

## Perennial Real Estate Holdings Ltd: Credit Update

Thursday, 11 February 2016

### Maiden Financial Year Results After Backdoor Listing

- FY2015 Results:** Perennial Real Estate Holdings Ltd (Perennial) reported its first financial-year results (for the 6 quarters ending Dec 2015) post the reverse take-over (RTO) of St James Holdings Ltd on 28 Oct 2014. Results included ~1 quarter of contribution from the legacy entertainment business pre RTO. Total revenue for the 18 months ended 31 Dec 2015 was SGD139.4mn, mainly from the real estate business which commenced in Oct 2014 (95% of revenue). Main contributions were from rental income from mature assets in Singapore (CHIJMES and TripleOne Somerset) and China (Perennial Jihua Mall in Foshan and Perennial Qingyang Mall in Chengdu). Operating income was SGD196.9mn, solely from real estate as the legacy entertainment business generated SGD0.3mn of operating losses. Key contributions were 1) operating income from consolidated mature assets in Singapore and China; 2) SGD90.9mn in fair value gains on investment properties; 3) SGD39.8mn from associates and joint ventures (Shenyang Summit, Capital Singapore and AXA Tower) of which SGD24.7mn was from fair value gains on AXA Tower and Capitol Singapore.
- Capital requirements to remain elevated:** Perennial currently has a development pipeline of ~16.5mn sq ft in GFA, mostly in integrated developments in China. With the completion of most of the developments only in 2018 onwards, capital requirements are expected to remain high. Perennial generated SGD98.7mn in negative operating cash flow in 2015 due to heavy working capital requirements. Capex and investments have so far been funded by a SGD272.3mn increase in debt in 2015. Management highlighted during the results brief that the company has SGD2bn in debt headroom assuming a cap on net gearing (net debt/equity) of 100% (currently 45%, covenant limit at 150%). Management also guided that most of the capex requirements will be funded at the project level (i.e. joint venture/associate level and thus off-balance sheet) and that the Chengdu East HSR project for example had construction expenses that were fully funded by its partner Shanghai Summit Real Estate Development Co. Ltd. That said, we still think further funding will be required from Perennial for these projects and expect leverage to increase.

**Treasury Advisory**

Corporate FX & Structured  
Products

Tel: 6349-1888 / 1881

**Interest Rate Derivatives**

Tel: 6349-1899

**Investments & Structured  
Products**

Tel: 6349-1886

**GT Institutional Sales**

Tel: 6349-1810

**OCBC Credit Research**

Nicholas Koh

+65 6722 2533

[NicholasKoh@ocbc.com](mailto:NicholasKoh@ocbc.com)

**Figure 1: Perennial's Development Pipeline**



Source: Company

- Stronger push into medical services/landlord business:** Perennial has ramped up its medical services/landlord business plans since 2H2015 with the 40-60 JV with Boai Medical Group and repositioning of Perennial Dongzhan Mall into Perennial International Health and Medical Hub in Chengdu on 3 July 2015. This was followed with IHH Healthcare Bhd (44%-owned by Khazanah) signing on as an anchor tenant in the repositioned Chengdu medical hub on 15 October. Recently on 14 January 2016, Perennial announced together with a repositioning of 3 residential towers in Chengdu HSR project into an eldercare home, an MOU to establish a JV with Shanghai Summit, Shanghai RST Chinese Medicine Co. Ltd. When asked if there were similar plans for repositioning of the other assets under development in China (Xian, Beijing and Zhuhai), management stated that such plans have been explored but no firm agreement has been made. At the results brief, Perennial also unveiled plans to transform a 50%-owned gazetted national monument in Singapore, the House of Tan Yeok Nee into a upmarket Traditional Chinese Medicine (TCM) Centre after the lease to the University of Chicago Booth School of Business expired last year. The TCM Centre is slated to open in 3Q2016.
- Strata sales of AXA Tower and TripleOne Somerset to proceed from 2Q2016:** Management also provided updates on the planned AEI and strata-sale of units at AXA Tower and TripleOne Somerset. AEI works (~SGD150mn each) are expected to commence in 2Q2016 for both properties and last between 1.5-2years. Strata sales will likewise commence in 2Q2016 for both properties with management indicating that indications of interests have been received for office space at TripleOne Somerset in the range of SGD2,600-SGD2,700 per sq ft while they were looking at north of SGD4,500 per sq ft for the medical suites. No pricing plans have been drawn up for AXA Tower.
- Capitol Singapore:** Capitol Singapore is progressing well with construction complete for 3 out of 4 components. The 39-unit Eden Residences (45% sold) is expected to receive TOP in February 2016. The theatre and retail component have commenced operations and is currently achieving committed occupancies of ~80%. This might be boosted by the expected opening of The Patina (157-room hotel) this year.
- Credit metrics:** The last twelve month (LTM) numbers ending December 2015 was the cleanest set of results (full-year performance from real estate business, no one-off RTO or VO fees) in terms of setting comparables going forward. LTM revenue was SGD117.7mn with SGD72.3mn of adjusted EBITDA (including JVs and associates but excluding fair value gains on investment properties and FX) generated. LTM debt/EBITDA on a gross and net basis was 26.4x and 24.2x, respectively. EBITDA just managed to cover interest at 1.13x. Net gearing was manageable, however at 45%.
- Conclusion:** Putting it all together, we expect Perennial's leverage to remain elevated going forward due to high capital requirements which will cap deleveraging potential until the pipeline of development assets become cash generating. Current earnings capacity is also weak in relation to the company's debt levels. However, we take comfort from Perennial's strong sponsors (76.2% owned by Kuok Khoon Hong, Ron Sim, Wilmar International and Pua Seck Guan) and that recurring rental income helps support debt service. We maintain our Neutral issuer profile rating on Perennial and Underweights on the PREHSP 4.25% '18 and PREHSP 4.65% '18, seeing better value in other China residential developer SGD bonds such as YLLGSP 6.2% '17 and CENCHI 6.5% '17.

# Perennial Real Estate holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	5Q2015	6Q2015	LTM
<b>Income Statement (SGD'mn)</b>			
Revenue	23	28	118
EBITDA	9	13	59
EBIT	9	13	56
Gross interest expense	15	21	64
Profit Before Tax	5	66	86
Net profit	5	41	58
<b>Balance Sheet (SGD'mn)</b>			
Cash and bank deposits	105	162	162
Total assets	6,351	6,450	6,450
Gross debt	1,931	1,912	1,912
Net debt	1,826	1,750	1,750
Shareholders' equity	3,947	3,882	3,882
Total capitalization	5,878	5,794	5,794
Net capitalization	5,773	5,632	5,632
<b>Cash Flow (SGD'mn)</b>			
Funds from operations (FFO)	5	41	60
CFO	55	-145	-99
Capex	24	59	118
Acquisitions	22	49	174
Disposals	0	0	0
Dividends	0	1	1
Free Cash Flow (FCF)	31	-204	-216
* FCF Adjusted	9	-253	-391
<b>Key Ratios</b>			
EBITDA margin (%)	39.6	47.0	49.8
Net margin (%)	20.8	144.8	49.4
Gross debt to EBITDA (x)	53.2	35.8	32.6
Net debt to EBITDA (x)	50.3	32.8	29.9
Gross Debt to Equity (x)	0.49	0.49	0.49
Net Debt to Equity (x)	0.46	0.45	0.45
Gross debt/total capitalisation (%)	32.8	33.0	33.0
Net debt/net capitalisation (%)	31.6	31.1	31.1
Cash/current borrowings (x)	0.5	1.0	1.0
EBITDA/Total Interest (x)	0.6	0.6	0.9

Source: Company, OCBC estimates

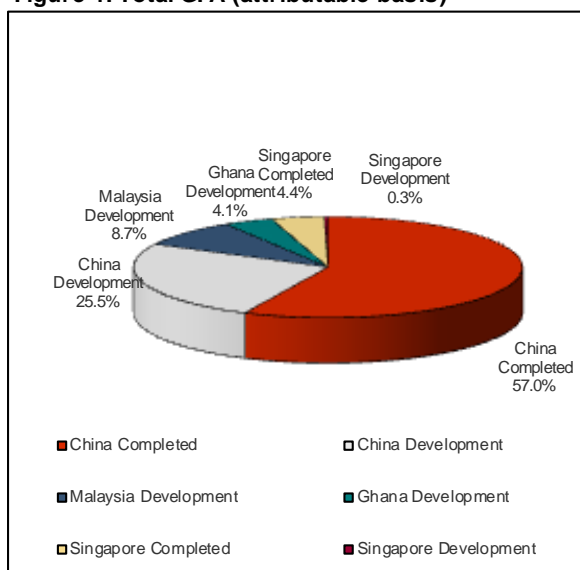
\* FCF Adjusted = FCF - Acquisitions - Dividends + Disposals

Figure 3: Debt Maturity Profile

Amounts in SGD'mn	As at 31/12/2015	% of debt
<b>Amount repayable in one year or less, or on demand</b>		
Secured	70.4	
Unsecured	99.9	
	<b>170.3</b>	<b>8.9%</b>
<b>Amount repayable after a year</b>		
Secured	1146.4	60.0%
Unsecured	595.0	31.1%
	<b>1741.4</b>	<b>91.1%</b>
<b>Total</b>	<b>1911.7</b>	<b>100.0%</b>

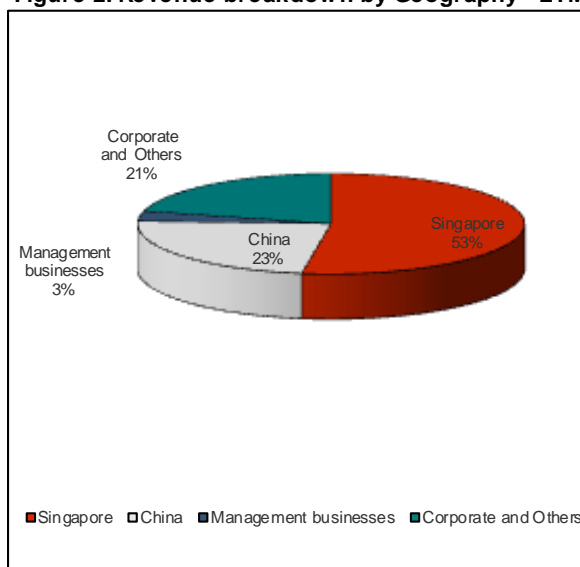
Source: Company

Figure 1: Total GFA (attributable basis)



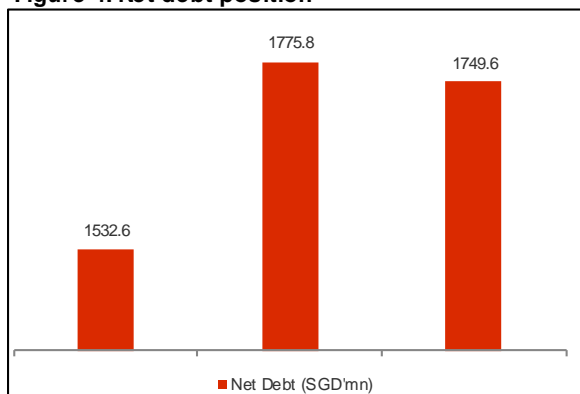
Source: Company

Figure 2: Revenue breakdown by Geography - LTM



Source: Company

Figure 4: Net debt position



Source: Company, OCBC estimates

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product.

OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

Co.Reg.no.:193200032W