Asia Credit Research

OCBC Bank

Metro Holdings Limited (“METRO”): New Credit Review

Tuesday, 16 April, 2019

Issuer Profile:	Bond Recommendation:	
Neutral (4)	**METRO 4% ‘21s**	Overweight
	METRO 4.3% ‘24s	Overweight
Fundamental Considerations • Significant exposure to China • Substantial associates and Joint ventures (“JVs”) • Lowly levered issuer	Technical Considerations • Decent yield • Financial covenants • No change of control put or delisting put	

Ticker: **METRO**

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

Seow Zhi Qi
+65 6530 7348
zhiqiseow@ocbc.com

Key credit considerations

- **Most exposed to China:** Although METRO (or otherwise referred to as “the Group”) conducts its business across property types and geographical locations, in the full year ended 31 March 2018 (“FY2018”), 66% of the Group’s non-current assets was in China. That said we take in comfort in that the properties in China are in Tier-1 cities and diversified across office, retail, residential and mixed-use developments. METRO has also pursued opportunities in the UK and Indonesia in FY2018 and FY2019 respectively, apart from Shanghai, China. Overall, METRO’s portfolio comprises six properties and/or projects in China (five of which are in four different districts in Shanghai and one of them is in Guangzhou), three in the UK, two in Indonesia and one in Singapore. As such, METRO does not appear to have worrisome concentration risk to a specific segment of the property market in any district in China despite its large exposure.

- **Established business relationships:** METRO has an extensive network of strategic real estate partners. This is evident through the Group’s collaboration with Shanghai Xuhui District People’s Government in China, Top Spring International Holdings Limited (“Top Spring”), Trans Corp in Indonesia, Scarborough Group in the UK and Wing Tai Holdings in Singapore. In fact, Trans Corp, for instance, is a long-time partner of over ten years.

- **Substantial associates and JVs:** The Group held 61% of its total assets and 84% of its non-current assets in associates and JVs in FY2018. As a result, associates and JVs contributed to 79% of the Group’s profit before tax. METRO’s associates and JVs are mainly involved in property investment and development. It is worth noting that METRO may not have control or influence over the assets of its associates and JVs, though having a seat on the board of the associated company and having stakes that also represent voting rights do help reduce such risks.

- **Healthy credit metrics:** Net gearing (excluding pledged fixed deposits of SGD118.5mn) was 0.03x at end-2018. Apart from having more than sufficient cash to cover its short term borrowings, METRO also has short term investments worth SGD28.7mn. With the issuance of METRO 4.3% ‘24s on 26 March 2019, we expect net gearing (excluding pledged fixed deposits of SGD118.5mn) to climb higher to ~0.14x, which in our view still falls within a healthy range. With a SGD1.0bn multicurrency debt issuance programme established, we think METRO has financial flexibility to pursue opportunities especially in the property space and there is room for leverage to creep higher over time.

I) Company Background

Metro Holdings Ltd ("METRO") is a listed company in Singapore with a market capitalisation of SGD831.0mn as at 16th April 2019. The principal activities of the Group are property investment and development, and retail operations. The property segment is the key driver of the Group's earnings and contributed SGD170.2mn to the Group's profit before tax for FY2018. Retail, on the other hand, recorded losses before tax of SGD2.2mn. METRO's investment and development properties are situated in tier-1 cities in China – Shanghai and Guangzhou, UK, Indonesia and Singapore. These properties include office towers, residential spaces, mixed-use developments and retail malls. The Group's retail arm serves customers through a chain of three Metro department stores in Singapore, and another 10 in Indonesia.

Initially a textile store in Singapore in 1957, METRO was incorporated to take over the three then existing departmental stores in 1973, and was listed on SGX that same year. In 1991, the Group opened its first metro store in Jakarta, Indonesia. On the property front, METRO's involvement dates back to 1976, where it acquired Orchard Square Development Corp for its 99-year leased prime site on Orchard Road from Ngee Ann Kongsi. Subsequently in 1988, METRO made its first foray into China and China's property market in the 1990s when it secured a JV to develop GIE Tower, a Grade A office property in Guangzhou. In 2014, the Group expanded into UK's property market through acquisition of land sites. Today, METRO positions itself as a property investment and development Group with established retail operations in the region.

II) Business Overview

METRO's engages in property investment, property development, and retail operations.

A. Property

Property Investment: The Group owns and leases office and shopping spaces. METRO owned 60% of Metro City and Metro Tower in Xujiahui, Shanghai since 1993. Metro City is a nine-level retail mall, while Metro Tower is a 26-floor Grade A office building. Xujiahui is an established district in Shanghai, known for its retail scene. GIE Tower, completed in 1995, is a Grade A office property in the central business district of Dongshan, Guangzhou. In September 2017, METRO acquired a 30% stake in Bay Valley (three office buildings) located in Yangpu, Shanghai, a district that is on track to becoming a global innovation and technology hub. The Group's most recent acquisition is a 31.5% stake in Shanghai Plaza, situated at Huangpu, Shanghai in May 2018. This mixed-use development will undergo asset enhancement in FY2019. The enhancement cost was not disclosed. METRO deepened its presence in the UK in January 2018 via a 50% stake in an office building located in Midtown Central London, 5 Chancery Lane.

Table 1: Investment Properties of METRO

Investment Property	Location	Type	Stake	Lettable Area* (sqm)	Valuation* (SGD'mn)	Occupancy Rate**	Tenure (years)
Metro City	Xujiahui, Shanghai	Retail	60%	23,066	123	99.1%	11
Metro Tower	Xujiahui, Shanghai	Office	60%	24,209	121	97.7%	25
GIE Tower	Guangzhou	Office	100%	28,390	95**	94.2%	26
Bay Valley	Yangpu, Shanghai	Office	30%	29,356	~151	-	40
Shanghai Plaza	Huangpu, Shanghai	Mixed	32%	12,818	~185	-	24
5 Chancery Lane	London, UK	Office	50%	42,418	70	100%	Freehold

*adjusted for METRO's stake
** as at 31 December 2018
Source: company FY2018 Annual Report unless otherwise stated

Investment properties are stated at fair value (on existing use basis). Valuation is performed annually (at the end of the reporting period) by accredited independent valuers with recent experience in the location and category of the properties being valued. Valuers engaged for FY2018 are DTZ Debenham Tie Leung Limited for properties in China and CBRE Limited the property in the U.K.

Both Metro City and Metro Tower recorded stronger occupancy rates than the market. Vacancy rate for Grade A office in Xujiahui, Shanghai was 3.2% while prime retail in Shanghai was 14.7% in Q4 2018, according to Knight Frank. GIE Tower, on the other hand, underperformed the market with a vacancy rate of 5.8% versus the Guangzhou Grade A office vacancy rate of 4.3% in Q4 2018 based on Savills. Given the sound occupancy rates, we do not think that the undervaluation is a cause for concern.

Table 2: Valuation of METRO properties FY2018 versus FY2008

Investment Property	Type	Estimated Valuation (SGD'mn)	FY2018 Reported Valuation (SGD'mn)	FY2018 Occupancy Rate	FY2008 Reported Valuation (SGD'mn)	FY2008 Occupancy Rate
Metro City	Retail	376	123	97.1%	125	99.4%
Metro Tower	Office	316	121	98.5%	104	97.9%
GIE Tower	Office	127	100	88.6%	92	68.1%

*Based on sales transaction of New Richport Tower located in Huangpu in Q4 2018, Knight Frank Research
**Based on sales transaction of Greenland Centre Phase Two located in Xuhui in Q4 2018, Knight Frank Research
*** Derived from Neo Metropolis Plaza Property (completed in 2007), Yuexiu REIT
Source: company FY2018 and FY2008 annual report

Property Development: METRO focuses on mid-level residential apartments and mixed-use developments where the residential component is core. Shanghai Shama Century Park, completed in 2006, was acquired by METRO in October 2013. At end-FY2018, all but seven of the 284 residential units have been sold and delivered. In the UK, METRO has built and sold Acero Works, one of the two Grade A office buildings at Sheffield Digital Campus (acquired in February 2016) in May 2018. Vidrio House, the other office building, is expected to complete in 2020. Middlewood Locks is currently being developed in stages. Phase 1 (571 apartment units) was completed in October 2018 while Phase 2 is underway. 277 apartment units in Phase 1 and all 546 apartment units in Phase 2 are being sold to Get Living, a UK private rented sector venture. The 277 units were handed over in 3QFY2019. We expect these sales to boost METRO's future share of results from associates and JVs, and bring about cash inflows. In Indonesia, construction and sales of the residential projects in Bekasi and Bintaro, which commenced in late 2017 and March 2018 respectively, are ongoing. Bekasi is expected to complete at end-2020 while Bintaro looks to complete in mid-2021. Sales of units have been launched for both projects. In Singapore, based on URA caveats, we estimate that METRO has sold ~71% of The Crest (331 units out of a total of 469 units) as at FY2018.

Table 3: Development Properties of METRO

Development Property	Location	Type	Stake
Shanghai Shama Century Park	Pudong New District, Shanghai, PRC	Residential	30%
Sheffield Digital Campus	Sheffield, UK	Office	50%
Middlewood Locks	Manchester, UK	Mixed	25%
Transpark Bekasi	Jakarta, Indonesia	Residential	90%
Transpark Bintaro		Mixed	90%
The Crest	Singapore	Residential	40%

Source: Company (Based on FY2018 Annual Report)

Separately, within the property segment, METRO also owns the following:

- 15.0% of Top Spring, a Hong Kong-listed China property developer. This also represents a 16.5% voting rights. METRO's CEO, Mr. Lawrence Chiang was appointed to the board of directors of Top Spring as non-executive director on 1 July 2014.
- 23.7% of InfraRed NF China Real Estate Fund II (A) L.P. ("InfraRed Fund II"), a private equity real estate opportunity fund managed by InfraRed NF China Investors II Ltd and sponsor by InfraRed NF China Holdings Ltd. METRO's initial commitment of USD57mn (~SGD76.8mn) took place in June 2015.
- 48% of South Bright Investment Ltd ("South Bright") in November 2016. METRO invested USD28mn (~SGD39.9mn) and use this associated company to co-invest with InfraRed Fund II in real estate debt instruments in PRC.
- 7.5% of Mapletree Global Student Accommodation ("MGSA") Private Trust in Singapore that invests in a portfolio of 35 student accommodation assets located in 22 university cities across the UK and US. Mapletree Investments Pte Ltd is the sponsor, with an interest of 35% in the Trust. MGSA is managed by Mapletree Real Estate Advisors Pte Ltd, a wholly-owned subsidiary of Mapletree. METRO's stake was purchased at SGD56.4mn at end-2016.

Table 4: Investments in property developers, funds and trusts by METRO

Name	Stake	Year of Investment	Valuation (SGD'mn)
Top Spring	15.0%	2011	~81.3*
InfraRed Fund II	23.7%	Mid-2015	~76.8
South Bright	48.0%	End-2016	~39.9
MGSA Private Trust	7.5%	End-2016	~54.3**

**15% of Top Spring's market cap, HKD1 = SGD0.17*
***7.5% of fund size (USD535mn), USD1 = SGD1.35*
Source: company FY2018 Annual Report

B. Retail

Retail Operations: Metro Private Limited, a wholly-owned subsidiary, is the retail arm of METRO. It operates a chain of department stores in Singapore and Indonesia. Metro Paragon caters to shoppers seeking indulgence in beauty and fashion. Metro Centrepoint is the flagship store with six floors of retail therapy while Metro Causeway Point is positioned as a family store. In 1991, the Group set up its first metro department store in Jakarta, Indonesia. Subsequently, METRO added four stores within the country between 2010 and 2014, and the latest openings are Metro Puri Mall and Metro Grand Kawanua Manado in 2017.

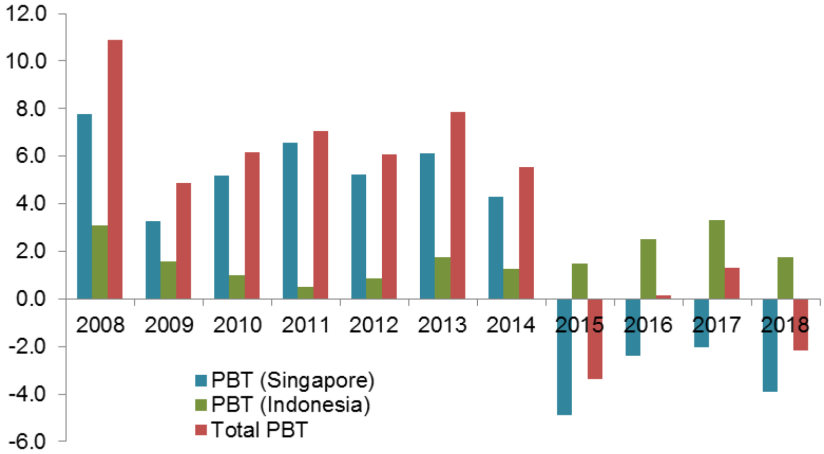
Table 5: Retail stores of METRO

Retail Store	Geography	Opened
Metro Paragon	Singapore	1987
Metro Causeway Point		1998
Metro Centrepoint		2014
Metro Pondok Indah	Indonesia	1991
Metro Plaza Senayan		1995
Metro Bandung Supermal		2001
Metro Taman Anggrek		2002
Metro Trans Makassar		2010
Metro Gandaria City		2011
Metro Ciputra World Surabaya		2012
Metro Park Solo		2013
Metro Puri Mall		Jun 2017
Metro Grand Kawanua Manado		Nov 2017

Source: Company (Based on FY2018 Annual Report)

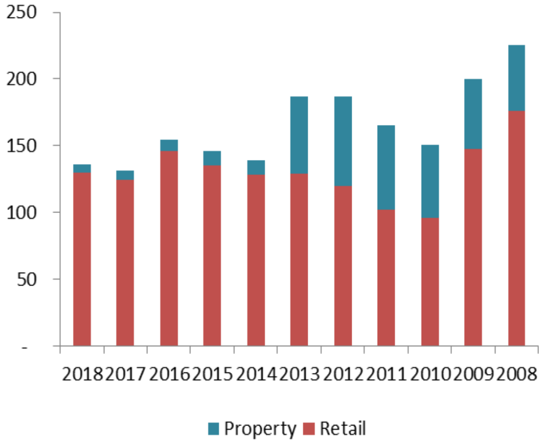
The Indonesian business is profitable while metro stores in Singapore have been loss making for the past four consecutive years (since FY2015). Overall, profits from Indonesia have more than offset the losses in Singapore for most years.

Chart 1: Profit before Tax ("PBT") (SGD'mn)



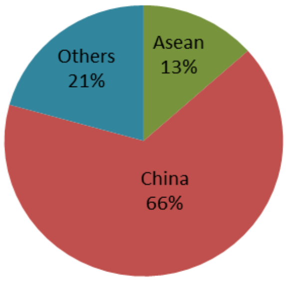
Source: Company

Chart 2: Revenue by business segment (SGD'mn)



Source: Company

Chart 3: Non-current Asset by geography (SGD'mn) in FY2018

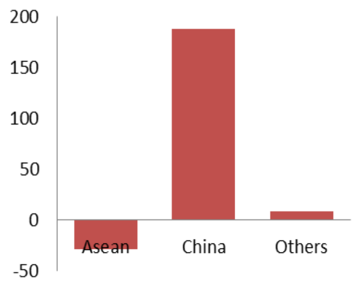


Source: Company

Chart 4: PBT by business segment (SGD'mn)

Source: Company

Chart 5: PBT by geography (SGD'mn) in FY2018



Source: Company

III) Ownership and Management

Table 6: Major shareholders as at 16 April 2019

Shareholder	Shares	Stake
Eng Kuan Co Pte Ltd	188,995,635	22.74%
Ngee Ann Development Pte Ltd	85,515,056	10.29%
Leroy Singapore Pte Ltd	55,758,905	6.71%
Dynamic Holdings Ltd	48,293,203	5.81%

Source: Bloomberg

The second and third generations of the founder Mr. Ong Tjoe Kim hold stakes in the company through Eng Kuan Co Pte Ltd, Leroy Singapore Pte Ltd and Dynamic Holdings Ltd. The Ong family is estimated to have a deemed interest of ~35.3% in METRO. Ngee Ann Kongsi and Takashimaya Company Limited (who has a 30% stake in Ngee Ann Development Pte Ltd) are deemed to be interested in METRO through Ngee Ann Development Pte Ltd's 10.3% stake. As at 6 June 2018, 49.01% of total issued shares (excluding treasury shares) are held in the hands of the public.

Mr. Lawrence Chiang Kok Sung is the Chief Executive Officer of METRO. He joined the company in 1989 and is responsibility for the business strategies and operational affairs of the Group. He has initiated and overseen the Group's property development projects and JVs in China, Singapore, the UK, Japan, Malaysia and Australia.

Mr. Yip Hoong Mun is the Deputy Group Chief Executive Officer and Chief Executive Officer of Metro China. Prior to joining METRO in 2017, he spent over 20 years in CapitaLand Group where he was the Managing Director of Indonesia.

Mrs. Wong Sioe Hong (daughter of the founder) is the Executive Chairman of Metro (Private) Ltd. She serves as the strategist of the Group's retail operations. With over 40 years of industry expertise, Mrs Wong also holds the positions of Vice President of the Singapore Retailers Association as well as Vice Chairman of the Orchard Road Business Association.

IV) Associates and JVs

Table 7: Associates of METRO

<table>
<tr><th>Associates</th><th>Business</th><th>Location</th><th>Stake*</th><th>Remark</th></tr>
<tr><td>PT Metropolitan Retailmart</td><td>Retail</td><td>Indonesia</td><td>50%</td><td>Metro Stores</td></tr>
<tr><td>Etika Cekap Sdn Bhd</td><td rowspan="2">Property</td><td rowspan="2">Malaysia</td><td>49%</td><td></td></tr>
<tr><td>Gurney Plaza Sdn Bhd</td><td>49%</td><td></td></tr>
<tr><td>Gurney Investments Pte Ltd</td><td rowspan="10">Investment holding</td><td>Singapore</td><td>50%</td><td></td></tr>
<tr><td>Fairbriar Real Estate Ltd</td><td>UK</td><td>25%</td><td>Middlewood Locks</td></tr>
<tr><td>Shine Rise International Ltd</td><td rowspan="8">PRC</td><td>30%</td><td>Shanghai Shama Century Park</td></tr>
<tr><td>Top Spring International Holdings Ltd</td><td>15%</td><td>Property Developer</td></tr>
<tr><td>InfraRed NF China Real Estate Fund II (A), L.P</td><td>23.7%</td><td>China Property Fund</td></tr>
<tr><td>South Bright Investment Ltd</td><td>48%</td><td>Real Estate Debt Instrument in PRC</td></tr>
<tr><td>Shanghai Lai Peng Business Consulting Co. Ltd</td><td>30%</td><td></td></tr>
<tr><td>Shine Long Ltd</td><td>30%</td><td>Bay Valley</td></tr>
<tr><td>Huge Source Ltd</td><td>30%</td><td>Bay Valley</td></tr>
<tr><td>Progress Link Ltd</td><td>30%</td><td>Bay Valley</td></tr>
</table>

Source: company FY2018 Annual Report
**Stake refers to percentage of equity held by the Group in FY2018*

Table 8: JVs of METRO

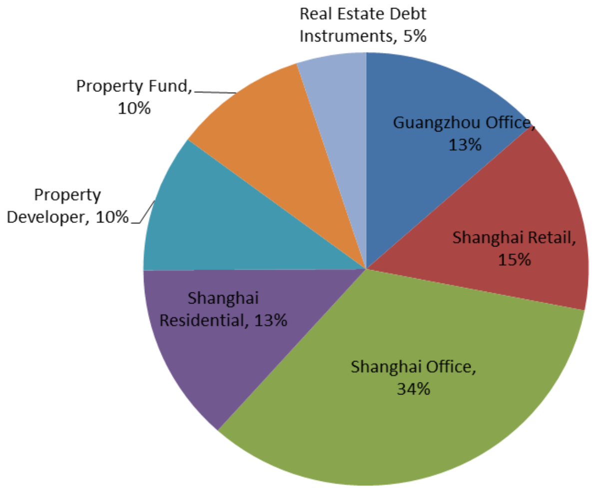
Joint ventures	Business	Location	Stake*	Remark
Wingcrown Investment Pte. Ltd.	Property	Singapore	40%	The Crest
Shanghai Metro City Commercial Management Co. Ltd	Property	PRC	60%	Metro City
Shanghai Huimei Property Co Ltd	Property	PRC	60%	Metro Tower
Scarborough DC Ltd	Property	UK	50%	Sheffield Digital Campus
Lee Kim Tah - Metro Jersey Ltd	Property	UK	50%	5 Chancery Lane

Source: company based on FY2018 Annual Report
**Stake refers to percentage of equity held by the Group in FY2018*

V) Business Analysis

- **Most exposed to China:** Although METRO conducts its business across property types and geographical locations, in the full year ended 31 March 2018 (“FY2018”), 66% of the Group’s non-current assets was in China. These non-current assets were largely made up of 57% in associates and 29% in JVs. That said we take in comfort in that the properties in China are in Tier-1 cities and diversified across office, retail, residential and mixed-use developments Reorganising these non-current assets according to their nature, we find that METRO does not appear to have worrisome concentration risk to a specific segment of the property market in any district in China despite its large exposure. Furthermore, METRO’s Shanghai Office exposure is split between two districts, Xujiahui (14% of total non-current assets) and Yangpu at 19%. Also, within Shanghai, retail and office properties are investment properties while residential property is a development property. We think METRO has managed to keep its exposure to a certain segments in check through associates and JVs where their involvement in a property and/or project is shared. METRO has also pursued opportunities in the UK and Indonesia in FY2018 and FY2019 respectively, apart from Shanghai, China. Overall, METRO’s portfolio comprises six properties and/or projects in China (five of which are in four different districts in Shanghai and one of them is in Guangzhou), three in the UK, two in Indonesia and one in Singapore.

Chart 7: Non-current asset by nature FY2018: SGD756.9mn



Source: Company

Table 9: Non-current Assets in China FY2018

Breakdown	Description	Type	Location	Segment
13% Investment properties	GIE Tower	Investment Property	Guangzhou	Office
29% JVs	Metro City	Investment Property	Xujiahui, Shanghai	Retail
	Metro Tower			Office
57% Associates	Bay Valley	Investment Property	Yangpu, Shanghai	Office
	Shanghai Shama Century Park	Development Property	Pudong New District, Shanghai	Residential
	Top Spring	Investment Holding	PRC	Developer
	InfraRed Fund II			Property fund
	South Bright			Real estate debt

Source: company based on FY2018 Annual Report

- **Established business relationships:** METRO has an extensive network of strategic real estate partners at various project levels across geographical locations. This is evident through the Group's collaboration with
  1) Shanghai Xuhui District People's Government in China to develop Metro City and Metro Tower in 1993.
  2) Top Spring to invest in 30% of Nanchang Fashion Mark in Jiangxi Province in 2012 (divested in FY2018), 30% of Shama Century Park in 2013 and 30% of Bay Valley in 2017.
  3) Trans Corp in Indonesia in 2001 to open Metro Bandung Supermal and again in Nov-2017 along with Lee Kim Tah to develop, market and sell Transpark Bekasi. In April 2018, the three parties embarked on Transpark Bintaro.
  4) InfraRed Fund since 2007. METRO extended the partnership in June 2018 through a co-investment in real estate debt instruments in China.
  5) Scarborough Group when the Group made its maiden entrance into the United Kingdom in 2014. METRO acquired a 50% interest in Sheffield Digital Campus via a 50-50 JV in 2016.
  6) Wing Tai Holdings (Issuer profile: Neutral (4)) in Singapore to jointly develop The Crest in 2012.

  These successful and continual partnerships in different parts of the world demonstrate METRO's wide network and strong ability to build business relationships. In addition, Trans Corp had acquired a 50% stake in Metro Indonesia by 2010 and Top Spring became an associated company of the Group in 2014 when METRO's CEO was appointed to the board of directors of Top Spring a non-executive director. Collaborations with established partners who are experts in their local arena have enabled METRO to venture into new geographies smoothly and fruitfully. While partnerships have their risks, we think this arrangement has worked well for METRO and is akey business strength of the Group. Majority of these partnerships have been in place for over five years, and METRO continues to form new business relationships. Its collaboration with The Lee Kim Tah Group in 2017 (along with Trans Corp) to develop the two projects in Indonesia is a recent example. Apart from The Crest, METRO has not expanded further in the Singapore residential market in recent years.

Table 10: Partners of METRO

Partner	Description
Trans Corp (since 2001)	Sub-holding company of CT Corp. Trans Corp manages TV stations, high-end branded boutiques, F&Bs, theme parks, malls, and travel agencies. Trans Corp also owns majority ownership of Trans Retail Indonesia (formerly Carrefour Indonesia) together with GIC.
InfraRed Fund (since 2007)	A fund managed by InfraRed Capital Partners, a manager of specialist infrastructure and real estate funds.
Top Spring (since 2011)	A real estate property developer in the PRC, specifically, the Greater Bay Area, the Yangtze River Delta, the Central China, the Beijing-Tianjin and the Chengdu- Chongqing regions. It was listed on the Hong Kong Exchange on March 2011.

Source: Company

- **Substantial associates and JVs:** In FY2018, the Group held 61.2% of its total assets (SGD1.14bn out of total assets of SGD1.86bn) and 83.7% of its non-current assets (SGD0.95bn out of total non-current assets of SGD1.13bn) in associates and JVs. As a result, associates and JVs accounted for 79.0% of the Group's profit before tax. METRO's associates and JVs are mainly involved in the business of property investment and development. While the Group has been conducting a substantial portion of its businesses through these structures, it is worth noting that METRO may not have control or influence over the assets of associates and JVs. Both Metro City and Metro Tower in Shanghai, China are held through JVs, while 5 Chancery Lane also a JV is located in the U.K. On METRO's exposure to associates, METRO's CEO sits on the board of directors of Top Spring and its 15% stake in the company also represents a 16.5% voting rights. We think these help to reduce some of the structural subordination risk that investors of METRO's bonds are exposed to as a result of its business model.

- **Ability to recycle capital:** METRO has a track record of investing in or developing properties, subsequently divesting and reinvesting the proceeds in new opportunities. Some example are (1) investing in 30% of Nanchang Fashion Mark in Jiangxi Province in FY2013 and divesting it in FY2018 for a gain of ~SGD9.8mn (2) developing and selling 144 units at Milliners Wharf in Manchester, U.K. over two years (3) divesting Frontier Koishikawa, Japan in 2015 for a gain of SGD4.0mn. We estimate that METRO has engaged in ~19 of such transactions over the years.

- **Challenging retail business:** The retail business in Singapore generated SGD39.3mn revenue in 3QFY2019 (4% higher y/y) with EBIT marginally better by SGD0.3mn at SGD1.1mn. Although EBIT margin had improved to 2.8% from 2.1% a year ago, it remains undeniably low. The retail business in Indonesia, which operates through an associate company, reported strong competition in the quarter and saw overall profitability decline by 44.8% by SGD0.7mn to just SGD0.8mn. That said, METRO had opened two new stores in Indonesia in FY2018 despite the pressure of a competitive environment and high operating costs. We perceive the challenges in the retail space to be structural and expect the weakness in METRO's retail businesses to persist. Overall, the Singapore retail business has been loss making since FY2015 despite stronger revenue figures, and profits from Indonesia have been able to more than offset the losses in Singapore for most years.

- **Small though growing recurring income:** METRO receives stable rental income from its investment properties – GIE Tower, Metro City and Metro Tower. These properties recorded strong occupancy rate of 94.2%, 99.1% and 97.7% respectively as at 31 December 2018. Total rental income from these properties was SGD6.6mn (~4.8% of total revenue) in FY2018. 5 Chancery Lane, acquired in January 2018, may possibly double the Group's recurring income going forward as it is an office building located in Midtown Central London that is commanding ~SGD7.14mn rental income and is fully leased until 2023. In the pipeline, we see Bay Valley, Shanghai (acquired in Sep-2017), whose leasing activities are underway and Shanghai Plaza (acquired in May-2018) which is undergoing asset enhancement in FY2019 (cost has not been disclosed).

VI) Financial Analysis

- **Healthy credit metrics:** As at end-2018, net gearing (excluding pledged fixed deposits of SGD118.5mn) was 0.03x, with more than sufficient cash to cover its short term borrowings (cash: SGD200.8mn vs short term borrowings: SGD99.3mn). In addition, METRO also has short term investments worth SGD28.7mn. With the issuance of METRO 4.3% '24s on 26 March 2019, we estimate net gearing (excluding pledged fixed deposits of SGD118.5mn) to climb higher to 0.14x, which in our view still falls within the healthy range. We note that METRO's long term borrowings are its bonds – METRO '21s and METRO '24s. Associates and JVs have been a substantial part of the Group since 2014. Adjusting EBITDA to include share of results of associates and JV, we find net debt/ adjusted EBITDA at ~0.99x at 31 December 2018. Adjusted EBITDA/Interest is also strong at ~11.01x. Having said that, we think the associates and JV may cumulatively hold significant amount of debt which are recorded off METRO's balance sheet. While METRO is not liable for the liabilities of its associates and JVs, we note that the dividend METRO receives from them could be impacted if any associates and JVs encounter a lapse in its ability to repay its liabilities in a timely manner. As at 9MFY2019, METRO has invested an additional SGD14.6mn in associates and saw a SGD202mn increase in amounts due from associates. METRO has taken up more debt to extend shareholder loan to its associates.

- **Possible avenues to unlock funds if needed :** In the event of a liquidity crunch, we think METRO has the following cards to play:
  1) Divest its wholly-owned GIE Tower (SGD95.4mn)
  2) Sell its 15.0% stake in Top Spring (~SGD81.3mn)
  3) Sell its 23.7% stake in InfraRed Fund II and 48% of South Bright (~SGD116.7mn)
  4) Sell its 7.5% stake in MGSA Private Trust (~SGD54.3mn)
  5) Divest its 60% stake in Metro City (SGD123mn) and Metro Tower (SGD121mn)

  These holdings of METRO aggregate to ~SGD590mn. This is ~1.34x of METRO's net adjusted liabilities (include METRO '24s and SGD89.9mn worth of financial support provided to its subsidiaries at end-FY2018). With the exception of (1), the stakes are held through associates and JVs, and hence subjected to HoldCo-OpCo subordination.

- **Leverage could inch higher:** METRO had on 4 October 2018 established a SGD1.0bn multicurrency debt issuance programme where proceeds will be used for general corporate purposes of the issuer and its subsidiaries. SGD315mn has been issued to date. This offers the Group the financial flexibility to pursue opportunities especially in the property space. Hence, there is room for leverage to creep higher over time.

- **More than satisfy the financial covenants:** Based on our calculation using end-2018 figures, consolidated tangible net worth was ~SGD1.48bn. This far exceeds the minimum amount of SGD800mn required by one of the three covenants. Second, the ratio of consolidated net debt to consolidated tangible net worth must be below 1.5x. METRO's ratio stands at 0.03x. Finally, the consolidated secured debt to consolidated total asset shall not exceed 0.6x. This ratio is 0.05x for the Group.

- **Balance sheet currency mismatch**: While the Group seeks to maintain a natural hedge through the matching of liabilities against assets in the same currency, METRO remains exposed to fluctuations in foreign currency exchange rates, in particular, in relation to Chinese Renminbi ("RMB") due to its substantial investments and projects in China. As such, a significant portion of METRO's net assets are denominated in RMB, while its majority of its debt specifically the bonds are in SGD. Consequentially, depreciation in the RMB against the SGD could be adverse to the Group as it will require more RMB funds to service the same amount of SGD debt. Furthermore, debt to asset ratio may also increase when RMB weakens against the SGD. Some of the Group's net assets are also denominated in British pounds and Indonesian rupiah.

- **Anchored by dividends from associates and JVs:** Given METRO's business model, it frequently ran a negative operating cash flow. Nonetheless, dividends received from its associates and JVs have been able to more than cover its negative operating cash flows. It is worth noting that these dividends are projects-driven and usually lumpy. Therefore, we are not overly concerned about the volatility in METRO's cash balance so long as its projects continue to perform.

- **Large asset base:** Even though METRO appears to have a large amount of asset – SGD1.86bn as at end-2018, we note that 40% of which is in associates and JVs made up another 21%. This is followed by cash at 11% and development properties at 6%. Given associates and JVs are subjected to HoldCo-OpCo subordination, we do not consider the large exposure of METRO's balance sheet to these assets are a credit strength, though only 6% of METRO's total asset is secured – SGD118.5mn of pledged fixed bank deposits. The only property that METRO owns 100% of is GIE Tower in Guangzhou (5% of total assets). This seven-storey shopping podium and 35-storey Grade A office tower was 94.2% occupied as at 31 December 2018 (31 March 2018: 88.6%).

I) Technical Considerations

Positives

- Negative pledge (limited to principal subsidiaries)
- Financial covenants
  - Consolidated tangible net worth shall not be less than SGD800mn
  - Ratio of consolidated net debt to consolidated tangible net worth shall not exceed 1.5:1
  - Ratio of consolidated secured debt to consolidated total assets shall exceed 0.6:1.
- Non-disposal covenant (limited to principal subsidiaries)

Negatives

- Lack of external credit rating
- No change of control clause
- No delisting put

Table 11: Relative Value

Bond	Maturity Date	Net gearing	YTW	I-spread
METRO 4% '21s	**25/10/2021**	**3%***	**3.75%**	**182bps**
METRO 4.3% '24s	**02/04/2024**	**3%***	**4.19%**	**221bps**
WINGTA 4% '21s	07/10/2021	3%**	3.36%	144bps
WINGTA 4.7% '24s	28/02/2024	3%**	3.82%	185bps
HFCSP 4.2% '22s	28/03/2022	33%	4.13%	220bps

Indicative prices as at 16 Apr 2019
Source: Bloomberg
Net gearing based on latest available quarter
**Adjusted for fixed deposits which are pledged*
***Adjusted for perpetuals*

In our view, in the SGD market, METRO is comparable to Wing Tai Holdings ("WINGTA"). WINGTA (Issuer profile of Neutral (4)) is a property investment and development, and lifestyle company, with presence in Singapore, Malaysia, Australia, Hong Kong and China. Apart from both companies' involvement in the property market, we think the lifestyle component of WINGTA is likened to Metro department stores. WINGTA has 55% of its non-current assets in Hong Kong and 32% in Singapore, while METRO has 66% of its non-current assets in China and 13% in ASEAN. Both have a low net gearing of ~3%, though WINGTA's net gearing is estimated to increase to ~13% after having won the tender for a 99-year leasehold land parcel in Singapore earlier this month. One stark difference between the two companies, however, is that the retail arm of WINGTA generates profit and contributes to ~15% of the Group's earnings before interest and tax ("EBIT") while the department stores of METRO are loss making. Overall, even though we think WINGTA has a slightly stronger profile than METRO, we think the spread between the two bond curves more than compensates for the slightly higher risk. In particular, METRO curve trades ~36-38bps wider than WINGTA. We think METRO's bonds - METRO 4% '21s and METRO 4.3% '24s look attractive relative to WINGTA's bonds given the higher yields. We also see room for METRO bonds to compress further by up to ~20bps, and **see fair value at ~3.55% for METRO'21s (spread of 162bps) and ~4.0% for METRO'24s (spread of 201bps)**. With WINGTA's net gearing expected to increase, we recommend bondholders to **switch out of WINGTA bonds into the respectively METRO bonds for a good pickup of over 35bps**.

While METRO bonds look attractive as they trade wider than what we think is their fair value, we would **pick METRO'24s over METRO'21s** if we have to choose one. We have selected the longer tenor bond because we think its spread is more likely of the two bonds to compress to a greater extend and it offers a 39bps pickup for a 2.25 years longer tenor.

II) Conclusion & Recommendation

METRO has an experienced management team as well as an extensive network of business partners. These have allowed the Group to exhibit strong ability to recycle capital and venture into new geographical locations and segments within a property market over the years. METRO also has healthy credit metrics, with net gearing (excluding pledged fixed deposits) at just 3% at present. The potential constraints to its credit profile are its significant exposure to China and substantial amount of associates and JVs. We do not expect both factors to become concerns for METRO over the next six months. First, its exposure to China, while concentrated within the country, the properties and/or projects are diversified across the Tier-1 cities and districts within the cities and are also found across the various segments of the property market. METRO also actively pursues opportunities outside of China. Therefore, we do not expect a spike in exposure to China in the short term. Second, METRO's associates and JVs are mostly long-term and/or repeat business partners. We think that this business model has worked well for METRO and METRO has displayed its ability to manage this structural risk through allowing its associates and JVs to have a stake in their business (e.g. Trans Corp) and likewise take up position on associates' board and have voting rights (e.g. Top Spring). As such, we do not expect the tide to turn against METRO over the next six months. Overall, the Group is not overly dependent on any single property or project in any location and has a good track record of collaborating with associates and JVs successfully. We are **initiating METRO with an issuer profile of Neutral (4).**

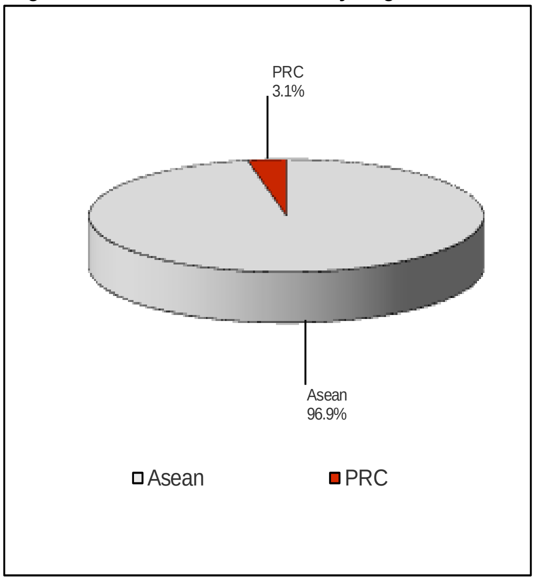
Metro Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Mar	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	131.2	136.3	131.9
EBITDA	-11.3	-15.4	-6.8
EBIT	-13.0	-17.5	-8.6
Gross interest expense	25.0	31.5	3.3
Profit Before Tax	82.5	168.0	48.9
Net profit	81.0	157.0	44.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	278.2	159.4	200.8
Total assets	1,556.1	1,701.9	1,862.2
Short term debt	65.9	136.8	99.3
Gross debt	65.9	136.8	248.5
Net debt	net cash	net cash	47.6
Shareholders' equity	1,350.7	1,482.1	1,475.8
Cash Flow (SGD'mn)			
CFO	-20.7	-49.8	21.1
Capex	2.0	1.5	0.9
Acquisitions	58.7	7.1	14.5
Disposals	18.2	45.8	0.0
Dividends	58.0	41.4	41.4
Free Cash Flow (FCF)	-22.6	-51.3	20.2
Key Ratios			
EBITDA margin (%)	-8.6	-11.3	-5.2
Net margin (%)	61.7	115.1	33.7
Gross debt to EBITDA (x)	-5.9	-8.9	-27.4
Net debt to EBITDA (x)	net cash	net cash	-5.3
Gross Debt to Equity (x)	0.05	0.09	0.17
Net Debt to Equity (x)	net cash	net cash	0.03
Gross debt/total assets (x)	0.04	0.08	0.13
Net debt/total assets (x)	net cash	net cash	0.03
Cash/current borrowings (x)	4.2	1.2	2.0
EBITDA/Total Interest (x)	-0.5	-0.5	-2.1

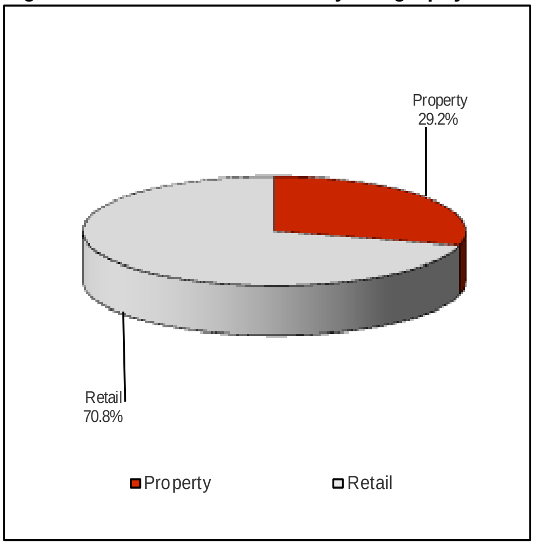
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2019



Source: Company

Figure 2: Revenue breakdown by Geography - 9M2019



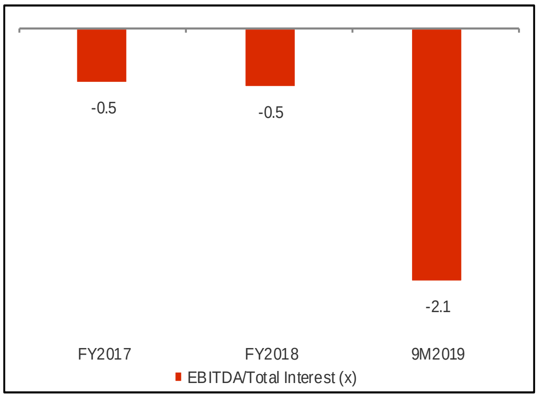
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/12/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	99.3	40.0%
Unsecured	0.0	0.0%
	99.3	**40.0%**
Amount repayable after a year		
Secured	0.0	0.0%
Unsecured	149.1	60.0%
	149.1	**60.0%**
Total	**248.5**	**100.0%**

Source: Company, OCBC estimates

Figure 4: EBITDA/Total Interest (x)



Source: Company

OCBC Global Treasury	
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	**Credit Research** **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.

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold financial interests in the above-mentioned issuer or company as at the time of the publication of this report.

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