# Asian Credit Daily

8 May 2024

**Market Commentary:**

- The SGD SORA curve traded mixed yesterday, with short tenors trading 0-2bps higher, belly tenors trading 0-1bps lower and 10Y trading 2bps lower.

- Flows in SGD corporates were moderate, with flows in HPLSP 5.1% '29s and HSBC 5.3% '33s.

- Chinese builder Logan Group Co. (“Logan”) is proposing a suspension on bond payments and planning to come up with a new onshore debt restructuring plan, per Bloomberg. Logan is reportedly seeking a 10-month grace period until March 2025 for all onshore notes payments.

- Bloomberg Asia USD Investment Grade spreads remained unchanged at 81bps while Asia USD High Yield spreads tightened by 4bps to 562bps. (Bloomberg, OCBC)

**Credit Summary:**

- **Olam Group Ltd (“OG”):** OG increase its offer price to AUD0.70 cash per Namoi share.

- **UBS Group AG (“UBS”)** announced its 1Q2024 results with operating profit before tax of USD2.38bn, up from a loss of USD751mn in 4Q2023. Improvement on both the revenue and operating expenses performance drove the return to profit, particularly in the Non-core and Legacy segment with a significant turnaround in profitability (USD197mn for 4Q2024 against USD907mn loss in 4Q2023) due to gains on position exits.

- **United Overseas Bank Ltd (“UOB”)** reported its 1Q2024 results with q/q improvement in net profit (including Citi integration expenses). Y/y performance was down marginally on negative JAWS due to lower net interest income as well as slightly higher Citi integration expenses.

## Key Market Movements

| | 8-May | 1W chg (bps) | 1M chg (bps) | | 8-May | 1W chg | 1M chg |
|---|---|---|---|---|---|---|---|
| **iTraxx Asiax IG** | 101 | -10 | -4 | **Brent Crude Spot ($/bbl)** | 82.7 | -0.9% | -8.5% |
| | 0 | 0 | 0 | **Gold Spot ($/oz)** | 2,315 | -0.2% | -1.0% |
| **iTraxx Japan** | 51 | -3 | 5 | **CRB Commodity Index** | 290 | -0.6% | -2.7% |
| **iTraxx Australia** | 66 | -6 | 0 | **S&P Commodity Index - GSCI** | 578 | 0.9% | -3.6% |
| **CDX NA IG** | 50 | -3 | -1 | **VIX** | 13.2 | -15.5% | -12.9% |
| **CDX NA HY** | 107 | 1 | 0 | **US10Y Yield** | 4.47% | -16bp | 5bp |
| **iTraxx Eur Main** | 52 | -5 | -2 | | | | |
| **iTraxx Eur XO** | 300 | -25 | 0 | **AUD/USD** | 0.658 | 0.9% | -0.4% |
| **iTraxx Eur Snr Fin** | 60 | -5 | -3 | **EUR/USD** | 1.075 | 0.3% | -1.0% |
| **iTraxx Eur Sub Fin** | 108 | -9 | -4 | **USD/SGD** | 1.356 | 0.4% | -0.6% |
| | | | | **AUD/SGD** | 0.892 | -0.5% | -0.2% |
| | | | | | | | |
| **USD Swap Spread 10Y** | -38 | -1 | 0 | **ASX200** | 7,805 | 3.1% | 0.2% |
| **USD Swap Spread 30Y** | -76 | -1 | -1 | **DJIA** | 38,884 | 2.8% | 0.0% |
| | | | | **SPX** | 5,188 | 3.0% | -0.3% |
| **China 5Y CDS** | 63 | -5 | -8 | **MSCI Asiax** | 677 | 2.3% | 3.1% |
| **Malaysia 5Y CDS** | 44 | -3 | 0 | **HSI** | 18,326 | 3.2% | 9.5% |
| **Indonesia 5Y CDS** | 71 | -5 | -3 | **STI** | 3,264 | -0.9% | 1.5% |
| **Thailand 5Y CDS** | 42 | -2 | -3 | **KLCI** | 1,605 | 1.9% | 2.9% |
| **Australia 5Y CDS** | 13 | -1 | -2 | **JCI** | 7,091 | -2.0% | -2.7% |
| | | | | **EU Stoxx 50** | 5,016 | 1.9% | -0.6% |

*Source: Bloomberg*

## Credit Headlines:

**Olam Group Ltd ("OG")**

- In relation to the bidding war for Namoi Cotton Limited ("Namoi"), Olam Agri Holdings Limited ("Olam Agri") has announced its intention to increase its offer price to AUD0.70 cash per Namoi share. Previously the AUD0.70 cash per Namoi share was contingent on Olam Agri obtaining a relevant interest in at least 90% of the Namoi shares before the end of the offer period.
- On 3 May 2024, Louis Dreyfus Co. ("LDC") which holds a ~17%-stake in Namoi announced that it will not support Olam Agri's offer for Namoi. LDC is the competing bidder.
- With 205.3mn of shares outstanding, the purchase consideration assuming Olam Agri acquires Namoi will be ~AUD144mn (~SGD128mn). (Company, OCBC)

**UBS Group AG ("UBS")**

- UBS announced its 1Q2024 results with operating profit before tax of USD2.38bn, up from a loss of USD751mn in 4Q2023. Improvement on both the revenue and operating expenses performance drove the return to profit, particularly in the Non-core and Legacy segment with a significant turnaround in profitability (USD197mn for 4Q2024 against USD907mn loss in 4Q2023) due to gains on position exits.
  - Investment Bank also returned to profit (USD404mn for 4Q2024 against USD300mn loss in 4Q2023) on strong revenue growth in Global Markets against marginal growth in operating expenses.
  - UBS's core Global Wealth Management segment saw a 104% q/q rise in profit before tax to USD1.27bn due to positive contribution from Credit Suisse Group AG businesses.
  - UBS's CET1 ratio of 14.8% as at 31 March 2024 was up 40bps vs 14.4% as at 31 December 2023 and remains above its ~14% medium term guidance throughout the integration process with Credit Suisse Group AG as well as the 10.47% minimum CET1 capital ratio requirement. Other ratios remain sound including the liquidity coverage ratio at 220.2% and net stable funding ratio of 126.4% as at 31 March 2024 (215.7% and 124.7% as at 31 December 2023).
- The q/q improvement in total revenues was driven by a 32% improvement in other net income from financial instruments measured at fair value through profit or loss to USD4.18bn which is related to the revaluation of recently acquired assets. In addition, net fee and commission income rose 12% q/q to USD6.49bn with higher transaction activity within Global Wealth Management, Personal & Corporate Banking and the Investment Bank (both advisory and Capital Markets). Revenue performance also includes a net gain from the renegotiation of a previous deal signed by Credit Suisse Group AG for the sale of a significant portion of its Securitized Products Group ("SPG") and related financing businesses to Apollo Global Management and affiliates ("Apollo"). Asset Management revenues were down 6% q/q on lower performance fees and flat net management fees.
- At the same time, operating expenses were down 10.6% q/q largely from lower general and administrative expenses while depreciation, amortization and impairment of non-financial assets was also materially lower. Personnel expenses were broadly stable (-2% q/q). Management continues to actively wind-down the non-core and legacy parts of its amalgamated businesses which, together with its cost reduction strategies, drove a 26% q/q decline in underlying operating expenses. Overall, management have recorded USD5bn of gross cost savings against the 2022 combined cost base of Credit Suisse Group AG and UBS and against USD13bn of gross cost savings targeted to be achieved by the end of 2026.
- The q/q improvement in UBS's capital position to 14.8% reflects a higher fall in risk weighted assets due to asset run downs and currency impacts than the fall in capital as operating profits were offset by foreign currency impacts, dividend accruals and other movements. Management further reduced the Non-Core and Legacy portfolio by USD16bn in 1Q2024 that contributed to a USD20bn reduction in group risk weighted assets in 1Q2024.
- UBS continues to progress the merger of Credit Suisse Group AG (specifically Credit Suisse AG ("CS")) and overall restructuring with the merger of CS and UBS AG expected to complete by the end of May with a single US intermediate holding company to be finalised in 2Q2024. This will be followed by the merger of UBS

Switzerland AG and Credit Suisse (Schweiz) AG in 3Q2024 pending remaining regulatory approvals. The combination of what management terms its 'significant legal entities' is seen as important to progress to the next stage of the integration

- Key to UBS's integration process is the financial influence of its expanded business footprint. UBS saw net new assets of USD27bn in Global Wealth Management (invested assets rose 3% q/q to USD4,023bn) and net new money of USD21bn in Asset Management (including money market flows). Total invested assets of USD5,848bn was up 2.3% q/q as at 31 March 2024, largely due to positive market performance in Global Wealth Management and Asset Management that were offset by foreign currency effects.
- The operating and regulatory environment may also weigh on performance with management maintaining a cautious stance against monetary easing and ongoing geopolitical influences as the integration continues to broadly proceed as planned. Management is already expecting lower net interest income in Global Wealth Management from lower interest rates in Switzerland as well as lower lending and deposit volumes while the quarterly cost savings run rate of around USD1bn is expected to reduce going forward with USD1.5bn of cost savings expected for the rest of 2024.
- On the regulatory front, several bodies including the Swiss Federal Council, Swiss Financial Market Supervisory Authority ("FINMA"), and Swiss National Bank, are aiming to introduce tighter regulatory requirements and measures to improve banking sector resilience. Such measures include an expanded crisis toolkit, stricter regulations regarding corporate governance and, more importantly, higher capital and liquidity obligations.
  - In response to the Swiss Federal Council's proposal that systematically important Swiss banks must hold significantly more capital against their foreign units and to take future risks into account, Switzerland's finance minister opined that required additional capital of USD15bn to USD25bn was "plausible" although the government did not disclose the quantum of additional capital required.
  - In UBS's recent annual general meeting, Chairman Colm Kelleher commented that recent government proposals to increase the minimum capital requirements for UBS were the "wrong remedy" to address systemic risk. His views were influenced by an opinion that additional capital requirements were not aligned with global standards that may impact the competitiveness of UBS.
  - UBS Chief Executive Officer Sergio Ermotti in comments during the 1Q2024 results announcement indicated that the bank was already adding USD20bn in capital to regulatory reserves before any reforms are finalised. This is through the Credit Suisse Group AG integration with (1) USD9bn of additional capital through application of UBS's capital treatment to Credit Suisse Group AG capital, and (2) USD10bn in progressive capital add-ons to reflect the final implementation of Basel III and the bank's larger balance sheet.
- Until the reforms are finalised (likely in 1H2025), the exact capital impact remains unknown and without involvement in the consultation process, UBS is proceeding with its intention to resume share buybacks and return USD2bn to shareholders over 2024 and 2025. This is before the expected implementation of any new requirements in 2026 at the earliest.
- Execution of UBS's strategy and integration plans appears to remain within expectations and its business profile continues to slowly stabilising in our view. (Company, OCBC)

**United Overseas Bank Ltd ("UOB")**

- UOB reported its 1Q2024 results with q/q improvement in net profit (including Citi integration expenses). Y/y performance was down marginally on negative JAWS due to lower net interest income as well as slightly higher Citi integration expenses. Management updated that the Citigroup integration continues to progress with successful migration of customers in Thailand to UOB's platform following Malaysia and Indonesia in 2023 with integration completion of Vietnam in 2025.
- 1Q2024 net profit of SGD1.49bn was up 6% q/q and reflected solid positive JAWS performance with a 3% q/q rise in total income against stable operating expenses. This offset a 7% q/q rise in allowances for credit and other losses.
  - Total income was supported by a strong 32% q/q rise in other non-interest income led by record trading and investment income. In particular, customer related treasury income hit a new high from

increased retail bond sales and strong hedging demand. This offset net interest income which fell 2% from a shorter quarter with net interest margins and gross customer loans stable. Net fee income rose 2% q/q due to higher loan related and wealth management fees while credit card fees normalized and fell 28% q/q against the high 4Q2023 base.

  - Operating expenses were flat q/q as higher IT and other expenses were offset by lower staff costs with the cost to income ratio at 41.9% in 1Q2024 against 43.2% in 4Q2023 (40.9% in 1Q2023).

- As for the q/q rise in allowances for credit and other losses, this was due to general allowance releases in 4Q2023 that offset a fall in specific allowances from lower new non-performing loans (down 36% q/q to SGD249mn). This was offset however by lower upgrades/recoveries and write-offs with total non-performing assets rising 2.12% q/q to SGD5.05bn. Against stable gross loans balances, the non-performing loan ratio remained stable q/q at 1.5% as at 31 March 2024 while the non-performing asset coverage ratio was at 99% as at 31 March 2024 (204% including unsecured non-performing assets), down from 101% and 209% respectively as at 31 December 2023. Exposure to commercial real estate looks manageable at 7.4% as at 31 March 2024 with ~47% of this exposure in Singapore and a further ~36% of that in Greater China and Australia. The average loan to value ratio is ~50%.
- By region, Singapore total income rose 4% q/q while North Asia rose 20% q/q. In contrast, total income from ASEAN (comprising Thailand, Malaysia, Indonesia, and Vietnam) was down 1% q/q. Exposure to Greater China rose 4% q/q to SGD75.4bn with loans to Greater China comprising 16% of UOB's loan portfolio, second highest after Singapore at 49%.
- UOB's capital position improved q/q, rising 50bps to 13.9%. This was driven by earnings with risk weighted assets stable.
- Management have confirmed their constructive outlook from their FY2023 earnings announcement with expectations of total income growth while the cost to income ratio and credit costs are expected to remain stable in 2024 at 41-42% and 25-30bps respectively. Earnings may also be supported by UOB's larger business footprint. Confirmation of its 2024 outlook contrasts to an extent with DBS Group Holdings Ltd that highlighted management optimism that earnings will be better than previously expected and 2024 net profit could exceed 2023 levels on growth in commercial book non-interest income given the broad-based strength in its 1Q2024 results and record performance in fees and treasury customer sales. (Company, OCBC)

**New Issues:**

| Date | Issuer | Description | Currency | Size (mn) | Tenor | Final Pricing | Initial Pricing |
|---|---|---|---|---|---|---|---|
| 07 May | Korea Expressway Corp | Fixed | USD | 500 | 3Y | T+60bps | T+90bps |
| 07 May | China Everbright Bank Co Ltd/Hong Kong | FRN | USD | 550 | 3Y | SOFRRATE +52bps | - |
| 07 May | Republic of the Philippines | Fixed | USD | 1,000 | 10Y | 5.263% | - |
| 07 May | Republic of the Philippines | Fixed; Sustainability | USD | 1,000 | 25Y | 5.60% | 6.05% |
| 07 May | Muthoot Finance Ltd | Fixed | USD | 650 | 3.8Y | 7.125% | 7.375% |
| 07 May | BOC Aviation USA Corp (Guarantor: BOC Aviation Ltd) | Fixed | USD | 500 | 5.7Y | T+87.5bps | T + 125bps |
| 07 May | Jiantou International Hong Kong Co Ltd | Fixed | USD | 40 | 3Y | 5.50% | - |

**Mandates:**

- Export Import Bank of Thailand is planning to issue 5Y USD senior unsecured notes
- China Ping An Insurance Overseas Holdings Ltd. is planning to issue USD senior notes
- Korea Credit Guarantee Fund is planning to issue 3Y USD social senior unsecured notes

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