Asian Credit Daily

6 May 2024

Market Commentary:

- The SGD SORA curve traded mostly lower last Friday, with short tenors trading 2-5bps lower, belly tenors trading 5bps lower and 10Y trading 5bps lower.

- Flows in SGD corporates were moderate, with flows in GESP 3.928% '39s, BNP 4.75% '34s, HSBC 5.3% '33s.

- Country Garden Holdings Co. (“COGARD”) is facing two bond-payment deadlines this week that would be the first major test for a state-sponsored program that guarantees debt from some of the country’s biggest builders. COGARD has payments due on 9 May on two yuan bonds with combined interest of RMB65.95mn (USD9.1mn). China Bond Insurance Co., a state-owned credit-support provider, guarantees both notes and is a crucial component of a program introduced by authorities in August 2022, aimed at assisting private developers in avoiding liquidity shortages. So far, none of the builders who have utilized this program have failed to make payments on the securities that are guaranteed.

- Bloomberg Asia USD Investment Grade spreads widened by 1bps to 83bps while Asia USD High Yield spreads tightened by 2bps at 576bps. (Bloomberg, OCBC)

- There were no notable bond issuers in the Asiadollar and Singdollar market last Friday.

Credit Summary:

- **Société Générale ("SocGen"):** SocGen announced its 1Q2024 results with 3.2% y/y growth in reported gross operating income as a 0.4% y/y fall in net banking income to EUR6.65bn was offset by a 1.5% y/y fall in operating expenses to EUR4.98bn. Operating income of EUR1.27bn however was down 11.7% y/y due to a substantial rise in the net cost of risk to EUR400mn, more than doubled from 1Q2023.

- **Credit Agricole Group (“CAG”) / Credit Agricole SA (“CASA”):** CAG announced its 1Q2024 results with a 42.8% y/y rise in net income to EUR2.38bn on positive JAWS. On an underlying basis, net income was up 40.8% y/y to EUR2.38bn due to a 5.8% y/y rise in underlying revenues against a 5.4% y/y rise in underlying expenses.

- **Westpac Banking Corporation ("Westpac"):** Westpac released its 1HFY2024 results for the 6 months ended 31 March 2024 with profit before tax up 3% h/h to AUD8.83bn as stable net operating income and a fall in operating expenses offset a 40% h/h rise in impairment charges.

- **Singapore Telecommunications Ltd ("SingTel") SingTel Optus Pty Ltd ("Optus")**: Optus has appointed Stephen Rue ("Stephen") as CEO with effect from November 2024.

Key Market Movements

	6-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	103	-9	-1
iTraxx Japan	53	-1	6
iTraxx Australia	69	-3	3
CDX NA IG	50	-1	-1
CDX NA HY	107	0	0
iTraxx Eur Main	53	-1	-1
iTraxx Eur XO	307	-5	7
iTraxx Eur Snr Fin	61	-2	-2
iTraxx Eur Sub Fin	111	-1	-1
USD Swap Spread 10Y	-37	0	0
USD Swap Spread 30Y	-76	0	-2
China 5Y CDS	64	-5	-7
Malaysia 5Y CDS	45	-2	0
Indonesia 5Y CDS	72	-4	-2
Thailand 5Y CDS	43	-2	-2
Australia 5Y CDS	13	-1	-3

	6-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	83.3	-5.8%	-8.7%
Gold Spot ($/oz)	2,314	-0.9%	-1.1%
CRB Commodity Index	287	-3.5%	-3.7%
S&P Commodity Index - GSCI	573	-3.3%	-4.8%
VIX	13.5	-10.2%	-15.8%
US10Y Yield	4.51%	-16bp	16bp
AUD/USD	0.662	0.8%	0.2%
EUR/USD	1.077	0.4%	-0.8%
USD/SGD	1.352	0.6%	-0.3%
AUD/SGD	0.894	-0.2%	-0.5%
ASX200	7,675	0.5%	-1.3%
DJIA	38,676	1.1%	-0.6%
SPX	5,128	0.5%	-1.5%
MSCI Asiax	673	1.4%	2.7%
HSI	18,468	4.6%	10.4%
STI	3,306	0.8%	2.7%
KLCI	1,593	1.1%	2.4%
JCI	7,108	1.0%	-2.5%
EU Stoxx 50	4,921	-1.7%	-1.9%

Source: Bloomberg

Credit Headlines:

Société Générale ("SocGen")

- SocGen announced its 1Q2024 results with 3.2% y/y growth in reported gross operating income as a 0.4% y/y fall in net banking income to EUR6.65bn was offset by a 1.5% y/y fall in operating expenses to EUR4.98bn. Operating income of EUR1.27bn however was down 11.7% y/y due to a substantial rise in the net cost of risk to EUR400mn, more than doubled from 1Q2023.
- Net cost of risk was at 27bps in 1Q2024, within management guidance of 25-30bps for 2024. The amount includes EUR499mn for non-performing loans due to specific defaults in France and EUR99mn in reversals for performing loans. This is due to the continued amortisation of Russian offshore exposures. As at 31 March 2024, the exposure at default was EUR0.7bn, down from EUR0.9bn as at 31 December 2023. The gross coverage ratio was 2.85% as at 31 March 2024 while the net coverage ratio on non-performing loans was at 82% (factoring in guarantees and collateral).
- Net banking income continues to be impacted by short term hedges which influence the performance of French Retail. Other impacts include the change in deposit product mix which is raising deposit costs. Offsetting this is the improved performance of Private Banking and Insurance with fee growth from higher assets under management. Global Banking and Investor Solutions also recorded weaker y/y performance however this was against a high base with lower fixed income performance in Global Markets that was partially offset by higher equities and financing and advisory revenues. Global Transaction and payment services were up 7.8% y/y on higher margins in cash management.
- Operating expenses were influenced by lower Single Resolution Fund contributions. This offset higher integration and transformation costs. Given the positive JAWS, the cost to income ratio was 74.9% for 1Q2024, improved from 75.8% in 1Q2023 (78.3% in 4Q2023), though still high compared to other Financial Institutions under our coverage.
- SocGen's CET1 capital ratio as at 31 March 2024 was 13.2%, up 10bps q/q from 13.1% as at 31 December 2023. On a fully loaded basis, the ratio is also 13.2%. The ratio is about 300bps above its 10.22% regulatory requirement as per the European Central Bank's Supervisory Review and Evaluation Process ("SREP"). Earnings (+17bps) and risk weighted asset movements (+8bps) offset shareholder distributions (-11bps) and regulatory deductions (-9bps).
- Other credit ratios are sound, including the Total Loss Absorbing Capacity ("TLAC") ratio which was 32.5% (31.9% as at 31 December 2023) and above the 22.28% Financial Stability Board requirement and the Minimum Requirement for Own Funds and Eligible Liabilities ("MREL") ratio, which was 34.2% (33.7% as at 31 December 2023) and above the 27.24% requirement. The liquidity coverage ratio was 159% as at 31 March 2024 with liquidity reserves of EUR316bn.
- Management have confirmed their 2024 guidance of revenue growth of 5%, cost to income ratio below 71% and a CET1 ratio of ~13%, amongst others, although this would mean an improved performance from SocGen for the remainder of 2024. Chief Executive Officer Slawomir Krupa is currently pursuing a strategic roadmap presented in September 2023, targeting a streamlined, more synergetic and efficient business model with lower costs, while strengthening the Group's capital base. As part of this, SocGen recently agreed to sell its Moroccan businesses (57.67% stake in Société Générale Marocaine de Banques and full stake in La Marocaine Vie) to Saham Group for EUR745mn and signed a memorandum of understanding ("MOU") with Groupe BPCE with a view to sell its professional equipment financing businesses to Groupe BPCE for EUR1.1bn. (Company, OCBC)

Credit Agricole Group ("CAG") / Credit Agricole SA ("CASA")

- CAG announced its 1Q2024 results with a 42.8% y/y rise in net income to EUR2.38bn on positive JAWS. On an underlying basis, net income was up 40.8% y/y to EUR2.38bn due to a 5.8% y/y rise in underlying revenues against a 5.4% y/y rise in underlying expenses. This translated to a 28.1% y/y rise in underlying gross operating income of EUR3.91bn which offset a 15.2% y/y rise in underlying cost of risk to EUR631mn. With strong earnings performance and CASA's record 1Q2024 performance, management expect to achieve their 2025 targets a year earlier in 2024.
- Revenues were supported by the Large Customers segment with improved revenues in capital markets and investment banking (primary and financing activities). There was also solid performance in asset management where Credit Agricole Assurances saw record gross inflows and portfolio growth in property and casualty insurance. Per management, assets under management are at a record with solid y/y growth in asset management (+9.4% to EUR2,116bn), life insurance (+3.2% to EUR335bn) and wealth management (+6.3% to 197bn) to EUR2,648bn as at 31 March 2024 (+8.8% q/q). Specialised Financial Services ("SFS") also saw solid growth in consumer finance (automotive outstandings) and equipment leasing with the consolidation of CA Auto Bank.
- Operating expenses rose due to the integration of new businesses (RBC Investor Services and CA Auto Bank) with the underlying cost to income ratio of 58.8% (excluding the Single Resolution Fund) improved marginally from 59.0% in 1Q2023.
- Underlying risk costs of EUR631mn include a EUR58mn reversal for general (stage 1 and 2) provisions that was overshadowed by EUR690mn in specific or proven (stage 3) risk costs. The 1Q2024 annualized cost of risk was 21bps with the rolling four quarter cost of risk relative to average outstandings at the start of each quarter over the past four at 25bps, in line with the 25bps expectation under the Medium Term Plan.
- CAG's fundamentals remain anchored on its strong capital position with a phased in CET1 capital ratio of 17.5% (17.4% on a fully loaded basis) as at 31 March 2024, stable compared to 31 December 2023. The buffer to its 9.7% Supervisory Review and Evaluation Process threshold was 780bps. CAG's capital position on a q/q basis was influenced by:
  - Retained earnings (+29bps).
  - Changes in risk weighted assets from business growth and methodology changes (-31bps).
  - Unrealised gains and/or losses, M&A and others (-1bps).
- The distance to its Maximum Distributable Amount ("MDA") trigger which is defined as the lowest of the respective distances to the SREP requirements for CET1, Tier 1 and total capital was 710bps or EUR44bn in CET1 capital as at 31 March 2024. Its Total Loss Absorbing Capacity ("TLAC") ratio was 27.3% as at 31 March 2024, well above the 22.3% minimum requirement that includes the combined capital buffer requirement that comprises a 2.5% capital conservation buffer, a 1% G-SIB buffer and the counter-cyclical buffer set at 0.75%. Management's 2025 TLAC target ratio is 26%.
- Credit fundamentals remain sound for CAG given its capital position and solid growth in its diversified business segments. (Company, OCBC)

Westpac Banking Corporation ("Westpac")

- Westpac released its 1HFY2024 results for the 6 months ended 31 March 2024 with profit before tax up 3% h/h to AUD8.83bn as stable net operating income and a fall in operating expenses offset a 40% h/h rise in impairment charges.
  - Excluding notable items (hedging impacts and large non-operating items including provisions, asset sales and revaluations and write-offs and restructuring costs, the h/h performance was broadly stable with 1HFY2024 net profit before tax of AUD5.06bn down 2% h/h.
  - Y/y, net profit before tax was down 14% due to negative JAWS with a 4% y/y fall in net operating income and a 8% y/y rise in operating expenses that overshadowed a 7% y/y fall in impairment charges.
- In terms of the h/h movements:
  - Net operating income of AUD10.59bn was stable as a 1% fall in net interest income (net interest margins compressed 5bps h/h on lending competition and higher deposit costs from competition and product mix

changes, offset by a 2% rise in average interest-earning assets) was offset by 2% h/h improvement in non-interest income from net fee income (institutional lending fees) and foreign exchange trading income.
    - Operating expenses were down 5% h/h due to the inclusion of higher notable items in 2HFY2023. Excluding these, operating expenses were 3% higher h/h due to higher software amortisation expenses and technology costs. This was partially offset by Cost Reset actions on staffing levels and Westpac's reduced property portfolio.
    - The 40% h/h rise in impairment charges translates to a 9bps credit cost compared to average loans, up from 7bps h/h but down from 10bps in 1HFY2023. Both collective (stage 1 and 2) and individual (stage 3) provisions rose with weaker credit quality metrics from both specific exposures and a generally weaker operating environment. Most of the increase was in the individually assessed provisions and relates to manufacturing and wholesale & retail trade exposures, including one exposure greater than AUD50mn although there was some partial offset from higher recoveries.
    - The ratio of stressed exposures to total committed exposures rose 10bps h/h to 1.36% as at 31 March 2024. The ratio of collectively assessed provisions to credit RWA was 1.38% as at 31 March 2024, up from 1.35% as at 30 September 2023.
    - Loan quality metrics generally remain robust with the weakening from a strong base. The gross impaired exposures to gross loans ratio rose to 0.19% as at 31 March 2024 from 0.17% as at 30 September 2023 while the ratio of gross impaired exposures provisions to gross impaired exposures rose 3.13ppt to 46.60% over the same period. In addition, total credit provisions of AUD5.135bn that rose 4% h/h remain around AUD1.4bn above Westpac's expected losses under the base case economic scenario.
- Westpac's CET1 capital ratio of 12.55% as at 31 March 2024 was up 17bps from 12.38% as at 30 September 2023 (12.28% as at 31 March 2023). The h/h movement reflects earnings (+75bps) and lower risk weighted assets (+17bps) that are offset by dividends (-57bps) and the previously announced AUD1.5bn on market share buyback (-19bps).
    - Management have increased the share buyback by a further AUD1.0bn given the solid capital position. The CET1 capital ratio remains above the Australian Prudential Regulation Authority's ("APRA") 'Unquestionably Strong' benchmark and the bank's revised 11.0-11.5% preferred capital range with a buffer of AUD4.7bn against the top of the range.
    - On an internationally comparable basis, Westpac's CET1 ratio improves to 18.55% as at 31 March 2024.
- Management's outlook remains cautious on anticipated challenges in operating conditions. That said, there is some optimism for the economy to improve given evidence of balance sheet growth, management of net interest margin pressures and some expectations of easing inflationary pressures. Together with a resilient balance sheet, Westpac's fundamental position remains within expectations. (Company, OCBC)

Singapore Telecommunications Ltd ("SingTel")
SingTel Optus Pty Ltd ("Optus")

- **Appointment of Stephen as new CEO:** Optus has appointed Stephen Rue ("Stephen") as CEO with effect from November 2024.
- **Stephen is an experienced industry insider:** Stephen is currently CEO of Australia's National Broadband Network ("NBN"), who led Australia's broadband rollout to completion.
- **New CEO to lift service standards:** According to Optus Chairman Paul O'Sullivan, Stephen's operational and financial background is expected to lift service standards significantly for the customers of Optus. Meanwhile, Michael Venter will continue as interim CEO.
- **New governance model to rebuild trust:** Moving forward, Optus CEO and executives will report to the Optus Board and Stephen will join the Board to report to the Chairman. The board and executives will work together to reset strategy and rebuild customer trust in the Optus brand. Members of the Optus Board include its Chairman, Yuen Kuan Moon (SingTel's CEO), John Arthur, Lim Cheng Cheng and Michael Venter. (Company, OCBC)

Mandates:

- There are no Asiadollar mandates for today.

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