OCBC TREASURY RESEARCH

Asian Credit Daily

Wednesday, February 19, 2020

Market Commentary

- The SGD swap curve rose yesterday, with the shorter tenors trading 0-2bps higher, while the belly and the longer tenors traded 0-0.5bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 119bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 471bps. The HY-IG Index Spread tightened 4bps to 352bps.
- Flows in SGD corporates were heavy, with flows in ARASP 5.6%-PERPs, UBS 4.85%-PERPs, GUOLSP 3.4%'25s, TMGSP 4.05%'25s, CS 5.625%-PERPs, FPLSP 3.95%-PERPs, FPLSP 4.38%-PERPs, SOCGEN 6.125%-PERPs and SPHSP 3.2%'30s
- 10Y UST yields fell 3 bps to 1.56%, as risk appetite shrunk after Apple Inc said it would miss forecasts due to manufacturing slowdowns caused by COVID-19. Apple's share price though only fell 1.8% on the back of this announcement.

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:

- **Wesfarmers Limited ("WESAU") | Issuer Profile: Neutral (3):** WESAU announced their semi-annual financials for the year ended 30 June 2020 ("1HFY2020"). Overall revenue increased by 6% y/y to AUD15.2bn, driven by growth in Bunnings, Kmart Group and Officeworks. Based on our calculations, EBITDA/Interest was 12.1x, net gearing was 1.0x while gross debt-to-EBITDA was 2.3x.
- **Scentre Group ("SCG") | Issuer Profile: Positive (2):** SCG reported full year 2019 results. Revenue was down by 0.7% y/y, dragged by lower property development and construction revenue. Profit before tax slipped 46.9% y/y but excluding property revaluation adjustments, profit before tax actually rose 6.4% y/y. EBITDA/Interest based on our calculation was 2.77x, up from a year ago but weaker than 1H2019. Overall, SCG's credit metrics remain intact and it still has headroom to either divest its malls or use them to secure funding if needed.
- **Westpac Banking Corporation ("Westpac") | Issuer Profile: Positive (2):** Westpac announced its 1QFY2020 capital, funding and credit quality update for the quarter ended 31 December 2019. Although challenges still remain in 2020 from AUSTRAC proceedings and previously unexpected developments with regards the Australian bushfires, storms and the outbreak of COVID-19, Westpac's credit profile looks intact for now. CET1 capital ratio was 10.8% as at 31 December 2019, up 20bps from FY2019.
- **HSBC Holdings PLC ("HSBC") | Issuer Profile: Positive (2):** HSBC announced its 4Q2019 and FY2019 results which were influenced by HSBC's long-awaited restructuring plan. Reported profit before tax was down 32.9% y/y for FY2019 to USD13.3bn, however, excluding a goodwill impairment of USD7.35bn, underlying profit before tax was up 4.1% y/y. HSBC also announced its updated strategic plan to 2022. HSBC's target is to achieve a return on average tangible equity ("ROTE") of 10% to 12% in 2022 and a CET1 ratio in the range of 14-15%. In FY2019, ROTE was 8.4% and CET1 was 14.7%. We continue to go through the details however of most interest is that the restructuring was announced by interim CEO Noel Quinn who remains as interim.

Credit Headlines

Wesfarmers Limited ("WESAU") | Issuer Profile: Neutral (3)

- WESAU announced their semi-annual financials for the year ended 30 June 2020 ("1HFY2020"). Overall revenue increased by 6% y/y to AUD15.2bn, driven by growth in Bunnings, Kmart Group and Officeworks. The WesCEF segment comprising the Western Australian focused businesses within (1) Chemicals (2) Energy and (3) Fertiliser sectors saw revenue grow 1.7% y/y although the WIS segment which services industrial customers within mining, manufacturing, construction, government, transport, energy and retail saw revenue decline by 2.1% y/y. The WIS segment was mainly dragged by Blackwoods, a distributor of tools, safety gear, workwear and industrial supplies which is still in the midst of a turnaround.
- WESAU's overall retail business did well. On a same-store sales basis, Bunnings grew by 4.7% y/y. While Kmart Group grew by 7.6% y/y, growth at Kmart Group was driven by Kmart (comparable sales growth, excluding Catch contribution of 5.5% y/y), although the Target sub-segment was down 2.3% y/y. Officeworks, which makes up 8% of 1HFY2020 consolidated revenue and positioned as a growth business segment grew 11.5% y/y.
- Common across retailers, WESAU does not typically own its properties outright (it holds indirect stakes in some of the properties where its Bunnings business operate from). From 1 July 2019, WESAU has accounted for leases under the accounting standard AASB 16 Leases where the right of use and the lease liabilities would be recognized on balance sheet as such y/y EBITDA comparison is not meaningful.
- We find 1HFY2020 EBITDA at AUD2.3bn while interest expense (including interest on lease liabilities) at AUD188mn, resulting in a highly manageable EBITDA/Interest of 12.1x. As at 31 December 2019, net gearing (including lease liabilities as debt) was 1.0x within expectations while gross debt-to-EBITDA was healthy at 2.3x.
- Post quarter end, WESAU has announced that it will sell 4.9%-stake in its associate Coles Group which would generate ~AUD1.05bn-AUD1.08bn to WESAU. Post-divestment, WESAU would retain a 10.1%-stake in Coles Group. We maintain our issuer profile on WESAU at Neutral (3). (Company, OCBC)

Credit Headlines

Scentre Group ("SCG") | Issuer Profile: Positive (2)

- SCG reported full year 2019 results. Revenue was down by 0.7% y/y to AUD2.6bn, dragged by lower property development and construction revenue (-32.9% y/y). Property revenue which made up 82.6% of its total revenue was up by 0.5% y/y. Net property income rose by 0.8% y/y to AUD1.8bn.
- Profit before tax slipped 46.9% y/y to AUD1.2bn from AUD2.3bn in 2018. This was largely to due to the absence of property revaluation gains. Excluding property revaluation adjustments, on a y/y basis, profit before tax rose 6.4% y/y to AUD1.4bn (2018: AUD1.3bn).
- Over 2019, SCG also saw the divestment of Sydney Towers for AUD1.52bn and a 50% stake of Westfield Burwood for AUD575mn. SCG had also acquired a 50% interest in Booragoon in Dec 2019 for AUD570mn.
- Operating performance of its retail mall which has held up although also reflected the softness in the retail space. While portfolio occupancy rate was stable at 99.3%, rental reversion was down by 6.4% (2018: -3.5%). The footfall and sales figures though showed improvement y/y. Customer visits per annum rose 2.4% (i.e. by 12mn) to over 548mn. Total annual retail sales rose 4.2% y/y to AUD25bn (2018: AUD24bn).
- Net debt fell to AUD13.6bn from AUD14.4bn a year ago, with net debt of total assets at 34%, down from 35.2% a year ago. EBITDA/Interest based on our calculation was 2.77x, while up from 2.51x a year ago, we note that it is weaker than 1H2019.
- Overall, SCG's credit metrics remain intact, as it has sufficient cash and committed financing facilities (total: AUD1.8bn) to cover its short term borrowings (AUD1.7bn) as well as its share of construction cost for its active projects (AUD44mn). While SCG also has AUD64mn special projects, we note that only Westfield Carindale (out of its 42 malls) is encumbered. Therefore, we think SCG has headroom to either divest its malls or use them to secure funding if needed. We will continue to hold SCG at Positive (2) Issuer Profile for now. (Company, OCBC)

Credit Headlines

Westpac Banking Corporation ("Westpac") | Issuer Profile: Positive (2)

- Westpac announced its 1QFY2020 capital, funding and credit quality update for the quarter ended 31 December 2019.
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- Although challenges still remain for Westpac in 2020 from AUSTRAC proceedings and previously unexpected developments with regards to the Australian bushfires, storms and the outbreak of COVID-19, Westpac's credit profile looks intact for now.
- Its CET1 capital ratio of 10.8% as at 31 December 2019 is up 20bps from FY2019 (30 September 2019) due to the AUD2.8bn capital raising in November 2019 that offset dividend payments and risk weighted asset growth from movements in interest rate risk and operational risk.
- Credit quality has generally held up in 1QFY2020 although trends in credit quality will be more instructive in 2QFY2020 given they will incorporate the impacts of the above developments. Impaired assets at AUD1.8bn as at 31 December 2019 were stable q/q however the stressed assets to total committed exposures ratio rose 2bps to 1.22% on higher customer downgrades in Westpac Institutional Bank, Business Bank and New Zealand. Australian unsecured 90+ day delinquencies also rose 5bps to 1.82% due to a fall in the overall portfolio.
- While Westpac has disclosed some initial details of the impact of the severe weather events in terms of insurance claims and relief packages, the more telling impact will be the outcome of the AUSTRAC case. Westpac has already flagged that the incurrence of additional expenses for the response plan as well as increased ongoing litigation and regulatory expenses.
- We continue to watch for developments and any civil penalty that may impact Westpac's Positive (2) issuer profile. (Company, OCBC)

Credit Headlines

HSBC Holdings PLC ("HSBC") | Issuer Profile: Positive (2)

- HSBC announced its 4Q2019 and FY2019 results which were influenced by HSBC's long-awaited restructuring plan. Reported profit before tax was down 32.9% y/y for FY2019 to USD13.3bn however this includes a goodwill impairment of USD7.35bn. Excluding this, underlying profit before tax was up 4.1% y/y.
- Underlying performance was helped by a 4.3% y/y rise in net operating income from performance in Retail Banking and Wealth Management, Global Private Banking and Commercial Banking. This offset a 56.0% y/y rise in expected credit losses and other credit impairment charges from higher charges in Retail Banking and Wealth Management and Commercial Banking. Underlying operating expenses rose 1.0% y/y.
- HSBC's FY2019 adjusted profit before tax ("PBT") which excludes significant items rose 4.9% y/y to USD22.2bn. Significant items of USD8.865bn include USD689mn in revenues and USD9.55bn in operating expenses including USD1.28bn for customer redress programmes and USD7.35bn in the aforementioned goodwill impairment.
- By segment, Retail Banking and Wealth Management adjusted PBT rose 14.7% y/y to USD8.05bn (36.2% of total adjusted PBT), Commercial Banking adjusted PBT fell 2.3% y/y to USD7.31bn (32.9% of total adjusted PBT), while Global Banking and Markets adjusted PBT fell 9.2% y/y to USD5.35bn (24.1% of total adjusted PBT). Global Private Banking adjusted PBT rose 18.6% y/y to USD402mn (1.8% of total adjusted PBT). Corporate Centre (Central Treasury, legacy businesses, associates and joint ventures, UK bank levy and others) adjusted PBT rose 140.6% y/y to USD1.1bn (5.0% of total adjusted PBT).
- By geography and looking at reported PBT, Europe generated a net loss of USD4.65bn in FY2019, almost 500 times greater than FY2018 net losses, Asia reported net PBT rose 3.8% y/y to USD18.47bn while Middle East and North Africa reported PBT rose 49.5% y/y to USD2.33bn. North America and Latin America performed weaker y/y and are not meaningful contributors to overall PBT. Considering relative contributions, Asia contributes substantially all of HSBC's reported PBT although Middle East and North Africa contribution is growing.
- Given the above segmental performance and challenges faced in 2019, HSBC announced its updated strategic plan to 2022. Key platforms include:
  - The previously mentioned USD7.35bn in goodwill impairments, comprising USD4bn in Global Banking and Markets (includes the investment bank) and USD2.5bn for European Commercial Banking. The write downs reflect lower long-term economic growth rate assumptions, and the restructuring of Global Banking and Markets;
  - 35,000 in job cuts or 15% of the global workforce;
  - USD100bn in gross risk weighted asset reduction (targeted mostly in investment banking in the US (together with retail banking) and Europe) with these assets to be invested elsewhere. HSBC therefore expect risk weighted assets to remain stable over the next 3 years;
  - Retail Banking and Wealth Management to be combined with Global Private Banking; and
  - USD4.5bn in cost reductions.

(to be continued in the next page)

Credit Headlines

HSBC Holdings PLC ("HSBC") | Issuer Profile: Positive (2) ***(continued)***

- HSBC's target is to achieve a reported return on average tangible equity ("ROTE") of 10% to 12% in 2022 and a CET1 ratio in the range of 14-15%. In FY2019, these were 8.4% for ROTE (down 20bps y/y) and 14.7% for CET1 (up 70bps y/y largely on risk weighted asset reductions of USD23bn in Global Banking and Markets).
- Share buybacks have been suspended for 2020-2021 as the restructuring gets underway and this along with a muted reception from investors on the plan is likely what drove HSBC's share price down upon the announcement.
- We continue to go through the details however of most interest is that the restructuring was announced by interim CEO Noel Quinn who remains as interim. This calls into question how this restructuring can proceed without a CEO with a strong mandate and also how this announcement may limit HSBC's ability to attract the right CEO, especially if any incoming CEO has different ideas for how to take HSBC forward.
- All up, the announcement does not yet generate any certainty of the way forward for HSBC whilst it continues to grapple with challenges facing its main markets, in particular Hong Kong and China. Current CFO Ewen Stevenson has flagged the potential for a USD600mn in additional loan loss provisions if virus concerns extend into 2H2020 while for now HSBC expects a negative impact in 1Q2020 of USD200mn to USD500mn.
- HSBC was one of the issuers under our coverage that we have previously mentioned at the start of the year as being vulnerable to a downgrade for fundamental reasons. We continue to review the results and announcements and will look to update the Positive (2) issuer profile as necessary in the near term. (Company, OCBC)

Key Market Movements

	19-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	49	0	-2
iTraxx SovX APAC	27	0	2
iTraxx Japan	44	2	1
iTraxx Australia	48	0	1
CDX NA IG	45	1	1
CDX NA HY	109	0	0
iTraxx Eur Main	42	0	-1
iTraxx Eur XO	214	5	6
iTraxx Eur Snr Fin	47	0	-4
iTraxx Eur Sub Fin	97	-1	-11
iTraxx Sovx WE	10	0	-2
USD Swap Spread 10Y	-6	-2	-2
USD Swap Spread 30Y	-34	-2	-2
US Libor-OIS Spread	14	0	-10
Euro Libor-OIS Spread	4	0	-2
China 5Y CDS	35	2	5
Malaysia 5Y CDS	36	1	3
Indonesia 5Y CDS	60	0	0
Thailand 5Y CDS	26	0	6
Australia 5Y CDS	16	0	0

	19-Feb	1W chg	1M chg
Brent Crude Spot ($/bbl)	57.88	3.75%	-10.75%
Gold Spot ($/oz)	1,601.38	2.26%	2.60%
CRB	173.81	2.92%	-4.96%
GSCI	398.34	4.23%	-6.69%
VIX	14.83	-1.40%	22.56%
CT10 (%)	1.561%	-7.23	-26.05
AUD/USD	0.670	-0.58%	-2.55%
EUR/USD	1.080	-0.66%	-2.64%
USD/SGD	1.392	-0.39%	-3.25%
AUD/SGD	0.932	0.19%	-0.72%
ASX 200	7,124	0.51%	0.85%
DJIA	29,232	-0.15%	-0.39%
SPX	3,370	0.54%	1.22%
MSCI Asiax	683	-1.18%	-4.24%
HSI	27,647	-0.63%	-4.85%
STI	3,215	-0.24%	-2.00%
KLCI	1,533	-0.66%	-3.95%
JCI	5,914	0.02%	-6.00%
EU Stoxx 50	3,837	0.28%	0.74%

Source: Bloomberg

New Issues

- Delhi International Airport priced a USD150mn re-tap of its DIALIN 6.45%'29s at 108%.
- Citic Ltd priced a USD300mn 5-year bond at T+110bps and a USD700mn 10-year bond at T+132.5bps, tightening from IPT of T+150bps and T+170bps area respectively.
- Yango Justice International Ltd (Guarantor: Yango Group Co., Ltd) priced a USD300mn 3.75NC2 at 8.625%, tightening from IPT of 9.25% area.
- Hong Kong JY Flower Limited (Guarantor: Kunming Industrial Development & Investment Co., Ltd) priced a USD300mn 3-year bond at 6.1%, tightening from IPT of 6.5%.
- Housing & Development Board (HDB) priced a SGD700mn 7-year bond at 1.76%, same as IPT.
- ESR Cayman Limited is looking to price a SGD 5-year bond at IPT of 5.375% area.
- Oxley MTN Pte. Ltd. and its guarantor Oxley Holdings Limited have arranged investor meetings commencing 19 Feb for its proposed SGD bond offering.

Date	Issuer	Size	Tenor	Pricing
18-Feb-20	Delhi International Airport	USD150mn	DIALIN 6.45%'29s	108%
18-Feb-20	Citic Ltd	USD300mn USD700mn	5-year 10-year	T+110bps T+132.5bps
18-Feb-20	Yango Justice International Ltd (Guarantor: Yango Group Co., Ltd)	USD300mn	3.75NC2	8.625%
18-Feb-20	Hong Kong JY Flower Limited (Guarantor: Kunming Industrial Development & Investment Co., Ltd)	USD300mn	3-year	6.1%
18-Feb-20	Housing & Development Board (HDB)	SGD700mn	7-year	1.76%
17-Feb-20	China Aoyuan Group Limited	USD188mn	363-day	4.8%
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%

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

Co.Reg.no.:193200032W