Asian Credit Daily

22 February 2024

Market Commentary:

- The SGD SORA curve traded higher yesterday, with short tenors trading 1-2bps higher, belly tenors trading 2bps higher, and the 10Y trading 2bps higher.

- Flows in SGD corporates were heavy, with flows in UBS 5.75%-PERP, BNP 4.75% '34s, SGXSP 3.45% '27s, STRTR 4.7% '29s, UBS 4.85%-PERP.

- According to Bloomberg, Chinese property developer Jinke Properties Group Co Ltd ("Jinke") submitted applications for restructuring to the local court on 21 February 2024, with the aim to prevent further worsening of its debt problems.

- Yesterday, Bloomberg Asia USD Investment Grade spreads tightened by 1 bps to 93bps while the Asia USD High Yield spreads tightened 23 bps to 603bps, per Bloomberg.

Credit Summary:

- **HSBC Holdings PLC ("HSBC"):** HSBC announced a 77.9% y/y rise in 2023 profit before tax to USD30.35bn - this is despite the recognition of a USD3.0bn impairment loss on HSBC's 19.03% investment in Bank of Communications Co Ltd ("BoCom"). The loss followed an impairment test on the carrying or recoverable amount of the BoCom investment, which has historically been acknowledged as being higher than its fair value. The impact on the carrying amount was driven by management estimates of BoCom's lower forecast earnings and the need for earnings to be withheld at BoCom to meet minimum capital requirements.

- **United Overseas Bank Ltd ("UOB"):** UOB reported its 2H2023 and 2023 results with record core 2023 net profit of SGD6.1bn, up 26% y/y. Influences were similar to DBS Group Holdings Ltd's 2023 results with performance driven by positive JAWS with operating profit up 24% y/y on 20% growth in total income from net interest income performance and other non-interest income while operating expenses rose 15% y/y. The 2023 cost to income ratio was 41.5% against 43.3% in 2022. This was partially offset by higher allowances for credit and other losses that rose by 53% y/y.

Key Market Movements

	22-Feb	1W chg (bps)	1M chg (bps)		22-Feb	1W chg	1M chg
iTraxx Asiax IG	98	-3	-6	**Brent Crude Spot ($/bbl)**	83.1	0.3%	3.8%
				Gold Spot ($/oz)	2,028	1.2%	0.3%
iTraxx Japan	55	-1	-1	**CRB Commodity Index**	274	0.4%	2.6%
iTraxx Australia	66	-1	-3	**S&P Commodity Index - GSCI**	557	0.8%	2.5%
CDX NA IG	53	1	-2	**VIX**	15.3	-3.2%	16.3%
CDX NA HY	106	0	0	**US10Y Yield**	4.30%	7bp	19bp
iTraxx Eur Main	56	-1	-3				
iTraxx Eur XO	313	-1	-10	**AUD/USD**	0.655	0.4%	-0.3%
iTraxx Eur Snr Fin	66	-1	-2	**EUR/USD**	1.083	0.5%	-0.5%
iTraxx Eur Sub Fin	123	-3	-5	**USD/SGD**	1.344	0.2%	-0.1%
				AUD/SGD	0.880	-0.2%	0.2%
USD Swap Spread 10Y	-36	-1	0	**ASX200**	7,607	0.0%	1.7%
USD Swap Spread 30Y	-72	0	-3	**DJIA**	38,612	0.9%	1.6%
				SPX	4,982	0.6%	2.7%
China 5Y CDS	65	0	-2	**MSCI Asiax**	638	1.4%	6.6%
Malaysia 5Y CDS	40	-3	-4	**HSI**	16,527	3.6%	10.5%
Indonesia 5Y CDS	72	0	-2	**STI**	3,200	0.7%	1.6%
Thailand 5Y CDS	43	-1	1	**KLCI**	1,547	1.2%	3.8%
Australia 5Y CDS	15	0	0	**JCI**	7,355	0.7%	1.5%
				EU Stoxx 50	4,775	1.4%	6.6%

Source: Bloomberg

Credit Headlines:

HSBC Holdings PLC ("HSBC")

- HSBC announced a 77.9% y/y rise in 2023 profit before tax to USD30.35bn - this is despite the recognition of a USD3.0bn impairment loss on HSBC's 19.03% investment in Bank of Communications Co Ltd ("BoCom"). The loss followed an impairment test on the carrying or recoverable amount of the BoCom investment, which has historically been acknowledged as being higher than its fair value. The impact on the carrying amount was driven by management estimates of BoCom's lower forecast earnings and the need for earnings to be withheld at BoCom to meet minimum capital requirements.
- HSBC's results were also impacted by other one-offs including:
    - Accounting transactions associated with HSBC's sale of its retail banking operations in France in both 2022 (impairment) and 2023 (reversal).
    - Disposal losses on Markets Treasury repositioning of USD977mn (none in 2022).
    - Disposals, acquisitions and related costs of USD321mn (USD18mn in 2022)
    - USD136mn in restructuring provision reversals (USD3.13bn in restructuring and related costs in 2022).
    - USD1.59bn gain on acquisition of Silicon Valley Bank UK Limited ("SVB UK").
- Outside of the above, main underlying influences for the results included:
    - A 17.84% y/y rise in net revenue to USD66.01bn on higher interest rates and net interest margins (+24bps to 1.66%).
    - USD16.66bn in net income from financial instruments held for trading or managed on a fair value basis, up 62.10% y/y. This impact occurred mainly in Global Banking and Markets ("GBM").
    - Lower operating expenses by 1.9% y/y to USD32.07bn reflecting lower restructuring costs that offset higher technology and staff costs as well as general inflation impacts and higher regulatory costs. HSBC's cost to income ratio for 2023 was 48.5%, notably improved from 64.6% in 2022 and 69.9% in 2021.
    - A fall in expected credit losses and other credit impairment charges by 3.8% to USD3.45bn that reflected ongoing specific stress in HSBC's China commercial real estate exposures. HSBC has reduced its total exposure to China commercial real estate by ~27.5% y/y to USD12.1bn.
    - Other influences on the 2023 credit impairment charge were ongoing economic uncertainty that continues to be impacted by higher interest rates and inflationary pressures. The ratio of stage 3 balances to customer loans was 2.0% as at 31 December 2023, stable q/q.
- By segment, Commercial Banking continues to be the main contributor to profit before tax at USD13.28bn (43.8% of total profit before tax), rising 76.4% y/y on broad based improvement across Global Payments Solutions, transaction banking, cards and international payments. This was followed by Wealth and Personal Banking at USD11.54bn (38.0% of total profit before tax) with the largest y/y improvement by 110.7% on impacts from the sale of the French retail bank and growth in wealth revenues in private banking and asset management. Global Banking and Markets contributed 19.5% of total profit before tax with USD5.92bn, rising 26.3% y/y from higher net interest income in Global Payments Solutions and Securities Services.
- HSBC's CET1 capital position improved 60bps y/y to 14.8% as at 31 December 2023 on earnings performance that was partially offset by shareholder distributions including dividend accrual and share buy-backs (+100bps), regulatory adjustments (-30bps) and higher risk weighted assets (-10bps). HSBC's capital position remains above its medium-term target range of 14-14.5% and with management aiming to manage this range down in the long term, management have announced a further share buy-back of up to USD2bn that will completed by the announcement of 1Q2024 results. HSBC will also consider a special dividend following the sale of its Canadian banking operations.
- Management's outlook appears somewhat constructive. On one hand, net interest income is expected to grow 14.5% y/y in 2024 to ~USD41bn on y/y loans growth and market implied interest rates while operating expenses are targeted to grow 5% y/y in the current 2024 business plan. Offsetting this to an extent is an uptick in expected credit loss charges to ~40bps of average gross loans in 2024 (33bps in 2023), at the top of the bank's 30-40bps medium to long term target range. These performance targets are expected to support HSBC's CET1 capital ratio within its medium-term target range mentioned above.

- From a strategic viewpoint, HSBC continues to progress its focus on reallocating capital to more profitable businesses and regions. This is evidenced by the final approval for the sale of its Canadian banking operations (expected to complete in 1Q2024) and completion of the sale of its French retail banking business in January 2024 as well as the acquisition of Citigroup's retail wealth business in mainland China. Management expects overall slower global growth in 1H2024 before a recovery thereafter but its business to be supported by solid economic momentum in Sout and South-East Asia and maintained economic growth in China from recently announced policy support measures. The economic performance in HSBC's other key markets, Hong Kong and the UK is expected to remain resilient. Growth in HSBC's two home markets is a focus for HSBC along with diversifying revenue through wealth management and growing its international businesses.
- HSBC's results look in line with its fundamentals in our view. (Company, OCBC)

United Overseas Bank Ltd ("UOB")

- UOB reported its 2H2023 and 2023 results with record core 2023 net profit of SGD6.1bn, up 26% y/y. Influences were similar to DBS Group Holdings Ltd's 2023 results with performance driven by positive JAWS with operating profit up 24% y/y on 20% growth in total income from net interest income performance and other non-interest income while operating expenses rose 15% y/y. The 2023 cost to income ratio was 41.5% against 43.3% in 2022. This was partially offset by higher allowances for credit and other losses that rose by 53% y/y.
- Total income rose 20% y/y with a 16% y/y rise in net interest income from higher net interest margins (+23bps y/y to 2.09%) while gross customer loans were stable (+2% y/y on a constant currency basis). Other non-interest income rose 85% y/y to SGD2.0bn due to record customer-related treasury income as well as trading and liquidity management performance. Net fee and commission income rose 4% y/y to SGD2.24bn and benefitted from record credit card performance on elevated spending and recent acquisitions that expanded UOB's regional retail business.
- The main contributor to 2023's higher expenses on an absolute basis was staff costs although growth in expenses was broad based with higher revenue-related, IT related and occupancy related expenses. Expenses also included SGD44mn in one-off costs related to the Citigroup integration. Generally however, higher expenses were supported by the higher revenues.
- As for allowances for credit and other losses in 2023, this represented 25bps of gross customer loans, up from 20bps in 2022 and was mostly allocated to specific provisions. 2022 allowances were influenced by a SGD154mn reversal in general allowances. The non-performing loan ratio improved 10bps y/y to 1.5% as at 31 December 2023 with non-performing loans falling 3.8% y/y to SGD4.87bn on higher recoveries and write-offs. The non-performing assets coverage was at 101% as at 31 December 2023 (209% after taking collateral into account), up from 98% as at 31 December 2022 (207% after taking collateral into account).
- H/h trends highlight though a slowing momentum with 2H2023 core net profit of SGD2.98bn down 3% h/h. This was due to a 3% h/h fall in total income primarily from lower other non-interest income from lower trading and investment income while net interest income performance was influenced by margin compression from competition. This was partially offset by a 27% h/h fall in allowances for credit and other losses given the recognition of general allowances in 1H2023 while expenses were stable h/h. 2H2023 net profit was down 5% h/h due to higher Citigroup integration costs. In late November 2023, UOB announced the completion of its acquisition of Citigroup's Indonesian consumer banking business, completing UOB's acquisition of Citigroup's consumer businesses in Indonesia, Malaysia, Thailand, and Vietnam.
- UOB's capital position remains robust at 13.4% as at 31 December 2023 (13.0% as at 30 September 2023, 13.6% as at 30 June 2023 and 13.3% as at 31 December 2022) with the y/y improvement reflecting earnings that was offset by risk weighted asset growth. Leverage and liquidity ratios (6.9% and 158% respectively) also remain well above requirements.
- Management's outlook seems constructive with expectations of total income growth while the cost to income ratio and credit costs are expected to remain stable in 2024. Earnings may also be supported by UOB's larger business footprint. (Company, OCBC)

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing	Initial Pricing
21 Feb	CIMB Bank Berhad	FRN	USD	120	5-Yr	SOFR+95bps	NA

Mandates:

- There are no Asiadollar mandates for today.

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