Asia Credit Research

OCBC Bank

New PREHSP 4.55% 2020 issue

Monday, 25 April 2016

Initiating coverage on PREHSP 4.55% '20 with an Underweight

Coming just six months after its maiden retail bond (SGD300mn raised across both retail and placement tranches at 4.65% for a 3-year tenor) in late October last year, Perennial is back in the market to raise SGD200-300mn at 4.55% for a 4-year bond. This new retail bond will be the fourth time the company has tapped the debt markets for capital in just over a year and comes only 1 month after the company issued the SGD125mn PREHSP 4.90% '19. This is in-line with our expectations for more supply out of the company as we expected Perennial's leverage to remain elevated due to high capital requirements from its integrated development projects in our 2016 Credit Outlook. Placement tranche has been completed with Perennial allocating SGD75mn to the institutional placement tranche after gathering SGD85mn in orders.

Tight relative to PREHSP curve: Yielding 4.55% at an i-spread of ~259bps, the new PREHSP 4.55% '20 retail bond comes in only 24bps wider than the institutional only PREHSP 4.90% '19 for a ~1-year extension, insufficient compensation with no new issue premium. This is despite the PREHSP 4.90% '19 trading ~2pt up since issuance which has seen the bond tighten considerably. Within the PREHSP curve, we prefer the retail PREHSP 4.65% '18 with spreads only 5bps inside the PREHSP 4.90% '19 and only 29bps inside the new PREHSP4.55% '20s for a 1.5-year shorter tenor. We initiate coverage on the new PREHSP 4.55% '20 with an Underweight but move to Neutral on the PREHSP 4.65% '18. We still see better relative value in other China residential names such as YLLGSP 6.2% '17s and CENCHI 6.50% '17s in the SGD space.

Key credit considerations:

Strong sponsors: Perennial is 76.2%-owned by sponsors (37.1% by Kuok Khoon Hong, 15.4% owned by Ron Sim, 13.6% by Wilmar and 10.1% by Pua Seck Guan) who have established business networks in China, Singapore and emerging markets where Perennial has operations and who have shown support for the company's developments through initial equity funding.

Heavy capital requirements: Major integrated developments in China are still under construction and require additional capital before being cash generating from mostly 2018 onwards. 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. As of Dec 2015, Perennial has SGD580mn in capex commitments contracted but not provided for and given its current cash flow profile, we expect these commitments to be partly externally funded.

Uncertainty over Capitol Singapore: The current dispute with 50-50 JV partner Pontiac Land over Capitol Singapore highlights the risks to Perennial's strategy of using JVs to fund capital outlays for its projects. Due to deadlocks over the project, the entities holding the project will now be wound up. There is now uncertainty over potential need to buy out JV partner Pontiac Land's 50% stake in the mixed use development which has a total value of ~SGD750mn (excluding residential piece). On the flip side, Perennial selling their 50% stake could significantly improve their liquidity profile.

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