Asia Credit Research

OCBC Bank

China Aoyuan Property Group Limited: New Credit Review

Thursday, November 08, 2018

Recommendations Summary

Issuer Profile:	Bond Recommendation:	
Neutral (5)	CAPG 7.15% 2021	Overweight
Fundamental Analysis Considerations • Subject to policy risk, including increased uncertainty over pre-sales policy direction • Levered issuer • Strong contracted sales provides earnings visibility • Access to diverse pool of liquidity	Technical Analysis Considerations • Change of control put • Good yield for short-dated paper • Tighter liquidity onshore may lead to increased supply of China property paper offshore • Ability to refinance is highly dependent on market access	

Ticker: **CAPG**

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

Ezien Hoo, CFA
+65 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA
+65 6722 2533
wonghongwei@ocbc.com

Key credit considerations

- **Strong recognized revenue and contracted sales growth:** 1H2018 reported revenue was up 68% y/y to RMB13.7bn, driven by increases in sales from residential property, commercial apartments and retail shops. EBITDA (excluding revaluation gain, other income and other expense) was up 75% y/y to RMB2.7bn. CAPG recognised net profit of RMB1.5bn in 1H2018 (up 72% y/y). Cumulatively from January to October 2018, CAPG has achieved RMB67.5bn in unaudited contracted sales, rising 125% y/y. CAPG has already achieved 92.5% of its target, locking in high revenue visibility for 2019.

- **Ability to land bank:** As at 30 June 2018, total gross floor area of CAPG's land bank was 30mn sqm (attributable: 81%, remaining held by minority investors), sufficient for development needs for the next 3-4 years per management. Given that land bank has been obtained, there is less urgency to replenish land. In any case, the land bank appears sufficient within the tenor of the CAPG 7.15% 2021s. Further upsides to land bank are CAPG's 15 on-going redevelopment projects.

- **Rising uncertainty over pre-sales policy direction:** Chinese property developers are reliant on pre-sales to fund working capital and should there be any changes that restricts pre-sales, we can assume that CAPG would need to access new channels of funding and likely at higher cost. Since September 2018, there have been renewed concerns over possible pre-sale restrictions in the Guangdong Province (among others) although this is reportedly still in consultation phase involving real estate advisory bodies seeking feedback from property developers. In 1H2018, CAPG collected RMB32.2bn in cash while contracted sales were RMB40.3bn. About 37% of the cash collected were from contracted sales made last year.

- **Levered issuer with near term obligations:** Unlike investment grade peers where gross gearing is ~1.0x, CAPG is a more levered issuer with unadjusted gross gearing at 1.6x and reliant on financing markets being open. We estimate that as at 30 June 2018, CAPG has near-term cash outlays of RMB6.1bn in capex obligations from the purchase of land and building.

I) Company Background

China Aoyuan Property Group Limited ("CAPG") is incorporated in the Cayman Islands and listed in Hong Kong since 2007. As at 7 November 2018, CAPG's has a market cap of HKD12.7bn (~SGD2.2bn). CAPG is the holding company of subsidiaries involved in property development mainly in China, though has expanded into Sydney, Vancouver and Toronto. The key property types that CAPG is involved in are mid and high-rise apartments, commercial-titled properties, and integrated residential communities. The company is headquartered in Guangzhou City and has an established positioning in the Guangdong Province. CAPG is present in all "9+2" cities in the Greater Bay, a government integration initiative aiming to link these nine cities in the Guangdong Province (namely Guangzhou, Shenzhen, Zhuhai, Foshan, Zhongshan, Dongguan, Huizhou, Jiangmen and Zhaoqing) with Hong Kong and Macao into a technological and innovation hub.

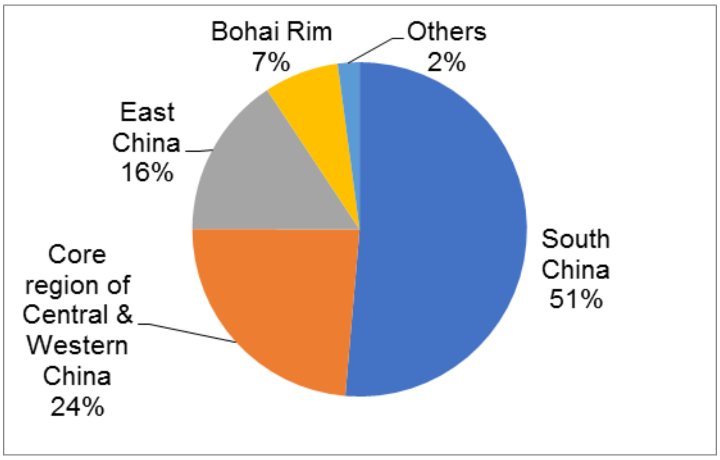
By 1H2018 contracted sales, key operating regions include South China (Greater Bay Area, rest of Guangdong, Guangxi) (54%), East China (Zhejiang, Jiangsu, Anhui, Fujian) (22%), Core region of Central & Western China (Chongqing, Sichuan, Hunan, Hubei, Shaanxi, Henan, Jiangxi, Guizhou, Yunnan) (19%). As at 30 June 2018, total assets of CAPG was RMB153.3bn, of which RMB94.2bn relate to completed properties & those under development while investment properties was RMB6.9bn.

Geographically, CAPG is concentrated in the Guangdong Province though its projects and land bank are operationally highly dispersed (eg: 164 different projects in its land bank). In 1H2018, contracted sales from CAPG's 13 major projects only contributed 34.4% to total contracted sales by value and 22.3% by area. The largest contributor, Shenzhen Aoyuan Jade Bay contributed 4.5% by sales value (1.5% by area) while the smallest of these 13 projects, the Toronto North York Newtonbrook development contributed 1.1% by sales value (0.3% by area).

<u>Landbank</u>

By area, 51% of total landbank is attributable to South China, of which slightly less than half is located in the Greater Bay Area. 24% of total landbank is attributable to the Core region of Central & Western China (Hunan making up a third). 16% is attributable to East China (Zhejiang and Jiangsu collectively make up ~2/3), while 7% is attributable to the Bohai Rim (2/3 from Liaoning). Outside of the mainland, CAPG's key landbank include Coomeroo Estate in Sydney (0.28mn sqm area), Vancouver Burnaby Project (0.12mn sqm) and Toronto North York Newtonbrook Project (0.16mn sqm). By area, these other projects only make up 2% though is estimated to contribute 8% in saleable resources. All in, the estimated saleable resources from its landbank is ~RMB327.5bn. Collectively, we estimate that larger projects (0.3mn sqm and above) make up 54% of total landbank.

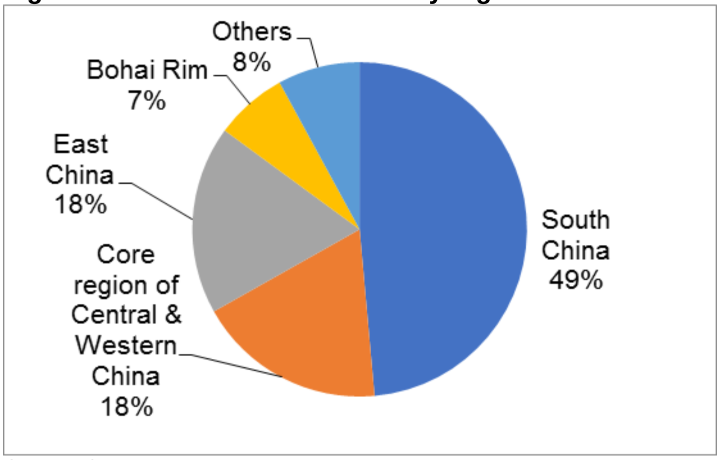
Figure 1: Land bank breakdown by region and area, 1H2018



Note: South China (Greater Bay Area, rest of Guangdong Province, Guangxi Province (eg: Nanning and Yulin cities)

Core region of Central & Western China (Chongqing municipality; Provinces: Sichuan, Hunan, Hubei, Shaanxi, Henan, Jiangxi, Guizhou, Yunnan)
East China (Provinces: Zhejiang, Jiangsu, Anhui, Fujian)
Bohai Rim (Beijing municipality; Provinces: Liaoning, Shandong)
Others (Sydney, Toronto, Vancouver, Macao, Hong Kong)

Figure 2: Land bank breakdown by region and saleable resources, 1H2018



Source: Company
Note: Estimated saleable resources of RMB327.5bn as at 30 June 2018

Figure 3: Landbank above 300,000 sqm in area

Project	Province/ Municipality	City	Landbank (sqm '000)	Proportion of total land bank
Foshan Sanshui Champion City	Guangdong	Foshan	621.0	2.1%
Foshan Aoyuan Shanglin Yipin	Guangdong	Foshan	325.8	1.1%
Huizhou Aoyuan Champion City	Guangdong	Huizhou	389.4	1.3%
Jiangmen Aoyuan GreenLand Golden Town	Guangdong	Jiangmen	1,419.4	4.7%
Dapu Aoyuan Plaza	Guangdong	Meizhou	465.8	1.6%
Aoyuan Cultural Tourism City Shaoguan Lingnan Impression	Guangdong	Shaoguan	517.0	1.7%
Xinhua Town, Yingde Aoyuan International Resort	Guangdong	Qingyuan	890.0	3.0%
Maoming Easco City	Guangdong	Maoming	401.1	1.3%
Chongqing The One	Chongqing	Chongqing	401.2	1.3%
Xiangtan Aoyuan Champion City	Hunan	Xiangtan	558.9	1.9%
Chenzhou Aoyuan Zhongyuan International City	Hunan	Chenzhou	534.1	1.8%
Qidong Aoyuan Plaza	Hunan	Hengyang	334.2	1.1%
Shenyang Aoyuan The Metropolis	Liaoning	Shenyang	939.8	3.1%
Shenyang Aoyuan Convention Plaza	Liaoning	Shenyang	446.3	1.5%
Yulin Aoyuan	Guangxi	Yulin	330.3	1.1%
Yulin Aoyuan City of Health	Guangxi	Yulin	586.3	2.0%
Yulin Aoyuan Plaza	Guangxi	Yulin	317.6	1.1%
Pubei Aoyuan Plaza	Guangxi	Qinzhou	479.0	1.6%
Wuzhou Aoyuan Guihongda Mansion	Guangxi	Wuzhou	366.8	1.2%
Guiping Aoyuan Plaza	Guangxi	Guiping	1,282.4	4.3%
Liuzhou Notting Hill Project	Guangxi	Liuzhou	349.0	1.2%
Yangzhou Aoyuan Peach City	Jiangsu	Yangzhou	300.7	1.0%
Taixing New World Plaza	Jiangsu	Taixing	653.5	2.2%
Jiaxing Haiyan Project	Zhejiang	Jiaxing	385.5	1.3%
Bengbu Aoyuan Ginza	Anhui	Bengbu	414.5	1.4%
Dangshan Aoyuan Plaza	Anhui	Suzhou	446.4	1.5%
Chengdu Chenghua Aoyuan Plaza	Sichuan	Chengdu	555.9	1.9%
Guanghan Aoyuan Jiulong Bay	Sichuan	Guanghan	399.9	1.3%
Jingzhou Aoyuan Mansion	Hubei	Jingzhou	333.3	1.1%
Quanzhou Aoyuan Xixi Peninsula	Fujian	Quanzhou	431.4	1.4%
Weining Aoyuan Plaza	Guizhou	Weining County	302.0	1.0%

Source: Company
Note: Total landbank of 30.mn as at 30 June 2018

Redevelopment projects

In addition to buying controlling stakes in companies who hold land use right as a means of land replenishment, CAPG is also redeveloping 15 existing properties into new uses. This includes old factories, villages, buildings mainly in the Guangdong Province (high value cities of Zhuhai, Guangzhou, Dongguan) and Guangxi Province (Nanning). Two others are in Hebei and Hong Kong. While the progress tends to be slower (involves planning applications, compensation to existing dwellers, demolition) versus buying prepared land, redevelopments would gradually add to CAPG's land bank. In total, the redevelopment projects have a planned gross floor area of 8.0mn sqm and estimated saleble resources of RMB129bn.

Investment properties

In addition to developing apartments and integrated residential developments (focusing on sports, health and education themes), CAPG owns investment properties to earn rental income and capital gains. This is though a small segment for the company. As at 30 June 2018, investment properties were RMB6.9bn and make up 4.5% of total assets. Of the RMB6.9bn, 60% relate to completed investment properties. There are 14 completed properties while seven are under construction and another 12 are to be constructed. Bulk of the investment properties are retail and commercial buildings. In 1H2018, property development dominated revenue, contributing 94.7% of revenue. Remaining revenue was from hotel and property investment revenue. On a segmental profit basis though, the property development segment contributed 85%. Investment properties contributed 14% in 1H2018 (rising from the 10% contribution in 1H2017).

II) Ownership and Management

Figure 4: Major shareholders as at 29 August 2018

Shareholder	Shares	Stake
Mr. Guo Zi Wen and family	1,450,632,625	54.1%
Mr. Donald S. Sussman	49,981,000	1.9%
Vanguard Group	48,207,832	1.8%
Dimensional Fund Advisors	37,588,059	1.4%

Source: Bloomberg, Company

Mr. Guo Zi Wen is the Chairman of CAPG, a company he founded in 1996, then focusing on property developments in Panyu (a district in Guangzhou City). Mr. Guo is responsible for the formulation of development strategies of the company and giving guidance to CAPG on project planning, financing and investment. Mr. Guo holds a Master Degree in Business Administration. Mr. Guo has no other directorship in other publicly listed companies in the past three years.

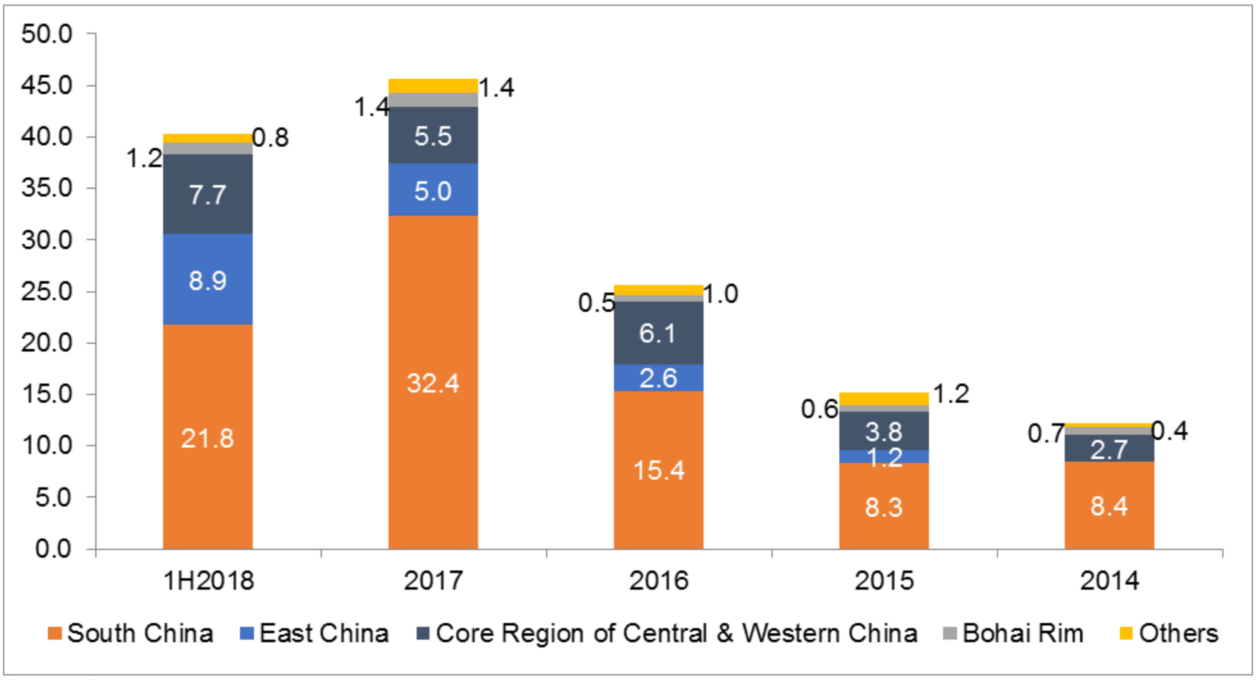
Mr. Guo Zi Ning is the Vice Chairman and Chief Executive Officer, having joined the company in 1996. He is primarily responsible for commercial property investment, development and operation and leads the party committee, trade union and corporate culture of the group. Mr. Guo holds a doctorate degree in Business Administration. Mr. Guo has no other directorship in other publicly listed companies in the past three years. Mr. Guo Zi Ning and Mr. Guo Zi Wen are brothers.

Mr. Donald S. Sussman is a hedge fund manager and philanthropist. He appears to be a passive shareholder. The Vanguard Group and Dimensional Fund Advisors appears to be holding the stake as part of passive strategies. No other shareholder owns more than a 1% in the company.

III) Company Overview & Analysis

- **Strong recognized revenue and contracted sales growth:** 1H2018 reported revenue up 68% y/y to RMB13.7bn, driven by increases in sales from residential property, commercial apartments and retail shops. EBITDA (excluding revaluation gain, other income and other expense) was up 75% y/y to RMB2.7bn. CAPG recognised net profit of RMB1.5bn in 1H2018 (up 72% y/y). Cumulatively from January to October 2018, CAPG has achieved RMB67.5bn in unaudited contracted sales, rising 125% y/y. CAPG's full year target is RMB73.0bn and as such it has already achieved 92.5% of its target, locking in high revenue visibility for 2019. 1H2018 contracted sales of RMB40.3bn was done at an average selling price ("ASP") of RMB10,231 per sqm versus 1H2017 contracted sales of RMB16.5bn, though at a somewhat higher ASP of RMB10,571 per sqm.

Figure 5: Contracted sales by region (RMB bn)



Source: Company

- **Susceptible to policy change:** The Chinese property market has grown significantly in the past 20 years (as housing ownership become broad-based since the late 1990s). During this period, the Chinese government has swing between tightening and stimulating measures in managing the residential real estate market. The current policy environment aims for a stable development of the property market, though with the rapid rise in both land and housing prices in the past few years, the government has introduced various policies to restrict property speculation, including measures targeting property developers. Some of the property measures include (1) Requiring property developers to finance at least 35% of total investments with internal resources (2) Limiting monthly mortgage payment to 50% of an individual borrower's monthly income (3) Suspending land supply for villa construction and restricting land supply for high end residential property (4) Requiring second-time home buyer to pay an increased minimum amount of downpayment of 60% of the purchase price (30% for first-time home owner). Operationally, a tightening environment can lead to a lack of liquidity with negative knock-on effects to the built process. Already, we have seen various media reports over lack of quality control and adherence to safety standards among peer companies, with developers rushing construction timelines.

- **Rising uncertainty over pre-sales policy direction:** Chinese property developers are reliant on pre-sales to fund working capital and should there be any changes that restricts pre-sales, we can assume that CAPG would need to access new channels of funding and likely at higher cost. Specific requirements on pre-sale vary by region where the property development is located. Since September 2018, there have been renewed concerns over possible pre-sale restrictions in the Guangdong Province (among other regions) although this is reportedly still in consultation phase involving real estate advisory bodies seeking feedback from property developers. Typically, it takes six to 18 months before CAPG delivers housing units after it has pre-sold the properties. Revenues are only recognised when the housing units are delivered, although cash is collected earlier. In 1H2018, CAPG collected RMB32.2bn in cash while contracted sales were RMB40.3bn. About 37% of the cash collected were from contracted sales made last year.

- **External financing is regulated:** Like most holding company issuers, CAPG is reliant on dividend upstreaming by its subsidiaries. Various regulations restrict the ability of property developers to raise external financing. For example, onshore commercial banks are prohibited from extending loans to developers for the purposes of buying land use rights (land is leasehold in China) while pre-sales can only occur upon project achieving certain development milestones. The issuance of offshore bonds is overseen by the National Development and Reform Commission ("NDRC"). Whether a proposed bond issuance is allowed to go ahead is determined on a case-by-case basis. In practice, Chinese property developers who have issued offshore debt continue to be reliant on offshore refinancing markets being opened and the regulatory environment being supportive.

- **Ability to land bank:** CAPG focuses on land parcels that are greater than 300,000 sq.m. of gross floor area as it builds large scale developments on a multi-phase basis which allows CAPG to adjust its design and marketing strategy. As at 30 June 2018, total gross floor area of CAPG's land bank was 30mn sqm (attributable: 81%, remaining held by minority investors), sufficient for development needs for the next 3-4 years per management. This assumes the current pace of GFA sold is maintained, rather than accelerating. Given that land bank has been obtained, there less urgency to replenish land. In any case, the land bank appears sufficient within the tenor of the CAPG 7.15% 2021s.

IV) Financial Analysis

- **Levered issuer with near term obligations:** Unlike investment grade peers where gross gearing is ~1.0x, as a high yield issuer, CAPG is more levered with unadjusted gross gearing at 1.6x and reliant on financing markets being open. In June 2018, CAPG announced that it will be buying a company that holds a 12-storey vacant industrial property in Kwai Chung, Hong Kong for HKD950mn (~RMB839mn) in cash. CAPG also has RMB5.3bn as at 30 June 2018 in outstanding land premium that is expected to be paid within the year. In addition to the near-term cash outlay of RMB6.1bn, CAPG has granted RMB2.0bn in corporate guarantees to banks in connection with facilities granted to its joint ventures (contingent liability item).

- **Short term debt coming due and would need to be refinanced:** As at 30 June 2018, CAPG faces RMB25.6bn of short-term debt coming due (including RMB668.5mn in loan from minority investors at CAPG's subsidiaries). Though we estimate that it would have refinanced RMB6.3bn of such debt post end-June 2018. CAPG As at 30 June 2018, available unrestricted cash was RMB23.4bn against RMB48.1bn in contract liabilities (ie: from earlier pre-sold properties). In our view, CAPG would need to conserve existing cash and drawdown additional debt for working capital. Rather than pay down short term debt coming due, we think the company would need to continue tapping markets. Utilized credit facilities (including uncommitted facilities) was RMB17.8bn as at 30 June 2018 should partly help for such purposes.

- **Asset coverage and interest coverage:** As at 30 June 2018, tangible assets at CAPG was RMB153.3bn where investment properties and properties for sale (completed and uncompleted properties) made up RMB101.1bn. Removing RMB48.1bn in contract liabilities (houses to be delivered as pre-sold), there is still RMB53bn in physical property assets available. This represents a gross debt-to-property assets coverage of 0.9x. Given significant amount of capitalised interest, we use CFO before working capital/cash interest paid as our interest coverage and find this lower at 1.9x in 1H2018 (1H2017: 2.2x).

- **Financial covenants lacking in SGD bond terms:** CAPG has breached terms of its debt agreements in the past, though we believe these have been waived by lenders. The company is subject to various covenants as part of its loan agreement. These include (1) Mr. Guo Zi Wen and Mr. Guo Zi Ning maintaining at least a 40%-ownership in the company (2) CAPG undertaking that it will not declare/pay dividends to shareholders in excess of 60% of consolidated net profit after tax. While the CAPG 7.15% 2021 bond term limits the company from taking certain actions, there are no interest coverage nor leverage ratio covenants within the terms. The SGD bond does provided that upon a change of control ("CoC") triggering event, the company must make an offer to buy back all outstanding bonds at 101% of principal amount plus accrued and unpaid interest (if any) to the date of buy back. The CoC triggering event is only considered to have occurred if there is a change in shareholding (resulting in a third party owning more than 50% of the company or the existing major shareholders owning less than 30% of the company) and a rating decline (as defined in the terms). The company may redeem up to 35% of the principal amount of the SGD bonds using net cash proceeds from sales of common stock of the company at 107.15% at any time prior to 7 September 2020.

- **Access to diverse pool of liquidity:** While CAPG is a new name in the SGD bond space; it has tapped the USD bond market since November 2012 and familiar to investors active in the Asiadollar high yield market. For its Australian, Canadian and Hong Kong projects, funding was supported by local banks in those markets. As at 30 June 2018, 46% of CAPG's borrowings were from onshore banks, onshore corporate bonds (13%), offshore senior notes (17%), offshore bank borrowings (18%) and the remaining 6% came from trust loans, which would decrease as a source. CAPG is exposed to foreign currency risk. Its revenue is largely denominated in RMB while it has debt denominated in RMB, HKD, USD and AUD. The company will consider hedging significant foreign currency exposure on a needs basis.

I) Technical Considerations

Positives

- Change of control put
- Good yield for short-dated paper

Negatives

- Tighter liquidity onshore may lead to increased supply of China property paper
- Ability to refinance is highly dependent on market access

Relative Value

Bond	Gross gearing	LTM Net Debt/EBITDA	YTW (SGD)	I-Spread
CAPG 7.15% 2021	1.64x	5.03x	8.04%	591bps
CENCHI 6.25% 2020	1.98x	4.14x	7.25%	516bps
LOGPH 6.125% 2021	1.34x	1.91x	7.26%	507bps
PREHSP 3.85% 2020	0.77x	314.4x	6.26%	415bps
FRAG 4.75% 2021	1.16x	13.3x	6.98%	473bps
CAPG 7.95% 2021 (USD)	1.64x	5.03x	8.12%*	599bps
LOGPH 7.5% 2021 (USD)	1.34x	1.91x	8.52%*	640bps

Source: Bloomberg as at 8 November 2018
**Swapped from USD to SGD*

In our view, in the SGD market, CAPG 7.15% 2021s is most similar to CENCHI 6.25% 2020s. Aoyuan and Central Real Estate Ltd ("CENCHI") are property developers in China (albeit operating in different regions), have high gross gearing (Aoyuan: 1.64x, CENCHI: 1.98x) though Aoyuan is larger (LTM revenue: RMB24.6bn) than CENCHI (RMB13.6bn). While CAPG 7.15% 2021s (Maturity date: 07 Sep 2021) matures 1.4 years after CENCHI 6.25% 2020s (2 May 2020), the effective difference in tenor is only 0.4 years as holders have the option to put back CAPG

7.15% 2021s a year earlier on 07 Sep 2020. As such, we think CAPG 7.15% 2021s looks attractive comparatively, trading nearly 80bps wider.

We also compare to Logan Property Holdings Co Ltd, which is a developer in China. While LOGPH has stronger credit metrics with lower gross gearing (1.34x) and better net debt/EBITDA (1.91x) compared to Aoyuan (net debt/EBITDA: 5.03x), we think this is more than compensated by CAPG 7.15% 2021s trading ~84bps wider than LOGPH 6.125% 2021s (maturity date: 16 Apr 2021), while the effective maturity of CAPG 7.15% 2021s is 0.6 years earlier. We opine that the difference in spreads should be significantly smaller - we observe that CAPG 7.95% 2021s (USD) is in fact trading tighter than LOGPH 7.5% 2021s (USD).

While Perennial Real Estate Holdings Ltd and Fragrance Group Ltd are less similar comparisons, CAPG 7.15% 2021s look relatively interesting compared to PREHSP 3.85% 2020s and FRAG 4.75% 2021s. In addition to offering higher yields, Aoyuan is rated and has stronger Net Debt/EBITDA ratio (albeit with higher gross gearing).

As such, **we think CAPG 7.15% 2021s looks attractive** trading amongst the highest yield in the SGD bond market, and we think its fair value should be more similar as CENCHI 6.25% 2020s.

II) Conclusion & Recommendation

CAPG has demonstrated a solid track record since its founding in 1996 and exhibited strong sales execution which gives visibility to revenue generation for the next 12 months. Constraining its credit profile is its leverage levels (gross gearing of 1.6x as at 30 June 2018) amidst an overall tighter environment for China property. We do not expect the company to de-lever in the short term. We expect peers to issue offshore bonds in the coming six to 12 months, adding supply into the market and weighing on prices of existing bonds. We are initiating CAPG with an issuer profile of Neutral (5) though may revise this downwards should there be further policy actions which are negative to the sector outlook.

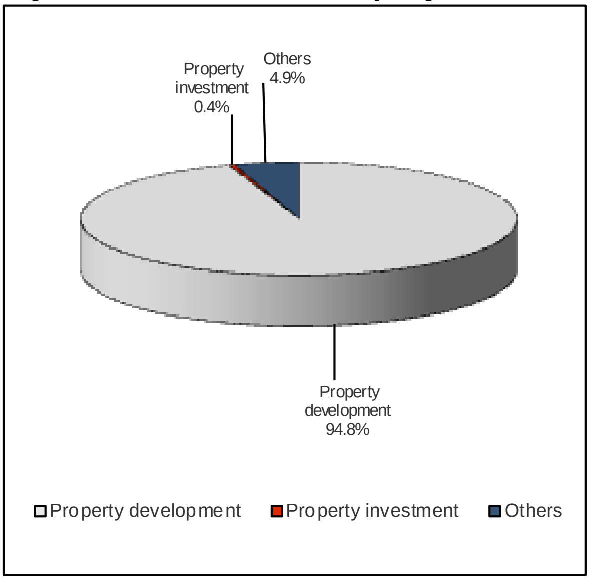
China Aoyuan Property Group Limited

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1H2018
Income Statement (RMB'mn)			
Revenue	11,827.3	19,115.3	13,666.6
EBITDA	2,237.2	3,439.7	2,693.4
EBIT	2,195.5	3,385.7	2,651.2
Gross interest expense	1,771.4	2,135.1	1,722.0
Profit Before Tax	2,085.0	3,625.6	3,073.7
Net profit	1,006.6	1,952.0	1,474.8
Balance Sheet (RMB'mn)			
Cash and bank deposits	10,470.9	24,769.2	23,408.1
Total assets	66,418.4	125,805.9	153,258.4
Short term debt	4,505.9	21,121.8	25,641.8
Gross debt	19,567.9	42,494.7	46,516.9
Net debt	9,097.0	17,725.6	23,108.9
Shareholders' equity	14,632.3	27,126.3	28,426.4
Cash Flow (RMB'mn)			
CFO	7,479.9	-4,756.3	5,358.0
Capex	42.5	124.4	42.0
Acquisitions	3,984.4	6,889.9	6,383.7
Disposals	36.8	112.0	66.3
Dividends	571.9	812.0	319.7
Free Cash Flow (FCF)	7,437.4	-4,880.7	5,316.0
Key Ratios			
EBITDA margin (%)	18.9	18.0	19.7
Net margin (%)	8.5	10.2	10.8
Gross debt to EBITDA (x)	8.7	12.4	8.6
Net debt to EBITDA (x)	4.1	5.2	4.3
Gross Debt to Equity (x)	1.34	1.57	1.64
Net Debt to Equity (x)	0.62	0.65	0.81
Gross debt/total assets (x)	0.29	0.34	0.30
Net debt/total assets (x)	0.14	0.14	0.15
Cash/current borrowings (x)	2.3	1.2	0.9
EBITDA/Total Interest (x)	1.3	1.6	1.6

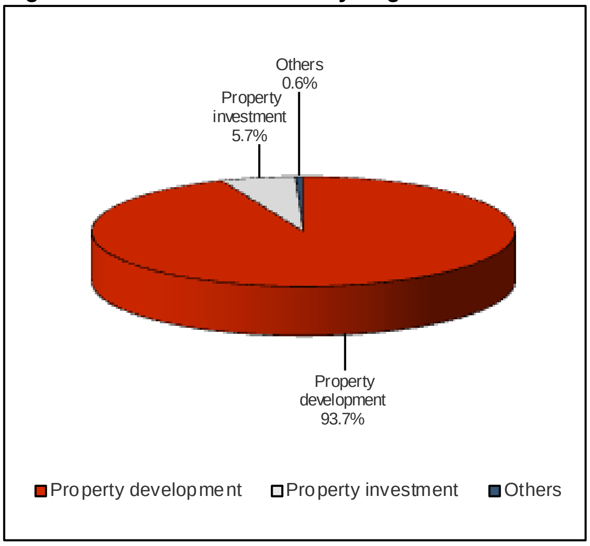
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2018



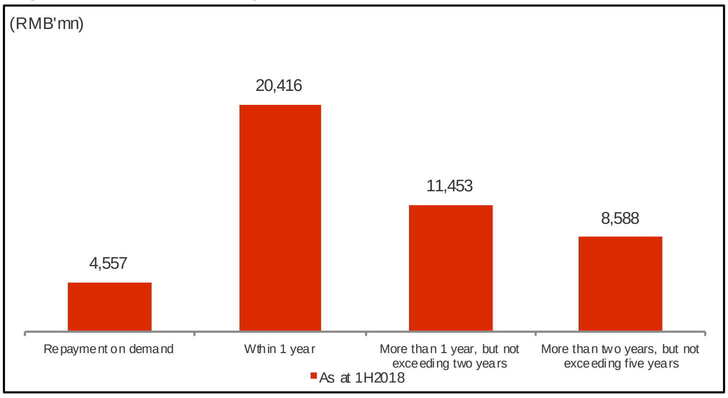
Source: Company

Figure 2: Asset Breakdown by Segment - 1H2018



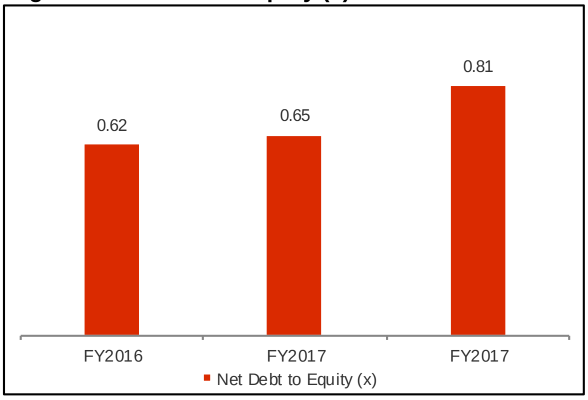
Source: Company

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

OCBC Bank

OCBC Global Treasury

Treasury Advisory	Credit Research
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	**Andrew Wong** +65 6530 4736 WongVKAM@ocbc.com **Ezien Hoo, CFA** +65 6722 2215 EzienHoo@ocbc.com **Wong Hong Wei, CFA** +65 6722 2533 wonghongwei@ocbc.com **Seow Zhi Qi** +65 6530 7348 ZhiQiSeow@ocbc.com

Explanation of Issuer Profile Rating ("IPR") / Issuer Profile Score ("IPS")

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings ("IPR") into a 7 point Issuer Profile Score ("IPS") scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Declaration

lyst(s) who wrote this report and/or her or his respective connected persons did not hold securities in the above-mentioned issuer or y as at the time of the publication of this report.

ner for research report

lication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any rson without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained as been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in ication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or eness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this on may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or r needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is d for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any endation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product to account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the ent product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in ication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in ication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as rties generally.

ort is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and ion, "**Relevant Materials**") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary related entity) (any such person or entity, a "**Relevant Entity**") in breach of any law, rule, regulation, guidance or similar. In particular, e not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the in Financial Instruments Directive (2014/65/EU) ("**MiFID**") and the EU's Markets in Financial Instruments Regulation (600/2014)) (together referred to as "**MiFID II**"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without n, MiFID II, as implemented in any jurisdiction).

no.:193200032W