CREDITSIGHTS APAC OUTLOOK CONFERENCE

Rates, (Election) Results and Resilience

October 1st, 2024

APAC OUTLOOK CONFERENCE
SINGAPORE

APAC Financials: Navigating a Changing Cycle

Pramod Shenoi: *Head of APAC Research*, CreditSights

Karen Wu, CFA: *Financials Analyst*, CreditSights

Lim Ze Hao, CFA: *Financials Analyst*, CreditSights

Trung Tran: *Insurance Analyst*, CreditSights

11:25 a.m. – 11:55 a.m.

CreditSights
a FitchSolutions Company

APAC Financials: Overview, JP, AU

Pramod Shenoi

BMI: APAC Economic Growth Looks Fairly Comfortable

BMI APAC Forecasts for 2024, 2025

	FY23	FY24F	FY25F
India	8.20%	7.00%	6.60%
Philippines	5.60%	6.00%	6.30%
Indonesia	5.10%	5.00%	5.30%
Malaysia	3.70%	4.70%	4.60%
China	5.20%	4.70%	4.40%
Thailand	1.90%	2.60%	3.10%
New Zealand	0.70%	1.00%	2.50%
Singapore	1.10%	2.60%	2.40%
Hong Kong	3.20%	2.50%	2.30%
Australia	2.10%	1.50%	2.30%
South Korea	1.40%	2.50%	2.20%
Japan	1.90%	0.70%	1.00%

- Good growth in much of EM – India, the Philippines, Indonesia, Malaysia
- Decent momentum in DM countries – mostly mid 2.5% growth
- Rate cuts expected in 2H24, the Philippines and Indonesia have already started

Asian Banks: 2025 Considerations

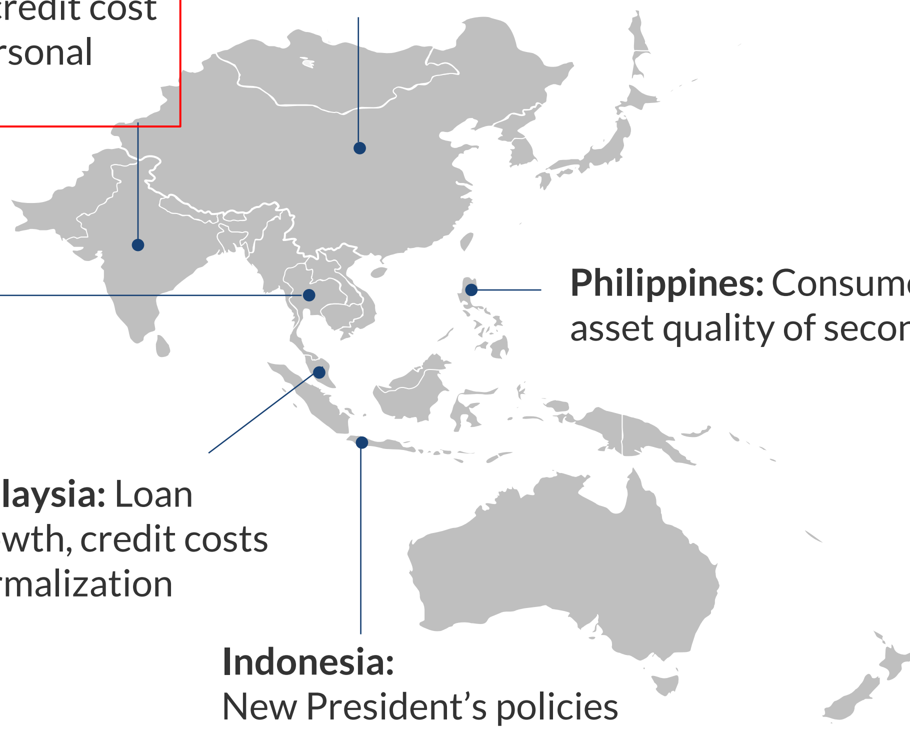
Net Income growth on the back of marginally higher net interest income and higher non-interest income

Area	Direction	Considerations
NIM	↓	▪ Yields to head lower as loans are repriced
Loan Growth	↑	▪ Lower interest rates stimulates better growth
Fee Income	↑	▪ Continued growth in wealth/cards/bancassurance
Trading Income	↑	▪ Large gains on falling rates and increased client activity
Expenses	↑	▪ Emphasis on expense control but the trajectory is up
Provisions	↔	▪ Higher: Hong Kong, India, the Philippines, Australia ▪ Flat: Thailand, Indonesia, Malaysia, Japan ▪ Lower: South Korea, China, Singapore
Liquidity	↔	▪ Comfortable, likely to see NSFR/LCR reductions for NIM protection
Capital	↔	▪ Stable CET1 ratios

EM APAC: What To Watch Out For

India: General growth, market liquidity, credit cost normalization, personal unsecured loans

China: NIM, asset quality, capital challenges



Thailand: Sluggish growth, new govt policies, broad sentiment

Philippines: Consumer resilience, asset quality of second tier banks

Malaysia: Loan growth, credit costs normalization

Indonesia: New President's policies

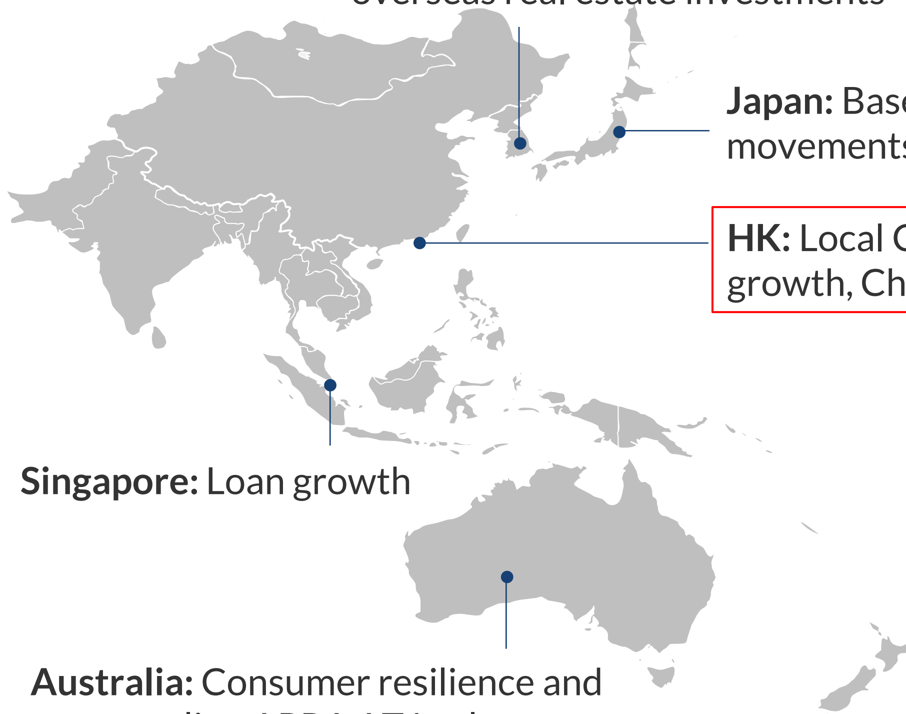
CreditSights
a FitchSolutions Company

DM APAC: What To Watch Out For

South Korea: Domestic real estate project financing, overseas real estate investments

Japan: Base rate and FX movements

HK: Local CRE market, loan growth, China book



Singapore: Loan growth

Australia: Consumer resilience and asset quality, APRA AT1 rules

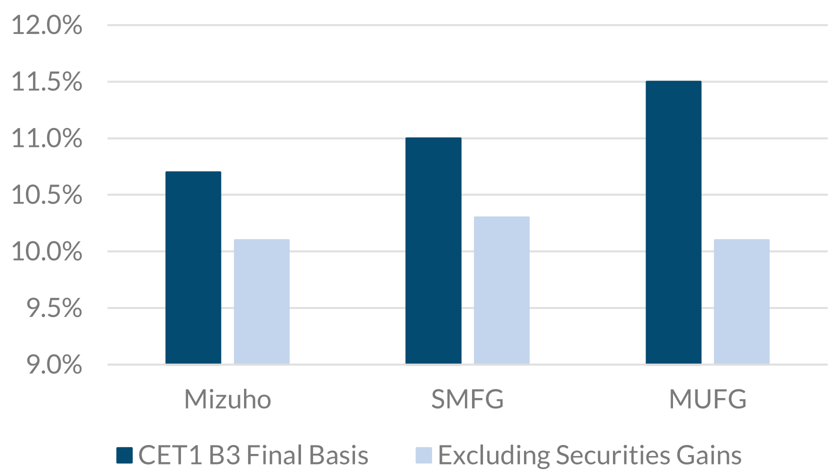
Japanese Banks: Going With the Flow

- Improved interest income on higher JPY rates
- Net income headwinds on tighter FX
- Modest loan growth
- Continued diversification of product, geography
- Steady credit costs
- Continued realisation of unrealized gains

Japanese Megabanks: Rates Impact On Interest Income

MUFG May-24	Y1: JPY 85 bn Y2: JPY 120 bn Y3: JPY 150 bn
SMFG Aug-24	Y1: JPY 70 bn Y2: JPY 100 bn JPY 40 bn for each 0.1% base rate increase
Mizuho May-24	Y1: JPY 45 bn

Japanese Megabanks: Benefit From Unrealised Gains



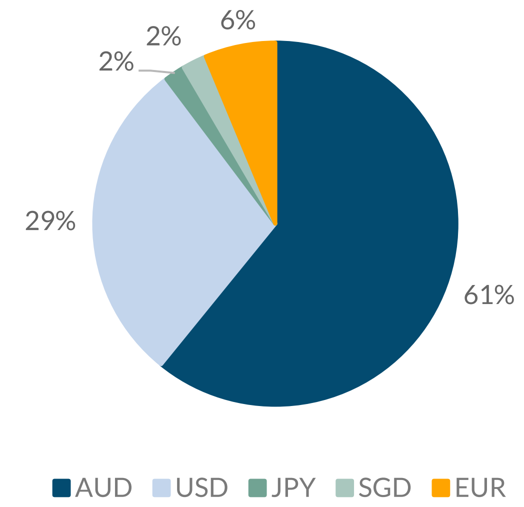
	Recommendation	Remarks
MUFG, SMFG, Mizuho, Nomura, SuMi Trust	Market perform	Improved performance, better fee income, spreads trading appropriately

Average CET1 Ratio (Headline): 13.1% (1Q24)
Average LLR/Gross Loans: 0.96% (FY23)

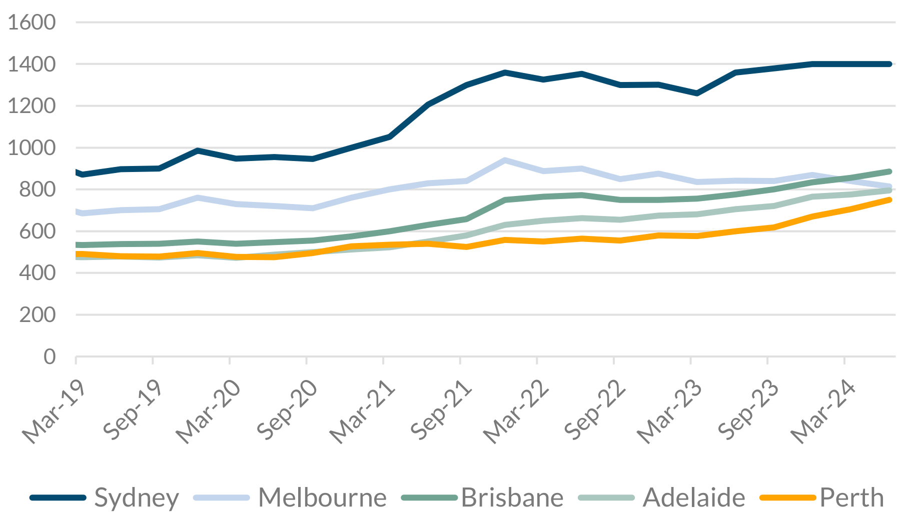
Australian Banks: Managing With High Rates

- Marginal fall in NIMs
- Normalised mortgage competition
- Credit costs to increase with higher for longer
- A$4-5 bn of Tier 2 issuance/bank for 4 years
- Significant collective provisions
- Particularly well capitalised

Australian Majors Tier 2 Issuance 2022-24 YTD



Australia: Domestic House Price Index



	Recommendation	Remarks
ANZ, CBA, NAB, Macquarie, Westpac	Market perform	Prefer callable Tier 2s and AT1s

Average CET1 Ratio: **12.5% (Jun-24)**

Average LLR/Gross Loans: **0.63% (1H24/FY24)**

CreditSights
a FitchSolutions Company

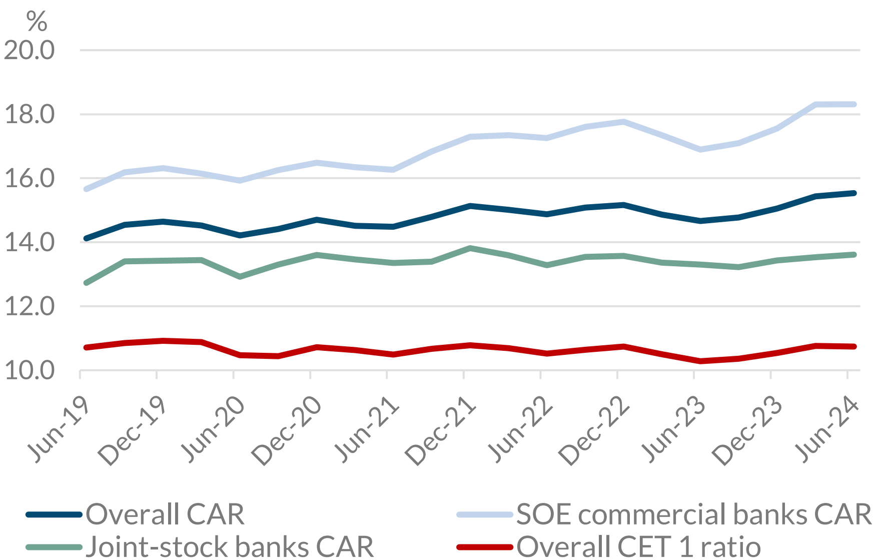
APAC Financials: East Asia

Karen Wu

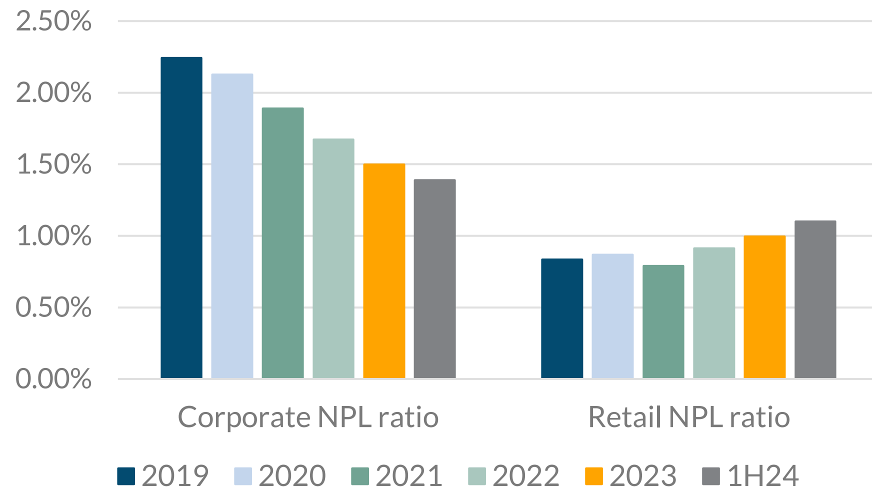
Chinese Banks: Retail Pressure

- NIMs continue to decline
- Credit demand will remain weak
- Lower provisions to cushion the bottomline
- More amenable to lend to the property sector
- Retail lending asset quality impact
- Big 5 Banks' CAR improve on TLAC issuance

Chinese Banks Capital Adequacy Ratios



Chinese Big 5 Banks Average NPL Ratios

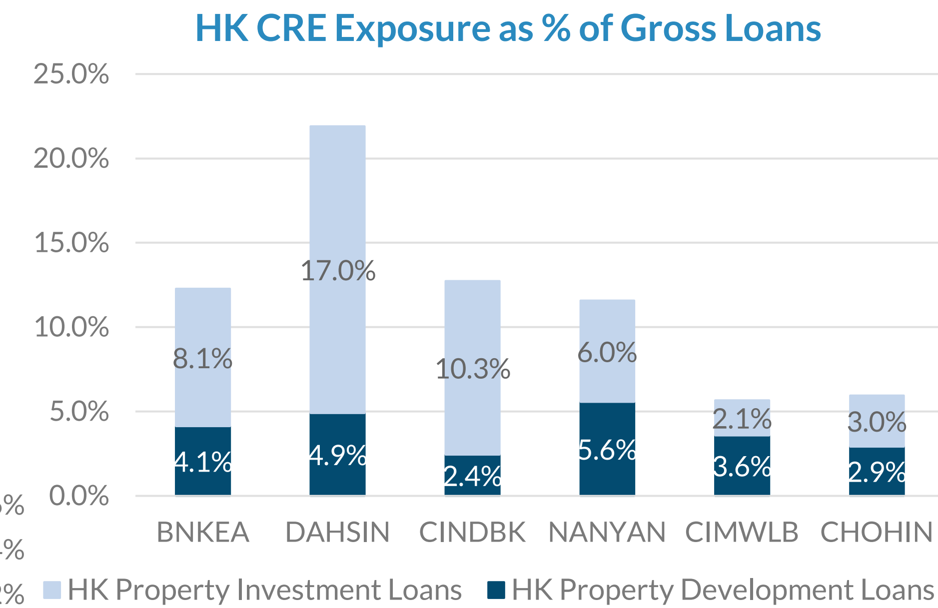


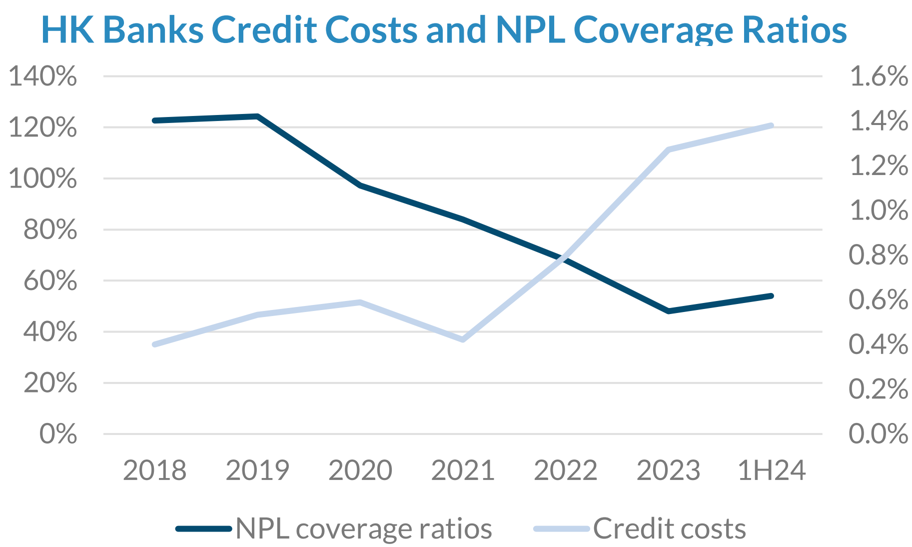
	Recommendation	Remarks
Big 5	Market perform	Capital injection, fair FRN levels
5 JSBs	Underperform	Soft operating performance, challenging macro- outlook and tight trading levels

Average CET1 Ratio: **11.3% (1H24)**
Average LLR/Gross Loans: **2.90% (1H24)**

Hong Kong Banks: HK CRE Concerns

- Negative NIMs impact from Fed rate cuts in 1H25
- Higher credit costs on HK CRE risks
- Reserve cover insufficient
- Local SME lending largely guaranteed
- Sound capital and liquidity





	Recommendation	Remarks
BNKEA, DAHSIN, CINDBK	Underperform	HK CRE risks, we expect HK banks to trade wider than Thai banks

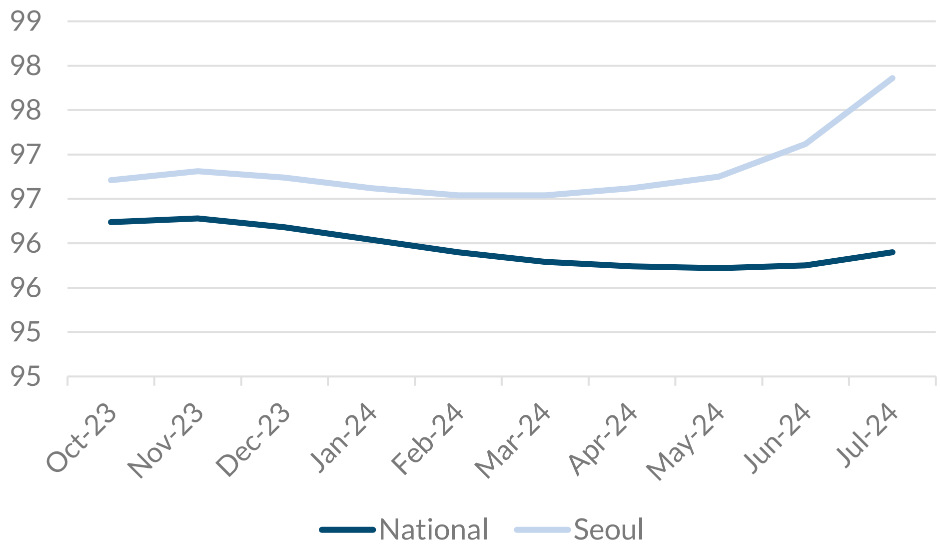
Average CET1 Ratio: **15.0% (1H24)**

Average LLR/Gross Loans: **1.18% (1H24)**

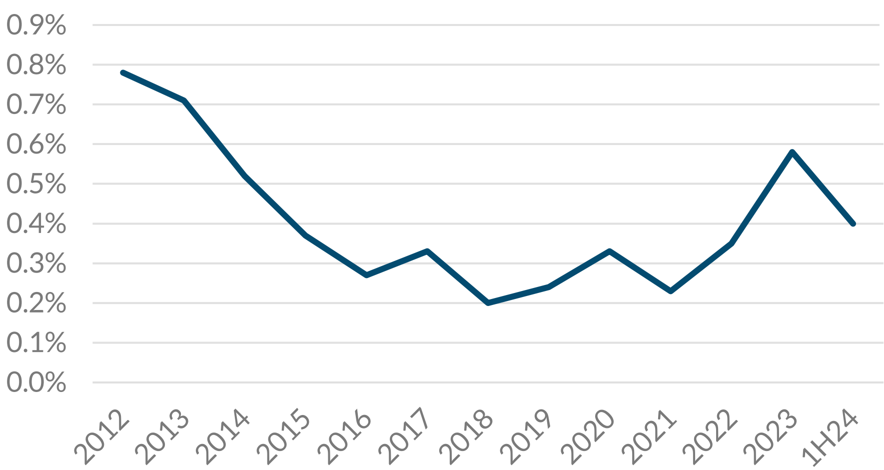
Korean Banks: Credit Costs to Normalize

- Stable bank AQ with PF NPLs rising at non-banks
- House price recovery underway in Seoul
- Credit costs, loan growth to improve on rate cuts
- Margins flat to slightly lower in FY24 but to decline more in FY25

Korea Housing Sales Price Index



Korean Big 4 Historical Credit Costs



	Recommendation	Remarks
Shinhan, KB, Hana, Woori, KDB, KEXIM, IBK	Market perform	Fair trading levels

Average CET1 Ratio: **15.0% (1H24)**
Average LLR/Gross Loans: **0.90% (1H24)**

East Asia NBFIs: 2025 Trends

Segment	Trends	Recommendations
Aviation Lessors	• Slowdown in the upward trend of lease rates and aircraft valuations • OEM delays will support rates/fundamentals • Lower funding costs	SMBCAC – OP BOCAVI – MP
Chinese AMCs	• Continued pressure • Asset prices challenging, policy role limited by elevated impaired ratios • Cinda solid and core holding; some Huarong, avoid Orient, Great Wall	CCAMCL – OP HRINTH – MP ORIEAS - UP
Korean Credit Card Cos	• Increasing transaction volume and lower funding costs • Credit costs are elevated but will normalize • Capital levels will remain strong, liquidity not an issue	SHINCA – OP KBFING – MP WORICA - MP

CreditSights
a FitchSolutions Company

APAC Financials: South and Southeast Asia

Lim Ze Hao

Thai Banks: Persistent High Credit Costs

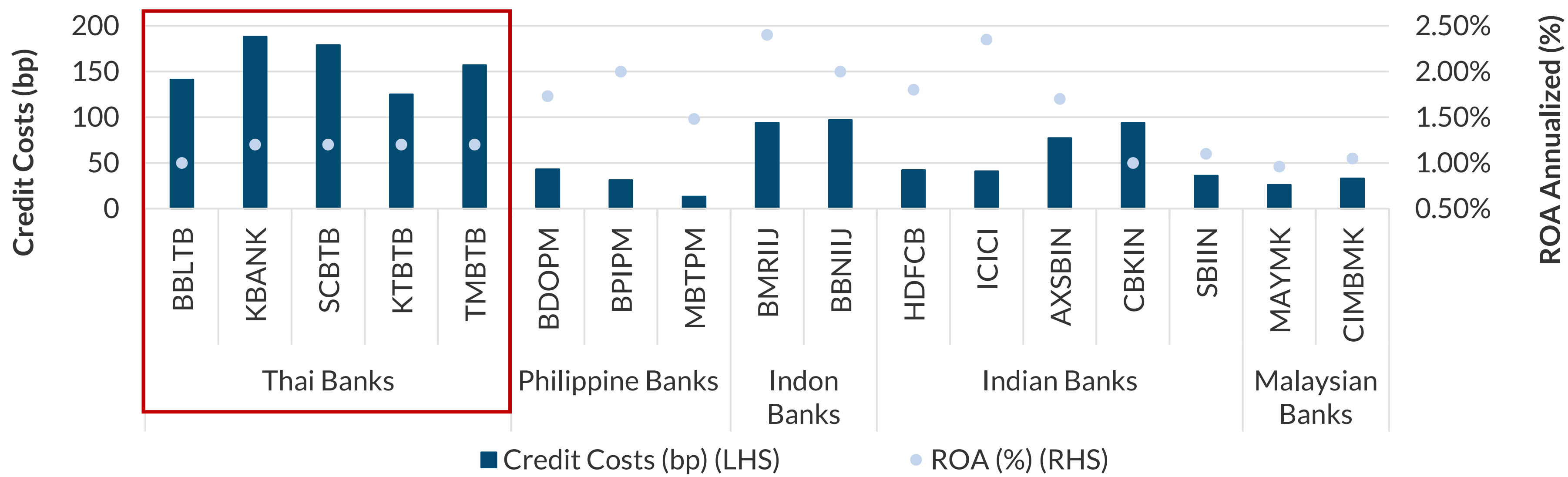
- Sluggish growth, high household debt
- Challenges in retail (esp. autos), SME
- Potential political stability
- Easing but elevated credit costs
- Strong capital and liquidity

	Recommendation	Remarks
BBLTB, KBANK, SCBTB, KTBTB, TMBTB	Market perform	Tight end of an acceptable range; slightly better value in Tier 2s

Average CET1 Ratio: 16.5% (1H24)

Average LLR/Gross Loans: 6.6% (1H24)

Thai vs. SSEA Banks: Higher Credit Costs, Generally Lower ROA



Source: Company data, CreditSights. Note: Indian banks (1QFY25), others (1H24).

Indian Banks: Moderating Momentum

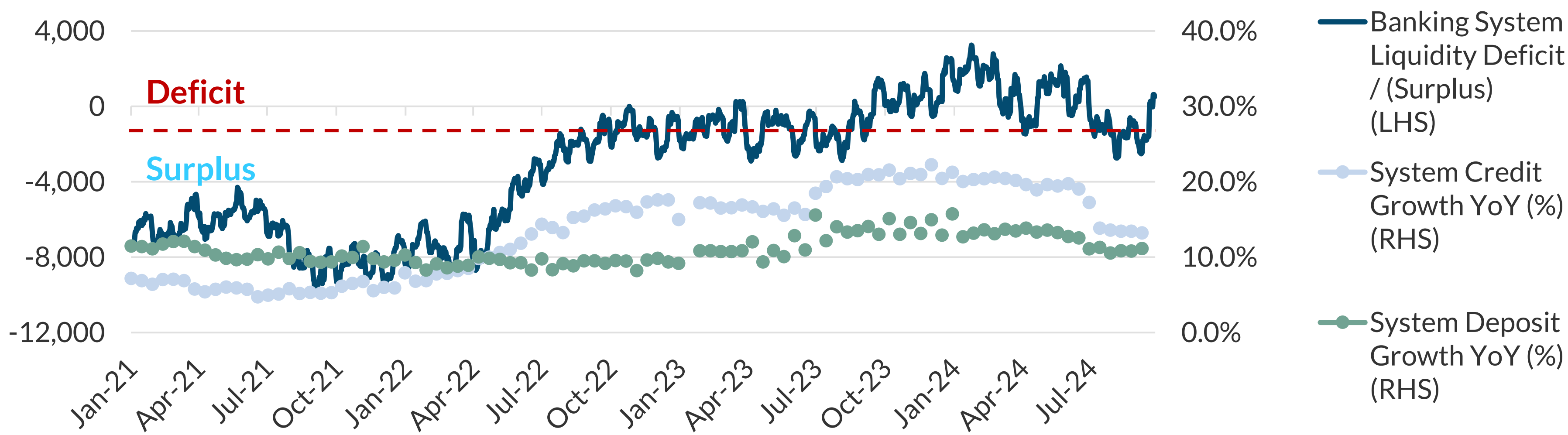
- Tight system liquidity, moderating loan growth
- Focus on SME and higher margin loans
- Slower 1HFY25 GDP growth, pickup hoped for in 2H
- Higher credit costs from normalizing recoveries
- Most have adequate capital for ECL impact

	Recommendation	Remarks
HDFCB, ICICI, AXSBIN, SBIIN, CBKIN, EXIMBK	Market perform	Well-improved fundamentals, steady macro outlook

Average CET1 Ratio: 13.7% (1QFY25)

Average LLR/Gross Loans: 2.7% (1QFY25)

Banking System Liquidity Eased Slightly But Remains Tight



Sources: Bloomberg, Reserve Bank of India.

Indian NBFCs: Selection Is Key

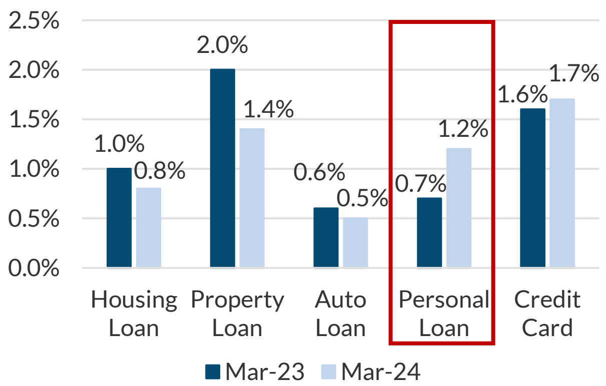
- Brisk loan growth, lower underwriting standards
- Slipping asset quality in lower income retail and small ticket loans – NBFCs more exposed
- More resilient NIMs than banks as rates turn
- More $ supply as banks reduce lending to NBFCs

	Recommendation	Remarks
SHFLIN, MUTHIN	Outperform	Large secured loans, strong profitability and capital make for good quality short-term carry
POWFIN, RECLIN	Market perform	Appropriate SBI spread differential (25-30 bp)

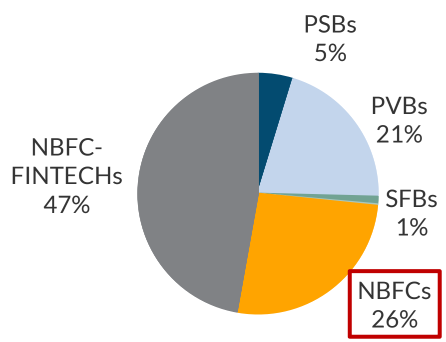
Average Tier 1 Ratio: 23.5% (1QFY25)

NBFCs Have A Larger Share of Riskier Small Ticket Personal Loans

Delinquency by Product Type

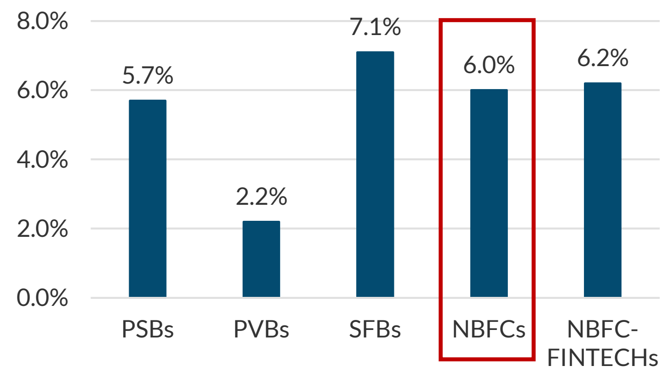


Personal Loans <INR 50k: Market Share Across Institution Types



(As of Mar-24)

Personal Loans <INR 50k: Delinquency Across Institution Types



Sources: Reserve Bank of India (RBI) Financial Stability Report (June 2024).

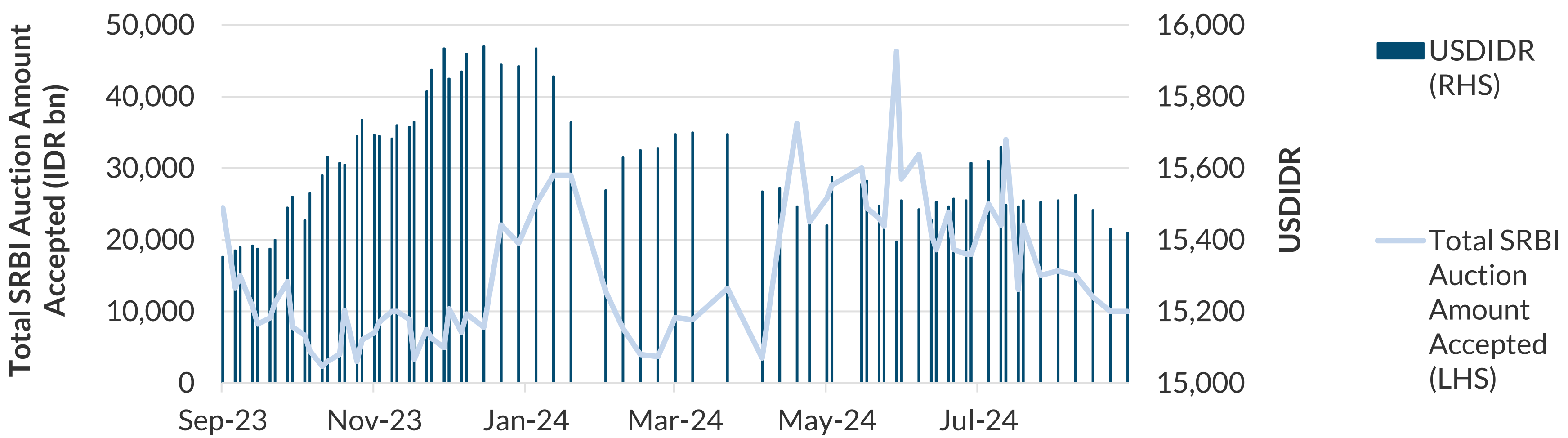
Indonesian Banks: Improving Margins

- Wholesale focused = better asset quality
- NIM impact:
  - Negative: Tight liquidity, BI interventions
  - Positive: Turn in US rate cycle
- Robust capital, higher dividend payout risk

	Recommendation	Remarks
BMRIIJ, BBNIIJ	Market perform	Wide for fundamentals, but macro sentiment caps outperformance

Average CET1 Ratio: 19.0% (1H24)
Average LLR/Gross Loans: 4.6% (1H24)

Expect Continued Lower Interventions From Bank Indonesia (BI) As IDR Pressure Eases



Sources: Bloomberg.

CreditSights
a FitchSolutions Company

APAC Insurance

Trung Tran

APAC Insurers: Key Themes

Themes	Considerations
Growth	• **Shift to Non-Savings Policies:** Growing protection policies to adapt to the new ICS and accounting regimes. • **Overseas Expansions:** Particularly in the US by the Japanese life insurers.
Interest rates	• **Japan Rate Hikes:** Benefits growth and investments, with a rise in JGB allocations. • **Rate Declines in Other Markets:** Credit-negative for Taiwan, Korea, HK.
Adoption of ICS	• **Japan:** Smooth transition to Economic Solvency Ratio in FY25 with higher rates. • **Korea:** Controlled reductions in K-ICS ratio due to adjustments in discount rates. • **Taiwan:** More details on transitional plans and modifications to TW-ICS and IFRS 17 become available, providing greater clarity and direction for the industry.
Debt Issuance	• **New Market Entrants:** Taiwanese large and mid-tier life insurers. • **Active Markets in Japan and Hong Kong:** Nippon Life and AIA. • **South Korea:** Inward-looking approach with domestic issuance.
Focus Areas	• **Valuation of Japanese Life Insurers:** Wide spreads, yet excellent credits. • **Credit Fundamentals of FWD:** Kicking the tyres. • **The Hidden Gem of APAC Insurance:** QBE, a standout performer.

APAC Insurers: Top Risks

Risks	Considerations
Interest Rates Risks	• **Japan:** Rate hikes can affect lapse rates and raise market volatility. • **Other markets:** Declining interest rates can reduce solvency, growth, and investment yields.
Regulation Risks	• **Japan:** Additional modifications to lapse rates, discount rates, and risk models for subsidiaries can reduce the ESRs. • **Korea:** Further strengthening of discount rates will lower the K-ICS. • **Hong Kong:** For multinational insurers, stricter regulations on distribution channels or product offerings in China and other emerging markets (e.g., Vietnam, Indonesia) can hamper growth.
FX Risks	• **Taiwan:** High FX risk due to large overseas investment; the effects of tail risk remain unclear. • **Japan**: Larger-than-expected strengthening of the yen as BOJ raises rates while the FED cuts.
Reserving Risks	• **Emerging Markets:** Insurers with large exposures to emerging markets are subject to high reserving risks, affected by less stable assumptions on growth, persistency ratios, and claims experiences.

APAC Insurers: Recommendations

	Recommendations	Remarks
FUKOKU, NIPLIF, MYLIFE, DAIL	Outperform	Excellent credit standing, supported by high solvency ratios. Typically, the issues are long-duration and come with attractive spreads.
QBEAU	Outperform	Well-known name in insurance space, with great diversification and solid balance sheet. Problems within its North America business have been largely mitigated.
ASAMLI	Market perform	Notably smaller than peers and continues to face with a negative investment spread. However, other key credit metrics remain solid.
SUMILF	Market perform	Low solvency ratios and high equity risk are main credit concerns.
AIA, PRUFIN	Market perform	AIA is unquestionably strong, but its spread remains the tightest in the region. Pru plc lags behind AIA in terms of strength in China, overall solvency, and recent results.
FWD	Market perform	Complex structure with relative short integrated operating history. Performance continues to be lackluster, and the wide G spread reflects investors' skepticism.

APAC Insurers: Recommendations

	Recommendations	Remarks
HLINSU, KYOBOL	Market perform	Solvency ratios are under some pressure due to adjustments in discount rates. Their spreads are fair in relative to the Korean banks, although Kyobo Life maybe somewhat tight.
ZHONAN	Market perform	A high-beta name with a thin underwriting margin. Its solvency has declined, and the refinancing plan has been delayed.
PINGIN	Market perform	Illiquid assets, but it benefits from strong parental support from Ping An.
MUANTH	Market perform	It maintains a high RBC ratio, though ROE has declined. The spread is reasonably tighter than that of KBank, attributable to better asset quality.
CTIH **CHILOV**	Market perform Underperform	Ultimately state-owned insurers. Their spreads are tight as investors chase government-linked names.
CATLIF	Underperform	Apart from FX risk, the name is of good credit quality. However, its spread appears too tight when compared to stronger credits in Japan and Hong Kong.

CreditSights