Asia Credit Research

OCBC Bank

Singapore Credit Outlook 2017

Friday, 6 January 2017

- **Risk events that were both close to home and further away contributed to a sharp slowdown in issuance volumes for the SGD bond market in 2H2016 as supply likely surrendered to more selective demand.**
- **We expect investor selectivity to continue in 2017 with recovering macro-conditions overshadowed by a negative bias from higher funding costs and ongoing event risks tied to evolving political and economic situations abroad. This will likely keep the market skewed towards a risk-off mentality although pockets of risk-on sentiment will likely occur.**
- **While 2017 issuance volumes will be supported by elevated refinancing requirements, we think supply could be constrained by still weak operating conditions and rising interest rates making issuers hesitant to raise debt. At the same time, we think demand will be framed by both fundamentals and yield concerns that will support duration for better quality credits, but at a price.**
- **Challenges in the SGD bond market in 2016 have forced investors to ask what early warning signs to monitor before it is too late. This has brought covenant packages into the spotlight.**
- **We see an improving outlook for financial institutions with rising interest rates, strategic progress, stabilizing asset quality and recovering economic conditions to support ongoing earnings stability. We have expanded coverage to include several European issuers in the SGD space.**
- **Recent acquisitions have largely exhausted the debt headroom of the REITs under our coverage. Future acquisitions (potentially foreign skewed) will either require additional equity (or hybrid securities) or asset divestments. Lease rates to remain under pressure due to competition, but dispersion in credit profiles to stay minimal.**
- **Residential prices in Singapore continued to decline for the 13th consecutive quarter in 4Q2016 and we do not foresee a respite in 2017. Property cooling measures are still in place, dampening demand and transaction volumes while several developers have begun to cut prices. We see further headwinds from rising interest rates, falling rental rates and a potential increase of sellers who were previously 'locked-up' due to Seller Stamp Duty.**
- **Between September and October 2016, coordinated measures by China's government were taken to cool property prices in more than 20 cities. This was intensified by controls over financing of property developers to taper land prices and promotes stability. While stronger issuers (including those under our coverage) are still able to raise foreign currency denominated bonds, this is likely to come at higher cost of funding on the back of lower capital supply and concerns over a slowing property market.**
- **The continued pace of increase in Hong Kong residential property prices look unsustainable as the government hiked the stamp duty rate while China stepped up on capital controls on the purchase of overseas property. We see uncertainties in the office sector due to a large supply in the coming years while retail landlords might see light at the end of the tunnel with a slight increase in retail rents recently.**
- **Recent recoveries in energy markets may spur increases in E&P activity, though persistent oversupply in drilling rigs and OSVs would keep the offshore marine sector challenged for 2017. Defaults and restructurings have largely occurred due to balloon maturity pressure, with "amend and extend" a frequent outcome. Resolutions and recoveries remain largely idiosyncratic, and dependent on several factors.**

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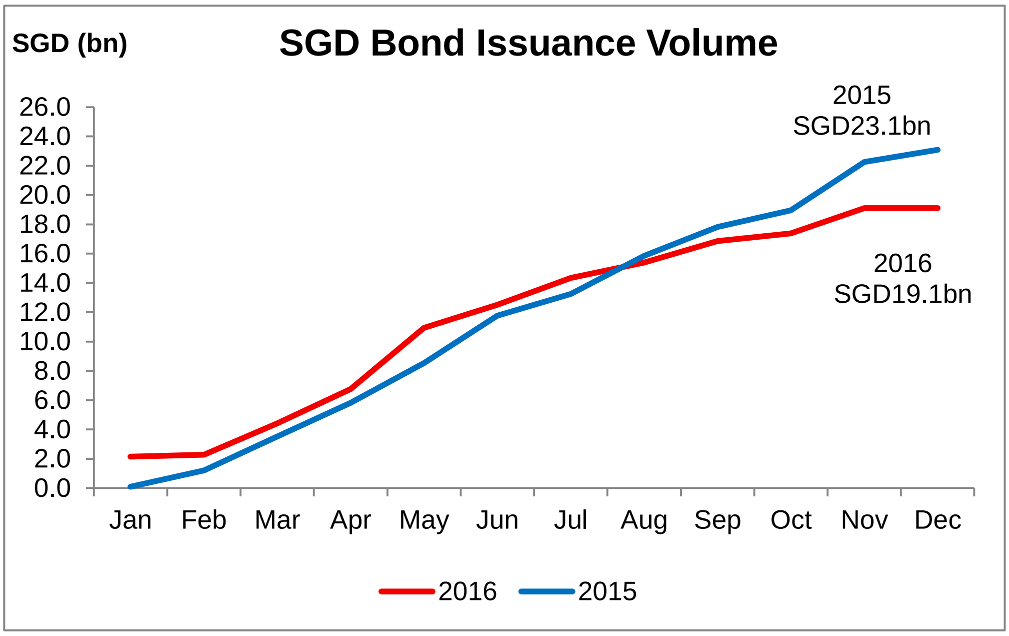
2016 Singapore Corporate Bond Market Review

Overall issuance volume weaker y/y

New issuance volume in the SGD space finished ~17% lower in 2016 compared to 2015 as investors stayed relatively risk-off throughout the year. Demand was plagued by several factors that were both close to home and further abroad including: (1) continuing global economic concerns and prevailing weak credit conditions in certain industries; (2) anticipation of interest rate hikes by the Federal Reserve; (3) event risk uncertainties such as Brexit and US elections; and (4) issuer stress in the offshore & marine sector as oil prices remained pressured. In particular, the last factor hurt overall bottom-line figures for most oil and gas related issuers and resulted in high profile cases like Swiber Holdings Ltd and Swissco Holdings Ltd who, amongst others, either defaulted or sought to restructure their bonds as they failed to meet debt obligations or came close to breaching their bond covenants. Indeed, 2016 will likely be seen as a turning point for the risk perception of the SGD bond market as the instances of stress rose substantially compared to prior years. As painful as this process has been for affected investors, one positive in our view is the ongoing development and maturation of the SGD bond market which is now experiencing growing pains after a period of somewhat solid and uncomplicated growth. Overall though, we think these developments likely impacted the yields that investors sought at a time when issuers' capacity for higher financing costs were constrained, ultimately leading to issuers either deferring issuance or sought alternative financing avenues.

The influence of issuer stress is highlighted in intra-year issuance trends with total issuance volume in 2H2016 halved from the amount seen in 1H2016 as total YTD issuance volume dipped below 2015 levels from around August, with Swiber Holdings Ltd's default kick-starting a series of offshore marine names seeking for consent solicitation to restructure their bonds. This crippled already low demand and was reflected in the difference in issuance volumes between 1H2016 (65.5% of total) and 2H2016 (34.5% of total). In fact for 2H2016, Housing & Development Board accounted for most of the issuance contributing nearly half of the total amount issued.

Figure 1: SGD bond issuances monthly volume (Cumulative)



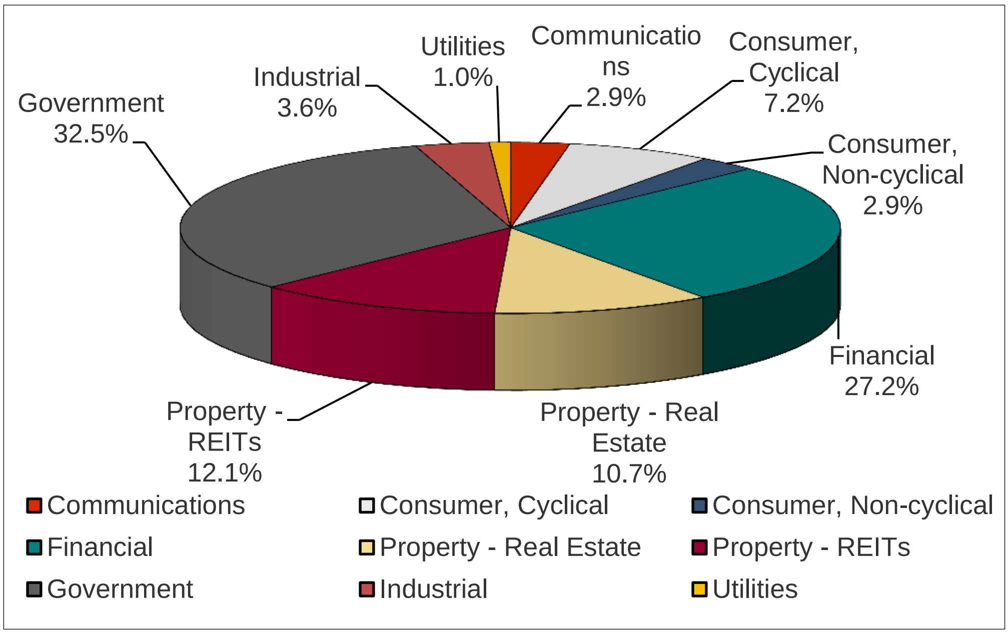
Source: OCBC, Bloomberg

An appreciating USD against the SGD may also have impacted market activity as investors instead pursued yield pick-up in USD-denominated credits (and swapping this into SGD) while issuers in turn may have found SGD issuance to be increasingly expensive.

Sector trends still favor Government related issuers and Financials

Issuance by sector stayed more or less unchanged from the first half of 2016 with financial and government related issuers dominating supply given their sound fundamentals and capital needs. Specifically, the government related sector, led by Housing & Development Board, contributed 32.5% of the total issuance volume in 2016, up from 24.1% in 2015. Similarly, financial institutions contributed 27.2% of the total issuance volume in 2016, up from 24.4% in 2015, as rising capital requirements continued to drive bank capital needs. We continued to see interest from foreign banks tapping the Singapore bond market, with Julius Baer issuing a SGD325mn perpetual bond in the second half of 2016. The property sector, including REITs, continues to account for a significant bulk of the remaining issuances (22.8% in 2016) but dipped as compared to the previous year (2015: 30.1%) with a weaker operating environment and lower demand for capital in the sector suppressing supply.

Figure 2: Breakdown of 2016 issuance size by sector

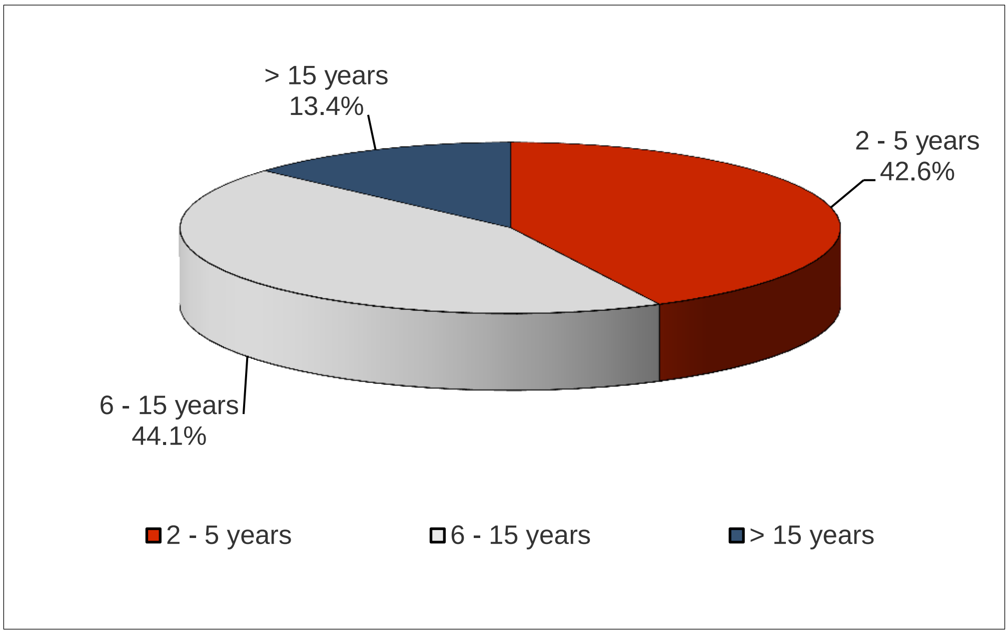


Source: OCBC, Bloomberg

The trend in tenor was consistent with our expectations with a substantial shift towards longer tenor bonds. This was driven by (1) low interest rates incentivizing both investors to search for higher yield through compromising on duration, as well as issuers to lock in low rates for longer; and (2) increased difficulty for high-yield issuers, who typically issue shorter-dated papers, to tap the market. The proportion of shorter-dated papers (2Y-5Y) fell to 42.6% in 2016 as compared to 46.4% in 2015. Longer-dated papers (6Y-15Y) contributed 44.1% of total issuance, up from 38.7% in 2015.

Seven appears to be the magic number for annual perpetual issuance with seven companies managing to issue perpetual bonds in 2016, the same amount as in 2015 and 2014. 2016 issues comprised Hyflux Ltd (SGD500mn), Frasers Hospitality REIT (SGD100mn), Mapletree Logistics Trust (SGD250mn), United Overseas Bank Ltd (SGD750mn), First REIT (SGD60mn), Lippo Malls Indonesia Retail Trust (SGD140mn) and Julius BAER Group Ltd (SGD325mn). The average yield of perpetual issues in 2016 was 5.29%, higher than the 4.84% average in 2015, although somewhat skewed by the relatively high coupons paid by Hyflux Ltd and Lippo Malls Indonesia Retail Trust. This highlights in our view ongoing fundamental considerations including the re-pricing of SGD risk mixed with concerns over duration risk and expectations of a rate hike.

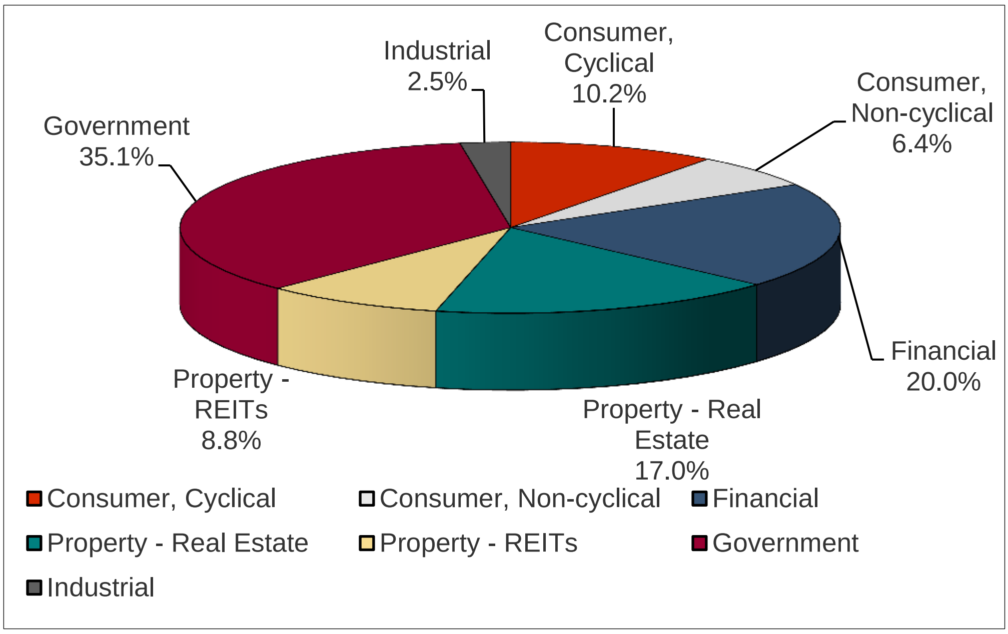
Figure 3: Breakdown of 2016 issuance size by tenor



Source: OCBC, Bloomberg

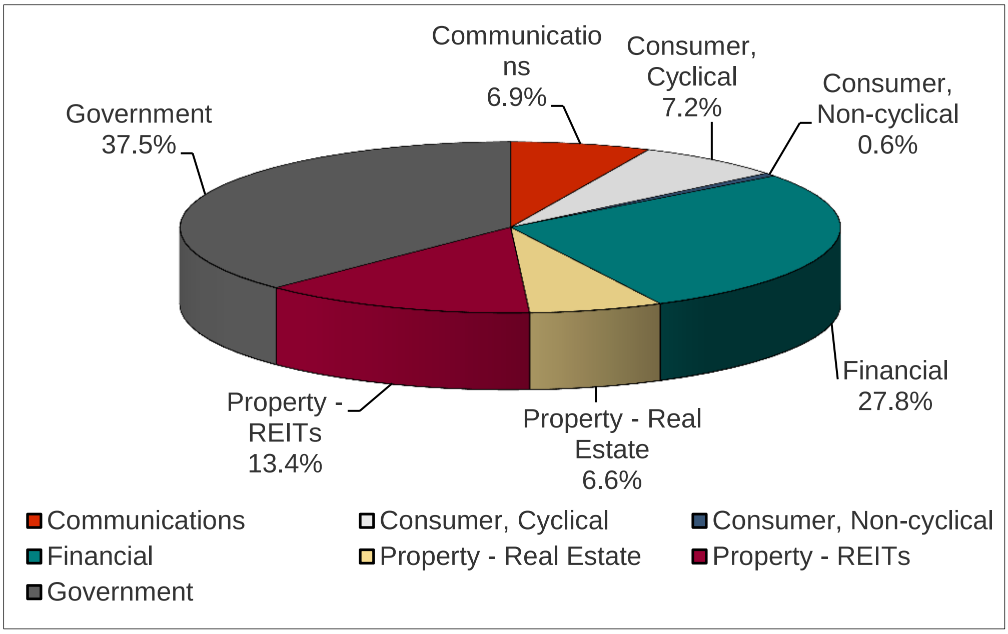
Sector issuance composition by tenor followed the overall market sector issuance trend with both the 2-5 year and 6-15 year tenor brackets mainly coming from government related issuers, financials and property related issuers. Notably, consumer sectors were only able to issue shorter dated papers due to higher business risk from more volatility in their business environment. On the other hand, the relatively stable telecommunications sector was able to issue longer-dated paper with Singapore Telecommunications Ltd. and Starhub Ltd. both issuing 7-year and 10-year bonds respectively. Government related issuers and financials comprised a larger proportion of longer dated tenors likely reflecting their ability to issue longer dated paper as well as their need for longer term capital.

Figure 4: Breakdown of 2016 issuance size by sector for 2Y-5Y tenor



Source: OCBC, Bloomberg

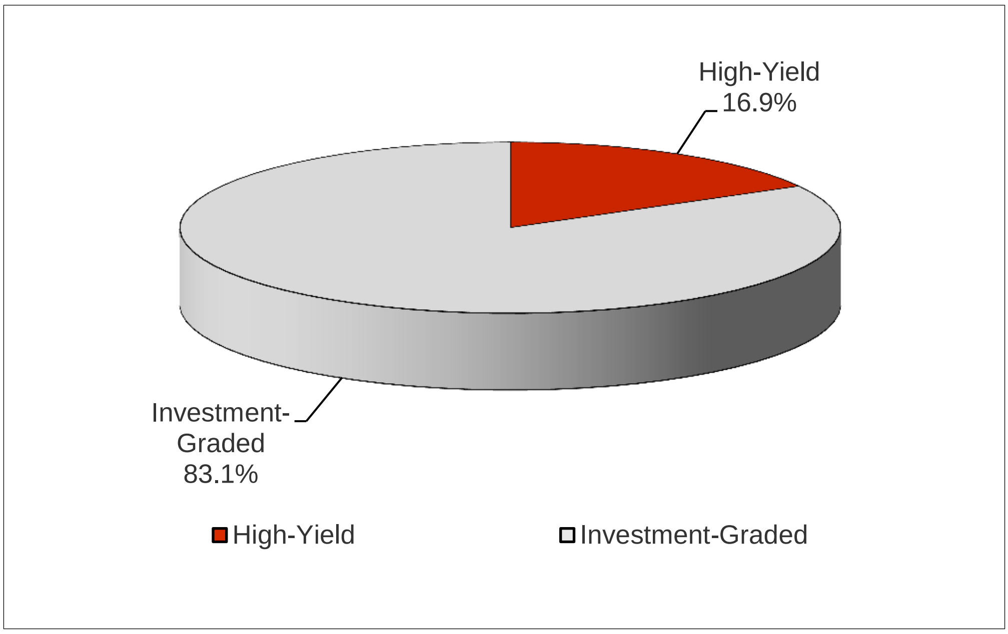
Figure 5: Breakdown of 2016 issuance size by sector for 6Y-15Y tenor



Source: OCBC, Bloomberg

Finally, the contribution of high-yield issues (as determined by coupon rates >4.5%) to total issuance continued to slow through 2016. While the global economic slowdown has created a low-yield environment which put downward pressure on yields, this trend was due more to the broader market tone which restricted investor demand for high yield issues. The trend also reflects the limited ability of high yield issuers to afford higher yields to attract investor demand given earnings pressure across various industries. If we exclude structurally driven higher yields (ie perpetuals) from better quality credits, then the decline in true high yield issues becomes even more pronounced.

Figure 6: Breakdown of 2016 HY issuance (>4.5% coupon rates)



Source: OCBC, Bloomberg

Credit Outlook for 2017

Our credit outlook for 2017 will be framed by a few influences/themes. Firstly, the economic outlook in China remains somewhat challenging. GDP growth is expected to slow to 6.4%[1] from a forecast of 6.7% in 2016 and remain pressured by its transition towards a consumption and services led economy and as two of the three drivers of the Chinese economy's 2H2016 recovery (property market and monetary policy) are likely to be less supportive in 2017. With China driving market volatility for the rest of Asia and being Singapore's largest trade partner, Singapore's export-driven economic growth could also remain constrained. Slower than expected growth in China and an antagonistic Trump administration could also threaten economic performance within the region.

Further afield, political developments in 2017 will be keenly watched, starting with President-elect Donald Trump's ascension to the White House in January. His largely inflationary fiscal policies (tax cuts, increased public spending) could potentially force the Federal Reserve to quicken the pace of monetary policy tightening to curb any potential inflation risks from our current expectation of up to 3 further rate hikes in 2017. This will likely drive SGD borrowing costs higher and could add stress to issuer's financial profiles should earnings growth not keep pace. The Singapore Dollar Swap curve (SOR), a good barometer for funding conditions and highly correlated to interest rate movements in the US, has bear-steepened significantly towards the end of 2016, reflecting expectations of future higher borrowing costs on US dollar appreciation and inflation expectations. USD appreciation could also have an impact on funds flows and currencies in the Asian region which has experienced consistent capital outflows and currency depreciation towards the end of 2016. In Europe, several major elections will take place in 2017, notably in Germany and France. These have the potential to weaken the Euro-zone's mild economic recovery and influence not only European economies but the global economy as well and disrupt credit markets in much the same way that Brexit initially did in 2016.

Finally, commodity prices are poised to stage a rebound in 2017. Our commodities analyst has opined[2] that crude oil prices should receive a push in 2017 from a global growth uptick and an incentivized OPEC following the fiscal damage done from the prolonged period of low oil prices. While the recovery in prices is a long term positive for issuers in oil and gas related industries, the short term impact will likely be limited to technicals given the time taken for oil price movements to factor into upstream investment plans. Elsewhere in the commodities space, base metals are likely to be a bright spot while the outlook for precious metals (in particular gold) and crude palm oil is slightly bearish.

With these events in play, we think credit fundamentals will continue to be the focus in 2017. We expect investor selectivity to continue with potentially rising funding costs and ongoing event risks tied to evolving political and economic situations abroad presenting downside risks for gradually recovering macro-conditions globally. This risk-off mentality will continue to support demand for high grade issues although this demand will likely come at a cost due to the prospect of duration risk as well as the re-pricing of risk in the SGD space. We do however expect pockets of risk-on sentiment to occur driven by technical considerations rather than fundamentals given ample market liquidity and the search for yield as was the case in 2016 with the 2H2016 divergence of technicals and fundamentals compressing yields before US elections brought a correction in bond prices. Demand for high yield paper will continue to be muted and given the likely higher price for risk, we expect demand will continue to out-price issuer comfort levels and hence limit supply. Overall, we think demand themes remain broadly consistent with our 2H2016 views although potential perpetual issuance may slow should yields prove to be expensive for issuers or too cheap for borrowers.

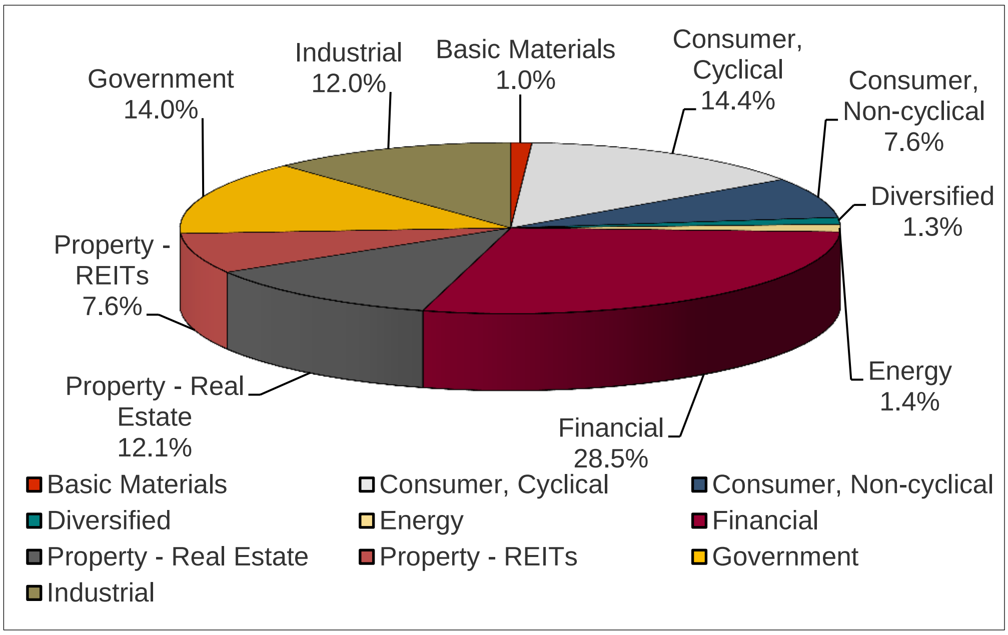
Demand is likely to dictate supply trends, with supply skewed towards better quality names that have the ability and willingness to tap the markets, especially as funding costs rise. This will put further pressure on high yield supply unless capital

[1] *OCBC Global Outlook 2017, 5th January 2017*
[2] *OCBC Commodities Outlook 2017, 26th October 2016*

requirements are critical and unavoidable or these issuers cannot rely on their banking relationships. Both of these considerations though should cause investors to question the credit fundamentals of these issuers, which would likely shut them out of the bond market given current conditions. While we expect a gradual recovery of oil prices in 2017, we think the external environment and fundamentals for oil and gas related issuers will continue to be challenging for 2017. This is because offshore performance is tied to oil and gas investment plans, which have already been set for 2017 and will likely be lower given the credit profiles of exploration and production companies have been under pressure, necessitating a wait and see attitude to ramping up investments. We expect supply to come from the usual suspects, namely government related issuers and financials although capital requirements from banks could fall given potentially constrained balance sheet growth, notwithstanding rising capital requirements. Capital requirements for real estate companies will depend very much on the pace and scale of their developments or on acquisitions which are at best uncertain.

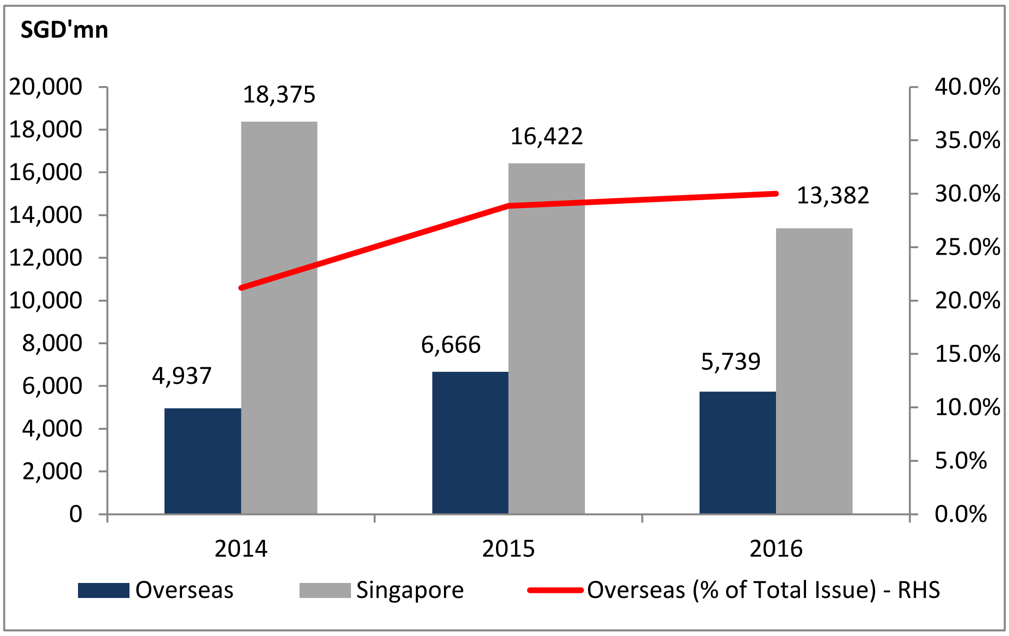
With all of the above potentially combining to exert downward supply pressure, we expect refinancing needs to contribute a material portion of the supply. We estimate that approximately SGD16.6bn bonds will mature and SGD11.0bn bonds will be callable in 2017. Financial institutions continue to form the majority of the bonds that are maturing / callable next year at ~29% while the government related sector comes in second at ~14%. Notably, more foreign banks could tap the SGD space to fill their capital needs and contribute to the growing proportion of non-Singapore domiciled SGD bond issues. In 2016, overseas domiciled issuers contributed 43% of total 2016 issuance volumes with ~64% of the amount coming from foreign banks. That said, financials tend to be opportunistic issuers with the capability to issue in different currencies. Nevertheless, supply from refinancing should hopefully ensure a still vibrant SGD bond market in 2017 after a somewhat challenging year in 2016.

Figure 7: Bond Maturities breakdown by sector for 2017



*Source: OCBC, Bloomberg | *Includes bond callable in 2017*

Figure 8: Bond Issuance Breakdown by Country of Domicile



Source: OCBC, Bloomberg

Structural Bond Considerations – No Pain, No Gain

As mentioned, 2016 was a painful year for certain investors with rising defaults and restructurings from either failing to meet coupon payments or potentially breaching financial covenants severely impacted market activity in 2H2016. Issuers as well faced difficult times as investor demand turned increasingly selective with high yield issuers effectively shut out of the market, in turn precipitating the defaults and many restructurings. These events seemed to catch market participants off-guard given the low historical incidence of stress in the SGD corporate bond market with investors at first scrambling to understand (1) issuer actions or proposals to alleviate stress; (2) their rights against these proposals; and ultimately (3) whether they should accept these proposals or alternatively had the ability to fight issuer terms if they felt the proposals were not equitable. Over time however as the restructurings mounted and awareness increased, rising investor angst and activism increasingly forced issuers to review the terms of their consent solicitations to be more palatable to investors. As difficult as this situation was, we think the robustness of the SGD bond market has benefitted from bond holders finding their voice. Similarly, issuers now have a better understanding of the need for clear, open and pro-active communication with bond holders to ensure an alignment of interests as investors become better informed of possible downside risks.

Investors were able to push their agenda in 2H2016 by using the covenant packages of the bonds under stress and as such covenant packages have become an increasingly important evaluation tool for determining if a bond is worth buying and if investors are well-protected against downside risks. Unfortunately though, for some investors it was perhaps a case of too little too late as investors were forced to renegotiate terms at the point of near default and settle for somewhat unpalatable terms as they had no other choice. This could have been due to the quality of the initial covenant packages.

So what are the contents of a strong covenant package? In short, well-structured covenant packages should fulfill the following aims: (1) restrain equity holders and management from making detrimental decisions that conflict with the interests of bond holders; (2) preserve a bond's priority of claims on issuers' assets and; (3) allow for acceleration of a bond's maturity to preserve or distribute payments to the creditors. Covenant packages should also be used to forewarn investors against default and signal distress well ahead of time to allow investors to either get out before it's too late or renegotiate terms at a time when dialogue can be constructive.

Moody's Investors Services provides a useful guide through its Covenant Quality Scoring Criteria[3] and identifies six key risk areas that covenant packages should address including: (1) limitations on cash leakage, investments in risky assets, and over leveraging; (2) restrictions on contractual and structural subordination; and finally (3) change of control events (including change in ownership or management or sale of the company or a material amount of its assets).

Covenants achieve the above by formally documenting requirements that issuers have to maintain or meet, and restricted actions that could harm bond holders' interests. These two forms of tests are otherwise known as maintenance and incurrence tests with maintenance tests requiring a company to maintain a certain level of financial strength (eg minimum or maximum financial ratio levels) in order to meet its ongoing financial commitments, while incurrence tests are in-place to restrict a company's intentions to incur additional debt, make restricted payments, or make investments which could pose threats to existing bond holders.

While strong covenant packages seek to provide investor protection, they should also adequately balance the issuer's need for financial flexibility. The combination of covenants and testing periods must also be appropriate for the issuer's industry and business model. For instance, cyclical companies may seek to avoid cash flow related covenants given the volatility in their earnings and instead prefer balance sheet covenants given the potential lag effect on these ratios from prolonged operating weakness assuming moderate leverage levels to begin with. That said, cash flow or EBITDA related covenants remain vitally important to investors as a test of the issuer's ongoing ability to pay its financial commitments and one way to smooth out the impact of volatile cash flows is to use a longer testing period (typically rolling 12 months).

Covenant levels are also important as they need to be set at a point where it can give investors an early warning sign that the company could be near default, or is likely to seek for restructuring as headroom under covenants weakens. At the same time, levels should also provide adequate room for the company to operate through a business cycle. Again, levels will also be specific to an issuer's business and industry. In any event, the covenants should be constructed in a way such that investors can either exit their position earlier if the risk position becomes intolerable, or engage with issuers early enough so as to re-visit the terms of the debt when performance does not go to plan and at a point where there is time for constructive dialogue.

Investors are likely to be more demanding in future covenant package negotiations given what transpired in 2016. That said, covenant negotiations are also a function of the relative bargaining strength of issuers and investors. Better positioned issuers could still achieve relatively loose covenants. But while the benefits of a strong package can obviously accrue to investors, issuers also stand to benefit with a more marketable instrument possibly attracting a lower coupon and a more favorable investor perception of management's commitment to its stakeholders. This can both help in future issuance plans. In any case, the spotlight on these terms should ensure more robust covenant package discussions in the future. This in our view is another gain in the development of the SGD corporate bond market.

[3] *Moody's High-Yield Bond Covenants: Covenant Quality Scoring Criteria (Update), 25 October 2013*

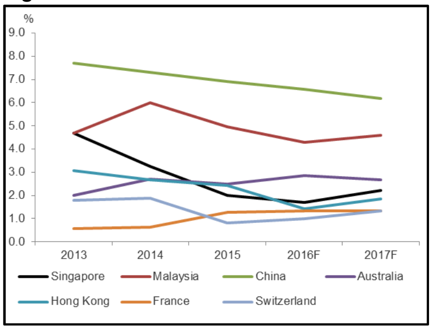
Financial Institutions – a better 2017?

In July 2016 we resumed coverage of financial institutions when they were between a rock and a hard place. Weakening profitability from tough external conditions (reduced revenues and higher operating expenses including loan loss allowances reducing earnings generation) were restricting banks' ability to support an economic recovery through limiting their growth in risk weighted assets in order to preserve capital. However, while the broad themes remain consistent with 6 months ago, we see more upside than downside for financial institutions under our coverage in 2017.

2016 was difficult but in the past

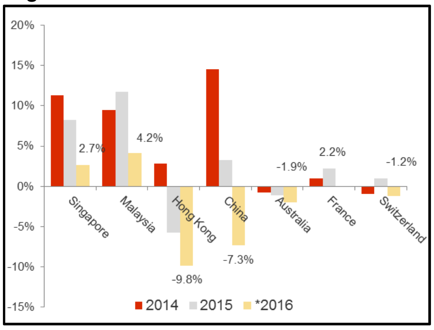
Tough conditions in 2016 were brought upon by slowing economic growth in the region which impacted loan demand. Net interest margins were also under pressure from both competitive dynamics for loans and deposits but also from government monetary policies that remained loose to pump prime economies.

Figure 9: GDP Growth Y/Y



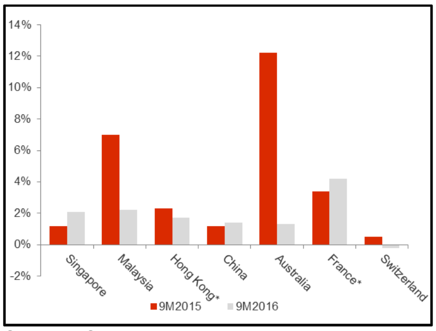
Source: OCBC, IMF World Economic Outlook Oct 2016

Figure 10: Revenue Growth Y/Y



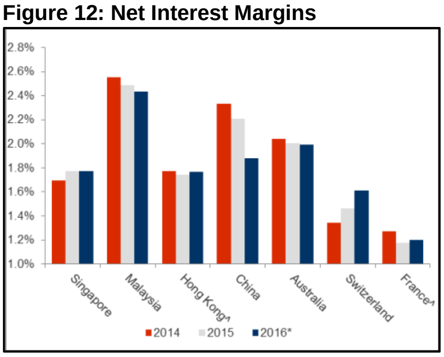
Source: Company's Annual Reports.
** Data annualized*

Figure 11: Loan Growth Q/Q



*Source: Company's Annual Reports. *Data as at 30 June (1H2016) for Hong Kong banks*

Figure 12: Net Interest Margins

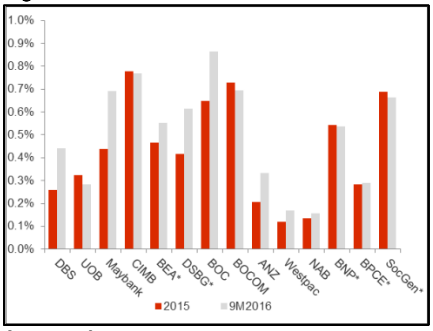


Source: Company's Annual Reports.
^Hong Kong figures as of 30 June (1H2016) while French Bank data reflects 2013-2015
**Data annualised as of 30 September*

Weaker operating conditions put several industries under stress, most notably cyclical industries such as oil and gas, but also traditionally stable industries such as real estate, which saw end user demand moderate from government policies. Credit costs rose throughout the year as borrowers came under pressure due to weaker growth prospects and leveraged balance sheets following the post financial crisis debt binge. While banks sought to mitigate rising credit costs through improved efficiencies and lowering their cost to income ratio, returns continued to fall as top line pressure influenced overall results.

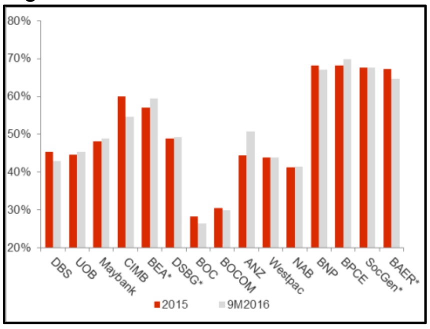
The focus for banks through 2H2016, particularly in Singapore, was on asset quality and adequacy of declining loan loss coverage levels. Investors kept a watchful eye on results announcements to gauge the level of risk in banks' loan books and if provisioning strategies were adequate. In general, non-performing loans rose faster than total loans and allowances in 2016 and while banks' expressed confidence in loan books and provisioning levels in the context of these trends, we think ultimately the lower coverage levels were more an outcome of the weaker profit environment which restricted bank's ability to raise provisions without further hurting returns.

Figure 13: Credit Cost Performance



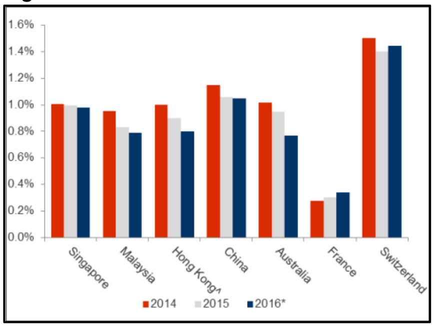
*Source: Company's Annual Reports.*Data as of 30 June (1H2016), 31 Dec (2015) for French banks*

Figure 14: Cost to Income Ratio



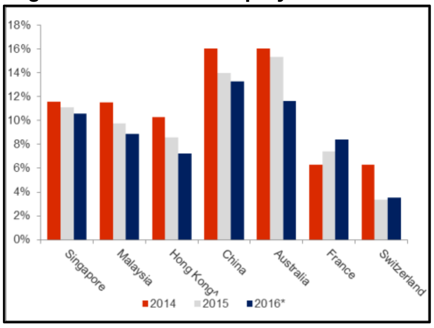
*Source: Company's Annual Reports. * Data as of 30 June (1H2016) for Hong Kong & Swiss Banks, SocGen's data for 2014 / 2015*

Figure 15: Return on Assets



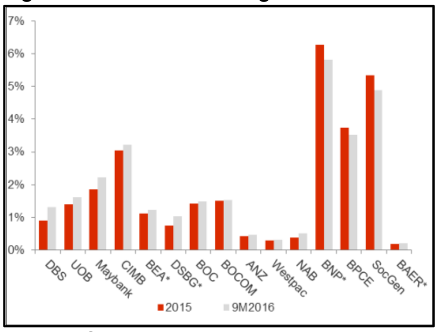
*Source: Company's Annual Reports *Data annualised as of 30 September, ^Hong Kong figures as of 30 June (1H2016)*

Figure 16: Return on Equity



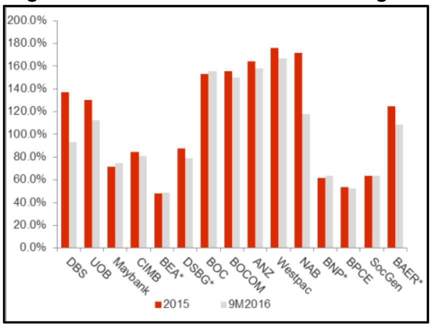
*Source: Company's Annual Reports *Data annualised as of 30 September, ^Hong Kong figures as of 30 June (1H2016)*

Figure 17: Non Performing Loans/Gross Loans



*Source: Company's Annual Reports, *Data as of 30 June (1H2016) for Hong Kong & Swiss Banks, BNP's data for 2014/2015*

Figure 18: Allowance/Non-Performing Loans



*Source: Company's Annual Reports, *Data as of 30 June (1H2016) for Hong Kong & Swiss Banks, BNP's data for 2014/2015*

2017 holds a better view

With 2016 in the past, we look towards 2017 with some level of optimism for the credit quality of financial institutions. We expect operating conditions to be better than 2016 (notwithstanding 2016 is a somewhat low bar to pass) as resilient earnings, still solid business positions, and conservative operating strategies are likely to result in adequate loan loss coverage and maintenance of current strong capital buffers towards implementation of Basel III by 2019. Most banks under our coverage have also embarked on strategic repositioning towards better return businesses and investing in operating efficiencies to deliver services more effectively and in a more customer centric manner to cater to evolving consumer preferences and counter the threat of fintech. That said, challenges continue for financial institutions in 2017 and while risks remain, we think the opportunities marginally outweigh the risks and could contribute to better performance for financial institutions under our coverage in 2017.

Financial Institutions - Key Risks

China:
- On-going economic rebalancing presents risks from both a macro and corporate level perspective with ongoing restructurings of highly leveraged and over capacity industries possibly flowing through to bank balance sheets.
- Growth in shadow banking also poses a threat to bank balance sheets although this risk is more concentrated on smaller banks.
- Transparency within China's banking system can improve further.
- Systemic risk appears manageable for now through solid government support although the government's capacity to support is weakening. Sovereign ratings are now on negative outlooks by two of the three rating agencies.

Chasing growth:
- Pursuit of balance sheet growth at the expense of asset quality may come into consideration given weakening returns of the past few years and the still competitive operating environment.
- However, economic growth expectations are still somewhat fragile and debt levels remain high.
- Focus on credit quality could be compromised as banks chase fewer avenues for growth leading to crowded market places and aggressive tactics.
- Australia could be more exposed given its reliance on the housing sector.

Regulatory risk:
- One area where banks have increasingly competed in is the retail and consumer space given prospects in corporate and institutional lending and markets related activities have languished and loan quality indicators in the consumer lending space are generally better than those for corporates.
- This has traditionally supported strong appreciation of house prices throughout the region, most notably in China, Hong Kong and Malaysia.
- To counter, governments have enacted various property cooling measures which could have a negative effect in 2017 of both slowing down growth in mortgage lending as well as raising stress in existing mortgage books for highly leverage borrowers impacted by a fall in house prices.
- Additionally, further monetary easing also presents a risk should economic growth stall in 2017. This will negatively impact margins and contribute to additional regional funds outflows that began in 2H2016. This will depress currency values and create additional stress at the bank and borrower level.
- Malaysia, China and Australia are most exposed to this risk.

Financial Institutions - Key Opportunities

Rising interest rates:
- On the flip side, expected US interest rate normalization in 2017 will benefit several jurisdictions given domestic rates are tied to US interest rates, namely Singapore and Hong Kong banks.
- This will be a positive considering the small open economies of Singapore and Hong Kong will still face low but recovering economic growth in 2017 and potentially slow housing markets, thereby depressing loan demand.
- In Europe, interest rates are also expected to rise albeit from record lows as the Eurozone continues its economic recovery.

Strategic progress:
- 2017 will mark another year of progress under various strategic initiatives to reinforce bank returns in the face of industry challenges although cost-to-income ratios have suffered somewhat as a result.
- 2016 has already seen some success to date with refocusing on core domestic businesses and exiting low return overseas investments being accretive to capital positions.
- Efficiency investments and focus on operating costs have also lead to moderate to declining growth in cost to income ratios.
- We expect these initiatives to provide support to bank returns which will continue to be exposed to top line pressure.

Financial Institutions - Key Opportunities (cont.)

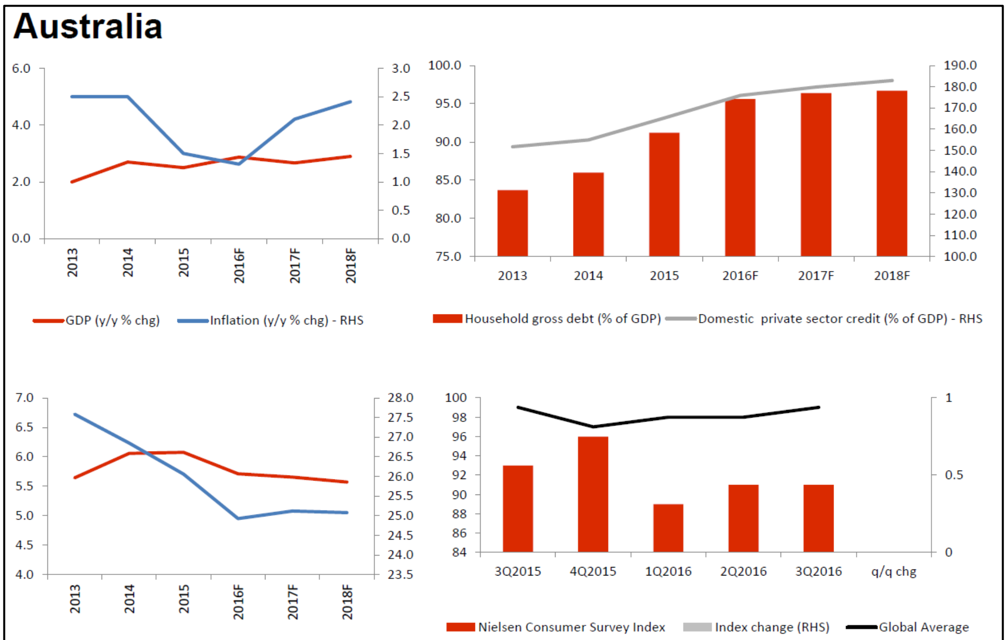
Stabilizing asset quality:

- Recent bank results saw a fall in credit costs following an extended period of rising credit costs that have impacted profitability. At the same time, allowance coverage levels fell continuously.
- While lower allowance coverage is credit negative in our view, banks have stressed their confidence in the forward view for loan book quality which could benefit in 2017 from a repositioning in 2016 away from stressed sectors such as manufacturing and retail and trade as well as gradually recovering economic conditions.

Recovering macro indicators:

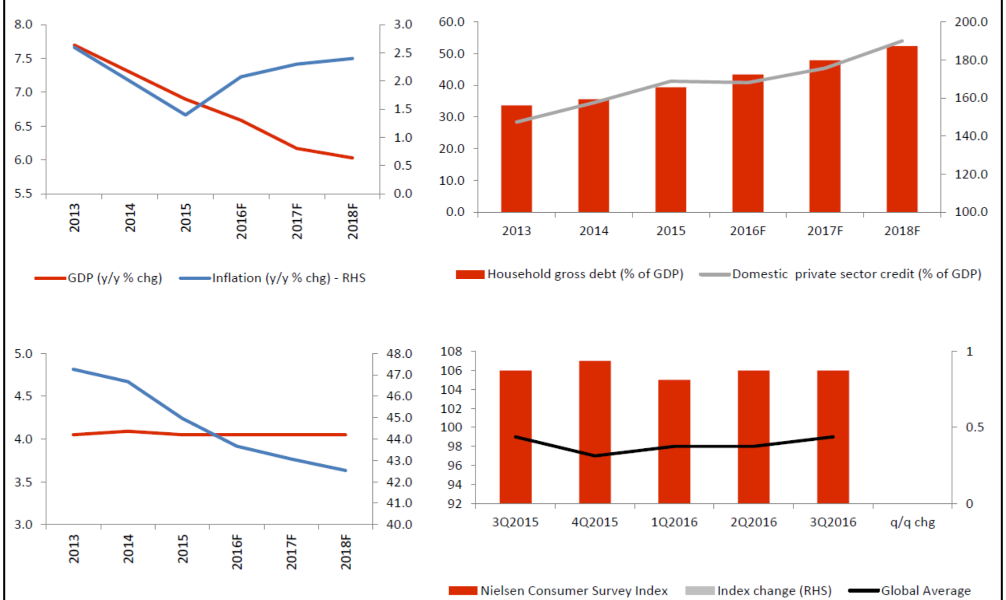
- The general economic theme for the banks under our coverage is gradual recovery with all (aside from China) expected to post a moderate recovery in economic growth over 2017 and 2018.
- Inflation is also expected to pick up, which could restrict supportive governments from pump priming their economies from monetary easing while current low interest rates should still support some level of loan volumes to compensate for compressed net interest margins.
- While investment to GDP ratios remain modest, stable to falling unemployment rates, stabilising levels of household gross debt as a percentage of GDP (albeit still at elevated levels) and improving consumer sentiments are all positive indicators for growth in loan volumes from consumer spending and investment.
- That said, the economic recovery is starting from low levels and there are still challenges that lie ahead.

Economic Outlooks



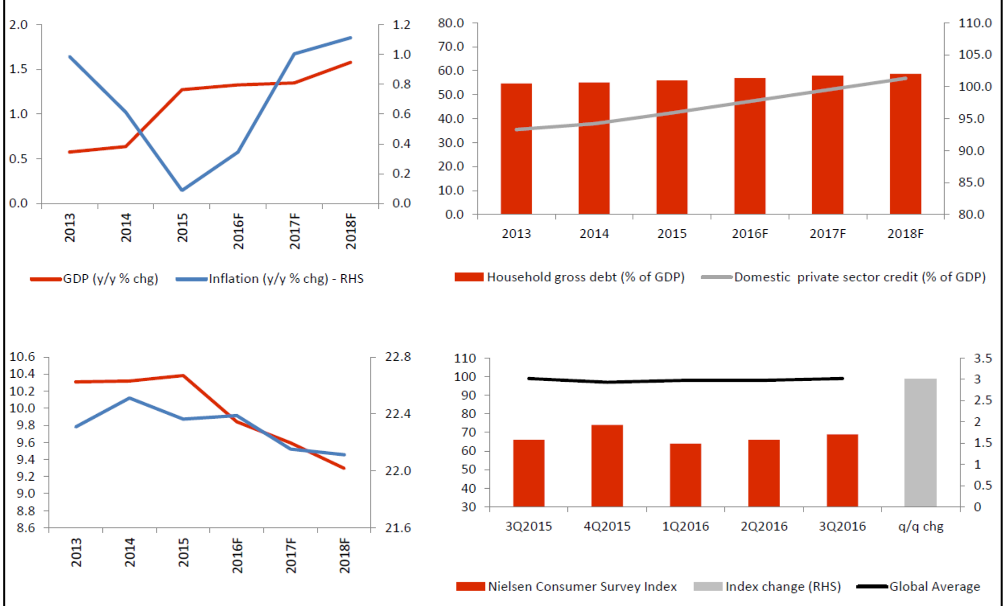
Source: S&P,IMF, Nielsen Consumer Survey

China



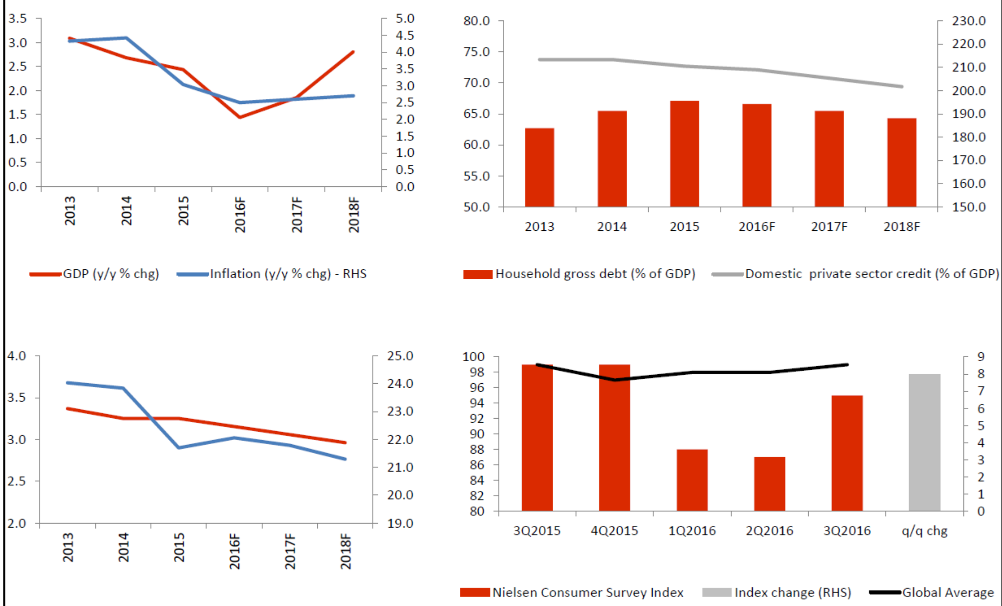
Source: S&P,IMF, Nielsen Consumer Survey

France



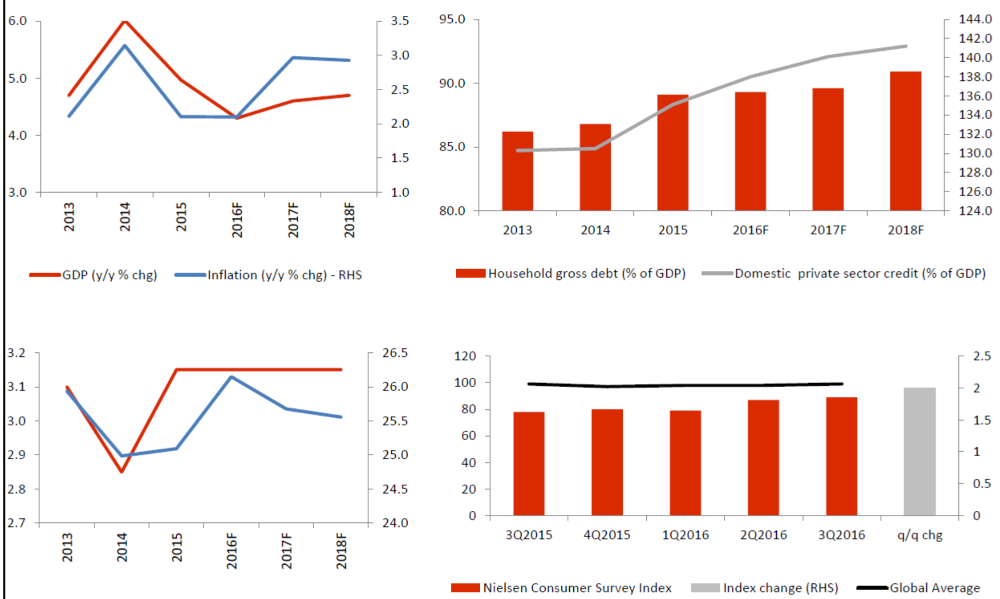
Source: S&P,IMF, Nielsen Consumer Survey

Hong Kong

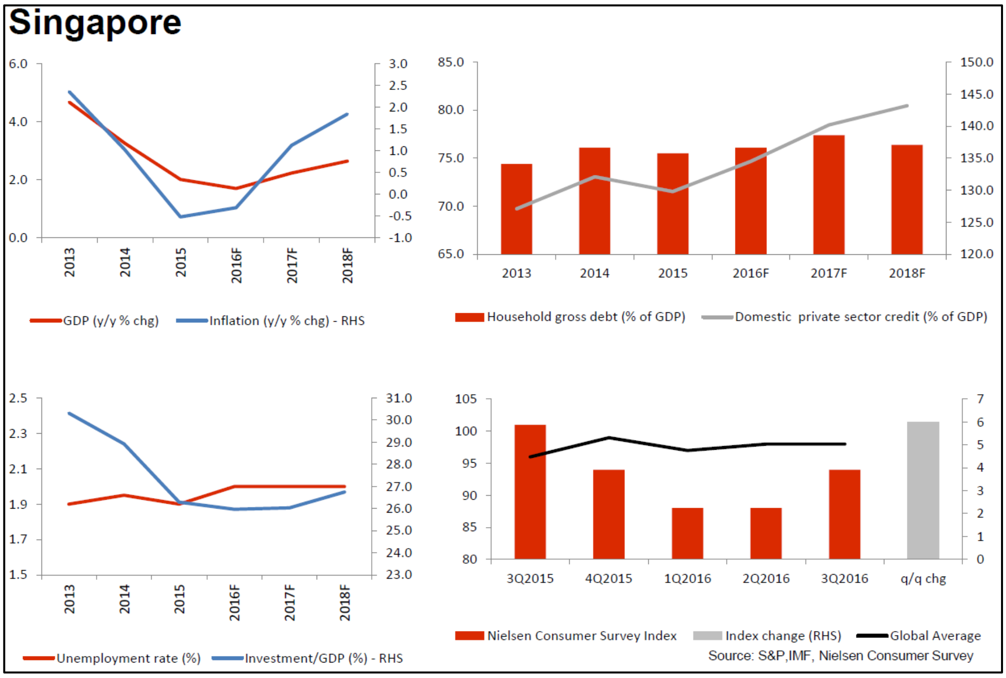


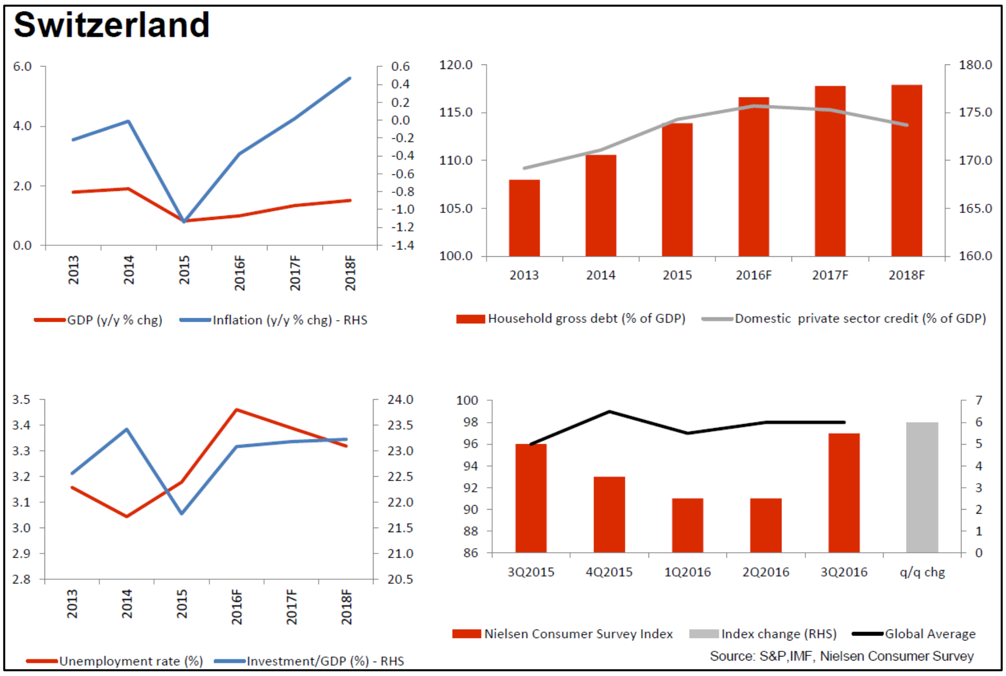
Source: S&P,IMF, Nielsen Consumer Survey

Malaysia



Source: S&P,IMF, Nielsen Consumer Survey





Singapore REITs – Potentially more foreign endeavors

As per previous years, we expect Singapore REITS to be well presented in primary issues due to their refinancing needs. One difference though is that in general REITs under our coverage have largely consumed their debt headroom due to acquisitions. As a result, we can expect REITs to potentially fund subsequent acquisitions with a mixture of equity (including perpetuals) and debt in order to keep their aggregate leverage levels in check. Though divestments could possibly allow REITs to generate debt headroom, the weakness we see across the domestic commercial real estate sector could limit such options. The same weakness could also make it difficult for REITs to make more domestic acquisitions, as valuations have largely lagged the decline in property yields. Previously, REITs were able to make such acquisitions work by taking on more debt funding, but this is less likely going forward due to limited debt headroom and rising interest rates. As such, we expect REITs to continue to expand overseas, such as SUN's acquisition of the Southgate, Melbourne and AREIT's SGD1bn Australian acquisition at the end of 2015.

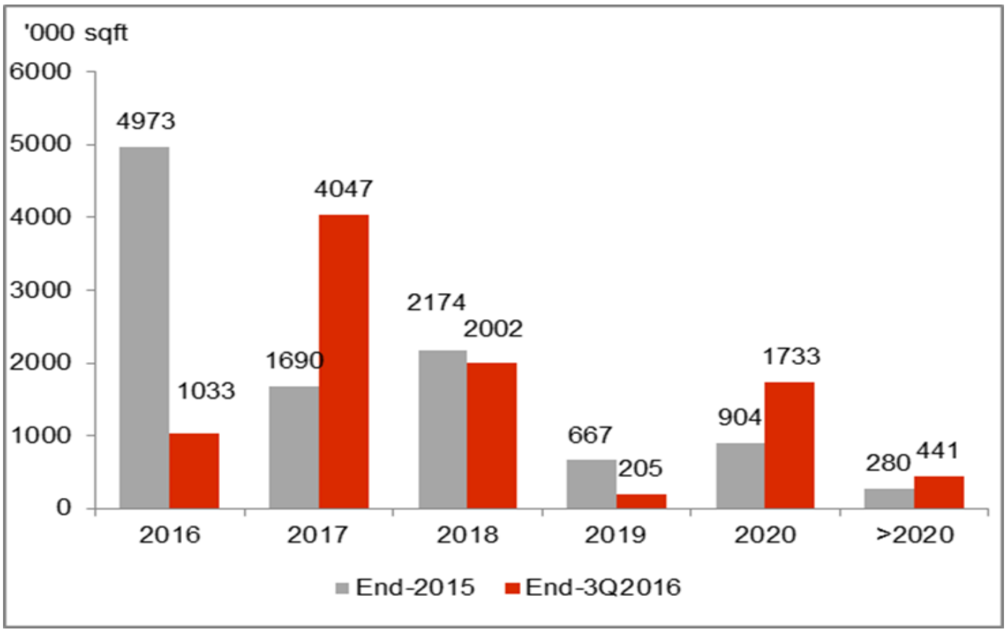
Table 1: Debt profile and statistic of S-REITS under coverage (as at 30 September 2016)

	Aggregate leverage (%)	Debt Duration (years)	Debt cost (%)	Proportion of debt fixed/hedged (%)
OFFICE				
CapitaLand Commercial Trust	37.8	3.5	2.5	80.0
Keppel Real Estate Investment Trust	39.0	3.7	2.5	74.0
Mapletree Commercial Trust	37.3	4.3	2.7	74.1
Suntec REIT	37.8	2.9	2.3	70.0*
Average:	**38.0**	**3.6**	**2.5**	**74.5**
RETAIL				
CapitaLand Mall Trust	35.4	5.5	3.2	100.0*
Croesus Retail Trust	44.6	2.2	1.9	100.0
Frasers Centrepoint Trust	28.3	2.7	2.1	59.0
Lippo Malls Indonesia Retail Trust	32.7	2.0	5.1*	87.0
Mapletree Greater China Commercial Trust	39.9	3.1	2.9	85.0
Starhill Global REIT	35.1	2.9	3.1	96.0
Average:	**36.0**	**3.1**	**2.6**	**87.8**
INDUSTRIAL				
AIMS AMP Capital Industrial Trust	34.0	2.4	3.9	67.5
Ascendas REIT	34.2	3.8	3.0	77.6
Cambridge Industrial Trust	36.9	3.4	3.7	88.4
Mapletree Industrial Trust	29.0	3.5	2.6	68.6
Mapletree Logistic Trust	37.6	3.5	2.3	81.0
Sabana Shari'ah Compliant Industrial Trust	41.5	2.1	4.1	90.5
Soilbuild Business Space Trust	36.0	3.1	3.4	88.5
Viva Industrial Trust	39.8	3.5	3.9	86.1
Average:	**36.1**	**3.2**	**3.4**	**81.0**
HOSPITALITY				
Ascott Residence Trust	41.0	4.6	2.4	80.0
Fraser Hospitality Trust	37.7	2.4	2.6	86.0
Average:	**39.4**	**3.5**	**2.5**	**83.0**
HEALTHCARE				
First REIT	30.0	1.9*	4.0*	85.3*
Average:	**30.0**	**1.9**	**4.0**	**85.3**
Average:	**36.5**	**3.2**	**2.9**	**82.1**

*Source: Companies | *OCBC estimates | Aggregate leverage derived by Gross Debt / Total Asset*

Singapore Office REITs – Delaying the inevitable

Figure 19: Office Supply Pipeline



Source: Urban Redevelopment Authority real estate statistic, OCBC

2016 was largely a challenging year for the domestic office real estate sector, with the tepid economy suppressing demand, and new construction pressuring supply. Rentals have continued to slide with URA reporting six consecutive negative quarters, with rentals down 15.2% from the 1Q2015 peak. Vacancy rates are picking up as well, with Category 1 office vacancies up sharply to 11.0% as of end-3Q2016 (2Q2016: 8.3%). As can be seen in the chart above, the unsurprising developers' response to the 2016 office supply was to delay the completion of their respective developments. As such, the market continues to face a glut in office space in 2017. The pipeline remains similar as other major projects (such as Duo Tower and Marina One) have been pushed into 2017, with the exception of Guoco Tower (890,000 sqft) which received TOP in October 2016. With ~4 years' worth of supply (based on historical demand) coming on stream in 2017, we can expect the lease rate and occupancy pressure we saw in 2016 to persist into 2017.

Table 2: Office REITs Statistics

Issuer	Occupancy				Expiry (NLA%)		
	2014	2015	9M2016		2016/17	2018	2019+
CCT	96.8%	97.1%	97.4%		9.0%	14.0%	77.0%
KREIT	99.5%	99.3%	99.5%		5.2%	5.4%	89.4%
SUN (Office)	100.0%	99.3%	99.4%		12.6%	21.8%	65.6%
MCT (Non-VivoCity)	93.9%	93.7%	98.7%		7.4%	11.8%	80.8%

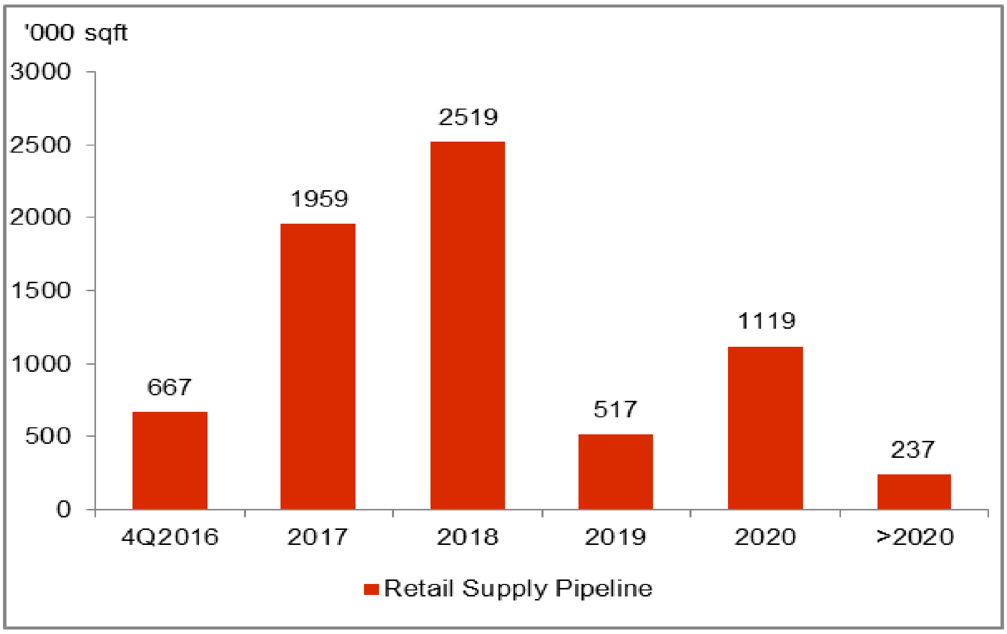
Source: Company, OCBC, [MCT: FY2015, FY2016, 1HFY2017]

With the domestic economy looking to remain muted through 2017, we expect demand growth for office space to remain anaemic. The trend of cannibalizing other properties' tenants is likely to continue, especially with looming new assets seeking to ramp up their committed occupancy levels before TOP. For example, Guoco Tower's ~80% committed occupancy / advanced leasing discussion as of TOP was hard fought, snatching Dentsu Aegis from 77 Robinson and Danone from Goldbell Towers. An observation was that tenants seemed to be heading to newer buildings, with modern floor plates that allow for flexibility. From this angle, the office REITs under our coverage are generally well-positioned given their portfolio of relatively new prime Class A assets. Their robustness can be seen in their portfolio occupancies, which stand decisively stronger than the Category 1 office occupancy of 89%. Office REIT managers have largely been proactive in renewing leases ahead of expiry. As such, it can be seen in the above table that the REIT's expiry profile for 2017 and even 2018 remains manageable, especially with the glut in office supply resolving by end-2018. As noted previously, the strong occupancy and lease profile comes at a cost: there is distinct lease rate pressure, with REIT managers conceding on rental growth to support occupancy. We expect lease rate pressure to continue into 2017.

After the record SGD3.4bn Asia Square Tower 1 sale and the SGD560mn Straits Trading Building sale, other secondary transactions in the office asset market have occurred, such as the acquisition of 77 Robinson Road (the former SIA building) for SGD530.8mn by CLSA Capital and the acquisition of 50% of Capital Square by ARA Asset Management for SGD475.5mn. With the resumption of secondary transactions in the office asset market, we may see more active management of the REITs' portfolios. Given that most of the office REITs under our coverage have limited debt headroom, we may see some divestments occurring. A few assets that have been reported to be considered for divestments include Wilkie Edge (Cushman & Wakefield has been appointed to market the asset) and 50% of One George Street (both are in CCT). We could potentially see more foreign acquisitions as well, similar to SUN's acquisition of a stake in the Southgate, Melbourne, particularly given that property yields have remained low domestically (and rising interest rates make it more difficult for acquisitions to cover their cost of capital). In general though, we expect the office REITs under our coverage to continue to toe the line, keeping aggregate leverage below 40%. Looking beyond 2017, there was a silver lining for the domestic office real estate market, with seven developers contesting for the large white site beside Asia Square along Central Boulevard. At SGD2.57bn, the winning bid by IOI Properties Group Bhd of Malaysia was the highest bid ever on an absolute basis for a Government Land Sale in Singapore, and approximates to SGD1689 psf per plot ratio (compared to the land cost of SGD1409 psf per plot ratio for Asia Square Tower 1 in 2007). The site can be developed into a maximum GFA of 1.5mn sqft, of which ~70% has to be put to office use. We consider the strong bid for the land as a vote of confidence for the Singapore office market.

Singapore Retail REITs – Managing through the storm

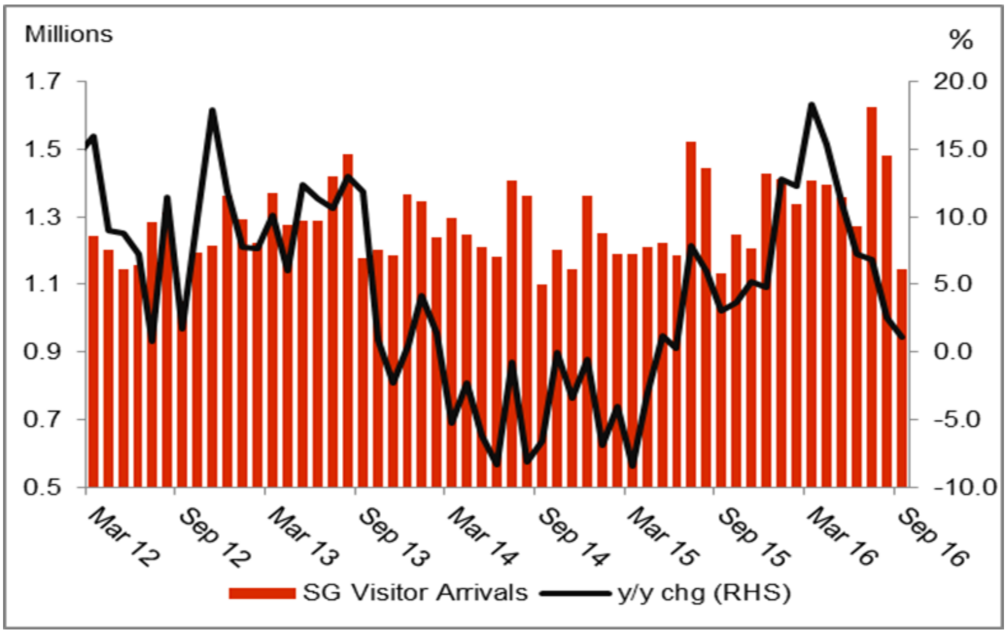
Figure 20: Retail Supply Pipeline



Source: Urban Redevelopment Authority real estate statistic, OCBC

Unlike the office sector, retail assets have largely been completed as scheduled. The supply is also more manageable, with most of the supply outside of the core Orchard Road shopping district. The largest supply would come in 2018, and even then it would only be ~4% of existing retail space. Most of the retail pipeline is also fragmented, with notable large developments being Project Jewel at Changi Airport (retail portion: ~970,000sqft GFA), Northpoint City (retail portion: ~420,000sqft GFA) and Paya Lebar Quarter (retail portion: ~476,000sqft GFA) as part of the pipeline in 2018. For 2017, the pipeline is largely the smaller retail component of mixed used assets in the CBD, such as OUE Downtown and Marina One.

Figure 21: Singapore Visitor Arrivals



Source: Singapore Tourism Board, OCBC

The bigger issue is demand. For the core Orchard Road shopping district, tourist arrivals are key. After a difficult 2015, Singapore saw strong growth in visitor arrivals, particularly during 1H2016 (though we note that 1H2015 was particularly weak)[4]. YTD (ending October 2016), STB reported that Singapore saw an 8.3% y/y increase in visitor arrivals. For 1H2016 international visitor arrivals increased 13% y/y to 8.2mn while tourism receipts increased 12% y/y to SGD11.6bn. Growth in spending was largely driven by expenditure in shopping, accommodation and F&B, helping to offset weakness in sightseeing, entertainment & gaming (STB indicated this was largely due to the slump in gaming revenue, which we believe could be attributed to the integrated resorts de-emphasis on the VIP segment). Shopping expenditure was particularly strong, seeing a growth of 44% y/y to SGD2.7bn. This should be supportive of retail assets along the core Orchard Road shopping district. Unfortunately, there are some ominous signs with visitor arrivals growth again sliding, and October generating the first negative print for the year (-1.6% y/y). Tourism receipts for 2H2016 are also likely to be pressured given the Zika virus negative headlines from late August onwards deterring visitors. Looking into 2017, we believe that the environment could remain challenging (SGD's relative strength to regional peers would be a factor to watch), keeping retail assets along Orchard Road on their toes.

Table 3: Singapore Retail Sales (excluding Motor Vehicles, SA) Y/Y percentage change

2012	2013	2014	2015
2.6%	0.9%	-0.5%	-1.2%

Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
1.9%	-8.9%	-1.9%	-3.5%	-3.1%	-2.3%	-3.0%	-6.0%	-2.0%

Source: Singapore Department of Statistics

[4] *Singapore Tourism Board – Tourism Sector Performance 2Q2016 Report*

For broader domestic retail sales, the data remains discouraging. September's retail print was telling, with the decline largely from discretionary spending, such as watches and jewellery (-4.1% m/m) as well as departmental stores (-2.2% m/m). The domestic economy continues to remain soft, with GDP contracting 4.1% q/q on a Seasonally Adjusted Annualised Return basis in 3Q2016 (the biggest contraction since 3Q2012), with the service segment seeing its first year-on-year contraction since 3Q09 given the lacklustre wholesale & retail sector. In addition, the retail sector continues to be plagued by structural issues with more consumers spending on E-commerce platforms at the expense of brick-and-mortar retailers. A recent joint report by Google and Temasek Holdings[5] estimates that the E-commerce market (defined as apparel, electronics, household goods, food / groceries) in Singapore was USD1.0bn, or 2.1% of retail sales as of end-2015. The same report projects Singapore's E-commerce market to be worth USD5.4bn by end-2025, or 6.7% of retail sales, growing at a CAGR of 18%. As such, the capture of share of total retail sales would be at the brick-and-mortar retailers' expense.

Table 4: Retail REITs Statistics

Issuer	Occupancy				Expiry (NLA%)		
	2014	2015	9M2016		2016/17	2018	2019+
CMT*	98.8%	97.6%	98.6%		33.2%	28.5%	38.3%
FCT	96.4%	94.5%	89.4%		39.2%	30.9%	29.9%
SGREIT	99.6%	98.0%	93.8%		7.2%	10.2%	82.6%
SUN (Retail)	99.7%	97.9%	97.3%		25.3%	22.9%	51.8%
MCT (VivoCity)	97.5%	99.6%	99.3%		1.7%	22.5%	75.8%

*Source: Company, OCBC, [MCT: FY2015, FY2016, 1HFY2017], *CMT lease expiry by gross rental*

As such, heading into 2017, we expect the environment to remain just as challenging. We can expect more retailers to leave the market, such as Al-Futtaim closing the last of their John Little departmental stores in Singapore. This is particularly worrisome as anchor tenants such as departmental stores are difficult to replace. Most have attempted to break the vacated space up into smaller lots for specialty retailers (such as in the case of Isetan's former space in Wisma Atria and Harvey Norman's former space in The Centrepoint). If the strategy works, the properties would actually see NPI increase, as the rent for specialty retailers tend to be higher (anchor tenants tend to have lower rents as there are expected to pull crowds). That said it remains to be seen if the Singapore retail market has developed beyond the need for anchor tenants. In addition, the creation of even more specialty retail space out of originally vast departmental store space actually adds even more retail space (in terms of lots to be filled) into the market. As such, prospective tenants can be choosy. The data supports this, with lease rates continuing to plunge y/y due to competition (Orchard Road: -8.7%, Central Outside Orchard Road: -9.7%, Suburban: -5.5%). Vacancy rates have also continued to creep higher y/y (Orchard Road: +0.1ppt to 8.0%, Central Outside Orchard Road: +1.1ppt to 11.3%, Suburban: +1.9ppt to 7.3%). The above also shows that despite being relatively resilient, suburban malls are also starting to show signs of performance deterioration.

This brings us to the domestic retail REITs under our coverage. In general, occupancy remains stronger than the broad market (note that SGREIT's domestic occupancy is 97.9%). The exception would be FCT, which saw its portfolio occupancy plunge due to AEI at Northpoint. We believe that the relative resilience of the REITs retail assets are due to uniquely positioned assets (MCT, SUN), diversified suburban exposure (CMT, FCT) and strong anchors (SGREIT's Ngee Ann City). The REITs are not impervious to competition though, with lease reversions either seeing slowing growth, or turning negative. In terms of lease expiries, CMT and FCT would seem to face the most challenge. In terms of portfolio changes, aside from some sponsors assets (such as the balance of the Westgate for CMT), there are not many assets left in the mature Singapore market. The exception would be Jurong Point, which was placed up for sale by Guthrie GTS and Lee Kim Tah Holdings. The asking price though, reported by media to be less than 4% NPI yield, could make it difficult for REITs to acquire.

[5] *e-conomy SEA: Unlocking the $200B Digital Opportunity (27/05/16)*

Singapore Industrial REITs – Down but not out

In 3Q2016, the industrial property sector continued to be weak. The price index is now at 98.3 (down 1.7% against the previous corresponding quarter ("2Q2016") and represents six consecutive quarters where prices have softened. Rentals also declined by 2% against 2Q2016 and represented a 7.2% fall on a y/y basis. The warehousing sub-segment was the hardest hit with a 4.4% decline. While the business park sub-segment was relatively flat, Colliers International (a property consultancy) opined that this was mainly due to higher-rents from a newly completed business park building.

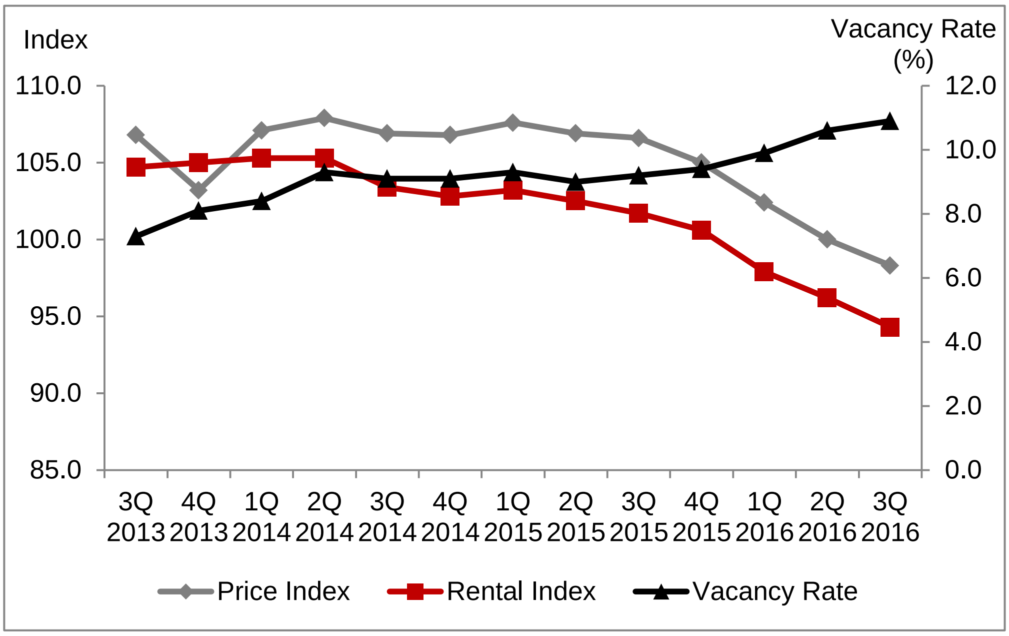
Overall, we see heightened bargaining power among tenants, with rental rates likely to further compress as landlords prioritize retention of tenants. Our base case is that rental rates will fall between 6-8% by end-2017 and bottom out as we enter 2018. Industrial landlords will continue to pursue tenant-friendly moves such as subsiding fit-outs, giving rent-free periods, and moving Master Leases to a double-net basis. As such, we expect to see net property income ("NPI") margins go lower. We see rental trends as a leading indicator for asset valuation and have seen revaluation losses in FY2015 and FY2016 among certain industrial properties (especially older, lower specification properties). We think there is still downside risk sector-wide this year which may lead to aggregate leverage spiking up 1-2% in certain REITs.

Vacancy rate was recorded at 10.9% in 3Q2016, representing two consecutive quarters where overall vacancies have risen above 10%. Overall transaction volumes (based on numbers of caveat lodged) continue to be low, with around 200 caveats lodged in 3Q2016. There was around 700 caveats lodged YTD, falling from ~1,000 during the same period last year. From 30 September 2016 to end-2017, 3.04mn sqm of industrial space is expected to come on-stream. This should moderate to ~0.8m sqm per annum in 2018 and 2019.

Older, low-specification properties (including certain business parks) are getting out-of-step with Singapore's on-going economic restructuring and we expect landlords to take a more dynamic approach in managing portfolio property leases amidst redevelopment and divestment considerations. Foreign acquisitions continue to be a key strategy for growth and diversification by Industrial REITs. Since our Mid-Year Credit Outlook in July 2016, 11 foreign acquisitions have been completed and/or announced among the Industrial REITs we cover.

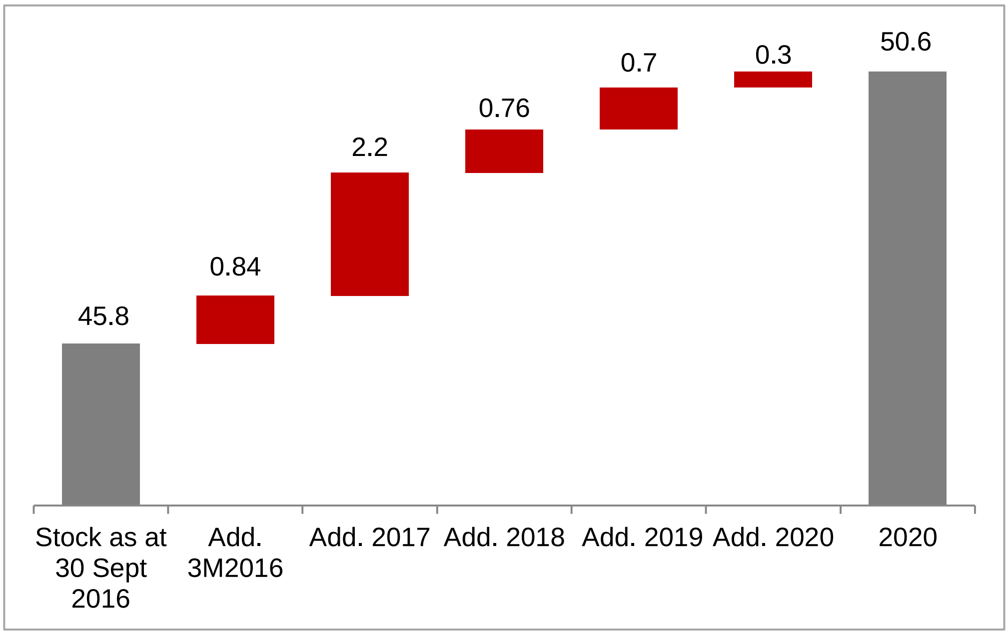
For investors holding a broad-base portfolio, the sector remains defensive though we see higher credit dispersion among individual issuers. In 4Q2016, two Industrial REITs announced aggressive acquisitions which in our view weakened their credit profiles. In December 2016, we lowered our issuer profile on Mapletree Logistics Trust to Negative from Neutral on the back of its largely debt-funded acquisition of four properties in Australia (amidst slow progress on asset recycling plans). We had also lowered our bond ratings on Sabana Shari'ah Compliant REIT to Neutral from Overweight (issuer profile maintained at Negative) and see its financial flexibility hampered. For the remaining 6 Industrial REITs we cover, while weaknesses have emerged (eg: properties exposed to the offshore oil and gas and marine sector), these properties have not dragged overall credit profile downwards. Credit profiles on five have remained relatively stable while one is improving since July 2016.

Figure 22: Singapore Industrial Sector Indices



Source: JTC Quarterly Market Report for 3Q2016; price and rental indices

Figure 23: Incoming Industrial Supply in Singapore (million sqm)

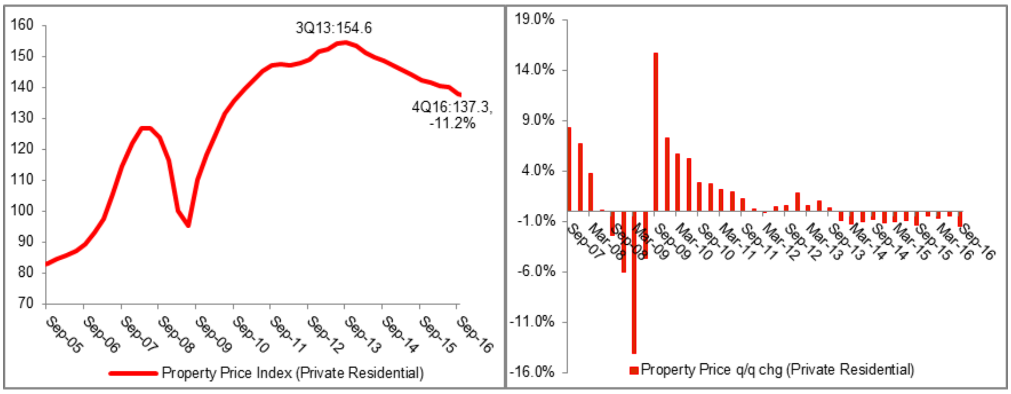


Source: JTC Quarterly Market Report for 3Q2016 | Note: Assumes no disposal from property stock

Singapore Property – Still in Search of a bottom

Home prices continued to soften for the 13th consecutive quarter in 4Q2016, with the URA Property Price Index declining by 0.4% q/q. This represents a 11.2% cumulative decline since the peak in 3Q2013, with prices of private residential properties in Outside Central Region ("OCR") and Rest of Central Region ("RCR") declining faster than those in Core Central Region ("CCR").

Figure 24: URA Price Index -11.2% since 3Q13 | Figure 25: Thirteen consecutive q/q declines



Source: Urban Redevelopment Authority, OCBC

Going into 2017, we do not foresee a respite in the general property market as the market conditions and demand-supply fundamentals have not improved:

1. The slew of government measures leading up to 2013 that cooled the property market - in the form of Loan to Value ratio ("LTV"), Additional Buyer Stamp Duty ("ABSD"), Total Debt Servicing Ratio ("TDSR") and Seller Stamp Duty ("SSD") continue to be in place. In July 2016, Monetary Authority of Singapore ("MAS") managing director Ravi Menon mentioned that it was 'too early' to unwind the property cooling measures. The government's stance is unlikely to have changed, given that the price index has fallen only 1.9% over 3Q-4Q2016.

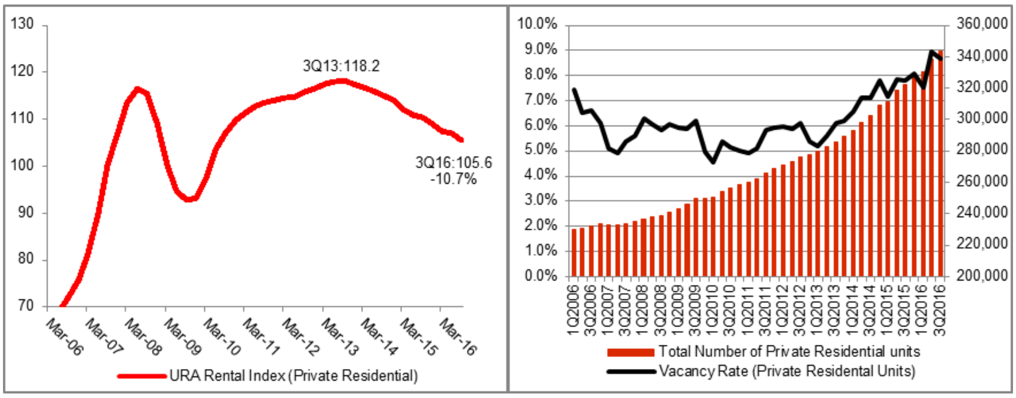
2. Despite declining stocks of unsold private residential units in the pipeline, developers have been lowering prices as they face looming deadlines to sell the developments. For example, developers have lowered the prices of the last few units at Bartley Ridge and Jewel @ Buangkok. Developers which do not manage to move the units face punitive fees. As at 27 October 2016, Straits Times reported that SGD58.2mn in fees were already collected YTD, surpassing SGD24.9mn collected for the entire 2015. Listed companies have stronger impetus to cut prices. Under the Qualifying Certificate ("QC") Scheme, they have to pay increasing fees for each year that the unit remains unsold. For example, after CapitaLand paid SGD2.7mn in April 2016 for failing to move the unsold units at The Interlace, it offered an incentive package with includes a 15% discount for the majority of the remaining unsold units. Going forward, more developers may similarly be affected. We note at least 9 projects with a combined 3,377 units will be facing the ABSD deadline in 2017 that are less than 90% sold out. If the units are not sold by the deadline, the potential ABSD payable would be SGD302.5mn.

3. Transaction volumes remain anaemic, as 11,993 private homes transacted in 9M2016 still fell significantly short of the 18,000-29,000 transactions seen during similar periods in 2011-2013. While total transactions are 9.8% higher y/y in 9M2016, we refrain from interpreting this as a sign of a green shoot. Resale transactions, instead of new sales which declined 3.1% y/y in 9M2016, accounted for most of the increase. Moreover, the increased number of transactions took place while prices have been declining, which could indicate that the market is still in search of a bottom.

4. We think that more sellers may enter the resale market. The 3 rounds of SSD over 2010-2011 had an impact on reducing the number of resale transactions over 2012-2014 as SSD have to be paid for properties sold within 4 years of acquisition. However, going forward, buyers of properties between 2011-2012 who were 'locked-up' can sell properties without paying the SSD. As mentioned above, we are seeing a pickup in the resale market, with the number of transactions increasing by 27% y/y in 9M2016.

5. Property is becoming less attractive as an investment to earn a passive income. According to Savills as of May 2016, island wide median gross rental yield is 3.2%. With rental rates falling another 1.2% in 3Q2016 and borrowing rates rising with the hike in interest rates, net rental yields are likely near zero. Meanwhile, vacancy rates of completed private residential units (excl ECs) at 8.7% as of 3Q2016 remains elevated, in comparison to 4.6%-6.3% vacancy rates seen over 2007-2013. Nevertheless, we think that homeowners may not be in a hurry to sell. According to MAS Financial Stability Review as of November 2016, MAS finds that 'households have continued to deleverage' and the 'risk profile of housing loans is strong'. Most housing loans have LTV ratios at or below 80% while a negligible number of housing loans are in negative equity. In September 2016, MAS has also extended the concession for TDSR so borrowers can refinance even if they exceed the TDSR threshold of 60%, subject to certain conditions.

Figure 26: URA Rental Index -10.7% since 3Q13 | Figure 27: Private Residential Vacancy Rates



Source: Urban Redevelopment Authority, OCBC

The weak property market has negatively impacted the profitability of developers as inventory turnover and gross margins declined. Nevertheless, each developer's credit profile has evolved differently, depending on the response to the weak Singapore property market.

Through the third Profit Participation Securities ("PPS") scheme, City Developments ("CDL") sold its stake in the luxury project Nouvel 18 to a group of Singaporean investors, avoiding the SGD38mn in QC extension fees for the unsold units while unlocking SGD977.6mn on the balance sheet which drove leverage lower. In addition to offering discounts and deferred payment schemes to boost sales, CapitaLand ("CAPL") continues to build up a stock of investment properties to generate recurring income.

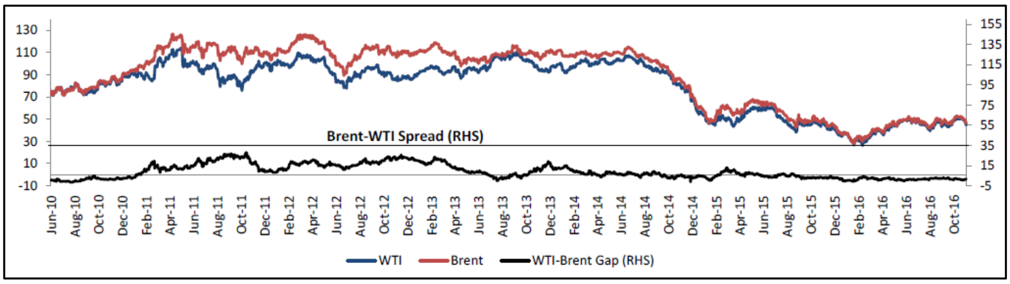
On the other hand, the credit profile of GuocoLand ("GLL") will likely deteriorated as it ramps up its acquisition spree with the purchase of a land parcel at Martin Place for SGD595.1mn, 75% stake in plots of land in Chengdu worth SGD557mn and an expected subscription of 27% stake in Eco World International Berhad worth SGD666mn. MCL Land, which is a subsidiary of Hongkong Land, has also stepped up on land acquisitions, beating 13 other developers with a winning bid of SGD238.4mn (SGD997.85 psf per plot ratio) for Margaret Drive under the Government Land Sales ("GLS"). Outside our coverage, UOL's associate purchased the 175-unit Raintree Gardens for SGD334.2mn via an en-bloc sale, lifting the en-bloc transactions in 2016 above SGD1bn.

While the above shows that competition has intensified for land bids at GLS and en-bloc sales, we attribute this to the depleting developer land bank in Singapore, which are at record lows, rather than interpret this as signs of recovery in the property market. The 21k unsold units held by developers are significantly lower than the preceding 15-year average of 36k unsold units. Developers struggle to top up their land bank, with residential units from GLS in 2016 declining to 3,730 and 11,230 units for the confirmed and reserve list respectively, paling in comparison to average of 11,328 and 13,317 units seen in 2010-2015.

Offshore Marine Sector

Environment remains challenging

Figure 28: Crude Oil Price Chart



Source: OCBC

Crude oil prices have seen a decisive rally after the OPEC cartel rectified an oil production cut during the 171st OPEC meeting in late November 2016, which will reduce cartel production by 1.2mn bpd to 32.5mn. This was the first time OPEC cut production since 2008. The rally was sustained through December with Brent crude prices currently staying above USD55/bbl, as OPEC managed to persuade 11 non-members (such as Russia) to reduce production as well (by 558,000 bpd). As such, we are entering 2017 in a more accommodating environment for energy markets, compared to the turbulent beginnings of 2016. The OCBC house view[6] remains that the rebalancing story for oil market remains intact, and that equilibrium will likely be achieved by 2H2017, with oil supply growth decelerating and oil demand recovering. We expect a gradual rally into USD65/bbl for both Brent and WTI come year end.

Unfortunately, we do not expect higher energy prices to provide immediate relief to the besieged offshore marine sector. Oil majors have sharply cut capex since oil prices plunged at the end of 2014. For example, Exxon Mobil spent USD38.4bn in capex during 2014. They slashed it lower by 19% in 2015 to USD31bn, and lower still for 2016 (expected full-year capex is ~USD21bn). Looking into 2017, though higher energy prices have brought some respite, oil majors remain cautious, and are leveraging off their short-cycle investments (such as ramping production of their shale assets) to quickly reap benefits despite the higher-per-barrel cost, while being more deliberate with their long-cycle projects (projects with longer gestation times, be it shallow water or deep water assets). Though we note that even longer term complex deep water projects have seen their cost fall sharply (due to cost deflation and optimization of production techniques), such as BP's Mad Dog project in the Gulf of Mexico being developed at half the original cost of USD20bn, we expect the Final Investment Decisions on such projects to remain selective, hence no quick ramp up in activity. As such, we expect offshore upstream activity to remain anaemic in 2017, before picking up in 2018 after equilibrium is achieved in the oil market. Transocean, the world's largest contract driller, held a similar view, believing that 2017 would be the trough in spending for the offshore market[7].

What to expect in 2017

In aggregate, the environment remains challenging for the various segments of the offshore marine industry heading into 2017. Broad themes that will persist include:

I) **Oversupply situation for rigs and OSVs**: Contract driller Ensco Plc[8] had reported that there remains 108 jack-up rigs to be delivered by 2020 (as of October 2016), and that ~60% are uncontracted rigs built by speculators, and that ~35% are uncontracted rigs built by established drillers. In addition, a fair number of drilling rigs had their schedule delayed from 2015 and 2016; hence 2017 would see significant amount new jack-up rigs enter the market.

[6] *OCBC Commodities Outlook 2017 (31/10/16)*
[7] *Transocean – 3Q2016 earnings call*
[8] *Ensco – Investor Presentation October 2016*

Some older rigs (>30 years) are expected to be retired given lack of contracts and survey costs, but we expect the overcapacity situation to be sustained through 2017. A similar situation faces the OSV market. Tidewater[9], a large OSV fleet owner, reported that the global OSV fleet has increased to 3,510 vessels in December 2016 (versus 3,233 vessels in November 2014). Comparatively, active offshore rigs have fallen during the same period from 720 rigs to 428 rigs, reflecting the slump in offshore upstream activity. Tidewater also indicated that a further 321 OSVs are currently under construction, worsening the supply situation.

Implications for shipyards (such as Keppel Corp and Nam Cheong):

a. It would remain difficult for shipyards to win new orders to replenish their order books. As such, future revenue may decline as existing orders are completed.
b. Completed assets on their balance sheet (from speculative builds or client cancellations) could be difficult to dispose, tying up working capital.
c. Continued requests for delivery rescheduling would persist due to clients failing to obtain contracts to utilize the assets, or due to the inability of clients to pay. Furthermore, order cancellations would likely result in revenue reversals.
d. Continued margin pressure given fixed costs and overheads. Players such as Keppel Corp are reported to consider mothballing their yards.

Implications for asset owners (such as Ezion Holdings and Pacific Radiance):

a. Continued competition for limited jobs would suppress charter rates. In addition, clients are likely to attempt to lock in lower rates for longer tenures in exchange for awarding the tenders (potentially locking in the asset owner to low-profit contracts even when the market recoveries).
b. Utilization will likely remain low for OSVs and rigs, with older assets bearing the brunt. Asset owners will have to balance between cold stacking assets to control costs, or keeping the assets on standby given the recent stabilization in energy prices. We expect utilization to improve before charter rates, hence revenue to recover before margins.
c. Idle newbuilds may depress valuations of older assets, making it more painful to divest such assets. Uncontracted assets will also be difficult to divest, and may potentially be impaired.

II) **More provisions / impairments to come**: Given the still weak environment leading to client stress and low utilization of assets, we may see further impairments taken by offshore marine issuers when they review their assets as well as provisions on their outstanding receivables. A number of players have already taken sizable impairments and provisions, and we can expect more players to follow suit. The resulting losses could in turn stretch gearing ratios as well as consume covenant headroom.

III) **Potentially more M&A, industry consolidation**: With the outlook for energy markets improving, and offshore capex spending likely seeing a trough in 2017, this could invite consolidation in the industry, with players with more robust balance sheets acquiring assets cheaply while positioning for the up cycle. Consolidation would also allow for cost savings from economies of scale. There could also be more strategic investments made, with some issuers obtaining long-term capital. This could paradoxically result in divestment losses, such as when Ezra Holdings obtained a strategic investment into its subsea division and had to recognize a sizable divestment loss from the transaction. The search for strategic investors could also accelerate the impairments recognized, as such investors may only be keen to invest after companies “clean up” their balance sheet. One clear positive sign would be offshore marine issuers being able to re-access equity markets (which could help these issuers deleverage).

[9] *Tidewater – Capital One Securities 11th Annual Energy Conference Presentation.*

Lessons from 2016

2016 was the year of distress for the SGD corporate bond market, with offshore marine issuers taking centre stage. Swiber Holdings Ltd's surprise default late July 2016 was the Pandora's Box, causing a domino effect across the sector with trade receivables souring and access to capital made even more difficult. Subsequent maturing offshore marine bond issues were mostly restructured, bailed out by stakeholders, or defaulted:

Table 5: Offshore Marine Bond Maturities

Issuer Name	Original Maturity	Amount Issued (SGD)	Notes
Otto Marine	01/08/2016	70,000,000	Extended maturity (then called)
Perisai Petroleum Teknologi	03/10/2016	125,000,000	Defaulted
Swiber Holdings Ltd	10/10/2016	100,000,000	Defaulted
Marco Polo Marine Ltd	18/10/2016	50,000,000	Extended maturity / provided security
AusGroup Ltd	20/10/2016	110,000,000	Extended maturity / provided security
Vallianz Holdings Ltd	22/11/2016	60,000,000	Redeemed via shareholder loans
Miclyn Express Offshore Ltd	12/12/2016	200,000,000	Refinanced late 2015
ASL Marine Holdings Ltd	28/03/2017	100,000,000	Extended maturity / provided security*
Swiber Holdings Ltd	18/04/2017	160,000,000	Defaulted
KrisEnergy Ltd	09/06/2017	130,000,000	Extended maturity / amended coupon
Nam Cheong Ltd	28/08/2017	90,000,000	Amended financial covenants
Swiber Holdings Ltd	30/10/2017	50,000,000	Defaulted
Swissco Holdings Ltd	16/04/2018	100,000,000	Defaulted
Ezra Holdings Ltd	24/04/2018	150,000,000	Amended financial covenants
Swiber Holdings Ltd	02/08/2018	150,000,000	Defaulted
Ezion Holdings Ltd	20/08/2018	60,000,000	
KrisEnergy Ltd	22/08/2018	200,000,000	Extended maturity / amended coupon
Pacific Radiance Ltd	29/08/2018	100,000,000	Amended financial covenants
ASL Marine Holdings Ltd	01/10/2018	50,000,000	Extended maturity / provided security*

*Source: OCBC | *ASL Marine restructuring on-going*

The previous table shows various offshore marine (or E&P in the case of KrisEnergy) issues that had an original maturity between 1st August 2016 and end-2018. In general, issues in the space either "amended / extended" or outright defaulted on their obligations. A few issues that had maturities looming in 2017 had already engaged bondholders to extend maturities (ASL Marine and KrisEnergy). As such, there are few offshore marine issuers left with bonds maturing in 2017 and 2018 that are not yet restructured or defaulted. After factoring issues that have already gone through consent solicitation for covenant relief, the number falls to just one (Ezion Holdings Ltd). Given that the environment remains challenging, and that capital markets remain largely shut to offshore marine issuers, there remains a chance that issues with looming maturities would follow suit with their peers and "amend and extend". One thing which issuers have learnt is to start the process early.

The varied outcome of the various restructurings is beyond the scope of this sector outlook. In summary though, there is no simple outcome. Various factors come into play such as underlying business models, relative health of the balance sheet (there is bad, and there is worse), attractiveness of assets held, relative strength of stakeholders and so on. All will have an impact of how a restructuring will pan out. The overall industry environment, though improving, remains a wildcard. Thus far, the issuers in court driven restructurings / judicial management (as compared to out-of-court restructurings via consent solicitation) have seen restructurings drag (Swiber Holdings restructuring proposal has been delayed by its judicial managers) making the outcome still uncertain. We note that existing corporate governance issues would only serve to complicate things. Thus far, some of the out-of-court restructurings seen may have been lop-sided, given the difficulty of bondholders to coordinate as a group. On the plus side, the out-of-court restructurings seem to have minimal impact on the issuers' ability to conduct their businesses versus the challenges of companies trying to conduct business while under judicial management (Swiber

Holdings had seen ONGC terminate some of its contracts, citing delays to project timelines due to creditors' actions on ONGC and Swiber entities).

In summation, 2017 may be a turning point for the industry, with energy prices stabilizing and oil majors potentially ramping up their spending. There are still several obstacles to overcome, with offshore marine players having to stay nimble to survive in order to see the dawn arrive.

China Property – "Steady and Healthy Development" Remains Core Policy Aim

The government has oscillated between tightening and stimulatory measures in managing the residential real estate market since the private housing market began taking off in the early-2000s. In between end-September and October 2016, coordinated measures were taken to cool the property market of more than 20 cities. While specific policies varied from city to city, such cooling measures shared broad similarities: (1) increase minimum down payment (2) restrict purchases by non-locals (3) restrict purchases in "hot" districts within cities (4) tweaks to manage land supply-demand and (5) attempts to reign in errant actions by property developers and brokerages. This has been intensified by controls over financing of property developers in an attempt to taper land prices and promote stability of the financial system in recent months.

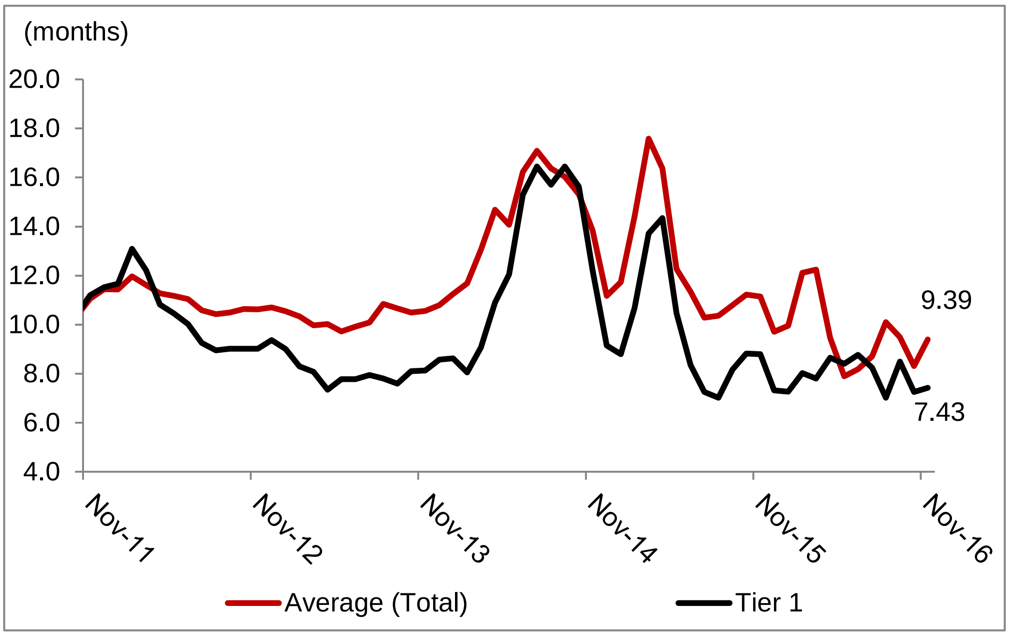
In November 2016, only 55 out of 70 cities experienced month-on-month price growth. The pace of price growth has also decelerated, with 39 of these cities growing only by less than 1% against the 3-4% m/m growth observed before the property cooling measures. To better assess the impact of property cooling measures, the National Bureau of Statistics ("NBS") also tracked intra-month data for 15 "hot" cities for the month of November. Of the 15 cities tracked, only four exhibited higher growth during the second half of November versus the first half (Jinan, Zhengzhou, Wuhan and Guangzhou). Hefei and Chengdu's price index was flat intra-month while the remaining (ie: Beijing, Tianjin, Shanghai, Nanjing, Wuxi, Hangzhou, Fuzhou, Xiamen, Shenzhen) all saw price decrease during the second half of November. The decline in housing price in such cities has managed to flatten out post the introduction of such policies.

OCBC Credit Research also tracks pricing data of 100 key cities as provided by Fang.com and the pace of price change in such cities since September 2015 when the minimum down payment level was cut down for many first-time buyers as an attempt to stimulate the market. As of November 2016, we find that there were 23 cities where price growth remained persistently flat and/or negative. During our Mid-Year Credit Outlook, 46 cities were still flat and/or negative. We think money flow has been diverted into a greater variety of cities as cooling measures took hold in "hot cities. Based on the average of all tier 1 and selected tier 2 cities[10], it took 9.4 months for inventory to be absorbed in November 2016, longer than that exhibited in October 2016 (8.3 months), and signaling that transaction volumes have declined in these key cities.

In a move consistent with broader property cooling measures, onshore bond sales of property developers have been suspended by the Shanghai Stock Exchange since end-October 2016. This overturns an earlier move to allow onshore bond issuance by property developers in 2014. While developers are still able to raise foreign currency denominated bonds, this is likely to come at higher cost of funding on the back of (i) lower capital supply following China restricting capital outflows and restricting leverage in the debt markets and (ii) concerns over a slowing property market. We see liquidity and refinancing risk among the four Chinese property developers under our coverage as manageable though we would avoid Chinese property developers that are overly leveraged, especially those with maturities due in 2017-2018.

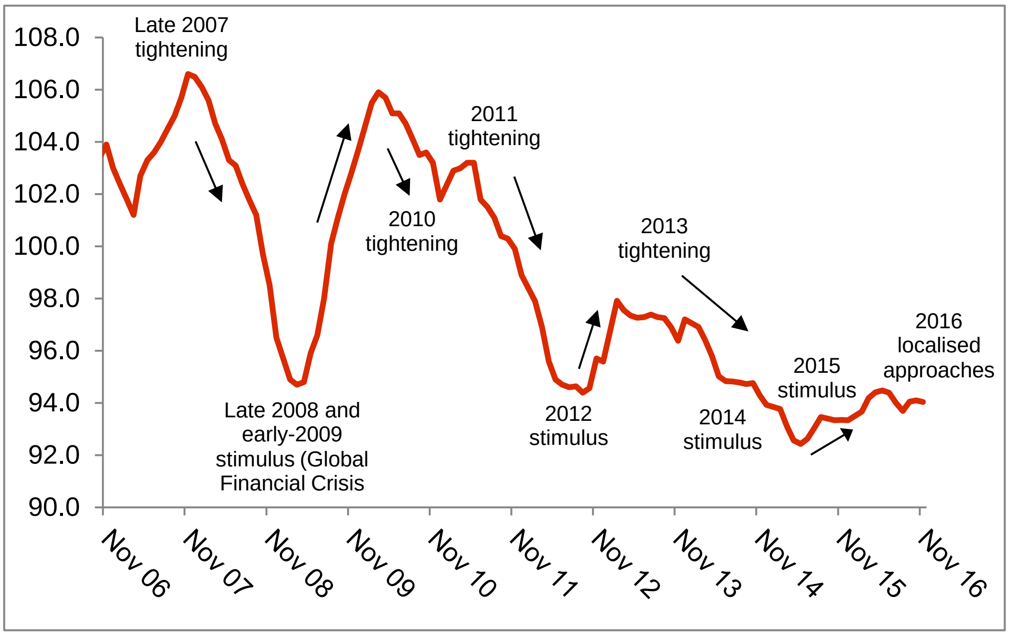
[10] Tier 1: Beijing, Shanghai, Shenzhen, Guangzhou. Tier 2: Fuzhou, Suzhou, Dalian, Hangzhou, Nanchang, Nanjing, Qingdao, Xiamen, Changchun. Absorption data from the China Real Estate Information Corporation as compiled by Bloomberg

Figure 29: Housing Absorption Rates



Source: Bloomberg

Figure 30: China Real Estate Climate Index



Source: National Bureau of Statistic, Bloomberg, Reserve Bank of Australia

Hong Kong Property – Capping the Residential and Office bull run while Retail may finally see light at the end of the tunnel

Residential

Hong Kong property prices continued to rise another 0.8% m/m in November 2016, according to the Hong Kong Property Price Index of Private Domestic Units (All Class) produced by the Hong Kong Rating and Valuation Department. This represents the 8th consecutive month of increase, with property prices higher by 13.0% since Mar 2016 and surpassing the previous peak achieved in Sep 2015. The breakneck speed of property price growth has priced the average Hong Kong citizen out of the property market. According to the UBS Global Real Estate Bubble Index, a skilled service worker would “need to work for 18.5 years to afford a 60 sqm city centre flat”. A solution offered by Chun Wo Property Development to the sky-high property price is to construct Lilliputian-size apartments which start from 128 sq ft This size is shockingly small in comparison to the smaller 2-room HDB flats in Singapore, which at 388 sq ft are already 3 times as large.

Figure 31: Residential Price Index

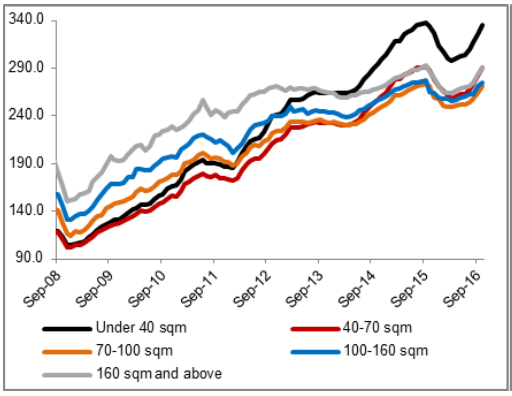
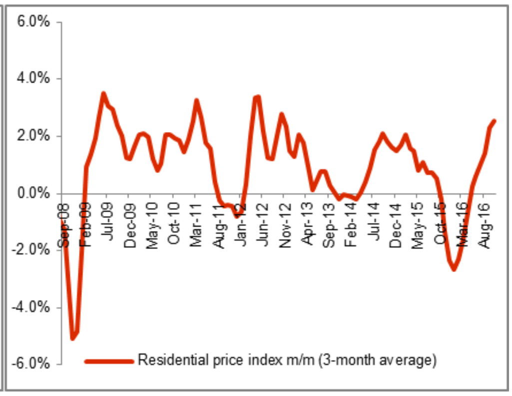


Figure 32: Residential Price Index m/m



Source: Rating and Valuation Department Hong Kong

We believe that the continued pace of price increase is not sustainable and would likely take a pause in 2017, with government regulations and hike in interest rates likely to cap the surge in property prices:

1. In a significant move to cool property prices, effective 05/11/16, the Hong Kong government raised the stamp duty rate to 15% (from 1.5% to 8.5%) for non-first-time local buyers. For non-permanent Hong Kong residents, the total payable stamp duty rate is 30.0%. We believe that this should keep investment sentiments in check in 2017, as investors may stay side-lined with a significantly higher price tag to acquire an investment property.
2. China has stepped up on capital controls, disallowing foreign currency purchases by individuals for the purpose of overseas property purchases. While there may still be ways to circumvent the controls, the flow of investments from the Chinese upper class into the Hong Kong property market should be partially stemmed.
3. Following the hike in U.S. fed fund rates in December, the Hong Kong Monetary Authority (“HKMA”) raised the base rate by 25bp to 1%. The HKMA may continue to follow the U.S. if rates are hiked further in 2017. This has led to an increase in borrowing rates, with the 1 month HIBOR surging to 0.75%, a level not seen since 2009. This will affect housing loans which are pegged to HIBOR.
4. While Hong Kong is facing a chronic shortage of housing and the government has not identified enough land to build enough flats for the long term, this problem should be somewhat alleviated in the medium term. The government expects to produce 94,500 public housing flats by 2021, with 93,000 private housing flats expected to be built in the next 3-4 years.

With headwinds in the residential property market, we think that sales will slow. To entice buyers post the stamp duty rate hike, developers have offered incentives to compensate for the stamp duty, according to Knight Frank. Other sale strategies include mortgage financing and reducing unit sizes to make housing more affordable. Nevertheless, we think that the credit profile of the Hong Kong developers under our coverage remains robust. Their balance sheet remains solid with net debt-to-equity below 0.25x while they receive a steady stream of recurring income from investment properties, which accounts for a major part of their operating profit.

Table 6: Hong Kong's Stamp Duty

Transaction price of residential unit (HKD)	Non-permanent HK residents / Corporate buyers		Permanent HK residents already holding residential properties		Permanent HK residents not holding any residential properties
	Old	New	Old	New	
Below 2,000,000	16.5%	30.0%	1.5%	15.0%	HKD100
2,000,001 - 3,000,000	18.0%	30.0%	3.0%	15.0%	1.5%
3,000,001 - 4,000,000	19.5%	30.0%	4.5%	15.0%	2.3%
4,000,001 - 6,000,000	21.0%	30.0%	6.0%	15.0%	3.0%
6,000,001 - 20,000,000	22.5%	30.0%	7.5%	15.0%	3.8%
Above 20,000,000	23.5%	30.0%	8.5%	15.0%	4.3%

Source: Rating and Valuation Department Hong Kong

Retail

Hong Kong retail sales retreated for 20 straight months, with the November 2016 sales value lower by 5.5% y/y. This is mainly due to lower tourist arrivals from Mainland China, which accounted for 77% of total arrivals in 2015. Mainland China tourists are also spending less, according to the Hong Kong Tourism Board. They spent an average of HKD7,105 per visitor in 1H2016, compared to HKD9,000 in 2014. Sales of jewellery, watches and clocks were amongst the hardest hit, with the November 2016 reading lower by 14.4% y/y.

Excluding prime street landlords (which may take longer to stabilise as they depend on sales of luxury products and face changes in tenant mix with shops selling luxury products vacating), we think that other retail landlords might see light at the end of the tunnel in 2017. Retail rents have recently started to recover, inching higher by 1.2% since August 2016. Retail sales are also declining at a slower pace since September 2016, compared to the 6.6% to 20.6% y/y declines registered from Jan-Aug 2016. Meanwhile, Hong Kong is still posting positive y/y GDP growth, with the 3Q2016 figures coming in at 1.9%, higher than the 1.7% and 0.8% y/y increase posted in 2Q2016 and 1Q2016 respectively.

Figure 33: HK Retail Rent y/y

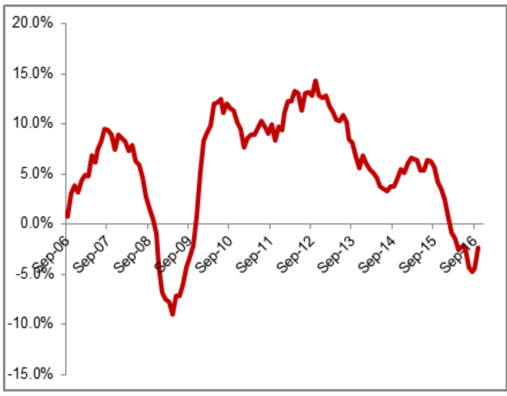
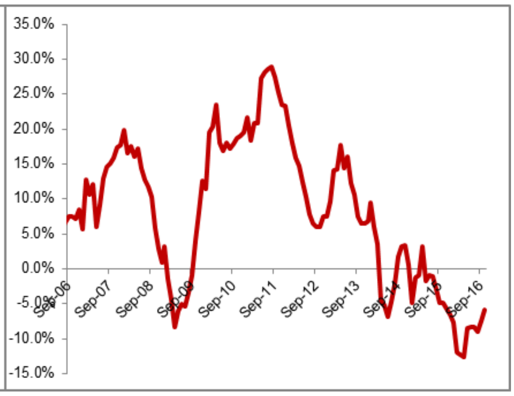


Figure 34: HK Retail Sales y/y (3-mth avg)



Source: Rating and Valuation Department Hong Kong, Bloomberg

Under our coverage, Mapletree Greater China Commercial Trust ("MAGIC") and Wharf Holdings ("Wharf") have significant exposure to the Hong Kong retail market. We think that the near-term performance from their retail malls will be stable as their rents are mostly fixed. In the medium term, we are not worried as MAGIC's occupancy cost of 18.3% as of 1QFY17 at its retail mall, Festival Walk, does not look excessive. Meanwhile, Wharf is undertaking asset enhancement at Harbour City and developing a new extension building overlooking Victoria Harbour, which should mitigate headwinds in the retail sector.

Office

Grade A office rents for all districts rose 1.3% in 10M2016, according to the Hong Kong Rating and Valuation Department, with the Hong Kong office rental market poised to finish 2016 as the 7th consecutive year of rental growth. However, signs of a slowdown have emerged, with October 2016 recording a sizeable m/m decrease of 0.9%. Meanwhile, overall vacancy rates increased 14bp to 3.3% in 3Q2016, according to Colliers. Overall net absorption in 3Q2016 was negative 85,323 sq ft, continuing the downtrend from a negative net absorption of 217,667 sq ft in 2Q2016.

Amidst the increasing office supply, we think that Grade A offices located in Central offer higher resilience, though they may not be totally sheltered. Robert Wong, Chief Executive of Hongkong Land ("HK Land"), does not think that the Central office market will be threatened by the large new supply (average 2.2mn sq ft p.a. increase to 2020), which are mainly in the decentralized areas. New supply in Central is limited. However, the competition may be indirect, with Savills reporting in November 2016 that tenants in Central are moving to Causeway Bay, while tenants in Causeway Bay are moving to Tsim Sha Tsui and Island East/South.

Figure 35: HK Grade A Rental Index

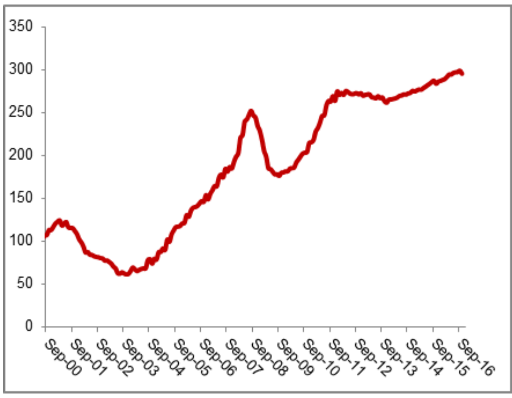
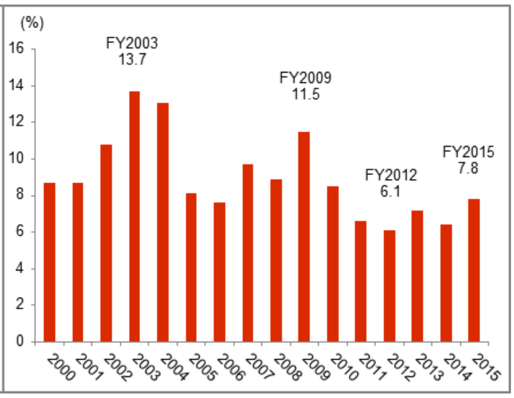


Figure 36: HK Grade A Office Vacancy Rate



Source: Rating and Valuation Department Hong Kong, Bloomberg

Going forward, valuations of both retail and office investment properties may see some pressure due to a lacklustre rental environment. Wharf, with its concentration in retail assets, has already been recording lower rental revaluations (1H2016: HKD525mn, 1H2015: HKD3,165mn) as the retail environment has softened. We think that office properties are likely to follow suit while rental rates stagnate and vacancy creeps up. Investors' appetites may be further dampened with rising interest rates, which in turn may widen property cap rates.

Top Trade Ideas

Top Picks

Company	Ticker	S&P / Moody's / Fitch	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM/YTC	Rationale
Frasers Centrepoint Trust	FCTSP	Baa1/BBB+/NR	3.00%	21-Jan-20	SGD70mn	100.15	2.95%	At a spread of ~100bps over swaps, FCTSP'20s are trading decisively wider than comparable REITs such as SGREIT'21s (swaps + 58bps) and CAPITA'20s (swaps + 23bps). The decline in portfolio occupancy is largely transitional, and we expect FCT's suburban malls to perform better than the broader retail market.
Frasers Hospitality Trust	FHREIT	NR/Baa2/NR (issuer)	4.450%	Perp-c'21	SGD100mn	100.25	4.39%	On a relative value basis, we like the FHREIT'49c21 perpetual versus the KREIT'49c20. A switch allows a yield pick-up of 40bps. While the Singapore hospitality market is expected to be weaker in 2017, the REIT has diversified into Australia since IPO. We estimate that aggregate leverage has fallen post its fully equity-funded acquisition in October 2016.
Neptune Orient Lines Ltd	NOLSP	NR/NR/NR	5.900%	8-Nov-19	SGD300mn	85.00	12.30%	Though the NOLSP acquisition has been a drag on both CMACGM's balance sheet as well as performance, CMACGM has been active in deleveraging, having already paid down its acquisition bridge loan via the sale-and-leaseback of vessels. We expect the proceeds from the on-going sale of NOL's terminals to further deleverage CMACGM, improving the group's credit profile.
Lippo Malls Indonesia Retail Trust	LMRTSP	NR/Baa3/NR (Issuer)	7.000%	Perp-c'21	SGD140mn	100.60	6.85%	Offering the highest yield in the S-REIT universe, LMRTSP' 49c21 offers 93bps pickup over FIRTSP' 49c21. LMRT has been delivering consistent results with retail growth in Indonesia. While the equity at 9.05% LTM dividend yield (underlying cashflow from IDR) offers 219bps pickup, the LMRT perp (coupons in SGD) looks more attractive with 525bps difference in yield between SG's and ID's 10Y govt LCL bonds.
Australia & New Zealand Banking Group Ltd	ANZ	BBB+/A3/A+	3.75%	23-Mar-22	SGD500mn	100.75	3.58%	Potentially improved returns and a slightly stronger balance sheet should mitigate on-going restructuring and soft operating conditions. The ANZ'27c22 offers better value in the Aussie T2 space given potential fundamental upside.

Top Pans

Company	Ticker	S&P / Moody's / Fitch	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM/YTC	Rationale
Capitaland Mall Trust	CAPITA	A2/NR/NR	3.35%	7-Jul-31	SGD150mn	99.35	3.41%	We believe that duration concerns would continue to weigh on the performance of the bond. At swaps + 48bps, the bond is trading tighter than the bonds on the shorter end of the CAPITA curve.
First Real Estate Investment Trust	FIRTSP	NR/NR/NR	4.125%	22-May-18	SGD100mn	101.15	3.25%	Yields on the FIRTSP looks tight and we think it is time to take profit. For investors comfortable with exposures in Indonesia, bonds of its sister company bonds, the LMRTSP'18s can be considered.
Ascott Residence Trust	ARTSP	NR/Baa3/NR	4.30%	30-Nov-18	SGD100mn	104.10	2.07%	In our view, ARTSP's standalone credit profile has weakened on the back of rapid expansion. Both the ART bonds look tight in our view. Within the next 12 months, ART is also obliged to pay SGD385mn for a property in Singapore. In addition, as at 30 September 2016, short term debt stood at SGD245mn.
			4.21%	23-Nov-22	SGD200mn	104.9	3.28%	
Aspial Corp Ltd	ASPSP	NR/NR/NR	5.25%	28-Aug-20	SGD150mn	94.50	7.64%	We are Underweight due to the elevated net gearing at 3.34x despite the high yield. For investors comfortable with ASPSP, ASPSP' 18 offers 109bps pickup for 1.75 years shorter in maturity with higher cashflow visibility in the near-term.
BNP Paribas S.A	BNP	BBB+/Baa2/A	4.30%	3-Dec-20	SGD250mn	102.32	3.61%	While BNP benefits from scale and better ratings, the spread compression makes the BNP'25c20 a little tight compared to the SGD T2 papers from its French peers in our view.

Contents

B. COMPANY OUTLOOKS – FINANCIAL INSTITUTIONS

Corporate Outlooks

Credit Outlook – For buy and hold investors with less concern for liquidity, AAREIT'19s which matures 6 months later provides 40-60 bps more versus its comparable bond CREITSP'18s (both issuers rated at similar levels). We think this provides sufficient compensation for AAREIT's capital structure with less unencumbered assets.

Issuer Profile: Neutral

S&P: BBB-/Stable

Moody's: Not rated

Fitch: Not rated

Ticker: **AAREIT**

Background

AIMS AMP Capital Industrial REIT ("AAREIT"), listed on the SGX is an industrials focused REIT with total assets of about SGD1.5bn as at 30 September 2016. AAREIT currently owns a portfolio of 25 properties in Singapore and a 49% stake in a property in Australia. AAREIT is sponsored by Australia-based AIMS Financial Group and AMP Capital who collectively own ~12%. Other major shareholders are: Dragon Pacific Assets Limited (11%), APG (~9%) and George Wang (~8%).

AIMS AMP Capital Industrial Trust

Key credit considerations

- **1HFY2017 results weaker:** 1HFY2017 gross revenue decreased 3.9% to SGD59.1mn (1HFY2017: SGD61.6mn) on the back of lower rental contribution from 3 buildings and the absence in revenue due to the ongoing redevelopment of 30 & 32 Tuas West Road and 8 & 10 Tuas Avenue 20. This was partially offset by better performance from 3 other properties. Share of results of joint ventures was SGD6.9mn in 1HFY2017; in line with normal operations of the Optus Centre property (the large amount of SGD22.5mn in 1HFY2016 included SGD15.3mn of revaluation gains). EBITDA (excluding share of results of Macquarie Park) was SGD36.0mn and 3.3% lower than 1HFY2016. Despite the lower EBITDA generation, interest coverage was slightly improved at 3.8x (1HFY2016: 3.7x) as a function of slightly lower interest following AAREIT's lower interest cost incurred on replacement borrowings. In 2QFY2017, gross revenue was SGD29.9mn, while NPI was SGD19.3mn, down 1.3% and 5.4% respectively against the 1QFY2017 numbers (adjusted for one-off items). This was mainly due to lower rental contributions from 3 properties. While AAREIT only holds 49% in the entity holding the Optus Centre property in Australia, operationally the entity functions as a "50:50" joint venture where capex decisions are made jointly and with AAREIT having certain negative control rights. If we include SGD14mn p.a. distribution (from Optus Centre) into EBITDA, we find adjusted EBITDA healthy at 4.5x.

- **No short term refinancing risk:** In July 2016, AAREIT obtained an additional SGD100mn 4-year term loan facility which was used to redeem its SGD100mn bond due in August 2016. Post-redemption, secured debt comprises 84% of total debt, rising from only 62% as at 31 March 2016. We understand that unencumbered properties amount to ~SGD350mn post the refinancing. The next major debt due is in November 2017, amounting to SGD113.6mn.

- **Aggregate leverage to rise:** As at 30 September 2016, aggregate leverage was 34.0% rising somewhat from 33.1% as at 30 June 2016. This was mainly due to a SGD26.5mn net drawdown to fund the redevelopment of 30 & 32 Tuas West Road (have since gained TOP in end-December 2016) and increase in AUD denominated borrowings from currency movements. Undrawn committed facilities were SGD106.8mn of which SGD60mn was set aside to fund the proposed redevelopments. In August 2016, AAREIT also embarked on its first built-to-suit development ("BTS") for Beyonic (targeted completion in the second half of 2017). The property costs ~SGD39.4mn. Assuming this BTS and the redevelopments are fully debt funded, aggregate leverage will rise to 38%, higher than AAREIT's historical average.

- **Some asset corrosion:** In October, AAREIT issued an updated independent valuation of its properties as at 30 September 2016. Excluding the 49% stake in Optus Centre and the 2 properties under redevelopment, we find that the portfolio valuation reduced marginally by 0.4%. Declines in the light industrial and warehouse segments were evident. Asset corrosion for the light industrial segment was 3.1% while warehouses declined 1.6%. 29 Woodlands and 8 & 10 Pandan Crescent saw revaluation gains which helped offset declines. We understand the gains were supported by higher passing rents and occupancy at the properties.

- **Occupancy and Weighted Average Lease Expiry ("WALE"):** As at 30 September 2016, excluding the 2 properties under redevelopment, WALE was 2.6 years, falling from 3.05 years during the same time last year. Portfolio occupancy was 92.7% falling from 96.5% as at 30 September 2015. 9% of leases by gross rental income is due to expire by 31 March 2017 while close to 1/3 will expire by end-FY2018. AAREIT's lease expiry profile puts it at risk for downward revisions in rental rates within the next 12 months.

AIMS AMPS Capital Industrial Trust

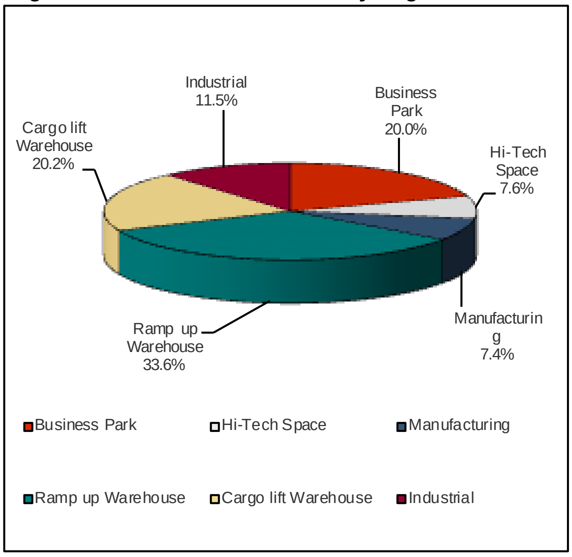
Table 1: Summary Financials

Year Ended 31st Mar	FY2015	FY2016	1H2017
Income Statement (SGD'mn)			
Revenue	115.4	124.4	59.1
EBITDA	69.9	73.5	36.0
EBIT	69.9	73.5	36.0
Gross interest expense	22.8	20.2	9.5
Profit Before Tax	109.8	45.7	29.6
Net profit	108.1	40.8	29.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	10.1	7.5	6.6
Total assets	1,458.3	1,459.5	1,476.4
Gross debt	454.2	471.5	500.0
Net debt	444.1	464.0	493.4
Shareholders' equity	962.1	940.7	935.2
Total capitalization	1,416.3	1,412.2	1,435.2
Net capitalization	1,406.2	1,404.7	1,428.6
Cash Flow (SGD'mn)			
Funds from operations (FFO)	108.1	40.8	29.1
* CFO	75.5	74.6	37.3
Capex	49.2	22.7	25.4
Acquisitions	0.9	0.4	0.0
Disposals	0.1	0.0	0.0
Dividends	57.9	68.0	36.3
Free Cash Flow (FCF)	26.3	51.9	11.8
* FCF Adjusted	-32.4	-16.5	-24.5
Key Ratios			
EBITDA margin (%)	60.5	59.1	60.9
Net margin (%)	93.6	32.8	49.3
Gross debt to EBITDA (x)	6.5	6.4	6.9
Net debt to EBITDA (x)	6.4	6.3	6.9
Gross Debt to Equity (x)	0.47	0.50	0.53
Net Debt to Equity (x)	0.46	0.49	0.53
Gross debt/total capitalisation (%)	32.1	33.4	34.8
Net debt/net capitalisation (%)	31.6	33.0	34.5
Cash/current borrowings (x)	NM	0.1	NM
EBITDA/Total Interest (x)	3.1	3.6	3.8

Source: Company, OCBC estimates

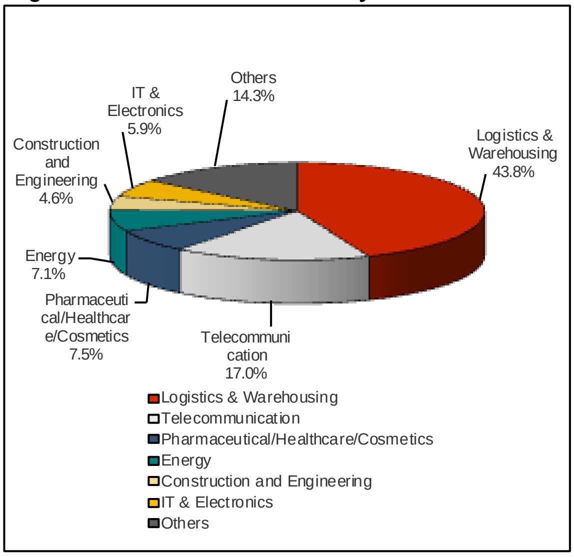
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1H2017



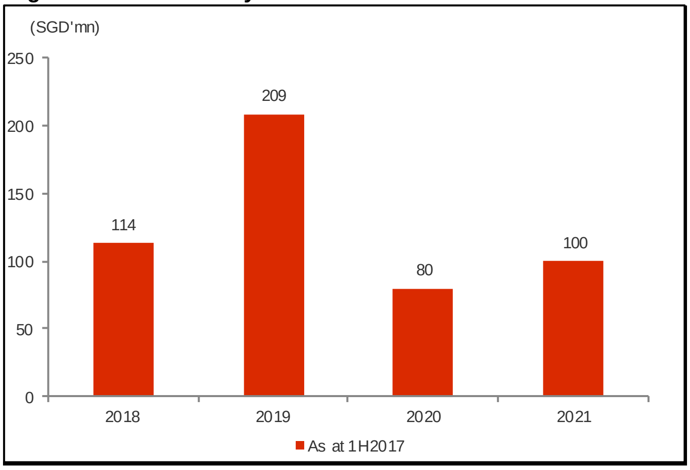
Source: Company

Figure 2: Revenue breakdown by Business - 1H2017



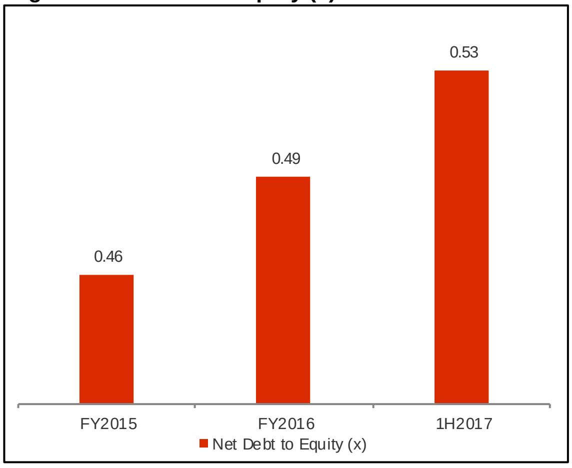
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – AREIT'19s are tight in our view. For a one-notch differential in rating, a switch into FCT'19s (matures 11 months later) allows a yield pick-up of 40-50 bps. We are neutral the rest of AREIT's curve.

Issuer Profile: Neutral

S&P: Not rated
Moody's: A3/Stable
Fitch: Not rated

Ticker: **AREIT**

Background

Listed in 2002, Ascendas REIT ("AREIT") is the first and largest business space and industrial REIT in Singapore, with total assets of about SGD9.9bn as at 30 September 2016. AREIT currently owns a diversified portfolio of 102 properties in Singapore and 29 properties in Australia. AREIT is sponsored by Ascendas-Singbridge group, which has a deemed interest of 19% in AREIT. Ascendas-Singbridge is in turned 49:51 owned by JTC Corporation and Temasek respectively.

Ascendas Real Estate Investment Trust

Key credit considerations

- **Growth in 1HFY2017 results driven by acquisitions:** AREIT saw a 13.7% increase in gross revenue to SGD413mn for the 6-months ended 30 September 2017 ("1HFY2017"), driven by the acquisitions of Australian properties and ONE@Changi in Singapore which partially offset the divestment of Ascendas Z-Link Four Acres. Net property income ("NPI") though jumped even higher by 21.7% to SGD301.9mn. This was driven by lower utilities expenses contracted and lower property taxes which outweighed higher operating expenses from the new acquisitions. NPI as a proportion of gross revenue was 73%, higher than the ~70% exhibited before the acquisition of the Australian portfolio. Management fees rose significantly by 27.3% to SGD25.5mn largely due to the increase in portfolio size (22% since end-September 2015). EBITDA (excluding foreign exchange losses) was SGD271.3mn in 1HFY2017, increasing 21% from 1HFY2016. Excluding the fair value change in Exchangeable Collaterised Securities ("ECS"), interest coverage as measured by EBITDA/Gross interest in 1HFY2017 decreased to 4.9x (1HFY2016: 5.4x) following higher debt drawdown. Including 50% of perpetual distribution into coverage, adjusted EBITDA/Gross interest was 4.6x. 2QFY2017 gross revenue of SGD205.4mn was lower than its immediately preceding quarter of SGD207.6mn, mainly due to the absence of revenue at Ascendas Z-Link (sold in July 2016). Taking out the effect of asset movements, we estimate Q-on-Q gross revenue to be flat.

- **De-emphasis of China:** During 1HFY2016, AREIT divested 2 properties in China, the Ascendas Z-Link and Jiashan, a newly completed property. In November 2016, AREIT had further disposed of its last remaining building in China. In the near term, AREIT will continue its focus on deepening its presence in Singapore and Australia. In December 2016, AREIT announced that it is acquiring 12, 14, 16 Science Park from its Sponsor for SGD420mn. The transaction is expected to occur by March 2017. The bulk of the purchase consideration (SGD320mn) will be satisfied by way of cash. Whether cash or new equity issued to vendor on the remaining SGD100mn will be decided post-Extraordinary General Meeting (assuming deal is approved).

- **Expect aggregate leverage to rise moderately:** As at 30 September 2016, AREIT's aggregate leverage was 34.2% while cash balances stood at SGD26.7mn. We estimate cash balances at ~SGD255mn after the sale of its remaining China property. AREIT faces SGD437.5mn (including costs) in acquisition obligations should the Science Park deal goes through. Assuming that the acquisition is fully debt funded and there is no change to cash balances, AREIT's aggregate leverage will rise to 36% and adjusted aggregate leverage at 38% (assuming 50% of perpetuals as debt). In the scenario where cash is used to fund the acquisition, AREIT's aggregate leverage will stay relatively constant at 34% (adjusted leverage at 35%).

- **Near term funding needs manageable though likely at higher cost**: In addition to Science Park, AREIT faces SGD490mn in short term debt due over the next 9 months. This takes into account of SGD80mn of outstanding ECS as of December 2016, which AREIT has announced its intention to redeem. Given the adjusted exchange price of SGD2.0144, there still may be a chance for holders to exchange the ECS into units. Conservatively though, we assume this SGD80mn will need to be redeemed. As at 30 September 2016, unencumbered properties was ~SGD7.5bn (~78% of investment properties value), which allows AREIT ample headroom to raise secured borrowings. AREIT's price-to-NAV of 1.2x and good access to capital markets also gives it financial flexibility to raise equity capital. In a scenario where short term obligations will need to be financed at a higher cost of 4% and assuming the new acquisitions start contributing, we estimate AREIT's interest coverage to fall to ~3.3x.

Ascendas Real Estate Investment Trust

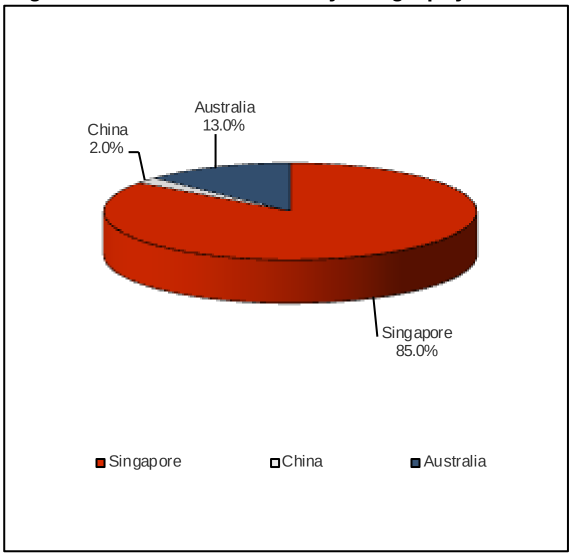
Table 1: Summary Financials

Year Ended 31st March	FY2015	FY2016	1H2017
Income Statement (SGD'mn)			
Revenue	673.5	761.0	413.0
EBITDA	419.3	466.5	271.3
EBIT	419.0	466.3	271.3
^ Gross interest expense	113.7	93.6	67.6
Profit Before Tax	404.3	369.3	189.8
Net profit	397.6	344.2	201.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	41.6	56.2	26.7
Total assets	8,160.3	9,876.0	9,850.9
Gross debt	2,727.7	3,664.6	3,375.9
Net debt	2,686.1	3,608.3	3,349.2
Shareholders' equity	5,013.6	5,796.9	6,072.1
Total capitalization	7,741.3	9,461.5	9,448.0
Net capitalization	7,699.7	9,405.2	9,421.3
Cash Flow (SGD'mn)			
Funds from operations (FFO)	398.0	344.3	201.4
* CFO	362.4	481.7	246.3
Capex	98.7	251.0	51.6
Acquisitions	557.0	1,282.6	155.2
Disposals	12.6	38.7	202.8
Dividends	260.8	442.1	274.1
Free Cash Flow (FCF)	263.7	230.7	194.7
* FCF Adjusted	-541.4	-1,455.3	-31.9
Key Ratios			
EBITDA margin (%)	62.3	61.3	65.7
Net margin (%)	59.0	45.2	48.8
Gross debt to EBITDA (x)	6.5	7.9	6.2
Net debt to EBITDA (x)	6.4	7.7	6.2
Gross Debt to Equity (x)	0.54	0.63	0.56
Net Debt to Equity (x)	0.54	0.62	0.55
Gross debt/total capitalisation (%)	35.2	38.7	35.7
Net debt/net capitalisation (%)	34.9	38.4	35.5
Cash/current borrowings (x)	0.1	0.0	0.0
^ EBITDA/Total Interest (x)	3.7	5.0	4.0

Source: Company, OCBC estimates | ^FY2015&1H2017's interest includes loss on FV of ECS

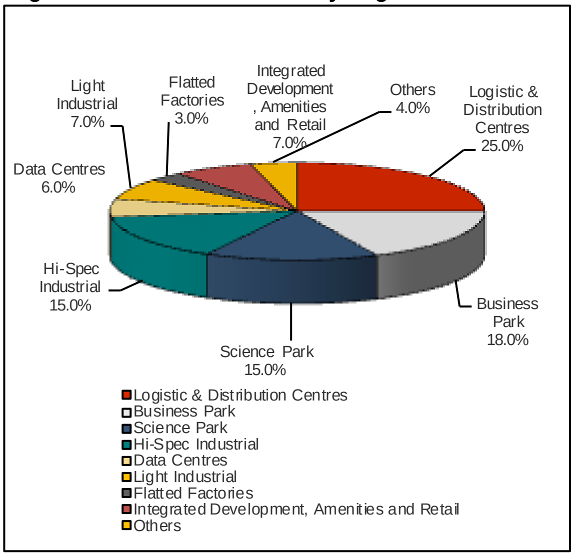
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Asset breakdown by Geography - 1H2017



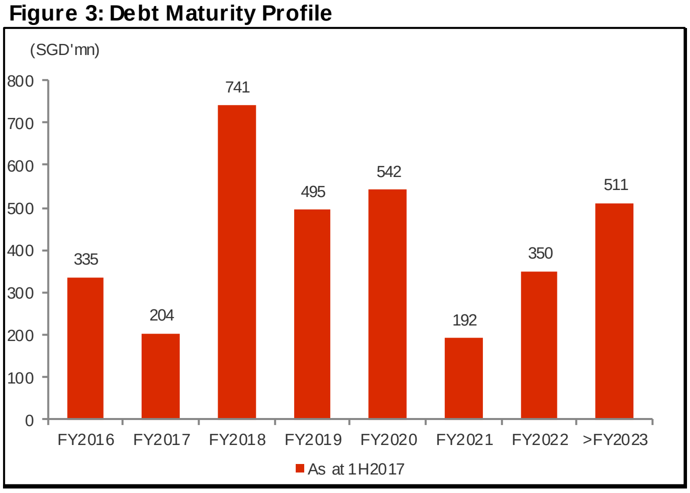
Source: Company

Figure 2: Asset breakdown by Segment - 1H2017



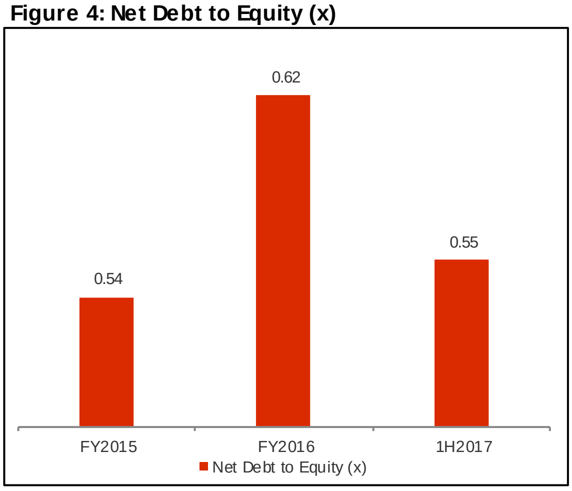
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Ascott Residence Trust

Credit Outlook – We are Underweight the ART curve as we think the bonds and perpetuals are too tight on the back of its declining standalone credit profile versus other Baa3 issuers.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa3/Negative

Fitch: Not rated

Ticker: **ARTSP**

Background

Ascott Residence Trust ("ART") invests primarily in serviced residences and rental housing properties. It is the largest hospitality trust listed on the SGX with asset portfolio quadrupling to SGD4.5bn since listing in 2006. As at 30 September 2016, ART's portfolio consists of 90 properties across 38 cities in 14 countries and 11,619 units. CapitaLand has ~44% stake in ART.

Key credit considerations

- **Lackluster organic performance:** 9M2016 revenue increased by 15.5% to SGD348.8mn (9M2015: SGD301.9mn), driven mainly by the contribution of acquisitions made in 2015 and Sheraton Tribecca which was acquired in April 2016 (collectively, new acquisitions contributed SGD64.2mn) which partially offset the loss of SGD2.4mn in revenue from the divestment of 6 rental housing properties in Japan. On a "same-store" basis, 9M2016 revenue decreased by SGD14.9mn versus 9M2015. The lackluster organic performance was mainly due to the depreciation from the GBP against the SGD (ART's reported currency), on-going renovation in Ascot Makati and weaker demand in China. Revenue per Available Unit (RevPAU) increased 2% to SGD144 against 3Q2015, driven by inorganic acquisitions. In 3Q2016, 41% of gross profit came from properties underpinned by Master Leases and management contracts with minimum guaranteed income (3Q2015: 46%). Weighted average remaining tenure for such properties is manageable at 3.6 years. Overall, we think the slowdown in corporate demand has taken a toll on ART's stabilized operations. Based on our calculation of EBITDA (excluding other operating income and expenses), we find EBITDA/Gross Interest at 4.1x (9M2015: 3.9x). Adjusting 50% of distribution to perpetual holders, we find that EBITDA/(Gross Interest plus perpetual distribution) to have deteriorated to 3.4x from 3.5x in 9M2015.

- **Increased aggregate leverage:** Based on our calculation, aggregate leverage is 41% (31 December 2015: 39%). As at 30 September 2016, ART has SGD401.9mn in perpetuals (representing 9% of total capital). Adjusting 50% of such perpetuals as debt, we find Adjusted Gross Debt-to-Total Asset to be 45% (31 December 2015: 43%). ART took a 13% hit in its UK portfolio valuation largely due to the depreciation of the GBP against the SGD, which we estimate impacted total asset value by around 1.5% and 1% in its leverage levels. For 4Q2016 results, we do not foresee further negative swings in the UK portfolio given that ART has taken the valuation hit as at 30 June 2016. Using total return to equity and perpetual holders as a percentage of total assets as a proxy for Return on Assets ("ROA"), we find ROA to have declined to less than 4.0% in 2014-2015 and we expect 2016 ROA to be within similar levels. ART has achieved ROA of more than 5% historically. This is in part driven by the absence of large revaluation gains seen between 2011 and 2013 (average SGD123mn p.a.). We think revaluation gains will only help marginally in reining in leverage over the next 6 months.

- **Distribution to capital sources partly funded by new capital raisings:** We expect that on a stabilized basis, cash flow from operations ("CFO") of REITs are able to fully cover obligations to capital providers (equity, debt and perpetual holders). Based on our calculation, ART's CFO was insufficient to fully cover its obligations to capital sources since 2012. As such, this implies that capital raisings (including new debt raised) over the last few years was also used to fund distributions to equity and perpetual holders.

- **Overhang from upcoming Singapore acquisition:** In end-2013, ART entered into agreements to acquire Ascott Orchard Singapore (the former Somerset Cairnhill which is undergoing redevelopment) for SGD405mn. The redevelopment is expected to be completed in 4Q2017 with SGD385mn to be paid to its Sponsor, CapitaLand for the property. ART has not announced the funding structure of the acquisition, though we think it will entail some form of equity given the weakened standalone credit profile of ART. Our base case remains that the Sponsor will be supportive and has the financial capacity to participate in an equity exercise. OCBC Credit Research has CapitaLand's issuer profile at Positive.

Ascott Residence Trust

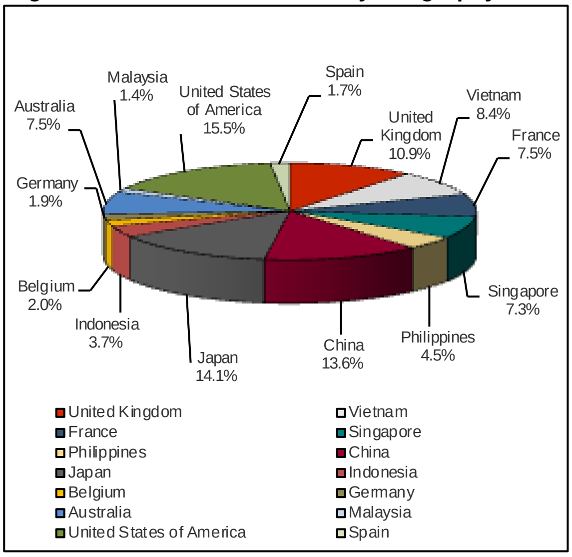
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	357.2	421.1	348.8
EBITDA	173.8	196.3	152.6
EBIT	157.6	179.7	143.3
Gross interest expense	43.3	49.9	37.4
Profit Before Tax	167.3	215.8	146.7
Net profit	122.5	165.2	113.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	192.6	220.5	174.7
Total assets	4,121.9	4,724.6	4,879.2
Gross debt	1,550.9	1,815.2	1,969.9
Net debt	1,358.4	1,594.7	1,795.2
Shareholders' equity	2,353.2	2,668.6	2,631.8
Total capitalization	3,904.1	4,483.8	4,601.7
Net capitalization	3,711.6	4,263.3	4,426.9
Cash Flow (SGD'mn)			
Funds from operations (FFO)	138.7	181.8	122.8
* CFO	152.6	177.5	120.6
Capex	40.0	46.8	9.9
Acquisitions	428.4	418.8	235.2
Disposals	0.0	67.3	59.0
Dividends	119.7	141.5	138.5
Free Cash Flow (FCF)	112.5	130.7	110.7
* FCF Adjusted	-435.5	-362.2	-203.9
Key Ratios			
EBITDA margin (%)	48.7	46.6	43.8
Net margin (%)	34.3	39.2	32.6
Gross debt to EBITDA (x)	8.9	9.2	9.7
Net debt to EBITDA (x)	7.8	8.1	8.8
Gross Debt to Equity (x)	0.66	0.68	0.75
Net Debt to Equity (x)	0.58	0.60	0.68
Gross debt/total capitalisation (%)	39.7	40.5	42.8
Net debt/net capitalisation (%)	36.6	37.4	40.6
Cash/current borrowings (x)	0.8	0.9	0.7
EBITDA/Total Interest (x)	4.0	3.9	4.1

Source: Company, OCBC estimates

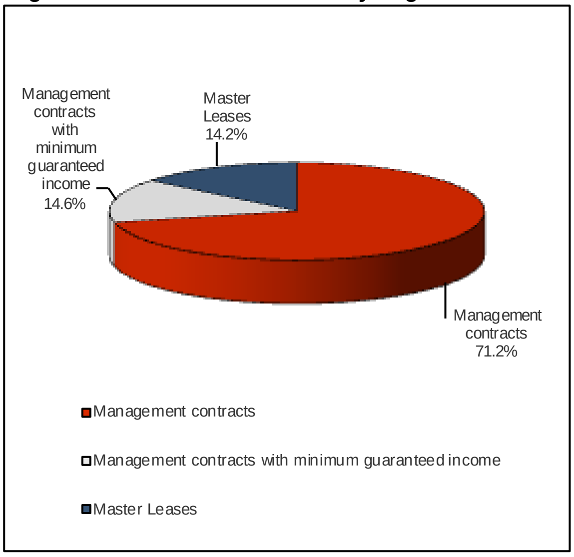
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Geography - 9M2016



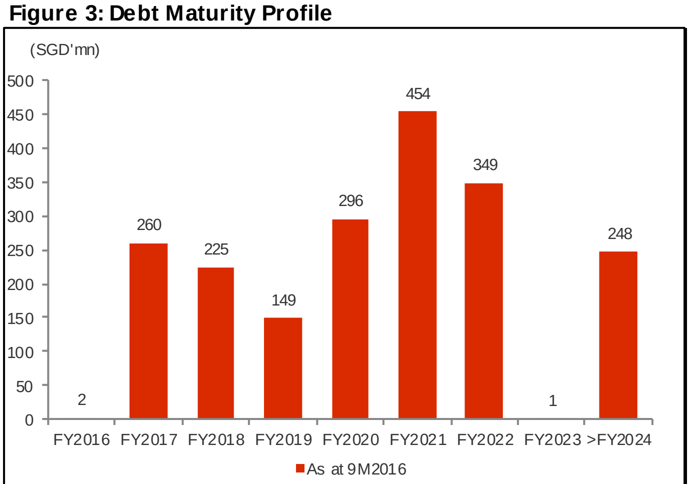
Source: Company

Figure 2: Revenue breakdown by Segment - 9M2016



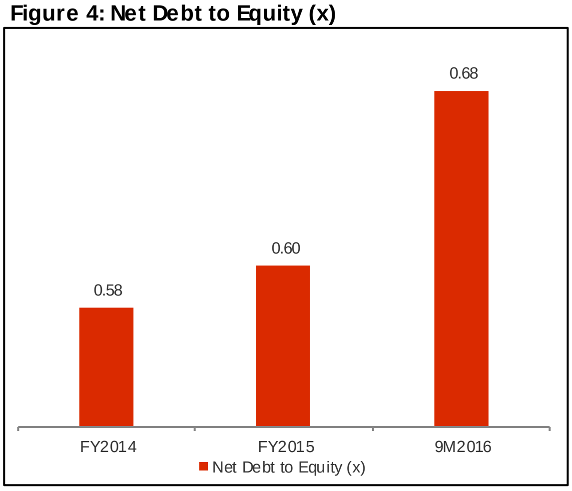
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

ASL Marine Holdings Ltd

Credit Outlook – We expect the bonds to remain illiquid post restructuring. Though ASL looks on track to resolve its immediate liquidity pressure, its various business segments remain under pressure.

Issuer Profile: Negative

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **ASLSP**

Company Profile

Listed in 2003, ASL Marine Holdings ("ASL") is an integrated offshore marine firm. It has four businesses: shipbuilding, shiprepair & conversion, shipchartering and engineering. Majority of the firm's revenue is generated in Asia. The firm has shipyards in Singapore, Indonesia and China. It entered the dredging engineering segment after acquiring VOSTA LMG in 3Q2013. As of the end of FY2015, the firm has a fleet of 204 vessels for its shipchartering segment, with the majority being barges. The founding Ang family continues to hold more than 67% stake in the firm.

Key credit considerations

- **Restructuring its balance sheet**: As mentioned previously, ASL had significant short-term borrowings due. As of 1QFY2017 (ending September 2016), ASL had SGD347.6mn in short-term borrowings (compared to SGD565.9mn in total borrowings). This includes SGD100mn bonds due on 28/03/17. As the environment remains challenging and liquidity remains limited, management believes that it would not have the ability to redeem ASL's bonds when they come due. In addition, though ASL was able to obtain a commitment from a syndicate of banks for SGD99.9mn in new term loans for working capital purposes, the facility was contingent to ASL being able to extend the maturities of its existing bonds by 3 or more years. As such, ASL has launched a consent solicitation exercise and is seeking to extend the maturity of its two bonds by 3 years as well as to adjust certain financial covenants. In exchange, ASL will provide an initial increase in coupon and subsequent step-up of 50bps per annum, as well as principal amortization of 2.5% semi-annually. ASL would also provide a subordinated floating charge on a fleet of vessels as security to the bonds.

- **Founders' show of faith**: The controlling Ang family has shown their commitment to the firm by injecting SGD16.8mn into ASL via a rights issue (SGD25mn was raised in total). We consider this a show of confidence by the family in ASL, as should ASL's balance sheet restructuring fail and the company falls into default, this fresh SGD16.8mn injection would likely be wiped out.

- **Fair start to FY2017**: 1QFY2017 results showed revenue increasing 27.3% y/y to SGD96.7mn. The shipbuilding segment had a fair quarter, growing 26.7% y/y to SGD46.0mn. The bulk of revenue generated from shipbuilding (~90%) was due to tugs, with demand for OSVs remaining weak. Looking forward, ASL had SGD177mn in shipbuilding order book for delivery till end-FY2018 (with 59% to be recognized in FY2017). This was sharply lower than the SGD342mn reported a year ago, reflecting weak demand. Shiprepair and conversion segment revenue was flattish y/y at SGD14.3mn (some lumpiness in revenue due to recognition only upon completion). Shipchartering segment saw revenue jump 40.7% y/y to SGD27.8mn (and comparable to the previous quarter), driven by stronger demand for tugs (+24.6% y/y) and barges (+37.7% y/y) with ASL benefitting from the commencement of large marine infrastructure projects in Singapore and South Asia during 4QFY2016. Order book for shipchartering stood at SGD145mn.

- **Margins stabilizing, cash flow improving**: Though there was gross margin compression y/y from 15.6% (1QFY2016) to 13.5% (1QFY2017), ASL saw improvements q/q (4QFY2016: 11.2%). Improvements were seen at shipbuilding (gross margins expanding 590bps q/q to 11.3%), and shipchartering (gross margins expanding 450bps q/q to 7.6%). Absent the SGD4.0mn in provisions for doubtful debts and SGD3.9mn in impairment losses on its PPE seen in 4QFY2016, ASL was able to generate a pre-tax profit of SGD1.7mn (4QFY2016: SGD9.5 pre-tax loss). Cash flow improved as well with ASL generating SGD40.0mn in operating cash flow (including interest service) for the quarter (up from SGD24.3mn generated in 4QFY2016), via managing working capital. After factoring capex, ASL was able to generate SGD24.3mn in free cash flow for the quarter (after generating SGD29.2mn in 4QFY2016).

- **Focus on managing liquidity needs**: Cash generated was used to deleverage, paying down SGD30.4mn in net borrowings during 1QFY2017. As such, net gearing fell from 134% to 125% q/q (it peaked at 140% during 3QFY2016). The proposed extension to the bond maturities as well as infusion from the new term loans would help provide ASL with some flexibility, though the tough environment would weigh on performance. We will reiterate our Negative Issuer profile.

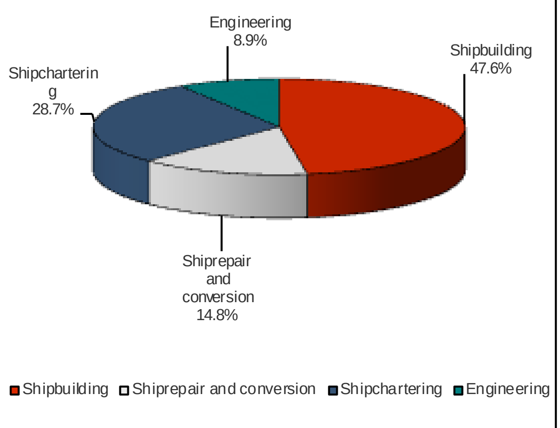
ASL Marine Holdings Ltd

Table 1: Summary Financials

Year End 30th Jun	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	184.2	364.4	96.7
EBITDA	58.4	83.7	22.8
EBIT	12.5	27.1	7.4
^ Gross interest expense	17.3	21.9	4.5
Profit Before Tax	8.6	0.5	1.7
Net profit	7.9	2.0	1.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	77.9	24.7	36.9
Total assets	1,208.5	1,275.7	1,292.5
Gross debt	542.4	592.2	565.9
Net debt	464.4	567.5	529.0
Shareholders' equity	425.3	424.4	425.5
Total capitalization	967.7	1,016.6	991.4
Net capitalization	889.7	991.9	954.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	53.9	58.5	16.9
* CFO	105.1	-17.3	40.0
Capex	118.8	97.2	15.6
Acquisitions	0.0	0.0	0.0
Disposals	52.0	9.3	0.0
Dividend	4.2	1.7	0.0
Free Cash Flow (FCF)	-13.7	-114.4	24.4
* FCF adjusted	34.2	-106.8	24.4
Key Ratios			
EBITDA margin (%)	31.7	23.0	23.5
Net margin (%)	4.3	0.5	1.7
Gross debt to EBITDA (x)	9.3	7.1	6.2
Net debt to EBITDA (x)	7.9	6.8	5.8
Gross Debt to Equity (x)	1.28	1.40	1.33
Net Debt to Equity (x)	1.09	1.34	1.24
Gross debt/total capitalisation (%)	56.0	58.3	57.1
Net debt/net capitalisation (%)	52.2	57.2	55.4
Cash/current borrowings (x)	0.4	0.1	0.1
^ EBITDA/Total Interest (x)	3.4	3.8	5.0

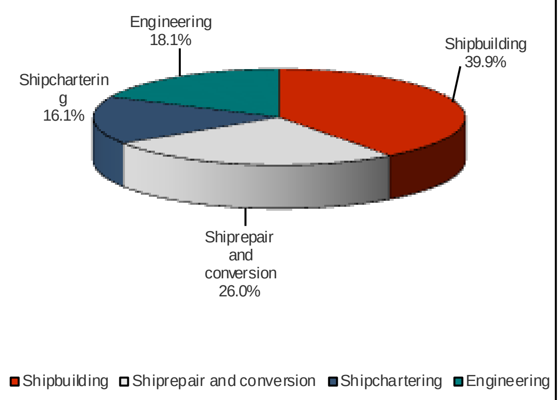
Source: Company, OCBC estimates | ^1Q2017's figures exclude capitalised interest expense

Figure 1: Revenue breakdown by Segment - 1Q2017



Source: Company

Figure 2: Gross Profit by Segment - 1Q2017



Source: Company

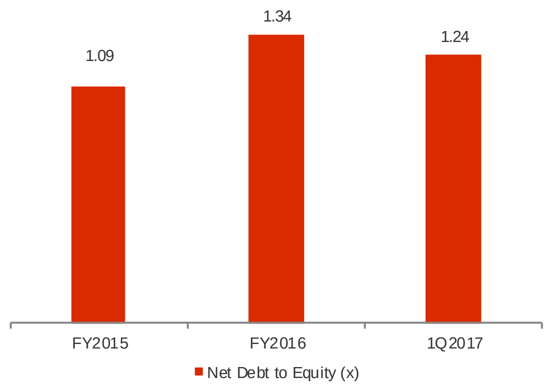
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals* | **CFO after deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	205.3	36.3%
Unsecured	142.3	25.1%
	347.6	**61.4%**
Amount repayable after a year		
Secured	168.2	29.7%
Unsecured	50.0	8.8%
	218.2	**38.6%**
Total	**565.9**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We are Underweight on the ASPSP'20s due to the elevated balance sheet. However, we stay Neutral on ASPSP'18s and '19s as they offer higher yields than ASPSP'20s with a shorter duration while the completed Melbourne projects offer revenue and cashflow visibility in the near-term.

Issuer Rating: Negative

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **ASPSP**

Company Profile

Aspial Corp. Ltd ("Aspial") was incorporated in 1970 and listed on the SGX in 1999. The company has evolved over the years from its roots in jewellery holding three main jewellery brands, Lee Hwa, Goldheart and CITIGEMS to a diversified company with real estate and pawnshop businesses as well. Aspial has a market capitalization of SGD512.4mn as of 5 Jan 2017. Aspial is 81%-controlled by the members of the Koh family who are siblings to Mr Koh Wee Meng, the founder of Fragrance Group Ltd.

Aspial Corp Ltd

Key credit considerations

- **Decent 3Q2016 results lifted by the real estate and financial service business:** Revenue rose 27% y/y to SGD170.9mn in 3Q2016, mainly due to the recognition of sales from CityGate, The Hillford and Waterfront@Faber. Revenues are also higher from the financial services division due to higher interest income and sales from retailing and trading of pre-owned jewelry and watches. Net profits after tax are lifted further by 530% to SGD14.4mn, due to fair value gains on investment property and foreign exchange. Thus far in 2016, Aspial has delivered on the real estate front, with TOP successfully obtained for Urban Vista, Kensinton Square and The Hillford.

- **Elevated balance sheet poses the main risk:** Even while Aspial delivers on profits, net gearing at 3.34x remains elevated and significantly higher than the more established and larger peers such as CapitaLand (0.47x), City Development (0.27x) and Frasers Centrepoint (0.68x). Substantially all the property assets are also likely to be encumbered. While 9M2016 EBITDA/interest appears manageable at 3.6x, real estate earnings are volatile. While net debt has been steadily climbing since 2014, we think that net debt may not climb further in the near-term. The Hillford has obtained TOP and Aspial may sell more bonds owned by the company that are held for investment.

- **Real estate as the anchor of performance:** Aspial is dependent on the performance of the real estate division, as it forms the majority of the asset base (SGD1.1bn out of SGD1.7bn as of 2015) and is the main revenue contributor of the company. Aspial has pre-sold most of its Melbourne projects - Australia 108 and Avant, and expects to recognize revenues of AUD1.1bn over 2018-2020. Aspial has also locked in SGD390mn revenue from its Singapore property projects. Recently on 28 Oct 2016 in Australia, Aspial has launched Tower 1 of Nova City project in Cairns and presold 20% of the 101 units. Moving forward, Aspial is planning on launching the Albert Street Project in Brisbane. While we think that Aspial is strong on sales, we note the concentration risks in the Australian projects. Meanwhile, Aspial has yet to receive payments in full from the buyers as the projects are not completed. Meanwhile, Aspial has sacrificed some rental income by demolishing the old Keypoint building for the construction of the new CityGate development in Singapore.

- **Unhedged currency risk on the balance sheet:** Aspial faces large FX risks as the revenues it expects to receive from its Australian projects (AUD1.1bn) and land and properties in Penang worth MYR300mn are not hedged as of 2015. The AUD200mn facility that Aspial entered into on 6 Sep 2016 still pales in comparison to the large AUD exposure on the balance sheet. While we understand that Aspial does minimal hedging as its investments in Malaysia and Australia are long-term, most of the debt is in SGD, creating currency mismatch on the balance sheet.

- **Gloom in the jewellery business:** Known traditionally for its jewellery business, consumer sentiments remains weak, with Aspial posting a deepening pre-tax loss of SGD3.8mn for the division as of 9M2016. Even if the marketing expenses of SGD3.1mn and one-time write-off of SGD0.2mn were not included, the jewellery business would still have incurred a loss of SGD0.5mn.

- **Refinancing risks ahead:** Despite securing AUD200mn in facility, we note that Aspial has SGD503.9mn of debt maturing over the next 12months, which includes SGD56.5mn of ASPSP 4.5%'17. With bond yields above 8% for the bonds which mature over 2018-2019, we think that Aspial may face higher refinancing costs.

Aspial Corp Ltd

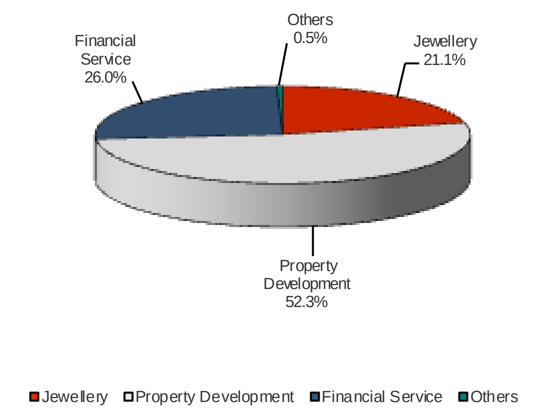
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	510.1	464.1	450.8
EBITDA	124.6	99.1	84.2
EBIT	119.4	94.5	80.8
^ Gross interest expense	33.6	39.8	23.6
Profit Before Tax	61.7	13.0	14.4
Net profit	43.1	8.8	9.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	83.6	133.0	72.3
Total assets	1,646.3	1,760.7	1,789.7
Gross debt	1,115.4	1,305.2	1,331.4
Net debt	1,031.8	1,172.2	1,259.1
Shareholders' equity	369.7	376.3	377.4
Total capitalization	1,485.1	1,681.5	1,708.7
Net capitalization	1,401.5	1,548.5	1,636.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	48.2	13.4	12.8
* CFO	-184.5	-21.7	-14.1
Capex	5.2	3.7	11.1
Acquisitions	0.9	9.7	266.8
Disposals	0.1	3.5	213.3
Dividend	11.6	15.9	9.9
Free Cash Flow (FCF)	-189.7	-25.4	-25.2
* FCF Adjusted	-202.1	-47.5	-88.6
Key Ratios			
EBITDA margin (%)	24.4	21.4	18.7
Net margin (%)	8.4	1.9	2.1
Gross debt to EBITDA (x)	9.0	13.2	11.9
Net debt to EBITDA (x)	8.3	11.8	11.2
Gross Debt to Equity (x)	3.02	3.47	3.53
Net Debt to Equity (x)	2.79	3.12	3.34
Gross debt/total capitalisation (%)	75.1	77.6	77.9
Net debt/net capitalisation (%)	73.6	75.7	76.9
Cash/current borrowings (x)	0.3	0.2	0.1
^ EBITDA/Total Interest (x)	3.7	2.5	3.6

Source: Company, OCBC estimates | ^9M2016's figures exclude capitalised interest expense

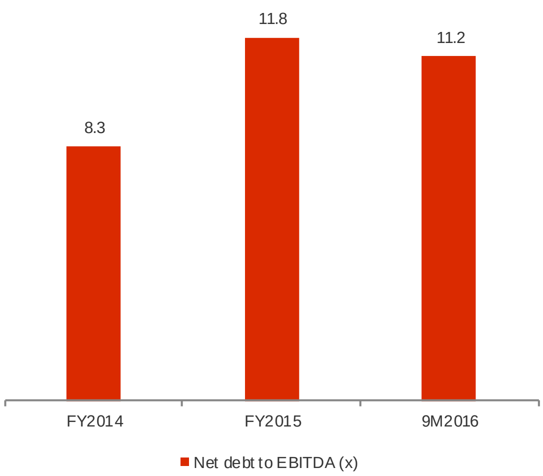
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2016



Source: Company

Figure 2: Net Debt to EBITDA (x)



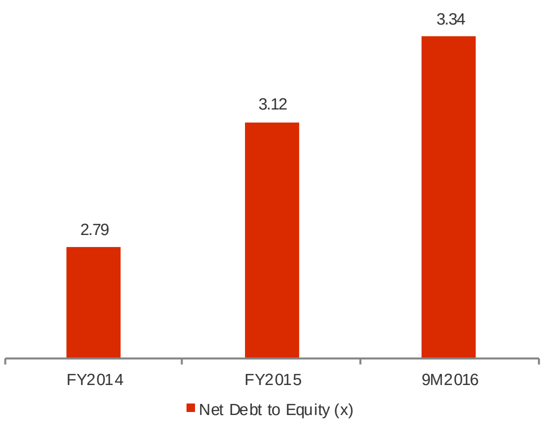
Source: Company, OCBC estimates

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	429.4	32.3%
Unsecured	74.5	5.6%
	503.9	**37.8%**
Amount repayable after a year		
Secured	253.4	19.0%
Unsecured	574.0	43.1%
	827.4	**62.2%**
Total	**1331.4**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We like BREAD'19s as we see value in the short 2.2 year paper offering 3.31% yield, providing 58bps-96bps over retail REITs such as FCTSP'19s, CAPITA'20s and SGREIT'21s. We find similarities with Retail REITs as both are dependent on Retail sales while F&B is typically the biggest trade sector by revenue of retail REITs. Moreover, BREAD has visible retail presence and is a household name in Singapore.

Issuer Rating: Neutral

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **BREAD**

Company Profile

Listed on the SGX in 2003, BreadTalk Group Ltd ("BGL") is a household F&B brand owner. BGL has expanded beyond Singapore and currently operates 957 outlets in China, Singapore, Thailand and other parts of Asia and Middle East. BGL classifies its businesses into Bakery, Food Atrium and Restaurants, with prominent brands including BreadTalk, Toast Box and Food Republic. BGL also operates DTF as a franchisee. The company is majority owned by founders George Quek (34.01%) and Katherine Lee (18.63%).

BreadTalk Group Ltd

Key credit considerations

- **Posting better results:** After consolidating its business following the rapid expansion of outlets, 3Q2016 results showed EBITDA increasing in all three divisions (Bakery, Food Atrium, Restaurant), with the overall EBITDA higher by 23% y/y to SGD21.7mn. Further gains are likely as BGL continues to pursue operational efficiency gains, tightening cost controls while a number of unprofitable stores have been closed. Going forward, we should also expect earnings and EBITDA to be higher y/y as write-offs should decrease when BGL is mostly done with the closure of unprofitable outlets. While we believe BGL is facing saturation of growth in the Singapore market, this is credit positive as we expect BGL to commit less cash to new outlets which require time to breakeven in cashflow.

- **Din Tai Fung ("DTF") as a potential double edged sword:** DTF is the crown jewel under the Restaurant division, and we estimate it accounts for 38% of BGL's EBITDA from all three divisions. BGL's DTF franchise may grow further, as it obtained the franchise rights to operate in the UK. While DTF's consistent performance and cashflow generation contributes to BGL's credit profile, the continued performance relies on the continuation of the franchise agreement, which will expire on July 2021. Nevertheless, we are not overly worried about the expiry, as management expressed confidence in the renewal of the agreement given its track record in running BGL. In any case, BREAD' 19s mature before the expiry of the franchise agreement. We note that the franchisor's interest is also aligned with 20% stake in the DTF JV. Meanwhile, the Bakery and Food Atrium results have been picking up, which reduces the reliance of BGL on DTF.

- **Stakes in property assets:** BGL holds a 29% stake in CHIJMES (Book value: SGD18.0m), 5.3% in AXA Tower (Book value: SGD19.4mn) and a stake in TripleOne Somerset (Book value: SGD17.2mn). As part of the development pipeline, BGL also holds a 5.7% stake in Perennial Tongzhou Development Pte Ltd (Book value: SGD20.1mn) and a 5.9% stake in Perennial Tongzhou Holdings Pte Ltd (Book value: SGD14mn). They help BGL by securing locations for BGL's brands at the malls and mitigate rental costs by providing rental income. The ownership from these properties may provide capital upside. For example, the divestment of 112 Katong netted BGL a gain of SGD8.5mn.

- **Strong cashflow generation:** Net debt/EBITDA is very healthy at 1.7x as of 9M2016 – our figure is conservative as we do not take into account of other income (some of which is non-recurring in nature) and income from JVs/ associates. Reported profits understates the true cashflow generation, as earnings have been hit by write-offs and depreciation. We think that BGL is aggressive on depreciation, given that PPE on the books are typically depreciated over 3Y-5Y while the PPE may still be used when the stores operate for a longer period. As BGL is no longer overly aggressive in expanding, we expect depreciation expense to fall off and better reflect the true profitability of BGL.

- **Decent credit metrics:** Net debt/equity has decreased to 0.55x as of end-9M2016 as BGL generates strong cashflows. Moreover, BGL's book equity may understate its real value given its aggressive depreciation policy. While we note that BGL provides corporate guarantees to its subsidiaries (end-2015: SGD156.3mn), liquidity is ample with SGD112.5mn of cash.

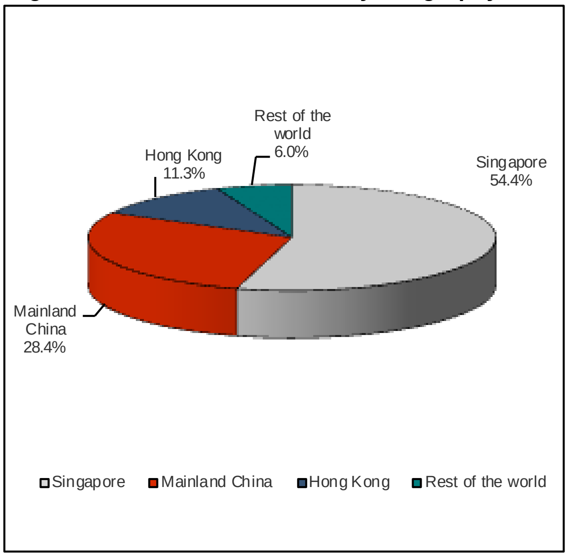
BreadTalk Group Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	589.6	624.1	461.7
EBITDA	52.6	61.2	34.6
EBIT	6.6	11.7	-2.0
Gross interest expense	3.7	5.3	4.6
Profit Before Tax	32.8	25.4	19.2
Net profit	22.1	7.6	7.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	95.5	94.9	112.5
Total assets	538.8	545.1	528.0
Gross debt	198.5	202.4	192.4
Net debt	103.0	107.5	79.9
Shareholders' equity	138.5	146.4	146.1
Total capitalization	337.0	348.8	338.5
Net capitalization	241.5	254.0	226.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	68.1	57.1	43.6
* CFO	73.3	66.5	61.5
Capex	47.5	37.6	30.6
Acquisitions	45.8	22.9	2.8
Disposals	6.6	0.1	16.4
Dividend	6.2	7.8	8.0
Free Cash Flow (FCF)	25.8	28.9	30.9
* FCF adjusted	-19.5	-1.7	36.5
Key Ratios			
EBITDA margin (%)	8.9	9.8	7.5
Net margin (%)	3.8	1.2	1.5
Gross debt to EBITDA (x)	3.8	3.3	4.2
Net debt to EBITDA (x)	2.0	1.8	1.7
Gross Debt to Equity (x)	1.43	1.38	1.32
Net Debt to Equity (x)	0.74	0.73	0.55
Gross debt/total capitalisation (%)	58.9	58.0	56.8
Net debt/net capitalisation (%)	42.7	42.3	35.4
Cash/current borrowings (x)	1.2	1.2	3.7
EBITDA/Total Interest (x)	14.1	11.5	7.6

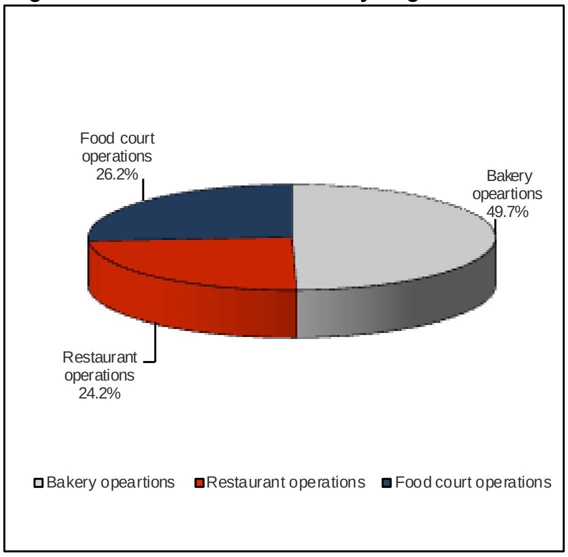
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 9M2016



Source: Company

Figure 2: Revenue breakdown by Segment - 9M2016



Source: Company

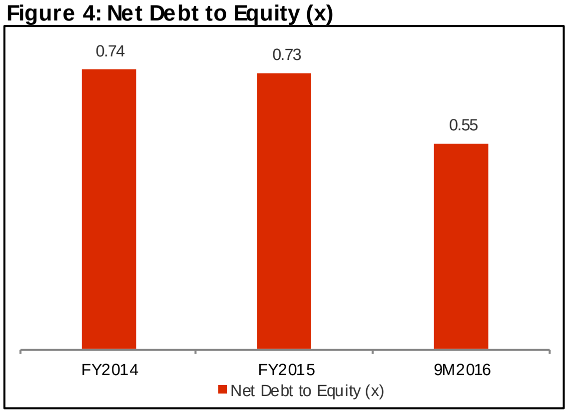
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	18.7	9.7%
Unsecured	11.6	6.0%
	30.2	**15.7%**
Amount repayable after a year		
Secured	77.1	40.1%
Unsecured	85.1	44.2%
	162.2	**84.3%**
Total	**192.4**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Despite being smaller, we like the CREIT curve versus ART. CREITSP'18s provides a yield pick-up of 90bps against the ARTSP'18s (both issuers are rated at Baa3).

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa3/Stable

Fitch: Not rated

Ticker: **CREITSP**

Background

Listed in 2006, Cambridge Industrial Trust ("CREIT") is an industrial REIT in Singapore, with total assets of about SGD1.4bn as at 30 September 2016. CREIT currently owns a diversified portfolio of 49 properties in Singapore. CREIT is an independent REIT in that it is not majority controlled by any property developers. The REIT's largest unitholder is Jinquan Tong (owner of Shanghai Summit) with ~19%, followed by Chan Wai Kheong at ~5%.

Cambridge Industrial Trust

Key credit considerations

- **9M2016 results weaker:** CREIT's 9M2016 gross revenue increased marginally by 0.7% to SGD84.3mn on the back of full period revenue contribution from 160 A Gul Circle 3 and 3 Tuas South Avenue 4 (consolidated since March 2015), completion of asset enhancement initiatives and rent escalations on several properties which helped offset the negative impact of property conversions into multi-tenanted buildings, divestments and expiry of leases. 9M2016 Net Property Income ("NPI") fell 3.1% to SGD62.6mn on the back of higher land rental, maintenance and other property expenses due to the increased number of multi tenanted buildings where CREIT bears such costs. As at 30 September 2016, CREIT has 22 properties which are multi-tenanted against only 18 as at 30 September 2015. As a corollary, NPI margin decreased to 74.2% from 77.1% in 9M2015, EBITDA was lower by 2.5% to SGD55.8mn though interest coverage as measured by EBITDA/Gross interest was stable at 3.5x (9M2015: 3.4x) from overall lower borrowing costs from lower finance transaction costs. In 3Q2016, CREIT reported gross revenue of SGD27.6mn (2Q2016: SGD28.3mn). Removing the impact of 23 Tuas Avenue 10, which was disposed of on 30 June 2016, we estimate adjusted gross revenue to have increased 4.7% Q-on-Q but adjusted NPI to have grown at less than 1%.

- **Aggregate leverage healthy, no short term refinancing risk:** As at 30 September 2016, aggregate leverage was 36.9%, slightly lower against 37.4% as at 31 December 2015. There is no short term debt due, with the next major debt only due in November 2018. In September 2016, CREIT completed an early refinancing of its secured term loan that was originally due in 2017. Post the refinancing, 100% of CREIT's portfolio is unencumbered. Available committed debt facilities as at 30 September 2016 was SGD89mn while we expect CREIT to face minimal liquidity risk as a result of minimal capex over the next 6 months (barring any unannounced acquisitions/redevelopments). In October 2016, CREIT completed its divestment of 2 Ubi View, which would have added SGD10.6mn to its cash coffers (31 September 2016 cash balance of SGD10.7mn).

- **Occupancy and Weighted Average Lease Expiry ("WALE"):** As at 30 September 2016, CREIT has 24.3% of leases coming due by end-2017, higher than historically exhibited. Of these, 7.3% relate to 6 single-tenanted properties and we see downside risk on NPI margins as single-tenanted properties fall off lease. In 3Q2016, a property which was converted into a multi-tenanted property post expiry of its Master Lease saw negative rental reversion of 4.5%. We observe that the original tenant of the building was under financial stress as a knock-on effect from the weak oil and gas sector. Portfolio occupancy as at 30 September 2016 was 93.6%, falling from 95.4% as at 30 September 2015.

- **Possible introduction of new significant shareholder:** In mid-October, e-Shang Redwood Group ("e-Shang"), a logistics investment company backed by Warburg Pincus entered into an option agreement with three existing unitholders which gives e-Shang the rights to acquire up to ~10.7% in CREIT. The media has also reported that Warburg Pincus is looking to acquire CREIT's REIT manager, though no deal has been announced to date. Our base case is that such a deal is credit neutral as Warburg Pincus is likely to hold its stake in the REIT manager as a financial investment. We will however re-assess our views should CREIT opt to internalize management instead, due to the cost and funding structure implication.

- **Australia remains within sight:** CREIT continues to explore opportunities in Australia despite being informed by Commercial and General ("C&G"), its earlier joint venture partner, of the latter's intention to discontinue the partnership.

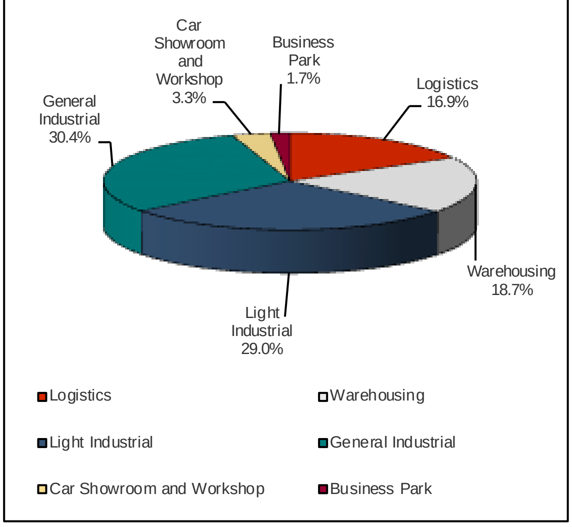
Cambridge Industrial Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	99.3	112.2	84.3
EBITDA	68.1	76.7	55.8
EBIT	68.1	76.7	55.8
Gross interest expense	17.6	22.2	16.0
Profit Before Tax	45.4	52.5	39.2
Net profit	45.3	52.5	39.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	6.1	2.7	10.7
Total assets	1,380.4	1,430.9	1,426.3
Gross debt	475.4	525.3	522.9
Net debt	469.3	522.6	512.1
Shareholders' equity	866.3	872.9	872.1
Total capitalization	1,341.8	1,398.2	1,394.9
Net capitalization	1,335.7	1,395.5	1,384.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	45.3	52.5	39.2
* CFO	60.6	79.1	50.5
Capex	8.7	21.0	4.4
Acquisitions	0.0	10.6	0.0
Disposals	7.8	0.0	16.5
Dividends	42.6	48.4	40.1
Free Cash Flow (FCF)	51.9	58.1	46.1
* FCF Adjusted	77.1	53.9	77.5
Key Ratios			
EBITDA margin (%)	68.6	68.3	66.2
Net margin (%)	45.6	46.8	46.5
Gross debt to EBITDA (x)	7.0	6.8	7.0
Net debt to EBITDA (x)	6.9	6.8	6.9
Gross Debt to Equity (x)	0.55	0.60	0.60
Net Debt to Equity (x)	0.54	0.60	0.59
Gross debt/total capitalisation (%)	35.4	37.6	37.5
Net debt/net capitalisation (%)	35.1	37.4	37.0
Cash/current borrowings (x)	0.1	NM	NM
EBITDA/Total Interest (x)	3.9	3.5	3.5

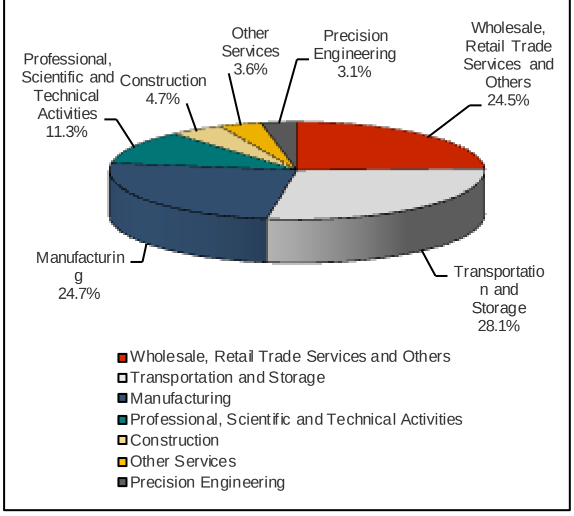
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2016



Source: Company

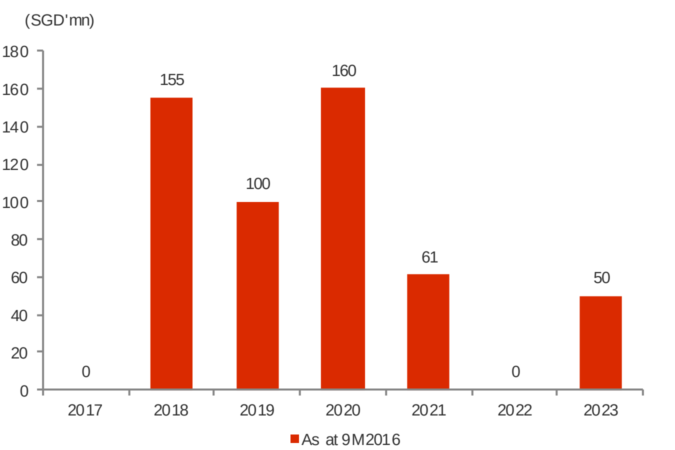
Figure 2: Revenue breakdown by Business - 9M2016



Source: Company

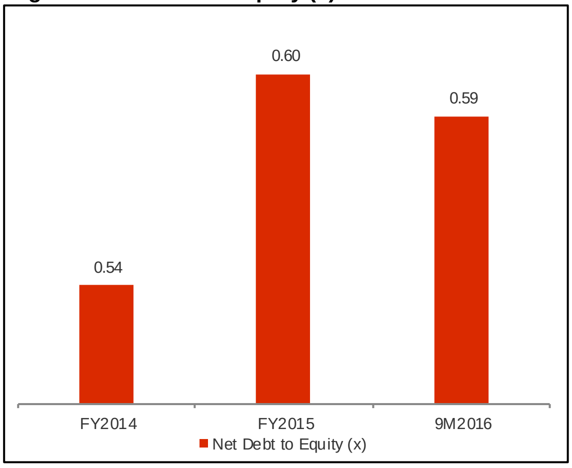
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We prefer the CCT curve versus the CMT curve, seeing the 10bps – 15bps pick up as attractive, particularly given the structural challenges that retail commercial assets face.

Issuer Profile: Neutral

S&P: A-/Stable

Moody's: A3/Negative

Fitch: Not rated

Ticker: **CCTSP**

Background

Listed on the SGX in 2004, CapitaLand Commercial Trust ("CCT") is Singapore's first listed and one of the largest commercial REITs, with SGD8.7bn of property holdings as at 30/09/16. It comprises ten prime properties in Singapore, as well as investments in Malaysia. About ~81% of net property income is currently generated from Raffles City Singapore (RCS, 60%-owned), Capital Tower, One George Street, CapitaGreen and Six Battery Road. CCT is 32.0%-owned by CapitaLand Ltd.

CapitaLand Commercial Trust

Key credit considerations

- **CapitaGreen acquisition offsets some underlying softness**: For 3Q2016 results, gross revenue jumped 8.9% y/y to SGD74.4mn while NPI increased 8.3% y/y to SGD57.0mn. This was largely driven by CCT's acquisition of the balance of CapitaGreen (previously 40% held, completed on 31/08/16). The acquisition increased gross revenue by SGD7.0mn and NPI by SGD5.3mn (CapitaGreen's September performance). Excluding the acquisition, performance was softer, with gross revenue declining 1.4% y/y to SGD67.4mn and NPI declining 1.8% y/y to SGD51.7mn. For 9M2016, gross revenue was up 1.6% to SGD208.9mn while NPI was flat at SGD160.5mn. Adjusting for the CapitaGreen contribution though, gross revenue fell 1.8% while NPI fell 3.3% respectively.

- **Occupancy picking up from mid-year dips**: 3Q2016 saw property revenue fall at Six Battery Road, One George Street ("OGS") and Golden Shoe. Six Battery Road saw its occupancy fall to 97.4% (2Q2016: 99.8%), with CCT upgrading one and a half floors of currently vacate office space. One George Street's committed occupancy rate improved sharply q/q from 91.3% to 96.6%, after being impacted by the departure of RBS earlier this year (new tenants likely still in the rent-free fitting out period. Finally, Golden Shoe saw its occupancy plunge to 76.3% (2Q2016: 98.6%), likely due to redevelopments. In aggregate though, portfolio committed occupancy increased to 97.4% (2Q2016: 97.2%), driven by improving occupancies at Wilkie Edge, OGS and Twenty Anson. This is stronger than CBRE's Singapore core CBD office occupancy of 95.9% for 3Q2016.

- **Average rents in line for now**: CCT's portfolio average office rent improved to SGD9.22 psf per month (versus SGD8.98 psf in 2Q2016 and SGD8.90 psf in 4Q2015) and comparable with the industry Grade A office average of SGD9.30 psf (for 3Q2016, according to CBRE). There could be lease pressure with the average 2017 expiring rents at Six Battery Road and One George Street currently higher than the comparable sub-market rents. That said the lease expiry profile is well-managed with 2016 lease expiries largely resolved, and ~8% of NLA left to renew for 2017. This would help CCT sustain its portfolio occupancy in the face of increasing competition. WALE fell sharply q/q to 6.8 years (2Q2016: 7.4 years), potentially driven by the shorter leases on CapitaGreen.

- **Acquisition pressured balance sheet**: Aggregate leverage has worsened sharply to 37.8% (2Q2016: 29.8%), driven by the debt funded acquisition of 60% of CapitaGreen. As such CCT's leverage profile is now comparable with peers. Interest coverage deteriorated as well to 6.5x (2Q2016: 7.2x) due to the additional debt taken. It is worth noting that the CapitaGreen acquisition was funded by a SGD890mn secured bank loan (the only secured borrowing which CCT has) which matures in 2020. Maturity profile is manageable with just SGD175mn in convertible bonds due in 2017.

- **Golden Shoe Car Park ("GSCP") to redevelop**: CCT announced that it plans to redevelop GSCP (last valued at SGD140mn, lease expires in 2081) into an office tower with up to one million sqft of NLA. This would be dependent on approvals from relevant authorities. CCT's target is for work to commence in 2H2017 (tenants are expected to vacate by 31/07/16), and for the development to be completed in 2021. The impact on CCT's credit profile is uncertain, as CCT is still considering the investment and funding structure for the redevelopment. Due to the revised REIT rules, CCT will be able to hold up to 25% of its total assets in redevelopment assets. CCT's current portfolio is valued at SGD8.7bn. As more details are provided, we will revise our view on CCT accordingly. We will hold CCT's Issuer Profile at Neutral for now

CapitaLand Commercial Trust

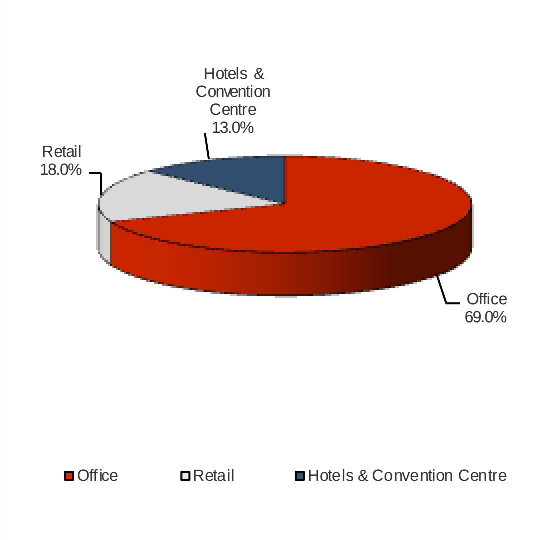
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	262.6	273.2	208.9
EBITDA	189.3	196.7	149.4
EBIT	185.5	193.7	147.4
Gross interest expense	36.4	36.0	31.5
Profit Before Tax	448.9	307.4	187.5
Net profit	448.9	307.3	187.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	101.1	81.2	109.3
Total assets	6,521.1	6,592.5	7,995.7
Gross debt	1,240.2	1,254.9	2,636.5
Net debt	1,139.1	1,173.7	2,527.1
Shareholders' equity	5,153.5	5,234.1	5,176.6
Total capitalization	6,393.7	6,489.0	7,813.1
Net capitalization	6,292.6	6,407.8	7,703.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	452.7	310.2	189.1
* CFO	188.5	196.8	111.7
Capex	30.1	21.3	2.4
Acquisitions	0.0	0.0	342.3
Disposals	0.0	0.0	0.0
Dividends	242.8	251.9	252.2
Free Cash Flow (FCF)	158.4	175.5	109.3
* FCF Adjusted	-84.3	-76.4	-485.1
Key Ratios			
EBITDA margin (%)	72.1	72.0	71.5
Net margin (%)	170.9	112.5	89.6
Gross debt to EBITDA (x)	6.6	6.4	13.2
Net debt to EBITDA (x)	6.0	6.0	12.7
Gross Debt to Equity (x)	0.24	0.24	0.51
Net Debt to Equity (x)	0.22	0.22	0.49
Gross debt/total capitalisation (%)	19.4	19.3	33.7
Net debt/net capitalisation (%)	18.1	18.3	32.8
Cash/current borrowings (x)	0.4	NM	0.6
EBITDA/Total Interest (x)	5.2	5.5	4.7

Source: Company, OCBC estimates

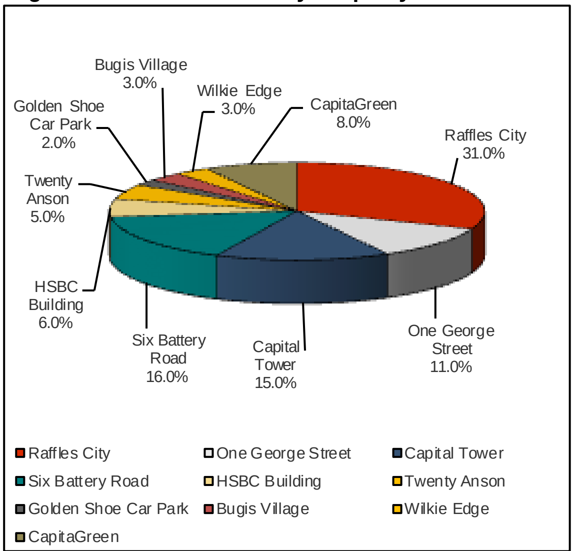
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2016



Source: Company

Figure 2: NPI breakdown by Property - 9M2016



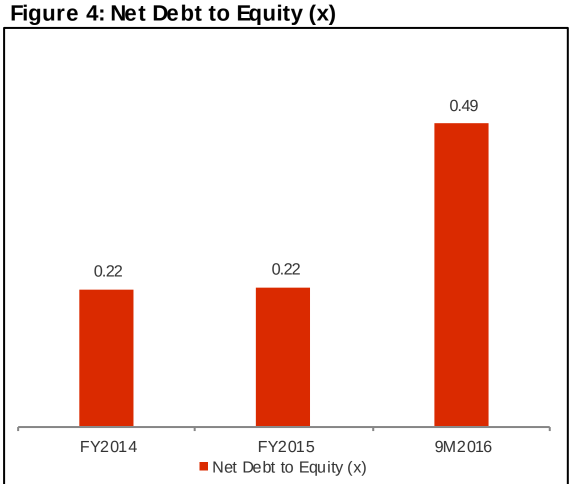
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
.		
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	172.9	6.6%
	172.9	**6.6%**
Amount repayable after a year		
Secured	886.3	33.6%
Unsecured	1577.3	59.8%
	2463.6	**93.4%**
Total	**2636.5**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

CapitaLand Ltd

Credit Outlook – Though both CAPL and CDL have strong credit profiles, we prefer the CITSP 3.9 '24s versus the CAPLSP 3.8 '24s at current comparable spreads, given stronger catalysts at CDL.

Issuer Profile: Positive

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **CAPLSP**

Company Profile

CapitaLand Ltd ("CAPL") is Singapore's leading real estate developer, operating across residential real estate development, serviced residences, retail & office REITs and real estate fund management with core markets in Singapore and China. Its four reporting segments are Capitaland Singapore ("CLS"), Capitaland China ("CLC"), Capitaland Mall Asia ("CMA") and The Ascott Ltd ("Ascott"). CAPL reported SGD46.2bn in total assets as at 30 Sep 16 and it is ~41%-owned by Temasek Holdings Ltd.

Key credit considerations

- **Singapore development sales picking up steam**: For 9M2016, CAPL reported SGD3.40bn in total revenue, up 12.5% y/y. CLS revenue increased 7.8% y/y to SGD996.3mn, supported by sales and revenue recognition at The Nassim and Cairnhill Nine. In fact, Singapore saw 510 residential units sold during the period (9M2015: 151 units), with a total sales value of SGD1.24bn (9M2015: SGD412mn). CAPL was able to move 88 units of d'Leedon and 73 units of the Interlace during 3Q2016, driven by the deferred payment schemes introduced as well as the outright discounts given. The segment also saw additional rental income from the ramping up of CapitaGreen. CLS EBIT margin fell to 40.3% though (9M2015: 45.5%), driven by lower revaluation gains in its investment property portfolio and lower development profits recognized. Looking forward, CLS's residential inventory has fallen sharply from SGD3.1bn (end-2015) to SGD1.9bn (end-3Q2016). As such, CAPL could potentially look to replenish its Singapore land bank.

- **China sales continue to grow:** CLC revenue grew 11.2% y/y to SGD1.09bn for 9M2016. This was driven by the higher number of units handed over during the period (5684 units) compared to the previous period (9M2015: 3407 units) though we note that the previous period was supported by fair value gains from its investment properties (The Paragon, Ascott Heng Shan). CLC EBIT margin fell sharply though to 27.8% (9M2015: 46.6%), driven by the fair value gains mentioned earlier. Adjusting for this, EBIT would have increased 15.1% y/y from 9M2015, driven by the increase in units delivered as well as favourable FX. Looking forward, residential sale volumes continued to grow with 9176 units sold at a value of RMB14.8bn (9M2015: 6492 units at RMB11.6bn). CLC was able to sell 92% of the units launched in 9M2016. Management indicated that over 5000 units will be completed in 4Q2016 (with revenue recognized), and that a pipeline of 1840 units (largely in 2nd tier cities) that are launch ready for 4Q2016.

- **CMA divestments, Ascott acquisitions:** CMA reported 11.3% y/y revenue decline to SGD447.2mn, lacking revenue recognition from Bedok Residences as well as due to the divestment of Bedok Mall into CMT (not consolidated into CAPL). CMA EBIT also fell by 6.0% during 9M2016, due to lower valuation gains at its investment properties. We expect the domestic retail segment to remain weak, keeping CMA EBIT soft. Ascott reported SGD820.9mn in revenue, up 50.3% y/y for 9M2016, driven by acquisitions made by Ascott during the period (such as the Sheraton Tribeca) as well as contributions from Ascott's 50% share in the Cairnhill Nine project. RevPar was weak due to FX swings (-3% YTD) and the soft environment. Looking forward, Ascott's pipeline should support segment revenue, with 17380 units under development (versus 29682 units operational) potentially contributing SGD74mn in additional fee income (versus SGD112mn currently).

- **Credit profile robust**: In aggregate, EBIT was lower by 10% to SGD1.54bn, lacking the fair value gains in CLC and missing divestment gains from some Japanese assets in 3Q2015. These drove pre-tax profit lower by 11.8% to SGD1.2bn for 9M2016. Cash flow generation remains strong, with CAPL generating SGD1.5bn in free cash flow. The cash generated was used in part to pay down some debt, causing net gearing to dip slightly to 47% (2015: 48%). Cash / current borrowings remained healthy at 1.6x. Looking forward, CAPL's Chinese residential pipeline and recurring cash flow from its investment properties will sustain its near-term performance. We will retain our Positive Issuer Profile on CAPL though we would observe for attempts to replenish CAPL's Singapore land bank.

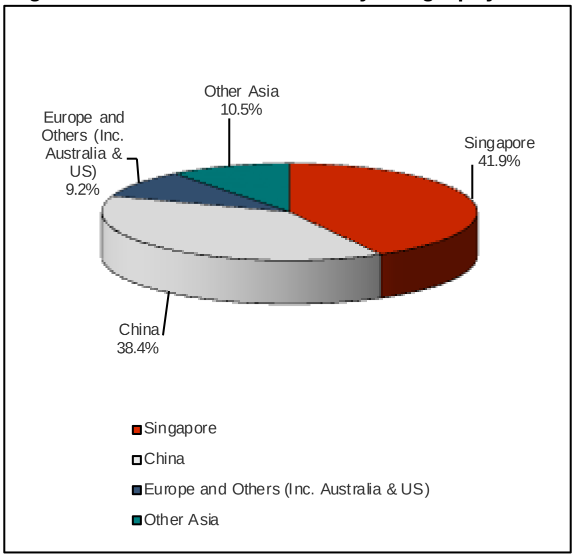
CapitaLand Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	3,924.6	4,761.9	3,399.5
EBITDA	1,039.6	1,148.4	772.0
EBIT	970.1	1,073.1	722.2
Gross interest expense	439.5	477.3	344.2
Profit Before Tax	2,026.6	1,838.8	1,199.6
Net profit	1,160.8	1,065.7	759.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	2,749.4	4,173.3	4,243.0
Total assets	44,113.5	47,052.6	46,213.6
Gross debt	15,985.8	16,058.5	15,581.5
Net debt	13,236.4	11,885.2	11,338.5
Shareholders' equity	23,208.5	24,937.7	23,878.7
Total capitalization	39,194.3	40,996.1	39,460.2
Net capitalization	36,445.0	36,822.9	35,217.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	1,230.4	1,141.0	809.7
* CFO	520.8	1,946.1	1,555.9
Capex	129.2	64.0	62.8
Acquisitions	1,302.0	940.0	611.9
Disposals	1,226.2	513.0	264.4
Dividend	704.6	726.9	704.8
Free Cash Flow (FCF)	391.7	1,882.1	1,493.1
* FCF Adjusted	-388.8	728.2	440.8
Key Ratios			
EBITDA margin (%)	26.5	24.1	22.7
Net margin (%)	29.6	22.4	22.4
Gross debt to EBITDA (x)	15.4	14.0	15.1
Net debt to EBITDA (x)	12.7	10.3	11.0
Gross Debt to Equity (x)	0.69	0.64	0.65
Net Debt to Equity (x)	0.57	0.48	0.47
Gross debt/total capitalisation (%)	40.8	39.2	39.5
Net debt/net capitalisation (%)	36.3	32.3	32.2
Cash/current borrowings (x)	0.8	1.9	1.6
EBITDA/Total Interest (x)	2.4	2.4	2.2

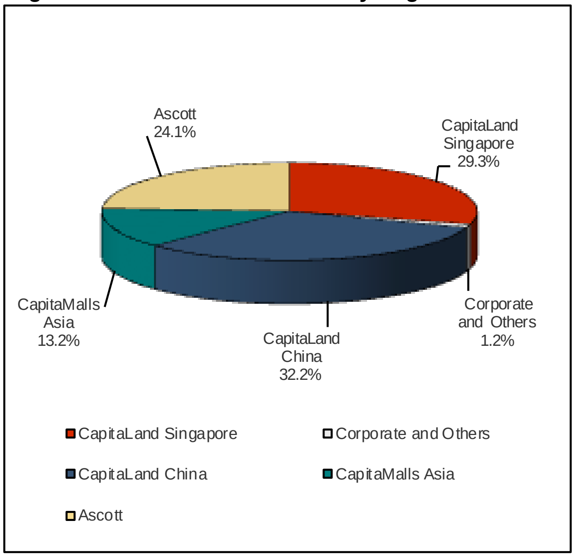
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 9M2016



Source: Company

Figure 2: Revenue breakdown by Segment - 9M2016



Source: Company

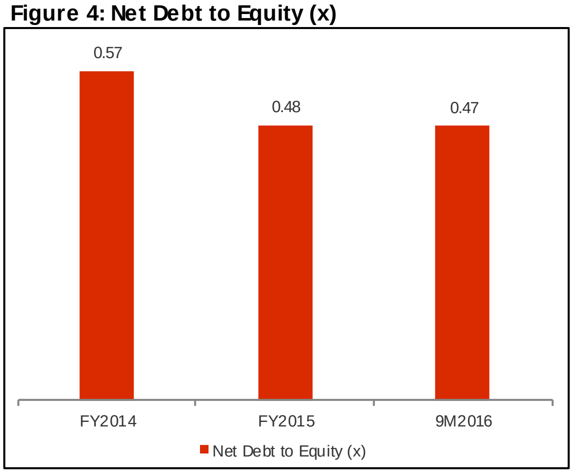
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	439.8	2.8%
Unsecured	2226.9	14.3%
	2666.7	**17.1%**
Amount repayable after a year		
Secured	4948.5	31.8%
Unsecured	7966.3	51.1%
	12914.8	**82.9%**
Total	**15581.5**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We continue to believe that CMT's curve is trading tight given the challenging retail scene. The CAPITA'31s look particularly vulnerable given rising duration concerns.

Issuer Profile: Neutral

S&P: Not rated

Moody's: A2/Stable

Fitch: Not rated

Ticker: **CAPITA**

Background

Listed on the SGX in 2002, CapitaLand Mall Trust ("CMT") is the largest REIT by market capitalization. CMT's portfolio consists of 16 malls in Singapore, including Plaza Singapura, IMM Building, Bugis Junction, Tampines Mall, a 40% stake in Raffles City and a 30% stake in Westgate. In addition, CMT owns ~14.1% interest in CapitaLand Retail China Trust ("CRCT"), the first China shopping mall REIT listed on the SGX. CMT is 29.3%-owned by CapitaLand Ltd ("CAPL").

CapitaLand Mall Trust

Key credit considerations

- **Decent results despite Funan absence**: For 9M2016, gross revenue was up 6.5% y/y to SGD520.4mn, while NPI was up 6.8% y/y to SGD363.5mn. Performance was largely driven by the acquisition of Bedok Mall in October 2015, with the property contributing SGD43.6mn. For 3Q2016, gross revenue was up 4.9% y/y to SGD169.7mn while NPI was up 5.5% y/y to SGD119.5mn, again due to Bedok Mall. On a q/q basis, gross revenue was flattish at -0.7% due to the absence of Funan DigitaLife Mall ("Funan", which closed on 01/07/16 for redevelopment). Adjusting for Funan, gross revenue was up 1.2% q/q, commendable given the challenging retail environment. NPI was up 2.9% q/q, or 4.0% excluding the NPI losses generated at Funan.

- **Occupancy and traffic decent though weakening**: The portfolio saw improvements in portfolio occupancy to 98.6% (2015: 97.6%, 2Q2016: 97.9%). Though some assets (The Atrium, IMM) saw dips, occupancy in general remains decent at over 95% for the bulk of CMT's assets. For 9M2016, CMT managed to increase shopper traffic by 2.9% y/y, though there was deceleration relative to 3.6% for 1H2016. Tenants' sales psf/mth has also decelerated from 2.3% (1H2016) to 1.2% (9M2016). These two figures reflect tepid demand by consumers in general, especially given that 3Q2016 should have seen some support from the Great Singapore Sale.

- **Lease reversions deteriorating, WALE stable**: The soft environment caused rental reversion to decelerate, with CMT seeing a +1.2% increase in rental rates across 541 leases (16.2% of NLA) versus +1.7% for 2Q2016 and +3.7% for 2015. This trend is consistent with our view that REIT managers would concede on lease rates in order to keep occupancy high. Even then, certain assets, such as The Atrium, continue to face pressure with just a 50% tenant retention rate and negative rental reversions. WALE remains stable at 2.0 years, while CMT has just 3.7% of NLA left to be renewed during 4Q2016. Looking into 2017, CMT has about 29.2% of leases (based on rental income) coming due.

- **Departmental store pain a concern**: YTD departmental store sales (psf/mth) have declined 5.0% y/y (1H2016: -1.8%) for the portfolio. This is an area to watch, as departmental stores are anchor tenants that serve to drive traffic. There has been consolidation seen across departmental stores such as Metro trimming outlets and John Little exiting the market outright. The loss of anchors could impact property occupancy and income sharply.

- **Steady leverage and liquidity profile**: CMT's aggregate leverage for 3Q2016 was stable at 35.4% (end-2015: 35.4%), and in line with peers. Net debt / EBITDA stood at 6.2x (2Q2016: 6.0x). Interest coverage was comparable at 4.9x (2Q2016: 5.0x). There is no debt due for 2016, while CMT paid down SGD45mn in banking facilities due 2017, leaving a net SGD250mn in borrowings due for 2017. CMT continues to actively optimize its capital structure, having issued a HKD560mn 10-year 2.71% bond as well as a SGD150mn 15-year 3.35% bond early July 2016. These issues helped CMT push out its maturity profile to 5.5 years (2Q2016: 5.0 years). The proceeds were estimated to refinance ~SGD204mn worth of bank borrowings due 2019 and 2020. The wild card to CMT's leverage profile is the Funan redevelopment (disclosed to cost ~SGD560mn), with work expected to be done by 4Q2019. Currently, CMT has about SGD553.8mn in cash on its balance sheet. We will continue to hold CMT's Issuer Profile at Neutral, with the expectation that CMT will keep its aggregate leverage below 40% and in line with peers.

CapitaLand Mall Trust

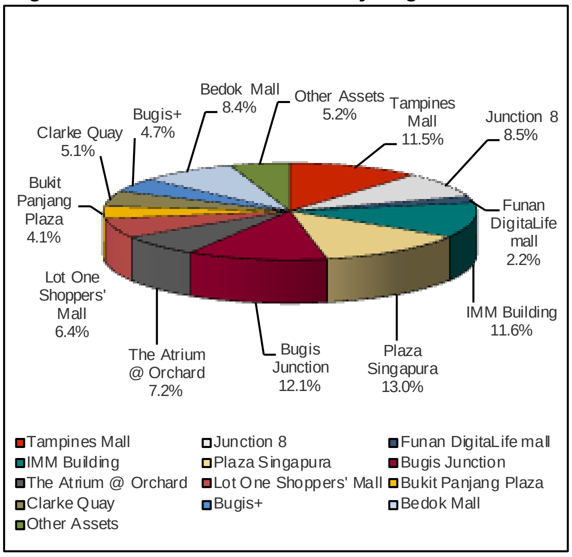
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	658.9	669.0	520.4
EBITDA	403.5	421.4	327.6
EBIT	402.1	420.3	326.8
Gross interest expense	114.0	103.8	79.4
Profit Before Tax	618.9	580.4	369.1
Net profit	618.9	579.8	369.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,129.6	604.3	553.8
Total assets	9,858.3	10,355.7	10,327.9
Gross debt	3,169.3	3,312.2	3,327.6
Net debt	2,039.8	2,707.8	2,773.8
Shareholders' equity	6,282.4	6,693.2	6,690.0
Total capitalization	9,451.8	10,005.3	10,017.6
Net capitalization	8,322.2	9,401.0	9,463.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	620.3	580.9	369.9
* CFO	408.7	422.4	321.2
Capex	65.4	95.7	50.2
Acquisitions	0.0	621.4	0.0
Disposals	0.0	186.6	0.0
Dividends	370.3	388.9	295.7
Free Cash Flow (FCF)	343.4	326.7	271.0
* FCF Adjusted	-26.9	-497.0	-24.7
Key Ratios			
EBITDA margin (%)	61.2	63.0	63.0
Net margin (%)	93.9	86.7	70.9
Gross debt to EBITDA (x)	7.9	7.9	7.6
Net debt to EBITDA (x)	5.1	6.4	6.3
Gross Debt to Equity (x)	0.50	0.49	0.50
Net Debt to Equity (x)	0.32	0.40	0.41
Gross debt/total capitalisation (%)	38.1	35.2	33.2
Net debt/net capitalisation (%)	24.5	28.8	29.3
Cash/current borrowings (x)	1.5	NM	2.2
EBITDA/Total Interest (x)	3.5	4.1	4.1

Source: Company, OCBC estimates

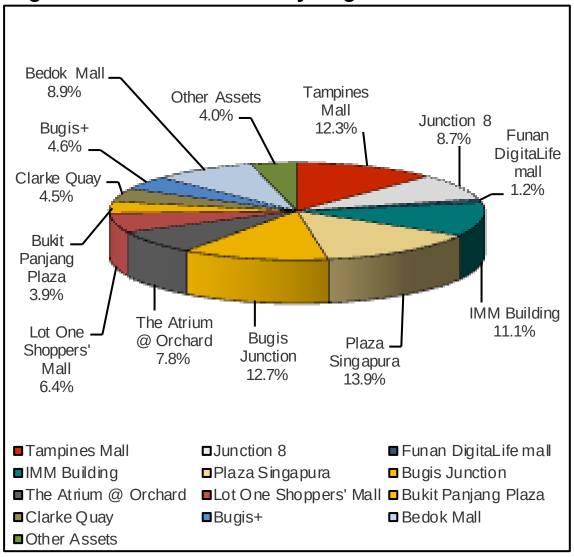
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2016



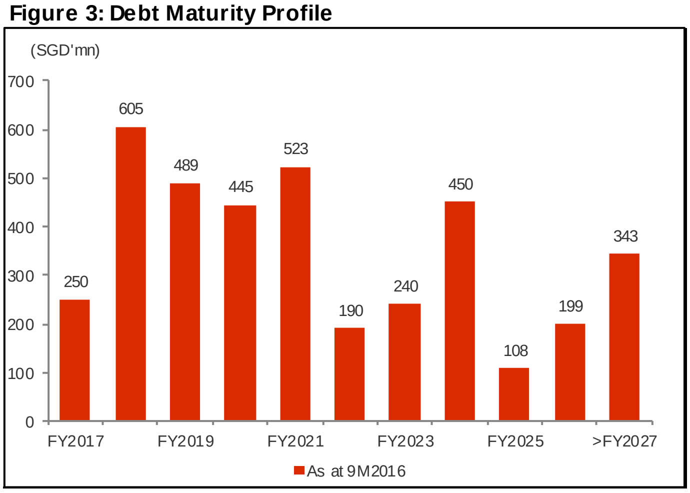
Source: Company

Figure 2: NPI breakdown by Segment - 9M2016



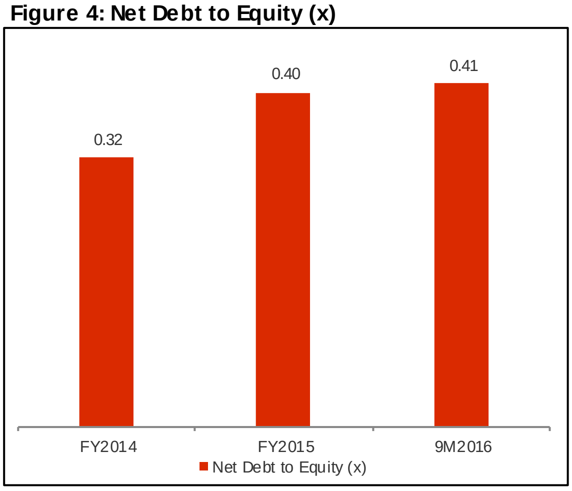
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We continue to hold the CENCHI'17s at Neutral (maturing May 2017) and see liquidity risk from redemption of the bond to be low.

Issuer Profile: Neutral

S&P: B+/Stable
Moody's: Ba3/Stable
Fitch: Not rated

Ticker: **CENCHI**

Background

Central China Real Estate Ltd ("CENCHI"), incorporated in the Cayman Islands and listed in Hong Kong is a leading residential property developer in China's Henan province. Established in 1992, CENCHI has a strong brand in Henan's residential property market. As of June 2016, CENCHI has presence in 37 cities within Henan and a 5.3% market share by contracted sales. Its key shareholders are the Chairman, Mr. Wu Po Sum (47%) and CapitaLand Ltd (27%).

Central China Real Estate Limited

Key credit considerations

- **Weaker performance in 1H2016:** Revenue during 1H2016 fell 35% to RMB2.5bn on the back of a lower number of projects completed and delivered during the period. In 1H2016, sales on 467,124 sqm was recognized at an average selling price ("ASP") of RMB5,116/sqm while during the same time last year, sales on 694,818 sqm was recognized at an ASP of RMB5,419/sqm. We think the lower ASP was due to earlier sales made in 2015 in line with CENCHI's strategy to destock inventory. Nevertheless, reported gross profit only decreased by 11% to RMB967.9mn due to higher overall gross margin during 1H2016 (38% against 28% in 1H2015).Gross margin improvement was driven by higher margin product sold (though we understand from company a more sustainable level is around 30%). CENCHI curtailed its advertising and promotional expenses during 1H2016, which helped limit its decline in EBITDA by 4.9% to RMB584.6mn, despite the larger fall in top line. Including finance cost capitalized, CENCHI's coverage as represented by EBTIDA/Gross interest was flat at 1.4x versus 1H2015.

- **Leverage levels rising:** As at 30 June 2016, CENCHI's headline gearing levels (gross debt-to-equity) was higher at 1.7x (31 December 2015: 1.5x). There is about RMB5.6bn in corporate guarantees provided by CENCHI to its JCEs as at 30 June 2016. In addition, it has provided RMB650mn in irrevocable liquidity support for an independent third party that will run for 6 years (both contingent liability items). We find adjusted gross debt-to-equity at 2.6x as at 30 June 2016 (2.0x as at 31 December 2015). Amount due to joint ventures, non-controlling interests ("NCI") and associates is significant, though as the bulk of these have no fixed terms of repayment, we see low risk of these becoming competing claims to CENCHI's bonds. Based on company's calculation where EBITDA takes into account other revenue, CENCHI's Gross debt-to-EBITDA was 5.9x as at 30 June 2016 and higher than its targeted level of 5.0x.

- **Liquidity risk for SGD bonds low:** In 1H2016, CENCHI generated RMB1.8bn in cash flow from operations (after interest and tax) ("CFO"), against a cash outflow of RMB726mn. We believe this is due to higher cash receipts from pre-sales as well as refunds in deposits for land. In 1H2016, the company used up RMB954mn investing cashflows (of which RMB787mn was attributable to purchases of stakes in joint ventures and associates ("JCE") where JCEs then became subsidiaries). In addition to cash receipts, CENCHI raised significant amounts of debt financing (eg: RMB3.0bn bond), leading to a higher cash balance of RMB9.4bn as at 30 June 2016. We take comfort that cash balances are significantly higher than CENCHI's RMB6.9bn receipt in advances (a current liability item from pre-sales). We think CENCHI has received an additional RMB8.8bn in cash receipts between July and November 2016. CENCHI announced that it is entering into a JV in December 2016 that will be engaged in the insurance, reinsurance and fund application business. CENCHI's expected investment of RMB360mn in the JV is manageable, in so far as the SGD bonds are concerned. Despite higher gearing levels, we see low liquidity risk of the SGD bonds. In November 2016, CENCHI raised USD200mn where proceeds are expected to redeem the CENCHI 6.5% '17s.

- **Property cooling measures in Zhengzhou manageable:** In September 2016, the government announced cooling measures to control housing prices via various tweaks in managing land supply-demand and limiting the type of units that can be bought by home-owning buyers. We see these as moves as an attempt to stabilize the Zhengzhou property market, rather than severely curbing demand. CENCHI's customer base consists of mostly local buyers with 95% end-users, rather than for investment purposes. On a m/m basis, Zhengzhou average home prices have increased by 0.65% in November 2016 (pace of growth slowing from 1.6% in October 2016).

Central China Real Estate Ltd

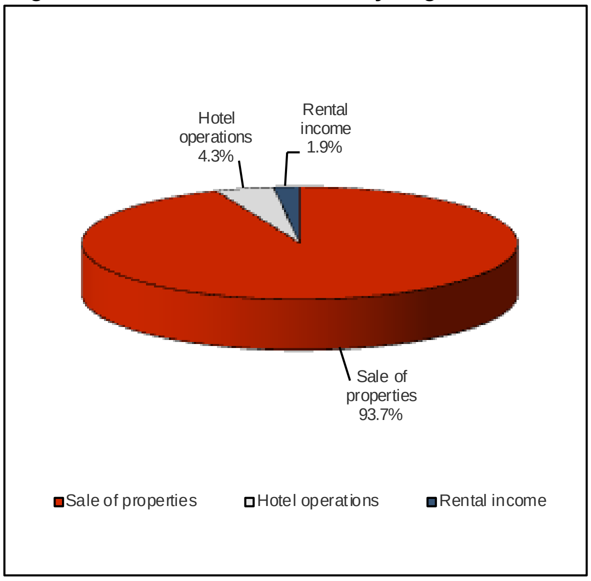
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1H2016
Income Statement (RMB'mn)			
Revenue	9,228.8	12,562.7	2,549.4
EBITDA	2,134.8	1,667.0	584.6
EBIT	1,986.6	1,506.6	469.4
Gross interest expense	837.7	916.6	431.9
Profit Before Tax	1,956.8	1,741.3	464.4
Net profit	883.3	801.3	255.4
Balance Sheet (RMB'mn)			
Cash and bank deposits	5,018.5	7,422.4	9,362.2
Total assets	37,350.1	39,758.0	42,226.1
Gross debt	9,557.0	10,696.4	12,476.3
Net debt	4,538.5	3,274.0	3,114.1
Shareholders' equity	7,066.9	7,317.5	7,302.1
Total capitalization	16,623.9	18,013.9	19,778.4
Net capitalization	11,605.4	10,591.5	10,416.2
Cash Flow (RMB'mn)			
Funds from operations (FFO)	1,031.5	961.8	370.7
* CFO	-87.4	3,721.9	1,826.2
Capex	609.4	390.7	103.8
Acquisitions	953.9	1,686.0	928.0
Disposals	297.1	753.3	0.0
Dividends	311.5	294.1	0.0
Free Cash Flow (FCF)	-696.8	3,331.2	1,722.4
* FCF Adjusted	-1,665.1	2,104.3	794.4
Key Ratios			
EBITDA margin (%)	23.1	13.3	22.9
Net margin (%)	9.6	6.4	10.0
Gross debt to EBITDA (x)	4.5	6.4	10.7
Net debt to EBITDA (x)	2.1	2.0	2.7
Gross Debt to Equity (x)	1.35	1.46	1.71
Net Debt to Equity (x)	0.64	0.45	0.43
Gross debt/total capitalisation (%)	57.5	59.4	63.1
Net debt/net capitalisation (%)	39.1	30.9	29.9
Cash/current borrowings (x)	3.6	2.9	4.6
EBITDA/Total Interest (x)	2.5	1.8	1.4

Source: Company, OCBC estimates

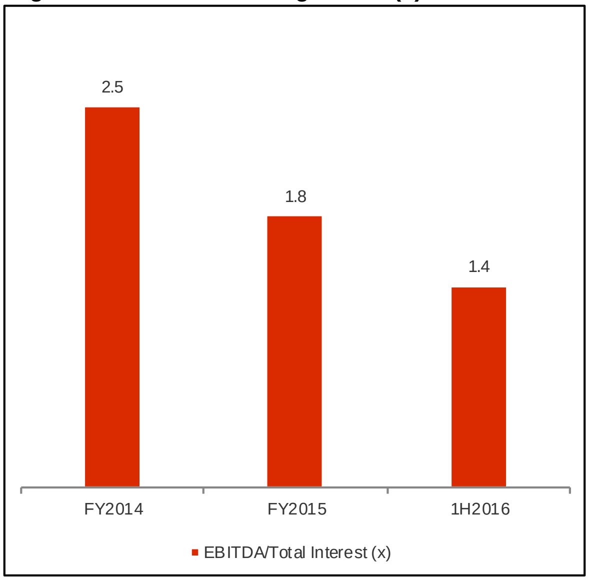
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1H2016



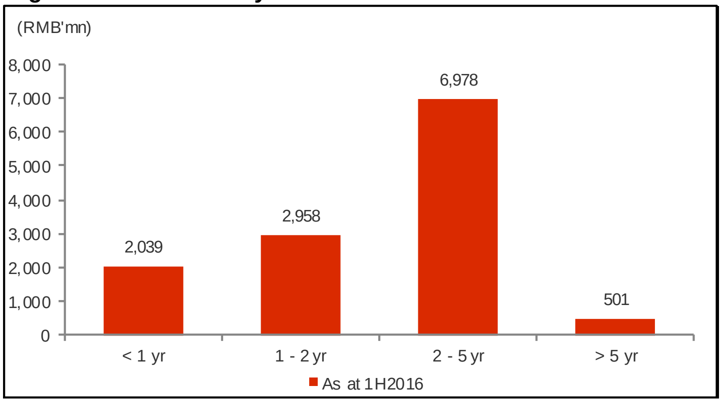
Source: Company

Figure 2: Interest Coverage Ratio (x)



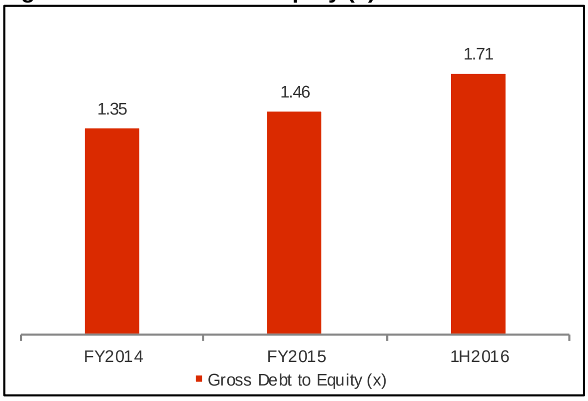
Source: Company, OCBC estimates

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Century Sunshine Group Holdings Ltd

Credit Outlook – We remain Overweight the CENSUN'18s. The carry is attractive for a bond that matures in less than 18 months. The bond had sold off due to the complexities of the Hongri Acron acquisition and signs of some operational softness. That said, we believe that CSG currently has the balance sheet to manage through the interim.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **CENSUN**

Company profile

Listed on the HKSE in 2004, Century Sunshine Group Holdings Limited ("CSG") has two main business segments: magnesium products (~30% of sales) and ecological fertilisers (~61% of sales). The firm generates most of its revenue from the PRC and is vertically integrated (with captive mines for magnesium and silicon magnesium). The founder / Chairman is the largest shareholder, owning ~35% of the firm.

Key credit considerations

- **Fertilizer segment slowing, though margins sustained**: 1H2016 results showed revenue up just 2.7% y/y to HKD1.24bn, partly due to the slump in RMB (CSG reports in HKD). The fertilizer business was pressured during the period, with segment revenue falling 6.2% y/y to HKD682.0mn. Comparatively the fertilizer segment grew by 21.4% y/y in 2015. Management has indicated that though fertilizer volumes increased 8.3% y/y to 321,847 tonnes, ASP faced market fluctuation and fell from HKD2,447 per tonne to HKD2,119 per tonne (13.4% decline) dragging segment revenue lower. Voluntary 3Q2016 financial details showed continuation of the trend, with 9M2016 volume growth slowing to 4.0% y/y, while ASP fell lower to HKD2,060 per tonne. For 1H2016, CSG was able to defend its fertilizer gross margins however, with segment gross margin decreasing slightly to 27.6% (1H2015: 28.5%). This was due to the fall in raw material prices and CSG's cost control measures. It is worth noting that fertilizer market leader Sinofert saw its sale volumes fall 35.8% y/y during 1H2016, citing continued pressure from the overcapacities in the China fertilizer market.

- **Trading boosts growth but squeezes Magnesium margins**: The magnesium products segment continues to grow with revenue up 11.8% y/y to HKD424.4mn. Demand was strong, with volume up 43.2% y/y to 16,013 tonnes. However, there was a sharp 22.1% decrease in ASP to HKD25,510 per tonne (1H2015: HKD32,768 per tonne). This was due to CSG starting the magnesium products trading business during 1H2016, which sharply increased (+76% y/y) the volume of basic magnesium products (more commoditized, low margin products versus rare earth magnesium alloys) sold. 9M2016 figures were similar with segment volumes up 45.2% y/y but ASP at HKD25,213 per tonne. The shift in product mix also caused segment gross margin to decline sharply to 30.7% (1H2015: 34.9%). In aggregate, CSG still considers downstream demand (such as for transportation usage) for magnesium alloys to be strong, and continues to ramp up production at its Xinjiang acquisition.

- **FX losses and increased financing costs impacted net profit**: Given margin pressure across both segments, total gross margin compressed by 2.2ppt to 30.0% (9M2016 gross margins were sustained at 30.4%). Coupled with HKD37.9mn in FX losses and HKD22.2mn increase in finance costs (borrowings increased), CSG saw pre-tax profit fall 27.1% y/y to HKD203.7mn. Weaker earnings and higher interest expense caused interest coverage to worsen to 4.9x (2015: 6.9x). As such, there remains interest coverage covenant headroom compared to the 3.0x required. In addition, cash generated from operating activities increased from HKD133.9mn (1H2015) to HKD397.3mn (1H2016), mainly via the stretching of its trade / other payables (increased HKD167.5mn).

- **Uncertainty from Hongri Acron acquisition:** CSG boosted its cash by HKD351.1mn (versus end-2015) to HKD1.80bn via borrowings. Though CSG was a net cash company (end-2016), its gross gearing increased from to 57% (2015: 45%). Though CSG continues to hold significant amounts of cash, we note that CSG will continue to expand its production facilities for both the fertilizer segment (the greenfield facility at Ruichang City, Jiangxi, with phase 1 operational in 2018) as well as its magnesium segment (the recently acquired Xinjiang facilities). In addition, as CSG is in the process of acquiring 51% of Hongri Acron, a distressed fertilizer firm, capital is likely required for turnaround efforts (beyond the RMB250mn in financial assistance to Hongri Acron). The consolidation of Hongri Acron's weak numbers would likely be a drag. As such, though we believe that CSG has the balance sheet leeway to acquire Hongri Acron, we will retain our Neutral Issuer Profile.

Century Sunshine Group Holdings Ltd

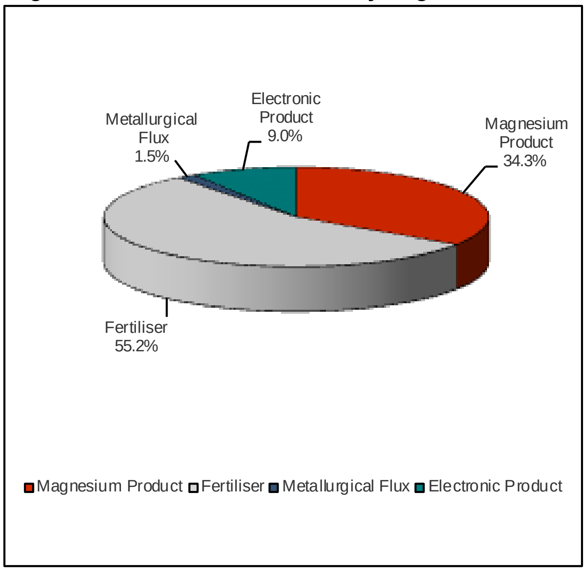
Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	1H2016
Income Statement (HKD'mn)			
Revenue	2,072.5	2,515.6	1,236.1
EBITDA	571.5	629.4	318.6
EBIT	493.5	533.0	257.5
Gross interest expense	46.2	97.0	64.4
Profit Before Tax	467.7	496.9	203.7
Net profit	287.9	303.5	117.7
Balance Sheet (HKD'mn)			
Cash and bank deposits	828.8	1,452.5	1,803.7
Total assets	3,797.0	5,421.7	5,701.8
Gross debt	890.3	1,504.2	1,793.6
Net debt	61.5	51.7	-10.0
Shareholders' equity	2,366.6	3,343.3	3,151.3
Total capitalization	3,256.9	4,847.5	4,945.0
Net capitalization	2,428.2	3,395.0	3,141.3
Cash Flow (HKD'mn)			
Funds from operations (FFO)	365.9	399.9	178.9
* CFO	322.9	142.2	397.3
Capex	620.0	217.3	0.0
Acquisitions	0.0	312.4	0.0
Disposals	0.2	0.4	0.0
Dividend	11.7	21.8	0.0
Free Cash Flow (FCF)	-297.1	-75.1	397.3
* FCF adjusted	-308.6	-408.9	397.3
Key Ratios			
EBITDA margin (%)	27.6	25.0	25.8
Net margin (%)	13.9	12.1	9.5
Gross debt to EBITDA (x)	1.6	2.4	2.8
Net debt to EBITDA (x)	0.1	0.1	0.0
Gross Debt to Equity (x)	0.38	0.45	0.57
Net Debt to Equity (x)	0.03	0.02	0.00
Gross debt/total capitalisation (%)	27.3	31.0	36.3
Net debt/net capitalisation (%)	2.5	1.5	-0.3
Cash/current borrowings (x)	2.0	4.1	6.1
EBITDA/Total Interest (x)	12.4	6.5	4.9

Source: Company, OCBC estimates

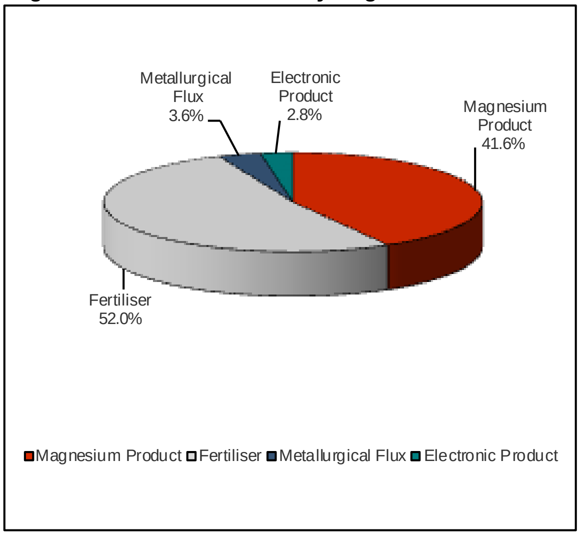
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1H2016



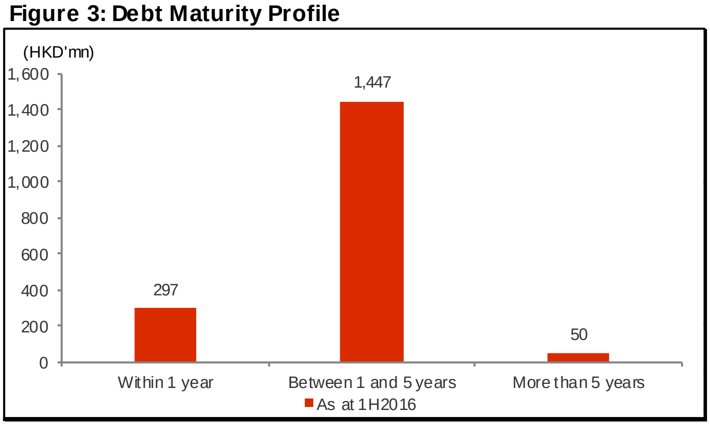
Source: Company

Figure 2: EBIT breakdown by Segment - 1H2016



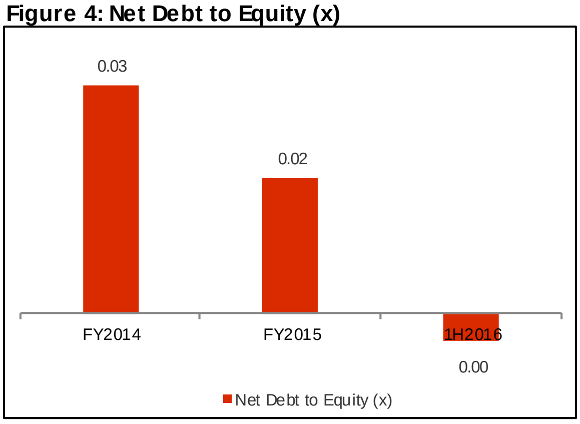
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

China Vanke Co Ltd

Credit Outlook – With Evergrande expressing publicly that it has no intention to control VNKRLE in mid-December 2016, we are lifting the VNKRLE 3.275%'17s to Neutral and are holders of the bond to maturity.

Issuer Profile: Neutral

S&P: BBB+/Negative
Moody's: Baa1/Negative
Fitch: BBB+/Stable

Ticker: **VNKRLE**

Background

China Vanke Co. Ltd ("VNKRLE") is one of the largest property developers in China in terms of contracted sales (11M2016: RMB341bn) with a focus on the mass-market segment. With 25 years of experience in the property industry, VNKRLE has established a strong presence nationwide and has a geographically diversified land bank. VNKRLE is listed on both the Shenzhen and Hong Kong stock exchanges.

Key credit considerations

- **Strong performance in 9M2016:** Revenue during 9M2016 increased 47% to RMB111.0bn (9M2015: RMB79.6bn) on the back of a 50% increase in GFA completions to 9.9mn sqm (9M2015: 6.6mn sqm). Overall gross profit margin declined to 27% from 29%. Certain Tier 2 cities were negatively affected during the previous downturn and had properties sold on lower margins in 2014 (and recognized in 9M2016). In addition to the stronger revenue recognition during 9M2016, EBITDA (excluding other income and expense) was up by 35% to RMB19bn on account of lower SG&A expenses as a proportion of revenue. Despite the somewhat higher finance cost (from extension in debt tenure and foreign exchange movements), share of profits from joint ventures and associates ("JCEs") helped boost profit before tax to RMB20bn (against RMB14.7bn in 9M2015) due to the increased investments in JCEs. Non-property development revenue was still a very small portion of total revenue at 3.6% during 1H2016.

- **Gearing relatively unchanged:** As at 30 September 2016, VNKRLE reported a slightly higher gross debt-to-equity of 0.61x against 0.58x as at 31 December 2015 as a result of higher borrowings taken during the period. Gross debt amounted to RMB88bn versus RMB79.5bn which was insufficient to offset improvements in book value equity. As at 30 June 2016 (latest available info on corporate guarantees), VNKRLE's corporate guarantees to JCEs amounted to RMB1.1bn, minimal as a proportion of total equity, though have risen 180% against 31 December 2015. Adjusting gearing to include such guarantees, we find adjusted gross debt-to-equity at 0.62x.

- **Heavily investing:** Assuming capitalized interest of RMB2.5bn, and total gross interest of RMB3.9bn, we find EBITDA/Gross interest to be healthier at 4.9x versus 3.7x in 9M2015. Reported cash flow from operations before interest but after tax ("CFO") was RMB43.0bn in 9M2016 against a negative CFO in 9M2015 of RMB4.7bn, aided by stronger pre-sales. CFO sufficiently covered investment activities in 9M2016 of RMB23.2bn, including acquisitions of equity stakes in subsidiaries and JCEs, resulting in a cash surplus of RMB19.8bn before financing activities. Receipts in advance as at 30 September 2016 was RMB312.6bn (a current liability item) while short term debt as at 30 September 2016 was RMB30.9bn. As at 30 September 2016, cash balances of RMB69.9bn, while somewhat higher than historical cash balances, was insufficient to fully cover both short term debt and construction obligations on properties to be delivered. We take some comfort though that cumulatively, VNKRLE reported RMB78.5bn in contracted sales in October and November 2016 and that such cash can be a source of working capital. In October and November 2016, VNKRLE announced land acquisitions (including investing in project companies) which obliges the company to pay some RMB31bn in the future.

- **Property cooling measures:** Of the 14 key cities which VNKRLE tracks, 12 still exhibit m/m price growth in November 2016. Pace of price growth though has significantly flattened out in November and we expect m/m price growth for more cities to turn negative in end-2016/early-2017. VNKRLE reported average land premiums of RMB5,488 per sqm for newly acquired projects in 1H2016, (1H2015: RMB3,984 per sqm); pointing towards gross margin compression upon delivery.

- **Evergrande becomes a shareholder:** Since our Mid-Year Credit Outlook, highly levered China Evergrande Group ("Evergrande") has emerged as VNKRLE's third largest shareholder with a ~14.1% stake, though the former has stated publicly that it has no intention to control VNKRLE.

China Vanke Co Ltd

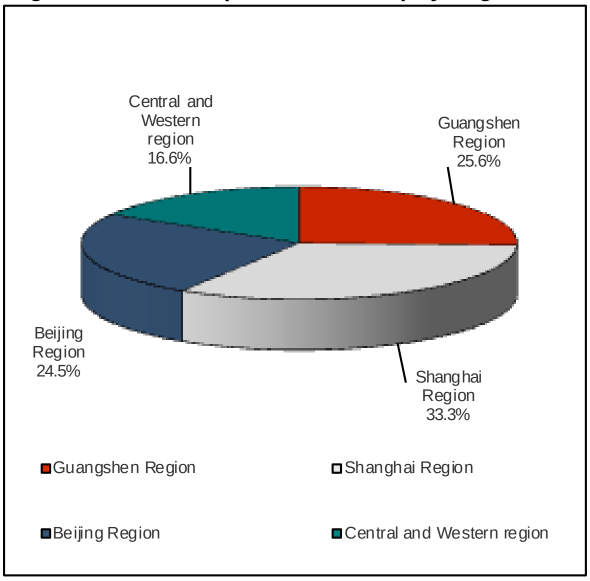
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (RMB'mn)			
Revenue	137,994	184,318	111,029
EBITDA	26,676	37,416	19,059
EBIT	26,127	36,700	18,431
Gross interest expense	6,835	4,853	3,908
Profit Before Tax	29,987	40,517	20,014
Net profit	15,745	18,119	8,262
Balance Sheet (RMB'mn)			
Cash and bank deposits	61,653	51,748	69,913
Total assets	508,640	611,492	756,124
Gross debt	68,981	79,491	88,024
Net debt	7,328	27,743	18,110
Shareholders' equity	115,894	136,310	143,534
Total capitalization	184,875	215,801	231,557
Net capitalization	123,222	164,053	161,644
Cash Flow (RMB'mn)			
Funds from operations (FFO)	16,294	18,835	8,891
* CFO	41,725	16,046	42,986
Capex	1,831	2,063	1,127
Acquisitions	7,159	20,185	26,025
Disposals	4,652	-477	319
Dividends	NA	NA	NA
Free Cash Flow (FCF)	39,894	13,983	41,859
* FCF Adjusted	NA	NA	NA
Key Ratios			
EBITDA margin (%)	19.3	20.3	17.2
Net margin (%)	11.4	9.8	7.4
Gross debt to EBITDA (x)	2.6	2.1	3.5
Net debt to EBITDA (x)	0.3	0.7	0.7
Gross Debt to Equity (x)	0.60	0.58	0.61
Net Debt to Equity (x)	0.06	0.20	0.13
Gross debt/total capitalisation (%)	37.3	36.8	38.0
Net debt/net capitalisation (%)	5.9	16.9	11.2
Cash/current borrowings (x)	2.7	1.9	2.3
EBITDA/Total Interest (x)	3.9	7.7	4.9

Source: Company, OCBC estimates

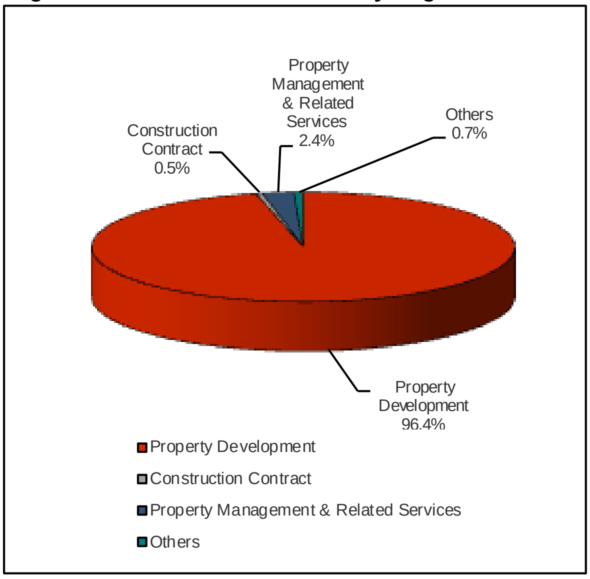
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue (Core Business) by Region - 1H2016



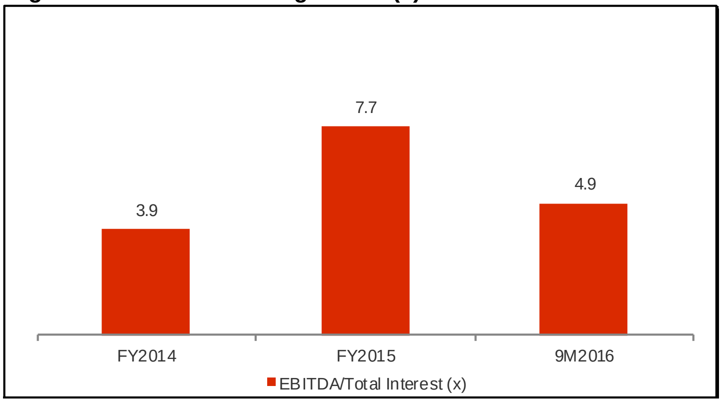
Source: Company

Figure 2: Revenue breakdown by Segment - 1H2016



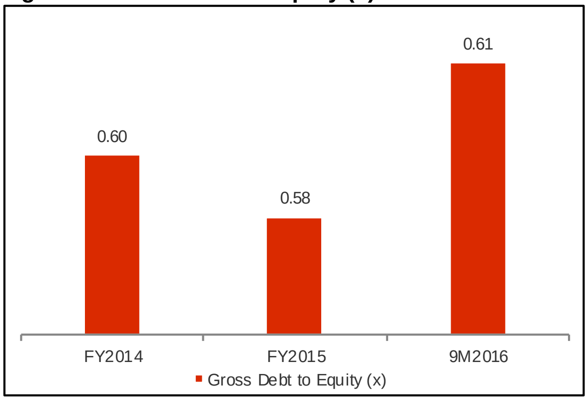
Source: Company

Figure 3: Interest Coverage Ratio (x)



Source: Company, OCBC estimates

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Though we like the good track record, we **initiate CHIPEN'21s at Neutral** as it trades at 4.88% yield while it embarks on a debt-fuelled growth. We prefer HFCSP'19s, which offer 13bps lower yield for 2 year shorter maturity amidst the rising interest rate environment.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **CHIPEN**

Background

Listed on the SGX on 1999, Chip Eng Seng Corp Ltd ("CHIP") is a Singapore property developer and contractor of condominiums, HDB flats and commercial and industrial properties. CHIP owns several commercial and industrial investment properties and two hospitality properties. CHIP also has presence in Australia, Malaysia and Maldives. The shares of the company are held by Lim Tiam Seng and his wife (12.5%), Lim Tiang Chuan (7.11%) and Lee Meng chia (4.16%). CHIP has a market capitalization of SGD391mn as of 5 Jan 2017.

Chip Eng Seng Corporation Ltd

Key credit considerations

- **Decent 3Q2016 results:** While revenue declined 4.2% y/y to SGD152mn, CHIP still eked out a small 2.5% growth in profit to SGD9.1mn. This is mainly due to SGD15.8mn lower marketing and distribution expenses in the absence of a new property launch. The revenue decline is due to lower property development revenue contribution from Junction Nine and Nine Residences, while most of the property development revenue was from High Park Residences and Fulcrum. We understand that sales from Fulcrum remains slow, while High Park Residences is nearly fully sold. Sales at Willow Apartments will likely be delayed, as CHIP will redesign the unsold inventory for larger units before relaunching. Meanwhile, construction revenue rose 4.1% y/y to SGD74.1mn as the projects at Woodlands and Tampines are at their active stages.

- **Topping up the orderbook though the construction outlook remains challenging:** After chewing through the construction orderbook for several quarters, CHIP won a SGD75.9mn contract to supply various precast concrete and a SGD191.9mn contract to construct parts of Toa Payoh Bidadari. This topped up the orderbook to SGD628.4mn as of 3Q2016 (2Q2016: SGD437.mn), providing some revenue visibility for the next 2 years. However, we think that the civil engineering sector remains competitive and margins from this segment may be pressured.

- **Building up recurring income:** Following the opening of Park Hotel Alexandra in 2015, CHIP's hospitality segment has steadily increased (+13.5% y/y) to SGD7.1mn as the hotel ramps up on occupancy. On 6 Oct 2016, CHIP expanded its hospitality portfolio by acquiring Kodhipparu Island Resort for USD65mn via a joint venture. This resort located in Maldives is expected to contribute from 2Q2017 when it opens. Meanwhile, property investments contributed SGD2.7mn revenue in 3Q2016, with SGD0.3mn y/y increase due to higher occupancy at CES Centre.

- **Good track record on property sales:** Other than Fulcrum, most of CHIP's developments which are completed by 2016 have been substantially sold. Similarly, projects that will be completed post-2016, such as High Park Residences (2019), Williamsons Estate (2017) and Tower Melbourne (2020) are mostly sold. In 1H2017, CHIP will be launching the 720 units New Upper Changi Road development and the South Melbourne residential project. In the pipeline, CHIP has yet to launch a 42,161 sqm mixed development project in Perth and 17,857 sqm residential developments in Victoria.

- **Corporate changes:** On 4 Dec 2015, CHIP announced a proposed spin-off of its construction business, though this was called off on 15 Feb 2016. Meanwhile, Raymond Chia was reappointed as the CHIP on 1 Feb 2016 after re-joining CHIP. We note that CHIP delivered good results during his previous tenor (2007-2013) as CEO though debt profile also increased during that period.

- **Debt-fuelled growth may strain the balance sheet:** We note that net debt has been on an increasing trend since 2012 (Net debt at end-2012: SGD219.7mn), with net debt increasing SGD293.3mn over 9M2016 to SGD709.5mn. This is mainly due to the acquisition of the South Melbourne site for AUD52mn and the New Upper Changi Road site for SGD419.4mn. The high net gearing of 0.94x may continue to climb after the acquisition of the resort in Maldives for USD65mn and financing the new development projects. Meanwhile, the balance sheet is likely to be highly encumbered. The mitigating factor is the ample liquidity, with SGD470.3mn cash on hand as of end-3Q2016.

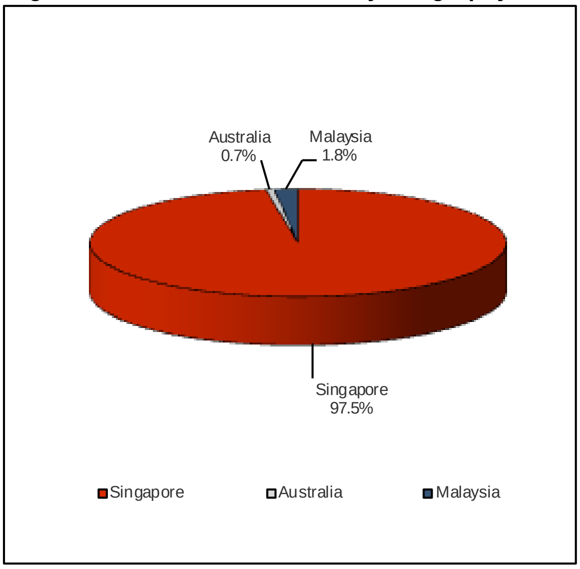
Chip Eng Seng Corporation Ltd.

Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	1,105.7	676.5	497.9
EBITDA	273.8	81.9	54.6
EBIT	270.0	75.9	49.3
Gross interest expense	4.5	16.4	13.8
Profit Before Tax	323.7	67.6	45.5
Net profit	280.7	63.0	20.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	285.0	442.5	462.0
Total assets	2,008.3	1,907.0	2,174.8
Gross debt	940.8	858.7	1,171.5
Net debt	655.8	416.2	709.5
Shareholders' equity	735.6	743.0	753.0
Total capitalization	1,676.4	1,601.7	1,924.5
Net capitalization	1,391.4	1,159.2	1,462.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	284.6	69.1	26.0
* CFO	-73.8	300.0	-277.0
Capex	56.0	20.7	1.5
Acquisitions	75.2	2.0	-3.2
Disposals	0.4	0.7	4.3
Dividend	25.7	37.4	24.8
Free Cash Flow (FCF)	-129.8	279.4	-278.5
* FCF adjusted	-230.3	240.7	-295.8
Key Ratios			
EBITDA margin (%)	24.8	12.1	11.0
Net margin (%)	25.4	9.3	4.2
Gross debt to EBITDA (x)	3.4	10.5	16.1
Net debt to EBITDA (x)	2.4	5.1	9.8
Gross Debt to Equity (x)	1.28	1.16	1.56
Net Debt to Equity (x)	0.89	0.56	0.94
Gross debt/total capitalisation (%)	56.1	53.6	60.9
Net debt/net capitalisation (%)	47.1	35.9	48.5
Cash/current borrowings (x)	NM	3.7	5.4
EBITDA/Total Interest (x)	61.5	5.0	4.0

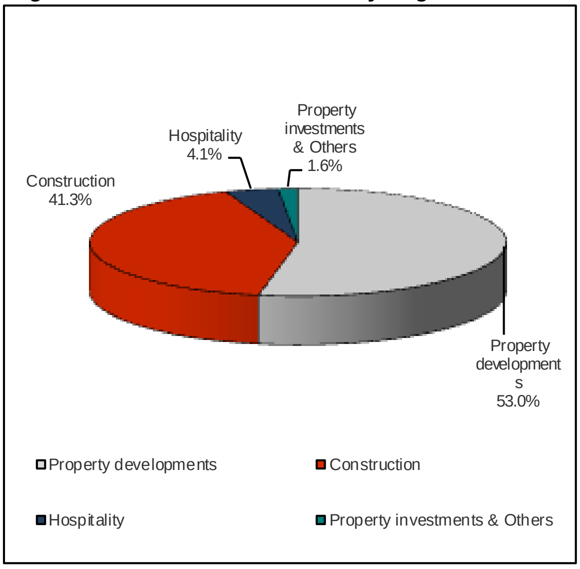
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - FY2015



Source: Company

Figure 2: Revenue breakdown by Segment - 9M2016



Source: Company

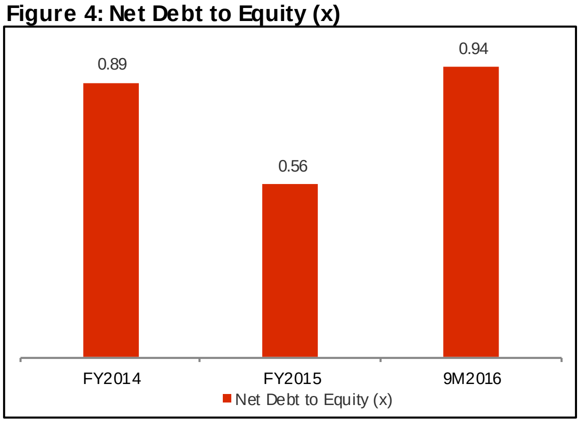
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	85.0	7.3%
Unsecured	0.0	0.0%
	85.0	**7.3%**
Amount repayable after a year		
Secured	816.4	69.7%
Unsecured	270.0	23.0%
	1,086.4	**92.7%**
Total	**1,171.5**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We hold the CELSP'18s at Neutral. For a bond that matures in 16 months, CELSP'18s provide a 186 bps yield-pick up against the OLAMSP'18s which matures in 19 months. Both CEL and OLAM have low public free float and derive credit uplifts through their major shareholders

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **CELSP**

Background

CITIC Envirotech Ltd ("CEL") is an integrated water treatment solutions provider focusing on the Chinese market. CEL operates in 3 main business segments: Engineering (54% of 9M2016 revenues), Treatment (32%) and membrane sales (14%). The company is listed on the SGX and is ~55% owned by CITIC. ~24% is now owned by the China Reform Fund, a state-owned private equity investment fund under direct supervision from the Central Government while founder/Group CEO Dr. Lin owns 3.8%.

CITIC Envirotech Ltd

Key credit considerations

- **Improvement in 9M2016 operating performance**: In 9M2016, CEL reported a 74% increase in revenue to SGD376.5mn, on the back of stronger growth from all 3 of CEL's main business segments. Engineering revenue made up 54% of 9M2016 revenue, growing 134% to SGD202.9mn on the back of contract wins in 9M2016 and end-2015 which allowed construction revenue to be recognized upfront. The relatively stable water treatment segment grew by 24% to SGD120.4mn while membrane sales were commendable at SGD53.3mn (67% y/y growth). As a result of the stronger operating performance, EBITDA (without factoring in other income and expenses) improved by 56% to SGD148.1mn while net profit attributable to owners of the company was SGD57.9mn (up 134% from 9M2015). Nevertheless, currency translation loss dragged down comprehensive income by SGD59.3mn (gain of SGD19.3mn in 9M2015) and negatively affected book value equity.

- **Large contract win in 4Q2016**: As at 30 September 2016, service concession receivables increased to SGD637.6mn (31 December 2015: SGD509.2mn) while we estimate operating concessions at ~SGD222.6mn (31 December 2015: SGD 215.3mn). In December 2016, two contracts were won; including a CEL-led consortium for a large-sale project (investment value of RMB3.2bn). CEL will fund its obligations in this joint venture project via USD perpetuals and bank debt.

- **Low liquidity risk in next 6 months:** As at 30 September 2016, current borrowings were lower at SGD88.8mn, comprising of secured bank loans at the operating level. As at 31 December 2015 short term debt was SGD335m. In June 2016, CEL issued a USD180mn (~SGD260mn) perpetual which helped pay down SGD98mn of holding company bonds due in September. As at 30 September 2016, CEL was sitting on a cash pile of SGD406.6mn (high levels of capital raised in 2015). We are comforted that of CEL's cash balances, SGD162mn sit at the holding company level and hence have low risk of being affected by capital control restrictions. However, we expect cash balances to decline as CEL undertakes new projects. Cash flow from operations (before interest paid) for 9M2016 was SGD226.8mn, though this was driven by refund of deposits earlier placed for acquisitions (eg: project acquisitions).

- **Financial flexibility hinges upon CITIC and new second largest shareholder**: In October 2016, KKR entered into a conditional share and purchase agreement with China Reform Puissance Oversees GP L.P ("Puissance") to acquire KKR's ~24% stake in CEL. KKR's exit does not trigger the change of control clause. We understand from management that China Puissance is backed by China Reform Fund, a state-owned private equity investment firm under the direct supervision from the Central Government. Chinese state-owned CITIC continues to be the major shareholder with ~55%. We see financial flexibility of CEL to have expanded (especially with regards to onshore financing) with the stronger alignment of CEL with the state and allowing the company to withstand higher gearing.

- **Signs pointing towards higher tolerance of gearing:** Headline gearing as represented by gross debt-to-equity was lower at 0.4x while net debt-to-equity decreased to 0.09x (0.7x and 0.2x respectively as at 31 December 2015). However, from the perspective of an existing CEL SGD bondholder, the USD perpetuals are not an "equity cushion" given the pari passu ranking of such perpetuals with the SGD bond (CELSP'18s). Putting aside accounting treatment and adjusting "net debt" upwards, we find adjusted net debt-to-equity to have deteriorated to 0.7x (31 December 2015: 0.5x). Perpetuals now make up 26% of CEL's total capital base against only 13% as at 31 December 2015. We estimate that Phase 1 of the new PPP contract win in December 2016 may increase adjusted net debt-to-equity yet higher to 0.9x.

CITIC Envirotech Ltd

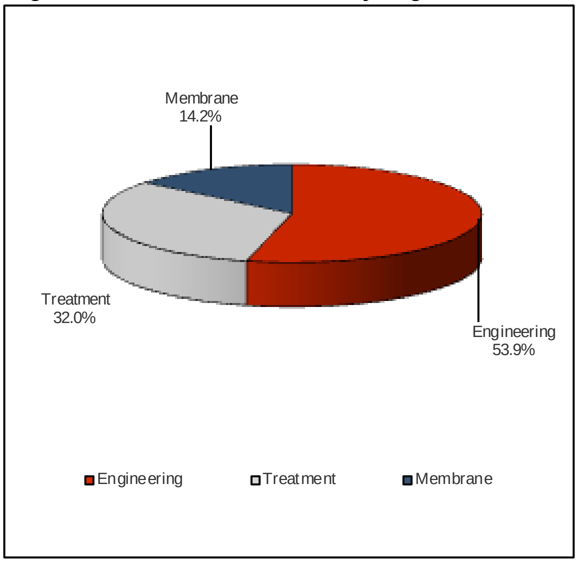
Table 1: Summary Financials

^ Year End 31st Dec	FY2014	^^FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	349.0	274.8	376.5
EBITDA	118.9	128.8	148.1
EBIT	105.8	112.8	123.3
Gross interest expense	29.0	29.2	29.7
Profit Before Tax	79.9	61.5	77.4
Net profit	59.3	40.8	58.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	113.8	540.5	406.6
Total assets	1,386.7	2,172.9	2,332.6
Gross debt	319.2	746.1	535.6
Net debt	205.5	205.6	129.0
Shareholders' equity	741.3	1,140.8	1,379.4
Total capitalization	1,060.6	1,886.9	1,915.0
Net capitalization	946.8	1,346.4	1,508.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	72.4	56.7	82.7
* CFO	31.3	2.3	205.7
Capex	157.2	119.2	364.2
Acquisitions	22.3	96.7	0.0
Disposals	0.0	0.1	0.0
Dividend	2.7	5.6	10.6
Free Cash Flow (FCF)	-125.9	-116.9	-158.5
* FCF adjusted	-150.9	-219.2	-169.2
Key Ratios			
EBITDA margin (%)	34.1	46.9	39.3
Net margin (%)	17.0	14.8	15.4
Gross debt to EBITDA (x)	2.7	5.8	2.7
Net debt to EBITDA (x)	1.7	1.6	0.7
Gross Debt to Equity (x)	0.43	0.65	0.39
Net Debt to Equity (x)	0.28	0.18	0.09
Gross debt/total capitalisation (%)	30.1	39.5	28.0
Net debt/net capitalisation (%)	21.7	15.3	8.6
Cash/current borrowings (x)	1.9	1.6	4.6
EBITDA/Total Interest (x)	4.1	4.4	5.0

Source: Company, OCBC estimates | ^^FY2015 reflects 9-mth data from Apr - Dec 2015

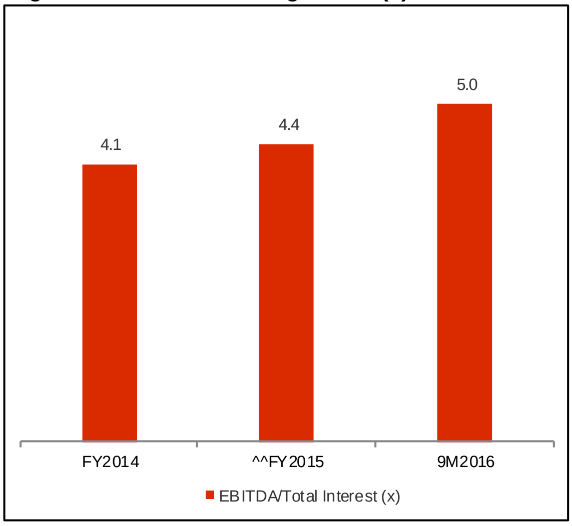
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2016



Source: Company

Figure 2: Interest Coverage Ratio (x)



Source: Company, OCBC estimates

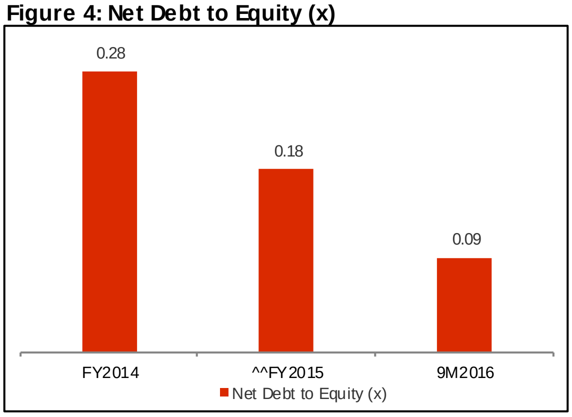
Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	85.9	16.0%
Unsecured	3.0	0.6%
	88.9	**16.6%**
Amount repayable after a year		
Secured	212.6	39.7%
Unsecured	234.1	43.7%
	446.7	**83.4%**
Total	**535.6**	**100.0%**

Source: Company

^Financial year-end restated to 31 Dec (Prior: 31 Mar) from FY2015 onwards

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We like the CDL curve in general given CDL's strong credit profile and distinct positive catalysts. The curve had seen some pressure post BREXIT, but we believe this risk can be managed given CDL's breadth and scale. The CITSP'20s and CITSP'24s in particular look interesting.

Issuer Profile: Positive

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **CITSP**

Company Profile

Listed in 1963, City Developments Ltd ("CDL") is an international property and hotel conglomerate. CDL has three core business segments – property development, hotel operations and investment properties. CDL's hotel operations are conducted through its ~65%-owned subsidiary, Millennium & Copthorne Hotels Plc ("M&C"), while the investment and development property portfolio is Singapore-centric. CDL is a subsidiary of Hong Leong Group Singapore.

City Developments Ltd

Key credit considerations

- **Development business continues to drive results**: For 9M2016, CDL reported 11.8% increase in revenue to SGD2.74bn. The property development segment revenue jumped 44.2% y/y driven by maiden contributions from both the Gramercy Park development at Grange Road (38 sold out of 40 units released, out of a total of 174 units) as well as by the Hanover House in Reading, UK (82 units, 100% sold) during 3Q2016, as well as contribution from the Lush Acres EC, which achieved TOP during 2Q2016. There were also contributions from Coco Palms, D'Nest and The Venue Residences and Shoppes. Segment PBT grew by 15.5% y/y to SGD277.1mn, with the softer 1Q2016 a drag on YTD results. Looking forward, CDL's JV condo Forest Woods sold well, having sold 71% after being launched in October 2016. The formal launch of Gramercy Park, as well as South Beach Residences (TOP by end 2016), supports the Singapore pipeline. For international developments, CDL expects to complete Hong Leong City Centre Phase 1 (72% sold) in 4Q2016. As of end-3Q2016, CDL's Singapore residential inventory (excluding South Beach) stood at 1357 units (end-2015: 1659), while eyes will be on the yet-launched Stag Brewery, London development (1mn sqft) for international.

- **Hospitality remains soft**: Hospitality segment revenue declined 3.7% y/y to SGD1.19bn for 9M2016, pressured by competitive trading conditions in London, New York (RevPar: -14.8% y/y) and Singapore (RevPar: -9.6%). Australasia was a bright spot with RevPar up 16.2%. M&C reported that RevPar on a constant currency basis fell by 3.2% YTD, with occupancy down 0.5ppt and room rates down 2.4ppt. Coupled with higher expenses from the opening of The South Beach and M Social, PBT for the segment declined 22.7% y/y to SGD125.0mn.

- **Divestment pushed profit higher**: 9M2016 rental income fell 7.5% to SGD278.2mn, largely driven by divestments made in leasehold interests in Tampines Grande and Manulife Centre. Segment PBT fell as well by 4.2% y/y to SGD106.5mn. Operating income jumped 22.5% to SGD601.9mn for the period, in part driven by SGD49.5mn in divestment gains recognized when CDL disposed its 52.5% stake in City E-Solutions Limited. The absence of two JV EC contributions seen in 1H2015 caused net profit to be up just 12.8% to SGD494.8mn.

- **Liquidity remains strong**: The stronger earnings allowed management reported EBITDA (which includes JV / Associate contribution) to increase 9.5% y/y to SGD798mn (~63% recurring). As such, interest coverage remains healthy at 10.7x. CDL can also comfortably meet its short-term debt, as cash / current borrowings stood at 1.6x. Operating cash flow (including interest service) was strong at SGD665.9mn (9M2015: SGD356.5mn), largely driven by CDL monetizing its development assets. Cash generated was used to pay down ~SGD370mn in debt as well as to buy over Wing Tai's 50% stake in the Nouvel 18 JV (~SGD411mn).

- **PPS to further improve credit profile**: Net gearing was stable at 27% (2Q2016: 28%) despite paying down debt as CDL had to draw on its cash balance. Net debt / EBITDA remained low at 2.3x when compared to peers. Looking forward, CDL has announced that it will be monetizing the Nouvel 18 (156 unit luxury development on Anderson Road) via CDL's third Profit Participation Securities ("PPS"). The transaction is valued at SGD977.6m and is a credit positive for CDL, though CDL does retain some exposure via holding mezzanine notes. CDL estimated that the impact of the transaction (to be recognized in 4Q2016 results) would drive pro-forma net gearing lower to 19%. Though BREXIT is a concern, management believes any impact on CDL's UK properties to be short-term. UK hospitality also looks resilient, with CDL's RevPAR in London up 9.1% on a constant currency basis for the first 3 weeks of July. As such, we will retain CDL's Positive Issuer Profile.

City Development Ltd

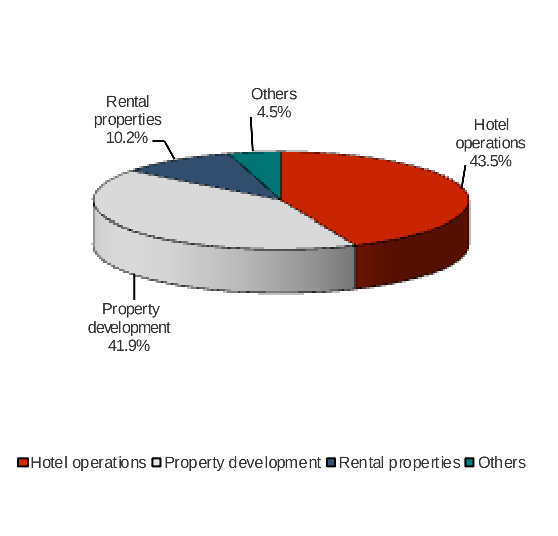
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	3,763.9	3,304.1	2,738.5
EBITDA	1,323.0	1,341.5	990.6
EBIT	1,123.0	1,126.9	833.9
Gross interest expense	131.0	113.8	92.2
Profit Before Tax	1,003.7	985.4	582.5
Net profit	769.6	773.4	409.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	3,897.6	3,564.9	3,008.9
Total assets	19,700.5	20,318.5	19,913.2
Gross debt	6,699.1	6,482.7	6,035.8
Net debt	2,801.6	2,917.8	3,026.8
Shareholders' equity	10,775.6	11,213.0	11,146.6
Total capitalization	17,474.7	17,695.7	17,182.4
Net capitalization	13,577.2	14,130.8	14,173.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	969.6	988.0	566.1
* CFO	165.4	-73.2	665.9
Capex	936.2	256.0	173.5
Acquisitions	246.7	222.9	470.8
Disposals	1,075.7	1,072.2	1.0
Dividend	274.8	271.2	226.3
Free Cash Flow (FCF)	-770.7	-329.2	492.5
* FCF Adjusted	-216.6	248.8	-203.7
Key Ratios			
EBITDA margin (%)	35.1	40.6	36.2
Net margin (%)	20.4	23.4	15.0
Gross debt to EBITDA (x)	5.1	4.8	4.6
Net debt to EBITDA (x)	2.1	2.2	2.3
Gross Debt to Equity (x)	0.62	0.58	0.54
Net Debt to Equity (x)	0.26	0.26	0.27
Gross debt/total capitalisation (%)	38.3	36.6	35.1
Net debt/net capitalisation (%)	20.6	20.6	21.4
Cash/current borrowings (x)	1.7	1.9	1.6
EBITDA/Total Interest (x)	10.1	11.8	10.7

Source: Company, OCBC estimates

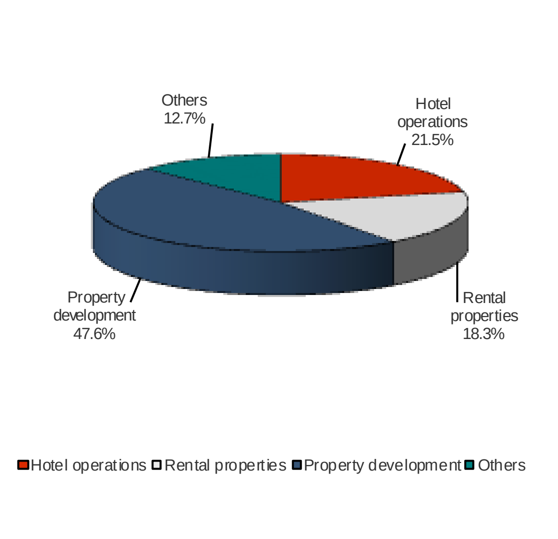
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2016



Source: Company

Figure 2: PBT breakdown by Segment - 9M2016



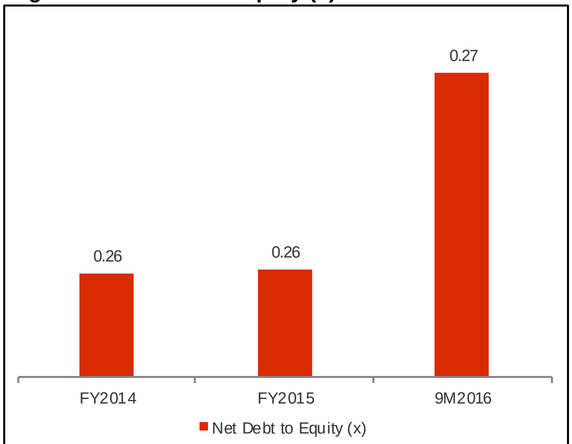
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	243.0	4.0%
Unsecured	1628.3	26.9%
	1871.4	**30.9%**
Amount repayable after a year		
Secured	701.3	11.6%
Unsecured	3489.1	57.6%
	4190.4	**69.1%**
Total	**6061.8**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – With a YTM of 2.1% and a similar rating, CKHH'18s is attractive versus the AREIT'19s (maturing 10 months later).

Issuer Profile: Neutral

S&P: A-/Stable
Moody's: A3/Stable
Fitch: A-/Stable

Ticker: **CKHH**

Background

CK Hutchison Holdings Ltd ("CKHH"), incorporated in the Cayman Islands and listed in Hong Kong is a globally diversified conglomerate holding all the non-property businesses of the Cheung Kong Group. The company has business interests spanning telecommunications, ports, retail, infrastructure, energy, and aircraft leasing. CKHH was formed after the streamlining of the Cheung Kong and Hutchison Whampoa group of businesses.

CK Hutchison Holdings Ltd

Key credit considerations

- **1H2016 operating results flat:** CKHH remained a diversified company in 1H2016. Including proportionate contribution from JVs and associates, CKHH reported a 8% decline in revenue to HKD180.5bn (pro-forma 1H2015: HKD197.0bn) in reported currency terms. This was on the back of lower handset sales in Hong Kong, declines in Husky Energy and currency depreciation. CKHH reported a 4% decline in EBITDA to HKD44.3bn. Taking out the effect of a foreign exchange gain of HKD1.5bn (which helped boost EBITDA in 1H2015), 1H2016 EBITDA from operations was largely flat in HKD terms. Collectively, infrastructure (EBITDA +4%), 3 Group Europe (EBITDA +9%) and Hutchison Asia Telecommunications (EBITDA +204%), boosted EBITDA by HKD2.2bn which helped offset declines in Husky Energy (EBITDA -33%), Ports (EBITDA -6%), Retail (EBITDA -2%) and Hutchison Hong Kong (EBITDA -13%), collectively down HKD2.4bn.

- **Geography and segment matrix:** Overlaying CKHH's geographical presence with its key operating segments, the company remains diversified, with only two businesses contributing 10% or more to EBITDA. Namely, UK Infrastructure contributes 24% (HKD10.7bn) and European (excluding-UK) Telecommunications contribute 10% (HKD4.4bn) to EBITDA. Management has disclosed that a substantial portion of the UK infrastructure business concerns regulated assets and is inflation adjusted. Husky Energy, the weakest link in CKHH's stable of businesses contributed some 8% to EBITDA. The company has undergone measures to adjust to a lower oil and gas price environment and is targeting an earnings break-even at USD40 per barrel. To help cash flow conservation, Husky Energy has also suspended cash dividends to ordinary shareholders.

- **Continues to be pro-UK in spite of Brexit:** In the immediate aftermath, there was much concern about the financial impact of Brexit to CKHH, with share price plunging ~10%. The GBP has declined 10% against the HKD between 1 January 2016 to 30 June 2016 and another 9% to date. HKD15.6bn of EBITDA (35% of total) is denominated in GBP. 1H2016, The UK Infrastructure segment (a stable business which contributes 69% of UK EBITDA) was able to provide a cover 1.7x to gross interest. We think this stable contribution profile outweighs fears over the GBP's volatility. Based on disclosures, about 21% of CKHH's gross debt (HKD70.5bn) is denominated in GBP while only 6% of its cash is denominated in GBP. This means that CKHH's net debt declines along with depreciation of the GBP. CKHH has about HKD179.2bn in UK net assets. While this has a negative impact to book value of equity; the foreign currency translation loss has no immediate cash flow impact until such assets are monetized.

- **Balance sheet and coverage:** During 1H2016, dividends and distributions from associates and joint ventures amounted to HKD4.5bn. Using this plus consolidated EBITDA (ie: without proportionate share of JVs and associates) as a better proxy for cash flow before interest, tax and working capital ("CFO"), we find CFO/Gross interest healthy at 8.9x. CKHH's net gearing remained manageable at 0.32x. A third of total gross debt (HKD105.1bn) will be maturing in the 18 months from 1 July 2016 to end-2017, though we see minimal liquidity risk at the company with cash balances at HKD154.4bn and ample financial flexibility. It has emerged that CKHH is no longer involved in the possible acquisition for UK's National Grid assets. In December 2016, Cheung Kong Infrastructure Holdings Ltd ("CKI"), the 72% owned infrastructure arm has entered into a non-binding bid for Duet Group, an Australian infrastructure company for AUD7.3bn (~HKD41bn) (subject to due diligence and regulatory approvals). Should the transaction be funded via debt, CKHH's net gearing will rise to 0.4x, which is still low in our view.

CK Hutchison Holdings Ltd

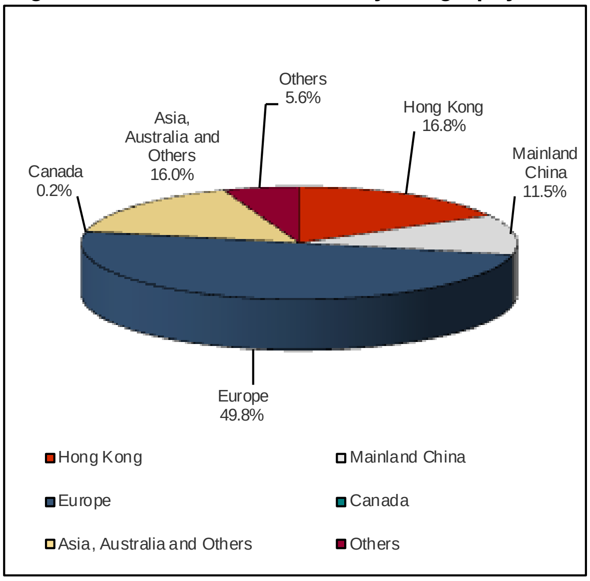
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1H2016
Income Statement (HKD'mn)			
Revenue	1,562	166,760	128,512
EBITDA	572	65,975	53,592
EBIT	465	56,357	45,391
^ Gross interest expense	655	4,566	3,650
Profit Before Tax	54,303	127,775	20,851
Net profit	53,869	118,570	14,921
Balance Sheet (HKD'mn)			
Cash and bank deposits	33,179	121,171	154,407
Total assets	457,941	1,032,944	1,062,717
Gross debt	37,874	308,379	335,820
Net debt	4,695	187,208	181,413
Shareholders' equity	406,047	549,111	553,166
Total capitalization	443,921	857,490	888,986
Net capitalization	410,742	736,319	734,579
Cash Flow (HKD'mn)			
Funds from operations (FFO)	53,976	128,188	23,122
* CFO	37,813	44,549	18,874
Capex	7,867	22,494	9,475
Acquisitions	0	-109,803	297
Disposals	3,298	3,876	339
Dividends	25,177	13,756	11,239
Free Cash Flow (FCF)	29,946	22,055	9,399
* FCF Adjusted	8,067	121,978	-1,798
Key Ratios			
EBITDA margin (%)	36.6	39.6	41.7
Net margin (%)	NM	71.1	11.6
Gross debt to EBITDA (x)	NM	4.7	3.1
Net debt to EBITDA (x)	8.2	2.8	1.7
Gross Debt to Equity (x)	0.09	0.56	0.61
Net Debt to Equity (x)	0.01	0.34	0.33
Gross debt/total capitalisation (%)	8.5	36.0	37.8
Net debt/net capitalisation (%)	1.1	25.4	24.7
Cash/current borrowings (x)	1.8	3.7	2.3
^ EBITDA/Total Interest (x)	0.9	14.4	14.7

Source: Company, OCBC estimates

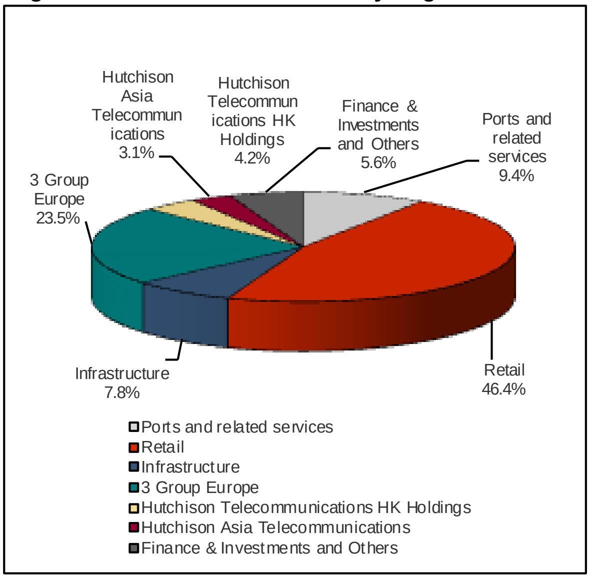
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Geography - 1H2016



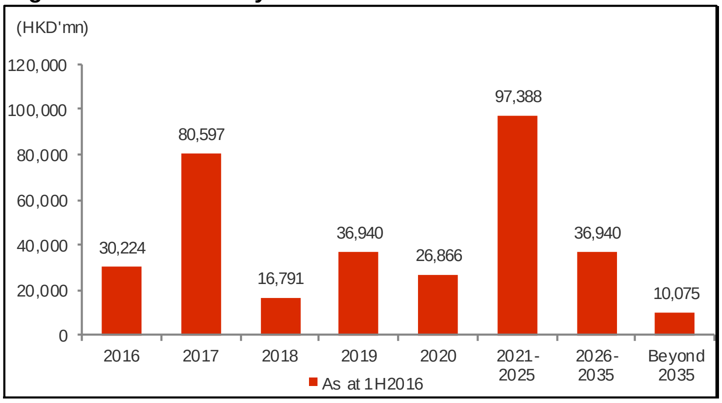
Source: Company

Figure 2: Revenue breakdown by Segment - 1H2016



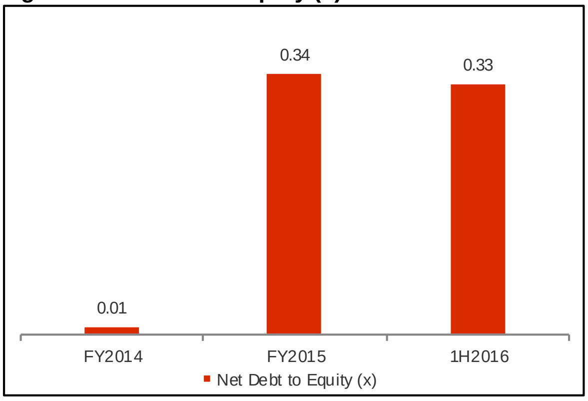
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We believe that the recent strong performance of CMACGM's EUR denominated bonds could spill over to the legacy NOL curve. As such, we are Overweight the NOLSP'17s and NOLSP'19s. The steps taken by CMACGM to deleverage could Serve as near-term catalysts.

Issuer Profile: Neutral

S&P: B/Negative
Moody's: B1/Stable
Fitch: Not rated

Ticker: **CMACGM**

Company profile

CMA CGM ("CMACGM") is the 3rd largest container liner). As CMA CGM completed its acquisition of Neptune Orient Lines Ltd ("NOL") mid-June 2016, going forward financial results of NOL will be limited. As such, the performance of CMA CGM (the parent) will be used as a proxy for NOL's performance. It should be noted that CMA CGM has not provided a corporate guarantee for NOL's existing bonds. However, as a material operating subsidiary of CMA CGM, NOL would likely receive support from CMA CGM.

CMA CGM (Parent of Neptune Orient Lines)

Key credit considerations

- **Challenging environment drives consolidation**: Container freight rates had been on free fall since the beginning of 2015, driven by weak global trade and oversupply in container shipping capacity. The Shanghai Containerized Freight Index had plunged more than 40% from the beginning of 2015 to the trough at-end April 2016. The plunge in rates have squeezed margins across the sector and leading to stress, culminating in the bankruptcy of Hanjin Shipping (#9 container liner as of beginning 2015). The stressed environment also drove massive consolidation, seeing mergers between CMACGM / NOL (#3 and #10), Hapag Lloyd / UASC (#4 and #18), COSCO / CSCL (#6 and #7) and Maersk / Hamburg Sud (#1 and #12). The consolidations emphasized the importance of economies of scale in the industry, with liners seeking to reap cost synergies to offset potentially structural declines in sector revenue. Though shipping rates have rallied more than 20% since the trough (driven in part by disrupts to supply due to the Hanjin Shipping default), the outlook for 2017 remains challenging as the capacity overhang remains while global trade environment remains uncertain.

- **First quarter as a combined entity**: 3Q2016 results reflected NOL's full contribution to CMACGM's performance (as the acquisition was completed mid-June). Revenue increased by 12.3% y/y to USD4.47bn, largely due to the NOL acquisition, with volumes shipped increasing ~36% to 4.5 million TEU. Excluding contribution from NOL, shipping volumes slipped 2.7%% y/y to 3.2 million TEU, with management intentionally avoiding low contribution freight. CMACGM was not spared from the weak environment, with average revenue per TEU down 13.9% y/y (excluding NOL's performance), but seeing an improvement of 3.8% q/q (reversing a downtrend seen for more than a year). The q/q revenue improvements allowed CMA CGM to expand its EBITDA to USD71.8mn (2Q2016: USD23.3mn). However, after factoring depreciation (USD170.7mn) and financing costs (USD145.2mn) which were driven higher due to the NOL acquisition (larger fleet, financing of the acquisition), CMA CGM generated a loss of USD258.9mn. Management had indicated that there are some early signs of core EBIT margin convergence with NOL (3Q2016: -3.9%) improving to standalone CMA CGM's levels (3Q2016: -1.3%).

- **Cash gap being met by asset sales**: For 3Q2016, CMACGM generated an operating cash outflow of USD53.7mn (including interest service) as well as spent USD56.0mn in capex. The firm also spent USD191.7mn on NOL transaction costs, as well as pay down ~USD214mn in net borrowings. The cash gap was funded by asset divestments (including USD580mn container sale and lease back transaction). Despite reduced borrowings, the quarterly loss drove net gearing higher q/q from 158% to 170%.

- **Deleveraging plans on track**: Management has stuck to their plans to deleverage, having completed USD260mn in NOL receivables securitization program at end-3Q2016, as well as completing USD880mn sale and leaseback transaction involving 11 NOL vessels in 4Q2016. We note that historically, CMACGM had preferred to lease the bulk of its fleet (versus NOL which preferred to own it). As such the USD1.6bn bridge financing used to acquire NOL was completely paid down ahead of maturity during 4Q2016. CMACGM has also commenced its sale of NOL's terminal business, which could generate USD1bn in proceeds, and avoid duplication against CMACGM's existing terminal assets. As such, despite the challenging environment, we expect assets sales to improve CMACGM's credit profile over the next few quarters. As such, despite the current high gearing level, we will retain our Neutral Issuer Profile on CMACGM.

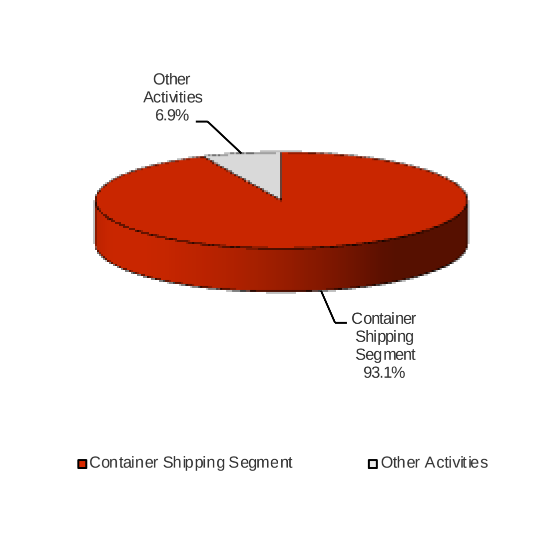
CMA CGM

Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	9M2016
Income Statement (USD'mn)			
Revenue	16,739.1	15,674.1	11,403.5
EBITDA	1,289.8	1,253.5	190.4
EBIT	888.7	846.0	-207.2
Gross interest expense	310.2	277.7	290.0
Profit Before Tax	695.8	672.1	-423.8
Net profit	583.7	566.8	-496.8
Balance Sheet (USD'mn)			
Cash and bank deposits	2,186.5	1,224.0	1,262.6
Total assets	14,363.1	14,275.2	19,849.3
Gross debt	5,480.1	5,147.6	9,598.7
Net debt	3,293.6	3,923.6	8,336.1
Shareholders' equity	4,995.3	5,405.5	4,907.3
Total capitalization	10,475.4	10,553.1	14,506.0
Net capitalization	8,288.9	9,329.1	13,243.4
Cash Flow (USD'mn)			
Funds from operations (FFO)	984.8	974.3	-99.2
* CFO	798.6	1,123.2	-22.4
Capex	314.5	507.6	203.1
Acquisitions	0.0	48.7	2,326.6
Disposals	249.3	92.5	664.9
Dividend	64.9	99.1	13.2
Free Cash Flow (FCF)	484.1	615.6	-225.5
* FCF adjusted	668.5	560.3	-1,900.4
Key Ratios			
EBITDA margin (%)	7.7	8.0	1.7
Net margin (%)	3.5	3.6	-4.4
Gross debt to EBITDA (x)	4.2	4.1	37.8
Net debt to EBITDA (x)	2.6	3.1	32.8
Gross Debt to Equity (x)	1.10	0.95	1.96
Net Debt to Equity (x)	0.66	0.73	1.70
Gross debt/total capitalisation (%)	52.3	48.8	66.2
Net debt/net capitalisation (%)	39.7	42.1	62.9
Cash/current borrowings (x)	2.0	1.7	0.5
EBITDA/Total Interest (x)	4.2	4.5	0.7

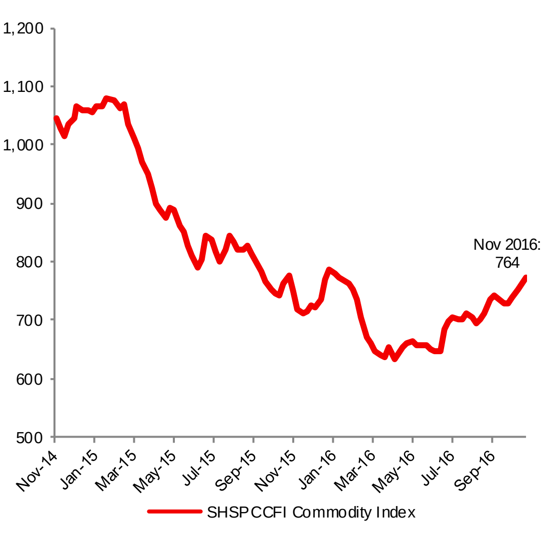
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2016



Source: Company

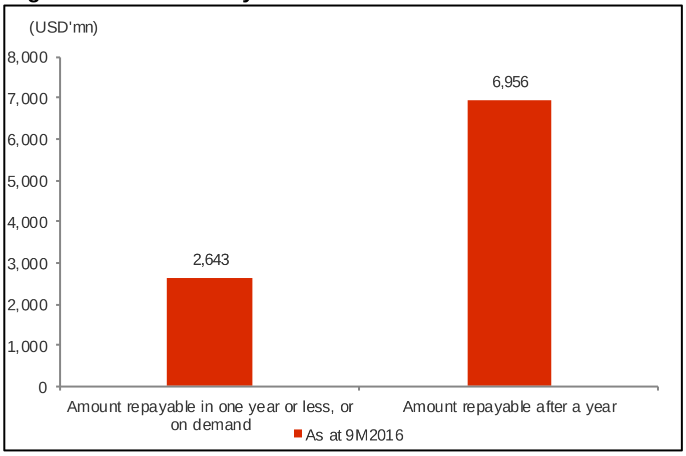
Figure 2: China Containerized Freight Index



Source: Bloomberg

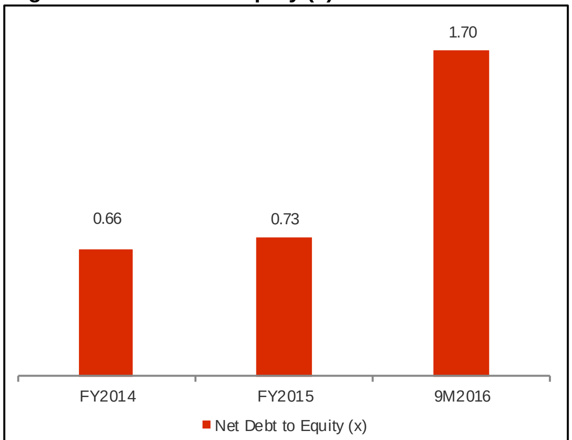
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Croesus Retail Trust

Credit Outlook – We prefer CROESP'20s over MAGIC'21s for 163bps pickup and 1.4 years shorter in maturity, despite its weaker credit profile with an encumbered portfolio and higher gearing ratio. We also think there is a low supply risk as CRT prefers to issue JPY debt, which is cheaper in the current environment.

Issuer Rating: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **CROESP**

Company Profile

Listed on the SGX in 2013, Croesus Retail Trust ("CRT") is a business trust with 11 income-generating retail assets in Japan. The portfolio totals 426,314 sqm by NLA, with 5 properties located in the Greater Tokyo region while the remainder are located in Fukuoka, Osaka, Mie, Saga, Hiroshima and Hokkaido. CRT is similar to S-REITs, with income producing properties and commitment to paying out more than 90% of distribution income. Unlike S-REITs, CRT does not have a regulatory aggregate leverage limit of 45%. There are no controlling shareholders of CRT.

Key credit considerations

- **Stable asset base:** CRT's portfolio has been performing well since IPO, posting occupancies of 97% and higher. With 85.7% of the portfolio gross rental income on fixed rent and a long WALE by NLA of 3-15 years for each mall, we expect rental income to remain relatively stable. In the latest 1QFY2017 results, gross revenue increased q/q by 16.8% to JPY3.1bn, mainly from the full quarter recognition of Mallage Saga and Feeeal Asahikawa that were acquired in 27 May 2016.

- **Master leases to provide income visibility:** Two properties, Aeon Town Moriya and Aeon Town Suzuka, are master leased to Aeon Town for another 10.7 years. The leases contribute 16.9% of the portfolio's gross rental income. While Aeon Town has the option to terminate the leases, we think it is unlikely for Aeon Town to do so. The notice of termination (one year prior notice is required) has not been served, and we estimate the rental rate paid by Aeon Town on both properties, at below JPY4,000 per tsubo (1 tsubo = 35.58 sq ft) per month, is likely to be significantly below the rent that it collects from its subtenants. The other master lease, by Fuji, contributes 2.6% of the portfolio's gross rental income.

- **FX risks mitigated on the balance sheet:** While CRT has issued bonds in SGD, FX risks are negligible given that these have been swapped to JPY. The SGD bonds are issued, despite higher costs than JPY loans, as CRT may have previously reached its soft limits to borrow in Japan, given that its JPY loan's loan-to-value ratio is typically kept below 50%. The rest of the debt is in JPY, forming a natural hedge with the Japan assets.

- **Manageable credit metrics:** We are comfortable with CRT's aggregate leverage of 44.6% as of 1QFY2017 (which ranges between 44%-51% since IPO), which is higher than most S-REITs, due to the low interest environment in Japan. EBITDA/interest is healthy at 4.3x, and comparable to the REITs with stronger credit ratings such as Ascendas REIT (4.0x), CapitaLand Commercial Trust (4.7x) and CapitaLand Mall Trust (4.0x). Cost of debt may fall when the chunky JPY24.4bn (c.SGD320mn) debt in FY2018 is refinanced.

- **Cost savings from the internalisation of the Trustee-Manager:** Differentiating itself from S-REITs, CRT has internalised the Trustee-Manager on 31 Aug 2016 and will be achieving cost savings for the full quarter from 2QFY2017. CRT will also save on future acquisition costs paid to the Trustee-Manager, and interest will be better aligned between the Trustee-Manager and unitholders.

- **Double-edged sword from revaluation gains:** Sizeable revaluation gains (FY2016: JPY5.7bn, FY2015: JPY6.3bn) due to decrease in industry cap rates have driven aggregate leverage lower. However, this has made it more costly to acquire in Tokyo/Osaka, and CRT has responded by acquiring in less prime and less populous areas (latest acquisitions are in Saga and Hokkaido) in a hunt for yield. Nevertheless, this in turn has resulted in better diversification across Japan, with CRT in a stronger position to manage any potential slowdown in Tokyo's rental markets.

- **Decent access to capital markets:** CRT maintains decent access to funding, demonstrated via the issuance of 70mn shares at SGD0.75 in Apr 2016 and 27.7mn shares at SGD0.797 in Aug 2016. In addition, CRT did a SGD50mn tap on its '20s in Sep 2016, which will likely be used for refinancing its '17s, though the issuance size was likely lower than the market expectations.

Croesus Retail Trust

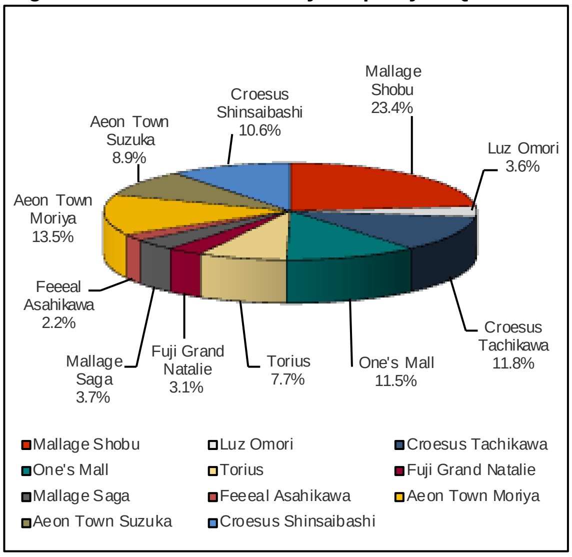
Table 1: Summary Financials

Year Ended 30th June	FY2015	FY2016	1Q2017
Income Statement (JPY'mn)			
Revenue	7,635.4	9,581.2	3,125.7
EBITDA	4,043.2	4,645.3	1,380.0
EBIT	3,988.7	4,615.1	1,380.0
Gross interest expense	1,004.2	1,106.1	318.2
Profit Before Tax	9,666.4	7,786.4	506.9
Net profit	7,579.1	5,946.6	261.9
Balance Sheet (JPY'mn)			
Cash and bank deposits	6,241.9	9,672.2	7,477.5
Total assets	100,401.0	131,174.7	132,687.4
Gross debt	47,487.2	59,394.6	59,247.3
Net debt	41,245.3	49,722.4	51,769.9
Shareholders' equity	43,586.2	55,313.4	56,722.2
Total capitalization	91,073.4	114,708.1	115,969.5
Net capitalization	84,831.5	105,035.8	108,492.0
Cash Flow (JPY'mn)			
Funds from operations (FFO)	7,633.6	5,976.8	261.9
* CFO	3,210.3	2,426.8	634.4
Capex	413.4	408.7	315.7
Acquisitions	11,298.2	18,595.5	4,046.4
Disposals	0.0	0.0	0.0
Dividends	3,100.7	4,652.3	1,017.5
Free Cash Flow (FCF)	2,796.9	2,018.2	318.7
* FCF Adjusted	-11,601.9	-21,229.7	-4,745.2
Key Ratios			
EBITDA margin (%)	53.0	48.5	44.2
Net margin (%)	99.3	62.1	8.4
Gross debt to EBITDA (x)	11.7	12.8	10.7
Net debt to EBITDA (x)	10.2	10.7	9.4
Gross Debt to Equity (x)	1.09	1.07	1.04
Net Debt to Equity (x)	0.95	0.90	0.91
Gross debt/total capitalisation (%)	52.1	51.8	51.1
Net debt/net capitalisation (%)	48.6	47.3	47.7
Cash/current borrowings (x)	9.6	1.2	0.9
EBITDA/Total Interest (x)	4.0	4.2	4.3

Source: Company, OCBC estimates

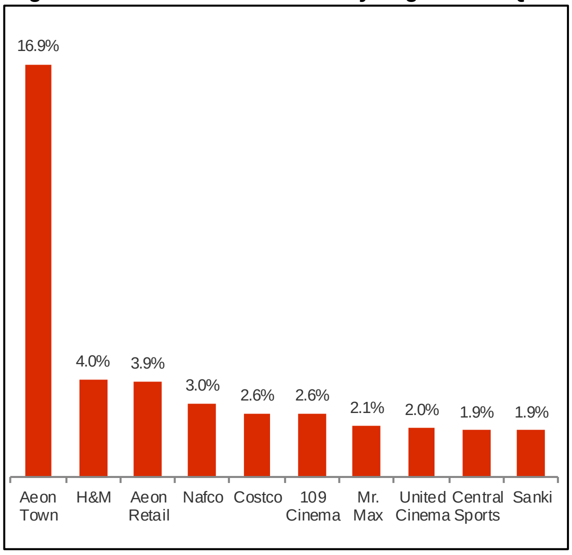
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: NLA breakdown by Property - 1Q2017



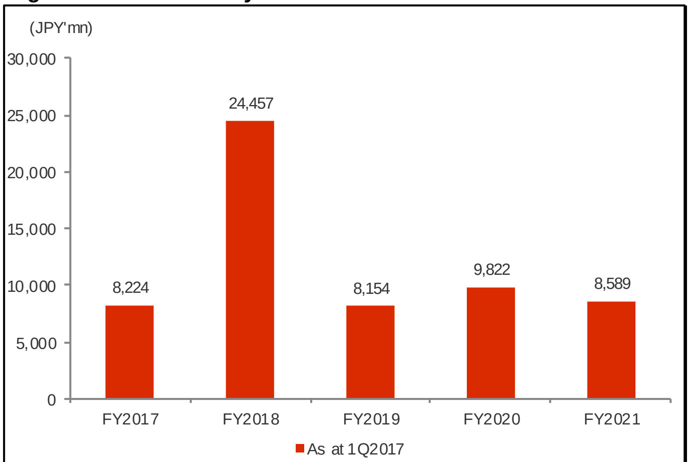
Source: Company

Figure 2: Revenue breakdown by Segment - 1Q2017



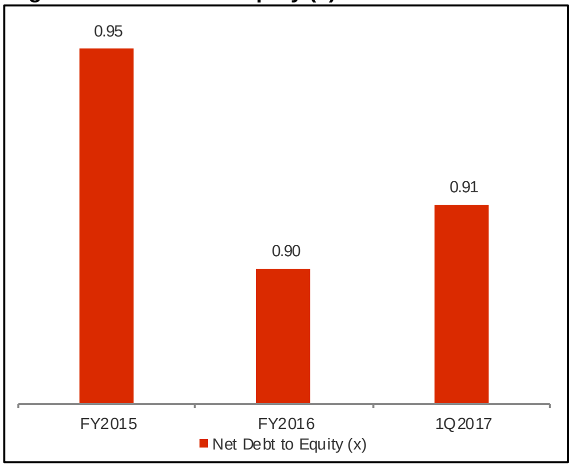
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

CWT Ltd

Credit Outlook – There has been no resolution to date with regards to the discussions between main shareholders of CWT and the HNA Group (close to a year). We are holding the curve at Neutral.

Issuer Profile: Neutral

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **CWTSP**

Background

CWT Limited ("CWT") is an integrated logistics solutions provider operating in around 90 countries through regional offices and network partners. CWT uses its logistics network to provide ancillary and connected businesses including commodity marketing, financial services and engineering services. Currently, the Chairman, Mr Loi Kai Meng and his family have a ~50% deemed interest in the company.

Key credit considerations

- **Decline in 9M2016 profits**: In 9M2016, CWT reported a 14% decline in revenue to SGD6.6bn, on the back of lower commodity trading volume (mainly in naphtha) and a general drop in commodity prices. Gross profit, however, dropped marginally by 3% to SGD244.4mn. Higher contribution from financial services (better gross margin at ~47%) and steady gross profit from the logistics segment helped offset declines in the commodity marketing and engineering segments. Overall gross profit margin improved to 3.7% in 9M2016 against 3.3% in 9M2015. In 9M2016, profit before tax was 21% lower at SGD82.5mn (9M2015: SGD103.8mn). This was on the back of higher net finance expenses of SGD30.1mn (against SGD15.1mn in 9M2015) as CWT made less finance income from its financial services business.

- **Logistics business underpins stability:** EBITDA margin in the Logistics segment hovered around 10.5% in the last 5 years. Using this as assumption and after adjusting for inter-segment revenues, the Logistics segment would have contributed about half of 9M2016 overall EBITDA (~SGD60-65mn). As this business is not working capital intensive. Logistics provides a relatively stable stream of operating cash flow to CWT. We find that Logistics EBITDA covers ~1.3x of gross interest.

- **Balance sheet:** As at 30 September 2016, CWT's net debt-to-equity was 1.5x, rising from 1.3x as at 30 December 2015 but within levels seen in the business since 2013. 90% of CWT's short term debt is made up of revolving short-term trade facilities collateralized by inventories and trade & other receivables. Removing such debt which is routinely rolled over, we find adjusted net debt-to-equity to be 0.2x, declining from the 0.4x as at 30 December 2015. Non-cancellable operating leases (an off-balance sheet item) amounted to ~SGD535mn in end-2015, adding these, we find adjusted net debt-to-equity higher at 0.8x.

- **Liquidity in the face of impending bond maturity**: During 9M2016, CWT reported cash flow from operations (before interest and tax) of SGD49.0mn (9M2016: SGD160.4mn) and spent SGD123.7mn for the purchases of new property. This was largely on account of the construction of its mega integrated logistics hub which is targeted to complete by 1H2017. As of October 2016, about SGD110mn of the ~SGD300mn potential capex for the property has been spent. The remaining construction period coincides with the maturity of the CWTSP 4.0% '17s (outstanding amount SGD100mn). Nevertheless, we are comforted that CWT's cash balance of SGD302.6mn as at 30 September 2016 comfortably covers both the maturity of the bonds as well as the remaining capex needs.

- **Differentiated credit risk in Financial Services:** In 9M2016, the financial services business contributed 19% to gross profit (~SGD44.7mn), rising from 17% in 9M2015. As at 30 September 2016, adjusted net capital of Straits Financial LLC (a Futures Commission Merchant ("FCM") which forms the core of CWT's Financial Services business) amounted to USD 23.1mn, with excess net capital at USD12.6mn. Adjusted net capital of Straits Financial LLC represents 2.2x of its minimum required net capital; lower than the sector median of 5.3x. Excess net capital is 4.3% of customer's assets in segregated accounts, which is also lower than sector median. We understand from the company that its policy does not allow proprietary trading at this business unit, which should help lower credit risk.

- **No deal with HNA as yet:** CWT has issued its 7th holding statement as at end-December 2016 stating negotiations between CWT's major shareholders and HNA Group Co. ("HNA") are on-going. There is no change in control provisions on the bonds.

CWT Ltd

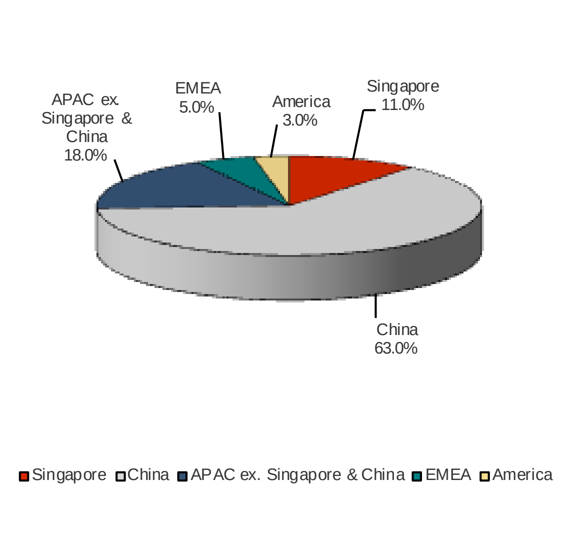
Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	14,194.4	9,931.6	6,585.7
EBITDA	203.4	199.8	135.4
EBIT	162.7	152.1	107.3
Gross interest expense	61.2	51.0	46.4
Profit Before Tax	131.6	131.7	82.5
Net profit	112.4	108.9	60.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	342.0	310.3	302.6
Total assets	4,356.6	4,549.8	4,727.0
Gross debt	1,430.6	1,427.4	1,589.4
Net debt	1,088.6	1,117.1	1,286.9
Shareholders' equity	791.5	868.1	864.5
Total capitalization	2,222.1	2,295.5	2,453.9
Net capitalization	1,880.1	1,985.1	2,151.3
Cash Flow (SGD'mn)			
Funds from operations (FFO)	153.0	156.6	88.1
* CFO	237.1	317.3	28.4
Capex	113.7	259.1	123.7
Acquisitions	20.5	24.9	0.0
Disposals	5.3	28.2	1.2
Dividend	23.4	46.2	39.8
Free Cash Flow (FCF)	123.4	58.2	-95.3
* FCF adjusted	84.8	15.3	-133.9
Key Ratios			
EBITDA margin (%)	1.4	2.0	2.1
Net margin (%)	0.8	1.1	0.9
Gross debt to EBITDA (x)	7.0	7.1	8.8
Net debt to EBITDA (x)	5.4	5.6	7.1
Gross Debt to Equity (x)	1.81	1.64	1.84
Net Debt to Equity (x)	1.38	1.29	1.49
Gross debt/total capitalisation (%)	64.4	62.2	64.8
Net debt/net capitalisation (%)	57.9	56.3	59.8
Cash/current borrowings (x)	0.4	0.4	0.2
EBITDA/Total Interest (x)	3.3	3.9	2.9

Source: Company, OCBC estimates

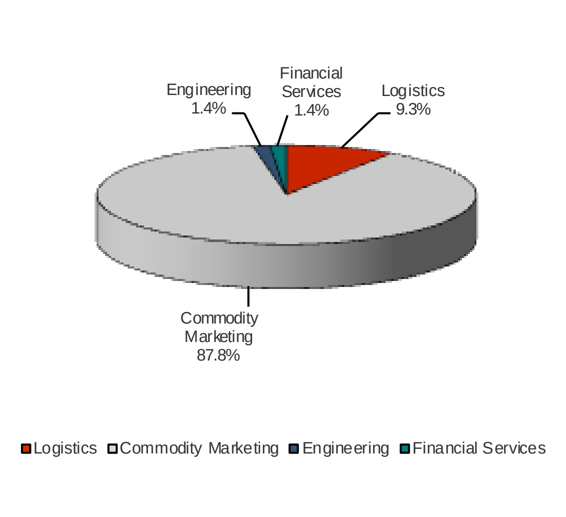
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Geography - 9M2016



Source: Company

Figure 2: Revenue breakdown by Segment - 9M2016



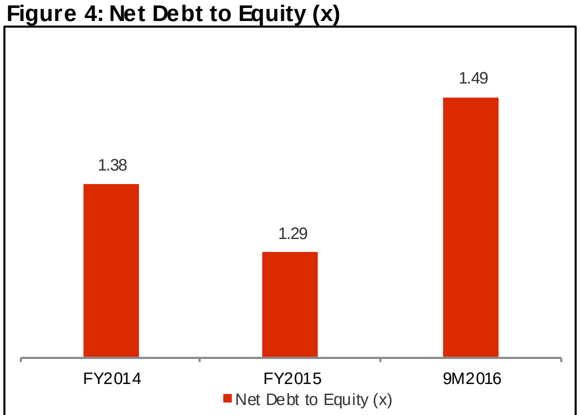
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	1,120.4	70.5%
Unsecured	100.9	6.3%
	1,221.3	**76.8%**
Amount repayable after a year		
Secured	167.3	10.5%
Unsecured	200.8	12.6%
	368.1	**23.2%**
Total	**1,589.4**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Though we view EZI's rights issue as a positive catalyst, the uncertainties looming from potential asset impairments curb us from upgrading some of EZI's bonds from Neutral.

Issuer Profile: Negative

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **EZISP**

Company profile

Ezion is a company engaged in the provision of liftboats and service rigs, as well as offshore logistics support services to national oil majors and multinational oil majors on a long-term basis. With over 30 service rigs and 55 offshore logistics support vessels, it operates in South-East Asia, Middle East, West Africa, Central America, Europe and USA. Though the firm was listed since 2000, Ezion only entered into the offshore marine industry from April 2007 onwards. The CEO, Chew Thiam Keng, is the largest shareholder with a 13.4% interest.

Ezion Holdings Ltd

Key credit considerations

- **Controlled declines, but worse to come:** For 9M2016, EZI reported USD245.6mn in revenue. This was just a decline of 7.8% y/y relative to 9M2015, or 12.9% y/y relative to 9M2014. Performance was commendable given EZI's peers in the offshore marine space. That said, EZI's fleet of service rigs (both liftboats and older drilling rigs) tend to have longer charters compared to other assets, such as OSVs. As such, there is some lag time before EZI's assets come off charter and get renewed at lower market rates. In addition, though we consider liftboats to be performing better than other offshore marine assets, there are signs of lease rate pressure, with peers such as Seacor indicating that average day rates for liftboats fell by about ~35% y/y for 9M2016. Though EZI has been seeking to tap on work outside of oil & gas, such as installation of offshore wind farms, it is likely that such charter rates are lower (in part due to competition). The situation for older jack-up rigs is worse. Swissco Holdings, who was the joint venture partner to a few of EZI's rigs, had indicated that a few of its older jack-up rigs were off charter since 2Q2015. As such, we expect revenue pressure to continue heading into 2017.

- **Earnings getting squeezed**: EZI's revenue was also supported by additions to EZI's fleet. However, expenses have increased as well due to the deployment of these additional service rigs, causing COGS to jump 14.6% y/y to SGD193.1mn. As a result, gross margins fell sharply to 21% (9M2015: 37%). EZI was able to support operating income with asset sales (EZI had targeted to dispose of two liftboats), booking USD33.3mn in Other Income during 9M2016. Despite this, the lower gross income and higher financing expenses (due to additional vessel financing from the expended fleet) caused net profit to plunge 67.1% y/y to USD33.0mn.

- **Cash flows falling but still fair**: Though operating cash flow (including interest service) declined by 44%, it remains sizable at USD77.6mn for 9M2016. In addition, capex was reduced sharply to USD45.6mn (9M2015: USD218.2mn) as fleet additions were curtailed. As such, EZI was able to generate USD32.0mn in free cash flow for the period. Though interest coverage has worsened due to weaker EBITDA, it remains fair at 6.1x (2015: 8.9x). Most of EZI's near-term debt is amortizing vessel financing.

- **Rights issue strengthen balance sheet**: EZI was one of the few offshore marine players still able to tap equity markets, raising SGD140mn during 3Q2016. These, coupled with the free cash flow generated as well as the asset disposals, allowed EZI to pay down USD118.1mn during 9M2016. As such, net gearing improved distinctly to 93% (2015: 111%). Though we note the improvements to EZI's credit profile, given the still challenging conditions for drilling assets, we believe it could take some time before utilization and charter rates improve. Management had indicated that they are reviewing further asset sales, potentially delaying / cancelling certain unviable projects or finding JV partners to co-own assets as ways to manage EZI's balance sheet. In addition, there could also be further impairments to EZI's fleet of service rigs when asset values are reviewed come 4Q2016. We note that on 26/10/16 EZI has acquired Swissco's 50% stake in their joint venture (and that these 3 JV rigs, though still on charter, face payment delays by the charterer). In aggregate, we will continue to hold EZI's Issuer Profile at Negative.

Ezion Holdings Ltd

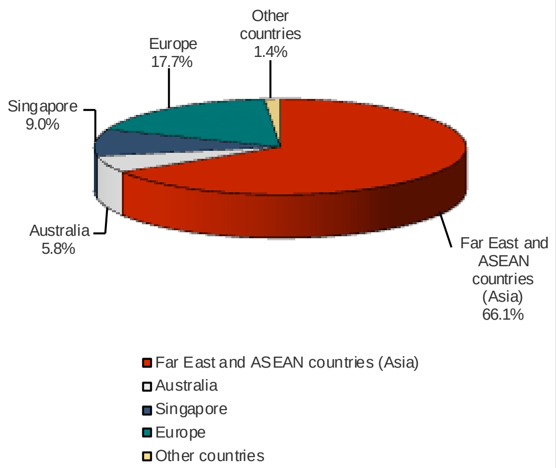
Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	9M2016
Income Statement (USD'mn)			
Revenue	386.5	351.1	245.6
EBITDA	279.4	233.8	149.9
EBIT	176.6	99.0	39.4
Gross interest expense	22.5	26.4	24.6
Profit Before Tax	225.8	38.4	46.7
Net profit	223.7	36.8	44.7
Balance Sheet (USD'mn)			
Cash and bank deposits	371.5	229.8	255.4
Total assets	2,981.0	3,108.4	3,135.4
Gross debt	1,496.0	1,605.0	1,543.0
Net debt	1,124.5	1,375.3	1,287.6
Shareholders' equity	1,312.6	1,241.3	1,383.3
Total capitalization	2,808.7	2,846.4	2,926.3
Net capitalization	2,437.2	2,616.6	2,670.9
Cash Flow (USD'mn)			
Funds from operations (FFO)	326.4	171.7	155.3
* CFO	183.2	171.0	77.6
Capex	529.0	381.9	45.6
Acquisitions	14.7	4.1	15.3
Disposals	17.7	0.0	20.9
Dividend	1.0	1.2	0.0
Free Cash Flow (FCF)	-345.8	-210.9	32.0
* FCF adjusted	-343.8	-216.2	37.6
Key Ratios			
EBITDA margin (%)	72.3	66.6	61.0
Net margin (%)	57.9	10.5	18.2
Gross debt to EBITDA (x)	5.4	6.9	7.7
Net debt to EBITDA (x)	4.0	5.9	6.4
Gross Debt to Equity (x)	1.14	1.29	1.12
Net Debt to Equity (x)	0.86	1.11	0.93
Gross debt/total capitalisation (%)	53.3	56.4	52.7
Net debt/net capitalisation (%)	46.1	52.6	48.2
Cash/current borrowings (x)	1.3	0.6	0.7
EBITDA/Total Interest (x)	12.4	8.9	6.1

Source: Company, OCBC estimates

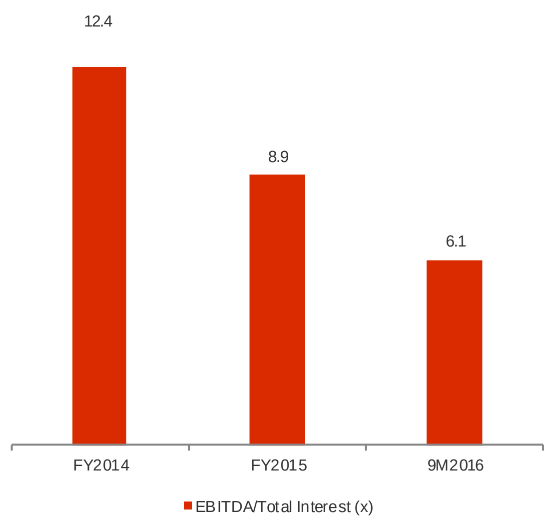
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Geography - FY2015



Source: Company

Figure 2: Interest Coverage Ratio (x)



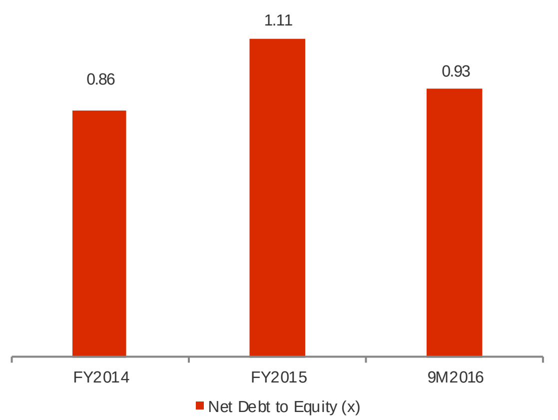
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 30/09/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	245.8	15.9%
Unsecured	107.1	6.9%
	352.9	**22.9%**
Amount repayable after a year		
Secured	796.4	51.6%
Unsecured	393.7	25.5%
	1190.1	**77.1%**
Total	**1543.0**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Though we acknowledge the several painful steps that management has taken to navigate the environment, the Perisai albatross on EZRA's neck prevents us from going above Neutral for the EZRASP'18s.

Issuer Profile: Negative

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **EZRASP**

Company profile

Listed in 2003, Ezra is an offshore contractor and provider of integrated offshore solutions to the global oil and gas industry. The group has three main business divisions, namely subsea services, offshore support & production services and marine services. Under the EMAS branding, it operates in more than 16 locations across Africa, Americas, Asia-Pacific and Europe. The founding Lee family controls ~24% of the firm. Ezra has recently entered into a 40:35:25 JV with Chiyoda and NYK with regards to its subsea services segment.

Ezra Holdings Ltd

Key credit considerations

- **A year of restructuring**: For FY2016 (ending August 2016), EZRA had taken ~USD166mn in impairments and provisions during 2QFY2016 relating to its fleet as well as doubtful receivables. During 3QFY2016, it realized ~USD181mn in disposal loss relating to the sale of 50% in its subsea division to Chiyoda Corp (NYK joined the JV subsequently) in exchange for USD144.5mn in cash proceeds. Finally, during 4QFY2016, EZRA took ~USD370mn in impairments and provisions (mainly at the EMAS Offshore ("EMAS") subsidiary) due to the default of its associate company, Perisai Petroleum Teknologi ("PPT") and on related joint ventures. EZRA also took divestment losses relating to its sale of one of its FPSOs (though EZRA is expected to receive USD68.9mn in cash proceeds from the transaction). In aggregate, the above drove EZRA to recognize a net loss of USD887.7mn for FY2016 (after subtracting losses attributed to minority interest). EZRA had also undergone a few rounds of consent solicitation, first to obtain flexibility over its interest coverage covenant, subsequently to waive its financial covenants given the looming impairments as well as to restructuring some of its borrowings.

- **Gearing surged on losses, refinancing efforts proceeding**: The large losses generated have hit shareholders' equity hard, with EZRA's total equity falling from USD1365.3mn (end-FY2015) to just USD378.9mn (end-FY2016). This caused net gearing to surge to 300% (FY2015: 77%) despite gross debt falling from USD1470.2mn to USD1197.2mn during the period. On a positive note, EMAS subsequently announced (on 12/12/16) that it had reached an agreement with all its financial lenders to refinance its financial obligations over a period of 5 years (which was one of the intentions for the most recent consent solicitation). We consider this a strong credit positive as 1) the bulk of EZRA's secured debt (USD830.3mn) sits at the EMAS level (USD519.6mn) and 2) the refinancing highlights lender support for EZRA / EMAS.

- **Signs of revenue stabilization and cash flow improvement**: For 4QFY2016, EZRA reported USD136.0mn in revenue, a decline of 7.8% y/y. The shipyard division (mainly Triyards) saw revenue increase 6.6% y/y, driven by the contribution from the construction of liftboats, support vessels and tugs during the quarter. The shipyard net order book stood at USD422mn, a decline from USD564mn a year back due to weak demand for newbuilds. For the OSV division (mainly EMAS), revenue declined 3.8% y/y, driven by the weak demand for PSVs and AHTS. For 4QFY2016, EZRA managed to generate USD35.9mn in operating cash flow (after generating USD44.9mn in operating cash outflow in 3QFY2016). This was largely driven by EZRA chasing its receivables and stretching its payables. After factoring capex, this allowed EZRA to generate USD11.4mn in free cash flow for the quarter. Do note that as of end-FY2016, EZRA reported most of its borrowings as current borrowings due to breaches of financial covenants. However, management has indicated that as of the FY2016 announcement date, these breaches have been rectified via waivers.

- **Sector headwinds to weigh, Perisai uncertainty**: In general, EZRA has taken several measures to position itself for the coming year, such as taking the necessary impairments as well as to raise liquidity via asset sales (at the expense of disposal losses). However, the offshore marine environment remains challenged, especially for the OSV division. New orders for the shipyard division would likely be slow. Furthermore, the situation at PPT continues to develop and may be a drag. Coupled with the high leverage levels, we will continue to hold EZRA's Issuer Profile at Negative.

Ezra Holdings Ltd

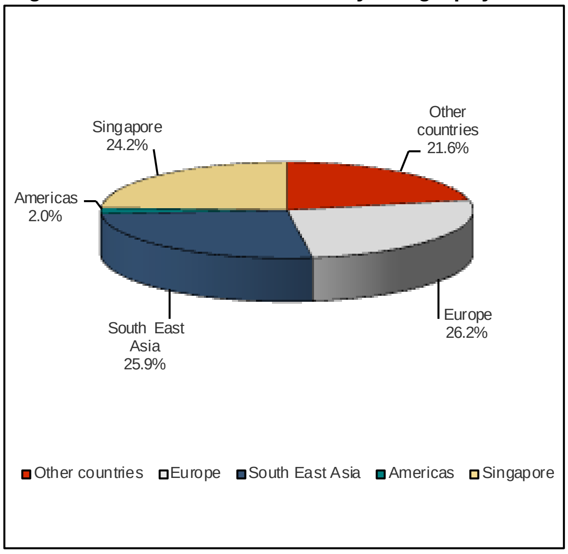
Table 1: Summary Financials

Year End 31st Aug	FY2014	FY2015	FY2016
Income Statement (USD'mn)			
Revenue	1,488.4	543.8	525.1
EBITDA	141.8	76.3	-170.4
EBIT	69.6	7.0	-247.4
Gross interest expense	51.3	52.3	48.1
Profit Before Tax	74.7	79.1	-994.3
Net profit	45.3	43.7	-887.8
Balance Sheet (USD'mn)			
Cash and bank deposits	178.9	417.8	62.6
Total assets	3,363.0	4,177.3	1,936.5
Gross debt	1,551.9	1,470.2	1,197.6
Net debt	1,373.0	1,052.3	1,135.1
Shareholders' equity	1,185.8	1,365.3	378.9
Total capitalization	2,737.7	2,835.5	1,576.6
Net capitalization	2,558.8	2,417.6	1,514.0
Cash Flow (USD'mn)			
Funds from operations (FFO)	117.4	113.0	-810.7
* CFO	100.0	142.5	-51.0
Capex	327.4	320.5	167.1
Acquisitions	0.0	-25.2	0.0
Disposals	8.5	30.3	208.2
Dividend	5.4	0.0	0.0
Free Cash Flow (FCF)	-227.4	-178.0	-218.1
* FCF adjusted	-224.2	-122.5	-9.9
Key Ratios			
EBITDA margin (%)	9.5	14.0	-32.5
Net margin (%)	3.0	8.0	-169.1
Gross debt to EBITDA (x)	10.9	19.3	-7.0
Net debt to EBITDA (x)	9.7	13.8	-6.7
Gross Debt to Equity (x)	1.31	1.08	3.16
Net Debt to Equity (x)	1.16	0.77	3.00
Gross debt/total capitalisation (%)	56.7	51.8	76.0
Net debt/net capitalisation (%)	53.7	43.5	75.0
Cash/current borrowings (x)	0.4	0.6	0.1
EBITDA/Total Interest (x)	2.8	1.5	-3.5

Source: Company, OCBC estimates

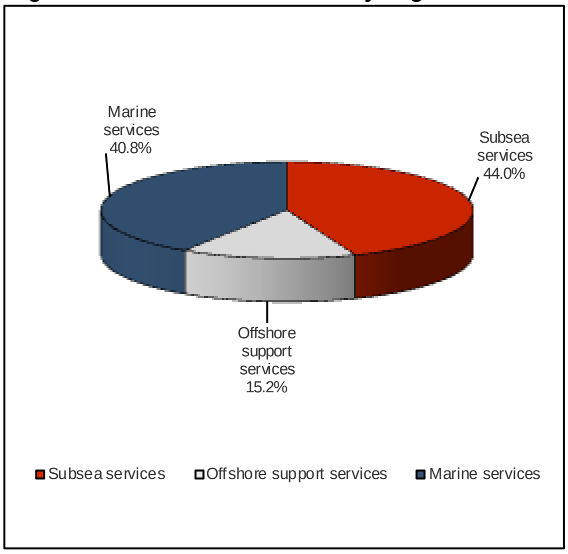
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Geography - FY2016



Source: Company

Figure 2: *Revenue breakdown by Segment - FY2016



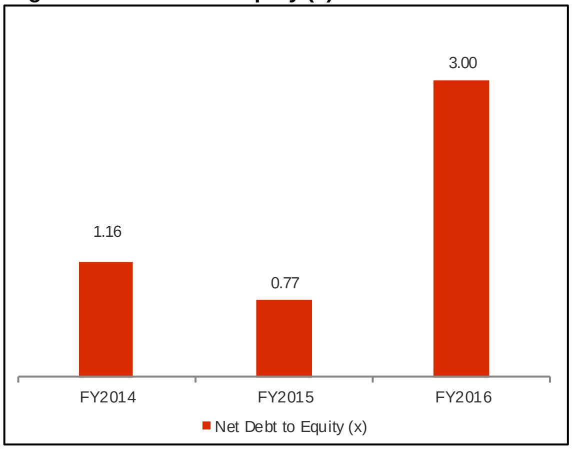
*Source: Company | *Revenue excludes Disposal Held for Sale*

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 30/09/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	819.3	68.4%
Unsecured	365.5	30.5%
	1184.8	**98.9%**
Amount repayable after a year		
Secured	10.9	0.9%
Unsecured	1.9	0.2%
	12.8	**1.1%**
Total	**1197.6**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

First Real Estate Investment Trust

Credit Outlook – We are Underweight the FIRTSP'18s with a YTM of 3.25%. Its sister company the LMRTSP'18s (matures 6 months later) has a YTM of 4.4%, implying a yield pick-up of 115bps. Both are unrated.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **FIRTSP**

Background

Listed on the SGX in December 2006, First REIT ("FIRT") invests primarily in real estate that is used for healthcare and healthcare-related industries, both in Singapore and Asia. It owns 17 properties across Indonesia, Singapore and South Korea, valued at SGD1.3bn as at 30 September 2016. The properties include 11 hospitals, 3 nursing homes and 1 integrated hotel and hospital, 1 integrated hotel and mall and 1 hotel and country club. PT Lippo Karawaci Tbk ("Lippo Karawaci") is FREIT's Sponsor and largest shareholder with a 33% stake.

Key credit considerations

- **Flat 9M2016 on an organic growth basis:** Revenue for the 9M2016 grew by 6.7% to SGD80.0mn, on the back of higher contribution from Siloam Hospital Kupang and Lippo Plaza Kupang (integrated hospital and mall, collectively "Kupang") which was acquired in December 2015. On an organic growth basis, revenue growth would have been flat at around SGD75mn. Reported net property income ("NPI") increased by 7.1% to SGD79.1mn as a result of lower expenses incurred at South Korea's Sarang Hospital which was sufficient to offset certain higher expenses. At SGD13.6mn, gross interest expense was higher by 11.1% mainly due to higher borrowings incurred to part finance Kupang and the first progress payment on the new Siloam Hospital Surabaya. Despite the higher profit contribution from Kupang, FIRT reported total return for the period after income tax of SGD40.9mn, a 1.9% decrease vis-à-vis 9M2015. This was due to SGD3.2mn of revaluation losses in interest rate swap contracts and higher tax expenses.

- **Reduced leverage from perpetual issuance:** EBITDA/Gross interest reduced somewhat to 5.2x (9M2015: 5.4x). In June 2016, FIRT issued a SGD60mn perpetual at 5.68%, which was used to partially pay down debt. Post issuance of the perpetuals, there is no short term debt due. Adjusting 50% perpetual distribution into coverage; we estimate EBITDA/(Gross interest plus perpetual distribution) to be ~4.8x going forward. Aggregate leverage was 30%, lower than the 34% as at 31 December 2015. Adjusting half of the perpetuals as debt as half as equity, we find adjusted aggregate leverage to be 32%. We are of the view that valuation of healthcare assets are subjected to higher degrees of uncertainties. Such assets tend to be built-to-specification with limited alternative uses and absent standardized/market-based leases. We take some comfort that FIRT has kept its headline aggregate leverage at low-moderate levels since listing. As at 30 September 2016, secured debt made up 73% of total debt and was 22% as a proportion of total assets. Only Sarang Hospital, Siloam Hospitals Surabaya and Siloam Sriwijaya remain unencumbered. Based on an independent valuation as at November 2015, these 3 properties have an aggregate value of SGD84.3mn.

- **Status of Yogyakarta acquisition:** In February 2016, FIRT announced a joint acquisition with Lippo Malls Indonesia Retail Trust ("LMIR"), a REIT ~25% owned by Lippo Karawaci, for an integrated hospital and retail mall in Yogyakarta owned indirectly by their Sponsor. The acquisition has been delayed due to deal structure considerations that are being ironed out, the sale and purchase agreements remain in effect. The portion to be paid by FIRT amounts to SGD40.8mn. As at 30 September 2016, cash balance at FIRT was SGD37.9mn (we think there is cash balances of SGD16mn remaining post completion of the acquisition of Labuan Bajo in end-Dec 2016). Assuming SGD16mn is raised in debt to fund the Yogyakarta property, aggregate leverage is likely to be kept at ~31%.

- **Interdependence limits upside**: More than 80% of FIRT's gross rental income is concentrated with Lippo Karawaci as Master Lessee. Even though the underlying hospitals are sub-leased to end-user PT Siloam International Hospitals Tbk ("Siloam"), Lippo Karawaci is still bearing the bulk of the rental burden. Lippo Karawaci now owns ~63% of Siloam (71% stake prior to an equity selldown and placement to private equity firm CVC). We continue to expect Lippo Karawaci to inject hospitals still in the developmental/ramp-up phase into FIRT, thus heightening the dependency of FIRT on its Sponsor's ability to make good on such rental payments. In October 2016, Moody's lowered Lippo Karawaci's Ba3 ratings outlook to Negative, on the back of delays in its asset sales to the REITs and lack of marketing sales in its residential property business.

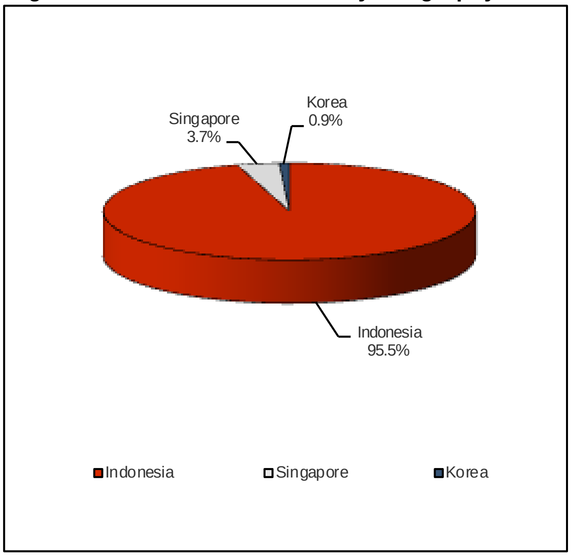
First Real Estate Investment Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	93.3	100.7	80.0
EBITDA	82.4	88.0	71.0
EBIT	82.4	88.0	71.0
Gross interest expense	15.2	16.5	13.6
Profit Before Tax	112.7	96.3	54.0
Net profit	90.6	67.8	40.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	28.2	26.8	37.9
Total assets	1,212.4	1,315.2	1,331.5
Gross debt	396.6	442.6	396.0
Net debt	368.3	415.7	358.2
Shareholders' equity	745.0	791.1	852.1
Total capitalization	1,141.5	1,233.7	1,248.2
Net capitalization	1,113.3	1,206.8	1,210.3
Cash Flow (SGD'mn)			
Funds from operations (FFO)	90.6	67.8	40.9
* CFO	80.8	74.3	63.0
Capex	0.0	0.0	18.0
Acquisitions	67.7	56.5	0.1
Disposals	0.0	0.0	8.2
Dividends	39.8	50.0	42.3
Free Cash Flow (FCF)	80.8	74.3	44.9
* FCF Adjusted	-26.8	-32.3	10.7
Key Ratios			
EBITDA margin (%)	88.4	87.4	88.7
Net margin (%)	97.2	67.3	51.1
Gross debt to EBITDA (x)	4.8	5.0	4.2
Net debt to EBITDA (x)	4.5	4.7	3.8
Gross Debt to Equity (x)	0.53	0.56	0.46
Net Debt to Equity (x)	0.49	0.53	0.42
Gross debt/total capitalisation (%)	34.7	35.9	31.7
Net debt/net capitalisation (%)	33.1	34.4	29.6
Cash/current borrowings (x)	1.1	0.6	NM
EBITDA/Total Interest (x)	5.4	5.3	5.2

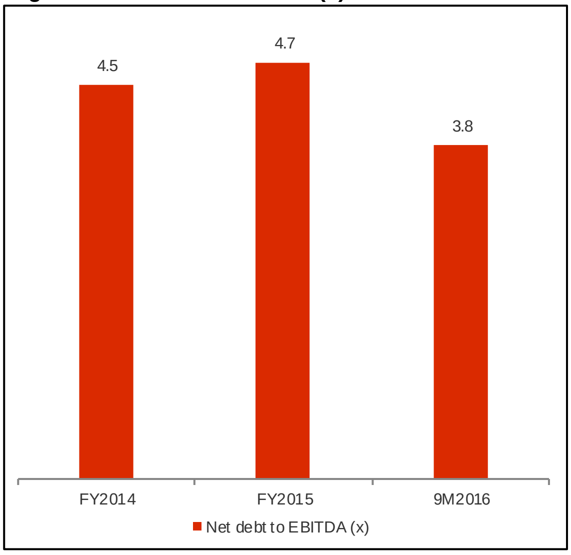
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - FY2015



Source: Company

Figure 2: Net Debt to EBITDA (x)



Source: Company, OCBC estimates

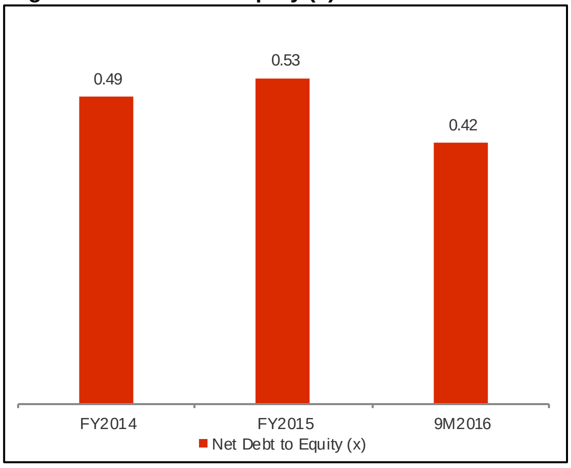
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
.		
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	0.0	0.0%
	0.0	**0.0%**
Amount repayable after a year		
Secured	289.9	72.5%
Unsecured	110.0	27.5%
	399.9	**100.0%**
Total	***399.9**	**100.0%**

Source: Company | *Excludes transaction expenses

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We think it is more likely for FSG to conserve capital versus calling on the FSGSP'18s (June 2017@101). We think the bonds at 96 (YTM 7%) are attractive for buy and hold investors given the less liquid nature of the bond.

Issuer Profile: Neutral

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **FSGSP**

Background

First Sponsor Group Ltd ("FSG") comprises three property focused business segments: property development, property holding and property financing. Operations are focused on China and the Netherlands. FSG is 35.8% indirectly owned by the Hong Leong Group while the Tai Tak Group has a deemed interest of 44.2% in the company. FSG is incorporated in Cayman Islands and management are based in Singapore.

First Sponsor Group Ltd

Key credit considerations

- **Healthy 9M2016 in spite of property financing:** 9M2016 revenue increased by 46.6% to SGD168.1mn (9M2016: SGD114.7mn) on the back of higher recognition from the sale of properties and increase in rental income from investment properties which more than offset the decrease in revenue from the property financing business. In 9M2016, 1,297 residential units was handed over to buyers versus 599 residential units in 9M2015, in addition to better showing of commercial units and car park lots from FSG's key Millennium Waterfront project in Chengdu. Nevertheless, EBITDA decreased by 12.0% to SGD31.1mn during the same period given the absence of high-margin property financing revenue. In 9M2015, this business contributed about half of FSG's gross profit but only 8.1% in 9M2016. Profit before tax of SGD52.6mn (9M2015: SGD50.0mn) was bolstered by a SGD7.2mn share of profit. Of these, SGD6.5mn relates to a one-off gain from disposal of 8 non-core properties in the Netherlands. During the 9M2016, FSG took a SGD65.0mn hit on foreign currency translation differences which led to a comprehensive loss of SGD27.8mn and negatively impacted book value equity.

- **Property development tilting to the Netherlands:** 3Q2016 was a good quarter for property sales at FSG's main project in Chengdu, a city which benefited along with the rising tide for property sales across major cities in China. 373 units were sold in 3Q2016 (2Q2016: 332 units sold). FSG has commenced construction on its last plot and has commenced pre-sales in 4Q2016. As a result of discussions earlier signaled, we saw two parties subscribing to new shares in the Dongguan Star of East project. China Vanke Co. Ltd ("VNKRLE") is now the controlling shareholder with a 55% stake while Regent Land Investment Holdings Limited (owned by the CEO of FSG's Guangdong operations) holds 15%. FSG is due to receive net proceeds of SGD243.4mn and continue to hold a 30% minority stake, allowing it to participate in the project's future upside. Along with more than 20 cities in China, Chengdu's Wenjiang district (where Millennium Waterfront is located) and Dongguan has also been targeted for properly cooling measures in October 2016. We think as a defensive mechanism, FSG will continue to entrench itself in the Dutch market. FSG's associated company in the Netherlands has sold ~75% of the Boompjes redevelopment project to investors prior to the commencement of construction works. We understand that a third will be received upfront while the rest will be via progress payment and can help fund construction.

- **Property holding provides cashflow stability:** In September 2016, FSG acquired 2 commercial properties in the Netherlands for EUR12.2mn (SGD18.5mn), though one is considered non-core and will be disposed. In 9M2016, Zuiderhof I and Arena Towers contributed SGD9.8mn in rental income while interest income earned from FSG's associated company amounted to SGD7.2mn. In aggregate, FSG made SGD17.1mn in recurring income from the Netherlands in 9M2016, representing a 2.9x coverage to gross interest.

- **Manageable gearing levels and near-term liquidity needs:** As at 30 September 2016, gross debt-to-equity was 0.40x, decreasing from 0.5x as at 31 December 2015. We are comforted that SGD130mn in cash balance (largely onshore) is higher than receipts in advance (current liability from pre-sales) of SGD121.7mn. As at 30 September 2016, FSG faces SGD45.9mn in short term debt due at the parent company level. This is manageable given expected gross proceeds from the dilution in share sale from the Dongguan project. FSG continues to pursue recoveries on its problematic loans. In the highly unlikely event where FSG has to take full impairments on such loans (with corresponding hit on equity), we estimate gross debt-to-equity to rise to 0.5x. We have based our analysis assuming no recoveries on such loans during the tenure of the SGD bonds.

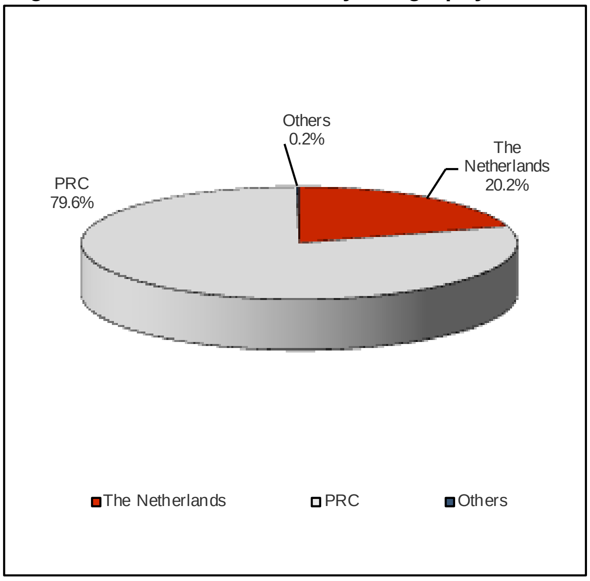
First Sponsor Group Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	153.2	215.0	168.1
EBITDA	35.8	71.5	31.1
EBIT	34.4	69.8	30.0
Gross interest expense	2.1	4.6	5.9
Profit Before Tax	40.5	91.0	52.6
Net profit	21.7	67.4	40.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	131.8	112.0	130.0
Total assets	1,293.0	1,800.8	1,637.5
Gross debt	83.0	477.1	379.5
Net debt	-48.8	365.1	249.5
Shareholders' equity	894.5	978.1	938.5
Total capitalization	977.5	1,455.2	1,317.9
Net capitalization	845.7	1,343.2	1,187.9
Cash Flow (SGD'mn)			
Funds from operations (FFO)	23.1	69.0	41.3
* CFO	-252.3	-67.1	18.0
Capex	33.0	33.7	66.3
Acquisitions	0.2	172.8	0.0
Disposals	14.9	4.9	0.7
Dividends	0.0	11.5	11.8
Free Cash Flow (FCF)	-285.3	-100.8	-48.2
* FCF Adjusted	-270.6	-280.2	-59.3
Key Ratios			
EBITDA margin (%)	23.4	33.2	18.5
Net margin (%)	14.2	31.3	23.9
Gross debt to EBITDA (x)	2.3	6.7	9.2
Net debt to EBITDA (x)	-1.4	5.1	6.0
Gross Debt to Equity (x)	0.09	0.49	0.40
Net Debt to Equity (x)	-0.05	0.37	0.27
Gross debt/total capitalisation (%)	8.5	32.8	28.8
Net debt/net capitalisation (%)	-5.8	27.2	21.0
Cash/current borrowings (x)	NM	0.5	2.8
EBITDA/Total Interest (x)	17.0	15.4	5.3

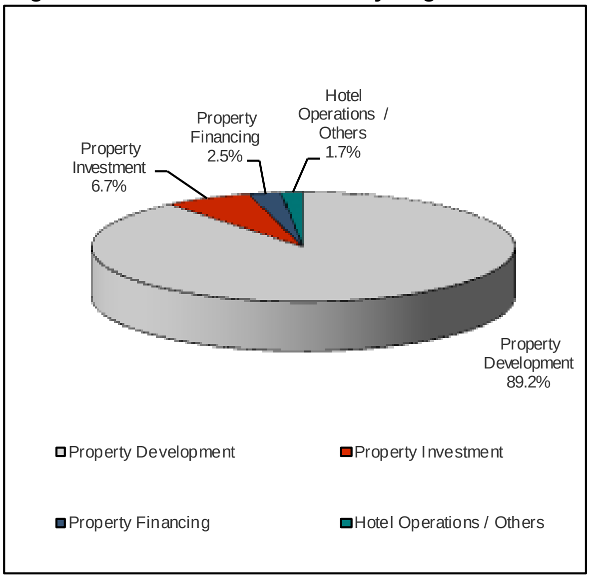
Source: Company, OCBC estimates
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Asset breakdown by Geography - 9M2016



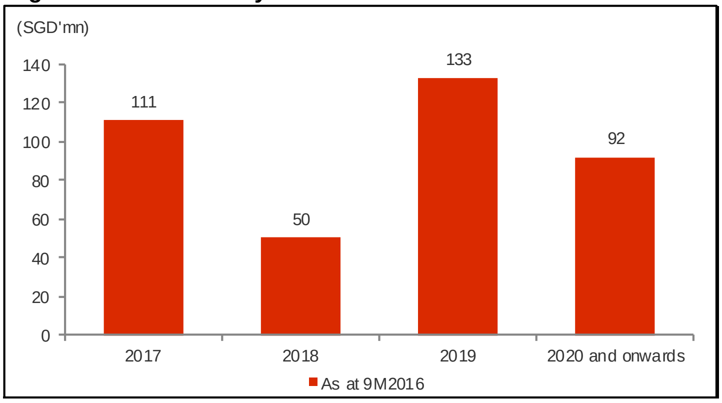
Source: Company

Figure 2: Revenue breakdown by Segment - 9M2016



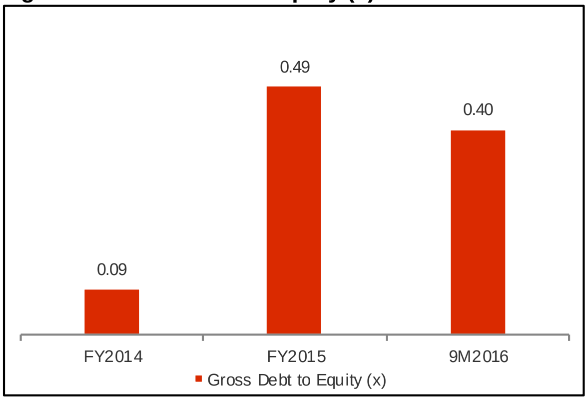
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – The FCTSP'20s look attractive, trading at more than 70bps wider than the CAPITA'20s, which more than compensates for the two notch lower rating. FCT's portfolio of suburban malls has also performance more resiliently compared to the broader retail sector.

Issuer Profile: Neutral

S&P: BBB+/Stable

Moody's: Baa1/Positive

Fitch: Not rated

Ticker: **FCTSP**

Background

Listed on the SGX in July 2006, Frasers Centrepoint Trust ("FCT") is a pure-play suburban retail REIT in Singapore, sponsored by Frasers Centrepoint Ltd ("FCL", which holds a 41.6% interest in FCT). Since its IPO, FCT's portfolio value has grown to SGD2.51bn as at end-FY2016. Its portfolio comprises 6 suburban retail malls in Singapore - Causeway Point, Changi City Point, Northpoint, Bedok Point, Anchorpoint, and YewTee Point. FCT also owns a 31.2%-stake in Malaysia-listed Hektar REIT ("H-REIT", a retail focused REIT).

Frasers Centrepoint Trust

Key credit considerations

- **Lower expenses offset revenue declines**: FCT reported full year results (ending September 2016), with revenue down 2.9% y/y to SGD183.8mn. FCT saw revenue declines at all assets except for Causeway Point and Yewtee Point. Northpoint's revenue fell 10.7% y/y to SGD45.0mn, due to the commencement of its AEI in 2QFY2016 (linking the asset to the Sponsor's Northpoint City), with vacancy plunging from 98.2% (FY2015) to 70.9% (FY2016). Changi City Point continues to be weak, with revenue falling 5.1% y/y to SGD24.4mn due to low occupancy of 81.1% (FY2015: 91.1%) with management attributing this to the fitting out of a new anchor tenant (FairPrice Finest). Finally, Bedok Point's performance remained challenged, with revenue falling 11.2% y/y to SGD8.3mn. Looking forward, we expect vacancies to pressure revenue at Northpoint till the AEI is completed (scheduled September 2017), with management projected occupancy plunging to a low of 58% in 2QFY2017. Changi City Point and Bedok Point may see some stabilization though as new anchor tenants have commenced operations, firming up occupancy. The declines in gross revenue were offset by lower maintenance expenses (mainly utilities) which were lower by 15.7% y/y, which helped attenuate NPI declines to 0.9% y/y to SGD129.9mn.

- **Portfolio occupancy lowest in years**: With the Northpoint asset (2nd largest) and Changi City Point (3rd largest, with both assets aggregating to ~40% of portfolio valuation) seeing sharp falls in occupancy due to the AEI and tenant churn respectively, portfolio occupancy fell to 89.4% (FY2015: 96.0%).

- **Lease reversions remain positive though downtrend seen**: FCT managed an average rental reversion of +4.6% for 4QFY2016 (just 2.6% of NLA was renewed during the quarter though). This was lower than the +9.9% for the whole FY2016 (covering 19.9% of portfolio NLA), as well as weaker than the +8.3% seen in 3QFY2016. In aggregate, we are comforted that FCT was able to renew rental rates at between 10% - 20% higher for its largest three assets during FY2016 despite the challenging retail landscape, though we note a distinct deceleration through the year. FY2017 would likely be challenging with FCT seeing ~40% of NLA to be renewed in FY2017. Of particular concern would be Bedok Point, with 55% of NLA renewing in FY2017 and -30.0% rental reversion seen in FY2016. Currently, portfolio WALE (by NLA) stood at 1.38 years (3QFY2016: 1.51 years). Interestingly, despite weak performance at Changi City Point and Bedok Point, there was no change in valuation for these two assets as of end-FY2016. In aggregate, FCT's portfolio valuation was up 2.0% y/y to SGD2.51bn.

- **Leverage profile steady, liquidity improving**: FCT's aggregate leverage remained steady at 28.3% (FY2015: 28.2%) with revaluation gains mitigating slight increases in gross debt. Cost of debt improved sharply y/y to 2.1% (FY2015: 2.4%), which helped interest coverage improve to 6.6x (FY2015: 6.0x). FCT has SGD218mn in borrowings due in FY2017, which includes of SGD30mn bond due in June 2017, SGD90mn unsecured bank loan due to DBS in June 2017, SGD70mn secured bank loan due to DBS in December 2016. Though FCT's cash balance stood at SGD18.7mn, we believe that FCT continues to have good access to capital markets, last issuing SGD50mn in 5Y bonds in June 2016. As such, the looming maturities are expected to be refinanced. Capex plans are mainly the Northpoint AEI, with FCT budgeting SGD60mn. FCT had also recently paid SGD39.4mn for the retail podium of Yishun 10 Cineplex, with the asset expected to have synergies with FCT's Northpoint asset. The capex and acquisition mentioned are likely to have minimal impact on FCT's credit profile. We will keep FCT's Issuer Profile at Neutral

Fraser Centrepoint Trust

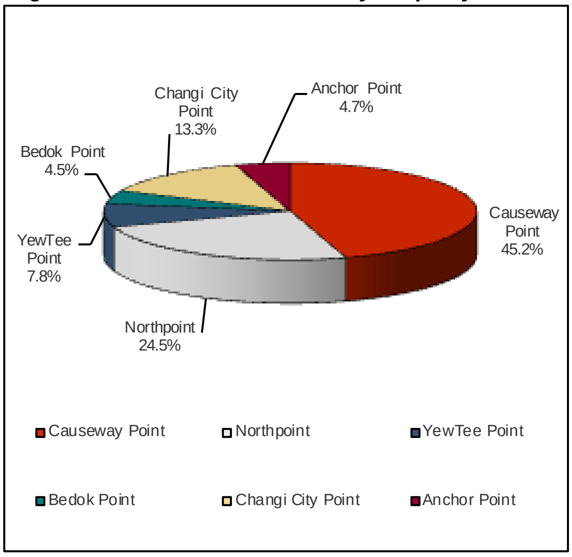
Table 1: Summary Financials

Year Ended 30th Sept	FY2014	FY2015	FY2016
Income Statement (SGD'mn)			
Revenue	168.8	189.2	183.8
EBITDA	103.6	115.4	114.1
EBIT	103.5	115.4	114.0
Gross interest expense	18.5	19.3	17.2
Profit Before Tax	165.1	171.5	123.4
Net profit	165.1	171.5	123.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	41.7	16.2	18.7
Total assets	2,521.8	2,548.7	2,594.5
Gross debt	739.0	718.0	734.0
Net debt	697.3	701.8	715.3
Shareholders' equity	1,698.7	1,754.5	1,775.6
Total capitalization	2,437.7	2,472.5	2,509.6
Net capitalization	2,395.9	2,456.3	2,490.9
Cash Flow (SGD'mn)			
Funds from operations (FFO)	165.1	171.5	123.5
* CFO	100.3	120.0	126.0
Capex	1.6	5.4	17.5
Acquisitions	298.7	0.0	0.0
Disposals	0.0	0.0	0.0
Dividends	94.5	105.7	108.4
Free Cash Flow (FCF)	98.7	114.6	108.4
* FCF Adjusted	-294.5	8.9	0.0
Key Ratios			
EBITDA margin (%)	61.4	61.0	62.1
Net margin (%)	97.8	90.6	67.2
Gross debt to EBITDA (x)	7.1	6.2	6.4
Net debt to EBITDA (x)	6.7	6.1	6.3
Gross Debt to Equity (x)	0.44	0.41	0.41
Net Debt to Equity (x)	0.41	0.40	0.40
Gross debt/total capitalisation (%)	30.3	29.0	29.2
Net debt/net capitalisation (%)	29.1	28.6	28.7
Cash/current borrowings (x)	0.4	0.1	0.1
EBITDA/Total Interest (x)	5.6	6.0	6.6

Source: Company, OCBC estimates

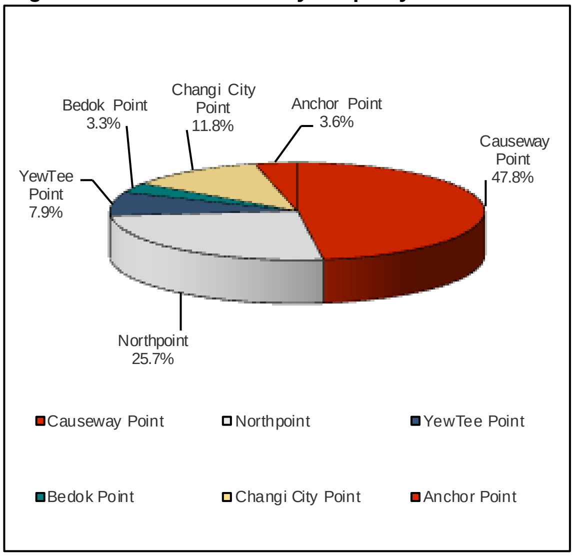
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Property - FY2016



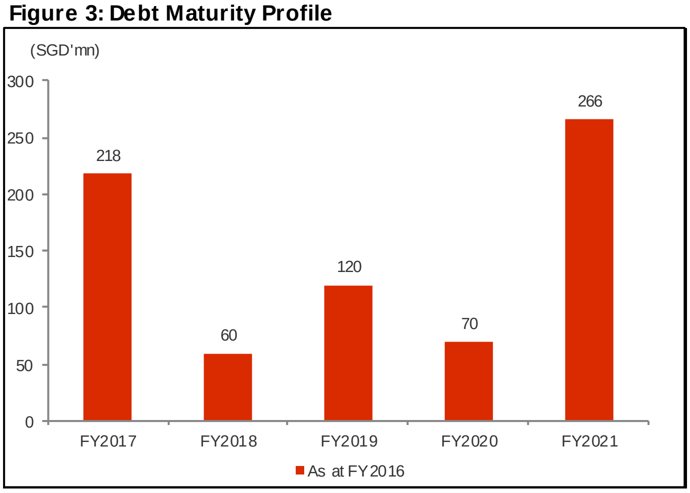
Source: Company

Figure 2: NPI breakdown by Property - FY2016



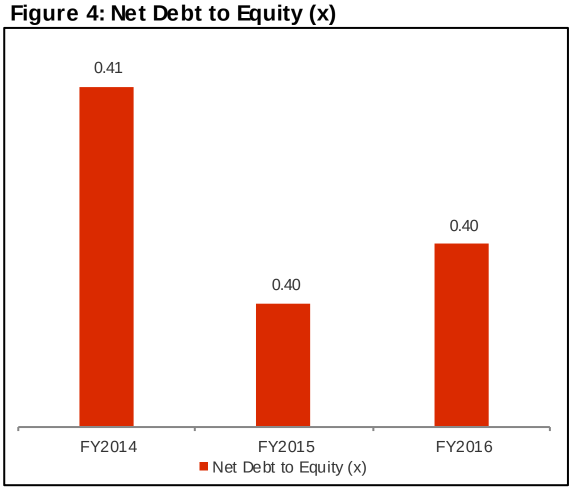
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – With a call date of only 6 months longer than the KREIT'49c20, a switch into FHTSP'49c21 allows a yield pick-up of 40bps, which compensates for its smaller size in our view.

Issuer Profile: Positive

S&P: Not rated

Moody's: Baa2/Stable

Fitch: Not rated

Ticker: **FHTSP**

Background

Listed on the SGX in July 2014, Frasers Hospitality Trust ("FHT") is a stapled group comprising a REIT and Business Trust. FHT invests in hospitality assets globally (except Thailand) and currently owns 15 properties with more than 3,900 rooms. It is sponsored by Frasers Centrepoint Limited ("FCL"), a major Singapore-based property developer. FCL holds a ~22% stake whilst TCC Hospitality Limited ("THL") holds ~39%. Both FCL and THL are ultimately controlled by Chareon Sirivadhanabhakdi and Khunying Wanna Sirivadhanabhakdi.

Frasers Hospitality Trust

Key credit considerations

- **Steady FY2016 operating results:** Gross revenue improved 17.1% to SGD123.6mn, against an annualized SGD105.6mn in FY2015 while net property income ("NPI") increased 20.6% to SGD104.2mn (annualized FY2015: SGD86.4mn). The increase was driven by the full year contribution from the acquisition of Sofitel Sydney Wentworth and Maritim Hotel Dresden and better performance at the ANA Crowne Plaza Kobe and two other properties in Sydney. Taking out the impact from Sofitel Sydney Wentworth and Maritim Hotel Dresden, we estimate that gross revenue improved by 1.4% in FY2016. In FY2016, Australia overtook Singapore as FHT's most important NPI contributor at 30%, rising from 18% in the 444 days to 30 September 2015. We see this diversification as a positive development as we expect oversupply in the Singapore market to persist. Based on information from the Singapore Tourism Board, during 1H2016, overall revenue per available room ("RevPar") for Singapore has fallen 2.4% y/y with further downside in 2017.

- **Asset enhancement works to reduce coverage ratio:** Coverage ratio as measured by EBITDA/Gross interest was healthy at 4.3x. In May 2016, FHT issued a SGD100mn perpetual at 4.45%. Adjusting 50% of perpetual distribution to the coverage ratio ("Adjusted Interest Coverage") and taking into account full contribution from Maritim Dresden, we find Adjusted Interest Coverage to be 4.1x. Fixed rent which represents 45% of gross revenue was SGD55.6mn and provided 2.5x coverage on FHT's gross interest and distribution on perpetual securities in FY2016. Major refurbishment works at the Novotel Rockford Darling Harbour are expected to commence in the second quarter of FY2017 (by March 2017) and is expected to complete by the end of December 2017. We estimate that this property contribute less than 6% to gross revenue and that impact from loss in revenue should be manageable during this period.

- **Balance sheet likely to improve:** As at 30 September 2016, FHT's aggregate leverage was 37.7% (30 September 2015: 38.9%) and adjusting 50% perpetual securities as debt and 50% as equity, we find Adjusted Gross Debt-to-Total Asset to be 40.0%. Valuation gains for Australian properties (up 13.0% in local currency terms) and the strengthening of Japanese yen against the SGD more than compensated for the 19.7% decline in valuation of FHT's UK-based properties (largely due to depreciation of the GBP from Brexit), weakness in Malaysia (down 7.4% in local currency terms) and Singapore (down 0.6% in local currency terms). We expect FHT's asset base to stay stable for the next 9 months since it has taken the valuation hit for the year. As at 30 September 2016, FHT has short term debt of SGD128.9mn and cash balances of SGD64.4mn (Cash/current borrowings of 0.5x). In light of its stable credit profile, we think FHT will be able to refinance such debt.

- **Rights issue to acquire Melbourne Novotel a credit positive:** In September 2016, FHT announced the acquisition of its first property in Melbourne (ie: Novotel on Collins), a prime area of the city's Central Business District for AUD237mn (~SGD243mn) from a third party. The acquisition was fully funded by equity via a rights issue and completed in October 2016. Valid acceptances and excess applications (including those from its Sponsor and major shareholder, Frasers Centrepoint Limited) was 141% of the total number of rights available. We estimate that FHT's aggregate leverage has improved to 34% and its Adjusted Gross Debt-to-Total Asset to have improved to 36% given the enlarged asset base. The full equity acquisition is credit positive in our view, though unlikely to bring about a credit rating upgrade to Baa1.

Frasers Hospitality Trust

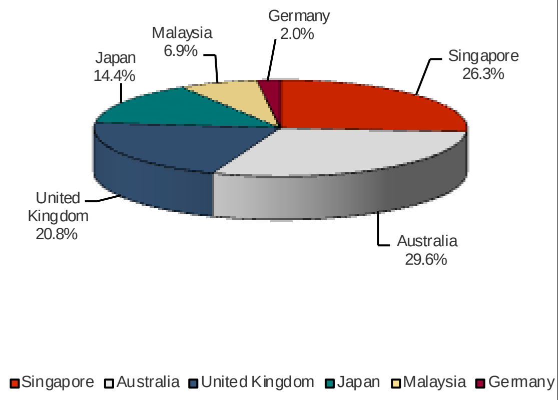
Table 1: Summary Financials

Year Ended 30th Sep	^FY2014	^^FY2015	FY2016
Income Statement (SGD'mn)			
Revenue	50.2	78.6	123.6
EBITDA	37.5	54.0	90.2
EBIT	37.5	54.0	90.2
Gross interest expense	6.2	13.4	20.8
Profit Before Tax	50.5	102.9	78.7
Net profit	48.1	87.3	62.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	76.1	52.3	64.4
Total assets	1,804.8	2,031.7	2,161.0
Gross debt	714.9	785.0	810.0
Net debt	638.8	732.7	745.6
Shareholders' equity	1,032.9	1,172.3	1,244.2
Total capitalization	1,747.8	1,957.3	2,054.2
Net capitalization	1,671.7	1,905.0	1,989.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	48.1	87.3	62.1
* CFO	-14.1	125.4	107.8
Capex	25.3	13.1	0.0
Acquisitions	1,635.5	243.6	102.3
Disposals	0.0	0.0	0.0
Dividends	0.0	71.0	63.6
Free Cash Flow (FCF)	-39.4	112.3	107.8
* FCF Adjusted	1,660.8	327.7	165.9
Key Ratios			
EBITDA margin (%)	74.7	68.7	73.0
Net margin (%)	95.9	111.2	50.2
Gross debt to EBITDA (x)	9.5	10.9	9.0
Net debt to EBITDA (x)	8.5	10.2	8.3
Gross Debt to Equity (x)	0.69	0.67	0.65
Net Debt to Equity (x)	0.62	0.63	0.60
Gross debt/total capitalisation (%)	40.9	40.1	39.4
Net debt/net capitalisation (%)	38.2	38.5	37.5
Cash/current borrowings (x)	1.7	NM	0.5
EBITDA/Total Interest (x)	6.0	4.0	4.3

Source: Company, OCBC estimate | ^FY2014: July - Dec 2014 | ^^FY2015: Jan - Sep 2015

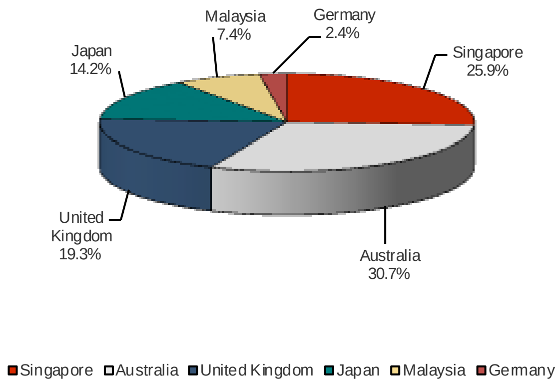
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Geography - FY2016



Source: Company

Figure 2: NPI breakdown by Geography - FY2016



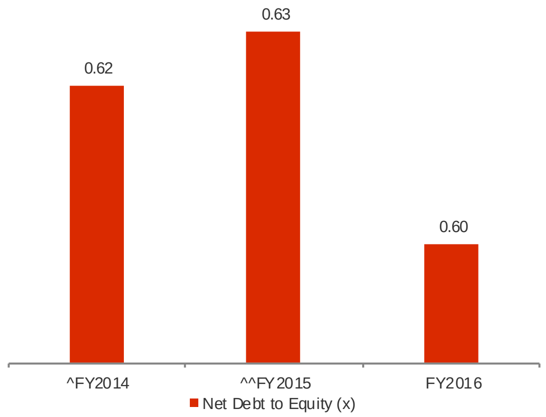
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
.		
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	128.9	15.9%
	128.9	**15.9%**
Amount repayable after a year		
Secured	31.3	3.9%
Unsecured	649.8	80.2%
	681.1	**84.1%**
Total	**810.0**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We **initiate GEMAU'19s at Overweight** as it offers 5.96% yield for a short 2.4 year paper. GEMAU'19s also offers 147bps over OELSP'19s. No longer aggressively expanding with a manageable credit metric and good access to liquidity, we are comfortable with GEMAU

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **GEMAU**

Company Profile

G8 Education Ltd ("G8") is the largest for profit child care centre operator in Australia. Previously known as Early Learning Services Ltd in 2007, the group was renamed to G8 after the merger with Payce Child Care Pty Ltd. Following a series of acquisitions thereafter, G8 operates 478 centres across various cities in Australia and 20 centres in Singapore under 24 brands. The largest shareholders include Greencape Capital Pty Ltd (8.4%), Challenger Ltd (8.2%) and UBS (7.4%). G8 has a market capitalisation of AUD1.4bn as of 5 Jan 2017.

G8 Education Ltd

Key credit considerations

- **Results were decent though markets were expecting better:** 1H2016 revenue increased 18% y/y to AUD358mn (1H2015: AUD305mn). The existing childcare centres performed better (+AUD23.1mn) mainly due to fee increases while the newly acquired centres in 2015 and 2016 contributed bulk of the remaining difference. Underlying net profit, however, rose by a smaller 2% to AUD32.0mn. This is mainly due to manpower costs increases of 10.0%, which were unexpected by the markets. G8 attributed the increases to (i) change in headcount ratios from 1 Jan 16 (5.3%), (ii) wage increases (3.7%) and (iii) staff mix effects (1.0%). We understand from G8 that (i) and (iii) are one-offs. We are not overly worried about (ii), as the fee increases of 4% in Jan 2016 and 4.2% in Jul 2016 surpass that of the annual wage increase of 3.7%. This implies that G8 is able to pass through the cost increase.

- **Slowing pace of acquisition to put a stop to rising leverage:** After a rapid acquisition phase in 2014 when AUD448mn was spent to acquire child care centres, G8 notably slowed down the pace of acquisition in 2015 with just AUD129mn spent on acquisitions. 2016 is likely to have slowed further, with AUD15mn spent in 1H2016 to acquire 9 centres and another AUD32mn to settle a further 12 centres in 2H2016. We understand that the purchases will be funded by internal operating cash flow.

- **Diversification across various states mitigates state level economic cycles:** We note that like-for-like occupancy has dipped slightly in 2015 for centres acquired between 2011 and 2013. Management explained that this is due to economic collapse in Western Australia as a result of the end of the mining boom and increased supply of centres in ACT. Meanwhile, on a portfolio level, occupancy is manageable at 82% as occupancy at the rest of Australia remains unchanged.

- **Manageable credit metrics:** On the first glance, net gearing looks manageable at 0.59x in 1H2016, though this represents a 5pp increase from 2015. While goodwill accounts for 87% of the total assets, we are not overly worried as the goodwill came about from acquisition of centres, of which most have performed better since acquisitions while no consequent revaluation gains were recorded. Net debt/EBITDA is manageable at 2.3x as of 1H2016, and management aims to reduce the figure to 2.1x or below by the end of 2016.

- **Good access to liquidity:** G8 maintains ample access to liquidity. In addition to AUD39.8mn cash on hand, G8 can tap on another AUD30mn in committed bank debt facilities. G8 has demonstrated its capabilities in tapping the bond markets via the issuance of SGD270mn bond in May 2019 and SGD155mn bond in July 2015. The bond issued in July 2015 was, however, redeemed on Feb 2016 as the proposed acquisition of Affinity, another Australian early childhood education provider, did not materialize. While we think that the high dividend rate (AUD6 cts per share per quarter, c.AUD23mn per quarter) paid by G8 creates a large financing outflow, this is mitigated by the dividend reinvestment plan, which saved AUD14mn in 1H2016.

- **Supportive government regulations:** The Australian childcare sector enjoys large subsidies under schemes such as the Child Care Benefit, which provides AUD4.24 per child per hour under approved care, and Child Care Rebate, which covers up to 50% of out-of-pocket costs up to AUD7,500 per child. A new scheme, Child Care Subsidy, will replace the Child Care Benefit and the Child Care Rebate (expected: July 2018). Management thinks this will be materially positive with government spending on childcare to rise to AUD8.8bn in 2017-18.

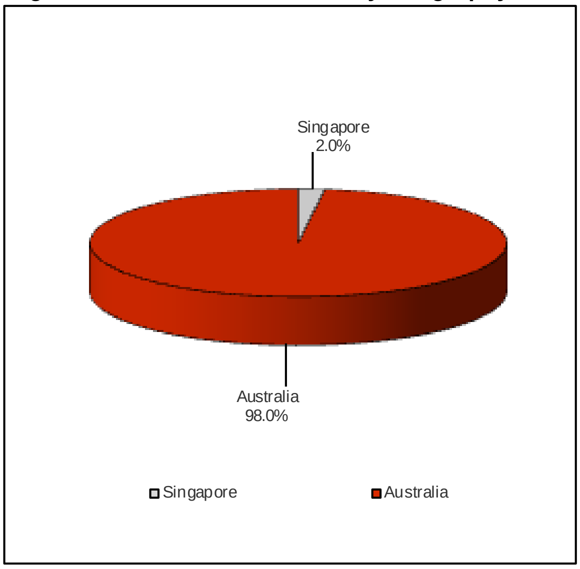
G8 Education Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	1H2016
Income Statement (AUD'mn)			
Revenue	482.1	689.4	358.0
EBITDA	115.9	176.0	76.1
EBIT	110.8	166.6	70.0
Gross interest expense	36.3	40.3	26.2
Profit Before Tax	72.6	122.8	34.7
Net profit	52.7	88.6	24.9
Balance Sheet (AUD'mn)			
Cash and bank deposits	120.8	193.8	39.8
Total assets	1,002.8	1,234.2	1,107.9
Gross debt	353.2	516.3	396.2
Net debt	232.4	322.5	356.4
Shareholders' equity	542.0	602.8	600.6
Total capitalization	895.2	1,119.1	996.8
Net capitalization	774.4	925.3	957.0
Cash Flow (AUD'mn)			
Funds from operations (FFO)	57.8	98.0	31.0
* CFO	74.7	95.1	33.2
Capex	16.5	21.1	11.3
Acquisitions	447.8	128.9	14.6
Disposals	0.0	0.0	0.0
Dividend	33.3	53.2	30.9
Free Cash Flow (FCF)	58.2	74.0	21.8
* FCF adjusted	-422.8	-108.2	-23.6
Key Ratios			
EBITDA margin (%)	24.0	25.5	21.3
Net margin (%)	10.9	12.8	6.9
Gross debt to EBITDA (x)	3.0	2.9	2.6
Net debt to EBITDA (x)	2.0	1.8	2.3
Gross Debt to Equity (x)	0.65	0.86	0.66
Net Debt to Equity (x)	0.43	0.54	0.59
Gross debt/total capitalisation (%)	39.5	46.1	39.7
Net debt/net capitalisation (%)	30.0	34.9	37.2
Cash/current borrowings (x)	NM	1.3	2.0
EBITDA/Total Interest (x)	3.2	4.4	2.9

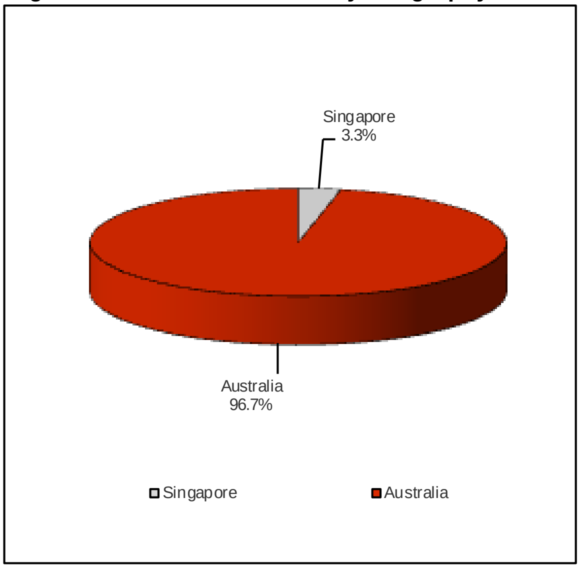
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 1H2016



Source: Company

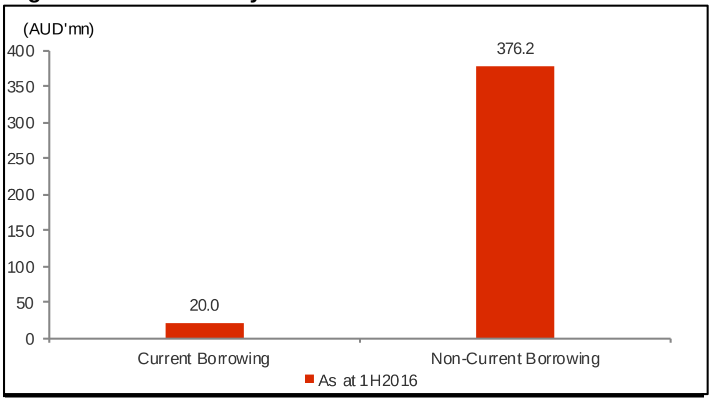
Figure 2: Non-Current Asset by Geography - 1H2016



Source: Company

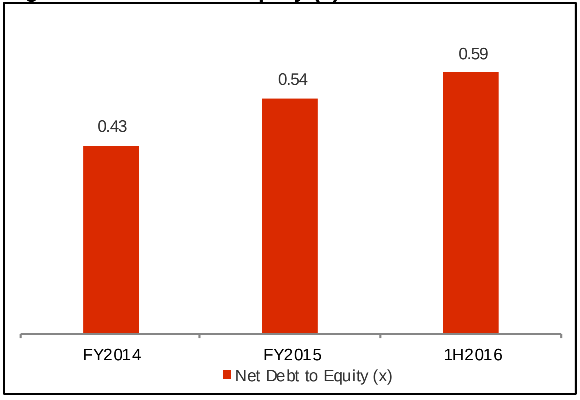
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – GALV has widened considerably since we put the bonds on Underweight in October 2016. Nonetheless, we are still keeping them at Underweight, while pending further outcomes with regards to the issuer's re-statement and re-audit.

Issuer Profile: Negative

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **GALVSP**

Background

Gallant Venture Ltd ("GALV") is an Indonesia-focused investment holding company headquartered and incorporated in Singapore. The company is an integrated automotive group, with operations across Indonesia and a service provider for industrial parks and resorts in Batam and Bintan. Salim Group has a ~75% deemed interest in GALV, while ~12% is owned by Sembcorp Industries Ltd, which is holding its stake as a non-core asset.

Gallant Venture Ltd

Key credit considerations

- **Weaker operating results:** During 9M2016, revenue decreased by 15% to SGD1.3bn driven by weaker performance at GALV's ~72% owned subsidiary PT Indomobil Sukses International Tbk ("IMAS"). IMAS' revenue was weaker due to the lack of new models introduced this year and intense market competition in Indonesia. Gross profit though only declined 2% to SGD324mn as higher-margin segments (eg: vehicle financing) are now an increasing contributor to the IMAS business. Despite the more controlled gross profit, driven by higher expenses, lower sales incentives from car manufacturers and lower interest income, GALV reported a wider loss before tax of SGD76.1mn (9M2015: loss before tax of SGD56.7mn).

- **Tight liquidity on a standalone basis**: As at 30 September 2016, GALV reported gross debt of ~SGD2.48bn, and we estimate 40-45% of these relate to the vehicle financing business in Indonesia (of which by business nature has a higher leveraged funding structure). The holding company in Singapore faces SGD303.3mn in short term debt (SGD225mn in upcoming bond maturities due in 2017). IMAS' full year cash flow generation from operations is expected to be thin and unlikely to meaningfully upstream dividends to GALV. In 2013, GALV took on significant SGD borrowings to fund the acquisition of IMAS, which we see as a factor exacerbating liquidity pressure at GALV. The transaction valued IMAS at ~SGD1.9bn, with SGD504mn in goodwill recorded. As of end-December 2016, IMAS' market cap is ~SGD398mn. On a standalone basis, the company's liquidity is hampered, though it has assets that can be monetized (land inventories and cash balances at operating level stands at SGD641mn and SGD209.8mn respectively as at 30 September 2016). There could be potential support from entities outside the GALV/IMAS structure given the major shareholder's extensive business interest.

- **Disposal of asset helped:** During 9M2016, GALV's CFO (before interest) was razor thin at SGD19.2mn against SGD137.9mn of cash interest paid. The funding gap was plugged via the disposal of its investment in the Lao Xi Men project in Shanghai and drawdown of further debt. As part of the sale, GALV will be repaid ~SGD454mn, separated into tranches. SGD194mn has been repaid in 1H2016. We note that another SGD260mn is due to be received by April 2017 and that the company is in the process of negotiating with banks to secure standby facilities in the event this expected liquidity is delayed.

- **Uncertainties on assessing actual profits and Net Tangible Assets ("NTA"):** In October 2016, the Accounting and Corporate Regulatory Authority ("ACRA") issued an advisory letter to the company requiring restatement and re-audit of 2014 and 2015 financial statements. The company is working with its auditors on the implementation of ACRA's findings and these would have a knock-on impact to 2016 financial statements. The matters raised by ACRA do not fundamentally change credit view though this adds another layer of complexity in assessing the profitability of GALV (which affects NTA). GALV's covenants relate to NTA and exclude the vehicle financing arm under IMAS. While we do not have the standalone financials of this business, it is likely to be profitable. Based on unaudited financials for the period ended 30 September 2016, our calculation of unadjusted NTA (does not exclude the vehicle financing business) was SGD1.16b. We are unable to determine whether or not the company will meet its covenants post the re-statement and re-audit.

- **Compression in financial flexibility from public equity markets:** Since our last credit update on 14 October 2016, GALV's listed equity price has declined a further 5%. The company's market cap is now ~SGD580mn. Equity fundraising from the public equity market would likely be challenging in the current environment.

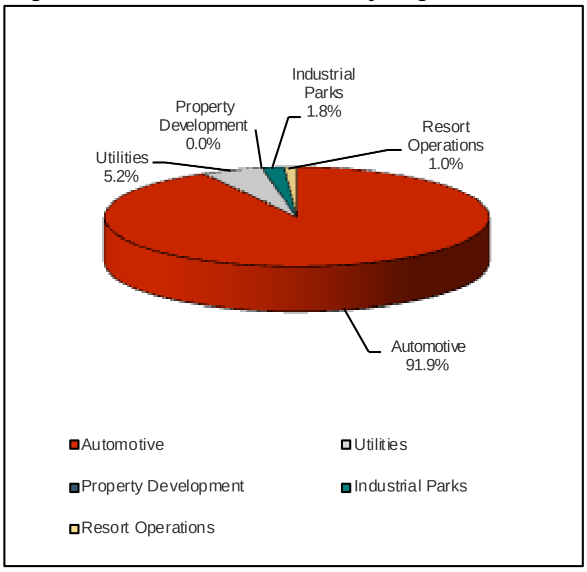
Gallant Venture Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	2,328.3	2,028.1	1,287.9
EBITDA	352.3	275.1	193.9
EBIT	229.5	149.1	100.0
Gross interest expense	131.6	145.2	99.3
Profit Before Tax	23.0	-99.0	-76.1
Net profit	7.5	-107.5	-72.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	161.3	201.9	209.8
Total assets	5,026.2	4,956.1	4,916.4
Gross debt	2,240.2	2,383.5	2,477.6
Net debt	2,078.9	2,181.6	2,267.8
Shareholders' equity	2,185.1	2,034.2	1,932.6
Total capitalization	4,425.3	4,417.8	4,410.2
Net capitalization	4,264.0	4,215.8	4,200.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	130.4	18.5	21.3
* CFO	79.7	68.2	-118.8
Capex	180.5	110.8	58.1
Acquisitions	27.3	45.8	65.0
Disposals	53.6	35.9	199.8
Dividend	3.8	2.6	3.2
Free Cash Flow (FCF)	-100.8	-42.6	-176.8
* FCF adjusted	-78.2	-55.1	-45.2
Key Ratios			
EBITDA margin (%)	15.1	13.6	15.1
Net margin (%)	0.3	-5.3	-5.6
Gross debt to EBITDA (x)	6.4	8.7	9.6
Net debt to EBITDA (x)	5.9	7.9	8.8
Gross Debt to Equity (x)	1.03	1.17	1.28
Net Debt to Equity (x)	0.95	1.07	1.17
Gross debt/total capitalisation (%)	50.6	54.0	56.2
Net debt/net capitalisation (%)	48.8	51.7	54.0
Cash/current borrowings (x)	0.2	0.2	0.2
EBITDA/Total Interest (x)	2.7	1.9	2.0

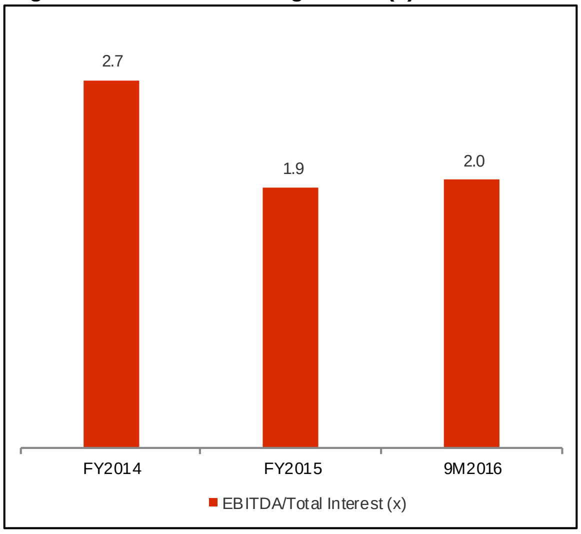
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2015



Source: Company

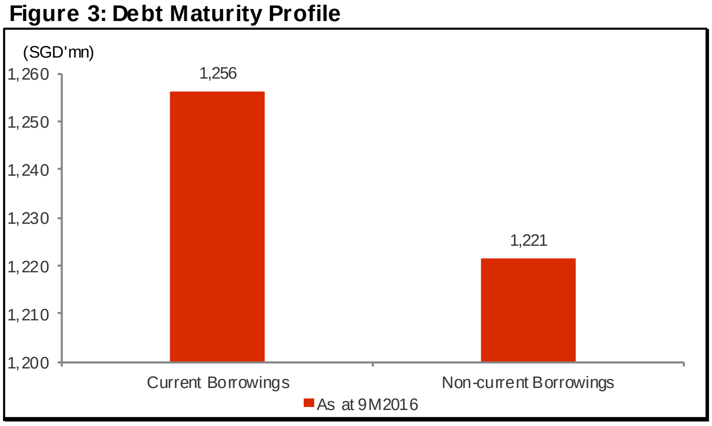
Figure 2: Interest Coverage Ratio (x)



Source: Company, OCBC estimates

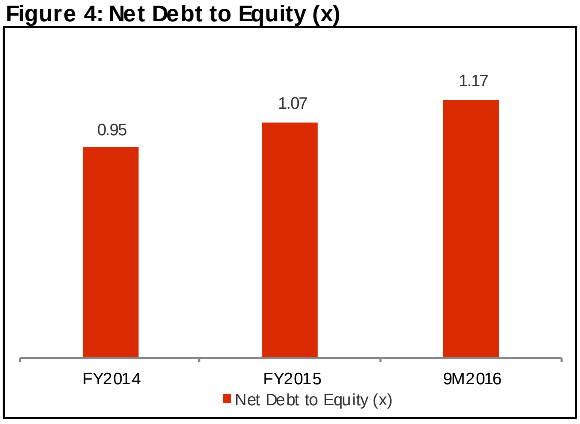
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Genting Singapore PLC

Credit Outlook – Recent duration concerns have caused corporate perpetual securities to sell off, including the GENSSP'49s. We continue to view the current yield as attractive and hence remain Overweight, though the chance of call at par this September could limit capital gains.

Issuer Rating: Positive

S&P: Not rated

Moody's: A3/Stable

Fitch: A-/Stable

Ticker: **GENSSP**

Company profile

Listed on the SGX in 2005, Genting Singapore Plc ("GENS") is involved in gaming and integrated resort development. Its principal asset is the 49ha flagship Resorts World Sentosa ("RWS"), comprising the Singapore Integrated Resort, with 7 hotels, a 15,000 sqm casino, Universal Studios Singapore ("USS") and Marine Life Park ("MLP"). RWS welcomed over 45mn visitors in its first three years of operation. GENS is 53% owned by the Malaysia-listed Genting Bhd.

Key credit considerations

- **Korea exit, Japan potential**: On 11/12/16, GENS announced that it will exit its South Korea joint venture ("Jeju IR"), selling its share to its JV partner, Landing International Development Limited ("LIDL") for USD420mn in cash (payment in two tranches). This is a 10% premium over the amounts that GENS invested till-date (~USD380mn). The long stop date is 6 months from 11/11/16, and subject to LIDL's shareholder approval (GENS expects the transaction to complete in 1Q2017). Management indicated that the divestment was in part to focus resources on bidding for the potential Japan integrated resort projects ("Japan IRs"). Momentum in Japan continued, with the Japanese government passing the Integrated Resorts Promotion Bill in December. The next step would be the passing of an implementation bill, which would provide the details (such as the regions for the Japan IRs, the number of licenses, etc.). Post the passage of the implementation bill, gaming companies will be invited to bid for the licenses. GENS had previously expressed interest, having raised its sizable SGD2.3bn in perpetual securities in 2012 as funding for international expansion. It is unlikely that any Japan IRs would be ready in time for the Tokyo Olympics in 2020.

- **Core business remains intact**: For 9M2016, revenue declined 9.9% y/y to SGD1.67bn. This was largely driven by the slump in gaming revenues, which fell 13.5% to SGD1.19bn. The environment remains challenging, with GEN choosing to de-emphasize the VIP segment for Premium Mass and Mass customers instead. Non-gaming revenue remained steady at SGD479.0mn, supported by the opening of the Jurong hotel in May 2015. Recent performance looks firmer, with GENS reporting 21% q/q increases in revenue to SGD581.5mn, driven by the 23% q/q increase in gaming revenue (favourable VIP rolling win percentage had supported revenues). Occupancy levels of its hotels have also managed to stay at 92%**.**

- **Stabilization in provisions improved profits**: GENS's impairment on gaming credit receivables decreased significantly to SGD50.2mn in 3Q2016 (3Q2015: SGD92.5mn), with the shifts away from the VIP segment bearing fruit. Management has indicated that there continues to be success in pursuing delinquent customers. The favourable win rate, coupled with lower provisions, helped gross profit expand sharply by 59% y/y to SGD182.2mn. The strong performance helped boost operating cash flow by 15.7% q/q to SGD330.0mn (including interest expense) for the quarter. The increase in cash flow was also driven by GENS monetizing its trade receivables (shrinking VIP segment). For 9M2016, cash flow generation remains strong, with GENS generating SGD821.7mn in free cash flow.

- **Balance sheet remains robust**: During 3Q2016, GENS used the cash generated to reduce borrowings by SGD387.5mn, as well as pay out ~SGD46.5mn in distributions for its perpetual securities. This drove cash balance lower to SGD4.78bn. Gross debt to equity has improved to 12% (2015: 17%). GENS remains able to pay down SGD1.2bn in debt and SGD2.3bn in perpetual securities should it choose to. Looking forward, the firm's involvement in a Japan IR would have the largest impact on its credit profile and future performance. That said, assuming that GENS succeeds in bidding for a license to develop a Japan IR, the investments required would not be needed in the next couple of years. In addition, GENS roughly generates SGD1bn in free cash flow each year. As such, though GENS may wish to retain a war chest for potential Japan IR bids, it may not necessarily need a large tranche of perpetual securities. As such, there is a chance that GENS would call the GENSSP'49s upon first call in September 2017. We will retain our Positive Issuer Profile on GENS.

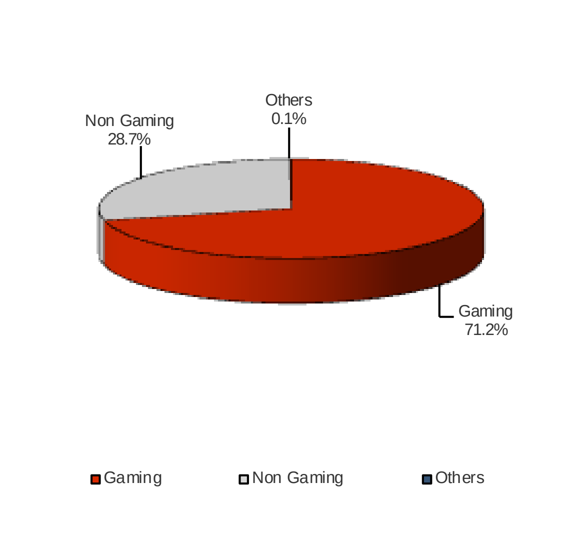
Genting Singapore PLC

Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	2,862.5	2,400.9	1,670.4
EBITDA	1,141.2	887.6	535.7
EBIT	701.4	543.5	312.0
Gross interest expense	42.1	54.5	35.7
Profit Before Tax	804.8	279.3	274.0
Net profit	635.2	193.1	195.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	3,836.8	5,115.3	4,889.4
Total assets	12,672.2	12,026.8	11,420.6
Gross debt	1,703.2	1,630.6	1,162.0
Net debt	-2,133.5	-3,484.7	-3,727.4
Shareholders' equity	9,703.3	9,625.8	9,538.9
Total capitalization	11,406.6	11,256.4	10,700.9
Net capitalization	7,569.8	6,141.1	5,811.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	1,075.0	537.2	419.4
* CFO	922.6	1,219.6	875.5
Capex	195.1	176.4	53.8
Acquisitions	97.9	0.0	176.7
Disposals	1.1	1.1	12.1
Dividend	240.3	238.7	285.5
Free Cash Flow (FCF)	727.5	1,043.2	821.7
* FCF adjusted	390.4	805.5	371.6
Key Ratios			
EBITDA margin (%)	39.9	37.0	32.1
Net margin (%)	22.2	8.0	11.7
Gross debt to EBITDA (x)	1.5	1.8	1.6
Net debt to EBITDA (x)	-1.9	-3.9	-5.2
Gross Debt to Equity (x)	0.18	0.17	0.12
Net Debt to Equity (x)	-0.22	-0.36	-0.39
Gross debt/total capitalisation (%)	14.9	14.5	10.9
Net debt/net capitalisation (%)	-28.2	-56.7	-64.1
Cash/current borrowings (x)	7.4	30.7	26.4
EBITDA/Total Interest (x)	27.1	16.3	15.0

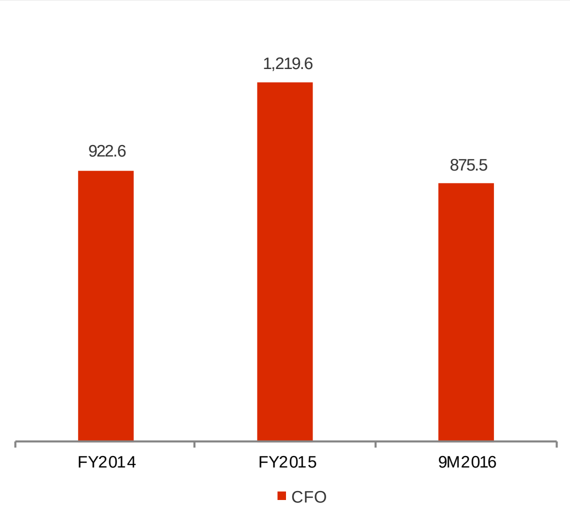
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Operation - 9M2016



Source: Company

Figure 2: Cashflow from Operations (CFO) in SGD'mn



Source: Company, OCBC estimates

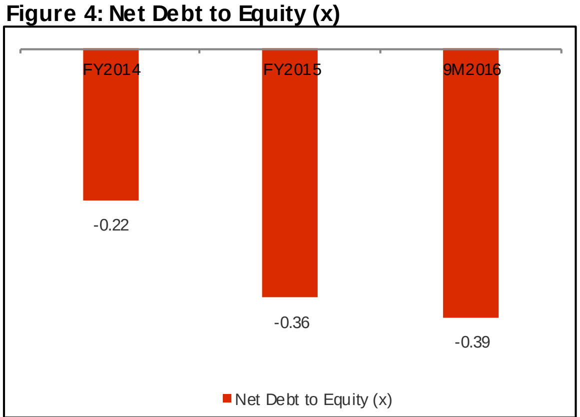
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	185.1	15.9%
Unsecured	0.0	0.0%
	185.1	**15.9%**
Amount repayable after a year		
Secured	976.9	84.1%
Unsecured	0.0	0.0%
	976.9	**84.1%**
Total	**1,162.0**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Our base case is that GGR will be able to refinance its debt coming due and we expect improvements in cash flow in FY2017. We are Neutral the GGR curve.

Issuer Profile: Negative

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **GGRSP**

Background

Golden Agri-Resources Ltd ("GGR") is the world's second largest palm oil company with 482,228 ha of palm oil plantations in Indonesia. The company's integrated operations include oil palm cultivation, crude palm oil ("CPO") and palm kernel processing and downstream refining to produce consumer products such as cooking oil, margarine and shortening. The company is 50.35% owned by the Widjaja Family and is listed on the SGX with a market cap of SGD5.4bn

Golden Agri-Resources Ltd

Key credit considerations

- **9M2016 operating results flat:** For 9M2016, GGR reported a marginal 2.3% increase in revenue to USD5.07bn and a marginal decline in EBITDA of 0.8% to USD354.6mn on the back of declines in the upstream (plantation and palm oil mills) segment which was not fully offset by EBITDA growth in the downstream. In 9M2016, upstream reported EBITDA of USD239mn against USD307mn in the previous period. As a consequence of the severe El-Nino weather, palm product output declined 24% to 1,633,000 tonnes and dragged overall profitability despite the 9% increase in CPO FOB price to USD650 per MT. In addition, the group's net realizable selling price was negatively impacted by an Indonesian export levy that was implemented since July 2015 (USD50 per MT for CPO and USD30 per MT for processed palm oil product shipments when CPO prices are below USD750 per MT). Despite the flattish EBITDA, profit before tax was USD142.7mn against a loss before tax of USD18.0mn. This was boosted by a (i) foreign exchange gain of USD50.5mn against a foreign exchange loss of USD98.9mn and (ii) higher other operating income of USD64.2mn (9M2015: USD19.7mn).

- **Downstream segment showing better results:** For 9M2016, the downstream palm and laurics reported USD135mn in EBITDA y/y growth of 64%. Based on our estimates which strips out the impact of intersegment income, the palm and laurics segment contributed 34% to 9M2016 EBITDA rising from 21% in 9M2015. The growth in EBITDA was largely attributed to improved EBITDA margins of 3.1% against only 1.9% in 9M2015. Management has guided that going forward EBITDA margin for this segment can stay at around the 3% level on average. GGR's integrated business model is likely able to generate operating cash flow which is less volatile vis-à-vis a pure upstream player (especially during times of weaker CPO prices). GGR's first completed biodiesel plant is operating and breaking-even, while the second plant is targeted to be completed in 1Q2017.

- **Gearing levels steady:** As at 30 September 2016, gross debt at GGR was steady at USD3bn, with gross debt-to-equity at 0.7x and falling from 0.8x as at 31 December 2015. Net debt-to-equity was also held steady at 0.7x. Around a third of GGR's debt are used for working capital purposes and adjusting gearing downwards for such debt, we find GGR's adjusted debt-to-equity to be 0.5x. GGR faces ~USD320mn in non-working capital debt which would need to be repaid against cash balances of USD103mn (excluding pledged cash). Cash/adjusted current borrowings was about 0.3x. As GGR has gone through its peak capex stage and focusing on growing profitability with its vertically integrated operations, we do not expect gearing levels to increase significantly.

- **Refinancing risk an overhang:** In 9M2016, GGR's EBITDA/Gross interest was 3.7x, improving slightly from 3.6x in 9M2015. Cash flow from operations (before tax and interest) (CFO) was more volatile at USD189mn due to swings in working capital (eg: volatility in inventory prices). CFO/Gross interest for 9M2016 was 2.2x against 8.5x in 9M2015. CFO was insufficient to cover cash outflows for investing, net repayment of debt and dividends (aggregate outflow USD265mn). The cash gap was fulfilled through drawing upon GGR's cash balances. Our base case remains that GGR will need to refinance its short-term debt due. We think it should be able to do so (albeit at higher cost given existing bonds are trading below par), given the supportive outlook of CPO prices. OCBC Commodities Research forecasts CPO prices at MYR3,100/MT in 1Q2017 and while it may be weaker post 1Q2017, is still able to end the year at MYR2,650. We think GGR's asset base (excluding intangible assets and bearer plants) provide sufficient buffer should the company need to take on secured debt. As at 30 September 2016, total debt as a proportion of adjusted asset base was 42%.

Golden Agri-Resources Ltd

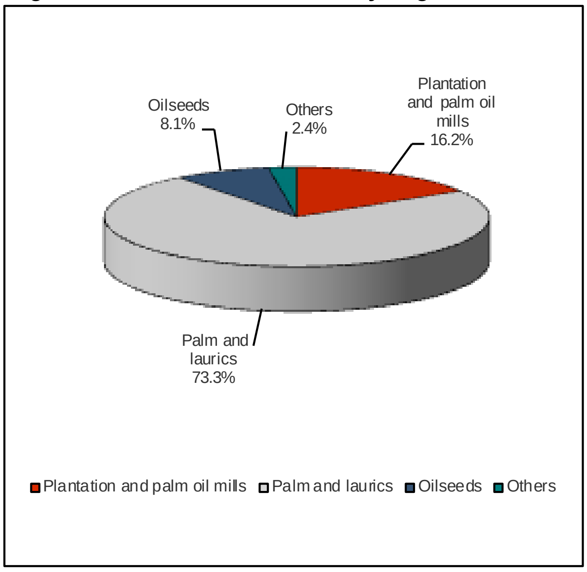
Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	9M2016
Income Statement (USD'mn)			
Revenue	7,619.3	6,510.1	5,071.0
EBITDA	503.3	483.1	354.6
EBIT	354.6	307.1	98.5
Gross interest expense	123.5	132.0	96.4
Profit Before Tax	158.0	-52.3	142.7
Net profit	113.6	-16.7	353.3
Balance Sheet (USD'mn)			
Cash and bank deposits	329.6	243.6	122.9
Total assets	8,055.1	8,035.7	8,367.0
Gross debt	3,068.7	3,045.4	3,004.1
Net debt	2,739.1	2,801.8	2,881.2
Shareholders' equity	3,792.8	3,749.4	4,048.7
Total capitalization	6,861.5	6,794.8	7,052.8
Net capitalization	6,532.0	6,551.2	6,929.9
Cash Flow (USD'mn)			
Funds from operations (FFO)	262.3	159.2	609.5
* CFO	349.2	465.4	151.2
Capex	457.7	449.4	165.5
Acquisitions	56.4	60.1	6.6
Disposals	21.0	6.4	5.8
Dividend	53.5	57.4	47.5
Free Cash Flow (FCF)	-108.5	16.0	-14.3
* FCF adjusted	-197.4	-95.1	-62.6
Key Ratios			
EBITDA margin (%)	6.6	7.4	7.0
Net margin (%)	1.5	-0.3	7.0
Gross debt to EBITDA (x)	6.1	6.3	6.4
Net debt to EBITDA (x)	5.4	5.8	6.1
Gross Debt to Equity (x)	0.81	0.81	0.74
Net Debt to Equity (x)	0.72	0.75	0.71
Gross debt/total capitalisation (%)	44.7	44.8	42.6
Net debt/net capitalisation (%)	41.9	42.8	41.6
Cash/current borrowings (x)	0.2	0.2	0.1
EBITDA/Total Interest (x)	4.1	3.7	3.7

Source: Company, OCBC estimates

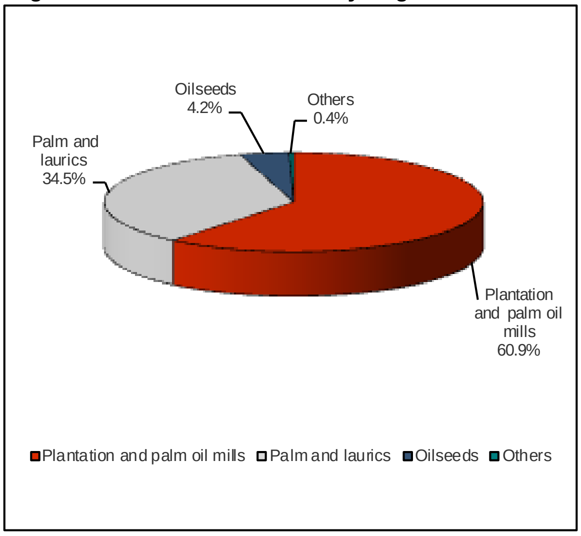
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2016



Source: Company

Figure 2: EBITDA breakdown by Segment - 9M2016



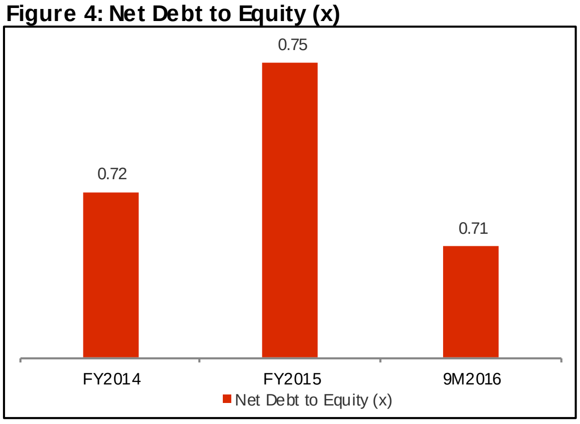
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	848.8	28.3%
Unsecured	530.1	17.6%
	1,378.8	**45.9%**
Amount repayable after a year		
Secured	705.1	23.5%
Unsecured	920.2	30.6%
	1,625.3	**54.1%**
Total	**3,004.1**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – While the GUOLSP curve offers c.60bps-c.80bps over the CAPLSP and CITSP curve, we stay neutral given the higher leverage profile while we think its credit metrics will continue to deteriorate.

Issuer Profile: Negative

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **GUOLSP**

Background

Listed on the SGX in 1978, GuocoLand Ltd ("GLL") is a property developer headquartered in Singapore, with investments in residential properties, commercial properties and integrated developments. The group's properties are located in Singapore, China, Malaysia and Vietnam. GLL is a 68.0%-owned subsidiary of Guoco Group, which is listed on the HKSE and is in turn, a member of the Hong Leong Group, one of the largest conglomerates in South East Asia.

GuocoLand Ltd

Key credit considerations

- **Decent 1QFY2017 results:** Revenue fell 54% y/y to SGD202.8mn due to the absence of contribution from the sale of an office block in Shanghai Guoson Centre a year ago. Net profit fell 95% y/y to SGD23.9mn mainly due to the absence of divestment gains related to the Dongzhimen project a year ago. Despite the large declines, we are not overly concerned as revenues only inched down 5.5% q/q without the one-offs.

- **Tanjong Pagar Centre to contribute significantly:** We look towards better results as the SGD3bn mixed development Tanjong Pagar Centre begins to come on stream. Temporary Occupation Permit was received for the 890,000 sq ft office tower (Guoco Tower) on 10 Oct 2016. With 80% commitment, we expect revenues to be lifted by SGD20mn per quarter going forward. We also expect contribution from the 222-room Sofitel Singapore City Centre and the 100,000 sq ft retail component, which is more than 75% committed.

- **Twists in credit profile since Dongzhimen divestment:** We were positive on GuocoLand in our Mid-Year 2016 Credit Outlook as the Dongzhimen divestment considerably strengthened the cash pile. However, the stronger credit-profile was short-lived, with gearing levels rising to 0.84x as of 1QFY2017 (3QFY2016: 0.59x), mainly due to the acquisition of Martin Place for SGD595.1mn and the redemption of SGD200mn perpetual bond in May 2016. Moving forward, we expect net gearing to increase to 1.1x due to (i) subscription of 27% stake in Eco World International Berhad worth SGD666mn, (ii) payment of SGD100mn in dividends and (iii) 75% stake in plots of land in Chengdu worth SGD557mn. We expect these to be funded from internal cash resources, which total SGD1.1bn as of end-1QFY2017. While GuocoLand may recognise revaluation gains from Tanjong Pagar Centre, we think net gearing may continue to deteriorate in the medium term due to capital expenditure to develop Martin Place and the land parcels at Chengdu.

- **Slowing property market to drag down sales:** Singapore private residential property prices continued to fall for the 13th consecutive quarter. If the property down cycle is extended, sales at Wallach Residence (expected launch in early 2017) and Sims Urban Oasis (of which more than 50% are sold) may similarly be affected. On the bright side, GuocoLand sold its last three penthouses at the 210-unit development Goodwood Residence, even without sweeteners such as the deferred payment system. The 381-unit Leedon Residence is also selling well. In Malaysia, sales of property units may remain slow due to the subdued property outlook.

- **Diversified property holdings offer only partial shelter:** GuocoLand owns 20 Collyer Quay, however, this offer only partial shelter amidst the slow property market as Singapore CBD office rents have been facing pressure. GuocoLand's 14.7% effective stake in Tower REIT (Market Cap: MYR331mn) is also unlikely to move the needle. On the other hand, the flagship MYR2.5bn Damansara City (integrated mixed-use development with apartments, offices, retail mall and a hotel) is expected to be fully operational in 2QFY2017.

- **Deterioration of credit metrics puts gearing far above peers:** Net debt/equity is expected to increase to 1.1x, which puts it far above peers such as OUE (0.67x), CapitaLand (0.49x) and City Development (0.28x). We also note large refinancing needs, with short-term debt of SGD2.8bn exceeding cash of SGD1.1bn on hand, which poses refinancing risks and supply risks. We think the credit profile will continue to deteriorate due to capex required to develop the land parcels at Martin Place and Chengdu.

Guocoland Ltd

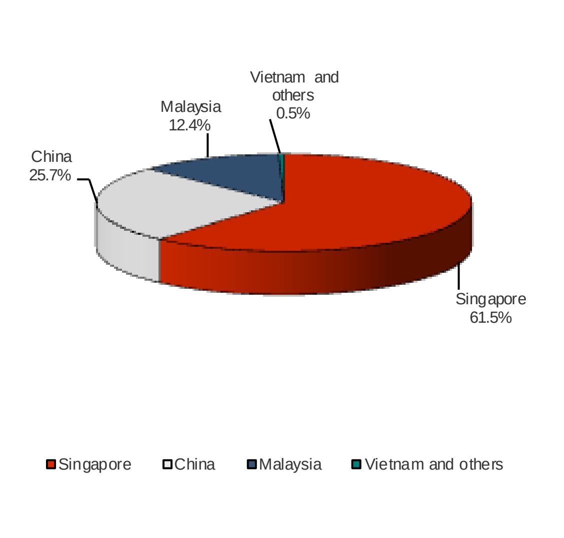
Table 1: Summary Financials

Year Ended 30th Jun	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	1,159.9	1,059.8	202.8
EBITDA	299.4	223.0	29.7
EBIT	290.4	213.0	28.2
^ Gross interest expense	183.6	159.8	7.6
Profit Before Tax	318.7	773.2	31.5
Net profit	226.4	606.7	25.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	663.1	1,430.2	1,125.2
Total assets	9,511.8	7,906.6	8,145.0
Gross debt	5,280.0	3,830.3	4,053.6
Net debt	4,616.9	2,400.0	2,928.4
Shareholders' equity	3,296.2	3,442.2	3,466.9
Total capitalization	8,576.3	7,272.5	7,520.5
Net capitalization	7,913.2	5,842.3	6,395.3
Cash Flow (SGD'mn)			
Funds from operations (FFO)	235.4	616.8	27.2
* CFO	-79.9	389.7	-507.1
Capex	231.5	286.9	24.7
Acquisitions	11.6	0.0	0.0
Disposals	20.7	2,251.6	0.0
Dividend	66.6	66.7	0.0
Free Cash Flow (FCF)	-311.3	102.8	-531.7
* FCF Adjusted	-368.7	2,287.7	-531.7
Key Ratios			
EBITDA margin (%)	25.8	21.0	14.6
Net margin (%)	19.5	57.2	12.6
Gross debt to EBITDA (x)	17.6	17.2	34.2
Net debt to EBITDA (x)	15.4	10.8	24.7
Gross Debt to Equity (x)	1.60	1.11	1.17
Net Debt to Equity (x)	1.40	0.70	0.84
Gross debt/total capitalisation (%)	61.6	52.7	53.9
Net debt/net capitalisation (%)	58.3	41.1	45.8
Cash/current borrowings (x)	0.4	0.7	0.4
^ EBITDA/Total Interest (x)	1.6	1.4	3.9

Source: Company, OCBC estimates | ^1Q2017's figures exclude capitalised interest expense

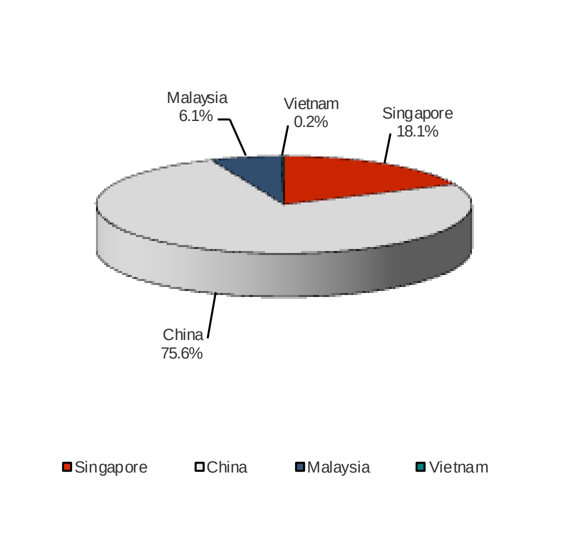
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals* | **CFO after deducting interest expense*

Figure 1: Revenue breakdown by Geography - FY2016



Source: Company

Figure 2: PBT breakdown by Geography - FY2016



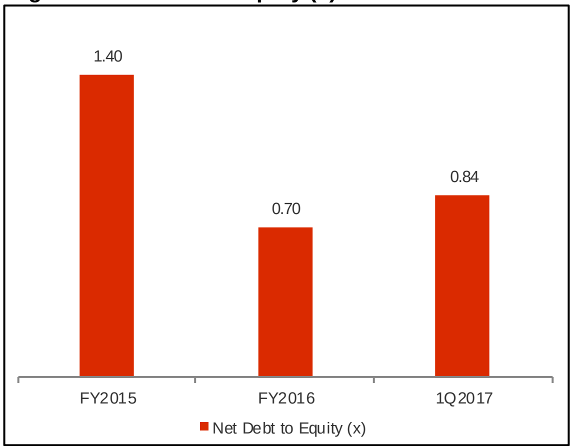
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	1675.1	41.3%
Unsecured	1127.9	27.8%
	2803.0	**69.1%**
Amount repayable after a year		
Secured	617.0	15.2%
Unsecured	633.6	15.6%
	1250.6	**30.9%**
Total	**4053.6**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We like that HLD continues to deleverage, though we stay neutral on HENLND'18s as it offers only 42bps over swaps.

Henderson Land Development Co Ltd

Key credit considerations

- **Weaker 1H2016 results from property development:** HLD reported a 12% y/y decline of 1H2016 revenue to HKD9.7bn, mainly due to a decline in contribution from the sale of properties in both Hong Kong (-6.9%) and China (-35.2%) to HKD4.1bn and HKD1.8bn respectively. Underlying profit similarly fell 12.1% y/y to HKD4.8bn, with Mainland China property development business recording a segmental loss of HKD5mn. We believe this reflects HLD's destocking of past inventory, as 3 out of 4 residential developments were located in cities where prices did not trend upwards significantly. Meanwhile, HLD managed to eke out a small 1.1% growth in gross rental income from property leasing to HKD4.1bn, despite c.6% weaker RMB, due to higher contributions from associates/JVs.

- **Recurring income from investment properties, utilities and energy:** As of 1H2016, HLD's investment properties covers 9.1mn sq ft of space in Hong Kong and 7.3mn sq ft of space in Mainland China. The occupancy of Hong Kong investment properties remained stable at 97%, while most of the investment properties in China recorded 87% and above occupancy. We expect the contribution from investment properties to grow as HLD is expected to add a Grade A office tower at 18 King Wah Road covering 330,000 sq ft to its portfolio in 2H2017. HLD also focuses on upgrading its existing set of portfolio through asset enhancement, with a number of properties scheduled for renovation in 1H2016. In the longer term, we can expect more properties to join the pipeline, including a 340,000 sq ft project in Tsim Sha Tsui, 1,800,000 sq ft Haizhu Plaza in Guangzhou and 2,000,000 sq ft Xu Hui Riverside Commercial in Shanghai. Meanwhile, we estimate that HLD also receives a steady stream of c.HKD3bn p.a. income from HKCGC, of which c.HKD1.6bn up streamed in dividends. The stake in Miramar Hotel and Investment contributes a smaller amount, with HLD's attributable share in 1H2016 at HKD310mn.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **HENLND**

- **Good pre-sales performance to guide earnings from property sales:** Pre-sales in Mainland China as of 1H2016 increased 60.1% y/y to HKD5.5bn with 4.71mn sq ft in attributable GFA, while the cumulative amount of properties pre-sold but not yet delivered to buyers attributable to HLD totaling HKD10.9bn. In 2H2016, 9.1mn sq ft GFA attributable to HLD is expected to be completed, while a further 107.1mn sq ft GFA in land bank remains for development in the future. In Hong Kong, 5 new development projects totaling 919,800 sq ft will be made available for sale, which will add on to the 794,737 sq ft that remains unsold as of 1H2016. In the longer-term, HLD has ample headroom to continue growing, even without undertaking land acquisitions, with 45.2mn sq ft of landbank in New Territories.

Company Profile

Henderson Land Development Co Ltd ("HLD") is a leading property developer with businesses in Hong Kong and China. It also holds strategic stakes in Henderson Investment Ltd and three listed associates, including The Hong Kong and China Gas Company Ltd ("HKCGC") which owns listed subsidiary, Towngas China Company Ltd, Hong Kong Ferry (Holdings) Company Ltd, Miramar Hotel and Investment Company Ltd, 68.4%-owned by its Chairman, Dr. Lee Shau Kee, HLD is one of the largest conglomerates in Hong Kong.

- **Healthy credit metrics:** Net gearing improved to 0.14x in 1H2016 (2015: 0.16x) due to the cashflow generation from good sales and dividends received from JVs and associates. Following the divestment of Golden Centre for HKD4.4bn, we expect net gearing to decrease to 0.12x with a gain on sale of c.HKD2bn. EBITDA/interest is manageable at 3.7x, and in any case we think that HLD is comfortable with interest payments of HKD873mn in 1H2016 with property leasing alone contributing HKD2.1bn of profits.

- **HLD to withstand macroeconomic and policy headwinds:** We believe property prices have less room to run in Hong Kong if more interest rate hikes were to follow, as borrowers depended on cheap mortgages. On November 5, Hong Kong raised the stamp duty to 15% for non-first time buyers of residential properties. This is a significant move by the government to cool property prices, which have surged rapidly since June this year. We expect sales to be slower as a result from the macroeconomic and policy headwinds, though HLD is well-positioned to ride any downturn with a healthy balance sheet.

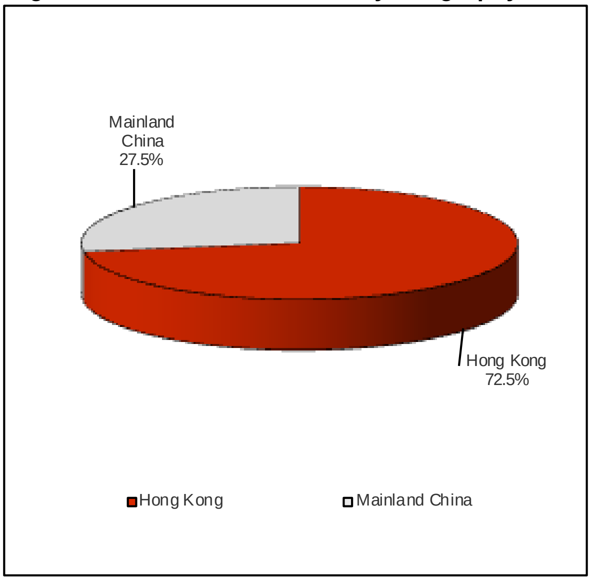
Henderson Land Development Co Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1H2016
Income Statement (HKD'mn)			
Revenue	23,371.0	23,641.0	9,725.0
EBITDA	6,167.0	7,735.0	3,255.0
EBIT	5,991.0	7,596.0	3,202.0
Gross interest expense	2,021.0	1,795.0	873.0
Profit Before Tax	18,473.0	23,338.0	9,481.0
Net profit	16,752.0	21,326.0	8,611.0
Balance Sheet (HKD'mn)			
Cash and bank deposits	10,303.0	11,779.0	17,663.0
Total assets	316,980.0	336,269.0	347,406.0
Gross debt	47,723.0	52,096.0	54,635.0
Net debt	37,420.0	40,317.0	36,972.0
Shareholders' equity	243,217.0	256,269.0	260,108.0
Total capitalization	290,940.0	308,365.0	314,743.0
Net capitalization	280,637.0	296,586.0	297,080.0
Cash Flow (HKD'mn)			
Funds from operations (FFO)	16,928.0	21,465.0	8,664.0
* CFO	2,302.0	-2,668.0	1,867.0
Capex	5,233.0	729.0	0.0
Acquisitions	80.0	155.0	0.0
Disposals	2,043.0	427.0	0.0
Dividends	2,297.0	3,391.0	4,398.0
Free Cash Flow (FCF)	-2,931.0	-3,397.0	1,867.0
* FCF Adjusted	-3,265.0	-6,516.0	-2,531.0
Key Ratios			
EBITDA margin (%)	26.4	32.7	33.5
Net margin (%)	71.7	90.2	88.5
Gross debt to EBITDA (x)	7.7	6.7	8.4
Net debt to EBITDA (x)	6.1	5.2	5.7
Gross Debt to Equity (x)	0.20	0.20	0.21
Net Debt to Equity (x)	0.15	0.16	0.14
Gross debt/total capitalisation (%)	16.4	16.9	17.4
Net debt/net capitalisation (%)	13.3	13.6	12.4
Cash/current borrowings (x)	0.7	0.9	1.2
EBITDA/Total Interest (x)	3.1	4.3	3.7

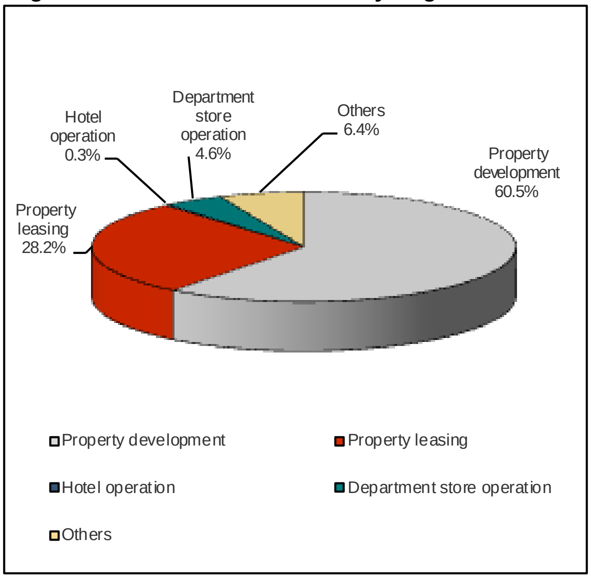
Source: Company, OCBC estimates
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Geography - 1H2016



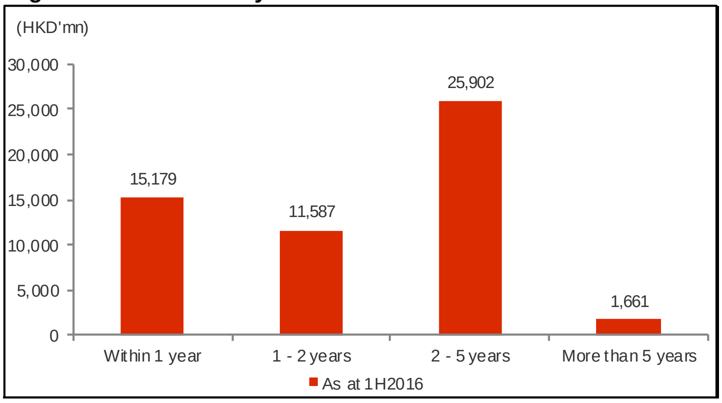
Source: Company

Figure 2: Revenue breakdown by Segment - 1H2016



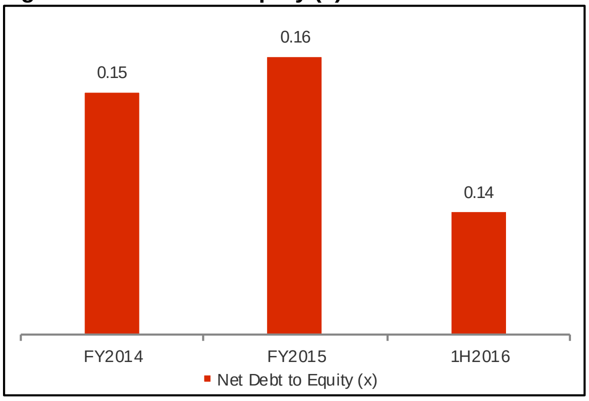
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – While we do not like the poor results and ongoing cash burn, we are overweight on HFCSP'18s and '19s for 4.35% and 4.75% yield respectively while HFC's credit metrics remain manageable.

Issuer Rating: Negative

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **HFCSP**

Company Profile
Hong Fok Corp Ltd ("HFC") is an investment holding company, with principal activities in property investment, property development, construction and property management. Its investment properties, The Concourse and International Building, total over 77,000 sq m by gross floor area. The Cheong family substantially controls HFC. Its top shareholders are Hong Fok Land International Ltd (20.40%), Sim Eng Cheong (12.03%), K P Cheong Investments Pte Ltd (11.47%) and P C Cheong Pte Ltd (11.04%).

Hong Fok Corp Ltd

Key credit considerations

- **Poor results with high manpower expenses:** HFC's results have been disappointing, posting losses for 3 consecutive quarters over 1Q-3Q2016. HFC has not moved any of its 119 unsold units out of 360 units in the residential project Concourse Skyline at Beach Road nor 2 units at Jewel of Balmoral at Balmoral Park. Revenues of c.SGD14mn per quarter are mainly contributed by recurring income from the investment properties, which include office and retail units at The Concourse and International Building. Compared to the recurring revenue, other expenses appear relatively elevated at c.SGD10mn per quarter. We estimate that c.75% of these expenses are due to staff benefits (including salaries), with the rest due mainly to maintenance expenses. After paying c.SGD5.1mn in finance expenses per quarter, HFC has been posting losses.

- **Manageable credit metrics:** Net debt/equity at 0.33x is healthy, in comparison to larger peers such as CapitaLand (0.47x), OUE (0.60x) and comparable to City Development (0.27x). However, we expect leverage to creep up over 4Q-1Q2017 while HFC funds the capex to construct YOTEL, a hotel, from additional borrowings or existing resources due to poor EBITDA generation.

- **Termed-out debt maturity with access to financing:** HFC has termed-out debt, with minimal debt expiring in the near term (2016-2017). Liquidity remains ample in the near-term, with SGD90.9mn cash on hand exceeding total current liabilities of SGD70.9mn. We also like that HFC '18s will mature earlier than the other debt obligations, and hence will likely be prioritised for refinancing. HFC has access to funding in HKD as it issued two unsecured bonds in Hong Kong at 2.75% in Mar and Apr 2016, worth about SGD41mn. However, HFC's assets are likely to be substantially encumbered.

- **Weakening office rental market:** According to URA 3Q2016 statistics, office rentals softened to 89.6%, while office rentals in the Grade A market have declined 15% y/y to SGD9.30 psf. This does not bode well for HFC, which relies heavily on income from the office units at The Concourse and International Building. Property revaluations may similarly be negatively impacted amidst the softer office market.

- **Mixed outlook ahead:** HFC has guided that sales of residential units will continue to be sluggish. We think this is due to the weakness in the Singapore property market as well as competition from CDL's South Beach Residences. On positive note, the 610-room YOTEL is slated for completion in 1H2017. However, YOTEL is unlikely to begin contributing fully immediately, as hotels typically take several years to reach a steady occupancy rate. We also note the softness in the Singapore's hotel and tourism market as more hotels come on stream.

- **Ongoing cash burn while income from disposal of Winfoong not replaced:** On a y/y basis, revenues and profitability fell, mainly due to the disposal of Winfoong. While part of the cash proceeds of SGD102.3mn from the divestment has been used to repay SGD55.0mn in borrowings in 3Q2016, the cash pile is gradually dwindling from payments of interest expense and capex as HFC does not generate sufficient cash flow from operations (9M2016: -SGD9.2mn). Breaking away from past practices, HFC has adopted more shareholder-friendly policies by paying increasing dividends (2015: SGD12.6mn, 2014: SGD9.5mn, 2013: 3.8mn) since 2013. However, with weaker profitability, such dividend payouts, if funded by borrowings, will put pressure on gearing ratio.

Hong Fok Corp Ltd

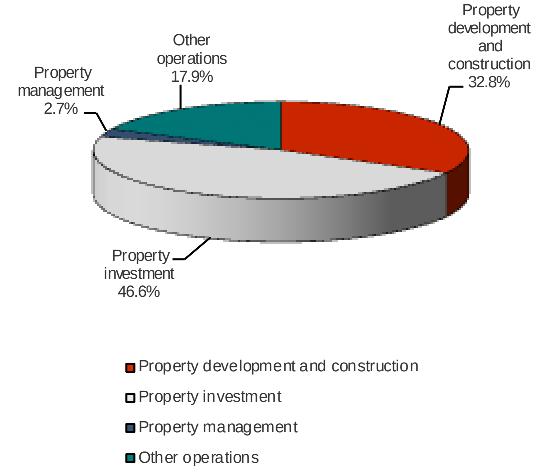
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	97.2	60.6	42.1
EBITDA	23.1	2.8	12.0
EBIT	22.8	2.3	11.6
^ Gross interest expense	19.7	22.7	16.5
Profit Before Tax	70.0	200.6	-3.8
Net profit	48.1	167.0	-1.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	93.1	163.8	90.9
Total assets	2,621.8	2,812.6	2,765.2
Gross debt	739.4	744.0	728.8
Net debt	646.3	580.2	637.9
Shareholders' equity	1,797.8	1,984.7	1,957.0
Total capitalization	2,537.2	2,728.7	2,685.9
Net capitalization	2,444.2	2,564.9	2,595.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	48.4	167.5	-1.4
* CFO	119.0	13.4	-9.2
Capex	23.6	32.3	38.0
Acquisitions	0.0	0.0	0.0
Disposals	36.1	103.0	0.2
Dividend	9.5	12.6	6.9
Free Cash Flow (FCF)	95.4	-18.8	-47.2
* FCF Adjusted	122.0	71.6	-54.0
Key Ratios			
EBITDA margin (%)	23.8	4.6	28.5
Net margin (%)	49.5	275.7	-4.1
Gross debt to EBITDA (x)	32.0	265.9	45.5
Net debt to EBITDA (x)	28.0	207.4	39.8
Gross Debt to Equity (x)	0.41	0.37	0.37
Net Debt to Equity (x)	0.36	0.29	0.33
Gross debt/total capitalisation (%)	29.1	27.3	27.1
Net debt/net capitalisation (%)	26.4	22.6	24.6
Cash/current borrowings (x)	1.2	28.2	16.9
^ EBITDA/Total Interest (x)	1.2	0.1	0.7

Source: Company, OCBC estimates | ^9M2016's figures exclude capitalised interest expense

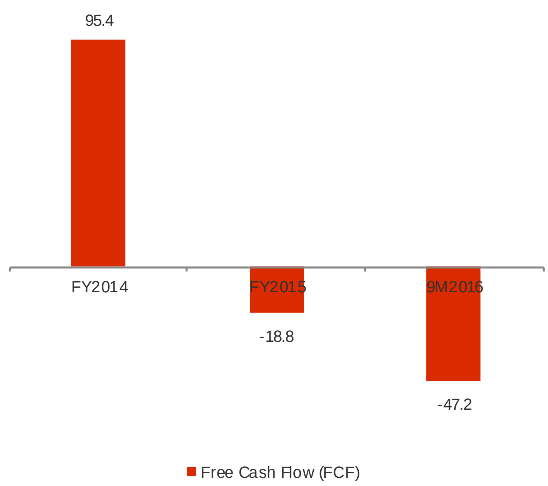
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2015



Source: Company

Figure 2: Free Cash Flow (FCF)



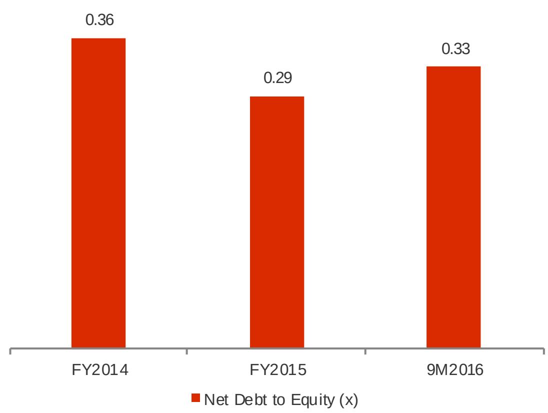
Source: Company, OCBC estimates

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	5.2	0.7%
Unsecured	0.1	0.0%
	5.4	**0.7%**
Amount repayable after a year		
Secured	462.7	63.5%
Unsecured	260.7	35.8%
	723.4	**99.3%**
Total	**728.8**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Hongkong Land Holdings Ltd

Credit Outlook –

While we like HK Land's credit profile with a healthy balance sheet and recurring income, we think that HKLSP'20s trading 47bps over swaps looks fair.

Issuer Rating: Positive

S&P: A/Stable
Moody's: A3/Stable
Fitch: A/Stable

Ticker: **HKLSP**

Company Profile

Established in 1889 and listed in London, Bermuda and Singapore, Hongkong Land Holdings Ltd ("HK Land") is a leading Asian property investment, management and development group. Its main portfolio is in Hong Kong, where it owns and manages ~4.9mn sq ft of prime office and retail space in Central. HK Land also develops premium residential properties in a number of cities in the region, principally in China and Singapore. HK Land is 50.01%-owned by Jardine Strategic Holdings Ltd (A/A2/NR).

Key credit considerations

- **Decent 1H2016 results:** 1H2016's revenue declined 13.5% y/y to USD783mn, mainly due to the fall in residential revenue from USD422mn to USD292mn as the decline in contribution from Singapore declined. According to the management, no projects were completed in Singapore in 1H2016, while 2 projects were completed in 1H2015. However, we are not worried as the underlying profit from commercial property, which is the recurring portion of the revenue, increased 1.3% y/y to USD483mn. Without accounting for the reversal of USD16mn and USD1.5mn writedown in 1H2015 and 1H2016 respectively, we estimate that underlying profit only declined 2.9% due to the decline in the residential property segment. Going forward, we expect contribution from J Gateway project, which has been fully sold, as it is expected to be completed in 2H2016.

- **Recurring rental income from Hong Kong:** HK Land owns a portfolio of 12 properties in Central, Hong Kong, which totals 385,000 sqm in lettable office space and 68,000 sqm in retail and hotel space. These account for HKD404mn out of USD483mn of the commercial property underlying profit in 1H2016. Office space (1H2016 revenue estimate: USD330mn) should account for the majority of the underlying profit. While vacancy of 3.1% as of 1H2016 is higher than the overall Central Grade A market of 1.4%, this vacancy level is still very healthy, and is part of HK Land's strategy to balance between occupancy and rental levels. Meanwhile, 3Q2016 vacancy increased to 3.5% due to lease timings.

- **Mixed outlook in the Hong Kong sector:** We like that HK Land's office portfolio has been posting steadily increasing rental rates, increasing from HKD90 psf pm in 2012 to HKD103 psf pm in 1H2016, due to the limited new supply of office space in Central. The expected annual increase in office supply of 2.2mn sq ft to 2020 (e.g. opening of New World Centre) is likely to pose uncertainties to the office leasing market. Nevertheless, management does not think that the new developments, which are mostly outside Central, would compete directly with HK Land's portfolio. The net rent for HK Land's retail segment declined 3.1% since 2H2015 to HKD216 psf pm in 1H2016, due to the challenging retail environment. Nevertheless, we are not worried as most of the retail rental income is derived from base rent, which has been recording mostly positive reversions while the retail portfolio remains fully occupied as of 3Q2016.

- **Diversification out of Hong Kong:** HK Land owns 153,000 sqm of lettable office space in Singapore, and the Singapore portfolio contributed USD62mn to the commercial property underlying profit. We expect softness in Singapore's Grade A office rent, though we do not expect a large impact on HK Land given that the expiring rent in 2017 for HK Land's offices at SGD8.80 psf pm is lower than the SGD9.30 psf pm rent in the Grade A market. Meanwhile, 710-unit condominium Lake Grande in Singapore was launched, with a healthy number of units sold. Going forward, we expect HK Land to book sales for Nava Park in Indonesia, which has pre-sold 72% of the 426 units. In Phnom Penh, Exchange Square is expected to be completed in 4Q2016, while WF Central that is located in Beijing is expected to be completed mid-2017. In China, HK Land did well, with contracted sales of USD222mn in 3Q2016, which is higher y/y by 57%. We note the large landbank in China, with 1mn sqm under construction and 3mn sqm to be developed in the future.

- **Strong credit profile:** HK Land has plenty of room to manoeuver with USD2.4bn in available lines and USD1.6bn in cash. While rising interest rates may push up the cap rates of HK Land's office portfolio and impact the balance sheet, HK Land is well-prepared with a very healthy net debt/equity of 0.08x.

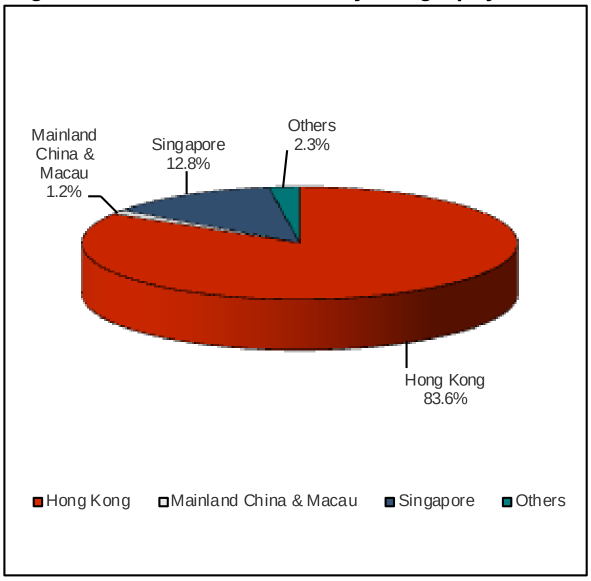
Hongkong Land Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1H2016
Income Statement (USD'mn)			
Revenue	1,876.3	1,932.1	782.8
EBITDA	1,055.0	923.5	452.0
EBIT	1,052.6	920.6	450.5
^ Gross interest expense	144.4	151.0	54.4
Profit Before Tax	1,537.4	2,142.9	1,348.1
Net profit	1,327.4	2,011.7	1,263.4
Balance Sheet (USD'mn)			
Cash and bank deposits	1,662.6	1,569.2	1,560.3
Total assets	33,632.5	34,372.1	35,544.7
Gross debt	4,319.6	3,909.7	3,881.8
Net debt	2,657.0	2,340.5	2,321.5
Shareholders' equity	27,598.4	28,720.4	29,773.9
Total capitalization	31,918.0	32,630.1	33,655.7
Net capitalization	30,255.4	31,060.9	32,095.4
Cash Flow (USD'mn)			
Funds from operations (FFO)	1,329.8	2,014.6	1,264.9
* CFO	699.0	896.2	467.4
Capex	174.4	210.1	109.2
Acquisitions	215.6	326.7	4.7
Disposals	0.0	0.0	0.0
Dividends	425.8	449.3	305.0
Free Cash Flow (FCF)	524.6	686.1	358.2
* FCF Adjusted	-116.8	-89.9	48.5
Key Ratios			
EBITDA margin (%)	56.2	47.8	57.7
Net margin (%)	70.7	104.1	161.4
Gross debt to EBITDA (x)	4.1	4.2	8.6
Net debt to EBITDA (x)	2.5	2.5	5.1
Gross Debt to Equity (x)	0.16	0.14	0.13
Net Debt to Equity (x)	0.10	0.08	0.08
Gross debt/total capitalisation (%)	13.5	12.0	11.5
Net debt/net capitalisation (%)	8.8	7.5	7.2
Cash/current borrowings (x)	5.8	9.3	83.0
^ EBITDA/Total Interest (x)	7.3	6.1	8.3

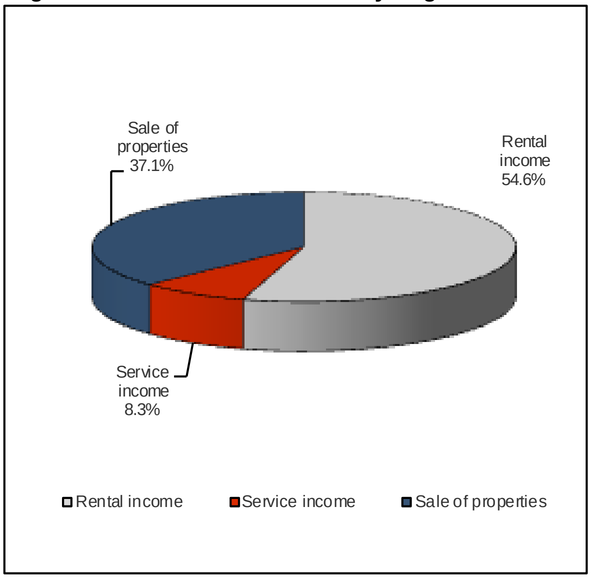
Source: Company, OCBC estimates | ^1H2016's figures exclude capitalised interest expense
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: EBITDA breakdown by Geography - 1H2016



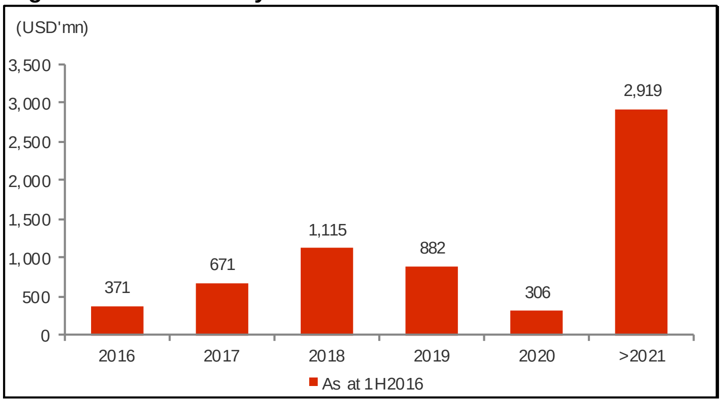
Source: Company

Figure 2: Revenue breakdown by Segment - 1H2016



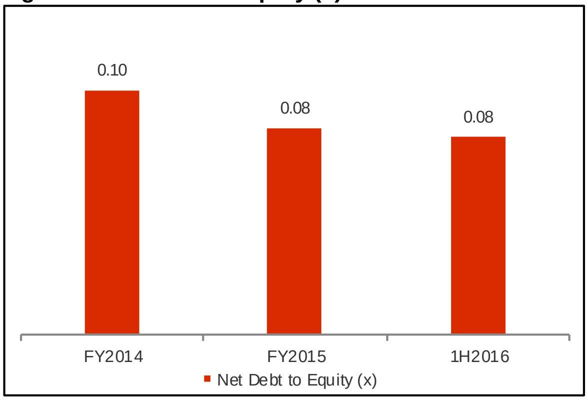
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Hotel Properties Ltd

Credit Outlook – Credit metrics has remained relatively stable, and we think that HPLSP'18s-'21s look fair trading 103bps-115bps over swaps. Meanwhile, we are Overweight the HPLSP'49c17 with a YTC of 3.75%.

Issuer Rating: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **HPLSP**

Company Profile

The principal activities of Hotel Properties Limited ("HPL") include hotel ownership, management and operation, property development and investment holding. HPL has interests in 29 hotels under prestigious hospitality brands. HPL has also established itself as a niche property developer and owner in prime locations, including the Orchard Road area in Singapore. The controlling shareholder is 68 Holdings Pte Ltd, which owns 56.4% of HPL. 68 Holdings Pte Ltd is mainly owned by Wheelock Properties Singapore and HPL's co-founder, Mr Ong Beng Seng.

Key credit considerations

- **Decent results supported by property sales:** 3Q2016 results appeared encouraging. Revenue rose 5% to SGD140mn due to the sale of completed condominium units from Tomlinson Heights, offset by weaker performance from Maldives. Net profits surged by 66% to SGD35.5mn, largely due to gains from disposal of Mandarin Oriental Hotel Prague by an associate. Sales at JV developments d'Leedon and The Interlace were also well-received, with 88 units and 73 units sold respectively due to deferred payment schemes introduced as well as outright discounts.

- **Challenging hotel industry partly mitigated by diversified portfolio:** While the hotel revenue provides recurring income, we note that HPL's hotel revenue shrank 3.7% y/y in 2015 to SGD479.3mn. We may see a further deterioration of revenue from the hotel segment, given that HPL has a number of hotels in Singapore and the Singapore hotel industry RevPAR is lower by 3.3% y/y in 9M2016, as reported by STB. Going forward, HPL expects the hospitality industry to remain challenging with softer demand from both leisure and business travellers. Nevertheless, the impact is cushioned with a diversified portfolio of hospitality assets in Thailand, Indonesia and Maldives. HPL also derives rental income (2015: SGD25.6mn), which includes income from retail properties such as Concorde Shopping Centre and Forum the Shopping Mall.

- **On the lookout for acquisitions:** Following the purchase of The Nam Hai for USD65mn (USD32.5mn attributable to HPL) on 23 Mar 2016, HPL completed the acquisition of Ludgate House and Sampson House in the London Borough of Southwark together with other international investors in 2Q2016 (HPL's share estimated to be lower than SGD75mn). On 8 Dec 2016, HPL acquired a 73.99% effective stake in Boathouse Kata Co Ltd, which owns a 38-keys boutique resort in Phuket, Thailand. We estimate the acquisition requires HPL to commit c.SGD23.9mn in cash. Thus far, we view the transactions as credit neutral given their small size in comparison to the SGD3.1bn total assets.

- **Manageable credit profile:** HPL's net gearing is maintained at 0.47x as of 3Q2017. We note HPL's ability to recycle capital, as its associate company divested Mandarin Oriental Hotel Prague, which we estimate has freed up SGD53mn in cash at the HPL Group level. On 11 Nov 2016, HPL has also sold 2 plots of land in Bangkok for THB1.58bn (c.SGD63mn), which is expected to boost earnings by SGD6.58 cts per share. Due to the divestment of the land in Bangkok and netting out the acquisition cost of the resort in Phuket, we expect net gearing to dip slightly going into 4Q2016. While EBITDA/Total interest in 9M2016 is unchanged at 4.2x compared to 2015, finance cost decreased by 19% y/y to SGD7.4mn as gross debt decreased and interest rates declined. We think HPL will manage the SGD251mn debt maturing over the next 12 months, in part from SGD109.9mn of cash on hand as of end-3Q2016.

- **Boost in stake by key shareholder:** Mr Ong Beng Seng, the largest shareholder (incl. deemed interest) and director of company increased his stake in HPL from 77.7% to 80.2%, after buying 13.0mn in additional shares for SGD4.25, representing over 20% premium to recent market price. 19.8% free float remains, and the trigger level to watch would be the minimum free float of 10% as required by SGX. We note the actual free float held in the hands of the public is lower, as director Fu Kuo Chen holds another 4.68% stake.

Hotel Properties Limited

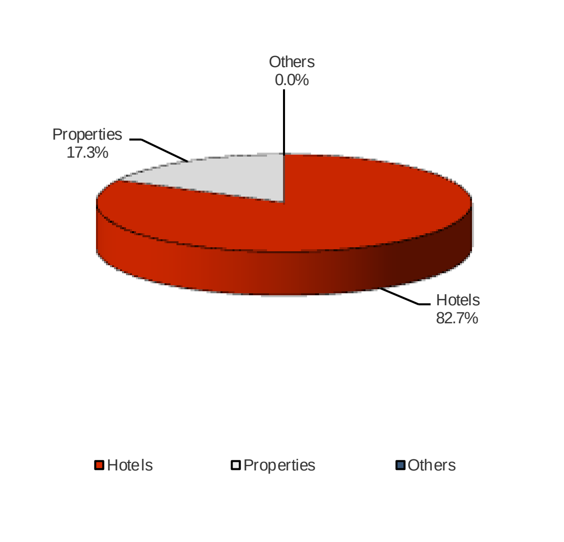
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	614.6	579.5	413.3
EBITDA	176.9	146.0	96.5
EBIT	127.7	94.2	56.8
Gross interest expense	32.0	34.9	23.2
Profit Before Tax	160.0	115.9	77.3
Net profit	124.4	81.7	59.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	136.6	158.8	109.9
Total assets	3,231.2	3,178.5	3,139.5
Gross debt	1,137.1	1,078.6	1,041.5
Net debt	1,000.5	919.8	931.6
Shareholders' equity	1,921.5	1,949.3	1,963.9
Total capitalization	3,058.6	3,027.9	3,005.4
Net capitalization	2,922.0	2,869.0	2,895.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	173.6	133.4	99.4
* CFO	248.6	141.9	42.6
Capex	148.8	120.3	48.2
Acquisitions	2.4	0.0	0.7
Disposals	17.8	31.0	8.5
Dividend	50.6	61.2	46.2
Free Cash Flow (FCF)	99.8	21.6	-5.6
* FCF Adjusted	64.5	-8.5	-43.9
Key Ratios			
EBITDA margin (%)	28.8	25.2	23.3
Net margin (%)	20.2	14.1	14.4
Gross debt to EBITDA (x)	6.4	7.4	8.1
Net debt to EBITDA (x)	5.7	6.3	7.2
Gross Debt to Equity (x)	0.59	0.55	0.53
Net Debt to Equity (x)	0.52	0.47	0.47
Gross debt/total capitalisation (%)	37.2	35.6	34.7
Net debt/net capitalisation (%)	34.2	32.1	32.2
Cash/current borrowings (x)	0.5	0.7	0.4
EBITDA/Total Interest (x)	5.5	4.2	4.2

Source: Company, OCBC estimates

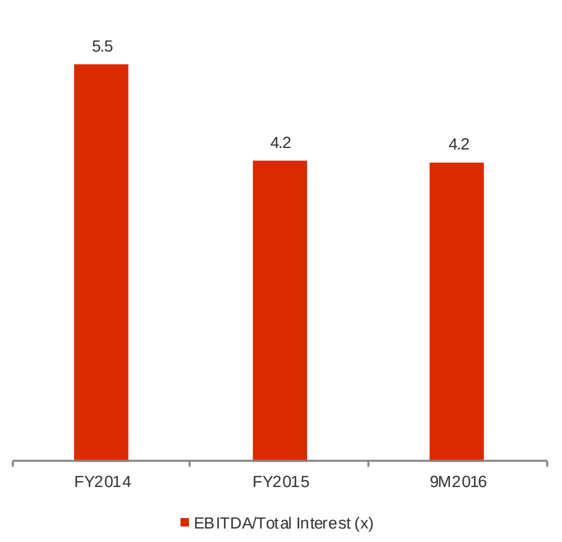
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2015



Source: Company

Figure 2: Interest Coverage Ratio (x)



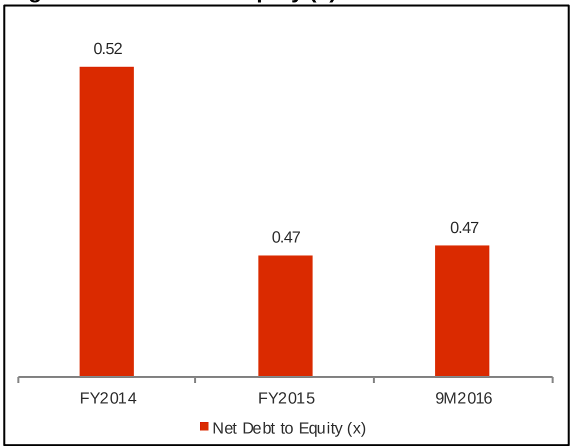
Source: Company, OCBC estimates

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	226.0	21.7%
Unsecured	25.0	2.4%
	251.0	**24.1%**
Amount repayable after a year		
Secured	366.4	35.2%
Unsecured	424.2	40.7%
	790.6	**75.9%**
Total	**1041.5**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Given the challenges facing KEP's O&M segment, in general we consider KEP's curve to be fully valued. For example, it is more attractive to allocate to FCTSP'20s versus KEPSP'20s given current similar spreads of ~95bps.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **KEPSP**

Company profile

Listed in 1986, Keppel Corp Ltd ("KEP") is a diversified conglomerate based in Singapore, operating in the offshore & marine ("O&M"), real estate, and infrastructure sectors. Its principal activities include offshore oil rig construction, shipbuilding and repair, environmental engineering, power generation, property investment and development, and the operation of logistics and data centre facilities. Keppel operates in more than 30 countries internationally, and is 21%-owned by Temasek Holdings Ltd.

Keppel Corp Ltd

Key credit considerations

- **O&M weakness continues to be a drag**: For 9M2016, KEP reported SGD4.83bn in total revenue, a decline of 38.2% y/y. This was largely driven by the -58.2% y/y slump in offshore & marine ("O&M") revenue to SGD2.05bn. O&M revenue contribution has now declined to 43% (9M2015: 63%). On a q/q basis, the segment continues to show pressure, with revenue declining by 28.4% for 3Q2016 (just 35% of total quarterly revenue). The segment faces sectorial headwinds, with weak upstream activity reducing demand for drilling assets. With more newbuild drilling assets entering supply, we expect it to be difficult for KEP to win new orders for drilling rigs. None of the ~SGD500mn in new orders won during 9M2016 were for drilling assets. Though there has been some recovery in energy markets during recent times, we will need to see oil majors drive more upstream activity for the existing glut in drilling assets to be absorbed before new O&M orders get filtered down to KEP.

- **O&M order book continues to shrink, but margins sustained**: KEP's net order book (excluding the Sete Brasil orders) have shrunk slightly q/q to SGD4.1bn (2Q2016: SGD4.3bn). On the bright side, no O&M orders were deferred during 3Q2016, with management indicating that KEP was on track to deliver four more projects during 4Q2016. Management has reiterated that the provisions during 4Q2015 regarding the Sete Brasil contract remains adequate. Net profit for the segment fell sharply by 65.2% y/y to SGD192.0mn (9M2015: SGD552.0mn). With no solace in sight, management has continued to cut costs, which includes the reduction of 3080 of its direct workforce (660 in Singapore). Coupled with other cost cuts, KEP managed to keep O&M operating margins at ~12.3% for 9M2016.

- **Property a boon, but pipeline quickly consumed**: The property segment saw revenue grow 23.8% y/y to SGD1.45bn for 9M2016, with KEP selling 3510 homes YTD (9M2015: 3110 homes), of which 84% was sold in China. Operating margins have compressed though to 21% (9M2015: 28%). Management has indicated that part of this was due to the lag in revenue recognition as sales from overseas will only be recognized upon the property's completion. That said, though most units were sold overseas, 44% of the segment revenue was still derived from Singapore, due to the higher price for units in Singapore. Looking forward, KEP's launch-ready home pipeline (till end-2018) has declined distinctly to 16,327 (2Q2016: 18,439), with KEP's China pipeline declining quickly. The bulk of these units are also outside of 1st Tier cities. In aggregate though, the strong performance in property generated over 50% of profit during 9M2016 (9M2015: 26%), helping to offset weakness at the O&M segment.

- **Cash flow generation improving**: The infrastructure segment continues to be weak, with revenue declining 22.2% y/y to SGD1.25bn, driven by lower prices and volume from the utilities business. In aggregate, operating cash flow is improving, with SGD273.7mn generated during 9M2016 (9M2015: SGD738.4mn outflow), with KEP generating SGD85.5mn in free cash flow. This was largely driven by monetizing working capital. 3Q2016 was the turning point, with SGD560.0mn in free cash flow generated. This was used to reduce debt, with KEP's net debt falling to SGD6.8bn (2Q2016: 7.3bn), which in turn helped reduce net gearing to 57% (2Q2016: 62%). Interest coverage for 9M2016 declined to 6.5x (2015: 10.6x) due to the slump in earnings. Looking forward, it is likely that KEP has seen the peak in its net gearing, and would like leverage remain stable in the near future. Though the Sete Brasil situation remains a wild card, we believe KEP has adequate balance sheet room to manage it and hence retain our Neutral Issuer Profile.

Keppel Corp Ltd

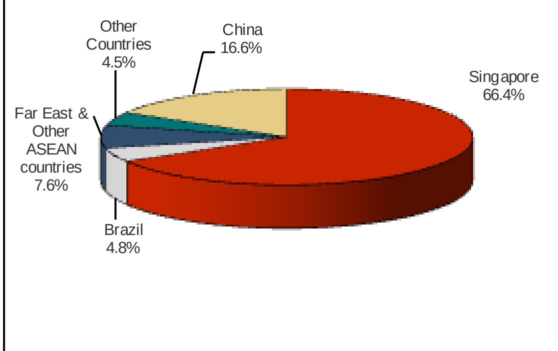
Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	13,283.0	10,296.5	4,827.3
EBITDA	2,305.4	1,673.1	973.5
EBIT	2,040.3	1,426.0	806.5
Gross interest expense	134.0	154.8	148.8
Profit Before Tax	2,888.6	1,997.4	849.0
Net profit	1,884.8	1,524.6	640.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	5,736.0	1,892.8	2,012.7
Total assets	31,590.9	28,920.6	28,652.6
Gross debt	7,382.5	8,258.7	8,783.7
Net debt	1,646.5	6,365.8	6,771.0
Shareholders' equity	14,727.6	11,925.9	11,864.6
Total capitalization	22,110.2	20,184.5	20,648.3
Net capitalization	16,374.2	18,291.7	18,635.6
Cash Flow (SGD'mn)			
Funds from operations (FFO)	2,149.9	1,771.7	807.9
* CFO	4.7	-705.0	273.7
Capex	594.9	1,147.0	188.3
Acquisitions	667.4	581.8	339.9
Disposals	1,728.6	1,504.4	70.0
Dividend	1,028.5	955.7	592.0
Free Cash Flow (FCF)	-590.2	-1,852.0	85.5
* FCF adjusted	-557.6	-1,885.1	-776.4
Key Ratios			
EBITDA margin (%)	17.4	16.2	20.2
Net margin (%)	14.2	14.8	13.3
Gross debt to EBITDA (x)	3.2	4.9	6.8
Net debt to EBITDA (x)	0.7	3.8	5.2
Gross Debt to Equity (x)	0.50	0.69	0.74
Net Debt to Equity (x)	0.11	0.53	0.57
Gross debt/total capitalisation (%)	33.4	40.9	42.5
Net debt/net capitalisation (%)	10.1	34.8	36.3
Cash/current borrowings (x)	3.2	2.2	1.1
EBITDA/Total Interest (x)	17.2	10.8	6.5

Source: Company, OCBC estimates

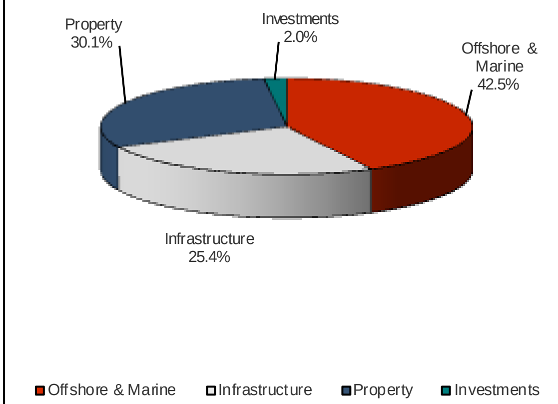
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Geography - 9M2016



Source: Company

Figure 2: Revenue breakdown by Segment - 9M2016



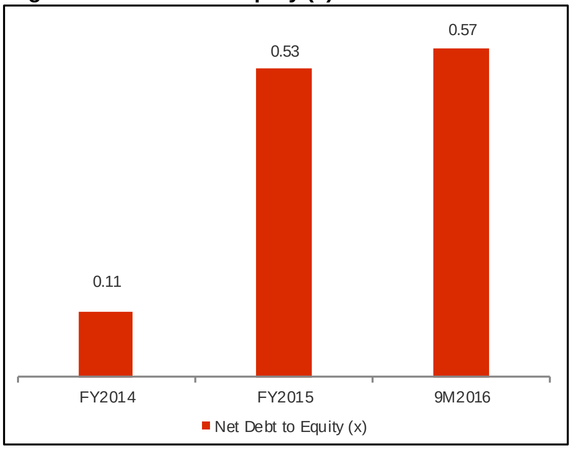
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	202.5	2.3%
Unsecured	1556.1	17.7%
	1758.6	**20.0%**
Amount repayable after a year		
Secured	965.3	11.0%
Unsecured	6059.8	69.0%
	7025.2	**80.0%**
Total	**8783.7**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –
We are now Neutral on KREITS'49c20 as it looks to be fair value relative to other REIT perpetuals.

Issuer Profile: Neutral

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **KREITS**

Background
Keppel REIT ("KREIT") is a real estate investment trust focused on mainly commercial assets. It was listed on the SGX in 2006, and currently has an AUM of SGD8.3bn (as of September 2016). Over 90% of the portfolio is based in Singapore, with the balance in Australia. The Singapore assets are mainly stakes in Grade A office assets in the CBD, such as Ocean Financial Centre ("OFC", 99.9% stake), Marina Bay Financial Centre Towers 1, 2 & 3 ("MBFC",33% stake in each) and One Raffles Quay ("ORQ, 33% stake). KREIT is 46.1% owned by Keppel Corp ("KEP"), its sponsor.

Keppel Real Estate Investment Trust

Key credit considerations

- **Divestment a drag on top line**: KREIT saw property income decline by 4.9% to SGD121.3mn for 9M2016. This was largely driven by the divestment of the 77 King Street office asset in Sydney on 29/01/16. Adjusting for the divestment, KREIT would have seen a 1.0% y/y increase in property income. NPI for properties directly held also painted a similar story with NPI 5.6% lower y/y, but up 0.4% after adjustments. For 3Q2016, the results were similar, with property income declining 6.3% y/y to SGD39.5mn while NPI fell 5.4% y/y to SGD31.6mn, but adjusting for the divestment property income would have been flattish at -0.3% y/y while NPI made a slight gain of 0.7% y/y. Total return before tax for 9M2016 jumped 56.5%, driven by the sharp increase in fair value gains (+SGD60mn) seen on the Singapore assets during 1H2016, with OFC, MBFC and ORQ seeing gains of 1.2%, 0.7% and 0.8% respectively. Total return was also supported by additional contributions from 8 Chifley Square, Sidney.

- **Occupancy robust despite weakness at Bugis Junction**: On a q/q basis results were soft, with property income down 2.5% and NPI down 2.7%. The weakness was driven mainly by Bugis Junction Towers, which saw property income decline 15.4% q/q to SGD4.9mn due to property occupancy falling sharply from 100% to 95.0% q/q. The declines in occupancy at Bugis Junction Tower also caused portfolio occupancy to dip slightly to 99.5% (2Q2016: 99.7%). In aggregate, we still consider KREIT's Singapore portfolio occupancy to be strong at 95%, compared to Singapore's core CBD occupancy of 95.9% (as reported by CBRE for 3Q2016). This reflects sustained demand for KREIT's young and well-located Singapore assets.

- **Well-managed lease expiry profile though rental reversion pressure seen**: KREIT was largely able to sustain its high portfolio occupancy by negotiating lease expiries ahead of time. By end-3Q2016, KREIT completed the renewal of all leases expiring in 2016, as well as sharply reducing the balance of leases due for renewal in 2017 to just 5.2% of NLA (2Q2016: 9.5% of NLA). Balance of leases expiring in 2018 remained steady at 5.4% of NLA. Interestingly, KREIT started to tackle 2019 lease expiries, reducing it to 16.6% (2Q2016: 21.2%). These lease renewal efforts allowed KREIT to extend the WALE for the top 10 tenants (44% of NLA) to ~8.5 years (2Q2016: ~8 years). We note that the strong portfolio occupancy could have been at the expense of lease rates. Though the average rent reversion for 9M2016 was +3% (1H2016: +2%), we note that the average committed rent for new, renewal and forward renewal leases was SGD9.85 psf for 9M2016. Comparatively, KREIT was able to achieve SGD10.30 psf for 1Q2016 and SGD10.10 psf for 2Q2016. As mentioned in the past, these outcomes are in line with our expectation that commercial REIT managers would aggressively tackle their lease expiries and support occupancy at the expense of lease rates, giving the looming supply of new offices coming into the market in the near future.

- **Credit profile remains steady, with peers converging**: Aggregate leverage was unchanged q/q at 39.0% (end-2015: 39.3%). Proportion of fixed rate debt remained steady at 74%, with unencumbered assets at 83% of the portfolio. Reported interest coverage (which includes income from JV and associates) improved slightly to 4.7x (end-2015: 4.4x). Weighted average term to maturity remains healthy at 3.7 years, with KREIT having no refinancing needs till 2H2018. As it stands, KREIT's aggregate leverage is currently comparable with peers, particularly after factoring in recent acquisitions by CCT and MCT. As always, the key risks to KREIT's credit profile remain potential asset acquisitions or injections by its sponsor. We will retain our Neutral Issuer Profile. Do note that KREIT dropped its Moody's rating of Baa3 / Stable, after the revised code on CIS adopted a single-tier aggregate leverage limit (that does not require a rating).

Keppel Real Estate Investment Trust

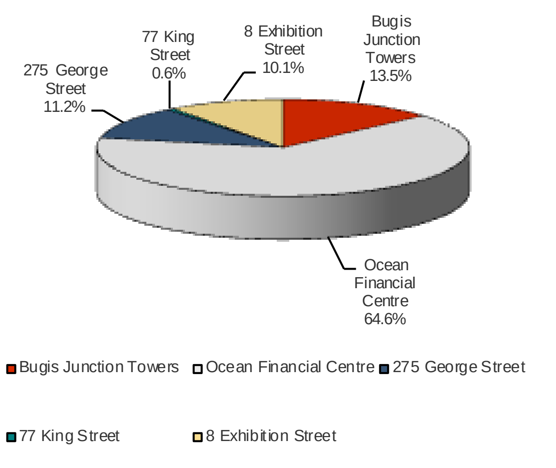
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	184.1	170.3	121.3
EBITDA	98.5	80.7	53.2
EBIT	61.1	61.9	41.7
Gross interest expense	60.1	67.3	48.5
Profit Before Tax	383.5	366.8	208.1
Net profit	371.8	337.5	190.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	199.7	144.6	259.1
Total assets	7,329.4	7,425.4	7,458.4
Gross debt	2,665.4	2,489.6	2,474.4
Net debt	2,465.7	2,345.0	2,215.3
Shareholders' equity	4,459.5	4,777.8	4,823.8
Total capitalization	7,124.8	7,267.4	7,298.2
Net capitalization	6,925.1	7,122.8	7,039.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	409.1	356.3	202.1
* CFO	42.6	114.3	83.3
Capex	2.3	2.5	1.2
Acquisitions	0.0	9.7	0.0
Disposals	506.5	0.0	157.2
Dividends	215.0	203.9	138.0
Free Cash Flow (FCF)	40.3	111.8	82.1
* FCF Adjusted	331.8	-101.9	101.4
Key Ratios			
EBITDA margin (%)	53.5	47.4	43.8
Net margin (%)	201.9	198.1	157.2
Gross debt to EBITDA (x)	27.1	30.9	34.9
Net debt to EBITDA (x)	25.0	29.1	31.3
Gross Debt to Equity (x)	0.60	0.52	0.51
Net Debt to Equity (x)	0.55	0.49	0.46
Gross debt/total capitalisation (%)	37.4	34.3	33.9
Net debt/net capitalisation (%)	35.6	32.9	31.5
Cash/current borrowings (x)	0.7	5.7	NM
EBITDA/Total Interest (x)	1.6	1.2	1.1

Source: Company, OCBC estimates

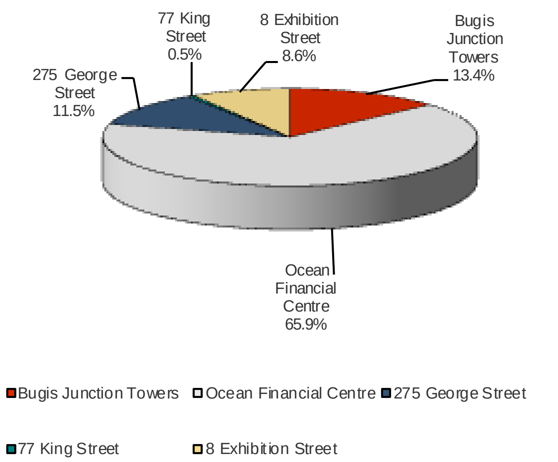
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Property - 9M2016



Source: Company

Figure 2: NPI breakdown by Property - 9M2016



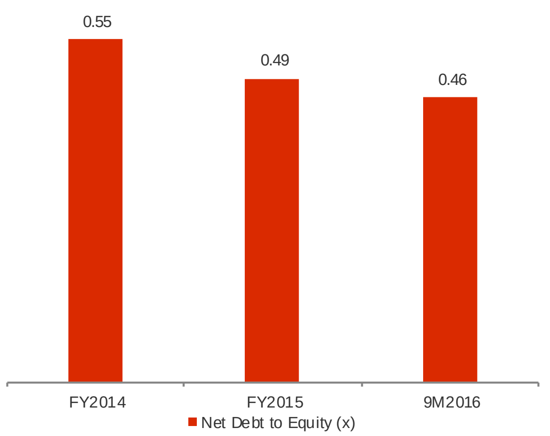
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	0.0	0.0%
	0.0	**0.0%**
Amount repayable after a year		
Secured	348.1	14.1%
Unsecured	2126.3	85.9%
	2474.4	**100.0%**
Total	**2474.4**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Despite having the same sponsor, we like LMRTSP'18s and '19s as they offer 128bps-144bps over FIRTSP'18s. They also offer 48bps-101bps over CREISP '20s and SBREIT'21s in spite of the similar credit rating, even before adjusting for differences in maturity. LMRTSP'49c21s looks interesting to us with a YTC of 6.86%, offering 93bps over FIRTSP'49c21s.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa3/Stable

Fitch: Not rated

Ticker: **LMRTSP**

Background

Listed on the SGX on 2007, Lippo Malls Indonesia Retail Trust (LMRT) is a retail REIT with a portfolio of 20 retail malls and 7 retail spaces in Indonesia. The malls are mostly located within Greater Jakarta, Bundung, Medan and Palembang, targeted at the middle to upper-middle class domestic consumers. LMRT is the largest retail S-REIT by floor space, with an NLA of 841,835 sqm. LMRT is 29.33% owned by its sponsor, Lippo Karawaci (LK), as of 6 Dec 2016.

Lippo Malls Indonesia Retail Trust

Key credit considerations

- **Consistently delivering results:** LMRT has been delivering consistent results, with portfolio occupancy above 90% since its IPO in 2007. 3Q2016's portfolio occupancy of 94.8% outperforms the 84.3% occupancy rate of the retail market in Jakarta (Source: Cushman & Wakefield). Rental reversions have been healthy (+11.8% on average) since 1Q2011, though the rate of increase has been declining. 3Q2016 results were stable, with revenue and NPI inching up 0.4% to SGD47.0mn and SGD43.3mn respectively, contributed by small gains in the IDR and rental reversion.

- **Retail growth in Indonesia:** LMRT benefits from retail growth in Indonesia, and retailers expect sales to increase by 5.2% y/y in October 2016. Meanwhile, 3Q2016 GDP which grew by 5.02% is still firmly in the positive zone, albeit at a slower rate. Our economist views the Indonesia consumer sector in a positive light despite slowing government spending. While internet retailing is growing, we believe demand for retail space remains strong. Several retailers have plans to expand further. For example, Matahari, which is LMRT's largest tenant by gross rental income, forecasts 8 new store openings for 2016 and an additional 6-8 stores in 2017, with a bigger pipeline of 57 stores in the longer run. Indomarco Prismatama, a retail company with a chain of minimarket stores, targets to open 1,600 new stores in 2016. With continued growth in the retail market and demand for retail space, we are not worried about the upcoming c.300,000 sqm p.a. supply in the Greater Jakarta region over 2018-2019.

- **FX mismatch on the balance sheet:** We think that FX poses the biggest risk to LMRT, with bonds and loans in SGD while assets are located in Indonesia. Currency translation reserve losses deepened to SGD559mn as of 3Q2016, which wiped out a significant amount of equity (3Q2016: Equity (excluding perpetuals) of SGD1.1bn). Hedging of cashflows does not effectively mitigate FX risks at the balance sheet level, as they mitigate mainly the risks at the dividend level. Nevertheless, we are not overly worried over the depreciation of IDR as the IDR has largely stabilised since 2014, and we estimate that the IDR needs to depreciate by another c.60% against the SGD before wiping out the equity. The covenant also limits aggregate leverage at 0.45x. In comparison, the IDR has depreciated only 33% in the past 9 years since IPO.

- **Debt-fuelled growth, but future acquisitions likely to be credit neutral:** LMRT has been aggressively acquiring assets, undertaking SGD1.24bn of acquisitions since 2011. The acquisitions were funded with a larger portion of debt, as LMRT only raised SGD467.6mn in equity and SGD140mn in perpetuals while paying out most of its earnings through dividends. LMRT will likely acquire further assets, given its rapid pace of acquisition while its sponsor Lippo Karawaci has the incentive to recycle capital after the credit downgrade by S&P to B+ in July 2016 (from BB-). However, this will likely be credit neutral as LMRT may not fund further acquisitions (beyond Kuta and Jogya) with a larger proportion of debt, given (1) 45% regulatory aggregate leverage limit and (2) risk of downgrade by Moody's if aggregate leverage (adjusted for perpetuals) exceeds 40%.

- **Credit metrics remain manageable:** LMRT issued SGD140mn perpetuals in Sep 2016, which together with loan facilities are used to repay the SGD150mn bonds which matured in Oct 2016. Post the transaction of Lippo Mall Kuta (SGD94.4mn cash in acquisition cost), we estimate that aggregate leverage remains manageable at 0.29x. If Lippo Plaza Jogja (est: SGD57.9mn) is acquired and the perpetuals are counted as half debt, half equity, debt/equity ratio increases to 0.35x, which is comparable to retail REIT peers such as CapitaLand Mall Trust (0.35x), Mapletree Commercial Trust (0.37x) and Starhill Global REIT (0.35x).

Lippo Mall Indonesia Retail Trust

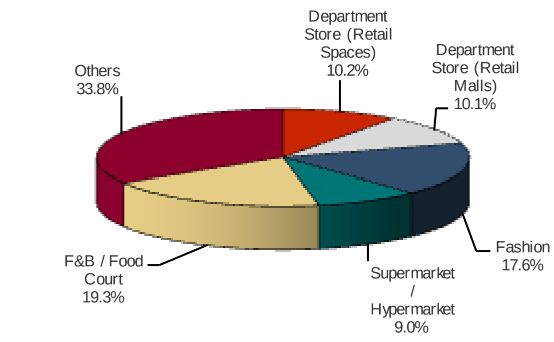
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	137.0	173.0	139.4
EBITDA	117.0	148.1	119.0
EBIT	116.3	147.1	118.2
Gross interest expense	34.4	44.4	34.7
Profit Before Tax	89.9	44.3	75.7
Net profit	63.8	26.4	52.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	103.9	80.6	213.9
Total assets	2,017.5	1,987.7	2,126.1
Gross debt	624.4	689.0	683.9
Net debt	520.4	608.4	470.0
Shareholders' equity	1,149.7	1,075.1	1,237.2
Total capitalization	1,774.1	1,764.1	1,921.1
Net capitalization	1,670.2	1,683.5	1,707.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	64.5	27.5	52.8
* CFO	102.2	125.3	109.6
Capex	7.9	9.9	7.8
Acquisitions	317.0	79.4	0.0
Disposals	0.0	0.0	0.0
Dividends	64.2	80.5	69.7
Free Cash Flow (FCF)	94.3	115.5	101.8
* FCF Adjusted	-286.9	-44.3	32.1
Key Ratios			
EBITDA margin (%)	85.4	85.6	85.4
Net margin (%)	46.6	15.3	37.4
Gross debt to EBITDA (x)	5.3	4.7	4.3
Net debt to EBITDA (x)	4.4	4.1	3.0
Gross Debt to Equity (x)	0.54	0.64	0.55
Net Debt to Equity (x)	0.45	0.57	0.38
Gross debt/total capitalisation (%)	35.2	39.1	35.6
Net debt/net capitalisation (%)	31.2	36.1	27.5
Cash/current borrowings (x)	0.5	0.3	1.4
EBITDA/Total Interest (x)	3.4	3.3	3.4

Source: Company, OCBC estimates

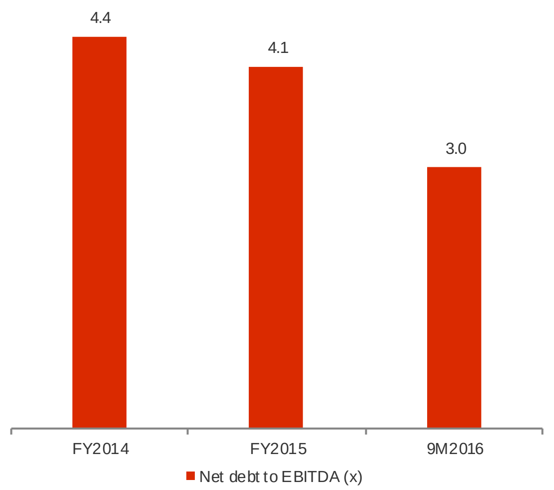
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue by Trade Sector - 9M2016



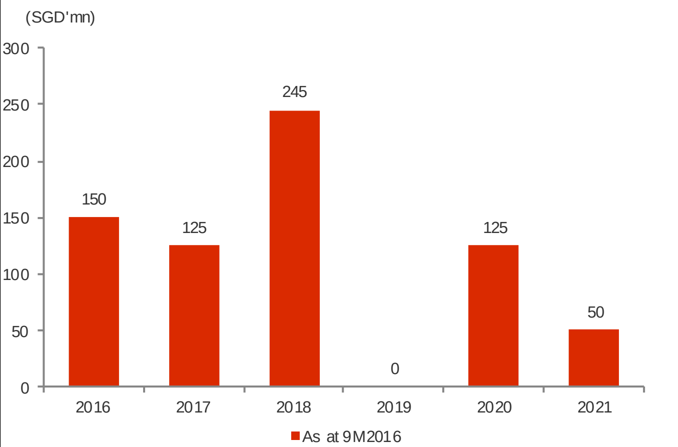
Source: Company

Figure 2: Interest Coverage Ratio (x)



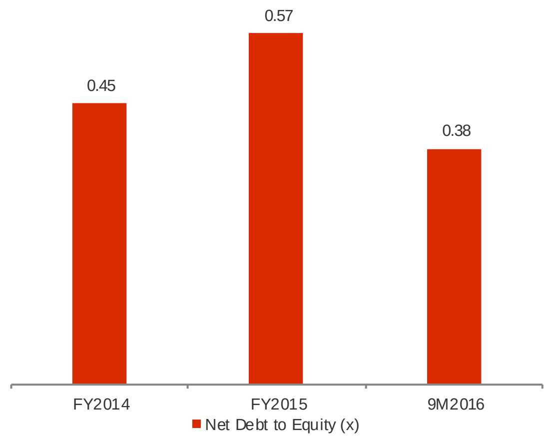
Source: Company, OCBC estimates

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Mapletree Commercial Trust

Credit Outlook – MCT's strong portfolio looks to be priced in as its curve is largely fair valued relative to CMT and FCT. That said the relative scarcity of paper by this issuer could provide some technical support.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa1/Stable

Fitch: Not rated

Ticker: **MCTSP**

Background

Mapletree Commercial Trust ("MCT") is a REIT that invests in office and retail assets. Its five key assets are: 1) VivoCity – a retail and leisure complex; 2) Mapletree Business City Phase 1 ("MBC"); 2) Bank of America Merrill Lynch HarbourFront ("MLHF"); 3) PSA office building ("PSAB") that includes a 40-storey office block and Alexandra Retail Centre ("ARC"); and 4) Mapletree Anson. The properties, with an NLA of 3.8mn sq ft, are valued at SGD6.17bn as of 30 Sep 16. MCT is 33.7%-owned by Temasek through Mapletree Investments.

Key credit considerations

- **Performance decent in spite of MBC acquisition**: 2QFY2017 results (ending September 2016) reported gross revenue up 23.6% y/y to SGD88.1mn, while NPI was up 24.8% y/y to SGD68.4mn. The gains were largely driven by MCT's acquisition of MBC, which completed on 25/08/16. As such, 3QFY2017 numbers are likely to be even stronger with MBC's full-quarter contribution. Excluding the MBC impact, gross revenue was still up 5.9% y/y to SGD75.5mn while NPI was up 6.0% y/y to SGD58.1mn. This was largely driven by improvements seen at Mapletree Anson (property revenue up 16.9% y/y due to stronger occupancy) as well as stronger revenue at Vivocity (+5.2% y/y). In addition, we expect the MBC acquisition to help diversify MCT's gross revenue, with VivoCity's revenue contribution falling from ~60% to ~42% of the portfolio post the acquisition.

- **Occupancy and lease reversions strong**: All of MCT's assets reported higher occupancies, including PSAB and Mapletree Anson, which reported 98.5% and 100% respectively (recovering from 92.8% and 91.0% respectively as of end-FY2016). This drove portfolio occupancy higher to 98.8% (FY2016: 96.6%). Furthermore, committed occupancies are even higher across the board as well. This is a strong showing given the challenging market for office assets. In addition, it would seem that MCT did not have to concede on lease rates, with 1HFY2017 rental reversion at +13.8% for Retail and +12.3% for Office / Business Park. The former largely reflects VivoCity's strong performance (Shopper Traffic up 7.0% y/y, Tenant Sales up 2.7% y/y for the quarter). Retention rates are strong as well at 95.4% for Retail and 83.3% for Office / Business Park. MBC is also well positioned to capture tenants shifting away from the CBD area (MCT estimates that ~78% of MBC's current tenant base relocated from the CBD).

- **Manageable lease expiry profile**: WALE for both Retail and Office / Business Park remained relatively unchanged q/q at 2.2 years and 3.4 years respectively. The lease expiry profile looks manageable, with MCT having 11.7% and 9.9% of gross rental revenue expiring for Retail and Office / Business Park respectively over the next 18 months. This was a function of MCT actively restructuring its looming office lease expiries, such as the MLHF lease restructured in April 2016, with the tenant (Bank of America Merrill Lynch, MCT's largest tenant) extending 4.7% of portfolio NLA to FY2021 and beyond.

- **Increase in leverage less than expected**: Aggregate leverage worsened to 37.3% (1QFY2017: 35.0%), mainly due to the debt and equity funded acquisition of MBC during the quarter. This was lower than the 38.4% estimate originally provided by management as part of the acquisition announcement. The difference was driven by MCT drawing SGD800mn in loans instead of the projected SGD860mn in loans, with the equity offering raised an a higher price per unit than originally anticipated.

- **Liquidity profile fair:** Cost of debt improved from 2.73% (1QFY2017) to 2.66%, potentially driven by MCT refinancing SGD150mn worth of bank debt (due in FY2017) with its SGD175mn bond issue (3.11% coupon maturing 2026) as well as by potentially lower financing costs on the MBC facilities. Currently, MCT has minimal debt due in FY2017 and FY2018, as the borrowings taken to finance the MBC acquisition are longer dated (MBC's financing are estimated to be 2Y T/L: SGD253.8mn, 4Y T/L: SGD272mn, 6Y T/L: SGD264mn). MCT's portfolio remains entirely unencumbered, while proportion of fixed debt is 74%. Interest coverage remains stable at 4.9x (FY2016: 5.0x). In aggregate, though MCT's leverage inched higher post the MBC acquisition, aggregate leverage remains in line with peers. As such, we will retain our Neutral Issuer Profile on MCT.

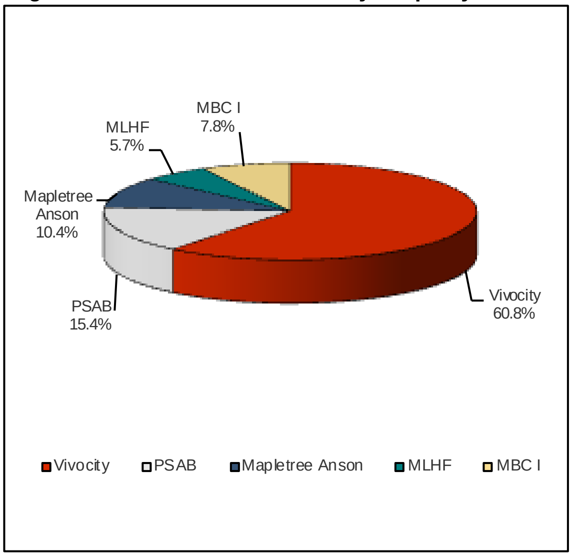
Mapletree Commercial Trust

Table 1: Summary Financials

Year Ended 31st March	FY2015	FY2016	1H2017
Income Statement (SGD'mn)			
Revenue	282.5	287.8	161.5
EBITDA	192.4	200.6	113.4
EBIT	192.4	200.5	113.4
Gross interest expense	36.0	39.7	22.9
Profit Before Tax	312.1	298.7	89.7
Net profit	312.1	298.7	89.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	54.9	63.6	47.8
Total assets	4,262.8	4,415.2	6,268.0
Gross debt	1,546.5	1,551.5	2,350.3
Net debt	1,491.7	1,487.9	2,302.5
Shareholders' equity	2,617.0	2,764.0	3,794.0
Total capitalization	4,163.5	4,315.5	6,144.3
Net capitalization	4,108.7	4,251.9	6,096.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	312.1	298.7	89.7
* CFO	203.5	212.7	122.6
Capex	8.0	7.4	9.3
Acquisitions	0.0	0.0	1,833.8
Disposals	0.0	0.0	0.0
Dividends	136.4	156.8	98.5
Free Cash Flow (FCF)	195.5	205.4	113.3
* FCF Adjusted	59.1	48.5	-1,819.0
Key Ratios			
EBITDA margin (%)	68.1	69.7	70.2
Net margin (%)	110.5	103.8	55.6
Gross debt to EBITDA (x)	8.0	7.7	10.4
Net debt to EBITDA (x)	7.8	7.4	10.2
Gross Debt to Equity (x)	0.59	0.56	0.62
Net Debt to Equity (x)	0.57	0.54	0.61
Gross debt/total capitalisation (%)	37.1	36.0	38.3
Net debt/net capitalisation (%)	36.3	35.0	37.8
Cash/current borrowings (x)	0.3	0.2	1.3
EBITDA/Total Interest (x)	5.4	5.0	4.9

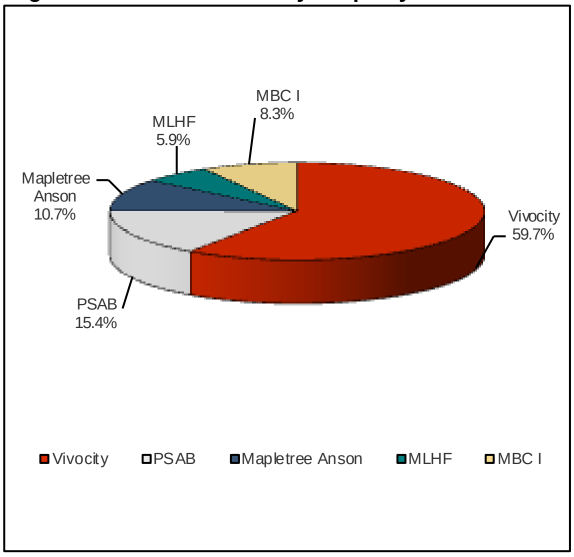
Source: Company, OCBC estimate

Figure 1: Revenue breakdown by Property - 1H2017



Source: Company

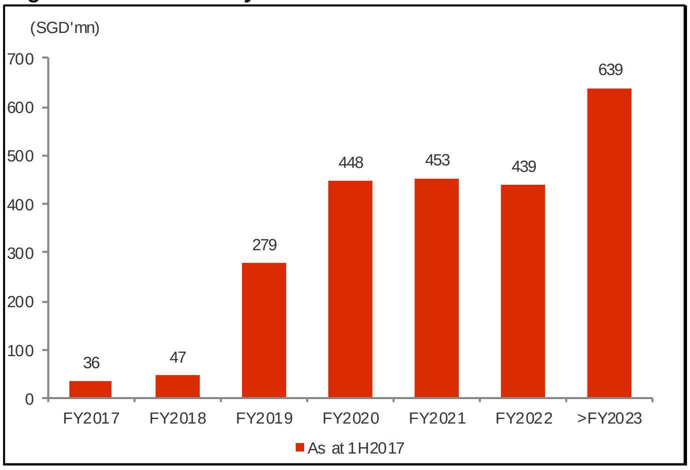
Figure 2: NPI breakdown by Property - 1H2017



Source: Company

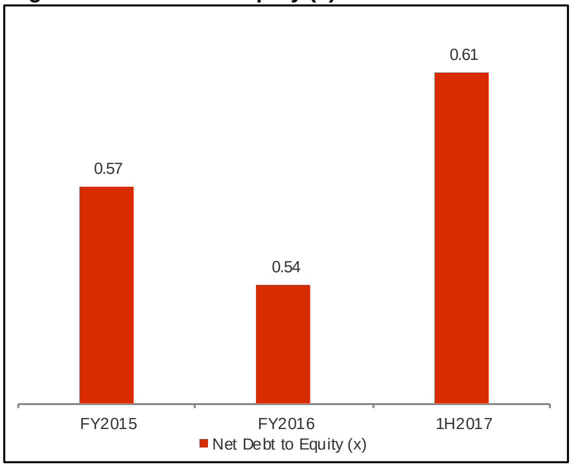
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – MAGIC‘21s and 22s, which trade 90-100bps over swaps, look fair in our view. However, for investors who like the Mapletree name, we prefer MAGIC‘21s and ‘22s over MCTSP‘21s and ‘23s for c.40bps pickup.

Issuer Rating: Neutral

S&P: Not rated

Moody's: Baa1/Stable

Fitch: Not rated

Ticker: **MAGIC**

Company Profile

Listed on the SGX in 2013, Mapletree Greater China Commercial Trust ("MAGIC") is a S-REIT with a mandate to invest in the Greater China region. MAGIC currently holds 3 commercial properties in its portfolio, located in Hong Kong, Beijing and Shanghai. MAGIC has a market cap of SGD2.6bn as of 5 Jan 2017. Temasek Holdings is MAGIC's largest shareholder with a 33.57% stake. Mapletree Investments Pte Ltd is the sponsor of MAGIC.

Mapletree Greater China Commercial Trust

Key credit considerations

- **Lacklustre 1HFY2017 results:** While revenue grew 4.6% y/y to SGD168mn, this was due mainly to the acquisition of Sandhill Plaza and higher income from Festival Walk. Gateway Plaza significantly underperformed, with its 1HFY2017 contribution to revenue lower by 10.9% y/y. Hit with a double whammy, Gateway Plaza had to fork out an additional property tax of SGD1.5mn due to the change in property tax basis (from cost of property to revenue). Otherwise, reversions and occupancy remained healthy at Festival Walk and Sandhill Plaza.

- **Festival Walk as the anchor of the portfolio:** Festival Walk contributed SGD94.9mn in NPI as of 1HFY2017, which represents 69% of the portfolio NPI. Festival Walk is well-located as it is directly linked to the Kowloon Tong MTR station in Hong Kong. Since 1QFY2015, impressive rental reversions (mostly over 20%) have been recorded, though reversions have slowed to 15% as of 2QFY2017. While the Hong Kong retail market is likely to remain subdued as Chinese tourist arrivals have declined, with Festival Walk seeing declines in tenant sales and footfall, near-term performance will be stable as rents are mostly fixed. Renovations of the cinemas in early-2016 may attract more traffic to the mall. We also understand that Festival Walk's occupancy cost ratio is 18.3% as of 1QFY2017, which does not appear excessive in comparison to Harbour City (19.8%) and Times Square (24.5%). We may be seeing early signs of stabilisation in tenant sales, as the 4% y/y decline in 2QFY2017 is not as severe as the 13%-16% y/y declines seen in 4QFY2016 and 1QFY2017.

- **Not overly concerned about revenue concentration from Festival Walk:** While Festival Walk contributes 72% of MAGIC's revenue, we are not overly concerned about concentration risks. The tenant base is sufficiently diversified, with no trade sector comprising more than 22.5% of revenue while the top 10 tenants make up 27.8% of revenue. Strategically located in Kowloon Tong, shoppers from nearby households command high spending power while City University of Hong Kong and Hong Kong Baptist University provide another source of shopper traffic.

- **FX mismatch on the balance sheet:** While c.27% of the properties (Gateway Plaza, Sandhill Plaza) by valuation is located in China, only 3% of the debt is denominated in RMB. This has created a balance sheet impact with aggregate leverage increasing to 39.9% as of 2QFY2017 (4QFY2016: 39.5%) as the RMB has been depreciating against the HKD. However, the potential impact of FX on aggregate leverage is not excessive as the ratio should be maintained under 45% even if the RMB were to depreciate by a further 30%. Hedging the distributable income does not effectively mitigate FX mismatch on the balance sheet, as it mitigates risks at the dividend level. Despite insignificant SGD assets, there is little currency mismatch by issuing SGD bonds, as these are swapped into HKD.

- **Manageable credit metrics:** While aggregate leverage at 39.9% is somewhat higher than peers, we are comforted by MAS's regulations which limits aggregate leverage ratio to 45%. If the 45% ratio were to be breached, this may also trigger a downgrade by Moody's. Interest cover of 3.6x remains healthy as of 2QFY2017, in our view. Due to the limited debt headroom, think that future acquisitions, if any, will have to be funded by issuing equity or perpetual bonds. On the positive side, the balance sheet in not encumbered.

- **Mapletree sponsorship and ownership:** We believe access to funding is improved by having Mapletree, which is owned by Temasek, as the sponsor. MAGIC has been issuing mostly 7-year bonds since its IPO, with all-in cost of debt at 2.89%. Most of its debt maturing in FY2017 has been refinanced.

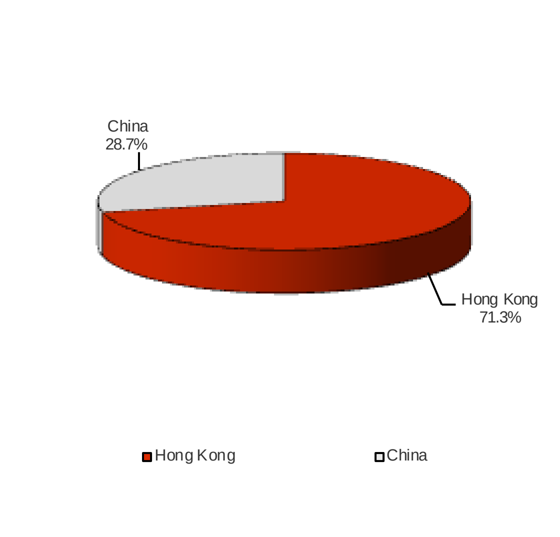
Mapletree Greater China Commercial Trust

Table 1: Summary Financials

Year Ended 31st Mar	FY2015	FY2016	1H2017
Income Statement (SGD'mn)			
Revenue	281.1	336.6	168.0
EBITDA	206.8	252.4	126.5
EBIT	206.3	252.0	126.3
Gross interest expense	40.8	65.0	35.3
Profit Before Tax	352.7	465.9	92.9
Net profit	318.9	428.1	77.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	125.1	206.1	176.1
Total assets	5,488.1	6,153.5	6,007.4
Gross debt	1,984.0	2,422.3	2,398.7
Net debt	1,858.9	2,216.2	2,222.7
Shareholders' equity	3,260.2	3,416.2	3,306.8
Total capitalization	5,244.1	5,838.4	5,705.6
Net capitalization	5,119.0	5,632.3	5,529.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	319.4	428.6	77.9
* CFO	223.0	264.9	99.5
Capex	0.7	0.7	0.1
Acquisitions	5.0	335.3	1.6
Disposals	0.0	0.0	0.0
Dividends	168.7	188.3	104.0
Free Cash Flow (FCF)	222.3	264.2	99.4
* FCF Adjusted	48.6	-259.4	-6.2
Key Ratios			
EBITDA margin (%)	73.5	75.0	75.3
Net margin (%)	113.4	127.2	46.2
Gross debt to EBITDA (x)	9.6	9.6	9.5
Net debt to EBITDA (x)	9.0	8.8	8.8
Gross Debt to Equity (x)	0.61	0.71	0.73
Net Debt to Equity (x)	0.57	0.65	0.67
Gross debt/total capitalisation (%)	37.8	41.5	42.0
Net debt/net capitalisation (%)	36.3	39.3	40.2
Cash/current borrowings (x)	0.5	0.4	0.8
EBITDA/Total Interest (x)	5.1	3.9	3.6

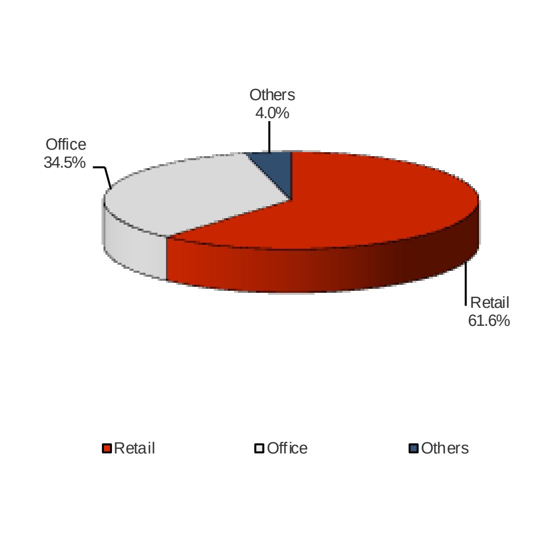
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 1H2017



Source: Company

Figure 2: Revenue breakdown by Segment - 1H2017



Source: Company

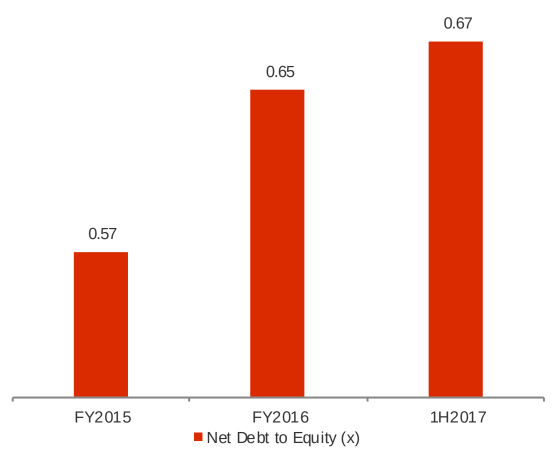
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	226.2	9.4%
	226.2	**9.4%**
Amount repayable after a year		
Secured	0.0	0.0%
Unsecured	2172.6	90.6%
	2172.6	**90.6%**
Total	**2398.7**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We are Underweight the MINT curve. For the same rating band, a switch from MINTSP'19s into FCTSP'19s allow a yield pick-up of 40-50 bps, while AREIT'19s provide one notch higher rating. Switch from MINTSP'22s into MAGIC'22s which has a 6 month shorter tenure provides yield pick-up of 20 bps. MINTSP' 26s is too tight for its tenure in our view.

Issuer Profile: Neutral

S&P: Not rated
Moody's: Not rated
Fitch: BBB+/Stable

Ticker: **MINTSP**

Background

Mapletree Industrial Trust ("MINT") is a Singapore-centric industrial REIT. MINT owns a portfolio of flatted factories, hi-tech, business park, stack-up/ramp-up and light industrial buildings. As at 30 September 2016, MINT's total assets was SGD3.7bn. All of its' 85 properties are currently located in Singapore. MINT is sponsored by Mapletree Investments Pte Ltd ("Mapletree") who also holds a 34% stake in the REIT. Mapletree is in turned wholly-owned by Temasek.

Mapletree Industrial Trust

Key credit considerations

- **Organic growth drives 1HFY2017 increase:** MINT achieved a 2.4% growth in gross revenue to reach SGD168.3mn (1HFY2016: SGD164.4mn) on the back of higher rental rates across all property segments and higher occupancies achieved in high-tech buildings and business park properties. Property expenses were 5.3% lower at SGD40.9mn on the back of lower property maintenance, utility costs and property taxes. As a result, net property income ("NPI") grew higher at 5.1% to SGD127.4mn. EBITDA in 1HFY2017 was SGD113.4mn; rising 5.7% which helped boost coverage EBITDA/Gross interest to 8.6x in 1HFY2017 (1HFY2016: 8.3x). This was despite the somewhat higher borrowing costs of SGD13.1mn following the inching up of borrowings to fund payment milestones of redevelopment projects. 2QFY2017 gross revenue was marginally up by 0.1% against its immediately preceding quarter (ie: 1QFY2017) to SGD84.2mnn while NPI took a 0.3% hit at SGD63.6mn. This was on the back of higher marketing commissions and higher property taxes.

- **Refinancing risk manageable but cost likely higher:** As at 30 September 2016, MINT has maintained a relatively flat aggregate leverage (gross debt-to-total asset of 29.3% against 28.2% as at 30 June 2016). Short term borrowings stood at SGD214.9mn, made up of unsecured bank loans against SGD49mn in cash balance. We see ample financial flexibility from equity markets despite the fall in Distributable Income per Unit ("DPU") in 2QFY2016 (first time since 2010). Currently, all of MINT's debt remains unsecured, which provides the REIT the option to refinance with secured debt, if need be. MINT's upcoming debt due represents about 20% of its total gross debt. As at 30 September 2016, MINT's all-in debt cost was 2.6%. Under a scenario where the SGD214.9mn gets refinanced at 100 bps higher, interest expense will go up by about 8% (SGD1.1mn for a 6 months period), with interest coverage falling to ~7.6x. The recently completed phase 1 of the built-to-suit ("BTS") building for Hewlett-Packard has obtained temporary occupation permit in end-October 2016 and started contributing to revenue since December 2016.

- **Occupancy and weighted average lease expiry ("WALE"):** MINT's occupancy is still commendable at 92.5%, ~3.4% higher than market occupancy rate of 89.1%. As at 30 September 2016 though, MINT's WALE is only 2.8 years. Whilst this is within historical levels for MINT, it is one of the shortest within our industrial REIT coverage and we see this as heightened risk for negative rental reversions. By gross rental income, 6.7% of leases are due to expire between 1 October 2016 and 31 March 2017, while another 1/3 is due to expire in the 12 months to 31 March 2018. 44% of MINT's portfolio by value is made up of flatted factories, of which a significant number of tenants are made up of Small Medium Enterprises ("SME"). This segment is relatively price sensitive and more would need to be done to retain such tenants. Amidst a challenging backdrop for the industrial property sector, we see NPI compression going forward as MINT takes on further rental incentives and expends costs (eg: fit-out assistances, rental incentives, rent free periods) in a bid to retain occupancy.

- **Credit profile defensible:** Despite our expectation of lower interest coverage, MINT's healthy credit profile will allow it to pursue growth opportunities including redevelopment at its older clusters. Following the expiry of MINT's Singapore-only investment mandate in October 2013, the REIT is now able to also pursue foreign growth opportunities (eg: data centres). We continue to expect MINT's portfolio to be Singapore-centric, and foreign acquisitions, if any, will be on a selective basis. We continue to like MINT's controlled approach in pursuing acquisitions/developments and see its healthy balance sheet as affording the REIT ammunition to steer through the overall weakened environment.

Mapletree Industrial Trust

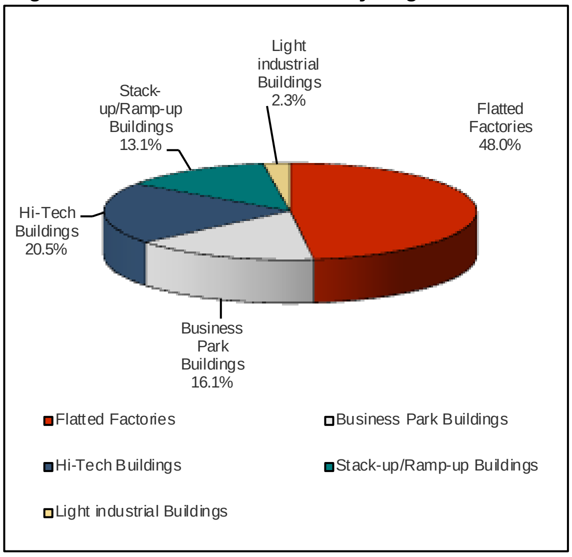
Table 1: Summary Financials

Year Ended 31st March	FY2015	FY2016	1H2017
Income Statement (SGD'mn)			
Revenue	313.9	331.6	168.3
EBITDA	203.4	218.3	113.4
EBIT	203.4	218.3	113.4
Gross interest expense	23.8	25.9	13.1
Profit Before Tax	375.4	190.6	99.8
Net profit	374.3	190.6	99.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	72.0	54.3	49.0
Total assets	3,516.0	3,623.9	3,673.2
Gross debt	1,074.7	1,021.2	1,064.4
Net debt	1,002.7	966.8	1,015.4
Shareholders' equity	2,312.2	2,465.2	2,459.9
Total capitalization	3,386.9	3,486.4	3,524.3
Net capitalization	3,314.9	3,432.0	3,475.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	374.3	190.6	99.8
* CFO	204.9	219.7	114.5
Capex	54.5	43.5	46.1
Acquisitions	0.0	0.0	0.0
Disposals	0.0	0.0	0.0
Dividends	97.5	114.6	101.9
Free Cash Flow (FCF)	150.4	176.1	68.5
* FCF Adjusted	52.9	61.6	-33.5
Key Ratios			
EBITDA margin (%)	64.8	65.8	67.4
Net margin (%)	119.3	57.5	59.3
Gross debt to EBITDA (x)	5.3	4.7	4.7
Net debt to EBITDA (x)	4.9	4.4	4.5
Gross Debt to Equity (x)	0.46	0.41	0.43
Net Debt to Equity (x)	0.43	0.39	0.41
Gross debt/total capitalisation (%)	31.7	29.3	30.2
Net debt/net capitalisation (%)	30.2	28.2	29.2
Cash/current borrowings (x)	0.6	1.1	0.2
EBITDA/Total Interest (x)	8.6	8.4	8.6

Source: Company, OCBC estimates

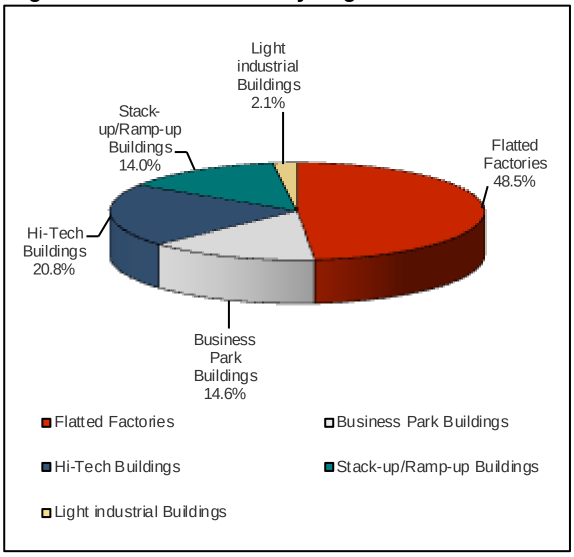
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1H2017



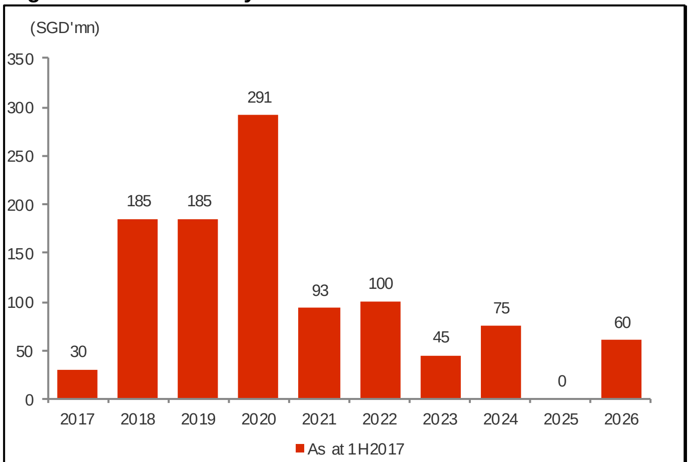
Source: Company

Figure 2: NPI breakdown by Segment - 1H2017



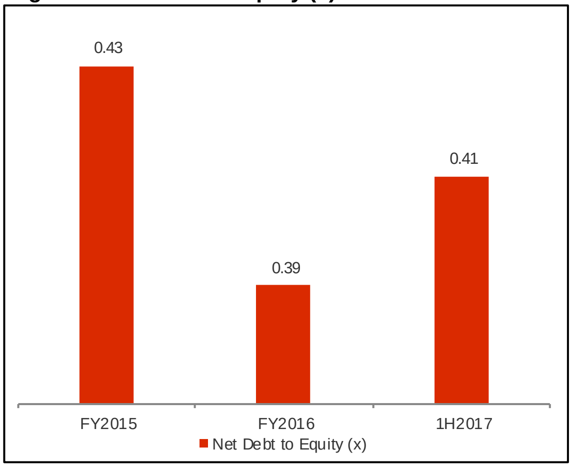
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – The MLTSP'49c17 is likely to be called in September 2017 as the coupon will reset at SDSW5+418 bps. We are Underweight the MLTSP'49c21 (YTC: 4.0%) on the back of a declining credit profile, as we see fair value at least 20-30 bps wider.

Issuer Profile: Negative

S&P: Not rated

Moody's: Baa1/Negative

Fitch: Not rated

Ticker: **MLTSP**

Background

Listed in 2005, Mapletree Logistics Trust ("MLT") is the first Asia-focused logistics REIT in Singapore. Total assets were SGD5.5bn as at 30 September 2016. MLT owns 128 properties (Singapore: 51, Japan: 22, Hong Kong: 8, Malaysia: 15, China: 9, South Korea: 11, Australia: 9 and Vietnam: 3). MLT is sponsored by Mapletree Investments Pte. Ltd, which is 100%-owned by Temasek. Temasek has a ~39% deemed interest in MLT.

Mapletree Logistics Trust

Key credit considerations

- **Growth in 1HFY2017 driven by acquisitions and completion of redevelopments:** For the 6 months ended 30 September 2016 ("1HFY2017"), MLT's gross revenue increased 5% to SGD181.1mn against the previous corresponding period ("1HFY2016"). This was largely driven by acquisitions in Australia, South Korea and Vietnam, higher revenue from existing properties in Hong Kong and contribution from completed redevelopments (ie: Mapletree Logistics Hub-Toh Guan in Singapore and Moriya Centre in Japan). These help offset the negative impact from lower revenue from certain Singapore properties and the absence of revenue from two properties which were sold earlier. Net property income ("NPI") increased by 5.5% to SGD152.0mn (1HFY2016: 144.1mn). During 1HFY2017, management fees increased 9% to SGD18.8mn, partially offsetting the benefits of an improvement in NPI. The increase in management fees was driven by the increased portfolio size of 7.1% between end-September 2016 and end-September 2015. MLT's gross revenue grew by 2.2% to SGD91.6mn compared to its immediately preceding quarter. During 2QFY2017, 3 new properties were acquired. Removing the impact from these new properties, we estimate that gross revenue had increase ~1% on a "same-store" basis.

- **Thinner coverage:** Based on our calculation of EBITDA which excludes net foreign exchange losses, we find EBITDA to have grown 5.1% to SGD133.5mn. Nevertheless, interest coverage as measured by EBITDA/Gross interest was lower at 5.7x in 1HFY2017 against 6.5x in 1HFY2016 as a result of higher debt drawdown for acquisitions. As at 31 March 2015 (beginning of 1HFY2016), net debt was SGD1.5bn. By the beginning of 1HFY2017, net debt had ballooned to ~SGD2.0bn. In May 2016, MLT raised a further SGD250mn in perpetuals to fund acquisitions, bringing total outstanding perpetuals to SGD595.7mn as at 30 September 2016 (31 December 2015: SGD344.0mn). Assuming 50% of such perpetuals as debt, we find MLT's EBITDA/(Gross interest plus 50% of perpetual distribution) at 4.4x against 5.2x in 1HFY2016.

- **Aggressive acquisitions stressing leverage levels:** In mid-December 2016, MLT completed the acquisition of 4 more properties in Australia for ~SGD152mn (including costs ~SGD162mn). At the time of announcement, the REIT disclosed that it expects aggregate leverage to increase from 37.6% to 39.4% post-transaction. While headline aggregate leverage is still below its 45% regulatory cap, we expect the transaction to push Adjusted Gross Debt-to-Total Asset up to ~45% (adjusting 50% of its perpetuals as debt). As of report date, MLT is the highest levered industrial REIT under our coverage. Management has stated that its acquisitions are to rejuvenate the portfolio and that it is in the progress of selling down certain older specification assets in Singapore. On 15 December 2016, we had lowered our issuer profile of MLT to Negative on the back of expectations that debt levels will stay elevated for the next 6 months. We may upgrade MLT back to Neutral should we see positive traction from its asset recycling plans which may help lower its aggregate leverage level. For now though, such progress is likely to be protracted, in our view.

- **Weighted average lease expiry ("WALE") and occupancy:** As at 30 September 2016, WALE by net lettable area is 4.1 years (30 September 2015: 4.8 years). 10.1% of leases will expire between 1 October 2016 and 31 March 2017. Going forward, we expect some NPI contraction as the REIT accommodates tenant requests for fit-outs and also from costs associated with conversions of single user assets to multi-tenanted buildings. Portfolio occupancies improved to 96.4% from 95.4% as at 30 June 2016. Average debt duration was 3.7 years and all of its borrowings remain unsecured.

Mapletree Logistics Trust

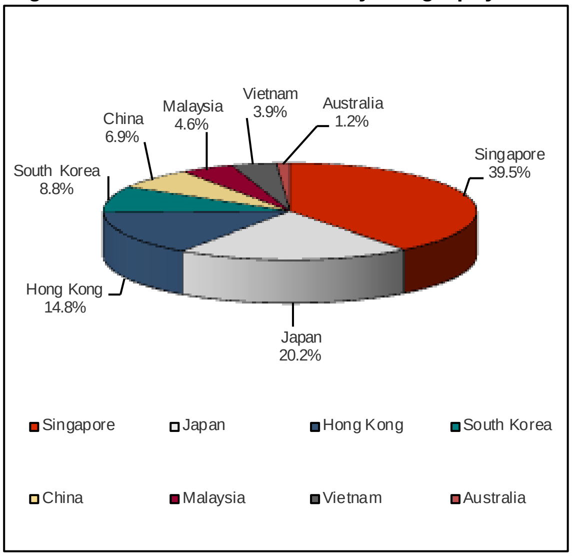
Table 1: Summary Financials

Year Ended 31st March	FY2015	FY2016	1H2017
Income Statement (SGD'mn)			
Revenue	330.1	349.9	181.1
EBITDA	245.1	255.9	133.5
EBIT	244.1	254.7	132.8
Gross interest expense	33.2	44.0	23.4
Profit Before Tax	289.4	235.4	68.1
Net profit	241.0	190.2	46.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	106.9	93.3	81.6
Total assets	4,787.7	5,207.4	5,467.7
Gross debt	1,631.9	2,058.3	2,047.2
Net debt	1,525.0	1,965.0	1,965.6
Shareholders' equity	2,888.3	2,878.5	3,110.3
Total capitalization	4,520.2	4,936.8	5,157.5
Net capitalization	4,413.3	4,843.5	5,075.9
Cash Flow (SGD'mn)			
Funds from operations (FFO)	242.0	191.3	46.9
* CFO	236.2	231.0	131.4
Capex	0.0	0.0	0.0
Acquisitions	247.3	422.5	182.2
Disposals	0.0	33.2	0.0
Dividends	176.8	178.3	91.9
Free Cash Flow (FCF)	236.2	231.0	131.4
* FCF Adjusted	-187.9	-336.7	-142.6
Key Ratios			
EBITDA margin (%)	74.3	73.1	73.7
Net margin (%)	73.0	54.4	25.5
Gross debt to EBITDA (x)	6.7	8.0	7.7
Net debt to EBITDA (x)	6.2	7.7	7.4
Gross Debt to Equity (x)	0.56	0.72	0.66
Net Debt to Equity (x)	0.53	0.68	0.63
Gross debt/total capitalisation (%)	36.1	41.7	39.7
Net debt/net capitalisation (%)	34.6	40.6	38.7
Cash/current borrowings (x)	1.9	0.4	1.6
EBITDA/Total Interest (x)	7.4	5.8	5.7

Source: Company, OCBC estimates

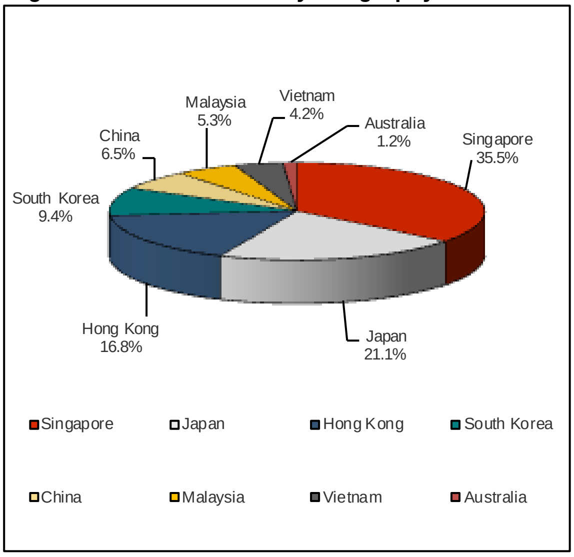
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Geography - 1H2017



Source: Company

Figure 2: NPI breakdown by Geography - 1H2017



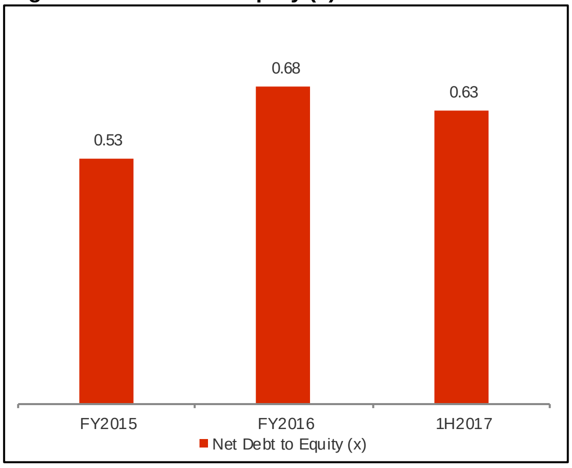
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	51.5	2.5%
	51.5	**2.5%**
Amount repayable after a year		
Secured	0.0	0.0%
Unsecured	1995.7	97.5%
	1995.7	**97.5%**
Total	**2047.2**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Nam Cheong Ltd

Credit Outlook – With the NCLSP'17s maturing in August 2017, all eyes would be on management's strategy to manage the maturity and hence determining where the rest of the curve should trade.

Issuer Profile: Negative

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **NCLSP**

Company profile

Nam Cheong Ltd ("NCL") is an offshore marine group in Malaysia with an operating history of over 25 years in the Offshore Support Vessels ("OSV") segment. Its primary business is shipbuilding, with its product range including AHTS, PSVs, Accommodation Workboats, Barges and Safety Standby Vessels. For FY2015, ~95% of NCL's revenues were derived from shipbuilding while vessel chartering accounts for ~5%. The company is substantially controlled by Chairman Tan Sri Tiong Su Kouk with a total interest of ~50%. The firm has been listed on the SGX since 2011.

Key credit considerations

- **Order cancellations continue to weigh**: For 9M2016, NCL reported just MYR50.1mn in revenue, minuscule compared to MYR708.2mn generated in 9M2015. This was driven in part by the revenue reversal in 1Q2016 (negative MYR93.1mn) due to the cancellation of an Accommodation Work Barge ("AWB") by Perdana Petroleum ("Perdana"). However, with 3Q2016 results showing revenue plunging 86.4% to MYR25.8mn (3Q2015: MYR189.3mn), other factors, such as NCL deferring the schedule of deliveries of vessels under construction at customers' requests, are having an impact. On the bright side, the vessel chartering segment seems to be picking up, with 3Q2016 segment revenue up 28.7% y/y to MYR9.2mn due to higher vessel utilization. This was also sharply higher than the MYR3.4mn in chartering revenue generated in 2Q2016. Looking forward, we would caution that Perdana has cancelled the other AWB that it had on order with NCL (this was announced in December 2016). We estimate that the AWB cancellation would impact USD42mn (~MYR186mn) worth of the existing order book of MYR1.05bn. Due to the order cancellation, it is likely that NCL would have to reverse the revenue recognized on the second AWB during 4Q2016, potentially resulting in negative revenue.

- **FX movements drove a loss**: Though NCL was able to squeeze out a gross profit of MYR34.6mn at its shipbuilding segment, the vessel chartering segment generated a gross loss of MYR13.9mn during 9M2016 (despite recent revenue improvements) due to low utilization. This resulted in a total gross profit of MYR20.7mn (MYR120.0mn). As SG&A expenses remained relatively high at MYR56.5mn (down 7% y/y) due to net foreign exchange losses (MYR24.1mn), this resulted in NCL reporting a net loss of MYR36.4mn for 9M2016. Looking forward, though energy markets have seen some recovery, the oversupply of OSVs is likely to keep demand muted for newbuilds. This would in turn prevent NCL from replenishing its order book (currently with orders to be executed till end-2018) and hence suppressing revenue.

- **Cash flows remain negative but improving**: For 9M2016, NCL reported MYR280.7mn in operating cash outflow. This was an improvement over the MYR591.3mn outflow seen in 9M2015. One big change is that rather than NCL burning cash due to the addition of build-to-stock ("BTS") vessels to its inventory, the bigger drain on cash was increase in contractual receivables from customers (MYR212.7mn impact, which may include receivables due on the second AWB cancelled). Like previous periods, management indicated delaying deliveries from its partner Chinese yards, at both end-client requests as well as for BTS vessels, in order to preserve cash flow. In 2017 though, these partner Chinese yards may resume deliveries of the BTS vessels, pressuring cash flows. As NCL has SGD90mn in bonds due in August 2017, these bonds (~MYR270mn) are now current, increasing short-term borrowings sharply q/q to MYR902.0mn (2Q2016: MYR505.4mn). Comparatively, NCL reported a total cash balance of MYR337.9mn. NCL would have to accelerate monetizing its ~MYR1.9bn in BTS vessels on its balance sheet, taking disposal losses if required, to meet its liquidity needs.

- **Leveraging inching higher due to cash burn**: Due to operating cash burn, NCL had been relying on borrowings, such as drawing on its bank facilities, to plug in the cash gap. This drove net gearing higher to 112% (2015: 95%). With its core shipbuilding business remaining weak, and more BTS vessels to be delivered in 2017, we expect NCL's credit profile deterioration to continue. As such, we will continue to hold NCL's Issuer Profile at Negative.

Nam Cheong Ltd

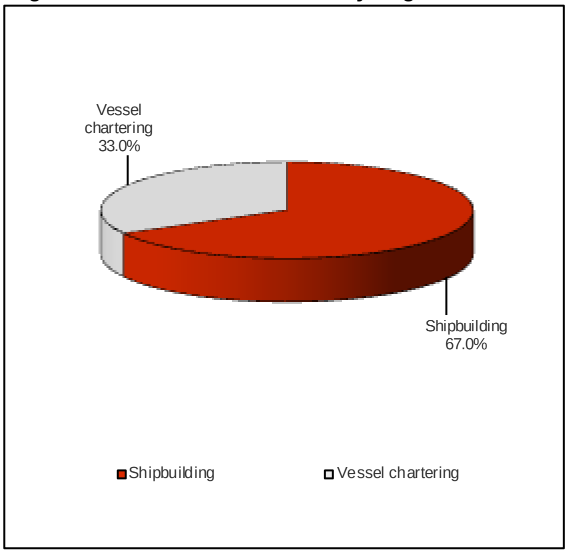
Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	9M2016
Income Statement (MYR'mn)			
Revenue	1,928.6	950.0	50.1
EBITDA	306.6	77.9	-33.1
EBIT	289.0	56.2	-49.2
^ Gross interest expense	53.5	81.6	10.0
Profit Before Tax	303.3	31.0	-36.6
Net profit	301.8	28.5	-36.4
Balance Sheet (MYR'mn)			
Cash and bank deposits	800.1	506.1	337.9
Total assets	3,252.4	3,950.9	3,846.7
Gross debt	1,309.3	1,809.2	1,790.2
Net debt	509.2	1,303.1	1,452.3
Shareholders' equity	1,219.3	1,377.1	1,301.6
Total capitalization	2,528.7	3,186.3	3,091.8
Net capitalization	1,728.6	2,680.3	2,753.9
Cash Flow (MYR'mn)			
Funds from operations (FFO)	319.5	50.2	-20.3
* CFO	161.1	-564.6	-280.7
Capex	6.3	34.0	0.1
Acquisitions	117.4	0.0	0.0
Disposals	145.1	0.1	0.0
Dividend	55.1	84.9	0.0
Free Cash Flow (FCF)	154.8	-598.6	-280.7
* FCF adjusted	127.4	-683.4	-280.7
Key Ratios			
EBITDA margin (%)	15.9	8.2	-66.0
Net margin (%)	15.6	3.0	-72.6
Gross debt to EBITDA (x)	4.3	23.2	-40.6
Net debt to EBITDA (x)	1.7	16.7	-32.9
Gross Debt to Equity (x)	1.07	1.31	1.38
Net Debt to Equity (x)	0.42	0.95	1.12
Gross debt/total capitalisation (%)	51.8	56.8	57.9
Net debt/net capitalisation (%)	29.5	48.6	52.7
Cash/current borrowings (x)	1.4	0.8	0.4
^ EBITDA/Total Interest (x)	5.7	1.0	-3.3

Source: Company, OCBC estimates | ^9M2016's figures exclude capitalised interest expense

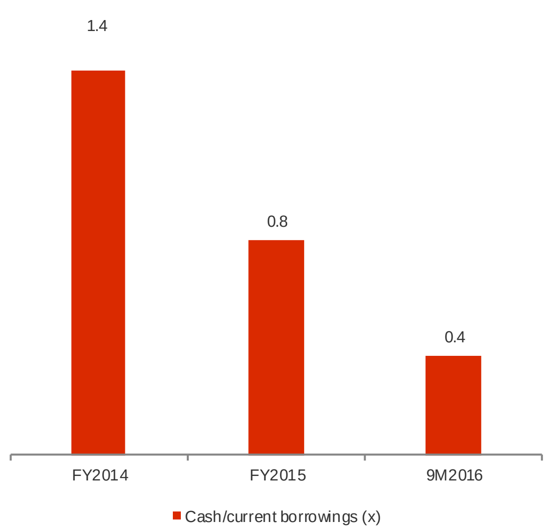
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2016



Source: Company

Figure 2: Cash / Current Borrowings (x)



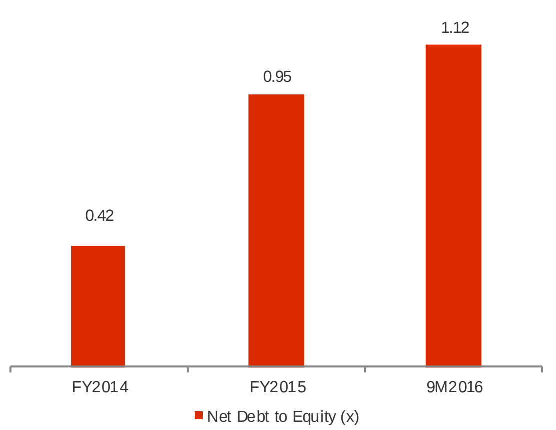
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (MYR'mn)	As at 30/09/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	629.1	35.1%
Unsecured	272.8	15.2%
	902.0	**50.4%**
Amount repayable after a year		
Secured	106.1	5.9%
Unsecured	782.2	43.7%
	888.3	**49.6%**
Total	**1790.2**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – With the exception of the OLAMSP'22s and OLAMSP'49c17 which we hold at Neutral, we continue to see the OLAM curve as tight versus its standalone credit profile (ie: market pricing in implicit support from parent company). Our base case is the OLAMSP'49c17 will be called.

Issuer Profile: Neutral

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **OLAMSP**

Background

Olam International Limited ("Olam") is a diversified, vertically-integrated agri-commodities merchandiser, producer and trader. It also generates income from the sale of packaged food products, commodity financial services and holding minority stakes in longer term investments. Currently, Temasek is the largest shareholder with 52.2% stake, followed by Mitsubishi Corp. with 20.3%, Kewalram Chanrai Group (founder) with 4.9% and senior management with 6.4%.

Olam International Ltd

Key credit considerations

- **Some improvement in 9M2016 results:** Olam's 9M2016 revenue increased by 6.4% to SGD14.5bn while reported EBITDA was up 3.4% y/y at SGD853.9mn. The improvement in EBITDA was on the back of stronger performance at the Confectionary & Beverage and Food Staples & Packaging segments (collectively up SGD142.4mn), which offset the declines in Edible Nuts, Spices & Vegetable Ingredients, Industrial Raw Materials ("IRM") and Commodity Financial Services ("CFS") (collectively down SGD114.1mn). As part of the company's on-going efforts to optimize debt cost, Olam reported lower finance expenses during 9M2016. Taking out the impact of exceptional items, gross finance expenses were SGD312.3mn, against SGD348.4mn in 9M2015. Reported profit after tax for 9M2016 was higher at SGD236.0mn, up 68.1% against 9M2015, though this was largely due to the absence of exceptional losses. Foreign currency translation adjustment (largely on account of the Naira's depreciation) dragged Olam to report a comprehensive loss of SGD268.9mn. While there is no immediate cash flow impact (until such time Olam decides to monetize its Nigerian assets for hard currency), the loss negatively impacted book value equity.

- **Cashflow continues to be consumed by growth and rewarding shareholders:** Taking each segment's EBITDA and deducting for change in working capital, we estimate that the Edible Nuts, Spices & Vegetable Ingredients and Food Staples & Packaging segments was the largest contributor to CFO (before interest and tax), in aggregate at SGD643mn. Despite the SGD80.7mn improvement in Confectionary & Beverage EBITDA, higher coffee and cocoa prices along with accumulation of cocoa inventories resulted in higher working capital and hence negative CFO of SGD72mn during 9M2016. Olam reported overall CFO (before interest and tax) of SGD833.4mn, against SGD343.2mn in 9M2015, and covering gross interest by 2.6x. Investing cash flows was significant at SGD901.4mn (9M2015: SGD263.5mn), largely on account of the acquisitions of wheat milling assets in Nigeria, Brooks peanut company in the US and palm oil investments. The cash gap was plugged by higher borrowings and a USD500mn perpetual issuance in July 2016. Olam continues to be shareholder friendly. In 9M2016, it paid SGD184mn in dividends and bought back SGD75.8mn in shares.

- **Gearing increased moderately:** Olam's headline net debt-to-equity fell to 1.87x as at 30 September 2016 from 1.96x as at 31 December 2015. Adjusting net debt for 50% perpetuals as debt and 50% as equity, we find adjusted net debt-to-equity at 2.16x (31 December 2015: 1.97x). As the bulk of inventory is hedged and/or sold forward and 60-70% of receivables is supported by letters of credit/bank documentation, Olam also adjusts downwards net debt for readily marketable inventories and secured receivables. As at 30 September 2016, Olam's reported adjusted net debt-to-equity increased to 0.79x (31 December 2015: 0.73x). As at 31 December 2015, perpetuals made up less 1.3% of total capital and this has increased to 5.1% as at 30 September 2016.

- **Refinancing risk:** As at 30 September 2016, Olam has SGD6.3bn in short term debt due versus cash balance of SGD2.2bn. In October 2016, the company raised USD2.0bn (~SGD2.9bn) in revolving credit facilities where the proceeds will go towards refinancing existing loans of the company. Olam faces another USD500mn (~SGD724mn) in bonds due in September 2017 and we understand from the company there is ~SGD1bn in revolving facilities that will come due over this period. Our base case remains that Olam will be able to refinance its debt due and call on the SGD perpetuals (outstanding SGD235.8mn) come March 2017. Olam only has a public float of ~16%, therefore, the company's financial flexibility hinges on the implicit support of Temasek (rated at "AAA/Aaa/NR" with Stable outlook) and Mitsubishi (rated "A/A2/NR" with Negative outlook).

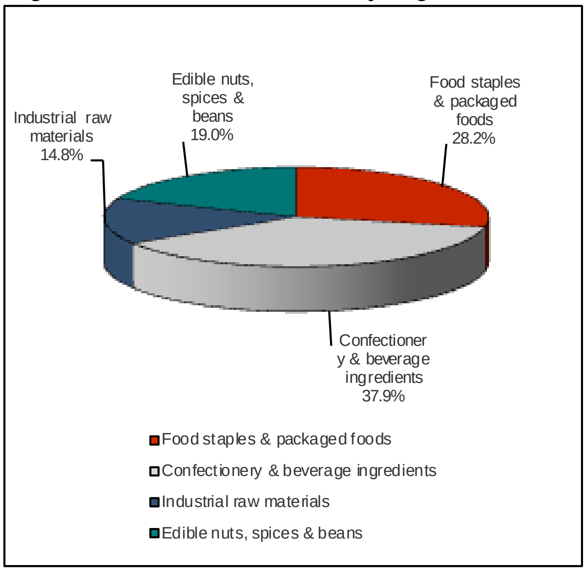
Olam International Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	19,772.0	19,052.6	14,480.7
EBITDA	1,061.5	1,034.0	818.4
EBIT	851.7	796.9	571.6
Gross interest expense	492.2	494.0	324.6
Profit Before Tax	728.6	40.0	303.2
Net profit	591.0	-64.3	249.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,236.0	2,143.2	2,223.1
Total assets	15,522.8	20,736.6	21,555.7
Gross debt	9,113.3	12,293.9	12,560.8
Net debt	7,877.2	10,150.7	10,337.7
Shareholders' equity	3,901.6	5,319.7	5,462.9
Total capitalization	13,014.9	17,613.6	18,023.7
Net capitalization	11,778.9	15,470.4	15,800.6
Cash Flow (SGD'mn)			
Funds from operations (FFO)	800.8	172.8	495.9
* CFO	-95.0	-451.2	435.2
Capex	442.8	369.8	485.4
Acquisitions	82.6	1,969.7	474.4
Disposals	512.6	244.5	27.7
Dividend	190.0	61.0	184.0
Free Cash Flow (FCF)	-537.9	-821.1	-50.3
* FCF adjusted	-297.9	-2,607.3	-681.0
Key Ratios			
EBITDA margin (%)	5.4	5.4	5.7
Net margin (%)	3.0	-0.3	1.7
Gross debt to EBITDA (x)	8.6	11.9	11.5
Net debt to EBITDA (x)	7.4	9.8	9.5
Gross Debt to Equity (x)	2.34	2.31	2.30
Net Debt to Equity (x)	2.02	1.91	1.89
Gross debt/total capitalisation (%)	70.0	69.8	69.7
Net debt/net capitalisation (%)	66.9	65.6	65.4
Cash/current borrowings (x)	0.4	0.4	0.4
EBITDA/Total Interest (x)	2.2	2.1	2.5

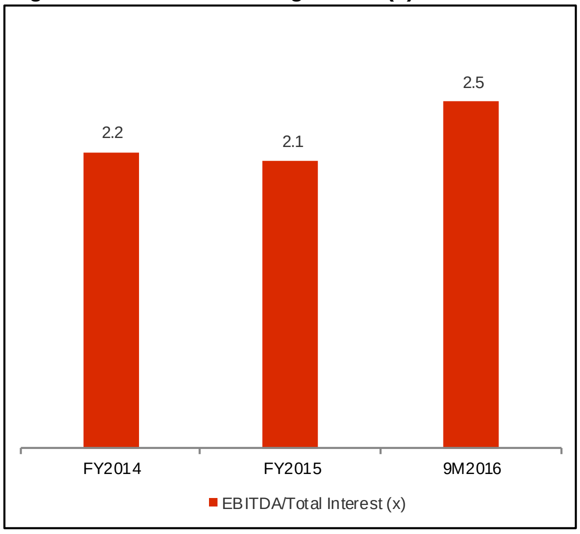
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2016



Source: Company

Figure 2: Interest Coverage Ratio (x)



Source: Company, OCBC estimates

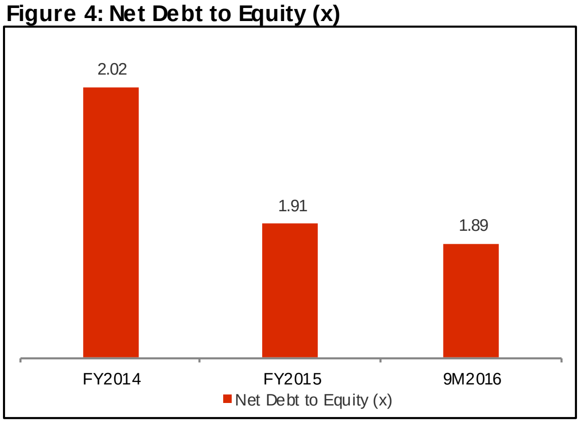
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	21.1	0.2%
Unsecured	6,309.2	50.2%
	6,330.3	**50.4%**
Amount repayable after a year		
Secured	87.5	0.7%
Unsecured	6,143.0	48.9%
	6,230.5	**49.6%**
Total	**12,560.8**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –
We find the OUESP'19s and OUESP'20s more attractive than the GUOLSP'19s and GUOLSP'20s given the spread pickup despite the more compelling credit improvement story for OUE as well as stronger leverage profile.

Issuer Profile: Neutral

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **OUESP**

Company Profile
Incorporated in 1964, OUE Ltd ("OUE") is a real estate developer and landlord with a real estate portfolio located at prime locations in Singapore (such as Orchard Road) and across the region. The group has diverse exposure across the office, hospitality, retail and residential property segments. OUE is the sponsor of OUE Hospitality Trust ("OUEHT") and OUE Commercial REIT ("OUECT"). The company is 68.0%-owned by the Lippo Group.

OUE Ltd

Key credit considerations

- **Of DPS and divestments**: For 9M2016, OUE reported SGD675.9mn in revenue, more than double the revenue generated in 9M2015. This was largely driven by OUE's 3Q2016 results, which reported revenue surging to SGD419.1mn (3Q2015: SGD99.0mn). The quarter's strong showing was driven by Development Property income, which did not generate revenue in 3Q2015, but generated SGD89.2mn due to strong sales of the Twin Peaks condo (sustained by the deferred payment scheme ("DPS") introduced in April, as well as discounts given), as well as by SGD205mn in development revenue recognized from the divestment of the Crowne Plaza Changi Airport extension ("CPEX") into OUEHT. It should be noted that sales recognized thus far for the Twin Peaks condo were only for transactions that completed during the quarter.

- **One Raffles Place boost, Hospitality muted**: For 3Q2016, Investment Properties income grew 50.1% y/y to SGD65.6mn, due to the consolidation of One Raffles Place into OUE's results. Revenue from the Hospitality segment was relatively stagnant at SGD52.4mn, likely driven by the soft environment suppressing management fees. Looking forward, with OUE's main hospitality assets in Singapore, the weak domestic hospitality sector outlook (in part driven by overcapacity of rooms) could keep the segment soft, though it could be offset by the ramping up of CPEX.

- **Non-recurring items drove profits**: Net income surged during 3Q2016 to SGD113.6mn (with OUE recognizing a SGD66.7mn gain on the divestment of CPEX). As of end-3Q2016, OUE sold 268 units of the Twin Peaks development, out of 462 units across both towers (with marketing of Tower 1 units only having started in 2H2016). Profits were also supported by reversals on impairment losses (SGD15.1mn gain seen in the quarter) on the Twin Peaks. As a result of sales driven by DPS (with 20% non-refundable deposits paid) only being recognized upon completion, the deposits paid are booked as a non-current liability as deferred income. These stood at SGD58.8mn as of end-3Q2016, representing ~SGD294mn in sales to be recognized in the future, up from ~SGD190mn one quarter back. Cash flow from operations (including interest service) surged as well to SGD313.6mn, mainly due to the cash proceeds from the CPEX divestment. About SGD44.3mn was spent during the quarter on the on-going AEI at OUE Downtown. OUE also paid down about SGD220mn in net debt and paid out ~SGD40mn in dividends.

- **Credit profile improved, but positive catalysts largely occurred**: In aggregate, net gearing improved q/q from 67% to 60%. OUE continues to have SGD703.4mn in short-term debt versus SGD213.1mn in cash. We believe that OUE should be able to refinance its short-term borrowings, especially given the strong sales at Twin Peaks. Other possible sources of liquidity include the mutual fund investment which OUE has. During 9M2016, OUE had partially redeemed SGD95.4mn in the fund, with about SGD279.2mn balance left as of end-3Q2016. Looking forward, most of the near-term catalysts have already played out, though future revenue recognition from Twin Peak DPS sales would help support total revenue. It could be challenging to ramp up the retail portion of the OUE Downtown given the tough environment. We also expect lease pressure at the office portion of OUE Downtown given competition. We will retain our Neutral Issuer Profile on OUE.

OUE Ltd

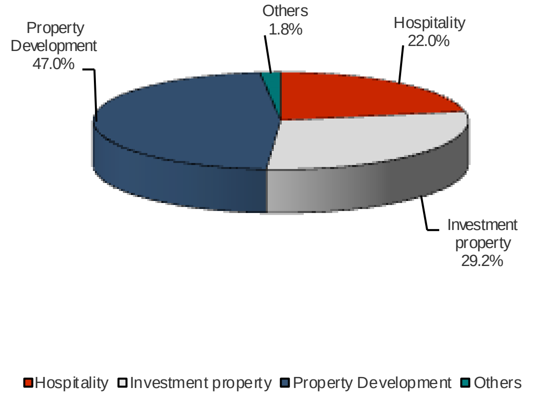
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	416.4	431.5	675.9
EBITDA	110.2	54.2	186.1
EBIT	98.0	50.2	182.8
Gross interest expense	80.7	90.9	106.7
Profit Before Tax	1,300.8	201.1	180.4
Net profit	1,094.0	156.4	141.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	162.0	172.4	213.1
Total assets	6,694.3	8,129.8	8,091.3
Gross debt	2,065.9	2,924.5	2,971.2
Net debt	1,904.0	2,752.2	2,758.2
Shareholders' equity	4,339.4	4,764.2	4,592.6
Total capitalization	6,405.4	7,688.7	7,563.8
Net capitalization	6,243.4	7,516.4	7,350.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	1,106.2	160.3	144.9
* CFO	-46.0	-30.8	319.5
Capex	13.3	4.2	2.0
Acquisitions	512.5	893.0	178.1
Disposals	-15.2	526.7	123.9
Dividend	59.1	71.2	73.8
Free Cash Flow (FCF)	-59.3	-34.9	317.5
* FCF Adjusted	-646.1	-472.3	189.5
Key Ratios			
EBITDA margin (%)	26.5	12.6	27.5
Net margin (%)	262.7	36.2	21.0
Gross debt to EBITDA (x)	18.7	54.0	12.0
Net debt to EBITDA (x)	17.3	50.8	11.1
Gross Debt to Equity (x)	0.48	0.61	0.65
Net Debt to Equity (x)	0.44	0.58	0.60
Gross debt/total capitalisation (%)	32.3	38.0	39.3
Net debt/net capitalisation (%)	30.5	36.6	37.5
Cash/current borrowings (x)	0.2	1.1	0.3
EBITDA/Total Interest (x)	1.4	0.6	1.7

Source: Company, OCBC estimates

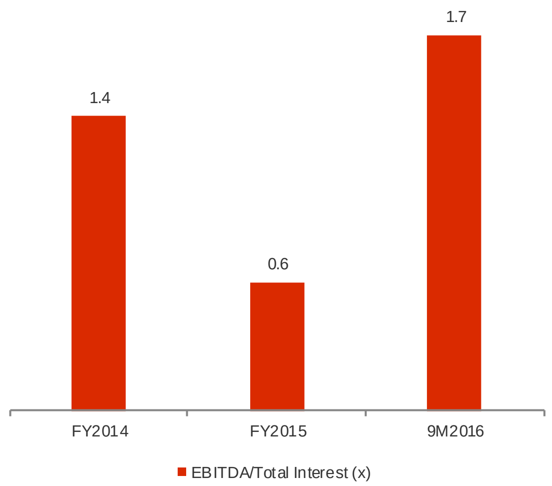
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2016



Source: Company

Figure 2: Interest Coverage Ratio (x)



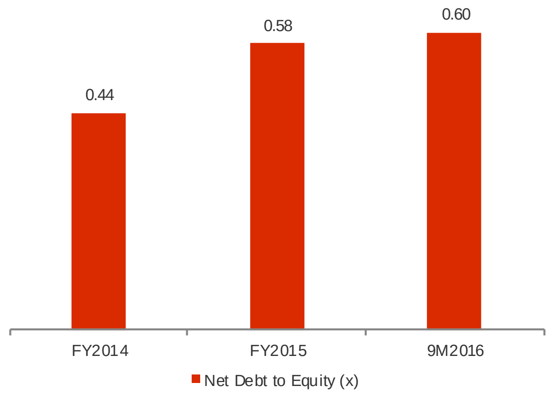
Source: Company, OCBC estimates

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	403.6	13.6%
Unsecured	299.7	10.1%
	703.4	**23.7%**
Amount repayable after a year		
Secured	1771.1	59.6%
Unsecured	496.8	16.7%
	2267.8	**76.3%**
Total	**2971.2**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Pacific Radiance Ltd

Credit Outlook – The positive catalyst of PACRA refinancing its vessel borrowings hence alleviating liquidity pressure is dampened by the still challenging environment as well as high gearing level. We will retain our Neutral recommendation on the PACRASP'18s.

Issuer Profile: Negative

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **PACRASP**

Company profile

Listed in 2013, PACRA is primarily an owner and operator of offshore support vessels. The firm currently operates more than 140 vessels. Its fleet is relatively young, with an average age of ~5 years. The majority of its revenue is generated from the Asia region. The firm also has a subsea division, which includes the utilization of two dive support vessels. The key shareholder and Chairman, Mr Pang Yoke Min, has more than 30 years of experience in the offshore marine sector, having co-founded Jaya Holdings in 1981, and managed it till 2006. He controls ~67% of PACRA.

Key credit considerations

- **OSV utilization continues to be weak**: For 9M2016, PACRA reported USD57.3mn in revenue, a 42.7% y/y decline. The sector continues to be pressured due to overcapacity of vessels, coupled with weak demand stemming from the slump in upstream activity due to weak energy prices. As such, utilization for PACRA's OSVs remained low at ~40%, while charter rates are down by about ~25% y/y based on peers' performance. These factors drove the OSV chartering division's revenue lower by 45% y/y to USD49.5mn. Looking forward, though the nascent recovery in energy prices could stimulate more upstream activity, there remains about ~10% of current global OSV population under construction. As such, in the event of any recovery, we can expect utilization to recover first, before charter rates. This could also imply that margin pressure will persist. In addition, PACRA's 4Q and 1Q revenue are likely to face seasonal pressure due to the low work season.

- **Bottom line continues to be squeezed**: PACRA generated a gross loss of USD17.2mn for the period, with all three quarters generating a gross loss. Due to competition, charter rates for OSVs have largely plunged to levels just covering operating expenditure. PACRA's DSVs are starting to see some interest though, with customers seeking these specialized vessels for maintenance work that can no longer be delayed. During the period, PACRA also took USD11.4mn in provisions over doubtful receivables. These were largely due to Swiber Holding's default (with management indicating that PACRA has no further exposures). PACRA had also taken USD32.9mn in impairments on its fixed assets during 2Q2016. Coupled with USD11.6mn in financing costs, PACRA generated a net loss to shareholders of USD82.5mn for 9M2016. (9M2015: USD6.4mn net profit).

- **Cash flow remains weak despite lower capex**: PACRA reported USD37.6mn in operating cash outflow for the period (9M2015: USD35.0mn operating cash flow). This was largely due to the gross losses generated. Given committed capex needs, PACRA spent USD81.4mn for the period, largely on vessel deliveries. As such, free cash flow was negative USD119mn, and this was funded by both asset disposals (USD35.9mn worth) as well as additional borrowings (net debt surged USD124.5mn versus end-2015). There are signs that vessel delivery commitments are tapering off, with capex falling sharply q/q to USD5.9mn (2Q2016: USD32.9mn). Looking forward, PACRA indicated that it had one more vessel delivery for 4Q2016 (with financing secured, and a charter waiting). 2017's vessel deliveries are more manageable, and PACRA expects to continue with vessel divestments (particularly of older vessels).

- **Credit profile continues to deteriorate**: Net gearing has worsened sharply from 86% (end-2015) to 149%. This was largely due to PACRA funding its operating cash gap as well as committed capex with additional borrowings. PACRA reported USD103.5mn in short-term borrowings (all secured financing likely related to vessels) compared to USD29.5mn of cash balance. It is worth noting that late October PACRA announced that it managed to negotiate and refinance USD185mn worth of short to medium term bank debt. The profile of these term loans have been refinanced to twelve years (from an average of seven years previously), and the maturity has largely been extended from 2019 to 2021. As a result, PACRA's loan principal repayment burden will be reduced by ~USD103mn over the next three years to 2019. As such, PACRA's short-term liquidity needs are being managed. We will continue to hold PACRA at Negative Issuer Profile, reflecting the challenging environment and high levels of leverage.

Pacific Radiance Ltd

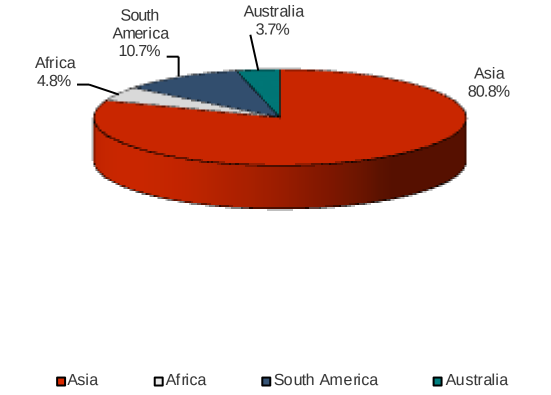
Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	9M2016
Income Statement (USD'mn)			
Revenue	172.2	121.8	57.3
EBITDA	51.7	26.7	-10.8
EBIT	23.8	0.4	-33.7
Gross interest expense	9.1	12.1	11.6
Profit Before Tax	68.3	5.3	-85.5
Net profit	68.3	3.7	-82.5
Balance Sheet (USD'mn)			
Cash and bank deposits	101.4	43.1	29.5
Total assets	839.5	916.6	938.5
Gross debt	327.0	399.4	510.3
Net debt	225.5	356.3	480.8
Shareholders' equity	431.9	416.0	323.1
Total capitalization	758.9	815.4	833.4
Net capitalization	657.5	772.3	803.9
Cash Flow (USD'mn)			
Funds from operations (FFO)	96.2	30.1	-59.6
* CFO	62.2	24.4	-37.6
Capex	206.9	161.6	81.4
Acquisitions	6.7	3.4	-0.3
Disposals	169.3	7.6	35.9
Dividend	11.4	17.9	5.8
Free Cash Flow (FCF)	-144.7	-137.2	-119.0
* FCF adjusted	6.4	-151.0	-88.7
Key Ratios			
EBITDA margin (%)	30.0	21.9	-18.9
Net margin (%)	39.7	3.1	-143.9
Gross debt to EBITDA (x)	6.3	14.9	-35.4
Net debt to EBITDA (x)	4.4	13.3	-33.3
Gross Debt to Equity (x)	0.76	0.96	1.58
Net Debt to Equity (x)	0.52	0.86	1.49
Gross debt/total capitalisation (%)	43.1	49.0	61.2
Net debt/net capitalisation (%)	34.3	46.1	59.8
Cash/current borrowings (x)	2.0	0.5	0.3
EBITDA/Total Interest (x)	5.7	2.2	-0.9

Source: Company, OCBC estimates

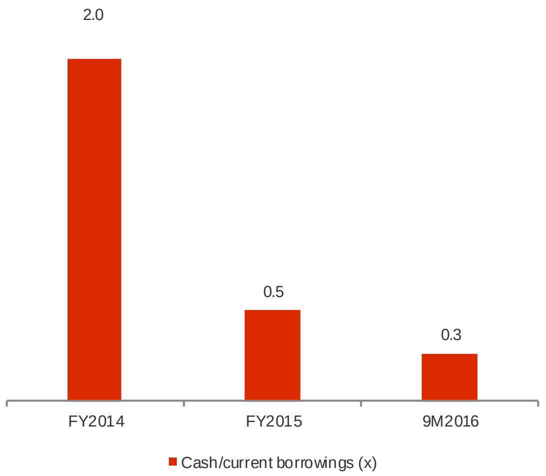
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Geography - FY2015



Source: Company

Figure 2: Cash / Current Borrowings (x)



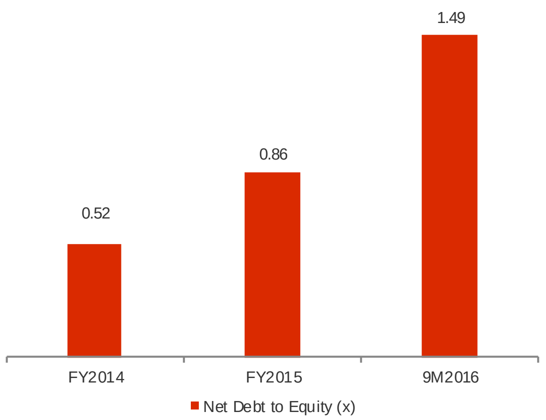
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 30/09/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	103.5	20.3%
Unsecured	0.0	0.0%
	103.5	**20.3%**
Amount repayable after a year		
Secured	334.7	65.6%
Unsecured	72.1	14.1%
	406.8	**79.7%**
Total	**510.3**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We prefer PREHSP 4.65%'18s over PREHSP 4.25%'18s for 118bps pickup, and PREHSP 4.55%'20s over PREHSP'19s for 98bps pickup.

Issuer Rating: Neutral

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **PREHSP**

Company Profile

PREH was formed from a reverse take-over of St James Holdings Ltd in October 2014. PREH is now an integrated real estate owner and developer focused primarily in China and Singapore. PREH is developing large scale mixed-use developments in railway hubs of China while portfolio of stabilised office and retail assets in Singapore and China provide stable rental income. The company is 75.7%-owned by Mr Kuok, CEO of Wilmar, Mr Ron Sim CEO of Osim, Wilmar and Mr Pua, CEO of PREH and has a market capitalisation of SGD1.32bn.

Perennial Real Estate Holdings Ltd

Key credit considerations

- **Decent results:** 3Q2016 revenue increased 53.2% y/y to SGD35.1mn mainly due to strata sales of office space at TripleOne Somerset in Singapore. Sales of the office and medical suites at AXA Tower have also been achieved at or above SGD2,550 psf, which is higher than the SGD1,750 psf purchase price back in Jan 2015. However, EBIT declined 15.6% to SGD15.8mn mainly due to the absence of one-off investment income from a year ago. While 9M2016 revenue appears flattish at SGD88.7mn, we expect this to increase over the longer-term as the newly acquired medical and healthcare businesses begin to contribute.

- **Unlocking the healthcare portfolio:** While the healthcare segment has been a small contributor, we expect the contribution to increase going forward. By 1H2017, PREH is expected to obtain the Temporary Occupation Permit for its 80%-owned 280,000 sqm Perennial International Health and Medical Hub ("PIHMH") located in Chengdu. At PIHMH, St. Stamford International Medical ("SSIM"), which is a 40-60 JV between Perennial and Guangdong Boai Group (subsidiary of China Boai Medical Group), will operate a 90-bed hospital providing plastic surgery, aesthetic medical and dental services. SSIM also acquired Modern Hospital Guangzhou, a leading private general and cancer hospital from China Boai Medical Group. Aidigong (20% owned by PREH) will similarly open a 80-bed maternal and child health centre at PIHMH. On 13 Sep 2016, PREH acquired 49.9% stake in Renshoutang, which is an eldercare company, via a capital injection of RMB735.5mn. Renshoutang operates over 2,400 beds via two brands, being Yixian Eldercare and Retirement Home and Xiehe Eldercare and Retirement Home.

- **Large development pipeline ahead:** Together with PIHMH under the Chengdu East High Speed Railway Integrated Development, PREH is developing the 50%-owned Plot D2. At Plot D2, 5 towers have topped out, with the last expected to top out by 4Q2016. Construction works are also progressing at Phase 1 (40%-owned) and 2 (23.3%-owned) of Beijing Tongzhou Integrated Development, and we expect operations to commence around 2018. 50%-owned Plot 4 and Plot 5 of Xi'an North Integrated Development are expected to commence operations in 2018 and 2019 respectively. PREH also has a 20%-stake in Zhuhai Hengqin Integrated Development, which will commence operations in 2020. In Malaysia, Perennial will be developing its 50%-owned Penang Waterfront Integrated Development, with an estimated total development cost of c.SGD1bn, to be completed in 2021.

- **Recurring income from investment properties:** While the healthcare and development portfolio are under gestation, revenue from investment properties makes up the bulk of the total revenue, contributing SGD102.7mn out of SGD139mn in revenue for 1 Jul 2014 to 31 Dec 2015. The annualized revenue at SGD68.5mn covers the gross interest expense of SGD64.1mn in FY2015. Properties in Singapore include CHIJMES (51.61% stake), Capitol Singapore (50%), TripleOne Somerset (50.2% stake), AXA Tower (31.2%). PREH has also acquired another 40% stake in Chinatown Point, lifting its total ownership of the mall to 45.15% for SGD61.8mn. In China, the properties include Perennial Jihua Mall (100%), Perennial Qingyang Mall (100%), Shenyang Longemont Shopping Mall (50%), Shenyang Red Star Maccaline Furniture Mall (50%) and Shenyang Longemont Offices (50%).

- **Balance sheet set to expand:** With the large development pipeline and investments (e.g. boost in stake in Chinatown Point, acquisition of Renshoutang) and a potential to exercise a call option to acquire a 20% stake in Aviva Tower, we expect net debt/equity to continue increasing beyond 0.63x. The credit profile remains manageable for now, with healthy access to financing from the issuance of bonds in Mar/Apr 2016 and securing RMB6.4bn of loans from Bank of China.

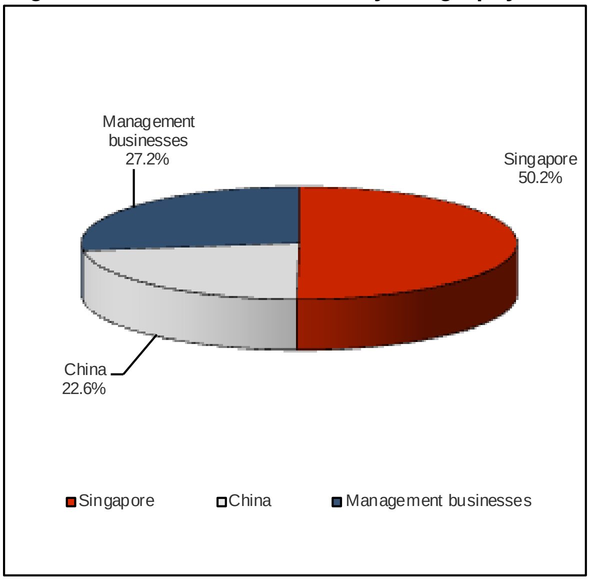
Perennial Real Estate Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	31.0	117.7	88.7
EBITDA	-11.2	60.0	38.2
EBIT	-12.3	56.2	34.4
Gross interest expense	10.1	64.1	47.3
Profit Before Tax	38.5	86.1	17.9
Net profit	17.1	58.1	9.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	106.8	162.0	155.5
Total assets	4,408.5	6,450.3	6,732.2
Gross debt	1,495.6	1,911.7	2,438.3
Net debt	1,388.8	1,749.6	2,282.9
Shareholders' equity	2,345.4	3,882.4	3,646.8
Total capitalization	3,840.9	5,794.1	6,085.2
Net capitalization	3,734.1	5,632.0	5,929.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	18.2	61.9	13.3
* CFO	9.9	-166.5	-1.1
Capex	20.4	59.4	64.9
Acquisitions	-121.2	232.5	59.4
Disposals	0.3	0.0	5.0
Dividends	10.9	0.9	7.5
Free Cash Flow (FCF)	-10.6	-225.9	-66.0
* FCF Adjusted	100.0	-459.3	-127.9
Key Ratios			
EBITDA margin (%)	-36.2	51.0	43.1
Net margin (%)	55.0	49.4	10.7
Gross debt to EBITDA (x)	-133.2	31.9	47.9
Net debt to EBITDA (x)	-123.7	29.2	44.8
Gross Debt to Equity (x)	0.64	0.49	0.67
Net Debt to Equity (x)	0.59	0.45	0.63
Gross debt/total capitalisation (%)	38.9	33.0	40.1
Net debt/net capitalisation (%)	37.2	31.1	38.5
Cash/current borrowings (x)	0.8	1.0	0.9
EBITDA/Total Interest (x)	-1.1	0.9	0.8

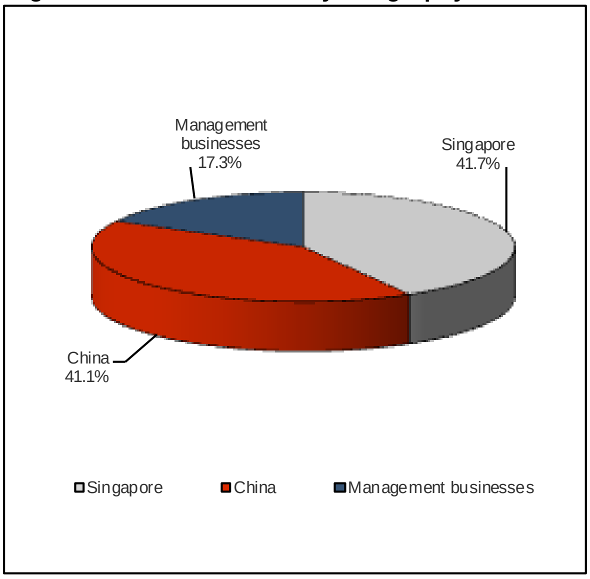
Source: Company, OCBC estimates
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Geography - 9M2016



Source: Company

Figure 2: EBIT breakdown by Geography - 9M2016



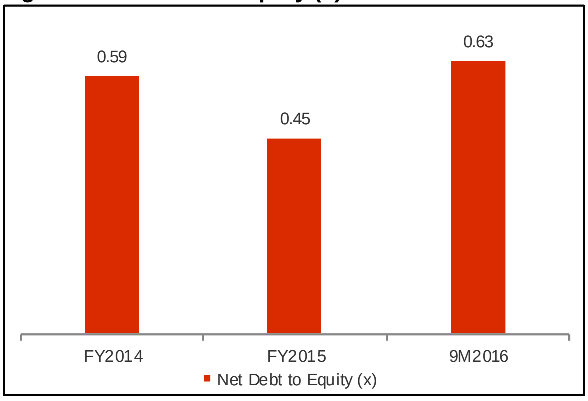
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	29.3	1.2%
Unsecured	150.0	6.2%
	179.3	**7.4%**
Amount repayable after a year		
Secured	1254.7	51.5%
Unsecured	1004.4	41.2%
	2259.1	**92.6%**
Total	**2438.3**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Sabana Shari'ah Compliant Industrial REIT

Credit Outlook – We are underweight the SSREIT'18s and '19s as we see downside risk on clearing prices. The company's aggressive expansion in end-2016 has led to heightened near-term liquidity pressures, while alleviated via equity, comes at the cost of future financial flexibility.

Issuer Profile: Negative

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **SSREIT**

Background

Listed in 2010, Sabana Shari'ah Compliant Industrial REIT ("SSREIT") is an industrial REIT in Singapore, with total assets of SGD1.06bn as at 30 September 2016. SSREIT currently owns a portfolio of 21 properties in Singapore. The REIT is Sponsored by Vibrant Group Limited which holds ~6.5% in the REIT. Jinquan Tong is the largest unitholder with ~8%. The REIT manager is 51% owned by the Sponsor, with the remainder owned by the senior management team and Atrium Capital Partners.

Key credit considerations

- **Profitability weakened in 9M2016:** In 9M2016, SSREIT reported a 9.2% decline in revenue to SGD69.3mn on the back of negative rental revisions for certain master leases, lower overall portfolio occupancy due to expiry on some Master Leases, 2 divested properties and expiry of rental support at 9 Tai Seng Drive. The decline in Net Property Income ("NPI") was more apparent, with NPI down 22.2% to SGD43.0mn. This was driven by rental renewal terms which were less favorable to SSREIT as well as higher net impairment losses on trade receivables (mainly arising from 1 Tuas Avenue 4). NPI as a proportion of gross revenue has deteriorated to 62% versus 73% in 9M2015. Removing the impact of the divested properties, we think revenue would have declined by 6.9% on a "same-store" basis. As a result of a lower asset base, Manager and Trustee fees were 15.7% lower in 9M2016 at SGD4.4mn, resulting in EBITDA of SGD38.7mn (9M2015: SGD50.1mn).

- **Decline in interest coverage:** For 9M2016, EBITDA/Gross interest coverage was lower at 2.5x versus 3.1x in 9M2015, though still above its covenanted levels of 1.5x. Assuming similar NPI margin levels and that the short term debt due is refinanced at 7%, SSREIT can withstand a ~25% fall in NPI before it breaches its covenant levels. Going forward in FY2017, we think the y/y fall in NPI will be more in line with market norms, after recognizing falls in NPIs from the expiry of Master Leases in its initial IPO portfolio between end-2013 and end-2015.

- **Heavy impending refinancing and acquisition obligations:** As at 30 September 2016, SSREIT faces SGD128.2mn in short term debt due. Of these, SGD75mn of term loan is due in August 2017 and ~SGD43mn in convertible sukuk is due in September 2017. We think the sukuk is unlikely to be converted by holders into equity at current conversion rates. In December 2016, SSREIT had entered into (1) an agreement to acquire 3 properties for SGD82mn (including transaction costs) and (2) to sell 218 Pandan Loop which should bring cash inflow of SGD14.8mn by 1Q2017. The net movement in assets is expected to result in cash outflow of SGD68mn, bringing SSREIT's total short term obligations to ~SGD196mn. As at 30 September 2016, SSREIT's cash balances was only SGD8.8mn. Our base case remains that SSREIT is able to refinance the debt coming due, albeit at higher cost. Unencumbered assets were SGD340mn as at 30 September 2016 and SGD56.1mn of debt facilities remains undrawn, which should help support refinancing.

- **Highly discounted rights issue helps in the near-term at the cost of future financial flexibility:** SSREIT's latest independent valuations as at 30 June 2016 showed an asset value of SGD1.04bn on its 21 properties. This was 5% asset corrosion against the valuation reported as at 31 December 2015. As a result of a lower asset base, SSREIT's aggregate leverage was relatively flat at 41.5%, despite the 9.4% decline in gross debt to SGD435.7mn (31 December 2015: SGD481.1mn). In December 2016, SSREIT announced a proposed underwritten and renounceable rights issue to raise SGD80.2mn to fund 3 acquisitions announced in the same month. The Sponsor, the REIT Manager and two controlling shareholders of the Sponsor has provided undertakings to subscribe their pro-rata portion (12.1%) and to subscribe for an additional 8.35% of rights if they remain unsubscribed. Tong Jinquan (ie: currently the single largest unitholder of the REIT) is not part of the undertaking. SSREIT expects its leverage to decrease to ~39.2%. As this deal is underwritten, there is near-certainty of completion. The equity injection helps alleviate immediate liquidity needs and releases headroom for further declines in portfolio value. Nonetheless, we see SSREIT's future financial flexibility as hampered on a standalone basis and think there is considerable uncertainty as to SSREIT's market capitalization post-rights.

Sabana Shari'ah Compliant Industrial Trust

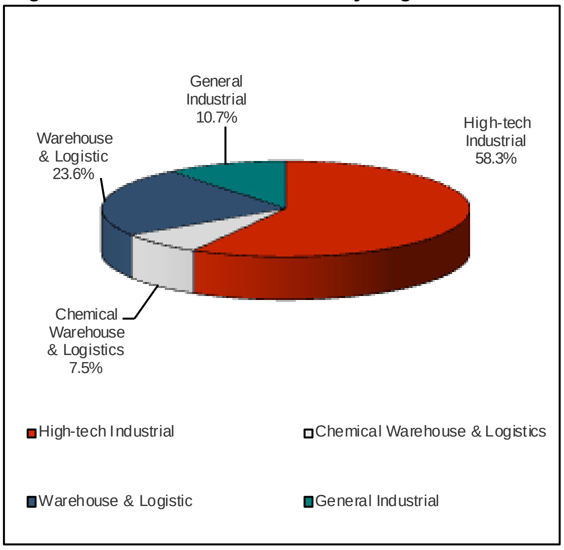
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	100.3	100.8	69.3
EBITDA	66.3	64.8	38.7
EBIT	64.9	64.4	38.7
Gross interest expense	24.6	21.5	15.7
Profit Before Tax	36.9	-73.4	-30.7
Net profit	36.9	-73.4	-30.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	12.3	10.4	8.8
Total assets	1,281.7	1,165.4	1,060.3
Gross debt	478.8	481.1	435.7
Net debt	466.6	470.6	426.9
Shareholders' equity	772.6	653.7	596.4
Total capitalization	1,251.4	1,134.8	1,032.1
Net capitalization	1,239.1	1,124.4	1,023.3
Cash Flow (SGD'mn)			
Funds from operations (FFO)	38.3	-73.0	-30.7
* CFO	68.4	70.0	38.6
Capex	1.2	1.5	1.5
Acquisitions	32.5	0.0	0.0
Disposals	0.0	0.0	0.0
Dividends	48.1	50.4	29.9
Free Cash Flow (FCF)	67.2	68.5	37.1
* FCF Adjusted	-13.4	18.2	7.2
Key Ratios			
EBITDA margin (%)	66.0	64.3	55.8
Net margin (%)	36.8	-72.8	-44.4
Gross debt to EBITDA (x)	7.2	7.4	8.5
Net debt to EBITDA (x)	7.0	7.3	8.3
Gross Debt to Equity (x)	0.62	0.74	0.73
Net Debt to Equity (x)	0.60	0.72	0.72
Gross debt/total capitalisation (%)	38.3	42.4	42.2
Net debt/net capitalisation (%)	37.7	41.9	41.7
Cash/current borrowings (x)	0.1	0.1	0.1
EBITDA/Total Interest (x)	2.7	3.0	2.5

Source: Company, OCBC estimates

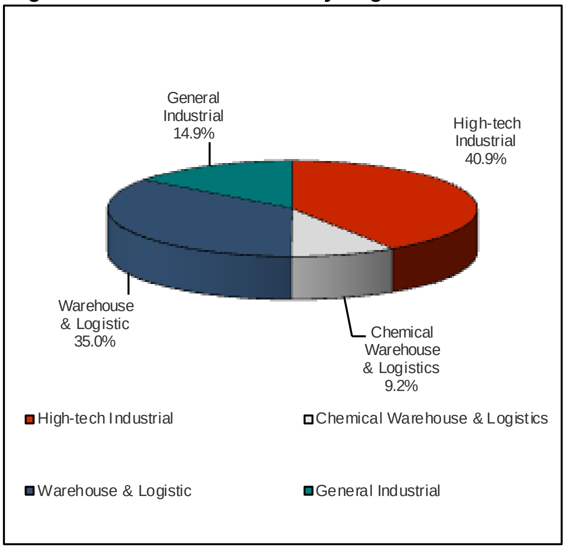
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2016



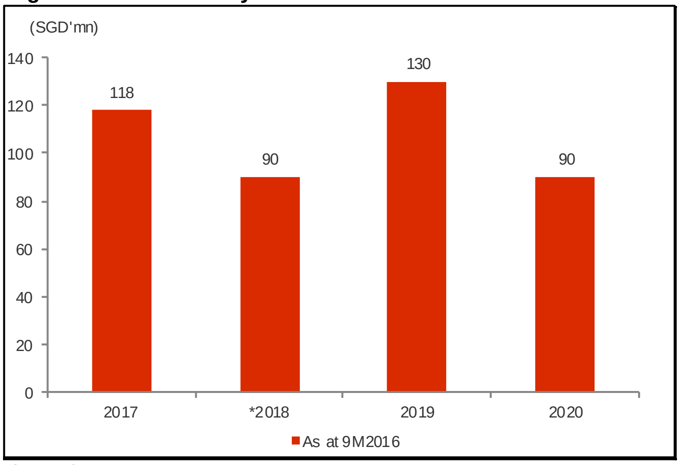
Source: Company

Figure 2: Asset breakdown by Segment - 9M2016



Source: Company

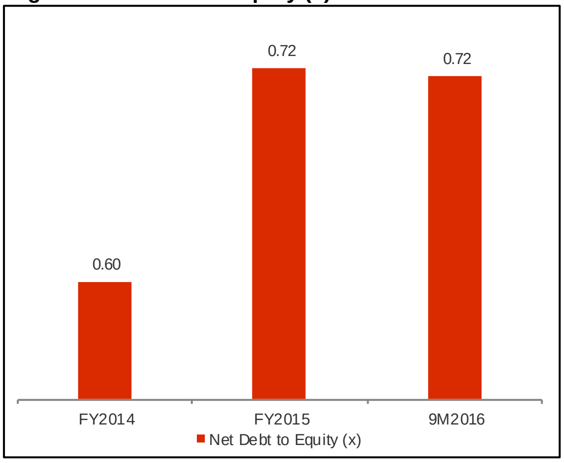
Figure 3: Debt Maturity Profile



Source: Company

**2018's figure excludes SGD11.9mn drawn from Revolving Murabahah Facility*

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Though SCI has seen its credit profile improve, we remain largely Neutral on its curve until there are signs that its new utility projects gain more traction. The exception looks to be the SCISP'49c20s which also sold off with the broader perp space and now look attractive at a spread of over 280bps (YTC).

Issuer Rating: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **SCISP**

Company profile

Sembcorp Industries Ltd ("SCI") was formed via the merger of Singapore Technologies Industrial Corporation and Sembawang Corporation in 1998. Today, SCI is focused on utilities (energy and water solutions), offshore marine (via its 61% stake in listed Sembcorp Marine ("SMM")) and urban development (focused on the development of industrial parks across the region). SCI has over 7,000 employees and generated SGD9.5bn in total revenue for 2015. Temasek Holdings is the largest shareholder of SCI, holding 49.5% stake.

Sembcorp Industries Ltd

Key credit considerations

- **Utilities revenue turnaround**: For 9M2016, SCI reported SGD5.88bn in total revenue, a decline of 17.5% y/y. This was driven by revenue declines at both the utilities segment (-8.0%) and the marine segment (-25.4%). For 3Q2016 though, the utilities segment showed some recovery, with segment revenue up 3.4% y/y and 34.0% q/q to SGD1.20bn. This is likely to be construction revenue recognition from SCI's Myanmar power plant project. We also observed incremental q/q improvements in contributions from Singapore and India for the utilities segment. Management guided that the former will continue to face strong competition in the power market while the latter will continue to ramp up with Sembcorp Gayatri Power Limited ("SGPL")'s plants coming online soon. There seems to be some delay to SGPL's ramping up, with the commercial operations date ("COD") of SGPL Unit 3 and 4 being pushed to 4Q2016 and early 2017 respectively. On the plus side, SCI's other India asset, TPCIL, managed to recover to a load factor of 80% after being affected by some idiosyncratic factors in 2Q2016. Improvements in utilities revenue helped the segment generate SGD108.9mn in quarterly net profit, up 50.0% y/y (excluding divestment gains seen in 3Q2015) and up 46.0% q/q. For 9M2016 though, segment net margins compressed to 8.6% (9M2015: 9.4%) due to divestments gains in 9M2015.

- **Marine to remain weak:** Though the marine segment also showed some revenue stabilization, with q/q declines at 2.2%, the segment remains challenged by sector headwinds, with quarterly revenue falling 21.4% y/y to SGD887.9mn. With E&P activity still tepid and drilling assets facing oversupply, demand for newbuild rigs are likely to remain soft. Clients requesting delivery deferrals (3 jack-ups for Oro Negro) have pressured revenue while client stress (Perisai Petroleum's default) added uncertainty. Management had indicated that provisions taken during end-2015 remain adequate though. For 9M2016, segment net margins compressed to 1.0% (9M2015: 4.1%), with 3Q2016 seeing a SGD27.7mn share of loss from its Cosco Shipyard Group ("CSG") associate company. It is worth noting that SCI announced the divestment of CSG in November 2016 for ~SGD221mn and will be booking a gain of ~SGD48mn. The divestment of CSG would be a boon as CSG had been a drag on SCI's performance, with CSG reporting losses for the last few quarters. Net order book (including SGD3.1bn worth of Sete Brasil orders) has continued to decline from SGD9.2bn (end-2Q2016) to SGD8.4bn (end-3Q2016).

- **Cash flow improved sharply on rig delivery**: For 9M2016, SCI was able to generate SGD797.3mn (including interest service) in operating cash flow. This was a sharp improvement over the SGD319.7mn cash outflow seen in 9M2015. This was largely driven by the jack-up rig delivered to Noble Corporation in 3Q2016. After factoring SGD693.6mn in capex (~40% marine, ~60% utilities), SCI was able to generate SGD103.7mn in free cash flow. The cash generated was largely kept on the balance sheet, with cash increasing 24.4% q/q to SGD2093.9mn. Cash / current borrowings stood at 1.2x. Interest coverage improved to 3.4x for 9M2016 (2015: 2.6x).

- **Credit profile stabilization seen**: Net gearing remained stable at 85% (2Q2016: 86%) after seeing leverage surge post the consolidation of SGPL in 1Q2016. As mentioned previously, we believe that the worst of the deterioration to SCI's credit profile was seen in 2015. Going forward, it is likely that SCI would continue to extract out cash from working capital tied up at the marine segment. Capex needs for marine are likely to be lower going forward as well. With the ramping up of the utilities segment helping to mitigate the challenged marine segment, we will retain our Neutral Issuer Profile rating on SCI.

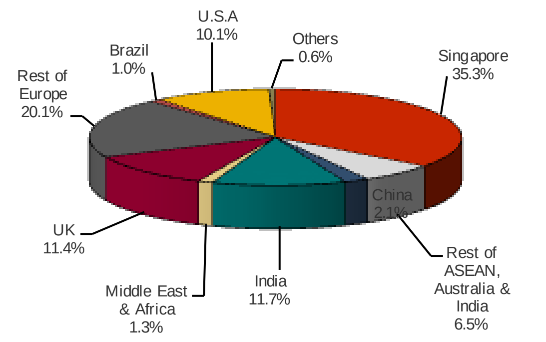
Sembcorp Industries

Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	10,894.7	9,544.6	5,881.3
EBITDA	1,377.0	612.2	908.3
EBIT	1,062.2	207.3	586.0
Gross interest expense	70.1	238.0	268.2
Profit Before Tax	1,246.4	426.3	372.2
Net profit	801.1	548.9	247.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,661.4	1,606.5	2,093.9
Total assets	17,176.4	19,915.5	21,664.3
Gross debt	4,841.1	6,832.9	8,734.3
Net debt	3,179.6	5,226.5	6,640.4
Shareholders' equity	7,232.3	8,043.5	7,835.6
Total capitalization	12,073.3	14,876.4	16,569.8
Net capitalization	10,411.9	13,270.0	14,475.9
Cash Flow (SGD'mn)			
Funds from operations (FFO)	1,115.9	953.8	569.7
* CFO	-119.8	-1,061.8	797.3
Capex	1,337.8	1,392.8	693.6
Acquisitions	267.6	640.6	74.0
Disposals	23.4	704.8	59.4
Dividend	549.1	439.6	249.0
Free Cash Flow (FCF)	-1,457.7	-2,454.5	103.7
* FCF adjusted	-2,251.0	-2,829.9	-159.8
Key Ratios			
EBITDA margin (%)	12.6	6.4	15.4
Net margin (%)	7.4	5.8	4.2
Gross debt to EBITDA (x)	3.5	11.2	7.2
Net debt to EBITDA (x)	2.3	8.5	5.5
Gross Debt to Equity (x)	0.67	0.85	1.11
Net Debt to Equity (x)	0.44	0.65	0.85
Gross debt/total capitalisation (%)	40.1	45.9	52.7
Net debt/net capitalisation (%)	30.5	39.4	45.9
Cash/current borrowings (x)	1.5	0.9	1.2
EBITDA/Total Interest (x)	19.6	2.6	3.4

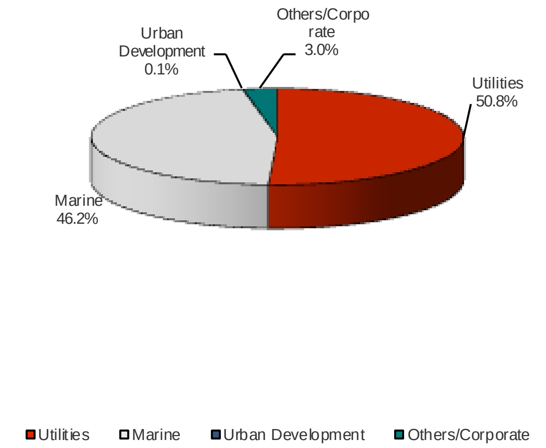
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 9M2016



Source: Company

Figure 2: Revenue breakdown by Segment - 9M2016



Source: Company

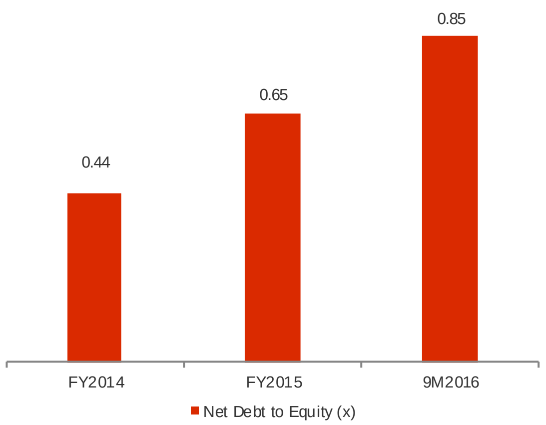
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	852.8	9.8%
Unsecured	918.3	10.5%
	1771.1	**20.3%**
Amount repayable after a year		
Secured	2662.3	30.5%
Unsecured	4300.9	49.2%
	6963.2	**79.7%**
Total	**8734.3**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Particularly with SPOST now downgraded to BBB+, we think there is better value else where such as comparable rated REIT paper versus the SPOST'20s (swaps +25bps). For example, the MCTSP'20s are trading at swaps +40bps while SUNSP'20s are trading at swaps + 70bps.

Issuer Profile: Neutral

S&P: BBB+/Stable

Moody's: Not rated

Fitch: Not rated

Ticker: **SPOST**

Company profile

Singapore Post Ltd ("SPOST") is the incumbent mail operator in Singapore and was granted the Public Postal License in 1992. Other business segments SPOST participates in include logistics and e-commerce solutions. Through Singapore Telecom Ltd and a few other corporations, Temasek Holdings has an indirect ownership of ~23% of SPOST. In 2014, Alibaba Group Holdings made a strategic acquisition of ~10% of SPOST. In July 2015, Alibaba announced subscribing to more new shares in SPOST, which will increase their stake to ~15%.

Singapore Post Ltd

Key credit considerations

- **Weakness across all segments**: For 1HFY2017 (ending September 2016), though SPOST reported 26.5% y/y increase in revenue to SGD655.1mn, this was driven by acquisitions made in the eCommerce business segment (Trade Global in November 2015, Jagged Peak in March 2016). 2QFY2017 paints a similar story, with revenue up 22.3% y/y to SGD321.7mn. The acquisitions caused the eCommerce segment revenue to jump from SGD8.1mn (2QFY2016) to SGD64.0mn (2QFY2017). The logistics segment declined slightly by 1.2% y/y to SGD154.1mn, with the general economic downturn impacting the freight forwarding business. The core postal segment was flattish y/y as well at SGD126.9mn. SPOST's q/q total revenue actually fell 3.5%, with all three segments seeing q/q revenue declines. The postal business declined 7.4% q/q, and though it was partly due to seasonal factors, the sharp slump in international mail revenue (compared to prior periods) is a concern given that its growth was supposed to offset structural decline in the domestic mail business. The eCommerce business saw revenue decline 2.0% q/q, with both TradeGlobal and Jagged Peak seeing q/q revenue declines. This is troubling as these acquisitions were made with high growth in mind. The logistics business saw q/q 1.7% revenue decline, with Quantium Solutions showing some weakness.

- **Structural decline in margins continue**: Operating margin fell from 24.5% (2QFY2016) to just 11.8% (2QFY2017). Aside from the on-going segment rotation away from the more profitable postal business to the logistics and eCommerce businesses, the postal business saw operating profit slump sharply y/y due to one-off events that boosted domestic mail business in 2QFY2016 (such as the general elections and SG50). The logistics segment saw margin compression due to expenses relating to the completion of the Regional eCommerce Logistics Hub as well as pricing pressures in the eCommerce Logistics space. Finally, operating losses at the eCommerce segment continue to widen, generating an operating loss of SGD6.8mn (1QFY2017: SGD3.5mn loss). Management attributed the loss to continued investments into IT and operational activities, as well as competition-driven cost increases for seasonal fulfilment labour in the US.

- **Cash gap drove borrowings higher**: Operating cash flow (including interest service) has worsened sharply q/q from SGD78.1mn (1QFY2016) to SGD17.2mn (2QFY2016). This resulted in negative free cash flow of SGD29.3mn (quarterly capex of SGD46.5mn). Coupled with SGD94mn paid out in dividends and perpetual securities distributions, the cash gap was covered by SGD39.0mn increase in net borrowings and SGD74.8mn drawdown on SPOST's cash balance. This drove SPOST's net gearing higher q/q to 16% (1QFY2017: 8%).

- **New dividend policy, Alibaba infusion a plus**: Looking forward, management has declared that future dividends will be dependent on SPOST's quarterly net income, with a payout ratio of 60% – 80% rather than the fixed targeted amount in the past. This should help align SPOST's future dividends to underlying earnings and is a credit positive. We note as well that SPOST has completed the 34% sale of Quantium Solutions International ("QSI") to Alibaba in October, with Alibaba paying SGD86.2mn for new shares. As SPOST will continue to consolidate QSI post the transaction, the cash infusion will be a credit positive. Finally, though Alibaba's second investment into SPOST has been delayed yet again, with the long stop date extended to 28/02/17, SPOST has called an EGM early January to seek approval for the 107.5mn new shares to be issued to Alibaba. Looking forward, though there are positive catalysts, the execution of SPOST's eCommerce strategy remains uncertain. In additional, SPOST just appointed an outsider CEO on 29/12/16. We will continue to hold SPOST's Issuer Profile at Neutral.

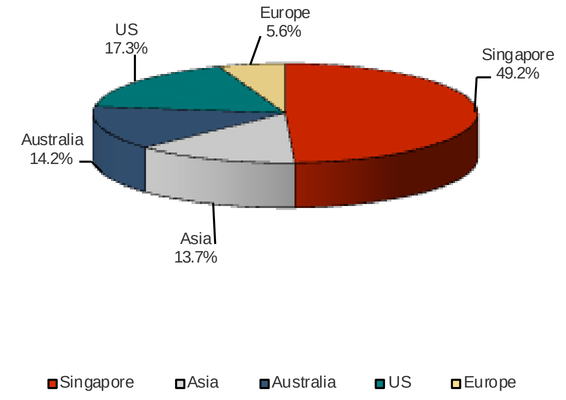
Singapore Post Ltd

Table 1: Summary Financials

Year End 31st Mar	FY2015	FY2016	1H2017
Income Statement (SGD'mn)			
Revenue	919.6	1,151.5	655.1
EBITDA	169.1	159.8	83.3
EBIT	134.6	128.0	61.2
Gross interest expense	4.4	10.4	1.9
Profit Before Tax	192.5	287.2	88.0
Net profit	157.6	248.9	67.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	584.1	126.6	158.0
Total assets	2,197.8	2,415.8	2,506.6
Gross debt	238.3	280.3	406.4
Net debt	-345.8	153.6	248.4
Shareholders' equity	1,467.7	1,561.5	1,541.0
Total capitalization	1,706.1	1,841.8	1,947.5
Net capitalization	1,121.9	1,715.1	1,789.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	192.2	280.8	89.4
* CFO	227.9	122.9	95.3
Capex	104.4	279.7	110.9
Acquisitions	120.7	285.9	0.0
Disposals	11.0	67.8	0.2
Dividend	143.0	181.9	94.0
Free Cash Flow (FCF)	123.5	-156.8	-15.6
* FCF adjusted	-129.2	-556.8	-109.4
Key Ratios			
EBITDA margin (%)	18.4	13.9	12.7
Net margin (%)	17.1	21.6	10.3
Gross debt to EBITDA (x)	1.4	1.8	2.4
Net debt to EBITDA (x)	-2.0	1.0	1.5
Gross Debt to Equity (x)	0.16	0.18	0.26
Net Debt to Equity (x)	-0.24	0.10	0.16
Gross debt/total capitalisation (%)	14.0	15.2	20.9
Net debt/net capitalisation (%)	-30.8	9.0	13.9
Cash/current borrowings (x)	34.5	1.8	0.8
EBITDA/Total Interest (x)	38.7	15.4	42.8

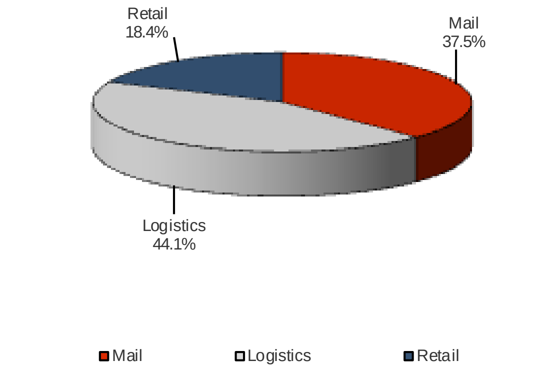
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 1H2017



Source: Company

Figure 2: Revenue breakdown by Segment - 1H2017



Source: Company

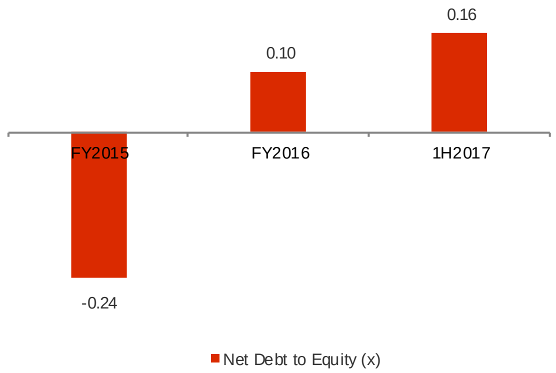
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	2.4	0.6%
Unsecured	186.3	45.8%
	188.7	**46.4%**
Amount repayable after a year		
Secured	15.0	3.7%
Unsecured	202.7	49.9%
	217.7	**53.6%**
Total	**406.4**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Soilbuild Business Space REIT

Credit Outlook – Yields have widened to 3.5% on the '18s and 4.0% on the '21s. We think this was on the back of fears over its exposure to the offshore oil and gas and marine sectors. We think such fears have been factored into pricing and do not expect further marked deterioration.

Issuer Profile: Neutral

S&P: Not rated
Moody's: Baa3/Negative
Fitch: Not rated

Ticker: **SBREIT**

Background

Listed in 2013, Soilbuild Business Space REIT ("SBREIT") is an industrial REIT in Singapore, with total assets of about SGD1.3bn as at 30 September 2016. SBREIT currently owns a portfolio of 12 properties in Singapore. The REIT is Sponsored by Soilbuild Group Holdings Ltd. ("Soilbuild") which is wholly-owned by Lim Chap Huat. Lim Chap Huat is the REIT's largest unitholder with ~25% stake and is also controlling shareholder of the REIT Manager. Other major unitholders are Schroders and Jinquan Tong.

Key credit considerations

- **Defensible results despite 72 Loyang Way:** SBREIT's 9M2016 gross revenue grew marginally by 0.9% to SGD59.4mn, contributed by new acquisitions and stronger growth at Solaris and Eightrium which offset reduction in revenue from West Park Biz Central and Tuas Connection. Property operating expenses were down by 11.1%, largely due to lower property tax expense. With fees and trust expenses roughly flat at SGD4.5mn, resultant EBITDA was higher at SGD47.2mn against SGD45.9mn in 9M2016. EBITDA/Gross interest was healthy at 4.4x and relatively flat against the previous period. Taking out the effect of 72 Loyang Way (where revenue is still recognized) and Bukit Batok Connection (acquired in September 2016), we find SBREIT's gross revenue to be SGD53.1mn and 5.5% lower than 9M2015 on an organic growth basis. Taking out the impact of these two properties, we estimate EBITDA to be SGD41.6mn and proforma EBITDA/Gross interest at 3.9x; still healthy and above its covenanted interest coverage of 1.5x. The original tenant and its guarantor at 72 Loyang Way is in judicial management and the lease was officially terminated in December 2016. The security deposit of 18 months was received by SBREIT in 1H2016. As of report date, SGD3.9mn, (about 5 months in rent and property operating expenses remains unutilized). Management is in the midst of negotiations with interested parties to lease the space.

- **Bukit Batok as a replacement asset:** In September 2016, SBREIT did a preferential offering to raise SGD59.4mn in straight equity to partially fund the ~SGD100mn acquisition of Bukit Batok Connection from a wholly-owned subsidiary of the Sponsor. We view the ~40:60 debt-to-equity funding structure as optimal. Initial annual rent is SGD8mn and assuming an EBITDA margin of 65% (lower than portfolio margin given this Master Lease is on a double net basis), we estimate Bukit Batok Connection to contribute at least SGD3.9mn in EBITDA over a 9 month period and we expect EBITDA/Interest to stay above 3.5x.

- **More reliant on Sponsor:** The REIT is increasingly more reliant on its Sponsor (and its subsidiaries) for rental contribution. Currently, 2 properties are Master Leased to Sponsor (Solaris and Bukit Batok Connection) and the Sponsor is a tenant at West Park BizCentral. We estimate that the Sponsor will contribute ~34%, to total rent, but that the portion that needs to be supported by the Sponsor is capped at SGD10mn. Solaris is 100% leased to sub-tenants while West Park BizCentral has an occupancy of ~89%.

- **No short term refinancing risk:** As at 30 September 2016, aggregate leverage was 36.0%, flat against 31 December 2015. In April 2016, SBREIT fully repaid a term loan which released the encumbrance on West Park BizCentral. The repayment was funded via the issuance of SGD100mn in bonds (SBREIT 3.6% '21s). As at 30 September 2016, secured debt as a proportion of total assets was ~14% and manageable within its current rating band. There is no short term debt due, with its next major debt repayment only due in May 2018 (SBREIT 3.45% '18s). Unencumbered properties were SGD931mn (~72% of investment portfolio). As at 30 September 2016, SBREIT has SGD5mn in unutilized debt facilities.

- **Weighted average lease expiry ("WALE") and occupancy**: As at 30 September 2016, 12.3% of leases will expire by end of 2018 (by gross rental income), in line with the lease expiry profile seen as at 30 September 2015. As at 30 September 2016, portfolio occupancy has fallen to 94.2% (excluding Bukit Batok Connection) and down from 98.7% as at 30 September 2015. We see asset corrosion risk in SBREIT's portfolio (eg: Tuas Connection) which supports the marine offshore and oil & gas sectors though SBREIT's manageable aggregate leverage provides headroom for such corrosion.

Soilbuild Business Space REIT

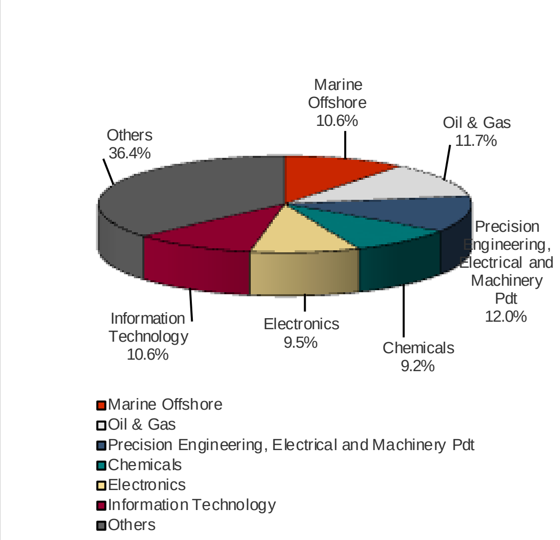
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	68.1	79.3	59.4
EBITDA	51.7	61.1	47.2
EBIT	51.7	61.1	47.2
Gross interest expense	9.7	13.5	10.7
Profit Before Tax	42.4	51.7	36.9
Net profit	42.4	51.7	36.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	21.0	16.8	22.1
Total assets	1,054.0	1,214.5	1,325.8
Gross debt	368.9	398.5	460.6
Net debt	348.0	381.8	438.5
Shareholders' equity	650.8	746.0	801.5
Total capitalization	1,019.7	1,144.5	1,262.0
Net capitalization	998.8	1,127.7	1,239.9
Cash Flow (SGD'mn)			
Funds from operations (FFO)	42.4	51.7	36.9
* CFO	53.6	57.1	60.6
Capex	0.2	25.5	31.9
Acquisitions	94.6	98.1	100.4
Disposals	0.0	0.0	0.0
Dividends	49.6	55.7	44.4
Free Cash Flow (FCF)	53.5	31.6	28.7
* FCF Adjusted	-90.7	-122.2	-116.1
Key Ratios			
EBITDA margin (%)	75.9	77.1	79.5
Net margin (%)	62.3	65.1	62.0
Gross debt to EBITDA (x)	7.1	6.5	7.3
Net debt to EBITDA (x)	6.7	6.2	7.0
Gross Debt to Equity (x)	0.57	0.53	0.57
Net Debt to Equity (x)	0.53	0.51	0.55
Gross debt/total capitalisation (%)	36.2	34.8	36.5
Net debt/net capitalisation (%)	34.8	33.9	35.4
Cash/current borrowings (x)	0.2	NM	NM
EBITDA/Total Interest (x)	5.3	4.5	4.4

Source: Company, OCBC estimates

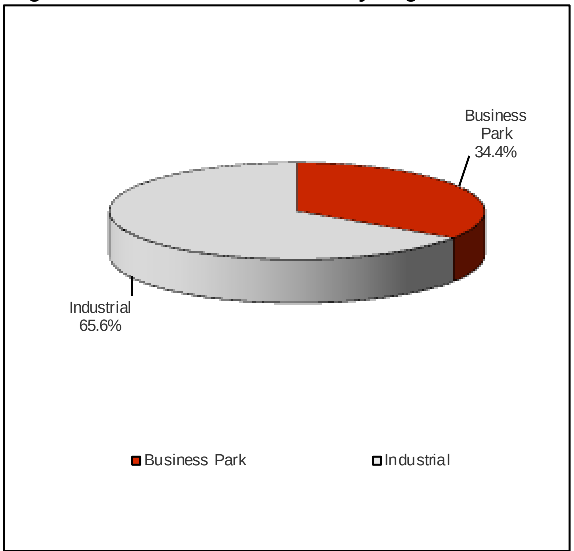
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue by Trade Sector - 9M2016



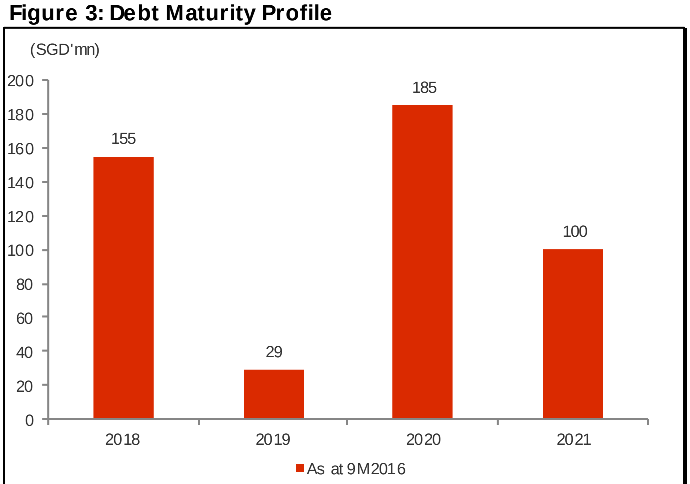
Source: Company

Figure 2: Revenue breakdown by Segment - 9M2016



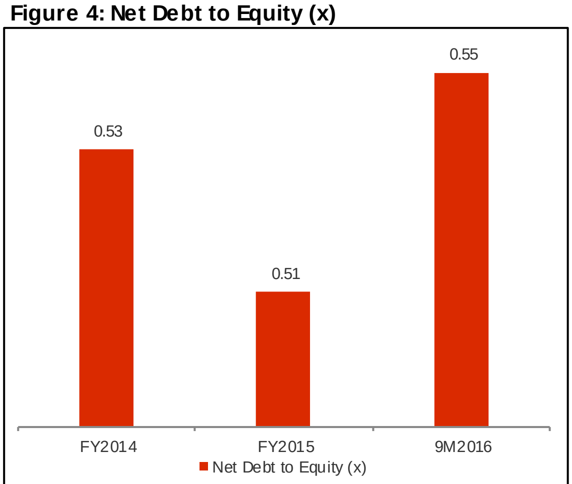
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – With the MCTSP'21s and SGREIT'21s trading at comparable spreads, we prefer the former given its more diversified portfolio of retail, office and business park assets.

Issuer Profile: Neutral

S&P: BBB+/Stable

Moody's: Not rated

Fitch: Not rated

Ticker: **SGREIT**

Background

Listed on the SGX in September 2005, Starhill Global REIT ("SGREIT") invests primarily in real estate used for retail and office purposes, both in Singapore and overseas. It owns 12 mid to high-end retail properties in 5 countries, valued at SGD3.1bn as at 30 Jun 16. The properties include Wisma Atria (74.2% of strata lots) and Ngee Ann City (27.2% of strata lots) in Singapore, Starhill Gallery and Lot 10 in Malaysia, and 8 other malls in China, Australia and Japan. YTL Corp Bhd is SGREIT's sponsor and largest unitholder with a 35.8% stake.

Starhill Global Real Estate Investment Trust

Key credit considerations

- **Softness at Australian assets**: 1QFY2017 results (ending September 2016) reported gross revenue declining 2.7% y/y to SGD55.3mn. NPI declined 1.7% y/y to SGD42.8mn. The weakness was largely driven by its Australian assets which reported revenue decline of 10.0% y/y to SGD11.7mn (21% of total revenue). This was due office vacancy at the Myer Centre due to a tenant leaving (first reported during 3QFY2016), as well as lease terminations relating to the planned AEI (increasing GLA by ~41%) at Plaza Arcade. There was continued weakness at SGREIT's Chengdu mall as well. Given the supply glut of retail space looming in Chengdu, SGREIT is converting the mall into a long-term anchor tenant with fixed rental. The asset will be impacted while existing tenants are being eased out, though the impact to the trust would be minimal as the property contributes just ~2% of portfolio revenue.

- **Wisma Atria picking up steam**: Numbers were stronger q/q with gross revenue up 3.0%, while NPI was up 3.6%. Improvements were driven by Wisma Atria's retail contribution as Isetan's strata-owned retail space ramped back up. Some improvements were also seen at SGREIT's Malaysian assets, driven by the +6.7% rental uplift from the extension of the master leases on the properties from 28/06/16 onwards. The Toshin master lease covering Ngee Ann City was also been renewed (+5.5% rental uplift) during 4QFY2016. Portfolio NPI improved q/q as revenue increased while property expenses remained stable.

- **Non-core markets a drag on occupancy**: Portfolio occupancy dipped q/q to 93.8% (4QFY2016: 95.1%), driven by sharp falls in occupancy in both Japan (100% to 87.8%) and China (96.4% to 74.4%). The latter was due to the tenant transition mentioned earlier while no details were given regarding the sharp fall in the Japanese assets' occupancies. We note that Ngee Ann City's office occupancy continues to dip (to 92.5%, compared to 100% as of end-March 2016), reflecting challenging conditions for the office market. Myer Centre Adelaide's occupancy also remains weak at 85.7%. WALE by NLA remains decent at 6.9 years, though it has worsened slightly q/q (4QFY2016: 7.1 years). Do note that master leases make up 45% of gross rent, which helps to keep occupancy up as well as provides some cash flow stability.

- **Divestments remain in the pipeline**: SGREIT is expected to continue to divest its four Japanese assets and sole Chinese asset during the appropriate time. At the beginning of 2006, SGREIT had already divested one Japanese asset. We expect the Japanese assets to be divested sooner, as the Chengdu asset has not yet stabilized.

- **Stable leverage profile, opportunistic issuance**: Aggregate leverage remained stable at 35.1% (end-4QFY2016: 35.0%). Reported interest coverage remained steady at 4.4x q/q. Though SGREIT has minimal debt maturing in FY2017 (SGD9mn RCF), it has SGD250mn unsecured loan facility due in May 2018 and AUD145mn loan due on May 2018. Like other REITs, SGREIT remains opportunistic in managing its capital structure, having issued a SGD70mn 10-year bond in October 2016 to refinance part of a SGD250mn term loan due September 2018 as well as the SGD9mn RCF. The bond issue would extend average debt maturity from 2.9 years (end-1QFY2017) to 3.4 years. About 96% of SGREIT's debt is fixed rate / hedged. As SGREIT's credit profile remains comparable to peers, its Issuer Profile will be retained at Neutral.

Starhill Global Real Estate Investment Trust

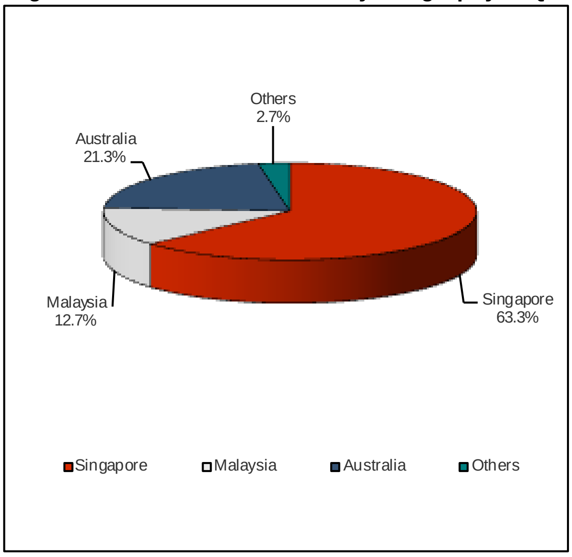
Table 1: Summary Financials

Year Ended 30th June	FY2015*	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	294.8	219.7	55.3
EBITDA	211.8	151.3	38.1
EBIT	210.8	151.0	38.0
Gross interest expense	46.9	38.8	9.5
Profit Before Tax	174.0	161.6	25.4
Net profit	174.5	163.9	25.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	51.6	77.0	79.3
Total assets	3,193.4	3,222.2	3,240.6
Gross debt	1,129.2	1,122.9	1,134.9
Net debt	1,077.7	1,046.0	1,055.7
Shareholders' equity	1,982.8	2,017.6	2,024.0
Total capitalization	3,112.0	3,140.5	3,159.0
Net capitalization	3,060.5	3,063.5	3,079.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	175.5	164.3	25.3
* CFO	212.4	155.3	35.3
Capex	4.5	1.0	1.5
Acquisitions	325.3	1.0	0.0
Disposals	12.4	29.1	0.0
Dividends	163.9	113.0	28.1
Free Cash Flow (FCF)	207.9	154.2	33.8
* FCF Adjusted	-268.9	69.4	5.6
Key Ratios			
EBITDA margin (%)	71.9	68.9	68.9
Net margin (%)	59.2	74.6	45.5
Gross debt to EBITDA (x)	8.0	7.4	7.4
Net debt to EBITDA (x)	9.3	6.9	6.9
Gross Debt to Equity (x)	0.57	0.56	0.56
Net Debt to Equity (x)	0.54	0.52	0.52
Gross debt/total capitalisation (%)	36.3	35.8	35.9
Net debt/net capitalisation (%)	35.2	34.1	34.3
Cash/current borrowings (x)	0.4	5.0	8.8
EBITDA/Total Interest (x)	4.5	3.9	4.0

*Source: Company, OCBC estimate | *FY2015 represents 18-mth data from Jan 2014 - June 2015*

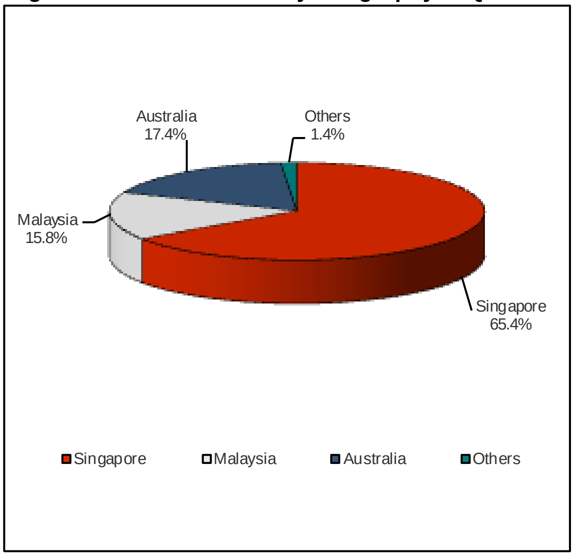
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Geography - 1Q2017



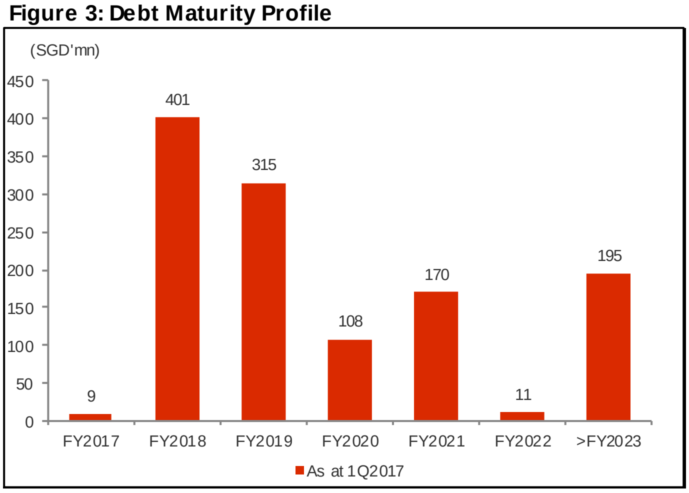
Source: Company

Figure 2: NPI breakdown by Geography - 1Q2017



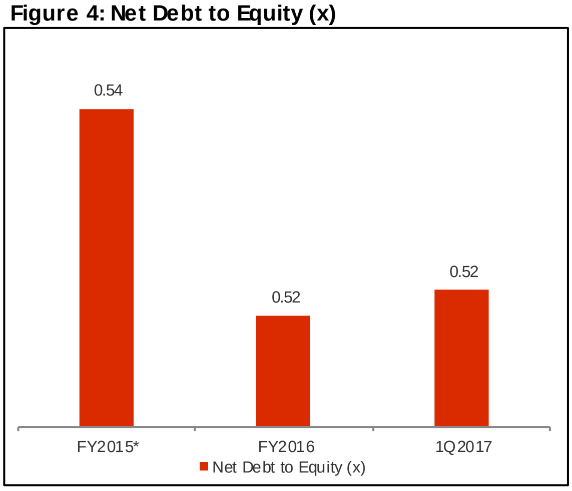
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Within the curve, we prefer the SUNSP'20s over the SUNSP'18s given the ~30bps spread pickup. However, we prefer the FCTSP'20s over the SUNSP'20s as the wider spreads of the former more than compensates for the office assets of the latter.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa2/Negative

Fitch: Not rated

Ticker: **SUNSP**

Background

Listed on the SGX in 2004, Suntec REIT ("SUN") invests in real estates used for retail and office purposes. SUN's portfolio includes "Suntec City" (Suntec City Mall, units in Towers 1–3, and whole of Towers 4 & 5), a 60.8%-interest in Suntec Singapore Convention & Exhibition Centre ("Suntec Singapore"), a one-third interest in One Raffles Quay ("ORQ"), and a one-third interest in Marina Bay Financial Centre Towers 1 & 2 and Marina Bay Link Mall ("MBFC properties"). SUN holds a 100% interest in 177 Pacific Highway, an office development in Sydney as well as an interest in the Southgate, Melbourne.

Suntec Real Estate Investment Trust

Key credit considerations

- **Softness at Suntec Singapore**: For 9M2016, SUN reported SGD239.7mn in gross revenue, a decline of 1.0% y/y. NPI fell as well by 1.7% y/y to SGD163.9mn. This was largely due to the partial divestment of Park Mall in December 2015, with the decline offset by the opening of Suntec City Phase 3 (Suntec City revenue up 8.7% y/y). The contributions from 177 Pacific Highway (practical completion on 01/08/16) helped support performance. However, adjusted 3Q2016 results (excluding the impact of Park Mall and 177 Pacific Highway) showed gross revenue falling 4.3% y/y largely due to weakness at Suntec Singapore convention centre. Suntec Singapore's quarterly revenue fell sharply by 19.8% y/y to SGD18.6mn, with retail's contribution plunging by 33.3% y/y. Adjusted quarterly NPI fell 3.9% y/y, driven by the 28.8% fall in NPI contribution from Suntec Singapore. Management had indicated that 3Q2015 convention revenues were particularly strong due to one-off events.

- **177 Pacific Highway boosted office numbers**: Office committed occupancy improved slightly to 99.4% (2Q2016: 98.9%, 2015: 99.3%) due to improvements seen in both Suntec City and ORQ. This is commendable given the overall competitive market for office assets. The inclusion of 177 Pacific Highway (100% occupied) during the quarter also helped boost portfolio occupancies. In addition, SUN was able to lift average lease secured during 3Q2016 by 2.3% q/q to SGD8.78 psf/mth. SUN's office lease expiry profile also improved with 2016 lease expiries largely renewed while 2017 lease expiries fell to 12.2% of NLA (2Q2016: 17.4%). The inclusion of 177 Pacific Highway also improved portfolio WALE given the longer lease tenure of its tenants (property NLA of 434,000 sqft with WALE of 9.25 years).

- **Retail numbers remain weak**: Retail portfolio occupancy continues to weaken to 97.3% (2Q2016: 97.7%, 2015: 97.9%) with Suntec City mall's occupancy falling to 96.8%. Lease rates were weak as well with overall committed rent on a stabilized basis continuing to drift lower and standing at SGD11.19 psf/mth (2Q2016: SGD11.58 psf/mth, 2015: SGD12.04 psf/mth). 2017's retail lease expiries remain high at 22.9% (though lower than the 27% seen for 2016 at the beginning of 2016). SUN indicated that preserving stronger tenants could be a strategy to drive shopper traffic. This could imply further lease rates pressure, but support occupancy.

- **Liquidity remains manageable**: Reported interest coverage (which includes contributions for JV / associates) improved q/q to 3.9x (2Q2016: 3.6x). SUN has just SGD100mn in loans to refinance by end-2017 (2018 is more challenging with SGD1105mn in borrowings due).

- **Southgate acquisition modestly affected leverage profile**: SUN has acquired an effective interest of 25% in the Southgate Complex in Melbourne, Australia ("Southgate"), based on the open market valuation on Southgate (AUD578.8mn). Southgate is situated right beside the Crown Melbourne hotel & casino complex, and consists of two office towers, a 3-storey retail podium and car park with 1,026 lots (office / retail NLA split is 87% / 13%). It seats on a freehold site of 20,800 sqm, and is currently 88% occupied with a WALE of 4.6 years. The annual lease escalations are between 3% – 4%. The transaction was debt-funded, with SUN paying AUD154.9mn after costs. Another 25% is currently held by a fund managed by ARA Fund Management (SUN's REIT manager). The vendor has the put option to sell the balance 50% of Southgate within 480 days upon the completion the transaction (which completed early November), while SUN and partner can choose to acquire the 50% balance. The purchase drove aggregate leverage higher to 36.6% (2Q2016: 34.7%). This was largely due to the SGD300mn in convertible bonds issued in August, likely used to finance the acquisition. It is likely that SUN would acquire the balance 25% of Southgate in the future.

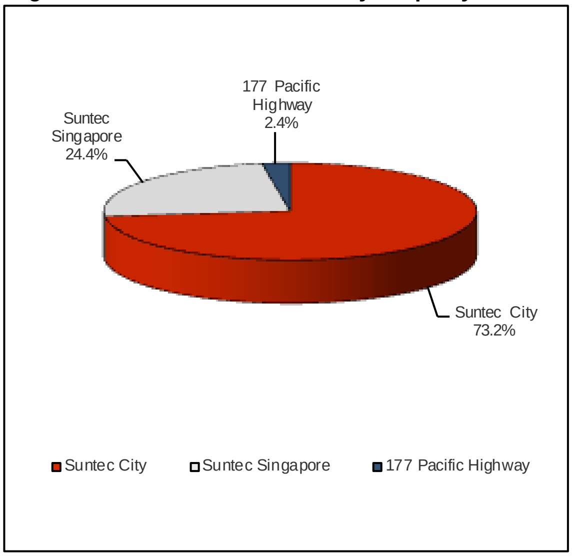
Suntec Real Estate Investment Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	282.4	329.5	239.7
EBITDA	147.0	182.2	127.2
EBIT	131.4	171.2	126.4
Gross interest expense	75.6	87.9	75.0
Profit Before Tax	322.7	372.9	136.5
Net profit	317.4	354.1	128.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	149.5	445.3	353.1
Total assets	8,602.0	8,965.0	9,024.9
Gross debt	2,980.7	3,212.7	3,304.0
Net debt	2,831.1	2,767.4	2,950.9
Shareholders' equity	5,418.3	5,562.7	5,512.6
Total capitalization	8,399.0	8,775.4	8,816.6
Net capitalization	8,249.4	8,330.1	8,463.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	333.0	365.1	128.8
* CFO	195.7	231.3	145.8
Capex	168.3	287.0	132.3
Acquisitions	0.0	0.0	0.0
Disposals	0.0	409.9	0.0
Dividends	227.8	254.1	198.7
Free Cash Flow (FCF)	27.4	-55.7	13.5
* FCF Adjusted	-200.4	100.2	-185.2
Key Ratios			
EBITDA margin (%)	52.0	55.3	53.1
Net margin (%)	112.4	107.5	53.4
Gross debt to EBITDA (x)	20.3	17.6	19.5
Net debt to EBITDA (x)	19.3	15.2	17.4
Gross Debt to Equity (x)	0.55	0.58	0.60
Net Debt to Equity (x)	0.52	0.50	0.54
Gross debt/total capitalisation (%)	35.5	36.6	37.5
Net debt/net capitalisation (%)	34.3	33.2	34.9
Cash/current borrowings (x)	NM	1.2	NM
EBITDA/Total Interest (x)	1.9	2.1	1.7

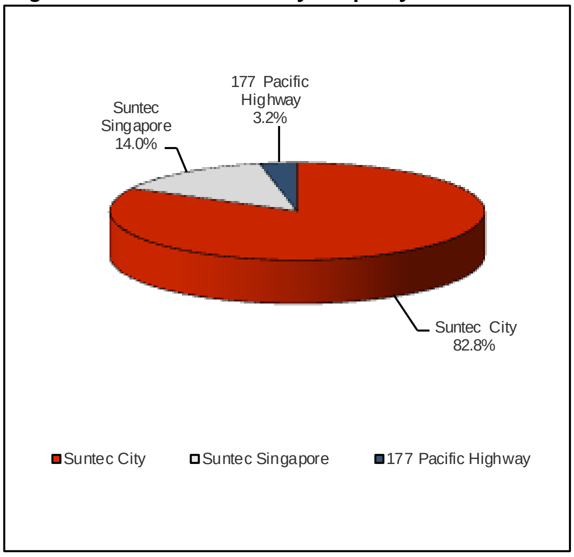
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - 9M2016



Source: Company

Figure 2: NPI breakdown by Property - 9M2016



Source: Company

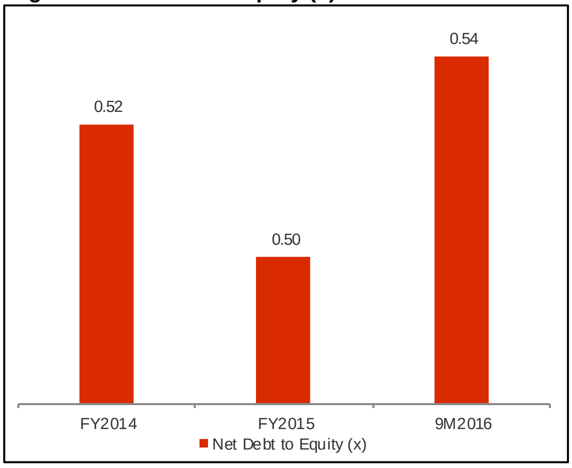
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
.		
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	0.0	0.0%
	0.0	**0.0%**
Amount repayable after a year		
Secured	364.5	11.0%
Unsecured	2939.5	89.0%
	3304.0	**100.0%**
Total	**3304.0**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We like the VITSP'18s at 4.2% for a short tenure bond with improving credit fundamentals. We think the 120bps (wider versus CREITSP'18s) more than compensates for its non-IG status.

Issuer Profile: Neutral

S&P: Not rated
Moody's: Ba1/Stable
Fitch: Not rated

Ticker: **VITSP**

Background

Listed in 2013, VIVA Industrial Trust ("VITSP") is an industrial REIT in Singapore, with total assets of SGD1.2bn as at 30 September 2016. VITSP currently owns a portfolio of 8 properties and is in the process of acquiring one more. Jinquan Tong (owner of Shanghai Summit) is the major unitholder with ~51%. In aggregate, the Sponsors (Ho Lee Group Trust and Kim Seng Holdings Pte Limited) own a ~11% stake in the REIT. The Sponsors and Shanghai Summit own ~78% of the REIT Manager while the rest are owned by the management team.

VIVA Industrial Trust

Key credit considerations

- **9M2016 results stronger:** VITSP's gross revenue improved 28.1% to SGD69.6mn (9M2015: SGD54.3mn) on the back of full period contribution of 2 properties acquired in November 2015, acquisition of 30 Pioneer Road in April 2016 and higher rental contribution from existing properties. NPI margin improved to 72.5% from 68% in 9M2015, driven by margin improvements in the Business Park and light industrial property segment. Despite higher management and trust fees of SGD4.7mn against SGD3.7mn in 9M2015, EBITDA (without taking into account of rental support) improved 34% to SGD44.9mn (9M2015: SGD33.4mn). Interest coverage, as measured by EBITDA/Gross interest was 2.7x in 9M2016, somewhat lower than 2.9x in 9M2015. Due to the early refinancing of its SGD315mn loan, VITSP incurred certain one-off items within finance expense. Removing such items, we find Adjusted EBITDA/Gross interest to be higher at 3.0x. VITSP's bond covenants give credit to rental support. On a Net Property Income ("NPI") plus rental support over adjusted gross interest basis, we find interest coverage healthy at around 4.0x. Taking out the impact of newly acquired properties, we find gross revenue in 9M2016 at SGD59.7mn and representing a 9.9% increase. This was largely driven by contributions from VIVA Business Park ("VBP") due to both expansions in leasable area (from retail space) and increase in income from contestable electricity bulk purchase program.

- **Aggregate leverage flat:** As at 30 September 2016, aggregate leverage was 39.8% against 38.8% as at 30 September 2015. In 9M2016, net borrowings was SGD25mn, to partially fund the acquisition of 30 Pioneer Road, AEI works at VBP and for general working capital purposes. On 26 October 2016, VIT announced the proposed acquisition of 6 Chin Bee Avenue (transaction value of SGD96.8mn) which is intended to be funded on a 31:69 debt-to-equity basis. Of the equity portion, SGD23mn will be issued to the vendor as partial consideration while the rest of the equity financing has been raised via a private placement. As of report date, the deal has yet to be completed. On a pro-forma basis, the company expects aggregate leverage to go slightly lower to 39.3% post-completion (assumes SGD30.3mn in additional debt to fund the transaction).

- **Short term liquidity risk manageable:** As at 30 September 2016, VIT faces no short term debt due, with its next major debt only due in September 2018 (ie: the SGD100mn VITSP 4.15% '18). In December 2016, VITSP obtained an additional SGD22mn in secured bank debt which we think can help fund 6 Chin Bee Avenue. In addition, VITSP has SGD15mn in unutilized revolving credit facilities and cash balance of SGD14.3mn as at 30 September 2016 which should help in fulfilling its acquisition obligations. VITSP is reliant on secured financing, with ~90% of VITSP's investment properties encumbered. Only two assets, Jackson Square and Jackson Design remain unencumbered (valuation of ~SGD115mn, representing about 10% of its investment portfolio). The only unsecured debt is the SGD100mn. Including the SGD22mn in new bank debt, we estimate 80% of VITSP's gross debt are secured.

- **Weighted Average Lease Expiry ("WALE") and occupancy:** WALE by rental income (including rental support) is healthy at 3.3 years, slightly longer than 3.1 years as at 30 September 2015. Post-completion of the 6 Chin Bee Avenue acquisition, WALE may lengthen to 3.6 years. This transaction is structured as a 7 year sale and leaseback with the vendor. Occupancy was 88.6% as at 30 September 2016 against only 80.8% as at 30 September 2015, following improvements in occupancy in VBP (73% as at 30 September 2016 versus 63% as at 30 September 2015).

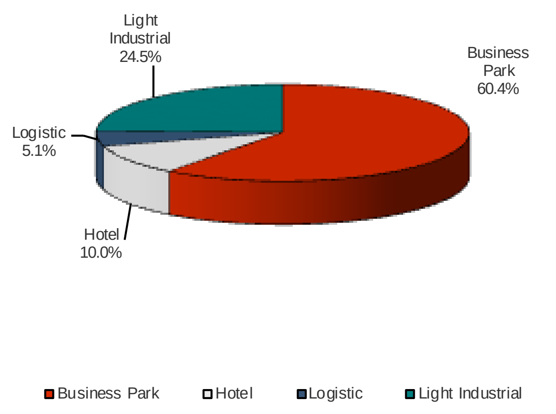
Viva Industrial Trust

Table 1: Summary Financials

Year Ended 31th Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	61.7	74.0	69.6
EBITDA	36.5	45.6	45.7
EBIT	32.3	41.5	43.2
Gross interest expense	11.7	15.6	16.9
Profit Before Tax	47.6	102.4	28.3
Net profit	45.8	100.1	26.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	5.0	48.9	14.3
Total assets	882.5	1,198.3	1,225.3
Gross debt	386.0	459.2	482.1
Net debt	381.1	410.3	467.8
Shareholders' equity	471.5	701.6	699.4
Total capitalization	857.5	1,160.8	1,181.4
Net capitalization	852.6	1,112.0	1,167.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	50.0	104.2	29.1
* CFO	57.6	72.1	65.2
Capex	0.0	13.3	17.9
Acquisitions	112.9	137.7	52.2
Disposals	0.0	0.0	0.0
Dividends	43.6	46.1	34.4
Free Cash Flow (FCF)	57.6	58.7	47.3
* FCF Adjusted	-98.9	-125.1	-39.3
Key Ratios			
EBITDA margin (%)	59.1	61.6	65.7
Net margin (%)	74.2	135.3	38.3
Gross debt to EBITDA (x)	10.6	10.1	7.9
Net debt to EBITDA (x)	10.4	9.0	7.7
Gross Debt to Equity (x)	0.82	0.65	0.69
Net Debt to Equity (x)	0.81	0.58	0.67
Gross debt/total capitalisation (%)	45.0	39.6	40.8
Net debt/net capitalisation (%)	44.7	36.9	40.1
Cash/current borrowings (x)	0.2	0.3	NM
EBITDA/Total Interest (x)	3.1	2.9	2.7

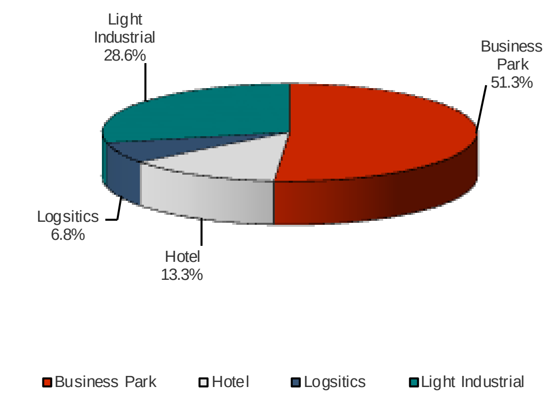
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2016



Source: Company

Figure 2: NPI breakdown by Segment - 9M2016



Source: Company

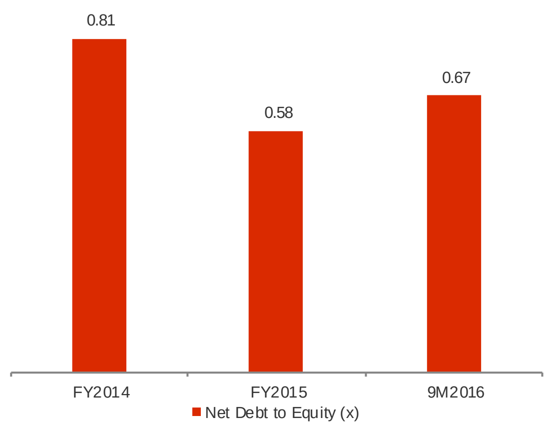
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	0.0	0.0%
	0.0	**0.0%**
Amount repayable after a year		
Secured	382.7	79.4%
Unsecured	99.4	20.6%
	482.1	**100.0%**
Total	**482.1**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Wharf Holdings Ltd

Credit Outlook – Despite a strong credit profile, we think that WHARF'18s and WHARF'21s look fair trading at only 33bps and 50bps over swaps.

Issuer Rating: Positive

S&P: Not rated
Moody's: Not rated
Fitch: A-/Stable

Ticker: **WHARF**

Company profile

The Wharf (Holdings) Ltd ("Wharf") develops and invests in retail, hotel and office property in China and Hong Kong. The company is also involved in communications, media & entertainment, and container terminals businesses. Wharf has strong experience and expertise in operating prime-location, high-quality commercial properties in Hong Kong. Wharf is a subsidiary of Wheelock & Co. Ltd, which owns a 57% stake in the former.

Key credit considerations

- **Decent 1H2016 results:** Revenue rose by 12% y/y to HKD20.0bn, mainly due to higher rental income and property sales. Wharf's China projects performed well, with property contracted sales increasing 58% y/y to RMB16.2bn, forming 68% of 2016's target, and net order book increasing to RMB28.7bn. Wharf's Hong Kong and China properties also did well, with revenues increasing 7% each to HKD6.4bn and HKD1.2bn respectively.

- **Portfolio anchored by Hong Kong investment properties:** Investment properties in Hong Kong and China accounted for the majority (HKD4.6bn) of the core profit of HKD6.0bn. Hong Kong investment properties has been the largest contributor, accounting for 70% of 1H2016's core profit. Two properties in Hong Kong anchor Wharf's Hong Kong investment portfolio: (i) Harbour City ("HC"), which accounts for HKD3.1bn of revenue, and (ii) Times Square ("TS"), which accounts for HKD1.1bn of revenue.

- **Not overly concerned about the Hong Kong retail headwinds:** We are not overly concerned about the challenging Hong Kong retail environment as HC and TS rental revenue rose 4% and 10% to HKD3.1bn and HKD1.1bn respectively due to solid rental reversions. Going forward, we expect the on-going asset enhancement at HC and a new extension building overlooking Victoria Harbour to mitigate the retail headwinds. Retail occupancy costs at HC and TS are 19.8% and 24.5% respectively, which are not excessive in our view. Meanwhile, the decline in Hong Kong retail sales appears to have slowed.

- **Growing recurrent income:** Revenue from investment properties have grew steadily from HKD4.9bn in 1H2012 to HKD7.6bn in 1H2016. We think the trend of growth will continue, as Wharf expanded the investment portfolio by acquiring the entire office tower and prime shops in Wheelock House for HKD6.2bn in 1H2016. In China, Chengdu IFS has been performing well, with retail revenue increasing 9% y/y to RMB312mn in 1H2016. 100,000 sqm of office space has also been leased at the highest rental rates in Chengdu. China investment properties will grow in a bigger way, with the area from the existing and planned IFS totaling 2.0m sqm. Near-term income will be boosted by several openings. The Changsha Times Outlet (GFA: 72,000 sqm) opened in 2H2016, while the Chongqing IFS mall (GFA: 114,000 sqm) will open in April next year. In 3Q2017, Changsha IFS (GFA: 254,000 sqm) is expected to open.

- **Will Wharf turn net cash?:** Net gearing and debt levels have been declining since 1H2013 due to Wharf's strong free cash flow generation. This is because Wharf has been selling its properties faster than it replenishes its land bank, in addition to receiving a steady income stream from its investment properties. Wharf has not been winning land bids, as Wharf is not comfortable bidding higher when land prices increase faster than finished properties. We are not overly worried about the depletion of the land bank in the near term, as 5.0m sqm of development properties land bank remains as of end-1H2016 while 1H2016 contracted sales area was 836,000 sqm.

- **Healthy credit metrics:** Wharf T&T was sold for HKD9.5bn in Oct 2016, and we estimate net debt/equity to fall to 0.12x. We expect net gearing to trend downwards even with the large projected 2016 capex of HKD15.8bn, as this is expected to be largely self-financed by sales. Access to capital is healthy, with Wharf issuing RMB4bn of its maiden Panda bonds in China's onshore markets on 17 Oct 2016. Meanwhile, the annualized revenue from investment properties at HKD15.2bn well-covers the gross interest expense of HKD2.6bn in FY2015.

Wharf Holdings Ltd

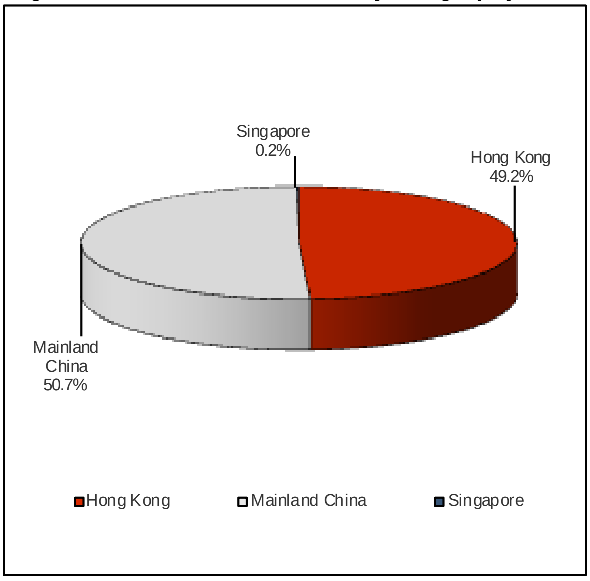
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1H2016
Income Statement (HKD'mn)			
Revenue	38,136	40,875	20,021
EBITDA	15,805	16,401	8,803
EBIT	14,283	14,853	8,075
Gross interest expense	2,604	2,557	636
Profit Before Tax	40,154	20,635	8,644
Net profit	35,930	16,024	6,725
Balance Sheet (HKD'mn)			
Cash and bank deposits	18,725	23,510	18,536
Total assets	444,658	443,916	439,829
Gross debt	77,984	70,707	66,686
Net debt	59,259	47,197	48,150
Shareholders' equity	314,111	317,180	316,129
Total capitalization	392,095	387,887	382,815
Net capitalization	373,370	364,377	364,279
Cash Flow (HKD'mn)			
Funds from operations (FFO)	37,452	17,572	7,453
* CFO	18,253	24,053	12,290
Capex	11,277	6,849	9,645
Acquisitions	2,084	1,340	0
Disposals	56	6,727	0
Dividends	5,871	5,851	4,092
Free Cash Flow (FCF)	6,976	17,204	2,645
* FCF Adjusted	-923	16,740	-1,447
Key Ratios			
EBITDA margin (%)	41.4	40.1	44.0
Net margin (%)	94.2	39.2	33.6
Gross debt to EBITDA (x)	4.9	4.3	3.8
Net debt to EBITDA (x)	3.7	2.9	2.7
Gross Debt to Equity (x)	0.25	0.22	0.21
Net Debt to Equity (x)	0.19	0.15	0.15
Gross debt/total capitalisation (%)	19.9	18.2	17.4
Net debt/net capitalisation (%)	15.9	13.0	13.2
Cash/current borrowings (x)	2.2	2.8	1.3
EBITDA/Total Interest (x)	6.1	6.4	13.8

Source: Company, OCBC estimates

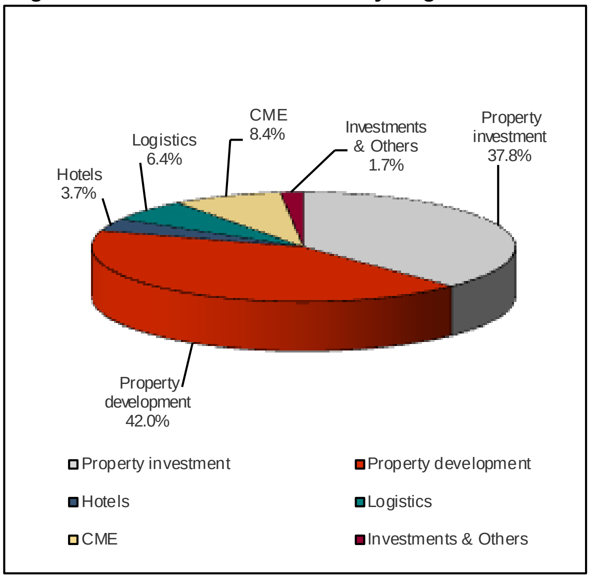
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Geography - 1H2016



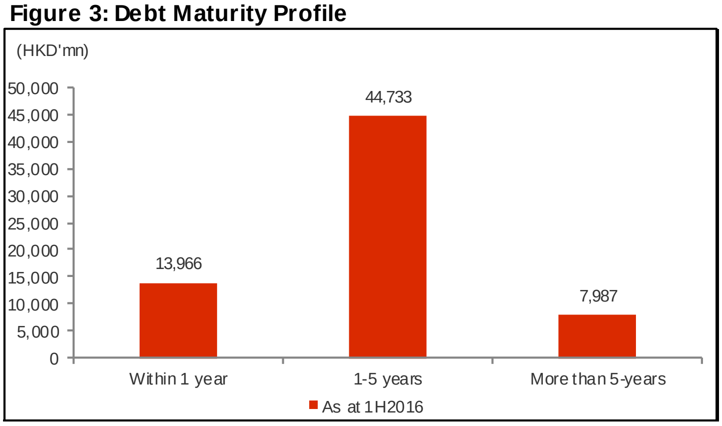
Source: Company

Figure 2: Revenue breakdown by Segment - 1H2016



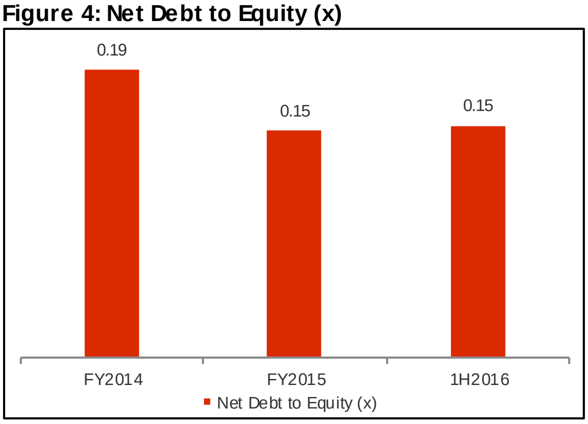
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We prefer WHEELK'21 (83bps over swaps) over WHARF'21s for 34bps pickup.

Issuer Rating: Positive

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **WHEELK**

Company Profile

Founded in Shanghai in 1857, Wheelock & Co Ltd ("Wheelock") is a Hong Kong-listed investment holding company. Wheelock owns 55.1% of its principal subsidiary, The Wharf (Holdings) Ltd ("Wharf"). Wheelock also owns a 76.2% stake in Wheelock Properties (S) Ltd ("WPL"), which is a listed developer in Singapore. While prime real estate is Wharf's strategic focus, mall management remains Wheelock's strategic differentiation.

Wheelock & Co Ltd

Key credit considerations

- **Weaker 1H2016 results due to absence from One Bay East:** Revenue and profit fell 5.1% y/y and 29% y/y to HKD27.2bn and HKD5.7bn respectively. This is mainly due to the fall in contributions from Hong Kong, due to the absence of contribution from One Bay East. The contributions in 1H2016 from the development properties segment were mainly due to sales of One HarbourGate's West Office Tower and Retail Villa in Jun 2016 to China Life, with HKD5.9bn revenue recognised.

- **Strong sales to lift future earnings:** Contracted sales of HKD5.8bn as of 1H2016 were achieved, due to sales at Savannah, ONE HOMANTIN and Mount Nicholson. The launches continued to be successful post 1H2016 results. 90% of the launched units at Savannah sold for HKD3.7bn (1H2016: HKD3.0bn) and 130 units at ONE HOMANTIN sold for HKD1.6bn (1H2016: 1.0bn) as of 14 Aug 2016. Post results, the East Office Tower and Retail Villa of One HarbourGate were sold for HKD4.5bn. As such, we estimate that the contracted sales for the year as of 14 Aug 2016 has already reached at least HKD11.6bn, not far from the contracted sales of HKD12.9bn achieved in 2015.

- **Sufficient HK landbank for future development:** As of 1H2016, Wheelock holds 8.3mn sq ft of land bank, consuming a net 400,000 sq ft from end-2015. We think that the land bank is still sufficient, with 95% of it located in urban area and at a competitive cost of HKD3,400 psf (excl the Peak). On 17 Nov 2016 (after the announcement of the stamp duty hike), it was announced that Wheelock's subsidiary, Wheelock Properties, won a 196,550 sq ft site in Kwung Tong for HKD6.39bn (HKD7,728 psf). Wheelock will be building 1,100-1,200 flats at this site.

- **Wharf's investment properties to provide stability in income:** While Wheelock's standalone core profit of HKD1.4bn is lower than 1H2015 of HKD3.2bn due to absence of contribution from One Bay East, total core profit dipped less by 19% to HKD5.1bn, mainly due to steady contributions from Wharf. Wharf has been providing a growing stream of dividends, with Wheelock receiving over HKD3bn in cashflows from Wharf per year. The development-focused Wheelock also lightens its balance sheet via Wharf, for example through the sale of Wheelock House to Wharf for HKD5.1bn in March 2016.

- **Healthy credit metrics:** Due to the strong sales execution, net debt/equity has fallen to 0.21x as at 1H2016 (2015: 0.23x). We are expecting the gearing levels to improve post-sale of Wharf T&T. Wheelock's standalone net debt, without Wharf and WPL, has fallen from HKD32.2bn as of end-2015 to HKD26.2bn as of 1H2016. Meanwhile, EBITDA/total interest of 6.4x is healthy as of 2015.

- **Good access to financing:** Wheelock (standalone) has HKD38.1bn of undrawn facilities as of 1H2016. While Wheelock has not accessed the bond market in recent quarters, we are comforted by the termed out debt maturity, with bonds maturity up to 2022. HKD20.8bn of debt which will be maturing within a year is easily met by the cash balance of HKD26.6bn.

Wheelock & Co Ltd

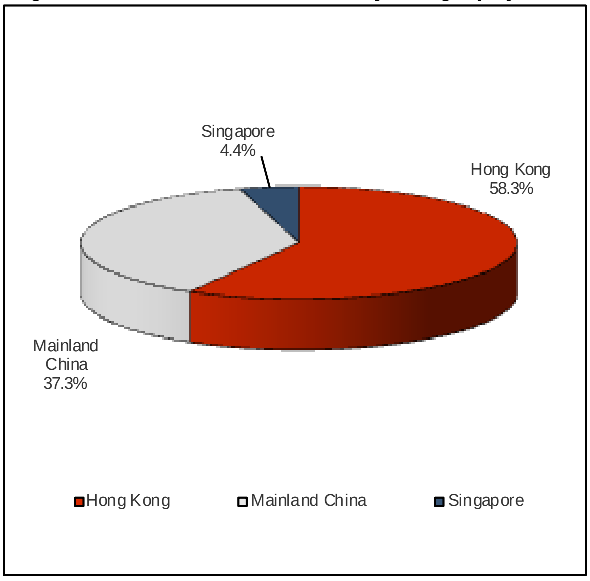
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1H2016
Income Statement (HKD'mn)			
Revenue	40,953	57,431	27,196
EBITDA	17,257	21,608	10,790
EBIT	15,729	20,053	10,059
Gross interest expense	3,776	3,376	1,084
Profit Before Tax	42,984	26,544	10,680
Net profit	22,009	14,232	5,662
Balance Sheet (HKD'mn)			
Cash and bank deposits	21,279	27,266	26,664
Total assets	517,567	512,758	510,483
Gross debt	117,878	106,193	99,733
Net debt	96,599	78,927	73,069
Shareholders' equity	339,916	340,859	341,664
Total capitalization	457,794	447,052	441,397
Net capitalization	436,515	419,786	414,733
Cash Flow (HKD'mn)			
Funds from operations (FFO)	23,537	15,787	6,393
* CFO	13,933	32,676	14,983
Capex	9,017	7,540	4,859
Acquisitions	7,784	6,955	1,357
Disposals	2,147	11,821	0
Dividends	5,219	5,048	3,741
Free Cash Flow (FCF)	4,916	25,136	10,124
* FCF Adjusted	-5,940	24,954	5,026
Key Ratios			
EBITDA margin (%)	42.1	37.6	39.7
Net margin (%)	53.7	24.8	20.8
Gross debt to EBITDA (x)	6.8	4.9	4.6
Net debt to EBITDA (x)	5.6	3.7	3.4
Gross Debt to Equity (x)	0.35	0.31	0.29
Net Debt to Equity (x)	0.28	0.23	0.21
Gross debt/total capitalisation (%)	25.7	23.8	22.6
Net debt/net capitalisation (%)	22.1	18.8	17.6
Cash/current borrowings (x)	2.0	2.6	1.3
EBITDA/Total Interest (x)	4.6	6.4	10.0

Source: Company, OCBC estimates

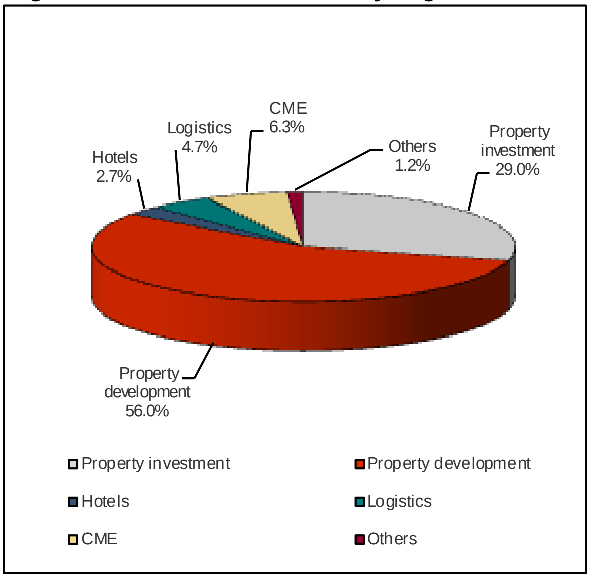
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Geography - 1H2016



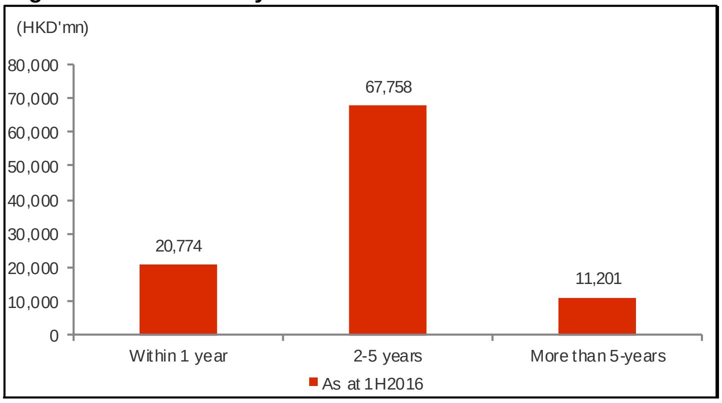
Source: Company

Figure 2: Revenue breakdown by Segment - 1H2016



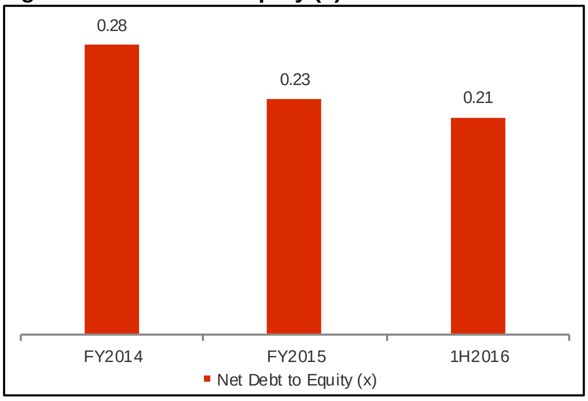
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – While the WINGTA complex offers 108-140bps over swaps, we stay neutral in view of the long duration of the bonds amidst the rising interest rate environment. The lacklustre results and poor outlook may also weigh on sentiments. We prefer OUESP'20s for a similar spread (133bps over swap) for a shorter maturity.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **WINGTA**

Background

Listed on the SGX since 1989, Wing Tai Holdings ("WINGTA") is an investment holding company with core businesses in property investment and development, lifestyle retail and hospitality management in key Asian markets such as Singapore, Malaysia, Hong Kong and China. WINGTA's commercial properties include Winsland House in Singapore and Landmark East and W Square in Hong Kong. The group's Chairman Mr. Cheng Wai Keung owns a 51.1% stake in WINGTA. WINGTA owns a 34.6% stake in Wing Tai Properties Ltd.

Wing Tai Holdings Ltd

Key credit considerations

- **Lacklustre 1QFY2017 results:** In 1QFY2017, revenues plunged 59% y/y to SGD70.2mn as fewer properties were sold, with revenue due mainly from progressive sales from The Tembusu. Share of profits from JVs and associates also fell 21% y/y to SGD5.8mn due to weaker performance from Wing Tai Properties Ltd. Due to the plunge in revenue, the bottom-line was harder hit, with profits of only SGD667k despite registering SGD6.1mn in other gains from disposal of JV companies.

- **Credit story driven by balance sheet strength:** The credit story for WINGTA is less about profitability and more about the strength of the balance sheet. Net gearing improved to 0.05x (from 0.2x in 4QFY2016) mainly due to the sale of its half share in the developer of Nouvel 18 to CDL for SGD411mn. During the same period, WINGTA also disposed a 40% interest in a company by its China subsidiary for SGD89.3mn. We like that SGD243mn of the cash proceeds were used to repay debt, which reduces current borrowings to a minimal level.

- **Navigating the poor outlook of the Singapore property market:** Singapore property price continued to fall for the 13th consecutive quarter, with the URA property price index declining by 0.4% in 4Q2016. In Singapore, Wing Tai Holdings will still need to move units at Le Nouvel Ardmore – only 7 units out of 43 units were sold as at 30 June 2016. The Crest is also struggling, with 30% of the 469 units sold. Nevertheless, we believe WINGTA will pull through the property down cycle with a strong balance sheet.

- **Overseas markets only partly mitigate the property downturn:** WINGTA operates in Malaysia through a 66.1% stake in Wing Tai Malaysia Bhd. Several properties have yet to be fully sold despite 100% completion, including the 25 unit Nobleton Crest (~25% sold), phase 4 of Taman Bukit Minyak Utama (50%), phase 2 of Jesselton Hills (over 80%) and Impiana Commercial Hub (over 80%). Wing Tai Malaysia Bhd expects a challenging outlook ahead due to weak consumers' sentiment. WINGTA's China operations will only help in diversifying gradually as it takes time to ramp up its presence. A sales launch of Malaren Gardens (301 units) has been planned in Shanghai in 1HFY2017, and a site within Huai Hai Middle Road business circle at Huangpu District in Shanghai will be constructed into an urban upscale retail and office development, which will open by end-2018.

- **Recurring income from investment properties:** WINGTA generates rental income of SGD37.4mn in FY2016, mainly from its Singapore investment properties (Winsland House I & II, Lanson Place Winsland Residences), shop offices in Malaysia and a commercial property in China. WINGTA also operates 11 management contracts across Singapore, Malaysia, China and Hong Kong, generating SGD5.5mn management fees in FY2016.

- **Retail business continues to struggle:** As of 30 Jun 2016, WINGTA had 229 stores in Singapore and Malaysia, with over 1mn sq ft in retail footage. While WINGTA continues to expand its Uniqlo stores, the overall retail environment continues to be challenging. WINGTA has been downsizing and streamlining its retail business, for example from the sale of Yoshinoya. Revenue from retail has declined 20.6% since FY2014 to SGD169.6mn.

- **Termed out debt maturity:** There is an insignificant amount of debt due within the next 12 months, with bonds well termed out into FY2021-2024. Liquidity remains ample with SGD965.7mn cash on hand.

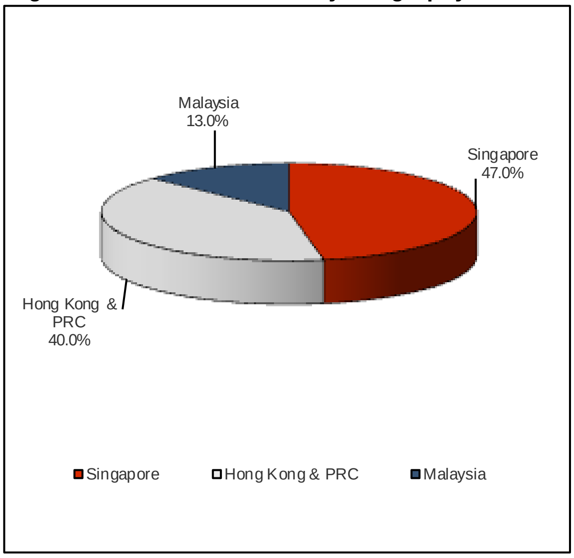
Wing Tai Holdings Ltd

Table 1: Summary Financials

Year Ended 30th Jun	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	676.7	544.5	70.2
EBITDA	75.9	31.7	-1.7
EBIT	61.5	21.2	-3.8
Gross interest expense	47.3	45.5	10.8
Profit Before Tax	175.3	41.4	-2.7
Net profit	150.3	7.1	1.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	880.6	722.9	965.7
Total assets	4,887.6	4,975.6	4,706.1
Gross debt	1,191.4	1,376.5	1,131.9
Net debt	310.7	653.6	166.1
Shareholders' equity	3,362.2	3,332.5	3,340.8
Total capitalization	4,553.6	4,709.0	4,472.7
Net capitalization	3,672.9	3,986.1	3,507.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	164.7	17.6	3.1
* CFO	213.7	-80.4	-4.6
Capex	7.6	4.6	0.5
Acquisitions	17.9	0.1	33.7
Disposals	27.3	2.5	499.0
Dividend	51.4	25.1	0.0
Free Cash Flow (FCF)	206.1	-85.0	-5.0
* FCF Adjusted	164.1	-107.8	460.3
Key Ratios			
EBITDA margin (%)	11.2	5.8	-2.4
Net margin (%)	22.2	1.3	1.5
Gross debt to EBITDA (x)	15.7	43.5	-165.1
Net debt to EBITDA (x)	4.1	20.6	-24.2
Gross Debt to Equity (x)	0.35	0.41	0.34
Net Debt to Equity (x)	0.09	0.20	0.05
Gross debt/total capitalisation (%)	26.2	29.2	25.3
Net debt/net capitalisation (%)	8.5	16.4	4.7
Cash/current borrowings (x)	24.5	8.3	82.6
EBITDA/Total Interest (x)	1.6	0.7	-0.2

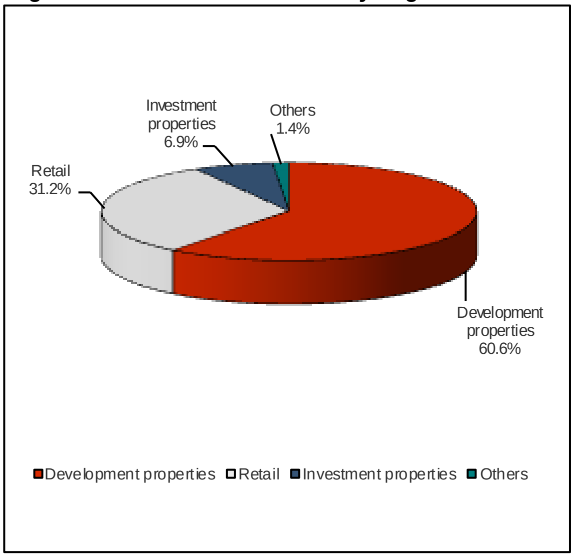
Source: Company, OCBC estimates

Figure 1: Asset breakdown by Geography - FY2016



Source: Company

Figure 2: Revenue breakdown by Segment - FY2016



Source: Company

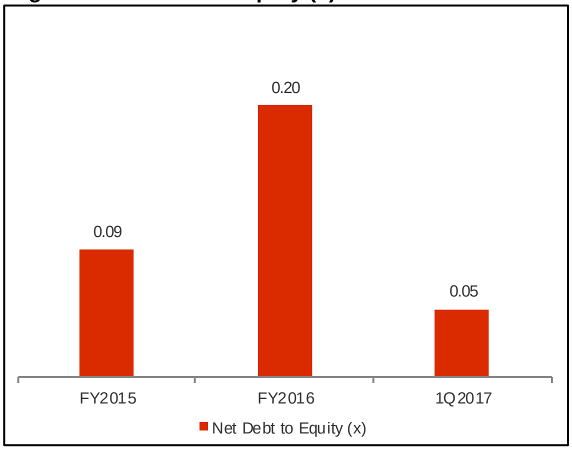
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	5.8	0.5%
Unsecured	5.9	0.5%
	11.7	**1.0%**
Amount repayable after a year		
Secured	340.3	30.1%
Unsecured	779.9	68.9%
	1120.2	**99.0%**
Total	**1131.9**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –
We are overweight on WINGTA 4.25''22 at 141bps over swap offering 23bps pickup over WINGTA 4.5'22.

Issuer Rating: Positive

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **WINGTA**

Company Profile
Listed in 1991 in HKSE, Wing Tai Properties Ltd ("WTP") is principally engaged in property development, property investment, and hospitality management in Hong Kong, China and South East Asia under the brand names of Wing Tai Asia and Lanson Place. It has developed an aggregate GFA of over 5mn sq ft in the luxury residential property projects and its premium serviced residences are located in China and South East Asia. WTP is 34.6% owned by Wing Tai Holdings Ltd and 13.7%-owned by Sun Hung Kai Properties Ltd.

Wing Tai Properties Ltd

Key credit considerations

- **Poor 1H2016 results due to fall in property sales:** Revenue declined 13.4% y/y to HKD468mn in 1H2016 mainly due to weaker property sales, which declined by HKD88.9mn. While residential price volatility was a contributing factor, we note that inventory levels are low as the completed projects were mostly sold, except for Homantin Hillside which obtained its occupation permit in June 2016. We expect property sales to be a small contributor of revenue till the expected completion in 2017 of two low-density residential projects in Kau To (Shatin) which has a combined GFA of 460,000 sq ft. Looking further into 2018-2019, WTP is expected to complete the site in Shau Kei Wan (46,000 sq ft) and Siu Sau (Castle Peak Road, Tuen Mun) (159,000 sq ft).

- **Credit profile driven by the investment property portfolio:** Property investment and management revenue grew 7.0% y/y in 1H2016 to HKD366mn, forming 78% of the total revenue. This is contributed by Landmark East, WTP's flagship property with a total GFA of 1,338,000 sq ft. An impressive 33% upward rental reversion was achieved for the leases that are renewed. While another 30% of leases would have expired in 2H2016, we think this poses an upside to rental income, given the high rental reversion and a very high occupancy of 98% as of 30 Jun 2016. As a chunky 60% of leases are expiring in Winner Godown Building and Shui Hing Centre in 2016, occupancy fell from 14pp to 83% as of 1H2016. We note that both properties are Industrial buildings, and WTP may potentially apply to convert their usage to commercial under the government's revitalization policy.

- **Diversification out of Hong Kong with London investments:** The acquisition of 33% interest of Cavendish Square in London marks the fifth Grade A office/retail property investment in Central London. We estimate that the net internal area attributable to WTP is 91,030 sq ft. While the GBP have weakened by c.16% since Brexit, we believe WTP has substantially hedged the FX exposure through local currency financing and forward exchange contracts.

- **Slip in hospitality investment and management revenue:** Hospitality investment and management revenues fell 8.5% y/y to HKD65mn in 1H2016. This is due to weaker rental rates achieved at Lanson Place Hotel in Hong Kong and Lanson Place Bukit Ceylon Serviced Residences in Kuala Lumpur.

- **Healthy credit metrics though gearing is expected to increase:** Net debt/equity has increased to 0.14x (2015: 0.07x) due to the use of cash on hand to acquire Cavendish Square and fund the construction costs to develop properties. In particular, properties under development has surged 101% since end-2015 to HKD2.3bn in end-1H2016, with cash generated from operations turning into a negative HKD901.2mn. Moving forward, gearing is expected to increase as WTP, through a 70% equity interest, has acquired a site at Tuen Mun Town with a land premium of HKD982mn. The use of cash exceeds the sales proceeds of HKD458mn from the disposal of its 50% stake in Upper Riverside in Shanghai in July 2016. Nevertheless, we expect net gearing to remain healthy, at under 0.20x.

- **Low refinancing risks:** Debt maturity is well-termed out, with HKD3.1bn out of HKD3.9bn debt expiring after 2 years. The balance sheet is largely unencumbered, with only HKD6.6bn out of HKD28.7bn total assets pledged. In any case, WTP maintains good access to liquidity, with HKD672mn cash on hand and HKD2.2bn unutilized revolving loan facilities.

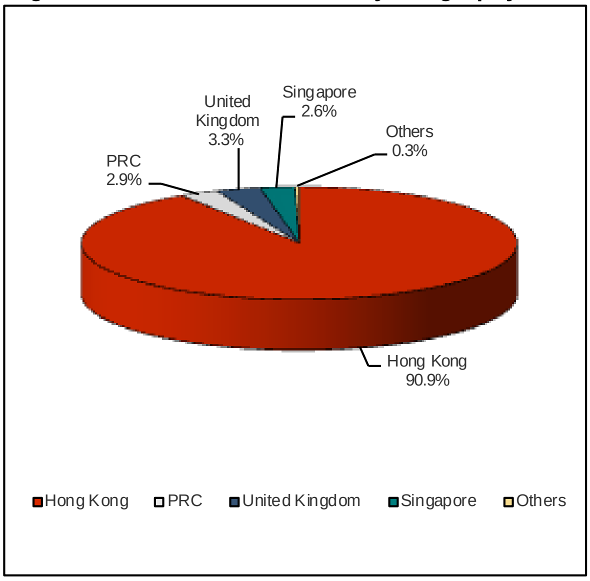
Wing Tai Properties Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1H2016
Income Statement (HKD'mn)			
Revenue	1,783.5	1,009.2	468.0
EBITDA	611.3	432.8	228.0
EBIT	600.5	427.8	225.9
^ Gross interest expense	158.6	137.0	44.0
Profit Before Tax	2,033.1	1,182.3	358.1
Net profit	1,943.6	1,099.1	300.2
Balance Sheet (HKD'mn)			
Cash and bank deposits	1,606.1	2,088.8	672.0
Total assets	27,527.8	28,220.9	28,674.2
Gross debt	3,878.8	3,766.3	3,925.4
Net debt	2,272.7	1,677.5	3,253.4
Shareholders' equity	22,680.2	23,347.3	23,577.6
Total capitalization	26,559.0	27,113.6	27,503.0
Net capitalization	24,952.9	25,024.8	26,831.0
Cash Flow (HKD'mn)			
Funds from operations (FFO)	1,954.4	1,104.1	302.3
* CFO	1,465.0	1,058.9	-901.2
Capex	5.6	258.4	0.0
Acquisitions	4.3	0.0	1.5
Disposals	0.9	135.4	0.0
Dividends	181.0	181.3	145.1
Free Cash Flow (FCF)	1,459.4	800.5	-901.2
* FCF Adjusted	1,275.0	754.6	-1,047.8
Key Ratios			
EBITDA margin (%)	34.3	42.9	48.7
Net margin (%)	109.0	108.9	64.1
Gross debt to EBITDA (x)	6.3	8.7	8.6
Net debt to EBITDA (x)	3.7	3.9	7.1
Gross Debt to Equity (x)	0.17	0.16	0.17
Net Debt to Equity (x)	0.10	0.07	0.14
Gross debt/total capitalisation (%)	14.6	13.9	14.3
Net debt/net capitalisation (%)	9.1	6.7	12.1
Cash/current borrowings (x)	25.2	4.8	1.4
^ EBITDA/Total Interest (x)	3.9	3.2	5.2

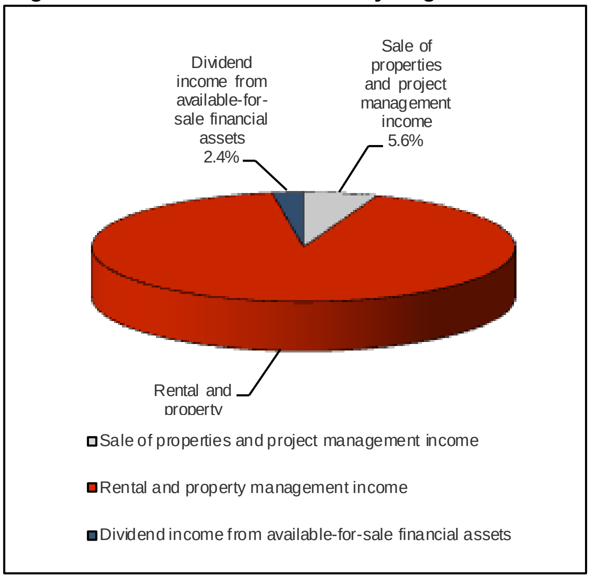
Source: Company, OCBC estimates | ^1H2016's figures exclude capitalised interest expense
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Geography - 1H2016



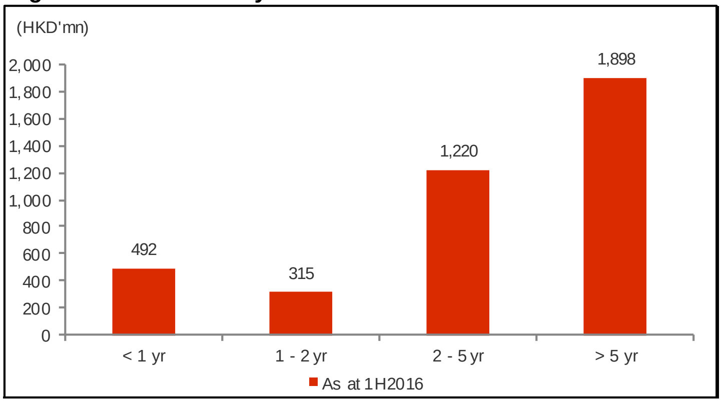
Source: Company

Figure 2: Revenue breakdown by Segment - 1H2016



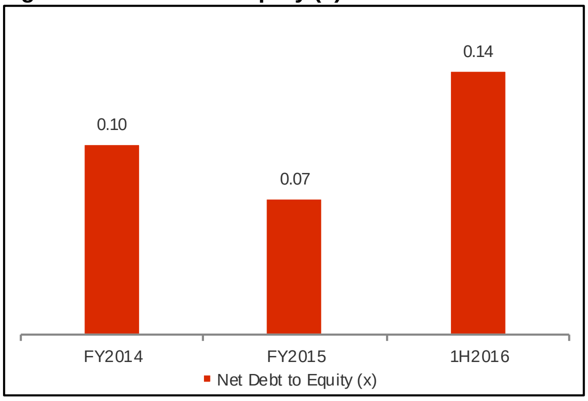
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Yanlord Land Group Ltd

Credit Outlook – Despite our expectations of deterioration in YLLG's issuer profile, we are keeping YLLGSP'17s at Neutral on the back of its short tenure (maturing May 2017).

Issuer Profile: Negative

S&P: BB-/Stable
Moody's: Ba3/Positive
Fitch: Not rated

Ticker: **YLLGSP**

Background

Yanlord Land Group Ltd ("Yanlord") is a PRC real estate developer. Established in 1993, it focuses on the high-end residential, commercial and integrated property segments. It has a strong local brand and presence in (1) the Yangtze River Delta (2) the Pearl river Delta (3) Western China (4) Bohai Rim (5) Hainan Island. Listed on the SGX, it is ~66% owed by Chairman and CEO Mr. Zhong Seng Jian. Yanlord has a market capitalization of SGD2.7bn as of 30 November 2016.

Key credit considerations

- **Strong 9M2016 earnings recognized:** 9M2016 revenue increased by 148% to RMB15.8bn (9M2015: RMB6.3bn). The strong performance during the 9M2016 reflects the increase in gross floor area delivered (565,535 sqm against 248,334 sqm) and higher average selling price (RMB27,531 per sqm against RMB22,764 sqm) from the earlier red-hot property market in China. In 9M2016, reported gross profit margin was 24.2% against 30.9% in 9M2015, we believe this was driven by lower resettlement income. At the EBITDA level (excluding other income, other expenses and net foreign exchange loss), growth was strong at 128% to reach RMB3.2bn. We estimate interest capitalized for 9M2016 at SGD818mn and 9M2015 at SGD940mn and EBITDA/Gross interest to have improved to 2.9x in 9M2016 against 2.7x in 2015. Receipts in advance (from pre-sales) were a source of cash to fund working capital. In 9M2016, this helped boost CFO (before interest and tax) to RMB8.3bn. In addition, accumulated pre-sales pending recognition should keep YLLG's operating income robust during the remaining term of the SGD bonds, with the YLLG 6.2% '17s, coming due to May 2017.

- **Refinancing risk:** YLLG's short term debt due amounts to RMB5.75bn (~SGD1.2bn), of which SGD400mn relates to its SGD bond. Secured debt makes up 41% of adjusted gross debt (which includes RMB1.6bn in non-trade amounts due largely due to dividend payable) and about 14% of its property asset base (ie: assets most typically used as collateral). Adjusted gross debt makes up about 35% of such asset base, which provides YLLG with financial flexibility should it need to take on more secured financing to redeem its SGD bond. In November 2016, YLLG initiated roadshows for a potential USD bond fundraising to refinance upcoming bank debt, though at report date, a deal has not been launched.

- **Joint ventures and associates intensify:** During 9M2016, YLLG has intensified land/development project replenishment via acquiring land through public auctions and acquisition of new subsidiaries, joint ventures and associates. In 9M2016, net cash used for investing activities significantly increased to RMB5.0bn (9M2015: RMB375.4mn). RMB4.3bn was due to advances made by YLLG to associates and joint ventures while RMB477mn was invested in an associate. Cash flow from operations was insufficient to cover interest, tax and all of YLLG's investing activities during the period (small gap of RMB162mn). We also understand from management that total corporate guarantees given by YLLG on joint ventures and associates are minimal.

- **Debt levels rising:** As at 30 September 2016, YLLG's headline gross debt-to-equity of 0.61x, was relatively flat against 0.60x as at 31 December 2015. We find adjusted gross debt-to-equity at 0.67x (31 December 2015: 0.61x). Cash balances declined slightly by 3.9% to RMB16.8bn, while cash receipts in advance from customers (a current liability item from pre-sales) expanded to RMB25.0bn. We maintain that YLLG's cash balances will need to be kept aside to fund the production of houses for contractual delivery, rather than being used to pare down debt. Per management, about RMB3bn from its Suzhou land acquisition remains outstanding. In end-December 2016, YLLG announced that it is acquiring land in Nanjing for RMB7.8bn. Assuming that these are fully debt funded, we expect to see gross debt-to-equity rising to 0.9x-1.0x levels. We are lowering YLLG's issuer profile to **Negative** from Neutral on the back of expectations that gearing will rise over a 6 month period and that there is still cost uncertainty surrounding its upcoming debt due on the back of a more challenging fundraising environment for Chinese property companies.

Yanlord Land Group Ltd

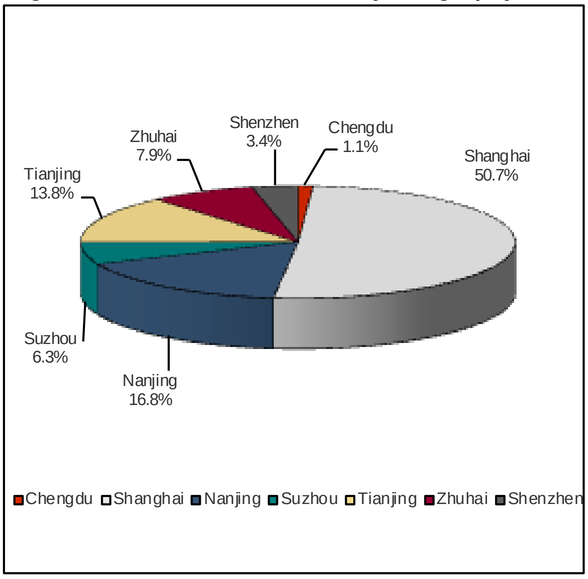
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (RMB'mn)			
Revenue	11,733.3	16,581.4	15,762.4
EBITDA	2,675.8	3,507.4	3,166.7
EBIT	2,645.1	3,472.3	3,143.1
Gross interest expense	1,490.3	1,297.6	1,079.4
Profit Before Tax	3,598.2	4,317.1	3,171.8
Net profit	1,359.4	1,468.6	1,265.3
Balance Sheet (RMB'mn)			
Cash and bank deposits	6,619.9	17,517.0	16,837.1
Total assets	67,326.6	79,897.7	87,547.7
^ Gross debt	19,806.2	18,261.7	18,558.2
Net debt	13,186.2	744.7	1,721.1
Shareholders' equity	29,373.2	30,534.5	30,322.1
Total capitalization	49,179.4	48,796.1	48,880.2
Net capitalization	42,559.5	31,279.2	32,043.1
Cash Flow (RMB'mn)			
Funds from operations (FFO)	1,390.1	1,503.7	1,289.0
* CFO	-1,423.1	13,952.0	4,586.4
Capex	479.0	718.1	638.5
Acquisitions	0.0	0.0	477.0
Disposals	12.3	50.6	79.8
Dividends	721.1	768.8	888.8
Free Cash Flow (FCF)	-1,902.1	13,233.9	3,947.9
* FCF Adjusted	-2,610.9	12,515.7	2,662.0
Key Ratios			
EBITDA margin (%)	22.8	21.2	20.1
Net margin (%)	11.6	8.9	8.0
Gross debt to EBITDA (x)	7.4	5.2	4.4
Net debt to EBITDA (x)	4.9	0.2	0.4
Gross Debt to Equity (x)	0.67	0.60	0.61
Net Debt to Equity (x)	0.45	0.02	0.06
Gross debt/total capitalisation (%)	40.3	37.4	38.0
Net debt/net capitalisation (%)	31.0	2.4	5.4
Cash/current borrowings (x)	3.2	3.0	2.9
EBITDA/Total Interest (x)	1.8	2.7	2.9

Source: Company, OCBC estimates

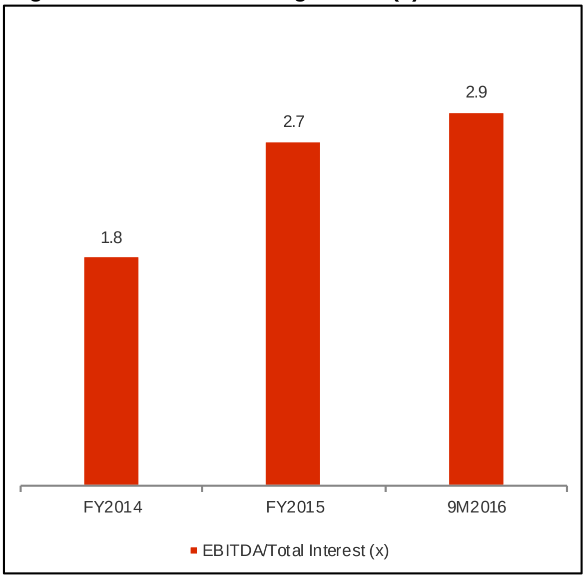
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Geography - 9M2016



Source: Company

Figure 2: Interest Coverage Ratio (x)



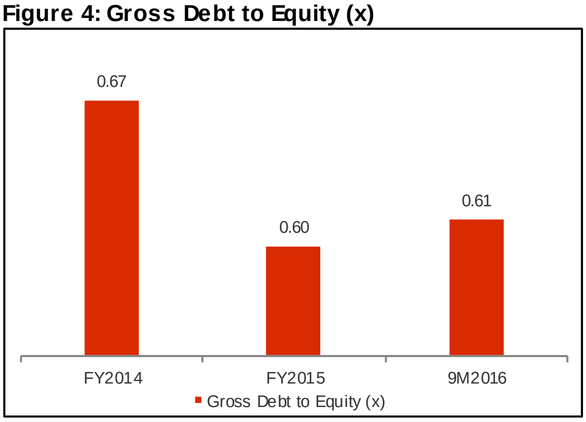
Source: Company, OCBC estimates

Figure 3: Debt Maturity Profile

Amounts in (RMB'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	879.0	4.4%
Unsecured	4,920.5	24.6%
	5,799.5	**29.1%**
Amount repayable after a year		
Secured	7,469.0	37.4%
Unsecured	6,692.8	33.5%
	14,161.9	**70.9%**
Total	**19,961.3**	**100.0%**

Source: Company | ^9M2016's gross debt exclude non-trade amounts

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Financial Institution Outlooks

Credit Outlook – Potentially improved returns and slightly improved balance sheet strength and capital ratios should mitigate on-going restructuring and soft operating conditions. We think the ANZ 3.75%'27c22 offers better value in the Aussie T2 space given spread and shorter tenor and fundamental upside if restructuring initiatives pan out as expected.

Issuer Profile: Neutral

S&P: AA-/Negative

Moody's: Aa2/Negative

Fitch: AA-/Stable

Ticker: **ANZ**

Background

ANZ Banking Group Limited is one of Australia's big 4 banks and the largest bank in New Zealand. It is ranked in the top 25 globally by market capitalization with operations in 34 markets. Its business segments cover retail, commercial and institutional banking as well as wealth management. As at 30 September 2016, the bank had total assets of AUD914.9bn.

Australia & New Zealand Banking Group Ltd

Key credit considerations

- **Strategic actions influencing earnings:** ANZ's FY2016 results reflect the bank's ongoing repositioning initiatives with cash profit down 18% y/y to AUD5.9bn due mostly to AUD1.1bn in restructuring charges. Within these numbers, operating income was flat y/y at AUD20.5bn as 5% growth in interest earning assets (and 3% rise in gross loans and advances) mitigated the 4bps fall in net interest margins (NIM) from (1) increased wholesale funding costs, (2) growth in the lower margin liquidity portfolio and (3) lower earnings from financial market activities. Operating expenses (including restructuring expenses) rose 11% y/y translating to profit before provisions falling 9% to AUD10.1bn. Provisions were higher as expected by 62% y/y to AUD1.9bn due to continued weakness in the mining and resources segment and this led to the larger drop in earnings.

- **But headed in the right direction**: Excluding restructuring charges, cash profit was only down 2.5% y/y to AUD7bn. This was helped by a 3.5% increase in operating income due mostly to stable performance in the Australian retail and commercial segment with NIMs flat y/y at 2.55% (Institutional NIMs fell 7bps y/y to 1.13% while NZ NIMs fell 12bps to 2.38%). The rise in provisions occurred mostly in the institutional and commercial segments (and included a one-off settlement for a legal dispute) and this raised the contribution from the bank's core Australian and New Zealand divisions to 82.2% of total cash profits in FY2016 from 64.7% in FY2015.

- **Loan quality issues remain** Higher exposure to stressed industries (agriculture, forestry, fishing and mining industries) compared to peers impacted overall loan quality performance in FY2016. Total reported credit impairment charges to average gross loans and advances (GLA) rose 13bps to 0.34% in FY2016 as gross impaired assets growth of 17% outpaced the growth in GLA's (up 1% y/y). This translated to the reported ratio of gross impaired assets to total GLA increasing y/y from 0.47% to 0.55%, the highest of domestic peers. Meanwhile, the total provisions to gross impaired assets ratio weakened y/y from 148% to 132%. That said, the bank believes that the deterioration has stabilized and that the NPL ratio is expected to remain stable in FY2017. Exposure at default is now more skewed towards segments with the lowest NPL ratios with ANZ's CEO foreshadowing a more cautious approach to growing its home lending book given appreciating property prices and weaker household income growth.

- **Reshaping the business to continue:** Going forward, ANZ's performance will continue to be influenced by its restructuring activities that are targeted towards improving returns through capital allocation into core businesses in Australia and New Zealand and Institutional Banking businesses in Asia. This has already seen retail and commercial risk weighted assets (RWA) increase 6% in FY2016 while institutional RWA's fell 15% (excluding the Australian mortgage risk weight change and divestment of Esanda Dealer Finance). Restructuring initiatives in FY2017 are expected to include the recently announced sale of its Asian retail and wealth management businesses in Asia to DBS Group Holdings Ltd as well as the sale of its stake in Shanghai Rural Commercial Bank.

- **Capital ratios stability important for credit profile**: ANZ's APRA compliant capital ratios were stable to slightly improved y/y with FY2016 CET1/CAR ratios of 9.6%/14.3% against FY2015 CET1/CAR ratios of 9.6%/13.3%. This was due to solid earnings, reductions in institutional risk weighted assets ("RWA") and active capital management which countered dividends payments and higher RWA requirements for the bank's mortgage book. Based on Basel III standards, ANZ's FY2016 CET1/CAR ratios were relatively strong at 14.5%/20.7%.

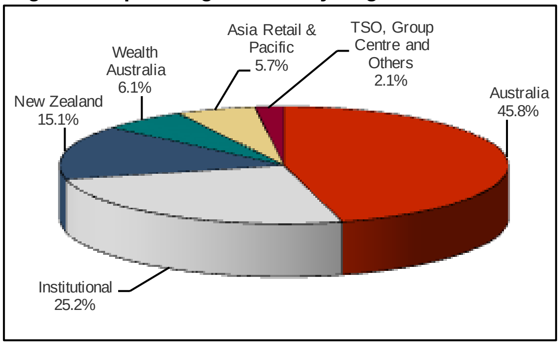
Australia & New Zealand Banking Group Ltd

Table 1: Summary Financials

Year Ended 30th Sep	FY2014	FY2015	FY2016
Income Statement (AUD'mn)			
Net Interest Income	13,810	14,616	15,095
Non Interest Income	5,727	5,849	4,893
Operating Expenses	8,760	9,378	10,422
Pre-Provision Operating Profit	10,777	11,087	9,566
Provisions	986	1,179	1,929
Other Income/(Expenses)	517	625	541
PBT	10,308	10,533	8,178
Income Taxes	3,025	3,026	2,458
Net Income to Common Shareholders	7,271	7,493	5,709
Balance Sheet (AUD'mn)			
Total Assets	772,092	889,900	914,869
Total Loans (net)	521,752	562,173	575,852
Total Loans (gross)	524,383	572,370	578,944
Total Allowances	3,933	4,017	4,183
Total NPLs	2,682	2,441	2,646
Total Liabilities	722,808	832,547	856,942
Total Deposits	510,079	570,794	588,195
Total Equity	49,284	57,353	57,927
Key Ratios			
NIM	2.13%	2.04%	2.00%
Cost-income Ratio	44.7%	44.5%	50.8%
LDR	102.3%	98.5%	97.9%
NPL Ratio	0.51%	0.43%	0.46%
Allowance/NPLs	146.6%	164.6%	158.1%
Credit Costs	0.19%	0.21%	0.33%
Equity/Assets	6.38%	6.44%	6.33%
CETier 1 Ratio (Full)	8.8%	9.6%	9.6%
Tier 1 Ratio	10.7%	11.3%	11.8%
Total CAR	12.7%	13.3%	14.3%
ROE	15.8%	14.5%	10.0%
ROA	1.00%	0.88%	0.63%

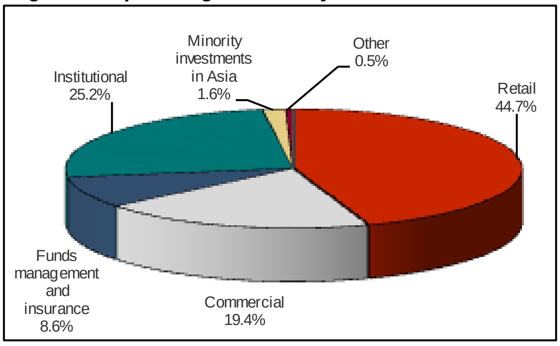
Source: Company, OCBC estimates | Capital Adequacy Ratios after proposed dividends

Figure 1: Operating Income by Segment - FY2016



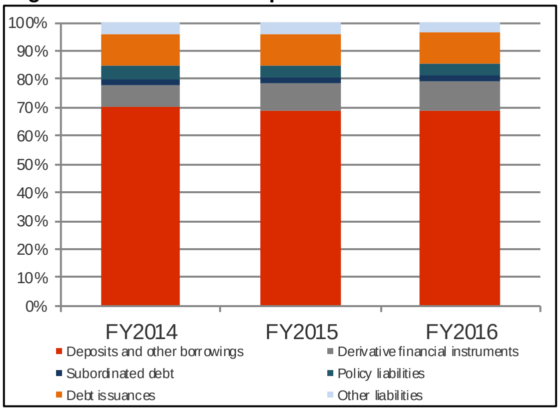
Source: Company

Figure 2: Operating Income by Product - FY2016



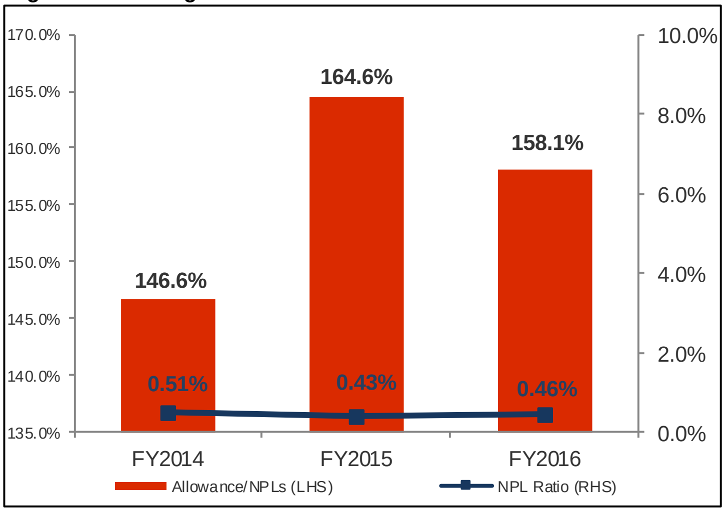
Source: Company

Figure 3: Liabilities Composition



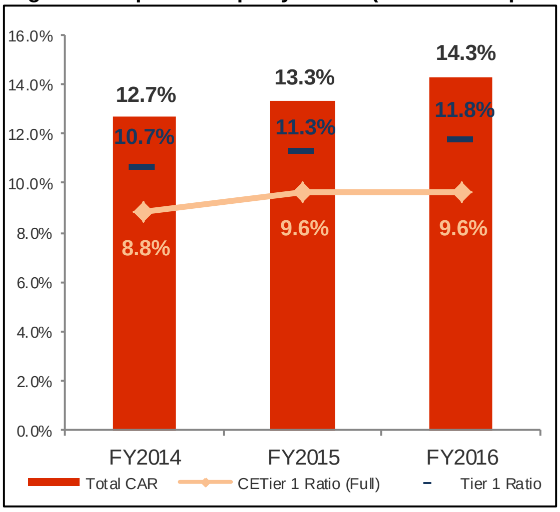
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios (APRA - Compliant)



Source: Company

Bank of China Ltd

Credit Outlook – While operating conditions remain challenging, we draw comfort from BOC's diversified businesses and expected government support. These fundamentals continue to support decent value for the BCHINA 2.75%'19s compared to other bank seniors on issue considering tenor.

Issuer Profile: Neutral

S&P: A/Stable

Moody's: A1/Negative

Fitch: A/Stable

Ticker: **BCHINA**

Background

Established in 1912, Bank of China Ltd operates predominantly in China but also globally in 46 countries and regions providing a diverse range of financial services. Previously China's central bank, it became a state-owned commercial bank in 1994 and was listed in Hong Kong and Shanghai in 2006. Designated as a global systemically important bank, it had total assets of RMB17,857.5bn as at 30 September 2016

Key credit considerations

- **Industry pressures continue**: BOC continues to face industry pressures from slowing loan growth, falling yields and higher funding costs. 9M2016 operating income rose 4% to RMB370.3bn due to strong growth in other operating income which rose by 89% to RMB72bn due to the gain on disposal of Nanyang Commercial Bank, Limited. However within the results was softer net interest income performance which fell by 6.7% y/y as net interest margins fell noticeably y/y to 1.85% from 2.14%. Net fee and commission income also fell y/y by 4.2% to RMB68.5bn. 3Q2016 performance was similarly weaker y/y with net interest income (-9.6%), net fee and commission income (-3.6%) and other operating income (-5.3%) all down and translating to an 8% fall in 3Q2016 operating income to RMB107.7bn. Operating expenses fell y/y by 14% for the quarter and 8% for the year to date and translated to a slight y/y decrease in the reported cost to income ratio to 26.5% for 9M2016 from 26.6% for 9M2015. Results though nevertheless continue to be tinged by challenging industry conditions.

- **Loan quality issues slowing but levels still elevated:** Loan deterioration appears to be decelerating with impairment losses in 3Q2016 of RMB14.0bn down 14% y/y. At the same time, non-performing loan growth has abated somewhat, rising 2.2% q/q and 13.1% y/y as at 9M2016 to RMB146.0bn. That said, YTD loan impairment losses continue to be materially higher than 9M2015, up by 42.5% to RMB64.0bn and, combined with slower growth in NPLs, the NPL coverage ratio improved slightly to 155.8% as at 9M2016 (155.1% as at 1H2016 and 153.7% as at 9M2015). While these developments appear positive, loan quality concerns remain. Non-performing loans continue to rise faster than overall loan growth with the non-performing loan ratio rising to 1.48% as at 9M2016 (1.43% as at 9M2015). In addition, special mention loans and substandard loans increased noticeably for the first 6 months of 2016 up 20.6% and 19.1% respectively (against overall loan growth of 6.5% over the same period). These could be a source of future balance sheet concern as China's economic rebalancing continues and credit driven growth in the economy presents its own set of risks. As such, asset quality could continue to pressure overall profitability.

- **Better placed for 2017 than peers** BOC's fundamentals however should remain sound and we expect the bank to be better placed in 2017 than peers given its more diversified geographic and business mix. Operating income from Mainland China contributed 72% of total operating income in 1H2016, with the bulk of operating income outside of China coming from Hong Kong through BOC Hong Kong (Group) Limited, which has better asset quality than the overall group and is expected to benefit from anticipated rising US interest rates (In comparison, Industrial and Commercial Bank of China Ltd generated 6.9% of operating income outside mainland China in 1H2016). Segment wise, the bulk of 1H2016 operating income continues to come from BOC's corporate banking operations at 41%. This is followed by personal banking (30%), treasury services (12%) and insurance and investment banking (4%) with growth in personal banking offsetting weaker treasury operations and investment bank performance.

- **Earnings continue to support capital:** Despite earnings pressure, BOC's capital formation continues to be solid as active capital management, cost containment and lower impairment losses has led to growth in capital above our estimate of growth in risk weighted assets. As a result, BOC's capital ratios have improved with 9M2016 CET1/CAR ratios of 11.3%/14.1% (CET1/CAR for 2015 of 11.1%/14.1%). Although ratios still remain above minimum requirements, we expect active capital management to continue given ongoing earnings challenges and potential future growth in RWA.

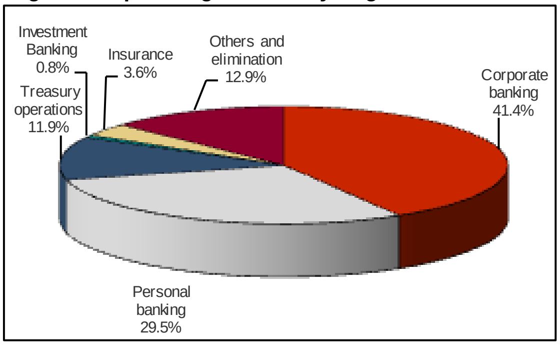
Bank of China Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (RMB'mn)			
Net Interest Income	321,102	328,650	229,805
Non Interest Income	135,226	145,262	140,474
Operating Expenses	177,788	185,401	124,161
Pre-Provision Operating Profit	278,540	288,511	246,118
Provisions	48,381	59,274	63,966
Other Income/(Expenses)	1,319	2,334	762
PBT	231,478	231,571	182,914
Income Taxes	54,280	52,154	31,356
Net Income to Common Shareholders	169,595	170,845	134,813
Balance Sheet (RMB'mn)			
Total Assets	15,251,382	16,815,597	17,857,503
Total Loans (net)	8,294,744	8,935,195	9,648,243
Total Loans (gross)	8,483,275	9,135,860	9,875,808
Total Allowances	188,531	200,665	227,565
Total NPLs	100,494	130,897	146,034
Total Liabilities	14,067,954	15,457,992	16,392,602
Total Deposits	10,885,223	11,729,171	12,974,479
Total Equity	1,183,428	1,357,605	1,464,901
Key Ratios			
NIM	2.25%	2.12%	1.85%
Cost-income Ratio	28.6%	28.3%	26.5%
LDR	76.2%	76.2%	74.4%
NPL Ratio	1.18%	1.43%	1.48%
Allowance/NPLs	187.6%	153.3%	155.8%
Credit Costs	0.57%	0.65%	0.86%
Equity/Assets	7.76%	8.07%	8.20%
CETier 1 Ratio (Full)	10.6%	11.1%	11.3%
Tier 1 Ratio	11.4%	12.1%	12.2%
Total CAR	13.9%	14.1%	14.1%
ROE	17.3%	14.5%	13.7%
ROA	1.22%	1.12%	1.17%

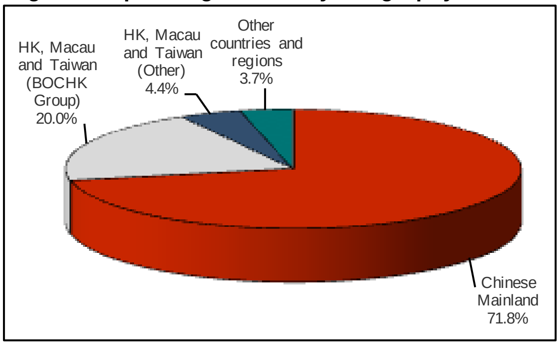
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 1: Operating Income by Segment - 1H2016



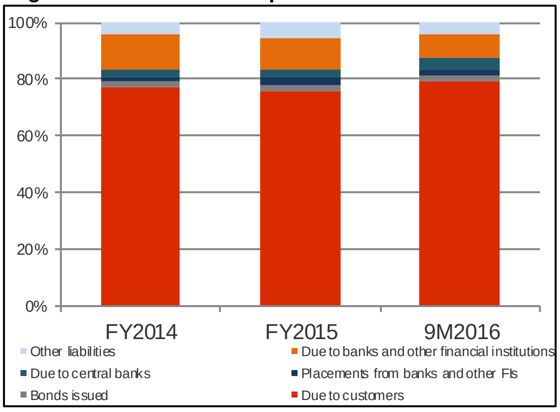
Source: Company

Figure 2: Operating Income by Geography - 1H2016



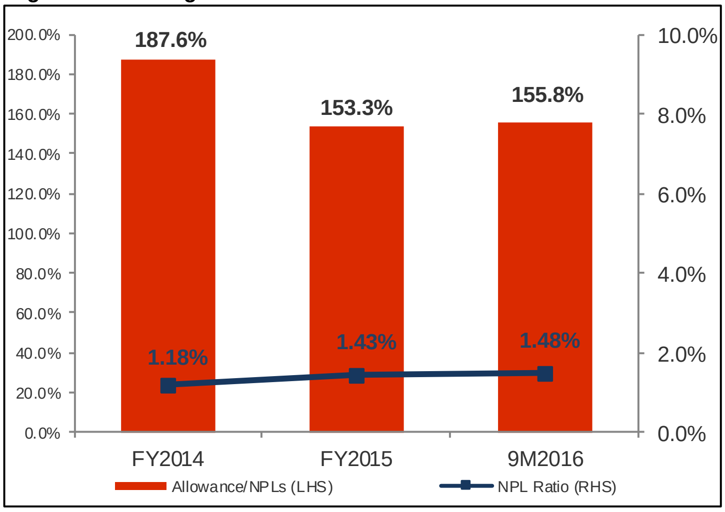
Source: Company

Figure 3: Liabilities Composition



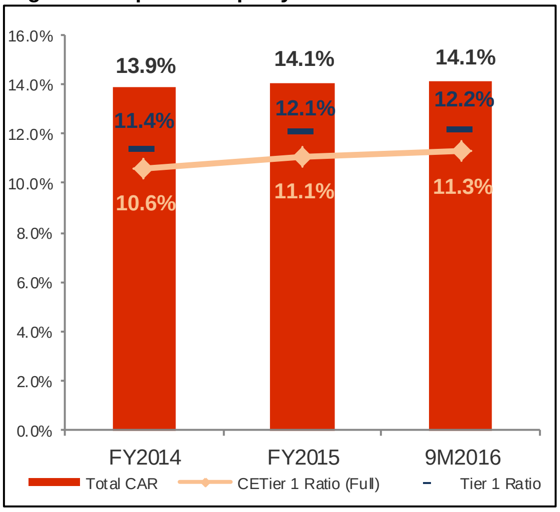
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Quality of balance sheet growth will be important for BoCom's credit profile as it mitigates net interest income pressure and asset quality concerns. With the BOCOM 2.10%'17s approaching maturity, we think a switch to the BCHINA 2.75%'19s makes sense in the senior unsecured space.

Issuer Profile: Neutral

S&P: A-/Stable

Moody's: A2/Negative

Fitch: A/Stable

Ticker: **BOCOM**

Background

Headquartered in Shanghai, Bank of Communications Co. Ltd provides a broad set of financial services across corporate banking, personal banking and treasury services. Major shareholders include HSBC Holdings (19%) as well as the Chinese government through the Social Security Fund (14%) and China's Ministry of Finance (27%). As at 30 September 2016, it had total assets of RMB8,092bn.

Bank of Communications Co Ltd

Key credit considerations

- **Profit pressure continues:** Industry challenges continue to influence BoCom's results with weaker operating income performance in 9M2016 arising from a 12% and 7% y/y fall in net interest income for 3Q2016 and 9M2016 respectively. This was due to ongoing and accelerating pressure on reported net interest margins which fell to 1.91% for 9M2016 from 2.24% as at 9M2015. Net fee and commission income was marginally weaker (down 1.3%) y/y for the quarter however still remains 5.4% up y/y for 9M2016 as 1H2016 growth in agency (fee income from insurance agency services) and management (asset management and agency wealth management) services and lower fee and commission expense partially mitigated the weak net interest income generation. Combined with high provision costs, profit before tax continued to be somewhat subdued for 3Q2016 and 9M2016, down 1% and stable respectively y/y.

- **Asset weaknesses moderating but could be short term:** Deterioration in loan quality indicators appear to be slowing with impairment losses on loans and advances falling y/y for 3Q2016, the first fall in 2 years (but nevertheless remaining up 7% y/y for 9M2016). At the same time, the non-performing loan ratio and loan loss coverage ratio remained broadly stable compared to 1H2016 levels as at 30 September 2016 at 1.53% and 150.31% respectively following a period of noticeable and consistent weakening since 2012. Although recent trends indicate some confidence in asset quality going forward, this is more due to active management of bad loans rather than fundamental improvement with NPL formation still faster in 2016 than overall loan formation and build-up of loan loss buffers. More time is needed to see if the positive trends can persist, particularly with recently announced cooling measures in China's property market and China's ongoing economic rebalancing.

- **Balance sheet growth supporting earnings:** The fall in net interest income this year would have been more if not for continued balance sheet growth. Total assets increased 13.1% as at 9M2016 compared with 2015 with loans and advances to customers rising by 8.2% over the same period. Most of this growth was driven by personal mortgage loans which rose 14.7% while corporate loans grew at 5.7% over the same period. Total assets as at 30 September 2016 were also influenced by a 28.9% rise in financial investments which were likely driven by higher investments provided to governments and financial institutions while exposures to corporate entities fell (using trends in the 2016 interim report). That said, future balance sheet growth will likely be contained as property curbs depress demand for residential mortgages, which could lead to income generation remaining weak in the near term. This makes the quality of balance sheet growth critical for BoCom's future credit profile in our view given (1) its impact on allowance levels and overall profitability; and (2) BoCom's relatively weaker business profile from weaker efficiency and higher funding costs.

- **Translating to stable capital position for now:** All told, BoCom's earnings still managed to translate into stable to marginally improved capital ratios despite growth in risk weighted assets with reported CET1/CAR ratios at 11.1%/14.2% as at 9M2016 (11.1%/13.5% for 2015). While ratios are still well above minimum regulatory requirements, pressure on capital levels could increase with the constrained earnings outlook. This could result in more active capital management strategies and a higher focus on implementing its "BoCom Strategy" of going global and establishing new business lines in line with Chinese corporates global ambitions. BoCom has already had some success to date with 1H2016 profits from overseas businesses and non-banking subsidiaries increasing 29.7% and 22.8% respectively and strong growth in personal banking.

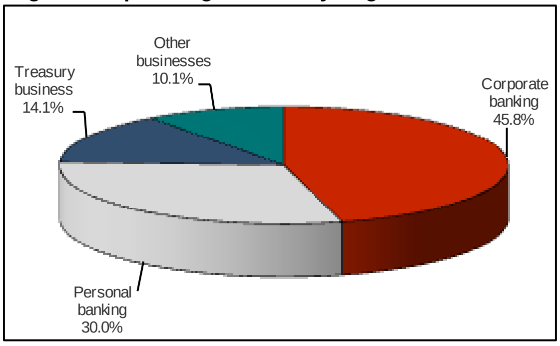
Bank of Communications Co Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (RMB'mn)			
Net Interest Income	134,776	144,172	100,764
Non Interest Income	43,760	50,310	38,365
Operating Expenses	73,260	81,386	50,771
Pre-Provision Operating Profit	105,276	113,096	88,358
Provisions	20,439	27,160	21,005
Other Income/(Expenses)	90	76	68
PBT	84,927	86,012	67,421
Income Taxes	18,892	19,181	14,504
Net Income to Common Shareholders	65,850	66,528	52,578
Balance Sheet (RMB'mn)			
Total Assets	6,268,299	7,155,362	8,091,810
Total Loans (net)	3,354,787	3,634,568	3,931,176
Total Loans (gross)	3,431,735	3,722,006	4,023,430
Total Allowances	76,948	87,438	92,254
Total NPLs	43,017	56,206	61,374
Total Liabilities	5,794,694	6,617,270	7,472,932
Total Deposits	4,029,668	4,484,814	4,728,274
Total Equity	473,605	538,092	618,878
Key Ratios			
NIM	2.42%	2.30%	1.91%
Cost-income Ratio	30.5%	30.5%	30.0%
LDR	83.3%	81.0%	83.1%
NPL Ratio	1.25%	1.51%	1.53%
Allowance/NPLs	178.9%	155.6%	150.3%
Credit Costs	0.60%	0.73%	0.70%
Equity/Assets	7.56%	7.52%	7.61%
CETier 1 Ratio (Full)	11.3%	11.1%	11.1%
Tier 1 Ratio	11.3%	11.5%	12.3%
Total CAR	14.0%	13.5%	14.2%
ROE	14.8%	13.4%	12.9%
ROA	1.08%	1.00%	0.93%

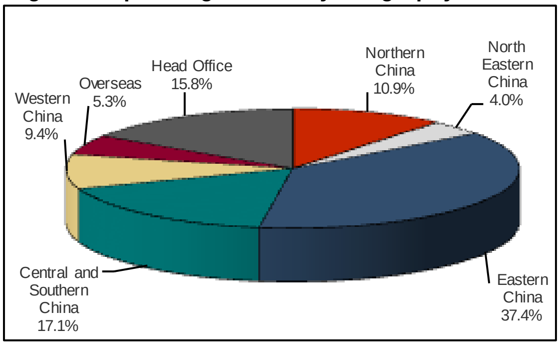
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 1: Operating Income by Segment - 1H2016



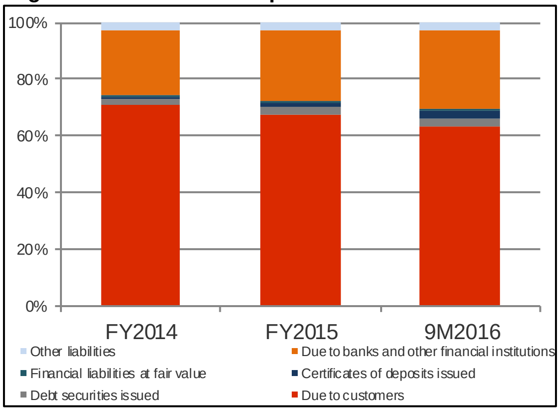
Source: Company

Figure 2: Operating Income by Geography - 1H2016



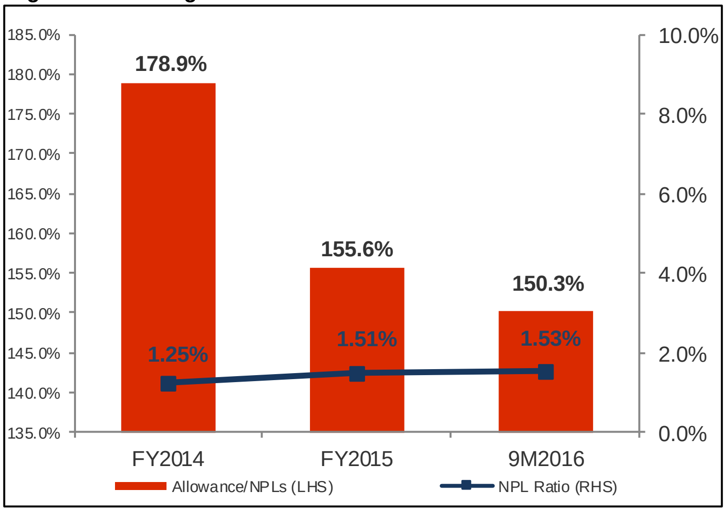
Source: Company

Figure 3: Liabilities Composition



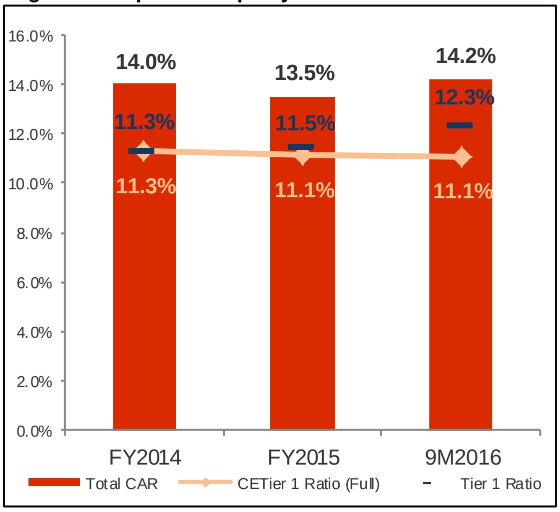
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Performance in BEA's China exposures has somewhat overshadowed its domestic business which remains anchored by its personal banking franchise and solid balance sheet. As the BNKEA 4.25%'22c17s approach maturity, investors with tenor tolerance may want to consider the BPCE curve for similar rated papers.

Issuer Profile: Neutral

S&P: A/Negative

Moody's: A3/Negative

Fitch: Not rated

Ticker: **BNKEA**

Background

The Bank of East Asia, Ltd. (BEA) is the 6th largest bank by total assets and the largest independent local bank in Hong Kong. As of 30 June 2016, the bank had total assets of HKD756.6bn. The largest shareholders are Japan's Sumitomo Mitsui Financial Group (18.9%), Spain's Caixabank (17.2% stake), and Malaysia's Guoco Management Co Ltd (13.7%). Disgruntled shareholder Elliot Capital Advisors is the next largest shareholder with 6.8%.

The Bank of East Asia Ltd

Key credit considerations

- **China still a drag:** BEA reported its 1H2016 results with operating income down 12% y/y to HKD7.13bn. This was driven by an 11% fall in net interest income to HKD5.48bn due to net interest margins (NIM) falling to 1.59% from 1.71% y/y as BEA China's NIM fell materially from 1.95% to 1.61% y/y. Overall, all income segments experienced weaker y/y performance with net fee and commission income also down 21% due to weaker securities and brokerage, trade finance, loans and guarantee, and retail banking services. Together with sticky operating expenses, BEA's cost to income ratio rose y/y to 59.5% in 1H2016 from 52%. Results were further negatively impacted by a 60% rise in impairments which translated to a 47% y/y fall in operating profit after impairments losses.

- **Some spill over into Hong Kong**: The significant rise in impairment losses in Hong Kong corporate banking and China indicate the weaker operating environment in Mainland China with BEA China's impaired loan ratio increasing to 2.80% as at 1H2016 from 2.63% in 2015. BEA Hong Kong's impaired loan ratio also rose to 0.49% from 0.34% from rising economic imbalances at home and China's influence, translating to the group's impaired loan ratio rising to 1.23% in 1H2016 from 1.13% in 2015. Challenging operating conditions also impacted balance sheet growth with gross loans rising 1.7% since 31 Dec 2015 against a 2.3% fall in deposits resulting in an increase in BEA's reported loan to deposit ratio to 80.2% as at 30 June 2016 from 76.4% in 2015 (all below Hong Kong banking system trends). Part of the reason for the rise in BEA China's impaired loan ratio was lower loan volumes in China, with loans for use in Mainland China down by 2.4% since 2015, partly due to demand conditions but also as part of BEA's efforts to de-risk the balance sheet by reducing loan exposure to stressed sectors in Mainland China. As at 1H2016, 40% of total assets were in China down from 47% in 2014. Loans to wholesale and retail trade and manufacturing have also reduced, which is positive for loan portfolio quality.

- **High exposure to property market**: BEA's exposure to property development and investment comprises 51.5% of total loan exposure in Hong Kong and 40% of total loan exposure in China. As such, BEA's future earnings will be closely tied to property market performance. In Hong Kong, there is downside risk to property market performance from recently implemented cooling measures to address elevated property prices and high systemic leverage. This will likely suppress property market activity and have a flow on effect on consumer confidence. In China, concerns about overheated prices in the property sector have overshadowed concerns about China's economic slowdown and led to region-specific government cooling measures. In the immediate/near term, we think these actions will likely push money flow into a wider range of cities given the lack of alternative investment channels.

- **Capital position remains supportive**: One positive impact from the latest results was an improvement in BEA's capital ratios with CET1/CAR ratios of 12.6%/17.4% in 1H2016, higher than 2015 (12.2%/17.2%) as risk weighted assets reduced more than the reduction in total capital. Going forward, BEA has noted the ongoing challenges facing the bank, in particular in China. Strategic focus will be on cost containment as well as emphasizing BEA's retail banking business in both HK and China (HK personal banking was the only segment to perform better y/y) through higher investment in internet and mobile banking channels. The bank also disposed of its 75.6% interest in Tricor Holdings Ltd, with cash proceeds positively impacting capital ratios. Finally, to address upcoming maturity of capital instruments, the bank issued USD500mn in Tier 2 capital in late October 2016 to ensure ongoing adequacy of capital ratios.

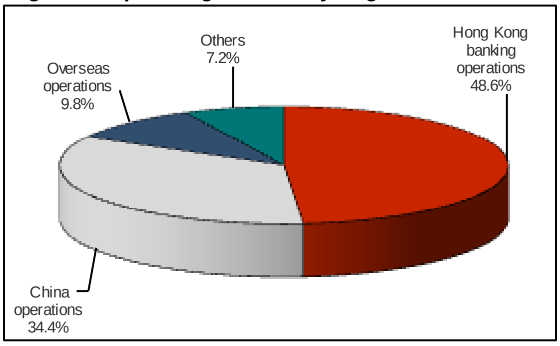
The Bank of East Asia Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1H2016
Income Statement (HKD'mn)			
Net Interest Income	12,675	11,934	5,483
Non Interest Income	5,557	5,130	1,647
Operating Expenses	9,849	9,732	4,239
Pre-Provision Operating Profit	8,383	7,332	2,891
Provisions	1,001	2,059	1,241
Other Income/(Expenses)	645	558	192
PBT	8,027	5,831	1,842
Income Taxes	1,650	1,111	727
Net Income to Common Shareholders	6,661	5,522	2,095
Balance Sheet (HKD'mn)			
Total Assets	795,891	781,364	756,571
Total Loans (net)	441,933	439,125	446,139
Total Loans (gross)	443,287	441,506	448,816
Total Allowances	1,354	2,381	2,677
Total NPLs	2,736	4,973	5,530
Total Liabilities	722,447	695,723	669,536
Total Deposits	548,184	540,743	528,149
Total Equity	73,444	85,641	87,035
Key Ratios			
NIM	1.78%	1.66%	1.59%
Cost-income Ratio	54.0%	57.0%	59.5%
LDR	80.6%	81.2%	84.5%
NPL Ratio	0.62%	1.13%	1.23%
Allowance/NPLs	49.5%	47.9%	48.4%
Credit Costs	0.23%	0.47%	0.55%
Equity/Assets	9.23%	10.96%	11.50%
CETier 1 Ratio (Full)	11.8%	12.2%	12.6%
Tier 1 Ratio	12.5%	13.7%	14.0%
Total CAR	16.7%	17.2%	17.4%
ROE	9.6%	6.6%	4.8%
ROA	0.80%	0.60%	0.50%

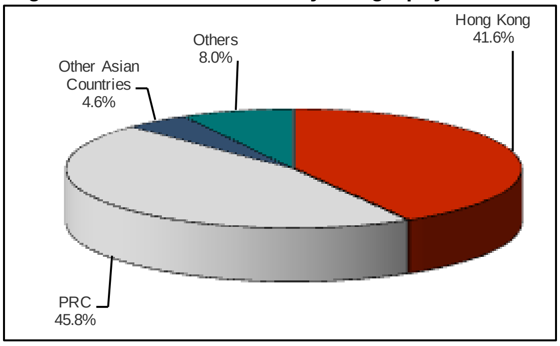
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 1: Operating Income by Segment - 1H2016



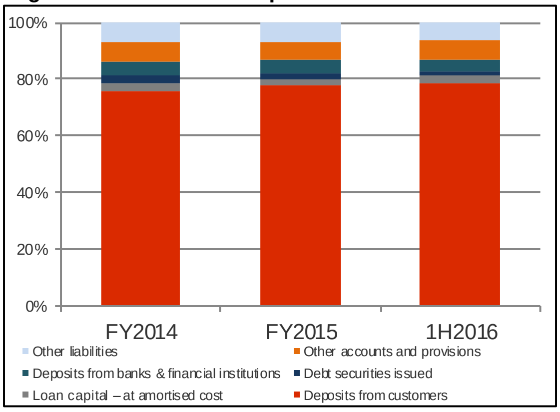
Source: Company

Figure 2: Loan breakdown by Geography - 1H2016



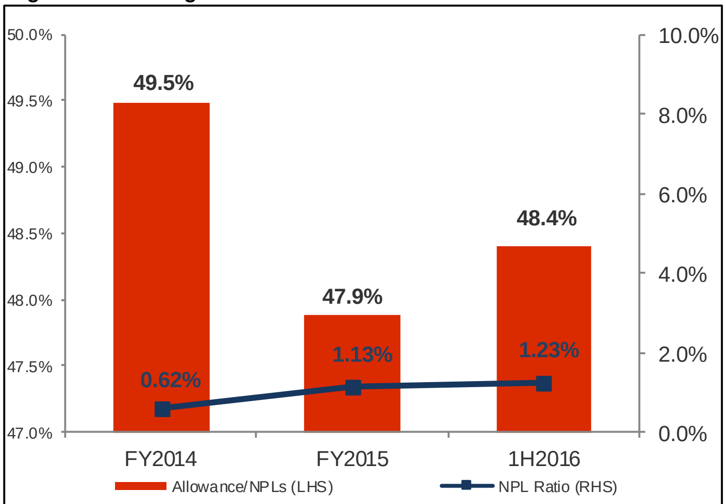
Source: Company

Figure 3: Liabilities Composition



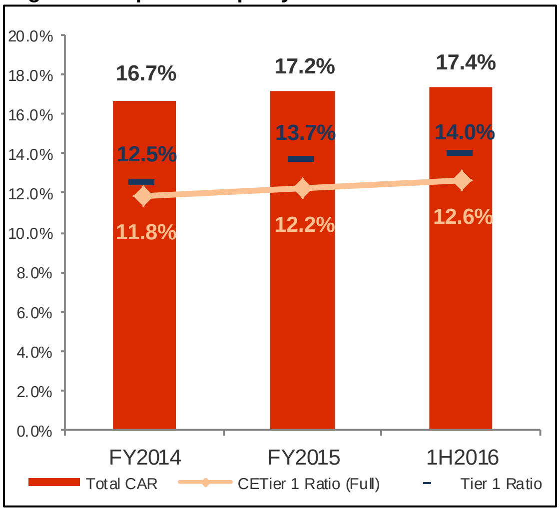
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – BNPP's earnings outlook is supported by its solid business profile and recovering conditions in France and Europe which mitigate pockets of risk through exposure to Italy and Turkey. While it benefits from scale and better ratings, the spread compression makes the BNP 4.3% '25c20 a little tight compared to SGD T2 papers from French peers in our view.

Issuer Profile: Neutral

S&P: A/Stable

Moody's: A1/Stable

Fitch: A+/Stable

Ticker: **BNP FP**

Background

BNP Paribas S.A. (BNPP)'s operations span domestic and international retail banking as well as corporate and institutional banking. Concentrated in Europe, its businesses operate in 75 countries. Created in 2000 through a merger of BNP and Paribas, it had total assets of EUR2,173.9bn as at September 30, 2016. It's largest shareholder at ~10% is the Belgian government.

BNP Paribas S.A

Key credit considerations

- **Scale supports business risk**: As a universal bank and the largest French bank by assets, BNPP's businesses are diversified across geographies and business segments. Earnings remain concentrated in Europe (70% of revenues), followed by ~12% in North America and 7.5% in Asia-Pacific in 2015. France contributed 33% to total revenues with other main exposures including Italy and Belgium in Europe and the US and UK further abroad. These exposures reflect BNPP's broad domestic and international retail banking networks where it holds strong market positions as the leading private bank in France, leader in cash management in Europe and no. 2 in Europe for equipment leasing and financing. Together with its insurance and wealth management businesses, BNPP's Retail Banking & Services segment contributes the bulk of consolidated revenues at over 70%. Its other major segment, Corporate & Institutional Banking (which covers corporate banking, global markets and securities services) contributes the rest of consolidated revenues. Such scale and diversity contributes positively to BNPP's credit profile and earnings quality in our view.

- **Solid earnings despite downward pressures**: BNPP's scale has translated into somewhat solid recent performance despite weak operating conditions in Europe and the run-off of litigation settlements. Better revenue generation in 2015 on a y/y basis across all business segments (excluding foreign exchange movements) was due to past year acquisitions and recovering growth in Europe. This mitigated higher operating expenses from transformation, restructuring and regulatory costs. In particular, retail banking & services performance was solid due to growth in International Financial Services and lower cost of risk (mostly in Italy) while Corporate & Institutional Banking performance was supported by a rise in client activity in Global Markets, higher assets under management in Securities Services and loan growth in corporate banking that mitigated a material increase in the cost of risk. 9M2016 performance was a continuation of this trend with solid net income performance from FICC trading, domestic and international businesses as well as a further reduction in the cost of risk.

- **Asset quality stabilizing** BNPP's cost of risk has been falling over 2013-2015 and has fallen further in 9M2016. The reducing cost of risk was due in part to higher recoveries and lower write offs during 2015 together with low interest rates, better risk control at loan origination and improving conditions in Italy despite recent negative headlines. With the French and European economies also in recovery mode (or at least expected to be no worse) in 2017, loan quality challenges are expected to stabilize further as well as benefit from an even spread of exposures by industry and a relatively low risk industry structure with low reliance on complex lending structures and products.

- **Capital ratios provide comfort:** Capital ratios have benefited from solid earnings with transitional and fully loaded CET1 ratios at 11.6% and 11.4% respectively as at 9M2016. This is above BNPP's minimum CET1 and total capital requirement as pre-notified by the ECB following the 2016 Supervisory Review and Evaluation Process (SREP) of 8% and 11.5% for 2017 (including the G-SIB buffer of 1.0%, 1.25% for the conservation buffer and 1.25% for the Pillar 2 requirement). Going forward, earnings generation should support BNPP's capital position given the ongoing recovery in France and Europe which will be critical given BNPP's minimum capital requirements will continue to increase with the gradual phasing in of the G-SIB buffer to 2% in 2019. In addition, BNPP will also need to hold additional capital under Total Loss-Absorbing Capacity (TLAC) regulations with the minimum TLAC ratio requirement of 20.5% of risk-weighted assets as at 1 January 2019, rising to 22.5% by 1 January 2022, including the 2.5% capital conservation buffer and 2% G-SIB buffer.

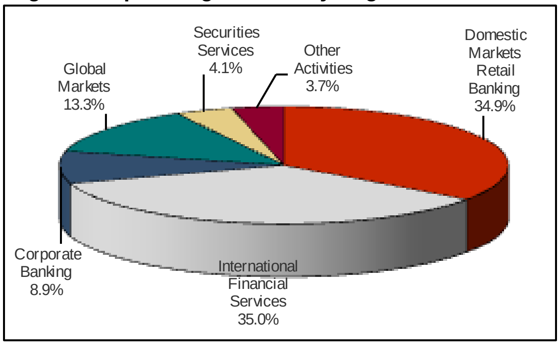
BNP Paribas S.A

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (EUR'mn)			
Net Interest Income	20,319	22,553	32,755
Non Interest Income	18,849	20,385	
Operating Expenses	26,524	29,254	21,934
Pre-Provision Operating Profit	12,644	13,684	10,821
Provisions	3,705	3,797	2,312
Other Income/(Expenses)	407	589	482
PBT	9,346	10,476	8,991
Income Taxes	2,643	3,335	2,374
Net Income to Common Shareholders	157	6,694	6,260
Balance Sheet (EUR'mn)			
Total Assets	2,077,758	1,994,193	2,173,877
Total Loans (net)	657,403	682,497	690,082
Total Loans (gross)	683,821	708,691	NA
Total Allowances	26,418	26,194	NA
Total NPLs	42,896	41,251	NA
Total Liabilities	1,984,069	1,894,116	2,070,686
Total Deposits	641,549	700,309	741,897
Total Equity	93,689	100,077	103,191
Key Ratios			
NIM	1.59%	1.73%	NA
Cost-income Ratio	67.7%	68.1%	67.0%
LDR	102.5%	97.5%	93.0%
NPL Ratio	6.27%	5.82%	NA
Allowance/NPLs	61.6%	63.5%	NA
Credit Costs	0.54%	0.54%	NA
Equity/Assets	4.51%	5.02%	4.75%
CETier 1 Ratio (Full)	10.3%	10.9%	11.6%
Tier 1 Ratio	10.8%	11.7%	12.7%
Total CAR	11.7%	13.0%	14.4%
ROE	7.7%	8.3%	9.6%
ROA	0.33%	0.33%	0.39%

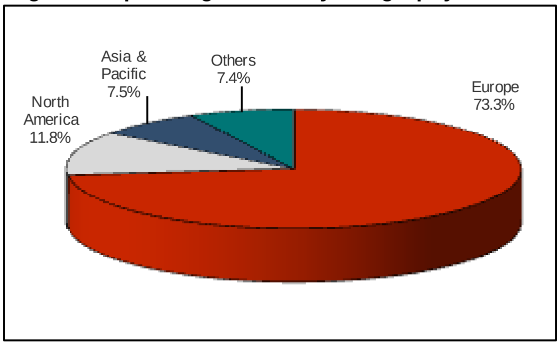
Source: Company, OCBC estimates | Capital Adequacy Ratios after proposed dividends

Figure 1: Operating Income by Segment - 9M2016



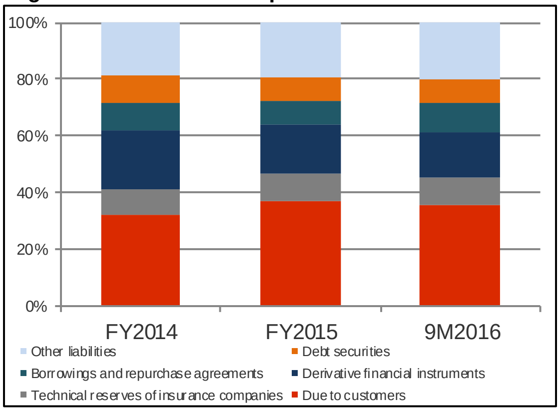
Source: Company

Figure 2: Operating Income by Geography - FY2015



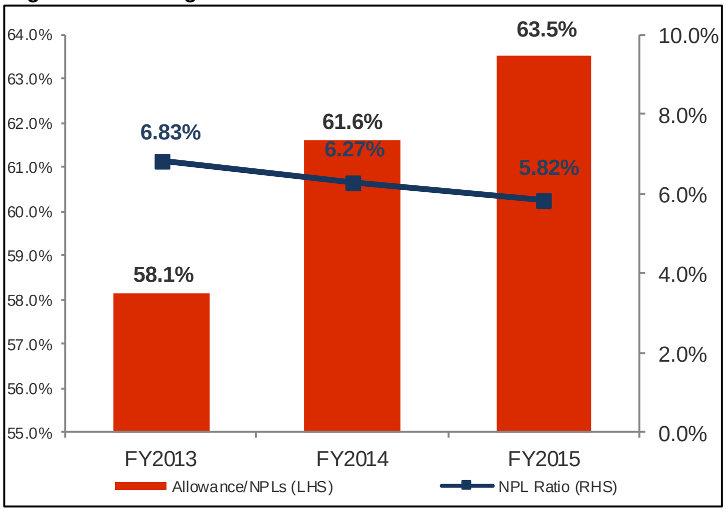
Source: Company

Figure 3: Liabilities Composition



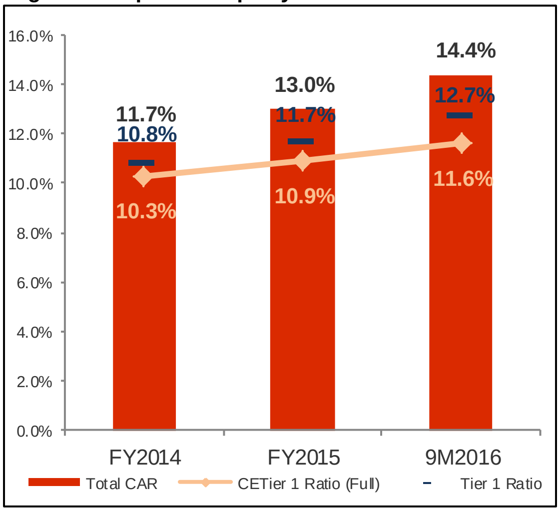
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – BPCE benefits from its cooperative structure with solid earnings retention leading to relatively strong capital ratios. Solid market positions in retail banking mitigate its focused business potential earnings volatility in wholesale banking operations. BPCE papers offer good value in the SGD space compared to other French T2 peers, in particular the BPCEGP 4.5% '26c21.

Issuer Profile: Neutral

S&P: A/Stable

Moody's: A2/Stable

Fitch: A/Stable

Ticker: **BPCEGP**

Background

Established in 2009, BPCE SA (BPCE) is the central entity of Groupe BPCE. Through its retail cooperative networks and subsidiaries, it provides retail and wholesale financial services to individuals, small and medium-size enterprises (SMEs), and corporate and institutional customers in France and abroad. As at September 30, 2016, it had total assets of EUR1,209.1bn.

Groupe BPCE

Key credit considerations

- **Centerpiece of the group:** BPCE SA (BPCE) is the central institution of Groupe BPCE (Groupe), the second largest French bank by customer loans and assets. It's two functions include (1) housing Groupe's commercial banking and insurance subsidiaries and publicly listed Natixis which provides wholesale banking, investment solutions and specialized financial services; and more importantly (2) centralizing strategy for the wider Groupe BPCE which includes two co-operative retail and commercial banking networks, Banque Populaire Banks and Caisses d'Epargne. Although effectively a subsidiary of the cooperative networks, BPCE's role as Groupe's central institution means it is legally responsible for supervising and managing group strategies, operations and ensuring ongoing liquidity and solvency through control of a 'mutual financial solidarity mechanism' for Groupe in times of stress. As BPCE is also legally protected by this support mechanism, the credit profile of BPCE is effectively equal to that of the wider group.

- **More focused business model:** Retail banking dominates BPCE's credit profile with the two co-operative networks combining to contribute almost 70% of Groupe BPCE's net banking income in 2015 and 9M2016. The remainder of net banking income comes mostly from Natixis. Groupe generates over 80% of total net banking income from France making it the most geographically focused of its SGD issuing peers. This focus however is not necessarily a credit negative given the relatively stable earnings profile of its traditional retail and commercial banking activities and the improving economic outlook in France. Business focus for the two networks is slightly different with Banques Populaire focusing on small and medium enterprises, professional customers and individuals while Caisses d'Epargne focuses on individuals and professionals.

- **Group strategy aimed at expansion:** BPCE's current 2014-2017 Strategic Plan is built around 4 investment priorities targeted at alternate growth engines including (1) establishing leading local positions in offline and online banking; (2) providing financing to customers which relies less on loans; (3) establishing full bancassurance capabilities; and (4) international expansion. The group is making progress with its plan growing its asset management and private banking flows as well as increasing revenues from insurance and international locations. The group is now looking toward its 2018-2020 Strategic Plan which is focused on transformation and efficiency projects at Natixis to generate EUR250mn in cost savings by end-2019, consolidation of payment operations at Natixis on behalf of the group, and further development of its retail banking digital action plan.

- **Solid earnings support capital position:** 2015 financial performance was sound with net banking income growth evenly split between retail and wholesale banking operations and declining net interest margins mitigated by solid growth in the customer base. Although top line 9M2016 performance was softer with gross operating income down 10% reflecting lower interest rates, lower risk costs and lower taxes from structural and one-off impacts translated to an 8.6% rise in net income. Loan quality ratios continue to improve and are better than peers with the ratio of non-performing loans to gross loan outstandings at 3.52% as at 9M2016 (from 3.74% in 2015) and the impaired loan coverage ratio at 83% (from 81% in 2015). These trends together with stable risk weighted assets, issue of co-operative shares and disposal of Visa Europe, translated into improved capital ratios with the phased in CET1/CAR ratios for 9M2016 at 14.0%/18.4%, up from 13.0%/16.8% in 2015. This is well above the CET1 threshold for triggering the Maximum Distributable Amount (MDA) mechanism of 7.75% at January 2017 and above 2019 target capital ratios.

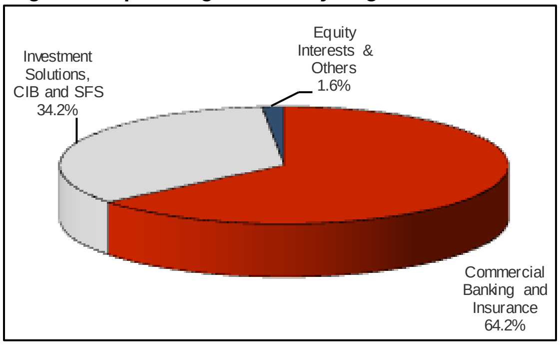
Groupe BPCE

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (EUR'mn)			
Net Interest Income	11,542	11,059	17,420
Non Interest Income	11,715	12,809	
Operating Expenses	16,330	16,248	12,269
Pre-Provision Operating Profit	6,927	7,620	5,151
Provisions	1,776	1,832	1,044
Other Income/(Expenses)	105	280	0
PBT	5,256	6,068	4,407
Income Taxes	1,913	2,323	1,294
Net Income to Common Shareholders	2,907	3,242	2,733
Balance Sheet (EUR'mn)			
Total Assets	1,223,298	1,166,535	1,209,078
Total Loans (net)	610,967	617,465	665,578
Total Loans (gross)	623,256	629,775	677,803
Total Allowances	12,420	12,389	12,225
Total NPLs	22,919	23,098	23,436
Total Liabilities	1,160,620	1,101,342	1,141,834
Total Deposits	473,540	499,711	522,843
Total Equity	62,678	65,193	67,244
Key Ratios			
NIM	1.06%	1.06%	NA
Cost-income Ratio	69.7%	68.1%	69.8%
LDR	129.0%	123.6%	127.3%
NPL Ratio	3.75%	3.74%	3.52%
Allowance/NPLs	54.2%	53.6%	52.2%
Credit Costs	0.28%	0.29%	0.21%
Equity/Assets	5.12%	5.59%	5.56%
CETier 1 Ratio (Full)	11.9%	13.0%	14.0%
Tier 1 Ratio	12.7%	13.3%	14.3%
Total CAR	15.4%	16.8%	18.4%
ROE	5.4%	6.0%	6.6%
ROA	0.25%	0.27%	0.30%

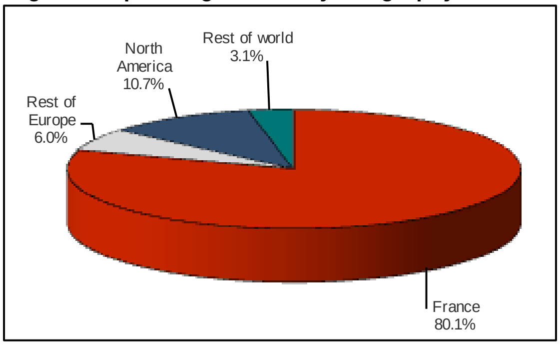
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 1: Operating Income by Segment - 9M2016



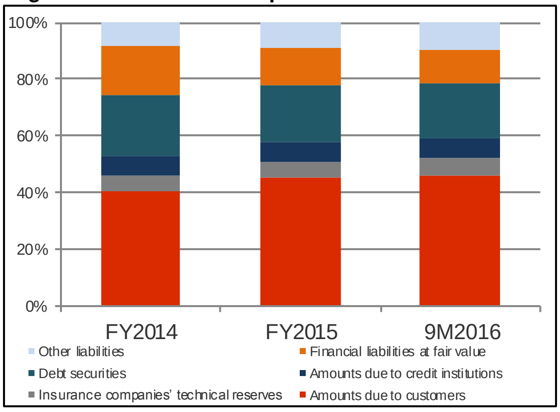
Source: Company

Figure 2: Operating Income by Geography - FY2015



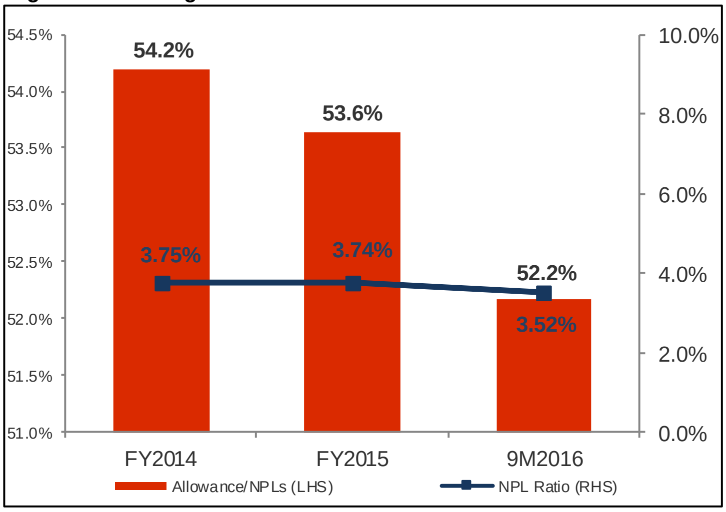
Source: Company

Figure 3: Liabilities Composition



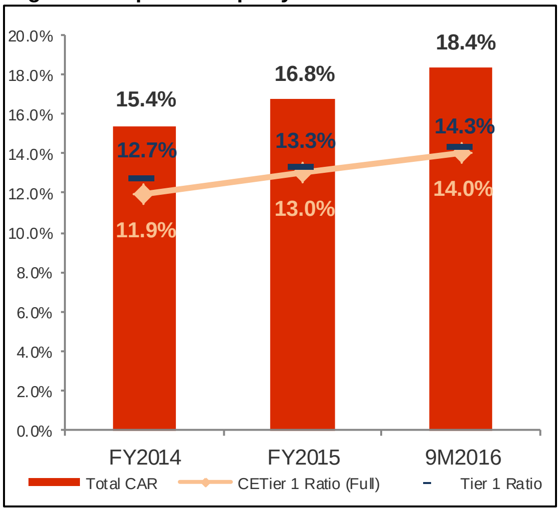
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Underlying trends of solid earnings and stabilizing loan quality are supportive of CIMB's credit profile. While we are neutral on the CIMBMK 2.12%'18s, we prefer it against the MAYMK 2.08%'18s for the decent yield pick-up for similar tenor and rating.

Issuer Profile: Neutral

S&P: Not Rated

Moody's: Baa1/Stable

Fitch: Not rated

Ticker: **CIMB**

Background

CIMB Group Holdings Bhd (CIMB) is an ASEAN focused financial services provider with a core focus on Malaysia, Singapore, Thailand and Indonesia. Business segments cover consumer banking, commercial banking, investment banking, Islamic banking and asset management. As at 30 Sept, 2016 it had total assets of MYR485.6bn. Its major shareholders are Khazanah Nasional and the Employee Provident Fund.

CIMB Group Holdings Berhad

Key credit considerations

- **Solid earnings driven by consumers:** CIMB's results continue to reflect relatively solid underlying operating performance with 3Q2016 operating income up 5.7% q/q and 7.4% y/y. Excluding a MYR150mn gain on sale of its 51% holding in PT CIMB Sun Life, normalized 3Q2016 operating income improved 1.8% q/q and 3.5% y/y. While y/y growth came from broad improvement across all income segments, q/q operating income growth came mostly from a 4.0% rise in net interest income as a 2.3% increase in gross loans mitigated a 5bps q/q fall in net interest margins to 2.58% from higher funding costs. Overhead expenses increased faster q/q than normalized operating income growth. However, on a YTD basis, overhead expenses were down 8.8% and this improved the cost to income ratio (CIR) to 54.6% for 9M2016 from 56.2% in 9M2015. Allowances for impairment losses continue to increase y/y but are showing signs of stabilizing, rising 10.7% y/y in 3Q2016 but actually falling 10.9% q/q. Segment wise on a YTD basis, consumer banking continues to drive overall performance due to loans growth and lower provisions with operating income up 6.7% y/y for 9M2016 while Commercial Banking and Wholesale Banking improved 3.9% and 2.1% respectively. This marginally improved the contribution of Consumer Banking to overall operating income to 45% for 9M2016 from 43.5% in 9M2015.

- **And benefiting the balance sheet:** YTD performance also had a positive impact on CIMB's balance sheet with the increase in gross loans driven entirely by 7.8% growth in Consumer Loans (mostly mortgages and term loans). Conversely, Commercial Banking loans were more or less stable while Wholesale Banking loans fell 4.0% y/y. By geography, y/y loans growth was strongest in Malaysia at 8.2% followed by Thailand at 2.1% while loans in Indonesia and Singapore contracted by 2.7% and 5.7% respectively. These developments are positive for CIMB's balance sheet and future loan quality in our view given the relatively better risk profile of Malaysia and Consumer Banking exposures (which have lower non-performing loan ratios than CIMB's overall ratio). On the funding front, strong deposit growth of 8.0% was due to 12% growth in Consumer Banking deposits and this lowered CIMB's reported loan to deposit ratio to 89.8% as at 9M2016 from 95.9% as at 9M2015. Loan quality ratios have improved y/y with the gross impaired loan ratio falling 20bps y/y to 3.2% as at 9M2016 and allowance coverage improving 4.0% to 80.6%.

- **Strategy gaining ground**: As it approaches the halfway mark of its Target 2018 (T18) strategy, CIMB is beginning to show encouraging results with underlying 2016 performance underpinned by solid Consumer Banking performance and the y/y decline in CIR for 9M2016. That said, the bank still has some way to go before achieving its targets of a 50% CIR and income contribution from consumer banking of 60% by 2018. While recently announced strategic initiatives including the possible joint venture with China Galaxy Securities Ltd, sale of its stake in Bank of YingKou Co. Ltd**,** and commencement of operations in Vietnam at the end of 2016 should support future profit sustainability, we are mindful of remaining execution risks, especially in the riskier operating environment of Vietnam.

- **Influences on capital ratios are balanced:** Despite solid earnings generation, capital ratios weakened in 3Q2016 as risk weighted assets grew and total capital fell with CET1/CAR ratios as at 30 September 2016 of 10.9%/15.8% against 11.5%/15.8% for 2015 (after deducting proposed dividends). That said, the credit impact is not material given the marginally stronger balance sheet and still solid underlying earnings trends. We expect capital management to continue to be a focus for the bank given near term CET1 ratio targets, increasing capital requirements and near term maturity of capital instruments.

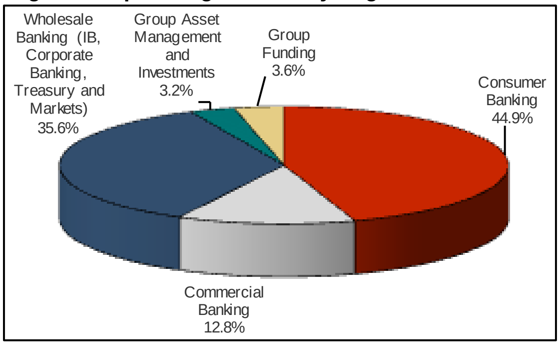
CIMB Group Holdings Berhad

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (MYR'mn)			
Net Interest Income	8,656	9,337	7,181
Non Interest Income	5,490	6,059	4,421
Operating Expenses	8,292	9,249	6,421
Pre-Provision Operating Profit	5,854	6,147	5,182
Provisions	1,701	2,318	1,758
Other Income/(Expenses)	123	86	99
PBT	4,276	3,914	3,523
Income Taxes	1,102	1,018	918
Net Income to Common Shareholders	3,107	2,850	2,710
Balance Sheet (MYR'mn)			
Total Assets	414,156	461,577	485,611
Total Loans (net)	258,015	290,296	296,786
Total Loans (gross)	264,644	297,822	304,453
Total Allowances	6,765	7,691	7,871
Total NPLs	8,183	9,082	9,769
Total Liabilities	375,765	419,345	440,056
Total Deposits	282,069	317,424	336,586
Total Equity	38,391	42,233	45,555
Key Ratios			
NIM	2.80%	2.66%	2.61%
Cost-income Ratio	58.6%	60.1%	54.6%
LDR	91.5%	91.5%	88.2%
NPL Ratio	3.09%	3.05%	3.21%
Allowance/NPLs	82.7%	84.7%	80.6%
Credit Costs	0.64%	0.78%	0.77%
Equity/Assets	9.27%	9.15%	9.38%
CETier 1 Ratio (Full)	11.2%	11.5%	10.9%
Tier 1 Ratio	12.6%	12.7%	12.4%
Total CAR	14.7%	15.8%	15.8%
ROE	9.2%	7.3%	8.5%
ROA	0.79%	0.65%	0.76%

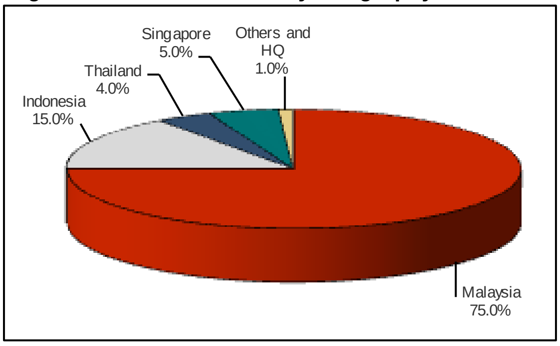
Source: Company, OCBC estimates | Capital Adequacy Ratios after proposed dividends

Figure 1: Operating Income by Segment - 9M2016



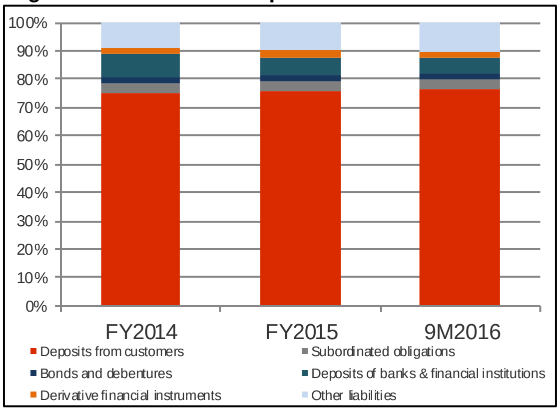
Source: Company

Figure 2: PBT Breakdown by Geography - 9M2016



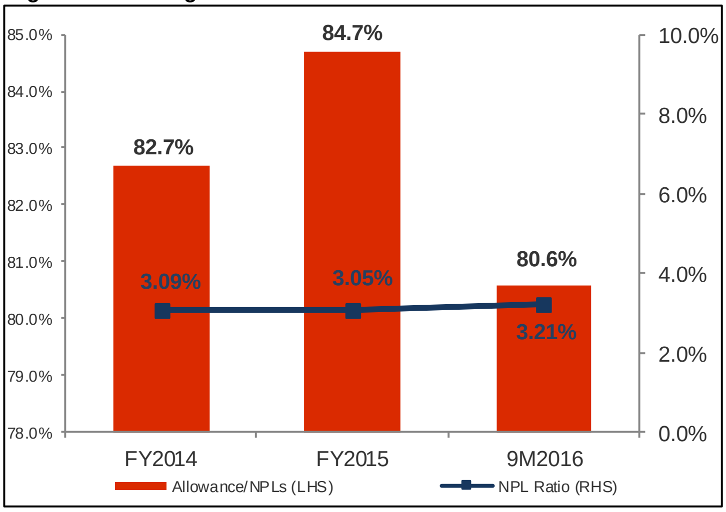
Source: Company

Figure 3: Liabilities Composition



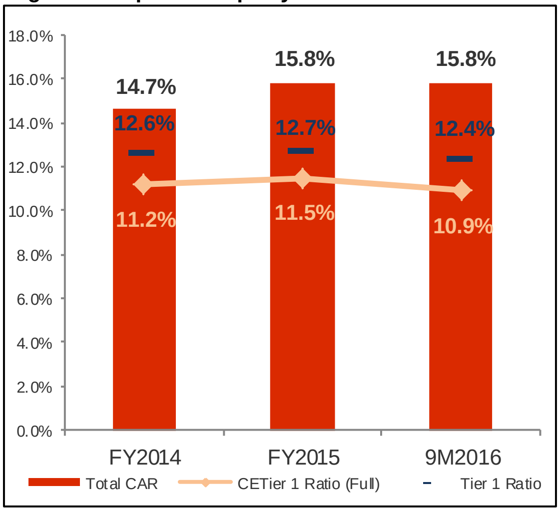
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – DSBG's solid capital ratios and deposit funded balance sheet mitigates its relatively small scale. That said, we think there is better value in other bank names in the Tier 2 space.

Issuer Profile: Neutral

S&P: Not rated

Moody's: A3/Negative

Fitch: BBB+/Stable

Ticker: **DAHSIN**

Background

Dah Sing Banking Group Ltd (DSBG) is a majority owned subsidiary of Dah Sing Financial Holdings Limited (DSFH) and the holding company of DSFH's banking subsidiaries. Incorporated in 2004, its main operating subsidiary is Dah Sing Bank Ltd (DSB) Its other banking subsidiaries include Banco Comercial de Macau and Dah Sing Bank (China) Limited. As at 30 June 2016, DSBG had total assets of HKD196bn.

Dah Sing Banking Group Ltd

Key credit considerations

- **Challenging first half results:** 1H2016 results reflected a difficult operating climate as an 11% rise in net interest income was overshadowed by a 24% contraction in net fee and commission income and a 64% fall in net trading income. Together with a 78% rise in loan impairment losses, operating profit after impairment losses fell 23% to HKD803mn. Net interest income was boosted by lower funding costs through a better funding mix which translated into improved net interest margins of 1.94% in 1H2016 against 1H2015 (1.76%) and 2H2015 (1.90%) and mitigated weak loan growth from the challenging Hong Kong economy. Weak loan growth also impacted fee and commission income through lower fee income from trade finance, retail securities brokerage and commercial banking while financial market volatility in 1H2016 softened the bank's net trading income. Performance of DSBG's overseas businesses was somewhat resilient with Bank of Chongqing reporting a 10% rise in underlying profit.

- **Domestic businesses more resilient but not immune**: Suppressed economic activity necessitated y/y increases in individual loan impairment losses by 142% and collective loan impairment losses by 42%. The rise in credit costs was mainly driven by performance of SMEs in the Hong Kong commercial banking segment as well as higher volumes of unsecured personal loans in DSBG's retail banking segment. This translated to a 28% rise in total impairment allowances to HKD914.4mn in the first 6 months of 2016. That said, it's moderately lower exposure to China has somewhat protected 1H2016 results compared to peers and its overall results continue to exhibit some level of resilience despite its small scale in Hong Kong's competitive financial sector. It's reported individually impaired loan ratio of 1.03% as at 30 June 2016 compares favorably to Bank of East Asia Ltd (1.23%) primarily reflecting DSBG's lower exposure to China. Individually impaired as well as overdue advances to gross advances in China was at 2.8% for 1H2016 compared to 2.0% for Hong Kong and 0.5% in Macau.

- **Economic outlook is cloudy and property sector could weaken:** With loans for use in Hong Kong comprising 67% of total loans and 53% of Hong Kong advances related to property, future earnings performance is heavily related to Hong Kong's economy and property market performance. While broad economic indicators in 3Q2016 were positive and we expect Hong Kong's economic growth to improve to 1.9% in 2017 (from forecast growth of 1.4% in 2016), the outlook has a negative bias given the still weak tourism sector, ongoing global and regional uncertainties related to potential US trade protectionism and the resultant negative impact on China's economic growth, which will likely flow into Hong Kong's economy. Downside risk also remains in Hong Kong's property market given recently implemented cooling measures to address elevated property prices and high systemic leverage which will likely suppress property market activity and have a flow on effect on consumer confidence. As such, earnings and loans growth for DSBG could be muted for the next 6-12 months.

- **But positive impact on capital ratios:** Capital ratios improved modestly in 1H2016 despite lower profitability with CET1/CAR ratios of 12.4%/16.7% as at 1H 2016 against 12.2%/16.7% for 2015 as slower asset growth limited the rise in risk weighted asset levels. Although future earnings will likely benefit as US interest rates rise, future capital ratios could be under pressure from muted loan volumes as well as maturity of current capital instruments. To this end, the bank recently issued USD250mn in Tier 2 Basel III compliant capital instruments. It's also seeking strategic redress of earnings pressure by focusing on its core Hong Kong market, actively lowering growth in China, and improving contribution of non-interest income to total operating income.

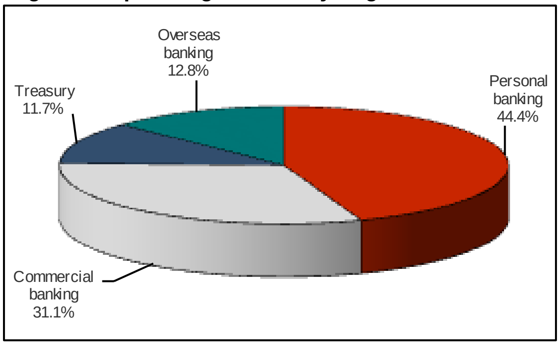
Dah Sing Banking Group Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1H2016
Income Statement (HKD'mn)			
Net Interest Income	2,990	3,337	1,769
Non Interest Income	1,175	1,250	495
Operating Expenses	2,127	2,240	1,117
Pre-Provision Operating Profit	2,038	2,347	1,148
Provisions	473	496	344
Other Income/(Expenses)	623	688	361
PBT	2,188	2,539	1,164
Income Taxes	225	308	145
Net Income to Common Shareholders	2,034	2,201	1,073
Balance Sheet (HKD'mn)			
Total Assets	185,328	196,032	195,873
Total Loans (net)	104,695	108,911	110,982
Total Loans (gross)	105,230	109,625	111,897
Total Allowances	535	715	914
Total NPLs	368	818	1,156
Total Liabilities	165,372	174,549	173,743
Total Deposits	142,580	150,848	151,575
Total Equity	19,957	21,483	22,130
Key Ratios			
NIM	1.76%	1.83%	1.94%
Cost-income Ratio	51.1%	48.8%	49.3%
LDR	73.4%	72.2%	73.2%
NPL Ratio	0.35%	0.75%	1.04%
Allowance/NPLs	145.2%	87.4%	79.1%
Credit Costs	0.45%	0.45%	0.62%
Equity/Assets	10.77%	10.96%	11.30%
CETier 1 Ratio (Full)	11.4%	12.2%	12.4%
Tier 1 Ratio	11.4%	12.2%	12.4%
Total CAR	16.3%	16.7%	16.7%
ROE	11.0%	10.6%	9.7%
ROA	1.20%	1.20%	1.10%

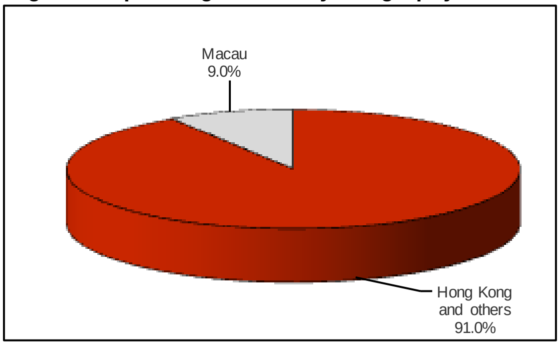
Source: Company, OCBC estimates | Capital Adequacy Ratios after proposed dividends

Figure 1: Operating Income by Segment - 1H2016



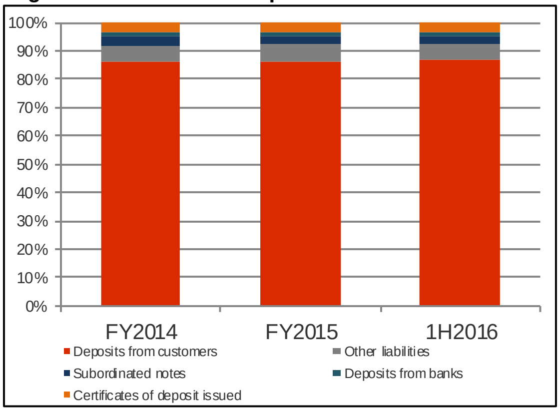
Source: Company

Figure 2: Operating Income by Geography - 1H2016



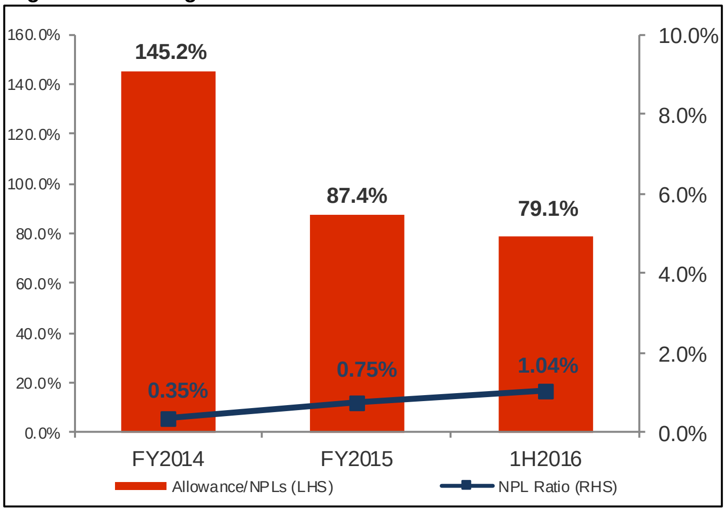
Source: Company

Figure 3: Liabilities Composition



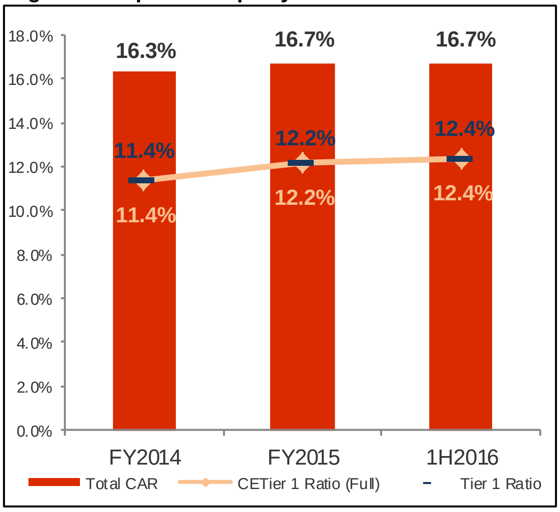
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – While allowances may need to rise further to cover loan quality issues (and could subsequently dent profit performance), ongoing solid earnings generation and strong capital ratios remain a buffer for DBS's credit profile. That said, the curve remains tight and in the T2 space we think there is better value in Aussie T2 issues.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Aa2/Stable

Fitch: AA-/Stable

Ticker: **DBSSP**

Background

DBS Group Holdings Limited (DBSH) primarily operates in Singapore and Hong Kong and is a leading financial services group in Asia with a regional network of more than 280 branches across 18 markets. With total assets of SGD465bn as at 30 September 2016, it provides diversified services across consumer banking, wealth management institutional banking, and treasury. It is 30% indirectly owned by the government through Temasek Holdings Pte Ltd as of 5 January 2017.

DBS Group Holdings Ltd

Key credit considerations

- **Earnings growth continues at a slower pace:** DBS's earnings performance continues to be resilient with total income up 8% and 7% y/y respectively for 3Q2016 and 9M2016. Earnings growth was derived from solid performance in net fee and commission income and other non-interest income which has supported slowing growth in net interest income. These trends were more evident in q/q performance where net interest income fell 1% in 3Q2016 compared to 2Q2016 as net interest margins compressed to 1.77% in 3Q2016 from 1.87% in 2Q2016 from falling interest rates. This translated to stable net income performance q/q as the softer net interest income and net fee and commission income was mitigated by better performance in other non-interest income from net trading income and net gains on fixed assets. Segment wise, ongoing solid performance in consumer banking/wealth management and treasury continues to mitigate weak performance in Institutional Banking. Overall, this evidences DBS' continued earnings resilience in our view from its diverse income streams.

- **But asset quality is making the news**: The focus however has not been earnings performance but rather asset quality concerns which rose to prominence during 3Q2016 amidst Swiber Holdings Ltd's filing for liquidation. These concerns continued to build through 2H2016 as more offshore names sought to restructure. Total allowances for credit and other losses have now risen materially y/y by 145% and 100% for 3Q2016 and 9M2016 respectively. Most of the recent allowance increase has been in general provisions as a pre-caution for further unforeseen losses although specific allowances have also risen materially, mostly in Singapore and Hong Kong. For 9M2016, the allowance increase was not as great due to a write-back in general allowances but nevertheless, the trends show an acceleration in loan stress through 3Q2016.

- **Balance sheet growth from organic and inorganic measures:** Despite the slow economic environment, DBS' balance sheet has continued to grow with total assets up 3.2% q/q and 1.7% from 2015 through a mix of loans growth and higher cash and balances with central banks. Deposits have also grown rising 4.6% q/q and 1.3% since 2015. Consistent growth continues in consumer loans while the risk profile of the corporate loans mix by industry has improved through attrition and strategic focus. That said, non-performing loan (NPL) formation continues to exceed overall loan growth translating to further deterioration in the NPL ratio to 1.3% (from 0.9% in 2015). And despite the significant increase in allowances, reported total allowances to non-performing assets continue to fall reducing to 100% as at 9M2016 from 148% in 2015. Isolating non-performing loans and related allowances from non-performing assets, then loan loss coverage ratios weaken further to 93%. Adding to DBS' balance sheet in the future is the acquisition of Australia and New Zealand Banking Group Ltd's ("ANZ") Asian retail and wealth management businesses in five Asian countries, mostly in Singapore. This acquisition however will take time to complete.

- **Capital position supports credit profile:** DBS has shored up its capital position to buffer loan book deterioration, issuing USD750mn in AT1 capital in 3Q2016 at the lowest coupon ever for a USD AT1 issue. Together with solid earnings generation, scrip election for dividends and a fall in risk weighted assets, CET1/CAR ratios improved to 14.4%/16.5% as at 9M2016 from 13.5%/15.4% in 2015. On a fully loaded basis, CET1 was 13.5% as at 3Q2016, well above the regulatory minimum of 7.2%. With earnings generation expected to benefit from rising interest rates, we expect capital levels to remain strong and DBS' deposit-funded balance sheet to buffer against ongoing industry headwinds.

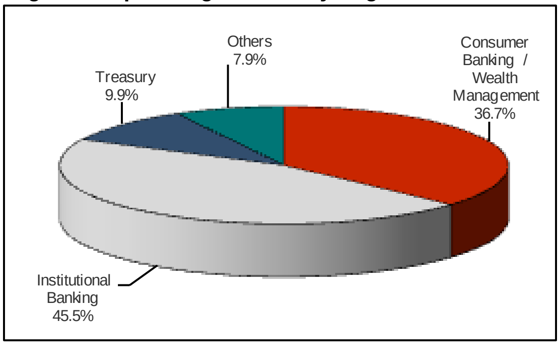
DBS Group Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Net Interest Income	6,321	7,100	5,481
Non Interest Income	3,297	3,687	3,232
Operating Expenses	4,330	4,900	3,749
Pre-Provision Operating Profit	5,288	5,887	4,964
Provisions	667	743	972
Other Income/(Expenses)	79	14	0
PBT	4,700	5,158	3,992
Income Taxes	713	727	577
Net Income to Common Shareholders	4,046	4,454	3,325
Balance Sheet (SGD'mn)			
Total Assets	440,666	457,834	465,480
Total Loans (net)	275,588	283,289	290,207
Total Loans (gross)	279,154	286,871	293,817
Total Allowances	3,566	3,582	3,610
Total NPLs	2,419	2,612	3,879
Total Liabilities	400,460	415,038	418,953
Total Deposits	317,173	320,134	324,310
Total Equity	40,206	42,796	46,527
Key Ratios			
NIM	1.68%	1.77%	1.83%
Cost-income Ratio	45.0%	45.4%	43.0%
LDR	86.9%	88.5%	89.5%
NPL Ratio	0.87%	0.91%	1.32%
Allowance/NPLs	147.4%	137.1%	93.1%
Credit Costs	0.24%	0.26%	0.44%
Equity/Assets	9.12%	9.35%	10.00%
CETier 1 Ratio (Full)	13.1%	13.5%	14.4%
Tier 1 Ratio	13.1%	13.5%	14.9%
Total CAR	15.3%	15.4%	16.5%
ROE	10.9%	11.2%	10.7%
ROA	0.91%	0.96%	0.98%

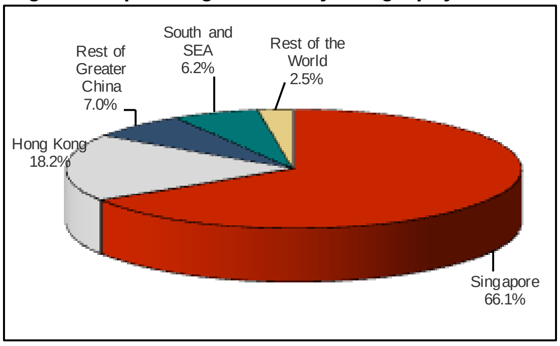
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 1: Operating Income by Segment - 9M2016



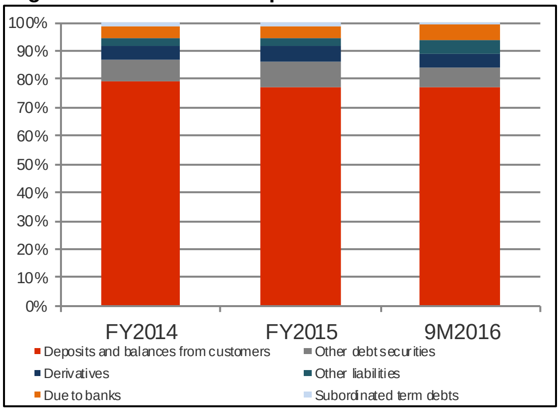
Source: Company

Figure 2: Operating Income by Geography - 9M2016



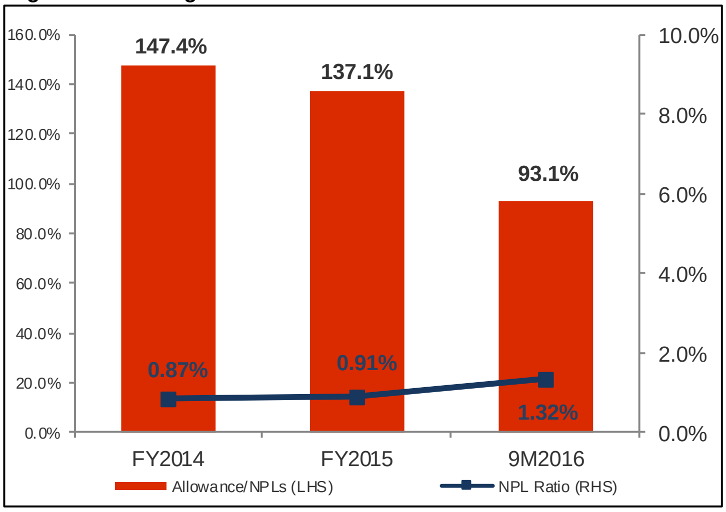
Source: Company

Figure 3: Liabilities Composition



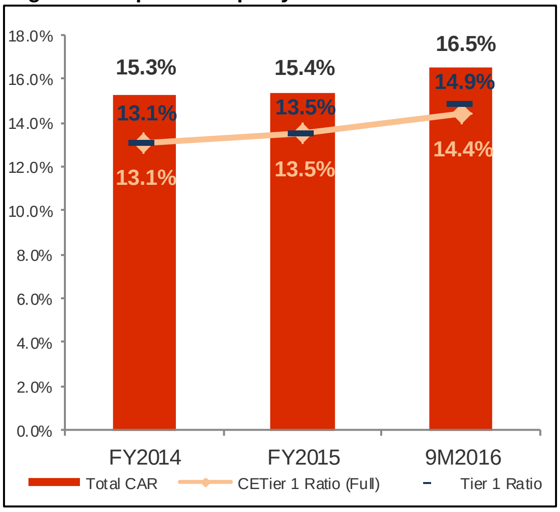
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – JBG's credit profile benefits from its solid market position and brand and well-funded balance sheet. Growth ambitions will need to be watched given impact on capital ratios which have recently weakened. That said, adequate buffer still remains above the high trigger BAERVX 5.75%'49s and BAERVX 5.9%'49s and we think they look attractive in the AT1 space despite the lack of direct peers.

Issuer Profile: Neutral

S&P: Not rated

Moody's: A3/Stable

Fitch: Not rated

Ticker: **BAERVX**

Background

Present in over 50 locations, Julius Baer Group Ltd. offers private banking services mainly through Bank Julius Baer & Co. Ltd. Services include wealth management, financial planning and investments and mortgages and other lending. As at 30 June, 2016 it had total client assets of CHF397bn and assets under management of CHF311bn.

Julius Baer Group Ltd

Key credit considerations

- **Pure play private bank:** Julius Baer Group Ltd (JBG)'s business structure is unique amongst our coverage as the only pure play private bank. It is the third largest private bank in its home market Switzerland (after UBS Group and Credit Suisse Group), and the fifth-largest in Asia by assets under management (AUM), according to Asian Private Banker's 2015 ranking. Its solid franchise and scale, which is mostly in Europe, provides diversification and support to its credit profile which otherwise is susceptible to high market risk. In general, pure play private banking is seen as relatively better business risk than investment banking and capital markets businesses (which are more volatile) and likely explains why JBG has not had to restructure its businesses to improve returns like its larger domestic peers.

- **Stable income performance although margins will be under pressure:** 1H2016 performance was sound with assets under management up 4% to a record CHF311bn, mostly due to consolidation of recent acquisitions as well as net new money. Operating income though was only up 1% y/y due to lower client transactions and trading volumes and lower gross margins on higher investment expenses. More than half of JBG's operating income comes from net commission and fee income, with the remainder from net interest and dividend income and net trading income. While margin performance has been relatively stable over 2014-1H2016, underlying operating expenses (ie excluding litigation provisions and one-offs) have increased from higher investments in technology upgrades and higher personnel expenses with the reported cost to income ratio at 69.1% in 1H2016. Costs are expected to continue rising in the short term.

- **Consistent balance sheet growth built on new money and acquisitions:** JBG's balance sheet has grown consistently since 2009 with AUM more than doubling to 30 June 2016 through a mix of net new money and acquisitions. During this time, the relationship manager (RM) count also doubled. JBG's AUM is relatively low risk in our view with a fairly even split amongst equities, bonds, investment funds and client deposits and low exposure to money market instruments and structured products. 44% of AUM is in USD followed by 23% in EUR and 11% in CHF, which exposes JBG to some foreign exchange risk. That said, JBG's balance sheet is relatively strong in our view with 44% of total assets comprised of loans that are either domestic mortgage loans to private banking clients or highly collateralised Lombard loans (secured by marketable securities). As a result, impaired loans ratios and credit costs are very low. Liquidity is strong with a deposit funded balance sheet and a loan to deposit ratio of 57%.

- **Long standing strategy remains:** JBG's strategy is to grow a sustainable private banking business mostly through organic growth and supplemented by opportunistic acquisitions. Key to this growth is expansion of JBG's international platform, both actively in Asia where JBG is seeking to establish a second home and opportunistically in other regions. JBG's Asia expansion has been somewhat aggressive in 2016 with the bank hiring new RMs in Hong Kong, Singapore, and China and heavy investments in technology. Such investments are needed to enhance scale in Asia's competitive private banking landscape.

- **Capital ratios have weakened but buffer remains:** Capital ratios have weakened recently due to one-off legal costs in FY2015, growth in risk weighted assets, acquisitions and regulatory adjustments for legacy capital instruments. While ratios are still well above minimum regulatory CET1/CAR requirements, the buffer against its phased in CET1/CAR capital ratio target floors of 11%/15% has noticeably weakened. This presents a possible constraint on JBG's ability to expand, especially through acquisitions, and could result in additional capital raisings.

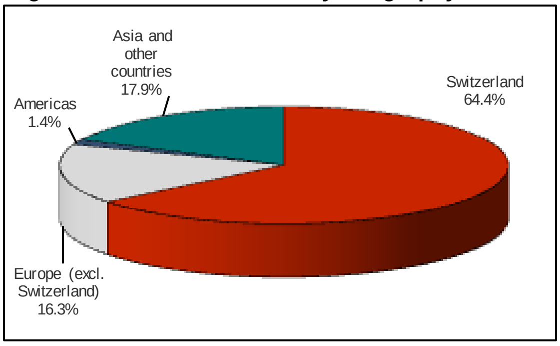
Julius Baer Group Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1H2016
Income Statement (CHF'mn)			
Net Interest Income	648	712	510
Non Interest Income	1,899	1,983	915
Operating Expenses	2,042	2,022	967
Pre-Provision Operating Profit	505	673	458
Provisions	35	534	18
Other Income/(Expenses)	0	0	0
PBT	470	139	440
Income Taxes	103	16	78
Net Income to Common Shareholders	366	121	362
Balance Sheet (CHF'mn)			
Total Assets	82,234	84,116	87,751
Total Loans (net)	33,669	36,381	36,723
Total Loans (gross)	33,717	36,464	36,806
Total Allowances	55	90	83
Total NPLs	54	72	76
Total Liabilities	76,896	79,174	82,579
Total Deposits	61,821	64,781	64,578
Total Equity	5,338	4,942	5,172
Key Ratios			
NIM	1.44%	1.56%	1.05%
Cost-income Ratio	69.9%	67.2%	64.7%
LDR	54.5%	56.2%	56.9%
NPL Ratio	0.16%	0.20%	0.21%
Allowance/NPLs	101.5%	124.8%	108.7%
Credit Costs	0.10%	1.46%	0.10%
Equity/Assets	6.49%	5.88%	5.89%
CETier 1 Ratio (Full)	22.0%	18.3%	15.9%
Tier 1 Ratio	22.0%	18.3%	15.9%
Total CAR	23.4%	19.4%	17.3%
ROE	7.1%	2.4%	7.0%
ROA	0.47%	0.15%	0.41%

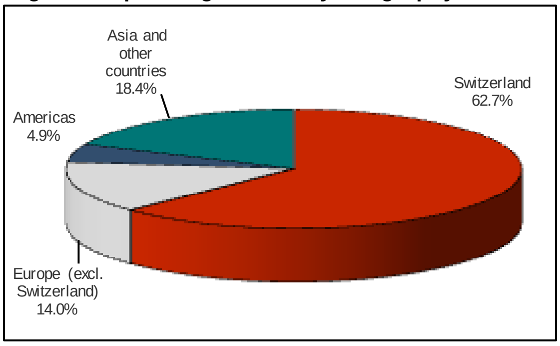
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 1: Asset breakdown by Geography - FY2015



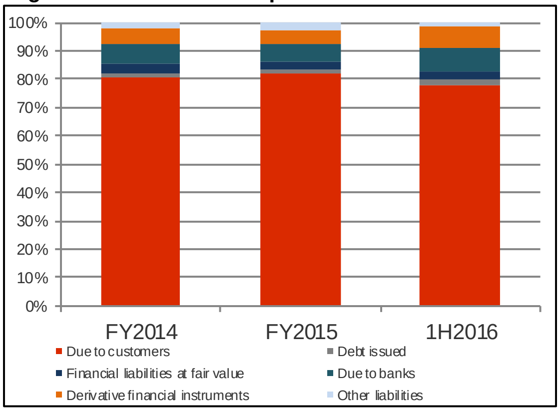
Source: Company

Figure 2: Operating Income by Geography - FY2015



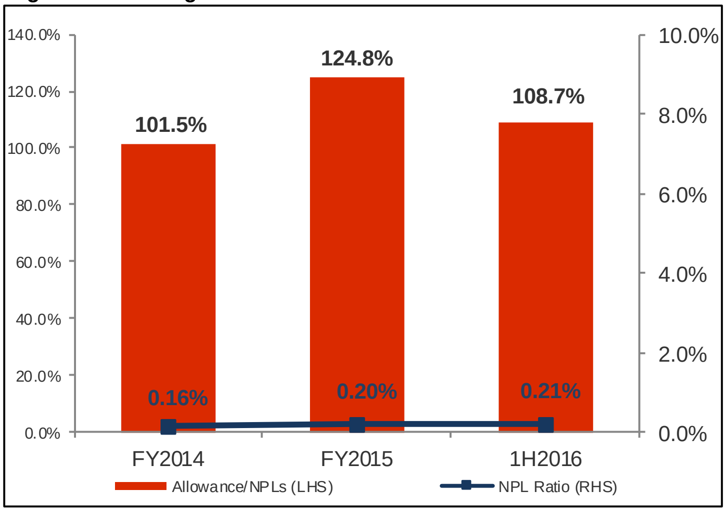
Source: Company

Figure 3: Liabilities Composition



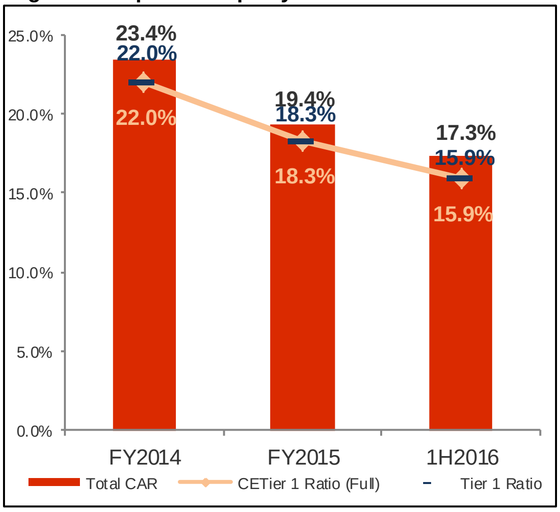
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – While recent performance shows signs of recovery, operating conditions remain tough and profitability will remain under pressure. Across the SGD AT1 space, the MAYMK 6.0%'49s offer decent value considering tenor and rating differential although the high cash price could be a disincentive. Elsewhere though, the curve seems expensive considering fundamentals.

Issuer Profile: Neutral

S&P: A-/Stable

Moody's: A3/Stable

Fitch: A-/Stable

Ticker: **MAYMK**

Background

Malayan Banking Berhad is the largest financial services group in Malaysia and 4th largest in ASEAN. It is organized into three operating segments: Group Community Financial Services, Group Global Banking and Group Insurance and Takaful. As at 30 September 2016, it had total assets of MYR714.7bn. Maybank is indirectly majority government owned.

Malayan Banking Berhad

Key credit considerations

- **Headline improvement but underlying challenges remain**: While 3Q2016 operating income improved q/q and y/y, underlying performance still remains soft. In particular, net interest income was down 2.4% y/y and 1.8% q/q due to ongoing compression in net interest margins (NIMs) which fell 16bps y/y and 1bps q/q to 2.22% as ongoing strong deposit competition raised funding costs at a time when domestic investment demand and consumer sentiment remains somewhat soft. 9M2016 NIM of 2.26% now looks structurally lower than average NIM over 2012-2015 of 2.38%. Other segments were also weak-to-stable with overall results benefiting from unrealized revaluation gains. Operating expenses were higher as net insurance benefits and claims incurred, net fee and commission expenses, change in expense liabilities and taxation of life and takaful fund increased by MYR504.8mn to MYR1.11bn. As a result, Maybank's reported cost-to-income ratio continued to inch upwards to 49.3% in 3Q2016, from 45.1% a year earlier and 48.9% in 2Q2016.

- **Signals of improving asset quality but still a way to go**: YTD impairment allowances continue to be elevated and a drag on operating profit, up 60.4% y/y for 9M2016. However q/q trends are promising with impairment allowances in 3Q2016 of MYR370mn down 59% y/y and 72% q/q, the first fall in quarterly allowances in 2016. This translated to a moderate 2.8% q/q rise in total impairment provisions with a 14% rise in individual allowance provisions moderated by a 5% fall in group allowance provisions. Similarly, gross impaired loans fell 3.1% q/q due to slower impaired loan formation as well as higher recoveries and reclassifications. Together with q/q loans growth of 2.2%, the gross impaired loan ratio improved 12bps to 2.22% on a q/q basis while the loan loss coverage ratio improved to 74.8% in 9M2016 from 70.5% in 2Q2016 despite lower allowances. Loans growth occurred across the board with 1.6% growth in Malaysia and 3.2% growth in International loans on a q/q basis While recent trends are positive overall, ratios still remain weak on a y/y basis and against 2012-2015 averages. Further, the loan portfolio continues to contain risks, particularly in commodities related exposures. The quality of Maybank's oil and gas exposures appear to have weakened with the proportion of special mention, watchlist and impaired exposures rising to 50% of total oil and gas exposures in 3Q2016 from 34% in 2Q2016.

- **Better days ahead?** Following a challenging 2016, the economic outlook is one of stabilization to mild recovery in 2017 for Maybank's major markets (albeit from a low base). To this end, Maybank's strategy is to leverage off of its strong market positions and diversified business segments to achieve better returns through increased cross-selling, improved network productivity and enhanced digital capabilities. Asset growth is expected to be more selective as the bank focuses on ongoing improvement to asset quality. To this end, the bank lowered its group loans growth key performance indicator guidance for 2016 to 2%-3% from 8%-9%.

- **Capital ratios above regulatory minimum:** Maybank's capital ratios remain solid and well above regulatory minimum requirements with CET1/CAR ratios of 13.7%/19.0% in 9M2016 against CET1/CAR requirements of 5.1%/8.6% including transitional capital conservation buffer. Earnings generation continues to support capital formation despite weaker domestic economic conditions with ratio improvement since 2015 also assisted by a 2.5% fall in risk weighted assets. That said, Maybank continues to actively manage its capital in anticipation of higher future requirements with capital instrument issues of USD500mn and MYR1bn in Tier 2 securities in 2016 so far and its dividend reinvestment plan.

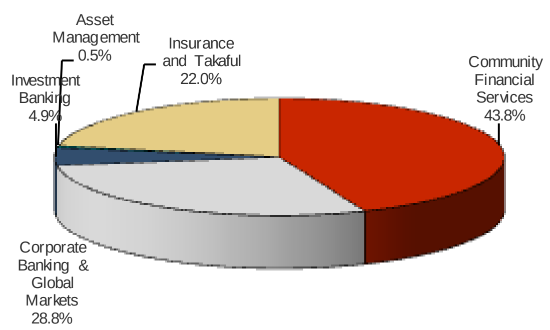
Malayan Banking Berhad

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (MYR'mn)			
Net Interest Income	9,704	11,114	8,609
Non Interest Income	12,758	13,908	11,099
Operating Expenses	13,042	14,069	11,456
Pre-Provision Operating Profit	9,419	10,953	8,252
Provisions	471	2,013	2,390
Other Income/(Expenses)	163	211	110
PBT	9,112	9,152	5,971
Income Taxes	2,201	2,165	1,458
Net Income to Common Shareholders	6,716	6,836	4,382
Balance Sheet (MYR'mn)			
Total Assets	640,300	708,345	714,685
Total Loans (net)	403,513	453,493	453,778
Total Loans (gross)	409,438	459,610	461,443
Total Allowances	5,924	6,117	7,665
Total NPLs	6,234	8,555	10,240
Total Liabilities	585,559	644,831	647,078
Total Deposits	439,569	478,151	477,513
Total Equity	54,741	63,513	67,607
Key Ratios			
NIM	2.31%	2.31%	2.26%
Cost-income Ratio	48.9%	48.2%	48.9%
LDR	91.8%	94.8%	95.0%
NPL Ratio	1.52%	1.86%	2.22%
Allowance/NPLs	95.0%	71.5%	74.8%
Credit Costs	0.11%	0.44%	0.69%
Equity/Assets	8.55%	8.97%	9.46%
CETier 1 Ratio (Full)	11.7%	12.8%	13.7%
Tier 1 Ratio	13.5%	14.5%	15.4%
Total CAR	16.2%	17.7%	19.0%
ROE	13.8%	12.2%	9.2%
ROA	1.12%	1.01%	0.82%

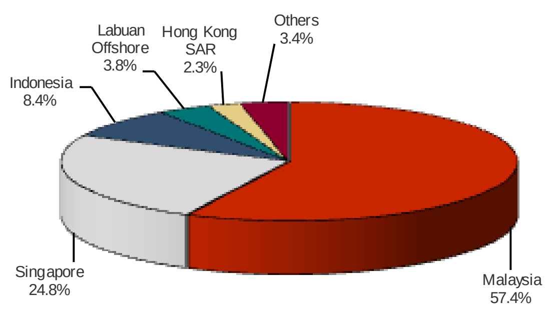
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 1: Operating Income by Segment - 9M2016



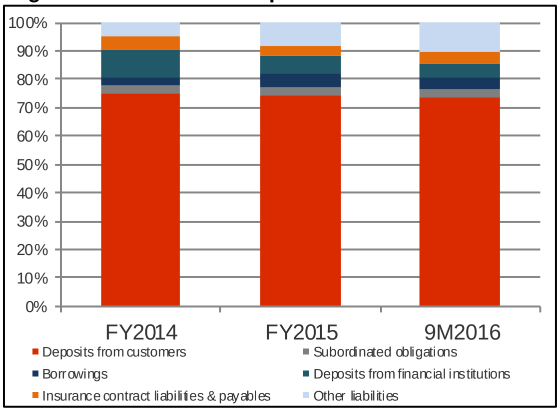
Source: Company

Figure 2: Gross Loan by Geography - 9M2016



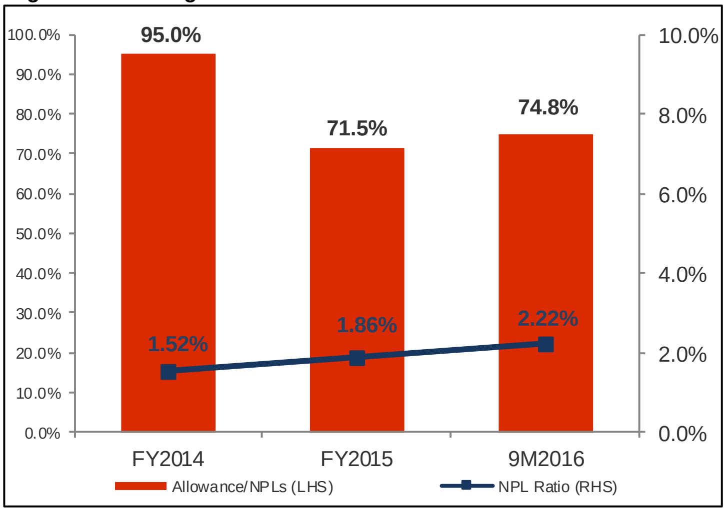
Source: Company

Figure 3: Liabilities Composition



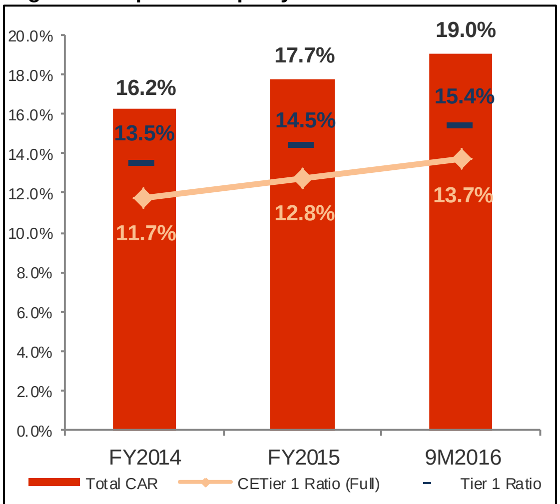
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – NAB's credit profile will benefit from a more focused business structure as earnings remain under pressure. While impairments have risen, they remain relatively low. We think the ANZ 3.75%'27c22 offers better value against the NAB 4.15'28c23 given spread and shorter tenor and fundamental upside if restructuring initiatives pan out as expected.

Issuer Profile: Neutral

S&P: AA-/Negative

Moody's: Aa2/Negative

Fitch: AA-/Stable

Ticker: **NAB**

Background

National Australia Bank Ltd provides retail, business and corporate banking services mostly in Australia but also in New Zealand under the Bank of New Zealand brand. These services are complimented by the bank's wealth management division which provides superannuation, investment and insurance services under various brands. As at 30 September 2016, the bank had total assets of AUD777.6bn.

National Australia Bank Ltd

Key credit considerations

- **Earnings intact despite headline softness**: NAB's FY2016 results reflect recent strategic initiatives and major asset sales with statutory net profit of AUD352mn down 94.4% y/y. This was due mostly to recognition of loss on sales of CYBG PLC and 80% of the life insurance business. Excluding these transactions and other asset sales, statutory net profit was down y/y by 5.6% to AUD6.42bn. On a cash earnings basis (which reflects ongoing operations) however, cash earnings were up 4.2% y/y to AUD6.48bn as earnings were supported by a 3.5% increase in net interest income from a 4.6% increase in gross loans and acceptances. This mitigated a fall in net interest margins (NIM) to 1.88% in FY2016 from 1.89% in FY2015 from higher funding costs and competitive pressures. The overall cost to income ratio was relatively stable at 41.4% as higher efficiency and sustainability spending offset lower infrastructure spending y/y.

- **Australian Banking segment leading the way:** Loan impairments rose 11.0% in FY2016 reflecting higher specific provisions with the reported ratio of bad and doubtful debts (including assets 90+ days past due) to gross loans and acceptances increasing noticeably to 0.85% from 0.63% in FY2015. This was due to an 80% rise in gross impaired assets, mostly from stresses in the New Zealand dairy portfolio and impairment of several large single name exposures in the Australian Banking business portfolio. These loan quality issues, along with a fall in NIMs by 19bps to 2.25% from competitive pressures and higher funding costs, contributed to relatively weaker y/y profit performance from NAB's NZ Banking segment with 2% earnings growth compared to 7% in Australian Banking and 13% growth in NAB Wealth. Most of the strength in the Australian Banking segment was from personal banking with revenues up 7.0% from higher housing lending and deposit volumes together with slightly higher net interest margins while overall impairment charges were down 4.0%. This translated to a slightly higher contribution to consolidated earnings from Australian Banking (84.4%) compared to FY2015 (82.0%).

- **Now set on a clearer path**: NAB's focus going forward is on its key Australia and New Zealand franchises and particularly in segments where it holds stronger market shares. Following its major asset sales, NAB is expecting its leaner balance sheet and more simplified operating structure to deliver higher returns, together with more spending on efficiency. Spending on infrastructure is expected to slow following completion of a new data centre and the roll out of its Personal Banking Origination Platform, with the bank now focused on improving the customer experience through digital solutions and innovation. These initiatives should have a net positive impact on NAB's earnings and credit profile, which will be important given the expected low growth environment.

- **Improved capital position as expected**: NAB's restructuring initiatives have had a net positive impact on capital ratios since 1HFY2016. This, along with solid earnings stability and issuance of Additional Tier 1 and Tier 2 capital instruments, translated to FY2016 APRA compliant CET1/CAR ratios of 9.8%/14.1%, improved against reported 1HFY2016 CET1/CAR ratios of 9.7%/13.3% but down from FY2015 CET1/CAR ratios of 10.2%/14.2% due to application of higher risk weights to mortgage loan exposures in 2HFY2016. Going forward and with major divestments complete, capital ratios are expected to be less volatile than prior years and remain above regulatory minimum requirements which are set to rise. This is given the bank's higher focus on its core and more profitable segments as well as ongoing solid access to capital markets.

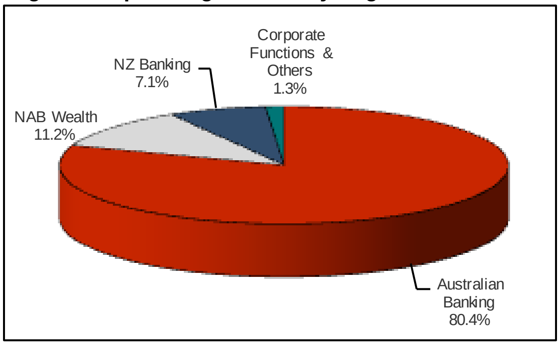
National Australia Bank Ltd

Table 1: Summary Financials

Year Ended 30th Sep	FY2014	FY2015	FY2016
Income Statement (AUD'mn)			
Net Interest Income	13,415	12,462	12,930
Non Interest Income	5,441	5,975	5,192
Operating Expenses	10,227	8,189	8,331
Pre-Provision Operating Profit	8,629	10,248	9,791
Provisions	847	733	813
Other Income/(Expenses)	0	0	0
PBT	7,782	9,515	8,978
Income Taxes	2,598	2,709	2,553
Net Income to Common Shareholders	5,295	6,338	352
Balance Sheet (AUD'mn)			
Total Assets	883,301	955,052	777,622
Total Loans (net)	434,725	532,784	510,045
Total Loans (gross)	438,956	537,165	513,691
Total Allowances	3,118	3,520	3,114
Total NPLs	3,905	2,050	2,642
Total Liabilities	835,393	899,539	726,307
Total Deposits	476,208	489,010	459,714
Total Equity	47,908	55,513	51,315
Key Ratios			
NIM	1.91%	1.89%	1.88%
Cost-income Ratio	53.1%	41.2%	41.4%
LDR	91.3%	109.0%	110.9%
NPL Ratio	0.89%	0.38%	0.51%
Allowance/NPLs	79.8%	171.7%	117.9%
Credit Costs	0.19%	0.14%	0.16%
Equity/Assets	5.42%	5.81%	6.60%
CETier 1 Ratio (Full)	8.6%	10.2%	9.8%
Tier 1 Ratio	10.8%	12.4%	12.2%
Total CAR	12.2%	14.2%	14.1%
ROE	12.1%	15.2%	0.5%
ROA	0.61%	0.73%	0.74%

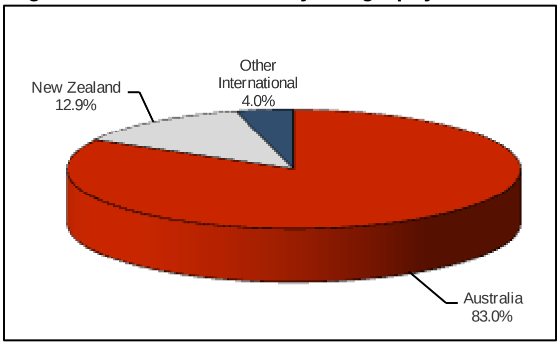
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 1: Operating Income by Segment - FY2016



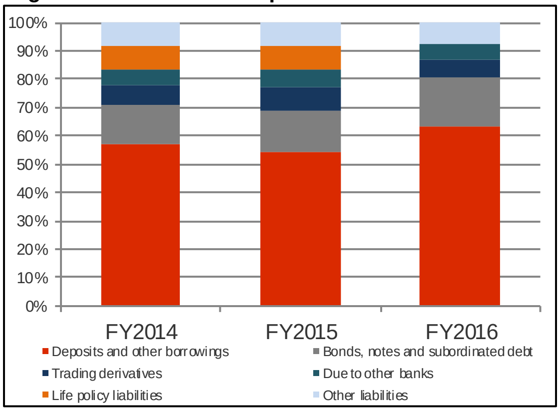
Source: Company

Figure 2: Interest Income by Geography- FY2016



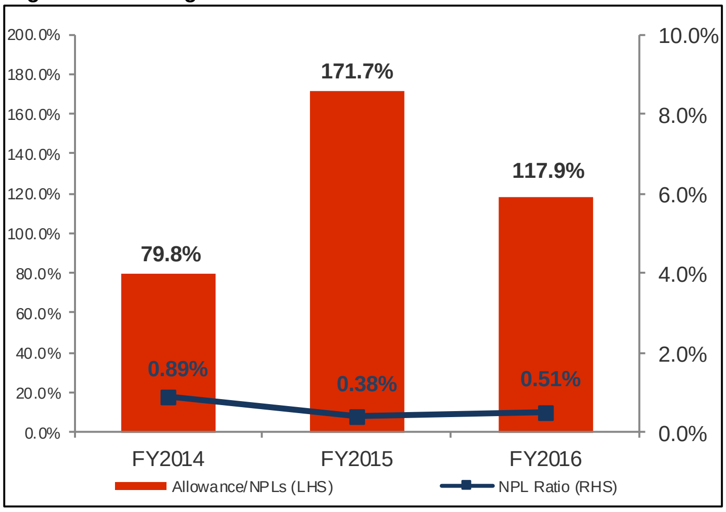
Source: Company

Figure 3: Liabilities Composition



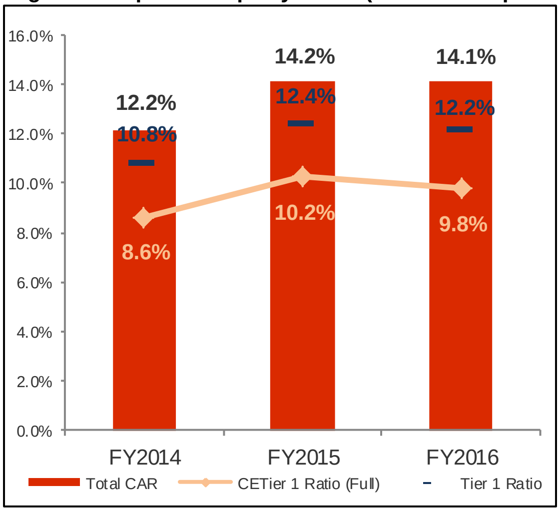
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios (APRA - Compliant)



Source: Company

Credit Outlook – SG's performance is expected to remain sound given its multi-branded and diversified business offerings. Its international presence should mitigate soft but recovering conditions in France and Europe. Our preference however in the SGD space is in BPCE papers given the spread pick up for a similar credit profile, in particular the BPCEGP 4.5%'26c21.

Issuer Profile: Neutral

S&P: A/Stable

Moody's: A2/Stable

Fitch: A/Stable

Ticker: **SOCGEN**

Background

Headquartered in Paris, Société Générale (SG) offers advisory services and financial solutions to individuals, large corporates and institutional investors. It operates across 66 countries through three core businesses covering retail banking, corporate and investment banking, private banking, and wealth management. As at September 30, 2016, it had total assets of EUR1,404.9bn.

Société Générale

Key credit considerations

- **Balanced segment contributions:** SG's strength lies in the balanced and low volatility contributions from its three core business segments of (1) French Retail Banking, (2) International Retail Banking and Financial Services to Corporates, and (3) Global Banking and Investor Solutions. Each segment has consistently generated between 30-36% on average of total annual net banking income. Spread across 66 countries, its strategy is to generate 80% of revenues from mature markets and 20% of revenues from fast growing emerging markets with emphasis on retail banking (target of 60% of revenues and risk weighted assets). This is complimented by financing and advisory, private banking, asset management (further 20%) and global markets activities (20%) with cross selling across segments a key platform for the bank's universal business model. In 2015, 47.5% of net banking income was derived in France with a further 17% derived mostly in the US and UK as well as the Czech Republic.

- **Overall performance driven by retail:** Operating income has grown consistently over 2013-2015 despite weak operating conditions. Solid growth in French retail banking (the 4th largest network in France) across its three complementary brands comprising Societe Generale, Credit Du Nord and Boursorama, mitigated weaker Global Banking and Investor Solutions performance which suffered from higher risk costs in Financing and Advisory for counterparties exposed to the oil and gas sector. International Retail Banking and Financial Services have also shown consistent growth due to its diversified locations and solid market positions in Europe. Solid performance has continued for 9M2016 with loan growth in international businesses mitigating weak y/y conditions in French Retail Banking due to low interest rates, increased mortgage renegotiations and higher costs from digital investments and branch closures. Global Banking and Investor Solutions performance recovered in 3Q2016 after a weak 1H2016 due to higher customer activity in fixed income trading.

- **Strategy aimed at cost containment:** With revenue generation potential somewhat muted, SG's strategic plan is anchored on containing annual average cost growth to 1%. This is more or less on track although cost containment has been challenging given upward pressure on regulatory costs, legal costs and restructuring costs. SG's restructuring has achieved success with planned recurring cost savings of EUR900mn over 2013-2015 achieved in 3Q2015. While SG's cost of risk has historically increased, this has been due more to litigation provisions. Risk costs related to loan performance has actually been on a downward trend, signaling the improving business climate in France. Risk costs in the International portfolio have also been declining due to improvements in Romanian and African exposures and stabilization of the bank's Russian exposures. SG's gross doubtful outstandings ratio was 5.1% as at 9M2016, improving from 5.3% in 2015 while the gross coverage ratio for doubtful outstandings was 65% in 9M2016, up from 64% in 2015.

- **Capital in focus:** Another aspect of SG's strategy is optimizing capital for better returns and to ensure that capital ratios are consistent with current ratings and peers. Its fully loaded CET1 ratio was 11.4% at 9M2016, above its target fully loaded CET1 ratio for 2016 of 11%. On a phased in basis, the 9M2016 CET1 ratio was 11.6%, above the minimum requirements for triggering the Maximum Distributable Amount mechanism of 7.75% at January 2017. Capital ratios have improved as earnings generation and portfolio adjustments have mitigated coupon and dividend payments, and other items including litigation provisions. Given SG's diversified businesses and improving operating environment, we expect capital ratios to remain above minimum requirements.

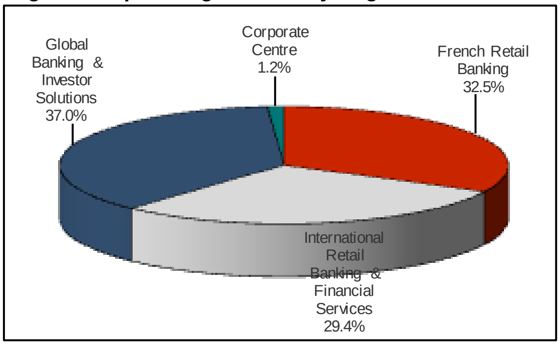
Société Générale

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (EUR'mn)			
Net Interest Income	9,999	9,306	19,169
Non Interest Income	13,562	16,333	
Operating Expenses	16,037	16,893	12,419
Pre-Provision Operating Profit	7,524	8,746	6,750
Provisions	2,967	3,065	1,605
Other Income/(Expenses)	322	428	70
PBT	4,879	6,109	5,215
Income Taxes	1,376	1,714	1,461
Net Income to Common Shareholders	2,679	4,001	3,484
Balance Sheet (EUR'mn)			
Total Assets	1,308,138	1,334,391	1,404,800
Total Loans (net)	370,367	405,252	423,100
Total Loans (gross)	431,000	461,000	477,600
Total Allowances	16,400	15,700	14,800
Total NPLs	25,900	24,600	23,300
Total Liabilities	1,249,264	1,271,716	1,340,400
Total Deposits	349,735	379,631	406,000
Total Equity	58,874	62,675	64,600
Key Ratios			
NIM	0.89%	0.80%	NA
Cost-income Ratio	67.7%	67.7%	NA
LDR	105.9%	106.7%	104.2%
NPL Ratio	6.01%	5.34%	4.88%
Allowance/NPLs	63.3%	63.8%	63.5%
Credit Costs	0.69%	0.66%	0.45%
Equity/Assets	4.50%	4.70%	4.60%
CETier 1 Ratio (Full)	10.1%	10.9%	11.4%
Tier 1 Ratio	12.6%	13.5%	14.3%
Total CAR	14.3%	16.3%	17.6%
ROE	5.3%	7.9%	9.1%
ROA	0.25%	0.30%	0.32%

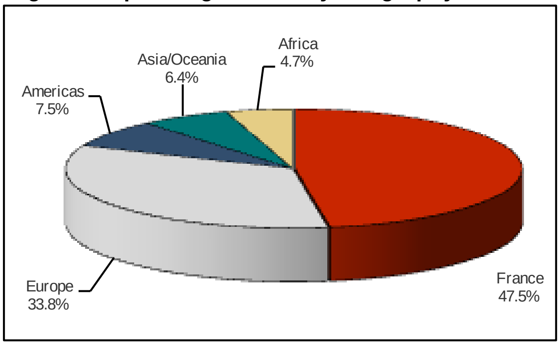
Source: Company, OCBC estimates | Capital Adequacy Ratios after proposed dividends

Figure 1: Operating Income by Segment - 9M2016



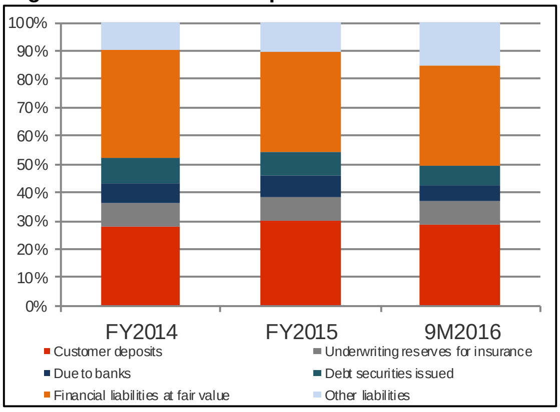
Source: Company

Figure 2: Operating Income by Geography - FY2015



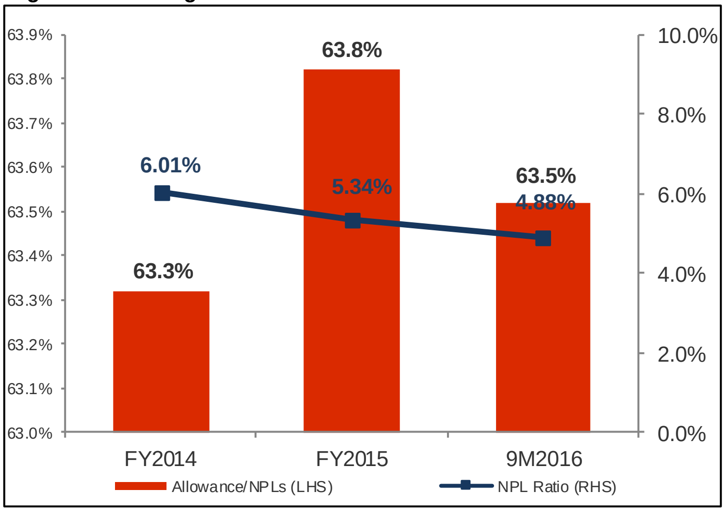
Source: Company

Figure 3: Liabilities Composition



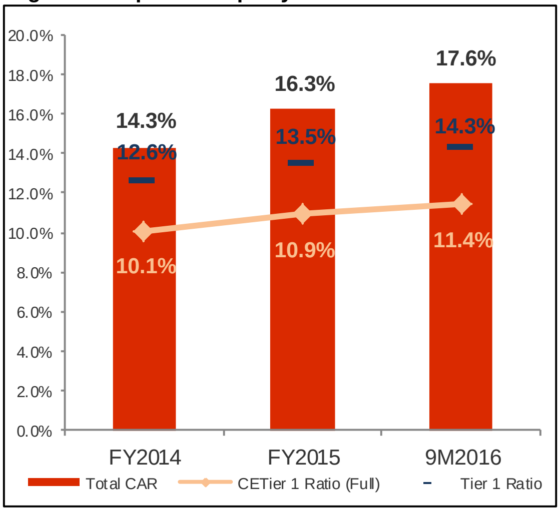
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – While loan quality issues have weighed on UOB's relatively stable earnings performance, the strengthening of UOB's capital position and its secured position against non-performing loans should provide protection against the current operating environment. Across its curve, the UOBSP 4.9%'49s offers decent yield for a shorter tenor in our view.

Issuer Profile: Neutral

S&P: AA-/Stable

Moody's: Aa1/Stable

Fitch: AA-/Stable

Ticker: **UOBSP**

Background

United Overseas Bank Limited is Singapore's third largest consolidated banking group with a global network of more than 500 offices in 19 countries in Asia Pacific, Europe and North America. Business segments comprise Group Retail, Group Wholesale Banking and Group Markets and Investment Management. Wee Investments Pte Ltd and Wah Hin & co Pte Ltd have a 7.66% and 5.01% stake in UOB, respectively, as of 5th January 2017.

United Overseas Bank Ltd

Key credit considerations

- **Operating income generally stable:** UOB's 3Q2016 performance was softer y/y with operating income down 2.2% to SGD2.0bn. While net interest income was broadly stable as net interest margin compression (1.69% in 3Q2016 against 1.77% in 3Q2015) was mitigated by higher net customer loans, other non-interest income was weaker due to absence of a one-off gain from sale of investment securities which occurred in 3Q2015. Stripping out this one-off, y/y performance for 3Q2016 looks respectable in the context of the challenging operating environment. This is reflected in YTD performance where results are broadly stable with operating income up 1.1% y/y on solid performance in net interest income as 7% net customer loans growth offsetting a 5bps fall in net interest margins to 1.72%. Expenses continue to edge up as the bank invests in technology and infrastructure, with the cost to income ratio up to 45.4% for 9M2016 compared to 44.1% for 9M2015. This softened operating profit performance for 3Q2016 and 9M2016 which was down y/y by 1.2% and 5.0% respectively.

- **Rising allowances also impacting profit.** UOB's allowances increased as expected in 3Q2016, rising by 15% q/q and 16% y/y due to stresses in UOB's oil and gas and shipping portfolio. Of note was the material rise in specific allowances which grew by 138% q/q and 409% y/y to SGD290mn, mostly in Singapore. The rise in specific allowances was mitigated however by releases in general allowances and on a YTD basis, overall allowances actually fell 3.7% to SGD463mn. Allowances were lower in historically weaker performing areas from a loan quality perspective (namely Malaysia, Thailand and Indonesia) to mitigate rising pressure in Singapore with management expecting a slower rate of new NPL formation. While it remains to be seen whether NPL formation will slow, without the release in general allowances UOB's profit performance would have been weaker than it already was. Overall, UOB's somewhat weaker profit performance compared to DBS Group Holdings Ltd ("DBS") reflects in our view UOB's slightly higher business risk.

- **Loan quality pressure on balance sheet appears manageable:** UOB's non-performing loan ratio has historically been high compared to peers given its higher exposure to better yielding but higher risk business segments by customer type (consumer and retail/SME) and customer location (South East Asia). This has seen UOB's NPL ratio averaging 1.32% over the past 8 quarters to 4Q2014 against 0.96% for DBS over the same period. That said, DBS' NPL formation has risen faster in recent times leading to a faster rise in the NPL ratio for DBS vis-à-vis UOB (and similarly a faster decline in loan loss coverage ratios for DBS). While loan quality pressure remains and new NPL formation remains elevated, overall we think UOB's balance sheet is adequately positioned to meet on-going pressures given its relatively solid coverage ratio of 112.4% as at 30 September 2016, which improves to 266% if only including unsecured exposures.

- **Active capital management for added protection**: Despite balance sheet growth and profit pressures, UOB's capital ratios remain sound with a fully loaded CET1 ratio of 12.4% as at 30 September 2016. This is up from 12.2% and 11.7% as at 30 June 2016 and 31 December 2015 respectively, a positive development following weakening capital ratios in recent times from solid loan growth. Improvement in capital ratios have come from a mix of retained earnings, and active capital management including strong take up of the scrip dividend scheme and issuance of capital instruments. Active capital management will continue to be important in our view as interest rates rise which could put additional pressure on loan quality and hence collateral values.

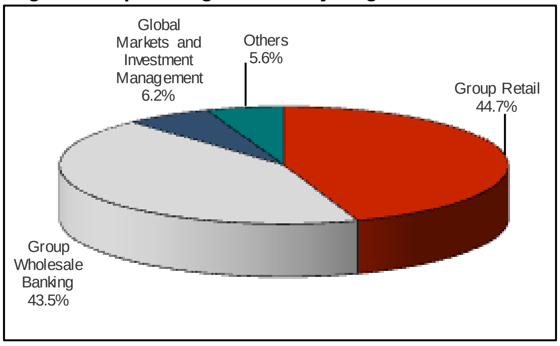
United Overseas Bank Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Net Interest Income	4,558	4,926	3,715
Non Interest Income	2,900	3,122	2,318
Operating Expenses	3,146	3,597	2,739
Pre-Provision Operating Profit	4,311	4,451	3,294
Provisions	635	672	463
Other Income/(Expenses)	149	90	27
PBT	3,825	3,869	2,858
Income Taxes	561	649	492
Net Income to Common Shareholders	3,249	3,209	2,357
Balance Sheet (SGD'mn)			
Total Assets	306,736	316,011	327,828
Total Loans (net)	195,903	203,611	213,465
Total Loans (gross)	199,343	207,371	217,395
Total Allowances	3,440	3,760	3,929
Total NPLs	2,358	2,882	3,496
Total Liabilities	276,964	285,087	295,244
Total Deposits	233,750	240,524	250,999
Total Equity	29,772	30,924	32,584
Key Ratios			
NIM	1.71%	1.77%	1.72%
Cost-income Ratio	42.2%	44.7%	45.4%
LDR	83.8%	84.7%	85.0%
NPL Ratio	1.18%	1.39%	1.61%
Allowance/NPLs	145.9%	130.5%	112.4%
Credit Costs	0.32%	0.32%	0.28%
Equity/Assets	9.71%	9.79%	9.94%
CETier 1 Ratio (Full)	13.9%	13.0%	13.4%
Tier 1 Ratio	13.9%	13.0%	13.5%
Total CAR	16.9%	15.6%	16.6%
ROE	12.3%	11.0%	10.5%
ROA	1.10%	1.03%	0.97%

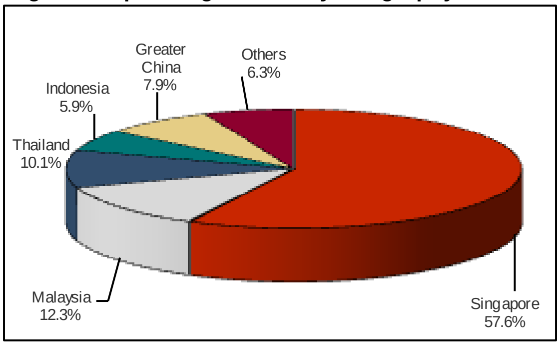
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 1: Operating Income by Segment - 9M2016



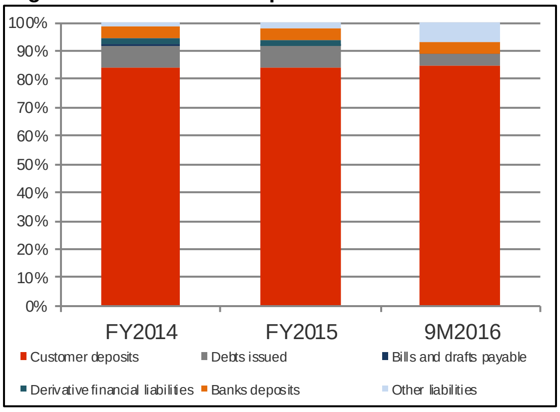
Source: Company

Figure 2: Operating Income by Geography - 9M2016



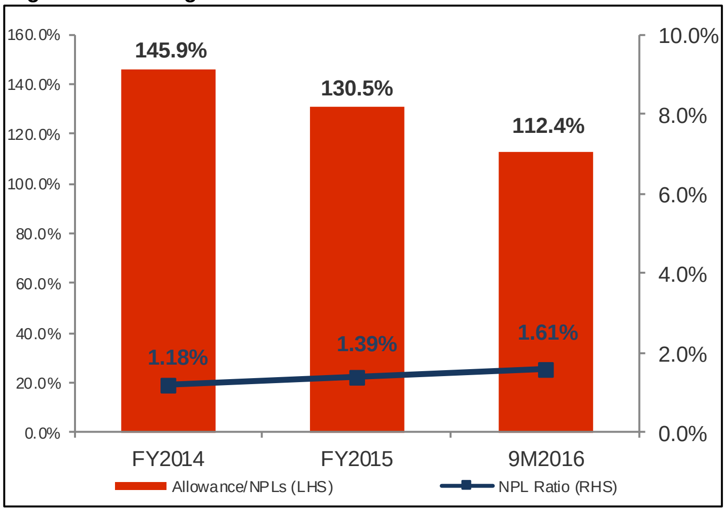
Source: Company

Figure 3: Liabilities Composition



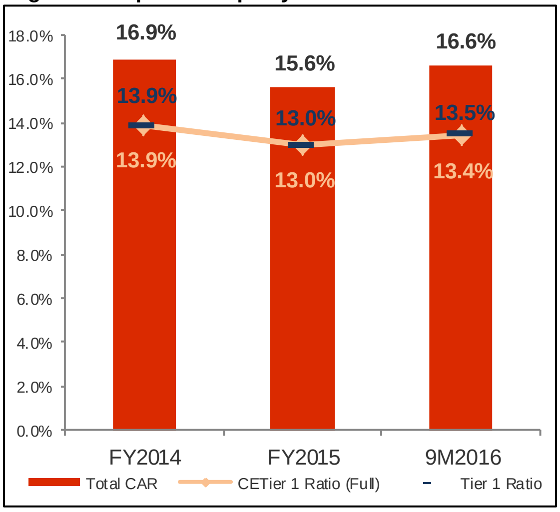
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – WBC's recent results are less affected by restructurings than peers. Its stronger franchise in consumer banking where it remains the second largest mortgage lender in Australia underpins its solid underlying performance. That said, we think the WSTP 4.00%'27c22 is slightly rich compared to the ANZ 3.75%'27c22 and other SGD T2 names.

Issuer Profile: Neutral

S&P: AA-/Negative

Moody's: Aa2/Negative

Fitch: AA-/Stable

Ticker: **WSTP**

Background

Westpac Banking Corporation is Australia's oldest bank and second largest by market capitalization. It offers consumer, business and institutional banking services as well as wealth management and insurance across Australia and New Zealand using a multi-branded strategy. As at 30 September 2016, it had total assets of AUD839bn.

Westpac Banking Corporation

Key credit considerations

- **Core businesses continue to perform:** Westpac's FY2016 results were underpinned by its core retail and business banking segments with Westpac's cash earnings flat y/y at AUD7.8bn. Total revenue was up 3% due to an 8% rise in net interest income due to stronger net interest margins (2.13% in FY2016 against 2.08% in FY2015 arising from lending and deposit growth) and a 6% rise in total lending. This included an 8% rise in mortgage lending and a 3% rise in Australian business lending, mostly to SMEs. This more than compensated for weaker non-interest income due to lower consumer cards related income, weaker performance at BT Investment Management ("BTIM") from its partial sale, and lower markets activity and higher impairments in Institutional Banking ("IB"). From a segment wise perspective, Consumer Bank cash earnings performance improved 14% y/y while BTIM and IB cash earnings performance contracted 4% and 18% y/y respectively. Business banking segment performance was stable with cash earnings up 1% due to loan growth and containment in operating expenses that mitigated higher impairments. Westpac continues to manage its costs between business growth, ongoing investment in digital platforms and higher regulatory and compliance costs with the cost to income ratio on a cash earnings basis stable at 42.0% in FY2016.

- **Higher impairments but trend is encouraging**: Costs arising from impairment allowances continue to increase as expected and impacted segment earnings in varying degrees. Impairments were up 49% y/y due to institutional exposures in mining and dairy that was downgraded in 1HFY2016. On the flip side, Westpac's mortgage portfolio continues to operate soundly and while 90+ day delinquencies increased 21bps y/y, this was mostly due to changes in reporting. Overall, Westpac's gross impaired assets ratio increased slightly to 0.32% in FY2016 from 0.30% in FY2015 and continues to remain better than peers. Loan quality appears to be stabilizing with moderating growth in impairment charges in 2H2016 (31% lower than 1HFY2016), similar to peers. Reported loan coverage also improved slightly up to 49.4% in FY2016 from 46.3% in FY2015.

- **Strategic direction reinforced**: Westpac has lower strategic repositioning risk and should have more consistent earnings than peers who are re-focusing towards their domestic core businesses and exiting poor performing overseas businesses. That said, future earnings for Westpac could be muted given its higher exposure to an expected slow-down in Australia's housing sector, as well as persisting low interest rates and higher regulatory and compliance costs. To this end, Westpac has updated its strategy to prioritize performance discipline, service leadership, digital transformation, targeted growth and workforce revolution to enhance productivity and allocate capital more efficiently.

- **Solid balance sheet and capital:** Westpac's balance sheet remains solid with FY2016 APRA compliant CET1 capital ratios stable y/y at 9.5% due to solid earnings and capital raising initiatives. This remains above Westpac's preferred CET1 range of 8.75%-9.25%. Pro-active capital management was necessary to mitigate an increase in risk weighted assets from APRA's changes to the Australian residential risk weight floor (of which WBC is the most exposed), sustained high dividend payments and maturing non-compliant Basel III instruments. Based on international Basel III standards, WBC's CET1 ratio improved and remain relatively strong at 14.4% as at 9M 2016 (13.2% in FY2015), in the top quartile of banks globally according to Westpac. Although Westpac remains reliant on wholesale funding, its liquidity has improved with a slightly better mix of short-term on-shore funding and solid growth in customer deposits leading to an improved loan to deposit ratio.

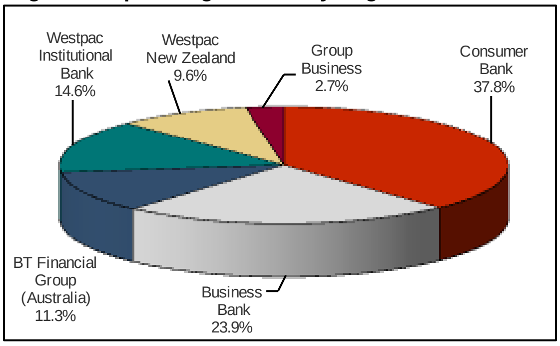
Westpac Banking Corporation

Table 1: Summary Financials

Year Ended 30th Sep	FY2014	FY2015	FY2016
Income Statement (AUD'mn)			
Net Interest Income	13,542	14,267	15,148
Non Interest Income	6,395	7,375	5,837
Operating Expenses	8,547	9,473	9,217
Pre-Provision Operating Profit	11,390	12,169	11,768
Provisions	650	753	1,124
Other Income/(Expenses)	0	0	0
PBT	10,740	11,416	10,644
Income Taxes	3,115	3,348	3,184
Net Income to Common Shareholders	7,561	8,012	7,445
Balance Sheet (AUD'mn)			
Total Assets	770,842	812,156	839,202
Total Loans (net)	580,343	623,316	661,926
Total Loans (gross)	583,516	626,344	665,256
Total Allowances	3,481	3,332	3,602
Total NPLs	2,340	1,895	2,159
Total Liabilities	721,505	758,241	781,021
Total Deposits	460,822	475,328	513,071
Total Equity	49,337	53,915	58,181
Key Ratios			
NIM	2.09%	2.09%	2.10%
Cost-income Ratio	42.9%	43.8%	43.9%
LDR	125.9%	131.1%	129.0%
NPL Ratio	0.40%	0.30%	0.32%
Allowance/NPLs	148.8%	175.8%	166.8%
Credit Costs	0.11%	0.12%	0.17%
Equity/Assets	6.40%	6.64%	6.93%
CETier 1 Ratio (Full)	9.0%	9.5%	9.5%
Tier 1 Ratio	10.6%	11.4%	11.2%
Total CAR	12.3%	13.3%	13.1%
ROE	16.3%	16.2%	13.3%
ROA	1.03%	1.00%	0.90%

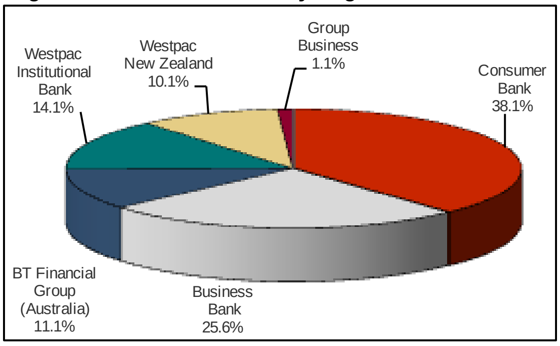
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 1: Operating Income by Segment - FY2016



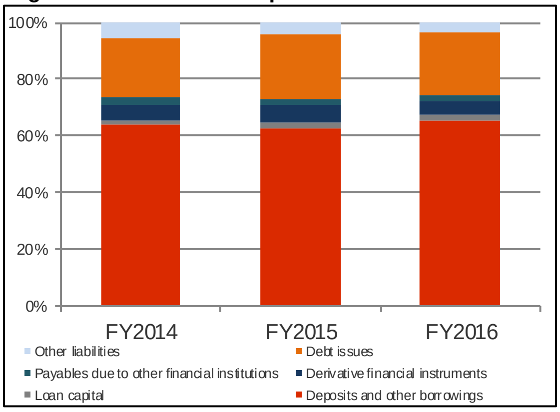
Source: Company

Figure 2: PBT breakdown by Segment - FY2016



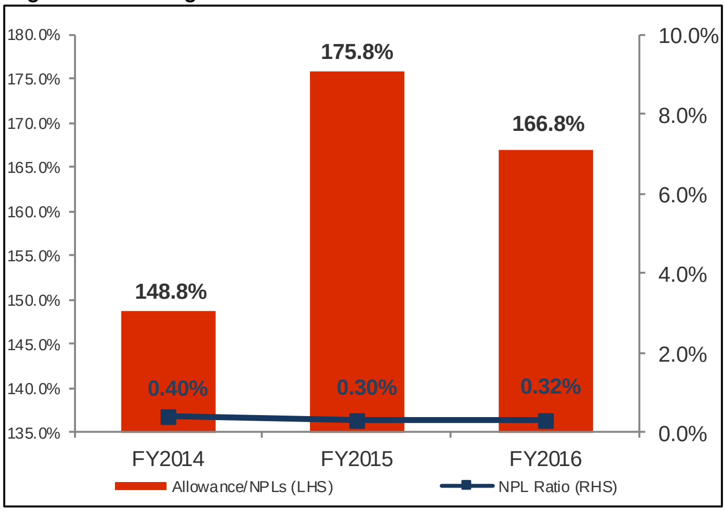
Source: Company

Figure 3: Liabilities Composition



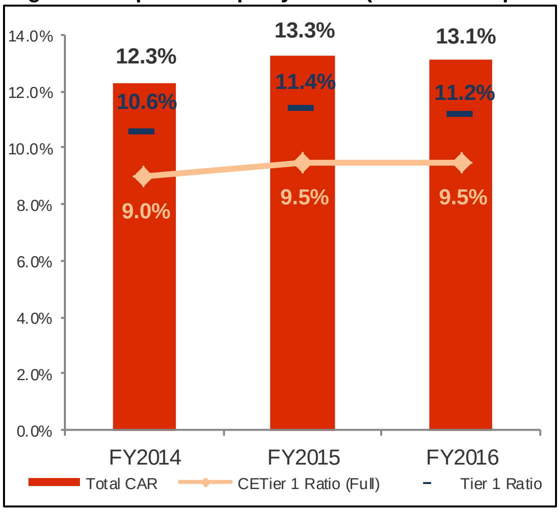
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios(APRA - Compliant)



Source: Company

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The credit research team would like to acknowledge and give due credit to the contributions of Chan Yu Fan & Yeo Jin Peng.