OCBC TREASURY RESEARCH

OCBC Bank

Asian Credit Daily

Thursday, April 30, 2020

Market Commentary

- The SGD swap curve bear-flattened yesterday, with the shorter and the belly tenors trading 6-9bps lower, while the longer tenors traded 8-11bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 259bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 6bps to 997bps. The HY-IG Index Spread tightened 6bps to 738bps.
- Flows in SGD corporates were heavy, with flows in UBS 5.875%-PERPs, PINGIN 2.25%'21s, CMZB 4.875%'27s, SOCGEN 6.125%-PERPs, SLHSP 4.5%'25s and UBS 4.85%-PERPs.
- 10Y UST Yields gained marginally by 1bps by the end of the day to 0.63%, as the Federal Reserve reemphasized its plan to use every tool to rescue the economy hit hard by COVID-19. The Fed left interest rates near zero during the FOMC meeting.

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) and StarHub Ltd ("StarHub") | Issuer Profile: Neutral (3):** The Infocomm Media Development Authority has provisionally awarded 5G licenses to SingTel and the joint venture of StarHub and M1 Ltd. The 5G licenses awardees will need to roll out nationwide coverage of 5G by end 2025.
- **CapitaLand Commercial Trust ("CCT") | Issuer Profile: Neutral (3):** CCT reported 1Q2020 results - gross revenue rose by 3.8% y/y while CCT's portfolio committed occupancy fell q/q to 95.2% from 98.0%.
- **Keppel Corp Ltd ("KEP") | Issuer Profile: Neutral (4):** KEP announced their results for 1Q2020. Gross revenue grew 21.3% y/y. Short term debt at KEP (including lease liabilities) was SGD5.5bn, representing 44% of its total debt.
- **Mapletree North Asia Commercial Trust ("MNACT") | Issuer Profile: Neutral (4):** MNACT reported 4QFY2020 results. Gross revenue slipped 26.2% y/y while overall portfolio occupancy fell q/q to 95.2% from 96.3%. MNACT has SGD267mn of borrowings maturing over the next one year i.e. 8% of total debt.
- **Standard Chartered PLC ("StanChart") | Issuer Profile: Neutral (4):** StanChart announced its 1Q2020 results with underlying credit impairments jumping materially to USD956mn from USD78mn in 1Q2019. This took underlying profit before tax down 12% y/y. StanChart's CET1/CAR ratios as at 31 March 2020 were down q/q at 13.4%/19.6%.
- **Barclays PLC ("Barclays") | Issuer Profile: Neutral (4):** Barclays released 1Q2020 results with profit before tax down 38% y/y as provisions rose 372% y/y. Barclays capital position was weaker q/q with CET1 ratio at 13.1%.
- **DBS Group Holdings Ltd ("DBS") | Issuer Profile: Positive (2):** DBS released a trading update for 1Q2020 in which net profit fell 30% y/y but profit before allowances rose 20% y/y. CET1 ratio was down q/q to 13.9%.
- **Australia & New Zealand Banking Group Ltd ("ANZ") | Issuer Profile: Positive (2):** ANZ announced its 1HFY2020 results with statutory profit before tax down 42% y/y as provisions amplified a 13% y/y fall in profit before credit impairments. ANZ's APRA compliant CET1 ratio fell 70bps y/y to 10.8%.
- **Société Générale ("SocGen") | Issuer Profile: Neutral (4):** SocGen reported its 1Q2020 results generating a net loss of EUR326mn against a net profit of EUR686mn in 1Q2019. Half of the movement was due to a material rise in the net cost of risk. Other impacts include a 16.5% y/y fall in net banking income. Despite the net loss in 1Q2020, SocGen's CET1/CAR ratio of 12.6%/18.0% as at 31 March 2020 was only marginally weaker q/q.

Click Here to access the latest reports from OCBC Credit Research

OCBC Bank

Credit Headlines

Singapore Telecommunications Ltd ("SingTel") | Issuer Profile: Positive (2) and StarHub Ltd ("StarHub") | Issuer Profile: Neutral (3)

- The Infocomm Media Development Authority ("IMDA") has provisionally awarded 5G licenses to SingTel and the joint venture of StarHub and M1 Ltd.
- Other mobile operators (including TPG which was not awarded the 5G license) will be able to access the network services through wholesale arrangements.
- The 5G licenses awardees will need to roll out nationwide coverage of 5G by end 2025.
- That said, we think it remains to be seen if demand for 5G could catch up sufficiently, notwithstanding hurdles on rolling out the network due to COVID-19. (IMBDA, company, OCBC)

CapitaLand Commercial Trust ("CCT") | Issuer Profile: Neutral (3)

- CCT reported 1Q2020 results. Gross revenue rose by 3.8%y/y to SGD103.6mn while net property income ("NPI") was up by 0.7% y/y to SGD80.3mn. The increase was largely due to Main Airport Center (acquired on 17 Sep 2019) and higher gross revenue from 21 Collyer Quay, Gallilieo and CapitaGreen. The increase was offset partially by lower revenue from Asia Square Tower 2, Six Battery Road and Bugis Village.
- CCT's portfolio committed occupancy fell to 95.2% from 98.0% in the preceding quarter. Of the expiring rents in 2020, two-third has already been completed (either renewed or re-let) with majority of remaining leases under advanced negotiation. For most of the leases signed in 1Q2020, CCT has managed to continue the positive rental reversion trend.
- Aggregate leverage was 35.5%. All-in average cost of debt was lower at 2.3% p.a (from 2.4% p.a.). CCT has just SGD115mn of borrowings maturing in the remaining of 2020. CCT has bank facilities in place to refinance SGD72mn and the balance SGD43mn is in advanced negotiation for refinancing. In additional, CCT's proportion of unencumbered assets is substantial at 91.0% of total assets.
- CCT has committed SGD25.8mn to support affected tenants. This amount includes property tax rebate. Due to the circuit breaker, leasing activities such as viewings, handovers and fit-out works have been affected. Construction works at six battery road which started in Jan 2020 may also potentially be delayed.
- Looking ahead, CCT's growth pipeline includes the call option for the balance 55% of CapitaSpring's commercial component (not currently owned by CCT). The call option is exercisable within five years after the development obtained TOP (expected to be 1H2021). HSBC's lease at 21 Collyer Quay ends in April 2020, and WeWork will lease the entire building for 7 years form 2Q2021. In between, upgrading works will be conducted.
- Separately, the respective managers of CapitaLand Mall Trust ("CMT") and CCT have jointly announced the proposed merger of CMT and CCT to create a diversified commercial REIT to be named "CapitaLand Integrated Commercial Trust" ("CICT"). CICT is expected to be the third largest REIT in Asia Pacific and the largest REIT in Singapore, with a market capitalisation of SGD16.8bn and a combined property value of SGD22.9bn. (Company, OCBC)

Credit Headlines

Keppel Corporation Limited ("KEP") | Issuer Profile: Neutral (4)

- KEP announced their results for 1Q2020. Gross revenue grew 21.3% y/y to SGD1.9bn in 1Q2020 on the back of growth in the Offshore & Marine and Investments divisions. Infrastructure revenue was flat versus 1Q2019 while the Property segment was down by 15% y/y.
- Reported profit before tax ("PBT") though was down 12.7% y/y to SGD246.8mn, dragged by the Property and Investments Division.
  - **Offshore & Marine:** PBT for 1Q2020 was at SGD3.9mn, up from SGD0.6mn in 1Q2019, from higher revenue recognition from ongoing projects. Net orderbook stood at SGD4.0bn as at 31 March 2020 and 70% are in renewables and gas-related solutions with KEP having diversified away from focusing on oil-related projects.
  - **Property:** PBT for 1Q2020 was at SGD93.0mn, down from SGD181.4mn in 1Q2019, driven by absence of divestment gains (sold Dong Nai project in Vietnam last year) and lower property trading revenue. Going forward the COVID-19 outbreak is likely to affect property trading revenue from Singapore with closure of showrooms and cautious buyers. Investment portfolio (from 100%-owned Keppel Land and associate Keppel REIT ("KREIT", Issuer profile: Neutral (4)) is largely in the office space which is more resilient amidst COVID-19.
  - **Infrastructure:** PBT for 1Q2020 was at SGD181.8mn, up from SGD20.2mn in 1Q2019, though the growth was driven by a one-off from the reclassification of Keppel Infrastructure Trust ("KIT", Issuer profile: Neutral (4)) as an investment with changes to fair value taken in other comprehensive income rather than as an associate. Per KEP, while the sponsorship relationship between KEP and KIT remains important and there is no intention to further reduce its stake in KIT, KEP has loss significant influence over KIT, thereby justifying the reclassification.
  - **Investments:** 1Q2020 saw a loss before tax of SGD31.8m versus PBT of SGD80.6mn in 1Q2019. This was mainly due to mark-to-market losses from investments and impairment provision on KrisEnergy's zero-coupon notes.
- EBITDA (based on our calculation which does not take into account other income and other operating expenses) was 2.6% y/y to SGD238.7mn while interest expense was up by 15.4% y/y SGD79.6mn, due to higher average debt balance, resulting in a lower EBITDA/Interest coverage of 3.0x (1Q2019: 3.5x).
- As at 31 March 2020, short term debt at KEP (including lease liabilities) was SGD5.5bn, representing 44% of its total debt. While KEP did not disclose the specific quantum of committed available credit lines at the company, the company mentioned that it has the necessary lines to finance their operations. As at 31 March 2020, unadjusted net gearing was higher at 0.88x (end-2019: 0.85x) though secured debt as a proportion of tangible assets was still minimal at 3.3%. We maintain KEP's issuer profile at Neutral (4). (Company, OCBC)

Asian Credit Daily

Credit Headlines

Mapletree North Asia Commercial Trust ("MNACT") | Issuer Profile: Neutral (4)

- MNACT reported its fourth quarter results for the financial year ending 31 Mar 2020 ("4QFY2020"). Gross revenue slipped 26.2% y/y to SGD76.8mn, while net property income ("NPI") was down by 32.2% y/y to SGD84.0mn. This was primarily due to rental reliefs granted to tenants at Festival Walk of SGD10.3mn due to COVID-19, as well as closure of the mall from 1 to 15 Jan 2020. The acquisition of MBP and Omori was completed in 28 Feb 2020. Therefore, we saw its maiden contribution this quarter. The REIT manager has waived the acquisition fee of SGD3.5mn.
- On Festival Walk, retail sales in Feb 2020 fell by 44% y/y. Vacancies can be expected to rise over the next 6- 12 months which will put more pressure on rents over the rest of the year though occupancy was high at 99.8% as at 31 March 2020. The mall's expiring leases for FY2021 is 15.9% of total portfolio gross rental income. Going back to the earlier situation at Festival Walk before COVID-19, repair works are still ongoing and expected to progressively complete by end FY2021. The assessment of the full quantum of revenue loss and property damage recoverable from insurance claims is still in progress.
- Overall portfolio occupancy fell to 95.2% from 96.3% in the preceding quarter, in part due to the newly acquired MBP and Omori which are 87.6% occupied.
- Aggregate leverage ratio rose to 39.3% from 37.1% as at 31 Dec 2019, while the effective interest rate fell to 2.33% p.a. from 2.46% p.a. in the preceding quarter. Reported EBITDA/Interest was 2.8x, up from 2.5x in 3QFY2020. MNACT has SGD267mn of borrowings maturing over the next one year i.e. 8% of total debt. The REIT has a cash balance of SGD207.8mn and committed and uncommitted credit facilities of SGD374.4mn. With 81% of its total assets unencumbered, we think its credit metrics remain manageable for now. We will continue to hold MNACT at Neutral (4) Issuer Profile though there is heightened uncertainties and continued headwinds. (Company, OCBC)

OCBC Bank

Credit Headlines

Standard Chartered PLC ("StanChart") | Issuer Profile: Neutral (4)

- StanChart announced its1Q2020 results with underlying credit impairments jumping materially to USD956mn from USD78mn in 1Q2019. This took underlying profit before tax down 12% y/y to USD810mn and offset solid operating income and operating expense performance.
- The rise in credit impairments were due to both increases in stage 1 & 2 impairments (+USD388mn on model driven and management overlays on the weaker economic outlook) and stage 3 impairments (USD490mn with almost half of the increase due to two Corporate & Institutional exposures and the rest spread across all client segments). While stage 3 or impaired loans rose 5% q/q to USD7.8bn, early alert accounts more than doubled to USD11.5bn with COVID-19 leading to entire sectors of exposure being put on early alert. These sectors include aviation, oil & gas, metals & mining, commodity traders and automobiles & components.
- Solid underlying operating income growth of 13% y/y was driven by a 31% y/y rise in other income due to positive movements in Debit Valuation Adjustment ("DVA") or derivative liabilities. Net interest income fell 4% y/y on a 14bps y/y fall in net interest margins to 1.52% that offset increased volumes. Operating expenses fell 2% y/y on tight cost controls. Excluding the DVA impact, operating income rose 6% y/y on a constant
- Underlying profit before tax was also influenced by USD92mn in restructuring costs from impairments in discontinued ship leasing and principal finance businesses and USD258mn in other cost items related to goodwill impairments in an Indian subsidiary to reflect the weaker economic outlook.
- On the loans front, overall gross loans and acceptances rose 1% q/q despite growth in Corporate Lending and Corporate Finance from liquidity draw-downs on revolving credit facilities at the peak of the COVID-19 crisis in March (management have indicated that the weekly rate of new draw-downs fell to zero by mid-April). This was because of the reduction in trade loans that offset the rise. Combined with the rise in stage 3 loans, the non-performing loan ratio rose to 2.8% as at 31 March 2020 from 2.7% as at 31 December 2019.
- Given the YTD developments, risk weighted assets ("RWA") rose 3% q/q due to both volume growth as well as a rise in the credit risk of StanChart's exposures (negative credit migration) which was partially offset by foreign currency translation movements. As such, credit RWA's reduced the CET1 ratio by 60bps. Together with stable CET1 capital levels and a 4% fall in total capital from lower Tier 1 capital, StanChart's CET1/CAR ratios as at 31 March 2020 were down to 13.4%/19.6% against 13.8%/21.2% as at 31 December 2019.
- The CET1 ratio remains above the regulatory minimum requirement of 10.0% and within its 13-14% medium-term target range. Ratios reflect the recent decision to cancel the final dividend for 2019 and suspend its share buy-back program while the minimum 10.0% requirement reflects reduced minimum requirements including a reduction in counter-cyclical buffers in the UK and Hong Kong. It does not include an expected 40bps positive impact from the sale of PT Bank Permata Tbk with terms recently revised.
- StanChart has indicated substantial economic uncertainties from COVID-19 and lower interest rates yet expects a gradual recovery in 2020. For now, we see no reason to alter our Neutral (4) issuer profile. (Company, OCBC)

Credit Headlines

Barclays PLC ("Barclays") | Issuer Profile: Neutral (4)

- Barclays released its 1Q2020 results which were influenced heavily by GPB2.1bn in provisions, up 372% y/y. This led to profit before tax falling 38% y/y to GBP913mn.
- Provisions were driven mostly by GBP1.2bn in general provisions to reflect the expected deterioration in the economic environment in its main US and UK markets as well as GBP400mn in individual provisions for a single wholesale loan. A specific charge of GBP300mn was also raised to accommodate expectations of oil prices remaining low for longer. Per Barclays management presentation, oil and gas exposures comprise 2.4% or GBP16.2bn of total group credit risk exposure and 0.9% or GBP3.2bn of on-balance sheet exposure. Other vulnerable sectors (hospitality and leisure, airlines, transportation and retail) comprise an additional 4.0% or GBP26.4bn in total group credit risk exposure and 3.2% of GBP10.2bn of on balance sheet exposure.
- Elsewhere, other measures for Barclays were improved y/y. Total income rose 20% y/y on strong trading performance in Barclays International ("BI") which drove a 30% increase in BI income. In particular, performance in macro, credit and equity derivatives as well as better banking fees and transaction banking income offset reduced corporate lending and Consumer Cards & Payments. Operating expenses were flat y/y while litigation and conduct charges also improved 84% y/y.
- Like other banks in our coverage, Barclays capital position was weaker q/q with its CET1 ratio at 13.1% as at 31 March 2020 against 13.8% as at 31 December 2019. On a y/y basis, the ratio was up 10bps from 13.0% as at 31 March 2019. Movement in the CET1 ratio reflects the impacts of higher growth in risk weighted assets from increased client activity (loan drawdowns) and market volatility (higher market risk weighted assets) that offset the reduced earnings generation as well as the cancellation of the 2019 dividend payment at the request of the UK Prudential Regulation Authority ("PRA").
- While the CET1 ratio remains above the maximum distributable amount hurdle of 11.5% and Barclay's overall CET1 capital requirement of 11.5% comprising 4.5% for Pillar 1, 2.5% for Capital Conservation Buffer, 1.5% for Global Systemic Importance, and 3.0% for Pillar 2A, we expect Barclays to be active in managing its capital position to remain above minimum requirements and considering the challenging environment which has necessitated significant support for its Barclays UK customers through repayment holidays and fee waivers. We expect this capital management to work hand in hand with government and regulator support measures to ensure Barclay's balance sheet remains nimble to the credit needs of the economies in which Barclays operates. As an example, Barclays minimum CET1 requirement of 11.5% is 60bps lower due to the reduction in the Countercyclical Capital Buffer to 0.0%.
- Other credit ratios remain supportive for now. The UK leverage ratio reduced 60bps q/q to 4.5% as at 31 March 2020 but remains above the 3.775% minimum PRA requirement due to a rise in assets from higher loans and advances, settlement balances and financial assets at fair value. The liquidity coverage ratio was 155% as at 31 March 2020, above the 100% regulatory requirement.
- While we are holding the Neutral (4) issuer profile for now, we will continue to look through the numbers and assess the developing economic prospects in Barclays main markets of the UK and US. Barclays baseline economic scenario is for a material economic contraction in 2020 followed by a recovery in 2021. (Company, OCBC)

Asian Credit Daily

Credit Headlines

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

- DBS released a trading update for 1Q2020 in which net profit fell 30% y/y and 20% q/q to SGD1.38bn.While the 20% y/y rise in profit before allowances were a reflection of DBS' solid underlying fundamentals under normal circumstances, like other banks the current extra-ordinary situation has resulted in a substantial rise in allowances impacting DBS' bottom line.
- Allowances for credit and other losses rose to SGD1.1bn in 1Q2020 from SGD76mn in 1Q2019. 65% or SGD703mn of this was tied to general provisioning while the rest or SGD383mn was tied to specific provisions or newly classified Stage 3 loans with SGD315mn coming from Institutional Banking. Within customer loans growth of 6% y/y and 3% q/q (due to non-trade corporate loans drawdowns in Singapore and Hong Kong that were offset by falls in trade loans and wealth management customer loans), non-performing assets rose 16.7% y/y and rose 14.2% q/q, all within Institutional Banking while there were no new non-performing assets in Consumer Banking or Wealth Management. Write-offs at SGD63mn in 1Q2020 were substantially lower than in 4Q2019 (SGD419mn) and 3Q2019 (SGD226mn). The non-performing loan ratio rose moderately to 1.6% as at 31 March 2020 from 1.5% as at 31 December 2019 and 31 March 2019.
- DBS highlighted that of their SGD374bn loan portfolio, SGD46bn is from impacted industries comprising oil and gas, aviation, hotels, gaming/cruise ships, tourism, retail, food and beverage and shipping. Oil & gas comprises 50% of these exposures with 20% of these exposures or SGD4.6bn needing heightened surveillance. Overall, corporate loans make up the bulk of total loans at 59%, followed by Consumer (30%) and SME loans at 10% (90% of which is in Singapore and Hong Kong and mostly secured against property).
- Although general allowances rose 29% y/y to SGD3.23bn and total allowances rose 21% to 6.1bn, the allowance coverage ratio fell from 94% as at 31 December 2019 to 92% as at 31 March 2020. Per DBS' statements, the allowance coverage ratio improves to 173% when SGD3.1bn collateral is taken into account (191% as at 31 December 2019). DBS has disclosed that the average LTV for housing loans is 55% in Singapore and 32% in Hong Kong which provides buffer against any fall in values while collateral values against support services companies have already been marked down and 75% of exposures classified as non-performing.
- Given still decent earnings and despite higher provisions, the fall in DBS' capital ratios from risk weighted asset growth was muted with its CET1 ratio down 20bps to 13.9% as at 31 March 2020 from 14.1% as at 31 December 2019 and 31 March 2019. Other credit ratios were above minimum requirements with the leverage ratio, average all currency liquidity coverage ratio and net stable funding ratio at 6.9%, 133% and 112% respectively as at 31 March 2020. Liquidity ratios were assisted by a flight to safety as well as corporate customers retaining the proceeds of loan drawdowns within the bank. DBS elected to pay unchanged dividends compared to 4Q2019.
- While the run of record earnings is over, prior earnings have provided a buffer against the difficulties ahead with earnings challenges from lower interest rates for 2020 and lower demand as seen in the 8% y/y fall in card fees on lower transactions. That said, DBS expects FY2020 full year profit before allowances to be roughly stable y/y derived from their base case of lockdowns in major economies lasting until mid-2020 before a gradual recovery in 2H2020 and muted growth in 2021.
- We see our views on the banks we cover as more dynamic during this time and will be evaluating our issuer profiles in line with developments on COVID-19 (refer to OCBC's daily Covid-19 Global Monitor) and government actions and attitudes towards a resumption of economic activities. We are keeping the Positive (2) Issuer Profile on DBS for now recognizing its solid capital position and business franchise. (Company, OCBC)

Credit Headlines

Australia & New Zealand Banking Group Ltd ("ANZ") | Issuer Profile: Positive (2)

- ANZ announced its 1HFY2020 results with statutory profit before tax down 42% y/y as AUD1.67bn in provisions amplified a 13% y/y fall in profit before credit impairments and income tax. H/h trends were similar with 1HFY2020 statutory profit down 40% h/h on a 10% h/h fall in profit before credit impairments and income tax. On a cash profit basis, profit before tax of AUD2.3bn was down 54% y/y and 45% h/h on similar trends.
- Credit impairment charges of AUD1.67bn comprise AUD626mn in individually assessed credit impairment charges with half in the Australia Retail and Commercial Division, 43% in Institutional, and 6% in New Zealand while AUD1.05bn comprises collective credit impairment charges (half in the Australia Retail and Commercial Division, 35% in Institutional, and 14% in New Zealand). The different allocation in individual credit impairment charges is due to a small number of new single name impairments in the Institutional division while mortgage delinquencies in Australia improved. ANZ has identified AUD41bn in exposures to industries immediately impacted by COVID-19 including those in retail, accommodation/cafes/restaurants, transport & storage and education, cultural & recreational Services. These contribute 5.8% to total wholesale exposure at default.
- Gross impaired assets rose 22% y/y and 28% h/h. Combined with a lower growth rate in gross loans and advances (8% y/y and 7% h/h), the gross impaired assets ratio rose to 0.39% as at 31 March 2020 against 0.33% and 0.35% as at 31 September 2019 and 31 March 2019 respectively. Provision coverage ratios improved given the substantial rise in impairment charges with individually assessed provisions to gross impaired assets at 42.1% as at 31 March 2020 (40.1%/ 41.9% as at 31 September 2019/ 31 March 2019 respectively) and collectively assessed provisions to credit risk weighted assets at 1.17% (0.94%/ 0.98% as at 31 September 2019/31 March 2019 respectively).
- The weaker profit before credit impairments and income tax was driven by a 10bps y/y fall in net interest margins that offset loans growth as well as impairment charges against PT Panin and AmBank and absence of gains on sale from One Path Life NZ and Paymark that were reflected in 1HFY2019. This offset better markets income on improved trading conditions and higher volumes.
- By segment, all divisions recorded y/y falls in cash profits with the largest fall occurring in Institutional (-40% y/y). Elsewhere, Australia Retail and Commercial fell 29% y/y while New Zealand fell 25% y/y. Australia Retail and Commercial continues to generate the bulk of operating division cash profits (excluding Technology, Services & Operations ("TSO") and Group Centre and Discontinued Operations) at 51% followed by 26% for Institutional and 24% for New Zealand.
- ANZ's APRA compliant CET1 ratio fell 70bps y/y and 60bps h/h to 10.8% as at 31 March 2020 as earnings (+87bps) was offset by a 8%h/h rise in risk weighted assets (-44bps) and FY2019 dividend payment (-53bps) as well as other changes. On an internationally comparable basis, the CET1 ratio remained solid at 15.5% albeit down from 16.4% as at 31 September 2019 and 16.9% as at 31 March 2019. As previously mentioned, APRA has temporarily relaxed compliance with the minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios in Australia's banking sector (came into force January 2020) so that Australia's banks can continue to lend to the economy. To protect its capital position during this time, the bank has also deferred its 2020 interim dividend.
- As we covered recently, Australia seems ahead of the curve in terms of re-opening its economy although the steps are likely to be slow and carefully managed, making any economic recovery protracted at best. Government and regulator support along with current fundamentals will drive ANZ's credit profile forward in our view. With the situation developing, we will continue to review the numbers and our assumptions whilst maintaining the Positive (2) issuer profile for now. We however cannot discount the possibility of rating changes as time goes on. (Company, OCBC)

Credit Headlines

Société Générale ("SocGen") | Issuer Profile: Neutral (4)

- SocGen reported its 1Q2020 results generating a net loss of EUR326mn against a net profit of EUR686mn in 1Q2019. Half of the movement was due to a material rise in the net cost of risk. Other impacts include a 16.5% y/y fall in net banking income.
- Within the movements in net banking income, general trends from past periods were consistent. Net banking income from French Retail Banking was down 1.2% y/y however now it appears volumes were the reason rather than low interest rates with a slow down in retail activities from mid-March amidst the COVID-19 pandemic. This was offset by 1.6% y/y growth in net banking income from International Retail Banking & Financial Services due to ongoing higher activities in International Retail Banking (+2.9% y/y) while Insurance revenues were up 1.8% y/y.
- The main drag however was a 27.3% y/y fall in net banking income in Global Banking & Investor Solutions. This was due to a 98.7% y/y fall in equity linked businesses which all occurred in March due to impacts on structured products activities, dividend cancellations, counterparty defaults, and increased reserves. This offset better performance in Fixed Income and Currencies from higher client activity and volumes.
- The increased cost of risk reflects the general impact of COVID-19 as well as the specific impacts from two exceptional fraud files according to SocGen. Management have indicated that of the 65bps in cost of risk, 32bps relates to its normal exposures while 23bps relates to COVID-19 (half of which are a management overlay) and the rest relates to the 2 fraud cases mentioned previously. The base case underpinning the cost of risk is for GDP contraction of 5.8%, 6.8% and 2.3% for France, EU and Global. Despite the rise in cost of risk, the gross coverage ratio for doubtful outstandings was stable q/q at 55% as at 31 March 2020. The gross doubtful outstandings ratio actually fell q/q by 10bps to 3.1% as at 31 March 2020 due to higher growth in gross book outstandings against growth in doubtful loans. The gross coverage ratio for doubtful outstandings was stable q/q at 55% as at 31 March 2020. Oil and gas exposures contribute 2.2% of total exposure at default.
- Despite the net loss in 1Q2020 (-51bps impact to CET1 ratio), SocGen's CET1/CAR ratio of 12.6%/18.0% as at 31 March 2020 was only marginally weaker q/q (12.7%/18.3% as at 31 December 2019). This was due to the reversal of the 2019 dividend provision (+54bps). The CET1 ratio remains well above the regulatory requirement and Minimum Distributable Amount requirement of 9.05% and SocGen's guidance of operating 200-250bps above the regulatory requirement. The group's total loss absorbing capacity ("TLAC ") ratio at 28.3% also remains above minimum TLAC requirements of 19.5% and minimum MREL requirement of 24.4%. The average liquidity coverage ratio was 144% in 1Q2020.
- Overall, COVID-19 has the potential to amplify already challenged earnings generation with interest rates now expected to be low for longer and credit demand to be constrained while economies remain under lock-down. On the plus side, non-performing loan ratios are at historically low levels and its capital position has strengthened from restructuring activities, mostly in Global Banking & Investor Solutions. Combined with government support schemes, we will be keeping SocGen at Neutral (4) for now until future developments become clearer on COVID-19 and economic re-opening. (Company, OCBC)

Key Market Movements

	30-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	118	-5	-20
iTraxx SovX APAC	69	-1	-3
iTraxx Japan	81	-8	-44
iTraxx Australia	121	-9	-51
CDX NA IG	87	-7	-27
CDX NA HY	95	1	1
iTraxx Eur Main	77	-5	-20
iTraxx Eur XO	466	-22	-109
iTraxx Eur Snr Fin	95	-9	-23
iTraxx Eur Sub Fin	212	-19	-43
iTraxx Sovx WE	31	-3	6
USD Swap Spread 10Y	1	-2	-3
USD Swap Spread 30Y	-43	-3	1
US Libor-OIS Spread	71	-20	-67
Euro Libor-OIS Spread	25	-6	15
China 5Y CDS	46	-4	-7
Malaysia 5Y CDS	111	-11	-10
Indonesia 5Y CDS	214	-6	-8
Thailand 5Y CDS	69	-3	-9
Australia 5Y CDS	29	-1	-7

	30-Apr	1W chg	1M chg
Brent Crude Spot ($/bbl)	24.29	13.88%	6.82%
Gold Spot ($/oz)	1,710.13	-1.18%	8.43%
CRB	111.87	0.68%	-8.15%
GSCI	246.03	1.10%	-3.72%
VIX	31.23	-25.61%	-41.67%
CT10 (%)	0.619%	1.75	-10.74
AUD/USD	0.654	2.70%	6.70%
EUR/USD	1.087	0.82%	-1.50%
USD/SGD	1.412	0.85%	0.73%
AUD/SGD	0.924	-1.77%	-5.54%
ASX 200	5,480	5.03%	7.93%
DJIA	24,634	4.93%	12.40%
SPX	2,940	5.01%	13.73%
MSCI Asiax	604	2.43%	7.90%
HSI	24,644	3.14%	4.41%
STI	2,630	3.44%	5.98%
KLCI	1,395	0.98%	3.28%
JCI	4,655	1.33%	2.55%
EU Stoxx 50	2,996	5.69%	7.51%

Source: Bloomberg

OCBC Bank

New Issues

- Shuifa International Holdingsbvico. Ltd (Guarantor: Shuifa Group Co Ltd) priced a USD350mn 3-year bond at 4.3%, tightening from IPT of 4.6% area.
- Amber Treasure Ventures Limited (Guarantor: Nan Hai Corporation Limited) priced a USD500mn 2NC1 bond at 3.5%, tightening from IPT of 4% area.
- SDSC International Development Limited (Guarantor: Shandong Shipping Corporation) priced a USD40mn re-tap of its SDSHIP 5.9%'22s at 5.9%, tightening from IPT of 6.4% area.

Date	Issuer	Size	Tenor	Pricing
29-Apr-20	Shuifa International Holdingsbvico. Ltd (Guarantor: Shuifa Group Co Ltd)	USD350mn	3-year	4.3%
29-Apr-20	Amber Treasure Ventures Limited (Guarantor: Nan Hai Corporation Limited)	USD500mn	2NC1	3.5%
29-Apr-20	SDSC International Development Limited (Guarantor: Shandong Shipping Corporation)	USD40mn	SDSHIP 5.9%'22s	5.9%
28-Apr-20	Wharf REIC Finance (BVI) Limited (Guarantor: Wharf Real Estate Investment Company Limited)	USD450mn USD300mn	5-year 10-year	T+205bps T+235bps
27-Apr-20	Republic of the Philippines	USD1bn USD1.35bn	10-year 25-year	T+180bps 3.375%
27-Apr-20	Korea East-West Power Co. Ltd	USD500mn	5-year	T+150bps
27-Apr-20	Honghe Development Group Co. Ltd	USD108mn	3-year	7%
24-Apr-20	Perennial Real Estate Holdings Limited	SGD33.5mn	2-year	3.9%
23-Apr-20	Kookmin Bank	USD500mn	5-year	T+150bps
23-Apr-20	Pingdu State-owned Assets Management Co., Ltd. (Guarantor: Pingdu Construction Investment Development Co., Ltd.)	USD200mn	3-year	5.75%
23-Apr-20	PSA Treasury Pte Ltd (Guarantor: PSA International Pte Ltd)	USD650mn	10-year	T+165bps
22-Apr-20	Xiaomi Best Time International Limited (Guarantor: Xiaomi Corp)	USD600mn	10-year	T+290bps
22-Apr-20	ST Engineering RHQ Ltd. (Guarantor: Singapore Technologies Engineering Ltd.)	USD750mn	5-year	T+120bps

Source: OCBC, Bloomberg

OCBC Bank

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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W