Asian Credit Daily

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Credit Research

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Market Commentary

- Shorter tenors were unchanged in the SGD swap curve while belly tenors traded 1-2bps lower. Meanwhile, longer tenors traded 0-1bps lower, with the exception of the 30Y SOR which traded 1bps higher.
- There were heavy flows in SGD Corporates on Friday, with flows in VRTVEN 3.3%'28s, SPHSP 3.2%'30s, UBS 5.875%-PERPs, ESRCAY 5.65%-PERPs, SPHRSP 4.1%-PERPs, STANLN 5.375%-PERPs, and UOBSP 2.55%-PERPs.
- 10Y UST Yields traded 1bps lower yesterday to 1.17% amidst duo concerns of the US economic growth slowing down and the rapid spread of the Delta variant.

Credit Summary:

- **Commerzbank AG ("CMZB") | Issuer Profile: Neutral (4):** CMZB announced 1H2021 results which continue to be influenced by one-offs and extraordinary impacts. We continue to look through the numbers but are keeping the Neutral (4) issuer profile.

- **OUE Limited ("OUE") | Issuer profile: Neutral (5):** OUE reported its 1H2021 results. We maintain OUE's issuer profile at Neutral (5), albeit with a cautious outlook over a 12-month period.

- **Société Générale ("SocGen") | Issuer Profile: Neutral (4):** SocGen reported a solid recovery in performance following the challenging 2Q2020 and 1H2020. We continue to look through the numbers but see SocGen's Neutral (4) issuer profile as sound in our view.

- **Standard Chartered PLC ("StanChart") | Issuer Profile: Neutral (4):** StanChart announced its 1H2021 results. We maintain StanChart's issuer profile at Neutral (4).

- **United Overseas Bank Ltd ("UOB") | Issuer Profile: Positive (2):** UOB announced its 1H2021 results. While the economic recovery remains uneven, asset growth has driven solid earnings momentum for UOB in our view and its existing businesses position UOB for continued solid performance. We maintain the Positive (2) issuer profile.

Credit Headlines

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

- CMZB announced 1H2021 results which continue to be influenced by one-offs and extraordinary impacts. Pre-tax loss of EUR406mn was recorded and influenced by EUR976mn in restructuring charges related to CMZB's "Strategy 2024" as well as EUR361mn in other expenses. This includes amongst other things the exceptional EUR200mn write-off due to the cancellation of a major IT outsourcing project related to securities settlements. Another large swing in the results was a EUR485mn benefit from net income from financial assets and liabilities measured at fair value through profit and loss.
- Otherwise, underlying performance on a y/y basis was somewhat muted due to negative JAWS. Revenues excluding exceptional items were down 2.6% to EUR4.2bn on a 6.6% y/y fall in net interest income from lower interest rates. This offset a 8.1% y/y rise in net commission income. At the same, operating expenses rose 4.7% y/y.
- Similar to other banks under our coverage, risk costs fell y/y. EUR235mn in risk costs were recognized in 1H2021 against EUR795mn in 1H2020. In a sign of an improving outlook, risk costs were EUR87mn in 2Q2021 against EUR149mn in 1Q2021. Together with the movement in net income from financial assets and liabilities measured at fair value through profit and loss, the operating results represent a marked improvement from 1H2021 with an operating profit of EUR570mn for 1H2021 against an operating loss of EUR74mn in 1H2020.
- Despite the material loss recorded, CMZB's CET1 ratio was stable q/q and remained improved compared to 31 December 2020 at 13.4% as at 30 June 2021 due to a fall in risk in risk weighted assets. The ratio remains around 400bps above the 9.4% minimum regulatory requirement.
- CMZB still expects 2021 revenues to be higher y/y and costs to remain on track as it implements its turnaround. This is expected to compensate for anticipated total risk costs of less than EUR1bn for 2021. There may still be question marks however on 2H2021 performance given the 1Q2021 revenue momentum did not carry through in 2Q2021 results. As such, CMZB will likely be monitoring costs closely as it implements its "Strategy 2024" restructuring program. Any unforeseen increases in costs may impact 2021 earnings. We continue to look through the numbers but are keeping the Neutral (4) issuer profile. (Company, OCBC)

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OUE Limited ("OUE") | Issuer profile: Neutral (5):

- OUE reported its 1H2021 results. Revenue for 1H2021 was down by 49.5% y/y at SGD152.0mn, driven by declines in the Investment Properties, Development Properties and Hospitality Properties segment. EBITDA (based on our calculation which does not include other income and other expenses) was SGD74.5mn in 1H2021, resulting in EBITDA/Interest of 1.5x (1H2020: 1.3x).
- Unadjusted net gearing had declined to 41% as at 30 June 2021 from 52% as at end-2020, driven by debt repayments. In 1H2021, OUE's repayment of debt (net of new borrowings) was SGD882.2mn, mainly from proceeds from divestments in 2H2020 and 1H2021. OUE received divestment proceeds of SGD950.6mn from the sale of an investment property in 1H2021. In March 2021, OUE's Sponsored REIT, OUE Commercial Real Estate Investment Trust ("OUE-CT") which it consolidates, completed the sale of OUE Bayfront property.
- OUE's market implied net gearing though remains high at 2.0x, has declined from the reduction in debt and an increase in its market cap by 10% since end-2020. In our view, OUE is more reliant on potential asset sales versus new equity raising as a means of funding.
- OUE faces SGD466.2mn of short-term debt as at 30 June 2021 (representing 18% of total debt, including SGD200mn of SGD-denominated bonds due in April 2022). While near term liquidity looks more manageable against unpledged cash of SGD299.7mn. Medium-term liquidity looks more stretched without further asset sales. We maintain OUE's issuer profile at Neutral (5), albeit with a cautious outlook over a 12-month period. (Company, OCBC)

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Credit Headlines

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

- SocGen reported a solid recovery in performance following the challenging 2Q2020 and 1H2020. Net income for 2Q2021 and 1H2021 was EUR1.6bn and 2.6bn respectively against net losses of EUR1.2bn and EUR1.4bn on both better gross operating income and lower net costs of risk.
- Gross operating income performance was driven by a 18.2% and 22.8% improvement in 2Q2021 and 1H2021 net banking income with improvement across all businesses. Net banking income rose due to higher commissions in French Retail Banking and International Retail Banking that offset the decline in net interest income. International Retail Banking performance was also assisted by solid momentum in Specialised Consumer Finance and Insurance. Global Banking & Investor Solutions performance was particularly strong (+38.3% y/y for 1H2021) and above 1H2019 from a recovery in performance of the Equity businesses across most business lines as well as Financing & Advisory. Per management, Asset and Natural Resources and Infrastructure Financing activities saw solid activity.
- At the same time, operating expense growth was relatively contained despite the improvement in business activity with expense growth lower than earnings and generating positive JAWS.
- Net cost of risk fell 88.6% and 79.4% y/y for 2Q2021 and 1H2021 to EUR142mn. This comprised a EUR164mn provision for non-performing (stage 3) loans while there was a EUR22mn write-back on performing (stage 1 and 2) loans. Meanwhile, the gross doubtful outstandings ratio was 3.1% as at 30 June 2021, down 20bps q/q and h/h while the gross coverage ratio for doubtful outstandings was 52%, stable h/h and up from 51% as at 31 March 2021. The 1H2021 commercial cost of risk was 16bps comprising 11bps for 2Q2021 and 21bps for 1Q2021.
- With solid earnings performance and lower asset quality concerns, SocGen have raised their 2021 earnings forecast and have a constructive outlook with expected increases in revenues across all businesses while operating costs are expected to remain well managed. At the same time, the net cost of risk has been revised down to 20-25bps from 30-35bps previously, representing a reduction in anticipated risk costs of EUR500mn.
- SocGen's CET1 capital ratio was at 13.4% as at 30 June 2021, down slightly q/q but stable h/h. This was driven by 1H2021 earnings and positive credit migration but offset by dividend provisions and regulatory impacts and is around 430bps above the regulatory requirement and Minimum Distributable Amount requirement. The group's total loss absorbing capacity ("TLAC") ratio at 30.5% as at 30 June 2021 also remains above minimum 2021 TLAC requirements of 19.5% and minimum 2022 MREL requirement of 25.2%.
- We continue to look through the numbers but see SocGen's Neutral (4) issuer profile as sound in our view. (Company, OCBC)

Credit Headlines

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

- StanChart's 1H2021 statutory results continue the trend seen in 1Q2021 results with a 57% y/y rise in profit before taxation ("PBT") of USD2.56bn. This was driven entirely by the reduction in credit impairments which were down 103% to a net benefit of USD51mn against 1H2020 credit impairment charges of USD1.6bn. Otherwise, underlying operating profit before impairments and taxation was weaker y/y by 21.7% to USD2.5bn. On an underlying basis (excluding restructuring impacts), operating profit before impairments and taxation was weaker y/y by 25.2% to USD2.6bn.
- Driving the underlying operating profit was lower interest rates (net interest margins fell 18bps y/y to 1.22%) which offset a relatively solid rise in loan and advances to customers (+6% h/h) as well as a reduction in market volatility. This offset record performance in Wealth Management and solid transaction banking (+23% y/y and +16% y/y rise in income respectively) with overall operating income down 5% y/y. At the same time, underlying operating expenses rose 8% y/y on higher performance related pay and ongoing investment in digital transformation. StanChart's cost to income ratio rose to 66.8% in 1H2021 from 58.6% in 1H2020.
- Underlying credit impairment writebacks of USD47mn reflect an improved operating environment with a USD105mn net release of stage 1 and 2 (performing) provisions including a USD51mn release in the management overlay. 1H2021 credit impairments however still include a USD58mn charge for stage 3 or non-performing exposures although reflective of management's view of improved operating conditions, only USD3mn in stage 3 provisions were recorded in 2Q2021 while USD55mn was recorded in 1Q2021. 1H2021 stage 3 credit impairments were entirely from Consumer, Private & Business Banking on a normalisation of recoveries while there was a net writeback in credit impairment charges in Corporate, Commercial & Institutional Banking. Supporting the belief that operating conditions have improved, high risk assets continue to fall h/h, although stage 3 loans did rise 4% q/q. StanChart's non-performing loan ratio was 3.0% as at 30 June 2021, down from 3.2% as at 31 December 2020 while its stage 3 coverage ratio was 55% as at 30 June 2021 (75% including collateral), down from 58% (76% including collateral) over the same period.
- As mentioned, StanChart's balance sheet growth indicates improving underlying demand with gross customer loans and advances up 5% h/h and up 2% q/q. Due to the rise in loans and advances and credit migration, risk weighted assets rose 4% h/h. Given that growth in risk weighted assets as well as regulatory deductions was higher than growth in capital, StanChart's CET1 ratio fell by 30bps h/h to 14.1% as at 30 June 2021. This is just above its target CET1 range of 13-14% and well above its 9.9% regulatory minimum requirement. Management will therefore commence a USD250mn share buyback that will impact StanChart's CET1 ratio by 9bps and have announced a USD94mn interim dividend.
- While StanChart is encouraged by the YTD performance and interest rate outlook, earnings remain dependent on ongoing customer activity which may be pressured by the resurgence of COVID-19 and (in StanChart's words) the uneven recovery, particularly in Asia on vaccination rollouts. While credit impairments are expected to remain low, costs will need to remain in focus to buffer against lower-than-expected operating income performance. Performance for the remainder of FY2021 may remain vulnerable to external developments in StanChart's key markets in our view. The Neutral (4) issuer profile remains appropriate for now. (Company, OCBC)

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

- UOB announced its 1H2021 results with net profit after tax up 29% y/y and 48% y/y to SGD2.0bn. The difference in improvement is largely due to differences in allowances for credit and other losses which were higher in 2H2020 (SGD872mn) as opposed to 1H2020 (SGD682mn). Allowances for credit and other losses in 1H2021 was nevertheless lower at SGD383mn, down 44% y/y and 56% h/h.
- Income performance for UOB was solid with total income up 5% y/y and 9% h/h. Net interest income performance was solid on gross customer loans growth of 6% y/y and h/h. This compensated for and amplified net interest margin movements with net interest margins of 1.56% for 1H2021 down 4bps y/y and up 1bps h/h. H/h improvement in net interest margins were driven by a 19bps fall in average rates on interest bearing liabilities while average rates on interest bearing assets fell 16bps h/h. Net fee and commission income saw solid y/y and h/h growth, up 28% and 19% respectively to a record SGD1.23bn in 1H2021 from wealth management fees and higher loan-related fees from trade and investments as customer activity returned. Meanwhile, other non-interest income was more volatile falling 14% y/y but rising 16% h/h on developments with market volatility that impacted trading and customer-related treasury income.
- Operating expense performance was also supportive for earnings. Costs were stable y/y but rose h/h on higher staff costs. Occupancy costs were stable y/y and h/h while revenue-related expenses remain lower y/y and h/h. Developments with these costs may allow ongoing investment in technology with IT-related costs rising 10% y/y and 1% h/h. UOB's cost to income ratio therefore fell to 43.8% for 1H2021 against 45.6% in 1H2020 and 2H2020.
- The fall in allowances for credit and other losses reflect the improved operating environment with a lower accumulation of general allowances (down 55% y/y and 61% h/h). That said, there remains potential weaknesses in UOB's loan exposures with the SGD383mn in credit allowances comprised mostly specific allowances of SGD210mn that was still nevertheless down 31% y/y and 44% h/h. Driven by recent COVID-19 developments, the bulk of new specific allowances raised were for Thailand and Indonesia while Singapore, Malaysia and China all saw lower specific allowances raised. Overall however, loan quality has remained stable with the non-performing loan ratio improved marginally to 1.5% as at 30 June 2021 (1.5% as at 30 June 2020 and 31 December 2020). This was due to loans growth with non-performing loan balances stable to marginally lower on a y/y and h/h basis.
- Loans growth also drove a dip in UOB's CET1 ratio to 14.2% as at 30 June 2021 against 14.7% as at 31 December 2020 with the related rise in risk weighted assets offsetting growth in capital. Liquidity ratios remain solid and well above minimum requirements with UOB's liquidity coverage ratio and net stable funding ratio at 135% and 123% respectively as at 30 June 2021.
- While the economic recovery remains uneven, asset growth has driven solid earnings momentum for UOB in our view and its existing businesses position UOB for continued solid performance. We maintain the Positive (2) issuer profile. (Company, OCBC)

Key Market Movements

	4-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	90	-2	6
iTraxx SovX APAC	28	-1	3
iTraxx Japan	47	-1	2
iTraxx Australia	63	-1	5
CDX NA IG	50	1	3
CDX NA HY	109	0	-1
iTraxx Eur Main	47	0	1
iTraxx Eur XO	236	1	9
iTraxx Eur Snr Fin	54	0	1
iTraxx Eur Sub Fin	0	0	0
iTraxx Sovx WE	5	0	0
USD Swap Spread 10Y	2	0	4
USD Swap Spread 30Y	-26	-1	5
US Libor-OIS Spread	3	0	-1
Euro Libor-OIS Spread	-6	0	0
China 5Y CDS	39	-1	3
Malaysia 5Y CDS	51	-1	8
Indonesia 5Y CDS	80	-2	6
Thailand 5Y CDS	40	-1	2
Australia 5Y CDS	15	0	1

	4-Aug	1W chg	1M chg
Brent Crude Spot ($/bbl)	72.33	-3.22%	-5.04%
Gold Spot ($/oz)	1,812.63	0.31%	1.16%
CRB	215.29	-1.29%	0.15%
GSCI	530.15	-1.01%	-2.09%
VIX	18.04	-6.82%	19.71%
CT10 (%)	1.182%	-5.06	-24.17
AUD/USD	0.740	0.37%	-1.69%
EUR/USD	1.187	0.19%	0.03%
USD/SGD	1.350	0.52%	-0.32%
AUD/SGD	0.999	0.15%	1.36%
ASX 200	7,492	1.52%	2.50%
DJIA	35,116	0.17%	0.95%
SPX	4,423	0.49%	1.63%
MSCI Asiax	832	2.43%	-4.93%
HSI	26,496	4.01%	-6.41%
STI	3,167	0.81%	1.22%
KLCI	1,488	-1.79%	-2.94%
JCI	6,142	0.88%	1.98%
EU Stoxx 50	4,118	1.31%	0.82%

Source: Bloomberg

New Issues

- Bank of China Ltd/Hong Kong priced a USD500mn 3-year senior unsecured bond at SOFR+48bps, tightening from an IPT of SOFR+80bps area.
- China Ping An Insurance Overseas Holdings Ltd priced a USD550mn 10-year senior unsecured bond at T+167.5bps, tightening from an IPT of T+210bps area.
- Mapletree Treasury Services Limited priced a SGD600mn perpNC3 subordinated bond at 3.7%, tightening from an IPT of 4% area.
- Nanjing Jiangbei New Area Industrial Investment Group has mandated banks for its proposed USD bond offering.
- Ningbo Yincheng Group Co., Ltd. has arranged investor calls commencing 03 August for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
03-Aug-21	Bank of China Ltd/Hong Kong	USD500mn	3-year	SOFR+48bps
03-Aug-21	China Ping An Insurance Overseas Holdings Ltd	USD550mn	10-year	T+167.5bps
03-Aug-21	Mapletree Treasury Services Limited	SGD600mn	perpNC3	3.7%

Source: OCBC, Bloomberg

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