remains solid with its CET1 ratio at 15.9% as at 31 December 2019, up 40 bps q/q and well above CAG’s 9.7% Supervisory Review and Evaluation Process threshold which includes a global systemically important bank buffer of 1.0%. Its estimated MREL and TLAC ratios is also above its Medium Term Plan targets and regulatory requirements.
- We continue to review the numbers but see the results as well within the current Neutral (3) issuer profile. Fundamentals for CAG remain solid in our view given its diversified business model and relatively less reliance on domestic Retail Banking. (Company, OCBC)

Asian Credit Daily**Credit Headlines****Singapore Airlines Ltd (“SIA”) | Issuer Profile: Neutral (3)**

- SIA announced its third quarter result for the financial year ended March 2020 (“3QFY2020”). Revenue grew by 3.0% y/y to SGD4.5bn while reported operating profit grew 15.7% y/y to SGD448.5mn for 3QFY2020. This was on the back of strong passenger revenue growth which helped offset falls in cargo revenue. Passenger traffic grew 8.3% while capacity growth was only 4.9% with resultant load factor stronger at 85.6%.
- By segment, the parent airline SQ grew by 11.9% y/y to reach a reported operating profit of SGD413mn, while SilkAir and SIA Engineering saw flat y/y reported operating profit at SGD7mn and SGD16mn respectively. Scoot eked out a stronger operating profit of SGD4mn against SGD1mn in 3QFY2018.
- EBITDA (based on our calculation) was SGD1.0bn, while interest expense (including interest on lease liabilities) was SGD55mn, resulting in an EBITDA/Interest of 18.2x for 3QFY2020. For 9MFY2020, this was 14.5x, still manageable, though lower than historical.
- As at 31 December 2019, SIA’s unadjusted net gearing (including lease liabilities) was 0.64x, increasing from 0.61x as at 30 September 2019. This was largely due to capex spent at SIA, which amounted to SGD1.3bn during the quarter (9MFY2020: SGD4.1bn spent against SGD5.7bn targeted for FY2020). Despite the ongoing challenges in the airline sector, there has been no revision to the capex plans as yet.
- On the back of COVID-19, SIA had cut back its capacity significantly, particularly to Mainland China and we expect the company to face two weak quarters at the very least. We also expect SIA’s net gearing to tilt up from capex spend, refunds and reduction in sales in advanced of carriage. Though what we find is that historically air travel tends to rebound fast after an outbreak subsides.
- Longer term, SIA continues to face a highly competitive environment and we expect it to continue its investment outlay in growing its India business. We are monitoring SIA for a downgrade to Neutral (4). (Company, OCBC)

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Key Market Movements

	17-Feb	1W chg (bps)	1M chg (bps)		17-Feb	1W chg	1M chg
iTraxx Asiax IG	49	-3	-2	Brent Crude Spot (\$/bbl)	57.15	7.28%	-11.87%
iTraxx SovX APAC	27	-1	2	Gold Spot (\$/oz)	1,583.04	0.69%	1.66%
iTraxx Japan	43	-1	0	CRB	172.95	1.67%	-5.43%
iTraxx Australia	47	-2	1	GSCI	396.23	2.60%	-7.19%
CDX NA IG	44	-1	0	VIX	13.68	-11.57%	13.06%
CDX NA HY	109	0	0	CT10 (%)	1.585%	1.52	-23.67
iTraxx Eur Main	42	-1	-1				
iTraxx Eur XO	212	-2	5	AUD/USD	0.672	0.48%	-2.33%
iTraxx Eur Snr Fin	47	-2	-3	EUR/USD	1.084	-0.69%	-2.31%
iTraxx Eur Sub Fin	97	-5	-11	USD/SGD	1.391	-0.12%	-3.16%
iTraxx Sovx WE	10	0	-1	AUD/SGD	0.935	-0.61%	-0.92%
USD Swap Spread 10Y	-6	-1	-2	ASX 200	7,110	1.39%	0.65%
USD Swap Spread 30Y	-33	-1	-2	DJIA	29,398	1.02%	0.17%
US Libor-OIS Spread	13	-2	-11	SPX	3,380	1.58%	1.52%
Euro Libor-OIS Spread	5	-2	-2	MSCI Asiax	691	1.88%	-3.25%
				HSI	27,816	1.50%	-4.27%
China 5Y CDS	34	-3	5	STI	3,220	1.21%	-1.86%
Malaysia 5Y CDS	35	-2	3	KLCI	1,544	-0.65%	-3.22%
Indonesia 5Y CDS	60	-4	0	JCI	5,867	-2.21%	-6.75%
Thailand 5Y CDS	26	-1	5	EU Stoxx 50	3,841	1.12%	0.86%
Australia 5Y CDS	17	0	0				

Source: Bloomberg

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New Issues

- Yango Cayman Investment Ltd (Guarantor: Fujian Yango Group Co Ltd) priced a USD110mn 2-year bond at 13.0%.
- UPL Corporation Limited arranged investor meetings commencing 17 Feb for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
14-Feb-20	Yango Cayman Investment Ltd (Guarantor: Fujian Yango Group Co Ltd)	USD110mn	2-year	13.0%
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

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

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