

## PSA International Pte Ltd: Credit Overview

Wednesday, 01 November 2017

- PSA International Pte Ltd (“PSAI”) is the holding company of the port operator of PSA Singapore Terminals, the largest transshipment port globally. It is wholly-owned by Temasek Holdings Ltd (“Temasek”). The group’s flagship container terminal, PSA Singapore Terminals, saw a decrease in container throughput due to the slowdown in global trade in 2016. However, PSAI’s overseas terminals helped sustain total throughput levels. Despite increasing competition and expansion from neighbouring ports, PSAI’s joint venture terminals with container liners helped secure throughput from container line operators.
- PSAI’s heavy capex expenditure and dividend payments have caused negative adjusted free cash flows in the preceding 3 financial years. We believe that PSAI is strategically important to the Singapore economy and Temasek would provide support in times of distress. However, Temasek does not guarantee any of PSAI’s bonds, nor is it legally obligated to provide financial support to PSAI. Nonetheless, we believe past experiences showed that Temasek is willing to provide support to certain of its portfolio companies.
- We like the 100% Temasek ownership, and we find fair value in the shorter-dated papers issued by its subsidiary, PSA Corporation Ltd (“PSAC”). However, we find the longer-dated papers richly-valued compared to other 100% Temasek-owned, strategic corporates.

S&P: AA/ Stable  
Moody's: Aa1/ Stable  
Fitch: Not Rated

Ticker: PSASP

**OCBC Credit Research currently does not cover PSAI and its entities. We have presented this paper as a special interest commentary.**

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**Background:** PSA International Pte Ltd (“PSAI”) is the holding company of the PSA Group, which includes all of PSAI’s subsidiaries, associated companies and joint ventures. The PSA Group operates container terminals globally and provides marine services through PSA Marine. For FY2016, the ports business contributed 93.6% of PSAI’s revenue, with the remaining derived from its marine business.

PSA Corporation Limited (“PSAC”) was established as a public limited company in 1997, when the government of Singapore separated the regulatory and operating functions of the Port of Singapore Authority (“PSA”). PSAC would operate the terminals while the Maritime and Port Authority of Singapore (“MPA”) took on the responsibility of port regulator. In 2003, PSAI became the holding company of PSA Group and PSAC under a scheme of arrangement. PSAI is wholly-owned by Temasek Holdings Ltd (“Temasek”).

In 2016, global throughput for PSAI’s ports totalled 67.6mn Twenty-foot Equivalent Units (“TEU”), of which 30.6mn TEUs were contributed by its ports in Singapore, PSA Singapore Terminals. PSA calculates throughput on a gross basis – any operation that PSAI has a stake in is accounted for as if it is fully-owned by PSAI. As mentioned by PSAI, PSAI is the third largest port operator in the world by gross throughput volume, according to Drewry Shipping Consultants.

According to PSAI, the container throughput of 30.6mn TEUs in 2015 at the PSA Singapore Terminals represents over 4% of global container throughput. PSA Singapore Terminals remains the world’s busiest transshipment hub by throughput volume, and the world’s second busiest port, second only to the Port of Shanghai. IHS Fairplay reports that PSA Singapore Terminals accounted for nearly 99% of Singapore’s total container throughput in 2015. The other port operator is Jurong Port Pte Ltd, which handles

Singapore's bulk and conventional cargo. PSA Singapore Terminals also operates two multi-purpose terminals through Pasir Panjang Automobile Terminal and Sembawang Wharves. In 2016, these two multipurpose terminals handled a combine 1.01mn tonnes of cargo and 1.02mn vehicles. Outside Singapore, PSAI derives a significant share of its traffic from Antwerp, which contributed over 10mn TEUs for 2016. PSA also operates ports in the Americas, Europe, India, China, South Korea, Japan and other Southeast Asian countries.

The PSA Group currently has 7 bonds in circulation, which are issued by PSAI, PSA Treasury Ltd, and PSA Corporation. Investors would have to take note of the different issuers when considering the bonds trading under the PSASP ticker. Bonds issued by PSAC are closer to the assets versus PSAI. Bonds issued by PSA Treasury Pte Ltd are guaranteed by PSAI.

**Figure 1: PSA Group bonds**

Bond issue	Issuer	Outstanding amount	Ask price	Ask YTW	Ask YTW (in SGD)	Bond Rating
PSASP 2.5%'26c25	PSA Treasury Pte Ltd	USD500mn	96.897	2.92%	2.46%	'AA/Aa1/NR'
PSASP 3.875%'21	PSA International Pte Ltd	USD500mn	104.753	2.36%	1.86%	'AA/Aa1/NR'
PSASP 4.27%'25	PSA International Pte Ltd	HKD1000mn	111.348	2.54%	2.43%	'AA/Aa1/NR'
PSASP 3.8%'20	PSA International Pte Ltd	HKD1000mn	104.856	1.84%	1.69%	'AA/Aa1/NR'
PSASP 4.625%'19	PSA International Pte Ltd	USD500mn	104.558	2.11%	1.58%	'AA/Aa1/NR'
PSASP 4%'19	PSA Corp Ltd	SGD300mn	104.050	1.40%	1.40%	Not Rated
PSASP 3.385%'20	PSA Corp Ltd	SGD400mn	104.257	1.62%	1.62%	Not Rated

*Indicative prices as of 1 November 2017 (Bloomberg)*

**Government support is a key credit consideration for PSAI:** Although PSAI is 100% wholly-owned by the government of Singapore through Temasek, the government of Singapore does not explicitly guarantee any financial support on PSAI. However, Temasek does have a history of supporting its portfolio companies. These include the rights issue by Chartered Semiconductor Manufacturing ("CSM") and Neptune Orient Lines ("NOL"), as well as the SGD1.5bn injection into SP Group (formerly known as Singapore Power Pte Ltd). We believe that the implied financial support has been priced into Temasek's portfolio companies.

However, in certain instances, despite previous support, Temasek gave up control of its subsidiaries and divested them to third parties. In the case of NOL, Temasek sold its 67% stake in Dec 2015 to French shipping company CMA CGM, after NOL showed 5 consecutive FYs of net losses (excluding fair value gain due to the disposal of NOL's logistics business in 2015). NOL only paid dividends for 1 out of the 5 financial years prior to its sale to CMA CGM. Similarly, CSM was listed in Singapore and US in 1999, reaching a price of SGD94.80 per share in the height of the Dotcom bubble in 2000, before closing at SGD2.66 on 14 Dec 2009. CSM was also unable to compete with rivals such as Taiwan Semiconductor Manufacturing Co Ltd, with the latter beating the former in both scale and margin. CSM was delisted and acquired by Mubadala Technology on 29 Dec 2009.

Investors should note that there is no explicit change of control covenants on the bonds. However, despite the previous divestments, we believe that Temasek would not divest PSAI for the following reasons:

- 1) **Strategic value to Singapore:** As of 2016, merchandise trade in Singapore totalled SGD870bn (at current prices). This represented over 2 times Singapore's

2016 nominal GDP of SGD410bn. As such, PSAI, especially its PSA Singapore Terminals holds strategic value to Singapore's trade-reliant economy. Even in a loss-making scenario, we believe that the government would continue to ensure that the port is able to operate smoothly. Any operating faults at the ports or increase in handling costs could push export and import prices upwards, potentially hurting Singapore's trade competitiveness. Furthermore, the recent move of the ports in Singapore to Tuas has further enforced the strategic value of PSAI. The financial impact of moving the port to Tuas is not disclosed, but without a controlling stake in PSAI, the government might face obstacles from other shareholders in making such strategic decisions.

- 2) **Financial value to Temasek:** As mentioned, one of the possible reasons of divesting NOL and CSM is due to the underperformance of both companies. PSAI, on the other hand, has been a stable performer, with healthy EBITDA margins and heavy upstreaming of dividends. PSAI is Temasek's second largest investment<sup>1</sup> (after Mapletree Investments Pte Ltd, which is valued SGD11.2bn), with Temasek having a shareholder value of SGD10.8bn as of 31 Mar 2017. This represents nearly 4% of Temasek's SGD275bn portfolio value. However, it is worth noting that due to the nature of the industry that Mapletree Investments operate in, a sizeable amount of Mapletree's profit, and subsequently, retained earnings and therefore shareholder equity, is derived from the fair value gains of Mapletree investment's properties (over the past 5 financial years, with the exception of FY2016, asset revaluation gains were larger than recurring PATMI, as reported by Mapletree Investments Pte Ltd). Additionally, PSAI is amongst Temasek's standout performers, recording a 13.6% 5-year total shareholder return<sup>2</sup>.

These factors provide us with some comfort that Temasek will not divest PSAI.

#### **Key strengths:**

**Experienced senior management with little changes amongst the ranks:** According to Bloomberg, the current chairman of PSAI, Mr. Fock Siew Wah, has been at the helm since November 2005. Group CEO Mr. Tan Chong Meng has held his position since 2011, after the retirement of Mr. Eddie Teh, who joined PSAI in 2003 and retired in 2011. We also noticed that a majority of the other board members have served long tenures on the board, and that Mr. Kua Hong Pak sits on the board of Temasek. We believe the long tenures of the directors would help PSAI achieve long-term targets without having to worry about short-term board renewal targets.

**Competition in the Straits of Malacca is heating up, but loss of traffic to competitors is minimized through the use of JVs and partnerships:** PSAI's competitors along the Straits of Malacca, in particular, the Port of Tanjung Pelepas (PTP) and Westports Malaysia (Westports), are ramping up capacity to take a larger share of the transshipment business pie. Both PTP and Westports are undergoing upgrading, with PTP expecting to increase its capacity to 13.2mn by 2020 (end-2016: 10.2mn TEUs), and Westports aiming to increase its capacity to 13.5mn TEUs by end-2017 (end 2016: 12mn TEUs).

For 2016, PTP recorded a 9.2% decline in traffic y/y to 8.3mn TEU. For 1H2017, PTP recorded another 4% decrease y/y in throughput. Westports, on the other hand, saw its business improving. Container throughput rose 10% y/y to 9.9mn TEUs in FY2016, but decreased 5% y/y, from 4.9mn in 1H2016 TEUs to 4.7mn TEUs for 1H2017. Transshipment volume comprised 74% of total container throughput for FY2016.

Despite the increase in competition, we believe that PSAI will be able to secure assured capacity and maintain its current market share of transshipment volume. PSAI has entered into various agreements with ship operators, forming joint venture terminals such as the CMA CGM – PSA Lion Terminal ("CPLT"), COSCO – PSA Terminal, MSC – PSA Asia

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<sup>1</sup> Based on shareholder equity for unlisted companies, or the market value Temasek's shareholding in listed companies as of 31 March 2017

<sup>2</sup> Total Shareholder Return (TSR): According to Temasek, the TSR is a compounded and annualised measure which includes dividends paid to shareholders and exclude capital injections. For unlisted companies such as Mapletree Investments and PSAI, shareholder equity at year end is used to calculate TSR.

Terminal, PIL – PSA Singapore Terminal and Asia Automobile Terminal (Singapore). The alliances with PSA, COSCO and MSC helps PSAI’s Singapore terminals to secure its positions as the preferred port of call for these ship operators, and as such, competition from neighbouring ports should not pose a threat in the near-term. Major ship operators have also shifted operations to Singapore under new alliance agreements, such as the Ocean Alliance, which shifted transshipment cargo from Port Klang (part of Westports) to Singapore.

Additionally, we view the formation of joint venture terminals with ship operators as credit positive for PSAI. Ship operators co-invest with PSAI in PSAI’s facilities, thereby potentially reducing PSAI’s share of initial capex contribution. An example would be CPLT, where CMA CGM announced that it has contributed initial equity of SGD108mn for its 49% stake in CMA CGM – PSA Terminal Pte Ltd, the joint venture operating CPLT.

Furthermore, PSAI would be increasing the size of the terminals in Singapore that are held under joint ventures. PSAI has announced that it would be adding two more berths to CPLT, increasing the annual capacity from 2 million TEUs to 4 million TEUs. Similarly, the COSCO-PSA Terminal would be upgraded from the current two-berth terminal to three “mega” berth terminals. The upgrading of these two terminals could signal an increase in throughput by the container liners at the port of Singapore.

Lastly, PSAI’s geographical reach provides it with a strong arm when negotiating with container line operators. With ports located along major trade routes, PSAI is able to leverage on its connectivity to offer container liners port of calls around the world.

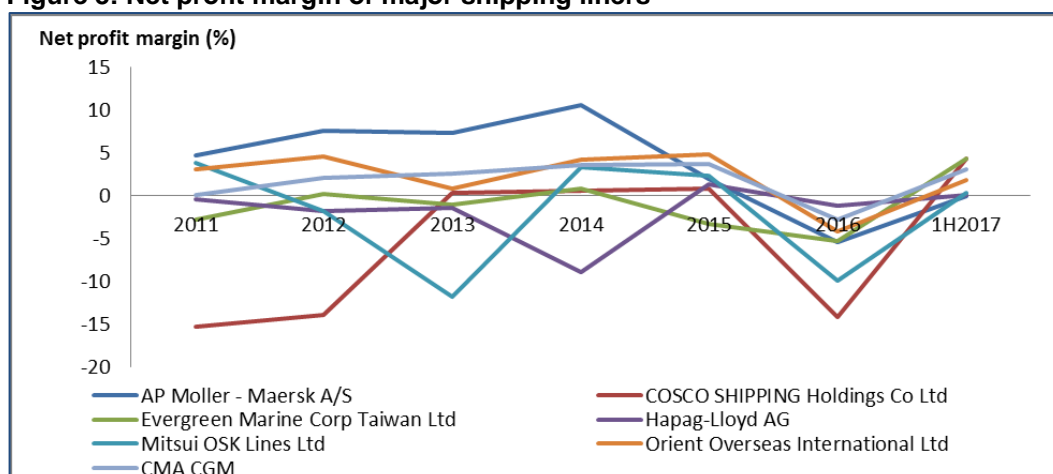
**After a poor 2016, the container line industry seems to be recovering:** A slowdown in global trade in 2016 has led to depressed shipping rates globally and a decrease in throughput at the port of Singapore. The World Trade Organization (“WTO”) estimated that trade growth grew 1.3%, while the total dollar value of merchandise exports was at USD15.5tn, down 3.3% from 2015. This, together with oversupply in the shipping industry, has led to depressed shipping rates. Both China (Export) Containerized Freight Index (“CCFI”) and Shanghai (Export) Containerized Freight Index (“SCFI”) reached multi-year lows of 632 and 418 respectively in 2016. This has led to margin compression for container ship operators, with most of the largest container line operators reporting net losses for FY2016.

**Figure 2: CCFI and SCFI Indices**



Source: Bloomberg, OCBC

**Figure 3: Net profit margin of major shipping liners**

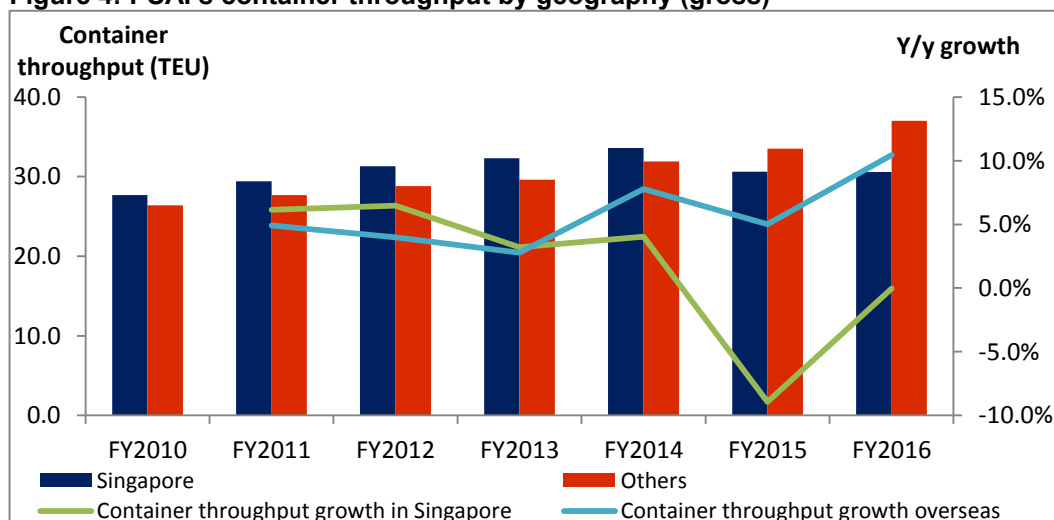


Source: Bloomberg, OCBC

2017 marked a minor recovery in the container shipping industry. As of Oct 2017, the CCFI and SCFI have recovered from the bottom and logged in an index value of 772 and 747 respectively on 15 Sep 2017. Cargo throughput at the Ports of Singapore for the first 9 months of 2017 stands at 24.8mn TEUs, a 7.6% increase y/y from the first 9 months of 2016, and ship operators saw a recovery in their profit margins in 1H2017. With the WTO expecting trade to recover partly in 2017, we believe that the recovery in the container shipping industry would provide room for PSAI to charge higher handling fees, allowing it to reverse the downtrend of EBITDA and EBIT moving forward.

**Growth in overseas ports helped mitigate slowing growth in Singapore, but contribution to operating profits remains unclear:** PSAI's decision to venture overseas has been paying off. Although a majority of PSAI's revenue (56%) is derived from the ports in Singapore, PSAI's overseas ports business has grown considerably. Container throughput overseas on a gross basis has surpassed container throughput in Singapore as of FY2015. Additionally, PSAI holds minority stakes in Hutchison Port Holdings Trust through its 20% ownership in Hutchison Port Holdings Ltd.

**Figure 4: PSAI's container throughput by geography (gross)**



Source: Company, OCBC

Despite strong growth in throughput overseas, contribution to operating profit might not increase significantly. A majority of PSA's overseas ports are held through joint ventures, and as such, PSAI's claims on overseas cash flow might be hampered.

**100% Temasek ownership is comforting:** Although cash outflows due to dividends payments have been significant, we believe that this would not pose a risk to PSAI's long-term credit worthiness. PSAI is wholly-owned by Temasek, which gives the board the flexibility to declare dividends as and when it sees fit. Furthermore, given the strategic importance (degree of strategic importance discussed in pg7) of the Port of Singapore, we believe that the government would step-in to prevent a default if the need arises.

Moving forward, management might scale back on its dividend payments to ensure continued operations of the ports, or if it decides to increase the scope of its capex. However, bondholders should note that the government is not obligated to maintain its ownership nor provide financial support to PSAI in the event that PSAI is unable to meet its obligations.

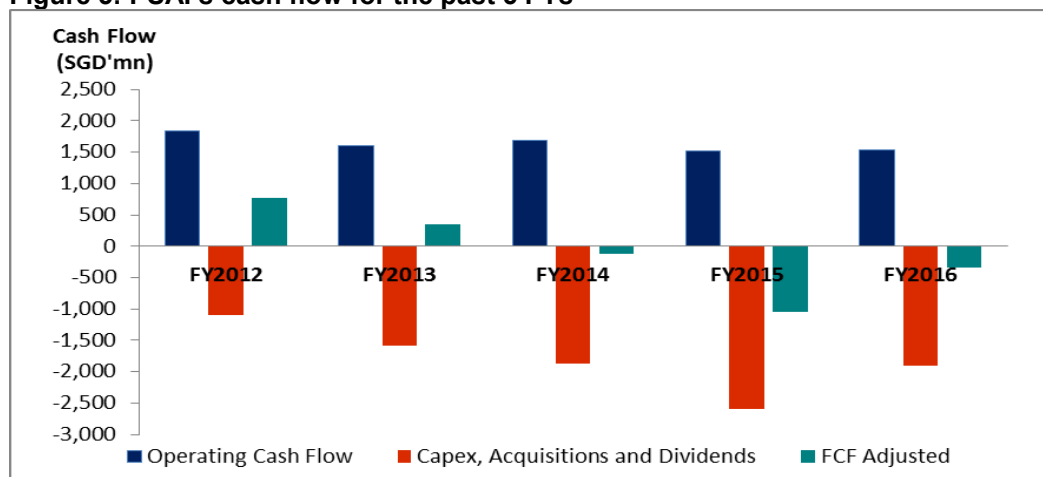
**Weaknesses:**

**Concentration risk and ability to collect receivables remain a concern:** As of 2015, PSAI's top ten customers accounted for approximately 55% of revenue. This poses a significant concentration risk to PSAI. Additionally, PSAI has been facing a degree of credit risk from its counterparties, as allowance for doubtful trade receivables has been consistently ~10% of total gross receivables over the past 5 financial years.

**Heavy capex and dividends hamstringing free cash flow generation:** Cash flows from PSAI's core operations have been strong, alongside relatively high EBITDA margins (45-50% in the past 5 fiscal years). Comparatively, Cheung Kong Holdings' ports division has generated ~35% EBITDA margins in the past 3 financial years, whilst APM Terminals (owned by A.P. Møller – Mærsk A/S) recorded ~25-32% EBITDA margins for the past 3 fiscal years. However, the capex requirements of the industry place strong downward pressures on PSAI's ability to generate adjusted free cash flows (Operating cash flow after accounting for acquisitions, dividends and disposals).

For FY2016, cash outflow for the purchase of property, plant, equipment (PPE) and intangible assets stood at SGD1.3bn, a 6.5% increase y/y. Dividends paid to controlling shareholders for the past 5 financial years have been varied, ranging from SGD500mn in 2016 to SGD1.3bn in FY2015, which represents 32% to 86% of operating cash flows in their respective financial years. For FY2016, the board of directors have proposed a net final dividend of SG0.49 per share, which totals to SGD300mn. However, the board has been declaring interim dividends in the past financial years, making dividend payments unpredictable.

**Figure 5: PSAI's cash flow for the past 5 FYs**



Source: Company, OCBC

The capex needs for PSAI will be elevated in the near-term, as PSAI will be expanding its operations in Singapore and overseas. PSAI will be investing SGD3.5bn to develop Phases 3 and 4 of Pasir Panjang Terminal ("PPT"), which would increase the capacity that PSA handles in Singapore to 50mn TEUs when fully operational. Additionally, PSAI would be working with the government to develop the Tuas Port project. Given the scale of this project, which would have a capacity to handle 65mn TEU per annum, we expect capex needs to be elevated in both short-term and long-term.

Additionally, PSAI's involvement in the developing ports outside Singapore would increase its capex further. In 2014, PSAI signed a concession to design, build, operate, and finance the fourth container terminal of the Jawaharlal Nehru Port in India for 30 years. The first phase of the project would be completed end-2017, adding 1mn TEU of capacity to PSAI's India operations. The Economic Times reported that the entire project is estimated to cost INR8000 crore (~SGD1.7bn as of Oct 2017), and the second phase of the project is estimated to be INR4,719 crore (SGD987mn). The expected date of



completion for the second phase is expected to be end-2021. PSAI disclosed that its share of capital commitments in joint ventures, which have been authorised and contracted, stood at SGD199mn at the end of FY2016, but we see capex needs going beyond this figure. The group also reports that its share of contingent liabilities of its associates totals SGD111.6mn as of end 2016.

**Structural subordination a key risk:** PSAI's bonds face a degree of structural subordination as a majority of its ports and non-current assets are held through subsidiaries or joint ventures. PSAI also receives a significant portion of its cash flow from dividends received. As a holding company, PSAI only has SGD12.0bn total assets, of which SGD9.1bn are subsidiaries held at cost.

#### **Recent developments:**

**Core business remains strong, but non-operating and non-cash items dragged the bottom line lower:** Despite headwinds in the shipping industry, PSAI's core businesses results remained resilient. Container throughput in Singapore showed little change at 30.6mn TEUs, while container throughput overseas increased 10.4% y/y from 33.5mn TEUs to 37.0mn TEUs, which could be attributed partly to the completion of certain overseas terminals. With the increase in traffic, revenue increased marginally by 3.0% y/y to SGD3.68bn. Similarly, EBITDA (based on our calculations which do not include other income and other expenses) improved slightly from SGD1.64bn to SGD1.66bn. However, there was a decrease in EBIT by 3.6% due to higher depreciation recorded. Net profit to common shareholders decreased by 7.5% from SGD1.27bn in 2015 to SGD1.17bn in 2016, due to lower income from associates and higher income attributable to non-controlling interests. Operating cash flow remains stable at SGD1.54bn, a 1.6% increase from the previous year.

**Gross debt has increased materially, but interest expense remains approximately constant:** Gross debt (excluding finance lease liabilities) increased 26% from SGD4.6bn end-2015 to SGD5.8bn end-2016, due to an increase in bonds and loans. As such, leverage ratios experienced a significant deterioration, as net debt/ EBITDA increased from 0.90x to 1.25x, while net debt/ equity increased from 0.14x to 0.18x. However, interest expense decreased marginally from SGD174mn to SGD173mn from FY2015 to FY2016. Coverage ratios remain healthy, as EBITDA/ gross interest increased from 9.4x to 9.6x. This could be mainly due to the maturity of the USD500mn 10-year bond (which was issued for the fully debt-funded USD4.4bn 20% stake in Hutchison Port Holdings Ltd) in Jun 2016, which was paying a 5.9% coupon. Comparatively, PSAI was able to issue a USD500mn 10-year NC9.5 bond at a coupon rate of 2.5%. However, with 35% of borrowings on floating rates basis, a rise in interest rates could cause coverage ratios to deteriorate.

**Completion of overseas projects could help increase cash flows in the form of operating cash flows and dividends from joint ventures:** Apart from the completion of Phase 1 of Jawaharla Nehru Port, which could help improve cash flows, PSAI has been expanding PSA Panama International Terminal ("PPIT"), which is located between the Pacific Ocean and the Panama Canal. In 2015, PSAI started works to expand PPIT into a port that could handle 2.0mn TEUs annually, up from the initial capacity of 0.45mn TEUs. The investment was estimated to cost USD450mn and the date of completion is expected to be in 2H2017. With the completion of PPIT, we believe operating cash flows would see a slight increase. Capex would decrease by a negligible amount, given the size of this expansion as compared to the expansion of PPT and Jawarharlal Nehru Port.

Additionally, we believe that cash flows would increase marginally in 2017 for the ports that were opened midway through 2016, as full-year effects were not reflected in the FY2016 financial statements. Some of these ports are held through joint ventures, and cash flow would only be seen in the form of dividends. These include:

- 1) Sociedad Puerto Industrial Aguadulce in Colombia, which was opened in November 2016, with an annual capacity of 550,000 TEUs.
- 2) The commencement of operations of New Priok Container Terminal One in August 2016, which adds 1.5mn TEUs to PSAI's capacity.
- 3) Based on a filing by Hyundai Merchant Marine Co Ltd, PSAI acquired a controlling 40% stake + 1 share in Hyundai Pusan Newport International Terminal in Korea. The deal was expected to be completed by April 2016.

**Effects of consolidation in the shipping industry are yet to be seen:** The European Commission, in its Oct 2009 report on terminal handling charges, stated that the cost of container handling was negotiated between the carrier and the port authority, which is usually based on volumes. Contract terms between the carrier and terminal operator are confidential.

We believe that the consolidation and alliances within the shipping industry could put pressure on PSAI's margins moving forward. These include the recent / pending acquisition of Orient Overseas International Limited, United Arab Shipping Co and Neptune Orient Lines by bigger names such as COSCO, Hapag-Lloyd and CMA CGM. Combined with the formation of alliances within the container line industry, container line operators may have a higher bargaining power, (due to the higher volumes that they and the alliance that they participate in bring to the port) to negotiate for lower terminal handling charges, depressing port handling charges on port operators globally. Furthermore, these consolidated entities and/ or alliances would have the financial might to purchase ports, thereby reducing the need to use PSAI's facilities.

However, the joint venture models that PSA operates in (as mentioned above) could help to reduce the threat of being strong-armed by the larger container line operators. Furthermore, Singapore's location in the Straits of Malacca is hard to substitute.

**Conclusion:** PSAI's solid EBITDA generation is constrained by its high capex needs and acquisitive nature. It has also demonstrated its ability to retain and attract key customers despite competition in the South China Sea. Given the strategic and financial value that PSAI has to the government, we believe that government support will be present in the rare event that PSAI is unable to fulfil its financial obligations.

As a comparison, PSAI's bonds should trade similar to the bonds of SP PowerAssets Ltd ("SPPA"). As PSAI holds strategic and financial value to both Temasek and Singapore, it is highly unlikely that the government will give up control of PSAI. Although it may seem that only PSA Singapore Terminals is strategic to Singapore, PSAI's overseas terminals do provide strategic value to PSA Singapore Terminals. In our view, the overseas terminals could be used to promote PSA Singapore Terminals by providing container liners utilizing PSA Singapore Terminals with an additional transshipment hub, thereby allowing container liners to operate more shipping routes. Furthermore, with further acquisitions and capex commitments in ports worldwide, PSAI is expanding its global footprint further, and any chance of divestment is minimal.

SPPA is the sole provider of transmission and distribution services in Singapore, distributing electricity generated by third parties through its network.

Both PSAI and SPPA are capital-intensive, 100% Temasek-owned and holds strategic value to Singapore. These 2 companies are the key providers of infrastructure to the Singapore economy, and are "too essential to fail" in a Singapore context.

**Figure 6: Comparable bonds from SPPA**

Bond issue	Issuer	Outstanding amount	Ask price	Ask YTW	Ask YTW (in SGD)	Bond Rating
SPSP 3.06%'20	SP Power Assets Ltd	SGD250mn	103.705	1.58%	1.58%	'AA/Aa2/NR'
SPSP 3%'27	SP Power Assets Ltd	USD600mn	99.144	3.10%	2.65%	'AA/Aa2/NR'

*Indicative prices as of 1 November 2017 (Bloomberg)*

For PSAI's shorter dated papers, we see fair value in PSASP 3.385%'20. At a 1.62% yield, the bond trades similar to SPSP 3.05%'20s, which trades at 1.58%. Both of these papers are issued at the OpCo level (the PSA bond is issued by PSAC), but the slight differential in yield could compensate for the lack of an issue rating on the PSA bond.

For investors looking at longer dated papers, the PSASP 2.5%'26c25s (issued by PSAI) currently yields 2.46% after swapping into SGD. Investors that are worried about the strategic value of PSAI's can find better value by switching to SPSP 3%'27s, which yields



2.65% in SGD terms. The SPSP bond has less structural subordination (the PSASP 2.5%'26s are issued by the HoldCo), and its recurring income is secured, as the Energy Market Authority of Singapore has to provide a 25 years' written notice to revoke SPPA's transmission licence (with the exception of liquidation of SPPA, or certain conditions occur – we do not view any of these events as possible). As such, the nearly 20bps pickup more than adequately compensates the investors for the 9-month longer tenor and higher leverage of SPPA.

# PSA International Pte Ltd

**Table 1: Summary Financials**

Year End 31st Dec	FY2014	FY2015	FY2016
<b>Income Statement (SGD'mn)</b>			
Revenue	3,830.0	3,573.2	3,680.1
EBITDA	1,857.7	1,640.0	1,661.9
EBIT	1,427.3	1,191.7	1,149.0
Gross interest expense	170.7	174.2	173.5
Profit Before Tax	1,713.1	1,535.1	1,443.3
Net profit	1,401.8	1,268.5	1,173.3
<b>Balance Sheet (SGD'mn)</b>			
Cash and bank deposits	3,508.2	3,120.9	3,752.5
Total assets	17,757.6	17,146.6	19,150.9
Gross debt	4,705.8	4,595.6	5,828.9
Net debt	1,197.6	1,474.7	2,076.5
Shareholders' equity	10,920.6	10,556.3	11,285.4
Total capitalization	15,626.5	15,151.8	17,114.3
Net capitalization	12,118.3	12,031.0	13,361.9
<b>Cash Flow (SGD'mn)</b>			
Funds from operations (FFO)	1,832.2	1,716.8	1,686.2
CFO	1,684.7	1,512.2	1,537.3
Capex	985.4	1,229.7	1,309.7
Acquisitions	0.0	7.8	48.9
Disposals	62.3	29.2	23.2
Dividend	889.5	1,357.6	539.6
Free Cash Flow (FCF)	699.4	282.5	227.6
* FCF adjusted	-127.9	-1,053.8	-337.8
<b>Key Ratios</b>			
EBITDA margin (%)	48.5	45.9	45.2
Net margin (%)	36.6	35.5	31.9
Gross debt to EBITDA (x)	2.5	2.8	3.5
Net debt to EBITDA (x)	0.6	0.9	1.2
Gross Debt to Equity (x)	0.43	0.44	0.52
Net Debt to Equity (x)	0.11	0.14	0.18
Gross debt/total capitalisation (%)	30.1	30.3	34.1
Net debt/net capitalisation (%)	9.9	12.3	15.5
Cash/current borrowings (x)	7.3	3.1	8.4
EBITDA/Total Interest (x)	10.9	9.4	9.6

Source: Company, OCBC estimates

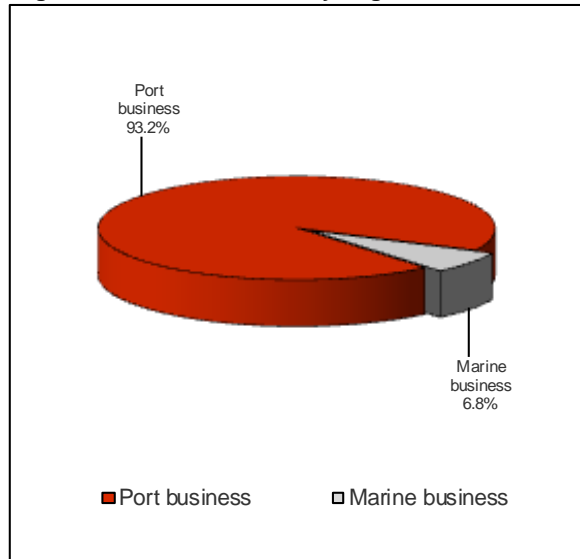
\*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals

**Figure 3: Debt Maturity Profile**

Amounts in (SGD'mn)	As at 31/12/2016	% of debt
<b>Amount repayable in one year or less, or on demand</b>		
Secured	37.6	0.6%
Unsecured	407.5	7.0%
	<b>445.0</b>	<b>7.6%</b>
<b>Amount repayable after a year</b>		
Secured	980.5	16.8%
Unsecured	4,403.4	75.5%
	<b>5,383.9</b>	<b>92.4%</b>
<b>Total</b>	<b>5,828.9</b>	<b>100.0%</b>

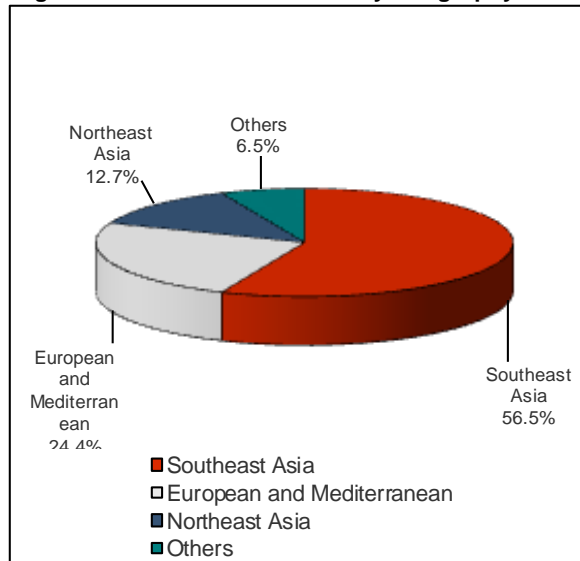
Source: Company | Excluding finance lease liabilities

**Figure 1: EBIT breakdown by Segment - FY2016**



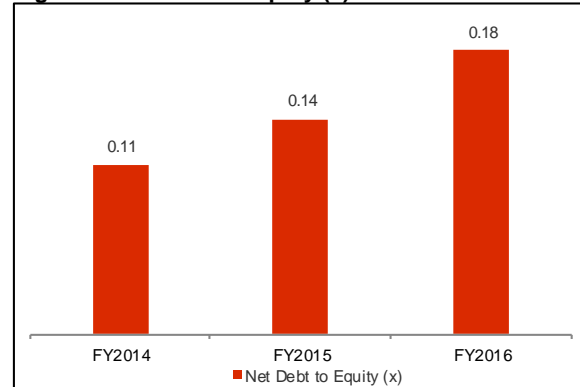
Source: Company | before accounting for joint arrangements

**Figure 2: Revenue breakdown by Geography - FY2016**



Source: Company | before accounting for joint arrangements

**Figure 4: Net Debt to Equity (x)**



Source: Company, OCBC estimates

The credit research team would like to acknowledge and give due credit to the contributions of Andrew Chok Rong Yao.

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