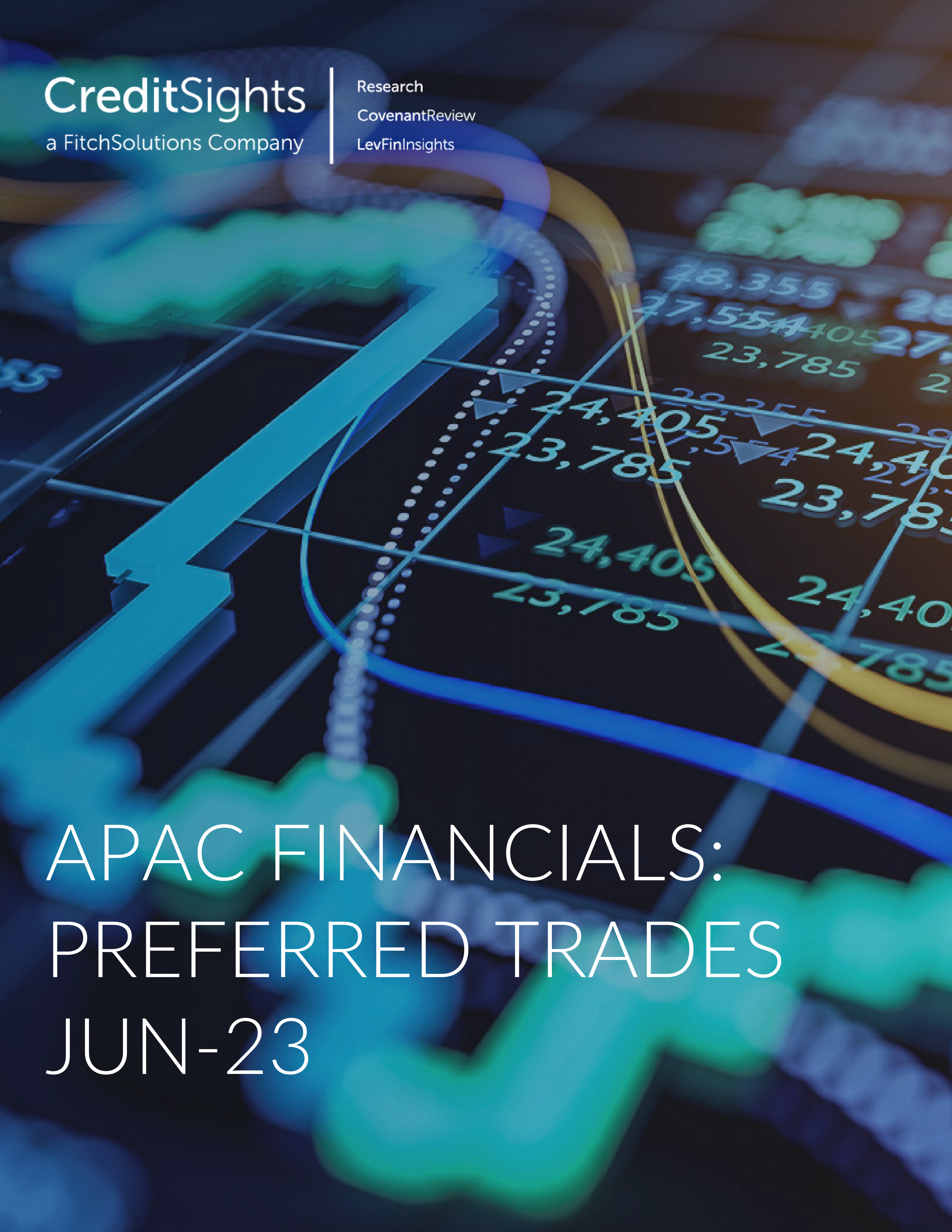

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APAC FINANCIALS: PREFERRED TRADES JUN-23

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APAC Financials: Preferred Trades Jun-23

31 May 2023, 8:16 PM

Executive Summary

- **In this note, we highlight the APAC financials bonds that we are comfortable with and where we see value.**
- **Our preferred bonds include issuances from REC Ltd, Bank of East Asia, Cinda AMC, Far East Horizon, MUFG and SMBC Aviation Capital in the senior space, BTN, UOB, Bangkok Bank, Kasikornbank, Muang Thai Life, NAB, Westpac, Macquarie, ASB Bank and Dai-ichi Life in the Tier 2 / insurance perp space, and DBS, ANZ, Shinhan, Woori, Hana, HDFC Bank, Bangkok Bank and BNI among the $ AT1s.**

APAC Financials: Key Picks

Country	Ticker	Security	Issue Size ($ mn)	Call Date	Security Rating	Bid YTC	Bid YTM	Bid G-Spread (bp)
Senior IG								
IN	RECLIN	RECLIN 5 5/8 04/11/28	750	n.a.	Baa3/NR/BBB-	n.a.	5.65%	186
HK	BNKEA	BNKEA 6 3/4 03/15/27	500	15/3/2026	Baa2/BBB/NR	6.97%	7.06%	284
CN	CCAMCL	CCAMCL 4 3/4 02/08/28	1,200	n.a.	Baa1/BBB+/A	n.a.	5.87%	206
HK	FRESHK	FRESHK 4 1/4 10/26/26	300	n.a.	NR/BBB-/NR	n.a.	9.30%	530
JP	MUFG	MUFG 5.242 04/19/29	700	19/4/2028	A1/A-/A-	5.33%	5.56%	154
JP	SMBCAC	SMBCAC 5.45 05/03/28	650	3/4/2028	NR/A-/BBB+	5.70%	5.70%	192
Tier 2								
ID	BBTNIJ	BBTNIJ 4.2 01/23/25	300	n.a.	Ba3/NR/NR	n.a.	8.63%	392
SG	UOBSP	UOBSP 2 10/14/31	750	14/10/2026	A2/BBB+/A	5.90%	5.42%	189
TH	BBLTB	BBLTB 3.733 09/25/34	1,200	25/9/2029	Baa3/NR/BB+	6.75%	6.35%	301
TH	KBANK	KBANK 3.343 10/02/31	800	2/10/2026	Ba1/NR/BB+	7.28%	6.30%	327
TH	MUANTH	MUANTH 3.552 01/27/37	400	27/10/2026	NR/NR/BBB	7.89%	6.61%	388
AU	NAB	NAB 3.347 01/12/37	1,250	12/1/2032	Baa1/BBB+/A-	6.53%	6.22%	284
AU	WSTP	WSTP 3.02 11/18/36	1,250	18/11/2031	Baa1/BBB+/A-	6.68%	6.26%	300
AU	MQGAU	MQGAU 3.052 03/03/36	1,000	3/3/2031	Baa3/BBB/BBB+	7.28%	6.69%	359
NZ	ASBBNK	ASBBNK 5.284 06/17/32	600	17/6/2027	A3/A-/NR	6.54%	6.31%	263
JP	DAIL	DAIL 4 PERP	2,500	24/7/2026	A3u/A-/A	5.96%	8.54%	191
AT1								
SG	DBSSP	DBSSP 3.3 PERP	1,000	27/2/2025	Baa1/NR/BBB+	6.76%	5.82%	213
AU	ANZ	ANZ 6 3/4 PERP	1,000	15/6/2026	Baa2/BBB-/BBB	7.98%	8.94%	392
KR	SHINFN	SHINFN 2 7/8 PERP	500	12/5/2026	Baa3/NR/NR	7.72%	6.16%	364
KR	WOORIB	WOORIB 4 1/4 PERP	550	4/10/2024	Ba1/BBB-/NR	7.48%	6.56%	251
KR	KEBHNB	KEBHNB 3 1/2 PERP	300	19/10/2026	NR/BBB-/NR	7.29%	6.41%	328
IN	HDFCB	HDFCB 3.7 PERP	1,000	25/8/2026	Ba3/NR/NR	8.90%	7.05%	429
TH	BBLTB	BBLTB 5 PERP	750	23/9/2025	Ba1/NR/NR	8.04%	8.46%	374

ID	BBNIIJ	BBNIIJ 4.3 PERP	600	24/3/2027	Ba3/NR/NR	10.30%	7.99%	636

Note: Prices as of 31 May 2023. Bid G Spread to Call for the callables.
Source: Bloomberg, CreditSights.

In the Senior IG category, we have –

RECLIN 04/28 (Market perform): RECLIN was in the market recently for a $ 5-year bond. In line with the Indian public sector banks, RECLIN has seen over the past few years a substantial improvement in profitability and capital adequacy, and a significant reduction in NPLs. More recently, it reported FY23 net income of INR 138 bn, up 10% YoY, as a result of a 95% drop in credit costs. The Tier 1 ratio stands at a comfortable 22.84%, and the GNPA and NNPA are down 103 bp and 44 bp respectively YoY to 3.42% and 1.01%. Power sector reforms and trilateral agreements between state governments, the central government, and the RBI should reduce RECLIN's counterparty risk from the financially challenged state discoms to whom it lends. We see the 50+ bp spread differential vs. SBI as wide, given the important policy role that RECLIN plays. We would expect to see a spread differential of 30-35 bp, using the proxy of the differential between Chinese banks and leasing companies. We therefore see up to 20 bp of upside in this bond.

BNKEA TLAC NC26 (Market perform): Among the BNKEA $ bond complex, we like the new senior non-preferred most given its attractive spread of G+287 bp (YTC: 7.1%), a large amount of capital instruments ranking junior to it and low loss absorption risk (loss absorption at resolution only, no PONV, and a must-pay coupon). We moved our recommendation on BNKEA from Underperform to Market perform in April-23 on the back of attractive levels of its $ bonds and our positive outlook on the HK banks' operating environment in FY23. However, we remain cautious about BNKEA's low NPL coverage ratio, uncertainties from a continued lackluster property market in China, and a jump in unsecured internet-based lending in China. Therefore, the TLAC bond is a good choice for a balance between good yields and potential risks.

CCAMCL 02/28 (Market perform): We continue to like CCAMCL among the four Chinese AMCs due to its good balance sheet metrics, relatively comfortable capital standing, and prudent management. Its $ bonds have also shown stability compared to HRINTH and GRWALL. Among the CCAMCL bond complex, we like its 02/28 (G+206 bp) given the 5 year duration, relatively attractive spread and the bond structure (the bond was issued before 2019 and thus benefits from keepwell support from the onshore group). Although Cinda's operating performance was weaker in FY22, this is in line with our outlook for China's distressed debt sector, and it is much better than its peer Huarong. The results of its financial service subsidiaries helped to partially compensate for the weakness in DDA business. Although the company's participation in the property rescue adds further burden to its asset quality, we think these are also signs of stronger state linkage.

FRESHK 10/26 (Outperform): As a leading equipment lessor in China, FRESHK's position is supported by decent profitability, healthy asset quality and strategic industry focus. Despite a tough macro environment, its operating performance in FY22 was pleasing with higher profits, steady asset quality and a prudent control of liquidity risk. S&P revised its outlook from stable to negative in Dec-22 when the chairman stepped down from his role and the new chairman, who moved up from CEO, was not a Sinochem employee. We see this as overdone. Although there is potential downgrade risk, it is already incorporated in the currently attractive trading level of 9.3% which is far above where the financial HY index trades.

MUFG 04/29 TLAC (Outperform): While ongoing fresh senior TLAC supply from MUFG leads to the inability of their bonds to tighten significantly, the spread is excellent for the credit risk involved. The most recent Apr-23 issue is trading at G+156 bp, which we see as relatively wide. In the APAC context, despite MUFG's business model and strong government support should it be required, we would expect it to trade ~20 bp wide of the Korean banks (for supply, for callable instruments, and for credit differentials – the Korean banks have much better RoE and higher capital levels than the Japanese megabanks). We do not take bail-in risk into account as we do not see this risk associated with the megabanks given government support should it be required. The recent SHNHAN 04/28 is trading at ~G+95 bp, putting them ~60 bp inside MUFG; we see up to 40 bp to play for.

SMBCAC 05/28 (Outperform): SMBCAC is well-placed for growth amid the recovery of the global aviation sector. The Goshawk acquisition has brought benefits of scale, and 71 new aircraft joined the fleet during the year. Net leverage was maintained flat QoQ at F4Q22 at 3.8x with a long-term target of 3.5x. Very strong parental support from 100% shareholders SMFG and Sumitomo Corp. has provided the company with stable and cheap funding in volatile markets as well as an advantage in the large Japanese aircraft trading market. Liquidity is sound with more than sufficient undrawn credit facilities from both shareholders and third parties, and unrestricted cash to cover debt maturities and capex over the next 12 months. The new SMBCAC 05/28 has tightened ~10 bp in the secondary markets to G+190 bp, which is still an attractive entry point to us compared to where the new BOCAVI 05/28 and the SUMIFL 04/28 are trading – G+111 bp and G+137 bp respectively. The two ’28 SMBCAC notes offer 50-80 bp of premiums against the BOCAVI and SUMIFL while credit differential is minimal.

Related research:

PFC Re-initiation & REC Initiation

HK Banks FY22: Down to China Property Exposure

Cinda FY22: Weak DDA, Better Non-core Results

Chinese AMCs: MoF to Transfer Stakes to Huijin

FRESHK FY22: Continued Strong Performance

FRESHK: HCD Listing, FETJ New Investor

Japanese Megabanks FY22: Better Int'l Margins

SMBCAC FY22: Steady Improvement

Among the Tier 2s, our picks are –

BBTNIJ 01/25 (Outperform): The BTN Tier 2 is currently trading 120 bp wider than BNI; we see room for the spread difference to narrow to ~40 bp. While BTN is of much smaller size and has weaker profitability than BNI owing to a lower NIM from its focus on the mortgage segment, both are state-owned banks and BTN is a key conduit of the government’s policy of providing subsidized housing to low-middle income groups, representing 83% of this market. Concerns about BTN’s thin capital buffer were also alleviated by its capital raise in 4Q22, taking its CET1 ratio up to 16.1% at Dec-22, and further lifted by the change in operational RWA calculation (from basic indicator approach to standardised approach) to 17.5% at end-March. BTN suffered a significant NIM contraction (-78 bp YoY) in 1Q23 due to its smaller franchise but the NIM should recover as funding cost pressure eases in the second half of this year.

UOBSP 31 NC 10/26 (Market perform): At G+189 bp, we see this bond as trading wide for its credit quality with a Tier 2 / senior multiple of 2.2x, above our threshold of 2x. The spread is also good for 3.5 years of UOB risk. We are comfortable with the UOB credit - it is conservatively run with a large family ownership and a sound balance sheet. The CET1 ratio at 14% while sufficient for us is the lowest amongst the Singapore banks as a result of its acquisition of Citi's consumer operations in Thailand, Malaysia, Indonesia and Vietnam.

BBLTB 34 NC 09/29 (Market perform): We see improved Thai economic growth this year on the back of consumption demand and a strong tourism recovery supporting interest margins and the resolving of COVID forbearance loans at the Thai banks. While disclosure from BBL is less than the other Thai bank peers that we cover, we take comfort from BBL's strong loss buffers and its large corporate portfolio which allows for better pass through of rising base rates to its overall NIM. There is some uncertainty around a smooth transition of power in Thailand post the recent elections; street protests are likely to erupt if the popular vote is not upheld which will affect the tourism rebound for an indefinite amount of time. However, the BBL 34NC29 Tier 2 at a fairly high Tier 2/senior multiple of ~2.4x provides sufficient compensation for this risk in our view.

KBANK 31 NC 10/26 (Underperform, but our issuer level recs are for the senior debt level): Similar to the other Thai banks, we expect KBANK to benefit from improved Thai economic growth this year, but the political overhang is a near-term uncertainty. KBANK has also faced setbacks on the asset quality front in recent quarters with a reassessment of risks that were not properly captured within its legacy SME book and a fallout from its higher yield small ticket SME and retail lending in 4Q22, and a surprise deterioration in a corporate account in 1Q23 that have led to elevated credit costs. We remain cautious about its AQ trajectory due to the negative credit cost surprises in recent quarters and further balance sheet cleanups that need to be undertaken throughout 2023. It also has larger SME exposure (31%) vs. the other Thai banks we cover (8-20%). However, the KBANK Tier 2 is at a wider spread of G+327 bp and Tier 2/senior multiple of above 3x which we think offers value.

MUANTH NC 20/26 (Outperform): At issuance, we saw fair value for Muang Thai Life's bond at 25 bp behind KBank due to a) KBank's 38.25% economic interest in MTL (it owns 51% of the holding company that in turn owns 75% of the insurer), b) its coupon deferral feature and c) its ability to affect a par call upon the loss of rating agency equity credit. Considering these factors, we think Muang Thai Life should trade flat or tighter than KBank because the insurer doesn’t have the potential risks to asset quality that KBank does from its SME and mortgage books. In addition, its par call feature no longer impedes performance because the bonds are trading at a cash price of ~87c. Overall, both names have comfortable capital levels, but we see a potential for further tightening for Muang Thai Life given its strong fundamentals.

NAB 37 NC 01/32 (Market perform, for senior debt, Outperform for Tier 2) and WSTP 36 NC 11/31 (Market perform, for senior debt, Outperform for Tier 2): We like the Australian majors for their strong profitability, very high capital ratios, and comfortable asset quality coverage ratios. We continue to like the NAB ‘37NC’32 Tier 2 as it still trades ~25 bp wider than its bullet counterpart on a curve adjusted basis; the recent 10Y bullet issued in Jan-23 is trading at G+258 bp. We see much lower non-call risk for the Aussie majors (compared to when the **APRA guidance** came out last November) as they can refinance in the domestic market at much cheaper rates. We see NAB as the most improved of the Australian majors and it is our second preferred name after CBA, with ANZ and Westpac following in that order. As a result, we see the ~15 bp spread differential between the NAB and WSTP 15NC10’s as appropriate.

MQGAU 36 NC 03/31 (Market perform for senior debt, Outperform for Tier 2)*: Macquarie has demonstrated again in its FY23 results a good grip on risk management with continued strong revenues and profits from its commodities & global markets division, and good progress in its Australian banking & financial services business. These two divisions form its banking group, from which capital instruments are issued. The MQGAU 15NC10 at G+358 bp is ~75 bp wider than the NAB 15NC10; we would expect the difference to be no more than 25 bp. The bond is also ~60 bp wider than its recent 10Y bullet issuance, which trades at G+300 bp. The BFS business has been growing well and sensibly as the bank has used the broker channel to target borrowers with a lower LTV (and therefore lower risk), and the CGM business is 80%+ client volume driven at a time where volatility in oil, gas and power prices has led to strong profitability. Macquarie has been consistently profitable through its history, and has the additional advantage of APRA oversight. We are less concerned about Australian bank call risk as the banks can refinance in the domestic market at much cheaper rates than in the international market.

ASBBNK 32 NC 06/27 (No recommendation, Market perform recommendation on parent CBA): We do not have formal recommendations on the New Zealand banks, but we see value in the 10NC5 Tier 2 from ASB Bank, the 100% subsidiary of Australian bank CBA. The ASB issuance is trading at G+267 bp, broadly in line with CBA's callable curve (the CBAAU '34NC'29 is trading at G+286 bp) after adjusting for the difference in call dates. We see better value in the ASB T2 as these are Basel 2 type instruments without a PONV (the regulator has increased CET1 ratio requirements to 13.5% and done away with loss absorbency requirements on both AT1 and Tier 2) and with the oversight of the conservative Reserve Bank of New Zealand, before overlaying additional protection that comes from being CBA's most important subsidiary. While New Zealand is going through a tough time economically, the banks are very well capitalized and have good coverage ratios. We prefer this issuance to the ANZNZ '32NC'27 Tier 2 as the ASB bond is trading ~40 bp wider. These bonds are rated one notch higher at A3/A-/NR than their parent's Tier 2's (Baa1/BBB+/A-) as a result of not having a PONV clause.

DAIL Perp NC 07/26 (Outperform): Dai-ichi Life is one of the leading life insurers in Japan and it has shown high credit quality over the years with excellent balance sheet strength, established market presence and strong profitability. As a member of Dai-ichi Life Holding Inc., a listed group with diversified domestic and overseas operations, the company also benefits greatly from the group's financial flexibility. Compared to its peers, Dai-ichi Life has historically delivered better profitability with similar leverage levels, albeit a lower solvency ratio. Nonetheless, its disclosure is more extensive, being part of a listed group. Overall, we think it should trade about 20 bp tighter than Nippon Life and Meiji Yasuda.

Related research:

BRI, BTN 1Q23: Divergent Performance

UOB 1Q23: Bounce from YoY NIM Improvement

Thai Banks 1Q23: Looking Up

Thai Banks: Elections Over, Uncertainty Remains

Muang Thai Life FY22 & 1Q23: Strong New Business

NAB 1H23: Good Growth, Lower Future Trajectory

Westpac 1H23: Ploughing Through

Macquarie FY23: CGM Continues to Drive Results

ASB: New $ 10NC5 Tier 2

Dai-ichi Life FY22: Foreign Bonds Shrinkage

For AT1 instruments, please refer to **APAC Banks: AT1 Investment Opportunities** for the rationale for our preferred names. We continue to be comfortable with all these bonds post their Mar-23 results. We would like to highlight that DBS during their investor and media calls for the 1Q23 results stated that it was their intention to call and not replace their AT1 bond as they would receive a 2% bump in their CET1 ratio as a result of the phase-in of the final set of Basel 3 rules, and so we see particular value in this bond, with a YTC of 6.76% for less than 2 years to the call date.

** The note was modified at 10:50am SGT on 1 June 2023 to reflect a Market perform recommendation on the senior debt of Macquarie and an Outperform on the Tier 2 instruments.*

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RELATED COMPANIES

N/R ASB Bank

M/P Australia & New Zealand Bank

M/P Bangkok Bank

O/P Bank BTN

O/P Bank Negara Indonesia

M/P Bank of East Asia

M/P China Cinda Asset Management

O/P Dai-ichi Life

M/P DBS Group

O/P Far East Horizon

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