

# VALUATION SNAPSHOT OF APAC USD BONDS ISSUED IN Q32017

Valuations of the notable APAC USD bond issuances in 3Q2017 shows largely good outperformance across the board although the clear outlier in this case are issuances from South Korean names, which have generally underperformed at the end of the third quarter.

3Q2017 saw the highest quarterly APAC USD bond issuance volume YTD at USD126.378bn, 26.97% more than 2Q2017's volume and edging it over 1Q2017 issuance by about 3.44%. Volume for the quarter was bolstered by strong issuance in July and September, the two highest monthly volume seen YTD at USD49.460bn and USD58.858bn respectively. August's issuance was by far the lowest monthly volume at just USD18.060bn.

APAC USD issuance up till the end of the third quarter totalled USD348.093bn.

Quick notes on the data:

- Due to the relatively low amount of data across the various sub-groups, the median measure of change in spreads/yields would be a better reflection of general moves within each sub-group
- We treat taps of existing bonds as distinct tranches
- "Sub" refers to subordinated issues
- All valuations are bid and indicative, as of September 29<sup>th</sup> 2017
- Performance of the various bonds were determined by comparing its pricing at issue/reoffer to its valuation as per the end of the quarter

## Corporates

**Corporate IG Senior** new issues in 3Q2017 have largely outperformed as of the end of the quarter with spreads tightening across the board save for the South Korean IG issuances.

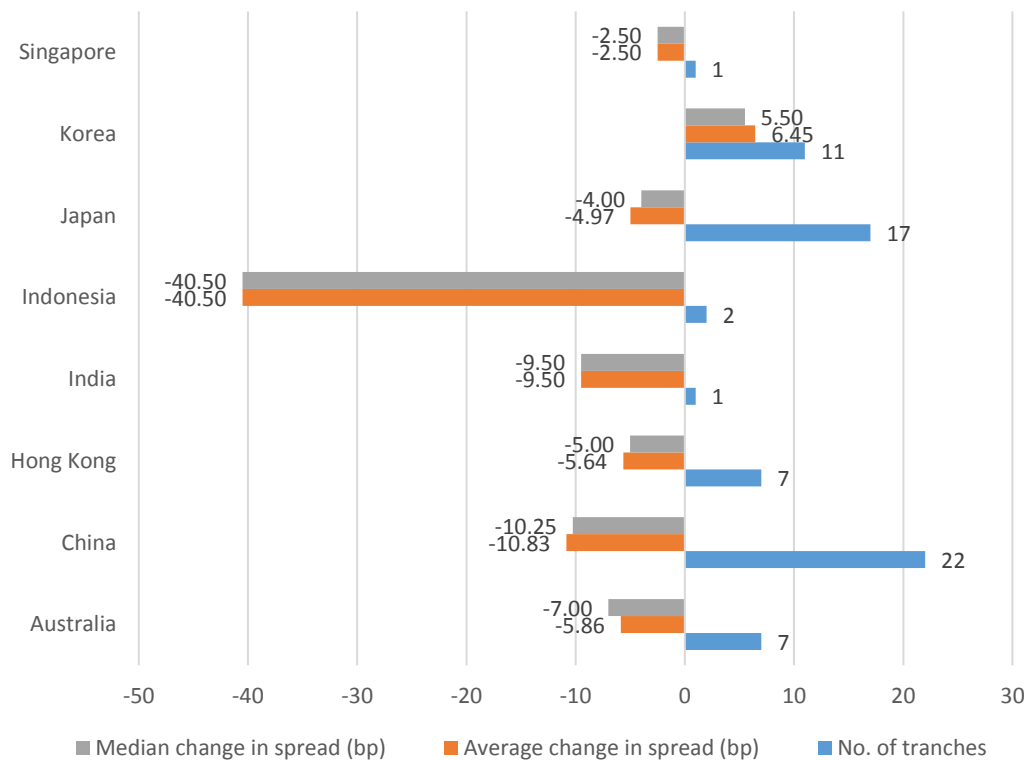
- On the whole the 3Q2017 Corporate IG Senior issuances performed better at the end of their quarter compared to those sold in 2Q2017 at the end of the second quarter
- Minejesa Capital's dual-tranche 4.625% 2030s and 5.625% 2037s were responsible for Indonesia's strong performance based on spreads data although admittedly, they were Indonesia's sole representative in the Corporate IG Senior issuance category
- Most of the issuer countries that underperformed in 2Q2017 have seen a reversal in 3Q2017, particularly Australian, Chinese and Indonesian issuances

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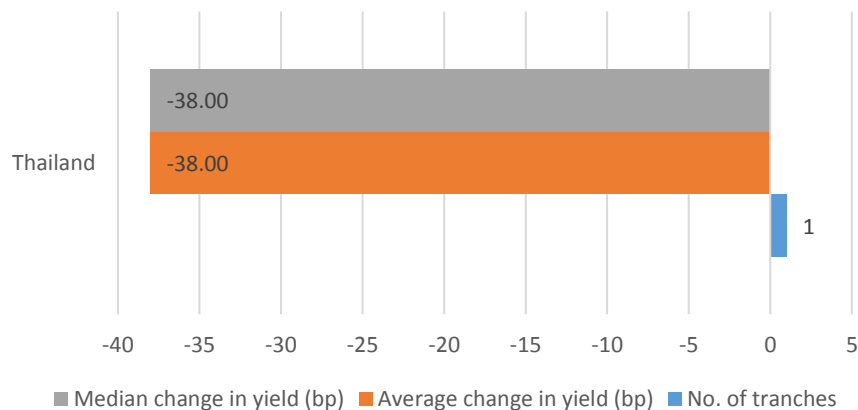
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## Corporates IG Snr & above



## Corporates IG Subordinated & below

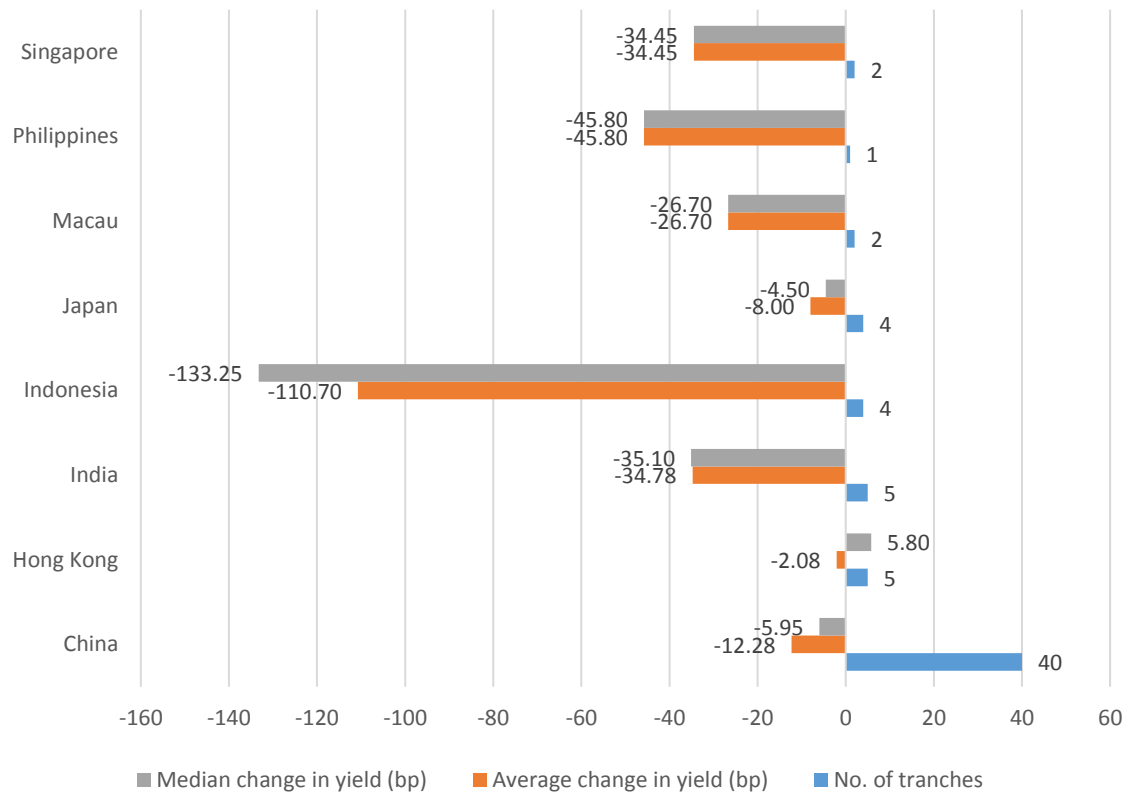


**Corporate HY Senior** new issuance also performed well with only the Hong Kong high yield issuance underperforming slightly.

- South / South-East Asian HY new issuances were the stronger outperformers by the end of the quarter
- Indonesia was the strongest performer amongst the HY issuances with the gains led by MEDCIJ 8.500% 17Aug2022 and ABMMIJ 7.125% 01Aug2022
- The only Hong Kong HY outperformer as per the end of 3Q2017 was the GRNLHK 4.500% 05Jul2018's USD200m tap

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Corporates HY Snr & above



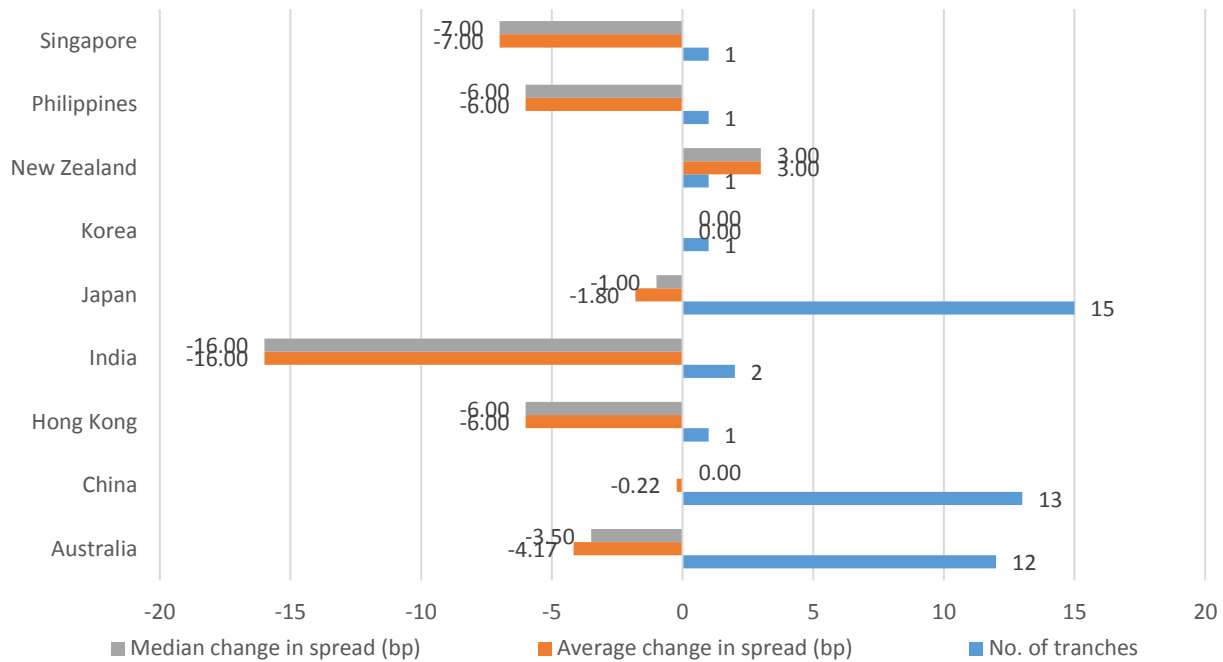
## Financials

3Q2017 **Financials IG Senior issuance** performed well by the end of the quarter although their outperformance was a little more subdued compared to the Corporates.

- The Indian bank deals were the best performers amongst the group with the CBKIN 3.250% 10Aug2022 and AXSBIN 3.000% 08Aug2022 deals seeing spreads tightening by a median of 16bp
- Chinese Financials IG Senior & above issuances were flattish on the whole although there were a couple of clear outperformers in the form of ZTSECB 4.250% 24Aug2020 and AGRBK 2.500% 19Sep2020
- The sole Korean Financials IG issuance in 3Q2017, CITNAT 2.875% 25Mar2023, was flat to its issue spread of 115bp by the end of the quarter
- Bank of New Zealand's USD650m 2.650% 03Nov2022 deal widened by 3bp from issue at the end of the quarter although the bond's performance has improved significantly since with spreads seen tightening to 78bp area on October 19.

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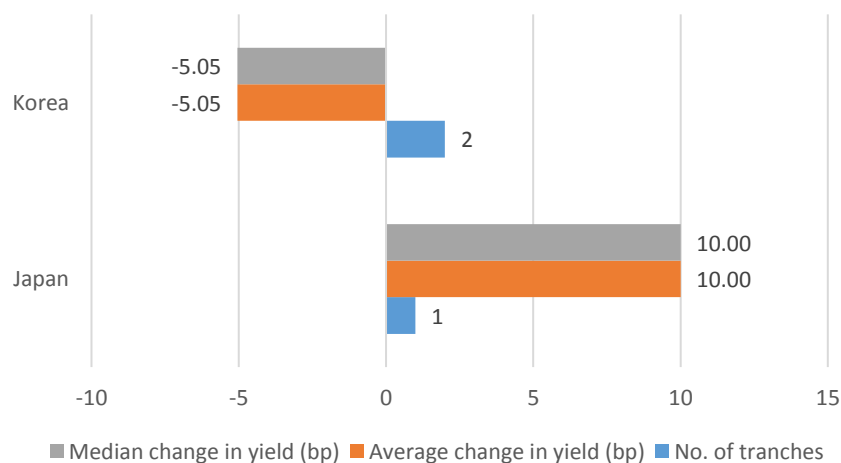
Financials IG Snr & above



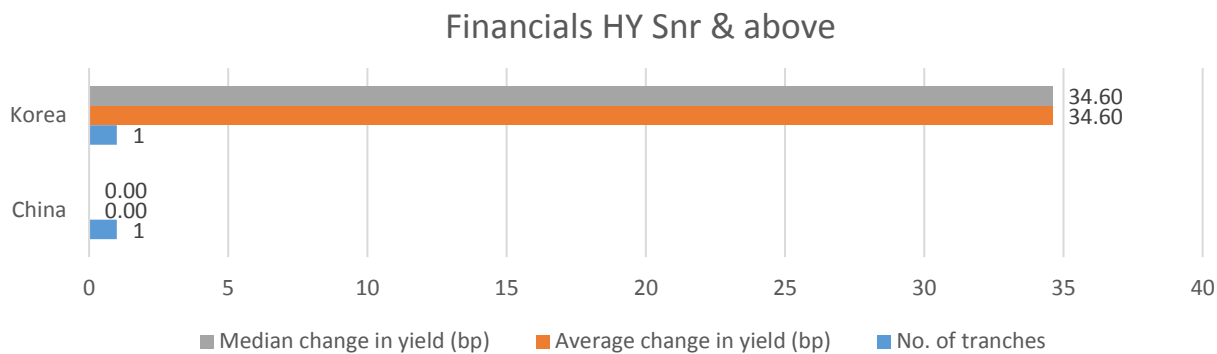
There were just a handful of new issuances within the **Financials IG Subordinated & below** and **HY Snr & above** spaces with most seeing rather underwhelming performance.

- The two new Korean issues in the Financials IG Subordinated & below space, SHNHAN 3.750% 20Sep2027 and KYOBOL 3.950% 24Jul2047, were the only outperformers, tightening by a median of 5.05bp although this was buoyed by the KYOBOL 3.950% 24Jul2047 which saw yields falling about 20bp
  - The KYOBOL 3.950% 24Jul2047 was also the only strong outperformer compared to all the new Korean USD bond issuances in 3Q2017

Financials IG Sub & above



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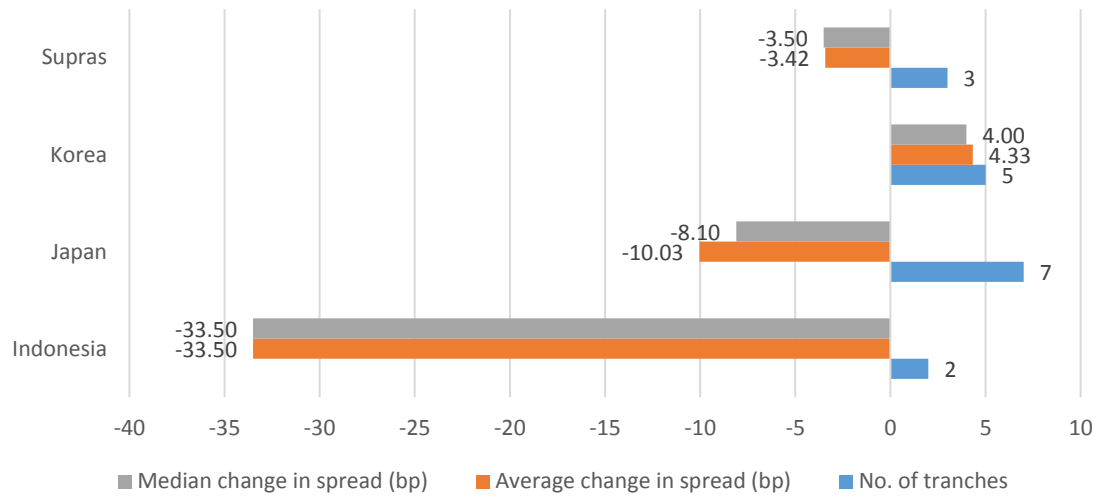
## SSA/SOE

New SSAs/SOEs USD issuances saw strong performance in general with the exception of the Korean issues. China and Indonesia issuances within this space saw particularly strong performance.

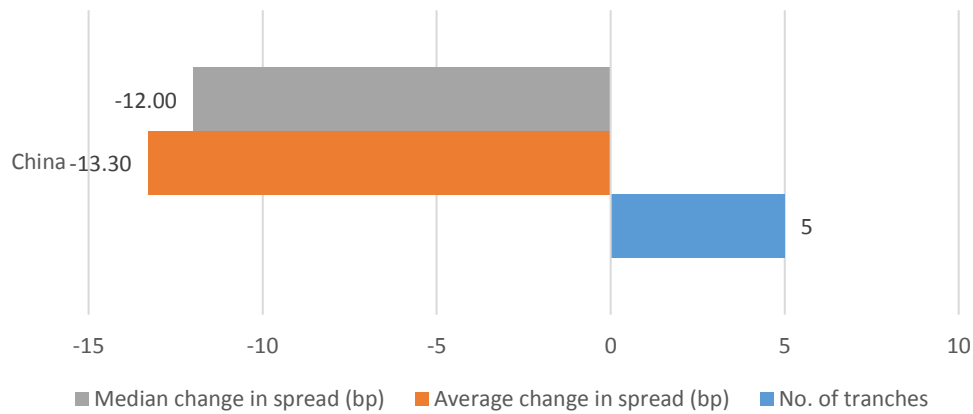
- The new 2027s and 2047s sold by the Indonesian sovereign in July were the strongest performers within the SSA IG Senior & above space
  - the 3.850% 18Jul2027 and 4.750% 18Jul2047 saw spreads tightening a median of 33.5bp (yields tightened a median of 38.5bp)
- Japanese SSAs, issued by JFM, DBJJP and JBIC, also saw good performance by the end of the third quarter with yields tightening a median of 8.1bp
  - The fixed tranches of JBIC's four-part issuance were the top three performing bonds amongst the Japanese SSA new issues; the 2.125% 21Jul2020, 2.375% 21Jul2022 and 2.875% 21Jul2027 saw spreads tightening between 10.6-18.1bp while its 3-year floater saw its discount margin tightening by 4bp
- Chinese SOEs, both IG and HY, saw rather strong performance with the IG issuances tightening a median of about 12.0bp while the HY issuances saw yields falling a median of 60.2bp
  - TLINVT 3.500% 17Jul2020 and BEIJII 2.750% 26Sep2020 were the strongest performers amongst the SOE IG space, seeing spreads tightening between 21-27bp
  - QHINVG 6.300% 26Sep2018 was the strongest performer with yields falling over 116.5bp since issuance although the SHAEGZ 4.550% 26Jul2020 and QHINVG 6.400% 10Jul2021 also contributed to the strong performance of the SOE HY space
- New issuances from the Korean SSAs also displayed the lacklustre performance of most of its counterparts in the Corporates and Financials spaces, seeing spreads widening a median of 4.0bp
  - KOHNPW 3.125% 25Jul2027 was the poorest performer with spreads widening 11.0bp since issuance

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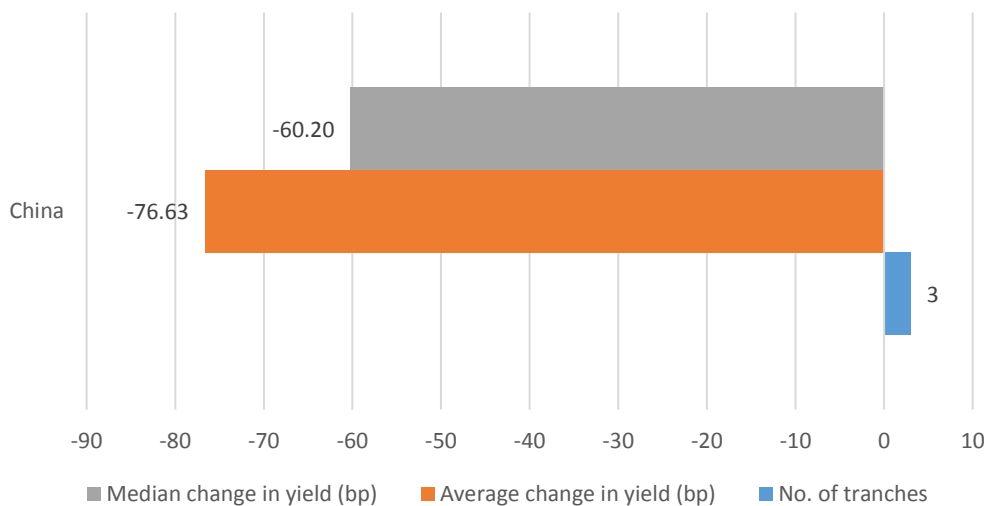
## SSAs IG Snr & above



## SOE IG Snr & above



## SOE HY Snr & above



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## Analysis

The bigger picture for APAC credits is largely positive and should bode well heading into the last quarter for the year with issuance then expected to dip from 3Q2017. October's issuance (also 4Q2017's so far) has seen about USD15.726bn of new supply from APAC names sold as of October 19. There has been a fairly decent build-up in the pipeline since the week-long Chinese National Day and Mid-Autumn holidays in the first week of October, the holidays no doubt weighing on October's new issue volume thus far.

### **New issuances generally outperformed across the board except from the South Korean names.**

Corporates IG issuances arguably saw an improvement in their positive performance from 2Q2017 into 3Q2017 while the Corporate HY issuances in 3Q2017 reversed the general underperformance seen for the new HY issuance in 2Q2017.

- Compared to the new issues in 2Q2017, Corporate IG issuances from Australian, Chinese, Hong Kong, Indian and Japanese names have seen spreads tightening by a larger magnitude in 3Q2017
- Except for the handful of new issues from Korean and Indian HY issuances, all other new HY issues in 2Q2017 saw yields rising from issue by the end of the quarter

Financials maintained their positive performance in terms of new issue performance for 3Q2017 although it is worth noting that the performance of Chinese Financials IG Senior & above is flattish, similar to 2Q2017.

- The 13 Chinese tranches priced in 3Q2017 has a median of 0bp while the 26 tranches sold in 2Q2017 was also flattish with a median of 0.5bp
  - The difference here is that the issuances in 2Q2017 had some strong outperformers with the average change in spread at -8.94bp compared to 3Q2017's -0.22bp, bearing in mind the median change in spreads for both were practically zero

SSAs/SOEs saw Japanese SSAs, Chinese SOEs and Supranationals improving from their 2Q2017 performance.

- Japanese SSAs issued in 3Q2017 performed slightly better than those sold in 2Q2017, tightening by 8.1bp compared to 6.70bp in the previous quarter
- Chinese SOE IG issuances in 3Q2017 saw a stronger improvement compared to tranches sold in the previous quarter, tightening 12.0bp compared to just 2.5bp previously
- Issuances from Supranationals also improved slightly in 3Q2017, tightening by 3.5bp compared to the fairly flattish 0.12bp in 2Q2017

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## Analysis: Geopolitical tensions adversely affect South Korean new USD issuances

Issuances from South Korean names were the clear underperformers across the board except for the USD500m KYOBOL 3.950% 24Jul2047 subordinated issuance which saw yields falling about 20.7bp by the end of the third quarter. No surprises here as the deal was very well-subscribed, 10.8x covered at issue. Otherwise, it was clear that the geopolitical tensions surrounding North Korea, coupled with a still tepid economic growth situation, did not help with the sentiment surrounding the Korean credits.

However South Korea's domestic economic situation received a slightly upbeat bit of news recently as the Bank of Korea upgraded its 2017 growth estimate to 3.0% from 2.8% at its recent policy meeting. 2018 GDP growth and CPI estimates remains unchanged at 2.9% and 1.8% respectively. BoK had left its benchmark rates unchanged at 1.25% but it joins the Monetary Authority of Singapore and Bangko Sentral ng Pilipinas in indicating that the next monetary policy move could likely involve tightening with a large proportion of analysts seeing a move by the end of 1Q2018.

Its 5-year sovereign senior CDS spreads still paint a rather dour picture however, having widened significantly in 3Q2017. Spreads reached a high of 75.493bp close to the end of the quarter (the widest spreads seen since mid-February 2016) after hardly pushing wider than 60.0bp in the earlier part of the year. The 5-year Senior CDS spreads have recently settled in the 70.0bp area for much of October. While the sabre-rattling largely between the US and North Korea has simmered somewhat recently, it unlikely that we have heard the last of it. Any further deterioration in this matter would likely cause spreads to widen further and could weigh on demand for bond issuances from South Korea.

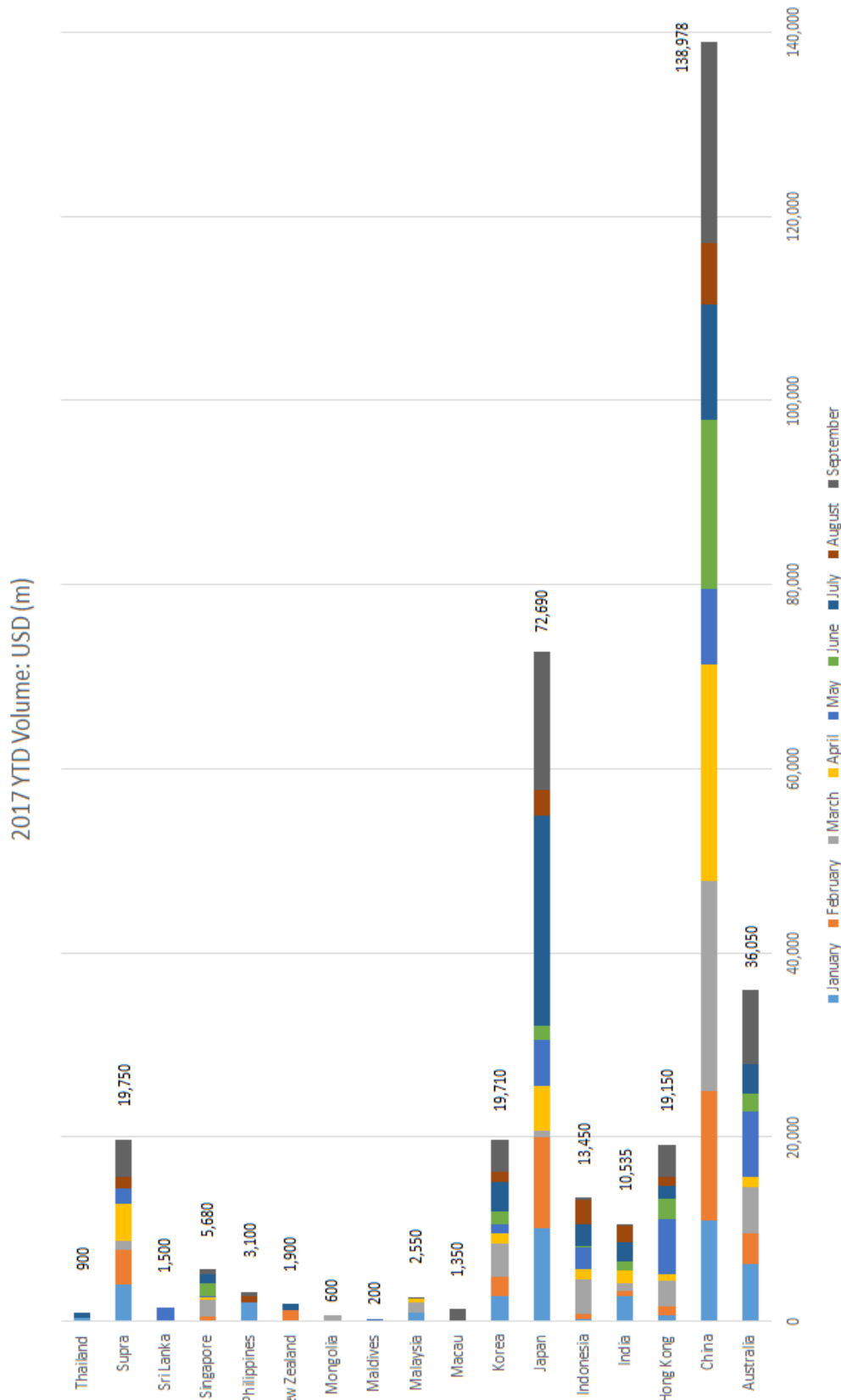




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## 2017 YTD Volume by Issuer Country (USD m)

The following chart shows the breakdown according to issuer countries for APAC USD new issue volume for 2017 YTD as of the end of the 3Q2017.



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**Authors:**

Haikal Razak

[haikal.razak@informagm.com](mailto:haikal.razak@informagm.com)

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