Asia Credit Research

Singapore Press Holdings Ltd ("SPH"): Special Interest Commentary

Friday, June 14, 2019

OCBC Credit Research currently does not cover SPH. We have presented this paper as a special interest commentary.

Ticker: **SPHSP**

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

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

Key considerations

- **No longer purely a media company; SPH is more of a property company now:** SPH has evolved to become both a media and property company. Property segment is now the major contributor, contributing 72% out of SGD146.7mn total PBIT (before fair value changes) and represents ~76% of total assets as of 1HFY2019. This is partly due to declines in the media segment. 1HFY2019 revenues and operating profit fell by 5.2% y/y and 8.9% y/y respectively due to lower media revenue.

- **Mitigating headwinds from the media segment:** Despite being the sole provider of all print newspapers in Singapore, SPH faces intense competition from alternative media sources (e.g. social media). Advertising revenues have fallen by 11.4% CAGR over FY2014-18 to SGD445mn in FY2018. However, media revenue may decline at a slower pace as SPH is ramping up on digital media and cutting costs.

- **SPH REIT as the single most important asset and key source of stability:** SPH is the sponsor of and owns ~70%-stake in SPH REIT (market cap: SGD2.7bn). We estimate SPH REIT contributes ~80% of SPH's revenue from the property segment in 1HFY2019. SPH REIT upstreams ~SGD100mn dividends p.a. to SPH, which we expect to remain stable. SPH REIT allows SPH to recycle capital, for example through the potential sale of 70%-owned The Seletar Mall to SPH REIT.

- **Growing the recurring income from property segment:** In a bid to bolster returns and grow recurring income, SPH has acquired over SGD600mn in purpose-built student accommodation ("PBSA") in the UK since Sep 2018. We think SPH may continue to acquire more assets in the PBSA and retail sector. Together with 70%-owned The Seletar Mall, we estimate that the property segment (without SPH REIT) generates ~SGD50mn recurring income.

- **Leveraging up and allocating more capital to property:** Net gearing increased to 40.5% in 2QFY2019 (4QFY2018: 30%) through a series of acquisitions (e.g. PBSA portfolio). This is funded by both debt and divesting the investments portfolio. The investments portfolio should not be a significant contributor anymore going forward as it is largely divested. Despite the recent acquisitions of PBSA, and participating in the privatization of M1 Ltd, we estimate net gearing may remain at ~40% (for now) due to issuance of SGD150mn SPHSP 4.5% PERP and sale of Chinatown Point.

- **Still manageable credit metrics:** Net debt/EBITDA remains healthy at around 4.0x as of 1HFY2019, though we think this may increase to a still manageable 5x-6x levels assuming further acquisitions and weaker results from the Media segment. Given no key shareholder, we do not factor the potential for extraordinary support in times of need. That said, we remain comfortable as SPH remains cashflow generative with FCF of SGD104.4mn in 1HFY2019 (2018: SGD242.3mn). Dividends have been progressively reduced over FY2014-18 with weaker results from the media segment, which should be more sustainable now.

- **Regulated by Newspaper and Printing Presses Act (Chapter 206):** Due to the Act, the government can choose to effect changes at SPH's Board of Directors, if it chooses to, as appointment to SPH's board requires Minister level approval.

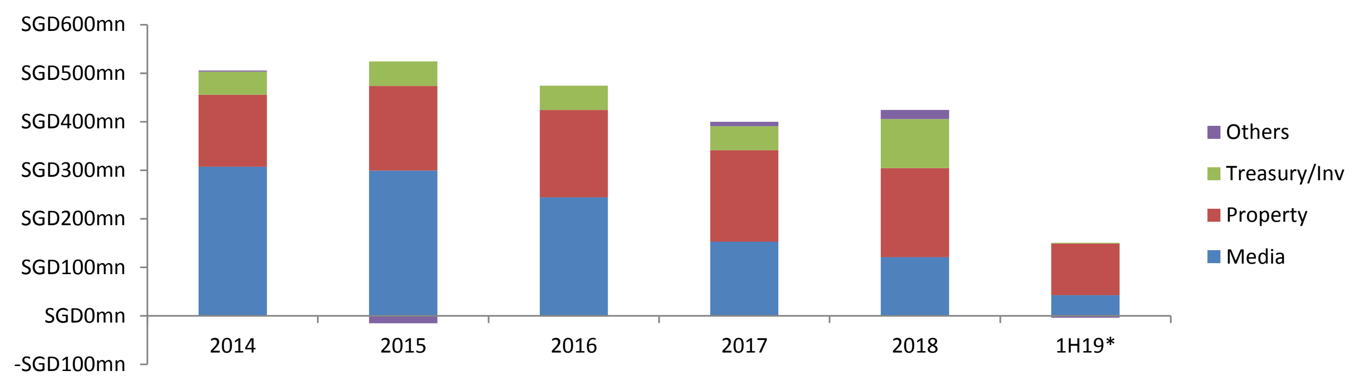
- **Run-up in SPHSP 4.5% PERP:** We note SPHSP 4.5% PERP has done well and is trading close to MLTSP 3.65% PERP with limited supply. Though SPH has lower net gearing, Mapletree Logistics Trust as a REIT has an aggregate leverage cap.

I) Company Overview & Ownership

Incorporated in 1984 and listed on the SGX, SPH has a market cap of SGD3.7bn. Beyond publication of newspapers, SPH has evolved to become both a media and property company. The property segment is now the major contributor, contributing 72.3% out of SGD146.7mn total PBIT (before fair value changes) in 1HFY2019, with the remainder contributed mostly by the Media segment. We estimate that the property segment accounts for ~76% of the total assets as of end-1HFY2019 (FY2018: 73%).

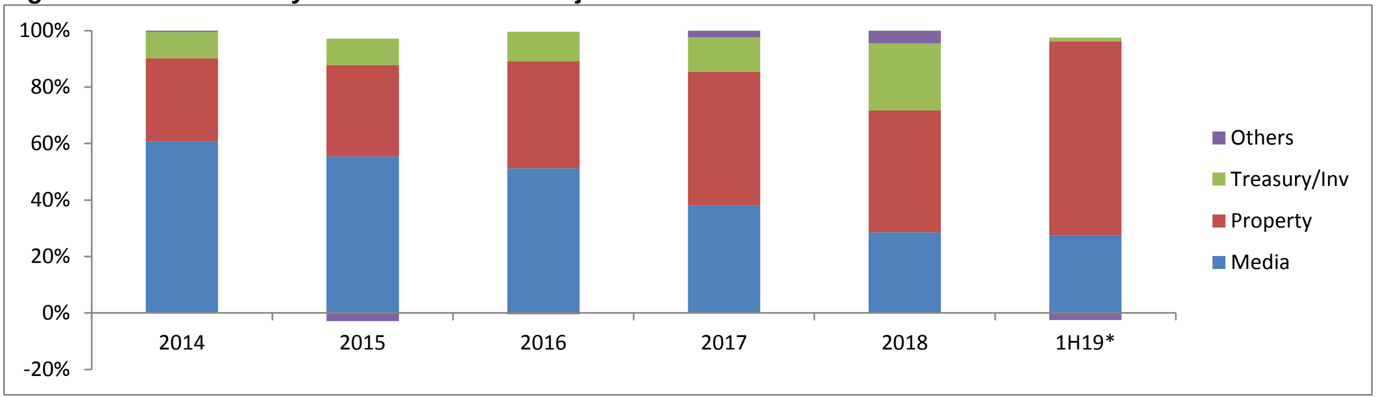
Treasury and investment segment is no longer a major contributor in 1HFY2019 as SPH is scaling down the segment significantly and M1 Ltd[1] will be reclassified from the Treasury and investment segment to 'Others' segment. Singapore continues to be the principal geographical region of operations though SPH has increasingly been allocating resources to overseas markets (e.g. investment in student accommodation) in recent quarters.

Figure 1: Breakdown by value of EBITDA before fair value changes and impairment ("Adjusted EBITDA")



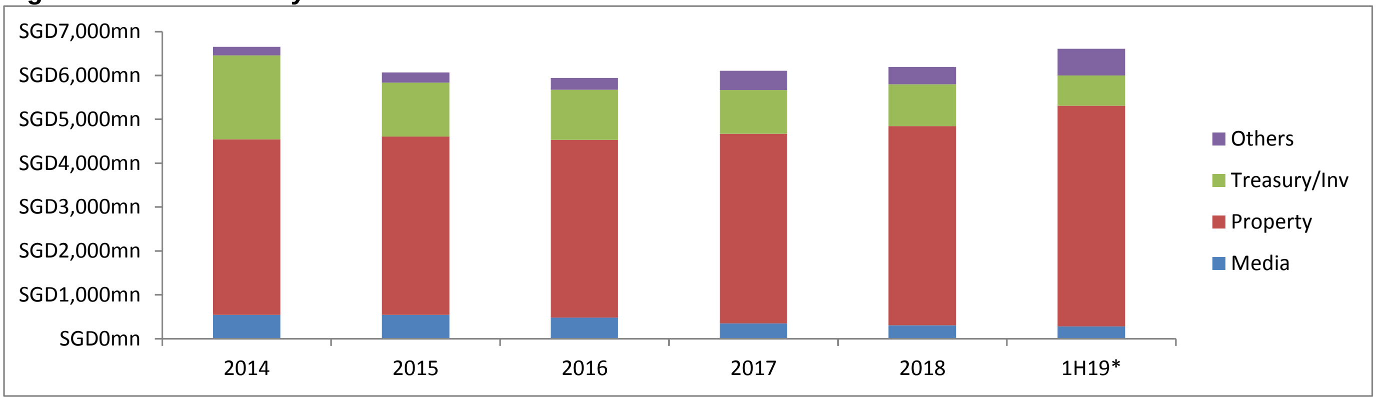
Source: Company, OCBC
**EBIT before fair value changes as depreciation and impairments are not segregated out in 1HFY2019*

Figure 2: Breakdown by % contribution of Adjusted EBITDA



Source: Company, OCBC
**EBIT before fair value changes as depreciation and impairments are not segregated out in 1HFY2019*

Figure 3: Breakdown by assets



Source: Company, OCBC
**Approximation by OCBC Credit Research*

[1] SPH has injected its existing (prior to privatization of M1) 13.43% stake into a special purpose vehicle, in a collaboration with Keppel Corp Ltd for a voluntary general offer for M1.

II) Management and shareholding

Mr Lee Boon Yang is Chairman of SPH. Mr Lee is also the Non-Executive Chairman of Keppel Corp Ltd and served as Member of Parliament for Jalan Besar and Jalan Besar Group Representation Constituency (GRC) from Dec 1984 to Apr 2011. Mr Lee was also the Minister for Information, Communications and the Arts till Mar 2009.

The have been several changes to the key management at SPH in the recent years.

Mr Ng Yat Chung took over as the CEO of SPH since 1 Sep 2017. Mr Ng is also an Executive & Non-Independent Director of SPH. Prior to SPH, Mr Ng was the Executive Director and Group CEO of Neptune Orient Lines Ltd (2011-2016). We note that Neptune Orient Lines was delisted from the SGX in Sep 2016. Mr Ng was also the Senior Managing Director at Temasek Holdings Pte Ltd (2007-2011). Prior to this, Mr Ng was the Chief of Defence Force in the Singapore Armed Forces.

Mr Anthony Tan is the Deputy CEO of SPH since 1 Jul 2016. Prior to SPH, Mr Tan was Deputy Secretary (Policy), Ministry of Health and concurrently Special Assistant to the late Mr Lee Kuan Yew (2011-2014). Including his career in Ministry of Finance, Home Affairs, Manpower, People's Association, Mr Tan has more than 15 years experience in the public sector. Mr Tan oversees SPH's media business (e.g. The Straits Times, Lianhe Zaobao).

Mr Chua Hwee Song joined SPH as CFO on 1 Apr 2018. Prior to SPH, Mr Chua was founder and Managing Director of Tembusu Ventures Pte Ltd and director and Group CFO of CWG International Ltd (2015-2018). Prior to Tembusu, Mr Chua was at the Singapore Economic Development Board.

Figure 4: Major ordinary shareholders as at 14 Jun 2019

Investor	Shares	Stake
Vanguard Group Inc	45.6mn	2.85%
BlackRock Inc	36.0mn	2.25%
Dimensional Fund Advisors LP	20.4mn	1.27%
Norges Bank	18.5mn	1.16%
Toronto-Dominion Bank	17.3mn	1.08%

Source: Bloomberg, Company

Figure 5: Major management shareholders as at 14 Jun 2019

Investor	Shares	Stake
The Great Eastern Life Assurance Co Ltd	3.70mn	22.6%
Oversea-Chinese Banking Corp Ltd	2.75mn	16.8%
NTUC Income Insurance Cooperative Ltd	2.67mn	16.4%
Singapore Telecommunications Ltd	2.18mn	13.3%
DBS Bank Ltd	1.55mn	9.5%
United Overseas Bank Ltd	1.32mn	8.1%
National University of Singapore	0.88mn	5.4%
Fullerton (Private) Ltd	0.66mn	4.0%
Nanyang Technological University	0.66mn	4.0%

Source: Company

As provided by the Newspaper and Printing Presses Act (Chapter 206), SPH has 2 classes of shares (management share, ordinary share). Holders of management and ordinary shares rank pari passu (e.g. dividends) except for voting rights. While each ordinary share is entitled to one vote, each management share is entitled to 200 votes. As such, management shareholders in total control 67.2% of the total votes.

Due to the management shares, Oversea-Chinese Banking Corp Ltd (together with Great Eastern) has an effective vote of 26.5% in SPH.

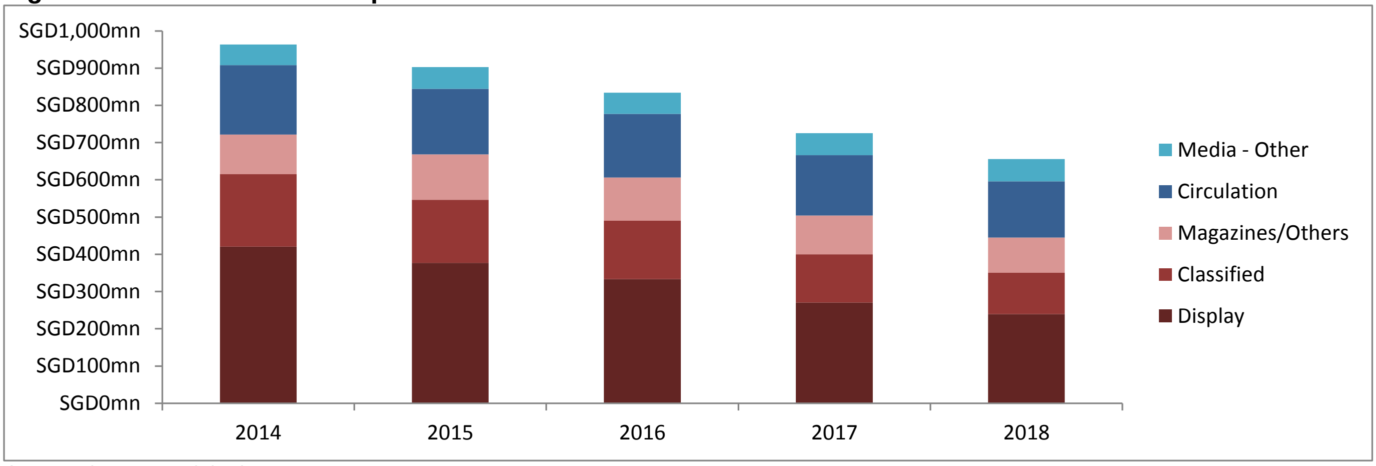
However, we opine that the government can effect changes at SPH's Board of Directors, if it chooses to, as a result of the Newspaper and Printing Presses Act (Chapter 206). We infer that any appointment to SPH's board requires the Minister's approval, as issuance and transfer of management shares require the approval of the Minister (Para 10.1c) and each of the Board of Directors hold management shares. Approval of the Minister is needed to hold or exercise 5% or more total votes in SPH (Para 11.3). In addition, SPH cannot refuse to issue or accept the transfer of management shares after written approval from the Minister (Para 10.2). Notably, all directors of SPH are required to be citizens of Singapore by law (Para 10.1a). We note key members in the senior management of SPH have background in the government or public service.

III) Business Overview & Analysis

Media segment

SPH is the sole provider of all print newspapers in Singapore and publishes 18 newspaper titles. These include The Straits Times, The Business Times, Lianhe Zaobao, Lianhe Wanbao, Berita Harlan/Berita Minggu, Shin Min Daily News, Tamil Murasu, zbComma, Thumbs Up, Thumbs Up Junior, Thumbs Up Little Junior and Balar Murasu. Daily newspaper averages 964k copies, inclusive of 391k daily average digital circulation. SPH owns SPH Magazines Pte Ltd, which publishes over 80 magazine titles in Singapore and regionally. In addition, SPH has 5 radio stations (MONEY FM 89.3, ONE FM 91.3, Kiss92, 96.3好FM, UFM100.3) and SPHMBO, an outdoor advertising arm.

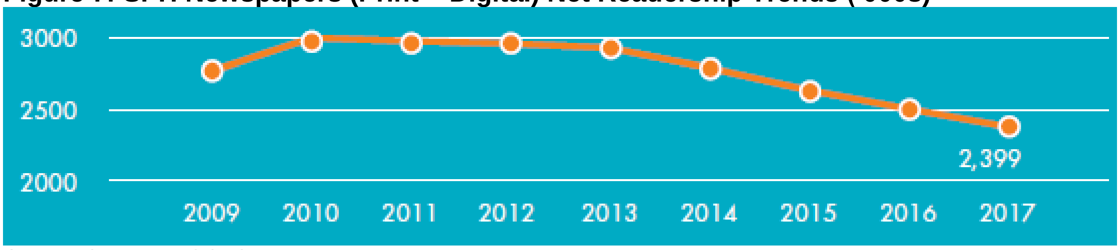
Figure 6: Media revenue composition



Source: Company, OCBC

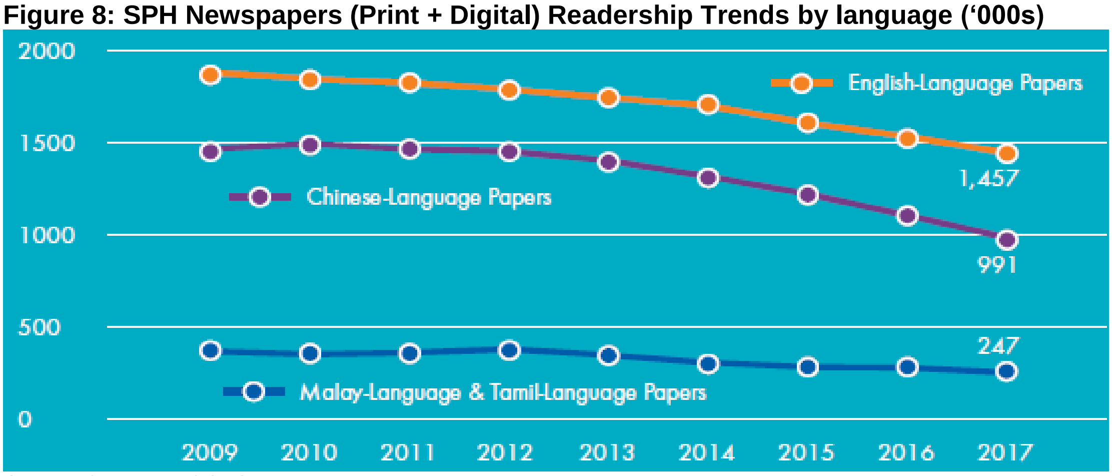
Structural decline in advertising revenue: Revenues from advertising (Display, Classified, Magazines/Others) have seen a quick pace of decline (CAGR over FY2014-18: -11.4%) to SGD445mn in FY2018. In particular, revenues from print advertisement (Display, Classified) declined the most at 13.1% p.a. over FY2014-18. This is due to intense competition from alternative media sources (e.g. social media, Google) as advertisers no longer rely as much on traditional media sources (e.g. newspapers). In addition, readership has fallen to 2.4mn from ~3m seen in 2010-2013, likely due to competition from new media sources. We think the erosion of advertising revenue may continue, albeit at a slower rate of decline.

Figure 7: SPH Newspapers (Print + Digital) Net Readership Trends ('000s)



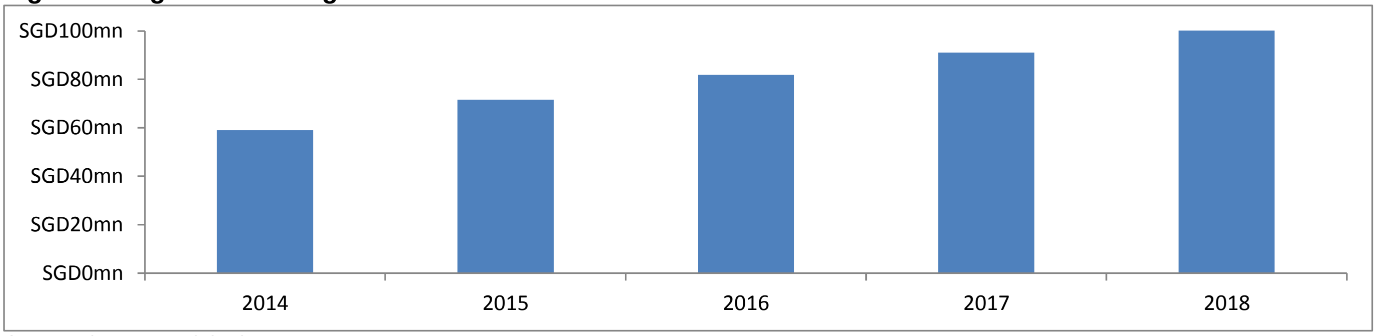
Source: Company, OCBC

Figure 8: SPH Newspapers (Print + Digital) Readership Trends by language ('000s)



Source: Company, OCBC

Figure 9: Digital revenue growth*

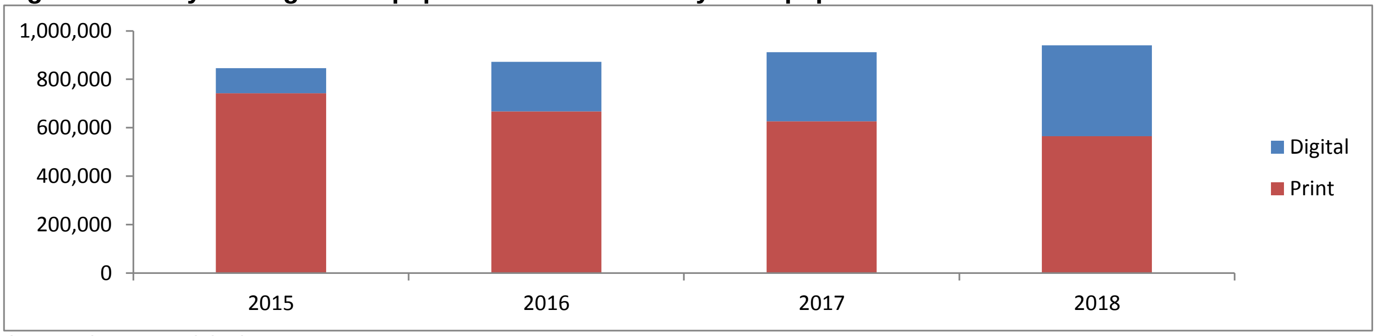


Source: Company, OCBC

**Includes revenue from circulation, advertisements, online classifieds, magazines, Shareinvestor and other digital portals*

Move to digital somewhat alleviates structural decline in advertising: While we do not foresee a rebound in media revenue, the pace of decline appears to be slowing. SPH recorded digital revenue growth of 15% p.a. over FY2014-18. As a result, the total (print + digital) daily average newspapers circulation of key newspapers (Figure 10) has increased over 2015-18 despite the fall in print newspapers circulation. We are also not too concerned from the fall in revenue from circulation of print newspapers because newsprint operating expenditure is also falling. Circulation revenue less newsprint operating expenditure has been steady at ~SGD110mn over FY2014-18.

Figure 10: Daily Average Newspapers Circulation of key newspapers*



Source: Company, OCBC

**The Straits Times, The Business Times, Berita Harian/Berita Minggu, Lianhe Zaobao, Lianhe Wanbao, Shin Min Daily News, Tamil Murasu*

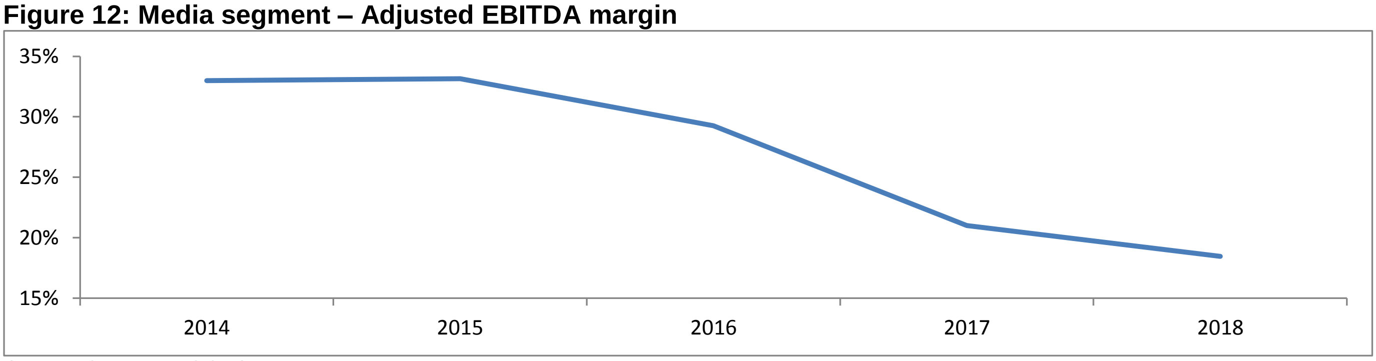
Figure 11: Circulation revenue, newsprint operating expenditure

Amounts in SGD	**2014**	**2015**	**2016**	**2017**	**2018**
Circulation revenue	186mn	176mn	171mn	162mn	151mn
Newsprint operating expenditure	76mn	64mn	57mn	48mn	41mn
Circulation revenue less Newsprint operating expenditure	**110mn**	**112mn**	**114mn**	**114mn**	**109mn**

Source: Company, OCBC

Decline in advertising revenue has significantly hit margins though SPH is not shy from cutting cost: Adjusted EBITDA from the media segment has shrunk to SGD121mn as of FY2018, from ~SGD300mn in FY2014-15. Consequently, adjusted EBITDA margins (Figure 12) of the media segment has come down significantly to ~18% in FY2018, from ~30% in FY2014-15 due to pressure on advertising revenue. In an effort to 'right-size and restructure' the media business which has been facing headwinds, SPH retrenched 130 employees (representing 3% of the manpower) in Oct 2017. This resulted in retrenchment and outplacement costs of SGD6.7mn in FY2017 and we note further retrenchment and outplacement costs of SGD10.8mn in FY2018. Going forward though, the downsizing exercise should reduce operating expenses and signify that SPH is not shy from cutting costs.

Figure 12: Media segment – Adjusted EBITDA margin

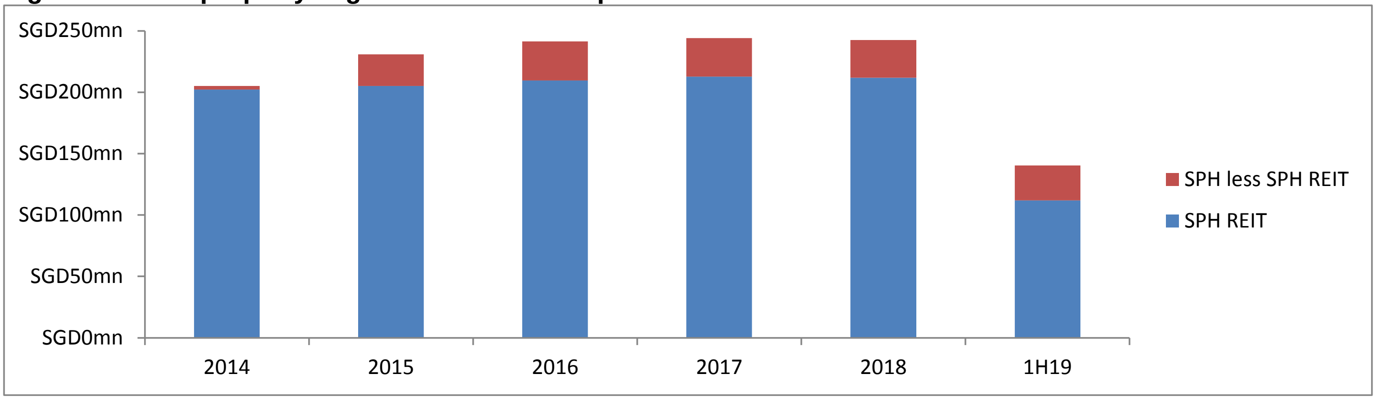


Source: Company, OCBC

Property segment

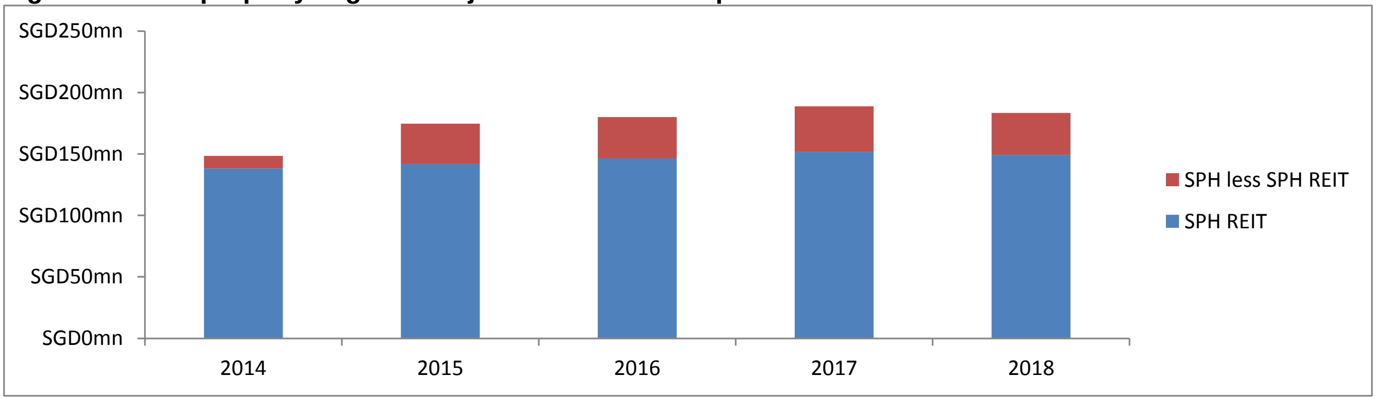
SPH REIT is the single most important asset of SPH: SPH is the sponsor of and owns ~70%-stake in SPH REIT. Listed since 24 Jul 2013 on the SGX with a market cap of SGD2.72bn, SPH REIT is a retail REIT with assets in Singapore and Australia. SPH REIT is the single most important contributor under the property segment, representing ~80% of SPH's revenue from the property segment of SGD140.3mn in 1HFY2019 (FY2018: 87.4%). By Adjusted EBITDA, we estimate SPH REIT contributed ~81% of SPH's property segment total of SGD183.4mn in FY2018. We estimate SPH accounts for 72% of SPH's property assets (2018: 75%).

Figure 13: SPH property segment revenue composition



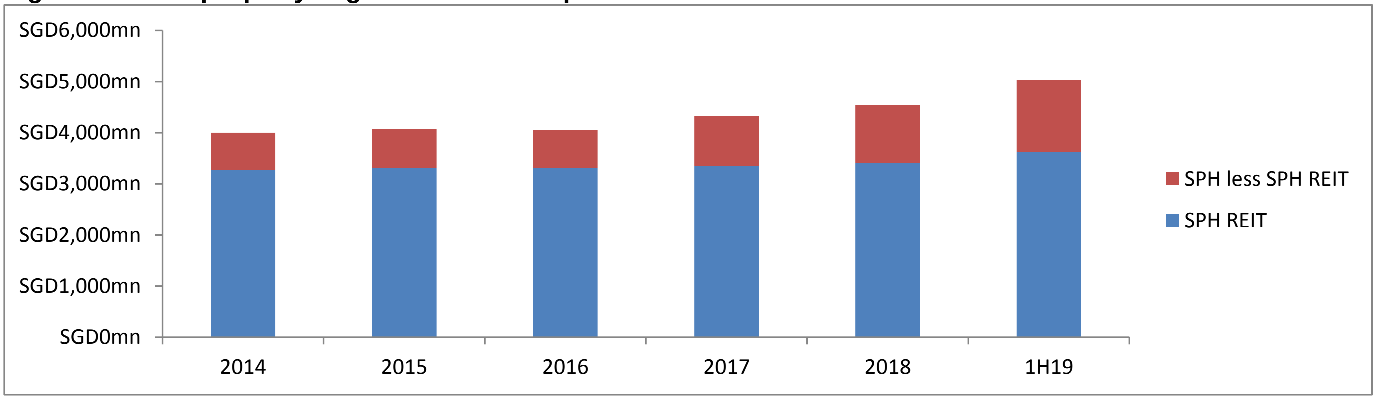
Source: Company, OCBC estimates

Figure 14: SPH property segment Adjusted EBITDA composition



Source: Company, OCBC estimates

Figure 15: SPH property segment asset composition



Source: Company, OCBC estimates

SPH REIT as a source of stability and can be a vehicle for SPH to recycle assets: Annually, SPH REIT upstreams ~SGD100mn dividends to SPH. The dividend stream has been stable and we expect dividends to continue remaining stable with SPH REIT in 2QFY2019 reporting +8.4% rental reversion, 99.2% committed occupancy while aggregate leverage is stable at 30.1%. Potentially, SPH REIT allows SPH to recycle capital. In particular, The Seletar Mall (70%-owned by SPH), valued at SGD342mn (based on 70%-stake), has been highlighted by SPH REIT as a potential acquisition target. SPH REIT has a portfolio WALE by gross rental income of 1.9 years for its Singapore assets. This is in-line with CapitaLand Mall Trust ("CMT") which also has a portfolio WALE by gross rental income of 1.9 years as of 1Q2019.

Figure 16: Key assets of SPH REIT

Asset	Country	Valuation*	Net property income (2QFY2019)	Occupancy (FY2018)	NLA (sq ft)
Paragon	Singapore	SGD2.72bn	SGD34.6mn	99.6%	716,556
The Clementi Mall	Singapore	SGD586mn	SGD7.9mn	100%	195,192
The Rail Mall	Singapore	SGD63mn	SGD1.0mn	94.8%	49,775
Figtree Grove Shopping Centre	Australia	AUD175mn**	SGD2.4mn	98.5%***	236,634

Source: Company, OCBC
** Valuation as of FY2018*
*** Represents the acquisition cost for 85%-stake. Translates to ~SGD166mn. Figtree Grove Shopping Centre was acquired in Dec 2018*
**** As of 21 Dec 2018*

Concentrated to Paragon but comfortable due to decent track record: Paragon accounts for ~75% of SPH REIT's total assets and net property income as of 2QFY2019. That said, we are comfortable with the concentration risks as Paragon has demonstrated a decent track record with nearly full committed occupancy from FY2014-18. Net property income of Paragon has been mostly stable around SGD135mn in FY2016-18 and its occupancy cost as of FY2018 does not look excessive at 18.3%, in comparison to CMT's portfolio occupancy cost of 18.4% in 2018. While FY2018 posted weaker rentals (-3.7% reversion), Paragon recorded a decent 8.6% rental reversion with net property income increasing 0.3% y/y to SGD34.6mn in 1HFY2019.

Figure 17: Key statistics of Paragon

Paragon Statistics	FP2014*	2015	2016	2017	2018
Net property income (SGD mn)	136.7	127.6	132.3	138.3	135.0
Footfall (mn)	18.4	18.8	18.3	18.3	18.8
Tenant sales (SGD mn)	679	657	661	675	693
Occupancy cost	18.10%	19%	19.60%	19.60%	18.30%
Retention rate	82%	65%	71%	83%	83%
Rental reversion	10.50%	9.10%	5.20%	-0.80%	-3.70%
Committed occupancy	100%	100%	100%	100%	100%

Source: Company, OCBC
** FP2014 refers to the financial period from 24 Jul 2013 (listing date) to 31 Aug 2014*

Contribution by The Seletar Mall: Beyond SPH REIT, SPH also holds a 70%-stake in The Seletar Mall (valued at SGD342mn). The Seletar Mall has ~188k net leasable area ("NLA") and has occupancy of 99.5% as of FY2018. The other 30%-stake is owned by United Engineers Ltd. While SPH does not disclose in detail the property statistics of The Seletar Mall, we estimate that The Seletar Mall contributes the majority of the property segment revenue (less SPH REIT's contribution) of ~SGD30mn revenue p.a.

Building up the Purpose-Built Student Accommodation ("PBSA") portfolio for recurring income: SPH ventured into the PBSA sector with the GBP180.5mn (SGD321mn) acquisition of 14 PBSA assets with 3,436 beds in various parts of the UK in Sep 2018. This was followed by acquisition of 116 beds in Feb 2019 (St Marks, UK), GBP22.8mn (SGD40.4mn) acquisition of 264 beds in Mar 2019 (Glasgow, UK) and another GBP133.7mn (SGD236.5mn) acquisition of 20 PBSA assets in 3 cities of the UK with 1,243 beds in Apr 2019. Overall, the PBSA portfolio AUM has grown to exceed SGD600mn. We understand that this is SPH's strategy to 'acquire cash-yielding assets in multiple defensive sectors'. The weighted average occupancy rate of the PBSA portfolio is ~91%. According to Savills, yields average 5.5% on PBSA deals in 2018. Accordingly, we estimate SPH's PBSA portfolio to generate ~SGD33mn net property income p.a. going forward. Post the acquisitions, SPH has grown to become a leading PBSA player in the UK.

Figure 18: Overview of the PBSA portfolio

Cities	No. of assets	No. of beds
Birmingham	1	175
Bristol	2	231
Glasgow	2	264
Huddersfield	3	1,005
Leeds	1	320
Lincoln	1	116
London	2	147
Plymouth	5	1,111
Sheffield	2	1,164
Southampton	1	526
Total	**20**	**5,059**

Source: Company

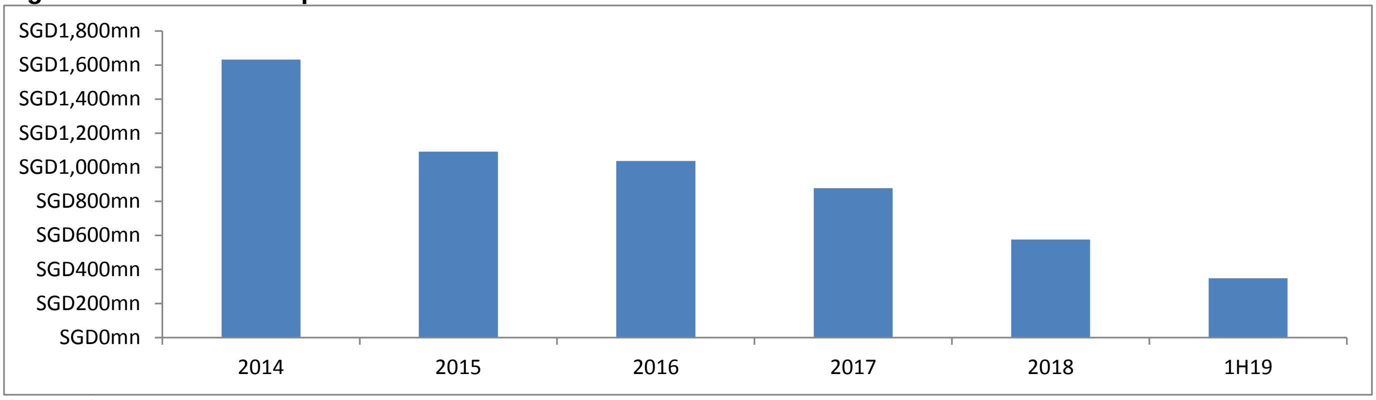
Decent sales rate at the Woodleigh Residences: In a 50-50 JV with Kajima Development ("Kajima"), the JV won the landsite at Upper Serangoon for SGD1.132bn (SGD1,181 psf ppr) in Jun 2017 for an integrated development. The integrated development comprises a 667 residential unit development ("Woodleigh Residences"), which was launched in May 2019. Take-up rates are decent with 106 units sold worth SGD141.8mn at ~1,910 psf, according to URA caveats. The JV will also develop a ~28,000 sqm mall ("Woodleigh Mall") as part of the integrated development. Both Woodleigh Residences and Woodleigh Mall are targeted to complete in 2022. On the balance sheet, the total capital contribution for the integrated development is SGD280mn and we note that SPH has already recognized SGD16.2mn fair value gains.

Staying active on the investment property market: SPH in May 2019 completed the divestment of its 30.68%-stake in Chinatown Point for SGD159.5mn, with a corresponding share of gain of ~SGD10mn. That said, we think such asset divestments is likely one-off, noting that the divestment of Chinatown Point is in conjunction with Perennial Real Estate Holdings Ltd which has the majority stake in the asset. We understand that SPH is still on the lookout for further acquisitions that provide a steady stream of recurring income (e.g. PBSA, retail assets).

Treasury and investment segment

Scaling down the segment: While treasury and investment segment assets were as high as SGD1.91bn in 2014, SPH has been actively scaling down this segment and we estimate that the segment assets has reduced to less than SGD700mn as of 2QFY2019 (without the 13.43%-stake in M1 Ltd). Most of the decline is due to the decline in the investments portfolio. We understand that it is part of SPH's strategy to divest the investments portfolio (estimated: 4%+ yield) to recycle capital into higher yielding assets (e.g. PBSA). We can expect SPH to continue paring down the exposure to the investments portfolio and it should not be a significant contributor anymore going forward.

Figure 19: Investments portfolio



Source: Company

Others segment

The 'Others' segment comprise varied businesses, including Aged Care and investments in the digital space. Contribution from this segment is minimal with revenue of SGD41mn and a loss of SGD4mn in 1HFY2019.

Orange Valley is the more significant asset, which SPH acquired in Apr 2017 for SGD164mn. Orange Valley operates nursing homes and provides a range of ancillary services. As a result of the acquisition, SPH is amongst the largest private sector aged care players in Singapore. However, profitability from Orange Valley is likely to be weak, with net loss of SGD0.5mn from 25 Apr 2017 to 31 Apr 2017.

We understand that the stake in M1 Ltd will be transferred to this segment following the completion of the general offer for M1 Ltd. SPH's original 13.43% stake in M1 Ltd is valued at SGD256.7mn (assuming SGD2.06 per share). We understand that SPH's effective interest in M1 is ~16.14% as of 24 Apr 2019, which is held through SPH's 20%-stake in Konnectivity. The other 80%-stake in Konnectivity is owned by Keppel Corp Ltd. SPH intends to work with Keppel Corp Ltd and M1 Ltd to leverage on synergies.

In the digital space, SPH owns FastJobs, 30%-stake in SgCarMart, 60%-stake in a firm which holds SRX. In addition, under joint ventures, SPH operates AsiaOne, ZomWork, Singapore Media Exchange and Cxense Conversion Engine. In addition, SPH owns 6.3%-stake in Qoo10, following SGD112mn investment in Jul 2015.

We think SPH may continue to invest more in the digital space. According to SPH, its investments in the digital field are based on the target's potential to be the leading player in their respective segment. SPH will also focus on investments with synergies to its Media segment.

IV) Financial Analysis

Lacklustre 2QFY2019 results due to decline in Media: Revenue fell 5.2% y/y to SGD227.8mn with a corresponding fall in operating profit by 8.9% y/y to SGD46.5mn. This is mainly due to lower print advertisement revenue of SGD14.1mn and lower circulation revenue of SGD3.2mn though increased contribution from UK student accommodation (+SGD6.2mn) and Figtree Grove Shopping Centre (+SGD3.2mn) cushioned the fall. We note that both the UK student accommodation and the Figtree Grove Shopping Centre were acquired in 2018. Operating profit fell more than revenue as operating expenses remained stable. While SPH booked SGD11.8mn gain on the sale of Chinatown Point, this was offset by SGD12.9mn fair value loss of SGD12.9mn from expensing of stamp duty for the acquisition of Figtree Grove Shopping Centre. With the investment segment no longer contributing, net profit fell 32.0% y/y to SGD33.8mn.

Recurring income alone from property segment more than covers interest expense: We estimate that SPH REIT upstreams SGD100mn dividends to SPH p.a. In addition, we estimate that the PBSA segment should contribute ~SGD30mn p.a. Assuming The Seletar Mall contributes ~SGD15mn p.a. (4.5% yield on 70% share worth SGD342mn), recurring income from the property segment should amount to ~SGD145mn. This should cover by more than twice the interest expense of ~SGD50mn p.a. and SGD6.75mn distribution to perpetual holders p.a.

Likely to continue acquiring to generate higher returns: Net gearing has increased to 40.5% in 2QFY2019 (4QFY2018: 30.0%). While post 2QFY2019, SGD150mn SPHSP 4.5% PERP was raised and Chinatown Point was divested for SGD159mn, SPH acquired the PBSA portfolio for SGD236.5mn and the JV with Keppel completed the privatization of M1 Ltd (cash outlay not disclosed). As such, we estimate that net gearing is likely to remain around 40% (for now). Going forward, we believe that SPH may continue to acquire more in order to generate higher returns.

Mitigating declines in media by ramping up the property segment: Adjusted EBITDA from the Media segment has more than halved since FY2014 to SGD121mn (2014: SGD307mn) amidst intense competition. We think the decline will continue, albeit at a slower pace as SPH is ramping up on the digital front and cutting costs. Meanwhile, SPH has been active on the acquisition front for investment property recently. We understand that this is part of SPH's strategy to generate higher returns from the property segment so as to fund the dividends amidst weakening results from the Media segment.

Shading dividends lower for sustainability: Dividends have been progressively reduced by ~13% p.a. over FY2016-18 due to weaker results from the Media segment. Potentially, dividends may continue heading lower, noting that 1HFY2019 interim dividend is already 8.3% lower y/y. We see this as a positive sign that the dividend payout is adjusted to a more sustainable level. However, we do not foresee that SPH will cut dividends entirely – as a result distributions to perpetual holders should continue.

No key shareholder: As there is no key shareholder, we do not factor the potential for extraordinary support in times of need. While the government can effect changes at the Board of Directors level through the Newspaper and Printing Presses Act (Chapter 206), we understand that an intention of the Act is a safeguard 'to ensure that the media operating in Singapore play a responsible role and that publishers are accountable for the content they publish', according to a statement from then Ministry of Information, Communications and the Arts (now renamed as Ministry of Communications and Information).

Substantial assets pledged but some financial flexibility remains: ~SGD1.4bn out of ~SGD2.0bn debt is secured over the major assets including Paragon, The Seletar Mall and Figtree Holding Trust. That said, we believe SPH still retains some financial flexibility. We think The Seletar Mall has the potential to be injected into SPH REIT and there is room for SPH to divest/pledge stakes in SPH REIT (SPH's 70% share of market cap: SGD1.9bn). As a testimony to SPH's access to the capital markets, recently SPH issued SGD150mn SPHSP 4.5% PERP, which appears well-received as it has traded higher in the secondary market. A 4-year term loan facility of GBP205mn (~SGD355mn) was also obtained, secured against the PBSA portfolio in UK. SPH also has SGD343.4mn of cash as of 2QFY2019, which covers an estimated SGD220mn current debt due at SPH (less SPH REIT). However, while the bond and loan market appear conducive, we understand that SPH is unlikely to issue new equity given the existence of management shares, noting that Newspaper and Printing Presses Act (Chapter 206) requires the Minister to approve issuance of management shares.

Still manageable credit metrics: Despite increasing net gearing levels, net debt/EBITDA remains healthy at around 4.0x. We think this may increase to 5x-6x levels with further acquisitions and weaker results from the Media segment, which remains manageable. SPH remains cashflow generative, with FCF of SGD104.4mn in 1HFY2019 (2018: SGD242.3mn). This should be nearly sufficient to cover interest payment (~SGD50mn) and dividends (assuming further reduction, 2018 dividends: SGD210mn). EBITDA/Total Interest remains healthy at 9.3x in 1HFY2019.

V) Technical Considerations

Positives

- Highly visible retail presence
- Limited SGD supply of SGD perpetuals/bonds (for now)
- First call, reset and step-up date coincide

Negatives

- Lack of external credit rating
- Weakening Media segment
- Strong run-up in prices

Figure 20: Relative Value

Bond	First Call Date / Reset Date	Step-up Date, rate	Net gearing	YTW	I-spread
SPHSP 4.5% PERP	07/06/2024	07/06/2024, 100bps	40%	3.83%	217bps
FPLSP 4.98% PERP	11/04/2024	11/04/2024, 100bps	87%	4.77%	311bps
WINGTA 4.48% PERP	24/05/2024	24/05/2029, 100bps	4%	4.54%	289bps
MLTSP 3.65% PERP	28/03/2023	Nil	62%	3.86%	224bps

Source: Bloomberg, OCBC

SPHSP 4.5% PERP is trading closest to MLTSP 3.65% PERP. We last rated Mapletree Logistics Trust ("MLT") at Neutral (4) Issuer Profile. We think MLTSP 3.65% PERP provides the lower bound for SPHSP 4.5% PERP as MLT, being a REIT, holds substantially all its assets in investment properties generating recurring income and has an aggregate leverage cap. Conversely, SPH has been leveraging higher while the Media segment is facing headwinds. We note that MLTSP 3.65% PERP has a ~1 year shorter call date than SPHSP 4.5% PERP.

There is no close comparable in the SGD space with lack of peers in the media segment. We compare SPH against property companies as SPH is currently more a property company than a press company. SPH's property segment contributes 72% of total PBIT (before fair value changes) in 1HFY2019 and represents ~76% of SPH's total assets.

Other recent perpetuals in the SGD space include FPLSP 4.98% PERP and WINGTA 4.48% PERP. While both FPL and SPH have majority of their assets in investment properties generating recurring income, SPH has a healthier balance sheet compared to FPL. Between SPH and WINGTA, while WINGTA PERP is senior (compared to SPH's perpetual which is subordinated), we note that SPH has been generating recurring income while profitability at WINGTA is weaker. We last rated Frasers Property Ltd and Wing Tai Holdings Ltd at Neutral (4) Issuer Profile.

While first call, reset and step-up dates coincide for SPHSP 4.5% PERP, we note that deferred distributions are non-compounding. However, we are not overly concerned as we expect SPH to continuously paying dividends; with dividend stopper and dividend pusher in place, distribution payment to perpetual holders should remain consistent. Curiously, a delisting call exists (as opposed to delisting put). However, we are not overly concerned as there is no major shareholder. We understand that attempts to take private the company will require the Minister's approval.

VI) Conclusion & Recommendation

SPH is now more of a property company than a media company with the property segment contributing 72% of SPH's PBIT. SPH is supported by recurring income from its 70%-stake in SPH REIT, which upstreams SGD100mn dividends per year. SPH REIT is a main source of stability, accounting for ~80% of SPH's revenue from the property segment.

While the media segment remains challenged, declines may slow with the move to digital media and reduction in costs. Credit metrics look manageable with net gearing at 40% though SPH may undertake further acquisitions to bolster recurring income. Without a key shareholder, we do not expect the potential for extraordinary support in times of need. That said, we remain comfortable as recurring and healthy cashflows should support SPH's credit profile.

SPHSP 4.5% PERP has done well in the secondary markets and we note it is trading close to MLTSP 3.65% PERP, being a well-known name with limited supply. We see scarcity of papers allowing investors to diversify in the media space.

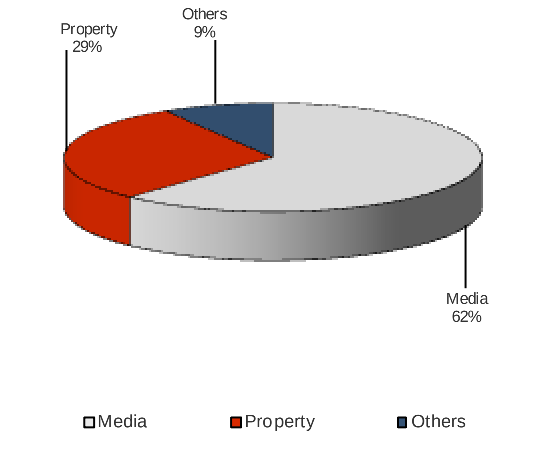
Singapore Press Holdings Limited

Table 1: Summary Financials

Year Ended 31st Aug	FY2017	FY2018	1H2019
Income Statement (SGD'mn)			
Revenue	1,052.0	1,005.7	486.6
EBITDA	473.4	441.1	213.5
EBIT	424.5	398.2	196.3
Gross interest expense	67.5	73.7	22.9
Profit Before Tax	431.5	370.5	120.3
Net profit	395.2	324.0	99.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	312.6	359.5	343.4
Total assets	6,106.4	6,196.7	6,605.1
Short term debt	971.7	294.9	535.4
Gross debt	1,499.7	1,607.4	2,049.6
Net debt	1,187.1	1,247.9	1,706.2
Shareholders' equity	4,223.3	4,228.1	4,213.3
Cash Flow (SGD'mn)			
CFO	296.6	264.9	119.0
Capex	12.8	22.7	14.6
Acquisitions	317.0	350.8	738.6
Disposals	312.4	403.9	328.6
Dividend	316.4	285.3	143.8
Interest paid	-30.3	-35.2	-20.6
Free Cash Flow (FCF)	283.9	242.3	104.4
Key Ratios			
EBITDA margin (%)	44.99	43.86	43.89
Net margin (%)	37.57	32.22	20.47
Gross debt to EBITDA (x)	3.17	3.64	4.80
Net debt to EBITDA (x)	2.51	2.83	3.99
Gross Debt to Equity (x)	0.36	0.38	0.49
Net Debt to Equity (x)	0.28	0.30	0.40
Gross debt/total assets (x)	0.25	0.26	0.31
Net debt/total assets (x)	0.19	0.20	0.26
Cash/current borrowings (x)	0.32	1.22	0.64
EBITDA/Total Interest (x)	7.01	5.98	9.31

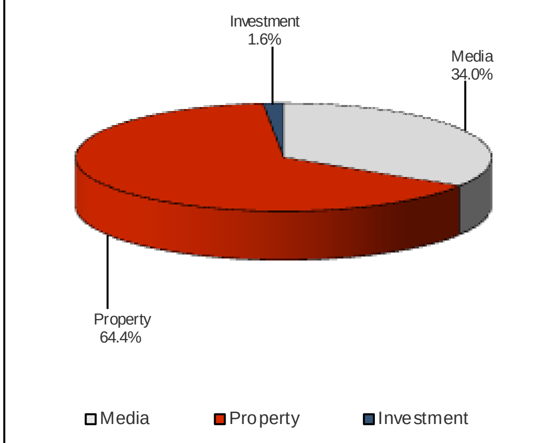
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2019



Source: Company | Excludes Investments

Figure 2: PBT breakdown by Segment - 1H2019



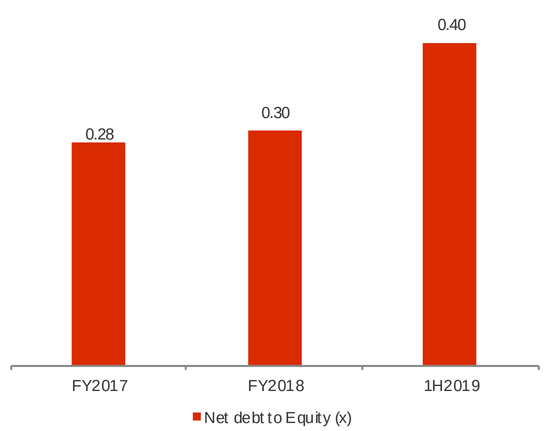
Source: Company | Excludes Others

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	209.9	10.2%
Unsecured	325.5	15.9%
	535.4	**26.1%**
Amount repayable after a year		
Secured	1,183.8	57.8%
Unsecured	330.4	16.1%
	1,514.2	**73.9%**
Total	**2,049.6**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (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.

Please note that Bond Recommendations are dependent on a bond's price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

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.

Disclaimer for research report

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

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

Co.Reg.no.:193200032W