Asia-Pac Financials RV: The COVID-19 Impact

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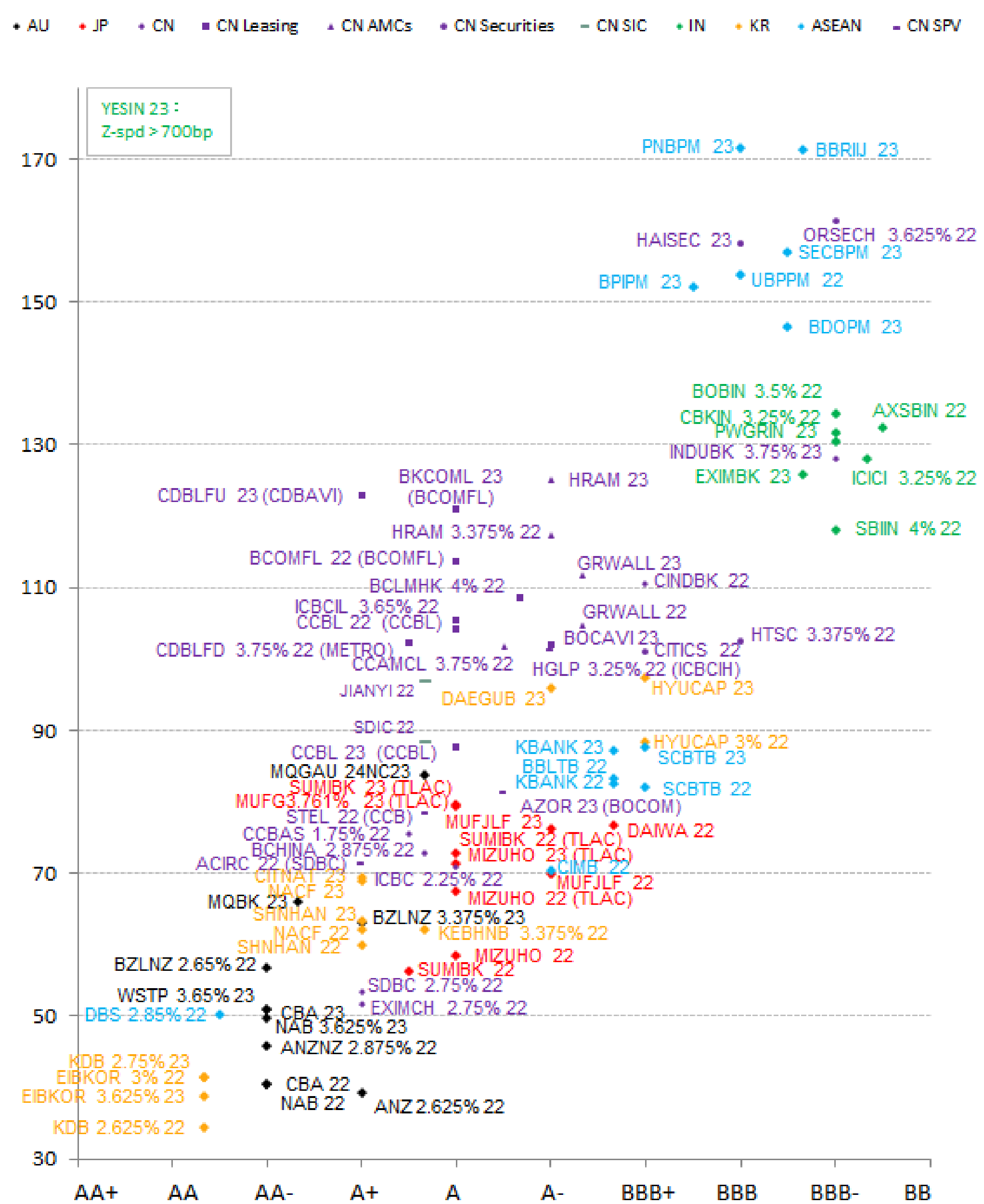
EXECUTIVE SUMMARY

- **In light of the still-evolving COVID-19 situation globally, we finetune our thoughts on the relative value of bonds from Asia-Pacific financial institutions.**
- **The COVID-19 impact on China has been strong but has not reflected in the spreads of Chinese financials.** The bonds have benefited from domestic liquidity support as well as a flight to safety.
- **Higher quality jurisdictions have seen little spread impact in this risk off environment, with marginal movement in the senior bonds of South Korea, Singapore, and Australia.**
- **On the other hand, 3-5 year senior debt from Indonesian and Philippine banks widened by 50 bp, largely following a similar widening of their sovereign bonds.** Indian banks have widened by about 25 bp.
- **Longer dated bonds have been impacted too, as investors take comfort in shorter duration bonds.**
- **The drop in USTs has led to a drop in bond yields, with only AT1s and selected Tier 2 issues holding up from a yield perspective.**
- **We see selected opportunities in the '21-'24 callable capital bonds from Hong Kong and Chinese banks, senior debt from Philippine and Indonesian banks, Yes Bank's senior bond, BTN's recent Tier 2, and like the Australian Tier 1 names for quality as well as a >4% yield.**

RELATIVE VALUE

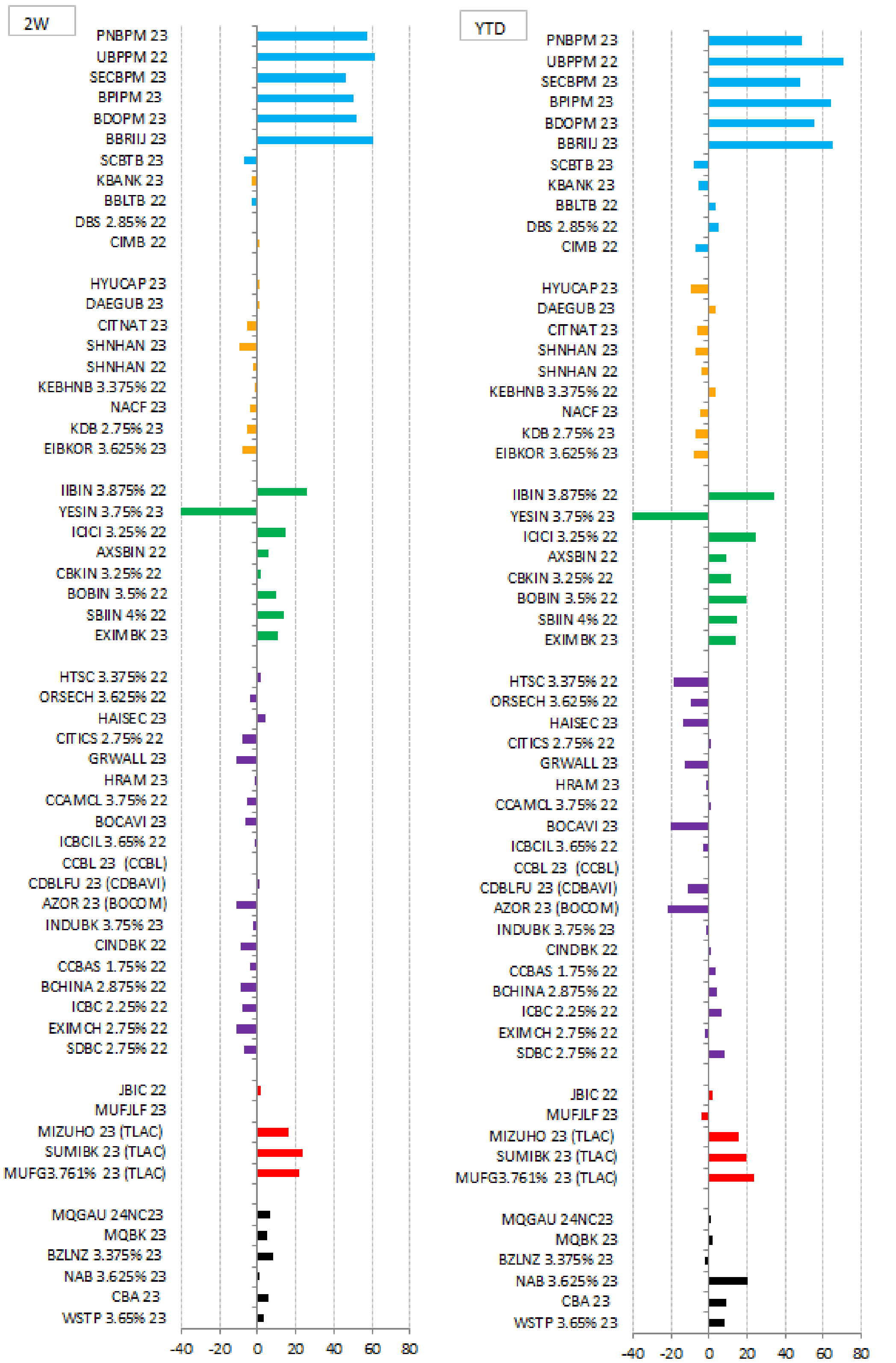
Senior Unsecured

Asia Pac Banks: $ Senior Bonds Maturing 2022-23 (Z-Sprd)



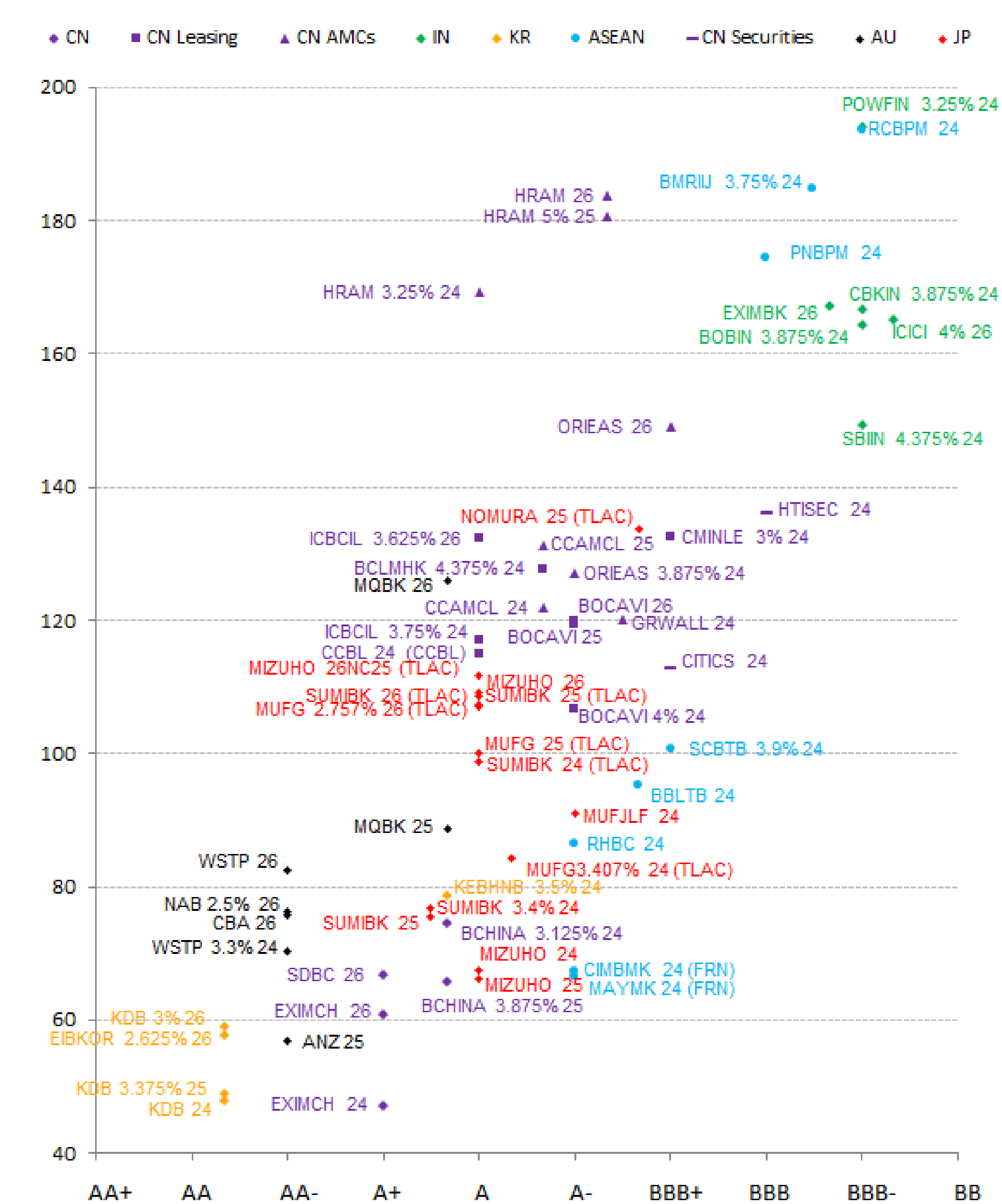
Source: Bloomberg

Asia Pac Banks: $ Senior Bonds Maturing 2022-2023 Spread Movement (Z-Sprd)



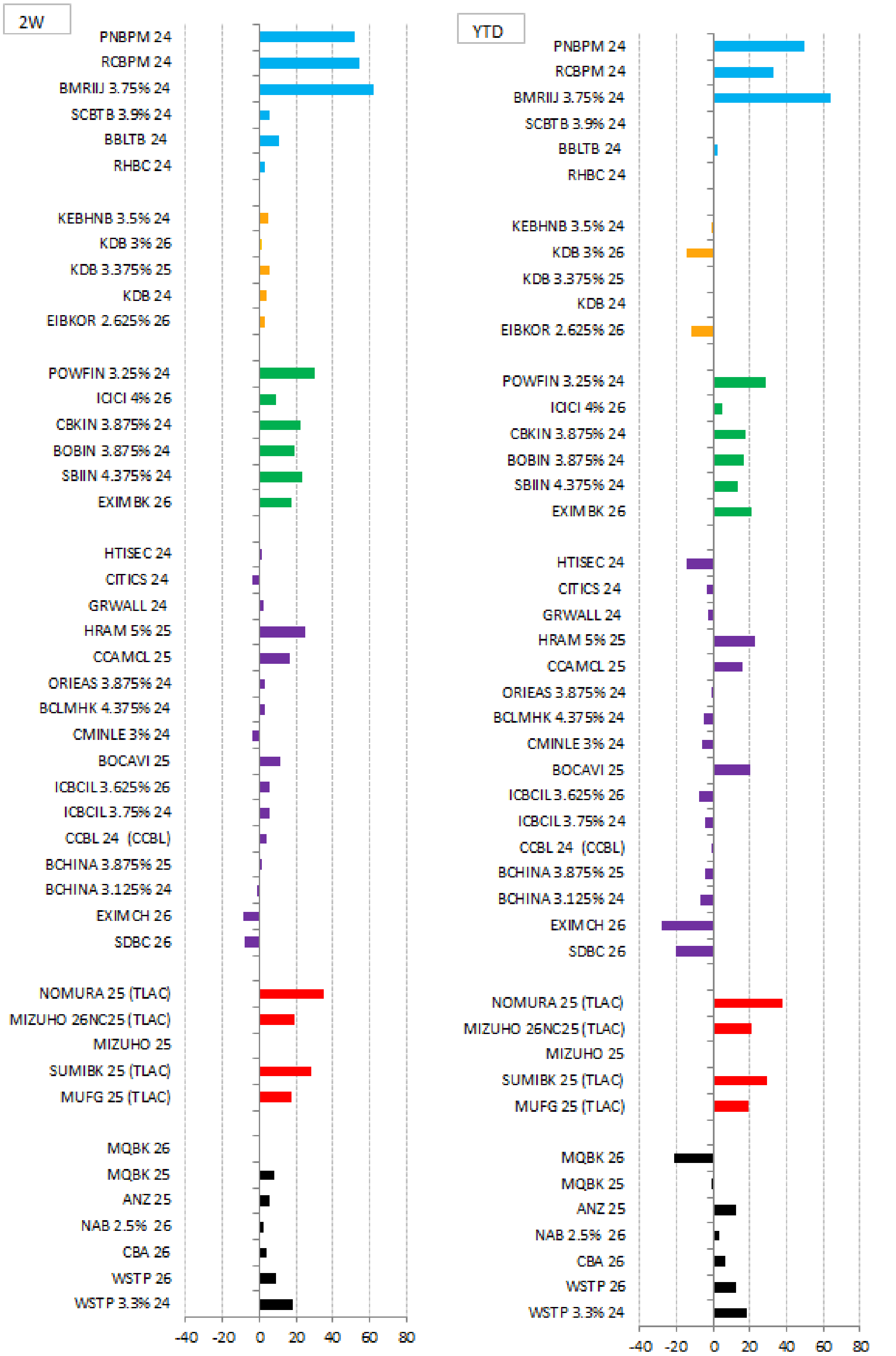
Source: Bloomberg, Creditsights

Asia Pac Banks: $ Senior Bonds Maturing 2024-26 (Z-Sprd)



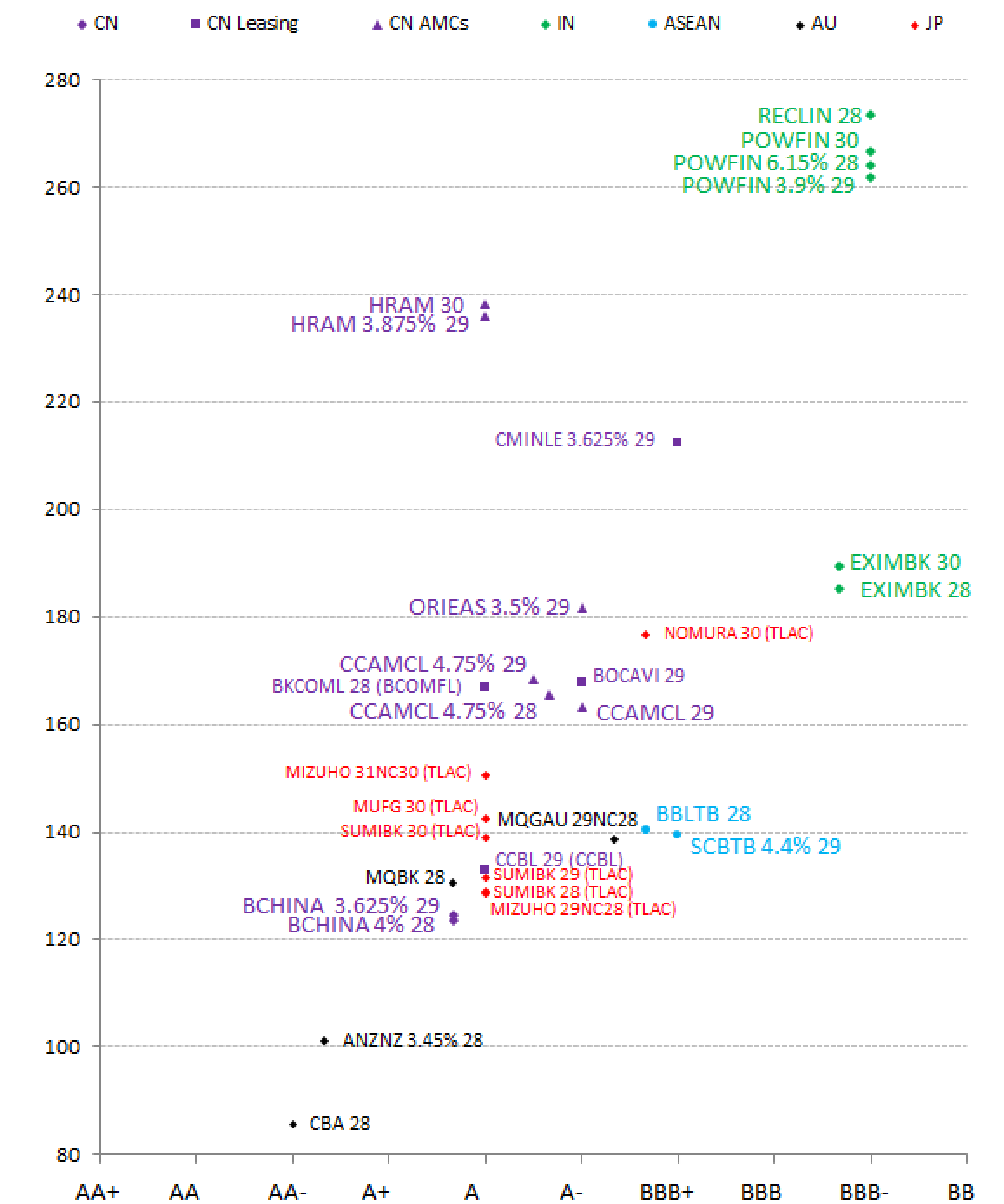
Source: Bloomberg

Asia Pac Banks: $ Senior Bonds Maturing 2024-2026 Spread Movement (Z-Sprd)

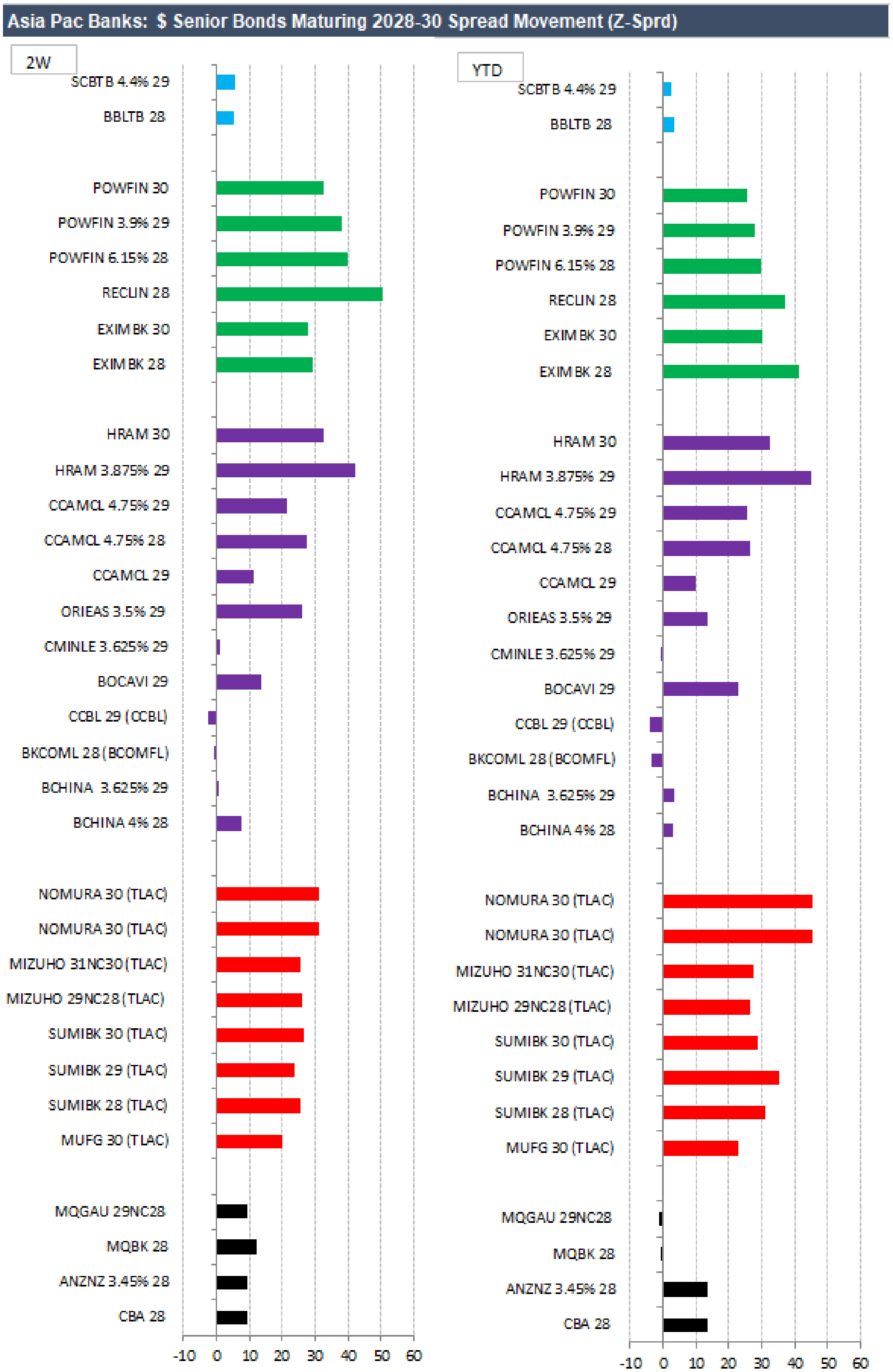


Source: Bloomberg, Creditsights

Asia Pac Banks: $ Senior Bonds Maturing 2028-30 (Z-Sprd)



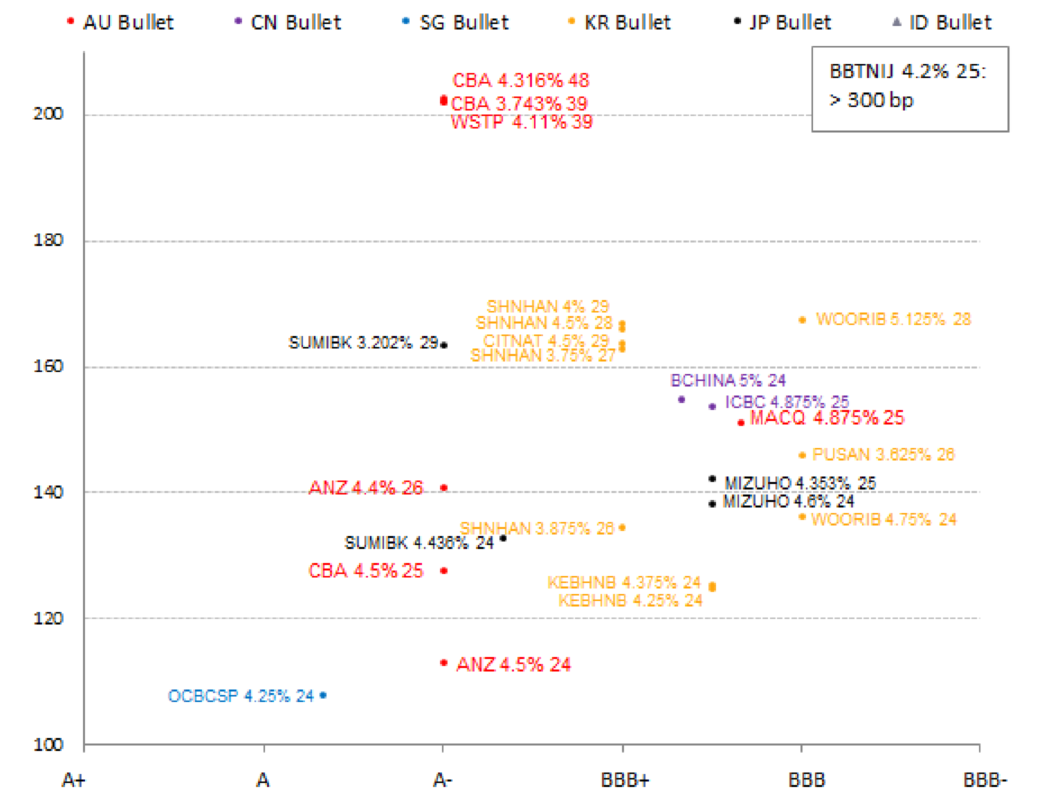
Source: Bloomberg



Source: Bloomberg, Creditsights

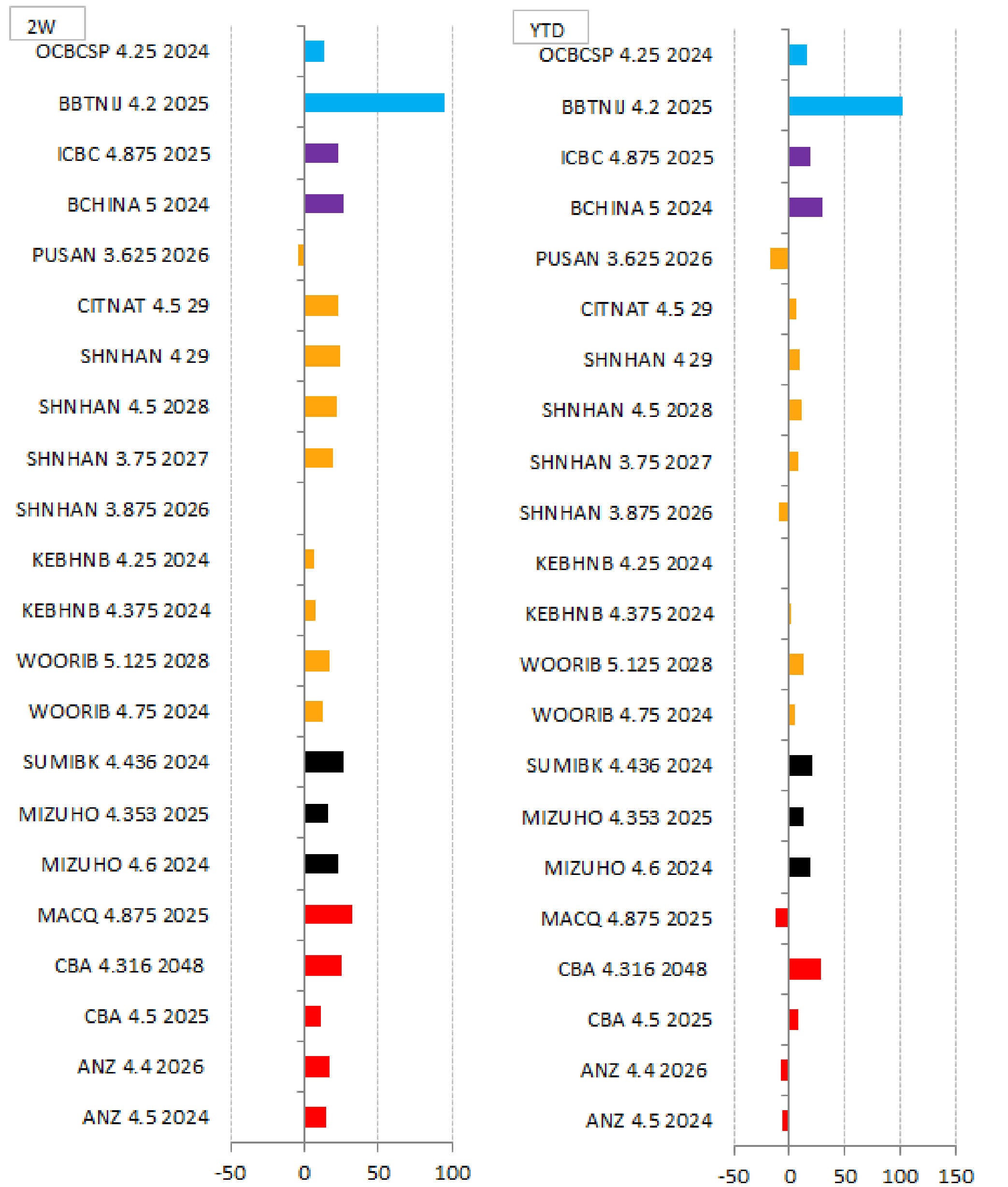
T2 Bullets

Selected Bank USD Tier 2 Bullets (Z-spd in bps)



Sources: Bloomberg, CreditSights

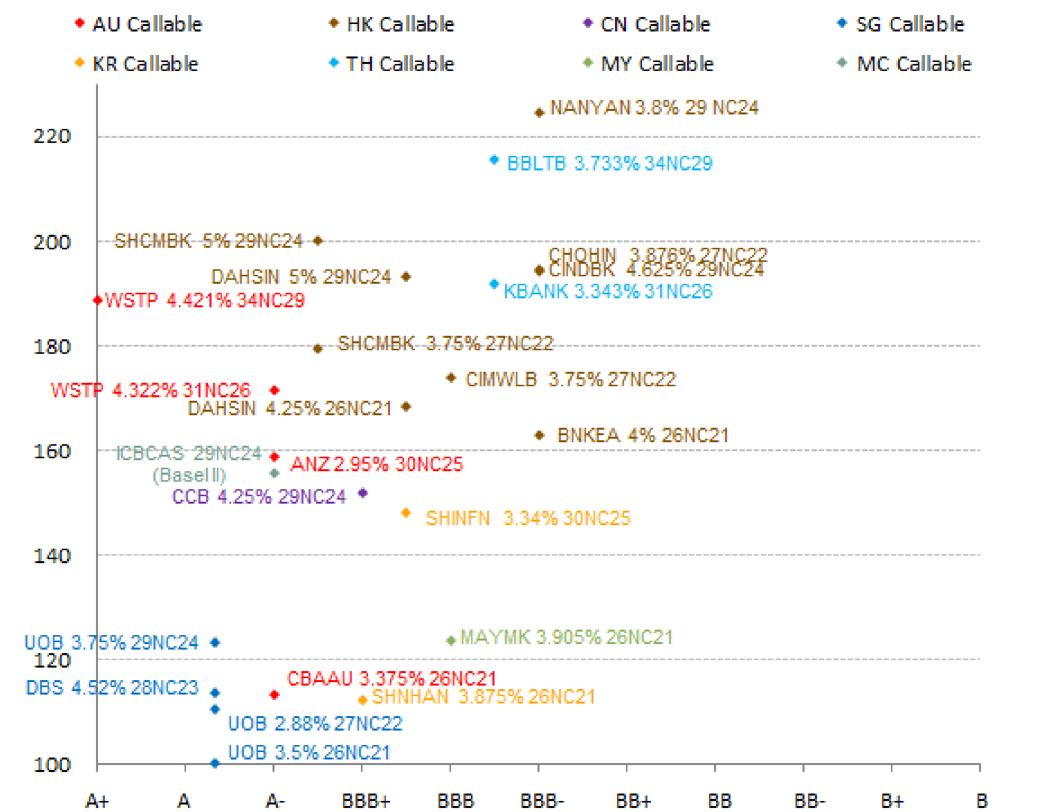
Asian Banks USD B3 T2 Bullet Spread Movement (Z-Sprd)



Source: Bloomberg, CreditSights

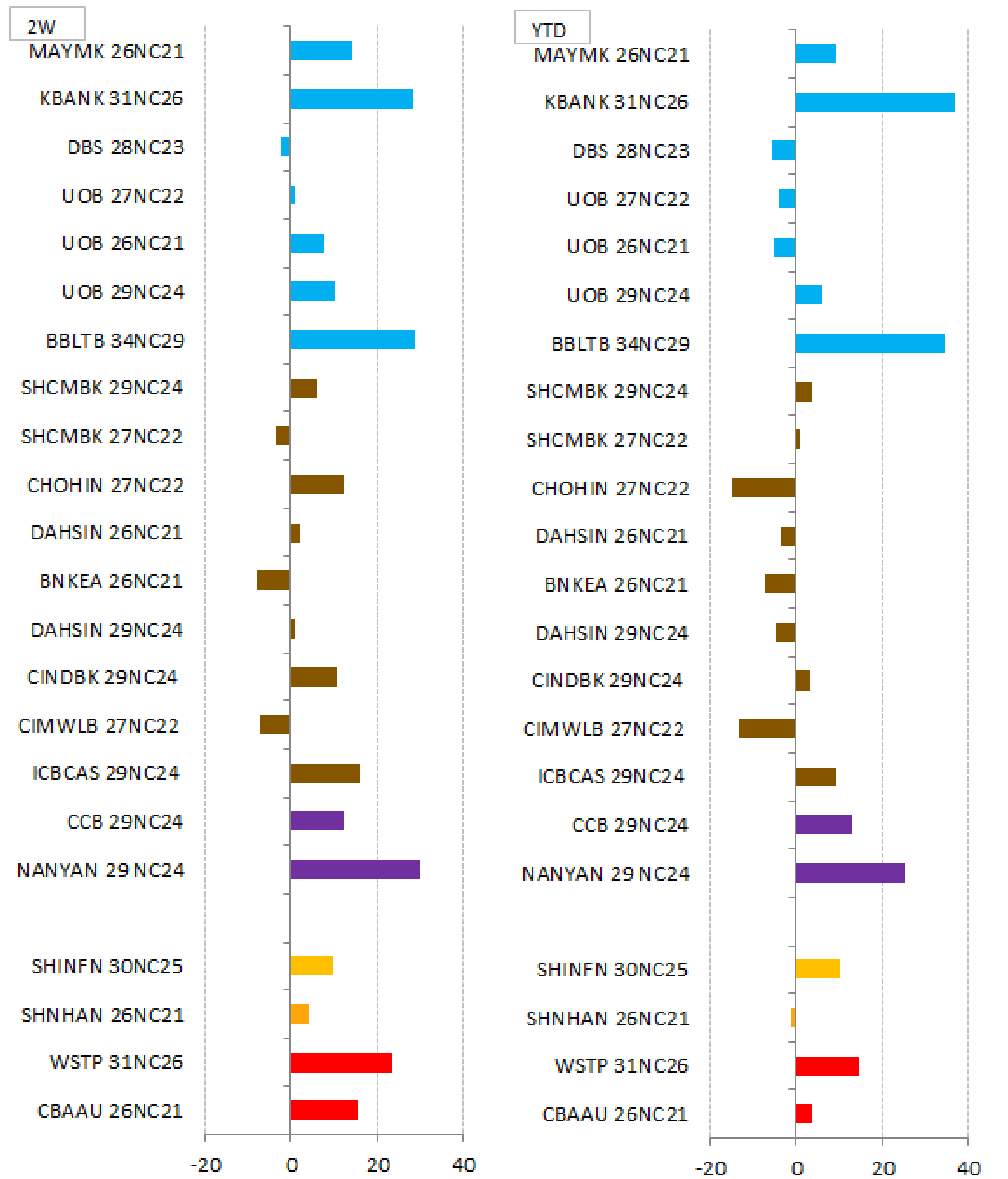
T2 Callables

Selected Bank USD Tier 2 Callable (Z-spd in bps)



Sources: Bloomberg, CreditSights

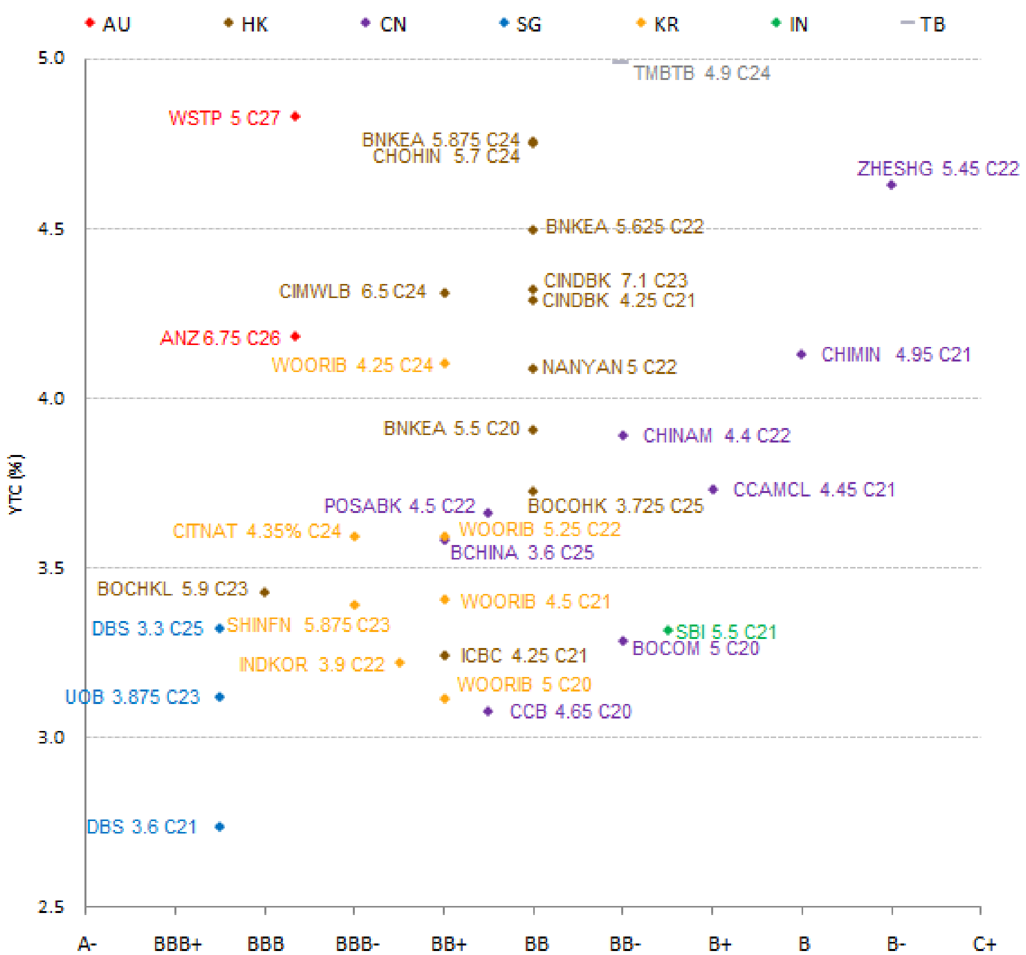
Asian Banks USD B3 T2 Callable Spread Movement (Z-Sprd)



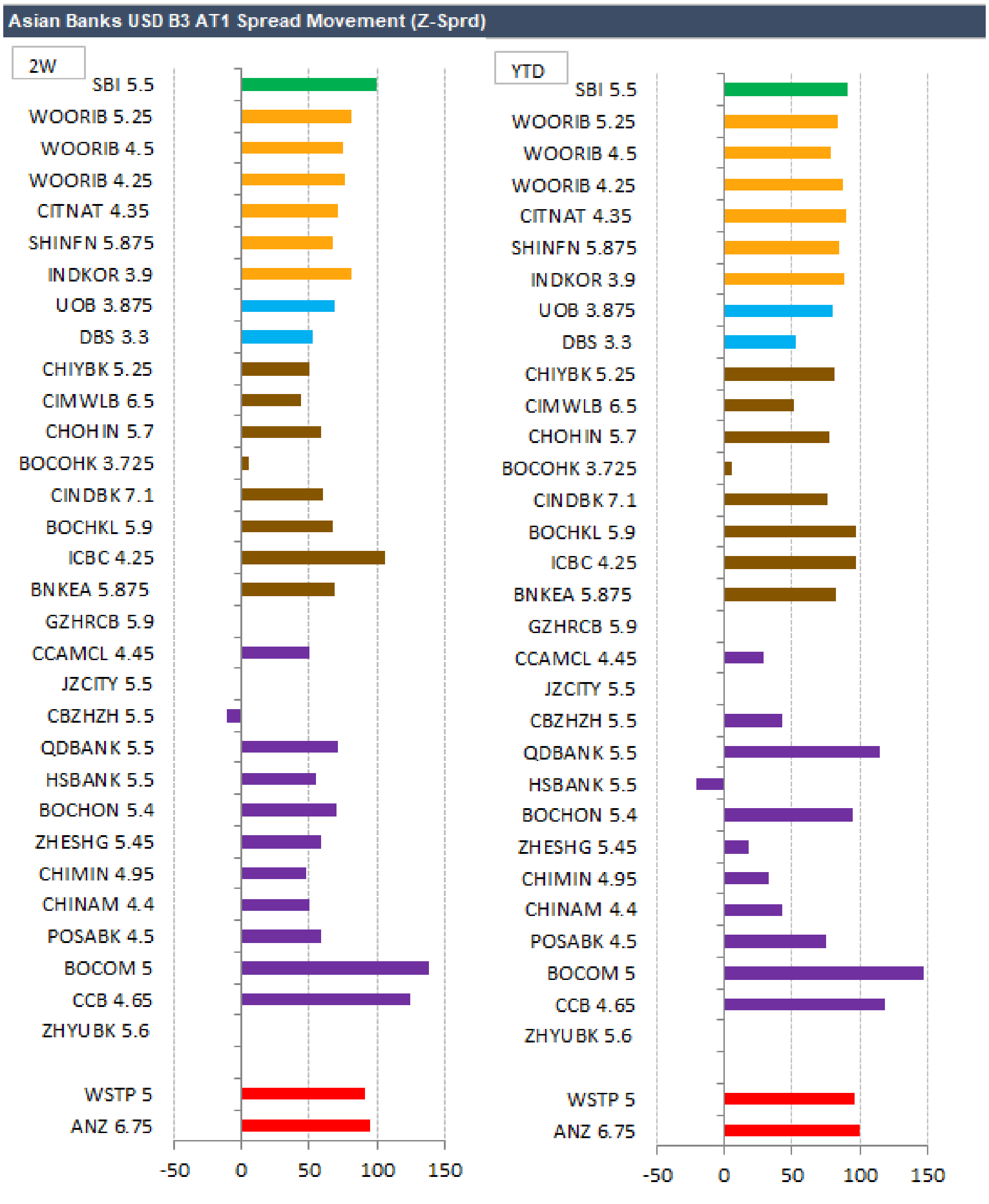
Source: Bloomberg, CreditSights

Additional Tier 1

Asian Banks/AMCs USD B3 AT1 Relative Value (YTC %)



Note: the Australian AT1s are not callable for 10 years from pricing date. Sources: Bloomberg, Rating Agencies, CreditSights



Source: Bloomberg, CreditSights

As we look at the Asian credit market performance so far this year, we see a split between performance till 20 February and thereafter, when COVID-19 spread through Europe and the international equity markets dropped dramatically. Last week, there had been some retracing of the widening as market sentiment has improved which may reverse as we see another bout of risk-off today. All the data in this report are as at 6 March.

Market sentiment in the week commencing 24 February was in the classic Asian risk-off mode. For Asian financials, anything with duration blew out, and 3-5 year senior debt from Indonesia and the Philippines widened 50 bp, largely following a similar widening of their sovereign bonds. The flight to safety has led to Korean, Chinese and Australian banks, with only marginal widening in the spreads for the bonds from these countries.

International fund managers automatically tend to get concerned about investor fund flows in these situations, particularly as the US Dollar has been strengthening against EM currencies over the past few months. During these times, fund managers tend to increase their cash positions in case there are fund outflows, keep duration short, and focus on better quality names.

Private bank investors tend to look for 3-4 year opportunities with the intention of buying and holding to maturity, and riding out any volatility along the way. Given the cost of leverage, on average about L+100, investors would likely look to a minimum yield of 2.50%, which largely puts their potential bond choices in the Tier 2 / AT1 / NBFI categories. However, the minimum target yield levels may fall with the fall in 3m-LIBOR (latest fixing 0.89).

The widening has not been sufficient for us to change most of our current recommendations, but we have attempted to fine-tune some of our thoughts, as well as provide rationale around specific bonds that provide value.

First, we summarise the key effects on all Asian banking sectors as a result of COVID-19:

1. A reduction in NIMs due to the lower interest rate environment
2. An increase in NPLs / restructured loans to highly affected sectors such as retail, tourism, transportation. A lagged second order effect potentially on commercial real estate and manufacturing
3. A likely increase in NPLs to SMEs in general due to slower / negative GDP growth, or to small or medium manufacturing entities that depend on raw material / intermediate goods from China
4. A reduction in loan growth – although there may be increases in working capital loans
5. A reduction in fee income – whether for loans, credit cards, wealth management
6. For the banks on the IRB approach for RWA calculations, a negative RWA ratings migration that will affect capital ratios

These effects may be higher or lower depending on the concerned country but every bank is likely to be affected through all these factors. This will be partially offset by continued gains on fixed income instruments due to lower rates.

There is also the question of how many more clusters may emerge in Asia, following the spread of COVID-19 in South Korea and Japan. Singapore (150/12) [total cases]/[new in the past 24 hours] and HK (115/7) had a breather for a few days but the number of new cases has started going up again as second order effects kick in. Thailand (50/0) seems to have contained the spread. Indonesia (6/2) and the Philippines (10/4) are likely to see some ramp up of cases. In the past few days Malaysia (99/6) and India (43/9) have seen more cases from a low base, while Australia too (80/6) will likely see a regular uptick of cases, with some additional concern as the country heads for winter. There is some skepticism whether cases have been accurately captured in Indonesia and India as yet.

We take a quick look through our current outlook for banks across countries, our recommendations, and recent spread performance (where banks have multiple bonds we have looked at the 5-year part of the curve), before delving into a short summary per country:

Asia Pacific Banking Sector Outlook and Spread Performance				
Country/ Region	**Macro Outlook**	**Banks Outlook**	**Additional Considerations**	**Spread Performance since 21 Feb for the key banks**
China	Strong negative H1 GDP impact	Stronger negative 1yr impact, moderate 2021-22 impact Big 4 will continue to be profitable JSBs more affected CreditSights view: Market performance to continue for the Big 6 banks, China Merchants Bank, Huarong. Underperform for the other JSBs and Cinda. We do not have explicit ratings on the leasing companies	Strong manufacturing dislocation SME disproportionately affected Strong H2 govt spending expected Property sops to encourage spending	Senior: -3 Tier 2: +20 AT1: +60 (yield flat)
Hong Kong	Recession / near recession	Profitability to be impacted Risks manageable, NPLs to rise CreditSights view: Underperform to continue. However, selected opportunities may exist in capital instruments	Additional government spending will not be able to help the economy substantially	Tier 2: +7 AT1: +60
Japan	Recession / near recession	Poor profitability to continue, domestic and overseas NPL ratio will rise CreditSights view: Under performance to continue	Limited fiscal and monetary policy firepower	Senior: +20 Tier 2: +25
S Korea	Marginal growth likely	Risks should be manageable, NPLs to rise, fee income to drop CreditSights view: Market performance to continue	New budget to boost spending Government agencies have historically been proactive to help both SMEs and big business	Senior: broadly flat Tier 2: +15 AT1: +75
Australia	Marginal growth expected	Risks should be manageable, profits and high dividend payouts under pressure CreditSights view: Market performance to continue	COVID-19 spread as winter approaches	Senior: +3 Tier 2: +20 AT1: +90
Singapore	Recession / near recession	Marginal decline in profitability with lower fee income CreditSights view: Market performance to continue	Government spending will partially mitigate the effect Greater China exposure is of high quality, limited NPL impact from that segment	Senior: broadly flat Tier 2: +7
Indonesia	Sub 5% GDP growth	Bank profitability is domestic consumption based, should be resilient CreditSights view: Out perform recommendation to continue	IDR underperformed dramatically and was down 5% at one point GOI / BI will implement measures to strengthen currency	Senior: +50 Tier 2: +90
Malaysia	Sub 4% GDP growth	Marginal decline in profitability with lower fee income CreditSights view: Market performance to continue	Political instability may affect near term fiscal responsiveness In the medium term, should be gainer of supply chain rebalancing	Senior: +2 Tier 2: +10
Thailand	Negative H1, H2 marginal growth	Decline in profitability, bump up in NPLs expected CreditSights view: Underperform to continue. However, selected opportunities may exist in capital instruments	Tourism has been badly affected and will impact GDP / banks. Tourism is >15% of GDP, the highest	Senior: +5 Tier 2: +30 AT1: +95
Philippines	5%+ GDP growth	Domestic consumption story, banks to be marginally impacted but net income to improve CreditSights view: Moving BDO and BPI to Outperform, other banks on Marketperform	Impact on the manufacturing sector that depends on Chinese raw material and intermediate goods Tourism too to be affected	Senior: +50
	Sub 5%	Banks are already battling slow GDP growth, the challenges will only increase	Impact on the manufacturing sector that	Senior: +25

India	GDP growth	CreditSights view: SBI, ICICI, Axis on Market perform, non-SBI PSB's on Underperform, Yes Bank on Outperform	depends on Chinese raw material and intermediate goods	AT1: +100

Source: CreditSights

We take a closer look at some of the countries and our observations.

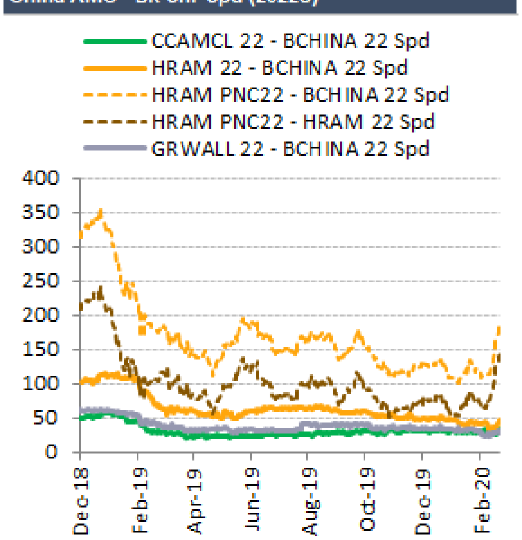
CHINA

China appears to be gradually getting back to work after an extended Lunar New Year holiday was enforced by the virus outbreak. The Chinese government has introduced stimulus efforts to support economic growth after COVID-19 caused economic disruptions and work stoppages. Injections of liquidity and supportive bank lending will provide some financing reprieve to companies hard hit by the virus. The banks are an important conduit for policy transmission - they will see narrowing NIMs as the government guides down real interest rates and an eventual dent to asset quality. We are generally more comfortable with the Big 6 Chinese banks given their strong links to the Chinese state, relatively better balance sheet fundamentals and underlying strength in profitability.

Chinese sovereign bonds generally tightened by 15-20 bp last week, as expectations of further easing by the PBOC pushed yields lower. Short-term senior bonds have tightened slightly by less than 10 bp in the past week while longer-dated seniors are mostly flat. The seniors of policy banks such as China Development Bank and China Export-Import Bank have seen some tightening on both the short- and longer-term seniors. In the Tier 2 callable space, the CCB 29NC24 has widened out by ~20 bp in the past week, placing it at a Tier 2-to-senior multiple of 2x versus usually ~1.75 for highly rated banks. This implies a ~20 bp tightening from current levels. Similarly, the Tier 2 bullets ICBC 4.875% 25 and BCHINA 5% 24 have widened by 20 bp recently and look to offer better relative value versus the still-tight spreads of Chinese bank seniors. In the AT1 space, there has been a broad trend of widening spreads which we think offers the opportunity for investors to selectively pick up AT1 securities of fundamentally solid Chinese banks which are relatively short duration such as the POSABK 4.5% C22 and CHINAM 4.4% C22 which offer yields to call of >3.5% for ~2.5 years to their first call dates.

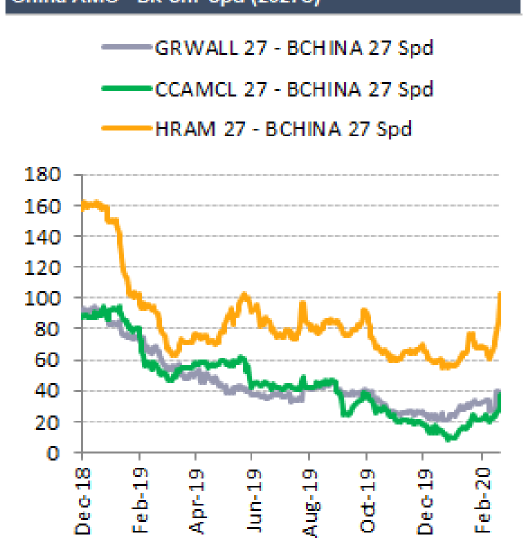
The asset management companies – mainly Huarong and Cinda – have widened out across all durations with increasing widening with increasing duration; Huarong has also widened by a greater extent compared to Cinda. We think that the AMCs are generally regarded as acceptable credits due to state support and thus hold the opinion that the longer-term spreads of Huarong over Cinda as well as over the banks are at levels that are attractive for similar credit risks. The AT1 of Cinda – CCAMCL 4.45% C21 – also offers a decent YTC of 3.71% for around 1.5 years to the call date.

China AMC - Bk Snr Spd (2022s)



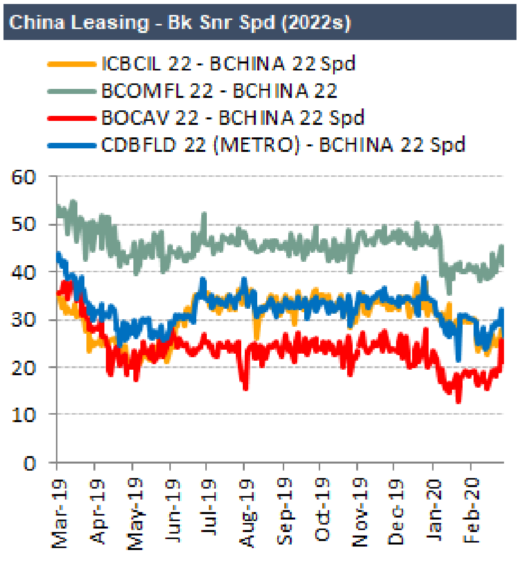
Source: Bloomberg, Creditsights

China AMC - Bk Snr Spd (2027s)

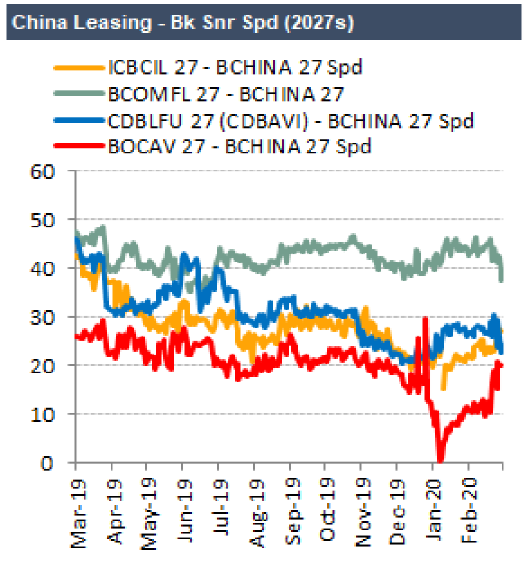


Source: Bloomberg, Creditsights

The leasing companies of Chinese banks also offer a spread pick-up over bank seniors and thus even if they did widen a bit, their overall returns may be higher.



Source: Bloomberg, Creditsights



Source: Bloomberg, Creditsights

Given the current uncertainty concerning global aviation and global shipping due to COVID-19, we are inclined towards a more cautious stance with regards to these leasing companies with Chinese bank parents. However, the senior bonds of these leasing companies offer a spread pick-up over bank seniors and thus even if they did widen a bit, their overall returns may be higher. Please see related research on the leasing subsidiaries of Chinese banks **here** and **here**.

Please also see:

Chinese Banks: Impact Of Covid-19

China Macro: PMIs Paint Painful Picture

China Macro: LPR Cuts, All Hands On Deck

HONG KONG

The bonds belonging to HK banks have done well thus far, but it is unclear if they will continue to do so. While there remain pockets of value among HK banks, the situation confronting HK continues to be grim. The Special Administrative Region faces a trifecta of risks – a slowdown stemming from the US-China trade war (whose ill-effects may be dissipating gradually as the Phase 1 agreement was signed in Jan-20), ongoing social tensions, and the impact of COVID-19 both directly and indirectly via a Chinese slowdown. It must be said that the banking sector in HK has proved to be resilient thus far, with profitability and asset quality still intact. We however expect some deterioration in store as the HK economy takes a beating.

We thus focus on banks with good performance track records and go for shorter duration bonds. We find the short-term AT1 issues callable in 2021 from China CITIC Bank International (CINDBK) and Nanyang Commercial Bank (NANYAN) to be quite attractive given their >4% yields. We also like the HK bank Tier 2 issues callable in 2021 and 2022 to have relatively more value given the short period of time to the call dates such as those from Shanghai Commercial Bank (SHCMBK), Wing Lung Bank (CIMWLB), Dah Sing Bank (DAHSIN) and Chong Hing Bank (CHOHIN). With the exception of CIMWLB 27NC22 which has tightened by ~10 bp, the other Tier 2 bonds of HK banks mentioned above widened by 2-10 bp while the AT1s widened by ~60 bp last week.

Please also see:

Hong Kong: Macro Overview - A Trifecta Of Risks

JAPAN

Japan was already heading into a downturn in the last quarter of 2019 when the hike in the consumption tax from 8% to 10% in October badly hit retail sales. The COVID-19 outbreak has now impacted 1Q 2020, likely leading to another quarter of negative growth and hence a recession for Japan. This in turn may prompt further monetary easing by the BOJ though we think it will be cautious about pushing interest rates much further into negative territory given the adverse effects on banks. The implications for the banks are a renewed squeeze on their domestic net interest margins, higher credit costs and reduced gains from their equity holdings as the stock market has pulled back. We would not expect a major deterioration in domestic credit quality given that some of the effects of the virus will be temporary and ultra-low interest rates are helpful in keeping defaults low, but the banks will likely add to the loan loss provisioning which they usually beef up in the last quarter of their financial year. We have been concerned for some time about the banks' expansion of their overseas loan portfolios in recent years and should be prepared for the possibility of some credit quality problems to arise. Mizuho's involvement with the Oyo Hotels group is one potential example.

The 5-year TLAC bonds of the megabanks widened by about 20 bp while the 10-year TLAC bonds widened by about 25 bp. Overall, we had already taken a negative view on the major Japanese banks in 2019 on valuation grounds and because of weaknesses in their fundamentals. We still see them as sound credits but expect their already weak profitability to take some hits near term. We keep the megabanks at Underperform and among them remain most wary about Mizuho and continue to prefer SMFG.

Please also see:

Japanese Banks 9MFYE20: MUFG Takes Some Blows

SOUTH KOREA

South Korea is emerging as one of the most affected countries with over 7,000 cases and some cities in lockdown. Our view on the Korean commercial banks has been that the improving trend in their profitability and credit quality has come to an end and some downward pressures were likely in 2020. These downward pressures have been intensified by the virus which has hit some regions of the country and some industrial sectors as well as impacting consumption and travel. Lower interest rates and fiscal stimulus should help to offset some of the hit to the economy but will reduce the banks' NIMs. The banks had expected a small increase in bad debt charges in 2020 but only to around 25bp on average lending. It looks likely that the increase will be larger but is coming off such a low base it may still be manageable for the banks though with though leading to reduced levels of profitability -their ROE in recent years has been just below 10%. The commercial banks have been helped in the past by the actions of the policy banks - KDB, KEXIM and IBK - to step in to provide support to large companies, exporters and SMEs respectively and we would expect them to play a significant role this time.

In summary, we see weakening profitability on lower NIMs and higher credit costs for the Korean commercial banks, but we think they will remain sound credits and keep them at Marketperform. The policy banks may suffer more adverse financial effects but as quasi-sovereign entities their credit worthiness is directly linked to that of the Korean government which has provided them with strong and timely support. Hence we still like KDB and KEXIM. IBK may be viewed slightly less favourably by investors given its SME focus and more ambiguous status as a listed policy bank.

Please also see:

Korean Banks 2019: Heading South For Growth

AUSTRALIA

Australia was already struggling to prevent economic growth from weakening to sluggish levels that may not be able to keep employment levels steady and it has had to cut interest rates again to support growth. Looking at the experience of other countries, especially Japan, low rates may not be effective in lifting growth rates but they do seem able to limit the downturn, they help maintain credit quality and are very helpful to asset prices. Rate cuts to very low levels had already led to a turn in house prices in Australia in 2019 and rising house prices are helpful for consumption and increase the value of the collateral held by banks. The slowdown in China and reduced spending by incoming tourists and students will hurt the economy so low levels of economic growth look likely, also necessitating stimulus spending by the government. The banks have cut lending rates which will squeeze their NIMs and they will likely set aside additional loan loss provisions but these may not be major given that the bulk of the banks' lending is to housing.

Overall, the banks will see continued pressure on NIMs and net profitability and this may raise questions over the sustainability of dividends for some banks (notably Westpac) but we think they still remain sound credits.

Australian senior debt has moved marginally, Tier 2 by about 20 bp, and AT1 instruments by 90 bp, jumping in yield by about 40 bp. The ANZ NC26 and WSTP NC 27 AT1 transactions are the only AT1 issues with a yield north of 4% for large, well-diversified, stable banks. Other banks with a >4% yield are second and third tier HK banks, TMB from Thailand, and CHIMIN and ZHESHG from China, albeit with 2021-24 call dates. European AT1 transactions from large well diversified banks with about the same call dates trade at about 4.95% (HSBC, INTNED) and 5.10% (BNP), but don't have dividend stoppers. For a quality APAC AT1 north of 4%, the Aussie banks continue to be the best choice.

Please also see:

ANZ: 1Q20 Capital & Asset Quality Update

NAB: 1Q20 Trading Update

Westpac: 1Q20 Capital & Asset Quality Update

Macquarie: 3Q20 Trading Update

CBA: 1H20 Risks Ahead... But So Far So Good

SINGAPORE

We do not anticipate a significant impact on Singapore banks as a result of COVID-19. Reduced net income, flat loan growth, a marginal increase in credit costs are our expectations. The Singapore banks have also reduced their issuance of USD senior paper, and are infrequent issuers of capital too. The banks senior and Tier 2 bonds moved by a few bp over the past 10 days; DBS's recent AT1 issuance is trading at a yield of 3.35%, levels which are fair but leave little to recommend.

Please also see:

DBS: Good 2019, 2020 looking cloudy

UOB: Stepping cautiously into 2020

OCBC: Strong 4Q leads to good 2019

INDONESIA

Indonesia is likely to be affected by lower commodity prices for thermal coal and copper, as well as tourism receipts, which are likely to have been about $18 bn last year. On the other hand, it will be a gainer from lower costs of oil & gas imports, as it is a net importer. The government has announced a $725 mn fiscal stimulus and has promised another larger one shortly. There will be an increased deficit to be funded, potentially in the international markets, leading to a widening in the sovereign spreads. International investors reduced their holdings of LCY bonds by $1.4bn in the first few days of last week. Indonesian $ sovereign bonds widened 50-60 bp and therefore the commercial banks spreads widened by 50-60 bp too.

We do not anticipate a large impact of COVID-19 on the banks and like their spreads viewed in isolation, but It is likely that the Indo sovereign bonds may not tighten much till there is clarity on the COVID-19 cycle playing out. There is likely to be some widening from these levels if COVID-19 spreads in Indonesia. Currently there are 2 patients down with the virus per the government, which has led to a fair amount of skepticism regarding the government's ability to track and therefore control the virus.

The INDON 01/24 is trading at Z+138, while BBRIIJ 03/24 and BMRIIJ 03/24 are at Z+178 bp and Z+173 bp respectively. The BBRIIJ 03/23 is at Z+170 bp. We like the standalone credits of these two banks, particularly BRI, as they have developed a very strong, efficient and profitable micro lending business. However, levels may remain in this ballpark and may widen depending on the spreads of the government. For PB investors, the ~2.5% coupons of these bonds may not be attractive enough. We particularly like the 5-yr bullet Tier 2 from BTN (BBTNIJ 4.2%), Indonesia's 4th largest bank and its largest mortgage provider, which offers value at ~4.1%. This is a transaction that should be appealing to both PB and institutional investors, even if there is a marginal widening from current levels.

Please also see:

Indonesian Banks: BRI and Mandiri 2019 Review

MALAYSIA

Malaysian banks will face increased credit costs and reduced net income as a result of primary and secondary effects of COVID-19. The number of COVID-19 cases till date are relatively low, but have the potential to move up quickly. Tourism and related industries are likely to be badly affected. The banks have 3-4% of their portfolios exposed to highly affected sectors, and will likely face an additional 10 bp of credit costs per their initial estimates, which they can absorb. The senior bonds of Malaysian banks trade tight because of their limited issuance, and have barely moved in the past week+. Maybank's $ Tier 2 is callable next year and is fairly priced.

Please also see:

Malaysian Banks 2019: Some Good, Some WIP

THAILAND

Thailand is likely to be badly affected by COVID-19. The economy has been sluggish in the recent past, with 2%-3% GDP growth, and the virus has led to large drops in tourist arrivals, with virtually no tourists from its largest source country, China. Tourism accounts for more than 15% of GDP and so the impact will resonate strongly through the economy. A negative H1 2020 GDP figure is not off the cards, and will depend on how 2Q20 develops.

The banks are likely to be affected with a fair jump in SME and auto loan NPLs. Bank of Thailand is a conservative regulator and has required the banks to have good provision coverage ratios. The banks also have high CET1 levels, allowing them to absorb the likely increase in NPLs. We have provided an overview of the percentage of SME and auto loans that the 4 banks with $ bonds have, along with some credit and capital information, in the table below:

Thai Banks: Key Metrics in 2019				
	Bangkok Bank	KBank	Siam Comm Bank	TMB Bank
SME Lending	8% Small 19% Medium	33.5% (THB 672 bn)	16% (THB 251 bn)	~18% (THB 250 bn)
Auto Loans	NA	NA	10% (THB 219 bn)	29% (THB 404 bn)
Total Loan Book	THB 2061 bn	THB 2002 bn	THB 2114 bn	THB 1394 bn
SME NPL Ratio	NA	~6%	8.30%	NA
Auto NPL Ratio	NA	NA	2.30%	NA
Gross NPL Ratio	3.39%	3.65%	3.40%	2.30%
Net NPL Ratio	1.24%	0.0245	NA	NA
2019 Credit Costs	160 bp	174 bp	127 bp	125 bp
Provision Coverage	220%	149%	134%	120%
CET1 ratio	17.0% *	16.20%	17.00%	12.00%

Note: BBL's pro-forma CET1 ratio post the Bank Permata acquisition is expected to be 13.3%

Source: Company data, CreditSights

The senior bank '22-'24 bonds trade in the Z+90-100 bp range, while the '28-'29 bonds trade about Z+130 bp, about 5 bp wider than a few weeks ago. On the other hand, the longer dated callable Tier 2 issues from KBANK NC26 and BBLTB NC29 have widened about 35 bp to about G+190 bp and G+210 bp respectively. Between the two bonds, we like the KBANK bond better given shorter duration and potential supply from BBLTB later this year to fund its acquisition of Permata Bank in Indonesia. KBANK's Tier 2 / senior ratio is at ~1.75x, similar to the ratios of DBS and CBAAU. Its spread puts it in the rank of the NC'22-'23 HK banks (CINDBK, CHOHIN, SHCMBK, DAHSIN) but with better capital though similar risk characteristics (good exposure to SME). We also take a closer look at the TMB 4.9% PerpNC5 which is trading at a yield of about 5.1%, wider than the CHOHIN 5.7% and the BKNEA 5.875%. TMB's strengths are its shareholders, which include the Thai Ministry of Finance, ING and Scotiabank. Its NPL ratios are currently the lowest amongst the Thai banks as a result of a steady write off of bad loans across the years. However, as a result of acquiring Thanachart in December last year, its business mix changed, and auto loans (29%) and SME (~18%) combine to almost 50% of the total portfolio, which lends itself to caution in the current environment. Thanachart though had a good portfolio – gross NPLs were similar to TMB Bank's combined 2.3%, and credit charges for 9MFY19 were 45 bp. We would wait for a couple of quarters of results to test the resilience of the TMB portfolio.

Please also see:

Thai Banks FY19: Old Problems Remain

THE PHILIPPINES

The Philippines has a very strong domestic consumption driven economy, and while there has and will be a COVID-19 impact on manufacturing (as a result of shortages of raw materials and intermediate goods produced in China) as well as travel and tourism (the government estimates it accounts for 12.7% of GDP), the impact on the banks will be low, and while the fiscal deficit for 2019 is estimated at 3.5% of GDP, the government has the ability to increase the deficit for the near term if need be. The FX market agrees – the PHP has remained flat since 21 February.

BDO, the largest bank by assets, has a 03/23 bond trading at Z+147 bp, and a 10/21 bond trading at Z+140 bp. BDO and BPI released very strong 2019 results, which we will review in the coming days. BPI's 09/24 bond is trading at Z+155 bp, while its 09/23 is at Z+150bp. The yields range from 2.00% to 2.30%, again tight for PB, but a good opportunity for institutional investors. The PHILIP 01/24 trades at Z+107, up about 50 bp from 21 February. While we await the results of the rest of the Philippine banking sector, we believe current levels provide good entry points for the BDO and BPI bonds.

INDIA

Indian banks have been exposed to a slowing economy and large credit losses for the past few years, and the COVID-19 situation will add marginally to the problems that they already face. The one silver lining for the banks is that the bankruptcy courts established a few years ago have recently become more effective, leading to improved recoveries on earlier bad loans.

India's GDP growth is largely domestic consumption based, and supply chain disruptions will affect it less than other economies. However, there are certain industries that are being affected by the lack of supply of intermediate products and chemicals such as the pharmaceutical, communications and machinery sectors, but these are unlikely to have much of an impact on banks.

Although India has only 43 cases reported to date, there is concern regarding an adequate capture of the number of cases and the potential speed with which it could spread if local clusters emerge. The RBI has already allowed forbearance on performing loans of SME's that are restructured between the mid part of last year and the end of 2020. This will help the banks show reduced restructured loans. If cases increase dramatically, it is likely that consumer confidence will be affected, creating new challenges for industry and resulting in a further slowdown. The banks have largely focused on personal unsecured lending for loan growth and supporting NIMs. They would need to tighten their loan criteria if the GDP slows further.

So far, Indian bank senior paper has widened 25 bp in sympathy with current market conditions. We have SBI, Axis Bank and ICICI Bank on Marketperform, the non-SBI PSB banks on Underperform, and moved Yes Bank to Outperform following the Government of India lining up State Bank of India to inject some equity into Yes Bank (See **here**).

We note that EXIMBK 03/24 trades at Z+147 bp while SBIIN 01/24 trades at Z+150 bp. EXIMBK's 01/23 trades at Z+130 bp, and its 07/21 trades at Z+95 bp. We see some value in the EXIMBK 03/24 given the RV in the 18 month – 4-year maturities.

Please also see:

Indian Banks: Q3FY20 Vital to Discern Trends

Indian Private Banks 3QFY20: Near Term Stability

Indian PSBs 3Q20: SBI well above the rest

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