OCBC Credit Research

OCBC Bank

Singapore Credit Outlook 2019

Monday, 07 January 2019

- **2017 market drivers reversed in 2018 as a steeper yield curve, moderating economic growth and high impact risk events (including trade tensions) led to higher market volatility, increasing investor caution and tighter financing conditions over the past 12 months.**

- **With issuers maintaining access to bank lending (as an alternative to bonds) and lower overall growth investments given the uncertain operating environment, SGD bond issuance volumes fell 14% y/y in 2018 after the second highest SGD bond issuance volume on record in 2017.**

- **2018 issuance volumes were also influenced by a credit market correction and increasingly wider bid-ask spreads as the bearish sentiment of 1H2018 became more entrenched in 2H2018. As focus turned from rising interest rates to the global growth outlook, technical considerations evolved into fundamental concerns leading to an ongoing re-pricing of primary issues and secondary curves.**

- **In the context of manageable 2019 risk events, the credit market correction in 2018, and reduced supply in the past few years, we see value in selective high yield papers with short duration. We think carry will outweigh price volatility for select high yield issuers with a higher potential for credit spread tightening as opposed to investment grade papers that have benefitted from an ongoing flight to quality. Careful credit selection however is key.**

- **We expect the Financial Institutions under our coverage to adequately navigate the challenges ahead given their solid underlying fundamentals that have improved in recent years from the ongoing implementation of strategic plans which focused on both earnings and balance sheet quality. We think existing credit profiles, capital positions and regulator pro-activeness will continue to help them avoid potential icebergs lying ahead.**

- **Office REITs are expected to strengthen further in 2019 as the recovery momentum persists on the back of tightening supply. Retail REITs, however, look challenged as it continues to undergo a prolonged structural change though we think it is inching towards an inflection point supported by slowing supply and still healthy demand from diverse tenants.**

- **In our view, the industrial property market has bottomed out with overall improving supply-demand for the sector, though we expect lease rates to remain flat in 1H2019. Financial flexibility for the Industrial REIT sector has improved, with rising sales transaction and leasing volumes for the sector which reaffirms our view. We expect more corporate activity for Industrial REITs in 2019.**

- **Perhaps we are merely halfway through the lost decade; Singapore residential property prices as of 3Q2018 have yet to recover to the peak in 3Q2013. We think the outlook ahead looks subdued due to supply overhang from an expected uptick in launches in 2019-20 with a less rosy economic outlook while sentiments have already deteriorated following the introduction of the Jul 2018 property cooling measures.**

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Contents

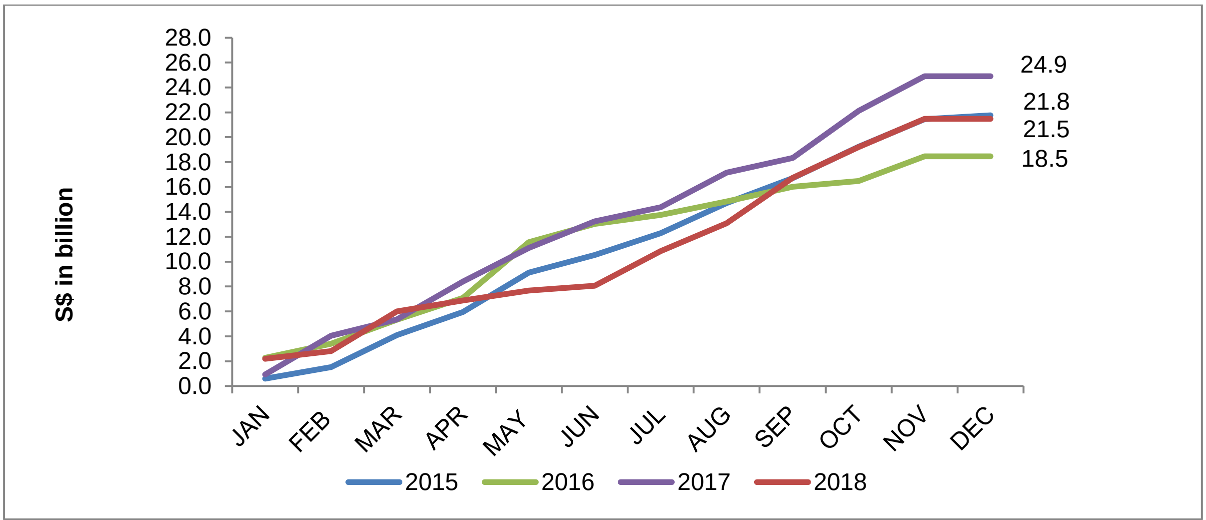
A. MARKET AND INDUSTRY OVERVIEW		Page No.
1.	2018 Singapore Corporate Bond Market Review	iii
2.	Credit Outlook for 2019 – The End of an Era or another beginning?	viii
3.	Are bonds a hedge against volatility in equities?	ix
4.	Will credit spreads widen in SGD?	xi
5.	Are perpetuals still worthwhile and what's the assessment of call risk?	xii
6.	When to bottom fish?	xv
7.	Which sectors in SGD are going through changes due to the decline of existing businesses?	xvi
8.	The problem with Hyflux Ltd - Running out of gas	xx
9.	Is now the time to go back to high yield?	xxii
10.	Wrapping it up	xxiii
11.	Top Trade Ideas	xxiv
12.	Financial Institutions – Charting the path forward	xxv
13.	Singapore REITs – Key Themes	xxix
14.	Singapore Industrial REITs – Bottomed out in 2018, expect to flat line in 2019	xxx
15.	Singapore Office REITs – A bright spot	xxxv
16.	Singapore Retail REITs – End of the downturn is near	xxxviii
17.	Singapore Hospitality REITs – Making tourist dollar count	xli
18.	Singapore Property – Halfway through the lost decade?	xlvi
B. COMPANY OUTLOOKS – CORPORATES		5-113
C. COMPANY OUTLOOKS - FINANCIAL INSTITUTIONS		116-148

2018 Singapore Corporate Bond Market Review

Weaker overall issuance volume y/y, with issuances volume down 14% y/y FY2018

Total new issuances in FY2018 was 14% lower y/y at SGD21.5bn across 74 issues (excluding issues less than SGD50mn) compared to new issuance volume in FY2017 of SGD24.9bn across 124 issues. While 1H2018 issuance was significantly weaker y/y, issuance volume in 2H2018 rose by 15% y/y, with a total of SGD13.4bn of bonds priced against SGD11.7bn of bonds priced in 2H2017. This was due to a handful of large and longer dated issuances from the Government-linked sector and Financial Institutions (perpetuals) absent in 1H2018 and FY2017.

Figure 1: SGD bond issuance monthly volume (cumulative)



Source: OCBC, Bloomberg

We attribute the weak issuance volume in FY2018 to (1) higher swap rates as a result of the four Fed rate hikes and (2) higher risk premium demanded by investors as compensation for higher rates on the back of a cautious market environment. High yield took the brunt of the fall in issuance as issuers had to offer new issue concessions in the primaries to find traction in the market while investors did not want to commit to longer tenors in the context of the flattening yield curve and market volatility. This led to SGD issuance volumes falling as market liquidity receded. Activity was also impacted by competitively priced syndicated bank lending, which replaced maturing bonds with bank debt.

Looking back, a confluence of technical and fundamental factors resulted in increasingly risk-off sentiments. These include the on-going trade US-China trade tensions, rising protectionism, political uncertainties in Europe, rising Chinese onshore defaults and expectations of slowing regional and global economic growth from tighter financial conditions. Strong US economic data resulted in a pick-up in the Fed's pace of rate hikes which led to the Fed raising its Federal Funds Target rate four times in 2018. As expected, shorter-term SGD swap rates moved in tandem with the Fed Funds Target rate while the longer end of the yield curve remained relatively flat. At the same time, tight funding conditions in China's private sector, rising refinancing costs and a weakening Chinese Yuan also resulted in a rise in Chinese onshore corporate bond defaults. We saw the bear flattening of yield curves due to market skepticism that the Fed's pace of rate hikes will be kept up due to slowing US economic growth.

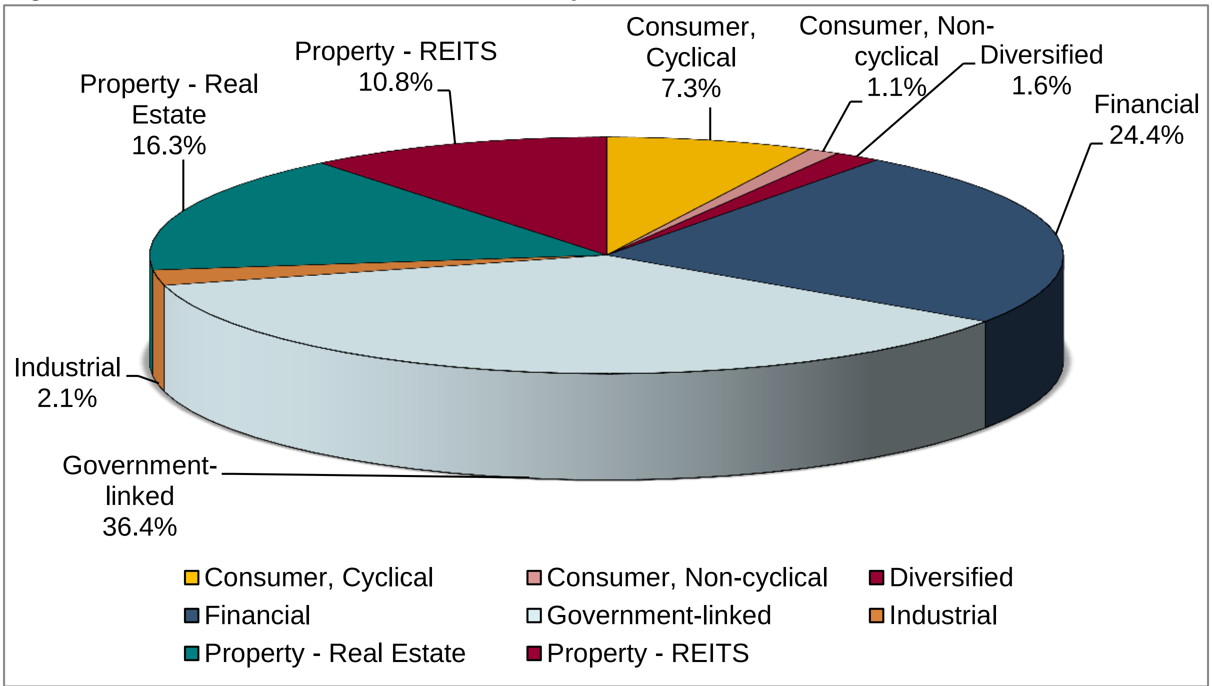
Government-linked sector takes the lead, Financial Institutions catching up

Notwithstanding the cautious market environment, issuance by Government-linked issuers remained strong with total issuance of SGD7.8bn in FY2018. This trend was driven by the market's demand for high quality paper as well as higher supply. SGD4.0bn is accounted by Land Transport Authority of Singapore which issued SGD1.2bn 30-year bond at 3.35%, SGD1.5bn 40-year bond at 3.45% and SGD1.0bn 35-year bond at 3.43%. These very long dated and high grade issues are very rare in the SGD bond space and were well received given its high credit quality and government linkage in the prevailing risk off environment. The remaining issuances are mainly accounted by the Housing & Development Board (HDB) which issued a total of SGD3.5bn across various tenors and the Public Utilities Board which issued SGD300mn. This is in line with the announcement of SGD20bn infrastructure spending in the Singapore 2018 Budget. Overall, majority of the bonds issued by the government-linked entities were of longer duration, mainly in the 10 – 40 year tenors.

2H2018 issuance was dominated by Financial Institutions after a weak 1H2018, with an increase in the number of Additional Tier 1 papers as compared to FY2017. Local banks including DBS Group Holdings Ltd issued Additional Tier 1 papers to refinance large maturities while foreign banks like HSBC Holdings PLC and UBS Group AG issued SGD750mn and SGD700mn in Additional Tier 1 paper respectively. Overall however, the need for capital instruments by banks was proportionately lower due to existing high capital ratio buffers and stronger earnings seen in 2018.

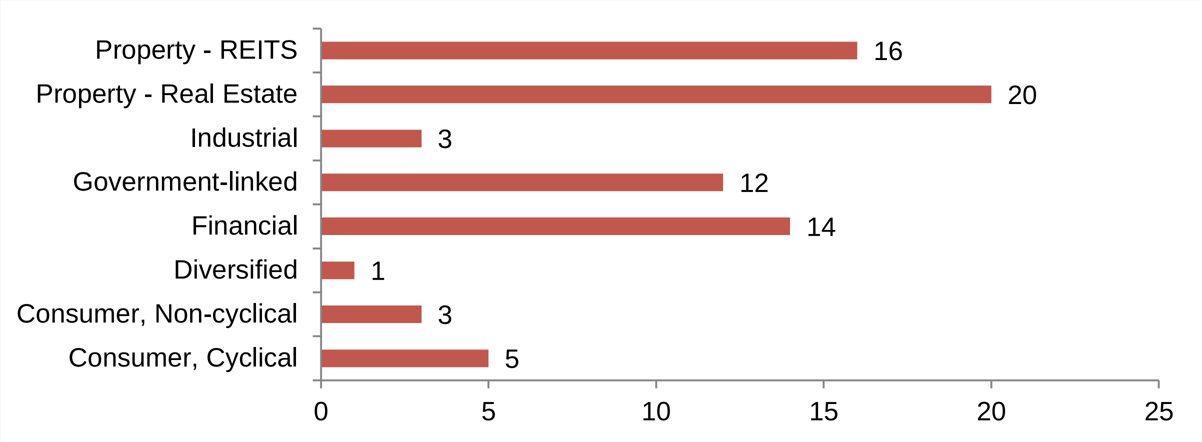
Unlike the previous year, the Real Estate sector saw a 51% y/y decline in issuance size in 2018 despite strong property prices supported by the wave of en-blocs. At the same time, we saw a higher proportion of bonds issued at a coupon rate >4.5% in the Real Estate sector (FY2018: 55% vs FY2017: 31%) and a growing number of developers with net gearing deteriorating on the back of aggressive bids for land banks amidst the en-bloc fever. Rising net gearing among these developers along with the higher risk premium demanded from investors as a result of the cautious market environment might be the factors that were holding them back from tapping into the market. Familiar names that tapped the market include Mapletree Investment Pte Ltd, Perennial Real Estate Holdings Ltd as well as Frasers Property Ltd. Perennial Real Estate Holdings Ltd issued a SGD180mn 2-year bond at a high yield of 5.95%. However, for high yield developers, they had to pay up to issue. For example, highly-levered players such as Fragrance Group Ltd issued a SGD125mn bond, paying a high yield of 6.125%. Finally, in line with the risk-off sentiment, we saw lower y/y issuance from the Consumer Cyclical sector which is typically in line with the market sentiment.

Figure 2: Breakdown of 2018 issuance size by sector



Source: OCBC, Bloomberg

Figure 3: Breakdown of the number of issuers 2018 by sector

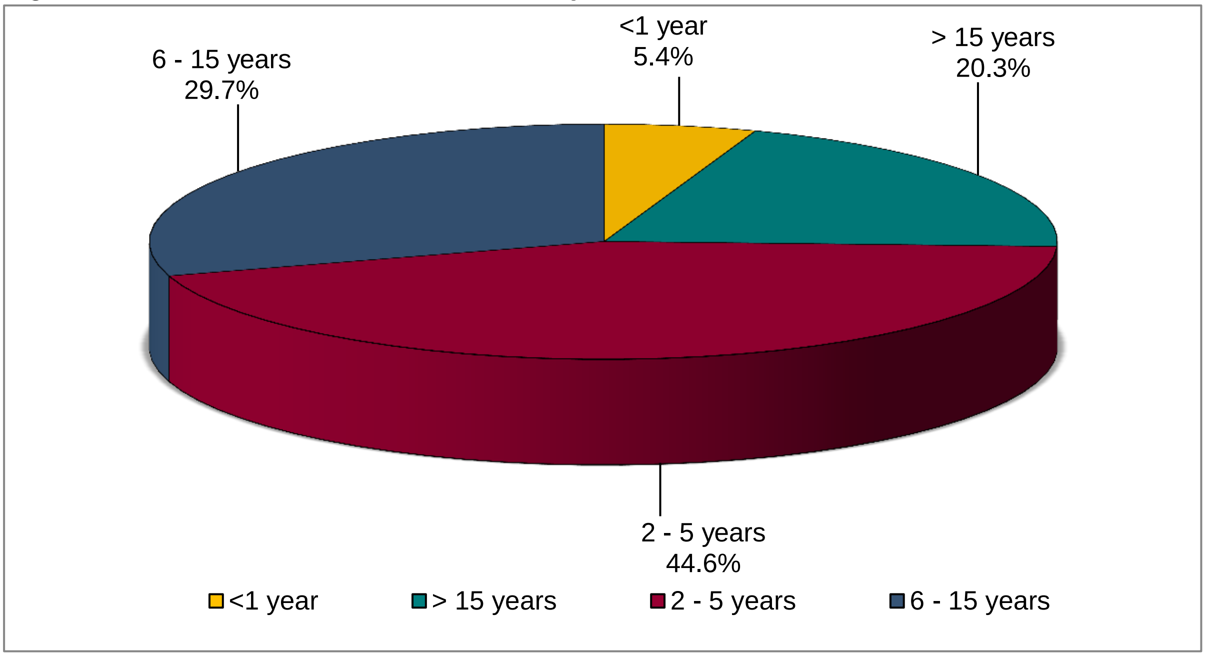


Source: OCBC, Bloomberg

Tenor trends in 2018 have evolved. Relative to 2017, issuers in 2018 (in particular for non-government segment) gravitated towards shorter dated bonds. While the proportion of issuance in the longer end of the curve (>15 years) was stable y/y, total issuance size in the 6-15 years tenor fell to 29.7% of total issuance, as compared to 43.1%. At the time, issuance size in the shorter tenors (2-5 years) rose to 44.6% in FY2018 (vs FY2017: 36.5%). This was driven by demand considerations as investors preferred shorter tenor papers with better adjusted returns and were averse to duration on the back of rising rates and flattening of the SGD swap curve. In addition, investors were also unwilling to hold longer dated papers due to the ongoing market volatility. These factors deterred issuers from tapping the longer end of the curve.

The issuance volume for the >15 years tenor range was supported by issuance of perpetuals and a few very long dated issues from government-linked. In all, there were 10 perpetuals issued in 2018 totaling SGD4.6bn, all from the Real Estate sector (both developers and REITs) and Financial Institutions, as well as three rare long dated papers in 2018 from the Land Transport Authority of Singapore (SGD1.2bn LTAZSP 3.35%'48s, SGD1.5bn LTAZSP 3.45%'40s, SGD1.0bn LTAZSP 3.43%'35s).

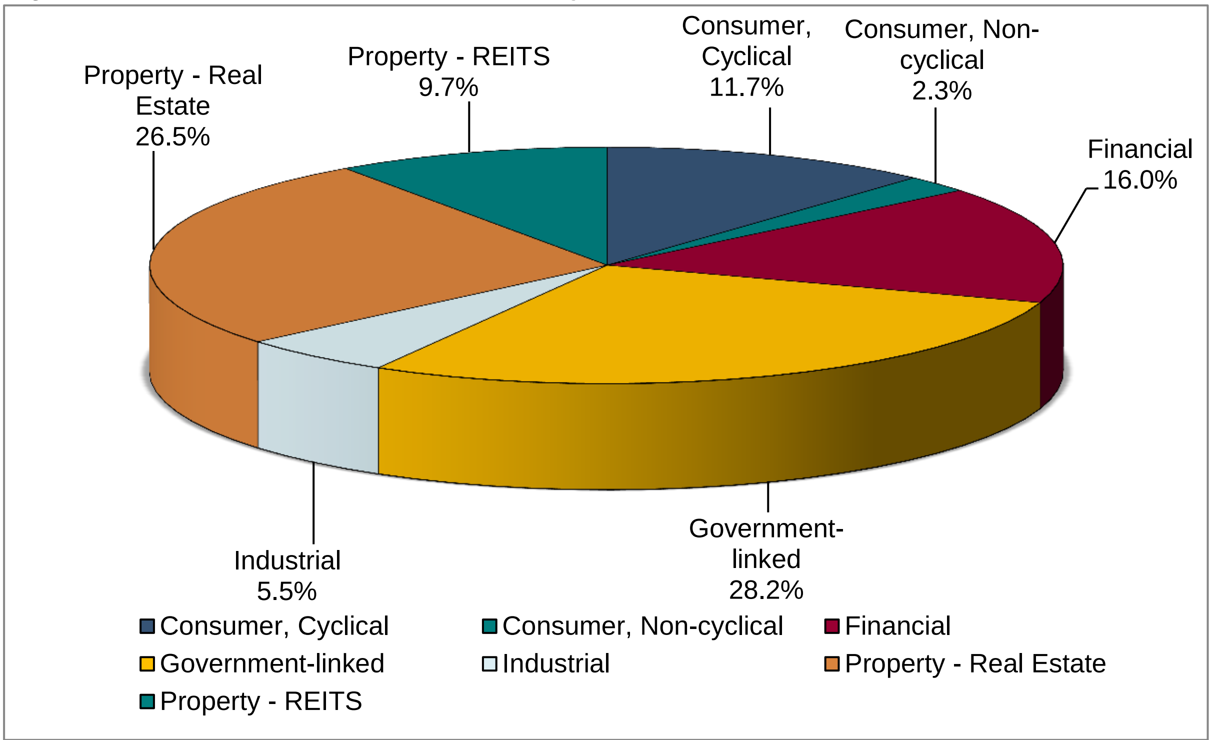
Figure 4: Breakdown of 2018 issuance size by tenor



Source: OCBC, Bloomberg

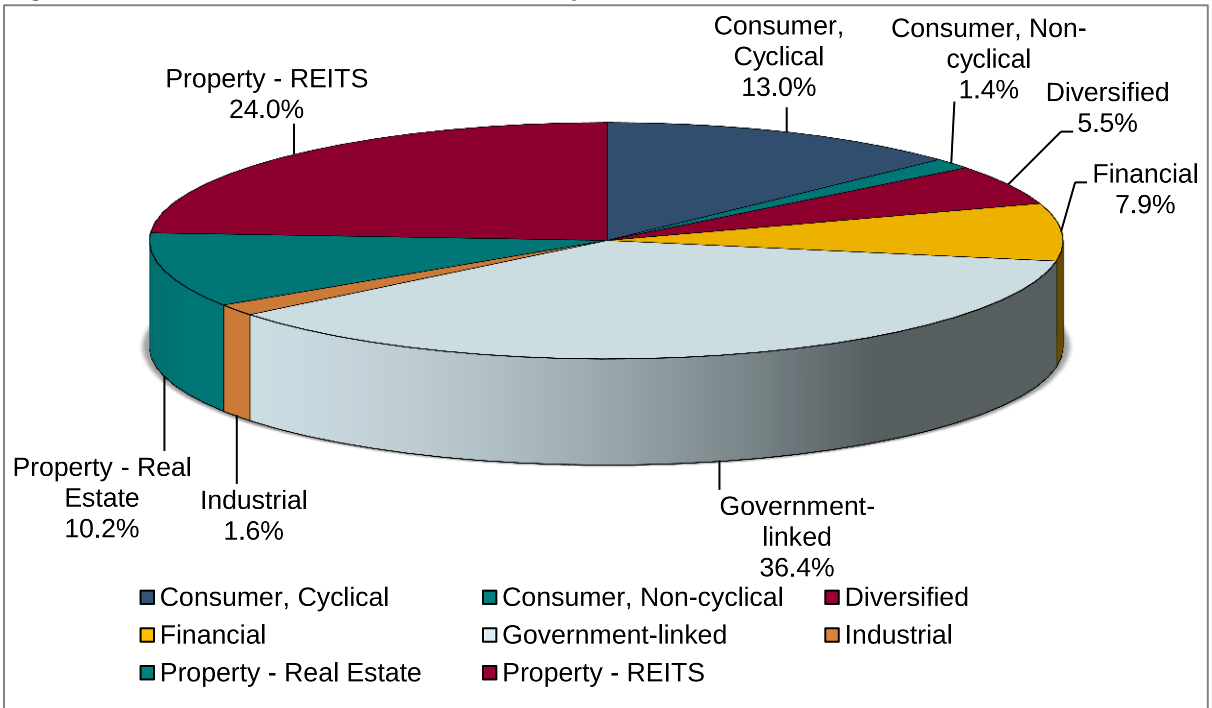
Sector issuance within the 2-5 year and 6-15 year tenor brackets followed the overall market sector issuance trend, with government-linked sector being the largest in proportion, followed by the Real Estate sector. The Real Estate sector saw new names such as Metro Holdings Limited issuing a SGD150mn 3-year bond at 4.0%.

Figure 5: Breakdown of 2018 issuance size by sector for 2Y-5Y tenor



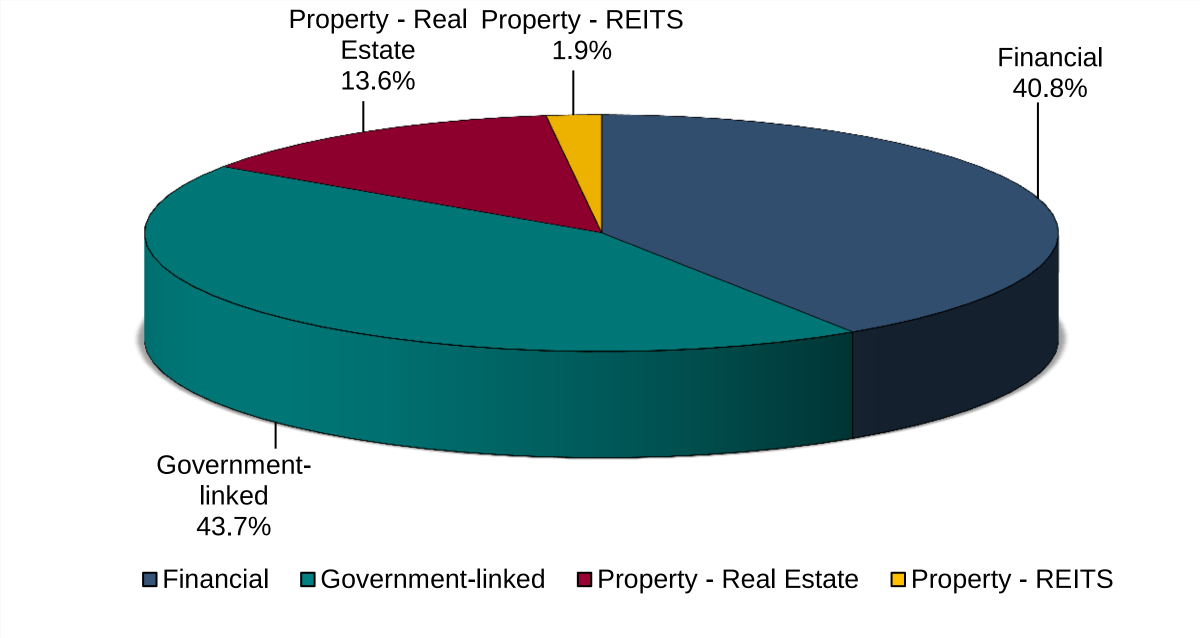
Source: OCBC, Bloomberg

Figure 6: Breakdown of 2018 issuance size by sector for 6Y-15Y tenor



Source: OCBC, Bloomberg

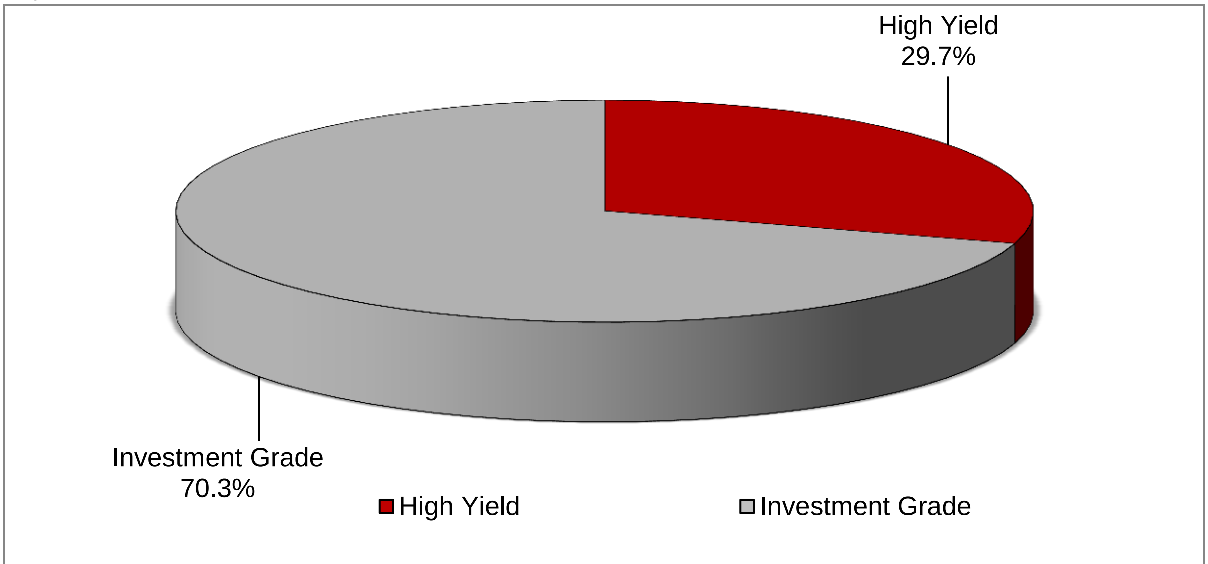
Figure 7: Breakdown of 2018 issuance size by sector for >15Y tenor



Source: OCBC, Bloomberg

Lastly, higher-yielding (defined as paper with yields higher than 4.5%) bond issuers as a proportion of total issuers rose to 29.7% in FY2018 as compared to 22.1% in FY2017. This was due to several new SGD issuers including UBS Group AG and Shangri-La Hotel Limited tapping the market and higher issuance of structurally driven higher-yielding instruments (perpetuals and Additional Tier 1 papers). In addition, the cautious market environment also contributed to new issue premiums which resulted in issuers offering higher yields in order to tap the market. Average coupon rate in FY2018 across the issuances in the 2-5 year tenor range rose to 5.96% in FY2018 compared to 5.59% in FY2017 despite having a lower average tenor of 3 years in FY2018 vs 3.4 years in FY2017.

Figure 8: Breakdown of 2018 issuance (> 4.5% coupon rates)



Source: OCBC, Bloomberg

Credit Outlook for 2019 – The End of an Era or another beginning?

While 2018 trends were somewhat clear, 2019 expectations are perhaps less so which makes constructing an outlook somewhat challenging. To begin however, let's focus on what we know. Firstly, financing conditions are tighter. Interest rates have risen and we expect them to keep on rising. Our OCBC Economists expect the Federal Reserve to hike rates twice rather than three times in 2019, although it can be expected that the Fed actions will be data dependent. A third hike is possible if, for example, wage inflation accelerates further amid still resilient growth in 2019. Secondly, economic growth is forecast to slow albeit remain positive. As mentioned in the OCBC Global Outlook 2019, trade war concerns and higher rates could weigh on 2019 growth prospects despite robust economic fundamentals, particularly in ASEAN. Thirdly, risk events that played out in 2H2018 such as global trade tensions, BREXIT, the Fed and ECB's policy direction and rising China onshore defaults see no signs of abating. These add to potential political uncertainties in 2019 from upcoming elections which could amplify the economic slowdown and also influence currency volatility.

Figure 9: OCBC interest rate forecasts

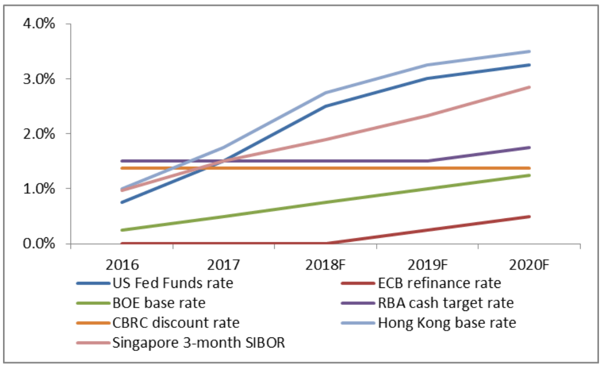
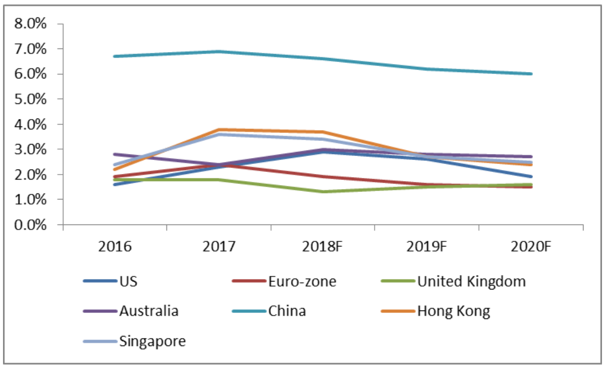


Figure 10: OCBC GDP Growth forecasts



Source: OCBC Global Outlook 2019

Finally, fundamentals have weakened somewhat for the corporates under our coverage. Leverage has risen while interest cover has fallen – a function of both the rise in absolute leverage and higher interest rates. However, in the context of a solid operating environment and still decent earnings, overall credit profiles have remained stable with limited changes to our issuer profiles driven mostly by idiosyncratic factors rather than broad-based deterioration. This is a conclusion consistent with the Monetary Authority of Singapore's November 2018 Financial Stability Review which concluded that although the corporate debt to GDP ratio has risen, Singapore's corporate sector should withstand rising interest rates and downside risks from trade tensions and tighter financing conditions on sound corporate debt profiles, existing cash reserves and support from banks and finance companies. Although underlying fundamentals for financial institutions have improved in our view (refer to our Financial Institutions section), we think credit growth could slow and expenses (including funding costs) to rise, putting pressure on profitability in 2019. At a time of slowing economic growth, this puts credit fundamentals and valuations under some pressure heading into 2019, notwithstanding the correction in credit markets which took place in 2018.

Figure 11: Mean key credit metrics for REITS^

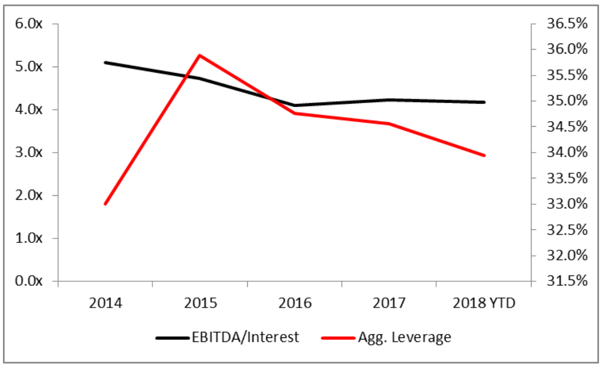
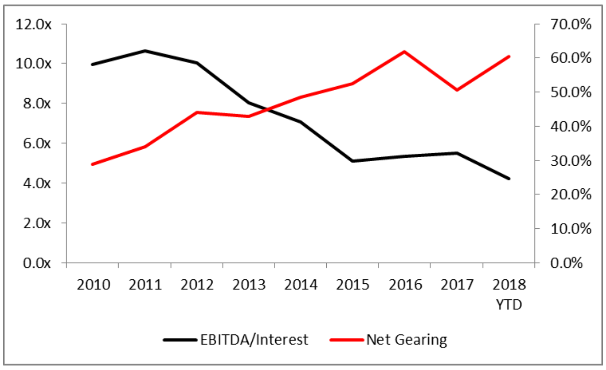


Figure 12: Mean key credit metrics for Corps#



Source: Bloomberg. ^ Fall in reported aggregate leverage due to rise in issuance of Perpetuals. # Corporates includes SGD bond issuers with at least SGD75mn of bonds outstanding currently. Excludes issuers in the offshore oil and gas and marine segments.

So what can we expect in 2019? Unfortunately it seems uncertainty and market volatility will persist. The spectre of an impending US economic slowdown, ongoing trade tensions and political and policy developments in Europe and elsewhere will play on both fundamentals as well as technicals. Earnings growth is expected to weaken, and all told we expect credit markets to continue the correction observed in 2018. While the bearish sentiment seen in credit markets at the end of 2018 is likely to persist, we look to ask (and answer) some pertinent questions to derive an appropriate investment strategy for 2019.

Are bonds a hedge against volatility in equities?

For many investors, portfolio diversification via bonds is de rigueur. This is premised on the view that equity returns and bonds returns are imperfectly correlated and better yet, negatively correlated. Investors have come to expect that when equities are volatile on the downside, fixed income should provide a defensive buffer to overall portfolio returns.

Since the first known balanced fund was created in 1928 with broad diversification across equities and bonds, balanced funds had gone through a growth spurt, stagnation in the 1960s to 1970s, stabilized in the late-70s and continued to be popular in the past 40 years despite the proliferation of other asset allocation strategies.

We start off by looking at correlation patterns given that a break down in “normal correlation” between returns of equities and bonds has been raised as a concern among media and investors alike in recent months. Chief concerns surround bonds’ usefulness as a hedge against equities volatility and the ramifications on portfolio returns should both bond prices and equity prices fall simultaneously.

Today, a balanced fund for a typical investor would consist of 60% equities and 40% bonds (though exact proportion between equities and bonds can be tweaked to cater for investor risk appetite) and rebalanced annually. Specific securities within this broad asset classes differ, though bonds used as diversifiers generally comprise high grade bonds (eg: Treasuries, Investment Grade corporates).

We find that historical correlation between equity returns and bond returns are not static and correlation of the two asset classes is affected by the underlying macroeconomic environment. Therefore, in our view, it is overly simplistic to say that a more positive correlation between bonds and equities means that bonds are not an effective hedge against equity volatility. For example, returns for both bonds and equities were highly positively correlated for much of the 1990s (median of 0.93), coinciding with a period of price stability and stable monetary policy versus the turn of the century with vastly different macroeconomic conditions.

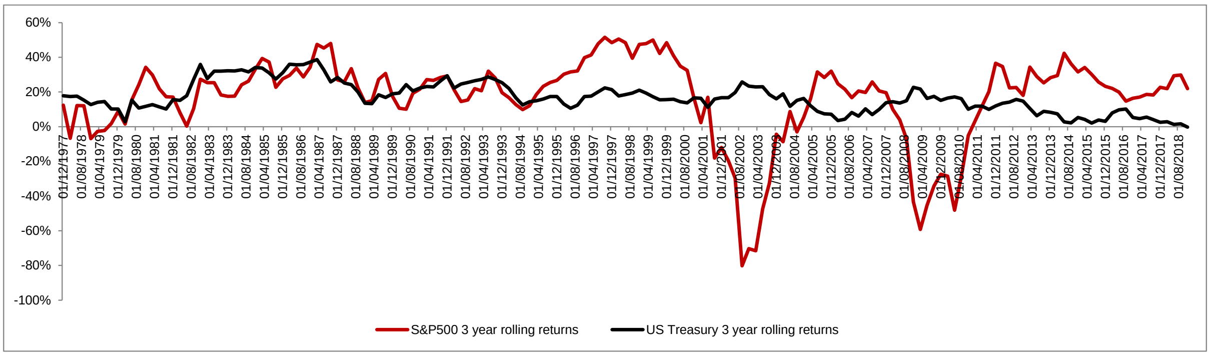
We use the period from 1977 as our starting point, due to availability of data which allows us to calculate returns for a rolling 5-year and 3-year period. Per DALBAR, a financial services market research firm, a typical investor in bonds funds typically has an investment holding period of ~3 years while this is ~3.8 years for equities. We get to similar broad trends using a rolling 5-year period. A rolling 1-year period showed larger short-term gyrations as expected. We think recent time periods are more relevant since the Gold Standard was put to an end in August 1971, though data stretching further back to 1910 used by the Reserve Bank of Australia also shows a historically non-static correlation.

Importantly, we find that returns between bonds and equities were low-to-negatively correlated at times of significant equity market stress, which is when the role of bonds as a shock absorber is most useful (1978, 1982, 1987-1989, 2001-2003, 2008-2010, and 2014).

Notwithstanding -0.2% for the latest quarter, we note that it has been rare for rolling 3-year US Treasury returns to be negative, with -0.2% being the sole negative quarter in the 165 quarters tracked (from 4Q1975 to 4Q2018). The median during this period was 16% while 3-year rolling return ranged from -0.2% to 39%.

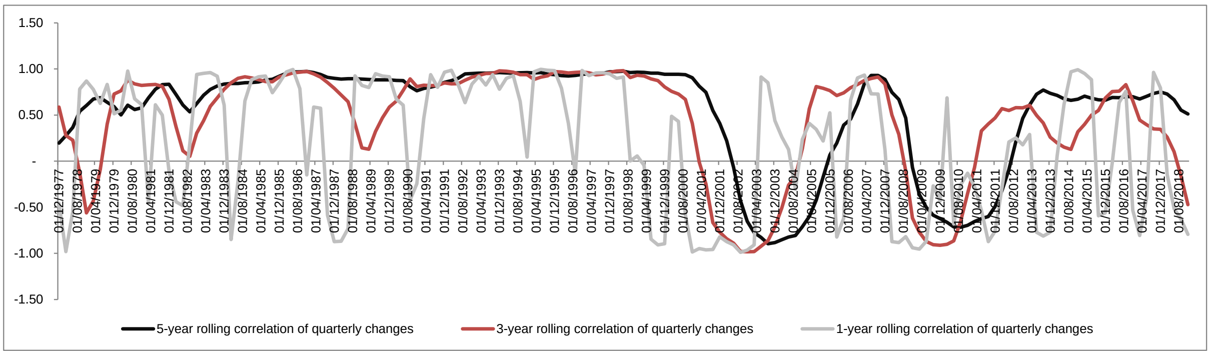
For the S&P500 Index, median 3-year rolling return during the same period was 22%, with a range of -80% to 52%, with returns that were more variable (relative to the mean) versus US Treasuries. Across the 165 quarters, there was no quarter where the total return of US Treasury and S&P500 were both negative.

Figure 13: US Equities and Bond Returns



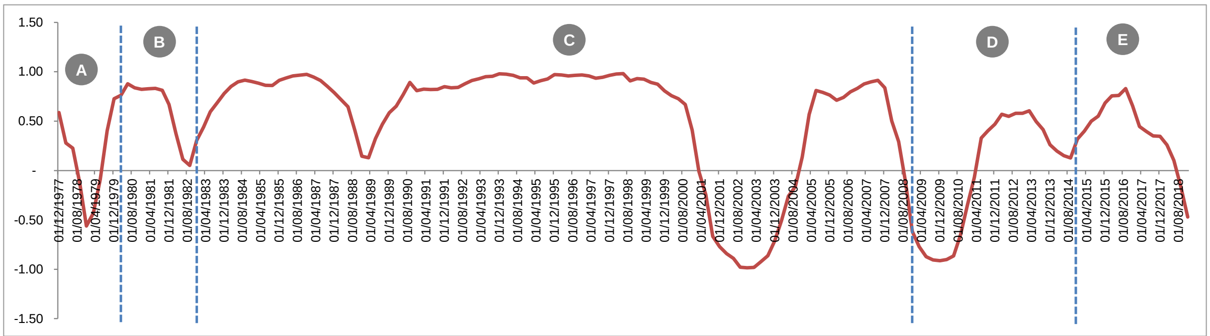
Source: Bloomberg (S&P500 Index and the Bloomberg Barclays US Treasury Total Return Index), OCBC Credit Research
Note: 3 year rolling correlation of quarterly return changes

Figure 14: US Equities-Bond Returns Correlations – Correlation of changes in US Treasury versus S&P 500



Source: Bloomberg (S&P500 Index and the Bloomberg Barclays US Treasury Total Return Index), OCBC Credit Research
Note: Rolling correlation of quarterly return changes

Figure 15: Changes in monetary policy and macroeconomic environment



Source: Bloomberg (S&P500 Index and the Bloomberg Barclays US Treasury Total Return Index), OCBC Credit Research
Note: Rolling correlation of quarterly return changes

Table 1: Legend for Figure 15

A	• Keeping unemployment low was main policy aim in the 1960s and 1970s • Loose monetary policy, volatile and high inflation (exceeding 10% p.a. between 1970s to March 1980) • Fed lacked credibility in combating inflation • 1973 oil shock,1970s stagflation
B	• Volcker appointed as Fed Chairman, announces measures aimed at curbing inflation • Managing volume of bank reserves. More fluctuation in fed funds rate • Previously fed funds rate kept within a narrow range • Fed funds target rate reaches 20% in late 1980, inflation peaks before falling in 1983
C	• Monetary policy focused on price stability, less Fed policy instability • More open communication by the Fed • Use of Taylor Rule, setting of nominal short-term rates based on targeted versus actual inflation and the output gap • Significant decline in volatility of both real GDP growth and inflation • Shift from manufacturing to services, deregulation of industries, more open international trade and capital flows
D	• Crisis mode: Emergency lending to depository institutions, Zero interest-rate policy (0% to 0.25% fed fund target rate) • Unconventional monetary policy tools: Quantitative Easing (QE), Interest on Excess Reserves, forward guidance • Low inflation, below long-term Fed target of 2%
E	• US monetary policy normalisation well ahead of Europe and Japan • Ended QE3 asset purchase in October 2014 • Announces a 0.25% increase in the Fed funds target range to 0.25%-0.5% in December 2015 (first time in 7 years) • Starts to gradually shrink balance sheet in 4Q2017 • Europe more decisive on the need to normalised but execution is gradual • Still loose monetary policy in Japan • Developed nations looking inwards, exacerbated since 2016

Like most things in finance, ex-post understanding is simpler versus predicting the future and we do not profess to know the exact path the current regime will take. What we do know is that we have entered into a fundamentally different state from period D. In our view, the Fed intends to continue its policy normalisation path (i.e.: gradual increase in Fed funds rate target and a gradual and predictable paring of its balance sheet), though the jury is still out on the pace of normalisation.

In our view a mere fall in asset prices that does not lead to systemic risk is insufficient cause for the Fed to halt its normalization path (unless Fed reverts to non-independent which is a topic for another day). In December 2018, the Fed raised its target for the fed funds rate for the fourth time in 2018 by 0.25%. OCBC economists are forecasting for two hikes in 2019.

Inflation is still low, hovering slightly above 2.0% and we see little signs of heightened inflation risk which help boost the bull case for bonds. We are also in an environment of developed nations increasingly looking inwards (eg: on-going trade war/tech war between the US and China, Brexit), with political instability and policy misstep all still providing possibilities to growth being shocked (which would drag equities). Net-net, while bonds may not hedge day-to-day volatility of equities, we view bonds as important return-generating diversifiers for investment portfolios.

Will credit spreads widen in SGD?

We think credit spreads may widen somewhat, in general, due to slowing growth. Our macro colleagues at OCBC Treasury Research & Strategy forecast 2.7% y/y Singapore GDP growth in 2019, down from 3.3% (advanced estimates) for 2018. In addition, spreads may widen for companies with weakening earnings. Though we do not foresee a broad base deterioration in fundamentals of companies in 2019, we see pockets of weakness. The Telco sector in Singapore is an example as idiosyncratic factors such as intensifying price competition bring about greater earnings vulnerability. Therefore, selective names may see their papers widen more than others.

We think spreads for higher grade issues may widen relative to higher yielding papers, specifically for bonds that we rate with Issuer Profile Rating of Neutral (3) and above. Comparatively, those rated at Issuer Profile Rating of Neutral (4) and below may no longer sell off significantly – spreads may even tighten given the correction seen in Nov-Dec 2018. That said, the SGD bond market is not insulated from the (external) pressures exerted by (1) A potential US economy slow down (2) Trade tensions between the US and China (3) Deterioration in global risk sentiments and (4) Rising Chinese onshore defaults. The ongoing flight to quality has led to higher demand for government bonds, with the 10Y Singapore government bond yields compressing by more than 50bps since the peak in Oct 2018. The reallocation to very high grade assets may, however, look to reverse as we anticipate greater new supply from government-linked companies, which may result in the repricing of the secondaries.

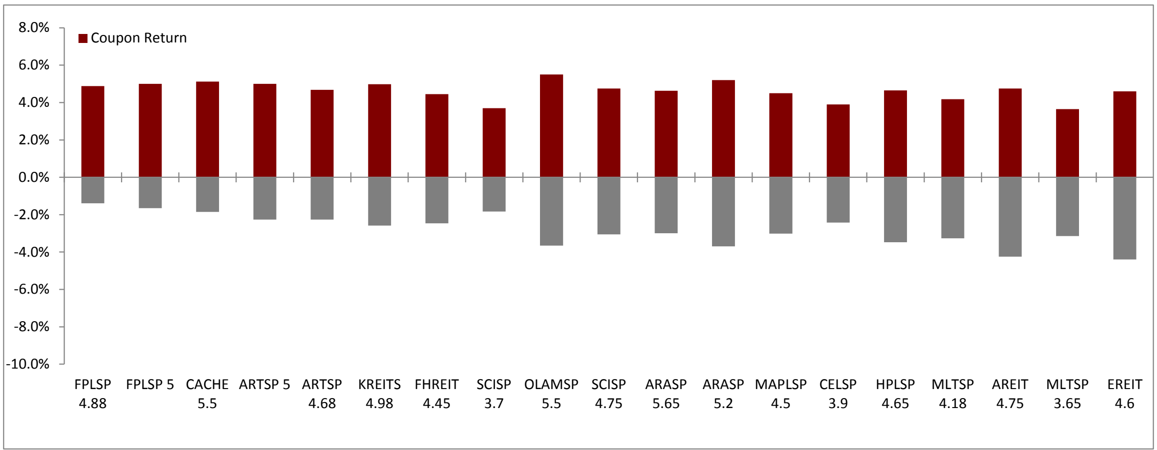
Overall, we see some downside risks which may play into a spread widening theme in 2019. However, short of an outright crisis or recession, we think that wider spreads will create more opportunities than pitfalls.

Are perpetuals still worthwhile and what's the assessment of call risk?

A perfect storm in the perpetuals market: A confluence of factors including substantial increases in interest rates and widening of yield spreads amidst fading risk appetites yielded a perfect storm for the perpetuals market. Most SGD perpetuals saw prices falling by 2-5% in 2018; not a single issue saw an increase in prices in 2018 (unlike 2017 where most perpetuals rose in prices). In addition, liquidity has largely dried up with slower activity in both the primary market (no significant issuance since SGD300mn ARASP 5.65% PERP issued in Mar 2018) and the secondary market. This is unsurprising as we flagged that credit spreads were tight and risk-reward for the perpetuals were no longer as attractive, as discussed in SGD Corporate Perpetual Bonds (31 Oct 2017) – Still worthwhile?

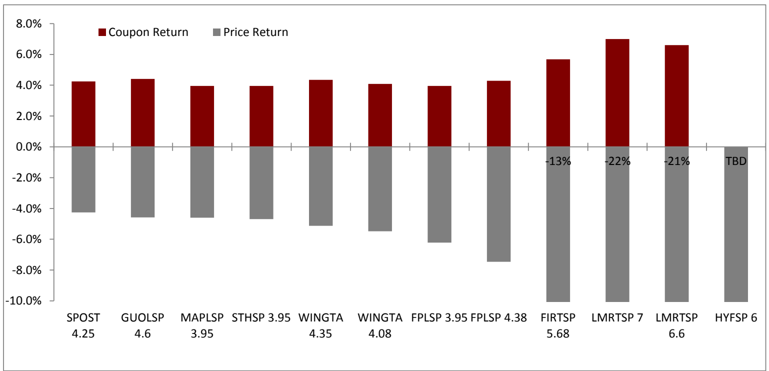
Total returns can still be positive despite fall in prices: Despite the unfavourable environment, out of the 31 corporate perpetuals we analysed[1] in 2018, 19 issues delivered a positive total return, in contrast to 12 issues which delivered a negative total return.

Figure 16: Issues with positive total return



Source: Bloomberg

Figure 17: Issues with negative total return



Source: Bloomberg

[1] *Given lack of pricing information, we excluded TRAFIG 7.5% PERP, TATSON 6.65% PERP and SBREIT 6% PERP from our analysis*

Carry at work: For the issues delivering positive returns, this is due to the high distribution rate (coupon return) outweighing the fall in prices. Aside from the LMRTSP perpetuals and FIRTSP 5.68% PERP (to be discussed in next paragraph), the remaining issues with negative total return generally have a lower distribution rate (average: 4.19%) than the issues with positive total return (4.71%). We think this suggests that a higher carry, to a certain extent, can buffer losses from price return.

Credit fundamentals are also important drivers: Deterioration in credit fundamentals can result in significant price declines, to the tune of 13%-22% as seen by LMRTSP 6.6% PERP, LMRTSP 7% PERP and FIRTSP 5.68% PERP, which are facing tenant/sponsor related credit issues, as discussed in our publication Credit Update: FIRT/LMRT (May 2018) when we downgraded both issuers to Negative (6) Issuer Profile. With weaker credit fundamentals, we believe investors are no longer pricing LMRT and FIRT perpetuals to call (but instead to perpetuity) as it is uncertain if they can be refinanced more cheaply. HYFSP 6% PERP holders may also see losses (to be determined) while noting that the distribution in May 2018 was missed.

Pricing in the call risks: Other than SPOST 4.25% PERP, LMRTSP and FIRTSP perpetuals, we note that the remaining issues with negative total return were issued in May 2017 – Jan 2018 when markets were somewhat complacent and perpetuals were priced with tight credit spreads. Several of these issues were also structured poorly with first call dates that differ from reset and step-up dates. We believe these factors (tight spreads, poor structures) increase call risks. While the market had largely ignored call risks, as discussed in our publication SGD Corporate Perpetual Bonds (9 Mar 2018) - Paying issuers when it is at their option to call?, we think call risks have increasingly been priced in after our publication, which triggered prices to correct more for issues with higher call risks.

Issues with poor structures sport increased call risk: For the perpetuals with differing call and reset date, we performed an analysis to assess if it is economical to exercise the call at the first call date. We assumed that the issuer needs the capital till the reset date and hence will need to decide between calling (and refinance) the perpetual or choosing not to exercise the call till the reset date. Based on our analysis assessing economic incentives, perpetuals that are vulnerable include WINGTA 4.35% PERP, FPLSP 4.38% PERP, STHSP 3.95% PERP and MAPLSP 3.95% PERP. If interest rates and credit spreads continue to move higher, SCISP 3.7% PERP, GUOLSP 4.6% PERP and SCISP 4.75% PERP also look susceptible. We do not cover ARA though we note ARASP 5.2% PERP and ARASP 5.65% PERP sport differing first call and reset dates. Our commentaries are published in Special Interest Commentary (08 Nov 2018) – ARA Asset Management Ltd.

As an illustration:

At the call date of FPLSP 4.38% PERP (Jan 2023), FPL can choose not to call and continue paying distribution at the rate of 4.38% till the reset date (Jan 2028). FPL can also choose to refinance, assuming into a straight bond. Assuming that credit spreads (180bps) on the straight bond remain unchanged from today, the yield for a hypothetical 5-year FPL straight bond issued on Jan 2023 should be priced at 4.16%, which we calculated by adding 180bps credit spread to 2.36% 5Y swap on Jan 2023 (derived from the forward curve). In our view, it is very attractive for Frasers Property Ltd not to call as the spread pickup of FPLSP 4.38% PERP over the hypothetical senior is only 22bps. If FPL were to refinance into another 5Y perpetuals come the first call date on Jan 2023, the distribution rate required may exceed 5%, assuming investors demand ~100bps spread over the seniors. Thus, FPL may find it more economical not to call FPLSP 4.38% PERP and continue paying 4.38% distribution rate, than to refinance into another perpetual with over 5% distribution rate.

Separately, thus far while SCISP 5% PERP has called even with differing call date (Aug-18) and reset date (Aug-23), we had anticipated the call as the coupon was generous thus Sembcorp Industries Ltd could refinance at a more favourable rate (although this was likely replaced with a loan).

Figure 18: Spread pickup over hypothetical bonds, for perpetuals with non-coinciding first call and reset date

Security	Distribution rate (%)	First Call date	Reset date	Hypothetical straight bond issued at call date		Spread differential (bps)
				Tenor	Yield (%)*	
MAPLSP 4.5 PERP	4.50	Jan-22	Jan-27	5	3.34	116
MAPLSP 3.95 PERP	3.95	Nov-22	Nov-27	5	3.44	51
SCISP 4.75 PERP	4.75	May-20	May-25	5	3.75	100
SCISP 3.7 PERP	3.70	Jun-20	Jun-22	2	2.92	78
STHSP 3.95 PERP	3.95	Jun-22	Jun-27	5	3.49	46
WINGTA 4.35 PERP	4.35	Aug-20	Aug-27	7	4.31	4
FPLSP 4.38 PERP	4.38	Jan-23	Jan-28	5	4.16	22
GUOLSP 4.6 PERP	4.60	Jan-23	Jan-25	2	3.77	83

*Source: Bloomberg, OCBC estimates *Yield is derived by adding the forward swap rates and the credit spreads of a comparable straight bond today (See Figure 19)*

Figure 19: Yields of hypothetical bonds

Hypothetical bond	Issue date	Tenor (yrs)	Swap reference	Forward swap rate, at issue date (%)	Straight bond spread	Bond Yield (%)
MAPLSP 'Jan 27s	Jan-22	5	SDSW5	2.24	110bps	3.34
MAPLSP 'Nov 27s	Nov-22	5	SDSW5	2.34	110bps	3.44
SCISP '25s	May-20	5	SDSW5	2.05	170bps	3.75
SCISP '22s	Jun-20	2	SDSW2	1.92	100bps	2.92
STHSP '27s	Jun-22	5	SDSW5	2.29	120bps	3.49
WINGTA '27s	Aug-20	7	SDSW7	2.41	190bps	4.31
FPLSP '28s	Jan-23	5	SDSW5	2.36	180bps	4.16
GUOLSP '25s	Jan-23	2	SDSW2	2.17	160bps	3.77

Source: Bloomberg, OCBC estimates

Widening credit spreads lowers probability for a call: With credit spreads having increased across the board, refinancing (into another bond/perpetual) would be more expensive. As such, we think certain issues look unattractive to be called. We come to this conclusion as the reset spread of the perpetuals is not significantly wider than the spread on a theoretical straight bond with the same tenor as the reset spread reference index (we use today's forward swap rate as a proxy), assuming credit spreads remain unchanged from today. Vulnerable issues include WINGTA 4.08% PERP, FPLSP 3.95% PERP, MLTSP 3.65% PERP and EREIT 4.6% PERP, assuming investors demand 100bps perp-senior spread. That said, while WINGTA 4.08% PERP and FPLSP 3.95% PERP look uneconomical to be called in 2022, we think they may eventually be called in 2027 due to the 100bps step-up. Also for WINGTA 4.08% PERP in particular, as Wing Tai Holdings Ltd ("WTH") is in net cash position while undertaking buyback of the straight bonds, we think this indicates ample capital and we would not be surprised if WTH eventually deploys the excess capital towards the redemption of its perpetuals come the first call date.

Figure 20: Yields of selected non-REIT perpetuals

Security	Reset spread	Swap reference	Hypothetical straight bond tenor	Straight bond spread	Reset spread less straight bond spread
FPLSP 4.88 PERP	304.6	SDSW5	5	180	124.6
FPLSP 5 PERP	301.5	SDSW5	5	180	121.5
SPOST 4.25 PERP	369.2	SDSW10	10	160	209.2
HPLSP 4.65 PERP	268.5	SDSW5	5	150	118.5
WINGTA 4.08 PERP	237	SDSW5	5	200	37.0
OLAMSP 5.5 PERP	568.5	SDSW5	5	300	268.5
FPLSP 3.95 PERP	224.5	SDSW5	5	180	44.5
CELSP 3.9 PERP	738	SDSW3	3	-*	-*

Source: Bloomberg, OCBC estimates *******We do not find comparable straight bonds for CELSP 3.9% PERP though we surmise that 738bps reset spread come the reset date look compelling for the perpetual to be called, unless the issuer is unable to do so*

Are REITs perpetuals more vulnerable with no step-up? Even without step-ups, in general, we think REITs are more likely to call their perpetuals than non-REITs as cost of funding is only one consideration; we think REITs may have higher incentive to call if they want to continue accessing the perpetuals market as REITs often require external financing to expand given their aggregate leverage cap of 45%. REITs do not have sufficient internal funds as they pay more than 90% of the distributable income as dividends.

Figure 21: Yields of selected REIT perpetuals

Security	Reset spread	Swap reference	Hypothetical straight bond tenor	Straight bond spread	Reset spread less straight bond spread
ARTSP 5 PERP	340.5	SDSW5	5	140	200.5
ARTSP 4.68 PERP	250	SDSW5	5	140	110
AREIT 4.75 PERP	243	SDSW5	5	110	133
KREITS 4.98 PERP	270.5	SDSW5	5	130	140.5
FHREIT 4.45 PERP	245	SDSW5	5	130	115
MLTSP 4.18 PERP	230	SDSW5	5	120	110
MLTSP 3.65 PERP	181.5	SDSW5	5	120	61.5
EREIT 4.6 PERP	260	SDSW5	5	220	40
CACHE 5.5 PERP	358	SDSW5	5	250	108

Source: Bloomberg, OCBC estimates

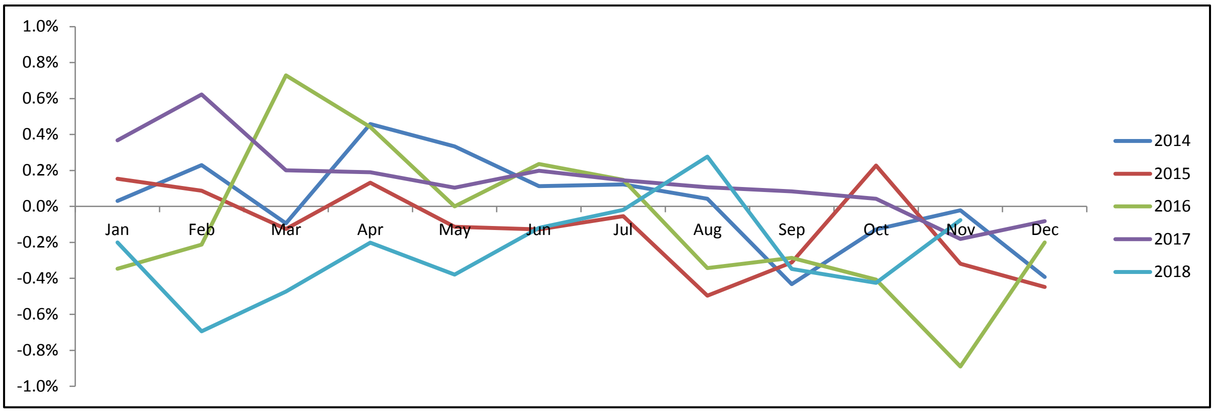
Conclusion: Despite falling prices, majority of perpetuals still delivered a positive total return. Short of a fallout in the financial markets (e.g. triggered by a severe recession), we think it looks worthwhile to continue holding the perpetuals, in general, in view of their high carry. We favour AREIT 4.75% PERP, HPLSP 4.65% PERP, FPLSP 5% PERP, FHREIT 4.45% PERP and SPOST 4.25% PERP as they provide still decent spreads while they look likely to be called at first call date. We think the fall in prices has also created pockets of opportunities. Despite higher call risks, we are Overweight on EREIT 4.6% PERP, FPLSP 3.95% PERP and WINGTA 4.08% PERP.

When to bottom fish?

With bond prices having corrected significantly in 2018 while investors are increasingly staying side-lined, we have been asked when it is a good time to return to the bond market. We searched for studies on this and looked at various indicators. Depending on your view of the macro environment, we offer our two cents worth and think that the time to enter the market is now.

The "Capricorn effect"

Figure 22: Monthly returns (average) on selected SGD bonds, Jan 2014 – Nov 2018



Source: Bloomberg, OCBC

Since the publication of our first Credit Outlook in mid-2013, we observed that prices tend to decline in the last four months of the year ("9-12M") before rebounding in the first four months in the subsequent year ("1-4M"). The difference between staying away from the market in Sep – Dec and being invested in the market in Jan – Apr is 1.2%. Meanwhile, prices in May-Aug ("5-8M") tend to be ranged bound.

In our view, the outperformance in 1-4M is likely driven by technical factors (as opposed to fundamental changes in the underlying credit). We observed increased market activity in 1-4M and dealers would likely build the books (net buying) to make the markets. The higher liquidity that follows may attract more market participants. We also do not preclude the effect of individual investors investing year-end bonuses, noting that financial year-end for companies tend to congregate in Dec or Mar. Conversely, the market tends to quieten in 9-12M. We think that funds tend not to build positions in this period and dealers would likely scale back their books (net selling).

Staying in the market is better than timing the market

In the earlier section discussing whether perpetuals are still worthwhile, we concluded that majority of perpetuals still delivered a positive total return. We think bonds (in general) would also be worth holding as the carry/coupon could outweigh the fall in prices (average fall in bond price is ~2.6% in YTD2018). We think total returns should continue to remain positive, preferring selective high yield papers for their higher carry while staying short dated to minimise price fluctuations from rates and spreads movement. In addition, we are seeing opportunities from the fall in prices. As mentioned by Warren Buffett, be greedy when others are fearful. However, given the uncertain macroeconomic environment, things can get worse before they get better. Patience and holding power may be needed (be prepared to hold till maturity), especially in view of the thinner liquidity in the market.

Which sectors in SGD are going through changes due to the decline of existing businesses?

Bond investors tend to like companies which provide steady income (we do too). Stability in cash flows is positively correlated to unchanging industry dynamics which allows static business models. Though, with large swathes of companies needing to change in one form or the other, it is too dismissive to avoid investing in companies which are evolving. Particularly for Singapore, with slower growth characteristics, more in line with other developed markets in the past six years. At OCBC Credit Research, we are of the view that SGD companies who do not adapt are at-risk of obsolescence over a medium-to-longer timeframe, despite near term stability belying this.

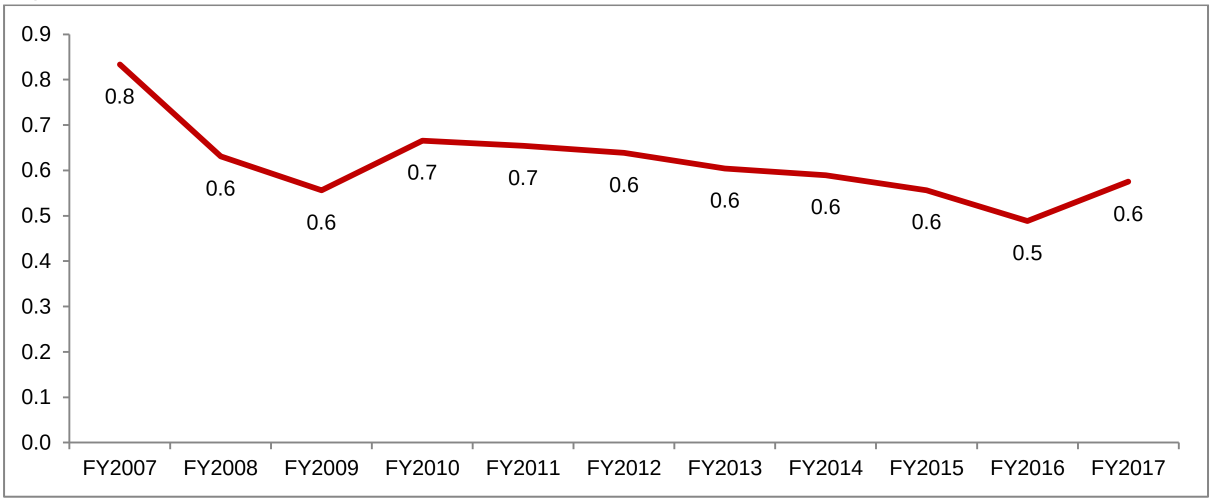
Management though faces two competing forces in tackling change for company's longer term survival versus meeting near term shareholders demands (eg: consistent dividends) which could lead to management and shareholders tolerating weaker credit profiles.

Among considerations that are important for investors in our view include the following (1) Are existing businesses declining (changing for the worse) (2) How is the industry changing (eg: what are the threats to core activities and assets) (3) What is the timeframe that company has to adapt (4) Is management aware of the changes that are happening (5) How management are adapting to changes (6) Are the decisions and responses the company is making for the betterment of the company. Putting these together provides better insight in our investment decisions of whether to invest in a company at current return levels and investment timeframe.

An in-depth analysis would necessitate clearer definition of operating industry and a bottoms-up understanding provides a better picture.

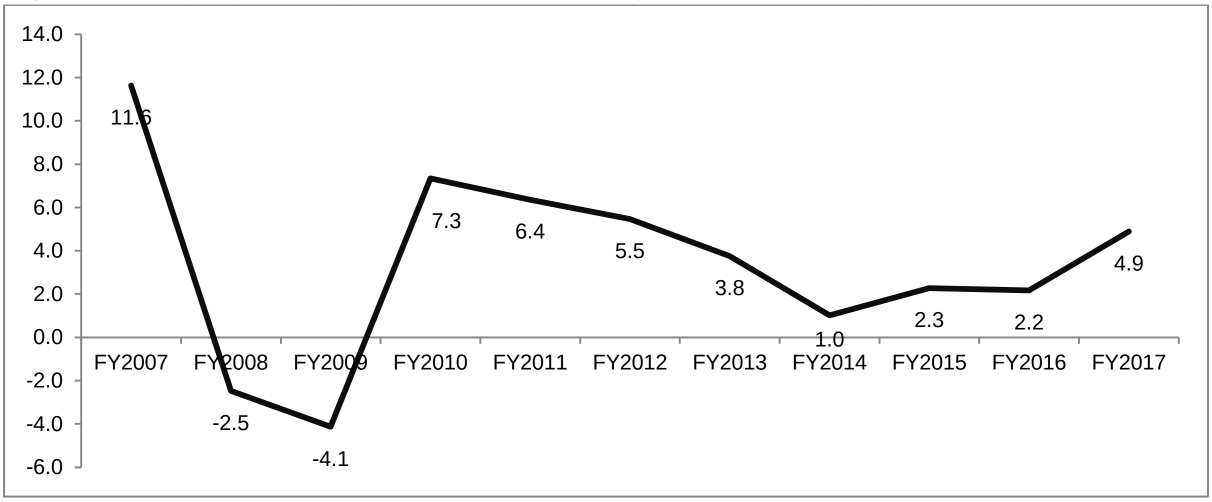
This high level look attempts to pick out the broad sectors that deserve a closer look.

Figure 23: Banks Return on Assets (FY2007 to FY2017)



Source: Bloomberg, OCBC Credit Research; average of 15 banks who have issued bonds denominated in SGD

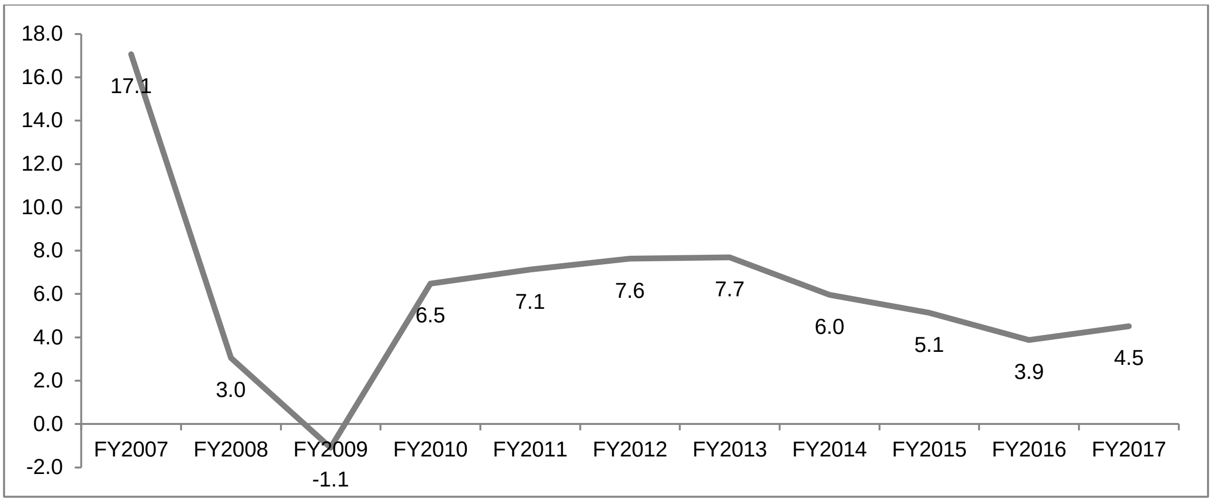
Figure 24: Property developers Return on Assets (FY2007 to FY2017)



Source: Bloomberg, OCBC Credit Research; average of 13 property developers who have issued bonds denominated in SGD

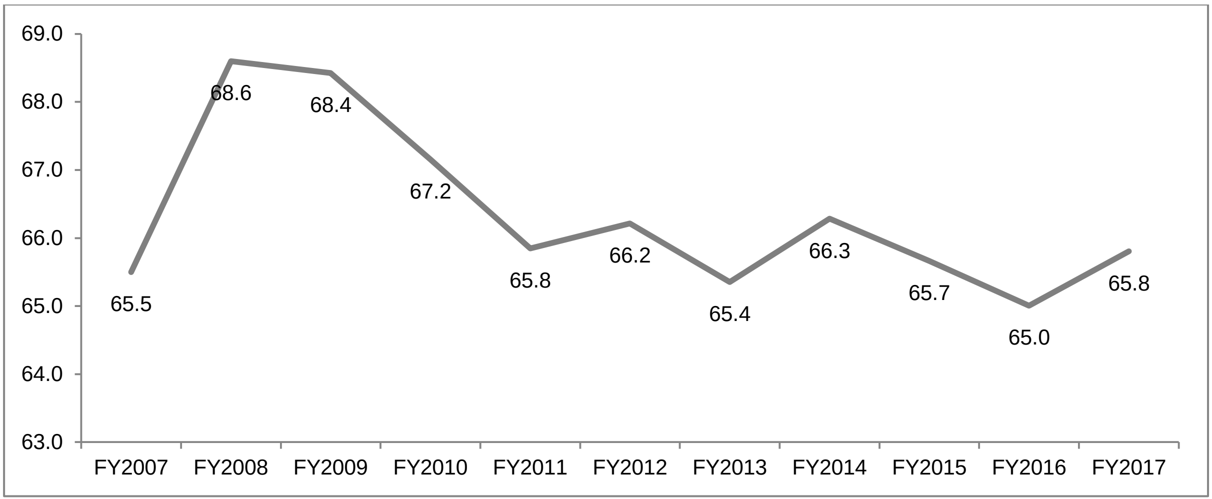
REITs (FY2007 to FY2017)

Figure 25: REITs Returns on Asset



Source: Bloomberg, OCBC Credit Research; average of 15 REITs who have issued bonds denominated in SGD

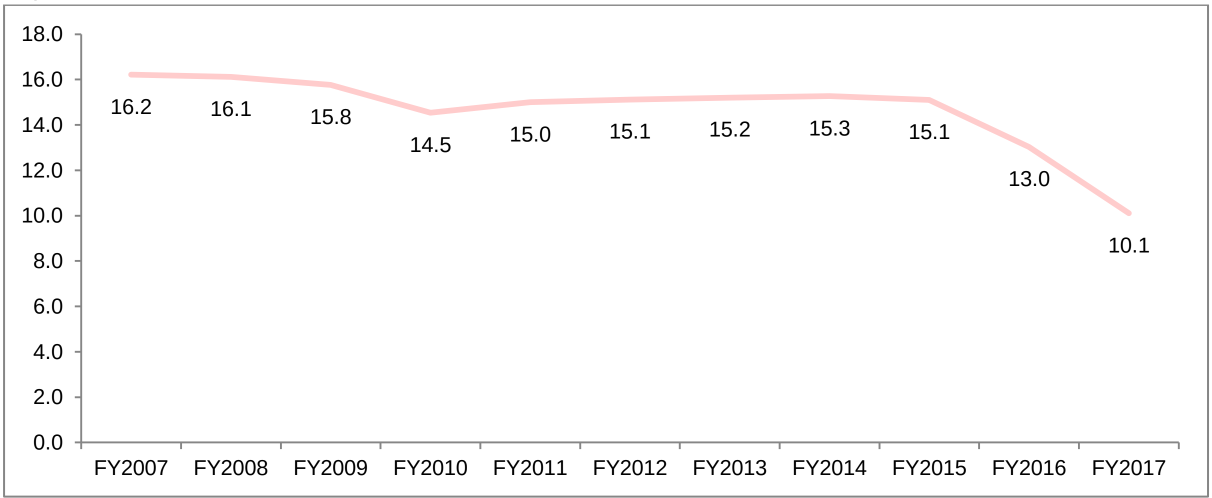
Figure 26: REITs EBITDA margin



Source: Bloomberg, OCBC Credit Research; average of 15 REITs who have issued bonds denominated in SGD

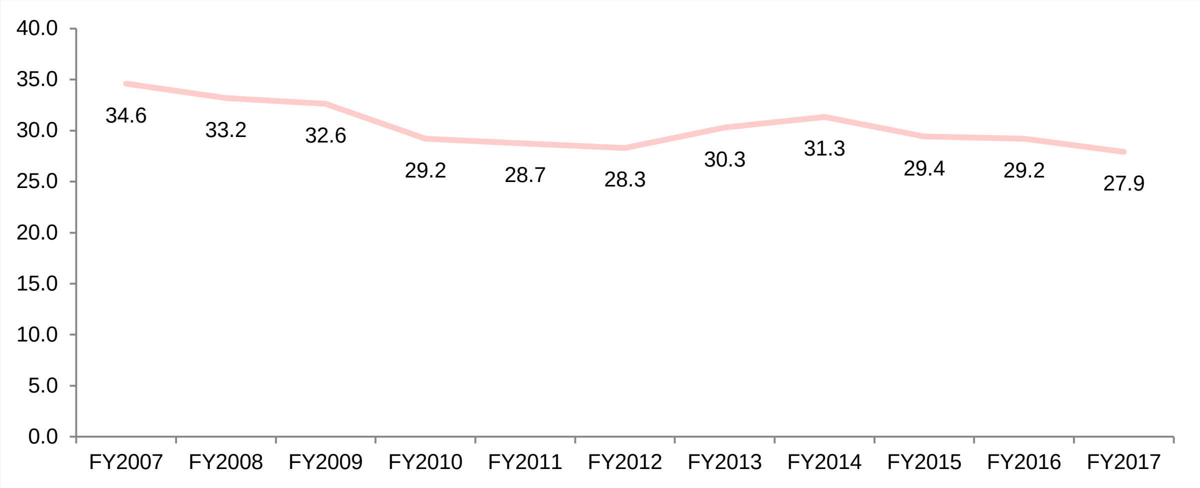
Telco (FY2007 to FY2017)

Figure 27: Telco Returns on Asset



Source: Bloomberg, OCBC Credit Research; average of 3 telecommunications companies listed on the SGX

Figure 28: Telco EBITDA margin



Source: Bloomberg, OCBC Credit Research; average of 3 telecommunications companies listed on the SGX

Table 2: Commentary on Key SGD Bond Sectors

Alert Level	Sector	Current environment	What companies are doing	Our take on names we cover
	Banks	• Regulator intent to focus on systemic stability with implications on cost and staff retention • Increased competition with Fintech	• Retreat to home market with sharper focus on select foreign markets • Intense focus on digitalisation • Increasing focus on bank risk profiles given its impact on capital positions and implementation of IFRS 9	• Fundamentals in general have improved, with largely stable credit profiles • Capital positions remain robust against minimum capital requirements
	REITs	• Retail and commercial office REITs continue to own the best assets in Singapore • End-tenants facing change themselves demanding shorter leases rather than being locked-in • Certain industrial assets at-risk of being out of spec	• Buying assets overseas • Buying new kind of assets • Rejuvenating portfolio by selling older assets and redevelop those with redevelopment potential • Emphasising active management of underlying property assets • Small REITs consolidating with peers to scale	• Overall high awareness of need to adapt • Increased tolerance for higher adjusted aggregate leverage • Slight decline in same-store revenue growth • Growth driven by acquisitions • Cap rate compression (which helps drives capital gains of underlying assets) to narrow
	Property developers	• Halfway through the lost decade since 3Q2013 peak • Policymakers prepared to intervene to thwart significant price rises • Subjugated to regulatory and policy responses	• Increased prudency in land banking • Shrinking unit sizes to keep a lid on overall unit affordability • Buying investment properties, including those overseas	• Turning cautious in 2019 with huge oversupply to depress price growth • Developers may focus on price cuts to move inventory • Less favourable demographic trends with population growth slowing (1% p.a. over the last 5 years) • Developers more focused on the short term challenges versus structural trends
	Telco	• Intense competition in a saturated market • "Frenemy" relationship with over the top ("OTT") content providers	• Price war in certain sub-segments for fight of market share • Spending money to drive growth in digitalisation via acquisitions	• Highly aware of challenges though ability to adapt appears constrained • Erosion of customer loyalty (lower switching cost) • Capex needs may drag credit profiles in the medium term

Source: OCBC Credit Research
Note: Green represents lowest risk level while red represents highest risk level

The problem with Hyflux Ltd - Running out of gas

Aside from market gyrations, the major story in SGD bond markets in 2018 was the application to the High Court in May 2018 by Hyflux Ltd ("HYF") to commence a court supervised process to reorganise their liabilities and business. Although the financial struggles of HYF were more or less known, the move came as a surprise, particularly to retail investors who were unaware of HYF's precarious state and possibly took comfort from the nature of its business in water treatment and role as owner and operator of key water desalination plants in Singapore. This is in contrast to recent defaults in the SGD space that operated largely in offshore oil and gas support services and was exposed to the highly cyclical and commoditized oil and gas industry. Since the May 2018 application, the main developments have been (1) the High Court granted an initial 6 month debt moratorium period to mid-December which was subsequently extended to 30 April 2019; (2) Malayan Banking Berhad as sole secured lender at Tuaspring Integrated Water & Power Project (Tuaspring) has extended its forebearance agreement to refrain from commencing enforcement proceedings so that HYF can execute a binding agreement with a successful bidder/investor for Tuaspring four times to end January 2019; and (3) HYF announced it has entered into a Restructuring Agreement with SM Investments. While these developments appear directionally positive, we think the restructuring process could be prolonged and ultimately messy with the overall circumstances/key factors surrounding this situation providing a valuable case study for investors going forward.

First and foremost was the deteriorating liquidity and financial position of HYF. Higher cash outflows for construction of desalination plants against lower cash receipts for its completed projects led to an extended period of negative operating cashflows. As time wore on, this cash flow deficit was funded by an expanding array of external capital, including bank borrowings, preference shares, perpetuals (initially from institutional and most recently from retail investors) and asset sales. Throughout all of this, the company's common equity base stayed constant and contributed a diminishing proportion of the HYFs total capital. As at 31 March 2018, common equity (total equity minus the perpetuals and Cumulative Preference Shares ("CPS")) was SGD112.8mn, representing 4% of HYF's total capital. Perpetuals and CPS collectively make up SGD887.4mn, representing 35% of total capital while the rest is made up of debt. While such actions may not be a concern when times are good, in hindsight they seem to show an increasingly tighter financing environment as each capital providers' appetite reduced. In our view, this has created a problem in itself now with HYF having to engage with multiple classes of creditors to pursue a restructuring. While some rank equally amongst each other, the breadth of creditors is wide (from senior secured lenders to retail investors in perpetuals) and the interactions appear so far to be fragmented. The dispersion of interests (and bargaining power) has likely reduced the effectiveness of HYF's debt moratorium. Engaging each creditor class no doubt takes extra time that could have been devoted to selling assets or securing strategic investors. We think this will also delay the provision of an acceptable restructuring plan and have already seen somewhat demonstrative actions by secured and senior unsecured bank lenders who have pushed for more information from management.

Adding to the complications was the mixing of an unregulated or merchant business (power generation) with an asset (water supply) operating under a long term concession with the government through PUB, the national water agency. Typically water infrastructure type assets are regulated or under tight government supervision given the critical service they provide to their catchment. And while power or electricity is also usually regulated, this is at the transmission and distribution level to ensure a stable supply. Merchant power generation on the other hand is typically competitive to drive efficiency in generation (the costs of which comprise around 75% of tariffs) and lower the overall cost of electricity to the end consumer by using the cheapest electricity generated in a wholesale market. In our view this was a potential structural weakness given the potential for an uncompetitive merchant business to jeopardize the provision of critical water supply, which ultimately contains the most value strategically and financially. Further, it is this strategic value which looks to have constrained the financial value for Tuaspring given the need for bidder pre-qualification by PUB as the offtaker (we previously highlighted that it is likely that there could ownership restrictions at the asset-level for the water business). Although the prequalifying criteria for PUB is unknown, this step likely reduced the potential bidding pool (as it stands, two parties were pre-qualified with only one submitted the bid), marketability of the asset and hence ultimate sale value. All told, the combination of an engineered capital structure through use of quasi or hybrid equity to perceptually lower leverage together with potentially vulnerable asset prices appears to have led to a somewhat unrepresentative balance sheet for investors. With the company obtaining waivers from publishing its 2QFY2018, 3QFY2018 and FY2018 financials to 30 June 2019, we expect investor angst to rise as investors may potentially only have access to old financial information when assessing any restructuring or reorganization proposal. This is especially more so if an eventual plan results in an equitization of existing investors.

Finally, given the nature of the business there also appeared to be market misconceptions of HYF's strategic importance to and relationship with the government. Given its role as asset owner and operator under concession of Tuaspring (the largest desalination plant in South East Asia) and the SingSpring desalination plant (Singapore's first desalination plant, HFY owns 30%-stake) which together can meet around 25% of Singapore's water needs, investors appeared to have made the connection that the government would have an incentive to support Hyflux in times of need. This was perhaps logical given the function and high profile launches of these desalination assets as well as the government's ownership in other key infrastructure assets including electricity transmission and distribution (SP Power Assets Ltd), ports (PSA Corp Ltd), rail (SMRT Ltd) and airports (Changi Airport Group). In general, strategic importance and hence the probability of government support can be determined on two fundamental principles – the connection of the entity with the government (either through direct ownership or reputational risk) and whether the entity can be easily replaced. As it stands, there is no direct government ownership in HYF (there was indirect ownership in the past through Temasek Holdings although the amounts appear immaterial in our view) and operating of desalination plants is not unique to HYF. In fact the PUB itself is the owner and operator of Singapore's third desalination plant, the Tuas Desalination Plant (built by HSL Constructor Pte Ltd), which opened in June 2018 while the 4th (Marina East Desalination Plant) will be built, owned and operated by Keppel Infrastructure Holdings and the 5th (Jurong Island Desalination Plant) will be built, owned and operated by a consortium of Tuas Power and Singapore Technologies Marine. Although the Minister for the Environment and Water Resources has more or less stated that foreign ownership at HYF (hence the Restructuring Agreement with SM Investments Private Limited) is not an issue and is a commercial matter, net-net foreign ownership is unlikely to be constraint at the holding company level. Instead, restriction on certain parties owning at the asset level has in our view compromised HYF's ability to get more bidders for the sale of Tuaspring. While ownership restrictions at the asset level (eg: foreign ownership) are certainly not unique to Singapore, the implication is restricted marketability which negatively affects recovery values to investors in a restructuring. The longer that time goes on, the clearer it becomes that HYF's business or industry is strategically important to the government, and not HYF itself as a company.

All told, the combination of the above presents a clearer or truer picture of the credit story and an indication of the challenges HYF and its creditors face going forward. The willingness of existing creditors to come to the table will likely only be possible if there is sufficient value in the company to compensate all levels of creditors in some way or form. However with asset values uncertain (from lack of updated financial information), and recoveries and prospects diminished, HYF instead appears to be receiving little support from current creditors. HFY's application to obtain super priority rescue financing has been adjourned to January 2019 with the exact date to be scheduled possibly due to objections from other lenders who would rank junior to the rescue financing. HYF also recently received a notice of termination with respect to a seawater desalination plant in Algeria, while the short term extensions by secured creditor Maybank for HYF to find a binding bid for Tuaspring, effectively emphasizes its sole right to decide whether or not Tuaspring stays within the HFY group, implying a desire to exit the relationship as early as possible. As such, the Restructuring Agreement with SM Investments Private Limited could be faced with significant challenges to implementation, particularly given its heavily conditional nature and need for approvals from various stakeholders.

Although progress has been made, there is still clearly a longer and more challenging path ahead. While discontent could grow, we think the factors surrounding the challenges of HYF will be an important learning lesson for future credit selection in the SGD space.

Is now the time to go back to high yield?

Yes, but selectively. With the flattening of yield curves and uncertainty on the rate hike trajectory, attention has turned towards the high yield space, particularly with the material correction of valuations that occurred in 2018. In general, high yield credit profiles can be driven by either (1) A weak business profile stemming from small scale (hence weaker bargaining power and market position) or a lack of business or geographic diversity; or (2) An aggressive financial profile marked by a highly leveraged balance sheet. Certain credits will be exposed to both and these are the credits which are most vulnerable and tend to be in stress (and avoidable). For investors looking down the credit curve, we prefer credits limited by its business profile rather than those weighed down by higher leverage. These credits likely lack scale and have highly focused or concentrated businesses which makes their business somewhat vulnerable. However this should be mitigated by a moderately leveraged balance sheet (net debt to total assets of around 40-50% as a rough benchmark) and solid interest coverage ratios (EBITDA/Interest of around 4.0x) that indicate a sustainable debt load. Cash flows should also be some-what predictable and possibly anchored by contractual obligations to provide visibility of its credit ratios going forward. Finally, identifiable access to dependable sources of external capital from owners or bank lenders and capital markets should also support its liquidity position along with a well spread debt maturity profile and sufficient headroom under existing covenants. With high yield companies inherently volatile, emphasis on management's ability to address controllable events such as a weaker market position will ultimately help mitigate the impact of uncontrollable events from the external environment that can be more detrimental for highly leveraged companies as control for these companies rests more in the hands of their lenders when times get tough.

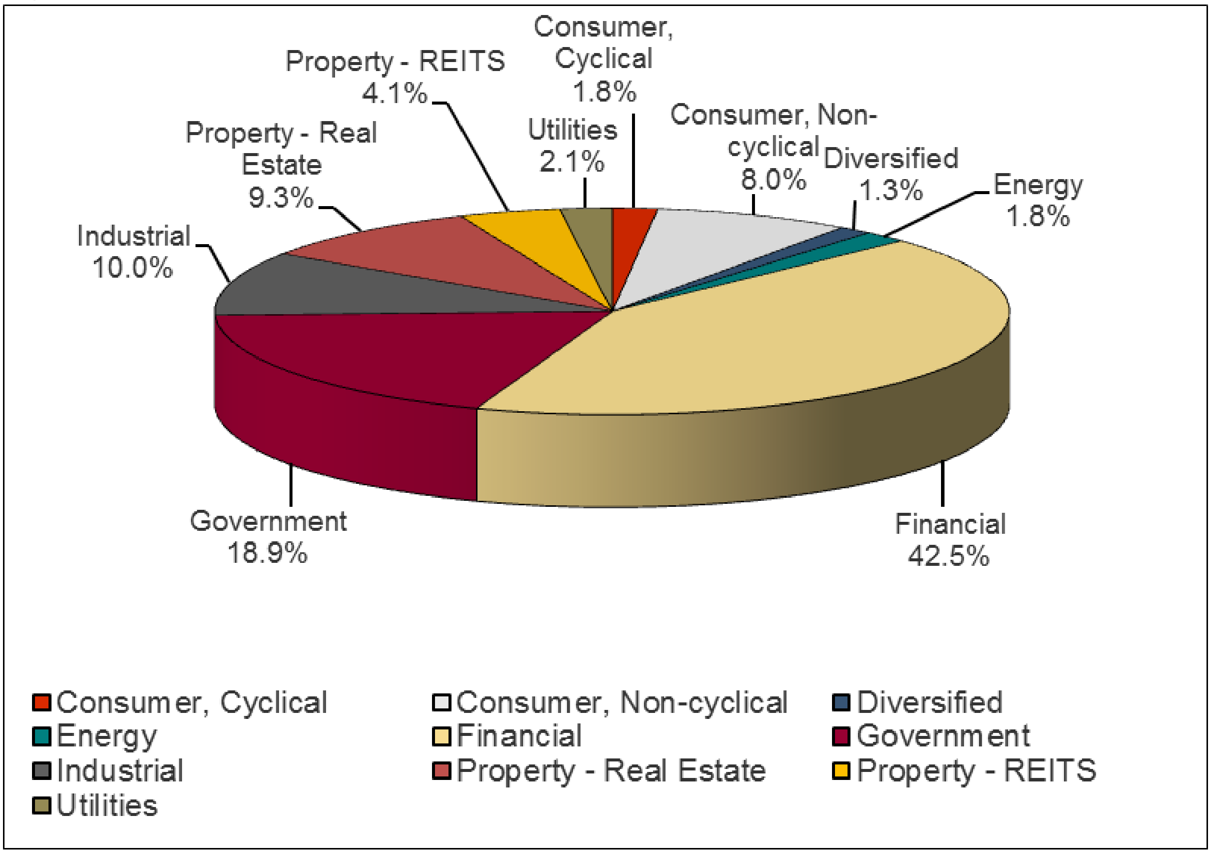
Things can turn quickly for high yield companies so it is important that investors keep close tabs on the company's and management's performance relative to expectations through monitoring their financial ratios. Debt management is only one aspect however. Investors should also monitor industry developments (ie: for shipping companies, that would be the trajectory of shipping freight rates) and how the company is mitigating any negative developments either through changes in its business activities or in the company's ongoing financial flexibility or access to emergency capital (asset sales, bank support or equity providers) if performance is below expectation. Above all else, key to keeping close tabs is a willingness by management to be transparent and communicative.

Some warning signs that can predict future stress include a recurring cashflow deficit which could come from declining revenues or rising costs. Inherent in this trend could be weakening fundamentals, intense competition in the industry it operates in or a reduction in the company's market share or competitiveness. Investors should look to whether this deficit or shortfall is being increasingly and consistently funded with debt rather than being funded with a mixture of debt and equity. A balanced funding source is important because (1) It preserves the financial health of the company and maintain possible breathing space against financial covenants (2) It shows both a willingness and ability of equity holders to support the company and (3) It likely attracts additional debt providers who feel that equity providers are committed. Connected with this is ensuring shareholder returns are not excessive. If a company is relying too much on debt, then chances are that the company's financial flexibility will be diminishing. This could be evidenced by changes in the composition of the company's debt providers (ie: appetite for the company is reducing or headroom has been maxed out). Reducing financial flexibility could also be seen through declining asset values (making asset sales less attractive) and declining share prices (making equity raisings difficult). Finally, a red flag for investors would be that management is becoming increasingly uncommunicative and opaque and unwilling to engage with the market to outline a strategy to address their highly leveraged balance sheet and performance weakness or to answer questions from investors and the analyst community with regards the industry outlook and expansion or investment plans, even when performance is satisfactory and before times turn bad.

Wrapping it up

Risk events appear skewed towards the downside in 2019; however for SGD credits we think these risks are manageable. Together with expectations of a relatively smooth glide down for global and regional economic growth rather than outright recessions and the end of the business cycle in the US, we see value in selective short-dated high yield papers. We caution though that selectivity is key with a focus primarily on issuers with (1) Small/niche but defendable business positions and predictable or visible income streams; and (2) Controllable financial risks through adequate access to liquidity and a moderately geared balance sheet. We would not be surprised to see a resumption of funds flows back to emerging markets and local currencies as the monetary tightening cycle in the US recedes. Combined with the lower supply of SGD high yield paper over the past few years and the credit market correction already seen in 2018, we think there is higher potential for credit spread tightening in the high yield space as opposed to investment grade papers who have benefitted from an ongoing flight to quality. We estimate that approximately SGD16.0bn of bonds will mature or be called in 2019. In contrast to prior years, the sector profile is relatively diverse with property companies (24.7% of all maturities) and financials (18.2%) comprising the bulk of maturities. This improvement in diversity is perhaps not surprising given the ongoing development of the SGD bond market in the last 5 years.

Figure 29: Bond maturities in 2019



Source: OCBC, Bloomberg | Includes bonds callable in 2019

As we enter a period of potentially slower economic growth, we expect carry to outweigh price movements in high yield bonds, which are typically more volatile, assuming that investors pay careful attention to credit selection as mentioned previously. With yield curves expected to flatten, we also advocate shorter duration for the carry. We are also positive on selective perpetuals which, by their subordinated structure, we consider to be high yield although we remain mindful of the risk of a non-call at first call (especially those priced with tight credit spreads). Our focus on selective HY papers with short duration frame our Top Trade Ideas for our Singapore Credit Outlook for 2019. We would like to thank our readers for your continued support and hope you find our publications useful in year ahead.

With appreciation,
OCBC Credit Research

Top Trade Ideas

Top Picks

Company	Ticker	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM/YTC	Rationale
Perennial Real Estate Holdings Ltd	PREHSP	3.850%	3-Jul-20	SGD100mn	97.00	5.99%	Following the selloff in the PREHSP curve, we think PREHSP 3.85% '21s look attractive sporting a high yield with short tenor.
Frasers Property Ltd	FPLSP	5.000%	9-Mar-20	SGD700mn	100.75	4.35%	We are Overweight on FPLSP 5% PERP as we expect this to be called.
ESR-REIT	EREIT	3.950%	21-May-20	SGD130mn	100.20	3.80%	While we expect proforma aggregate leverage to rise to ~41%, we are overweight the EREIT 3.95% '20s with a 190bps spread and short time to maturity in May 2020.
Keppel REIT	KREIT	4.980%	2-Nov-20	SGD150mn	101.90	3.89%	We think KREIT 4.9% PERP is likely to be called. Aggregate leverage is ~35.9% post divestment of 20%-stake in OFC.
ABN Amro N.V.	ABNANV	4.750%	1-Apr-21	SGD450mn	102.50	3.57%	Solid fundamentals support ABN's stable credit outlook in our view with the ABNANV 4.75 '26c21s providing decent value against other Euro bank Tier 2s.

Top Pans

Company	Ticker	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM/YTC	Rationale
Singapore Telecommunications Ltd	STSP	3.488%	8-Apr-20	SGD600mn	101.54	2.23%	We are Underweight as this offers a mere ~37bps over swaps while results have been deteriorating amidst intense competition.
Hotel Properties Ltd	HPLSP	3.880%	8-Apr-20	SGD50mn	101.70	2.48%	Though HPL's credit metrics are strong, we think ~62bps over swaps look too tight.
StarHub Ltd	STHSP	3.950%	Perp-c'22	SGD200mn	97.10	4.88%	We see risks that the call will not be exercised given its poor structure (5Y call but 10Y reset) while StarHub's credit has been deteriorating from intensifying competition.
Keppel Corp Ltd	KEPSP	3.100%	12-Oct-20	SGD500mn	100.70	2.69%	While KEP's access to financing markets remain strong we expect credit metrics to weaken on large capital commitments and think 81bps over swaps is too tight.
HongKong Land Ltd	HKLSP	3.430%	14-May-20	SGD150mn	101.50	2.10%	We are Underweight as this offers ~22bps over swaps which is very tight in our view and see better value elsewhere.

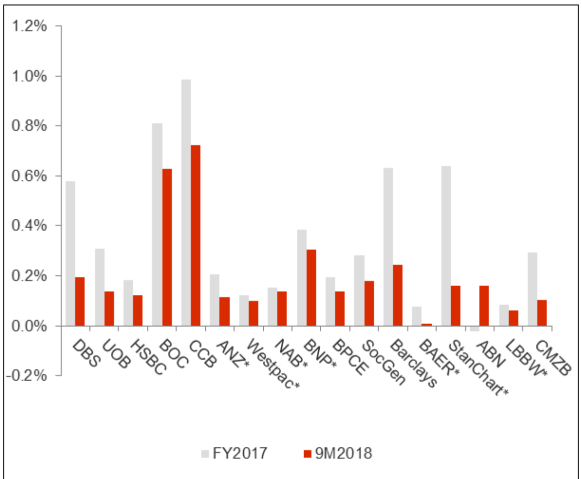
Indicative prices from Bloomberg as of 7 January 2019

Financial Institutions – Charting the path forward

For financials, 2018 has been relatively smooth sailing. Past restructuring plans and issuance of capital instruments have resulted in a broad improvement in underlying fundamentals with stable to improving non-performing loan ratios, declining credit costs and solid capital ratios. Reduction in legacy non-performing and non-core asset portfolios have almost completed while several long standing legal proceedings were resolved which should lower uncertainty with regards to future earnings. HSBC Holdings PLC reached settlement agreements with the US Department of Justice ("DoJ") for investigations into currency trading activities and to settle claims related to the securitization, issuance, and underwriting of residential mortgage-backed securities between 2005 and 2007. Barclays PLC also reached a settlement with the US Department of Justice for sale of toxic mortgages during the Global Financial Crisis, while Société Générale agreed to pay USD1.34bn to US authorities to settle violations of US economic sanctions against Cuba, Iran and Sudan over 2003-2013 and also settled DoJ charges that it manipulated LIBOR rates and bribed Libyan officials. The impact from the implementation of IFRS9, which is expected to raise credit costs and result in more volatile profitability going forward, has so far not had a material impact on bank earnings performance.

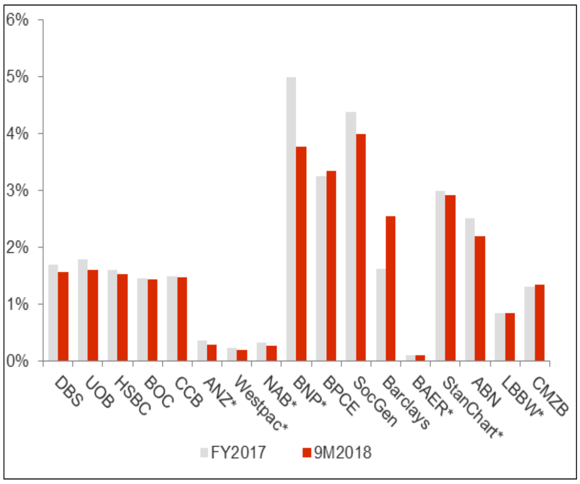
Combined with a constructive operating environment from global and regional macro-economic growth and steepening yield curves, profitability in general has risen as demand for credit has remained solid and margins have improved. The Chinese government has been implementing its deleveraging campaign and while this has resulted in slower economic growth and a rise in Chinese corporate defaults from reduced onshore liquidity, it has also translated into stronger business volumes for larger banks with funding demand moving from shadow banking to bank balance sheets. This shift to on balance sheet financing has led to recognition of lower systemic risk within China's financial system and the broad improvement in banking system fundamentals in China is one reason why the Financial Stability Board reduced the capital buffer requirement for China Construction Bank as a global systemically important bank ("G-SIB") to 1.0% from 1.5%. Bank fundamentals in Europe have also improved as seen in the recent results from the European Banking Authority and Bank Of England stress tests which showed the stronger resilience of banks to severely stressed operating environments due to a stronger starting and ending capital position compared to prior period stress tests. Rating actions by the three large external credit rating actions for the banks under our coverage have been broadly positive as well.

Figure 30: Credit Cost Performance



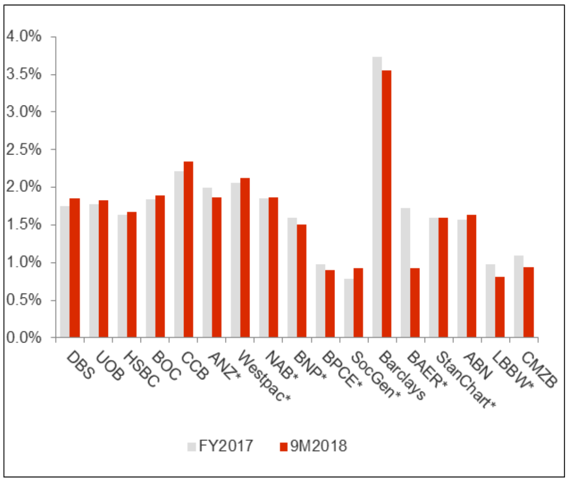
*Source: Company financial reports *Data for BNP, Julius Baer, StanChart and LBBW are as of 1H2018 while Australian Banks are based on FY2018 results (30 Sep 18).*

Figure 31: Non Performing Loans/Gross Loans



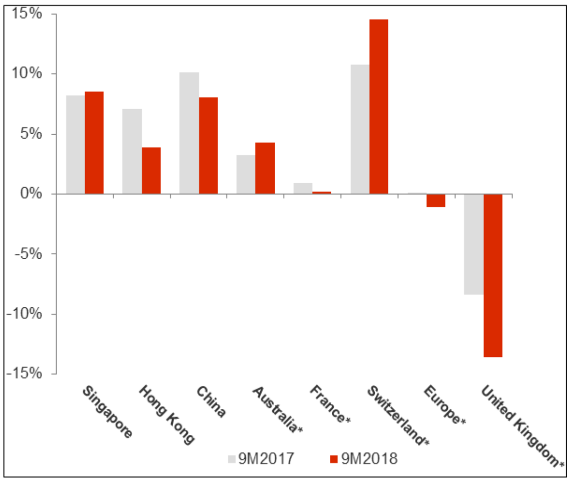
*Source: Company financial reports *Data for BNP, Julius Baer, StanChart and LBBW are as of 1H2018 while Australian Banks are based on FY2018 results (30 Sep 18).*

Figure 32: Net Interest Margins



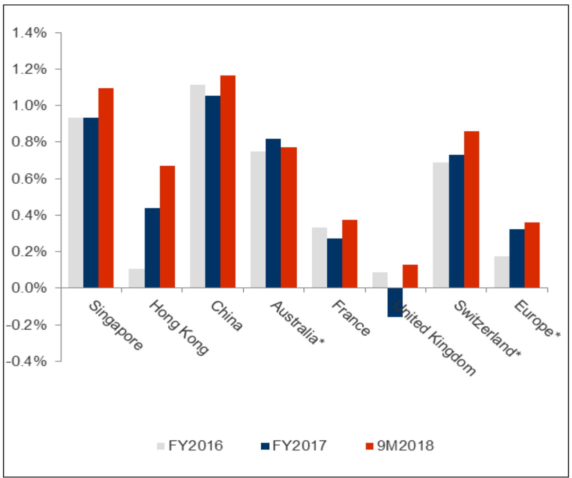
*Source: Company financial reports *Data for BNP, Julius Baer, StanChart and LBBW are as of 1H2018 while Australian Banks are based on FY2018 results (30 Sep 18). BPCE and SocGen are as of FY2016 and FY2017.*

Figure 33: Loans Growth



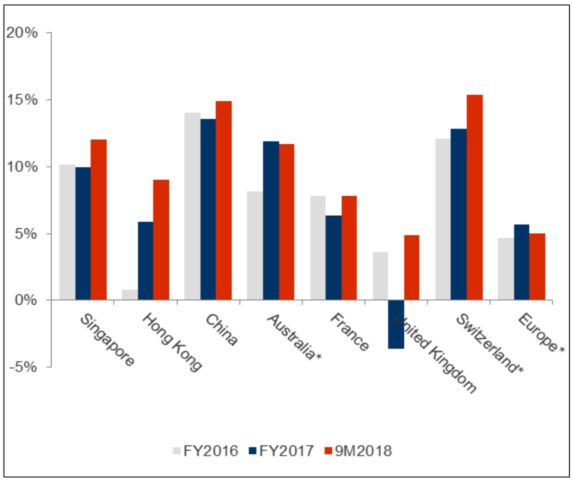
*Source: Company financial reports *Data for Europe, France and Switzerland are as of 1H2018 hence comparison is 1H2017 vs 1H2018. Australian Banks are based on FY2018 results (30 Sep 2018) hence comparison is FY2018 vs FY2017.*

Figure 34: Return on Assets



*Source: Company financial reports * Data as at 30 Sep 2018 (FY2018) for Australian Banks and 1H2018 for Europe and Switzerland.*

Figure 35: Return on Equity



*Source: Company financial reports * Data as at 30 Sep 2018 (FY2018) for Australian Banks and 1H2018 for Europe and Switzerland.*

However, it has not been calm waters for all. Australian banks have had to contend with the ongoing fallout from the Royal Commission into misconduct in the Banking industry. Not only have the banks had to deal with significant negative publicity but also deal with the prospect of higher operating (compliance, regulatory) costs going forward. National Australia Bank Ltd's FY2018 cash earnings for the financial year ended 30 Sept 2018 were down 14.2% y/y to AUD5.70bn due to the impact of restructuring related costs and customer remediation charges (excluding these, underlying cash earnings were down 2.2% y/y to AUD6.49bn due to a 6.4% y/y rise in operating expenses (higher investment spend, staff costs and Royal Commission costs, offset by productivity savings)). Australia & New Zealand Banking Group Ltd saw its full year FY2018 cash profits (which excludes non-core items) down 16% y/y to AUD5.81bn on reduced margins and a 3% y/y rise in operating expenses from accelerated software amortisation charges and costs associated with restructuring, customer remediation, and Royal Commission legal costs. Finally, Westpac Banking Corp reported flat cash earnings y/y in FY2018 at AUD8.1bn as higher costs from customer remediation and investment spend overshadowed solid underlying performance in Business Bank and improved New Zealand performance. Margins were already under pressure from somewhat elevated funding costs given Australian banks' reliance on wholesale funding with net interest margins declining y/y in FY2018 and all these impacts overshadowed underlying revenue growth (business and housing lending) and a fall in impairment charges amidst stable asset quality (particularly in mortgages) and prior period restructurings in weaker divisions. Asset quality indicators point to a still benign domestic operating environment and Australia now enjoys again the highest rating possible from all three external credit rating agencies. However the outlook remains clouded by an expectation of declining credit growth, higher funding costs and a weaker housing market with falling property prices.

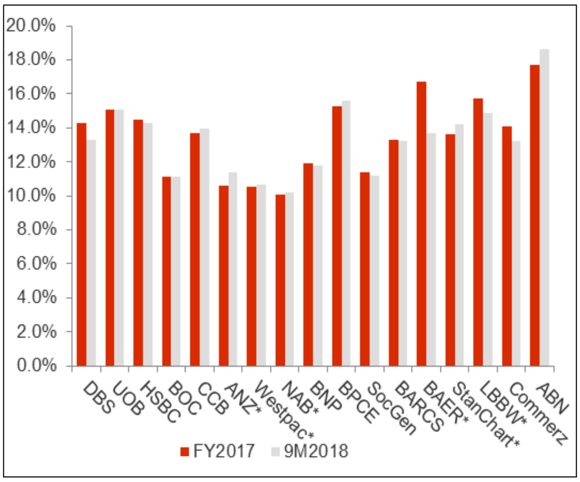
In Europe, profitability continues to be constrained by low interest rates although underlying fundamentals appear to be sound given loans growth and broadly declining credit costs. However, Eurozone growth softened in 2018 with economic growth expected to fall to 2.1% in 2018 following a peak of 2.4% in 2017. The growth outlook also remains weak with the European Commission and European Central Bank recently revising its growth assumptions lower from US trade tensions, potentially higher oil prices and the impact of Brexit on the UK skewing risks towards the downside. As such, the European Commission expects Eurozone growth to further slow to 2.0% in 2019 and 1.9% in 2020. With competition remaining high and higher investments on digitization and restructuring of high cost retail branch networks ongoing, profitability for European banks is expected to remain under pressure in 2019. Ongoing pressure on bank bottom lines led to routine speculation on bank mergers through 2018. While cross border mergers were suggested (UniCredit SpA and Commerzbank AG, Unicredit SpA and Société Générale SA), the political and structural complexities of such a combination led to an increasing focus on domestic mergers, particularly in Germany given its highly competitive and fragmented banking sector. German business newspaper Handelsblatt reported that 5 public sector regional banks, including Landesbank Baden-Württemberg, were exploring a merger that would potentially create Germany's second largest financial institution behind Deutsche Bank AG and ahead of Commerzbank AG. Headlines surrounding a possible combination between Deutsche Bank AG and Commerzbank AG also continue to float to the surface. Finally, various news reports suggested that Barclays PLC was considering a merger with Standard Chartered PLC. While there may be some fundamental basis (e.g. improvement in competitive and market position and hence profitability) for these combinations either due to scale as well as complimentary but distinct businesses, execution risk would be high due to the complexity and the likely high restructuring costs that would impact the combined entity on an on-going basis. In addition, management statements pouring cold water on these ideas seem to indicate a preference to see through current stand-alone strategies to improve profitability. As such, a few European banks have sought smaller acquisitions or internal restructuring to improve profitability through scalable business combinations. For example, Commerzbank AG sold its Equity Markets & Commodities business to Société Générale, in line with Commerzbank's 4.0 strategy which is focused on streamlining its core operating segments towards Private and Small Business Customers and Corporate Clients. At the same time, the acquisition is also in line with Société Générale's 2020 strategic plan and will support the Global Banking and Investor Solutions business while further diversifying away from the low return domestic retail business from a product and geographic perspective. In addition, Groupe BPCE (through BPCE SA) acquired Natixis' retail related specialized finance businesses comprising consumer financing, factoring, leasing, sureties & guarantees and securities services in an intragroup transaction to simplify the organization and improve the product offerings at BPCE's retail bank as well as position Natixis to implement its asset-light strategy.

Going forward however, weaker trends may not be exclusive to Australian and European banks. Clouds on the horizon in 2019 include potential political risks from Australian and European Parliament elections and resultant policy uncertainty. Added to that are current BREXIT developments, trade tensions between US and China as well as a general tightening in monetary policy, which is beginning to impact consumer confidence levels, particularly in Europe. China could face a challenging 2019 and a further deceleration in the economy as it balances ongoing economic growth with deleveraging and managing systemic risks in the financial, housing and credit sectors. With the general consensus that the US economy will start to slow as we head towards 2020 and we are nearer the end of the credit cycle than the start, global and regional economic growth and as a result demand for credit is expected to slow. These are somewhat classic characteristics of the late stage of a business cycle and provides a backdrop for a tougher operating environment for banks to grow revenues while at the same time manage operating costs which are expected to remain elevated from (1) potentially higher compliance and regulatory costs (namely in Australia); as well as

(2) ongoing investment in digital transformation roadmaps, the savings of which will not be seen in the near term. Competition for business and deposits (albeit somewhat nascent) from non-traditional competitors such as fintech players and large tech companies may also start to make headway into banks' traditional businesses. All told, earnings and profitability and hence internal capital generation are likely to be under pressure in 2019.

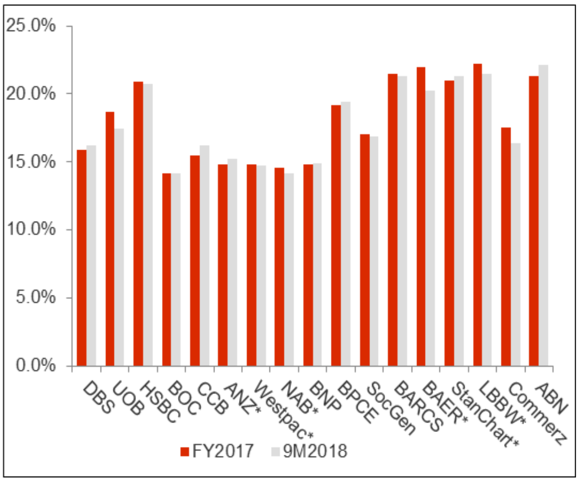
Despite the possible storms ahead, we expect the banks under our coverage to adequately navigate rough seas ahead in 2019. Market positions remain entrenched and fundamentals in general have improved following the ongoing implementation of strategic plans in place in the past few years. There has been increasing focus on the underlying risk profiles of banks, in particular their asset quality and composition given its impact on capital positions and implementation of IFRS 9. In general, the repositioning of balance sheets in 2017 and 2018 should result in bank credit profiles remaining largely stable in our view while rising interest rates should mitigate potential deceleration in loans growth and keep top lines solid. Capital positions remain robust against minimum capital requirements and general assumptions with regards government support for banks under our coverage still hold. In fact, the potential for government support is somewhat firmer following the clarification of regulator intentions in Singapore and Australia with regards the composition of instruments that qualify as a capital buffer for loss absorption as well as the Chinese government's recent actions to support financial markets and economic growth in the context of their ongoing de-leveraging campaign. As we previously mentioned in the Singapore Mid-Year 2017 Credit Outlook, we expect regulators to remain pro-active to systemic stress build up, having learnt lessons from the Global Financial Crisis and overriding regulator intent to be focused on their respective systemic stability, despite the existence of contractual or statutory bank resolution mechanisms. In our view, we think regulator decision making will eventually be driven by practicalities and idiosyncratic factors rather than theory, relying on aspects of regulations that provide flexibility for government intervention to protect banking sector stability. Indeed the banks in our coverage are like slow sailing large cruise ships in our view, not deviating drastically from course and remaining stable in a storm. We think existing credit profiles, capital positions and regulator pro-activeness will continue to help them avoid potential icebergs lying ahead.

Figure 36: Common Equity Tier 1 Ratio



*Source: Company financial reports *Data for LBBW, StanChart and Julius Baer as of 1H2018 while Australian Banks based on FY2018 (30 Sep 2018).*

Figure 37: Total Capital Ratio



Source: Company financial reports Data for LBBW, StanChart and Julius Baer as of 1H2018 while Australian Banks based on FY2018 (30 Sep 2018).

Singapore REITs – Key Themes

In 2H2018, Singapore REITs' activity slowed slightly with 5 REITs / Business Trust tapping the debt market. They are ART, SBREIT, CMT, SUN and CRCT. All of which are repeat issuers with outstanding bonds except CRCT who issued its maiden bond. In 2018, both SUN and CMT issued multiple bonds to seize the opportunity to lock in low cost of funding. Specifically, SUN issued a SGD180mn 3.4% 5-year bond in May and SGD150mn 3.0% 3-year bond in July while CMT issued a SGD130mn 3.2115% 5-year bond in May and SGD150mn 3.2% 7-year bond in August. In fact, CMT was able to price 7-year bond of a larger amount at a lower coupon compared to the earlier 5-year bond. Refinancing remains the key driver of new issuances. An example would be ART which issued a SGD100mn 3.523% 5-year bond to refinance its SGD100mn 4.3% that matured in Nov-18. Having said that, SBREIT's perpetual was used to fund its maiden acquisitions in Australia and part of CMT's bond was used to fund its additional 70%-stake in Westgate.

For industrial REITs, we observed rising financial flexibility as the estimated proportion of unencumbered assets has largely increased across the sector in general. Furthermore, we see heightened comfort levels among bank lenders despite lackluster prices and rents within the space as the market has bottomed out. Separately, following the merger of EREIT and VIT into a large REIT with SGD3.1bn in asset value, we think that the other smaller scale REITs may potentially face greater tenancy risk and hampered accessibility to capital markets.

For office REITs, the recovery momentum is expected to persist on the back of tightening supply. We think the segment will strengthen further in the near term and REITs may demand higher rents, bringing about positive rental reversion. Portfolio optimisation and overseas diversification were seen within the office space with REITs divesting local properties and investing in overseas market such as Europe and Australia. Aggregate leverage is by and large manageable (sector median of 35.1% based on our estimation) with SUN above average and FCOT below average. With at least 60% of total assets unencumbered, we think the office REITs have sufficient financial flexibility to cope with any liquidity needs.

Although the retail REITs sector continues to look challenging as it undergo a prolonged structural change, we think it is inching towards an inflection point supported by slowing supply and healthy demand. The opening of Funan which utilises cutting edge technology in 2Q2019 looks to be a game changer in the retail space. Overall, the REITs appear stable with strong portfolio occupancies with no stark liquidity risk although cap rates have less room to compress further.

The hospitality REITs sector is diverse and spreads across over 10 key geographies. Although broad-based economic trends of individual countries matter, micro-market supply-demand dynamics can significantly impact on performance of each property. Overall, Singapore hotel sector has improved as tourists from China, India and Indonesia continue to patronise the country and spend on accommodation. Though new hotel sites were released by the government in 2018, we do not anticipate an oversupply risk in the near term and expects the sector to continue to perform.

Overall, given the growth stance and nature of REITs in general, we expect the REITs to proactively manage their balance sheets and pursue acquisition opportunities while maintaining or expanding their access to all venues of funding.

Table 3: REIT statistics (as of 30 September 2018)

As at 30 September 2018	Aggregate Leverage (%)	EBITDA/Interest (Latest available quarter)	EBITDA/Interest (previous year corresponding quarter)	Debt Duration (years)	Debt cost (%)	Proportion of debt fixed/hedged (%)
OFFICE						
CapitaLand Commercial Trust	35.3	4.7	3.8	3.60	2.60	92.0
Keppel REIT	39.1	0.8	1.1	2.80	2.80	76.0
Mapletree Commercial Trust	34.8	4.5	4.8	4.10	2.93	75.2
Suntec REIT	38.2	1.7	2.5	2.70	2.86	70.0
Frasers Commercial Trust	28.3	2.9	3.8	2.80	3.02	81.2
Average:	**35.14**	**2.92**	**3.20**	**3.20**	**2.84**	**78.88**
RETAIL						
CapitaLand Mall Trust	31.7	4.9	4.2	5.20	3.10	100
Frasers Centrepoint Trust	28.6	5.4	6.4	2.00	2.60	64.0
Lippo Malls Indonesia Retail Trust	37.1	4.2	4.8	1.40	5.77	44.9
Mapletree North Asia China Commercial Trust	39.0	4.0	3.8	3.96	2.48	78.0
Starhill Global REIT	35.4	3.7	3.5	3.50	3.28	92.0
CapitaLand Retail China Trust	35.9	4.1	5.6	3.70	2.67	83.0
Average:	**34.62**	**4.38**	**4.72**	**3.29**	**3.32**	**76.98**
INDUSTRIAL						
Ascendas REIT	33.2	4.5	5.4	3.70	3.00	84.6
ESR REIT	30.3	3.8	3.4	2.20	3.76	91.2
Mapletree Industrial Trust	35.1	6.1	7.4	2.90	3.00	78.3
Mapletree Logistics Trust	38.1	4.8	5.5	4.30	2.50	80.0
Sabana Shari'ah Compliant Industrial Trust	38.6	3.0	3.0	1.60	4.20	72.0
Soilbuild Business Space REIT	39.2	4.1	4.1	3.30	3.42	66.6
Average:	**35.75**	**4.38**	**4.80**	**3.00**	**3.31**	**78.78**
HOSPITALITY						
Ascott Residence Trust	36.4	5	4.9	3.80	2.30	82.0
Frasers Hospitality Trust	33.6	4.6	4.9	2.91	2.60	73.3
Ascendas Hospitality Trust	30.80	4.5	5.4	4.00	1.90	78.3
Average:	**33.60**	**4.70**	**5.07**	**3.57**	**2.27**	**77.87**
OTHERS						
First REIT	34.9	4.7	5.6	2.5	3.74	59.0

Source: Company, OCBC

Note: Aggregate leverage for Soilbuild Business Space REIT based on proforma

Singapore Industrial REITs – Bottomed out in 2018, expect to flat line in 2019

Encouragingly in 9M2018, weaknesses in the industrial property sector had continued to flatten out. Since our write-up in 3Q2017, 4Q2017 price index showed a 1.1% q/q decline before narrowing to only a 0.1% q/q fall in 1Q2018 and finally flattening in 2Q2018 after falling 12 quarters since 2Q2015. In 3Q2018, a small uptick of 0.1% q/q was reported. 3Q2018's price index of 90.0 was only 1.1% y/y lower than 3Q2017, significantly narrowing from the y/y weakness observed in 3Q2017 where prices slid 7.4% y/y from 3Q2016. 3Q2016 itself saw prices falling 7.8% y/y from 3Q2015.

Table 4: All industrial price index q/q and y/y changes

Quarter	q/q (%)	y/y (%)
3Q2017	(0.9)	(7.4)
4Q2017	(1.1)	(5.7)
1Q2018	(0.1)	(3.6)
2Q2018	0.0	(2.1)
3Q2018	0.1	(1.1)

Source: JTC quarterly market reports

In 3Q2018, the overall rental index showed a q/q fall of 0.1%. While rents were still down, the decrease had narrowed significantly from prior years. The fall in 3Q2018 was only 0.4% y/y against a 3.2% y/y fall in 3Q2017 against 3Q2016. Further back in 3Q2016, we observed a large fall of 7.3% y/y against 3Q2015 which was the largest y/y fall in the past three years.

Table 5: All industrial rent index q/q and y/y changes

Quarter	q/q (%)	y/y (%)
3Q2017	(1.1)	(3.2)
4Q2017	(0.1)	(2.8)
1Q2018	(0.1)	(2.0)
2Q2018	(0.1)	(1.4)
3Q2018	(0.1)	(0.4)

Source: JTC quarterly market reports

The biggest rental decline in 3Q2018 on a q/q basis was seen in multiple-user properties falling 0.2% q/q. By location, multiple-user factories in the Northeast region performed the worst (down 0.8% q/q). The industrial-heavy West region saw q/q rental falls of 0.4% while central region fell 0.5% q/q. The central area though forms a small portion of total industrial stock and largely comprise of Business 1 (typically clean and light industry). By land-use zoning, Business 1 saw a 0.2% q/q drop in rents while Business 2 rents was up by 0.1% q/q. Vacancy rate for the overall industrial space sector was 10.9%, declining from 11.3% in 2Q2018. Only multiple-user factory saw vacancy rising (by 0.5%), while the rest of the sub-segments saw vacancy falling. While we observe vacancies as an important metric, we are not overly concerned over q/q blips given that low vacancies can often mask depressed rents (as landlords prioritise properties being occupied over lease rates). We take an overall decline in 3Q2018 vacancy rates coupled with only a slight fall in rent is a positive sign. Additionally per JTC and Savills Research & Consultancy, there had been an increased number of leasing volumes for factories and warehouses. In 9M2018 this was 7,590 versus 6,553 for 9M2017.

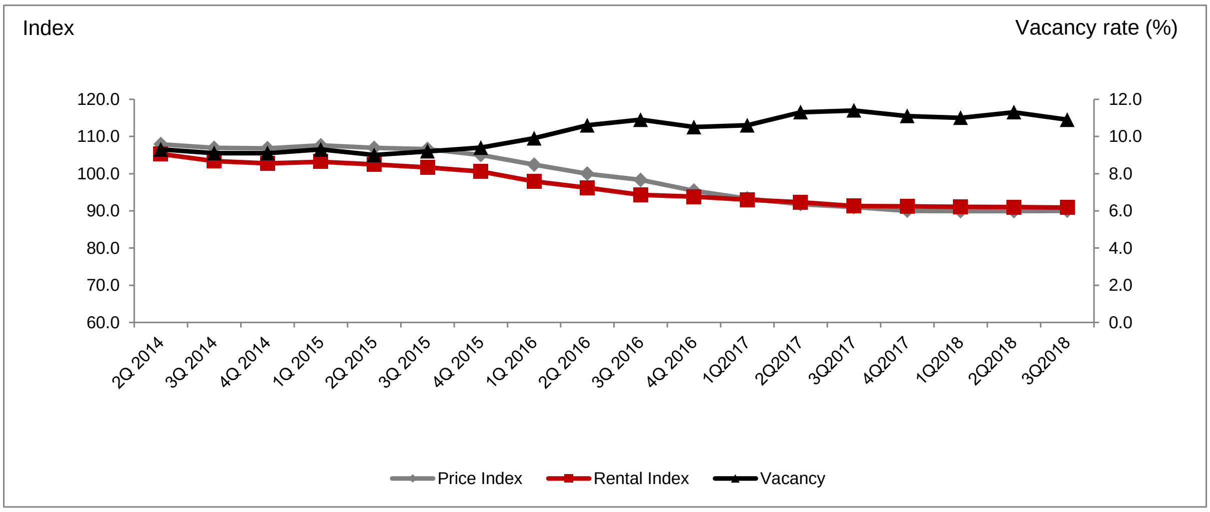
There were ~225 transactions of industrial properties in 3Q2018, down y/y by 4% and similar to 3Q2017 almost all of these were resale transactions. Nonetheless, transaction volumes had increased 15% y/y in 1Q2018 and 9% y/y to 2Q2018. For 9M2018, transaction volumes were ~625 and in our view the market has bottomed out.

Interestingly, the number of uncompleted strata industrial units still available for sale in end-3Q2018 was only 60 units, totaling 22,000 sqm and implying an average size of 366 sqm. In 2Q2018, there were still 200 units (average size of 320 sqm) and a year ago in 3Q2017, this was 1,000 units (average size of 215 sqm). Given the smaller quantum, these units tend to be for investment purposes rather than bought by end-industrialists. In our view this points towards lower supply while the market digests the existing stock and investment flow that have come back into the industrial space market. We note that the JTC price index (normalising to a factor of 100 in June 2010) showed prices of industrial properties near doubling from mid-2010 to end-2013. While the all residential price index only increased by 16% during the same period. The first round of residential property cooling measures started in September 2009 with severe cooling measures incepted in 2013.

Annual net change in space occupied (which we use as a proxy for demand) was 1.1mn sqm in the rolling four quarters to 3Q2018, somewhat lower than the 1.2-1.4mn exhibited historically. Originally in end-2017, supply for full year 2018 was estimated at 1.6mn and 0.7mn sqm for full year 2019. Standing in end-3Q2018, 0.5mn sqm of industrial space is estimated to come on stream in 4Q2018 and we expect the full year total of new space added at 1.0mn sqm. In end-3Q2018, 1.3mn sqm of industrial space is projected to come online in 2019. This implies some slippage into 2019.

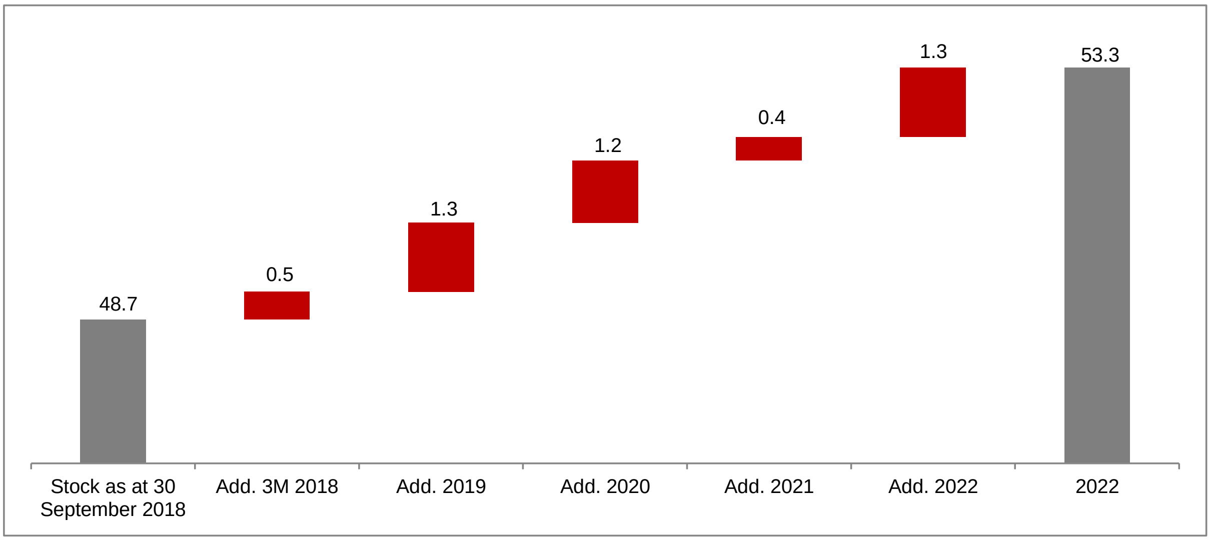
With the onslaught of supply falling off from 2017's 1.9mn sqm, we estimate that the market had an undersupply of 0.2mn sqm in the rolling 12 months to 3Q2018. During this period, space available grew by 1.0mn versus our proxy for demand of 1.2mn. A further correction from supply-demand imbalances of the past few years should bode well for the sector though for now we think this is only a blip. Given the supply slippage into 2019, we expect oversupply to persist though at not more than 0.5mn sqm.

Figure 38: Singapore Industrial Sector Indices



Source: JTC quarterly market reports

Figure 39: Incoming Industrial Supply in Singapore (million sqm)



Source: JTC quarterly market reports | Note: Assumes no disposal from property stock

One way which the government can influence the prices of industrial space in Singapore is via the Industrial Government Land Sales Programme ("IGLS"). In 1H2018, 12.56 ha of land sites were released under the IGLS program. 3.91 ha were on the confirmed list while 8.65 ha were on the reserve list. These are only put up for tender when a developer makes a minimum offer price that is deemed acceptable. For 2H2018, 4.09 ha were put on the confirmed list while 8.5 ha were on the reserve list. Similar to 1H2018, all of the land sites on the 2H2018 IGLS was zoned as Business 2. With relatively limited new land supply into the market, this bodes well for upholding capital values of existing assets in the medium term.

Based on the Ministry of Trade and Industry ("MTI")'s advanced estimates, for the full year 2018, the Singapore economy grew 3.3% (slower than the 3.6% saw in 2017, though within expectations). On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded at a slower pace of 1.6% in 4Q2018 versus the 3.5% growth in 3Q2018. The manufacturing sector contributed 19.2% to 2017's nominal GDP (still the largest contributor to GDP). For the full year 2018, the manufacturing sector saw a 7.5% y/y growth. For 2019, MTI expects a slightly weaker external demand outlook versus 2019 which would weigh on the growth outlook for Singapore. OCBC Treasury Research & Strategy's GDP growth forecast for 2019 to slow to 2.7% y/y.

Number of people employed in the manufacturing sector for 2017 was 0.37mn, down 3.3% y/y, this was despite a 7.0% y/y increase in value added from the sector which is within expectations given the higher specification of industries Singapore has been trying to attract (requiring less low skilled labour). While manufacturing is a highly important sector to GDP with its multiplier effect (eg: logistics sector, certain services), manufacturing's contribution to employment distribution had fallen consecutively in the past 10 years from 19.9% in 2008 to 13.4% in 2017. We continue to hold the view that the trend in manufacturing requires built-to-specification industrial properties rather than generic light industrial properties which caps the upside of older properties in Singapore (eg: flatted factories) despite overall improving supply-demand for the industrial property sector.

The Singapore Purchasing Manager Index (Manufacturing) rose to 53.1 in January 2018 and stayed strong in 1Q2018 before tumbling amidst rising trade/tech tensions between US and China to a low of only 51.1 in December 2018 though still higher than the doldrums years of 2015 to mid-2017. Our base case assumes flat lined rents going into 2019. From a risk-rewards perspective for Industrial REITs, we think the rewards outweigh the risks, with our top pick being ESR-REIT.

Three other observations we note in 2018: (1) Rising financial flexibility among Industrial REITs; (2) Industrial REITs harvesting portfolio for assets for new uses; and (3) Signs pointing towards further corporate activity in 2019.

Rising financial flexibility

In October 2018, EREIT completed the merger with its peer VIVA Industrial Trust ("VIT"). With EREIT's access to bank debt markets, VIT refinanced all its debt into unsecured debt, raising its financial flexibility going forward. Before the merger, only ~8% of VIT's SGD1.3bn in total assets was unencumbered. In October 2018, Cache Logistics Trust ("CACHE") entered into a bank debt facility agreement to refinance SGD265mn of its debt with unsecured debt. We estimate that in end-2017, the sector's weighted average proportion of unencumbered properties was 81%, although we expect this to increase to 89**%** in the next 6 months. Overall, we see heightened comfort levels among bank lenders for the sector, notwithstanding still lacklustre prices and rents within the industrial space sector. Reflecting AREIT's ample financial flexibility from capital markets, the REIT raised SGD451mn via a September 2018 equity placement where money was raised as a "blank cheque". As at equity deal announcement, SGD250mn was originally intended to go towards funding a second UK portfolio (though details were lacking), SGD109mn for the funding of a build-to-suit facility in Singapore with the rest for debt repayment. While bond investors are used to blanket "for general purposes" use of proceeds, this indulgence is very rare among equity investors in Singapore REITs.

Table 6: Industrial REITs Unencumbered Assets

Industrial REIT	As at 31 December 2017 (total assets) SGDbn	As at 31 December 2017 (% of unencumbered assets)	Proforma (total assets) SGDbn	Proforma (% of unencumbered assets)
AREIT	10.4	88%	11.3	90%
MLT	6.4	100%	7.9	100%
MINT	4.3	100%	4.7	100%
EREIT – Standalone	1.7	100%	1.8	100%
VIT – Standalone	1.3	8%	1.3	100%
AAREIT	1.5	29%	1.5	29%
CACHE	1.2	36%	1.3	85%
SBREIT	1.2	68%	1.2	71%
SSREIT	1.0	29%	0.9	21%

Source: Company presentations and financials, OCBC Credit Research estimates:
(2) Assume that AREIT's second UK portfolio was purchased using unsecured debt (2) Assume that SSREIT's proposed sale of two properties would reduce its unencumbered assets

Harvesting of assets into new uses

In June 2018, MLT sold 7 Tai Seng Drive to its sister REIT, MINT for SGD68mn. Originally this asset was targeted to be sold to their shared Sponsor but MINT had taken over the option to purchase. The purchase price represented 105% of the valuation as at 31 March 2018 and we note that MINT had entered into a leased agreement with a tenant in the information and communications sector an initial 25-year term. While left unsaid, we think the tenant is a data centre operator which helps explain the significant premium offered to MLT. As of 31 March 2018, major tenants included H&M and Yamaha and the property was used for logistics purposes.

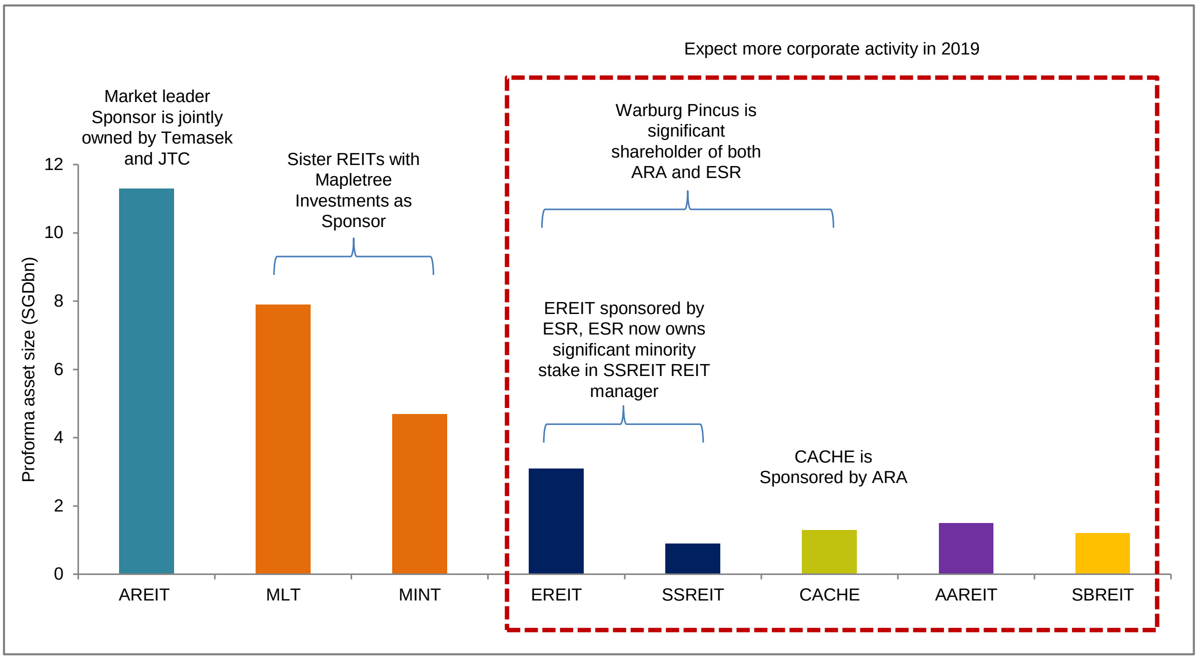
In September 2018, SSREIT announced the proposed sale of 9 Tai Seng Drive for SGD99.6mn, representing 152% of the independent valuation as at 30 June 2018. This property has an authorised business use as a carrier hotel/data centre. In end-2017, the property was used as an industrial building with DHL as a tenant. Reportedly, SSREIT is selling this property to Ascendas-Singbridge, the Sponsor of AREIT, who intends to redevelop the property into a data centre (targeted to be completed in early 2020).

According to Cushman & Wakefield, it is far more expedient for data centre developers to buy over existing industrial properties (zoned as Business 2). Not all properties are suitable though, with other considerations including a reliable power supply (including back up) and good connectivity to pools of technical staff. As observed, Tai Seng is located in an attractive location versus other possible plots which could explain the significant premium offered. We expect Industrial REITs to continue looking under the hood (particularly for their Singapore properties) and sell the ones with lacking redevelopment potential (most typically to end-users). The sale process though is likely to be at a slower pace versus new assets coming in. Excluding SSREIT which spent a large part of 2018 stabilizing the REIT from past management missteps, the remaining Industrial REITs saw flat-to-expansion of portfolio sizes. With a need to pay out regular distribution to unitholders, we expect the REITs to continue pursuing acquisitions and part fund this by debt and/or perpetuals going into 2019.

Expect more corporate activity in 2019

The Industrial REITs sector is relatively fragmented beyond the Big Three, with EREIT being the latest "big cap" with SGD3.1bn in total assets after merging with VIT. In November 2018, the Sponsor of EREIT bought an indirect 27%-stake in the REIT Manager of SSREIT. As the REIT Manager holds 41.2mn shares in SSREIT itself, ESR's deemed interest in SSREIT has also increased to 11.8% (of which 7.9% are direct interest). We see this overture as pointing towards renewed interest by EREIT to do a deal with SSREIT. The two had been in talks in the past though discussions had fallen through. Should a roll up happen, we think the remaining REITs with smaller scale (sub-SGD1.5bn in assets) may face increasing tenancy risk and hampered accessibility to capital markets. In our view, the remaining Industrial REITs may start organising themselves into an alternative "big cap" REIT in 2019 or at the very least consider the impact of this changing market dynamic and strategizing a response.

Figure 40: Changing market structure

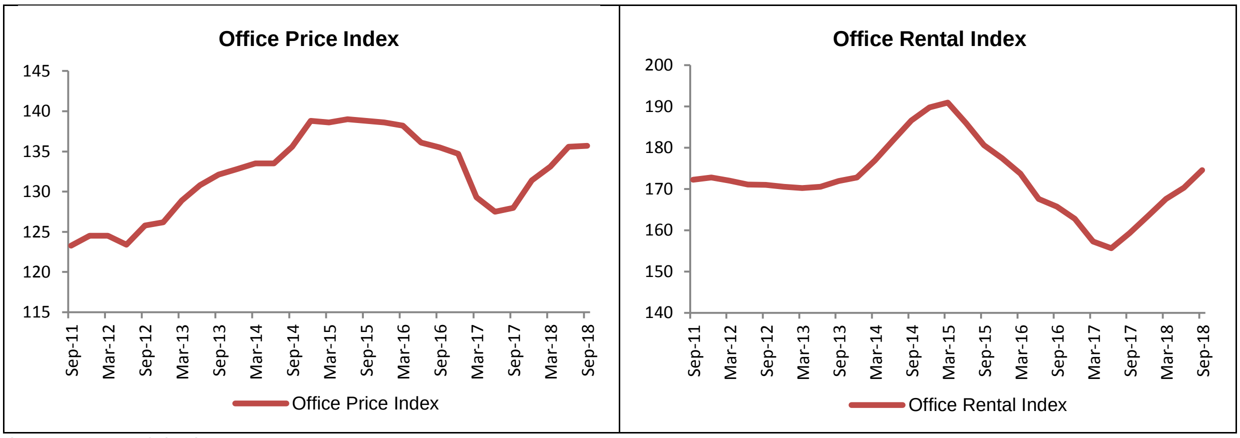


Source: OCBC Credit Research

Singapore Office REITs – A bright spot

2019 looks to be a good year for the office segment. The recovery momentum has been strong with consistently positive q/q change since 2Q2017 where office price and rental bottomed out. Specifically, office price index reported a 0.1% q/q increase (+6.4% since 2Q2017) and office rental index saw 2.5% q/q increase (+12.2% since 2Q2017) in 3Q2018, after printing five consecutive positive quarters. Though both indices remains below their prior peak observed in 1H2015, we expect further improvements in 2019 as near term supply looks tight.

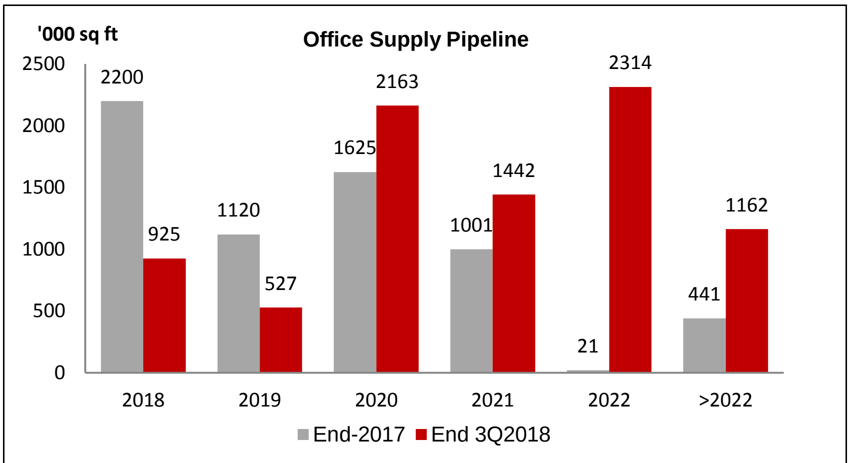
Figure 41: Office Price and Rental Index



Source: URA, OCBC

The office segment faced sizable supply pressures in the previous years largely due to massive projects such as Guoco Tower (890,000 sq ft) completed in August 2016 and Marina one (1,880,000 sq ft) completed in April 2017. Though 2018 also saw big projects, take-up of space was reported to be healthy. One example is Frasers Tower (663,000 sq ft) which secured lease commitments for over 70 per cent months ahead of completion in April 2018. Likewise, Paya Lebar Quarter (1,000,000 sq ft) was 80 per cent pre-leased by June though ahead of completion. With that, we think the availability of new space looks moderate. In fact, the trend of strong new supply looks to reverse in 2019. Based on URA caveats, the office supply pipeline is only 527,000 sq ft for the entire 2019. This is a drastic change from 2018 where 1,400,000 sq ft TOP between Q1 to Q3 2018. With supply easing, we think there is room for rental prices to continue to climb and occupancy rates to improve further, possibly till the next wave of supply which is coming in 2021/22.

Figure 42: Office Supply Pipeline



Source: URA, OCBC

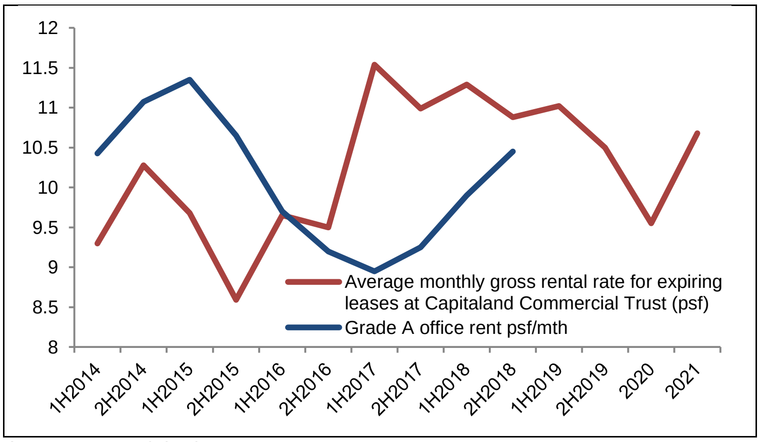
Table 7: Office Pipeline Details

Property	Completion (est.)	NLA (sq ft)
Funan	Q2 2019	204,000
9 Penang Road	Q4 2019	352,000
ASB Tower	2020	500,000
Afro-Asia Building	2020	154,000
Hub Synergy Point	2020	128,000
CapitaSpring	2021	635,000
Central Boulevard White Site	2022	1,260,000
Guoco Midtown	2022	770,000

Source: URA, OCBC, Company

According to CBRE Research, Grade A office rent maintained at a fairly strong growth trajectory (albeit at a marginally slower pace), recording a 3.5% q/q increase to SGD10.45 psf / month in 3Q2018. Using the average monthly gross rental rate for expiring leases at CapitaLand Commercial Trust as a benchmark for the rent levels in the office segment in Singapore, it seems we are close to realising positive rental reversion. Although average monthly gross rental rate for expiring leases is estimated to hit a low in 2020, we think rental reversion is likely to turn positive slightly earlier in 2H2019. Office vacancy rate has also improved in 3Q2018 by 46bps q/q to 5.4%. All in all, the strong momentum in the office space is expected to persist on the back of (1) tightening near term supply, (2) climbing office rental prices and (3) improving occupancy. Having said that, we think property specific stress can occur. This is especially so for older assets and assets in the fringe of CBD as they may lose their competitiveness to the newer buildings that have more efficient floor plates, design and specifications, and thereby better serve the needs of tenants. Although new supply is easing, a divergence in the office market is possible if refurbishments of older assets are not conducted in a timely manner.

Figure 43: Average monthly gross rental rate for expiring leases at CCT vs Grade A office rent (psf/mth)



Source: URA, OCBC

Reviewing the portfolio statistics of our office REIT coverage, all except FCOT have stronger portfolio occupancy compared to the market (Category 1 office occupancy: 85.7%). FCOT is an outlier (majority of FCOT's properties are not within Singapore's CBD) mainly due to the lease expiration for HP Enterprise Singapore (which began Sep-17) and phased reduction in lease area by HP Singapore at Alexandra Technopark which will full vacant by Dec-18. Consequentially, committed occupancy at FCOT's Singapore portfolio is even lower at just 75.7% versus overall committed occupancy of 83.4% as at 30 September 2018. With the SGD45mn AEI and re-branding of Alexandra Technopark nearing completion and the construction works at China Square Centra on track for completion by mid-2019, we expect the leasing situation at FCOT to improve going forward. Judging by the occupancy numbers, we note the SUN has experienced some transitory downtime from replacement leases and KREIT's occupancy rate was largely affected by the early surrender of leases by Australia and New Zealand Banking Group Ltd ("ANZ") at Ocean Financial Centre. In the case of lease expiry profile, even though CCT, SUN and FCOT have relatively more substantial lease expiry in the near term, we think the amount falls within a manageable range. We also think the lease expiry at CCT and SUN are well-timed to benefit from the strong positive momentum seen in the office segment.

Table 8: Office REITs Statistics

Issuer	Committed Occupancy			Expiring Leases (NLA %)			
	2016	2017	9M2018	2018/19	2020	2021	2022+
CCT	97.5%	97.2%	99.1%	16.0%	25.0%	23.0%	36.0%
SUN (SG office)	99.3%	99.7%	99.0%	13.0%	17.5%	24.2%	44.2%
MCT (excl. Vivocity)*	98.8%	97.4%	98.7%	2.6%	5.4%	16.1%	26.2%
KREIT	99.2%	99.7%	98.0%	6.3%	8.9%	16.9%	65.9%
FCOT	93.0%	86.6%	83.4%	15.4%	9.8%	8.1%	46.4%

Source: Company, OCBC
**MCT lease expiry by gross rental income*

Table 9: Recent Office Transactions

Property	Stake (SGD'mn)	Lease Balance (Year)	Sale psf (SGD)	Seller	Buyer
Prudential Tower (7 strata units)	130	77	N.A.	Epic land	Blackrock
Ocean Financial Centre (20%)	537	92	N.A.	KREIT	Allianz Real Estate
OUE Downtown (Office)	908	48	1713	OUE	OUE Commercial REIT
78 Shenton Way	603	66	1900	Alpha Investment Partners	PGIM Real Estate
Manulife Centre	550	970	2300	CDL, Alpha Investment Partners	ARA, Chelsfield
Twenty Anson	516	88	2503	CCT	AEW
MYP Plaza	247	Freehold	3000	Affreton	Golden Estate Properties
55 Market Street	217	807	3020	FCOT	AEW

Source: Company, OCBC

In 2018, we saw office REITs undergo portfolio optimisation and diversified overseas. FCOT, for instance, expanded its investment mandate to Europe and took up a 50%-interest in Farnborough Business park in the UK in Jan-18. FCOT subsequently divested 55 Market Street in Singapore to bring about higher financial flexibility to pursue growth opportunities. Likewise, CCT sold Twenty Anson, Singapore and ventured into Frankfurt, Germany through Gallileo in Jun-18. Other REITs such as KREIT and SUN have also increased their exposure to Australia through property acquisition and development. While REITs gained geograhical diversification, it can come at the cost of greater foreign exchange risk if not hedged. We think the office REITs will continue to expand overseas in the long term as the domestic market has become more competitive, albeit at a slow pace. The office segment in Singapore looks to strengthen further in the near term, offering the REITs an opportunity to demand higher rent.

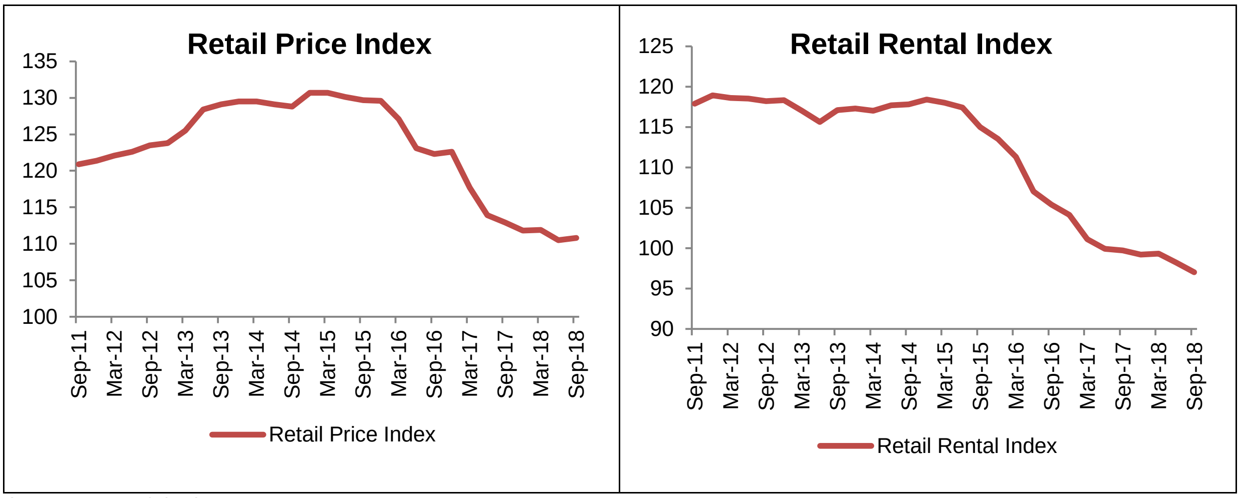
The growing presence of co-working space in the Singapore cannot be ignored. According to Colliers, flexible workspace stock in Singapore has nearly tripled since 2015, with 2017 recording the steepest annual growth of +44% y/y and +30% y/y growth (by ~670,000 sq ft) expected over 2018. Interestingly, 84% of the co-working space in Singapore, which is 2.3mn sq ft out of the total of 2.7mn sq ft island-wide, is located within the Central Business District ("CBD"). Consequentially, as of 1H2018, co-working space accounts for 4.5% of the CBD Premium and Grade A office market (based on Colliers), making it the fifth largest tenant in the area. With most new office supply having a co-working space component (e.g. JustCo at Marina One, Regus at Guoco Tower), we think co-working space will make up an increasingly larger proportion of the office market. Having said that, the co-working space in Singapore is dominated by IWG (~23.5% of market share), WeWork (~12.5%) and JustGroup (~12.0%) and intense competition, especially on the price front, can lead to accelerated closures or distressed acquisitions of smaller operators. Given the significant lease expense and high fixed operational cost of such businesses, operators are largely focused on rapid expansion to capture larger market share to reap the benefits of economies of scale and boost margins. Some notable investment in this area that took place in 2018 are GIC and Frasers Property's SGD238mn joint investment in JustCo, CapitaLand's SGD27mn investment in The Work Project Kingdom and CDL's SGD21mn investment in Distrii, a Chinese co-working operator.

Co-working space has also penetrated the retail property market and taken up space at shopping malls. While this could be seen as one of retail's way of countering the threat of e-commerce, we note that retail rents are typically higher than office rents.

Singapore Retail REITs – End of the downturn is near

Prices of retail space peaked in early 2015 before declining 15.2% to a low in 2Q2018. In 3Q2018, prices of retail space rebounded by 0.3% q/q, compared to the dip of 1.4% q/q recorded in the preceding quarter. Rental of retail space, on the other hand, has been on a downtrend, logging consecutive negative q/q change since early 2015 with the exception of 1Q2018. Although we think the near term outlook for retail REITs continues to look challenging, the sector seems to be inching towards an inflection point supported by narrowing supply.

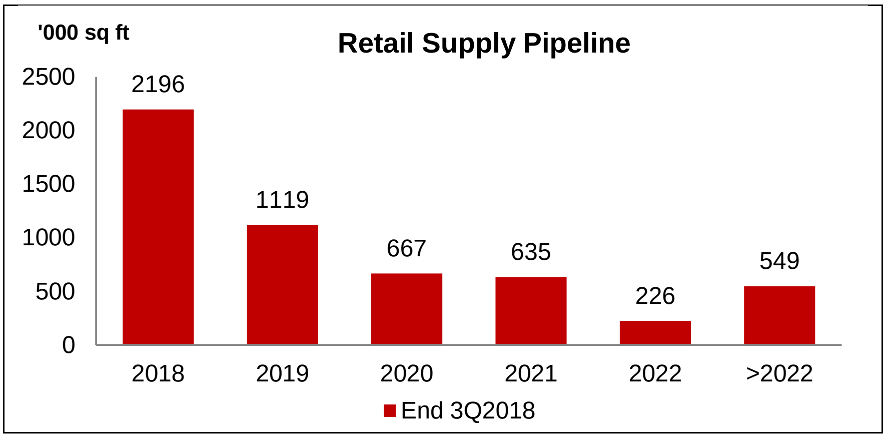
Figure 44: Retail Price and Rental Index



Source: URA, OCBC

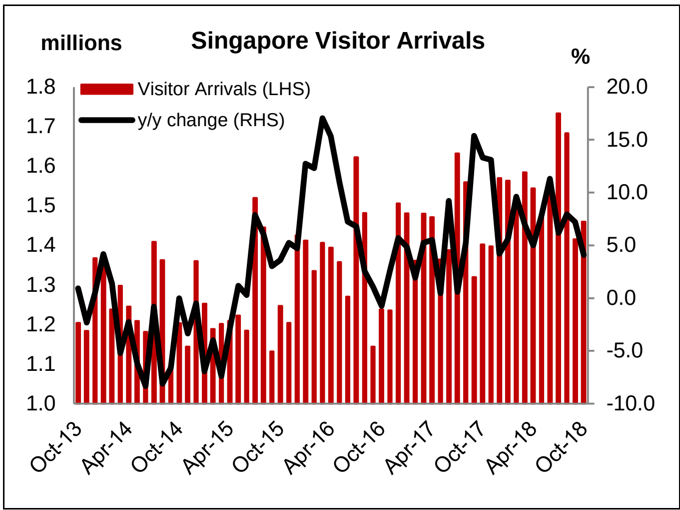
In 1Q – 3Q 2018, ~841,000 sq ft of retail space was granted TOP while ~2.2mn sq ft of retail space is estimated to come online in 4Q 2018. New supply, however, will start dipping rather significantly in 2H2019 to just ~1.1mn sq ft, with Funan, Paya Lebar Quarter and Jewel Changi being the key contributors, and taper off by 2020. Paya Lebar Quarter (~340,000 sq ft) is expected to come online in early 2019 along with Jewel Changi (~576,000 sq ft) in 1Q2019 and Funan (~324,000 sq ft) in 2Q2019. It is worth noting that Jewel Changi and Funan saw firm pre-commitment levels of 90% and 70% respectively, demonstrating a healthy demand for retail space.

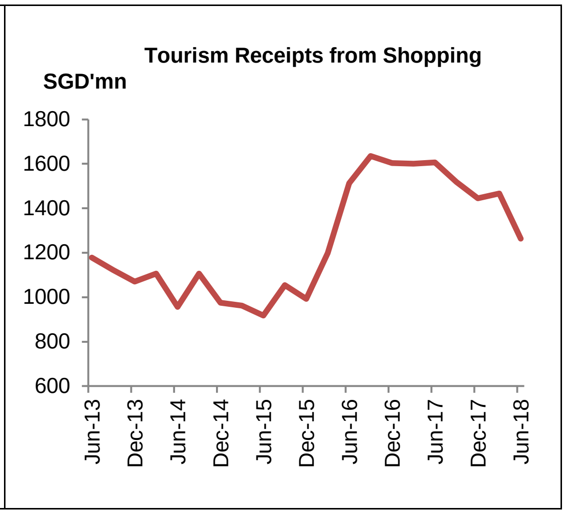
Figure 45: Retail Supply Pipeline



Source: URA, OCBC

Figure 46: Singapore Visitor Arrivals and Tourism Receipts from Shopping





Source: Singapore Tourism Board

The core Orchard Road shopping district is partly sustained by international visitors and tourism. Although visitor arrivals increase 7.7% y/y in 1H2018, tourism receipts remained flat at SGD13.4bn. Specifically, in 2Q2018, expenditure declined for Shopping (down 22% y/y), Food & Beverage (down 15% y/y) and Sightseeing, Entertainment & Gaming (down 2% y/y) while Accommodation grew 6% y/y. Evidently, the sector is also negatively impacted by headwinds precipitated by e-commerce given the proliferation of online food delivery and shopping. In fact, tourism receipts from shopping have been contracting since late 2016, though it remained above 2013-2015 levels. Businesses that offer services that cannot be conducted online expectedly performed better. Following the announcement by government in Aug-17 to rejuvenate Orchard Road, a SGD1.3mn study is currently under way. Cistri, the international arm of planning and strategy company Urbis Australia, has been appointed by the government to analyse what can be done to make Orchard Road more attractive in the long term. More recently, over the holiday season in Dec-18, more entertainment such as themed photograph spots and street buskers can be found along the street itself to retain traffic as well as pop-up stores that offer consumers an experiential and personalised retail experience such as SK-II's Change Destiny Pop-up to draw traffic.

E-commerce has also influenced the tenant mix at malls, with activity-based tenants increasingly present. No longer confined to Food & Beverages, these now include: Leisure & Entertainment such as movie theatres and arcades, Education such as tuition centres and cooking school and Beauty & Healthcare related services are preferred tenants. Furthermore, showrooms for online retailers are also increasingly more common. According to Colliers, although activity-based tenants are likely to sign below-market rents, they serve as strategic addition to the tenant mix that can generate foot traffic and yield spillover benefits for other tenants.

Based on domestic retail sales data which reflects the broader retail spending, 2018 looks on track to print a positive value, much like 2017. According to Ministry of Trade and Industry (MTI), Singapore's GDP growth moderated to 2.2% y/y in 3Q2018, after recording a 4.2% growth in the first six months of the year. Although the slowing of the domestic economy in 2H2018 could dampen consumer confidence and drag consumer spending, overall retail sales performance in 2018 is expected to be somewhat stable.

Table 10: Singapore Retail Sales (excl. Motor Vehicles, Current Prices, NSA) Y/Y % change

2013	2014	2015	2016	2017
0.9%	-0.5%	-1.2%	-2.6%	1.8%

Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
-7.3%	13.9%	2.9%	1.3%	2.4%	0.0%	0.2%	2.4%	1.7%	0.5%

Source: Department of Statistics Singapore

While technology largely brought about the structural shifts in consumer preference seen in the retail space in Singapore, we think it could also be the solution for retailers and landlords who are pushed to innovate and seek new ideas and strategies to increase footfall and convert traffic to sales. Technology enables retailers to provide consumers a seamless omni-channel shopping experience as well as quick and convenient experiential experience such as a digital scan or simulation.

An upcoming game changer in the retail space is CMT's Funan, Singapore's first online-and-offline shopping mall which is scheduled to open in 2Q2019. The mall will integrate online, offline, data and logistics to empower retailers' omni-channel strategy and transform customer experience. The mall will also deploy a range of cutting-edge technology such as automated guided vehicles to provide shoppers with a hands-free shopping experience, a robotic arm for its 24-hour drive through click-and-collect service and smart interactive directory that uses facial recognition to provide shoppers with customised recommendations. Building users can also expect conveniences such as app-based booking of facilities within the development and video-based smart car parking facilities. In this sense, CMT is a market leader and ahead of its peers in targeting digitally savvy customers who value experience. It is worth noting that take-up rates of Funan have hit 70% in late 2018.

Another example is Habitat by Honestbee, a tech-integrated multi-sensory grocery and dining destination which was coined "NewGen Retail" by its CEO and founder. The store allows consumers to purchase groceries and meals efficiently and is created to encourage consumer to linger, experience the space and potentially spend more.

Separately, integrated developments are also increasingly more common and Funan is also an example as it comprises a retail component, two office blocks and a co-living serviced residence. Such developments aim to create an ecosystem which will have its own organic footfall. Other integrated developments include Guoco Tower, Marina One, Guoco Midtown and Duo Tower. Along with this trend, co-working spaces can be found in most if not all of these new or upcoming developments.

Table 11: Retail REITs Statistics

Issuer	Committed Occupancy			Expiring Leases (GRI %)			
	2016	2017	9M2018	2018/19	2020	2021	2022+
CMT	98.5%	99.2%	98.5%	36.2%	26.4%	26.9%	10.5%
SUN (Retail)*	97.9%	99.0%	98.3%	28.3%	31.5%	19.0%	19.3%
MCT (Vivocity)	99.9%	98.2%	99.9%	1.8%	13.4%	10.2%	24.3%
SGREIT	99.60%	98.60%	97.0%	28.3%	8.2%	12.5%	51.0%
FCT	91.3%	92.6%	94.7%	28.2%	36.6%	24.4%	10.8%

Source: Company, OCBC
** SUN (Retail) expiring leases by NLA*

In aggregate, assets of the retail REITs under our coverage seem largely stable with strong portfolio occupancies relative to the broad market which recorded the following occupancy rates in 3Q2018 – Orchard Road: 94.1%, Central ex-Orchard Road: 91.7%, Suburban: 92.4%. FCT has a slightly lower occupancy rate of 94.7% largely due to Bedok Point which is 79.2% occupied and recorded negative rental reversion of 23.3% as at 30 September 2018. Based on URA caveats, vacancy rate at Orchard Road and Suburban area have diverged in 2018, a reversal to the converging trend observed over the past few years. This is largely attributable to the new supply coming in the suburban markets such as Paya Lebar Quarter, Northpoint City and Century Square, leading to heightened competition. We note that CMT and FCT are most exposed to the suburban space.

Rental prices have broadly remained soft though the declined have slowed or even reversed with small upticks recorded in 1Q2018 and 3Q2018. Rental reversion YTD as at 30 September 2018 was positive for CMT, MCT (Vivocity) and FCT.

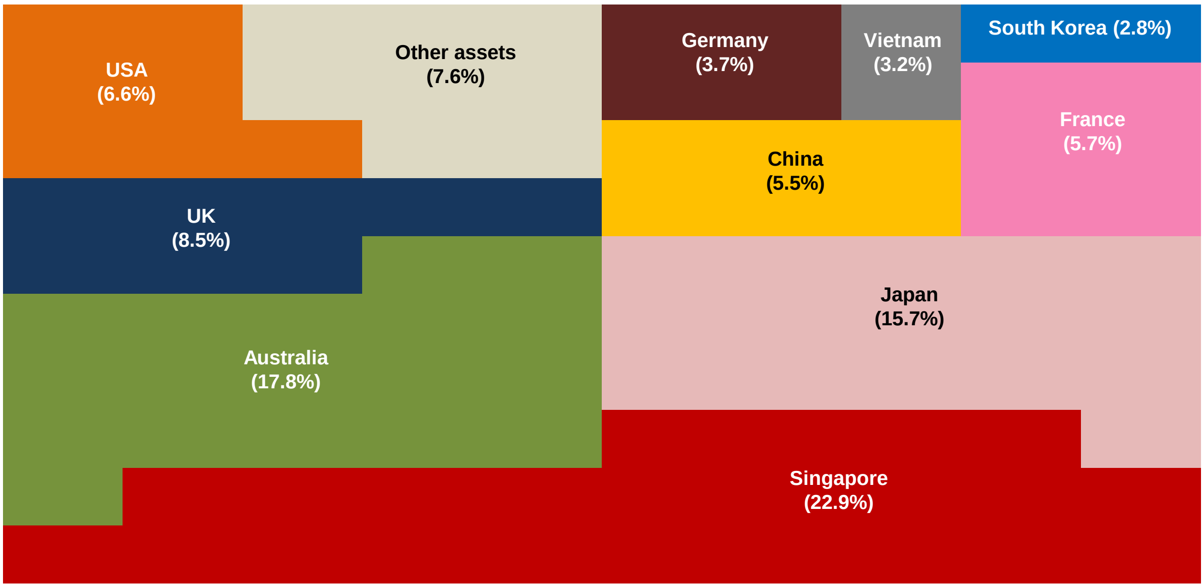
Portfolio valuation was supported by cap rate compression in 2018. FCT saw 15 - 25bps compression in valuation caps rates across all of its malls except Northpoint City North Wing whose cap rate remained stable while CMT saw 10 - 15bps compression in valuation caps rates across all of its malls except Funan whose cap rate remained stable. SGREIT however saw cap rates remained constant for all of its retail assets as of 30 June 2018. We think there is less room for further cap rate compression going forward as we observe some revaluation losses occurring for underperforming assets such as Bedok Point and Yishun 10 retail podium.

Looking forward, the retail space remains on tricky footing though the bottom could be near as the sector continues to face headwinds stemming from more cautious consumer spending due to slowing economy and the proliferation of e-commerce. Malls in the suburban areas with large catchment are expected to maintain resilience while the same cannot be said for the weaker malls such as Bedok Point and Anchorpoint as they struggle to attract good tenants. With limited room for further compression, cap rates are less likely to offer mitigation going forward. Should REIT portfolio revaluations turn negative, it can strain aggregate leverage and consume debt headroom. Broadly speaking though, we view the retail sector to be going through a prolonged structural change. We think that malls that foster community bonds have a better chance of thriving.

Singapore Hospitality REITs – Making tourist dollar count

With the maturity of CDL Hospitality Trust ("CDREIT")'s sole SGD120mn bond due in June 2018, there are three Hospitality REITs who have issued SGD fixed income securities, with total amount outstanding of SGD1.3bn. ART continues to be the largest issuer in the sector, with bonds and perpetuals making up 63% of total amount outstanding, followed by Frasers Hospitality Trust ("FHREIT") at 33%. Singapore-based assets by value make up 23% of issuer total assets. The Hospitality REIT sector is the most diverse REIT sector under our coverage, with 10 geographies collectively making up 92% of total asset value. Assets tend to be spread across different cities (eg: in Japan, ART's assets are diversified across six cities). While broad-based geographical trends plays a role, micro-market supply-demand dynamics can impact performance of each property within the REITs. For example, while the overall Singapore hotel sector has improved, FHREIT's Intercontinental Hotel at Bugis had faced increased competition in 9M2018.

Figure 47: Key Geographical Markets for Hospitality REITs Under Our Coverage



Source: OCBC Credit Research estimates
Note: Assumed proforma total assets of SGD9.8bn

Tourists continue flocking to Singapore

After ending a strong 2016 and 2017 in tourist arrivals, tourist arrivals in the first ten months of 2018 was 15.5mn (representing 7.1% y/y growth), led by growth in tourists from China, India and Indonesia. Specifically, India continues to be a key high growth market for Singapore with a 12.2% y/y growth rate, after having grown 17.4% y/y in 10M2017 versus 10M2016. Similar to levels seen in 10M2017, 74% of total tourist arrivals were from the top ten source markets. The top five markets of China, Indonesia, India, Malaysia and Australia made up 55% of total visitors.

The Singapore Tourism Board ("STB") had only projected a visitor arrival growth rate of 1% – 4% and tourism spend to increase by 1% - 3%, with actual rates significantly exceeding projections. We think the largest driver for tourism arrivals to Singapore has been STB's continued aggressive marketing to the younger and growing middle income population from India. Chiefly, tier two cities such as Kolkata, Hyderabad, Pune, Ahmedabad, Jaipur, Kochi. For China, STB has centred its campaign to families with young children and working adults in 16 targeted tier two cities. While certain one-off events (eg: Hollywood movie Crazy Rich Asians) has been quoted as a visitor driver, this has impacted only visitors from Singapore's 9th largest source market the USA, in our view (up 14% y/y in 10M2018). Average length of stay for 10M2018 was 3.4 days, flat versus 10M2017.

Singapore's tourism industry is well coordinated, including STB bolstering Singapore's events calendar, cross-agency and private sector collaboration (eg: Singapore Hotel Association, Grab, Singapore Airlines). New proposed development plans in the works include Mandai nature precinct, Pulau Brani (located between the main island and Sentosa Island) and rejuvenation of Orchard Road.

Visitor volume up but overall tourism receipts down

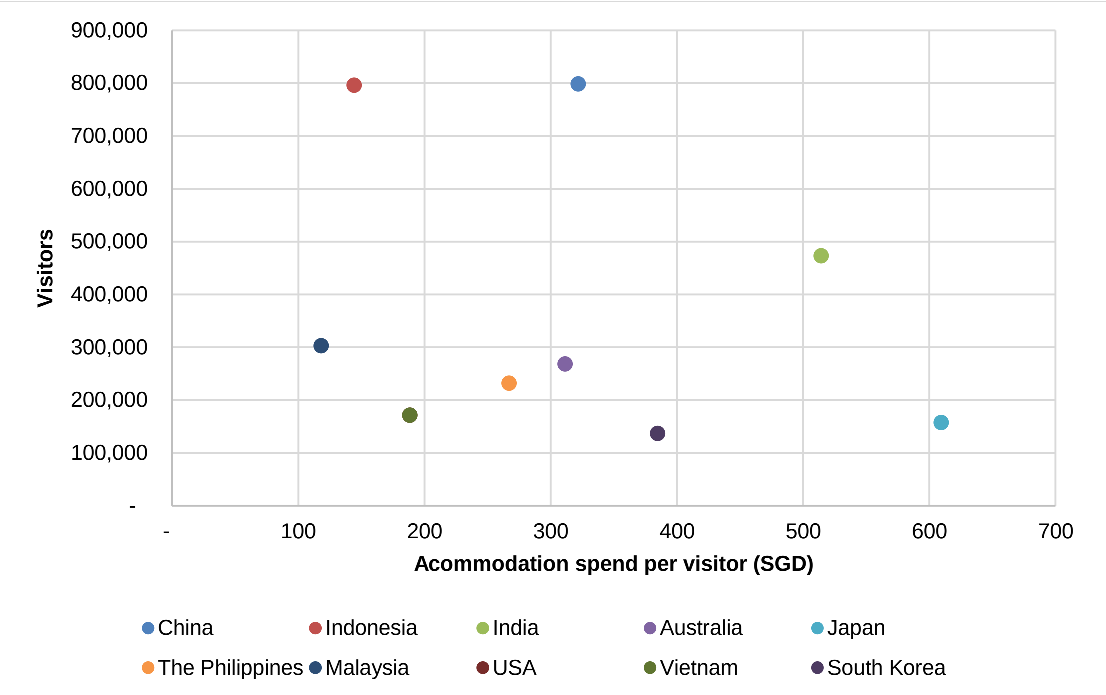
Overall tourism receipts in 2Q2018 fell 1.7% y/y to SGD6.6bn while for 1Q2018, this was down by 0.5% y/y to SGD6.7bn. By major components, the biggest drag to tourism receipt growth in 2Q2018 was shopping (down 22% y/y) and food & beverage (down 15% y/y). Tourism spend on accommodation (the most relevant sector to Hospitality REITs' Singapore portfolio) grew 6% y/y to SGD1.5bn in 2Q2018. This though was insufficient to offset the 13% y/y fall in 1Q2018 where accommodation spend was SGD1.3bn. In total, accommodation receipts for 1H2018 was SGD2.8bn against 1H2017's SGD3.0bn. While the top five source markets all saw growth in tourism receipts, the next six to ten markets saw significant slowdown in spending. In terms of accommodation spend, China, India and Japan were the big drivers for 2Q2018. While India visitors tend to have longer average length of stay ("ALOS") that is ~1.8x of overall averages (pushing up accommodation spend amounts), we continue to see the country as a surer growth market for hotels and extended stay properties in Singapore. Japan visitor numbers to Singapore was strong for 10M2018, though this could be driven by a one-off special campaign between STB and the largest travel agency in Japan, ending in March 2018.

Table 12: Top Ten Accommodation Markets

2Q2018	Tourism Receipts (y/y %change)	Accommodation Spend (y/y % change)
Overall	(2%)	6%
China	24%	59%
Indonesia	19%	0%
India	18%	35%
Australia	4%	1%
Japan	9%	46%
The Philippines	(30%)	(26%)
Malaysia	(15%)	(21%)
USA	(5%)	9%
Vietnam	(8%)	(16%)
South Korea	(21%)	(12%)

Source: Singapore Tourism Board, OCBC Credit Research

Figure 48: Accommodation Spend Per Visitor in 2Q2018



Source: OCBC Credit Research tabulated from STB data
Note: Unadjusted for ALOS

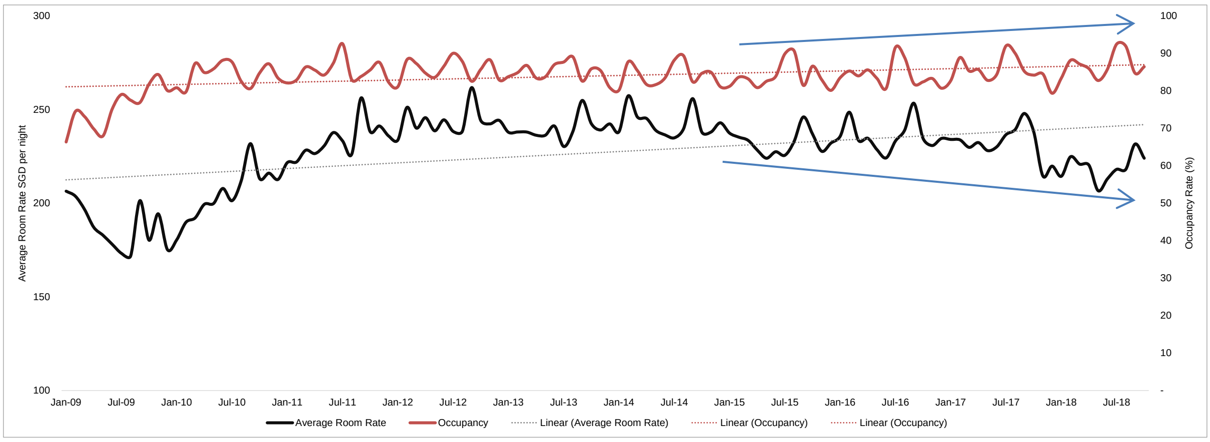
Release of more hotel land sites

In June 2018, the URA in its Government Land Sales for 2H2018 released a hotel site on Club Street (near the Telok Ayer MRT) on its confirmed list. This site has a height limit of four storeys though can yield up to 390 rooms. Separately on the reserve list, another site in Marina View (near the Downtown MRT) allows for up to 540 hotel rooms to be built within an integrated development. According to the Straits Times, this was the first time in five years where land for hotel use was released. Further on 6 December 2018, an additional hotel site was added onto the reserve list at Sims Avenue which can yield up to 575 hotel rooms.

In end-2017, there were 67,084 licensed rooms (including hostels with more than four rooms). In early 2018, Savills projected that 737 rooms will be added in 2018 though this would increase to ~1,400 in 2019. The next three years beyond that may only yield an additional ~1,300 rooms. In 1H2019, 840 rooms located on Sentosa Island and managed by Far East Hospitality and targeting local residents is scheduled to open. Overall, there is little risk yet for oversupply while capital values continue to hold up. In July 2018, Wanderlust Hotel, a boutique hotel in Little India was sold for SGD37mn (SGD1.3mn per key) to a boutique real estate investment firm founded by Ashish Manchharam. In August 2018, Wangz Hotel, an iconic barrel-shaped hotel at Outram Road was sold for SGD46mn (SGD1.1mn per key) to a Singapore-based real estate investment firm TCRE Partners. Park Hotel Ferrer Park which was on the market in 2017 (valued then at SGD390mn, SGD1.3mn per key) has been taken off the market by its owner RB Capital. There is scarcity value to Singapore hotels and monetizable in the event any of the Hospitality REITs under our coverage want to sell.

Changing Composition of Visitors Drags Hotel Room Rates

Figure 49: Singapore Historical Average Room Rate and Occupancy



Source: Singapore Tourism Board, OCBC Credit Research

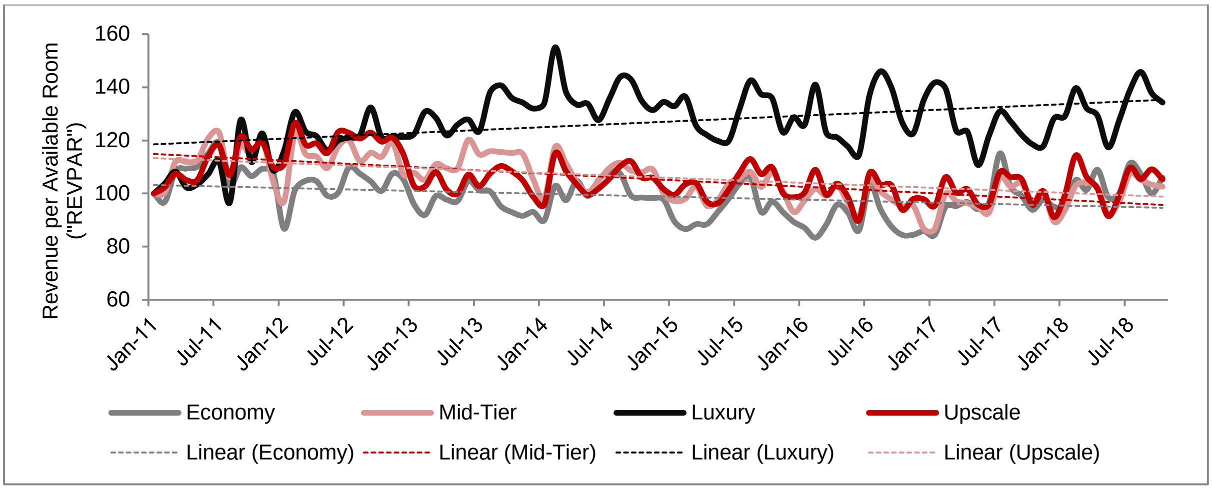
Since the financial crisis of 2008 – 2009, hotel occupancies in Singapore have continued to hold up above 80%, though we note that the trend line shows a fall in average room rates from end-2014 onwards. In our view this is driven by the change in composition of visitors to Singapore, with leisure travelers making up a larger pie. STB shared that in 9M2017, there were 1.75mn Business Travel and Meetings, Incentive Travel, Conventions and Exhibitions ("BTMICE") visitors to Singapore, down by 5% y/y versus 9M2016. A typical BTMICE visitor spends ~2x more than a leisure traveler.

Figure 50: Singapore BTMICE Visitors

BTMICE	Tourism Receipts (SGDbn)	No. of visitors (mn)	No. of visitors (y/y change in %)	Proportion of total visitors (%)
9M2017	3.15	1.75	(5%)	13%
9M2016	3.03	1.84	(18%)	15%
2015	4.50	3.00	(6%)	20%
2014	5.20	3.20	(9%)	21%
2013	5.50	3.50	3%	22%
2012	5.70	3.40	NA	23%

Source: STB Year in Review 2017, STB BTMICE factsheets, OCBC Credit research
Note: (1) Tourism Receipts figures exclude spending on Sightseeing and Entertainment (including at the integrated resorts)

Figure 51: Singapore REVPAR by Segments



Source: Bloomberg, OCBC Credit Research
Note: Indexed to 100 at January 2011

Since 2011, REVPAR for the Luxury segment had increased by 34%, bucking the negative trend line for the other segments. That being said in 10M2018, we find the median REVPAR for the Upscale segment to be SGD228.5, 1.6% y/y higher versus the REVPAR for 10M2017. The median REVPAR for the Mid-Tier segment saw a 3.1% y/y growth at SGD148.9 versus SGD144.3 during the same time period.

Figure 52: Singapore Properties - Hospitality REITs

Property	ART	FHT	ASCHTS
Ascott Orchard	Upscale-Luxury		
Ascott Raffles Place	Upscale		
Citadines Mount Sophia	Mid-Tier		
Somerset Liang Court	Upscale		
lyf development site at one-North	Mid-Tier		
Intercontinental Bugis		Luxury	
Frasers Suite Singapore		Upscale-Luxury	
Park Hotel Clarke Quay			Upscale
Singapore asset value (SGD bn)	**1.1**	**0.8**	**0.3**

Source: OCBC Credit Research

Going into 2019, we think the Singapore hospitality assets under the Hospitality REITs we cover should continue to perform, with both occupancy remaining strong and room rates stable. The REITs may face some weakness in their overseas assets though (eg: Australia where certain markets are facing increased in supply).

Singapore Property – Halfway through the lost decade?

Good recovery though not yet back to levels 5 years ago: With 5 consecutive quarters of recovery since 3Q2017, Singapore private residential property prices as of 3Q2018 has recovered by 9.6%. This was due to stronger market sentiments, which we have discussed in our publication Mid-Year 2017 Credit Outlook (8 Jul 2017) – Time to buy a property? While property cooling measures were implemented on 6 Jul 2018, prices still rose by 0.5% q/q in 3Q2018. This is not surprising given strong technicals from higher breakeven land costs and displaced homeowners from collective sales, detailed in our publication Sector Update (6 Jul 2018) - Calling half-time: Penning our thoughts on property cooling measures. However, as of 3Q2018, prices are still 3.2% lower than the peak 5 years ago in 3Q2013.

Figure 53: URA Private Residential Index

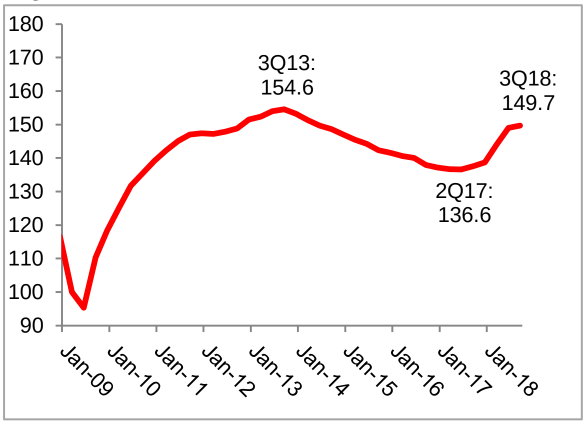
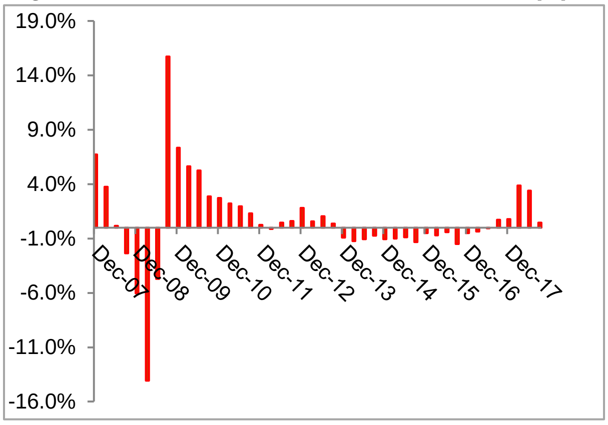


Figure 54: URA Private Residential Index q/q



Source: Urban Redevelopment Authority, OCBC

Short-lived recovery? Looking forward, the recovery thus far may turn out into a false dawn. We continue to maintain our caution going into 2019, which we flagged in our publication Sector Update (3 May 2018) – Full speed ahead, for now, despite the rosier conditions in 2018. We think that further price growth may be difficult to sustain, noting the rate of price growth has already slowed in 3Q2018. The difference in our outlook in 2018 and 2019 is due to changes in the fundamental conditions. As a recap, we anticipated a bullish property market in 2H2017 and 2018 due to (1) favourable demand-supply dynamics, (2) keen land bids with spillover effect from collective sales fever, (3) optimism by market participants and (4) still healthy economic conditions. However, we see the reversal of these factors and detail our reasons in the following:

- **Surge in supply driving imbalance.** As opposed to the sanguine 2018 outlook we painted in Credit Outlook 2018 (9 Jan 2018) – Make hay while the sun shines, we turned cautious of the outlook in 2019 following a further wave of collective sales in 1H2018 that skewed risks towards an oversupplied market. Unsold units with planning approvals spiked to 31,912 as of 3Q2018 (4Q2017: 20,794) while total units in the pipeline in 2019 and beyond more than doubled y/y to 49,658 (3Q2017: 24,751). Although prices continue to tick higher in 3Q2018 (+0.5% q/q), as a recap, we highlighted that the market has yet to feel the impact as the short-term supply is limited with launched but unsold units (3Q2018: 2,172) remaining significantly below that in 2011-16 (average: ~5,500). In 2019, we expect a significant uptick in launches as the massive number of collective sales undertaken in 2H2017-1H2018 should come to the market (assuming a 12 month turnaround time). Already, the earlier batches from the collective sales wave have come to the market, with 3Q2018 launches (2,172 units) exceeding take-up (1,445 units). Based on 4Q2017-3Q2018 take-up of 8,823 units, the unsold units in the pipeline (31,912) may take more than 3 years to clear. More units may join the pipeline with another potential supply of 14,200 units from Government Land Sales and awarded en-bloc sales sites that have not been granted planning approval. If take-up continues to fall short of launches, we think developers may cut back on prices in order to move units.

Figure 55: Pipeline supply by year of completion

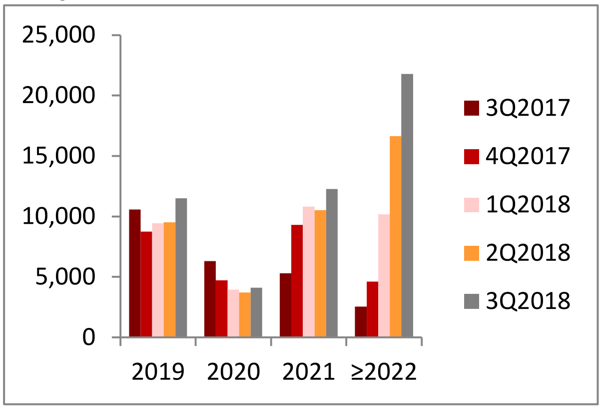


Figure 56: Unsold units with planning approvals

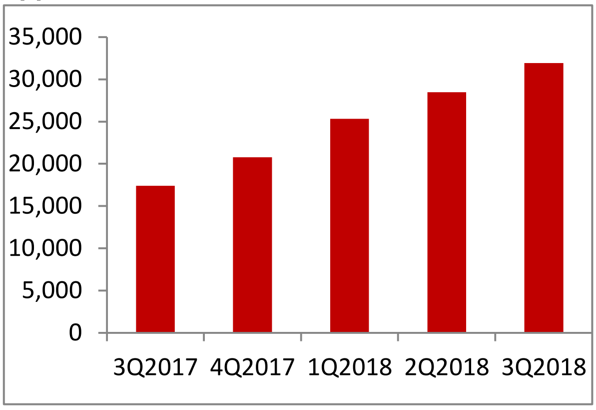


Figure 57: Launched but unsold units

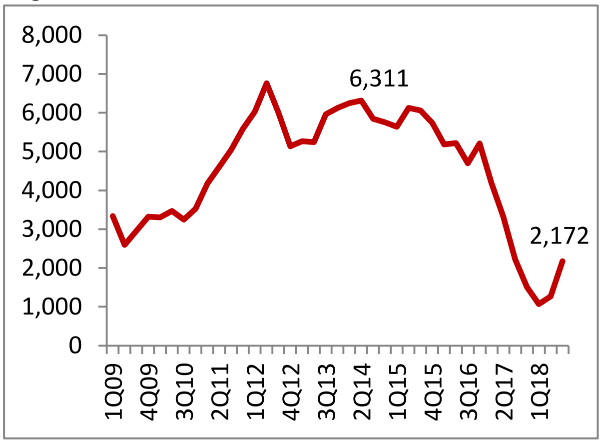
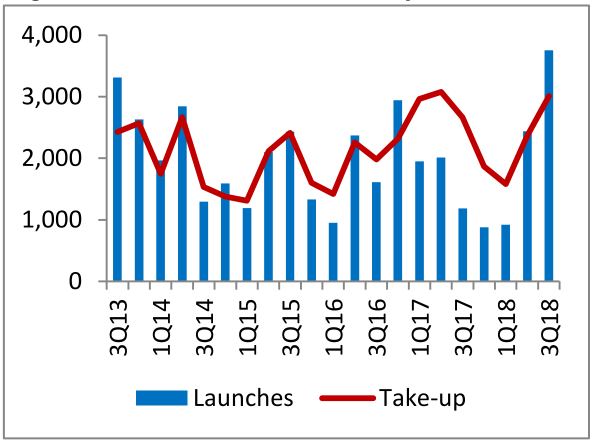


Figure 58: Launches and take-up



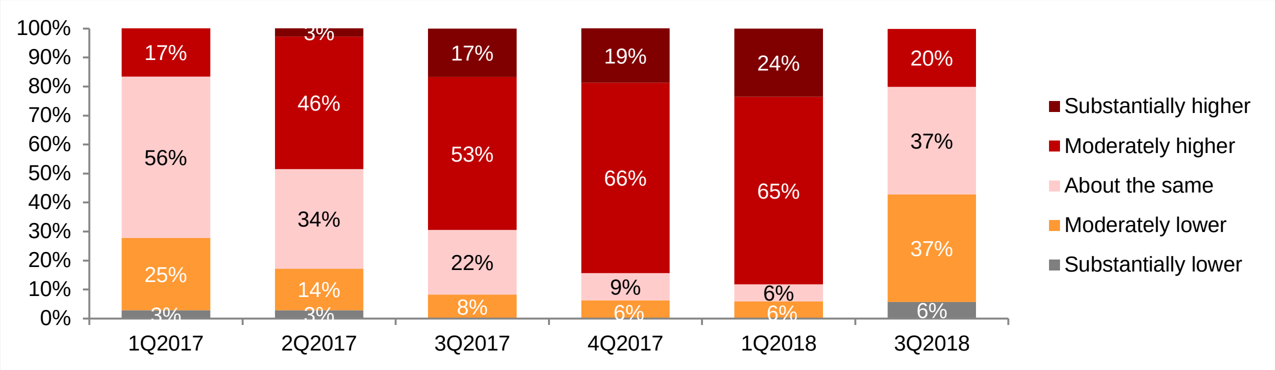
Source: Urban Redevelopment Authority, OCBC

- **Property cooling measures.** Following the Jul 2018 property cooling measures which tightened the Loan-to-Value ("LTV") ratio and increased the Additional Buyer's Stamp Duty ("ABSD"), developer sentiments have deteriorated severely. According NUS-REDAS 3Q2018 survey, 43% of developers expect prices to fall, in comparison to the 1Q2018 survey when 89% of developers expected prices to increase. No significant collective sale has concluded since the property cooling measure, aside from the purchase of Casa Meyfort by GuocoLand Ltd in Jul 2018 which is not subjected to the new property cooling measures.

  Additionally, property cooling measures compound the market dynamics when there is oversupply (even without the stricter rules implemented in Jul 2018). During the downturn in property prices during 2H2013-1H2017, developers had to pay punitive fees[2] if they do not move the units and several chose instead to lower prices or offer incentive packages (e.g. profit participation securities, deferred payment schemes), which further depressed market prices. If take-up rates continue to fall short, we believe developers may compete to rush inventory out of the door to avoid the hefty potential penalties. We think more developers may consider cutting prices this time as the legislative changes in Mar 2017 has closed one avenue for companies to dispose properties without incurring the ABSD, as discussed in our publication Sector Update (10 Mar 2017) – Relaxation of property measures: Penning down our thoughts,

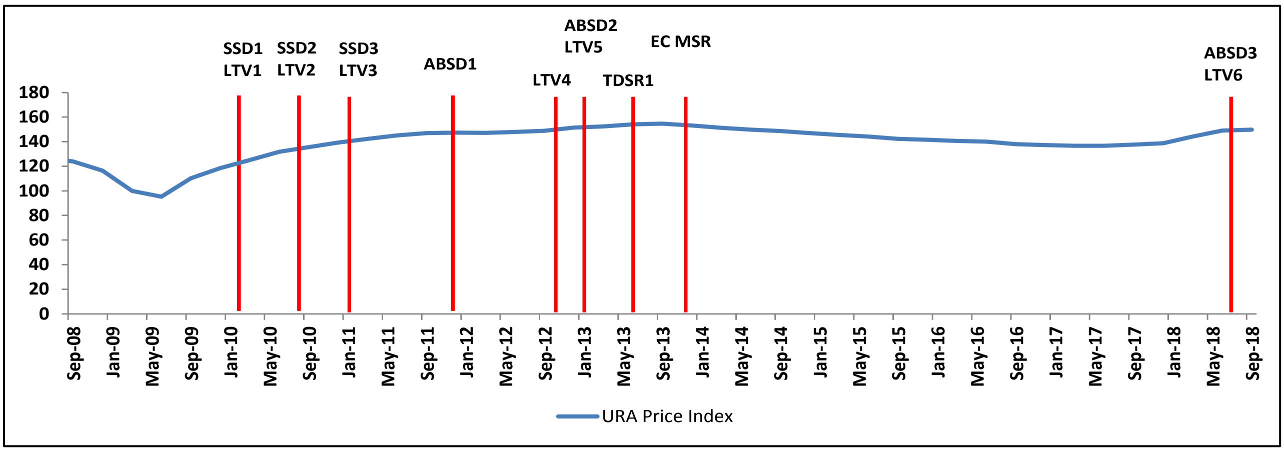
[2] Under the Qualifying Certificate ("QC") Scheme, listed developers have to pay increasing fees for each year that the unit remains unsold, after the 7th year that the land is bought. For all developers, ABSD will have to be paid if there are units remaining unsold within 5 years from the acquisition date.

Figure 59: Developer price expectations for the next 6 months



Source: NUS-REDAS, OCBC

Figure 60: URA Price Index / Property cooling measures



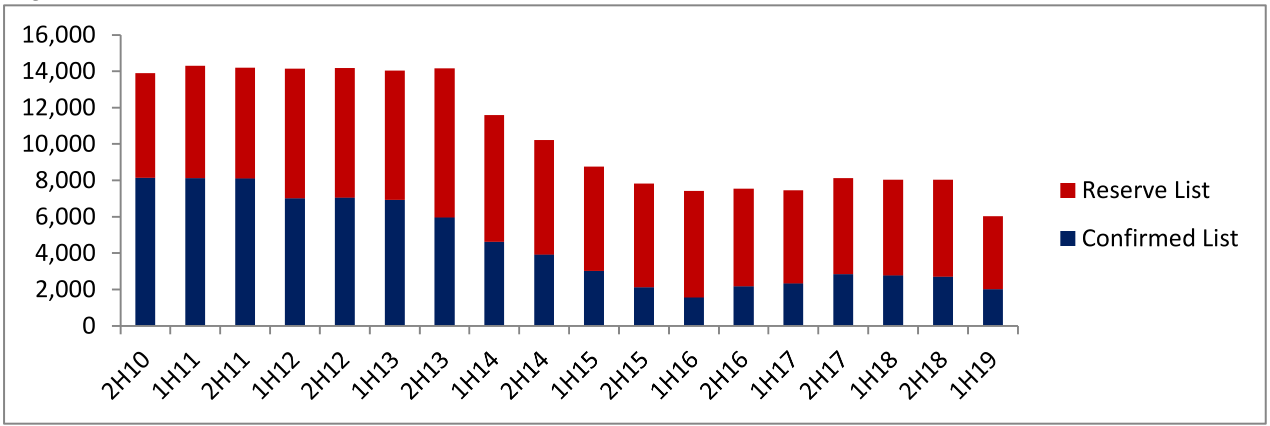
Source: Urban Redevelopment Authority, OCBC

- **Tougher regulations.** Aside from the property cooling measures, URA in Oct 2018 released guidelines that increased the minimum average unit size for private properties. This reduces the total number of units that can be developed, especially smaller ones. We think this is the final nail in the coffin for the collective sale market as developers had increasingly marketed smaller units which are easier to move with a lower price quantum.

- **Less rosy economic outlook:** According to our macro colleagues at OCBC Treasury Research & Strategy, Singapore GDP growth is forecasted to slow down to 2.7% in 2019 (2018F: 3.3%). According to NUS-REDAS, slower economic growth is cited by 65.7% of developers as a risk factor that may dampen the local property market. In addition, tightening of financing / liquidity in debt market is also cited as a potential risk by 61.3% of developers. If interest rates continue to rise and the capital markets continue to remain unconducive, we think appetite and sentiments by participants in the property market may be further impacted.

Halfway through the lost decade? 5 years on, prices as of 3Q2018 have yet to recover to the peak in 3Q2013. We think the outlook continues to look subdued. In 2019, prices may decline by low single digit due to the supply overhang. In the medium term, significant completions till 2022 are likely to depress price growth, with an increasing urgency for developers to sell as time passes given the hefty penalties on unsold units. That said, short of a major recession, we think significant price declines may be unlikely as the government is 'committed to ensuring a sustainable market', which may result in the rollback of property cooling measures to support the property market. Already, the government has significantly reduced the 1H2019 land supply to 6,025 units (2011-18 average: ~10k units), which should partly alleviate the oversupply in the market. In the near-term, we think further tightening in the property cooling measures is unlikely as the Financial Stability Review (Nov 2018) no longer warns about the exuberance in the property market. According to National Development Minister Lawrence Wong on 15 Nov 2018, it is not the government's "intention to bring property prices down" but the property market should move "broadly in line with income growth". As such, the upside to property prices in the longer term would hinge on income growth.

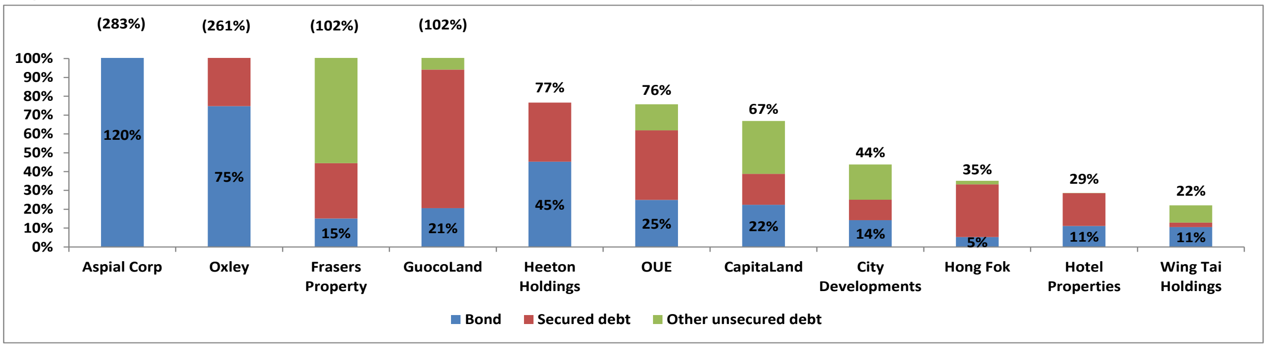
Figure 61: Government Land Sales



Source: Urban Redevelopment Authority, OCBC

Overall, credit metrics have weakened somewhat for developers undertaking land purchases and significant collective sales (e.g. Oxley Holdings, GuocoLand Ltd, City Developments) as net gearing levels have climbed. Continued sales though may be challenging if the property market outlook continues to remain subdued. We can also expect EBITDA and gross margins to be pressured if price growth is not sustained as developers have, in general, been acquiring landbank at aggressive prices. Despite the headwinds, we do not foresee that property (as a sector) will face significant distress. According to Financial Stability Review (Nov 2018), MAS expects property firms to "weather moderation in the residential property market". Larger developers (e.g. Frasers Property, GuocoLand, OUE, CapitaLand, City Developments) have diversified recurring income streams which anchor their profiles. While gearing is high for certain developers and they may be more reliant on the bond market for capital (e.g. Aspial Corp, Oxley Holdings) with outstanding bonds representing more than 50% of equity, in general, developers hold a number of hard assets which may potentially monetised to tide through a liquidity crunch. In the medium to longer term, the key for such developers is to achieve good sales and monetize the new developments in order to deleverage.

Figure 62: Gross debt and bond issuance as percentage of equity



Source: Company, OCBC

Please note that due to OCBC's engagement in other business activities, we have suspended our coverage on the following names until these activities are completed:

a) China Aoyuan Property Group Limited

Contents

B. COMPANY OUTLOOKS - CORPORATES		Page No.
1.	Ascendas Hospitality Trust	5
2.	Ascendas Real Estate Investment Trust	7
3.	Ascott Residence Trust	9
4.	Aspial Corp Ltd	11
5.	Banyan Tree Holdings Ltd	13
6.	BreadTalk Group Ltd	15
7.	CapitaLand Ltd	17
8.	CapitaLand Commercial Trust	19
9.	CapitaLand Mall Trust	21
10.	Capitaland Retail China Trust	23
11.	Century Sunshine Group Holdings Ltd	25
12.	China Aoyuan Property Group Limited	-
13.	China Eastern Airlines Corp Ltd	27
14.	CITIC Envirotech Ltd	29
15.	City Developments Ltd	31
16.	CMA CGM (Parent of Neptune Orient Lines)	33
17.	CWT International Ltd (Parent of CWT Ltd)	35
18.	ESR-REIT	37
19.	First Real Estate Investment Trust	39
20.	Fraser & Neave Ltd	41
21.	Frasers Centrepoint Trust	43
22.	Frasers Commercial Trust	45
23.	Frasers Hospitality Trust	47
24.	Frasers Property Ltd	49
25.	G8 Education Ltd	51
26.	Golden Agri-Resources Ltd	53
27.	GuocoLand Ltd	55
28.	Heeton Holdings Ltd	57
29.	Hong Fok Corp Ltd	59
30.	Hongkong Land Holdings Ltd	61

B. COMPANY OUTLOOKS – CORPORATES (cont.)	Page No.
31. Hotel Properties Ltd	63
32. Keppel Corp Ltd	65
33. Keppel Real Estate Investment Trust	67
34. Keppel Telecommunications &Transportation	69
35. Lippo Malls Indonesia Retail Trust	71
36. Mapletree Commercial Trust	73
37. Mapletree North Asia Commercial Trust	75
38. Mapletree Industrial Trust	77
39. Mapletree Logistics Trust	79
40. Olam International Ltd	81
41. OUE Ltd	83
42. Oxley Holdings Ltd	85
43. Perennial Real Estate Holdings Ltd	87
44. Sabana Shari'ah Compliant Industrial Trust	89
45. Sembcorp Industries Ltd	91
46. Singapore Airlines Ltd	93
47. Singapore Post Ltd	95
48. Singapore Telecommunications Ltd	97
49. Soilbuild Business Space REIT	99
50. Starhill Global REIT	101
51. StarHub Ltd	103
52. Suntec REIT	105
53. Wharf Holdings Ltd	107
54. Wheelock & Co Ltd	109
55. Wing Tai Holdings Ltd	111
56. Wing Tai Properties Ltd	113

C. COMPANY OUTLOOKS - FINANCIAL INSTITUTIONS **Page No.**

57.	ABN AMRO Bank N.V.	116
58.	Australia & New Zealand Banking Group Ltd	118
59.	Bank of China Ltd	120
60.	Barclays PLC	122
61.	BNP Paribas SA	124
62.	BPCE SA	126
63.	China Construction Bank Corporation	128
64.	Commerzbank AG	130
65.	DBS Group Holdings Ltd	132
66.	HSBC Holdings PLC	134
67.	Julius Baer Group Ltd	136
68.	Landesbank Baden-Württemberg	138
69.	National Australia Bank Ltd	140
70.	Société Générale	142
71.	Standard Chartered PLC	144
72.	United Overseas Bank Ltd	146
73.	Westpac Banking Corporation	148

Corporate Outlooks

Credit Outlook – The ASCHTS 3.3% '20s which is trading at a YTW of 2.57% is tight in our view and we are underweight the bond.

Issuer Profile: Neutral (4)

Ticker: **ASCHTSP**

Background
Ascendas Hospitality Trust ("ASCHT") is a hospitality trust which owns a portfolio of 14 hotels across Australia, Korea, Japan and Singapore. ASCHT is a stapled group comprising Ascendas Hospitality Real Estate Investment Trust ("A-HREIT") and Ascendas Hospitality Business Trust ("A-HBT"). ASCHT is sponsored by the Ascendas-Singbridge Group, which has a ~28% deemed interest in ASCHT.

Ascendas Hospitality Trust

Key credit considerations

- **Operating performance declined:** ASCHT had divested its China portfolio in May-18. Excluding China from our analysis, gross revenue in the second quarter for financial year ending March 2019 ("2QFY2019") was down 11.9% y/y to SGD46.4mn due to lower gross rental revenue (-7.1% y/y by SGD2.6mn) and weaker F&B revenue (-22.1% y/y by SGD2.8mn). Net property income ("NPI") (excluding China) fell by a smaller extent of 7.5% y/y to SGD20.5mn due to a 15.2% y/y lower total property expenses. Geographically, the lower revenue is largely due to the dip in contributions from Australia by 13.7% y/y (~SGD5.6mn) which was exacerbated by the weakening of AUD against SGD.

- **Heavily influenced by performance in Australia:** ASCHT has six properties across Sydney, Melbourne and Brisbane, accounting for 76.3% of portfolio revenue but only 50.2% of NPI in 2QFY2019 due to underperformance and unfavourable FX movement. During the period, RevPAR fell 4.7% y/y to AUD141, average daily rates by 3.0% y/y and occupancy by 1.8% to 85.8% (from 87.6% in 2QFY2018) with Sydney being the worst hit due to availability of new supply. Looking forward, management expects the soft market conditions in Sydney to persist in the near term, Melbourne to see large new supply over the next few years and things to be moderate in Brisbane. These three cities – Sydney, Melbourne and Brisbane make up 52.1%, 22.2% and 25.7% of the Australia portfolio respectively (based on number of rooms).

- **Further expansion into South Korea:** On 12 Dec 2018, ASCHT completed the acquisition of a 98.8%-stake in Ibis Ambassador Seoul Insadong in South Korea (1.2%-stake is indirectly held by Sponsor of ASCHT). KRW78.1bn (~SGD95.2mn) total acquisition cost (including transaction costs) for ASCHT's stake is likely to have been fully funded with external debt as guided by management. This followed closely after ASCHT's maiden entry into Seoul with acquisition of Splaisir Dongdaemun in May-18. Post-acquisition, ASCHT is estimated to have a NPI exposure of ~8% to South Korea.

- **Acquisition in Japan is near completion:** Earlier in the year, ASCHT bought three WBF hotels (WBF West, WBF East and WBF Honmachi) in Osaka, Japan. The WBF Hotels are expected to start contributing positively to ASCHT's NPI from 3QFY2019 (acquisition for WBF West and WBF East were completed at end Sep-18 while the acquisition of WBF Honmachi was completed on 20 December 2018). With that, ASCHT estimated that Osaka, Japan will account for ~28% of portfolio based on number of room (from ~18% prior to the transaction). These changes helped to diversify ASCHT's income streams and reduced the reliance on a single market or property.

- **Low refinancing risk despite higher aggregate leverage:** Aggregate leverage as at 31 October 2018 was 30.8%, up from 23.7% due to the drawdown of JPY7.5bn to fund WBF West and WBF East and the loan of AUD180.0mn taken up. We estimate that ASCHT is likely to incur JPY3.7bn (~SGD45.0mn) debt in Jan-19 for WBF Honmachi and KRW78.1bn (~SGD95.2mn) in Dec-18 for Ibis Ambassador Seoul Insadong in South Korea, leading to higher a debt level of ~SGD714.9mn and a pro forma aggregate leverage of ~35.7%. As at Sep-18, ASCHT has just SGD14.9mn coming due in the remaining of 2018, none in 2019 and SGD75mn in 2020. With SGD160.3mn cash on hand, refinancing risk is minimal. Further, we do not expect ASCHT to fund its near term external funding needs with short term debt hence refinancing risk should remain low.

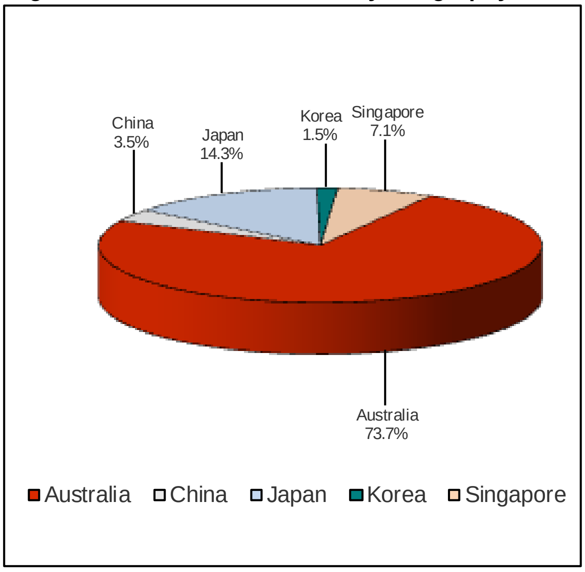
Ascendas Hospitality Trust

Table 1: Summary Financials

Year Ended 31st March	FY2017	FY2018	1H2019
Income Statement (SGD'mn)			
Revenue	224.4	203.3	91.3
EBITDA	89.9	77.9	34.8
EBIT	62.3	54.0	23.1
Gross interest expense	17.7	15.3	5.5
Profit Before Tax	56.7	27.1	15.1
Net profit	48.5	17.3	12.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	86.2	67.4	160.3
Total assets	1,725.9	1,739.3	1,864.3
Short term debt	64.3	155.7	14.9
Gross debt	555.2	535.2	574.7
Net debt	469.0	467.7	414.5
Shareholders' equity	1,033.2	1,039.4	1,138.5
Cash Flow (SGD'mn)			
CFO	66.6	86.1	38.0
Capex	11.2	13.7	9.0
Acquisitions	0.0	0.0	183.4
Disposals	0.0	19.5	218.7
Dividends	60.8	64.7	35.4
Interest paid	16.7	14.5	5.5
Free Cash Flow (FCF)	55.4	72.4	29.0
Key Ratios			
EBITDA margin (%)	40.0	38.3	38.1
Net margin (%)	21.6	8.5	14.2
Gross debt to EBITDA (x)	6.2	6.9	8.3
Net debt to EBITDA (x)	5.2	6.0	6.0
Gross Debt to Equity (x)	0.54	0.51	0.50
Net Debt to Equity (x)	0.45	0.45	0.36
Gross debt/total asset (x)	0.32	0.31	0.31
Net debt/total asset (x)	0.27	0.27	0.22
Cash/current borrowings (x)	1.3	0.4	10.7
EBITDA/Total Interest (x)	5.1	5.1	6.3

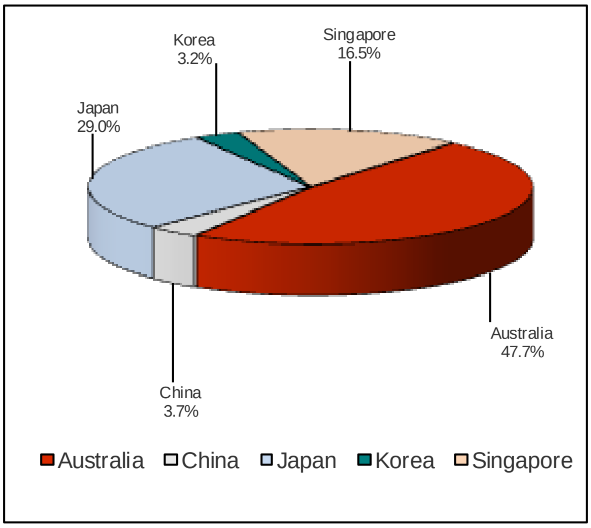
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 1H2019



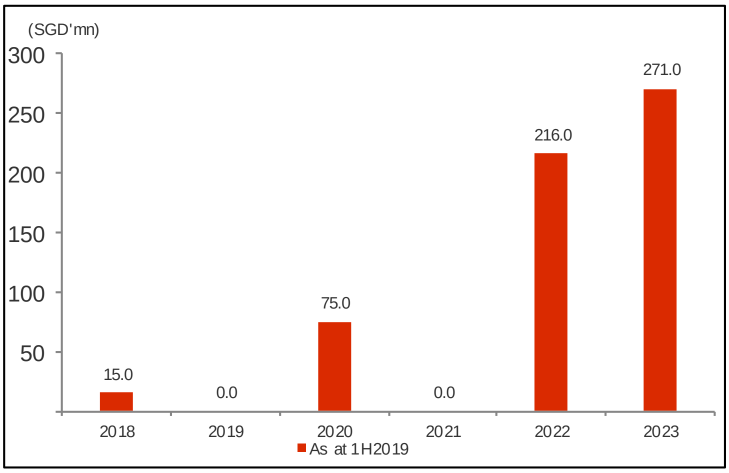
Source: Company

Figure 2: NPI breakdown by Geography - 1H2019



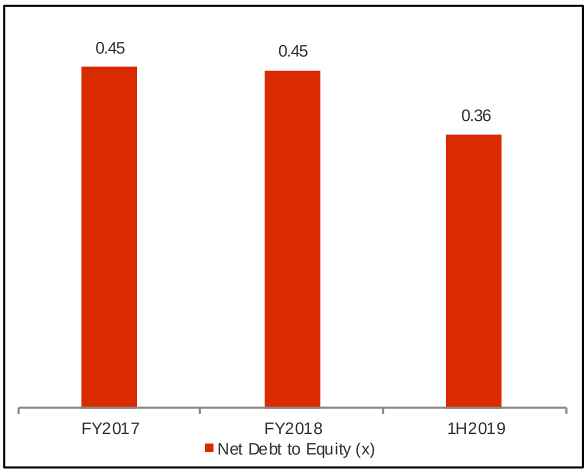
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Ascendas Real Estate Investment Trust

Credit Outlook – We like the AREIT 4.75%-PERP with a short first call date in October 2020. Assuming AREIT calls at first call, the YTC is at 3.42%, while senior-perpetual spread has widened to 100bps. For the seniors, we are underweight the AREIT 2.5% '19s and AREIT 2.95% '20s as a switch into the CAPLSP 4.35% '19s and CAPLSP 4.3% '20s would allow a spread pick up of 20-30bps. We hold both at the same issuer profile of Neutral (3).

Issuer Profile: Neutral (3)

Ticker: **AREIT**

Background

Ascendas REIT ("AREIT") is the largest business space and industrial REIT in Singapore, with total assets of SGD10.8bn as at 30 September 2018. AREIT owns a diversified portfolio of 145 properties as at 30 September 2018, 99 are in Singapore, 35 in Australia and 11 are in the UK. AREIT is sponsored by the Ascendas-Singbridge group, which has a deemed interest of ~18.9% in AREIT.

Key credit considerations

- **Acquisition led top-line growth:** In the second quarter for the financial year ending March 2019 ("2QFY2019"), AREIT's gross revenue increased by 1.1% y/y to SGD218.1mn driven by two Melbourne acquisitions, its first portfolio asset in the UK (12 logistics properties), contribution from 100 and 108 Wickham Street in Queensland and the redevelopment completion of 20 Tuas Avenue 1 in Singapore. These were partly offset by lower occupancy of properties in Singapore (overall Singapore occupancy was at 87.1%, down from 90.1% as at 30 September 2017). On 7 September 2018, the construction of 1-7 Wayne Goss Drive in Brisbane was completed. The property is still physically vacant though with a vendor rental support. Removing impact of asset movements, we estimate that AREIT's gross revenue had declined ~1% q/q.

- **Lower interest coverage ratio though still manageable:** EBITDA (based on our calculation) was SGD143.2mn, down 1.8% y/y due to higher management fees and higher professional and transaction fees on acquisition. Management fees had risen 5.0% y/y to SGD13.4mn in line with the larger asset size (SGD10.8bn as at 30 September 2018 from SGD10.3bn as at 30 September 2017). Trust and other expenses have also increased due to expenses incurred from investment activities. Interest expense had increased 16.2% y/y to SGD31.6mn, driven by higher average debt balance in 2QFY2019 against 2QFY2018. Additionally, AREIT's interest cost is now higher (3.0% as at 30 September 2018, 10 bps more than 30 September 2017). Resultant EBITDA/Interest coverage was lower at 4.5x (2QFY2018: 5.4x), also lower than the immediately preceding quarter of 5.0x.

- **Entry into new market UK:** In 2QFY2019, AREIT spent SGD437.2mn in investing outflows, of which ~SGD364mn would have gone towards the purchase of its first portfolio in the UK (completed in August 2018). The proposed acquisition was originally fully funded by GBP debt. On 7 September 2018, AREIT raised gross proceeds of SGD452.1mn in an equity private placement where SGD250mn was intended to go towards funding a second UK portfolio, SGD109mn for the funding of a build-to-suit facility in Singapore with the rest for debt repayment. Reflecting AREIT's ample financial flexibility from capital markets and rare among REITs in Singapore, this equity placement was raised as a "blank cheque", with details of the proposed second UK acquisition lacking. With cash fungible and AREIT only reporting SGD27.1mn in cash balance as at 30 September 2018, we think it is likelier that the equity proceeds had been used for other matters. AREIT completed the SGD459.2mn acquisition of 26 logistics properties in the UK on 4 October 2018.

- **Aggregate leverage would have increased from buying second UK portfolio:** As at 30 September 2018, reported aggregate leverage was healthy at 33.2% (30 June 2018: 35.7%). Adding 50% of perpetual as debt, we find adjusted aggregate leverage at 34.6%, still manageable. Nonetheless, with the completion of the second UK portfolio, we estimate that AREIT's aggregate leverage would have risen back to ~36%. We assume that AREIT would have needed to raise acquisition debt for the second UK portfolio. By asset value, the UK would be ~8% of AREIT's portfolio, with Australia at 14% and 78% from Singapore. AREIT has spent the past three years diversifying and this trend into new developed markets has been a constant theme despite management changes.

- **Manageable refinancing risk:** Short term debt coming due as at 30 September 2018 was SGD768.1mn, representing 22% of total debt. We continue to see AREIT's refinancing risk as manageable, with its strong access to capital markets and large unencumbered investment properties of SGD9.6bn (representing 90.4% of total investment properties at 30 September 2018).

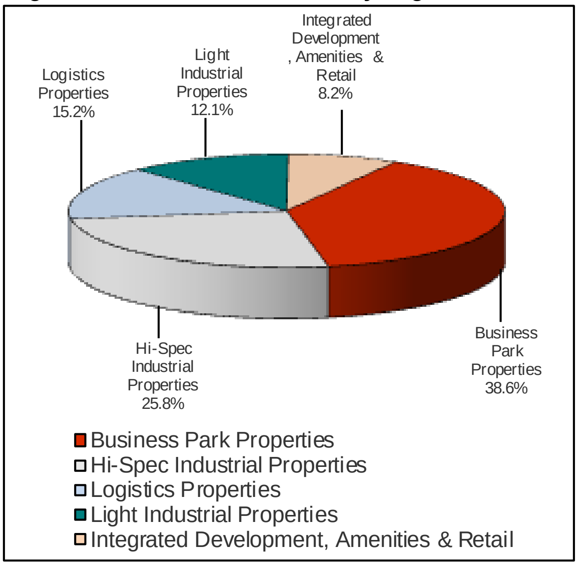
Ascendas Real Estate Investment Trust

Table 1: Summary Financials

Year Ended 31st March	FY2017	FY2018	1H2019
Income Statement (SGD'mn)			
Revenue	830.6	862.1	434.7
EBITDA	550.3	571.0	287.6
EBIT	550.2	571.0	287.6
Gross interest expense	117.7	109.8	60.8
Profit Before Tax	408.5	496.9	235.1
Net profit	427.5	494.1	230.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	22.0	25.0	27.1
Total assets	10,170.8	10,353.8	10,814.0
Short term debt	824.2	909.9	768.1
Gross debt	3,400.1	3,519.2	3,553.8
Net debt	3,378.1	3,494.2	3,526.7
Shareholders' equity	6,335.1	6,498.7	6,931.2
Cash Flow (SGD'mn)			
CFO	529.3	538.9	299.7
Capex	103.0	132.7	51.2
Acquisitions	494.4	226.6	473.1
Disposals	405.6	60.8	37.6
Dividends	515.2	308.8	237.9
Interest paid	111.5	118.4	60.5
Free Cash Flow (FCF)	426.3	406.2	248.5
Key Ratios			
EBITDA margin (%)	66.2	66.2	66.2
Net margin (%)	51.5	57.3	53.0
Gross debt to EBITDA (x)	6.2	6.2	6.2
Net debt to EBITDA (x)	6.1	6.1	6.1
Gross Debt to Equity (x)	0.54	0.54	0.51
Net Debt to Equity (x)	0.53	0.54	0.51
Gross debt/total asset (x)	0.33	0.34	0.33
Net debt/total asset (x)	0.33	0.34	0.33
Cash/current borrowings (x)	0.0	0.0	0.0
EBITDA/Total Interest (x)	4.7	5.2	4.7

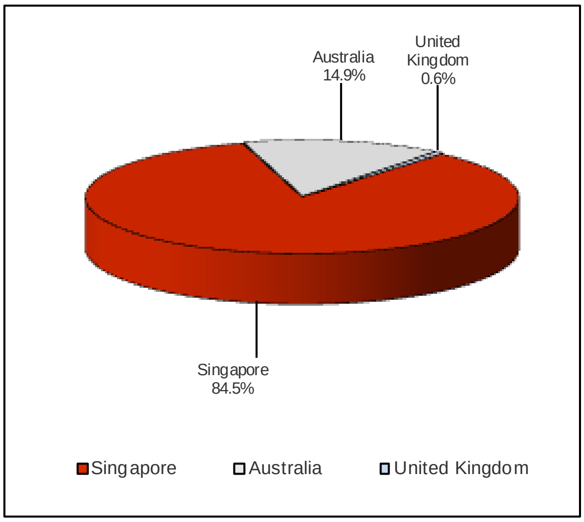
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2019



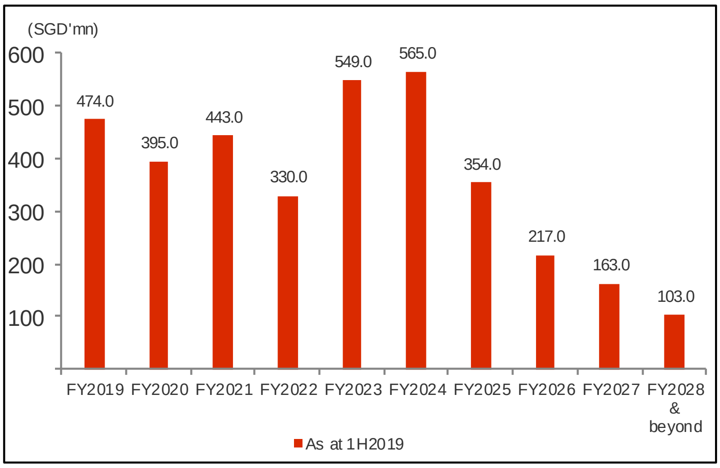
Source: Company

Figure 2: NPI breakdown by Geography - 1H2019



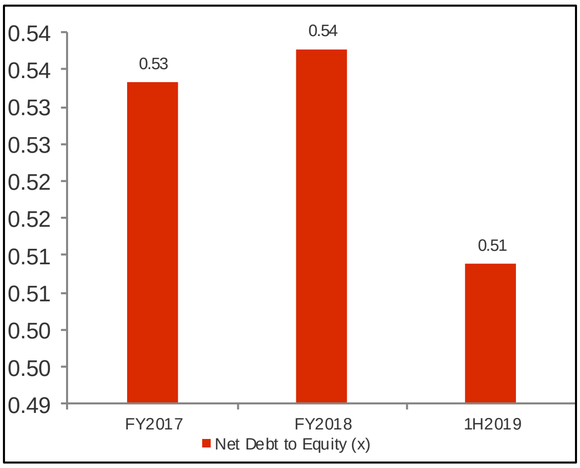
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Within the ARTSP seniors, we prefer the ARTSP 4% '24s which has an ask YTM of 3.47% (153bps spread). This is 40bps more than the ARTSP 4.205% '22s (111bps spread) which more than compensates for its 1.3 year longer tenor. With a senior-perp spread of less than 70bps (adjusting for tenor), we are underweight the ARTSP 5.0%-PERP and neutral the ARTSP 4.68%-PERP.

Issuer Profile: Neutral (4)

Ticker: **ARTSP**

Background

Ascott Residence Trust ("ART") invests primarily in serviced residences and rental housing properties. It is the largest hospitality trust listed in the SGX with a market cap of SGD2.3bn. As at 30 September 2018, ART's portfolio consists of 73 properties with 11,430 units across 37 cities in 14 countries. By asset value, 60% of ART's assets are located in the Asia-Pacific region (Singapore contributing 18.8% to ART), 27.7% in Europe (of which France and UK contributes 10.6% and 9.5% respectively). 12.4% of assets are in New York City.

Ascott Residence Trust

Key credit considerations

- **Growth from existing properties:** Gross revenue increased 6.0% y/y to SGD134.5mn in 3Q2018 on the back of additional revenue from new acquisitions; the acquisition of Ascott Orchard Singapore (October 2017) while the DoubleTree by Hilton Hotel New York Times Square South was acquired in August 2017. This was partly offset by decrease in revenues from two divested properties in China. Encouragingly, revenue from ART's existing properties grew (representing 48% of the total y/y growth). Singapore and the UK in particular saw stronger demand from guests. Revenue Per Available Unit ("RevPAU") for the two Singapore properties not on Master Leases grew significantly by 19% y/y to SGD217, albeit from a low base in 3Q2017. UK properties are under Management Contracts (with Minimum Guaranteed Income) and saw RevPAU grow 6% y/y to GBP140.

- **Contribution from Master Leases tilted down to historical norms:** On a q/q basis, Master Leases now contribute less to reported gross profit. This follows the reclassification of Infiniti Garden as a property under Management Contracts. In 3Q2018, Master Leases contributed 29% to reported gross profit (2Q2018: 32% and 1Q2018: 39%). Australia reported gross profit grew 5.9% y/y in AUD terms though this was offset by the weaker AUD against SGD. In France, ART had received lower rents upon the lease renewal of Master Leases of four properties. We expect ART's remaining French Master Leases to be renewed at lower rates in the next one to three years. By rental income and excluding properties on Master Leases, average length of stay had gradually shortened, with 58% of guests now staying at ART properties for less than a week (9M2017: 56%).

- **Interest coverage improved slightly:** Despite the stronger reported gross profit of SGD64.2mn (up 9.2% y/y), EBITDA (based on our calculation which does not include other income and other expenses) was up 8.0% y/y to SGD59.6mn, driven by an 11.6% y/y increase in management fees from an enlarged asset base. Finance costs were up 5.9% y/y to SGD12.0mn as ART had taken more debt to fund acquisitions. Resultant EBITDA/Interest though was manageable at 5.0x (3Q2017: 4.9x). Outstanding perpetuals was SGD401.9mn as at 30 September 2018. Assuming that ART pays out SGD19.2mn p.a. in distribution for perpetuals per annum, we find EBITDA/Interest plus 50% perpetual distribution at 4.1x in 3Q2018.

- **Aggregate leverage rising:** As at 30 September 2018, aggregate leverage had risen to 36.4% (30 June 2018: 35.7%). Including 50% of perpetuals as debt, we find adjusted aggregate leverage at 40%, on the high-side versus other REITs we cover. Shorter term debt was SGD240.0mn, making up only 13% of total debt and manageable in our view. This includes ART's SGD100mn bond which matured end-November 2018 and was refinanced by a new SGD100mn five year bond raised on 1 November 2018.

- **First greenfield development - Co-living space**: ART is acquiring a land site in one-north, Singapore for the development of a co-living building under its Sponsor's "lyf" brand. Including the site tender price, the total development cost is ~SGD117mn, to be fully debt funded. This is a small project relative to ART's total asset size of SGD5.3bn and within the development threshold for REITs set by the regulators. We expect ART's aggregate leverage to rise to 38% and adjusted aggregate leverage to rise to 42%. ART's extended stay segment traditionally targets corporate demand (eg: newly relocated expatriates or staff on long-term assignments in Singapore). In our view, the pool of expats are now younger, involved in new growth sectors, with divergent priorities and typically with less generous budgets for accommodation and view ART's move into this segment positively.

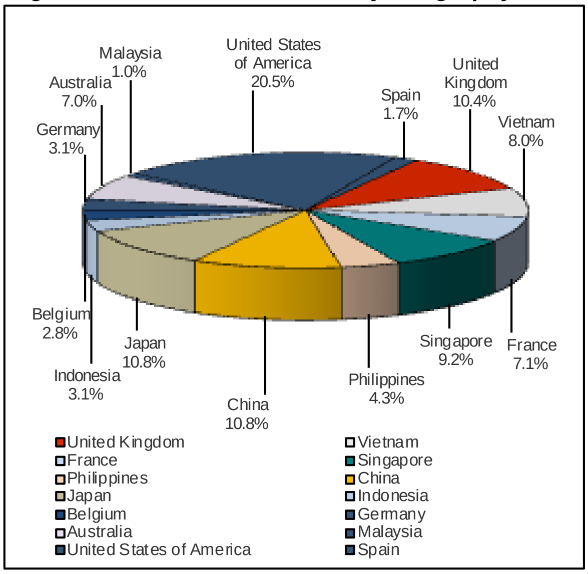
Ascott Residence Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	475.6	496.3	377.8
EBITDA	207.4	212.1	163.3
EBIT	194.5	198.8	153.8
Gross interest expense	50.0	46.7	35.3
Profit Before Tax	179.5	274.4	142.7
Net profit	147.8	222.5	118.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	143.1	257.3	219.2
Total assets	4,791.3	5,493.1	5,273.1
Short term debt	147.0	264.3	240.0
Gross debt	1,862.6	1,945.4	1,875.4
Net debt	1,719.6	1,688.0	1,656.2
Shareholders' equity	2,682.3	3,171.7	3,123.5
Cash Flow (SGD'mn)			
CFO	200.1	181.3	166.4
Capex	57.4	26.2	18.0
Acquisitions	214.0	628.0	0.0
Disposals	74.8	262.5	90.2
Dividends	150.1	166.8	161.9
Interest paid	49.3	46.6	29.2
Free Cash Flow (FCF)	142.8	155.1	148.4
Key Ratios			
EBITDA margin (%)	43.6	42.7	43.2
Net margin (%)	31.1	44.8	31.3
Gross debt to EBITDA (x)	9.0	9.2	8.6
Net debt to EBITDA (x)	8.3	8.0	7.6
Gross Debt to Equity (x)	0.69	0.61	0.60
Net Debt to Equity (x)	0.64	0.53	0.53
Gross debt/total asset (x)	0.39	0.35	0.36
Net debt/total asset (x)	0.36	0.31	0.31
Cash/current borrowings (x)	1.0	1.0	0.9
EBITDA/Total Interest (x)	4.1	4.5	4.6

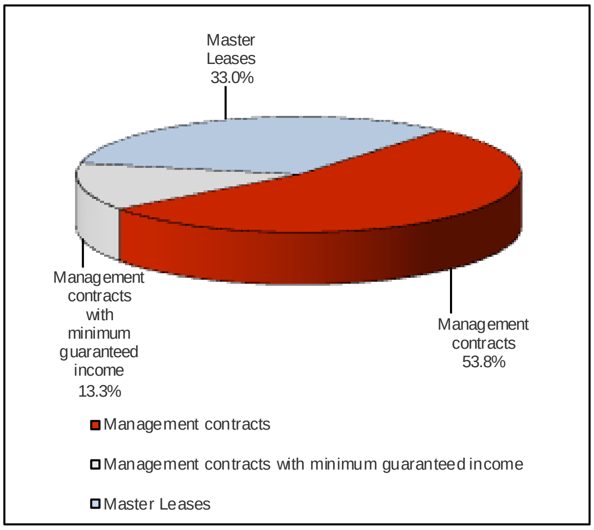
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 9M2018



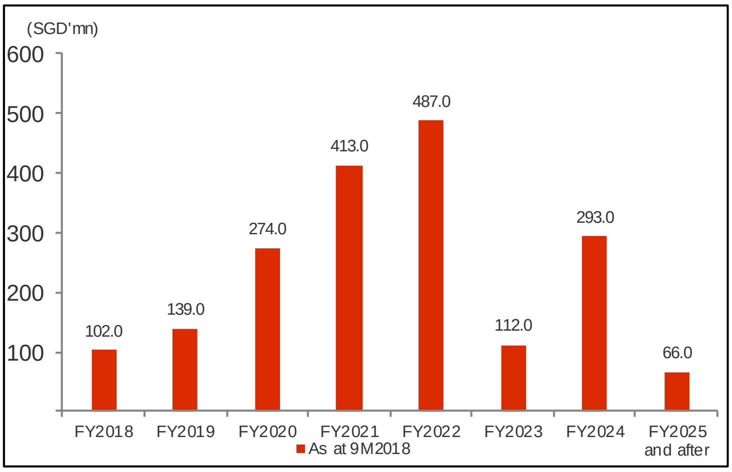
Source: Company

Figure 2: Gross breakdown by Profit Segment - 9M2018



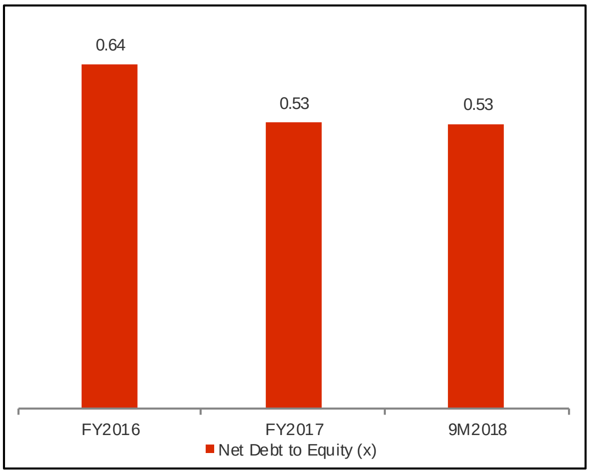
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Despite the high yields, we are Neutral on the ASPSP curve given the weak credit metrics. We prefer the bonds issued by China HY developers instead.

Issuer Profile: Negative (6)

Ticker: **ASPSP**

Background

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 (main brands: Lee Hwa, Goldheart and CITIGEMS) to a diversified company with real estate and pawnshop businesses. Aspial has a market capitalization of SGD426.0mn as of 2 Jan 2019. Aspial is 83%-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

- **Results propelled by Australian property development:** Aspial reported 3Q2018 results. Revenue surged 217% y/y to SGD347.0mn, mainly due to the Real Estate Business with sales of development properties recognised by its 81.1%-owned subsidiary World Class Global, from the settlement and handover of completed residential units for Avant and Australia 108 projects in Melbourne, Australia. As a result, pre-tax profit from this segment surged to SGD33.1mn (3Q2017: SGD2.3mn), which is the primary contributor to Aspial's (as a group) profit before tax of SGD32.6mn (+813% y/y). Despite the near completion of CityGate which should see its revenue contribution reducing going forward, we expect the property segment to remain as the anchor of Aspial's performance with another SGD680mn of unbilled contracts from Australia 108 while Aspial is continuing with the sale of 187-units Nova City project in Cairns (completion from 2019), which is 54% sold.

- **Growth from Financial Services and Jewellery segments though these remain a small contributor:** Aside from the property segment, Aspial also saw growth from other segments though pre-tax profits from these segments remain sluggish. Financial services revenue grew 12% y/y to SGD51.1mn from higher income from pawnbroking and secured lending through pre-tax profit (-42% y/y to SGD2.8mn) was likely affected by foreign exchange losses. That said, we like the pawnbroking segment as it contributes near-recurring income with interest-bearing loans of 1.0%-1.5% to customers that are typically significantly over-collateralised. While Jewellery Business saw revenue growing 14.4% y/y to SGD30.1mn, pre-tax losses continued at SGD2.1mn (pre-tax loss in 3Q2017: SGD2.5mn), albeit smaller with maiden profit contribution from Niessing operations and lower loss from retail business in Singapore.

- **Meeting the near-term cashflow needs:** We expect the liquidity position of Aspial to improve following the issue of SGD50mn ASPSP 6.25% '21s (comprising SGD20.75mn new monies, SGD3.75mn exchanged from ASPSP '18s and SGD25.5mn exchanged from ASPSP '19s). SGD51mn of ASPSP '18s was subsequently redeemed on Nov 2018, which was met as Aspial held SGD115.0mn in cash as of end-3Q2018. We estimate that ~SGD720mn debt remains due in the coming 12 months (after the exchange and redemption of the bonds). However, we are not overly worried in the near-term as (1) SGD247.5mn of the debt sits at 64.7%-owned Maxi-Cash (and not Aspial), (2) SGD680mn of unbilled contracts remain from Australia 108, of which SGD228mn is expected to be received from further settlement and handover for Avant and Australia 108 in 4Q2018 while (3) ~SGD85mn of cash should remain post issuance, exchange and redemption of bonds. As such, execution in delivering the units will be crucial. We also considered the stakes in Maxi-Cash (market value: ~SGD91mn) and SGD145.7mn of investment securities though it is not clear if these can be easily monetised when the need arises. As only a small proportion of bondholders opted for the exchange to ASPSP 6.25% '21s with a small issuance size, we think Aspial may have to pay up significantly in order to access the capital markets.

- **Credit metrics still weak though improvements are expected:** Net gearing level remains elevated though it has improved to 2.77x in 3Q2018 (2Q2018: 3.37x). We expect net gearing to come down further (likely below 2.0x, depending on management's commitment to deleverage) with Aspial guiding for its equity, cash and debt position to improve. Aspial also guided to use part of the cash proceeds to purchase some of its remaining term notes and bonds (e.g. ASPSP 5.05% '19s, ASPSP 5.25% '20s, ASPSP 5.3% '20s) prior to maturity.

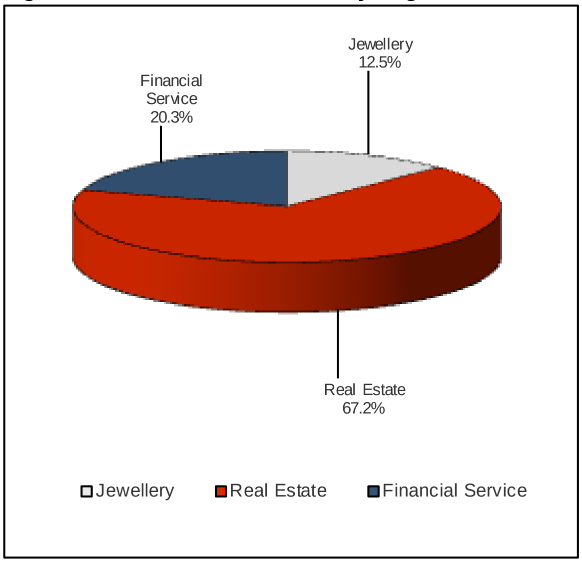
Aspial Corp Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	621.0	485.1	771.7
EBITDA	26.9	26.4	66.7
EBIT	22.2	20.8	61.8
Gross interest expense	57.3	54.6	22.2
Profit Before Tax	6.9	14.8	57.4
Net profit	4.8	5.8	41.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	70.3	54.9	115.0
Total assets	1,721.8	2,000.5	1,895.4
Short term debt	503.5	777.2	800.4
Gross debt	1,253.1	1,484.6	1,351.1
Net debt	1,182.8	1,429.7	1,236.1
Shareholders' equity	376.9	426.7	445.6
Cash Flow (SGD'mn)			
CFO	57.6	-148.2	223.6
Capex	24.2	40.0	14.9
Acquisitions	0.0	6.1	-2.0
Disposals	275.4	246.4	116.7
Dividend	9.9	5.3	12.6
Interest paid	-53.1	-51.2	-52.3
Free Cash Flow (FCF)	33.4	-188.1	208.7
Key Ratios			
EBITDA margin (%)	4.3	5.4	8.6
Net margin (%)	0.8	1.2	5.3
Gross debt to EBITDA (x)	46.6	56.3	15.2
Net debt to EBITDA (x)	43.9	54.2	13.9
Gross Debt to Equity (x)	3.33	3.48	3.03
Net Debt to Equity (x)	3.14	3.35	2.77
Gross debt/total assets (x)	0.73	0.74	0.71
Net debt/total assets (x)	0.69	0.71	0.65
Cash/current borrowings (x)	0.1	0.1	0.1
EBITDA/Total Interest (x)	0.5	0.5	3.0

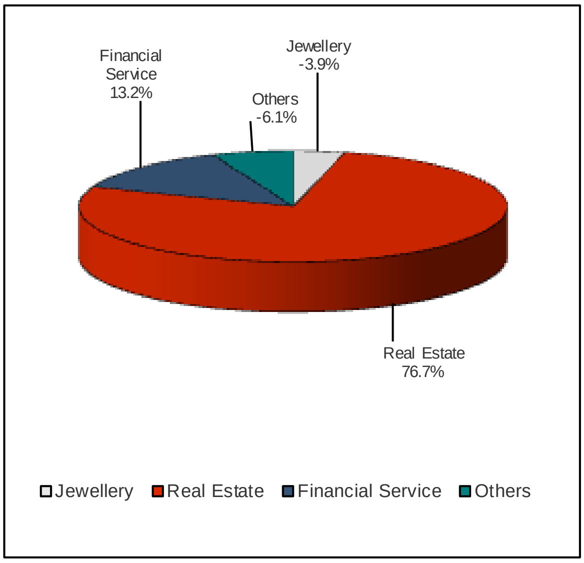
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2018



Source: Company | Excludes Others

Figure 2: PBT breakdown by Segment - 9M2018



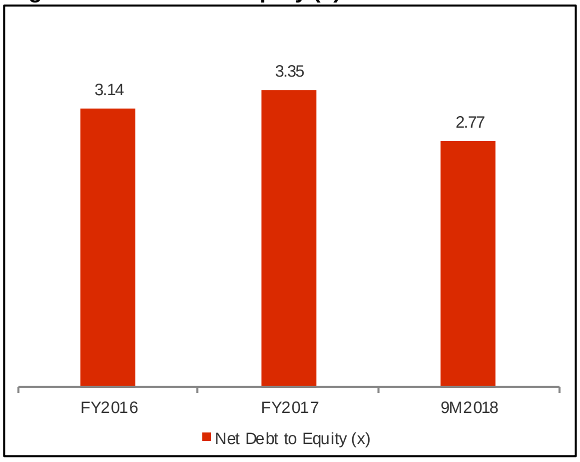
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	2.8	0.3%
Unsecured	119.9	15.1%
	122.7	**15.4%**
Amount repayable after a year		
Secured	631.3	79.2%
Unsecured	42.8	5.4%
	674.1	**84.6%**
Total	**796.8**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We are neutral the BTHSP 4.875% '19s given the less than 6 months to maturity. We are underweight the BTHSP 4.85% '20s (300bps spread) and think it should be trading wider than the OUESP 3.8% '20s (315bps spread) on account of BTH's smaller scale and tighter liquidity profile.

Issuer Profile: Neutral (5)

Ticker: **BTHSP**

Background

Banyan Tree Holdings ("BTH"), listed on the SGX is an international developer and operator of resorts residences, spas, retail galleries and golf courses. BTH's flagship brand "Banyan Tree" is a household name regionally in the high-end hospitality segment. BTH now holds an ~86%-stake in Laguna Resorts & Hotels Pcl ("LRH"), which is listed on the Thailand Stock Exchange ("SET").

Banyan Tree Holdings

Key credit considerations

- **Growth in revenue:** BTH's revenue increased 2% y/y to SGD69.7mn in 3Q2018, driven by increases in Property Sales and Fee-based segments. Revenue from 23 units were recognized during the quarter, lower versus 46 units in 3Q2017, although top line for the Property Sales segment was boosted by forfeiture of deposits from buyers who did not see through their unit purchases (up 10% y/y to SGD17.1mn). As at 30 September 2018, BTH had SGD203.1mn in unrecognised revenue from Property Sales (which would be recognised upon delivery), of which ~SGD26.4mn is expected to be recognized in 4Q2018. Fee-based segments revenue was up 13% y/y to SGD14.7mn, driven by Hotel/Fund/Club Management sub-segment, this was due to more hotels managed by BTH and residential projects using the "Banyan Tree" brand though owned and developed by third parties. Hotel Investments (hotels where BTH has an ownership stake) declined 5% y/y to SGD37.9mn mainly due to weaker performance in Thailand (driven by decline in tourist arrivals) and de-consolidation of China properties.

- **Excluding one-off, EBITDA has improved though insufficient to cover interest:** 3Q2018 EBITDA (based on our calculation which does not include other income) was SGD6.5mn versus SGD7.7mn in interest expense. While EBITDA is insufficient to cover interest expense, encouragingly this had improved, compared to 3Q2017 where BTH saw a loss before interest tax, depreciation and amortisation of SGD6.2mn. 3Q2018's reported operating profit was boosted by a large one-off arising from BTH's partial sale of its Chinese hospitality business to China Vanke Co. Ltd ("Vanke"). BTH holds a ~8.6% stake in Thai Wah Public Company Limited, a food business controlled by the Ho family that saw lower profit contribution during the quarter which was insufficient to offset losses of other joint ventures and associates. BTH ended 3Q2018 with a loss after tax of SGD7.4mn, factoring interest expenses, depreciation and a SGD1.1mn loss from associates.

- **Gross debt declined though net gearing slightly increased:** As at 30 September 2018, net gearing was 0.68x, slightly increased versus 0.65x as at 30 June 2018 and rising from 0.52x from end-2017 following BTH's purchase of an additional ~20.5% stake in its partly-owned subsidiary Laguna Resorts & Hotels Pcl ("LRH") from minority investors for ~SGD58mn. Post-quarter end in November 2018, BTH's Banyan Tree Seychelles resort and land plots in Seychelles was sold. We expect BTH to have received cash of ~SGD95.3mn and to record a SGD9.8mn gain in 4Q2018. As at 30 September 2018, short term debt was SGD166.2mn. With cash balance as at 30 September 2018 of SGD88.7mn and the cash from the Seychelles sale, liquidity should be sufficient to cover short term debt due.

- **Asset sales helped liquidity:** In 3Q2018, cash flow from operations (before interest but after tax) was SGD6.3mn while capital expenditure was SGD9.9mn. We think these relate to maintenance capex as refurbishments are required regularly. During the quarter, BTH repaid borrowings of SGD54.7mn (net of debt taken). The cash gap was largely funded by existing cash, including those accumulated from earlier partial sales of its Chinese assets. On 21 November 2018, BTH shared that it sold an 18.6%-stake in Banyan Tree Assets (China) Holdings Pte. Ltd ("BTAC") (via BTH's 96.3%-owned subsidiary) at a cash consideration of SGD78.6mn to Vanke. As at 30 September 2018, gross debt-to-total tangible assets were 35%. SGD466.6mn (out of SGD1.0bn) of its property-related assets has been used as collateral for secured debt financing. While property asset collateral stayed relatively constant, SGD155.4mn in shares held by BTH in a subsidiary had also been used as collateral since 2Q2018. We think this relates to BTH's stake in LRH. We think BTH's brand is monetizable, should liquidity be needed. As at 30 September 2018, intangible assets make up 2% of its total asset at SGD34.3mn.

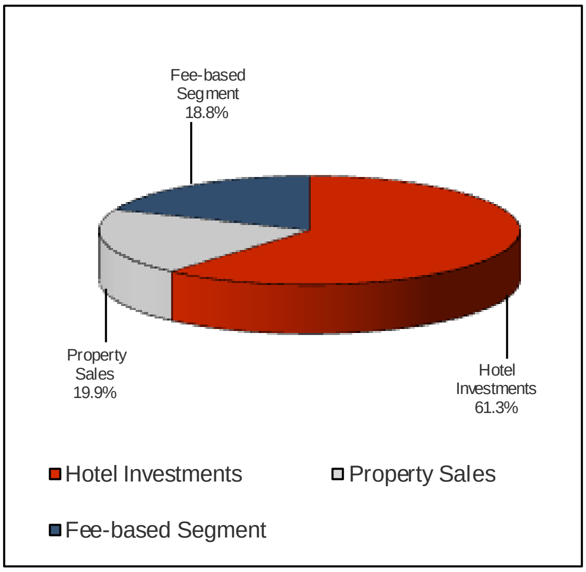
Banyan Tree Holdings

Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	309.6	317.5	236.3
EBITDA	22.0	23.7	34.9
EBIT	-3.0	-1.4	18.0
Gross interest expense	35.7	34.0	23.0
Profit Before Tax	0.7	22.7	14.0
Net profit	-7.0	14.9	8.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	108.8	159.0	88.7
Total assets	1,608.2	1,679.7	1,674.9
Short term debt	147.0	190.6	166.2
Gross debt	616.6	565.9	580.0
Net debt	507.8	407.0	491.3
Shareholders' equity	732.8	777.5	726.1
Cash Flow (SGD'mn)			
CFO	19.7	25.4	45.5
Capex	16.3	13.0	18.0
Acquisitions	3.8	0.0	76.3
Disposals	0.0	69.3	0.1
Dividend	1.2	0.6	8.8
Interest paid	-29.7	-28.2	-21.0
Free Cash Flow (FCF)	3.5	12.3	27.5
Key Ratios			
EBITDA margin (%)	7.1	7.5	14.8
Net margin (%)	-2.2	4.7	3.6
Gross debt to EBITDA (x)	28.0	23.8	12.5
Net debt to EBITDA (x)	23.0	17.1	10.6
Gross Debt to Equity (x)	0.84	0.73	0.80
Net Debt to Equity (x)	0.69	0.52	0.68
Gross debt/total assets (x)	0.38	0.34	0.35
Net debt/total assets (x)	0.32	0.24	0.29
Cash/current borrowings (x)	0.7	0.8	0.5
EBITDA/Total Interest (x)	0.6	0.7	1.5

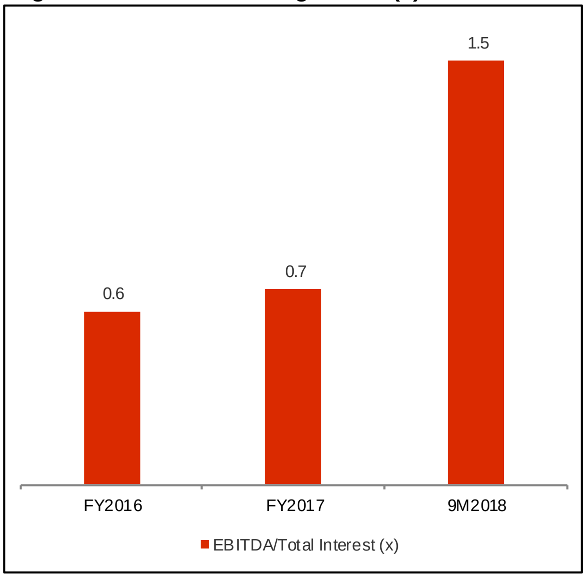
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2018



Source: Company

Figure 2: Interest Coverage Ratio (x)



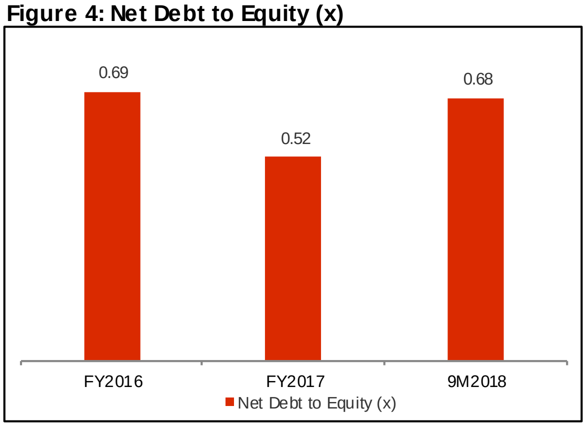
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	63.4	10.9%
Unsecured	102.7	17.7%
	166.2	**28.6%**
Amount repayable after a year		
Secured	185.9	32.0%
Unsecured	228.0	39.3%
	413.8	**71.4%**
Total	**580.0**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We think BREAD '23s look fair trading around 3.9% for a 4-year paper. As a rare F&B issuer though, this paper offer diversification for investors. In the retail space, we prefer BREAD '23s (3.9% YTM) over SGREIT '26s (3.4% YTM) with a yield pickup and shorter maturity.

Issuer Profile: Neutral (5)

Ticker: **BREAD**

Background

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 943 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 Din Tai Fung ("DTF") as a franchisee. The company is majority owned by founders George Quek (34.0%) and Katherine Lee (18.6%).

BreadTalk Group Ltd

Key credit considerations

- **Better performance from Food Atrium and Bakery segments:** Overall 3Q2018 revenue increased 2.3% y/y to SGD157.7mn. This is partly contributed by Food Atrium (+5.5% y/y to SGD40.9mn) likely due to the opening of 1 food atrium in Shenzhen and strong same store growth. EBITDA growth for Food Atrium was even stronger (+17.9% y/y to SGD8.1mn) due to higher revenue, which pushed EBITDA margins higher by 2ppt to 19.7%. Although Bakery segment revenue declined 5.2% y/y due to reduction in direct operated outlets from 240 to 223 and decline in franchise outlets from 631 to 616 stores, EBITDA for the segment grew strongly by 22.5% y/y to SGD7.8mn. This reversed trends of decline seen in 2Q2018 (which saw EBITDA plunging 40% y/y to SGD4.1mn) is likely due to progressive closure of underperforming stores in China (which depresses revenue but increases EBITDA margin). The better performance helped to offset the decline in the Restaurant segment.

- **Expansion dragged Restaurant segment performance:** While Restaurant saw revenue growth in 3Q2018 (+9.7% y/y to SGD38.7mn) with the addition of 2 outlets (1 in Singapore, 1 in Thailand), the restaurant segment was a drag on EBITDA (-20.9% y/y to SGD6.4mn) due to one-off expenses related to the UK Din Tai Fung operations incurred ahead of its official opening in 4QFY2018. That said, the Restaurant segment remains a key contributor, forming 31.6% of BGL's 3Q2018 EBITDA and 40.5% of 9M2018 EBITDA.

- **In the next phase of growth:** Following the consolidation phase to clean-up the Food Atrium and Bakery business, BGL is turning its focus to expansion, including (a) a new Din Tai Fung outlet in the UK, (b) partnered Pindao to open TaiGai in Singapore, (c) opened Song Fa Bak Kut Teh outlets in China under partnership with Song Fa and Pindao, (d) entered into a joint venture with BreadTalk franchisee Ge Ying to reenter Chongqing, (e) joint venture with PT Pura Indah Berkat to bring Toast Box into Indonesia. In its 3Q2018 results, BGL affirmed its guidance that additional capex will be put in, which we expect to come up to ~SGD50mn p.a. BGL also guided short term earnings volatility while streamlining operations in certain underperforming areas.

- **Stakes in real estate business:** While largely unrelated to its F&B business, BGL owns significant amounts in real estate. For example, BGL holds a 5.3-stake in AXA Tower (Book value: SGD19.4mn) and 29%-stake in CHIJMES (SGD22.6mn). We note that BGL, together with the other owners of AXA Tower, are looking to sell the assets – which will be credit positive if the transaction takes place. We estimate BGL also owns a ~3.7% effective stake in Beijing Tongzhou Integrated Development Phase 1 and ~2.9 effective stake in Beijing Tongzhou Integrated Development Phase 2, which are recorded on the books for SGD34.65mn. Going forward, BGL is committing to a 5%-stake in a Perennial-led China JV for property development in China targeting projects near high-speed railways, which may require SGD80mn in capital. BGL has also purchased freehold shop house located in Holland Village for SGD16.2mn.

- **Credit metrics intact, for now:** Net gearing improved to 0.20x q/q (2Q2018: 0.24x), mainly from strong operating cashflows (SGD18.5mn). Net debt / reported 9M2018 EBITDA (annualised) is also healthy at 0.6x. However, with expected short term earnings volatility, upcoming capex and capital commitment to the Perennial-led China JV, we expect credit metrics to soften going forward and net debt/EBITDA may reach ~3x. That said, we are still comfortable with BREAD given its cashflow generative business with 3 performing segments from Bakery, Food Atrium and Restaurants.

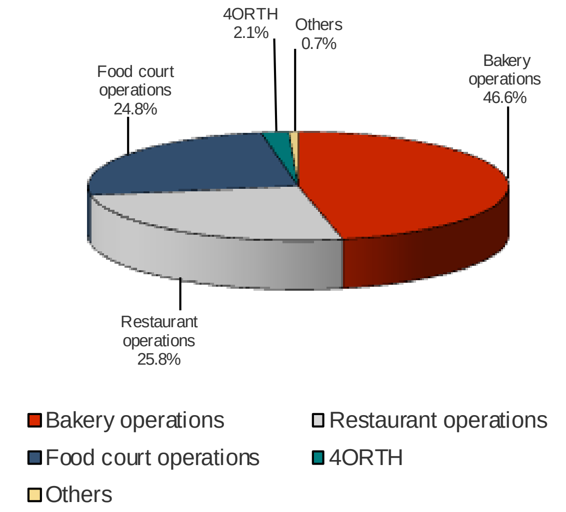
BreadTalk Group Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	615.0	599.7	455.0
EBITDA	58.0	51.2	30.0
EBIT	5.8	10.8	1.1
Gross interest expense	5.9	5.4	7.3
Profit Before Tax	29.7	41.0	20.1
Net profit	17.6	29.9	11.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	120.6	141.2	210.7
Total assets	533.9	551.6	669.7
Short term debt	7.2	19.2	31.9
Gross debt	181.3	183.3	254.3
Net debt	60.7	42.1	43.6
Shareholders' equity	151.9	154.9	213.0
Cash Flow (SGD'mn)			
CFO	82.5	77.6	34.8
Capex	31.9	30.2	24.8
Acquisitions	2.8	20.0	0.5
Disposals	16.4	30.8	20.3
Dividend	9.7	20.3	11.3
Interest paid	-5.9	-5.4	-7.3
Free Cash Flow (FCF)	50.6	47.4	10.0
Key Ratios			
EBITDA margin (%)	9.4	8.5	6.6
Net margin (%)	2.9	5.0	2.6
Gross debt to EBITDA (x)	3.1	3.6	6.4
Net debt to EBITDA (x)	1.0	0.8	1.1
Gross Debt to Equity (x)	1.19	1.18	1.19
Net Debt to Equity (x)	0.40	0.27	0.20
Gross debt/total assets (x)	0.34	0.33	0.38
Net debt/total assets (x)	0.11	0.08	0.07
Cash/current borrowings (x)	3.8	2.5	1.7
EBITDA/Total Interest (x)	9.8	9.5	4.1

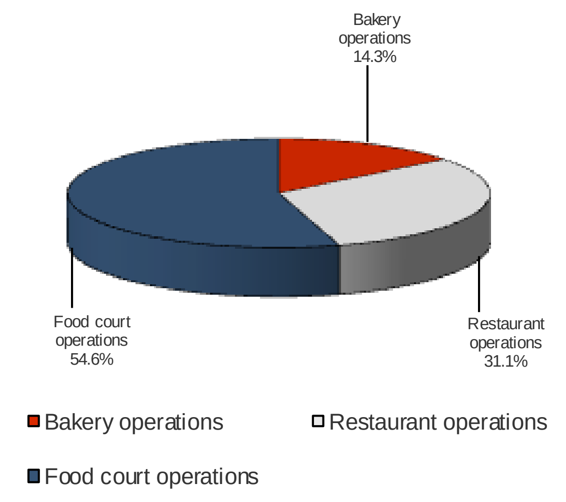
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2018



Source: Company

Figure 2: PBT breakdown by Segment - 9M2018



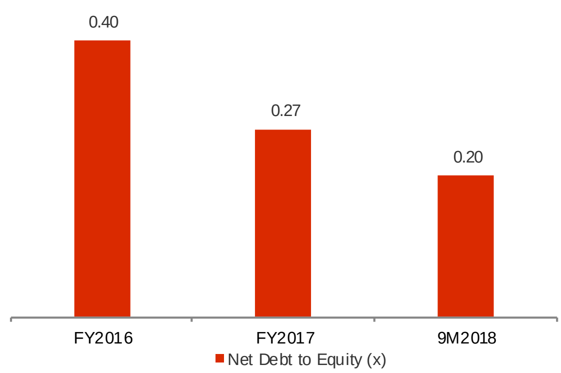
Source: Company | Excludes 4orth and Others

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	20.8	8.2%
Unsecured	103.8	40.8%
	124.6	**49.0%**
Amount repayable after a year		
Secured	29.2	11.5%
Unsecured	100.5	39.5%
	129.7	**51.0%**
Total	**254.3**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

CapitaLand Ltd

Credit Outlook – We think the CAPLSP curve looks largely fair. In general, we prefer the CITSP curve over the CAPLSP curve as the former offers a stronger credit profile.

Issuer Profile: Neutral (3)

Ticker: **CAPLSP**

Background

CapitaLand Ltd ("CAPL") is Singapore's leading real estate developer, operating across residential development, serviced residences, retail & office REITs and real estate fund management. Geographical segments include CL Singapore, Malaysia and Indonesia ("CLSMI"), CL China ("CLC"), CL Vietnam ("CLV") and CL International ("CLI"). CAPL reported SGD63.1bn in total assets as at 3Q2018 and it is 40.4%-owned by Temasek Holdings Ltd.

Key credit considerations

- **Results distorted by accounting changes and REIT consolidation:** Aside from the restatement of financials to adhere to SFRS (I) 15 accounting standards, which relates to how revenue for development assets are recognised, y/y results are not directly comparable as revenues from several REITs are consolidated from Aug 2017. These REITs include CapitaLand Mall Trust ("CMT"), CapitaLand Retail China Trust ("CRCT") and Raffles City Singapore Trust ("RCST"). That said, even with consolidation, revenue still registered a decline of 16.9% y/y mainly due to lower development projects in Singapore and China. Net profit though remained largely stable at SGD566.6mn (3Q2017: SGD578.5mn) due to higher gross margin of 46% (3Q2017: 33.4%) due to a higher composition of rental revenue.

- **Steady cashflows from REITs and investment properties:** We estimate that investment properties account for ~82% of the total assets (SGD63bn), which is mainly represented by retail and commercial assets in Singapore (SGD25.8bn), China (SGD13.90bn) and serviced residences (SGD8.6bn) globally. Serviced residences are expected to increase significantly with the acquisition of 16 multifamily properties for USD835mn in the U.S. in Sep 2018, with a target to increase lodging units to 160,000 by 2023 (3Q2018: 94,000 units). From CAPL's listed REITs (CMT, CCT, CRCT, ART), we estimate CAPL will receive ~SGD320mn p.a. dividends. CAPL continues to target an allocation of ~80% of assets into investment properties.

- **No longer much of a Singapore developer…:** By segment split, CL SMI reported a 29.6% y/y decline in revenue to SGD518.9mn mainly due to the absence of revenue recognition from Cairnhill Nine and Victoria Park Villas as both projects have been fully sold. The landbank is rather dry in Singapore, with residential sales plunging to SGD52mn (3Q2018: SGD373mn) with just 14 units sold (3Q2017: 108 units) as most launched projects have already been substantially sold. That said, despite the fall in revenue, reported EBIT for the CL SMI segment still rose 3.3% y/y to SGD443.1mn, mainly from the sale of Westgate (reported PATMI gains: SGD99.2mn). As of 9M2018, 95% of CL SMI reported EBIT is due to commercial and retail segments (as opposed to 3% from residential and commercial strata). CL SMI accounts for 52% of CAPL's reported EBIT as of 9M2018.

- **… becoming more of a Chinese developer:** CL China reported 19.9% y/y decline in revenue to SGD440.6mn in 3Q2018 due to fewer units (1,279) handed over y/y (3Q2017: 1,646 units). Reported EBIT for the segment correspondingly fell by 5.7% y/y to SGD258.6mn. That said, the revenue shortfall is made up of RMB2bn of home sales in October while ~7,000 units worth RMB15.9bn are expected to be handed over from 4Q2018. Presence in China has been stepped up net-net. While SGD2.0bn of China assets in YTD2018 were divested, CAPL acquired a prime mixed-use site in Chongqing for RMB5.7bn (Jun 2018), 2 prime residential sites in Guangzhou (Aug 2018), a mixed-use site in Guangzhou for RMB882mn (Nov 2018) while CAPL's 41.7%-owned fund acquired Shanghai's tallest twin towers for RMB12.8bn (SGD2.54bn) in a 50-50 joint venture with GIC. CL China accounts for 37.2% of CAPL's reported EBIT as of 9M2018.

- **Manageable credit profile, for now:** Net gearing inched up to 50.5% q/q (2Q2018: 49.9%) despite generating ~SGD800mn cashflow from operating and investing activities, due to below-the-line SGD304.3mn foreign exchange loss and SGD373.3mn losses from share of other comprehensive income of associates and joint ventures (which is also due to FX differences). However, we expect net gearing to trend higher to ~55% to settle the numerous acquisitions. Meanwhile, liquidity is ample with cash/current borrowings of 1.6x.

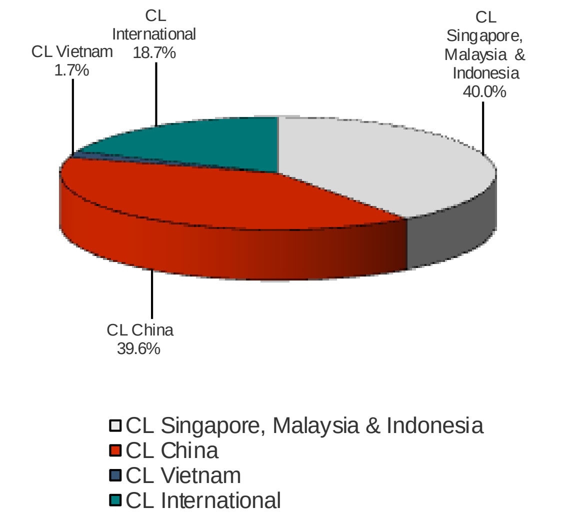
CapitaLand Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	5,252.3	4,609.8	3,978.0
EBITDA	1,269.5	1,497.1	1,532.0
EBIT	1,203.5	1,421.4	1,478.7
Gross interest expense	512.2	553.8	468.3
Profit Before Tax	1,906.9	2,632.1	2,399.6
Net profit	1,504.2	2,334.3	2,141.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	4,792.6	6,105.3	5,346.6
Total assets	45,740.8	61,539.2	63,065.2
Short term debt	2,373.4	2,739.0	3,271.3
Gross debt	14,852.4	21,694.9	21,896.4
Net debt	10,059.7	15,589.6	16,549.8
Shareholders' equity	24,300.5	32,117.8	32,754.3
Cash Flow (SGD'mn)			
CFO	3,305.2	2,166.3	1,215.9
Capex	76.0	149.3	74.1
Acquisitions	899.9	4,311.2	1,671.5
Disposals	327.2	2,733.8	1,012.0
Dividend	751.8	1,022.3	1,109.1
Interest paid	-506.1	-525.1	-540.4
Free Cash Flow (FCF)	3,229.3	2,017.0	1,141.8
Key Ratios			
EBITDA margin (%)	24.2	32.5	38.5
Net margin (%)	28.6	50.6	53.8
Gross debt to EBITDA (x)	11.7	14.5	10.7
Net debt to EBITDA (x)	7.9	10.4	8.1
Gross Debt to Equity (x)	0.61	0.68	0.67
Net Debt to Equity (x)	0.41	0.49	0.51
Gross debt/total assets (x)	0.32	0.35	0.35
Net debt/total assets (x)	0.22	0.25	0.26
Cash/current borrowings (x)	2.0	2.2	1.6
EBITDA/Total Interest (x)	2.5	2.7	3.3

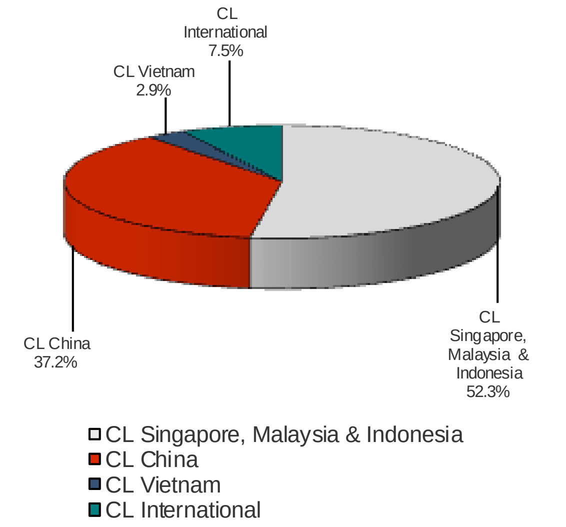
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 9M2018



Source: Company | Excludes Corporate and Others

Figure 2: EBIT breakdown by Geography - 9M2018



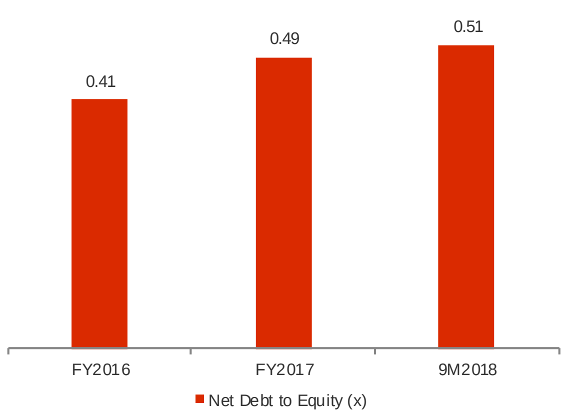
Source: Company | Excludes Corporate and Others

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	568.5	2.6%
Unsecured	2,702.7	12.3%
	3,271.3	**14.9%**
Amount repayable after a year		
Secured	4,807.7	22.0%
Unsecured	13,817.4	63.1%
	18,625.1	**85.1%**
Total	**21,896.4**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We think the CCTSP curve looks somewhat fair against similarly rated peers such as MCTSP. Comparing outside the REIT universe, we prefer the CITSP curve over the CCTSP curve given the former's stronger credit profile.

Issuer Profile: Neutral (3)

Ticker: **CCTSP**

Background

Listed on the SGX in 2004, CapitaLand Commercial Trust ("CCT") is Singapore's first listed commercial REIT. With SGD11.1bn in deposited properties as at 30 September 2018, it is also one of the largest REIT. CCT comprises nine prime properties in Singapore, an office building in Frankfurt, Germany and an 11.0%-stake in MRCB-Quill REIT listed in Malaysia. CCT is 30.1%-owned by CapitaLand Ltd ("CAPL").

CapitaLand Commercial Trust

Key credit considerations

- **Acquisitions continue to fuel growth:** Gross revenue rose 35.6% y/y to SGD100.5mn with NPI higher by 37.3% y/y at SGD80.4mn in 3Q2018. The significant jump was driven by the acquisitions of Asia Square Tower 2 ("AST2") (completed in Nov-17) and Gallileo in Frankfurt (completed in June18) whose contributions more than offset the loss of contributions from the divestments of Wilkie Edge (on 11 September 2017) and Twenty Anson (on 29 August 2018). On a q/q basis, revenue gains were much milder - gross revenue and NPI increased 2.5% q/q and 3.4% q/q respectively largely due to Gallileo, as AST2 recorded very slight decline on both fronts. It is worth noting that CCT has a long-term target of having 10-20% of total deposited properties in other developed markets beyond Singapore. This translates to ~SGD1.6bn additional headroom for overseas acquisitions.

- **Improvement in portfolio statistics:** Portfolio committed occupancy was 99.2% up from 97.8% in 2Q2018, largely on the back of stronger occupancy rate at AST2 (98.1% from 91.9%). A similar increase in revenue has not been observed at AST2 yet because the new tenant – The Work Project (a co-working space operator) is leasing ~41,000sf, effective for five years from Jan-19. WALE remains healthy at 6 years with no lease up for renewal for the rest of 2018 and 14% of office and only 6 % of retail space up for renewal in 2019. Furthermore, HSBC has extended its lease at 21 Collyer Quay to 2020 before moving to Marina Bay Financial Centre Tower 2. Likewise, JP Morgan has also extended its lease to 2021 at Capital Tower before relocating to CapitaSpring. CCT had also announced that the Singapore government has exercised their right to take back Bugis Village (121,000sq ft, 2.9% of portfolio NPI) on 1St April 2019 for a compensation sum of SGD40.7mn.

- **Rental reversion may turn positive:** Committed rents climbed for AST2, Six Battery Road and One George Street q/q. In fact, average rent of CCT's Singapore office portfolio (excluding Twenty Anson) improved 0.9% q/q to SGD9.74 psf. With the 3Q2018 Grade A office market rents (source: CBRE) at SGD10.45 psf and the average rent of leases expiring at CCT in 2019 and 2020 at SGD10.70 psf and SGD9.55 psf respectively, the gap between both rents looks to narrow further. On the expectations of supply tapering with just ~628,000sf of new office space in the central area in 2019 and ~782,000sf in 2020 relative to ~950,000sf in 2018, we think market rents can pick up further and therefore, positive rental reversion in the coming quarters may be possible.

- **Manageable credit metrics:** Aggregate leverage fell to 35.3% from 37.9% in 2Q2018, following the repayment of debt using the proceeds from the sale of Twenty Anson. Weighted average cost of debt also fell to 2.6% (2Q2018: 2.8%) as CCT repaid the more expensive debt. Weighted average term to maturity is stable at 3.6 years. EBITDA/Interest is healthy at 4.7x. Given CCT has 83% of assets unencumbered, we see the refinancing risk for the SGD360mn debt coming due in 2019 as manageable. Furthermore, 92% of its borrowings are on fixed rate as at 26 October 2018, up from ~85% in 3Q2018. Looking forward, CCT also has a balance development cost of SGD238.5mn for CapitaSpring that will be largely funded by debt which may inch aggregate leverage higher.

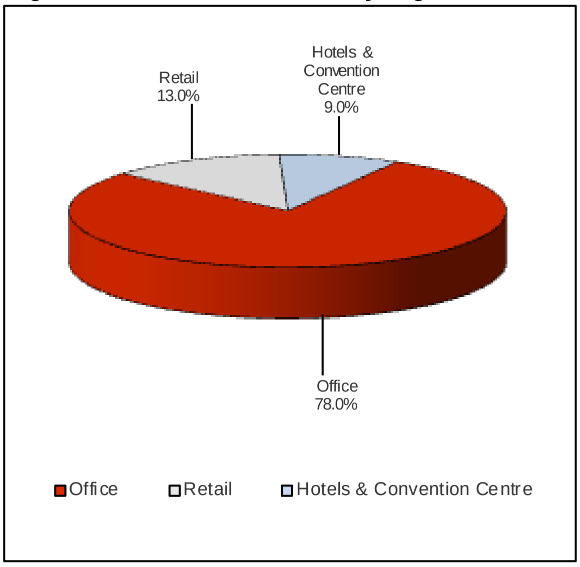
CapitaLand Commercial Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	298.6	337.5	294.9
EBITDA	215.0	252.0	264.7
EBIT	212.4	246.5	217.1
Gross interest expense	50.1	69.0	67.2
Profit Before Tax	261.8	582.5	427.7
Net profit	260.6	578.8	422.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	160.0	122.6	86.5
Total assets	8,051.1	9,354.0	9,597.5
Short term debt	8.4	0.0	212.0
Gross debt	2,639.0	2,720.2	2,618.8
Net debt	2,479.1	2,597.6	2,532.3
Shareholders' equity	5,278.5	6,416.9	6,808.6
Cash Flow (SGD'mn)			
CFO	203.1	250.8	198.7
Capex	17.3	5.3	8.0
Acquisitions	356.9	2,067.2	548.9
Disposals	0.0	1,230.4	511.3
Dividends	258.6	279.7	295.6
Interest paid	70.0	64.8	58.5
Free Cash Flow (FCF)	185.8	245.5	190.7
Key Ratios			
EBITDA margin (%)	72.0	74.7	89.8
Net margin (%)	87.3	171.5	143.4
Gross debt to EBITDA (x)	12.3	10.8	7.4
Net debt to EBITDA (x)	11.5	10.3	7.2
Gross Debt to Equity (x)	0.50	0.42	0.38
Net Debt to Equity (x)	0.47	0.40	0.37
Gross debt/total asset (x)	0.33	0.29	0.27
Net debt/total asset (x)	0.31	0.28	0.26
Cash/current borrowings (x)	0.9	NA	0.4
EBITDA/Total Interest (x)	4.3	3.7	3.9

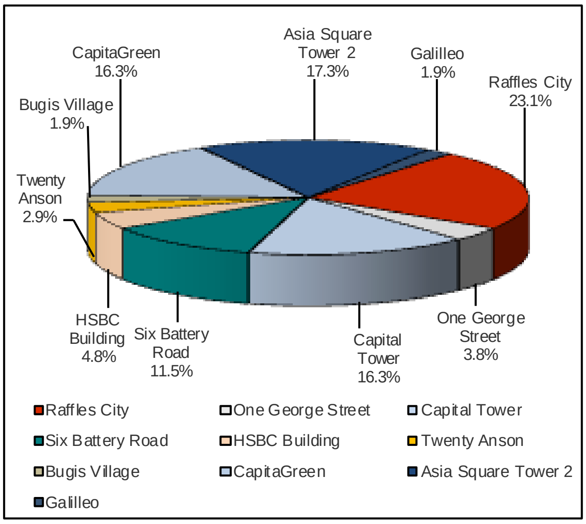
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2018



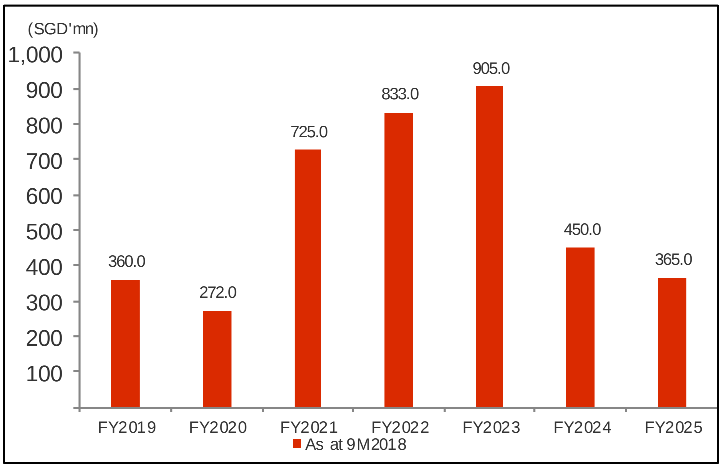
Source: Company

Figure 2: NPI breakdown by Property - 9M2018



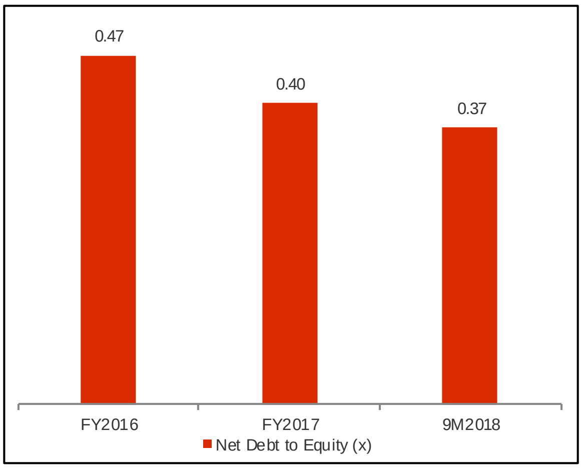
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – While we think the CAPITA curve looks fair, CITSP curve seems to offer better. We hold both issuer profiles at Positive (2).

Issuer Profile: Positive (2)

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 15 malls in Singapore, including Tampines Mall, Funan, IMM Building, Bugis Junction, Plaza Singapura, Westgate and a 40% stake in Raffles City. In addition, CMT owns ~12.5% interest in CapitaLand Retail China Trust ("CRCT"), the first China shopping mall REIT listed on the SGX. CMT is ~28.3%-owned by CapitaLand Ltd ("CAPL").

CapitaLand Mall Trust

Key credit considerations

- **Overall decent performance for 9M2018:** Revenue was up 1.4% y/y to SGD517.1mn, while NPI increased 2.8% y/y to SGD3693.1mn. This was mainly due to positive rental reversions at IMM, Plaza Singapura, Junction 8, Tampines Mall, improvement to full occupancy at Bedok Mall and both positive rental reversion and better occupancy at The Atrium@Orchard. The increase though was partially offset by lower revenue from Sembawang Shopping Centre which was divested on 18 June 2018 and lower occupancy and rental rates contracted on new and renewed leases at JCube and Bukit Panjang Plaza.

- **Well-diversified defensive portfolio:** CMT holds 15 well-located retail malls which are in close proximity to public transport at large population catchments in Singapore, with no mall accounting for more than 14% of portfolio's NPI. Over 50% of revenue is derived from necessity shopping and from malls located in suburban areas which are more resilient to economic downturn. Overall portfolio occupancy stood at 98.5%, with rental reversion of +0.6% for YTD Sep 2018. Lease expiry for 2019 is 31.6% of CMT's total rental income as at 30 September 2018 which we think is manageable though slightly high. WALE is 1.9 years.

- **Acquired remaining 70% stake in Westgate:** On 1st Nov 2018, CMT completed the 70%-stake acquisition of Westgate from its Sponsor, bringing the asset under CMT's full ownership. The total acquisition cost of SGD805.5mn, with cash outlay amounting SGD405.6mn which was funded by 67.3% equity (SGD273.1mn) and 32.7% (SGD132.5mn) bank loans. We think this acquisition is a good redeployment of capital and reduces CMT's reliance on any single property in terms of gross revenue. Furthermore, the Jurong Lake District that Westgate is exposed to has long-term growth potential as Singapore's up-and-coming second CBD.

- **Strong credit profile:** Aggregate leverage was 31.7% as at 30 September 2018. After factoring in the HKD555mn (~SGD97.5mn) bond issued on 20 November 2018 and the bank borrowings taken up to finance the acquisition of Westgate, we estimate aggregate leverage to inch higher to ~33.9%. CMT has no outstanding debt in 2018 whileSGD319.6mn is due in 2019. Given that CMT has SGD347.1mn cash on hand as at 30 September 2018 and all of its assets remain unencumbered, refinancing risk is deemed to be minimal. Maturity profile of debt is somewhat well distributed with an average term to maturity of 5.2 years.

- **Funan to open in 2Q2019:** Funan (which was closed in July 2016 for redevelopment) comprises a retail component, two Grade A office blocks and lyf Funan Singapore – co-living serviced residence measuring 870,000 sq ft in total, almost double its initial size of 482,097 sq ft. As at end-Sep 2018, 72% of the overall construction has already been completed and leases signed and in advanced negotiations reached approximately 70% for retail and 60% for office. Revenue contribution is expected from 2H2019. lyf Funan, on the other hand, will open in 4Q2019. The underpass connecting Funan and City Hall MRT station is targeted for completion in 2021. It is worth noting the lyf Funan was divested to a wholly owned subsidiary of Ascott Serviced Residence in Aug-17 for proceeds amounting ~SGD101.8mn and a net gain of about SGD20.6mn.

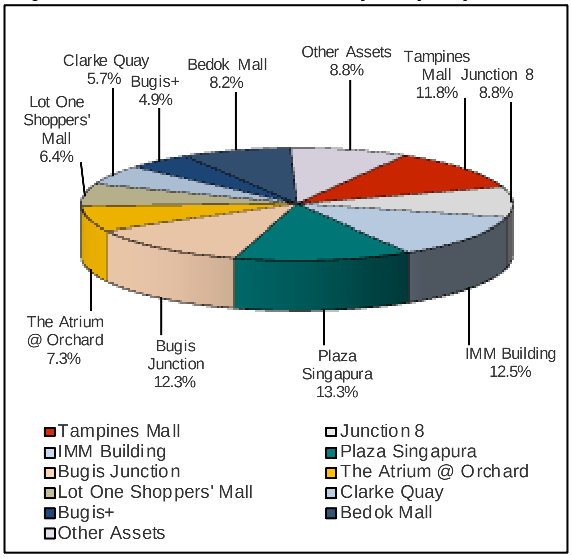
CapitaLand Mall Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	689.7	682.5	517.1
EBITDA	431.8	430.0	333.7
EBIT	430.7	429.3	333.3
Gross interest expense	106.3	104.1	71.2
Profit Before Tax	470.4	657.8	554.1
Net profit	469.4	657.6	554.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	483.5	522.7	347.1
Total assets	10,326.7	10,504.4	10,467.0
Short term debt	250.0	534.7	0.0
Gross debt	3,288.3	3,183.1	2,886.0
Net debt	2,804.8	2,660.4	2,538.9
Shareholders' equity	6,692.2	6,928.0	7,192.2
Cash Flow (SGD'mn)			
CFO	432.9	427.7	333.7
Capex	76.5	99.3	137.5
Acquisitions	0.0	0.0	0.0
Disposals	0.0	98.5	242.9
Dividends	394.2	394.9	301.2
Interest paid	101.2	104.3	80.1
Free Cash Flow (FCF)	356.3	328.4	196.2
Key Ratios			
EBITDA margin (%)	62.6	63.0	64.5
Net margin (%)	68.1	96.4	107.2
Gross debt to EBITDA (x)	7.6	7.4	6.5
Net debt to EBITDA (x)	6.5	6.2	5.7
Gross Debt to Equity (x)	0.49	0.46	0.40
Net Debt to Equity (x)	0.42	0.38	0.35
Gross debt/total asset (x)	0.32	0.30	0.28
Net debt/total asset (x)	0.27	0.25	0.24
Cash/current borrowings (x)	1.9	1.0	NM
EBITDA/Total Interest (x)	4.1	4.1	4.7

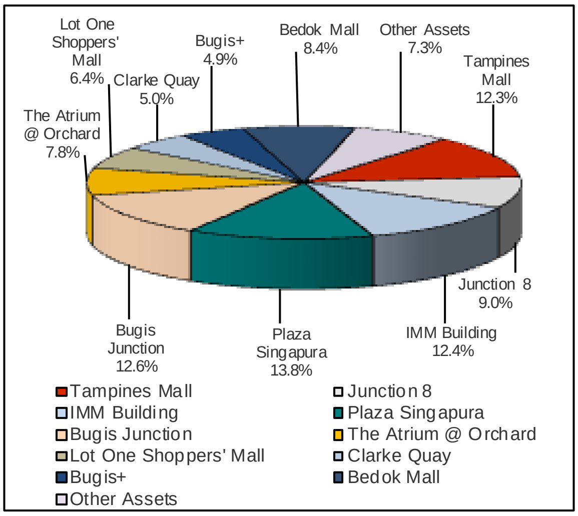
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - 9M2018



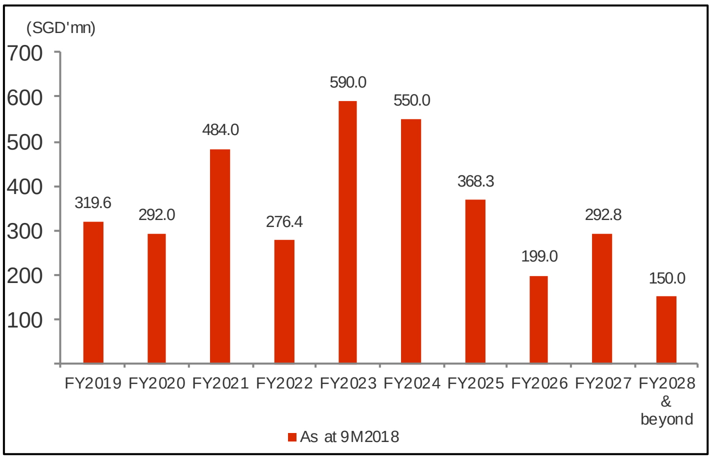
Source: Company

Figure 2: NPI breakdown by Property - 9M2018



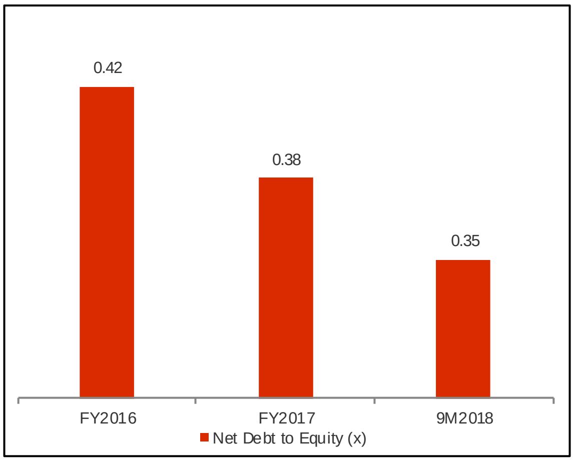
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Although credit profile of CRCT is stable, we are neutral on CRCTSP 3.25% '22s as YTW is 3.08%. SUNSP 3.025% '22s offers a pickup of ~20bps.

Issuer Profile: Neutral (4)

Ticker: **CRCTSP**

Background

Listed on the SGX in 2006, CapitaLand Retail China Trust ("CRCT") is the first pure-play China shopping mall REIT in Singapore. CRCT owns and invests in a portfolio of 11 shopping malls located across eight cities in China. CapitaLand Group has a total of 37.45% interest in CRCT, including the 12.51% stake held by CapitaLand Mall Trust.

Capitaland Retail China Trust

Key credit considerations

- **Anchored by core assets:** Gross revenue dipped 0.3% y/y in RMB terms but declined by 1.1% y/y to SGD55.4mn in SGD terms due to weaker RMB in 3Q2018. The dip was mainly due to the closure of CapitaMall Wuhu and restriction of trading activities at the atrium of CapitaMall Grand Canyon, though partially offset by higher revenue at core assets – CapitaMall Xizhimen (revenue up 1.6% y/y in SGD terms) and CapitaMall Wangjing (revenue up 4.5% y/y in SGD terms). Net property income ("NPI"), on the other hand, improved by 2.2% y/y, on the back of overall reduction of operating expenses across most malls. Cumulatively, the two core assets account for 49.0% of total revenue (3Q2017: 47.1%) and 52.7% of NPI (3Q2017: 50.9%) in SGD terms. Given the occupancy rates at both malls improved to ~100% as at 30 September 2018, we expect the malls to continue to deliver strong performance despite the anticipated disruption from e-commerce retailers.

- **Strong portfolio statistics:** Portfolio occupancy improved to 97.7% (2Q2018: 97.4%), with better occupancy rates seen across five of the seven multi-tenanted malls. Rental reversion was robust at 12.1% (2Q2018: 10.5%) and positive across all the malls except CapitaMall Qibao, which saw negative rental reversion mainly due to the lease renewal of a popular fashion retailer. Weighted Average Lease Expiry ("WALE") is 2.9 years by gross rental income. CRCT has 25.3% of total leases (by gross rental income) expiring in 2019. We think that this is manageable for CRCT given portfolio shopper traffic and tenant sales were up 19.6% y/y and 21.4% y/y respectively (excluding supermarket and department store). During the period, newer assets such as Rock Square saw strong positive rental reversion of 28.3%, marking its third consecutive quarter of rental reversion above 20%. CapitaMall Xinnan also realized 35.6% rental reversion. Portfolio EBITDA/Interest is 4.1x.

- **More supply in most cities in CRCT's portfolio in 2H2018:** Beijing, CRCT's core market, is expecting three new mid-to-high end shopping mall projects to be launched (including sponsor-owned CapitaMall Tiangongyuan) adding a total GFA of 426,000 sqm. Shanghai has a 14 projects totaling 1.12mn sqm of retail GFA scheduled to open. Likewise, Chengdu is expecting five malls aggregating 710,000 sqm in the retail space and Wuhan also has a number of projects opening in the same period. This change can push up vacancy rates and intensify competition.

- **Balance sheet currency mismatch affects aggregate leverage:** While CRCT's assets are predominately denominated in RMB, all of its existing debt is in SGD. Although CRCT does hedge its RMB cashflows through non-deliverable forwards, it reduces but does not eliminate the balance sheet impact of the debt/asset ratio. In 2Q2018, RMB strengthened against SGD y/y leading to higher reported asset values and aggregate leverage stood of 32.1%. In 3Q2018, the trend reversed and RMB weakened against SGD. This brought about lower investment properties valuation in SGD even though fair value in investment properties actually increased in RMB terms. Consequentially, while debt did increase by SGD40.3mn q/q, aggregate leverage would have increased by a smaller extent instead of 3.8% to 35.9% from 32.1% if asset values have stayed somewhat constant.

- **Well-distributed debt maturity with minimal refinancing risk:** As at 30 September 2018, CRCT has obtained funding for all its 2018 and 2019 refinancing needs ahead of time. Average term to maturity was extended to 3.70 years from 2.97 years, following the refinancing of a SGD120mn debt that was maturing in 2019 to 2024. With that, CRCT has no refinancing requirements until 2020. Aggregate leverage was 35.9% (including the proportionate share of its JV borrowing and deposited property) as at 30 September 2018. In addition, debt maturity profile is also well termed out with a maximum of ~SGD200mn debt maturing each year except 2022 which has SGD280mn debt. 83% of total debt is on fixed interest rates, mitigating the impact of rising rates. Weighted average cost of debt is 2.67% (2Q2018: 2.60%) and 100% of CRCT's assets remain unencumbered.

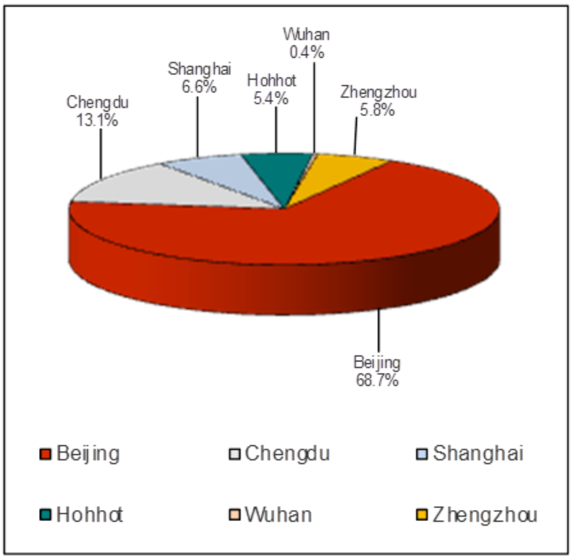
CapitaLand Retail China Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	214.4	229.2	156.4
EBITDA	128.9	137.0	90.5
EBIT	126.8	135.3	89.5
Gross interest expense	21.2	23.5	19.5
Profit Before Tax	145.6	207.3	112.6
Net profit	104.0	143.1	78.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	136.1	186.5	142.4
Total assets	2,783.5	2,668.1	2,941.8
Short term debt	450.5	0.0	162.1
Gross debt	977.8	747.5	1,038.5
Net debt	841.6	561.0	896.2
Shareholders' equity	1,451.7	1,568.1	1,557.5
Cash Flow (SGD'mn)			
CFO	119.9	116.3	71.5
Capex	21.1	15.1	7.2
Acquisitions	293.7	29.0	225.6
Disposals	0.0	216.8	0.0
Dividends	52.5	82.6	44.3
Interest paid	20.4	22.1	17.4
Free Cash Flow (FCF)	98.8	101.1	64.3
Key Ratios			
EBITDA margin (%)	60.1	59.8	57.9
Net margin (%)	48.5	62.4	50.2
Gross debt to EBITDA (x)	7.6	5.5	8.6
Net debt to EBITDA (x)	6.5	4.1	7.4
Gross Debt to Equity (x)	0.67	0.48	0.67
Net Debt to Equity (x)	0.58	0.36	0.58
Gross debt/total asset (x)	37.40	0.28	0.35
Net debt/total asset (x)	51.44	0.21	0.30
Cash/current borrowings (x)	0.3	NA	0.9
EBITDA/Total Interest (x)	6.1	5.8	4.6

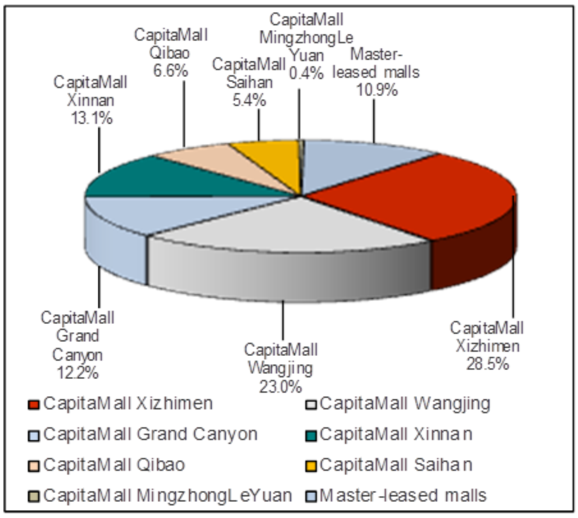
Source: Company, OCBC estimates

Figure 1: NPI breakdown by Geography - 9M2018



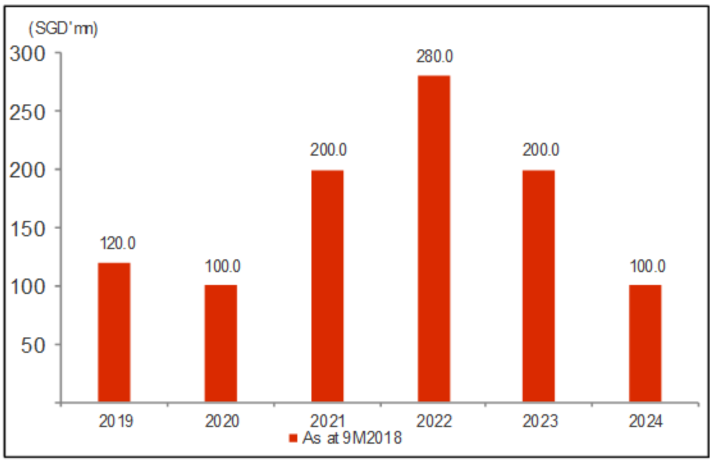
Source: Company | Excludes Wuhu

Figure 2: NPI breakdown by Property - 9M2018



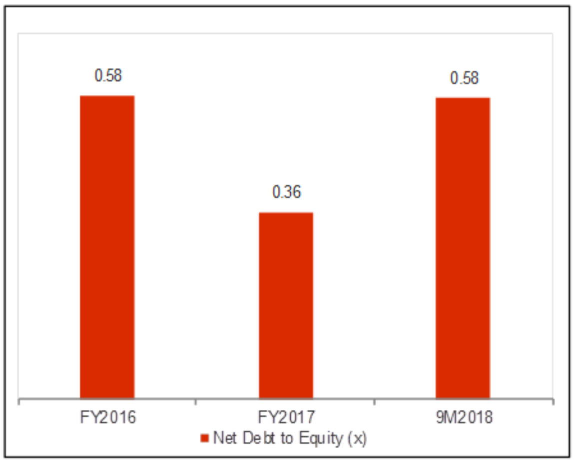
Source: Company | Excludes CapitaMall Wuhu

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – The CENSUN 7.0% ‘20s is trading at an ask YTM of 8.30% (643bps spread). For a China HY name with a manageable credit metrics, we think this more than compensates for the illiquidity.

Issuer Profile: Neutral (5)

Ticker: **CENSUN**

Background

Listed on the HKSE in 2004, Century Sunshine Group Holdings Limited (“CENSUN”) has two main business segments: magnesium products and ecological fertilisers. The magnesium business is held indirectly via CENSUN’s 72.4%-stake in Rare Earth Magnesium Technology Group Holdings Limited (“Rare Earth”). The founder/Chairman owns a ~34%-stake. IFC owns a 5%-stake in CENSUN. It also holds as collateral a 12%-stake in CENSUN owned by founder/Chairman. The collateral was for a loan provided to a CENSUN subsidiary.

Century Sunshine Group Holdings Ltd

Key credit considerations

- **Top-line growth in 1H2018:** Gross revenue for continuing operations was up 60.1% y/y to HKD2.2bn with reported gross profit growing in tandem at 59% y/y to HKD548.7mn. All three of CENSUN’s business segments recorded y/y revenue growth. Fertiliser saw revenue up 61.3% y/y while Magnesium saw revenue up 58.2% y/y. Growth in revenue was attributable to higher volumes, average selling prices (“ASP”) and full period contribution from 50.5%-owned Shandong Hongri Chemical Joint Stock Company (“Shandong Hongri”). Following the consolidation since 1 April 2017, this company has contributed higher volumes to CENSUN. This is mostly lower margin compound fertilizer that provides basic nutrients (we think at sub-20% gross margins). In 1H2018, Shandong Hongri generated revenue of HKD634.2mn, and while the standalone profitability was undisclosed, there is a good chance that Shandong Hongri has yet to breakeven. CENSUN ended the period with a profit after tax from continuing operations of HKD215.1mn (versus HKD120.1mn in 1H2017).

- **Average selling prices have held up:** Overall reported gross profit margin was marginally lower at 24.8% in 1H2018 versus 25% in 1H2017, dragged by its metallurgical flux business in our view since the main Fertiliser and Magnesium businesses yielded higher standalone gross margins y/y. The Fertiliser business yielded 23.2% in 1H2018, lower than 2016’s highs of 28.4%. Overall ASP had risen 17.5% y/y for Fertiliser to HKD2,421 per tonne and 11.2% y/y for Magnesium to HKD24,862 per tonne. While fertiliser prices are set by company, fertilisers in general and China magnesium prices have been trending upwards in 2018. CENSUN generates most of its revenue from China and is vertically integrated with captive mines, a reason why margins have held up for specialty products (eg: Silicon-Magnesium fertilizer) per company. Its serpentine mine license is expected to expire in November 2020 though the company will look to renew this license. In any case, the sole SGD-bond has an earlier maturity date in July 2020.

- **Stronger interest coverage:** Selling and marketing expenses expanded 21.2% y/y to HKD61.5mn while administrative expenses ballooned 96.8% y/y on the back of consolidation of Shandong Hongri and share option expenses granted by ~72.4%-owned Rare Earth (previously known as Group Sense International Limited). Notwithstanding the higher expenses, EBITDA increased 54.6% y/y to HKD478.9mn. Finance costs though had increased 32.7% y/y to HKD91.8mn largely due to higher levels of debt assumed in 1H2018 versus 1H2017. We find resultant EBITDA/Interest coverage stronger at 5.2x (1H2017: 4.5x).

- **Capex needs to continue:** Gross gearing remained stable at 0.56x as at 30 June 2018. While cash balance excluding pledged cash increased HKD113.2mn to HKD787.2mn, contract liabilities (relates to cash receipts in advance of products/services delivered) was HKD165.3mn. These are obligations that would need to be performed down the road. Capital commitments as at 30 June 2018 of HKD170.4mn would go towards funding phase 2 construction of the Jiangxi fertiliser plant and another HKD843mn of capex is required for completion. While the current schedule contemplates completion in 2020, the company is able to adjust its capex schedule depending on availability of financing and performance of its existing business. Short term debt coming due is significant at HKD1.0bn (49% of gross debt), though with only 17% of hard assets (we take property, plant, equipment, land use rights and deposits with banks) pledged, we see the refinancing risk as manageable at this point. Shandong Hongri, had granted corporate guarantees to third parties in Shandong (not unusual for onshore companies) and as at 31 December 2017, these corporate guarantees look manageable at HKD70.0mn.

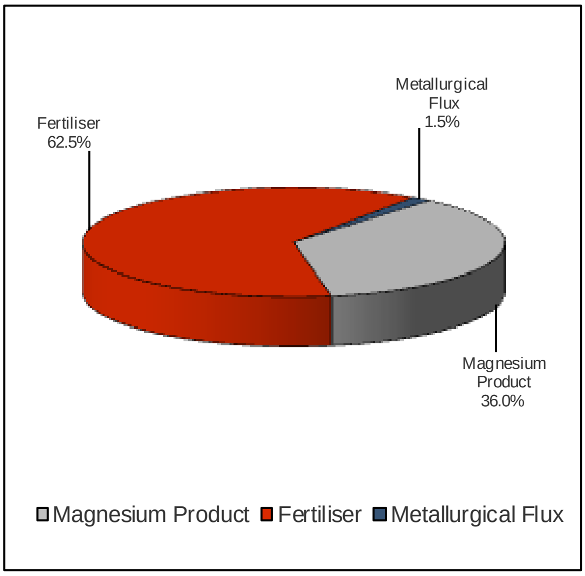
Century Sunshine Group Holdings Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	1H2018
Income Statement (HKD'mn)	**HKD'mn**	**HKD'mn**	**HKD'mn**
Revenue	2,589.2	3,772.3	2,207.8
EBITDA	636.3	646.9	478.9
EBIT	506.6	484.6	377.5
Gross interest expense	126.6	159.2	91.8
Profit Before Tax	456.9	405.9	293.2
Net profit	313.1	261.6	215.1
Balance Sheet (HKD'mn)			
Cash and bank deposits	901.2	930.9	1,024.7
Total assets	5,246.5	7,502.3	7,665.8
Short term debt	320.7	626.4	1,039.0
Gross debt	1,540.6	2,047.2	2,119.3
Net debt	639.4	1,116.3	1,094.7
Shareholders' equity	3,054.5	3,653.4	3,784.7
Cash Flow (HKD'mn)			
CFO	428.6	484.9	325.4
Capex	479.0	914.6	NA
Acquisitions	63.2	-202.2	NA
Disposals	1.3	10.9	NA
Dividend	59.8	0.0	NA
Free Cash Flow (FCF)	-50.4	-429.7	NA
Key Ratios			
EBITDA margin (%)	24.6	17.1	21.7
Net margin (%)	12.1	6.9	9.7
Gross debt to EBITDA (x)	2.4	3.2	2.2
Net debt to EBITDA (x)	1.0	1.7	1.1
Gross Debt to Equity (x)	0.50	0.56	0.56
Net Debt to Equity (x)	0.21	0.31	0.29
Gross debt/total assets (x)	0.29	0.27	0.28
Net debt/total assets (x)	0.12	0.15	0.14
Cash/current borrowings (x)	2.81	1.49	0.99
EBITDA/Total Interest (x)	5.0	4.1	5.2

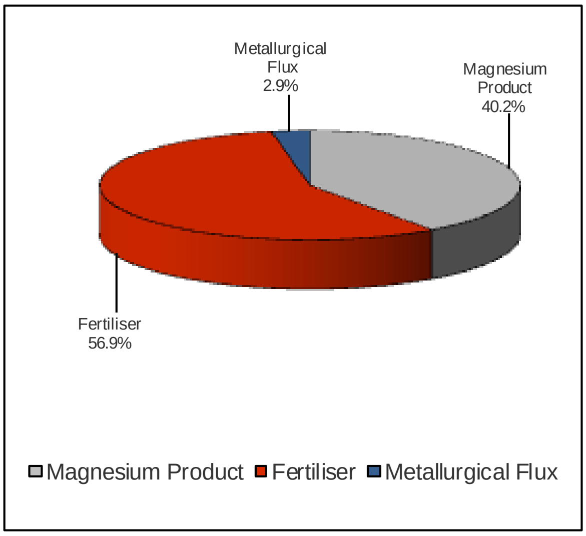
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2018



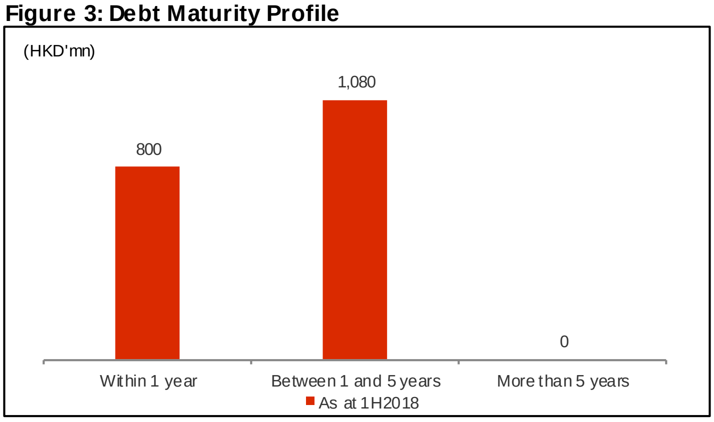
Source: Company

Figure 2: EBIT breakdown by Segment - 1H2018



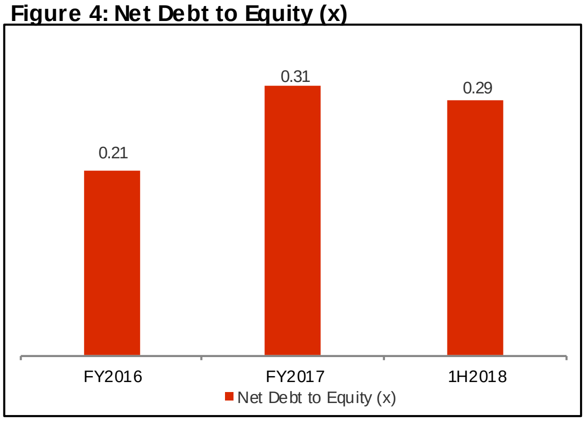
Source: Company

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We are underweight the CHIEAS 2.8% '20s which has an ask YTM of 3.25% (137 bps spread) and see better value in the EREIT 3.95% '20s (191bps spread). We hold all three at an issuer profile of Neutral (4).

Issuer Profile: Neutral (4)

Ticker: **CHIEAS**

Background

China Eastern Airlines Corporation Limited ("CHIEAS"), listed on the HKEX, Shanghai Stock Exchange and NYSE (via American Depository Receipts), has a market cap of HKD73.2bn as at 4 January 2019. Apart from its flagship carrier, China Eastern Airlines ("MU"), CHIEAS also owns Shanghai Airlines (("CSH"), managed as a separate brand), China United Airlines ("KN", a budget airline) and is involved in other businesses (eg: tour operations, air catering and other services). CHIEAS is ~56.4%-owned by China Eastern Air Holding Company (CEA Holding), a Chinese SOE.

China Eastern Airlines Corp Ltd

Key credit considerations

- **Improved operating metrics:** In 1H2018, revenue was up 12.5% y/y to RMB54.5bn, where 90% was made up of passenger revenue. Passenger revenue increased 13.8% y/y, driven by passenger traffic volume which increased 11.0% y/y to 97,957.3mn passenger-kilometres. Encouragingly, passenger load factor (a measure for capacity utilisation) increased 1.09 ppt to 82.4%. Bulk of passenger revenue was derived from CHIEAS' main full-service airline, while its budget arm, China United Airlines continued to grow in 1H2018 at a slower pace, with revenue up 13.2% y/y to RMB2.7bn. In 1H2017, revenue growth was 29.7% y/y, albeit from a low base. Net profit from China United Airlines was up 23.4% y/y at RMB440mn and contributed 18% to CHIEAS' net profit in 1H2018 (8% contribution in 1H2017).

- **Profit hit by higher fuel cost**: Despite the stronger top line growth, reported operating expenses increased 11.9% y/y to RMB52.4bn, led by a 25.6% y/y increase in aircraft fuel (made up 29% of total operating expenses in 1H2018), a 15.1% y/y increase in depreciation & amortisation and a 11.0% y/y increase in wages, salaries and benefits. CHIEAS did not hedge fuel cost in 1H2018. Reported operating profit (including subsidy income) was lower at RMB5.4bn (1H2017: RMB6.3bn) while CHIEAS reported profit before tax of RMB3.2bn in 1H2018 was down 45.1% y/y. Though taking out a one-off gain of RMB1.8bn in 1H2017 from the sale of Eastern Logistics, the fall would have been narrower at 21% y/y. PBT was also negatively affected by a RMB588mn foreign exchange loss from the depreciation of the RMB against USD as CHIEAS has USD obligations. Similar to previous years, CHIEAS received subsidy income in 1H2018 granted by local authorities and other parties. In 1H2018, this was RMB2.8bn and formed a significant contributor to the bottom line. Broadly, CHIEAS's 3Q2018 financials based on China Accounting Standards for Business reported similar trends of increased revenue (up 13% y/y) though dragged by escalated operating costs and foreign exchange losses.

- **Interest coverage still manageable:** EBITDA (including subsidy income but excludes non-subsidy other income) was up 14.3% y/y at RMB12.4bn. On the back of higher average debt and finance leases in 1H2018, interest expense was 26.1% higher y/y at RMB2.3bn (excluding foreign exchange impact and adding back capitalised interest). Resultant EBITDA/Interest coverage was lower at 5.4x versus 6.0x in 1H2017.

- **Net gearing high but set to decline:** As at 30 June 2018, unadjusted net gearing was 1.0x, optically manageable. Finance leases and operating leases though are significant, and adjusting these as debt, we find adjusted net gearing at 2.5x, stable versus end-2017. Despite its relatively levered profile, CHIEAS is in the midst of raising new equity via a private placement of up to ~RMB14.9bn (largely for plane purchases) which may see CEA Holding's stake fall to 49%. The proposed equity placement comprises of an A-share tranche of up to RMB11.8bn and a H-share tranche of up to HKD3.55bn (~RMB3.1bn). Bulk of the new shares is proposed to be placed out to private companies related to Juneyao Airlines who also has its main hub in Shanghai. RMB2.0bn is proposed to be placed to the China Structural Reform Fund, a state-backed fund. The deal is part of China's mixed ownership reform and is subject to approvals. Though assuming completion, CHIEAS' adjusted net gearing may fall to 2.0x. In November 2018, Eastern Investment (a 100%-owned subsidiary of CEA Holding outside of CHIEAS) announced that it will invest up to RMB3.2bn in Juneyao Airlines. Effectively, Juneyao Airlines and CEA Holding (and by implication CHIEAS) would have indirect cross-shareholdings in each other, with the aim of deepening cooperation between the two airlines.

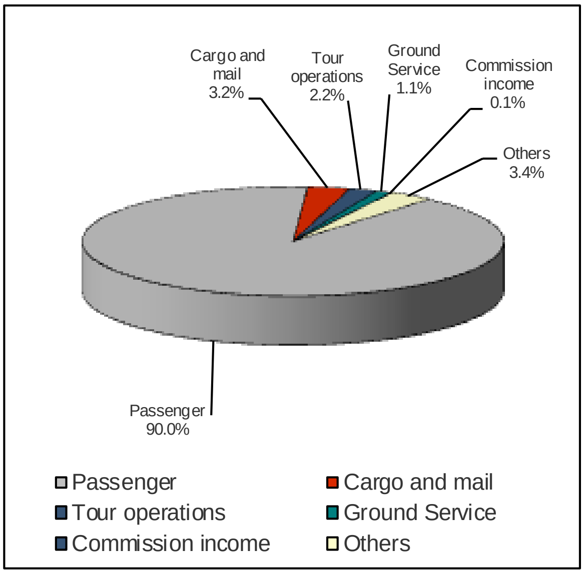
China Eastern Airlines Corp Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	1H2018
Income Statement (RMB'mn)	**RMB'mn**	**RMB'mn**	**RMB'mn**
Revenue	98,904.0	102,475.0	54,500.0
EBITDA	19,169.0	16,230.0	9,590.0
EBIT	7,015.0	2,261.0	2,056.0
Gross interest expense	7,021.0	3,977.0	2,416.0
Profit Before Tax	6,497.0	8,610.0	3,167.0
Net profit	4,955.0	6,810.0	2,502.0
Balance Sheet (RMB'mn)			
Cash and bank deposits	1,695.0	4,605.0	3,143.0
Total assets	212,324.0	229,727.0	238,773.0
Short term debt	28,842.0	39,090.0	33,304.0
Gross debt	56,732.0	63,801.0	64,380.0
Net debt	55,037.0	59,196.0	61,237.0
Shareholders' equity	52,366.0	58,778.0	61,534.0
Cash Flow (RMB'mn)			
CFO	24,893.0	19,572.0	10,637.0
Capex	38,397.0	24,555.0	11,106.0
Acquisitions	0.0	0.0	16.0
Disposals	1,276.0	3,230.0	1,212.0
Dividend	796.0	769.0	0.0
Free Cash Flow (FCF)	-13,504.0	-4,983.0	-469.0
Key Ratios			
EBITDA margin (%)	19.4	15.8	17.6
Net margin (%)	5.0	6.6	4.6
Gross debt to EBITDA (x)	3.0	3.9	3.4
Net debt to EBITDA (x)	2.9	3.6	3.2
Gross Debt to Equity (x)	1.08	1.09	1.05
Net Debt to Equity (x)	1.05	1.01	1.00
Gross debt/total assets (x)	0.27	0.28	0.27
Net debt/total assets (x)	0.26	0.26	0.26
Cash/current borrowings (x)	0.06	0.12	0.09
EBITDA/Total Interest (x)	2.7	4.1	4.0

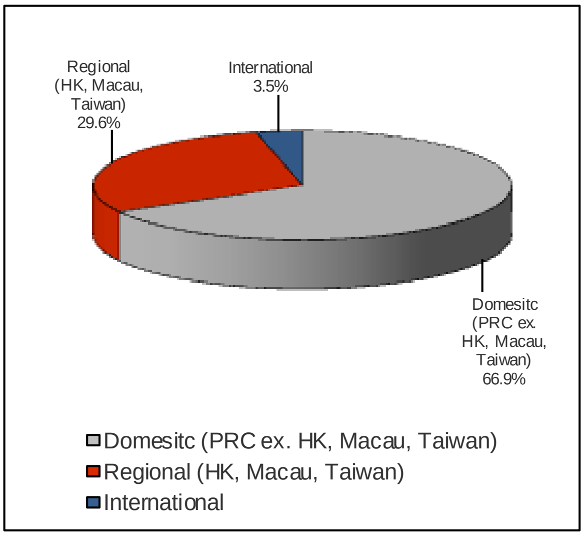
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2018



Source: Company

Figure 2: Revenue breakdown by Geography - 1H2018



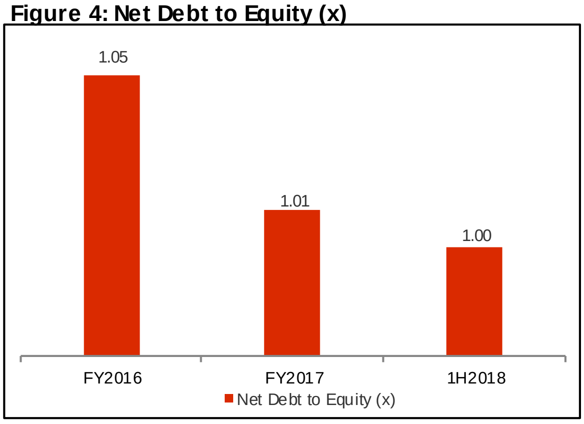
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (RMB'mn)	As at 30/09/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	3,071.0	4.8%
Unsecured	30,233.0	47.0%
	33,304.0	**51.7%**
Amount repayable after a year		
Secured	2,220.0	3.4%
Unsecured	28,856.0	44.8%
	31,076.0	**48.3%**
Total	**64,380.0**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – Notwithstanding the high step-up rates which encourages a call at first call in October 2019, we are underweight the CELSP 3.9%-PERP (383bps spread at first call). Senior papers including Perennial Real Estate Holdings Ltd's PREH 3.9% '21s and Heeton Holdings Ltd's HTONSP 6.08% '21s are trading at 445bps and 455bps spread respectively.

Issuer Profile: Neutral (5)

Ticker: **CELSP**

Background

CITIC Envirotech Ltd ("CEL") is an integrated water treatment solutions provider focusing on the Chinese market. CEL operates in three main business segments: Engineering, Treatment and Membrane. The company is listed on the SGX and is ~59.4%-owned by CITIC, a central government SOE. China Reform Fund Management Co. Ltd has a deemed interest of ~23.6% (via investment funds).

CITIC Envirotech Ltd

Key credit considerations

- **Overall results dragged by foreign exchange losses:** Revenue was up 4.1% y/y to SGD238.2mn in 3Q2018 versus the restated 3Q2017 revenue, this was driven by an increase in the Membrane System and Treatment segments. The Membrane System segment saw revenue increase by 147% y/y to SGD65.5mn while the Treatment segment which tends to be stable, saw revenue increase by 11% y/y to SGD49.8mn. This helped offset the declines in the lumpier Engineering segment where revenue was SGD122.9mn (down 22% y/y) in 3Q2018. Overall reported gross profit margins were also lower at 25.4% in 3Q2018 versus 38.9% in 3Q2017. CEL ended the period with net profit of SGD23.9mn respectively. Other comprehensive losses (from currency translation losses) though wiped out profits, leading to total comprehensive loss for the period of SGD38.0mn (3Q2017 total comprehensive income of SGD65.8mn). China remains CEL's main market, with income denominated in the local currency though CEL reports its financials in SGD.

- **Lower EBITDA though interest coverage manageable:** EBITDA (based on our calculation which does not include other income and other expenses) was SGD47.0mn (down 39.5% y/y). We think the decline was negatively affected by a large non-cash foreign exchange loss (related to foreign currency bank loan). Removing this impact, adjusted EBITDA would have been SGD62.4mn (3Q2017: SGD77.0mn), a narrower fall of 20% y/y instead. Adjusted EBITDA/Interest had compressed y/y to 4.4x (3Q2017: 9.1x).

- **Large capital commitments:** As at 30 September 2018, unadjusted net gearing at CEL was 0.22x (up from 0.18x as at 30 June 2018). Outstanding perpetuals of SGD717.6mn made up 26% of total capital. Given the specific structure of CEL's perpetuals, we view these as more debt-like. Adjusting net gearing upwards for 100% of the perpetuals, we find adjusted net gearing at 1.0x, which in our view is a better reflection of gearing levels as at 30 September 2018. In end-2017, capital commitments on contract wins were SGD1.3bn, of which we estimate that SGD1.1bn is the attributable amount (excluding minority interest portion) to CEL. Year-to-date, CEL has won SGD1.3bn in new contracts, with an attributable amount of ~SGD1.1bn. With the reduction in end-2017 capital commitments, though increased for YTD project wins, we estimate that outstanding capital commitments were SGD2.4bn, with 85% attributable to CEL.

- **Near term liquidity needs alleviated:** In October 2018, CEL's shareholders approved interested party transactions with its sister company, CITIC Finance, a non-bank financial institution. CITIC Finance is a subsidiary of CITIC Limited and shares the same ultimate controlling shareholders as CEL. CITIC Finance had provided an up to RMB10bn loan facility plus an up to USD240mn loan facility to CEL. Both facilities are unsecured. While drawdown is subject to CITIC Finance's deliberation, we see this support as a credit positive as the facilities provide a liquidity source amidst the company's large capital commitments. We still expect CEL to tap perpetual and/or equity markets to help fund the equity portion on its capital commitments (our base case puts this at 30%).

- **Perpetual replaced by straight debt:** The USD-denominated USD355mn CELSP 5.45%-PERP was called in November 2018 and these would have been replaced by straight debt. We estimate perpetuals are now ~9% of total capital. Prior to January 2019, our base case already factored in CEL's adjusted net gearing levels which assumes perpetuals as debt, as such we are maintaining our Neutral (5) issuer profile of the company. We continue to expect adjusted net gearing to progressively increase as capital commitments are carried out.

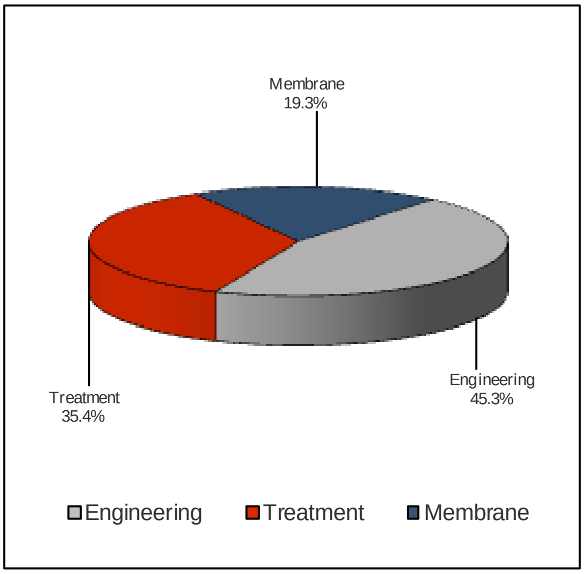
CITIC Envirotech Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)	**SGD'mn**	**SGD'mn**	**SGD'mn**
Revenue	544.6	908.8	788.4
EBITDA	163.8	192.9	192.6
EBIT	141.6	169.0	167.3
Gross interest expense	39.6	34.0	30.5
Profit Before Tax	131.4	176.9	155.8
Net profit	102.0	127.3	109.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	493.5	631.3	385.4
Total assets	2,550.0	3,608.8	3,860.6
Short term debt	76.5	421.7	193.4
Gross debt	556.8	809.7	801.6
Net debt	63.3	178.4	416.2
Shareholders' equity	1,495.5	1,841.1	1,906.8
Cash Flow (SGD'mn)			
CFO	341.9	257.4	51.6
Capex	438.4	315.9	247.8
Acquisitions	36.5	123.5	42.5
Disposals	4.1	22.6	10.4
Dividend	21.2	49.8	65.3
Free Cash Flow (FCF)	-96.5	-58.5	-196.2
Key Ratios			
EBITDA margin (%)	30.1	21.2	24.4
Net margin (%)	18.7	14.0	13.8
Gross debt to EBITDA (x)	3.4	4.2	3.1
Net debt to EBITDA (x)	0.4	0.9	1.6
Gross Debt to Equity (x)	0.37	0.44	0.42
Net Debt to Equity (x)	0.042	0.097	0.218
Gross debt/total assets (x)	0.22	0.22	0.21
Net debt/total assets (x)	0.02	0.05	0.11
Cash/current borrowings (x)	6.5	1.5	2.0
EBITDA/Total Interest (x)	4.1	5.7	6.3

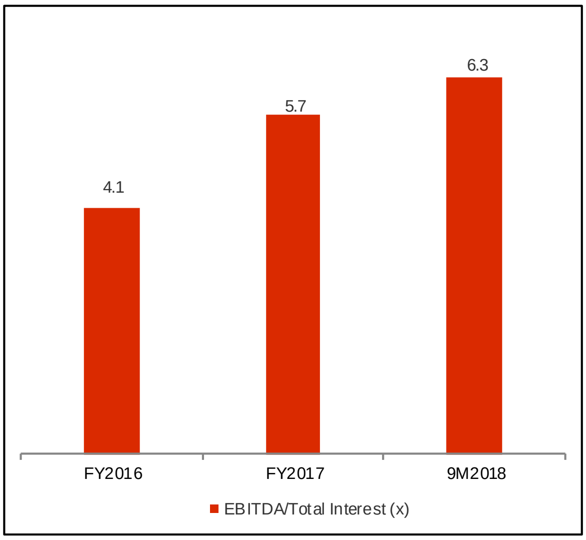
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2018



Source: Company

Figure 2: EBITDA/Total Interest (x)



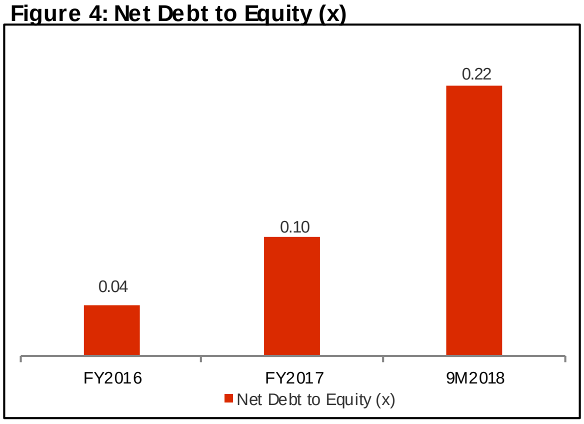
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	193.5	24.1%
Unsecured	0.0	0.0%
	193.5	**24.1%**
Amount repayable after a year		
Secured	608.1	75.9%
Unsecured	0.0	0.0%
	608.1	**75.9%**
Total	**801.6**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

City Developments Ltd

Credit Outlook –

We prefer the CITSP curve in general over the CAPLSP curve given its strong credit profile. Within the CITSP curve, we are Overweight on CITSP '20s, '22s, '23s, '24s and '26s.

Issuer Profile: Positive (2)

Ticker: **CITSP**

Background

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, a conglomerate controlled by the Kwek family.

Key credit considerations

- **Decent 3Q2018 results buoyed by property sales:** 3Q2018 revenue grew 17.7% y/y to SGD1.0bn due to higher revenue from property sales in Singapore (+60.2% y/y to SGD466.5mn) with the launch of New Futura, increased contribution from Phase 2 of Hong Leong City Center and Park Court Aoyama The Tower. Property development segment saw higher profit before tax ("PBT") of SGD154.8mn (+83% y/y), with higher share of contribution from Forest Woods. As a result, property development accounted for 52.6% of 9M2018 EBITDA (9M2017: 36.5%). However, it remains to be seen if property sales can be sustained post the cooling measures.

- **Singapore property sales remain resilient though a big pipeline remains:** Encouragingly, even after the cooling measures in Jul 2018, CDL's developments in Singapore continue to move, delivering SGD129mn reported EBITDA in 3Q2018. Between 2Q2018 to 3Q2018 results, 12 more units were moved at New Futura, 56 more units were moved at The Tapestry. Post 3Q2018 results, Whistler Grand sold 220 units, according to the URA caveats. However, these are lower hanging fruits as they are smaller developments or are priced to the mass market (Singaporean 1st time buyers are less affected by the cooling measures). Going forward, it remains to be seen if such momentum can persist as we believe that the property market sentiment has soured. For South Beach Residences, only 12 out of 50 units released were sold while Amber Park (592 units) and Handy Road (188 units) have yet to launch (expected launch: 1H2019). In addition, the landbank has expanded as CDL (together with CapitaLand under a 50-50 JV) won the Sengkang Central commercial and residential site for SGD777.78mn. That said, we think CDL can manage its exposure to Singapore property, which represents 29.4% of total assets. 51% of total assets are accounted by hotel operations and rental properties.

- **Targeting a much higher recurring income…:** CDL is targeting to achieve SGD900mn recurring EBITDA, which we expect to be derived mainly from rental properties and hotel properties. This implies a ~50% required growth from SGD599mn recurring EBITDA as of 2017, which accounted for 56% 2017's total EBITDA. However, the journey to grow this segment may be rocky. We note that hotel operations PBT plunged 50% y/y to SGD37mn, impacted by the full closure of Millennium Hotel London Mayfair (since Jul 2018), lower contribution from Millennium Hilton Bangkok (undergoing refurbishment) and Maldives (impacted by closure of a resort for rebranding). Rental properties also saw a decline in PBT to SGD44mn (-31% y/y) though this was due to lower divestment gains in 3Q2018 (3Q2017 divestment gain included SGD30mn disposal gain from an office building in Osaka). That said, we expect CDL to report stronger numbers with the Singapore office in an upcycle (CDL owns 2.3mn sq ft of office properties) and acquisitions.

- **… fuelled by acquisitions?:** In Sep 2018, CDL acquired Aldgate House in London for GBP183mn (~SGD328mn). Shortly after in Oct 2018, CDL purchased London's former Stock Exchange Tower for GBP385mn (SGD686.5mn). These acquisitions are intended to enhance CDL's recurring income portfolio.

- **Credit metrics remain decent:** Net gearing increased to 0.24x (2Q2018: 0.22x) even with SGD201.6mn operating cashflows from sales of properties due to ~SGD328mn acquisition of Aldgate House. Net gearing may increase further to ~0.3x following the settlement of the Sengkang Central site and the former Stock Exchange Tower. That said, we see the potential for CDL to monetise certain properties, including Manulife Centre and 7&9 Tampines Grande (which has been put up for sale since Apr 2018). While credit metrics are expected to weaken somewhat, it still falls within our threshold of Issuer Profile of Positive (2) for now.

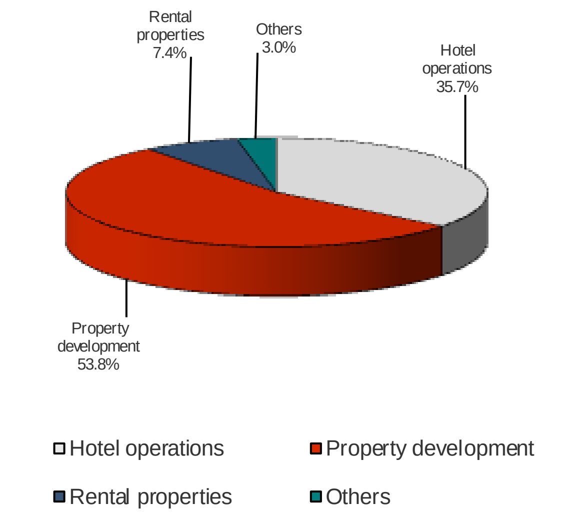
City Developments Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	3,905.5	3,828.4	3,434.2
EBITDA	1,443.8	1,374.0	1,197.2
EBIT	1,221.9	1,158.4	1,038.2
Gross interest expense	155.3	135.4	115.6
Profit Before Tax	914.0	785.7	735.2
Net profit	762.6	679.8	557.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	3,673.0	3,775.9	2,615.8
Total assets	19,797.4	19,485.0	20,414.0
Short term debt	1,782.8	1,266.0	1,158.0
Gross debt	5,737.8	5,036.2	5,643.3
Net debt	2,064.7	1,260.3	3,027.5
Shareholders' equity	11,408.7	11,820.2	12,408.1
Cash Flow (SGD'mn)			
CFO	1,043.4	1,076.3	-877.2
Capex	227.0	154.2	167.8
Acquisitions	523.9	307.1	392.6
Disposals	1,114.4	257.4	110.1
Dividend	237.4	243.8	274.8
Interest paid	-137.5	-125.0	-86.9
Free Cash Flow (FCF)	816.4	922.1	-1,045.1
Key Ratios			
EBITDA margin (%)	37.0	35.9	34.9
Net margin (%)	19.5	17.8	16.2
Gross debt to EBITDA (x)	4.0	3.7	3.5
Net debt to EBITDA (x)	1.4	0.9	1.9
Gross Debt to Equity (x)	0.50	0.43	0.45
Net Debt to Equity (x)	0.18	0.11	0.24
Gross debt/total assets (x)	0.29	0.26	0.28
Net debt/total assets (x)	0.10	0.06	0.15
Cash/current borrowings (x)	2.1	3.0	2.3
EBITDA/Total Interest (x)	9.3	10.1	10.4

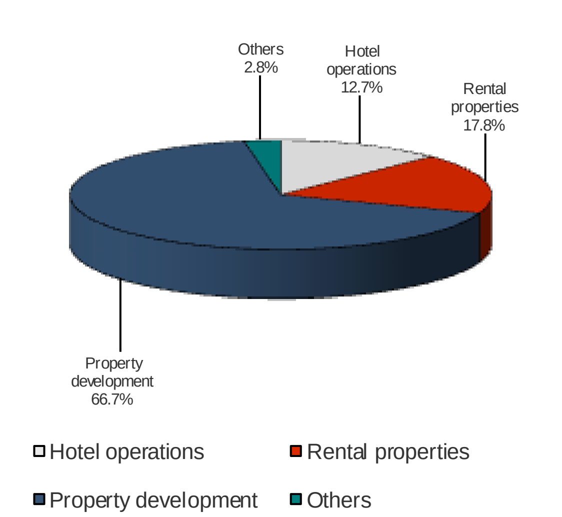
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2018



Source: Company

Figure 2: PBT breakdown by Segment - 9M2018



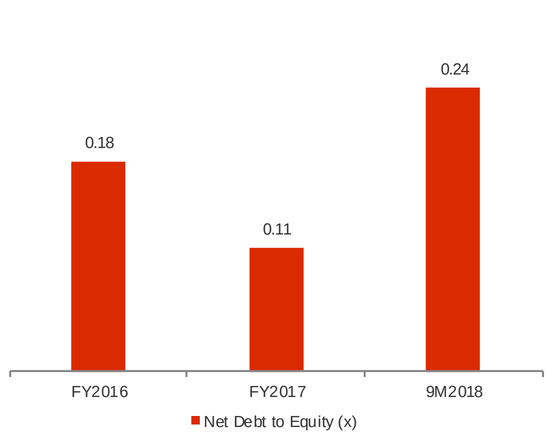
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	311.5	5.5%
Unsecured	847.3	15.0%
	1,158.8	**20.5%**
Amount repayable after a year		
Secured	1,154.5	20.4%
Unsecured	3,343.7	59.1%
	4,498.2	**79.5%**
Total	**5,657.0**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

CMA CGM (Parent of Neptune Orient Lines)

Credit Outlook –
The Public Tender Offer for CEVA is expected to conclude in Apr-19. We think this transaction may put pressure on CMA CGM's Neutral (4) Issuer Profile. That said, the legacy NOLSP '20s and NOLSP '21s offer good carry for short-date paper.

Issuer Profile: Neutral (4)

Ticker: **CMACG**

Background
CMA CGM ("CMA CGM") 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.

Key credit considerations

- **Downside risks in sight:** In light of the new International Maritime Organisation ("IMO") Low Sulphur Regulation – 0.5% global sulphur cap on fuel content (effective from 1 January 2020) – to reduce the environment impact of the industry, CMA CGM will use 0.5% fuel oil for its fleet, LNG to power some of its future container ships (9 ships on order) and order several scrubbers (exhaust gas cleaning systems) for its ships. CMA CGM shared that all these measures represent an estimated major additional cost of ~USD160 per Twenty-foot Equivalent Units ("TEU"). While this regulation may accelerate the scrapping of old vessels that are less fuel efficient, thereby reduce supply and allowing larger players an opportunity to gain pricing power, we see this on balance as negative given higher costs are certain while lower vessel supply is an expectation. In addition, we also see further downside risks stemming from the rise in protectionism and trade tension. This is expected to weigh on global trade and possibly negatively impact the top line figures at shipping companies.

- **Continued topline improvement:** CMA CGM's revenue increased 6.3% y/y to SGD6.06bn in 3Q2018 on the back of greater volume (+5.6% y/y) particularly in the Transpacific, India/Oceania and Africa lines. Revenue per container transported was also higher y/y by 0.8% unlike 2Q2018 which saw a decline of 2.1% y/y. Although operating expenses continued to surge due to higher bunker fuel prices, the pace appeared to have slowed (3Q2018: +13.6% y/y, 2Q2018: +16.9% y/y, 1Q2018: +22.5% y/y). The introduction of an Emergency Bunker Surcharge did partially offset the higher price of fuel. Consequentially, reported core EBIT (excluding asset sales, depreciation and non-recurring items) plunged 57.6% y/y to USD241.1mn. That being said, reported core EBIT margin improved to 4.0% as compared to 1.2% in the preceding quarter due to the stronger top line figure. Net profit, though 238.1% higher q/q at USD110.9mn, was down 64.9% y/y. Fleet capacity also rose 7.6% y/y to 2.69mn TEU. While we expect the top line improvement to keep pace, the abovementioned downside risks will keep CMA CGM on its toes.

- **Acquisition of Containerships, in line with strategy:** On 31 October 2018, CMA CGM completed the takeover of Containerships, a Finnish container-transportation and logistics company that specialises in the intra-European market and has a reported revenue for year ended 31 December 2017 of EUR266.7mn. This is in line with CMA CGM's strategy to further deepen its regional networks as Containerships will complement CMA CGM's affiliate MacAndrews' (acquired in 2002) service offering in North Europe and the Mediterranean. Given that Containerships will take delivery of four LNG-fuelled vessels by Jan-19, this should help CMA CGM comply with the IMO 2020 regulation. In addition, CMA CGM has also acquired an additional 7.88% stake in CEVA leading to an aggregate stake of 32.87% on 17 October 2018. With this transaction, CMA CGM expanded its presence in the logistics sector, which is closely related to shipping.

- **Leverage may inch even higher:** In 3Q2018, net gearing edged higher to 134% (2Q2018: 129%). Leverage could rise further with CMA CGM resuming its capacity expansion, with the order of nine 22,000 TEU vessels made last year (deliveries to commence in 2020). Furthermore, we think CMA CGM will have to seek external financing to fund its Public Tender Offer for CEVA which is expected to conclude in Apr-19. These transactions can stretch its gearing level and will most likely put pressure on CMA CGM's Neutral (4) Issuer Profile.

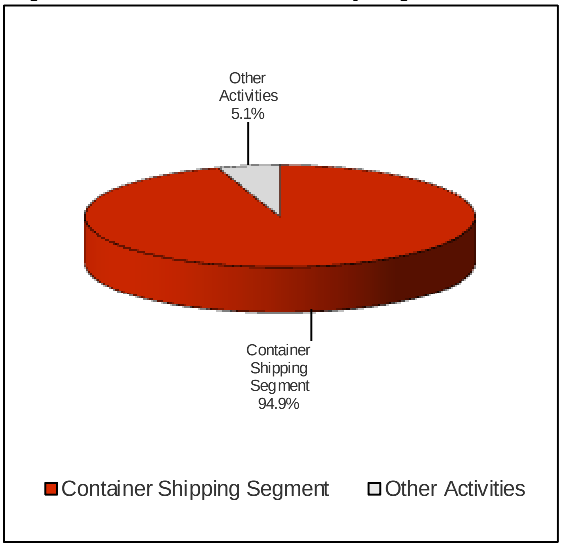
CMA CGM SA

Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	9M2018
Income Statement (USD'mn)			
Revenue	15,977.2	21,116.2	17,176.2
EBITDA	534.8	2,117.3	815.7
EBIT	-36.2	1,493.2	350.8
Gross interest expense	450.0	515.6	358.0
Profit Before Tax	-362.1	805.5	143.0
Net profit	-452.3	701.4	49.1
Balance Sheet (USD'mn)			
Cash and bank deposits	1,211.6	1,393.4	1,356.2
Total assets	18,656.5	19,657.3	20,380.7
Gross debt	8,278.2	8,418.1	8,908.5
Short-term debt	0	0	0
Net debt	7,066.6	7,024.7	7,552.3
Shareholders' equity	4,927.5	5,644.1	5,632.3
Cash Flow (USD'mn)			
CFO	10.2	1,169.5	246.6
Capex	257.8	757.2	268.5
Acquisitions	2,387.1	-538.8	429.9
Disposals	1,769.3	150.9	145.1
Dividend	18.9	17.5	99.7
Free Cash Flow (FCF)	-247.6	412.3	-21.9
Key Ratios			
EBITDA margin (%)	3.3	10.0	4.7
Net margin (%)	-2.8	3.3	0.3
Gross debt to EBITDA (x)	15.5	4.0	8.2
Net debt to EBITDA (x)	13.2	3.3	6.9
Gross Debt to Equity (x)	1.68	1.49	1.58
Net Debt to Equity (x)	1.43	1.24	1.34
Gross debt/total assets (x)	0.4	0.4	0.4
Net debt/total assets (x)	0.4	0.4	0.4
Cash/current borrowings (x)	0.7	1.2	1.5
EBITDA/Total Interest (x)	1.2	4.1	2.3

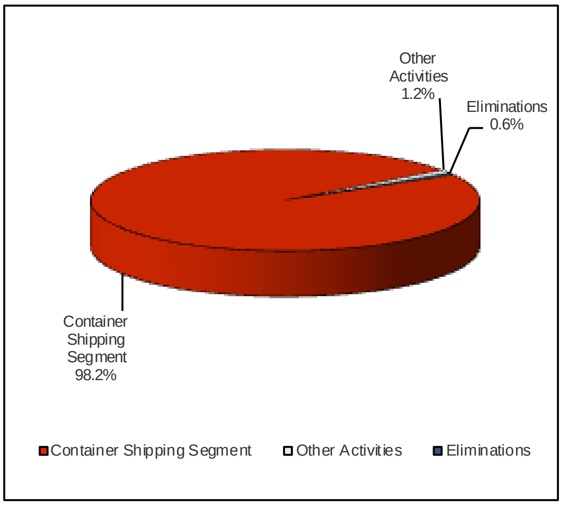
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2018



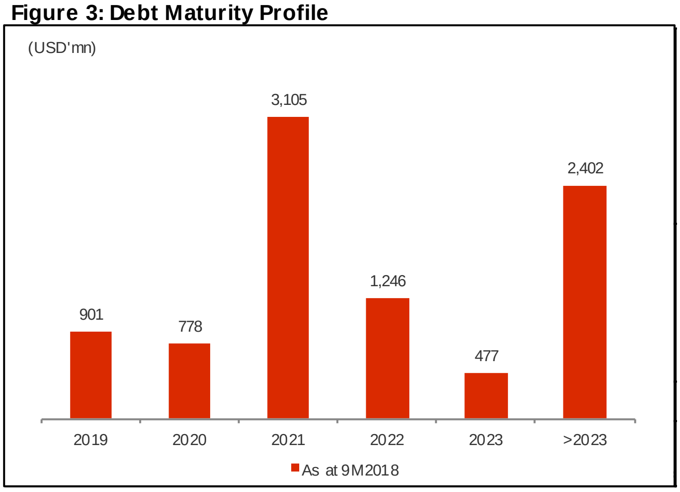
Source: Company | Excludes Eliminations

Figure 2: EBIT breakdown by Segment - 9M2018



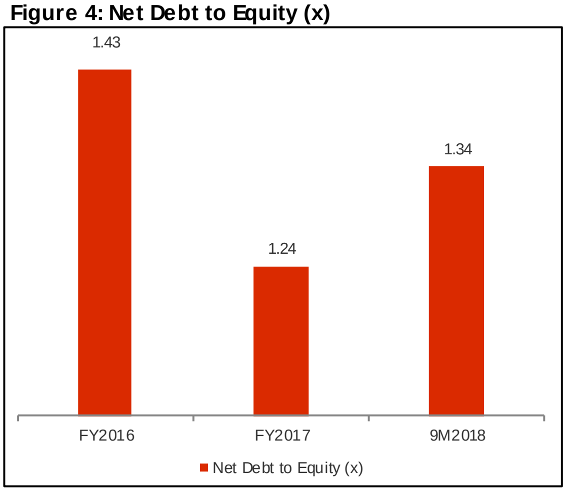
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Both the CWT Pte Ltd bonds are trading at distress levels, we think on account of uncertainty over the debt repayment ability at CWT International Ltd and the lack of publicly available information of CWT Pte Ltd on a standalone basis.

Issuer Profile: Negative (6)

Ticker: **CWTSP**

Background
CWT International Ltd ("CI") is the holding company of CWT Pte Ltd (previously CWT Ltd, when it was publicly listed "CWT SG"). CWT SG is an integrated logistics solutions provider and a provider of ancillary businesses, including commodity marketing, financial services and engineering services. CI, listed in Hong Kong, is ~66.8% owned by HNA Group Co., Ltd, via its group entities ("HNA") while ~13% of the shares have been granted to China Construction Bank Corporation ("CCB") as security.

CWT International Ltd (Parent of CWT Ltd)

Key credit considerations

- **Loss making:** 1H2018 numbers are not comparable y/y due to the acquisition of CWT Pte. Limited and its subsidiaries ("CWT SG") in September 2017. In 1H2018, CWTI recorded HKD36.3bn in revenue, HKD973.2mn in gross profit and a loss before tax of HKD538.4mn. Key drivers for CWTI's loss was revaluation losses of HKD268.2mn on investment properties in the US and UK (not part of CWT SG), higher financing expenses from debt taken by CWTI to buy CWT SG and foreign exchange losses. CWT SG's four business units collectively contributed revenue of HKD36.2bn and profit before tax of HKD143.3mn, implying a PBT margin of only 0.4%. As CWTI had not restated 2017 financials for its initial application of two HKFRS standards, we are unable to tell how much of this is due to accounting change versus actual margin compression for the businesses. Historically, CWT SG reported PBT margins of 1.3% - 1.5% and EBITDA margins of 1.5% - 1.8%.

- **Cash flow from operations insufficient to cover CWTI interest:** In 1H2018, interest expense was HKD451.5mn, with incremental unallocated interest expense at HKD175.1mn. We infer these as interest on the CWT SG acquisition debt. In 1H2018, CWTI's reported cash flow from operations (before interest but after tax ("CFO")) was a meagre HKD55.1mn and insufficient to cover the interest expense at CWTI as a whole. The cash gap at CWTI was funded by existing cash. We think the 1H2018 liquidity situation at CWT SG is less dire. While CWT SG's CFO is undisclosed, CWT SG's profit before tax was HKD143.3mn in 1H2018. We estimate CWT SG's standalone interest expense at HKD191.3mn.

- **Sold crown jewels of CWT SG:** In September 2018, CWT SG sold five warehouses to Mapletree Logistics Trust ("MLT", Issuer profile: Neutral (4)) for SGD730mn (~HKD4.2bn). CWT SG would lease back the properties from MLT, becoming MLT's single largest tenant. Despite the short-term liquidity boost, we think the group has hampered its future markets access by doing a deal without seeking bondholders' approval. We estimate that CWT SG would need to pay rent of SGD48.4mn (~HKD276.0mn) p.a. going forward to MLT. 9M2017 EBITDA was ~HKD751.4mn. Assuming 9M2017 EBITDA margin of 1.58% had held constant in 1H2018, the additional rental expenses may crimp EBITDA by at least 28%.

- **Monetising where it can:** CWTI's acquisition of CWT SG was partly debt funded, with USD300mn originally maturing in May 2018 and USD261mn in September 2018. As of August 2018, the auditors of CWTI had cast material uncertainty related to the going concern of the company amidst the company's impending short term debt due. That being said, with the September 2018 sale of CWT SG warehouses, ~USD395mn (HKD3.1bn) may have been retained by CWT SG and these can also be upstreamed to the broader CWTI for debt repayment. In July 2018, CWT SG would have received HKD300mn from the sale of its entire remaining stakes in the REIT Manager and property manager of Cache Logistics Trust ("Cache") and in September 2018, ~HKD184.2mn from its units in Cache itself.

- **Kicking can down the road:** Including existing cash, as at 30 June 2018, CWTI's cash balance may have increased to HKD5.4bn. Excluding the short-term trade facilities and excluding overdrafts which we assume can be rolled over; we estimate that CWTI faces short term debt due of HKD6.0bn. On 7 July 2018, CWTI entered into an USD550mn one year debt facility, likely secured on CWTI's stake in CWT SG, with expected maturity in September 2019. This substantially addresses the immediate refinancing risks from the acquisition debt. While we take some comfort that the ~HKD579mn of CWT SGD-denominated bonds are due earlier in April 2019, we think the levered situation at CWTI is untenable over the medium term unless further assets are sold (eg: including the sale of CWT SG itself).

CWT International Ltd

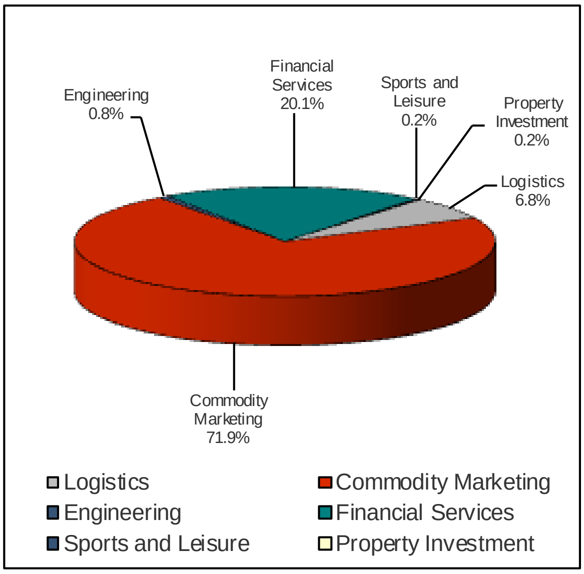
Table 1: Summary Financials | **CWT Ltd**

Year End 31st Dec		FY2017	1H2018
Income Statement (HKD'mn)		**HKD'mn**	**HKD'mn**
Revenue		23,955.9	36,264.8
EBITDA		317.7	384.6
EBIT		85.0	139.0
Gross interest expense		6,029.7	451.5
Profit Before Tax		179.7	-538.4
Net profit		204.5	-556.5
Balance Sheet (HKD'mn)			
Cash and bank deposits		2,137.9	1,792.2
Total assets		31,181.7	30,478.8
Short term debt		10,648.7	12,092.4
Gross debt		14,728.1	14,783.1
Net debt		12,590.2	12,990.9
Shareholders' equity		5,971.3	5,408.7
Cash Flow (HKD'mn)			
CFO		-697.7	55.1
Capex		137.7	256.7
Acquisitions		6,473.4	0.0
Disposals		1,158.1	0.0
Dividend		3.8	14.4
Free Cash Flow (FCF)		-835.4	-201.6
Key Ratios			
EBITDA margin (%)		1.3	1.1
Net margin (%)		0.9	-1.5
Gross debt to EBITDA (x)		46.4	19.2
Net debt to EBITDA (x)		39.6	16.9
Gross Debt to Equity (x)		2.47	2.73
Net Debt to Equity (x)		2.11	2.40
Gross debt/total assets (x)		0.47	0.49
Net debt/total assets (x)		0.40	0.43
Cash/current borrowings (x)		0.20	0.15
EBITDA/Total Interest (x)		0.1	0.9

Source: Company, OCBC estimates

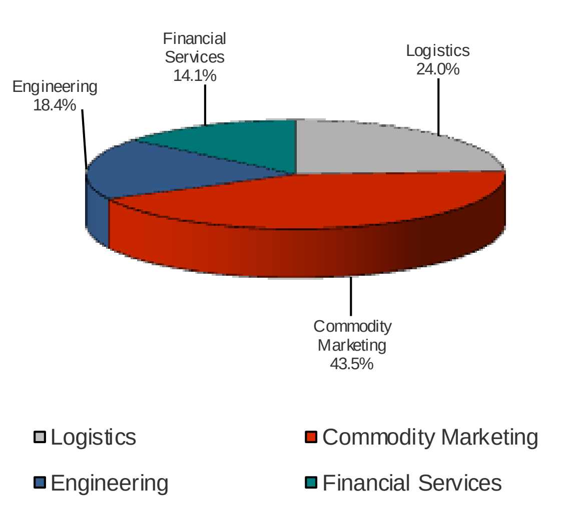
CWT Ltd was acquired by CWT International after FY2016

Figure 1: Revenue breakdown by Segment - 1H2018



Source: Company | Excludes Eliminations

Figure 2: PBT breakdown by Segment - 1H2018



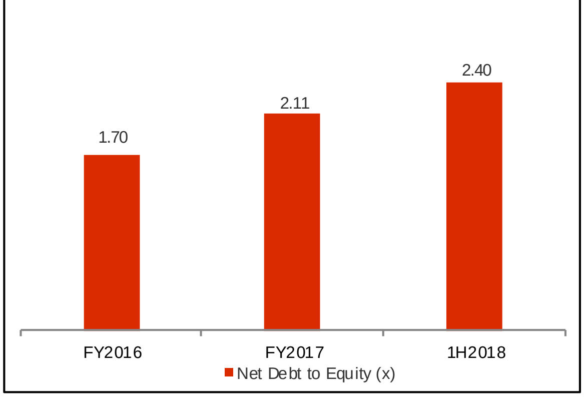
Source: Company | Excludes Sports & Leisure and Property Investment

Figure 3: Debt Maturity Profile

Amounts in (HKD'mn)	As at 30/09/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	5,386.0	37.5%
Unsecured	6,291.1	43.8%
	11,677.1	**81.3%**
Amount repayable after a year		
Secured	2,098.4	14.6%
Unsecured	592.3	4.1%
	2,690.6	**18.7%**
Total	**14,367.7**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – At a 190bps spread for a bond maturing in May 2020, we are overweight the EREIT 3.95% '20s, notwithstanding expectations that aggregate leverage will rise to ~41% on a proforma basis.

Issuer Profile: Neutral (4)

Ticker: **EREIT**

Background

EREIT has completed its merger with VIVA Industrial Trust on 22 October 2018 with a proforma total asset base of SGD3.1bn. EREIT invests primarily in industrial assets. All properties are in Singapore. Mr. Tong Jinquan is now EREIT's largest unitholder with a ~34%-stake while ESR is the second largest unitholder with a ~9%-stake. The EREIT REIT Manager is now owned by ESR (67.3%), Mr. Tong (25.0%) and Mitsui (7.7%).

ESR-REIT

Key credit considerations

- **Standalone interest coverage has weakened:** In 3Q2018, gross revenue was up 19.4% y/y to SGD32.4mn while net property income ("NPI") was up 15.0% y/y to SGD22.5mn. This was attributable to two properties acquired in December 2017, although partly offset by lower revenue from property conversions into multi-tenanted buildings and the absence of revenue from one divested property. On a q/q basis, we find that gross revenue had declined 0.6% while NPI had declined 3.8%. Assuming that EREIT pays out 4.6% p.a. as perpetual distribution, EBITDA/(Interest plus 50% of perpetual distribution) was 3.2x in 3Q2018. In 3Q2018, 6.9% of rental income is attributable to Hyflux, while this tenant has not defaulted on its payments to EREIT, reportedly this tenant has been delaying rents to Ascendas REIT (Issuer Profile: Neutral (3)). Taking away rents from Hyflux, we estimate EBITDA/ (Interest plus 50% of perpetual distribution) at 3.0x.

- **Aggregate leverage high versus REIT peers:** As at 30 September 2018, EREIT's standalone unadjusted aggregate leverage was low at 30.3% though this was temporary. On 25 October 2018, EREIT bought 15 Greenwich Drive within the Paya Lebar Airbase vicinity for a total acquisition cost of SGD99.9mn with debt. Adding a SGD12mn property capex, we estimate EREIT's unadjusted aggregate leverage at ~34%. Assuming 50% of EREIT's SGD150mn perpetual as debt, we estimate its' adjusted aggregate leverage at 39% on a standalone basis. As at 30 June 2018, VIT had SGD536.5mn in gross debt (aggregate leverage of 41.0%) and this should still be relatively constant. The total scheme consideration borne by EREIT for the acquisition of VIT was SGD936.7mn while professional and other fees and expenses was ~SGD24.3mn. 90% of the scheme consideration was paid via new equity issued by EREIT to the previous unitholders of VIT though the remaining 10% of cash consideration and transaction costs were debt-funded. On a combined basis, we estimate that EREIT's unadjusted aggregate leverage will rise to ~41% and ~43% on an adjusted basis (taking 50% of perpetual as debt).

- **No near-term maturities:** On 5 November 2018, EREIT's SGD155mn SGD-bond was fully redeemed by existing debt facilities. EREIT faces SGD115mn in maturing bank debt in 2019, of which it expects that SGD100mn would be extended to 2023. The remaining SGD15mn relates to debt drawn down from an unsecured revolving credit facility ("RCF"), which in practice is likely to be rolled forward. As at 30 September 2018, EREIT had SGD205mn in undrawn available committed RCF and we think there is at least SGD50mn still available. As at 30 June 2018 (the last available date for VIT's standalone financials), VIT only faced a SGD100mn bond due in the short term. This has since been redeemed and there is no VIT debt due in 2019. All of EREIT's debt remains unsecured. Prior to the merger, we think VIT had paid down SGD11.8mn in debt using its cash balance and all of VIT's remaining SGD525mn in debt would have also been refinanced into unsecured debt (ie: the full SGD3.1bn in pro-forma investment properties is unencumbered).

- **Better operating metrics following merger:** In 3Q2018, the top ten tenants at EREIT contributed 41.7% of rental income. Of which, AMS Sensors Singapore Pte Ltd contributed 8.9% while troubled Hyflux contributed 6.9%. Going forward, EREIT's tenant concentration risk will decline, with top ten tenants contributing ~28.7% of rental income. As at 30 September 2018, EREIT's standalone portfolio occupancy was 92.9%, higher than sector portfolio occupancy of 89.1%. For EREIT, only 3.6% of leases by rental income would come due in 4Q2018 while 20% would come due in 2019. Assuming figures are unchanged since June 2018, VIT on a standalone basis has 26% of leases by rental income that will come due in 2019. On a combined basis, we estimate that 23% of rental income will come due, which is not overly lumpy and manageable for the REIT.

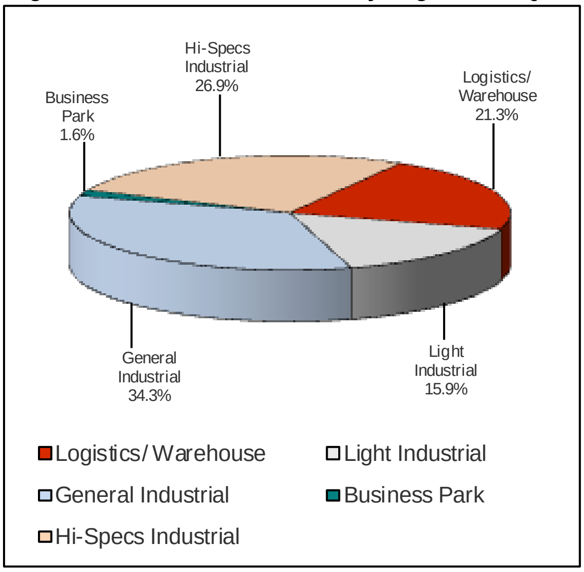
ESR-REIT

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	112.1	109.7	98.5
EBITDA	73.3	69.3	62.2
EBIT	73.3	69.3	62.2
Gross interest expense	21.1	20.4	16.6
Profit Before Tax	7.1	1.4	44.4
Net profit	7.1	1.4	44.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	3.7	11.7	9.9
Total assets	1,367.0	1,695.8	1,681.3
Short term debt	0.0	0.0	155.0
Gross debt	509.6	669.8	508.5
Net debt	505.9	658.1	498.6
Shareholders' equity	827.0	930.0	1,071.4
Cash Flow (SGD'mn)			
CFO	69.7	69.0	55.2
Capex	5.6	9.8	3.3
Acquisitions	0.0	351.0	1.4
Disposals	27.0	56.9	23.7
Dividends	52.9	46.0	41.9
Interest paid	20.9	19.4	12.5
Free Cash Flow (FCF)	64.2	59.2	51.9
Key Ratios			
EBITDA margin (%)	65.4	63.2	63.2
Net margin (%)	6.3	1.3	45.0
Gross debt to EBITDA (x)	6.9	9.7	6.1
Net debt to EBITDA (x)	6.9	9.5	6.0
Gross Debt to Equity (x)	0.62	0.72	0.47
Net Debt to Equity (x)	0.61	0.71	0.47
Gross debt/total asset (x)	0.37	0.39	0.30
Net debt/total asset (x)	0.37	0.39	0.30
Cash/current borrowings (x)	N.A	0.1	0.1
EBITDA/Total Interest (x)	3.5	3.4	3.8

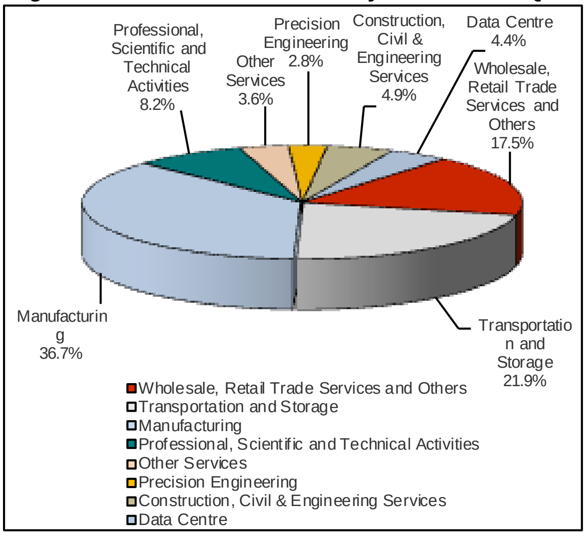
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 3Q2018



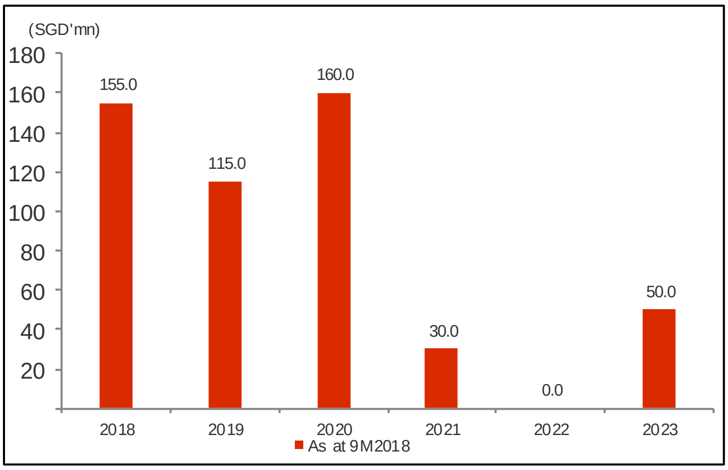
Source: Company

Figure 2: Revenue breakdown by Business - 3Q2018



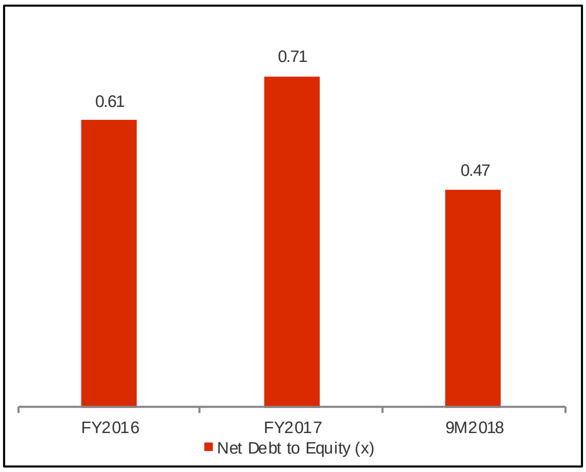
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – The FIRTSP 5.68%-PERP is trading at a 7.0% yield in perpetuity, tightening since the introduction of OUE Ltd as its new Sponsor. Nonetheless, given the REIT's still significant concentration to LK-related entities as main tenant, we do not expect further tightening.

Issuer Profile: Negative (6)

Ticker: **FIRTSP**

Background

Listed on the Singapore Stock Exchange with a market cap of SGD780.6mn as at 4 January 2019. FIRT is a REIT that invests primarily in real estate used for healthcare and healthcare-related sectors. Investment properties totaled SGD1.3bn as at 30 September 2018. We estimate that OUE Ltd has a 17.6%-deemed ownership stake in FIRT while PT Lippo Karawaci Tbk ("LK")'s stake has declined to ~10.7%.

First Real Estate Investment Trust

Key credit considerations

- **Interest coverage flat q/q:** In 3Q2018, gross revenue was up 5.1% y/y to SGD29.1mn while net property income ("NPI") was up 5.4% y/y to SGD28.9mn. This was attributable to the full quarter contribution from Siloam Hospitals Buton & Lippo Plaza Buton and Siloam Hospitals Yogyakarta. EBITDA (based on our calculation which does not include other income and other expenses) was SGD25.9mn in 3Q2018 (up 5.3% y/y) while interest expense was up by 25.3% y/y with resultant EBITDA/Interest coverage still manageable at 4.7x (5.6x in 3Q2017). Assuming that FIRT pays out 5.68% p.a. as perpetual distribution, EBITDA/(Interest plus 50% of perpetual distribution) was 4.1x in 3Q2018. Day sales outstanding ("DSO") was 153 days in 3Q2018 versus 91 days in 2Q2018. The pilling up of trade receivables is unsurprising given continued liquidity stresses at LK.

- **Now also an OUE-Sponsored REIT:** OUE Limited ("OUE", Issuer profile: Neutral (4)) and its 64.4%-owned subsidiary OUE Lippo Healthcare Limited ("OUE-LH") bought FIRT's REIT Manager ("FIRTM") for SGD98.9mn from LK (FIRT's Sponsor and largest unitholder then). Additionally, OUE-LH bought a ~10.6%-stake in FIRT for SGD102.7mn, also from LK. OUE, OUE-LH, and LK share the same ultimate controlling shareholder. The deal saw OUE buying 60% of FIRTM with OUE-LH buying the remaining 40%. Apart from its REIT Manager function, FIRTM holds a 7%-stake in the REIT. We estimate that OUE now holds a 17.6% deemed ownership in FIRT while its effective stake is 11.0%. LK is also looking to sell its remaining stake of ~10.7% in FIRT (with OUE/OUE-LH as natural buyer).

- **Planning to diversify though LK still drives credit profile for now:** As at 30 September 2018, FIRT's unadjusted aggregate leverage was 34.9%. FIRT had took on additional debt to help fund dividends to unitholders, interest and distribution to perpetual holders. Adding 50% of perpetuals as debt, we find adjusted aggregate leverage at 36.4%, still manageable. As at 30 September 2018, SGD385.6mn (representing 78% of gross debt) at FIRT was secured debt. In December 2018, FIRT shared its near-to-medium term strategic plan which includes geographical diversification (including potentially buying Japanese nursing homes owned by OUE-LH). We expect FIRT to fund this by debt, with aggregate leverage temporarily going above 40%. In conjunction with FIRT's geographical diversification, FIRT is likely to see LK reduced as a credit counterparty. FIRT aims to have up to 50% of asset value from outside Indonesia in three to five years' time. In the short-to-medium term though, LK continues to be vital as FIRT's main tenant (>80% contribution to rents). Should LK decide not to renew leases, we see the assignment of existing leases and/or new leases signed directly with Siloam as highly probable, given that FIRT own assets critical to Siloam's operations. The critical issue in our view is the revision of lease terms (eg: lease rates, foreign exchange risk allocation), amidst Siloam's still thin profitability margins which may hamper Siloam's ability to pay rents at similar levels as LK.

- **Access to external financing better:** As at 30 September 2018, FIRT faces SGD109.8mn in short term debt (represents 22% of total debt). Per company, FIRT is in negotiations with banks to refinance the debt that is coming due in May 2019. We assume that lenders holding the properties as collateral are willing to extend additional secured debt on the same collateral package. While FIRT continues to be negatively impacted by the stretched liquidity at LK, in our view the introduction of OUE/OUE-LH as new equity holder of both FIRTM and FIRT should allow FIRT better access to financing markets. We think FIRT would be recognized as an associated company given OUE's control over the REIT Manger. It would be considered par for course for OUE and/or OUE-LH to provide a corporate guarantee on FIRT's loans, if need be.

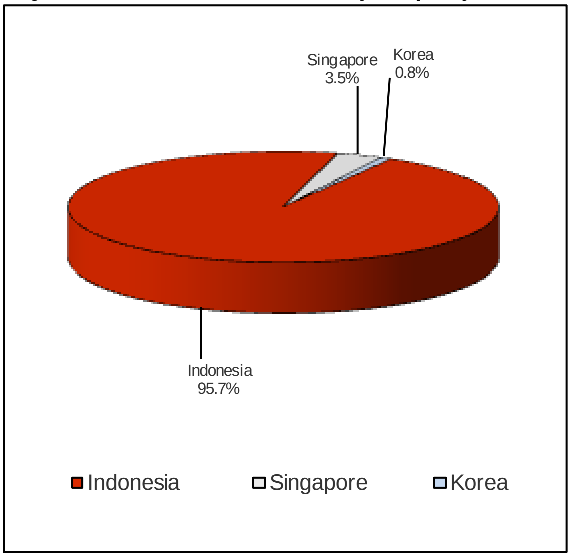
First Real Estate Investment Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	107.0	111.0	86.9
EBITDA	94.9	98.2	77.0
EBIT	94.9	98.2	77.0
Gross interest expense	17.8	17.8	15.7
Profit Before Tax	64.3	93.6	60.7
Net profit	40.4	73.5	46.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	33.6	15.7	10.5
Total assets	1,341.3	1,423.8	1,442.8
Short term debt	142.0	198.3	109.8
Gross debt	413.6	476.4	495.4
Net debt	380.0	460.7	484.9
Shareholders' equity	838.6	852.3	854.3
Cash Flow (SGD'mn)			
CFO	81.5	72.4	44.0
Capex	0.0	0.0	0.0
Acquisitions	39.2	72.2	0.5
Disposals	8.2	0.0	0.0
Dividends	56.7	66.4	51.8
Interest paid	16.2	16.1	12.9
Free Cash Flow (FCF)	81.5	72.4	44.0
Key Ratios			
EBITDA margin (%)	88.6	88.5	88.6
Net margin (%)	37.7	66.2	53.8
Gross debt to EBITDA (x)	4.4	4.9	4.8
Net debt to EBITDA (x)	4.0	4.7	4.7
Gross Debt to Equity (x)	0.49	0.56	0.58
Net Debt to Equity (x)	0.45	0.54	0.57
Gross debt/total asset (x)	0.31	0.33	0.34
Net debt/total asset (x)	0.28	0.32	0.34
Cash/current borrowings (x)	0.2	0.1	0.1
EBITDA/Total Interest (x)	5.3	5.5	4.9

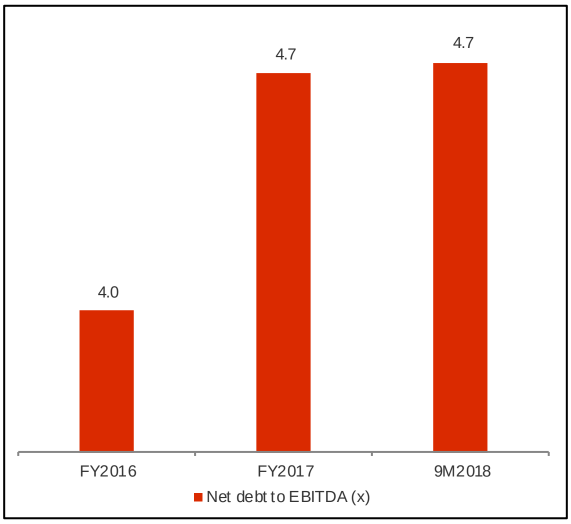
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - FY2017



Source: Company

Figure 2: Net debt to EBITDA (x)



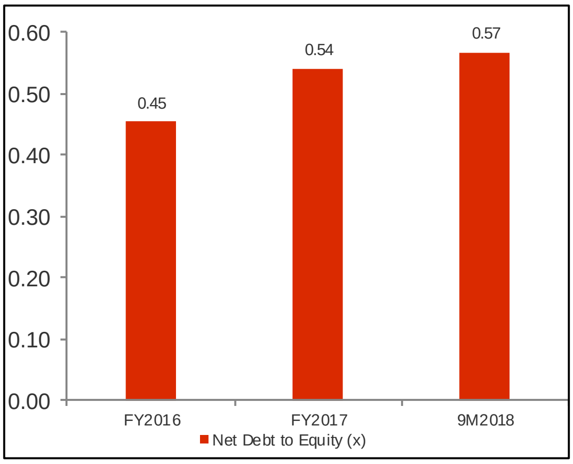
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	109.8	22.2%
	109.8	**22.2%**
Amount repayable after a year		
Secured	385.6	77.8%
Unsecured	0.0	0.0%
	385.6	**77.8%**
Total	**495.4**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We think both FNNSP '22s look interesting trading around 3.5% YTM. We note that FNN is a rare issuer in the F&B space and like that it generates healthy cashflows with a good credit metrics.

Issuer Profile: Neutral (4)

Ticker: **FNNSP**

Background

Fraser & Neave Ltd ("FNN") is a consumer group engaged in Food & Beverage ("F&B") and Publishing and Printing ("P&P") businesses. FNN is a F&B market leader in Southeast Asia, with brands including 100Plus, F&N Nutrisoy, F&N Seasons, F&N Magnolia and Farmhouse. FNN's P&P business include Marshall Cavendish and Times Publishing. FNN owns 55.5% stake in Fraser & Neave Holdings Bhd ("FNNB") and 19.06% stake in Vietnam Dairy Products ("Vinamilk"). FNN is owned by TCC Assets (59.2%) and Thai Beverage (28.5%), both linked to Thai billionaire Mr Charoen.

Frasers and Neave Ltd

Key credit considerations

- **More of a dairies company than a beverages company:** FY2018 revenue grew 1.5% y/y to SGD1.93bn due to growth from Dairies (+4.6% y/y to SGD1.16bn) with increased sales from Malaysia (+6.0% y/y to SGD319mn), Thailand (+5.0% y/y to SGD589mn) and Singapore (+2.5% y/y to SGD249mn). However, the Beverages segment struggled (-2.2% y/y to SGD488.5mn) with market contraction, weaker consumer sentiment as well as intense price competition. By reported EBIT, Dairies is the main contributor, growing 13% y/y to SGD204mn on the back of growth from Vinamilk (+19% y/y to SGD95mn) due to equity accounting of the stake in Vinamilk since Apr 2017 with the increase in stakes from 18.74% to 20.01%. Meanwhile, Beverages EBIT remained negative at –SGD0.2mn, though this has improved y/y (FY2017: -SGD3.9mn) due to favourable sugar costs and operational cost savings.

- **Vinamilk is a core contributor:** Vinamilk contributed SGD95mn EBIT in FY2018, which forms ~44.5% of FNN's EBIT and 41.1% of the Dairies segment's EBIT. We estimate that FNN received ~SGD85mn from Vinamilk in FY2018. The market value of FNN's stake in Vinamilk is worth about SGD2.4bn, though this is somewhat smaller than what is recorded on the books (estimate: ~SGD2.5bn) due to the decline in share price of Vinamilk in YTD2018. Potentially, FNN may continue to acquire further stakes in Vinamilk though in recent months the acquisitions has paused, with FNN citing unfavourable market conditions.

- **Beverages segment turning around though remains a shadow of its former self:** Although reported EBIT for the segment has nearly turned around with a small loss of SGD0.2mn (FY2017: -SGD3.9mn), it has yet to catch up to better days seen when the Beverages segment used to be a larger contributor to reported EBIT (FY2012-14 average: SGD131mn). Competition remains intense with market contraction in the beverages product categories while Singapore's EBIT continue to be impacted by lower sales and higher input costs. With the imposition of excise duty at 40 cts per litre on ready-to-drink beverages exceeding 5g of sugar per 100ml, which should impact FNN's products, we expect the outlook of FNN's beverages segment to remain challenged.

- **Growing Dairies business though publishing business remains lacklustre:** Aside from Vinamilk, Thailand is the largest contributor to the Dairies segment, contributing SGD589mn revenue (+5% y/y) and SGD87mn EBIT (+19% y/y) with increasing distribution, successful brand building in Indochina market and favourable input costs. However, Dairies Malaysia which contributed SGD319mn in revenue (+6% y/y) saw declines in EBIT (-10% y/y to SGD41mn) with higher dairy based commodity prices and packaging cost. Meanwhile, printing and publishing business continues to struggle with EBIT of –SGD1.2mn (FY2017: -SGD4.5mn).

- **Significant HoldCo-OpCo subordination:** Most of the operating assets are held in FNNB and Vinamilk. However, subordination risks from FNNB are manageable given its low debt and FNN holds a controlling stake. Risks from Vinamilk are partly mitigated as majority of the profits have been upstreamed to FNN via dividends.

- **Credit metrics still healthy, for now:** Net gearing fell q/q to 10.8% (3QFY2018: 13.6%) mainly due to operating cashflow of SGD85.6mn generated in 4QFY2018. That said, debt may inch higher with FNN looking to invest USD50mn (~SGD69mn) in a greenfield brewery (Emerald Brewery Myanmar Ltd). Though FNN has healthy credit metrics, we continue to hold FNN at a Neutral (4) Issuer Profile as it runs on a single engine (Dairies) in view of the subdued performance from the Beverages segment.

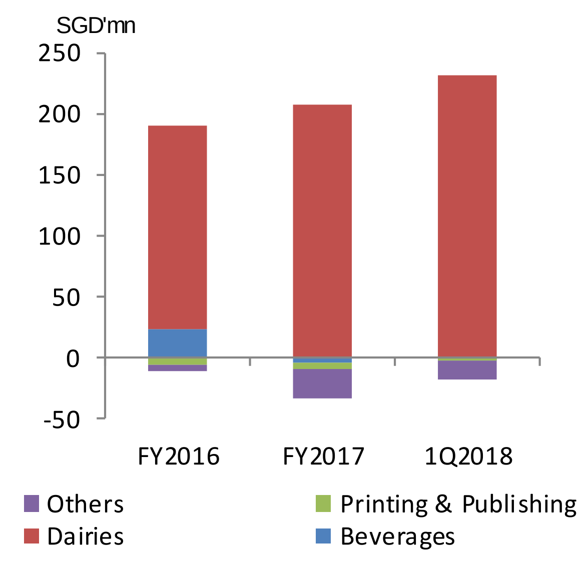
Fraser & Neave Ltd

Table 1: Summary Financials

Year End 30th Sep	FY2016	FY2017	FY2018
Income Statement (SGD'mn)			
Revenue	1,978.6	1,898.0	1,926.5
EBITDA	161.8	142.8	172.1
EBIT	115.0	85.3	114.1
Gross interest expense	5.0	16.2	30.5
Profit Before Tax	188.2	1,340.3	198.6
Net profit	165.7	1,325.6	179.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,042.6	1,135.0	530.1
Total assets	3,773.8	4,891.2	4,490.8
Short term debt	12.2	785.6	374.1
Gross debt	137.0	1,303.1	871.4
Net debt	-905.6	168.1	341.3
Shareholders' equity	3,152.5	3,132.1	3,169.8
Cash Flow (SGD'mn)			
CFO	175.6	76.3	176.5
Capex	65.5	64.7	93.2
Acquisitions	34.3	1,022.8	236.8
Disposals	0.4	1.1	4.9
Dividend	98.9	95.7	96.2
Interest paid	-4.9	-13.7	-30.3
Free Cash Flow (FCF)	110.1	11.6	83.3
Key Ratios			
EBITDA margin (%)	8.2	7.5	8.9
Net margin (%)	8.4	69.8	9.3
Gross debt to EBITDA (x)	0.8	9.1	5.1
Net debt to EBITDA (x)	-5.6	1.2	2.0
Gross Debt to Equity (x)	0.04	0.42	0.27
Net Debt to Equity (x)	-0.29	0.05	0.11
Gross debt/total assets (x)	0.04	0.27	0.19
Net debt/total assets (x)	-0.24	0.03	0.08
Cash/current borrowings (x)	85.3	1.4	1.4
EBITDA/Total Interest (x)	32.6	8.8	5.6

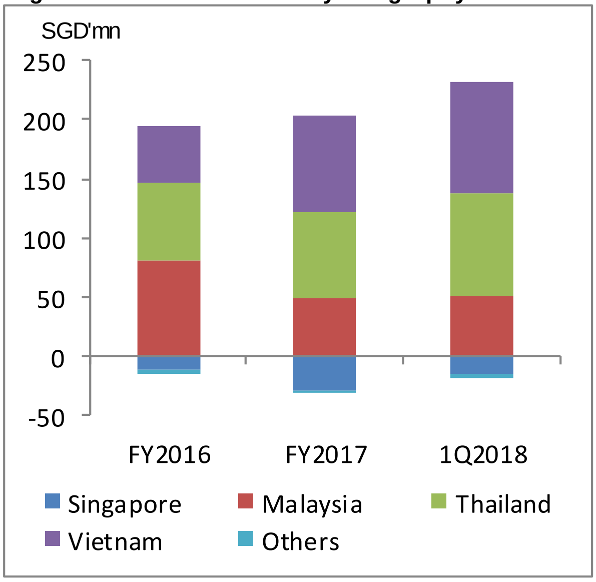
Source: Company, OCBC estimates

Figure 1: EBIT breakdown by Segment - FY2018



Source: Company

Figure 2: EBIT breakdown by Geography - FY2018



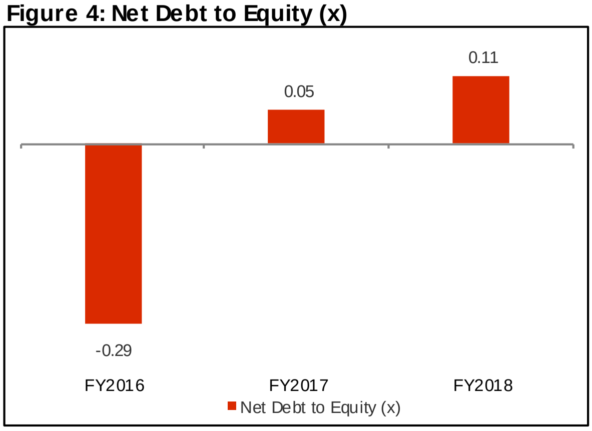
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	374.1	42.9%
	374.1	**42.9%**
Amount repayable after a year		
Secured	0.0	0.0%
Unsecured	497.3	57.1%
	497.3	**57.1%**
Total	**871.4**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Frasers Centrepoint Trust

Credit Outlook – Aggregate leverage of 28.6% is below average. We are underweight on the short end of the FCTSP curve and neutral on the longer end of the curve.

Issuer Profile: Neutral (3)

Ticker: **FCTSP**

Background

Listed on the SGX in July 2006, Frasers Centrepoint Trust ("FCT") is a pure-play suburban retail in Singapore, sponsored by Frasers Property Ltd ("FPL", which holds a 42% interest in FCT). Since its IPO, FCT's portfolio value has grown to SGD2.75bn as at 30 September 2018. FCT's portfolio comprises 6 suburban retail malls in Singapore – Causeway Point, Changi City Point, Northpoint, Bedok Point, Anchorpoint, and YewTee Point. FCT also owns a 31.15%-stake in Malaysia-listed Hektar REIT ("H-REIT", a retail focused REIT).

Key credit considerations

- **Northpoint is the key driver in financial year ended September 2018 ("FY2018"):** Revenue was up 6.5% y/y in FY2018 to SGD193.35mn, with Northpoint leading with 24.2% y/y growth on the back of higher average rent and improved occupancy following the completion of its AEI. Portfolio NPI moved in tandem by 5.9% y/y while NPI at Northpoint was higher by 31.8% y/y. Occupancy rate at Northpoint as at 30 September 2018 was 96.5% (99.4% excl. podium) and rental reversion for the year is positive at 2.8%. We think the upcoming expiring leases of 16.7% of total gross rent of mall is manageable given shopper traffic is strong and increased 36.5% in 4QFY2018. Stripping Northpoint out of the portfolio, revenue for FY2018 would have only increased marginally (1.1% y/y) with NPI down by 1.8% y/y.

- **Higher property expenses at larger assets in 4QFY2018:** FCT incurred higher property expenses of SGD15.6mn (up 14.3% y/y) in 4QFY2018 (an increase of SGD2.3mn or 17.4% q/q). Although Northpoint did well in FY2018, it saw property expenses increase 27.5% y/y in 4QFY2018, due to higher property tax provisions for units post AEI, higher ad-hoc maintenance expense and higher utility consumption and tariff rates. This led to Northpoint's NPI declining 9.4% y/y although its revenue was down by just 0.8% y/y. Causeway Point's property expenses increased 13.2% y/y, on the back of higher ad-hoc maintenance expenses and higher marketing expenses. As such, despite the 2.5% y/y increase in Causeway Point's revenue, its NPI declined 1.2% y/y. On top of some of the expenses being one-off items at both malls, rental reversion remained positive, albeit lower while occupancy rate is over 95%. Therefore, we think performance at both malls remain somewhat stable.

- **Smaller assets underperformed:** In FY2018, NPI at YewTee Point was down 3.6% y/y, Anchorpoint down 15.3% y/y and Bedok Point down 30.6% y/y. Although they only account for 11.8% of FCT's NPI, they can cumulatively drag portfolio statistics. In 4QFY2018, rental reversion was negative across the three malls. Coincidentally, these malls also recorded substantial expiring leases in FY2019 (YewTee Point: 22.5%, Anchorpoint: 48.8%, Bedok Point: 25.5% of total gross rent of mall). Assuming none of these expiring leases are renewed or leased (worst case scenario), we estimate that gross rent of FCT (~90% of FCT's revenue) will fall by ~6%.

- **Strong credit profile:** Financial position remains strong with aggregate leverage at 28.6% (3QFY2018: 29.3%) and EBITDA/Interest at 5.4x (3QFY2018: 6.1x). FCT also has debt amounting to SGD217mn maturing in 2019 vis-à-vis cash balance of SGD21.9mn in end-September 2018. Secured borrowings though only made up 14.2% of FCT's total assets, with only the three smaller assets mortgaged. The larger malls: Causeway Point, Northpoint City North Wing and Changi City Point collectively made up 88.2% of portfolio FY2018 NPI. As at 30 Sep 2018, these malls were valued at SGD2.4bn and remain unencumbered, providing financial flexibility. As such, we see refinancing risk as manageable.

- **Debt headroom for acquisition:** Management has guided that it will focus on acquisition to drive further growth. Given the present aggregate leverage level of 28.6%, FCT has, in our view, largely retained its sizable debt headroom for potential property injection from its Sponsor. Two possibilities are Northpoint City South Wing (valued at SGD733.0mn as at 30 Sep 2018) which FPL fully owns and Waterway Point (33.3% owned by Sponsor).

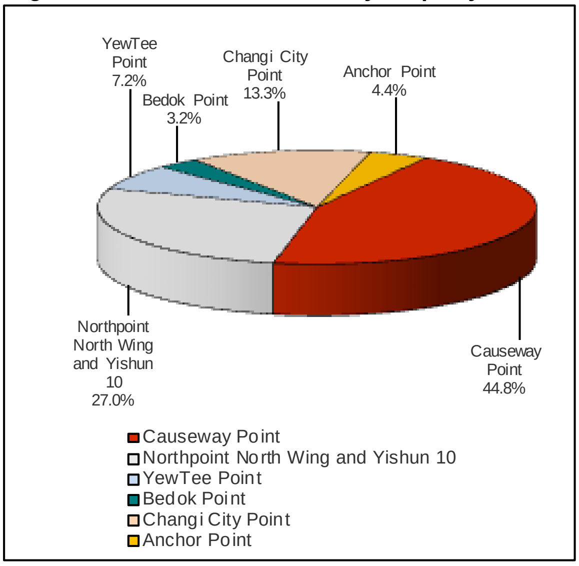
Frasers Centrepoint Trust

Table 1: Summary Financials

Year Ended 30th Sept	FY2016	FY2017	FY2018
Income Statement (SGD'mn)			
Revenue	183.8	181.6	193.3
EBITDA	114.1	112.5	120.1
EBIT	114.0	112.5	120.0
Gross interest expense	17.2	17.6	20.0
Profit Before Tax	123.4	193.9	166.8
Net profit	123.4	193.9	166.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	18.7	13.5	21.9
Total assets	2,594.5	2,750.9	2,840.4
Short term debt	218.0	152.0	217.0
Gross debt	734.0	797.5	812.6
Net debt	715.3	784.0	790.7
Shareholders' equity	1,775.6	1,872.2	1,933.8
Cash Flow (SGD'mn)			
CFO	126.0	122.2	136.9
Capex	17.5	27.8	15.5
Acquisitions	0.0	45.2	0.0
Disposals	0.0	0.0	0.0
Dividends	108.4	108.2	112.2
Interest paid	1.7	0.6	19.6
Free Cash Flow (FCF)	108.4	94.4	121.3
Key Ratios			
EBITDA margin (%)	62.1	62.0	62.1
Net margin (%)	67.2	106.8	86.3
Gross debt to EBITDA (x)	6.4	7.1	6.8
Net debt to EBITDA (x)	6.3	7.0	6.6
Gross Debt to Equity (x)	0.41	0.43	0.42
Net Debt to Equity (x)	0.40	0.42	0.41
Gross debt/total asset (x)	0.28	0.29	0.29
Net debt/total asset (x)	0.28	0.28	0.28
Cash/current borrowings (x)	0.1	0.1	0.1
EBITDA/Total Interest (x)	6.6	6.4	6.0

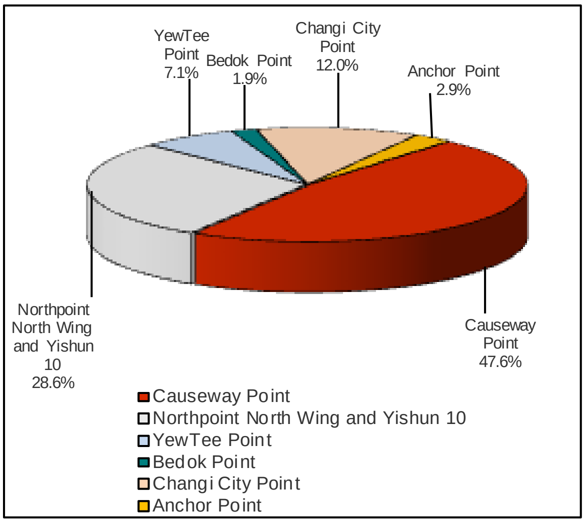
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - FY2018



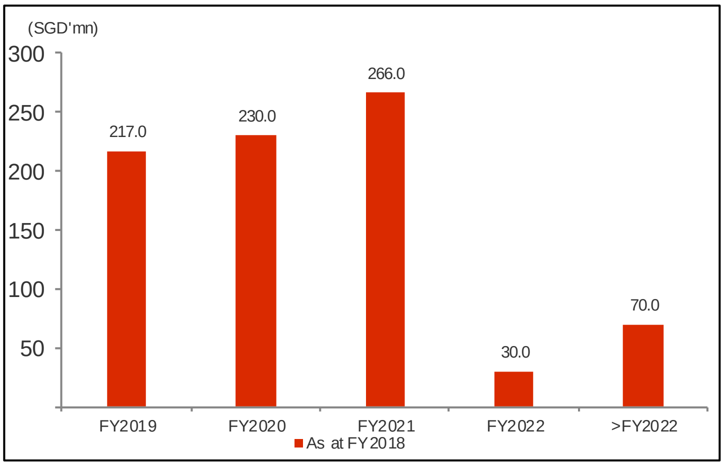
Source: Company

Figure 2: NPI breakdown by Property - FY2018



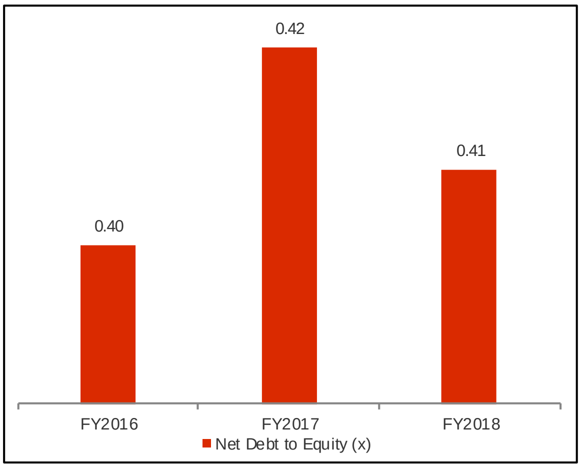
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –
Aggregate leverage of 28.3% is considerably low. That said, SUNSP 3.35% '20s offers a 10bps pickup from FCOTSP 2.625% '20s. We are neutral on FCOTSP 2.835% '21s.

Issuer Profile: Neutral (4)

Ticker: **FCOTSP**

Background
Frasers Commercial Trust ("FCOT") holds office and business park assets and is sponsored by Frasers Property Ltd ("FPL", which holds a 26.8% interest in FCOT). FCOT reported a portfolio value of SGD2.13bn as at 30 September 2018 which comprises China Square Central ("CSC") and Alexandra Technopark ("ATP") in Singapore, and 357 Collins Street, Melbourne Caroline Chisholm Centre, Canberra and 50% of Central Park, Perth in Australia and 50% of Farnborough Business Park in the UK.

Frasers Commercial Trust

Key credit considerations

- **Weakness stems largely from low occupancy:** Gross revenue for 4QFY2018 was 14.2% lower y/y at SGD32.5mn while NPI declined by 19.2% y/y to SGD21.6mn, on the back of lower occupancy rates for ATP, CSC, Central Park and 55 Market Street (divested on 31 August 2018) as well as the effects of a weaker AUD. This is largely expected given the partial exit of HP Enterprises in Sep-17 from ATP and CSC closed its retail podium for its SGD38mn AEI in January 2018. For ATP, occupancy fell from 76% a year ago to 70.2% with property NPI down 33.4% y/y. CSC saw property NPI fall 13.9% y/y and Central Park, whose occupancy declined from 89% as at 30 September 2017 to 70%, saw NPI fall 20.3% y/y. Also, AUD weaken against SGD from AUD/SGD1.0636 in 4QFY2017 to 0.9904 (~6.88% dip) in 4QFY2018 leading to translation losses y/y.

- **Portfolio statistics improved slightly q/q:** Portfolio committed occupancy recovered to 83.4% from 81.9% in 4QFY2018 (4QFY2017: 85.9%) though actual occupancy remained unchanged at 79.5%. While ATP recorded the largest jump in occupancy rate by 5.4%, the lease by HP Singapore which constitutes 9.0% of the ATP's net lettable area has expired on 31 December 2018. With HP Singapore moving out in entirety, the improvement in occupancy may not be sustained. While q/q comparison is unavailable, total portfolio value was up 3% relative to 30 September 2017 with valuation for all five assets (excluding Farnborough Business Park which was acquired on 29 January 2018) reported higher valuation in local currency terms.

- **Performance of Singapore assets is important in FY2019:** Occupancy rate at CSC (excluding the retail podium closed for asset enhancement) and ATP improved in 4QFY2018 to 94.4% and 70.2% respectively (3QFY2018: CSC: 93.9%, ATP: 64.8%) which translated to a 1.79% q/q increase in NPI collectively. While this is credit positive, there is a substantial amount of expiring leases in FY2019 at both assets. CSC has leases amounting to 41.0% of its gross rental income expiring while expiring leases at ATP is at 42.8%. As at 30 September 2018, CSC has secured lease commitments for 26.8% of its gross rental income, leaving a balance of 14.2%. ATP, on the other hand, has a larger balance of 33.7%. Jointly, they contribute to ~42% of portfolio's NPI but make up ~80% of the portfolio's expiring leases by total portfolio rental income after adjusting for committed leases that has been secured. Therefore, performance of these assets in the near term is crucial to FCOT. Also, the SGD45mn AEI for ATP announced in Jan-17 is nearing completion while works at CSC to better position the asset for when Capri Hotel opens in 2019 is expected to be completed by 2H2019. As such, we think it can take some time for occupancies at both assets to normalise.

- **Financial flexibility given significant headroom:** Aggregate leverage is considerably low at 28.3% (3QFY2018: 35.4%), following the SGD197mn debt repayment (including the SGD157mn debt maturing in 2019) with divestment proceeds of 55 Market Street. EBITDA/Interest stood at 2.9x (3QFY2018: 2.5x), with the weighted average borrowing rate at 3.02% (3QFY2018: 3.05%). Floating rate borrowings is 18.8% of gross borrowings. Near-term borrowings look very manageable with just SGD17mn debt maturing in 2019 (as at 30 September 2018). Also, all of FCOT's assets are unencumbered, which offers flexibility. The low leverage level provides substantial headroom for FCOT to acquire assets from Sponsor. FCOT has over SGD4bn in right of first refusal properties from Frasers Property Ltd.

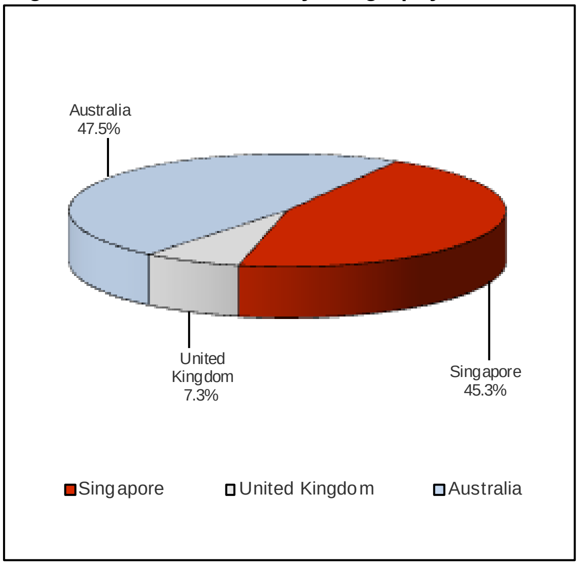
Frasers Commercial Trust

Table 1: Summary Financials

Year Ended 30th Sept	FY2016	FY2017	FY2018
Income Statement (SGD'mn)			
Revenue	156.5	156.6	133.3
EBITDA	100.3	98.4	73.9
EBIT	100.3	98.4	73.4
Gross interest expense	24.8	24.4	24.7
Profit Before Tax	76.1	135.1	148.4
Net profit	71.2	111.4	141.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	71.5	74.6	31.6
Total assets	2,069.4	2,158.9	2,173.1
Short term debt	179.5	183.2	17.0
Gross debt	745.4	746.0	615.0
Net debt	673.9	671.3	583.4
Shareholders' equity	1,228.4	1,289.3	1,430.8
Cash Flow (SGD'mn)			
CFO	101.8	96.8	84.0
Capex	3.0	4.3	74.4
Acquisitions	0.0	0.0	155.7
Disposals	0.0	0.0	216.8
Dividends	65.7	64.5	70.0
Interest paid	22.8	21.9	23.2
Free Cash Flow (FCF)	98.8	92.5	9.6
Key Ratios			
EBITDA margin (%)	64.1	62.9	55.4
Net margin (%)	45.5	71.2	106.3
Gross debt to EBITDA (x)	7.4	7.6	8.3
Net debt to EBITDA (x)	6.7	6.8	7.9
Gross Debt to Equity (x)	0.61	0.58	0.43
Net Debt to Equity (x)	0.55	0.52	0.41
Gross debt/total asset (x)	0.36	0.35	0.28
Net debt/total asset (x)	0.33	0.31	0.27
Cash/current borrowings (x)	0.4	0.4	1.9
EBITDA/Total Interest (x)	4.1	4.0	3.0

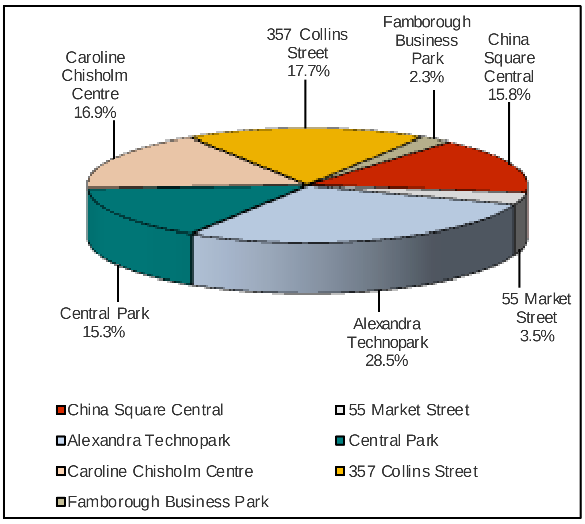
Source: Company, OCBC estimates

Figure 1: NPI breakdown by Geography - FY2018



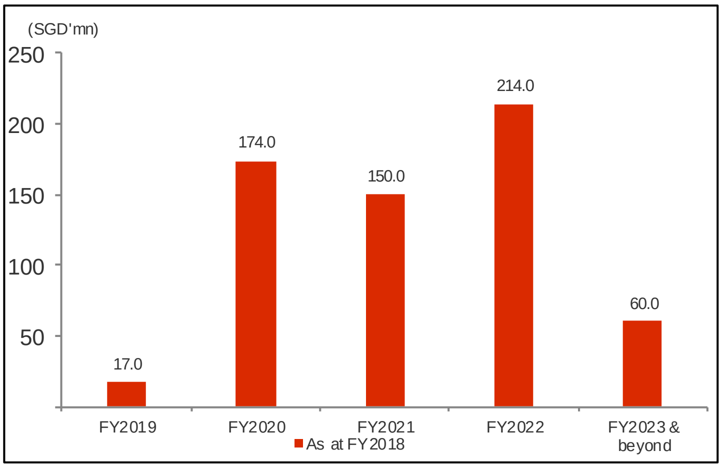
Source: Company

Figure 2: NPI breakdown by Property - FY2018



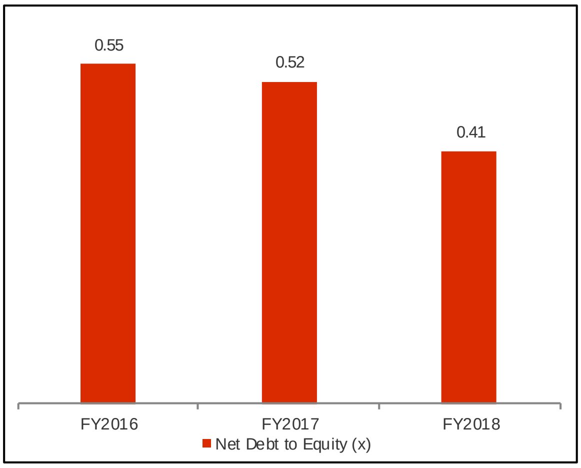
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Frasers Hospitality Trust

Credit Outlook – We are overweight the FHREIT 3.08% '24s which is trading at a YTM of 3.35% (134bps spread). Versus Ascendas REIT's AREIT 2.47% '23s (104bps spread), the FHREIT 3.08% '24s offers a spread pick up of around 20bps, adjusting for tenor. We hold both FHREIT and AREIT at a Neutral (3) issuer profile.

Issuer Profile: Neutral (3)

Ticker: **FHREIT**

Background

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 across 9 cities with 3,914 keys. As at 30 September 2018, total assets stood at SGD2.5bn. It is sponsored by Frasers Property Limited ("FPL"), a major Singapore-based property developer.

Key credit considerations

- **Decline in y/y operating performance:** In the fourth quarter for the financial year ended September 2018 ("4QFY2018"), gross revenue was down 6.9% y/y to SGD38.7mn while net property income ("NPI") was down by 6.7% y/y to SGD29.4mn. Australia, Japan, Malaysia and the UK saw NPI decline while Singapore and Germany saw NPI growth. EBITDA (based on our calculation which does not include other income and other expenses) was down 7.4% y/y given that management/trustee fees tend to be sticky. Interest expense was relatively flat on the back of relatively unchanged average debt balance. Due to weaker operating performance, resultant EBITDA/Interest coverage was lower, though still manageable at 4.6x versus 4.9x in 4QFY2017. Assuming that the REIT pays out 4.45% p.a. as distribution rate on its perpetuals, EBITDA/(Interest plus 50% of perpetual distribution) was 4.5x in 4QFY2018.

- **Moderating growth expectations in Australia:** Australia's contribution to NPI had declined to 36% versus ~40% historically. FHREIT discloses Gross Operating Revenue ("GOR") and Gross Operating Profit ("GOP") by geography. Both are used in the formula to calculate rents. In 4QFY2018, Australia saw a y/y decline in GOR and GOP at 2.0% and 6.8% respectively, driven by overall softer corporate demand while Sofitel Sydney Wentworth faced competitive pressures from increased supply. Sydney's high occupancy (>85%) is expected to persist although new supply will start kicking in from 2020 onwards. Novotel Melbourne on Collins performed well, though the city is also expected to see supply growth in the medium term.

- **Singapore overall steady:** Singapore contributed 24% to NPI in 4QFY2018. Frasers Suites Singapore ("FSS") saw improvements though new entrants around the Bugis area (Andaz and JW Marriot) continue to weigh on average daily rates ("ADR") on InterContinental Singapore ("ISS"). Despite above-market occupancies of 90.3%, RevPAR declined 1.3% y/y, driven by the lower ADR on ISS. ADR for FSS may have played a part too as we expect the property to charge a lower ADR for guests willing to stay for a minimum period as required. Notably, we observe competitors in Singapore prioritizing occupancy over ADR to gain market share.

- **Germany performed well, other markets negatively impacted:** Properties in the UK contributed 19% to 4QFY2018 NPI. GOR for the UK increased 1.5% y/y though GOP declined 2.6% y/y driven by higher maintenance costs and labour cost. RevPAR was relatively flat though would have improved by 3.8% y/y excluding the re-badged ibis Styles London Gloucester Road which is undergoing renovations. In 4QFY2018, Japan contributed 8% to NPI. Japan was weaker, driven by one-offs with the hotel in Kobe negatively affected by typhoons and renovations. In 4QFY2018, Westin Kuala Lumpur saw GOR and GOP fall 14.8% and 21.6% y/y respectively in local currency terms following still weak corporate demand amidst an uncertain business outlook. Master leased-Maritim Hotel Dresden in Germany saw GOR and GOP grow 8.3% and 10.6% respectively.

- **Manageable aggregate leverage though refinancing looming:** As 30 September 2018, reported aggregate leverage for FHREIT was 33.6%. Adjusting 50% of perpetual as debt, we find adjusted aggregate leverage manageable at 35%. Reported short term debt as at 30 September 2018 was SGD408.1mn. FHREIT has a MYR95mn (~SGD31.4mn) asset-based security with expected maturity in July 2019. Remaining short term debt due relates to a term loan. All in, short term debt represents 49% of gross debt, with FHREIT looking to refinance these in time. With only 3.9% of its total debt being secured (ie: on Westin KL), SGD2.3bn of FHREIT's high-quality portfolio remains unencumbered, FHREIT has the ability to raise secured financing, if need be.

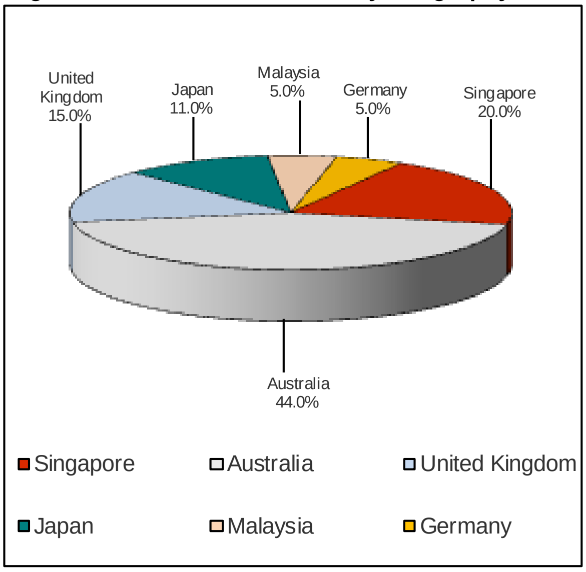
Frasers Hospitality Trust

Table 1: Summary Financials

Year Ended 30th Sep	FY2016	FY2017	FY2018
Income Statement (SGD'mn)			
Revenue	123.6	158.7	155.9
EBITDA	90.2	107.8	104.1
EBIT	90.2	102.0	99.8
Gross interest expense	19.1	19.1	20.6
Profit Before Tax	78.7	185.5	72.4
Net profit	62.1	156.6	66.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	64.4	79.8	77.1
Total assets	2,161.0	2,533.9	2,494.7
Short term debt	128.9	134.8	408.1
Gross debt	810.0	810.9	835.0
Net debt	745.6	731.2	757.9
Shareholders' equity	1,244.2	1,606.2	1,552.5
Cash Flow (SGD'mn)			
CFO	107.8	113.0	112.3
Capex	8.5	13.1	26.9
Acquisitions	93.8	234.1	0.0
Disposals	0.0	0.0	0.0
Dividends	63.6	94.1	96.5
Interest paid	18.9	17.8	20.7
Free Cash Flow (FCF)	99.2	99.8	85.4
Key Ratios			
EBITDA margin (%)	73.0	67.9	66.8
Net margin (%)	50.2	98.6	42.7
Gross debt to EBITDA (x)	9.0	7.5	8.0
Net debt to EBITDA (x)	8.3	6.8	7.3
Gross Debt to Equity (x)	0.65	0.50	0.54
Net Debt to Equity (x)	0.60	0.46	0.49
Gross debt/total asset (x)	0.37	0.32	0.33
Net debt/total asset (x)	0.35	0.29	0.30
Cash/current borrowings (x)	0.5	0.6	0.2
EBITDA/Total Interest (x)	4.7	5.7	5.1

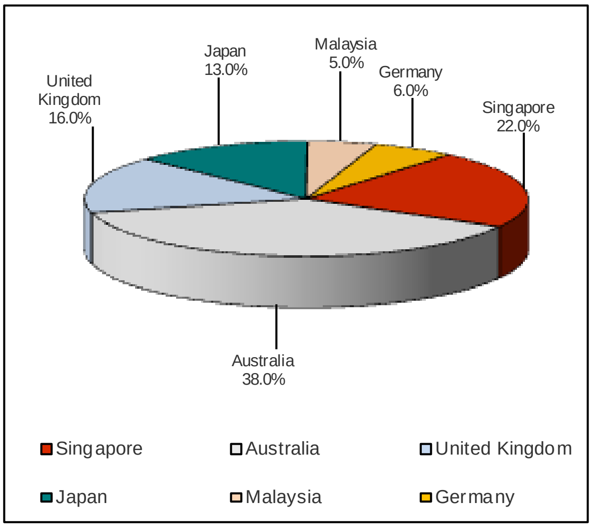
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - FY2018



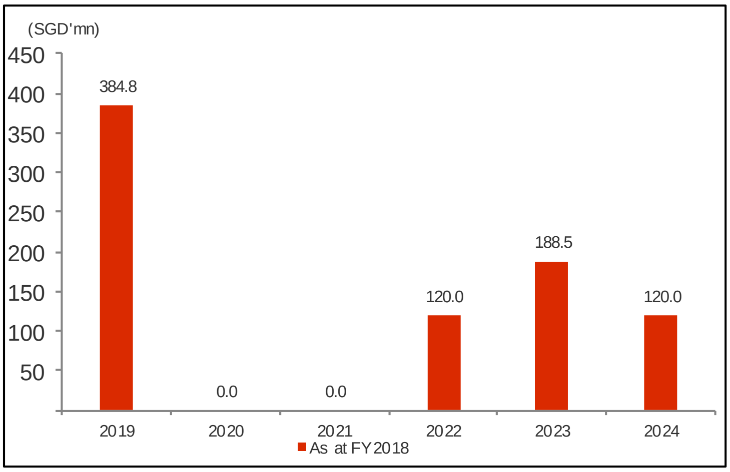
Source: Company

Figure 2: NPI breakdown by Geography - FY2018



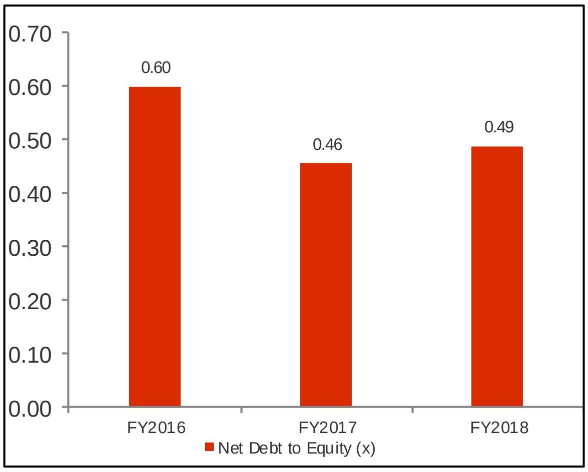
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We think the longer dated FPLSP '26s and FPLSP '27s look interesting trading above 4% YTM. We are Overweight on FPLSP 4.88% PERP and FPLSP 5% PERP as we expect these to be called. We also turned Overweight on FPLSP 3.95% PERP as prices have fallen.

Issuer Profile: Neutral (4)

Ticker: **FPLSP**

Background

Frasers Property Ltd ("FPL") is a leading Singapore developer by total assets (SGD32.4bn as of end-Sep 2018). Core markets are Singapore and Australia, with secondary markets such as China and Thailand. Entities related to the Sirivadhanabhakdi family (of Thailand's TCC Group) control 87.2% of FPL's stock. Sponsored REITs include Frasers Centrepoint Trust ("FCT"), Frasers Commercial Trust ("FCOT"), Frasers Hospitality Trust ("FHT") and Frasers Logistics and Industrial Trust ("FLT").

Frasers Property Ltd

Key credit considerations

- **Decent FY2018 results:** Revenue for FY2018 ended Sep 2018 was decent, with revenue increasing 7% y/y to SGD4.31bn due to timing of settlement, with Singapore SBU revenues higher (+58.0% y/y to SGD1.36bn) due to Singapore residential properties (+SGD467mn y/y to SGD879mn) with the settlement of Parc Life EC and progressive development profit recognition from Seaside Residences. This mitigated the fall from the Australia SBU (-4% y/y to SGD1.58bn) due to the lumpiness of sales settlements of residential projects. Meanwhile, Hospitality SBU remained relatively flattish at SGD802mn though Europe and rest of Asia fell by 20% y/y to SGD576mn with the absence of significant sales and settlement of projects in China. Despite smaller increase in revenue, reported PBIT for FPL rose 18.6% y/y to SGD1.34bn due to higher PBIT from (1) Singapore SBU (+17.8% y/y to SGD481.0mn) due to higher revenue, (2) Australia SBU (+23.5% y/y to SGD358.4mn) with higher margin developments and acquisition by FLT of 21 investment properties (which generated higher margin than development) and (3) Europe & rest of Asia SBU (+33.5% y/y to SGD366.0mn) with maiden contributions from business parks in the UK and higher profit contributions from TICON (consolidated since Apr 2018).

- **Significant contribution from listed REITs:** The listed REITs are major contributors, as we estimate FPL receives ~SGD120mn dividends p.a. from its listed REITs (FCT, FLT, FCOT, FHT) and they form 32.7% of FPL's total assets. Importantly, the REITs are part of FPL's asset recycling strategy. For example, after the listing of FLT in FY2016 (SGD1.76bn), FPL injected 21 industrial properties into FLT for EUR596.8mn (SGD972.8mn), which was completed on May 2018. We estimate FPL holds ~SGD12bn of investment assets which could be potentially recycled, including Waterway Point, Northpoint City (South Wing), industrial assets in Australia and Frasers Tower. In addition, FPL can partner its REITs in acquisitions. For example, UK business parks were acquired for SGD315mn under a 50-50 JV with FCOT in Jan 2018.

- **Growing recurring income stream:** ~80% of FPL's total property assets generate recurring income, including Retail (SGD4.8bn), hospitality (SGD4.7bn), business parks and offices (SGD7.2bn), logistics and industrial (SGD6.5bn). These account for 65% of reported PBIT in FY2018. Going forward, revenue from recurring sources is expected to increase as Frasers Tower (GFA: 77,162 sqm) was completed in May 2018 with over 90% occupancy and South wing of Northpoint City (NLA: 27,019 sqm) progressively opened since Dec 2017 and has more than 90% occupancy. Investment properties can also provide liquidity when divested (e.g. via asset recycling to REITs). Conversely, earnings from development may decline with pre-sold revenue of only SGD2.2bn (FY2017: SGD3.4bn), with a largely dry landbank in Singapore as most projects are already mostly sold, aside from Jiak Kim Street. In Australia, 15,300 units remain in the pipeline with gross development value of SGD8.1bn.

- **Manageable credit metrics with sufficient financial flexibility:** Net gearing fell q/q to 0.87x (3QFY2018: 0.91x), mainly due to an expanded equity base with ~SGD600mn fair value gains while net debt fell slightly (1% q/q to SGD12.8bn) due to cash generated from operating activities. Excluding REITs, FPL has SGD1.8bn of debt due within a year though we are not overly worried with SGD1.9bn of cash. In any case, FPL has demonstrated access to the capital markets (e.g. issuance of THB2.3bn bond issuance in Aug 2018 and SGD1.2bn 5-year term loan to refinance loans at Frasers Tower). Despite a higher gearing than peers (e.g. CapitaLand, City Developments), we remain comfortable with FPL with its recurring income and the potential to recycle assets via REITs.

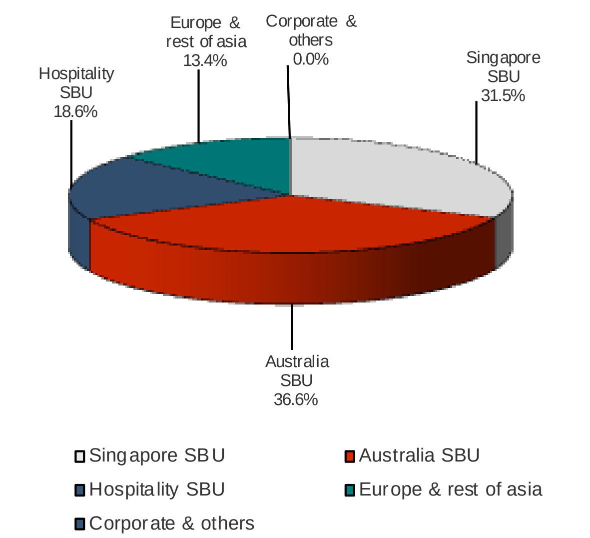
Frasers Property Ltd

Table 1: Summary Financials

Year Ended 30th Sep	FY2016	FY2017	FY2018
Income Statement (SGD'mn)			
Revenue	3,439.6	4,026.6	4,311.6
EBITDA	827.9	953.5	1,100.8
EBIT	773.3	894.9	1,042.0
Gross interest expense	206.6	186.5	349.3
Profit Before Tax	960.3	1,248.0	1,476.9
Net profit	766.1	1,032.3	1,195.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,731.3	2,137.3	2,136.4
Total assets	24,204.4	27,009.4	32,420.9
Short term debt	1,470.1	1,571.7	2,642.9
Gross debt	9,795.5	11,627.8	14,926.2
Net debt	8,064.2	9,490.6	12,789.7
Shareholders' equity	11,843.5	13,049.2	14,628.1
Cash Flow (SGD'mn)			
CFO	1,097.0	944.6	492.6
Capex	62.3	52.4	83.7
Acquisitions	1,169.4	2,185.3	2,441.3
Disposals	702.0	2.4	477.3
Dividend	520.7	612.6	520.7
Interest paid	-165.7	-150.3	-309.2
Free Cash Flow (FCF)	1,034.7	892.2	408.8
Key Ratios			
EBITDA margin (%)	24.1	23.7	25.5
Net margin (%)	22.3	25.6	27.7
Gross debt to EBITDA (x)	11.8	12.2	13.6
Net debt to EBITDA (x)	9.7	10.0	11.6
Gross Debt to Equity (x)	0.83	0.89	1.02
Net Debt to Equity (x)	0.68	0.73	0.87
Gross debt/total assets (x)	0.40	0.43	0.46
Net debt/total assets (x)	0.33	0.35	0.39
Cash/current borrowings (x)	1.2	1.4	0.8
EBITDA/Total Interest (x)	4.0	5.1	3.2

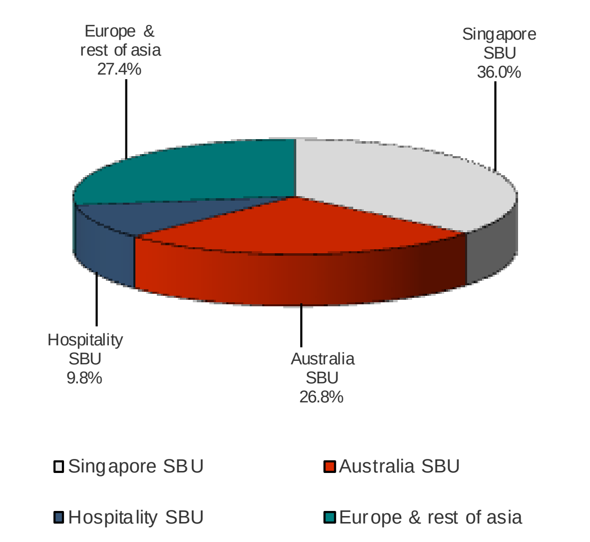
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2018



Source: Company

Figure 2: EBIT breakdown by Segment - FY2018



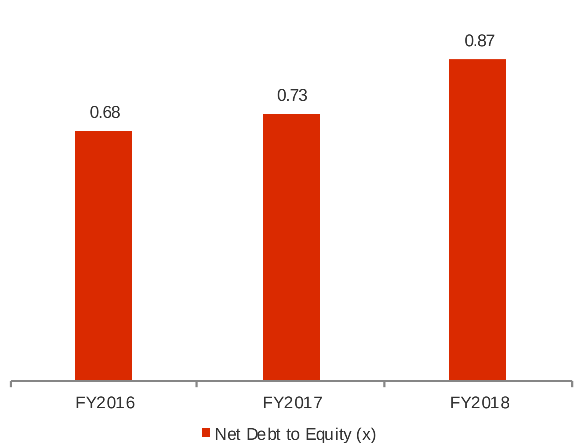
Source: Company | Excludes Corporate & others

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	1,198.4	8.0%
Unsecured	1,444.6	9.7%
	2,642.9	**17.7%**
Amount repayable after a year		
Secured	3,091.5	20.7%
Unsecured	9,191.7	61.6%
	12,283.2	**82.3%**
Total	**14,926.2**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – With clarity on refinancing of GEMAU '19s, we are Overweight on the bond.

Issuer Profile: Neutral (5)

Ticker: **GEMAU**

Background

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 ~500 centres across various cities in Australia and ~20 centres in Singapore. The largest shareholders include Legg Mason (6.8%), Nikko Asset Management (6.2%) and Vanguard Group (5.0%). G8 has a market capitalisation of AUD1.2bn as of 3 Jan 2019.

G8 Education Ltd

Key credit considerations

- **Weaker 1H2018 results:** 1H2018 revenue rose 7.6% y/y to AUD396.4mn mainly due to acquisitions and new centre openings. However, despite fee increases, organic revenue rose only by 0.5% y/y to AUD331.0mn due to declines in occupancy (-2.5ppts y/y to 70.1%), which is likely to be impacted by overall supply/demand imbalance in Australia's child-care industry. In addition, organic centre expenses rose (+6.2% y/y to AUD274.7mn) with higher wages (+5.8% y/y to AUD192.7mn) due to regulatory changes to staff ratios. As a result, reported EBIT fell 15.8% y/y to AUD62.2mn (reported EBIT would have fallen by 20.6% y/y to AUD56.2mn without acquisitions). Despite guiding that market conditions would not materially improve till mid to late 2019, we think results are likely to have bottomed.

- **Some light from Nov 2018 trading update:** Encouragingly, the Nov 2018 trading update revealed that occupancy has finally caught up in Oct 2018 and is flattish in comparison to Oct 2017. Comparatively, G8 had posted y/y declines in occupancy since Jan 2017 – Sep 2018. This improvement is driven by operational initiatives and the Child Care Subsidy which came into effect on Jul 2018 (which improves affordability). Interestingly, G8 has also revealed that the breakeven occupancy for its greenfield projects is 50%, which is expected to take 5 months from roll out (9 out of 12 greenfield projects in 2017 achieved this). Only 1 out of the 10 centres opening in 2018 is expected to fall below this target. In total, G8 is expected to hold 508 centres in Australia and 18 in Singapore by end-2018. Management guided 2018 EBIT of AUD136-139mn, which indicates that results have likely bottomed (with a lower y/y decline than 1H) though overall EBIT remains lower than that of 2017 (reported EBIT: AUD150.9mn).

- **Overcoming the refinancing hurdle:** AUD400mn bank debt facility has been secured, which is a significant credit positive for holders of SGD270mn GEMAU 5.5% '19s. This termed out the debt to Dec 2021 (AUD200mn) and Dec 2023 (AUD200mn). G8's intention is to deploy the proceeds to refinance the SGD bond as well as AUD200mn club facility (drawn to AUD80mn as at June 2018). Another AUD100mn in subordinated debt facility has also been secured. Overall, ~2% interest rate savings was achieved.

- **Toning down on expansion?:** Previously, we understood that G8 intended to open 30 new greenfield centres in 2018 though this appears to have been scaled back with only 10 centres operating. In addition, it appears that G8 is slowing on acquisitions (earlier target: to acquire 40 centres in 2018-19) with the change in tone to be more disciplined on acquisitions and revising the growth in the number of centres down to 15 per year.

- **Changes in accounting standard:** From 1 Jan 2019, operating leases have to be brought onto the balance sheet. This will result in higher net debt and gearing, given that G8 has AUD678.8mn of non-cancellable operating leases – we note that G8 typically does not own the property of the childcare centres. Based on management's guidance of EBIT, we calculate (Net debt + non-cancellable operating leases) / EBIT at 7.3x. However, the actuals (post accounting standard changes) will most likely turn out stronger as lease cost will become interest expense (excluded from EBIT).

- **Manageable credit metrics:** Net debt/reported EBITDA still look manageable at 2.0x as at 1H2018, with management forecasting an improvement to 1.5x - 1.7x. Although net debt is understated with a higher h/h AUD678.8mn non-cancellation operating leases (end-2017: AUD629.1mn), credit metrics look manageable with refinancing problem out of the way and stabilisation of occupancy. As such, **we upgrade G8 to Neutral (5) Issuer Profile from Negative (6).**

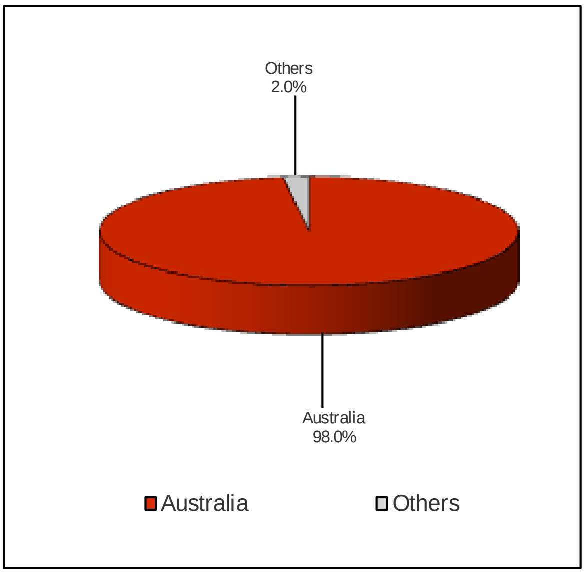
G8 Education Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	1H2018
Income Statement (AUD'mn)			
Revenue	771.7	789.0	393.1
EBITDA	191.8	186.8	67.8
EBIT	180.1	172.8	59.8
Gross interest expense	47.1	34.1	13.7
Profit Before Tax	114.7	117.8	34.2
Net profit	80.3	80.6	23.7
Balance Sheet (AUD'mn)			
Cash and bank deposits	26.5	49.2	31.5
Total assets	1,173.2	1,293.2	1,316.2
Short term debt	0.0	49.9	265.4
Gross debt	410.6	303.5	344.4
Net debt	384.2	254.3	312.9
Shareholders' equity	625.9	865.3	859.3
Cash Flow (AUD'mn)			
CFO	134.0	118.2	41.4
Capex	25.0	18.4	17.0
Acquisitions	82.1	67.4	28.9
Disposals	0.0	-0.4	-0.1
Dividend	58.0	62.8	31.3
Interest paid	25.4	26.2	11.1
Free Cash Flow (FCF)	109.0	99.8	24.4
Key Ratios			
EBITDA margin (%)	24.9	23.7	17.3
Net margin (%)	10.4	10.2	6.0
Gross debt to EBITDA (x)	2.1	1.6	2.5
Net debt to EBITDA (x)	2.0	1.4	2.3
Gross Debt to Equity (x)	0.66	0.35	0.40
Net Debt to Equity (x)	0.61	0.29	0.36
Gross debt/total assets (x)	0.35	0.23	0.26
Net debt/total assets (x)	0.33	0.20	0.24
Cash/current borrowings (x)	NM	1.0	0.1
EBITDA/Total Interest (x)	4.1	5.5	4.9

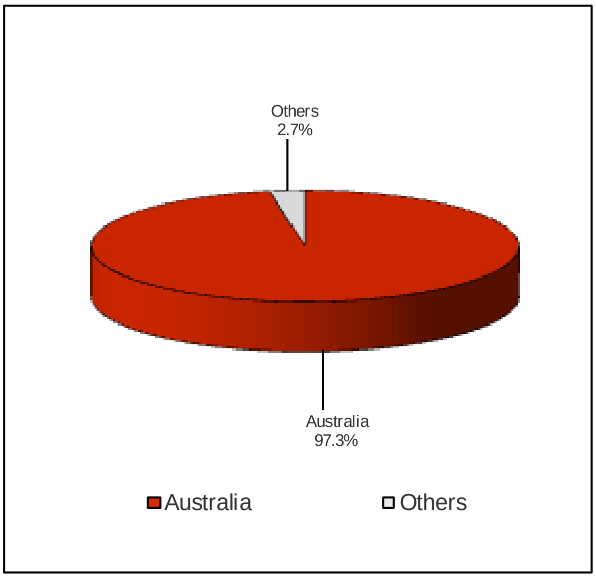
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 1H2018



Source: Company

Figure 2: Asset breakdown by Geography - 1H2018



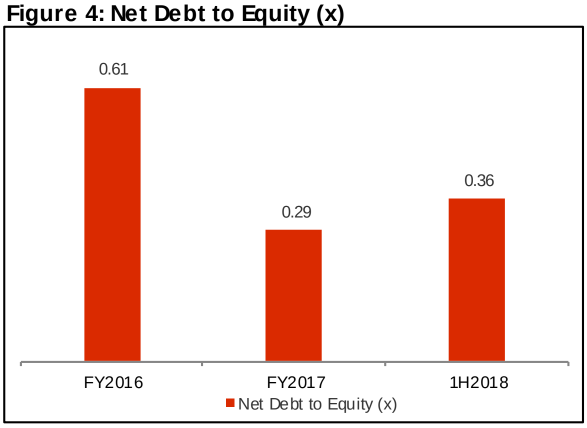
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (AUD'mn)	As at 30/06/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	265.4	77.1%
	265.4	**77.1%**
Amount repayable after a year		
Secured	79.0	22.9%
Unsecured	0.0	0.0%
	79.0	**22.9%**
Total	**344.4**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Golden Agri-Resources Ltd

Credit Outlook – With the GGRSP 4.75% '21s trading at a YTM of 7.15% (529bps spread), we are overweight the GGRSP 4.75% '21s.

Issuer Profile: Neutral (5)

Ticker: **GGRSP**

Background

Golden Agri-Resources Ltd ("GGR") is a major palm oil company, managing 499,047 ha of palm oil plantations in Indonesia. The company's integrated operations include palm oil 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 ~50.4%- owned by the Widjaja family and is listed on the SGX.

Key credit considerations

- **Fall in CPO prices from higher production volume:** Gross revenue was up 3.2% y/y to USD1.8bn in 3Q2018, driven by an increase in the Palm and Laurics segment. Reported EBITDA though was down 26.6% to USD132.2mn driven by lower EBITDA generation from Plantations and Palm Oil Mills as well as Palm and Laurics. This was mainly due to a compression in gross profit margins to 15.1% (3Q2017: 16.3%) as CPO prices were lower y/y while general & administration expenses increased 9.7% y/y to USD88.6mn. In 3Q2018, CPO Free on Board ("FOB") price per MT was only USD536 against USD663 in 3Q2017 (down 19% y/y) on the back of significantly higher palm output of 917,000 MT (up 24% y/y). Per Reuters survey, September 2018 inventories were 4.8mn tonnes versus 2.4mn tonnes in September 2017.

- **Weakened palm oil prices:** Structurally, palm oil continues to face headwinds from softer soybean prices, down 8% YTD and tax changes which distort supply-demand dynamics. Chiefly, since March 2018, to stimulate demand for local oilseeds, India's import tax for CPO was lifted to 44% (increasing from 30%). India is Indonesia and Malaysia's main export market for CPO. As of 28 November 2018, CPO prices are now at a multi-year low of MYR1,875 (down 23% from beginning of 2018). While we expect soft palm oil prices to drag GGR's results in the next 6 to 12 months, underlying consumption demand for CPO remains stable. As a policy response, on 28 November 2018, Indonesia announced a temporary removal of levies from CPO exports (zero from USD20 to USD50 per tonne) which is aimed at aiding planters who had been hard hit by the weak palm oil prices.

- **Interest coverage lower:** Finance expenses were up 39% y/y to USD43.8mn due to higher borrowing cost and higher average debt. In 3Q2018, average debt for GGR was USD3.2bn against USD3.0bn in 3Q2017. Resultant reported EBITDA/Interest was thus lower at 3.0x against 5.7x in 3Q2017 though had slightly improved from 2Q2018's EBITDA/Interest coverage of 2.9x. GGR reported cash flow from operations (after tax but before interest) of USD231.4mn while investing outflows were USD126.7mn, driven by capex and USD48.5mn in additional loans to an oleochemical joint venture. Excluding diversion of cash into the technology fund GGR had projected USD220mn in capex for the year and in 9M2018, it had spent USD174.1mn in capex.

- **Short term debt would need to be refinanced:** As at 30 September 2018, excluding pledged cash, net gearing was 0.76x, somewhat higher than 0.75x as at 30 June 2018, driven by compression in book value equity from a comprehensive loss of USD60.9mn in 3Q2018. Encouragingly, debt levels at GGR had declined q/q by 4% as GGR had paid down debt via internal cash during the quarter. Short term debt was USD1.59bn as at 30 September 2018 though we estimate that USD1.0bn relates to working capital, leaving ~USD590mn to be refinanced against cash balance of USD104.3mn (excluding pledged cash). Adjusted tangible assets (we exclude intangible assets, bearer plants and long term investments) was USD5.9bn at GGR as at 30 September 2018, against total debt of USD3.1bn. While adjusted tangible asset value had declined 6% q/q, these should help GGR in gaining access to debt markets for refinancing. In November 2018, Proterra Investment Partners ("Proterra"), a private equity manager acquired a 25%-stake in a GGR partly-owned subsidiary Gemini Edibles and Fats India Private Limited ("Gemini") via both new shares and buying shares held by existing shareholders for ~USD89.6mn. While Gemini will be receiving some new cash (to be reflected in 4Q2018 results), Proterra has an option to sell back all shares to Gemini as one of its exit options. GGR now owns ~56%-stake of Gemini. Net-net we do not factor in credit uplift from this equity infusion.

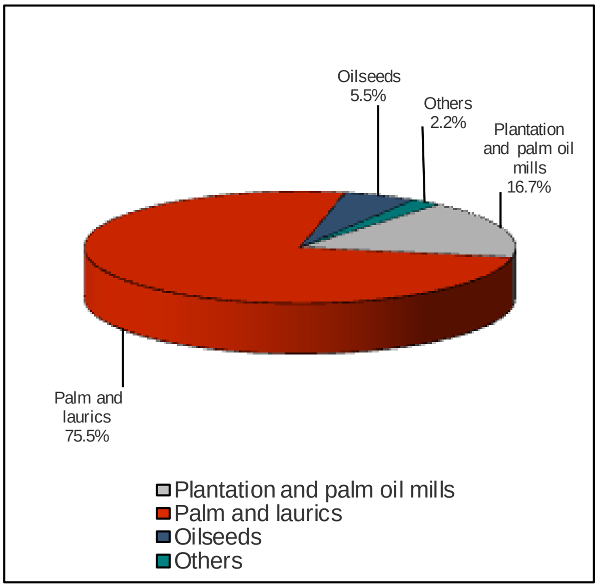
Golden Agri-Resources Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	9M2018
Income Statement (USD'mn)	**USD'mn**	**USD'mn**	**USD'mn**
Revenue	7,208.8	7,507.6	5,514.9
EBITDA	524.8	584.7	324.3
EBIT	175.6	240.8	111.3
Gross interest expense	131.3	139.3	121.1
Profit Before Tax	140.3	114.1	-24.2
Net profit	402.8	79.1	-77.2
Balance Sheet (USD'mn)			
Cash and bank deposits	153.0	159.2	137.6
Total assets	8,306.4	8,137.8	8,110.4
Short term debt	1,773.8	1,741.8	1,587.5
Gross debt	3,066.3	2,992.1	3,116.7
Net debt	2,913.3	2,833.0	2,979.1
Shareholders' equity	4,096.0	4,108.6	3,953.7
Cash Flow (USD'mn)			
CFO	200.7	638.1	250.4
Capex	216.1	209.3	174.1
Acquisitions	12.5	118.2	144.1
Disposals	18.4	28.8	78.8
Dividend	47.5	122.5	11.5
Free Cash Flow (FCF)	-15.4	428.8	76.3
Key Ratios			
EBITDA margin (%)	7.3	7.8	5.9
Net margin (%)	5.6	1.1	-1.4
Gross debt to EBITDA (x)	5.8	5.1	7.2
Net debt to EBITDA (x)	5.6	4.8	6.9
Gross Debt to Equity (x)	0.75	0.73	0.79
Net Debt to Equity (x)	0.71	0.69	0.75
Gross debt/total assets (x)	0.37	0.37	0.38
Net debt/total assets (x)	0.35	0.35	0.37
Cash/current borrowings (x)	0.086	0.091	0.087
EBITDA/Total Interest (x)	4.0	4.2	2.7

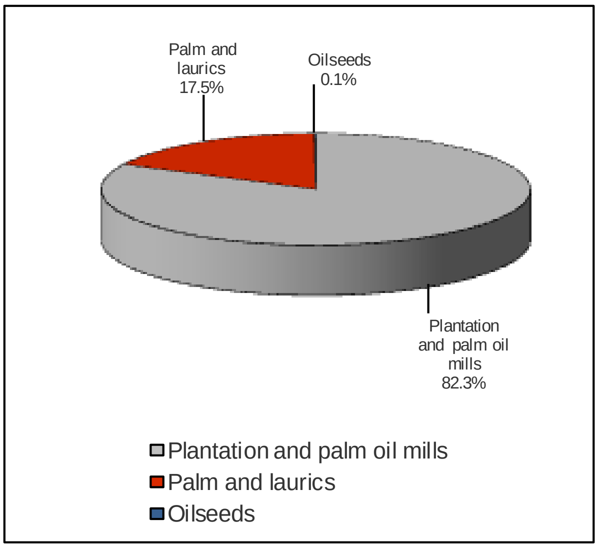
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2018



Source: Company | Excludes Inter-segment Eliminations

Figure 2: EBITDA breakdown by Segment - 9M2018



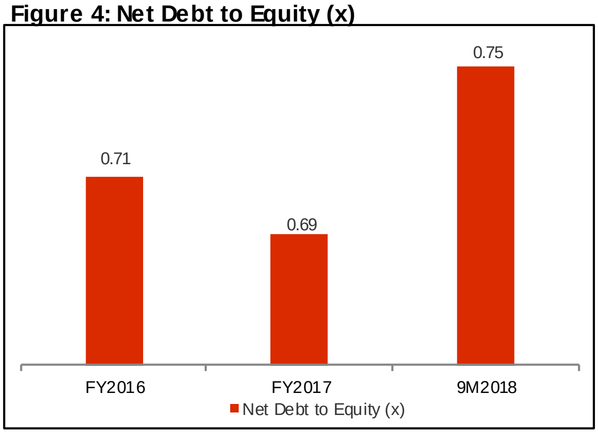
Source: Company | Excludes Others & Inter-segment Eliminations

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 30/09/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	933.9	30.0%
Unsecured	653.6	21.0%
	1,587.5	**50.9%**
Amount repayable after a year		
Secured	1,233.2	39.6%
Unsecured	296.0	9.5%
	1,529.2	**49.1%**
Total	**3,116.7**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

GuocoLand Ltd

Credit Outlook – Due to the somewhat high net gearing levels, we are Neutral on the GUOLSP curve. Investors looking for higher yield can consider the PREHSP curve.

Issuer Profile: Neutral (5)

Ticker: **GUOLSP**

Background

Listed on the SGX in 1978, GuocoLand Ltd ("GUOL") 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. GUOL 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 controlled by the Quek family.

Key credit considerations

- **Weaker results with lower ready inventories:** GUOL reported 1QFY2019 results for the quarter ending 30 Sep. Revenue fell 54% y/y to SGD168.0mn (15% lower q/q) with lower sales from completed residential units following healthy sales from completed residential projects in the previous year. For example, only 1% of units are left for sale at Sims Urban Oasis while Leedon Residence has been completely sold. However, gross profit declined just 26% y/y to SGD50.3mn, likely supported by rental income (which commands a higher margin than development) from investment properties including Guoco Tower. Due to the absence of contribution from Changfeng Residence, share of profit from associates fell 92% y/y to SGD13.5mn (1QFY2018: SGD170.6mn). Hence, net profit fell 83% y/y to SGD29.5mn.

- **Sustaining the pace of property sale following cooling measures…:** Following the new property cooling measures on 6 Jul 2018, sales appear to remain stable. According to the URA caveats, GUOL sold 48 units at Martin Modern over Jul-Nov 2018, in-line with 46-units sold over 1HCY2018. While we estimate that ~30% of units remained unsold at Martin Modern, we are not overly worried as there is room to cut prices to move units (if need be). For Wallich Residence, sales (21 units) in Jul-Nov 2018 is somewhat stronger than 1HCY2018 (17 units). These pre-sales will be progressively recognised and should support GUOL's revenue in the coming quarters.

- **… though staying cautious with unlaunched inventory in the pipeline:** Projects remaining in the pipeline and yet to launch include Casa Meyfort (acquired for ~SGD320mn, 100% stake) and Pacific Mansion (acquired for SGD980mn via 40%-stake in a JV). We understand that GUOL is looking at luxury residential developments at these sites. Despite moving units at high-end projects such as Martin Modern and Wallich Residence, we are less certain if demand for luxury projects will be sustained as we are cautious of the oversupplied housing market going forward. Meanwhile, GUOL is also developing residential units at the Beach Road Downtown Core commercial site (acquired for SGD1.6bn via 70% stake in JV), though the exposure will be capped at 30% given the nature of the plot as a commercial site.

- **Recurring income from investment properties:** Tanjong Pagar Centre's retail and office components are valued at SGD2.39bn (~23% of total assets) which contributes ~SGD100mn p.a. revenue. The contribution from the entire TPC development is expected to grow further when the 223-room Sofitel Singapore City Centre, which soft launched in Aug 2017, ramps up. Another major investment property is 20 Collyer Quay, which is valued at SGD484.1mn.

- **Refinancing the tower of maturity:** GUOL has been successfully refinancing its debt, with current loans and borrowings falling h/h to SGD1.48bn (3QFY2018: SGD3.19bn). While this still exceeds cash of SGD718mn, we see room to borrow further as GUOL can pledge another SGD600mn of investment properties and SGD1.2bn of inventories.

- **Net gearing may remain somewhat elevated:** Net gearing remained largely unchanged at 0.86x q/q despite SGD102.3mn net cash from operating activities (with collection of receivables) as total equity fell 0.8% y/y to SGD4.62bn due to SGD70.3mn in translation losses. That said, net gearing may remain somewhat elevated as the new projects (e.g. Casa Meyfort, Beach Road, Pacific Mansion) will require further capital. That said, overall, we remain comfortable with GUOL's credit profile as it is backed by hard assets.

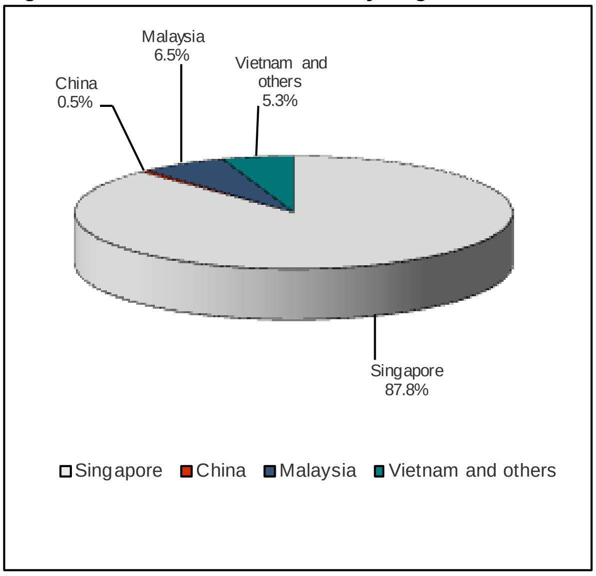
GuocoLand Ltd

Table 1: Summary Financials

Year Ended 30th Jun	FY2017	FY2018	1Q2019
Income Statement (SGD'mn)			
Revenue	1,113.2	1,160.2	168.0
EBITDA	185.8	205.5	35.4
EBIT	179.3	189.5	32.0
Gross interest expense	136.8	169.3	19.3
Profit Before Tax	455.8	447.0	33.5
Net profit	412.6	392.7	29.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,118.5	884.9	718.3
Total assets	8,955.7	10,499.2	10,196.0
Short term debt	2,090.5	1,632.0	1,475.8
Gross debt	4,344.5	4,923.8	4,695.4
Net debt	3,226.0	4,038.9	3,977.0
Shareholders' equity	3,833.4	4,641.5	4,618.3
Cash Flow (SGD'mn)			
CFO	-571.3	231.0	102.3
Capex	157.7	1,453.8	8.7
Acquisitions	245.3	1.6	0.0
Disposals	130.7	0.9	0.0
Dividend	101.4	79.2	0.3
Interest paid	-128.9	-151.0	-31.1
Free Cash Flow (FCF)	-729.0	-1,222.8	93.6
Key Ratios			
EBITDA margin (%)	16.7	17.7	21.1
Net margin (%)	37.1	33.9	17.6
Gross debt to EBITDA (x)	23.4	24.0	33.1
Net debt to EBITDA (x)	17.4	19.7	28.1
Gross Debt to Equity (x)	1.13	1.06	1.02
Net Debt to Equity (x)	0.84	0.87	0.86
Gross debt/total assets (x)	0.49	0.47	0.46
Net debt/total assets (x)	0.36	0.38	0.39
Cash/current borrowings (x)	0.5	0.5	0.5
EBITDA/Total Interest (x)	1.4	1.2	1.8

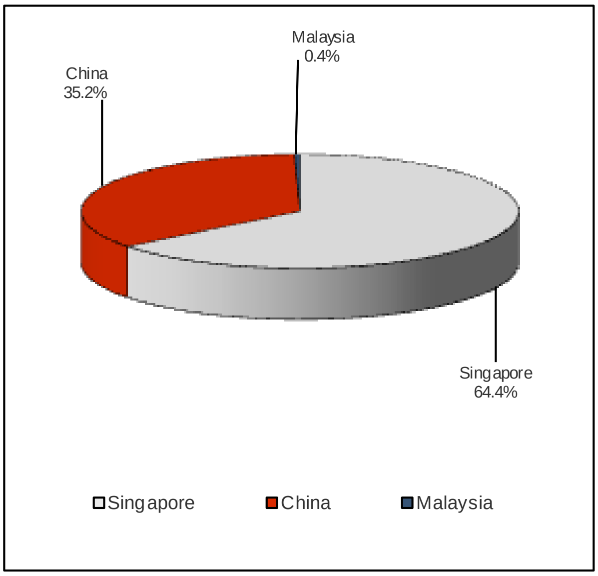
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2018



Source: Company

Figure 2: PBT breakdown by Segment - FY2018



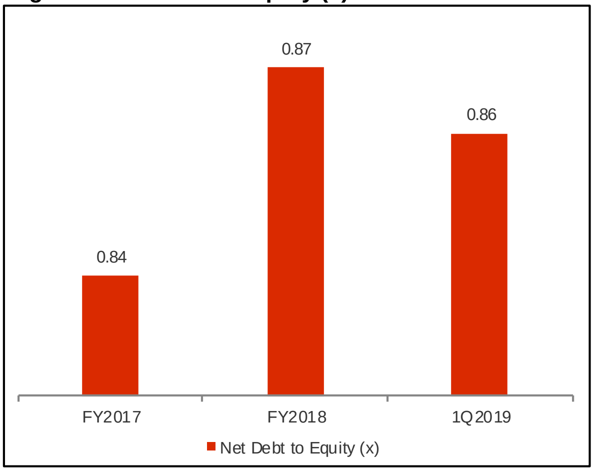
Source: Company | Excludes Vietnam and Others

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	1,233.6	26.3%
Unsecured	242.1	5.2%
	1,475.8	**31.4%**
Amount repayable after a year		
Secured	2,165.8	46.1%
Unsecured	1,053.8	22.4%
	3,219.6	**68.6%**
Total	**4,695.4**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We think both HTONSP '21s and HTONSP '20s look interesting, trading above 6% yield.

Issuer Profile: Neutral (5)

Ticker: **HTONSP**

Background

Heeton Holdings Ltd ("HHL") is a property company with assets and revenue predominantly in Singapore and UK. HHL focuses on property development, property investments and hospitality. HHL owns or holds stakes in 5 commercial properties and 11 hotel assets (with 1,269 rooms). The Toh family owns about 69% interest in HHL, which are represented by Heeton Investments Pte Ltd (27.63%), Hong Heng Co Pte Ltd (16.81%), Toh Giap Eng (11.96%), Toh Khai Cheng (6.79%) and Toh Gap Seng (5.78%).

Heeton Holdings Ltd

Key credit considerations

- **Weaker results following divestment:** 9M2018 revenue was lower by 21.6% y/y to SGD37.2mn. This was due to (1) a SGD11.3mn y/y decline in revenue from the sale of Onze@Tanjong Pagar as this development was substantially sold in 2017, (2) lower rental revenue of SGD0.9mn y/y due to the divestment of The Woodgrove in Feb 2018. Meanwhile, hotel operations continued prior reporting period trends with revenue up SGD1.4mn due to contribution from Luma Concept Hotel Hammersmith London which commenced operation from Apr 2017. As a result, PBIT before fair value changes and gain on disposals was lower by ~15% y/y to SGD5.1mn.

- **Increasing focus on hospitality:** Following the purchase of 96-room Smile Hotel Asakusa in Tokyo, Japan in Aug 2018 for SGD33.7mn, HHL continued to purchase 31-room Stewart Aparthotel and 94-room Hotel Indigo Glasgow in Scotland (amount undisclosed) in Oct 2018. Following the transactions, HHL has 11 operating hotels with an estimated 1,269 rooms in UK (7), Japan (2) and Thailand (2). The portfolio will be expanded when the developments are completed, which include 2 more hotels in the UK (Leeds, Dry Bar Manchester) with ~300 rooms and one 198-room hotel (at 29 Ranwell Lane Fortitude Valley) in Australia. As of 2017, hotel operation contributed SGD12.8mn revenue though segment loss before tax of SGD0.9mn was generated. Going forward, we expect the hospitality portfolio's performance to improve when the newly acquired hotels contribute and the new hotels complete and ramp up. Meanwhile, HHL is still on a lookout for acquisition of hospitality assets.

- **Investment properties still a major source of recurring income post-divestment:** Following the divestment of The Woodgrove, HHL still holds SGD164.9mn in investment properties of which Tampines Mart (SGD115mn) is the most significant asset. HHL generated SGD13.4mn of rental income with an estimated net property income of SGD10.2mn in 2017. We expect this to decline going forward though with the divestment of The Woodgrove, which we estimate to have generated ~SGD2.5mn revenue p.a. In addition, HHL owns a 50%-stake in Sun Plaza in a joint venture with Koh Brothers, which we estimate is worth SGD83.3mn. HHL's share of profit from Sun Plaza is SGD8.6mn in 2017. These investment properties support HHL's credit profile, and can be monetised (if need be), as seen from the divestment of The Woodgrove.

- **Not overly worried over slowing growth in Singapore property market:** Although Singapore private property price growth is tapering off, this should be manageable for HHL as its major projects see good sales momentum. Amongst the major projects, wholly-owned Onze@Tanjong Pagar is substantially sold while 20%-owned High Park Residences is already fully sold. We estimate Park Colonial (20%-owned) with 805 units is 69% sold while Affinity at Serangoon (5%-owned) with 1052 units has sold 287 units since its first launch of 300 units since mid-2018. Outside the Singapore market, HHL is also planning a 700-unit development at 55%-owned New York Road, Leeds, UK (GFA: 77,749 sqm).

- **Weaker credit metrics from redeployment of divestment proceeds:** Net gearing increased q/q to 0.67x (2Q2018: 0.47x) mainly due to the acquisition of the hotels. We expect net gearing to continue increasing when the proceeds from the SGD118mn issuance of HTONSP 6.08% '21s are deployed while pending settlement for its 60%-stake in Hotel Indigo Glasgow and we note that HHL has signalled its intention to explore more investment and acquisition opportunities to grow its recurrent income. SGD106.5mn in secured debt and settlement for further hotel purchases should be met from cash (SGD72mn) while we think the remainder may be rolled over as more assets can be pledged with a low secured debt/total asset of 15.7%. HHL should also receive some proceeds from the completion of High Park Residences in 2019.

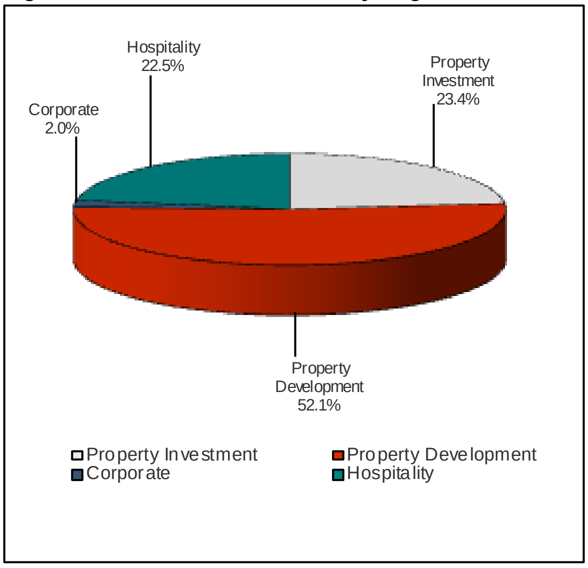
Heeton Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	67.4	57.1	37.2
EBITDA	12.5	-0.6	2.5
EBIT	11.1	-2.2	1.2
Gross interest expense	14.5	13.6	13.0
Profit Before Tax	17.1	73.2	14.3
Net profit	12.2	71.6	12.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	27.8	26.6	72.5
Total assets	734.0	824.4	848.3
Short term debt	193.5	94.0	106.5
Gross debt	297.3	291.8	326.5
Net debt	269.5	265.2	254.0
Shareholders' equity	345.6	416.9	426.6
Cash Flow (SGD'mn)			
CFO	-6.8	42.7	3.8
Capex	28.0	14.2	59.7
Acquisitions	0.0	3.6	0.0
Disposals	4.2	15.0	50.3
Dividend	2.0	2.0	3.3
Interest paid	0.0	0.0	0.0
Free Cash Flow (FCF)	-34.8	28.5	-55.9
Key Ratios			
EBITDA margin (%)	18.5	-1.1	6.8
Net margin (%)	18.2	125.4	34.2
Gross debt to EBITDA (x)	23.8	-476.1	96.3
Net debt to EBITDA (x)	21.6	-432.7	74.9
Gross Debt to Equity (x)	0.86	0.70	0.77
Net Debt to Equity (x)	0.78	0.64	0.60
Gross debt/total assets (x)	0.41	0.35	0.38
Net debt/total assets (x)	0.37	0.32	0.30
Cash/current borrowings (x)	0.1	0.3	0.7
EBITDA/Total Interest (x)	0.9	0.0	0.2

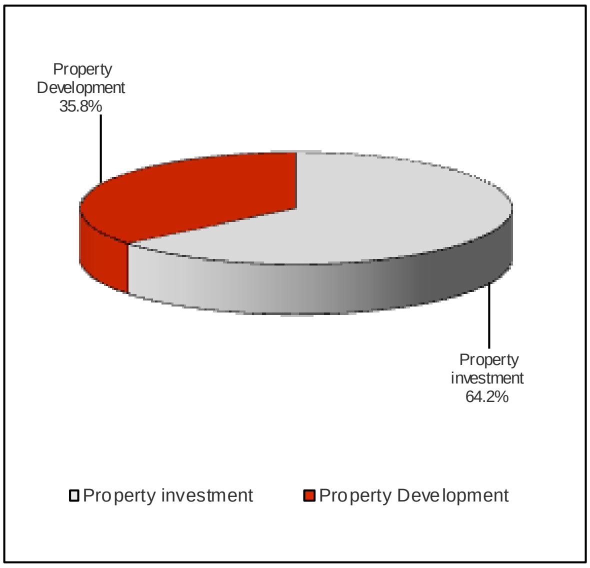
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2017



Source: Company

Figure 2: PBT breakdown by Segment - FY2017



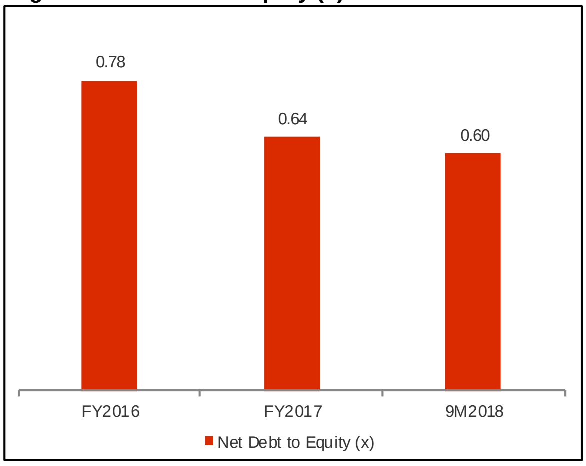
Source: Company | Excludes Corporate, Hospitality and Elimination

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	106.5	32.6%
Unsecured	0.0	0.0%
	106.5	**32.6%**
Amount repayable after a year		
Secured	27.0	8.3%
Unsecured	193.0	59.1%
	220.0	**67.4%**
Total	**326.5**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Hong Fok Corp Ltd

Credit Outlook – We like HFCSP '19s, offering a decent 3.4% YTM for a ~3M paper while management has expressed confidence in refinancing or repaying it from its available undrawn facilities.

Issuer Profile: Neutral (5)

Ticker: **HFCSP**

Background

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 75,000 sq m by gross floor area. HFC also owns 610-room YOTEL. The Cheong family substantially controls HFC. Its top shareholders are Hong Fok Land International Ltd (20.40%), Sim Eng Cheong (15.67%), Kim Pong Cheong (11.47%) and P C Cheong Pte Ltd (11.04%).

Key credit considerations

- **Strong 3Q2018 results, driven by residential unit sale:** Revenue surged 141% y/y to SGD48.8mn, mainly due to the revenue recognition from the sales of its residential units in Singapore and contribution from YOTEL which commenced operations in 4Q2017. In particular, according to URA caveats, HFC moved 14 units at Concourse Skyline worth SGD38.1mn over two months – July and August 2018. This is in stark contrast to 3Q2017 where HFC only sold 6 units for SGD12.8mn. Consequentially, profit before tax (before other income, other expenses, fair value changes, impairment and gain on disposal) improved substantially to SGD27.3mn (3Q2017: SGD8.9mn) and reported net profit turned to SGD12.1mn from a net loss of SGD5.6mn in 3Q2017. The absence of SGD13.7mn expenses previously incurred for the pre-opening and other costs for YOTEL also contributed to the positive net profit in 3Q2018.

- **Residential property sales at HFC are slowing:** While HFC delivered a strong third quarter, residential property sales do not seem to have kept pace. With reference to URA caveats, no units were sold in September and only one unit was sold in each of the subsequent months – October and November for a cumulative amount of SGD6.8mn. This pales in comparison to 3Q2018 sales figure. The existing series of cooling measures on the property market have evidently impacted the pace of sales. With that, we think the solid performance from residential property sales is unlikely to persist.

- **Positive momentum in Singapore's office market to benefit HFC:** The Concourse and International Building, both located in Singapore are commercial properties with significant office content. Given that in 3Q2018, rental index for Grade A office rose 3.5% q/q to SGD10.45 psf/mth versus the 4.1% q/q (SGD10.10 psf/mth) increase seen in 2Q2018, we think HFC's office portion may see better rental values. Grade A office vacancy rate for 3Q2018 was 5.4%, lower by 46bps q/q and 299bps y/y. Furthermore, we are expecting lower supply of ~628,000 sq ft of new office space in the central area in 2019 relative to the ~950,000 sq ft in 2018. These trends can translate into stronger top line for HFC. 2018 figures are not available but in FY2017, investment properties accounted for ~70% of HFC's revenue.

- **Confident about upcoming debt maturity:** At present, HFC has SGD122.7mn of loans and borrowings of current debt, with SGD120mn HFCSP 4.75% '19s due in March 2019 making up most of it. Even though HFC only holds SGD46.7mn cash, the company has expressed confidence of refinancing or repaying these notes from its available undrawn facilities (amount undisclosed) by the due date of the notes. HFCSP 4.75% '19s is HFC's only outstanding bond. HFC has a much more substantial amount of long term loans and borrowings amounting SGD674.1mn. We see financial flexibility as we estimated that ~SGD2.2bn of investment properties are unencumbered.

- **Manageable credit metrics:** Net gearing was 33.1% as at 30 September 2018, slightly lower q/q (2Q2018: 34.3%) as HFC paid off SGD27.4mn worth of loans and borrowings during the quarter. Operating cashflow before changes in working capital was SGD24.4mn, much higher than 3Q2017 which only recorded SGD1.7mn. Likewise EBITDA was SGD24.1mn (3Q2017: SGD1.6mn) which is more than sufficient to cover interest expense of SGD7.0mn. These strong figures came about from the solid residential unit sales in the quarter. Capex in 3Q2018 was only SGD1.3mn (3Q2017: SGD10.0mn).

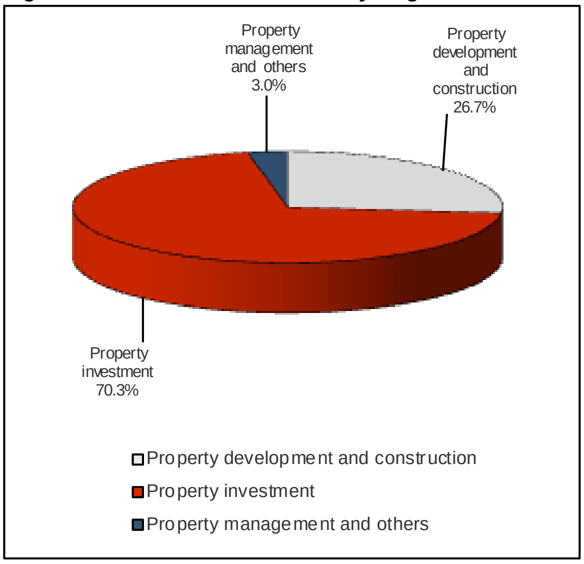
Hong Fok Corp Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	58.4	70.0	97.4
EBITDA	12.0	9.3	42.4
EBIT	11.3	8.8	41.8
Gross interest expense	28.4	25.4	19.9
Profit Before Tax	83.3	227.8	21.3
Net profit	82.0	223.3	16.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	77.4	50.6	46.7
Total assets	2,899.3	3,131.9	3,131.3
Short term debt	5.2	178.2	122.7
Gross debt	734.7	798.8	796.8
Net debt	657.3	748.1	750.1
Shareholders' equity	2,072.4	2,249.8	2,268.4
Cash Flow (SGD'mn)			
CFO	19.2	10.2	50.9
Capex	62.9	61.2	8.0
Acquisitions	0.0	1.4	0.0
Disposals	0.2	0.0	10.6
Dividend	6.9	6.9	6.9
Interest paid	-21.0	-22.1	-21.3
Free Cash Flow (FCF)	-43.7	-51.0	42.9
Key Ratios			
EBITDA margin (%)	20.6	13.3	43.5
Net margin (%)	140.2	319.1	16.4
Gross debt to EBITDA (x)	61.0	86.1	14.1
Net debt to EBITDA (x)	54.6	80.7	13.3
Gross Debt to Equity (x)	0.35	0.36	0.35
Net Debt to Equity (x)	0.32	0.33	0.33
Gross debt/total assets (x)	0.25	0.26	0.25
Net debt/total assets (x)	0.23	0.24	0.24
Cash/current borrowings (x)	14.8	0.3	0.4
EBITDA/Total Interest (x)	0.4	0.4	2.1

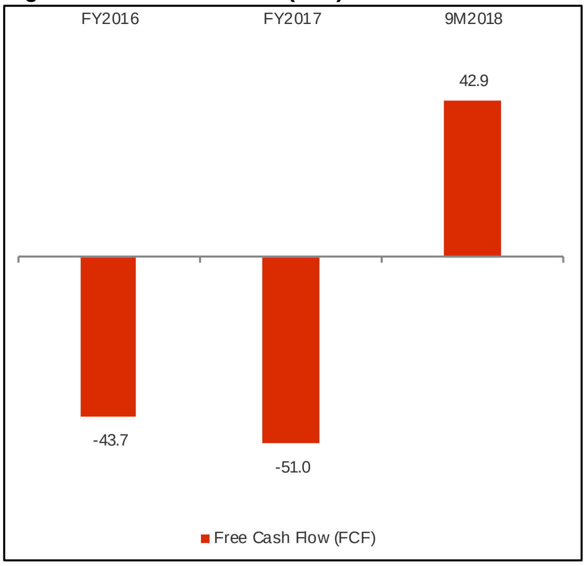
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2017



Source: Company | Excludes Other Operations

Figure 2: Free Cash Flow (FCF)



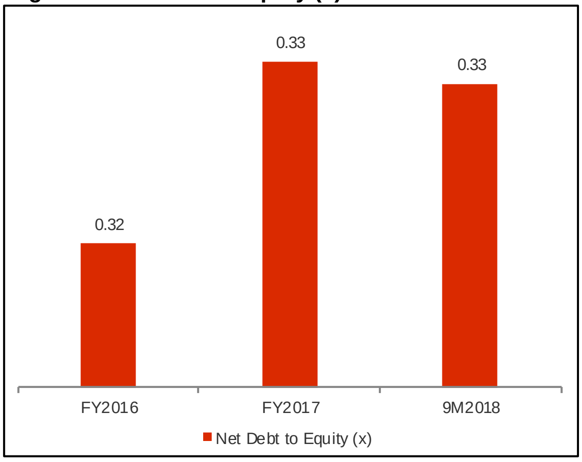
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	2.8	0.3%
Unsecured	119.9	15.1%
	122.7	**15.4%**
Amount repayable after a year		
Secured	631.3	79.2%
Unsecured	42.8	5.4%
	674.1	**84.6%**
Total	**796.8**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We prefer CITSP 3 '20 over HKLSP 3.43% '20s as it offers ~60bps pickup despite maturing one month earlier. We hold both issuers at a Positive (2) Issuer Profile Rating.

Issuer Profile: Positive (2)

Ticker: **HKLSP**

Background

Established in 1889 and listed in London, Bermuda and Singapore, Hongkong Land Holdings Ltd ("HKL") 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. HKL also develops premium residential properties in a number of cities in the region, principally in China and Singapore. HKL is 50.01%-owned by Jardine Strategic Holdings Ltd.

Hongkong Land Holdings Ltd

Key credit considerations

- **Property sales in Singapore drove top line:** In 1H2018, revenue surged 85.8% y/y to USD1.5bn mainly due to a 215.1% y/y jump in sales of properties to USD955.4mn (1H2017: USD303.2mn). The other contributors to revenue also increase though much less significantly. Rental income increased 8.7% y/y to USD484.1mn and Service income went up by 13.5% y/y to USD76.4mn. The increase in revenue helped translate to a 14.7% y/y increase in operating profit to USD518.7mn. Despite recording a strong operating profit, underlying profit fell 3.1% y/y to USD455.1mn, due to 61.9% y/y lower contributions from associates and JVs specifically in the development properties space (1H2018: USD73.6mn, 1H2017: USD135.5mn). As a result of smaller revaluation gains of just USD661mn in 1H2018 vs USD2.6bn a year ago, net profit fell by a larger extent (63.9% y/y) to SGD1.1bn. Excluding changes in fair value of investment properties, adjusted net profit would have increased 6.6% y/y.

- **Hong Kong Central portfolio as the core of HKL:** Accounting for ~65% of HKL's total operating profit and 52.8% of HKL's investment properties portfolio by net floor area, Hong Kong Central portfolio (Office: 85%, Retail: 12%, Hotel: 3%) is the largest contributor to HKL. The office front saw continued positive rental reversion as market supply remained tight with average net rent at HKD111 psf/mth (1H2017: HKD106 psf/mth). Given that this is above the average expiring net rent in 2H2018 of HKD100 psf/mth, we expect contributions from the office segment to remain strong. Furthermore, vacancy declined to 0.8% as at 30 September 2018, from 1.9% as at 30 June 2018. The retail component also saw good performance as it remained effectively fully occupied and experienced mildly positive base rental reversions. We expect Hong Kong Central portfolio to continue to deliver stable returns.

- **Significant exposure to Mainland China:** Under HKL's development properties portfolio, ~66% is in Mainland China (~76% in Chongqing) with more than half under construction/ to be developed. In 1H2018, revenue was just USD160mn despite solid contracted sales of USD650mn due to timing of completions. Although contracted sales fell in 3Q2018 to USD154mn as a result of timing of sales, sentiment in the markets remains stable and we expected sales to improve going forward. It is worth noting HKL has been ramping up its exposure to Nanjing, China through JL Central, an office and retail building (HKL's share 117,500 sqm by GFA) which will be completed in 2023 as well as a 115,400 sqm residential site in Nanjing's Jiangbei District which is estimated to yield up to 253,800 sqm of housing for RMB4.49bn (~USD652mn).

- **Expects modest contributions from Singapore:** In 1H2018, property sales in Singapore contributed USD907mn to HKL's revenue, largely driven by Sol Acres which is 99.8% sold. Contracted sales however were low at just USD101mn. Although the sales launch at Margaret Ville in3Q2018 was successful, the market demand has no doubt moderated due to additional cooling measures introduced by the government. With that, we think the contributions from Singapore properties sales could be limited going forward.

- **Healthy credit metrics:** Net gearing inched higher to 10% as at 30 September 2018 as net debt increased by ~USD0.6bn to USD3.7bn due to payments made for land purchased in China. Having said that, we remain comforted that operating profit from investment properties alone (USD456.6mn) well-covers financing charges (USD78.2mn) by 5.8x in 1H2018. In addition, the cash on hand of USD 1.8bn is sufficient to cover the maturing debt over the next three years (USD1.3bn) as at 30 June 2018.

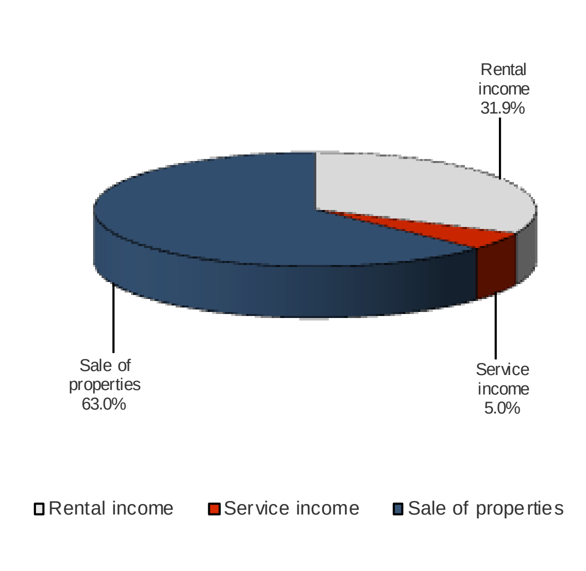
Hongkong Land Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1H2018
Income Statement (USD'mn)			
Revenue	1,993.9	1,959.8	1,515.9
EBITDA	962.0	893.6	512.4
EBIT	958.9	890.6	510.4
Gross interest expense	144.5	153.4	78.2
Profit Before Tax	3,511.9	5,755.7	1,212.4
Net profit	3,344.6	5,597.1	1,124.7
Balance Sheet (USD'mn)			
Cash and bank deposits	1,908.9	1,622.1	1,769.3
Total assets	36,954.7	42,951.5	44,014.1
Short term debt	220.7	190.6	354.6
Gross debt	3,916.4	4,170.9	4,894.1
Net debt	2,007.5	2,548.8	3,124.8
Shareholders' equity	31,314.4	36,808.4	37,317.7
Cash Flow (USD'mn)			
CFO	1,096.2	800.2	172.6
Capex	239.5	213.7	80.9
Acquisitions	108.4	713.1	296.6
Disposals	0.0	0.0	0.0
Dividends	448.0	447.2	327.8
Free Cash Flow (FCF)	856.7	586.5	91.7
Key Ratios			
EBITDA margin (%)	48.2	45.6	33.8
Net margin (%)	167.7	285.6	74.2
Gross debt to EBITDA (x)	4.1	4.7	4.8
Net debt to EBITDA (x)	2.1	2.9	3.0
Gross Debt to Equity (x)	0.13	0.11	0.13
Net Debt to Equity (x)	0.06	0.07	0.08
Gross debt/total assets (x)	0.11	0.10	0.11
Net debt/total assets (x)	0.05	0.06	0.07
Cash/current borrowings (x)	8.6	8.5	5.0
EBITDA/Total Interest (x)	6.7	5.8	6.6

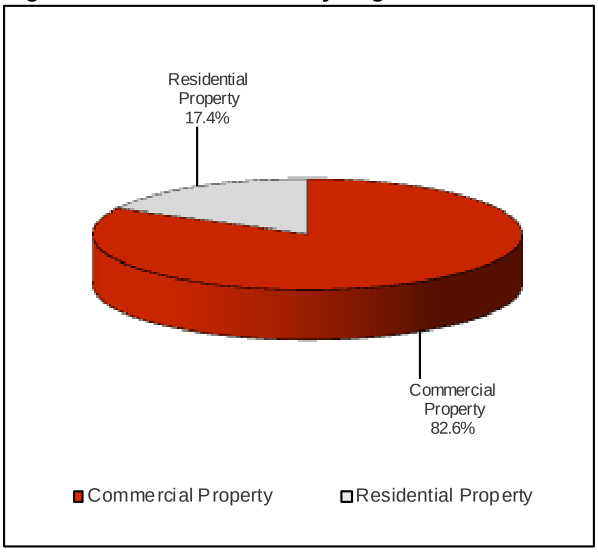
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2018



Source: Company

Figure 2: EBIT breakdown by Segment - 1H2018



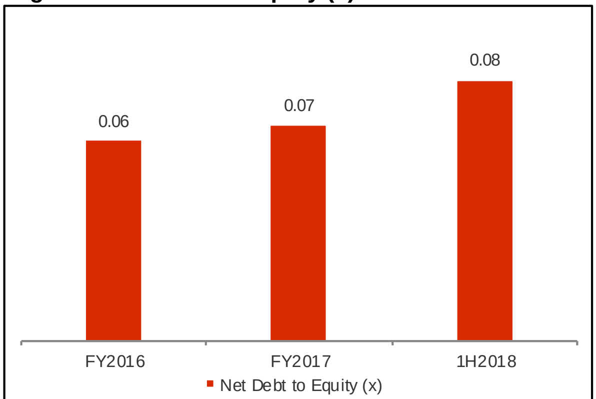
Source: Company | Excludes Corporate

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 30/9/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	354.6	7.2%
Unsecured	0.0	0.0%
	354.6	**7.2%**
Amount repayable after a year		
Secured	1,708.2	34.9%
Unsecured	2,831.3	57.9%
	4,539.5	**92.8%**
Total	**4,894.1**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – Despite a strong credit profile, we Underweight HPLSP '19s and HPLSP '20s due to the tight spreads. The interesting part of the curve is HPLSP 4.65% PERP, which we think look attractive with a high likelihood to be called.

Issuer Profile: Neutral (4)

Ticker: **HPLSP**

Background

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.

Hotel Properties Ltd

Key credit considerations

- **Weaker 3Q2018 results:** 3Q2018 revenue declined 21.5% y/y to SGD129.5mn due to lower contributions from the property division as the 4 remaining completed condominium units at Tomlinson Heights were fully sold in 1H2018 (and hence did not contribute in 3Q2018), though this was slightly offset by higher contribution from the hotel division due to contributions from Hard Rock Hotel Penang (fully acquired in Dec 2017) and The Boathouse, Phuket (73.99% effective stake acquired in Dec 2016). Meanwhile, share of results of associates and jointly control entities declined to SGD22.1mn (3Q2017: SGD29.6mn) mainly due to lower profits from Burlington Gate, London. We also note that d'Leedon (associate-stake) is also fully sold while only 3 units remain at The Interlace (associate-stake). Overall, net profit fell by more than 51.4% y/y to SGD20.4mn (3Q2017: SGD42.0mn), greater than the decline in revenue with a rise in other operating expenses to SGD11.9mn (3Q2017: SGD0.3mn) due to SGD9.9mn fair value loss in investments.

- **Hospitality portfolio as the core of HPL:** We believe a significant majority of 3Q2018's SGD129.5mn revenue is related to hospitality, given that HPL reported SGD487.0mn in hotel revenue in 2017 (a quarter of this is SGD121.8mn). We estimate that hotels account for ~46% of HPL's total assets, with revenues split nearly evenly between (1) Singapore, (2) Maldives and (3) other parts of the world including rest of Asia and UK/Europe. After a hiatus from acquisitions in 1H2018, HPL (in 50-50 JV with Mr Ong Beng Seng) in Nov 2018 acquired a site which includes a 50-key 5 star hotel in Tuscany Italy for EUR39.5mn (~SGD62.0mn).

- **Investment properties form the next largest part of HPL's assets:** Investment properties represent 22.7% of HPL's total assets (SGD3.09bn). These properties are mainly represented by Forum The Shopping Mall (valued at SGD420mn), Concorde Shopping Mall (SGD167mn) and HPL House (SGD115mn). We note investment properties contribute SGD26.6mn of rental income in 2017.

- **Beyond Holland Park Villas and Burlington Gate:** HPL guides that more profits will be booked from the sale of remaining units at Holland Park Villa and Burlington Gate developments though we think this is likely to be small as both projects were completed in 2017. Meanwhile, HPL is progressing at the 1.4mn sq ft mixed use developments at 30%-owned Ludgate House (demolition completed) and Sampson House (in preparation to commence demolition) in the UK, with Temasek and Amcorp Properties as the other JV partners. These have a gross development value of £1.3bn (SGD2.4bn). HPL is also developing 70%-owned Paddington Square in London (work commenced on 24 Apr), which is targeted for completion in 2022 with 360,000 sq ft of office space and 76,000 sq ft of retail space.

- **Healthy credit metrics:** Net gearing fell to 24.5% q/q (2Q2018: 26.6%) with continued healthy cashflow generated (3Q2018 operating cashflow: SGD39.8mn). As such, despite SGD289.3mn of short term debt coming due, we expect HPL to refinance this due to its healthy balance sheet, strong (and recurring) cashflow and access to the capital markets. Meanwhile, we believe a significant portion of the balance sheet may remain largely unencumbered. However, it remains to be seen if HPL intends to continue running at a low net gearing level (2012-2016 net gearing averaged 49.3%).

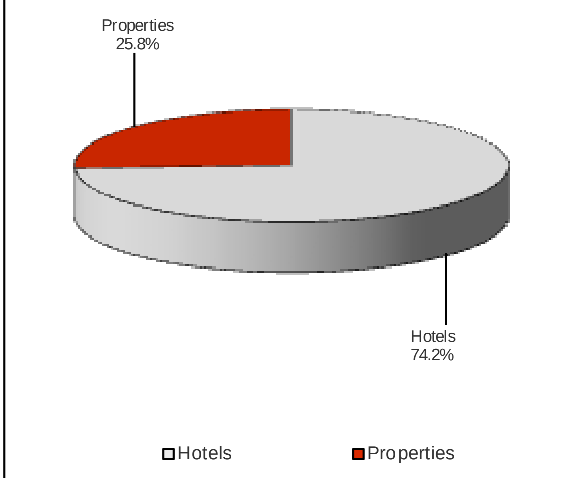
Hotel Properties Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	577.6	659.2	440.1
EBITDA	184.7	163.4	112.5
EBIT	130.5	106.2	66.5
Gross interest expense	30.3	28.7	20.8
Profit Before Tax	135.5	217.3	141.9
Net profit	108.6	179.5	118.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	117.2	211.8	91.0
Total assets	3,180.2	3,361.9	3,094.3
Short term debt	282.2	195.0	289.3
Gross debt	992.3	1,004.2	642.7
Net debt	875.1	792.4	551.7
Shareholders' equity	2,028.3	2,175.2	2,253.1
Cash Flow (SGD'mn)			
CFO	141.1	283.8	133.7
Capex	80.0	153.6	79.7
Acquisitions	24.1	48.7	12.8
Disposals	66.8	1.0	0.7
Dividend	50.8	49.7	55.5
Interest paid	-29.5	-27.9	-21.6
Free Cash Flow (FCF)	61.1	130.2	54.0
Key Ratios			
EBITDA margin (%)	32.0	24.8	25.6
Net margin (%)	18.8	27.2	26.8
Gross debt to EBITDA (x)	5.4	6.1	4.3
Net debt to EBITDA (x)	4.7	4.8	3.7
Gross Debt to Equity (x)	0.49	0.46	0.29
Net Debt to Equity (x)	0.43	0.36	0.24
Gross debt/total assets (x)	0.31	0.30	0.21
Net debt/total assets (x)	0.28	0.24	0.18
Cash/current borrowings (x)	0.4	1.1	0.3
EBITDA/Total Interest (x)	6.1	5.7	5.4

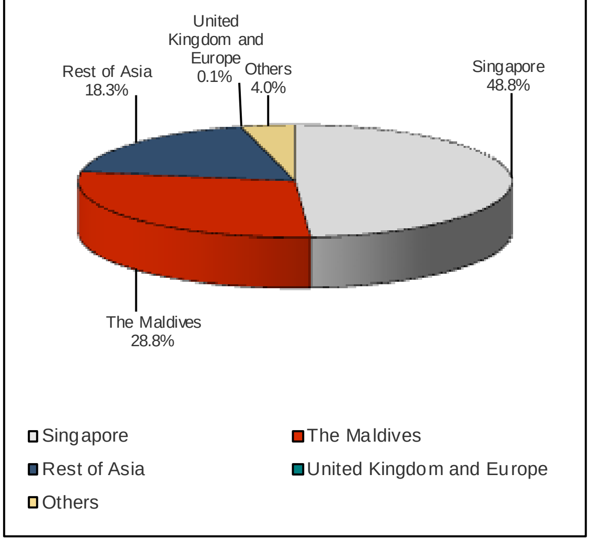
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2017



Source: Company

Figure 2: Revenue breakdown by Geography - FY2017



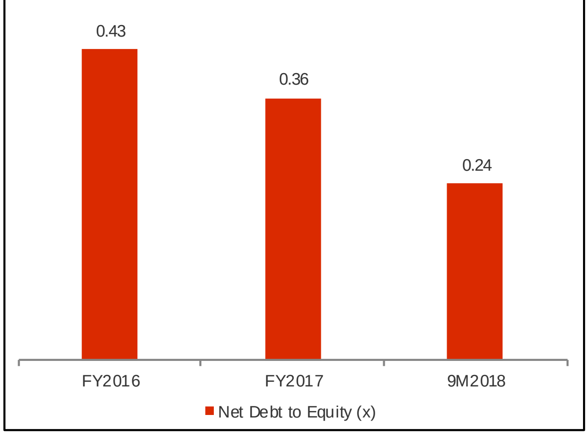
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	239.3	37.2%
Unsecured	50.0	7.8%
	289.3	**45.0%**
Amount repayable after a year		
Secured	153.4	23.9%
Unsecured	200.0	31.1%
	353.4	**55.0%**
Total	**642.7**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook –
We are underweight the KEPSP 3.1% '20s which is only paying an 81bps spread and the KEPSP 4.0% '42s (139 bps spread). We are neutral the rest of the curve.

Issuer Profile: Neutral (3)

Ticker: **KEPSP**

Background
Listed in 1986, Keppel Corp Ltd ("KEP") is a diversified conglomerate based in Singapore, operating in the real estate, offshore & marine ("O&M"), infrastructure, logistics, data centres and asset management sectors. KEP owns a ~79%-stake in Keppel Telecommunications and Transportation Ltd. Two other significant associates are Keppel REIT (46%-stake) and Keppel Infrastructure Trust ("KIT", ~18%-stake). KEP is ~20.5%-owned by Temasek Holdings (Private) Ltd.

Keppel Corp Ltd

Key credit considerations

- **Still manageable net gearing but expect this to rise:** Overall revenue for 3Q2018 declined 19.9% y/y to SGD1.3bn on the back of lower revenue recognition from property trading and lower revenue from the Investments Division. Offshore & Marine and Infrastructure both saw increase in revenue. Reported operating profit though was only 8.9% lower y/y at SGD270.4mn, driven by the en-bloc sale of a property development project in Beijing and one-off gain from sale of units from Keppel DC REIT. As at 30 September 2018, unadjusted net gearing was 0.41x, (30 June 2018: 0.40x). Secured debt continues to make up only a small proportion of total debt and KEP maintains considerable access to debt markets.

- **Shopping for more:** We estimate that KEP has up to SGD2.1bn in commitments from the announced proposed purchases and expansion of its asset management business. These include the take private of Keppel Telecommunications and Transportation Ltd ("KPTT"; Issuer profile: Neutral (4)) and the offer for M1 Ltd, together with Singapore Press Holdings. We assume these are debt-funded, with net gearing rising, although the exact impact will also depend on merger and accounting consolidation effects (eg: KEP gaining control over M1). Per KEP, the total maximum cash outlay for M1 would be SGD1.28bn (assuming all shareholders accept the offer) while SGD226.6mn is needed to take-private KPTT.

- **Property segment continues to drive KEP's income:** In 3Q2018, KEP's property revenue declined 67% y/y to SGD181.7mn, despite the higher volume of units sold. We think this is due to higher proportion of housing units sold in Indonesia and India, where per unit price is lower. In 3Q2018, operating profit from the property segment was SGD210.1mn (up 6% y/y) and contributed 72% to KEP's total operating profit. SGD122mn in segmental operating profit for 3Q2018 was attributable to divestment gains from the en-bloc sales of KEP's 51%-stake in Aether Limited. For O&M, segmental revenue was SGD415.9mn (up 9% y/y) in 3Q2018 and encouragingly, operating profit was SGD6.0mn while net profit (aided by one-off) was SGD2.0mn. KEP continues to focus on reaching break-even for the segment.

- **Infrastructure profit driven by one-off gains:** The Infrastructure segment reported an 8% y/y increase in revenue to SGD679.9mn, driven by an increase in sales in the gas and electricity businesses though partly offset by lower revenue recognition from Keppel Marine East Desalination Plant. Operating profit was SGD42.9mn while net profit was SGD60.0mn in 3Q2018, driven by one-off gains. KEP's associate KIT, is buying Ixom for an enterprise value of ~SGD1.1bn, with KIT eventually seeking equity funding from unitholders. KEP has undertaken to subscribe for its pro-rata share and we estimate its cash outlay at SGD137mn.

- **Busy quarter for Asset Management**: Asset Management arm Keppel Capital is reported under Investments, alongside M1 (through KPTT), 40%-owned KrisEnergy Ltd and Sino-Singapore Tianjin Eco-City (a G2G project). In 3Q2018, we estimate that the segment only generated SGD20.2mn in net profit (3Q2017: SGD59.9mn). In 3Q2018, KEP had (1) Entered into a memorandum of understanding with MindChamps on an education real estate fund with an initial asset under management ("AUM") of SGD200mn (2) Announced the ~SGD107mn purchase of 50% in Watermark Retirement Communities (and affiliates) and (3) Announced the joint establishment of a retail real estate assets fund. Per market norms, KEP is expected to hold up to a 10% equity-stake in the proposed fund (~SGD100mn equity injection). Including outstanding capital commitments at the Alpha Data Centre fund, we estimate that KEP would need to fund ~SGD595mn for the asset management segment in the near term as KEP ramps up the business.

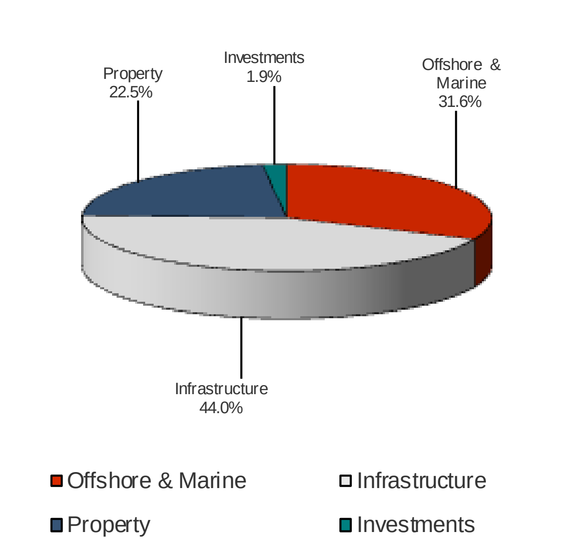
Keppel Corp Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	6,767.3	5,963.8	4,288.4
EBITDA	1,407.8	937.7	560.4
EBIT	1,171.3	725.3	427.3
Gross interest expense	224.5	189.2	144.5
Profit Before Tax	1,054.9	515.6	1,034.5
Net profit	821.8	217.2	810.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	2,087.1	2,273.8	2,010.4
Total assets	29,234.2	28,112.8	25,598.7
Gross debt	9,053.0	7,793.0	6,852.2
Short term debt	1835.3	1714.1	589.3
Net debt	6,966.0	5,519.2	4,841.8
Shareholders' equity	12,333.6	11,960.4	11,714.8
Cash Flow (SGD'mn)			
CFO	428.7	1,431.5	199.0
Capex	466.2	393.0	153.8
Acquisitions	463.3	291.4	66.2
Disposals	99.4	838.7	1,229.5
Dividend	621.9	390.1	541.5
Free Cash Flow (FCF)	-37.5	1,038.5	45.2
Key Ratios			
EBITDA margin (%)	20.8	15.7	13.1
Net margin (%)	12.1	3.6	18.9
Gross debt to EBITDA (x)	6.4	8.3	9.2
Net debt to EBITDA (x)	4.9	5.9	6.5
Gross Debt to Equity (x)	0.73	0.65	0.58
Net Debt to Equity (x)	0.56	0.46	0.41
Gross debt/total assets (x)	0.31	0.28	0.27
Net debt/total assets (x)	0.24	0.20	0.19
Cash/current borrowings (x)	1.1	1.3	3.4
EBITDA/Total Interest (x)	6.3	5.0	3.9

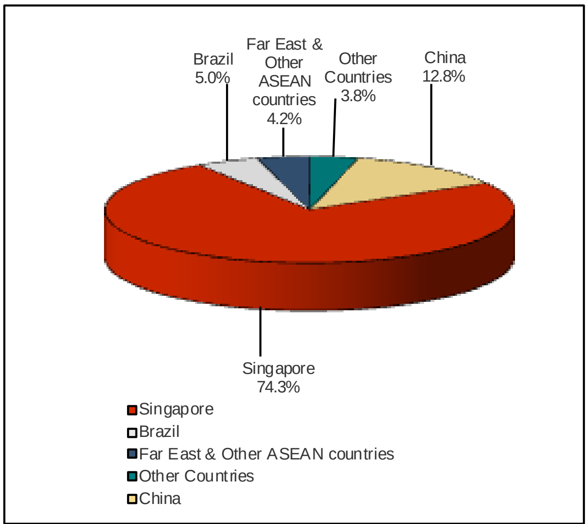
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2018



Source: Company

Figure 2: Revenue breakdown by Geography - 9M2018



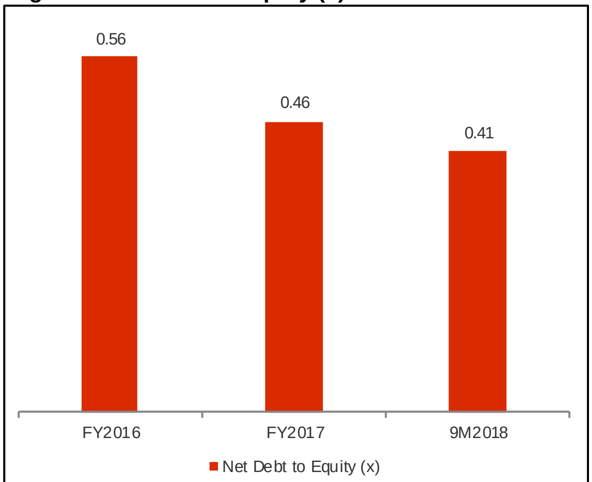
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2018	% of debt
.		
Amount repayable in one year or less, or on demand		
Secured	110.8	1.6%
Unsecured	478.5	7.0%
	589.3	**8.6%**
Amount repayable after a year		
Secured	182.5	2.7%
Unsecured	6,080.3	88.7%
	6,262.9	**91.4%**
Total	**6,852.2**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Keppel REIT

Credit Outlook – KREIT may benefit from the improving office outlook. We like the KREITS 4.98%-perp as it offers a YTC of 3.89% for around 1 year to call.

Issuer Profile: Neutral (4)

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 total AUM of ~ SGD8.5bn. 87% 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 46.7% owned by Keppel Corp ('KEP'), its Sponsor.

Key credit considerations

- **Weaker revenue at OFC and Australia assets:** Property income dipped 9.4% y/y to SGD36.7mn in 3Q2018 due to lower occupancy at OFC (3Q2018: 95.5%), 275 George Street (3Q2018: 99.3%) and 8 Exhibition Street (3Q2018: 97.2%), though partly offset by Bugis Junction Towers which is fully occupied. NPI declined in tandem by 10.9% y/y to SGD28.2mn. Although committed occupancy at OFC fell to 95.5% from full occupancy post the early surrender of leases by Australia and New Zealand Banking Group Ltd ("ANZ"), YTD revenue from OFC was higher by 13.4% y/y mainly due to the one-off compensation income for early surrender of leases. As such, we do not think that KREIT's portfolio is severely impacted by ANZ's termination of leases at this juncture. In addition, the two Australia assets - 275 George Street and 8 Exhibition Street saw NPI fall by 31.5% y/y and 13.7% y/y respectively. That being said, this can be partly attributed to a weaker AUD and both properties only made up 8.5% of the portfolio income. KREIT also has plans to enhance both properties to remain attractive to tenants.

- **Lower contributions from ORQ and MBFC:** Total return before tax fell sharply by 38.5% y/y to SGD24.6mn in 3Q2018, driven largely by lower rental support from MBFC (-16.3% y/y) and weaker contributions from associates (-14.3% y/y) and JV (-7.6% y/y). Specifically, MBFC's rental support declined 16.3% y/y while dividend and distribution income dipped 26.8% y/y. It is worth noting that HSBC has signed a 10-year lease at Marina Bay Financial Centre Tower 2 with target occupation by April 2020. ORQ, on the other hand, saw occupancy rate fall to 96.1% from 99.6% in 3Q2017 translating into lower dividend income contribution to KREIT (-15.2% y/y). With supply contracting and rents climbing, we think occupancy rate at ORQ is likely to rebound.

- **Positive office outlook may counter the dip in occupancy and retention rate:** In 3Q2018, retention rate stood at 84% (3Q2017: 91.8%) with committed occupancy at 98% (3Q2017: 99.6%) and WALE at 5.7 years (3Q2017: 6 years). With a positive outlook on the office market in view of a tapering supply pipeline and climbing rents on the back of continued demand, we think the dip in occupancy at KREIT's Singapore assets is well-timed to capture opportunities within the increasingly favourable market. According to CBRE, the market's average Grade A rents increased from SGD10.10 psf/mth to SGD10.45 psf/mth over the quarter. Correspondingly, KREIT's average signing rent for Singapore office leases was SGD10.88 psf/mth for 9M2018 (2017: SGD9.40 psf/mth).

- **Divested 20%-stake in OFC:** On 30 November 2018, KREIT announced that it has entered into an agreement to sell 20.0% of its interest in OFC to Allianz Real Estate for SGD537.3mn, bringing down its ownership of the property to 79.9%. Should parts of the divestment proceeds be used to repay debt, management estimated that aggregate leverage may fall by ~3.2% to 35.9% from a high of 39.1% in 3Q2018 (largely due to the loan drawn down to fund the progressive payment for development of 311 Spencer Street in Melbourne). This is positive news in our view given that KREIT has a sizeable loan aggregating SGD698mn due in 2019 and may buy back up to 1.5% of issued units over 6 months which may edge aggregate leverage higher (bought back 0.16% of issued units (~5.3mn units) in 3Q2018). In addition, the divestment is reportedly SGD77.1mn (or 16.8%) higher than the historical purchase price of SGD460.2mn, possibly delivering an estimated net gain of SGD6.9mn after deducting estimated transaction costs though before financing cost incurred to purchase the property in 2011.

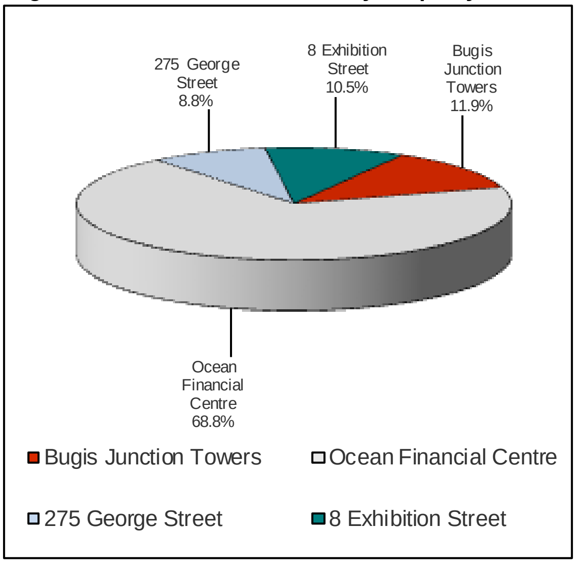
Keppel REIT

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	161.3	164.5	128.0
EBITDA	70.9	74.7	61.2
EBIT	55.6	62.9	55.1
Gross interest expense	67.9	67.3	51.5
Profit Before Tax	279.1	197.3	104.1
Net profit	257.8	180.2	101.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	278.7	198.2	160.0
Total assets	7,535.3	7,604.3	7,619.8
Short term debt	0.0	425.0	163.9
Gross debt	2,481.8	2,522.2	2,556.2
Net debt	2,203.1	2,324.0	2,396.2
Shareholders' equity	4,898.6	4,915.3	4,910.5
Cash Flow (SGD'mn)			
CFO	108.2	120.0	97.8
Capex	2.2	157.8	57.8
Acquisitions	0.0	0.0	0.0
Disposals	157.2	0.0	0.0
Dividends	190.1	164.5	138.8
Interest paid	60.7	62.5	49.0
Free Cash Flow (FCF)	105.9	-37.8	40.1
Key Ratios			
EBITDA margin (%)	44.0	45.4	47.8
Net margin (%)	159.9	109.5	79.5
Gross debt to EBITDA (x)	35.0	33.7	31.3
Net debt to EBITDA (x)	31.1	31.1	29.3
Gross Debt to Equity (x)	0.51	0.51	0.52
Net Debt to Equity (x)	0.45	0.47	0.49
Gross debt/total asset (x)	0.33	0.33	0.34
Net debt/total asset (x)	0.29	0.31	0.31
Cash/current borrowings (x)	N.A	0.5	1.0
EBITDA/Total Interest (x)	1.0	1.1	1.2

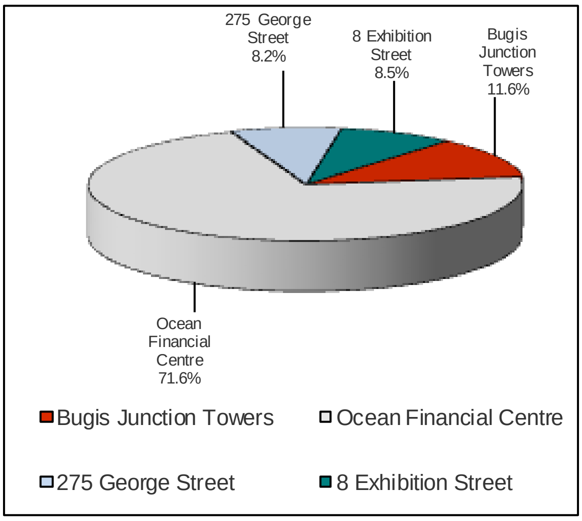
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - 9M2018



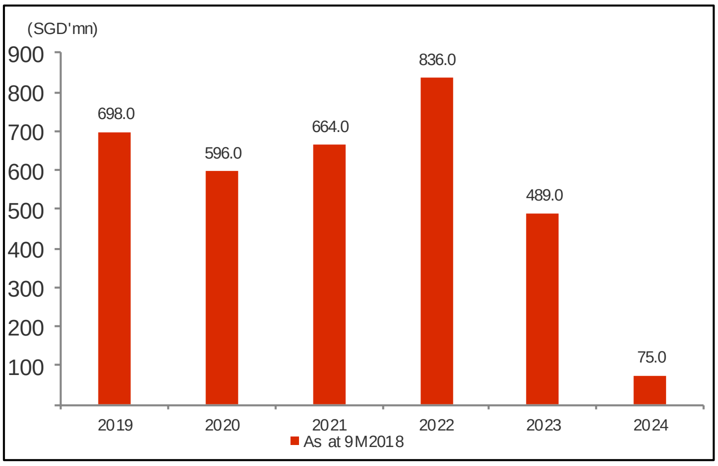
Source: Company

Figure 2: NPI breakdown by Property - 9M2018



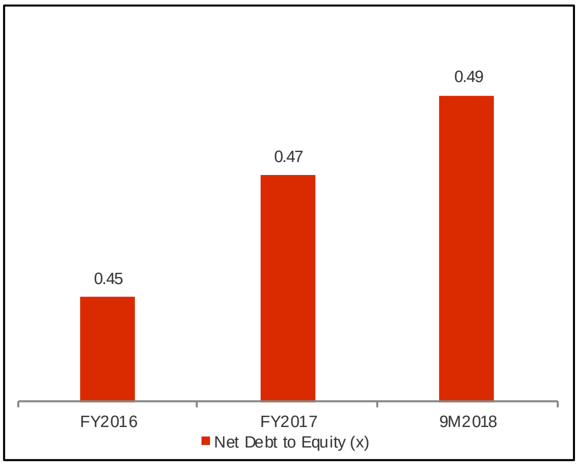
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – While KPTTSP post take-private will not have similar capital market access and income diversification as Keppel Corp Ltd ("KEP"), we see the 30bps spread between the KPTTSP '24s and the KEPSP '23s as too wide. We think the gap may narrow when KPTTSP becomes a wholly-owned subsidiary of KEP. We are Overweight the KPTTSP '24s.

Issuer Profile: Neutral (4)

Ticker: **KPTTSP**

Background

Keppel Telecommunications & Transportation Ltd ("KPTT") focuses on three businesses, namely logistics, data centres and investment holding. Within data centres, KPTT also holds a ~25.0% stake in Keppel DC REIT ("KDC REIT"). KPTT's main investments under the investment holding business is a ~19.3% stake in M1 Ltd, a major telco focused on the Singapore market. KPTT is ~79.4% owned by Keppel Corp Ltd ("KEP").

Keppel Telecommunications & Transportation Ltd

Key credit considerations

- **Stronger top line though reported operating loss:** In 3Q2018, revenue increased 6.6% y/y to SGD47.9mn, driven by higher data centre facility management income (we estimate that Data Centre segment revenue was up 35% y/y) and increase in revenue from warehousing and channel management business. Nonetheless, the overall Logistics segment would have still seen relatively flat revenue based on our estimation. As yet there have been no updates on the strategic review of KPTT's struggling China Logistics portfolio. KPTT reported an operating loss of SGD4.0mn (3Q2017 operating profit of SGD3.2mn) driven by higher staff and other costs to drive top line growth. 3Q2017 also saw a large one-off gain on the partial disposal of the Keppel DC Singapore 4 data centre into the Alpha Data Centre Fund ("Alpha DC Fund"). This was absent in 3Q2018. With M1 Ltd reporting a 5.5% y/y decline in net profit in 3Q2018, we think the 25% y/y increase in share of profits from associates and joint ventures was attributable to Keppel DC Singapore 4 which is now recognised as an associated company. KPTT reported a profit for the period of SGD12.5mn during the quarter.

- **Flat q/q net gearing though tilting up from obligations to Alpha DC Fund:** As at 30 September 2018, unadjusted net gearing was 0.3x, relatively flat versus 30 June 2018. In our view, this has not fully reflected capital call obligations at Alpha DC Fund. KPTT holds its minority stake in the Alpha DC Fund via its 70%-owned subsidiary Keppel Data Centres Holding Pte Ltd ("KDC Holding"). Keppel Land (a sister company, wholly-owned by KEP) owns the remaining 30%-stake in KDC Holding. In June 2018, KPTT and Keppel Land announced that they would lend SGD378mn to KDC Holding where the monies would be used to fund its' Alpha DC Fund obligation. In our view, KPTT's cash balance is insufficient to fund its pro-rata obligation, and we expect KPTT to progressively take on more debt to fund such capital commitments.

- **Manageable refinancing risk:** The sale of KPTT's 10%-stake in Asia Airfreight Terminal ("AAT") has yet to be completed despite the signing of a conditional sales and purchase agreement on 17 March 2017. Given the delays, we do not factor this sale as a source of liquidity (HKD250m/SGD44.0mn). In any case, as at 30 September 2018, short term debt at KPTT was SGD71.3mn, representing only 15% of total debt. With a miniscule SGD9.0mn of assets encumbered, we see minimal refinancing risk at KPTT as we think KPTT has the ability to raise secured financing or borrow money from its related companies, if need be.

- **Bondholders of KPTT likely to hold bonds of an unlisted wholly-owned subsidiary of KEP:** KEP already owns a ~79%-stake in KPTT and KEP is proposing to buy the stakes it does not already own in KPTT for a maximum of SGD226.6mn in cash. Additionally, KEP (together with Singapore Press Holding) has announced a voluntary general offer for M1 Ltd. Given the cross-holdings between KPTT and various entities within the KEP structure, a take-private at this point allows KEP to simplify KPTT's corporate structure while also allowing KPTT's minority shareholder to cash out. Our base case assumes that the proposed take-private transaction would be successful, with KPTT eventually delisted from the Singapore Stock Exchange and subsumed as a wholly-owned subsidiary of KEP. We are currently maintaining KPTT's issuer profile at Neutral (4) though would <u>cease coverage of KPTT should the transaction go through</u>. In our view, it is unlikely for standalone KPTT financials to be made available publicly post delisting, though we continue to maintain coverage on KEP. There is no change of control and no delisting put on the KPTTSP 2.85% '24s. Should the take-private be successful, bondholders would hold the bonds of an unlisted wholly-owned subsidiary of KEP (we hold KEP's issuer profile at Neutral (4)).

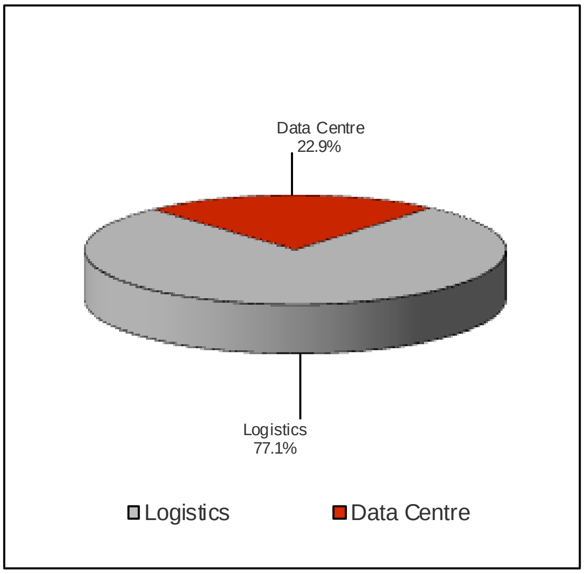
Keppel Telecommunications & Transportation Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)	**SGD'mn**	**SGD'mn**	**SGD'mn**
Revenue	194.6	177.0	136.0
EBITDA	34.1	15.0	3.6
EBIT	15.4	-6.4	-11.9
Gross interest expense	14.1	13.0	7.8
Profit Before Tax	130.3	71.8	52.3
Net profit	113.3	55.9	48.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	103.0	96.0	178.9
Total assets	1,722.9	1,549.7	1,641.8
Short term debt	72.8	115.4	71.3
Gross debt	528.8	457.4	487.2
Net debt	425.8	361.4	308.3
Shareholders' equity	908.0	960.7	984.8
Cash Flow (SGD'mn)			
CFO	40.9	6.3	12.5
Capex	116.5	29.9	8.1
Acquisitions	111.1	215.7	0.3
Disposals	41.9	305.3	0.4
Dividend	20.8	26.3	20.8
Free Cash Flow (FCF)	-75.6	-23.6	4.4
Key Ratios			
EBITDA margin (%)	17.5	8.4	2.6
Net margin (%)	58.2	31.6	35.3
Gross debt to EBITDA (x)	15.5	30.6	101.9
Net debt to EBITDA (x)	12.5	24.2	64.5
Gross Debt to Equity (x)	0.58	0.48	0.49
Net Debt to Equity (x)	0.47	0.38	0.31
Gross debt/total assets (x)	0.31	0.30	0.30
Net debt/total assets (x)	0.25	0.23	0.19
Cash/current borrowings (x)	1.4	0.8	2.5
EBITDA/Total Interest (x)	2.4	1.2	0.5

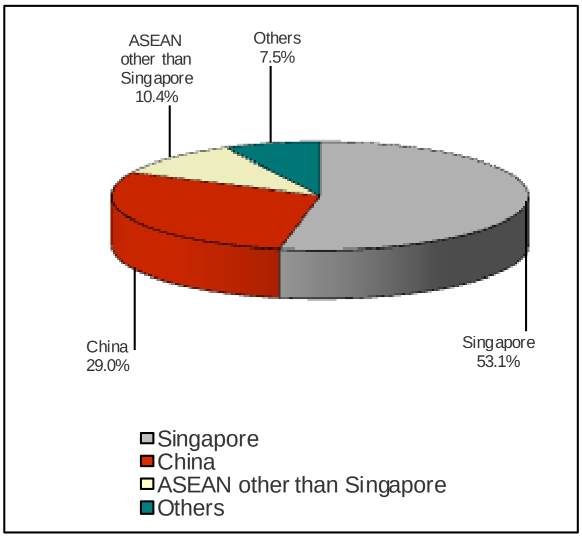
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2018



Source: Company

Figure 2: Revenue breakdown by Geography - 9M2018



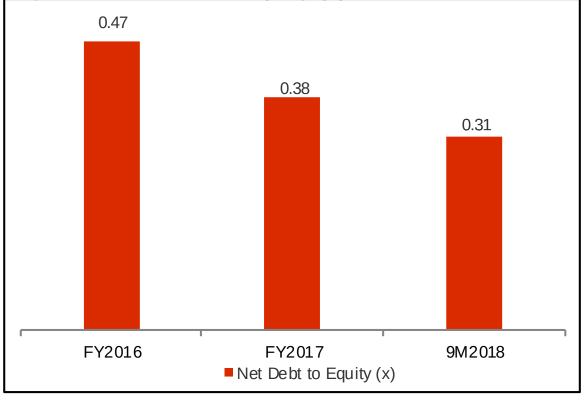
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	1.2	0.2%
Unsecured	70.1	14.4%
	71.3	**14.6%**
Amount repayable after a year		
Secured	4.7	1.0%
Unsecured	411.2	84.4%
	415.9	**85.4%**
Total	**487.2**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Lippo Malls Indonesia Retail Trust

Credit Outlook – Despite significant negative headline news, we remain Overweight on LMRTSP '20s (12.2% YTM) as we expect LMRT to eventually survive while it has largely overcome near-term refinancing risks. However, we are Neutral on both LMRTSP PERPs.

Issuer Profile: Negative (6)

Ticker: **LMRTSP**

Background

Listed on the SGX on 2007, Lippo Malls Indonesia Retail Trust ("LMRT") is a retail REIT with a portfolio of 23 retail malls and 7 retail spaces in Indonesia. The malls are mostly located within Greater Jakarta, Bandung, 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 910,582 sqm. LMRT is 30.7% owned by its sponsor, Lippo Karawaci ("LK"), as of 3 Jan 2019.

Key credit considerations

- **Weaker 3Q2018 results with pressure from multiple fronts:** 3Q2018 net property income fell 15.0% y/y to SGD39.5mn, mainly due to lower gross rental income (-9.4% y/y to SGD37.0mn) and carpark income (-15.2% y/y to SGD4.6mn). The lower gross rental is due mainly to the weakening of the IDR against the SGD by 9.4% y/y and the expiry of master leases over 7 Retail Spaces though this is partly offset by the acquisition of Lippo Plaza and Kediri Town Square in Dec 2017. Net property income was also weighed down by an increase in property operating expense, due to net allowance of doubtful debts in 3Q2018 of SGD2.1mn (3Q2017 net reversal of doubtful debts: SGD0.7mn).

- **Escalating counterparty risks…:** Trade and other receivables ballooned q/q to SGD44.3mn (2Q2018: SGD32.0mn), exceeding 3Q2018 gross rental income of SGD37.0mn, in spite guiding in 2Q2018's results that SGD8.3mn trade receivables have been collected (SGD2.4mn from related party tenants) post 2Q2018 results. The main driver for the increase is the increase in receivables from related party tenants to SGD203.mn (2Q2018: SGD14.5mn) though there was also some increase from non-related party tenants to SGD19.8mn (SGD18.1mn).

- **… negative for LMRT though LMRT may eventually survive:** LMRT affirmed that there is no reason to believe that Lippo group of companies will not be able to fulfill their payment obligations to LMRT and is able to manage any credit risk that may arise. In our view, the risks of tenants defaulting have increased significantly while trade receivables remain elevated. LMRT's sponsor, LK, has seen pressures on its credit profile and we will not rule out the potential for the Lippo-related entity to walk away. That said, we think LMRT may eventually survive even if the Lippo group of companies (estimate: 30% of revenue, fresh figures for Hypermart and Matahari not available since 4Q2017) defaults though LMRT's credit profile may be significantly weakened in such a scenario. We note that the owner of Hypermart, Matahari Putra Prima Tbk PT, has been recording significant losses in 2017-YTD9M2018.

- **Potential for significant acquisitions:** We understand that LMRT may continue to acquire more assets, including Lippo Mall Puri (NLA: 122,595 sqm) in West Jakarta. A significant transaction size will likely require a combination for equity and debt though the significant decline in LMRT's share price may hinder the capacity for rights issuance, though such acquisitions may alleviate the liquidity strain at LK (and in turn alleviate counterparty risks). However, we will not rule out the potential for LK to divest the stake in LMRT to raise liquidity, especially so as LK has divested stakes in First REIT.

- **Refinancing the near-term maturities:** LMRT announced it has obtained SGD67.5mn 4-year and SGD67.5mn 5-year term loan facilities. This is credit positive in terming out the debt with the proceeds used to repay SGD90mn term loan and redeem SGD100mn LMRTSP 4.5% '18s. This reduces the near-term borrowings to SGD119mn, which is more manageable.

- **Credit metrics remain manageable:** Aggregate leverage increased q/q to 37.1% (2Q2018: 36.0%) with a small uptick in total debt to SGD730.4mn (2Q2018: SGD724.7mn) while total assets shrank to SGD1.98b (2Q2018: SGD2.03bn) mainly due to SGD60.7mn in FX translation differences. Meanwhile, 9M2018 operating cashflow of SGD107.9mn well-covers SGD9.3mn capex, SGD23.2mn interest payments and SGD13.7mn distribution to perpetual security holders.

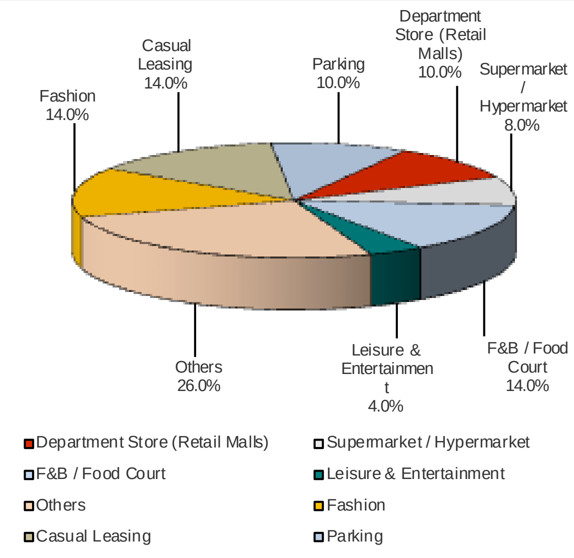
Lippo Mall Indonesia Retail Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	188.1	197.4	166.6
EBITDA	149.4	186.8	121.6
EBIT	159.6	171.3	117.4
Gross interest expense	44.5	40.4	25.4
Profit Before Tax	53.4	88.1	82.0
Net profit	28.8	62.7	52.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	77.8	64.9	99.2
Total assets	2,065.2	2,063.9	1,983.1
Short term debt	124.3	268.5	309.3
Gross debt	640.9	688.3	730.4
Net debt	563.1	623.4	631.2
Shareholders' equity	1,232.6	1,167.9	1,044.6
Cash Flow (SGD'mn)			
CFO	143.7	151.6	107.9
Capex	14.8	51.3	9.5
Acquisitions	88.3	133.4	0.0
Disposals	0.0	0.0	0.0
Dividends	93.8	112.8	71.9
Interest paid	38.8	35.9	23.2
Free Cash Flow (FCF)	128.9	100.3	98.4
Key Ratios			
EBITDA margin (%)	79.5	94.6	73.0
Net margin (%)	15.3	31.8	31.2
Gross debt to EBITDA (x)	4.3	3.7	4.5
Net debt to EBITDA (x)	3.8	3.3	3.9
Gross Debt to Equity (x)	0.52	0.59	0.70
Net Debt to Equity (x)	0.46	0.53	0.60
Gross debt/total asset (x)	0.31	0.33	0.37
Net debt/total asset (x)	0.27	0.30	0.32
Cash/current borrowings (x)	0.6	0.2	0.3
EBITDA/Total Interest (x)	3.4	4.6	4.8

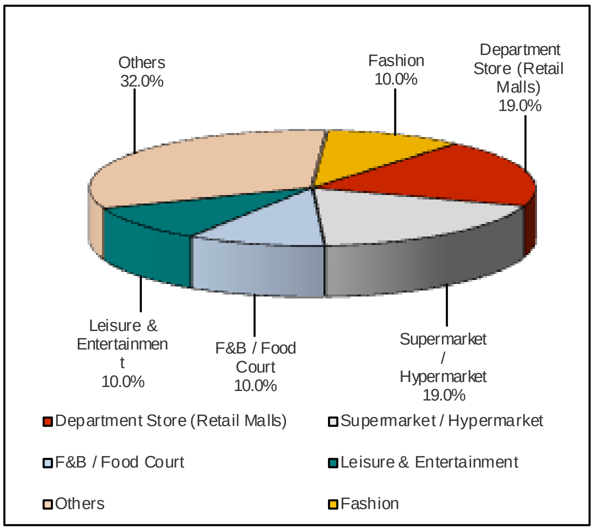
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2018



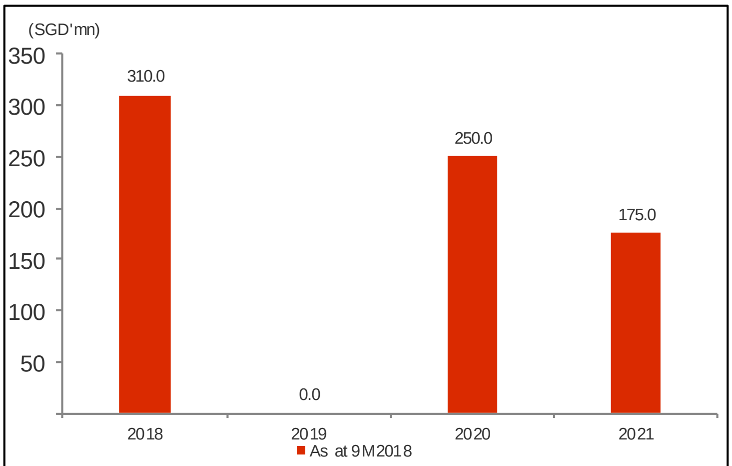
Source: Company

Figure 2: NLA breakdown by Segment - 9M2018



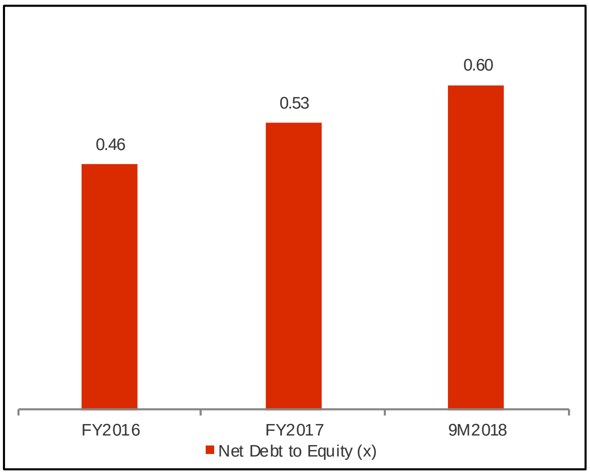
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We are neutral on MCT curve has we think it looks largely fair. CAPLSP 4.35 '19 looks more attractive than MCTSP 2.65% '19s as it offers a pickup of ~10bps for a one month shorter tenor.

Issuer Profile: Neutral (3)

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 I"); 3) Bank of America Merrill Lynch HarbourFront ("MLHF"); 4) PSA office building ("PSAB") that includes a 40-storey office block and Alexandra Retail Centre ("ARC"); and 5) Mapletree Anson. MCT is 34.1%-owned by Temasek Holdings Pte Ltd through Mapletree Investments.

Mapletree Commercial Trust

Key credit considerations

- **Anchored by core assets – VivoCity and MBC I:** For 2QFY2019 (financial year ending March 2019), gross revenue was up by 2.5% y/y to SGD109.9mn while NPI increased by 2.2% y/y to SGD86.3mn. Specifically, both properties have consistently contributed to over 75% of portfolio's gross revenue and NPI since MBC I's first quarter of full contribution in 3QFY2017. In 2QFY2019, VivoCity reported 2.8% y/y growth in property revenue (i.e. SGD1.4mn) and MBC I reported 4.3% y/y growth (i.e. SGD1.3mn respectively). Revenue was also boosted by MLHF which contributed an additional SGD0.3mn y/y (7.2% y/y), on the back full occupancy. These improvements more than offset weakness seen at MCT's other properties.

- **Core assets continued to perform:** VivoCity saw higher rental income as a result of AEI and step-up of rents in existing leases. The mall also experienced healthy growth in shopper traffic of 3.1% h/h and tenant sales of 0.7% h/h in 1HFY2019 despite ongoing AEI. Level 3 Library is on track for completion by 2HFY2019 and FairPrice's replacement of VivoMart by 1HFY2020. Actual occupancy at VivoCity also improved q/q to 94.7% from 94.2% in 2QFY2018 (committed occupancy is stable at 99.9%) with strong positive rental reversion at +4.1%. At MBC I, revenue was higher due to rental step-ups in spite of actual occupancy dipping to 97.8% from 98.6%. Rental reversion for overall office was -5.1% for MCT and better at -1.1% after adjusting for rent review at MBC I. Overall portfolio committed occupancy was 98.7% as at 30 September 2018 (including the new areas at VivoCity). Occupancy risk is low with leases worth only 1.8% and 2.6% of gross rental revenue for retail and office/business park (respectively) up for renewal for the remaining of FY2019. Although lease expiry is more significant in FY2020 with retail at 13.4% and office/business park at 5.4%, we think it is manageable for MCT. Portfolio WALE on a committed basis has also improved to 2.8 years from 2.6 years in 1QFY2019.

- **Weakness seen at PSAB and Mapletree Anson:** PSAB (~11% of MCT's NPI) saw revenue dip by 0.8% y/y and NPI by 1.3% y/y as occupancy fell to 93.5% from 94.4% a year ago. Mapletree Anson (~7% of MCT's NPI) experienced the similar fate as revenue came down by 3.4% y/y and NPI by 4.5% y/y, on the back of lower occupancy at 90.4% (a year ago: 92.9%). With the decline in actual occupancies, the topline figures at both properties would have been lower without the effects of the step-up rents in existing leases. Given that committed occupancy is 99.2% at PSAB and 97.8% at Mapletree Anson, we are hopeful for better actual occupancy in future quarters. Conversely, MLHF has stabilized with three consecutive quarters of full occupancy since 3QFY2018.

- **Stable credit profile:** Aggregate leverage was stable at 34.8% (1QFY2019: 34.7%) while EBITDA/Interest was slightly lower at 4.5x (1QFY2019: 4.6x) due to marginally higher annualized weighted average all-in cost of debt of 0.02% to 2.93% as at 30 September 2018. MCT has refinanced its bank loans due in FY2019 and FY2020 and only has a SGD50mn bond coming due in the FY2020. With assets 100% unencumbered and no more than 20% of debt due for refinancing in any year, MCT's financial flexibility remains strong. A key risk to MCT's credit profile remains the potential asset injection by its Sponsor. For example, the 1.2mn sqft Mapletree Business City II ('MBC II') which TOP in April 2016. Should the transaction occur, we think MCT will fund the acquisition with a mix of equity and debt as seen previously which should keep leverage manageable.

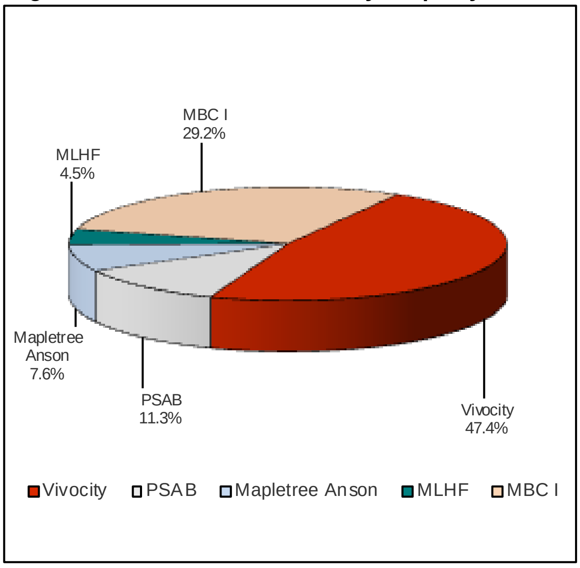
Mapletree Commercial Trust

Table 1: Summary Financials

Year Ended 31st March	FY2017	FY2018	1H2019
Income Statement (SGD'mn)			
Revenue	377.7	433.5	218.5
EBITDA	266.1	308.5	156.5
EBIT	266.0	308.4	156.4
Gross interest expense	54.2	64.3	34.6
Profit Before Tax	345.8	567.6	121.8
Net profit	345.8	567.6	121.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	53.9	45.1	46.6
Total assets	6,405.7	6,740.8	6,754.3
Short term debt	0.0	143.9	0.0
Gross debt	2,329.8	2,329.4	2,347.7
Net debt	2,275.8	2,284.3	2,301.2
Shareholders' equity	3,957.5	4,283.4	4,288.6
Cash Flow (SGD'mn)			
CFO	287.6	332.3	160.6
Capex	0.1	0.1	0.0
Acquisitions	1,853.1	18.5	15.1
Disposals	0.0	0.0	0.0
Dividends	201.5	259.7	129.7
Interest paid	53.7	62.8	33.3
Free Cash Flow (FCF)	287.5	332.2	160.5
Key Ratios			
EBITDA margin (%)	70.4	71.2	71.6
Net margin (%)	91.6	130.9	55.8
Gross debt to EBITDA (x)	8.8	7.6	7.5
Net debt to EBITDA (x)	8.6	7.4	7.4
Gross Debt to Equity (x)	0.59	0.54	0.55
Net Debt to Equity (x)	0.58	0.53	0.54
Gross debt/total asset (x)	0.36	0.35	0.35
Net debt/total asset (x)	0.36	0.34	0.34
Cash/current borrowings (x)	NM	0.3	NM
EBITDA/Total Interest (x)	4.9	4.8	4.5

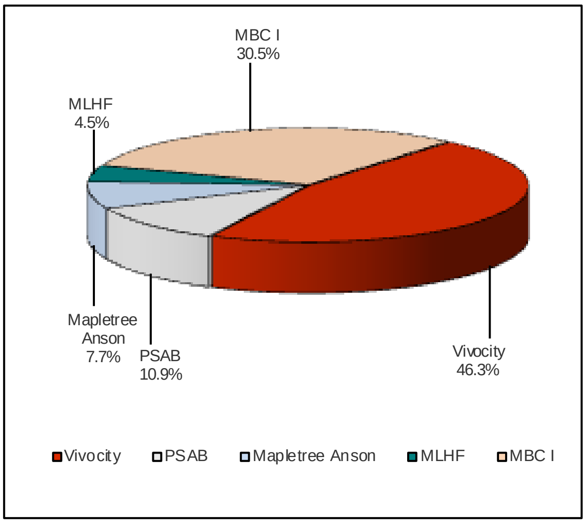
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - 1H2019



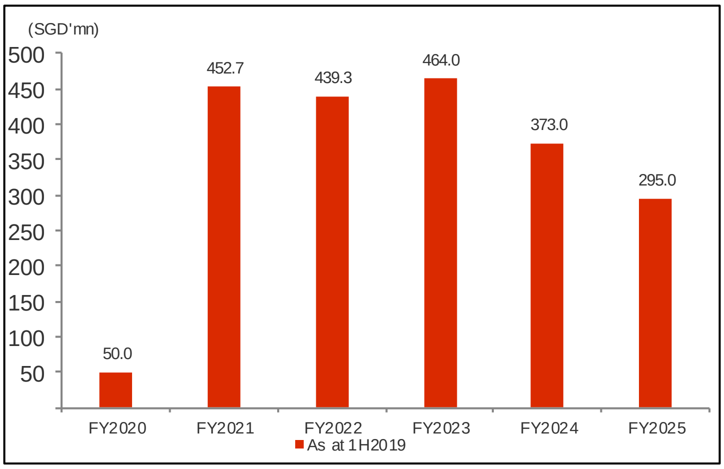
Source: Company

Figure 2: NPI breakdown by Property - 1H2019



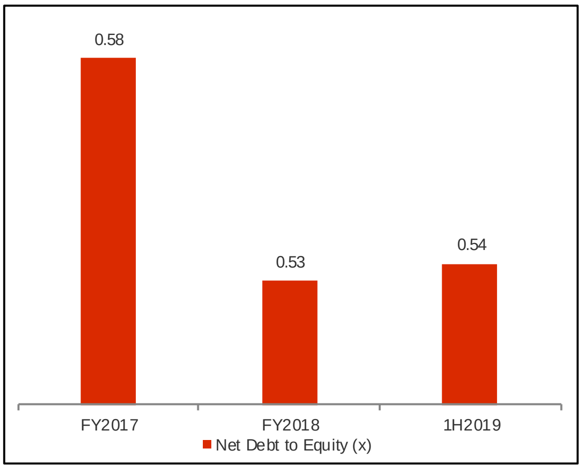
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –
We are underweight on MAGIC 3.2% '21s and MAGIC 3.43% '22s as we see better value in FCOTSP 2.835% '21 (~30bps pickup) and SUNSP 3.025% '22 (~50bps pickup).

Issuer Profile: Neutral (4)

Ticker: **MAGIC**

Background
Listed on the SGX in 2013, Mapletree North Asia Commercial Trust ("MAGIC") is an S-REIT with a mandate to invest in the North Asia region (Greater China and Japan). MAGIC holds 9 commercial properties in its portfolio, located in Hong Kong, China and Japan and has a market cap of SGD3.67bn as of 7 Jan 2019. Temasek Holdings is MAGIC's largest shareholder with a 30.97% stake. Mapletree Investments Pte Ltd is the sponsor of MAGIC.

Mapletree North Asia Commercial Trust

Key credit considerations

- **Maiden Japan acquisition drove growth:** MAGIC saw revenue increase 18.7% y/y by SGD16.4mn to SGD104.6mn, while net property income ("NPI") went up by 18.0% y/y or SGD12.7mn to SGD83.6mn in the second quarter for the financial year ended March 2019 ("2QFY2019"). While improvement was broad based (higher rent from Festival Walk, Gateway Plaza and Sandhill Plaza) and more than offset weaker HKD against SGD, contribution from the Japan properties was the most significant (revenue: SGD12.4mn, NPI: SGD9.5mn). This is as such because the acquisition of the 6 freehold office assets in the greater Tokyo area (3 in Tokyo, 1 in Yokohama, 2 in Chiba) was completed on 25 May 2018 i.e. 1QFY2019. It is worth noting that the Japan properties are fully occupied as at 30 September 2018 and saw positive rental reversion of 6% YTD. Furthermore, there is minimal lease expiring at these 6 properties before FY2023 (WALE: 5.2 years). Therefore, we expect contributions from Japan properties to be stable.

- **Anchored by Festival Walk:** Despite MAGIC's diversification into Japan, Festival Walk remains the largest asset by valuation at ~64% (~72% excl. Japan portfolio) and revenue contributor ~61% (~70% excl. Japan portfolio) to MAGIC. Aside from its exposure to fluctuation in FX, Festival Walk is a strong asset with 100% occupancy since its completion in 1998 and is core to MAGIC. Revenue at Festival Walk increase 1.4% h/h while NPI went up by 1.6% h/h, on the back of higher average rental rate though partially offset by lower average rate of HKD. In 1H2019, retail sales at the mall were also up 8.9% h/h to HKD2.6mn while footfall increased 2.7% h/h to 19.9mn, mainly due to the favourable labour market and positive local consumption. Given the stronger figures and track record, we think Festival Walk will continue to grow moderately and the upcoming expiring leases at the mall - FY2019: 6.9%, FY2020: 15.8%, FY2021: 14.9% by gross rental income ("GRI") should be manageable for MAGIC. Aside from Festival Walk, both Gateway Plaza and Sandhill Plaza also delivered good performance, with revenue up 5.1% h/h and 5.4% h/h and NPI up 6.0% h/h and 4.7% h/h respectively.

- **Some balance sheet FX risks:** MAGIC is exposed to FX risks as only ~2% of the debt is in RMB while Gateway Plaza and Sandhill Plaza (which are based in China) made up ~25% of portfolio assets and ~28% of NPI in 1H2018. It is as such because cross currency interest rates swaps were entered into to swap SGD denominated medium-term notes, and USD and SGD denominated bank loans to HKD and JPY instead of RMB. MAGIC has ~75% of debt in HKD and ~23% of debt in JPY (i.e. 98% of debt is not in SGD).

- **Manageable credit metrics:** Aggregate leverage was 39.0% (1Q2019: 38.8%, 4Q2018: 36.2%) largely due to the acquisition of Japan properties, with EBITDA/Interest at 4.0x. JPY onshore borrowings are secured against Japan's assets, leading MAGIC with 89% from total assets unencumbered. MAGIC has no debt coming due for the remainder of FY2019 post the early refinance of SGD260mn of debt due in FY2019 and FY2021 through four loan facility transactions between August and September 2018. As such, we see no near term refinancing risk. In addition, debt maturity profile is well-staggered, with no more than 25% of debt due in any year and the average term to maturity is 3.96 years (up from 3.43 years as at 31 March 2018).

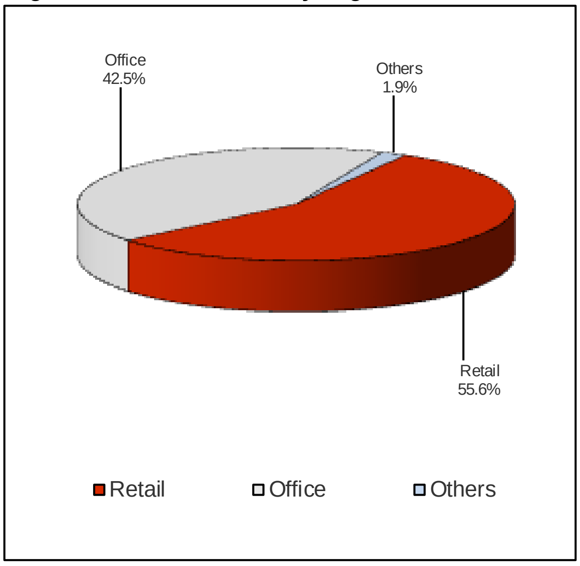
Mapletree North Asia Commercial Trust

Table 1: Summary Financials

Year Ended 31st Mar	FY2017	FY2018	1H2019
Income Statement (SGD'mn)			
Revenue	350.6	355.0	199.0
EBITDA	264.4	265.0	148.1
EBIT	264.0	264.3	147.7
Gross interest expense	74.2	69.7	36.7
Profit Before Tax	412.6	618.1	111.8
Net profit	372.5	574.2	92.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	234.9	178.0	184.6
Total assets	6,528.9	6,522.7	7,420.7
Short term debt	163.1	83.8	56.4
Gross debt	2,556.2	2,361.1	2,898.7
Net debt	2,321.3	2,183.1	2,714.1
Shareholders' equity	3,636.3	3,888.8	4,191.8
Cash Flow (SGD'mn)			
CFO	226.8	306.4	145.8
Capex	0.7	1.6	0.0
Acquisitions	6.9	5.0	733.4
Disposals	0.0	0.0	0.0
Dividends	204.3	208.7	163.3
Interest paid	65.4	63.5	35.0
Free Cash Flow (FCF)	226.0	304.8	145.8
Key Ratios			
EBITDA margin (%)	75.4	74.7	74.4
Net margin (%)	106.2	161.7	46.4
Gross debt to EBITDA (x)	9.7	8.9	9.8
Net debt to EBITDA (x)	8.8	8.2	9.2
Gross Debt to Equity (x)	0.70	0.61	0.69
Net Debt to Equity (x)	0.64	0.56	0.65
Gross debt/total asset (x)	0.39	0.36	0.39
Net debt/total asset (x)	0.36	0.33	0.37
Cash/current borrowings (x)	1.4	2.1	3.3
EBITDA/Total Interest (x)	3.6	3.8	4.0

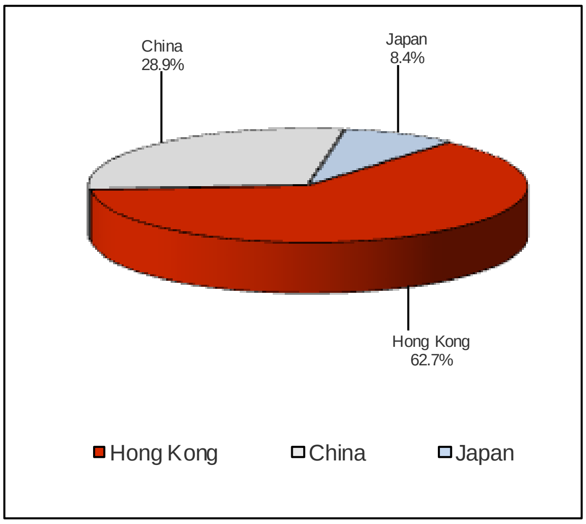
Source: Company, OCBC estimates

Figure 1: NPI breakdown by Segment - 1H2019



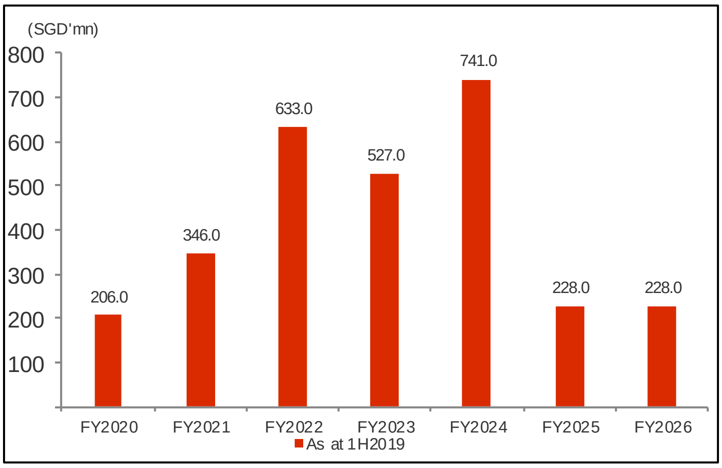
Source: Company

Figure 2: NPI breakdown by Geography - 1H2019



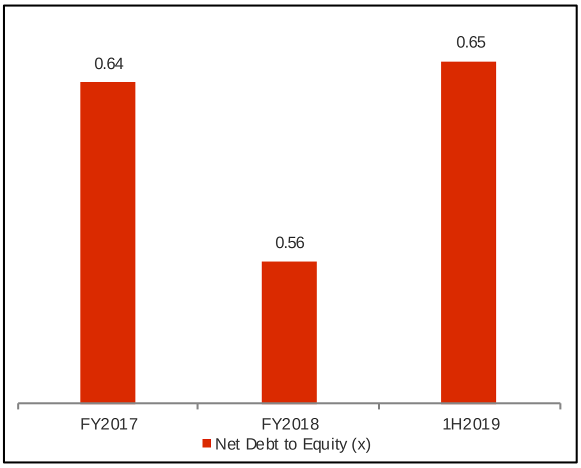
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We prefer the long end of the MINT curve to its shorter dated bonds as we see greater value further out in the curve. We are underweight the MINTSP 3.75% '19s which is only trading at YTW of 1.30%.

Issuer Profile: Neutral (3)

Ticker: **MINTSP**

Background

Mapletree Industrial Trust ("MINT") owns a portfolio of 86 flatted factories, hi-tech business parks, stack-up/ramp-up and light industrial buildings in Singapore and 14 data centers in the US via a 40%-stake in a joint venture with its sponsor – Mapletree Investments Pte Ltd ("Mapletree"). As at 30 September 2018, MINT's total assets was SGD4.4bn (SGD4.7bn post acquisition of 18 Tai Seng).

Mapletree Industrial Trust

Key credit considerations

- **New revenue contributors:** In 2QFY2019 (financial year ended March 2019), gross revenue and NPI decreased marginally by 0.4% y/y to SGD92.2mn and 0.1% y/y to SGD70.6mn respectively, largely due to the absence of the pre-termination compensation from J&J. Adjusting out this sum from 2QFY2018, gross revenue in 2QFY2019 would have been higher by 3.1% y/y and NPI would have moved in tandem by 1.1% y/y, on the back of new revenue contribution from Phase Two of build-to-suit ("BTS") project from HP Singapore ("HP Phase Two"), Mapletree Sunview 1 and 30A Kallang Pace. Net income was SGD56.3mn, 3.8% higher y/y due to share of profit of JV though partially offset by higher borrowing costs, management fees and other trust expenses.

- **Shift from flatted factories to hi-tech buildings:** In 2QFY2019, flatted factories made up 35.7% of portfolio value (2QFY2018: 41.2%, 2QFY2017: 44.0%) and contribute 41.0% of total NPI (2QFY2018: 43.7%, 2QFY2017: 48.8%) while hi-tech buildings accounted for 39.2% (2QFY2018: 29.6%, 2QFY2017: 24.9%) and contribute 33.3% (2QFY18: 24.5%, 2QFY2017: 20.5%). The higher contribution from hi-tech building came from (1) HP Phase Two, (2) Mapletree Sunview 1 – 6-storey BTS data centre (3) 30A Kallang Place. In the pipeline, MINT has 7 Tai Seng Drive which is currently being upgraded into a hi-tech building and will be completed by 2HFY2019. This property is 100% committed by an infocomm company for an initial term of 25 years (subject to extension for an additional 30 years) with annual rental escalations. It is worth noting that the retention rate for hi-tech buildings is the highest in MINT's portfolio at 88.3% while it is 71.6% for flatted factories. On 13 Dec-18, MINT announced the acquisition of 18 Tai Seng (in Paya Lebar iPark) which will push proportion of hi-tech building in the portfolio to 42.7% from 39.2% recorded in 2QFY2019.

- **Weaker occupancy and rental reversions at Singapore portfolio:** Portfolio occupancy declined to 86.7% in 2QFY2019 from 88.3% in the preceding quarter. Given occupancy rates at US properties was stable at 97.4%, the dip was largely attributable to Singapore properties, in particular the flatted factories (down 1.2%) and hi-tech buildings (down 4.3%) due to large supply of industrial space and uneven recovery in the manufacturing sector. Furthermore, rental reversion was negative with average rent renewal rates down between ~ 3.2% – 5.2% (SGD0.06 to SGD0.21 psf/mth) from previous rental rates across MINT's portfolio. Overall, the industrial space remains challenging despite positive outlook with imminent new supply expected to moderate both rents and occupancy rates.

- **Manageable credit health though aggregate leverage may go higher:** As at 30 Sep 2018, the only debt maturing in FY2019 is USD125.0mn MINTSP 3.75% '19s. This bond represents a mere 9.4% of MINT's consolidated debt. With its investment properties totalling SGD3.9bn 100% unencumbered, MINT has the financial flexibility to raise secured debt if need be, hence we think refinancing risk in the short term is low. Having said that, MINT has a larger amount of USD265.5mn of borrowings maturing in FY2020, with 78.3% of total debt at fixed rate. Aggregate leverage (taking into account MINT's proportionate debt and asset at the JV level) was 35.1%. Should MINT fund the acquisition of 18 Tai Seng with 100% debt, management estimated that aggregate leverage will be pushed higher to 38.7% which may in our view put pressure on MINT's current issuer profile of Neutral (3).

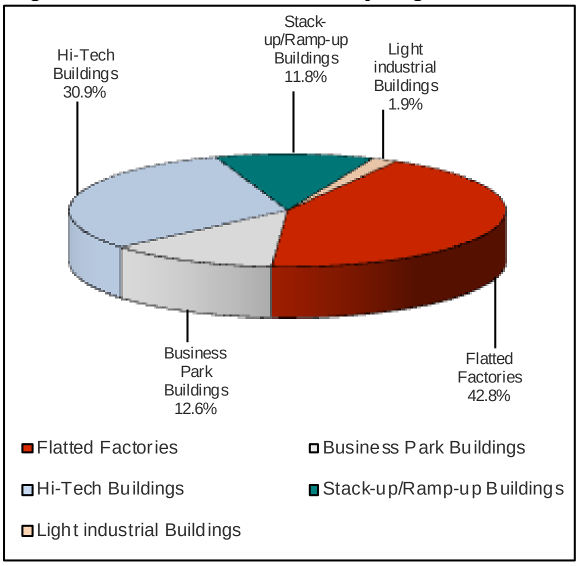
Mapletree Industrial Trust

Table 1: Summary Financials

Year Ended 31st March	FY2017	FY2018	1H2019
Income Statement (SGD'mn)			
Revenue	340.6	363.2	183.7
EBITDA	228.6	247.9	124.6
EBIT	228.6	247.8	124.6
Gross interest expense	27.3	34.1	19.7
Profit Before Tax	270.6	300.6	112.9
Net profit	270.6	300.5	112.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	38.0	37.4	20.6
Total assets	3,798.1	4,154.3	4,251.7
Short term debt	115.0	184.9	390.3
Gross debt	1,106.4	1,218.1	1,331.4
Net debt	1,068.4	1,180.7	1,310.8
Shareholders' equity	2,532.8	2,780.1	2,788.9
Cash Flow (SGD'mn)			
CFO	233.7	244.4	114.3
Capex	80.6	97.6	23.0
Acquisitions	23.3	187.2	90.3
Disposals	0.0	17.4	0.0
Dividends	203.9	212.1	112.2
Interest paid	27.9	33.3	19.3
Free Cash Flow (FCF)	153.1	146.8	91.4
Key Ratios			
EBITDA margin (%)	67.1	68.2	67.8
Net margin (%)	79.4	82.7	61.4
Gross debt to EBITDA (x)	4.8	4.9	5.3
Net debt to EBITDA (x)	4.7	4.8	5.3
Gross Debt to Equity (x)	0.44	0.44	0.48
Net Debt to Equity (x)	0.42	0.42	0.47
Gross debt/total asset (x)	0.29	0.29	0.31
Net debt/total asset (x)	0.28	0.28	0.31
Cash/current borrowings (x)	0.3	0.2	0.1
EBITDA/Total Interest (x)	8.4	7.3	6.3

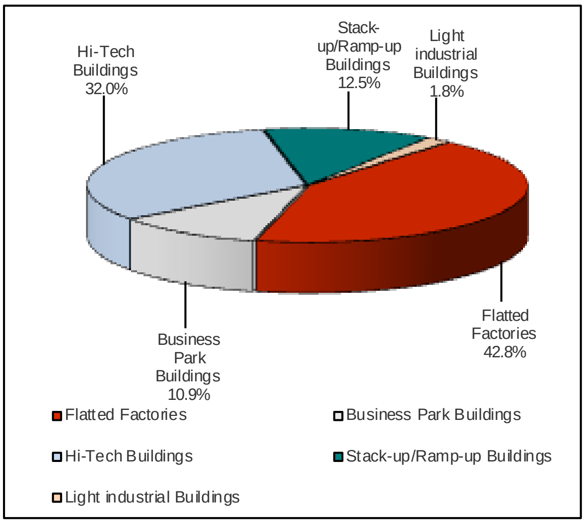
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2019



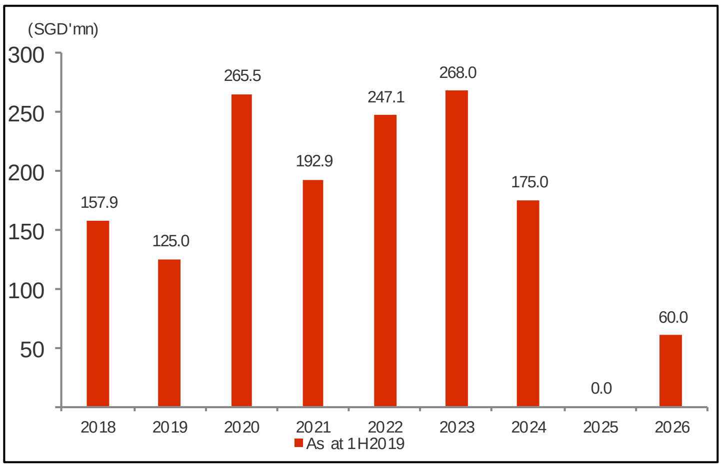
Source: Company

Figure 2: NPI breakdown by Segment - 1H2019



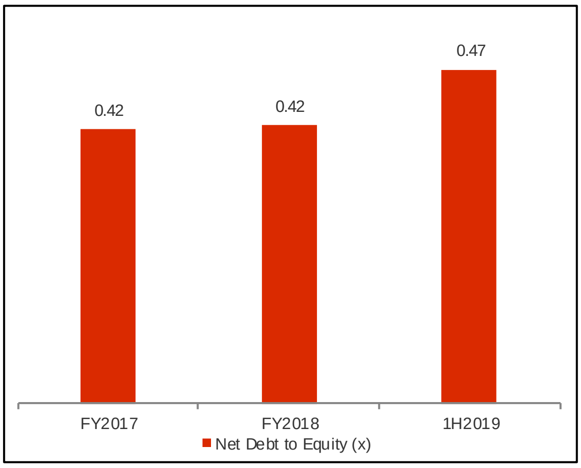
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We are underweight both the MLTSP perpetuals and see better value in Frasers Hospitality Trust's FHREIT 4.45%-PERP which faces first call date in May 2021 and trading at a 251bps spread. A switch from the MLTSP 4.18%-PERP allows a 34bps spread pick up. The MLTSP 4.18%-PERP faces first call date in November 2021.

Issuer Profile: Neutral (4)

Ticker: **MLTSP**

Background

Mapletree Logistics Trust ("MLT") is the first Asia-focused logistics REIT in Singapore. Total assets were SGD7.7bn as at 30 September 2018. MLT currently owns 138 properties, inclusive of its 50%-economic interest in 11 properties in China. By asset value, MLT's assets are located in Singapore (33.0%), Hong Kong (30.4%), Japan (12.5%), China (8.2%) and others (15.9%) as at 30 September 2018. MLT is sponsored by Mapletree Investments Pte Ltd ("MAPL") who now holds a ~30.9%-stake in MLT.

Mapletree Logistics Trust

Key credit considerations

- **Growth in revenue:** Gross revenue for the second quarter of the financial year ended March 2019 ("2QFY2019") was up 13.8% y/y to SGD106.6mn on the back of higher revenue from existing properties and full quarter contribution from acquisitions in Hong Kong, partly offset by absence of revenue (sale of four properties in FY2018 and the divestment of 7 Tai Seng in June 2018). On a q/q basis, gross revenue increased by 1.1%, driven by higher same-store growth from existing properties in Hong Kong and Singapore, stronger HKD against the SGD and a small contribution from five ramp-up warehouses acquired from CWT Pte Ltd ("CWT SG"). The acquisition was completed on 28 September 2018.

- **Narrower but still healthy interest coverage ratio:** In June 2018, MLT completed the acquisition of a 50% economic stake in 11 properties in China from the Sponsor (the remaining 50% is still held by Sponsor). This purchase is recorded under the equity accounting method and MLT shared that the contribution from joint venture was SGD2.3mn in 2QFY2019. Including this contribution into EBITDA but excluding other income and other expenses, we find EBITDA 17.1% higher y/y to SGD80.5mn. Borrowing costs was 33.9% higher y/y at SGD16.8mn on the back of higher levels of borrowings to fund acquisitions. Resultant EBITDA/Interest was thus lower at 4.8x (2QFY2018: 5.5x), though still healthy. MLT has SGD430.0mn in perpetuals and we find EBITDA/(Interest plus 50% perpetual distribution) at 4.3x.

- **More levered versus peers:** As at 30 September 2018, MLT's reported aggregate leverage was 38.1% (includes proportionate share of borrowings and properties held at the joint venture). Refinancing risk is minimal with short term debt due of only SGD31.5mn. As at 30 September 2018, MLT's cash balance was SGD125.7mn, more than sufficient to pay down the short term debt (if MLT so chooses) and to cover the Phase 2 redevelopment of the Ouluo Logistics Centre in China. Post-quarter end, MLT announced the proposed acquisition of three bite-sized purchases. Also taking into account the sale of 531 Bukit Batok Street 23 in Singapore (SGD22.4mn), MLT's unadjusted aggregate leverage is projected at ~39.2% (30 September 2018: 38.1%) while on an adjusted basis, taking into account 50% of perpetuals as debt, we estimate MLT's adjusted aggregate leverage at ~42%. All debt remains unsecured.

- **Tenant concentration to CWT SG:** In 2QFY2019, MLT paid out SGD818.1mn in cash for the acquisition cost for the five CWT SG warehouses, including transaction cost and SGD48.3mn in balance lease terms paid to JTC. SGD375mn of new equity was raised in a private placement for the purchase, with the rest coming from debt. As a result of the equity fundraising, Sponsor's stake in MLT reduced to ~30.9% from ~35.7% as at 31 May 2018. Going forward, MLT would have a more concentrated tenant profile with CWT SG as the largest tenant contributing 9.5% to gross revenue. In 1QFY2019, the single largest tenant of MLT only contributed 3.5%. We hold the issuer profile of CWT International Ltd (CWT SG's parent company) at Negative (6). MLT is looking to increase the proportion of third party users of the space, which could help reduce the underlying concentration risk. Currently about 30% of the gross revenue contributed by CWT SG is attributable to third party end-users under sub-leasing agreements with CWT SG.

- **Operating metrics manageable:** As the new Singapore warehouses are 100%-occupied (fully leased to CWT SG under a sales-and-leaseback arrangement), portfolio occupancy rate rose 1.9ppt q/q to 97.6% as at 30 September 2018. Portfolio rental reversion was +1.3%, mainly from Hong Kong and Vietnam. In 1QFY2019, this was +2.0% and +2.6% in FY2018. Encouragingly though, Singapore saw rental reversions of +0.5% in 2QFY2019.

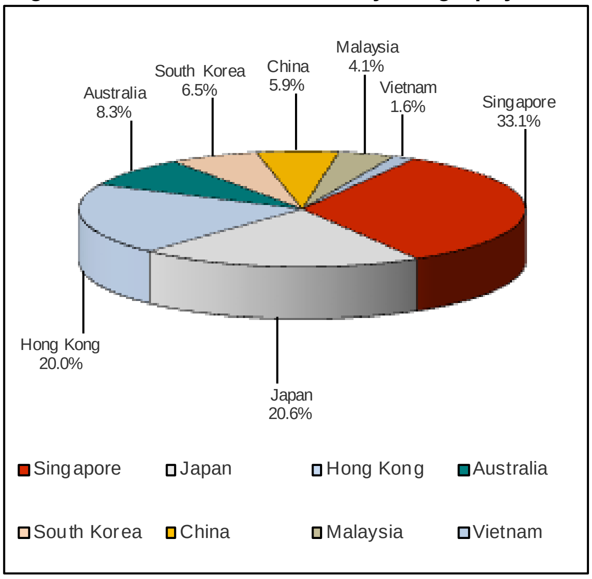
Mapletree Logistics Trust

Table 1: Summary Financials

Year Ended 31st March	FY2017	FY2018	1H2019
Income Statement (SGD'mn)			
Revenue	373.1	395.2	212.1
EBITDA	274.3	292.9	157.3
EBIT	272.9	291.3	156.3
Gross interest expense	48.7	54.1	32.3
Profit Before Tax	252.8	521.3	150.5
Net profit	212.7	472.2	133.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	92.6	101.2	125.7
Total assets	5,686.7	6,678.3	7,754.3
Short term debt	224.3	53.2	31.5
Gross debt	2,184.1	2,511.8	2,902.4
Net debt	2,091.5	2,410.6	2,776.7
Shareholders' equity	3,189.7	3,811.8	4,462.1
Cash Flow (SGD'mn)			
CFO	266.9	266.5	180.9
Capex	0.0	0.0	0.0
Acquisitions	374.0	698.3	854.4
Disposals	14.1	186.1	67.9
Dividends	200.0	224.1	120.5
Interest paid	46.0	50.4	29.9
Free Cash Flow (FCF)	266.9	266.5	180.9
Key Ratios			
EBITDA margin (%)	73.5	74.1	74.2
Net margin (%)	57.0	119.5	62.9
Gross debt to EBITDA (x)	8.0	8.6	9.2
Net debt to EBITDA (x)	7.6	8.2	8.8
Gross Debt to Equity (x)	0.68	0.66	0.65
Net Debt to Equity (x)	0.66	0.63	0.62
Gross debt/total asset (x)	0.38	0.38	0.37
Net debt/total asset (x)	0.37	0.36	0.36
Cash/current borrowings (x)	0.4	1.9	4.0
EBITDA/Total Interest (x)	5.6	5.4	4.9

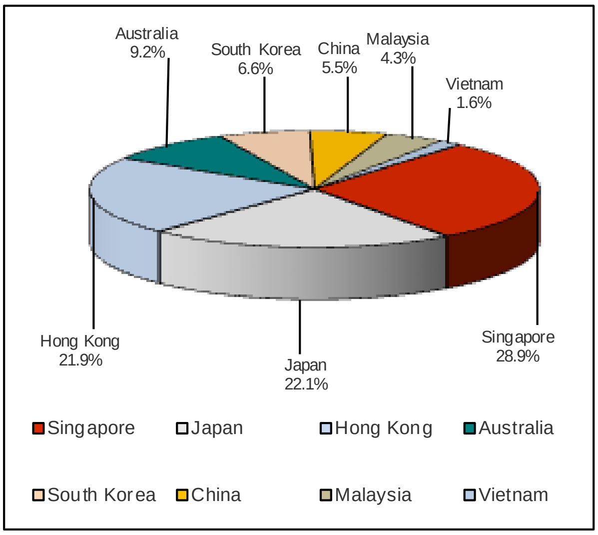
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 1H2019



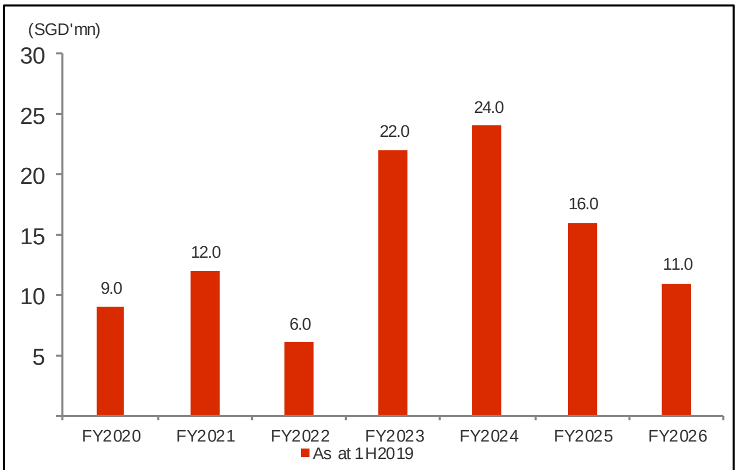
Source: Company

Figure 2: NPI breakdown by Geography - 1H2019



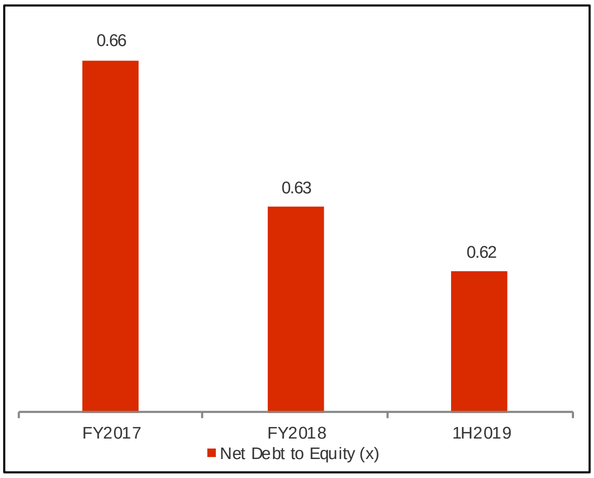
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –
Within the SGD curve, we prefer the OLAMSP 6% '22s (281bps spread) and OLAMSP 5.5%-PERP over the short dated OLAMSP '19s.

Issuer Profile: Neutral (5)

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. Temasek is the largest shareholder with a ~54%-stake followed by Mitsubishi Corp. with ~17%.

Olam International Ltd

Key credit considerations

- **3Q2018 was a slower quarter:** Revenue was up 23.6% y/y in 3Q2018 to SGD8.3bn on the back of stronger revenues from its Food Staples and Packaged Foods segment (higher y/y sales volume of 92.2% and driven by packaged foods business in Africa). Reported EBITDA though was down 5.7% y/y to SGD229.1mn mainly due to declines in EBITDA of the Edible Nuts, Spices & Vegetable Ingredients segment (down 52% y/y) and Commodity Financial Services where the segment reported a loss before interest, tax, depreciation and amortization of SGD31.5mn against a loss of SGD9.4mn in 3Q2017) following realized losses from fund positions. This was insufficiently offset by stronger EBITDA generation across Confectionary & Beverage, Food Staples and Packaged Foods and Industrial Raw Materials, Ag Logistics and Infrastructure ("IRM"). Other expenses rose 37.2% y/y to SGD366.1mn and drove a decline in 3Q2018 net profit by 42.3% y/y to SGD14.7mn. Olam also reported a loss on fair value changes amounting to SGD45.8mn during the period which we think was related to its investment in PureCircle Limited. This swung total comprehensive income into the red at SGD35.7mn versus positive SGD35.2mn in 3Q2017.

- **Decline in y/y interest coverage:** Compounded by higher finance cost (up 12.6% y/y) to SGD143.6mn, EBITDA/Interest coverage had declined to 1.6x in 3Q2018 against 1.9x in 3Q2017. The increase in finance cost was despite the lower average debt balance in 3Q2018 of SGD12.1bn against SGD12.9bn in 3Q2017, from higher y/y cost of debt, likely from overall increase in market interest rates.

- **Curtailing of expansion capex in 3Q2018:** Cash flow from operations (after tax but before interest) ("CFO") was SGD854.8mn, down 22% y/y. We estimate that the main CFO contributor was Edible Nuts, Spices & Vegetable Ingredients, Confectionary & Beverage and IRM. Working capital for these three segments had declined following optimization initiatives by the company (specific initiatives undisclosed though this mainly relates to cocoa, coffee and cotton), lower commodity prices (eg: coffee which was in backwardation) and lower inventory (down SGD1.0bn q/q). Cash cycle for 3Q2018 was 83 days, lower than the 106 days for 3Q2017. Unlike 3Q2017 where investing outflows was SGD230.2mn, OLAM saw an investing inflows of SGD27.0mn, mainly as it had received a net repayment in loan from associates and jointly controlled entities of SGD166.0mn which helped boost cash balance. During the quarter, Olam spent only SGD139.2mn in capex.

- **Net gearing reduced:** As at 30 September 2018, unadjusted net gearing for Olam was 1.42x, lower than the 1.49x as at 30 June 2018. Per company, the third quarter of the year tends to be a slower period. In our view, this helped lower working capital debt funding during the quarter versus 2Q2018. Free float at Olam (we exclude stakes held by Temasek, Mitsubishi, Kelwaram and senior management) is ~17%. 7% of Olam is owned by a long term institutional investor in Olam. The company continues to be reliant on debt.

- **Short term debt due:** As at 30 September 2018, Olam has SGD4.7bn of short term debt due versus SGD2.6bn in cash balance. This includes two SGD-denominated bonds due in July 2019 and collectively amounting to SGD750mn (representing 6% of gross debt). While Olam's cash can fully repay the SGD bonds due, more likely these would be refinanced. In our view, the rest of the short term debt due relate to working capital where the company should be able to roll-over/refinance. Olam continues to have strong access to debt financing markets, which has been increasingly diversified (eg: in March 2018, Olam raised a USD500mn sustainability-liked club loan). Secured debt was minimal at 1.4% of total debt.

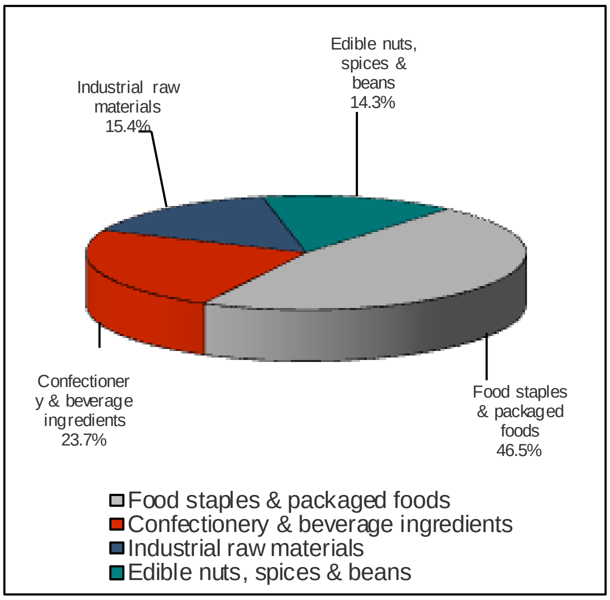
Olam International Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)	**SGD'mn**	**SGD'mn**	**SGD'mn**
Revenue	20,587.0	26,272.5	22,018.6
EBITDA	1,119.3	1,217.2	836.5
EBIT	765.8	836.6	545.8
Gross interest expense	446.2	531.2	389.2
Profit Before Tax	433.4	630.9	305.5
Net profit	339.1	551.6	251.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	2,144.1	1,986.4	2,599.0
Total assets	23,468.9	22,298.5	23,014.6
Short term debt	5,983.0	4,660.2	4,726.7
Gross debt	13,670.6	11,587.9	11,802.1
Net debt	11,526.5	9,601.6	9,203.1
Shareholders' equity	5,634.3	6,621.0	6,492.5
Cash Flow (SGD'mn)			
CFO	967.4	2,121.8	1,061.9
Capex	751.8	951.1	467.0
Acquisitions	588.1	0.0	31.7
Disposals	32.0	310.9	273.7
Dividend	184.0	180.4	237.7
Free Cash Flow (FCF)	215.6	1,170.7	594.9
Key Ratios			
EBITDA margin (%)	5.4	4.6	3.8
Net margin (%)	1.6	2.1	1.1
Gross debt to EBITDA (x)	12.2	9.5	10.6
Net debt to EBITDA (x)	10.3	7.9	8.3
Gross Debt to Equity (x)	2.43	1.75	1.82
Net Debt to Equity (x)	2.05	1.45	1.42
Gross debt/total assets (x)	0.58	0.52	0.51
Net debt/total assets (x)	0.49	0.43	0.40
Cash/current borrowings (x)	0.358	0.426	0.550
EBITDA/Total Interest (x)	2.5	2.3	2.1

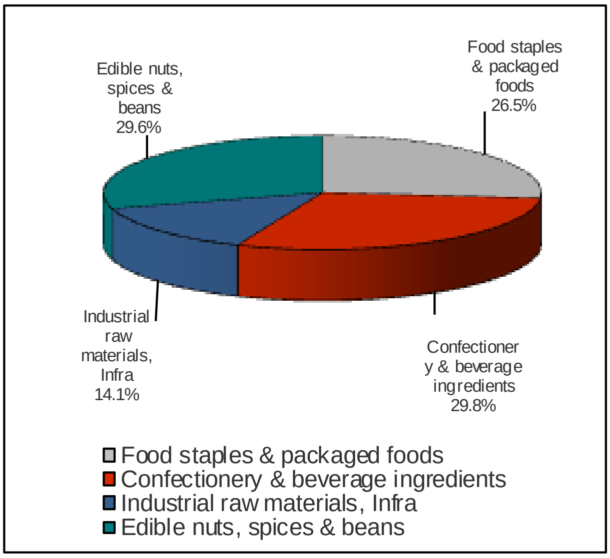
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2018



Source: Company

Figure 2: EBITDA breakdown by Segment - 9M2018



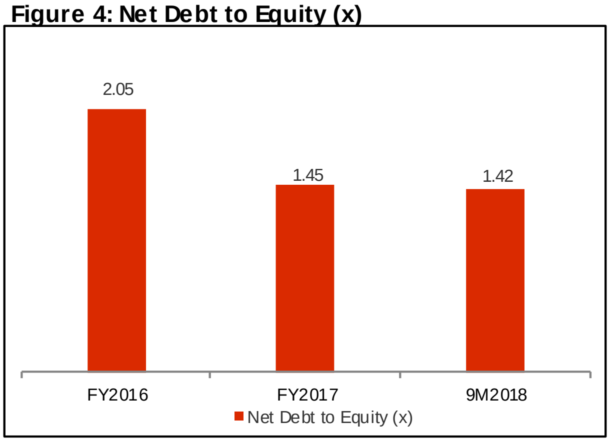
Source: Company | Excludes Commodity Financial Services

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	52.9	0.4%
Unsecured	4,673.7	39.6%
	4,726.7	**40.0%**
Amount repayable after a year		
Secured	117.3	1.0%
Unsecured	6,958.2	59.0%
	7,075.5	**60.0%**
Total	**11,802.1**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

OUE Ltd

Credit Outlook –
While OUE is now more exposed to Indonesia, in our view, this is still a manageable quantum versus OUE's total asset base. We are maintaining OUE's issuer profile at Neutral (4) until such time there are further material changes to its asset base (eg: selling developed market assets to buy more in Indonesia). With the curve trading 170bps – 190bps wider versus Guocoland Ltd's ("GUOLSP") shorter end papers, we think the risk-return is in favour of OUESP.

Issuer Profile: Neutral (4)

Ticker: **OUESP**

Background
OUE Limited ("OUE")'s key business is as an investment holding company. It holds significant stakes in two Singapore-listed REITs (namely, OUE-Hospitality Trust ("OUE-HT") and OUE Commercial REIT ("OUE-CT"), owns investment properties and is increasingly focused on its healthcare businesses outside of Singapore. It holds a 64.4%-stake in OUE Lippo Healthcare Ltd ("OUE-LH") and a 60%-stake in First REIT's REIT Manager. OUE is 68.6%-owned by the Lippo Group.

Key credit considerations

- **Profitability in 3Q2018 had declined:** OUE's 3Q2018 revenue was relatively flat y/y at SGD183.3mn, with the Development and Hospitality segments seeing revenue growth, offsetting declines in Healthcare, dividend income and others. Investment properties income was relatively flat. EBITDA (based on our calculation which does not include other income and other expenses) was SGD52.8mn (up 27% y/y) following declines in overheads. OUE ended the quarter with net profit of only SGD7.4mn (3Q2017: SGD18.4mn) as it had recognised SGD13.4mn in other losses (mainly due to mark-to-market losses on mutual fund investments). OUE also recorded other comprehensive loss of SGD97.5mn during the quarter, which we think is from decline of value in Gemdale, albeit this is a non-cash item.

- **Office components of OUE Downtown monetized:** On 1 November 2018, OUE completed the sale of the office components of OUE Downtown to OUE-CT for a total acquisition cost of SGD955.9mn. SGD587.5mn was equity funded via a rights issue (OUE took its pro-rata share). The remainder was debt-funded by OUE-CT. While OUE would continue to consolidate OUE Downtown, SGD bondholders at OUE are structurally subordinated to debtholders at OUE-CT with regards to OUE Downtown's office components. In our view, this is less of a credit concern. OUE-CT as a Singapore listed REIT is subject to an aggregate leverage cap of 45%.

- **Changing nature of OUE Lippo Healthcare:** Healthcare revenue at OUE-LH is historically attributable to its nursing homes in Japan and Wuxi New District Phoenix Hospital Co., Ltd ("Wuxi"). In 3Q2018, revenue from Healthcare declined 57% y/y to only SGD4.9mn following the deconsolidation of Wuxi as OUE-LH deemed that it has lost control over Wuxi. OUE-LH's subsidiaries are subject to various litigations, including those brought about by a company claiming that it is the rightful owner of Wuxi. This stems from legacy dealings prior to OUE buying a stake in OUE-LH. Rental income from the nursing home business remains stable and we only take investment property value from these into our issuer profile assessment. On 26 October 2018, OUE and OUE-LH bought a 60% and 40%-stake respectively in the REIT Manager of FIRT ("FIRTM"), with OUE-LH also buying a 10.6% stake in FIRT itself. In December 2018, FIRT shared that it is intending to buy assets outside of Indonesia, with OUE-LH's 12 nursing homes in Japan being a near-term target.

- **Increased links with Indonesia:** In our view, as long as FIRT structurally still faces LK and its subsidiaries as main tenant, the counterparty credit risk to this income stream is high. We also expect OUE and/or OUE-LH to provide credit support to FIRT, if need be. Net-net, we are not factoring in a credit uplift from FIRT/FIRTM; rather we view the SGD109.8mn in short-term debt at FIRT as a contingent liability (eg: via a corporate guarantee) for OUE. On 25 September 2018, OUE had entered into a conditional agreement to buy land in the central business district of South Jakarta for ~SGD150mn, where consideration would be in the form of an assignment of promissory notes owned.

- **Unadjusted net gearing to decline:** As at 30 September 2018, OUE's net gearing on a consolidated basis was 0.68x. On a proforma basis, we estimate that net gearing would decline to ~0.62x given that OUE-CT's purchase of the office component of OUE Downtown was 61% equity-funded while OUE-LH's purchases were fully equity funded. We expect minority investor's contribution to book value equity to increase since OUE had received cash from the sale of office components of OUE Downtown and ~44% of OUE-CT is owned by minority investors. At an asset-to-debt coverage of 2.1x, we are comfortable maintaining OUE's issuer profile at Neutral (4), though will relook this should there be any material change to its asset base which are now mainly located in developed markets.

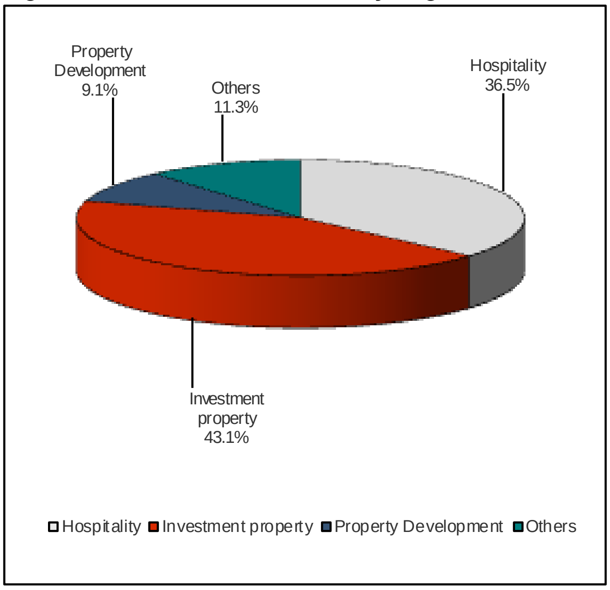
OUE Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	884.2	754.1	479.6
EBITDA	225.0	163.9	152.2
EBIT	220.5	156.1	146.1
Gross interest expense	127.8	130.9	107.4
Profit Before Tax	212.6	193.7	48.4
Net profit	177.1	161.2	28.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	239.0	535.2	386.7
Total assets	8,083.4	9,034.1	9,094.2
Short term debt	656.0	1,081.8	772.6
Gross debt	2,901.5	3,480.9	3,654.6
Net debt	2,662.5	2,945.7	3,267.9
Shareholders' equity	4,643.8	4,875.7	4,824.3
Cash Flow (SGD'mn)			
CFO	466.2	249.2	93.2
Capex	2.2	10.5	4.2
Acquisitions	254.5	234.7	696.8
Disposals	236.3	39.0	311.7
Dividend	73.8	59.9	64.9
Interest paid	107.6	124.7	81.9
Free Cash Flow (FCF)	464.0	238.7	89.0
Key Ratios			
EBITDA margin (%)	25.4	21.7	31.7
Net margin (%)	20.0	21.4	5.9
Gross debt to EBITDA (x)	12.9	21.2	18.0
Net debt to EBITDA (x)	11.8	18.0	16.1
Gross Debt to Equity (x)	0.62	0.71	0.76
Net Debt to Equity (x)	0.57	0.60	0.68
Gross debt/total assets (x)	0.36	0.39	0.40
Net debt/total assets (x)	0.33	0.33	0.36
Cash/current borrowings (x)	0.4	0.5	0.5
EBITDA/Total Interest (x)	1.8	1.3	1.4

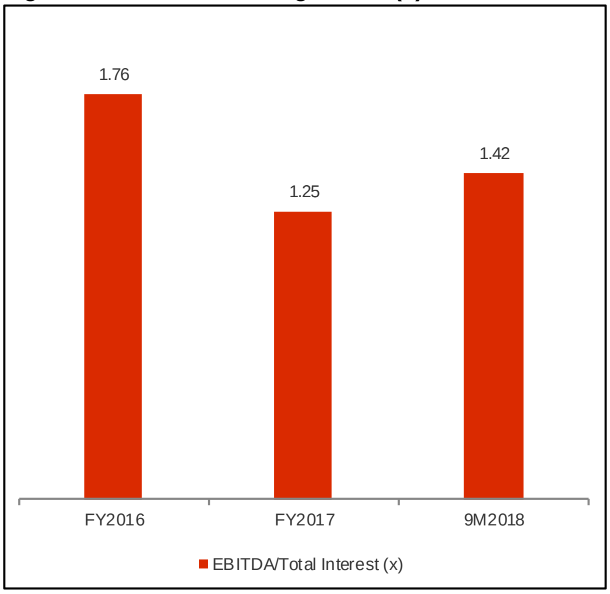
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2018



Source: Company

Figure 2: Interest Coverage Ratio (x)



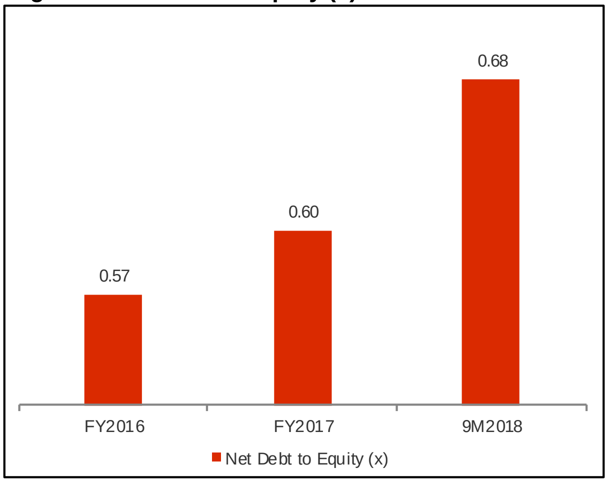
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	742.5	20.3%
Unsecured	30.1	0.8%
	772.6	**21.1%**
Amount repayable after a year		
Secured	1,037.4	28.4%
Unsecured	1,844.6	50.5%
	2,882.0	**78.9%**
Total	**3,654.6**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We think OHLSP 5% '19s look interesting at 6.8% YTM. However, we are Neutral on OHLSP '20s and OHLSP '22s given the uncertainty in the property outlook going ahead. At such tenors, we prefer bonds issued by the China HY developers.

Issuer Profile: Negative (6)

Ticker: **OHLSP**

Background

Oxley Holdings Ltd ("OHL") is a property developer listed on the SGX in Oct 2010. Beginning with a portfolio of development projects in Singapore, OHL has expanded to overseas projects in the UK, Malaysia, Ireland, China, Cambodia, Myanmar and Indonesia. OHL is also building a pipeline of investment and hospitality properties. OHL's key shareholders are its CEO Mr Ching Chiat Kwong (41.9%-stake), its deputy CEO Mr Low See Ching (28.0%) and Mr Tee (11.4%) who appears to be a passive shareholder.

Oxley Holdings Limited

Key credit considerations

- **Lacklustre 1QFY2019 results due to timing of revenue recognition:** 1QFY2019 revenue for the quarter ending 30 Sep 2018 declined 45% y/y to SGD170.3mn with lower revenue completion from UK with Royal Wharf already substantially sold and handed over while revenue from Singapore projects also declined. Share of results from equity-accounted associates and joint ventures turned negative (losses: SGD3.7mn) due to absence of share of profit from The Bridge in Cambodia. Net profit fell more than revenue by 90% y/y to SGD4.8mn, due to SGD8.7mn FX losses while finance costs surged 147% y/y to SGD21.9mn due to increase in outstanding debt and higher interest rates. That said, the poor results are due to timing of revenue recognition as property sales have been decent, of which SGD2.8bn revenue has yet to be recognised.

- **Singapore properties still moving despite cooling measures:** OHL attained SGD1.68bn in property sales in Singapore in 2018. Aside from Verandah Residences (revenue: SGD249mn) which was sold out prior to the cooling measures, two major launches by still fared decently thereafter. Affinity at Serangoon sold 91% of 300 units launched (SGD306mn) at ~SGD1500 psf and Riverfront Residences sold 99% of 800 units launched (SGD721mn) at ~SGD1300 psf. However, it remains to be seen if the higher priced developments can be moved quickly. Mayfair Gardens moved just 106 out of 215 units launched (SGD165mn) at ~SGD1930 psf while Kent Ridge Hill Residences moved 116 out of 250 units launched (SGD128mn) at ~SGD1700 psf - we think that OHL may have cut prices to move units as the ASP guidance given in Oct 2018 was higher for Mayfair Gardens (SGD2000 psf) and Kent Ridge Hill Residences (SGD1850 psf). Overall, sales have been decent thus far though a significant pipeline have yet to be launched (and remain unsold).

- **Continue to keep watch on property sales:** While the launched and unsold landbank is small, in total SGD3.4bn landbank in Singapore remains unsold, mainly due to the units that have yet to be launched. We are less worried about the unsold units at Affinity at Serangoon (SGD1.0bn) and Riverfront Residences (SGD779.3mn) as these are more mass market and we believe can be moved, though we are more cautious on the unsold units at Kent Ridge Hill Residences (SGD675.4mn) and Mayfair Gardens (SGD449.2mn) with the overall property market sentiments turning weaker. Amongst the overseas projects, another SGD3.2bn of unsold units remains, including Deanston Wharf (SGD647mn), Dublin Landings (SGD891mn), Cyprus (SGD736mn) and KLCC (SGD866mn).

- **Significant debt maturities ahead:** We think SGD234.7mn current debt may be repaid given cash of SGD232.3mn. However, SGD1.39bn debt will be due in FY2020, including SGD300mn OHLSP 5% '19s, SGD150mn OHLSP 5.15% '20s and SGD365mn at the corporate level. If refinancing is not possible or prohibitive (OHLSP 6.375% '21s YTM: 11.9%), we think OHL can monetise its stakes in listed United Engineers Ltd (worth ~SGD310mn), Novotel Singapore / Mercure Singapore (indicative value: SGD905mn) and Chevron House (SGD787mn) though the proceeds should be lower as these assets are likely secured. The remaining SGD576mn debt in FY2020 relates to project debt.

- **Weak credit metrics:** Net gearing increased q/q to 2.45x (4QFY2018: 2.17x) mainly due to increase in borrowings used to fund the Singapore development properties. Nevertheless, we think OHL has the potential to deleverage, if management chooses to. Unbilled contracts amount to SGD2.8bn and continued sales and monetisation of the development projects will be crucial to support OHL's credit profile going forward.

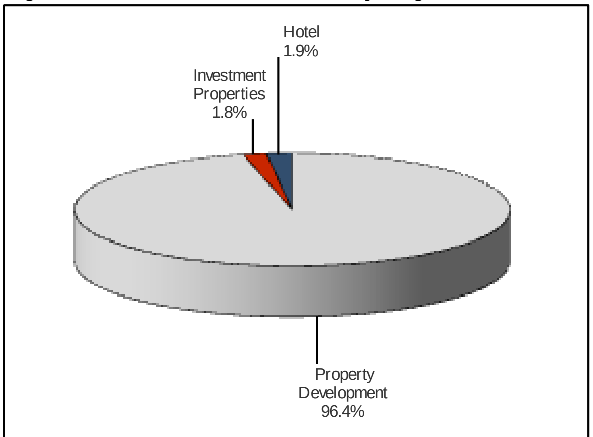
Oxley Holdings Limited

Table 1: Summary Financials

Year Ended 30th Jun	FY2017	FY2018	1Q2019
Income Statement (SGD'mn)			
Revenue	1,343.0	1,188.6	170.3
EBITDA	333.3	132.7	46.6
EBIT	332.6	118.7	41.2
Gross interest expense	131.5	64.6	21.9
Profit Before Tax	299.5	305.3	13.6
Net profit	227.7	282.1	4.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	413.5	255.0	232.3
Total assets	4,607.9	5,995.5	6,276.1
Short term debt	609.3	246.8	234.7
Gross debt	2,458.0	3,460.1	3,789.6
Net debt	2,044.4	3,205.2	3,557.2
Shareholders' equity	1,088.9	1,477.0	1,452.8
Cash Flow (SGD'mn)			
CFO	461.3	109.9	-304.6
Capex	124.3	43.1	0.1
Acquisitions	92.2	1,230.4	20.7
Disposals	3.3	200.5	0.0
Dividend	176.9	49.8	0.0
Interest paid	-100.2	-95.2	-26.7
Free Cash Flow (FCF)	337.0	66.8	-304.7
Key Ratios			
EBITDA margin (%)	24.8	11.2	27.4
Net margin (%)	17.0	23.7	2.8
Gross debt to EBITDA (x)	7.4	26.1	20.3
Net debt to EBITDA (x)	6.1	24.2	19.1
Gross Debt to Equity (x)	2.26	2.34	2.61
Net Debt to Equity (x)	1.88	2.17	2.45
Gross debt/total assets (x)	0.53	0.58	0.60
Net debt/total assets (x)	0.44	0.53	0.57
Cash/current borrowings (x)	0.7	1.0	1.0
EBITDA/Total Interest (x)	2.5	2.1	2.1

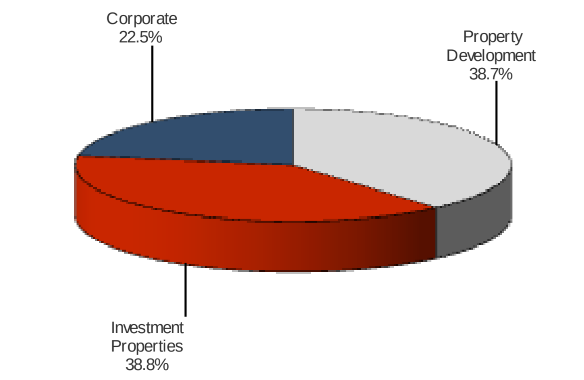
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2018



Source: Company

Figure 2: PBT breakdown by Segment - FY2018



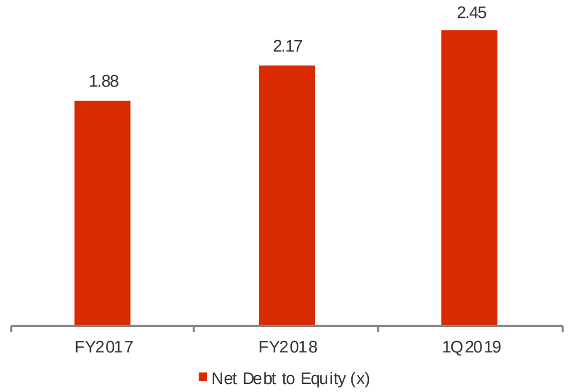
Source: Company | Excludes Hotel

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	120.7	3.2%
Unsecured	114.0	3.0%
	234.7	**6.2%**
Amount repayable after a year		
Secured	2,334.5	61.6%
Unsecured	1,220.3	32.2%
	3,554.8	**93.8%**
Total	**3,789.6**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – With the selloff in PREHSP 3.85% ‘20s and PREHSP 3.9% ‘21s, we think both look attractive trading around 6.0% YTM.

Issuer Profile: Neutral (5)

Ticker: **PREHSP**

Background

Perennial Real Estate Holdings Ltd is an integrated real estate owner and developer focused primarily in China (62.5% by asset value) and Singapore (28.6%). 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 82.3%-owned by Mr Kuok, CEO of Wilmar, Mr Ron Sim CEO of Osim, Wilmar International Ltd and Mr Pua, CEO of PREH. PREH has a market capitalisation of SGD1.02bn as of 3 Jan 2019.

Perennial Real Estate Holdings Ltd

Key credit considerations

- **3Q2018 results picking up from a low base:** Revenue rose 8.7% y/y to SGD22.2mn in 3Q2018, mainly due to Capitol Singapore which was fully acquired in 2Q2018. In addition, Perennial International Health and Medical Hub started contributing since 2Q2018 while 2 malls in the China portfolio saw improved performance. Reported EBIT surged to SGD247.5mn (3Q2017: SGD37.5mn) mainly due to SGD241.9mn fair value gains from reclassification of two plots at Beijing Tongzhou Phase 1 from development properties to investment properties, following the receipt of construction permits. Without the one-off effects, (e.g. fair value gain, gain on bargain purchase), we estimate that reported EBIT would have remained relatively stable at around SGD5.6mn.

- **Significant asset base still in gestation without a clear monetisation path:** Despite holding SGD7.6bn of assets, PREH delivered a mere SGD5.6mn EBIT (without one-offs) in 3Q2018. Majority of the assets are still in gestation (without significant sale/pre-sale), such as Beijing Tongzhou Integrated Development (completion 2021), Xi’an North High Speed Railway Integrated Development (partly topped out, Plot 5 to be completed 2Q2019). Also, Plot C (GFA: 5.6mn sq ft) and Plot D2 (3.1mn sq ft) at Chengdu East High Speed Railway Integrated Development have yet to be completed. In Singapore, PREH holds Capitol Singapore though the asset has yet to fully contribute. PREH does not appear to be in any hurry to monetise its assets, however. For example, no transaction has taken place yet at AXA Tower despite being put up for sale since Jul 2017. Similarly, despite invested in United Engineers Ltd since 3Q2017, we have yet to observe any apparent plans on the monetisation strategy.

- **Developments and assets in Singapore yet to fully ramp up:** PREH’s 40-60 JV with Qingjian Realty (“CNQC”) to redevelopment Goodluck Garden (GFA: 554,605 sq ft), purchased via collective sale for SGD610mn, has been delayed with a stop order by the Strata Titles Board due to protests by minority owners. In Singapore, the hotel portion at Capitol Singapore only recently opened on 1 Oct 2018, though fuller contribution should only be expected 2-3 years later as a ramp up period is likely required. The opening of the hotel though could lend a boost to the mall portion. Meanwhile, the full suite of asset enhancement works at TripleOne Somerset is expected to complete by 2019.

- **Somewhat improved liquidity profile though refinancing will be needed:** Following the redemption of SGD300mn PREHSP 4.65% ‘18s, likely from proceeds of SGD180mn PREHSP 5.95% ‘20s, near-term liquidity and debt maturity improved somewhat q/q. We estimate that PREH may still need some additional funding, given that SGD113.2mn in cash is insufficient to meet SGD125mn PREHSP 4.9% ‘19s due in Mar 2019. That said, we remain comfortable as PREH may obtain liquidity from divestments (e.g. AXA Tower) while it maintains access to the loan and capital market.

- **Expecting credit metrics to weaken somewhat further:** Net gearing inched up to 0.75x (2Q2018: 0.74x) despite the sizeable SGD241.9mn fair value gains. This is due to SGD15.3mn cash outflow from operating activities with further capital deployed for development properties, as well as SGD31.9mn investment in associates and joint ventures which should be due to investment in the Tianjin South High Speed Railway project. We expect net gearing to increase further to ~90% when PREH funds its 40%-share in the development with Qingjian Realty as well as deploy further capital to its 45%-share (USD540mn) in the China High Speed Railway JV.

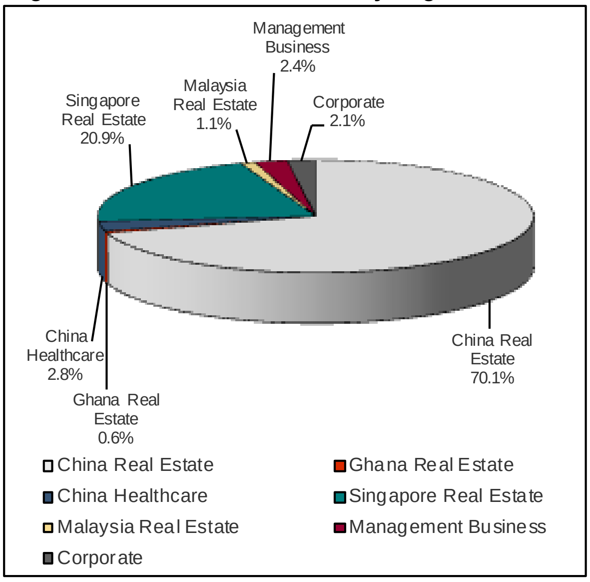
Perennial Real Estate Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	110.2	74.5	55.3
EBITDA	46.8	23.2	-0.5
EBIT	42.8	22.6	-2.7
Gross interest expense	98.4	99.0	67.8
Profit Before Tax	53.9	170.2	255.3
Net profit	45.4	138.8	184.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	226.2	111.7	113.2
Total assets	7,046.4	6,704.7	7,598.3
Short term debt	823.1	975.0	951.9
Gross debt	2,859.5	2,344.8	3,094.3
Net debt	2,633.3	2,233.1	2,981.2
Shareholders' equity	3,781.9	3,915.9	3,960.3
Cash Flow (SGD'mn)			
CFO	-78.4	-122.2	-37.3
Capex	65.4	34.6	67.1
Acquisitions	122.3	163.4	159.6
Disposals	3.9	73.1	0.9
Dividends	7.5	6.7	16.6
Free Cash Flow (FCF)	-143.7	-156.8	-104.5
Key Ratios			
EBITDA margin (%)	42.4	31.1	-1.0
Net margin (%)	41.2	186.4	332.7
Gross debt to EBITDA (x)	61.1	101.2	-4,412.1
Net debt to EBITDA (x)	56.3	96.4	-4,250.7
Gross Debt to Equity (x)	0.76	0.60	0.78
Net Debt to Equity (x)	0.70	0.57	0.75
Gross debt/total assets (x)	0.41	0.35	0.41
Net debt/total assets (x)	0.37	0.33	0.39
Cash/current borrowings (x)	0.3	0.1	0.1
EBITDA/Total Interest (x)	0.5	0.2	0.0

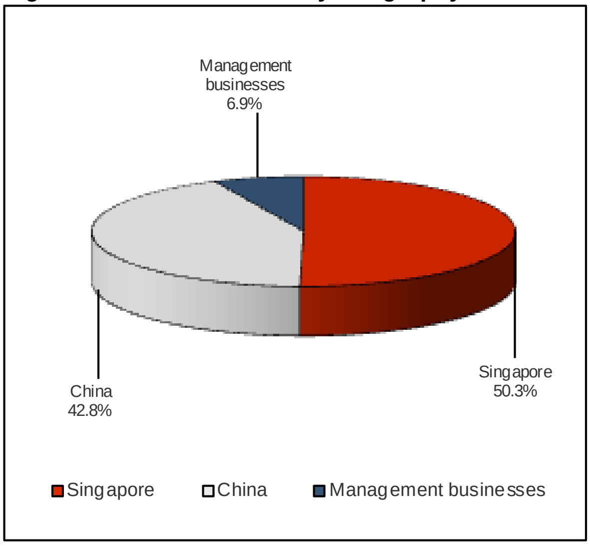
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2017



Source: Company

Figure 2: EBIT breakdown by Geography - 9M2018



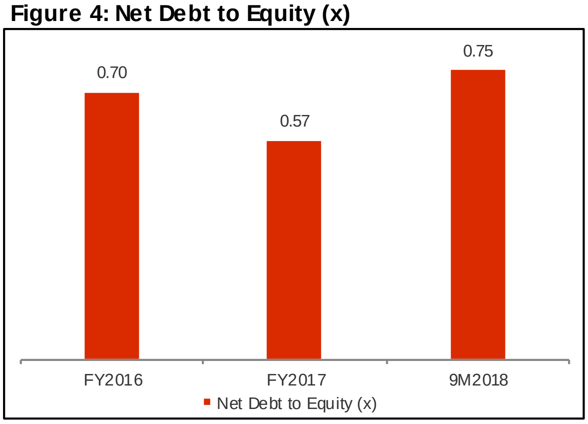
Source: Company | Excludes Corporate and Others

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	234.7	7.6%
Unsecured	717.2	23.2%
	951.9	**30.8%**
Amount repayable after a year		
Secured	1,391.2	45.0%
Unsecured	751.3	24.3%
	2,142.4	**69.2%**
Total	**3,094.3**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We are neutral the SSREIT 4.25% '19s which mature in April 2019.

Issuer Profile: Neutral (5)

Ticker: **SSREIT**

Background

Sabana Shari'ah Compliant Industrial REIT ("SSREIT") is an industrial REIT in Singapore, with total assets of ~SGD938mn and a portfolio of 19 properties in Singapore as at 30 September 2018. Vibrant Group and its related parties hold ~10.4% in SSREIT, followed by the e-Shang Redwood Group ("ESR", also the second largest unitholder of ESR-REIT), holding 7.9%.

Sabana Shari'ah Compliant Industrial REIT

Key credit considerations

- **Somewhat weaker q/q:** Gross revenue was down 4.8% y/y to SGD19.9mn in 3Q2018 on the back of lower contribution from certain multi-tenanted properties, negative rental reversions on certain master leases though these were partly offset by higher contribution from three properties. Net property income though saw a larger y/y decrease of 5.7% to SGD12.6mn. On a q/q basis though, gross revenue and net property income would have declined 1.1% and 0.5% respectively. We think this was due to the absence of rental from 21 Joo Koon Crescent which has become vacant as at 30 September 2018. In September 2018, SSREIT reached a settlement and has received SGD2.2mn in outstanding rental arrears and late payment charges from its tenant at 10 Changi South Street 2 (6.5% gross revenue contribution in 2Q2018). Going by its receivable days, SSREIT did not face further collection issues in 3Q2018 in our view.

- **Financial flexibility lower than Industrial peers though short term refinancing risk is manageable:** As at 30 September 2018, aggregate leverage was 38.6%, slightly higher versus 30 June 2018's aggregate leverage of 38.2%. There is no refinancing due until the SGD100mn SSREIT 4.25% '19s that come due in April 2019. While SSREIT's financial flexibility is lower versus other Industrial REITs under our coverage, we note SSREIT's considerable progress in divesting assets where proceeds have been used to reduce debt. Additionally, SSREIT still maintains access to bank debt markets. While secured debt as a percentage of total debt has increased, as at 30 September 2018, unencumbered assets still stood at SGD239mn, which can go towards raising more secured financing, if need be.

- **Rejigging of portfolio may reduce aggregate leverage:** SSREIT is in the midst of selling another two properties (1 Tuas Avenue 4 and 9 Tai Seng Drive) for SGD110.8mn. The sale of 1 Tuas Avenue 4 is below book (revaluation loss of SGD12.3mn recorded in 3Q2018) though a SGD60mn gain from the sale of 9 Tai Seng Drive is expected. The net proceeds from this sale will likely go towards debt repayment while proceeds from the sale of 1 Tuas Avenue 4 may be used either for debt repayment or growth. Assuming SGD98.1mn is used to reduce debt, aggregate leverage may reduce to ~29%.

- **Negative rental reversion from Sponsor Master Leases:** Three Master Leases has been renewed with subsidiaries of Vibrant Group (unrated), its Sponsor. One property was renewed for two years while the other two were renewed for one year each. In aggregate, rents on the leases would be SGD11.5mn. The renewed leases were signed with a negative rental reversion of 3-4% from last year's rates per company. As at 30 September 2018, by net lettable area, SSREIT faced 25.4% of leases coming due by end-2018. With the signing of the Sponsor Master Leases SSREIT is left with only 6.5% for the rest of the year. We estimate that Sponsor makes up about 11% of SSREIT's rental income. Sponsor is a high yield bond issuer who reported net loss of SGD93.1mn for the financial year ended April 2018 and is undergoing a special audit at a group of subsidiaries in China.

- **Downside scenario:** EBITDA (based on our calculation which does not include other income and other expenses) was down 5.8% y/y to SGD11.4mn though finance cost had declined even more at 8.2% y/y. Resultant EBITDA/Interest coverage was held steady at 3.0x versus 3Q2017 despite the fall in EBITDA. On a q/q basis, EBITDA had fallen 0.6%. Removing 17.5% of SSREIT's rental income which we deemed to be "at-risk", we find adjusted EBITDA/Interest at 2.5x. In this downside scenario, SSREIT's asset base will also take a hit (eg: from the reduction in rents), aggregate leverage may rise back to 35%, factoring in proceeds from asset sales used to repay debt.

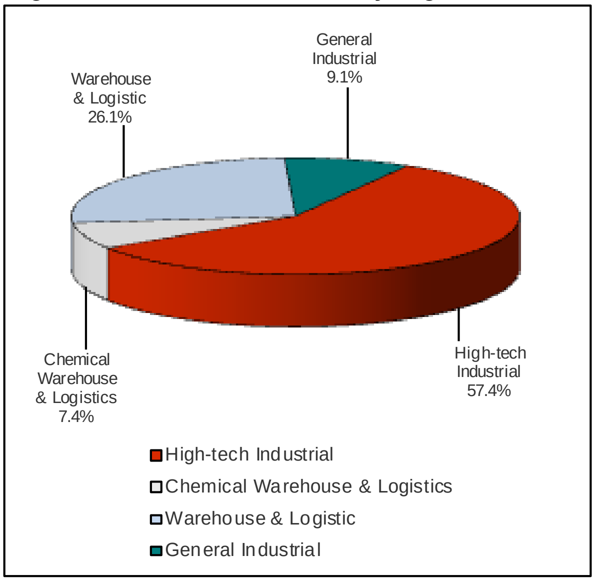
Sabana Shari'ah Compliant Industrial Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	91.8	85.2	60.9
EBITDA	51.2	49.3	36.2
EBIT	51.2	49.3	36.2
Gross interest expense	21.1	17.2	11.4
Profit Before Tax	-62.5	-26.8	9.3
Net profit	-62.5	-26.8	9.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	9.2	7.7	7.9
Total assets	1,022.9	966.1	937.9
Short term debt	130.2	117.5	140.9
Gross debt	437.9	365.8	359.5
Net debt	428.7	358.1	351.6
Shareholders' equity	556.8	571.5	554.2
Cash Flow (SGD'mn)			
CFO	48.7	50.7	31.6
Capex	1.8	18.6	1.2
Acquisitions	0.0	0.0	0.0
Disposals	54.6	14.8	13.8
Dividends	38.7	35.4	26.6
Interest paid	12.1	11.5	10.1
Free Cash Flow (FCF)	46.8	32.2	30.5
Key Ratios			
EBITDA margin (%)	55.7	57.8	59.4
Net margin (%)	-68.0	-31.5	15.3
Gross debt to EBITDA (x)	8.6	7.4	7.5
Net debt to EBITDA (x)	8.4	7.3	7.3
Gross Debt to Equity (x)	0.79	0.64	0.65
Net Debt to Equity (x)	0.77	0.63	0.63
Gross debt/total asset (x)	0.43	0.38	0.38
Net debt/total asset (x)	0.42	0.37	0.37
Cash/current borrowings (x)	0.1	0.1	0.1
EBITDA/Total Interest (x)	2.4	2.9	3.2

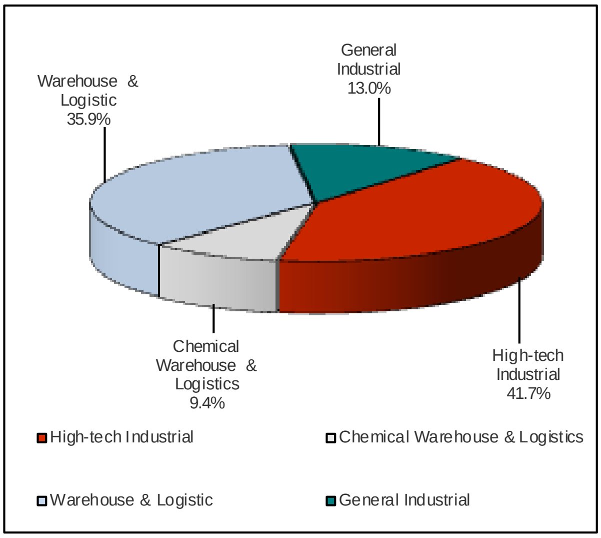
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2018



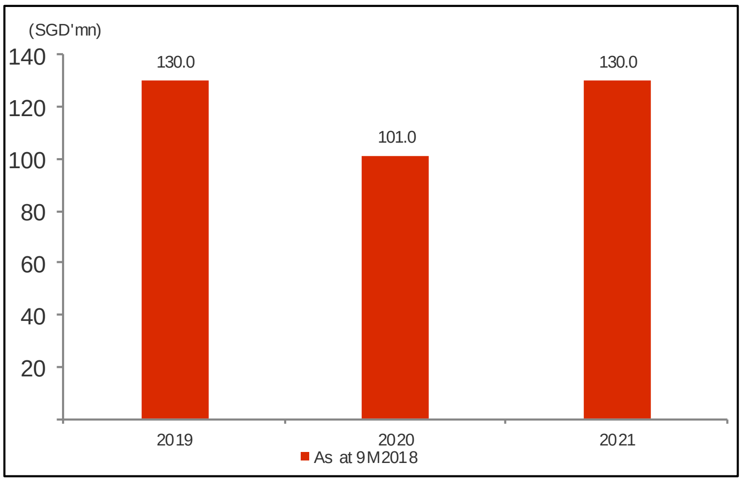
Source: Company

Figure 2: Asset breakdown by Segment - 9M2018



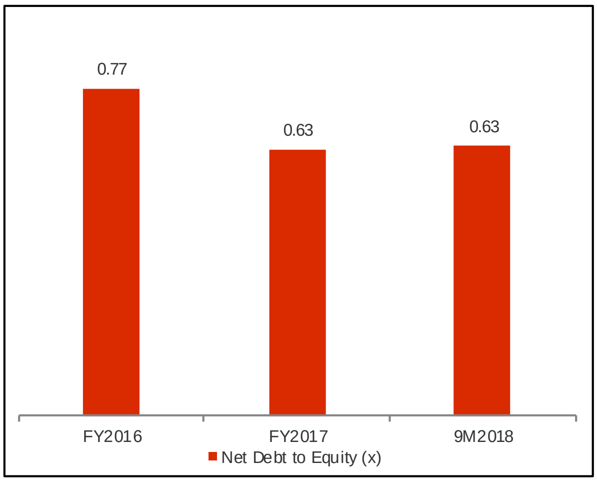
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We are overweight the SCISP 4.25% '25s (197bps spread) and underweight the SCISP 3.7325% '20s, SCISP 2.94% '21s and SCISP 3.7%-PERP.

Issuer Rating: Neutral (4)

Ticker: **SCISP**

Background

Sembcorp Industries Ltd ("SCI") was formed via the merger of Singapore Technologies International Corporation and Sembawang Corporation in 1998. SCI is focused on utilities (energy and water solutions), offshore marine (via its 61%-stake in Sembcorp Marine ("SMM")) and urban development (focused on the development of industrial parks across the region). Temasek is the largest shareholding of SCI with a 49.5%-stake.

Sembcorp Industries Ltd

Key credit considerations

- **Utilities drove income while more provisions taken:** In 3Q2018, revenue increased 36.3% y/y to SGD3.0bn driven by revenue at the Utilities segment (grew 26.7% y/y) and Marine segment (up 60.2% y/y). Implied profit from operations ('PFO") was SGD216.5mn for 3Q2018 with Utilities contributing SGD229.5mn. General and administrative expenses climbed 49.2% y/y to SGD132.8mn, due to higher staff and digital transformation costs, cost from the UK Power Reserve purchase and provision for fines of SGD25.0mn taken for an alleged environment offence overseas. SGD25mn of such provisions was taken in FY2017, lifting total provisions to ~SGD50mn by end-September 2018 (half of amounts claimed). Net profit for Utilities was SGD91.0mn (3Q2017: SGD27.5mn), against total net profit of SGD80.0mn for 3Q2018. Urban Development (driven by lumpy land sales) saw net income down 1.4% y/y to SGD8.1mn while SMM was loss-making.

- **Utilities – India saw improved results:** Performance at Utilities – India was driven by better wind conditions and a one-off at the renewable energy business and contribution from the first thermal plant. These collectively contributed SGD53mn which offset a SGD24mn loss at the second thermal plant. Excluding one-offs, Utilities – India generated ~SGD20mn in net profit before exceptional items (3Q2017: loss of SGD2.7mn). In August 2018, the second thermal plant won a tender to supply 250MW of power to Bangladesh. In our view, this should narrow future losses and bring SCI's total India thermal power plant capacity backed by long term power purchase agreements to 50%. For Utilities – Singapore, net income was SGD46.5mn in 3Q2018 (down by 9% y/y) from higher operational cost. SCI focuses on centralised utilities where it also sells steam and water which helped pull up results despite the still weak power generation sector in Singapore.

- **SMM has yet to turnaround:** Revenue for SMM was up 60.2% y/y to SGD1.2bn mainly due to higher revenue recognition upon the delivery of two jack-up rigs to Borr Drilling and revenue recognition on newly secured projects. In 3Q2018, SMM recognized a gross loss of SGD12.8mn due to loss from sale of the semi-submersible and continued low business volume. Finance income was SGD14.9mn in 3Q2018 (up 171% y/y), SMM charges interest on deferred payment for nine rigs it was able to re-sell to Borr Drilling in October 2017. SMM has ~SGD1.1bn to be collected within five years from time of delivery of these rigs (progressive delivery from 4Q2017 to 1Q2019). While exact timing of cash inflow is unknown, the last date for cash receipts is 1Q2024. More debt was drawn down to fund investing outflow (SGD159.8mn in capex for a Singapore yard and intellectual property rights) which tilted net gearing 0.1x higher q/q to 1.4x. While total net orderbook (excluding the Sete Brasil contracts) narrowed to SGD3.26bn, post quarter end, SMM's new contract wins have amounted to more than SGD400mn.

- **Net gearing still high though aiming to deleverage:** As at 30 September 2018, SCI's unadjusted net gearing continues to be high at 1.1x (30 June 2018: 1.0x) while perpetuals make up 4% of total capital with amount outstanding of SGD809.6mn. Management has shared that it is in the process of a ~SGD500mn divestment plan over the next two years to deleverage, though SCI does not publicly share its targeted net gearing level. The divestments include its Utilities - India IPO plan. The IPO restructuring has completed though a listing would only take place when markets are more conducive. Overall EBITDA (based on our calculation which does not include other income and other expenses) was down 37.0% y/y at SGD255.4mn though finance cost was down 5.4% y/y to SGD120.0mn as a result of reduction of high-cost debt in India. At the consolidated level, resultant EBITDA/Interest expense was lower at 2.1x (3.2x in 3Q2017), with EBITDA generation coming from non-SMM businesses.

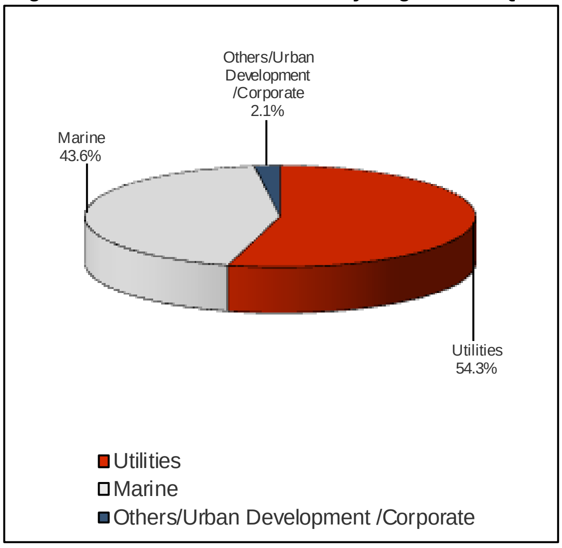
Sembcorp Industries Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	7,907.0	8,345.6	9,123.1
EBITDA	1,198.0	1,091.8	810.1
EBIT	744.3	520.5	379.3
Gross interest expense	402.0	525.8	355.8
Profit Before Tax	537.4	312.1	324.1
Net profit	394.9	230.8	240.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	2,093.9	2,686.7	1,343.3
Total assets	21,664.3	23,213.2	22,897.0
Gross debt	8,734.3	9,847.6	10,185.2
Short term debt	1771.1	1572.5	1651.3
Net debt	6,640.4	7,160.9	8,841.9
Shareholders' equity	7,835.6	8,215.8	8,009.1
Cash Flow (SGD'mn)			
CFO	466.1	166.1	376.6
Capex	821.9	736.0	790.7
Acquisitions	132.4	18.6	453.8
Disposals	35.0	276.7	16.6
Dividend	263.4	204.4	95.5
Free Cash Flow (FCF)	-355.8	-569.9	-414.1
Key Ratios			
EBITDA margin (%)	15.2	13.1	8.9
Net margin (%)	5.0	2.8	2.6
Gross debt to EBITDA (x)	7.3	9.0	9.4
Net debt to EBITDA (x)	5.5	6.6	8.2
Gross Debt to Equity (x)	1.11	1.20	1.27
Net Debt to Equity (x)	0.85	0.87	1.10
Gross debt/total assets (x)	0.40	0.42	0.44
Net debt/total assets (x)	0.31	0.31	0.39
Cash/current borrowings (x)	1.2	1.7	0.8
EBITDA/Total Interest (x)	3.0	2.1	2.3

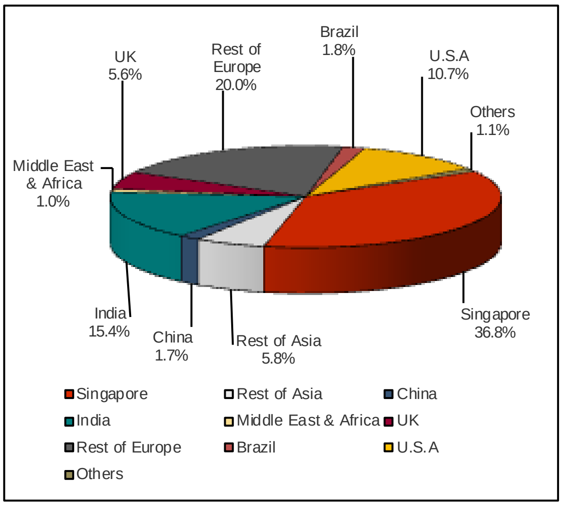
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1Q2018



Source: Company

Figure 2: Revenue breakdown by Geography - 9M2018



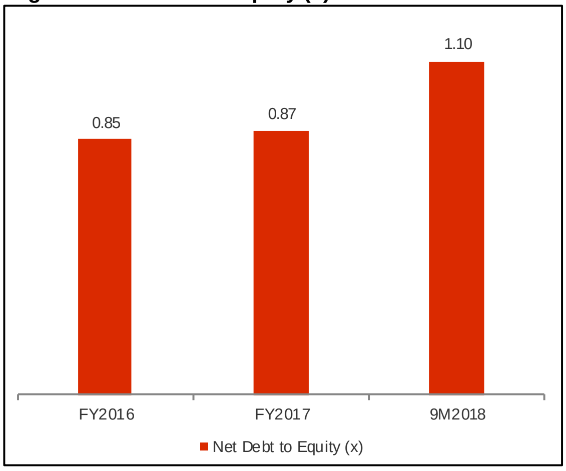
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2018	% of debt
.		
Amount repayable in one year or less, or on demand		
Secured	615.2	6.0%
Unsecured	1,036.1	10.2%
	1,651.3	**16.2%**
Amount repayable after a year		
Secured	3,431.9	33.7%
Unsecured	5,102.0	50.1%
	8,533.9	**83.8%**
Total	**10,185.2**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – With spreads widening 15-20bps since November 2018, the SIASP 3.75% '24s, SIASP 3.035% '25, SIASP 3.13% '26s and SIASP 3.13% '27s looks attractive.

Issuer Profile: Neutral (3)

Ticker: **SIASP**

Background

Singapore Airlines Ltd ("SIA Group"), listed on the SGX has a market cap of SGD11.0bn as at 04 January 2019. Apart from its flagship carrier, Singapore Airlines ("SQ"), the company also operates other airlines and businesses via subsidiaries: SIA Engineering Company, SilkAir and Scoot. SIA owns a 20%-stake in Virgin Australia Holdings Limited and a 49%-stake in TATA SIA Airlines Limited (operates Vistara Airlines). SIA Group is ~55% owned by Temasek while the remaining shareholding is dispersed.

Singapore Airlines Ltd

Key credit considerations

- **Operating metrics stronger though offset by higher fuel cost:** SIA reported its second quarter results for the financial year ending March 2019 ("2QFY2019"). Revenue was up 5.6% y/y to SGD4.1bn on the back of overall passenger carriage growth (8.4% y/y increase). Encouragingly, growth in passengers carried had outpaced capacity growth, with available seat-km growing only by 5.3% y/y. Passenger load factor (a measure of capacity utilization) was higher at 84.9% in 2QFY2019 against 81.8% in 2QFY2018. Reported operating profit though was down 34.8% y/y to SGD232.9mn. This was mainly due to the 24% y/y rise in net fuel costs, higher depreciation and higher other operating costs. EBITDA (based on our calculation) was down 12.5% y/y to SGD574mn. With interest expense rising to SGD28mn (2QFY2018: SGD22mn), driven by higher average debt balance, we find EBITDA/Interest coverage lower at 20.6x (2QFY2018: 29.7x), though still very healthy. We believe SIA's KrisFlyer business is increasing as a contributor to the business, which is positive as we think this business tends to be less volatile. Nonetheless, there is insufficient breakdown over this income stream which makes it difficult for us to track the growth trajectory.

- **Associates dragged net income:** SIA had reported a net income of only SGD65.7mn in 3Q2018 against SGD303.2mn in 3Q2017 though it is worth noting that 3Q2018 net income was dragged by a SGD117mn in share of losses of associated companies. This was due to a one-off accounting adjustment at Virgin Australia ("VHA"). This accounting adjustment is non-cash and due to de-recognition of deferred tax assets ("DTA") and impairment of assets at Virgin Australia International. Typically DTA, a balance sheet item, is only recognised if it is probable that taxable profit will be available for the DTA to be utilised. With a de-recognition, we infer that VHA is still not confident that it will turn profitable to utilise these DTA. VHA reported loss before net finance costs and tax of AUD48.8mn for the financial year ended 30 June 2018.

- **Getting more levered though still healthy:** As at 30 September 2018, unadjusted net gearing at SIA was 0.17x, higher than the 0.12x as at 30 June 2018. Common across airlines, SIA part funds its operations using customer prepayments. Cash balance was SGD2.0bn though sales in advanced of carriage (a current liability item where cash had been received ahead of provision of services) was higher at SGD2.6bn. With SIA ramping up its KrisFlyer frequent flyer miles business, we expect sales in advance of carriage to increase in significance going forward.

- **Capex commitments higher:** In 2QFY2019, SIA had spent SGD1.0bn in investing outflows (largely on purchase of planes) and paid SGD380mn in dividends. These were funded by operating cash flows of SGD612.5mn and additional borrowings of SGD883.1mn (net of debt repaid). Post quarter-end, SIA had raised a further SGD600mn in SGD bonds, which we estimate would have increased its net gearing to 0.2x. SIA had spent SGD3.1bn in capex in 1HFY2019 (half of projected FY2019). This though excludes amounts that Vistara is intending to spend on capex. In July 2018, Vistara had placed orders for 19 aircrafts with Airbus and Boeing, the combined order is valued at ~SGD4.2bn, though this excludes discounts. Our base case assumes that Vistara will need to pay USD1.9bn (~SGD2.5bn) for the aircraft. Given SIA is a major customer of aircraft, we assume Vistara also benefits from a 40% discount from the sticker price. We expect this funding will need to come from Vistara's owners (or at the very least corporate guarantees). Assuming a proportionate contribution based on their shareholdings, we estimate that SIA would need to fund USD911mn (~SGD1.2bn) of the cost. SIA is on a leveraging trend, though for now we are comfortable maintaining SIA's issuer profile at Neutral (3).

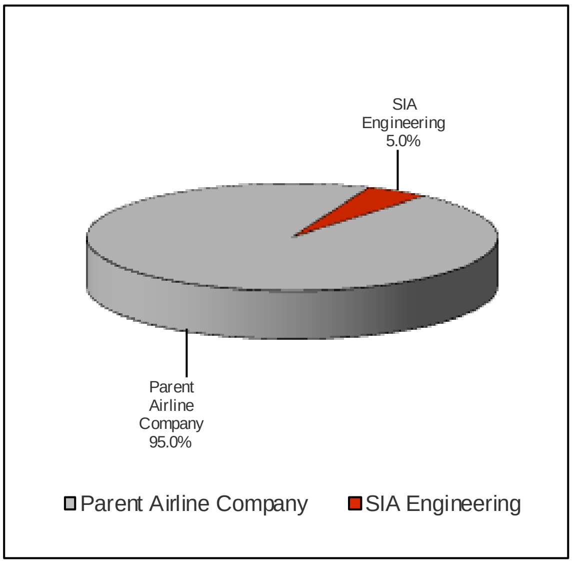
Singapore Airlines Ltd

Table 1: Summary Financials

Year End 31st Mar	FY2017	FY2018	1H2019
Income Statement (SGD'mn)	**SGD'mn**	**SGD'mn**	**SGD'mn**
Revenue	14,868.5	15,806.1	7,906.6
EBITDA	2,214.7	2,741.3	1,089.1
EBIT	622.8	1,057.3	426.0
Gross interest expense	46.1	89.8	56.6
Profit Before Tax	518.6	1,101.0	288.5
Net profit	441.9	936.8	214.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	3,380.5	2,568.3	1,982.5
Total assets	24,720.0	27,549.2	28,804.6
Short term debt	42.0	20.6	148.7
Gross debt	1,836.7	3,127.3	4,481.7
Net debt	-1,543.8	559.0	2,499.2
Shareholders' equity	13,470.2	14,619.3	14,421.8
Cash Flow (SGD'mn)			
CFO	2,532.9	2,610.9	1,271.9
Capex	3,944.7	5,209.5	3,029.5
Acquisitions	225.3	93.8	30.9
Disposals	1,640.0	1,287.4	463.7
Dividend	558.9	298.4	380.7
Free Cash Flow (FCF)	-1,411.8	-2,598.6	-1,757.6
Key Ratios			
EBITDA margin (%)	14.9	17.3	13.8
Net margin (%)	3.0	5.9	2.7
Gross debt to EBITDA (x)	0.8	1.1	2.1
Net debt to EBITDA (x)	-0.7	0.2	1.1
Gross Debt to Equity (x)	0.14	0.21	0.31
Net Debt to Equity (x)	-0.115	0.038	0.173
Gross debt/total assets (x)	0.07	0.11	0.16
Net debt/total assets (x)	-0.06	0.02	0.09
Cash/current borrowings (x)	80.5	124.7	13.3
EBITDA/Total Interest (x)	48.0	30.5	19.2

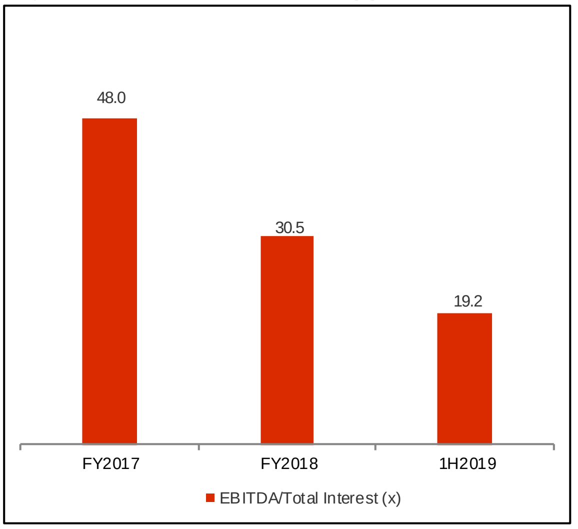
Source: Company, OCBC estimates

Figure 1: EBIT breakdown by Segment - 1H2019



Source: Company | Excludes SilkAir and Scoot which are loss making

Figure 2: EBITDA/Total Interest (x)



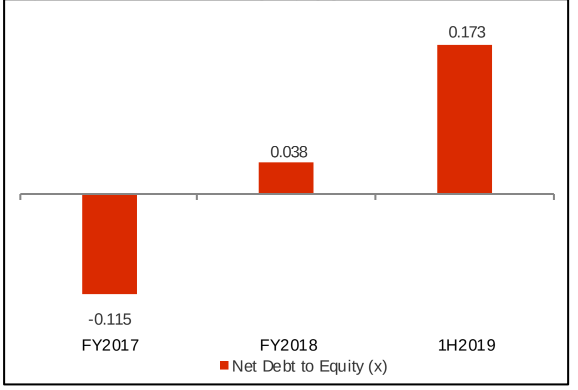
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	141.8	3.2%
Unsecured	6.9	0.2%
	148.7	**3.3%**
Amount repayable after a year		
Secured	1,287.4	28.7%
Unsecured	3,045.6	68.0%
	4,333.0	**96.7%**
Total	**4,481.7**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Singapore Post Ltd

Credit Outlook – The SPOST 4.25%-PERP with a first call date in March 2022 is now trading at YTC of 3.49%. We think it looks interesting.

Issuer Profile: Positive (2)

Ticker: **SPOST**

Background

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 (" Singtel") and a few other corporations, Temasek Holdings has an indirect ownership ~22% of SPOST. Alibaba Group Holdings is the 2nd largest shareholder with ~14% of SPOST.

Key credit considerations

- **Post and Parcel ("Postal") segment continues to be a key business driver:** Postal saw revenue increase 1.6% y/y to SGD176.7mn, driven by international mail revenue which grew by 4.7% y/y and more than offset the declines in SP Parcels and Post Office products and services. As opposed to previous quarters, profit on operating activities grew 5.1% y/y to SGD42.1mn, on the back of higher margins from domestic last mile ecommerce-related deliveries in Singapore. This implies that SPOST is starting to reap operating synergies from the ongoing integration of their last mile delivery capabilities in the post and parcel divisions. Consequentially, overall postal operating margins improved to 23.8% in in the second quarter for the financial year ending March 2019 ("2QFY2019") (2QFY2018: 23.0%). The international/domestic split stood at 63%/37% (vs 62%/38% a year ago) and Postal accounted for 48% of total revenue as at 30 September 2018.

- **Property remained strong, driving credit fundamentals**: Property segment, which accounted for 6.1% of total revenue, saw a 20.7% y/y increase in its rental income to SGD22.4mn due to higher committed occupancy of 99.1% as at 30 September 2018 (30 June 2018: 96.7%) at the SingPost centre retail mail which reopened in October 2017 after a period of redevelopment. Operating profit under Property rose 54.1% y/y to SGD13.3mn (2QFY2018: SGD8.7mn), recording the largest positive y/y change across all segments and contributed 33.4% of the total profit excluding others and exceptional items this quarter (1QFY2019: 28.9%). Both the Postal and Property segments helped compensate for the widened operating losses at e-Commerce (since it's a loss maybe more impactful to put the absolute figure rather than the %).

- **Slight improvements seen at Logistics while e-Commerce's performance slumped:** Logistics recorded a 0.2% y/y growth in revenue due to freight forwarding business under Famous Holdings which more than offset declines at Quantium Solutions (which lost some customers amid an ongoing review of unfavourable customer contracts). Operating margin also turned positive at 0.3% compared to -7.2% a year ago (Q1FY2019: 0.1%). The e-Commerce segment, however, saw a 0.5% y/y decline as a result of pricing pressures faced by its US business as competition intensifies which led to certain customer contracts being renewed at lower rates. In fact, e-Commerce's had an operating loss of SGD11.2mn, as the ongoing initiatives to integrate TradeGlobal and Jagged Peak as well as investments in automation continued to consume funds. Operating margin was -20.7% (Q1FY2019: 16.9%).

- **Defensive credit health**: Gross debt-to-equity was 0.17x (1QFY2019: 0.14x) as at 30 September 2018. SPOST was in a net debt position of SGD8.5mn unlike the previous quarter which saw a cash surplus of SGD129.4mn, largely due to SGD92.2mn paid to trade creditors as well as dividends worth SGD56.6mn paid to shareholders. Perpetuals amounts to SGD346.8mn and adjusting net debt upwards for the perpetuals (which rank *pari passu* as unsecured debt at the SPOST holding company level), we find adjusted net gearing at 0.21x (1QFY2019:0.16x). EBITDA (based on our calculation) increased sharply by 21.1% y/y to SGD51.3mn mainly as a result of lower selling expenses. Since interest expense declined 14.4% to SGD2.5mn, EBITDA/Interest improved significantly to 20.7x versus 14.6x in 2QFY2018. As such, credit health remains strong despite being in a net debt position.

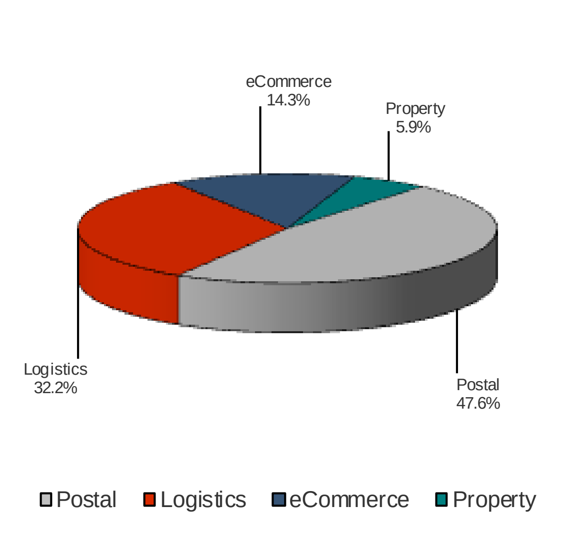
Singapore Post Ltd

Table 1: Summary Financials

Year End 31st Mar	FY2017	FY2018	1H2019
Income Statement (SGD'mn)	**SGD'mn**	**SGD'mn**	**SGD'mn**
Revenue	1,347.8	1,464.1	741.3
EBITDA	155.1	150.1	104.5
EBIT	104.1	89.8	75.8
Gross interest expense	5.7	13.4	4.8
Profit Before Tax	54.9	146.7	60.4
Net profit	29.7	116.0	39.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	366.6	314.1	285.2
Total assets	2,716.6	2,684.1	2,626.5
Short term debt	148.8	23.5	86.5
Gross debt	364.0	244.0	293.7
Net debt	-2.6	-70.1	8.5
Shareholders' equity	1,757.7	1,746.2	1,715.0
Cash Flow (SGD'mn)			
CFO	200.1	198.2	11.8
Capex	199.8	62.1	18.8
Acquisitions	1.3	4.5	0.0
Disposals	0.4	11.7	0.2
Dividend	134.4	60.2	64.3
Free Cash Flow (FCF)	0.3	136.1	-7.0
Key Ratios			
EBITDA margin (%)	11.5	10.3	14.1
Net margin (%)	2.2	7.9	5.3
Gross debt to EBITDA (x)	2.3	1.6	1.4
Net debt to EBITDA (x)	0.0	-0.5	0.0
Gross Debt to Equity (x)	0.21	0.14	0.17
Net Debt to Equity (x)	-0.001	-0.04	0.005
Gross debt/total assets (x)	0.13	0.09	0.11
Net debt/total assets (x)	0.00	-0.03	0.00
Cash/current borrowings (x)	2.5	13.4	3.3
EBITDA/Total Interest (x)	27.3	11.2	21.6

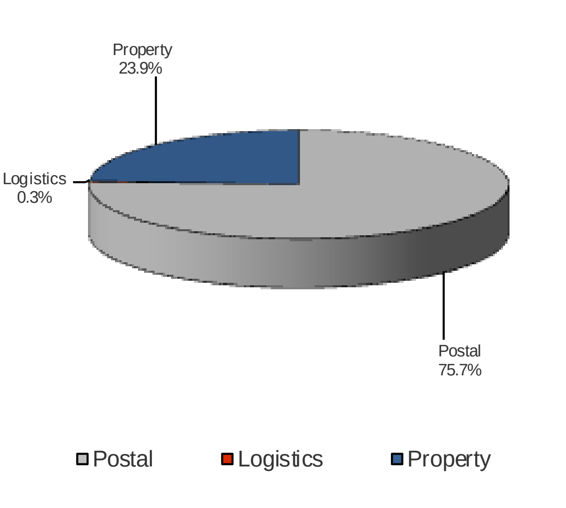
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2019



Source: Company | Excludes Inter-segment Eliminations

Figure 2: EBIT breakdown by Segment - 1H2019



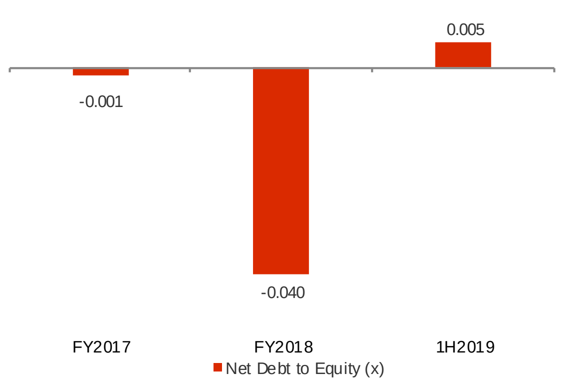
Source: Company | Excludes eCommerce & Others

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	7.7	2.6%
Unsecured	78.9	26.8%
	86.5	**29.5%**
Amount repayable after a year		
Secured	6.0	2.0%
Unsecured	201.2	68.5%
	207.2	**70.5%**
Total	**293.7**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – Despite intense competition and deteriorating results, we think SingTel still offer a strong credit profile. However, we are Underweight on STSP 3.4875% '20s as it offers a mere ~34bps over swaps. We prefer WHEELK 4.5% '21s trading at 97bps over swaps.

Issuer Rating: Positive (2)

Ticker: **STSP**

Background

Singapore Telecommunications Ltd ("SingTel") is the largest listed Telecommunications company in Singapore with a market cap of SGD46.9bn. SingTel is a communications company, providing various services including mobile, data, fixed, pay television, internet, video, infocomms technology ("ICT") and digital solutions. Through various subsidiaries and associates, SingTel is the leading mobile player in Singapore, Australia, Indonesia, Philippines, Thailand and India. Temasek Holdings is the majority shareholder with 52.4% stake as of 3 Jan 2019.

Singapore Telecommunications Ltd

Key credit considerations

- **Downtrend in results continuing into 2QFY2019:** While revenue for 2QFY2019 for the quarter ended 30 Sep 2018 remained stable at SGD4.3bn, reported EBITDA plunged 23.5% y/y to SGD1.46bn with all 3 core segments and regional associates reporting weaker numbers. Despite consumer segment revenue rising 1.5% y/y to SGD2.39bn due to higher handset sales, EBITDA for the segment was down 8.7% y/y to SG745mn with EBITDA from Singapore falling 7.4% y/y to SGD180mn due to lower mobile service and lower contribution from higher margin legacy carriage services. Group Enterprise EBITDA fell 4.8% y/y to SGD440mn, in-line with the fall in revenue (-4.1% y/y to SGD1.57bn) due to the lumpy nature of ICT deals and continued declines in traditional legacy services. Meanwhile, Group Digital Life remained a negative contributor to EBITDA (-SGD34mn).

- **Significant fall in contribution from associates though they remain a major contributor:** Telkomsel reported 22% y/y lower pre-tax profit to SGD291mn due to a steep decline in voice and SMS revenue which outpaced the increase in data price. Meanwhile, Airtel reported a significant loss of SGD165mn, reversing from 2QFY2018's pre-tax profit of SGD81mn with lower domestic and international mobile termination rates and intense price competition in India. That said, pre-tax profits from associates still remain sizeable at SGD330mn (2QFY2018: SGD659mn) and forms 22.6% of SingTel's EBITDA and share of associates' pre-tax profits. Associates contributed SGD227mn cash dividends in 2QFY2019 (-8.1% y/y to SGD247mn), which more than cover SingTel's SGD97.2mn financing cost.

- **Mobile outlook remains challenging:** Though Singapore mobile revenue has increased 5.5% y/y to SGD609mn while maintaining ~50% market share with low churn rates (0.8%), mobile service revenue has fallen 5.3% y/y to SGD411mn. In addition to the trend of declining international voice and roaming call usage, post-paid ARPU has fallen to SGD43/mth (2QFY2018: SGD48/mth) on the back of intense competition and growth of SIM-only and Mobile Share plans. Optus is also facing competition on the data price front with mobile service revenue declining 1.8% due to lower ARPU (also due to SIM-only plans) with post-paid ARPU falling to AUD41/mth (2QFY2018: AUD44/mth). Guidance remains weak for Singapore with mobile service revenue expected to decline by mid-single digit though Australia mobile service revenue is expected to grow by low-single digit.

- **Group Enterprise as a buffer against slowdown in mobile:** Although Group Enterprise's results was a disappointment, SingTel explained that this is due to the lumpy nature of ICT deals and fall in compliance revenue from the Payment Card Industry ("PCI"). Further declines from this may not be significant given that PCI (-35% y/y to SGD19mn) in 2QFY2019 only forms 1.2% of Group Enterprise revenue. Meanwhile, ICT revenues which form 38.5% of Group Enterprise revenue is guided to increase by mid-single digit, with cyber security revenue expected to grow by high-single digit with the government resuming Smart Nation projects.

- **Gradual slide in credit metrics still manageable:** Reported net debt gearing ratio increased q/q and y/y to 25.3% (1QFY2019: 21.8%, 2QFY2018: 23.9%) with higher amounts of borrowings. Reported net debt to EBITDA and share of associates' pre-tax profits has also increased to 1.59x q/q (1QFY2019: 1.31x) and also higher y/y (2QFY2018: 1.21x) due to weaker contributions from core segments and associates. Cash generated from operations has weakened to SGD1.05bn in 2QFY2019 (2QFY2018: SGD1.30bn) though sufficient to cover investing activities outflow (SGD519.5mn) and interest payments (SGD81.3mn). With credit metrics remaining strong despite weaker results, we continue to maintain SingTel at Positive (2) Issuer Profile.

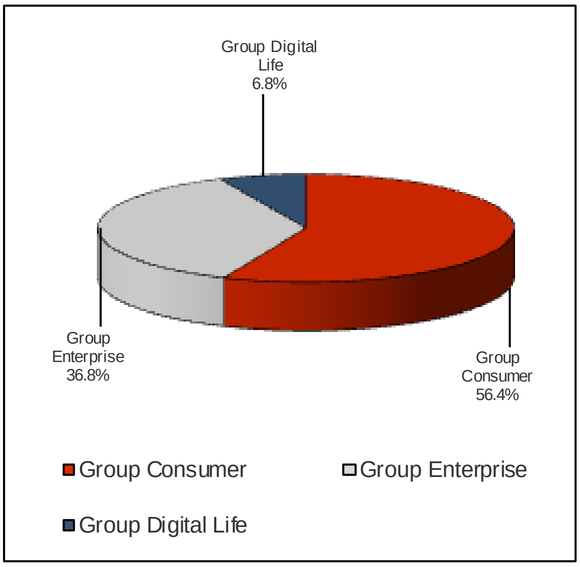
Singapore Telecommunications Ltd

Table 1: Summary Financials

Year End 31st Mar	FY2017	FY2018	1H2019
Income Statement (SGD'mn)			
Revenue	16,711.4	17,531.8	8,403.6
EBITDA	4,782.4	4,830.3	2,220.4
EBIT	2,543.5	2,490.2	1,112.8
Gross interest expense	374.3	390.2	189.4
Profit Before Tax	4,515.4	6,131.5	1,854.2
Net profit	3,831.0	5,430.3	1,487.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	533.8	524.9	706.9
Total assets	48,294.2	49,002.7	47,397.3
Short term debt	3,133.6	1,823.6	1,536.6
Gross debt	11,185.9	10,430.2	10,665.1
Net debt	10,652.1	9,905.3	9,958.2
Shareholders' equity	28,213.6	29,653.6	28,875.8
Cash Flow (SGD'mn)			
CFO	5,314.7	5,955.2	2,961.2
Capex	2,260.6	2,349.0	819.0
Acquisitions	2,476.7	936.7	154.5
Disposals	34.2	1,366.7	148.4
Dividend	2,820.5	3,351.7	1,746.7
Interest paid	-351.3	-379.9	-177.5
Free Cash Flow (FCF)	3,054.1	3,606.2	2,142.2
Key Ratios			
EBITDA margin (%)	28.6	27.6	26.4
Net margin (%)	22.9	31.0	17.7
Gross debt to EBITDA (x)	2.3	2.2	2.4
Net debt to EBITDA (x)	2.2	2.1	2.2
Gross Debt to Equity (x)	0.40	0.35	0.37
Net Debt to Equity (x)	0.38	0.33	0.34
Gross debt/total assets (x)	0.23	0.21	0.23
Net debt/total assets (x)	0.22	0.20	0.21
Cash/current borrowings (x)	0.2	0.3	0.5
EBITDA/Total Interest (x)	12.8	12.4	11.7

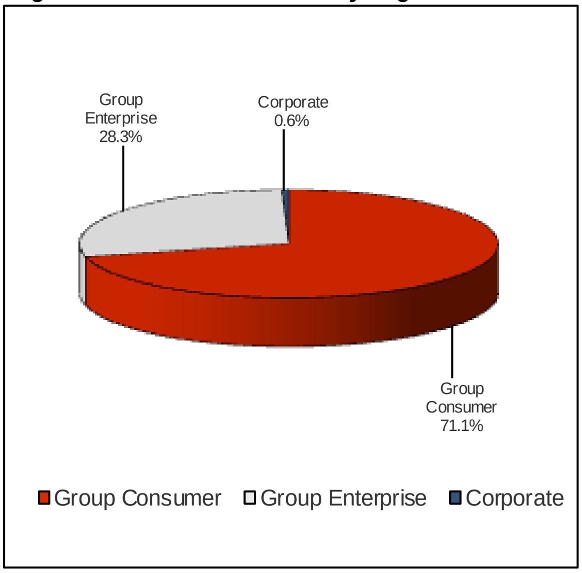
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2019



Source: Company

Figure 2: EBITDA breakdown by Segment - 1H2019



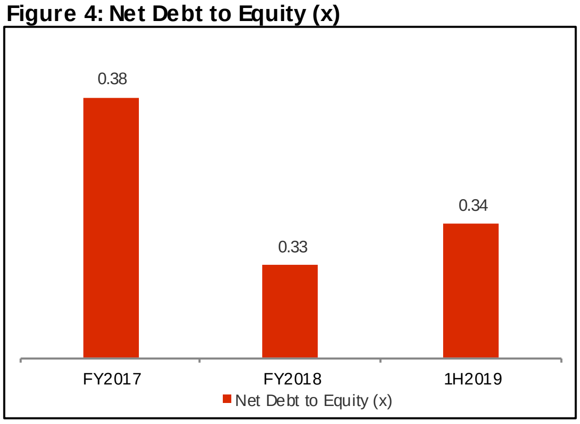
Source: Company | Excludes Group Digital Life

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	21.1	0.2%
Unsecured	1,515.5	14.2%
	1,536.6	**14.4%**
Amount repayable after a year		
Secured	88.6	0.8%
Unsecured	9,039.9	84.8%
	9,128.5	**85.6%**
Total	**10,665.1**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We are neutral on SBREIT 3.6% '21s despite a YTW of 4.2% as we think SBREIT's credit profile has weakened.

Soilbuild Business Space REIT

Key credit considerations

- **Solaris is the key income driver:** Gross revenue and NPI fell 3.6% y/y to SGD19.8mn and 8.8% y/y to SGD16.2mn respectively in 3Q2018, largely due to the divestment of KTL Offshore, lower contribution from West Park BizCentral and Eightrium though partially offset by higher revenue from the conversion of Solaris into a multi-tenanted property on 15 August 2018. It is worth noting that the conversion also brought about higher property operating expenses of ~SGD1.8mn per annum (NPI margin for master-leased spaces is typically 100% unlike multi-tenanted spaces at ~60-70%). Therefore, even though gross revenue has increased by 5.7% on a q/q basis, NPI still fell by 0.15% q/q. Likewise, EBITDA fell 8.8% y/y to SGD14.9mn. That being said, EBITDA/Interest albeit lower remains manageable at 4.08x (3Q2017: 4.3x). Including 50% of perpetual distributions as interest expense, adjusted EBITDA/Interest falls marginally to 4.06x. Solaris accounts for 32% of portfolio income as at 30 September 2018.

Issuer Profile: Neutral (5)

- **No clear recovery in the industrial space yet:** Portfolio occupancy fell to 87.2% from 87.6% in 2Q2018, with a decline at Tuas Connection to 94.7% from 97.0% as at 30 June 2018. Occupancy was stable at West Park BizCentral at 81.0% while Eightrium saw improvement in occupancy to 89.3% from 88.5% in the previous quarter. Furthermore, renewal at Solaris was the sole contributor to the overall positive 2.7% rental reversion in 3Q2018. Otherwise, rental reversion would have kept to its negative trend. As oppose to a downward drift, we expect rents and occupancy to continue to stabilise going forward.

Ticker: **SBREIT**

- **Maiden expansion into Australia:** SBREIT completed the acquisition of a commercial building in Canberra that is fully leased to Commonwealth Government of Australia ("14 Mort Street") for AUD58.9mn (~SGD58.9mn) and a poultry processing plant in Adelaide ("Inghams Burton") for AUD62.1mn (~SGD62.1mn) on 5 October 2018. These Australian properties are expected to contribute ~10% of the portfolio income and to make up ~9.5% of the portfolio by asset value. We also expect these properties to boost SBREIT's occupancy rate to ~88.2% as well as weighted average lease to expiry ("WALE") to ~3.9 years in the upcoming quarters. There are still three industrial properties in the current right of first refusal pipeline – iPark, 171 Kallang Way and 164 & 164A Kallang Way.

Background

Listed in 2013, Soilbuild Business Space REIT ("SBREIT") is an Industrial REIT in Singapore, with total assets of SGD1.23bn as at 5 October 2018. SBREIT currently owns a portfolio of 11 properties in Singapore and 2 properties in Australia. The REIT is Sponsored by Soilbuild Group Holdings Ltd ("Soilbuild") and Soilbuild is wholly owned by Mr. Lim Chap Huat. The Lim family is the REIT's largest unitholder, with a 28.9% stake.

- **New supply at One-North:** Alice@Mediapolis, an 11-storey building with a GFA of 39,487 sqm and located 1km away from SBEIT's crown jewel – Solaris, has commenced operations. Given Solaris is currently fully occupied and has seen a high single digit positive rental reversion in 3Q2018, we think Solaris remains attractive to tenants. However, we do not discount the possibility of tenants having a higher bargaining power on renewal lease rates on the back of greater rental supply in the area.

- **Manageable near term refinancing risk despite higher aggregate leverage:** Following the additional debt taken up to finance parts of the acquisition of two Australian properties, aggregate leverage inched higher to 39.2% (2Q2018: 37.6%). Taking 50% of the perpetual securities issued in September 2018 as debt, adjusted aggregate leverage is high at ~42%. Although refinancing risk in near term is manageable since maturing debt in 2019 and 2020 are small at SGD40mn and SGD18.5mn respectively, we see significant chunks of debt coming due subsequently e.g. SGD200mn in 2020. **We downgrade SBREIT to Neutral (5) Issuer Profile from Neutral (4)** on the back of reduced financial flexibility.

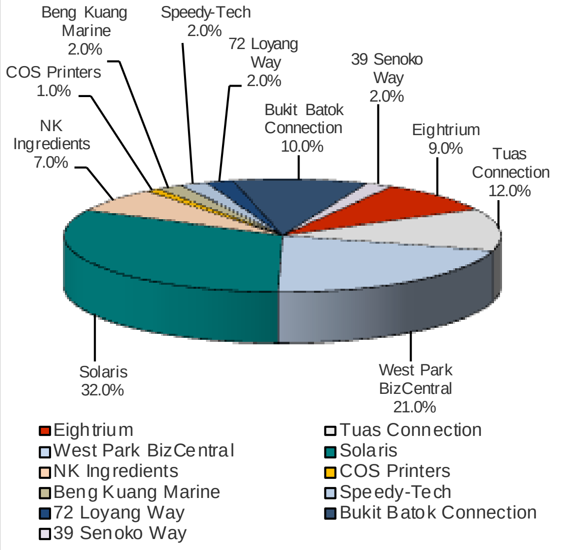
Soilbuild Business Space REIT

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	81.1	84.8	58.0
EBITDA	64.4	67.3	45.3
EBIT	64.4	67.3	45.3
Gross interest expense	14.6	15.7	11.2
Profit Before Tax	-0.6	-28.3	36.7
Net profit	-0.6	-28.3	36.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	25.7	11.7	75.3
Total assets	1,275.5	1,181.6	1,201.8
Short term debt	0.0	0.0	39.9
Gross debt	472.3	474.4	421.9
Net debt	446.6	462.7	346.7
Shareholders' equity	751.7	668.6	732.4
Cash Flow (SGD'mn)			
CFO	83.9	63.4	59.0
Capex	31.9	0.4	2.0
Acquisitions	103.9	0.0	5.6
Disposals	0.0	0.0	55.0
Dividends	58.9	61.7	41.9
Interest paid	12.6	14.2	9.7
Free Cash Flow (FCF)	51.9	63.0	57.0
Key Ratios			
EBITDA margin (%)	79.4	79.3	78.1
Net margin (%)	-0.7	-33.4	63.3
Gross debt to EBITDA (x)	7.3	7.1	7.0
Net debt to EBITDA (x)	6.9	6.9	5.7
Gross Debt to Equity (x)	0.63	0.71	0.58
Net Debt to Equity (x)	0.59	0.69	0.47
Gross debt/total asset (x)	0.37	0.40	0.35
Net debt/total asset (x)	0.35	0.39	0.29
Cash/current borrowings (x)	NM	0.1	1.9
EBITDA/Total Interest (x)	4.4	4.3	4.0

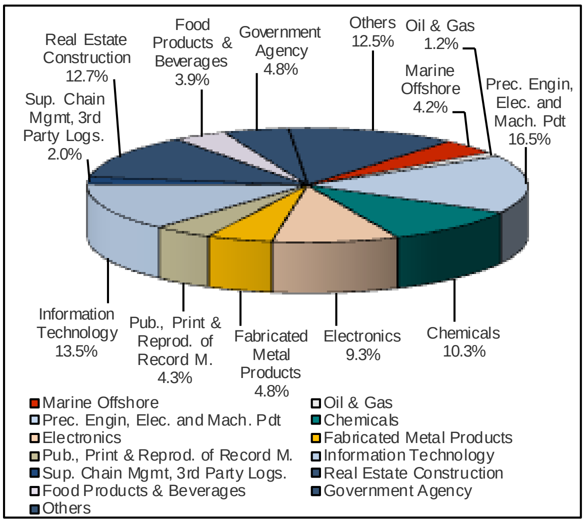
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - 3Q2018



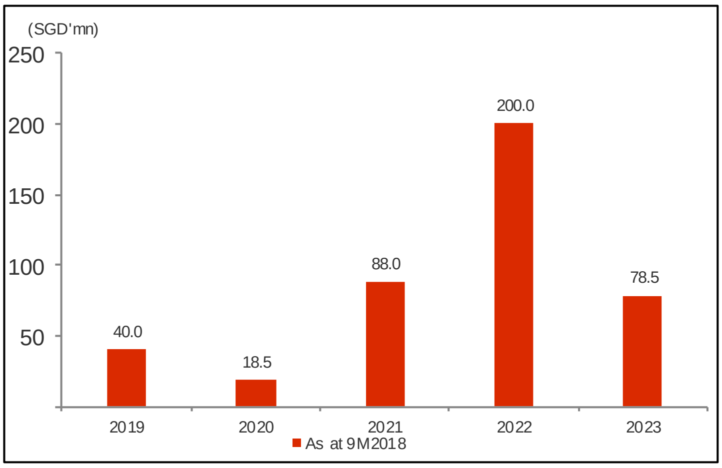
Source: Company

Figure 2: Revenue breakdown by Business - 3Q2018



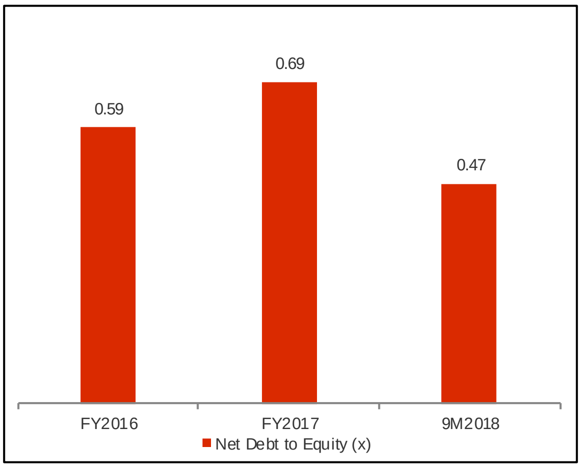
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –
We are underweight on SGREIT curve as the bond spreads and yields do not look attractive at this point.

Issuer Profile: Neutral (4)

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 10 mid to high-end retail properties in 5 countries, valued at ~SGD3.1bn as at 30 September 2018. 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 6 other malls in China, Australia and Japan. YTL Corp Bhd is SGREIT's sponsor and largest unitholder with ~33.4% stake.

Starhill Global Real Estate Investment Trust

Key credit considerations

- **Slightly weaker topline:** Gross revenue eased 1.8% y/y to SGD52.0mn while NPI was fell 2.3% y/y to SGD40.4mn in the first quarter for the financial year ending 30 June 2019 ("1QFY2019"). This was mainly due to softness in Singapore's retail portfolio and weakening of AUD, though partly offset by Ngee Ann City (Office) and Plaza Arcade which has completed its asset redevelopment and a relatively stronger MYR. Given that 49.1% of portfolio is made up of master leases, we think that topline figures can be somewhat stable. That said, the master lease for Starhill Gallery and Lot10 Property which contributes ~14% of total gross rent as at 30 September 2018 will expire in Jun-19.

- **Recovery in Singapore office:** Revenue and NPI for office segment for 1QFY2019 jumped 9.2% and 9.7% y/y respectively. Committed occupancy for office recovered from a low of 83.5% a year ago to 95.3% as at 30 September 2018. Ngee Ann City (Office) saw committed occupancy recover to 95.3% (1QFY2018: 77.9%) partly due to the addition of The Great Room, a co-working space in Jun-18. The higher implied occupancy translated to a 20.6% y/y increase in revenue and a 22.3% y/y growth in NPI even though operating expenses went up as well. Although lease expiry looks heavy in FY2019 at 37.7% (by gross rent) for Ngee Ann City (Office) vs 12.0% in FY2018 this time a year ago, we think this is manageable for SGREIT given the recovery seen in the Singapore office market. Although Wisma Atria (Office) has yet to see a similar recovery as Ngee Ann City (Office) with revenue down 4.2% y/y and NPI down 6.2% y/y, we think Wisma Atria (occupancy rate: 89.4%) is able to ride on the recovery trend in the office segment and perform better.

- **Singapore retail remains stable despite softness:** Ngee Ann City (Retail) maintained full occupancy as it is anchored by Toshin master lease (i.e. Takashimaya). Although actual occupancy at Wisma Atria (Retail) was just 91.0%, committed occupancy rate stood at a high of 99.2%, amidst the soft retail climate (which has also negatively affected the Orchard Road Belt). Having said that, Wisma Atria (Retail) has 25.8% of leases by gross rent expiring in FY2019. We think the anticipated (further) improvement in the office space can help offset the weakness in retail. Overall, committed portfolio occupancy for SGREIT is stable q/q at 94.1% (4QFY2018: 94.2%), with occupancy rate in Singapore at 95.4%, Australia at 88.6% and Japan, China and Malaysia at 100%.

- **Affected by weakening AUD:** Australia properties (Myer Centre, David Jones and Plaza Arcade) contributed 23.0% of total revenue in 1QFY2019. Revenue was down 4.7% y/y while NPI declined 2.5% y/y, mainly due to weakening of AUD against SGD. SGREIT has long term leases for Myer Centre and David Jones and opened the first Uniqlo store in Perth at Plaza Arcade in Aug-18. Overall, occupancy rate for Australia properties stood at 88.6% mainly due to lower occupancy rate at Myer Centre (Office).

- **Minimal near term refinancing risk:** Aggregate leverage remains healthy at 35.4% (4QFY2018: 35.5%) with ~92% of its borrowings fixed. EBITDA/Interest stood at 3.8x. SGREIT has minimal refinancing risk in the near term as it has SGD109mn due in Sep-19 (which it has available undrawn long term committed credit facilities to cover) and SGD145mn in FY2020. Average debt maturity is ~3.5 years. 74% of assets remain unencumbered as at 31 Sep 2018 which supports financial flexibility while its fixed/hedged debt ratio is 92%. However, SGREIT has two chunks of debt maturity of SGD351mn in FY2022 (31% of total debt) and SGD385mn in FY2023 (34% of total debt).

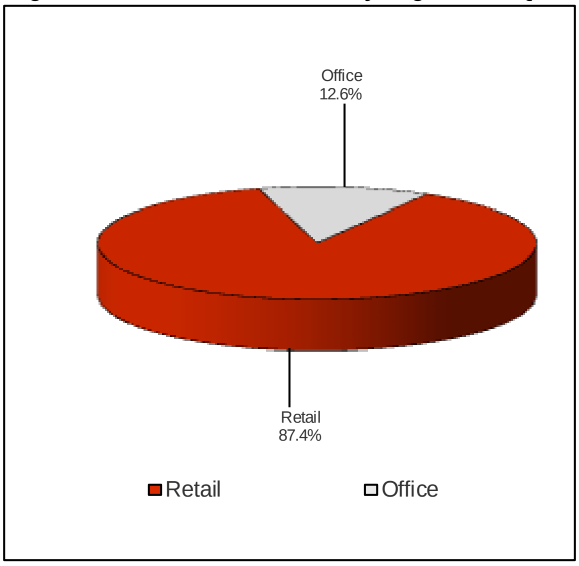
Starhill Global Real Estate Investment Trust

Table 1: Summary Financials

Year Ended 30th June	FY2017	FY2018	1Q2019
Income Statement (SGD'mn)			
Revenue	216.4	208.8	52.0
EBITDA	147.5	142.3	35.5
EBIT	147.2	142.3	35.5
Gross interest expense	38.9	38.3	9.5
Profit Before Tax	99.0	87.7	25.6
Net profit	100.3	84.2	24.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	76.6	66.7	62.4
Total assets	3,219.4	3,191.5	3,167.6
Short term debt	405.9	63.4	108.7
Gross debt	1,134.3	1,130.3	1,117.9
Net debt	1,057.7	1,063.6	1,055.5
Shareholders' equity	2,009.3	1,990.3	1,978.0
Cash Flow (SGD'mn)			
CFO	141.1	135.9	34.1
Capex	9.1	13.7	0.8
Acquisitions	0.0	0.0	0.0
Disposals	4.9	6.2	0.0
Dividends	109.7	101.2	23.8
Interest paid	36.1	39.1	8.7
Free Cash Flow (FCF)	132.1	122.2	33.4
Key Ratios			
EBITDA margin (%)	68.2	68.1	68.2
Net margin (%)	46.3	40.3	47.5
Gross debt to EBITDA (x)	7.7	7.9	7.9
Net debt to EBITDA (x)	7.2	7.5	7.4
Gross Debt to Equity (x)	0.56	0.57	0.57
Net Debt to Equity (x)	0.53	0.53	0.53
Gross debt/total asset (x)	0.35	0.35	0.35
Net debt/total asset (x)	0.33	0.33	0.33
Cash/current borrowings (x)	0.2	1.1	0.6
EBITDA/Total Interest (x)	3.8	3.7	3.7

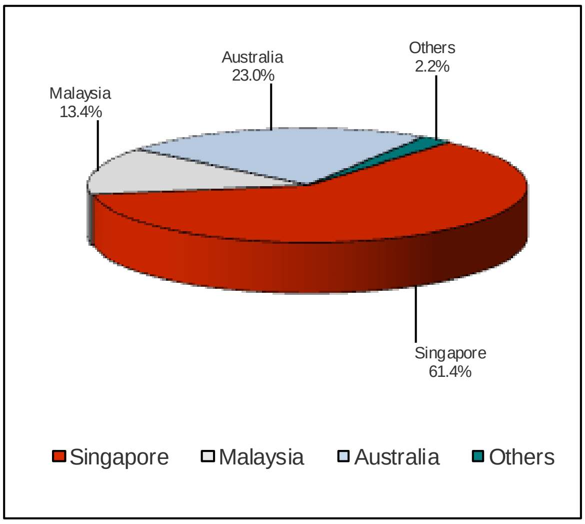
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1Q2019



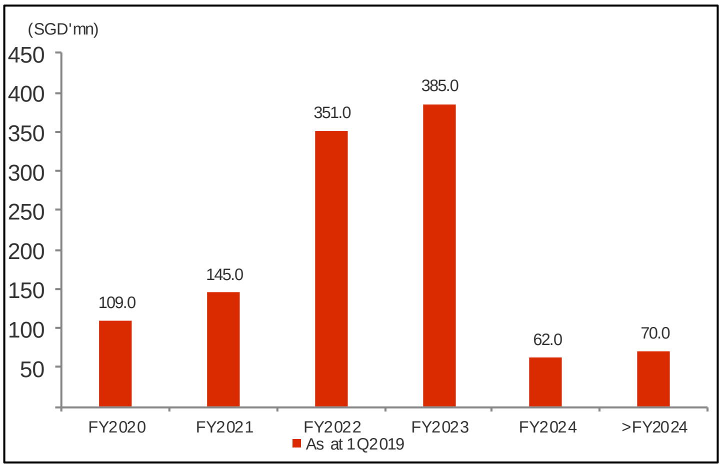
Source: Company

Figure 2: Revenue breakdown by Geography - 1Q2019



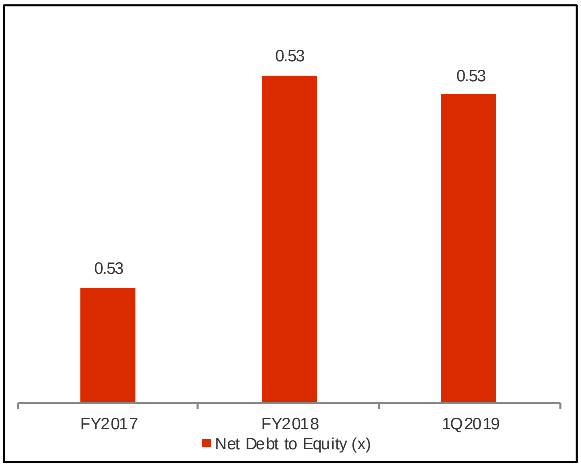
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We are Neutral on STHSP '22s and '26s. However, we Underweight STHSP 3.95% PERP due to deteriorating credit outlook from intensifying competition and we see call risk given its poor structure (5Y call but 10Y reset).

Issuer Profile: Neutral (3)

Ticker: **STHSP**

Background
StarHub Ltd ("StarHub") is a Singapore communications company, providing various services for consumer and corporates including mobile, data, fixed telecommunication, pay television, internet and broadband services. StarHub is 55.8% owned by Asia Mobile Holdings Pte Ltd, which is 75%-owned by STT Communications Ltd, which is in turn a wholly-owned subsidiary ST Telemedia, which is in turn a wholly-owned subsidiary of Temasek.

StarHub Limited

Key credit considerations

- **Results continue to reveal pressure on mobile:** 3Q2018 revenue increased 3.0% y/y to SGD582.2mn, though this is largely due to sales of equipment which increased 24.4% y/y to SGD122.6mn (representing 21% of total revenue). Sales of equipment were higher due to greater volume of premium handsets sold and sales of smart home equipment. Overall service revenue (total revenue without sales of equipment) dipped 1.5% y/y to SGD459.6mn. Mobile, which formed 46.5% of total revenue, continues to struggle (-4.2% y/y to SGD213.6mn). In addition to lower revenue from traditional services in IDD and voice, a SGD4/mth decline y/y in ARPU to SGD44/mth was recorded with a higher mix of SIM-only plans, take-up of DataJump and free unlimited weekend data plans despite overall smartphone data usage surging to 5.9GB (3Q2017: 4.5GB). It appears that the Mobile Virtual Network Operator partnership between MyRepublic and StarHub in May 2018 has not arrested the slide. Going forward, we expect further ARPU pressure even with increasing data usage. StarHub has rolled out aggressive new SIM-only plans with large data bundles, which we think is triggered due to intense competition and should reduce the potential to charge for excess data usage. It remains to be seen if the potential growth in registered customers will offset the potential ARPU loss.

- **Breakup of bundling with Pay TV no longer a core revenue generator:** Pay TV revenue plunged 14.1% y/y to SGD74.6mn, accounting for only 12.8% of total revenue in 3Q2018 (2014-16: ~16%). This is mainly due to the decline in subscribers to 423k (3Q2017: 467k) while ARPU also declined to SGD47/mth (3Q2017: SGD51/mth). We think this is most likely due to the ceasing of 11 channels from Discovery Networks from 31 Aug 2018. As mentioned previously, we think this poses vulnerability to StarHub as it spells the breakup of its bundling strategy which allowed StarHub to increase customer stickiness and achieve cross-selling between products (e.g. mobile, Pay TV, broadband). We understand that StarHub is not agreeable pay content providers a minimum price for their content (which StarHub claims to have been subsidising content providers to gain broadband connectivity) and instead prefers a variable price model. Meanwhile, rival SingTel gained the rights to air Discovery, which we think can result in consumers switching away from StarHub.

- **Diversification with steady results from broadband and Enterprise:** Only broadband remains relatively stable with revenue at SGD46.8mn (+0.9% y/y) due to a small growth in subscriber base. However, broadband expenses may increase as StarHub is providing free migration for customers from cable TV to fibre, which may incur installation and leasing fees. Meanwhile, the Enterprise Fixed segment is seeing a healthy 13% y/y growth in revenue to SGD124.6mn due to the consolidation of Ensign InfoSecurity Pte Ltd (from Jul 2017) and D'Crypt Pte Ltd (Jan 2018). Excluding the consolidation, revenue from Enterprise Fixed would still have increased 4.5% y/y. Meanwhile, StarHub owns 9.8%-stake in mm2 Asia and is retailing electricity in a partnership with Sunseap though it remains to be seen if these will eventually grow to a sizeable revenue contribution.

- **Sliding credit metrics still healthy for now:** Reported net debt to TTM EBITDA increased y/y to 1.22x in 3Q2018 (3Q2017: 0.82x) with an uptick in net debt and weaker EBITDA. Pressures on results may persist with EBITDA margin guided to be between 27%-29% (9M2018: 30.2%). While StarHub expects to save SGD210mn over the 2019-21 after slashing 300 employees, SGD500mn capex commitments remain (including SGD282mn for 4G spectrum rights) which could push debt levels higher. 3Q2018 SGD152mn net cash from operating activities barely covered ~SGD72mn cash used for investing activities and SGD69.2mn for dividends and SGD5.7mn interest payment. If dividends continue to be maintained, we expect debt levels to increase going forward.

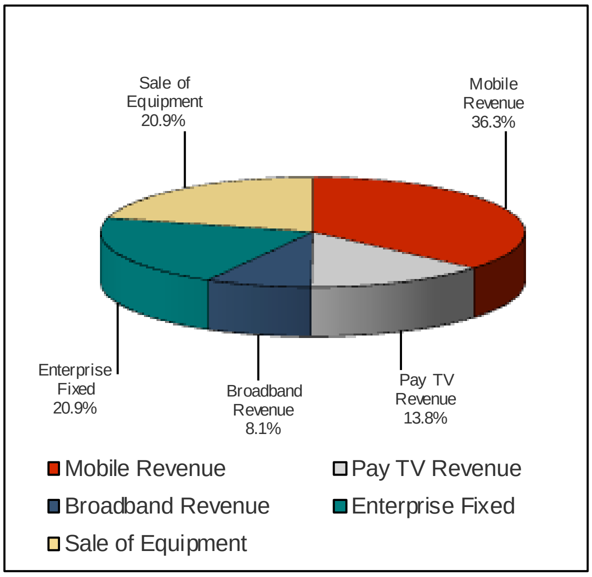
StarHub Limited

Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	2,396.7	2,400.8	1,742.5
EBITDA	657.9	609.5	455.8
EBIT	392.9	329.1	242.9
Gross interest expense	26.2	29.9	22.1
Profit Before Tax	410.3	304.5	223.3
Net profit	341.4	249.7	185.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	285.2	345.2	249.6
Total assets	2,196.3	2,636.1	2,554.8
Short term debt	10.0	120.0	120.1
Gross debt	987.5	977.5	978.5
Net debt	702.3	632.3	728.9
Shareholders' equity	194.9	606.0	581.2
Cash Flow (SGD'mn)			
CFO	550.7	517.2	377.8
Capex	366.7	295.9	189.5
Acquisitions	18.0	37.6	56.6
Disposals	0.7	2.0	0.3
Dividend	346.2	294.0	207.6
Interest paid	-25.1	-30.0	-20.2
Free Cash Flow (FCF)	184.0	221.3	188.3
Key Ratios			
EBITDA margin (%)	27.5	25.4	26.2
Net margin (%)	14.2	10.4	10.6
Gross debt to EBITDA (x)	1.5	1.6	1.6
Net debt to EBITDA (x)	1.1	1.0	1.2
Gross Debt to Equity (x)	5.07	1.61	1.68
Net Debt to Equity (x)	3.60	1.04	1.25
Gross debt/total assets (x)	0.45	0.37	0.38
Net debt/total assets (x)	0.32	0.24	0.29
Cash/current borrowings (x)	28.5	2.9	2.1
EBITDA/Total Interest (x)	25.1	20.4	20.6

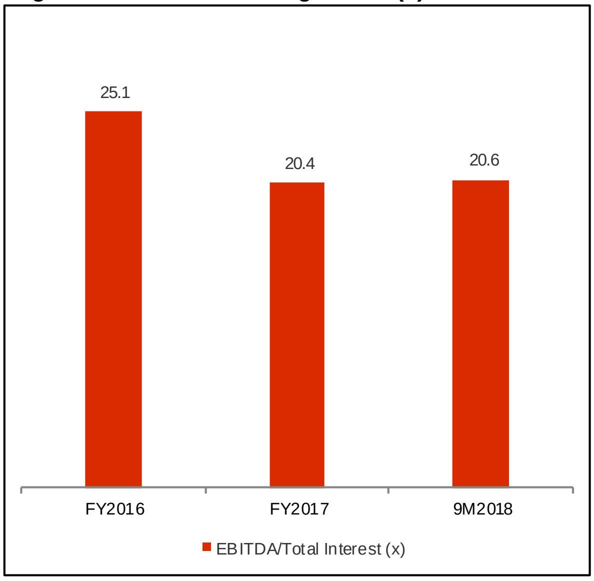
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2018



Source: Company

Figure 2: Interest Coverage Ratio (x)



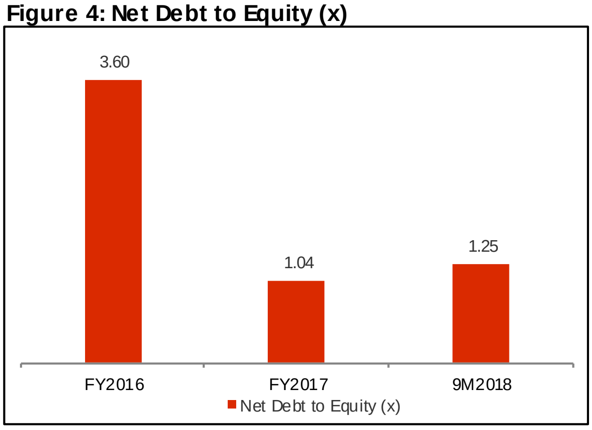
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	120.1	12.3%
	120.1	**12.3%**
Amount repayable after a year		
Secured	0.0	0.0%
Unsecured	858.4	87.7%
	858.4	**87.7%**
Total	**978.5**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – Across the SUNSP curve, we think the SUNSP'21s offers better value. SUNSP'23s, on the other hand, looks fair.

Issuer Profile: Neutral (4)

Ticker: **SUNSP**

Background

Listed on the SGX in 2004, Suntec REIT ("SUN") invests in retail and office real estate in Singapore and Australia. This includes "Suntec City" (Suntec City Mall, units in Towers 1–3, and whole of Towers 4 & 5), 60.8%-of Suntec Singapore Convention & Exhibition Centre ("SSECE"), one-third of One Raffles Quay ("ORQ"), one-third of Marina Bay Financial Centre Towers 1 & 2 and Marina Bay Link Mall ("MBFC") and 30%-interest in 9 Penang Road. SUN also holds 100% of 177 Pacific Highway in Sydney as well as 50%-interest in both Southgate and 477 Collins Street in Melbourne.

Suntec Real Estate Investment Trust

Key credit considerations

- **Improvements at retail continues:** Gross revenue dipped slightly by 2.5% y/y to SGD88.8mn in 3Q2018, on the back of lower contributions from 177 Pacific Highway (down 22.2% y/y by SGD2.7mn) as a result of the weakened Australian dollar and Suntec City (Office) which declined 4.3% y/y by SGD1.5mn. The dip in revenue was partially offset by Suntec City Mall and retail at SSCEC which was up 5.7% y/y by SGD1.4mn and 6.5% y/y by SGD0.3mn respectively. Specifically, Suntec City Mall saw footfall increase 5.5% y/y and tenant sales up 5.4% y/y. NPI, however, fell more significantly by 11.4% y/y to SGD56.5mn due to the sinking fund contribution for Suntec City (Office) upgrading works. Excluding the sinking fund contribution, NPI was 3.9% lower y/y. Contributions from JV increased 4.1% y/y by SGD0.9mn, driven by the additional 25% interest in Southgate Complex (completed on 31 May 2018) which more than offset the income weakness seen at ORQ (-12.7% y/y) and MBFC (-1.8% y/y). Excluding the additional interest in Southgate, overall contributions from JV would have dipped 5.0% y/y.

- **Repositioning of Suntec City (Office):** Revenue generated from Suntec City (Office) was down 4.4% y/y due to transitory downtime from replacement leases which are expected to fully commerce operation by end 2018. NPI fell more significantly by 12.1% y/y to SGD23.9mn in 3Q2018. In fact, NPI has been declining q/q since a year ago. With committed occupancy high at 99.6% (above overall CBD Grade A occupancy of 91.6%), we think revenue at this property looks to improve. However, the same may not be said of NPI as expenses are likely to be incurred to fund works to reposition Suntec City (Office) beginning in 4Q2018 and to be completed progressively over the next three years. Works include refreshing lobbies, washrooms and visitor management system. That being said, a bright spot would be the higher average office rent of SGD9.05psf/mth secured at this property in 3Q2018 vs SGD8.95psf/mth in the previous quarter. Outstanding expiring office leases are manageable at ~10% of NLA for 2019. This is particularly so given the decline in Singapore new office supply these past two years.

- **Uplift by Australia assets offset by weakening AUD:** Committed occupancy at 177 Pacific Highway was maintained at 100% while that for Southgate Complex's towers improved to 96.8% as at 30 September 2018. Both assets would have contributed more significantly to SUN if not for the weakening AUD. SUN has stated that it will monitor exposure to AUD on an ongoing basis and manage it through suitable financial instruments. WALE of portfolio's Australia office assets is 6.12 years vs 3.18 years for Singapore. Similarly, Australia retail assets have a WALE of 5.55 years and just 2.43 years for Singapore. As such, Australia assets add leasing stability to the portfolio. At present, SUN has two projects under development. One being 9 Penang Road (formerly known as 'Park Mall') which is scheduled to complete end-2019 and another in Melbourne - 477 Collins Street, which has 65.8% of occupancy pre-committed, is expected to be completed by mid-2020.

- **Moderate credit profile:** Aggregate leverage inched higher to 38.2% in 3Q2018 from 37.9% in the preceding quarter while EBITDA/Interest worsened slightly to 1.7x (2Q2018: 2.1x) as all-in financing cost had increased to 2.86% from 2.74% as at 30 June 2018. Fixed / hedged debt is stable q/q at ~70% of total debt where a 50bps increase in interest rate will translate to ~SGD4.1mn higher interest expense. Refinancing risk in the short term is minimal and SUN has repaid parts of its SGD800mn loan due in Apr-19 with parts of a new 5.5-year loan facility. SUN enjoys good access to capital. It has issued two bonds totaling SGD330mn and has borrowings aggregating SGD900mn in 2018.

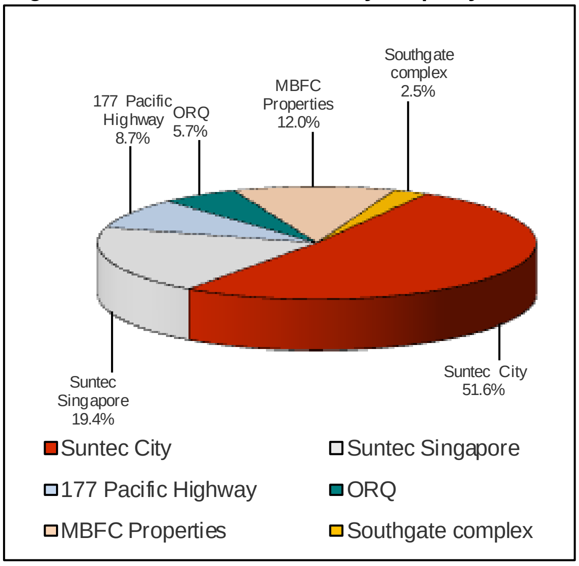
Suntec Real Estate Investment Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	328.6	354.2	270.1
EBITDA	175.9	195.6	142.6
EBIT	174.8	194.4	141.7
Gross interest expense	94.2	96.7	68.9
Profit Before Tax	275.5	247.3	162.8
Net profit	261.3	229.0	157.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	182.5	172.7	133.1
Total assets	9,093.4	9,241.6	9,392.3
Short term debt	99.8	237.0	988.0
Gross debt	3,305.8	3,230.9	3,456.1
Net debt	3,123.3	3,058.2	3,323.0
Shareholders' equity	5,593.3	5,767.0	5,688.5
Cash Flow (SGD'mn)			
CFO	197.7	226.6	161.8
Capex	140.8	25.8	34.0
Acquisitions	156.1	53.1	166.8
Disposals	0.0	0.0	0.0
Dividends	265.0	263.1	205.5
Interest paid	83.5	82.3	69.4
Free Cash Flow (FCF)	56.8	200.8	127.8
Key Ratios			
EBITDA margin (%)	53.5	55.2	52.8
Net margin (%)	79.5	64.7	58.4
Gross debt to EBITDA (x)	18.8	16.5	18.2
Net debt to EBITDA (x)	17.8	15.6	17.5
Gross Debt to Equity (x)	0.59	0.56	0.61
Net Debt to Equity (x)	0.56	0.53	0.58
Gross debt/total asset (x)	0.36	0.35	0.37
Net debt/total asset (x)	0.34	0.33	0.35
Cash/current borrowings (x)	1.8	0.7	0.1
EBITDA/Total Interest (x)	1.9	2.0	2.1

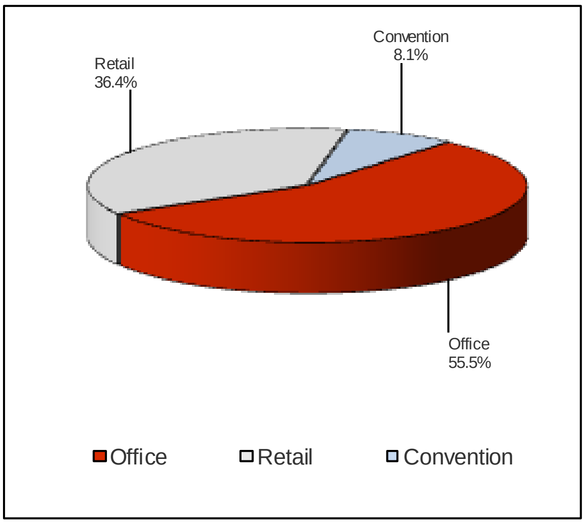
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - 9M2018



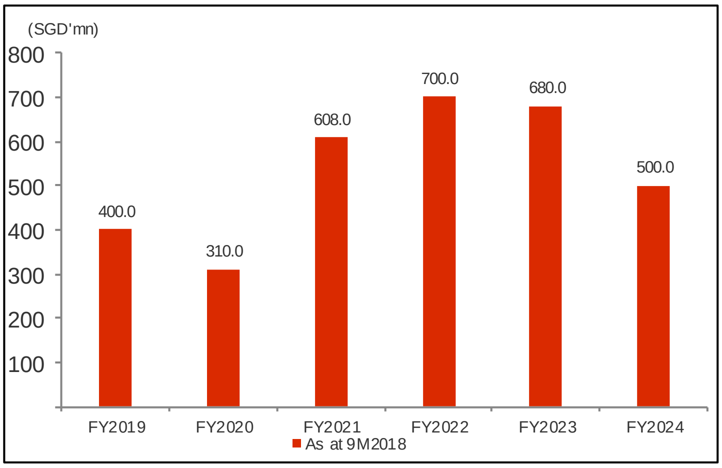
Source: Company

Figure 2: NPI breakdown by Segment - 9M2018



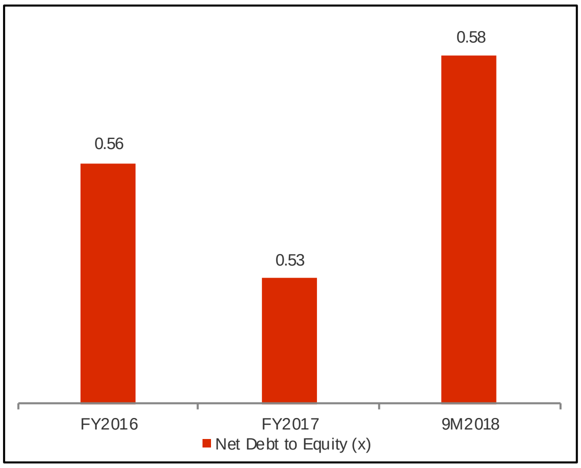
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We think WHARF '21s look fair at 90bps over swaps given its healthy credit profile. However, we prefer its parent WHEELK '21s trading at similar levels as WHEELK benefits from recurring income from Wharf REIC.

Issuer Profile: Neutral (3)

Ticker: **WHARF**

Background

The Wharf (Holdings) Ltd ("Wharf') develops and invests in retail, hotel and office property in China and develops properties in Hong Kong. Wharf is also involved in managing hotels and container terminals businesses. In Nov-17, Wharf spun off its major investment properties in Hong Kong (which is currently listed as Wharf REIC). Wharf is a subsidiary of Wheelock & Co. Ltd, which owns a 64% stake in the company.

Wharf Holdings Ltd

Key credit considerations

- **1H2018 without demerged Wharf REIC:** Revenue increased by 4% h/h to HKD7.82bn (excluding Wharf REIC's contribution) due to a 27% h/h increase in revenue from investment properties to HKD1.69bn and 4% h/h increase for development properties to HKD3.9bn, partly offset by lower logistics revenue which is down 8% h/h to HKD1.3bn and exit from the CME segment. Contributions from investment properties are largely driven by the maturing Chengdu International Finance Square ("IFS") and the newly-opened Changsha IFS. Lower logistics revenue came about from lower throughput handled by Modern Terminals and a lower yield. Core profit (excluding Wharf REIC's contribution), on the other hand, fell by 9% h/h to HKD2.5bn on same-store basis. The decline is attributable to the development properties and logistics segments which declined by 24% h/h and 21% h/h respectively. The deferral of sales recognition from the signing of formal agreement to the completion of assignment under the new accounting standard (which took effect on 1st Jan 2018) led to lower contribution recognized from Mount Nicholson joint venture in Hong Kong and the fall in core profit for development properties.

- **Skewed towards China:** Six Hong Kong investment properties were spun off through demerger of Wharf REIC in Nov-17, shrinking Wharf's exposure to Hong Kong. As a result, Hong Kong's contribution to Wharf in terms of overall revenue was reduced to 22.7% from 54.4% a year ago. In contrast, China's contribution to WHARF in terms of revenue grew to 77.2% from 45.5%. Geographically, Mainland business assets amount to HKD137.9mn and represents 75% of total business assets. On investment properties, operating profit from China improved 23% h/h to HKD897m with revenue up 29% h/h to HKD1.6bn. Chengdu IFS contributed to 41.5% of the revenue generated by this segment. Specifically, the retail component of Chengdu IFS has an occupancy rate of 99.8% and tenant sales grew at an impressive rate of 23% h/h. Changsha IFS which opened in May-18 had a commitment rate of 97%,exceeding management's expectations.

- **Development properties in Mainland China are the key driver:** This business segment in China account for 50.3% of total revenue and 37.5% of total profit before tax. We see a significant capital commitment amounting to HKD24.3bn (of which HKD7.8bn is committed) for development properties in Mainland China as at 30 June 2018. This alone made up 78.3% of total commitments of Wharf as at 30 June 2018. Furthermore, in 1H2018, Wharf acquired 10 sites in Suzhou, Hangzhou, Foshan and Guangzhou for RMB14bn (~HKD16.1bn) (GFA: 677,300 sq m) on an attributable basis. As at 30 June 2018, the land bank was maintained at 3.8mn sq m. We expect this trend to continue as WHARF has projected to spend another HKD10.8bn on China development properties.

- **Manageable credit profile:** Net debt increased h/h to HKD29.3bn leading to net gearing ratio of 20.1% versus cash surplus position in end-2017. Cash was used for reinvestment in development properties projects in Hong Kong and the Mainland as well as in equity investments. Excluding non-resource debts, net debt is HKD22.5bn (end-2017: cash surplus). Although debt distribution is skewed towards the short term with HKD19.7bn maturing before Jun-19, we think it is manageable as WHARF continues to have healthy liquidity with HKD15.7mn of bank deposits and cash available. In addition, Wharf is also backed by HKD81.8bn unencumbered investment properties (based on our estimation).

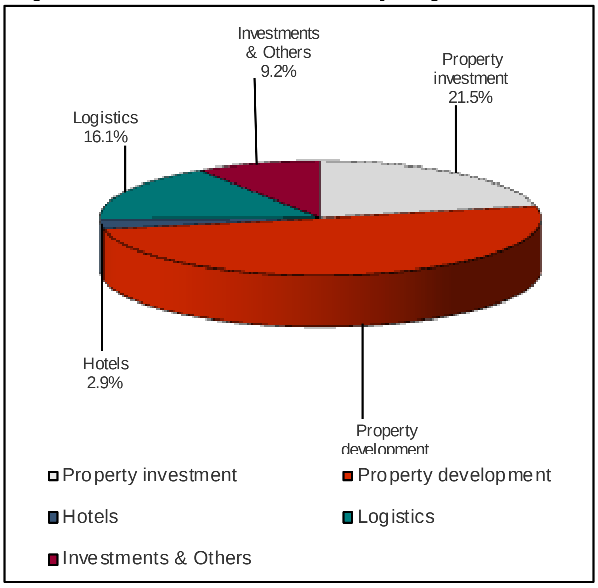
Wharf Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1H2018
Income Statement (HKD'mn)			
Revenue	46,627.0	43,273.0	7,823.0
EBITDA	18,471.0	21,560.0	3,095.0
EBIT	17,065.0	20,622.0	2,768.0
Gross interest expense	1,926.0	1,382.0	219.0
Profit Before Tax	25,772.0	30,570.0	4,388.0
Net profit	21,665.0	22,603.0	2,901.0
Balance Sheet (HKD'mn)			
Cash and bank deposits	36,957.0	45,697.0	15,651.0
Total assets	443,827.0	222,647.0	232,229.0
Short term debt	15,178.0	10,142.0	19,726.0
Gross debt	60,794.0	36,409.0	44,943.0
Net debt	23,837.0	-9,288.0	29,292.0
Shareholders' equity	325,406.0	145,471.0	145,984.0
Cash Flow (HKD'mn)			
CFO	29,084.0	5,208.0	-15,797.0
Capex	14,077.0	5,368.0	1,692.0
Acquisitions	-3,859.0	11,355.0	0.0
Disposals	12,066.0	7,715.0	0.0
Dividends	6,440.0	6,995.0	2,893.0
Free Cash Flow (FCF)	15,007.0	-160.0	-17,489.0
Key Ratios			
EBITDA margin (%)	39.6	49.8	39.6
Net margin (%)	46.5	52.2	37.1
Gross debt to EBITDA (x)	3.3	1.7	7.3
Net debt to EBITDA (x)	1.3	-0.4	4.7
Gross Debt to Equity (x)	0.19	0.25	0.31
Net Debt to Equity (x)	0.07	-0.06	0.20
Gross debt/total assets (x)	0.14	0.16	0.19
Net debt/total assets (x)	0.05	-0.04	0.13
Cash/current borrowings (x)	2.4	4.5	0.8
EBITDA/Total Interest (x)	9.6	15.6	14.1

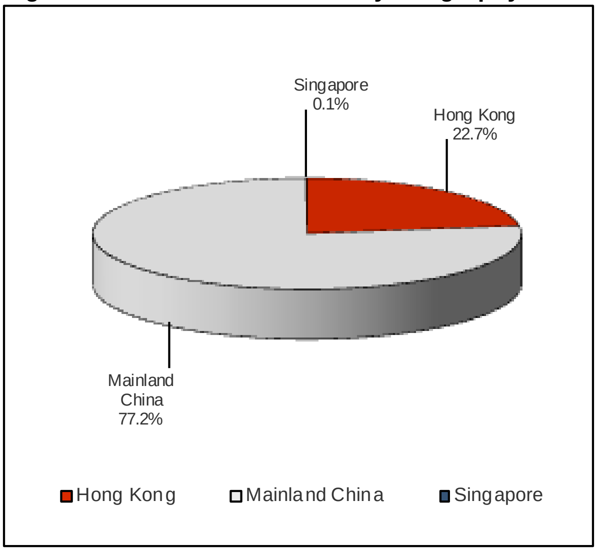
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2018



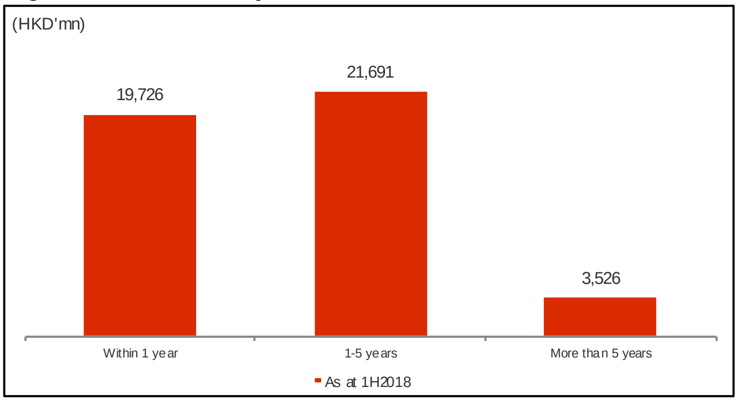
Source: Company | Excludes CME

Figure 2: Revenue breakdown by Geography - 1H2018



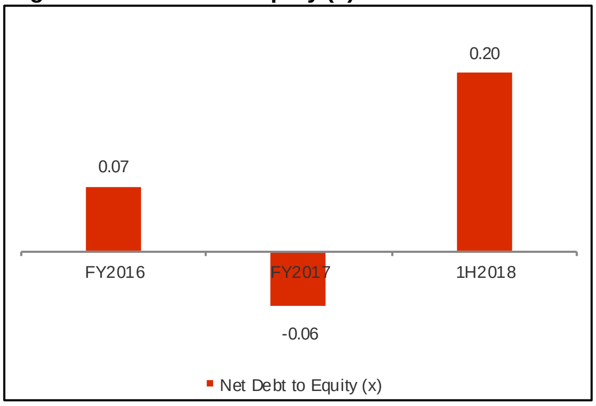
Source: Company | Excludes Corporate

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We prefer WHEELK '21s over its subsidiary WHARF '21s as Wheelock benefits from dividends upstreamed from Wharf REIC while both papers trade similarly around 90bps over swaps.

Issuer Profile: Positive (2)

Ticker: **WHEELK**

Background

Founded in Shanghai in 1857, Wheelock & Co Ltd ("Wheelock") is a Hong Kong-listed investment holding company. Wheelock owns 64% of The Wharf (Holdings) Ltd ("Wharf") and 62% of Wharf Real Estate Investment Co ("Wharf REIC"). Together with 90.1%-owned Wheelock Properties (Singapore) ("WPSL"), the subsidiary companies generate a solid recurring dividend income for the Group.

Wheelock & Co Ltd

Key credit considerations

- **Development properties underperformed:** 1H2018 revenue declined 46.7% y/y to HKD17.6bn, on the back significantly lower revenue recognition from development properties (51.2% of total revenue) sold in Hong Kong (-94.8% y/y to HKD0.8bn) and Mainland China (-26.8% y/y to HKD4.5bn) as a result of the adoption of HKFRS 15. In Hong Kong, no revenue was recognized for new project completion during the period while sales of remaining units at Kensington Hill, CAPRI, ONE HOMANTIN and NAPA enabled revenue recognition totaling HKD0.7bn. This translates into a 41.5% y/y lower operating profit of HKD1.6bn for development properties. It is worth noting that since 1st Jan 2018, revenue from sale of properties is recognized when the legal assignment is completed instead of Occupation Permit. Therefore, the postponement in recognition can possibly go beyond half a year. Investment properties (29.7% of total revenue), on the other hand, saw better performance with revenue up 7.9% y/y in Hong Kong (attributable to Harbour City ("HC")) and 28.9% y/y in Mainland China (mainly driven by a maturing Chengdu International Finance Squares ("IFS") and the newly-opened Changsha IFS). Operating profit for investment properties grew 8.9% y/y to HKD7.4bn as at 30 June 2018.

- **Wharf REIC remains a key contributor to Wheelock:** WHEELK holds 90.1% of WPSL following the buyout on 2 October 2018. Despite the increase in stake in WPSL from ~76.2% as at 30 June 2018, Wharf REIC continues to be the largest subsidiary of WHEELK. Based on our estimation, Wharf REIC will account for ~59.1% of total core profit, down by just 1.0% after adjusting for WHEELK's increase in stake in WPSL. Wharf REIC, with a total value of HKD270.7mn, holds 6 prime investment properties in Hong Kong, including key properties HC valued at ~HKD181.8bn and Times Square ("TS") valued at ~HKD57.8bn. In 1H2018, its investment property portfolio reported robust retail sales, which grew at a rate of 31.4% (vs the Hong Kong average of 13.4%) and captured 9.9% of total Hong Kong retail sales during the period. In addition, HC recorded the strongest revenue growth 11% y/y in 1H2018.

- **Revenue visibility from development sales:** Residential sales recorded a 131% y/y growth in 1H2018 at HKD23.4bn, marking the strongest first half sales. MALIBU, launched in Mar 2018, presold 1,552 units for HKD14.3bn (HKD16, 000 per sq ft). OASIS KAI TAK, launched in Jan 2018, presold 278 units for HKD3.9bn (HKD26, 000 per sq ft) while MONTEREY, launched in Dec 2017, presold an additional 98 units for HKD1.5bn (HKD22, 200 per sq ft). The net order book increased by 243% to HKD30.2bn, on the back of successful launches of the abovementioned properties. However, sales recognition was just HKD2.0bn due to the adoption of new accounting standard for sales recognition. WHEELK's land bank stood at 6.6mn sq ft after the launch of MALIBU earlier in 2018. During the period, WHEELK also purchased two residential sites – one from HNA Group for HKD6.36bn at Kai Tak in Mar 2018 and a Kowloon Tong site at HKD12.45bn in Jan 2018.

- **Strong credit metrics:** Consolidated net gearing surged to 25.2% (2017: 14.9%), largely due to higher debt at Wharf to finance reinvestment in development property projects in Hong Kong and the Mainland as well as in equity investments. Having said that, these debts are non-recourse to WHEELK whose standalone net gearing stood at 13.8%, slightly higher from 12.0% in 2017. Given WHEELK has HKD24.2bn undrawn facilities, we think the HKD2.0bn of debt due in 2H2018 and HKD1.4bn in 2019 as at 30 June 2018 are very manageable, not forgetting the recurrent dividend income WHEELK receives from its subsidiaries. In 1H2018, WHEELK receives ~HKD2bn p.a. in dividends from its stake in Wharf REIC.

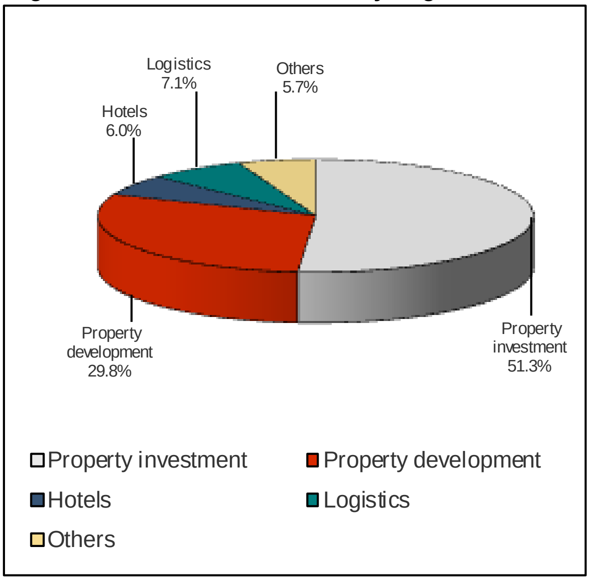
Wheelock & Co Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1H2018
Income Statement (HKD'mn)			
Revenue	60,579.0	70,953.0	17,577.0
EBITDA	22,547.0	24,841.0	10,126.0
EBIT	21,135.0	23,857.0	9,648.0
Gross interest expense	3,001.0	2,247.0	1,223.0
Profit Before Tax	29,763.0	41,466.0	16,353.0
Net profit	25,072.0	33,031.0	13,772.0
Balance Sheet (HKD'mn)			
Cash and bank deposits	43,964.0	56,474.0	24,650.0
Total assets	520,435.0	569,672.0	591,794.0
Short term debt	25,886.0	35,170.0	29,971.0
Gross debt	94,941.0	114,191.0	124,606.0
Net debt	50,977.0	57,717.0	99,956.0
Shareholders' equity	349,520.0	387,823.0	396,288.0
Cash Flow (HKD'mn)			
CFO	31,636.0	17,233.0	-16,712.0
Capex	9,718.0	8,041.0	2,025.0
Acquisitions	1,050.0	20,310.0	1,000.0
Disposals	13,852.0	8,812.0	0.0
Dividends	5,415.0	5,979.0	4,367.0
Free Cash Flow (FCF)	21,918.0	9,192.0	-18,737.0
Key Ratios			
EBITDA margin (%)	37.2	35.0	57.6
Net margin (%)	41.4	46.6	78.4
Gross debt to EBITDA (x)	4.2	4.6	6.2
Net debt to EBITDA (x)	2.3	2.3	4.9
Gross Debt to Equity (x)	0.27	0.29	0.31
Net Debt to Equity (x)	0.15	0.15	0.25
Gross debt/total assets (x)	0.18	0.20	0.21
Net debt/total assets (x)	0.10	0.10	0.17
Cash/current borrowings (x)	1.7	1.6	0.8
EBITDA/Total Interest (x)	7.5	11.1	8.3

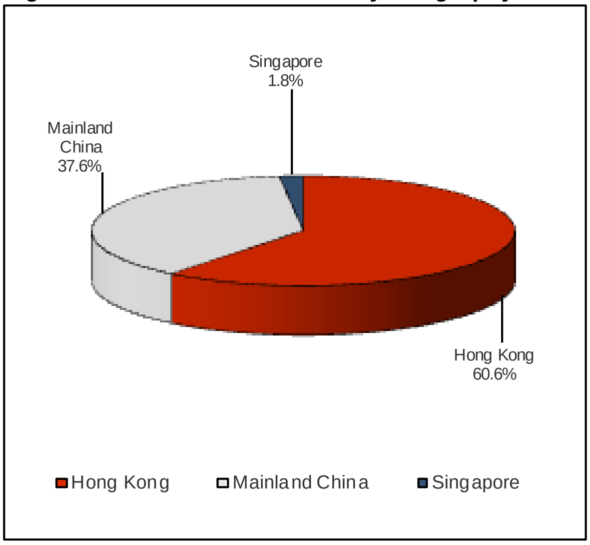
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2018



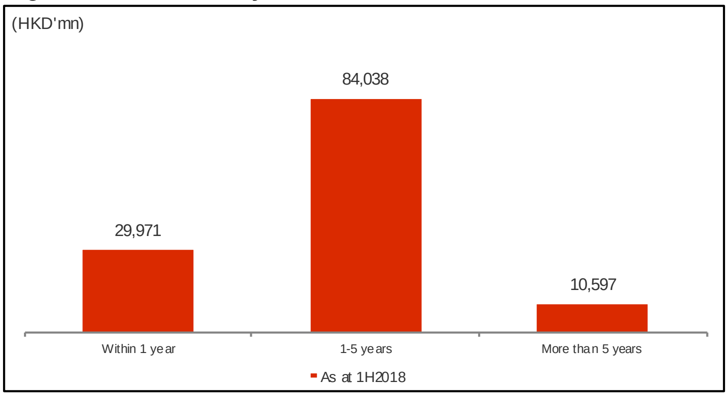
Source: Company | Excludes CME

Figure 2: Revenue breakdown by Geography - 1H2018



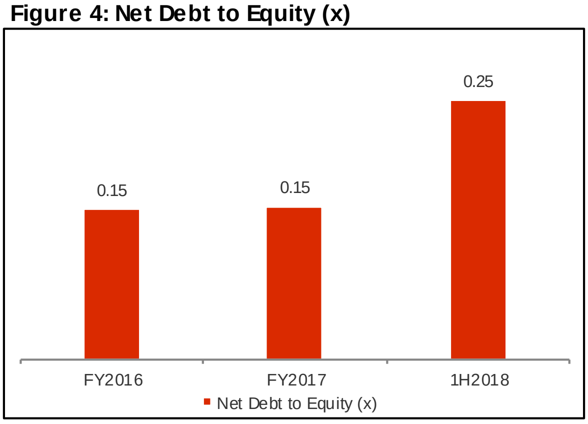
Source: Company

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We think the WINGTA curve looks interesting given its healthy credit metrics. However, we prefer WINGTA 4.25% ’22s (from Wing Tai Properties, “WTP”) at 3.85% YTM over WINGTA 4.5% ‘23s (from WTH) at 3.59% YTM as the former yields higher while WTP sits closer to the assets.

Issuer Profile: Neutral (4)

Ticker: **WINGTA**

Background

Listed on the SGX since 1989, Wing Tai Holdings

(“WTH”) core businesses are 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. WINGTA owns a 34.4%-stake in Wing Tai Properties Ltd (“WTP”). The group's Chairman Mr. Cheng Wai Keung owns a 51.1% stake in WINGTA.

Wing Tai Holdings Ltd

Key credit considerations

- **1QFY2019 results poorer overall:** WTH reported 1QFY2019 results for the quarter ending 30 Sep 2018. Revenue increased 8% y/y to SGD77.9mn due to sale of vacant land at Langgak Golf in Kuala Lumpur. However, gross profit fell 7% y/y to SGD31.8mn, likely due to lower margins from its development projects. Coupled with other gains falling 90% y/y to SGD2.4mn due to absence of one-off gain of SGD16.7mn from the disposal of a property development project located at Shanghai, WTH incurred an operating loss of SGD1.1mn. However, net profit remained positive (-86% y/y to SGD2.2mn) with share of profits of associated and joint venture companies increasing 14% y/y to SGD9.3mn, likely due to better performance from WTP and Uniqlo.

- **Lacklustre sales at new launch and landbank in Singapore running lower:** The Garden Residences (40%-owned JV with Keppel) saw just 10 units (SGD9.5mn) sold in Jul-Sep 2018, noticeably slower compared to 61 units (SGD69.2mn) sold in June 2018 before the latest round of property cooling measures in July. Sales at the 43-unit Le Nouvel Ardmore have also slowed, with only 15 units sold as at 30 June 2018. Meanwhile, the 469 units The Crest (40%-owned) sold 35 units for SGD78.2mn in Jul-Sep 2018. According to WTH, The Crest was over 70% sold as of 30 June 2018. Overall though, we note that WINGTA has been relatively quiet in the Singapore property scene for now after selling 202 units in FY2018 (worth SGD522mn). Going forward, WTH plans to market Phase 2 (estimated: 112 units) of Malaren Gardens in Shanghai in late 2018, after selling over 90% of the 189 units in Phase 1.

- **Increasing contribution from retail segment:** Despite being allocated only 4% of WTH’s total assets, reported EBIT from retail grew 24.8% y/y to SGD34.3mn in FY2018, forming 13% of FY2018 reported EBIT. This has grown from an insignificant level (e.g. FY2016 reported EBIT: SGD4.2mn), following the opening of Uniqlo’s flagship store at Orchard Central in Sep 2016 (WTH owns 49.0% of Uniqlo Singapore). Uniqlo has 26 stores in Singapore as at 30 June 2018. We estimate that Uniqlo Singapore contributed SGD14.7mn to WTH’s profit in FY2018 (FY2017: SGD11.4mn). In Malaysia, WTH owns a 45%-stake in Uniqlo Malaysia and grew y/y to 47 stores (FY2017: 40 stores), which we estimate contributed SGD14.1mn to WTH’s profit in FY2018 (FY2017: SGD10.0mn). Aside from Uniqlo, WTH operates through retail brands including G2000, Topshop and Topman.

- **Recurrent income from investment properties and dividends from associates:** WTH reportedly generated SGD31.5mn of revenue (FY2017: SGD30.0mn) and an estimated net property income of SGD21.3mn (FY2017: SGD20.0mn). Based on TTM dividends, we estimate that WTH will receive ~HKD132mn (SGD23.3mn) p.a. from its 34.4%-stake in WTP.

- **Healthy credit metrics, for now:** WTH remains in net cash position. After adjusting the perpetuals (which are ranked senior unsecured) as debt, net gearing still looks healthy at just 2% (4QFY2018: 4%). Meanwhile, operating cashflow remains positive at SGD72.1mn, buoyed by monetisation of development properties (SGD34.8mn). That said, we think net gearing may not necessarily stay low as WTH continues to guide that it is looking out for investment opportunities in Singapore and abroad. Meanwhile, liquidity is ample with SGD855.9mn cash and no short term debt. Overall, despite the weak results, WTH’s credit profile is supported by its healthy credit metrics, which should cushion the slowdown in sales of its development properties.

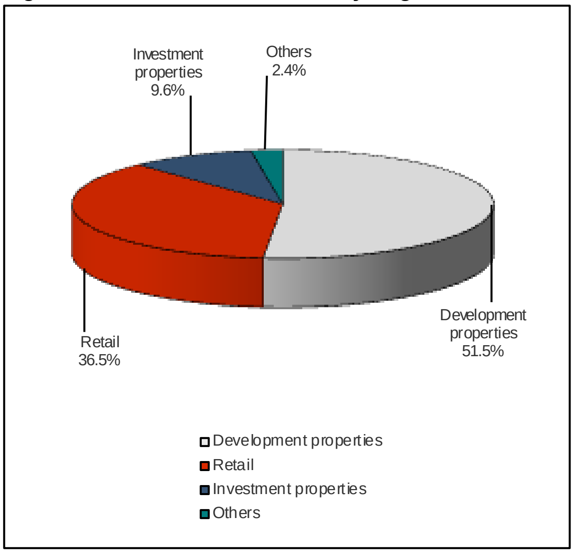
Wing Tai Holdings Ltd

Table 1: Summary Financials

Year Ended 30th Jun	FY2017	FY2018	1Q2019
Income Statement (SGD'mn)			
Revenue	263.2	373.2	77.9
EBITDA	-9.6	35.5	-1.7
EBIT	-17.8	27.9	-3.5
Gross interest expense	42.0	32.5	8.0
Profit Before Tax	19.7	239.4	0.2
Net profit	26.4	221.1	2.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	847.4	792.2	855.9
Total assets	4,615.8	4,531.7	4,516.0
Short term debt	4.3	0.0	0.0
Gross debt	929.6	780.1	780.7
Net debt	82.3	-12.1	-75.2
Shareholders' equity	3,415.7	3,550.1	3,531.1
Cash Flow (SGD'mn)			
CFO	139.5	105.9	72.1
Capex	7.7	9.4	3.5
Acquisitions	119.9	149.0	5.1
Disposals	499.6	274.4	4.5
Dividend	48.0	50.3	0.0
Interest paid	-41.5	-32.7	-8.4
Free Cash Flow (FCF)	131.8	96.5	68.6
Key Ratios			
EBITDA margin (%)	-3.7	9.5	-2.1
Net margin (%)	10.0	59.2	2.9
Gross debt to EBITDA (x)	-96.6	22.0	-117.7
Net debt to EBITDA (x)	-8.5	net cash	net cash
Gross Debt to Equity (x)	0.27	0.22	0.22
Net Debt to Equity (x)	0.02	net cash	net cash
Gross debt/total assets (x)	0.20	0.17	0.17
Net debt/total assets (x)	0.02	net cash	net cash
Cash/current borrowings (x)	199.2	NM	NM
EBITDA/Total Interest (x)	-0.2	1.1	-0.2

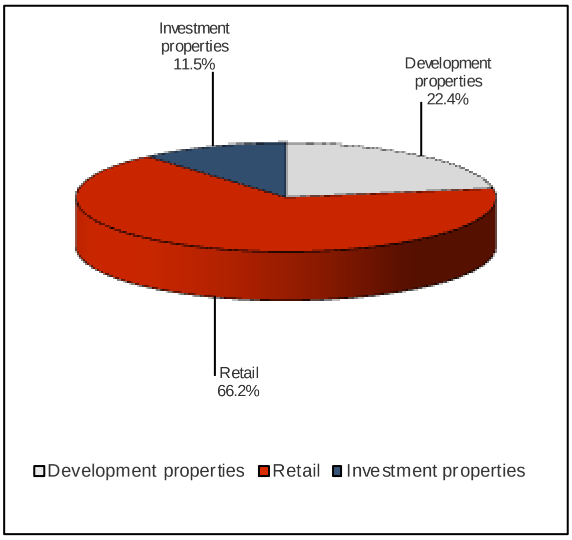
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2018



Source: Company

Figure 2: EBIT breakdown by Segment - FY2018



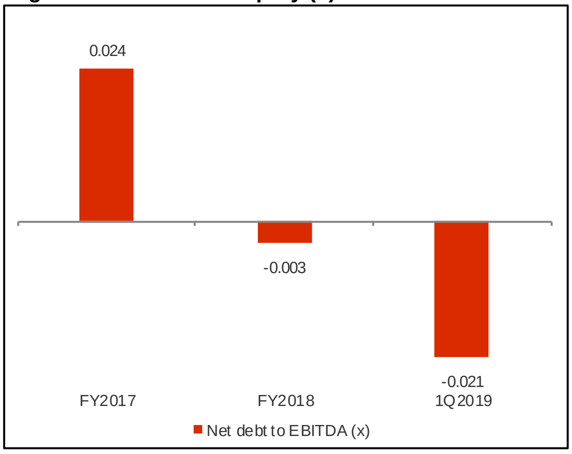
Source: Company | Excludes Others which are loss-making

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2018	% 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	83.7	10.7%
Unsecured	696.9	89.3%
	780.7	**100.0%**
Total	**780.7**	**100.0%**

Source: Company, OCBC estimates

Figure 2: Net debt to Equity (x)



Source: Company

Credit Outlook – We continue to like WINGTA 4.25% '22s with 3.85% YTM for its healthy credit metrics. However, we are Neutral on WINGTA 4.35% PERP as it looks unlikely to be called on first call.

Issuer Profile: Neutral (4)

Ticker: **WINGTA**

Background

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 34.4% owned by Wing Tai Holdings Ltd and 13.7%-owned by Sun Hung Kai Properties Ltd.

Wing Tai Properties Ltd

Key credit considerations

- **Mixed 1H2018 results with divestments and timing difference on units handover:** Revenue declined 14.0% y/y to HKD469.5mn (1H2017: HKD545.8mn) in 1H2018, mainly due to lower property development revenue which slumped to HKD16.4mn (1H2017: HKD94.0mn) due to timing of project completion and handover. We are not overly worried though as property investment and management revenue, which is the main contributor, remained flattish at around HKD373.1mn (1H2017: HKD381.2mn) though slightly lower y/y due to divestments of Winner Godown (March 2018) and W Square (June 2018). This translated to a similarly flattish profit before change in fair value of HKD264.4mn (1H2017: HKD264.6mn) for the property investment and management segment. Overall net profits though surged to HKD1.1bn (1H2017: HKD450.8mn) due to HKD693.3mn gain on disposals (1H2017: nil).

- **Asset divestment leaves Landmark East as the sole core of the Hong Kong investment portfolio:** Following the divestment of Winner Godown and W Square, investment properties continue to form the majority of WTP, representing HKD19.6bn out of HKD35.4bn total assets. Landmark East is the sole core property with 1.3mn sq ft GFA (comprising mostly Grade A offices). Together with Shui Hing Centre with 187k sq ft GFA (industrial property), the investment portfolio in Hong Kong has a market value of HKD16.5bn. Occupancy at Landmark East remained high at 98% with steady growing income on the back of decentralisation.

- **Growing the investment portfolio outside Hong Kong:** The other parts of the investment portfolio include 91k sq ft of office/retail space in London across 5 properties, of which some rental upside should be seen as we expect tenants to move in to Cavendish Square (GFA: 11k sq ft) which is completing refurbishment and expansion works. In Nov 2018, WTP announced the acquisition of a London investment property with 403,639 sq ft of space, under a 50-50 JV with Manhattan. WTP's share of contribution is GBP230mn (HKD2.3bn). We would not preclude further acquisitions as WTP has indicated that it is looking for opportunities to acquire yield-enhancing investment properties in Hong Kong and London.

- **Significant development at Hong Kong Central:** Under a 65-35 JV with CSI Properties, HKD11.6bn was paid for a commercial complex (GFA: 460,000 sqft) at Gage Street/Graham Street in Central. This will be developed into a commercial complex comprising a Grade A office tower, a hotel, retail shops and public open space. We believe that a significant part of the HKD7.3bn contingent liabilities are due to WTP's guarantees for the JV.

- **Property sales in Hong Kong:** WTP will be recognising sales from Le Cap (GFA: 142k sq ft) in 2019 though only 12% of the units have been sold. With Hong Kong property prices coming off the highs, it remains to be seen if sales at this project and Le Vetta (318k sq ft) which is completing will be affected. We are not overly worried though as properties for sale comprise just 11.8% of the total assets and we think WTP can manage any slowdown in property sales.

- **Material improvement in credit metrics following divestments:** Net gearing fell to 4.7% (end 2017: 19.9%) due to receipt of proceeds from the disposal of W Square (HKD2.9bn) and Winner Godown Building (HKD2.2bn). Even after accounting for HKD7.3bn of contingent liabilities and adjusting for SGD260mn WINGTA 4.35% PERP (which ranks senior unsecured) as debt, adjusted net gearing remains comfortable at ~35%. Liquidity is ample with HKD4.0bn cash and unutilised revolving loan facilities of HKD2.1bn, which exceeds short term borrowings of HKD512.9mn. Asset encumbrance is manageable with just HKD8.4bn of assets out of HKD35.4bn of total assets pledged.

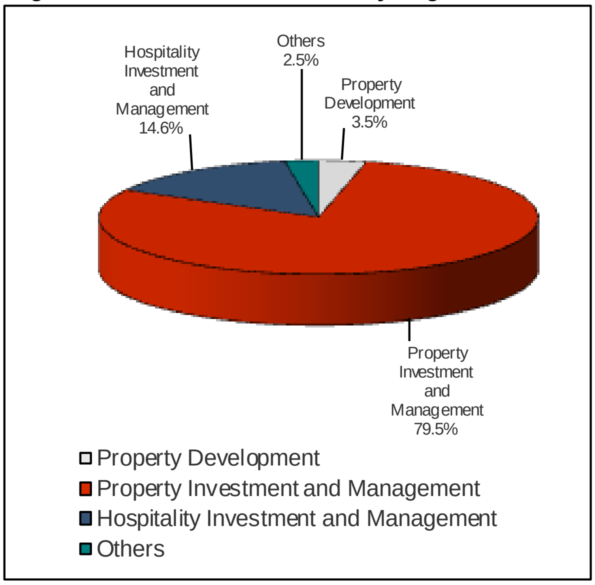
Wing Tai Properties Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1H2018
Income Statement (HKD'mn)			
Revenue	1,103.3	1,064.3	469.5
EBITDA	487.0	476.1	201.6
EBIT	482.8	471.1	196.8
Gross interest expense	137.9	160.6	34.7
Profit Before Tax	1,260.4	2,101.0	1,112.2
Net profit	1,149.2	2,002.4	1,069.1
Balance Sheet (HKD'mn)			
Cash and bank deposits	1,682.8	654.2	3,989.4
Total assets	30,776.1	35,496.1	35,420.5
Short term debt	477.1	1,401.5	512.9
Gross debt	5,184.8	6,184.1	5,320.6
Net debt	3,502.0	5,529.9	1,331.2
Shareholders' equity	24,312.1	27,809.9	28,543.0
Cash Flow (HKD'mn)			
CFO	-1,643.2	897.1	-348.8
Capex	11.0	75.2	10.4
Acquisitions	0.0	0.0	0.0
Disposals	458.3	314.5	4,698.4
Dividends	201.7	246.5	337.5
Free Cash Flow (FCF)	-1,654.2	821.9	-359.2
Key Ratios			
EBITDA margin (%)	44.1	44.7	42.9
Net margin (%)	104.2	188.1	227.7
Gross debt to EBITDA (x)	10.6	13.0	13.2
Net debt to EBITDA (x)	7.2	11.6	3.3
Gross Debt to Equity (x)	0.21	0.22	0.19
Net Debt to Equity (x)	0.14	0.20	0.05
Gross debt/total assets (x)	0.17	0.17	0.15
Net debt/total assets (x)	0.11	0.16	0.04
Cash/current borrowings (x)	3.5	0.5	7.8
EBITDA/Total Interest (x)	3.5	3.0	5.8

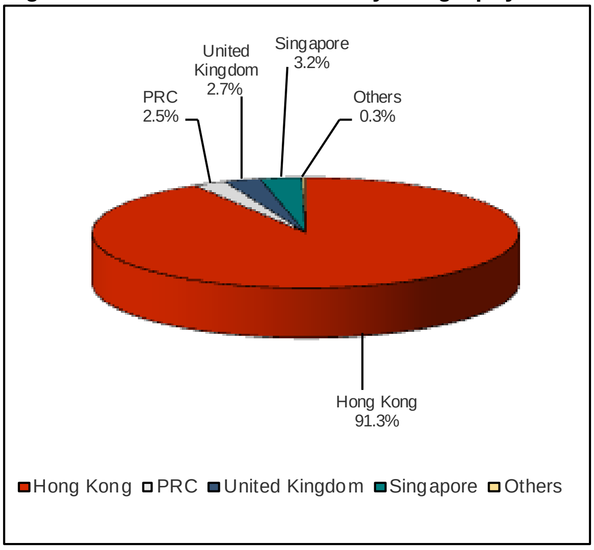
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2018



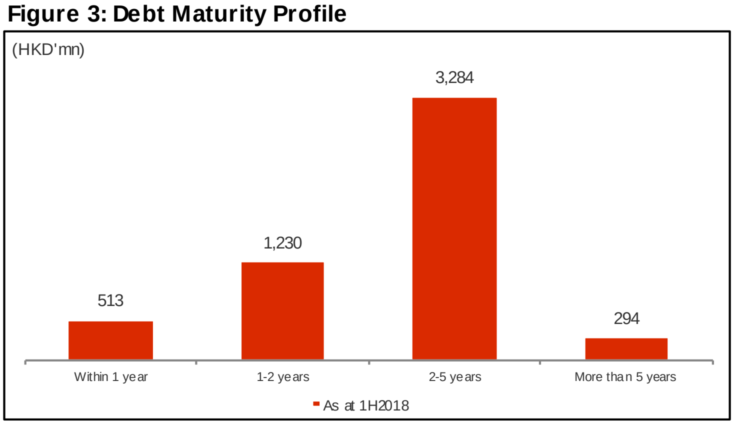
Source: Company

Figure 2: Revenue breakdown by Geography - 1H2018



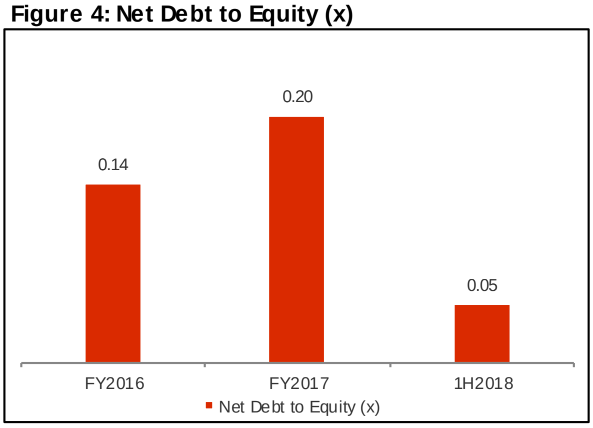
Source: Company

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Financial Institution Outlooks

ABN AMRO Bank N.V.

Credit Outlook – ABN's solid fundamentals support its stable credit outlook in our view. The ABNANV 4.75% '26c21s look decent value against the BNP 4.3% '25c20s.

Issuer Profile: Neutral (3)

Ticker: **ABNANV**

Background

Wholly owned by ABN AMRO Group NV, ABN Amro Bank NV ('ABN') is 56.0% owned by the Dutch government through the Ministry of Finance. It was formed on 1 July 2010 through the merger of Fortis Bank (Nederland) NV with the Dutch activities of ABN AMRO Holding NV. In FY2017, ABN derived 78% of operating income from the Netherlands followed by Europe (11%), Asia (6%) and the US (4%). As at 30 September 2018, it had total assets of EUR392.4bn.

Key credit considerations

- **Impairment charges a drag:** ABN's 9M2018 results included a material increase in impairment charges, which rose to EUR447mn against EUR29mn in 9M2017. This was due to specific stresses in Corporate & Institutional Banking ("CIB": Natural Resources and Trade & Commodity Finance exposures) and Commercial Banking ("CB": Healthcare and Shipping exposures) against higher impairment releases in 9M2017. This belies the overall positive operating environment. Although economic growth is expected to gradually slow over 2018-2020, economic activity is expected to remain above trend (2Q2018 growth was better than expected on better private investment and fixed investment levels) according to De Nederlandsche Bank, the central bank of the Netherlands. In addition, the q/q trend in impaired loans is improving with 1Q2018 and 2Q2018 impairments higher than 3Q2018. Despite the elevated impairments, management have stated that the 9M2018 cost of risk (annualised impairment charges on customer loans and advances divided by average customer loans and advances customers) of 23 bps remains below the through-the-cycle level of 25-30bps.

- **Operating results more consistent with environment:** Aside from impairments, results were constructive with 9M2018 operating results before impairments up 6% y/y to EUR3.1bn. This was driven by a 1% y/y rise in operating income from a 4% y/y growth in net interest income due to corporate loans growth, higher mortgage penalty fees and higher deposit volumes that offset lower net interest margins. This mitigated a 2% fall in net fee and commission income (following divestment of Private Banking ("PB") Asia in 2017 and weaker market sentiment in the remaining PB business) and a 11% fall in other operating income due to the PB Asia divestment. Operating expense performance was also sound falling 2% y/y overall on a 5% decline in personnel expenses (shift to more flexible workforce through full time employee reductions and higher use of external employees) which offset higher regulatory levies from an increase in the Single Resolution Fund contribution. ABN's 9M2018 cost/income ratio improved to 55.3%, down from 57.3% in 9M2017. Similar to the trend in impairments, the cost/income ratio has also improved q/q falling from 57.9% and 55.1% in 1Q2018 and 1Q2018 respectively to 52.9% in 3Q2018.

- **Capital ratios continue to strengthen**: Despite loans growth, risk weighted assets fell marginally from lower credit risk and active balance sheet management. Together with solid earnings performance, ABN's fully-loaded CET1 ratio rose to 18.6% (2Q2018: 18.3%; FY2017: 17.7%). Its fully loaded leverage ratio also improved to 4.6% as at 30 Sept 2018 against 4.1% as at 30 June 2018. Both ratios are now above the bank's capital target range of 17.5%-18.5% and leverage ratio target of 4.0%. The CET1 ratio is also well above the 2019 fully-loaded Maximum Distributable Amount (MDA) trigger level of 11.75% and has led to management raising the dividend accrual to 60% of the YTD results to possibly increase the dividend payout ratio (target payout ratio of 50% of sustainable profit) over 2018. The final dividend amount will be decided taking into account the FY2018 results, the leverage ratio, Basel IV impact, non-performing exposure guidance and Supervisory Review and Evaluation Process requirements. These requirements could fall given ABN's solid showing in the recent 2018 European Banking Authority stress test that was announced early November which shows that in a stress scenario, ABN Amro would fare better than other European banks under our coverage.

- **Rethinking the way forward:** With solid recent results, ABN is now ahead of its key financial targets including return on equity, cost/income ratio, and fully loaded CET1. As a result, management held ABN's first investor day since IPO in 2015 to refresh its path going forward. While ROE and dividend payout ratio targets remain the same, the target capital ratio range was extended to 2019 while the cost/income ratio target was lowered to 55% by 2022. Changes on the whole are slight and look achievable given 9M2018 results.

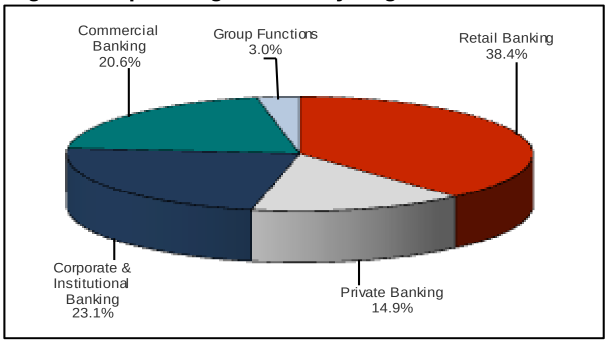
ABN AMRO Group N.V.

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (EUR'mn)			
Net Interest Income	6,268	6,456	4,951
Non Interest Income	1,905	2,779	1,956
Operating Expenses	5,657	5,581	3,837
Pre-Provision Operating Profit	2,516	3,654	3,070
Provisions	114	-63	447
Other Income/(Expenses)	55	54	28
PBT	2,457	3,771	2,651
Income Taxes	650	979	643
Net Income to Common Shareholders	1,806	2,773	1,976
Balance Sheet (EUR'mn)			
Total Assets	394,481	393,171	392,419
Total Loans (net)	266,551	273,666	276,302
Total Loans (gross)	267,678	274,906	277,183
Total Allowances	3,666	2,460	2,270
Total NPLs	8,912	6,909	6,059
Total Liabilities	375,544	371,841	371,121
Total Deposits	228,757	236,699	237,518
Total Equity	18,937	21,330	21,298
Key Ratios			
NIM	1.52%	1.57%	1.64%
Cost-income Ratio	65.9%	60.1%	55.3%
LDR	117.0%	116.1%	116.3%
NPL Ratio	3.33%	2.51%	2.19%
Allowance/NPLs	41.1%	35.6%	37.5%
Credit Costs	0.04%	-0.02%	0.16%
Equity/Assets	4.80%	5.43%	5.43%
CETier 1 Ratio (Full)	17.0%	17.7%	18.6%
Tier 1 Ratio	18.0%	18.5%	19.5%
Total CAR	24.6%	21.3%	22.1%
ROE	11.8%	14.5%	13.1%
ROA	0.45%	0.70%	0.67%

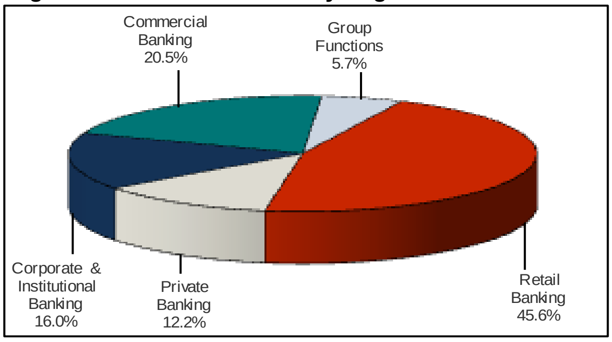
Source: Company

Figure 1: Operating Income by Segment - 9M2018



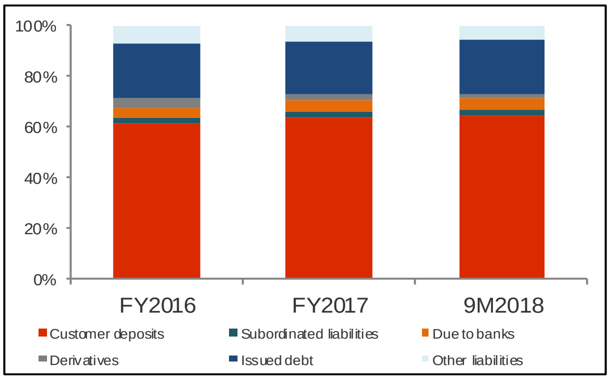
Source: Company

Figure 2: Profit Before Tax by Segment - 9M2018



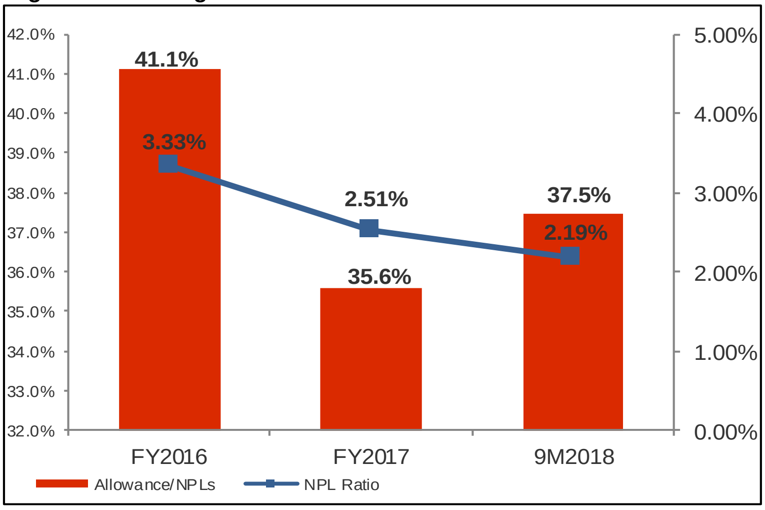
Source: Company

Figure 3: Liabilities Composition



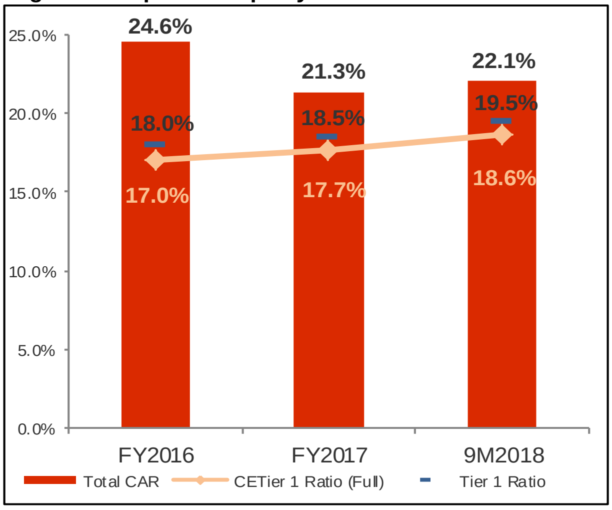
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Past repositioning strategies and a solid capital position have put ANZ in a decent position to face potential challenges to future profitability. The ANZ 3.75% '27c22s represent better value against other Aussie Tier 2 SGD papers although we remain wary of supply risk with APRA seeking higher Tier 2 buffers for Australian banks.

Issuer Profile: Positive (2)

Ticker: **ANZ**

Background

ANZ Banking Group Limited ('ANZ') 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 2018, the bank had total assets of AUD942.6bn.

Australia & New Zealand Banking Group Ltd

Key credit considerations

- **Earnings down as expected:** ANZ's FY2018 cash profits (which excludes non-core items) for the period ended 30 Sept 2018 were down 16% y/y to AUD5.81bn. Net interest income was down 2% y/y due to a 12bps fall in net interest margin to 1.87% while other operating income fell 5% y/y due to weaker net fee and commission income, net funds management and insurance income and markets income. With operating expenses rising 3% y/y from accelerated software amortisation (+AUD206mn) and higher technology charges and costs associated with restructuring (+AUD159mn), customer remediation (+AUD295mn), and Royal Commission legal costs (+AUD38mn), profit before impairments fell 8% y/y to AUD9.97bn. Underlying costs however fell 1.5% y/y due to lower personnel and property expenses. While credit impairments charges fell 43% y/y, the recognition of an AUD682mn loss from discontinued operations against an AUD129mn profit in FY2017 dragged the full year cash profits down by 16%. Excluding overall loss from discontinued operations, cash profit from continuing operations was down 4.7% y/y to AUD6.49bn.

- **Restructuring progress in focus:** With structural changes likely in Australia's banking sector, focus on restructuring programs and existing business models have increased. ANZ has been the most active in restructuring in our view through streamlining overseas operations and refocusing on higher margin domestic businesses. Key outcomes to date include (1) material shift in capital allocation to Retail & Commercial Banking which now comprises around 60% of total capital (compared to less than 50% in Sept 2015); (2) AUD11.7bn in capital generated from Institutional reshaping and announced divestments, and (3) a 24.5% reduction in full time equivalent ("FTE") employees since Sept 2015. In addition, the New Zealand segment is now consolidated under one brand, the Institutional business is smaller while risk adjusted net interest margins have increased and gross impaired assets have fallen at a faster rate. Finally, the Australia segment has seen growth in retail and small business customers and higher cash profits along with reductions in branches, products and FTE.

- **Reshaping of the balance sheet:** Net loans and advances rose 4% y/y with most growth occurring in the Institutional and New Zealand segment, while Australia loans growth was moderate at 2% y/y. Credit impairment charges fell 43% y/y with individual credit impairment charges down 42% and new individual credit impairments down 30%, mostly in Institutional (-67% y/y) and Asia Retail & Pacific (-76% y/y). In line with this, gross impaired assets fell 16% y/y and together with loans growth, the gross impaired asset ratio improved to 0.33% as at 30 Sept 2018 against 0.41% as at 30 Sept 2017. Despite asset growth, risk weighted assets ('RWA') remained constant y/y at AUD391bn. While the sale of its Asian retail and wealth businesses lowered RWA, the main driver of RWA stability was an AUD3.9bn fall in credit RWA that offset RWA growth from FX and Institutional lending growth. This lowered ANZ's reported credit RWA intensity which speaks to an improved risk position within the balance sheet.

- **Reinforcing capital buffers**: Although earnings generation was weaker y/y, it still remained robust, particularly in 2HFY2018. This, along with a 28bps positive impact from divestments, mitigated negative capital impacts from dividends paid (-57bps) and share buy-back plan completed so far (-19bps impact or AUD1.9bn of AUD3.0bn plan) and contributed to ANZ's APRA compliant CET1 ratio improving y/y to 11.4% against 11.0% as at 31 Mar 2018 and 10.6% as at 30 Sept 2017. Stable (y/y) to marginally lower (h/h) risk weighted assets also contributed to the better capital ratios. On an internationally comparable basis, the CET1 ratio improved to 16.8% against 16.3% for 1HFY2018 from 15.8% for FY2017. Including announced divestments yet to complete (+73bps), the remainder of its share buy-back plan (-28bps), and other impacts (6bps), ANZ's proforma CET1 ratio as at 30 Sept 2018 improves to 11.83%, remaining comfortably above APRA's minimum CET1 requirement of 10.5% by Jan 1, 2020.

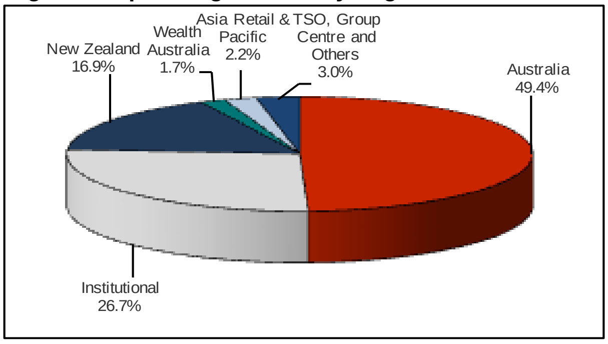
Australia & New Zealand Banking Group Ltd

Table 1: Summary Financials

Year Ended 30th Sep	FY2016	FY2017	FY2018
Income Statement (AUD'mn)			
Net Interest Income	15,095	14,875	14,514
Non Interest Income	4,893	4,223	5,134
Operating Expenses	10,422	8,967	9,248
Pre-Provision Operating Profit	9,566	10,131	10,400
Provisions	1,929	1,198	688
Other Income/(Expenses)	541	300	183
PBT	8,178	9,233	9,895
Income Taxes	2,458	2,874	2,784
Net Income to Common Shareholders	5,709	6,406	6,400
Balance Sheet (AUD'mn)			
Total Assets	914,869	897,326	942,624
Total Loans (net)	575,852	574,331	603,938
Total Loans (gross)	578,944	583,444	607,813
Total Allowances	4,183	3,798	3,443
Total NPLs	2,646	2,118	1,676
Total Liabilities	856,942	838,251	883,241
Total Deposits	588,195	595,611	618,150
Total Equity	57,927	59,075	59,383
Key Ratios			
NIM	2.07%	1.99%	1.87%
Cost-income Ratio	50.7%	46.1%	51.6%
LDR	97.9%	96.4%	97.7%
NPL Ratio	0.46%	0.36%	0.28%
Allowance/NPLs	158.1%	179.3%	205.4%
Credit Costs	0.33%	0.21%	0.11%
Equity/Assets	6.33%	6.58%	6.30%
CETier 1 Ratio (Full)	9.6%	10.6%	11.4%
Tier 1 Ratio	11.8%	12.6%	13.4%
Total CAR	14.3%	14.8%	15.2%
ROE	10.0%	11.0%	10.9%
ROA	0.63%	0.70%	0.68%

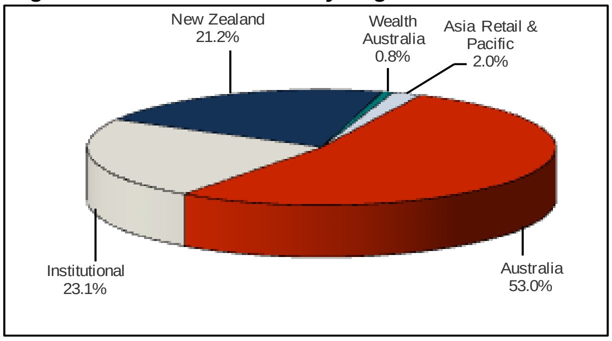
Source: Company

Figure 1: Operating Income by Segment - FY2018



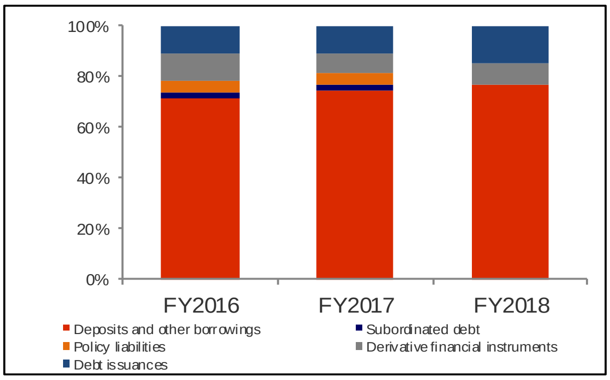
Source: Company

Figure 2: Profit Before Tax by Segment - FY2018



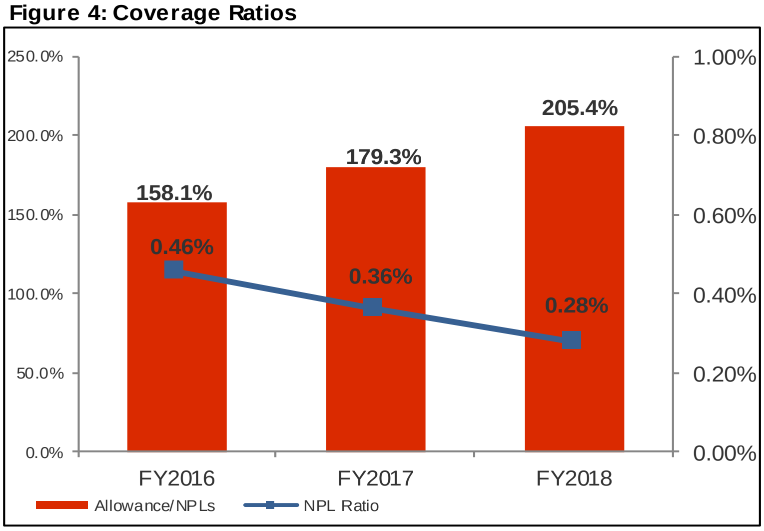
Source: Company | Excludes TSO and Group Centre

Figure 3: Liabilities Composition



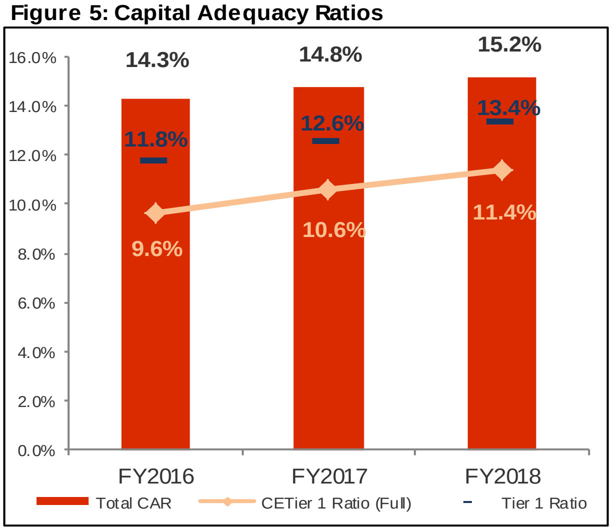
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – BOC's strong business franchise and government importance contribute to a robust credit profile in our view. There remains decent carry for the BCHINA 2.75% '19s, but we see better value in a switch to the CCB 2.08% '20s.

Issuer Profile: Neutral (3)

Ticker: **BCHINA**

Background

Established in 1912, Bank of China Ltd ('BOC') operates predominantly in China but also globally in 56 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 RMB20,925.7bn as at 30 September 2018.

Bank of China Ltd

Key credit considerations

- **Decent headline earnings performance so far:** 9M2018 results were solid with profit before tax up 2.7% y/y to RMB195.6bn. This was driven by net interest income growth of 4.8% y/y due to a 4bps improvement in net interest margin to 1.89% as well as 8.2% y/y loans growth. Non-interest income was down 0.4% y/y as net fee and commission income fell 2.0% y/y. Operating expenses rose 1.4% y/y and given the lower growth rate in expenses, operating profit before impairment losses on assets rose 4.2%. Of note is the 11.0% y/y rise in impairment losses on assets which resulted in lower operating profit growth of 2.4% y/y to RMB194.1bn. There is no segment breakdown for 9M2018 results however for 1H2018, Corporate Banking segment contributed 42.2% to operating income, followed by Personal Banking (34.4%), Treasury Operations (15.1%) and Insurance (4.0%). 1H2018 contributions from Corporate and Personal Banking are more balanced (37.9% and 36.9% respectively) at the operating profit level (which is after impairment losses on assets) given Corporate Banking contributed 90% of the impairment losses on assets. As such, Personal Banking continues to drive y/y growth in operating income and operating profit.

- **Loan quality issues possibly rising again in China:** China's deleveraging campaign has resulted in two problematic consequences - slower economic growth and a spike in corporate defaults which are at an all-time high. Rising corporate stress has been driven by a combination of high leverage, a reduction in market liquidity and rising funding costs making refinancing conditions difficult. Defaults have gathered pace while the US-China trade war continues to add somewhat uncontrollable fuel to the fire. To counter this, the Chinese government has implemented various support measures to improve funding conditions and lower systemic risk (lowering reserve requirement ratio, reducing capital requirements, relaxing bank lending quotas, directives to lend to smaller private enterprises). Whether this helps remains to be seen given some banks high loan to deposit ratio and banks continuing to prefer to lend to larger corporates. As such, overall default rates are expected to remain elevated.

- **Balance sheet appears resilient for now**: Loans growth was solid in the context of overall balance sheet growth with total assets up 7.7% y/y. Reported non-performing loans grew slightly faster than loans at 9.2% y/y and as such the non-performing loan ratio weakened slightly to 1.43% as at 30 Sept 2018 against 1.41% as at 30 Sept 2017 (but improved from 1.45% as at 31 Dec 2017). That said, given the 11.0% rise in impairment losses, the allowance coverage ratio for loan impairment losses to non-performing loans strengthened to 169.2% as at 30 Sept 2018 against 153.6% as at 30 Sept 2017 and 159.2% as at 31 December 2017. The better coverage ratio provides comfort in our view that the rise in impairment losses is more pro-active to perhaps counter for potentially higher loans to trouble sectors as requested by the government. As at 30 June 2018, 63.5% of total loans and advances are to Corporates (mostly manufacturing, commerce and services, transportation and real estate) and 36.5% are to Personal customers (mortgages).

- **Reinforcing ratios for future growth**: Capital ratios were broadly stable y/y and since end FY2017 with BOC's CET1/CAR ratio at 11.1%/14.2% as at 30 Sept 2018 against 11.2%/13.9% as at 30 Sept 2017 (11.2%/14.2% as at FY2017), remaining well above expected 2018 minimum CET1/CAR ratio requirements of 8.5%/11.5% including a fully phased in capital conservation buffer of 2.5%. Minimums however do not include any counter cyclical capital buffer (yet to be finalized) nor any capital buffer requirement as a global systemically important bank (currently 1.5% with compliance date in January 2025). To accommodate further balance sheet growth, improve buffers against an economic downturn, and meet minimum capital requirements, BOC announced plans to raise up to CNY120bn in capital through a preference share private placement. **Given BOC's resilient performance, we are raising the Issuer Profile to Neutral (3).**

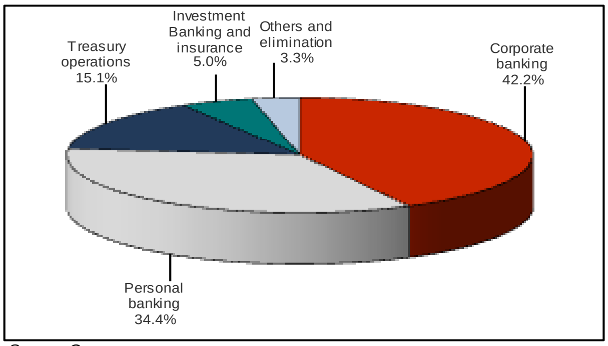
Bank of China Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (RMB'bn)			
Net Interest Income	306,048	338,389	264,306
Non Interest Income	179,608	145,372	119,968
Operating Expenses	175,069	173,859	134,937
Pre-Provision Operating Profit	310,587	309,902	249,337
Provisions	89,072	88,161	55,269
Other Income/(Expenses)	897	1,162	1,546
PBT	222,412	222,903	195,614
Income Taxes	38,361	37,917	32,866
Net Income to Common Shareholders	164,578	172,407	153,274
Balance Sheet (RMB'bn)			
Total Assets	18,148,889	19,467,424	20,925,662
Total Loans (net)	9,735,646	10,644,304	11,416,978
Total Loans (gross)	9,973,362	10,896,558	11,697,773
Total Allowances	237,716	252,254	280,795
Total NPLs	146,003	158,469	166,835
Total Liabilities	16,661,797	17,890,745	19,236,582
Total Deposits	12,939,748	13,657,924	14,607,864
Total Equity	1,487,092	1,576,679	1,689,080
Key Ratios			
NIM	1.83%	1.84%	1.89%
Cost-income Ratio	28.1%	28.3%	26.8%
LDR	75.2%	77.9%	78.2%
NPL Ratio	1.46%	1.45%	1.43%
Allowance/NPLs	162.8%	159.2%	168.3%
Credit Costs	0.89%	0.81%	0.63%
Equity/Assets	8.19%	8.10%	8.07%
CETier 1 Ratio (Full)	11.4%	11.2%	11.1%
Tier 1 Ratio	12.3%	12.0%	12.0%
Total CAR	14.3%	14.2%	14.2%
ROE	12.6%	12.2%	13.7%
ROA	1.05%	0.98%	1.07%

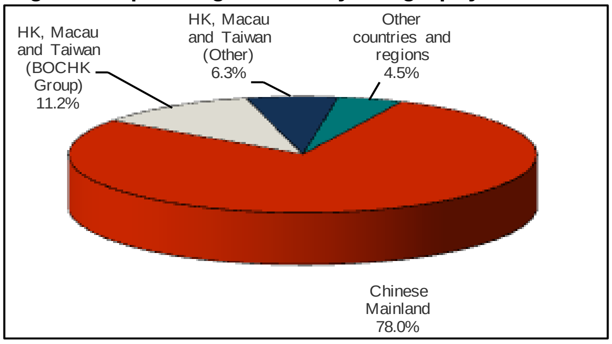
Source: Company

Figure 1: Operating Income by Segment - 1H2018



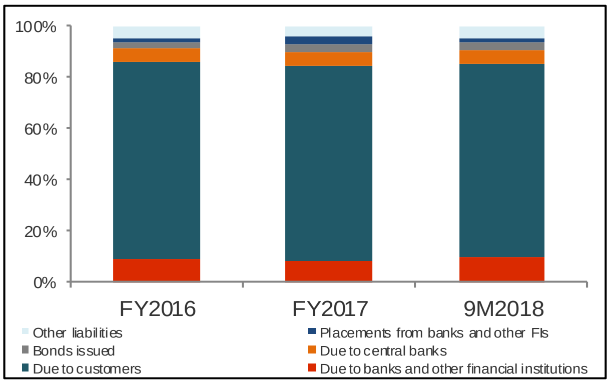
Source: Company

Figure 2: Operating Income by Geography - 1H2018



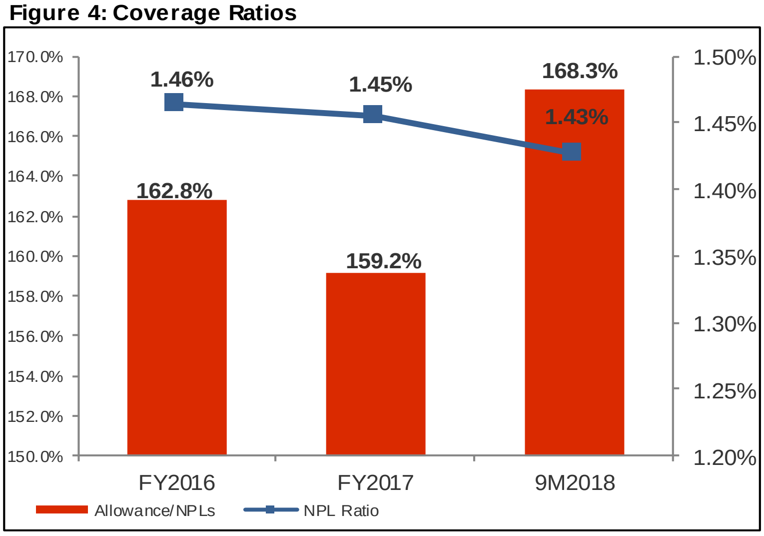
Source: Company | Excludes Eliminations

Figure 3: Liabilities Composition



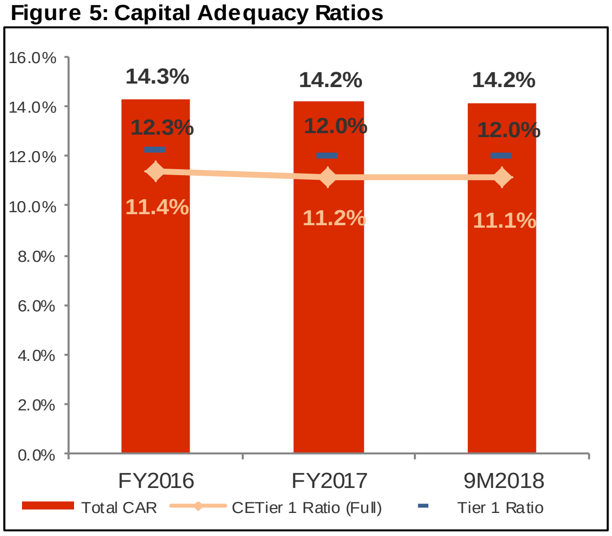
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Barclays is vulnerable to BREXIT volatility in 2019 although its capital ratios are expected to provide a buffer. We are neutral the BACR 3.75% '30c25s despite its long call date and BREXIT concerns given the sharp re-pricing in 4Q2018.

Issuer Profile: Neutral (4)

Ticker: **BACR**

Background
Based in the UK, Barclays PLC ('Barclays') operates in over 50 countries across two main business segments – Barclays UK and Barclays International. Its scale in the UK and globally makes Barclays systemically important on both a domestic and global level. As at 30 September 2018, it had total assets of GBP1,170.8bn. It's largest shareholders comprise institutional investors including The Capital Group Companies Inc., Qatar Investment Authority, and BlackRock Inc.

Barclays PLC

Key credit considerations

- **Underlying results supportive**: 9M2018 results excluding litigation and conduct charges show decent trends with underlying profit before tax up 23% y/y to GBP5.3bn. This was due to flat total income, a 3% y/y fall in operating expenses and a 53% fall in credit impairment charges and other provisions. In contrast, reported profit before tax was 10% lower y/y due to significantly higher litigation and conduct charges from a GBP1.4bn settlement with the US Department of Justice for Registered Mortgage Backed Securities and a GBP400mn charge for Payment Protection Insurance. Foreign currency movements had both a negative and positive impact on results with the weaker USD lowering profits and income but also lowering credit impairment charges and operating expenses.

- **Total income performance by segment**: By segment, Barclays UK performance was relatively stable despite sentiment pressures from BREXIT. Part of the stable performance is due to the restructuring of Barclays' businesses following the ring fencing restructuring in April 2018 and the re-allocation of personal and business banking customers. This offset margin pressure with net interest margins falling 31bps y/y to 3.24%. Total income for Barclays International was down marginally (-2% y/y) as stable income in Corporate and Investment Bank (+12% y/y in Markets income mitigated -7% y/y in Banking income) was offset by a 7% reduction in total income from Consumer, Cards and Payments due to prior year gains from de-risking strategies. Elsewhere, weaker Head Office income was offset by the absence of Non-Core division losses which closed on 1 Jul 2017.

- **Impairments the main driver of better bottom line**: The 53% fall in credit impairment charges for 9M2018 was the main driver of improved profit before tax. This reflected an improved outlook for Barclay's main country exposures of the UK and US, single name recoveries in Barclays International and portfolio adjustments from implementation of IFRS9. In particular, the recoveries within Corporate and Investment Bank resulted in a release of GBP185mn against a charge of GBP86mn in 9M2017. Lower credit impairment charges within consumer, cards and payments also contributed due to the absence of a GBP168mn non-recurring charge from 3Q2017. With the bulk of these benefits looking to be non-recurring in nature and changing macro dynamics in the UK and US, we do not expect credit impairment charges to play as large a role going forward. Already management has flagged higher impairments for 4Q2018.

- **Capital ratios in focus**: Barclays' balance sheet grew with total assets up 3.3% since 31 Dec 2017 – within this, loans and advances grew 2.7% YTD2018 due to growth in both UK Personal Banking (mortgages) and solid loans growth in Corporate & Investment Bank (consumer, cards and payments). Together with FX movements and regulatory changes, risk weighted assets rose 5.5% since 31 Dec 2017. This was higher than growth in capital as earnings growth so far in FY2018 was offset by the negative capital impacts from litigation and conduct charges and dividends paid. As such, Barclays CET1 ratio was slightly weaker as at 30 Sept 2018 at 13.2% (13.3% as at 31 Dec 2017). While the current CET1 ratio remains higher than Barclays' end-state target of 13.0%, questions remain on the adequacy of Barclays' current capital position, particularly given Barclay's poor showing in the European Banking Authority biennial EU stress test for 2018. However, the more relevant measure was the Bank of England's ("BoE") stress test results released in its November 2018 Financial Stability Report. Barclays was one of two banks that saw additional Tier 1 capital convert into CET1 in the non-transitional scenario given its capital position fell below the 7% CET1 ratio requirement. This is due to Barclay's relatively higher exposure to UK consumer and retail banking. That said, Barclays effectively passed the test by remaining above their risk weighted capital hurdle rates on a transitional basis and did not have to submit a revised capital plan to address the results. In addition, the Prudential Regulation Authority's approval to redeem almost USD5bn in capital instruments in December 2018 remains. This will reduce CET1 capital by 33bps.

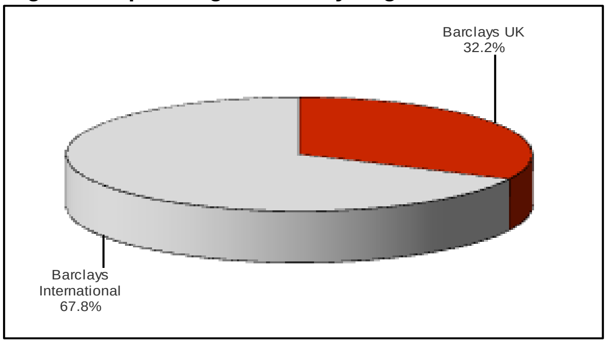
Barclays PLC

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (GBP'mn)			
Net Interest Income	10,537	9,845	6,766
Non Interest Income	10,914	11,231	9,297
Operating Expenses	16,338	15,456	12,150
Pre-Provision Operating Profit	5,113	5,620	3,945
Provisions	2,373	2,336	825
Other Income/(Expenses)	490	257	0
PBT	3,230	3,541	3,120
Income Taxes	993	2,240	977
Net Income to Common Shareholders	1,623	-1,922	1,470
Balance Sheet (GBP'mn)			
Total Assets	1,213,126	1,133,248	1,170,775
Total Loans (net)	392,784	365,552	328,865
Total Loans (gross)	397,404	370,204	335,494
Total Allowances	4,620	4,652	6,629
Total NPLs	6,491	5,994	8,548
Total Liabilities	1,141,761	1,067,232	1,105,493
Total Deposits	423,178	429,121	396,314
Total Equity	71,365	66,016	65,282
Key Ratios			
NIM	3.76%	3.74.%	3.55%
Cost-income Ratio	76.0%	73.0%	62.0%
LDR	92.8%	85.2%	83.0%
NPL Ratio	1.63%	1.62%	2.55%
Allowance/NPLs	71.2%	77.6%	77.6%
Credit Costs	0.60%	0.63%	0.25%
Equity/Assets	5.88%	5.83%	5.58%
CETier 1 Ratio (Full)	12.4%	13.3%	13.2%
Tier 1 Ratio	15.6%	17.2%	17.5%
Total CAR	19.6%	21.5%	21.3%
ROE	3.6%	-3.6%	4.9%
ROA	0.09%	-0.16%	0.13%

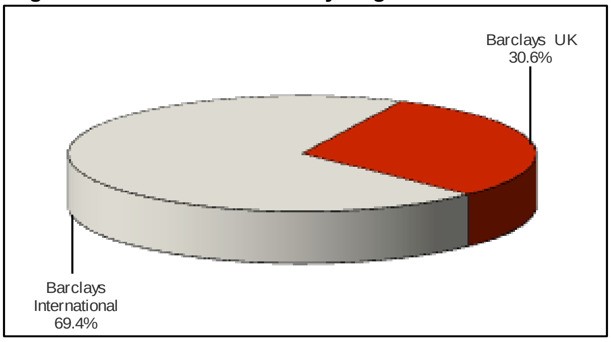
Source: Company

Figure 1: Operating Income by Segment - 9M2018



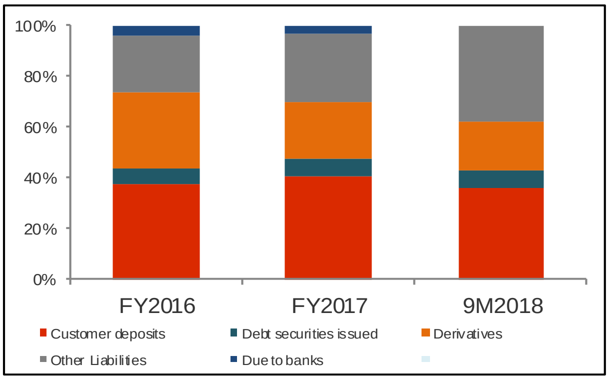
Source: Company | Excludes Head Office

Figure 2: Profit Before Tax by Segment - 9M2018



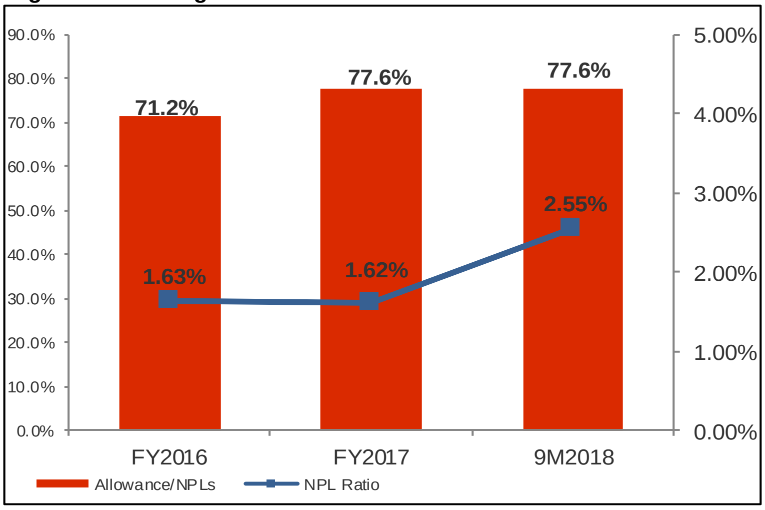
Source: Company | Excludes Head Office

Figure 3: Liabilities Composition



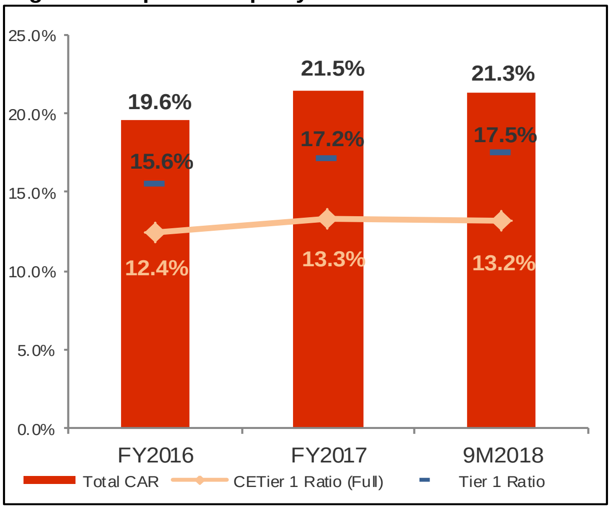
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – BNPP's relatively stable performance reflects its scale and diversity as a global systemically important bank. We see the BPCEGP 4.45% '25c20s and ABNANV 4.75% '26c22s as better value currently in the Euro bank SGD Tier 2 space.

Issuer Profile: Neutral (3)

Ticker: **BNP**

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 EUR2,234.2bn as at 30 September, 2018. Its largest shareholder at ~8% is the Belgian government.

BNP Paribas SA

Key credit considerations

- **Muted operating conditions continue**: BNPP's earnings continue to be somewhat soft with reported 3Q2018 operating income down 7.9% y/y to EUR2.39bn. This was due to a marginal fall in revenues (-0.4% due to low interest rates, partly offset by growth in Domestic Markets ("DM") loans outstanding) as well as higher operating expenses (+2.0% due to business growth in International Financial Services ("IFS")) and higher cost of risk (+2.7% y/y). Non-operating income (share of earnings of equity accounted entities, other non-operating items) was up 12.4% y/y from the sale of a 30.3% stake in First Hawaiian Bank, however this did not mitigate the weaker revenues and higher expenses and as such pre-tax income was down 5.3% y/y to EUR2.82bn. That said, 3Q2018 performance was better than the year to date performance with reported 9M2018 pre-tax income down 7.2% y/y to EUR8.53bn as a 0.8% y/y fall in revenues and 2.6% y/y rise in operating expenses (business growth in IFS) overshadowed a 2.8% y/y fall in cost of risk, 17.2% y/y rise in non-operating income and cost saving measures in Corporate & Institutional Banking ("CIB").

- **Operating division results a clearer picture**: By operating division (does not include Other Activities such as investment property, operating lease assets, property development, non-recurring items), revenues were up 0.3% y/y (0.8% at constant scope and exchange rates) due to better y/y performance in IFS (+4.3% y/y) on 4.1% y/y growth in loans and a 2.4% y/y rise in assets under management in the savings and insurance businesses. This mitigated weaker DM (-1.1% y/y) as low interest rates continue to negate solid volume growth in outstanding loans (+4.7% y/y), deposits (+4.7% y/y), and Private Banking's assets under management (+1.3% y/y). CIB (-3.5% y/y) also continues to struggle on market weakness (particularly in Fixed Income, Currencies and Commodities) while Corporate Banking performance was also slightly weaker due to the transfer in 3Q2018 of the correspondent banking business to Securities Services within CIB although lower operating expenses y/y and provision write-backs softened the impact from Global Markets. In all, expense performance across operating divisions shows management's continued focus on cost reduction to preserve overall returns in DM (reduction in branch network) and CIB (digital transformation) while the rise in expenses in IFS continues to support business momentum.

- **Balance sheet still solid**: Underlying business growth appears solid with y/y growth in loans outstanding of 4.7% and 4.1% for DM and IFS respectively. In particular, at constant scope and exchange rates, loans outstanding at IFS grew 7.3% y/y. Loan quality continues to improve with the reported ratio of doubtful loans to gross outstanding loans falling marginally to 2.8% as at 30 June 2018 from 2.9% as at 30 June 2018 and 3.0% as at 1 January 2018. Reported doubtful loans fell 5.2% since 1 Jan 2018. The coverage ratio as at 30 Sept 2018 was slightly weaker at 79.3% compared with 79.4% as at 30 June 2018 and 80.2% as at 1 Jan 2018. Although 3Q2018 credit costs rose, this is more due to the low base in 2017 which featured write-backs as well as increased loan outstandings so far in 2018. In addition, the 34bps cost of risk in 3Q2018 is below the average cost of risk in FY2016 (46bps) and FY2017 (39bps).

- **Supportive capital ratios in the meantime**: Despite the weaker operating income performance and growth in loans, BNPP's fully loaded CET1 ratio improved to 11.7% as at 30 Sept 2018 against 11.5% as at 30 June 2018 and 11.6% as at 31 March 2018 due to a +15bps impact from the sale of 30.3% of First Hawaiian Bank and +10bps from 3Q2018 earnings while risk weighted assets ("RWA") fell due to foreign exchange impacts. Excluding this impact, RWAs were stable compared to 30 June 2018 due to a marginal increase in Retail Banking RWAs and a fall in CIB RWAs. BNPP's capital ratios continue to be well above minimum transitional CET1 requirements of 9.125% for 2018 as disclosed in BNPP's 2017 annual report.

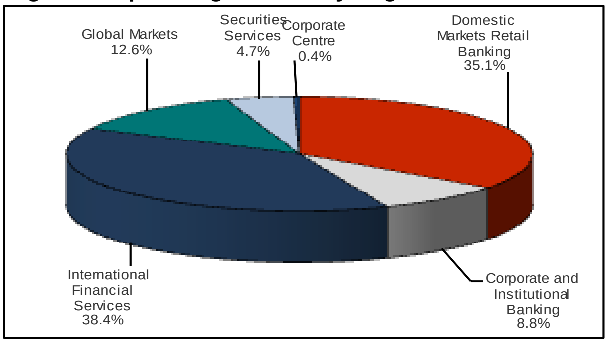
BNP Paribas SA

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (EUR'mn)			
Net Interest Income	22,376	21,774	32,356
Non Interest Income	21,035	21,387	
Operating Expenses	29,378	29,944	22,905
Pre-Provision Operating Profit	14,033	13,217	9,451
Provisions	3,262	2,907	1,868
Other Income/(Expenses)	633	713	433
PBT	11,210	11,310	8,525
Income Taxes	3,095	3,103	2,059
Net Income to Common Shareholders	7,702	7,759	6,084
Balance Sheet (EUR'mn)			
Total Assets	2,076,959	1,960,252	2,234,226
Total Loans (net)	712,233	727,675	744,632
Total Loans (gross)	739,278	752,361	NA
Total Allowances	27,045	24,686	NA
Total NPLs	41,779	37,531	NA
Total Liabilities	1,971,739	1,853,043	2,130,079
Total Deposits	765,953	766,890	792,655
Total Equity	105,220	107,209	104,147
Key Ratios			
NIM	1.64%	1.60%	NA
Cost-income Ratio	67.7%	69.4%	70.8%
LDR	93.0%	94.9%	93.9%
NPL Ratio	5.65%	4.99%	NA
Allowance/NPLs	64.7%	65.8%	NA
Credit Costs	0.44%	0.39%	NA
Equity/Assets	5.07%	5.47%	4.66%
CETier 1 Ratio (Full)	11.5%	11.9%	11.8%
Tier 1 Ratio	12.6%	13.2%	13.1%
Total CAR	14.2%	14.8%	14.9%
ROE	9.3%	8.9%	9.5%
ROA	0.38%	0.38%	0.39%

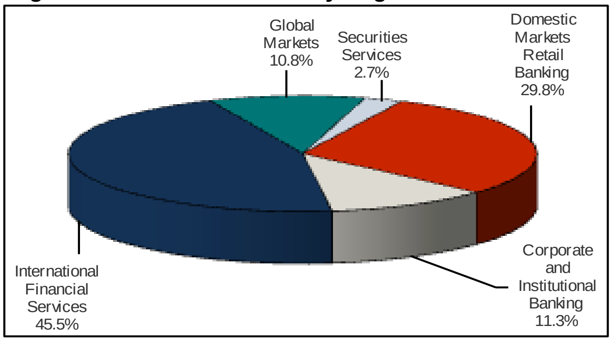
Source: Company

Figure 1: Operating Income by Segment - 9M2018



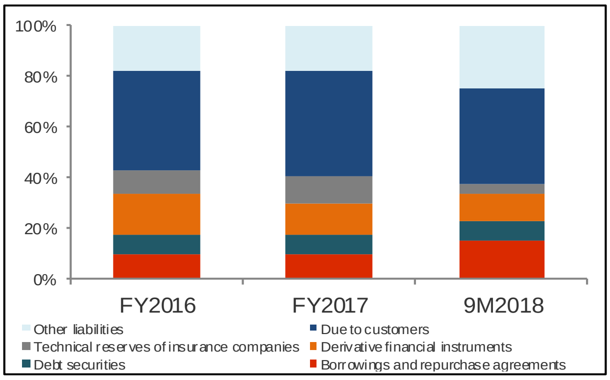
Source: Company

Figure 2: Profit Before Tax by Segment - 9M2018



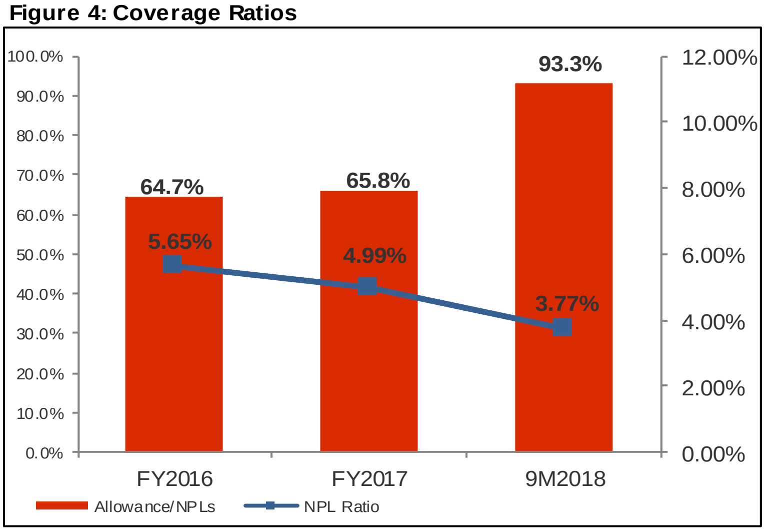
Source: Company | Excludes Corporate Centre

Figure 3: Liabilities Composition



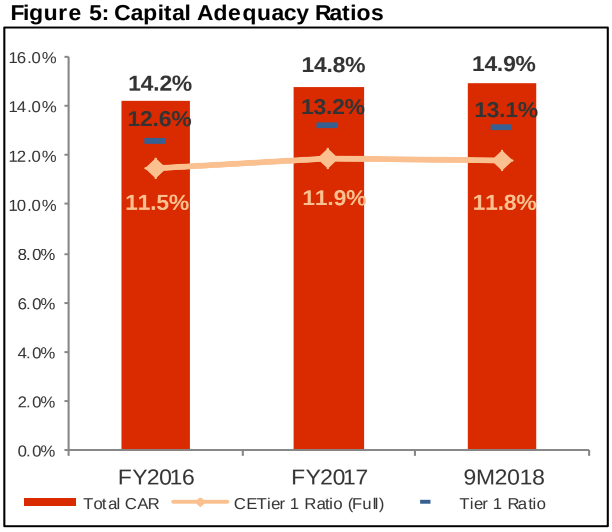
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – As the central entity of GBPCE and also protected by GBPCE's 'mutual financial solidarity mechanism,' BPCE's credit profile is effectively equal to that of the wider group. We see better value in the BPCEGP 4.45% '25c20s against the BPCEGP 4.50% '26c21s.

Issuer Profile: Neutral (3)

Ticker: **BPCEGP**

Background
Established in 2009, BPCE S.A. is the central entity of Groupe BPCE ('GBPCE'). 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 30 September, 2018, it had total assets of EUR1,285.9bn.

BPCE SA

Key credit considerations

- **Solid underlying fundamentals:** 3Q2018 reported income before tax was down 9.9% y/y to EUR1.4bn. Excluding exceptionals (mostly transformation and reorganization costs) however, underlying income before tax was up 3.8% y/y on solid growth in net banking income (+2.1% y/y on improved commission income and insurance and Specialized Financial Services ("SFS") revenues in Retail Banking as well as solid Asset & Wealth Management performance) and a 4.9% fall in the cost of risk. This mitigated a 1.5% rise in operating expenses from business growth in SFS. 9M2018 results showed similar trends with underlying income before tax up 2.4% y/y due to a marginal rise in gross operating income (+0.7% as operating expense growth marginally outpaced net banking income growth) and a material improvement in the cost of risk (-13.4% y/y).

- **Cost of risk reflects low risk loan book:** GBPCE's cost of risk continues to improve. Expressed in annualized basis points against gross customer outstandings, the cost of risk was 16bps in 3Q2018, stable y/y and improved q/q by 4bps. For 9M2018, the cost of risk of 17bps improved 2bps compared to 9M2017. These levels remain noticeably lower than BNP Paribas and slightly below Société Générale (although Société Générale's cost of risk benefits from materially low levels within its Global Banking & Investor Solutions segment). GBPCE's cost of risk reflects its better positioned loan book which is focused on France (80% of net banking income in FY2017) and domestic retail banking through its Banque Populaire and Caisse d'Espargne networks which contributed around 62.4% of operating income in 1H2018. In line with lower risk costs for the quarter and YTD, GBPCE's ratio of non-performing loans to gross loan outstandings improved to 2.9% as at 30 Sept 2018 from 3.2% as at 1 Jan 2018. Gross outstanding loans to customers and credit institutions rose 4.0% YTD while non-performing loans fell 4.7% over the same period. The impaired loans coverage ratio also improved to 74.4% from 71.4% over the same period.

- **Transformation and re-organization costs due to TEC 2020:** GBPCE's results continue to reflect the impact of exceptional costs related to its TEC 2020 strategic plan announced November 2017 for the 2018-2020 period. Like peers, the transformation plan is aimed at driving future growth through digital transformation. Key aims are (1) growth in customer numbers to achieve greater than EUR25bn in annual revenues by 2020; (2) target cost to income ratios for Retail Banking and Insurance (64%), Asset and Wealth Management (68%), and Corporate and Investment Banking (60%); (3) EUR750mn in revenue synergies; and (4) a cost reduction program to achieve EUR1bn in savings by 2020. As at 30 Sept 2018, GBPCE's progress so far appears decent with FY2018 revenues expected to just fall short of target while cost to income ratios are broadly in line with targets (albeit slightly above) and EUR203mn in revenue synergies have been achieved so far. Nevertheless, exceptional costs are expected to be a feature of GBPCE's results in the next 1-2 years.

- **Capital ratios remain above minimum requirements:** GBPCE's capital position improved compared to 1 Jan 2018 (15.2%) with its CET1 ratio at 15.6% as at 30 Sep 2018. This was due to net capital generation (retained earnings less growth in risk weighted assets) as well as issuance of co-operative shares and the current CET1 ratio remains well above its Supervisory Review and Evaluation Process requirement of 8.63% (includes Pillar 1 requirement, phased in 2018 G-SIB and capital conservation buffers). Including pro-forma impacts for restructuring, disposals, acquisitions and deductions for regulatory contributions, the CET1 ratio falls to 15.4% as at 30 Sep 2018, just below the 15.5% target in GBPCE's TEC 2020 strategic plan. GBPCE's Total Loss-Absorbing Capacity rose to 22.4% as at 30 Sept 2018 from 21.6% as at 30 June 2018 (31 Dec 2017: 20.8%). This remains above the target level in its TEC 2020 strategic plan of more than 21.5% by early 2019. Given resilient earnings, **we are raising GBPCE's issuer profile to Neutral (3).**

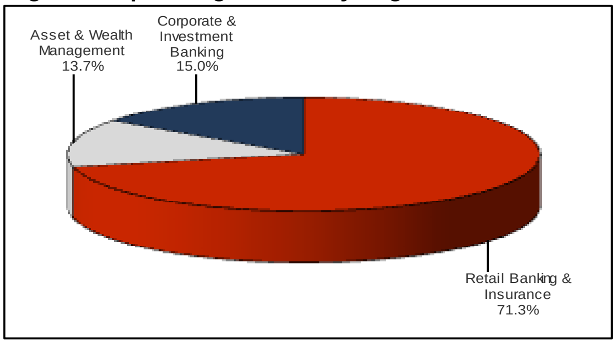
Groupe BPCE

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (EUR'mn)			
Net Interest Income	10,904	10,232	0
Non Interest Income	13,254	13,488	0
Operating Expenses	16,673	17,099	13,066
Pre-Provision Operating Profit	7,485	6,621	5,091
Provisions	1,423	1,384	903
Other Income/(Expenses)	259	276	0
PBT	6,321	5,513	4,380
Income Taxes	1,882	1,811	1,354
Net Income to Common Shareholders	3,988	3,024	2,547
Balance Sheet (EUR'mn)			
Total Assets	1,235,240	1,259,850	1,285,862
Total Loans (net)	666,898	693,128	651,306
Total Loans (gross)	679,176	704,905	661,206
Total Allowances	12,278	11,777	9,900
Total NPLs	23,427	22,918	22,100
Total Liabilities	1,166,104	1,188,649	1,213,677
Total Deposits	531,778	569,879	526,822
Total Equity	69,136	71,201	72,185
Key Ratios			
NIM	0.98%	0.90%	NA
Cost-income Ratio	69.0%	72.1%	72.0%
LDR	125.4%	121.6%	123.6%
NPL Ratio	3.45%	3.25%	3.34%
Allowance/NPLs	52.4%	51.4%	44.8%
Credit Costs	0.21%	0.20%	0.14%
Equity/Assets	5.60%	5.65%	5.07%
CETier 1 Ratio (Full)	14.1%	15.3%	15.6%
Tier 1 Ratio	14.5%	15.4%	15.7%
Total CAR	18.5%	19.2%	19.4%
ROE	6.9%	4.8%	5.9%
ROA	0.33%	0.24%	0.33%

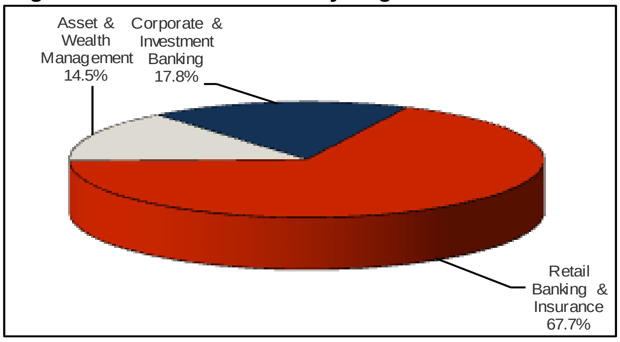
Source: Company

Figure 1: Operating Income by Segment - 9M2018



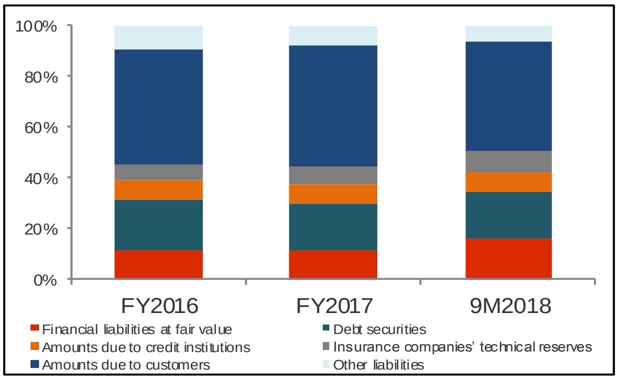
Source: Company

Figure 2: Profit Before Tax by Segment - 9M2018



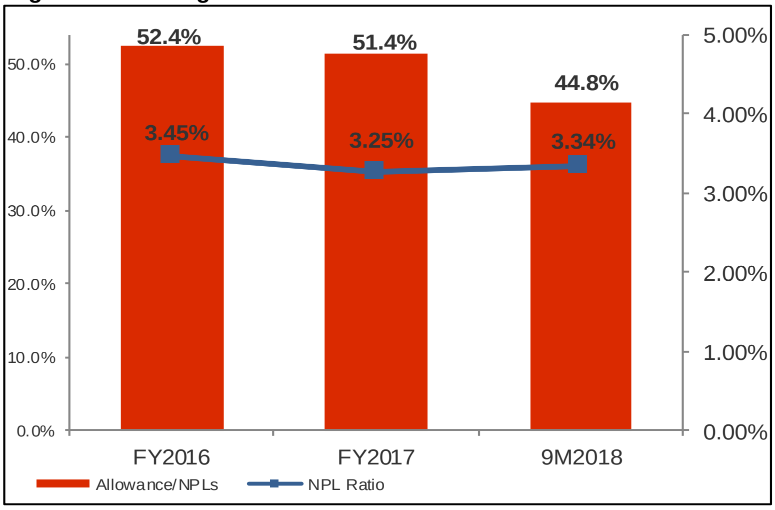
Source: Company

Figure 3: Liabilities Composition



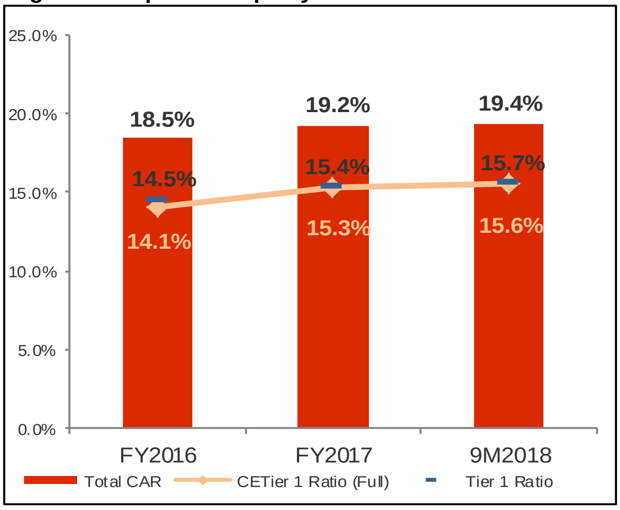
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

China Construction Bank Corporation

Credit Outlook – The Neutral (3) Issuer Profile on CCB reflects its solid business composition which flows through to its balance sheet and earnings. CCB is also likely to benefit from government support in our view. We see better value in the CCB 2.08% '20s against the CCB 2.643% '20s.

Issuer Profile: Neutral (3)

Ticker: **CCB**

Background

China Construction Bank Corporation ('CCB') was formed as a joint-stock commercial bank in 2004, and listed in Hong Kong and Shanghai in 2005 and 2007 respectively. Founded in 1954, its predecessor, the People's Construction Bank of China, initially provided government funds for construction and infrastructure projects at the direction of the Ministry of Finance before transitioning to a full service commercial bank. Designated as a global systemically important bank, it had total assets of RMB23,354.1bn as at 30 September 2018.

Key credit considerations

- **Beginning with the business**: As one of China's big state owned banks, CCB has significant scale both domestically and globally. It is the second largest bank in China by domestic market share of both loans and deposits with 14,920 branches spread throughout mainland China. It is also the second largest bank globally by assets after peer Industrial and Commercial Bank of China and one of 29 global systemically important banks (G-SIBs) as designated by the Basel Committee on Banking Supervision. Although present in 29 countries and regions and offering primarily commercial banking services, its main exposure remains China which contributes around 96% of net revenues. It is the most geographically concentrated amongst China's big 5 commercial banks.

- **Balance sheet strength on low risk portfolio:** CCB's credit profile is supported by its solid balance sheet. This is due to the relatively higher contribution from the Personal Banking segment, which generates ~40% of total operating income. This is broadly in line with the contribution of Corporate Banking while the more volatile Treasury Business contributes ~12%. In contrast, operating income for domestic peers comes mainly from Corporate Banking. By profit before tax, Personal Banking's contribution increases to around ~45% while Corporate Banking contributes ~27%. This relative difference in contribution influences loan composition and quality with ~45% of total loans for CCB from Personal Banking (peers on average have 30-35% of loans from Personal Banking). Of this, ~80% relates to mortgages which have stronger loan quality than Corporate exposures. As at 30 June 2018, the non-performing loan ("NPL") ratio for Corporate Loans and advances was 2.52% while for Personal Loans and advances, the ratio was 0.45%. Within this, the residential mortgage NPL ratio was even lower at 0.25%, translating to an overall NPL ratio as at 30 June 2018 of 1.48%.

- **Flowing through to earnings**: Higher Personal Banking contribution also benefits CCB's funding profile, with better access to low cost deposits and the solid funding base leading to robust and improving net interest margins (+1bps y/y to 2.21% for FY2017 and +20bps y/y for 1H2018 to 2.34%). Along with loans growth, net interest income rose 8.3% y/y and 9.9% y/y in FY2017 and 1H2018 respectively. Together with strong operating cost containment, CCB's net profit was up 4.8% y/y for FY2017 and 6.1% y/y for 1H2018. Fee and commission income performance was also decent and while impairment losses rose y/y, we think this is pro-active to counter expected future balance sheet growth given stable NPL ratios and loans growth skewed heavily towards mortgages. At the same time, loans growth to stressed and over-capacity sectors was minimal.

- **And leading to strong capital ratios:** Given CCB's lower risk business and solid earnings, its CET1/CAR capital ratios of 13.1%/15.6% are solid and well above expected 2018 minimum requirements of 8.5%/11.5% for CET1/CAR ratios respectively (including a fully phased in capital conservation buffer of 2.5%). Minimums however do not include any counter cyclical capital buffer (yet to be finalized) nor any capital buffer requirement as a global systemically important bank ("G-SIB"). The G-SIB buffer (with a compliance date in January 2025) was recently lowered to 1.0% from 1.5%, reflecting lower systemic risk from the government's deleveraging campaign.

- **Government influence remains prevalent:** Government presence in the banking sector remains strong given its stable majority ownership and influence on bank strategies and regulations. Recent policies have sought to ensure systemic stability and support ongoing economic growth, largely through state owned banks as a tool for implementation. While this creates somewhat of an obligation on the banks, it also creates a corresponding implicit obligation on the government to support state owned banks in times of need. **We initiate coverage on CCB with a Neutral (3) Issuer Profile.**

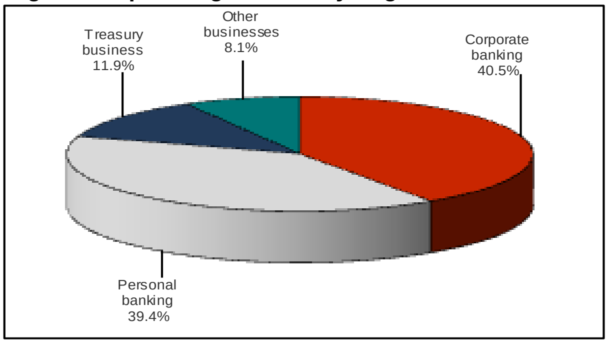
China Construction Bank Corporation

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (RMB'mn)			
Net Interest Income	417,799	452,456	365,725
Non Interest Income	142,061	141,575	113,340
Operating Expenses	171,515	167,043	119,808
Pre-Provision Operating Profit	388,345	426,988	363,436
Provisions	93,204	127,362	99,771
Other Income/(Expenses)	69	161	169
PBT	295,210	299,787	263,834
Income Taxes	62,821	56,172	48,978
Net Income to Common Shareholders	231,460	242,264	214,108
Balance Sheet (RMB'mn)			
Total Assets	20,963,705	22,124,383	23,354,078
Total Loans (net)	11,488,355	12,574,473	13,371,737
Total Loans (gross)	11,757,032	12,903,441	13,765,782
Total Allowances	268,677	328,968	393,874
Total NPLs	178,690	192,291	201,821
Total Liabilities	19,374,051	20,328,556	21,415,229
Total Deposits	15,402,915	16,363,754	17,228,192
Total Equity	1,589,654	1,795,827	1,938,849
Key Ratios			
NIM	2.20%	2.21%	2.34%
Cost-income Ratio	27.5%	27.2%	23.2%
LDR	74.6%	76.8%	77.6%
NPL Ratio	1.52%	1.49%	1.47%
Allowance/NPLs	150.4%	171.1%	195.2%
Credit Costs	0.79%	0.99%	0.72%
Equity/Assets	7.52%	8.04%	8.23%
CETier 1 Ratio (Full)	13.0%	13.1%	13.3%
Tier 1 Ratio	13.2%	13.7%	13.9%
Total CAR	14.9%	15.5%	16.2%
ROE	15.4%	14.8%	16.1%
ROA	1.18%	1.13%	1.26%

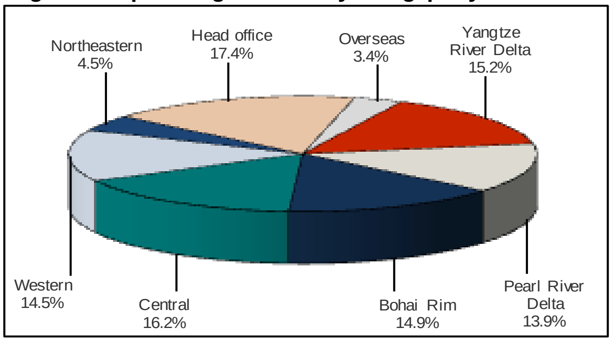
Source: Company

Figure 1: Operating Income by Segment - 1H2018



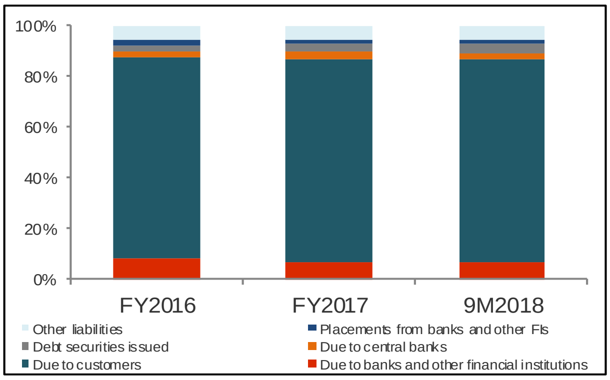
Source: Company

Figure 2: Operating Income by Geogrpahy - 1H2018



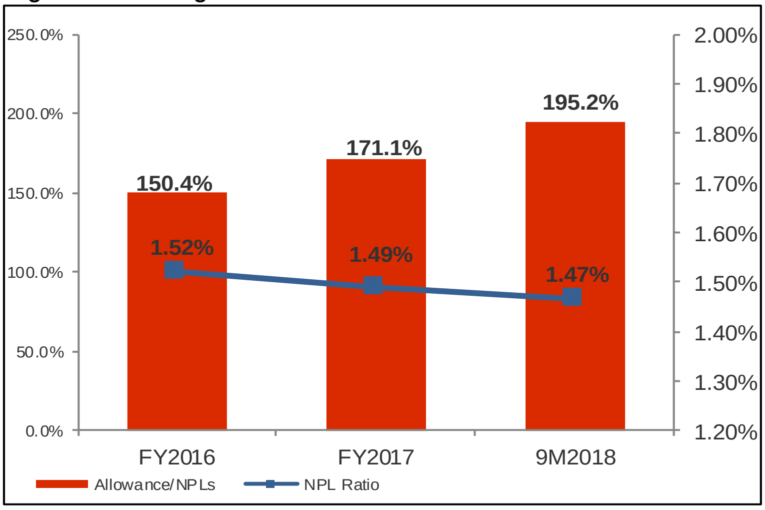
Source: Company

Figure 3: Liabilities Composition



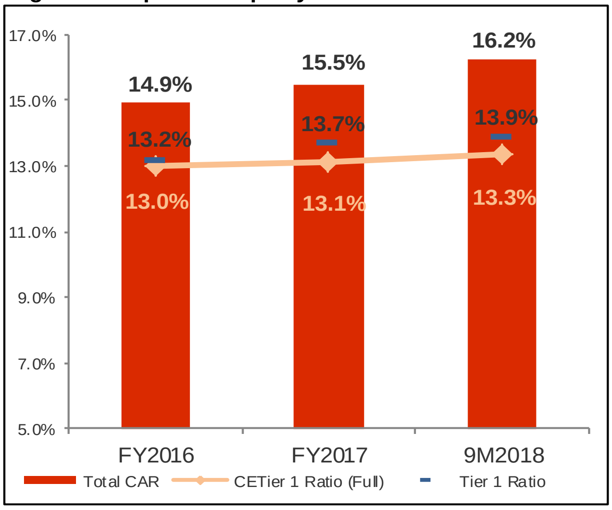
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Commerzbank AG

Credit Outlook – While underlying performance has benefited from execution of its "Commerzbank 4.0" strategy, CMZB remains exposed to challenging operating conditions. We see better value in CMZB 4.875% '27c22s against the CMZB 4.20% '28c23s. It also compares well against LBBW 3.75% '27c22s given the spread pick up is adequate for CMZB's weaker CET1 ratio in our view.

Issuer Profile: Neutral (4)

Ticker: **CMZB**

Background

Commerzbank AG ('CMZB') is Germany's second largest privately owned bank after Deutsche Bank AG. Headquartered in Frankfurt, it had total assets of EUR493.2bn as at 30 September 2018. Its largest single shareholder at 15.6% is Germany's Special Fund for Financial Market Stabilization, set up during the Global Financial Crisis to stabilize Germany's banking system. The remaining shareholdings comprise institutional (~45%) and private (~25%) investors.

Key credit considerations

- **Core businesses performing well:** Headline performance so far in 2018 appears weak with revenues before risk result down 3.3% y/y and pre-tax operating profit (excluding restructuring expenses) down 9.6% y/y. This was driven however by a 13.5% y/y fall in net income from financial instruments measured at fair value through profit or loss (mostly assets held for trading) and a 62.8% y/y fall in other income (lower dividend income, loss on disposal of financial instruments etc). Elsewhere, net interest income was up 10.2% y/y due to higher lending and deposit volumes from new business and portfolio acquisitions, particularly in the Private and Small Business Customers ("PSBC") segment. This offset ongoing low interest rates and industry competition, weaker capital markets performance and reduced net interest income from the Asset & Capital Recovery segment as this business winds down.. Operating expenses rose but at a slower pace (+2.2% y/y) as lower personnel expenses (-3.4% y/y) offset higher digitilisation and growth expenses and higher regulatory project costs and levies. Combined with lower risk costs (-44.3% y/y to EUR295mn although not strictly comparable given implementation of IFRS9) and absence of EUR807mn in restructuring expenses, reported pre-tax profit was up significantly to EUR1.0bn for 9M2018 against EUR321mn for 9M2017.

- **Reflecting execution of strategy:** Overall results including volume growth and restructuring expenses relate to the on-going implementation of CMZB's "Commerzbank 4.0" strategy announced in September 2016. Key aims of the plan involve simplifying the bank's business model, focusing on better return and risk profile segments (increasing retail earnings) and improving efficiency through digitalisation. So far, these plans appear on track and have supported revenue performance with 900k in net new customers in the PBSC segment since Oct 2016, close to its target of 1mn new customers by the end of 2018. Over the same period, 8,500 new Corporate Clients have been acquired, above its 7,000 2018 target. Other targets by 2020 include an 80% digitilisation ratio of relevant processes (58% as at 9M2018), a 66% cost/income ratio (80.5% as at 9M2018) and sale of its Equity Market & Commodities business within the Corporate Clients segment (sale to Société Générale announced in July 2018).

- **Operating conditions could become a constraint:** Better business volumes continue to indicate supportive underlying economic conditions from solid domestic demand due to lower unemployment and rising income as well as higher private and public investment. That said, risks to Germany's economic performance could rise in 2019 from potential US trade tensions, Brexit and global growth impacts from rising interest rates. In addition, Germany's banking sector remains highly fragmented and competitive leading to margin pressure which, combined with low interest rates, continues to suppress returns. This has led to periodic rumours of consolidation within Germany's banking sector.

- **Capital positions remain sound although could be pressured:** CMZB's fully phased in CET1 ratio of 13.2% as at 30 Sept 2018 was down 90bps against 14.1% as at 31 Dec 2017. Key driver for the fall was a 4.3% rise in risk weighted assets over the same period from credit risk weighted assets ("RWA") following volume growth mentioned above. This was partly offset by RWA reductions from implementation of IFRS9 and the ongoing reduction of exposures in the Asset & Capital Recovery segment. Despite the fall, CMZB's CET1 ratio remains above its 2020 target ratio for CET1 of 13.0% as per its "Commerzbank 4.0" strategy. The ability to remain above this target could be pressured however by ongoing margin pressure, potential volume growth and plans to resume dividend payments for 2018. In addition, CMZB is also targeting a reduction in full time employees to 36,000 (~41,400 as at 9M2018). Although some of the costs for this reduction were recognized in FY2017, there is potential for additional restructuring charges in future years. This could limit the build-up of capital and its contribution to CET1 ratios.

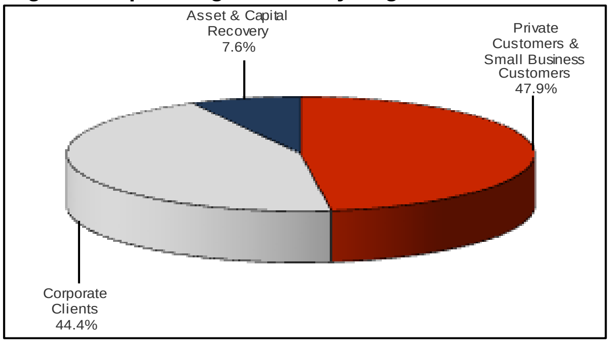
Commerzbank AG

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (EUR'mn)			
Net Interest Income	4,165	4,201	3,405
Non Interest Income	5,084	4,938	3,314
Operating Expenses	7,100	7,079	5,412
Pre-Provision Operating Profit	2,149	2,060	1,307
Provisions	900	781	295
Other Income/(Expenses)	150	23	9
PBT	1,399	1,302	1,021
Income Taxes	261	245	187
Net Income to Common Shareholders	279	156	751
Balance Sheet (EUR'mn)			
Total Assets	480,436	452,493	493,222
Total Loans (net)	272,662	262,398	279,245
Total Loans (gross)	276,578	265,712	281,670
Total Allowances	3,916	3,314	2,425
Total NPLs	6,914	5,569	3,787
Total Liabilities	450,862	422,452	463,667
Total Deposits	241,940	248,995	253,425
Total Equity	29,573	30,040	29,555
Key Ratios			
NIM	0.89%	1.09%	0.94%
Cost-income Ratio	75.5%	77.3%	80.5%
LDR	112.7%	105.4%	110.2%
NPL Ratio	1.60%	1.30%	1.34%
Allowance/NPLs	56.6%	59.5%	64.0%
Credit Costs	0.33%	0.29%	0.10%
Equity/Assets	6.16%	6.64%	5.99%
CETier 1 Ratio (Full)	12.3%	14.1%	13.2%
Tier 1 Ratio	12.3%	14.1%	13.2%
Total CAR	15.3%	17.5%	16.4%
ROE	1.1%	0.6%	4.0%
ROA	0.22%	0.21%	0.20%

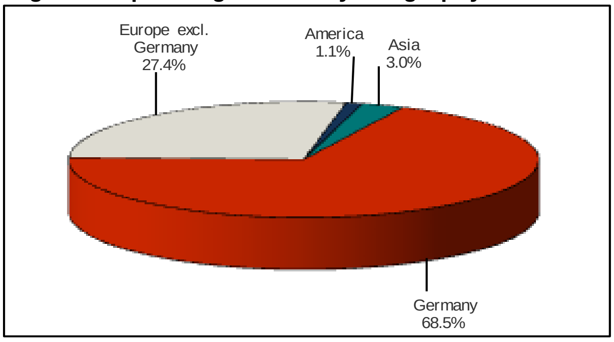
Source: Company

Figure 1: Operating Income by Segment - 9M2018



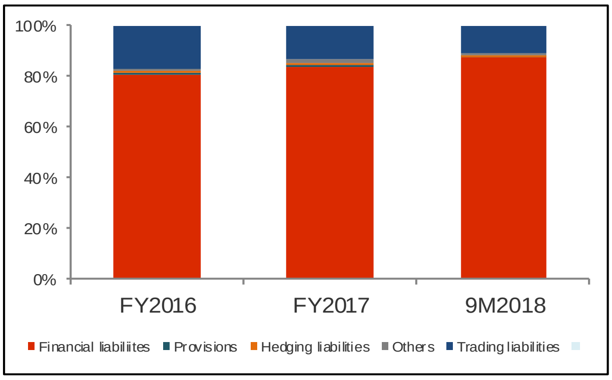
Source: Company | Excludes Others and Consolidation

Figure 2: Operating Income by Geography - 9M2018



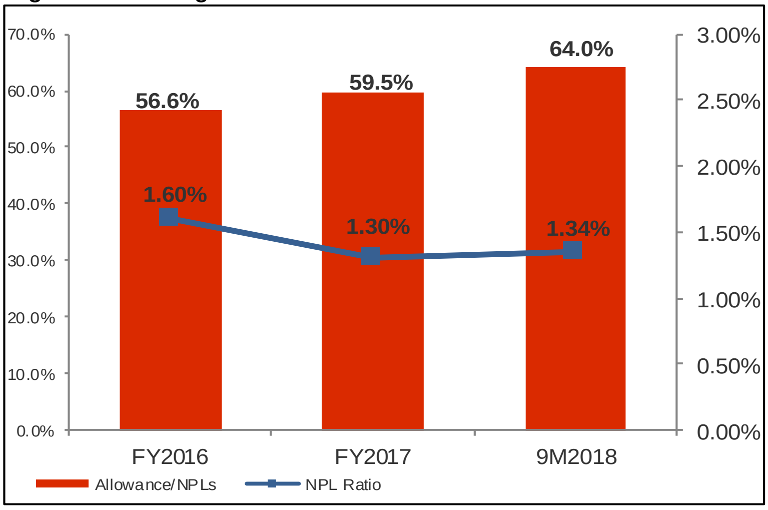
Source: Company

Figure 3: Liabilities Composition



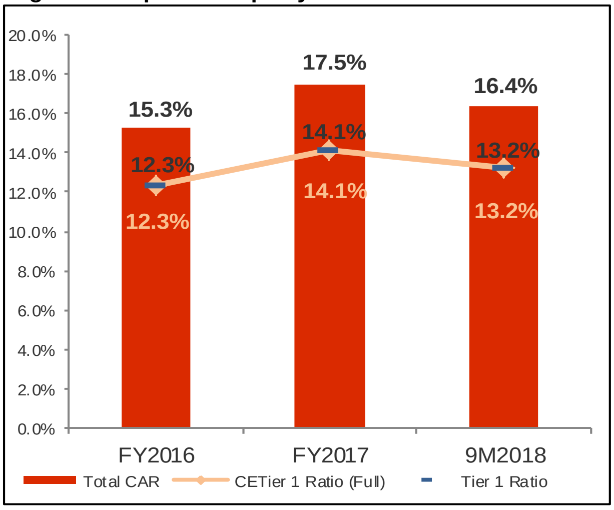
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

DBS Group Holdings Ltd

Credit Outlook – DBS appears well positioned for any possible challenges in 2019 in terms of its business and capital position. In the context of our credit outlook and current valuations, we look to other names in the bank capital space for higher yield such as the ANZ 3.75% '27c22s as the DBS curve continues to trade tight.

Issuer Profile: Positive (2)

Ticker: **DBSSP**

Background

DBS Group Holdings Limited ('DBS') 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 SGD541.5bn as at 30 September 2018, it provides diversified services across consumer banking, wealth management institutional banking, and treasury. It is 30% indirectly owned by the Singapore government through Temasek Holdings Pte Ltd as of 7th January, 2019.

Key credit considerations

- **Earnings momentum continues:** 3Q2018 results were solid with total income up 10% y/y to SGD3.38bn. This was mainly driven by 15% y/y growth in net interest income from a 13bps y/y improvement in net interest margin ("NIM") to 1.86% (on a q/q basis, NIM had increased 1bps at a group level and 3bps to 2.08% (excluding treasury markets)) due to higher interest rates in Singapore and Hong Kong and an 8% y/y growth in customer loans. Net fee and commission income was up slightly by 1% y/y as a decline in investment banking fees was mitigated by growth in other activities (eg: cards, loan-related fees, wealth management and transaction services). Other non-interest income was stable due to an increase in trading income which more than offset the lower gains from investment securities. Expenses growth was higher at 18% y/y to SGD1.48bn due to a 19% y/y rise in staff expenses from a one-off bonus as well as inclusion of ANZ's wealth management and retail banking business. Excluding these and other non-recurring items (but including ANZ), underlying expenses rose 15% y/y. Although the cost to income ratio deteriorated moderately to 43.9% in 3Q2018 against 41.1% in 3Q2017, it is in line with 2Q2018 at 44.3%. 3Q2018 results were consistent with year to date performance with 9M2018 total income up 12% y/y on 16% y/y growth in net interest income (NIMs up 11bps y/y to 1.85%) while expense growth also outpaced, up 14% y/y translating to a slightly weaker cost/income ratio for 9M2018 of 43.2% (9M2017: 42.5%).

- **Lower allowances driving bottom line**: Allowances for credit and other losses in 3Q2018 fell 71% y/y due to absence of elevated allowances for oil and gas support exposures taken in FY2017. They rose however by >100% q/q due to a write-back in specific allowances in 2Q2018. Along with strong income growth, profit before tax rose 68% y/y but fell 1% q/q. Similarly, the 11% y/y growth in 9M2018 profit before allowances stretched to a 36% y/y improvement for 9M2018 profit before tax. Including one-off items (ANZ integration costs, deferred tax remeasurement), y/y net profit growth was strong at 34%.

- **Broad based improvement in segment performance:** By segment, total income from Consumer Banking/Wealth Management rose 23% y/y to a record of SGD1.45bn on higher loan volumes and improved net interest margin while Institutional Banking total income rose 12% y/y as the decline in loan-related and investment banking activities was mitigated by growth in cash management and treasury customer flows. Performance in Treasury Markets was solid with a 6% y/y increase in total income to SGD224mn and a 30% y/y increase in PBT to SGD82mn on the back of higher contributions from foreign exchange activities. Q/q, all segments also performed better, particularly Treasury Markets from interest rate and credit activities.

- **Balance sheet trends following earnings:** Balance sheet growth indicates underlying favourable operating conditions with total assets up 6.6% y/y and 8.2% y/y growth in customer loans. This was broad-based across businesses with Building and Construction loans and financial institutions, investment & holding companies loans contributing the bulk of loans growth. Non-performing loans fell slightly by 3.3% y/y which resulted in the non-performing loan ratio improving y/y to 1.6% as at 30 Sep 2018 (1.7% as at 30 Sep 2017).

- **Growth momentum pushing down capital ratios:** CET1 capital fell y/y and since 31 Dec 2017 despite strong earnings performance due to the full phasing in of CET1 regulatory adjustments from 1 January 2018. Total capital rose however by 7.1% y/y due to issuance of USD750mn Tier 2 notes in June. Combined with a 2.9% rise in risk weighted assets y/y from loans growth, the CET1 ratio fell marginally to 13.3% (13.6% as at 30 June 2018 and 30 Sep 2017 on a fully phased in basis). At the same time, the total capital ratio at 16.2% was stable q/q and up 60bps y/y. These ratios continue to remain well above the CET1/CAR regulatory minimum requirement of 8.7%/12.2%.

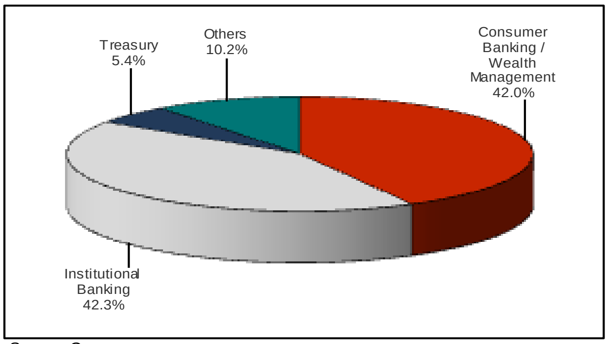
DBS Group Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Net Interest Income	7,305	7,791	6,625
Non Interest Income	4,184	4,483	3,313
Operating Expenses	4,972	5,205	4,313
Pre-Provision Operating Profit	6,517	7,069	5,625
Provisions	1,434	1,894	505
Other Income/(Expenses)	0	0	0
PBT	5,083	5,175	5,120
Income Taxes	723	671	795
Net Income to Common Shareholders	4,238	4,371	4,258
Balance Sheet (SGD'mn)			
Total Assets	481,570	517,711	541,524
Total Loans (net)	301,516	323,099	340,375
Total Loans (gross)	305,415	327,769	345,101
Total Allowances	3,899	4,670	4,726
Total NPLs	4,416	5,517	5,368
Total Liabilities	434,600	467,909	493,009
Total Deposits	347,446	373,634	388,295
Total Equity	46,970	49,802	48,515
Key Ratios			
NIM	1.80%	1.75%	1.85%
Cost-income Ratio	43.3%	43.0%	43.2%
LDR	86.8%	86.5%	87.7%
NPL Ratio	1.45%	1.68%	1.56%
Allowance/NPLs	88.3%	84.6%	88.0%
Credit Costs	0.47%	0.58%	0.20%
Equity/Assets	9.75%	9.62%	8.96%
CETier 1 Ratio (Full)	14.1%	14.3%	13.3%
Tier 1 Ratio	14.7%	15.1%	14.4%
Total CAR	16.2%	15.9%	16.2%
ROE	10.1%	9.7%	12.4%
ROA	0.92%	0.89%	1.08%

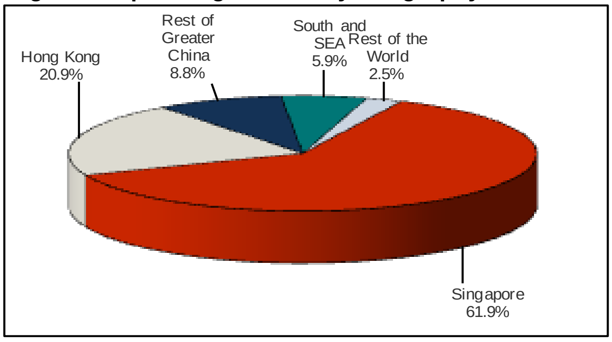
Source: Company

Figure 1: Operating Income by Segment - 9M2018



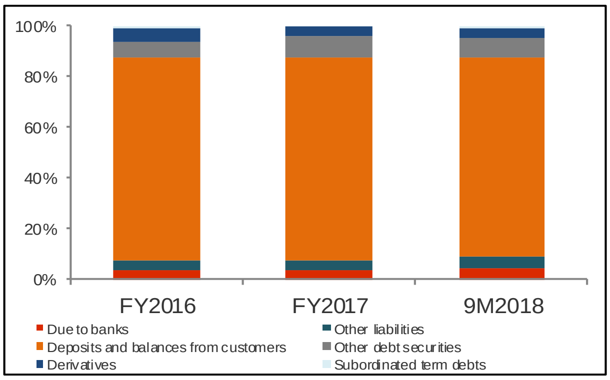
Source: Company

Figure 2: Operating Income by Geography - 9M2018



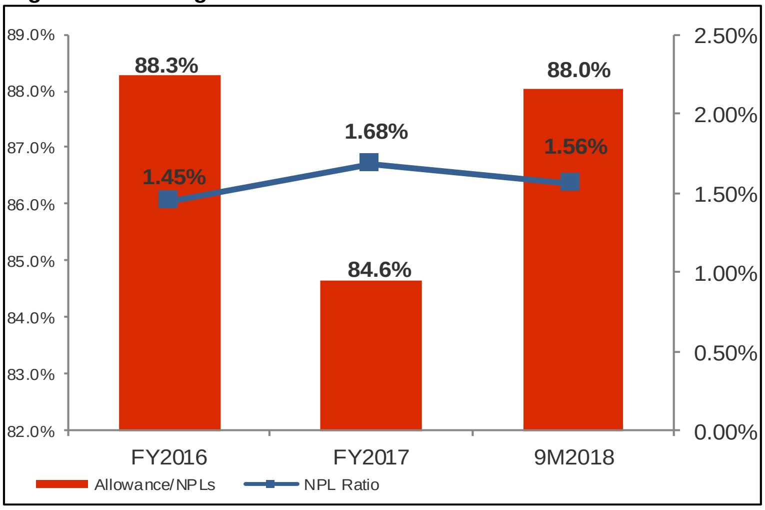
Source: Company

Figure 3: Liabilities Composition



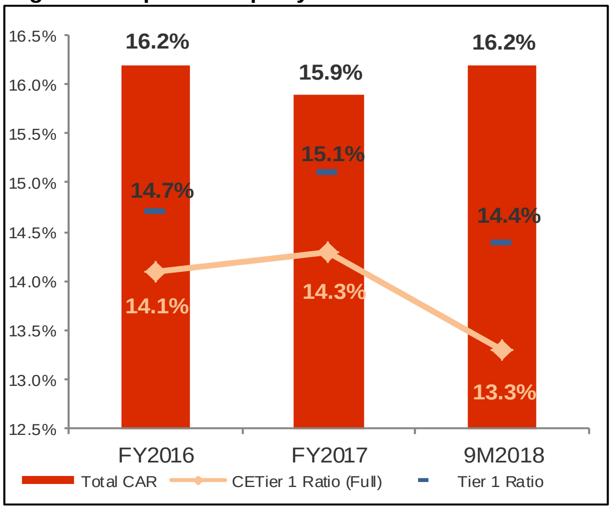
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

HSBC Holdings PLC

Credit Outlook – HSBC's size and operating diversity continues to be a key credit strength in our view and supports its credit profile despite an expected slowdown in its major economies. We like the HSBC 4.7% PERPc22s against the HSBC 5.0% PERPc23s given the better spread against tenor and higher reset spread.

Issuer Profile: Positive (2)

Ticker: **HSBC**

Background

HSBC Holdings PLC ('HSBC') is one of the world's largest banks by asset size and a global systemically important bank ('GSIB'). Based in London, it is the holding company for the HSBC Group which includes global banking operations across 67 countries and territories through major subsidiaries HSBC Bank PLC (in Europe and the UK) and The Hongkong and Shanghai Banking Corporation, Limited (in Asia) amongst others. As at 30 September 2018, it had total assets of USD2,603.0bn.

Key credit considerations

- **Solid 3Q2018 results despite environment**: HSBC reported solid results for 3Q2018 with reported profit before tax ("PBT") of USD5.9bn up 28% y/y. Excluding significant items (transformation costs, litigation and regulatory costs) and foreign exchange impacts, adjusted profit before tax was up 16%. PBT performance was driven by 6% growth in revenue due to better performance in all of HSBC's business segments. Operating expenses also fell 7% y/y to USD8.0bn and was mostly due to favourable impacts from significant items (non-recurrence of transformation costs) and favourable currency translation impacts. Excluding these, operating expenses increased by 2% y/y due to on-going investment in growth and digitalization. These mitigated a 13% y/y rise in expected credit losses ("ECL") and other credit impairment charges and loan impairment charges ("LIC") and other credit risk provisions from unsecured exposures located in Mexico, Turkey and UK exposures within Commercial Banking and Retail Banking and Wealth Management. Management indicated that a charge was applied to reflect the potential negative impact of the trade war on Hong Kong exposures. 3Q2018 results offset a somewhat weak 1H2018 performance with 9M2018 reported PBT 12% higher y/y to USD16.6bn (+3.4% y/y on an adjusted basis to USD18.3bn) although 1H2018 results were driven mainly by weaker performance in the Corporate Centre (valuation differences on long term debt and associated swaps, higher interest expense from MREL costs, higher losses on disposal of legacy portfolios).

- **Otherwise underlying business performance remains decent**: Results were driven by better revenue performance in all of HSBC's business segments. Adjusted revenue growth y/y was 14% in 3Q2018 due to better margins and volume growth in current accounts, savings and deposits in Retail Banking although personal mortgage lending revenue fell. Adjusted Commercial Banking revenues rose 15% due to better deposit margins and volumes in Global Liquidity and Cash Management and growth in Credit and Lending. Finally, Global Banking & Markets revenue rose 10% y/y from volume growth and foreign exchange flows on market volatility which mitigated lower primary corporate issuances and reduced secondary client activity. Private Banking performance was stable. Better revenue performance will be important going forward given HSBC's higher ongoing investments in growth and technology.

- **Balance sheet growth continues:** Reported customer loans and advances were broadly stable (+1.0% q/q). However, excluding foreign currency translation differences, adjusted loans and advances rose ~2% q/q. Around 70% of the growth came from Europe (UK mortgages and term lending and overdrafts). Elsewhere, growth was evenly spread across Asia (Hong Kong Mortgages), North America (Commercial Banking term lending) and Latin America (Global Banking & Markets term lending). Corporate and commercial loans continue to be the highest contributor to total loans and advances to customers at 54.5% followed by personal loans at 39.0%. Customer advances from UK comprise around 28% of group gross customer advances. 40% of these comprise residential mortgages of which 93% have loan to value ratios below 80%.

- **Earnings driving capital ratios**: Despite loans growth, risk weighted assets was lower q/q due to more moderate loans and advances growth together with the impact of foreign currency translation differences and methodology and policy changes. Together with earnings generation, the CET1 ratio improved to 14.3% as at 30 September 2018 against 14.2% as at 30 June 2018. This remains above the minimum CET1 requirement of 7.8%. HSBC's overall leverage ratio was stable q/q as at 30 Sept 2018 at 5.4%, above the 3.0% minimum requirement. Its UK leverage ratio was also stable q/q at 5.9% as at 30 Sept 2018, above the Prudential Regulatory Authority's 3.95% minimum requirement which includes a minimum leverage ratio requirement of 3.25%, an additional leverage ratio buffer of 0.5% and a countercyclical leverage ratio buffer of 0.2%.

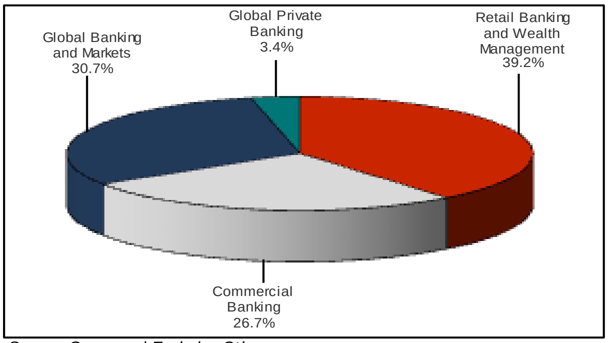
HSBC Holdings PLC

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (USD'mn)			
Net Interest Income	29,813	28,176	22,780
Non Interest Income	18,153	23,269	18,305
Operating Expenses	39,808	34,884	25,515
Pre-Provision Operating Profit	8,158	16,561	15,570
Provisions	3,400	1,769	914
Other Income/(Expenses)	2,354	2,375	1,978
PBT	7,112	17,167	16,634
Income Taxes	3,666	5,288	3,702
Net Income to Common Shareholders	2,479	10,798	11,933
Balance Sheet (USD'mn)			
Total Assets	2,374,986	2,521,771	2,603,035
Total Loans (net)	861,504	962,964	981,460
Total Loans (gross)	869,354	970,448	989,942
Total Allowances	7,850	7,484	8,482
Total NPLs	18,228	15,470	15,100
Total Liabilities	2,192,408	2,323,900	2,409,803
Total Deposits	1,272,386	1,364,462	1,345,375
Total Equity	182,578	197,871	193,232
Key Ratios			
NIM	1.73%	1.63%	1.67%
Cost-income Ratio	61.0%	60.4%	62.1%
LDR	67.7%	70.6%	73.0%
NPL Ratio	2.10%	1.59%	1.53%
Allowance/NPLs	43.1%	48.4%	56.2%
Credit Costs	0.39%	0.18%	0.12%
Equity/Assets	7.69%	7.85%	7.42%
CETier 1 Ratio (Full)	13.6%	14.5%	14.3%
Tier 1 Ratio	16.1%	17.3%	17.3%
Total CAR	20.1%	20.9%	20.7%
ROE	0.8%	5.9%	9.0%
ROA	0.10%	0.44%	0.67%

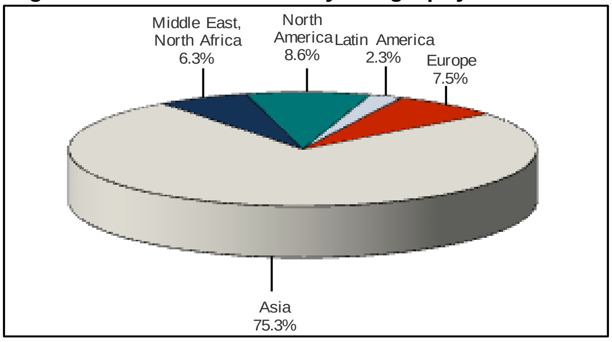
Source: Company

Figure 1: Operating Income by Segment - 9M2018



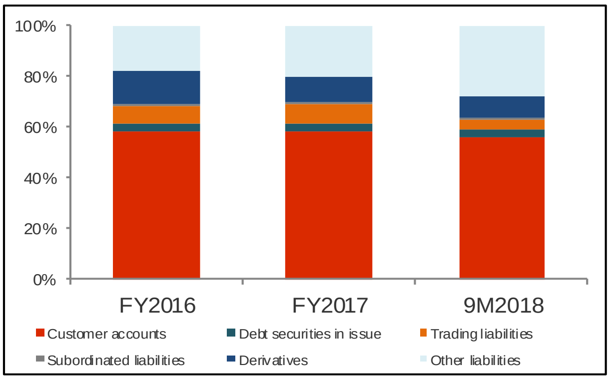
Source: Company | Excludes Others

Figure 2: Profit Before Tax by Geography - 9M2018



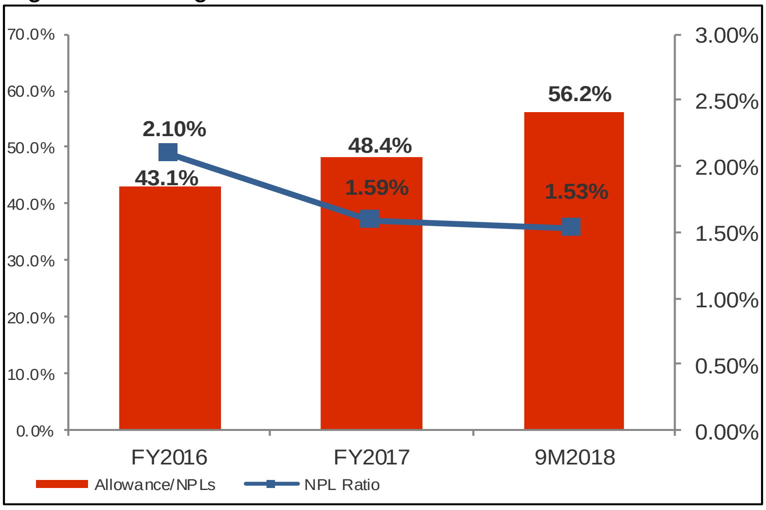
Source: Company

Figure 3: Liabilities Composition



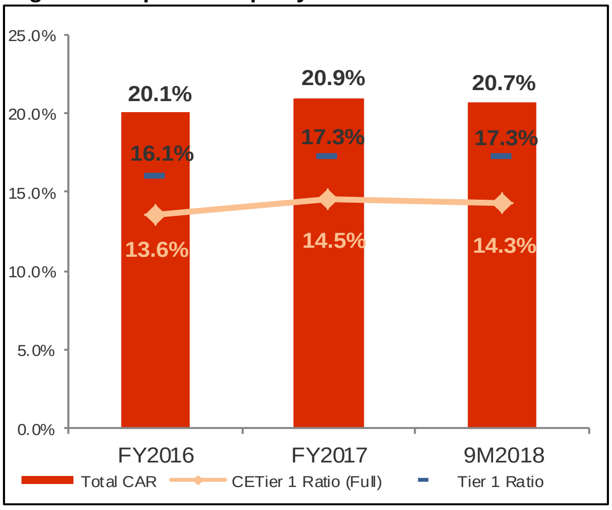
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – JBG's credit profile remains somewhat in a state of flux given the competitive private banking landscape. For now though, we are holding the Neutral (3) issuer profile. We remain overweight the BAERVX 5.90% PERPc20s and are neutral the BAERVX 5.75% PERPc22s.

Issuer Profile: Neutral (3)

Ticker: **BAERVX**

Background

Present in over 50 locations, Julius Baer Group Ltd. ("JBG") 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, 2018 it had total client assets of CHF467.4bn. As at 31 October, 2018, it had assets under management of CHF395bn.

Julius Baer Group Ltd

Key credit considerations

- **Continuity of previous strategy amidst volatile markets:** With new CEO Bernhard Hodler stepping in since the start of the year, the number of relationship managers (RMs) has grown by 79 up to 1H 2018 (with the inclusion of 13 RMs from Reliance Group), nearing its 2018 hiring target of 80 RMs. In addition, gross margin and growth in assets under management (AuM) were sustained in 1H2018 despite the increase in market volatility while assets under management continued to grow, up by 3% h/h to CHF400mn (FY2017: CHF389mn). This was however at a slower growth pace compared to 1H2017 (+6% h/h) as negative market performance in stock markets in Switzerland, Europe and Asia offset net new money inflows, the acquisition of 95% of Reliance Group in Brazil (successfully completed on 4 June 2018) as well as a positive currency impact from the CHF. Interim management results for the 10 months to 31 October 2018 highlight however the increasing impact of volatile markets on JBGs performance with lower client activity translating into lower assets under management of CHF395bn compared to 30 June 2018 as well as lower gross margins. As a result of lower activity and year to date expenditure JBG's cost to income ratio rose to 69%, above its medium target range of 64-68%. Overall, JBG's previous expansion strategy continues with annualized net new money inflows of over 5% remaining well within JBG's target range of 4% – 6%.

- **Steady 1H2018 business performance:** Total operating income was notably up by 12.4% y/y to CHF1.79bn in 1H2018 (1H2017: CHF1.59bn), mainly driven by the rise in net trading income by 129.2% y/y to CHF206.3mn from higher overall FX and structured products-related trading income. Net commission and fee income also grew by 10.2% y/y to CHF1.0bn on the back of rising asset-based fee income and brokerage commissions while net interest and dividend income fell by 2.3% y/y to CHF553.5mn as the decline in dividend income on trading portfolios more than offset the higher loan volumes and rates. Expense performance on the other hand was also up 9.8% y/y due to a rise in personnel expenses following the growth in relationship manager numbers as well as performance-related remuneration. With reduced client activity in the 4 months to end October, gross margin reduced to 87bps while the cost to income ratio weakened after improving to 67.3% in 1H2018 from 69.1% in 1H2017. To manage this going forward, management has indicated it will reduce discretionary spending to bring the ratio back within its target.

- **Capital ratios remain strong:** Capital ratios were solid in 1H2018 with JBG's CET1 ratio up slightly to 13.7% as at 30 June 2018 (2H2017: 13.5%) due to a slight increase in fully-applied CET1 capital. At the same time, risk weighted assets were somewhat lower by 1% h/h to CHF19.5bn. JBG's total capital ratio however fell modestly to 20.2% (2H2017: 21.2%) as a result of the redemption of its CHF250mn Tier 1 bonds in March 2018. Ratios as at 31 October 2018 were weaker due to a rise in risk-weighted assets from a higher financial assets portfolio following further credit deleveraging, as well as an increase in market risk. As a result, JBG's CET1/CAR capital ratios declined to 13.0%/19.0%. Both the CET1/CAR ratios still remain above the minimum regulatory requirement of 8.1% and 12.3% respectively and JBG's group floor of 11.0%/15.0%.

- **Solid operating conditions at home:** While net new money remains well within the target range, future growth could be challenged by both the competitive world of Private Banking (recent staff departures in Asia, Latin and Central America) as well as macro-economic concerns globally (ongoing trade tensions) and in Europe. That said, JBG's business remains anchored in Switzerland (56% of FY2017 operating income) with the economy remaining robust. Q/q economic growth in 2Q2018 was better than expected. Asia is the next highest contributor with 21.3% of FY2017 operating income. Although competition is increasing, growth in private banking opportunities within Asia is expected to outpace growth in Europe with rising Asian private banking wealth.

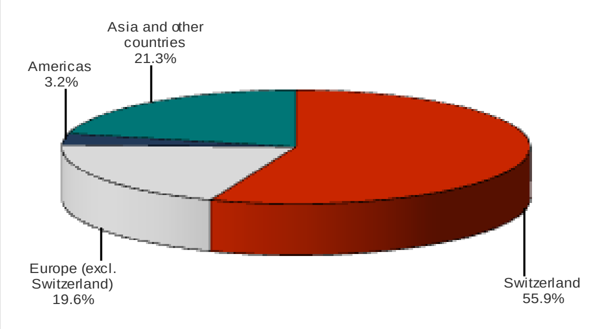
Julius Baer Group Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1H2018
Income Statement (CHF'mn)			
Net Interest Income	877	988	554
Non Interest Income	1,975	2,265	1,235
Operating Expenses	2,080	2,329	1,244
Pre-Provision Operating Profit	773	923	545
Provisions	20	37	2
Other Income/(Expenses)	0	0	0
PBT	753	887	543
Income Taxes	130	171	99
Net Income to Common Shareholders	620	705	444
Balance Sheet (CHF'mn)			
Total Assets	96,207	97,918	103,540
Total Loans (net)	38,419	46,624	46,662
Total Loans (gross)	38,491	46,656	46,693
Total Allowances	79	39	31
Total NPLs	83	44	44
Total Liabilities	90,853	92,064	97,752
Total Deposits	67,495	67,637	70,237
Total Equity	5,354	5,854	5,789
Key Ratios			
NIM	1.69%	1.72%	0.93%
Cost-income Ratio	68.9%	69.0%	67.3%
LDR	56.9%	68.9%	66.4%
NPL Ratio	0.22%	0.09%	0.09%
Allowance/NPLs	95.0%	88.6%	71.0%
Credit Costs	0.05%	0.08%	0.01%
Equity/Assets	5.56%	5.98%	5.59%
CETier 1 Ratio (Full)	16.4%	16.7%	13.7%
Tier 1 Ratio	17.1%	21.6%	19.9%
Total CAR	17.5%	22.0%	20.2%
ROE	12.1%	12.8%	15.3%
ROA	0.69%	0.73%	0.86%

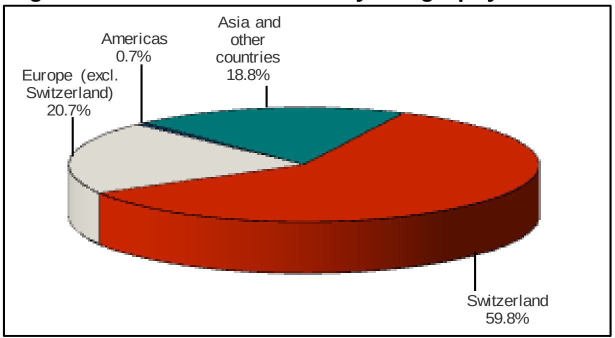
Source: Company

Figure 1: Operating Income by Geography - FY2017



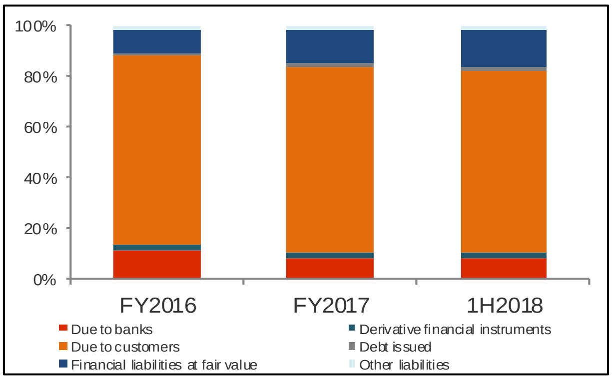
Source: Company | Excludes consolidation items

Figure 2: Assets Breakdown by Geography - FY2017



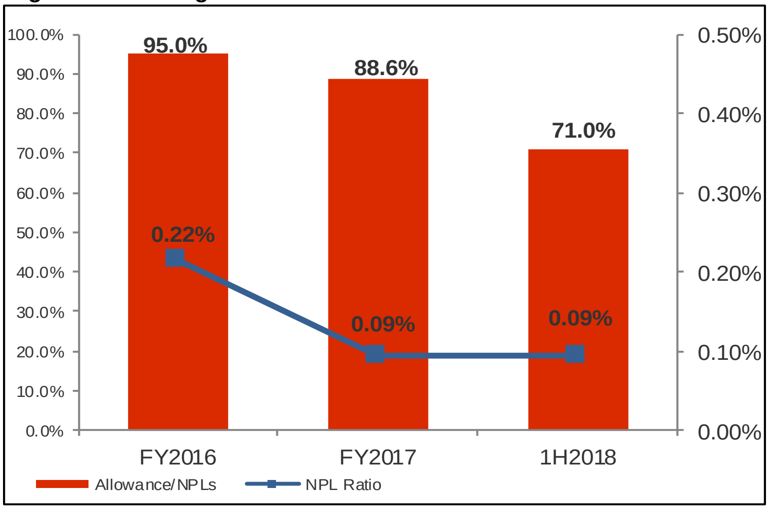
Source: Company | Excludes consolidation items

Figure 3: Liabilities Composition



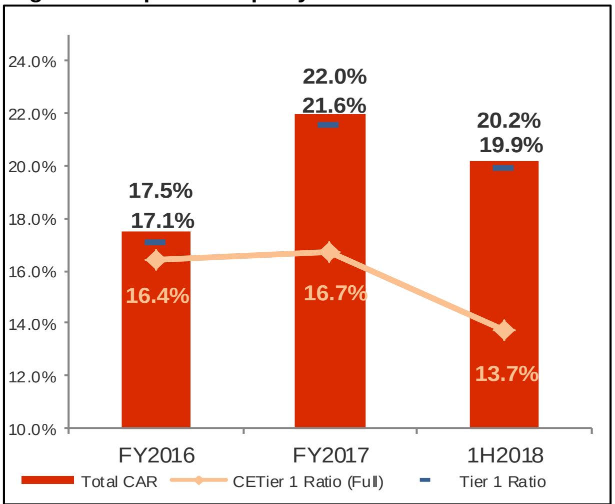
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Landesbank Baden-Württemberg

Credit Outlook – LBBW's commercial and public policy roles balance out a challenging operating environment for German banks. Compared to the LBBW 3.75% '27c22s, we see better value in CMZB 4.875% '27c22s given the spread pick up adequately compensates for the weaker CET1 ratio.

Issuer Profile: Neutral (4)

Ticker: **LBBW**

Background

Based in Stuttgart Germany, Landesbank Baden-Württemberg ('LBBW') is a public law institution providing universal services covering large corporates, capital markets businesses and real estate financing. As at 30 September 2018, it had total assets of EUR258bn. As per its 2017 annual report, the bank is 40.5% owned by the Savings Bank Association of Baden-Württemberg, the state capital of Stuttgart (18.9%) and the State of Baden-Württemberg (40.5%).

Key credit considerations

- **Weaker top-line performance:** LBBW's 9M2018 total operating income was down 4.5% y/y to EUR1.88bn. This was mainly driven by the lower gains from the disposal of securities and equity investments which was down 20.0% y/y as a result of the exceptional gain in 1H2017 due to the more favourable environment. Within the net gains, allowances for losses on loans and securities fell 21.7% y/y to EUR53mn. Net interest income was marginally weaker y/y at EUR1.20bn (9M2017:EUR1.21mn) despite the low interest rate environment and intense competition within the banking sector as these were offset by the increase in loans to corporate customers. Net fee and commission income was also 3.4% lower y/y to EUR385mn (9M2017: EUR398mn) as the decline in income from brokerage business was partially offset by the increase in asset management activities including fund consulting services.

- **Expense performance continues to improve:** Notwithstanding the lower total operating income y/y, LBBW's bottom line continues to be improved due to the ongoing y/y decline in expenses. Administrative expenses were down 1.6% y/y on the back of lower staff costs and the non-recurrence of expenses in the previous year (operational launch of new core banking system OSplus). While this mitigated the higher investment in IT infrastructure and resulted in the cost to income ratio improving to 73.6% for 9M2018 against 74.5% for 9M2017, the bottom line growth was mainly due to the absence of the state guarantee commission following the sale of the Sealink portfolio as well as the absence of restructuring expenses. This more than offset the 28.5% y/y rise in bank levy and deposit guarantee fees, which are system wide expenses and relate to full year Single Resolution Fund payments (European bank levy) and LBBW's membership in the Landesbanks' bank-related guarantee fund under the German Deposit Guarantee Act. With tax expenses also lower y/y (-8.7% y/y), the lower costs incurred led to a 6.3% y/y improvement in net consolidated profit for 9M2018 to EUR340mn (9M2017: EUR320mn).

- **All segments contributing but some more than others:** In terms of PBT by segment, Corporate Customers was broadly stable at EUR232mn (9M2017: EUR234mn) as margin pressure due to competition and low interest rates was offset by higher lending volumes to medium-sized and large enterprises (+12% y/y to EUR49bn). Business volumes in commercial real estate finance and infrastructure and project finance were also supportive; however PBT for the Real Estate/Project Finance segment was 20.2% lower y/y due to presence of non-recurring pre-payment penalties recorded in 2017. The Private Customers/Savings Banks segment also benefited from higher volumes in mortgage transactions, customer deposits and asset management and this along with lower IT expenses translated into EUR16mn in PBT against a loss of EUR19mn in 9M2017. Capital Markets however was significantly weaker y/y by 74.2% to EUR61mn (9M2017: EUR236mn) on the back of cautious customer sentiments and volatile markets which impacted business volumes and credit spreads as well as higher prior year income from sale of securities given the more constructive market sentiments.

- **Capital ratios down on loan growth but remain adequate:** LBBW's balance sheet continues to grow with total assets up 1.5% y/y. Within this, risk weighted assets grew faster at 7.2% y/y due to Corporates loans growth from business expansion and adjusted customer ratings. Along with first time adoption of IFRS9 (which resulted in a reduction in equity) and the decline in revaluation reserve, LBBW's fully loaded CET1/CAR capital ratios at 14.7%/21.2% as at 30 Sept 2018 were lower compared to 31 Dec 2017 (15.7%/22.2%). This remains above regulatory minimum capital requirements, which have increased in line with the EU's Capital Requirements Regulations, and are set annually by the ECB on the basis of the Supervisory Review and Evaluation Process (SREP) with LBBW's phased in CET1/CAR 2018 capital requirement of 8.80%/12.30%.

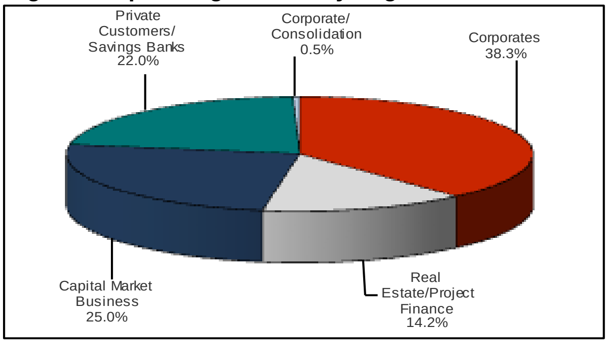
Landesbank Baden-Württemberg

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1H2018
Income Statement (EUR'mn)			
Net Interest Income	1,669	1,587	796
Non Interest Income	957	986	461
Operating Expenses	1,814	1,824	878
Pre-Provision Operating Profit	812	749	379
Provisions	51	92	33
Other Income/(Expenses)	-543	-130	-89
PBT	231	558	284
Income Taxes	131	97	77
Net Income to Common Shareholders	10	416	206
Balance Sheet (EUR'mn)			
Total Assets	243,623	237,717	258,531
Total Loans (net)	110,404	107,652	109,213
Total Loans (gross)	111,232	108,331	110,050
Total Allowances	828	679	837
Total NPLs	1,181	908	922
Total Liabilities	230,489	224,336	245,434
Total Deposits	70,641	79,415	87,282
Total Equity	13,134	13,377	13,095
Key Ratios			
NIM	0.95%	0.98%	0.81%
Cost-income Ratio	74.3%	74.8%	75.4%
LDR	156.3%	135.6%	125.1%
NPL Ratio	1.06%	0.84%	0.84%
Allowance/NPLs	70.1%	74.8%	90.8%
Credit Costs	0.05%	0.08%	0.06%
Equity/Assets	5.38%	5.61%	5.06%
CETier 1 Ratio (Full)	15.2%	15.7%	14.9%
Tier 1 Ratio	NA	NA	NA
Total CAR	21.5%	22.2%	21.5%
ROE	1.1%	4.1%	4.4%
ROA	0.04%	0.19%	0.17%

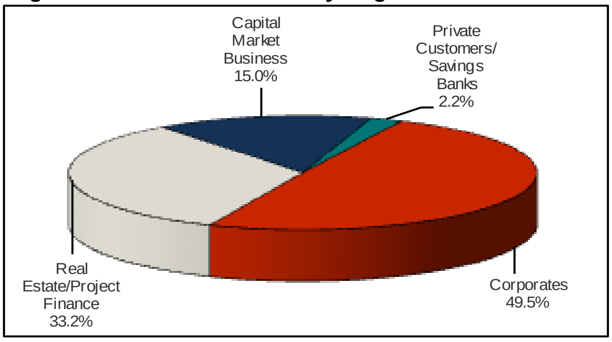
Source: Company

Figure 1: Operating Income by Segment - 1H2018



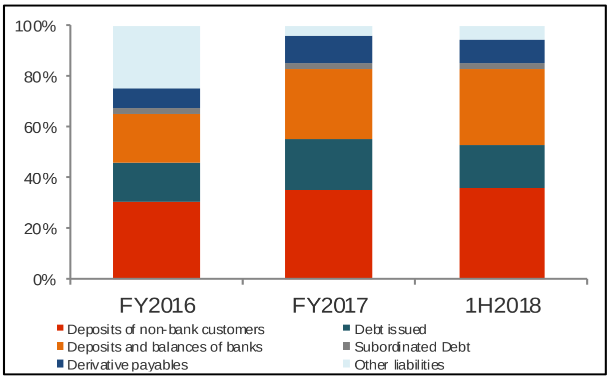
Source: Company

Figure 2: Profit Before Tax by Segment - 1H2018



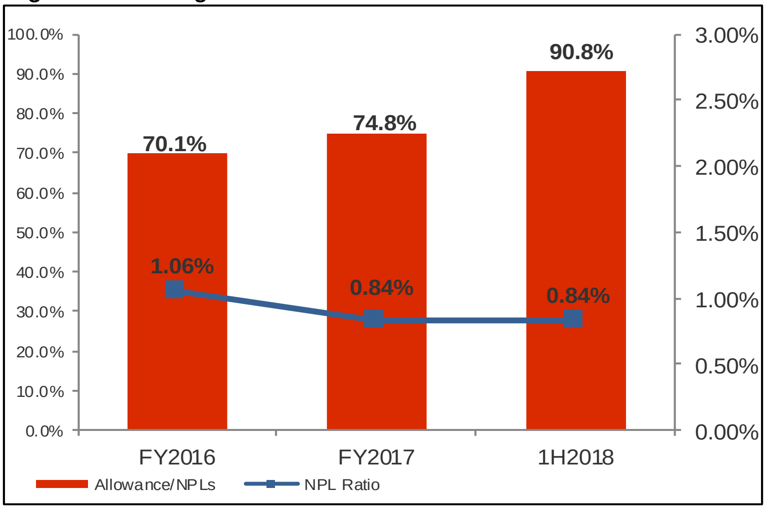
Source: Company | Excludes Corporate/Consolidation

Figure 3: Liabilities Composition



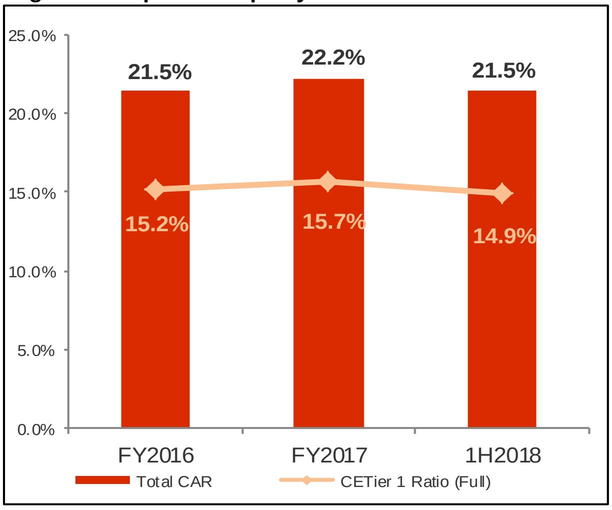
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – NAB's capital ratios will be a focus given profitability challenges facing Australian banks although NAB's business bank franchise continues to support earnings. The ANZ 3.75% '27c22s represent decent value against other Aussie Tier 2 SGD papers although we remain wary of supply risk with APRA seeking higher Tier 2 buffers for Australian banks.

Issuer Profile: Positive (2)

Ticker: **NAB**

Background

National Australia Bank Ltd ('NAB') 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 2018, the bank had total assets of AUD806.5bn.

National Australia Bank Ltd

Key credit considerations

- **Underlying volumes solid but reported results weak:** Cash earnings for the 12 months ended 30 Sept 2018 were down 14.2% y/y to AUD5.70bn due to the impact of restructuring related costs and customer remediation charges. Excluding these, underlying cash earnings were down 2.2% y/y to AUD6.49bn. Driving underlying performance was weaker group net interest margins at 1.84% (1.88% in FY2017), lower Markets & Treasury income, and a 6.4% y/y rise in operating expenses (higher investment spend, staff costs and Royal Commission costs, offset by productivity savings). These overshadowed underlying revenue growth of 1.8% y/y due to growth in housing and business lending. The growth rate in expenses is in line with the bank's expectation of 5-8% expense growth as part of its accelerated strategic plan with forecast investment spending to remain elevated in FY2019 before falling in FY2020. As previously flagged by NAB, additional costs for customer remediation matters and regulatory compliance impacted results materially. These comprised AUD755mn for restructuring (mainly due to workforce reductions) and AUD360mn for customer-related remediation (refunds and compensation in NAB's Wealth business). Including these in operating expenses inflates expense growth to 17.8% y/y.

- **Relying on segmental strength**: Underlying division performance showed some divergence y/y with Consumer Banking & Wealth cash earnings (22% of total underlying cash earnings) down 5.8% y/y due to weaker margins in housing from competition and shifts in the product mix as well as higher investment spend. Corporate & Institutional Banking (22% of total underlying cash earnings) was stable y/y as lower markets activity and higher investment spend was mitigated by higher non-markets revenue and lower credit impairments. New Zealand Banking (14% of total underlying cash earnings) cash earnings rose 6.7% y/y due to higher margins and volumes. However, the key driver of overall performance continues to be NAB's Business & Private Banking division, in particular its small to medium enterprise business with cash earnings up 2.5% y/y due to higher volumes and margins. NAB's overall business remains anchored in its strong market position in Business Banking with the Business and Private Banking segment contributing 42% to underlying FY2018 cash earnings.

- **Economic environment remains supportive:** Better volumes in Business & Private Banking indicate solid operating conditions. In line with this, impairment charges fell 3.8% y/y amidst stable asset quality with the ratio of 90+days past due and gross impaired assets to gross loans and acceptance ratio stable broadly at 0.71%. Watch loans as a percentage of gross loans and acceptances was also stable at 1.20% while new impaired asset formation moderated. While the operating environment is expected to remain supportive in 2019 from solid external demand for commodities and a tight labour market, risks remain including high household leverage while house prices are beginning to soften, the impact of the US-China trade on China's economy and Australia's Federal election scheduled for 2019 which could weigh on the investment climate.

- **Capital ratios still lag**: Capital ratios improved with the APRA CET1 ratio at 10.20% as at 30 Sept 2018, up 14bps y/y as cash earnings compensated for dividend payments and growth in risk weighted assets. On an internationally comparable basis, the CET1 ratio improved to 14.6% from 14.5% over the same period. That said, NAB's capital ratios continue to lag peers and remain below APRA's minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios. With restructuring and operating expenses expected to remain elevated – NAB is targeting to increase investment by AUD1.5bn in the three years to Sept 2020 for a total investment spend of AUD4.5bn to achieve cumulative cost savings of AUD1.0bn by Sept 2020 - we think active capital management will remain key for NAB to improve its capital buffers further as returns are expected to remain weak as the bank accelerates its business transformation through increased digitization and optimizing its workforce.

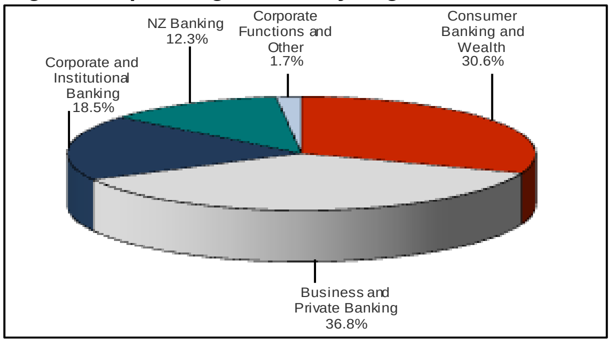
National Australia Bank Ltd

Table 1: Summary Financials

Year Ended 30th Sep	FY2016	FY2017	FY2018
Income Statement (AUD'mn)			
Net Interest Income	12,930	13,182	13,505
Non Interest Income	5,192	4,842	5,596
Operating Expenses	8,331	8,539	9,910
Pre-Provision Operating Profit	9,791	9,485	9,191
Provisions	813	824	791
Other Income/(Expenses)	0	0	0
PBT	8,978	8,661	8,400
Income Taxes	2,553	2,480	2,455
Net Income to Common Shareholders	352	5,285	5,554
Balance Sheet (AUD'mn)			
Total Assets	776,710	788,325	806,510
Total Loans (net)	510,045	540,125	567,981
Total Loans (gross)	513,691	543,764	571,929
Total Allowances	3,114	3,224	3,513
Total NPLs	2,642	1,724	1,521
Total Liabilities	725,395	737,008	753,798
Total Deposits	459,714	500,604	503,145
Total Equity	51,315	51,317	52,712
Key Ratios			
NIM	1.88%	1.85%	1.85%
Cost-income Ratio	42.7%	42.7%	44.6%
LDR	110.9%	107.9%	112.9%
NPL Ratio	0.51%	0.32%	0.27%
Allowance/NPLs	117.9%	187.0%	231.0%
Credit Costs	0.16%	0.15%	0.14%
Equity/Assets	6.61%	6.51%	6.54%
CETier 1 Ratio (Full)	9.8%	10.1%	10.2%
Tier 1 Ratio	12.2%	12.4%	12.4%
Total CAR	14.1%	14.6%	14.1%
ROE	0.5%	10.9%	11.2%
ROA	0.76%	0.83%	0.71%

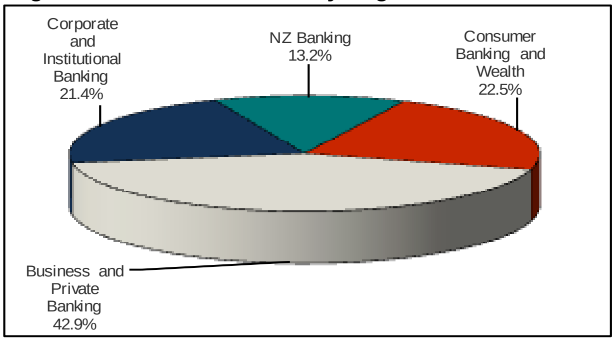
Source: Company

Figure 1: Operating Income by Segment - FY2018



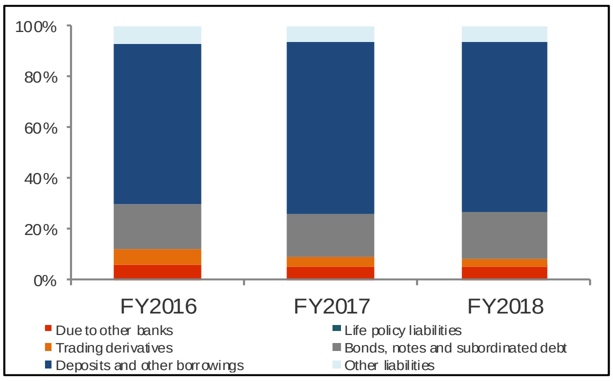
Source: Company

Figure 2: Profit Before Tax by Segment - FY2018



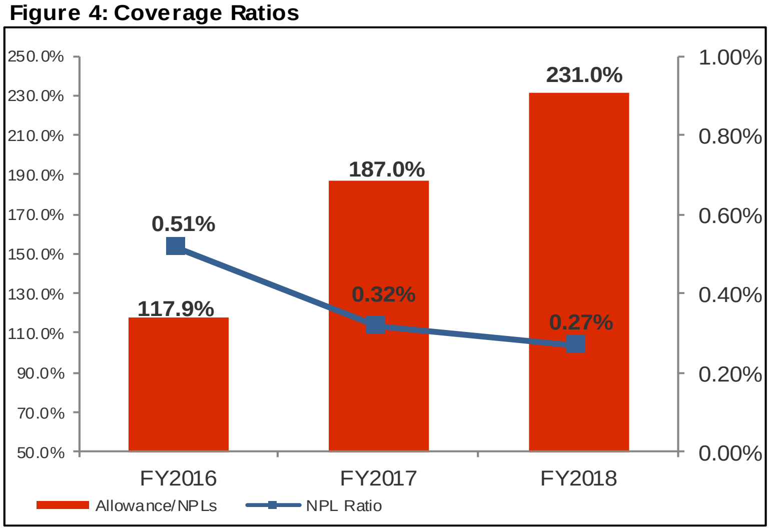
Source: Company | Excludes Corporate Functions and Other

Figure 3: Liabilities Composition



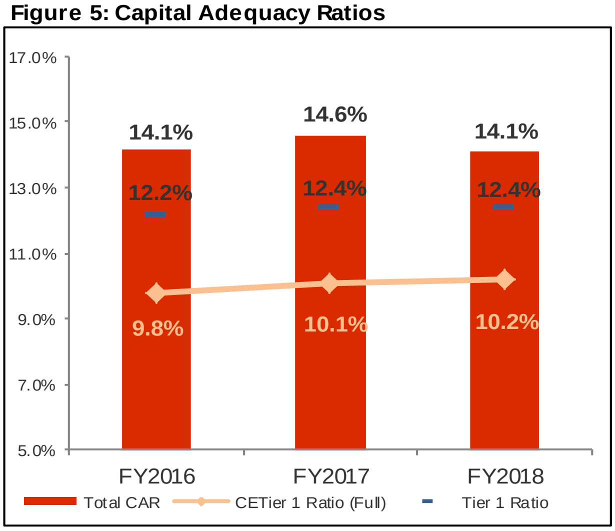
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Recent performance for SG is an improvement on the longer trend although it remains to be seen if recent trends can continue. We see the BPCE Tier 2 papers and BNP 4.3% '25c20s as better value considering fundamentals and spread against the SOCGEN 4.3% '26c21s.

Issuer Profile: Neutral (4)

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 67 countries through three core businesses covering retail banking, corporate and investment banking, private banking, and wealth management. As at 30 September, 2018, it had total assets of EUR1,303.9bn.

Société Générale

Key credit considerations

- **International business supporting earnings**: 9M2018 results were solid with reported group net income up 18.4% y/y to EUR2.7bn due to net banking growth exceeding operating expense growth and a material fall in the net cost of risk. Underlying performance (adjusted for non-economic items, exceptional items and revaluation items) similarly improved with underlying group net income of up EUR3.6bn up 2.9% y/y. Underlying net banking income was up 2.4% y/y as outperformance in International Retail Banking & Financial Services (+5.1% y/y) continues to mitigate struggles in French Retail Banking (-0.3% y/y) and weaker y/y performance in Global Banking & Investor Solutions. Although underlying expenses rose 2.5% y/y due to business growth and transformation expenses, this was somewhat offset of net cost of risk falling 5.6% y/y on improved underlying operating conditions, write-backs and selective origination. As a percentage of outstanding loans, the 18bps commercial cost of risk for 9M2018 remains below SG's 2018 target cost of risk of between 20-25bps.

- **Near term trends more positive:** The better YTD performance was in part due to solid 3Q218 results with underlying net banking income up significantly by 9.0% y/y to EUR6.5bn as all of SG's business segments recorded growth: (1) International Retail Banking & Financial Services segment saw net banking income up 7.3% y/y to EUR2.1bn due to the growth in activities across all business and geographical regions; (2) Net banking income from Global Banking & Investor Solutions was up 7.7% y/y to EUR2.2bn due to a rebound in Global Markets and the healthy momentum in Financing & Advisory activities; and (3) Net banking income from French Retail Banking also rose slightly by 1.8% y/y to EUR1.9bn due to dynamic commissions despite the persistent low interest rate environment. Overall, SG's earnings continue to rely on balanced contributions from its three core business segments. Each segment consistently generates between 30-36% on average of total annual net banking income.

- **Volume growth broad based while loan quality is stable:** SG's balance sheet grew slightly with total assets at EUR1,304bn as at 30 Sept 2018 (EUR1,274bn as at 1 January 2018) and net customer loans, including lease financing up 4.3% y/y to EUR410bn. Underlying business momentum appears solid with broad based loans growth. Average loan outstandings in French Retail Banking rose 3.5% y/y with growth in corporate investment loans and loans to individuals outweighing weaker housing loan production while International Retail Banking loans were up 6.2% y/y on growth almost across all geographies and Equipment Finance rose 6.2% and 5.6% y/y respectively. The reported gross doubtful outstandings ratio continued its declining trend, falling to 3.8% as at 30 Sept 2018 (3.9% as at 30 June 2018; 4.2% as at 31 Mar 2018 and 4.5% as at 30 Sept 2017) while reported Stage 3 or specific provisions gross coverage ratio for doubtful outstandings was stable q/q at 55% as at 30 September 2018 despite the higher risk costs. Including portfolio-based or general provisions, the gross coverage ratio for doubtful outstandings increases to 66% as at 30 Sept 2018.

- **Capital position impact as a result:** Given balance sheet growth, risk weighted assets rose 3.3% y/y to EUR364.7bn (EUR352.9bn as at 30 September 2017). Together with the 1.4% y/y fall in CET1 capital, CET1 ratios fell to 11.2% as at 30 September 2018 (11.7% as at 30 September 2017). That said, the ratio is improved q/q due to the better Q32018 earnings performance (+31bp impact to CET1 ratio) which mitigated a 15bp negative impact from dividend provision and 6bp impact from risk weighted assets. SG's ratio remains above its minimum phased in CET1 ratio requirement of 8.63%. Including senior non-preferred debt issues and other TLAC adjustments, SG's reported TLAC ratio was 22.8% as at 30 September 2018, up from 21.6% as at 30 September 2017 and above the Financial Stability Board's 2019 and 2022 minimum requirements of 19.5% and 21.5% respectively.

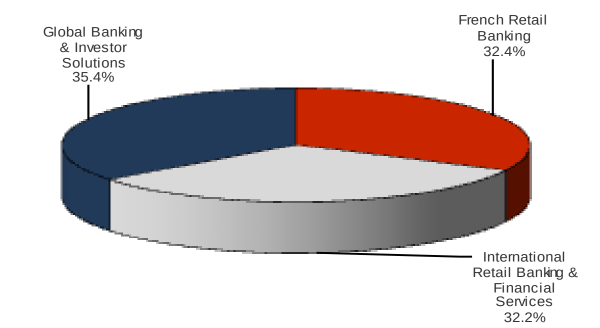
Société Générale

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (EUR'mn)			
Net Interest Income	9,467	10,416	19,278
Non Interest Income	15,831	13,538	
Operating Expenses	16,817	17,838	13,473
Pre-Provision Operating Profit	8,481	6,116	5,805
Provisions	2,091	1,349	642
Other Income/(Expenses)	-83	92	29
PBT	6,307	4,859	5,192
Income Taxes	1,969	1,708	1,425
Net Income to Common Shareholders	3,874	2,806	3,240
Balance Sheet (EUR'mn)			
Total Assets	1,382,241	1,275,128	1,303,873
Total Loans (net)	426,501	425,231	433,871
Total Loans (gross)	479,100	478,700	477,887
Total Allowances	15,200	12,600	12,500
Total NPLs	23,955	20,900	19,000
Total Liabilities	1,316,535	1,211,091	1,239,132
Total Deposits	421,002	410,633	411,434
Total Equity	65,706	64,037	64,741
Key Ratios			
NIM	0.79%	0.93%	NA
Cost-income Ratio	65.6%	74.3%	67.0%
LDR	101.3%	103.6%	105.5%
NPL Ratio	5.00%	4.37%	3.98%
Allowance/NPLs	63.5%	60.3%	65.8%
Credit Costs	0.44%	0.28%	0.18%
Equity/Assets	4.75%	5.02%	4.97%
CETier 1 Ratio (Full)	11.5%	11.4%	11.2%
Tier 1 Ratio	14.5%	13.8%	13.7%
Total CAR	17.9%	17.0%	16.9%
ROE	7.3%	4.9%	8.1%
ROA	0.29%	0.19%	0.40%

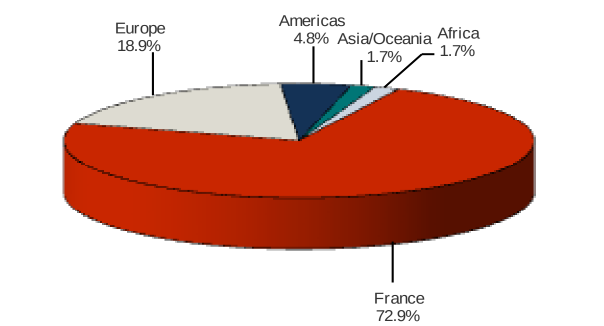
Source: Company

Figure 1: Operating Income by Geography - FY2017



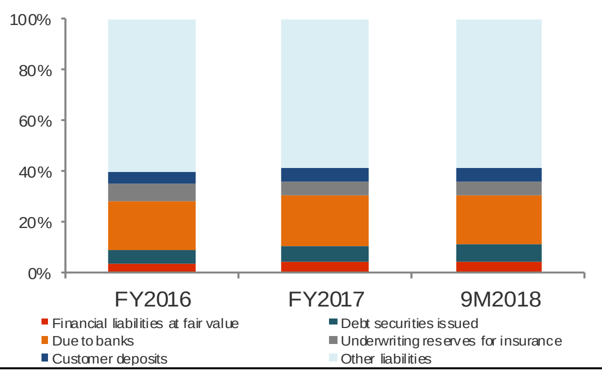
Source: Company | Excludes Corporate Centre

Figure 2: Assets Breakdown by Geography - FY2017



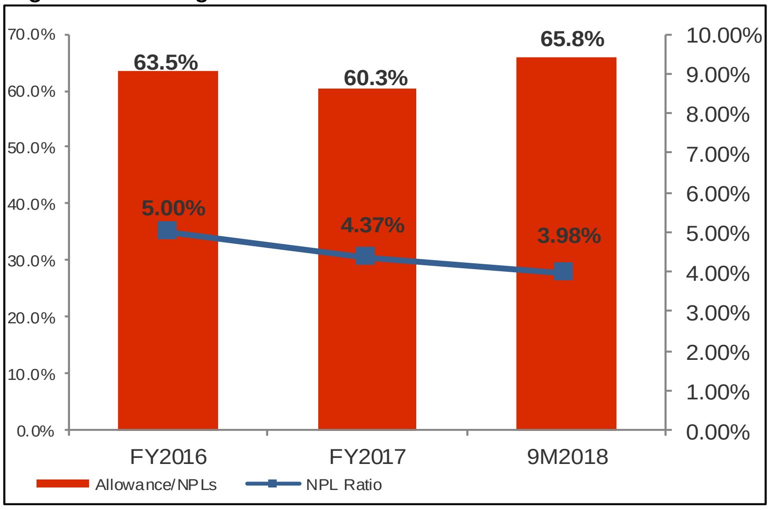
Source: Company

Figure 3: Liabilities Composition



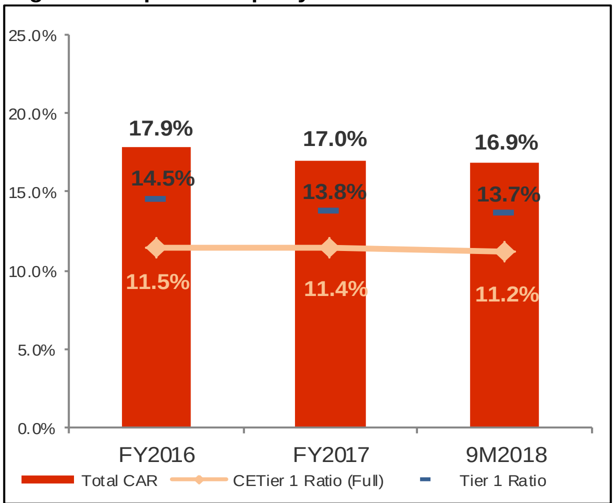
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – StanChart's credit profile continues to improve in our view although remains well within our Neutral (4) issuer profile. We see the BPCE Tier 2 papers and BNP 4.3% '25c20s as better value than the STANLN 4.4% '26c21s considering stronger fundamentals and similar spread.

Issuer Profile: Neutral (4)

Ticker: **STANLN**

Background

Formed almost 50 years ago, Standard Chartered PLC ('StanChart') is a universal bank, offering broad services aligned both globally and regionally. Although headquartered in the UK, StanChart's footprint is skewed towards emerging markets, mostly in Greater China & North Asia (Hong Kong), followed by ASEAN & South Asia. As at 30 September 2018, it had total assets of USD684.6bn.

Standard Chartered PLC

Key credit considerations

- **Constructive trends continue**: Decent results continued in StanChart's interim results for the period ended 30 Sept 2018 with 9M2018 underlying profit before tax up 25% y/y to USD3.43bn. This was driven by a 10% y/y rise in net interest income (5bps y/y improvement in net interest margin to 1.58%) and a 56% fall in credit impairment charges from portfolio rebalancing. This mitigated a 5% y/y rise in 9M2018 operating expenses due to a 6% y/y increase in investment spend and strategic initiatives such as digitization while regulatory costs rose only 1% y/y. As an aside, 3Q2018 operating expenses show a more positive trend, up 1% y/y and down 5% q/q as management focused on cost efficiencies to balance rising investments on growth and transformation. Including restructuring costs and other items (which combined together improved 92% y/y from lower restructuring costs), statutory profit before tax improved 35% to USD3.41bn.

- **Improvement in results mostly broad based**: All business segments reported y/y growth in operating income with highest y/y growth in Retail Banking ("RB": +7% y/y) from better performance in Hong Kong and Singapore deposit business which offset lower mortgage and auto income and wealth management related income tied to equity markets. Corporate & Institutional Banking ("CIB") growth was also solid, up 5% y/y due to transaction banking and improved deal activity in Corporate Finance which offset margin compression and lower client activity in Financial Markets. Commercial Banking ("CB") income rose 5% y/y as growth in cash management activities mitigated lower lending margins. Finally, Private Banking ("PB": 3.5% of overall operating income) improved 8% y/y on a rise in net new money. CIB continues to contribute the bulk of operating income at 44.8% followed by RB (34.2%) and CB (9.2%). By geography, all regions except Africa and Middle East (particularly UAE) saw improved operating income, in particular in Greater China and North Asia (margin expansion in Hong Kong) and ASEAN and South Asia (mostly Singapore which offset lower income and margin compression in India) which grew 11% and 4% y/y respectively. Both segments contribute the bulk of total operating income at 40.9% and 26.7%.

- **Balance sheet quality trending up:** Loans and advances for ongoing business fell 1.5% since 30 June 2018 on lower overdraft balances in Hong Kong and IPO activity while credit quality appears to be managed with gross credit impaired loans ("Stage 3 loans") related to ongoing business down 4.7% q/q due to debt sales, write offs, repayments and lower impaired loan origination. The liquidation portfolio continues to reduce (-13.8% q/q) in line with management actions to exit these exposures. The calculated non-performing loan ratio improved q/q to 2.8% as at 30 Sept 2018 against 3.0% as at 30 June 2018 while the proportion of investment grade exposures improved to 62% from 61% over the same period. Coverage ratios for Stage 3 loans improved marginally both before and after considering collateral.

- **Flowing through to capital ratios:** As a result of lower loans and advances as well as active loan portfolio repositioning, credit risk weighted assets fell q/q. Market risk weighted assets also fell from lower stressed value at risk and together with earnings generation, StanChart's CET1 ratio improved 28 bps to 14.5% as at 30 Sept 2018 from 14.2% as at 30 June 2018 and 13.6% as at 31 Dec 2017. This remains above StanChart's minimum 2019 CET1 requirement of 10.0%, which was recently lowered by the Prudential Regulation Authority. As such, StanChart's capital position remains sound in our view. Results of the Bank of England stress test also reinforce the adequacy of StanChart's capital position, which remained above its Hurdle rate (which reflects minimum capital requirements, systemic importance buffer, and adjustment for IFRS 9 impact). While StanChart's recent performance mirrors the objectives that were laid out in their 2015 Transformation Plan, a new 3 year strategic plan will be presented as part of the FY2018 results announcement in February 2019. This could result in ongoing restructuring costs, keeping earnings growth depressed in the near term.

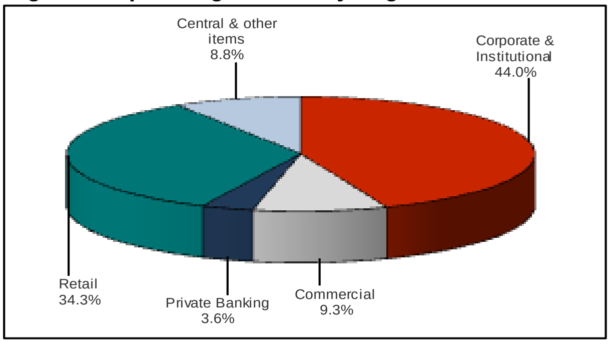
Standard Chartered PLC

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1H2018
Income Statement (USD'mn)			
Net Interest Income	7,794	8,181	4,361
Non Interest Income	6,266	6,244	3,266
Operating Expenses	10,211	10,417	5,185
Pre-Provision Operating Profit	3,849	4,008	2,442
Provisions	2,791	1,861	214
Other Income/(Expenses)	-37	268	168
PBT	1,021	2,415	2,396
Income Taxes	600	1,147	753
Net Income to Common Shareholders	-247	1,219	1,560
Balance Sheet (USD'mn)			
Total Assets	646,692	663,501	694,874
Total Loans (net)	255,896	285,553	255,100
Total Loans (gross)	262,250	291,255	264,635
Total Allowances	6,354	5,702	5,304
Total NPLs	9,687	8,679	7,728
Total Liabilities	598,034	611,694	643,386
Total Deposits	371,855	370,509	382,107
Total Equity	48,658	51,807	51,488
Key Ratios			
NIM	1.50%	1.60%	1.60%
Cost-income Ratio	72.6%	72.2%	68.0%
LDR	68.8%	77.1%	66.8%
NPL Ratio	3.69%	2.98%	2.92%
Allowance/NPLs	65.6%	65.7%	68.6%
Credit Costs	1.06%	0.64%	0.16%
Equity/Assets	7.52%	7.81%	7.41%
CETier 1 Ratio (Full)	13.6%	13.6%	14.2%
Tier 1 Ratio	15.7%	16.0%	16.6%
Total CAR	21.3%	21.0%	21.3%
ROE	0.3%	3.5%	6.1%
ROA	0.00%	0.20%	0.46%

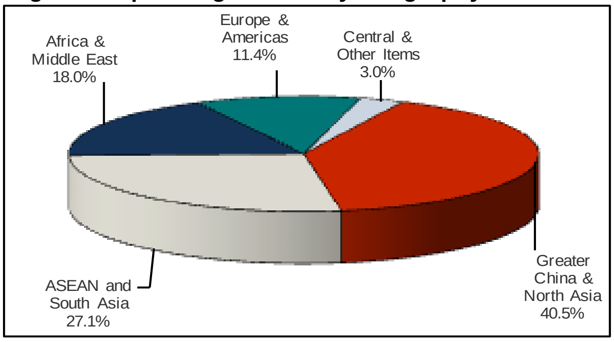
Source: Company

Figure 1: Operating Income by Segment - 1H2018



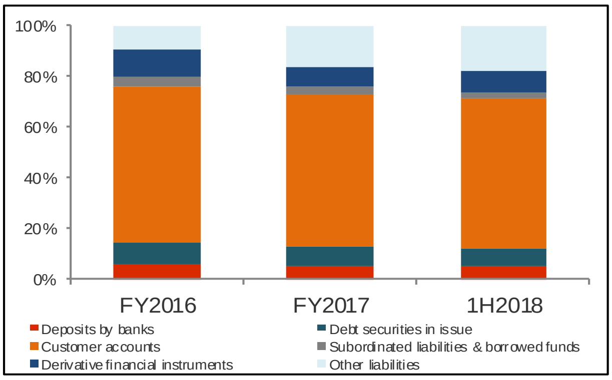
Source: Company

Figure 2: Operating Income by Geography - 1H2018



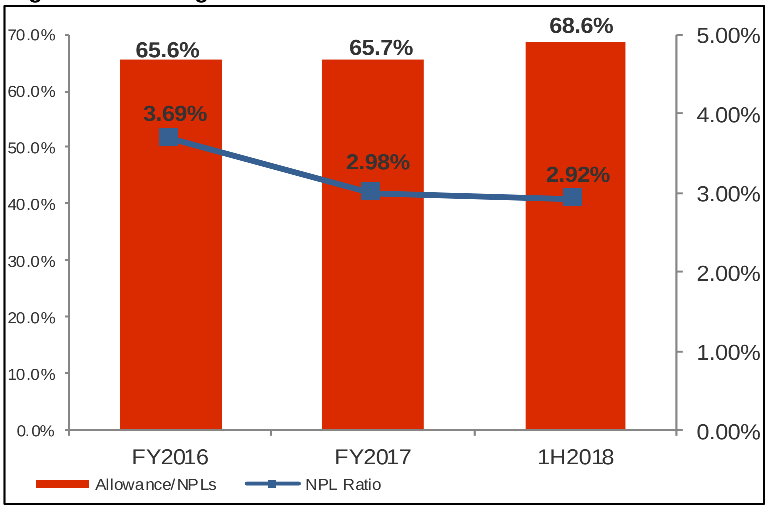
Source: Company

Figure 3: Liabilities Composition



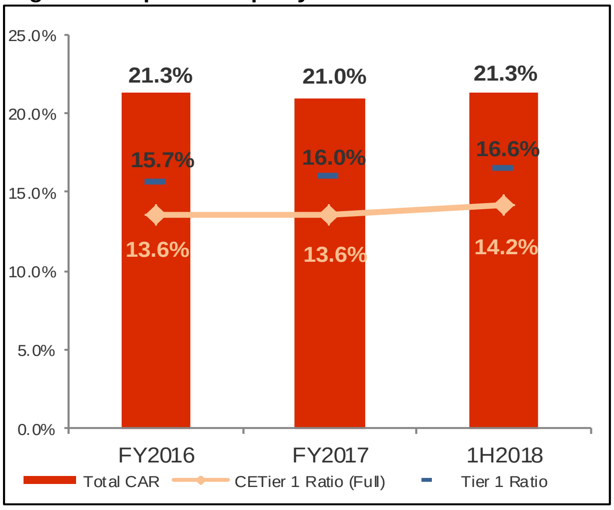
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – UOB's credit profile has benefited from a solid 2018 that provides a buffer to expected moderating economic conditions in 2019. In the context of our credit outlook and current valuations, we look to other names in the bank capital space for higher yield such as the HSBC 4.70% PERPc22s and ANZ 3.75% '27c22s as the UOB curve continues to trade tight.

Issuer Profile: Positive (2)

Ticker: **UOBSP**

Background

United Overseas Bank Limited ('UOB') is Singapore's third largest consolidated banking group with total assets of SGD382.6bn as at 30 September 2018. It has 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, Global Markets and Others. Wee Investments Pte Ltd and Wah Hin & co Pte Ltd have a 7.83% and 5.16% stake in UOB, respectively, as of 7th January 2019.

United Overseas Bank Ltd

Key credit considerations

- **Earnings reflecting solid operating environment**: UOB's results continue its strong y/y performance with profit before tax ("PBT") up 16% and 19% respectively for 3Q2018 and 9M2018 to SGD1.25bn and SGD3.72bn. Driving the 3Q2018 y/y performance was a 14% rise in net interest income on solid loans growth of 9% and a 2bps improvement in net interest margin to 1.81%. Operating expenses were 12% higher y/y due to staff and IT costs but this was mitigated by a 57% y/y fall in allowances for credit and other losses due to the higher recognition of allowances for impaired loans to the oil and gas and shipping sectors in 3Q2017. 9M2018 results were similarly strong, with y/y total income growth of 9% on better performance in net interest income (9% y/y loans growth and 7bps rise in NIM to 1.83%) and net fee and commission income offsetting an 11% rise in operating expenses. However, the main driver of bottom line growth was a 55% fall in allowances for credit and other losses due to supportive business conditions and absence of allowances for oil and gas exposures. Segment wise, the biggest beneficiary of the economic environment was Group Wholesale Banking with 9M2018 operating income up 11.7% y/y due to better net interest income and non-interest income and a sharp fall in allowances. While operating income performance as also solid in Group Retail and Global Markets, PBT performance for these segments was basically stable y/y on higher operating expenses and slight increases in credit allowances.

- **Economic conditions starting to moderate?** Q/q trends were not as strong as y/y performance with 3Q2018 total income down 1% q/q due to weaker net fee and commission income and other non-interest income. Loans growth continued and was up 2% q/q while NIM was weaker (-2bps to 1.81%) as average interest rates on liabilities (in particular deposits) rose faster than average interest rates on assets. This was due to a build-up in deposit balances to counter future anticipated loans growth. PBT was down 3% q/q due to higher allowances for credit and other losses as well as lower share of profit from associates. In particular, allowances for impaired loans rose 47% q/q while allowances for non-impaired loans fell 71% q/q. Most of the allowance growth occurred in Malaysia and Thailand. With economic sentiments shifting somewhat in 3Q2018, segment performance was consistently weaker q/q although this was due to a variety of reasons including higher impairments in Group Retail, absence of share of profit for associates and joint ventures in Group Wholesale Banking (non-recurring gains in 2Q2018) and a 29.5% q/q fall in operating income within Global Markets.

- **Balance sheet remains solid for now**: Loan growth trends were consistent across all industries y/y and q/q with the bulk of the growth coming from building and construction, housing loans and financial institutions. By geography, loans growth was not as broad based and centred on Singapore with solid y/y and q/q loans growth also in China. Y/y loans growth in China contributed to international loans growth of 14% y/y compared to 5% for Singapore. Loan quality remains sound with the non-performing loan ratio at 1.6% as at 30 Sept 2018, stable y/y but improved compared to 2Q2018 (1.7%) and FY2018 (1.8%) due to both loans growth as well as marginally lower reported non-performing loans. We expect this ratio to remain stable, although will continue to monitor trends given the weaker economic outlook and rising interest rates.

- **Past growth supports capital ratios:** Capital ratios remain strong, albeit weaker against prior periods with CET1/CAR ratios of 14.1%/17.4% as at 30 Sept 2018 against 14.5%/18.4% as at 30 June 2018 and 15.1%/18.7% as at 31 Dec 2017. This was due to capital instrument redemption and lower provisions along with a rise in risk weighted assets due to loans growth. On a fully loaded basis, the CET1 ratio was also 14.1% as at 30 Sept 2018, well above the CET1 regulatory minimum requirement. In a further sign of UOB's capital strength, its leverage ratio of 7.4% as at 30 Sept 2018 is well above the 3% regulatory minimum requirement.

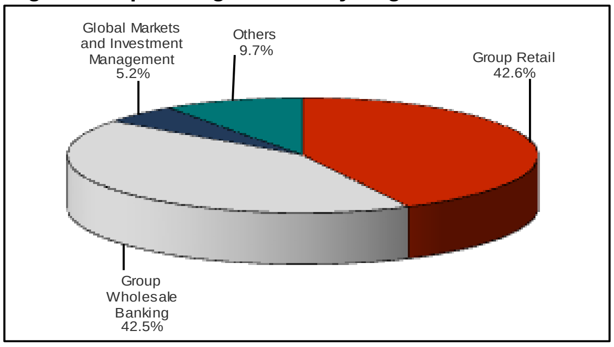
United Overseas Bank Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Net Interest Income	4,991	5,527	4,612
Non Interest Income	3,070	3,323	2,289
Operating Expenses	3,696	4,026	3,020
Pre-Provision Operating Profit	4,365	4,824	3,881
Provisions	594	727	265
Other Income/(Expenses)	6	109	106
PBT	3,777	4,206	3,722
Income Taxes	669	800	620
Net Income to Common Shareholders	3,096	3,390	3,092
Balance Sheet (SGD'mn)			
Total Assets	340,028	358,592	382,637
Total Loans (net)	221,734	232,212	251,755
Total Loans (gross)	225,662	236,028	255,122
Total Allowances	3,928	3,816	3,367
Total NPLs	3,328	4,211	4,185
Total Liabilities	306,986	321,554	345,679
Total Deposits	255,314	272,765	293,634
Total Equity	33,042	37,037	36,958
Key Ratios			
NIM	1.71%	1.77%	1.83%
Cost-income Ratio	45.9%	45.5%	43.8%
LDR	86.8%	85.1%	85.7%
NPL Ratio	1.47%	1.78%	1.60%
Allowance/NPLs	118.0%	90.6%	80.5%
Credit Costs	0.26%	0.31%	0.14%
Equity/Assets	9.72%	10.33%	9.66%
CETier 1 Ratio (Full)	13.0%	15.1%	14.1%
Tier 1 Ratio	13.1%	16.2%	15.1%
Total CAR	16.2%	18.7%	17.4%
ROE	10.2%	10.2%	11.6%
ROA	0.95%	0.98%	1.11%

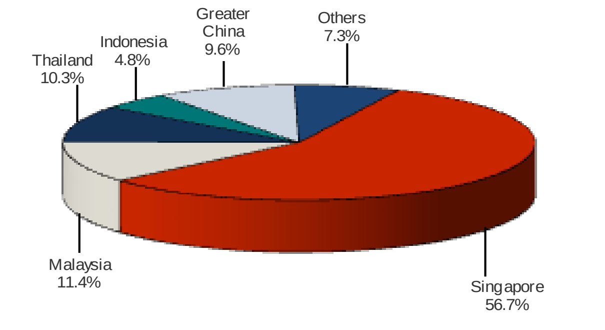
Source: Company

Figure 1: Operating Income by Segment - 9M2018



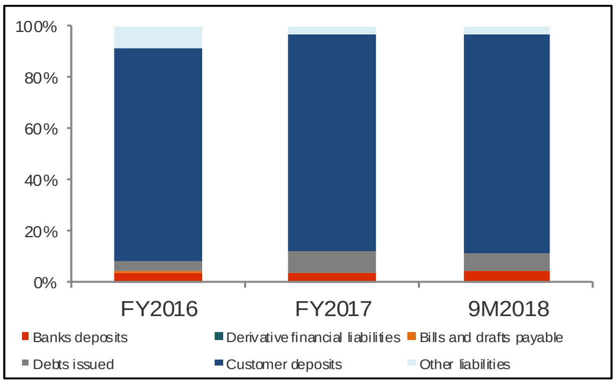
Source: Company

Figure 2: Operating Income by Geography - 9M2018



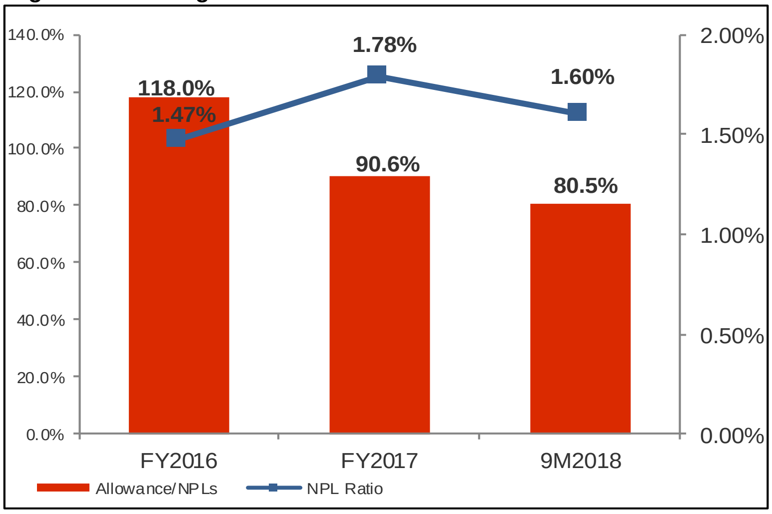
Source: Company

Figure 3: Liabilities Composition



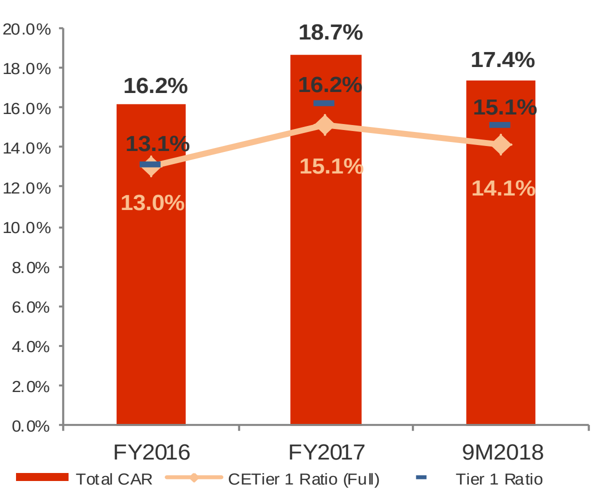
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – While current fundamentals appear solid, Westpac's future credit profile will be in the spotlight from expected pressure on margins as well as a moderation in Australia's housing sector. The ANZ 3.75% '27c22s represent decent value against other Aussie Tier 2 SGD papers although we remain wary of supply risk with APRA seeking higher Tier 2 buffers for Australian banks.

Issuer Profile: Positive (2)

Ticker: **WSTP**

Background

Westpac Banking Corporation ('Westpac') 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 2018, it had total assets of AUD879.6bn.

Westpac Banking Corporation

Key credit considerations

- **Better bottom line than peers**: Reported underlying cash earnings was stable y/y for the full year ended 30 Sept 2018 ("FY2018") as higher costs overshadowed solid underlying performance in Business Bank and improved New Zealand performance. The bottom line was also impacted by higher funding costs, particularly in 2HFY2018 as net interest margins ("NIM") fell 12bps h/h from 2.17% in 1HFY2018 to 2.05% in 2HFY2018, the lowest NIM since 1HFY2015. Nevertheless, net operating income rose 2% y/y to AUD21.9bn on a 4% rise in net interest income from a 3% y/y rise in average interest earning assets and 2bps y/y improvement in NIM. Although operating expenses rose 5% y/y on customer remediation and investment spend along with higher regulation and compliance costs and additional expenses from the exit of infrastructure fund Hastings Funds Management, underlying business as usual costs were actually stable y/y, which is positive considering the volume growth. Part of the reason for the cost performance could be annual productivity savings of AUD304mn achieved in FY2018 from simplifying products and processes, digitization and modernization. Non-interest income was down 4% y/y on lower markets income, lower fees and higher provisions however this was partially offset by a 17% fall in impairment charges, which remain low on solid performance in mortgages.

- **Competition offsetting volumes in Consumer Bank**: Segment performance was mixed. BT Financial Group cash earnings (8.0% of total cash earnings) were down 12% y/y on business repositioning as well as lower advice revenue and provisions for remediation which overshadowed growth in insurance and private wealth. Institutional Bank cash earnings (13.5% of total) were down 6% y/y on lower markets income and large transactions. On the positive side, Business Bank cash earnings (26.8% of total) were up 8% y/y on business growth and lower impairments, while New Zealand cash earnings (11.6% of total) rose 5% y/y on better volumes and margins and lower expenses. Driving overall performance however continues to be Consumer Bank (38.9% of total) with stable cash earnings performance y/y as margin pressure from increased competition and margin pressure from customers switching into principal and interest loans from interest only and higher funding costs as well as higher expenses for remediation and investment offset volume growth.

- **Balance sheet as strong as a house**: WBC's risk profile remains heavily tied to its exposure to home loans, which comprise 69% of total loans. Although sentiment towards Australia's housing sector remains negative on pent up risks from elevated house prices and household leverage, asset quality metrics remain sound. In line with the fall in impairment charges (-17% y/y) as well as 4% y/y growth in loans, the impaired assets to gross loans ratio fell marginally to 0.20% in FY2018 from 0.22% in FY2017. Although the impaired provisions to impaired assets fell marginally to 46.1%, the 90+ day delinquencies ratio for Australia remains broadly stable (albeit still slightly elevated) while the same ratio for New Zealand mortgages improved in FY2018. As for other segments, Institutional Banking stressed assets have fallen through refinancing or repayment of existing loans while no new large exposures have occurred. Commercial property stressed assets rose slightly on stress in apartment developments, while the small and medium business portfolio has seen more broad based stress across Australia in the retail trade and health sectors.

- **Capital ratios above 2020 requirements**: WBC's CET1 ratio was broadly stable y/y at 10.6% as organic or ongoing impacts of +20bps from cash earnings, dividend payments and other movements mitigated -7bps of other (non-recurring) impacts (risk weighted asset model changes, conversion of residual convertible preference shares, other movements). This remains above minimum regulatory CET1 requirements by Jan 1, 2020 and above the bank's own minimum CET1 requirement of at least 8.0%. On an internationally comparable basis, the CET1 ratio was 16.1% as at 30 Sept 2018.

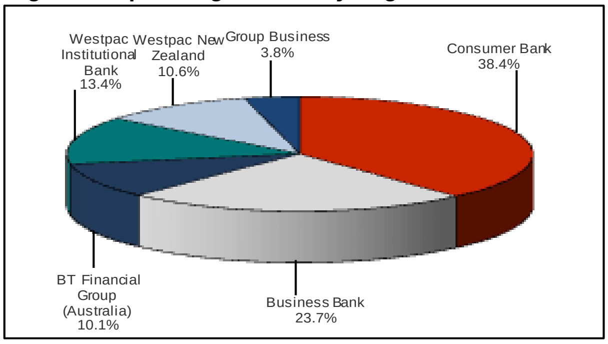
Westpac Banking Corporation

Table 1: Summary Financials

Year Ended 30th Sep	FY2016	FY2017	FY2018
Income Statement (AUD'mn)			
Net Interest Income	15,148	15,516	16,505
Non Interest Income	5,837	6,286	5,628
Operating Expenses	9,217	9,434	9,692
Pre-Provision Operating Profit	11,768	12,368	12,441
Provisions	1,124	853	710
Other Income/(Expenses)	0	0	0
PBT	10,644	11,515	11,731
Income Taxes	3,184	3,518	3,632
Net Income to Common Shareholders	7,445	7,990	8,095
Balance Sheet (AUD'mn)			
Total Assets	839,202	851,875	879,592
Total Loans (net)	661,926	684,919	709,690
Total Loans (gross)	665,256	687,785	712,504
Total Allowances	3,330	2,866	2,814
Total NPLs	2,159	1,542	1,416
Total Liabilities	781,021	790,533	815,019
Total Deposits	513,071	533,591	559,285
Total Equity	58,181	61,342	64,573
Key Ratios			
NIM	2.10%	2.06%	2.13%
Cost-income Ratio	43.9%	43.3%	43.8%
LDR	129.0%	128.4%	126.9%
NPL Ratio	0.32%	0.22%	0.20%
Allowance/NPLs	154.2%	185.9%	198.7%
Credit Costs	0.17%	0.12%	0.10%
Equity/Assets	6.93%	7.20%	7.34%
CETier 1 Ratio (Full)	9.5%	10.6%	10.6%
Tier 1 Ratio	11.2%	12.7%	12.8%
Total CAR	13.1%	14.8%	14.7%
ROE	14.0%	13.8%	13.0%
ROA	0.88%	0.92%	0.92%

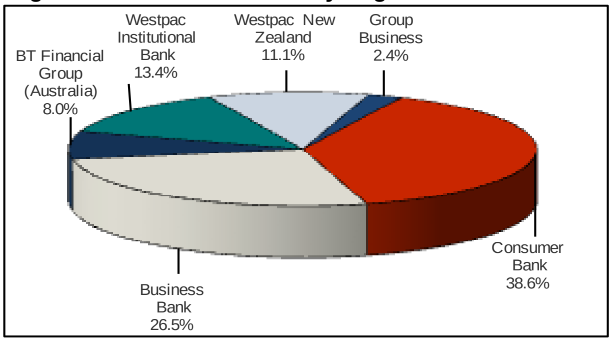
Source: Company

Figure 1: Operating Income by Segment - FY2018



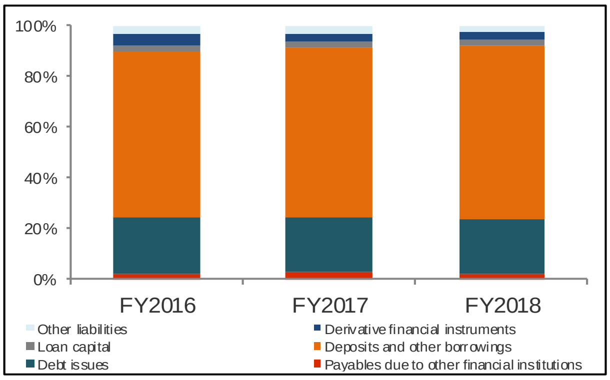
Source: Company

Figure 2: Profit Before Tax by Segment - FY2018



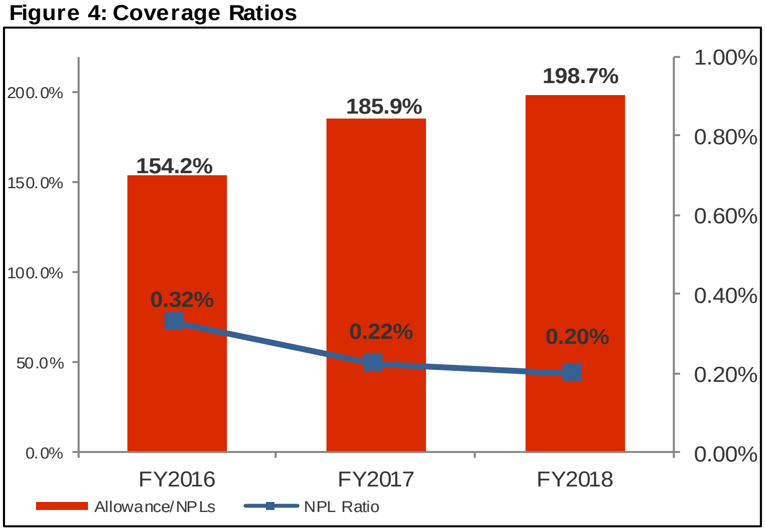
Source: Company

Figure 3: Liabilities Composition



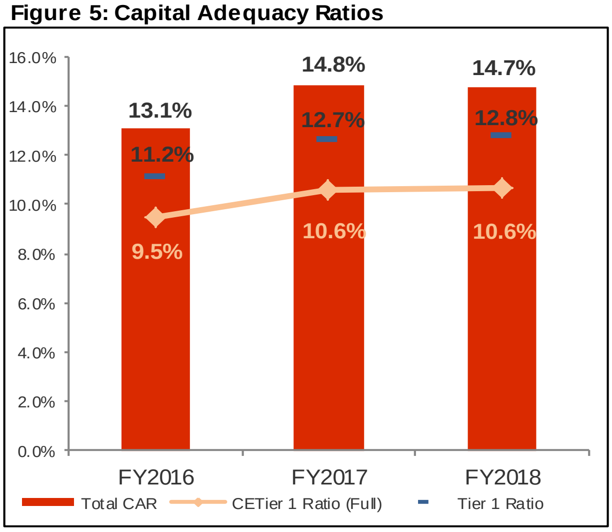
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

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The Credit Research team would like to acknowledge and give due credit to the contributions of Ferlicia Leow Soh Koon and Ng Yong Jie.

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons held securities in the following above-mentioned issuers or companies as at the time of the publication of this report: GuocoLand Ltd, Perennial Real Estate Holdings Ltd, Ascendas Hospitality Trust, Singapore Telecommunications Ltd

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