OCBC TREASURY RESEARCH

Asian Credit Daily

Friday, May 7, 2021

Market Commentary

- The SGD swap curve bull flattened yesterday, with shorter tenors trading at 2-3bps lower. Belly tenors traded 4bps lower while longer tenors traded 4-5bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 142bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 608bps. The HY-IG Index Spread widened 2bps to 466bps.
- There were heavy flows yesterday including in SPHSP 4.5%-PERPs, STSP 3.3%-PERPs, SPHSP 4%-PERPs, SPHSP 3.2%'30s, OLAMSP 4%'26s and OLAMSP 5.375%-PERPs.
- 10Y UST Yields remained mostly unchanged at 1.57% as investors largely shrugged off better-than-expected jobless claims data which registered a new low of 498,000 compared to estimates of 527,000.

Credit Research

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Credit Summary:

- **Credit Agricole Group ("CAG") | Issuer Profile: Neutral (3):** CAG's 1Q2021 results were solid on an underlying and reported basis with underlying gross operating income up 19.8% y/y to EUR2.9bn on positive JAWS and underlying net income up 63.0% y/y to EUR1.6bn from a 42.3% y/y fall in risk costs. Rounding out the results was CAG's capital position which remains strong with its CET1 ratio well above CAG's 8.9% Supervisory Review and Evaluation Process threshold. Although CAG continues to welcome its supportive role for the economy, we think its solid capital buffers provide a cushion against the recovering operating environment. We remain comfortable with the Neutral (3) issuer profile on CAG.
- **Groupe BPCE ("GBPCE") / BPCE SA | Issuer Profile: Neutral (3):** GBPCE announced its 1Q2021 results with income before tax of EUR1.0bn up 120% y/y. GBPCE's capital position remains solid with its CET1 capital ratio at 16.1% as at 31 March 2021, up 10bps q/q against 16.0% as at 31 December 2020. The BPCEGP 4.5% '26c21s approach first call on 3 June 2021 and given GBPCE's solid capital position, we expect this Tier 2 paper to be called. Thereafter, we are likely to cease coverage of GBPCE. For now though, we maintain the Neutral (3) issuer profile.
- **Macquarie Group Limited ("MQG") | Issuer Profile: Neutral (3):** MQG announced its FY2021 results for the year ended 31 March 2021. Overall operating results are resilient with net profit after tax up 12% y/y to AUD6.1bn while 2HFY2021 reported profit of AUD2.0bn is up 106% h/h and up 59% y/y. MQG's CET1 ratio rose 40bps y/y to 12.6% as at 31 March 2021, building on its equity raising in FY2020, with a record capital surplus of AUD8.8bn. We will continue to hold MQG at Neutral (3) issuer profile given its business composition and diversity as well as management's considered and selective strategy that should position the group for medium term opportunities.
- **Olam International Ltd ("Olam") | Issuer Profile: Neutral (5):** Olam announced that the consortium comprising National Agricultural Development Company, Al Rajhi International for Investment Company, Abdul Aziz Al Ajlan Sons Co. for Commercial and Real Estate Investment and Olam has been awarded the bid to buy one of the two flour milling companies offered for privatisation by the National Centre for Privatisation and the Saudi Grains Organisation ("SAGO").
- **Société Générale ("SocGen") | Issuer Profile: Neutral (4):** SocGen's 1Q2021 results were a reversal of the challenges of a year ago with reported net income of EUR814mn against a net loss of EUR326mn in 1Q2020. SocGen's CET1 ratio improved q/q to 13.5% as at 31 March 2021 from 13.4% as at 31 December 2020. With operating expenses contained, we expect that earnings should stay resilient. SocGen's improved performance, strategic execution and stronger capital buffer supports the current Neutral (4) Issuer profile in our view.

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Credit Headlines

Credit Agricole Group ("CAG") | Issuer Profile: Neutral (3)

- CAG's 1Q2021 results were solid on an underlying and reported basis with underlying gross operating income up 19.8% y/y to EUR2.9bn on positive JAWS and underlying net income up 63.0% y/y to EUR1.6bn from a 42.3% y/y fall in risk costs.
- Underlying revenues rose 8.4% y/y due to solid business activity across the group with some returning to pre-COVID19 levels. Large customers and Asset Gathering improved due to higher business activity and a recovery in markets while French Retail Banking was assisted by positive market revaluations. Specialized Financial Services was broadly stable while operating expense growth was minimal as lower expenses in Retail Banking and Specialized Financial Services offset higher expenses in Large Customers and Asset Gathering. The cost to income ratio fell to 60.3% in 1Q2021 against 65.4% in 1Q2020.
- Risk costs of EUR537mn comprise EUR147mn in risk costs for performing loans (EUR398mn in 1Q2020 and EUR651mn in 4Q2020) and EUR371mn for non-performing loans (EUR516mn in 1Q2020 and EUR334mn in 4Q2020). This is still materially down from EUR930mn in 1Q2020 and EUR919mn in 4Q2020 although provisions for non-performing loans rose 11% q/q. That said, overall asset quality appears stable with the non-performing loan ratio stable q/q at 2.3% as at 31 March 2021 and supporting the reduction in risk costs for performing loans. The non-performing loan coverage ratio was at 84.4% as at 31 March 2021 with total loan loss reserves at EUR19.7bn with 35% for performing loans.
- Rounding out the results was CAG's capital position which remains strong with its CET1 ratio well above CAG's 8.9% Supervisory Review and Evaluation Process threshold. Its phased in 17.3% CET1 ratio (17.0% on a fully loaded basis) improved 10bps compared to 31 December 2020 mainly from retained earnings (+31bps), a rise in risk weighted assets in the Large Customers and Retail Banking segments (-17bps) and dividends and AT1 distributions (-7bps). Its Total Loss Absorbing Capacity also remains above minimum requirements (19.5% including a 2.5% capital conservation buffer and a 1% G-SIB buffer) at 25.7% as at 31 March 2021 (25.5% as at 31 December 2020). Its leverage ratio at 8.3% is also above its 6.0% minimum requirement while there is EUR43bn in CET1 capital or 765bps of capital that exists as a buffer above its Maximum Distributable Amount (MDA) trigger
- CAG continues to provide support to the French and Italian economies. CAG's net exposure to State-Guaranteed Loans in France is around EUR3.1bn (with 2.0% classified as Stage 3 loans) with new processing declining and EUR2.8bn in Italy although processing of State-Guaranteed Loan applications in Italy is rising with net exposure in Italy rising 16.7% q/q. Nevertheless, CAG will increase its market share in Italy through its unsolicited take-over offer for Credito Valtellinese SpA ("CV"). In addition, around 93,000 loans or EUR0.7bn in deferred maturities remain on payment holidays in France (of which 68% for SME and small business and corporate customers and 32% for households) while 42,000 or EUR0.5bn in deferred maturities are on payment holidays in Italy. Per management, payments have resumed on more than 98% of expired payment holidays.
- Although CAG continues to welcome its supportive role for the economy, we think its solid capital buffers provide a cushion against the recovering operating environment. We remain comfortable with the Neutral (3) issuer profile on CAG. (Company, OCBC)

Credit Headlines

Groupe BPCE ("GBPCE") / BPCE SA | Issuer Profile: Neutral (3)

- GBPCE announced its 1Q2021 results with income before tax of EUR1.0bn up 120% y/y. This was driven entirely by a 11.9% y/y improvement in net banking income while operating expenses and risk costs were broadly stable y/y. Exceptional items were also lower y/y due to the absence of capital losses on divestments from 1Q2020.
- Net banking income performance was from broad based performance with 5.3% growth in revenues in Retail Banking & Insurance from higher loan outstandings (+11.3% y/y with +8.3% y/y on residential mortgages, +2.6% for consumer loans and +5.6% for equipment loans), 5.1% revenue growth in Insurance from premiums and higher leasing activities in Financial Solutions & Expertise gross operating income. Asset and Wealth Management also benefited from net inflows of EUR6bn in long term products with assets under management at EUR1,153mn as at 31 March 2021. Finally, Corporate & Investment Banking revenues rose 43.3% y/y from Global Markets revenue with growth in Credit and Equity businesses against a weak 1Q2020 as well as better activity from corporate and infrastructure borrowers in Global Finance.
- In line with ongoing focus on cost management, operating expense growth was contained at 2.6% y/y despite higher regulatory costs and contribution to the Single Resolution Fund and this generated positive JAWS given the 11.9% y/y improvement in net banking income. Excluding regulatory costs, expenses rose 0.8% y/y and were contained to business units with higher activity. Costs in the Banque Populaire and Caisse d'Épargne retail banking networks fell 0.2% y/y.
- The solid net banking income performance allowed GBPCE to remain conservative in its provisioning strategy with EUR490mn in risk costs broadly stable with 1Q2020 (26bps as a proportion of customer loan outstandings in 1Q2021 against 29bps in 1Q2020). Lower risk costs in Corporate & Investment Banking were offset by a rise in risk costs in Retail Banking & Insurance with provisioning for performing loans amounting to 5bps as a proportion of customer loan outstandings. Provisioning for performing loans appears prudent given some upward pressure in the ratio of non-performing loans to gross loan outstandings which rose 10bps to 2.6% as at 31 March 2021.
- GBPCE's capital position remains solid with its CET1 capital ratio at 16.1% as at 31 March 2021, up 10bps q/q against 16.0% as at 31 December 2020. Per management, the ratio is around 492bps above the maximum distributable amount trigger. Main impacts on the CET1 ratio on a q/q basis include the positive impacts of retained earnings and issue of co-operative shares (+15bps) as well as other changes (+3bps) against the change in risk weighted assets (-10bps). Its TLAC ratio at 23.9% as at 31 March 2021 also remains above minimum requirements as at 31 March 2021 of 19.51%.
- GBPCE is undertaking a Group simplification project including the public tender offer for Natixis shares not already held ahead of the announcement of its next strategic plan covering 2021-2024 that is to be presented in July 2021. The BPCEGP 4.5% '26c21s approach first call on 3 June 2021 and given GBPCE's solid capital position, we expect this Tier 2 paper to be called. Thereafter, we are likely to cease coverage of GBPCE. For now though, we maintain the Neutral (3) issuer profile. (Company, OCBC)

Credit Headlines

Macquarie Group Limited ("MQG") | Issuer Profile: Neutral (3)

- MQG announced its FY2021 results for the year ended 31 March 2021. Overall operating results are resilient with net profit after tax up 12% y/y to AUD6.1bn while 2HFY2021 reported profit of AUD2.0bn is up 106% h/h and up 59% y/y. Performance of markets facing businesses offset weaker performance of annuity style businesses. Markets-facing businesses (Macquarie Capital ("MC") and most businesses in Commodities and Global Markets ("CGM")) rose 39% y/y to AUD2.8bn on an operating profit basis while annuity-style activities (Macquarie Asset Management ("MAM"), Banking and Financial Services ("BFS") and certain businesses in CGM achieved operating net profit of AUD3.314 million, down four per cent on FY20.
- By segment, MAM net profit fell 5% y/y on lower AirFinance income and reduced performance fees and fee and commission income. BFS was stable y/y as higher business volumes and reduced credit impairments offset margin compression and lower vehicle financing. MC fell 15% y/y on lower fee and commission income from reduced business activities and investment related income although higher equity capital markets business activity and lower expenses and credit impairments partially offset this. CGM was the key support for FY2020 performance with net operating profit of AUD2.6bn up 50% y/y on solid revenue growth in Commodities and higher activity in Foreign exchange, interest rates and credit as well as Equity Derivatives and Trading. CGM's annuity-style activities though were weaker y/y on lower commodities lending and financing and higher credit impairments.
- MQG's CET1 ratio rose 40bps y/y to 12.6% as at 31 March 2021, building on its equity raising in FY2020, with a record capital surplus of AUD8.8bn. The ratio is above the regulatory minimum of around 8.5% that include the capital conservation buffer (CCB), provision for internal capital buffers, forthcoming regulatory changes, and the AUD500mn operational capital overlay. On an internationally comparable basis, the CET1 ratio was 16.2% as at 31 March 2021. MQG's Leverage Ratio, Liquidity Coverage Ratio and Net Stable Funding Ratio were at 5.5%, 174% and 115% respectively as at 31 March 2021.
- While MQG's outlook remains cautious, it is materially less so compared to 12 months ago with its outlook improved on solid FY2021 performance and a strong capital position. We will continue to hold MQG at Neutral (3) issuer profile given its business composition and diversity as well as management's considered and selective strategy that should position the group for medium term opportunities. (Company, OCBC)

Credit Headlines

Olam International Ltd ("Olam") | Issuer Profile: Neutral (5)

- Olam announced that the consortium comprising National Agricultural Development Company, Al Rajhi International for Investment Company, Abdul Aziz Al Ajlan Sons Co. for Commercial and Real Estate Investment and Olam has been awarded the bid to buy one of the two flour milling companies offered for privatisation by the National Centre for Privatisation and the Saudi Grains Organisation ("SAGO").
- Reuters reported that the flour milling company was sold to the consortium for SAR2.13bn ~USD568mn (~SGD758mn). The privatisation of the flour milling company is part of a broader privatisation drive that the kingdom has planned to overhaul its economy. Under this plan, assets owned by the state are being sold to the private sector.
- Olam intends to participate as a technical partner with a minority stake in the transaction. Negotiations among consortium partners on definitive terms of the agreement and the transaction is expected to be completed within the next six months. (Company, Reuters)

Credit Headlines

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

- SocGen's 1Q2021 results were a reversal of the challenges of a year ago with reported net income of EUR814mn against a net loss of EUR326mn in 1Q2020. This was driven by a 20.8% y/y recovery in net banking income as well as a 66.3% y/y fall in net risk costs to EUR276mn (EUR820mn in 1Q2020).
- Net banking income performance was assisted by strong performance in Global Banking & Investor Solutions with revenues up 60.4% y/y. In particular, Global Markets had a record quarter with equity structured products rebounding following a review in 2Q2020 and a market recovery while Fixed Income & Currency activity was also strong (+51% q/q). Securities Services' revenues and Financing & Advisory delivered resilient performance and all this offset Asset & Wealth Management's slight weaker performance on interest margin pressure that overshadowed activity growth including a 4.1% q/q rise in assets under management. Otherwise, the retail operations both in France and Internationally was down y/y given the extension of movement restrictions in 1Q2021, lower interest rates and some period of pre-pandemic operating conditions a year ago.
- Net cost of risk reduced to 21bps in 1Q2021, down from 65bps in 1Q2020, although management expects the 2021 cost of risk to be between 30-35bps. 1Q2021 risk costs of EUR276mn though reflect some clarity in loan quality trends with EUR300mn in provisions raised for non-performing loans and EUR24mn in loan provision writebacks for performing loans. Overall provisions for performing loans of EUR3.6bn though remain 59% higher y/y. As at 31 March 2021, EUR2bn in loans remain under repayment moratoriums while there was EUR2bn in net exposure to French state guaranteed loans. The gross doubtful outstandings ratio was 3.3% as at 31 March 2021, stable q/q. The gross coverage ratio for doubtful outstandings was 51%, down from 52% on a q/q basis.
- Operating expenses were contained and fell 2.2% y/y generating positive JAWS despite higher contributions to the Single Resolution Fund. The underlying cost to income ratio was 66% in 1Q2021 against 81% in 1Q2020. The bulk of the cost reduction was from cost management, particularly in International Retail Banking and Financial Services although all divisions managed cost reductions.
- SocGen's CET1 ratio improved q/q to 13.5% as at 31 March 2021 from 13.4% as at 31 December 2020. This was driven by earnings (+26bps) but offset by regulatory impacts (-16bps) and is around 450bps above the regulatory requirement and Minimum Distributable Amount requirement of 9.02%, the minimum requirements for own funds and eligible liabilities of 8.51%, and SocGen's guidance of operating 200bps above the regulatory requirement. The group's total loss absorbing capacity ("TLAC ") ratio at 31.0% as at 31 March 2021 also remains above minimum TLAC requirements of 19.5% and minimum MREL requirement of 24.4%.
- SocGen's strategy for the remainder of 2021 is centred on its refocusing program including the merger of its domestic networks, conclusion of discussions with Amundi for the disposal of Lyxor's asset management business and a new roadmap for Global Banking & Investor Solutions (a new investment bank strategy is expected to be announced next week). With operating expenses contained, we expect that earnings should stay resilient. SocGen's improved performance, strategic execution and stronger capital buffer supports the current Neutral (4) Issuer profile in our view. (Company, OCBC)

Key Market Movements

	7-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	80	0	12
iTraxx SovX APAC	26	0	-1
iTraxx Japan	48	0	3
iTraxx Australia	61	0	-1
CDX NA IG	51	1	-1
CDX NA HY	110	0	0
iTraxx Eur Main	51	1	0
iTraxx Eur XO	254	6	5
iTraxx Eur Snr Fin	60	2	1
iTraxx Eur Sub Fin	108	-9	-1
iTraxx Sovx WE	6	0	0
USD Swap Spread 10Y	-1	-1	-4
USD Swap Spread 30Y	-27	-2	-4
US Libor-OIS Spread	9	0	-3
Euro Libor-OIS Spread	-4	1	1
China 5Y CDS	37	0	1
Malaysia 5Y CDS	46	1	1
Indonesia 5Y CDS	77	0	-7
Thailand 5Y CDS	41	0	1
Australia 5Y CDS	15	0	-12

	7-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	68.21	1.43%	8.00%
Gold Spot ($/oz)	1,814.61	2.57%	4.42%
CRB	205.25	2.28%	10.45%
GSCI	518.86	2.01%	10.73%
VIX	18.39	4.43%	1.49%
CT10 (%)	1.568%	-5.80	-10.60
AUD/USD	0.778	0.88%	2.23%
EUR/USD	1.207	0.39%	1.68%
USD/SGD	1.334	-0.22%	0.57%
AUD/SGD	1.038	-1.11%	-1.64%
ASX 200	7,074	0.68%	2.10%
DJIA	34,549	1.43%	3.35%
SPX	4,202	-0.23%	3.13%
MSCI Asiax	875	-1.10%	-0.38%
HSI	28,637	-2.27%	-0.13%
STI	3,173	-1.51%	-0.71%
KLCI	1,578	-1.88%	-1.39%
JCI	5,970	-0.71%	-1.10%
EU Stoxx 50	3,999	0.06%	1.08%

Source: Bloomberg

New Issues

- ENN Clean Energy International Investment Ltd. (Guarantor: ENN Natural Gas Co Ltd) priced a USD800mn 5NC3 senior unsecured bond at T+265bps, tightening from IPT of T+320bps area.
- BOC Aviation USA Corp (Guarantor: BOC Aviation Ltd) priced a USD250mn re-tap of its BOCAVI 1.625%'24s at T+125bps, tightening from IPT of T+155bps area.
- KB Kookmin Card Co Ltd priced a USD300mn 5-year sustainability bond at T+72.5bps, tightening from IPT of T+110bps area.
- Powerlong Real Estate Holdings Ltd priced a USD200mn 5NC3 senior unsecured bond at 5.1%, tightening from IPT of 5.7% area.
- Golden Energy & Resources Ltd priced a USD285mn 5NC3 senior unsecured bond at 8.875%, tightening from IPT of 9% area.
- eHi Car Services Ltd priced a USD300mn 3.5-year senior unsecured bond at 8%.
- Cathay Pacific Airways Ltd. has arranged investor calls commencing 6 May for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
06-May-21	ENN Clean Energy International Investment Ltd. (Guarantor: ENN Natural Gas Co Ltd)	USD800mn	5NC3	T+265bps
06-May-21	BOC Aviation USA Corp (Guarantor: BOC Aviation Ltd)	USD250mn	BOCAVI 1.625%'24s	T+125bps
06-May-21	KB Kookmin Card Co Ltd	USD300mn	5-year	T+72.5bps
06-May-21	Powerlong Real Estate Holdings Ltd	USD200mn	5NC3	5.1%
06-May-21	Golden Energy & Resources Ltd	USD285mn	5NC3	8.875%
06-May-21	eHi Car Services Ltd	USD300mn	3.5-year	8%
05-May-21	NAVER Corp	USD300mn	NHNCOR 1.5%'26s	T+85bps

Source: OCBC, Bloomberg

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