Asia Credit Research

Singapore Mid-Year 2016 Credit Outlook

Monday, 11 July 2016

- **Higher 1H2016 issuance volume for the SGD bond market was primarily due to SGD1.7bn of issuance from Housing & Development Board. Otherwise, underlying issuance was slightly weaker y/y and in line with our expectations.**
- **The issuance outlook for 2H2016 remains clouded and will be driven by fundamental considerations, including the ongoing fallout from Brexit. That said, volumes are likely to be supported by elevated refinancing requirements and less concern on duration risk.**
- **The credit outlook is influenced by ongoing weak macro conditions that should continue to support selective investor behavior although we do expect to see pockets of risk-on sentiment driven by technical considerations rather than fundamentals including the search for yield and ample market liquidity.**
- **We are resuming coverage on financial institutions at a time when they are facing weakening profitability and rising capital requirements. These are conspiring to restrict banks' ability to support an economic recovery.**
- **REITs have continued to be opportunistic issuers, seeking to extend their maturity profile or manage their aggregate leverage (via hybrid securities). The domestic commercial real estate environment remains tricky, with REIT managers preferring occupancy over defending rentals.**
- **Though general private residential prices continued to dip during 1H2016, CCR and RCR regions saw gains during the period. Secondary transactions have also continued to pick up. Though supply of new units remains challenging, there are signs that developers and buyers have reached a new equilibrium, with future sales a positive for credit profiles.**
- **The Chinese government's stimulus for the housing sector has led to broader based improvement in sales volume beyond the top tier cities. We expect policy stances to remain favourable (especially in cities where de-stocking remains a policy target). Technical factors are likely to remain supportive for the pre-existing SGD papers in the China property space due to the rise of alternative funding sources (eg: in the onshore bond market).**
- **Core portfolio of investment properties (particularly in the office space) continue to provide a moat against the slowdown in residential and retail sectors in Hong Kong, two sectors which we think are exposed to further downside risk.**
- **Though energy markets have stabilized after the turbulence of 1Q2016, reduced planned spending by clients mean a continued lean year for offshore marine issuers. As such, credit profile deterioration is expected to persist. Issuers have gone through operational restructuring and some have commenced balance sheet restructuring as well.**

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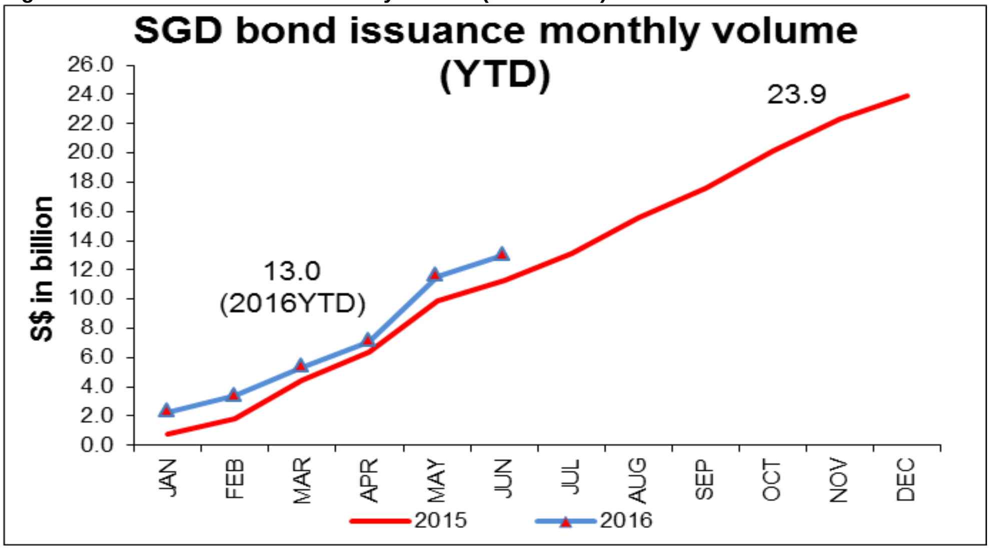
1H2016 Singapore Corporate Bond Market Review

Strong pick in overall issuance volume

New issuance volume in the SGD bond market in 1H2016 finished ~15% higher than 1H2015 with bond issuance picking up in the later part of 1H2016 after a somewhat slow start. The pickup was due to the front loading of issuance by Housing & Development Board (HDB) who took advantage of their ‘AAA’ rating to raise bonds ahead of potential US rate hikes, the likelihood of which have since diminished following the release of disappointing non-farm payrolls in May, still sluggish global economic growth and more recently the UK’s potential exit from the EU. Excluding HDB’s issues, overall issuance volume was broadly weaker to stagnant as expected reflecting selective investor activity and a generally risk-off sentiment with stronger demand for safer assets amidst the build-up of volatility prior to the UK referendum.

Figure 1:SGD bond issuances monthly volume (cumulative)

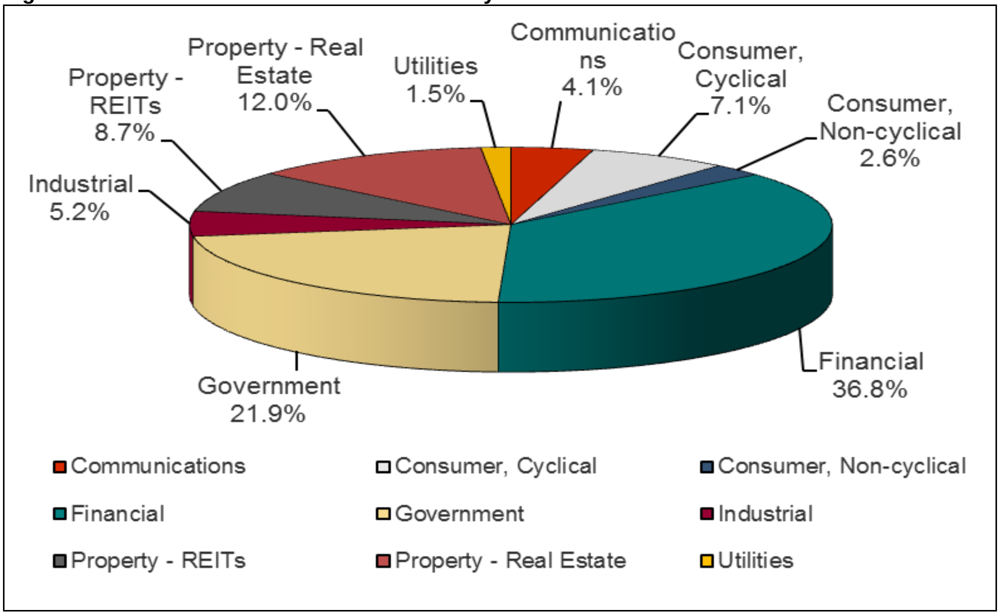


Source: OCBC, Bloomberg

Sector trends shift more in favour of financials and government issuers

Issuance by sector was also in line with expectations as supply moved up the credit curve with strong issuance volumes from financial and government issuers. Financial issuers contributed 37% of the total issuance in 1H2016, an increase from 18% last year due to bank’s rising capital requirements and investor’s strong demand for bank papers given they are rated and have attractive yields. Of interest was the diversity of financial issuers and instruments with banks from Singapore, Europe, Japan and Australia issuing instruments across the capital structure. The property sector including REITs also continued to be a solid source of supply for new issues comprising 21% of new issues, lower than the 31% in 1H2015 due to weaker operating conditions in Singapore and tepid demand for capital in the sector. Government issuers (mostly HDB) comprised 22% of total issues.

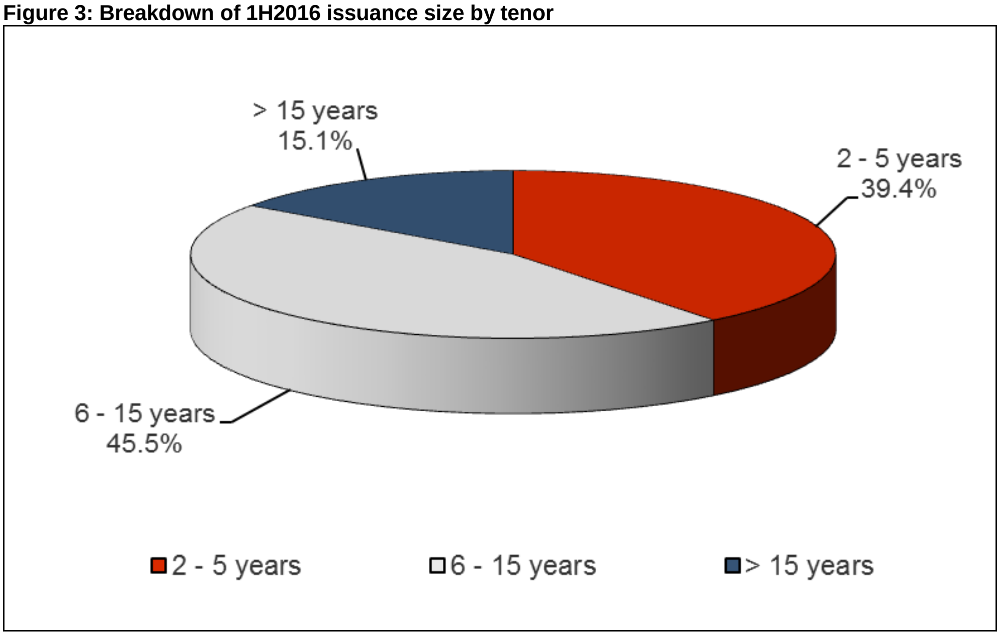
Figure 2: Breakdown of 1H2016 issuance size by sector



Source: OCBC, Bloomberg

In terms of tenor, the shift towards longer-dated papers has continued with average tenor increasing to 6.5 years in 1H2016. The proportion of shorter-dated papers (2Y-5Y) fell to 39% in 1H2016 compared to 50.0% in the first half of 2015 while longer dated papers (6Y-15Y) contributed 45% of total issues in 1H2016, up from 35% in 1H2015. The declining proportion of shorter-dated paper in 1H2016 continues to reflect the increasing difficulty for high yield issuers who typically issue shorter tenor paper to tap the market. It also reflects to an extent investors' increasing comfort with duration in search for better yields as expectations for near term rate hikes fade. To this end, 4 companies successfully issued perpetual securities in 1H2016 raising a total of SGD1.6bn to meet liquidity or capital needs and locking in interest rates at 4-6%: Frasers Hospitality REIT (SGD100mn), Mapletree Logistics Trust (SGD250mn), Hyflux Ltd (SGD500mn) and United Overseas Bank Ltd (SGD750mn).

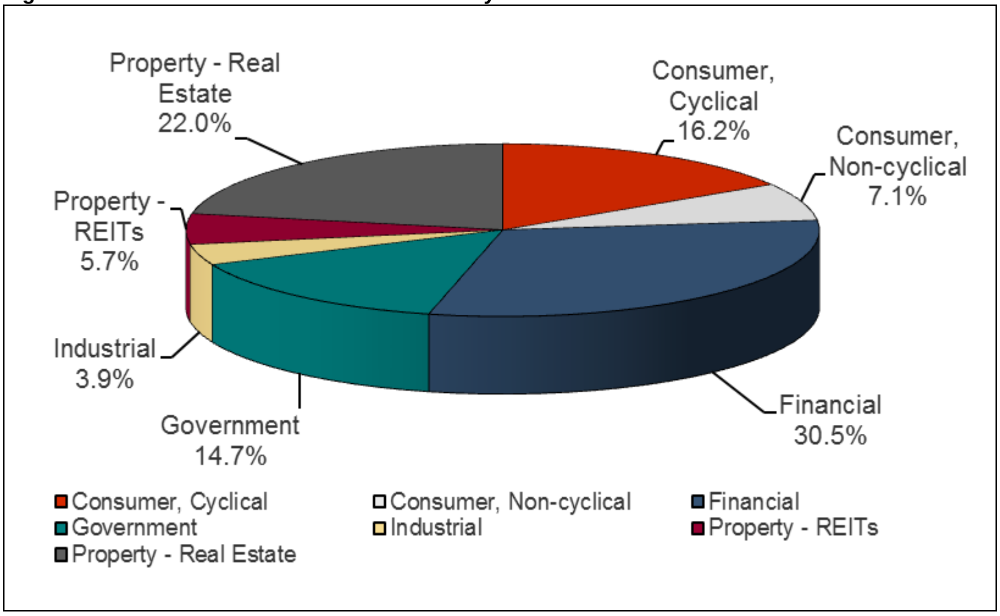
Figure 3: Breakdown of 1H2016 issuance size by tenor



Source: OCBC, Bloomberg

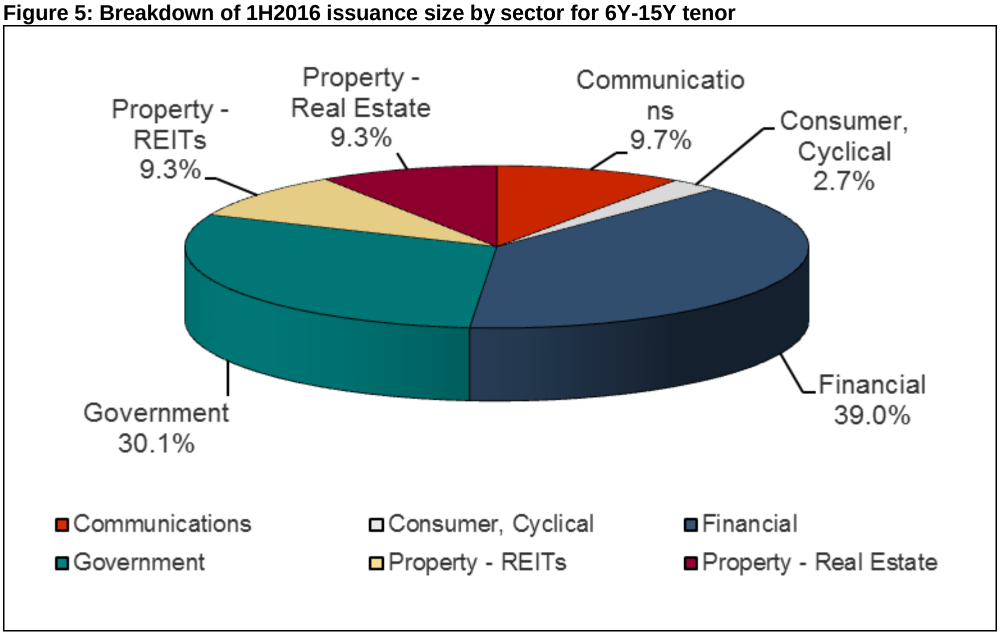
Issuance trends per tenor followed the overall market issuance trend with issuers in both the 2-5 years and 6-15 years tenor brackets mainly from financials, property and real estate. As expected, cyclical industries tend to be restricted to issuing shorter dated papers while the less cyclical telecommunications issuers (Starhub Ltd, Singapore Telecommunications Ltd) were able to raise longer term funding.

Figure 4: Breakdown of 1H2016 issuance size by sector for 2Y-5Y tenor



Source: OCBC, Bloomberg

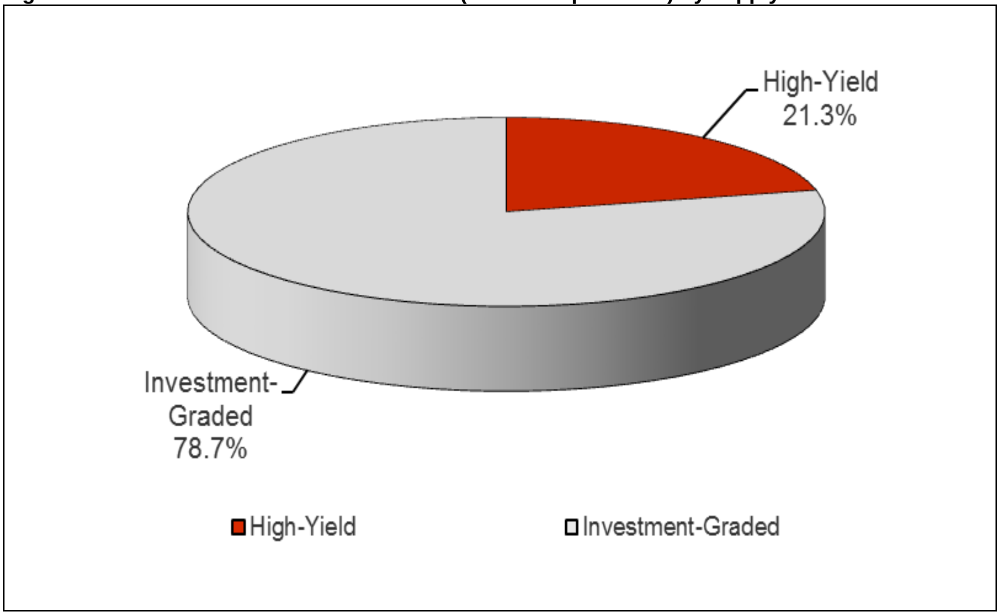
Figure 5: Breakdown of 1H2016 issuance size by sector for 6Y-15Y tenor



Source: OCBC, Bloomberg

Finally we continued to see slowing demand for higher yielding paper (defined as paper with yields higher than 4.5%) with 1H2016 demand for high yield papers falling from 28.2 % to 21.3%. Again this is reflective of the broader market tone in 1H2016 with risk-off sentiments supporting investors' appetite for quality paper. High yield papers that successfully issued came from well-known names in the domestic market such as Courts Asia and Breadtalk Ltd as well as from repeat retail bond issuers. 1H2016 was another fruitful period for retail bond issues following an active 2015 with 4 bonds issued (in comparison 5 retail bonds were issued in all of 2015). That said, investor demand was lower for recent bond issues. We think this was a function of both investor indigestion from upsized retail issues in 2015 as well as better awareness of issuers' fundamentals.

Figure 6: Breakdown of 1H2016 HY issuance (>4.5% coupon rates) by supply



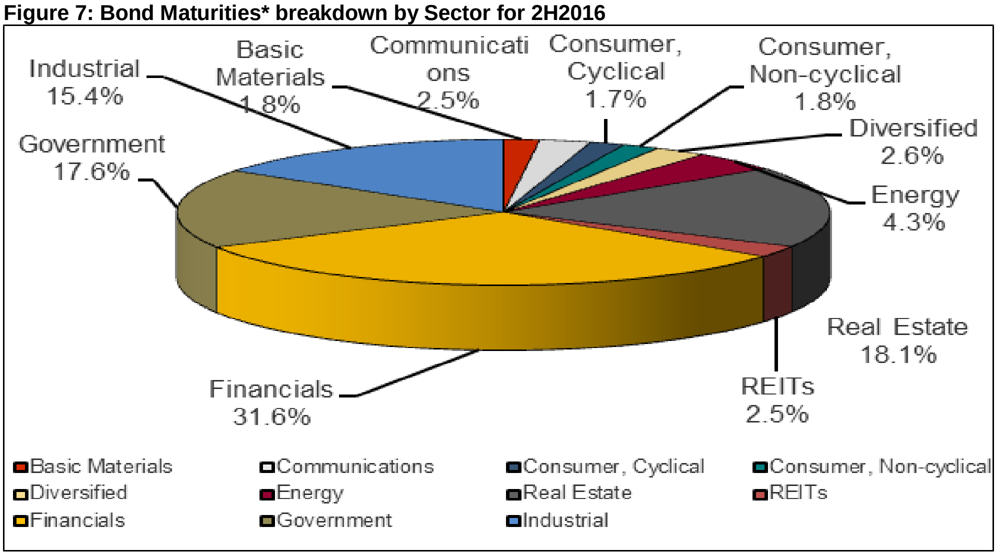
Source: OCBC, Bloomberg

2H2016 credit outlook – more of the same?

Our outlook expectation for 2H2016 will continue to be based on credit fundamentals amidst on-going uncertainty around the seemingly everlasting weak growth environment, coupled with recent events such as Brexit and the potential issue of whether other countries from the EU will follow suit. Depending on developments around these and other event risks and their impact on the global growth outlook, we are likely to see an extension of low interest rates which could be supportive of supply conditions. This supply is likely to remain skewed towards better quality names that have the ability and willingness to tap the market to lock in longer tenors while rates remain low and given on-going risk aversion. We expect financials to remain attracted to the SGD space given rising capital requirements and instrument maturities although supply may slow down in 2H2016 given slower loan growth and potential market indigestion for bank paper.

Refinancing requirements will also continue to support supply volumes going into 2H2016. We estimate there to be around SGD10bn in bonds maturing in 2H2016 (including call dates) with the supply profile in line with general issuance trends. New high yield supply will likely continue to stagnate, constrained by the selective demand as well as lower investment requirements given the weak growth outlook. That said, we would not be surprised to see opportunistic high yield issuers come to market to lock in lower interest costs.

Figure 7: Bond Maturities* breakdown by Sector for 2H2016



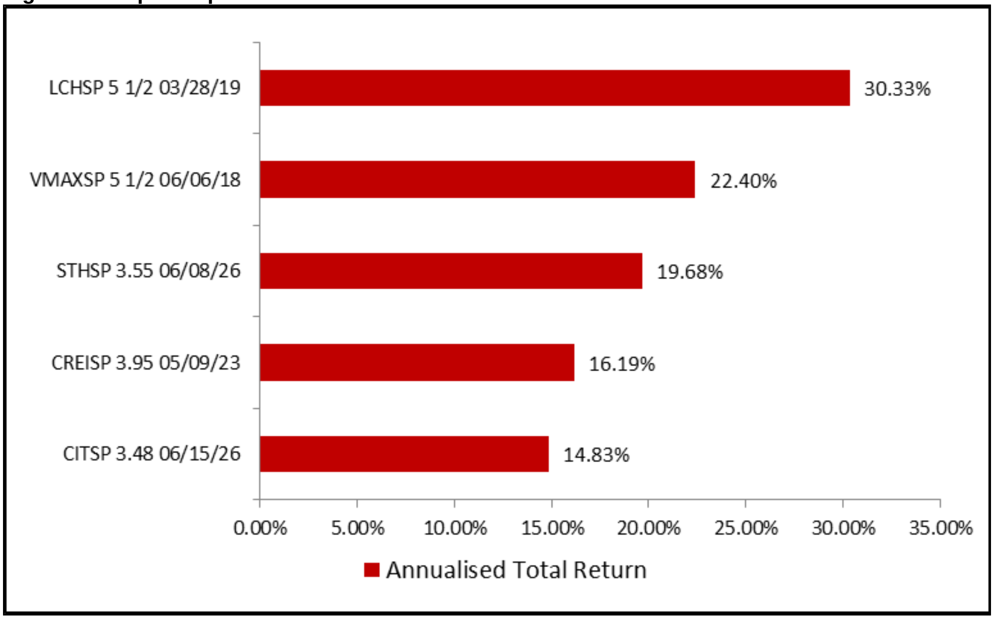
*Source: OCBC, Bloomberg | *Includes bonds callable in 2016*

In terms of demand, we expect strong appetite for better quality names to continue as investor selectivity remains. That said, we do think investors will be more receptive to duration for better yields and will therefore result in a conducive environment for issuance of perpetual securities for stronger credits, in particular S-Reits and possibly banks to match supply. High yield issuers will continue to see the going tough unless they are well known names with established domestic business positions. In general, successful high yield issuers in 1H2016 have been well received due to the lack of new issues in the high yield space although the trend in issuers has been somewhat random. This is reflective of the opportunistic nature of recent HY issues as well as investor's selectivity. Going forward, we expect selectivity to remain but pockets of risk-on sentiment to stimulate demand for new HY issues given the search for yield and ample market liquidity.

We do not see a material direct impact on SGD names from Brexit aside from its impact on general risk off sentiment. This reflects our view that most SGD issuers have relatively limited exposure to UK and EUR denominated investments, aside from select property names including First Sponsor Group Ltd, Ascott Residence Trust, Frasers Hospitality Trust (FHT) and Oxley Holdings Ltd (OHL) (note that OCBC Credit Research does not currently cover OHL). Bank bonds prices have weakened post Brexit due to the sector being most exposed to Europe and global market volatility. This is despite the fact that most SGD issuing banks (Asian or European) are more domestically focused and those with UK headquarters (and hence UK exposure) benefit to some extent from diversified geographic exposures. While we think that fundamental strengths will support stable credit profiles for the banks we cover, there could be further downside to bank bond prices with uncertainty continuing and broader Europe exposure representing a second stage risk until Brexit risks become clearer.

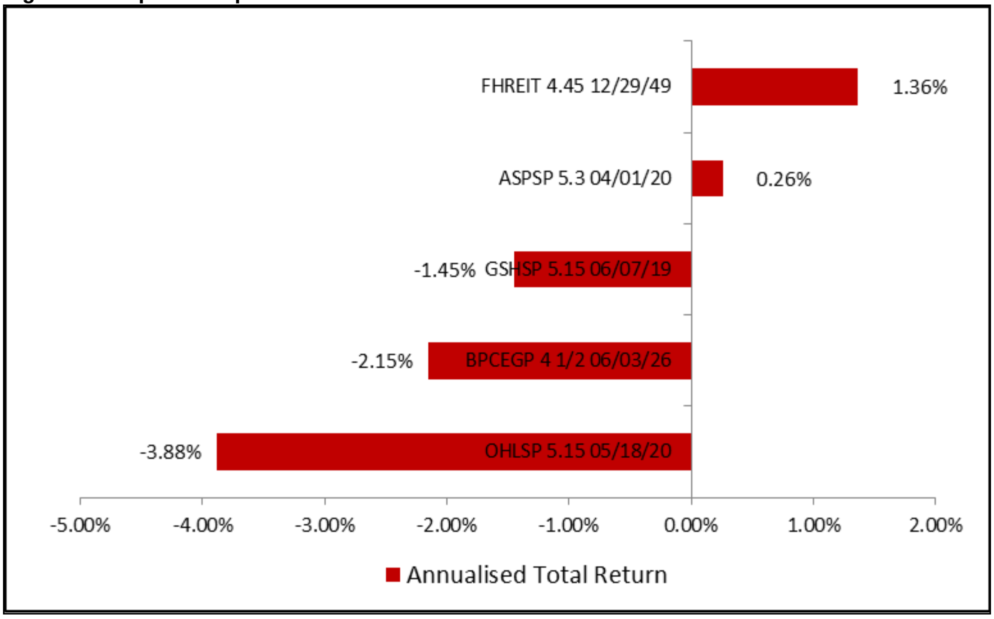
We therefore expect 2H2016 trends to be a continuation of 1H2016 trends with fundamentals trumping the chase for yields and the cross-over of the two spurring demand for longer tenor paper from good quality issuers. This is particularly so with a somewhat clearer interest rate outlook which should generate pockets of risk on sentiment driven by short term technical considerations.

Figure 8a: Top 5 outperformers from the 1H2016 new issues



Source: OCBC, Bloomberg

Figure 8b: Top 5 underperformers from the 1H2016 new issues



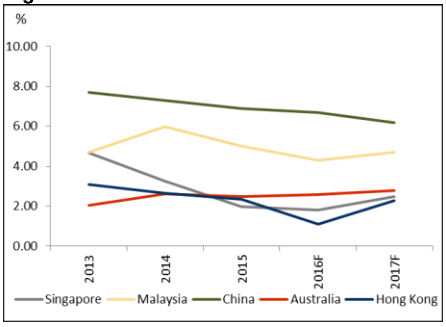
Source: OCBC, Bloomberg

Financial Institutions - between a rock and a hard place

Tough external conditions

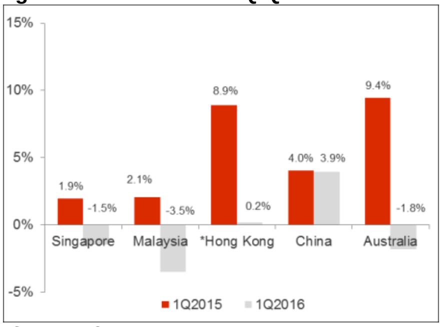
Financial institutions are having it tough as they grapple with various external factors which are contributing to a weaker operating environment. Firstly, economic growth remains slow both globally and regionally and the outlook remains challenging. This has impacted sector performance with loans growth slowing in the countries under our coverage. This has led to falls in revenue growth given net interest income contributes around 60-70% to total revenues. Commodity prices are under pressure and, following a period of strong appreciation, certain regional real estate indicators are on a downward trend.

Figure 9: GDP Growth Y/Y



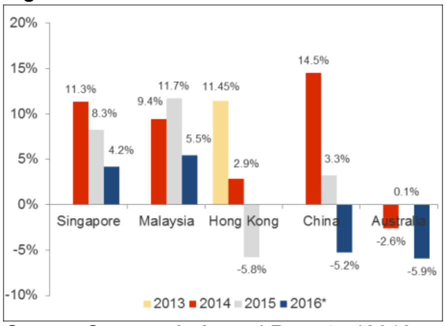
Source: OCBC, IMF World Economic Outlook Apr 2016

Figure 10: Loan Growth Q/Q



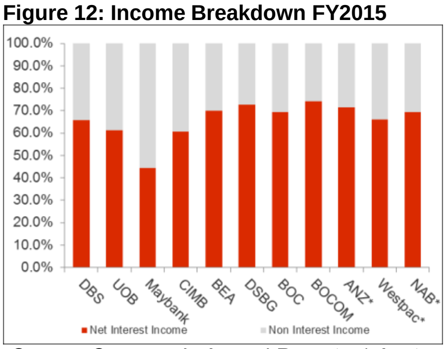
*Source: Company's Annual Reports. 1Q2016 at 31 Mar *Hong Kong data is y/y for FY14/15 as no quarterly data is available*

Figure 11: Revenue Growth Y/Y



*Source: Company's Annual Reports. *2016 data annualized from quarterly results*

Figure 12: Income Breakdown FY2015



*Source: Company's Annual Reports. * Aust. banks year end Sept. 30, others Dec. 31*

The regulatory environment continues to shift in the context of enduring global initiatives to strengthen the banking sector, but also in response to recent developments that have led to a build-up of risks in the eyes of bank regulators. In China, regulators have pursued industry liberalisation through removal of the deposit rate ceiling while at the same time encouraging banks to continue lending. Measures such as interest rate cuts, lowering the reserve requirement ratio and bad debt management strategies (lower regulatory minimum loan loss reserve requirements, bad debt for equity swaps and sale of bad debts to asset management companies) are seeking to protect profitability so that Chinese banks can continue to fulfill their government mandate of providing financial assistance to key social and economic projects including the 'One Belt, One Road' initiative, supporting Chinese companies for 'Going Global' and financing agriculture-related industries, SME's and government housing projects. While these measures may help bank earnings improve, the quality of earnings may suffer if banks are guided to continue lending to challenging, low return sectors of China's economy. It has been recently reported that China's regional governments have been influencing state-owned banks to continue lending to over-capacity industries despite the promise of supply-side reforms from the central government. This could increase the government's moral obligation to support banks in times of need although we expect these support measures to continue to be more regulatory rather than financial in nature.

In Hong Kong, government support is potentially heading the other way with sector support for banks ambiguous. This is following the recent release of draft legislation for Hong Kong's bank resolution regime which seeks to rely more heavily on loss absorbing instruments rather than public funds to bail out banks in distress. This stance is somewhat of an outlier with other banking sectors in Asia where government support is more certain. This policy divergence is in our view a consequence of the Hong Kong banking sector's relatively unique structure where 4 of the top 5 banks by domestic loan market share are subsidiaries of large international banking groups which are potentially more exposed to external risks than local banks but can also receive support from their overseas parents if needed. That said, the government has also left open the possibility for banks to be bailed out by the government if they pose a systemic risk. This is relevant for Hong Kong's local banks such as Bank of East Asia Ltd and Dah Sing Bank Ltd, the former being classified as a domestic systemically important bank. In any case, the Hong Kong government's potential expansion of resolution powers recognizes the strategic importance of the banking sector to HK's economy and remains consistent with HKMA's track record of strong oversight and regulatory support.

Elsewhere in the region, government regulations have sought to cool down overheated property markets to address rising economic risks from rapidly appreciating house prices and rising household leverage. For instance, Bloomberg reported that recent peak house prices in Hong Kong and Singapore were 370% and 92% higher than 2003 prices respectively. Regulations such as maximum debt service ratios for buyers and additional taxes (stamp duties, capital gains) for both buyers and sellers have been squarely aimed at cooling home price appreciation and restricting speculation. These regulations are already seeing some success and thereby contributing to falling loan volumes. Singapore's home prices have fallen for 11 consecutive quarters to 30 June 2016 according to the Urban Redevelopment Authority, the longest streak on record since prices were published in 1975. Australia's measures to slow speculative property buying, mostly by foreigners, has resulted in a drop in property loans for investment and is expected to continue to cool demand for property and add to the expected slow-down in Australia's housing sector from higher prices and high incoming supply. Given the slowdown in Australia's resources sector, the housing sector has been a strong contributor to bank performance in the past few years and the potential housing slowdown could make the going tough for Australian banks in the next few years.

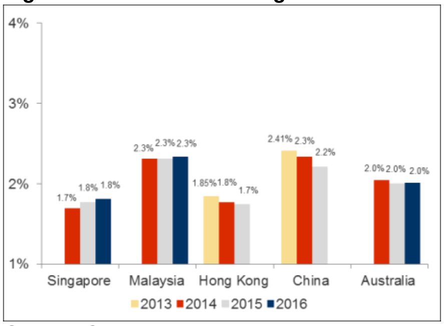
Finally, we've seen an abundance of event risks play out on the banking sector. This began in 2015 with the severe drop in commodity prices and a realisation towards the end of 2015 that prices could be lower for longer. This led to a rush of disclosure by banks on their oil and gas and wider commodity-related exposures. Unsurprisingly, banks in commodities focused economies such as Malaysia and Indonesia had generally higher exposure of around 10-20% of gross loans. Singapore and Japanese banks also had relatively high exposure to oil and gas and other commodities ranging from 5-12% as a carry-over of business expansion during the high commodity price environment in the preceding 3-4 years. On the flipside, Australia had somewhat surprisingly low total commodities exposures of less than 4% of gross loans which we think is due to the Australian banks well diversified loan mix. Similarly, a snapshot of European and US banks also showed reported commodity exposures at less than 5% of their gross loan books. Whether these figures are directly comparable between banks though is questionable. This is because there appears no clear industry standard for reporting loan exposure by industry with industry classifications broad enough such that commodity related exposure could be reported under multiple industries depending on position along the supply chain (upstream, midstream and downstream energy being classified as manufacturing, transportation, mining, construction, trading). Banks also have discretion in how they report oil and commodity exposures and some were reporting them for the first time, so we believe that data was inconsistent at best across banks and difficult to accurately compare.

Focus on commodity related exposure was followed shortly after in early 2016 by questions on bank exposures to China given China's economic slowdown and rebalancing and financial market volatility. Bank capital instruments had a volatile month in February as European banks posted negative preliminary earnings towards the end of January and lowered their profit outlook on negative interest rates, flattening NIMs and rising loan impairments. This raised concerns on bank liquidity and ability to raise capital and pay coupons on capital instruments, which fed into a general risk-off sentiment towards bank capital instruments globally. This though appeared to be more sentiment driven and amplified by a general lack of understanding of these instruments by the market.

Finally and most recently, questions have been raised on the exposure of banks to the unfolding volatility in markets in Europe following Brexit and the likely implications on bank's credit profiles in Asia-Pacific. In general, we expect the impact from Brexit to be indirect through potential softening in general consumer sentiment and a rise in wholesale funding costs from a general risk averse sentiment as the world continues to digest the potential outcomes. National Australia Bank does still have some direct exposure to its UK businesses through holding some pound denominated capital instruments issued by CYBG Group which it is intending to sell in 2016 but its size is relatively small compared to the size of its balance sheet.

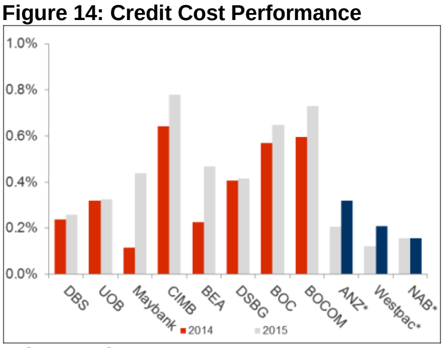
With all of the above external forces, banks performance has been understandably soft. Rising competition for a piece of a smaller pie has impacted loan margins and funding costs. Slowing economic conditions have impacted credit costs with asset quality on a generally downward trend with rising NPL ratios and falling LLP ratios leading to overall profitability falling or at least under pressure at a time of rising capital requirements leading up to full implementation of Basel III by 2019.

Figure 13: Net Interest Margins



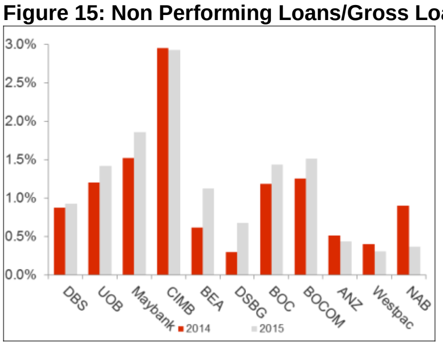
*Source: Company's Annual Reports.*2016 data annualized from quarterly results*

Figure 14: Credit Cost Performance



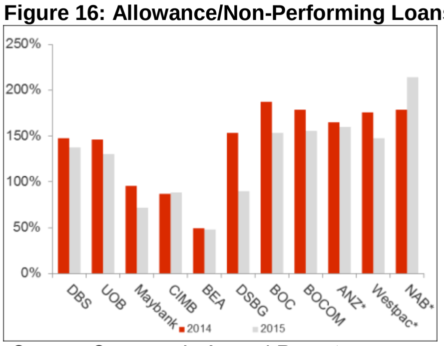
*Source: Company's Annual Report. * Data shown for Australia Banks represents FY2015 and 1H2016 respectively*

Figure 15: Non Performing Loans/Gross Loans



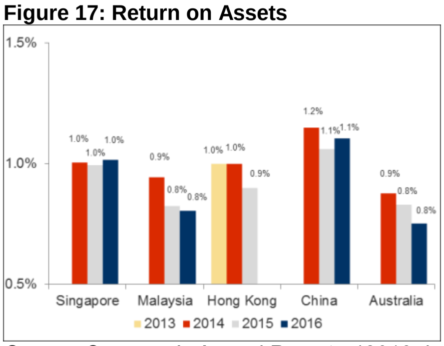
Source: Company's Annual Reports

Figure 16: Allowance/Non-Performing Loans



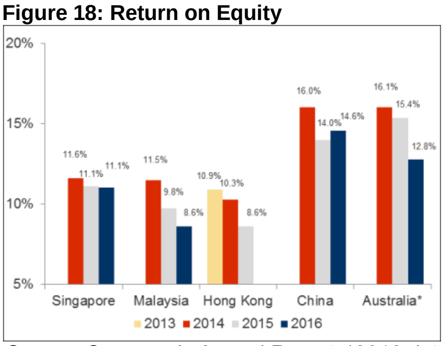
Source: Company's Annual Reports

Figure 17: Return on Assets



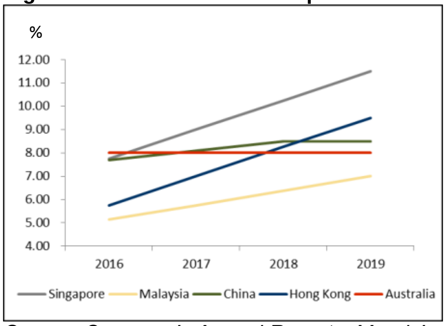
*Source: Company's Annual Reports. *2016 data annualized from quarterly results*

Figure 18: Return on Equity



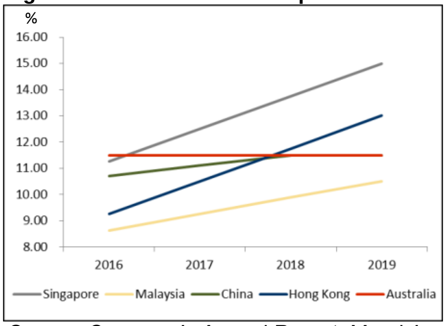
*Source: Company's Annual Report. *2016 data annualized from quarterly results*

Figure 19: Minimum CET1 Requirements



Source: Company's Annual Reports, Moody's Investors Service

Figure 20: Minimum CAR Requirements



Source: Company's Annual Report, Moody's Investors Service

Focus on internal responses

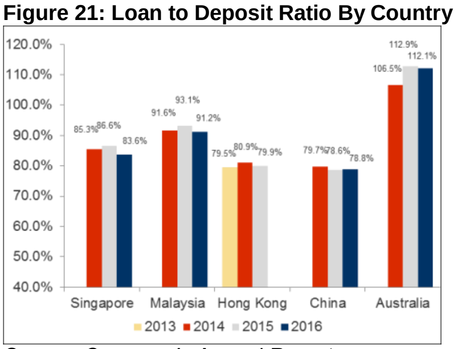
How are banks responding to these external factors? By focusing on internal measures that remain somewhat in their control. Operating strategies have been revisited to focus investments on higher return or core business segments. For instance, Australia and New Zealand Banking Group Ltd and National Australia Bank are focusing on their core Australia and New Zealand operations and de-emphasizing their overseas businesses after years of weaker returns. Bank of China, which is more geographically diversified than its big 4 peers, is also focusing more on domestic businesses connected with the Chinese government's One Belt One Road initiative. Banks are also increasing their emphasis on cost management and improving efficiency through digitizing services and increasing cross selling to existing customers. Malaysia's CIMB is implementing its Target 2018 (T18) strategy comprised of 18 initiatives focused above all on sustaining the bank's profit growth. This strategy includes targeting an improved cost to income ratio of 50% from the current 57.4% as at 1Q2016.

Finally, banks are managing their capital levels against rising regulatory requirements by limiting their growth in risk weighted assets. They have done this through actively rebalancing their loan portfolios towards better quality loans and slowing down the pace of new loans growth. High risk segments such as manufacturing, wholesale and retail have seen loan growth stagnate or fall while loans to individuals for mortgages or for property have grown. Banks are also becoming more cautious in their underwriting considering tough external conditions. Malaysia has seen its loan approvals fall as loan applications rise leading to a drop in loan approval rates. The question to be asked however is how this last internal measure to protect capital ratios is contributing to the first external factor of a weak economic environment. It is this interplay of risks in our view which is putting banks and regulators between a rock and a hard place.

Any silver linings?

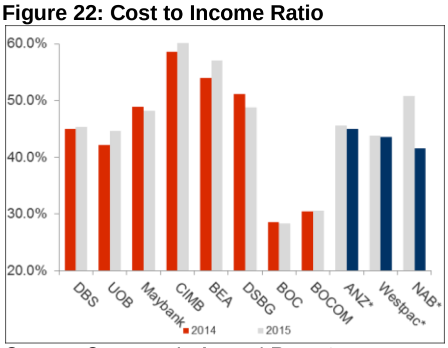
Despite these challenges, bank credit profiles remain fairly resilient. Earnings generation capacity, albeit weaker, remain solid and are expected to remain stable owing to strong market positions in their respective domestic banking sectors and the stable industry structures in which they operate. This stable business position gives the banks solid access to consumer and corporate deposits as well as providing ongoing access to capital markets for wholesale funding with funding structures for most banks in the region better placed than European peers. Earnings stability is also expected to support capital ratios remaining above regulatory minimum requirements. Finally, all banks we cover operate in supportive jurisdictions with some expectation of supportive government actions in case of stress or systemic risk. This expectation stems from the role that banks play in fulfilling government economic objectives (China), the importance of the financial services sector to overall economic output (Singapore and Hong Kong), and finally through existing supportive government policies (Australia such as the Reserve Bank of Australia's committed liquidity facility). This is despite regulators long-standing initiatives to lower the prospect of and need for public sector support in times of financial stress through improving banks' loss absorption capacity with capital instruments. While this is conceptually sound, we think that practically it could be difficult to implement with shorter term gains from creditor bail-in leading to longer term pain for the sector with weaker access to capital markets or access at much higher costs. For these reasons, we resume our coverage of banks with all neutral issuer profiles.

Figure 21: Loan to Deposit Ratio By Country



Source: Company's Annual Reports.

Figure 22: Cost to Income Ratio



Source: Company's Annual Report.

Singapore REITs – Recurring and opportunistic issuance coupled with supportive markets

Singapore REITs continue to be the sector that is well-represented in primary issues. There continues to be refinancing needs, as well as acquisition funding needs. In addition, we have observed that some issuers have attempted to lock in the current low interest rates by issuing longer duration bonds (as long as 15 years). Rated REITs have also tapped foreign bond markets, adding to the diversity of funding. We have also observed the trend of REIT issuers utilizing perpetual securities to improve their aggregate leverage ratios. We believe that demand for REIT perpetual securities will be sustained given the relatively high yield in the current low interest rate environment. Looking forward, there could be more REIT issuers coming to market given that the domestic REIT market continues to grow (such as Fraser Logistics & Industrial Trust which recently had an IPO).

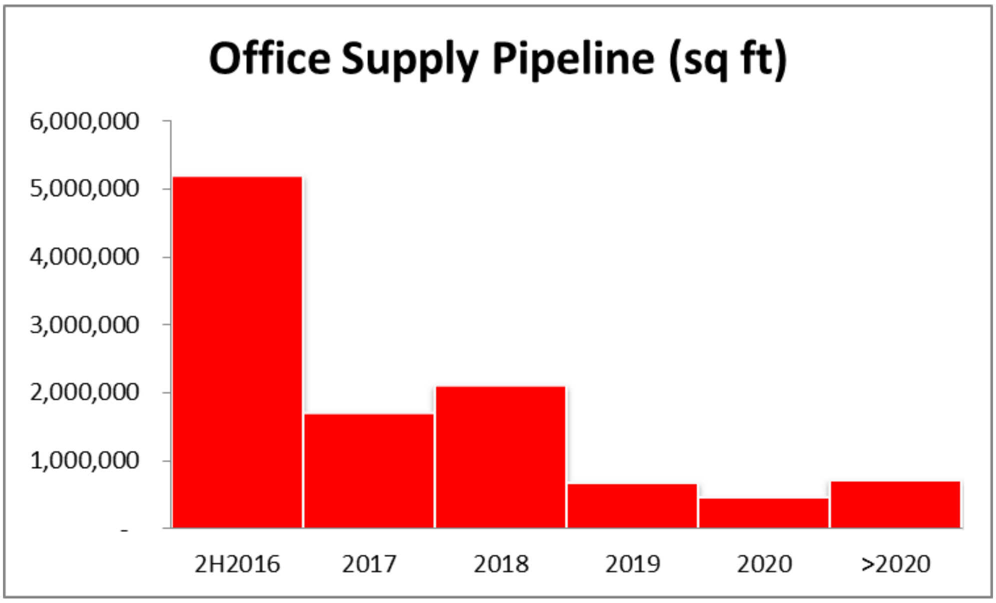
Table 1: Debt profile and statistics of S-REITs under coverage (as at 31 March 2016)

	Aggregrate leverage (%)	Debt duration (years)	Debt cost (%)	Proportion of debt fixed/hedged (%)
OFFICE				
CapitaLand Commercial Trust	30.1	3.8	2.5	91.0
Keppel Real Estate Investment Trust	39.0	3.6	2.6	75.0
Mapletree Commercial Trust	35.1	3.4	2.5	73.8
Suntec REIT	36.0	2.7	2.9	70*
Average	**35.1**	**3.4**	**2.6**	**77.5**
RETAIL				
CapitaLand Mall Trust	35.5	5.3	3.2	100.0
Frasers Centrepoint Trust	28.3	2.9	3.3	78.0
Starhill Global REIT	35.4	3.3	3.2	100.0
Average:	**33.1**	**3.8**	**3.2**	**92.7**
INDUSTRIAL				
AIMS AMP Capital Industrial Trust	32.4	2.2	4.2	92.2
Ascendas REIT	37.2	3.4	2.8	71.9
Cambridge Industrial Trust	37.1	2.9	3.6	96.7
Mapletree Industrial Trust	28.2	4.0	2.5	88.0
Mapletree Logistics Trust	39.6	3.5	2.3	81.0
Sabana Shari'ah Compliant Industrial Trust	39.6	1.8	4.2	89.5
Soilbuild Business Space Trust	36.0	3.0	3.3	100.0
Viva Industrial Trust	37.6	4.0	4.1	94.8
Average	**36.0**	**3.1**	**3.4**	**89.3**
HOSPITALITY				
Ascott Residence Trust	38.9	5.1	2.5	78.0
Fraser Hospitality Trust	39.3	2.9	2.6	88.0
Average:	**39.1**	**4.0**	**2.6**	**83.0**
HEALTHCARE				
First REIT	34.5	2.8*	4.0*	85.3
Average:	**34.5**	**2.8**	**4.0**	**85.3**
Average:	**35.5**	**3.4**	**3.1**	**86.3**

*Source: Companies | *OCBC estimates | Aggregate leverage derived by Gross debt / Total Asset*

Singapore Commercial REITs – Managing through the indigestion

Figure 23: Office Supply Pipeline



Source: URA 1st Quarter 2016 real estate statistics, OCBC

Looming supply of new office buildings (~5 years supply in aggregate based on historical demand), such as Guoco Tower, Duo Tower and Marina One, have pressured lease rates and occupancy. The difficulties faced by these new buildings in leasing up were well-documented (Marina One's office space was 30% pre-leased as of June despite coming on stream as early as December 2016). URA's data reflects market weakness, with office rentals declining 2.1% q/q in 1Q2016 (4Q2015: -1.8%). Category 1 office vacancies actually improved q/q to 8.6% (4Q2015: 9.3%), though it could be a function of no new supply during 1Q2016. Looking forward, we expect vacancies to pick up as well.

Table 2: Commercial REITs Statistics

Issuer	Occupancy				Expiry (NLA%)		
	2014	2015	1Q2016		2016	2017	2018+
CCT	96.8%	97.1%	98.1%		8.0%	12.0%	80.0%
KREIT	99.5%	99.3%	99.4%		3.2%	11.5%	85.3%
SUN [Office]	100.0%	99.3%	98.3%		6.0%	19.7%	74.3%
MCT [Non-VivoCity]	99.2%	97.0%	93.7%		2.0%	34.1%	63.9%

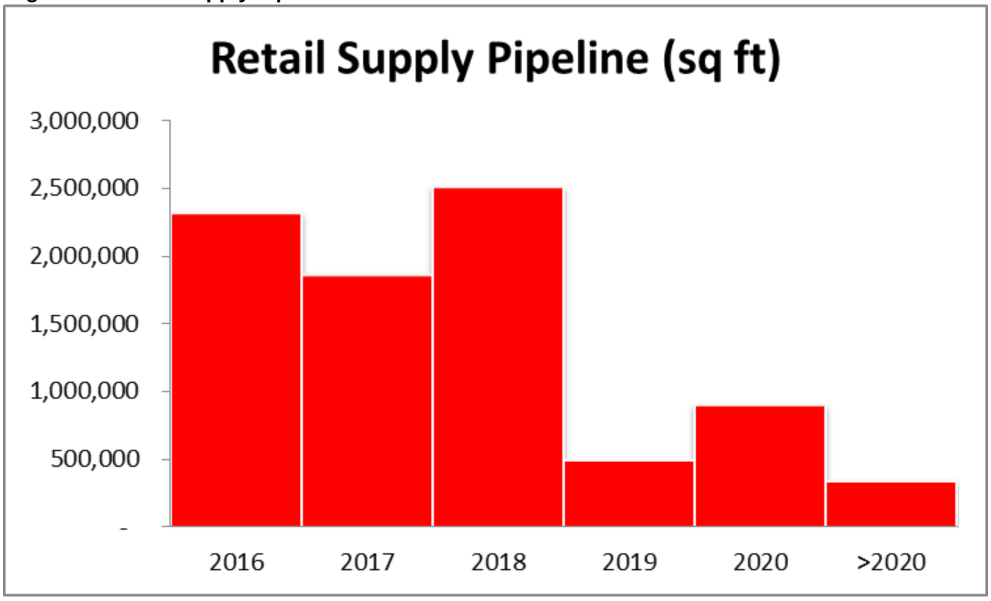
Source: Company, OCBC, [MCT: FY2015, 1HFY2015, FY2016]

For the commercial REITs under our coverage, in general their portfolio consists of mainly prime Class A assets, some of which are relatively new, such as MBFC and Ocean Financial Centre. As such, we continue to believe that portfolio vacancies would largely be stable, though at the expense of lease rate pressure during rental reversions. As can be seen above, 1Q2016 occupancy rates are much stronger than the Category 1 office average occupancy rate of 91.4%. It is worth noting that MCT's occupancy was hurt by low occupancy at the Mapletree Anson, potentially reflecting the competition in the Tanjong Pagar region due to the opening of Guoco Tower. The table above also highlights the low lease expiry (as of end-1Q2016) left for the rest of 2016, reflecting how commercial REIT managers have aggressively tackled their scheduled lease expiries, pre-emptively negotiating with tenants to renew. As such, we believe that the commercial REITs under our coverage are well-positioned to handle the looming glut of office assets.

Another area of concern was potential revaluation pressures come year-end, which may pressure aggregate leverage levels should there be revaluation losses. However, secondary transactions have recently resurrected in the Singapore office market. Notable deals include Qatari Investment Authority acquiring Asia Square Tower 1 for SGD3.4bn, and an Indonesian tycoon Dr Tahir acquiring Straits Trading Building for SGD560mn. These transactions reflect continued interest in Singapore office assets, and could be supportive of valuations across the market in general. Commercial REITs have also resumed investment activity, with CCT announcing the acquisition of the balance of CapitaGreen late May, and MCT announcing in early July the acquisition of Mapletree Business City Phase 1. We believe that issuers in general are comfortable with maintaining their aggregate leverage between 35% - 40%. The low cost of debt also likely spurred the transactions. Should the commercial real estate market continue to stabilize, we may start to see divestments as well. For example, CCT was rumored to be considering the sale of Wilkie Edge as well as 50% of One George Street.

Singapore Retail REITs – Cyclical or Structural?

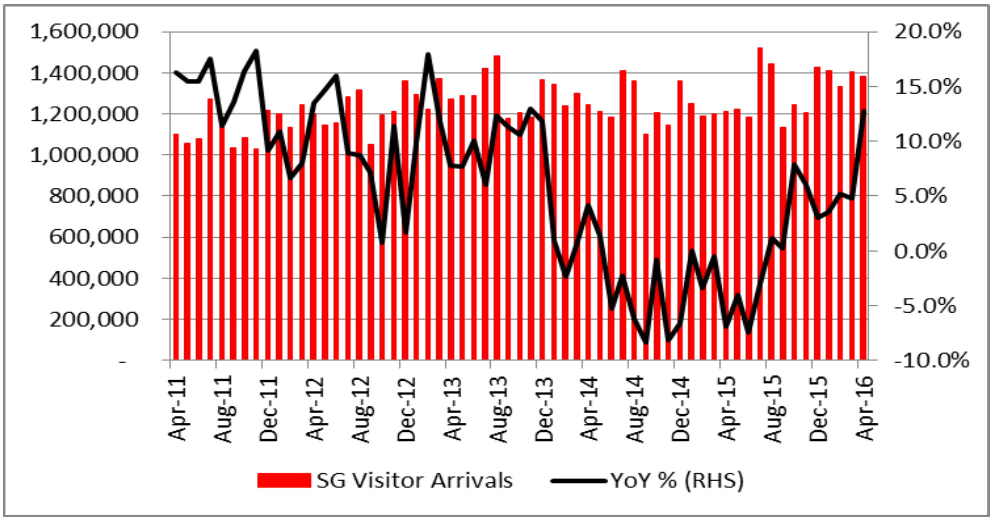
Figure 24: Retail Supply Pipeline



Source: URA 1st Quarter 2016 real estate statistics, OCBC

The supply situation for retail commercial assets is more manageable compared to office commercial assets. We expect an average growth of 3.5% in retail space per annum. Much of the retail supply is outside the core Orchard Road shopping district.

Figure 25: Singapore Visitor Arrivals



Source: Singapore Tourism Board, OCBC

Tourism numbers have also sharply recovered from the slump seen in 1H2015. In fact, for the first four months of 2016, monthly visitor arrivals were growing 12% – 17% y/y. These could potentially be supportive of retail assets in the core Orchard Road area.

Table 3: Singapore Retail Sales (excluding Motor Vehicles, SA) Y/Y percentage change

2012	2013	2014	2015	Jan 16	Feb 16	Mar 16	Apr 16
2.6%	0.9%	-0.5%	-1.2%	1.7	-9.5	-2.1	-3.0

Source: Singapore Department of Statistics

However, domestic retail sales remain distinctly soft. The soft consumption numbers could be a reflection of the slowing economy. At the same time, it could also potentially be due to structural issues, with more retail sales moving to E-commerce platforms (and hence not captured well in official statistics). The Competition Commission of Singapore estimates[1] that the online retail market in Singapore is expected to reach SGD4.4bn by end-2015. This compares to SGD43.4bn in reported retail sales in Singapore for 2015.

The difficult domestic demand situation has continued to add pressure to local retailers, which already face pressure from high labor and rental costs. The media has reported several high-profile retail exits (such as New Look and Celio). Others have consolidated their exposure, such as Al-Futtaim closing the John Little outlet at Marina Square in 2015. It can be challenging for malls to recover when they lose an anchor tenant (such as departmental stores). Several malls are currently in the midst of AEIs to tweak their tenant offerings (such as The Centrepoint, JCube and Orchard Central). Others are being redeveloped outright (such as Park Mall and Funan Centre). With these sector headwinds, it is not surprising that retail rental rates fell 1.9% q/q during 1Q2016 (4Q2015: -1.3%).

Table 4: Retail REITs Statistics

Issuer	Occupancy				Expiry (NLA%)		
	2014	2015	1Q2016		2016	2017	2018+
CMT	98.8%	97.6%	97.7%		18.6%	30.1%	51.3%
FCT	96.4%	94.5%	92.0%		14.3%	35.6%	50.1%
SGREIT	99.4%	98.0%	95.6%		3.0%	10.8%	86.2%
SUN [Retail]	99.7%	97.9%	98.6%		23.1%	26.1%	50.8%
MCT [VivoCity]	99.7%	99.9%	99.9%		22.0%	23.0%	55.0%

Source: Company, OCBC, [MCT: FY2015, 1HFY2015, FY2016]

With regards to the retail REITs under our coverage, we can see some impact of the soft environment, with occupancy falling distinctly relative to 2014. Occupancies however largely remain stronger than the 92.7% average reported by the URA for 1Q2016. The exception to this was FCT, which saw Northpoint (27% of portfolio value)'s occupancy slump sharply to 81.7%. This is due to the 18-month AEI integrating the property to Northpoint City commencing in March 2016. As can be seen above, the lease expiry profiles of the retail REITs under our coverage can be challenging, given the typical shorter 3-year retail leases. We would consider SUN to face the most challenges, given the stress seen in neighboring Marina Square. It is mitigated though by the diversification offered by SUN's office assets. In general, investors can take some solace in that most of the retail REITs' assets are stabilized properties with high occupancy. This is also the reason why it could be a while before FCT's sponsor is able to inject The Centrepoint asset into FCT as the mall is still in transition.

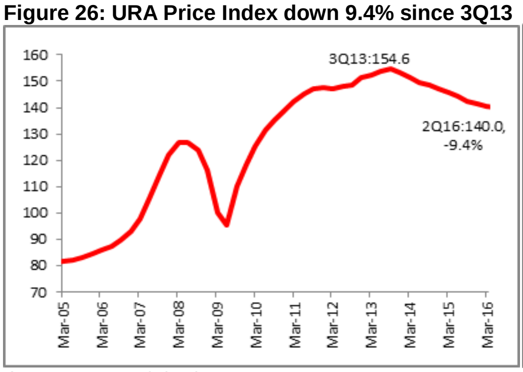
[1] E-Commerce in Singapore – How it affects the nature of competition and what it means for competition policy – Competition Commission of Singapore (02/12/15)

Singapore Property – Price stabilization signalling a bottom?

For 1H2016, Singapore private home prices have continued to dip lower, with flash estimates for the 2Q2016 URA property price index down 0.4% q/q (1Q2016: -0.7% q/q). Private home prices are now 9.4% lower from the peak seen in 3Q2013, with the index reaching end-2010 levels. The pace of the decline is decelerating though, with private home prices declining 1.1% y/y in 1H2016 (compared to -1.9% for 1H2015 and -2.3% for 1H2014). In fact, the declines seen in 1H2016 were driven by the Landed Property and Outside Central Region ("OCR", mass market) segments. Prices for the Rest of Central Region ("RCR", mid-market) and Core Central Region ("CCR", high-end) have actually increased q/q during both 1Q2016 and 2Q2016, for a total increase of 0.3% (RCR) and 0.5% (CCR) respectively over end-2015 prices.

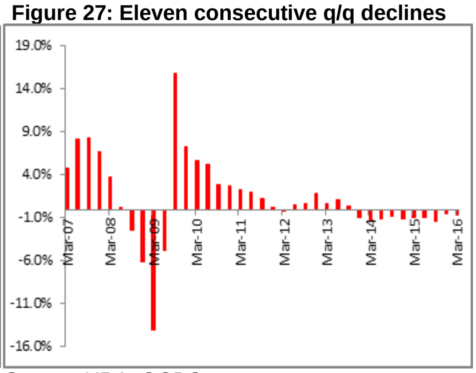
With regards to primary sales (source: URA), for developer sales (excluding ECs) YTD till end-May 2016, units sold were up a modest 3% to 3274 units y/y (full year 2015: 7765 units). For the same period, SRX reported that non-landed private monthly resale volume has increased 21% y/y to over 2,800 units. The deceleration of price declines, coupled with increases in volumes transacted may indicate that the Singapore private residential market is finally bottoming out.

Figure 26: URA Price Index down 9.4% since 3Q13



Source: URA, OCBC

Figure 27: Eleven consecutive q/q declines



Source: URA, OCBC

The key challenge remains the supply of private residential units in the pipeline. As of end-May 2016, there are 51,263 private residential units in the pipeline (excluding ECs). About 30% of these units remain unsold (representing about 2 years' worth of demand). Comparatively, as of end-2015, about 33% of the pipeline remains unsold. As such, the looming supply would likely cap any recovery in private residential prices.

We continue to believe that the current property cooling measures will be in place till at least the end of the year. The Singapore minister for National Development has reiterated (on 11/04/16) that it is "too early" to unwind the cooling measures. With prices stabilizing and transactions picking up, there may be no rush for the government to reverse its stance. Singapore developers (such as CDL and HPL) however are increasingly facing QC and ABSD charges on their unsold units. There are signs that developers have started to "blink first", seeking alternatives rather than believing that the cooling measures will be reversed. We have seen prices being reduced for developments (such as The Interlace and d'Leedon) that are affected by QC / ABSD charges, in an effort to clear the unsold units. Developers have also reintroduced deferred payment schemes ("DPS") to help clear their inventory. These schemes are mainly targeted towards developments in the CCR and RCR, and have shown early signs of success. For example, OUE was able to sell the bulk of its unsold units at the Twin Peaks after re-launching the units with the DPS in place. Given its success, we may see more such schemes being implemented. In aggregate, such schemes help boost the revenue of the developers, though they may introduce some counterparty risk from customers.

Developers have also sought other ways to recycle their balance sheet. For example, CDL is still considering options for the Nouvel 18, and they have utilized Profit Participation Securities in the past to monetize assets. It is also worth noting that developers are now confident enough to start rebuilding their pipeline of Singapore residential properties. For example, Guocoland just spent SGD595mn on a land parcel in River Valley, via an actively contested Government Land Sale (13 bidders), paying a record SGD1,239 psf per plot ratio. As such, we believe that though the developers under our coverage may see their credit profiles benefit from the recycling of their balance sheets as they monetize their existing pipeline, this is balanced against the risk of investments made to replenish their development pipeline.

Singapore Industrial REITs – Not quite the Rock of Gibraltar but remains defensive

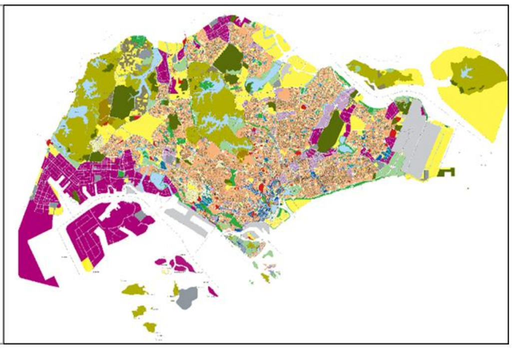
In 1Q2016, the industrial property sector continued to be soft, extending the fall since 2Q2014. The price index for all industrial properties declined 2.5% over the immediately preceding quarter (4.8% decline over 1Q2015). Rentals fell during the quarter as well by 2.7% compared to the previous quarter and 5.1% over 1Q2015. Between 1Q2015 and 1Q2016, rental has declined at a somewhat faster pace than prices, which we think will see asset prices corrode further, in particular in the multiple-user factory space. The industrial property sector was subjected to some speculative tensions from individual investors seeking returns in a low-yield environment (amidst a switch from the residential market which was subjected to cooling measures). In 2013, more than 600 caveats were lodged for industrial properties (with 2Q2013 as high as ~800). Transaction volumes have fallen by 40% compared to the previous year, leading to a more controlled supply situation in the coming years (post-2017). From 31 March 2016 to end-2016, ~2.4m sqm of industrial space is expected to come on-stream, with another 1.8m sqm in 2017. The preceding 3-year average annual demand has been at ~1.2m sqm.

DTZ estimates that 641,030 sqm are private strata-titled multiple-user factories (many with space of less than 5,000 sq ft/465 sqm per unit). According to JTC data, there were around 2,000 units, totalling 530,000 sqm in uncompleted strata-titled developments which remain unsold as of March 2016. These are unlikely to directly compete with the single-tenanted properties in our Industrial REIT coverage but would continue to pressure lease rates in our view, as more single-tenanted properties go through conversion into multi-tenanted buildings. Occupancies declined slightly by 0.5% to 90.1% (4Q2015: 90.6%), reflecting moves by landlords to prioritize occupancy over lease rates.

Figure 28: Singapore Industrial sector Indices

Source: Urban Renewal Authority ("URA")

Figure 29: Singapore Master Plan 2014



Source: Urban Renewal Authority ("URA")
Purple denotes industrial-zoned areas

Despite our expectation of a continued soft industrial space environment in Singapore, the government as the largest industrial land owner and policy setter continues to underpin the "investment-grade" characteristics of Industrial REITs. In the medium-longer term, we see the following as structural changes affecting

Singapore Industrial REITs: (1) on-going economic restructuring in Singapore with new demands from industrialists for higher-spec/customized properties (2) foreign expansions by Industrial REITs driven by lack of attractive acquisition opportunities domestically (3) new supply further north in Iskandar (4) channelling of commercial activities into industrial-zones (ie: business parks). Within the universe of our coverage, smaller REITs (AIMS AMP and CREIT) have started embracing foreign acquisitions following the playbook of larger REITs. MINT, whose mandate focuses on Singapore, has opted to respond by being active in new developments and redevelopment of assets. We do not see Iskandar as immediate competition to Singapore Industrial REITs, however, recognize its potential given the high quality of supply coming in and economic impetuses for industrialists to co-locate and/or move production facilities across the border.

Properties zoned as business parks are spaces used for high-technology, research and development, high valued-added knowledge sectors and their ancillary usage (food courts, supermarkets, sports facilities). Traditionally, tenants of such sectors would be absorbed into office buildings in the core central region. Nevertheless, with amenities and transportation nodes fast-improving, coupled with URA's long term strategy to decentralize commercial activities beyond the city, the segregation between business parks and offices are becoming less distinct in terms of usage. We anticipate that the risk profile within our Industrial REIT coverage to become less congruent going forward as each respond to structural changes differently

Offshore marine sector remains in transition

Green shoots or astro turf

If the end of 2015 incited some relief and cautious optimism for the new year, January 2016 brought about a rude awakening. Sustained concerns over supply and the weak global macroeconomic outlook caused Brent prices to bottom out at a more-than-decade low of ~USD28/bbl. Though energy has rallied strongly since then (with Brent at ~USD50/bbl as of end-1H2016), the damage has been done with the oil majors cutting their planned 2016 capital spending by 25% - 30% versus 2015 levels. For example, Exxon Mobil announced that it had a capex budget of USD23bn for 2016, 26% lower compared to USD31bn for 2015 and 40% lower compared to 2014's USD38.5bn. As such the offshore marine issuers under our coverage have had to contend with another lean year ahead. During meetings with various offshore marine management, there was much talk about "long winters".

With the rally in energy prices through 2Q2016, interest seemed to be returning to the sector. However, there was feedback that oil majors / end clients remain cautious with regards to the sustainability of the oil rally given the volatility seen over the last 12 months. As such, we expect any pickup in upstream activity to be modest for the rest of 2016. In general though, the quick recovery in energy prices post the shock Brexit vote could indicate that energy prices are on firmer footing. More stable energy prices would also be supportive of asset values (for disposals) as well as may stimulate M&A in the sector.

Our commodities analyst's view[2] is that crude oil fundamentals still point to a bull trend given A) firm oil prices despite increasing Iranian supply, while US production continued to fall B) US rig counts remain below 2013 levels, while US consumption faces seasonal increases due to the summer C) OPEC's recent June meeting showed the cartel's ability to stay united. As such, our house view on crude oil remains USD50/bbl.

[2] OCBC Commodities Research – Life After Brexit? (30/06/16)

Difficult environment to persist

Though energy prices have firmed at current levels, as mentioned we expect the rest of 2016 to remain lean for offshore marine issuers due to lower planned capex by oil majors. We expect rig builders and shipyards to continue to face difficulty winning new contracts due to oversupply of drilling assets as well as OSVs. These issuers have also seen orders being delayed, or even cancelled (like in the case of SCI and NCL) resulting in revenue reversals. For rig and OSV charterers, the competition for jobs has escalated given further cuts in upstream activity. This has driven down utilization as well as charter rates. The pain has started to surface for the rig charterers in particular, given that it has been more than 6 quarters since energy prices started to slump, and that even longer-term rig contracts have started to expire. It would be challenging to find new leases for these off-charter rigs. Finally, for EPC contractors, the slump in upstream activity continues to weigh on their order books, though we expect activity to recover differently across regions.

In aggregate, we have observed issuers attempting to diversify their revenue streams, such as moving into offshore wind farms (EZI) or non-O&G infrastructure related work (ASL). We have also seen issuers enter or grow non-traditional markets, such as focusing more on South Asia and Africa. Though these steps may help support revenue, we believe it would increase execution risk. In terms of profitability, we expect earnings (and hence cash flow) to remain weak for the offshore marine issuers under our coverage. Though all the issuers have trimmed costs, it was not enough to offset the sharp decline in revenue. In addition, some issuers have mentioned keeping some bandwidth, in order to be well-positioned for the up cycle, rather than "cutting to the bone". It is also worth noting that several issuers have already taken provisions / impairments for the quarter ending December 2015. Looking forward, there could be further provisions / impairments needed given the soft utilization and charter rates, though we expect this to be taken during 4Q2016.

Table 5: Revenue and earnings – Offshore Marine

Issuer	1Q2016 Revenue (mn)	y/y change	q/q change		1Q2016 Net Profit (mn)	y/y change	q/q change
I) Rig Builders							
Keppel Corp Ltd (SGD)	1,743.0	-38.1%	-29.7%		210.6	-41.5%	-48.0%
Sembcorp Industries Ltd (SGD)	1,895.2	-18.9%	-21.7%		107.0	-24.7%	76.1%
II) OSV Charterers							
Otto Marine Ltd (USD)	94.9	-35.9%	N.M		-1.4	N.M	N.M
Pacific Radiance Ltd (USD)	18.4	-41.8%	-15.4%		-0.9	N.M	N.M
III) Rig Charterers							
Ezion Holdings Ltd (USD)	82.1	-8.9%	-3.1%		15.5	-62.2%	N.M
Swissco Holdings Ltd (USD)	4.8	-74.8%	-77.9%		-1.9	N.M	N.M
IV) Shipyards							
ASL Marine (3QFY2016) (SGD)	90.1	42.1%	-9.6%		1.3	-34.0%	-29.9%
Nam Cheong Ltd (MYR)	-93.1	N.M	N.M		-40.1	N.M	N.M
V) Offshore EPC Contractors							
Ezra Holdings Ltd (1HFY2016) (USD)*	111.2	-63.2%	-27.0%		-249.9	N.M	N.M

Source: OCBC, Company **Calendar quarter 1Q2016, except Ezra (quarter ending February 2016, adjusted due to JV)*

Live to fight another day

Table 6: Credit profile – Offshore Marine

Issuer	Net Gearing			Net Debt / EBITDA		
	2014	2015	1Q2016	2014	2015	1Q2016
I) Rig Builders						
Keppel Corp Ltd (SGD)	11%	53%	56%	0.7x	3.8x	4.4x
Sembcorp Industries Ltd (SGD)	44%	65%	80%	2.3x	8.5x	5.9x
II) OSV Charterers						
Otto Marine Ltd (USD)	195%	284%	284%	39.2x	26.9x	5.9x
Pacific Radiance Ltd (USD)	52%	86%	106%	4.4x	13.4x	360.6x
III) Rig Charterers						
Ezion Holdings Ltd (USD)	86%	111%	111%	4.0x	5.9x	6.8x
Swissco Holdings Ltd (USD)	83%	71%	76%	10.0x	3.3x	7.1x
IV) Shipyards						
ASL Marine (3QFY2016) (SGD)	112%	109%	139%	6.4x	8.0x	7.3x
Nam Cheong Ltd (MYR)	42%	95%	102%	1.7x	16.7x	N.M
V) Offshore EPC Contractors						
Ezra Holdings Ltd (1HFY2016) (USD)*	116%	77%	110%	9.7x	13.8x	N.M

Source: OCBC, Company **Calendar quarter 1Q2016, except Ezra (quarter ending February 2016, adjusted due to JV)*

The credit profiles of the issuers we cover have continued to worsen given the challenging environment weighing on earnings (resulting in weak EBITDA). In addition, to meet capex needs, issuers have largely drawn on either their cash balances or took on additional borrowings. It is worth noting that the impairments / provisions taken during 4Q2015 have also worsened net gearing ratios in general. With earnings continuing to be pressured, we can expect net debt / EBITDA ratios to remain elevated. In terms of net gearing, we can expect some stabilization, with issuers controlling their gross borrowings. Beyond managing operational issues, it is worth noting that offshore marine issuers in general have been taking several steps to manage their balance sheet and generate liquidity:

1. **Divestment of assets**: Issuers (EZI, EZRA, PACRA) have been rationalizing their fleet by making outright sales, or engaging in sale-and-leaseback agreements. Some transactions were even done at a loss to book value, but allowed the seller to access some of the original equity invested in the asset.

2. **Off-balance sheet financing:** Vallianz Holdings generated liquidity and reduced leverage by selling most of its fleet to an SVP, which is funded by Sukuk financing.

3. **Monetization of business segments**: EZRA, Swiber Holdings and Ausgroup Limited are all in the process of either going into JVs or selling part of their subsidiaries in order to generate liquidity.

4. **Raising more equity**: Though the equity market for offshore marine issuers remain challenging, some (EZI, EZRA) were able to issue fresh equity.

5. **Restructuring of vessel financing:** Some issuers are in the process of restructuring their vessel financing to either shift amortization payments closer to maturity, or to extend the maturity of the loans later, in order to preserve current liquidity. This also allows the issuers more flexibility when making tenders for contracts.

6. **Delaying capex**: Some issuers have been delaying deliveries (PACRA, NCL) or even cancelling orders outright (Marco Polo Marine) to alleviate liquidity pressures. There are typically penalties to be paid as a result.

7. **Covenant relief**: Several issuers have already initiated consent solicitations to obtain financial covenant leeway as well as waivers, typically for the interest coverage covenant. This provides issuers with some operational flexibility, though bondholders do concede some protection as a result.

We would caution though that not all the above steps are available to all issuers, and that the sector continues to remain under great pressure. Several of the above steps only buy the issuers some temporary relief; ultimately energy markets need to stabilize and oil majors resume spending in order for the offshore marine sector to be lifted from the doldrums.

Technical factors challenging

With oil prices plunging to new lows and even large offshore marine issuers like KEP and SCI facing negative headlines due to client issues, investor sentiment regarding the sector worsened through 1Q2016, exacerbating the liquidity situation for secondary trading. Covenant solicitations within the sector have continued, while looming maturities have heightened investors' concerns over balloon default. Already, there have been a couple of issuers that are seeking to restructure their bond issues, potentially extending the bonds' maturities.

Another area which could introduce further uncertainty would be the expected increases in M&A activity. With valuations suppressed, there could be more companies being acquired, or being taken private from the stock exchange. The ultimate impact on bondholders would depend on the terms of each bond issue (such as change-of-control or delisting clauses). Till the end of 2017, the maturity schedule for energy and offshore marine issues totals SGD1.27bn. With bond markets remaining largely closed to offshore marine issuers (there were no new bond issues from the sector in 1H2016), it could be challenging for some of the issuers to refinance their bonds.

Table 7: Maturity schedule – Energy / Offshore Marine

Issuer Name	Ticker	Cpn	Maturity Date	Amount Issued	Curr
Otto Marine Services Pte Ltd	OTMLSP	7	01/08/2016	70,000,000	SGD
Perisai Capital Labuan Inc	PPTMK	6.875	03/10/2016	125,000,000	SGD
Swiber Holdings Ltd	SWIBSP	5.55	10/10/2016	100,000,000	SGD
United Energy Financing Bermuda Ltd	UNIENE	6.85	17/10/2016	100,000,000	SGD
Marco Polo Marine Ltd	MPMSP	5.75	18/10/2016	50,000,000	SGD
AusGroup Limited	AUSGSP	7.45	20/10/2016	110,000,000	SGD
Vallianz Holdings Ltd	VALZSP	7.25	22/11/2016	60,000,000	SGD
ASL Marine Holdings Ltd	ASLSP	4.75	28/03/2017	100,000,000	SGD
Swiber Holdings Ltd	SWIBSP	7.125	18/04/2017	160,000,000	SGD
KrisEnergy Ltd	KRISSP	6.25	09/06/2017	130,000,000	SGD
Nam Cheong Ltd	NCLSP	5	28/08/2017	90,000,000	SGD
Falcon Energy Group Ltd	FALESP	5.5	19/09/2017	50,000,000	SGD
Swiber Capital Pte Ltd	SWIBSP	6.25	30/10/2017	50,000,000	SGD
Total				**1,195,000,000**	

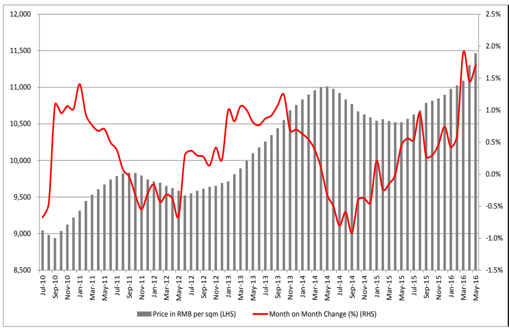
Source: OCBC, Bloomberg

China Property – Divergence of policy responses at local level to continue

Residential

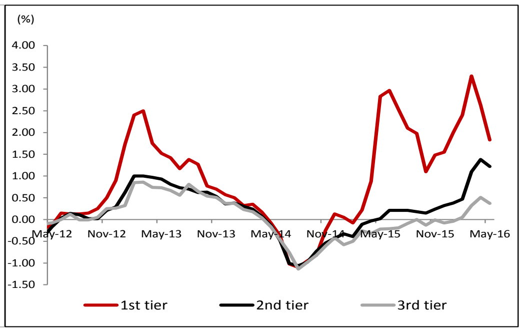
At the national level, China's housing market continued its recovery into May 2016 with prices rising for 13 consecutive months. The government started easing measures in 2H2014. In September 2015, the government cut the minimum down payment level for first-time home buyers in many cities for cities that do not have restrictions on purchases. This was followed by yet another round of stimulus in February 2016 which saw down payments on second homes lowered to 30% from 40%. Between February and March, an acceleration in price index growth was observed, with March growing by 1.9% against February 2016. Average selling price ("ASP") nationwide was RMB11,662 per sqm as at May 2016. Year-on-year, home prices have risen 10.3%, led by Shenzhen, Dongguan, Huizhou (satellite cities to Guangzhou) and other tier 2 cities such as Nanjing, Suzhou, Zhongshan, Zhuhai, Kunshan. Shanghai and Beijing continued to show strong growth despite the February cuts excluding first tier cities.

Figure 30: China overall new home prices against monthly price change (%)



Source: *Fang.com*

Figure 31: China new home prices (%) – by tier



Source: *Bloomberg*

Concerns were raised about some overheated housing markets during the National People's Congress ("NPC") in March. Post NPC, we observed new tightening measures being introduced by individual cities and provincial governments. These largely relate to macro prudential measures (eg: raising down payment for second homes in Shanghai and Shenzhen, clamp down of land hoarding, limiting maximum loan amounts and clamp downs on grey market financing). Thus far, this has affected Tier 1 cities and select Tier 2 cities which have seen strong price growth. We think such moves will spread to other lower tiered cities as well should these show sign of overheating.

Figure 32: Cities with strong price growth

Source: Fang.com, OCBC Credit Research

Red denotes the 14 cities (of 100 cities) where pace of price growth since September 2015 has been the fastest. These include: Shenzhen, Shanghai, Xiamen, Suzhou, Nanjing, Foshan, Zhuhai, Beijing, Kunshan, Huizhou, Zhongshan, Hefei, Wenzhou, Langfang. Yellow denotes the next 8 cities where pace of growth has picked up (especially since February 2016). These include: Wuhan, Tianjin, Hangzhou, Baoding, Dongguan, Wuxi, Guangzhou, Jiangyang

The property sector remains entrenched as a key economic pillar with land revenue reliance continuing to be high (eg: in the traditional industrial belts). As de-stocking of property inventory remains a major policy aim, we see policy stances towards lower tier cities remaining favourable. From an aerial view of China, positive momentum in the property sector will continue. Barring any rate cuts, which our China economist believe there is no urgency for China to do so at this juncture, we remain that pace of growth will be slower for the remainder of the year.

Figure 33: Cities where policies are likely to continue be supportive

Source: Fang.com, OCBC Credit Research
Green denotes the 46 cities (of 100 cities) where pace of price growth has been flat and/or negative since September 2015.

Real estate investment growth and land purchases (by area) bottomed out in end-2015. For the first 5 months in 2016, total investment in real estate development was RMB3,456 bn. Of these, investment into residential buildings was RMB2,312bn or ~67% of the total development investment. Nominal growth of investment in residential buildings was 6.8% higher y/y. During the same period, land area bought by real estate developers totalled ~72m sqm, representing a decline of only 5.9% and significantly narrowing from the negative 31% observed in 5M2015 (a period where developers were cautious in land banking). Based on a median of 13 tier 1 and 2 cities, China residential absorption rate has also reduced to 5.9 months as of May 2016. (May 2015: 10.5 months). Whilst both tier 1 and tier 2 cities also saw faster absorption rates, tier 2 cities saw a higher improvement (11 months to 5.4 months versus 9.2 months to 7 months for tier 1). We believe this reflects that the government's stimulus policies have led to broader based improvement in sales volume beyond the traditional investment destinations. In addition to owner-occupiers, China housing properties are also an important form of financial investment.

Figure 34: China REI

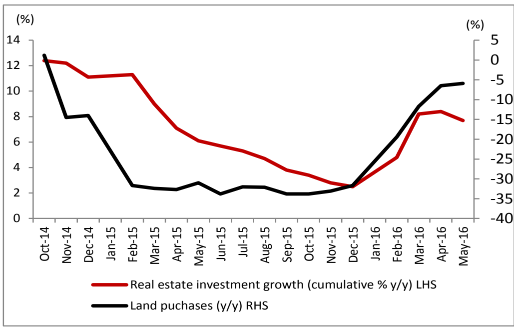
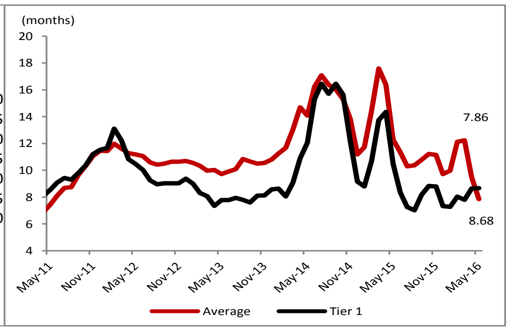


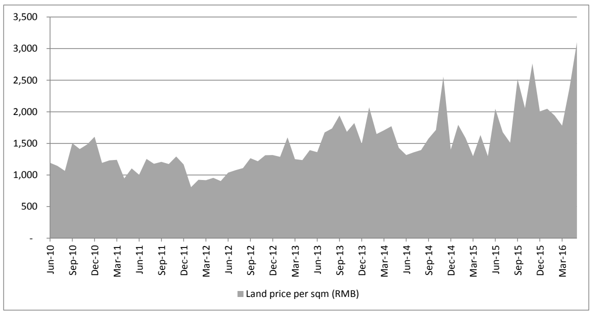
Figure 35: China residential inventories



Source: Bloomberg, National Bureau of Statistics of China | Figure 35 represents Tier 1 and 2 data only

Amidst a housing price boom, land prices have soared, with some market participants commenting that land prices of certain cities are higher than housing prices within the vicinity and as such cause for much concern. More recently, Sunac China Holdings Ltd revealed that the company has suspended all land bidding activities due to heated competition to win land auctions while an online land auction for two parcels of land in Suzhou was terminated automatically as the prices bided exceeded government ceilings. We have observed an upswing in land prices and that growth in land prices have exceeded growth in ASP but see it as the ebb and flow of China's housing market (which the government has a handle over). Average land prices were 27% of ASP in May 2016, pointing towards sector-wide margin compression. We would be more concerned, if such an occurrence coincided with high household leverage. The universe of SGD bond issuers are likely to remain disciplined in land acquisitions.

Figure 36: Average Land Prices



Source: Wall Street Journal

Hong Kong Property – Office space is a bright spot amidst impending Residential supply pressure with Retail subdued

Residential

In our January 2016 compendium, we warned of signs of weaknesses emerging in the Hong Kong residential sector. This trend has intensified over the past 6 months. Whilst the decline flattened in May 2016 with price index unchanged from April 2016, it was 7.8% lower than 31 March 2016 and 12.5% down from the beginning for January 2016. In our view, the flattening out in May 2016 will not be long-lived on the back of an impending supply glut of units and the government still keen on addressing the severe affordability issue among the local population. Per the 2016 Demographia International Housing Affordability Survey, the median house price divided by gross annual median household income ("Median Multiple") for Hong Kong was 19.0x (Singapore: 5.0x, New York: 5.9x). Of the 2.43m households, only 53.5% live in private permanent housing while 45.9% live in public housing. The private housing market in Hong Kong is highly reliant on investor interest (including non-local buying interest). We think some of the traditional pool of investors has directed their purchases to cities within the Mainland.

Hong Kong is not short of suitable land supply and further policy moves towards releasing more land supply for residential will have a knock-on negative effect on completed and under-construction but unsold units. Based on Hong Kong's Lands Department data, a piece of land in Tai Po was sold for 21% lower in May 2016 versus a similar plot sold in September 2015. Both lots are zoned as Residential R2 density. Developers have introduced bridge financing at rates as high as 123% for select developments in Yuen Long (Northern Territories) in the past few months. Such financing are not offered by banks and outside the purview of the Hong Kong Monetary Authority. While this is a sign that developers are reacting to impending gluts in certain micro-markets, we have yet to see widespread use of "irregular financing" practices (which will heighten the risk of a property crash, albeit delayed).

During the first 3 months of the year, construction commenced on 13,300 private residential units, a record high against the last 5 year average of ~13,000. 14,200 units commenced construction for the full year 2015. As at 31 March 2016, there were 65,000 of units under construction which are not yet sold or not yet offered for sale, significantly higher than the less than 55,000 every year in the last 11 years). Knight Frank estimates that 108,000 new units may come into supply within the next 5 years (21,600 on average). We think there is pent up demand from natural buyers (eg: first time home buyers) but the clearing price will need to fall further before buyers will find it attractive to enter the market. Overall, we are unlikely to see a sharp correction given still-manageable household debt, existence of buyers waiting on the side-lines and that new activity build up (transaction volumes) has moderated since policy tightening measures in 1Q2015.

Figure 37: Residential price index from 1993

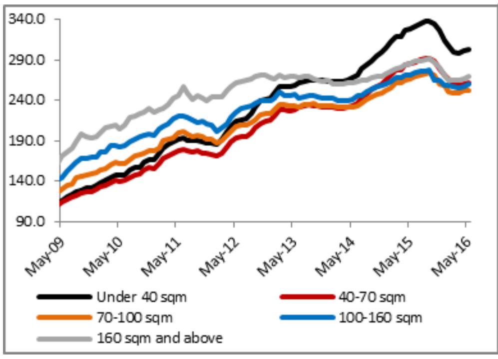
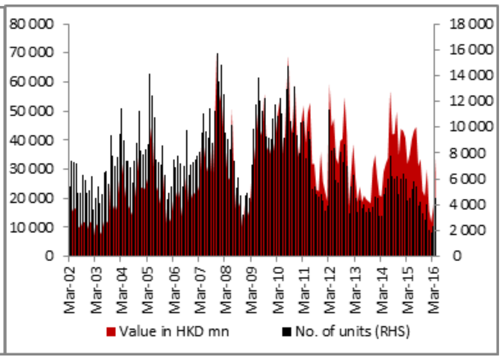


Figure 38: HK residential transactions



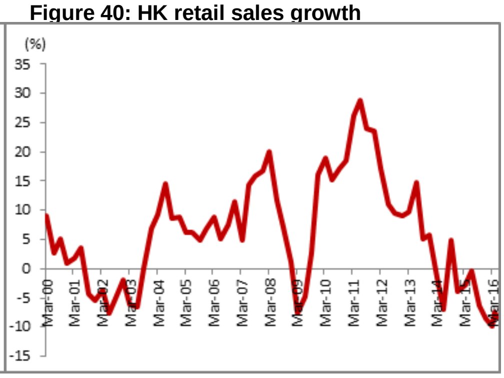
Source: Rating and Valuation Department Hong Kong, Bloomberg, OCBC

Retail

Hong Kong retail sales declined for the 15th straight month on the back of lower tourists numbers from the Mainland and weak local consumption. Mainland tourists account for ~75% of total visitors to Hong Kong. In May 2016, tourist numbers fell 6.4% from the same time last year while average spending for tourists fell to HKD2,000/day from HKD6,000/day. Sales of luxury goods including jewellery and watches fell 18.7%, followed by department stores down by 5.9% and apparel 5.7%. Retail rents continue to weaken, with CBRE projecting that retail rents would hit bottom in 2017 after a further 15% decline this year. One of the largest retail landlords in Causeway Bay, Hysan Development, is re-positioning its portfolio towards the mid-affordable market. The company has re-let retail space with a positive rental revision of 5-10% for half of its leases coming due this year, though this is lower than the ~25% rental revision in 2015. Coming off a high base, we are not overly concerned about a fall in rental rates for the shorter tenor bonds under our coverage. Structural threats to the retail property sector which would have far-reaching implications include (1) Mainland shoppers opting to shop elsewhere (including within China) (2) reduction of tax differential between Hong Kong vs. Mainland for imported goods (3) shift towards online shopping (of which Hong Kong is still a laggard).

Figure 39: HK retail rent growth

Figure 40: HK retail sales growth



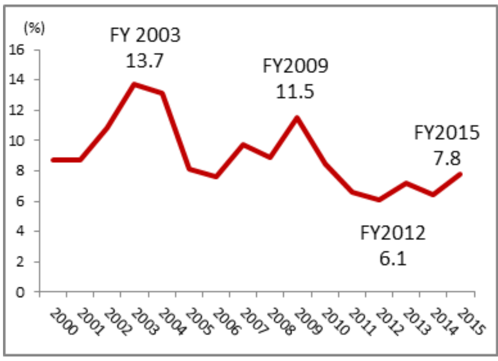
Source: Census and Statistics Department Hong Kong, Rating and Valuation Department Hong Kong, Bloomberg, OCBC

Office

The Hong Kong office property market has continued its outperformance. According to CBRE, Central in Hong Kong has displaced London as the world's highest priced office market with prime occupancy costs (rent plus local taxes and service) of USD290 per sq ft per year. This was driven by low vacancy rates due to lack of new development and continued high demand driven by expansion requirements by both Mainland and foreign financial services (eg: private banks). Jones Lang LaSalle data showed that in end-May 2016, overall Grade A office vacancy rates was 3.8%, though vacancy rates on Hong Kong island was markedly tighter in Central (1.3%), Wanchai/Causeway Bay (2.0%), and Hong Kong East (0.8%).

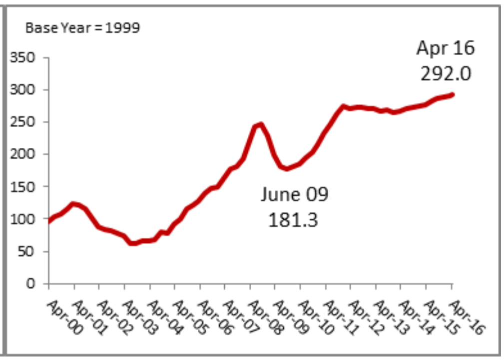
Market participants are also anticipating the government land sale of Murray Road carpark (first time in 20 years government is directly offering an office development site in Central). This asset is likely to see strong interest from both Hong Kong and Mainland developers, extending a trend since November 2015. Evergrande announced that it was acquiring Mass Mutual Tower (Wanchai) for HKD12.5bn while China Life acquired One HarbourGate (Hung Hom) for HKD5.9bn. This was followed by China Everbright's HKD10bn acquisition of Dah Sing Financial Centre (Wanchai). The buoyant office market will continue to underpin revaluation gains and recurring cash flow from investment properties held by Hong Kong property companies under our coverage.

Figure 41: Grade A office vacancy rate



Source: Bloomberg

Figure 42: HK Grade A rental Index



Source: Bloomberg

Top Trade Ideas

Top Picks

Company	Ticker	S&P / Moody's / Fitch	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM	Rationale
Central China Real Estate Ltd	CENCHI	B+/Ba3/NR	6.50%	26-May-17	SGD200mn	101.50	4.76%	CENCHI's bonds offer the highest yield/spread pick-up in the SGD China property space at ~4.76% for 1-year risk. We are comfortable with the company's liquidity position and think policies would remain supportive for home prices in lower tiered cities.
Wing Tai Holdings	WINGTA	NR/NR/NR	4.00%	7-Oct-21	SGD120mn	102.50	3.47%	The divestment of its 50% stake in Nouvel 18 to CDL for SGD411mn in cash would strengthen WINGTA's already strong balance sheet further, making its bond look cheap relative to larger players like CDL.
			4.50%	26-Sep-22	SGD100mn	104.25	3.73%	
VIVA Industrial Trust	VITSP	BB/NR/NR	4.15%	19-Sep-18	SGD100mn	100	4.15%	While we have a Negative issuer outlook on VIT, we are comfortable with the VITSP'18s due to its short tenure and maturity prior to the rental support expiry of key properties. At a YTM of 4.15%, we think the bond provides a fair value for investors who are able to invest in a higher yielding paper.
Ezra Holdings Limited	EZRASP	NR/NR/NR	4.88%	24-Apr-18	SGD150mn	85.0	14.70%	Since mid-2015, despite raising fresh equity, setting up JVs bringing in strategic investors and receiving capital injections, selling assets like its FPSOs as well as cleaning up its balance sheet via impairments and provisions, EZRA still largely trades like any other smaller offshore marine issuer. We believe this will change.
Australia & New Zealand Banking Group Ltd	ANZ	BBB+/A3/A+	3.75%	23-Mar-22	SGD500mn	99.50	3.84%	ANZ is one of only a few T2 papers which is currently below par. Its credit profile benefits from its strong market position and stable industry structure. We think there is potential upside as restructuring initiatives are expected to improve returns through lowering its overseas exposures.

Pans

Company	Ticker	S&P / Moody's / Fitch	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM	Rationale
Keppel Corp	KEPSP	NR/NR/NR	3.10%	12-Oct-20	SGD500mn	101.50	2.54%	We are underweight on valuation,as the KEPSP'20s are trading at levels comparable with CAPLSP'20s and CITSP'20s
Mapletree Commercial Trust	MCTSP	NR/Baa1/NR	3.600%	24-Aug-20	SGD160mn	104.25	2.51.%	We are underweight on valuation, as MCT's aggregate leverage would jump post the Mapletree Business City acquisition. The MCTSP'20s look tight relative to peers like the SUNSP'20s.
Olam International Ltd	OLAMSP	NR/NR/NR	6.000%	10-Aug-18	SGD250mn	106.00	3.00%	We like the OLAMSP'49c17 and think OLAMSP'22 is at fair value. However, we are putting the OLAMSP'18 and 19s at underweight as we see investors being undercompensated for refinancing risk assumed.
			5.800%	17-Jul-19	SGD350mn	105.00	4.02%	
			4.250%	22-Jul-19	SGD400mn	101.00	3.90%	
CWT Ltd	CWTSP	NR//NR/NR	4.000%	13-Mar-17	SGD100mn	100.30	3.64%	We think the CWTSP'17s have reached fair value and would not be looking to add on this. Our base remains that uncertainties surrounding the potential change of ownership will limit the potential upside.
United Overseas Bank Ltd	UOBSP	BBB+/A2/A+	3.50%	22-May-20	SGD500mn	104.0	2.41%	UOB's spread seems tight compared to similarly rated T2 bank papers, even considering duration. Although its exposure to South East Asia generates higher NIMs than Singapore, they also represent higher operating risk for UOB with non-performing loan ratios from these countries materially higher than UOB's other key markets of Singapore and China.

Source: OCBC estimates, Bloomberg (as of market close 8th July 2016)

Contents

Please note that due to OCBC's engagement in other business activities, we have suspended our coverage on the following names until these activities are completed:

a) **First Real Estate Investment Trust**

b) **Otto Marine Limited**

c) **CapitaLand Commercial Trust**

d) **CapitaLand Mall Trust**

e) **Golden Agri-Resources Ltd**

Corporate Outlooks

Credit Outlook – We think the AIMS AMP curve provide sufficient yield pick-up to compensate for its more concentrated tenancy profile against its peers in the mid-cap industrial space (ie: SBREIT and CREIT). All three issuers are rated at the same levels. The AAREIT ‘19s also provide an interesting “buy-and-hold” alternative to the AREIT ‘19s, providing a 157 bps pick-up.

Issuer Profile: Neutral

S&P: BBB-/Stable

Moody’s: Not rated

Fitch: Not rated

Ticker: **AAREITSP**

Background

AIMS AMP Capital Industrials REIT (“AAREIT), listed on the SGX is an industrials focused REIT with total assets of about SGD1.5bn as at 31 March 2016. AAREIT currently owns a portfolio of 25 properties in Singapore and a 49% stake in a property in Australia. AAREIT is sponsored by Australia-based AIMS Financial Group and AMP Capital who collectively own ~17%. Other major shareholders are: Dragon Pacific Assets Limited (11%), APG (~9%) and Chan Wai Kheong (~5%)

AIMS AMP Capital Industrial REIT

Key credit considerations

- **Financial performance driven by full year contribution from completed redevelopments:** For the full year ended March 2016 (FY2016), AAREIT reported a 7.8% increase in gross revenue to SGD124.4mn. This was largely attributable to the full year contribution from 20 Gul Way and 103 Defu Lane 10 which had become income producing from mid-2014 onwards post completion of major asset enhancement initiatives (“AEI”) carried out. Optus Centre (which is not consolidated into the revenue line) saw its gross rental income improved by 4% to SGD16.6mn. In last two financial years, AAREIT has paid out more to its unitholders than cash flow received from operations (after capex), resulting in a decline of cash balance.

- **Occupancy:** 7 assets where occupancy has fallen saw gross rental income being held steady (if not improved). “We believe this was due to the REIT prioritizing lease rates in lieu of securing occupancy”. In FY2016, AAREIT executed 64 new and renewal leases (representing ~23% of total portfolio net lettable area (“NLA”)) at a weighted average rental increase of ~9.5%. Portfolio occupancy was 93.4%, above Singapore sector-wide averages, though falling from 95.8% as at 31 March 2015.

- **Weighted Average Lease Expiry (“WALE”) shorter with asset corrosion in Singapore:** WALE by gross rental income was 2.9 years as at 31 March 2016, falling from 3.3 years as at 31 March 2015. We expect that it will be challenging for the REIT to continue securing positive rental reversions whilst simultaneously locking in longer term tenants. As at 31 March 2016, 57% by gross rental income would need to be renewed for the next three years, lower than the 62% as at 31 March 2015. In FY2016, AAREIT reported a net change in fair value of investment properties and investment properties under development of negative SGD42.4mn (FY2015: revaluation gain of SGD37.7mn) driven by lower rent assumptions and shorter balance land tenure for some of the Singapore properties. Optus Centre in Macquarie Park was valued 12% higher at AUD218mn (~SGD225. (based on 49% interest held by AAREIT).

- **Tenant concentration risk:** 22.5% of gross rental income in 4Q2016 was attributed to CWT Limited. Post the redevelopment of 30 & 32 Tuas West Road (targeted in January 2017), CWT Limited’s contribution to AAREIT is expected to rise to ~25%. As of report date, the major shareholders of CWT Limited are in exclusive discussions with China-based HNA Group on a possible sale of their stake. Any such change is unlikely to affect the sanctity of the underlying lease contracts through could bring about an alteration in counterparty credit risk. The second largest tenant is Optus Administration Pty Limited (“Optus”), an indirect wholly-owned subsidiary of Singtel, contributed ~13% to gross rental income.

- **Near term refinancing risk removed:** Attributed to additional debt undertaken to finance the redevelopment of 30 & 32 Tuas West Road and payment of retention sum for the 20 Gul Way and 103 Defu Lane 10. Aggregate leverage has risen slightly to 32.4% as at 31 March 2016. In addition to 30 & 32 Tuas West, AAREIT has also decided to accelerate redevelopment plans of 8 & 10 Tuas Avenue 20 after a fire accident caused partial damage to the property in April 2016. Collectively, AAREIT will set aside SGD60m in debt financing for the redevelopments. Coverage levels (EBITDA/Gross Interest) improved to 3.6x in FY2016 from 3.1x in FY2015. If we include ~SGD14mn p.a in cash distribution from Optus Centre, Adjusted EBITDA/Gross Interest is healthy at 4.4x (FY2015: 3.7x). AAREIT has 62% of its debt secured. In April 2016, banks have committed to upsize AAREIT’s existing secured facilities for the refinancing of the SGD100m AAREIT 4.9% ’16s due in August. Post completion, AAREIT’s weighted average debt maturity will increase to 2.92 years. We initiate our coverage on AAREIT with a Neutral issuer rating.

AIMS AMPS Capital Industrial Trust

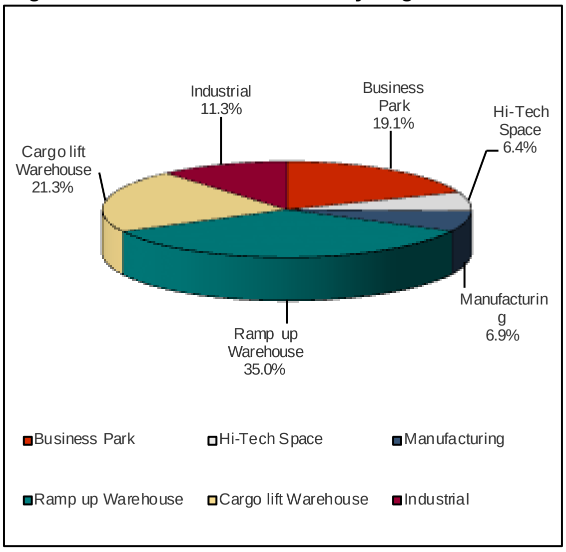
Table 1: Summary Financials

Year Ended 31st Mar	FY2014	FY2015	FY2016
Income Statement (SGD'mn)			
Revenue	108.2	115.4	124.4
EBITDA	66.1	69.9	73.5
EBIT	66.1	69.9	73.5
Gross interest expense	13.8	22.8	20.2
Profit Before Tax	84.0	109.8	45.7
Net profit	83.9	108.1	40.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	21.8	10.1	7.5
Total assets	1,405.2	1,458.3	1,459.5
Gross debt	442.1	454.2	471.5
Net debt	420.3	444.1	464.0
Shareholders' equity	911.9	962.1	940.7
Total capitalization	1,354.0	1,416.3	1,412.2
Net capitalization	1,332.2	1,406.2	1,404.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	83.9	108.1	40.8
CFO	72.2	75.5	74.6
Capex	66.7	49.2	22.7
Acquisitions	208.4	0.9	0.4
Disposals	0.0	0.1	0.0
Dividends	48.3	57.9	68.0
Free Cash Flow (FCF)	5.5	26.3	51.9
FCF Adjusted	-251.2	-32.4	-16.5
Key Ratios			
EBITDA margin (%)	61.1	60.5	59.1
Net margin (%)	77.6	93.6	32.8
Gross debt to EBITDA (x)	6.7	6.5	6.4
Net debt to EBITDA (x)	6.4	6.4	6.3
Gross Debt to Equity (x)	0.48	0.47	0.50
Net Debt to Equity (x)	0.46	0.46	0.49
Gross debt/total capitalisation (%)	32.7	32.1	33.4
Net debt/net capitalisation (%)	31.6	31.6	33.0
Cash/current borrowings (x)	NM	NM	0.1
EBITDA/Total Interest (x)	4.8	3.1	3.6

Source: Company, OCBC estimates

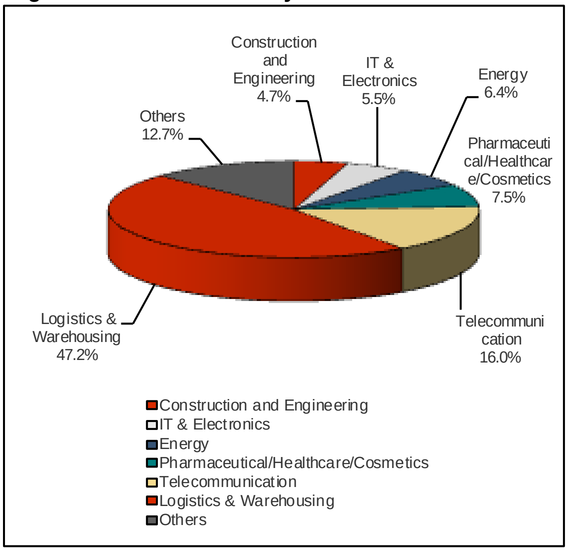
* *FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - FY2016



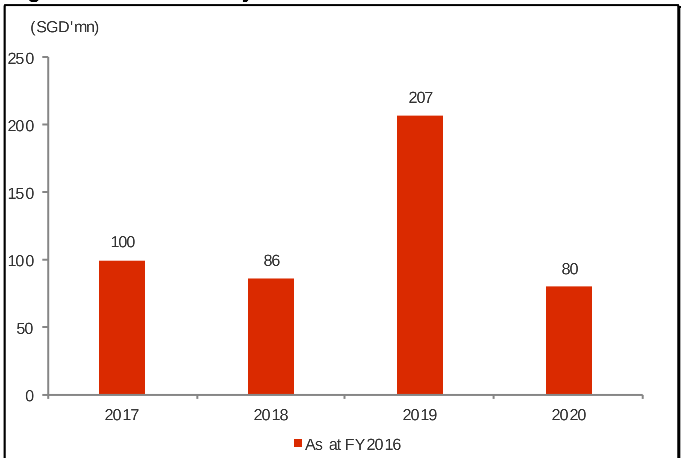
Source: Company

Figure 2: Rental Income by Trade Sector - FY2016



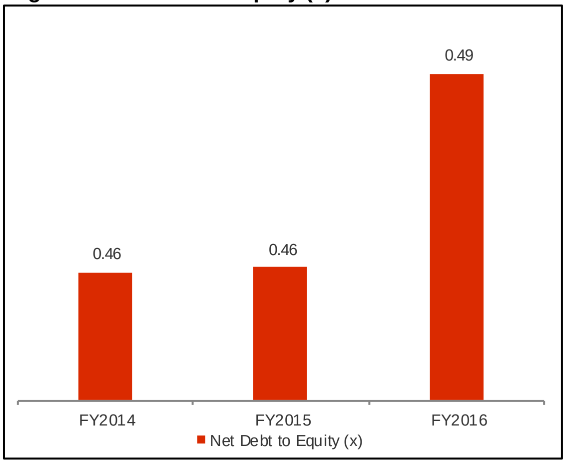
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Ascendas Real Estate Investment Trust

Credit Outlook –

The AREIT'19s is tight in our view. We prefer the MINT'19s within the large cap industrial REIT space. Despite the one-notch rating differential, the MINT'19s provides a yield pick-up of ~30 bps against AREIT whose aggregate leverage is ~40%. We see the yield gap between MINT and AREIT converging at the longer end as such hold the rest of the curve on neutral.

Issuer Profile: Neutral

S&P: Not rated

Moody's: A3/Stable

Fitch: Not rated

Ticker: **AREITSP**

Background

Listed in 2002, Ascendas REIT ("AREIT") is the first and largest business space and industrial REIT in Singapore, with total assets of about SGD9.9bn as at 31 March 2016. AREIT currently owns a diversified portfolio of 102 properties in Singapore, 27 properties in Australia and 2 properties in China (1 in the process of being divested). AREIT is sponsored by Ascendas-Singbridge Group, which has a deemed interest of ~20% in AREIT. Ascendas-Singbridge is in turned 49:51 owned by JTC Corporation and Temasek respectively.

Key credit considerations

- **Full year growth driven by Australia expansion and Aperia asset:** For the full year ended March 2016 (FY2016), AREIT reported a 13% increase in gross revenue to SGD761m. This was largely attributable to the SGD29m contribution of 27 new logistics and distribution properties in Australia and the first full year contribution from Aperia in Singapore. We estimate organic revenue growth of ~2% driven by positive rental reversion for leases renewed during the year. Net property income margin for the year was stable at 70%.

- **Occupancy:** On an aggregate portfolio level, AREIT achieved portfolio occupancy of 87.6%, declining somewhat from the immediately preceding quarter due to the single tenant lease expiry at 279 Jalan Ahmed Ibrahim in Tuas. Occupancy of A-REIT City@ Jinqiao (Pudong, Shanghai) remained weak at 56.7%. Excluding business and science parks, AREIT's Singapore properties reported occupancies which are at par or lower than industry averages in the last two quarters. Nevertheless, we take comfort that AREIT is relatively insulated from manufacturing/production functions and oil & gas, sectors which are facing significant headwinds. As at 31 March 2016, 10.1% of net lettable area ("NLA") is occupied by tenants engaged in manufacturing activities. The bulk of AREIT's NLA non-manufacturing activities including research and development, backroom offices, telecommunications and data centre, software and media consultancy services (ie: activities that traditionally carried out in office properties), transport and logistics.

- **Weighted Average Lease Expiry ("WALE") stable**: Portfolio WALE by gross revenue remained healthy at 3.7 years (1Q2015: 3.8 years). The Australian portfolio has a longer WALE at 5.2 years as at 31 March 2016. Against the macro weakness, this allows AREIT room to maneuver the trade-off between tenure of its Singapore leases vis-à-vis securing higher rent. We estimate that the Australian portfolio will form ~14% gross revenue in FY2017 (from only 4% in FY2016). AREIT typically has ~60%-63% of gross revenue up for renewal within the forward three years. As at 31 March 2016, only ~56% of gross revenue is due for renewal between 1 April 2016 and 31 March 2019AREIT's tilt towards Australia has assisted in spreading out AREIT's lease expiry. Management has guided that rental reversions will be flat or grow at a modest rate this year.

- **Continued focus on Singapore and Australia:** In June 2016, AREIT completed both the sale of Jiashan Logistics Centre (near Shanghai). Jiashan Logistics Centre (valued at SGD26m with a total development cost of SGD20.9m) was a speculative build that was only completed in March 2016. It is in the midst of divesting Ascendas Z-Link (located in Beijing) for SGD160m. Post the transactions, AREIT will only have one asset in China. As management has added that AREIT will focus on purchasing assets that complement its "cluster" approach in locations where it sees economies of scale, we expect that AREIT will focus on Singapore (eg: rejuvenation of Science Park in Singapore) and Australia for now.

- **Credit profile mixed:** AREIT's headline aggregate leverage was contained at 37% as at 31 March 2016 despite the significant acquisitions made in FY2015 (though rising from 34% as at 31 March 2015). This was aided by a SGD300m perpetual issuance. Meanwhile, interest coverage ratio reduced to 5.0x from 5.8x in FY2015. We think it is more realistic to factor in AREIT's perpetual distribution given the perpetuals incorporates a dividend stopper. Assuming no new additions/disposals, AREIT's EBITDA/(Gross Interest plus perpetual distribution) is likely to be ~4.6x on the low-end in FY2017. Unencumbered properties as a proportion of total investment properties declined to ~77% from 86%, while average debt maturity of AREIT remains acceptable at 3.4 years.

Ascendas Real Estate Investment Trust

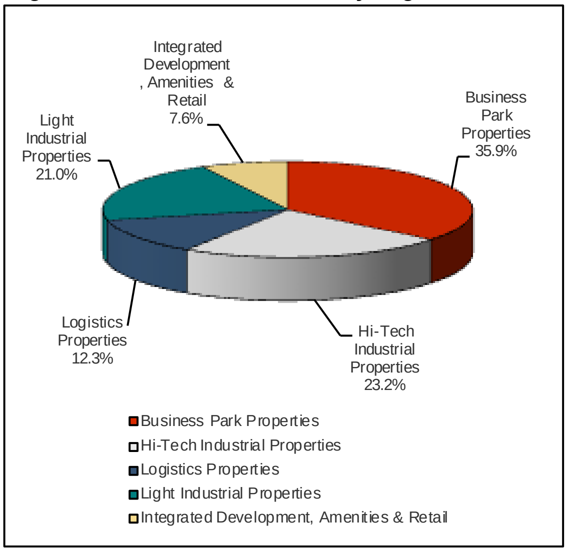
Table 1: Summary Financials

Year Ended 31st March	FY2014	FY2015	FY2016
Income Statement (SGD'mn)			
Revenue	613.6	673.5	761.0
EBITDA	395.9	419.3	466.5
EBIT	395.2	419.0	466.3
Gross interest expense	66.4	72.2	93.6
Profit Before Tax	505.2	404.3	369.3
Net profit	482.0	397.6	344.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	65.9	41.6	56.2
Total assets	7,357.5	8,160.3	9,870.2
Gross debt	2,177.0	2,727.7	3,310.6
Net debt	2,111.0	2,686.1	3,254.3
Shareholders' equity	4,848.6	5,013.6	5,785.3
Total capitalization	7,025.5	7,741.3	9,095.9
Net capitalization	6,959.6	7,699.7	9,039.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	482.7	398.0	344.4
CFO	407.0	362.4	481.7
Capex	102.3	98.7	251.0
Acquisitions	62.4	557.0	1,282.6
Disposals	70.0	12.6	38.7
Dividends	325.8	260.8	442.1
Free Cash Flow (FCF)	304.8	263.7	230.7
FCF Adjusted	-13.5	-541.4	-1,455.3
Key Ratios			
EBITDA margin (%)	64.5	62.3	61.3
Net margin (%)	78.5	59.0	45.2
Gross debt to EBITDA (x)	5.5	6.5	7.1
Net debt to EBITDA (x)	5.3	6.4	7.0
Gross Debt to Equity (x)	0.45	0.54	0.57
Net Debt to Equity (x)	0.44	0.54	0.56
Gross debt/total capitalisation (%)	31.0	35.2	36.4
Net debt/net capitalisation (%)	30.3	34.9	36.0
Cash/current borrowings (x)	0.1	0.1	0.1
EBITDA/Total Interest (x)	6.0	5.8	5.0

Source: Company, OCBC estimates

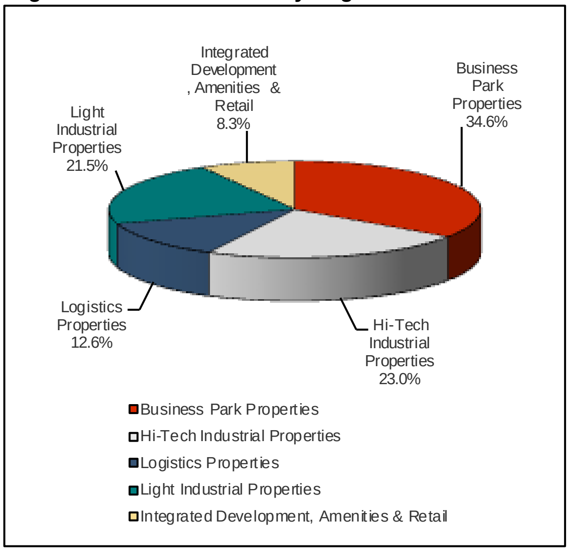
** FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - FY2016



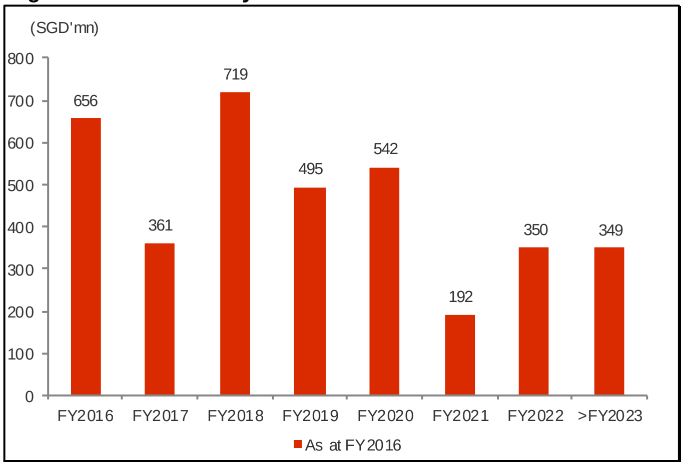
Source: Company

Figure 2: NPI breakdown by Segment - FY2016



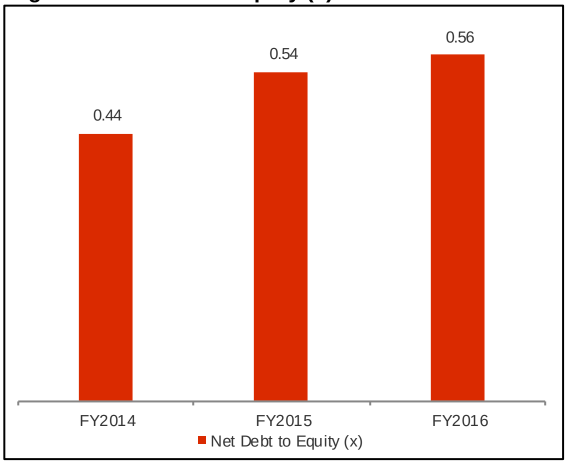
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Ascott Residence Trust

Credit Outlook – We are underweight the ARTSP'18s and recommend to take profit. Among REITs within its rating band and similar tenure, we see better value in the CREITSP'18s. We are neutral the ARTSP'22s and the ARTSP'49c.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa3/Stable

Fitch: Not rated

Ticker: **ARTSP**

Background

Ascott Residence Trust ("ART") invests primarily in serviced residences and rental housing properties. It is the largest hospitality trust listed on the SGX with asset portfolio quadrupling since listing in 2006. As at 31 March 2016m its portfolio consists of 89 properties across 38 cities in 14 countries and 11,292 units. In April 2016, a second property in New York City ("NYC") was added to its portfolio. CapitaLand has ~46% stake in ART.

Key credit considerations

- **1Q2016 performance boosted by inorganic growth:** For the quarter ended March 2016 ("1Q2016"), revenue increased by 17% to SGD105.5m from SGD90.0m in 1Q2015, mainly driven by new acquisitions made in FY2015. We estimate that revenue performance in 1Q2016 was flat on organic growth basis. Attributed to new properties with higher revenue per available unit ("RevPau"), 1Q2016 actual RevPau was SGD125, 10% higher than the corresponding quarter, In 1Q2016, 42% of gross profit came from properties underpinned by Master Leases and services residences on management contracts with minimum guaranteed income (1Q2015: 48%). Weighted average remaining tenure for such properties is 4.0 years, against weighted average debt to maturity of 5.1 years. We understand that ART would progressively renegotiate lease terms such that they align with the nature of each property's risk profile. Aggregate leverage at ART was slightly lower at 38.9% (31 December 2015: 39.3%), assisted by its SGD250m perpetual securities in June 2015 which had kept gearing in check. Adjusting the additional distribution to perpetual holders, we find that EBITDA / (Gross Interest plus perpetual distribution) to have deteriorated to 2.6x from 3.1x in 1Q2015. Unencumbered assets at ART are relatively low at ~48% versus its closest peer.

- **Portfolio tilting to shorter length of stay and the US:** In 1Q2016, 45% of rental income (excluding those on Master Leases) was attributable to guests with length of stay ("LOS") of a week or less (1Q2015: 38%). As at 31 March 2016, average portfolio length of stay (excluding Master Leases) ("LOS") was acceptable at 4 months. Over the past 5 years, LOS has been at around 4 – 5 months (31 March 2016: 4.4 months). Historically, ART's portfolio largely catered to extended stay guests. In principle, this strategy has not changed; however, we are cognizant that ART will have to respond to declining corporate travel budgets for extended stays by also focusing on shorter-stay customers. We expect this trend to intensify going forward. ART's second acquisition in NYC – the Sheraton Tribeca with an acquisition value of USD158m (~SGD218m) is a hotel catering to short-stay guests. As at 31 March 2016, China, Japan, Singapore, UK and France contribute more than 10% each to total assets. Management is aiming to acquire more assets in the US, with such assets making up 20% of its portfolio by FY2017.

- **Outstanding commitment on New Cairnhill Property:** ART is due to pay its Sponsor ~SGD259m (or 64%) of the acquisition price tag for the redeveloped Cairnhill property in Singapore within 18 months. The price tag of SGD405m (full cash acquisition) has been agreed upfront in mid-2012, with definitive agreements signed in end-2013. The last tranche of ~SGD126m will be paid on issuance of certificate of statutory completion and certificate of title in FY2018/FY2019. Property construction is on track (temporary occupation permit expected by end-FY2016). New hotel supply outstripping demand growth is likely to keep the market soft, though we take some comfort that this property will be under a Master Lessee agreement with fixed rental component of SGD13.2m. ART's financial flexibility to raise straight equity may be somewhat impeded by its discount to net asset value as such it is likely to continue being an active issuer in the hybrid market.

- **Brexit immediate impact on aggregate leverage**: In 1Q2016, EUR and GBP denominated properties contributed 23.2% and 8.6% to gross profit respectively. ~70% of distributable income denominated in EUR is hedged while GBP income is un-hedged. Based on our worst case scenario analysis assuming no income from such properties, ART is still able to cover its interest and perpetual distribution (albeit at a narrow margin of safety). We think the immediate impact of a decline in the EUR and GBP (against SGD) will cause ART's aggregate leverage to extend beyond 40% though we note MAS allows a 45% limit.

Ascott Residence Trust

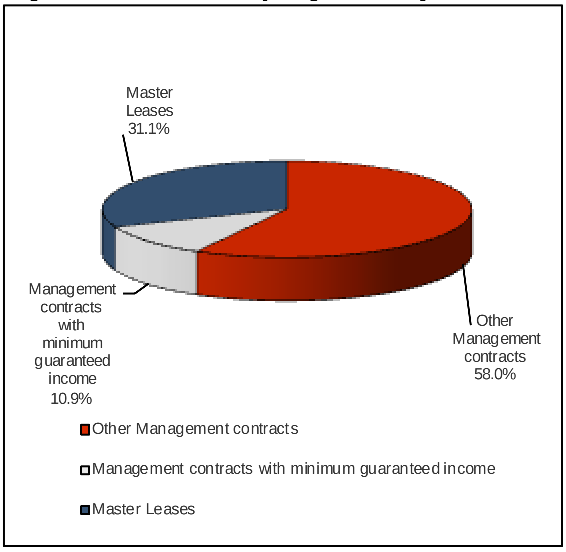
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	357.2	421.1	105.5
EBITDA	173.8	196.3	45.6
EBIT	157.6	179.7	42.1
Gross interest expense	43.3	49.9	12.7
Profit Before Tax	167.3	215.8	33.5
Net profit	122.5	165.2	25.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	192.6	220.5	199.1
Total assets	4,121.9	4,724.6	4,753.6
Gross debt	1,550.9	1,815.2	1,805.8
Net debt	1,358.4	1,594.7	1,606.7
Shareholders' equity	2,353.2	2,668.6	2,687.8
Total capitalization	3,904.1	4,483.8	4,493.6
Net capitalization	3,711.6	4,263.3	4,294.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	138.7	181.8	29.3
CFO	152.6	177.5	25.1
Capex	40.0	36.5	5.8
Acquisitions	428.4	429.2	22.2
Disposals	0.0	67.3	5.4
Dividends	119.7	141.5	64.1
Free Cash Flow (FCF)	112.5	141.0	19.3
FCF Adjusted	-435.5	-362.2	-61.7
Key Ratios			
EBITDA margin (%)	48.7	46.6	43.2
Net margin (%)	34.3	39.2	24.5
Gross debt to EBITDA (x)	8.9	9.2	9.9
Net debt to EBITDA (x)	7.8	8.1	8.8
Gross Debt to Equity (x)	0.66	0.68	0.67
Net Debt to Equity (x)	0.58	0.60	0.60
Gross debt/total capitalisation (%)	39.7	40.5	40.2
Net debt/net capitalisation (%)	36.6	37.4	37.4
Cash/current borrowings (x)	0.8	0.9	1.3
EBITDA/Total Interest (x)	4.0	3.9	3.6

Source: Company, OCBC estimates

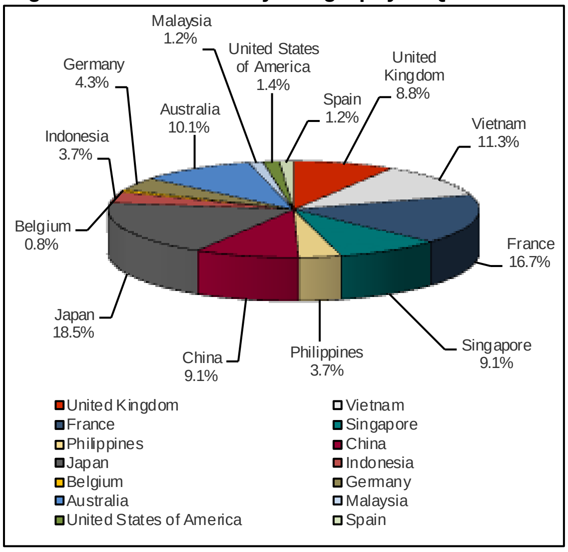
* *FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Gross Profit by Segment - 1Q2016



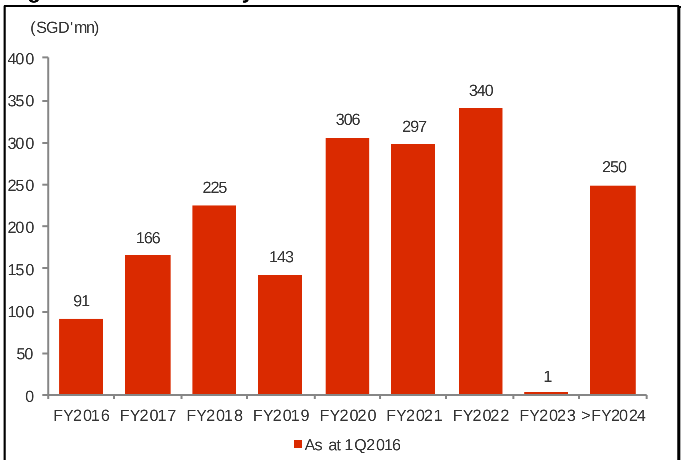
Source: Company

Figure 2: Gross Profit by Geography - 1Q2016



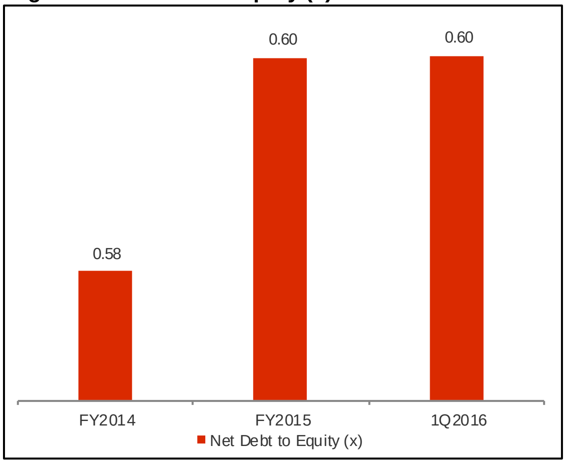
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

Though it is commendable that ASL remained profitable over 9MFY2016, net gearing remains elevated with no near-term catalysts for improvement. As such, we main Neutral on the curve.

Issuer Profile: Negative

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **ASLSP**

Company Profile

Listed in 2003, ASL Marine Holdings ("ASL") is an integrated offshore marine firm. It has four businesses: shipbuilding, shiprepair & conversion, shipchartering and engineering. Majority of the firm's revenue is generated in Asia. The firm has shipyards in Singapore, Indonesia and China. It entered the dredging engineering segment after acquiring VOSTA LMG in 3Q2013. As of the end of FY2015, the firm has a fleet of 204 vessels for its shipchartering segment, with the majority being barges. The founding Ang family continues to hold more than 60% stake in the firm.

ASL Marine Holdings Ltd

Key credit considerations

- **Shipbuilding recovery supported revenue**: 3QFY2016 results showed revenue increasing 42.1% y/y to SGD90.1mn. This was largely driven by increases in shipbuilding revenue (+200% y/y) to SGD41.7mn. It is worth noting that more than 90% of shipbuilding revenue generated was non-OSV, such as tugs and barges. This helped support ASL's overall performance, given the stress faced in the OSV sector. ASL's other segments were relatively stable, with shiprepair & conversion seeing a 9.6% y/y fall in revenue (due to the lower value of the contracts executed), shipchartering seeing a 18.0% y/y increase in revenue (with tugs and barges involved in marine infrastructure projects offsetting the slump in demand for oil & gas related vessels), and the engineering division seeing a 21.2% decline in revenue for the quarter (due to the lack of new build dredger orders). On a q/q basis though, revenue was lower by 9.6% due to lower shipbuilding revenue. 9MFY2016 revenue was 139.7% higher y/y at SGD265.7mn. It should be noted that 9MFY2015 revenue was suppressed by shipbuilding revenue reversals due to the cancellation of 2 OSV contracts during that period. Looking forward, management believes that infrastructure / construction related work (supported in part by the Singapore Government's SGD25bn budget for infrastructure spending) will help offset the weakness in the oil & gas sector. We believe that shipbuilding revenues will remain soft, as surplus capacity in the industry drives competition.

- **Chartering weakness drove margin pressure:** Gross margin compressed from 19.0% (3QFY2015) to 14.4% (3QFY2016). This was largely driven by the shipchartering segment, which generated a gross margin of just 2.6% during the quarter. The segment was squeezed by both poor utilization and weak charter rates for its OSVs, as well as general lower utilization for the rest of the fleet. Gross margin for shiprepair & conversion was also weaker due to the lack of a special one-off project. In aggregate, for 9MFY2016, gross margin was supported by the shiprepair & conversion segment as well as by the engineering segment. Looking forward, ASL would likely be sustained by its non-O&G related segments, though the muted profitability would limit any improvements to ASL's leverage profile.

- **Working capital needs a drag on cash**: For 3QFY2016, ASL generated negative SGD1.0mn in operating cash flow (including interest service) and spent SGD14.0mn on capex. As such, free cash flow for the period was negative SGD15.0mn. This was however an improvement over SGD145.7mn in negative free cash flow through 9MFY2016. For 9MFY2016, change in working capital was negative SGD122.4mn, driven by shipbuilding needs as well as increasing receivables, pressuring operating cash flow. Looking forward, ASL's ability to monetize its working capital would be key in improving its credit profile.

- **Credit profile continues to slip**: During the quarter, ASL paid down SGD11.4mn in borrowings. This, coupled with the negative free cash flow, was funded by ASL's cash balance (fell from SGD49.4mn (2QFY2016) to SGD28.2mn (3Q2016). As such, even though gross borrowings fell, net gearing remained relatively unchanged q/q at 139%. This was still a sharp deterioration relative to 109% (FY2015). Net debt / EBITDA for 9MFY2016 remains elevated at 7.3x (FY2015: 8.0x).

- **Liquidity remains tight:** Interest coverage has improved from 3.4x (FY2015) to 4.2x (9MFY2016). However, ASL has significant short-term borrowings of SGD384.8mn due over the next 12 months (including SGD100mn in bonds due March 2017). About SGD114.8mn of these relate to financing shipbuilding contracts. Comparatively, ASL only has SGD28.2mn in cash. We will retain our Negative Issuer Profile given ASL's high leverage, as well as tight liquidity. Areas of solace include ASL staying profitable and its non-oil & gas exposure.

ASL Marine Holdings Ltd

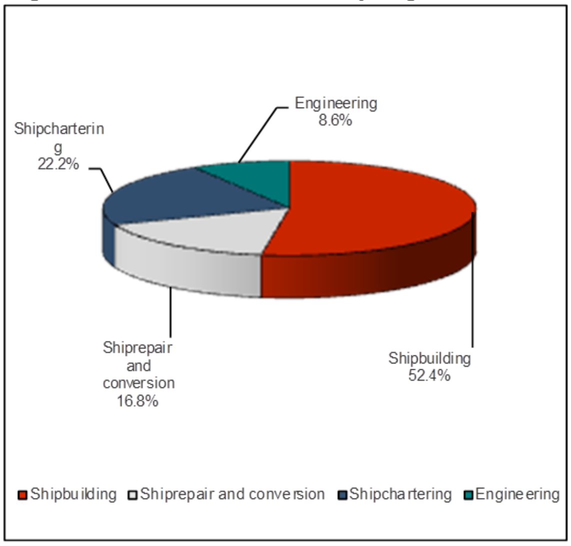
Table 1: Summary Financials

Year End 30th Jun	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	509.8	184.2	265.7
EBITDA	73.1	58.4	61.4
EBIT	26.3	12.5	22.7
Gross interest expense	16.7	17.3	14.5
Profit Before Tax	26.1	8.6	10.0
Net profit	22.1	7.9	8.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	73.2	77.9	28.2
Total assets	1,216.9	1,208.5	1,297.1
Gross debt	539.1	543.5	627.0
Net debt	465.9	465.6	598.8
Shareholders' equity	416.5	425.3	431.4
Total capitalization	955.6	968.8	1,058.4
Net capitalization	882.4	890.9	1,030.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	68.9	53.9	47.0
CFO	10.9	105.0	-74.6
Capex	113.2	118.8	71.1
Acquisitions	0.0	0.0	0.0
Disposals	8.4	52.0	8.3
Dividend	8.4	4.2	1.7
Free Cash Flow (FCF)	-102.3	-13.7	-145.7
FCF adjusted	-102.3	34.1	-139.1
Key Ratios			
EBITDA margin (%)	14.3	31.7	23.1
Net margin (%)	4.3	4.3	3.1
Gross debt to EBITDA (x)	7.4	9.3	7.7
Net debt to EBITDA (x)	6.4	8.0	7.3
Gross Debt to Equity (x)	1.29	1.28	1.45
Net Debt to Equity (x)	1.12	1.09	1.39
Gross debt/total capitalisation (%)	56.4	56.1	59.2
Net debt/net capitalisation (%)	52.8	52.3	58.1
Cash/current borrowings (x)	0.3	0.4	0.1
EBITDA/Total Interest (x)	4.4	3.4	4.2

Source: Company, OCBC estimates

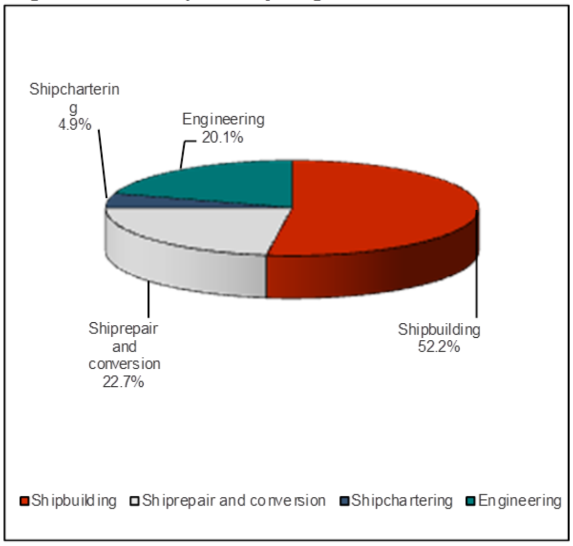
** FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 9M2016



Source: Company

Figure 2: Gross profit by Segment - 9M2016



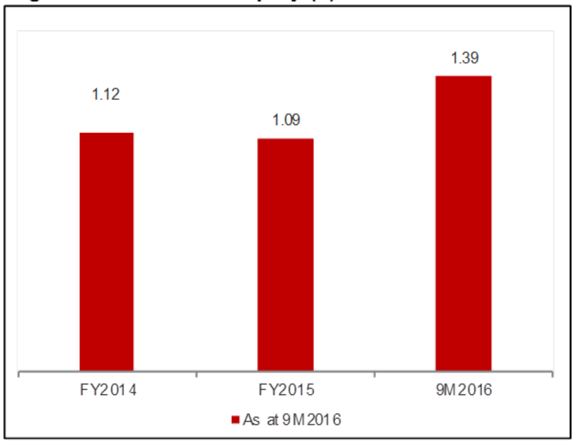
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/12/2015	% of debt
Amount repayable in one year or less, or on demand		
Secured	284.8	45.4%
Unsecured	100.0	15.9%
	384.8	**61.4%**
Amount repayable after a year		
Secured	192.2	30.7%
Unsecured	50.0	8.0%
	242.2	**38.6%**
Total	**627.0**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We are bringing the shorter end of the curve to Neutral on supportive technical factors, though we expect the longer dated bonds to remain pressured due to heavy refinancing needs as well as due to the aggressive credit profile.

Issuer Profile: Negative

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **ASPSP**

Company Profile

Aspial Corp. Ltd ("Aspial") was incorporated in 1970 and listed on the SGX in 1999. The company has evolved over the years from its roots in jewellery (holding three main jewellery brands, Lee Hwa, Goldheart; and CITIGEMS) to a diversified company with real estate and pawnshop businesses as well. Aspial has a market capitalization of SGD531.5mn as of 24 Jun 2016. Aspial is ~80%-controlled by the members of the Koh family who are siblings to Mr Koh Wee Meng, the founder of Fragrance Group Ltd.

Aspial Corp Ltd

Key credit considerations

- **Improvement in 1Q2016 results:** Aspial Corp Ltd (Aspial) reported 1Q2016 results with headline increases in revenue and EBITDA with 1Q2016 revenue increasing 25% y/y to SGD125.6mn while EBITDA was up ~2x to SGD4.8mn. Revenue was boosted by a 48.9% y/y increase in property development revenue to SGD58.5mn due to the TOP of Urban Vista and a 30.0% y/y increase in contribution from the pawn broking business to SGD37.3mn. The jewelry business in contrast continues to drag on profitability with stable revenue but an 87% plunge in pre-tax profit to SGD0.1mn with Aspial still looking to rationalize that part of the business. Looking ahead, the next four quarters will see the TOP of Kensington Square, The Hillford and Waterfront@Faber (SGD550mn of revenue to be recognized progressively) which should support the continued pickup in EBITDA generation. Note that all of Aspial's Singapore projects commenced construction.

- **Stretched balance sheet from global aspirations:** Aspial has evolved over the years from its traditional roots in jewellery since 1970 into a diversified real estate and jewelry company. The company entered the real estate business in 2001 developing mostly smaller projects with less than 30 units but has advanced to larger projects recently. Citygate is its first large scale mixed use development with 311 residential and 188 commercial units. The company also expanded overseas in 2014 with the launch of the iconic Australia 108 among other projects in Australia. As a result Aspial's balance sheet has expanded with net gearing ratios and LTM Net Debt/EBITDA increasing to 312% (2013: 234%) and 75x (2013: 9.9x), respectively as at end-2015. In addition, EBITDA/gross interest also deteriorated to 0.8x (2013: 5.9x) due to weaker earnings and increased debt load. In particular, we believe its projects in Australia have taken up substantial capital requirements for the next few years and resulted in the company's currently stretched credit metrics.

- **Leveraged credit profile despite improvement in profitability:** Leverage remained elevated despite the improvement in profitability for the quarter with LTM net debt/EBITDA improving to 66.0x (2015: 75.0x) while balance sheet remained stretched with net gearing at 319%. However, project debt should come down over the next 4 quarters with the TOP of Kensington Square, The Hillford and Waterfront@Faber. We believe that capital requirements will remain elevated though, with on-going construction for Australia 108 and Avant which will cap deleveraging potential. These projects will only be completed from late 2018 for Avant and late 2020 for Australia 108 with (1) AUD1.09bn of revenue to be recognized and (2) significant cash inflow upon completion (80% of presales consideration).

- **Weak liquidity with heavy refinancing requirements:** Aspial has heavy refinancing requirements of SGD681.6mn over the next 4 quarters including the SGD100mn ASPSP 5.00% '16 in July and the SGD80mn 4.50% '17 in January. Current cash levels (SGD144mn), SGD100mn cash from the TOP of Urban Vista and current rate of EBITDA generation will be insufficient to cover that amount even before factoring ongoing capital requirements, so we expect the company to seek to refinance some of that debt as it comes due. That said we anticipate that the company should be able to roll over the secured portion (SGD501.6mn) of debt coming due with the uncertainty coming from the SGD180mn of unsecured SGD bonds which the company currently has just enough resources to cover.

Aspial Corporation Ltd

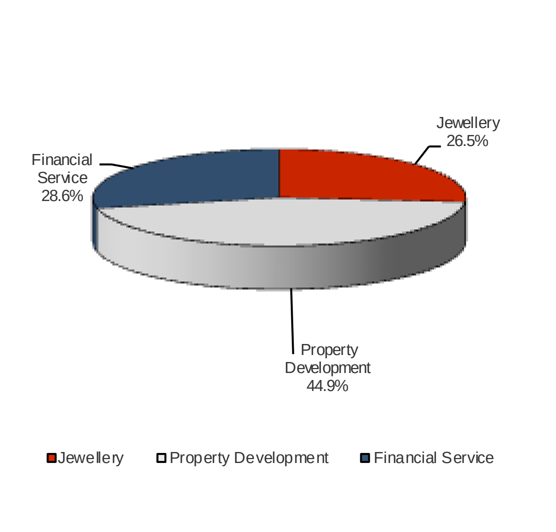
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	510.1	464.1	125.6
EBITDA	32.1	15.6	4.8
EBIT	26.9	11.0	3.7
Gross interest expense	33.6	36.8	7.2
Profit Before Tax	61.7	13.0	5.1
Net profit	43.1	8.8	3.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	83.6	133.0	144.3
Total assets	1,646.3	1,760.7	1,806.2
Gross debt	1,115.4	1,305.2	1,342.8
Net debt	1,031.8	1,172.2	1,198.4
Shareholders' equity	369.7	376.3	376.3
Total capitalization	1,485.1	1,681.5	1,719.0
Net capitalization	1,401.5	1,548.5	1,574.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	48.2	13.4	4.1
CFO	-167.4	-6.7	13.6
Capex	5.2	3.7	6.5
Acquisitions	0.9	9.7	19.6
Disposals	0.1	3.5	1.1
Dividend	11.6	15.9	0.0
Free Cash Flow (FCF)	-172.6	-10.5	7.1
FCF Adjusted	-185.0	-32.6	-11.5
Key Ratios			
EBITDA margin (%)	6.3	3.4	3.9
Net margin (%)	8.4	1.9	2.4
Gross debt to EBITDA (x)	34.8	83.5	69.4
Net debt to EBITDA (x)	32.2	75.0	61.9
Gross Debt to Equity (x)	3.02	3.47	3.57
Net Debt to Equity (x)	2.79	3.12	3.19
Gross debt/total capitalisation (%)	75.1	77.6	78.1
Net debt/net capitalisation (%)	73.6	75.7	76.1
Cash/current borrowings (x)	0.3	0.2	0.2
EBITDA/gross interest (x)	1.9	0.8	0.7

Source: Company, OCBC estimates

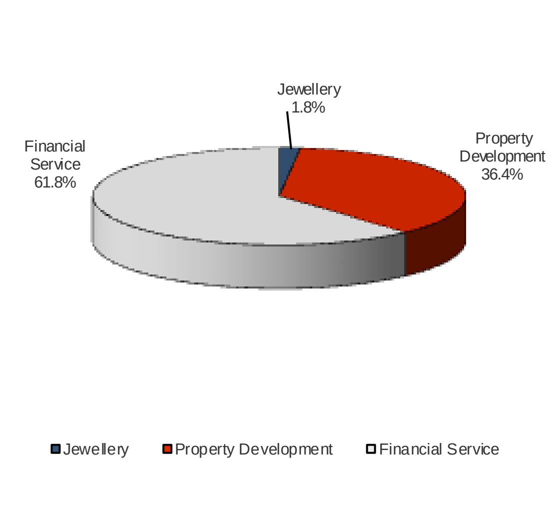
** FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 1Q2016



Source: Company

Figure 2: PBT breakdown by Segment - 1Q2016



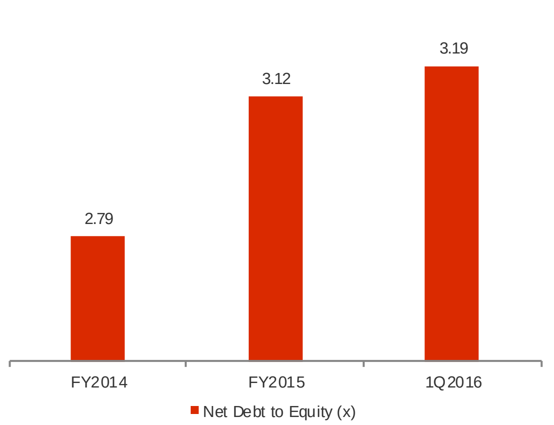
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	501.6	37.7%
Unsecured	180.0	13.5%
	681.6	**51.2%**
Amount repayable after a year		
Secured	270.3	20.3%
Unsecured	380.0	28.5%
	650.3	**48.8%**
Total	**1331.9**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Cambridge Industrial Trust

Credit Outlook – We prefer CREITSP'18s over ARTSP'18s with its ~50 bps yield pick-up. Both bonds mature the same month. We do not see CREIT's smaller asset size as an impediment as the bonds are short tenor. We are neutral the CREITSP'20s and think that the CREITSP'23s are tight relative to the MINTSP'23s whose issuer rating is two notches higher than CREIT.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa3/Stable

Fitch: Not rated

Ticker: **CREITSP**

Background

Listed in 2006, Cambridge Industrial Trust ("CREIT") is an industrial REIT in Singapore, with total assets of about SGD1.4bn as at 31 March 2016. CREIT currently owns a diversified portfolio of 51 properties in Singapore (1 is in the process of being sold) CREIT is an independent REIT in that it is not majority controlled by any property developers. The REIT's largest unitholder is Jinquan Tong (owner of Shanghai Summit) with ~16%, followed by Chan Wai Kheong at ~5%.

Key credit considerations

- **1Q2016 growth driven by completion of Asset Enhancement Initiatives ("AEI") and two acquisitions:** For the quarter ended March 2016 (1Q2016), CREIT's revenue grew by 3% y/y to SGD28.4mn. This was largely attributable to the acquisition of 160A Gul Circle, consolidation of 3 Tuas South Avenue 4 and completion of AEI at both 21B Senoko Loop and 3 Pioneer Sector during 1H2015. On an organic growth basis, gross revenue declined slightly, driven by lease expiries on some properties. 87 Defu Lane and 55 Ubi Avenue 3 (collectively valued at SGD41mn as at 31 December 2015) have been identified for divestment in the next 12 months. By contribution to rental income, the wholesale, retail trade services and other sector contributed ~28% to CREIT, a sector which is expected to grow this year, albeit mutedly. Manufacturing contributed ~25% to rental income.

- **Occupancy:** On an aggregate portfolio level, CREIT achieved portfolio occupancy of 94.1% as at 31 March 2016. This is somewhat lower than 95% as at 31 March 2015 but above Singapore sector averages. Occupancy was dragged by two properties which we believe are still vacant and 4 multi-tenanted buildings which saw weaker occupancy on the back of lease expiries. In 1Q2015, multi-tenanted properties contributed ~47% to rental income; this has tilted higher to ~52% in 1Q2016. The REIT Manager has guided that of the 8 single tenanted properties coming due in 2016; one will be converted into a multi-tenanted property.

- **Weighted Average Lease Expiry ("WALE") healthy**: Portfolio WALE by gross revenue remained healthy at 3.6 years although this has declined from 4.2 years as at 31 March 2015. More than 1mn sqft of space (representing ~13% of net lettable area ("NLA")) was renewed at average rental reversion of ~9% in FY2015. As at 31 March 2016, ~59% of gross revenue is due for renewal between 1 April 2016 and 31 December 2018. This is somewhat higher than that historically observed, signaling some challenges the REIT will face on lease rates as it continues to prioritize occupancy levels.

- **Setting sights on Australia and Japan:** Due to the lack of accretive acquisitions (on an ungeared basis) in the Singapore market over the last 24 months, we see it as a credit positive that CREIT has remained fairly selective in its expansion activities. The REIT is in the midst of a strategic review of its business and operations, including possible expansions into Australia (as main target) and Japan, next. In end-April 2016, CREIT entered into an alliance with Adelaide-based Commercial and General, a property group in Australia to co-invest in industrial assets.

- **Credit profile improved:** In FY2015, CREIT has refinanced SGD250mn of secured loans with SGD bonds and new unsecured banking facilities. As at 31 March 2016, unencumbered properties (by value) amounted to ~SGD1.2bn, representing 83% of total investment properties. In contrast, as at 31 March 2015, unencumbered properties amounted to SGD409mn. Weighted average debt maturity was 2.9 years, lengthening from 2.3 years as at 31 March 2015. In May 2016, CREIT issued SGD50mn 7-year bonds primarily to refinance existing borrowings. The next major refinancing will only occur in April 2017 when SGD100m in term loan comes due. Coverage ratio has improved slightly to 3.8x (31 March 2016: 3.6x) while aggregate leverage had remained flat at 37%. The REIT Manager is owned by the National Australia Bank ("NAB"), Oxley Group (a private investment firm and multi-family office) and Mitsui. As of report date no transaction has taken place with regards to NAB's and Oxley's potential stake sale in the REIT manager. We initiate coverage of CREIT at Neutral and may adjust this view following the completion of its strategic review.

Cambridge Industrial Trust

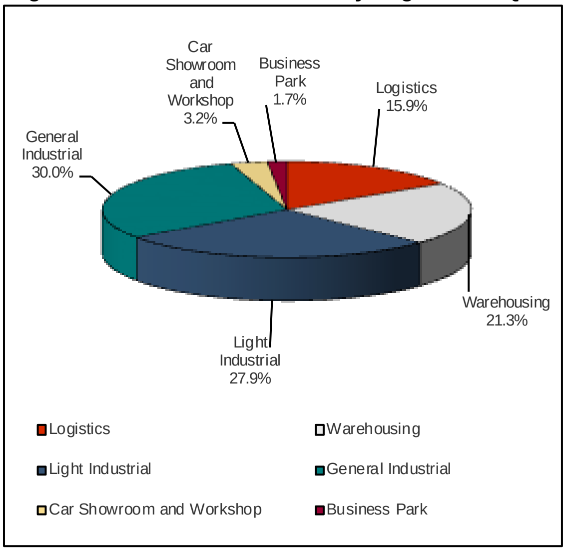
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	99.3	112.2	28.4
EBITDA	68.1	76.7	19.3
EBIT	68.1	76.7	19.3
Gross interest expense	17.6	22.2	5.1
Profit Before Tax	45.4	52.5	13.8
Net profit	45.3	52.5	13.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	6.1	2.7	4.6
Total assets	1,380.4	1,430.9	1,434.9
Gross debt	475.4	525.3	529.6
Net debt	469.3	522.6	525.0
Shareholders' equity	866.3	872.9	875.2
Total capitalization	1,341.8	1,398.2	1,404.8
Net capitalization	1,335.7	1,395.5	1,400.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	45.3	52.5	13.8
CFO	60.6	79.1	13.7
Capex	8.7	21.0	2.3
Acquisitions	0.0	10.6	0.0
Disposals	7.8	0.0	0.0
Dividends	42.6	48.4	11.5
Free Cash Flow (FCF)	42.2	5.6	6.8
FCF Adjusted	77.1	53.9	18.3
Key Ratios			
EBITDA margin (%)	68.6	68.3	67.9
Net margin (%)	45.6	46.8	48.6
Gross debt to EBITDA (x)	7.0	6.8	6.9
Net debt to EBITDA (x)	6.9	6.8	6.8
Gross Debt to Equity (x)	0.55	0.60	0.61
Net Debt to Equity (x)	0.54	0.60	0.60
Gross debt/total capitalisation (%)	35.4	37.6	37.7
Net debt/net capitalisation (%)	35.1	37.4	37.5
Cash/current borrowings (x)	0.1	NM	NM
EBITDA/Total Interest (x)	3.9	3.5	3.8

Source: Company, OCBC estimates

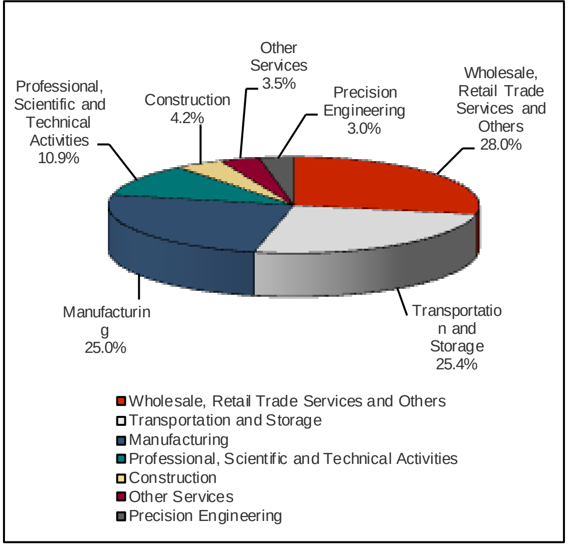
* *FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 1Q2016



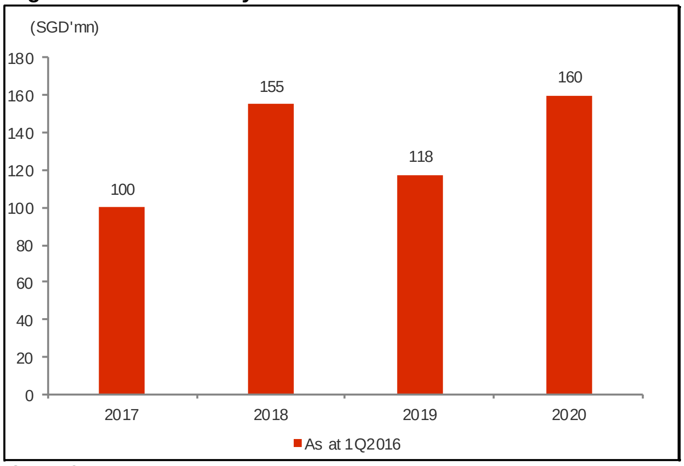
Source: Company

Figure 2: Revenue breakdown by Business - 1Q2016



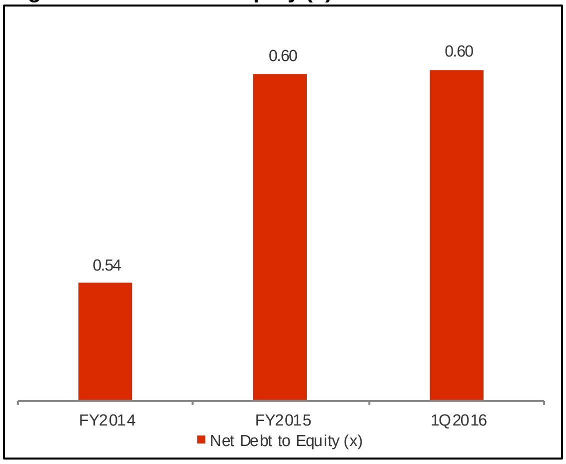
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

CapitaLand Ltd

Credit Outlook –

We like the CAPLSP 3.78 '19s over the CAPLSP 4.35 '19s for the 15bps pickup despite the former being issued by Ascott (subsidiary) rather than CapitaLand (HoldCo).

Issuer Profile: Positive

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **CAPLSP**

Company Profile

CapitaLand Ltd ("CAPL") is Singapore's leading real estate developer, operating across residential real estate development, serviced residences, retail & office REITs and real estate fund management with core markets in Singapore and China. CAPL has SGD46.4bn of assets as at 31 Mar 16 and it is ~41%-owned by Temasek Holdings Ltd.

Key credit considerations

- **Commendable 1Q2016 results given challenging operating environment:** CapitaLand Ltd (CAPL) reported a decent set of 1Q2016 results with revenue down 2.3% y/y to SGD894.2mn mainly due to the absence of one-off gains in 1Q2015 (SGD59.6mn) and lower contributions from the group's development projects in Singapore and Vietnam. However, this was offset by increased contributions from China. 1Q2016 EBITDA was down 21% y/y to SGD203.9mn as margins fell on increased project costs in Singapore (presumably on overseas marketing for Cairnhill Nine). Looking ahead, we expect revenue recognition to pick up strongly on increased contributions from China residential for the remainder of the year with 7,961 units slated for completion (1Q2016:100).

- **Revenue visibility with robust pre-sales in China and Singapore:** CAPL recorded strong pre-sales in Singapore and China. In Singapore, CAPL sold 222 units (1Q2015:69) worth SGD506mn (1Q2015: SGD197mn) in 1Q2016 mainly on the strong reception to the launch of Cairnhill Nine (193/268 units sold as of 14 April 2016). The company continues to reduce exposure to Singapore residential with inventory stock of SGD2.8bn making up 6% of total assets. In China, CAPL sold 3,377 units (1Q2015: 1,306) worth RMB4.5bn (1Q2015: RMB2.2bn). Looking ahead, CAPL will launch a further 164 units across 2 projects in Singapore (The Nassim and Victoria Park Villas) and has a further 5,188 launch-ready units in China in 2016 (of which a third are in Tier 1 cities).

- **Diversified operations mitigate volatility in individual markets:** CAPL has a diversified portfolio of real estate assets across residential, office, retail, and hospitality segments in multiple Asian markets. In 2015, CL China (EBIT up 62.4% y/y) drove CAPL's performance and offset sluggish performance in Singapore (EBIT down 38.2% y/y). In 2016, we believe CAPL's exposure to China's buoyant property market will continue to cushion the impact from a soft residential market in Singapore.

- **Minimal impact on financial profile from extension charges (ABSD/QC):** CAPL paid SGD2.7mn (0.3% of 1Q2016 revenue) in extension charges in 1Q2016 on 127 unsold units at The Interlace while managing to avoid charges on Urban Resort Condominium (SGD0.2mn paid in 2015) after selling down the remaining unsold units. Looking ahead in 2016, 181 unsold units at d'Leedon will be subject to annual QC extension charges of ~SGD4mn in October 2016. Overall, we believe the extension charges will have limited impact on CapitaLand's overall financials.

- **Credit profile underpinned by recurring income:** Net gearing improved slightly to 47% from 48% at the end of 2015 as CAPL pared down debt slightly (net debt decreased from SGD11.9bn in 2015 to SGD11.5bn). LTM Net Debt/EBTIDA however increased slightly to 10.7x from 10.3x in 2015 due to weaker earnings. LTM EBITDA/interest was down slightly to 2.2x from 2.4x. Leverage numbers look high for the tight spreads the bonds are trading at as CAPL consolidates 3 out of its 5 REITs (which brings up leverage) and benefits from its status as a GLC (41%-owned by Temasek). Excluding the impact of FRS110 (REIT consolidation), net gearing would have been 39%. That said, as a consequence of the CAPL family of REITs, 76% of assets contribute to recurring income, which underpins the company's credit profile. The company has SGD1.0bn of refinancing needs in 2016 (SGD1.2bn including REITs) and we do not foresee any problems given the company's strong capital markets access.

CapitaLand Limited

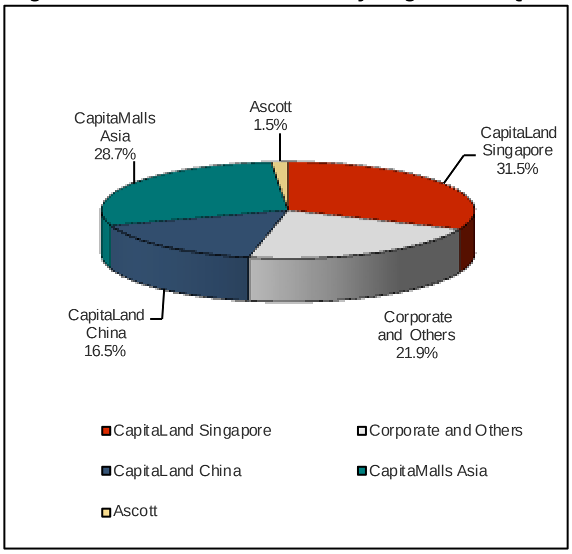
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	3,924.6	4,761.9	894.2
EBITDA	1,039.6	1,148.4	203.9
EBIT	970.1	1,073.1	187.3
Gross interest expense	439.5	477.3	118.8
Profit Before Tax	2,026.6	1,838.8	339.4
Net profit	1,160.8	1,065.7	218.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	2,749.4	4,173.3	3,895.5
Total assets	44,113.5	47,052.6	46,403.8
Gross debt	15,985.8	16,058.5	15,343.2
Net debt	13,236.4	11,885.2	11,447.6
Shareholders' equity	23,208.5	24,937.7	24,570.5
Total capitalization	39,194.3	40,996.1	39,913.6
Net capitalization	36,445.0	36,822.9	36,018.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	1,230.4	1,141.0	234.9
CFO	998.7	2,466.6	392.5
Capex	129.2	64.0	22.1
Acquisitions	1,302.0	940.0	142.5
Disposals	1,226.2	513.0	5.9
Dividend	704.9	726.9	143.0
Free Cash Flow (FCF)	869.6	2,402.6	370.4
FCF Adjusted	88.9	1,248.7	90.7
Key Ratios			
EBITDA margin (%)	26.5	24.1	22.8
Net margin (%)	29.6	22.4	24.4
Gross debt to EBITDA (x)	15.4	14.0	18.8
Net debt to EBITDA (x)	12.7	10.3	14.0
Gross Debt to Equity (x)	0.69	0.64	0.62
Net Debt to Equity (x)	0.57	0.48	0.47
Gross debt/total capitalisation (%)	40.8	39.2	38.4
Net debt/net capitalisation (%)	36.3	32.3	31.8
Cash/current borrowings (x)	0.8	1.9	2.8
EBITDA/gross interest (x)	2.4	2.4	1.7

Source: Company, OCBC estimates

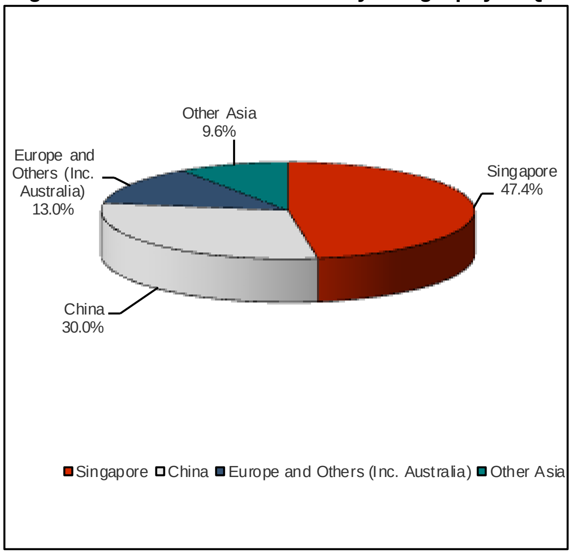
** FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 1Q2016



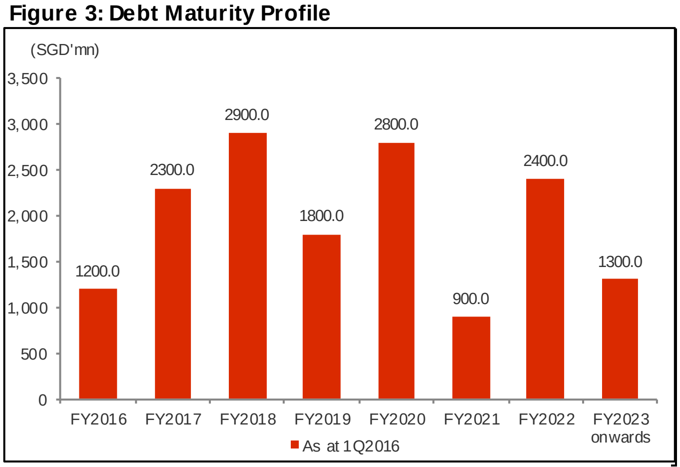
Source: Company

Figure 2: Revenue breakdown by Geography - 1Q2016



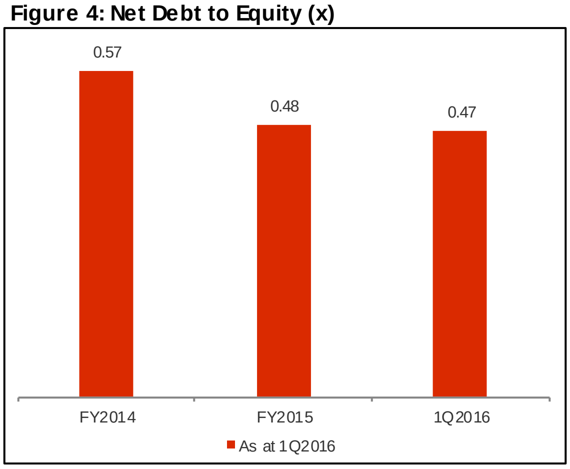
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

CCRE's bonds offer the highest yield/spread pick-up in the SGD China property space at ~4.8% less than 1-year risk. We are comfortable with the company's liquidity position which should be sufficient to cover short-term debt and a slightly negative cash flow for projected 2016.

Issuer Rating: Neutral

S&P: B+/Stable

Moody's: Ba3/Stable

Fitch: Not rated

Ticker: **CENCHI**

Company Profile

Central China Real Estate Ltd ("CENCHI") is a leading residential property developer in China's Henan province (market cap ~SGD453m) Established in 1992, CENCHI has a strong brand in Henan's residential property market. As of June 2014, CENCHI has presence in Henan's 30 cities, with a market share of 5.2% in the Henan Province by contracted sales. Its key shareholders are the Chairman, Mr. Wu Po Sum, (47.1%) and CapitaLand Ltd (27.0%).

Central China Real Estate Ltd

Key credit considerations

- **Inventory clearance and margin deterioration in 2015:** Central China Real Estate Ltd (CENCHI) reported full-year 2015 results with revenue up 36.1% y/y to RMB12.6bn mainly due to (1) an increase in recognised ASP to RMB5,993 per sqm (change of product mix and more sales from Zhengzhou), and (2) an increase in sold area from the company's strategy of accelerated inventory clearance. Attributable revenue from the joint ventures (which are not consolidated) was RMB1.93bn, up about 175% y/y. However, inventory clearance also resulted in sharp margin compression (gross profit margins fell to 22.2% from 33.6%) and EBITDA fell 21% y/y to RMB1.67bn. Looking ahead, we expect margins to remain under pressure from contracted sales made at low ASPs in 2015.

- **Contracted sales run rate picked up:** Contractual sales in June 2016 were RMB4.1bn, significantly higher than that observed in the past few months. This was supported by big launches in Zhengzhou (Tihome Jianye International City, Jiuri House, Blossom Garden Phase 1). Smaller launches include Code One City Phase 1 and Xincheng Forest Peninsula Phase I. For 1H2016, the average ASP was RMB8,354, representing a y/y increase of 69.5%. Cumulatively, CENCHI achieved property contracted sales of RMB9.4bn during 1H2016, (~71% of that in the months of May and June). We believe this is also a reflection of the stimulus policies announced in February 2016 leading to improved sentiments and ASP.

- **Inventory destocking and disciplined land acquisitions:** Land acquisitions remained disciplined at RMB2.2bn (18.63mn sqm in GFA) down 55.4% y/y and representing only 14% of 2015 contracted sales. Land acquisition budget for 2016 at RMB2.5bn remained in line with 2015 while the company budgeted a 5.1% increase in capex to RMB6.1bn due to (1) 27% y/y increase in construction starts to 3.27mn sqm and (2) plans to launch 2.73mn sqm in GFA, up 10% y/y.

- **Onshore bonds to reduce funding costs:** CENCHI issued RMB3bn of onshore bonds at 6% coming in at the slightly wide end of the 5-6.5% range that was indicated. That said, this still represents a substantial reduction in funding costs compared to the offshore market (8.75% from a USD300mn offshore bond done in April last year and 10.75% from its SGD 2016s maturing this month). The ability to tap alternative pools of capital onshore will improve the company's liquidity profile and lower the company's average borrowing costs. The onshore issuance will also reduce currency mismatches.

- **Adequate liquidity provides comfort as leverage increases:** Including restricted bank deposits, cash increased to RMB8.7bn from RMB6.5bn, mainly on strong contracted sales receipts (RMB15.7bn) and offshore bond issuance (RMB1.85bn) which covered RMB6.2bn in construction costs payment, RMB2.2bn in land payments and RMB2.1bn in taxes in 2015. Furthermore, the company has undrawn banking facilities of RMB57.6bn. Net debt/EBITDA improved from 2.1x to 2.0x mainly due to high cash levels. On a gross basis, debt/EBITDA increased to 6.4x from 4.5x previously. EBITDA interest coverage deteriorated to 1.8x from 2.5x due to weaker earnings. Net gearing improved from 64% to 45% (gross gearing increased to 146% from 135%), again mainly due to higher cash holdings. Liquidity is adequate with RMB8.7bn in cash and RMB57.6bn in undrawn banking facilities which should be sufficient to cover short-term debt (RMB1.8bn) and a slightly negative projected cash flow for 2016 (-RMB1.2bn).

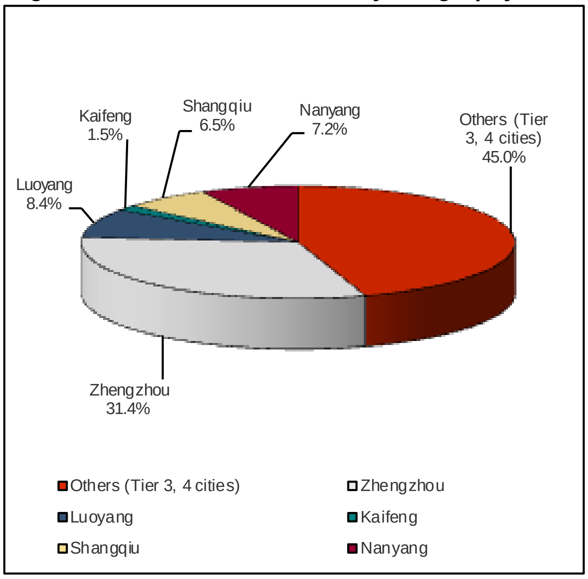
Central China Real Estate Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (RMB'mn)			
Revenue	6,951	9,229	12,563
EBITDA	1,596	2,135	1,667
EBIT	1,520	1,987	1,507
Gross interest expense	1,055	838	917
Profit Before Tax	1,939	1,957	1,741
Net profit	1,026	883	801
Balance Sheet (RMB'mn)			
Cash and bank deposits	4,813	5,019	7,422
Total assets	31,517	37,350	39,758
Gross debt	8,183	9,557	10,696
Net debt	3,370	4,538	3,274
Shareholders' equity	6,700	7,067	7,318
Total capitalization	14,883	16,624	18,014
Net capitalization	10,070	11,605	10,592
Cash Flow (RMB'mn)			
Funds from operations (FFO)	1,102	1,031	962
CFO	246	658	4,531
Capex	780	609	391
Acquisitions	384	954	1,652
Disposals	312	297	719
Dividends	326	311	294
Free Cash Flow (FCF)	-534	48	4,141
* FCF Adjusted	-933	-920	2,914
Key Ratios			
EBITDA margin (%)	23.0	23.1	13.3
Net margin (%)	14.8	9.6	6.4
Gross debt to EBITDA (x)	5.1	4.5	6.4
Net debt to EBITDA (x)	2.1	2.1	2.0
Gross Debt to Equity (x)	1.22	1.35	1.46
Net Debt to Equity (x)	0.50	0.64	0.45
Gross debt/total capitalisation (%)	55.0	57.5	59.4
Net debt/net capitalisation (%)	33.5	39.1	30.9
Cash/current borrowings (x)	2.1	3.6	2.9
EBITDA/Total Interest (x)	1.5	2.5	1.8

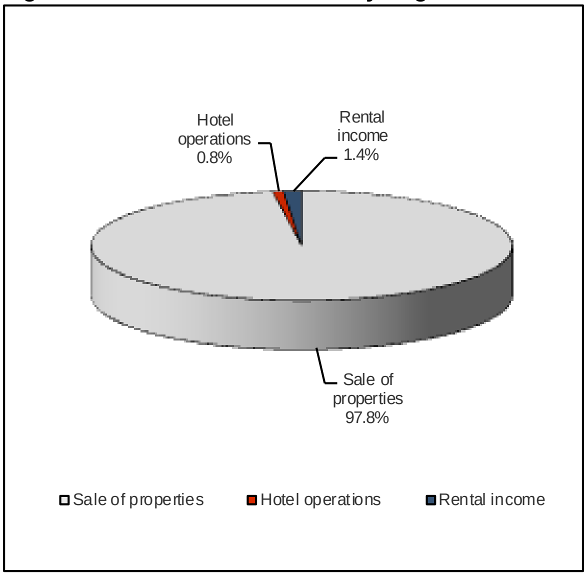
Source: Company, OCBC estimates
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Geography - FY2015



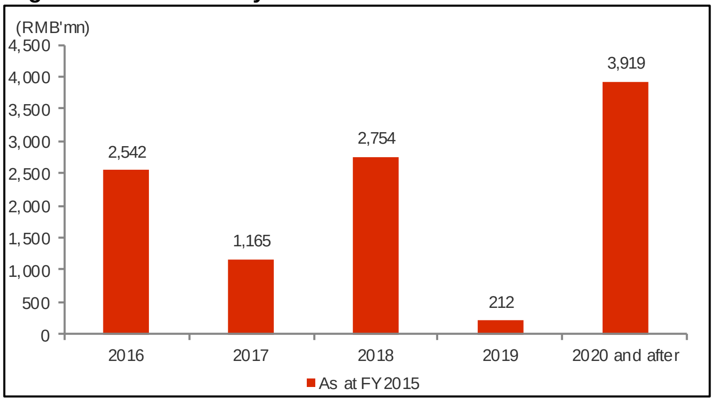
Source: Company

Figure 2: Revenue breakdown by Segment - FY2015



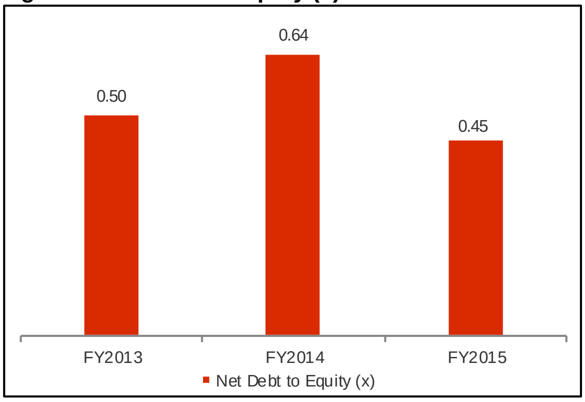
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Century Sunshine Group Holdings Limited

Credit Outlook –

We believe that scarcity of short-dated high-yielding paper would be supportive of CENSUN'18s.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **CENSUN**

Company profile

Listed on the HKSE in 2004, Century Sunshine Group Holdings Limited ("CSG") has two main business segments: magnesium products (~30% of sales) and ecological fertilisers (~61% of sales). The firm generates most of its revenue from the PRC and is vertically integrated (with captive mines for magnesium and silicon magnesium). The founder / Chairman is the largest shareholder, owning ~33% of the firm.

Key credit considerations

- **Fertilizer business supported revenue:** For the fiscal year 2015, total revenue increased 21.4% y/y to HKD2.51bn. The fertilizer business remains the largest part of CSG's business, contributing 61% of total sales. The segment grew 19.3% y/y to HKD1.52bn, largely driven by volume (with the segment seeing a 21.6% increase in volume sold). Comparatively, the ASP of CSG's major fertilizer products saw a slight dip of 1.8% y/y from HKD2,343 per tonne (2014) to HKD2,301 (2015). Despite ASP softness, CSG was still able to sustain the margins for the segment, with fertilizer gross margin expanding 80bps to 27.9%. This was attributed to the firm's ability to offer a differentiated product (specifically SiMg compound fertilizers). Management believes market demand remains strong, highlighting that penetration for ecological fertilisers remain low.

- **Softer magnesium product growth**: Sales for the magnesium products segment grew 9.1% y/y to HKD760.5mn (2014: +27.3%). Growth was equally split between volume (+5.5%) and ASP (+5.1% for the major magnesium products). The deceleration in segment growth could be due to capacity bottlenecks. CSG was selling 24,031 tonnes of magnesium products in 2015, while the expansion of magnesium production (will increase existing capacity to 40,000 tonnes from 25,000 tonnes) is targeted for 2016. CSG was able to expand its gross margin for the magnesium segment by 210bps to 34.2%.

- **1Q2016 operational data shows deceleration:** Fertilizer volumes were up 10.7% y/y to 140,809 tonnes while magnesium product volumes were up 31.9% y/y to 5,083 tonnes. These were lower (annualized) relative to volumes sold for the whole of 2015 (potentially seasonal factors). ASP were pressured too, with fertilizer ASP falling 12.7% y/y to HKD 2,123 per tonne while magnesium products falling harder at 16.7% y/y to HKD24,424 per tonne. Management indicated that CNY weakness relative to HKD played a part, and that the ASPs of the commoditized products under the two segments were also pressured. Total 1Q2016 revenue for these segments was HKD423.0mn, flat y/y relative to HKD422.1mn (1Q2015). Group gross margins fell slightly from 30.2% (1Q2015) to 28.7% (1Q2016). This was driven by margin compressions for both business segments, with fertilizer margins falling 50bps to 26.5% and magnesium products segment falling 170bps to 28.7%. We are cognizant of the weakness seen in both revenue growth and gross margins, and will monitor closely.

- **Capex plans remain intact**: The greenfield plant in Ruichang City, Jiangxi (1st phase of 800,000 tonnes by 2018) will cover the southern market, complementing CSG's existing Jiangsu plant (covers the northern market). Management expects CSG's fertilizer production to reach 850,000 tonnes in 2016. In addition, CSG's subsidiary, Group Sense, acquired a magnesium product manufacturer in Xinjiang in August 2015. Trial production of the Xinjiang project just started in 1Q2016. With the 60,000 tonnes of Xinjiang capacity, management expects future total magnesium capacity to be 135,000 tonnes.

- **Pursuit of growth to increase leverage**: Total borrowings increased from HKD890.3.6mn (2014) to HKD1.5bn (2015), driven mainly by the SGD125mn in bonds issued during the year. Net gearing was flat at 2% (2014: 3%). CSG does not have near-term liquidity pressure, as even though it has HKD351mn in debt due in 2016, it has HKD1.45bn in cash and deposits. IN FY2015, interest coverage was 6.5x. We expect to see CSG's credit profile deteriorate, as management has indicated that they will continue to pursue both organic and inorganic growth. FCF remains negative due to the capex mentioned earlier. We will retain CSG at Neutral Issuer Profile for now

Century Sunshine Group Holdings Ltd

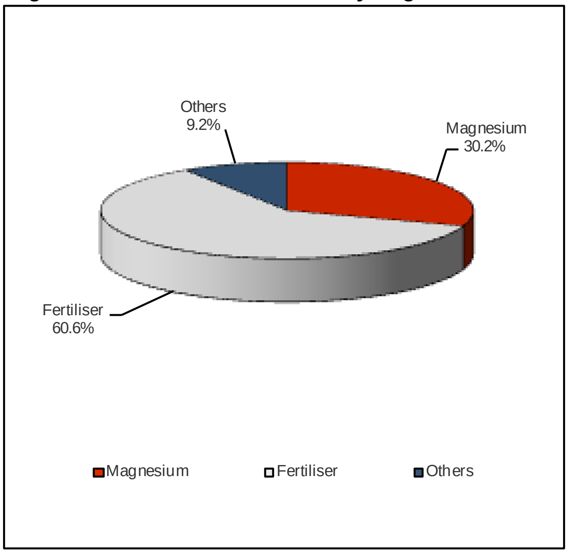
Table 1: Summary Financials

Year End 31st Dec	FY2013	FY2014	FY2015
Income Statement (HKD'mn)			
Revenue	1,640.30	2,072.50	2,515.60
EBITDA	457.9	571.5	629.4
EBIT	382.6	493.5	533
Gross interest expense	21.4	46.2	97
Profit Before Tax	371.6	467.7	496.9
Net profit	230.2	287.9	303.5
Balance Sheet (HKD'mn)			
Cash and bank deposits	422.9	828.8	1,452.50
Total assets	2,840.20	3,797.00	5,421.70
Gross debt	301.1	890.3	1,504.20
Net debt	-121.8	61.5	51.7
Shareholders' equity	2,153.00	2,366.60	3,343.30
Total capitalization	2,454.00	3,256.90	4,847.50
Net capitalization	2,031.10	2,428.20	3,395.00
Cash Flow (HKD'mn)			
Funds from operations (FFO)	305.6	365.9	399.9
CFO	297.9	322.9	164.7
Capex	415	620	228.4
Acquisitions	0	0	200.8
Disposals	7.7	0.2	0.4
Dividends	3.9	11.7	21.8
Free Cash Flow (FCF)	-117.1	-297.1	-63.6
Adjusted FCF*	-113.3	-308.6	-285.8
Key Ratios			
EBITDA margin (%)	27.9	27.6	25
Net margin (%)	14	13.9	12.1
Gross debt/EBITDA (x)	0.66	1.56	2.4
Net debt/EBITDA (x)	-0.27	0.11	0.1
Gross debt/equity (x)	0.14	0.38	0.45
Net debt/equity (x)	-0.06	0.03	0.02
Gross debt/total capitalization (%)	12.3	27.3	31
Net debt/net capitalization (%)	-6	2.5	1.5
Cash/current borrowings (x)	21.18	5.51	4.1
EBITDA/gross interest (x)	21.36	12.37	6.5

Source: Company, OCBC estimates

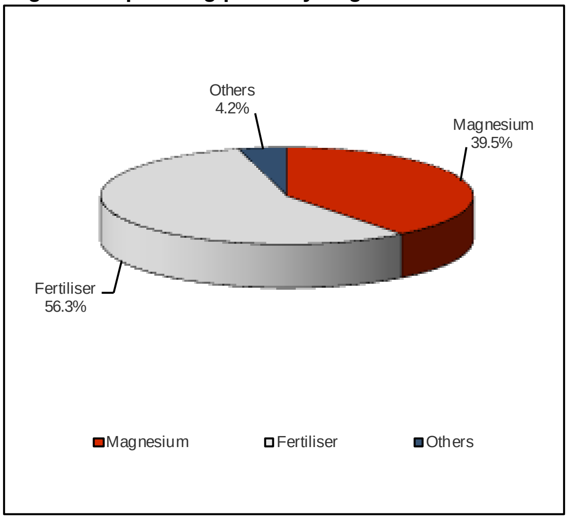
**Adjusted FCF = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - FY2015



Source: Company

Figure 2: Operating profit by Segment - FY2015



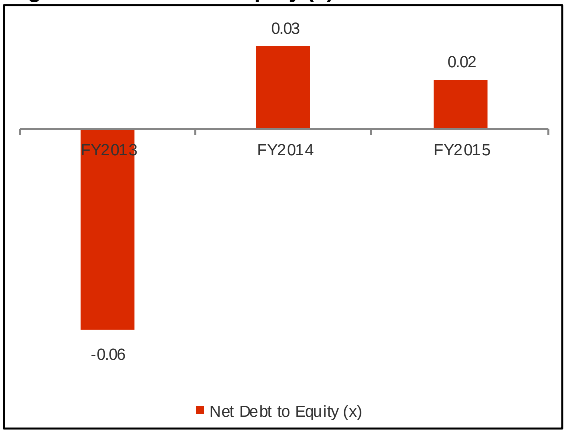
Source: Company

Figure 3: Debt Maturity Profile

Amounts In HKD mn	As at 31/12/2015	% of debt
Amount repayable		
One year or less, or on demand	351.1	23.30%
After one year	1153.1	76.7%
Total	**1504.2**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

Vanke continues to have a market leading position in China properties; nevertheless, the fight for control over Vanke has escalated, with Baoneng Group increasing its stake since Vanke's shares in Shenzhen resumed trading on 4th July 2016. Selling pressure in the non-SGD bond space may spillover to the SGD bond.

Issuer Profile: Neutral

S&P: BBB+/Stable

Moody's: Baa1/Stable

Fitch: BBB+/Stable

Ticker: **VANKE**

Company profile

China Vanke Co. Ltd ("Vanke") is one of the largest property developers in China in terms of contracted sales (2015: RMB261.5bn) with a focus on the mass-market segment. With 25 years of experience in the property industry, Vanke has established a strong presence nationwide and has a geographically diversified land bank. Vanke is listed on both the Shenzhen and Hong Kong stock exchanges.

China Vanke Co. Ltd

Key credit considerations

- **Solid 2015 results:** China Vanke Co. Ltd ("Vanke") reported 2015 results with revenue up 33.6% y/y to RMB184.32bn on the back of ~25% increase in GFA completions to 17.29mn sqm and the recovery in the property market. Gross profit margins decreased to 24.8% from 25.1% previously due to (1) recognition of sales contracted during the property downturn in 2014 and (2) rising land costs. EBITDA however was up 40% y/y to RMB36.7bn as the company remained disciplined on distribution costs and administrative expenses (selling and administrative expenses fell to 4.9% of revenue from 6.2% in 2014). Property services although still contributing a relatively small portion of revenue (1.5%), exhibited the fastest growth (49.4% y/y). Vanke had RMB215.1bn in unbooked contracted sales as of end-2015, which will underpin revenue visibility for 2016.

- **Robust growth in contracted sales:** 2015 contracted sales were up 20.7% y/y to RMB261.5bn as contracted GFA increased 14.3% y/y to 20.67mn sqm. Nationwide market share improved to 3.0% with Vanke outperforming broader nationwide sales which were up 16.6% y/y to RMB7.28trn. 93% of sales were mass market units below 144sqm which will continue to support Vanke's fast asset turnover model (2015 asset turnover of 0.33x) . Momentum continued in 4M2016 with contracted sales increasing 73% y/y to RMB111bn.

- **Escalation of fight for control:** In response to the unsolicited stake build up by Baoneng Group (currently holds ~25%), Vanke announced in June 2016 that it will acquire a unit of Shenzhen Metro Group by way of new share issuances (ie: diluting all existing shareholders). The two major shareholders have since expressed their objection to the deal. Baoneng Group had also proposed to remove the board of directors en masse via an extraordinary general meeting ("EGM"), which the company has declined to hold. We note that as a next step, Baoneng Group, based on its stake, has the right to escalate the matter to the Supervisory Committee under China's two tier board structure. China Chengxin Credit Rating Group ("Chengxin") has issued a statement stating if the proposal to remove the board en masse goes through, this will pressure the company's credit rating.

- **Onshore bonds, lower funding costs:** Vanke issued RMB5bn and RMB3bn of onshore 5-year notes at 3.5% and 3.78%, respectively during 2015. The onshore issuance has brought average funding cost down to 6-6.5% in FY2015 from 7-8% in the previous year. Panda bond issuance via offshore holding company could also be possible with HY peers Shimao, Country Garden and Powerlong having already issued RMB13.5bn of panda bonds and Longfor and Agile reportedly planning panda issuances. The ability to tap the onshore/panda bond market will continue to reduce funding costs while improving liquidity profiles of property developers and allowing them to term out their debt maturity profiles.

- **Low leverage and strong liquidity:** Cash decreased to RMB51.75bn from relatively high levels of RMB61.65bn in 2014. This was still sufficient to cover short term debt of RMB26.6bn by ~2.0x. As at 31 December 2015, net gearing increased to 20% (31 December 2014: 5.4%), though this is still considerably lower than the average for China property developers. Leverage ratios continued to improve with gross debt/EBITDA improving to 2.1x in 2015 from 2.6x in 2014. EBITDA interest coverage improved to 7.7x from 3.9x on strong EBITDA generation and a 29% y/y decrease in gross interest expense to RMB4.85bn due to lower funding costs. We are lowering our issuer rating on Vanke to Neutral in light of the heightened uncertainty over control and its consequential effects.

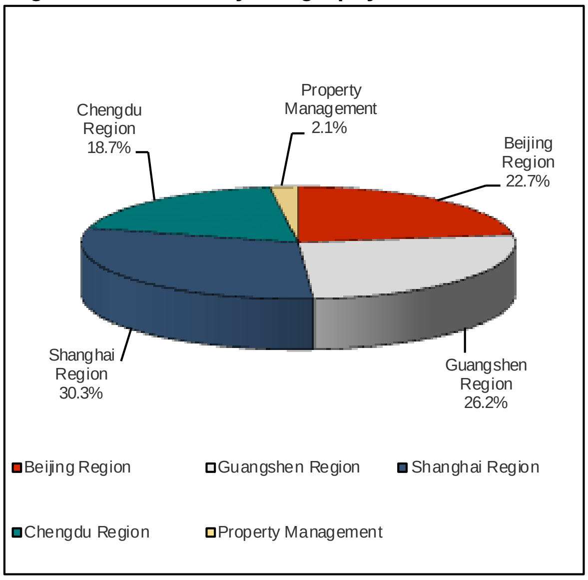
China Vanke Co Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1Q2016
Income Statement (RMB'mn)			
Revenue	137,994	184,318	13,710
EBITDA	26,676	37,416	NM
EBIT	26,127	36,700	NM
Gross interest expense	6,835	4,853	521
Profit Before Tax	29,987	40,517	2,048
Net profit	15,745	18,119	833
Balance Sheet (RMB'mn)			
Cash and bank deposits	61,653	51,748	50,050
Total assets	508,640	611,492	659,031
Gross debt	68,981	79,491	88,096
Net debt	7,328	27,743	38,046
Shareholders' equity	115,894	136,310	138,749
Total capitalization	184,875	215,801	226,845
Net capitalization	123,222	164,053	176,795
Cash Flow (RMB'mn)			
Funds from operations (FFO)	16,294	18,835	833
CFO	41,725	16,046	-10,726
Capex	1,831	2,063	108
Acquisitions	7,159	20,185	NM
Disposals	4,652	-477	NM
Dividends	10,997	13,181	2,331
Free Cash Flow (FCF)	39,894	13,983	-10,834
* FCF Adjusted	26,389	-19,860	NM
Key Ratios			
EBITDA margin (%)	19.3	20.3	13.3
Net margin (%)	11.4	9.8	6.1
Gross debt to EBITDA (x)	2.6	2.1	NM
Net debt to EBITDA (x)	0.3	0.7	NM
Gross Debt to Equity (x)	0.60	0.58	0.63
Net Debt to Equity (x)	0.06	0.20	0.27
Gross debt/total capitalisation (%)	37.3	36.8	38.8
Net debt/net capitalisation (%)	5.9	16.9	21.5
Cash/current borrowings (x)	2.7	1.9	1.9
EBITDA/Total Interest (x)	3.9	7.7	NM

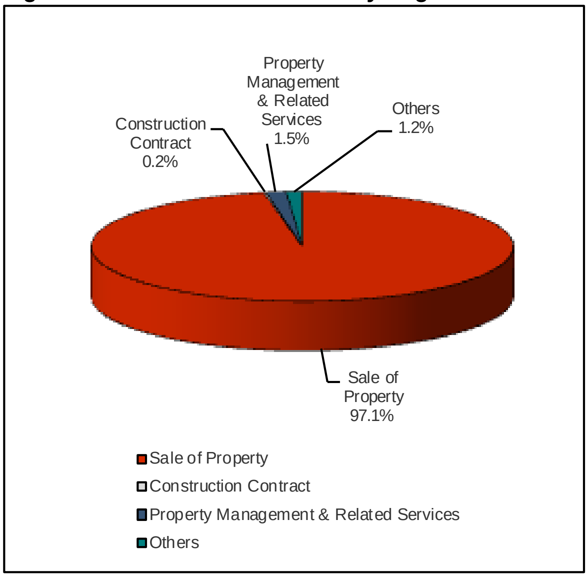
Source: Company, OCBC estimates
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue by Geography - FY2015



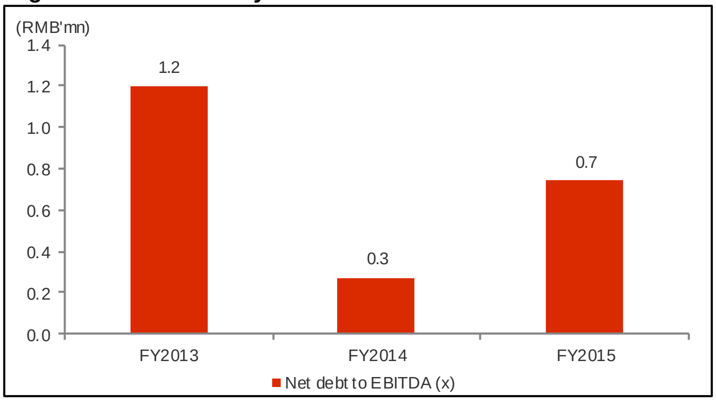
Source: Company

Figure 2: Revenue breakdown by Segment - FY2015



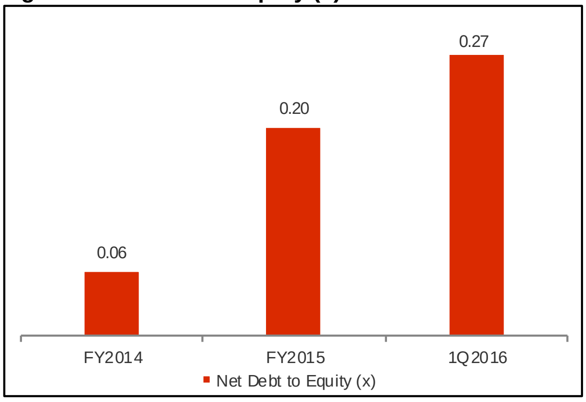
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

CITIC Envirotech Ltd

Credit Outlook – We continue to view the strategic importance of the water treatment industry and parental support of CITIC Ltd (majority owned by the Chinese government) favorably, however there are broader systematic factors in China imposing a ceiling on the CEL curve. We think the CELSP'18s will be range-bound around 4%.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **CELSP**

Background

CITIC Envirotech ("CEL") is an integrated water treatment solutions provider focusing on the Chinese market. CEL operates in 3 main business segments: Engineering (42% of 1Q2016 revenues); Treatment (36%) and membrane sales (22%). The company is listed on the SGX and is 54% owned by CITIC. 24% is owned by KKR whilst the founder/Group CEO Dr. Lin owns 3.8%.

Key credit considerations

- **Contract wins commendable in 1Q2016:** 1Q2016 revenue grew by 62% on the back of higher growth across all three segments. Proportionately, engineering revenue formed a larger part of revenue contribution (at 42% vis-à-vis 34%), in line with new contract wins during the quarter. Between January to March 2016, CEL announced ~SGD100mn worth of water projects in China and in April also announced its first sludge treatment plant in Shandong province worth SGD48mn. While the revenue breakdown between operational phase and construction phase is not provided for each BOT/TOT contract, we understand that a significant portion of revenue is recognized upfront, with cash flow to follow during the term of the concession agreement (generally 20-30 years). As at 31 March 2016, service concession receivables amounted to SGD624.5mn (31 December 2016: SGD509.2mn) while we estimate operating concessions at ~SGD206mn (31 December 2016: SGD215.3mn).

- **Near term refinancing risk removed:** In June 2016, CEL issued an USD180mn (~SGD234mn) perpetual at 5.45% with an issue price of 102.694 under a re-opening of an earlier perpetual issuance. Gross proceeds will go towards repaying ~SGD98mn of bonds due in September 2016. We expect the remainder to be applied as "equity" to support onshore project-level debt. Assuming a 60:40 debt-to-equity funding structure, CEL is able to accommodate approximately SGD340mn in additional projects. Management has indicated a desire to engage large scale M&As to extend its asset portfolio, on top of expanded project commitments. Such strategic moves while beneficial for growth trajectory, may potentially pressure CEL's credit profile going forward.

- **Balance sheet strength and liquidity:** We have observed some deterioration in CEL's credit in 1Q2016. Net debt-to-equity has increased to 0.29x from 0.18x as at 31 December 2015. CEL's bond terms provide for a limitation on indebtedness, capping leverage ratio, as measured by Net debt-to-EBITDA, at 4.25x. Based on our calculation, this was 1.7x as at 31 March 2016. CFO (before interest paid) was SGD17.1mn while interest expense and distribution on perpetual collectively amounted to ~SGD13.9mn. CFO/(Gross interest and perpetual distribution) was thin at 1.2x and falling to 1.1x if we factor in the impact from the new USD perpetual. Investing activities during the quarter amounted to SGD146.8mn, leading to an overall decline in cash balance to SGD332mn from SGD540.5mn as at 31 December 2015. CEL's USD perpetuals are accounted for as equity but rank pari passu with all present and future unsecured obligations (ie: the existing SGD bonds). From the perspective of an existing SGD bondholder, the perpetual does not constitute an "equity cushion". As such adjusting "net debt" upwards, we find adjusted net debt-to-equity to be 0.5x and net debt-to-EBITDA at 3.3x.

- **Counterparty credit risk manageable for now:** CEL's contracts are entered into with local governments and local government-linked units in China as grantors with the main market being heavily industrialized locales. Despite the significant measures taken by the central government to manage local government debt burden, the narrow-base revenue collection capacities of these counterparties remains unresolved. While CEL faces risk of delayed cash collection (ie: beyond 6 months), we note that the company has adopted a cautious approach in managing credit risk. CEL's geographically dispersed grantors and higher-tech focus (ie: membrane bioreactor ("MBR") technology) provides some mitigation. Sector-wide, collection problems at major water operators have surfaced. In November 2015, CEL secured a ~SGD8mn project in Medan, marking its maiden diversification into Indonesia.

CITIC Envirotech Ltd

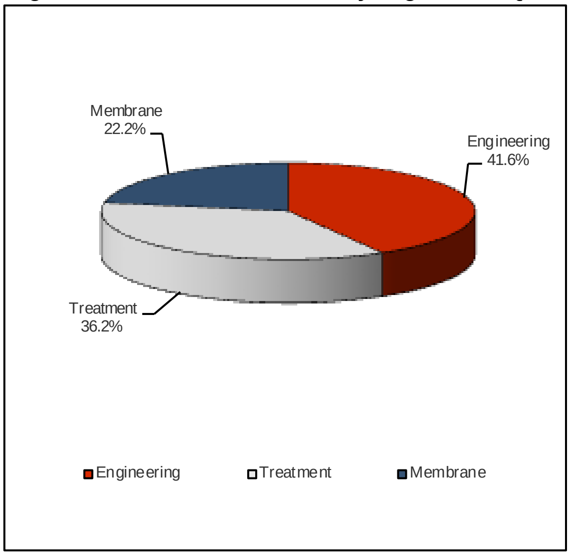
Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	349.0	274.8	99.5
EBITDA	138.9	126.1	48.1
EBIT	125.7	110.1	40.8
Gross interest expense	29.0	29.2	10.7
Profit Before Tax	79.9	61.5	17.2
Net profit	59.3	40.8	12.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	113.8	540.5	332.0
Total assets	1,386.7	2,172.9	2,099.9
Gross debt	319.2	745.7	657.6
Net debt	205.5	205.2	325.5
Shareholders' equity	741.3	1,140.8	1,127.2
Total capitalization	1,060.6	1,886.4	1,784.7
Net capitalization	946.8	1,346.0	1,452.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	72.4	56.7	19.3
CFO	55.0	2.3	13.7
Capex	10.1	76.9	15.2
Acquisitions	22.3	96.7	0.0
Disposals	6.2	0.1	0.0
Dividend	2.7	5.6	0.0
Free Cash Flow (FCF)	44.9	-74.7	-1.5
FCF adjusted	26.1	-176.9	-1.5
Key Ratios			
EBITDA margin (%)	39.8	45.9	48.4
Net margin (%)	17.0	14.8	12.1
Gross debt to EBITDA (x)	2.3	5.9	3.4
Net debt to EBITDA (x)	1.5	1.6	1.7
Gross Debt to Equity (x)	0.43	0.65	0.58
Net Debt to Equity (x)	0.28	0.18	0.29
Gross debt/total capitalisation (%)	30.1	39.5	36.8
Net debt/net capitalisation (%)	21.7	15.2	22.4
Cash/current borrowings (x)	1.9	1.6	1.9
EBITDA/Total Interest (x)	4.8	4.3	4.5

Source: Company, OCBC estimates

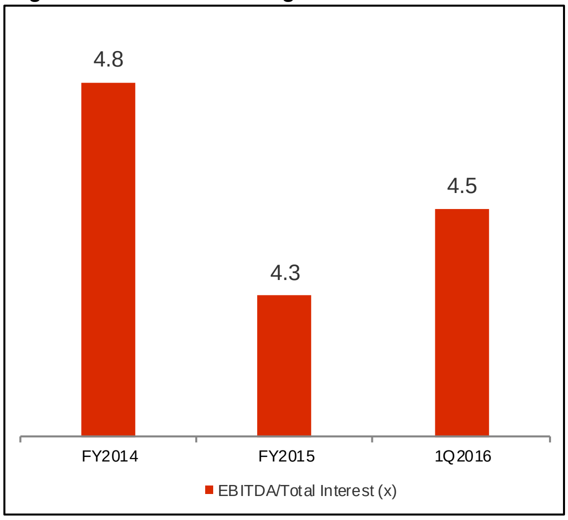
** FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 1Q2016



Source: Company

Figure 2: Interest Coverage Ratio



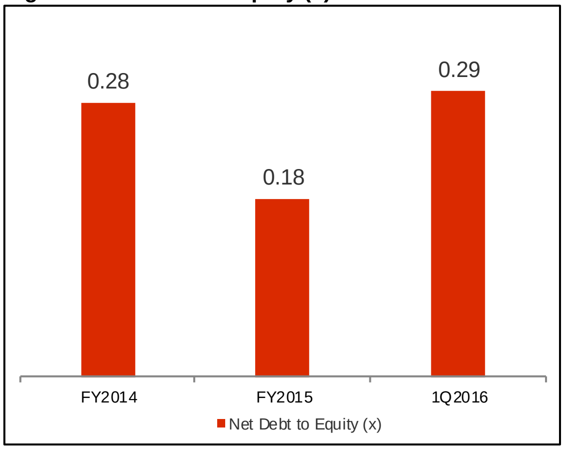
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	72.9	11.1%
Unsecured	101.2	15.4%
	174.1	**26.5%**
Amount repayable after a year		
Secured	246.3	37.4%
Unsecured	237.5	36.1%
	483.8	**73.5%**
Total	**658.0**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

With the current investor comfort over duration, there could be some room for the recently issued CITSP 3.48 ' 26s to continue to rally.

Issuer Profile: Positive

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **CITSP**

Company Profile

Listed in 1963, City Developments Ltd ("CDL") is an international property and hotel conglomerate. CDL has three core business segments – property development, hotel operations and investment properties. CDL's hotel operations are conducted through its 65.3%-owned subsidiary, Millennium & Copthorne Hotels plc ("M&C"), while the investment and development property portfolio is Singapore-centric. CDL is a subsidiary of Hong Leong Group Singapore.

City Developments Ltd

Key credit considerations

- **1Q2016 results reflect soft trading conditions in SG residential and hospitality:** CDL reported a soft set of 1Q2016 numbers which were symptomatic of the challenging conditions in Singapore residential and the global hospitality market. Revenue fell 11.2% y/y to SGD723mn driven by a 25.2% y/y drop in contribution from property development to SGD223.3mn while contribution from hospitality (mainly M&C) was also lower by 4.4% y/y to SGD359.4mn. EBITDA was only down slightly by 5.6% y/y to SGD277.1mn, largely due to better gross margins (improved to 49.5% from 45.5% in 1Q2015). Going forward, we expect a stronger 2H2016 as (1) contributions from overseas developments start trickling in from the completion of Hong Leong City Center Phase 1 in Suzhou (SGD392mn in pre-sales) and several small UK projects (2) progressive recognition residential projects in Singapore (3 TOPs) and (3) TOP of Lush Acres EC in 3Q2016 (revenue fully recognised upon completion for ECs and not on a progressive basis like for fully private projects).

- **Minimal impact to balance sheet from QC and ABSD extension charges:** The Nouvel 18 (originally a JV with Wing Tai Holdings, now wholly-owned by CDL since CDL consolidated the holdings early July 2016) will be subject to QC charges in November 2016 with estimated charges to CDL of SGD38.2mn for the first year's extension. Though there is a chance that CDL would pay for at least the first year's extension, given that CDL has consolidated holdings over Nouvel 18, a bulk sale or even a capital markets transaction (potentially a Profit Participation Securities ("PPS") could happen.

- **Diversification through overseas acquisitions, Brexit impact contained:** CDL has a "5-5-5" strategy for deploying SGD5bn in funds management and SGD5bn in overseas investments over a five-year period. SGD2bn has already been deployed in direct asset acquisitions over the past two years and management is looking to deploy additional capital overseas. With regards to Brexit, management has commented that as of end-2015, CDL's exposure to the UK was 12% of total revenue (~SGD400mn), 11% of assets (~SGD2.2bn) and 12% of debt exposure (~SGD780mn). Management indicated as well that all the UK acquisitions made the last two years were outside Central London, and that the majority of UK development projects are catered towards the local market. We believe that CDL has adequate balance sheet strength as hypothetically impairing CDL's UK assets by 50% would still keep net gearing below 30%.

- **Active balance sheet management**: We expect CDL's credit profile to remain stable despite its expansion plans as the company has historically maintained its capital structure by funding acquisitions with recycled capital from asset divestments. For example in 2015, ~SGD1bn in acquisitions (including SGD321mn for a domestic land parcel in Serangoon) were funded by its PPS2 program (3 office assets in Singapore). In 2014, SGD1.3bn in overseas asset acquisitions were funded by its SGD1.5bn PPS1 program (Quayside Collection in Sentosa). CDL currently has SGD2.6bn in funds under management from its PPS program. There was news of a new PPS3 program (holding luxury residential assets), though things are preliminary.

- **Stable credit profile in the face of headwinds:** Despite sector headwinds, CDL's credit profile remained relatively stable with net gearing at 25% (2015: 26%) and LTM net debt/EBITDA at 2.1x (2015: 2.2x). Adjusting for the SGD411mn Nouvel 18 transaction (to be reflected in 3Q2016 results) net gearing would increase modestly to 29%. Note that CDL's net gearing number is conservative compared to its peers (who value investment property at fair value). LTM EBITDA / interest coverage remained healthy at 8.4x (2015: 8.6x). Liquidity remained sufficient with SGD3.34bn in cash covering SGD1.8bn in short term debt by 1.9x.

City Development Limited

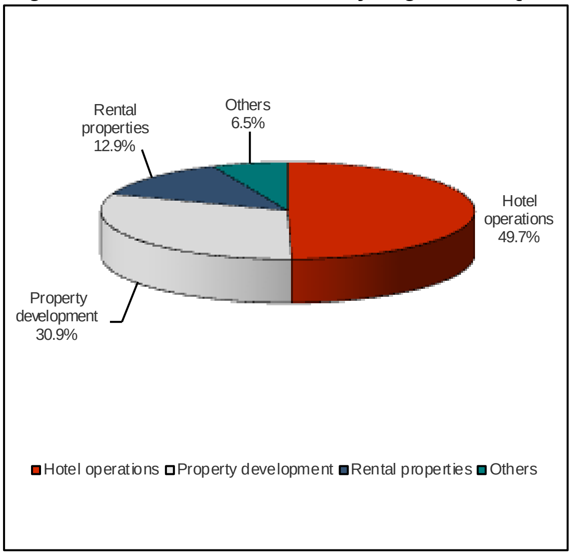
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	3,763.9	3,304.1	723.3
EBITDA	1,323.0	1,341.5	277.1
EBIT	1,123.0	1,126.9	225.5
Gross interest expense	131.0	113.8	30.0
Profit Before Tax	1,003.7	985.4	138.4
Net profit	769.6	773.4	105.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	3,897.6	3,564.9	3,342.9
Total assets	19,700.5	20,318.5	19,968.9
Gross debt	6,699.1	6,482.7	6,172.6
Net debt	2,801.6	2,917.8	2,829.7
Shareholders' equity	10,775.6	11,213.0	11,111.1
Total capitalization	17,474.7	17,695.7	17,283.7
Net capitalization	13,577.2	14,130.8	13,940.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	969.6	988.0	156.9
CFO	292.2	77.8	177.0
Capex	936.2	256.0	71.3
Acquisitions	246.7	222.9	0.0
Disposals	1,075.7	1,072.2	0.4
Dividend	274.8	271.2	33.2
Free Cash Flow (FCF)	-644.0	-178.2	105.7
FCF Adjusted	-89.9	399.8	72.9
Key Ratios			
EBITDA margin (%)	35.1	40.6	38.3
Net margin (%)	20.4	23.4	14.6
Gross debt to EBITDA (x)	5.1	4.8	5.6
Net debt to EBITDA (x)	2.1	2.2	2.6
Gross Debt to Equity (x)	0.62	0.58	0.56
Net Debt to Equity (x)	0.26	0.26	0.25
Gross debt/total capitalisation (%)	38.3	36.6	35.7
Net debt/net capitalisation (%)	20.6	20.6	20.3
Cash/current borrowings (x)	1.7	1.9	1.9
EBITDA/gross interest (x)	10.1	11.8	9.2

Source: Company, OCBC estimates

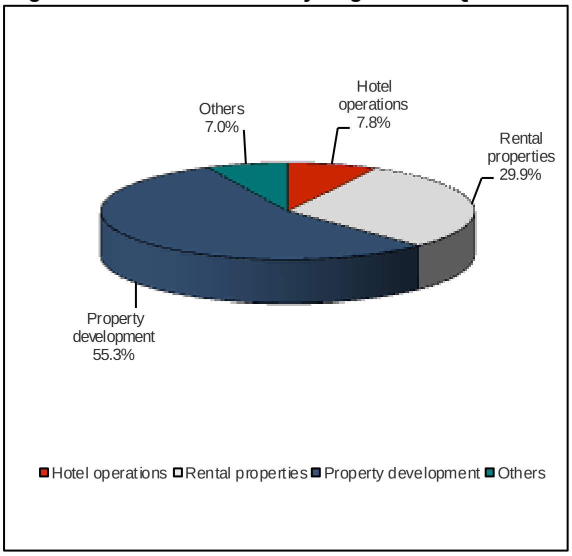
* *FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 1Q2016



Source: Company

Figure 2: PBT breakdown by Segment - 1Q2016



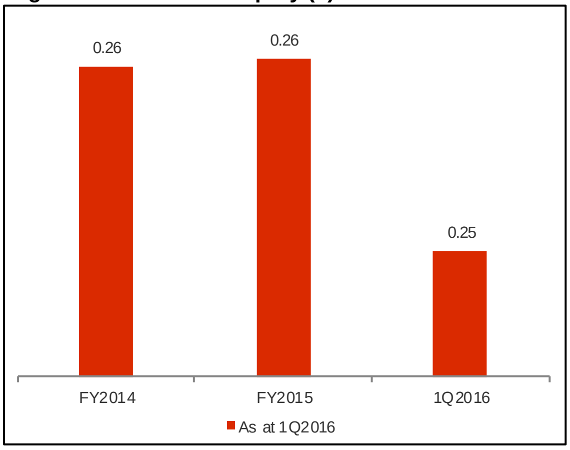
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	249.6	4.0%
Unsecured	1545.3	25.0%
	1794.9	**29.0%**
Amount repayable after a year		
Secured	701.5	11.3%
Unsecured	3694.6	59.7%
	4396.0	**71.0%**
Total	**6191.0**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

SGD bondholders now benefit from being guaranteed by a rated entity, significantly larger in scale and geographical diversification with no cyclical property exposure. CHEUNG'18s is trading at fair value in our view while the CHEUNG '49c16 faces significant call risk with regards to the call in September.

Issuer Profile: Neutral

S&P: A-/Stable
Moody's: A3/Stable
Fitch: A-/Stable

Ticker: **CHEUNG**

Company Profile

CK Hutchison Holdings Ltd ("CKHH") is a globally diversified conglomerate holding all the non-property businesses of the Cheung Kong Group. The company has business interests spanning telecommunications, ports, retail, infrastructure, energy, and aircraft leasing. CKHH was formed after the streamlining of Cheung Kong and Hutchison Whampoa group of businesses and is listed on the HKEX with a market capitalization of HKD316bn as of 08 July 2016.

CK Hutchison Holdings Ltd

Key credit considerations

- **Strong performance in steady assets help buffer volatility in global trade and oil:** CKHH reported EBITDA up 5% y/y to HKD92.1bn although revenue fell 2% y/y to HKD396.1bn. CKHH's 5 operating segments (ports, retail, infrastructure, energy, telecommunications) generally faced currency headwinds from a strong USD/HKD, with a general increase in like-for-like EBITDA in local currency terms (+2%) which were offset by the stronger HKD when translated into CKHH's home currency (-7%). Nonetheless when additional contributions are included, CKH's diversified business portfolio managed to generate a 5% increase in EBITDA in HKD terms. Strong performances in infrastructure (EBITDA +32%) and 3 Group Europe (EBITDA +27%) and largely stable performances in the other segments helped offset the effect of weak oil prices on Husky Energy (EBITDA -35%).

- **Diversified portfolio of defensive utility-like assets with recurring income streams:** CKHH's business profile remained exceptionally diversified; infrastructure is the largest contributor to EBITDA at 35%, telecommunications (24%), retail (16%), ports (13%), energy (10%) and others (2%). CKHH is also geographically diversified; UK contributes 34% to EBITDA, followed by Europe (19%), China and Hong Kong (19%), Asia, Australia & Others (18%) and Canada (8%). Furthermore, we believe that CKH's cash flows from its business portfolio have a defensive/utility like quality (eg. 75% owned CK Infrastructure's water and power utilities and its aircraft leasing business) which will remain relatively resilient.

- **O2 acquisition falls through; awaiting approval on Italian JV:** The European Commission blocked CKHH's proposed acquisition of O2 on 11 May 2016, taking CKHH's 3 UK back to status quo. In July 2016, CKHH and its partner, VimpelCom Limited was reportedly in talks to sell certain assets to help secure anti-trust approval to merge their respective telecommunication assets under a new joint venture company. The deal, if successful, would see the deconsolidation of 3 Italia from CKHH, with both the partners having no funding obligations for the JV going forward. In August 2016, Moody's had issued a statement that the transaction will not impact CKHH's rating although the company may bear contingent liability in times of stress given the JV's weaker credit profile.

- **Uncertainty over call on perpetuals:** The first call date for the SGD CHEUNG 5.125% perpetuals comes in September 2016. We believe that the fixed for life structure is extremely accommodative to the issuer and provides little economic incentive for it to be called. The perpetuals are akin to a cheap source of equity funding and this extension risk underpins our Underweight rating on the bond. Although the current low interest rate environment and possible reputational risks increases the call probability, we note that (1) SDSW5 (88bps) when paper was issued was about ~80bps lower than current levels of 166bps (2) CK Infrastructures' USD perpetual priced this year at 5.875% compared to current SGD coupon rate of 5.125%. The SGD perpetuals will probably trade near par until the call date despite lower rates. Historically there has always been a pullback once the notes trade close to the 101 level reflecting the risk of a cash call at par.

- **Credit metrics broadly in-line with Hutchison Whampoa's A- rating:** CKHH reported 2015 credit metrics that were broadly in-line with Hutchison Whampoa. The ratings agencies have accordingly initiated similar ratings on CKHH. 2015 net debt/EBITDA for CKHH was 2.0x, while gross debt/EBITDA was 3.3x (well within 4.5x, the threshold which may cause a negative rating action if prolonged). EBITDA interest coverage was healthy at 7.3x. The company finished 2015 with net gearing of 34%. CKHH's liquidity profile was strong with HKD121bn in cash sufficient to cover HKD33bn in refinancing needs in 2016 by ~4x.

CK Hutchison Holdings Ltd

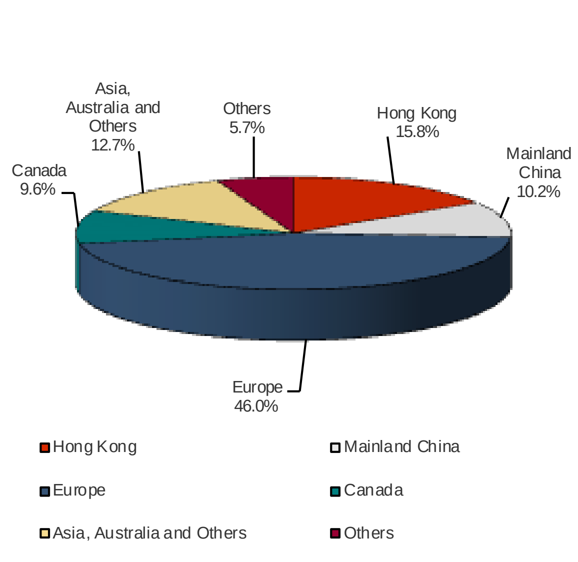
Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (HKD'mn)			
Revenue	256,234	404,873	396,087
EBITDA	96,417	88,136	92,093
EBIT	80,567	55,313	62,079
Gross interest expense	8,391	13,909	12,677
Profit Before Tax	43,693	41,404	49,498
Net profit	31,112	23,655	32,128
Balance Sheet (HKD'mn)			
Cash and bank deposits	85,651	33,179	121,171
Total assets	815,522	457,941	1,032,944
Gross debt	230,799	37,874	308,379
Net debt	145,148	4,695	187,208
Shareholders' equity	476,232	406,047	549,111
Total capitalization	707,031	443,921	857,490
Net capitalization	621,380	410,742	736,319
Cash Flow (HKD'mn)			
Funds from operations (FFO)	46,962	56,478	62,142
CFO	45,052	34,881	50,587
Capex	30,388	7,849	25,550
Acquisitions	31,970	5,478	-88,446
Disposals	17,712	3,893	6,594
Dividends	13,942	24,717	12,684
Free Cash Flow (FCF)	14,664	27,032	107,393
* FCF Adjusted	-13,536	730	107,393
Key Ratios			
EBITDA margin (%)	37.6	21.8	23.3
Net margin (%)	12.1	5.8	8.1
Gross debt to EBITDA (x)	2.4	0.4	3.3
Net debt to EBITDA (x)	1.5	0.1	2.0
Gross Debt to Equity (x)	0.48	0.09	0.56
Net Debt to Equity (x)	0.30	0.01	0.34
Gross debt/total capitalisation (%)	32.6	8.5	36.0
Net debt/net capitalisation (%)	23.4	1.1	25.4
Cash/current borrowings (x)	4.7	1.8	3.7
EBITDA/Total Interest (x)	11.5	6.3	7.3

Source: Company, OCBC estimates

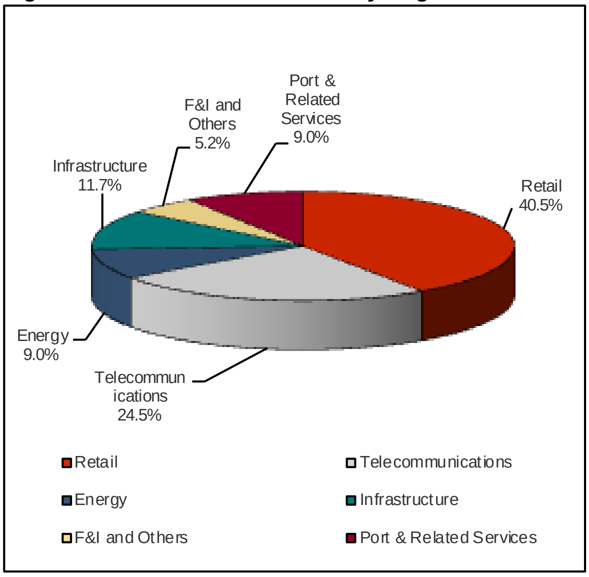
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Geography - FY2015



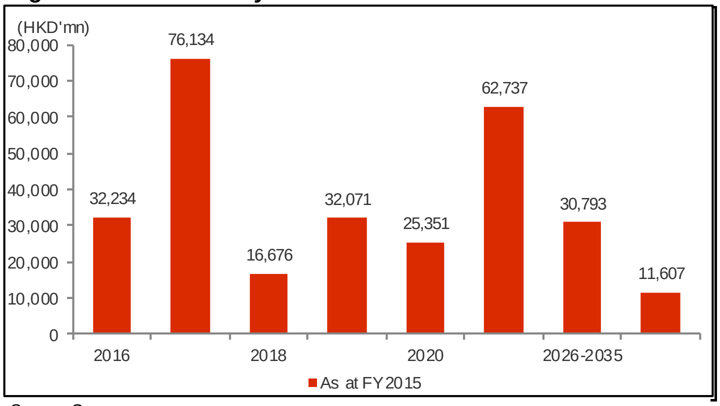
Source: Company

Figure 2: Revenue breakdown by Segment - FY2015



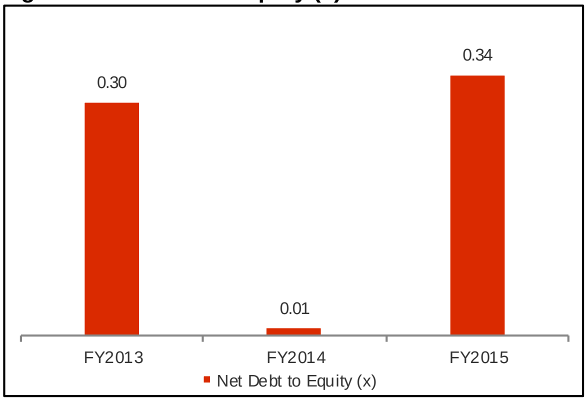
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We think the CWTSP'17s have reached fair value and would not be looking to add on this. Our base remains that uncertainties surrounding the potential change of ownership will limit the potential upside of the CWTSP'19s and '20s beyond par. There is no change of control on the bonds.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **CWTSP**

Background

CWT Limited ("CWT") is an integrated logistics solutions provider operating in around 90 countries through regional offices and network partners. CWT uses its logistics network to provide ancillary and connected businesses including commodity marketing, financial services and engineering services. Currently, the Chairman, Mr Loi Kai Meng and his family hold direct and indirect stakes of ~60% in CWT.

CWT Ltd

Key credit considerations

- **Softening core businesses**: Headline revenue declined by 14% in 1Q2016 to SGD1.9bn (1Q2015: SGD2.2bn) on the back of lower commodity trading volume in naphtha and a general drop in commodity prices. Despite the headline decline, profit before tax was flat at SGD34.1mn (1Q2015: SGD34.2mn) driven by growth in the higher margin Financial Services and Logistics businesses which partially offset gross profit declines in Commodity Marketing and Engineering. Last 12 months EBITDA/Gross Interest expense improved slightly against FY2015 to 4.0x while gross debt-to-equity was flat at 1.6x versus the immediately preceding quarter. As at 31 December 2015, non-cancellable operating leases amounted to ~SGD535mn, adjusting gross debt to include this number, we find gross debt-to-equity to be 2.3x. Of the total short term debt of SGD979mn, ~SGD750mn consist of revolving short-term trade facilities. Adjusting downwards for such debt, and removing pledged cash, net debt-to-equity of CWT is 0.4x. Quarter-on-quarter operating cash flows tend to fluctuate significantly as working capital is erratic due to its business nature. In 1Q2016, reported CFO (after tax but before interest) was SGD119mn against negative SGD134mn in 1Q2015 (FY2015: SGD317mn). We expect capital expenditure outflow to increase over the next few quarters as CWT continues to invest in its mega logistics hub (targeted completion in 1H2017).

- **Financial Services provide reprieve:** While CWT's core logistics business continues to underpin the group's cash generation capability, Financial Services is an increasingly important business, contributing SGD33mn (ie: 25%) to profit before tax in FY2015 and growing. This tilts CWT's risk profile into new kinds of counter-party credit, contingent liability and liquidity risks as part and parcel of engaging in market-making and brokerage operations. As at March 31, 2016, adjusted net capital of Straits Financial LLC (a Futures Commission Merchant ("FCM") which forms the core of CWT's Financial Services business) amounted to USD24.1mn (~SGD33.3mn). Adjusted net capital is 2.4x of its minimum regulatory requirement and lower than the sector-wide median of 5.3x as at 31 March 2016. The top 5 FCMs are part of larger global banks and hold more than half of sector-wide customer segregated funds. Straits Financial LLC is expected to remain a boutique player in this space.

- **Possible implication for potential change in shareholders:** Since our last credit update in February 2016, the company has announced that the controlling shareholders are in exclusive discussions with HNA Group Co Ltd ("HNA") with regards to a potential sale of their stake. There is no change of control on the outstanding CWT bonds. We think there are two possible outcomes, should a deal get consummated: (1) CWT gets privatized with business operation profile unchanged (2) CWT gets broken up, with HNA and other parties each holding significant parts of the business. In the first scenario, CWT will lose some financial flexibility as a private company. However, if CWT is held as a passive investment by HNA, a change in controlling shareholder by itself is insufficient reason for a downgrade. In the second scenario where CWT gets broken-up, the bonds are likely to be supported by a smaller asset base with lower cash flow generation capacity, which is a credit negative in our view. While there is no change in control clause, the MTN program does provide a clause that sees cessation/disposal of principal subsidiaries as an Event of Default, unless Trustee's approval is obtained. Our base case remains that a break-up would be put to a bondholders vote as each of the four business segments are individually significant. While internal restructuring could take place prior to a disposal (ie: circumventing a bondholder vote), this is likely to result in negative implications for future capital market raisings.

CWT Ltd

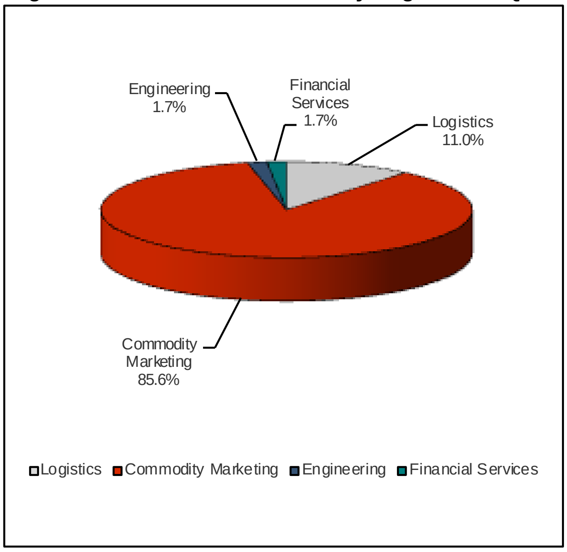
Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	14,194.4	9,931.6	1,875.5
EBITDA	203.4	199.8	52.5
EBIT	162.7	152.1	40.7
Gross interest expense	63.5	51.0	13.3
Profit Before Tax	131.6	131.7	34.1
Net profit	112.4	108.9	23.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	342.0	310.3	324.0
Total assets	4,356.6	4,549.8	3,936.2
Gross debt	1,430.6	1,427.4	1,355.2
Net debt	1,088.6	1,117.1	1,031.2
Shareholders' equity	791.5	868.1	826.3
Total capitalization	2,222.1	2,295.5	2,181.5
Net capitalization	1,880.1	1,985.1	1,857.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	153.0	156.6	35.6
CFO	237.1	317.3	118.9
Capex	113.7	259.1	20.5
Acquisitions	20.5	24.9	0.0
Disposals	5.3	28.2	0.4
Dividend	23.4	46.2	36.7
Free Cash Flow (FCF)	123.4	58.2	98.5
FCF adjusted	84.8	15.3	62.2
Key Ratios			
EBITDA margin (%)	1.4	2.0	2.8
Net margin (%)	0.8	1.1	1.3
Gross debt to EBITDA (x)	7.0	7.1	6.4
Net debt to EBITDA (x)	5.4	5.6	4.9
Gross Debt to Equity (x)	1.81	1.64	1.64
Net Debt to Equity (x)	1.38	1.29	1.25
Gross debt/total capitalisation (%)	64.4	62.2	62.1
Net debt/net capitalisation (%)	57.9	56.3	55.5
Cash/current borrowings (x)	0.4	0.4	0.3
EBITDA/Total Interest (x)	3.2	3.9	4.0

Source: Company, OCBC estimates

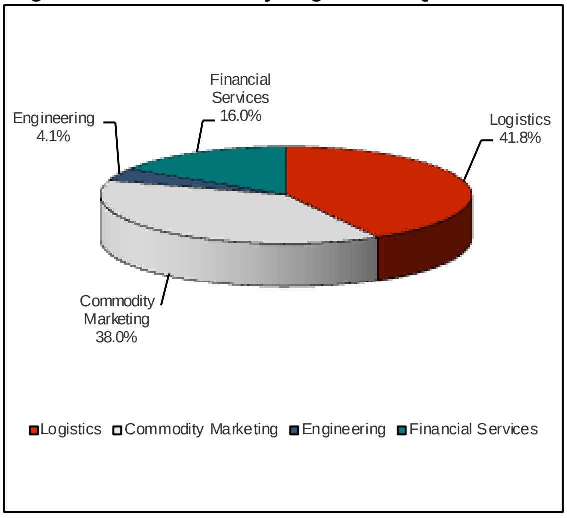
* *FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 1Q2016



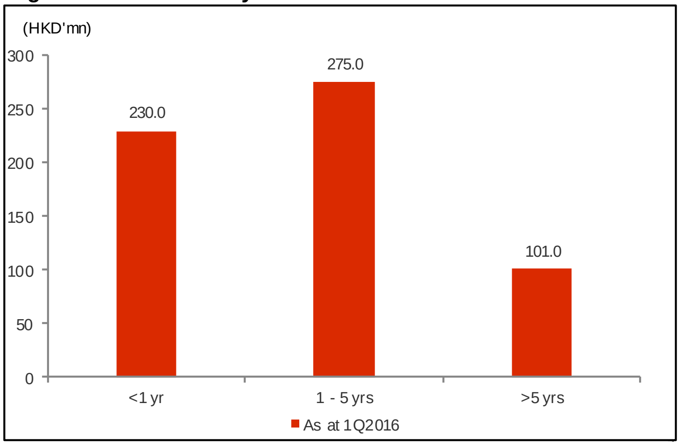
Source: Company

Figure 2: Gross Profit by Segment - 1Q2016



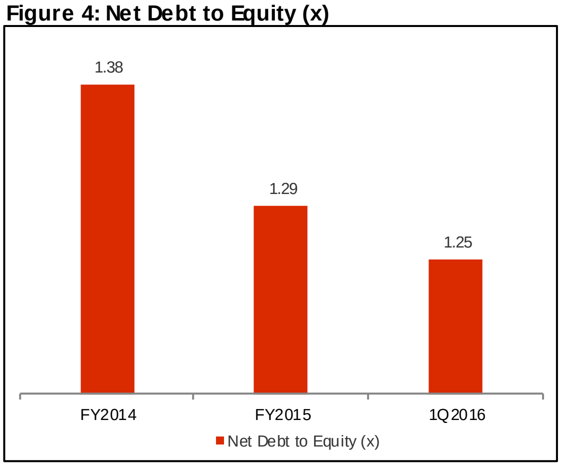
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We will hold the EZI curve at Neutral for now, as though the rights issues would help meet short-term liquidity needs, there remains more pain for EZI's drilling rigs.

Issuer Profile: Negative

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **EZISP**

Company profile

Ezion is a company engaged in the provision of liftboats and service rigs, as well as offshore logistics support services to national oil majors and multinational oil majors on a long-term basis. With over 30 service rigs and 55 offshore logistics support vessels, it operates in South-East Asia, Middle East, West Africa, Central America, Europe and USA. Though the firm was listed since 2000, Ezion only entered into the offshore marine industry from April 2007 onwards. The CEO, Chew Thiam Keng, is the largest shareholder with a 14.1% stake.

Ezion Holdings Ltd

Key credit considerations

- **Decline in revenue more muted:** Though 1Q2016 revenue continued to decline due to the challenging environment (-8.9% y/y to USD82.1mn), relative to 1Q2014's revenue of USD94.4mn generated during boom times, the slide in revenue was more controlled relative to its peers in the offshore marine space. Like previous periods, lower revenue contribution from the slowdown in LNG train activity in Queensland, Australia, has affected revenue. Management has indicated as well that utilization of its service rigs (both liftboats and older jack-up rigs) was impacted by downtime due to modifications and routine class surveys. We believe as well, that EZI faces challenges leasing out its older jack-up rigs (EZI has already taken some impairments in 4Q2015), which would pressure revenue when the existing leases for these assets expire. In addition, there are some signs that the relatively robust market for liftboats has also started to sour. Additional supply from newbuilds as well as redeployment of liftboats from weaker regions would pressure utilization and charter rates.

- **Alternative uses for assets**: Management has attempted to mitigate the slowdown in demand for liftboats for oil & gas usage by deploying them for alternative uses, such as to support the offshore wind farm market. To develop this market, EZI has entered into two separate agreements (one in December, one in February) with Chinese SOEs to support the Chinese offshore wind farm market. EZI will participate in the loading, contraction, transportation and installation of wind turbines, amongst other activities. No financial information resulting from these agreements have been disclosed, though in aggregate we believe that utilisation of EZI's liftboats would improve. It is also worth noting that EZI has started to divest some assets (EZI had highlighted two liftboats earmarked for sale, and likely sold one of these during 1Q2016).

- **Vessel sale mitigated gross margin compression**: COGS jumped 26.3% y/y to USD12.8mn, driven by the deployment of additional service rigs and likely coupled with lower utilization and poorer charter rates. This led to sharp gross margin compression, with 1Q2016 generating a gross margin of 25.2% (1Q2015: 46.1%). Operating profit was boosted by a gain (USD13.1mn) realized from the completion of an asset held for sale (likely the liftboat mentioned earlier). However, EZI generated some FX losses (USD14.6mn) on its SGD bond liabilities when the USD weakened against the SGD through 1Q2016. In aggregate, the above factors, coupled with higher financing costs due to increase in borrowings, drove net profit 62.2% lower y/y to USD15.5mn.

- **Liquidity and leverage remains mixed**: The firm was able to generate operating cash flow (including interest service) of USD22.6mn and ~USD1.0mn in free cash flow. EZI also reduced gross debt by USD 28.5mn by drawing on its cash balance. That said EZI had about USD387.9mn in short-term debt (end-1Q2016), with the majority being vessel financing, compared to USD206.3mn in cash. Interest coverage has also deteriorated sharply from 8.9x (2015) to 5.6x (1Q2016) due to weaker earnings. In addition, though net gearing remained stable at 111% (end-2015: 111%), it remains high on an absolute basis and we don't believe it would improve in the near future given challenging conditions, particularly for drilling assets. As such, we will continue to hold EZI's Issuer Profile at Negative. We do acknowledge that the recent attempts by EZI to raise equity are credit positive, with EZI earlier on issuing 323.9mn in warrants (4 year expiry, at $0.50 strike) and on 01/07/16 announcing an underwritten ~SGD140mn rights issue (30% dilution), which would infuse EZI with additional liquidity. These improvements will only be seen in 3Q2016 results though.

Ezion Holdings

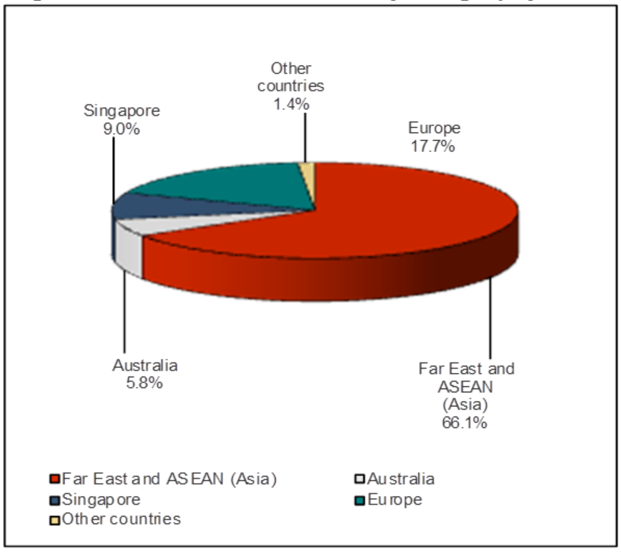
Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	1Q2016
Income Statement (USD'mn)			
Revenue	386.5	351.1	82.1
EBITDA	279.4	233.8	52.3
EBIT	176.6	99.0	16.8
Gross interest expense	30.4	26.4	9.3
Profit Before Tax	225.8	38.4	15.6
Net profit	223.7	36.8	15.5
Balance Sheet (USD'mn)			
Cash and bank deposits	371.5	229.8	206.3
Total assets	2,981.0	3,108.4	3,117.3
Gross debt	1,496.0	1,605.0	1,619.8
Net debt	1,124.5	1,375.3	1,413.5
Shareholders' equity	1,312.6	1,241.3	1,270.4
Total capitalization	2,808.7	2,846.4	2,890.2
Net capitalization	2,437.2	2,616.6	2,683.8
Cash Flow (USD'mn)			
Funds from operations (FFO)	326.4	171.7	51.1
CFO	183.2	171.0	22.6
Capex	529.0	381.9	21.6
Acquisitions	14.7	4.1	3.5
Disposals	17.7	0.0	0.5
Dividend	1.0	1.2	0.0
Free Cash Flow (FCF)	-345.8	-210.9	1.0
FCF adjusted	-343.8	-216.2	-2.0
Key Ratios			
EBITDA margin (%)	72.3	66.6	63.8
Net margin (%)	57.9	10.5	18.9
Gross debt to EBITDA (x)	5.4	6.9	7.7
Net debt to EBITDA (x)	4.0	5.9	6.8
Gross Debt to Equity (x)	1.14	1.29	1.28
Net Debt to Equity (x)	0.86	1.11	1.11
Gross debt/total capitalisation (%)	53.3	56.4	56.0
Net debt/net capitalisation (%)	46.1	52.6	52.7
Cash/current borrowings (x)	1.3	0.6	0.6
EBITDA/Total Interest (x)	9.2	8.9	5.6

Source: Company, OCBC estimates

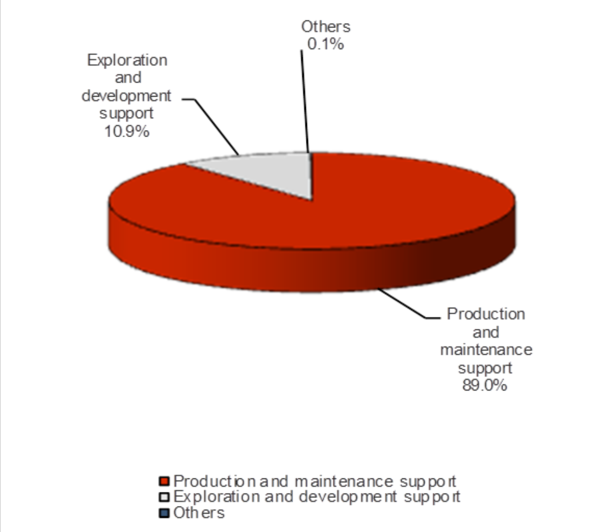
* *FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Geography - FY2015



Source: Company

Figure 2: Revenue breakdown by Segment - FY2015



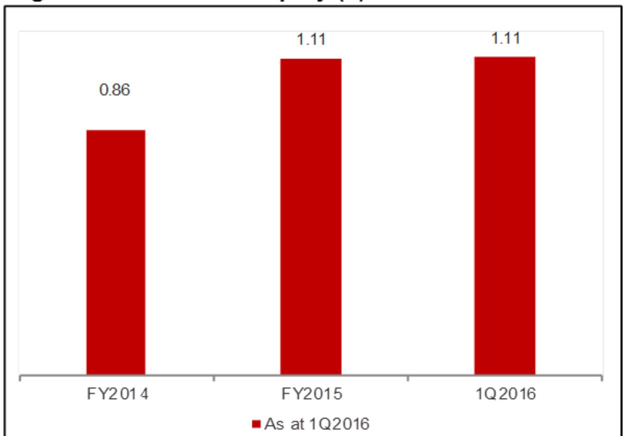
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 31/12/2015	% of debt
Amount repayable in one year or less, or on demand		
Secured	276.8	16.9%
Unsecured	111.1	6.8%
	387.9	**23.7%**
Amount repayable after a year		
Secured	840.6	51.3%
Unsecured	409.5	25.0%
	1250.1	**76.3%**
Total	**1637.9**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Ezra Holdings Ltd

Credit Outlook –

We remain overweight the EZRASP'18s, believing that the risk-reward is attractive given the positive catalysts of management generating liquidity via JVs and asset sales.

Issuer Profile: Negative

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **EZRASP**

Company profile

Listed in 2003, Ezra is an offshore contractor and provider of integrated offshore solutions to the global oil and gas industry. The group has three main business divisions, namely subsea services, offshore support & production services and marine services. Under the EMAS branding, it operates in more than 16 locations across Africa, Americas, Asia-Pacific and Europe. The founding Lee family controls ~24% of the firm. Ezra has recently entered into a 40:35:25 JV with Chiyoda and NYK with regards to its subsea services segment.

Key credit considerations

- **Provisions / impairments overwhelm**: 2QFY2016 results (ending Feb 2016) reported in mid-April were grim, reflecting the challenging environment as well as impairments / provisions that EZRA took during the quarter. This was in-line with a number of offshore marine peers that took impairments / provisions during the last quarter of 2015. During the quarter, EZRA's administrative expenses surged 471% y/y to USD97.6mn due to USD48.6mn in allowance for doubtful debts (on some LT receivables) as well as USD18.9mn for bad debt written off. In addition, EZRA incurred USD115.5mn in other expenses, which includes USD18.1mn in fixed asset divestment losses (ie: vessel sales), USD60.5mn in fixed asset impairments (mainly EZRA's PSVs), as well as USD38.3mn in impairment losses on JVs (EMAS Victoria Bhd and SJR Marine Ltd). Impairment losses generated at associate Perisai Petroleum (23% owned) also impacted EZRA's bottom line (USD32.1mn impact). In aggregate, of the USD251.8mn in pre-tax losses generated, USD166.3mn was driven by these impairments and provisions.

- **OSV chartering weak, shipbuilding fair**: For 2QFY2016, EZRA reported USD111.2mn in total revenue, a decline of 13.9% y/y (the subsea division has been deconsolidated when the JV was announced). The OSV division (mainly EMAS Offshore) drove revenue weakness, with EMAS Offshore seeing a 50% fall y/y to just USD30.5mn for the quarter. Utilization (~51%) as well as charter rates were both weak (the PSVs particularly). The shipbuilding division (mainly Triyards) sustained performance with Triyards revenue up 15.4% y/y to USD70.5mn. This was driven by revenue recognized on work done on four liftboats, two MPSVs and three chemical tankers. In addition, EZRA reported that the deconsolidated subsea division revenue declined 37.3% y/y to USD108.4mn, reflecting challenging conditions for deepwater projects.

- **Cash burn and losses deteriorated credit profile**: Quarterly operating cash flow was negative USD54.5mn. Capex was also higher than expected at USD76.1mn (due to vessel purchase by EMAS Offshore). As such, FCF was negative USD130.6mn for the quarter. The cash gap was met in part by USD59.6mn in net borrowings, USD24.3mn from its cash balance as well as USD18.2mn in vessel sales. It should be noted that EMAS Offshore (the OSV division) still has USD91.7mn in committed capex outstanding (as of end-2QFY2016). The additional borrowings, coupled with losses generated, drove net gearing sharply higher from 81% (end-1QFY2016) to 110% (end-2QFY2016).

- **JV and vessel sales to infuse liquidity**: The Chiyoda JV (to be reflected in 3QFY2016) would infuse EZRA with USD150mn in cash. The NYK stake sale (to close by September) would provide another USD36mn. EZRA has also announced that it is seeking to divest two FPSOs. This would be helpful given USD566.7mn in short-term borrowings due (including the SGD95mn bond successfully redeemed in March 2016) versus USD150mn in cash balance.

- **Order book provides comfort**: Management reported order backlog to be ~USD1.5bn (as of end-2QFY2016). Since then, news reported in May that Saudi Aramco awarded ~USD1bn contract to Larsen & Toubro ("L&T") and EMAS AMC. Subsequently, EZRA further announced in June that it has received awards for several new deepwater projects from international oil majors, with a value of USD300mn in aggregate. The projects will be executed in various offshore oil producing regions in the Gulf of Mexico, Southeast Asia and West Africa. Looking forward, these orders would help support EZRA's performance. That said, we will retain EZRA's Issuer Profile at Negative till we have a chance to review EZRA's post-Chiyoda investment balance sheet come 3QFY2016.

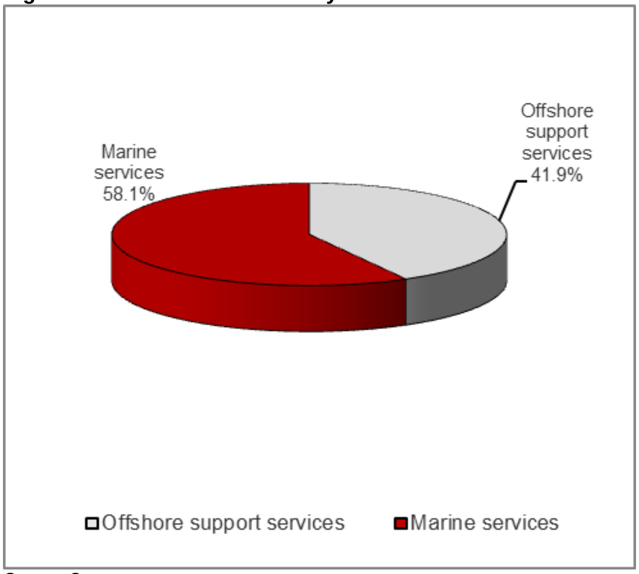
Ezra Holdings Ltd

Table 1: Summary financials

Year ended 31st August	FY2014	FY2015	1H2016
Income statement (US$ mn)		restated	restated
Revenue	1,488.4	543.8	263.4
EBITDA	141.8	76.3	-62.8
EBIT	69.6	7.0	-98.8
Gross interest expense	51.3	52.3	21.5
Profit Before Tax	74.7	79.1	-332.3
Net profit	45.3	43.7	-305.3
Balance Sheet (USD'mn)			
Cash and bank deposits	178.9	417.8	150.0
Total assets	3,363.0	4,177.3	3,486.9
Gross debt	1,551.9	1,470.2	1,293.8
Net debt	1,373.0	1,052.3	1,143.8
Shareholders' equity	1,185.8	1,365.3	1,044.1
Total capitalization	2,737.7	2,835.5	2,337.9
Net capitalization	2,558.8	2,417.6	2,188.0
Cash Flow (USD'mn)			
Funds from operations (FFO)	117.4	113.0	-269.3
CFO	140.1	142.5	-42.0
Capex	327.4	320.5	85.8
Acquisitions	0.0	-25.2	0.0
Disposals	8.5	30.3	18.2
Dividend	5.4	0.0	0.0
Free Cash Flow (FCF)	-187.3	-178.0	-127.8
FCF adjusted	-184.1	-122.5	-109.6
Key Ratios			
EBITDA margin (%)	9.5	14.0	-23.8
Net margin (%)	3.0	8.0	-115.9
Gross debt to EBITDA (x)	10.9	19.3	-10.3
Net debt to EBITDA (x)	9.7	13.8	-9.1
Gross Debt to Equity (x)	1.31	1.08	1.24
Net Debt to Equity (x)	1.16	0.77	1.10
Gross debt/total capitalisation (%)	56.7	51.8	55.3
Net debt/net capitalisation (%)	53.7	43.5	52.3
Cash/current borrowings (x)	0.4	0.6	0.3
EBITDA/Total Interest (x)	2.8	1.5	-2.9

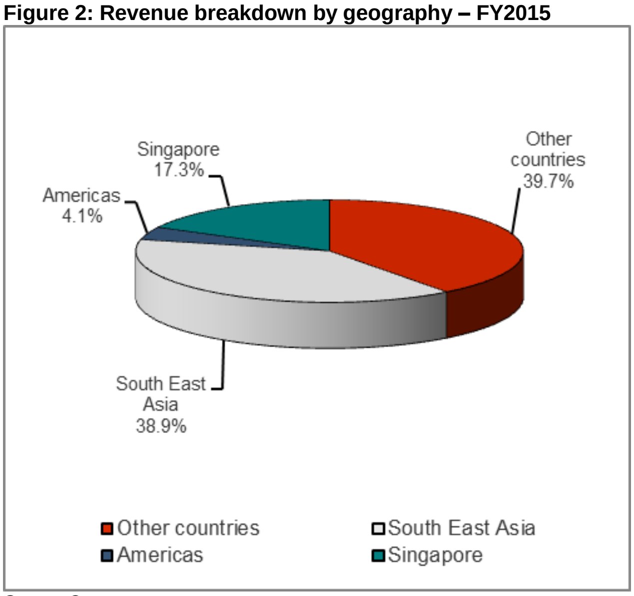
Source: Company, OCBC estimates
**Adjusted FCF = FCF –Acquisitions – Dividends + Disposals*

Figure 1: Revenue breakdown by business – FY2015



Source: Company

Figure 2: Revenue breakdown by geography – FY2015



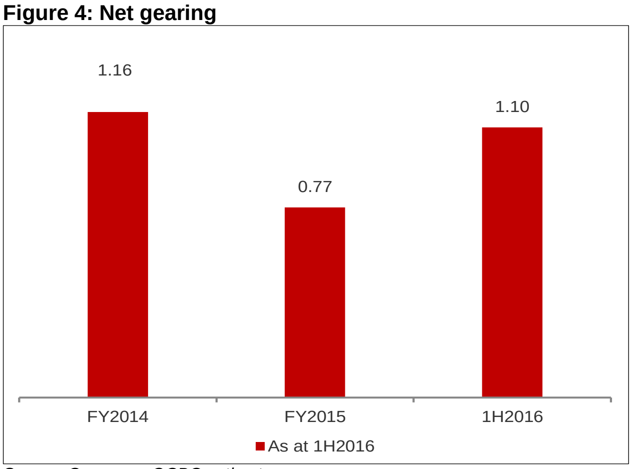
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 28/02/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	243.1	18.8%
Unsecured	323.6	25.0%
	566.7	**43.8%**
Amount repayable after a year		
Secured	467.3	36.1%
Unsecured	259.8	20.1%
	727.1	**56.2%**
Total	**1293.8**	**100.0%**

Source: Company

Figure 4: Net gearing



Source: Company, OCBC estimates

First Sponsor Group Ltd

Credit Outlook – There are two issuer calls on the FSGSP'18s. The first one @102 in June 2016 has lapsed while the next call date would be June 2017@101. We think it is more likely that FSG will opt to conserve cash during the development of the Dongguan project than to call the bond. We think there is upside potential on the bond which is currently priced at 96 and yields ~630 bps. We place its valuation ceiling at CENCHI'17s given that CENCHI has a more diversified profile.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **FSGSP**

Background

First Sponsor Group Ltd ("FSG") comprises three property focused business segments: property development, property holding and property financing. Operations are focused on China and the Netherlands. FSG is 35.8% indirectly owned by the Hong Leong Group while the Tai Tak Group has a deemed interest of 44.2% in the company. FSG is incorporated in Cayman Islands and management are based in Singapore.

Key credit considerations

- **Softer quarter observed:** Compared to 1Q2015, revenue increases were observed across all business segments, aside from its property financing business. Revenue increased 260% to SGD45.6mn from SGD12.7mn in 1Q2015. EBITDA for 1Q2016 was SGD4.7mn, declining by 19% from 1Q2015 on the back of higher cost of sales as the property development business was the main revenue generator during the quarter (~84% revenue contribution against 17%). Nevertheless, profit after tax was higher at SGD12.6mn (1Q2015: SGD10.9mn), partially boosted by a one-off gain of SGD6.8mn disposal of non-core properties. Vis-à-vis to its immediately preceding quarter, 1Q2016 revenue has fallen significantly by 55%, driven by weaker property sales in January and February and lower revenue from loan defaults in property financing. In 1Q2016, 324 residential units from the Millennium Waterfront project were handed over, against 739 residential units in 4Q2015. As at 31 March 2016, cash receipts in advance (collected as payment for properties and largely kept in designated accounts) amounted to SGD162mn.

- **Property sales in April red-hot, but will it sustain?** FSG's property development business is centered on its Millennium Waterfront Project, located in Chengdu, Szechuan Province. We understand that April unit sales were very strong compared to the beginning of the year and in line with the buying frenzy observed across China post-loosening measures. For now, there are sufficient signs pointing towards an overall upward trend in Chinese property but we take comfort that FSG is on target to commence development of its Dongguan Star East River Project in 3Q2016, a city supported by divergent economic fundamentals from Chengdu. FSG is also exposed to Chengdu via a SGD135mn unsecured loan extended to the Wenjiang district government, one of Chengdu's nine districts.

- **Netherlands provides recurring income and diversification benefits**: FSG holds 5 core office properties in the Netherlands and has identified 3 others with redevelopment potential (eg: Boompjes redevelopment). In 1Q2016, the Dutch properties contributed SGD6.7mn recurring income to the group (combination of rental income and interest income from a SGD loan extended to a property holding associate). 2 other properties are deemed non-core and may be monetized in the medium/longer term. The Netherlands make up ~18% of FSG's total assets. The decline in the EUR (against the SGD) is likely to affect FSG as it does not hedge its EUR exposure. However, assuming the contribution from the Netherlands halves, EBITDA/Interest would still be above 1.5x.

- **In the midst of taking action on defaulters:** As SGD53mn of entrusted loans have been repaid, FSG's property financing loan portfolio as at 31 March 2016 has fallen to SGD153.5mn. ~90% of the outstanding portfolio are now in default and the company has initiated legal action. Impairments on such loans have not been taken as these are supported by property collateral which the company deemed as high quality, in addition to other guarantees and assets. We view it positively that FSG has refrained from lending out further amounts (at the very least, until there is higher certainty on recouping the defaulted loans).

- **Steady balance sheet and manageable liquidity:** More than 90% of cash are held within onshore accounts and are subject to currency exchange restrictions, reducing FSG's liquidity somewhat. However, mitigating this is FSG's healthy debt-to-equity ratio at 0.4x (4Q2015: 0.5x) while net debt-to-equity was 0.3x (4Q2015: 0.4x) and well within its covenanted levels. Overall gross debt has reduced by 18%, however, book value equity was negatively impacted by translation loss of SGD37.2mn (offsetting some of the previous gains). Net debt/EBITDA has spiked to 13.3x (FY2015: 5.1x) following thinner EBITDA generation despite the decline in net debt.

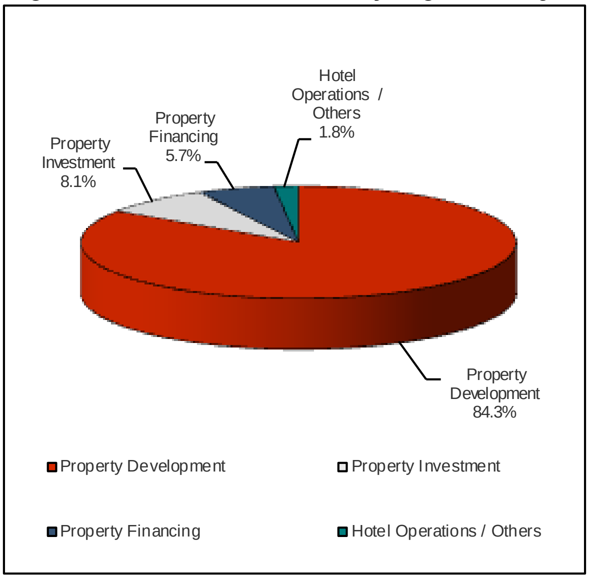
First Sponsor Group Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	153.2	215.0	45.6
EBITDA	35.8	71.5	4.7
EBIT	34.4	69.8	4.4
Gross interest expense	2.1	4.6	1.9
Profit Before Tax	40.5	91.0	15.9
Net profit	21.7	67.4	12.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	131.8	112.0	138.0
Total assets	1293.0	1800.8	1663.4
Gross debt	83.0	477.1	388.9
Net debt	-48.8	365.1	250.9
Shareholders' equity	894.5	978.1	953.5
Total capitalization	977.5	1455.2	1342.4
Net capitalization	845.7	1343.2	1204.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	23.1	69.0	12.6
CFO	-251.3	-62.3	31.1
Capex	33.0	33.7	9.5
Acquisitions	0.2	172.8	0.0
Disposals	14.9	4.9	0.0
Dividends	0.0	11.5	0.0
Free Cash Flow (FCF)	-284.3	-96.0	21.6
* FCF Adjusted	-269.6	-275.4	21.6
Key Ratios			
EBITDA margin (%)	23.4	33.2	10.3
Net margin (%)	14.2	31.3	26.9
Gross debt to EBITDA (x)	2.3	6.7	20.7
Net debt to EBITDA (x)	-1.4	5.1	13.3
Gross Debt to Equity (x)	0.1	0.5	0.4
Net Debt to Equity (x)	-0.1	0.4	0.3
Gross debt/total capitalisation (%)	8.5	32.8	29.0
Net debt/net capitalisation (%)	-5.8	27.2	20.8
Cash/current borrowings (x)	NM	0.5	0.9
EBITDA/Total Interest (x)	17.0	15.4	2.5

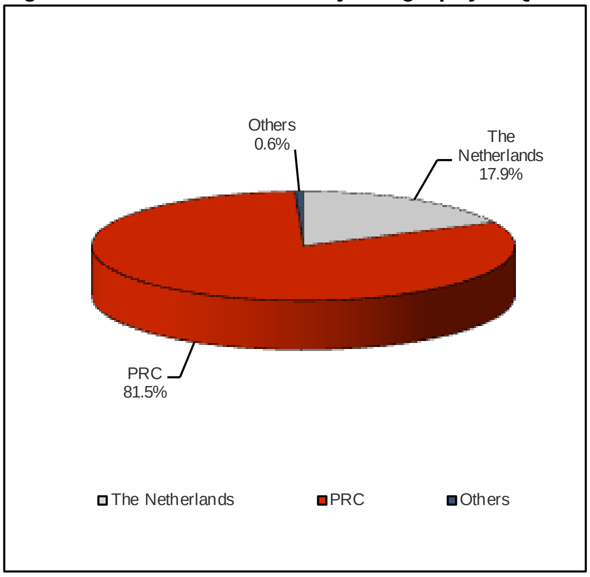
Source: Company, OCBC estimates
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 1Q2016



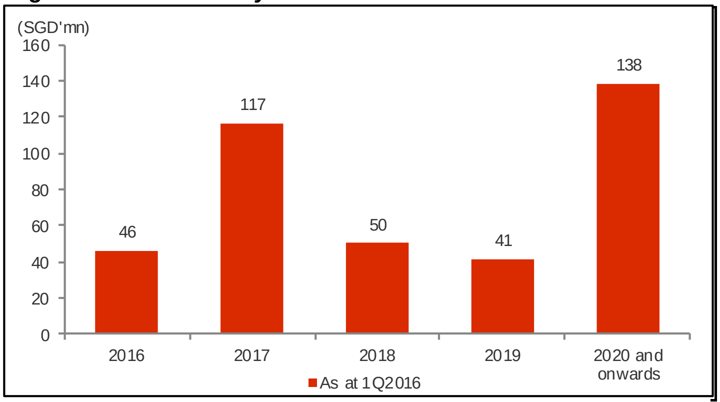
Source: Company

Figure 2: Asset breakdown by Geography - 1Q2016



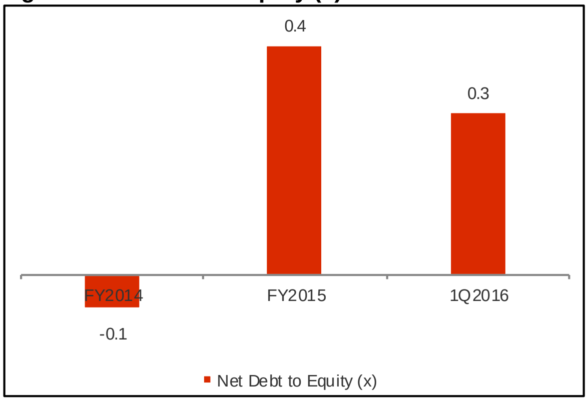
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

Tight spreads on the recently issued FCTSP'21s would have been supportive of the existing curve.

Issuer Profile: Neutral

S&P: BBB+/Stable

Moody's: Baa1/Positive

Fitch: Not rated

Ticker: **FCTSP**

Background

Listed on the SGX in July 2006, Frasers Centrepoint Trust ("FCT") is a pure-play suburban retail REIT in Singapore, sponsored by Frasers Centrepoint Ltd ("FCL", which holds a 41.5% interest in FCT). Since its IPO, FCT's portfolio value has grown to SGD2.46bn as at end-FY2015. Its portfolio comprises 6 suburban retail malls in Singapore - Causeway Point, Changi City Point, Northpoint, Bedok Point, Anchorpoint, and YewTee Point. FCT also owns a 31.2%-stake in Malaysia-listed Hektar REIT ("H-REIT", a retail focused REIT).

Frasers Centrepoint Trust

Key credit considerations

- **Northpoint AEI weighed on revenue:** FCT reported that gross revenue was 0.8% lower y/y to SGD47.1mn for 2QFY2016. The decline was partially driven by the commencement of the AEI at Northpoint (which started in March 2016). FCT estimated that the AEI at Northpoint would disrupt and drive average occupancy lower to 76% from March to September 2016. Occupancy at the mall had already fallen from 96.2% (end-1QFY2016) to 81.7% (end-2QFY2016), with property revenue 6.6% lower y/y. It should be noted that Northpoint is the second largest asset in the portfolio and it generated ~27% of portfolio gross revenue in FY2015. As such, we can expect work on the AEI to pressure portfolio revenue for the next few quarters, as the AEI is expected to be fully completed only in September 2017. Weakness at Bedok Point was a drag on portfolio performance as well, with property gross revenue 17.7% lower y/y to SGD1.90mn for 2QFY2016. As recent as 4Q2014, Bedok Point's gross revenue was SGD2.99mn. We believe conditions at Bedok Point to be challenging as occupancy fell to a low of 76.8% (end-1QFY2016) though it recovered to 86.1% q/q due to the lease commencement of a gym operator in March.

- **Causeway Point supported portfolio performance**: Despite lower portfolio gross revenue, FCT was able to increase NPI by 0.4% y/y, driven by strong performance at Causeway Point (property NPI up 5.5% y/y). FCT also benefited from lower maintenance expense, resulting from lower utility tariffs. Given that Causeway Point generates ~45% of portfolio revenue, and that occupancy has been strong (~99%) since it completed its AEI in 2012, we believe that the mall will be able to help anchor FCT's performance despite the weak environment.

- **Fall in occupancy as intended, lease renewals decent**: Though portfolio occupancy has slumped sharply over the last few quarters, from 96.0% (end-FY2015) to 92.0% (end-2QFY2016). This was largely due to the Northpoint AEI. With Northpoint ~22% of portfolio NLA, the impact of AEI-driven vacancies have a pronounce impact on portfolio occupancy. Aside from Northpoint, the occupancy of other properties remained relatively stable. Despite the challenging retail property environment, FCT highlights its strength as a suburban mall REIT with rental reversions +13.7% (1QFY2016) and +5.6% (2QFY2016), compared to +6.3% (FY2015). In fact, only Bedok Point had negative rental reversions.

- **Lease renewals at Northpoint tricky**: Though FCT has already renewed ~50% of the leases (by NLA) expiring in FY2016, it still has 14.3% of portfolio NLA to renew over the balance of FY2016. About 30% is attributable to Northpoint. With the ongoing AEI already impacting occupancy, lease rates could also be pressured. Already, 2QFY2016 lease reversion for the mall was just +1.7% (though the sample size was small at just 0.5% of mall NLA). Portfolio WALE has worsened slightly from 1.61 years to 1.51 years.

- **Credit profile still robust**: Aggregate leverage remained stable at 28.3% (end-FY2015: 28.2%), stronger than its retail REIT peers. That said, we acknowledge that The Centrepoint asset (valued at SGD620mn) held at the sponsor level remains in the pipeline. We don't believe that the asset injection would happen in the near future as the asset is still undergoing AEI and not yet stabilized. Interest coverage improved as well from 6.0x (end-FY2015) to 6.7x (end-2QFY2016), driven by stronger EBITDA and lower borrowing costs (average borrowing costs declined to 2.29% from 2.40%). Though FCT has about SGD274mn in short-term debt, SGD184mn is secured debt against Northpoint due July (part of the debt will be refinanced by SGD50mn in bonds which FCT issued mid-June). We will retain FCT's Issuer Profile at Neutral.

Fraser Centrepoint Trust

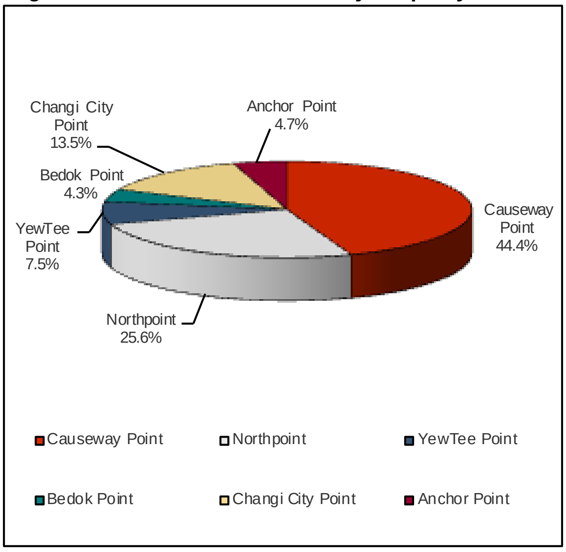
Table 1: Summary Financials

Year Ended 30th Sept	FY2014	FY2015	1H2016
Income Statement (SGD'mn)			
Revenue	168.8	189.2	94.2
EBITDA	103.5	115.4	59.2
EBIT	103.5	115.4	59.2
Gross interest expense	18.5	19.3	8.8
Profit Before Tax	165.1	171.5	47.5
Net profit	165.1	171.5	47.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	41.7	16.2	21.0
Total assets	2,521.8	2,548.7	2,554.3
Gross debt	739.0	744.0	724.0
Net debt	697.3	727.8	703.0
Shareholders' equity	1,698.7	1,754.5	1,754.8
Total capitalization	2,437.7	2,498.5	2,478.8
Net capitalization	2,395.9	2,482.3	2,457.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	165.1	171.5	47.5
CFO	100.3	120.0	61.5
Capex	1.6	5.4	2.6
Acquisitions	298.7	0.0	0.0
Disposals	0.0	0.0	0.0
Dividends	94.5	105.7	52.6
Free Cash Flow (FCF)	98.7	114.6	58.9
FCF adjusted	-294.5	8.9	6.4
Key Ratios			
EBITDA margin (%)	61.4	61.0	62.9
Net margin (%)	97.8	90.6	50.5
Gross debt to EBITDA (x)	7.1	6.4	6.1
Net debt to EBITDA (x)	6.7	6.3	5.9
Gross Debt to Equity (x)	0.44	0.42	0.41
Net Debt to Equity (x)	0.41	0.41	0.40
Gross debt/total capitalisation (%)	30.3	29.8	29.2
Net debt/net capitalisation (%)	29.1	29.3	28.6
Cash/current borrowings (x)	0.4	0.1	0.1
EBITDA/Total Interest (x)	5.6	6.0	6.7

Source: Company, OCBC estimates

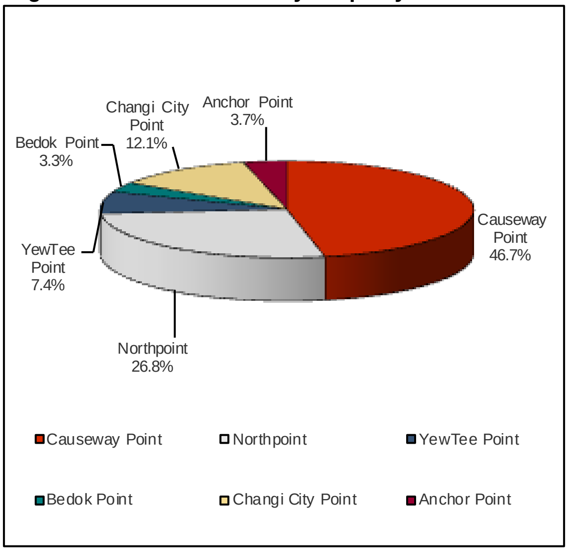
** FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Property - 1H2016



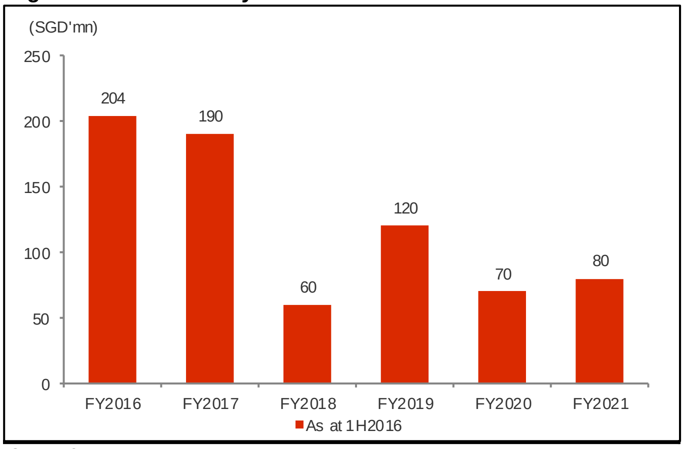
Source: Company

Figure 2: NPI breakdown by Property - 1H2016



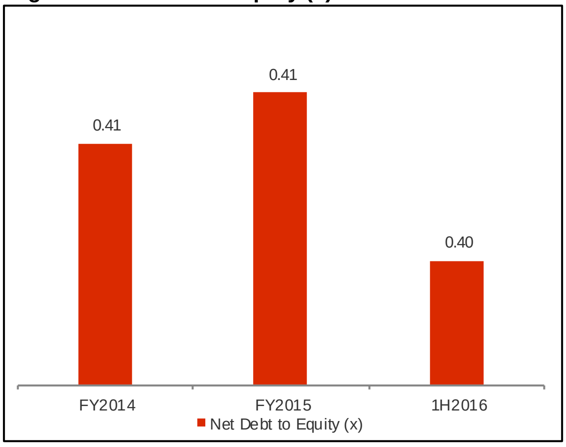
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – The FHREIT'49c21 has tightened considerably against its closest comparable ART since issuance, especially since the first call is about 1 year longer than the ARTSP' 49c20. We would be sellers should the FHREIT'49c21 rally further.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa2/Stable

Fitch: Not rated

Ticker: **FHTSP**

Background

Listed on the SGX in July 2014, Frasers Hospitality Trust ("FHT") is a stapled group comprising a REIT and Business Trust. FHT invests in hospitality assets globally (except Thailand) and currently owns 14 properties with more than 3,500 rooms. It is sponsored by Frasers Centrepoint Limited ("FCL"), a major Singapore-based property developer. FCL holds a ~22% stake, whilst TCC Hospitality Limited ("THL") holds ~39%. Both FCL and THL are ultimately controlled by Charoen Sirivadhanabhakdi and Khunying Wanna Sirivadhanabhakdi.

Frasers Hospitality Trust

Key credit considerations

- **Subdued organic growth**: 12 assets within FHT's portfolio were acquired as part of its initial portfolio at IPO from entities linked to its Sponsor. Sofitel Sydney Wentworth ("SSW") was acquired in mid-2015 while the Maritim Hotel Desdren in Germany (in June 2016). FHT reported SGD27.0m of gross revenue for the quarter ended 31 March 2016 ("2Q2016"), a 12.5% increase against SGD24.0mn in 2Q2015, largely driven by the acquisition of SSW. Based on our estimates, the hotel contributed ~SGD3.7mn to gross revenue during the quarter. Taking out SSW's contribution, we estimate that gross revenue declined by ~3%. The decline was driven by lower occupancy at InterContinental Singapore (still under renovation) and weaker performance in the UK. With the exception of the newly acquired property, all of the Master Lessees/Tenants are related parties.

- **Fixed rent underpinning leases provide downside protection:** In 2Q2016, EBITDA/Gross Interest was 3.5x, reducing from the 4.4x in 2Q2015. FHT's Master Leases provide for a fixed rent, in 2Q2016, this was ~SGD13mn, representing 49% of gross revenue. We estimate fixed rent to be at least ~SGD55m for FY2016, taking into account the new German acquisition. In May 2016, FHT issued SGD100mn of subordinated perpetual securities at 4.45% p.a. We think Fixed Rent alone is able to provide ~2.4x the coverage for FHT's gross interest and distribution on such perpetual securities in FY2016. In addition, 80% of FHT's hotels (by property value) are under 20 plus 20 years leases commencing from 14 July 2014 (at the option of the Master Lessee), supporting the REIT's income stability.

- **Corporate guarantee provided by Sponsor credit neutral:** FHT has been granted a corporate guarantee by FCL in respect of each Master Lease and Tenancy Agreements. In the event that the Master Leases default on their obligations (eg: fail to pay rent), FCL will be held responsible for completing such duties and obligations. While we take some comfort on the financial flexibility provided by FCL (being a larger entity listed on the SGX with a market cap of SGD4.4bn) it is worth noting that FCL itself is a levered property developer with Net Debt-to-Equity of 0.9x and Net Debt-to-EBITDA of ~11x. Overall, we view the corporate guarantee to be credit neutral. FHT has been given a right of first refusal ("ROFR") on current and future hospitality assets of FCL and its ultimate controlling shareholders (globally except Thailand). In addition to 43 ROFR assets as of January 2016, Frasers Hospitality is undergoing massive expansion with 48 new hospitality properties targeted to open by 2019. We expect FHT to be mobilized for further capital recycling.

- **Balance sheet largely unencumbered:** As at 31 March 2016, FHT's aggregate leverage was 39% and relatively flat compared to the immediately preceding quarter. This is slightly below the REIT's internal threshold of 40% but on par with its closest comparable. With only The Westin Kuala Lumpur encumbered, 96% of borrowings at FHT are unsecured, providing comfort to the current holders of FHT's unsecured perpetual issuance, which rank below senior facilities.

- **Brexit immediate impact on aggregate leverage**: In 2Q2016, UK properties contributed SGD3mn (~15%) to net property income and make up ~20% of total investment property value. Interest coverage levels are acceptable in our worst case scenario analysis assuming no income from such properties. We think the decline in GBP (against SGD) is likely to cause FHTs aggregate leverage to extend beyond 40% though we note MAS allows a 45% limit. We initiate our coverage with an issuer rating of Neutral.

Frasers Hospitality Trust

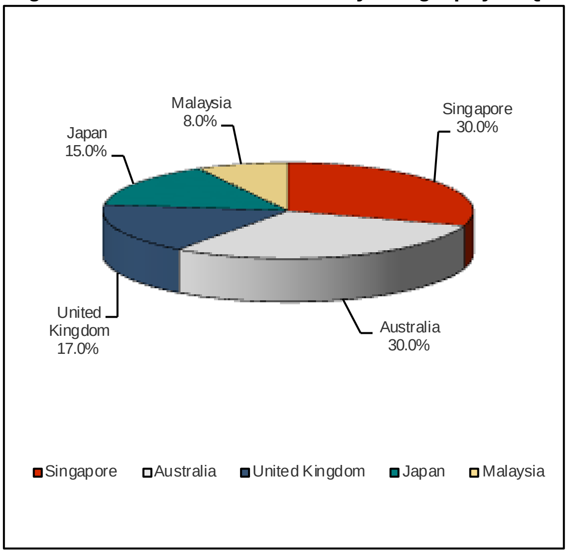
Table 1: Summary Financials

Year Ended 30th Sep	FY2015*	1Q2016	2Q2016
Income Statement (SGD'mn)			
Revenue	128.7	31.4	27.0
EBITDA	85.0	22.8	18.6
EBIT	85.0	22.8	18.6
Gross interest expense	17.8	5.2	5.2
Profit Before Tax	153.5	21.7	11.3
Net profit	135.5	20.3	11.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	52.3	58.8	66.1
Total assets	2,031.7	2,042.2	2,029.5
Gross debt	785.0	786.5	792.4
Net debt	732.7	727.7	726.4
Shareholders' equity	1,172.3	1,176.9	1,163.9
Total capitalization	1,957.3	1,963.5	1,956.3
Net capitalization	1,905.0	1,904.7	1,890.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	135.5	20.3	11.1
CFO	111.5	35.0	14.9
Capex	38.5	2.0	4.0
Acquisitions	1,879.0	0.0	0.0
Disposals	0.0	0.0	0.0
Dividends	71.0	21.5	0.0
Free Cash Flow (FCF)	73.1	32.9	10.9
FCF Adjusted	1,988.5	23.6	4.0
Key Ratios			
EBITDA margin (%)	66.0	72.7	68.7
Net margin (%)	105.2	64.7	41.2
Gross debt to EBITDA (x)	9.2	8.6	9.6
Net debt to EBITDA (x)	8.6	8.0	8.8
Gross Debt to Equity (x)	0.67	0.67	0.68
Net Debt to Equity (x)	0.63	0.62	0.62
Gross debt/total capitalisation (%)	40.1	40.1	40.5
Net debt/net capitalisation (%)	38.5	38.2	38.4
Cash/current borrowings (x)	NM	NM	58.6
EBITDA/Total Interest (x)	4.8	4.4	3.5

Source: Company, OCBC estimates | *FY2015 represents June 2014 - Sep 2015 data

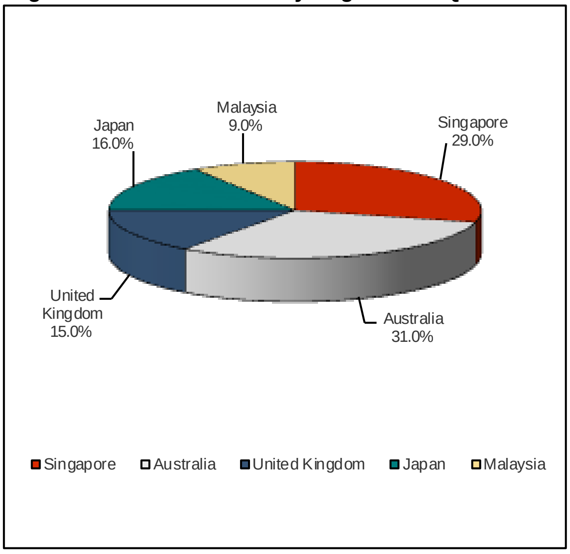
* *FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Geography - 2Q2016



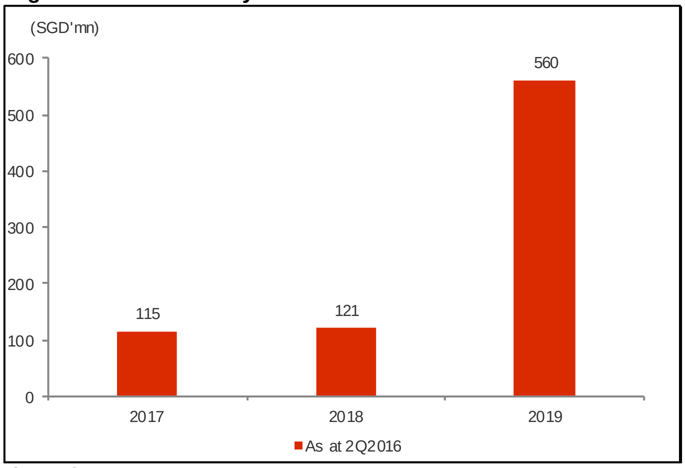
Source: Company

Figure 2: NPI breakdown by Segment - 2Q2016



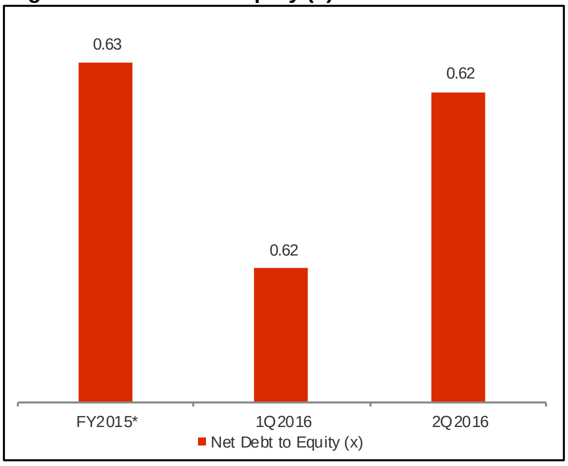
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Gallant Venture Ltd

Credit Outlook – The GALV'18s are at fair value in our view (YTM 7% and a spread of 568 above swaps). Both the GALV'17s may trade upwards to par though on fundamentals, we would not look to add when they hit par.

Issuer Profile: Negative

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **GALVSP**

Background

Gallant Venture Ltd ("GALV") is an Indonesia-focused investment holding company headquartered and incorporated in Singapore. The company is an integrated automotive group across Indonesia and a master planner and service provider for industrial parks and resorts in Batam and Bintan. Salim Group has ~75% deemed interest in GALV, while 11.4% is owned by Sembcorp Industries. Ltd, which is holding its stake as a non-core asset.

Key credit considerations

- **Softer quarter observed:** On the back of pricing pressures amidst tighter competition at its automotive arm PT Indomobil Sukses Internasional ("IMAS"), GALV's 1Q2016 results have declined 18% versus 1Q2015. Compared to the immediately preceding quarter, revenue declined by 7.2%. 1Q2016 EBITDA was flat at SGD68.5mn, as EBITDA margin improved to 15% (1Q2015: 12%), reflecting lower purchases and manufacturing cost during the year at the IMAS business. However, headline loss after tax widened to SGD14.8mn, largely due to the absence of a gain on disposal of associates amounting to SGD9mn which had boosted bottom line in 1Q2015. Both commercial and passenger vehicle sales was negatively impacted by slower growth in the mining and commodities sector. This year, it is projected that vehicle sales growth will be flat to moderate at ~5%. GALV's utilities business in Bintan and Batam islands continued to be a solid income generator of the group, posting a commendable EBIT of SGD36.7mn in FY2015, improving 14% from FY2014. The remaining three segments all reported operating losses during the year.

- **Bondholders continue to shoulder IMAS price tag:** The acquisition by GALV valued IMAS at ~SGD1.9bn, with SGD504mn in goodwill recorded at GALV and part financed with bank debt. These have since been refinanced with intermediate bonds, of which SGD305mn were issued as replacement debt in FY2015. Such SGD bonds are structurally subordinated to IDR bonds issued by IMAS's auto financing and vehicle rental arm. Profitability at IMAS has declined since GALV's acquisition of a majority stake in 2013. IMAS made a net profit (after minority interest) of ~SGD54mn in FY2013 and has reported net losses since then. Compounded by investments into fixed assets and heightened debt levels, IMAS's free cash flow has been stretched, hampering its ability to upstream dividends to GALV and other shareholders. In FY2015, IMAS paid a dividend of SGD4.4mn to shareholders vis-à-vis SGD8.5mn in FY2013.

- **Exit of Lao Xi Men Project unleashes cash:** In April 2016, GALV announced that it is exiting the Lao Xi Men Project, an integrated property project centrally located in Huangpu, Shanghai. Based on disclosures at the time of GALV's investment, the project was effectively owned by Budiarsa Sastrawinata and David Salim, a cousin of Anthoni Salim via various holding companies. GALV (through a subsidiary) holds a note with detachable warrants issued by Market Strength Limited ("MLS")), a holding company with ~48% effective interest in the project. The notes have a principal amount of USD202.5mn (~SGD280mn). The transaction will see GALV selling the warrants to a Hong Kong-based investment holding company whereby the latter would also become new noteholders of MLS. GALV would be repaid USD330mn (~SGD454mn), separated into tranches. The first tranche amounting to USD143.6mn (~SGD198mn), comprising interest and principal was received in April 2016 while the remaining tranches is expected to be settled by April 2017. If GALV had exercised the warrants instead, the company would have held ~99% interest in MLS, allowing it to participate in the project's potential.

- **Continued stretched liquidity:** GALV is subjected to two covenants; we find that NTA has contracted following consecutive losses since 1Q2014, though remains ~SGD200mn above covenanted levels while Net Debt-to-NTA stood at 1.8x as at 31 March 2016. Bulk of short term debt relates to trade lines and is regularly rolled-over. In 1Q2016, GALV generated CFO (before tax and interest) of ~SGD32mn, which was insufficient to cover its interest payments of SGD64mn. Whilst the proceeds from exit of Lao Xi Men and the redemption of SGD175mn bond due has helped alleviate immediate liquidity pressures, we expect leverage to continue at elevated levels on a full year basis and as such keep our Negative issuer rating.

Gallant Venture Ltd

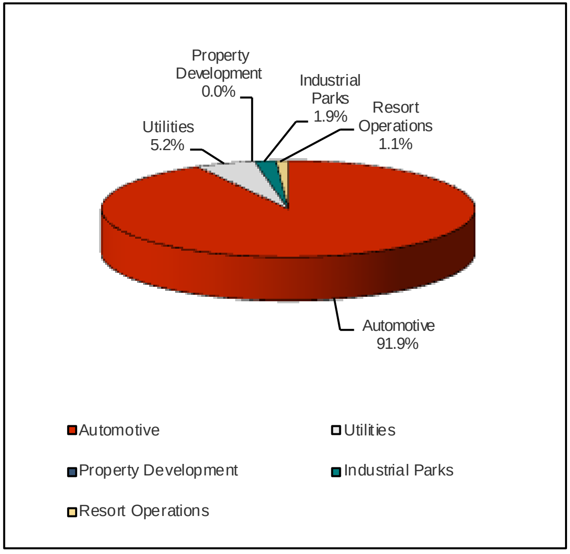
Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	2,328.3	2,028.1	472.2
EBITDA	352.3	275.1	68.5
EBIT	229.5	149.1	37.3
Gross interest expense	131.6	145.2	34.6
Profit Before Tax	23.0	-99.0	-12.3
Net profit	7.5	-107.5	-15.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	161.3	201.9	281.1
Total assets	5,025.8	4,956.1	5,042.8
Gross debt	2,240.2	2,383.5	2,493.7
Net debt	2,078.9	2,181.6	2,212.6
Shareholders' equity	2,185.1	2,034.2	1,989.0
Total capitalization	4,425.3	4,417.8	4,482.7
Net capitalization	4,264.0	4,215.8	4,201.6
Cash Flow (SGD'mn)			
Funds from operations (FFO)	130.4	18.5	15.5
CFO	252.9	234.5	9.0
Capex	180.5	110.8	21.0
Acquisitions	27.3	45.8	1.7
Disposals	53.6	35.9	0.0
Dividend	3.8	2.6	0.3
Free Cash Flow (FCF)	72.4	123.8	-12.0
FCF adjusted	95.0	111.3	-14.0
Key Ratios			
EBITDA margin (%)	15.1	13.6	14.5
Net margin (%)	0.3	-5.3	-3.3
Gross debt to EBITDA (x)	6.4	8.7	9.1
Net debt to EBITDA (x)	5.9	7.9	8.1
Gross Debt to Equity (x)	1.03	1.17	1.25
Net Debt to Equity (x)	0.95	1.07	1.11
Gross debt/total capitalisation (%)	50.6	54.0	55.6
Net debt/net capitalisation (%)	48.8	51.7	52.7
Cash/current borrowings (x)	0.2	0.2	0.2
EBITDA/Total Interest (x)	2.7	1.9	2.0

Source: Company, OCBC estimates

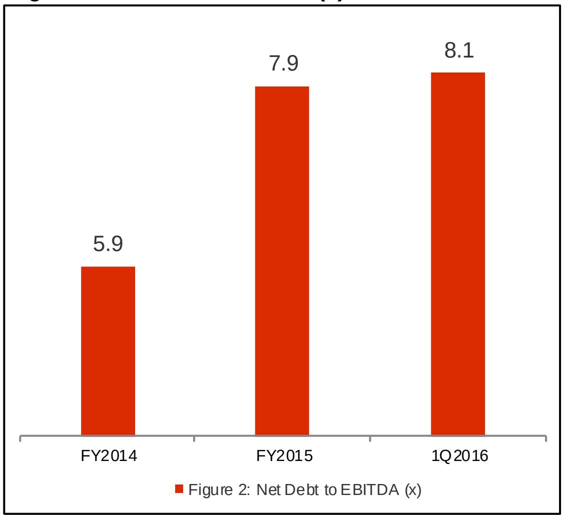
* *FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - FY2015



Source: Company

Figure 2: Net Debt to EBITDA (x)



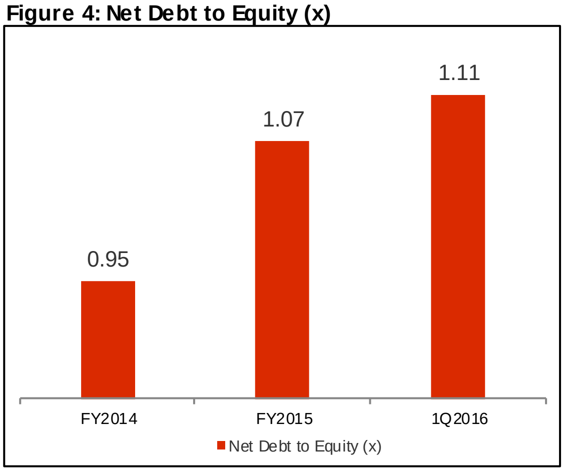
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	1093.3	43.8%
Unsecured	175.0	7.0%
	1268.3	**50.9%**
Amount repayable after a year		
Secured	773.2	31.0%
Unsecured	452.1	18.1%
	1225.4	**49.1%**
Total	**2493.7**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Genting Singapore Plc

Credit Outlook –

We continue to believe that the attractive carry that the GENSSP'49c17 provides would be supportive of secondary pricing, particularly given the sustained cash generation proven by the issuer.

Issuer Rating: Positive

S&P: Not rated

Moody's: Baa1/Stable

Fitch: A-/Stable

Ticker: **GENSSP**

Company profile

Listed on the SGX in 2005, Genting Singapore Plc ("GENS") is involved in gaming and integrated resort development. Its principal asset is the 49ha flagship Resorts World Sentosa ("RWS"), comprising the Singapore Integrated Resort, with 6 hotels, a 15,000 sq m casino, Universal Studios Singapore ("USS") and Marine Life Park ("MLP"). RWS welcomed over 45mn visitors in its first three years of operation. GENS is 53.0% owned by the Malaysia-listed Genting Bhd.

Key credit considerations

- **Revenue impacted by product mix tweaks:** For 1Q2016, GENS reported SGD608.0mn in revenue, a decline of 4.9% y/y. This was mainly driven by the gaming segment, which saw revenue decline by 9.0% y/y to SGD450.5mn. However, on a q/q basis, gaming revenue recovered strongly, increasing by 20.5% over 4Q2015. Management believes that its strategy of increasing premium and mass gaming customers (versus VIP) is gaining traction, and that it has gained market share in these segments. Non-gaming revenue (which is mainly hospitality and hence seasonal) was up 9.1% y/y to SGD157.1mn, supported by the opening of the Jurong hotel in May last year. Hotel occupancy held steady at 92% (1Q2015 93%), while the Jurong hotel saw occupancy continue to ramp up to 90% (4Q2015: 78%). Management indicated that its attractions business was strong, with Universal Studios recording its best first quarter since opening in terms of both revenue and attendance. Performance could have been supported by the recovery of the domestic tourism industry, with Singapore visitor arrivals up 12.3% y/y for the month of January and February.

- **Bad debt provisions continue to pressure profits:** In aggregate, gross margin fell slightly to 28.1% (1Q2015: 28.5%) due to the shifts in gaming product mix. Performance was also affected by both SGD43.5mn in FX losses, as well as higher impairments on its gaming receivables of SGD92.4mn (1Q2015: 76.3mn). This was a disappointment as our original expectation was that 2015 would have seen the worst of impairments on gaming receivables given that GENS has been shifting focus away from VIP gaming. Management has indicated that they continue to pursue delinquent accounts aggressively, and expect to continue to make impairments through the rest of 2016. They expect quarterly provisions to be lumpy as these are dependent on the accounts they pursue during the period. The above factors drove GENS's net profit lower by 56.1% y/y to USD40.2mn (before share of profits to perpetuals).

- **Cash flow generation remains strong**: Operating cash flow remains strong at SGD260.2mn for the quarter (including interest service). GENS spent about SGD18.0mn on capex and SGD66.4mn largely to renew its casino licence for another 3 years, hence free cash flow was ~SGD176mn. The main capex for GENS would be its Jeju integrated resort (GENS's share of capex for the JV was previously disclosed to be ~USD250mn for 2016). Management disclosed that Phase 1 of the Jeju project was on schedule to open in 4Q2017, and that the residential development projects (use to fund part of the development charges for the Jeju resort) have already soft launched in April 2016. Management has also indicated that the Japanese IR opportunity remains uncertain.

- **Strong credit profile retained**: Interest coverage remains strong at 13.7x, while GENS has only SGD167.3mn in short-term borrowings due. During the quarter, GENS paid down debt by SGD87.5mn. Gross debt / EBITDA worsened however from 1.8x (2015) to 2.0x (1Q2016) due to weaker EBITDA for the quarter. Currently, GENS has about SGD1.5bn in debt and SGD2.3bn in perpetual securities. Comparatively, GENS has SGD5.1bn in cash. We believe that GENS will be able to sustain its strong cash generation, and that this would either result in the further deleveraging of GENS, or help build a buffer to fund future IR projects. It is worth noting that despite the challenging environment for Asia gaming in 2015, GENS was still able to generate ~SGD1bn in free cash flow. As such, we will continue to hold GENS at a Positive Issuer Profile.

Genting Singapore PLC

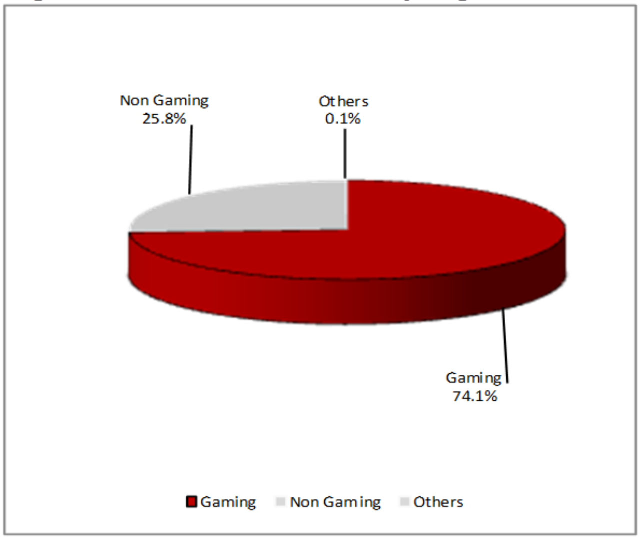
Table 1: Summary Financials

Year End 28th Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	2,862.5	2,400.9	608.0
EBITDA	1,141.2	887.6	191.6
EBIT	701.4	543.5	115.0
Gross interest expense	42.1	54.5	14.0
Profit Before Tax	804.8	279.3	66.6
Net profit	635.2	193.1	40.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	3,836.8	5,115.3	5,118.5
Total assets	12,672.2	12,026.8	11,888.0
Gross debt	1,703.2	1,630.6	1,545.3
Net debt	-2,133.5	-3,484.7	-3,573.2
Shareholders' equity	9,703.3	9,625.8	9,602.7
Total capitalization	11,406.6	11,256.4	11,148.0
Net capitalization	7,569.8	6,141.1	6,029.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	1,075.0	537.2	116.9
CFO	922.6	1,219.6	260.2
Capex	195.1	176.4	84.5
Acquisitions	97.9	0.0	0.0
Disposals	1.1	1.1	0.0
Dividend	240.3	238.7	46.0
Free Cash Flow (FCF)	727.5	1,043.2	175.7
FCF adjusted	390.4	805.5	129.8
Key Ratios			
EBITDA margin (%)	39.9	37.0	31.5
Net margin (%)	22.2	8.0	6.6
Gross debt to EBITDA (x)	1.5	1.8	2.0
Net debt to EBITDA (x)	-1.9	-3.9	-4.7
Gross Debt to Equity (x)	0.18	0.17	0.16
Net Debt to Equity (x)	-0.22	-0.36	-0.37
Gross debt/total capitalisation (%)	14.9	14.5	13.9
Net debt/net capitalisation (%)	-28.2	-56.7	-59.3
Cash/current borrowings (x)	7.4	30.7	30.6
EBITDA/Total Interest (x)	27.1	16.3	13.7

Source: Company, OCBC estimates

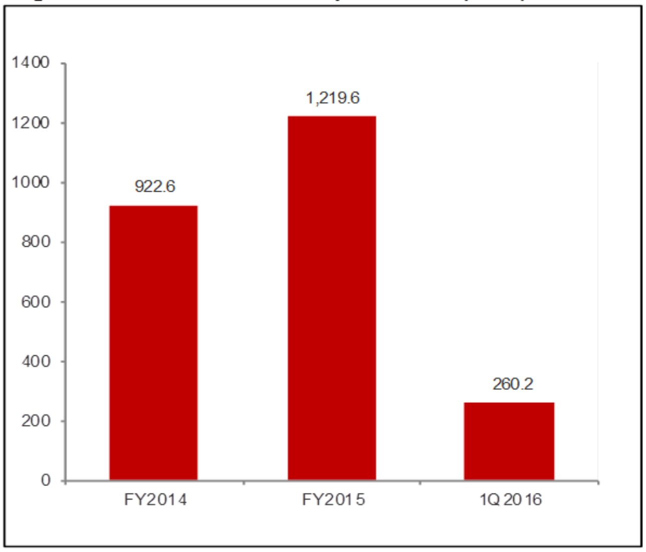
* *FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 1Q2016



Source: Company

Figure 2: Cashflow from Operations (CFO) in SGD'mn



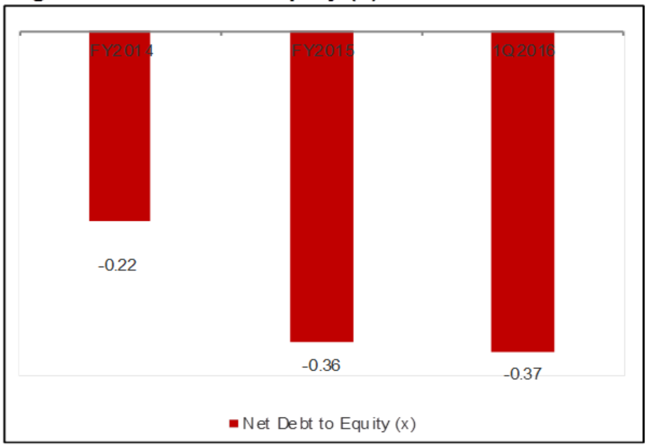
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	167.3	10.8%
Unsecured	0.0	0.0%
	167.3	**10.8%**
Amount repayable after a year		
Secured	1378.0	89.2%
Unsecured	0.0	0.0%
	1378.0	**89.2%**
Total	**1545.3**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

GuocoLand Ltd

Credit Outlook – Improved fundamentals, coupled with supportive technicals given the short duration of the curve would likely provide support for secondary trading of the bonds. The completion of Tanjong Pagar Centre could be a positive catalyst.

Issuer Profile: Positive

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **GUOLSP**

Background

Listed on the SGX in 1978, GuocoLand Ltd ("GLL") is a property developer headquartered in Singapore, with investments in residential properties, commercial properties and integrated developments. The group's properties are located in Singapore, China, Malaysia and Vietnam. GLL is a 68.0%-owned subsidiary of Guoco Group, which is listed on the HKSE and is in turn, a member of the Hong Leong Group, one of the largest conglomerates in South East Asia.

Key credit considerations

- **Divestment gains boosted 9MFY2016 results:** GLL reported 9MFY2016 results with revenue and EBITDA down 6.6% and 7.2% y/y to SGD845mn and SGD197.7mn respectively. Gross margins were stable at 30%. The TOP of DC residency in the flagship integrated project Damansara City in Malaysia failed to fully offset the lack of enbloc sale of serviced apartments and office tower in Shanghai in the prior period last year. However due to the SGD2.1bn in proceeds and the SGD480mn in gains recognised from the Dongzhimen project disposal, 9MFY2016 profit was up ~5x to SGD607.1mn while cash levels increased by SGD962mn from a year ago. Going forward, Tanjong Pagar Centre is set to be completed in phases in 2H2016 (office and retail, followed by hotel and then residential) and this should boost rental income as well as revenue recognised from Wallich Residence (the project's luxury residence component). So far 16 out of 54 launched units have been sold with the remaining 127 units to be launched closer to completion at the end of the year.

- **Adding to Singapore inventory**: GLL paid SGD595.1mn during a Government Land Sale late June for a plot in River Valley (SGD1239 psf per plot ratio). In all, there were 13 bidders, indicating healthy interest and potentially signalling a trough to the Singapore private residential market. We believe GLL will be able to finance the land purchase with its cash balance (3FYQ2016: SGD1.66bn).

- **Potential Eco World International stake:** According to news reports, GLL is in talks to anchor the IPO of Eco World International Bhd (ECI) by acquiring a 27-30% stake in the company for ~MYR500mn (SGD165mn). ECI is developing 3 residential projects in London with gross development value (GDV) of~SGD4.3bn and 1 in Australia with GDV of AUD300mn. The move is presumably to gain a foothold in the 2 developed markets given GLL's existing exposure in Singapore, Malaysia and China. It remains to be seen if there are any strategic benefits to this investment if it materialises, particularly given the uncertainties introduced by Brexit.

- **Leverage to increase from redemption of perpetuals and land purchase:** GLL redeemed its SGD200mn 4.70% perpetuals on the first call date on 27 May 2016. This is in line with our expectations and we estimate net gearing could increase to 68% from 59% currently if funded using internal resources. In addition, the River Valley land purchase is estimated to bring net gearing even higher to pro-forma 77%. That said, cash balance would remain ~SGD860mn after adjustments, and would be adequate to meet near-term maturities of SGD540mn. The completion of Tanjong Pagar Centre, which was estimated to have cost SGD3.2bn (including land), in the middle of this year will also reduce capex requirements in FY2017.

- **Vast improvement in credit profile from prior years, liquidity strong:** Even after adjustments, the pro-forma net gearing of 77% is a vast improvement over 3QFY2015's 143%. Unadjusted LTM net debt/EBITDA remained elevated at 7.6x, but was also improved versus 13.9x a year ago. GLL had SGD1.66bn in cash as of end-3QFY2016, which would be adequate in calling its perpetual, acquiring the River Valley plot and covering SGD540mn in refinancing requirements over the next 4 quarters (including the SGD125mn GUOLSP 3.55% '16s in December and the SGD160mn GUOLSP 5.00%'17 in February). LTM interest / EBITDA coverage remains fair at 4.6x. We will retain our Positive Issuer Profile for now given the looming TOP of Tanjong Pagar Centre providing some upside to GLL's leverage and liquidity profile.

Guocoland Limited

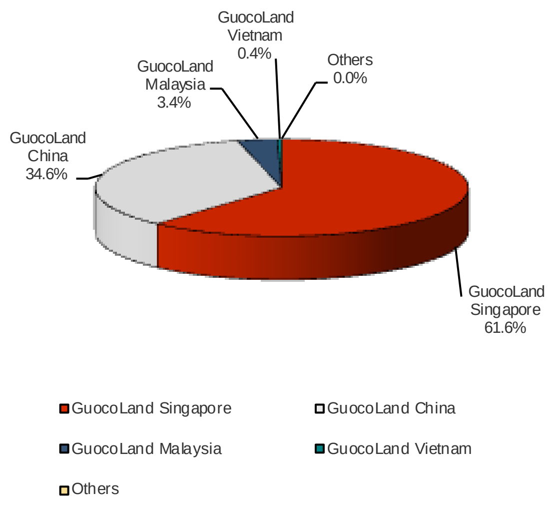
Table 1: Summary Financials

Year Ended 30th Jun	FY2014	FY2015	3Q2016
Income Statement (SGD'mn)			
Revenue	1,251.4	1,159.9	166.0
EBITDA	242.3	299.4	33.4
EBIT	233.9	290.4	31.6
Gross interest expense	184.6	64.6	11.3
Profit Before Tax	410.0	318.7	20.2
Net profit	304.2	226.4	11.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	716.0	663.1	1,659.6
Total assets	8,719.5	9,511.8	8,269.9
Gross debt	5,066.8	5,280.0	3,809.2
Net debt	4,350.8	4,616.9	2,149.6
Shareholders' equity	2,973.5	3,296.2	3,633.7
Total capitalization	8,040.3	8,576.3	7,442.9
Net capitalization	7,324.3	7,913.2	5,783.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	312.7	235.4	13.2
CFO	157.3	96.9	22.4
Capex	89.3	231.5	18.7
Acquisitions	0.0	11.6	50.8
Disposals	255.2	20.7	20.7
Dividend	56.7	66.6	0.0
Free Cash Flow (FCF)	68.0	-134.6	3.7
FCF Adjusted	266.4	-192.0	-26.4
Key Ratios			
EBITDA margin (%)	19.4	25.8	20.2
Net margin (%)	24.3	19.5	6.8
Gross debt to EBITDA (x)	20.9	17.6	14.4
Net debt to EBITDA (x)	18.0	15.4	8.2
Gross Debt to Equity (x)	1.70	1.60	1.05
Net Debt to Equity (x)	1.46	1.40	0.59
Gross debt/total capitalisation (%)	63.0	61.6	51.2
Net debt/net capitalisation (%)	59.4	58.3	37.2
Cash/current borrowings (x)	0.3	0.4	3.1
EBITDA/gross interest (x)	2.8	4.6	3.0

Source: Company, OCBC estimates

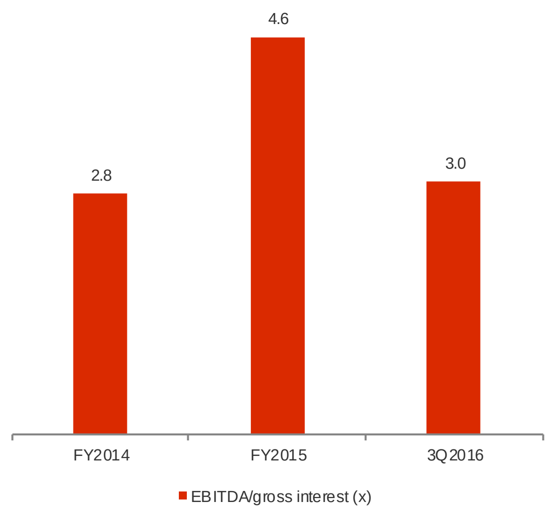
** FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - FY2015



Source: Company

Figure 2: Interest Coverage Ratio



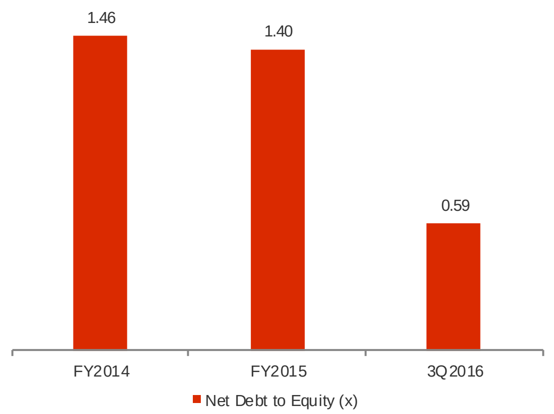
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	53.5	1.4%
Unsecured	486.0	12.8%
	539.5	**14.2%**
Amount repayable after a year		
Secured	2361.6	62.0%
Unsecured	908.2	23.8%
	3269.7	**85.8%**
Total	**3809.2**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Henderson Land Development Co Ltd

Credit Outlook –

Although the HENLND curve does offer a spread pickup over its A- peers, we believe that this is justified as its more leveraged credit metrics and higher exposure to property development probably put it one notch below its peers if the company were rated. Techicals are likely to remain supportive of the tight yields on the HENLND'18s.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **HENLND**

Company Profile

Henderson Land Development Co Ltd ("HENLD") is a leading property developer with businesses in Hong Kong and China. It also holds strategic stakes in Henderson Investment Ltd and three listed associates, including The Hong Kong and China Gas Company Ltd ("HKCGC") which owns listed subsidiary, Towngas China Company Ltd, Hong Kong Ferry (Holdings) Company Ltd, Miramar Hotel and Investment Company Ltd. 68.4%-owned by its Chairman, Dr. Lee Shau Kee, HLD is one of the largest conglomerates in Hong Kong.

Key credit considerations

- **Decent 2015 results in core businesses:** Henderson Land Development Co. Ltd (HENLND) reported relatively flat y/y revenue for 2015 (+1% to HKD23.6bn) but a 25% y/y increase in EBITDA to HKD7.7bn on a shift in the composition of revenue recognized to higher margin Hong Kong projects. Property development revenue was flat at HKD15.7bn as revenue from Hong Kong (+19% y/y to HKD12.1bn) offset lower contributions from China (-33% y/y to HKD3.6bn). Property leasing revenue posted strong growth (+12% y/y to HKD5.6bn) on positive rental reversions in Hong Kong (revenue +9% y/y to HKD3.9bn) and as full contributions from Henderson 688 in Shanghai and better performance from World Financial Centre in Beijing (which benefitted from positive supply/demand dynamics) increased leasing revenue in China (+18% y/y to HKD1.7bn). HENLND's associates (42% owned HK & China Gas, 46% owned Miramar Hotel and 33% owned HK Ferry) continued to contribute recurring dividends (2015: HKD1.8bn, 2014:HKD1.7bn) to the group and generally reported stable business performances. Going forward, HENLND has 2.100 residential units and 430,000 sq ft of office/commercial space available for sale in Hong Kong in 2016.

- **Vast land reserves from urban redevelopment and farmland conversion contribute to slower asset turnover:** HENLND has multiple channels for replenishing its land bank ie. (1) traditional government land auctions, (2) farm land conversion, (3) acquiring old tenement buildings for redevelopment. The latter 2 channels differentiate HENLND from its peers and allows for higher margins but lower turnover. HENLND has the largest HK land bank among developers under our coverage with 14.3mn sq ft of land resources in HK comprising (1) 1.5mn sq ft of area available for sale across 30 projects (7 new, 23 existing) in 2016, (2) 6.1mn sqft of urban redevelopment projects, and (3) 6.7mn sq ft in New Territories (of which 4.9mn sq ft comprised farmland for conversion). Although the turnaround is longer for urban redevelopment projects resulting in slower asset turnover for HENLND, the company is not compelled to bid in competitive land auctions. Farmland conversion in particular has given HENLND bad press of late with protests against development of a plot of New Territories land in Ma Shi Po Village near Fanling.

- **High exposure to HK residential development:** HENLND has the highest exposure to HK property development among the large cap developers under our coverage (HK development: 51% of 2015 revenue, China development: 15%, property leasing: 24%, others: 10%). Whilst decline in home prices have flattened in May 2016 (price index unchanged since April) after a precipitous drop in volumes at the start of the year after the spike on HIBOR, we believe that the remainder of 2016 could still shape up to be a challenging year for the HK residential market.

- **Steady improvement in credit profile:** HENLND continues to execute in its property trading and leasing business resulting in a steady improvement in credit metrics over the past 5 years. Despite negative operating cash flow of HKD778mn (mainly on increased working capital requirements for property development) resulting in net debt position increasing to HKD40.3bn from HKD37.4bn in 2014, net gearing remained relatively stable at 16% (2014:15%). Net debt/EBITDA improved to 5.2x in 2015 from 6.1x while EBITDA interest coverage improved to 4.3x from 3.1x due to the increase in EBITDA.

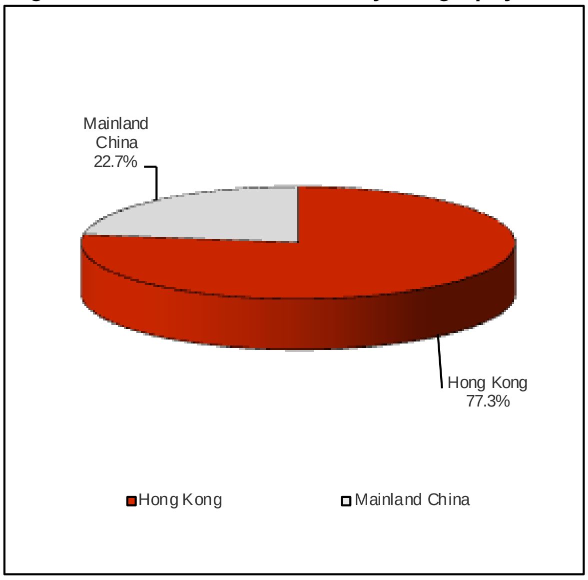
Henderson Land Development Co Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (HKD'mn)			
Revenue	23,289	23,371	23,641
EBITDA	5,792	6,167	7,735
EBIT	5,595	5,991	7,596
Gross interest expense	2,179	2,021	1,795
Profit Before Tax	17,795	18,473	23,338
Net profit	15,948	16,752	21,326
Balance Sheet (HKD'mn)			
Cash and bank deposits	13,915	10,303	11,779
Total assets	304,114	316,980	336,269
Gross debt	52,259	47,723	52,096
Net debt	38,344	37,420	40,317
Shareholders' equity	228,000	243,217	256,269
Total capitalization	280,259	290,940	308,365
Net capitalization	266,344	280,637	296,586
Cash Flow (HKD'mn)			
Funds from operations (FFO)	16,145	16,928	21,465
CFO	-1,350	4,409	-778
Capex	507	5,233	729
Acquisitions	3,291	80	155
Disposals	1,452	2,043	427
Dividends	697	2,297	3,391
Free Cash Flow (FCF)	-1,857	-824	-1,507
* FCF Adjusted	-4,393	-1,158	-4,626
Key Ratios			
EBITDA margin (%)	24.9	26.4	32.7
Net margin (%)	68.5	71.7	90.2
Gross debt to EBITDA (x)	9.0	7.7	6.7
Net debt to EBITDA (x)	6.6	6.1	5.2
Gross Debt to Equity (x)	0.23	0.20	0.20
Net Debt to Equity (x)	0.17	0.15	0.16
Gross debt/total capitalisation (%)	18.6	16.4	16.9
Net debt/net capitalisation (%)	14.4	13.3	13.6
Cash/current borrowings (x)	1.6	0.7	0.9
EBITDA/Total Interest (x)	2.7	3.1	4.3

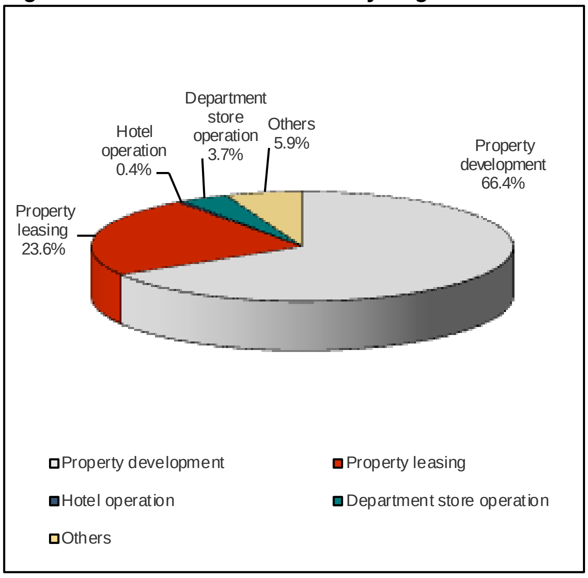
Source: Company, OCBC estimates
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Geography - FY2015



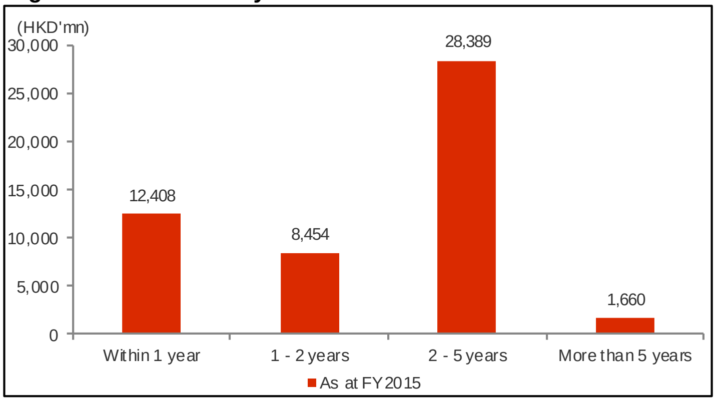
Source: Company

Figure 2: Revenue breakdown by Segment - FY2015



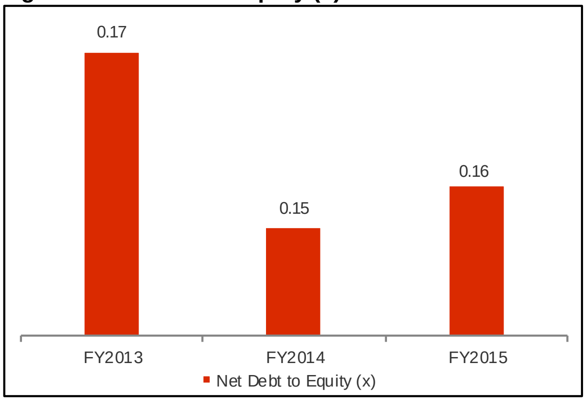
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Hong Fok Corp Ltd

Credit Outlook – HFC's improved liquidity position post the Winfoong divestment, coupled with low net gearing, helps mitigate the weak EBITDA based metrics. We will upgrade the HFCSP'18s to Neutral, in view of likely supportive technicals given the high carry.

Issuer Profile: Negative

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **HFCSP**

Company Profile

Hong Fok Corp Ltd ("HFC") is an investment holding company, with principal activities in property investment, property development, construction and property management. Its investment properties, The Concourse and International Building, total over 77,000 sq m by gross floor area. The Cheong family substantially controls HFC. Its top shareholders are Hong Fok Land International Ltd (20.40%), Sim Eng Cheong (12.0%), Kim Pong Cheong (11.47%) and P C Cheong Pte Ltd (11.04%)

Key credit considerations

- **Weak 1Q2016 results:** HFC reported 1Q2016 results with revenue down 10.4% y/y to SGD15.6mn, driven by a decrease in rental income due to a Hong Kong property undergoing renovation, as well as due to the Winfoong divestment. EBITDA fell 24.5% y/y to SGD4.0mn due to sticky costs. The company swung into a net loss for 1Q2016 as operating profit was insufficient to cover cost of financing. In development properties, HFC continued to face difficulties in moving units at its flagship development Concourse Skyline (119 units out of 360 units unsold, no sales in 2015 and 1Q2016) and its remaining 2 units at Jewel of Balmoral in Singapore. Contributions to 1Q2016 revenue and EBITDA were mainly from its investment properties segment which was also hit by soft conditions in commercial leasing. Going forward, we believe HFC will continue to see slow to no sales in Concourse Skyline given the soft residential market and impending competition in the area from CDL's South Beach Residences (not launched yet). With YOTEL Orchard only coming online in 1H2017, the company's revenue will continue to be dependent on rental income from its investment property portfolio to sustain its operations.

- **Main contribution from investment properties with residential contribution slowing to a trickle:** HFC's investment property portfolio is valued at SGD2.38bn and comprises of International Building at Orchard Road, strata office units at The Concourse at Beach Road, retail (9 units) & residential units (8 units) at Concourse Skyline, a few residential units at International Plaza at Tanjong Pagar and two residential towers in Hong Kong (Magazine Gap Tower and Magazine Heights). The company is also developing a 610 room hotel on Orchard Road slated for completion in 1H2017. HFC will look to sell down 119 unsold units in Concourse Skyline and 2 units in Jewel of Balmoral which are carried at SGD246.6mn on its books in 2016 having sold off units in its minor developments (ten@suffolk in Singapore and The Icon in Hong Kong) in 4Q2015. We estimate that HFC's current investment property portfolio generates about SGD4-5mn in EBITDA per quarter which currently barely covers SGD5-6mn in interest expense. Without a pickup in sales from HFC's residential segment, we do not see an improvement in HFC's credit profile going forward beyond revaluation changes on investment properties (such as the large revaluation gains of SGD142mn in FY2015 on it's The Concourse office units and Concourse Skyline retail units).

- **Ample liquidity from Winfoong divestment:** We are comfortable with HFC's liquidity position post the Winfoong divestment last year which generated cash proceeds of SGD102.3mn. HFC has 1) SGD5.5mn in refinancing requirements over the next 4 quarters and 2) capex for YOTEL which we estimate could be in the region of SGD30-50mn per annum adequately covered by SGD163.5mn in cash. YOTEL will be completed in 1H2017 and should contribute positively to the group's recurring income in the middle of 2017 onwards although the hotel will need time to ramp up operations. The future recurring income will be supportive for HFC's refinancing efforts when the HFCSP'18s and HFCSP'19s mature.

- **EBITDA generation remains weak although gearing is manageable:** Net gearing increased to 31% (end-2015:29%) while LTM net debt/EBITDA climbed to 40.5x (2015:37.5x). LTM EBITDA interest coverage was anaemic at 0.8x. Going forward we believe HFC's weak EBITDA-based credit metrics is unlikely to improve barring a significant pickup in sales of Concourse Skyline and given that YOTEL will only start contributing in the latter half of 2017. However, we take comfort from the company's strong cash balance and limited capex requirements.

Hong Fok Corp Limited

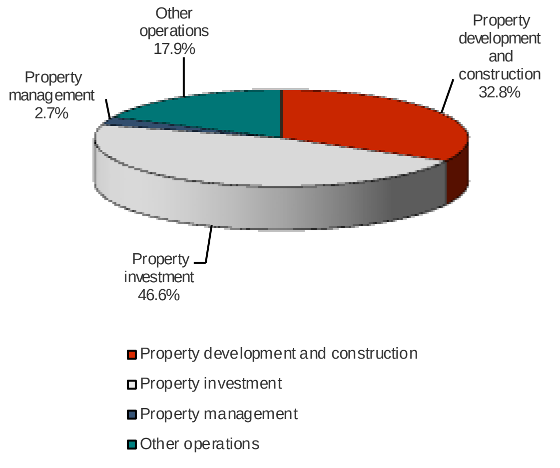
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	97.2	60.6	14.0
EBITDA	23.1	2.8	4.0
EBIT	22.8	2.3	3.9
Gross interest expense	19.7	22.7	5.8
Profit Before Tax	70.0	200.6	-1.4
Net profit	48.1	167.0	0.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	93.1	163.8	163.5
Total assets	2,621.8	2,812.6	2,802.7
Gross debt	739.4	744.0	767.2
Net debt	646.3	580.2	603.7
Shareholders' equity	1,797.8	1,984.7	1,962.8
Total capitalization	2,537.2	2,728.7	2,730.0
Net capitalization	2,444.2	2,564.9	2,566.6
Cash Flow (SGD'mn)			
Funds from operations (FFO)	48.4	167.5	0.2
CFO	135.4	34.8	-3.5
Capex	23.6	32.3	9.7
Acquisitions	0.0	0.0	0.0
Disposals	36.1	103.0	0.1
Dividend	9.5	12.6	0.0
Free Cash Flow (FCF)	111.9	2.5	-13.2
FCF Adjusted	138.5	92.9	-13.1
Key Ratios			
EBITDA margin (%)	23.8	4.6	28.7
Net margin (%)	49.5	275.7	0.9
Gross debt to EBITDA (x)	32.0	265.9	47.7
Net debt to EBITDA (x)	28.0	207.4	37.5
Gross Debt to Equity (x)	0.41	0.37	0.39
Net Debt to Equity (x)	0.36	0.29	0.31
Gross debt/total capitalisation (%)	29.1	27.3	28.1
Net debt/net capitalisation (%)	26.4	22.6	23.5
Cash/current borrowings (x)	1.2	28.4	28.9
EBITDA/gross interest (x)	1.2	0.1	0.7

Source: Company, OCBC estimates

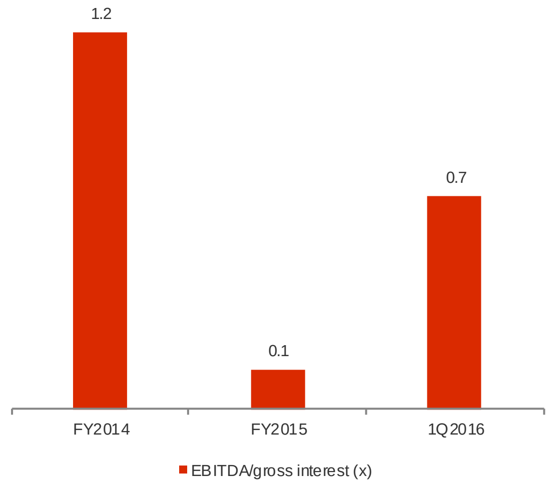
** FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - FY2015



Source: Company

Figure 2: Interest Coverage Ratio



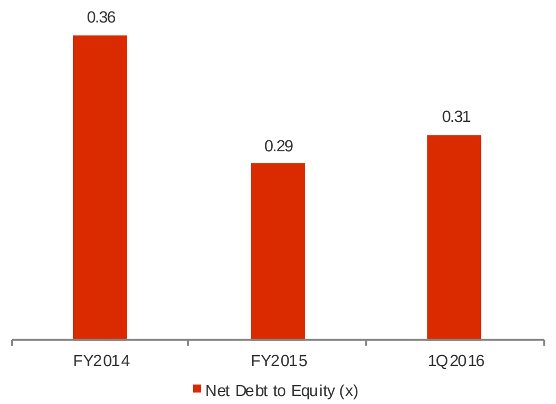
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	5.5	0.7%
Unsecured	0.1	0.0%
	5.6	**0.7%**
Amount repayable after a year		
Secured	516.2	67.3%
Unsecured	245.3	32.0%
	761.6	**99.3%**
Total	**767.2**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Hongkong Land Holdings Ltd

Credit Outlook –

HK Land's credit profile is underpinned by strong cash flows from its core portfolio of investment properties in Central although property development adds a small element of uncertainty to its cash flows. We see HKLSP'20s as providing better value versus the AREITSP'20s given its commendable credit profile. Nevertheless, the HKLSP curve is tightly held and not actively traded.

Issuer Profile: Positive

S&P: A/Stable

Moody's: A3/Stable

Fitch: A/Stable

Ticker: **HKLSP**

Company Profile

Established in 1889 and listed in London, Bermuda and Singapore, Hongkong Land Holdings Ltd ("HK Land") is a leading Asian property investment, management and development group. Its main portfolio is in Hong Kong, where it owns and manages ~4.9mn sq ft of prime office and retail space in Central. HK Land also develops premium residential properties in a number of cities in the region, principally in China and Singapore. HK Land is 50% owned by Jardine Strategic Holdings Ltd (A/A3/NR).

Key credit considerations

- **Weaker 2015 results from lower China development margins:** Hongkong Land Holdings Ltd (HKL) reported 2015 revenue up 3% y/y to USD1.9bn but EBITDA down 12.5% y/y to 923.5mn as a shift in product mix towards residential development impacted margins while commercial leasing revenue was stable. HKL recorded revaluation gains of USD1.1bn (2014: HKD397mn) on its investment property portfolio mainly on a 25bps reduction in cap rates on Exchange Square 1 & 2, reflecting supportive demand/supply dynamics in Central. Looking ahead, we expect HKL's core stable performance from its investment property portfolio to persist while overall earnings in 2016 are anticipated to be lower due to fewer completions in Hong Kong (none in the pipeline) and Singapore (solely from J Gateway vs 3 projects in 2015) although growth in China (notably Chongqing) is expected to drive earnings in 2016.

- **War chest for potential acquisitions:** The 2016 land sale programme list released in Feb 2016 marked the first time an office development site in Central was put for sale by the government in 20 years. HKL's management did not deny interest in the Murray Road car park redevelopment site which is expected to yield total GFA of 450,000 sq ft with large 20,000 sq ft floor plates which are in short supply in Central. Apart from offices, we expect HKL to replenish its landbank for other asset types through potential land acquisitions. That said we believe HKL's management will be prudent in potential acquisitions and landbank replenishments. We expect that this will not materially deteriorate HKL's strong credit profile, but will probably cap the deleveraging trend over the past 3 years. Note that the 2011 peak in HKL's leverage coincided with several acquisitions including among others (site in Chongqing and assets in Cambodia) the ~USD455mn purchase of a prime site in Wangfujing Beijing to develop WF Central (TOP: 1H2017) which comprises a 74-key Mandarin Oriental hotel and a luxury shopping centre with 463,000 sq ft of retail space.

- **Positive outlook for Central portfolio rents and occupancies:** HKL's Central office portfolio occupancy underperformed the broader Central market (end-2015 vacancy: 1.2%) with vacancies at 3.4% in Dec-15, though improving from 4.2% in Jun-15. Despite well-documented challenges in HK retail, HKL's Central retail portfolio remains fully occupied with higher average rents at HKD221 per sq ft/mth (2014:HKD214) due to higher proportion of base rents (which benefitted from positive reversions) compared to turnover rents. With scarce supply of grade A Central office space and resilient retail base rents, we expect HKL's core central portfolio (4.1mn sq ft of office and 0.6mn sq ft of retail space from 12 interlinked buildings in the heart of Central) to continue providing a steady stream of recurring earnings. Outside Hong Kong, HKL has commercial property interests in Singapore (1.8mn sq ft), Macau (0.2mn sq ft), Jakarta (0.7mn sq ft), Hanoi (117,000 sq ft) and Bangkok (87,000 sq ft) which also contribute recurring cash flows.

- **Strong debt servicing capacity with ample liquidity:** Cash decreased by USD93mn to USD1.6bn. Net debt decreased by USD316mn to USD2.3bn as HKL paid back USD410mn in borrowings while cash only decreased by USD93mn due to strong operating cash flows. Net gearing subsequently improved to 8% from 10% with equity boosted by USD1.1bn in revaluation gains as well. Net debt/EBITDA was stable at 2.5x while EBITDA interest coverage declined to 6.1x from 7.3x on a fall in EBITDA. HKL had ample liquidity at its disposal with USD1.6bn in cash and USD2.5bn in unused facilities sufficient to cover USD169mn in short term debt and USD503mn in capex for 2016.

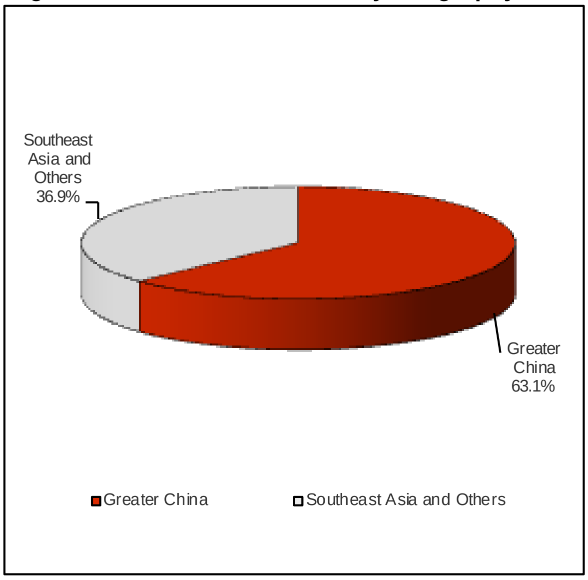
Hongkong Land Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (USD'mn)			
Revenue	1,857	1,876	1,932
EBITDA	908	1,055	924
EBIT	905	1,053	921
Gross interest expense	131	144	151
Profit Before Tax	1,357	1,537	2,143
Net profit	1,190	1,327	2,012
Balance Sheet (USD'mn)			
Cash and bank deposits	1,406	1,663	1,569
Total assets	32,996	33,633	34,372
Gross debt	4,432	4,320	3,910
Net debt	3,025	2,657	2,341
Shareholders' equity	26,899	27,598	28,720
Total capitalization	31,331	31,918	32,630
Net capitalization	29,924	30,255	31,061
Cash Flow (USD'mn)			
Funds from operations (FFO)	1,192	1,330	2,015
CFO	985	780	1,015
Capex	134	174	210
Acquisitions	318	216	327
Disposals	0	0	0
Dividends	405	426	449
Free Cash Flow (FCF)	851	606	805
* FCF Adjusted	129	-36	29
Key Ratios			
EBITDA margin (%)	48.9	56.2	47.8
Net margin (%)	64.1	70.7	104.1
Gross debt to EBITDA (x)	4.9	4.1	4.2
Net debt to EBITDA (x)	3.3	2.5	2.5
Gross Debt to Equity (x)	0.16	0.16	0.14
Net Debt to Equity (x)	0.11	0.10	0.08
Gross debt/total capitalisation (%)	14.1	13.5	12.0
Net debt/net capitalisation (%)	10.1	8.8	7.5
Cash/current borrowings (x)	2.0	5.8	9.3
EBITDA/Total Interest (x)	6.9	7.3	6.1

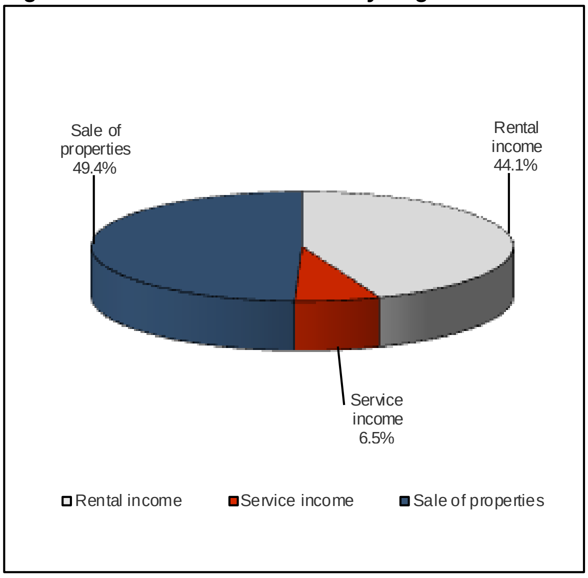
Source: Company, OCBC estimates
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Geography - FY2015



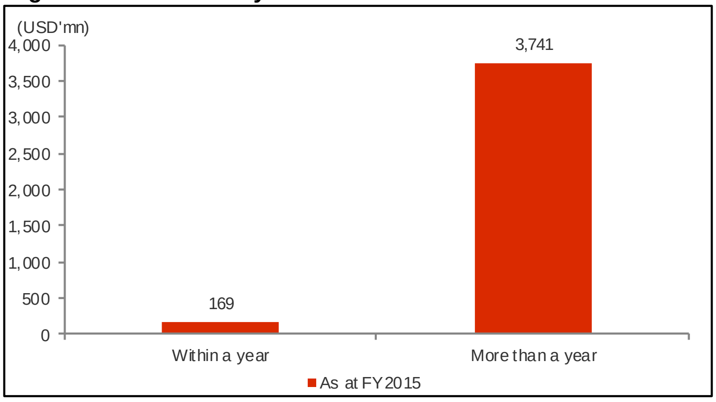
Source: Company

Figure 2: Revenue breakdown by Segment - FY2015



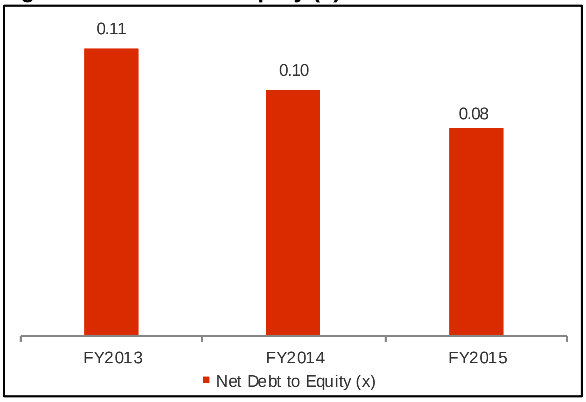
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Hotel Properties Ltd

Credit Outlook –

We are moving the front end of the curve to Neutral given the rally seen since the beginning of the year, and given the uncertainty over HPL's UK development assets.

Issuer Rating: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **HPLSP**

Company Profile

The principal activities of Hotel Properties Limited ("HPL") include hotel ownership, management and operation, property development and investment holding. HPL has interests in 29 hotels under prestigious hospitality brands. HPL has also established itself as a niche property developer and owner in prime locations, including the Orchard Road area in Singapore. The controlling shareholder is 68 Holdings Pte Ltd, which owns 56.4% of HPL. 68 Holdings Pte Ltd is mainly owned by Wheelock Properties Singapore and HPL's co-founder, Mr Ong Beng Seng.

Key credit considerations

- **Soft 1Q2016 results:** Hotel Properties Ltd (HPL) reported a soft set of 1Q2016 numbers which were generally in line with its hospitality peers in the face of a challenging operating environment. 1Q2016 revenue was down 9.6% y/y to SGD143.7mn; with EBITDA down 13.2% y/y to SGD43.1mn. Management cited (1) lower contributions from Tomlinson Heights (TOP in March 2014, 28 units unsold), (2) weak operating environment for the Group's resorts in the Maldives, (3) major refurbishment impacting operations at Four Seasons Resort Bali at Jimbaran Bay and (4) closure for repairs at cyclone-affected Holiday Inn Vanuatu for the softer results.

- **Geographic shift in residential development:** In residential development, HPL will look to sell down its remaining units in completed residential properties in Singapore (28 units at Tomlinson Heights) and Thailand (13 units at The Met). There are also outstanding units at JV developments The Interlace and d'Leedon, which face QC charges in 2016 (see CapitaLand). Going forward, there will be a distinctive shift in geographic mix with HPL's projects in the UK contributing from 2017 onwards when Holland Park Villas (~50% sold) in Kensington and Chelsea and Burlington Gate (almost fully sold) in Mayfair, London will be completed. The company is also working on its proposed scheme for a site in Paddington, London with construction expected to commence in 2017 and is currently in the process of finalising the acquisition of 2 more London properties in Southwark. The impact of Brexit is uncertain for now, though it is worth noting that revenue generated from UK / Europe was less than 1% in 2015, and that the region accounted for 15.4% of non-current assets (SGD380.1mn worth as of end-2015).

- **Acquisition of first resort in Vietnam:** HPL through a 50%-owned associated company purchased its first resort in Vietnam, The Nam Hai, a 5-star beachfront resort on 23 Mar 2016 for USD65mn (USD32.5mn attributable to HPL). The acquisition was funded by internal resources of both HPL and its JV partner ASB Development Ltd. The resort is expected to start contributing immediately to HPL's earnings at the associate and joint venture level.

- **Credit profile supported by recurring income from hotel portfolio:** We expect earnings at HPL which are underpinned by recurring income from its mostly externally managed hotel portfolio (83% of 2015 revenue) to remain relatively stable despite global macro headwinds impacting the hospitality industry. The relatively stable cash flows will buffer volatility from residential development which is still a relatively small part of its business (17% of 2015 revenue). This can be seen in the SGD55.4mn in free cash flow generated in 2015.

- **Increase in leverage from weak external environment:** HPL's credit profile weakened slightly with LTM net debt / EBITDA increasing to 6.5x from 6.3x as of end-2015 while net gearing was stable at 46%. LTM EBITDA / interest coverage was still healthy, albeit weakening slightly to 4.0x from 4.2x as of end-2015. Cash of SGD113.1mn is insufficient to cover SGD165mn in short term debt due over the next four quarters. However, SGD135mn of these debt were secured on various properties which we believe can be refinanced relatively smoothly. SGD30mn in HPLSP 3.60%' 16 matured on 30 May 2016.

Hotel Properties Limited

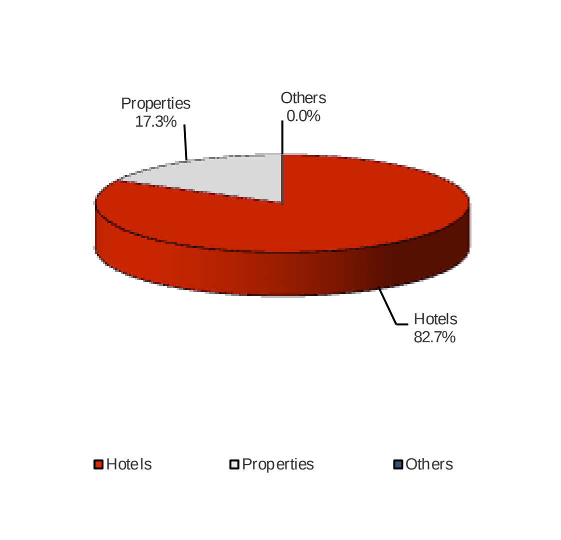
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	614.6	579.5	143.7
EBITDA	176.9	146.0	43.1
EBIT	127.7	94.2	29.7
Gross interest expense	34.1	34.9	8.0
Profit Before Tax	160.0	115.9	26.8
Net profit	124.4	81.7	14.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	136.6	158.8	113.1
Total assets	3,231.2	3,178.5	3,096.4
Gross debt	1,137.1	1,078.6	1,017.9
Net debt	1,000.5	919.8	904.8
Shareholders' equity	1,921.5	1,949.3	1,950.3
Total capitalization	3,058.6	3,027.9	2,968.2
Net capitalization	2,922.0	2,869.0	2,855.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	173.6	133.4	27.8
CFO	281.6	175.7	7.4
Capex	148.8	120.3	16.9
Acquisitions	2.4	0.0	0.7
Disposals	17.8	31.0	0.2
Dividend	41.4	61.2	0.0
Free Cash Flow (FCF)	132.8	55.4	-9.5
FCF Adjusted	106.7	25.3	-10.1
Key Ratios			
EBITDA margin (%)	28.8	25.2	30.0
Net margin (%)	20.2	14.1	10.0
Gross debt to EBITDA (x)	6.4	7.4	5.9
Net debt to EBITDA (x)	5.7	6.3	5.3
Gross Debt to Equity (x)	0.59	0.55	0.52
Net Debt to Equity (x)	0.52	0.47	0.46
Gross debt/total capitalisation (%)	37.2	35.6	34.3
Net debt/net capitalisation (%)	34.2	32.1	31.7
Cash/current borrowings (x)	0.5	0.7	0.7
EBITDA/gross interest (x)	5.5	4.2	5.4

Source: Company, OCBC estimates

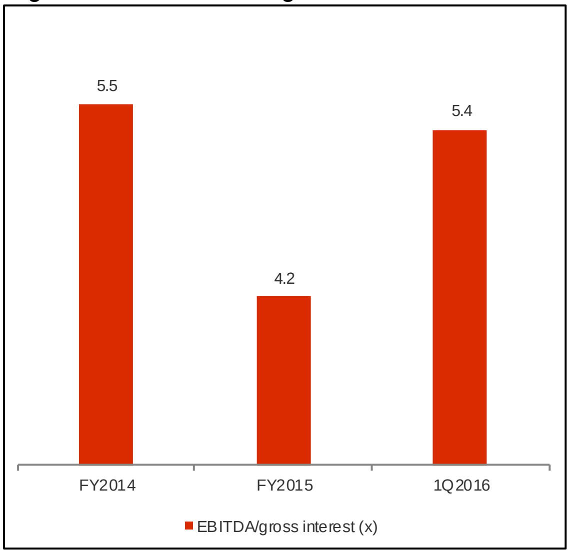
** FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - FY2015



Source: Company

Figure 2: Interest Coverage Ratio



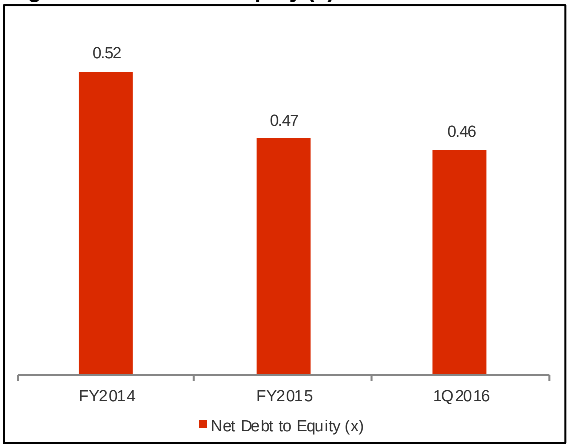
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	134.9	13.3%
Unsecured	30.0	2.9%
	164.9	**16.2%**
Amount repayable after a year		
Secured	403.9	39.7%
Unsecured	449.1	44.1%
	852.9	**83.8%**
Total	**1017.9**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Keppel Corp Ltd

Credit Outlook – We are moving the front end of the curve to Underweight given the strong rally seen over 1H2016, and given expected negative headlines over its O&M segment.

Issuer Profile: Neutral

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **KEPSP**

Company profile

Listed in 1986, Keppel Corp Ltd ("KEP") is a diversified conglomerate based in Singapore, operating in the offshore & marine ("O&M"), real estate, and infrastructure sectors. Its principal activities include offshore oil rig construction, shipbuilding and repair, environmental engineering, power generation, property investment and development, and the operation of logistics and data centre facilities. Keppel operates in more than 30 countries internationally, and is 21%-owned by Temasek Holdings Ltd.

Key credit considerations

- **Moving on from Sete Brasil:** Like for Sembcorp Industries ("SCI"), Sete Brasil was KEP's largest offshore marine ("O&M") client and its decline into bankruptcy weighed on KEP's performance. KEP has already taken SGD230mn in provisions during 4Q2015 for its Sete Brasil exposure, and management has reiterated that they believe the provisions to be adequate. The O&M segment remains challenged though, with clients (such as Transocean) seeking further delays to delivery. In addition, KEP's O&M order book has shrunk faster than SCI's, and stands at SGD8.6bn (including outstanding semi-submersibles orders attributable to Sete Brasil). Winning new O&M contracts remain challenging, with KEP seeing ~SGD200mn in new order during 1Q2016 (1Q2015: ~SGD500mn).

- **Property segment supported performance:** For 2015, KEP saw revenue decline 22.5% y/y to SGD10.3bn. O&M segment was the biggest drag, declining 27.1% to SGD6.2bn (61% of total revenue). Infrastructure revenue declined 29.9% y/y to SGD2.1bn (20% of total revenue). Part of this was due to the Merlimau CoGen as well as Keppel FMO divestment. Property revenue was up 11.4% y/y to SGD2.1bn (19% of total sales), driven by strong12 sales in China offsetting weak domestic demand in Singapore. In fact, property segment pre-tax profit contribution (45% of total) dominated the O&M segment (35%). 1Q2016 results were similar, with total revenue declining 38.1% y/y to SGD1.7bn due to the 57.6% y/y decline in O&M revenue. As a result of the sustained slump in demand, KEP has continued rightsizing their O&M operations, trimming their global workforce a further 9.4%, or 2,800 personnel since the beginning of 2016. One consolation is that KEP was able to improve O&M segment operating margins to 13.6% (1Q2015: 12.0%) as a result of the cost cutting.

- **Potential China limits:** For 1Q2016, property segment revenue grew 66.0% y/y to SGD503.0mn. KEP sold 940 homes during the quarter (~31% higher relative to 1Q2015). ~62% of segment revenue was generated overseas with China being a driver (KEP generated RMB1.1bn in China sales during 1Q2016). Looking forward though, performance out of China may be more muted. Although KEP still has a China pipeline of 37,375 units for sale (with ~25% launch ready), the land bank exposure to lucrative 1st tier cities is relatively small. Operating margin for the segment remained steady at 22.0% (1Q2015: 22.8%).

- **Operating cash flow swung negative**: KEP generated negative SGD354.3mn in operating cash flow for the quarter (1Q2015: SGD284.3mn, 4Q2015: SGD33.4mn). This was mainly driven by SGD512.5mn being paid to trade creditors (working capital needs for O&M and property segments). Though capex was controlled at SGD50.3mn (2015: SGD1.1bn), free cash flow was negative ~SGD405mn. The cash gap was funded by SGD172.3mn additional borrowings and by KEP's cash balance. Due to the lower EBITDA generated, interest coverage weakened to 8.2x (2015: 10.8x), though it remains fair. Cash / current borrowings stood at 1.4x with no bond maturities till 2020.

- **Credit deterioration manageable**: Net gearing has worsened slightly from 53% (end-2015) to 56% (end-1Q2016) due to cash needs. Net debt / EBITDA worsened as well to 4.4x (2015: 3.8x) due to both slightly higher borrowings and weaker EBITDA. Though the Sete Brasil situation remains in flux, we believe that the worst of the deterioration to KEP's credit profile has already occurred in 2015. In addition, KEP has options to generate additional liquidity if required, such as the divestment of the balance stake in the Merlimau CoGen. As such, we will retain our Neutral Issuer Profile.

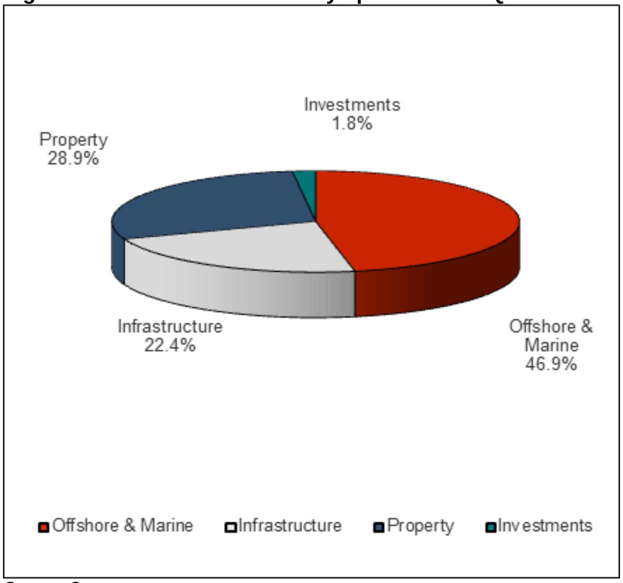
Keppel Corporation Ltd

Table 1: Summary financials

Year ended 31st December	FY2014	FY2015	1Q2016
Income statement (SGD' mn)			
Revenue	13,283.0	10,296.5	1,743.0
EBITDA	2,305.4	1,673.1	382.6
EBIT	2,040.3	1,426.0	326.1
Gross interest expense	134.0	154.8	46.6
Profit Before Tax	2,888.6	1,997.4	278.2
Net profit	1,884.8	1,524.6	210.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	5,736.0	1,892.8	1,636.3
Total assets	31,554.8	28,932.1	28,378.2
Gross debt	7,382.5	8,258.7	8,548.1
Net debt	1,646.5	6,365.8	6,911.8
Shareholders' equity	14,727.6	11,925.9	12,097.0
Total capitalization	22,110.2	20,184.5	20,645.1
Net capitalization	16,374.2	18,291.7	19,008.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	2,149.9	1,771.7	267.1
CFO	4.7	-705.0	-354.3
Capex	594.9	1,147.0	50.3
Acquisitions	667.4	581.8	75.5
Disposals	1,728.6	1,504.4	6.9
Dividends	1,028.5	955.7	10.2
Free Cash Flow (FCF)	-590.2	-1,852.0	-404.6
Adjusted FCF*	-557.6	-1,885.1	-483.4
Key Ratios			
EBITDA margin (%)	17.4	16.2	22.0
Net margin (%)	14.2	14.8	12.1
Gross debt/EBITDA (x)	3.2	4.9	5.5
Net debt/EBITDA (x)	0.7	3.8	4.4
Gross debt/equity (x)	0.50	0.69	0.70
Net debt/equity (x)	0.11	0.53	0.56
Gross debt/total capitalization (%)	33.4	40.9	41.1
Net debt/net capitalization (%)	10.1	34.8	36.0
Cash/current borrowings (x)	3.2	1.1	1.4
EBITDA/gross interest (x)	17.2	10.8	8.2

Source: Company, OCBC estimates
**Adjusted FCF = FCF –Acquisitions – Dividends + Disposals*

Figure 1: Revenue breakdown by operations – 1Q2016



Source: Company

Figure 2: Revenue breakdown by geography – 1Q2016

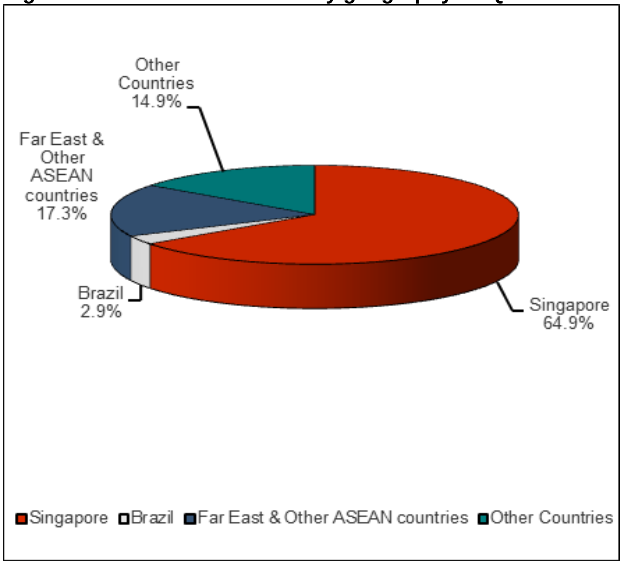
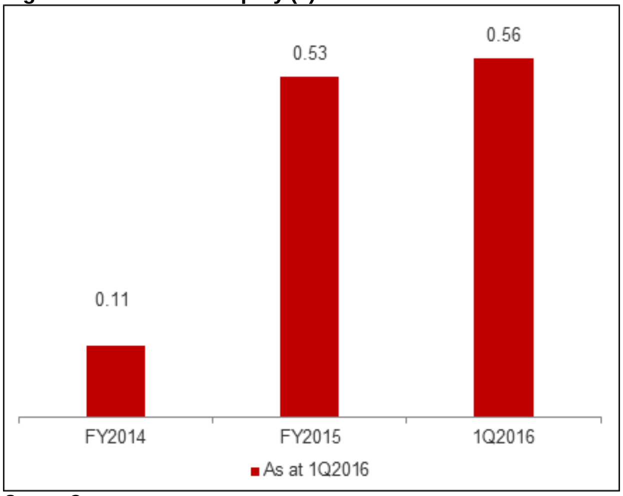


Figure 3: Debt maturity profile

Amounts in SGD mn	As at 31/03/2016	% of debt
Amount repayable		
One year or less, or on demand		
Secured	17.8	0.2%
Unsecured	1116.8	13.2%
After one year		
Secured	1236.2	14.6%
Unsecured	6072.6	71.9%
Total	**8443.4**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company

Keppel REIT

Credit Outlook –

We believe that KREITS'49c20 trades wide relative to other recently issued REIT perpetuals, and hence we are overweight

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa2/Stable

Fitch: Not rated

Ticker: **KREIT**

Background

Keppel REIT ("KREIT") is a real estate investment trust focused on mainly commercial assets. It was listed on the SGX in 2006, and currently has an AUM of SGD8.2bn (as of March 2016). Over 90% of the portfolio is based in Singapore, with the balance in Australia. The Singapore assets are mainly stakes in Grade A office assets in the CBD, such as Ocean Financial Centre ("OFC", 99.9% stake), Marina Bay Financial Centre Towers 1, 2 & 3 ("MBFC", 33% stake in each) and One Raffles Quay ("ORQ, 33% stake). KREIT is 46.1% owned by Keppel Corp ("KEP"), its sponsor.

Key credit considerations

- **Fair performance despite headlines:** 1Q2016 results showed property income declined 2.9% y/y to SGD41.2mn while NPI fell 4.8% y/y to SGD32.9mn. The declines were driven by the divestment of the 77 King Street office asset in Sydney on 29/01/16. Excluding this, management reported that property income was up 2.5% y/y while NPI was up 1.6% y/y, despite the challenging domestic office market.

- **Occupancy remains robust**: Committed portfolio occupancy improved to 99.4% compared to 99.3% (end-2015) and 99.3% (end-1Q2015). Comparatively, core CBD office occupancy (source: CBRE Pte Ltd, 1Q2016 Market View) was 95.1%. We believe that given the large amount of new office assets entering the Singapore market in 2016, the environment could remain challenging. That said, given the low average age of KREIT's assets (~5 years), we believe that demand for KREIT's assets is sustainable. It is the question of finding a clearing lease rate that tenants are willing to accept given the many alternatives that tenants currently have.

- **Lease expiry profile benign, upwards lease reversions deceleration**: Despite the challenges that the market faces, KREIT is well-positioned as it managed to sharply reduce its 2016 lease expiries from 13.6% (end-2015, based on NLA) to 3.2% (end-1Q2016). Tenant retention was strong at 99%, while average rental reversion was +7% for new and renewal leases. Rental reversion was softer relative to the +13% seen in 2015 though, reflecting the oversupply in office space. 2017 lease expiries look manageable at 11.5% of NLA. Management is confident of retaining the tenants for most of 2017 expiring leases as they are in their first renewal cycle. They have also initiated discussions with tenants with leases expiring in 2018 (7.5% of NLA). WALE was unchanged at ~8 years compared to end-2015.

- **Liquidity remains fair:** That said, interest coverage (including JV performance) remained steady at 4.5x (2015: 4.4x). Cost of debt increased 8bps q/q to 2.58%. We believe that looking forward, KREIT's exposure to rising rates is limited due to 75% of its debt being fixed rate. KREIT's debt maturity profile is manageable, as KREIT does not have any refinancing requirements till 2H2017. Even then, maturities are ~SGD500mn (~15% of gross borrowings) each for 2017 and 2018, which we believe will be refinanced. KREIT had recently refinanced some debts due in 2016 and 2019 during 1Q2016 with a SGD126mn T/L, pushing the maturities to 2021.

- **Aggregate leverage dips**: Aggregate leverage improved slightly from 39.3% (end-2015) to 39.0% (end-1Q2016). This was driven in part by the divestment of 77 King Street (sold for AUD160mn, booked SGD28.3mn in gains for the quarter). Part of the proceeds was used to reduce debt, with gross borrowings falling ~SGD20mn q/q to SGD2.47bn. In general though, KREIT's leverage profile has improved distinctly y/y from 42.4% (end-1Q2015), with management deleveraging the balance sheet post KREIT's acquisition of its interest in MBFC Tower 3. Steps taken include raising SGD150mn in perpetual securities last October to increase equity capital. Looking forward, we believe that KREIT would maintain an aggregate leverage of around 35% – 40%, comparable with its peers.

- **Asset injections the main risk**: We believe that the key risk to KREIT's credit profile would be acquisitions / asset injections by the sponsor. It is worth noting that KEP went through an asset swap, and is now the sole owner of Keppel Bay Tower (reported value of SGD610.6mn), an 18-story office building at the Harbourfront precinct. Other commercial assets owned include Keppel Tower 1 & 2 in Tanjong Pagar. For now though, we will rate KREIT at Neutral Issuer Profile, though we will review any subsequent acquisitions closely.

Keppel Real Estate Investment Trust

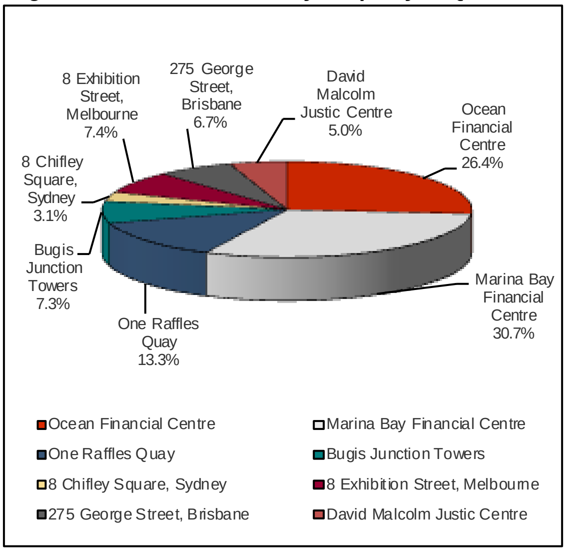
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	184.1	170.3	41.2
EBITDA	98.5	80.7	18.0
EBIT	61.1	61.9	14.2
Gross interest expense	60.1	67.3	16.0
Profit Before Tax	383.5	366.8	64.9
Net profit	371.8	337.5	57.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	199.7	144.6	263.8
Total assets	7,329.4	7,425.4	7,428.9
Gross debt	2,665.4	2,489.6	2,470.7
Net debt	2,465.7	2,345.0	2,206.9
Shareholders' equity	4,459.5	4,777.8	4,803.4
Total capitalization	7,124.8	7,267.4	7,274.1
Net capitalization	6,925.1	7,122.8	7,010.3
Cash Flow (SGD'mn)			
Funds from operations (FFO)	409.1	356.3	61.7
CFO	42.6	114.3	29.0
Capex	2.3	2.5	0.5
Acquisitions	0.0	-9.7	0.0
Disposals	506.5	0.0	157.2
Dividends	215.0	203.9	44.9
Free Cash Flow (FCF)	40.3	111.8	28.5
FCF adjusted	331.8	-101.9	140.8
Key Ratios			
EBITDA margin (%)	53.5	47.4	43.7
Net margin (%)	201.9	198.2	140.6
Gross debt to EBITDA (x)	27.1	30.9	34.3
Net debt to EBITDA (x)	25.0	29.1	30.6
Gross Debt to Equity (x)	0.60	0.52	0.51
Net Debt to Equity (x)	0.55	0.49	0.46
Gross debt/total capitalisation (%)	37.4	34.3	34.0
Net debt/net capitalisation (%)	35.6	32.9	31.5
Cash/current borrowings (x)	0.7	5.7	10.3
EBITDA/Total Interest (x)	1.6	1.2	1.1

Source: Company, OCBC estimates

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

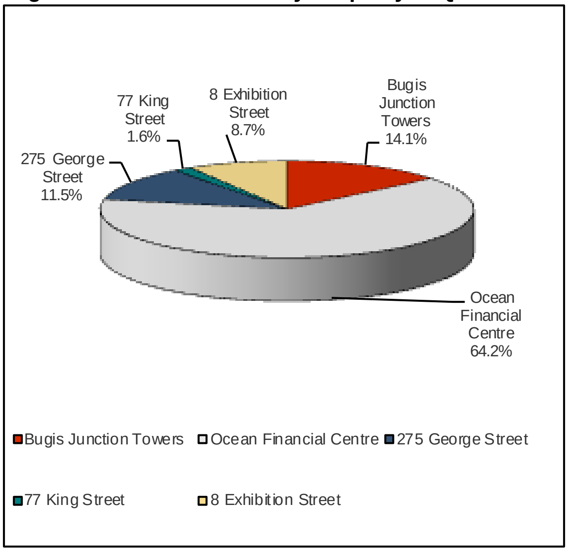
Figure 1: NLA breakdown by Property - 1Q2016



Source: Company

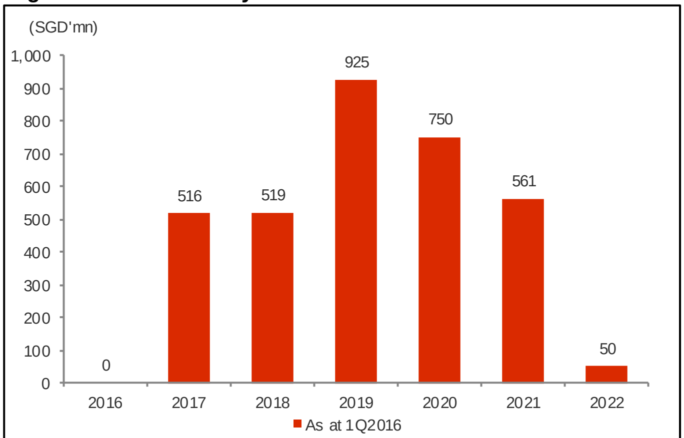
**NLA - Net Lettable Area*

Figure 2: NPI breakdown by Property - 1Q2016



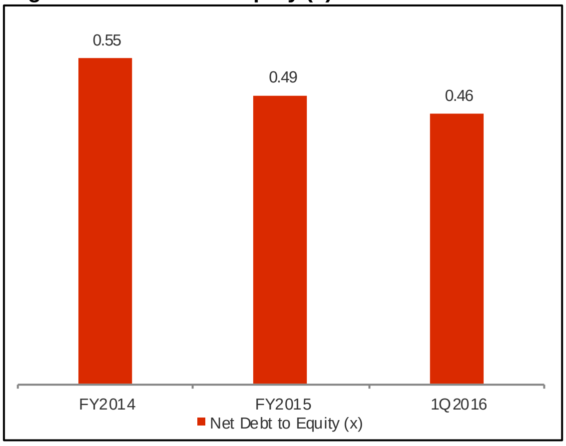
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Mapletree Commercial Trust

Credit Outlook –

We are underweight the MCTSP'19s and MCTSP'20s, believing that the bonds are trading rich given the expected deterioration in credit profile post the Mapletree Business City Phase 1 acquisition.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa1/Stable

Fitch: Not rated

Ticker: **MCTSP**

Background

Mapletree Commercial Trust ("MCT") is a REIT that invests in office and retail assets. Its four key assets are: 1) VivoCity – a retail and leisure complex; 2) Bank of America Merrill Lynch HarbourFront ("MLHF") – an office occupied by Bank of America Merrill Lynch; 3) PSA office building ("PSAB") that includes a 40-storey office block and Alexandra Retail Centre ("ARC"); and 4) Mapletree Anson – a Grade A office building in Tanjong Pagar CBD. The properties, with an NLA of 2.1mn sq ft, are valued at SGD4.34bn as of 31 Mar 16. MCT is 38.4%-owned by Temasek through Mapletree Investments.

Key credit considerations

- **Retail results supported FY2016 performance:** For the fiscal year ending March 2016, MCT reported 1.9% y/y increase in revenue to SGD287.8mn. Growth was largely driven by MCT's retail segment (~70% of portfolio revenue, +3.7% y/y), which was in turn driven by the VivoCity asset (66.4% of MCT's revenue for FY2016). Comparatively, MCT's office segment saw a 2.0% y/y decline in annual revenue, with management indicating that certain assets faced transitional vacancies. Recent performance continues to be soft, with Mapletree Anson seeing occupancy fall sharply to 91.0% (3QFY2016: 99.3%) while the PSA Building saw occupancy fall to 92.8% (3QFY2016: 94.3%).

- **VivoCity drove NPI higher**: Portfolio NPI grew 4.3% for FY2016, driven mainly by VivoCity (which saw NPI up 7.2% y/y). Merrill Lynch HarbourFront ("MLHF") supported NPI growth as well, in part due to the single tenant master lease structure for the whole property. Softness at Mapletree Anson and PSA Building was reflected in their individual NPI, with both property facing declines. In aggregate, the portfolio benefited from a 5.3% y/y decline in property operating expenses, driven mainly by lower utilities expense (which in turn was driven by lower energy prices).

- **Lease expiry management offsets occupancy pressure:** The commercial real estate sector in Singapore faces supply pressure due to several large developments completing in 2016. This includes Guoco Tower in Tanjong Pagar, which would directly compete with Mapletree Anson. The completion of MapleTree Business City II ("MBC II") may also invite more competition for the PSA Building. Though portfolio occupancy has improved to 96.6% (FY2015: 95.7%) it declined from 98.4% (end-3QFY2016). Looking forward though, MCT has actively restructured one of its looming office lease expiries, the MLHF lease due November 2017 (6.4% of portfolio NLA, the largest office lease expiry in the near future). In April 2016, MCT worked with the tenant to extend 4.7% of portfolio NLA to FY2021 and beyond, though shortening the lease of 1.7% of NLA to FY2016. In aggregate, this helped to extend office WALE from 2.8 years (end-FY2016) to 3.5 years. Retail expiries look manageable with 15.3% and 16.0% of portfolio NLA expiring in FY2017 and FY2018 respectively.

- **Strong VivoCity lease renewal shows sustainability:** Despite the soft environment for domestic retail assets, MCT's core VivoCity asset continues to outperform with occupancy consistently >99% while retail retention rates for FY2016 were ~88%. Retail lease reversions were strong as well at +12.3% for FY2016, reflecting VivoCity's unique positioning. Though shopper traffic was flat at +0.1% for FY2016, VivoCity's tenant sales increased 3.3% y/y. We believe that the continued strong performance of VivoCity would anchor MCT's performance.

- **MBC1 acquisition to drive leverage higher**: Interest coverage weakened slightly to 5.0x (FY2015: 5.4x), driven by the increase in cost of debt to 2.52% (FY2015: 2.28%). As of end-April 2016, MCT has already refinanced SGD169.3mn (out of the original SGD354mn) in debt due in FY2017. Portfolio revaluation gains of 3.4% during FY2016, with VivoCity providing the lion's share (+5.5% to SGD2.6bn) helped drive aggregate leverage lower from 36.4% (end-FY2015) to 35.1% (end-FY2016). The recently announced (05/07/16) Mapletree Business City Phase 1 acquisition for SGD1.86bn (~46% debt funded) is expected to drive aggregate leverage higher to 38.4%. We will reaffirm our Neutral Issuer Profile, as MCT's credit profile post the acquisition would still be comparable with peers, and we expect benefits from diversification (away from VivoCity).

Mapletree Commercial Trust

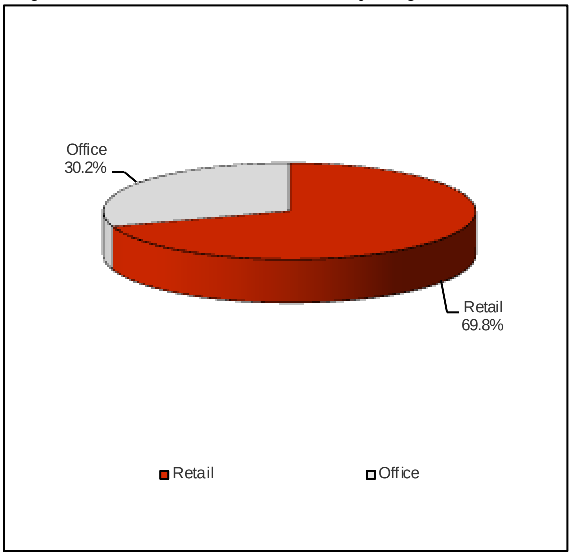
Table 1: Summary Financials

Year Ended 31st March	FY2014	FY2015	FY2016
Income Statement (SGD'mn)			
Revenue	267.2	282.5	287.8
EBITDA	177.1	192.4	200.6
EBIT	177.1	192.4	200.5
Gross interest expense	34.9	36.0	39.7
Profit Before Tax	343.3	312.1	298.7
Net profit	343.3	312.1	298.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	70.4	54.9	63.6
Total assets	4,109.6	4,262.8	4,415.2
Gross debt	1,587.5	1,546.5	1,551.5
Net debt	1,517.1	1,491.7	1,487.9
Shareholders' equity	2,425.6	2,617.0	2,764.0
Total capitalization	4,013.1	4,163.5	4,315.5
Net capitalization	3,942.7	4,108.7	4,251.9
Cash Flow (SGD'mn)			
Funds from operations (FFO)	343.3	312.1	298.7
CFO	188.8	203.5	212.7
Capex	3.9	8.0	7.4
Acquisitions	0.0	0.0	0.0
Disposals	0.0	0.0	0.0
Dividends	126.4	136.4	156.8
Free Cash Flow (FCF)	184.9	195.5	205.4
FCF adjusted	58.5	59.1	48.5
Key Ratios			
EBITDA margin (%)	66.3	68.1	69.7
Net margin (%)	128.5	110.5	103.8
Gross debt to EBITDA (x)	9.0	8.0	7.7
Net debt to EBITDA (x)	8.6	7.8	7.4
Gross Debt to Equity (x)	0.65	0.59	0.56
Net Debt to Equity (x)	0.63	0.57	0.54
Gross debt/total capitalisation (%)	39.6	37.1	36.0
Net debt/net capitalisation (%)	38.5	36.3	35.0
Cash/current borrowings (x)	0.2	0.3	0.2
EBITDA/Total Interest (x)	5.1	5.4	5.0

Source: Company, OCBC estimates

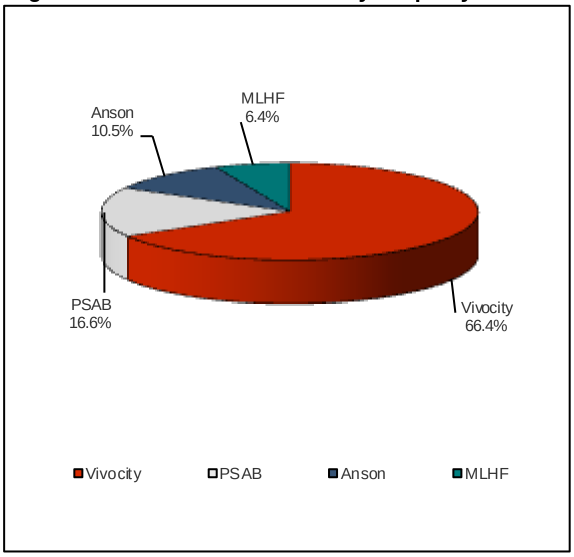
* *FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - FY2016



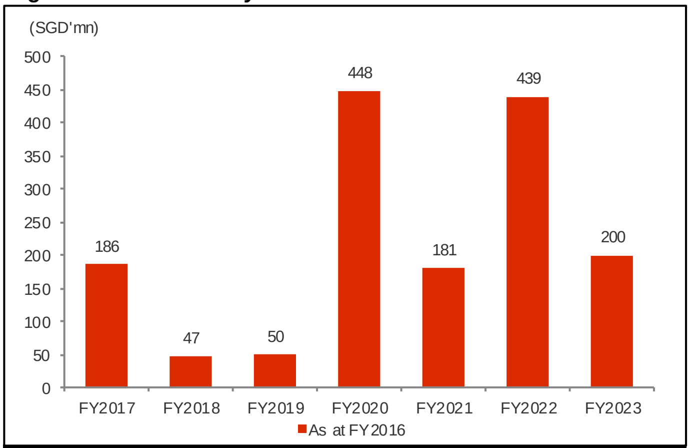
Source: Company

Figure 2: Revenue breakdown by Property - FY2016



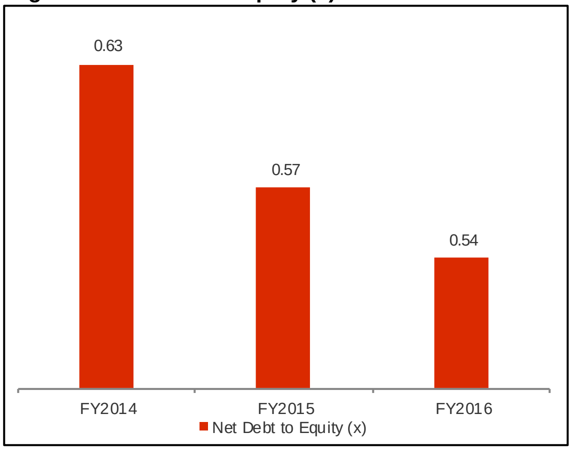
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We prefer the MINTSP'19s over the AREITSP '19s within the large cap industrial REIT space. However, at the longer end, technicals have overwhelmed fundamentals with the MINTSP' 26s only yielding 3.2% vis-à-vis the MINTSP' 23s at 3.69%. We recommend to take profit on the MINTSP' 26s and switching into the '23s, unless there is a compelling need to be holding a long dated paper. We are neutral the '22s.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: BBB+/Stable

Ticker: **MINTSP**

Background

Mapletree Industrial Trust ("MINT") is a Singapore-centric industrial REIT. MINT owns a portfolio of flatted factories, hi-tech, business park, stack-up/ramp-up and light industrial buildings. As at 31 March 2016, MINT has 85 properties valued at SGD3.6bn. MINT is sponsored by Mapletree Investments Pte Ltd ("Mapletree") who also holds a 34% stake in the REIT. Mapletree is in turned wholly-owned by Temasek.

Mapletree Industrial Trust

Key credit considerations

- **Growth in full year results driven by SG3:** For the full year ended March 2016 (FY2016), MINT reported a 5.6% growth in gross revenue to SGD331.6mn. This was largely attributable to the contribution of SG3, a built-to-suit ("BTS") data centre for Equinix in March 2015, high occupancies in all segments (except stack-up/ramp-up buildings) and higher rental rates across the properties. We estimate that SG3 contributed ~SGD8mn in FY2016, implying that MINT's organic growth was ~3% during the year. Net property income margin was stable at ~74%.

- **Occupancy:** On an aggregate portfolio level, MINT achieved healthy portfolio occupancy of 94.6%, staying flat from the immediately preceding quarter and above sector-wide averages. MINT's portfolio passing rent was kept stable at SGD1.90 psf/month in 4QFY2016. This represented a ~3.3% y/y increase from 4QFY2015. We take comfort that MINT was still able to keep occupancy at healthy levels whilst concurrently increasing its passing rent against the backdrop of sector-wide weakness. Going forward, rents on new leases for the flatted factories and hi-tech buildings segments are likely to be pressurized, though MINT's business park and stack-up/ramp-up segment should be able to offset the negative impact.

- **Weighted Average Lease Expiry ("WALE") stable**: Portfolio WALE by gross rental income was 2.8 years (4QFY2015: 3.1 years). As at 31 March 2016, ~77% of leases due to expire between 1 April 2016 and 31 March 2019. 31% of the REIT's leases are due to expire in FY2017. MINT has the shortest WALE among its peers and is likely to face increased pressure over the next few months in replenishing upcoming expiries.

- **Developmental activities likely to intensify:** Since 2013, MINT has undertaken 2 asset enhancement initiatives ("AEI") and completed 2 BTS properties. It is currently developing a SGD226mn building for Hewlett-Packard that is underpinned by a long term lease of 10.5 years (including a 6 month rent free period) and a renewal option for two additional 5 year terms. Additionally MINT is commencing AEI on Kallang Basin 4 cluster which is estimated to cost SGD77mn. This cluster is ~39 years old, with certain buildings having first received their certificate of occupation in end-1976. At least 40% of MINT's flatted factory portfolio (by value) was built more than 20 years ago and as such we think the REIT would need to consistently carry out AEIs or re-spec properties under BTS to remain competitive. Currently, tenants in the manufacturing sector contribute ~38% to MINT's gross rental income, an industry segment that is undergoing significant shifts. In July 2015, the Monetary Authority of Singapore ("MAS") green-lighted higher development limits for REITs of 25% (from 10% currently), subject to approval from unitholders. We view that MINT's future capital needs will be tilted towards developmental activities.

- **Credit profile commendable:** MINT has a low aggregate leverage of only 28% as at 31 March 2016 (31 March 2015: 31%) while its interest coverage ratio as measured by EBITDA / (Gross Interest) was 8.4x (FY2015: 8.6x). Based on MINT's disclosures, factoring capitalized interest, interest coverage was a healthy 8.0x. All borrowings remain unsecured while average debt to maturity has been extended to 4.0 years (FY2015: 3.7 years) having raised SGD60mn 10 year bonds in March 2016. We think MINT's credit profile is a reflection of the lack of suitable industrial targets within Singapore, given the high cap rates against its cost of funding and that the company has been disciplined on its portfolio acquisition activities. MINT's current credit profile leaves it with ample headroom to take on higher operational risk from developmental activities should it opt to do so going forward.

Mapletree Industrial Trust

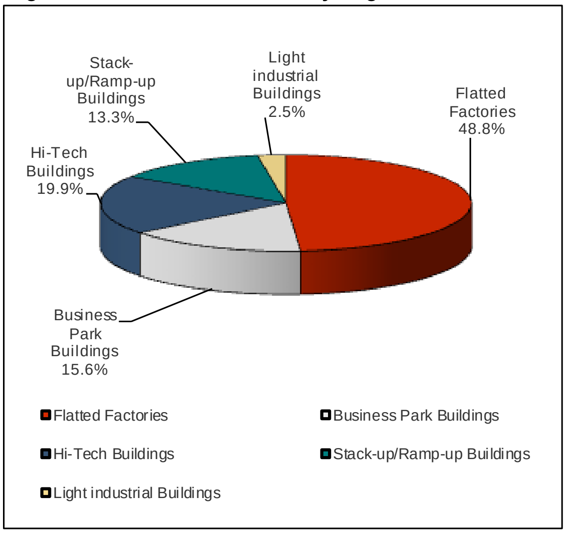
Table 1: Summary Financials

Year Ended 31st March	FY2014	FY2015	FY2016
Income Statement (SGD'mn)			
Revenue	299.3	313.9	331.6
EBITDA	191.0	203.4	218.3
EBIT	191.0	203.4	218.3
Gross interest expense	25.9	23.8	25.9
Profit Before Tax	314.3	375.4	190.6
Net profit	314.3	374.3	190.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	95.7	72.0	54.3
Total assets	3,275.1	3,516.0	3,623.9
Gross debt	1,127.5	1,074.7	1,021.2
Net debt	1,031.7	1,002.7	966.8
Shareholders' equity	2,028.7	2,312.2	2,465.2
Total capitalization	3,156.1	3,386.9	3,486.4
Net capitalization	3,060.4	3,314.9	3,432.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	314.3	374.3	190.6
CFO	190.0	204.9	219.7
Capex	0.0	0.0	0.0
Acquisitions	137.9	54.5	43.5
Disposals	0.0	0.0	0.0
Dividends	97.3	97.5	114.6
Free Cash Flow (FCF)	190.0	204.9	219.7
FCF adjusted	-45.2	52.9	61.6
Key Ratios			
EBITDA margin (%)	63.8	64.8	65.8
Net margin (%)	105.0	119.3	57.5
Gross debt to EBITDA (x)	5.9	5.3	4.7
Net debt to EBITDA (x)	5.4	4.9	4.4
Gross Debt to Equity (x)	0.56	0.46	0.41
Net Debt to Equity (x)	0.51	0.43	0.39
Gross debt/total capitalisation (%)	35.7	31.7	29.3
Net debt/net capitalisation (%)	33.7	30.2	28.2
Cash/current borrowings (x)	0.3	0.6	1.1
EBITDA/Total Interest (x)	7.4	8.6	8.4

Source: Company, OCBC estimates

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

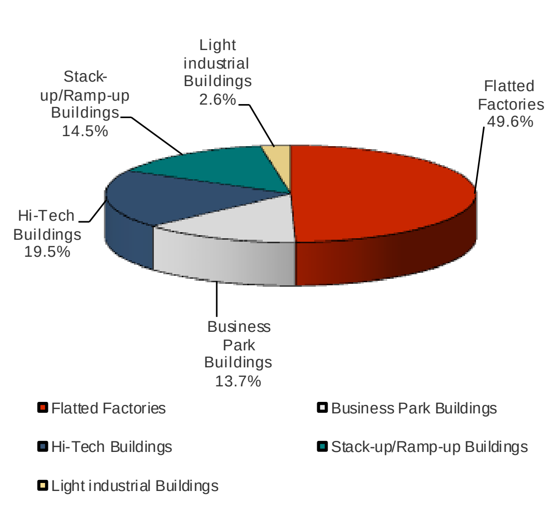
Figure 1: Revenue breakdown by Segment - FY2016



Source: Company

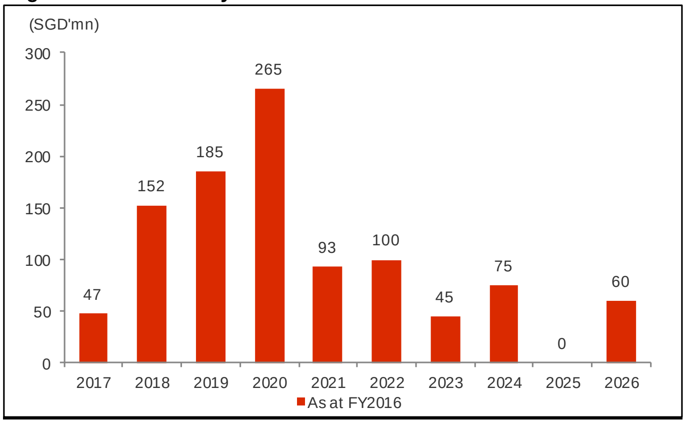
**NLA - Net Lettable Area*

Figure 2: NPI breakdown by Segment - FY2016



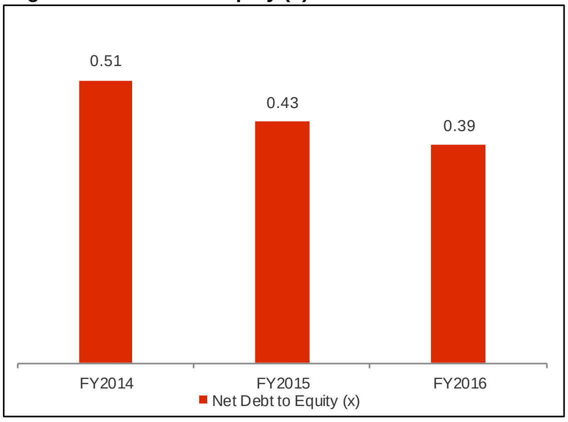
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We like the MLTSP'49c21 (trading with a YTC of 4.04% and 239 spread over swaps) which we think is fair for MLT's issuer rating profile. The MLTSP'49c17 is likely to be called in September 2017 as the coupon will reset at SDSW5+418 bps.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa1/Stable

Fitch: Not rated

Ticker: **MLTSP**

Background

Listed in 2005, Mapletree Logistics Trust ("MLT") is the first Asia-focused logistics REIT in Singapore. Total assets were SGD5.2bn as at 31 March 2016. MLT owns 118 properties (Singapore: 51, Japan: 22, Hong Kong: 8, China: 9, South Korea: 11, Malaysia: 14, Vietnam: 2 and Australia: 1). It is in the midst of acquiring 5 more properties. MLT is sponsored by Mapletree Investments Pte. Ltd, which is 100%-owned by Temasek. Temasek has a ~40% deemed interest in MLT.

Mapletree Logistics Trust

Key credit considerations

- **Growth driven by full year contribution and new acquisitions:** For the full year ended March 2016 (FY2016), MLT reported a 6% increase in gross revenue to ~SGD350mn. This was largely attributable to full year contribution from 6 properties acquired in the previous financial year, 3 new acquisitions (ie: Coles Chilled Distribution in Australia, Bac Ninh in Vietnam) and higher revenue from existing properties but partially offset by lower revenue from converted multi-tenanted buildings, absence of revenue from 2 buildings undergoing redevelopment and 2 divested properties. Property expenses rose by 12% in FY2016 driven by conversions of previously Master Leased properties into multi-tenanted properties. MLT reported a 8.4% decline in net income (prior to revaluation of investment properties) to SGD188mn mainly due to net foreign exchange loss of SGD18.8m against a SGD13.4mn gain in FY2015. Taking out the effect of asset movements, we estimate that on an organic growth basis, MLT's revenue grew by 2% (combination of positive rental reversion, built in escalation and currency effect).

- **Occupancy:** On an aggregate portfolio level, MLT achieved stable portfolio occupancy of 96.2% as at 31 March 2016 against the same time last year. Management has guided that some of the single user Master Leases coming due in Singapore and South Korea would not be renewed. For the 12 months from 31 March 2016, 14.6% of leases by net lettable assets ("NLA") will be expiring and that roughly a third are leases for single-user assets. Assuming a downside scenario where these single-user assets coming due remain vacant, overall portfolio occupancy will drop to 91%, which is still manageable in our view.

- **Geographical diversification keeps portfolio asset corrosion in check:** By asset value contribution, Singapore contributed ~34% to portfolio value, followed by Hong Kong with ~23%, Japan at ~20%, South Korea at ~7% and China at ~6% (collectively 90% of portfolio value). In FY2016, asset value for these 5 countries increased by 2%, largely driven by valuation gains in Japan and Hong Kong which sufficiently offset the asset corrosion in the other geographies. We understand from MLT that the valuation gains in Hong Kong were driven by positive rental reversion while there was a slight cap rate compression in Japan.

- **Weighted Average Lease Expiry ("WALE") stable**: Portfolio WALE by NLA remained healthy at 4.5 years (4QFY2015: 4.3 years), driven in part by the newly acquired Coles Chilled Distribution Centre which comes with a long WALE of 19 years as at July 2015. As at 31 March 2016, only ~51% of NLA is up for renewal within the forward three years. This is lower than the 56% in the preceding year, implying that the REIT has taken proactive measures to lock in leases sooner.

- **Inroads into Australia and impact on credit profile:** Coles Chilled Distribution Centre was acquired for SGD253.1mn with an initial net property income ("NPI") yield of 5.6%. This acquisition was fully debt funded which we believe was crucial in enhancing its yield for unitholders. On the back of this acquisition, aggregate leverage rose to an elevated ~40% (31 March 2015: 34.1%) while EBITDA/Total Interest shrank to 5.8x from 7.4x in FY2015. In May 2016, MLT issued a second SGD250mn perpetual issuance (distribution rate of 4.18% and first distribution rate reset in November 2021) to help fund its proposed acquisition of four dry warehouses in Sydney (located near the Coles Chilled Distribution Centre) for ~SGD84.4mn and a warehouse in Malaysia for ~SGD53.2mn. Factoring in the distributions on MLT's perpetuals and the contribution from the proposed acquisitions, we estimate that coverage ratio will fall below 4.0x in FY2017. Average debt duration was 3.5 years against 3.6 years as at 31 March 2015 and all of its borrowings remain unsecured.

Mapletree Logistics Trust

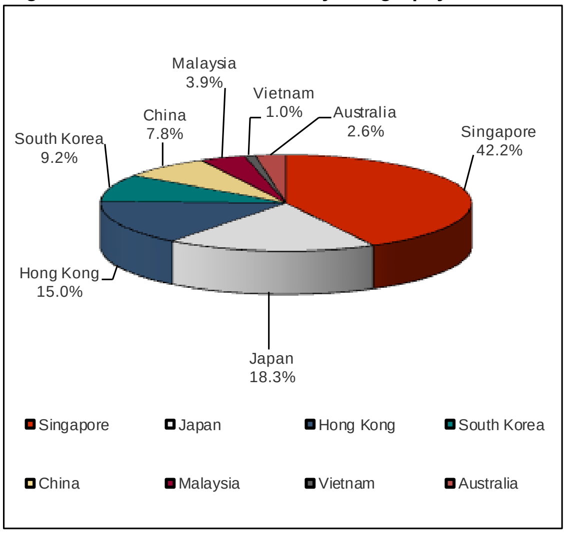
Table 1: Summary Financials

Year Ended 31st March	FY2014	FY2015	FY2016
Income Statement (SGD'mn)			
Revenue	310.7	330.1	349.9
EBITDA	237.4	245.1	255.9
EBIT	236.2	244.1	254.7
Gross interest expense	29.4	33.2	44.0
Profit Before Tax	329.2	289.4	235.4
Net profit	292.7	241.0	190.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	114.3	106.9	93.3
Total assets	4,397.0	4,787.7	5,207.4
Gross debt	1,455.4	1,631.9	2,058.3
Net debt	1,341.1	1,525.0	1,965.0
Shareholders' equity	2,732.2	2,888.3	2,878.5
Total capitalization	4,187.6	4,520.2	4,936.8
Net capitalization	4,073.3	4,413.3	4,843.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	293.9	242.0	191.3
CFO	210.2	236.2	231.0
Capex	0.0	0.0	50.1
Acquisitions	116.5	247.3	372.4
Disposals	15.5	0.0	33.2
Dividends	176.7	176.8	178.3
Free Cash Flow (FCF)	210.2	236.2	180.9
FCF adjusted	-67.6	-187.9	-336.7
Key Ratios			
EBITDA margin (%)	76.4	74.3	73.1
Net margin (%)	94.2	73.0	54.4
Gross debt to EBITDA (x)	6.1	6.7	8.0
Net debt to EBITDA (x)	5.6	6.2	7.7
Gross Debt to Equity (x)	0.53	0.56	0.72
Net Debt to Equity (x)	0.49	0.53	0.68
Gross debt/total capitalisation (%)	34.8	36.1	41.7
Net debt/net capitalisation (%)	32.9	34.6	40.6
Cash/current borrowings (x)	0.8	1.9	0.4
EBITDA/Total Interest (x)	8.1	7.4	5.8

Source: Company, OCBC estimates

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

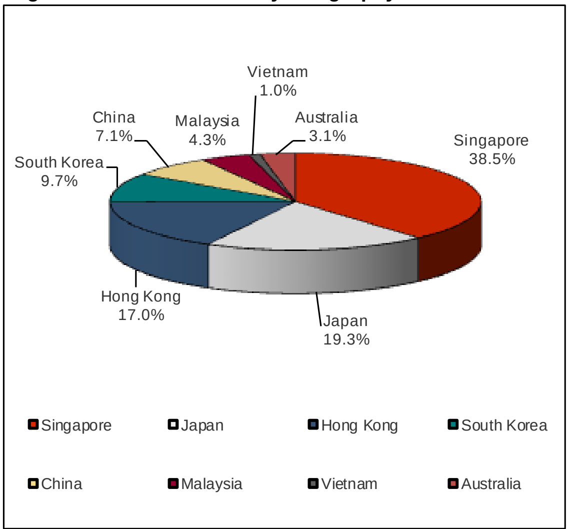
Figure 1: Revenue breakdown by Geography - FY2016



Source: Company

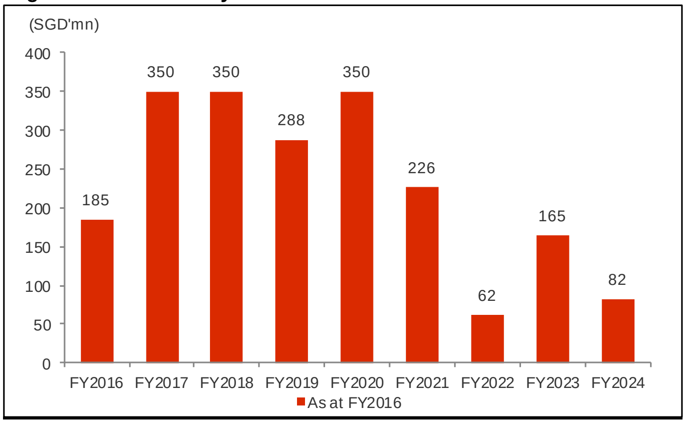
**NLA - Net Lettable Area*

Figure 2: NPI breakdown by Geography - FY2016



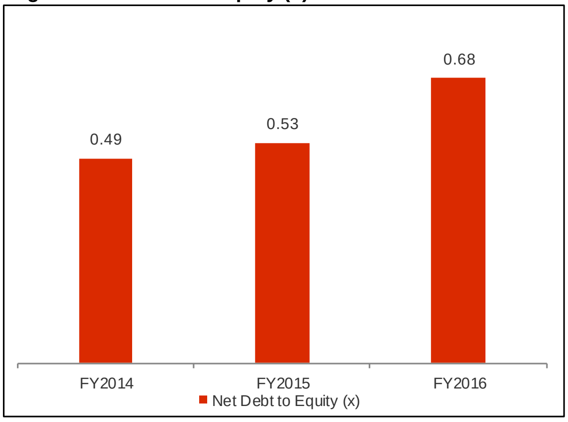
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Nam Cheong Ltd

Credit Outlook – Though the fundamentals of NCL remain challenging, the bonds are largely trading at levels that reflect restructuring. For now, we believe that NCL's management still have some levers to pull, and hence will retain the curve at Neutral.

Issuer Profile: Negative

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **NCLSP**

Company profile

Nam Cheong Ltd ("NCL") is an offshore marine group in Malaysia with an operating history of over 25 years in the Offshore Support Vessels ("OSV") segment. Its primary business is shipbuilding, with its product range including AHTS, PSVs, Accommodation Workboats, Barges and Safety Standby Vessels. For FY2015, ~95% of NCL's revenues were derived from shipbuilding while vessel chartering accounts for ~5%. The company is substantially controlled by Chairman Datuk Tiong Su Kouk with a total interest of ~50%. The firm has been listed on the SGX since 2011.

Key credit considerations

- **Revenue turned negative on contract cancellation**: NCL reported negative MYR93.1mn in revenue (1Q2015: MYR326.3mn) due to the reversal of revenue previously recognized on the cancellation of an Accommodation Work Barge ("AWB", hull: SK 316) by Perdana Petroleum ("Perdana"). The order was originally valued at USD42mn, and was late stage when it was cancelled (revenue was recognized based on percentage of completion method). The expenses attributed to the order were also reversed though, which led to NCL generating a gross profit of MYR4.2mn. It was still sharply lower compared to the MYR68.3mn in gross profits generated in 1Q2015. Management noted that aside from the Perdana order, NCL had not faced other customer requests for cancellations. Management also forfeited USD8.4mn in depositions relating to the cancelled order, and retained their rights to pursue the breach in contract. It is worth noting that NCL has another AWB order outstanding (hull: SK 317) for Perdana, also valued at USD42mn. The AWB is also scheduled for delivery in 2016, and would remain a wildcard on NCL's near-term performance.

- **Demand for newbuilds remain weak**: Performance continues to be pressured by the lack of demand for newbuild OSVs given weak O&G activity. NCL only delivered one vessel in 1Q2016, compared to six vessels in 1Q2015. NCL's much smaller OSV chartering business was also very weak, with segment revenue declining 74% y/y to MYR4.0mn. This was driven by sector challenges leading to poor utilization and weak charter rates, which in turn led to the segment to a gross loss of MYR6.5mn. MYR36.9mn in FX losses (due to the weakening of the USD against SGD, which impacted NCL's SGD denominated borrowings) also weighed on the company. This drove SG&A expense almost 100% higher y/y to MYR48.3mn. In aggregate, these factors drove NCL to a net loss of MYR40.1mn. Looking forward, it is unlikely that we will see a near-term recovery to NCL's core OSV shipbuilding business given sector doldrums.

- **Weak operating cash flow drove gearing higher**: Due to increases in working capital needs as well as interest servicing, operating cash flow was negative MYR93.1mn for 1Q2016 (4Q2015: MYR26.7mn). NCL also paid down MYR81.5mn of debt during the quarter. In aggregate, this drove the cash balance of MYR232.5mn lower q/q to MYR209.5mn. Note that NCL has a further MYR120.6mn in restricted cash held at banks. Despite gross borrowings falling 12% q/q to MYR1.6bn, due to the decrease in cash balance, net gearing worsened from 95% (end-2015) to 102% (end-1Q2016).

- **Liquidity remains tight**: NCL has about MYR483.0mn in short-term debt. These are mostly secured financing relating to the construction of vessels for delivery as well as the financing of BTS vessels. The next bond maturity is August 2017. This, coupled with the successful consent solicitation carried out to waive certain covenants, would buy the issuer some time. Interest coverage for 1Q2016 not applicable as EBITDA was negative due to the revenue reversal. It would be key for NCL to monetize the BTS vessels sitting in its inventory in order to generate cash flow and to improve its credit profile.

- **Order book remains stable**: Despite the contract cancellation, the order book stood at MYR1.1bn (end-2015: MYR1.2bn) with deliveries schedule up till 2018. Order deferment and/or cancellation by clients remain the main risk. We will continue to hold NCL's Issuer Profile at Negative given the continued soft demand for OSVs due to lower upstream activity and oversupply of OSVs in the market.

Nam Cheong Limited

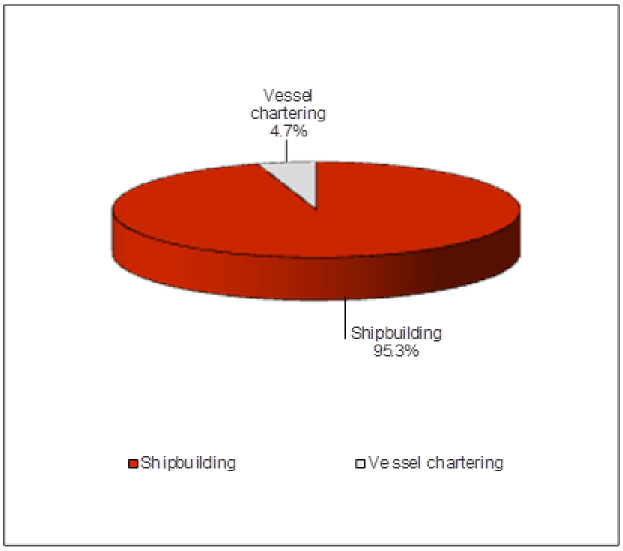
Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	1Q2016
Income Statement (MYR'mn)			
Revenue	1,928.6	950.0	-93.1
EBITDA	306.6	77.9	-38.8
EBIT	289.0	56.2	-44.1
Gross interest expense	53.5	24.2	1.8
Profit Before Tax	303.3	31.0	-40.1
Net profit	301.8	28.5	-40.1
Balance Sheet (MYR'mn)			
Cash and bank deposits	800.1	506.1	326.5
Total assets	3,252.4	3,950.9	3,519.4
Gross debt	1,309.3	1,809.2	1,600.8
Net debt	509.2	1,303.1	1,274.3
Shareholders' equity	1,219.3	1,377.1	1,244.5
Total capitalization	2,528.7	3,186.3	2,845.3
Net capitalization	1,728.6	2,680.3	2,518.8
Cash Flow (MYR'mn)			
Funds from operations (FFO)	319.5	50.2	-34.9
CFO	161.1	-564.6	-93.1
Capex	6.3	34.0	0.1
Acquisitions	117.4	0.0	0.0
Disposals	145.1	0.1	16.5
Dividend	55.1	84.9	0.0
Free Cash Flow (FCF)	154.8	-598.6	-93.1
FCF adjusted	127.4	-683.4	-76.6
Key Ratios			
EBITDA margin (%)	15.9	8.2	41.7
Net margin (%)	15.6	3.0	43.1
Gross debt to EBITDA (x)	4.3	23.2	-10.3
Net debt to EBITDA (x)	1.7	16.7	-8.2
Gross Debt to Equity (x)	1.07	1.31	1.29
Net Debt to Equity (x)	0.42	0.95	1.02
Gross debt/total capitalisation (%)	51.8	56.8	56.3
Net debt/net capitalisation (%)	29.5	48.6	50.6
Cash/current borrowings (x)	1.4	0.8	0.7
EBITDA/Total Interest (x)	5.7	3.2	-22.1

Source: Company, OCBC estimates

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

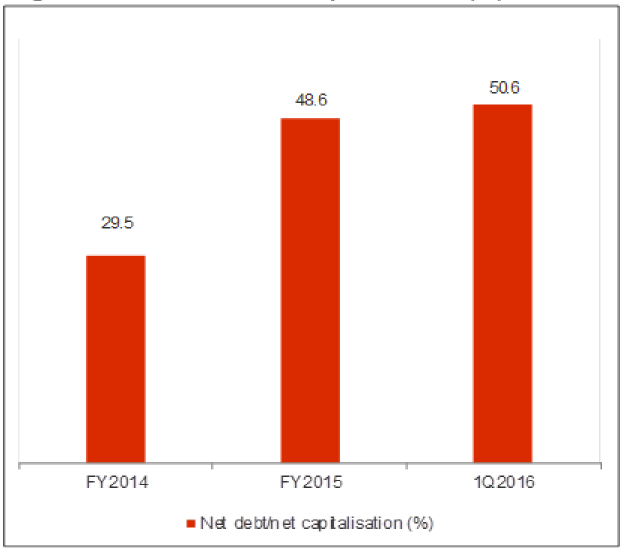
Figure 1: Revenue breakdown by Geography - FY2015



Source: Company

Recorded negative revenue for Shipbuilding in 1Q2016 due to reversal of revenue from cancellation order

Figure 2: Net debt to Net capitalisation (%)



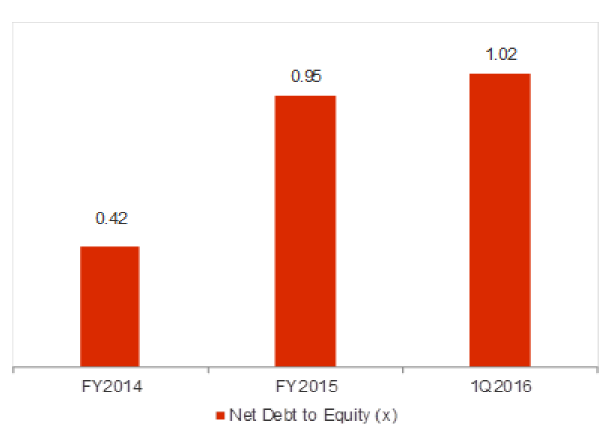
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (MYR'mn)	As at 31/03/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	478.5	29.9%
Unsecured	4.4	0.3%
	483.0	**30.2%**
Amount repayable after a year		
Secured	119.1	7.4%
Unsecured	998.8	62.4%
	1117.9	**69.8%**
Total	**1600.8**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Neptune Orient Lines Ltd

Credit Outlook – Despite the challenging environment, we believe that CMA CGM would deleverage post-merger, and that the NOLSP'17s and NOLSP'19s look attractive given the CoC step-up.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **NOLSP**

Company profile

Neptune Orient Lines Ltd ("NOL") was previously the 12th largest container liner globally, operating under the brand APL. However, as of July 2016, CMA CGM (the 3rd largest container liner) has acquired majority control of NOL by acquiring ~67% stake previously owned by Temasek Holdings. CMA CGM has made known its intention to delist NOL from the SGX. CMA CGM has indicated that it will be shifting its Asian HQ from Hong Kong to Singapore post the transaction.

Key credit considerations

- **CMA CGM to delist NOL post acquisition**: With Temasek entities tendering their ~67% stake of NOL to CMA CGM on 09/06/16, and CMA CGM acquiring more than 90% of NOL in aggregate, CMA CGM has indicated that they will be delisting NOL from the SGX. Investors should note that CMA CGM is a private company (that does disclose quarterly financial statements), and that post the delisting there could be limited NOL financial disclosures. Although NOL's bonds could be interpreted as being backed by CMA CGM going forward, there has been no indication that CMA CGM would formally guarantee NOL's existing debentures.

- **Some alignment seen between CMA CGM with regards to Singapore:** After the offer for NOL became unconditional (and CMA CGM controlling ~80% of NOL), CMA CGM appointed a new Chairman, CEO as well as CFO to NOL. The previous NOL Chairman will remain as an independent director, while the previous CEO will remain as an executive director. CMA CGM has also committed towards moving its Asia HQ from Hong Kong to Singapore, as well as diverting container traffic from its previous regional hub, Malaysia's Port Klang. In addition, CMA CGM and PSA Singapore Terminals ("PSA") announced a 49:51 JV, which would operate four mega container berths in Singapore. We believe that these steps illustrate CMA CGM's long-term commitment towards integrating NOL and retaining their presence in Singapore.

- **Weak environment continues to pressure NOL performance**: NOL reported 1Q2016 results, with quarterly revenue falling 28.0% y/y to SGD1.14bn. Revenue was pressured by both lower volume (-6% y/y) as well as weaker freight rates (-23% y/y). The fall in freight rates was particularly painful, with the Shanghai Containerized Freight Index 47% lower y/y for the quarter, reaching record lows. Industry peers were hurt as well, with Hanjin Shipping (the largest South Korea shipping liner) heading into debt restructuring. NOL's weak revenue resulted in thin gross profit (gross margin of 40bps versus 1Q2015's 8.6%). Though NOL continued to trim operating costs, and low bunker fuel was a boon, it was insufficient to offset the sharp fall in freights. This led NOL to report a liner net loss of SGD105.1mn (1Q2015: -SGD36.2mn).

- **Liquidity pressure worsens**: NOL generated negative SGD56.5mn in operating cash flow (worsening from negative SGD20.7mn in 4Q2015). Coupled with SGD23.0mn in capex, NOL generated negative SGD79.5mn in free cash flow. This was funded by SGD23.7mn increase in net borrowings as well as consuming NOL's cash balance. As such, net gearing increased from 106% to 116% q/q. Weak EBITDA caused net debt / EBITDA to worsened from 8.5x (end-2015) to 21.8x (end-1Q2016). Interest coverage worsened as well from 2.5x (end-2015) to 1.0x (end-1Q2016). Given the weak global container freight rates, we expect NOL's standalone credit profile to continue to be pressured.

- **Focus on CMA CGM performance**: Though there has been no indication that CMA CGM will be guaranteeing NOL's existing debentures, we believe that CMA CGM is aligned towards servicing NOL's debt going forward. We estimate that CMA CGM's net gearing would surge from 73% (end-2015) to a pro-forma of over 130% post the acquisition. However, CMA CGM has announced its intention to make USD1bn in asset sales, as well as to cut USD1bn in costs over 18 – 24 months. These steps will help reduce CMA CGM's leverage post the acquisition. In aggregate, we believe that NOL will be better positioned to navigate the challenging environment as part of CMA CGM (given the combined entity's significant scale), and hence retain NOL's Neutral Issuer Profile. We are however mindful of integration and execution risk, and will monitor the situation closely.

Neptune Orient Lines

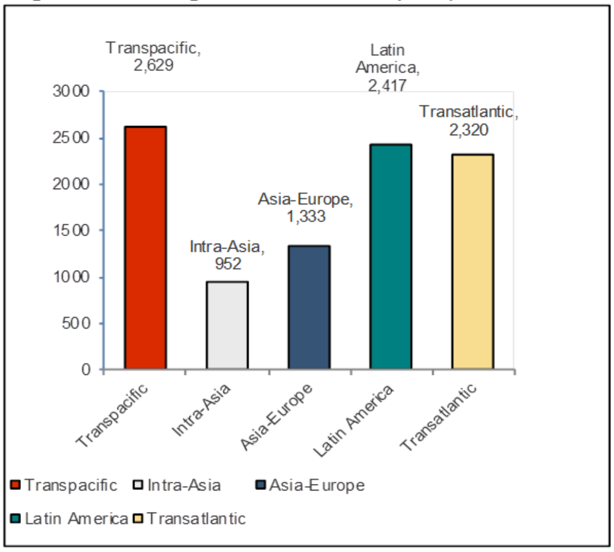
Table 1: Summary Financials

Year End 28th Dec	FY2014	FY2015	1Q2016
Income Statement (USD'mn)			
Revenue	8,616.8	5,382.6	1,138.0
EBITDA	278.4	311.5	32.3
EBIT	-114.1	-72.0	-69.7
Gross interest expense	125.9	125.5	32.6
Profit Before Tax	-216.9	712.2	-112.9
Net profit	-259.8	707.2	-105.1
Balance Sheet (USD'mn)			
Cash and bank deposits	1,225.8	229.9	174.0
Total assets	9,099.6	6,908.7	6,674.8
Gross debt	5,291.4	2,882.4	2,982.4
Net debt	4,065.6	2,652.5	2,808.4
Shareholders' equity	1,807.9	2,492.6	2,418.6
Total capitalization	7,099.3	5,374.9	5,401.0
Net capitalization	5,873.5	5,145.0	5,227.0
Cash Flow (USD'mn)			
Funds from operations (FFO)	132.7	1,090.7	-3.1
CFO	68.8	276.9	-56.5
Capex	350.3	110.5	23.0
Acquisitions	28.1	21.9	0.3
Disposals	68.5	1,158.2	-1.7
Dividend	4.2	10.3	0.0
Free Cash Flow (FCF)	-281.6	166.4	-79.6
FCF adjusted	-245.3	1,292.4	-81.6
Key Ratios			
EBITDA margin (%)	3.2	5.8	2.8
Net margin (%)	-3.0	13.1	-9.2
Gross debt to EBITDA (x)	19.0	9.3	23.1
Net debt to EBITDA (x)	14.6	8.5	21.8
Gross Debt to Equity (x)	2.93	1.16	1.23
Net Debt to Equity (x)	2.25	1.06	1.16
Gross debt/total capitalisation (%)	74.5	53.6	55.2
Net debt/net capitalisation (%)	69.2	51.6	53.7
Cash/current borrowings (x)	2.0	0.4	0.3
EBITDA/Total Interest (x)	2.2	2.5	1.0

Source: Company, OCBC estimates

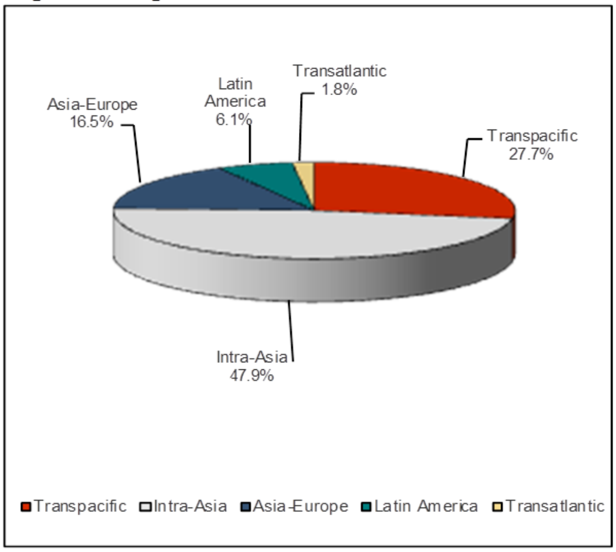
** FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Average Revenue / FEU (USD)



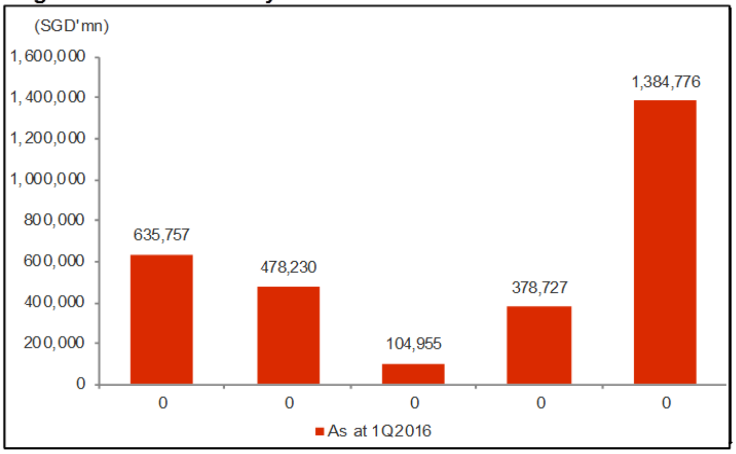
Source: Company

Figure 2: Region volume breakdown



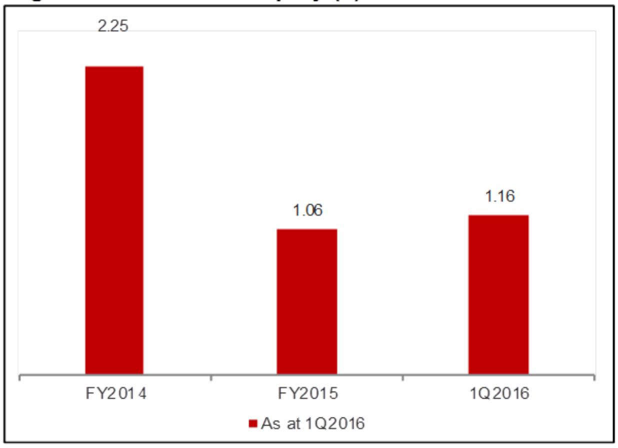
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

The OLAMSP'49c17s is attractive with a YTC of 5.32% and spread of 417bps. We think there is a good chance for the perpetuals to be called in March 2017 and are overweight this. We think the OLAMSP'22 is at fair value on technicals and have the rest of the curve on underweight as we see investors being undercompensated for refinancing risk assumed.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **OLAMSP**

Background

Olam International Limited ("Olam") is a diversified, vertically-integrated agri-commodities merchandiser, producer and trader. It also generates income from the sale of packaged food products, commodity financial services and holding minority stakes in longer term investments. Currently, Temasek is the largest shareholder with 51.4% stake, followed by Mitsubishi Corp. with 20%, Kewalram Chanrai Group (founder) with 4.8% and senior management with 6.4%.

Olam International Ltd

Key credit considerations

- **Bottom line growth driven by lower finance costs**: For the quarter ended 31 March 2016 ("1Q2016"), Olam reported a ~3% decline in EBITDA to SGD332.8mn on the back of a SGD3.5mn loss on the commodity financial services ("CFS") business (1Q2015: positive SGD11mn). Reduction in contribution from Edible Nuts, Spices and Vegetable Ingredients (down ~SGD30mn) offset the stronger performance in Confectionary and Beverage Ingredients, Food Staples and Packaged Foods and Industrial Raw Materials (collectively up by SGD34.2mn). Taking out the effect of one-off cost (eg: losses on bonds redemption), finance costs declined by ~15% on the back of lower financing cost and overall reduction in debt levels. Overall profit before tax improved to SGD140.4mn (1Q2015: SGD64.2mn).

- **Liquidity:** In line with the nature of the agri-commodity sector, Olam's period-to-period cash flow performance tends to be volatile, after factoring in effects of working capital (this is especially evident within each individual segment). The company's operations across various product types and value chain help cushion overall volatility. We adjust EBITDA for working capital to come up with a better gauge of cash flow from operations ("Implied CFO"). In 1Q2016, Implied CFO swung positive to SGD252.3mn. In 1Q2016, Olam paid out SGD136.3mn in interest expense and SGD8.23mn in distributions to holders of perpetual securities. We view that Olam's significant on-going debt service obligation against cash flow from operations leaves it with a thin buffer, though may improve going forward as its upstream and mid/downstream assets starts to fully contribute. 1Q2016 Implied CFO/Gross Interest was 1.9x while Implied CFO (Gross Interest plus perpetual distribution) was 1.7x. Implied CFO in FY2015 was negative, owing to the transformational acquisition of ADM's cocoa business.

- **Gearing:** Olam has historically taken significant debt-funded growth bets, with debt levels remaining elevated. As at 31 March 2016, gross debt-to-equity was 2.3x, in line with that observed in FY2015. To provide certainty in financing, working capital was also funded using medium/longer term borrowings (some of which are being replaced). The company views the bulk of its inventories as readily marketable and treated as "near-cash". As at 31 March 2016, net-debt to equity was 1.96x (and 1.4x adjusting downwards for readily marketable inventories). We have assumed 30% of inventories as readily marketable. We take some comfort that the company has continued its commitment to keep net-debt to equity at less than 2.0x.

- **Refinancing risk in the intermediate term:** Despite the large headline short term debt number (ie: SGD5.5bn as at 31 March 2016), we estimate that 85% can be rolled-over and/or refinanced by new working capital facilities and that Olam's asset base is sufficient to cover the remaining debt due in the short term. We expect shorter tenor bonds maturing in 2017 and 2018 to be refinanced (and pushed forward), rather than fully paid down. Olam has ~SGD3.1bn term loans from banks and SGD237mn from IFC maturing in 2017-2022, a timeframe that coincides with maturities on all its outstanding bonds (~SGD3.6bn).

- **Inorganic expansion induces cash flow uncertainty:** Notwithstanding that the company has been more deliberate in operating cash flow generation since 2012; there is no certainty that the company's working capital profile will remain constant as the company remains acquisitive. In 1Q2016, SGD451mn went towards capital expenditure (SGD312mn for a wheat milling plant in Nigeria) while in June 2016, it announced two acquisitions (i) USD24mn (~SGD32.5mn) to acquire 50% of an edible oil joint venture in Mozambique (ii) USD85mn (~SGD115mn) acquisition of a peanut sheller to consolidate its position in the USA.

Olam International Ltd

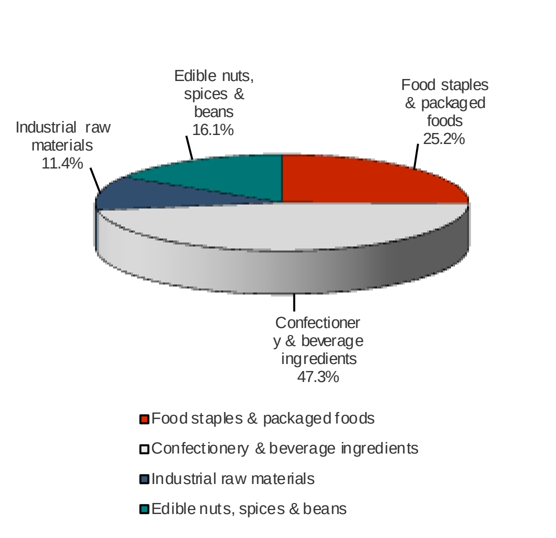
Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015*	1Q2016
Income Statement (USD'mn)			
Revenue	19,421.8	28,230.6	4,761.4
EBITDA	999.5	1,308.0	327.5
EBIT	783.9	966.0	247.1
Gross interest expense	519.2	738.0	120.4
Profit Before Tax	747.8	238.0	140.4
Net profit	608.5	98.7	105.2
Balance Sheet (USD'mn)			
Cash and bank deposits	1,590.1	2,143.2	1,600.5
Total assets	16,306.6	20,792.4	20,341.4
Gross debt	9,339.9	12,293.9	11,977.4
Net debt	7,749.8	10,150.7	10,376.9
Shareholders' equity	4,222.3	5,359.1	5,281.8
Total capitalization	13,562.2	17,653.0	17,259.2
Net capitalization	11,972.2	15,509.8	15,658.7
Cash Flow (USD'mn)			
Funds from operations (FFO)	824.1	440.7	185.7
CFO	-298.7	-518.7	160.6
Capex	567.5	565.9	120.5
Acquisitions	13.2	2,043.3	311.7
Disposals	374.8	446.8	6.8
Dividend	99.3	247.3	0.0
Free Cash Flow (FCF)	-866.2	-1,084.7	40.0
FCF adjusted	-603.9	-2,928.6	-264.9
Key Ratios			
EBITDA margin (%)	5.1	4.6	6.9
Net margin (%)	3.1	0.3	2.2
Gross debt to EBITDA (x)	9.3	9.4	9.1
Net debt to EBITDA (x)	7.8	7.8	7.9
Gross Debt to Equity (x)	2.21	2.29	2.27
Net Debt to Equity (x)	1.84	1.89	1.96
Gross debt/total capitalisation (%)	68.9	69.6	69.4
Net debt/net capitalisation (%)	64.7	65.4	66.3
Cash/current borrowings (x)	0.4	0.4	0.3
EBITDA/Total Interest (x)	1.9	1.8	2.7

Source: Company, OCBC estimates

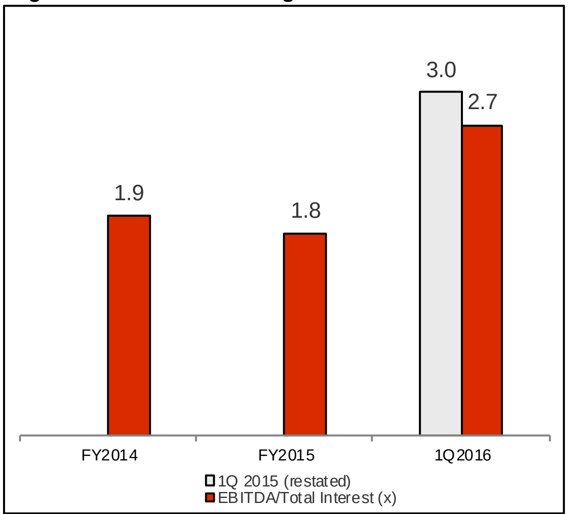
** FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 1Q2016



Source: Company

Figure 2: Interest Coverage Ratio



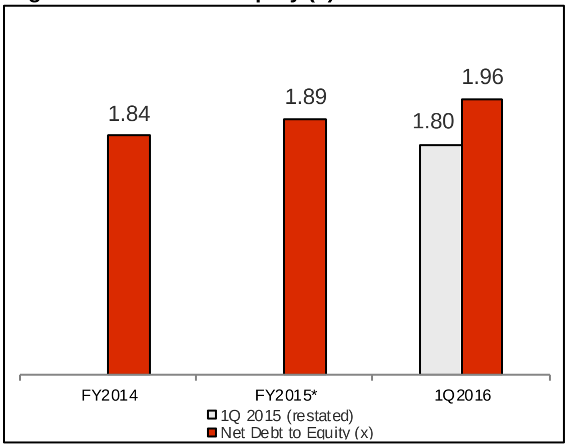
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 31/3/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	18.6	0.2%
Unsecured	5546.0	46.3%
	5564.6	**46.5%**
Amount repayable after a year		
Secured	83.2	0.7%
Unsecured	6329.5	52.8%
	6412.7	**53.5%**
Total	**11977.4**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

**FY 2015 figures are based on 18 months earnings (July 14 - Dec 15)*

Credit Outlook –

The strong pickup in sales at OUE Twin Peaks, coupled with the completion and divestment of the CPCX in 2H2016 would support FY2016 performance and serve as catalysts for the issuer. We like the OUESP'17s and the OUESP'19s.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **OUESP**

Company Profile

Incorporated in 1964, OUE Ltd ("OUE") is a real estate developer and landlord with a real estate portfolio located at prime locations in Singapore (such as Orchard Road) and across the region. The group has a diverse exposure across the office, hospitality, retail and residential property segments. OUE is the sponsor of OUE Hospitality Trust ("OUEHT") and OUE Commercial REIT ("OUECT"). The company is 68.0%-owned by the Lippo Group.

OUE Ltd

Key credit considerations

- **Improvement in 1Q2016 results on consolidation of One Raffles Place:** OUE reported revenue increasing 13.4% y/y to SGD122.5mn and EBITDA up 122.7% y/y to SGD37.9mn. The increase in revenue was mainly driven by its Investment Property (+51.1% y/y to SGD64.3mn due to consolidation of One Raffles Place's results into OUE following the acquisition by OUE Commercial Trust) and Hospitality (+3.0% y/y to SGD51.7mn due to higher F&B sales at Mandarin Orchard Singapore) segments while Development Property was understandably weak (-64.8% y/y to SGD4.7mn due to the TOP of OUE Twin Peaks in 1Q2015). Net income fell sharply by 81.5% y/y to SGD15.3mn though, driven mainly by the lack of divestment gain (the Crowne Plaza Changi Airport) recognized in 1Q2015 (SGD57.8mn impact) as well as surge in finance expenses to SGD41.8mn (1Q2015: SGD16.6mn). Finance expenses surged due to SGD10.4mn in net FX losses and higher debt due to purchase of additional One Raffles Place stake. Going forward, 2Q2016 performance is likely to be supported by the recent pickup in sales at OUE Twin Peaks Tower 2 (Tower 1 has not been launched as OUE is still considering its options. 2H2016 performance is likely to be supported as well by the potential gain from the pending SGD205mn sale of Crowne Plaza Changi Airport Extension (CPCX) to OUE Hospitality Trust (an associate company).

- **Encouraging pickup in sales at OUE Twin Peaks:** OUE launched a new marketing campaign to clear the remaining unsold units in OUE Twin Peaks (subject to QC extension charges in Feb 2017) in April which included 15% discounts off some units and deferred and flexible payment schemes. This coincided with a rebound in sales in the luxury segment on the successful launch of Cairnhill Nine and price cuts by other developers. OUE has since sold ~160 units after the re-launch, clearing the bulk of the unsold units left in Tower 2. The risk is that deferred payment schemes would result in some credit risk with an increase in receivables on the balance sheet (OUE will be able to recognize the full sale given that the Twin Peaks has achieved TOP).

- **Additional liquidity levers in investments in Gemdale and Mutual Fund:** OUE has amassed a 29.8% stake (worth ~SGD330mn) in Hong Kong-listed Gemdale Properties and Investment (a Chinese real estate developer). We believe OUE has no intention of launching a general offer (hence the stake would remain below 30%), though there could be future potential collaborations and partnerships with the Gemdale group. In addition, OUE has SGD270.8mn in a mutual fund investment which we believe is fairly liquid (OUE redeemed SGD95.4mn during 1Q2016) with a 45-day redemption notice period. Refinancing requirements are heavy with SGD814.3mn of short-term debt due (~50% unsecured) including SGD300mn in OUESP 4.95%'17s due 01/02/17. However we note that the company does have the option of utilising an additional SGD300mn in facilities on its SGD600mn facility secured against OUE Downtown. Though interest coverage is currently poor, we expect sales at Twin Peaks to improve EBITDA.

- **Leverage likely to stabilise at current levels:** Net gearing increased to 65% (end-2015: 58%) due to SGD231mn increase in loans utilized for OUE's AEIs and additional investments in Gemdale. However, LTM net debt/EBITDA improved to 39x from 51x due to improvement in earnings from the consolidation of One Raffles Place. Going forward, we estimate additional capital requirements for over the next 3 quarters for CPCX to be SGD19mn and SGD165.5mn for AEIs at US Bank Tower and OUE Downtown which should be adequately financed by sale proceeds of CPCX of SGD205mn in 2H2016. We expect leverage to stay stable with management guiding that they are comfortable with leverage at current levels, preferring to keep a cash buffer for possible acquisitions.

OUE Ltd.

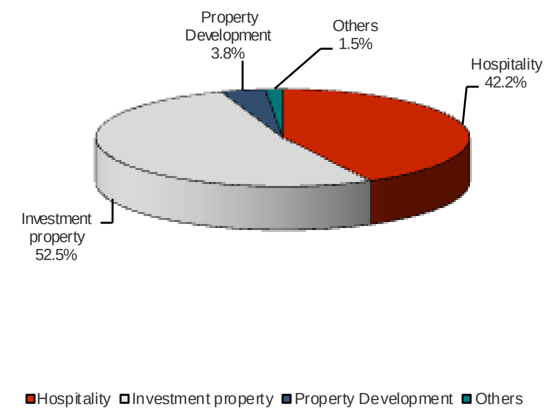
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	416.4	431.5	122.5
EBITDA	110.2	54.2	37.9
EBIT	98.0	50.2	38.9
Gross interest expense	80.7	90.9	43.6
Profit Before Tax	1,300.8	201.1	22.1
Net profit	1,094.0	156.4	8.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	162.0	172.4	222.7
Total assets	6,694.3	8,129.8	8,138.8
Gross debt	2,065.9	2,924.5	3,155.6
Net debt	1,904.0	2,752.2	2,932.9
Shareholders' equity	4,339.4	4,764.2	4,539.3
Total capitalization	6,405.4	7,688.7	7,694.9
Net capitalization	6,243.4	7,516.4	7,472.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	1,106.2	160.3	7.2
CFO	39.8	55.3	-4.2
Capex	13.3	4.2	0.3
Acquisitions	512.5	893.0	0.0
Disposals	-15.2	526.7	95.4
Dividend	59.1	71.2	15.6
Free Cash Flow (FCF)	26.5	51.1	-4.5
FCF Adjusted	-560.4	-386.3	75.4
Key Ratios			
EBITDA margin (%)	26.5	12.6	30.9
Net margin (%)	262.7	36.2	6.8
Gross debt to EBITDA (x)	18.7	54.0	20.8
Net debt to EBITDA (x)	17.3	50.8	19.4
Gross Debt to Equity (x)	0.48	0.61	0.70
Net Debt to Equity (x)	0.44	0.58	0.65
Gross debt/total capitalisation (%)	32.3	38.0	41.0
Net debt/net capitalisation (%)	30.5	36.6	39.3
Cash/current borrowings (x)	0.2	1.1	0.3
EBITDA/gross interest (x)	1.6	0.6	0.9

Source: Company, OCBC estimates

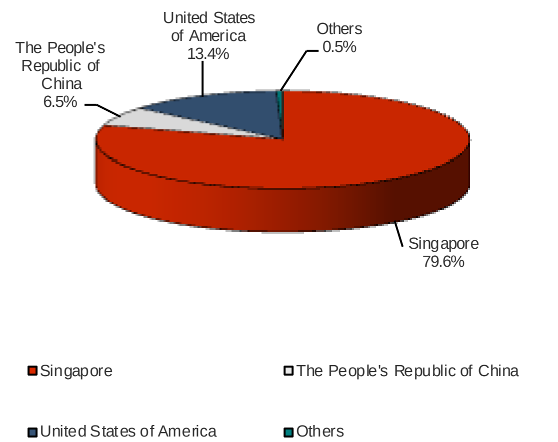
** FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 1Q2016



Source: Company

Figure 2: Revenue breakdown by Geography - FY2015



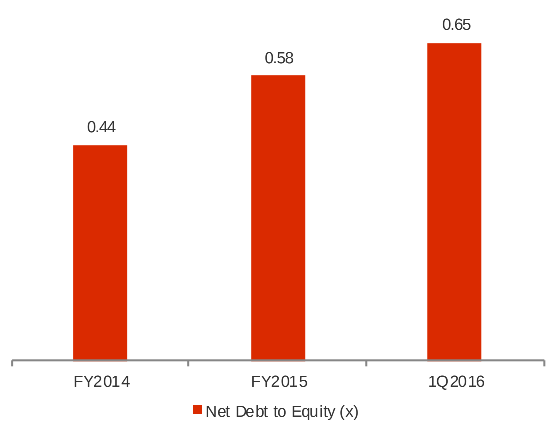
Source: Company

Figure 3: Debt Maturity Profile

	As at 31/3/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	414.9	13.1%
Unsecured	399.4	12.7%
	814.3	**25.8%**
Amount repayable after a year		
Secured	1845.0	58.5%
Unsecured	496.3	15.7%
	2341.3	**74.2%**
Total	**3155.6**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Though the PACRA'18s are trading at a steep discount, we have not yet identified a positive catalyst which would cause the bond to re-rate higher. Coupled with the still challenging environment for OSV fleet owners, we will retain the bond at Neutral.

Issuer Profile: Negative

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **PACRASP**

Company profile

Listed in 2013, PACRA is primarily an owner and operator of offshore support vessels. The firm currently operates more than 130 vessels. Its fleet is relatively young, with an average age of ~5 years. The majority of its revenue is generated from the Asia region. The firm also has a subsea division, which includes the utilization of two dive support vessels. The key shareholder and Chairman, Mr Pang Yoke Min, has more than 30 years of experience in the offshore marine sector, having co-founded Jaya Holdings in 1981, and managed it till 2006. He controls ~67% of PACRA.

Pacific Radiance Ltd

Key credit considerations

- **Sector and seasonal factors pressured OSV revenue**: For 1Q2016, revenue fell 41.8% y/y to USD18.4mn. On the q/q basis, revenue was also lower 15.4%. The main driver was weakness in its OSV chartering segment, which saw revenue plunge 40.6% y/y to USD17.0mn for 1Q2016. On a q/q basis though, the segment decline was more muted at 4.0%. Management has reflected that aside from intense competition due to fewer contracts (soft upstream O&G activities), as well as oversupply of OSVs, Q4 and Q1 are usually the low season for OSV hiring given the winter period. As a result, utilization and charter rates have both been pressured. PSV demand was particularly weak. Looking forward though, charter rates for OSVs seemed to have bottomed out and unchanged q/q. PACRA's small subsea division (mainly diving support vessels) remained challenged during the quarter, though current visibility over increasing subsea activity for Q2 and Q3 may provide some respite. Looking forward, the oversupply situation would likely continue to weigh on charter rates.

- **Consecutive quarterly loss**: Revenue pressure and overhead costs drove PACRA to generate quarterly gross losses of USD1.3mn (4Q2015: gross loss of USD3.4mn). Though PACRA was able to trim SG&A expenses by 9.8% y/y to USD5.4mn, finance cost was higher due to additional borrowings (gross borrowings increased 31% y/y). This led to PACRA generating a net loss of USD6.9mn for the quarter.

- **Receivables from related companies a drag on cash**: PACRA generated negative USD15.1mn in operating cash flow for 1Q2016, driven by USD11.3mn in working capital needs as well as USD3.6mn interest service. USD3.8mn of working capital was due to increasing receivables from associates / JVs. Total amounts due from associates / JVs now stand at USD159.3mn, up from USD55.1mn as of end-2014. It was last disclosed (end-2015) that of the USD158.7mn in amounts due from related companies, USD156.9mn worth was interest bearing (with an average rate of ~6%). PACRA's associates / JVs are mainly OSV charterers domiciled in Malaysia and Indonesia in order to navigate the cabotage regulations in those regions. We will continue to monitor the related party receivables / lending closely.

- **Capex to taper down**: Free cash flow was negative USD57.7mn due to USD42.6mn in capex (they took delivery of two vessels during the quarter). Looking forward, they have a further two more vessels scheduled for delivery in 2016. It is worth noting that PACRA originally had another two vessels scheduled for delivery (two PSVs) which they initiated to cancel as the shipyards failed to adhere to certain terms in the contract. The cash gap for 1Q2016 was financed by ~USD48mn in additional borrowings (mainly vessel financing). Gross borrowings increased as well due to the step up acquisition of Aztec Offshore (resulting in the consolidation of the target's debt on PACRA's balance sheet). In total, gross borrowings increased by 17% q/q to USD466.9mn. This drove net gearing sharply higher from 86% (end-2015) to 106% (end-1Q2016).

- **Management seeking to manage liquidity**: PACRA currently has about USD110.0mn in short-term debt (mainly the amortizing part of vessel financing), compared to a cash balance of USD32.7mn. There was news that PACRA was seeking to restructure its vessel financing, to term out the amortization schedule longer to preserve liquidity. Vessel divestments could also generate liquidity. Interest coverage has worsened sharply from 2.2x (2015) to just 0.1x (1Q2016) due to the deterioration of earnings. Given expected continued pressure on free cash flow, we will retain PACRA's Issuer Profile at Negative.

Pacific Radiance Ltd

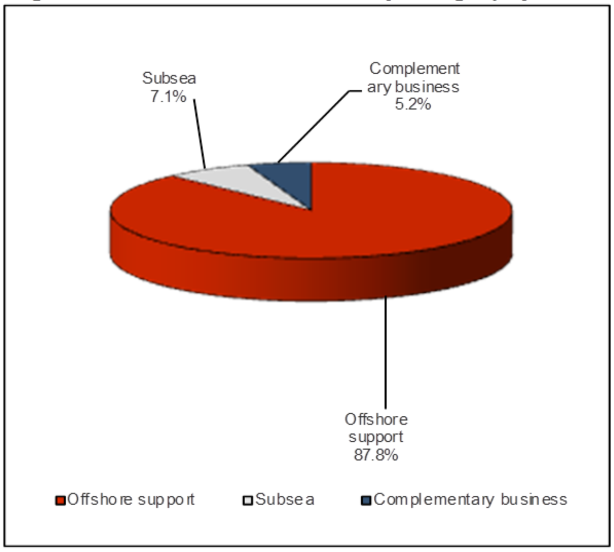
Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	1Q2016
Income Statement (USD'mn)			
Revenue	172.2	121.8	18.4
EBITDA	51.7	26.7	0.3
EBIT	23.8	0.4	-6.7
Gross interest expense	9.1	12.1	4.7
Profit Before Tax	68.3	5.3	-6.5
Net profit	68.3	3.7	-6.8
Balance Sheet (USD'mn)			
Cash and bank deposits	101.4	43.1	32.7
Total assets	839.5	916.6	975.3
Gross debt	328.1	400.2	469.8
Net debt	226.7	357.1	437.1
Shareholders' equity	431.9	416.0	411.9
Total capitalization	760.1	816.2	881.7
Net capitalization	658.6	773.1	849.0
Cash Flow (USD'mn)			
Funds from operations (FFO)	96.2	30.1	0.3
CFO	62.2	24.4	-15.1
Capex	206.9	161.6	42.6
Acquisitions	6.7	3.4	-0.7
Disposals	169.3	7.6	0.1
Dividend	11.4	17.9	0.0
Free Cash Flow (FCF)	-144.7	-137.2	-57.7
FCF adjusted	6.4	-151.0	-56.9
Key Ratios			
EBITDA margin (%)	30.0	21.9	1.6
Net margin (%)	39.7	3.1	-36.8
Gross debt to EBITDA (x)	6.3	15.0	387.6
Net debt to EBITDA (x)	4.4	13.4	360.6
Gross Debt to Equity (x)	0.76	0.96	1.14
Net Debt to Equity (x)	0.52	0.86	1.06
Gross debt/total capitalisation (%)	43.2	49.0	53.3
Net debt/net capitalisation (%)	34.4	46.2	51.5
Cash/current borrowings (x)	2.0	0.5	0.3
EBITDA/Total Interest (x)	5.7	2.2	0.1

Source: Company, OCBC estimates

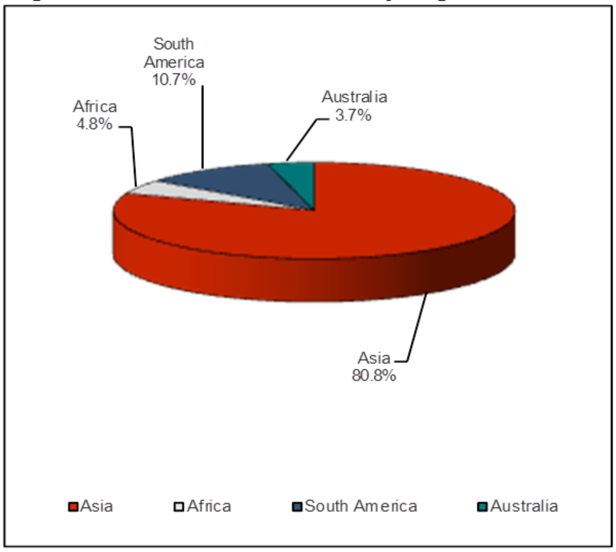
** FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Geography - FY2015



Source: Company

Figure 2: Revenue breakdown by Segment - FY2015



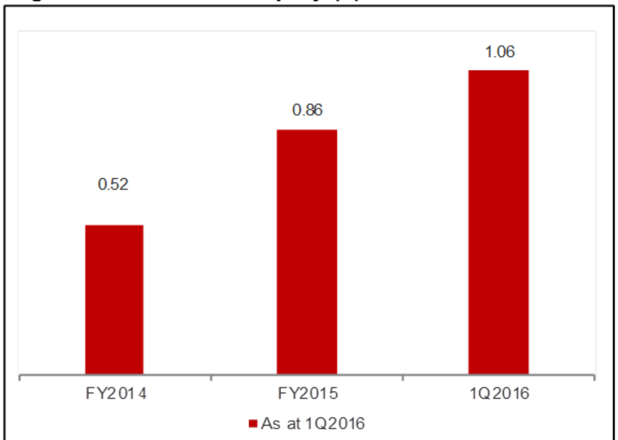
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 31/03/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	110.0	23.6%
Unsecured	1.0	0.2%
	111.0	**23.8%**
Amount repayable after a year		
Secured	281.7	60.3%
Unsecured	74.2	15.9%
	355.9	**76.2%**
Total	**466.9**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Perennial Real Estate Holdings

Credit Outlook –

With most of PREH's China assets still under development and not generating cash, we believe improvements to PREH's credit profile will be limited in the interim. Uncertainty over The Capitol would also pressure performance. That said, we will upgrade the PREHSP 4.25'18s to Neutral on supportive technical factors.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: PREHSP

Company Profile

Perennial Real Estate Holdings Ltd ("PREH") was formed from the RTO of St James Holdings Ltd in October 2014. PREH is now an integrated real estate owner / developer (China & Singapore focused). PREH is developing large scale mixed-use developments in railway hubs of China while portfolio of stabilised office and retail assets in Singapore and China provide stable rental income. The company is ~75%-owned by Mr Kuok, CEO of Wilmar, Mr Ron Sim CEO of Osim, and Mr Pua, CEO of PREH and has a market cap of SGD1.62bn.

Key credit considerations

- **Decent 1Q2016 results on improvement in China performance:** PREH reported a decent set of 1Q2016 numbers with revenue up 9.0% y/y to SGD29.5mn and EBITDA up 6.2% y/y to SGD15.3mn. The increase in revenue and EBITDA was driven by improved performance from Perennial Qingyang Mall in Chengdu due to the opening of the connected Zhongba subway station (China revenue up 19.1% y/y to SGD7.6mn) and higher revenue from its fee-based management business (+29.5% y/y to SGD9.8mn). Perennial also recognised SGD7.5mn in fair value gains in its JV with Shanghai Summit from the change of use of Chengdu Plot D2 from residential strata sale to investment property for an eldercare and retirement home. These factors drove net profit higher by 257% y/y to SGD12.1mn.

- **Resolution over Capitol Singapore could take up to a year:** Management guided that resolution on the deadlock with Pontiac Land over Capitol Singapore will be resolved in a few months to a year depending on court scheduling. The LTV on Capitol Singapore (valued at ~SGD1bn including residential piece) is currently 60% which translates to ~SGD200mn in capital requirements should a need to buy out Pontiac Land's 50% equity stake in the project materialise. On the flip side, a sale to Pontiac Land will also result in cash proceeds of the same amount. As such, the credit impact over this matter remains uncertain.

- **Strong push into medical services:** Perennial announced the SGD28.7mn acquisition of a 20% stake in Shenzhen Aidigong Modern Maternal and Child Health Management Co. Ltd in March 2016, a postpartum and neonatal care company, expanding the company's portfolio of medical and healthcare-related services. Including this acquisition, Perennial would have spent SGD107.5mn (Aidigong: SGD28.7mn, Chengdu Xiehe Eldercare JV: SGD15.8mn, JV with Boai and acquisition of Modern Hospital Guangzhou: SGD63mn) since July 2015 in its push into medical services. Aidigong is expected to start contributing as a 20%-owned associate having been acquired in April 2016.

- **Issuance of second retail bonds reduces refinancing requirements:** Perennial issued its second retail bond in April 2016, raising SGD280mn in 4-year 4.55% bonds. Total order book at SGD312.5mn was decent allowing the company to upsize the issue from the original SGD200mn although we note that Perennial's chairman Kuok Khoon Hong took up SGD53.9mn (SGD45mn through the placement tranche and SGD8.9mn through the retail tranche) of the bonds. Perennial has used SGD192.9mn of the proceeds for refinancing, reducing maturities in 2016 and 2017 by SGD100mn and SGD46mn respectively. The remaining SGD46.9mn has been on-lend to an associate.

- **Leverage continues to creep up:** Net debt/equity increased to 55% (end-2015: 45%) mainly due to the issuance of SGD125mn in bonds during the quarter. Despite an improvement in 1Q2016 earnings, LTM net debt/EBTIDA increased to 34.4x from 32.3x in 2015 due to a SGD152mn increase in net debt. LTM EBITDA / interest coverage remained weak at 0.8x. The company has SGD270.6mn in refinancing requirements over the next 4 quarters although we estimate that after the release of the 1Q2016 results, the company has since partially refinanced SGD100mn of loans due this year using the proceeds from the retail bond issue. This leaves SGD170mn which includes the SGD50mn PCRTSP 5.25% bond (issued by Perennial China Retail Trust) due in July.

Perennial Real Estate holdings Ltd

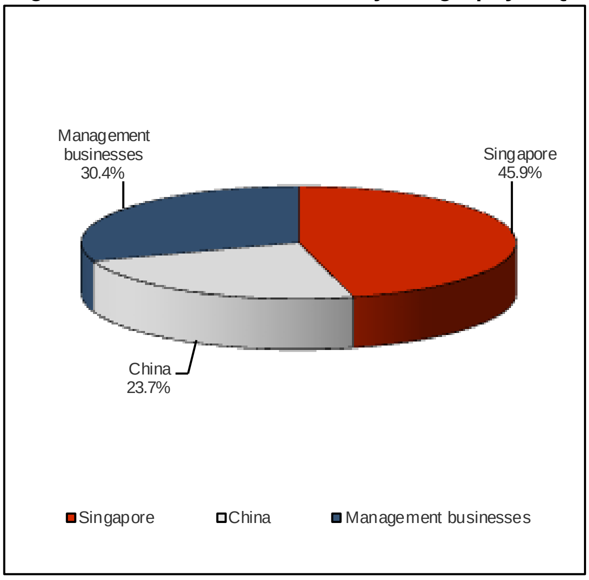
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	31.0	117.7	29.5
EBITDA	-11.2	60.0	15.3
EBIT	-12.3	56.2	12.5
Gross interest expense	10.1	64.1	16.5
Profit Before Tax	38.5	86.1	13.4
Net profit	17.1	58.1	8.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	106.8	162.0	131.8
Total assets	4,408.5	6,450.3	6,671.1
Gross debt	1,639.4	2,103.2	2,225.0
Net debt	1,532.6	1,941.2	2,093.2
Shareholders' equity	2,345.4	3,882.4	3,773.4
Total capitalization	3,984.8	5,985.6	5,998.4
Net capitalization	3,878.0	5,823.6	5,866.6
Cash Flow (SGD'mn)			
Funds from operations (FFO)	18.2	61.9	11.3
CFO	14.7	-98.7	48.3
Capex	20.4	59.4	0.0
Acquisitions	-121.2	232.5	-31.1
Disposals	0.3	0.0	4.9
Dividends	10.9	0.9	0.0
Free Cash Flow (FCF)	-5.8	-158.1	48.3
* FCF Adjusted	104.8	-391.4	22.1
Key Ratios			
EBITDA margin (%)	-36.2	51.0	51.8
Net margin (%)	55.0	49.4	28.7
Gross debt to EBITDA (x)	-146.1	35.0	36.4
Net debt to EBITDA (x)	-136.5	32.3	34.3
Gross Debt to Equity (x)	0.70	0.54	0.59
Net Debt to Equity (x)	0.65	0.50	0.55
Gross debt/total capitalisation (%)	41.1	35.1	37.1
Net debt/net capitalisation (%)	39.5	33.3	35.7
Cash/current borrowings (x)	0.8	1.0	0.5
EBITDA/Total Interest (x)	-1.1	0.9	0.9

Source: Company, OCBC estimates

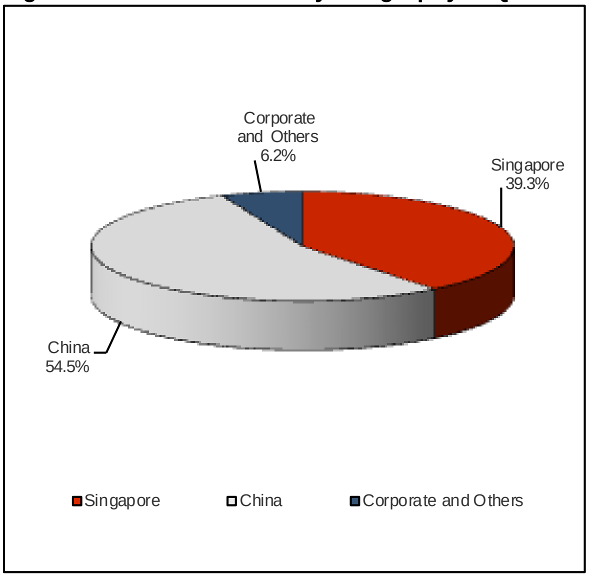
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Geography - 1Q2016



Source: Company

Figure 2: EBIT breakdown by Geography - 1Q2016



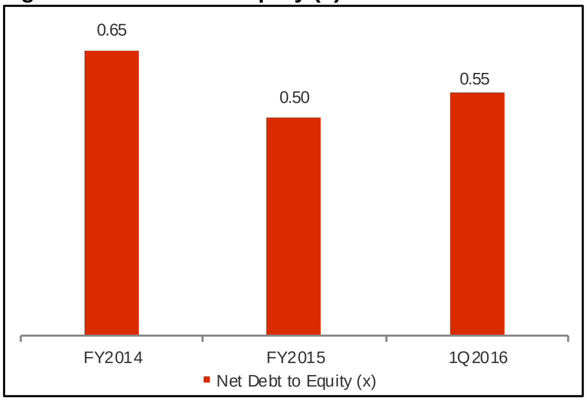
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	70.6	3.2%
Unsecured	199.9	9.0%
	270.6	**12.2%**
Amount repayable after a year		
Secured	1147.4	51.6%
Unsecured	807.0	36.3%
	1954.4	**87.8%**
Total	**2225.0**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – The SSREITSP'18s and 19s are trading below par at 99 and 97.5 respectively. Whilst the issuer credit profile is becoming more challenging, we think technical factors are supportive on the upside. The issuer was most recently rated at BB+ (withdrawn since June 2016).

Issuer Profile: Negative

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **SSREITSP**

Background

Listed in 2010, Sabana Shari'ah Compliant Industrial REIT ("SSREIT") is an industrial REIT in Singapore, with total assets of SGD1.1bn as at 31 March 2016. SSREIT currently owns a portfolio of 21 properties in Singapore. The REIT is Sponsored by Vibrant Group Limited (previously Freight Links Group) which holds ~7% in the REIT. Jinquan Tong is the largest unitholder with ~8%. The REIT manager is 51% owned by the Sponsor, with the remainder owned by the senior management team and Atrium Capital Partners.

Sabana Shari'ah Compliant Industrial REIT

Key credit considerations

- **Decline in 1Q2016 profitability:** For the quarter ended March 2016 ("1Q2016"), SSREIT's gross revenue declined 6.9% to SGD23.6mn on the back of negative rental revisions for certain master leases renewals and property vacancy. Property expenses spiked by 25% as 3 properties were converted into multi-tenanted properties whilst 3 buildings were converted into non-triple net master lease tenancies, with the REIT bearing higher property tax and land rent expenses. Overall, net property income ("NPI") declined by 18.4% to SGD15.2mn. NPI as a proportion of gross revenue declined to only 64% vis-à-vis 73% in 1Q2015.

- **Occupancy improved from last quarter:** As at 31 March 2016, overall portfolio occupancy improved to 90% from 87.7% as at 31 December 2015, following SSREIT's efforts to maintain occupancy while taking a hit on lease rates. During the quarter, SSREIT also completed the sale of 200 Pandan Loop and 3 Kallang Way 2A. These two properties (~5% of portfolio value) reported occupancy levels of 53% and 100% respectively as at 31 December 2015.

- **Weighted Average Lease Expiry ("WALE") reliant on negotiation with Sponsor:** 8 of the 15 properties in the initial portfolio have an initial Master Lease of 5 years. 5 of these properties were leased to related companies of the Sponsor. One of these properties (ie: 218 Pandan Loop) has not been renewed and remains vacant. The Sponsor has expressed an interest to renew 3 properties which are due to expire in 4Q2016, and terms of renewal are currently under negotiations. We believe such leases, if successfully renewed, will be at lower NPI margins in light of the urgency and challenging sector-wide backdrop. As at 31 March 2016, 65% of SSREIT's portfolio by net lettable area ("NLA") will come due from 1 April 2016 to 31 December 2018 (71% observed as at 30 September 2015 for the forward looking 2.25 years). The REIT faces lumpy renewals in the immediate term with ~32% of NLA coming due within the next 9 months (knock-on effects from tenure arrangements entered into at time of IPO).

- **Asset concentration risk and asset corrosion:** SSREIT's portfolio continues to be concentrated on 151 Lorong Chuan, a high-tech industrial building with an asset valuation of SGD339.5mn (as at 31 December 2015), making up 31% of portfolio value. We estimate the building contributed ~24% to gross revenue in 1Q2016. Committed occupancy rate at the building was 87.4% as at 31 December 2015, falling from 91.7% as at 31 December 2014 post conversion into a multi-tenanted building. As at 31 March 2016, SSREIT's portfolio value amounted to SGD1.09bn, falling 13% from 31 March 2015. Taking out the impact of the two properties sold in 1Q2016, portfolio value have fallen ~10%. 5 properties saw valuation declined by more than 20% as at 31 December 2015 against the prior year.

- **Credit profile:** Despite the fall in asset value, SSREIT managed to reduce its aggregate leverage to 39.6% vis-à-vis 41.7% as at 31 December 2015. Following the sale of the two properties, SSREIT received SGD54.6m and paid down SGD41.5mn of borrowings. In light of the decline in profitability, SSREIT's EBITDA / (Gross interest) declined to 2.5x from 3.1x in 1Q2015. We estimate that SSREIT can tolerate a fall in NPI to ~SGD9mn before breaching its covenanted 1.5x. SSREIT has SGD105.9m in short term debt, of which SGD98mn is maturing in November 2016. The REIT is currently in refinancing discussions with lending banks. As at 31 March 2016, SSREIT has SGD22.9mn in cash and SGD81.5mn in undrawn revolving facilities. Unencumbered assets were SGD322.8mn as at 31 March 2016, representing 30% of its portfolio value. Our base case remains that SSREIT is able to refinance the debt coming due, albeit at a higher cost of funding. We initiate coverage of SSREIT at Negative issuer rating.

Sabana Shari'ah Compliant Industrial Trust

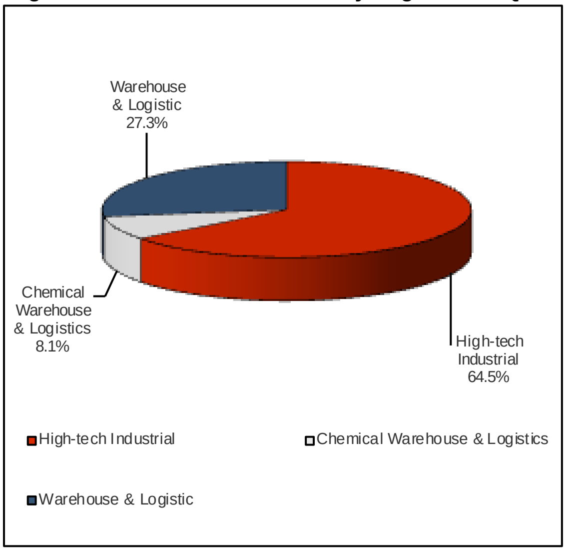
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	100.3	100.8	23.6
EBITDA	65.0	62.9	13.3
EBIT	63.6	62.4	13.3
Gross interest expense	24.6	21.5	5.3
Profit Before Tax	36.9	-73.4	6.6
Net profit	36.9	-73.4	6.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	12.3	10.4	22.9
Total assets	1,281.7	1,165.4	1,124.1
Gross debt	478.8	481.1	440.1
Net debt	466.6	470.6	417.3
Shareholders' equity	772.6	653.7	650.5
Total capitalization	1,251.4	1,134.8	1,090.6
Net capitalization	1,239.1	1,124.4	1,067.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	38.3	-73.0	6.6
CFO	68.4	70.0	16.0
Capex	1.2	1.5	0.5
Acquisitions	32.5	0.0	0.0
Disposals	0.0	0.0	0.0
Dividends	48.1	50.4	11.0
Free Cash Flow (FCF)	32.3	65.6	14.5
FCF Adjusted	80.4	116.0	25.5
Key Ratios			
EBITDA margin (%)	64.8	62.4	56.2
Net margin (%)	36.8	-72.8	28.1
Gross debt to EBITDA (x)	7.4	7.7	8.3
Net debt to EBITDA (x)	7.2	7.5	7.9
Gross Debt to Equity (x)	0.62	0.74	0.68
Net Debt to Equity (x)	0.60	0.72	0.64
Gross debt/total capitalisation (%)	38.3	42.4	40.4
Net debt/net capitalisation (%)	37.7	41.9	39.1
Cash/current borrowings (x)	0.0	0.0	0.0
EBITDA/Total Interest (x)	2.6	2.9	2.5

Source: Company, OCBC estimates

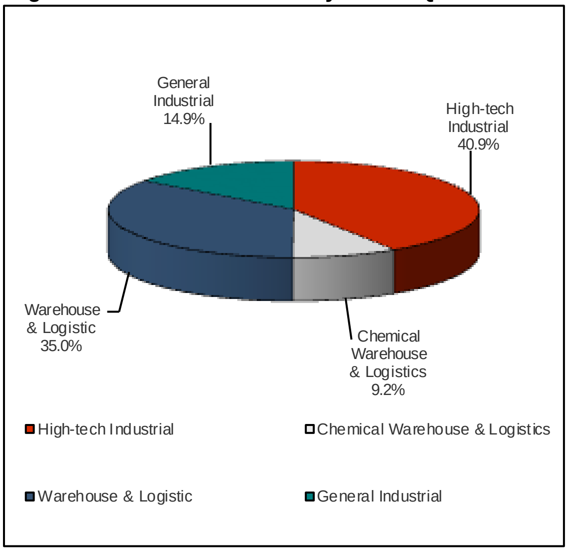
* *FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 1Q2016



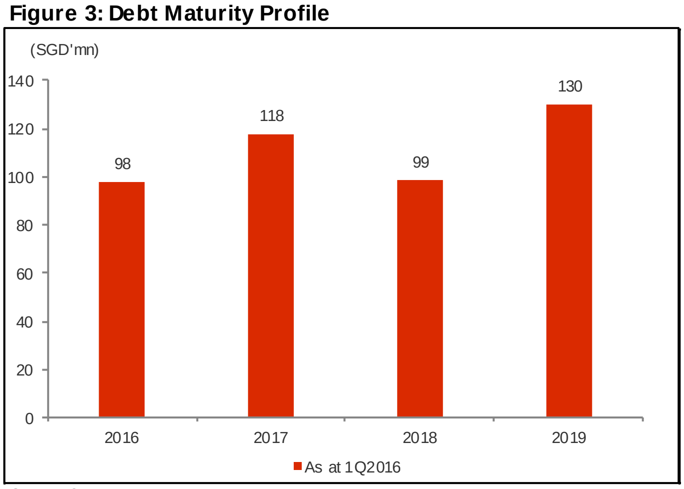
Source: Company

Figure 2: Asset breakdown by NLA - 1Q2016



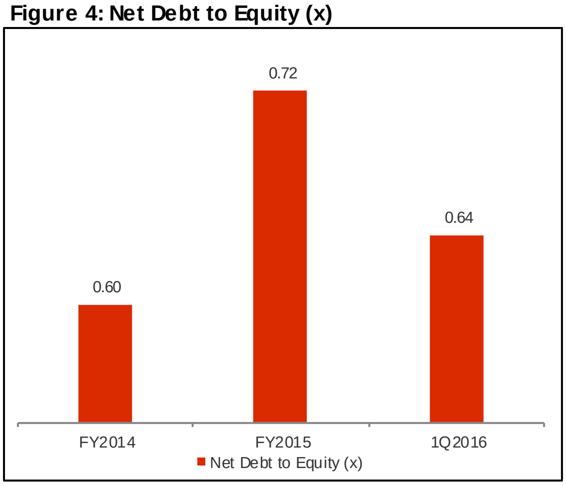
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Sembcorp Industries Ltd

Credit Outlook –

We see better value in perpetual securities issued by REITS, such as KREIT, particularly given sustained pressure at Sembcorp Marine

Issuer Rating: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **SCISP**

Company profile

Sembcorp Industries Ltd ("SCI") was formed via the merger of Singapore Technologies Industrial Corporation and Sembawang Corporation in 1998. Today, SCI is focused on utilities (energy and water solutions), offshore marine (via its 61% stake in listed Sembcorp Marine ("SMM")) and urban development (focused on the development of industrial parks across the region). SCI has over 7,000 employees and generated SGD9.5bn in total revenue for 2015. Temasek Holdings is the largest shareholder of SCI, holding 49.5% stake.

Key credit considerations

- **O&M headlines dominated:** The slide of Sete Brasil, SCI's largest offshore marine ("O&M") client, towards bankruptcy (Sete Brasil filed in April 2016) dominated headlines. It was reported that SGD3.2bn of SMM's O&M order backlog was attributed to Sete Brasil, and that SMM had significant receivables owed by Sete Brasil. Aside from this, SMM also faced other client issues, such as the order cancellation by Marco Polo Marine, and delivery delay by both North Atlantic Drilling as well as Perisai Petroleum. As a result, SMM took SGD609mn of impairment charges and provisions during 4Q2015, with SGD329mn specifically due to its Sete Brasil exposure. For 1Q2016, no further impairments / provisions were taken, with management indicating that they believe prior steps taken to be adequate. That said, we believe that the Sete Brasil drillship orders in SCI's O&M order book of SGD9.7bn (1Q2016) are at risk.

- **Still early for utilities to take up the slack:** For 2015, SCI reported SGD9.5bn in total revenue, down 12.4% y/y. Both its utilities and O&M business saw revenue declines (of 12.8% and 14.8% respectively), with the former facing weakness in the domestic power generation business while the latter facing the challenging oil & gas environment depressing demand for newbuild rigs. 1Q2016 revenue declined 18.9% y/y to SGD1.9bn, with the O&M segment falling 29.5% y/y to SGD918.4mn. O&M revenue is now ~50% of total revenue, compared to ~54% (end-2014). 1Q2016 utilities revenue also declined 6.6% y/y to SGD895.0mn, again due to the domestic power business. Spark spreads continue to be pressured by competition while HSFO prices were also lower impacting SembGas. Looking forward though, things look on track with more of SCI's international utilities going operational. For example, SCI increased their stake in Sembcorp Gayatri Power Ltd ("SGPL") from 49% to 65%, and will be increasing the stake to 88% in 2Q2016. Net profit contribution from the O&M segment fell from 45% of total net profit (1Q2015) to 31% for 1Q2016 and we can expect the trend to persist especially given the ramp up in utilities.

- **Improvements to operating cash flow**: Including interest expense, operating cash flow was negative SGD16.6mn for 1Q2016 (4Q2015: -SGD742.1mn). O&M segment was the cash drag, with SMM generating negative SGD72.9mn in operating cash flow due to working capital needs for on-going rig building projects. SCI spent SGD192.9mn on capex as well during the quarter, with SMM accounting for roughly half of the spending (its Tuas expansion and Brazil yard). As such, FCF was still negative SGD209.5mn for the quarter, though markedly better than the negative ~SGD1bn seen in 4Q2015. Acquisitions (such as the increase in stake in SGPL) were SGD41.4mn use of cash. These were funded by ~SGD610mn increase in net borrowings (SCI added to cash balance).

- **Utilities acquisition impacted leverage profile**: With SCI now consolidating acquisitions such as SGPL, SCI's total assets increased from SGD19.9bn (end-2015) to SGD21.6bn (end-1Q2016). Total liabilities increased as well from SGD11.9bn (end-2015) to SGD13.4bn (end-1Q2016). This was the main driver for gross borrowings to increase by 24.6% q/q to SGD8.5bn (SGD1.2bn in additional project finance debt). As such, net gearing jumped higher from 65% to 80% q/q. Net debt / EBITDA improved though to 5.9x (2015: 8.5x), as 4Q2015 impairments / provisions impacted EBITDA. The improvements to EBITDA also helped increase interest coverage from 2.6x (2015) to 3.2x (1Q2016). Cash / current borrowings now stand at 1.2x due to the increase in cash balance, helping to alleviate some liquidity pressure. We continue to believe that the deterioration to SCI's credit profile will be more muted relative to 2014 and 2015 and hence will retain our Issuer Profile at **Neutral.**

Sembcorp Industries

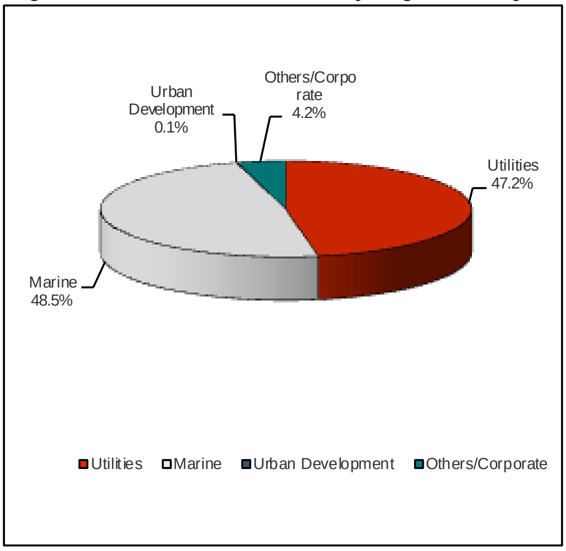
Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	10,894.7	9,544.6	1,895.2
EBITDA	1,377.0	612.2	279.7
EBIT	1,062.2	207.3	178.9
Gross interest expense	70.1	238.0	86.3
Profit Before Tax	1,246.4	426.3	160.9
Net profit	801.1	548.9	107.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,661.4	1,606.5	1,927.1
Total assets	17,176.4	19,915.5	21,563.4
Gross debt	4,841.1	6,832.9	8,510.5
Net debt	3,179.6	5,226.5	6,583.5
Shareholders' equity	7,232.3	8,043.5	8,204.2
Total capitalization	12,073.3	14,876.4	16,714.7
Net capitalization	10,411.9	13,270.0	14,787.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	1,115.9	953.8	207.8
CFO	-119.8	-1,061.8	-16.6
Capex	1,337.8	1,392.8	192.9
Acquisitions	267.6	640.6	43.9
Disposals	23.4	704.8	3.4
Dividend	549.1	439.6	12.5
Free Cash Flow (FCF)	-1,457.7	-2,454.5	-209.5
FCF adjusted	-2,251.0	-2,829.9	-262.5
Key Ratios			
EBITDA margin (%)	12.6	6.4	14.8
Net margin (%)	7.4	5.8	5.6
Gross debt to EBITDA (x)	3.5	11.2	7.6
Net debt to EBITDA (x)	2.3	8.5	5.9
Gross Debt to Equity (x)	0.67	0.85	1.04
Net Debt to Equity (x)	0.44	0.65	0.80
Gross debt/total capitalisation (%)	40.1	45.9	50.9
Net debt/net capitalisation (%)	30.5	39.4	44.5
Cash/current borrowings (x)	1.5	0.9	1.2
EBITDA/Total Interest (x)	19.6	2.6	3.2

Source: Company, OCBC estimates

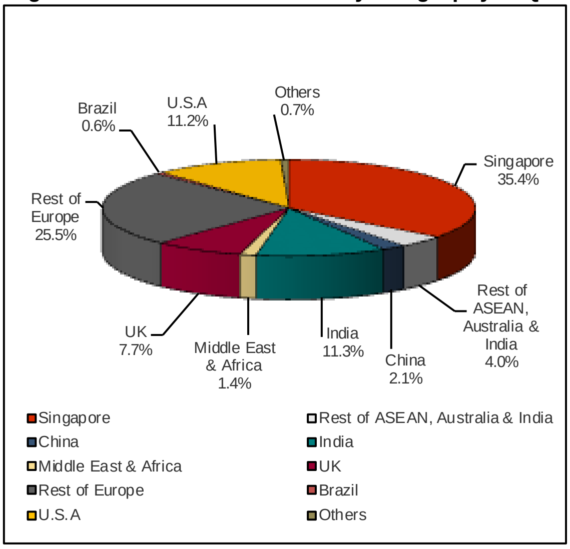
* *FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 1Q2016



Source: Company

Figure 2: Revenue breakdown by Geography - 1Q2016



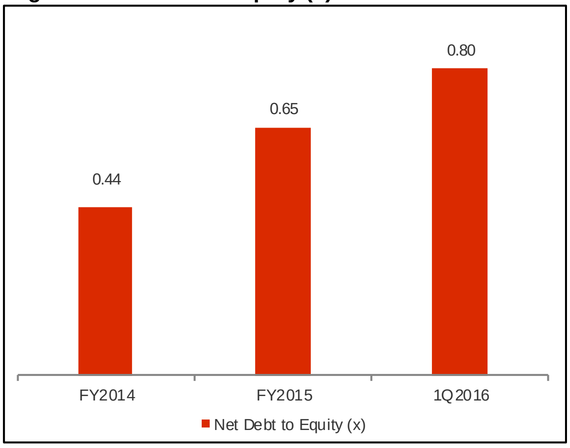
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	795.4	9.3%
Unsecured	825.0	9.7%
	1620.4	**19.0%**
Amount repayable after a year		
Secured	2656.3	31.2%
Unsecured	4233.8	49.7%
	6890.1	**81.0%**
Total	**8510.5**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Singapore Post Ltd

Credit Outlook –

We are Underweight both the SPOST'20s and SPOST'49c22s, believing that both bonds trade rich. For rated paper, REITs offer better risk-reward.

Issuer Profile: Neutral

S&P: A-/Stable
Moody's: Not rated
Fitch: Not rated

Ticker: **SPOST**

Company profile

Singapore Post Ltd ("SPOST") is the incumbent mail operator in Singapore and was granted the Public Postal License in 1992. Other business segments SPOST participates in include logistics and e-commerce solutions. Through Singapore Telecommunications Ltd's 23% ownership, Temasek Holdings has an indirect ownership of SPOST. In 2014, Alibaba Group Holdings made a strategic acquisition of ~10% of SPOST. In July 2015, Alibaba announced subscribing to more new shares in SPOST, which will increase their stake to ~15%.

Key credit considerations

- **Negative headlines over corporate governance add uncertainty:** A special audit was initiated over potential corporate governance lapses, as well as potential conflicts of interest by one of SPOST's directors over M&A transactions. During this time, SPOST has seen significant changes in its management team and board. There has been no replacement yet for the role of Group CEO, after the former CEO stepped down at the end of 2015. Furthermore, the Chairman, Deputy Chairman, CFO, COO as well as implicated director have all retired / resigned / changed over the last twelve months. Since then, the current Chairman of Singtel (largest SPOST shareholder), Simon Israel, has been appointed as Chairman of SPOST. We believe that the current distractions over resolving corporate governance concerns, vacant executive positions, and numerous acquisitions that SPOST has made will make integration and execution a challenge for the board and the management team in the immediate future.

- **Inorganic push towards overseas revenue boosted growth**: For FY2016 (ending March 2016), SPOST reported revenue increasing sharply by 25.2% y/y to SGD1.15bn, largely due to acquisitions made in the logistics and retail & eCommerce business segments. Examples include the consolidation of Trade Global in November 2015 and Jagged Peak in March 2016. Overseas revenue is now 44% of total revenue (up from 32.5% for FY2015). In fact, we expect overseas revenue to exceed domestic revenue in the near future. The mail segment saw more muted growth, with segment revenue flat at -0.1% y/y. Adjusting for divestments though, segment revenue would have been higher by 6.7% y/y. For 4QFY2016, the mail segment is now just 36% of total revenue (4QFY2015: 44%).

- **Segment shift pressures margins**: For 4QFY2016, mail segment operating margin was poorer at 27.5% (4QFY2015: 29.9%) due to lower domestic letter mail volumes. Logistics segment operating margin was stronger at 6.9% (4QFY2015: 3.7%) partly driven by synergies from the acquisitions made. Finally, retail & eCommerce segment operating margin was -5.5% (4QFY2015: 10.4%), with the loss driven partly by customer acquisition costs due to recent acquisitions. Despite operating margin pressure, net margin jumped to 33.7% (4QFY2015: 14.5%), driven by divestment gains (GD Express Carrier Bhd was sold for SGD78.4mn, with SPOST booking ~SGD64mn in gains). The cash proceeds from the divestment were used to reduce gross debt. Looking forward, turning around and integrating acquisitions made will be crucial for earnings as Trade Global (acquired for SGD236.1mn) was still loss making (net loss of SGD1.5mn for FY2016).

- **Cash use elevated for FY2016**: SPOST generated SGD122.9mn of operating cash flow for FY2016 (including interest service) but spent SGD279.7mn on capex (including redevelopment charges for SPC Mall) and a further SGD321.8 on acquisitions. SPOST also paid out SGD181.9mn in dividends / distributions. The cash gap was funded largely by its cash balance (down 78% to SGD126.6mn y/y) as well as additional borrowings. This drove SPOST from a net cash position (FY2015) to a net gearing of 10%. S&P downgraded SPOST's credit rating from "A" to "A-" with a stable outlook. S&P mentioned concerns over EBITDA margin compression and product shift away from the declining stable domestic postal business to the more volatile, lower-margin e-commerce and logistics business The second Alibaba investment (which would have injected fresh liquidity) has been delayed yet again to 30/10/16. Though management has indicated a deceleration of M&A activity going forward, and that we consider SPOST's absolute amount of leverage to be low, we will continue to hold SPOST's issuer profile at Neutral, with the expectation that the rotation away from the more profitable mail segment would limit improvements to SPOST's credit profile.

Singapore Post Ltd

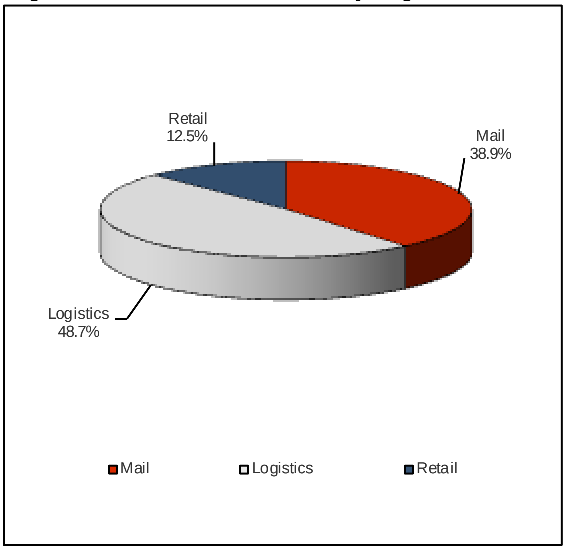
Table 1: Summary Financials

Year End 31st Mar	FY2014	FY2015	FY2016
Income Statement (SGD'mn)			
Revenue	821.1	919.6	1,151.5
EBITDA	170.9	169.1	159.8
EBIT	140.6	134.6	128.0
Gross interest expense	6.7	4.4	10.4
Profit Before Tax	227.7	192.5	287.2
Net profit	192.0	157.6	248.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	404.4	584.1	126.6
Total assets	1,740.5	2,197.8	2,415.8
Gross debt	234.1	238.3	280.3
Net debt	-170.3	-345.8	153.6
Shareholders' equity	1,114.5	1,467.7	1,561.5
Total capitalization	1,348.6	1,706.1	1,841.8
Net capitalization	944.2	1,121.9	1,715.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	222.2	192.2	280.8
CFO	229.5	230.2	122.9
Capex	37.8	104.4	279.7
Acquisitions	3.0	120.7	321.8
Disposals	1.4	11.0	131.4
Dividend	133.6	143.0	181.9
Free Cash Flow (FCF)	191.8	125.8	-156.8
FCF adjusted	56.5	-126.8	-529.1
Key Ratios			
EBITDA margin (%)	20.8	18.4	13.9
Net margin (%)	23.4	17.1	21.6
Gross debt to EBITDA (x)	1.4	1.4	1.8
Net debt to EBITDA (x)	-1.0	-2.0	1.0
Gross Debt to Equity (x)	0.21	-2.00	0.18
Net Debt to Equity (x)	-0.15	-0.24	0.10
Gross debt/total capitalisation (%)	17.4	14.0	15.2
Net debt/net capitalisation (%)	-18.0	-30.8	9.0
Cash/current borrowings (x)	28.8	34.5	1.8
EBITDA/Total Interest (x)	25.6	38.7	15.4

Source: Company, OCBC estimates

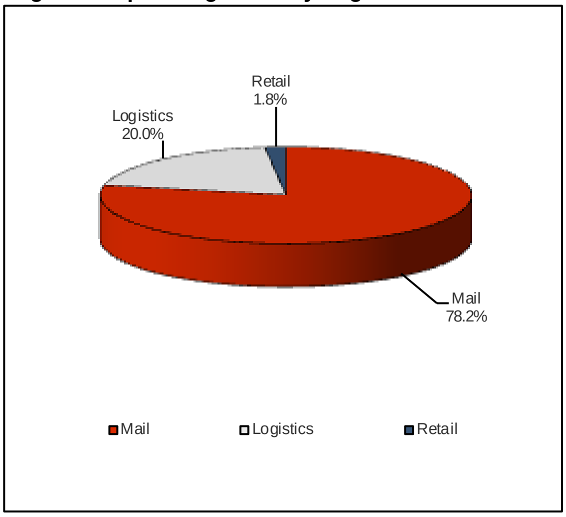
** FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - FY2016



Source: Company

Figure 2: Operating Profit by Segment - FY2016



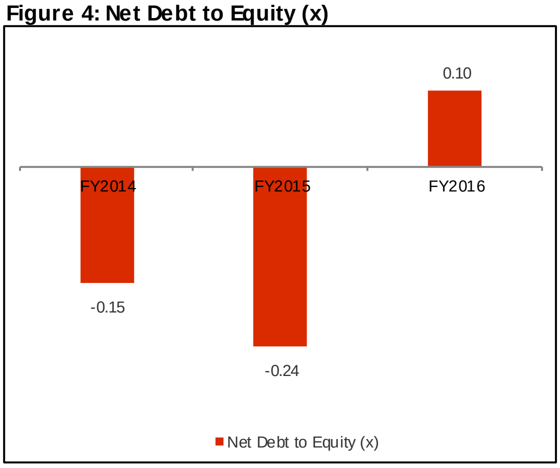
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	11.7	4.2%
Unsecured	59.4	21.2%
	71.1	**25.4%**
Amount repayable after a year		
Secured	6.1	2.2%
Unsecured	203.0	72.4%
	209.2	**74.6%**
Total	**280.3**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We prefer SBREITSP'18s over the ARTSP'18s which offer a yield-pick up of 27 bps for a bond maturing 6 months earlier. Both are rated at BBB-. SBREITSP'21s provide an 88 bps yield pickup against AREITSP'21s, which we think is sufficient compensation for its lower credit rating given AREIT's weakened credit profile.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa3/Stable

Fitch: Not rated

Ticker: **SBREITSP**

Background

Listed in 2013, Soilbuild Business Space REIT ("SBREIT") is an industrial REIT in Singapore, with total assets of about SGD1.2bn as at 31 March 2016. SBREIT currently owns a portfolio of 11 properties in Singapore (in the process of acquiring one more) The REIT is Sponsored by Soilbuild Group Holdings Ltd. ("Soilbuild") which is wholly-owned by Lim Chap Huat. Lim Chap Huat is the REIT's largest unitholder with ~25% stake and controlling shareholder of the REIT Manager. Other major unitholders are Schroders and Jinquan Tong.

Soilbuild Business Space REIT

Key credit considerations

- **1Q2016 growth driven by the contribution from Technics Building:** For the quarter ended 31 March 2016, gross revenue increased by 8.2% to SGD20.1mn driven by the contribution from Technics Building, a property acquired in mid-2015. We estimate that organic growth declined by 2.4%, attributed to the reduction in revenue from Tuas Connection and West Park BizCentral. Net property income as a proportion of gross revenue held steady at ~85%. Solaris (the anchor property of SBREIT) is leased to a subsidiary of the Sponsor ("Soilbuild Group") as Master Leasee.

- **Occupancy and Weighted Average Lease Expiry ("WALE"):** On an aggregate portfolio level, SBREIT achieved occupancy of 94.8% as at 31 March 2016, falling from full occupancy as at 31 March 2015 due to two multi-tenanted properties which saw weaker occupancy on the back of lease expiries. WALE (by gross rental income) was 4.7 years as at 31 March 2016. 59% of leases by gross rental income will expire from 1 April 2016 to 31 December 2018 driven by the Solaris Master Lease which will expire in August 2018 and there is no option for renewal. We expect expenses to rise at SBREIT if, and when Solaris is leased directly to third parties. We take some comfort that Solaris is a high quality building with full underlying occupancy and ~37% of the underlying sub-tenancies expiring only after 2018.

- **Tenant concentration risk and reliance on Sponsor:** SBREIT's main tenant is Soilbuild Group and along with the Master Lease on Solaris, it is also a tenant at West Park BizCentral, contributing 24.2% of gross rental income as at 31 December 2015. In June 2016, SBREIT announced that it is proposing to acquire Bukit Batok Connection from the Soilbuild Group for ~SGD100mn under a sales-and-leaseback transaction. We estimate that contribution from Soilbuild Group will rise to ~34% post-acquisition (and assuming Technics Building is non-contributing). SBREIT's tenancy profile is more diversified, factoring sub-leases, 8 tenants makeup ~30% of gross rental income (median of 4% each). SBREIT is relatively concentrated to the marine, offshore, oil and gas sector, which makes up 23.5% of gross rental income in 1Q2015. SBREIT commenced legal proceedings against a tenant (a subsidiary of Technics Oil & Gas Limited ("Technics Group")) to claim rent in arrears and other sums. While SBREIT has successfully drawn down on its security deposit amounting to SGD11.8mn (covering rent for 1.5 years), our base case remains Technics Building will remain vacant for rest of the year.

- **Defensible credit profile:** In April 2016, SBREIT issued a second tranche of bonds amounting to SGD100mn to refinance a bank loan. With the refinancing, weighted average debt maturity has been lengthened to 3.6 years (31 March 2016: 3.0 years). Unencumbered investment properties amounted to ~SGD830mn (70% of total investment properties). In 1Q2016, EBITDA/(Gross Interest) coverage declined somewhat to 4.7x (1Q2015: 5.3x) mainly due to higher notional interest expenses on a SGD55m interest-free loan extended by the Sponsor to the REIT and higher debt draw down during the period. The next major refinancing will occur in August 2018 when the SGD100mn bond and SGD55mn in interest free loan comes due. In early 2015, a settlement between SBREIT and JTC saw JTC agreeing to accept an upfront land premium payment amounting to SGD74mn for Solaris. This was agreed to be split SGD19mn (Sponsor) and SGD55mn borne by SBREIT with the Sponsor extending an interest-free loan of SGD55mn to SBREIT to fund this JTC payment. As at 31 March 2016, aggregate leverage at SBREIT (including the interest-free loan) was a healthy 36%, declining somewhat from 38.5% as at 31 March 2015. Assuming Bukit Batok connection being fully debt funded, aggregate leverage will go up to 41%. We initiate our coverage of SBREIT at Neutral issuer rating.

Soilbuild Business Space REIT

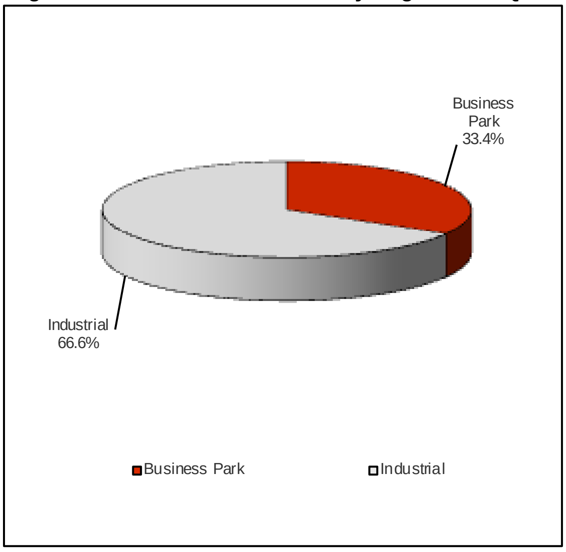
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	68.1	79.3	20.1
EBITDA	50.8	60.0	15.4
EBIT	50.8	60.0	15.4
Gross interest expense	9.7	13.5	3.3
Profit Before Tax	42.4	51.7	12.4
Net profit	42.4	51.7	12.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	21.0	16.8	16.0
Total assets	1,054.0	1,214.5	1,216.3
Gross debt	368.9	398.5	428.7
Net debt	348.0	381.8	412.7
Shareholders' equity	650.8	746.0	743.4
Total capitalization	1,019.7	1,144.5	1,172.1
Net capitalization	998.8	1,127.7	1,156.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	42.4	51.7	12.4
CFO	53.6	61.6	14.3
Capex	94.8	123.6	31.9
Acquisitions	0.0	0.0	0.0
Disposals	0.0	0.0	0.0
Dividends	49.6	55.7	15.1
Free Cash Flow (FCF)	-41.2	-62.0	-17.6
FCF Adjusted	-90.7	-235.2	-98.0
Key Ratios			
EBITDA margin (%)	74.6	75.6	76.6
Net margin (%)	62.3	65.1	61.4
Gross debt to EBITDA (x)	7.3	6.6	6.9
Net debt to EBITDA (x)	6.8	6.4	6.7
Gross Debt to Equity (x)	0.57	0.53	0.58
Net Debt to Equity (x)	0.53	0.51	0.56
Gross debt/total capitalisation (%)	36.2	34.8	36.6
Net debt/net capitalisation (%)	34.8	33.9	35.7
Cash/current borrowings (x)	0.2	NM	NM
EBITDA/Total Interest (x)	5.3	4.4	4.7

Source: Company, OCBC estimates

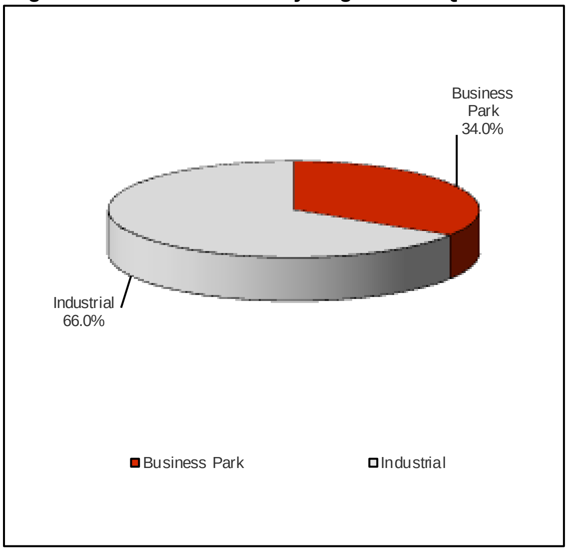
* *FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 1Q2016



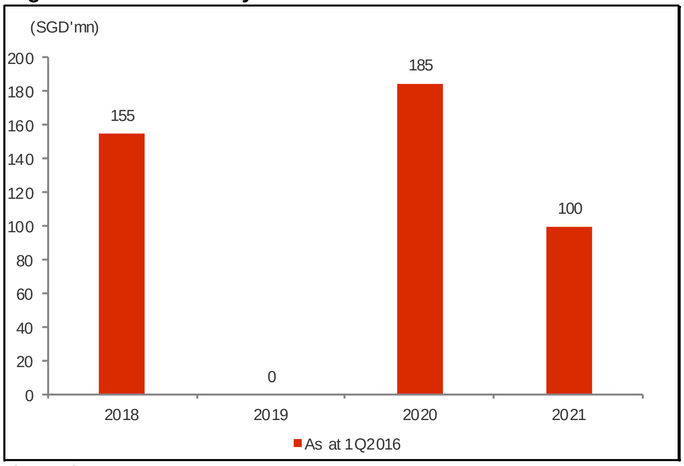
Source: Company

Figure 2: NPI breakdown by Segment - 1Q2016



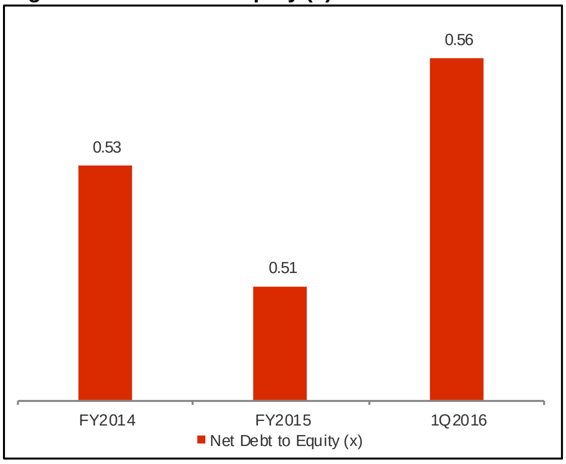
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Starhill Global REIT

Credit Outlook –

We think SGREIT's bonds are trading rich and prefer the FCT curve.

Issuer Profile: Neutral

S&P: BBB+/Stable

Moody's: Not rated

Fitch: Not rated

Ticker: **SGREIT**

Background

Listed on the SGX in September 2005, Starhill Global REIT ("SGREIT") invests primarily in real estate used for retail and office purposes, both in Singapore and overseas. It owns 12 mid to high-end retail properties in 5 countries, valued at SGD2.9bn as at 30 Jun 15. The properties include Wisma Atria (74.2% of strata lots) and Ngee Ann City (27.2% of strata lots) in Singapore, Starhill Gallery and Lot 10 in Malaysia, and 8 other malls in China, Australia and Japan. YTL Corp Bhd is SGREIT's sponsor and largest unitholder with a 35.8% stake.

Key credit considerations

- **Australia acquisition masked portfolio weakness:** 9MFY2016 (end-Mar) NPI grew 9.2% y/y to SGD128.9mn, driven mainly by the contribution of Myer Centre Adelaide (acquired in May 2015). Excluding NPI generated from Australia, NPI would have declined 2.6% y/y. The decline in portfolio NPI (ex-Australia) was largely driven by the 2.1% decline in portfolio revenue (ex-Australia) during 9MFY2016. NPI was also pressured by higher property expenses (+35.8% y/y) such has higher property management fees and property taxes (partly driven by the expansion of the portfolio resulting from the Myer Centre Adelaide acquisition).

- **Revenue shrinkage for various factors**: For 9MFY2016, revenue growth was seen only in Australia (+163.3%, due to the acquisition) and Singapore (+1.8%). These two market segments contributed ~84% of portfolio revenue. That said, the other markets faced contraction: Malaysia (-12.2%, driven by depreciation of the MYR against SGD), Chengdu (-28.2%, due to the anti-corruption drive as well as competition) and Japan (-0.4%, due to an asset divestment during the quarter). 3QFY2016 results reflect the softness seen across Singapore retail assets in general, with Wisma Atria's retail revenue (26.3% of portfolio revenue) lower by 3.8% y/y. This was attributed to lower occupancy, which we believe to be caused partially by the ongoing AEI of space owned by Isetan (~25%). Given the fall in Australia occupancies in 3QFY2016, we believe that adjusting for the acquisition, revenue would have been lower as well.

- **Occupancy fell sharply in 3QFY2016, lease expiries manageable:** Portfolio occupancy fell to 95.6% (2QFY2016: 98.0%). This was driven by the sharp fall in Australia occupancies to 89.5% (2QFY2016: 95.8%). Management indicated that there was a lease expiry of one office tenant at Myer Centre Adelaide, as well as lease terminations relating to the planned AEI at Plaza Arcade. On the bright side, master leases remain a large part of SGREIT's exposure at 43.6% of gross portfolio rent. Negotiations over Ngee Ann City's Toshin master lease rent review (lease expires in 2025) completed in June, with base rents increasing by 5.5% and valid for the next three years (the previous increase was 6.7%). SGREIT's master lease agreement for its Malaysian assets was also renewed for another three years with +6.7% rental uplift. These extensions helped SGREIT extend its WALE (by NLA) from 6.4 years (end-2QFY2016) to 7.3 years (end-3QFY2016). In aggregate, SGREIT has 11.1% of leases (by NLA) expiring by end-FY2017.

- **Portfolio optimization continues:** SGREIT divested one of its Japanese assets (the Roppongi Terzo, 0.9% of portfolio value) in January 2016. This was the third Japanese asset that SGREIT divested, with the overall remaining asset in Japan worth 2.0% of total portfolio. More divestments could occur as part of SGREIT's efforts to streamline its portfolio.

- **Credit profile and liquidity manageable:** Aggregate leverage held steady q/q at 35.4% (2QFY2016: 35.7%) due to divestment driven debt deduction, but interest coverage worsened to 3.7x (2QFY2016: 4.0x) due to weakened EBITDA. SGREIT's debt remains 100% fixed / hedged with an average interest cost of 3.15%. Weighted average debt maturity worsened slightly q/q to 3.3 years (2QFY2016: 3.6 years) though it's worth noting that SGREIT has no meaningful debt maturities till end June 2017. Looking forward, SGREIT's revenue will face some pressure due to softness in Singapore and Chengdu, though portfolio performance is anchored by the master leases. We retain a Neutral Issuer Profile for now.

Starhill Global Real Estate Investment Trust

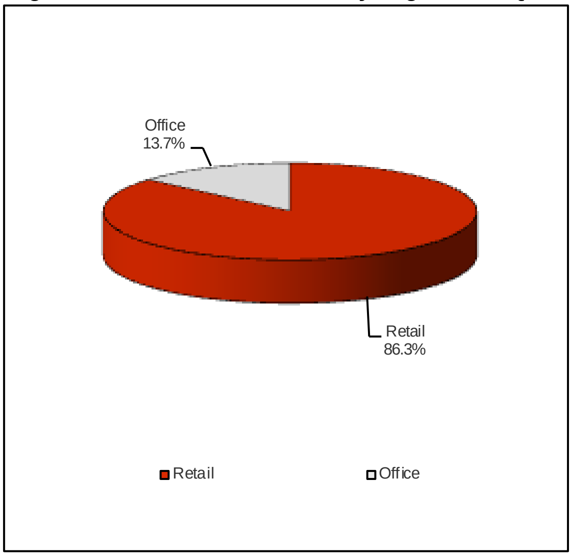
Table 1: Summary Financials

Year Ended 30th June	FY2014	FY14/15*	3Q2016
Income Statement (SGD'mn)			
Revenue	195.1	294.8	53.6
EBITDA	140.4	211.8	36.9
EBIT	139.8	210.8	36.8
Gross interest expense	30.6	46.9	10.0
Profit Before Tax	144.6	174.0	17.4
Net profit	143.2	174.5	17.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	81.6	51.6	70.3
Total assets	2,963.4	3,193.4	3,171.2
Gross debt	843.4	1,129.2	1,119.7
Net debt	761.7	1,077.7	1,049.4
Shareholders' equity	2,033.2	1,982.8	1,965.9
Total capitalization	2,876.6	3,112.0	3,085.6
Net capitalization	2,794.9	3,060.5	3,015.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	143.9	175.4	17.3
CFO	141.3	212.4	37.3
Capex	1.8	3.9	0.5
Acquisitions	0.0	325.9	0.0
Disposals	12.4	12.4	29.1
Dividends	108.5	163.9	28.8
Free Cash Flow (FCF)	139.4	208.5	36.8
FCF adjusted	43.4	-268.9	37.1
Key Ratios			
EBITDA margin (%)	72.0	71.9	68.8
Net margin (%)	73.4	59.2	32.1
Gross debt to EBITDA (x)	6.0	8.0	7.3
Net debt to EBITDA (x)	5.4	7.6	6.9
Gross Debt to Equity (x)	0.41	0.57	0.57
Net Debt to Equity (x)	0.37	0.54	0.53
Gross debt/total capitalisation (%)	29.3	36.3	36.3
Net debt/net capitalisation (%)	27.3	35.2	34.8
Cash/current borrowings (x)	0.7	0.4	7.4
EBITDA/Total Interest (x)	4.6	4.5	3.7

Source: Company, OCBC estimates

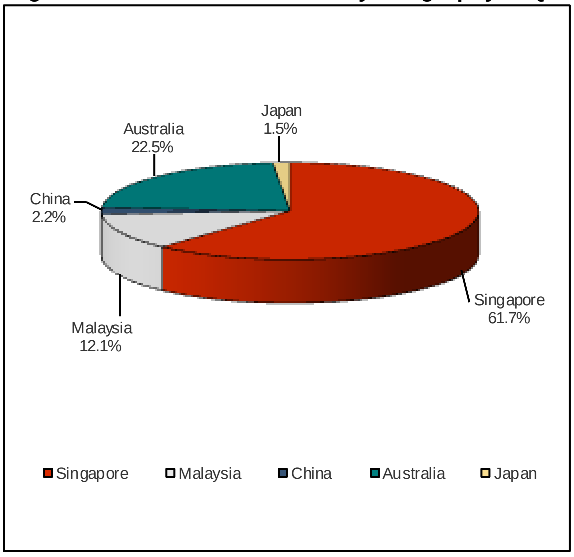
* *FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 3Q2016



Source: Company

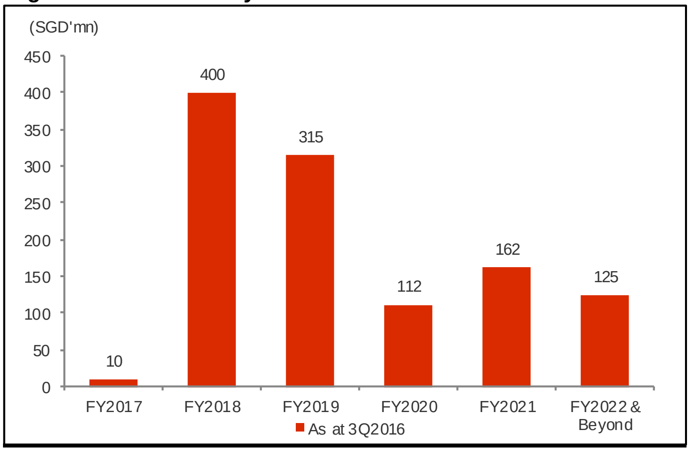
Figure 2: Revenue breakdown by Geography - 3Q2016



Source: Company

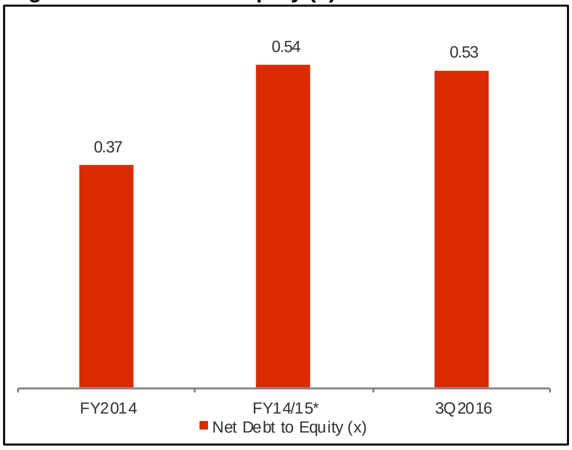
** In Mar 2014, Starhill Global REIT changed financial yr-end from 31/12 to 30/06*

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Suntec REIT

Credit Outlook –

The SUNSP'18s and SUNSP'20s have seen a decent rally since the beginning of the year. We now believe the bonds to be fairly valued and will rate them Neutral.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa2/Stable

Fitch: Not rated

Ticker: **SUNSP**

Background

Listed on the SGX in 2004, Suntec REIT ("SUN") invests in real estates used for retail and office purposes. SUN's portfolio includes "Suntec City" (Suntec City Mall, units in Towers 1–3, and whole of Towers 4 & 5), a 60.8%-interest in Suntec Singapore Convention & Exhibition Centre ("Suntec Singapore"), a one-third interest in One Raffles Quay ("ORQ"), and a one-third interest in Marina Bay Financial Centre Towers 1 & 2 and Marina Bay Link Mall ("MBFC properties"). SUN holds a 100% interest in 177 Pacific Highway, an office development in Sydney.

Key credit considerations

- **Headline numbers need adjustments:** Portfolio gross revenue and NPI for 1Q2016 grew 5.2% and 5.1% y/y to SGD78.3mn and SGD54.0mn respectively. The numbers are however not strictly comparable as the Suntec Phase 3 AEI was ramped up from 2Q2015 onwards, while the Park Mall divestment was completed in December 2015 (with SUN retaining 30% interest in the JV developing Park Mall). Excluding Suntec City Retail and Park Mall performance though, performance was still fair, with revenue up 7.2% y/y and NPI up 5.5% y/y. Adjusting further for the 38,000sqft of Suntec office space acquired in November 2015, we estimate that revenue would have still increased by ~5%. Property expenses were higher as the decline in property tax due to the Park Mall divestment was insufficient to offset the increase in operating expenses for Suntec Singapore. Distributable income (excluding return of capital), was flat y/y though, due to higher finance expense (up ~60%) resulting from higher interest costs and bond redemption costs.

- **Softening trend in Suntec office performance observed**: SUN was not immune to the slowdown seen in Singapore office assets. Office occupancy for its core Suntec asset (last valued at SGD5.0bn, including Suntec City Mall) has fallen to 97.5% (4Q2015: 99.3%), the lowest level since 2Q2010. Though SUN indicated that this was stronger than the Core CBD Grade A office average of 95.0%, we have also observed a declining trend for lease rates, with quarter average monthly leases secured for their Suntec office falling from SGD9.24psf (1Q2015) to SGD8.86psf (4Q2015) and most recently to SGD8.67psf (1Q2016). This is consistent with our view that landlords would concede on lease rates in order to keep occupancy high. Going forward, given the significant supply of office assets coming online in 2016, we expect there to be further pressure on occupancy and lease rates. In mitigation, occupancy levels for ORQ and MBFC remain strong (with JVs profits up 7.3% y/y).

- **Occupancy up, lease rates down at Suntec City Mall:** Overall committed occupancy for Suntec City Mall improved further to 98.7% (end-2015: 98.0%). However, overall monthly committed passing rent (on a stabilised basis) for Suntec City Mall continued to decline, falling to SGD12.00psf (end-2015: SGD12.04psf, end-1H2015: SGD12.12psf, end-2014: SGD12.27psf. We have observed a fair number of pop-up stores on the ground floor of Phase 3 at the mall. Though these stores help support occupancy numbers, the tenure of the leases are much shorter (3 – 12 months), while lease rates tend to be lower. There could be opportunity for such stores to convert into more permanent storefronts though should traffic justify it.

- **Office lease expiries manageable, retail leases more challenged**: SUN managed to markedly reduce its office lease expiries for 2016 during 1Q2016, with only 6.0% of office NLA left to renew for the rest of 2016 (down from 14.9% end-2015). Office lease expiries for 2017 look manageable as well at 19.7% of NLA. Retail leases look challenging, with 23.1% of retail NLA still up for renewal for 2016 (SUN only managed to reduce it by 4ppt during 1Q2016). SUN has about 50% of its retail leases expiring in 2016 and 2017.

- **Credit profile improved, liquidity fair**: Aggregate leverage fell to 36.0% (end-2015: 36.7%), driven by the redemption of SGD275mn worth of convertible bonds during the quarter. This was partly funded by the proceeds of the partial Park Mall divestment. Interest coverage (including JV impact) fell q/q to 3.6x (end-2015: 4.1x), in part driven by higher financing cost of 2.92% (end-2015: 2.86%). SUN has manageable near-term maturities, with SGD250mn due in 2016 and SGD200mn due in 2017. As such, we believe that SUN is well-positioned to manage near-term industry weakness. We will retain our Neutral Issuer Profile on the issuer.

Suntec Real Estate Investment Trust

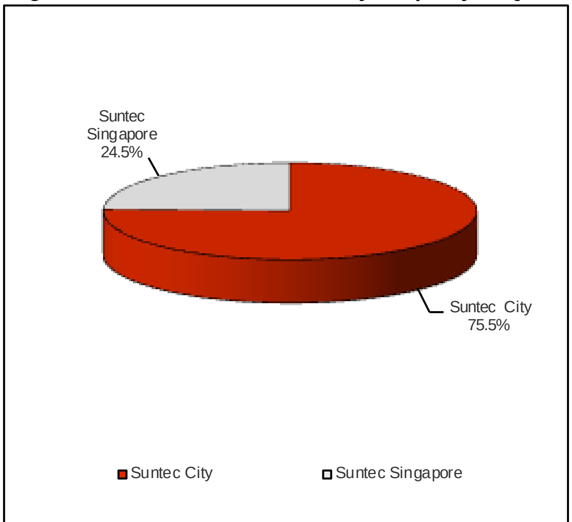
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	282.4	329.5	78.3
EBITDA	130.0	180.6	41.9
EBIT	114.4	170.1	41.7
Gross interest expense	75.6	96.0	34.6
Profit Before Tax	322.7	372.9	35.0
Net profit	317.4	354.1	32.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	149.5	445.3	168.7
Total assets	8,602.0	8,965.0	8,746.9
Gross debt	2,980.7	3,212.7	3,035.1
Net debt	2,831.1	2,767.4	2,866.4
Shareholders' equity	5,418.3	5,562.7	5,526.6
Total capitalization	8,399.0	8,775.4	8,561.7
Net capitalization	8,249.4	8,330.1	8,393.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	333.0	364.6	32.7
CFO	195.6	231.6	45.3
Capex	97.5	173.2	57.9
Acquisitions	0.0	105.7	0.0
Disposals	0.0	408.5	0.0
Dividends	227.8	254.1	71.5
Free Cash Flow (FCF)	98.1	58.5	-12.5
FCF adjusted	-129.7	107.2	-84.0
Key Ratios			
EBITDA margin (%)	46.0	54.8	53.5
Net margin (%)	112.4	107.5	41.4
Gross debt to EBITDA (x)	22.9	17.8	18.1
Net debt to EBITDA (x)	21.8	15.3	17.1
Gross Debt to Equity (x)	0.55	0.58	0.55
Net Debt to Equity (x)	0.52	0.50	0.52
Gross debt/total capitalisation (%)	35.5	36.6	35.4
Net debt/net capitalisation (%)	34.3	33.2	34.2
Cash/current borrowings (x)	NM	1.2	0.7
EBITDA/Total Interest (x)	1.7	1.9	1.2

Source: Company, OCBC estimates

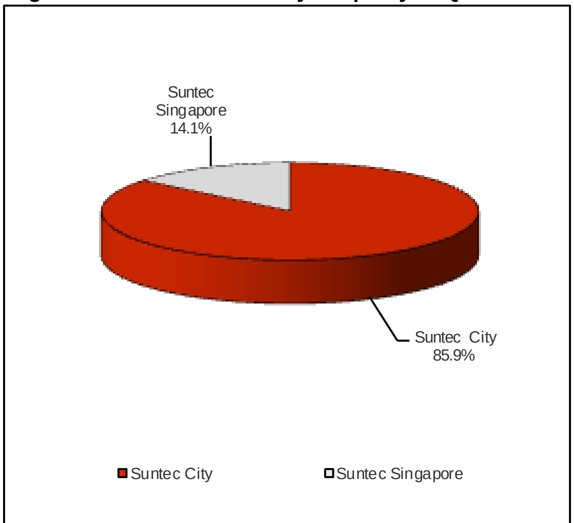
* *FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Property - 1Q2016



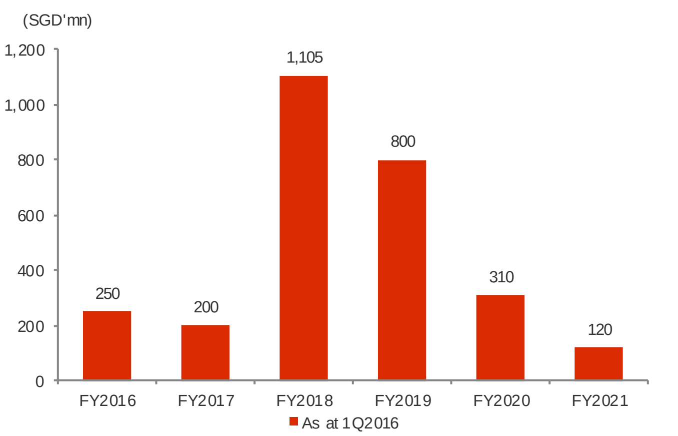
Source: Company

Figure 2: NPI breakdown by Property - 1Q2016



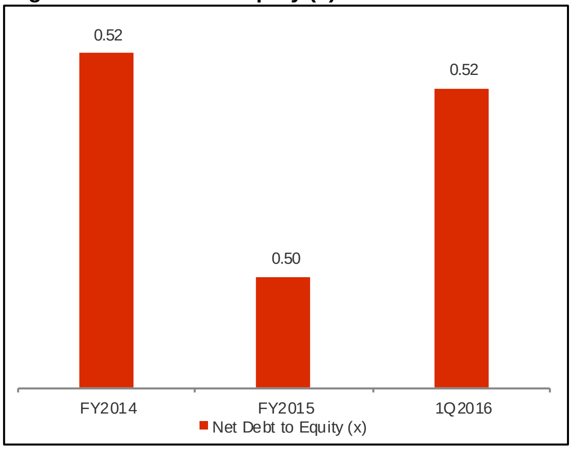
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Though SWCH's net gearing is not high relative to peers in the offshore marine sector, we believe there to be more pain to come given its fleet of older jack-up rigs and will hence hold the SWCHSP'18s at Neutral.

Issuer Profile: Negative

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **SWCHSP**

Company Profile

SWCH is an offshore marine service provider. Though SWCH has been listed since 2004, it was subjected to a RTO in February 2014, and entered the offshore rig chartering business (drilling). Currently, the firm has four business segments: OSV chartering, ship repair & maintenance, maritime services and drilling. The firm currently owns 36 vessels for its chartering business. For its drilling segment, it currently owns two rigs and jointly owns seven rigs. Tan Fuh Gih, the CEO, and his family in aggregate have more than a 45% stake in the firm.

Swissco Holdings Ltd

Key credit considerations

- **More rigs falling off-lease:** 1Q2016 results showed revenue plunging 74.8% y/y to USD4.8mn. This was due to both of SWCH's wholly-own drilling rigs falling off charter, which resulted in the drilling segment reporting no revenue. This can be somewhat misleading, as SWCH operates / manages 7 drilling rigs, but reports the revenue for only 2 as the rest are held in JVs. SWCH last reported that 3 drilling rigs are currently off charter. The next rig with its lease expiring will be towards late 2016. Management has indicated some plans to redeploy the rigs away from the Gulf of Mexico as (1) hurricane season would drive up insurance costs (2) cost of redeployment has been reduced significantly given the slack in the market. Redeploying the rigs to other regions also allow for prospective clients in those regions to view the rigs. Looking forward, given the weakness in upstream O&G activity, we believe it remains challenging for SWCH to lease out these rigs. In the interim, management is seeking shorter-term well workover contracts.

- **OSV division remains weak**: Performance of the OSV division was weak as well, with segment revenue falling 40.7% y/y, due to weak demand and oversupply of OSVs. The winter season also tends to be a seasonal low for OSV demand in general. As such, segment revenue was pressured by low utilization and poor charter rates. SWCH has been rationalizing its OSV fleet by divesting vessels.

- **FX related losses added pressure**: SWCH also generated USD4.5mn in FX related losses, driven by the sharp appreciation of the SGD against USD during 1Q2016, which resulted in losses recognized on SWCH's SGD denominated borrowings. Share of results from its JV assets (the non-wholly owned rigs) helped support earnings, contributing USD9.7mn (4Q2015: USD5.2mn). On aggregate, the off charter rigs and FX impact drove SWCH to a net loss of USD1.9mn for the period (4Q2015: USD15.1mn net loss due to impairments / provisions).

- **VM Marine acquisition**: In April, SWCH announced that they have entered into a non-binding MOU to acquire VM Marine International ("VMM"). VMM was incorporated in 2007, and provides marine support services. It currently has a fleet of 15 OSVs, of which 5 are owned while the rest are on technical / commercial management contracts. VMM has market presence in the Arabian Gulf, West Africa and India. No financial terms have been disclosed. Management has indicated that the acquisition could potentially help SWCH access new clients in the regions which VMM is strong in. The credit impact of the acquisition is uncertain for now, as the consideration could be shares. That said, consolidating the additional OSVs vessel borrowings could worsen group level leverage.

- **Cash burn adding up**: SWCH generated negative USD1.5mn in operating cash flow for the quarter, and about negative USD3.0mn in free cash flow after factoring capex. Comparatively, 2015 saw negative USD26.4mn in free cash flow due to higher capex. SWCH also made USD7mn in loans to its JVs. Though SWCH paid down about USD6.3mn in debt during the quarter, SWCH mainly relied on its cash balance to fund the spending, resulting in cash declining from USD37.6mn to USD22.7mn q/q. As such, net gearing worsened from 71% (end-2015) to 76% (end-1Q2016). Interest coverage also worsened sharply from 5.2x (2015) to 2.6x (1Q2016). As such, SWCH has very little headroom left relative to its interest coverage covenant of 2.5x. SWCH has about USD83.1mn in short-term borrowings, of which most are secured vessel financing. Looking forward, SWCH is scheduled to take delivery of a liftboat in 2016, though we believe that this could potentially be deferred in order to preserve cash. Given the limited covenant headroom and difficult environment, we are downgrading SWCH's Issuer Profile to **Negative**.

Swissco Holdings Ltd

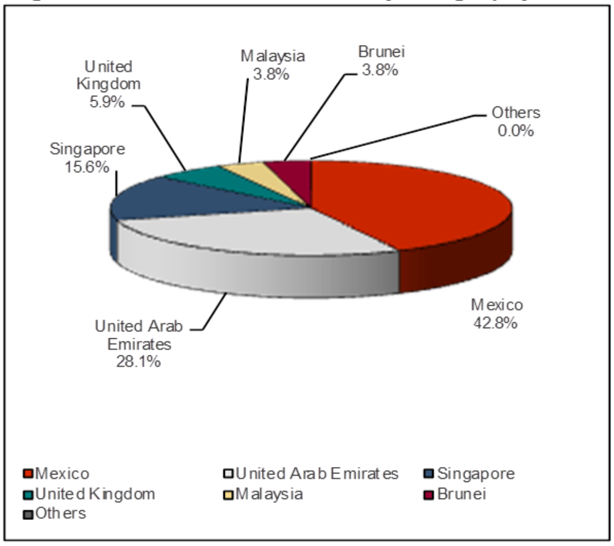
Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	1Q2016
Income Statement (USD'mn)			
Revenue	65.5	69.6	4.8
EBITDA	21.3	60.0	7.3
EBIT	11.5	34.4	1.2
Gross interest expense	30.4	11.6	2.8
Profit Before Tax	15.5	32.0	-1.9
Net profit	15.9	31.2	-1.9
Balance Sheet (USD'mn)			
Cash and bank deposits	38.6	37.6	22.7
Total assets	548.3	531.1	522.9
Gross debt	250.8	232.8	231.1
Net debt	212.1	195.3	208.4
Shareholders' equity	254.3	275.7	274.0
Total capitalization	505.1	508.5	505.1
Net capitalization	466.4	471.0	482.3
Cash Flow (USD'mn)			
Funds from operations (FFO)	25.7	56.7	4.2
CFO	45.9	8.3	-1.5
Capex	168.0	34.8	1.4
Acquisitions	-9.6	0.0	0.0
Disposals	4.2	30.8	0.3
Dividend	0.0	10.0	0.0
Free Cash Flow (FCF)	-122.1	-26.4	-3.0
FCF adjusted	-108.3	-5.6	-2.7
Key Ratios			
EBITDA margin (%)	32.5	86.1	152.6
Net margin (%)	24.3	44.8	-39.7
Gross debt to EBITDA (x)	11.8	3.9	7.9
Net debt to EBITDA (x)	10.0	3.3	7.1
Gross Debt to Equity (x)	0.99	0.84	0.84
Net Debt to Equity (x)	0.83	0.71	0.76
Gross debt/total capitalisation (%)	49.6	45.8	45.8
Net debt/net capitalisation (%)	45.5	41.5	43.2
Cash/current borrowings (x)	0.5	0.5	0.3
EBITDA/Total Interest (x)	0.7	5.2	2.6

Source: Company, OCBC estimates

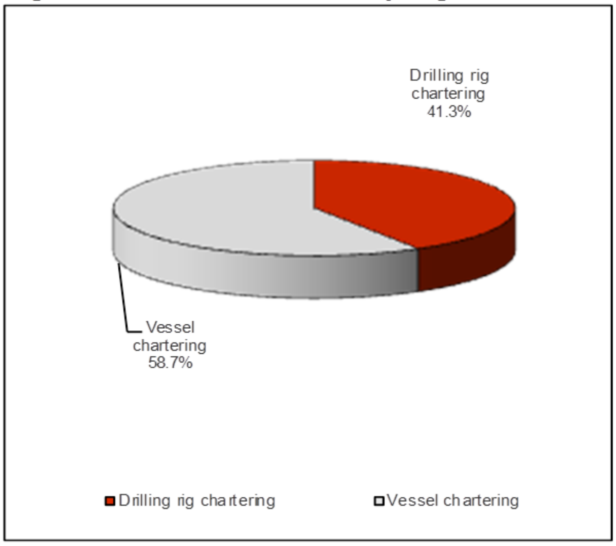
* FCF Adjusted = FCF - Acquisitions - Dividends + Disposals

Figure 1: Revenue breakdown by Geography - FY2015



Source: Company

Figure 2: Revenue breakdown by Segment - FY2015



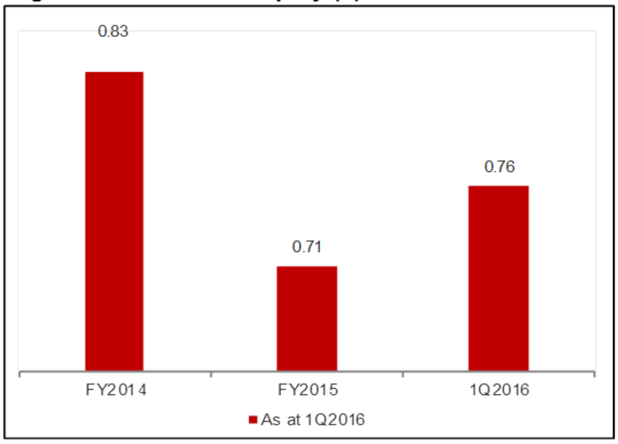
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 31/03/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	68.7	29.7%
Unsecured	14.5	6.3%
	83.1	**36.0%**
Amount repayable after a year		
Secured	74.8	32.4%
Unsecured	73.2	31.7%
	148.0	**64.0%**
Total	**231.1**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We are comfortable with the VITSP'18s due to its short tenure and maturity prior to the rental support expiry of key properties. At a YTM of 4.15%, we think the bond provides a fair value for investors who are able to invest in a higher yielding paper.

Issuer Profile: Negative

S&P: BB/Stable

Moody's: Not rated

Fitch: Not rated

Ticker: **VITSP**

Background

Listed in 2013, VIVA Industrial Trust ("VIT") is an industrial REIT in Singapore, with total assets of SGD1.2bn as at 31 March 2016. VIT currently owns a portfolio of 8 properties in Singapore. Jinquan Tong (owner of Shanghai Summit) is the major unitholder with ~54%. In aggregate, the Sponsors (Ho Lee Group Trust and Kim Seng Holdings Pte Limited) own a ~12% stake in the REIT. The Sponsors and Shanghai Summit own ~70% of the REIT Manager while the rest are owned by the management team and a subsidiary of United Engineers Limited.

VIVA Industrial Trust

Key credit considerations

- **1Q2016 growth driven by the contribution from acquisitions:** For the quarter ended March 2016 ("1Q2016"), VIT's revenue grew by 21.2% to SGD21.9mn. This was largely attributable to the acquisition of 11 Ubi Road and Home-Fix Building in 2HFY2015 and the partial completion of Asset Enhancement Initiatives ("AEI") at VIVA Business Park (previously Technopark@Chai Chee) to convert up to 15% of gross floor area ("GFA") for "white" use (F&B, retail and lifestyle components etc). We estimate that on an organic growth basis, gross revenue increased by ~2%. By net property income ("NPI"), business parks contributed 52% in 1Q2016, followed by the UE BizHub East (hotel component) at 14%. Light industrial and logistics collectively contributed 34%. The hotel component is leased to a wholly-owned subsidiary of United Engineers Limited.

- **Occupancy:** On an aggregate portfolio level, VIT achieved portfolio occupancy of 86.9% as at 31 March 2016, increasing from 80.5% as at 31 December 2014 driven by new acquisitions of 2 fully occupied properties. Occupancy at VIVA Business Park remains low at 66.6% although this has improved from 63% (prior to the commencement of AEI). Management is of the view that occupancy may rise up to 80% following completion of AEI (expected by September 2016).

- **Weighted Average Lease Expiry ("WALE"):** Portfolio WALE by gross rental income (taking into account of rental support) was 3.5 years (31 March 2015: 3.6 years). 49% of leases will expire from 1 April 2016 to 31 December 2018. As of 31 March 2016, two rental support arrangements remain; one for UE BizHub East and the other for Jackson Square pursuant to agreements entered into with the vendors of the properties. The rental support arrangement for UE BizHub will last until October 2018 and in FY2015 amounted to SGD10.4mn. The rental support arrangement for Jackson Square will last until November 2019, in FY2015 this amounted to SGD2.6mn.

- **High asset concentration risk with short land tenure:** VIT's portfolio value is concentrated on 2 properties (ie: UE BizHub (business park portion) and VIVA Business Park) which makes up ~57% of total portfolio value. As at 31 December 2015, the valuation of UE BizHub (business park) declined ~7% from the REIT's purchase cost. Some restrictions apply on UE BizHub where roughly half of NLA can only be leased to IT companies. VIT's headline weighted average land lease (by valuation) is skewed towards UE BizHub and Mauser Singapore. 34% of its portfolio value (ie: VIVA Business Park and Jackson Square) have land tenures of less than 15 years. Notwithstanding the capital works being carried out at VIVA Business Park, we think, time decay is likely to accelerate and negatively affect valuation of these properties going forward.

- **Improved credit profile:** VIT's corporate credit rating was lowered by S&P to BB/Stable in July 2015. In 2H2015, the REIT raised SGD173mn in equity financing; these were used to partially fund AEI costs, fund acquisitions and to repay certain debts. As at 31 March 2016, aggregate leverage at VIT declined to 37.6% from the elevated 43.4% as at 31 March 2015. VIT had also refinanced SGD270mn in February 2016, lengthening its debt maturity to 4.0 years from 2.5 years as at 31 March 2015. 77% of debt at VIT is secured, with ~84% of properties (by value) encumbered, leaving it with limited headroom to raise more secured financing. Liquidity risk is low at VIT with the next maturity only due in September 2018 (ie: the SGD100mn VIT 4.15% '18). Adjusting for certain one-off items affecting finance cost, EBITDA/ (Adjusted Gross Interest) was 3.0x. VIT's covenant gives credit to rental support as such on a NPI plus Rental Support/Adjusted Gross Interest basis, we find coverage to be 4.2x. We initiate coverage of VIT at an issuer profile rating of Negative.

Viva Industrial Trust

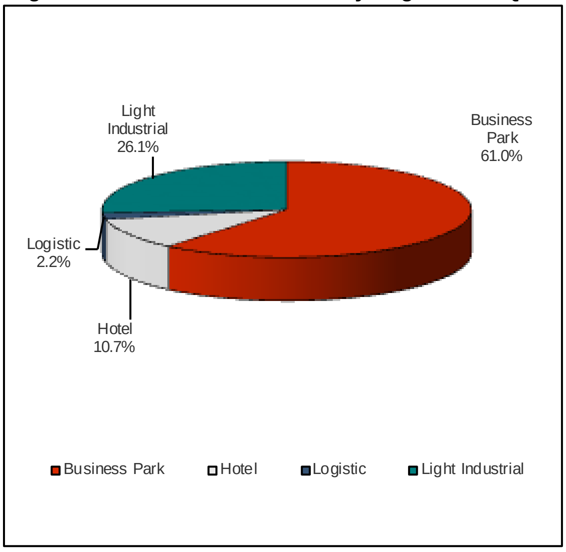
Table 1: Summary Financials

Year Ended 31th Dec	FY2014	FY2015	1Q2016
Income Statement (SGD'mn)			
Revenue	61.7	74.0	21.9
EBITDA	48.2	58.3	17.4
EBIT	44.0	54.2	16.5
Gross interest expense	11.7	15.6	7.3
Profit Before Tax	47.6	102.4	4.3
Net profit	45.8	100.1	3.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	5.0	48.9	25.4
Total assets	882.5	1,198.3	1,179.7
Gross debt	386.0	459.2	439.0
Net debt	381.1	410.3	413.6
Shareholders' equity	471.5	701.6	701.9
Total capitalization	857.5	1,160.8	1,140.9
Net capitalization	852.6	1,112.0	1,115.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	50.0	104.2	4.5
CFO	57.6	72.1	20.5
Capex	0.1	71.7	7.5
Acquisitions	112.9	137.7	0.0
Disposals	0.0	0.0	0.0
Dividends	43.6	46.1	5.1
Free Cash Flow (FCF)	57.4	0.4	13.0
FCF Adjusted	-99.0	-183.4	7.9
Key Ratios			
EBITDA margin (%)	78.0	78.7	79.3
Net margin (%)	74.2	135.3	16.8
Gross debt to EBITDA (x)	8.0	7.9	6.3
Net debt to EBITDA (x)	7.9	7.0	6.0
Gross Debt to Equity (x)	0.82	0.65	0.63
Net Debt to Equity (x)	0.81	0.58	0.59
Gross debt/total capitalisation (%)	45.0	39.6	38.5
Net debt/net capitalisation (%)	44.7	36.9	37.1
Cash/current borrowings (x)	0.2	0.3	9.1
EBITDA/Total Interest (x)	4.1	3.7	2.4

Source: Company, OCBC estimates

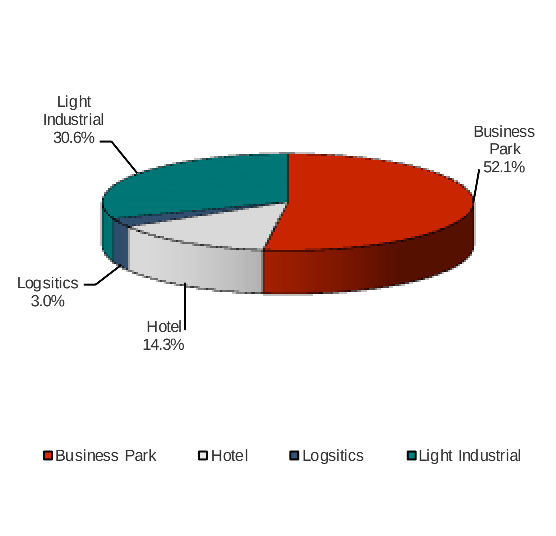
** FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 1Q2016



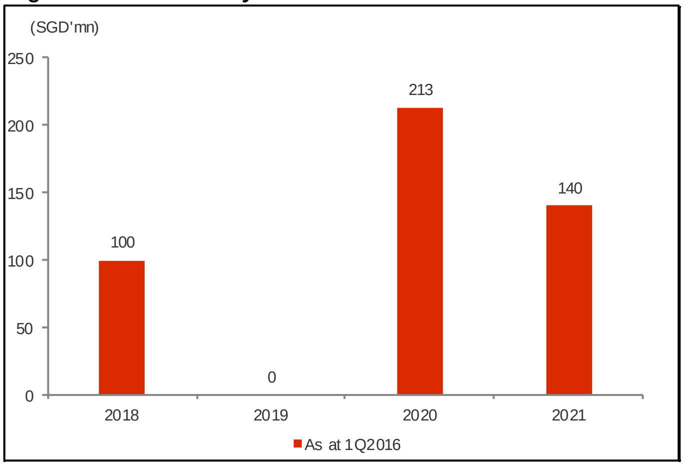
Source: Company

Figure 2: NPI breakdown by Segment - 1Q2016



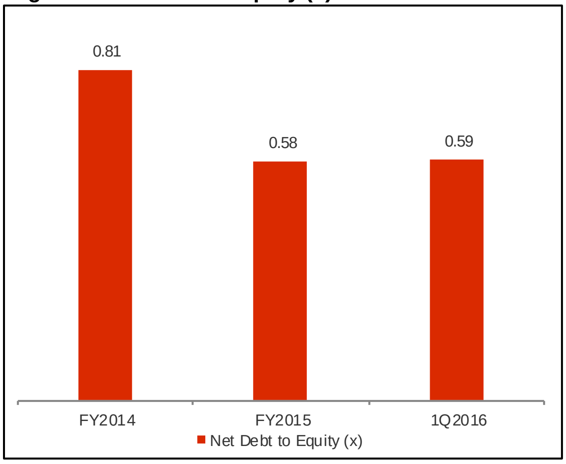
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

The Wharf (Holdings) Ltd

Credit Outlook – Wharf's credit profile remains underpinned by its IP portfolio despite the challenging HK retail environment. We expect rental income growth to moderate further but this should be offset by growth from China IP. Tight valuations across the Wharf curve reflect the quality of its cash flows and do not look particularly compelling.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: A-/Stable

Ticker: **WHARF**

Company profile

The Wharf (Holdings) Ltd ("Wharf') develops and invests in retail, hotel and office property in China and Hong Kong. The company is also involved in communications, media & entertainment, and container terminals businesses. Wharf has strong experience and expertise in operating prime-location, high-quality commercial properties in Hong Kong. Wharf is a subsidiary of Wheelock & Co. Ltd, which owns a ~59% stake in the company.

Key credit considerations

- **Stable 2015 results:** Wharf Holdings Ltd (Wharf) reported a stable set of 2015 results despite well-documented challenges in the HK retail environment. 2015 revenue was up 7% y/y driven by (1) a 16% y/y increase in China Investment Properties (IP) revenue on stabilization of Chengdu International Financial Square ("IFS"), (2) a 7% y/y increase in Hong Kong IP revenue as positive rental reversions offset weakness in retail turnover rent and (3) a 17% y/y increase in China Development Properties (DP) revenue as Wharf benefitted from the easing environment. 2015 EBITDA was up 4% y/y to HKD16.4bn. Strength in China IP (EBITDA +25% to HKD1.33bn) and DP (+36% to HKD2.27bn) offset weakness in non-core segments while HK IP (+6% to HKD10.55bn) demonstrated resilience.

- **China the growth driver:** Despite disposing of its 24.3% stake in Greentown China, Wharf will continue to invest in its China IP and DP businesses with projected committed capex of HKD8.7bn and HKD11.8bn, respectively. This constitutes the bulk of total committed capex of HKD25.3bn as at 31 December 2015. After the stabilization of Chengdu IFS, China will be the growth engine for Wharf going forward with a strong pipeline of mixed-use IFSs coming online in Changsha, Chongqing, and Suzhou (mostly in 2017). In China DP, the company managed to improve operating margins to 15.3% (FY2014: 11%) and EBITDA by 36% y/y. We expect 2016 EBITDA contribution from China DP to increase further with 2mn sqm of completions this year, up 17.6% from 1.7mn sqm in 2015.

- **Resilient HK retail rents despite headwinds from HK retail sales:** HK retail remains pressured as headwinds from a strong HKD and a slowdown in China combined to bring 2015 HK retail sales down 3.7% y/y to HKD475.2bn, and tourist arrivals down 2.5% y/y to 59.3mn. Retail sales at Wharf's key retail assets, Harbour City (HC, 36% of 2015 EBIT) and Times Square (TS, 12% of 2015 EBIT) underperformed the broader market with 2015 retail sales down 12.1% y/y and 12.8% y/y, respectively. Despite this, retail rents remained resilient with Wharf recording higher retail rents from HC (+5%) and TS (+7%) as rental reversions offset lower turnover rent. We believe Wharf's retail rental rates will stabilize at current levels as higher base rents offset the decline in turnover rent.

- **Strategic review on communications, media and entertainment ("CME") segment:** Management initiated a strategic review on the CME segment post release of 2015 results. Subsequently, Reuters reported that Wharf T&T could be sold to Chinese acquirers (Anbang or Tsinghua Unigroup) or Western private equity (KKR, CVC Capital or TPG Capital Management) for more than USD1bn. We believe the potential sale of the CME segment is credit positive. The sale will not have a material impact on Wharf's earnings ability (5% of 2015 EBITDA) going forward while generating immediate liquidity and allowing the firm to concentrate on its core businesses.

- **Improvement in credit profile from strong China performance:** Wharf's net debt position decreased by 20% to HKD47.2bn in 2015 as the company repaid HKD7.3bn in borrowings while cash increased by HKD4.8bn mainly on strong operating cash flows from contracted sales receipts in China. As a result, net gearing decreased from 19% to 15% as of end- 2015. Net debt/EBITDA was down 2.9x from 3.7x on reduced debt and improvement in earnings while EBITDA interest coverage improved to 6.4x from 6.1x. Wharf's liquidity profile remains strong with HKD23.5bn in cash, HKD22.6bn in undrawn bank facilities, ~HKD11.8bn in rental income from HK and China IP, ~RMB24bn in 2016 projected contracted sales for China DP, covering uses of liquidity (HKD8.5bn in short term debt, and projected committed capex of HKD25.3bn) by ~2.4x.

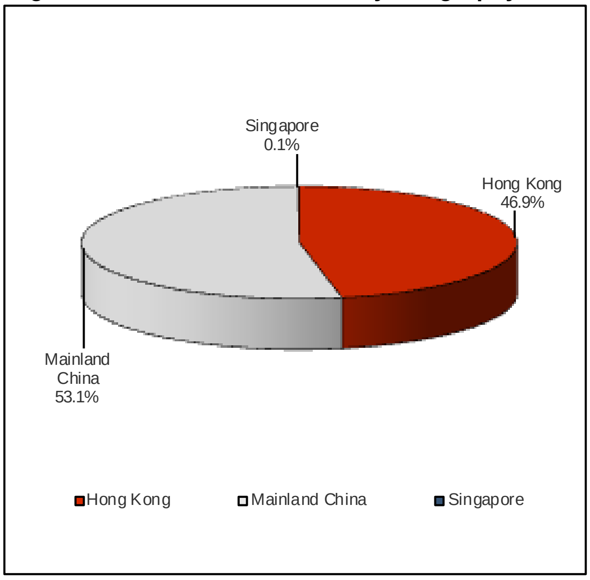
Wharf Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (HKD'mn)			
Revenue	31,887	38,136	40,875
EBITDA	14,725	15,805	16,401
EBIT	13,280	14,283	14,853
Gross interest expense	2,555	2,604	2,557
Profit Before Tax	34,460	40,154	20,635
Net profit	29,380	35,930	16,024
Balance Sheet (HKD'mn)			
Cash and bank deposits	24,515	18,725	23,510
Total assets	415,052	444,658	443,916
Gross debt	82,587	77,984	70,707
Net debt	58,072	59,259	47,197
Shareholders' equity	284,255	314,111	317,180
Total capitalization	366,842	392,095	387,887
Net capitalization	342,327	373,370	364,377
Cash Flow (HKD'mn)			
Funds from operations (FFO)	30,825	37,452	17,572
CFO	16,437	20,780	26,225
Capex	14,036	11,277	6,849
Acquisitions	15	2,084	1,340
Disposals	763	56	6,727
Dividends	5,691	5,871	5,851
Free Cash Flow (FCF)	2,401	9,503	19,376
* FCF Adjusted	-2,542	1,604	18,912
Key Ratios			
EBITDA margin (%)	46.2	41.4	40.1
Net margin (%)	92.1	94.2	39.2
Gross debt to EBITDA (x)	5.6	4.9	4.3
Net debt to EBITDA (x)	3.9	3.7	2.9
Gross Debt to Equity (x)	0.29	0.25	0.22
Net Debt to Equity (x)	0.20	0.19	0.15
Gross debt/total capitalisation (%)	22.5	19.9	18.2
Net debt/net capitalisation (%)	17.0	15.9	13.0
Cash/current borrowings (x)	2.6	2.2	2.8
EBITDA/Total Interest (x)	5.8	6.1	6.4

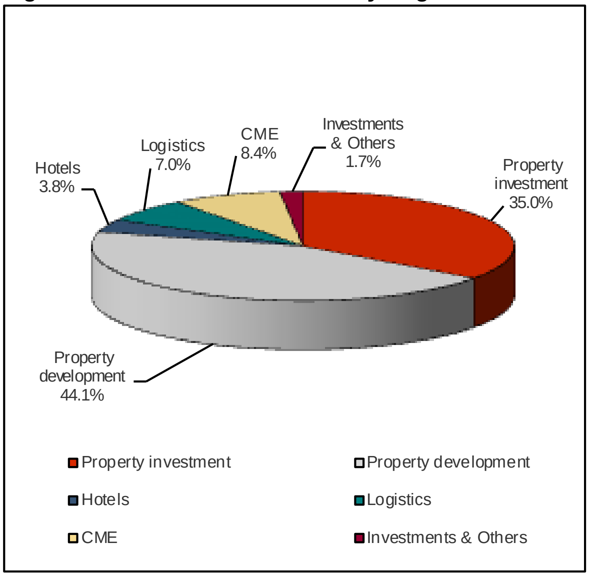
Source: Company, OCBC estimates
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Geography - FY2015



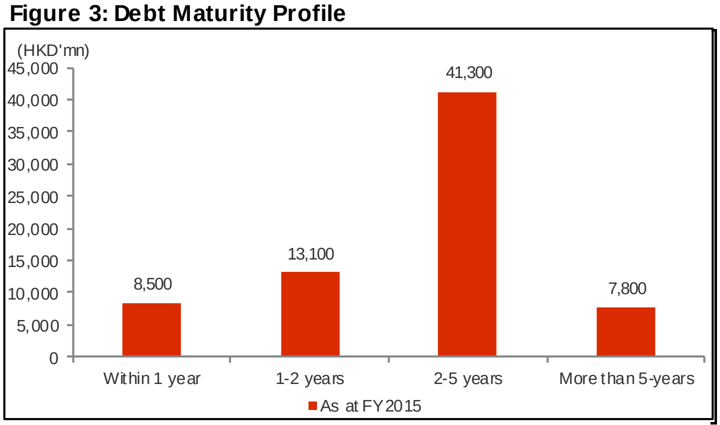
Source: Company

Figure 2: Revenue breakdown by Segment - FY2015



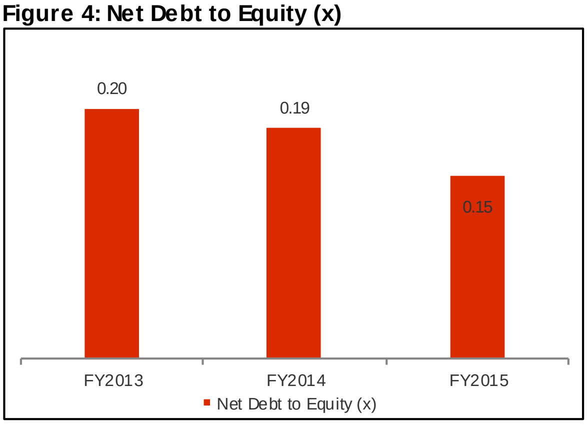
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Wheelock & Co Ltd

Credit Outlook –

We like Wheelock's strong record of monetizing its HK residential and commercial developments coupled with 60%-owned Wharf's rental cash flows. WHEELK'21 (153bps over swaps) with a ~30bps spread pickup over WHARF'21 is a cheaper way to gain exposure to the Wharf complex.

Issuer Profile: Positive

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **WHEELK**

Company Profile

Founded in Shanghai in 1857, Wheelock & Co Ltd ("Wheelock") is a Hong Kong-listed investment holding company. Wheelock owns 60% of its principal subsidiary, The Wharf (Holdings) Ltd ("Wharf"). While prime real estate is Wharf's strategic focus, mall management remains Wheelock's strategic differentiation. Together with Wheelock Properties Ltd ("WPL"), both companies generate a solid recurring dividend income for the Group.

Key credit considerations

- **Strong 2015 results due to handover of One Bay East:** Wheelock & Co Ltd ("Wheelock") reported a strong set of 2015 results driven by Hong Kong and China property development and sound performance from investment properties despite well-documented challenges in Wharf's core retail investment properties (IP) segment. 2015 revenue was up 40% y/y to HKD57.4bn while EBITDA increased 25% y/y to HKD21.6bn. This was driven by HK Development Properties (DP) where EBITDA was up 523% y/y to HKD4.5bn due to the handover of One Bay East office towers (HKD10bn in revenue) to Manulife and Citigroup and The Parkside residential development (HKD5.2bn). China DP under Wharf (EBITDA +36% y/y to HKD2.3bn) was also a solid contributor as operating margins improved by 3.4ppt amid a favorable policy environment and a turnaround from a challenging 2014 where write-downs of HKD1.8bn was taken. IP performance continues to be sound with Hong Kong IP posting slowing EBITDA growth of 4.8% y/y to HKD10.7bn while China IP benefitted from stabilization in Chengdu IFS. Going forward we expect performance from HK DP to be supported by a HKD12.5bn orderbook of which 90% will be recognized in 2016 and 1H2017. We expect revenue to be recognized from (1) One HarbourGate (one office tower sold to China Life), sales from luxury villas on Victoria Peak and 3 other residential projects in 2016.

- **Contracted sales remain robust, supporting revenue visibility:** Wheelock achieved HKD12.9bn in contracted sales from Hong Kong in 2015 mainly from the HKD5.9bn sale of the west office tower of One HarbourGate to China Life and the remaining coming from residential sales. Going forward Wheelock is targeting at least HKD10bn of contracted sales in 2016 from 4 residential projects and the sale of the east office tower of One HarbourGate. According to reports from Sing Tao Daily, China Taiping is currently in discussions to purchase the tower. In China DP, the company is targeting RMB24bn in contracted sales, a slight reduction from 2015 sales of RMB26bn.

- **Improvement in credit profile:** Wheelock's net debt position decreased by HKD17.7bn to HKD78.9bn in 2015 as the company repaid HKD11.7bn in gross borrowings while cash increased by HKD6bn to HKD27.3bn mainly on strong operating cash flows from contracted sales receipts. As a result, net gearing decreased from 28.4% to 23.2% as of end-2015. On a standalone basis, Wheelock's net debt decreased to HKD32.3bn from HKD35.9bn a year ago. Net debt/EBITDA improved from 5.6x to 3.7x on reduced debt and improvement in earnings while EBITDA interest coverage was robust, improving from 4.6x to 6.4x.

- **Adequate liquidity despite expected pickup in capex requirements:** Wheelock's liquidity profile remained strong with HKD27.3bn in cash sufficient to cover HKD10.5bn in short term debt by 2.6x. Furthermore, the company has available undrawn facilities of HKD47.3bn, a readily marketable investment portfolio of financial assets valued at HKD12.5bn, projected contracted sales of ~HKD38bn and its IP portfolio which produces relatively stable recurring cash flows, which generated EBITDA of ~HKD12.3bn in 2015. Capital expenditure requirements in 2016 are expected to pick up with HKD38.9bn in committed capex (FY2014: HKD27.7bn). Uncommitted capex makes up another HKD37.1bn as at 31 December 2015. We expect operating cash flows including contracted sales receipts and rental income to be able to cover capex requirements.

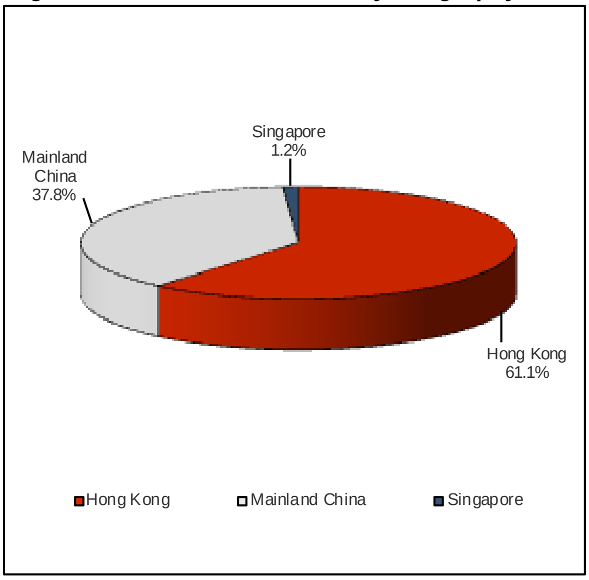
Wheelock & Co Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (HKD'mn)			
Revenue	35,071	40,953	57,431
EBITDA	16,390	17,257	21,608
EBIT	14,938	15,729	20,053
Gross interest expense	3,586	3,776	3,376
Profit Before Tax	36,557	42,984	26,544
Net profit	16,954	22,009	14,232
Balance Sheet (HKD'mn)			
Cash and bank deposits	29,345	21,279	27,266
Total assets	486,814	517,567	512,758
Gross debt	123,640	117,878	106,193
Net debt	94,295	96,599	78,927
Shareholders' equity	311,572	339,916	340,859
Total capitalization	435,212	457,794	447,052
Net capitalization	405,867	436,515	419,786
Cash Flow (HKD'mn)			
Funds from operations (FFO)	18,406	23,537	15,787
CFO	883	15,572	35,619
Capex	15,765	9,017	7,540
Acquisitions	1,462	7,784	6,955
Disposals	209	2,147	11,821
Dividends	5,572	5,219	5,048
Free Cash Flow (FCF)	-14,882	6,555	28,079
* FCF Adjusted	-21,707	-4,301	27,897
Key Ratios			
EBITDA margin (%)	46.7	42.1	37.6
Net margin (%)	48.3	53.7	24.8
Gross debt to EBITDA (x)	7.5	6.8	4.9
Net debt to EBITDA (x)	5.8	5.6	3.7
Gross Debt to Equity (x)	0.40	0.35	0.31
Net Debt to Equity (x)	0.30	0.28	0.23
Gross debt/total capitalisation (%)	28.4	25.7	23.8
Net debt/net capitalisation (%)	23.2	22.1	18.8
Cash/current borrowings (x)	2.5	2.0	2.6
EBITDA/Total Interest (x)	4.6	4.6	6.4

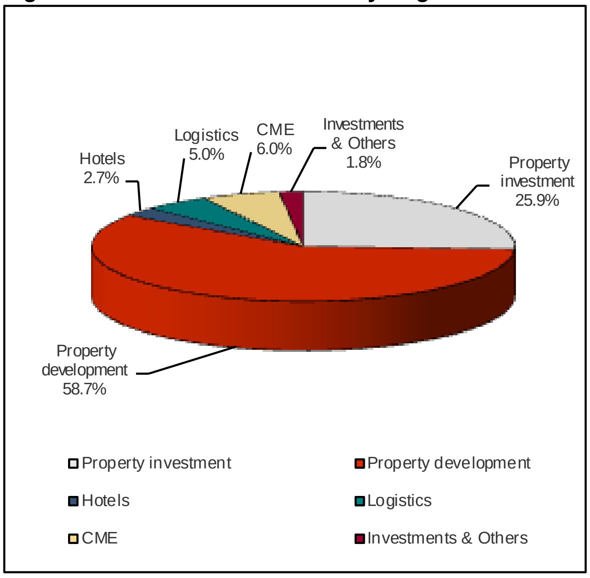
Source: Company, OCBC estimates
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Geography - FY2015



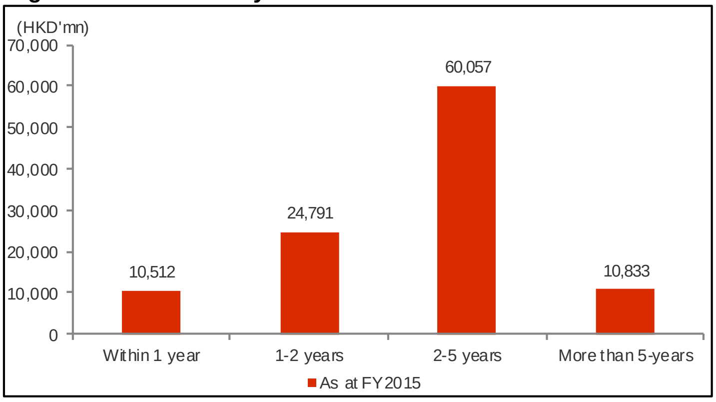
Source: Company

Figure 2: Revenue breakdown by Segment - FY2015



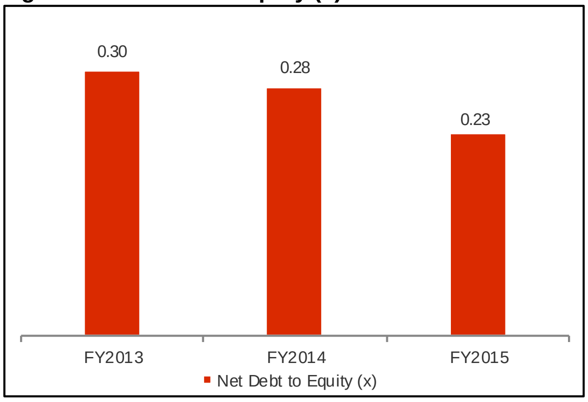
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We are moving the curve to overweight, given the positive catalyst of the monetization of Nouvel 18. We believe the curve to be trading attractive relative to CAPL and CIT (despite the latter two's larger scale).

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **WINGTA**

Background

Listed on the SGX since 1989, Wing Tai Holdings ("Wing Tai") is an investment holding company with core businesses in property investment and development, lifestyle retail and hospitality management in key Asian markets such as Singapore, Malaysia, Hong Kong and China. Wing Tai's commercial properties include Winsland House in Singapore and Landmark East and W Square in Hong Kong. The group's Chairman Mr. Cheng Wai Keung owns a 50.5% stake in Wing Tai.

Wing Tai Holdings Ltd

Key credit considerations

- **Slump in 3QFY2016 earnings from retail and residential slowdown:** Wing Tai reported soft 3QFY2016 numbers as expected given the challenging operating environment in Singapore residential and retail. 3Q2016 revenue was down 35.1% y/y to SGD113.0mn while EBITDA was down 92.7% y/y to SGD1.3mn. On a 9-month basis however, the decline was more moderate with 9MFY2016 revenue down 12.4% y/y to SGD403.8mn and EBITDA down 29.2% y/y to SGD34.0mn. Main contributors to 9MFY2016 revenue were progressive sales recognized from The Tembusu (TOP in 4Q2016) and additional sales in Le Nouvel Ardmore in Singapore and The Lakeview in China.

- **Conditions in Singapore residential and retail remain tough:** Wing Tai is currently consolidating its retail business amid segment operating losses of SGD9mn and SGD2mn in FY2015 and FY2014, respectively. The retail segment has been hit by tightening foreign labour supply, high rentals, e-commerce, and competition from more brands entering the market. Meanwhile the high-end segment of the residential market remains challenging despite recent increases in activity. While the neighbouring Ardmore Three moved 25 units after offering an ABSD rebate in April, Wing Tai was unable to move any units since July last year at Le Nouvel Ardmore (4/43 units sold, QC deadline in April 2016) as the developer has refused to lower prices to prevent dilution of brand equity. The company's other projects The Tembusu (326/337 sold) is almost fully sold while sales at The Crest (123/469 units sold, ABSD deadline in Sep 2017) have been slow. We estimate QC/ABSD charges for Le Nouvel Ardmore and The Crest at SGD14.6mn and SGD65.9mn (ABSD is not pro-rata), respectively. Going forward, although we take comfort in Wing Tai's strong balance sheet, cash burn from the extension charges and retail operating losses will be drags on Wing Tai's credit profile. That said, we observed that Wing Tai has divested its 50% stake in Nouvel 18 (to CDL) early July for a total consideration of SGD410.96mn, which could boost Wing Tai's credit profile in 1QFY2017.

- **Overseas pipeline to pick up the earnings slack:** While sales at Wing Tai's residential projects in Singapore are anaemic with no further projects in the pipeline, its strong pipeline overseas should support earnings going forward. Wing Tai will launch 195 units at Le Nouvel KLCC in Kuala Lumpur (completed in 1Q2016) this year, commence handover of the first phase of Guangzhou Horizon Lakeview (182 units) in 2Q2016, and complete 87 units in phase 4A of Taman Bukit Minyak Utama in Penang. This should see Wing Tai's overseas developments pick up the earnings slack in Singapore.

- **Fund management arm not a solution for QC charges:** Wing Tai set up a fund management unit in Feb 2016 and will commit equity along with institutional investors. This is the company's second attempt after the Global Financial Crisis botched its first venture into fund management in 2007. However, we do not believe that this is a move to prevent QC extension charges as any transaction will still be subject to 15% ABSD and the relevant seller stamp duties. This is more likely a natural evolution in Wing Tai's property business, leveraging on its experience to generate recurring fee income and recycle capital like its larger peers with fund management/REIT platforms.

- **Solid balance sheet with ample liquidity to tide over earnings headwinds:** Credit profile deteriorated due to weaker earnings with 9MFY2016 net debt/EBITDA increasing to 12.6x from 5.5x in the prior period. Wing Tai's balance sheet remained strong, although net gearing deteriorated to 18% from 11% one year ago. The company has ample liquidity at its disposal having termed out its debt well with SGD794mn in cash covering short term debt of SGD41mn by 19x.

Wing Tai Holdings

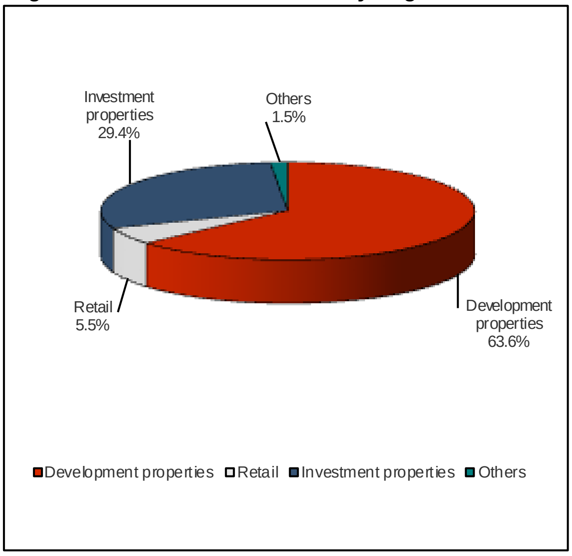
Table 1: Summary Financials

Year Ended 30th Jun	FY2014	FY2015	3Q2016
Income Statement (SGD'mn)			
Revenue	803.4	676.7	113.0
EBITDA	169.0	75.9	1.3
EBIT	154.7	61.5	-1.2
Gross interest expense	39.9	47.3	11.8
Profit Before Tax	312.5	175.3	3.5
Net profit	254.4	150.3	2.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	834.8	880.6	793.7
Total assets	4,883.4	4,887.6	5,015.6
Gross debt	1,302.2	1,191.4	1,414.8
Net debt	467.5	310.7	621.1
Shareholders' equity	3,142.8	3,362.2	3,360.3
Total capitalization	4,445.0	4,553.6	4,775.1
Net capitalization	3,610.3	3,672.9	3,981.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	268.7	164.7	4.5
CFO	37.9	266.6	-40.5
Capex	20.4	7.6	0.5
Acquisitions	45.9	17.9	0.0
Disposals	59.7	27.3	0.0
Dividend	124.1	51.4	0.0
Free Cash Flow (FCF)	17.5	258.9	-41.0
FCF Adjusted	-92.8	216.9	-41.0
Key Ratios			
EBITDA margin (%)	21.0	11.2	1.1
Net margin (%)	31.7	22.2	1.9
Gross debt to EBITDA (x)	7.7	15.7	31.2
Net debt to EBITDA (x)	2.8	4.1	13.7
Gross Debt to Equity (x)	0.41	0.35	0.42
Net Debt to Equity (x)	0.15	0.09	0.18
Gross debt/total capitalisation (%)	29.3	26.2	29.6
Net debt/net capitalisation (%)	12.9	8.5	15.6
Cash/current borrowings (x)	4.5	24.5	19.2
EBITDA/gross interest (x)	4.2	1.6	0.1

Source: Company, OCBC estimates

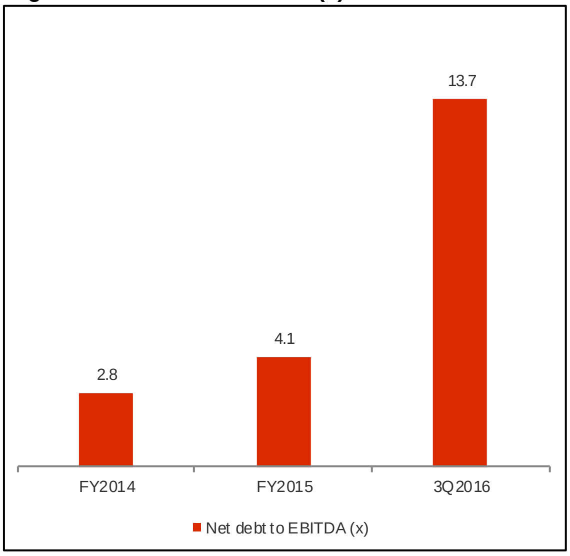
* *FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - FY2015



Source: Company

Figure 2: Net Debt to EBITDA (x)



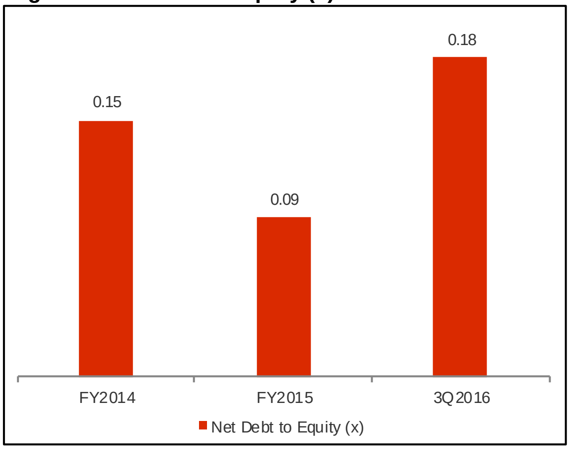
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	28.1	2.0%
Unsecured	13.3	0.9%
	41.4	**2.9%**
Amount repayable after a year		
Secured	343.1	24.3%
Unsecured	1030.3	72.8%
	1373.4	**97.1%**
Total	**1414.8**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Wing Tai Properties Ltd

Credit Outlook –

Wing Tai Properties has a less leveraged credit profile compared to Wing Tai Holdings (its parent) and a similar asset size. The WINGTA'22s issued by Wing Tai Properties offer a 34bps spread pick-up over bonds of a similar maturity offered by its parent.

Issuer Profile: Positive

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **WINGTA**

Company Profile

Listed in 1991 in HKSE, Wing Tai Properties Ltd ("WTP") is principally engaged in property development, property investment, and hospitality management in Hong Kong, China and South East Asia under the brand names of Wing Tai Asia and Lanson Place. It has developed an aggregate GFA of over 5mn sq ft in the luxury residential property projects and its premium serviced residences are located in China and South East Asia. WTP is 34.6% owned by Wing Tai Holdings Ltd and 13.7%-owned by Sun Hung Kai Properties Ltd.

Key credit considerations

- **Weak 2015 results from slow property sales:** Wing Tai Properties Ltd (WTP) reported a weak set of 2015 results across the board with revenue down 43% y/y to HKD1bn and EBITDA down 29% y/y to HKD433mn. Property development (revenue -84% y/y) was a major drag, posting negative EBITDA of HKD43mn as there were no project completions in 2015 (Upper Riverside in Shanghai was completed in August 2015 but not launched) while sales at its existing completed projects were slow. Performance at WTP's investment property portfolio was relatively stable (revenue +3.3% y/y, EBITDA -3%) while the hospitality segment was hit by the weak tourism environment in Hong Kong (revenue flat, EBITDA -11%). WTP will look to sell/pre-sell units Homantin Hillside in Hong Kong and Upper Riverside in Shanghai in the remainder of 2016, as well as from their existing completed projects, which should aid 2H2016 revenue recognition.

- **Rental income from investment properties provide buffer from slowdown in property development:** WTP's 3.1mn sq ft investment property portfolio is small compared to its larger cap peers but represents a substantial portion of WTP's earnings (68% of 2015 revenue and most of WTP's EBITDA) and buffers WTP from volatility in its property trading business. WTP's exposure is mostly in the office/retail segment in Hong Kong through the company's flagship Landmark East and W Square, as well as its recently acquired portfolio of 5 commercial properties in London. Occupancy at Landmark East was healthy at 97% with upward rental reversions of 18% as the Grade A office towers benefitted from the decentralization drive in Hong Kong.

- **Acquisitions in London contribute immediately to rental income:** WTP expanded its investment property footprint in London with 3 acquisitions near the end of 2015 bringing its London commercial property portfolio count to 5. WTP acquired a 6-storey commercial property at 35 Berkely Square, West End for HKD255mn, a 25% interest in 12-storey commercial property at 10 Fleet Place, and a 33% interest in a 6-storey property at 3 Cavendish Square, West End. 2 of the 3 properties acquired are fully occupied and will contribute to rental income in the coming quarters. WTP also replenished its landbank in Hong Kong with the acquisition of a site at So Kwun Wat Road, Tuen Mun with a projected GFA of 264,000 sq ft. Scheduled completion is 2021.

- **Slight deterioration in credit profile due to plunge in development property earnings:** Net borrowings decreased by HKD594.1mn to HKD1.7bn as cash increased by HKD483mn to HKD2.1bn. As a result, net gearing fell by ~3ppt to 7.2% from 10.1%. However 2015 net debt/EBITDA increased to 3.9x from 3.7x due to weaker earnings despite the slight decrease in gross debt. EBITDA interest coverage deteriorated to 3.2x from 3.9x in 2014 for the same reason. WTP's liquidity position is strong with HKD2.1bn in cash and HKD2.2bn in unutilized revolving loan facilities sufficient to cover HKD440mn in short-term debt and capital commitments (mainly for property development) of HKD781mn by 3.5x.

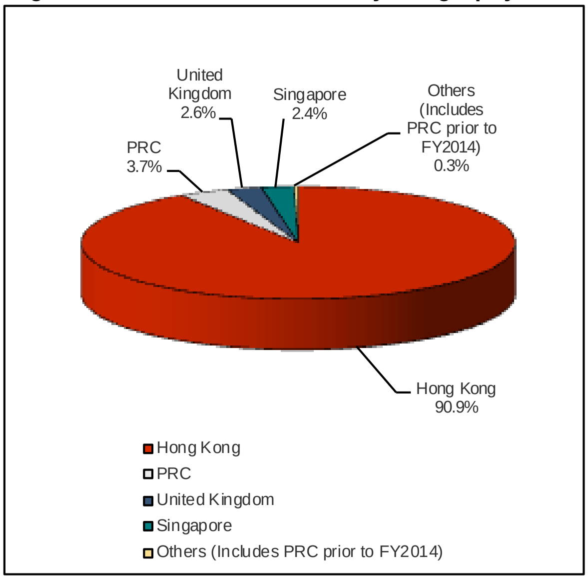
Wing Tai Properties

Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (HKD'mn)			
Revenue	1,736	1,784	1,009
EBITDA	516	611	433
EBIT	496	601	428
Gross interest expense	167	159	137
Profit Before Tax	2,753	2,033	1,182
Net profit	2,661	1,944	1,099
Balance Sheet (HKD'mn)			
Cash and bank deposits	1,242	1,606	2,089
Total assets	26,705	27,528	28,221
Gross debt	4,687	3,879	3,766
Net debt	3,445	2,273	1,678
Shareholders' equity	20,895	22,680	23,347
Total capitalization	25,582	26,559	27,114
Net capitalization	24,340	24,953	25,025
Cash Flow (HKD'mn)			
Funds from operations (FFO)	2,681	1,954	1,104
CFO	401	1,590	1,173
Capex	8	6	258
Acquisitions	518	4	0
Disposals	49	1	135
Dividends	181	181	181
Free Cash Flow (FCF)	393	1,584	915
* FCF Adjusted	-257	1,400	869
Key Ratios			
EBITDA margin (%)	29.7	34.3	42.9
Net margin (%)	153.3	109.0	108.9
Gross debt to EBITDA (x)	9.1	6.3	8.7
Net debt to EBITDA (x)	6.7	3.7	3.9
Gross Debt to Equity (x)	0.22	0.17	0.16
Net Debt to Equity (x)	0.16	0.10	0.07
Gross debt/total capitalisation (%)	18.3	14.6	13.9
Net debt/net capitalisation (%)	14.2	9.1	6.7
Cash/current borrowings (x)	0.7	25.2	4.8
EBITDA/Total Interest (x)	3.1	3.9	3.2

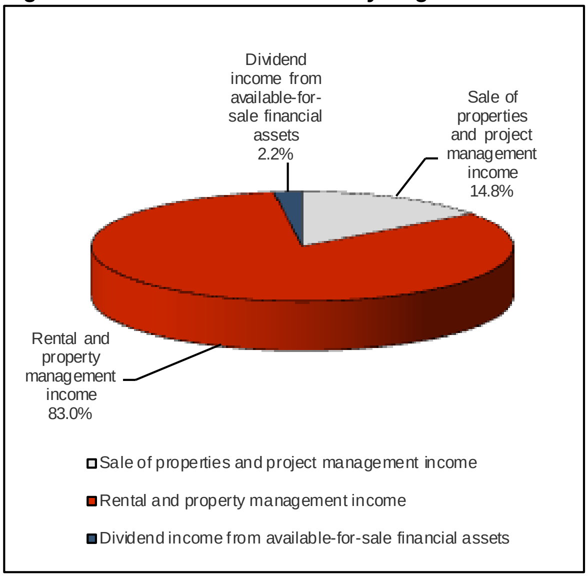
Source: Company, OCBC estimates
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Geography - FY2015



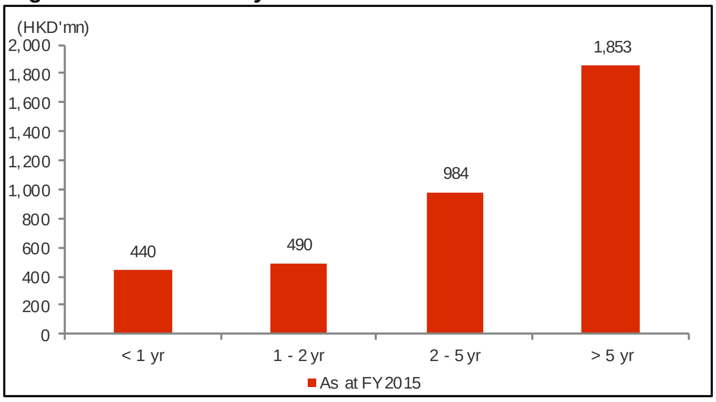
Source: Company

Figure 2: Revenue breakdown by Segment - FY2015



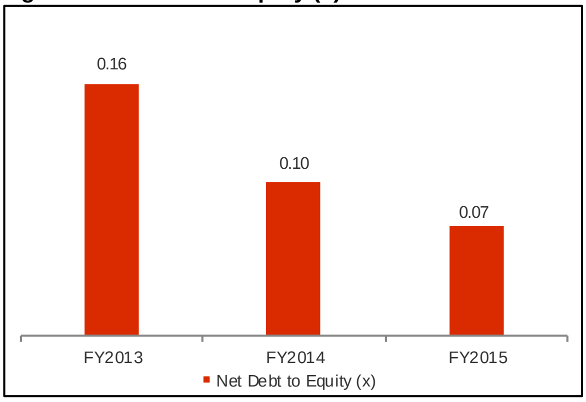
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

YLLGSP'17s has tightened considerably since the mid-2015 and are now at 203bps over swaps. Despite this, we think that spreads can continue to grind tighter due to positive technicals in the offshore space for China property paper issued in SGD.

Issuer Profile: Positive

S&P: BB-/Stable

Moody's: Ba3/Stable

Fitch: Not rated

Ticker: **YLLGSP**

Company profile

Yanlord Land Group Ltd (Yanlord) is a PRC real estate developer. Established in 1993, it focuses on the high-end residential, commercial and integrated property segments. It has a strong local brand and presence in: (1) the Yangtze River Delta; (2) the Pearl River Delta; (3) Western China; (4) Bohai Rim; and (5) Hainan Island. Listed on the SGX, it is 65.6% owned by Chairman and CEO Mr Zhong Seng Jian. Yanlord has a market capitalization of SGD2.2bn as of 30 Jun 14.

Yanlord Land Group Ltd

Key credit considerations

- **Strong 1Q2016 results with defensive margins:** Yanlord Land Group Ltd (Yanlord) reported strong 1Q2016 results, benefiting from robust residential demand in upper tier cities in China. Revenue was up 182% y/y to RMB2.85bn while EBITDA was up 355% y/y to RMB571mn due to an increase in GFA delivered and a greater proportion of higher-priced projects delivered in Shanghai (52.6% of total GFA delivered). However, lower resettlement income y/y pulled gross profit margins down to 28.6% from 42.7% although management guided that margins were higher stripping out effects from resettlement income. Looking ahead, we believe that Yanlord's margins are more defensive compared to its peers due to premium brand positioning which enables Yanlord to pass on increases in land costs to buyers. This should enable Yanlord to mitigate margin pressure facing the broader sector from high land acquisition costs.

- **Strong contracted sales, but tighter policies could dampen sales growth going forward:** Strong momentum in contracted sales carried into 1Q2016 with contracted sales up 255% y/y to RMB10.07bn, extending the record-breaking RMB28.9bn of pre-sales in 2015. This represents 37% of full-year 2016 target of RMB27bn from RMB50bn of saleable resources, representing a 54% sell-through rate. That said, regulatory tightening in upper tier cities with robust price growth such as Shanghai, Shenzhen, Suzhou, and Nanjing could dampen Yanlord's contracted sales performance going forward. In 2015, these cities contributed 72.5% to 2015 revenue, while representing 46.7% of projects under development and 67.8% of landbank for future development. Nevertheless we note that the company has sold a substantial portion of original sales targets for Shanghai and Shenzhen at 60% and 100%, respectively. We also believe that the measures will promote a healthier and sustainable pace of price growth in the long run.

- **More land acquisitions needed to sustain pace of sales:** Landbank dwindled to 4.07mn sqm as of 31 Dec 2015 from 5.14mn sqm in 2013 as Yanlord remained cautious in landbanking (2015: 136,732 sqm GFA in Nantong for RMB186mn, 2014:171,200 sqm GFA in Suzhou for RMB1.35bn) in the face of rising land costs. The company has since acquired a 333,280 sqm GFA site in Shenzhen for RMB1.59bn in January 2016 and 2 parcels in Tianjin with GFA of 262,100 sqm for RMB1.97bn which we estimate brings Yanlord's land resources back up to 4.61mn sqm, sufficient for ~5 years. Management guided that the company will make further land acquisitions this year.

- **Onshore bonds unlikely but panda bonds an alternative:** Yanlord has mandated Zhongshan Securities to lead manage a possible panda bond issuance of up to RMB10bn. The company is currently awaiting approval from authorities. The ability to tap the onshore/panda bond market will reduce funding costs while improving Yanlord's already strong liquidity profile by allowing debt maturities to be termed out.

- **Vast improvement in credit metrics since 2014:** Yanlord turned into a net cash position in 1Q2016. Pre-sales collections over the past year was strong at RMB16.3bn with a ~RMB2bn reduction in gross debt to RMB16.3bn during the quarter. LTM gross debt/EBITDA improved to 4.1x from 5.2x in 2015 (2014 peak at 7.4x) due to reduced debt and stronger earnings while gross gearing improved to 53%. LTM EBITDA interest coverage strengthened to 3.0x from 2.7x in 2015. RMB16.5bn in cash was sufficient to cover RMB4.3bn of short-term borrowings by 3.8x. Management has since used its strong cash position to redeem its USD400mn 2018 bond early along with the maturity of its RMB2bn dim sum bond.

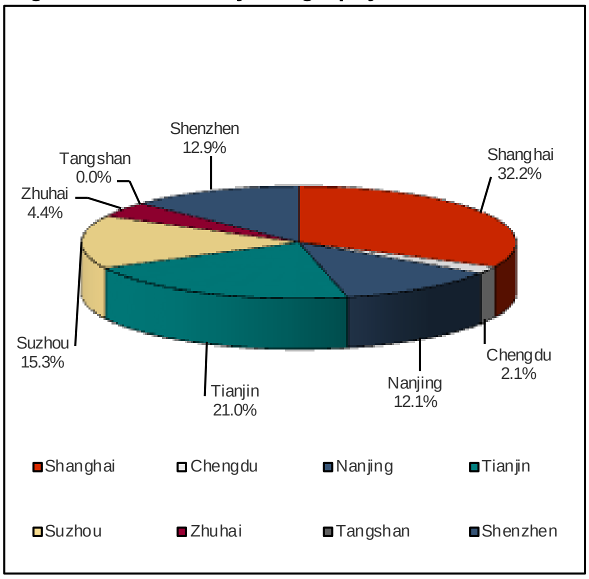
Yanlord Land Group Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	1Q2016
Income Statement (RMB'mn)			
Revenue	11,733	16,581	2,853
EBITDA	2,676	3,507	571
EBIT	2,645	3,472	563
Gross interest expense	1,490	1,298	370
Profit Before Tax	3,598	4,317	662
Net profit	1,359	1,469	260
Balance Sheet (RMB'mn)			
Cash and bank deposits	6,620	17,517	16,522
Total assets	67,327	79,898	82,030
Gross debt	19,806	18,262	16,283
Net debt	13,186	745	-239
Shareholders' equity	29,373	30,534	30,639
Total capitalization	49,179	48,796	46,922
Net capitalization	42,559	31,279	30,400
Cash Flow (RMB'mn)			
Funds from operations (FFO)	1,390	1,504	268
CFO	-89	15,214	2,534
Capex	479	718	118
Acquisitions	0	0	0
Disposals	12	51	18
Dividends	721	769	198
Free Cash Flow (FCF)	-568	14,496	2,417
* FCF Adjusted	-1,277	13,777	2,237
Key Ratios			
EBITDA margin (%)	22.8	21.2	20.0
Net margin (%)	11.6	8.9	9.1
Gross debt to EBITDA (x)	7.4	5.2	7.1
Net debt to EBITDA (x)	4.9	0.2	-0.1
Gross Debt to Equity (x)	0.67	0.60	0.53
Net Debt to Equity (x)	0.45	0.02	-0.01
Gross debt/total capitalisation (%)	40.3	37.4	34.7
Net debt/net capitalisation (%)	31.0	2.4	-0.8
Cash/current borrowings (x)	3.2	3.0	3.9
EBITDA/Total Interest (x)	1.8	2.7	1.5

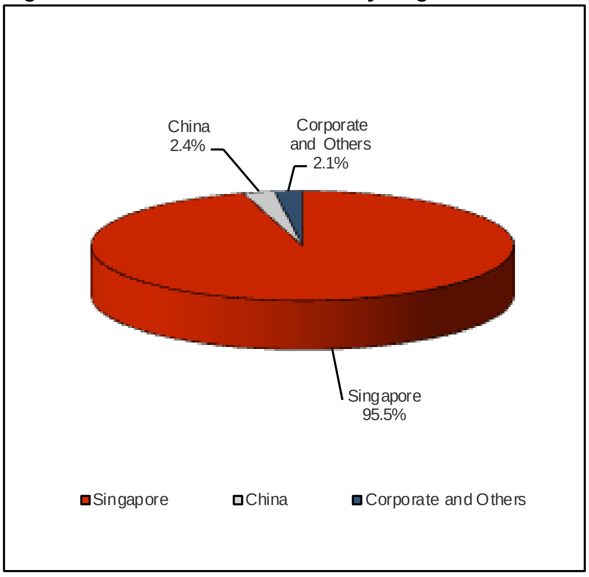
Source: Company, OCBC estimates
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue by Geography - FY2015



Source: Company

Figure 2: Revenue breakdown by Segment - FY2015



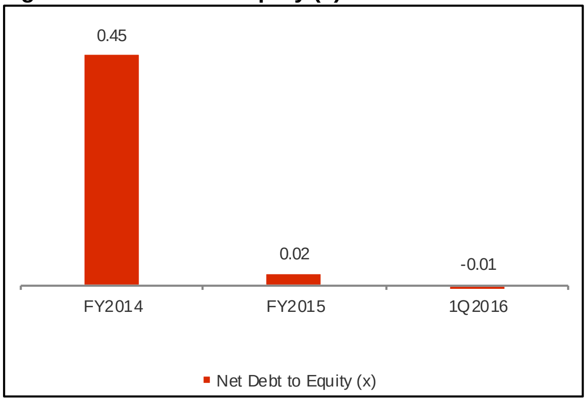
Source: Company

Figure 3: Debt Maturity Profile

	As at 31/3/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	1628.5	73.2%
Unsecured	2777.4	124.8%
	4405.9	**26.9%**
Amount repayable after a year		
Secured	4389.7	26.8%
Unsecured	7613.0	46.4%
	12002.7	**73.1%**
Total	**16408.6**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Financial Institution Outlooks

Australia & New Zealand Banking Group Ltd

Credit Outlook – Recent restructuring initiatives and on-going investments are expected to address weaknesses in ANZ's entrenched credit profile. We think the Aussie T2 space is fairly valued although the lower cash price for the ANZ 3.75% '27c22 could offer some upside if restructuring initiatives pan out as expected.

Issuer Profile: Neutral

S&P: AA-/Neg

Moody's: Aa2/Stable

Fitch: AA-/Stable

Ticker: **ANZ**

Background

ANZ Banking Group Limited is one of Australia's big 4 banks and the largest bank in New Zealand. It is ranked in the top 25 globally by market capitalization with operations in 34 markets. Its business segments cover retail, commercial and institutional banking as well as wealth management. As at 31 March 2016, the bank had total assets of AUD895.3bn.

Key credit considerations

- **Stable earnings reflecting depth and breadth but margin pressure:** ANZ's past earnings have been stable with operating income growth averaging around 5.0% pa over 2011-1H2016. Net interest income has remained the strongest income generator contributing around 70% consistently to total operating income (the proportion is higher in Australia and New Zealand compared to other markets). That said, NIMs have fallen over the same period due to low interest rates, on-going competitive pressures impacting loan pricing and deposit costs and weak returns from overseas businesses. Wholesale funding costs have also risen. Australia continues to generate the bulk of its operating income contributing around 63% of operating income over the same period followed by New Zealand contributing around 18%. While dominant, the contribution from Australia and New Zealand is lower than peers reflecting its super regional strategy and higher exposure than peers to Asia-Pacific, Europe and America.

- **Core businesses the driver of stability:** Stable earnings for ANZ come from the bank's Australian and New Zealand retail and commercial banking segments which generate 85% of total revenues. Of note are the bank's Australian operations which generate stronger NIMs and has lower credit charges compared to other business segments. The retail business dominates the Australian business with ~60% of profits and ~80% of net loans and advances (mostly home loans) with solid performance in this segment mitigating weaker performance in international and institutional business segments from weaker business volumes and returns and higher commodity related loan provisions.

- **Balance Sheet holds some risks but remains solid:** ANZ's balance sheet is typical for Australian banks with a high reliance on wholesale funding and a somewhat high loan to deposit ratio. That said, ANZ has access to stable customer deposits through the banks large retail business, which comprises around 51% of the bank's funding sources. While ANZ's loan book is of high quality with a focus on personal lending (57% of total loans), of note is the 6.7% of loans to the agriculture, forestry, fishing and mining industries. These industries remain under pressure and could be a key source of loan performance issues in the near term. Past asset quality and credit costs have been solid however that changed in 1H2016 when credit costs doubled due to problems with commodities related loans and costs associated with restructuring the Asia corporate loan book. That said, the NPL ratio was stable at 0.45% in 1HFY2016.

- **Super regional strategy still in play but more focused:** After years of low returns from Asia, new ANZ management is re-focusing on core businesses in Australia and New Zealand. Asia businesses will still remain but instead be focused on more profitable segments including trade and market sales and cash management. ANZ's forward strategy also includes efforts to improve costs and productivity through enhanced business integration and utilizing technology.

- **Improved capital ratios from capital management**: ANZ's APRA compliant capital ratios have been improving with CET1/CAR ratios at 9.8%/13.7% for 1HFY2016, above minimum capital requirements which are higher than international standards. The improvement is due to active capital management to counter expected rises in RWA and potentially weaker earnings through reducing exposures, raising AUD3.2bn in equity, reducing its 1H2016 dividend and becoming the first Australian bank to raise USD denominated convertible capital instruments. ANZ has a diversified investor base to supplement its customer deposits. This along with its established business position and earnings capacity should support continued access to external capital as and when required.

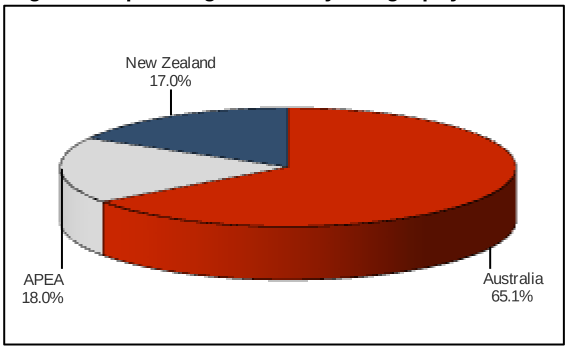
Australia & New Zealand Banking Group

Table 1: Summary Financials

Year Ended 30th Sep	FY2014	FY2015	1H2016
Income Statement (AUD'mn)			
Net Interest Income	13,810	14,616	7,568
Non Interest Income	5,727	5,830	2,396
Operating Expenses	8,760	9,359	5,479
Pre-Provision Operating Profit	10,777	11,087	4,485
Provisions	986	1,179	904
Other Income/(Expenses)	517	625	301
PBT	10,308	10,533	3,882
Income Taxes	3,025	3,026	1,140
Net Income	7,271	7,493	2,738
Balance Sheet (AUD'mn)			
Total Assets	772,092	889,900	895,278
Total Loans (net)	521,752	562,173	561,768
Total Loans (gross)	524,383	572,370	565,868
Total Allowances	3,933	4,017	4,100
Total NPLs	2,682	2,441	2,564
Total Liabilities	722,808	832,547	838,814
Total Deposits	510,079	570,794	578,071
Total Equity	49,284	57,353	56,464
Key Ratios			
NIM	2.13%	2.04%	2.01%
Cost-income Ratio	44.7%	45.6%	45.0%
LDR	102.3%	98.5%	97.2%
NPL Ratio	0.51%	0.43%	0.45%
Allowance/NPLs	146.6%	164.6%	159.9%
Credit Costs	0.19%	0.21%	0.32%
Equity/Assets	6.38%	6.44%	6.30%
CETier 1 Ratio (Full)	8.8%	9.6%	9.8%
Tier 1 Ratio	10.7%	11.3%	11.6%
Total CAR	12.7%	13.3%	13.7%
ROE	15.8%	14.5%	12.2%
ROA	1.00%	0.90%	0.62%

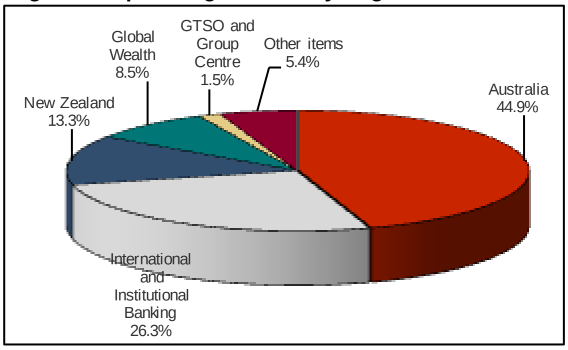
Source: Company | **OCBC estimate* | Capital Adequacy Ratios after proposed dividends

Figure 1: Operating Income by Geography - 1H2016



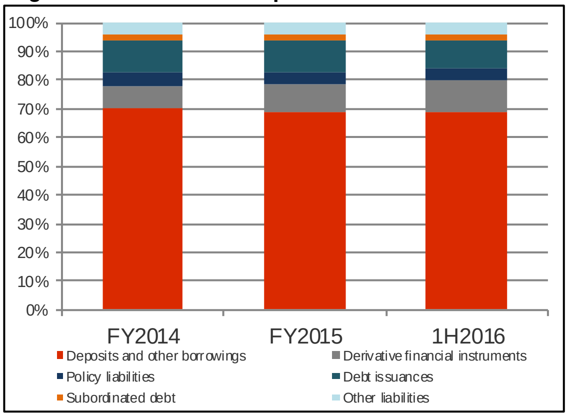
Source: Company

Figure 2: Operating Income by Segment - 1H2016



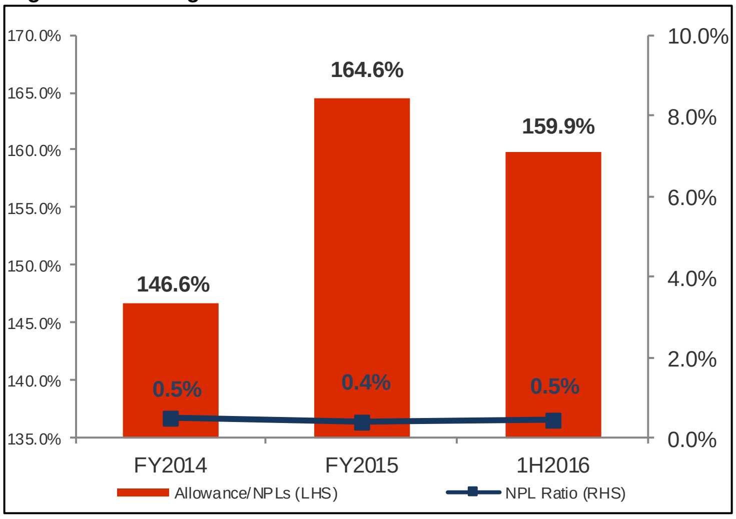
Source: Company

Figure 3: Liabilities Composition



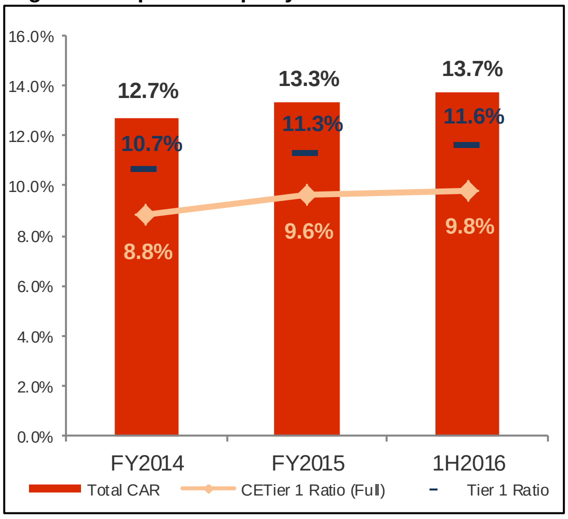
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company, OCBC estimates

Bank of China Ltd

Credit Outlook – While operating conditions remain challenging, we draw comfort from BOC's diversified businesses and implicit government support. These fundamentals support decent value for the BCHINA 2.75% '19s compared to other SGD bank seniors on issue.

Issuer Profile: Neutral

S&P: A/Stable

Moody's: A1/Neg

Fitch: A/Stable

Ticker: **BCHINA**

Background

Bank of China Ltd operates predominantly in China but also globally in 46 countries and regions providing a diverse range of financial services. Previously China's central bank, it became a state-owned commercial bank in 1994 and was listed in Hong Kong and Shanghai in 2006. Designated as a global systemically important bank, it had total assets of RMB17,040bn as at 31 March 2016 and is 64% government owned.

Key credit considerations

- **Significant scale as one of China's big 4:** As one of the world's largest banks, BOC's significant scale is anchored in its domestic operations which comprise around 80% of operating income and where it is the third largest commercial bank. A further 10% comes from BOC Hong Kong with the rest coming from Macau, Taiwan and other countries. Segment wise, the bulk of operating income is generated by BOC's corporate banking operations at 44%. This is followed by 29% from personal banking, 21% from treasury services and 5% from insurance and investment banking. In particular, BOC has a strong market position in settlements and clearing activities.

- **Industry pressures evident:** Profit performance was challenged in FY2015 and 1Q2016 under what BOC president Chen Siqing termed a 'new normal' operating environment of slower profit growth after the release of the FY2015 results. Net margins compressed due to slowing loan growth amidst economic challenges while asset yields have fallen and funding costs rose from government policies (deposit ceiling liberalization). Combined with higher credit costs, profit performance y/y has been largely stable or has grown marginally across peers. While BOC is unlikely to escape domestic industry pressures in the next few years, it is somewhat better positioned than its big 4 peers given relatively higher geographic and business diversity and access to higher non-interest income (31% of total income). The flip side is the relatively weaker contribution from personal banking could be a reason for its weaker NIMs and returns than peers.

- **Loan quality will continue to be a focus:** Rising credit costs and weakening asset quality continue to cause concern for China's banking sector with BOC's NPL ratio weakening from 0.95% in FY2012 to 1.43% in 1Q2016. Similarly, loan loss reserve coverage ratios fell from over 200% in FY2012 and FY2013 to 149% in 1Q2016, below the regulatory minimum. Profit pressure from credit costs is likely to continue despite government actions to lower the regulatory minimum loan loss coverage and the bank's on-going strategy to upgrade its loan mix. This is due to BOC's higher exposure to the manufacturing sector (18% of total loans and advances) and commerce and services loans (14%) which have the highest NPL ratios amongst segment exposures at 3.2% and 4.1% respectively. Of further note is the faster rise in special mention loans compared to overall loan growth, which could be a source of future credit costs.

- **Capital ratios still strong:** Despite slower growth, capital ratios have improved through active capital management from preference share issues and convertible bonds conversion into equity. As a result, the strong growth in additional Tier 1 capital contributed to net capital growing faster than RWA. Ratios are above the minimum requirements set by the CBRC for the end of 2018 (CET1/Tier1/CAR of 8.5%/9.5%/ 11.5%), however active capital management will likely continue given weak internal capital generation and potential future growth in RWA.

- **Government influence is prevalent:** Government presence in the banking sector is strong given its stable majority ownership and influence on bank strategies and regulations. Policies have been largely supportive of on-going economic growth but less so for China's banks given the negative profit impact of interest rate cuts and deposit rate liberalization. That said, the government has signalled its support for the sector through bad loan relief measures (lower regulatory minimum bad debt reserve requirements, bad debt swaps and bad debts sales to asset management companies) to mitigate weaker profitability. This reflects in our view the banking sector's important role in implementing government economic policies and likely government support if necessary.

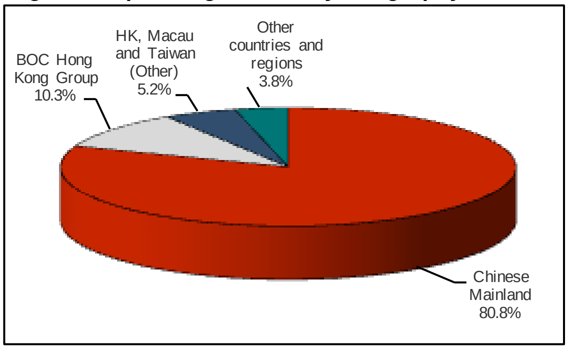
Bank of China

Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (RMB'mn)			
Net Interest Income	283,585	321,102	328,650
Non Interest Income	123,924	135,226	145,262
Operating Expenses	172,314	177,788	185,401
Pre-Provision Operating Profit	235,195	278,540	288,511
Provisions	23,510	48,381	59,274
Other Income/(Expenses)	1,092	1,319	2,334
PBT	212,777	231,478	231,571
Income Taxes	49,036	54,280	52,154
Net Income	156,911	169,595	170,845
Balance Sheet (RMB'mn)			
Total Assets	13,874,299	15,251,382	16,815,597
Total Loans (net)	7,439,742	8,294,744	8,935,195
Total Loans (gross)	7,607,791	8,483,275	9,135,860
Total Allowances	168,049	188,531	200,665
Total NPLs	73,271	100,494	130,897
Total Liabilities	12,912,822	14,067,954	15,457,992
Total Deposits	10,097,786	10,885,223	11,729,171
Total Equity	961,477	1,183,428	1,357,605
Key Ratios			
NIM	2.24%	2.25%	2.12%
Cost-income Ratio	30.6%	28.6%	28.3%
LDR	73.7%	76.2%	76.2%
NPL Ratio	0.96%	1.18%	1.43%
Allowance/NPLs	229.4%	187.6%	153.3%
Credit Costs	0.31%	0.57%	0.65%
Equity/Assets	6.93%	7.76%	8.07%
CETier 1 Ratio (Full)	9.7%	10.6%	11.1%
Tier 1 Ratio	9.7%	11.4%	12.1%
Total CAR	12.5%	13.9%	14.1%
ROE	18.0%	17.3%	14.5%
ROA	1.23%	1.22%	1.12%

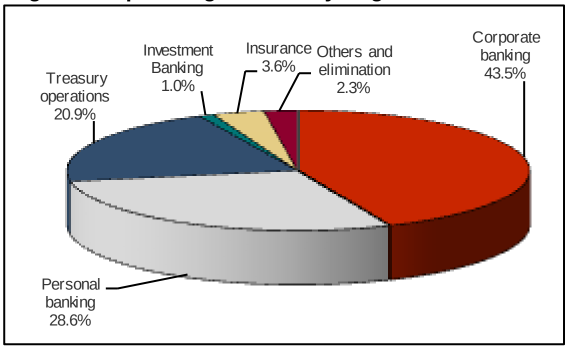
Source: Company | **OCBC estimate* | Capital Adequacy Ratios before proposed dividends

Figure 1: Operating Income by Geography - FY2015



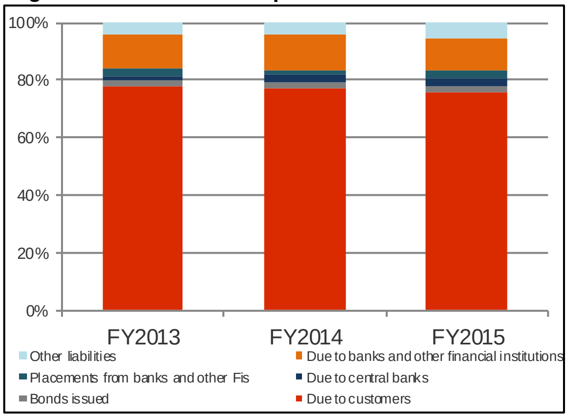
Source: Company

Figure 2: Operating Income by Segment - FY2015



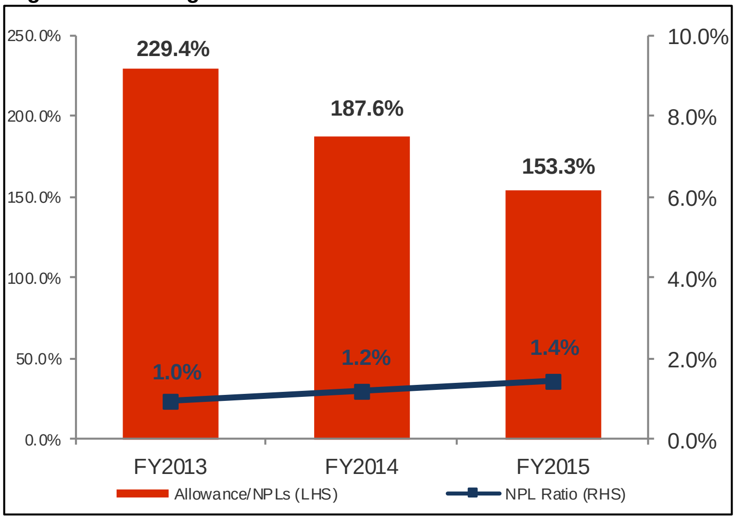
Source: Company

Figure 3: Liabilities Composition



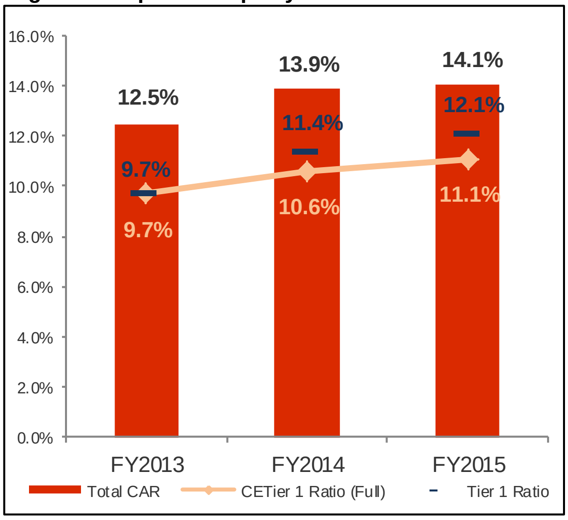
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company, OCBC estimates

Credit Outlook – BoCom's credit profile benefits from slightly better diversity and risk position that should partially soften industry pressures. We think the BOCOM 2.10% '17s are fairly valued given the short term duration.

Issuer Profile: Neutral

S&P: A-/Neg

Moody's: A2/Neg

Fitch: A/Stable

Ticker: **BOCOM**

Background

Headquartered in Shanghai, Bank of Communications Co. Ltd provides a broad set of financial services across corporate banking, personal banking and treasury services. Major shareholders include HSBC Holdings (19%) as well as the Chinese government through the Social Security Fund (14%) and China's Ministry of Finance (27%). As at 31 March 2016 it had total assets of RMB7,404bn.

Bank of Communications Co Ltd

Key credit considerations

- **Industry dynamics impacting profitability:** BoCom's profit performance is in line with peers with marginal profit growth in FY2015 and 1Q2016 due to China's slowing economy, falling asset yields and higher funding costs from government policies. This has seen net interest margins reduce consistently from 2.59% in FY2012 to 2.01% for 1Q2016. Margin compression has been compensated for by solid growth in net fee and commission income which grew 16% in FY2015 and 9.1% in 1Q2016. Non-interest income (which also includes trading and investment gains, share of profits from associates and insurance business income) contributed 39.4% of total revenue for 1Q2016, up from 26% in FY2015 and higher than peers. While the lower reliance on net interest income is a plus given industry pressures, revenue growth from investment banking is likely to slow and BoCom's efficiency and cost to income ratio is weaker than peers. As such, we expect future profitability to remain range bound with the industry.

- **Sound franchise in China:** Despite weaker profitability, we expect future earnings to exhibit some resilience. This is given the bank's solid market share in China as the 5th largest bank by total assets with a reasonable domestic geographic spread of loans albeit with some concentration to Eastern China. BoCom also has a higher international exposure which should add some stability to earnings. BoCom's strength is its corporate banking segment which contributes almost half of its total operating income and capital expenditure and 66% of its loans. Its wealth management business is targeted for growth with on and off balance sheet wealth management product exposure reportedly the highest in the industry. WMP's popularity has continued given the substantial spread on yields between WMPs and deposits despite deposit rate liberalization.

- **Balance sheet continues to grow:** BoCom's profit stability despite weaker margins is also due to growth in loan volumes which grew 8% in FY2015 and 5% in 1Q2016. Growth trends have been somewhat mixed with better growth in corporate loans in 2016 following strong growth in personal loans in FY2015. BoCom's loan exposure is quite diversified with its largest segment exposure to manufacturing at 16.7% in FY2015. That said, loans to this segment fell marginally in absolute terms and by 1.5% in relative terms as a percentage of total loans. At the same time, loans to the transportation/storage/ postal services, real estate and services segment grew the fastest in FY2015. We see this portfolio rebalancing as a positive for loan quality and reflective of the bank's risk management capabilities which are supported by BoCom's loan quality ratios which have weakened more moderately compared to larger peers.

- **Weaker capital ratios but above requirements:** Capital ratios are currently well above minimum regulatory CET1/Tier1/CAR requirements of 7.7%/8.7%/ 10.7% set by the CBRC for the end of 2016. That said, BoCom's capital ratios have shown a weakening trend with growth in risk weighted assets higher than growth in capital. With the weaker earnings outlook, capital ratios are expected to remain somewhat under pressure and could necessitate more active capital management strategies including more capital issuance.

- **Government Support more industry than entity specific**: Despite being materially smaller by total assets and market position than other central government owned banks, BoCom is also expected to benefit from government support. However in our view, this more reflects the strategic importance of the banking sector as a tool for implement government policies and the strong pro-active desire of the government to avoid any systemic shocks to the banking sector and the wider economy.

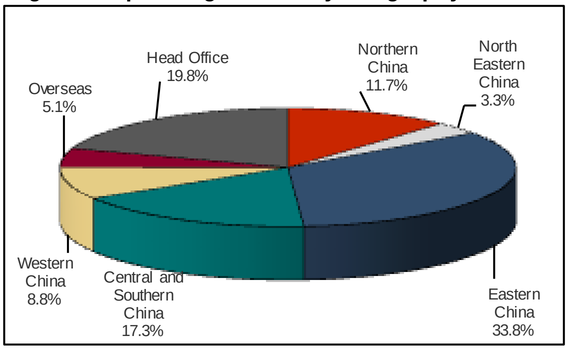
Bank of Communications

Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (RMB'mn)			
Net Interest Income	130,658	134,776	144,172
Non Interest Income	34,370	43,760	50,310
Operating Expenses	66,751	73,260	81,386
Pre-Provision Operating Profit	98,277	105,276	113,096
Provisions	18,410	20,439	27,160
Other Income/(Expenses)	42	90	76
PBT	79,909	84,927	86,012
Income Taxes	17,448	18,892	19,181
Net Income	62,295	65,850	66,528
Balance Sheet (RMB'mn)			
Total Assets	5,960,937	6,268,299	7,155,362
Total Loans (net)	3,193,063	3,354,787	3,634,568
Total Loans (gross)	3,266,368	3,431,735	3,722,006
Total Allowances	73,305	76,948	87,438
Total NPLs	34,310	43,017	56,206
Total Liabilities	5,539,453	5,794,694	6,617,270
Total Deposits	4,157,833	4,029,668	4,484,814
Total Equity	421,484	473,605	538,092
Key Ratios			
NIM	2.58%	2.42%	2.30%
Cost-income Ratio	29.7%	30.5%	30.5%
LDR	76.8%	83.3%	81.0%
NPL Ratio	1.05%	1.25%	1.51%
Allowance/NPLs	213.7%	178.9%	155.6%
Credit Costs	0.56%	0.60%	0.73%
Equity/Assets	7.07%	7.56%	7.52%
CETier 1 Ratio (Full)	9.8%	11.3%	11.1%
Tier 1 Ratio	9.8%	11.3%	11.5%
Total CAR	12.1%	14.0%	13.5%
ROE	15.6%	14.8%	13.4%
ROA	1.11%	1.08%	1.00%

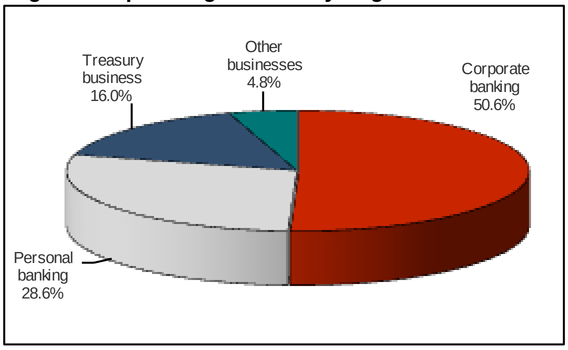
Source: Company | **OCBC estimate* | Capital Adequacy Ratios before proposed dividends

Figure 1: Operating Income by Geography - FY2015



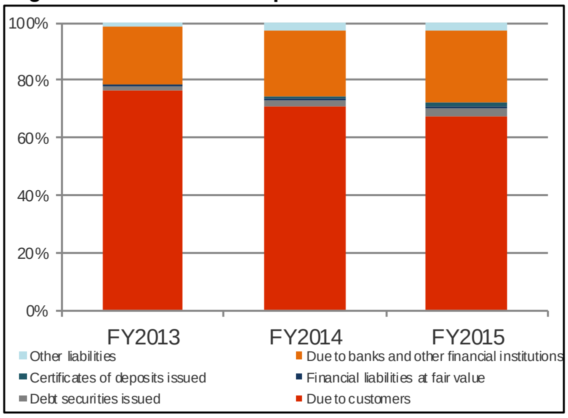
Source: Company

Figure 2: Operating Income by Segment - FY2015



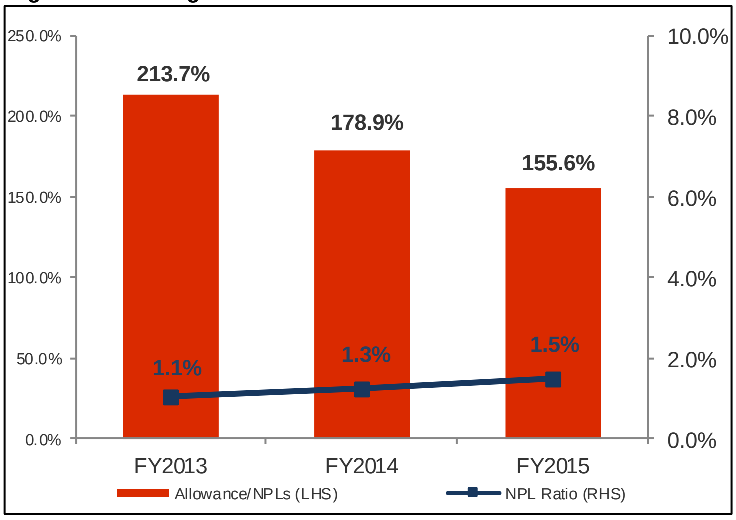
Source: Company

Figure 3: Liabilities Composition



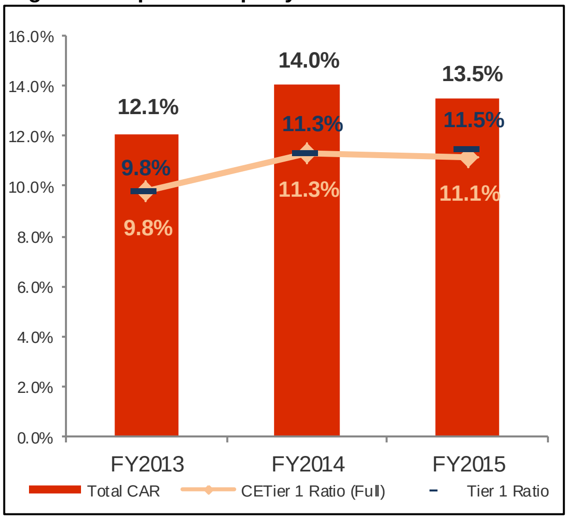
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company, OCBC estimates

Bank of East Asia Ltd

Credit Outlook – Growth trends in BEA's business segments are positive for the risk profile in our view. The BNKEA 4.25% '22c17s T2 offers good pick-up against the BNKEA 2.00% '17 senior although seems fairly valued in the broader T2 space.

Issuer Profile: Neutral

S&P: A/Neg

Moody's: A3/Neg

Fitch: Not rated

Ticker: **BNKEA**

Background

The Bank of East Asia, Ltd. (BEA) is the 5th largest bank by total assets and the largest independent local bank in Hong Kong. As of 31 December 2015, the bank had total assets of HKD781.4bn. The 3 largest shareholders of BEA are currently Japan's Sumitomo Mitsui Financial Group (19.0%), Spain's Caixabank (17.3% stake), and Malaysia's Guoco Management Co Ltd (13.8%).

Key credit considerations

- **Weaker performance in China:** BEA's FY2015 financial performance was driven by its Chinese operations with operating income from China falling 19% y/y. This overshadowed operating income growth in almost all of BEA's other business segments and resulted in total operating income falling y/y by 6.4% to HKD17.1bn. While part of the slowdown in China was due to external factors (slowing loan demand, intensifying competition and base rate cuts), internal factors were also at play including BEA actively reducing exposure to distressed and overcapacity sectors, and being more cautious in underwriting China exposures. While top line numbers have suffered, the slower China business is not necessarily a bad thing for BEA's overall credit profile given China's more competitive and higher risk landscape and BEA's weaker competitive position.

- **Domestic business intact:** Earnings continue to be underpinned by its resilient domestic business where it is Hong Kong's 5th largest bank by asset size with a ~4% market share of total system loans and one of 5 domestic systemically important banks. Hong Kong businesses contributed around 53% to total operating income and 66% of profit before tax in FY2015 with solid operating income growth performance y/y in both personal and corporate banking which grew 6% and 5% respectively (higher than HK's 2015 GDP growth of 2.4%). In particular, the growing contribution of personal banking to Hong Kong operations (and overall consolidated performance) with a focus on growing wealth management and insurance by leveraging off of its large retail network is a positive in our view for future earnings quality and stability.

- **Stable balance sheet:** The weaker economic environment impacted total assets in FY2015 which fell marginally by 1.8% to HKD781.4bn. Loan demand was especially weaker in manufacturing, wholesale and retail and trade financing while loan volumes for property lending grew 6%. Like other Hong Kong banks, BEA's loan exposure is concentrated in property with ~39% of total loans related to mortgages to individuals and property development or investment. The overall impaired loan ratio weakened noticeably to 1.1% in FY2015 from 0.6% in 2014 due to impaired loan growth in China with the impaired loan ratio for China exposures rising to 2.63% in FY2015 from 1.32% in FY2014. The impaired loan ratio in Hong Kong also rose but marginally to 0.34% from 0.21%. Given the bank's focus on personal banking, deposits from current and savings accounts grew solidly by 9% and 12% respectively and comprised a larger part of total deposits. However, overall deposits fell 1.5% in FY2015, faster than loan shrinkage, and contributed to a slight rise in the loan to deposit ratio.

- **Capital ratios improved:** BEA's capital position remains solid with CET1/CAR ratios at 12.2%/17.2%, above 2016 minimum requirements set by HKMA of 6.75%/10.25% which includes transitional levels for capital conservation and countercyclical buffers and an additional capital requirement for domestic systemically important banks. Ratios improved in FY2015 due to a HKD6.6bn capital injection by SMBC in March 2015. Future profitability is likely to be constrained by a weaker growth outlook and slower pace in interest rate hikes but at the same time could restrict aggressive growth in RWA.

- **Sector support not so clear:** Although government support for Hong Kong's banking sector remains somewhat unclear following the release of draft bank resolution legislation, we think the Hong Kong government's potential expansion of resolution powers recognizes the strategic importance of the banking sector to HK's economy and is consistent with HKMA's strong oversight and ongoing regulatory support against a build-up of systemic risk.

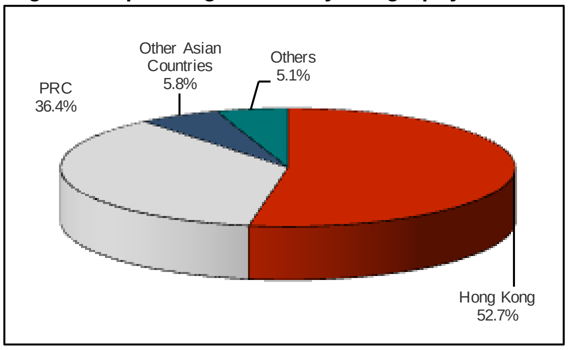
Bank of East Asia

Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (HKD'mn)			
Net Interest Income	12,262	12,675	11,934
Non Interest Income	4,991	5,557	5,130
Operating Expenses	9,583	9,849	9,732
Pre-Provision Operating Profit	7,670	8,383	7,332
Provisions	527	1,001	2,059
Other Income/(Expenses)	684	645	558
PBT	7,827	8,027	5,831
Income Taxes	1,779	1,650	1,111
Net Income	6,613	6,661	5,522
Balance Sheet (HKD'mn)			
Total Assets	753,954	795,891	781,364
Total Loans (net)	404,335	441,933	439,125
Total Loans (gross)	405,357	443,287	441,506
Total Allowances	1,022	1,354	2,381
Total NPLs	1,581	2,736	4,973
Total Liabilities	685,720	722,447	695,723
Total Deposits	534,971	548,184	540,743
Total Equity	68,234	73,444	85,641
Key Ratios			
NIM	1.90%	1.78%	1.66%
Cost-income Ratio	55.5%	54.0%	57.0%
LDR	75.6%	80.6%	81.2%
NPL Ratio	0.39%	0.62%	1.13%
Allowance/NPLs	64.6%	49.5%	47.9%
Credit Costs	0.13%	0.23%	0.47%
Equity/Assets	9.05%	9.23%	10.96%
CETier 1 Ratio (Full)	11.4%	11.8%	12.2%
Tier 1 Ratio	12.1%	12.5%	13.7%
Total CAR	15.9%	16.7%	17.2%
ROE	11.0%	9.6%	6.6%
ROA	0.90%	0.80%	0.60%

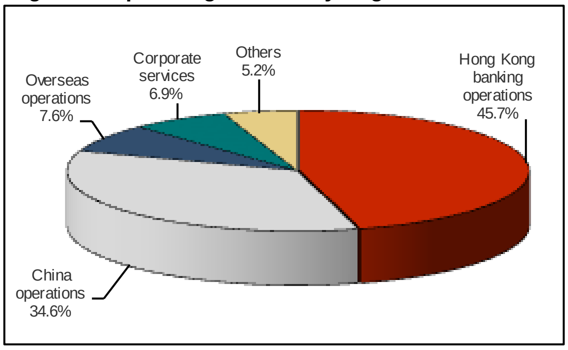
Source: Company | **OCBC estimate* | CAR before proposed dividends

Figure 1: Operating Income by Geography - FY2015



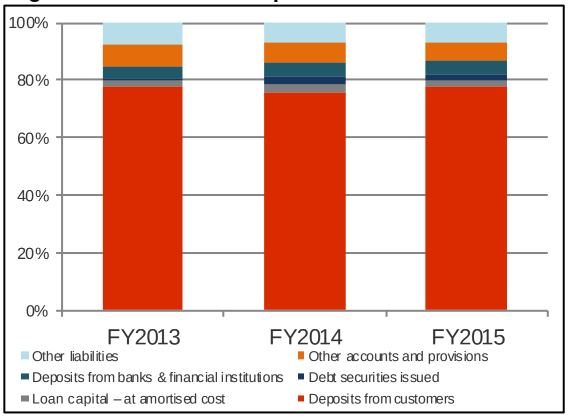
Source: Company

Figure 2: Operating Income by Segment - FY2015



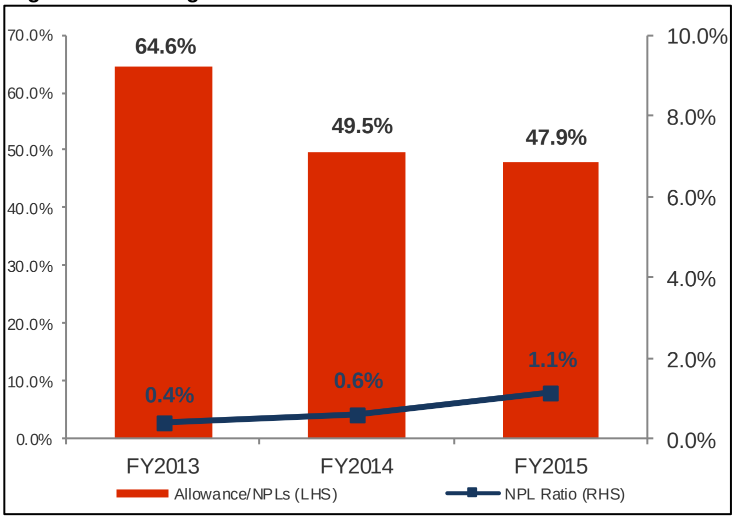
Source: Company | Income base on cash earnings

Figure 3: Liabilities Composition



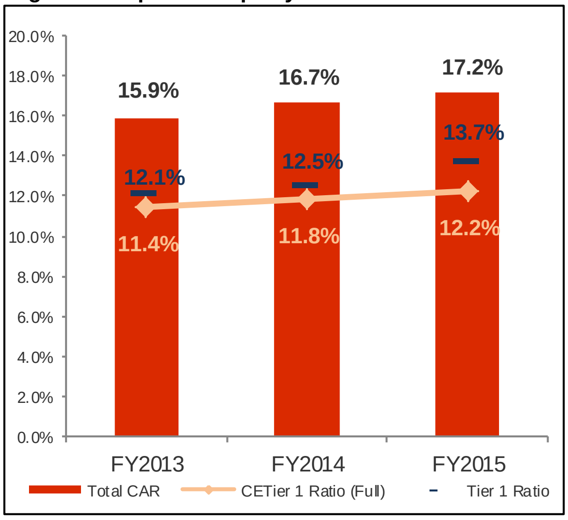
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company, OCBC estimates

CIMB Group Holdings Berhad

Credit Outlook – CIMB benefits from a strong consumer franchise and market position through CIMB Bank Bhd. The bank's credit profile is slightly stronger than the group's reflecting the absence of Indonesian exposure. We are neutral on the CIMBMK 2.12% '18 given its unexciting valuation.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa1/Stable

Fitch: Not rated

Ticker: **CIMB**

Background

CIMB Group Holdings Bhd (CIMB) is an ASEAN focused financial services provider with a core focus on Malaysia, Singapore, Thailand and Indonesia. Its business segments cover consumer banking, commercial banking, investment banking, Islamic banking and asset management. As at 31 March, 2016 it had total assets of MYR465.2bn. Its major shareholders are Khazanah Nasional and the Employee Provident Fund.

Key credit considerations

- **Business diversity a plus:** CIMB's recent operating income performance has been strong due to broad based growth across all segments. In particular, net interest income benefited from solid loan growth which mitigated weaker capital markets activities and weaker net interest margins (NIM) that fell to 2.66% in FY2015 from 2.81% in FY2014 and. While y/y operating income growth in 2016 has been slower and profitability is under pressure from higher operating expenses and a marked increase in loan impairments, the key for CIMB remains its business segment diversity with strong performance in consumer and wholesale banking (investment banking, corporate banking, treasury and markets) mitigating weak performance in CIMB's commercial banking segment (SME's, mid-sized corps) and leading to consumer banking's contribution to consolidated PBT increasing to 50% for 1Q2016 from 34% in FY2014.

- **But more exposed to industry pressures:** Industry trends for banking in Malaysia remain challenging. Low economic growth, weaker asset quality and competition for deposits are working in concert to put pressure on bank profitability. CIMB is somewhat more exposed than peers to the prospects of weaker profitability given its high cost to income ratio (CIR) at 57.4% in 1Q2016 compared to peers and the industry average. Furthermore, CIMB's exposure to more challenged operating environments is also relatively higher with net interest income from non-domestic sources (mostly Thailand and Indonesia) contributing 53% in FY2015. While these markets offer solid growth opportunities, historical profitability has tended to be volatile and highly influenced by increasing loan provisions, particularly in the commercial loan books. This has resulted in CIMB's loan quality metrics being weaker than peers (3.0% vs 1.5% for select peers) which further dilutes CIMB's profit performance.

- **Adjusting to the future:** To counter the challenging operating environment and CIMB's sensitivity to it, the company is implementing its Target 2018 (T18) strategy comprised of 18 initiatives focused on strategic and organization transformation, differentiation and optimization to sustain the bank's profit growth. The strategy has yielded some success to date with CIMB's CIR improving slightly y/y and income contribution from consumer banking also rising (albeit partially due to weaker performance in commercial banking). The bank is targeting a 50% CIR and income contribution from consumer banking of 60% by 2018 and while there is some way to go, achieving these targets will be supportive for the bank's credit profile in our view.

- **Balance sheet growth trends:** As mentioned previously, CIMB's performance has been supported by relatively solid y/y loan growth. Deposits grew at a relatively similar pace owing to CIMB's strong consumer banking franchise leaving CIMB's loan to deposit ratio relatively stable y/y. Loan composition has remained consistent with almost 60% of total gross loans in Malaysia followed by around 20% in Indonesia and 10% each from Singapore and Thailand. Of note however is the higher y/y growth in loans to Malaysia borrowers and in consumer mortgages. This is positive in our view given NPL ratios in these segments are better than CIMB's overall NPL ratio of 3.0% as at 1Q2016.

- **Capital levels are thinner**: Capital ratios have weakened marginally over the past 18 months from growth in risk weighted assets and a slight fall in CET1 and Tier 1 capital. Although above current regulatory requirements, capital management continues to be a focus for the bank. On-going initiatives include a dividend reinvestment scheme and on-going issuance of capital instruments including MYR2.0bn in Tier 2 capital in December 2015 and MYR1.0bn in AT1 securities in May 2016. We expect issuance to continue given increasing capital requirements and near term maturity of capital instruments.

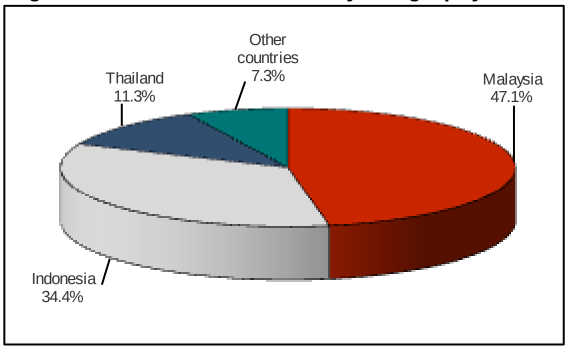
CIMB Group Holdings

Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (MYR'mn)			
Net Interest Income	7,954	8,656	9,337
Non Interest Income	6,718	5,490	6,059
Operating Expenses	8,458	8,292	9,249
Pre-Provision Operating Profit	6,214	5,854	6,147
Provisions	726	1,701	2,318
Other Income/(Expenses)	361	123	86
PBT	5,849	4,276	3,914
Income Taxes	1,240	1,102	1,018
Net Income	4,540	3,107	2,850
Balance Sheet (MYR'mn)			
Total Assets	370,913	414,156	461,577
Total Loans (net)	228,432	258,015	290,296
Total Loans (gross)	234,558	264,644	297,822
Total Allowances	6,266	6,765	7,691
Total NPLs	6,901	7,804	8,721
Total Liabilities	339,684	375,765	419,345
Total Deposits	263,004	282,069	317,424
Total Equity	31,229	38,391	42,233
Key Ratios			
NIM	2.85%	2.80%	2.66%
Cost-income Ratio	57.6%	58.6%	60.1%
LDR	86.9%	91.5%	91.5%
NPL Ratio	2.94%	2.95%	2.93%
Allowance/NPLs	90.8%	86.7%	88.2%
Credit Costs	0.31%	0.64%	0.78%
Equity/Assets	8.42%	9.27%	9.15%
CETier 1 Ratio (Full)	9.6%	11.2%	11.5%
Tier 1 Ratio	11.6%	12.6%	12.7%
Total CAR	12.9%	14.7%	15.8%
ROE	15.5%	9.2%	7.3%
ROA	1.28%	0.79%	0.65%

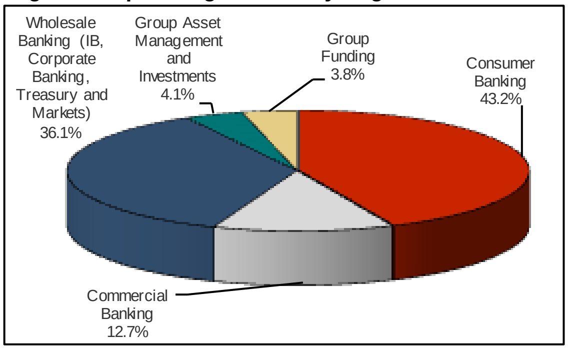
Source: Company | **OCBC estimate* | CAR before proposed dividends (Reflects CAR of CIMB Bank)

Figure 1: Net Interest Income by Geography - FY2015



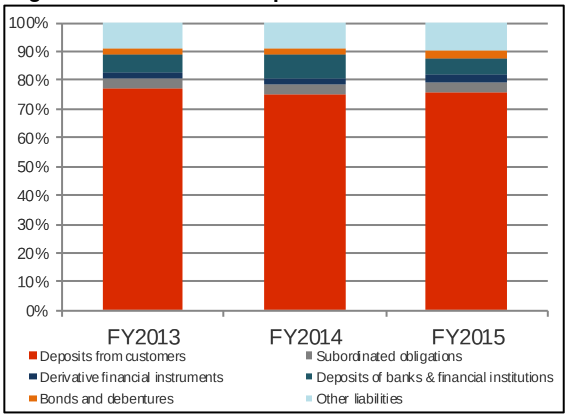
Source: Company

Figure 2: Operating Income by Segment - FY2015



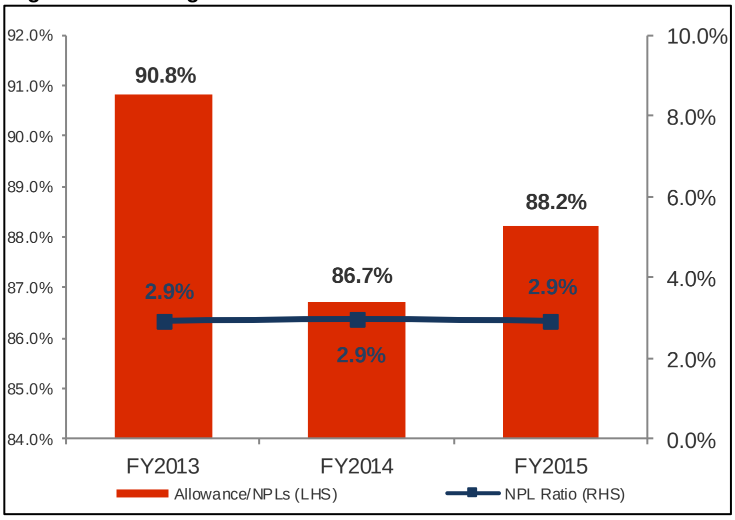
Source: Company | Income base on cash earnings

Figure 3: Liabilities Composition



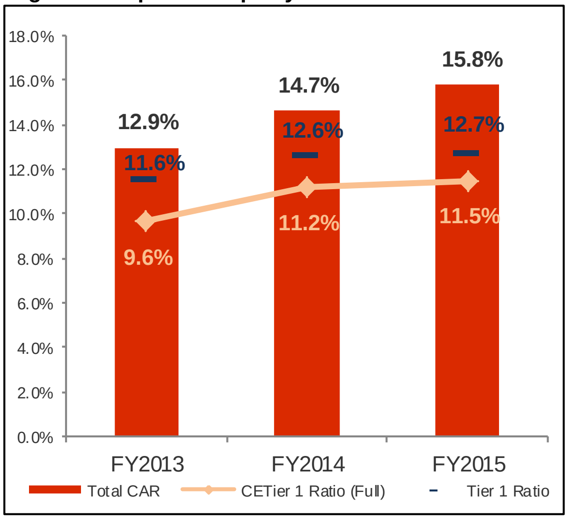
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company, OCBC estimates

Credit Outlook – DSBG's credit profile depends on its ability to mitigate industry challenges. Given its relatively small scale, we think there is better value in other bank names in the Tier 2 space.

Issuer Profile: Neutral

S&P: Not rated

Moody's: A3/Neg

Fitch: BBB+/Stable

Ticker: **DAHSIN**

Background

Dah Sing Banking Group Ltd (DSBG) is a majority owned subsidiary of Dah Sing Financial Holdings Limited (DSFH) and the holding company of DSFH's banking subsidiaries. Incorporated in 2004, its main operating subsidiary is Dah Sing Bank Ltd (DSB) Its other banking subsidiaries include Banco Comercial de Macau and Dah Sing Bank (China) Limited. As at 31 December 2015, DSBG had total assets of HKD196bn.

Dah Sing Banking Group Ltd

Key credit considerations

- **Smaller player in Hong Kong's banking sector:** DSBG is a relatively small player in Hong Kong's competitive financial sector which is dominated by subsidiaries of large international banking groups. Its main wholly owned subsidiary, Dah Sing Bank Ltd (DSB), has a domestic loan market share of around 1.5%. It's business is broadly split into three segments; personal banking which comprises retail banking, VIP and private banking and vehicle financing; commercial banking which includes trade finance, commercial lending, hire purchase and equipment leasing; and treasury which manages foreign exchange dealings as well as the bank's funding and risk position. These segments contributed 44%, 30% and 12% respectively to total operating income in FY2015. DSBG also has overseas operations through subsidiaries in Macau and China as well as a 14.7% ownership in the Bank of Chongqing.

- **Robust performance in FY2015:** Despite its small scale and prevailing industry challenges, Dah Sing's recent operating and financial performance was solid with record profits achieved in 2015. It's personal, commercial and treasury businesses performed better y/y with operating income up 11%, 15% and 13% respectively which contributed to consolidated operating income up 10.1% y/y. Of note was net interest income growth by 11.6% through modest loan growth and net interest margin growth due to better deposit composition.

- **Strategy showing benefits:** Better funding costs are due to the group's medium term strategy to increase low cost deposits through strengthening its transactional relationship with customers by product bundling and development of digital delivery platforms. This strategy saw demand deposits and current accounts balances grow 40% and could also explain other y/y trends including strong income growth in wealth management (+19%) and solid loan growth from individuals (+10%) with property related loans and mortgages up 8.4%.

- **Credit quality decline appears manageable**: DSBG's loan quality has weakened with non-performing loans up by ~130% to HKD796.3mn. This rise came from the bank's trade finance and term loan exposures in the corporate and SME segment which were impacted by the slowing HK economy, weak external demand and RMB depreciation. DSBG remains highly exposed to the SME sector in its commercial banking segment. Asset quality could also weaken from the bank's relatively high exposure to Hong Kong's slowing property sector. That said, economic fundamentals in HK remain broadly sound with economic imbalances falling with softening property prices. Loan to value ratios are also conservative and impaired property exposures are secured.

- **Capital Structure:** DSBG's capital position has benefited from recent financial performance and slowing loan demand with FY2015 loans growth of 3.5% below the 10-16% average growth over FY2012-2014. Its CET1/CAR ratio of 12.2%/16.7% in FY2015 improved y/y and was above HKMA's regulatory minimum for 2016 of 5.75%/9.25%. Evolution of future capital levels will depend on the bank's ability to contain credit costs and maintain margins given the low loan growth outlook.

- **Government support unlikely:** The HK government's stance towards sector support remains somewhat unclear with the recent release of draft legislation for bank resolution. While the government is seeking to retain some discretion to bail out banks if needed, the government is favoring the bail in of bank instruments to support banks in distress. Given DSBG's relatively small market share, we think it unlikely that it would receive government support in times of need.

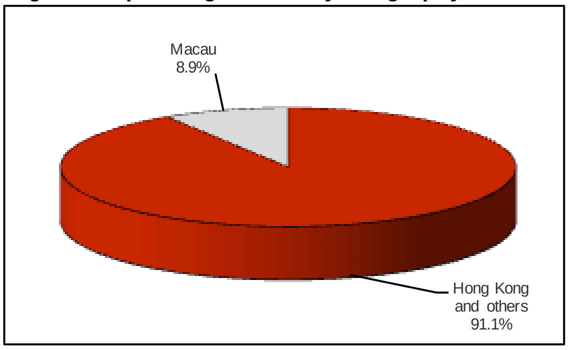
Dah Sing Banking Group

Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (HKD'mn)			
Net Interest Income	2,797	2,990	3,337
Non Interest Income	1,020	1,175	1,250
Operating Expenses	1,976	2,127	2,240
Pre-Provision Operating Profit	1,842	2,038	2,347
Provisions	310	473	496
Other Income/(Expenses)	596	623	688
PBT	2,128	2,188	2,539
Income Taxes	246	225	308
Net Income	1,756	2,034	2,201
Balance Sheet (HKD'mn)			
Total Assets	167,227	185,328	196,032
Total Loans (net)	108,198	115,864	118,421
Total Loans (gross)	108,644	116,399	119,136
Total Allowances	446	535	715
Total NPLs	381	348	796
Total Liabilities	150,162	165,372	174,549
Total Deposits	129,843	142,580	150,848
Total Equity	17,066	19,957	21,483
Key Ratios			
NIM	1.79%	1.76%	1.83%
Cost-income Ratio	51.8%	51.1%	48.8%
LDR	83.3%	81.3%	78.5%
NPL Ratio	0.35%	0.30%	0.67%
Allowance/NPLs	116.9%	153.6%	89.8%
Credit Costs	0.29%	0.41%	0.42%
Equity/Assets	10.21%	10.77%	10.96%
CETier 1 Ratio (Full)	10.4%	11.4%	12.2%
Tier 1 Ratio	10.4%	11.4%	12.2%
Total CAR	14.5%	16.3%	16.7%
ROE	10.8%	11.0%	10.6%
ROA	1.10%	1.20%	1.20%

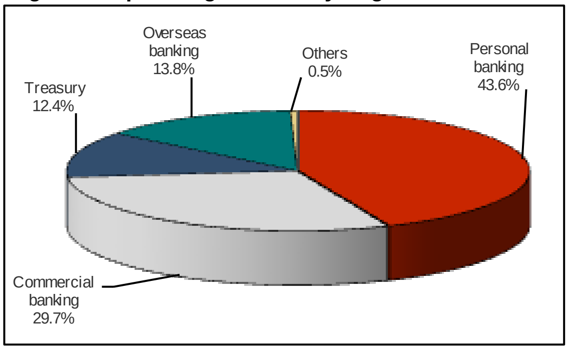
Source: Company | **OCBC estimate* | Capital Adequacy Ratios after proposed dividends

Figure 1: Operating Income by Geography - FY2015



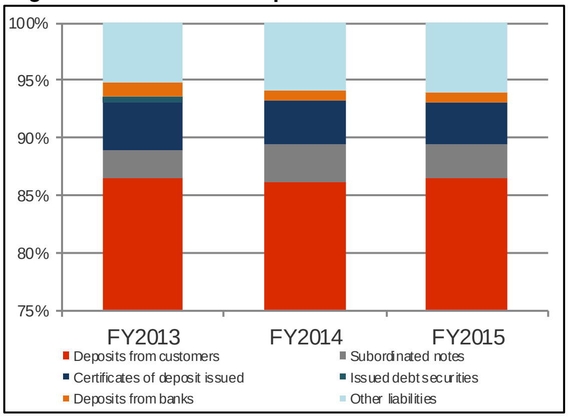
Source: Company

Figure 2: Operating Income by Segment - FY2015



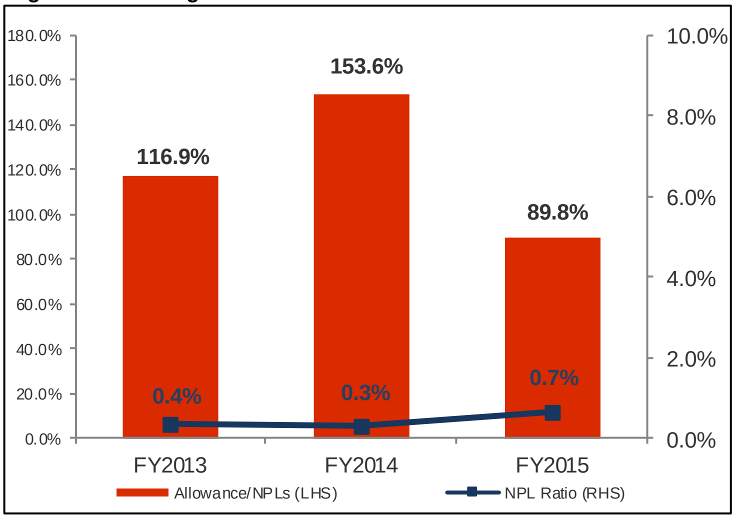
Source: Company

Figure 3: Liabilities Composition



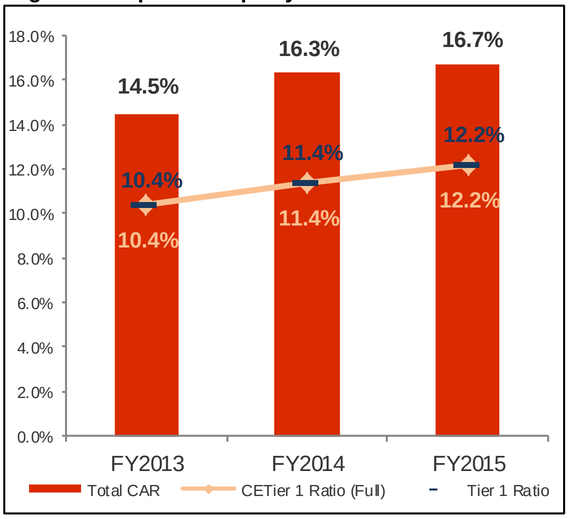
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company, OCBC estimates

Credit Outlook – DBSH has managed industry conditions well and we expect it to leverage off its strengths to the benefit of its credit profile. That said, the curve is tight and think there is some better value in Aussie T2 issues, in particular the WSTP 4.00% '27c22 against the DBSSP 3.80% '28c23.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Aa2/Neg

Fitch: AA-/Stable

Ticker: **DBSSP**

Background

DBS Group Holdings Limited (DBSH) primarily operates in Singapore and Hong Kong and is a leading financial services group in Asia with a regional network of more than 280 branches across 18 markets. With total assets of SGD439bn as at 31 March 2016, it provides diversified services across consumer banking, wealth management institutional banking, and treasury. It is 30% indirectly owned by the government through Temasek Holdings Pte Ltd as 4 July 2016.

DBS Group Holdings Ltd

Key credit considerations

- **Strength in numbers:** DBS continues to post strong earnings led by solid growth in net interest income (NIM reached a five year high of 1.84% in 4Q2015 on rising interest rates) with total income growing 12% y/y in FY2015 and 5% y/y in 1Q2016. This, along with higher net fee and commission income (in particular wealth management, cards and loan related) mitigated to an extent higher operating expenses and provisions and translated to net profit before one-offs of SGD4.3bn and SGD1.2bn respectively for FY2015 and 1Q2016. Although interest rates have fallen so far in FY2016, we expect profitability to remain relatively stable owing to its strong franchises in Singapore and Hong Kong (which contribute over 80% of operating income) and access to lower cost funding. Almost 40% of operating income comes from overseas.

- **Consumers driving performance as cyclical segments find the going tough**: The consumer banking and wealth management segment has been a pillar of strength for DBS with segment profit up 23% in FY2015 y/y and 39% in 1Q2016 y/y. Higher deposit margins as well as deposit and loan volumes, particularly for mortgages, contributed to segment income growth. Conversely, performance in the Institutional segment has been weakening in line with slower regional economic growth and volatile markets with higher net interest income y/y partially offset by lower income from capital market activities and trade finance. Segment profit before tax actually fell 5% y/y in 1Q2016 due to a fall in trade finance and treasury product sales along with lower loan volumes. Performance of the treasury segment was even softer due to market volatility and an overall decline in treasury customer activities. Overall however, the strong consumer segment performance contributed to a 10% improvement in consolidated profit before tax in FY2015 y/y and a 4% improvement in 1Q2016 y/y. This highlights the breadth of DBS' services, and in particular its strong market position in Singapore's consumer banking segment, whose profits are seen as less cyclical and therefore better quality.

- **Weaker asset quality as expected:** Non-performing loans (NPLs) have risen as expected increasing by 8% and 3% y/y for FY2015 and 1Q2016 respectively with the increase mostly coming from Hong Kong. NPL ratios however have not risen as much creeping up to 1.0% as at 1Q2016 from 0.9% for FY2015, with the rise due more to lower loan volumes by 2% y/y and 3% q/q in 1Q2016. Loan volume decline has been highest in China reflecting the decline in trade activity which has been offset to an extent by loans growth in Singapore. On an industry level, loans to manufacturing and general commerce have fallen while building and construction and housing loans have increased. Whether due to lower demand or specific intention, we think the overall risk within the loan portfolio has marginally improved from growth in better risk categories by region and industry. It should be noted that based on separate disclosures we estimate DBSH's exposure to oil and gas is around 7-8% of gross loans.

- **Solid balance sheet remains:** DBS' capital position remained strong despite industry headwinds with its Basel III CET1/CAR ratios improving to 14.0%/16.0% as at 1Q2016 from 13.5%/15.4% and 13.4%/15.3% respectively in FY2015 and 1Q2015. On a fully loaded basis, CET1 was 13.2% as at 1Q2016, well above the regulatory minimum of 7.2%. Ratios benefited from growth in retained earnings as well as a fall in risk weighted assets. The bank's loan to deposit ratio also remained sound at 87.4% due to its deposit-funded balance sheet. We expect DBS' balance sheet measures to remain strong for FY2016 owing to its current balance sheet strength and solid business franchises.

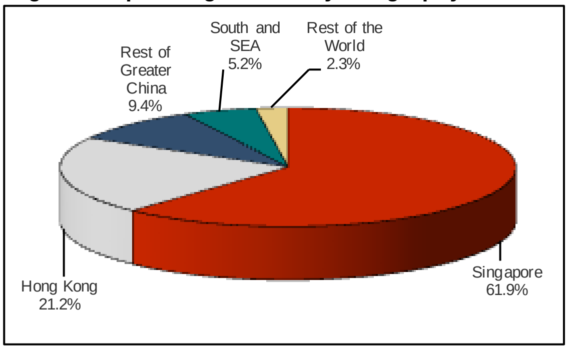
DBS Group Holdings

Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (SGD'mn)			
Net Interest Income	5,569	6,321	7,100
Non Interest Income	3,358	3,297	3,687
Operating Expenses	3,918	4,330	4,900
Pre-Provision Operating Profit	5,009	5,288	5,887
Provisions	770	667	743
Other Income/(Expenses)	79	79	14
PBT	4,318	4,700	5,158
Income Taxes	615	713	727
Net Income	3,672	4,046	4,454
Balance Sheet (SGD'mn)			
Total Assets	402,008	440,666	457,834
Total Loans (net)	248,654	275,588	283,289
Total Loans (gross)	252,181	279,154	286,871
Total Allowances	3,527	3,566	3,582
Total NPLs	2,882	2,419	2,612
Total Liabilities	364,322	400,460	415,038
Total Deposits	292,365	317,173	320,134
Total Equity	37,686	40,206	42,796
Key Ratios			
NIM	1.62%	1.68%	1.77%
Cost-income Ratio	43.9%	45.0%	45.4%
LDR	85.0%	86.9%	88.5%
NPL Ratio	1.14%	0.87%	0.91%
Allowance/NPLs	122.4%	147.4%	137.1%
Credit Costs	0.31%	0.24%	0.26%
Equity/Assets	9.37%	9.12%	9.35%
CETier 1 Ratio (Full)	13.7%	13.1%	13.5%
Tier 1 Ratio	13.7%	13.1%	13.5%
Total CAR	16.3%	15.3%	15.4%
ROE	10.8%	10.9%	11.2%
ROA	0.91%	0.91%	0.96%

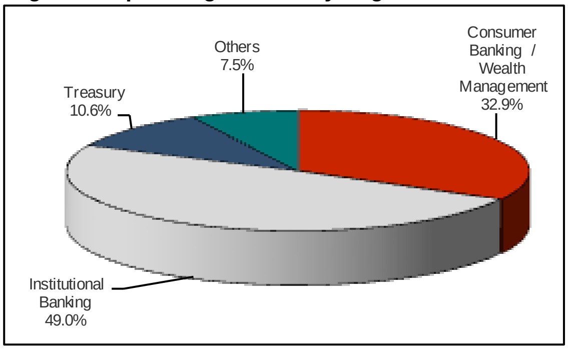
Source: Company | **OCBC estimate* | Capital Adequacy Ratios before proposed dividends

Figure 1: Operating Income by Geography - FY2015



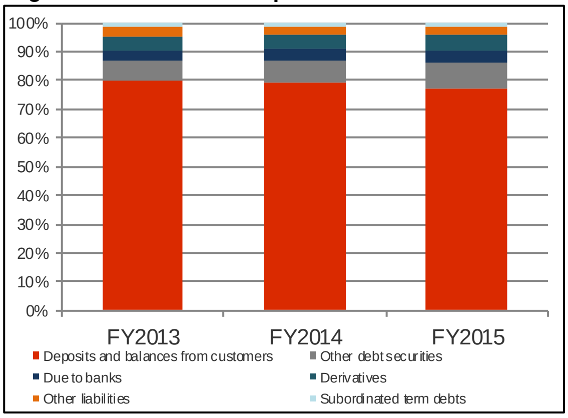
Source: Company

Figure 2: Operating Income by Segment - FY2015



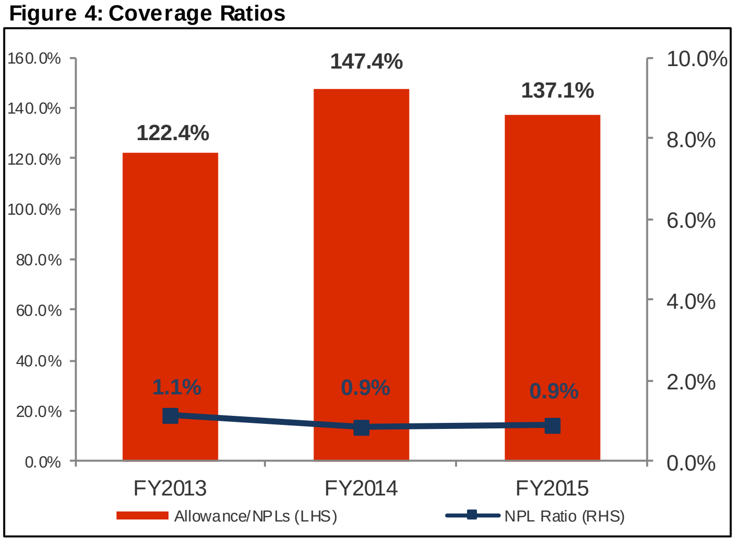
Source: Company

Figure 3: Liabilities Composition



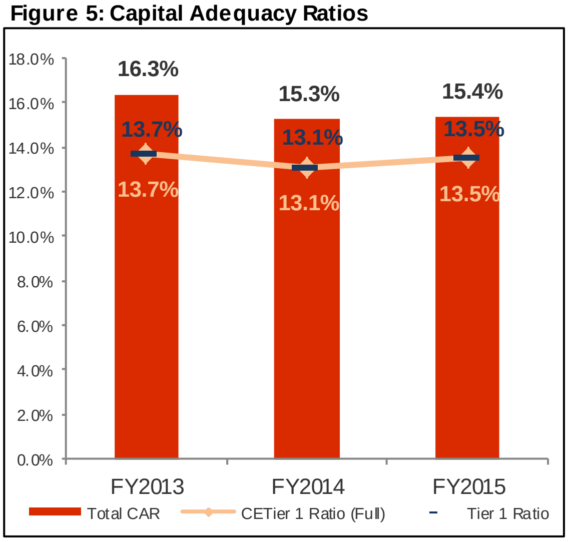
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company, OCBC estimates

Malayan Banking Berhad

Credit Outlook – Maybank's entrenched business position and systemic importance are key supports for the credit profile. We think pricing for the Maybank SGD curve is fair value considering the fundamentals.

Issuer Profile: Neutral

S&P: A-/Stable

Moody's: A3/Stable

Fitch: A-/Neg

Ticker: **MAYMK**

Background

Malayan Banking Berhad is the largest financial services group in Malaysia and 4th largest in ASEAN. It is organized into three operating segments: Group Community Financial Services, Group Global Banking and Group Insurance and Takaful. As at 31 March 2016, it had total assets of MYR702.3bn. Maybank is indirectly majority government owned.

Key credit considerations

- **Performance in line with the industry:** Maybank's recent financial performance reflects broad industry trends in the Malaysian and regional banking sector with weaker domestic demand and consumer sentiment, rising competition and weaker asset quality combining to suppress profits. Total operating income in FY2015 rose by 11.4% y/y to MYR25bn thanks largely to growth in net interest income by 14.5% despite net interest margins remaining stable at 2.31%. However rising expenses and a MYR1.283bn increase in impairment allowances to MYR1.68bn meant that improvement in profit before tax was marginal at 0.4%. 1Q2016 was somewhat weaker with a 10.4% rise in total operating income y/y to MYR6.72bn and an improved net interest margin overshadowed by a material rise in net impairment losses which were up 194% y/y and 68% q/q to MYR878.4mn. The rise in impairments was largely responsible for the 14% y/y drop in operating profit to MYR1.89bn.

- **Weaker asset quality somewhat concentrated:** The rise in impairment allowances was driven by impaired loans rising 37.2% y/y to MYR8.56bn in FY2015 and rising a further 9.1% to MYR9.34bn as at 31 March 2016. Of note is the significant rise of impaired loans in Hong Kong and Singapore which contributed around 61% of the impaired loans increase since FY2014. The sharpest rise occurred in its Singapore corporate and business banking exposures and is likely related to clients in the oil and gas space. While the deterioration has been noticeable, a factor at play is the need to reclassify restructured and rescheduled (R&R) loans as impaired under Bank Negara Malaysia's R&R guideline effective from 1 April 2015. This makes the loan quality picture somewhat weaker than it really is. Given management's focus on managing asset quality, we do not expect further earnings surprises from loan impairments going forward.

- **Leveraging off of its strong business position**: Maybank's key strength remains its strong market position and diversified business segments as the largest bank in Malaysia. Its business spans across Community Financial Services (consumer banking, SME and business banking), Global Banking (corporate, banking and global markets in Malaysia, investment banking and asset management), Insurance and Takaful and International Banking. This is likely the reason for strong revenue performance across all business segments and fairly solid growth in net loans and advances in FY2015 and 1Q2016 despite weaker domestic economic conditions. Most of the loan growth occurred in housing and loans to individuals and domestic business enterprises for the purchase of landed properties. Loan growth was also more prevalent in Maybank's key markets of Malaysia and Singapore. We see these trends as largely positive for loan portfolio quality given growth is occurring in relatively less risky segments.

- **Improved capital ratios**. Maybank's capital ratios remain sound with CET1/CAR ratios of 13.0%/17.9% in 1Q2016 improving from 12.8%/17.7% in FY2015 and 11.7%/16.2% in FY2014. Improvement was due to higher growth in both CET1 and Tier 2 capital which grew 13.6% and 20.4% respectively since FY2014. In contrast, growth in risk weighted assets was 2.7% over the same period. Maybank successfully issued MYR3.2bn in Tier 2 securities in FY2015 to solidify its capital position. With challenging operating conditions to continue, Maybank has issued further capital instruments in 2016 including USD500mn and MYR1bn in Tier 2 securities so far. As such, we expect Maybank's capital ratios to remain solid and well above regulatory minimum requirements for CET1/CAR of 5.1%/8.6% including transitional capital conservation buffer.

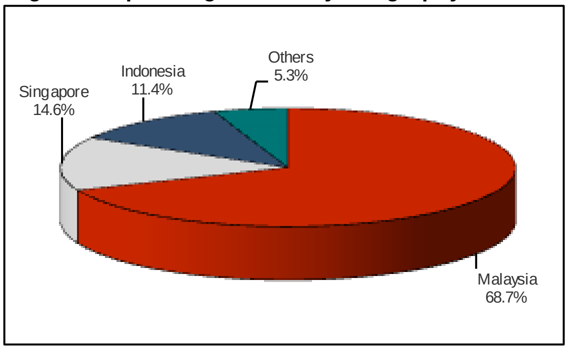
Malayan Banking Berhad

Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (MYR'mn)			
Net Interest Income	9,585	9,704	11,114
Non Interest Income	12,634	12,758	13,908
Operating Expenses	12,608	13,042	14,069
Pre-Provision Operating Profit	9,610	9,419	10,953
Provisions	880	471	2,013
Other Income/(Expenses)	139	163	211
PBT	8,870	9,112	9,152
Income Taxes	2,098	2,201	2,165
Net Income	6,552	6,716	6,836
Balance Sheet (MYR'mn)			
Total Assets	560,319	640,300	708,345
Total Loans (net)	355,618	403,513	453,493
Total Loans (gross)	361,380	409,472	459,652
Total Allowances	5,763	5,959	6,159
Total NPLs	5,361	6,234	8,555
Total Liabilities	512,576	585,559	644,831
Total Deposits	395,611	439,569	478,151
Total Equity	47,743	54,741	63,513
Key Ratios			
NIM	2.43%	2.31%	2.31%
Cost-income Ratio	47.8%	48.9%	48.2%
LDR	89.9%	91.8%	94.8%
NPL Ratio	1.48%	1.52%	1.86%
Allowance/NPLs	107.5%	95.6%	72.0%
Credit Costs	0.24%	0.11%	0.44%
Equity/Assets	8.52%	8.55%	8.97%
CETier 1 Ratio (Full)	11.3%	11.7%	12.8%
Tier 1 Ratio	13.1%	13.5%	14.5%
Total CAR	15.7%	16.2%	17.7%
ROE	15.1%	13.8%	12.2%
ROA	1.20%	1.10%	1.00%

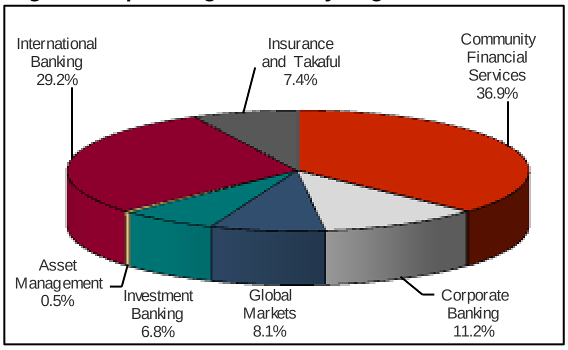
Source: Company | **OCBC estimate* | CAR before proposed dividends

Figure 1: Operating Income by Geography - FY2015



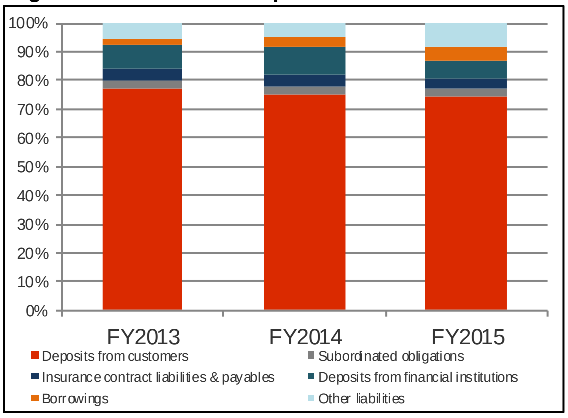
Source: Company

Figure 2: Operating Income by Segment - FY2015



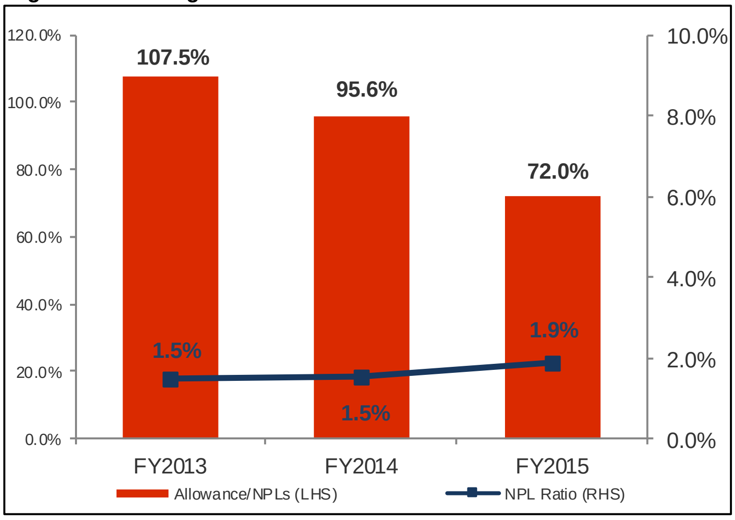
Source: Company | Income base on cash earnings

Figure 3: Liabilities Composition



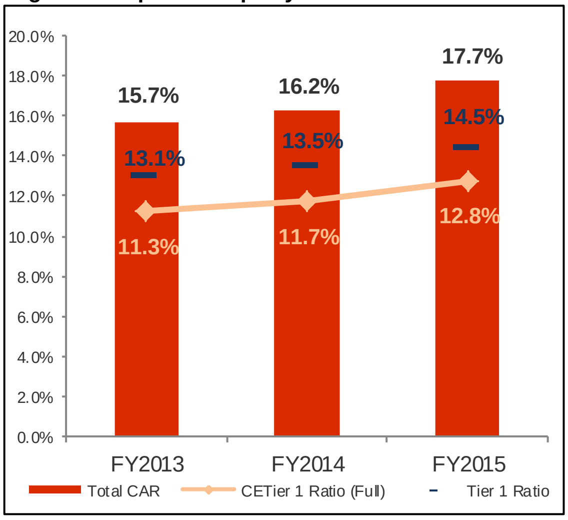
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company, OCBC estimates

National Australia Bank Limited

Credit Outlook – NAB's credit profile should benefit from a higher focus on its core strengths. We think the Aussie T2 space is fairly valued although the lower cash price for the ANZ 3.75% '27c22 could offer some upside if restructuring initiatives pan out as expected.

Issuer Profile: Neutral

S&P: AA-/Neg

Moody's: Aa2/Stable

Fitch: AA-/Stable

Ticker: **NAB**

Background

National Australia Bank Ltd provides retail, business and corporate banking services mostly in Australia but also in New Zealand under the Bank of New Zealand brand. These services are complimented by the bank's wealth management division which provides superannuation, investment and insurance services under various brands. As at 31 March 2016, the bank had total assets of AUD868.7bn.

Key credit considerations

- **Strong business franchises anchor earnings:** NAB's earnings are supported by solid franchises in its Australian and New Zealand banking segments which have historically generated around 80% of net income. Contribution from these segments will increase with the exit of NAB's UK business. While overall loan and deposit market share in Australia is broadly comparable with domestic peers, a point of differentiation is NAB's slightly better market position in business banking, in particular the micro-business and SME sectors where it reportedly has the top market position and a broader distribution network. As such, NAB's non-retail contributions are slightly higher than peers. NAB also has an established Wealth Management business with solid market positions in Australia's superannuation sector based on funds under management. This provides solid cross selling opportunities with NAB's other banking segments.

- **Stable earnings despite sector pressures:** NAB's established business positions have translated to consistent earnings growth. Net interest income is the strongest income generator contributing around 70% to total operating income followed by fee income at 19%. Earnings have benefited from loan volume growth which has mitigated weaker markets and treasury activities as well as margin pressures from low interest rates and on-going domestic competitive dynamics. In particular, housing lending revenue growth has mitigated relatively stable revenue performance in business lending, contributing to an extent to pressure on net interest margins, given the lower margins achieved in the retail segment. Recent net interest margins have recovered however due to NAB's ability to control interest rates on its variable home loans.

- **Balance Sheet has a supportive loan mix:** NAB's balance sheet is typical for Australian banks with wholesale funding a key component of its liability structure and a somewhat high loan to deposit ratio. That said, NAB's wholesale funding sources are well diversified by currency, investor location and instrument type which lessens this structural weakness in our view. Asset quality indicators have been improving, which is due in part to the sale of impaired UK assets as well as the higher proportion of retail lending that is predominantly secured mortgages. NAB's reported exposure to resources is around 1% of total exposure at default (EAD). While impaired assets have risen recently due to problems in its New Zealand dairy exposure, overall segment exposure remains less than 1% of total group EAD.

- **Strategic clarity going forward**: NAB's focus going forward is on its key Australia and New Zealand franchises and in particular in segments where it holds stronger market shares. Customer engagement is also a focus through enhancing digital capabilities. To this end, the bank has actively reduced its exposure to overseas and non-core businesses that have been a drag on earnings through lower returns and higher costs. These initiatives are expected to improve NAB's return on equity through a clearer focus on the bank's better performing businesses. Geographic diversity will reduce, but such initiatives should have a net positive impact on NAB's earnings and credit profile.

- **Capital ratios in a state of flux but improving**: Capital ratios (CET1/CAR: 9.7%/13.3%) have improved due to earnings stability and a AUD5.5bn capital raising in June 2015 to fortify the balance sheet. Capital ratios are somewhat in transition given APRA changes to the Australian residential risk weight floor and restructuring initiatives through asset sales. Nevertheless, we expect capital ratios to remain solid given NAB's earnings stability, strong access to capital markets and the likely net positive impact of restructuring initiatives on capital.

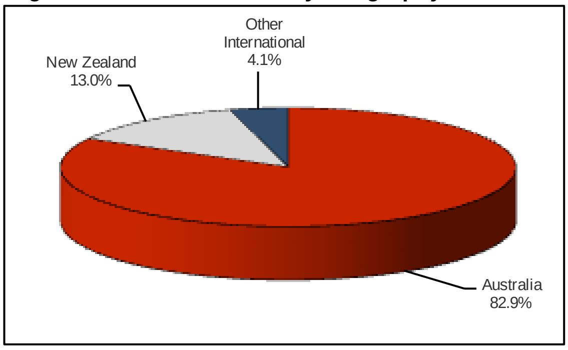
National Australia Bank

Table 1: Summary Financials

Year Ended 30th Sep	FY2014	FY2015	1H2016
Income Statement (AUD'mn)			
Net Interest Income	13,415	13,982	6,597
Non Interest Income	5,441	6,194	2,367
Operating Expenses	10,227	10,252	3,965
Pre-Provision Operating Profit	8,629	9,924	4,999
Provisions	847	844	386
Other Income/(Expenses)	0	0	0
PBT	7,782	9,080	4,613
Income Taxes	2,598	2,717	1,303
Net Income	5,295	6,338	-1,742
Balance Sheet (AUD'mn)			
Total Assets	883,301	955,052	868,730
Total Loans (net)	434,725	532,784	490,756
Total Loans (gross)	438,956	537,165	494,396
Total Allowances	3,118	3,520	3,049
Total NPLs	3,905	1,970	1,423
Total Liabilities	835,393	899,539	818,648
Total Deposits	476,208	489,010	448,659
Total Equity	47,908	55,513	50,082
Key Ratios			
NIM	1.91%	1.87%	1.93%
Cost-income Ratio	53.1%	50.8%	41.6%
LDR	91.3%	109.0%	109.4%
NPL Ratio	0.89%	0.37%	0.29%
Allowance/NPLs	79.8%	178.7%	214.2%
Credit Costs	0.19%	0.16%	0.16%
Equity/Assets	5.42%	5.81%	5.76%
CETier 1 Ratio (Full)	8.6%	10.2%	9.7%
Tier 1 Ratio	10.8%	12.4%	11.8%
Total CAR	12.2%	14.2%	13.3%
ROE	12.1%	13.1%	-7.9%
ROA	0.60%	0.59%	0.75%

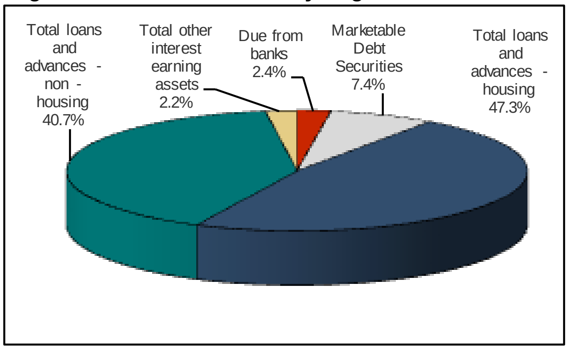
Source: Company | **OCBC estimate* | Capital Adequacy Ratios before proposed dividends

Figure 1: Interest Income by Geography - 1H2016



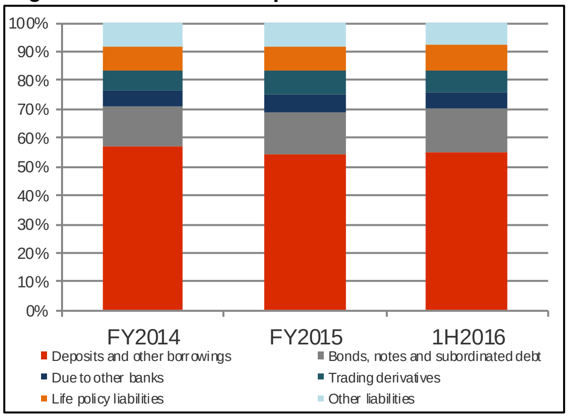
Source: Company

Figure 2: Interest Income by Segment - 1H2016



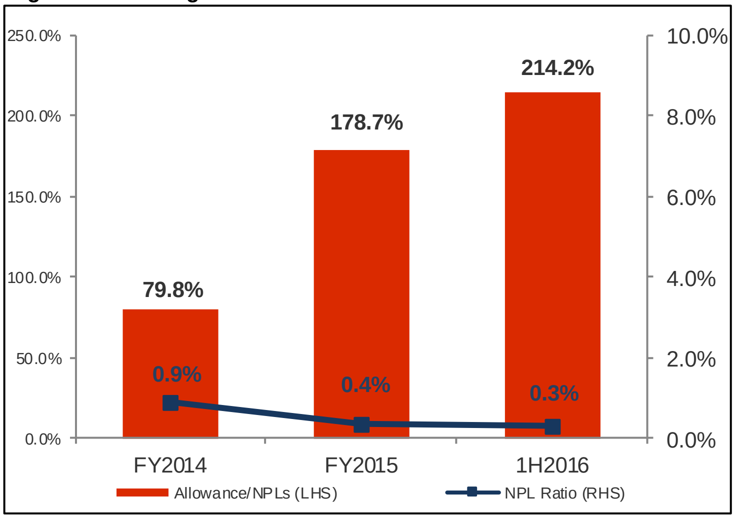
Source: Company

Figure 3: Liabilities Composition



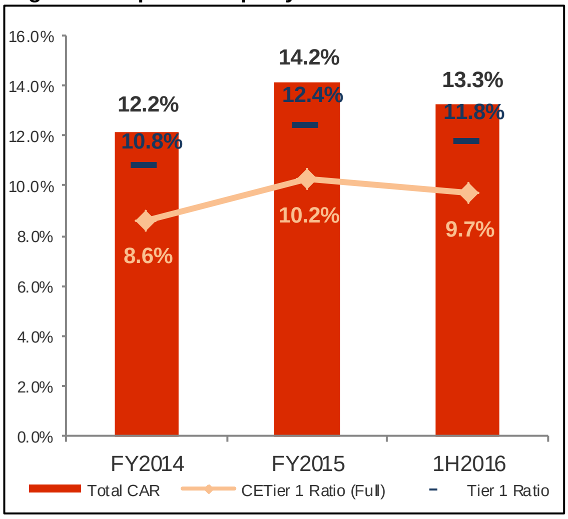
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company, OCBC estimates

United Overseas Bank Ltd

Credit Outlook – Despite slightly higher business risk, UOB's strong domestic consumer franchise should support the credit profile. That said, the curve is tight compared to similar DBS papers which have better yields and fundamentals.

Issuer Profile: Neutral

S&P: AA-/Stable

Moody's: Aa1/Neg

Fitch: AA-/Stable

Ticker: **UOBSP**

Background

United Overseas Bank Limited is Singapore's third largest consolidated banking group with a global network of more than 500 offices in 19 countries in Asia Pacific, Europe and North America. Business segments comprise Group Retail, Group Wholesale Banking and Group Markets and Investment Management. Wee Investments Pte Ltd and Wah Hin & co Pte Ltd have a 7.80% and 5.10% stake in UOB, respectively, as of 4th July 2016.

Key credit considerations

- **Entering more challenging times:** UOB's FY2015 revenue performance was solid with total income up 7.9% due to growth in both net interest income and fee and commission and non-interest income (up 8.1% and 7.6% y/y respectively). In particular, UOB benefited from a 3.9% increase in net customer loans and a 6bps increase in net margin to 1.77bps which mitigated higher expenses and resulted in a smaller improvement in net profit before tax (up 1.1% y/y). Performance in 1Q2016 though has been somewhat soft reflecting the current challenging market conditions with fee and commission income and other non-interest income falling y/y and q/q due to lower investor activity from volatile markets. Net interest income was also not spared with flat q/q performance as continued loan growth was offset by a slight fall in interest rates in 1Q2016 (1Q2016 NIM: 1.78%). Although expenses and allowances fell noticeably q/q, net profit after tax still fell 4.4% y/y and 2.8% q/q to SGD766mn in 1Q2016.

- **Historically high NIM but not all good news**: UOB's net interest margin (NIM) has been resilient and like its Singapore peers has benefited from higher interbank and swap offer rates which have risen higher than interest costs. UOB's historically high NIM is due to its stronger contribution from the higher yielding consumer and retail segment which contributed 36% and 41% of UOB's profit before tax for FY2015 and 1Q2016 respectively (in comparison, DBS consumer banking and wealth management contributed 23% and 31%). Another reason is UOB's higher exposure to South East Asia than peers, in particular Malaysia, Thailand and Indonesia. Although these geographies generate much higher NIMs than Singapore, they also represent higher operating risk for UOB with non-performing loan ratios from these countries materially higher than UOB's other key markets of Singapore and China.

- **Balance sheet continues to grow**: Despite subdued regional growth, UOB's balance sheet has grown with reported total assets up 4.3% and 5.1% q/q and y/y respectively as at 1Q2016. Customer loans (net of allowances) have also grown although growth rates have been slowing as expected with customer loans up 1.0% q/q as at 1Q2016, lower than y/y growth of 2.9% and 3.9% for 1Q2016 and FY2015 respectively. Singapore still comprises the bulk of loan exposures at 56.3% of total loans, followed by Malaysia and China at 12% each. Growth trends by country have been somewhat mixed with better average loan growth in Singapore compared to UOB's other key markets. By industry, building and construction and housing loans remain the largest customer segment at 50% of total customer loans. Loans in these segments have grown more consistently than other customer segments including transport, manufacturing and general commerce. We believe these geographic and industry growth trends are positive for the overall risk profile of UOB's customer loans. It's oil related and overall commodities exposure is around 6% and 9% respectively.

- **Sound capital ratios**. Capital ratios remain sound with a fully loaded CET1 ratio of 12.1% as at 31 March 2016, well above the regulatory minimum of 7.2% which includes transitional amounts for capital conservation and countercyclical capital buffers. That said, capital ratios have been somewhat under pressure as risk weighted assets (RWA) have grown faster than capital levels and in line with UOB's balance sheet growth. This resulted in Basel III CET1/CAR ratios falling to 13.0%/15.6% in FY2015 from 13.9%/16.9% in FY2014. Capital ratios have since recovered however with UOB issuing USD700mn in Tier 2 bonds in March 2016 and SGD750mn in AT1 bonds in May 2016. This improved UOB's CAR ratio to 16.0% in 1Q2016. Assuming RWA remains constant, we expect capital ratios to improve further to around 16.4% in 2Q2016 following the AT1 issue.

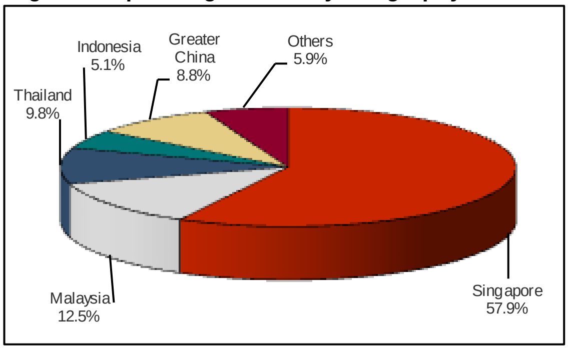
United Overseas Bank

Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (SGD'mn)			
Net Interest Income	4,120	4,558	4,926
Non Interest Income	2,600	2,900	3,122
Operating Expenses	2,898	3,146	3,597
Pre-Provision Operating Profit	3,822	4,311	4,451
Provisions	429	635	672
Other Income/(Expenses)	191	149	90
PBT	3,584	3,825	3,869
Income Taxes	559	561	649
Net Income	3,008	3,249	3,209
Balance Sheet (SGD'mn)			
Total Assets	284,229	306,736	316,011
Total Loans (net)	178,857	195,903	203,611
Total Loans (gross)	181,978	199,343	207,371
Total Allowances	3,121	3,440	3,760
Total NPLs	2,074	2,358	2,882
Total Liabilities	257,652	276,964	285,087
Total Deposits	214,548	233,750	240,524
Total Equity	26,577	29,772	30,924
Key Ratios			
NIM	1.72%	1.71%	1.77%
Cost-income Ratio	43.1%	42.2%	44.7%
LDR	83.4%	83.8%	84.7%
NPL Ratio	1.14%	1.18%	1.39%
Allowance/NPLs	150.5%	145.9%	130.5%
Credit Costs	0.24%	0.32%	0.32%
Equity/Assets	9.35%	9.71%	9.79%
CETier 1 Ratio (Full)	13.2%	13.9%	13.0%
Tier 1 Ratio	13.2%	13.9%	13.0%
Total CAR	16.6%	16.9%	15.6%
ROE	12.3%	12.3%	11.0%
ROA	1.12%	1.10%	1.03%

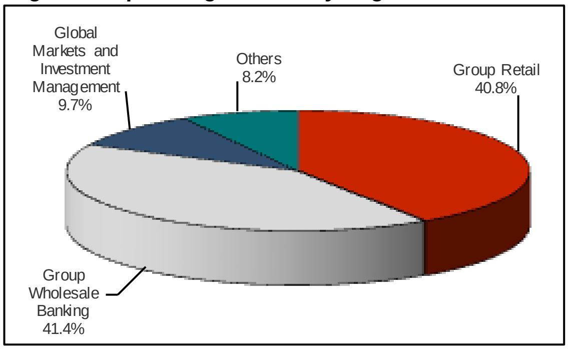
Source: Company | **OCBC estimate* | Capital Adequacy Ratios before proposed dividends

Figure 1: Operating Income by Geography - FY2015



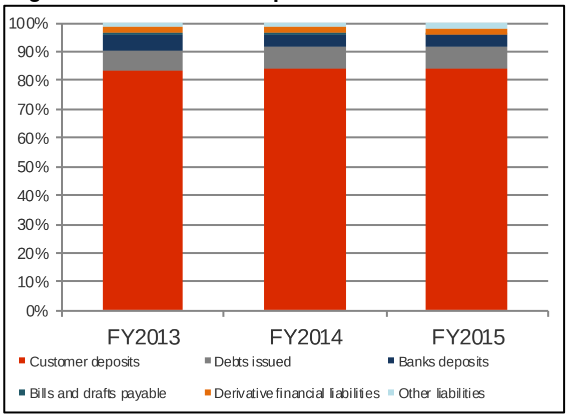
Source: Company

Figure 2: Operating Income by Segment - FY2015



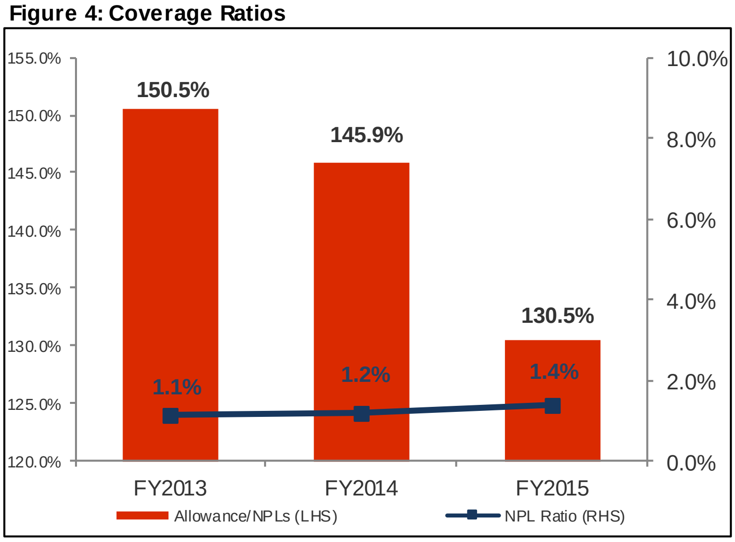
Source: Company

Figure 3: Liabilities Composition



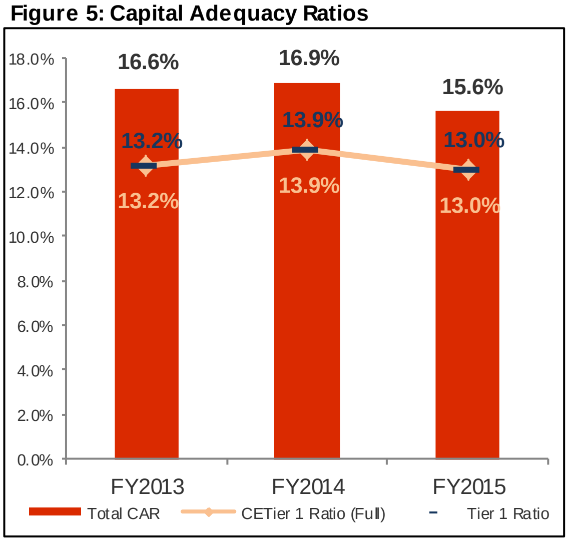
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company, OCBC estimates

Credit Outlook – Earnings growth could slow from weaker growth in Australian household lending. That said, Westpac's credit profile benefits from its entrenched position in Australia's retail market. In the SGD space we like the WSTP 4.00% '27c22 over the WSTP 4.11% '25 for the pick-up given its position in the capital structure.

Issuer Profile: Neutral

S&P: AA-/Neg

Moody's: Aa2/Stable

Fitch: AA-/Stable

Ticker: **WSTP**

Background

Westpac Banking Corporation is Australia's oldest bank and second largest by market capitalization. It offers consumer, business and institutional banking services as well as wealth management and insurance across Australia and New Zealand using a multi-branded strategy. As at 31 March 2016, it had total assets of AUD832bn.

Westpac Banking Corporation

Key credit considerations

- **Resilient historical earnings**: Westpac's stable historical earnings reflect the bank's solid market positions in Australia and New Zealand and a business mix skewed towards domestic retail and business banking which has been the main growth engine for recent earnings performance. These segments contribute around 70% of total group earnings and have mitigated flat and weaker earnings in its wealth management and institutional banking segments respectively. Earnings stability also benefits from solid cost performance with a better cost to income ratio than peers from productivity gains that have mitigated higher investment spending and rising technology and regulatory costs. Together with favorable trends in interest costs, Westpac has actually been able to stabilize its NIM in recent times.

- **Retail strength across multiple brands**: As Australia's second largest mortgage lender, Westpac gets its retail strength from multiple brands which provide both national and regional exposure and appeal to a broad customer set. Its Westpac Retail & Business Banking segment is complemented in Australia by the St George Banking Group stable of brands which include Bank SA, Bank of Melbourne and RAMS while its New Zealand business operates under the Westpac New Zealand brand. This diversity in brands mitigates to an extent Westpac's relatively limited geographic diversity with Australia and New Zealand businesses comprising over 95% of total income and total loans.

- **Balance sheet has pluses and minuses**: Earnings have benefited from solid loan growth which grew 7% in FY2015 and 6% y/y for 1H2016. Most of this loan growth occurred in Australian mortgages which rose 7%. Given Westpac's retail focus, the contribution of Australian mortgage loans to the group loan book is the highest amongst Australia's big banks at around 60%. Australian business loans contribute the next highest at around 23% and are well diversified with exposure to at-risk sectors relatively low and localized in the institutional segment. Future loan growth could be muted however given industry and regulatory pressures which are likely to cool housing demand. Westpac's reliance on wholesale funding is the highest of its peers although this structural weakness is balanced by reasonable diversity in wholesale issuance by tenor, type and currency. We acknowledge though that Westpac's deposit base is of high quality with a high proportion of retail savings deposits, which contributes to lower funding costs.

- **Strategy in line with the crowd**: Westpac's strategic priorities are no different from peers with a focus on delivering customer value through digital enablement and improving returns through cost management, higher cross selling and more targeted growth. In particular, the bank is looking to improve wealth management and insurance product penetration to retail clients.

- **Shoring up capital for future growth**: Capital ratios have improved through a mix of on-going and extraordinary activities with capital growth from Westpac's solid earnings supplemented by capital raising initiatives including a dividend reinvestment program (DRP), the partial sale of BT Investment Management and the AUD3.5bn Entitlement Offer which was completed in October 2015. These initiatives are intended to shore up capital buffers to meet anticipated increases in risk weighted assets from APRA's changes to the Australian residential risk weight floor (of which Westpac is the most exposed), on-going high dividend payments (which are somewhat reduced from the DRP) and maturing non-compliant Basel III instruments. Westpac's current CET1 ratio of 10.5% is well above its preferred CET1 ratio range is 8.75%-9.25% as well as APRA's minimum CET1 capital requirements for 2016 of 8%.

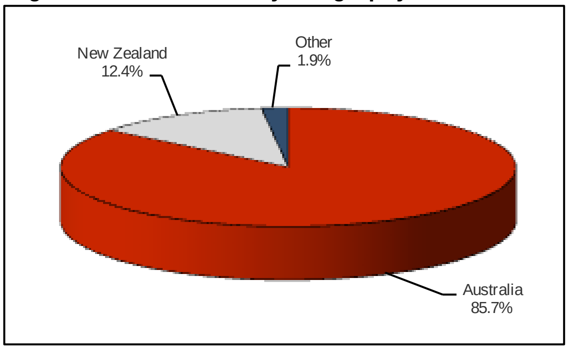
Westpac Banking Corporation

Table 1: Summary Financials

Year Ended 30th Sep	FY2014	FY2015	1H2016
Income Statement (AUD'mn)			
Net Interest Income	13,542	14,267	7,477
Non Interest Income	6,395	7,375	2,996
Operating Expenses	8,547	9,473	4,568
Pre-Provision Operating Profit	11,390	12,169	5,905
Provisions	650	753	667
Other Income/(Expenses)	0	0	0
PBT	10,740	11,416	5,238
Income Taxes	3,115	3,348	1,528
Net Income	7,561	8,012	3,701
Balance Sheet (AUD'mn)			
Total Assets	770,842	812,156	831,760
Total Loans (net)	580,343	623,316	640,687
Total Loans (gross)	583,516	626,344	644,054
Total Allowances	3,481	3,332	3,669
Total NPLs	2,340	1,895	2,487
Total Liabilities	721,505	758,241	773,779
Total Deposits	460,822	475,328	494,246
Total Equity	49,337	53,915	57,981
Key Ratios			
NIM	2.09%	2.09%	2.09%
Cost-income Ratio	42.9%	43.8%	43.6%
LDR	125.9%	131.1%	129.6%
NPL Ratio	0.40%	0.30%	0.39%
Allowance/NPLs	148.8%	175.8%	147.5%
Credit Costs	0.11%	0.12%	0.21%
Equity/Assets	6.40%	6.64%	6.97%
CETier 1 Ratio (Full)	9.0%	9.5%	10.5%
Tier 1 Ratio	10.6%	11.4%	12.1%
Total CAR	12.3%	13.3%	14.0%
ROE	16.3%	16.2%	13.4%
ROA	1.03%	1.00%	0.89%

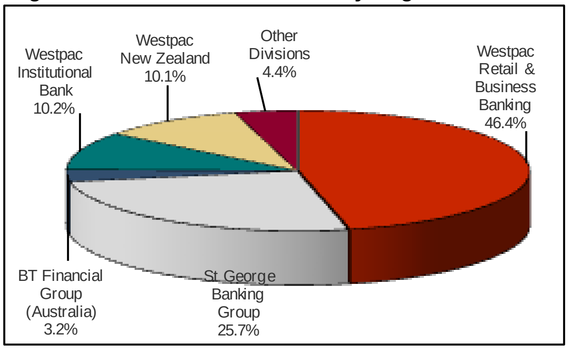
Source: Company | **OCBC estimate* | Capital Adequacy Ratios before proposed dividends

Figure 1: Total Income by Geography - FY2015



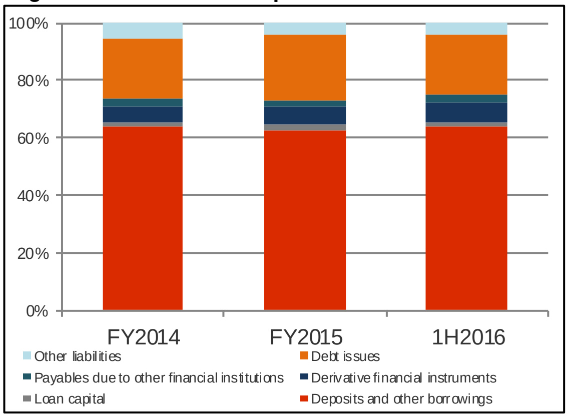
Source: Company

Figure 2: Net Interest Income* by Segment - 1H2016



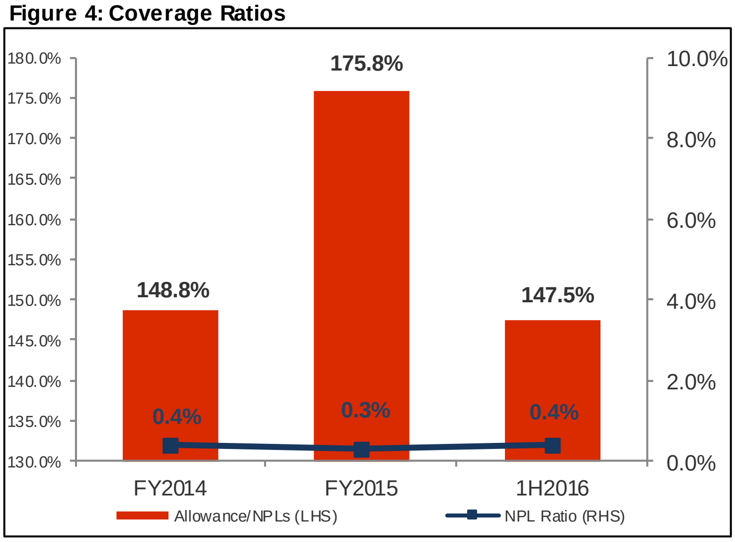
Source: Company | Income base on cash earnings

Figure 3: Liabilities Composition



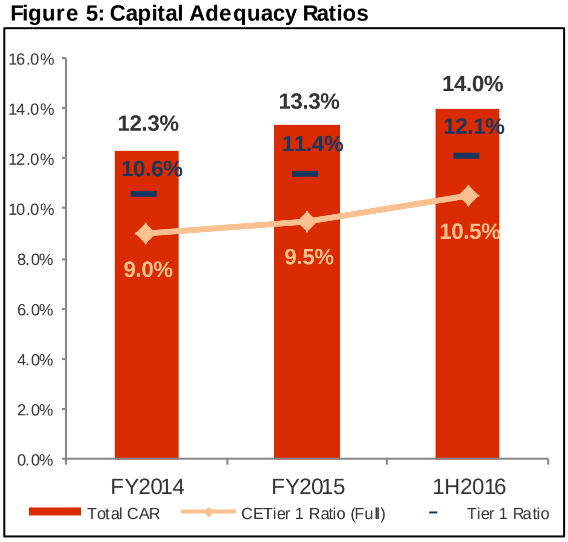
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company, OCBC estimates

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The credit research team would like to acknowledge and give due credit to the contributions of Nicholas Koh Jun Ming, Chan Ker Liang, Chan Yu Fan.