OCBC TREASURY RESEARCH

Asian Credit Daily

Thursday, August 06, 2020

Market Commentary

- The SGD swap curve bull flattened yesterday, with the shorter and belly tenors trading 1-3bps lower while the longer tenors traded 3-4bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 3bps to 173bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 7bps to 689bps. The HY-IG Index Spread tightened 4bps to 516bps.
- Flows in SGD corporates were heavy, with flows in UBS 5.875%-PERPs, STTGDC 3.13%'28s, HSBC 5%-PERPs, KITSP 4.75%-PERPs, NTUCSP 3.1%'50s and BAERVX 5.9%-PERPs.
- 10Y UST Yields gained 4bps to 0.55% after the Treasury Department announced it would increase the debt issuance in the third quarter and focus on longer-dated debt.

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:

- **Aspial Corp Ltd ("Aspial") | Issuer Profile: Negative (6):** Aspial priced a SGD55mn retap of its 6.25% '21s yesterday, following SGD10mn retap of the same issue on 4 Aug 2020. The retaps are critical to support the liquidity of Aspial as it faces SGD141.9mn in maturity later this month due to ASPSP 5.25% '20s, given that cash on hand as a group was a mere SGD65.0mn as of 30 June 2020.
- **DBS Group Holdings Ltd ("DBS") | Issuer Profile: Positive (2):** DBS announced relatively strong 1H2020 results despite the headline 29% y/y fall in profit before tax to SGD2.78bn. Earnings generation remains strong and this allowed DBS to set aside almost SGD2.0bn in allowances for credit and other losses, a 492% y/y rise which contributed to the y/y fall in profit before tax. Elsewhere, DBS managed to generate a record profit before allowances of SGD4.71bn in 1H2020, up 12% y/y. DBS' CET1 ratio improved y/y by 10bps to 13.7% as at 30 June 2020 although was down compared to 13.9% as at 31 March 2020 and 14.1% as at 31 December 2019.
- **Commerzbank AG ("CMZB") | Issuer Profile: Neutral (4):** CMZB announced decent results for 2Q2020 however sounded cautious for the remainder of 2020 driven by likely higher credit costs (including its exposure to Wirecard AG) and potential restructuring charges. Operating profit before credit provisions for 2Q2020 rose 38.4% y/y to EUR674mn. Credit provisions rose 163% to EUR469mn due to EUR131mn in COVID-19 related provisions and EUR175mn for a single case. As a result, operating profit ended up down 33.8% y/y to EUR205mn for 2Q2020. CMZB's fully loaded CET1 ratio rose to 13.4% as at 30 June 2020 against 13.2% as at 31 March 2020.
- **United Overseas Bank Ltd ("UOB") | Issuer Profile: Positive (2):** UOB announced results reflective of the challenging operating environment with net profit before tax down 29% y/y for 1H2020 to SGD1.9bn. This was driven by a 9% y/y fall in operating profit and a 373% y/y rise in allowances in credit and other losses. Allowances for credit and other losses was SGD682mn in 1H2020. Credit ratios for UOB are stable with its CET1 ratio at 14.0% as at 30 June 2020, up 10bps h/h but down 10bps q/q.

Asian Credit Daily

Credit Headlines

Aspial Corp Ltd ("Aspial") | Issuer Profile: Negative (6)

- Aspial priced a SGD55mn retap of its 6.25% '21s yesterday, following SGD10mn retap of the same issue on 4 Aug 2020. These retaps are likely privately placed.
- The retaps are critical to support the liquidity of Aspial as it faces SGD141.9mn in maturity later this month due to ASPSP 5.25% '20s, given that cash on hand as a group was a mere SGD65.0mn as of 30 June 2020.
- While this still leaves Aspial with a shortfall of ~SGD12mn, we think this looks much more palatable, which could be covered by net cashflows from operating activities from Jul-Aug 2020 (1H2020: SGD111.9mn). (Company, OCBC)

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

- DBS announced relatively strong 1H2020 results despite the headline 29% y/y fall in profit before tax to SGD2.78bn. Earnings generation remains strong and this allowed DBS to set aside almost SGD2.0bn in allowances for credit and other losses, a 492% y/y rise which contributed to the y/y fall in profit before tax.
- Elsewhere, DBS managed to generate a record profit before allowances of SGD4.71bn in 1H2020, up 12% y/y. This was due to a 7% y/y rise in total income predominantly from other non-interest income (net gains on investment securities and treasury customer income that offset a fall in trading income) while expenses were flat.
- As mentioned, the rise in allowances for credit and other losses was substantial however around 65% of this were for performing (or stage 1 and 2) exposures reflecting pro-active provisioning in case of future stress. The specific provision relates to a significant exposure raised in 1Q2020. Of note is that SGD849mn of this or less than half was provided in 2Q2020. Otherwise, the stress is not apparent with the non-performing loan ratio of 1.5% stable y/y although this is due to customer loans growth with non-performing assets up 10% h/h, most of this increase occurring in 1Q2020. Given the high build up in reserves, total allowance reserves rose 25% h/h and general allowance reserves rose 50% h/h. The allowance coverage ratio rose to 106% as at 30 June 2020 (100% as at 30 June 2019) and 199% including unsecured non-performing assets only (181% as at 30 June 2019).
- With post provision earnings still somewhat decent, DBS' CET1 ratio improved y/y by 10bps to 13.7% as at 30 June 2020 although was down compared to 13.9% as at 31 March 2020 and 14.1% as at 31 December 2019. This was due to the dividend deferment from 1Q2020 to 2Q2020 as well as higher risk-weighted assets from loan growth, higher counterparty exposures on derivatives and market risk. The ratio remains well above the 9.1% minimum CET1 requirement.
- While the environment remains dynamic, solid results look to have given DBS' some ability to control its future. Its guidance for total allowances of SGD3-5bn remains the same as previous guidance although the variance in range highlights the uncertainty ahead. DBS has provided relief of SGD12.6bn and SGD5.7bn for corporate and consumer loans that are mostly secured with principal and principal plus interest moratoriums. We are keeping the Positive (2) Issuer Profile on DBS. (Company, OCBC)

Credit Headlines

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

- CMZB announced decent results for 2Q2020 however sounded cautious for the remainder of 2020 driven by likely higher credit costs (including its exposure to Wirecard AG) and potential restructuring charges. This is likely to drive CMZB to a loss for FY2020.
- Operating profit before credit provisions for 2Q2020 rose 38.4% y/y to EUR674mn. This was driven by 6.8% y/y growth in revenues (+8.8% y/y excluding exceptional items) on net commission income growth from the securities business, stable to improved client volumes and activity in Private and Small-Business Customer segment and solid performance in the capital markets business in the Corporate Clients segment. At the same time, operating expenses fell 3.3% y/y despite ongoing digitalisation investments and higher compulsory contributions due to cost containment measures, in particular administrative cost control.
- Credit provisions rose 163% to EUR469mn due to EUR131mn in COVID-19 related provisions and EUR175mn for a single case. As a result, operating profit ended up down 33.8% y/y to EUR205mn for 2Q2020. For 1H2020, total credit provisions were EUR795mn made up of COVID-19 adjustments and effects of EUR315mn, the EUR175mn single exposure and a EUR305mn base provision. CMZB's loan book however was solid with its non-performing loan ratio at 0.8% as at 30 June 2020, improved from 0.9% as at 31 December 2019.
- Given the solid result as well as lower regulatory capital reductions and a positive 'Other Comprehensive Income' effect from the revaluation reserve, CMZB's fully loaded CET1 ratio rose to 13.4% as at 30 June 2020 against 13.2% as at 31 March 2020 (13.4% as at 31 December 2019). This offset higher risk weighted assets from higher loan commitments. The ratio remains above its revised target CET1 ratio of 12.50% in 2020 as well as its maximum distributable amount ("MDA") requirement of 10.78%. According to management, the MDA requirement could fall to 10.1% given successful capital instrument issuance in 2Q2020. The CET1 ratio does not include new regulatory transitional rules including a change in the SME factor that will be implemented in 3Q2020.
- Covid-19 continues to materially influence CMZB but in mixed ways. On the one hand, it continues to support its customers providing payment holidays for around 33,000 loans worth EUR3.4bn but on the other hand it has accelerated the bank's digital transformation with online users at record levels in June.
- CMZB expects stable revenues in the Private and Small-Business Customers segment assuming no second lockdown, a recovery in economic activities and ongoing government support. The expectations for the Corporate Clients segment and operating expenses is more positive. That said, credit costs for FY2020 are expected to be around EUR1.3-1.5bn and combined with expected restructuring charges, CMZB is expecting to generate a loss in FY2020. The target CET1 ratio is at least 12.5% for FY2020.
- While continuing to face external uncertainties, the recent appointment of a new supervisory board chairman should pave the way for the appointment of a new CEO to take the bank forward which should reduce apparent internal uncertainties on the management composition going forward. This will be important given CMZB's restructuring plan which remains in flux following the departures of the prior supervisory board chairman and current CEO Martin Zielke. The earnings and capital position provide CMZB with time to sort these issues out and maintains CMZB's Issuer profile at Neutral (4) for now. (Company, OCBC)

Credit Headlines

United Overseas Bank Ltd ("UOB") | Issuer Profile: Positive (2)

- UOB announced results reflective of the challenging operating environment with net profit before tax down 29% y/y for 1H2020 to SGD1.9bn. This was driven by a 9% y/y fall in operating profit and a 373% y/y rise in allowances in credit and other losses.
- The fall in operating profit was due to a larger fall in total income against the fall in operating expenses. Income performance was weak across all lines with net interest income down 6% y/y (lower net interest margins from the fall in interest rates), net fee and commission income down 4% y/y (fall in credit card fees from reduced consumer spending and slower loan disbursement fees from the fall in economic activity) and other non-interest income down 12% y/y (lower net trading income that was partially offset by higher gains from investment securities).
- Allowances for credit and other losses was SGD682mn in 1H2020. Of this, SGD396mn or 58% was recorded in 2Q2020 perhaps indicating a weaker outlook than previously. Around 60% of the allowances however are set aside for performing assets or reflect pre-emptive provisioning given the weaker operating environment while provisioning on impaired loans dropped relative to 1Q2020. To support this, non-performing loan ratios were broadly stable y/y and q/q at 1.6% as at 30 June 2020 although UOB expects this ratio to rise to 3-3.2% by the end of 2021. The current stability in non-performing loans is due to current debt moratoriums and various relief measures employed. According to management, UOB has provided support to over 1mn businesses and individuals or 16% of total loans (roughly SGD45bn). Non—performing loans are up 3.6% q/q and 9.5% h/h to SGD4.53bn as at 30 June 2020. The allowance coverage ratio improved to 96% as at 30 June 2020 (88% as at 31 March 2020) and 230% including only unsecured non-performing assets (206% as at 31 March 2020).
- Balancing the above are stable credit ratios for UOB with its CET1 ratio at 14.0% as at 30 June 2020, up 10bps h/h but down 10bps q/q. Movements were due to retained earnings, issuance and redemption of capital instruments, higher eligible provisions, or higher risk weighted assets from asset growth. Its all-currency liquidity coverage ratio and net stable funding ratio was at 138% and 119% respectively as at 30 June 2020 against at 139% and 109% respectively as at 31 March 2020 and 149% and 111% respectively as at 31 December 2019.
- Capital buffers and a still mild deterioration in the balance sheet keeps the Issuer Profile at Positive (2) in our view however we believe UOB still remains somewhat susceptible to still uncertain developments in the external environment. We continue to review the numbers. (Company, OCBC)

Key Market Movements

	6-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	67	-7	-12
iTraxx SovX APAC	39	-3	-4
iTraxx Japan	61	0	3
iTraxx Australia	71	-6	-10
CDX NA IG	65	-5	-6
CDX NA HY	105	2	4
iTraxx Eur Main	55	-6	-6
iTraxx Eur XO	342	-36	-13
iTraxx Eur Snr Fin	65	-8	-7
iTraxx Eur Sub Fin	134	-18	-13
iTraxx Sovx WE	15	-1	-2
USD Swap Spread 10Y	0	0	2
USD Swap Spread 30Y	-42	0	8
US Libor-OIS Spread	18	-1	-3
Euro Libor-OIS Spread	0	-1	-4
China 5Y CDS	41	-3	-4
Malaysia 5Y CDS	55	-4	-10
Indonesia 5Y CDS	110	-8	-10
Thailand 5Y CDS	41	-2	-1

	6-Aug	1W chg	1M chg
Brent Crude Spot ($/bbl)	45.17	5.19%	4.80%
Gold Spot ($/oz)	2,039.02	4.21%	14.25%
CRB	148.71	3.03%	5.54%
GSCI	350.30	2.02%	4.79%
VIX	22.99	-4.61%	-17.72%
CT10 (%)	0.551%	0.48	-12.49
AUD/USD	0.721	0.21%	3.40%
EUR/USD	1.188	0.29%	5.06%
USD/SGD	1.369	0.26%	1.72%
AUD/SGD	0.987	0.04%	-1.62%
ASX 200	6,049	-0.03%	0.58%
DJIA	27,202	2.49%	3.48%
SPX	3,328	2.13%	4.66%
MSCI Asiax	719	2.49%	3.61%
HSI	25,103	0.88%	-4.69%
STI	2,533	-1.95%	-5.83%
KLCI	1,568	-2.60%	-0.56%
JCI	5,127	0.28%	2.77%
EU Stoxx 50	3,268	-0.96%	-2.44%

Source: Bloomberg

New Issues

- CMB International Leasing Management Limited priced a USD800mn 5-year bond at T+170bps,tightening from IPT of T+225bps area and another USD400mn 10-year bond at T+228bps, tightening from IPT of T+280bps area.
- Central China Real Estate Ltd priced a USD300mn 4NC2 bond at 7.35%.
- China South City Holdings Limited priced a USD200mn 364-day bond at 13.5%, tightening from IPT of 13.75% area.
- Seazen Group Ltd priced a USD250mn 4-year bond at 6%, tightening from IPT of 6.45% area.
- Yuzhou Group Holdings Co Ltd priced a USD300mn 6NC4 green bond at 7.85%, tightening from IPT of 8.35% area.
- Zhongtai International Finance (BVI) Company Limited (Guarantor: Zhongtai Financial International Limited) priced a USD300mn 3-year bond at 3.85%, tightening from IPT of 4.25% area.
- Industrial and Commercial Bank of China Limited of Luxembourg priced a USD100mn 3-year bond at 3m-US LIBOR+75bps.
- Export-Import Bank of Korea priced a USD150mn 2-year bond at 0.617%.
- Aspial Treasury Pte. Ltd. (Guarantor: Aspial Corp Ltd) priced a SGD55mn re-tap of its ASPSP 6.25%'21s.
- Qingdao China Prosperity State-owned Capital Operation (Group) Co., Ltd has arranged investor calls commencing 5 August 2020 for its proposed USD bond offering.

New Issues

Date	Issuer	Size	Tenor	Pricing
5-Aug-20	CMB International Leasing Management Limited	USD800mn USD400mn	5-year 10-year	T+170bps T+228bps
5-Aug-20	Central China Real Estate Ltd	USD300mn	4NC2	7.35%
5-Aug-20	China South City Holdings Limited	USD200mn	364-day	13.5%
5-Aug-20	Seazen Group Ltd	USD250mn	4-year	6%
5-Aug-20	Yuzhou Group Holdings Co Ltd	USD300mn	6NC4	7.85%
5-Aug-20	Zhongtai International Finance (BVI) Company Limited (Guarantor: Zhongtai Financial International Limited)	USD300mn	3-year	3.85%
5-Aug-20	Industrial and Commercial Bank of China Limited of Luxembourg	USD100mn	3-year	3m-US LIBOR+75bps
5-Aug-20	Export-Import Bank of Korea priced a USD150mn 2-year bond at 0.617%.	USD150mn	2-year	0.617%
5-Aug-20	Aspial Treasury Pte. Ltd. (Guarantor: Aspial Corp Ltd)	SGD55mn	ASPSP 6.25%'21s	6.25%
4-Aug-20	Chouzhou International Investment Limited (Guarantor: Yiwu State-owned Capital Operation Co., Ltd.)	USD500mn	3-year	3.15%
4-Aug-20	Melco Resorts Finance Ltd	USD350mn	MPEL 5.75%'28s	5.75%
4-Aug-20	Aspial Treasury Pte. Ltd. (Guarantor: Aspial Corp Ltd)	SGD10mn	ASPSP 6.25%'21s	6.25%
3-Aug-20	Powerlong Real Estate Holdings Ltd	USD200mn	4NC2	6.5%
3-Aug-20	CICC Hong Kong Finance 2016 MTN Ltd (Guarantor: China International Capital Corp Hong Kong Ltd)	USD500mn	3-year	T+170bps
3-Aug-20	KWG Group Holdings Limited	USD200mn	5-year	5.95%
31-Jul-20	Future Days	USD125mn	5-year	0%

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

Co.Reg.no.:193200032W