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CONTACTS

Cathy Lu +65.6398.8313
Associate Analyst
cathy.lu@moodys.com

Nidhi Dhruv, CFA +65.6398.8315
VP-Senior Analyst
nidhi.dhruv@moodys.com

Ian Lewis +65.6311.2676
Associate Managing Director
ian.lewis@moodys.com

Vikas Halan +65.6398.8337
Associate Managing Director
vikas.halan@moodys.com

Terry Fanous +65.6398.8307
MD-Public Proj & Infstr Fin
terry.fanous@moodys.com

Gene Fang +65.6398.8311
Associate Managing Director
gene.fang@moodys.com

Graeme Knowd +65.6311.2629
MD-Banking
graeme.knowd@moodys.com

Jerome Cheng +852.3758.1309
Associate Managing Director
jerome.cheng@moodys.com

Hector Lim +61.2.9270.8141
SVP-Communications
hector.lim@moodys.com

FEATURE ARTICLES

Sovereigns – Asia Pacific: Pandemic shock will spur income inequality, with credit risks for fiscally weak sovereigns

Originally published on 24 November 2020

The impact of the coronavirus pandemic will exacerbate income inequality across Asia Pacific (APAC). Governments with constrained fiscal capacity have limited scope to address the resulting social and political strains, which could amplify credit risks.

Coronavirus will exacerbate income inequality, mitigated by fiscal measures Growth in APAC has outpaced other regions globally for decades, but this has not been accompanied by equity gains. Nearly half of rated APAC sovereigns logged a rise in the Gini coefficient since 2000, indicating growing inequality. The largest increases were in the three most populous economies — China (A1 stable), India (Baa3 negative) and Indonesia (Baa2 stable). The pandemic will make inequality starker, with governments increasingly resorting to fiscal policy to limit widening income gaps and protect human capital.[1]

Spending, particularly on social protection, will attenuate income disparity Expenditure measures can support vulnerable groups, but nearly all APAC emerging markets have weaknesses in their social protection systems: social spending is lowest in India, the Philippines (Baa2 stable) and Indonesia, although efforts to strengthen redistribution systems are in train. Strong delivery mechanisms and financial inclusion have enabled Malaysia (A3 stable) and Thailand (Baa1 stable) to swiftly deploy transfers during the pandemic, but other factors hinder inequality reduction. Frontier markets except for Vietnam (Ba3 negative), Maldives (B3 negative) and Mongolia (B3 negative) have weak redistribution systems.

Tax policies determine social protection spending capacity Progressive personal income taxes can effectively address income inequality, but only when tax leakage or evasion is minimal. For APAC, the role of taxation in reducing inequality has been limited, except in some advanced economies, since most governments have a low share of personal taxes and they are not aligned with taxpayers' capability to pay. In most APAC emerging markets, low tax revenue or other weaknesses in tax structures exacerbate inequality.

Sovereigns that struggle to address inequality face greater social, political risk Governments with weak social protection systems and low fiscal capacity to raise spending will face particular challenges in tackling income inequality. India, Indonesia and, to some extent, Malaysia and the Philippines stand out in this regard. Frontier markets, particularly Papua New Guinea (PNG, B2 stable) and Sri Lanka (Caa1 stable) face similar pressures. Conversely, China, Hong Kong (Aa3 stable) and Singapore (Aaa stable) report high inequality, but fiscal space provides leeway in quelling immediate pressures. Generally speaking, public discontent with progress in addressing social issues could erode government legitimacy, with negative implications for credit quality.

Endnotes

1 People's skills, knowledge and experience, which allows them to create economic value.

Anushka Shah, *VP-Senior Analyst*
Moody's Investors Service
anushka.shah@moodys.com
+65.6398.3710

Marcus Yiu, *Associate Analyst*
Moody's Investors Service
marcus.yiu@moodys.com
+65.6398.8334

Gene Fang, *Associate Managing Director*
Moody's Investors Service
gene.fang@moodys.com
+65.6398.8311

Marie Diron, *MD-Sovereign/Sub Sovereign*
Moody's Investors Service
marie.diron@moodys.com
+44.20.7772.1968

Sovereigns – Asia Pacific: Regional trade agreement to deepen intra-Asia trade linkages, support export-focused economies, a credit positive

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On 15 November, members of the Association of Southeast Asian Nations (ASEAN)[1] with Australia (Aaa stable), China (A1 stable), Japan (A1 stable), Korea (Aa2 stable) and New Zealand (Aaa stable) signed the Regional Comprehensive Economic Partnership (RCEP) trade agreement. While the pact will be credit positive for all signatories, we expect that the most externally oriented economies in the group – Korea, Japan, China, Malaysia (A3 stable), Thailand (Baa1 stable) and Vietnam (Ba3 negative) – will experience the largest trade-related output gains over the coming decade as a result of the agreement.

With RCEP signatories' total economic output amounting to approximately $26.2 trillion in GDP (30% of global economic output), and cross-border trade worth $10.4 trillion (28% of global trade), RCEP will become the world's largest free trade agreement (FTA).

The pact is a positive development for intra-Asia trade and regional cooperation, coming amid coronavirus-related restrictions and severe economic downturn, and at a time when the gradual erosion of multilateral trading norms is curbing global trade and countries are adopting more protectionist measures and focusing on bilateral trade relationships.

RCEP to provide economic boost amid coronavirus shock, rising protectionism

A joint statement from RCEP signatories highlights the potential for the agreement to support the regional economic recovery following the coronavirus pandemic; job losses and supply chain disruptions have been particularly acute among RCEP's developing economy members.

In addition to further liberalization of tariffs and quotas, expanding on existing bilateral FTAs among members, the agreement targets reductions in non-tariff barriers by covering trade in services, investment, e-commerce, intellectual property and labor mobility.

Establishment of a common rules-of-origins framework also widens market access for exporters in member countries, and will accelerate an ongoing push to strengthen regional supply chain resilience.

RCEP will facilitate greater volumes of outbound foreign direct investment (FDI) and existing supply-chain reorientation throughout ASEAN, with greater market access and increased production opportunities. This benefit will particularly accrue to China as it scales up its supply chain diversification throughout ASEAN.

For the most externally oriented economies, a refocusing on regional production and consumption will promote greater export growth, amid rising costs for cross-border trade and shortening supply chains to minimize disruptions from external shocks.

For Japan and Korea, which don't have a bilateral FTA, we expect the most substantial economic benefits to relate to their status as technologically innovative manufacturing exporters, and savings from tariff reductions on Korean exports to Japan. The agreement also will offer the two countries increased opportunities in China's large domestic market, given their higher value added supply chains.

We expect Malaysia, Thailand and Vietnam to be major beneficiaries of production relocations after the pandemic, as businesses seek to diversify their supply chains. Smaller RCEP nations, including Cambodia (B2 stable), for which a high share of exports is destined to other RCEP members, will benefit from deeper market access with greater trade liberalization.

Comprehensive and flexible agreement paves path for further regional trade liberalization

According to the joint leaders' statement at the conclusion of the RCEP summit, the agreement will eliminate tariffs and quotas on 65% of traded goods, in addition to establishing transparent regulation and common rules of origin.

Over the next two decades, remaining tariffs and restrictions covering over 90% of trade within the bloc are due to be further liberalized. The main exception is agricultural products, which are often more economically sensitive at the national level and have been a sticking point in bilateral trading relationships. In contrast with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), RCEP neither addresses common standards for products, nor includes specific provisions on environmental or labor standards.

RCEP's comprehensive nature complements existing FTAs among member nations that have reduced trade barriers in goods and services. Across its 20 chapters, commitments also cover investment flows, intellectual property, e-commerce, competition, development of small and medium-sized enterprises (SMEs), economic and technical cooperation, government procurement and labor mobility.

The agreement gives RCEP member nations flexibility in the timeline for implementing commitments. In the case of reducing goods tariffs, varying implementation schedules over two decades allows a longer period of time to harmonize domestic regulations.

Trade in goods is enhanced by the common rules-of-origins framework, a key component of the agreement, which provides exported products identical, preferential market access into all 15 nations once eligibility is met. Eligibility is based upon an RCEP-regional value content threshold of 40%, or changes in tariff schedules at a granular level. Before RCEP's common rules-of-origins framework, separate and overlapping FTAs governed rules of origin.

RCEP is the second multilateral FTA involving APAC nations to be concluded in the last two years, following the signing of CPTPP in March 2018.[2] Seven of the 15 RCEP member nations – Australia, Brunei, Japan, Malaysia, New Zealand, Singapore (Aaa stable) and Vietnam – are also signatories to CPTPP.

RCEP also marks the first comprehensive trade agreement among China, Japan and Korea, which jointly constitute 25% of global economic output. It is the first trade agreement that Japan has signed with China or Korea, and the first plurilateral trade agreement to be signed by China.

Long-term economic benefits to accrue for RCEP's most externally oriented economies

As the coronavirus pandemic has resulted in a severe economic shock, triggering recessions in many of Asia's export-oriented economies, we expect the RCEP agreement to act as an important catalyst in reviving trade and investment flows, supporting incomes and employment across the region amid a gradual economic recovery.

The Peterson Institute of International Economics (PIIE) estimates that incremental income gains from RCEP will total $209 billion globally by 2030, building upon $121 billion in benefits from CPTPP over the same period.[3]

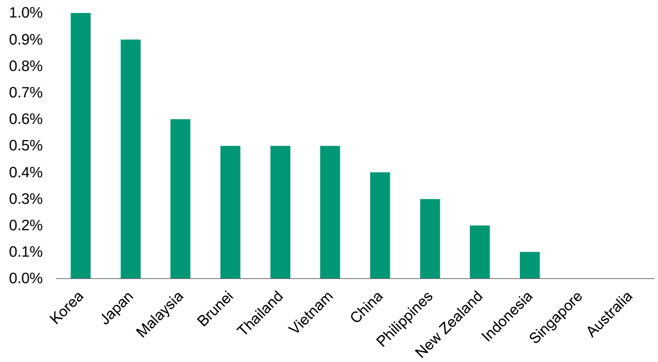
These estimated economic gains will provide an important offset to the $301 billion in losses that PIIE expects as a result of the US (Aaa stable)-China trade war, based on a continuation of the trade and investment barriers in the Phase I trade agreement reached in January 2020.

At the country level, projected real income gains by 2030 as a result of RCEP are largest for Korea, Japan, Malaysia, Thailand, Vietnam and China (see Exhibit 1). For the first four economies, these gains will complement the benefits of trade diversion as a result of the US-China trade war, building upon further benefits for Vietnam and Malaysia from CPTPP (see Exhibit 2). Direct RCEP-related gains are likely to be more modest than those from trade diversion and implementation of CPTPP.

Exhibit 1

RCEP will deliver economic benefits to Asia's most trade-oriented economies ...

(Incremental real income change by 2030, %)



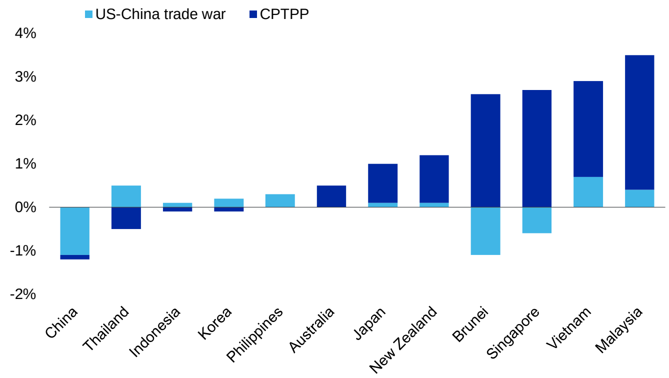
Note: Scenario assumes sustained trade frictions between the US and China; country-level estimates for Cambodia, Laos and Myanmar not available

Sources: Peterson Institute for International Economics estimate and Moody's Investors Service

Exhibit 2

... complementing CPTPP gains and partially offsetting trade war losses

(Incremental real income change by 2030, %)



Note: Scenario assumes sustained trade frictions between the US and China; country-level estimates for Cambodia, Laos and Myanmar not available

Sources: Peterson Institute for International Economics estimate and Moody's Investors Service

The magnitude of gains results from the variation in country-specific strengths: higher value added supply chains from Japan and Korea will benefit predominantly from greater access to the large Chinese domestic market, in addition to bilateral trade benefits. Malaysia, Thailand and Vietnam will gain as beneficiaries of supply chain shifts into ASEAN. More modest gains for New Zealand and Australia relate to their economies' orientations in natural resources and primary industries, respectively.

The RCEP agreement allows the accession of other countries 18 months after the entry into force of the agreement,[4] including a specific clause on the opportunity for India (Baa3 negative) to rejoin after opting out of the deal in November 2019. As such, the potential for greater economic and trade opportunities both within and outside of APAC will remain a key tenet of the agreement as implementation occurs over the coming years.

Endnotes

1 ASEAN members are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

2 See Sovereigns - Asia Pacific and Americas: Revised Trans-Pacific Partnership benefits all members, but less so without the US, March 2018.

3 See Peter A. Petri and Michael G. Plummer, "East Asia Decouples from the United Sates: trade War, COVID-19, and East Asia's New Trade Blocs," Peterson Institute for International Economics Working Paper 20-9, June 2020.

4 RCEP will enter into force once ratified domestically by either half of all RCEP nations, or by six ASEAN nations and half of the non-ASEAN nations.

Michael S. Higgins, *Analyst*
Moody's Investors Service
michael.higgins@moodys.com
+65.6311.2655

Marcus Yiu, *Associate Analyst*
Moody's Investors Service
marcus.yiu@moodys.com
+65.6398.8334

Lillian Li, *VP-Sr Credit Officer/CSR*
Moody's Investors Service
lillian.li@moodys.com
+86.21.2057.4028

Deborah Tan, *AVP-Analyst/CSR*
Moody's Investors Service
deborah.tan@moodys.com
+65.6398.8335

Banks - Asia-Pacific: Risks will grow as coronavirus bites but creditworthiness will mostly remain intact

Originally published on 06 October 2020

Summary

This report explores how solvency metrics of rated banks in Asia-Pacific (APAC)[1] will evolve by the end of 2022. Using our financial and macroeconomic models, we have simulated the impact of the current economic downturn on asset quality, capital and profitability for 218 rated banks in the region. Our results show that despite substantial risks, most banks' creditworthiness will remain intact.

» **Asset quality will deteriorate significantly as economic conditions remain weak.** Based on our financial and econometric models, we project that problem loans (NPLs) will double on average across the 14 APAC economies by 2022. Banks in India and Thailand will see the largest increases in NPLs due to the greater severity of economic shocks to their economies and the historically poor performance of certain loan types.

» **Banks' profitability will take a hit from increases in credit costs and contraction of margins.** While credit costs will increase as asset quality deteriorates, we estimate pre-provision income will decline 5%-10% in 2020 from 2019 due to falls in interest rates across APAC and a flattening of yield curves. As a result, banks' profitability, as measured by return on tangible assets (ROTAs), will deteriorate significantly across APAC in the coming years.

» **Capital ratios will decline modestly at most rated APAC banks by 2022, with little impact on the strength of their credit profiles.** We estimate that core capital, as measured by tangible common equity (TCE) as a percentage of risk-weighted assets (RWAs), will decline at 78% of the 218 banks in APAC by the end of 2022 from the end of 2019. However, declines in capital at most rated banks will not be significant enough to prompt us to change our views on their fundamental creditworthiness, which also take into account other factors of solvency and liquidity.

» **Government measures to support borrowers will provide limited capital relief for banks.** In some economies, government guarantees and other support schemes will curb buildups in NPLs. Among other measures, government guarantees for SME loans are a key part of efforts to protect jobs and ultimately public consumption. However, they will provide a limited boost to capital for banks in APAC.

Endnotes

1 This report covers rated banks in Australia, Bangladesh, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, The Philippines, Singapore, Sri Lanka, Thailand and Vietnam

Eugene Tarzimanov, *VP-Sr Credit Officer*
Moody's Investors Service
eugene.tarzimanov@moodys.com
+65.6398.8329

Tae Jong Ok, *AVP-Analyst*
Moody's Investors Service
taejong.ok@moodys.com
+852.3758.1659

Graeme Knowd, *MD-Banking*
Moody's Investors Service
graeme.knowd@moodys.com
+65.6311.2629

Jorge Rodriguez-Valez, *VP-Sr Credit Officer*
Moody's Investors Service
jorge.rodriguez-valez@moodys.com
+44.20.7772.8612

Government of Indonesia – Baa2 stable: Update following forecast changes

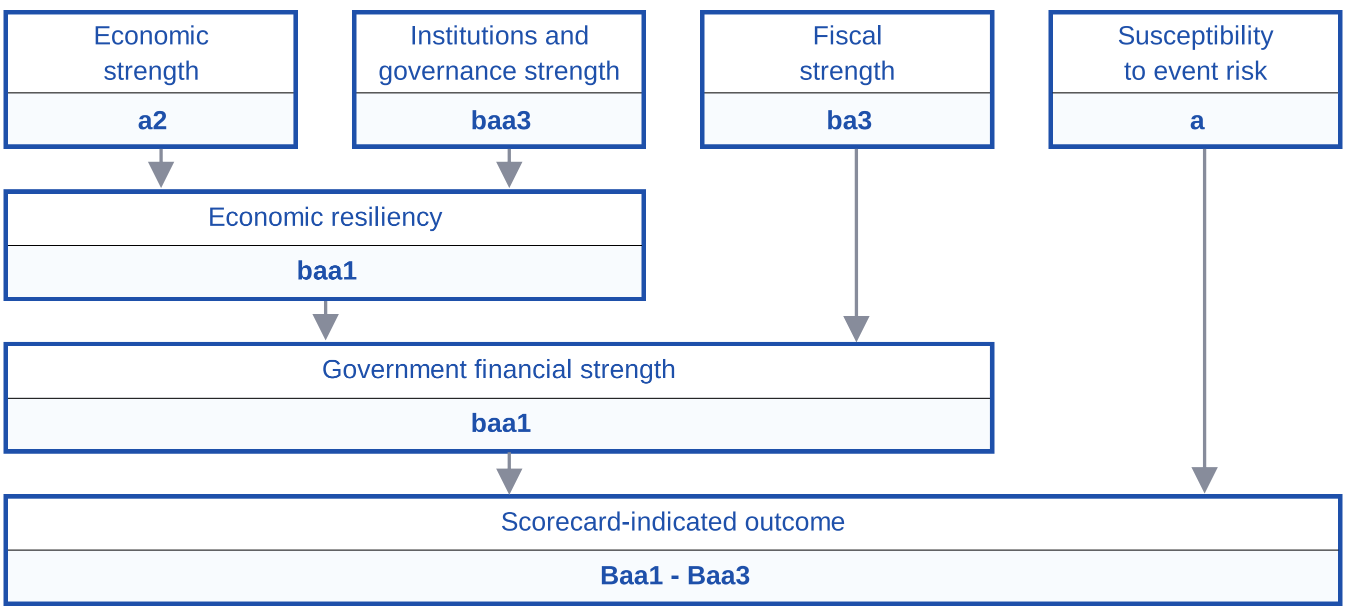
Originally published on 20 November 2020

Summary

Indonesia's credit profile is supported by strong growth potential, narrow fiscal deficits and low government debt. Credit challenges include low revenue mobilization and a reliance on external funding. Ongoing restrictions to curb the coronavirus outbreak, coupled with a continued spread of infections, will result in a contraction in economic output in 2020, weighing on already weak debt affordability.

Exhibit 1

Indonesia's credit profile is determined by four factors



Source: Moody's Investors Service

Rating outlook

The stable outlook reflects balanced risks. It takes into consideration a relatively slow pace of reform, incorporating risks from political challenges to further implementation of broad economic, fiscal and regulatory change. Since proposed reforms seek to address entrenched constraints, they could face delays, as they encounter various institutional hurdles. The stable outlook also takes into account the potential for a strengthening in competitiveness as a result of effective reform implementation.

Factors that could lead to an upgrade

Over time, indications that fiscal policy measures can durably and significantly raise government revenue would put upward pressure on the rating. Higher revenue would increase fiscal flexibility and provide more direct financial means for the government to address large social and physical infrastructure spending needs.

Upward rating action would also likely result from indications that Indonesia's growth potential is strengthening toward rates commensurate with the country's population growth and income levels, including through a deepening of financial markets and greater competitiveness.

Factors that could lead to a downgrade

Downward pressure would likely arise if 1) a prolonged, entrenched slowdown in growth had economy-wide impacts and fiscal repercussions, including difficulties reverting to a declining fiscal deficit trajectory following one-time stimulus packages; 2) evidence indicated that the gradual strengthening of Indonesia's policy framework and institutions had stalled or reversed; 3) a meaningful deterioration in the external position were to occur, such as from prolonged currency depreciation or capital outflows, with ramifications for debt affordability.

Anushka Shah, *VP-Senior Analyst*
Moody's Investors Service
anushka.shah@moodys.com
+65.6398.3710

Claire Long, *Associate Analyst*
Moody's Investors Service
claire.long@moodys.com
+65 6398 8323

Gene Fang, *Associate Managing Director*
Moody's Investors Service
gene.fang@moodys.com
+65.6398.8311

Marie Diron, *MD-Sovereign Risk*
Moody's Investors Service
marie.diron@moodys.com
+44.20.7772.1968

Coal Mining - Indonesia: Bumi Resources' mine license extension is credit positive for company and the sector

Originally published on 06 November 2020

On 4 November, coal miner Bumi Resources Tbk (P.T.) (Caa1 negative) announced that Indonesia's Ministry of Energy and Mineral Resources has extended the coal mining license of its 90%-owned subsidiary PT Arutmin Indonesia. The license had ended on 1 November.

The license extension is credit positive for Bumi and for the Indonesian coal mining sector because it reduces considerable long-standing regulatory uncertainty around the renewal of miners' Coal Contract of Work (CCoW) licenses.

The CCoW licenses were based on Indonesia's old mining laws and there was previously limited clarity around the extension or conversion of these licenses. An inability to extend or convert CCoW mining licenses in a timely manner would have resulted in significant operational and financial risks for coal miners.

Arutmin is one of the first large Indonesian coal miner to have its CCoW expire. We expect its license extension will set a precedent for license extensions for other CCoW miners including Adaro Indonesia (P.T.) (Ba1 stable) and Kideco Jaya Agung (P.T.), a 91%-owned subsidiary of Indika Energy Tbk (P.T.) (Ba3 negative), under broadly similar terms that Arutmin received for its extension.

Successful license extension, such as in Bumi's case, allows the CCoW holder to prepare mine production and investment plans for the coming years. As a result, without an extension or conversion of CCoW mining licenses, coal miners would face significant operational and financial risks.

In particular, refinancing risks would rise materially in the event of a nonrenewal of their mine licenses. Bumi Resources, Adaro Indonesia and Indika Energy's outstanding US dollar bonds contain Event of Default provisions which could be triggered by mining license expiry leading to mining operation disruptions, which would also severely weaken liquidity.

However, we believe miners' funding options will improve as some banks and investors have been reluctant to extend financing beyond a miner's CCoW expiry. In fact, Bumi Resources has stated on past earnings calls that once the mining license at Arutmin is renewed, it will speak to its lenders about refinancing its outstanding debt, including its senior notes and bank facilities due December 2022.

Exhibit 1
Arutmin's mining license extension will help reduce license renewal risk for other CCoW coal miners

CCOW holders	CCOW license expiry
Arutmin Indonesia (subsidiary of Bumi Resources)	Nov 2020*
Kaltim Prima Coal (subsidiary of Bumi Resources)	Dec 2021
Multi Harapan Utama	Apr 2022
Adaro Indonesia	Oct 2022
Kideco Jaya Agung (subsidiary of Indika Energy)	Mar 2023
Berau Coal	Apr 2025

Arutmin obtained an extension on its coal mining license on 2 November 2020
Sources: Companies, Moody's Investors Service

Following its license extension, Arutmin can continue mining operations under an Izin Usaha Pertambangan Khusus (IUPK) license, which is based on the Government of Indonesia's (Baa2 stable) current mining law that was recently updated in June 2020. Arutmin's IUPK license is valid for 10 years, and can be extended further subject to the fulfillment of certain statutory requirements.

While details around Arutmin's new license have not been publicly disclosed, we do not expect the transition to an IUPK from a CCoW license to have a significant adverse financial impact on Arutmin.

According to Bumi, thus far the only change in key terms on Arutmin's mining license is the imposition of a 10% profit-sharing levy on net income, to be paid to the central government (4%) and to the local government where Arutmin's mines operate (6%). The Indonesian government will likely confirm if there are any changes to Arutmin's corporate tax rate, and its royalty rates on coal sales in early 2021.

Maisam Hasnain, CFA, *AVP-Analyst*
Moody's Investors Service
maisam.hasnain@moodys.com
+65.6398.8325

Yu Sheng Tay, *Associate Analyst*
Moody's Investors Service
yusheng.tay@moodys.com
+65.6311.2652

Annalisa Di Chiara, *Senior Vice President*
Moody's Investors Service
annalisa.dichiara@moodys.com
+852.3758.1537

Ian Lewis, *Associate Managing Director*
Moody's Investors Service
ian.lewis@moodys.com
+65.6311.2676

Islamic banks – Indonesia: Merger of state-owned banks' Islamic subsidiaries will be credit positive for Islamic banking

Originally published on 20 October 2020

On 12 October, Bank Negara Indonesia (P.T.) (BNI, Baa2 stable, baa3[1]), Bank Raykat Indonesia (P.T.) (BRI, Baa2 stable, baa2) and Bank Mandiri (P.T.) (Mandiri, Baa2 stable, baa3), together with their Islamic subsidiaries, signed a conditional agreement that will merge the subsidiaries to create the largest Islamic bank in Indonesia. This will be credit positive for Islamic banking in the country because it will create an Islamic entity with a significantly enlarged franchise that will drive overall efficiency and competitiveness of the sector.

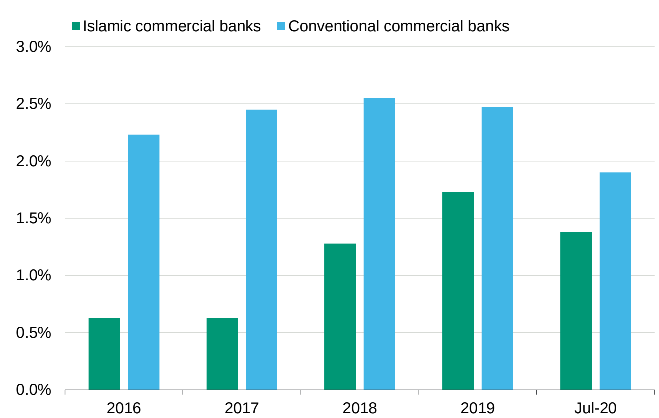
BRI's publicly listed subsidiary, PT Bank BRIsyariah Tbk, will be the surviving entity, with BNI, BRI and Mandiri remaining as shareholders (although the shareholding details are yet to be disclosed). We estimate that the combined assets account for around 2% of total banking assets in Indonesia and 40% of the country's Islamic banking assets as of 30 June 2020. The proposed merger, which the parties expect to complete by February 2021, would create the seventh-largest bank in Indonesia by assets.

In addition to greater economies of scale, the enlarged franchise will help raise awareness of Islamic banking and spur further demand for shariah-compliant financial products and services. Moreover, it will also entice banking talents who have avoided working for smaller banks on pay and career concerns, a perennial problem among existing Islamic banks.

The surviving entity will also be able to diversify its financing mix and funding sources for risk management purposes. Because of its enlarged capital, it can expand more toward larger corporates, which are generally less risky compared to smaller companies. The bank will also have a better chance of accessing the global sukuk market with its bigger presence. The proposed merger is part of the Indonesian government's plan to develop its Islamic economy. Despite having a large, Muslim-majority population, Islamic banking in Indonesia is underpenetrated compared to its regional peers such as Bangladesh, Brunei and Malaysia. The sector's assets accounted for only 6% of total banking assets as of 31 July 2020.

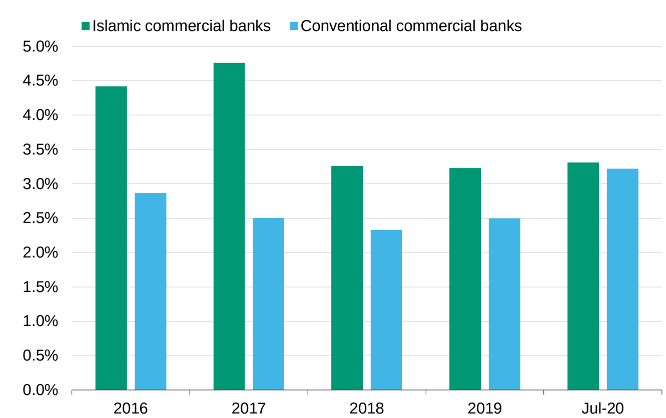
Among other reasons, the penetration of Islamic banking in Indonesia is low because the Islamic banks are individually small and therefore unable to generate strong awareness and demand for shariah-compliant financial products. They also lack the economies of scale that their conventional peers enjoy. Islamic banks are therefore less profitable than conventional banks as they are less cost-efficient and rely more on costlier time deposits for funding (Exhibit 1). Meanwhile, their asset quality has improved in recent years (Exhibit 2), although the coronavirus pandemic will likely disrupt the improving trend.

Exhibit 1
Islamic banks are less profitable than their conventional peers
Return on assets %



Note: Data for Islamic banks exclude sharia business units of conventional banks.
Source: Otoritas Jasa Keuangan

Exhibit 2
Asset quality of Islamic banks has improved in recent years
Nonperforming financing ratio %



Note: Data for Islamic banks exclude sharia business units of conventional banks.
Source: Otoritas Jasa Keuangan

Nevertheless, any deterioration in asset quality will be evident only in 2021, because of a one-year relaxation on debt restructuring – that allows restructured loans to be classified as current – introduced by the domestic financial regulator in March 2020.

Endnotes

1 The bank ratings shown in this report are the bank's deposit rating and Baseline Credit Assessment.

Tengfu Li, *Analyst*
Moody's Investors Service
tengfu.li@moodys.com
+65.6311.2630

Ferlicia Leow Soh Koon, *Associate Analyst*
Moody's Investors Service
ferlicia.leowsohkoon@moodys.com
+65.631.126.51

Alka Anbarasu, *VP-Sr Credit Officer*
Moody's Investors Service
alka.anbarasu@moodys.com
+65.6398.3712

Nitish Bhojnagarwala, *VP-Sr Credit Officer*
Moody's Investors Service
nitish.bhojnagarwala@moodys.com
+971.4.237.9563

Property – Indonesia: Relaxation in foreign ownership of apartments is credit positive for developers

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On 6 October, the Government of Indonesia (Baa2 stable) passed the Job Creation Law, which allows foreigners to own apartments in Indonesia. The new law permits foreign citizens, foreign legal entities that have a representative office in Indonesia, or representatives of a foreign country and an international institution in Indonesia (foreign buyers) to purchase apartments, condominiums and other similar buildings in Indonesia. Previously, foreigners were only permitted to purchase rights-to-use titles that could be renewed up to 80 years and at floor prices depending on the region. The new law does not apply to landed houses.

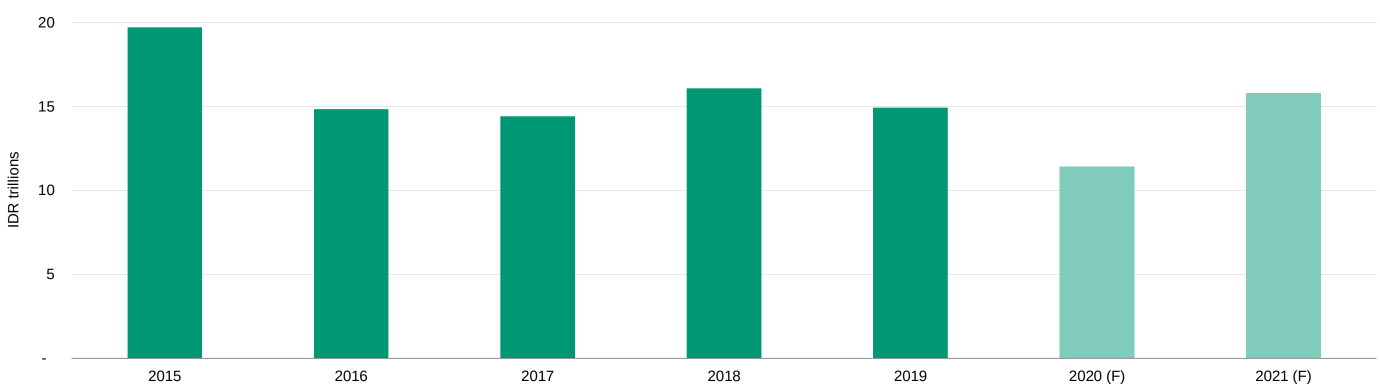
The relaxation in foreign property ownership is credit positive for property developers in Indonesia because it opens up the Indonesian property market to foreign buyers and encourages demand for apartments. Additionally, the new law passed at a time when property demand has been weak because of the impact of the coronavirus pandemic and uncertainty in Indonesia's economic recovery.

We expect property developers that are focused on the development of apartments and condominiums to benefit most from the new law. Of our six rated developers, Pakuwon Jati, Tbk. (P.T.) (Ba2 stable) derived most of its property development revenue from the sale of high-rise residential projects. Other developers such as Bumi Serpong Damai TBK (P.T.) (Ba3 stable), Lippo Karawaci Tbk (P.T.) (B3 stable) and Agung Podomoro Land Tbk (P.T.) (B3 negative), which have apartments and condominiums for sales, will also stand to gain.

Overall, we expect the improvement in marketing sales from the new law will be more pronounce in 2021 than in 2020. Consequently, we expect marketing sales in 2021 to grow around 35% from 2020 or around 10% compared with 2019. For 2020, we expect marketing sales to decline around 25% from 2019 (see Exhibit).

Exhibit 1

Marketing sales to grow around 35% in 2021 from 2020



Sources: Company data and Moody's Investors Service estimates

The improvement in marketing sales will not result in an immediate improvement in credit metrics because of the time lag between revenue recognition and marketing sales. Following the adoption of accounting standard IFRS 15, revenue recognition for apartments and offices will be based on handover, which could be two to three years after the booking of marketing sales.

Jacintha Poh, *VP-Sr Credit Officer*
Moody's Investors Service
jacintha.poh@moodys.com
+65.6398.8320

Vikas Halan, *Associate Managing Director*
Moody's Investors Service
vikas.halan@moodys.com
+65.6398.8337

Jeannie Kang, *Associate Analyst*
Moody's Investors Service
jeannie.kang@moodys.com
+65.6311.2621

Axiata Group Berhad: Earnings growth from emerging markets mitigates slowdown at Malaysian mobile unit Celcom

Originally published on 25 September 2020

- **Diverse emerging and frontier market investments will drive growth and keep credit quality stable over the next 1-2 years.** Axiata Group Berhad's (Baa2 stable) revenue will grow 2.0%-2.5% in 2020 and 2021, despite a low-single-digit revenue decline at its domestic mobile unit, Celcom Axiata Berhad, in Malaysia (A3 stable). Growth in its emerging and frontier market operations, including stable earnings from tower company edotco Group Sdn. Bhd, will help mitigate revenue contraction at Celcom. Celcom currently contributes 26% of consolidated revenue and 23% of consolidated EBITDA.
- **Celcom remains a key cash-flow contributor, but Axiata's reliance on Celcom is falling.** As Axiata's investments in emerging markets mature, we expect them to contribute more meaningfully to overall credit quality. Frontier-market subsidiaries are already accounting for a growing portion of Axiata's cash flow. We expect Celcom's revenue contribution to Axiata to remain around 25% through 2020-21, after declining to 26% for the first half of 2020 from 30% in 2018. Stiff mobile-sector competition in Malaysia will keep Celcom's profitability low.
- **Regional tower company edotco adds some revenue and earnings certainty.** Increasing revenue and EBITDA contribution from Axiata's 63%-owned regional tower subsidiary, edotco Group Sdn. Bhd., provides the group with a steady stream of contractual revenue and earnings. edotco will contribute about 10% of consolidated EBITDA through 2020-21, which lends a higher degree of certainty to Axiata's revenue than its faster growing but potentially more volatile emerging market earnings base.
- **Investments across countries limit emerging and frontier market risks.** Emerging and frontier market investments enhance Axiata's business profile but come with risks, such as uncertain regulatory regimes and political instability. However, we believe the breadth of Axiata's holdings and financial discipline at the subsidiary level help mitigate volatility, and regulatory and operational uncertainties in any one country. None of the frontier markets individually contributes more than 15% of consolidated EBITDA.
- **Axiata's financial discipline and moderate leverage support its investment-grade profile despite emerging and frontier market risks.** Axiata's track record of judiciously funding investments and its prudent financial policy support its credit profile. Despite higher capital spending and dividend payouts, we expect Axiata to balance its growth plans and shareholder initiatives with debtholder protection measures.

Nidhi Dhruv, CFA, *VP-Senior Analyst*
Moody's Investors Service
nidhi.dhruv@moodys.com
+65.6398.8315

Ian Lewis, *Associate Managing Director*
Moody's Investors Service
ian.lewis@moodys.com
+65.6311.2676

Melissa Lim, CFA, *Associate Analyst*
Moody's Investors Service
melissa.lim@moodys.com
+65.6311.2637

Banks – Thailand: Prolonged low rates, combined with weak loan growth, will hurt profitability

Originally published on 03 November 2020

Summary

Thai banks' profitability will deteriorate as interest rates stay low for a prolonged period as the central bank maintains loose monetary policy to fight a sharp economic downturn caused by the coronavirus outbreak. Narrowing net interest margins (NIMs), combined with weakening loan growth, will reduce net interest income, the main source of profit for Thai banks. The pandemic is also accelerating digitization of banking services, which can help banks cut costs, but benefits of the shift will take time to materialize. Thai banks will step up efforts to expand through acquisitions, both at home and overseas, but such moves could hurt capitalization while increasing leverage and asset risks.

» **Contraction of net interest margins and weaker loan growth will hurt banks' profitability.** Thai banks' NIMs will continue to narrow as monetary easing to counter economic disruptions from the coronavirus outbreak weighs on asset yields. At the same time, deteriorating economic conditions will dampen credit demand and banks' appetite to grow. A combination of NIM declines and slower loan growth will erode banks' net interest income, which accounted for more than 70% of revenue at Thai banks in the first half of 2020, and consequently their profitability.

» **Benefits of digitalization will take time to materialize.** Lockdowns and social-distancing measures to contain the coronavirus outbreak have induced bank customers to increase the use of digital banking services, which in turn will spur banks to accelerate digitalization. This will help banks deepen reductions in operating costs by scaling down physical operations. Collaboration with technology firms will also create opportunities for banks to expand client bases and increase non-interest income. However, expenses for research and development and costs to recruit talent with relevant skills will add to operating expenses, erasing benefits of digitization in the short term.

» **Thai banks will step up efforts to expand both domestically and overseas but this entails its own risks.** Thai banks will increasingly try to tackle declines in margins by building scale, primarily through acquisitions both at home and overseas. Acquisitions can help banks grow quickly but will also weigh on banks' capital and increase leverage. In addition, expansion into high-growth markets overseas can help improve margins but also increase asset risks.

Jeffrey Lee, *AVP-Analyst*
Moody's Investors Service
jeffrey.lee@moodys.com
+65.6311.2649

Eugene Tarzimanov, *VP-Sr Credit Officer*
Moody's Investors Service
eugene.tarzimanov@moodys.com
+65.6398.8329

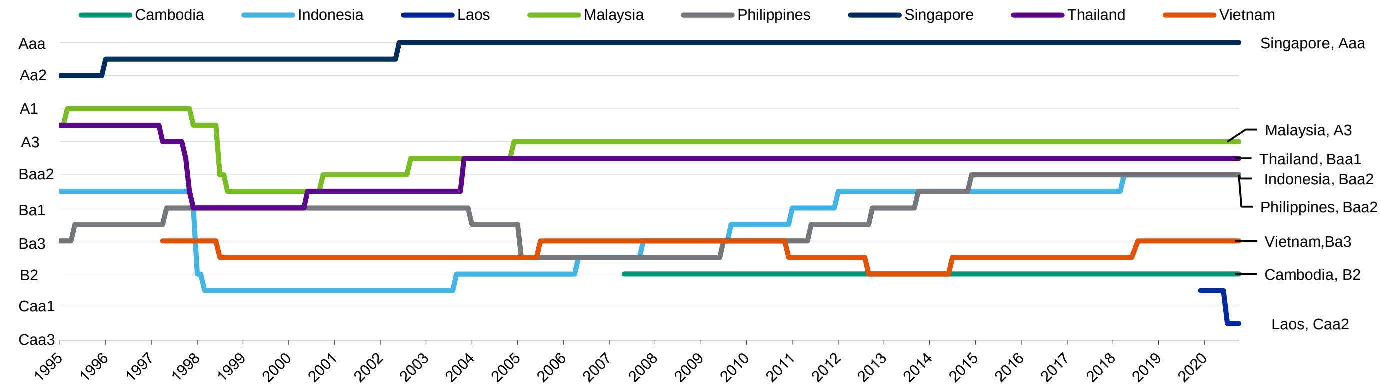
Lingxiao Shirley Zeng, *Associate Analyst*
Moody's Investors Service
shirley.zeng@moodys.com
+65.6398.8318

Graeme Knowd, *MD-Banking*
Moody's Investors Service
graeme.knowd@moodys.com
+65.6311.2629

ASEAN Snapshot & Dashboards

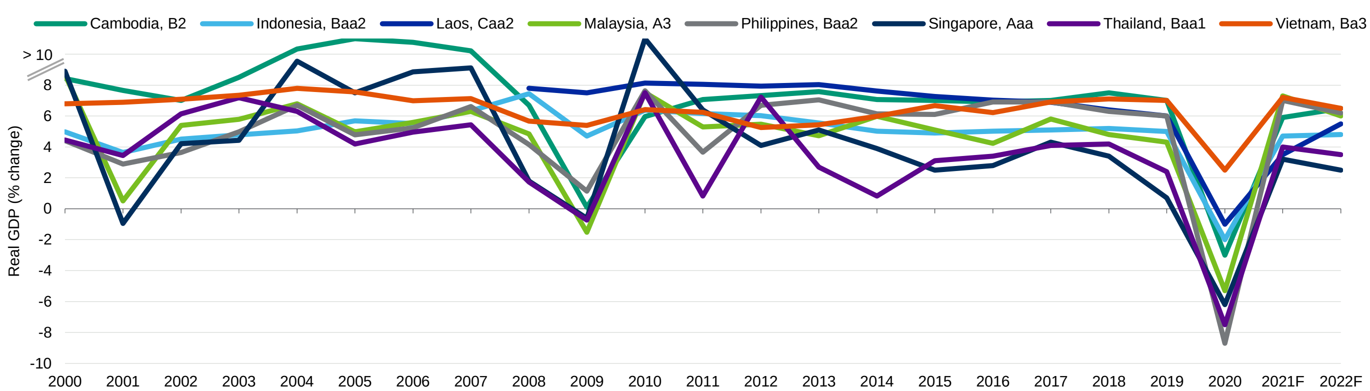
Macroeconomic forecasts and sovereign rating history

Exhibit 1
Sovereign rating history



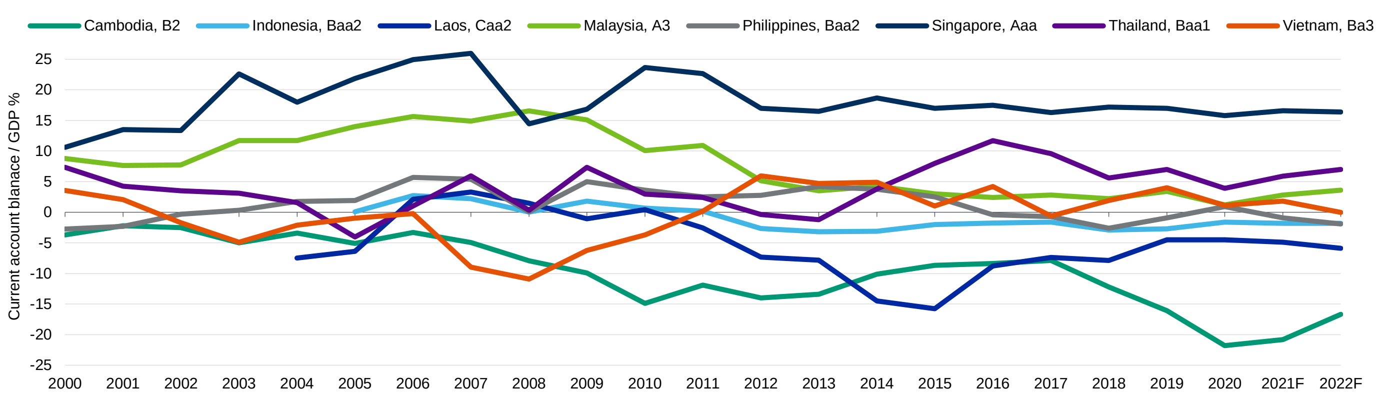
Source: Moody's Investors Service

Exhibit 2
Real GDP (% change)



Source: Moody's Investors Service

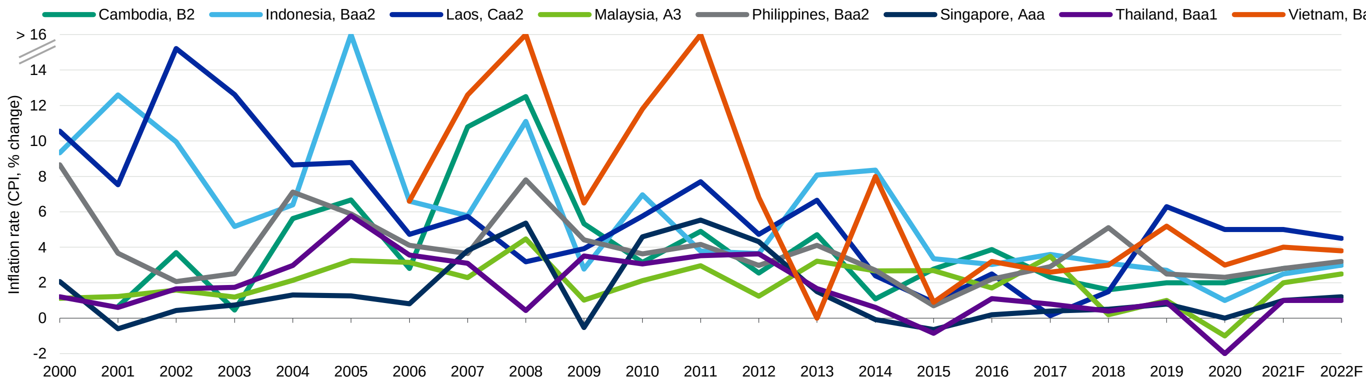
Exhibit 3
Current account balance/GDP (%)



Source: Moody's Investors Service

Exhibit 4

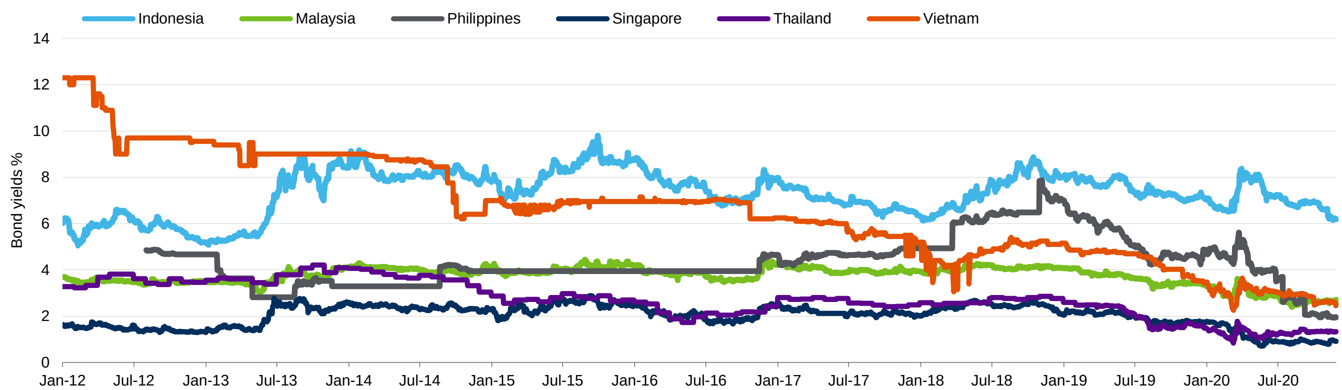
Inflation rate (CPI, % change Dec/Dec)



Source: Moody's Investors Service

Exhibit 5

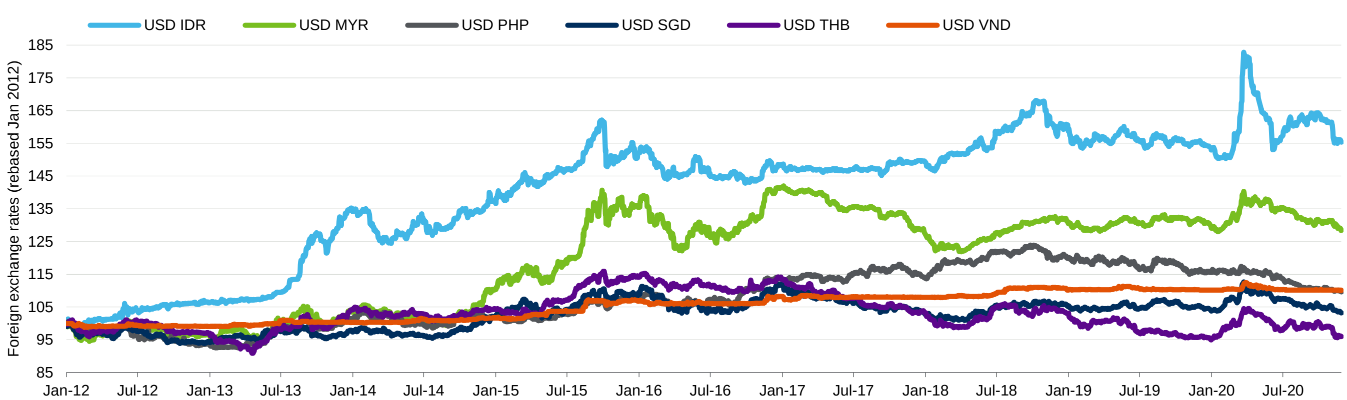
10-year Government bond yields



Source: Bloomberg, Moody's Investors Service

Exhibit 6

Foreign exchange rates (rebased January 2012)



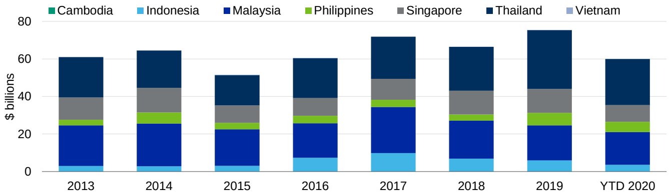
Source: Bloomberg, Moody's Investors Service

Issuance Snapshot

As of 27 November 2020

Exhibit 7

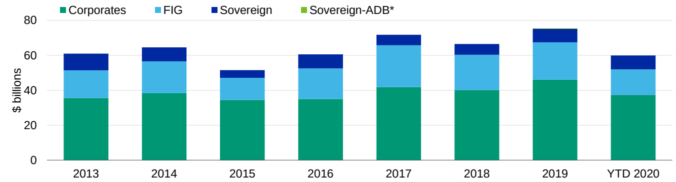
Domestic bond issuance by domicile of issuers



Source: Moody's Investors Service, Dealogic

Exhibit 8

Domestic bond issuance by type of issuers

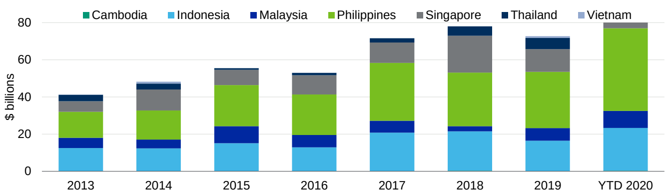


*ADB: Asian Development Bank

Source: Moody's Investors Service, Dealogic

Exhibit 9

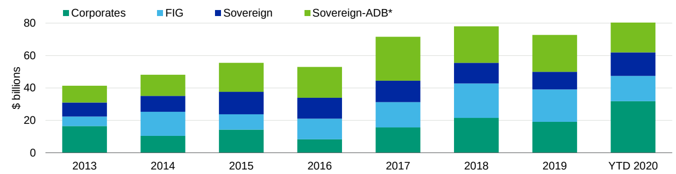
Cross border bond issuance by domicile of issuers



Source: Moody's Investors Service, Dealogic

Exhibit 10

Cross border bond issuance by type of issuers



* ADB: Asian Development Bank

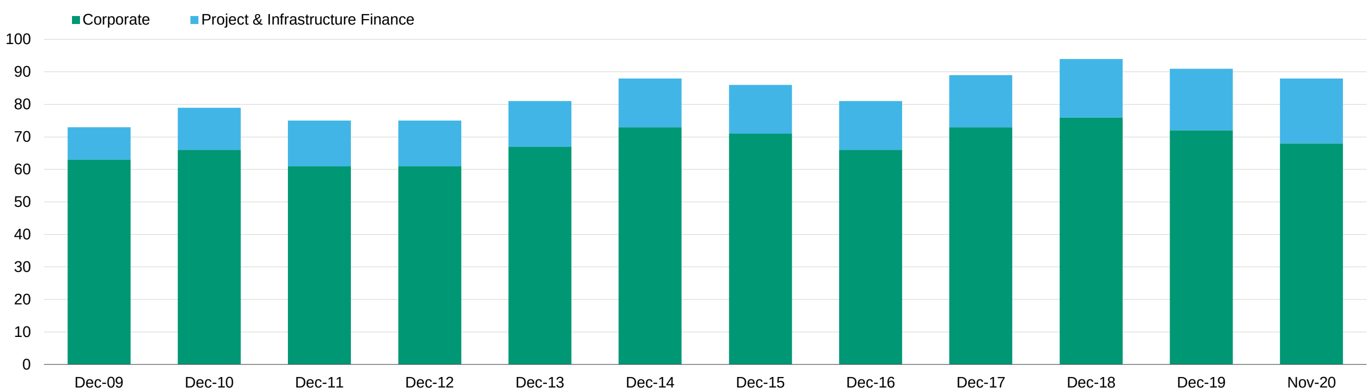
Source: Moody's Investors Service, Dealogic

Non-financial corporates and project and public finance rated portfolio

As of 27 November 2020

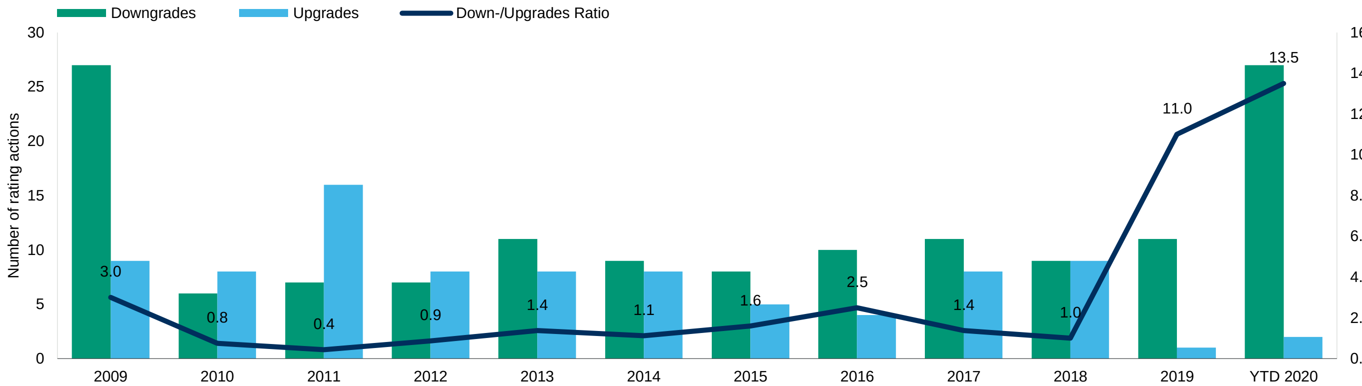
Exhibit 11

ASEAN non-financial corporates and project and public finance rated portfolio remains stable in 2020



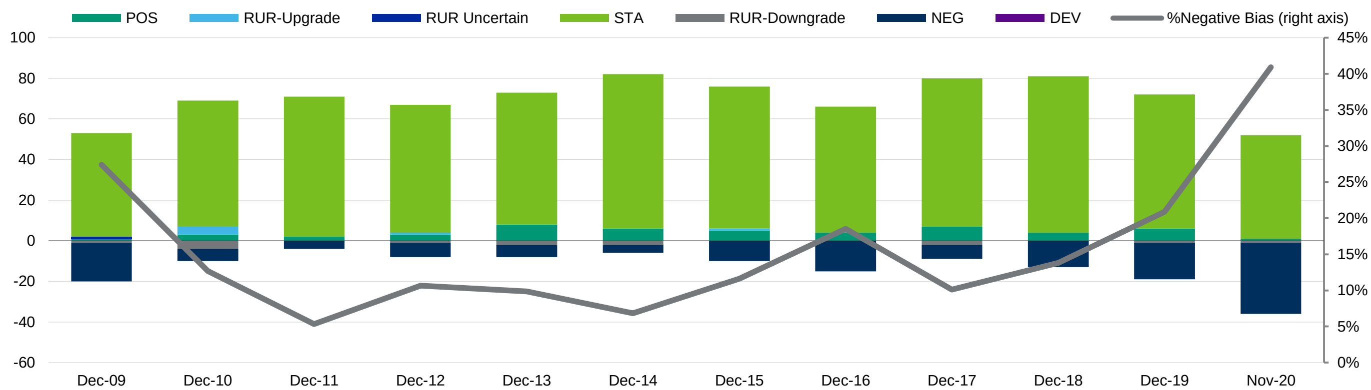
Source: Moody's Investors Service

Exhibit 12
Number of downgrade actions remains high in 2020



Note: the ratio is calculated on the rating actions taken on non-financial corporates and project and public finance issuers
Source: Moody's Investors Service

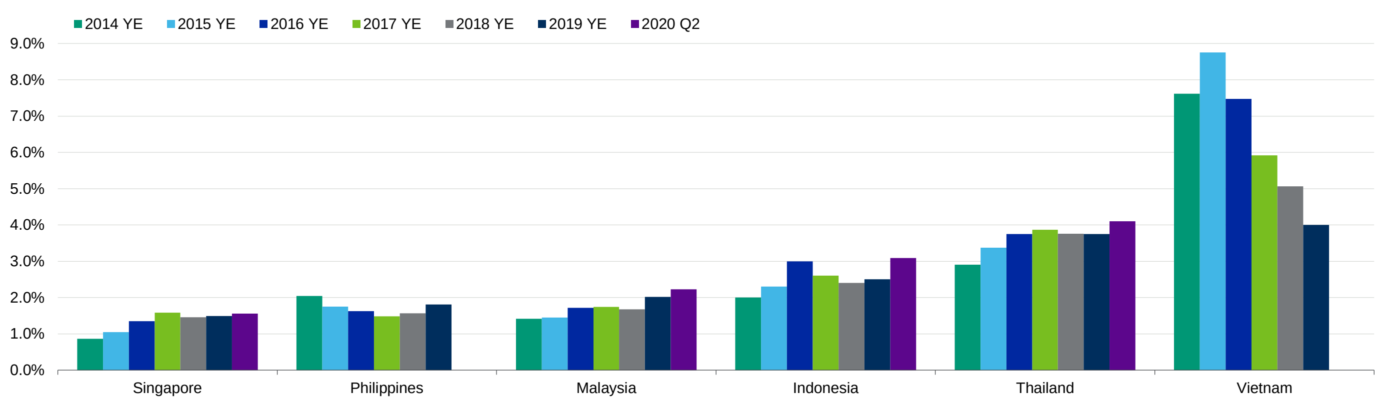
Exhibit 13
Proportion of ratings with a negative bias increased in 2020



Note: Outlooks assigned to ASEAN-based non-financial corporates and project and public finance issuers
Source: Moody's Investors Service

Banking System Indicators

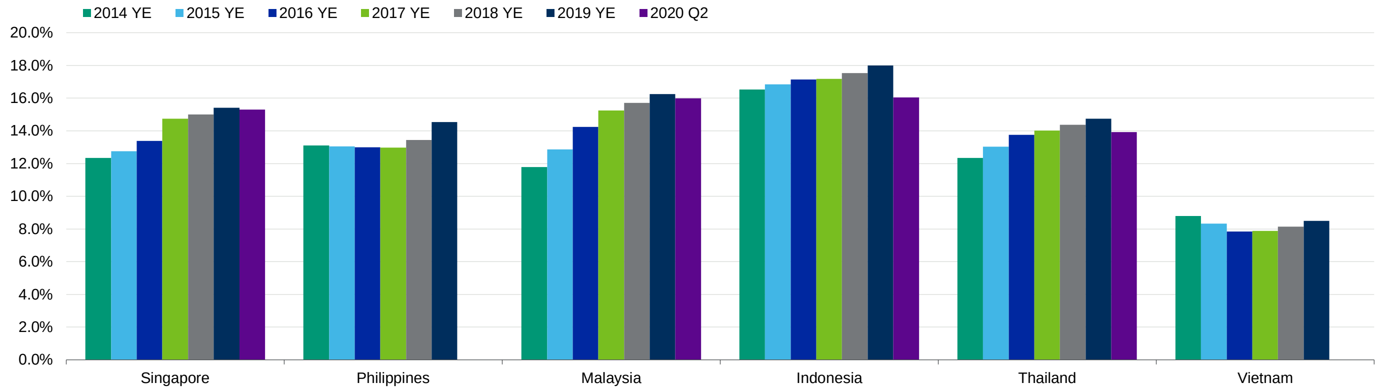
Exhibit 14
Aggregate problem loans to gross loans



Source: Moody's Investors Service

Exhibit 15

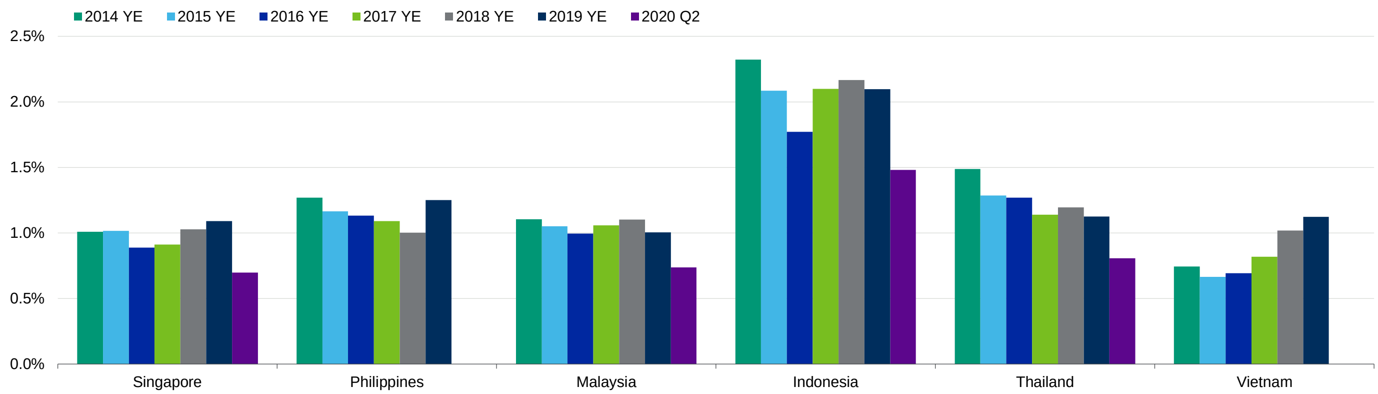
Aggregate tangible common equity to risk-weighted assets



Source: Moody's Investors Service

Exhibit 16

Aggregate net income to tangible assets



Source: Moody's Investors Service

Appendix I Related Moody's Research

Selected Sovereign Research

- Government of Malaysia: 2021 budget to support economic recovery, but raises medium-term fiscal consolidation challenge, November 2020
- Government of Thailand: Rising political tensions cloud prospects for rapid economic recovery, foreign investment, October 2020
- Government of Indonesia: Omnibus Law will support domestic and foreign investment, is credit positive overall, October 2020
- Sovereigns – Emerging Markets: Credit implications of higher debt to depend on persistence of shock, policy buffers, September 2020

Selected Corporate Sector Research

- Palm Oil - Asia: Supply constraints underpin the increase in our price sensitivity range for crude palm oil, November 2020
- NagaCorp Ltd.: New development project near Ankor Wat will reduce liquidity buffer, a credit negative, November 2020
- Golden Energy And Resources Ltd: Funding support to Australian coal mining subsidiary will be credit negative, November 2020
- Petroliam Nasional Berhad: Higher dividends reduce free cash flow, but in line with our expectations, November 2020
- Chandra Asri Petrochemical Tbk (P.T.): Earnings turnaround in third quarter places company on track to meet full year expectations, October 2020
- Tunas Baru Lampung Tbk (P.T.): Early debt repayment is credit positive, October 2020
- Covenants – Asia: Asian bonds with higher instrument ratings have weaker covenants, September 2020
- Property – Indonesia: Lockdown will hit firms with large retail and hospitality exposures in Jakarta, September 2020
- Metals and mining - Asia Pacific: Credit quality weakens on economic slowdown and commodity price volatility, September 2020
- Bukit Makmur Mandiri Utama (P.T.): Near-term liquidity sufficient, but credit quality will weaken if coal prices stay low and bond maturity is unaddressed, August 2020
- Nonfinancial companies – Indonesia: Heat map – Coronavirus disruptions exacerbate credit quality deterioration, July 2020

Selected Financial Institutions Research

- DBS Bank: DBS will strengthen its India business with the acquisition of troubled Lakshmi Vilas Bank, November 2020
- DBS, OCBC and UOB: Q3 2020 update: Credit costs will decline in 2021 as asset risks recede, easing pressure on profitability, November 2020
- Banks – Vietnam: Vietnam's new decree on the investment of state capital is credit positive for state-owned commercial banks, October 2020
- Islamic banks – Malaysia: Structural features will underpin Islamic banks' resilience against coronavirus fallout, August 2020
- Financial institutions – Indonesia: Indonesia Deposit Insurance Corporation can now provide short-term liquidity to banks, a credit positive, July 2020

Other Related Research

- Power – Asia: Asia's coal power producers face increasing risk of declining dispatch volume, November 2020

» Covered Bonds – Singapore: Higher encumbrance limit will reduce refinancing risk if banks lift issuance, a credit positive, November 2020

» Jasa Marga (Persero) Tbk (PT): Potential for renewed lockdowns and continued regulatory uncertainties are credit negative, October 2020

» PSA International Pte. Ltd.: Strong credit quality despite coronavirus but defensive actions necessary if recovery is protracted, August 2020

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Appendix II List of Rated ASEAN Issuers as of 27 November 2020

Cambodia

Exhibit 1

Issuer	Sector	Rating	Outlook
Cambodia	Sovereign	B2	Stable
Corporates			
NagaCorp Ltd.	Gaming	B1	Negative

*Country is defined as country of principal operation or center of management decision-making rather than country of domicile or listing.
Source: Moody's Investors Service

Indonesia

Exhibit 2

Issuer	Sector	Rating	Outlook
Indonesia	Sovereign	Baa2	Stable
Corporates			
ABM Investama Tbk (P.T.)	Mining	B1	Negative
Adaro Indonesia (P.T.)	Mining	Ba1	Stable
Agung Podomoro Land Tbk (P.T.)	Homebuilding	B3	Negative
Alam Sutera Realty Tbk	Homebuilding	Caa1	Negative
Barito Pacific Tbk (P.T.)	Chemical	B1	Stable
Bayan Resources Tbk (P.T.)	Mining	Ba3	Stable
Buana Lintas Lautan Tbk (P.T.)	Transportation Services	B1	Stable
Bukit Makmur Mandiri Utama (P.T.)	Services	Ba3	Negative
Bumi Resources Tbk (P.T.)	Mining	Caa1	Negative
Bumi Serpong Damai TBK (P.T.)	Homebuilding	Ba3	Stable
Chandra Asri Petrochemical Tbk (P.T.)	Chemical	Ba3	Stable
Gajah Tunggal Tbk (P.T.)	Automotive Supplier	Caa1	Negative
Golden Energy And Resources Ltd	Mining	B1	Stable
Geo Energy Resources Limited	Mining	Caa3	Stable
Indonesia Asahan Aluminium (Persero) (P.T.)	Mining	Baa2	Negative
Indika Energy Tbk (P.T.)	Mining	Ba3	Negative
Indosat Tbk. (P.T.)	Telecommunications	Baa3	Stable
Lippo Karawaci Tbk (P.T.)	Homebuilding	B3	Stable
Lippo Malls Indonesia Retail Trust	REITs	B1	RUR
Medco Energi Internasional Tbk (P.T.)	O&G - Independent E & P	B1	Negative
Modernland Realty Tbk (P.T.)	Homebuilding	Ca	Negative
Pakuwon Jati, Tbk (P.T.)	Homebuilding	Ba2	Stable
Pan Brothers Tbk (P.T.)	Manufacturing	Caa1	Negative
Pertamina (Persero) (P.T.)	O&G - Integrated	Baa2	Stable
Profesional Telekomunikasi Indonesia	Telecom Infrastructure	Baa3	Stable
Saka Energi Indonesia (P.T.)	O&G - Independent E & P	B1	Negative
Sawit Sumbermas Sarana Tbk (P.T.)	Protein and Agriculture	B3	Negative
Soechi Lines Tbk. (P.T.)	Transportation Services	B2	Negative
Sri Rejeki Isman (P.T.)	Manufacturing	Ba3	Negative
Telekomunikasi Indonesia (P.T.)	Telecommunications	Baa1	Stable
Telekomunikasi Selular (P.T.)	Telecommunications	Baa1	Stable
Tunas Baru Lampung Tbk (P.T.)	Protein and Agriculture	Ba3	Negative
United Tractors Tbk (P.T.)	Heavy Equipment & Mining	Baa2	Stable
Wijaya Karya (Persero) Tbk. (P.T.)	Construction & Engineering	Ba3	Negative
XL Axiata Tbk (P.T.)	Telecommunications	Baa3	Stable
Financial Institutions			
Adira Dinamika Multi Finance Tbk (P.T.)	Captive Finance	Baa2	Stable
Astra Sedaya Finance (P.T.)	Captive Finance	Baa2	Stable
Bank Central Asia Tbk (P.T.)	Bank	Baa2	Stable

Bank Danamon Indonesia Tbk (P.T.)	Bank	Baa2	Stable
Bank Mandiri (P.T.)	Bank	Baa2	Stable
Bank Negara Indonesia Tbk (P.T.)	Bank	Baa2	Stable
Bank Permata Tbk (P.T.)	Bank	Baa2	Stable
Bank Rakyat Indonesia (P.T.)	Bank	Baa2	Stable
Bank Tabungan Negara (P.T.)	Bank	Baa2	Stable
Federal International Finance (P.T.)	Captive Finance	Baa2	Stable
Lembaga Pembiayaan Ekspor Indonesia	Bank	Baa2	Stable
Pan Indonesia Bank Tbk (P.T.)	Bank	Baa3	Stable
PT Bank CIMB Niaga Tbk	Bank	Baa2	Stable
Infrastructure & Project Finance			
Cikarang Listrindo (P.T.)	Electricity Production	Ba2	Positive
Hutama Karya (Persero) (P.T.)	Toll Roads	Baa3	Stable
Jasa Marga (Persero) Tbk (PT)	Toll Roads	Baa3	Negative
LLPL Capital Pte Ltd	Electricity Production	Baa3	Stable
Minejesa Capital BV	Electricity Production	Baa3	Stable
Pelabuhan Indonesia II (Persero) (P.T.)	Ports	Baa3	Stable
Pelabuhan Indonesia III (Persero) (P.T.)	Ports	Baa3	Stable
Perusahaan Gas Negara (PT)	Regulated Energy Utilities	Baa2	Stable
Perusahaan Listrik Negara (PT)	Regulated Energy Utilities	Baa2	Stable
Star Energy Geothermal Darajat II Limited	Electricity Production	(P)Baa3	Stable
Star Energy Geothermal (Wayang Windu) Limited	Electricity Production	Ba3	Stable
Structured Finance			
TLFF I Pte. Ltd.	Other - Structured Notes	Aaa	-

*Country is defined as country of principal operation or center of management decision-making rather than country of domicile or listing
Source: Moody's Investors Service

Laos

Exhibit 3

Issuer	Sector	Rating	Outlook
Laos	Sovereign	Caa2	Negative

*Country is defined as country of principal operation or center of management decision-making rather than country of domicile or listing.
Source: Moody's Investors Service

Malaysia

Exhibit 4

Issuer	Sector	Rating	Outlook
Malaysia	Sovereign	A3	Stable
State of Sarawak	Quasi-sovereign	A3	Negative
Corporates			
Axiata Group Berhad	Telecommunications	Baa2	Stable
Genting Berhad	Gaming	Baa2	Negative
Genting Overseas Holdings Limited	Gaming	Baa2	Negative
IOI Corporation Berhad	Protein and Agriculture	Baa2	Stable
MISC Berhad	Shipping	Baa2	Stable
Petroliam Nasional Berhad	O&G - Integrated	A2	Stable
Petronas LNG	Trading Company	Baa1	Stable
Press Metal Aluminium Holdings Berhad	Metals	Ba3	Negative
Sime Darby Plantation Berhad	Protein and Agriculture	Baa2	Stable
Telekom Malaysia Berhad	Telecommunications	A3	Stable
Financial Institutions			
AmBank (M) Berhad	Bank	A3	Stable
Cagamas Berhad	Non Captive Finance	A3	Stable
CIMB Bank Berhad	Bank	A3	Stable

CIMB Group Holdings Berhad	Bank	Baa1	Stable
CIMB Investment Bank	Bank	A3	Stable
CIMB Islamic Bank Berhad	Bank	A3	Stable
EXIM Sukuk Malaysia Berhad	Bank	A3	Stable
Export-Import Bank of Malaysia Berhad	Non Captive Finance	A3	Stable
Hong Leong Bank Berhad	Bank	A3	Stable
HSBC Bank Malaysia Berhad	Bank	A3	Stable
Malayan Banking Berhad	Bank	A3	Stable
Public Bank Berhad	Bank	A3	Stable
RHB Bank Berhad	Bank	A3	Stable
Standard Chartered Bank Malaysia Berhad	Bank	Baa1	Stable
Infrastructure & Project Finance			
Malaysia Airports Holdings Berhad	Airports	A3	Negative
Tenaga Nasional Berhad	Regulated Energy Utilities	A3	Stable

*Country is defined as country of principal operation or center of management decision-making rather than country of domicile or listing.
Source: Moody's Investors Service

Philippines

Exhibit 5

Issuer	Sector	Rating	Outlook
Philippines	Sovereign	Baa2	Stable
Corporates			
PLDT Inc.	Telecommunications	Baa2	Stable
Financial Institutions			
Bank of the Philippine Islands	Bank	Baa2	Stable
BDO Unibank, Inc	Bank	Baa2	Stable
China Banking Corporation	Bank	Baa2	Stable
Land Bank of The Philippines	Bank	Baa2	Stable
Metropolitan Bank & Trust Company	Bank	Baa2	Stable
Philippine National Bank	Bank	Baa2	Stable
Rizal Commercial Banking Corporation	Bank	Baa2	Stable
Security Bank Corporation	Bank	Baa2	Stable
Union Bank of the Philippines	Bank	Baa2	Stable
United Coconut Planters Bank	Bank	Ba3	Stable
Infrastructure & Project Finance			
Power Sector Assets & Liabilities Mgmnt Corp.	Regulated Energy Utilities	Baa2	Stable
National Power Corporation	Regulated Energy Utilities	Baa2	Stable

*Country is defined as country of principal operation or center of management decision-making rather than country of domicile or listing.
Source: Moody's Investors Service

Singapore

Exhibit 6

Issuer	Sector	Rating	Outlook
Singapore	Sovereign	Aaa	Stable
Housing Development Board	Quasi-sovereign	Aaa	Stable
National University of Singapore	Quasi-sovereign	Aaa	Stable
Singapore Management University	Quasi-sovereign	Aaa	Stable
Corporates			
Ascendas Real Estate Investment Trust	S-REIT	A3	Stable
Ascott Residence Trust	S-REIT	Baa3	Negative
CapitaLand Commercial Trust	S-REIT	Baa1	Stable
CapitaLand Integrated Commercial Trust	S-REIT	A3	Negative
Frasers Centrepoint Trust	S-REIT	Baa2	Stable
Frasers Commercial Trust	S-REIT	Baa2	Negative

Frasers Hospitality Trust	S-REIT	Baa3	Negative
Genting Singapore Limited	Gaming	A3	Negative
IBC Capital Limited	Business Service	B2	Negative
Mapletree Commercial Trust	S-REIT	Baa1	Negative
Mapletree North Asia Commercial Trust	S-REIT	Baa3	Negative
Mapletree Logistics Trust	S-REIT	Baa2	Stable
Parkway Life REIT	S-REIT	Baa2	Stable
Singapore Technologies Engineering Ltd.	Aerospace / Defense	Aaa	Stable
Singapore Telecommunications Limited	Telecommunications	A1	Negative
Temasek Holdings (Private) Limited	Investment Company	Aaa	Stable
Financial Institutions			
Aviva Ltd.	Insurance: Life & Health	A3	Stable
Aviva Singlife Holdings Pte. Ltd.	Insurance Holding Co.	Baa2	Stable
Bank of Singapore Limited	Bank	Aa1	Stable
DBS Bank Ltd	Bank	Aa1	Stable
DBS Group Holdings Ltd	Bank Holding Company	Aa2	Stable
Oversea-Chinese Banking Corporation Limited	Bank	Aa1	Stable
Singapore Life Pte. Ltd.	Insurance: Life & Health	A3	Stable
Standard Chartered Bank (Singapore) Limited	Bank	A1	Stable
Toronto Dominion (South East Asia) Limited	Bank	A1	Stable
United Overseas Bank Limited	Bank	Aa1	Stable
Infrastructure & Project Finance			
PSA International Pte. Ltd.	Ports	Aa1	Stable
Singapore Power Limited	Regulated Energy Utilities	Aa2	Stable
SP PowerAssets Ltd	Regulated Energy Networks	Aa2	Stable
Structured Finance			
DBS Bank Ltd. Global Covered Bond Programme	Covered Bonds	Aaa	-
Oversea-Chinese Banking Corporation Limited Global Covered Bond Programme	Covered Bonds	Aaa	-
United Overseas Bank Limited Global Covered Bond Programme	Covered Bonds	Aaa	-

*Country is defined as country of principal operation or center of management decision-making rather than country of domicile or listing.
Source: Moody's Investors Service

Thailand

Exhibit 7

Issuer	Sector	Rating	Outlook
Thailand	Sovereign	Baa1	Stable
Corporates			
PTT Exploration & Production Public Co. Ltd.	O&G - Independent E & P	Baa1	Stable
PTT Global Chemical Public Company Limited	Chemical	Baa2	Stable
PTT Public Company Limited	O&G - Integrated	Baa1	Stable
Thai Beverage Public Company Limited	Alcoholic Beverage	Baa3	Negative
Thai Oil Public Company Limited	O&G - Refining & Marketing	Baa2	Negative
Financial Institutions			
Bangkok Bank Public Company Limited	Bank	Baa1	Stable
Bank of Ayudhya	Bank	Baa1	Stable
CIMB Thai Bank Public Limited Company	Bank	Baa2	Stable
Export-Import Bank of Thailand	Bank	Baa1	Stable
Government Housing Bank of Thailand	Bank	Baa1	Stable
KASIKORNBANK Public Company Limited	Bank	Baa1	Stable
Krung Thai Bank Public Company Limited	Bank	Baa1	Stable
Siam Commercial Bank Public Company Limited	Bank	Baa1	Stable
Standard Chartered Bank (Thai) Public Co Ltd	Bank	Baa1	Stable
TMB Bank Public Company Limited	Bank	Baa1	Stable
United Overseas Bank (Thai) Public Co Ltd	Bank	Baa1	Stable
Infrastructure & Project Finance			

Ratch Group Public Company Limited	Unregulated Energy Utilities	Baa1	Stable

*Country is defined as country of principal operation or center of management decision-making rather than country of domicile or listing.
Source: Moody's Investors Service

Vietnam

Exhibit 8

Issuer	Sector	Rating	Outlook
Vietnam	Sovereign	Ba3	Negative
Financial Institutions			
An Binh Commercial Joint Stock Bank	Bank	B1	Negative
Asia Commercial Bank	Bank	B1	Negative
Ho Chi Minh City Development JSC Bank	Bank	B1	Negative
Home Credit Vietnam Finance Company Limited	Non Captive Finance	B3	Stable
JSC Bank for Foreign Trade of Vietnam	Bank	B1	Negative
JSC Bank for Investment & Development of Vietnam	Bank	B1	Negative
Lien Viet Post Joint Stock Commercial Bank	Bank	B1	Negative
Military Commercial Joint Stock Bank	Bank	B1	Negative
Nam A Commercial Joint Stock Bank	Bank	B2	Stable
Orient Commercial Joint Stock Bank	Bank	B1	Negative
Saigon – Hanoi Commercial Joint Stock Bank	Bank	B2	Stable
Saigon Thuong Tin Commercial Joint-Stock Bank	Bank	Caa1	Stable
SHBANK Finance Company Limited	Non Captive Finance	B3	Stable
Southeast Asia Commercial Joint Stock Bank	Bank	B1	Negative
Tien Phong Commercial Joint Stock Bank	Bank	B1	Negative
VPBank Finance Company Limited	Non Captive Finance	B1	Stable
Vietnam Bank for Agriculture & Rural Devlpmnt	Bank	B1	Negative
Vietnam JSC Bank for Industry and Trade	Bank	B1	Negative
Vietnam International Bank	Bank	B1	Negative
Vietnam Maritime Commercial Joint Stock Bank	Bank	B2	Stable
Vietnam Prosperity Joint Stock Commercial Bank	Bank	B1	Negative
Vietnam Technological and Commercial JSB	Bank	B1	Negative
Infrastructure & Project Finance			
Mong Duong Finance Holdings BV	Electricity Production	Ba3	Negative

*Country is defined as country of principal operation or center of management decision-making rather than country of domicile or listing.
Source: Moody's Investors Service

Moody's ASEAN Contact List

Credit Strategy & Standards

Michael Taylor	Managing Director	+65.6311.2618	michael.w.taylor@moodys.com
Deborah Tan	Assistant Vice President - Analyst	+65 6311.2644	deborah.tan@moodys.com

Sovereign

Marie Diron	Managing Director	+44.20.7772.1968	marie.diron@moodys.com
Gene Fang	Associate Managing Director	+65 6398.8311	gene.fang@moodys.com
Christian de Guzman	Senior Vice President	+65 6398.8327	christian.deguzman@moodys.com
Martin Petch	Vice President - Senior Credit Officer	+65 6311.2671	Martin.Petch@moodys.com
Anushka Shah	Vice President - Senior Analyst	+65 6398.3710	anushka.shah@moodys.com
Christian Fang	Assistant Vice President - Analyst	+65 6398.3727	christian.fang@moodys.com
Nishad Majmudar	Assistant Vice President - Analyst	+65.6398.3713	nishad.majmudar@moodys.com
Michael Higgins	Analyst	+65 6311.2655	michael.higgins@moodys.com

Financial Institutions

Graeme Knowd	Managing Director	+65 6311.2629	graeme.knowd@moodys.com
Alka Anbarasu	Vice President - Senior Credit Officer	+65 6398.3712	alka.anbarasu@moodys.com
Eugene Tarzimanov	Vice President - Senior Credit Officer	+65 6398.8329	eugene.tarzimanov@moodys.com
Srikanth Vadlamani	Vice President - Senior Credit Officer	+65 6398.8336	srikanth.vadlamani@moodys.com
Jeffrey Lee	Assistant Vice President - Analyst	+65 6311.2649	sukjoonjeffrey.lee@moodys.com
Rebaca Tan	Assistant Vice President - Analyst	+65 6311.2610	rebaca.tan@moodys.com
Joyce Ong	Analyst	+65 6311.2608	joyce.ong@moodys.com
Tengfu Li	Analyst	+65 6311.2630	tengfu.li@moodys.com

Corporate Finance

Laura Acres	Managing Director	+65 6398.8335	laura.acres@moodys.com
Ian Lewis	Associate Managing Director	+65 6311.2676	ian.lewis@moodys.com
Vikas Halan	Associate Managing Director	+65 6398.8337	vikas.halan@moodys.com
Annalisa Di Chiara	Senior Vice President	+852 3758.1537	annalisa.dichiara@moodys.com
Jacintha Poh	Vice President - Senior Credit Officer	+65 6398.8320	jacintha.poh@moodys.com
Kaustubh Chaubal	Vice President - Senior Credit Officer	+65 6398.8332	kaustubh.chaubal@moodys.com
Nidhi Dhruv	Vice President - Senior Analyst	+65 6398.8315	nidhi.dhruv@moodys.com
Maisam Hasnain	Assistant Vice President - Analyst	+65 6398.8325	maisam.hasnain@moodys.com
Hui Ting Sim	Analyst	+65 6311.2643	huiting.sim@moodys.com
Junling Tan	Analyst	+65 6311.2654	junling.tan@moodys.com
Stephanie Cheong	Analyst	+65 6311.2606	stephanie.cheong@moodys.com
Sweta Patodia	Analyst	+65 6398.8317	sweta.patodia@moodys.com

Project & Infrastructure Finance

Terry Fanous	Managing Director	+61 2.9270.8164	terry.fanous@moodys.com
Ray Tay	Senior Vice President	+65 6398.8306	ray.tay@moodys.com
Abhishek Tyagi	Vice President - Senior Analyst	+65 6398.8309	abhishek.tyagi@moodys.com
Spencer Ng	Vice President - Senior Analyst	+65 6311.2625	spencer.ng@moodys.com

Structured Finance

Dipanshu Rustagi	Assistant Vice President - Analyst	+65 6311.2605	dipanshu.rustagi@moodys.com

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