Asian Credit Daily

January 26, 2018

Credit Headlines (Page 2 onwards): Ascendas Real Estate Industrial Trust, ESR-REIT, Mapletree Greater China Commercial Trust, Industry Outlook – Singapore Residential Property, Ascott Residence Trust, Keppel Telecommunications & Transportation Limited, Commerzbank AG, Sabana Shari'ah Compliant Industrial REIT, VIVA Industrial Trust, Keppel Corp

Market Commentary: The SGD swap curve fell marginally yesterday, with swap rates trading 1-2bps lower across most tenors. Flows in SGD corporates were heavy yesterday, with better buying in DBSSP 5.75%-PERPs. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 108bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 332bps. 10Y USTs rose 4bps to 2.67%, on Trump's comment that he "ultimately" wants a strong dollar, coupled with Draghi's conviction that inflation is likely to rise in the medium term. 10Y UST yields however fell to 2.62% towards the closing of the day, due to strong auctions across all Treasury maturities.

New Issues: Cache Logistic Trust has priced its SGD100mn Perp NC5 subordinated bond at 5.5%, in line with its initial guidance of 5.5%. BOC Aviation Ltd has priced a USD300mn 5-year bond at CT5+115bps, tightening from its initial guidance of CT5+130bps area. The expected issue ratings are 'A-/NR/A-'. Export-Import Bank of India has priced a USD1bn 10-year bond at CT10+125bps, tightening from its initial guidance of CT10+150bps area. The expected issue ratings are 'NR/Baa2/BBB-'. FWD Ltd has priced a USD200mn Perp NC5 bond at 5.5%, tightening from its initial guidance of 5.75% area. Tsinghua Uni Ltd has priced a three-tranche USD deal (guaranteed by Tsinghua Unigroup Co Ltd), with the USD900mn 3-year bond priced at 5.125%, tightening from its initial guidance of 5.375%; the USD750mn 5-year bond priced at 5.75%, tightening from its initial guidance of 6%; and the USD200mn 10-year bond priced at 6.875%, in line with its initial guidance of 6.875%. Roshine China Holdings Ltd has priced a USD325mn 3-year puttable 2-year bond (guaranteed by certain of the issuer's restricted subsidiaries outside the PRC) at 9%, tightening from its initial guidance of 9.25%. The expected issue ratings are 'NR/NR/B+'. China Cinda Asset Management Co

Table 1: Key Financial Indicators

	26-Jan	1W chg (bps)	1M chg (bps)		26-Jan	1W chg	1M chg
iTraxx Asiax IG	64	1	-4	Brent Crude Spot ($/bbl)	70.32	2.49%	4.92%
iTraxx SovX APAC	11	0	-3	Gold Spot ($/oz)	1,354.93	1.73%	5.60%
iTraxx Japan	43	0	-2	CRB	199.34	1.53%	4.66%
iTraxx Australia	56	1	-4	GSCI	460.86	2.33%	5.40%
CDX NA IG	46	-1	-3	VIX	11.58	-5.24%	12.98%
CDX NA HY	109	0	0	CT10 (bp)	2.627%	-3.27	15.09
iTraxx Eur Main	44	-1	-1	USD Swap Spread 10Y (bp)	2	-3	5
iTraxx Eur XO	234	1	4	USD Swap Spread 30Y (bp)	-15	-4	9
iTraxx Eur Snr Fin	42	-1	-2	TED Spread (bp)	36	4	0
iTraxx Sovx CEEMEA	42	-1	-2	US Libor-OIS Spread (bp)	23	-2	-3
				Euro Libor-OIS Spread (bp)	1	-1	0
					26-Jan	1W chg	1M chg
				AUD/USD	0.807	0.96%	4.45%
				USD/CHF	0.937	2.71%	5.54%
				EUR/USD	1.245	1.89%	5.02%
				USD/SGD	1.306	1.11%	2.86%
Korea 5Y CDS	46	1	-7	DJIA	26,393	1.44%	6.65%
China 5Y CDS	52	2	1	SPX	2,839	1.47%	5.92%
Malaysia 5Y CDS	56	0	-3	MSCI Asiax	769	1.78%	9.58%
Philippines 5Y CDS	57	1	-3	HSI	33,097	2.61%	11.90%
Indonesia 5Y CDS	80	-1	-6	STI	3,571	0.59%	5.72%
Thailand 5Y CDS	41	0	-5	KLCI	1,846	0.94%	4.89%
				JCI	6,661	2.61%	7.07%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
25-Jan-18	Roshine China Holdings Ltd	'NR/NR/B+'	USD325mn	3-year	9%
25-Jan-18	Tsinghua Uni Ltd	Not rated	USD200mn	10-year	6.875%
25-Jan-18	Tsinghua Uni Ltd	Not rated	USD750mn	5-year	5.75%
25-Jan-18	Tsinghua Uni Ltd	Not rated	USD900mn	3-year	5.125%
25-Jan-18	FWD Ltd	'NR/Ba2/BB+'	USD200mn	Perp NC5	5.5%
25-Jan-18	Export-Import Bank of India	'NR/Baa2/BBB-'	USD1bn	10-year	CT10+125bps
25-Jan-18	BOC Aviation Ltd	'A-/NR/A-'	USD300mn	5-year	CT5+115bps
25-Jan-18	Cache Logistic Trust	Not rated	SGD100mn	Perp NC5	5.5%
24-Jan-18	Central Plaza Development Ltd	'NR/NR/BBB'	USD500mn	3-year	CT3+187.5bps

Source: OCBC, Bloomberg

New Issues (cont'd) : Ltd is said to hire banks for its potential USD bond issuance. Indonesian chemical producer PT Sulfindo Adiusaha has hired banks for its potential USD bond issuance. Bank of New Zealand has scheduled for investor meetings from 12-16 February for its potential USD bond issuance.

Rating Changes: S&P has assigned UTAC Holdings Ltd a corporate credit rating of 'B'. The outlook is stable. The rating action reflects UTAC's sound cost position and profit margins, despite the midsize OSAT company operating in a volatile industry with limited free operating cash flow due to high capital spending requirements. S&P has affirmed its 'AA-' long-term ratings and unsecured issue ratings on Seven & i Holdings Co Ltd, removing it from the CreditWatch list. The outlook on the long-term ratings are negative. The rating action is followed by the announcement that Seven & i would acquire part of Sunoco LP's gasoline retail and convenience store business through its U.S operating subsidiary for North America. The rating action also reflects S&P's expectations that its expanded store network is likely to enhance its convenience store business in North America in the medium term, but key financial ratios will deteriorate temporarily.

Credit Headlines:

Ascendas Real Estate Industrial Trust ("AREIT"): AREIT announced its results for the nine months ended March 2018 ("9MFY2018"). Gross revenue increased 4.0% y/y to SGD646.4mn, driven by contribution from the full nine months contribution of 12, 14 & 16 Science Park Drive in Singapore (completed in February 2017) and 100 Wickham Street in Brisbane, Australia (completed in December 2017) and 50 Kallang Avenue in Singapore which was redeveloped and handed over to a single tenant in June 2017. EBITDA (based on our calculation which does not include other income and other expenses) was up 3.5% y/y to SGD427.5mn while finance cost was relatively steady at SGD81.6mn, resulting in improvement in EBITDA/Interest to 5.2x (9MFY2017: 5.0x). Perpetuals make up only 3.0% of total capital at AREIT as at 31 December 2017. Assuming the REIT pays out SGD14.3mn per annum in perpetual distributions and we take 50% of such distributions as interest, we find adjusted EBITDA/Interest at 4.9x, healthy in our view. As at 31 December 2017, AREIT's reported aggregate leverage was 35.2%, slightly increased from the 33.1% as at 30 September 2017. The REIT had completed the SGD16.7mn sale of No. 84 Genting Lane on 19 January 2018 and is in the midst of acquiring another smaller property 1-7 Wayne Goss Drive in Queensland for SGD30.8mn. We expect aggregate to stay relatively constant given the small transaction size. As at 31 December 2017, AREIT faces significant short term debt due of SGD1.3bn (representing 37% of total debt). About SGD820mn of these comprise revolving credit facilities which in our view is likely to be rolled forward. The remainder is made up of HKD and SGD-denominated bonds and term loan facilities and would need to be refinanced. AREIT is undergoing asset enhancement initiatives and redevelopment of five properties which is estimated to cost SGD74mn (targeted completion in 1QFY2019). Unencumbered properties as a percentage of investment properties was 89.7% (amounting to ~SGD909mn), giving AREIT financial flexibility to raise secured financing, if need be. Net-net, despite the heavy upcoming maturities, on-going capex and acquisition obligations, we see refinancing risk as manageable at AREIT. Total portfolio occupancy was 91.1% for AREIT as at 31 December 2017 (down slightly from 92.0% as at 30 September 2017). This was largely dragged down by Singapore (down 1.3 ppt to 88.8%) and Australia (down 0.2% to 98.5%). Noticeably, 11 out of the 23 multi-tenanted Science Parks/Business Parks in Singapore saw a decline in occupancy as at 31 December 2017 versus the previous quarter while 7 stayed flat. Australia now makes up 16% of portfolio valuation (14% as at 31 December 2017) and we expect to see an uptick from Australian contribution. On 25 January 2017, it was announced that Mr William Tay will be appointed on 1 February 2018 as the new CEO of AREIT's REIT Manager and Executive Director of the board. Mr Tay is currently the Deputy CEO, Singapore and Southeast Asia and CEO, South Korea of the Ascendas-Singbridge Group (the parent company of AREIT's REIT Manager). We maintain AREIT's issuer profile at Neutral (3). (Company, OCBC)

ESR-REIT ("EREIT"): On 26 January 2018, EREIT's shares have been put on trading halt, pending release of an announcement. The shares of VIT, a peer to EREIT has also been halted. As per Bloomberg, EREIT is in talks with VIT on a possible merger. We maintain EREIT's issuer profile at Neutral (4) and would review this should this information be substantiated. (Company, Bloomberg, OCBC)

Credit Headlines (cont'd) :

Mapletree Greater China Commercial Trust ("MAGIC"): MAGIC reported 3QFY2018 results for the quarter ended 31st Dec. Revenue and net property income were relatively flattish y/y at SGD88.5mn and SGD71.4mn respectively. This is a result of the increase in revenue at Gateway Plaza (+12.9% y/y to SGD21.0mn) being counteracted by the fall at Festival Walk (-2.3% y/y to SGD61.5mn). The decline in Festival Walk is not a concern though, as it was due to the weaker HKD against SGD while higher rents were recorded in local currency terms. Overall, occupancy remained resilient at Festival Walk (100%) though some weaknesses was seen at Gateway Plaza (lower by 1.8pp q/q to 94%), which is likely due to the office supply pressure. Nevertheless, we think that the portfolio remains intact as reversions continued to post healthy positive prints at Festival Walk (+10% YTD) and Gateway Plaza (+9%). Management continues to guide a higher rental rate for the full FY2018 results. 3QFY2018 retail sales and footfall increased 6.4% y/y and 4.2% y/y respectively, which appears in-line with the good prints from Hong Kong retail sales in Oct 2017 (+3.9%) and Nov 2017 (+7.5%). MAGIC has also refinanced HKD1.9bn of debt early in 3QFY2018, with minimal maturities due by FY2019 (HKD455mn out of HKD13.9bn total debt). However, asset leverage inched up to 39.3% (2QFY2018: 38.5%) as gross debt increased. Reported interest cover remains decent at 3.9x (2QFY2018: 3.9x). Overall, credit metrics remain manageable and as such we continue to hold MAGIC at a Neutral (4) Issuer Profile. (Company, OCBC)

Industry Outlook – Singapore Residential Property: Private residential property prices rose 0.8% q/q, according to 4Q2017 URA real estate statistics. The increase is broad-based, across core central region (+1.4%), rest of central region (+0.4%) and outside central region (+0.8%). Developers appear to be holding back launches, with only 877 launched (3Q2017: 1,183), compared to the 6,020 units launched in 2017 (2016: 7,877). We think the lower launches impacted property sales, which declined to 1,864 (3Q2017: 2,663). The number of unsold units increased to 18,891 (3Q2017: 16,031, which is largely due to the increase in the number of units without pre-requisites for sale to 14,504 (3Q2017: 9,448)). Excluding the units that have not been launched, the launched but unsold units declined to only 1,504 units (3Q2017: 2,223). Despite the decline in vacancy rates by 0.6pp q/q to 7.8%, rents still fell 0.9% q/q. While the rental outlook remains uncertain, we continue to hold the view that property prices should continue to trend higher (refer to Singapore Credit Outlook 2018) with the overall URA data still looking supportive of the property market. (URA, OCBC)

Ascott Residence Trust ("ART"): ART announced financials for the financial year 2017. Gross revenue was up 4.4% y/y to SGD496.3mn while gross profit was up 2.0% y/y to SGD226.9mn. Growth in gross profit was driven by a SGD6mn increase from properties under Master Lease (eg: acquisition of Ascott Orchard Singapore ("AOS") completed in October 2017) and SGD1.1mn from management contracts with minimum guaranteed income. This was partly offset by a SGD2.6mn decline in Management Contracts (absence of revenue from 18 rental housing in Japanse that was sold, weaker underlying performance of Japan properties). EBITDA (based on our calculation which does not include other income and other expenses) increased 2.3% y/y to SGD212.3mn. Finance cost declined 6.7% y/y to SGD46.7mn mainly due to refinancing at lower interest rates and repayment of bank loans with proceeds from divestment. This resulted in a stronger EBITDA/Interest of 4.5x against 4.1x in FY2016. Perpetuals make up 7.8% of total capital as at 31 December 2017. Assuming ART distributes SGD19.2mn in perpetual distributions and taking 50% of these as interest, we find adjusted EBITDA/Interest of 3.8x. As at 31 December 2017, reported aggregate leverage was manageable at 36.2%. Assuming 50% of perpetuals as debt, we find adjusted aggregate leverage at 39%. ART expects reported aggregate leverage to decrease to 34.5%, following the divestment of two China properties, namely, Citadines Biyun Shanghai and Citadines Gaoxin Xi'an in January 2018 where gross proceeds are expected to be used for debt repayment. As at 31 December 2017, SGD264.3mn of short term debt is coming due in the next 12 months (representing only 14% of total debt). Of these, ART's JPY5.0bn bonds (~SGD61mn) is due in September 2018 while the SGD-denominated SGD100mn bond is due in November 2018. Another SGD104mn is made up of bank loans. As at 31 December 2017, secured debt made up 17% of total gross debt and we see refinancing risk as manageable. In FY2017, 57% of rental income is derived from customers staying one week or less (excluding properties on Mater Leases and the Japanese rental housing properties which were divested in April 2017). In FY2016, customers staying one week or less only made up 53% of the total. The key target guest pool for AOS (valued at SGD407mn) are likely short-stay as well though this property is underpinned by a Master Lease with ART's Sponsor (ie: Sponsor bears market risk on this property rather than ART). We maintain ART's issuer profile at Neutral (4). (Company, OCBC)

Credit Headlines (cont'd) :

Keppel Telecommunications & Transportation Limited ("KPTT"): KPTT announced its full year results for the financial year ended December 2017 ("FY2017"). Consolidated gross revenue declined 9.1% y/y to SGD177.0mn mainly due to lower revenue from the Singapore warehousing business (within the Logistics Division) and reduction of revenue following the disposal of Keppel DC Singapore 3 Pte Ltd and Keppel DC REIT Management Pte Ltd. EBITDA (based on our calculation excluding other income and other expenses) was down 55.6% y/y to SGD15.2mn, this was driven by the absence of one-off gains (2016 recorded a significant gain from the 50% disposal of Keppel DC REIT Management Pte Ltd), resulting in a lower EBITDA/Interest of 1.3x versus 2.7x in FY2016. KPTT receives significant cash dividends from associates, including from M1 Ltd (Singapore's third largest telecommunications company) and Keppel DC REIT. In FY2017, such dividends amounted to SGD46.9mn (FY2016: SGD47.7mn). Including these dividends into EBITDA, we find adjusted EBITDA/Interest at 5.4x (FY2016: 6.4x), still healthy in our view. KPTT's Logistics Division reported revenue of SGD141.2mn in FY2017, down 3.3% y/y. Profit before tax though improved significantly to SGD16.8mn (versus a loss before tax of SGD19.8mn in FY2016). In FY2016, the Logistics Division recorded an impairment loss on fixed asset (largely properties in China). In contrast, in FY2017, the Logistics Division recorded a fair value gain on other investments. We think this one-off gain of SGD16.2mn was driven by gains from the announced sale of KPTT's stake in Asia Airfreight Terminal ("AAT"). AAT was originally recorded as an associated company but reclassified to other investments in FY2017. The sale has yet to complete as at end-FY2017. Removing the one-off gain in FY2017, the Logistics Division would have shown a loss before tax of SGD0.1mn (a more representative picture of the Logistics Division). The division is undergoing cost-cutting measures and has appointed a financial adviser for its on-going strategic review of its China portfolio. Profits at KPTT's Data Centre Division is driven by share of results of associated companies and joint ventures, chiefly, this includes KPTT's 30%-stake in Keppel DC REIT. In FY2017, the Division reported profit before tax of SGD28.2mn versus FY2016's SGD121.4mn (driven by one-off gains from disposal of subsidiaries). In FY2017, Investments contributed SGD26.8mn to profit before tax, down 6.4% y/y mainly due to lower contribution from associated companies including M1 Ltd. In FY2017, M1 Ltd's reported EBITDA and profit before tax declined 3.1% and 8.9% respectively and directionally M1 Ltd is increasingly challenged by new entrants. As at 31 December 2017, KPTT's net gearing was manageable at 0.4x (31 December 2016: 0.5x) though we expect debt levels to increase as KPTT funds its commitments progressively (chiefly, commitments to Alpha Data Centre Fund, a private equity fund focusing on data centres formed with its sister company, Alpha Investment Partners). We maintain KPTT's issuer profile at Neutral(4). (Company, OCBC)

Commerzbank AG (CMZB): CMZB's Equity Markets & Commodities ('EMC') division has reportedly attracted buying interest from Goldman Sachs, Barclays Bank and Société Générale SA. The EMC division sits within CMZB's Corporate Client segment and is reported separately currently as it is targeted for sell off in the medium term according to CMZB. EMC contributed around 4% of CMZB's total revenues for 9M2017 (ended September 2017). Given the small contribution to the overall group and that it is already held for sale and consistent with CMZB's strategic focusing, the news does not alter the Neutral (4) Issuer Profile on CMZB. (Company, OCBC)

Credit Headlines (cont'd) :

Sabana Shari'ah Compliant Industrial REIT ("SSREIT"): SSREIT announced full year results for 2017. Gross revenue was down 7.2% y/y to SGD85.2mn driven by non-recognition of revenue from 1 Tuas Avenue 4 and 6 Woodlands Loop (collections of income from these master tenants no longer probable), lower contribution from 39 Ubi Road 1 (converted into a multi-tenanted property), absence of revenue from properties divested in FY2016, lower contribution from five other properties which was offset by higher contribution from 9 Tai Seng. Manager fees and trustee fees saw a 30.6% and 6.8% decline respectively as the REIT Manager chose to forego 75% of its fees in 1Q2017 and 25% in 2Q2017. The lower total assets from asset disposals and asset corrosion also caused fees to decline in FY2017. Consequently, the decline in EBITDA (based on our calculation that excludes other income and other expenses) was narrower, down 3.7% y/y to SGD49.3mn. Finance cost was only SGD17.2mn in FY2017, down 18.5% due to lower debt balance following the repayment of debt from gross proceeds raised from the rights issue in 1QFY2017. Resultant EBITDA/Interest improved to 2.9x (FY2016: 2.4x). As at 31 December 2017, reported aggregate leverage was 38.2% (30 September 2017: 36%), this was driven by increased in borrowings to fund capex for 10 Changi South Street 2 as well as asset corrosion of the portfolio. SSREIT's portfolio had declined 3.6% from end-2016. Taking out 10 Changi South Street 2 (which had underwent capex improvements, the portfolio value declined 4.8%). As at 31 December 2017, investment properties were valued at SGD942.4mn. One property which is vacant currently is being planned to be divested in 1H2018. Excluding this property, leases on 42% of SSREIT's portfolio by net lettable area will come due by end-2018. Out of the six master leases coming due, SSREIT is in the process to renew five of them while the remaining one may be divested or converted into multi-tenanted. 42% of these (17.7% of total portfolio) is Master Leased to Sponsor related companies. These are likelier to be renewed by Sponsor, ceteris paribus. Looming lease expiries is the biggest credit risk to SSREIT in our view, though assuming a 30% decline in EBITDA, SSREIT's interest coverage should still hold up at ~2.0x. As at 31 December 2017, SSREIT faces SGD117.5mn in short term debt due (representing 32% of total debt) while cash balance was minimal at SGD7.7mn. In November and December 2017, SSREIT had secured new debt facilities amounting to SGD130mn and these would mainly be used to refinance debt due in 2018. We see SSREIT's refinancing risk as significantly lowered (including for the SSREIT'18s) following the obtainment of bank debt. Bringing in needed stability post-events of 2017, Mr. Donald Han has been appointed as new CEO of SSREIT as at 25 January 2018 while two new Independent Directors have also been appointed. Mr Han, who would be assuming his new role with immediate effect has more than 30 years of experience in the real estate industry. Mr. Han's experience include Vice Chairman of Cushman & Wakefield Singapore, Special Advisor of HSR Global Ltd and Managing Director of Chesterton Singapore Pte Ltd. We maintain SSREIT's issuer profile at Neutral (5).

Credit Headlines (cont'd) :

VIVA Industrial Trust ("VIT"): VIT announced its financials for 2017. Gross revenue was up 17.4% y/y to SGD111.7mn, driven by the acquisition of 6 Chin Bee Avenue (completed in January 2017) and the full year contribution from 30 Pioneer Road (acquired in April 2016), higher contribution from VIVA Business Park and UE BizHub and was partly offset by lower rental contribution from Jackson Square. Taking out the impact of 6 Chin Bee Avenue and 30 Pioneer Road, we find gross revenue to have increased 8.6% y/y. REIT Manager and Trustee fees increased 41.9% and 6.0% y/y respectively, driven by higher distributable income and performance fee of SGD1.2mn which was absent in FY2016. EBITDA (based on our calculation which does not include other income and other expenses) increased 17.3% y/y to SGD72.9mn. Despite interest expense incurred due to additional debt (to part fund asset enhancement initiatives at VIVA Business Park and the two acquisitions), overall finance expense was lower as VIT took on higher debt transaction fees in FY2016, resulting in a 5.5% decline in finance expenses to SGD20.5mn. Consequently, EBITDA/Interest improved to a healthy 3.6x (FY2016: 2.9x). As at 31 December 2017, reported aggregate leverage inched higher to 39.8% (30 September 2017: 39.6%) while secured debt made up 32% of total assets. The ability of VIT to take on further secured debt is constrained versus the rest of the Industrial REITs under our coverage. By percentage contribution to net property income, business parks made up 51% in FY2017 (up from 43% in FY2016). Amidst the continued weaker industrial market in FY2017, we take some comfort that VIT's portfolio valuation only declined 0.8% on a same-store basis. Noticeably, 11 Lorong 3 Toa Payoh (Jackson Square) took a SGD6.8mn hit in valuation. Earlier in April 2017, the rental support provider and integrated facilities manager went into liquidation. Settlement had been reached between the parties though the property occupancy took a hit (attributing to the decline in gross revenue by SGD1.2mn). Additionally, the decline in valuation is likely also driven by time decay. The only short term debt due at VIT in the next 12 months is the SGD100mn bond due in September 2018. We see manageable refinancing risk at VIT and are Overweight the VITSP'18s (spread of 228bps). On 26 January 2018, VIT requested for a trading halt pending release of an announcement. Similarly, the shares of ESR-REIT, a peer to VIT, has also been halted. Per Bloomberg, VIT is in talks with ESR-REIT on a possible merger. We maintain VIT's issuer profile at Neutral (5) and would review this should this information be substantiated. (Company, Bloomberg, OCBC)

Credit Headlines (cont'd) :

Keppel Corp ("KEP"): KEP reported 4Q2017 and full-year 2017 results. The focus would be KEP's provisioning of USD422mn in fines relating to the Brazil corruption scandal (refer to OCBC Asian Credit Daily (2 Jan 2018)). As previously guided, KEP had taken SGD619mn in charges under its offshore marine ("O&M") segment to cover the financial penalty as well as related legal, accounting and forensic costs (aside from our prior expectations of ~SGD570mn for the fine, the balance ~SGD49mn were related expenses). Aside from this, KEP took a further SGD81mn in provisions on its Sete Brasil projects (KEP had previously taken SGD230mn in provisions over Sete Brasil in 4Q2015 and had last commented during 3Q2017 that provisions were adequate) as well as SGD54mn in impairments over other O&M assets (management had commented that these were related to a yard closure, impairments on an associate as well as provisions for doubtful receivables). These factors drove the O&M segment to a pre-tax loss of SGD872mn. Should the one-off financial penalty be excluded, the O&M segment would have still generated SGD253mn in pre-tax losses (versus SGD142mn pre-tax loss seen in 4Q2016). Aside from the provisions and impairments mentioned earlier, KEP had been impacted by the lower volume of work executed (segment revenue had declined 38.8% to SGD490mn). On the bright side, segment revenue finally shown q/q increase (3Q2017: SGD380.6mn). Looking forward, though crude oil prices have rallied sharply through 2H2017, we continue to expect demand for new drilling assets to be weak, due to the sizable supply overhang of drilling rigs in the market. Utilization of existing assets have to climb more meaningfully before new orders start to flow. Net value left for execution, for deliveries due 2018, are weak at SGD191mn. Net value left for 2019 deliveries are slightly better at SGD583mn, though still low relative to historical numbers. In aggregate, O&M orderbook stands at SGD3.9bn (as of end-2017, excluding the Sete Brasil contracts), actually improving over SGD3.7bn a year back. KEP had been able to win SGD1.2bn in non-drilling contracts during 2017, largely relating to LNG and FPSO. Though the near-term outlook remains weak for the segment, there is finally some upside risk. Asset owners are finally bottom fishing, being emboldened by stronger crude oil prices to acquire assets on the cheap. We have seen this during March 2017 with Borr Drilling Ltd ("BORR") acquiring 5 jack-up rigs from KEP, which were previously contracted by Transocean. BORR had also made purchases from Sembcorp Marine, and the media had reported BORR being interested in other six jack-up rigs from KEP (refer to OCBC Asian Credit Daily (22 Jan 2018)). This has two impact on yards like KEP: 1) allows for monetization of inventory and free up capital, 2) reduces transaction completion uncertainty if the original client is stressed. The downside is that the transactions may be done at a loss, such as seen in the Sembcorp Marine transaction (refer to OCBC Asian Credit Daily (1 Nov 2017)). In aggregate, we expect O&M contributions to revenue and profit to remain weak for 2018, though with some room for upside. Property segment sales fell 26.0% y/y to SGD432mn for the quarter (also down q/q), with about 1,690 units sold during the quarter, ~SGD800mn in sales value. Sales per unit sold was lower versus 9M2017, potentially due to the shift in product mix with KEP selling 270 units in Indonesia during 4Q2017. For the full year, 5,480 units were sold (2016: 5,720 units) with fewer sales seen in Vietnam (due to the timing of launches) and China (due to tightening measures). Interestingly, sales in Singapore were flat at 380 units for the year (80 units in 4Q2017). KEP had moved units at Reflections at Keppel Bay (31 units) as well as Highline Residences (44 units). As previously disclosed, KEP intends to launch the Serangoon North Ave 1 plot (60% stake, 613 units with 462,561 sqft) in the middle of 2018 with a target completion of 2021. Property pre-sales are healthy, with SGD2.4bn across 7,740 oversea units to be recognized over 2018-2020. The pipeline remains healthy, with 63,000 homes, of which 16,780 are ready to launch through end-2020 (~37% in Vietnam, ~32% in China). Segment pre-tax profits increased 23.6% y/y to SGD366mn (4Q2016: SGD296mn), benefitting from property sales recognized and revaluation gains on its investment properties (SGD177.9mn gain, up from SGD63.7mn seen in 4Q2016). Infrastructure segment performance remained firm, seeing revenue increase 14.9% y/y to SGD593mn (though it dipped slightly q/q). The segment benefited from both revenue recognition on their desalination project (~30% complete) as well as the domestic power and gas business recovering. Segment pre-tax profits surged 75% to SGD49mn, driven by fair value gains on investment. Investments contributed pre-tax profits of SGD46mn for the quarter. In aggregate, KEP generated SGD1.54bn in sales for 4Q2017, a decline of 20.4% y/y, due to the slump in profits at both O&M and Property. The financial penalties drove KEP to a group net loss of SGD499.4mn (4Q2016: SGD151.2mn net profit). For the full year, KEP generated SGD5.96bn in total revenue (-11.9% y/y) and SGD217.2mn in net profit (-73.6%). Excluding the financial penalties, management cited SGD836mn in net profit (+1.7% y/y). Cash flow generation for the year was strong with SGD1377.5mn in operating cash flow generated, while free cash flow stood at SGD984.5mn. KEP had also generated SGD704.3mn in cash from the disposal of varies subsidiaries (such as the property related ones mentioned in 3Q2017). KEP paid down SGD1007mn in net debt during the year, as well as paid out SGD390.1mn in dividends. In aggregate, KEP increased cash balance by SGD280.8mn to SGD2.24bn. This allowed net gearing to fall further to 46% (3Q2017: 50%). That said, it should be noted that the financial penalties (~SGD570mn) have been charged, but not yet paid out. 37.5% is expected to be paid in 1Q2018, 50% in 2Q2018 and 12.5% in 3Q2018. KEP had also decided to pay an increase in dividends, having declared SGD254.6mn in final dividends. Factoring both the full financial penalty amount, as well as the dividends to be paid, pro-forma net gearing would be ~53%, which is still manageable in our view. We note as well that the Keppel China Marina Holdings divestment (with an expected divestment gain of ~SGD290mn) is still pending. Near-term borrowings of SGD1.7bn is heavy, but manageable given KEP's cash balance. In general, we do not expect KEP's credit profile to deviate greatly from current levels, and hence will retain our Neutral (3) Issuer Profile. (Company, OCBC)

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