

Singapore Mid-Year 2017 Credit Outlook

8 July 2017

- We saw somewhat of a revival of SGD bond market activity in 1H2017. In addition to volumes picking up, we saw an improved breadth of issuers including well-known names, foreign financials as well as the return of smaller higher yielding issuers.
- Factors at play include a strong technical environment from the lack of 2H2016 supply, lower swap rates and flushed market liquidity. This drove yield tightening throughout the SGD space. Despite higher primary supply, the secondary market remained well bid as technicals overrode fundamental considerations in the search for yield.
- Yield considerations and the fading deflation story (albeit with an eye on future tightening monetary policy) also saw the popularity of perpetuals increase across a broader set of issuers than prior years.
- The credit outlook for 2H2017 is somewhat mixed with a further pick up in fundamentals and market activity tied to anticipated actions of the US Federal Reserve and the resultant flow-on effect on SGD rates.
- Financial institutions appear headed in the right direction as positive economic trends and restructuring strategies take shape to improve banks earnings. That said, high profile bank stresses have highlighted the loss absorbing nature of recently well received bank capital instruments.
- The sustained volume of office transactions has both facilitated further portfolio optimisation as well as supported portfolio valuations of office REITs. Generally speaking, the REITs under our coverage continue to have limited debt headroom when considering acquisitions. Development assets have also become more prominent in the pipeline.
- We believe Singapore residential prices have bottomed after the longest cumulative decline for 15 quarters since the dot-com bubble in 2000. Developers no longer need to cut prices to move units as unsold inventory has fallen to 5 year lows with a surge in transaction volumes. However, we stay selective on credit as the increased optimism has translated into more aggressive land bids.
- Looking ahead, deleveraging continues to be the anchoring policy theme for China property for the rest of 2017 and we do not expect near-term loosening in property cooling measures. A tightening external financing environment means there is no longer certainty that debt can be refinanced in a timely manner (or at 2016's low cost of funding). We are taking a defensive stance and would stay with stronger, well-capitalised companies with a higher propensity to access financing in 2H2017.
- Hong Kong residential property prices continued to break new highs even after hiking stamp duties to 15% since Nov 2016. We think that the housing boom may not last as home supply looks to grow significantly in 2017 and 2018. Thus far, the credit profiles of Hong Kong developers remain resilient, benefiting from increased sales while slowing down on replenishment of land bank as Chinese developers have priced them out of land tenders.
- Despite the recent volatility in energy prices, signs of improvements to oil upstream activity were seen, with production break evens continuing to fall on cost management and optimization. However, improvements are unlikely to be soon enough to meet looming maturities in the offshore marine sector. As such, more restructuring is expected.

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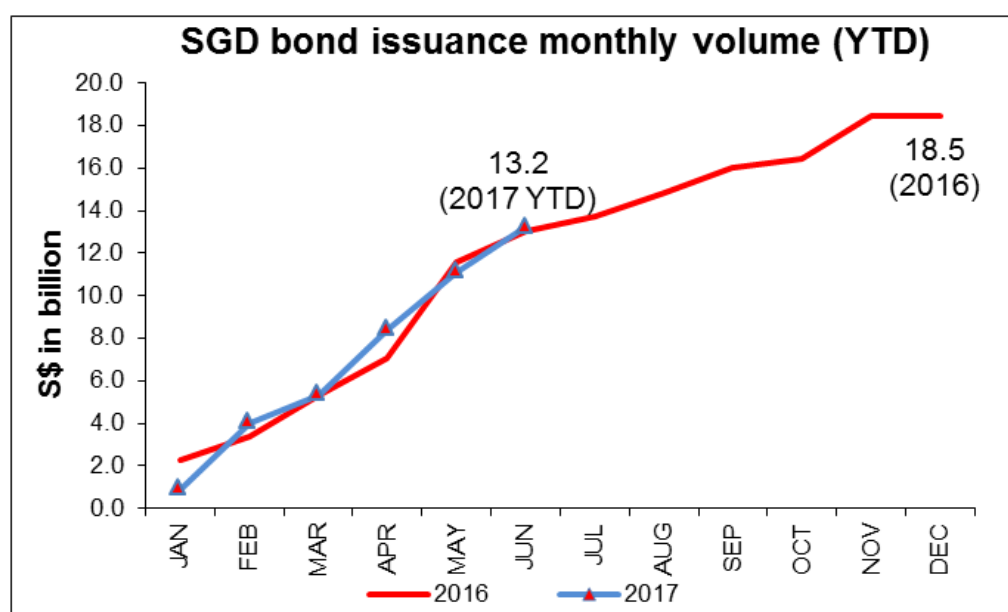
1H2017 Singapore Corporate Bond Market Review

Overall issuance volume firmer y/y

New issuance volume in the SGD bond market in 1H2017 finished slightly higher y/y compared to 1H2016 at SGD13.2bn (1H2016: SGD13.0bn). The pickup was particularly pronounced in January and May due to both demand and supply factors. We attribute the solid issuance activity in 1H2017 to (1) issuers' looking to lock in the low cost of debt in early 2017 with the global deflation outlook still promising; (2) similarly opportunistic behaviour seen in late 2Q2017 when Singapore Dollar Swap Rates ("SDSR") plunged to YTD lows (10y swap rates fell to 2.10%), while throughout the year, we saw (3) a significant recovery in demand for SGD papers with investors moving on from the high profile defaults in the embattled O&M sector in 2H2016, and (4) ample market liquidity looking for yields. In particular, the SGD bond market seemed to move past the painful defaults in 2H2016 with total issuance volume in 1H2017 increasing more than 1.5x from the amount issued in 2H2016, even though we continued to see stress in offshore marine / shipping names (Ezra, Rickmers Maritime Trust, Marco Polo Marine). That said, issuance trends were also partially due to seasonality effects with 2H bond issuance volumes traditionally lower.

Despite the higher supply, secondary prices in the SGD space remained well supported by strong investor demand and high levels of market liquidity, especially after being starved of supply in 2H2016. This drove yield compression throughout our bond coverage in 1H2017 and with improvement in underlying credit quality not keeping pace, the number of bond recommendations lowered tended to outnumber the number of bond recommendations raised as valuations started to look a little stretched and the divergence between technicals and issuer fundamentals became more pronounced.

Figure 1: SGD bond issuances monthly volume (Cumulative)



Source: OCBC, Bloomberg

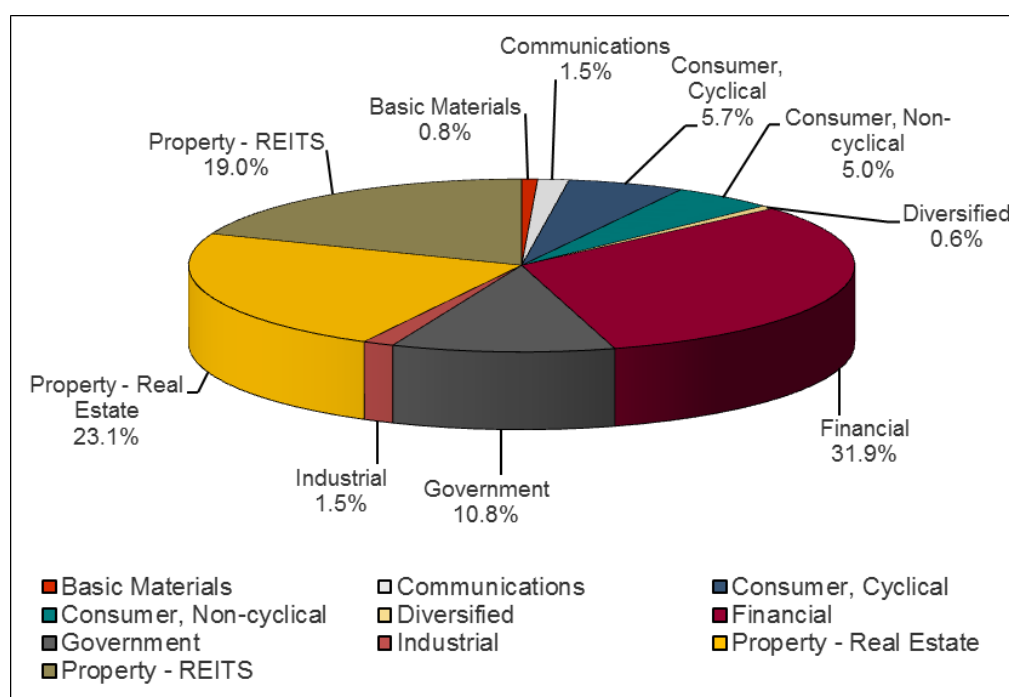
Sector trends shift more in favour of Financials and Real Estate issuers

The SGD bond market continues to be dominated by the Real Estate and Financial sectors in 1H2017. Singapore's property developers remain active issuers in order to (1) refinance maturing debt (SGD8.43bn worth of bonds were either called or matured in 1H2017) and (2) raise debt capital for overseas expansion. Financial institutions contributed 29.3% of the total issuance volume in 1H2017, down from 36.8% in 1H2016. Rising capital requirements and bank capital needs continue to be the key driver for tapping the bond market, with notable issuances including the

SGD1bn HSBC 4.7% AT1 issue, LBBW's SGD300mn 3.75% 10NC5 Tier 2 bonds and UOB's SGD750mn 3.5% 12NC7 Tier 2 bonds. In particular, HSBC's issue was notable as the first AT1 issued in Singapore by a global systemically important bank as well as being the largest Singapore dollar bond transaction from a corporate or a financial institution that is not a statutory board since 2012. Issuance by government-linked entities (ex-SGS) were significantly lower in 1H2017, with only SGD1.43bn bond issues by prolific issuer HDB compared to SGD2.375bn in same period last year. As such, the government sector contributed only 10.8% of total issuance volume in 1H2017, down from 21.9% in 1H2016.

Elsewhere, the seemingly conducive environment for SGD issuance saw an improvement in the breadth of issuers tapping the market in 1H2017. This included well-known names tapping the market (Housing & Development Board, Singapore Labour Foundation, National University of Singapore, FCL Treasury Pte Ltd, Mapletree Treasury Services Ltd), foreign financials (Huarong Finance, Landesbank Baden-Württemberg, Lloyds Bank PLC), Singapore's first green bond (City Development Ltd) as well as the return of smaller higher yielding issuers (Centurion Corp Ltd, Tuan Sing Holdings Ltd, Chip Eng Seng Corp Ltd).

Figure 2: Breakdown of 1H2017 issuance size by sector

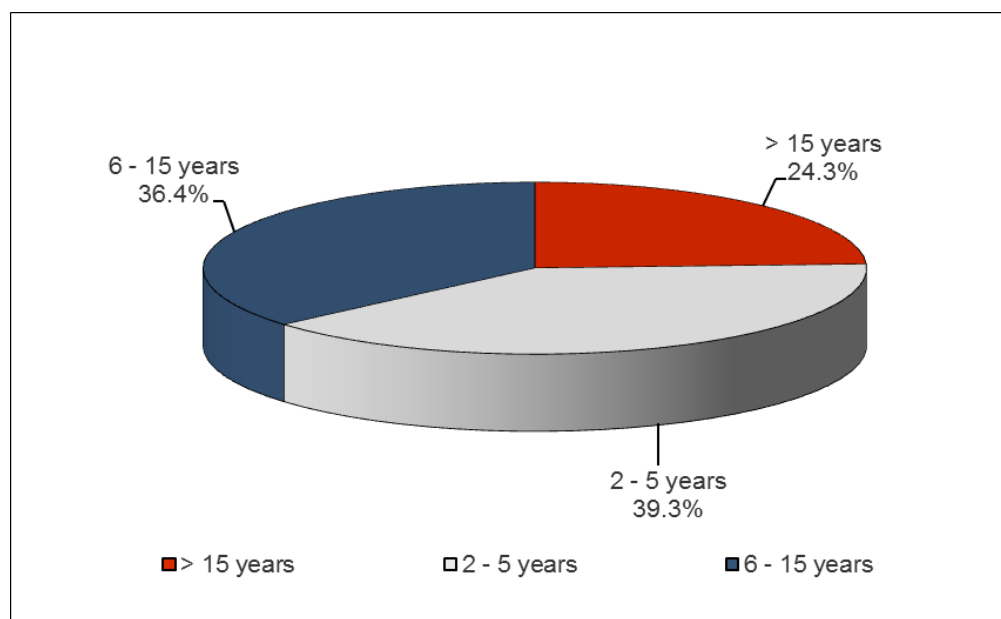


Source: OCBC, Bloomberg

Sector issuance composition by tenor followed the overall market sector issuance trend with both the 2-5 year and 6-15 year tenor brackets mainly coming from property, government and financials related issuers. Average tenor¹ of issuances in 1H2017 rose to 5.85 years, compared to an average tenor of 5.64 years in the same period last year. This mainly reflects investor's preference towards longer-dated papers in order to secure higher yields – choosing to compromise on duration risk in the current low-interest rate environment.

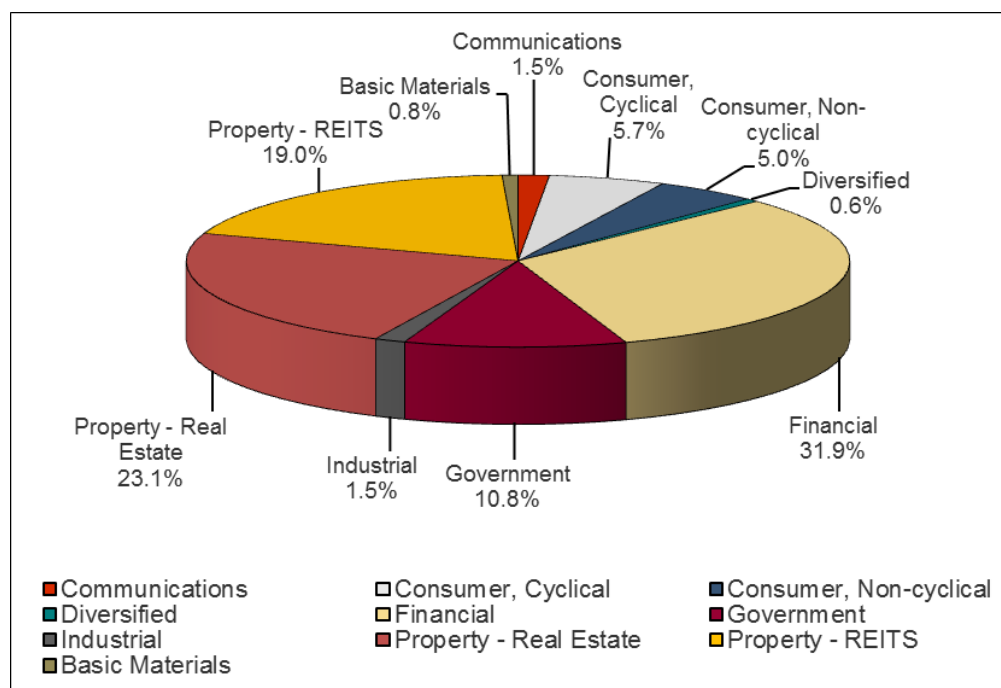
That said, we want to highlight the lack of conviction in market demand. Of particular interest is the first quarter of 2017, when Trump-optimism and inflation expectations pushed demand-led supply towards shorter-dated papers as 46% of 1Q2017 issuances fell within the "2-5 year" tenor classification, compared to 34% in 2Q2017. As the optimism fizzled out and inflation expectations abated, demand shifted back to longer tenors and issuers were keen to capitalise on investors' enthusiasm with 63% of longer tenor bonds (6 years and above) issued in 1H2017 priced in 2Q2017.

¹ Weighted Average by Amount Issued

Figure 3: Breakdown of 1H2017 issuance size by tenor

Source: OCBC, Bloomberg

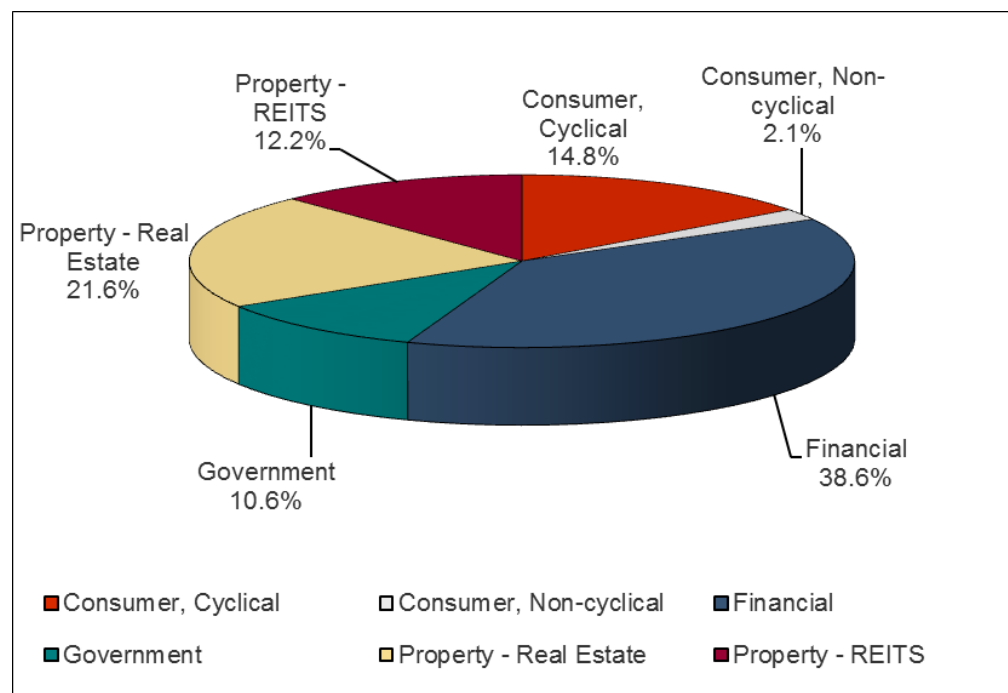
We would also like to highlight the increasing volume of perpetuals (“perps”) issued in the SGD bond market. Perp issuances saw significant pick up in 1H2017 as opportunistic issuers sought to tap on the low funding cost environment and investors’ appetite for yield over duration. Demand for SGD debt instruments, on the other hand, continues to be sufficiently strong – though we note some worrying trends of investor complacency. In particular, for perp issuances, perps are consistently being priced near/at YTC levels, with a prime example being the recent issuance of SCISP 3.7%-PERPs (NC3).

Figure 4: Breakdown of 1H2017 issuance size by sector for 2Y-5Y tenor

Source: OCBC, Bloomberg

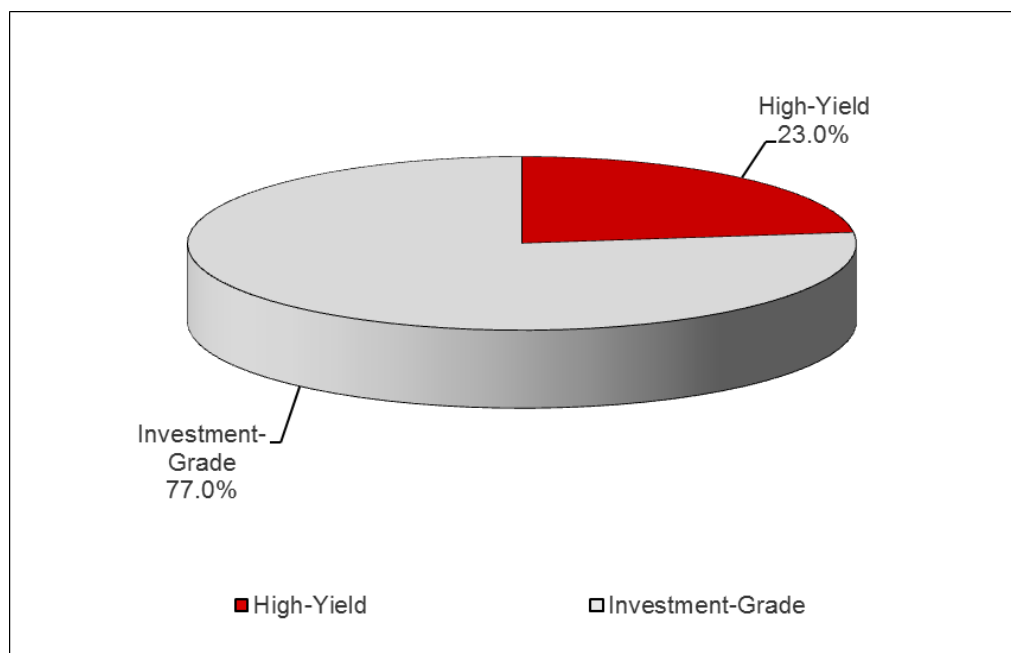
Issuance trends per tenor followed the overall market issuance trend with issuers in both the 2-5 years and 6-15 years tenor brackets mainly from financials and real estate. However, we note that there still remains investor selectivity when it comes to issuer names and tenor. Under real estate issuances, the longer tenor papers were issued mainly by companies with strong fundamentals (Lendlease Group), or more established and familiar property developers like Frasers Centrepoint Ltd. On the flipside, smaller developers such as Chip Eng Seng Corp Ltd, Heeton Holdings Ltd, and Perennial Real Estate Holdings Ltd, mainly issued shorter-tenor papers. Also consistent with this trend, we continue to see Temasek-linked companies (Olam International Ltd, Singapore Airlines Ltd) using their pricing advantage, market recognition and indirect government linkage to raise longer tenor financing.

Figure 5: Breakdown of 1H2017 issuance size by sector for 6Y-15Y tenor



Source: OCBC, Bloomberg

Finally, we were able to see a slight recovery in demand for higher yielding paper (defined as paper with yields higher than 4.5%), with 1H2017 issues for high yield papers increasing from 23.5% from 21.3% in 1H2016, 10.0% in 2H2016. This is mainly due to (1) increase in risk-appetite as global growth rekindles, (2) investors regaining confidence in the SGD bond market after 2H2016's O&M defaults, and (3) signs of green shoots appearing in the Singapore economy (in-house forecast for 2017 GDP growth: 2.5%, against 2016 (actual): 2.0%). High yield papers predominantly came from property developers (Tuan Sing Holdings Ltd), and financials' AT1/Tier 2 issuances (Commerzbank AG and HSBC Holdings). We cannot discount however the influence of structurally driven higher yields in this bucket with 6 of the 14 bonds issued with coupons higher than 4.5% either perpetual in nature or loss absorbing bank capital instruments.

Figure 6: Breakdown of 1H2017 HY issuance (>4.5% coupon rates)

Source: OCBC, Bloomberg

Credit Outlook for 2H2017 – All eyes on the Fed

The credit outlook for 2H2017 is somewhat mixed. Generally resilient fundamental corporate performance (or at least stabilizing at low levels) combined with expectations of modest economic growth in global and regional economies makes for an optimistic outlook. That said, a further pick up in fundamentals and market activity remains tied to anticipated actions of the US Federal Reserve in the second half of 2017 and the resultant flow-on effect on SGD rates. This is largely because 1H2017 was technical-driven, meaning an unwinding could be on the cards. We think that until there's clarity in the rate outlook, investors are likely to choose to sit on the fence. This is likely to suppress activity in the SGD market in 2H2017 along with the usual seasonal second half slowdown effect. Issuers though will continue to look to lock-in rates when opportunities arise given ample market liquidity and the search for yield as was the case in 2016 and 1H2017.

The SGD swap curve bull flattened considerably over most of 1H2017 despite the looming prospects of rate hikes. However, recently more hawkish comments from Federal Reserve chairwoman Janet Yellen and ECB President Mario Draghi seem to have done the trick, causing 10-year US treasury yields to surge 17bps over the last week of 1H2017. We believe that the Federal Reserve remains committed to their initial target of 3 rate hikes over the course of 2017, as seen through their hawkish stance, even during periods of weak inflation data. This could finally lead to tighter funding conditions in the SGD corporate bond market.

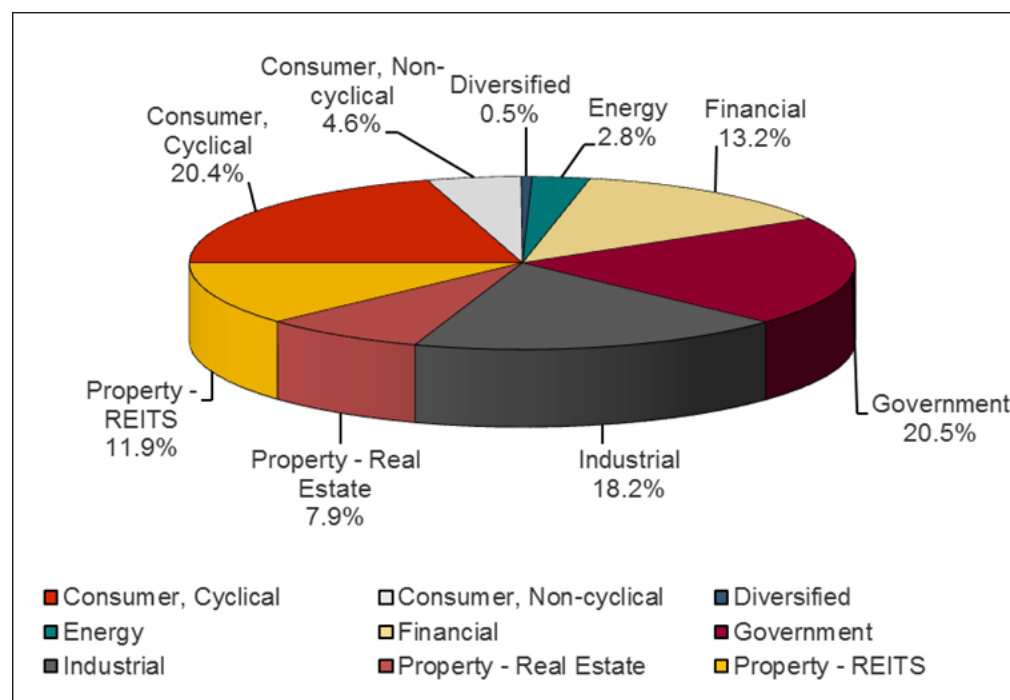
Apart from the anticipated rate hike, however, the Federal Reserve is expected to begin balance sheet normalization program later in the year. The potential tapering of the Federal Reserve's balance sheet could hurt asset prices and, depending on market reaction, lower the odds of an additional rate hike in 2017. This, along with diverging views at the Fed on the timing of policy normalization due to weak inflation data contradicting strengthening labor market conditions, has created some uncertainty in the rates outlook.

As such, we expect investor activity and hence issuing activity to be muted until rates clarity is received. Issuers are unlikely able to issue unless investors are adequately compensated for interest rate risk, potentially shutting out high-yield issuers who cannot afford to pay up. High quality names similarly have likely completed their funding plans in 1H2017, and are unlikely to rush to market given their generally solid

funding profiles and access to capital markets. From the investor perspective, following strong perpetual supply in 1H2017, we are beginning to see some signs of indigestion and investors looking to exercise selectivity, especially as central banks worldwide start to tighten the screws.

All told, we expect muted issuance activity to be driven by timing limitations, opportunistic transactions or refinancing needs. We estimate that approximately SGD5.2bn of bonds will mature and SGD6.6bn will be callable in 2H2017. The bulk of these will come from government-related issuers, with Housing Development Board, SMRT Corp Ltd and SBS Transit Ltd, together accounting for around 60% total maturing in 2H2017.

Figure 7: Bond Maturities breakdown by sector for 2017



Source: OCBC, Bloomberg | *Includes bond callable in 2017

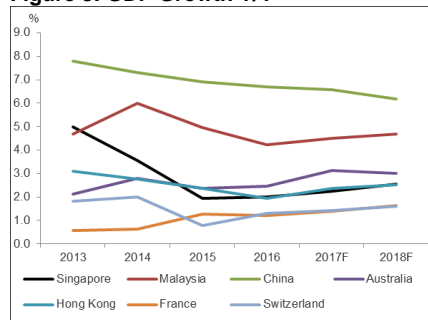
Issuers may need more than encouragement to get a credit rating:

On 30 June 2017, the Monetary Authority of Singapore announced the launch of a SGD Credit Rating Grant to encourage SGD issuers to get their bonds rated. The aim is to raise the share of rated issuances in the SGD market. Although we believe that this grant will be beneficial for the bond market in terms of improved transparency, we think that the uptake of this grant and adoption of credit ratings will be slow. This is because cost is not the only concern to issuers when obtaining a credit rating. We think issuers will ultimately be incentivized to obtain a rating if it lowers their cost of funding but for some, they may not need the help. Some of the largest issuers in the SGD bond market (CapitaLand, LTA, Mapletree, SIA and PUB whose bonds make up more than 10% of the SGD corporate debt market) are already well supported by local and regional banks. A credit rating may also impact the market's current perception of certain names. This is because credit rating agencies use global rating scales and a decent sized issuer in the Singapore market may look small on a global scale. This could lead to a global scale rating that is not consistent with how the local bank or debt capital markets view the credit. This could raise funding costs and negate the potential positive influence of access to a broader investor base. Finally, issuers would have to deal with the maintenance of the rating and the additional negative market signals of any rating downgrade pressure. Therefore, while encouraging adoption of credit ratings is positive for investors' decision making, market transparency, and issuers' access to capital markets, we expect a slow uptake in the near future.

Financial Institutions – Heading in the right direction?

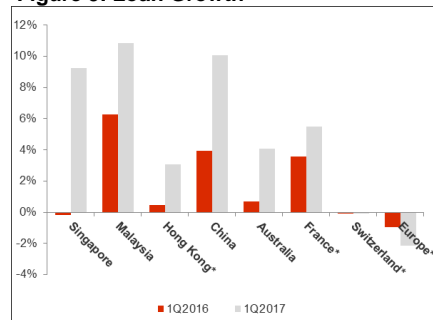
For Financial Institutions, we've seen broadly positive trends in recent quarterly results given stabilizing economic conditions. This has been positive for credit demand with loan growth increasing y/y while credit costs are stabilizing to declining following a period of sharp increases. Indeed we see credit demand as an important driver for earnings and returns given the still accommodative interest rates environment, albeit with an expectation that rates will rise further in 2017 and 2018. Banks are seemingly more open for business given improved economic conditions and combined with stabilizing non-performing loan balances, asset quality metrics are on the improve. That said, conservative loan underwriting standards which have somewhat protected the banks under our coverage from higher loan losses in the past few years, remain a focus with recovering earnings performance still vulnerable to another round of elevated credit costs.

Figure 8: GDP Growth Y/Y



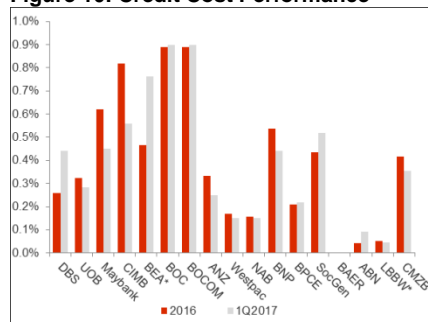
Source: IMF World Economic Outlook Apr 2017

Figure 9: Loan Growth



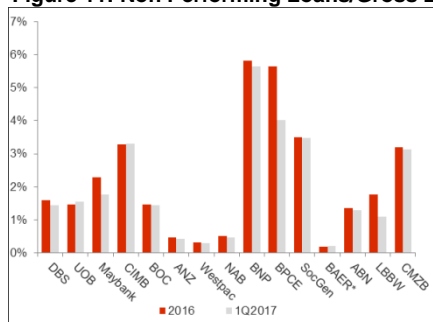
Source: Company's Annual Reports.

Figure 10: Credit Cost Performance



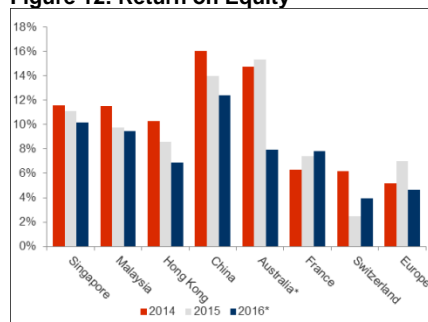
Source: Company's Annual Reports. *Data as at 31 Dec 2016 for BEA, BNP and LBBW
No disclosure for Julius Baer

Figure 11: Non Performing Loans/Gross Loans



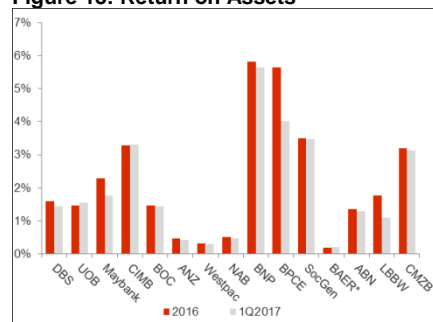
Source: Company's Annual Reports | Data as at 31 Dec 2016 for French Banks, BEA and LBBW

Figure 12: Return on Equity



Source: Company's Annual Reports |
*Australia figures as of 30 Sep (FY2016)

Figure 13: Return on Assets



Source: Company's Annual Reports |
*Australia figures as of 30 Sep (FY2016)

Distinct earnings drivers for banks under our coverage continue to support their credit profiles. First are their strong market positions in either retail or corporate banking (or both) which translate to solid recurring earnings, access to stable funding sources through deposits and pricing power. Second is their access to non-interest income which has been increasing as a contributor to overall operating income. Access to non-lending income has been of particular benefit to French banks under our coverage who faced earnings pressure in their retail segment from low interest rates

mitigated by improving performance in their capital markets businesses.

Speaking of Europe, we've adjusted our coverage slightly with the addition of three more European names – Germany's Commerzbank AG ('CMZB') and Landesbank Baden-Württemberg ('LBBW') and Netherland's ABN AMRO Bank NV ('ABN'). While ABN has had a presence in the SGD space for some time, both CMZB and LBBW are new to the SGD space and are part of an increasingly frequent issuer segment in the SGD space, following recent issues by French banks and Julius Baer over the past few years. This trend is supported by three factors – first is SGD investors' strong preference for bank capital instruments from solid issuers given they are rated and have attractive yields. Secondly, foreign issuers are attracted to the SGD market given their ability to obtain competitive pricing (often using tight local bank capital as comparables which allowed issuers to price inside their existing curve). Finally, capital requirements for European banks are rising under the Supervisory Review and Evaluation Process (SREP) which uses a common methodology but incorporates bank specific analysis to determine minimum capital levels required by each bank. These levels are unique to each bank's business model and are over and above minimum Basel III requirements. Combined with the maturity of legacy capital instruments and the need to build capital buffers for anticipated loan growth, we expect banks to continue issuing capital instruments in SGD in 2H2017.

Staying in Europe and continuing on with the regulatory environment, we've seen some interesting developments in Europe's banking sector, which continues to face legacy pressures despite a moderately improving economic outlook for the Eurozone. This has put the focus squarely on regulator's discretionary right to classify a bank as failing or likely to fail and hence expose note holders to write-down of their loss absorbing capital instruments, the very instruments that have seen solid investor demand in this low yield environment. The first was the regulator directed resolution and write-down of bank capital at Banco Popular SA (refer to [OCBC Asia Credit: Financial Institutions - The Spanish Resolution \(13 June 2017\)](#)). This caught investors somewhat by surprise despite Banco Popular's problems being well known. This is because Banco Popular's capital ratios were above the regulatory minimum, Spain's economy is recovering with forecast growth rates above the rest of the Eurozone, and recent positive investor perception of Spain's banking sector reinforced by the recent strong take up of bond issues by Spanish banks. We view the resolution however as driven by idiosyncratic factors and seen by regulators as a way to limit contagion risk rather than amplify it. These factors include:

- The over-capacity Spanish banking sector with a track record of regulator directed consolidation to improve fundamentals through mergers;
- Banco Popular's weak fundamentals as a result of weak top line revenue performance, high costs and more importantly a heavy NPL burden. That said, the bank had a solid and growing market position in domestic lending to small and medium enterprises ('SME');
- The evolution of prevailing solvency concerns into a liquidity one aggravated by a bank run on retail deposits; and finally
- The presence of strong domestic player with capacity and willingness to acquire to Banco Popular and its solid SME business.

The resolution of Banco Popular contrasts with the developments in Italy with the EU approved acquisition of Banca Popolare di Vicenza SpA & Veneto Banca SpA by Intesa Sanpaolo SpA under local insolvency laws with Italian Government support through capital injection and provision of guarantees to Intesa Sanpaolo SpA. This is a vastly different outcome from Spain's bank resolution under the EU's Bank Recovery and Resolution Directive although it is worth noting that AT1 and T2 investors for the two Italian banks met the same fate as those in Banco Popular's resolution. We also view the different outcome though as also driven by circumstances specific to the problem and solution, despite similar ills facing these Italian banks. These circumstances include:

- Italy's banking sector as a whole remaining very weak and fragile with a high stock of NPLs (Italian average NPL ratio is 18%, only Greece is higher);
- Private investors remaining wary of the sector despite modestly improving macro conditions;

- Lack of an obvious acquirer – Italy's largest banks currently lacks the scale and financial resources to acquire another bank on their own;
- Italy's banking sector is more fragmented than Spain with Banca Popolare di Vicenza SpA & Veneto Banca SpA having domestic market shares likely smaller than Banco Popular's in Spain; and
- Presence of a large number of retail bond holders, who would have faced losses in a resolution scenario without any state aid. This in itself could have led to contagion risk given the prevalence of retail bond holders as a source of funds in Italy's banking sector. For this reason, wind down with state support was seen as necessary to limit contagion risk rather than amplify it.

The final development in Europe was Bremers Landesbank's cancellation of its 8.5% AT1 coupon. This was due to the exhaustion of resources available to pay its coupons (termed Available Distributable Items ('ADI') and typically comprises last year's profits (before dividends), retained earnings and distributable reserves) due to significant loan losses in FY2016 stemming from its ship financing exposures. In addition, capital ratios dropped sharply to 5.29% for FY2016, close to the bank's 5.125% write-down trigger and likely below its SREP requirement.

With seemingly uncertain outcomes in bank stress scenarios, what are the lessons learned from these developments for investors and where can they find certainty? Firstly, fundamentals remain key as does the industry structure. The banks involved in resolution or state support actions have struggled with high legacy non-performing loans, depressed earnings and as a result weak coverage ratios. Further, they are operating in highly fragmented banking sectors where their market shares are non-systemic and businesses more regionally or locally focused rather than internationally connected. Secondly is that while regulator intent remains broadly the same (and focused on systemic stability) and the same resolution mechanism can be used, the outcome can be different. In our view, we expect regulator decision making to be driven by practicalities and idiosyncratic factors rather than theory with idiosyncrasies and circumstances calling for different remedies. This is despite regulator's similar intent to reduce tax payer burdens for financial sector stress and eliminate moral hazard. Indeed, bank resolution regulations worldwide, which are converging towards a common aim of restricting bank bail outs, contemplate the need for flexibility in protecting banking sector stability. For Banca Popolare di Vicenza SpA & Veneto Banca SpA, the EU relied on their own discretion to decide whether a bank resolution or a local insolvency serves banking sector stability better.

The implications for bank capital instruments we cover match to an extent the pricing action, with bank capital instruments under our coverage remaining somewhat unaffected by developments in Europe. Fundamentals on an industry and bank specific level remain sound in Asia. Banking systems in Asia are also more concentrated than in Germany, France and Italy. This makes resolution by one bank likely to lead to contagion risk, and hence has driven regulator's stance to remain pro-active in monitoring their respective sectors against deterioration. For the banks under our coverage, for the most part their solid fundamentals are anchored on strong market positions, which speak to both higher systemic importance as well as stable earnings generation. The strong earnings generation has enabled the banks to support their capital ratios well above minimum regulatory requirements (typically a 30% buffer against current Tier 1 capital levels assuming risk weighted assets remain constant). Finally, their standalone Moody's ratings (not including government or other external support) remain investment grade while the standalone ratings for Banco Popular SA and Bremers Landesbank were at the low end of the sub-investment rating scale (B3 and Caa2 respectively). With the absence of legacy issuers and regulators effectively ahead of the curve against potential stress, we view the write-down potential for bank capital instruments in Asia no different than before the events in Europe.

Singapore REITs – Time for portfolio churn

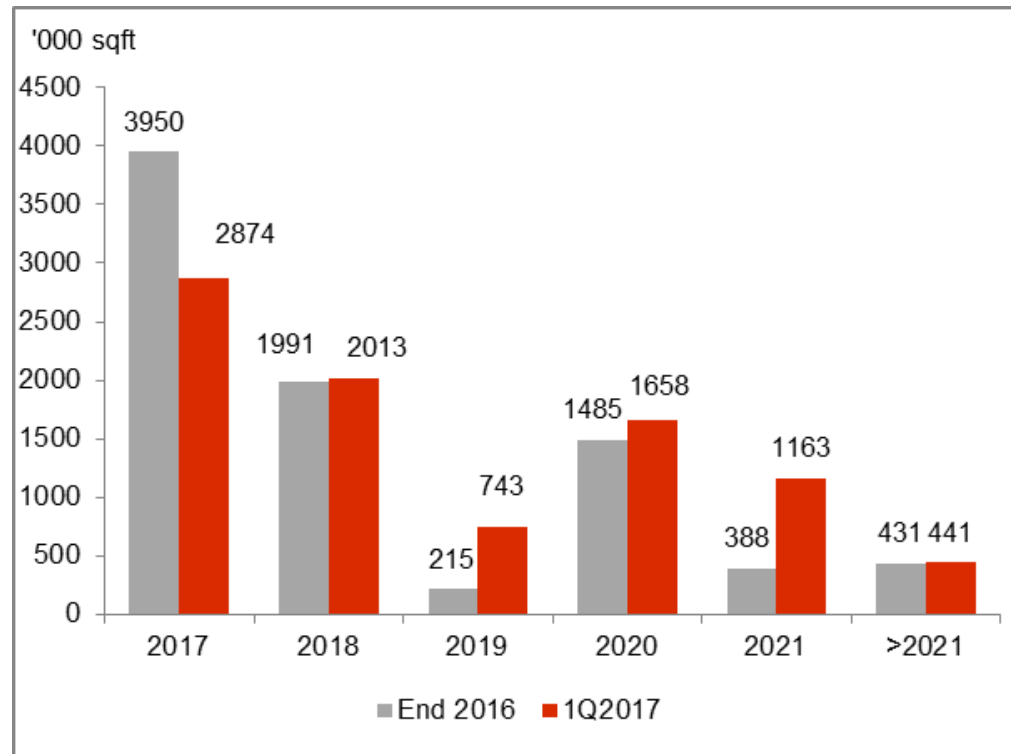
For 1H2017, Singapore REITS have continued to participate actively in bond primary markets in order to meet their refinancing needs. 8 of the REITs / Business Trust under our coverage have tapped the bond market (AAREIT, CMT, FCT, FHT, KREIT, LMRT, MINT and SUN). Thus far this year, despite the strong issuance of perpetual securities, only LMRT issued as a means to generate debt headroom, potentially for further asset injections by its sponsor. As mentioned half a year ago, most of the REITs under our coverage have limited debt headroom for further acquisitions. Instead of issuing equity or hybrids though, some of the REITs have instead chosen to recycle their portfolio, leveraging off improvements seen in parts of the Singapore commercial real estate market, or divesting domestic assets in favour of foreign ones (such as in the case of industrial property). We have also observed an increasing amount of development properties being held in the REITs. Looking forward, we expect to see further portfolio recycling by the REITs under our coverage, potentially accompanied with more trips to the capital market.

	Aggregate leverage (%)	Debt Duration (years)	Debt cost (%)	Proportion of debt fixed/hedged (%)
OFFICE				
CapitaLand Commercial Trust	38.1	3.0	2.6	80.0
Keppel Real Estate Investment Trust	38.4	3.2	2.6	75.0
Mapletree Commercial Trust	37.0	4.3	2.6	81.2
Suntec REIT	37.7	2.6	2.4	65.0
Average:	37.8	3.3	2.5	75.3
RETAIL				
CapitaLand Mall Trust	35.3	5.2	3.2	100.0
Croesus Retail Trust	46.1	2.1	1.7	100.0
Fraser's Centrepoint Trust	29.4	2.2	2.4	57.0
Lippo Malls Indonesia Retail Trust	32.2	2.3	6.6*	70.0
Mapletree Greater China Commercial Trust	39.2	3.7	2.7	71.0
Starhill Global REIT	35.3	2.8	3.2	99.0
Average:	36.3	3.1	2.6	82.8
INDUSTRIAL				
AIMS AMP Capital Industrial Trust	36.1	2.3	3.7	84.4
Ascendas REIT	33.8	3.2	3.0	78.9
ESR REIT (formerly Cambridge Industrial Trust)	37.8	2.9	3.7	89.9
Mapletree Industrial Trust	29.2	3.5	2.7	74.9
Mapletree Logistic Trust	38.5	3.9	2.3	81.0
Sabana Shari'ah Compliant Industrial Trust	36.1	1.8	4.0	87.8
Soilbuild Business Space Trust	37.5	2.6	3.4	86.5
Viva Industrial Trust	39.2	3.1	3.9	80.6
Average:	36.0	2.9	3.3	83.0
HOSPITALITY				
Ascott Residence Trust	39.8	4.7	2.4	82.0
Fraser Hospitality Trust	33.4	1.8	2.6	87.8
Ascendas Hospitality Trust	32.2	2.8	3.2	78.3
Average:	35.1	3.1	2.7	82.7
HEALTHCARE				
First REIT	31.0	1.8*	4.2*	90.9
Average:	31.0	1.8*	4.2*	90.9
Average:	36.1	3.1	2.9	81.9

Note: * OCBC Credit Research estimates

Singapore Office REITs – Dichotomy between rents and valuation

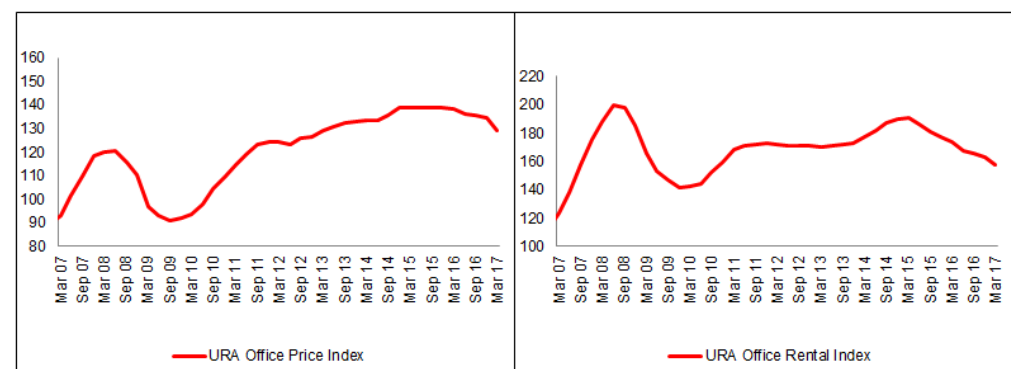
Figure 14: Office Supply Pipeline



Source: Urban Redevelopment Authority real estate statistics, OCBC

Negative headline numbers have persisted thus far into 2017 for the domestic office real estate sector. There continues to be significant supply coming online, with 2.9mn sqft due for the balance of 2017 and 2.0mn sqft due in 2018. These represent roughly three and two years' worth of absorption respectively based on historical demand. The evident looming supply, coupled with uneven domestic economy suppressing demand, had sent landlords scrambling to secure tenants, with entrants inciting infidelity by offering the new and shiny, while incumbents attempting to use golden handcuffs (via lease concessions) to ensure loyalty. Unsurprisingly, office rentals have continued to slide with URA reporting eight consecutive negative quarters, with rentals down 17.6% from the 1Q2015 peak (see Figure 15). Vacancy rates have continued to climb, with Category 1 office vacancies at 11.8% (though lower than the 12.6% seen at end-4Q2016). Vacancy rates could potentially climb higher due to vacated space that was "double-counted" during tenant transition, and subsequently released to market.

Figure 15: Office Price and Rental Index



Source: Urban Redevelopment Authority real estate statistics, OCBC

A review of the pipeline reveals some silver linings. The huge assets that have entered the market have shown strong pickup rates. For example, Guoco Tower (NLA: 890,000 sqft) was reported to achieve 91% occupancy while Duo Tower (NLA: 570,000 sqft) was reported to achieve 45% committed occupancy. Even the giant in the room, Marina One (NLA: 1,880,000 sqft), which represents two years-worth of market absorption by itself, has reported 60% of its space pre-leased. Both Duo

Tower and Marina One numbers are dated, based on a February 2017 announcement. The filling up of these giants, coupled with distinctly lower supply post 2018, has helped decelerate the fall in rental rates for Grade A offices. In fact, property brokers have reported that Guoco Tower has increased its asking rent compared to half a year back. That said, we believe that the environment remains challenging for older assets, particularly those outside the core CBD area, with tenants able to upgrade to newer, or more conveniently located buildings without having to cough up too large a premium for it (if any). As such, though the broad office rental index and vacancy numbers may continue to deteriorate, the improving supply situation means that any deterioration would be more muted, and for the Grade A market the bottom may have already arrived for rental rates. Given that the office REITs under our coverage hold mostly newer Grade A office assets (with the exception of SUN), we may start to see improvements to portfolio statistics by 2H2017. One caveat is that for certain REITs, some of their assets have very high expiring rents (such as CCT's Six Battery Road). As such, even though overall rental rates have improved relative to the bottom, it remains distinctly lower compared to previous peaks, resulting in continued negative rental reversion.

Table 2: Office Pipeline Details

Property	Completion (est)	NLA	Committed Leases*
Marina One	2Q2017	1,880,000	60%
V Shenton Way (UIC)	2Q2017	280,000	50%
Frasers Tower	2Q2018	663,000	30%
Robinson Tower	4Q2018	195,000	unknown
Paya Lebar Quarter (Office)	2H2018	900,000	unknown
Funan (Office)	2019	204,000	unknown
9 Penang Road (Park Mall)	2019	352,000	unknown
79 Robinson Road (CPF Building)	2020	500,000	unknown
Central Boulevard (IOI/HKL)	2020	1,080,000	unknown

* Data based on most recent publicly available sources

Table 3: Office REITs Statistics

Issuer	Occupancy			Expiry (NLA%)		
	2015	2016	1Q2017	2017	2018	2019+
CCT	97.1%	97.1%	97.8%	5.3%	17.3%	77.4%
KREIT	99.3%	99.2%	99.4%	2.8%	6.9%	90.3%
SUN (Office)	99.3%	98.6%	98.9%	5.9%	21.1%	73.0%
MCT (Non-VivoCity)	93.9%	93.7%	97.4%	8.8%	15.3%	75.8%

Source: Company, OCBC, [MCT: FY2015, FY2016, FY2017]

As can be seen above, the office REITs under our coverage have largely held up their portfolio occupancy despite the difficult environment. They have all reported higher occupancy rates compared to URA's Category 1 office occupancy of 88.2%. The REIT managers have also aggressively renewed leases ahead of expiry, resulting in these REITs having modest lease expiries left for the balance of 2017. 2018 lease expiries are more challenging for some (such as SUN), but it is worth noting that a large part of 2018 supply (specifically Paya Lebar Quarter) is outside of the CBD and may not suit all tenants. Furthermore, Paya Lebar Quarter looks more likely to be ready in 2H2018.

As such, consistent with previous periods, the main challenge for office REITs remains rental rate pressures. In our view, the two office REITs more vulnerable to rental pressure due to high expiring rents would be KREIT and CCT. KREIT had already reported negative rental reversion of 9% for 2016 while CCT indicated that 2018 looks challenging due to high average passing rents of SGD11.09 psf/month for CCT's key five properties (versus comparable sub-market rents of ~SGD9.50 psf/month currently). Comparatively, SUN's average office rent of SGD8.66

psf/month for 1Q2017 was comparable with the SGD8.67 psf/month seen in 1Q2016, while MCT reported +8.5% office rental reversions for 1Q2017.

With the sustained declines in market rental rates, we were concerned about the office REITs' portfolio facing revaluation losses as such losses would reduce the REIT's asset base, leading to higher levels of aggregate leverage. Thus far, these fears have been unfounded, with all four REITs reporting revaluation gains for their office assets. Most assets end-2016 valuations saw either no change or slight gains compared to end-2015. The small minority of assets that saw slight valuation losses tend to be older assets such as the PSA Building, and Bugis Junction Tower, the type of assets that are bearing the blunt of occupancy pressure. Comparatively, newish Grade A assets have seen valuation gains despite idiosyncratic challenges faced by assets. For example, One George Street ("OGS", in CCT) saw NPI decline 6.4% to SGD38.0mn y/y in 2016, largely due to RBS vacating (~13% of NLA) during 1Q2016. Despite this, OGS saw its valuation increase 0.4% y/y to SGD1,014mn. The driver for robust valuations despite property income pressures would be the recovery in secondary transactions in the domestic office market.

Market sentiment for Singapore office assets decisively recovered in the middle of 2016, with the record SGD3.4bn Asia Square Tower 1 sale and the SGD560mn Straits Trading Building sale signaling the bottom. Activity was sustained YTD (see *Table 4*) with several high profile assets being monetized. It is worth noting that foreign investors have continued to be active in the domestic office market (both Asia Square Tower 1 and the Straits Trading Building were purchased by foreign investors). The supportive market had allowed CCT to optimize its portfolio, divesting 50% of OGS as well as exiting Wilkie Edge. Both these assets were divested at above book value, with Wilkie Edge divested at ~40% above end-2016 valuations. In aggregate, the active secondary market for Singapore office assets has helped support portfolio valuations for the office REITs under our coverage, mitigating the drag from weak rental reversions.

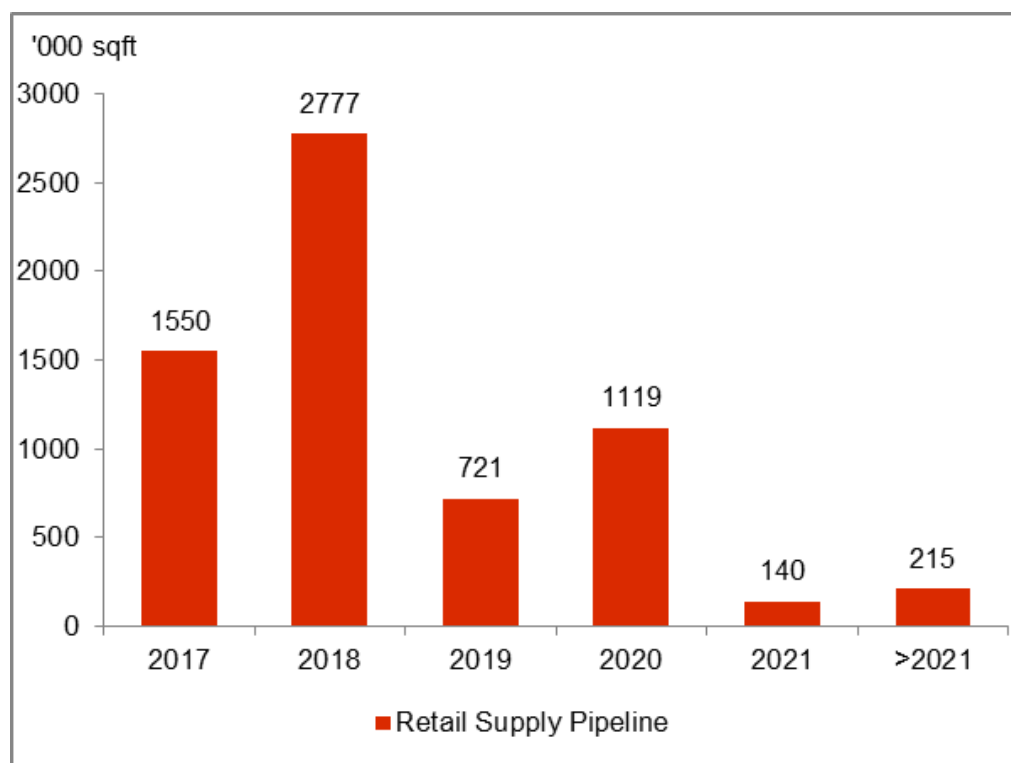
Table 4: Office Transaction YTD

Property	Stake (SGD'mn)	Seller	Buyer
TripleOne Somerset (70%)	881	Perennial / Consortium	Shun Tak
PWC Building	747	DBS	Manulife
GSH Plaza (strata)	664	GSH / Vibrant	Fullshare
Prudential Tower (strata)	207	Lian Beng Group / Consortium	One Tree Partners
One George Street (50%)	592	CCT	FWD
Wilkie Edge	280	CCT	Lian Beng Group / Consortium

Source: Company, OCBC

However, the recovery of the domestic office market has led to a different set of risks for bondholders. REITs may now more aggressively acquire domestic assets, such as the reported interest by CCT's sponsor CapitaLand in Asia Square Tower 2. A transaction in Asia Square Tower 2 could involve CCT. We may also see more assets being redeveloped, given the recovery of the market. Thus far, we have already seen Funan Centre, Park Mall and Golden Shoe Car Park being redeveloped. Redevelopment reduces portfolio income till the redevelopment is completed, and requires the REIT to seek additional funding to support the redevelopment in the interim. Finally, increasing competition domestically may lead to more REITs seeking offshore assets, such as SUN's acquisition of the Southgate in Melbourne, and KREIT's investment into a Melbourne development office asset, inviting execution and FX risk. In summation, heightened transactions in the Singapore office market would be supportive of REIT portfolio valuations, but invites additional idiosyncratic risk.

Singapore Retail REITs – Lines are blurring

Figure 16: Retail Supply Pipeline

Source: Urban Redevelopment Authority real estate statistics, OCBC

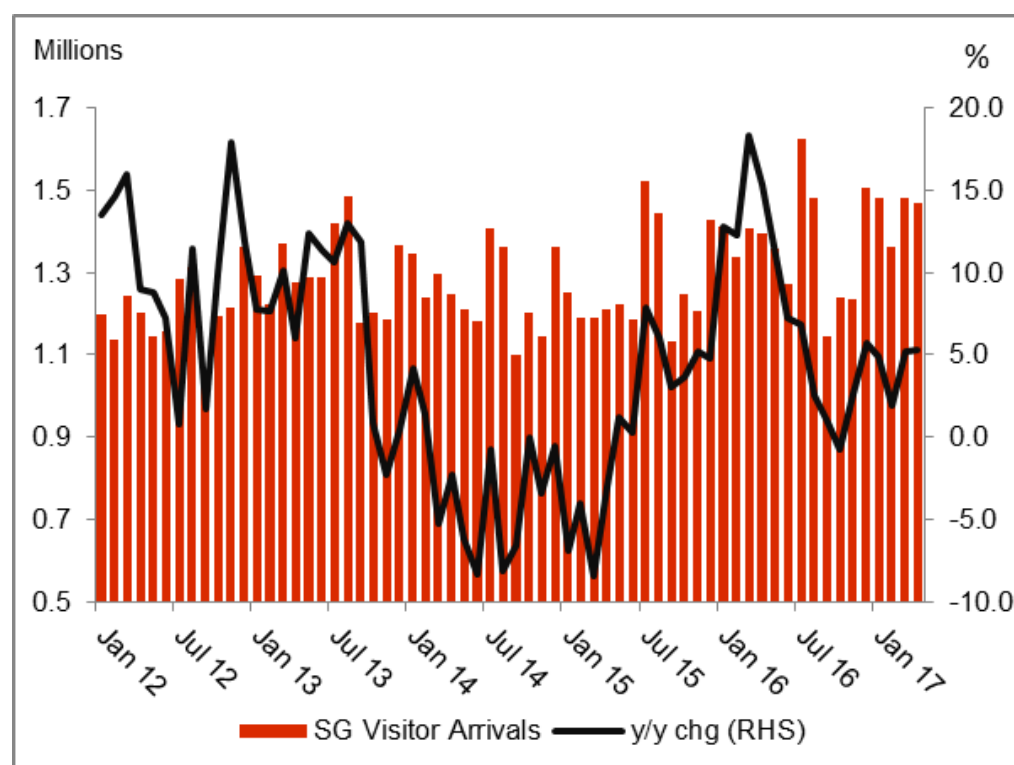
Not much has changed in terms of supply compared to the beginning of the year. The malls that have opened or are opening have distinct catchment areas, such as the Hillion Mall (opened in February 2017, integrated with Bukit Panjang MRT) and Northpoint City (retail portion, integrated with Yishun MRT station). With domestic retail demand facing structure pressures, such as low population growth (CMT projected this to be 1.3% per annum over the next 5 years) and a greater proportion of online spending, additional retail space leads to cannibalization of other retail assets for customers. In fact, most of the new retail assets outside of the Orchard and CBD area have strong catchment, such as part of integrated developments (Paya Lebar Quarter) or offer unique proposition (Project Jewel at Changi Airport), to the detriment of existing assets nearby. As reported by CMT, Singapore's shopping centre floor space per capita of 5.8 sqft NLA per capita is already higher than Japan (4.3 sqft NLA per capita) and South Korea (2.2 sqft NLA per capita), but lower than Hong Kong's 10.1 sqft NLA per capita. That said, a strong catchment is no protection, such as in the case of the retail podium of One Raffles Place. Despite being right in the middle of the CBD and re-launching in 2014 with several high profile brands, many of these brands, such as Victoria Secrets and Uniqlo, have not renewed their 3-year lease and are pulling out. With the retail components of OUE Downtown and Marina One looming, it remains to be seen how well these retail assets in the CBD will fare.

Moving on to demand proper, for the core Orchard Road shopping district, tourist arrivals and spending have largely remained supportive. YTD (ending April 2017) visitor arrivals are 4.4% higher, while STB reported that tourism receipts grew 13% y/y in 2016 to SGD24.6bn². With visitors spending more on Shopping (+51% y/y), Accommodation (+26% y/y) and F&B (+20% y/y), tourist flows would act as the tailwind supporting retail assets in Orchard road. In the end, the Zika virus scare late August 2016 did not impact 4Q2016 performance with visitor arrivals up 3% y/y and tourism receipts up 14% y/y. FCL had indicated that profit contribution from The Centrepoint had been supportive in 1Q2017. Things at Wisma Atria (in SGREIT)

² Singapore Tourism Board – Tourism Sector Performance 4Q2016 Report

were more mixed though, with NPI lower in 1Q2017 due to lease concessions, while shopper traffic declined 7% y/y. OUE-HT had reported sharply higher retail revenue in 1Q2017 (+6.4% y/y) from higher occupancy at the Mandarin Gallery. It is worth noting that OUE-HT, as an incentive to tenants, has structured some tenants to have lower base rent and higher turnover rent. Longer terms leases were used to entice anchor tenants, such as Victoria's Secrets (they had a 10-year lease), as well. Finally with the recent opening of South East Asia's first Apple Store at Knightsbridge Mall returning some cachet back to Orchard Road, perhaps locals now have a reason to leave the suburbs for their retail fix.

Figure 17: Singapore Visitor Arrivals



Source: Singapore Tourism Board, OCBC

For the broader domestic retail sales (*Table 5*), it can be seen that 2016 on the whole was a down year, with every month except for January 2016 and December 2016 reporting y/y declines. For 2017 YTD the data is more encouraging, with y/y gains seen in every month except February 2017. Diving into the details, April 2017 data reflected that Department Stores grew 7.6% y/y, Apparel & Footwear grew 6.1% y/y while Watches and Jewellery grew 14/3% y/y. With the increase in discretionary spending, it looks like mall tenants would be better able to manage the weak environment.

Table 5: Singapore Retail Sales (excluding Motor Vehicles, NSA) Y/Y percentage change

2012	2013	2014	2015	2016	Jan-17	Feb-17	Mar-17	Apr-17
2.6%	0.9%	-0.5%	-1.2%	-2.6%	2.1%	-4.9%	0.5%	4.9%

Source: Singapore Department of Statistics

That said, the structural shift in consumer spending from physical stores to online platforms is continuing. The Senior Minister of State for Trade and Industry Ms Sim Ann recently commented in parliament, giving more details on how the government

tracks e-commerce transactions as well as some statistics³:

- The Singapore government tracks internet transactions made with locally-issued credit and debit cards.
- Over the last 3 years, internet transactions tracked this way totaled SGD24.7bn, with transactions with foreign entities at ~26% (SGD6.4bn) of total internet transactions.
- E-commerce penetration in Singapore is currently ~3% of total retail receipts. As part of the Retail Industry Transformation Map ("ITM") launched in September 2016, the government seeks to grow e-commerce share of total receipts to 10% of total retail receipts by 2020.

It would seem that rather than to fight the tide, the official government stance is to facilitate the transition, helping local retailers evolve an online presence (and potentially expand their footprint beyond Singapore). E-commerce penetration is already higher at China (10% in 2014) and the US (6.5% in 2014). There are schemes in place for retailers to move omni-channel, which Challenger (a traditional brick and mortar electronics goods retailer) was highlighted as an example for setting up Hachi.tech (an online tech-focused e-commerce portal). As such, retail landlords have to strategize on how to capture opportunities during this transition. SingPost Centre⁴ is attempting to execute this by integrating physical browsing of items with online ordering, coupled with backend warehouse for delivery. Landlords have also been inviting online-only retailers, such as blog shops, to experiment with a physical presence in retail malls (via pop-up stores). Ultimately, it remains to be seen how successful such endeavours are in bringing customers back into shops.

Table 6: Retail REITs Statistics

Issuer	Occupancy			Expiry (NLA%)		
	2015	2016	1Q2017	2017	2018	2019+
CMT*	97.6%	98.5%	97.7%	14.5%	29.4%	56.1%
FCT	94.5%	91.3%	87.2%	14.4%	29.6%	56.0%
SGREIT	98.0%	95.4%	95.1%	4.0%	9.7%	86.3%
SUN (Retail)	97.9%	97.7%	98.9%	20.8%	20.9%	58.3%
MCT (VivoCity)*	99.6%	99.9%	99.0%	16.7%	36.6%	63.4%

Source: Company, OCBC, [MCT: FY2015, FY2016, FY2017], *CMT lease expiry by gross rental

Reviewing the domestic retail REITs under our coverage, occupancy remains strong relative to the broad market (for 1Q2017, Orchard Road: 92.4%, Central Ex-Orchard Road: 91.2%, Suburban: 92.7%). The exception was FCT, which continued to see suppressed occupancy due to the Northpoint AEI. Interestingly, the convergence between Orchard Road and Suburban vacancy continues, with Orchard Road vacancy down from the 9.2% peak seen in 2Q2016, while Suburban vacancy is now at the peak of 7.3%. As such, SGREIT and SUN looks to benefit while CMT and FCT may be facing more hurdles with their suburban portfolio.

Across the board though, rental rates continue to slide lower (consistent with the industry, with rental rates lower for 9 consecutive quarters since end-4Q2014). CMT's portfolio rental reversions have finally turned negative (-2.3% for 1Q2017) after deteriorating the last couple of years (2015: +3.7%, 2016: +1.0%). For FCT, rental reversion slowed to +4.1% for 2QFY2017 (FY2016: +9.9%) with Bedok Point performing poorly (-17.9% rental reversion for the quarter).

The one bright spot would be portfolio valuations. Thanks to the acquisition of Jurong Point by Mercatus Co-operative (a social enterprise by union NTUC) for a heady price of SGD2.2bn, the valuation of domestic retail real estate would be supported. In addition, Las Vegas Sands had previously indicated their desire to divest 49% of the Marina Bay Sands mall. The asset has been performing well, with interest in the asset strong. Should a transaction for the Marina Bay Sands mall occur at a titillating

³ <https://www.mti.gov.sg/NewsRoom/Pages/Senior-Minister-of-State-Sim-Ann-oral-reply-to-to-PQ-on-online-retail-sales-for-local-and-foreign-e-commerce-and-its-impact.aspx>

⁴ <http://www.singpost.com/about-us/news-releases/singpost-develop-singapores-first-shopping-mall-ecommerce-logistics-services>

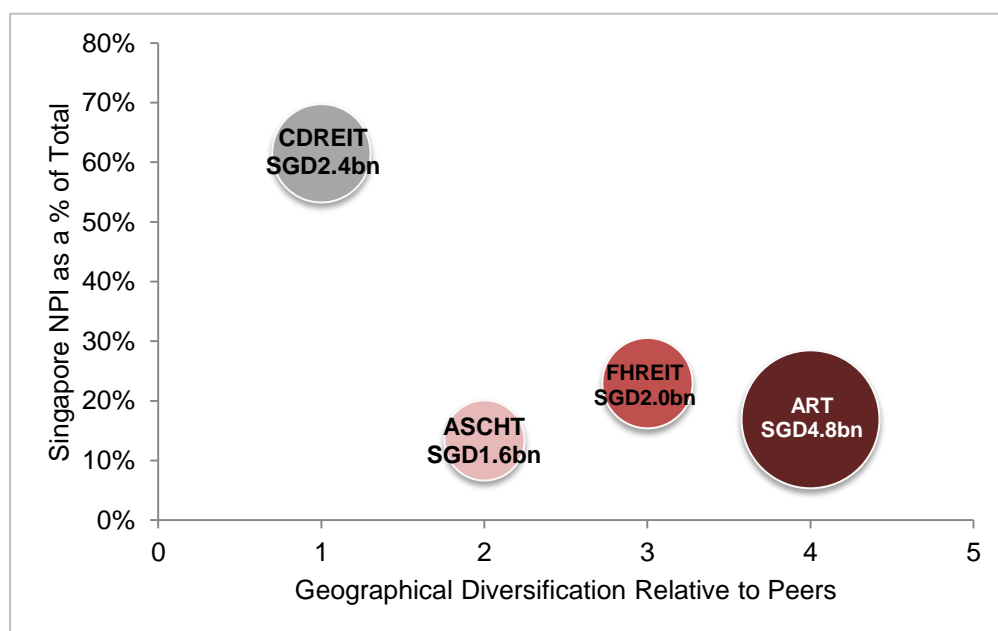
valuation, it would also serve to support valuations for domestic retail commercial real estate.

Aside from facing secular pressure on demand, retail REITs are also facing limits to portfolio expansion due to the mature domestic market. As such, we may see more retail REITs attempt to tackle foreign assets. FCL had previously indicated that Australian retail assets that were developed in the past were typically sold to 3rd parties, but going forward FCL may retain these assets (and potentially injecting them in FCT).

Singapore Hospitality REITs – YourSingapore

In practice, Hospitality-focused REITs tend to be stapled securities: a REIT with a Business Trust component. For simplicity, we have termed them Hospitality REITs for the purpose of this piece. There are five Hospitality REITs listed on the SGX with an aggregate market cap of SGD8bn or 10% of the total market cap of all REITs and Business Trusts in Singapore. Four of the five Hospitality REITs have issued SGD-denominated bonds and perpetuals with a total outstanding amount of SGD1.3bn. The key distinctive features for these REITs versus other S-REIT classes is that (1) Hospitality assets are typically still leased by their Sponsors/Vendors to house business operations (2) Significant geographical diversification with wide variation between micro-markets (3) Unique characteristics of properties: Built-to-specification - service standards, branding and loyalty programs play a major role (4) Inherent cyclicity and short stays resulting in reliance on Master Leases to smooth earnings and (5) Higher capex to rejuvenate product offering.

Figure 18: Hospitality REIT Bond Issuer Landscape: Asset size, Singapore contribution and geographical diversification



Source: Company financials and investor presentation, OCBC Credit Research
 Note: (1) Size denotes portfolio size | (2) Ascott Residence Trust ("ART"), Frasers Hospitality Trust ("FHREIT"), Ascendas Hospitality ("ASCHT") and CDL Hospitality Trust ("CDREIT")

Hospitality REIT bond issuers hold a total of SGD11bn in assets, a third comprise Singapore properties. Other key markets where assets are located include Australia (especially Sydney and Melbourne), Japan, UK and increasing, the US. Including Singapore, these five countries contribute 80% to 97% of each REIT's net property income ("NPI").

Moderate growth in tourist arrivals after bumper FY2016

FY2016 was a bumper year for tourist arrivals compared to the previous year. According to HVS, a hospitality industry-focused consulting firm, the Singapore Tourism Board ("STB") had initially forecasted a flat to 3% growth in international visitor arrivals though actual performance saw arrivals growing by 7.7% to 16.4mn people. This was mainly driven by a rebound in tourist numbers from China (up 36% or 760,000 visitors) and a 6% increase from Indonesia (up 160,000 visitors). India, Vietnam and Thailand were also important contributors which helped offset the declines from Hong Kong, Malaysia, Australia, US and UK (collectively down 150,000 visitors). We think this was a result from STB efforts in wooing emerging travellers beyond primary cities. For example, for China, STB is making inroads into Tianjin, Nanjing, Qingdao, Xiamen, Fuzhou, Chongqing and Wuhan. Since October 2015, STB had intensified its Chinese digital efforts by forging partnerships with Alitrip, Tuniu (both online travel services) and social review sites Dianping and Mafengwo. In the first four months of 2017 ("4M2017"), visitor arrivals have increased 4.4% y/y, driven by China. STB's key strategy is to retain visitors from primary cities as repeat visitors while expanding reach across new cities.

Table 7: Growth cities for Singapore Hospitality

Country	Cities	Province/Region
China	Jinan	Shandong
	Zhengzhou	Henan
	Changsha	Hunan
	Nanning	Guangxi
Indonesia	Semarang	North Java
	Makassar	Sulawesi
	Palembang	South Sumatra
	Bali	Bali
India	Ahmedabad	Western India
	Chandigarh	Northern India
	Hyderabad	Southern India
	Kolkata	Northwest India
	Lucknow	Northern India
	Pune	Western India

Source: STB presentations

Strong tourism receipts

FY2016 growth in overall tourism receipts was stronger at 13% y/y to SGD24.6bn. Excluding sightseeing, entertainment & gaming ("SEG"), tourism receipts were SGD20.2bn in FY2016.

On an absolute basis (without factoring in length of stay), big spenders include China, Indonesia, India, Australia and Japan, making up 50% of tourist receipts excluding SEG. Shopping receipts was 29% of the SGD20.2bn, similar to the 29% on accommodation spending. Receipts from the top two source markets of China and Indonesia were heavily skewed towards shopping. Visitors from India and the US spent more than USD500 per visitor though their length of stay is likely to be longer than 3.2 days average.

.....but not translated into stronger performance for accommodation sector

Hotel revenue though only grew by 1.8% in FY2016 to SGD3.2bn, despite the strong visitor arrivals and tourism receipts. Occupancy in FY2016 was steady at ~84% but revenue per Available Room ("RevPAR") across all hotel sub-segments saw a decline in FY2016. On an overall basis, down 4.7% to SGD199 and for 4Q2016, it was down 8.0%. The luxury segment (eg: Four Seasons, Shangri-La, Raffles Hotel) saw the narrowest fall at 2.9%. All four of the Hospitality REITs focus on the mid-tier

and upscale segment. The exact split between leisure and corporate travel spending is not provided by STB. We think growth in visitor arrivals and tourism receipts was concentrated on the leisure travel segment, a segment that tends to be more price-sensitive based on management feedback of the Hospitality REITs we cover and observations. ART, which is focused on the corporate travel segment in Singapore, saw RevPAU decline by 3.0% y/y to SGD195. Weaknesses in various industry sectors have led to pullbacks on corporate spending. In a sign of weaker corporate travel and accommodation spend, full service airlines have introduced the premium economy class and we have seen coordinated efforts by budget-airlines in recent months to lure business travellers, particularly for short-haul business travel routes.

Influx of new supply

Furthermore, the influx of supply has also capped upside for potential in room rates. According to our colleagues at OCBC Investment Research, there were 63,518 rooms at end-2016. 1H2017 and 2H2017 is expected to see 2,956 additional rooms and 811 rooms respectively. Should all of these come through, number of rooms will grow by 6%, against STB's projected modest growth in visitor numbers of 1.8%. Urban Redevelopment Authority ("URA") data showed that 2018 is expected to see 739 new room additions whilst 2019 is expected to see an additional 1,205 rooms. Net-net, we continue to expect weak RevPAU due to the supply-demand imbalances. Short-term home rentals (eg: via sites like AirBnB and HomeAway) is illegal in Singapore unless URA has given permission. This helps cap competition for gazetted accommodation. While short-term home rentals would have impacted the economy and mid-tier segment, the upscale segment would face competitive challenges from luxury boutique hotels as consumers search for unique experiences. CBRE has opined that some projects will experience delays in construction, postponements or cancellations and added that supply will start tapering off post-2019.

Serviced residences hit

We think the serviced residences/extended long stay segment is positively correlated to the residential rental market, in particular when rental rates are low and owners are willing to consider shorter term leases of six months (versus the more common one year lease). In 4Q2016, the private residential rental index had fallen by 13 quarters consecutively and vacancy rate was 8.4%. On 30 June, URA lowered the minimum stay duration of private housing to three months, from the current six months, further creating competition for serviced residences if it comes through.

Hospitality REITs geographically diversified

Despite the strong headline tourism numbers, we are bearish on hotels and serviced residences in Singapore, in particularly those reliant on the corporate travel segment. Nonetheless, geographical diversification is a strong plus for Hospitality REITs and puts them at a stronger footing versus asset owners who are only concentrated in Singapore. Apart from Ascott Orchard Singapore (forward purchase deal agreed in 2013) by ART, all acquisitions by the Hospitality REIT issuers have been for assets located elsewhere.

Singapore Industrial REITs – Some green shoots but yet to bottom

In 1Q2017, the industrial property sector remained weak although the pace of decline in rental rates has narrowed since the beginning of 2016. While these are early signs of green shoots, we think a bottom will only occur in the later part of 2017/early-2018 at the earliest.

The price index is now at 93.3 (down 2.2% against the previous corresponding quarter ("4Q2016")) and represents eight consecutive quarters where prices softened. Since the beginning of 2016, we have seen a marked deceleration in prices, a trend we anticipated as prices start "catching up" with the declines already happening in rents. Quarterly price changes since 1Q2016 was between negative 1.7% and negative 3.0% whilst quarterly price declines prior to that was contained at negative 1.0%. The rent index in 1Q2017 fell 0.9% against 4Q2016 to 93.0, with multiple-user buildings faring the worst (fell 1.1%). Knight Frank, a property consultancy, has

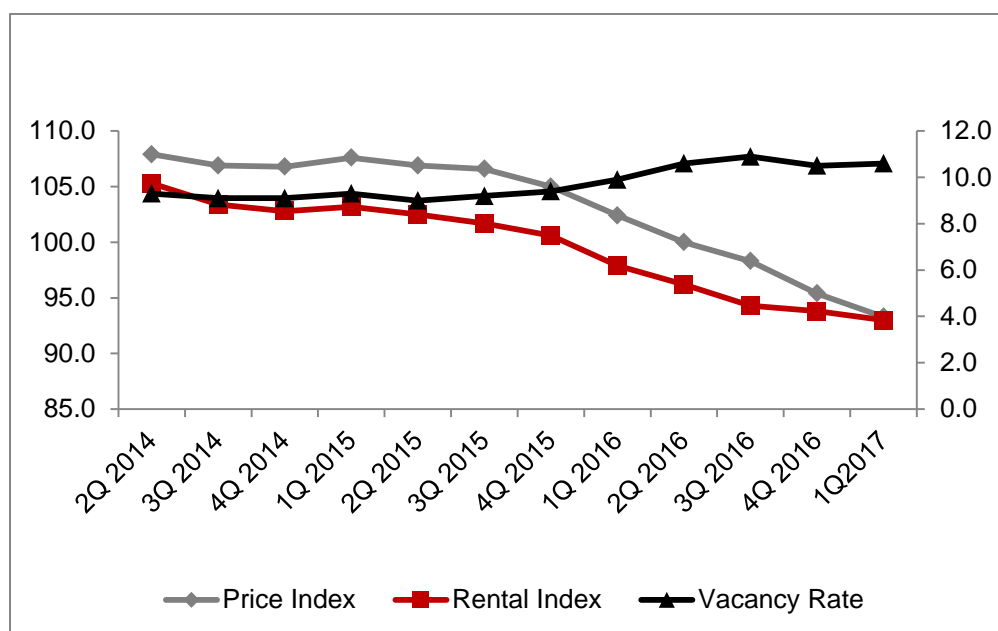
opined that average rents could fall by 3.0% to 7.0% by 4Q2017 while average prices for leasehold factories and warehouses could fall by 5% to 8% y/y.

Overall vacancy rates deteriorated marginally to 10.6% against 10.5% in 4Q2016. This was led by vacancies in the single-user factory sub-segment (9.4% against 9.1% in 4Q2016) and multiple-user factory sub-segment (13.0% against 12.7% in 4Q2016). The other two sub-segments, namely Business Park and warehouses saw improvements. Transaction volumes (based on number of caveats lodged) continue to be low, with around 150 caveats lodged in 1Q2017. Whilst 1Q is usually a slower quarter, this was still down versus the near-200 and near-300 lodged in 1Q2016 and 1Q2015 respectively. Annual net change in space occupied (a proxy for demand) was 1.3mn sqm in the rolling four quarters to 1Q2017, within the 1.2-1.4mn exhibited historically and inching up from the 0.9-1.1mn sqm in 2016.

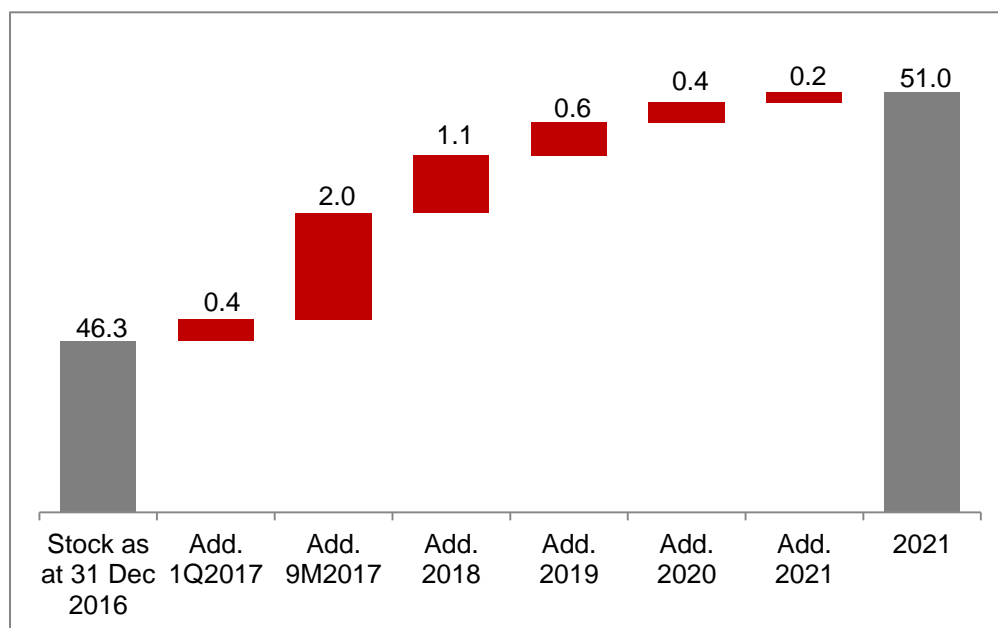
The Singapore Purchasing Manager Index (Manufacturing) for May 2017 was 51.4, down from 52.6 in April though around similar levels at the start of the year. Confidence levels as measured by the future output index rose higher. Nonetheless, this has yet to translate to strong demand in leasing activities for the industrial space. Businesses in general are still cautious about expanding their leasing needs whilst certain properties owned by Industrial REITs in our coverage were weighed down by liquidation of their tenants. Edmund Tie & Company (SEA) Pte Ltd, a property consultancy thinks that demand for industrial space in 2017 is likely to be subdued, though the impact of potential supply is mitigated as single-user factory forms the bulk (almost 50%) of potential supply and another 30% relates to strata-titled units of which some may not meet industrialist's required demand. As at 31 March 2017, there were 1,400 units of uncompleted strata-titled developments still available for sale, totalling about 0.33mn sqm (236 sqm per unit on average). Six in ten units are zoned as B1 based on our estimates, which limits the pool of end users.

Changing Industrial REIT landscape

1H2017 was marked by mergers and acquisitions (M&A) activities at the asset owner and REIT Manager levels. In January 2017, e-Shang Redwood (a portfolio company of private equity firm Warburg Pincus) expanded into Southeast Asia via its ~11% stake acquisition of Cambridge Industrial Trust (now ESR-REIT, formerly CREIT). It also bought 80% of the ESR-REIT's REIT Manager from the National Australia Bank and the Oxley Group. E-Shang Redwood is one of Asia's leading logistics real estate developer, owner and operator. As its new significant shareholder is a strategic investor with a strong financial backer, we expect to see ESR-REIT expanding beyond Singapore in the near-to-medium term given the increasing difficulties in sourcing accretive acquisition opportunities within Singapore on an unlevered basis. In April 2017, a shareholders requisition meeting to replace Sabana Shari'ah Compliant Industrial REIT ("SSREIT")'s REIT Manager failed, though unitholders managed to parlay their concerns. SSREIT and its REIT Manager is currently undergoing a Strategic Review to assess options available to enhance growth and this includes possible changes in the ownership stakes at both levels. As yet, no binding agreements have been entered into though the current Sponsor of SSREIT is in discussions to acquire an increased stake in SSREIT's REIT Manager. In yet another hypothetical permutation, ESR-REIT and SSREIT could combine to create a significantly larger REIT which, if it happens, would lead to a re-rating of bonds, in our view. In March 2017, e-Shang Redwood had emerged as a 5% stakeholder of SSREIT. More broadly in the industrial space, two consortiums have reportedly submitted bids for SGX-listed Global Logistic Properties ("GLP"). The company is 37%-owned by GIC and a strategic review had been on-going since December 2016. One group is led by Warburg Pincus and another led by Hopu, Hillhouse and the current CEO. GLP's assets are largely located in China, Japan, US and Brazil.

Figure 19: Singapore Industrial Sector Indices

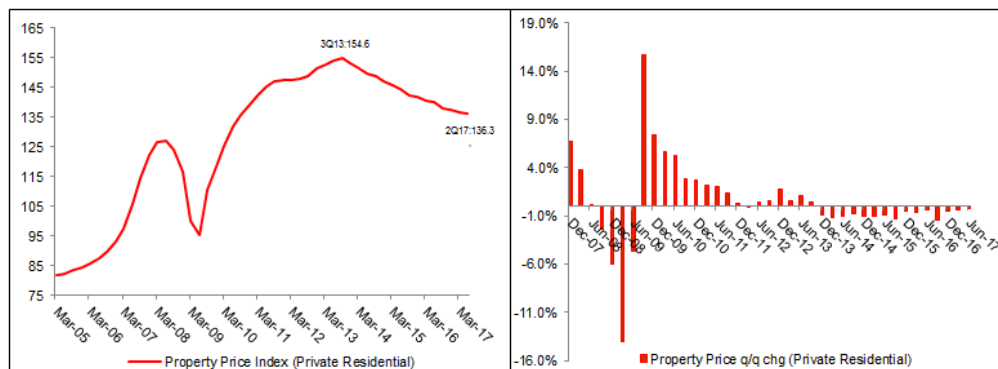
Source: JTC Quarterly Market Report for 1Q2017

Figure 20: Incoming Industrial Supply in Singapore (million sqm)

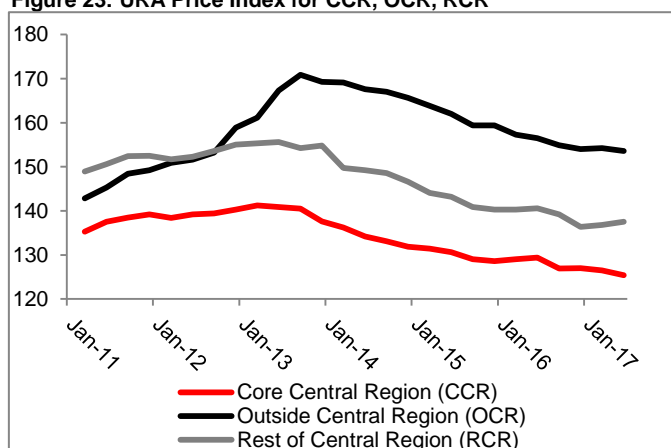
Source: JTC Quarterly Market Report for 1Q2017 | Note: Assumes no disposal from property stock

Singapore Property – Time to buy a property?

Home prices continued to decline in 2Q2017, according to the latest URA Private Property Price Index flash estimates, with prices lower by 11.8% since its peak in 3Q2013. This marks the longest cumulative decline of 15 quarters since the dot-com bubble in 2Q2000. However, the pace of decline has slowed, with 1Q2017 and 2Q2017 residential prices lower merely by 0.4% and 0.3% q/q respectively. While the landed property segment still faced pressure (-2.2% over 1H2017), the impact was more muted for the non-landed segment (-0.3% over 1H2017).

Figure 21: URA Price Index -11.8% since 3Q13 | Figure 22: Fifteen consecutive q/q declines


Source: Urban Redevelopment Authority, OCBC

Figure 23: URA Price Index for CCR, OCR, RCR


Source: Urban Redevelopment Authority, OCBC

Going forward, we think that prices may no longer fall. We painted a bearish outlook in Jan 2017 mainly because of the following factors: (1) low transaction volume, (2) pipeline of unsold inventory and (3) property cooling measures. However, there has since been changes in the property market. Developer new sales surged to 2,962 units (excluding ECs) in 1Q2017, the highest for a quarter since 3Q2013. Last twelve months ("LTM") new sales totalled 9,515 units, which represent just 1.7x the 15,930 unsold units in the pipeline. New launches appear to be selling well, including Grandeur Park (sold 58% of 720 total units on its first weekend launch) and Park Place Residences (sold 50% of 429 units on first launch). While developers had previously cut prices to move units in order to avoid the punitive property cooling measures (e.g. Qualifying Certificate, Additional Buyer's Stamp Duty), developers may no longer need to continue doing so with the increase in the number of transactions. Meanwhile, resale property prices have already begun to recover, with the SRX Property Price Index in May 2017 higher by 4.1% than the recent lows in Oct 2016.

Figure 24: Unsold Private Residential Units

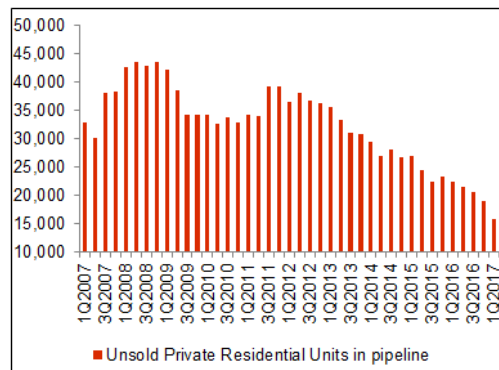
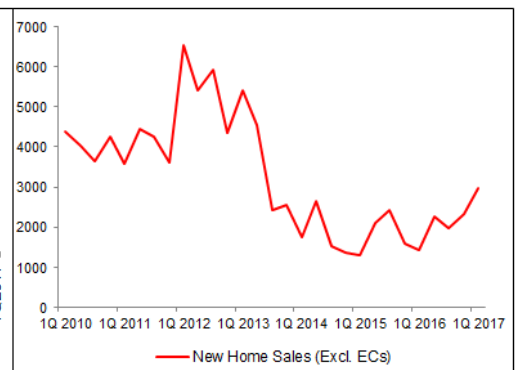
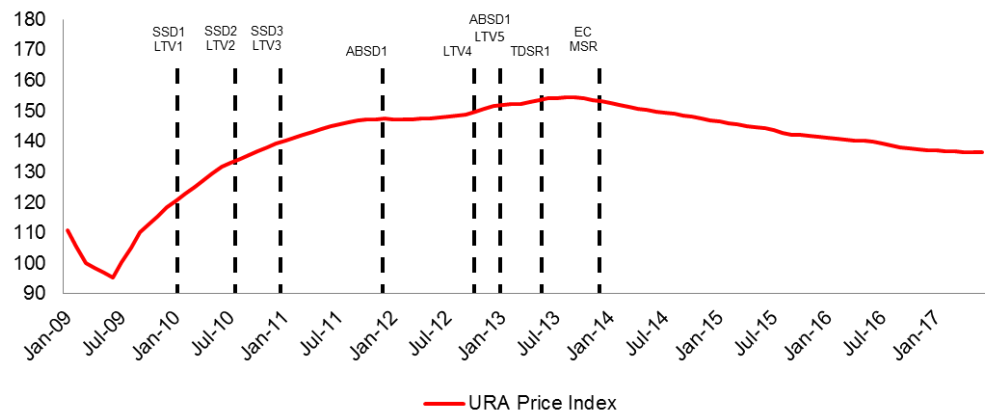


Figure 25: New Home Sales (Excl. ECs)



Source: Urban Redevelopment Authority, OCBC

Figure 26: Private Non-landed Resale Price Index



Source: Urban Redevelopment Authority, OCBC

Nevertheless, we do not expect a full lift-off in property prices and transactions similar to that seen pre-2013. The property cooling measures, which had the most impact in our view, are the Additional Buyer's Stamp Duty ("ABSD") and Loan to Value ("LTV") ratio as we note that property prices halted their steep ascent after the government tightened both policies in Jan 2013. These cooling measures are likely to remain going forward. MAS managing director Ravi Menon said in June 2017 that "it is not time yet to ease the cooling measures".

We think that the relaxation of property measures in March 2017 will have limited impact on prices and transactions. While the holding period and rates for Seller's Stamp Duty ("SSD") were reduced⁵, the previous rounds of SSD appeared ineffective to curb rising property prices. We also think that the relaxation of the Total Debt Servicing Ratio ("TDSR")⁶ may similarly have a limited impact as its essence has not changed - TDSR encourages buyers to borrow within their means. The policy intent for relaxing the TDSR is to allow retirees to borrow against their properties.

Amidst signs of a bottoming property market, the credit impact on developers look mixed. For the larger developers (e.g. CapitaLand, City Development, Frasers Centrepoint), the impact is limited given their diversified portfolio with increasing

⁵ The SSD holding period has been reduced to 3 years (Previous: 4 years). Under the new rules, the SSD rate for the 1st/2nd/3rd/4th year will be changed from 16%/12%/8%/4% to 12%/8%/4%/nil

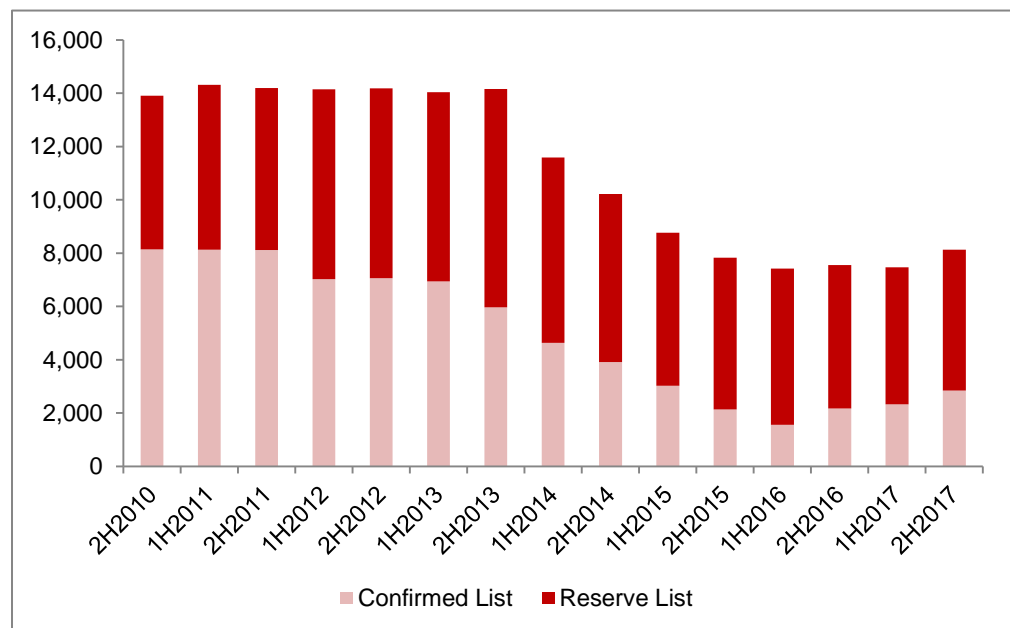
⁶ Mortgage equity withdrawal loans with LTV of 50% and below are excluded from the TDSR

overseas exposures and a portfolio of investment properties. For the smaller developers, we think this can be a double edged sword. On the upside from an improving market condition, a number of smaller developers have move more units, which help to support their profitability and cash flows. For example, in addition to the strong sales at Grandeur Park by Chip Eng Seng, Hotel Properties moved more units at Tomlinson Heights, Wing Tai Holdings moved more units at The Crest while GuocoLand sold more units at Sims Urban Oasis. The only exception under our coverage is Hong Fok, with a number of units at Concourse Skyline remaining unsold.

However, the increased optimism also led to land bids turning increasingly aggressive, with the sale of a Bidadari site for SGD1.1bn (SGD1,181 psf) and Stirling Road for SGD1bn (SGD1,050 psf). We can expect developers to gear up to bid for land or look for en bloc deals (e.g. Oxley-led consortium purchasing Rio Casa for SGD575mn).

As demand for new private housing continued to increase, Government Land Sales ("GLS") for 2H2017 private housing will increase to 8,125 units (1H2017: 7,465 units). While this may signal a turn in the government's policy to release more land as the list has not exceeded 8,000 units since 2H2015, we note that the total units released currently still pale in comparison to pre-2014. We think that developers may use the opportunity to replenish their dwindling landbank as unsold inventory fell to five year lows. However, it remains to be seen if this will eventually support profit margins or the land bids may turn out into a winner's curse.

Figure 27: Singapore Government Land Sales



Source: Urban Redevelopment Authority, OCBC

China Property – Staying Defensive

Intensification of property curbs

Following the spate of property cooling measures in October 2016, we saw some pullback in the China property market. Country-wide pre-sales declined to RMB7,298 per sqm on average for the month of October and November 2016 (down from RMB7,844 in the three months leading to September 2016). Nonetheless, 1Q2017 saw a rebound in the property sector, with pre-sales reaching RMB7,957 per sqm. Since mid-March 2017, further new policies were introduced across cities in China. Measures remained localised, on a city-by-city basis. Beijing, for example, announced severe measures where the downpayment ratio for second home purchases was increased to 60% (from 50%) for ordinary homes. Down payment for second home purchases on non-ordinary homes (larger than 144 sqm or prices 20%

higher than government set guidelines) are subject to an 80% downpayment (up from 70%). The definition for second home-buyers was also broadened to include anyone who has had a mortgage history. In April 2017, domestic media had reported that Beijing intends to increase residential land supply in the domestic market, including measures to provide units catered for renters. We see this as a sign that China is taking steps to address the shortage of land supply for housing, a main reason behind the buying frenzy (and hence property price escalation) in prime cities.

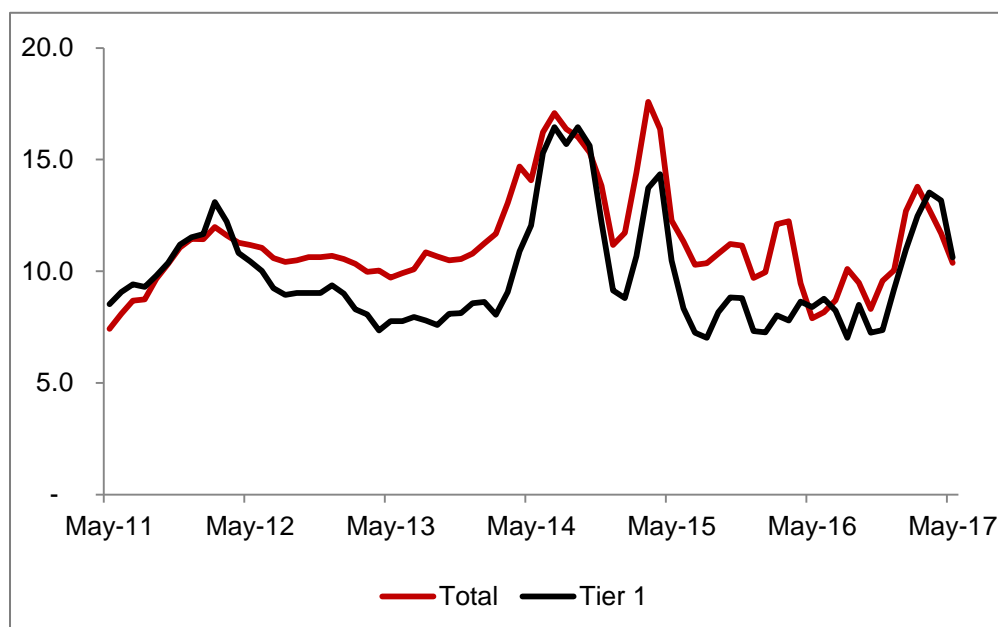
Prices in general stayed firm in May 2017, with 55 of the 70 cities tracked by the National Bureau of Statistics ("NBS") seeing month-on-month increases in prices while only nine saw a decline in prices. The picture was mixed for the 15 Tier 1 and key Tier 2 cities which had seen strong price increases in 2016. Six saw price increases, Beijing and Shanghai stayed flat while a decline was seen in the rest. We think this signals that property cooling measures have taken some effect, while investment demand has broadened to lower-tiered cities.

Figure 28: month/month change of property prices (%)

Cities	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17
Beijing	0.5	0	-0.1	0	-0.1	0.4	0.2	0
Tianjin	1.2	0.5	0	-0.3	0.4	0.2	-0.1	0.1
Shanghai	0.5	-0.1	-0.2	-0.1	0.2	-0.1	-0.2	0
Nanjing	2.3	0.2	-0.1	-0.2	-0.1	-0.2	-0.3	-0.2
Wuxi	4.8	0.8	-0.1	-0.5	-0.1	0.3	0.1	0.2
Hangzhou	3.1	-0.4	0	0	-0.2	0.2	0	-0.3
Hefei	1.5	-0.1	-0.2	-0.1	-0.2	0.1	-0.1	-0.2
Fuzhou	2.6	0.9	-0.4	-0.3	0	-0.1	-0.2	0
Xiamen	0.5	-0.2	-0.1	-0.2	-0.1	1.9	0	0.3
Jinan	3.4	1.1	-0.3	-0.1	0	0.6	0.4	0.5
Zhengzhou	3.5	0.5	-0.1	-0.2	-0.3	0.3	0.1	-0.1
Wuhan	2.8	1.6	-0.3	-0.1	-0.2	-0.1	0.4	0.2
Guangzhou	1.3	0.9	0.7	0.6	0.9	2.5	1.4	0.9
Shenzhen	-0.5	-0.3	-0.4	-0.5	-0.6	-0.3	0	-0.6
Chengdu	-0.8	0	-0.2	0	-0.4	-0.7	0	-0.1

Source: National Bureau of Statistics | Note: Tier 1 and selected Tier 2 cities

Based on average of all Tier 1 and selected Tier 2 cities, it took 10.4 months for inventory to be absorbed in May 2017, longer than that exhibited prior to the first wave of property tightening in this current cycle. Post October 2016, we saw a slowing down of transactions until the earlier part of 2017 where transaction volumes picked up pace. For Tier 1 cities, Beijing saw absorption rates lengthening steadily (May 2017: 11.3 versus 6.3 in September 2016). The other three cities saw quickening in absorption in recent months, though these have not returned to pre-October 2016 levels.

Figure 29: Housing Absorption Rates (in months)

Source: Absorption data from the China Real Estate Information Corporation as compiled by Bloomberg

Notes: Tier 1: Beijing, Shanghai, Shenzhen, Guangzhou, Tier 2: Fuzhou, Suzhou, Dalian, Hangzhou, Nanchang, Nanjing, Qingdao, Xiamen, Changchun.

Tightening external financing environment

The Shanghai Stock Exchange had put in stricter criteria on developers trying to raise onshore bonds via its platform. According to a Bloomberg news report back in October 2016, firms that had contravened the law or tried to inflate land prices in cities with property curbs in place were barred from issuing bonds. Under the new rules, only selected property developers could raise bonds via the exchange. The developers would need to be domestically rated AA or higher and also need to meet at least one of the following requirements: (1) Listed either in China or offshore (2) Owned by a province, a provincial capital, some major city or the central government or (3) Be among the top 100 builders ranked by the China Real Estate Association.

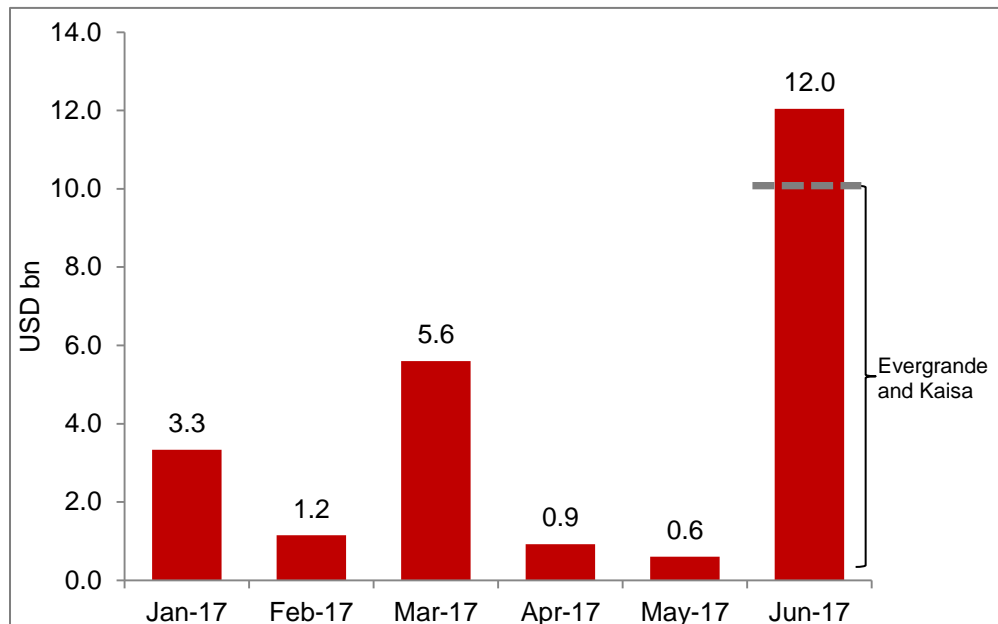
There were only 94 CNY bond issues in the real estate sector in 1H2017, totalling RMB130.5bn (~USD19.0bn). During the same period last year, there were 284 bond issues, totalling CNY455.9bn (~USD69.7bn).

In October 2016, the spread between locally-rated AAA China Corporate Bonds and AA China Corporate Bonds was 50-55bps. In the past two months, we had seen a marked widening of spreads to 60 bps in May 2016 and more recently to near-80bps. We think spreads will at least stay at current levels and possibly widen to more historical-norms of above 100bps.

The tightening in the onshore market had led to some flow back into the offshore market. Within the dollar space, there were 42 USD bond issues for Chinese property developers in 1H2017, totalling USD24.4bn. In 1H2016, there were only eight issuances amounting to USD2.5bn and for the full year there were 37 bond issues totalling USD13.5bn. 1H2017 saw bumper issuances by China Evergrande ("Evergrande") at USD6.6bn and Kaisa's at USD3.7bn issue. Of Evergrande's issuances, USD2.8bn was for a debt exchange, and the remaining was new bonds. USD2.7bn for Kaisa was attributable to a debt exchange and the remaining

USD0.8bn were new debt.

Figure 30: USD Bonds Issued by Chinese Property Developer



Source: Bloomberg

Excluding the issuances by Evergrande and Kaisa, USD issuances were concentrated in 1Q2017. While we have yet to see official announcements on the matter, since May 2017, there had been various media outlets reporting administrative delays in offshore bond approvals for property developers.

Looking ahead, deleveraging continues to be the anchoring policy theme for the rest of 2017 and we do not expect near-term loosening in property cooling measures. Given that property developers are reliant on cash collections from pre-sales to fund on-going liquidity needs, we expect pre-sales in 2017 to slow versus 2016. This is likely to stretch liquidity in the sector. In addition, a tightening external financing environment means that it is no longer a given that debt can be refinanced in a timely manner (or at 2016's low cost of funding). Already, we have seen reports of a rise in acquisitions and joint venture arrangements among property developers. One popular way is for larger companies taking over a stake in a cash-starved smaller player's development project, with the larger company assuming debt and advancing cash to the project company. We are hence taking a defensive stance on China Property and would stay with stronger, well-capitalised companies with a higher propensity to access financing versus taking a broad-sector bet going into 2H2017.

Hong Kong Property

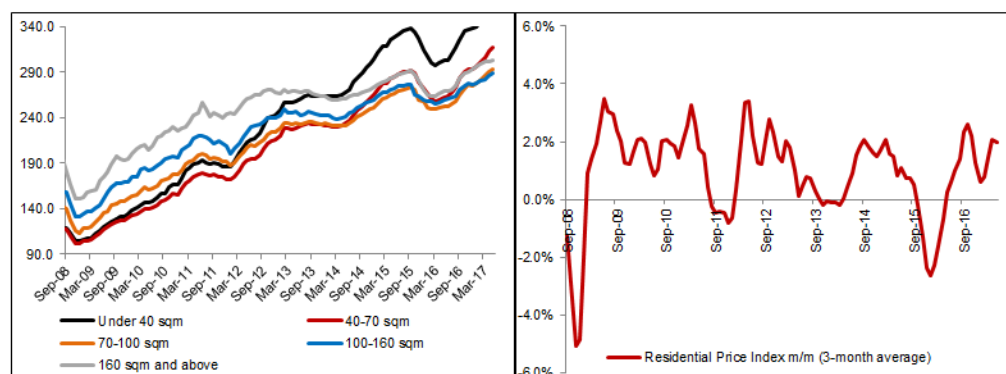
Residential – Will the bull finally be restrained?

Hong Kong property prices continued to rise another 8.4% since Dec 2016, according to the Hong Kong Rating and Valuation Department ("HKRVD"). This represents the 14th consecutive month of increase with prices breaking all-time highs for eight straight months. Hong Kong looks like one of the least affordable cities for housing, with the 2017 Annual Demographia International Housing Affordability Survey reporting Hong Kong median house price to income at 18.1x, ahead of Sydney (12.2x), Los Angeles (9.3x), London (8.5x) and Singapore (4.8x). To combat soaring housing prices, developers have been carving out smaller units for sale.

Henderson Land sold a 161 sq ft Hong Kong apartment, which is the size of a Tesla Model X, for just under USD500k. In comparison, Singapore's 2-room HDB flat starts from 387 sq ft.

Figure 31: Residential Price Index

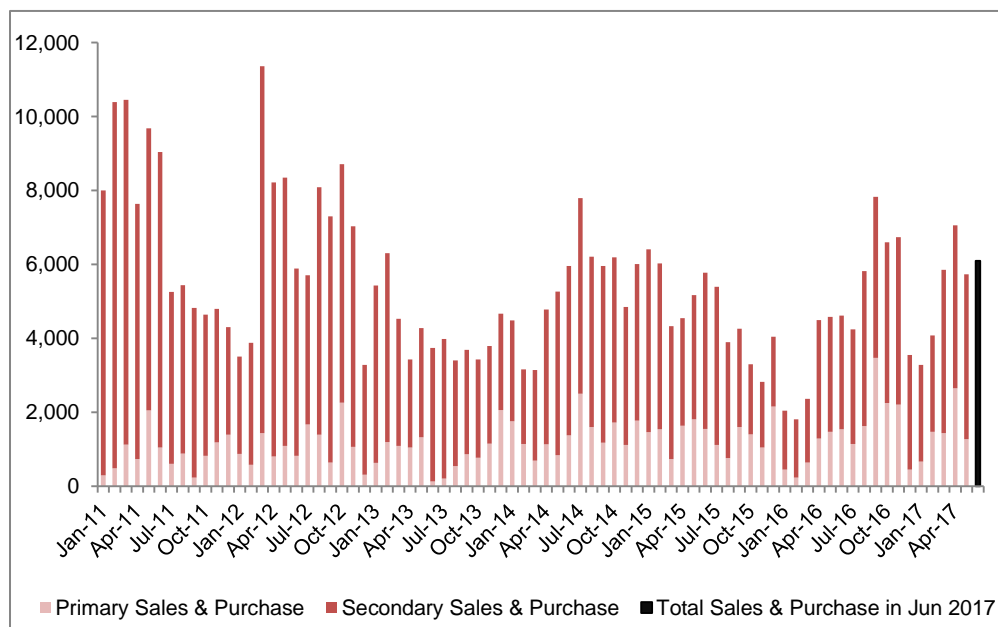
Figure 32: Residential Price Index m/m



Source: Rating and Valuation Department Hong Kong

While stamp duties were hiked for non-first-time buyers to 15% in Nov 2016, the Hong Kong property market have largely shrugged it off. Transaction volumes over Mar-May 2017 are already higher by 63% y/y and comparable to levels seen in Aug-Oct 2016 before the stamp duty rate hike. Targeting non-first-time buyers may be less effective when the housing demand-supply imbalance is acute. JLL estimates that 90% of the recent transactions are first-time buyers (we think often buying with support from family members). Meanwhile, general applicants of Public Rental Housing have to wait for 4.6 years.

Figure 33: Number of Agreements for Sale and Purchase of Residential Building Units



Source: Rating and Valuation Department Hong Kong

Our colleagues in OCBC Treasury Research believe that the housing boom may not last. Home supply looks to grow as private housing completions in 2017 is expected to grow by 17% y/y to 17,120, with the forecast for 2018 even higher at 19,530. Mainland investors may be deterred with tighter onshore liquidity conditions. Several

banks have reportedly raised mortgage spread on HIBOR-based loans following HKMA's move to tighten borrowing rules in May 2017. While the primary market may be less affected as developers may continue to provide home loans, the secondary/resale market that is dependent on bank loans may slow. Property developers are outside the purview of the HKMA.

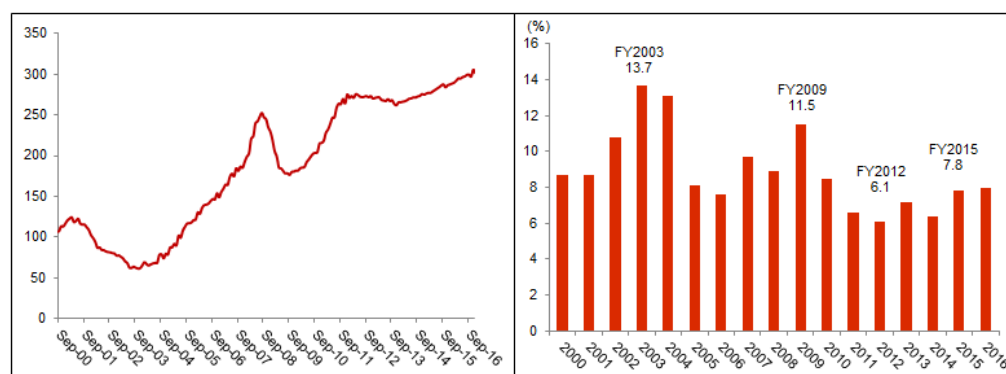
Thus far, a buoyant property market with higher prices and healthy transactions has bode well for Hong Kong's developers. While Chinese developers have turned more aggressive and priced Hong Kong developers out of land tenders, this can be a blessing in disguise. For developers under our coverage, in addition to higher profitability, net gearing has generally decreased as properties are sold faster than the replenishment of land bank. We are not overly worried about the net consumption of land bank as they still have a healthy pipeline ahead. In any case, they derive significant cashflows from investment properties. Coupled with a strong balance sheet, we think their credit profiles should remain resilient, which should provide a buffer against a potential downturn.

Office – Central to remain resilient

According to the HKRVD, overall office rents increased by 1.4% between Dec 2016 and Apr 2017, with the biggest increase coming from Grade A offices (+1.9%). However, the growth appears to be uneven, as rents in Tsim Sha Shui fell 1.2% while Central gained 2.4%. According to JLL, new supply is set to continue entering the market, with vacancy for the overall market expected to increase till 2019. While Grade A office rents are increasing, decentralization may continue with tenants moving out to non-core areas. Already, Citi has announced its decision to move its headquarters from Central to East Kowloon where rents are lower.

Nevertheless, the Greater Central region appears to stay resilient on the back of Chinese demand. In the first two months of 2017, JLL was tasked to secure 150,000 sq ft of office space for Chinese corporates. JLL reported that the recent leases by Chinese corporates in Central include Huarong (37,500 sq ft), China Securities International (12,000 sq ft), CMB International Capital Corp (30,000 sq ft) and Bank of Communications (10,000 sq ft). Going forward, rents may continue to find support as there is no significant supply until 2021. As a sign that the office market may still heat up, Henderson Land in May 2017 paid a record HKD23.3bn (SGD4.1bn) at HKD50,065 psf (SGD8,868 psf) for a site at Murray Road located in Central, though it remains to be seen if Henderson Land can eventually turn a profit for the development. Just two weeks after Henderson Land's bid, another record was set by Nan Fung Development for a site in Kai Tak for HKD24.6bn (SGD4.4bn) at HKD12,864 psf (SGD2,278 psf). For developers under our coverage, we think that Hongkong Land will be the prime beneficiary of increasing rents at Central while the aggressive land bids may lend further support to the valuations of its' investment properties.

Figure 34: Rental Index continues to climb | Figure 35: Grade A Office Vacancy Rate



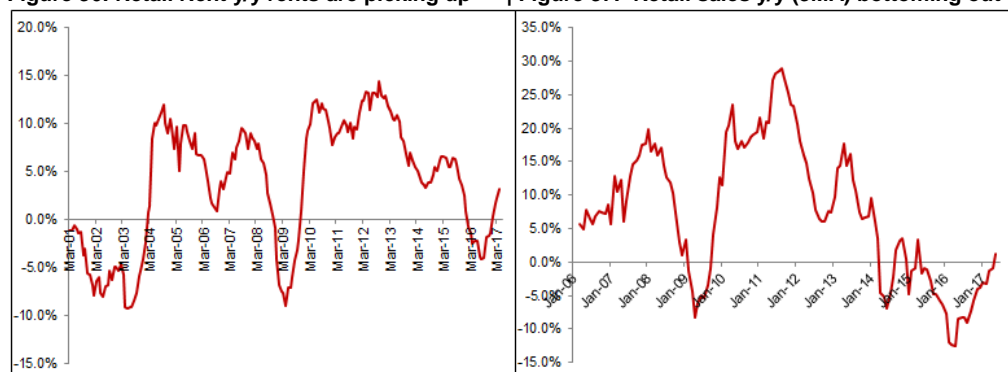
Source: Rating and Valuation Department Hong Kong

Retail – light at the end of the tunnel

Finally seeing light at the end of the tunnel, Hong Kong retail sales gained for three consecutive months in May 2017 after retreating for 24 straight months. While this is partly due to the low-base effect, there has been an increase in tourist arrivals (May: +3.0% y/y), mainly due to the return of mainland tourists (+3.8% y/y). Notably, sales of jewellery, watches and clocks increased 1.4% y/y, which were amongst the hardest hit last year. As a sign that improvements may be sustained, Retail Management Association chairman Thomson Cheng thinks that growth at the end of 2017 is likely. Separately, PricewaterhouseCoopers has forecasted that retail sales will grow by 3%-4% in 2017.

While general retail rents had declined for most of 2016, companies under our coverage still posted rental growth, including Mapletree Greater China Commercial Trust ("MAGIC") and Wharf Holdings ("Wharf"). Although both were reporting lower retail sales amidst the weaker operating environment, we believe rents could increase as their malls have been well-managed with high occupancy. Looking ahead, we think there is room for rents to continue increasing. Retail sales appear to have bottomed out while growth rates of retail rents have been picking up since Jan 2017.

Figure 36: Retail Rent y/y rents are picking up | **Figure 37: Retail sales y/y (3MA) bottoming out**

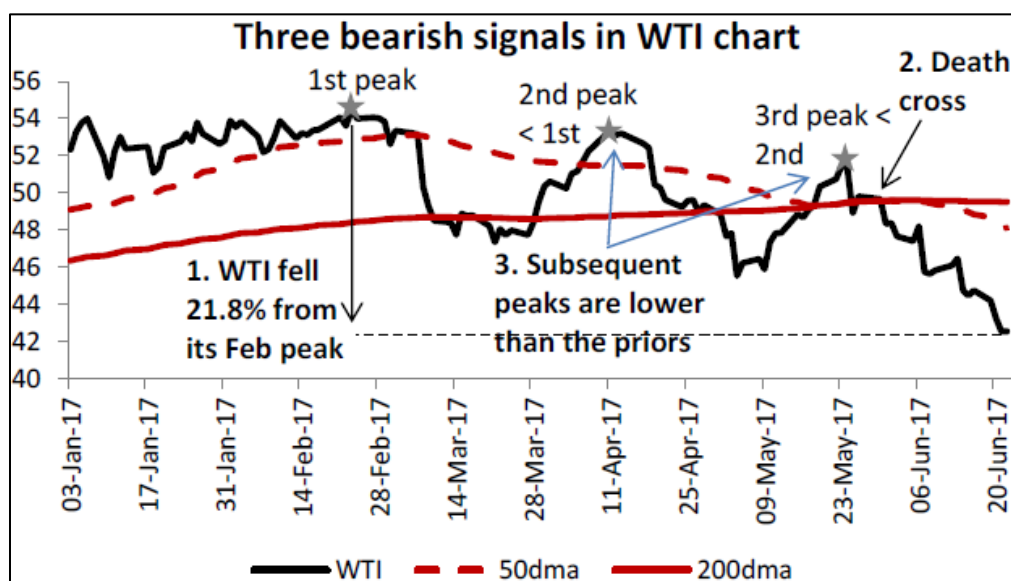


Source: Rating and Valuation Department Hong Kong, Bloomberg

Offshore Marine Sector – Chapter 22

Bring on the bears

Figure 38: WTI Technical Chart

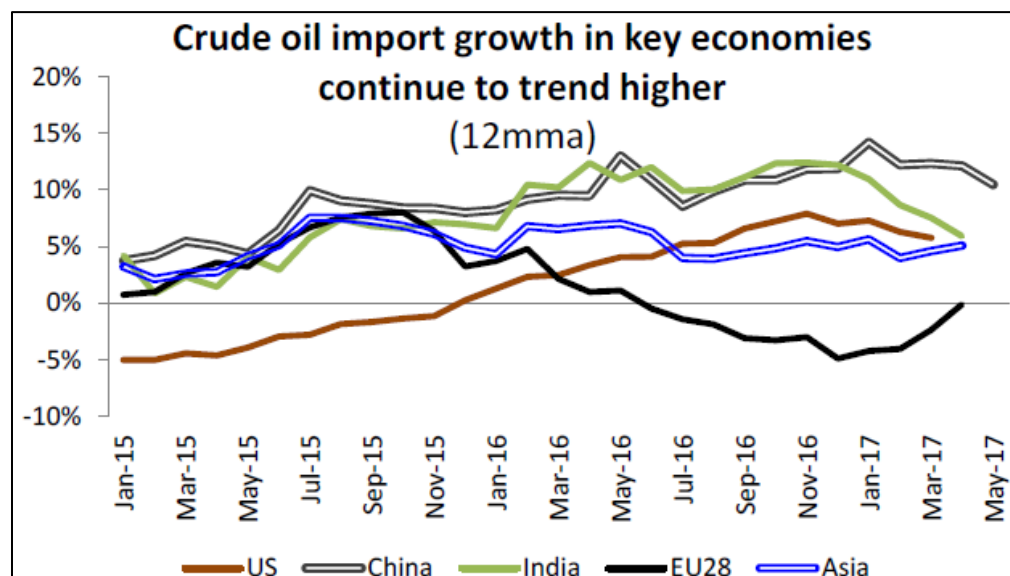


Source: Bloomberg, OCBC

The headline "Oil has entered a bear market" on 21/06/17 nicely described the

tremulous quarter that oil markets faced in 2Q2017. After peaking in February, WTI prices continued to test new lows, falling to levels last seen before the OPEC cartel coordinated production cuts. Fundamental factors offered ample reason to be bearish. Resurgent US oil production reached 9.35mn bpd for the week ending 16/06/17, marking 16 consecutive weeks of gains y/y, and hitting the highest level since August 2015. US crude inventories were heavy as well, staying above the 500mn barrels mark while heading into the US driving season (seasonal surge in gasoline demand). Finally, in spite of OPEC's efforts to coordinate a production cut, due to exempted members Nigeria and Libya ramping up production, the impact of the production cuts were more modest than anticipated. In aggregate, these factors exacerbated the global crude oil supply glut from 0.8mn bpd (beginning 2017) to 1.3mn bpd.

Figure 39: Oil Demand Trends



Source: Bloomberg, CEIC, OCBC

In mitigation, the decline in oil prices through 2Q2017 was largely supply driven. The lower crude prices would eventually deter producers, particularly higher cost shale producers. There are already signs of this happening, with US oil rig counts declining for the first time since 13/01/17. Comparatively, demand for crude has remained sustained. For example, China's crude petroleum import growth was strong (+15.4% y/y) in May and looks to grow further due to the release of more import quotas by the Chinese government. The US summer driving season should also be supportive of demand in the near term.

In aggregate, our commodity analyst believes that the surge in oil supplies during 1H2017 would have delayed the energy market rebalancing scenario into 2018. However, he remains bullish, given that 1) US oil production cannot increase perpetually in the face of falling oil prices 2) demand looks to remain buoyant in 2H2017 3) the option is always on the table for OPEC to coordinate further production cuts⁷. As such, the OCBC house view for crude prices is USD55/bbl and USD57/bbl for WTI and Brent respectively at end-2017.

Sounding out the vertical

Half a year ago, we opined that we did not expect the higher energy prices then to provide immediate relief to the besieged offshore marine sector. This view looked to have panned out, with oil majors continuing to be selective in making Final Investment Decisions ("FID"). We have mentioned previously how Exxon Mobil slashed capex to ~USD21bn for 2016 (from USD31bn for 2015). For 1Q2017, Exxon Mobil continued to trim capex, reporting USD4.2bn in capex, down 19% compared to

⁷ OCBC Commodities – Crude Oil: Price history to repeat itself (23/06/17)

1Q2016⁸. In addition, Exxon Mobil reiterated that ramping up its shale program was a focus for the balance of 2017. This was consistent with our expectations earlier in the year that oil majors would focus on short cycle investments versus long cycle projects.

All's not lost, however. At the beginning of this year, we reported how even longer term complex deep water projects have seen their cost fall sharply (due to cost deflation and optimization of production techniques). Transocean, the world's largest contract driller, reiterated this view during their 1Q2017 earnings release.⁹ Transocean had mentioned that several deepwater projects that were on hold the last couple of years now have break evens at USD50/bbl, and for some projects even at below USD40/bbl (such as in the case of BP). Transocean had also mentioned that cost inflation onshore, coupled with structural cost savings offshore, have narrowed the gap between these two types of production. Transocean had opined that should oil prices stay at ~USD50/bbl, more FID would be made, with contracts obtained. In fact, demand for Transocean's deepwater drilling assets has been firm enough that it is activating rigs that have been placed in warm stack. There have also been queries on the readiness of crews and rigs to return to work. As such, Transocean expects more sanctioning of deepwater projects in 2017.

In summation, though recent energy prices have drifted lower, there are signs that certain deepwater projects may remain viable at current energy prices. This would be supportive of OSV fleet owners, as well as potentially yards with semisubmersibles and drillships to deliver. The challenge which remains, however, is about surviving through the supply consolidation phase.

Restructurings to continue

At the beginning of the year, we have mentioned about Tidewater, one of the largest OSV fleet owner globally. Tidewater had subsequent entered into a pre-package bankruptcy in May 2017, in which terms have largely been agreed upon between stakeholders before the formal filing for bankruptcy protection, in order to expedite the restructuring process. In Tidewater's case, loan and bondholders are expected to control 95% of Tidewater post restructuring. There are a few takeaways from the Tidewater restructuring:

- **Improving environment may not prevent restructuring:** There have been signs that the global offshore support vessel industry may have found the bottom to charter rates during 1H2017. However, even though charter rates may not deteriorate further, current levels of rates may not improve quickly enough for the issuer to support its liabilities. What an improving environment may do is facilitate the restructuring by providing creditors with more incentive to cooperate and coordinate.
- **The less time in restructuring the better:** Tidewater had indicated that the pre-package bankruptcy would allow it to exit restructuring more rapidly, which in turn provides its customers / potential customers with more confidence. In the SGD corporate bond market context, the restructuring that were done out-of-court (such as ASL Marine and AusGroup) looked to have resolved more rapidly, compared to in-court restructuring (under judicial management) such as in the case of Swiber Holdings and Swissco Holdings.
- **Equity holders and creditors both have to be realistic:** The intent of the Tidewater restructuring would be for creditors to control the majority of the restructured company. This is consistent with the concept of priority of claim based on capital structure seniority. In the event that creditors are impaired, equity holders should have minimal to no recovery, unless equity holders are participating by contributing fresh capital as part of the restructuring. To a certain extent, the Rickmers Maritime restructuring started off on the wrong foot with the issuer initially proposing to impair noteholders by 72%, with the replacement security convertible into only 20% new units of Rickmers

⁸ Exxon Mobile – 1Q2017 earnings call

⁹ Transocean – 1Q2017 earnings call

Maritime. Bad faith was created, such that even though Rickmers Maritime returned to the table with a more equitable offer, bondholders refused to agree to the restructuring.

During 1H2017, the difficult environment continued to drive more O&M as well as energy issuers into distress. The most high profiled was Ezra Holdings, which sought bankruptcy protection after the default of its joint venture crystalized contingent liabilities. We have also seen the failed out-of-court restructuring attempt by Rickmers Maritime, in which the issuer in the end chose liquidation as the only way to capture recoveries for its stakeholders. The restructuring process continues to be driven by looming bond maturities, such as Falcon Energy, which is seeking to extend the maturity of its SGD50mn in bonds due 19/09/17. As such, we expect more attempts at maturity restructuring to come. Finally, we have also seen the first case of “Chapter 22” in which an issuer defaults on its already restructured debt obligations. This was Marco Polo Marine, which successfully extended its SGD50mn bond maturity by 3 years (in October 2016). However, Marco Polo Marine continued to suffer from the weak environment, and was not even able to pay the first coupon on the restructured bond (it was due on 18/04/17). Marco Polo Marine subsequent obtained a debt moratorium via entering into a Scheme of Arrangement (a specific form of restructuring).

As such, though the deterioration to the sector has halted and that there are some signs of recovery, for the second half of 2017 and heading into 2018, we expect more restructuring to occur in the domestic offshore marine space.

Top Trade Ideas

Top Picks

Company	Ticker	S&P / Moody's / Fitch	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM/YTC	Rationale
Lippo Malls Indonesia Retail Trust	LMRTSP	NR/Baa3/NR (Issuer)	6.600%	19-Dec-22	SGD120mn	102.12	6.13%	LMRTSP 6.6%-PERPs (callable in 2022) offers the highest yield in the S-REIT universe. Alternatively, investors may also consider the older LMRTSP 7%-PERPs (callable in 2021). This is interesting as LMRT's equity LTM dividend yield is 7.71% (underlying cashflow from IDR) and offers only 158bps pickup over LMRTSP 6.6%-PERPs while there is 494bps yield difference between SG's and ID's 10Y LCL govt bonds.
Wing Tai Properties Ltd	WINGTA	NR/NR/NR	4.250%	29-Nov-22	SGD170mn	104.00	3.43%	We like Wing Tai Properties' WINGTA 4.25% '22s offering 21bps pickup over Wing Tai Holding's WINGTA 4.5% '22s trading at 3.24%. Wing Tai Properties offer a healthy credit profile with 0.14x net gearing.
Frasers Centrepoint Ltd	FCLSP	NR/NR/NR	3.700%	5-Apr-19	SGD75mn	102.10	2.45%	We believe that FCLSP'19s offer good value, providing a YTM of 2.45% for 22-month paper, or a spread of ~110bps over swaps. Though we do not expect meaningful improvements in its credit profile in the interim, FCL generates ~SGD600mn in recurring income per annum, and has more than SGD3bn in unrecognized development revenue supporting near-term performance.
Soilbuild Business Space Trust	SBREIT	NR/Baa3/NR	3.600%	8-Apr-21	SGD100mn	100.20	3.54%	The SBREIT'21s offer ~120bps pickup over the SBREIT'18s, more than compensating for the 3-year extension. On an absolute basis, we believe the bond to be attractive, offering a spread of ~180bps for 4-year paper. The bond is likely penalized for the Negative outlook on its Baa3 rating by Moody's.
Julius Baer Group Ltd (AT1)	BAERVX	NR/Baa3/NR	5.900%	18-Nov-20	SGD450mn	104.50	4.45%	Growth investments are starting to pay off with income growth following margin compression and a fall in capital ratios. The BAERVX 5.9%-PERPs look attractive in the AT1 space given improving fundamentals and spread pick up against other SGD AT1s.

Top Pans

Company	Ticker	S&P / Moody's / Fitch	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM/YTC	Rationale
Oxley Holdings Ltd	OHLSP	NR/NR/NR	5.150%	18-May-20	SGD150mn	100.42	4.99%	With OHL issuing several retaps of its USD '21s at 6.375%, OHLSP '19s and '20s look rich trading under 5%. Investors comfortable with highly leveraged developers may consider ASPSP '18s offering 9.67% yield with shorter duration.
Mapletree Commercial Trust	MCTSP	NR/Baa1/NR	3.110%	24-Aug-26	SGD175mn	100.50	3.05%	Though we believe that MCT has an excellent portfolio of assets and has performed better than peers, its leverage profile remains inline with the average. The bond looks rich at just ~70bps above swaps for 9-year paper.
Ascendas Real Estate Investment Trust	AREIT	NR/Baa2/NR	4.750%	14-Oct-20	SGD300mn	105.65	2.85%	At just ~50bps above the AREIT'20s senior bonds, we don't believe that investors are being adequately compensated.
Keppel Corp Ltd	KEPSP	NR/NR/NR	3.145%	14-Feb-22	SGD400mn	101.20	2.86%	Though KEP had been able to stabilize its credit profile after a challenging 2016 for its O&M business, in part supported by its performing property business, the bonds are now trading just slightly wider than rated REITs such as AREIT'22s.
Westpac Banking Corp. (Tier 2)	WSTP	BBB/Baa1/A+	3.750%	23-Mar-22	SGD500mn	102.55	3.16%	Westpac is more exposed to housing than peers meaning the cash price could be vulnerable to any correction in Australia's housing sector. That said, we expect the bank to remain well capitalized and funded.

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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) Century Sunshine Group Holdings Ltd**
- b) Perennial Real Estate Holdings Ltd**
- c) OUE Ltd**

In addition, we have ceased coverage for the time being on the following names due to a variety of reasons including maturity of SGD bonds:

- a) First Sponsor Group Ltd**
- b) Central China Real Estate Ltd**
- c) Yanlord Land Group Ltd**
- d) Ezra Holdings Ltd**
- e) Bank of Communications Co Ltd**
- f) Dah Sing Bank Ltd**

Corporate Outlooks

Credit Outlook –

We think the AAREIT 3.8% '19s and AAREIT 3.6% '22s are trading fair against other similarly rated Industrial REITs. The curve though tends to be illiquid.

Issuer Profile: Neutral

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

Ticker: **AAREIT**

Background

AIMS AMP Capital Industrial REIT ("AAREIT"), listed on the SGX is an industrial focused-REIT with total assets of SGD1.5bn as at 31 March 2017. AAREIT currently owns a portfolio of 25 completed properties, one property under construction 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 ~12%. Other major shareholders are: Dragon Pacific Assets Limited (11%), APG (~9%) and George Wang (~8%).

AIMS AMP Capital Industrial Trust

Key credit considerations

- **FYE March 2017 ("FY2017") results weaker:** Gross revenue declined 3.4% to SGD120.1mn on the back of lower rental contributions at four properties and the loss in revenue due to redevelopment of 8 & 10 Tuas Avenue 20. This was partially offset by higher rental at 29 Woodlands Industrial Park E1 and 20 Gul Way. In 4Q2017, revenue was SGD30.6mn, up 0.8% from 3Q2017 mainly due to the contribution from the newly completed property at 30 Tuas West Road (purpose-built redevelopment with CWT Limited as Master Lessee). Taking out the impact of 30 Tuas West Road, we find gross revenue to have declined 1.1% quarter-on-quarter. Whilst base management fee was slightly higher by 1.1% due to enlarged portfolio size, no performance fees was payable in FY2017, resulting in overall lower management fees by 15.7% to SGD7.4mn. As a result of cost containment, EBITDA (based on our calculation that does not include other income and other expense) only declined by 2.1%. AAREIT's gross rental income is concentrated on CWT Limited and its subsidiaries ("CWT"). 20% of gross rental income is attributable to CWT. AAREIT's leases with CWT (as tenant) is unlikely to be negatively affected by the potential takeover of CWT by HNA Group.
- **Coverage improved:** In FY2017, interest expense declined 7.7% to SGD18.6mn despite the higher gross debt versus the beginning of FY2017. This was mainly due to lower interest costs incurred on a new SGD100mn secured term loan facility drawn down to redeem SGD100mn in bonds. Weighted funding cost was 3.7% against 4.2% in FY2016. EBITDA/Interest as a result was stronger at 3.9x (FY2016: 3.6x). AAREIT holds a 49% stake in the entity holding the Optus Centre property in Australia. In FY2017, share of results from this joint venture was SGD14.7mn, including distribution from this building, we find adjusted EBITDA/Interest and stronger at 4.6x. Net cash from operations before interest and cash distribution from Optus Centre was SGD92.8mn in aggregate, more than sufficient to cover distribution to its capital sources during the year.
- **Actively involved in developments:** As at 31 March 2017, AAREIT's aggregate leverage was 36.1%, somewhat higher than 34.6% in end-2016. This is still within management's internal target of 30-45%, though higher than historically observed. This was driven by AAREIT taking on more debt to fund the redevelopment of two buildings and finance its first greenfield built-to-suit development project. In August 2016, AAREIT entered into an agreement with precision engineering firm Beyonics to build a ~SGD39.4mn campus in Marsiling. As at 31 March 2017, secured debt made up 75% of gross debt. 13 properties have been mortgaged and SGD396mn of investment properties remains unencumbered. We view AAREIT's ability to raise further secured debt as moderate. As at 31 March 2017, there was SGD82.6mn in short term debt due in November 2017. In April 2017 though, AAREIT received commitment from lenders to refinance its debt. There is no debt due at AAREIT until November 2018 (amounting to SGD98.4mn). As at 31 March 2017, development costs payable amounted to SGD8.8mn and these are intended to be debt-funded. We see low liquidity risk as AAREIT has undrawn committed facilities of SGD133.3mn.
- **Portfolio concentrated on four properties:** Excluding redeveloped assets and the Beyonics building, AAREIT's portfolio valuation took a SGD58mn hit, largely on the back of declines in valuation at 20 Gul Way and 8 & 10 Pandan Crescent. AAREIT's portfolio valuation is heavily concentrated with four buildings accounting for 56% of portfolio valuation. 20 Gul Way and 8 & 10 Pandan Crescent made up 37% of portfolio value as at 31 March 2017. In FY2016, CWT Limited was the Master Lessee of all of the space at 20 Gul Way though in FY2017, CWT Limited was only Master Lessee of part of the building.

AIMS AMPS Capital Industrial Trust

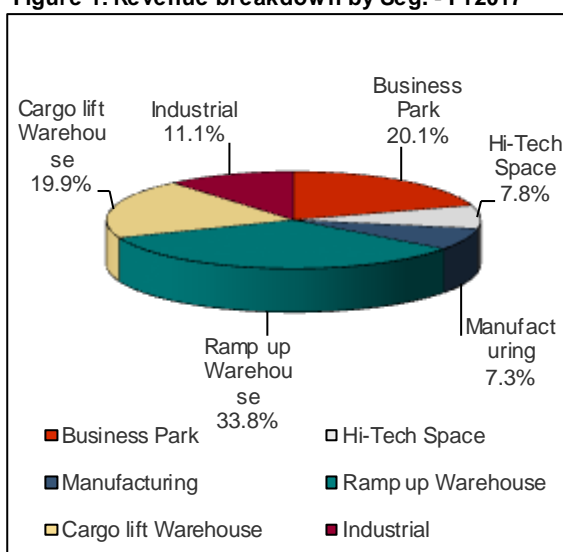
Table 1: Summary Financials

Year Ended 31st Mar	FY2015	FY2016	FY2017
Income Statement (SGD'mn)			
Revenue	115.4	124.4	120.1
EBITDA	69.9	73.5	72.0
EBIT	69.9	73.5	72.0
Gross interest expense	22.8	20.2	18.6
Profit Before Tax	109.8	45.7	15.0
Net profit	108.1	40.8	13.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	10.1	7.5	11.7
Total assets	1,458.3	1,459.5	1,465.5
Gross debt	454.2	471.5	527.5
Net debt	444.1	464.0	515.8
Shareholders' equity	962.1	940.7	888.4
Total capitalization	1,416.3	1,412.2	1,416.0
Net capitalization	1,406.2	1,404.7	1,404.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	108.1	40.8	13.5
* CFO	75.5	74.6	78.1
Capex	49.2	22.7	48.0
Acquisitions	0.9	0.4	0.0
Disposals	0.1	0.0	0.0
Dividends	57.9	68.0	71.5
Free Cash Flow (FCF)	26.3	51.9	30.1
* FCF Adjusted	-32.4	-16.5	-41.4
Key Ratios			
EBITDA margin (%)	60.5	59.1	60.0
Net margin (%)	93.6	32.8	11.2
Gross debt to EBITDA (x)	6.5	6.4	7.3
Net debt to EBITDA (x)	6.4	6.3	7.2
Gross Debt to Equity (x)	0.47	0.50	0.59
Net Debt to Equity (x)	0.46	0.49	0.58
Gross debt/total capitalisation (%)	32.1	33.4	37.3
Net debt/net capitalisation (%)	31.6	33.0	36.7
Cash/current borrowings (x)	NM	0.1	0.1
EBITDA/Total Interest (x)	3.1	3.6	3.9

Source: Company, OCBC estimates

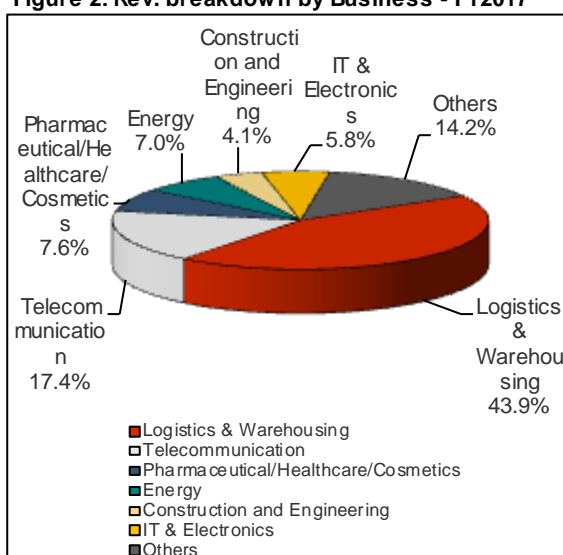
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 1: Revenue breakdown by Seg. - FY2017



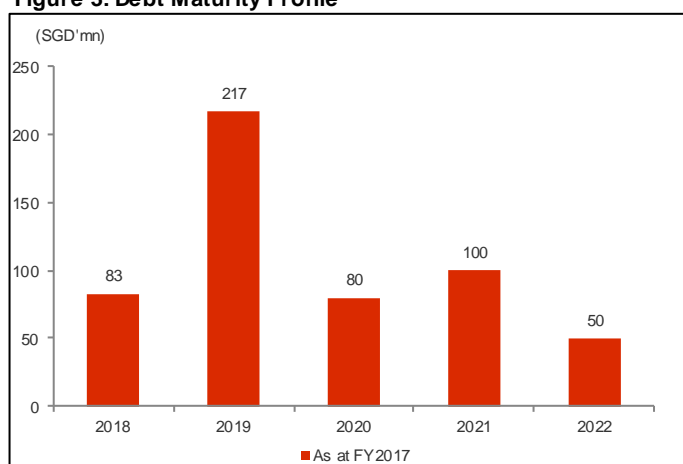
Source: Company

Figure 2: Rev. breakdown by Business - FY2017



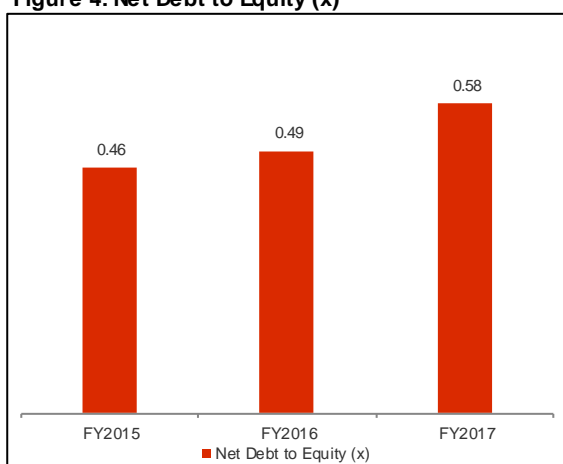
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

The ASCHTS 3.3%’20s is trading tight in our view, and we are underweight the bond. While we like the credit profile of the issuer, it is only trading at 10bps wider than an implied AREIT’20s. AREIT is rated at NR/A3/NR.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **ASCHTS**

Background

Listed in Singapore on 27 July 2012, Ascendas Hospitality Trust (“ASCHT”) is a hospitality trust which owns a portfolio of 11 income-producing hotels in Australia, China, Japan and Singapore. ASCHT is a stapled group comprising Ascendas Hospitality Real Estate Investment Trust (“A-HREIT”) and Ascendas Hospitality Business Trust (“A-HBT”). Total assets as at 31 March 2017 was SGD1.7bn. ASCHT is ~27%-owned by its Sponsor, Ascendas Pte Ltd and in turn, Ascendas Pte Ltd is owned by Temasek and JTC on a 51:49 basis.

Ascendas Hospitality Trust

Key credit considerations

- **Operating income improved but net profit lower:** Gross revenue was up 4.3% in FY2017 to SGD224.4mn on the back of performance in Australia and Japan which helped offset weakness in China and Singapore. The growth in Japan was particularly strong (up SGD7.1mn as Sunroute Osaka had a change in rent structure which led to higher variable income). The hotel was also re-opened in FY2017 after a JPY1.1bn (SGD13.4mn) refurbishment. On a same-store basis, revenue growth was 4.8%, excluding Pullman Cairns which was divested in FY2016. Operational performance was further helped by stronger JPY and AUD (more than offset weaker RMB). Net property income (“NPI”) though improved more, at 9.1% to SGD8.31mn (same-store basis was up 9.6%). Operations and maintenance expenses was 9.5% of revenue in FY2017 (FY2016: 10.7%) while staff cost, being the largest component of property expenses was contained at 24% of revenue.
- **Properties concentrated on Australia:** In FY2017, Australia was the largest contributor to NPI at 52% while Japan contributed 26%. Singapore contributed 13% and the remainder came from China. Whilst Australia is a major contributor, ASCHT’s exposure to Australia by valuation is spread across Sydney (63% of Australia portfolio), Melbourne (20%) and Brisbane (16%). In FY2017, all of the Australian properties saw improvements in valuation, except Novotel Sydney Parramatta which saw its micro-market face increase in supply and decline in corporate business travellers.
- **Manageable coverage:** EBITDA was SGD89.9mn (up 9.1%) over FY2016. As at 31 March 2017, weighted average interest rate was lower at 2.9% (31 March 2016: 3.4%), leading to a stronger EBITDA/Interest of 5.1x (FY2016: 4.3x). Whilst EBITDA generation had improved and finance cost was lower at SGD17.7mn, cash flow from operations before interest was SGD67.6mn (FY2016: SGD86.3mn). This was mainly driven by the payment to vendors for the Sunroute Namba refurbishment (re-opened in April 2016). ASCHT paid SGD60.8mn in cash distributions to equity holders and investing outflows for property-related capex was SGD11.2mn. The cash gap was funded by extra borrowings.
- **Healthy aggregate leverage levels:** As at 31 March 2017, A-HREIT aggregate leverage was 25.6% while A-HBT was 35.7%. The aggregate leverage of the stapled group was 32.2%, slightly lower versus the 33.3% as at 31 December 2016. The stapled group comprises of a REIT and Business Trust. Whilst there is no regulatory cap on aggregate leverage of business trusts, ASCHT’s bond covenants prescribe a cap of 60% on A-HBT and 45% on the stapled structure. Total asset had increased by SGD94mn from end-March 2016, largely due to increase in valuation of two hotels in Sydney and two hotels in Japan which helped offset declines in Park Hotel Clarke Quay and Novotel Sydney Parramatta, Pullman and Mercure Brisbane King George Square. As at 31 March 2017, ASCHT faces SGD64.3mn in short term debt and had cash balances of SGD86mn. As at 31 March 2017, SGD683mn of assets had been pledged for debt facilities which gives ASCHT the financial flexibility to raise secured debt if need be.
- **Forward purchase of Aurora Capital Melbourne:** In December 2015, ASCHT agreed to purchase Aurora Melbourne Central for AUD120mn from UEM Sunrise (scheduled for completion in 2019). AHT-BT will not bear any development risk. AUD5mn in deposit has been paid, with the remainder to be paid upon completion. Assuming this is fully debt funded, we expect aggregate leverage to go up to 37% which is manageable in our view.

Ascendas Hospitality Trust

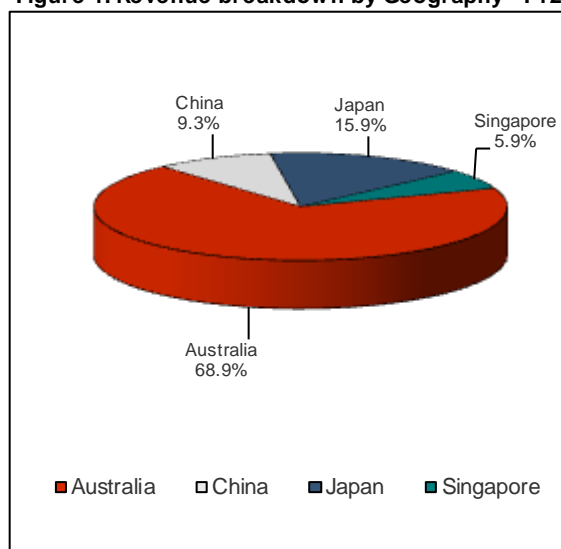
Table 1: Summary Financials

Year Ended 31st March	FY2015	FY2016	FY2017
Income Statement (SGD'mn)			
Revenue	227.1	215.1	224.4
EBITDA	85.0	82.4	89.9
EBIT	58.0	56.7	62.3
Gross interest expense	18.0	19.2	17.7
Profit Before Tax	38.6	184.0	56.7
Net profit	28.6	146.6	48.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	88.1	94.6	86.2
Total assets	1,459.7	1,631.9	1,725.9
Gross debt	547.7	533.3	555.2
Net debt	459.6	438.7	469.0
Shareholders' equity	826.1	963.3	1,033.2
Total capitalization	1,373.8	1,496.7	1,588.4
Net capitalization	1,285.7	1,402.1	1,502.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	55.6	172.4	76.2
* CFO	55.6	69.5	50.9
Capex	10.3	21.9	11.2
Acquisitions	110.3	0.0	0.0
Disposals	0.0	3.0	0.0
Dividends	56.9	58.2	60.8
Free Cash Flow (FCF)	45.3	47.6	39.7
* FCF Adjusted	-121.9	-7.6	-21.1
Key Ratios			
EBITDA margin (%)	37.4	38.3	40.0
Net margin (%)	12.6	68.1	21.6
Gross debt to EBITDA (x)	6.4	6.5	6.2
Net debt to EBITDA (x)	5.4	5.3	5.2
Gross Debt to Equity (x)	0.66	0.55	0.54
Net Debt to Equity (x)	0.56	0.46	0.45
Gross debt/total capitalisation (%)	39.9	35.6	35.0
Net debt/net capitalisation (%)	35.7	31.3	31.2
Cash/current borrowings (x)	1.2	1.6	1.3
EBITDA/Total Interest (x)	4.7	4.3	5.1

Source: Company, OCBC estimates

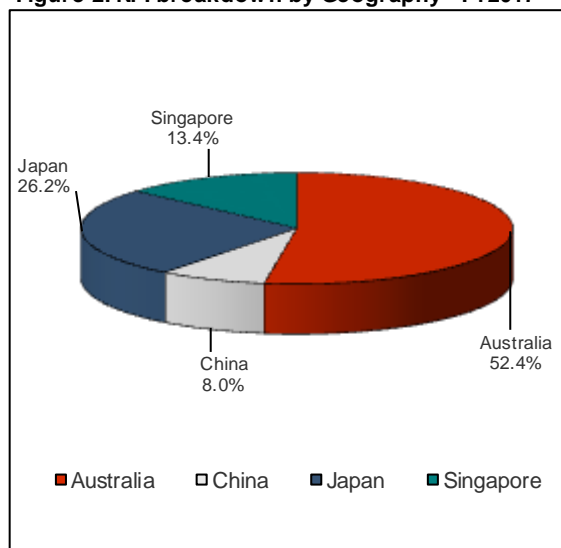
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 1: Revenue breakdown by Geography - FY2017



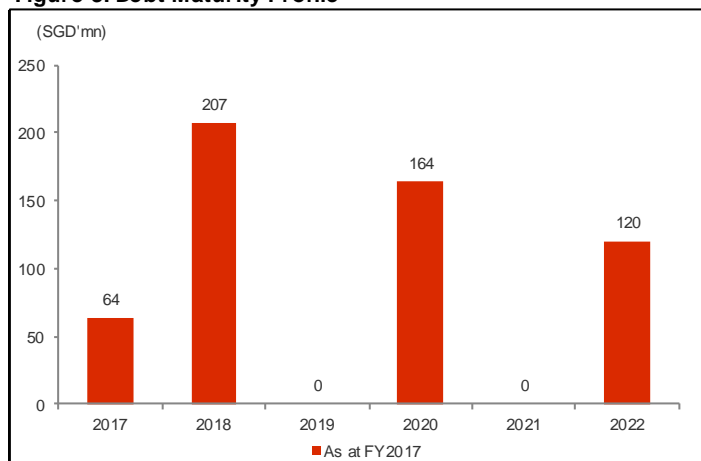
Source: Company

Figure 2: NPI breakdown by Geography - FY2017



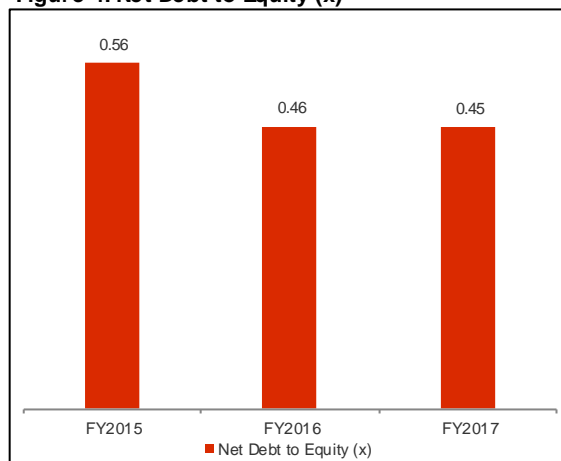
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

The AREIT 4.75%-PERPs is trading tight. The AREIT 4.75%-PERPs is only 55bps wider than the senior bond and we are underweight the perpetual.

Issuer Profile: Neutral

S&P: Not rated

Moody's: A3/Stable

Fitch: Not rated

Ticker: **AREIT**

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 2017. AREIT currently owns a diversified portfolio of 103 properties in Singapore and 29 properties in Australia. AREIT is sponsored by Ascendas-Singbridge group, which has a deemed interest of 19.9% in AREIT. Ascendas-Singbridge is in turned 49:51 owned by JTC Corporation and Temasek respectively.

Ascendas Real Estate Investment Trust

Key credit considerations

- **Inorganic growth drives FYE March 2017 ("FY2017") results higher:** Gross revenue increased by 9.1% to SGD830.6mn, driven by the full year contribution from the properties acquired in Australia, ONE@ Changi City and 12, 14 and 16 Science Park Drive ("Science Park Buildings") acquired in February 2017. This which helped offset the divestment of Four Acres in Singapore and three properties in China. Comparing to the preceding quarter, 4QFY2017 gross revenue was 0.1% higher than 3QFY2017 at SGD208.9mn. Taking out the impact of asset movements, we estimate "same-store" gross revenue to have declined by 1% quarter-on-quarter. Property operating expenses decreased by 3.4% in FY2017 mainly due to lower utilities expenses and lower property taxes (retrospective downward revisions in the annual value) which more than offset higher operating expenses from the acquisition of new properties. As a result, net property income ("NPI") grew faster at 14% to SGD610.9mn. Performance fees declined significantly to SGD1.9mn (FY2016: SGD17.4mn) in light of the muted growth in distributable income per unit ("DPU") in FY2017. This helped drive EBITDA (based on our calculation which does not take into account of other income and other expenses) 18% higher to SGD550.3mn.
- **Coverage weaker:** In FY2017, interest expense burden at AREIT was 26% higher at SGD117.7mn. Between the beginning of FY2016 and end-FY2016, gross debt at AREIT grew significantly to SGD3.7bn. As at 1 April 2016, weighted average cost of debt was at 2.8% though this has expanded to 3% by 31 March 2017. Despite the higher EBITDA generation, EBITDA/Interest was lower at 4.7x (FY2016: 5.0x). In October 2015, AREIT also raised SGD300mn via perpetuals. Including 50% of perpetual distribution, we find EBITDA/(Interest plus 50% perpetual distribution) at 4.4x. In FY2017, net cash flow from operations (before interest) was SGD529.3mn. Similar to FY2016, this was insufficient to cover payments to capital sources (ie: unitholders, lenders, bondholders and perpetual holders). Net investing outflows at AREIT were SGD137.6mn. The cash gap at AREIT was funded via additions in debt and drawing down of existing cash balances.
- **Leverage, whilst low has risen from end-December 2016:** In February 2017, all Exchangeable Collateralised Securities ("ECS") had been exchanged into equity and cancelled, though overall gross debt was higher at SGD3.4bn versus SGD3.1bn as at end-December 2016. In February 2017, AREIT had completed the SGD437.5mn (including cost) acquisition of Science Park Buildings. SGD100mn was paid via the issuance of new shares. We take some comfort that AREIT's headline aggregate leverage is low at 33.8% and 35.3% on an adjusted basis (factoring in 50% of perpetual as debt). Nonetheless, we think aggregate leverage levels may tilt higher in FY2018 as more debt is taken up to fund payments to capital sources. AREIT maintains a policy to distribute 100% of its taxable income to unitholders.
- **Sizeable impending liquidity needs:** As at 31 March 2017, AREIT faces short term debt of SGD824.2mn, against a cash balance of only SGD22mn. AREIT is due to receive SGD19.3mn from the divestment of 10 Woodlands Link. In April 2017, as part of its Australian growth strategy, AREIT completed the SGD26.5mn acquisition of Stage 4 Power Park Estate. In addition to short term debt, capex commitment as at 31 March 2017 was SGD75.2mn; bulk for the redevelopment of 20 Tuas Avenue 1 and 50 Kallang Avenue. Of the short term debt due, SGD593mn relate to revolving credit facilities which in our view can be rolled over. Unencumbered properties as a proportion of total investment properties was 89.3% (rising from 77.3% as at end-December 2016) which gives AREIT the option to raise secured financing if need be.

Ascendas Real Estate Investment Trust

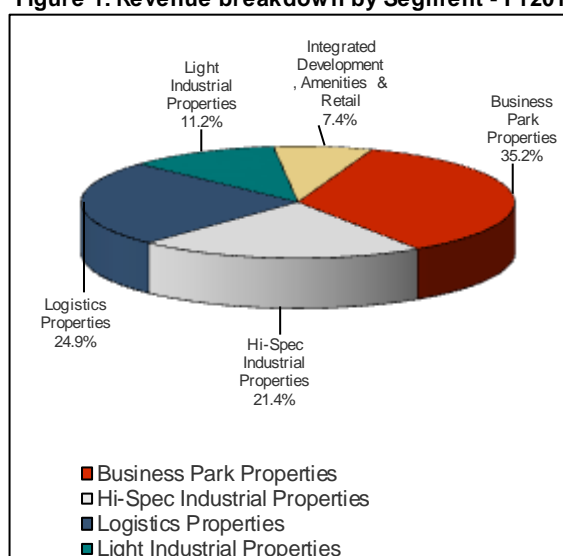
Table 1: Summary Financials

Year Ended 31st March	FY2015	FY2016	FY2017
Income Statement (SGD'mn)			
Revenue	673.5	761.0	830.6
EBITDA	419.3	466.5	550.3
EBIT	419.0	466.3	550.2
Gross interest expense	113.7	93.6	117.7
Profit Before Tax	404.3	369.3	408.5
Net profit	397.6	344.2	427.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	41.6	56.2	22.0
Total assets	8,160.3	9,876.0	10,170.8
Gross debt	2,727.7	3,664.6	3,400.1
Net debt	2,686.1	3,608.3	3,378.1
Shareholders' equity	5,013.6	5,796.9	6,335.1
Total capitalization	7,741.3	9,461.5	9,735.2
Net capitalization	7,699.7	9,405.2	9,713.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	398.0	344.3	427.5
* CFO	362.4	481.7	529.3
Capex	98.7	251.0	103.0
Acquisitions	557.0	1,282.6	468.9
Disposals	12.6	38.7	415.5
Dividends	260.8	442.1	515.2
Free Cash Flow (FCF)	263.7	230.7	426.3
* FCF Adjusted	-541.4	-1,455.3	-142.3
Key Ratios			
EBITDA margin (%)	62.3	61.3	66.2
Net margin (%)	59.0	45.2	51.5
Gross debt to EBITDA (x)	6.5	7.9	6.2
Net debt to EBITDA (x)	6.4	7.7	6.1
Gross Debt to Equity (x)	0.54	0.63	0.54
Net Debt to Equity (x)	0.54	0.62	0.53
Gross debt/total capitalisation (%)	35.2	38.7	34.9
Net debt/net capitalisation (%)	34.9	38.4	34.8
Cash/current borrowings (x)	0.1	0.0	0.0
EBITDA/Total Interest (x)	3.7	5.0	4.7

Source: Company, OCBC estimates

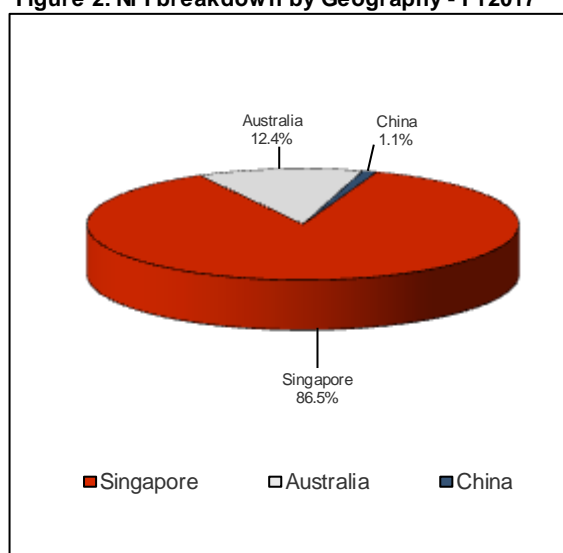
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 1: Revenue breakdown by Segment - FY2017



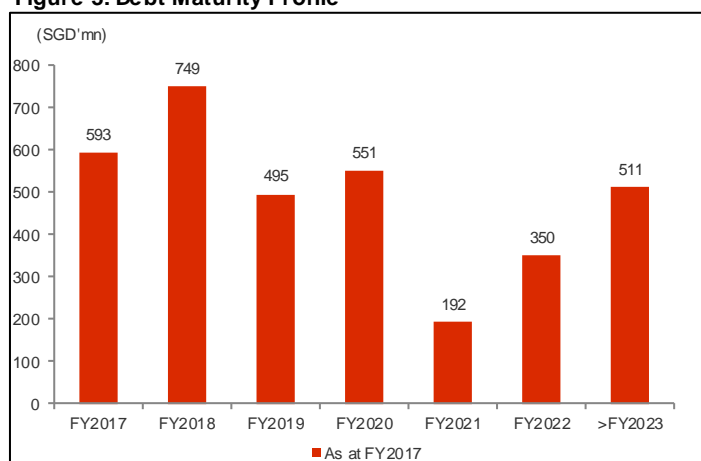
Source: Company

Figure 2: NPI breakdown by Geography - FY2017



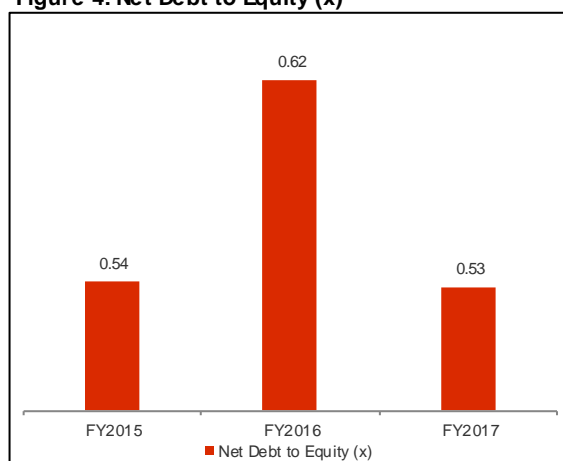
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We are underweight both the ARTSP 4.3%'18s and ARTSP 4.205%'22s. Notwithstanding ART being part of CapitaLand, both bonds are trading wide against papers with a similar rating. The perpetuals (ARTSP 5.0%-PERPs and ARTSP 4.68%-PERPs) though provide adequate yield pick-up against the ARTSP senior bonds.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa3/Negative

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. As at 31 March 2017, ART's portfolio consist of 90 properties with a total asset value of SGD4.8bn across 16 cities and 8 countries. Post the recent asset movements announced, ART's portfolio will increase to SGD5.2bn. CapitaLand has a 44%-stake in ART.

Ascott Residence Trust

Key credit considerations

- **Weaker 1Q2017 results:** Revenue rose 5.4% to SGD111.3mn in 1Q2017 largely due to contribution from Sheraton Tribeca New York (acquired on 14 March 2016), which partially offset declines from existing Singapore properties, weaker China performance and the GBP's depreciation against the SGD for UK-based properties. EBITDA was 3.2% lower at SGD44.1mn, which combined with a lower interest expense of SGD11.9mn (1Q2016: SGD12.7mn) and led to EBITDA/Interest of 3.7x (stable against 1Q2016). ART's perpetuals contain a dividend stopper. During the period, amount distributable to perpetual holders was SGD4.7mn. Taking 50% of this into account, we find EBITDA/(Interest plus 50% perpetual distribution) of 3.1x (1Q2016: 3.0x).
- **Challenging operating environment:** Despite pockets of growth (eg: Australia, Belgium, Spain, the Philippines and Vietnam), ART's overall portfolio remained challenged by tighter corporate travel budgets (particularly for long-stay travelers), increase in supply of hotel/serviced residence properties in certain Asia-Pacific cities, and the depreciation of certain currencies against the SGD. On a same-store basis (excluding the impact from Sheraton Tribeca), revenue per available unit ("REVPAU") decreased by 2%. Excluding properties under Master Leases, in FY2016, the corporate travel segment was only 58% of rental income (down from 72% in FY2015 and more than 80% historically). Whilst occupancy has stayed around 80%, ART took hits in REVPAU in response to market dynamics. Historically, ART's Asia-Pacific portfolio was tilted towards the extended-stay corporate travel segment, with its European portfolio more equal between corporate and leisure demand. Excluding Master Leases, average length of stay is now ~3.4 months.
- **Short term obligations and recent rights issue:** As at 31 March 2017, ART faced SGD160.5mn in short term debt and had a cash balance of SGD159.5mn. We see the short term debt obligation as manageable. In April 2017, ART completed a dilutive rights issue which raised gross proceeds of SGD442.7mn, intended to part-fund Ascott Orchard Singapore ("AOS") and the acquisition of two serviced residences in Germany (also from Sponsor and completed in May 2017). We view it positively that equity was raised for the transactions given our earlier concerns over impending funding needs for AOS. Pending deployment for AOS, the equity raised was used to pare down some debt.
- **Asset movements:** In April 2017, ART monetized SGD153.6mn from the divestment of 18 rental housing properties in Japan and on 31 May 2017, ART announced the USD106mn (~SGD148mn) acquisition of a third property in New York. Management has guided that bank loans and/or perpetuals will be used to fund this acquisition. More recently in July 2017, ART announced that it is also divesting two properties in China for SGD198mn to recycle capital into higher yielding opportunities. Excluding AOS, which will only be injected at a later date, we expect the asset movements announced in 7M2017 to drive aggregate leverage to ~36% (31 December 2016: 40%), before falling slightly post injection of AOS. A deposit of SGD20.3mn had been paid in 2013. In end-December 2016, non-cancellable leases (an off-balance sheet item) were significant at SGD434mn.
- **Master leases coming due:** In 1Q2017, master leases contributed 29% to overall gross profit. Individually, French-based properties on Master Leases (signed with Sponsor) make up 16% of gross profit. 72% of master leases by rental income are coming due this year and FY2018. With remaining lease terms varying between one to four years, we see ART's French portfolio as susceptible to changes in terms of leases, though we think the risk of non-renewal is low.

Ascott Residence Trust

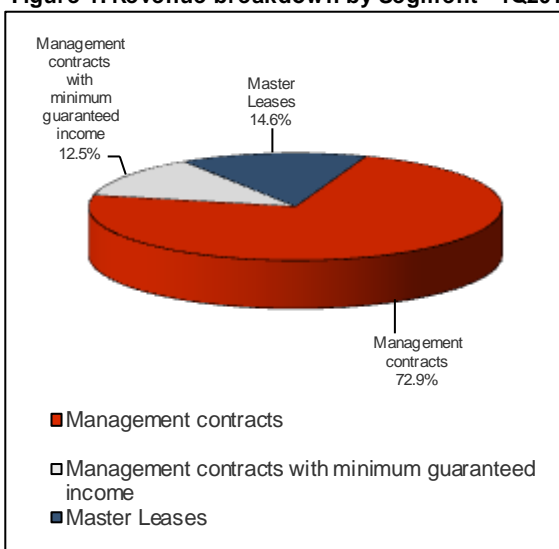
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	421.1	475.6	111.3
EBITDA	196.3	207.2	44.1
EBIT	179.7	194.3	40.7
Gross interest expense	49.9	50.0	11.9
Profit Before Tax	215.8	179.5	24.3
Net profit	165.2	143.3	17.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	220.5	143.1	159.5
Total assets	4,724.6	4,791.3	4,778.9
Gross debt	1,815.2	1,862.6	1,919.4
Net debt	1,594.7	1,719.6	1,759.9
Shareholders' equity	2,668.6	2,682.3	2,624.3
Total capitalization	4,483.8	4,544.9	4,543.7
Net capitalization	4,263.3	4,401.8	4,384.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	181.8	156.3	21.1
* CFO	177.5	200.1	44.2
Capex	46.8	57.4	2.7
Acquisitions	418.8	214.0	2.8
Disposals	67.3	74.8	5.2
Dividends	141.5	150.1	72.6
Free Cash Flow (FCF)	130.7	142.8	41.5
* FCF Adjusted	-362.2	-146.5	-28.7
Key Ratios			
EBITDA margin (%)	46.6	43.6	39.7
Net margin (%)	39.2	30.1	15.9
Gross debt to EBITDA (x)	9.2	9.0	10.9
Net debt to EBITDA (x)	8.1	8.3	10.0
Gross Debt to Equity (x)	0.68	0.69	0.73
Net Debt to Equity (x)	0.60	0.64	0.67
Gross debt/total capitalisation (%)	40.5	41.0	42.2
Net debt/net capitalisation (%)	37.4	39.1	40.1
Cash/current borrowings (x)	0.9	1.0	1.0
EBITDA/Total Interest (x)	3.9	4.1	3.7

Source: Company, OCBC estimates

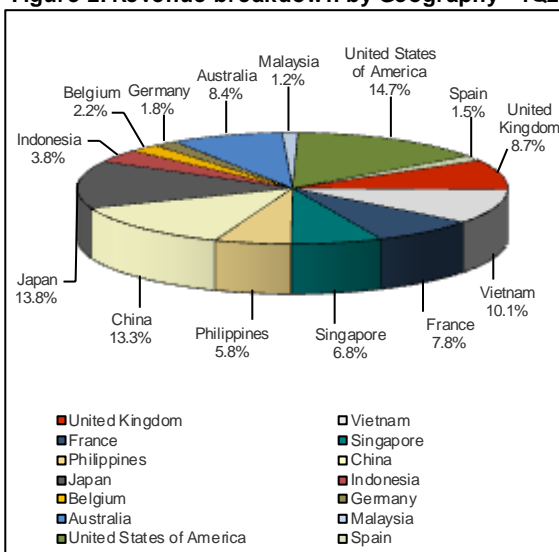
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 1: Revenue breakdown by Segment - 1Q2017



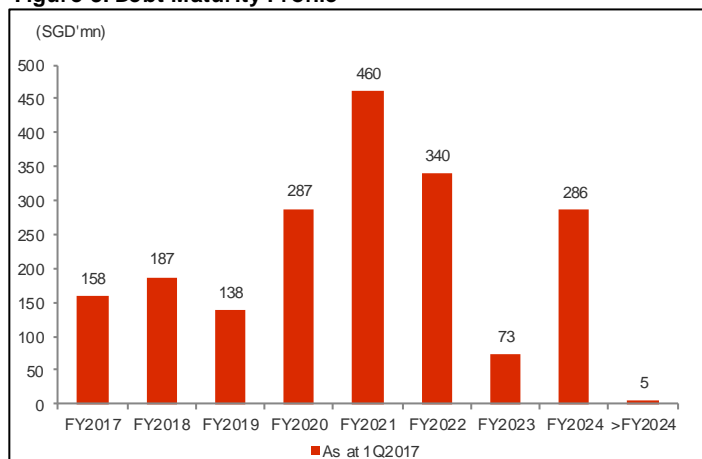
Source: Company

Figure 2: Revenue breakdown by Geography - 1Q2017



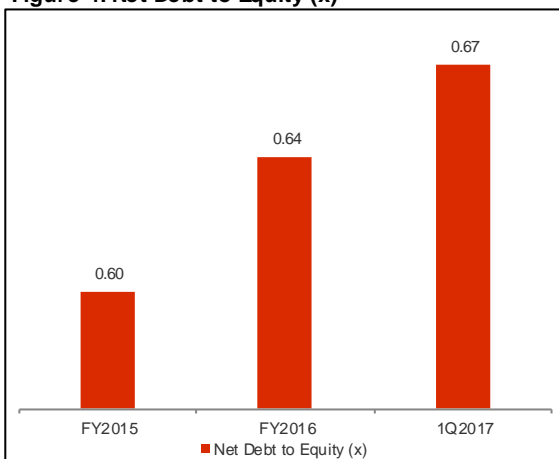
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

The recent weak quarter and adverse technical pressure from sustained negative sector headlines would likely keep ASL's bonds depressed.

Issuer Profile: Negative

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **ASLSP**

Background

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 FY2016, the firm has a fleet of 229 vessels for its shipchartering segment, with the majority being barges. The founding Ang family continues to hold a ~65% stake in the firm.

ASL Marine Holdings Ltd

Key credit considerations

- **Shipbuilding remains under pressure:** 3QFY2017 results showed revenue decreasing 6.6% y/y to SGD84.1mn. The shipbuilding segment was stable y/y, generating SGD41.8mn in revenue (+0.3%), with the building of tugs and barges mitigating anaemic OSV demand. Though the shift away from OSVs is commendable, given the challenging environment, competition is making it difficult for ASL to sustain margins and rebuild its order book. Net shipbuilding order book shrunk to SGD107mn (2QFY2017: SGD146mn) with progressive deliveries till end-4QFY2018. Shiprepair and conversion segment revenue fell 32.4% y/y to SGD12.7mn due to lower-value repair jobs executed during the period.
- **Infrastructure projects boosted shipchartering:** The segment sustained the revenue growth seen in 2QFY2017, with revenue up 22.1% y/y to SGD25.7mn (though it was flattish q/q). Demand remains sustained for tugs and barges with ASL benefitting from the commencement of large marine infrastructure projects in Singapore and South Asia during 4QFY2016. ASL also benefitted from trade sales relating to the marine infrastructure contracts mentioned. OSV demand remains weak, with one AHT off charter (since July 2016) and one AHTS being leased out at a lower rate (since November 2016). Shipchartering net order book also slipped q/q to SGD127mn (2QFY2017: SGD136mn).
- **One-off factors worsened losses:** ASL's gross margin compressed further to 9.3% (3QFY2016: 14.4%, 2QFY2017: 12.0%) generating just SGD7.8mn in gross profits. Though shipbuilding margins expanded further q/q from 12.4% to 13.0%, shiprepair and conversion margins have fallen to 19.3%. Shipchartering segment also swung to a gross loss of SGD414,000, largely driven by OSV weakness and low utilization of its dredgers. In aggregate, ASL generated a loss before tax of SGD10.5mn (3QFY2016: SGD2.9mn PBT). SGD3.7mn in fees relating to ASL's bond consent solicitation contributed to the loss, as well as SGD3.1mn in unrealized FX losses and SGD2.4mn share of losses from associates / JVs (competition affecting precast operation in Indonesia for Sindo-Econ etc).
- **Maturity profile more manageable:** Operating cash outflow of SGD11.4mn (including interest service) was due to ASL meeting payables, compared to SGD36.6mn inflow generated in 2QFY2017 and flat OCF generated in 3QFY2016. Free cash flow was negative SGD14.0mn due to capex. The cash gap was funded with SGD22.4mn net increase in borrowings / trust receipts. As a result, net gearing worsened q/q to 116% (2QFY2017: 110%), though it remains distinctly lower compared to the peak of 140% seen in 3QFY2016. Current borrowings have declined sharply q/q to SGD247.6mn (2QFY2017: SGD339.2mn), largely due to the extension of SGD100mn worth of bonds by 3 years. ASL had reported that it drew down SGD37.1mn of the new 5-year SGD99.9mn club facility from the 3 local banks. It had also received a 6-year Spring Bridging Loan of SGD5mn.
- **Near-term prospects remain challenging:** Liquidity remains tight, with ASL reporting just SGD46.8mn in cash while our calculated EBITDA / Interest coverage stood at 2.5x for the quarter. One positive development was that ASL received approval from principal lenders to re-profile its existing term loans, based on a ten-year profile with 4 years repayment term. The terming out of its bank debt would help ASL manage its short-term liabilities. Management had indicated that they do not expect the operating environment for their business to improve meaningfully over the next 12 months, which is consistent with our view that the broader offshore marine industry remains difficult. Furthermore, with ASL continuing to draw down on its SGD99.9mn club facility to meet liquidity needs (in the absence of strong operating cash flow generation), ASL's leverage profile would worsen. As such, ASL's Negative Issuer Profile will be retained.

ASL Marine Holdings Ltd

Table 1: Summary Financials

Year End 30th Jun	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	184.2	364.4	264.5
EBITDA	58.4	83.7	54.5
EBIT	12.5	27.1	10.8
Gross interest expense	17.3	21.9	14.1
Profit Before Tax	8.6	0.5	-7.9
Net profit	7.9	2.0	-9.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	77.9	24.7	46.8
Total assets	1,208.5	1,275.7	1,241.6
Gross debt	542.4	592.2	560.8
Net debt	464.4	567.5	514.0
Shareholders' equity	425.3	424.4	442.1
Total capitalization	967.7	1,016.6	1,002.9
Net capitalization	889.7	991.9	956.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	53.9	58.5	34.5
* CFO	105.1	-17.3	65.2
Capex	118.8	97.2	27.2
Acquisitions	0.0	0.0	0.0
Disposals	52.0	9.3	1.7
Dividend	4.2	1.7	0.0
Free Cash Flow (FCF)	-13.7	-114.4	38.0
* FCF adjusted	34.2	-106.8	39.6
Key Ratios			
EBITDA margin (%)	31.7	23.0	20.6
Net margin (%)	4.3	0.5	-3.5
Gross debt to EBITDA (x)	9.3	7.1	7.7
Net debt to EBITDA (x)	7.9	6.8	7.1
Gross Debt to Equity (x)	1.28	1.40	1.27
Net Debt to Equity (x)	1.09	1.34	1.16
Gross debt/total capitalisation (%)	56.0	58.3	55.9
Net debt/net capitalisation (%)	52.2	57.2	53.8
Cash/current borrowings (x)	0.4	0.1	0.2
EBITDA/Total Interest (x)	3.4	3.8	3.9

Source: Company, OCBC estimates

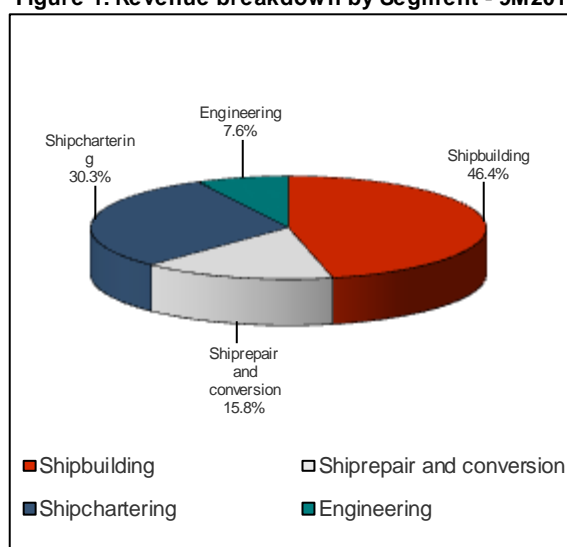
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	215.5	38.4%
Unsecured	32.1	5.7%
	247.6	44.2%
Amount repayable after a year		
Secured	165.7	29.5%
Unsecured	147.5	26.3%
	313.2	55.8%
Total	560.8	100.0%

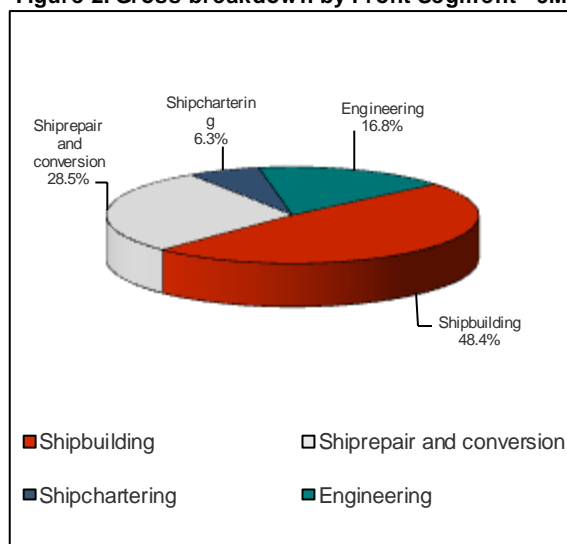
Source: Company

Figure 1: Revenue breakdown by Segment - 9M2017



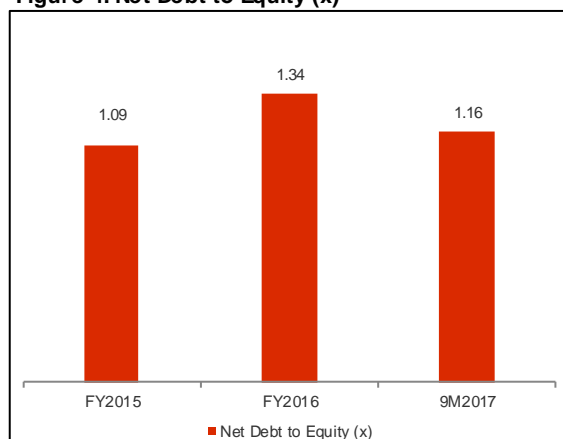
Source: Company

Figure 2: Gross breakdown by Profit Segment - 9M2017



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We are Underweight both ASPSP '20s due to the elevated balance sheet. However, we stay Neutral on ASPSP '18s and ASPSP '19s as they trade at higher yields while the Australian projects offer revenue and cashflow visibility in the near-term. We note the potential for the bonds to re-rate if Aspial can deleverage substantially.

Issuer Rating: Negative

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **ASPSP**

Background

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 SGD493.8mn as of 7 Jul 2017. Aspial is 83%-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

- **Good 1Q2017 results:** 1Q2017 revenue rose 12% y/y to SGD141mn due to (1) stronger performance in the real estate business (+16% y/y to SGD67.9mn) with revenue recognition from CityGate and Waterfront@Faber, as well as (2) improved performance from the financial service business (+18% y/y to SGD44.1mn) due to higher interest income from pawnbroking and sales from the retail and trading of gold. The jewellery business segment was the only underperformer (revenue down 12.5% y/y to SGD30.2mn). Overall, profits surged 96% y/y to SGD7.9mn.
- **Tackling the stretched balance sheet:** While we like the performance of Aspial's real estate and financial service business, we think the elevated net gearing level of 3.04x poses the main risk. As a mitigating factor, net gearing will likely trend down going forward. Since our January credit outlook, net gearing has already improved substantially over the past 2 quarters (3QFY16: 3.34x) as Aspial repaid some debt while its equity base expanded due to the strong profitability. Aspial expects its cash and debt position to further strengthen due to the projects that will be completed in 2017-2018. For example, the TOP of Waterfront@Faber in 1HFY17 is expected to contribute SGD95mn in operating cashflow, while CityGate should continue to contribute to revenue and profits in 2017 and 2018. We also think that it is natural for debt to be higher for Aspial's financial service business (Maxi-Cash) as it utilises debt to fund its receivables. A large portion of Aspial's receivables are related to Maxi-Cash and these are actually interest-bearing loans to customers at 1.0%-1.5% interest rates per month. We are not worried over the collection of receivables as the loans are over-collateralised.
- **Navigating the liquidity constraints:** A sizeable SGD455mn in loans and borrowings are due within the next 12 months. Despite a stretched balance sheet, we think that Aspial may manage to repay or refinance. In addition to the expected receipt of SGD95mn from Waterfront@Faber, Aspial holds (1) SGD95.6mn in cash and (2) SGD149.7mn in investment securities. Aspial has also listed World Class Global ("WCG"), its property arm, which raised SGD26mn while its subsidiary Maxi-Cash has in April 2017 issued a SGD50mn bond. We note Aspial also owns SGD45.7mn in investment properties (shops at East Village). For its projects under construction (Australia 108, Avant), Aspial has secured AUD335mn in construction loans and expects to complete both projects with minimal further capital injections.
- **Significant revenues locked-in with substantial profits expected:** Beyond the Singapore development properties with locked-in revenue of SGD228mn, Aspial has locked-in another AUD1.1bn of sales from its Melbourne projects - Australia 108 and Avant. These will contribute to revenue in 2018-2020. According to Aspial, the potential sales revenue from the remaining development projects is estimated to be more than SGD1.9bn. However, we note the concentration risks in Australia (while minimal FX hedging is done). The Australian properties are also still subject to settlement risks. Meanwhile, Aspial has sacrificed some rental income by demolishing the old Keypoint building for the construction of the new CityGate development in Singapore.
- **Net minor positive from WCG listing:** Although we see some HoldCo-OpCo subordination with the spin-off of WCG, we think this is largely mitigated with Aspial retaining a 80%-stake post IPO. We note that WCG does not hold a large amount of debt (FY16 total debt: SGD73.8mn). On the other hand, the IPO improves the financial flexibility of WCG as it allows Aspial to obtain another source of funding for the capex of its Australian project, which should reduce the strain on its balance sheet.

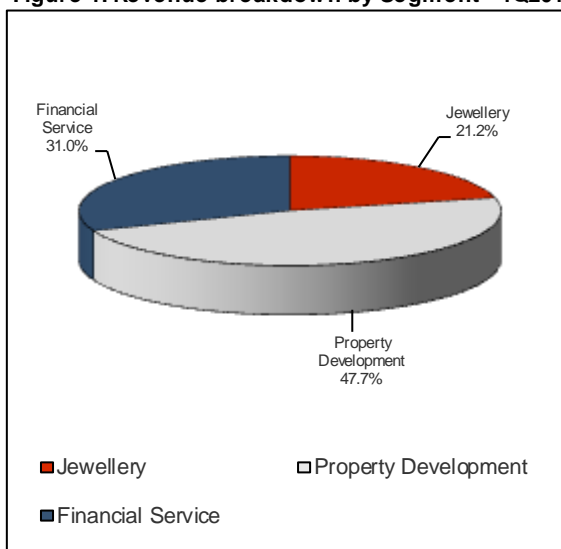
Aspial Corp Ltd

Table 1: Summary Financials

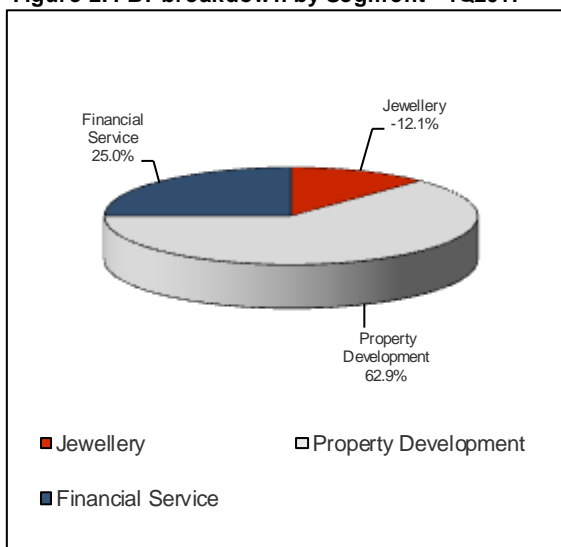
Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	464.1	623.3	140.9
EBITDA	99.1	106.1	27.1
EBIT	94.5	101.4	25.9
Gross interest expense	39.8	54.9	11.2
Profit Before Tax	13.0	6.9	10.6
Net profit	8.8	1.1	6.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	133.0	70.3	95.6
Total assets	1,760.7	1,721.8	1,768.1
Gross debt	1,305.2	1,253.1	1,284.5
Net debt	1,172.2	1,182.8	1,188.9
Shareholders' equity	376.3	376.9	391.3
Total capitalization	1,681.5	1,630.0	1,675.8
Net capitalization	1,548.5	1,559.7	1,580.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	13.4	5.8	7.6
* CFO	-21.7	4.6	-19.0
Capex	3.7	24.2	1.1
Acquisitions	9.7	0.1	0.0
Disposals	3.5	275.4	19.3
Dividend	15.9	9.9	0.0
Free Cash Flow (FCF)	-25.4	-19.6	-20.1
* FCF Adjusted	-47.5	245.8	-0.9
Key Ratios			
EBITDA margin (%)	21.4	17.0	19.2
Net margin (%)	1.9	0.2	4.5
Gross debt to EBITDA (x)	13.2	11.8	11.9
Net debt to EBITDA (x)	11.8	11.2	11.0
Gross Debt to Equity (x)	3.47	3.33	3.28
Net Debt to Equity (x)	3.12	3.14	3.04
Gross debt/total capitalisation (%)	77.6	76.9	76.7
Net debt/net capitalisation (%)	75.7	75.8	75.2
Cash/current borrowings (x)	0.2	0.1	0.2
EBITDA/Total Interest (x)	2.5	1.9	2.4

Source: Company, OCBC estimates

*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 1: Revenue breakdown by Segment - 1Q2017


Source: Company | Excludes Others Segment

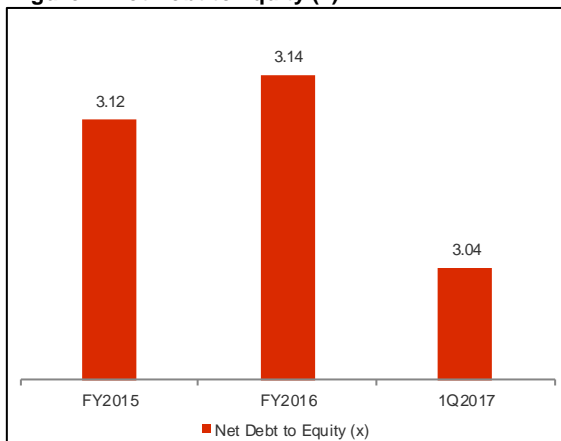
Figure 2: PBT breakdown by Segment - 1Q2017


Source: Company, OCBC estimates | Jewellery segment incurred loss before tax

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	455.0	35.4%
Unsecured*	0.0	0.0%
	455.0	35.4%
Amount repayable after a year		
Secured	255.5	19.9%
Unsecured	574.0	44.7%
	829.5	64.6%
Total	1284.5	100.0%

Source: Company

Figure 4: Net Debt to Equity (x)


Source: Company, OCBC estimates

Credit Outlook –

The BTHSP 5.35%’18s provides better value against the BTHSP 5.75%’18s (40 bps pick up for 3 months longer maturity). We are overweight the BTHSP 4.875%’19s and the BTHSP4.85%’20s as these are trading wider than implied by the short end of the curve and could be interesting to risk-seeking investors. The curve though tends to be illiquid.

Issuer Profile: Neutral

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

Ticker: **BTHSP**

Background

Banyan Tree Holdings (“BTH”), listed on the Singapore Stock Exchange since June 2006, has a market cap of SGD384.4mn (as at 20 June 2017). BTH is an international developer and operator of resorts, residences, spas, retail galleries and gold courses. BTH’s flagship brand “Banyan Tree” is a household name regionally in the high-end hospitality segment. BTH holds ~66%-stake in Laguna Resorts & Hotels Pcl, which is listed on the Thailand Stock Exchange.

Banyan Tree Holdings

Key credit considerations

- **Some improvement in operating profit:** BTH’s 1Q2017 revenue was 9% lower at SGD90.4mn. This was largely due to the 66% decline in revenue from its Property Sales segment to SGD5.8mn. The lack of recognised revenue was partly offset by stronger revenue from the Fee-based and Hotel Investment segment. As at 31 March 2017, available resources from the Property Sales segment are at SGD142.4mn against only SGD79.3mn as at 31 March 2016, which should help boost top-line. The Fee-based segment was up 8% to SGD19.3mn mainly due to higher architectural and design fees earned from projects in China, Dubai and Japan. The Hotel Investments segment saw a slight 1% improvement in revenue, driven by Thailand-based properties on the back of healthier demand from European and Russian travelers. EBITDA excluding other income was SGD18.1mn, 5% up from 1Q2016. This was aided by SGD0.9mn in write-backs of provision for doubtful debts following payments by several hotel owners in China and lower non-employee related overheads which helped offset increases in other areas. Due to lower interest rates, finance cost was 5% down at SGD7.0mn which helped improve EBITDA/Interest to 2.6x. BTH reported a 2% decrease in profit before tax of SGD5.4mn though foreign currency translation losses wiped out much of the profits (in line with 1Q2016), leading to a total comprehensive loss of SGD6.6mn.
- **Impending liquidity needs:** As at 31 March 2017, BTH faces SGD147.6mn in short term debt. In April 2017, BTH had entered into definitive agreements with French-based hospitality giant Accor S.A that saw Accor S.A subscribe to a SGD24mn convertible debenture (to be accounted for as debt initially). Subsequently in May 2017, the company had redeemed the BTHSP 6.25% ’17s (outstanding amount of SGD50mn). Following redemption and the liquidity infusion from Accor S.A, BTH’s cash balances would have fallen to SGD108mn (from SGD134mn as at 31 March 2017) while short term debt would be SGD98mn. The Accor S.A debenture is mandatorily convertible into equity at a conversion price of SGD0.60 per share (as at 7 July 2017, SGD0.545 per share). We assume the debenture as long term debt for the purpose of this piece and see BTH’s refinancing risk over the next 12 months as manageable.
- **On a de-leveraging trend:** During the quarter, BTH drew down SGD20.7mn in net borrowings, leading to a 3.4% increase in borrowings to SGD637.6mn. Combined with the decline in book value equity, we saw gearing higher at 0.9x (31 December 2016: 0.8x). Based on our estimates, net gearing is around 0.7x as of report date. As at 31 December 2016, non-cancellable operating leases at BTH was sizeable at SGD126.7mn, though has fallen from SGD138.3mn in end-2015. In addition to the partnership with Accor S.A, BTH is also expected to enter into a definitive agreement with China Vanke Co. Ltd (“VNRKLE”) by mid-2017. VNRKLE is one of China’s largest real estate developers. The agreement will see (1) VNRKLE and BTH enter into a 50:50 joint venture where BTH will dispose certain Chinese assets into the joint venture and (2) VNRKLE will subscribe SGD25mn in new equity in BTH. As at 31 March 2017, net assets held for sale amounted to SGD160.7mn. We conservatively assume BTH to receive 50% of book value (ie: SGD80mn). Post completion, we estimate BTH’s headline net gearing to fall to ~0.5x. As part of the agreements, BTH had also granted options to Accor S.A and VNRKLE respectively to subscribe for additional new shares in BTH. The agreements cap Accor S.A and VNRKLE’s stake in BTH at 10% each on a fully diluted basis. Assuming the options get exercised at SGD0.60 per share, BTH will receive a further SGD48-50mn in additional equity.

Banyan Tree Holdings

Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	370.7	309.6	90.4
EBITDA	24.6	22.0	18.1
EBIT	-0.1	-3.0	11.8
Gross interest expense	32.6	35.7	7.0
Profit Before Tax	-19.5	0.7	5.4
Net profit	-27.5	-16.2	1.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	165.7	108.8	133.9
Total assets	1,593.0	1,608.2	1,617.0
Gross debt	652.7	616.6	637.6
Net debt	487.0	507.8	503.7
Shareholders' equity	699.5	732.8	726.3
Total capitalization	1,352.1	1,349.4	1,363.9
Net capitalization	1,186.5	1,240.7	1,230.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	-2.8	8.9	7.5
* CFO	-110.7	-6.2	6.0
Capex	23.5	15.9	2.8
Acquisitions	0.3	0.0	0.0
Disposals	0.1	0.0	0.6
Dividend	1.3	1.2	0.0
Free Cash Flow (FCF)	-134.2	-22.1	3.3
* FCF adjusted	-135.7	-23.3	3.8
Key Ratios			
EBITDA margin (%)	6.6	7.1	20.0
Net margin (%)	-7.4	-5.2	1.3
Gross debt to EBITDA (x)	26.5	28.0	12.1
Net debt to EBITDA (x)	19.8	23.0	9.6
Gross Debt to Equity (x)	0.93	0.84	0.88
Net Debt to Equity (x)	0.70	0.69	0.69
Gross debt/total capitalisation (%)	48.3	45.7	46.8
Net debt/net capitalisation (%)	41.0	40.9	41.0
Cash/current borrowings (x)	1.8	0.7	0.9
EBITDA/Total Interest (x)	0.8	0.6	2.6

Source: Company, OCBC estimates

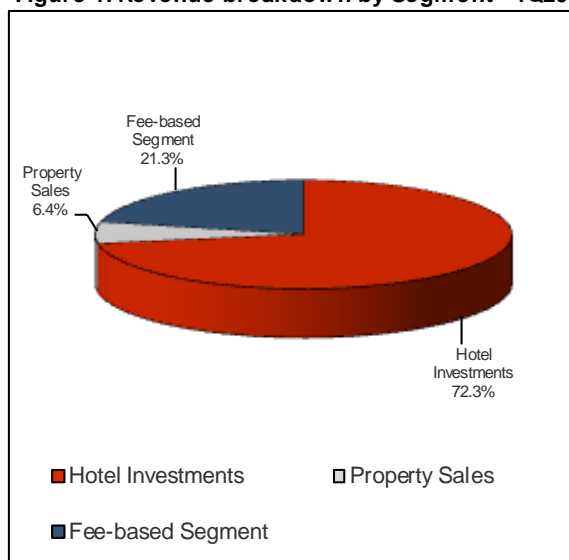
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	54.0	8.5%
Unsecured	93.6	14.7%
	147.6	23.2%
Amount repayable after a year		
Secured	135.4	21.2%
Unsecured	354.6	55.6%
	490.0	76.8%
Total	637.6	100.0%

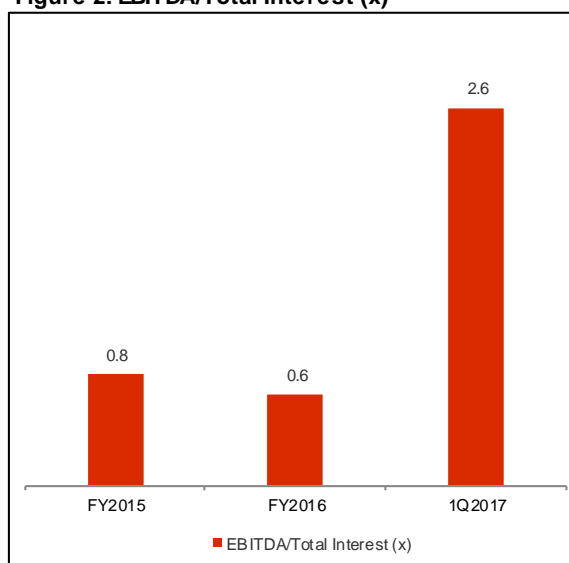
Source: Company

Figure 1: Revenue breakdown by Segment - 1Q2017



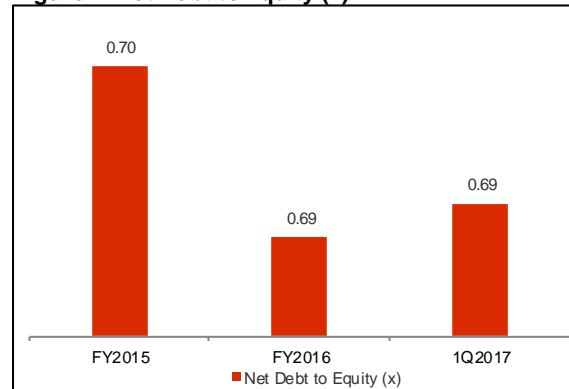
Source: Company

Figure 2: EBITDA/Total Interest (x)



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

BREAD '19s is looking fair after running up by 1 pt since our initiation in Nov 2016. Nevertheless, for investors who like to hold more exposure to Singapore's retail sector, BREAD '19s provides 43bps-75bps yield pickup over FCT '19s, CAPITA '20s and SGREIT '21s.

Issuer Rating: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **BREAD**

Background

Listed on the SGX in 2003, BreadTalk Group Ltd ("BGL") is a household F&B brand owner. BGL has expanded beyond Singapore and currently operates 957 outlets in China, Singapore, Thailand and other parts of Asia and Middle East. BGL classifies its businesses into Bakery, Food Atrium and Restaurants, with prominent brands including BreadTalk, Toast Box and Food Republic. BGL also operates DTF as a franchisee. The company is majority owned by founders George Quek (34.01%) and Katherine Lee (18.62%).

BreadTalk Group Ltd

Key credit considerations

- **Decent set of results:** While revenue declined 1.5% y/y to SGD615mn in FY2016, profit increased 20.5% y/y to SGD17.6mn. The divergence between revenue and profit is due to the closure of unprofitable outlets while BGL focused on cost controls to boost profitability. Revenue continue to decline in 1Q2017 (4.5% y/y to SGD147.6mn) with the elimination of underperforming franchisees. Without accounting for one-off items (e.g. sale of its investment in TripleOne Somerset), core F&B net profit would have been SGD3.1mn, which is a turnaround from a loss of SGD5.4mn in 1Q2016. EBITDA of all three segments (Bakery, Food Atrium, Restaurant) also performed well, with core F&B EBITDA increasing 28.2% y/y to SGD18.2mn.
- **Boost from divestment in property assets:** Following the divestment of 112 Katong Mall in Jan 2016 for a SGD8.8mn gain, BreadTalk divested its stake in TripleOne Somerset in 1Q2017 for a SGD9.3mn gain. The potential remains for BGL to unlock more value from its strategic investments. The remaining property investments include a 29% stake in CHIJMES (Book value: SGD18.0mn), 5.3% in AXA Tower (Book value: SGD19.4mn), 5.7% stake in Perennial Tongzhou Development Pte Ltd (Book value: SGD20.1mn), 5.9% stake in Perennial Tongzhou Holdings Pte Ltd (Book value: SGD14mn).
- **Strong cashflow generation masked by low net profit:** Net debt/EBITDA is very healthy at 1.3x as of 1Q2017 – our figure is conservative as we do not take into account of other income (some of which is non-recurring in nature) and income from JVs/ associates. Free cashflow (FY2016: SGD51.9mn) has exceeded net profits (FY2016: SGD11.4mn) mainly because depreciation exceeds capex. PPE is typically depreciated over 3Y-5Y (in-line with lease of stores) while in reality we think PPE may be usable for longer.
- **Commitment to slow down pace of outlet expansion:** BGL is no longer chasing headline growth in revenue, management has guided that capex in FY2017 would remain similar to that in FY2016. As such, free cashflows are expected to remain strong as BGL will no longer be overly expanding.
- **Profitability anchored by Din Tai Fung ("DTF"):** DTF is the crown jewel under the Restaurant division, and we estimate it accounts for 40% of BGL's EBITDA from the 3 divisions (which does not include one-off divestments). With 24 outlets as at 1Q2017, BGL's DTF franchise may grow further as it obtained the franchise rights to operate in the UK. Although the DTF franchise agreement will expire on July 2021, we are not overly worried as management has expressed confidence in the renewal of the agreement given BGL's track record in running DTF. Interest is also aligned, with the franchisor owning 20% stake in the DTF JV. In any case, BREAD '19s will mature before the expiry of the franchise agreement. Meanwhile, the Bakery and Food Atrium results have been picking up, which reduces the reliance of BGL on DTF.
- **Diversified with multiple profitable brands:** In addition to the highly profitable DTF under the Restaurant segment, BGL operates BreadTalk and Toastbox under the Bakery segment and Food Republic under the Food Atrium segment. The Bakery segment has been performing consistently, contributing roughly SGD6.0mn EBITDA per quarter since 2014. Meanwhile, the Food Atrium segment has turned around following the closure of unprofitable stores over 2015-2016 which weighed on segment results due to impairments. BGL's revenue is also relatively diversified, with 52% from Singapore, 28% from China, 9% from Hong Kong.

BreadTalk Group Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	624.1	615.0	147.6
EBITDA	61.2	49.8	11.0
EBIT	11.7	1.5	0.4
Gross interest expense	5.3	5.9	1.4
Profit Before Tax	25.4	29.7	15.0
Net profit	7.6	11.4	10.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	94.9	120.6	109.2
Total assets	545.1	534.3	520.7
Gross debt	202.4	182.1	166.0
Net debt	107.5	61.5	56.9
Shareholders' equity	146.4	151.9	163.4
Total capitalization	348.8	334.0	329.5
Net capitalization	254.0	213.4	220.3
Cash Flow (SGD'mn)			
Funds from operations (FFO)	57.1	59.7	21.3
CFO	66.5	89.2	16.3
Capex	37.6	37.3	12.2
Acquisitions	22.9	2.8	1.4
Disposals	0.1	17.0	3.6
Dividend	7.8	9.7	0.0
Free Cash Flow (FCF)	28.9	51.9	4.1
FCF adjusted	-1.7	56.4	6.3
Key Ratios			
EBITDA margin (%)	9.8	8.1	7.5
Net margin (%)	1.2	1.9	7.2
Gross debt to EBITDA (x)	3.3	3.7	3.8
Net debt to EBITDA (x)	1.8	1.2	1.3
Gross Debt to Equity (x)	1.38	1.20	1.02
Net Debt to Equity (x)	0.73	0.40	0.35
Gross debt/total capitalisation (%)	58.0	54.5	50.4
Net debt/net capitalisation (%)	42.3	28.8	25.8
Cash/current borrowings (x)	1.2	3.8	3.7
EBITDA/Total Interest (x)	11.5	8.4	8.0

Source: Company, OCBC estimates

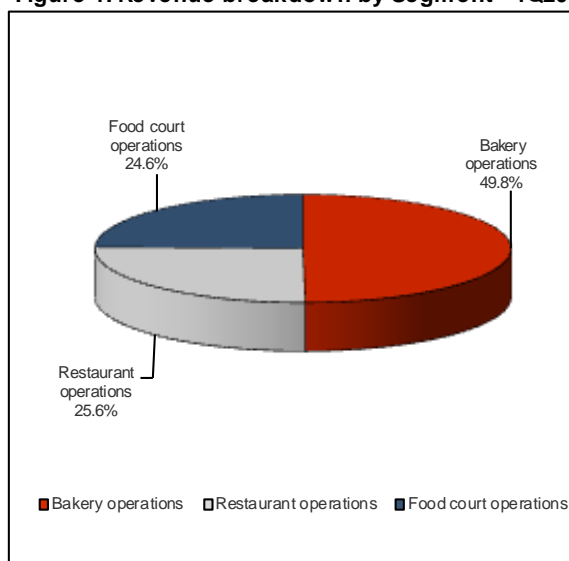
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	19.6	11.7%
Unsecured	10.3	6.2%
	29.8	17.9%
Amount repayable after a year		
Secured	58.1	34.8%
Unsecured	78.8	47.3%
	136.9	82.1%
Total	166.8	100.0%

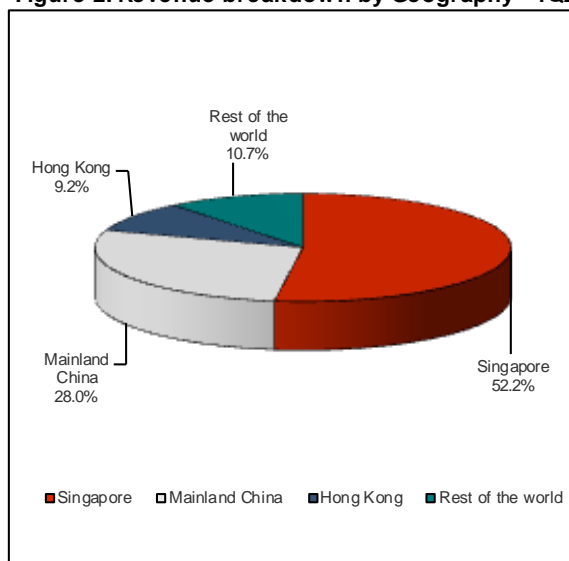
Source: Company

Figure 1: Revenue breakdown by Segment - 1Q2017



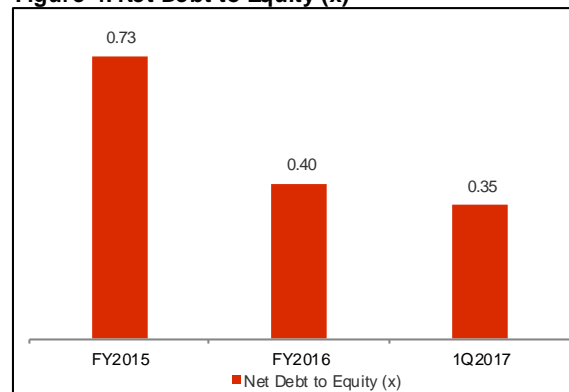
Source: Company

Figure 2: Revenue breakdown by Geography - 1Q2017



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We are underweight the CCT curve, with the view that valuations are rich given the potential event risk.

Issuer Profile: Neutral

S&P: A-/Stable

Moody's: A3/Negative

Fitch: Not rated

Ticker: **CCTSP**

Background

Listed on the SGX in 2004, CapitaLand Commercial Trust ("CCT") is Singapore's first listed and one of the largest commercial REITs, with SGD8.7bn of property holdings as at 31/03/17. It comprises ten prime properties in Singapore, as well as investments in Malaysia. About ~84% of net property income is currently generated from Raffles City Singapore (RCS, 60%-owned), Capital Tower, One George Street, CapitaGreen and Six Battery Road. CCT is 32.0%-owned by CapitaLand Ltd.

CapitaLand Commercial Trust

Key credit considerations

- **Changes to portfolio looming:** There have been several changes to CCT's portfolio, some of which happened after end-1Q2017. The first would be the closure of Golden Shoe Car Park ("GSCP") on 31/07/17 for redevelopment. Though GSCP only contributed ~4% of 2016 NPI, there is still uncertainty with regards to funding structure and overall development costs. As a reference, when CapitaGreen was redeveloped (NLA of 703k sqft), development cost was ~SGD1.4bn, of which half comprised the differential premium and land-related costs. Comparatively, CCT was seeking to develop ~1mn sqft worth of office from GSCP. In part to create some balance sheet room, CCT had announced early May that it will be divesting 50% of One George Street ("OGS"), valuing OGS at SGD1,183.2mn (or SGD2,650 psf). The transaction is expected to close during 2Q2017, with CCT booking a net gain of SGD79.7mn. On 03/07/17, CCT had announced the divestment of Wilkie Edge for SGD280mn. Both transactions were completed at above book value. Finally, it was reported that CCT's sponsor, CapitaLand, had expressed interest in Asia Square Tower 2 (with a quantum of ~SGD2.1bn), and may involve CCT in any potential transaction.
- **Recent performance in-line:** For 1Q2017, gross revenue jumped 33.9% y/y to SGD89.5mn while NPI increased 34.3% y/y to SGD69.9mn. This was largely driven by CCT's acquisition of the balance of CapitaGreen (previously CCT only held 40%) which was completed on 31/08/16. Excluding the acquisition, performance still held up, with gross revenue increasing 1.0% y/y to SGD67.6mn and NPI increasing 0.6% y/y to SGD51.7mn. Performance at Capital Tower was particularly strong with property revenue up 8% y/y, helping to offset declines seen at Six Battery Road and GSCP (which saw its occupancy plunge to 73.7% due to the looming redevelopment).
- **Occupancy firm, rental soft:** Portfolio committed occupancy has improved q/q to 97.8% (4Q2016: 97.1%) which compares well against CBRE's Singapore core CBD office occupancy of 95.6% for 1Q2017. Comparatively, due to competition, CCT's portfolio average office rent had dipped for the second consecutive quarter (SGD9.20 psf to SGD9.18 psf), but still stronger than CBRE's Grade A office average rents of SGD8.95 psf. Proactive lease renewals left CCT with just 5% of NLA left for renewal in 2017. 2018 and 2019 remains a challenge with 15% and 33% of NLA respectively expiring (with these assets having higher passing rents). WALE dipped q/q to 6.4 years (4Q2016: 6.6 years).
- **Improvement in credit profile transient:** Aggregate leverage had worsened slightly to 38.1% (4Q2016: 37.8%) due to declines in CCT's cash balance. Interest coverage deteriorated as well to 3.7x for the quarter (2016: 4.3x) due to higher interest cost (20% of CCT's borrowings are floating rate). Currently, CCT only has SGD175mn in convertible bonds (due September 2017) due for 2017, which could be redeemed using the proceeds of the OGS divestment. The large SGD375mn loan tied to Raffles City due 2018 could be refinanced from the proceeds of a SGD300mn bond issue by RCS Trust (the JV that holds Raffles City). Though the OGS and Wilkie Edge transactions would drive leverage lower in the near term, the redevelopment of GSCP would likely drive credit profile weaker, while any transaction involving Asia Square Tower 2 would likely stretch CCT's balance sheet. We will hold CCT's Issuer Profile rating at Neutral for now.

CapitaLand Commercial Trust

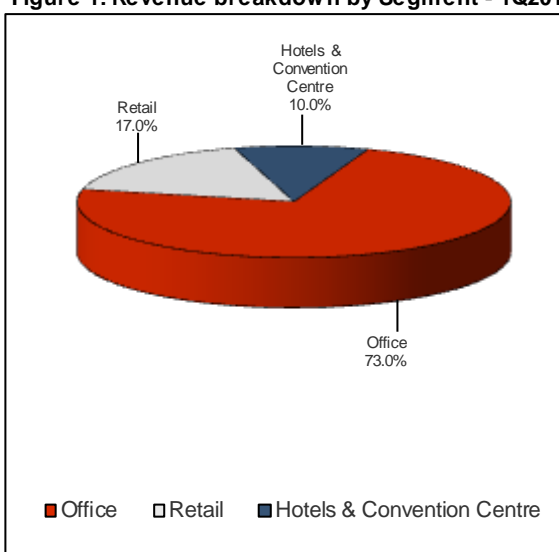
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	273.2	298.6	89.5
EBITDA	196.7	215.0	65.9
EBIT	193.7	212.4	63.7
Gross interest expense	36.0	50.1	17.9
Profit Before Tax	307.4	261.8	65.9
Net profit	307.3	260.6	65.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	81.2	160.0	99.4
Total assets	6,592.5	8,051.1	7,986.2
Gross debt	1,254.9	2,639.0	2,636.3
Net debt	1,173.7	2,479.1	2,536.9
Shareholders' equity	5,234.1	5,278.5	5,191.2
Total capitalization	6,489.0	7,917.6	7,827.5
Net capitalization	6,407.8	7,757.6	7,728.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	310.2	263.3	68.0
* CFO	196.8	203.1	62.7
Capex	21.3	17.3	2.0
Acquisitions	0.0	356.9	0.0
Disposals	0.0	0.0	0.0
Dividends	251.9	258.6	132.3
Free Cash Flow (FCF)	175.5	185.8	60.7
* FCF Adjusted	-76.4	-429.7	-71.6
Key Ratios			
EBITDA margin (%)	72.0	72.0	73.6
Net margin (%)	112.5	87.3	73.5
Gross debt to EBITDA (x)	6.4	12.3	8.5
Net debt to EBITDA (x)	6.0	11.5	8.2
Gross Debt to Equity (x)	0.24	0.50	0.51
Net Debt to Equity (x)	0.22	0.47	0.49
Gross debt/total capitalisation (%)	19.3	33.3	33.7
Net debt/net capitalisation (%)	18.3	32.0	32.8
Cash/current borrowings (x)	NM	0.9	0.6
EBITDA/Total Interest (x)	5.5	4.3	3.7

Source: Company, OCBC estimates

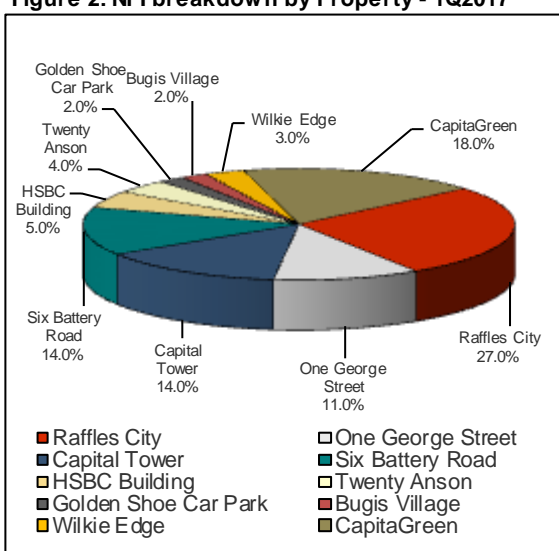
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 1: Revenue breakdown by Segment - 1Q2017



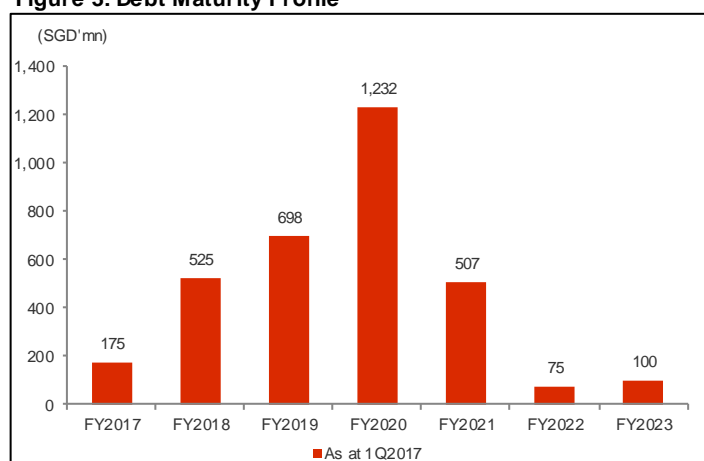
Source: Company

Figure 2: NPI breakdown by Property - 1Q2017



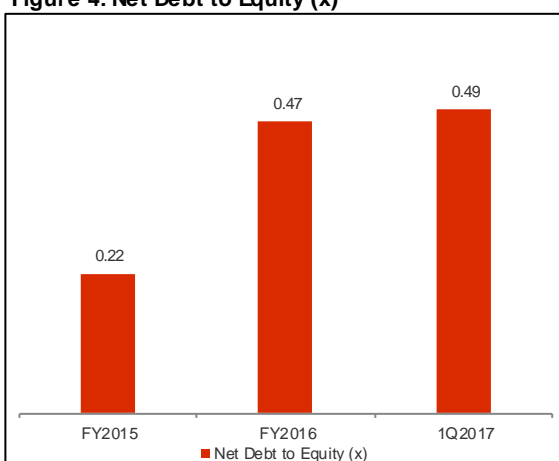
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We prefer the FCLSP'19s over the CAPLSP'19s given the ~90bps pickup FCLSP'19s offers more than compensating for the higher leverage.

Issuer Profile: Positive

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **CAPLSP**

Background

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. Its four reporting segments are Capitaland Singapore ("CLS"), Capitaland China ("CLC"), Capitaland Mall Asia ("CMA") and The Ascott Ltd ("Ascott"). CAPL reported SGD45.5bn in total assets as at 31 Mar 17 and it is ~40%-owned by Temasek Holdings Ltd.

CapitaLand Ltd

Key credit considerations

- **China continues to dominate results:** CAPL reported 1Q2017 results, with revenue flattish at SGD897.5mn (+0.4% y/y). Higher contribution from development projects in China as well as rental revenue from the newly acquired Japanese assets helped offset lower revenue from Singapore development projects. This can be seen with revenue from Singapore slumping 43.7% y/y to SGD238.8mn while revenue from China has surged 65.7% y/y to SGD444.1mn. As such, Singapore's contribution to total revenue is just 27%, while China's contribution is 49%. Specifically, for CapitaLand China, revenue jumped 91.2% y/y to SGD374.5mn, with CAPL handing over 1,191 units (1Q2016: 773 units) from developments such as Dolce Vita and Vista Garden in Guangzhou. Looking forward, CAPL has about ~7000 launch-ready units for the next nine months as well as ~RMB6.3bn worth of pre-sold revenue to be recognized over the period. As such, China contribution would continue to support CAPL's near-term performance.
- **Profits surged from The Nassim sale:** CapitaLand Singapore's slowing revenue is consistent with our view that CAPL's inventory of Singapore residential projects is running low. 83 units in Singapore were sold for 1Q2017 (versus 222 units sold in 1Q2016) and consisted mainly of units from Marina Blue (the new launch) and The Nassim. CapitaLand Singapore's residential inventory stood at SGD1.3bn as of end-1Q2017 (1Q2016: SGD2.8bn). For CapitaLand Mall Asia, revenue was flattish (-1.0% y/y) at SGD145.8mn due to weaker MYR affecting Malaysia malls and lower project management fees from China. This was mitigated by the Japanese assets which CAPL acquired in February 2017. Ascott saw revenue decline 18.4% y/y to SGD209.6mn, due to lower contribution from Cairnhill Nine which already obtained TOP in 4Q2016. In aggregate, operating PATMI (which excludes divestments, revaluation and impairments) surged by 121.1% to SGD337.8mn, driven by SGD160.9mn gain realized on the sale of 45 units of The Nassim. Excluding this, operating PATMI would have still increased 15.8% y/y due to contributions from CAPL's other development projects in Singapore and China.
- **The tilt towards investments distinct:** The sale of The Nassim (consideration paid was SGD411.6mn in cash) helped mitigate the negative CFO (including interest service) of SGD205.3mn (working capital needs was a drag). We note as well that CAPL spent SGD620.1mn on Japanese investment properties (3 office buildings and a mall), which brought Japan AUM to SGD2.5bn. CAPL had indicated the potential of ramping up its Japan AUM to SGD5.0bn, with the 2020 Tokyo Olympics supportive of hospitality operations. Management had indicated the potential of bringing Japan AUM to ~SGD3.0bn by year end. CAPL had also continued to optimize its China investment property portfolio, buying and selling Shanghai office assets in 2Q2017 with a net ~SGD153mn cash outflow impact. CAPL was also reported to be interested in acquiring Asia Square Tower 2 (~SGD2.1bn quantum). Finally, it is worth noting that CAPL has started to become more active in bidding for land in Singapore to replenish its land inventory, having participated in the Bidadari land auction (CAPL Yanlord JV was the 5th highest bidder at SGD999.6 psf/plot ratio).
- **Credit profile trend likely turning:** Since a recent net gearing peak of 57% (end-2014), CAPL had seen its credit profile improve to a low of 41% at end-2016. The most recent quarter saw net gearing inch higher to 44%. Though CAPL's pipeline of pre-sales in China, as well as its strong investment property portfolio will continue to support CAPL's credit profile and liquidity, there is potential that CAPL may acquire more investment properties as well as build up its domestic land bank. We will retain our Positive issuer profile on CAPL for now, but will monitor CAPL's future investment plans closely.

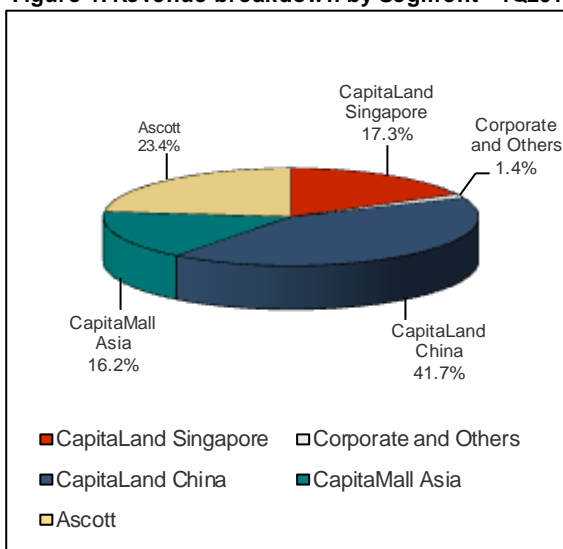
CapitaLand Ltd

Table 1: Summary Financials

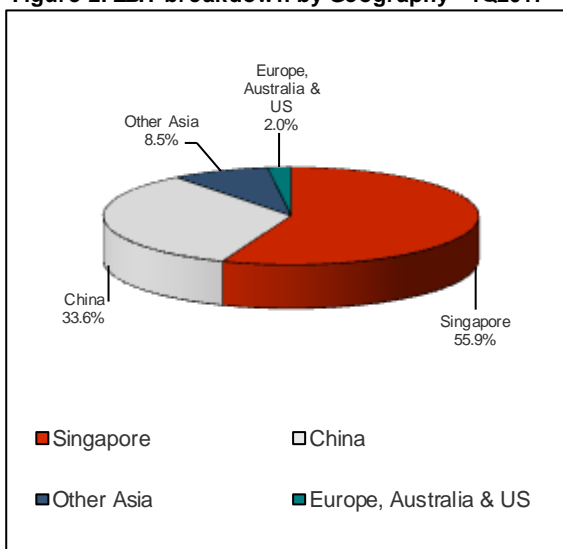
Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	4,761.9	5,252.3	897.5
EBITDA	1,148.4	1,269.5	262.3
EBIT	1,073.1	1,203.5	244.6
Gross interest expense	477.3	452.7	103.9
Profit Before Tax	1,838.8	1,906.9	514.7
Net profit	1,065.7	1,190.3	386.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	4,173.3	4,792.6	4,354.6
Total assets	47,052.6	45,740.8	45,507.0
Gross debt	16,058.5	14,852.4	15,009.2
Net debt	11,885.2	10,059.7	10,654.6
Shareholders' equity	24,937.7	24,300.5	24,268.5
Total capitalization	40,996.1	39,152.9	39,277.7
Net capitalization	36,822.9	34,360.2	34,923.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	1,141.0	1,256.3	404.5
* CFO	1,946.1	2,799.1	-205.3
Capex	64.0	76.0	10.4
Acquisitions	940.0	899.9	678.2
Disposals	513.0	327.2	364.1
Dividend	726.9	751.8	155.7
Free Cash Flow (FCF)	1,882.1	2,723.1	-215.7
* FCF Adjusted	728.2	1,398.6	-685.5
Key Ratios			
EBITDA margin (%)	24.1	24.2	29.2
Net margin (%)	22.4	22.7	43.1
Gross debt to EBITDA (x)	14.0	11.7	14.3
Net debt to EBITDA (x)	10.3	7.9	10.2
Gross Debt to Equity (x)	0.64	0.61	0.62
Net Debt to Equity (x)	0.48	0.41	0.44
Gross debt/total capitalisation (%)	39.2	37.9	38.2
Net debt/net capitalisation (%)	32.3	29.3	30.5
Cash/current borrowings (x)	1.9	2.0	2.3
EBITDA/Total Interest (x)	2.4	2.8	2.5

Source: Company, OCBC estimates

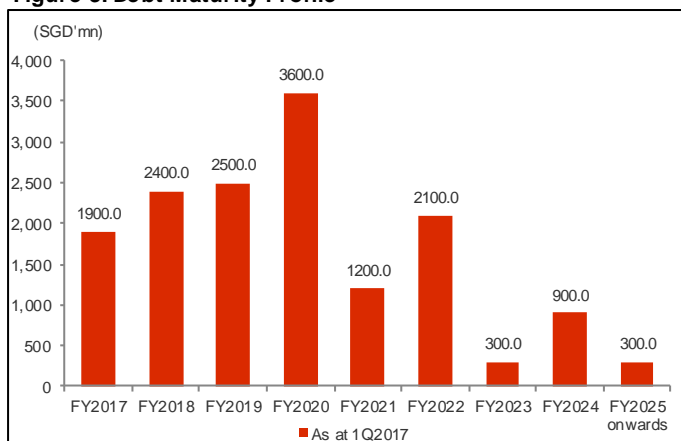
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 1: Revenue breakdown by Segment - 1Q2017


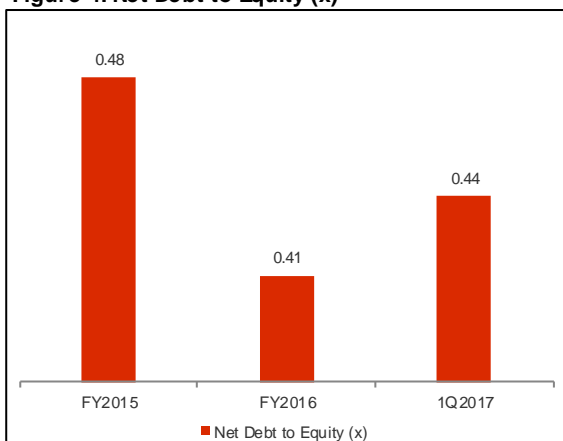
Source: Company

Figure 2: EBIT breakdown by Geography - 1Q2017


Source: Company, OCBC estimates

Figure 3: Debt Maturity Profile


Source: Company

Figure 4: Net Debt to Equity (x)


Source: Company, OCBC estimates

Credit Outlook –

We advocate switching from the CAPITA'20s to the AREIT'20s, picking up ~30bps spread on one rating notch lower.

CapitaLand Mall Trust

Key credit considerations

- **Core performance showing softness:** CMT announced its 1Q2017 results with gross revenue down 4.3% to SGD172.0mn while NPI was down 6.1% to SGD120.1mn. The decline in performance was largely driven by the absence of Funan Digitalife Mall (closed on 01/07/16 for redevelopment). Adjusting for this, gross revenue would have been flat y/y, while NPI would have still fallen 1.8%. Bedok Mall (acquired in October 2015), The Atrium, Plaza Singapura and Tampines Mall saw distinct falls in property NPI. Both Plaza Singapura and Bedok Mall saw more than 3ppt falls in occupancy, with the former potentially impacted by ongoing AEI while the latter saw sizable lease expires in 1Q2017, of which 23.3% of NLA was renewed at a negative 7.1% rental reversion.
- **Broad deterioration across portfolio statistics:** Portfolio occupancy dipped to 97.7% (4Q2016: 98.5%), in part driven by the assets mentioned earlier as well as at Westgate. Tenant's sales per square foot and shopper traffic worsened as well by 0.7% and 0.5% respectively y/y for 1Q2017. In particular, Department Stores and Supermarket anchor categories saw 5.5% and 7.2% y/y declines in sales psf/months for the quarter.
- **Lease reversions turning negative:** The challenging domestic retail environment continues to pressure Retail commercial real estate owners like CMT. Rental reversions have turned negative 2.3% for the quarter, after seeing deterioration in previous periods (2015: +3.7%, 2016: +1.0%). Aside from the weakness at Bedok Mall mentioned earlier (impacting 13% of CMT's NLA renewed), Westgate saw -10.0% rental reversions (impacting 12% of CMT's NLA renewed) while Raffles City saw -1.8% rental reversions (impacting 8% of CMT's NLA renewed). IMM Building, which contributed 21% of CMT's NLA renewed during the quarter, only saw +0.5% rental reversion. On the bright side, CMT had been able to continue to engage its tenants (via conceding on rentals) with retention rates being held at almost 80% and above for all its assets.
- **Eyeing Bedok Mall and Westgate:** WALE remained stable at 2.1 years, while CMT had just 13.4% of NLA left to be renewed for the remaining 9 months of 2017. A potential area of concern though is that both Bedok Mall and Westgate have sizable NLA expiring for the balance of 2017 (21.1% and 18.7% respectively) and have thus far seen rental weakness. That said, looking forward there are some signs that discretionary spending is picking up in Singapore, with April 2017 retail sales up 2.6% y/y, with watches & jewelry (+14.3% y/y) and department stores (+7.6% y/y) categories showing improvements.
- **Funan development to drive leverage higher:** CMT's aggregate leverage for 1Q2017 had inched higher to 35.3% (end-4Q2016: 34.8%), likely due to the SGD100mn 6-year bond issued during the quarter, but it remains in line with peers. Net debt / EBITDA stood at 6.5x (2016: 6.5x). Interest coverage was comparable at 4.2x (2016: 4.1x). CMT has SGD150mn in bonds due 01/09/17, which can be met by its SGD502mn in cash balance. The SGD605.2mn in debt due in 2018 would be more challenging. That said, SGD100.0mn which relates to Raffles City could be refinanced from the proceeds of a SGD300mn bond issue by RCS Trust (the JV that holds Raffles City). Looking forward, we expect CMT's aggregate leverage to start to go higher due to the SGD560mn redevelopment of Funan Digitalife Mall. Management had indicated that they have adequate borrowing headroom, assuming a 40% cap to aggregate leverage. That said, the balance 70% of Westgate (valued at ~SGD745mn) remains a potential injection by the sponsor. For now, we will continue to hold CMT's Issuer Profile at Neutral

Issuer Profile: Neutral

S&P: Not rated
Moody's: A2/Stable
Fitch: Not rated

Ticker: **CAPITA**

Background

Listed on the SGX in 2002, CapitaLand Mall Trust ("CMT") is the largest REIT by market capitalization. CMT's portfolio consists of 16 malls in Singapore, including Plaza Singapura, IMM Building, Bugis Junction, Tampines Mall, a 40% stake in Raffles City and a 30% stake in Westgate. In addition, CMT owns ~14.1% interest in CapitaLand Retail China Trust ("CRCT"), the first China shopping mall REIT listed on the SGX. CMT is 29.4%-owned by CapitaLand Ltd ("CAPL").

CapitaLand Mall Trust

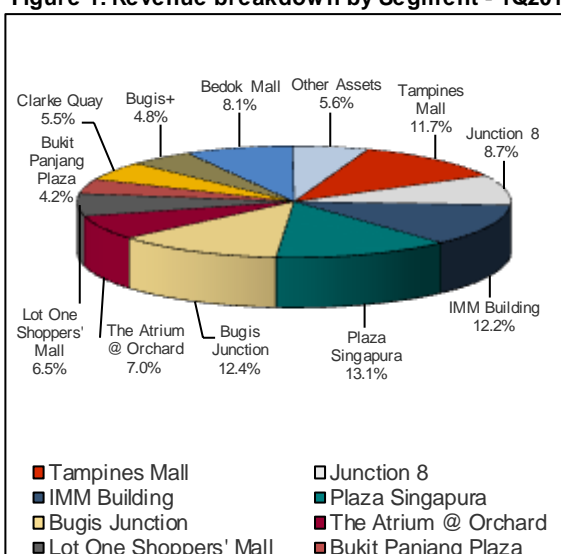
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	669.0	689.7	172.0
EBITDA	421.4	431.8	108.1
EBIT	420.3	430.7	107.9
Gross interest expense	103.8	106.3	25.7
Profit Before Tax	580.4	470.4	103.4
Net profit	579.8	469.4	103.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	604.3	483.5	502.0
Total assets	10,355.7	10,326.7	10,329.1
Gross debt	3,312.2	3,288.3	3,307.4
Net debt	2,707.8	2,804.8	2,805.4
Shareholders' equity	6,693.2	6,692.2	6,687.8
Total capitalization	10,005.3	9,980.5	9,995.2
Net capitalization	9,401.0	9,497.1	9,493.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	580.9	470.5	103.6
* CFO	422.4	432.9	88.3
Capex	95.7	76.5	17.2
Acquisitions	621.4	0.0	0.0
Disposals	186.6	0.0	0.0
Dividends	388.9	394.2	102.0
Free Cash Flow (FCF)	326.7	356.3	71.1
* FCF Adjusted	-497.0	-37.9	-31.0
Key Ratios			
EBITDA margin (%)	63.0	62.6	62.8
Net margin (%)	86.7	68.1	60.1
Gross debt to EBITDA (x)	7.9	7.6	7.7
Net debt to EBITDA (x)	6.4	6.5	6.5
Gross Debt to Equity (x)	0.49	0.49	0.49
Net Debt to Equity (x)	0.40	0.42	0.42
Gross debt/total capitalisation (%)	35.2	34.6	33.1
Net debt/net capitalisation (%)	28.8	29.5	29.6
Cash/current borrowings (x)	NM	1.9	0.7
EBITDA/Total Interest (x)	4.1	4.1	4.2

Source: Company, OCBC estimates

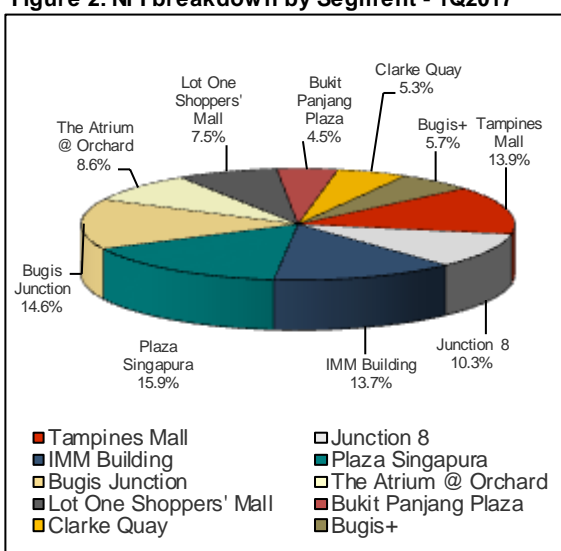
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 1: Revenue breakdown by Segment - 1Q2017



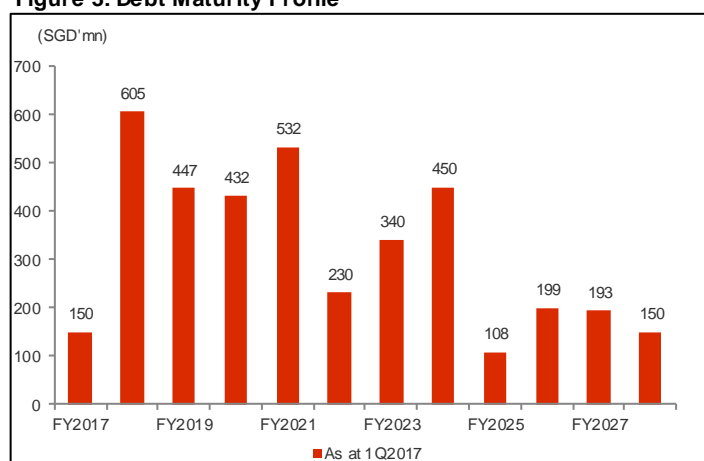
Source: Company

Figure 2: NPI breakdown by Segment - 1Q2017



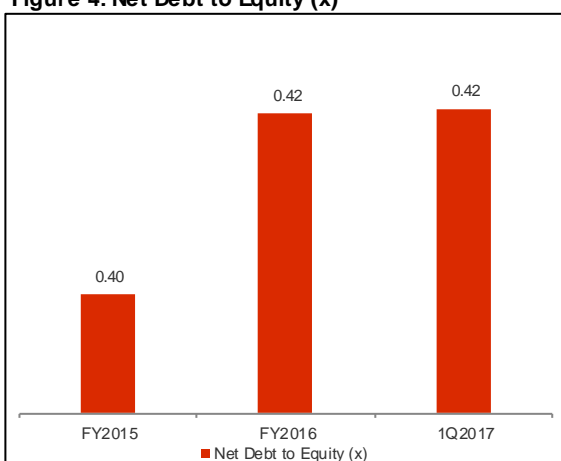
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We are Neutral the VNKRLRE 3.275%’17s. The bond matures in four months.

China Vanke Co. Ltd**Key credit considerations**

- **1Q2017 revenue benefited from earlier strong pre-sales:** Revenue improved 31.7% to RMB18.1bn, on the back of a 20.8% increase in GFA completed and recognized during the quarter. Selling, general and administrative expenses (“SG&A”) increased faster during the quarter. Selling and marketing expenses (makes up ~40% of SG&A expenses) was up 38.8% while administrative expenses were up 34%. Resultant EBITDA (excluding other income and expense) only rose 30.9% to RMB2.6bn. Finance cost (excluding capitalized interest) in 1Q2017 was RMB714.5mn, 37% higher than 1Q2016 as a result of higher debt load at the company. Share of profits from joint ventures and associates (“JCE”) was 181% higher at RMB241.2mn, helping to boost profit before tax to RMB2.3bn (1Q2016: RMB2.0bn). VNKRLRE had been intensifying investments into JCEs throughout FY2016. EBITDA/Interest (with estimated capitalized interest) was thin at 1.7x.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **VNKRLE****Background**

China Vanke Co. Ltd (“VNKRLE”) is one of the largest property developers in China in terms of contracted sales (FY2016: RMB278.2bn) with a focus on the mass-market segment. With 25 years of experience in the property industry, VNKRLRE has established a strong presence nationwide and has a geographically diversified land bank. VNKRLRE is listed on both the Shenzhen and Hong Kong stock exchanges. VNKRLRE's major shareholders are: Baoneng (25%), Shenzhen Metro Group Co., Ltd (15.3%) and China Evergrande Group (14.1%)

- **Integrated urban services provider:** Over the past few years, VNKRLRE shared that it needs to expand beyond the traditional residential property business due to changing trends. In 1Q2017, we estimate that non-property development revenue made up 13.8% of total revenue (historically less than 5% contribution). A significant portion of this is made up of the company's property service business. In FY2016, the property services business achieved RMB4.06bn in revenue (up 45% y/y). Recently, VNKRLRE made a RMB3bn investment (for an undisclosed stake) in Lianjia, an online real estate agency. In addition, VNKRLRE announced in March 2017 that it was consolidating 42 commercial property projects (in part or in full) into two commercial property investment funds (“funds”) under the management of SCPG Holdings Co., Ltd (“SCPG”). VNKRLRE is expected to contribute RMB5.1bn (representing 39.4% of total contribution) into the funds, with the remaining coming from external capital. We see this as an “asset-light” strategy for VNKRLRE to monetize assets for growth while simultaneously earn recurring income.
- **Expect gearing to rise:** In 1Q2017, operating inflows was RMB80.4bn (1Q2016: RMB62.3bn). Nonetheless, cash that was required to support the property development business was significant, leading to net cash used in operating activities of negative RMB9.5bn. VNKRLRE generated RMB2.8bn in investing cash inflows, though this was insufficient to cover the cash outflow from operations and interest burden. The cash gap at VNKRLRE was funded via net borrowings (RMB12.7bn) and equity raised from minority interest investors. As at 31 March 2017, gearing at the company was 0.9x and cash balance was RMB83.6bn. In end-June 2017, VNKRLRE won the bid to acquire some of Guangdong International Trust Investment Corp's (“GITIC”)’s real estate assets for RMB55.1bn (~USD8.1bn). GITIC, a state-owned entity defaulted in 1998. VNKRLRE added that it will tie up with potential partner(s) to jointly develop the project. Our base case assumes that VNKRLRE will be debt-funded (and/or with VNKRLRE assuming existing debt on the assets), thus stretching VNKRLRE's gross debt-to-equity to 1.2x. We expect the bulk of VNKRLRE's cash balance would need to be kept aside to fund property development related working capital. VNKRLRE is also reportedly part of the consortium in a bid for Global Logistics Properties, a major logistics property owner, operator and manager, which may entail further capital outlays.
- **Takeover saga reaching end:** In June 2017, Shenzhen Metro entered into an agreement to acquire Evergrande's stake in VNKRLRE (subject to approvals from regulators and CITIC Securities). We view this transaction as credit positive. Post-transaction, Shenzhen Metro will be the single largest shareholder of VNKRLRE with a 29.4% stake. In light of the strong market positioning of VNKRLRE, we are keeping our Neutral issuer profile, though may adjust this downwards if the leverage situation stretches beyond our base case.

China Vanke Co Ltd

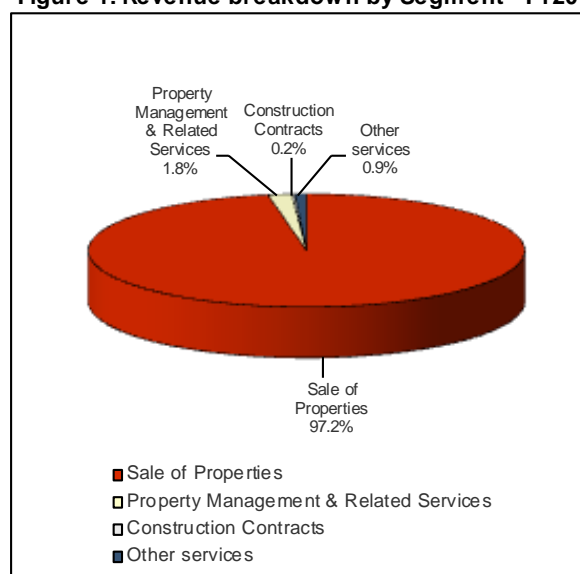
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (RMB'mn)			
Revenue	184,318	228,916	18,059
EBITDA	37,416	47,127	2,658
EBIT	36,700	45,978	2,371
Gross interest expense	4,853	5,538	1,521
Profit Before Tax	40,517	49,469	2,290
Net profit	18,119	21,023	695
Balance Sheet (RMB'mn)			
Cash and bank deposits	51,748	79,490	83,620
Total assets	611,492	830,849	886,921
Gross debt	79,491	128,864	142,020
Net debt	27,743	49,374	58,400
Shareholders' equity	136,310	161,677	161,986
Total capitalization	215,801	290,541	304,006
Net capitalization	164,053	211,051	220,386
Cash Flow (RMB'mn)			
Funds from operations (FFO)	18,835	22,171	983
* CFO	16,046	39,566	-9,524
Capex	2,063	2,147	381
Acquisitions	20,185	45,927	2,099
Disposals	-477	1,100	9
Dividends	NM	NM	NM
Free Cash Flow (FCF)	13,983	37,419	-9,904
* FCF Adjusted	NA	NA	NM
Key Ratios			
EBITDA margin (%)	20.3	20.6	14.7
Net margin (%)	9.8	9.2	3.9
Gross debt to EBITDA (x)	2.1	2.7	13.4
Net debt to EBITDA (x)	0.7	1.0	5.5
Gross Debt to Equity (x)	0.58	0.80	0.88
Net Debt to Equity (x)	0.20	0.31	0.36
Gross debt/total capitalisation (%)	36.8	44.4	46.7
Net debt/net capitalisation (%)	16.9	23.4	26.5
Cash/current borrowings (x)	1.9	1.8	1.7
EBITDA/Total Interest (x)	7.7	8.5	1.7

Source: Company, OCBC estimates

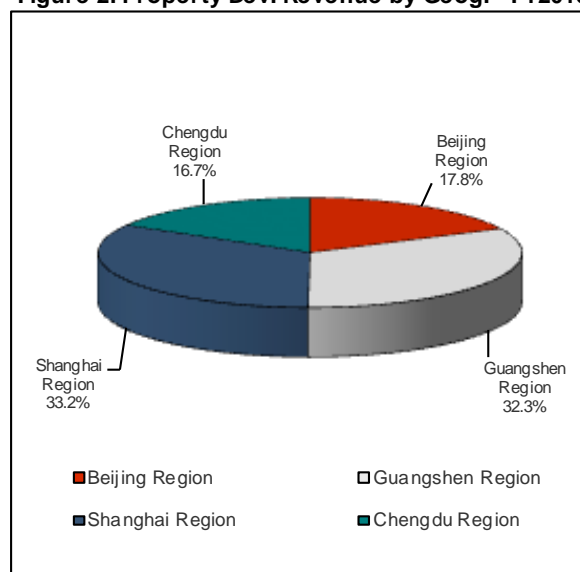
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 1: Revenue breakdown by Segment - FY2016



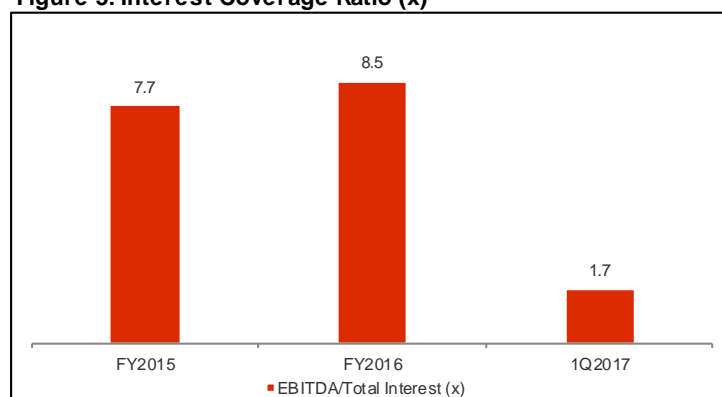
Source: Company

Figure 2: Property Dev. Revenue by Geog. - FY2016



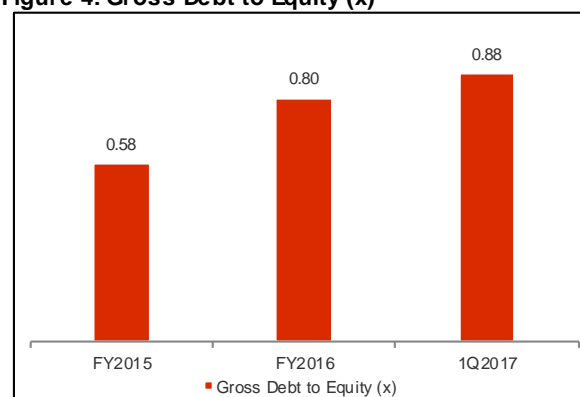
Source: Company

Figure 3: Interest Coverage Ratio (x)



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

With CES achieving good sales, we like CHIPEN '21s and '22s that trade around 4.47%, offering 93bps-107bps yield pickup over GUOLSP '21s and '22s while also having a lower net gearing.

Issuer Profile: Neutral

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

Ticker: **CHIPEN**

Background

Listed on the SGX on 1999, Chip Eng Seng Corp Ltd ("CES") is a Singapore property developer and contractor of condominiums, HDB flats and commercial and industrial properties. CES owns several commercial and industrial investment properties and two hospitality properties. CES also has presence in Australia, Malaysia and Maldives. The shares of the company are held by Lim Tiam Seng and his wife (12.5%), Lim Tiang Chuan (7.11%) and Lee Meng chia (4.16%). CES has a market capitalization of SGD447.1mn as of 7 Jul 2017.

Chip Eng Seng Corporation Ltd

Key credit considerations

- **Decent 1Q2017 results:** 1Q2017 revenue increased 62.6% y/y to SGD181.9mn mainly due to higher progressive revenue recognised at High Park Residences and sales of Fulcrum (sales reached 78.9%, accelerating from the previous quarter's 43.8%). In addition to revenue recognition for construction projects, another SGD7.7mn in other income was recorded mainly due to gain on disposal of quoted investment securities. As a result of strong revenues, profits surged 292.2% y/y to SGD10.3mn.
- **Achieving good property sales:** CES hit the headlines with more than 10,000 people attending the launch of its 720 unit Grandeur Park, which sold at least 71.9% units to date and will progressively record revenue till its completion in 2021. Other projects that will be completed post-2016 are mostly sold, such as the 1,399 units at High Park Residences (2019), 104 townhouses and 64 apartments at Williamsons Estate (2017). Meanwhile, sales of Willow Apartments inched up to 57.8%, though Tower Melbourne continues to be delayed while pending the determination and decision of the Australian Building Appeal Board and Supreme Court. In 2H2017, CES will be launching a South Melbourne residential project.
- **Replenishing the construction orderbook:** CES secured a Toa Payoh Bidadari HDB project worth SGD110.8mn, replenishing the construction orderbook which fell to SGD457.2mn in 1Q2017 (4Q2016: SGD537.4mn). However, the construction sector may remain challenging as a lower supply of land tenders results in fewer projects for construction companies. Margins have faced pressured as we note that segment profits shrunk 29% y/y to SGD19.6mn despite maintaining a relatively similar level of revenue.
- **Diversifying into hospitality:** 1Q2017 hospitality revenue grew 12.2% y/y to SGD7.3mn due to higher occupancy at Park Hotel Alexandra, with losses for the segment narrowing in FY2016 to SGD2.2mn (FY15's loss: SGD5.8mn). Losses may narrow further as the hotel continues to stabilise since opening in FY2015. Going forward, CES looks to open its 70%-owned Grand Park Kodhipparu with 120 villas in the Maldives in 3Q2017.
- **Building up the recurring income:** In addition to the hospitality segment, property investments & other income increased 17.2% y/y in 1Q2017 to SGD2.8mn (with a similar increase in FY2016 over FY2015), which should be mainly due to fuller occupancy at its office properties such as CES Centre.
- **Recovery in the property market may be a double edged sword:** We believe that the recovery in the property market (higher prices, increased transaction flow) will help CES move more units at Fulcrum and Grandeur Park. However, with a more bullish property market, CES has recently been making sizeable land bids (albeit unsuccessfully thus far) for sites (e.g. SGD828mn bid for Stirling Road, SGD864mn bid for a Bidadari commercial and residential site).
- **Manageable credit metrics though debt may continue creeping up:** While net gearing remained unchanged q/q at 0.89x as of 1Q2017, we note that net debt has been on an increasing trend since 2012, in particular with net debt increasing SGD273.1mn over FY2016. We also note that it issued SGD125mn of bonds in May 2017, despite having ample liquidity of SGD515mn in cash which exceeds short term borrowings of SGD242mn. We think this cash buffer may be utilised if CES wins a sizeable land parcel or project.

Chip Eng Seng Corporation Ltd.

Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	676.5	748.0	181.9
EBITDA	81.9	83.2	11.4
EBIT	75.9	76.2	9.6
Gross interest expense	31.5	33.6	9.1
Profit Before Tax	67.6	76.1	12.9
Net profit	63.0	35.7	6.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	442.5	481.6	514.7
Total assets	1,907.0	2,232.2	2,317.4
Gross debt	858.7	1,170.9	1,217.0
Net debt	416.2	689.3	702.3
Shareholders' equity	743.0	776.6	786.4
Total capitalization	1,601.7	1,947.5	2,003.4
Net capitalization	1,159.2	1,465.9	1,488.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	69.1	42.8	7.8
CFO	300.0	-251.3	72.2
Capex	20.7	1.7	92.6
Acquisitions	2.0	-3.2	0.8
Disposals	0.7	4.3	8.1
Dividend	37.4	24.8	0.0
Free Cash Flow (FCF)	279.4	-253.0	-20.4
FCF adjusted	240.7	-270.4	-13.1
Key Ratios			
EBITDA margin (%)	12.1	11.1	6.3
Net margin (%)	9.3	4.8	3.4
Gross debt to EBITDA (x)	10.5	14.1	26.8
Net debt to EBITDA (x)	5.1	8.3	15.4
Gross Debt to Equity (x)	1.16	1.51	1.55
Net Debt to Equity (x)	0.56	0.89	0.89
Gross debt/total capitalisation (%)	53.6	60.1	60.7
Net debt/net capitalisation (%)	35.9	47.0	47.2
Cash/current borrowings (x)	3.7	2.1	2.1
EBITDA/Total Interest (x)	2.6	2.5	1.3

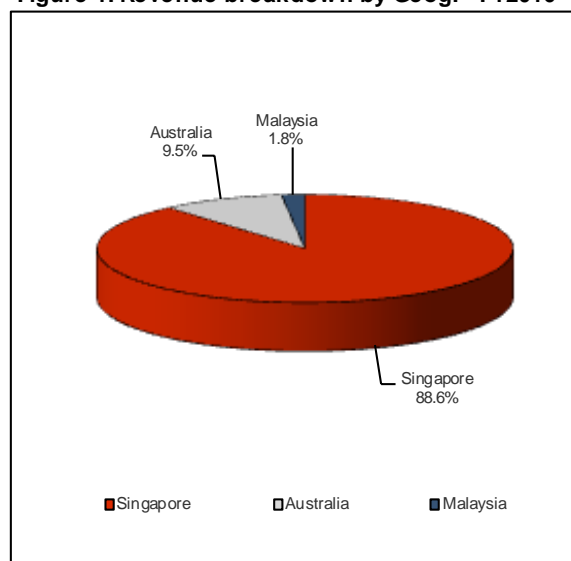
Source: Company, OCBC estimates

*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

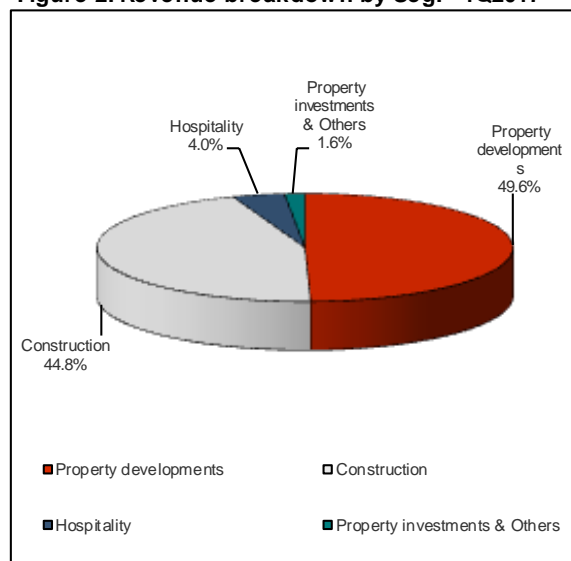
Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	91.9	7.6%
Unsecured	150.0	12.3%
	241.9	19.9%
Amount repayable after a year		
Secured	855.1	70.3%
Unsecured	120.0	9.9%
	975.1	80.1%
Total	1,217.0	100.0%

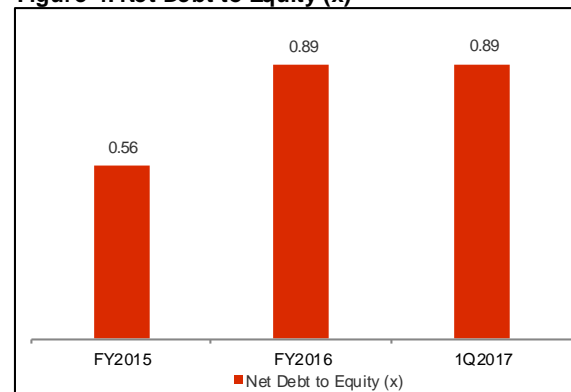
Source: Company

Figure 1: Revenue breakdown by Geog. - FY2016


Source: Company

Figure 2: Revenue breakdown by Seg. - 1Q2017


Source: Company

Figure 4: Net Debt to Equity (x)


Source: Company, OCBC estimates

Credit Outlook –

We are Neutral the CELSP 4.7%’18s. Despite rising gearing levels, the bond provides a good yield at 4.1% for a bond that has less than a year to maturity.

CITIC Envirotech Ltd**Key credit considerations**

- **Stronger profitability in 1Q2017 largely driven by one-off:** CEL reported SGD113.7mn in revenue in 1Q2017 (up 14% from 1Q2016). This was largely driven by an increase in engineering revenue (up SGD22.1mn) and small increase in treatment revenue (up SGD1.7mn) which helped offset the decline in membrane revenue (down SGD9.6mn from the completion of a major project). Despite the higher revenue, EBITDA (based on our calculation which does not include other income and other expenses) was down 33% to SGD31.8mn. While CEL does not break down its segmental operating profits for the quarter, the membrane segment traditionally has the highest operating margin (35% in FY2016 against overall group operating margin of ~30%). Other income was significant during 1Q2017, with CEL receiving a SGD12.8mn government grant to modify a treatment process. CEL reported lower interest expense of SGD6.1mn (1Q2016: SGD10.7mn) as the company’s high-cost SGD100mn bond was redeemed in September 2016. The bond was issued in August 2013, prior to CITIC and KKR coming in as significant shareholders of the company. The government grant and lower interest expense helped boost CEL’s profit after tax to owners of the company 41% higher to SGD17.0mn. Nevertheless, currency translation loss of SGD23.2mn from the depreciation of RMB against the SGD was recorded, leading to total comprehensive loss for the period of SGD6.1mn (1Q2016: total comprehensive loss of SGD12.8mn).
- **Investments funded by earlier fundraising:** CEL’s headline EBITDA/Interest was higher at 5.2x against 4.5x in 1Q2016. Nonetheless, adjusting 50% of perpetual distribution, we find EBITDA/(Interest plus 50% perpetual distribution) to be 3.4x. CFO (before interest paid) was thin at SGD3.6mn (1Q2016: SGD17.1mn). Interest paid and attributable distribution on perpetual collectively amounted to ~SGD9.4mn in 1Q2017. During the quarter, CEL disposed of a subsidiary to Longjiang Environmental Group Co. Ltd, a company based in Harbin, receiving ~SGD22.8mn in the transaction. Net investing outflows was SGD101.7mn, with half attributable to deposits for investment projects. The outflows were largely funded via drawing down on cash balances from fundraising activities in end-FY2015. CEL ended the quarter with SGD399.5mn in cash (19% of this is held directly at the bond issuer level), falling from SGD493.5mn during the beginning of FY2017.
- **Recent asset movements:** CEL’s headline net gearing is low at 0.1x as at 31 March 2017. Perpetuals at CEL amounted to SGD481.3mn, making up 23% of total capital. 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”. Adjusting “net debt” upwards, we find adjusted net debt-to-equity at 0.6x. In end-December 2016, CEL had SGD378.5mn in capital commitments to be undertaken on investment projects. Based on our estimation which factors the seven project wins from January until report date, we think CEL’s capital commitments have risen by another ~SGD410mn. Assuming new debt is raised to fund 70% of the commitments and the remainder to be funded by existing cash balance, we estimate CEL’s additional proportionate debt at ~SGD280mn. We expect CEL’s adjusted net gearing to rise above 1.0x, falling within the range of its larger water treatment/environmental peers. In April 2017, CEL announced that it has obtained credit facilities of up to RMB20bn (~SGD4.1bn) for 5 years from a state-backed commercial bank. As at 31 March 2017, CEL faces minimal short term debt due of SGD66.5mn.

Issuer Profile: Neutral

S&P: Not rated

Moody’s: Not rated

Fitch: Not rated

Ticker: **CELSP****Background**

CITIC Envirotech Ltd (“CEL”) is an integrated water treatment solutions provider focusing on the Chinese market. CEL operates in 3 main business segments: Engineering (44% of operating profit), Treatment (40% of operating profit) and Membrane (16% of operating profit). The company is listed on the SGX and is 64%-owned by CITIC, a central government SOE. ~24% is owned by China Reform Fund, a state-owned private equity investment fund under the direct supervision from the Central Government.

CITIC Envirotech Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	274.8	544.6	113.7
EBITDA	128.8	213.3	31.8
EBIT	112.8	191.2	25.5
Gross interest expense	29.2	39.6	6.2
Profit Before Tax	61.5	131.4	25.6
Net profit	40.8	99.3	17.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	540.5	493.5	399.5
Total assets	2,172.9	2,550.0	2,535.7
Gross debt	746.1	556.8	567.7
Net debt	205.6	63.3	168.3
Shareholders' equity	1,140.8	1,495.5	1,482.2
Total capitalization	1,886.9	2,052.3	2,049.9
Net capitalization	1,346.4	1,558.8	1,650.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	56.7	121.5	23.3
* CFO	2.3	306.5	0.4
Capex	119.2	438.4	48.7
Acquisitions	96.7	36.5	58.0
Disposals	0.1	4.1	21.7
Dividend	5.6	21.2	0.0
Free Cash Flow (FCF)	-116.9	-131.9	-48.3
* FCF adjusted	-219.2	-185.5	-84.6
Key Ratios			
EBITDA margin (%)	46.9	39.2	28.0
Net margin (%)	14.8	18.2	15.0
Gross debt to EBITDA (x)	5.8	2.6	4.5
Net debt to EBITDA (x)	1.6	0.3	1.3
Gross Debt to Equity (x)	0.65	0.37	0.38
Net Debt to Equity (x)	0.18	0.04	0.11
Gross debt/total capitalisation (%)	39.5	27.1	27.7
Net debt/net capitalisation (%)	15.3	4.1	10.2
Cash/current borrowings (x)	1.6	6.5	6.0
EBITDA/Total Interest (x)	4.4	5.4	5.2

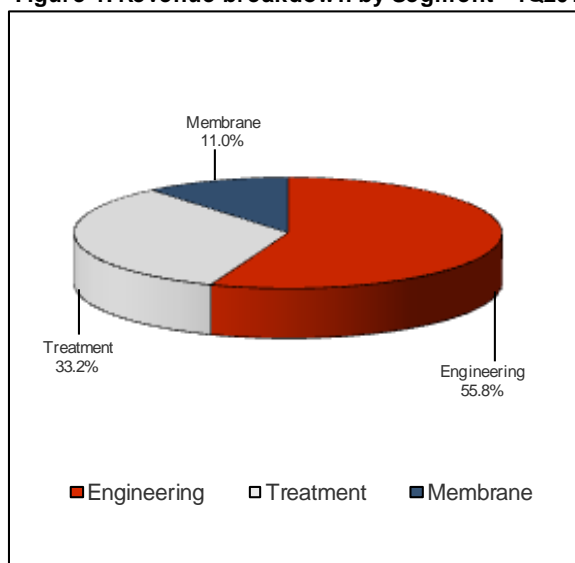
Source: Company, OCBC estimates

*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after before interest expense

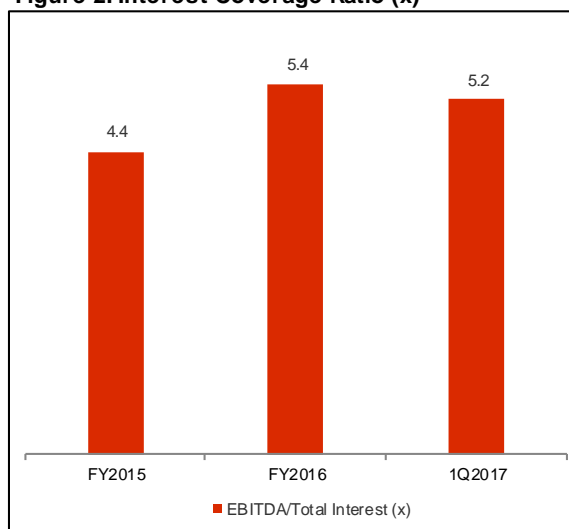
Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	66.7	11.7%
Unsecured	0.0	0.0%
	66.7	11.7%
Amount repayable after a year		
Secured	277.6	48.9%
Unsecured	223.8	39.4%
	501.4	88.3%
Total	568.0	100.0%

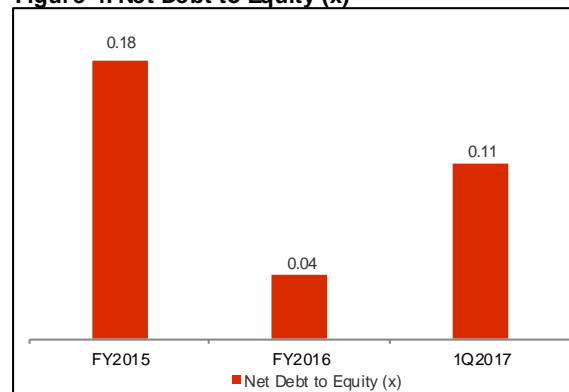
Source: Company

Figure 1: Revenue breakdown by Segment - 1Q2017


Source: Company | Excludes Inter-segment Eliminations

Figure 2: Interest Coverage Ratio (x)


Source: Company

Figure 4: Net Debt to Equity (x)


Source: Company, OCBC estimates

Credit Outlook –

Though CDL's credit profile is strong, its bonds are relatively hard to source given their small issue sizes per bond. What's available at the short-end looks to be at fair value.

Issuer Profile: Positive

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **CITSP**

Background

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%-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

- **Singapore development business picking up:** CDL reported 1Q2017 results, with revenue up 8.4% y/y to SGD783.8mn due to strong contributions from its property development segment (+33.9% y/y to SGD299.1mn). Segment PBT was up 7.1% y/y to SGD81.9mn (lacking two JV projects in 1Q2016). In Singapore, CDL sold 293 units, up from 145 units y/y, with a sales value of SGD477.1mn (inclusive of JV projects). Sales of Gramercy Park have been strong, with 90 units out of 174 units sold (as of 07/05/17), or 84% of units launched (soft launched in 3Q2016). CDL had indicated that more than ~75% of units launched were sold to Singapore Permanent Residents and foreigners. This may be supportive for Singapore's high-end property market, which had historically seen sizable foreign participation. Furthermore, Gramercy Park's North Tower (launched earlier) was sold at an average of over SGD2,600 psf while the South Tower (launched end-March 2017) averaged over SGD2,800 psf (for the 16 units sold of 20 units launched). With total sale value worth ~SGD1bn, Gramercy Park could continue to drive near-term performance.
- **Use of DPS, restocking of land:** Market reports indicated that CDL may be utilizing deferred payment schemes ("DPS") to move units at Gramercy Park, and as such revenue recognition (which can only be done at completion) may be delayed. With the domestic market firming up, CDL has indicated that it may launch the New Futura project at Leonie Hill (2017 TOP, 124 units) in 2H2017. In aggregate, CDL still has 598 units in unsold inventory for the Singapore market (launched units only) versus 737 units in 4Q2016. With the consumption of CDL's domestic inventory, CDL has resumed stocking up on land, winning a GLS bid at SGD370.1mn in May 2017 at Tampines, paying SGD566 psf gfa.
- **International development to take a step back:** For the international property development side, though the progressive handover of units in Suzhou Hong Leong City Center (Phase 1) helped boost 1Q2017 results, there are no sizable projects (that had meaningful percentage sold) due for completion for the balance of 2017, and hence contributions would be lower. It is worth noting that CDL is currently reviewing its Ransomes Wharf site in Battersea, London, likely due to on-going Brexit concerns. The site was purchased at GBP58mn, with GDV of GBP222mn for the current luxury residential development plan.
- **Hospitality and investment properties muted:** The hospitality segment (includes M&C) was flattish, with revenue increasing 2.0% y/y to SGD366.5mn. M&C saw revenue increase 16.1% y/y to GBP223mn, driven by higher contributions from London and New Zealand assets. Global RevPar was up 4.6% y/y to GBP70.66. In Singapore and the rest of Asia however, RevPar trends remain weak. Segment PBT fell 55.6% y/y to just SGD4.8mn, largely due to FX losses. Investment property revenue fell 8.8% y/y to SGD85.2mn (Exchange Tower was sold, while Le Grove Serviced Apartments was renovated). CDL's office portfolio occupancy continues to slip, falling to 95.3% (4Q2016: 95.9%). BTMU (occupied 150,000sqft of Republic Plaza) was reported to be moving to Marina One mid-2017. CDL had indicated that it's utilizing the market lull to explore AEI for assets such as Republic Plaza, to position its assets going forward when new office supply declines in 2018 and 2019.
- **Credit profile remains resilient:** CDL reported SGD186mn in 1Q2017 EBITDA, down 9.1% y/y. 44% was generated overseas (lower than previous periods). Net gearing remains strong at 16%. Liquidity is robust, with cash / current borrowings at 2.4x while interest coverage was at 7.5x. We don't expect to see material improvements to CDL's credit profile, given the declines in overseas contribution, mitigated by domestic strengthening. CDL will be retained at Positive Issuer Profile, reflecting its low leverage levels as well as strong recurring EBITDA generation.

City Development Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	3,304.1	3,905.5	783.8
EBITDA	1,341.5	1,443.8	287.5
EBIT	1,126.9	1,221.9	234.3
Gross interest expense	167.5	155.3	38.2
Profit Before Tax	985.4	914.0	114.8
Net profit	773.4	653.2	85.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	3,564.9	3,673.0	3,505.4
Total assets	20,318.5	19,797.4	19,521.3
Gross debt	6,482.7	5,737.8	5,577.3
Net debt	2,917.8	2,064.7	2,071.9
Shareholders' equity	11,213.0	11,408.7	11,374.2
Total capitalization	17,695.7	17,146.5	16,951.6
Net capitalization	14,130.8	13,473.4	13,446.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	988.0	875.1	138.6
* CFO	-73.2	1,044.0	82.0
Capex	256.0	227.0	40.1
Acquisitions	222.9	498.0	16.6
Disposals	1,072.2	1,079.3	0.6
Dividend	271.2	237.4	37.0
Free Cash Flow (FCF)	-329.2	817.0	41.9
* FCF Adjusted	248.8	1,160.8	-11.1
Key Ratios			
EBITDA margin (%)	40.6	37.0	36.7
Net margin (%)	23.4	16.7	10.9
Gross debt to EBITDA (x)	4.8	4.0	4.9
Net debt to EBITDA (x)	2.2	1.4	1.8
Gross Debt to Equity (x)	0.58	0.50	0.49
Net Debt to Equity (x)	0.26	0.18	0.18
Gross debt/total capitalisation (%)	36.6	33.5	32.9
Net debt/net capitalisation (%)	20.6	15.3	15.4
Cash/current borrowings (x)	1.9	2.1	2.4
EBITDA/Total Interest (x)	8.0	9.3	7.5

Source: Company, OCBC estimates

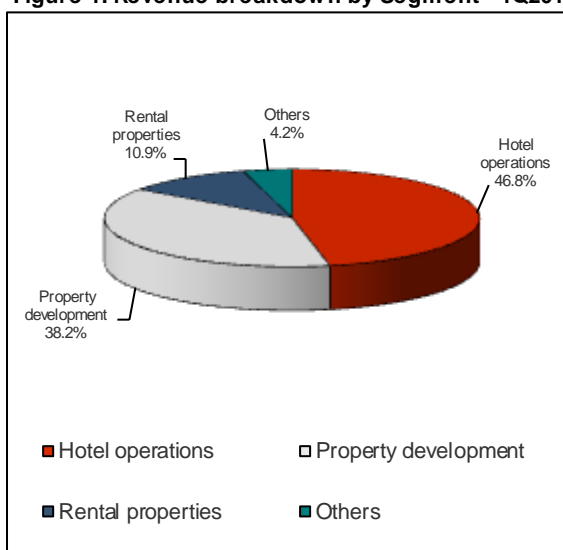
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	305.0	5.5%
Unsecured	1147.8	20.5%
	1452.8	26.0%
Amount repayable after a year		
Secured	605.7	10.8%
Unsecured	3535.0	63.2%
	4140.7	74.0%
Total	5593.5	100.0%

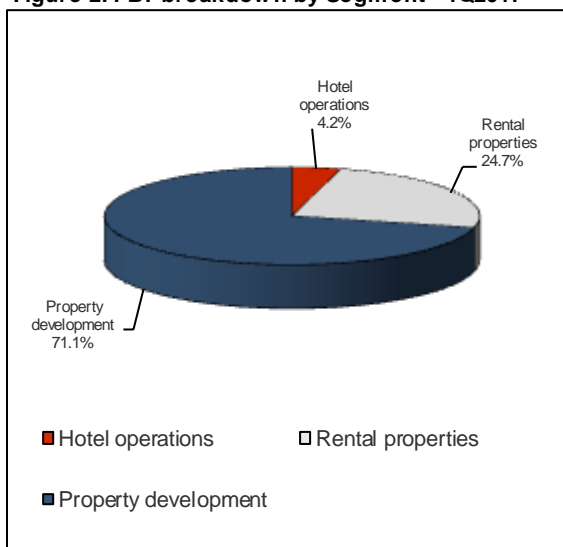
Source: Company

Figure 1: Revenue breakdown by Segment - 1Q2017



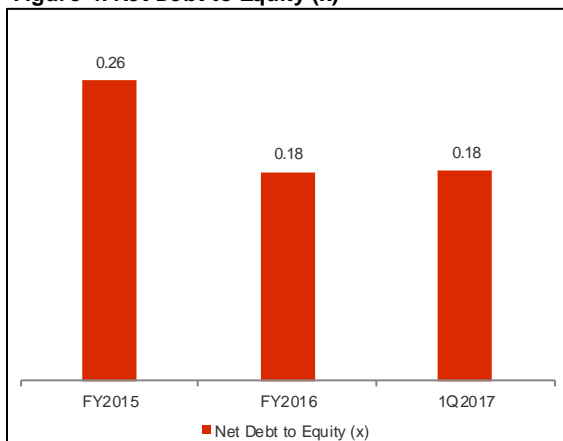
Source: Company

Figure 2: PBT breakdown by Segment - 1Q2017



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We see fair value of the CKHH 3.408%’18s at 30 bps wider as such we are underweight the bonds. We recommend a switch into the AREIT 2.5%’19s should the opportunity arise.

CK Hutchison Holdings Ltd

Key credit considerations

- **FY2016 operating results solid in local currency terms:** Including proportionate contribution from JVs and associates, CKHH reported a 6% drop in revenue to HKD372.7bn in HKD terms. The decline was on the back of absence of handset sales in FY2016 versus FY2015, lower revenue at Husky Energy and currency depreciation. Nonetheless, reported EBITDA in HKD terms was flat at HKD92.0bn versus FY2015 given that handset sales are a high turnover but low margin business. In local currency terms though, CKHH’s underlying EBITDA was up 6%. All segments showed growth, except Hong Kong Holdings Limited (“HTHKH”) which saw a 10% decline. 3 Group Europe grew 15% in local currency terms on the back of the Wind Tre joint venture and underlying business growth in the UK. CKHH’s infrastructure segment grew by 5% in local currency terms, driven by contribution from newly acquired assets in 2015. Hutchinson Telecommunication performed well, mainly driven by Indonesian data growth.
- **Coverage ratio healthy:** In FY2016, dividends from associates and joint ventures amounted to HKD8.7bn while consolidated EBITDA was HKD53.3bn. We sum these up to get to a proxy for cash flow from operations before interest, tax and working capital (“CFO”). In FY2016, CFO was HKD62.1bn and we find CFO/Interest expense healthy at 8.4x. During the year, HKD22.5bn was paid for capex and making investments in associates and joint ventures. CKHH’s business is diversified. In FY2016, including dividends, CKHH’s 3 Group Europe was the largest contributor in CFO at HKD17.2bn, followed by the infrastructure segment at HKD16.7bn. The retail segment contributed HKD12.8bn to CFO. In FY2016, the ports business remained a stable cash flow generator of the group, contributing HKD9.8bn in CFO. FY2016 was a difficult year for 40%-owned Husky Energy, marked by disposal in assets and cost rationalisation. There was no CFO contribution as Husky Energy did not pay out a dividend.
- **GBP exposure:** 33% of CKHH’s proportionate EBITDA is derived from the UK (67% of which is attributable to the infrastructure segment). Given the 11% decline in GBP against HKD, the telecommunications, ports and retail business were negatively hit though the growth in the UK infrastructure segment managed to offset the negative currency impact. As at 31 December 2016, 39% of CKHH’s net debt was made up of GBP. This liability narrows with the decline of the GBP against HKD and thereby mitigating somewhat the currency-related decline in net assets (31% GBP-based). CKHH holds assets for the long term and until such time assets are sold, such foreign exchange losses have no cash flow impact. Per management, for FY2017, CKHH had hedged a substantial portion of its underlying income derived in GBP, EUR and RMB. In FY2016 only EUR income was hedged.
- **CKHH entities in the midst of acquisitions:** As at 31 December 2016, CKHH’s headline net gearing was 0.28x (0.32x as at 30 June 2016) and the company had HKD7.7bn in corporate guarantees on joint ventures and associates, performance and other guarantees. CKHH’s Cheung Kong Infrastructure (“CKI”) subsidiary is in the process of acquiring Australia-based energy networks operator DUET Group for AUD7.4bn (~HKD44bn) via a consortium. In addition to CKI, the consortium is made up of a 29%-owned associate of CKI and CK Property (controlled by same major shareholders but outside of CKHH’s structure). Netting out a dividend to be received by CKI from the associate, we estimate CKHH’s 40%-stake will cost an outlay of HKD17.6bn. In June 2017 CKI was reportedly in talks to purchase a German metering business (equity value ~HKD14.7bn) while AS Watson is in talks to purchase Holland & Barrett for HKD9.9bn. Should these deals go through, net gearing may increase to 0.4x.

Issuer Profile: Neutral

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

Ticker: **CKHH**

Background

CK Hutchison Holdings Ltd (“CKHH”) incorporated in the Cayman Islands and listed in Hong Kong 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 the Cheung Kong and Hutchison Whampoa group of businesses.

CK Hutchison Holdings Ltd

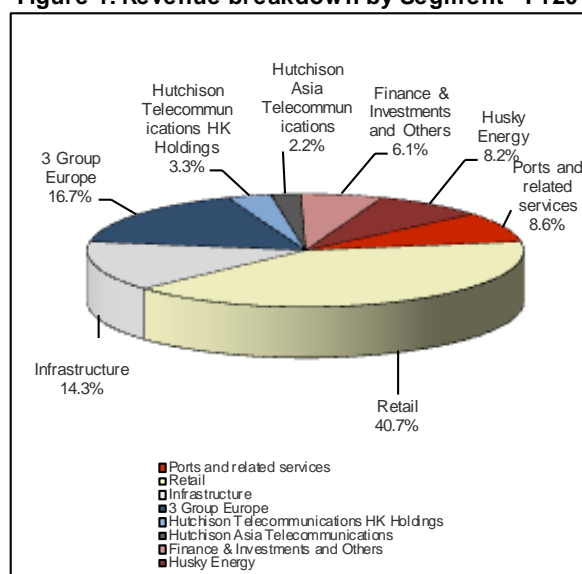
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	FY2016
Income Statement (HKD'mn)			
Revenue	1,562	166,760	259,842
EBITDA	1,107	34,300	53,326
EBIT	1,000	24,682	37,312
Gross interest expense	655	4,566	7,444
Profit Before Tax	54,303	127,775	46,463
Net profit	53,869	118,570	33,008
Balance Sheet (HKD'mn)			
Cash and bank deposits	33,179	121,171	156,270
Total assets	457,941	1,032,944	1,013,465
Gross debt	37,874	308,379	307,423
Net debt	4,695	187,208	151,153
Shareholders' equity	406,047	549,111	544,190
Total capitalization	443,921	857,490	851,613
Net capitalization	410,742	736,319	695,343
Cash Flow (HKD'mn)			
Funds from operations (FFO)	53,976	128,188	49,022
* CFO	37,813	44,549	40,338
Capex	7,867	25,482	24,546
Acquisitions	0	-109,735	420
Disposals	3,298	3,876	3,347
Dividends	25,177	13,756	16,365
Free Cash Flow (FCF)	29,946	19,067	15,792
* FCF Adjusted	8,067	118,922	2,354
Key Ratios			
EBITDA margin (%)	70.9	20.6	20.5
Net margin (%)	NM	71.1	12.7
Gross debt to EBITDA (x)	NM	9.0	5.8
Net debt to EBITDA (x)	4.2	5.5	2.8
Gross Debt to Equity (x)	0.09	0.56	0.56
Net Debt to Equity (x)	0.01	0.34	0.28
Gross debt/total capitalisation (%)	8.5	36.0	36.1
Net debt/net capitalisation (%)	1.1	25.4	21.7
Cash/current borrowings (x)	1.8	3.7	2.2
EBITDA/Total Interest (x)	1.7	7.5	7.2

Source: Company, OCBC estimates

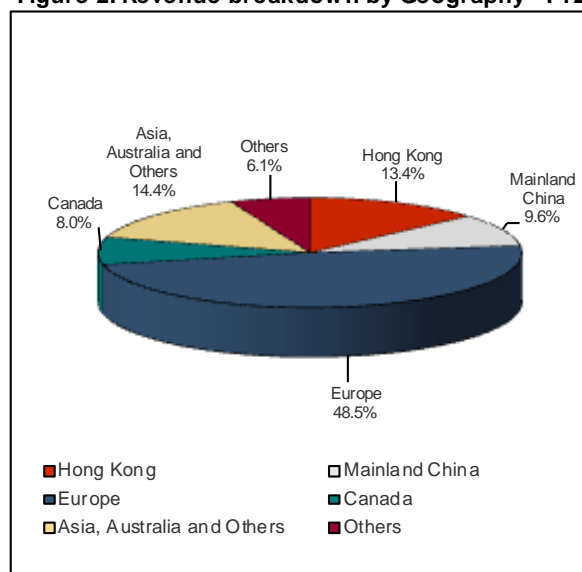
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 1: Revenue breakdown by Segment - FY2016



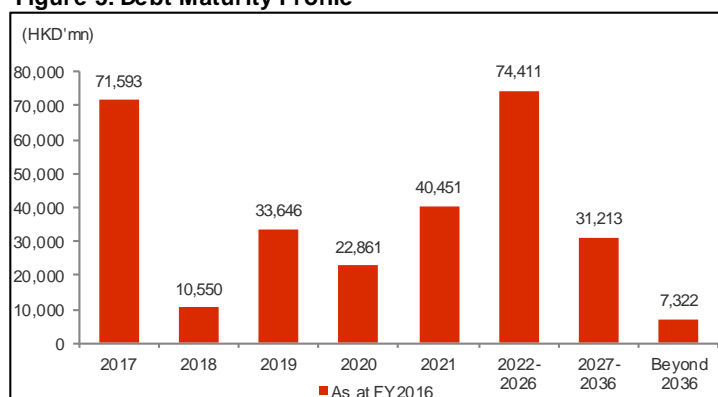
Source: Company

Figure 2: Revenue breakdown by Geography - FY2016



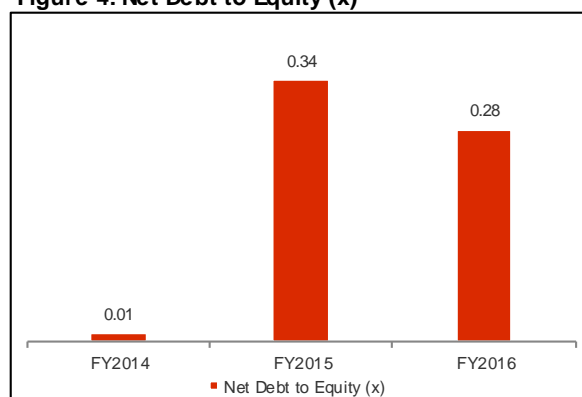
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

In general, we believe that the deleveraging trend via asset sales, and proven access to capital markets would support the legacy NOL curve, lifting the bonds higher.

Issuer Profile: Neutral

S&P: B / Positive

Moody's: B1 / Stable

Fitch: Not rated

Ticker: **CMACGM**

Background

CMA CGM ("CMA CGM") is the 3rd largest container liner). As CMA CGM completed its acquisition of Neptune Orient Lines Ltd ("NOL") mid-June 2016, going forward financial results of NOL will be limited. As such, the performance of CMA CGM (the parent) will be used as a proxy for NOL's performance. It should be noted that CMA CGM has not provided a corporate guarantee for NOL's existing bonds. However, as a material operating subsidiary of CMA CGM, NOL would likely receive support from CMA CGM.

CMA CGM (Parent of Neptune Orient Lines)

Key credit considerations

- **Environment improving, consolidation continues:** Though container freight rates (specifically the Shanghai Containerized Freight Index) have recovered from the lows seen in 2Q2016, 1Q2017 saw some intra-quarter correction. That said the overall recovery trend in freight rates have continued through 2Q2017 and are now up ~30% compared to the lows seen in 2Q2016. Consolidation across the industry continues, with supply potentially reduced due to acquirers optimizing their fleet post the mergers. During 2Q2017, Maersk Line's (#1 container liner) acquisition of Hamburg Sud (#10) was completed with Maersk Line paying EUR3.7bn (in the high end of the range estimated by analysts). It was also reported that Cosco Group (#4) was in advanced talks to acquire Orient Overseas Container Liner ("OOCL", #7), in a deal worth at least USD4bn. As such, the oversupply situation seems to be improving, as reflected by the firming of container freight rates.
- **Eye on profitability drove performance:** 1Q2017 revenue jumped 35.9% y/y to USD4.62bn, largely driven by the acquisition of NOL (completed late 2Q2016). This drove volumes carried 34.2% y/y higher to 3.11mn TEU. Excluding NOL, CMA CGM would have seen revenue decline by 1.7% y/y to USD3.40bn (volumes carried fell 2.2%), but trend 1.6% higher q/q. Management had indicated continued focus on profitability, resulting in higher revenue per container. Margins have widened despite higher fuel costs, with CMA CGM's core EBIT (this excludes disposals, impairments and non-recurring elements) margin at 5.5%, +1.3ppt from 4Q2016. Operational improvements have also lifted NOL standalone performance, with NOL core EBIT margin expanding from 1.5% to 4.4% q/q. In fact, NOL generated USD26mn in net profit (CMA CGM's total net profit: USD86mn). Looking forward, CMA CGM would continue to execute its Agility plan, with USD1bn in cost cuts to be made by December 2017.
- **Working capital needs limited cash generation:** Stronger margins caused a surge in EBITDA to USD382.8mn (1Q2016: USD95.3mn). Operating cash flow generation (including interest service) was flat for the quarter due to USD222.8mn impact from increased trade receivables and pay down of trade payables. About USD90.4mn in cash capex was reported during the quarter, in part funded by USD78.3mn in PPE disposals. As mentioned previously, CMA CGM had postponed the delivery of 3 vessels from 2017 to 2018, while USD646.5mn in committed capex for 2017 had been backed by committed funding. The cash gap was funded by additional net borrowings, which generated USD74.8mn in cash and bolstered the cash balance.
- **Assets divestments continue:** In aggregate, total borrowings increased from USD8.28bn to USD8.47bn q/q (including FX translation adjustments). However, net gearing remained stable q/q at 143%. Net debt / EBITDA stood at 4.7x for the quarter (2016: 13.2x), while interest / EBITDA stood at 3.2x (2016: 1.2x). Cash / current borrowings stood at 0.7x (note that CMA CGM successfully redeemed NOL's SGD400mn in bonds due 26/04/17). Since then, CMA CGM continued to divest assets, announcing in 03/07/17 that it would be divesting 90% stake in its Los Angeles port terminal assets to EQT for USD817mn in cash plus contingent considerations. The transaction is expected to complete by end-2017. Should the proceeds be used to deleverage, pro-forma 1Q2017 net gearing is estimated to fall to 126%. Separately, CMA CGM has mandated for a EUR500mn bond to be issued, to refinance both the EUR300mn bond due December 2018, as well as to pay down the revolver drawn in April 2017 for the SGD400mn NOLSP'17s redemption. Despite the positive credit events, we will retain CMA CGM's Issuer Profile at Neutral due to high absolute levels of debt.

CMA CGM SA

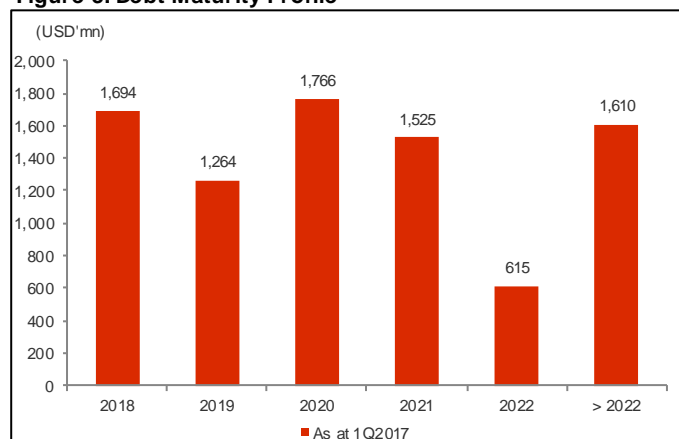
Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	1Q2017
Income Statement (USD'mn)			
Revenue	15,674.1	15,977.2	4,620.2
EBITDA	1,253.5	534.8	382.8
EBIT	846.0	-36.2	236.3
Gross interest expense	291.4	450.0	118.3
Profit Before Tax	672.1	-362.1	101.6
Net profit	566.8	-452.3	86.4
Balance Sheet (USD'mn)			
Cash and bank deposits	1,224.0	1,211.6	1,268.6
Total assets	14,275.2	18,656.5	18,811.7
Gross debt	5,147.6	8,278.2	8,473.4
Net debt	3,923.6	7,066.6	7,204.8
Shareholders' equity	5,405.5	4,927.5	5,028.7
Total capitalization	10,553.1	13,205.7	13,502.1
Net capitalization	9,329.1	11,994.1	12,233.5
Cash Flow (USD'mn)			
Funds from operations (FFO)	974.3	118.7	232.9
* CFO	1,123.2	10.2	0.1
Capex	507.6	257.8	90.4
Acquisitions	48.7	2,387.1	0.8
Disposals	92.5	1,769.3	78.3
Dividend	99.1	18.9	2.6
Free Cash Flow (FCF)	615.6	-247.6	-90.3
* FCF adjusted	560.3	-884.3	-15.4
Key Ratios			
EBITDA margin (%)	8.0	3.3	8.3
Net margin (%)	3.6	-2.8	1.9
Gross debt to EBITDA (x)	4.1	15.5	5.5
Net debt to EBITDA (x)	3.1	13.2	4.7
Gross Debt to Equity (x)	0.95	1.68	1.69
Net Debt to Equity (x)	0.73	1.43	1.43
Gross debt/total capitalisation (%)	48.8	62.7	62.8
Net debt/net capitalisation (%)	42.1	58.9	58.9
Cash/current borrowings (x)	1.7	0.7	0.7
EBITDA/Total Interest (x)	4.3	1.2	3.2

Source: Company, OCBC estimates

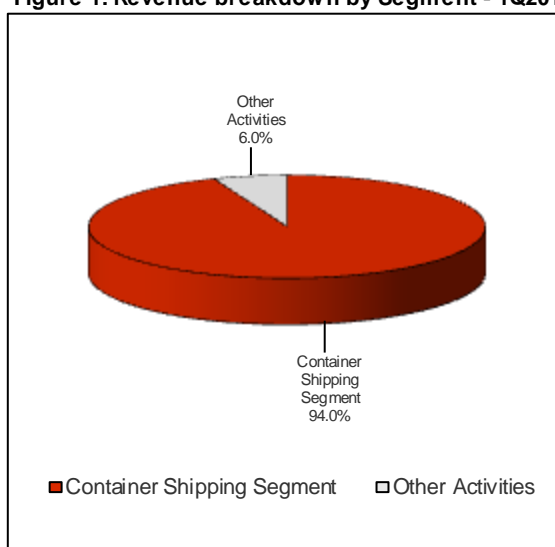
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 3: Debt Maturity Profile



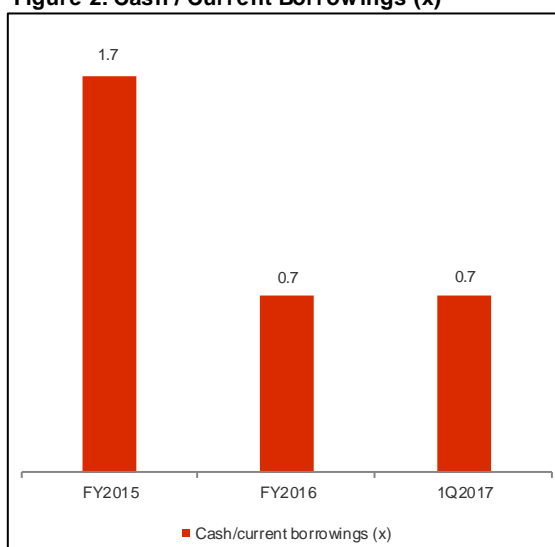
Source: Company

Figure 1: Revenue breakdown by Segment - 1Q2017



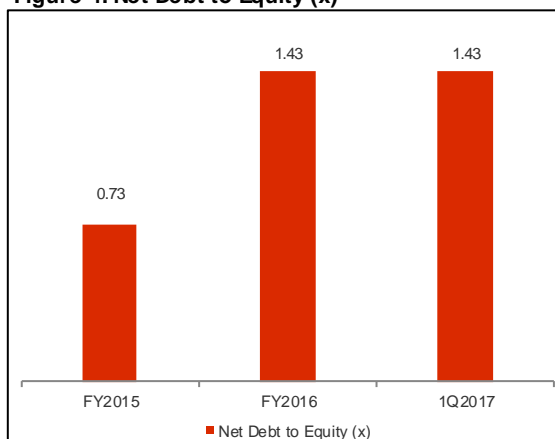
Source: Company | Excludes Inter-segment Elimination

Figure 2: Cash / Current Borrowings (x)



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We think it is likely for CRT to be delisted from the SGX. While we rate the bond at Neutral, if CROESP '19s continues to trade around par, we think this provides a good carry for the short-term (potentially 6-months paper) given the delisting put at par + accrued while the transaction to privatise CRT may complete around 4QCY2017.

Issuer Rating:
Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **CROESP**

Background

Listed on the SGX in 2013, Croesus Retail Trust ("CRT") is a business trust with 11 income-generating retail assets in Japan. The portfolio totals 426,314 sqm by NLA, with 5 properties located in the Greater Tokyo region while the remainder are located in Fukuoka, Osaka, Mie, Saga, Hiroshima and Hokkaido. CRT is similar to S-REITs, with income producing properties and commitment to paying out more than 90% of distribution income. Unlike S-REITs, CRT does not have a regulatory debt/asset limit of 45%. There are no controlling shareholders of CRT.

Croesus Retail Trust

Key credit considerations

- **Decent results further boosted by acquisitions:** Revenue and NPI for 9MFY2017 increased to JPY 9.3bn (up 35% y/y) and JPY 4.9bn (up 22% y/y) respectively mainly due to acquisitions of several properties (Torius, Fuji Grand Natalie, Mallage Saga, Feeeal Asahikawa). NPI grew by a smaller proportion due to higher expense ratios for the newly acquired properties. Even without the above acquired properties, NPI would have grown 5.1% y/y.
- **Income stability with long leases and fixed rents:** CRT boasts a long WALE of 6.5 years, with 76.1% of rentals locked in for FY2018. Pure fixed rent constitutes 84.8% of the total portfolio gross rental income, of which Aeon Town (16.2% of total gross rental income) is the largest tenant. While Aeon Town has the option to terminate the lease, we think it is highly unlikely for Aeon Town to do so. Aeon Town has not served the notice for termination (notice period: one year), while the rental rate paid by Aeon Town is estimated at JPY3,500 per tsubo per month (~JPY98 psf per month), which is likely to be significantly below the rent collected from its subtenants.
- **Cost savings from refinancing and internalisation of the Trustee-Manager:** With the redemption of the '17s in Jan 2017 and a new 4-year JPY3.0bn term loan facility with 1.66% p.a. interest rate signed in Mar 2017, all-in cost of debt fell q/q from 2.01% to 1.68% in 3QFY2017 with a lower recurring interest expense of JPY152mn p.a. In addition, CRT has internalised the Trustee-Manager, which we estimate has resulted in net savings of about JPY130mn per quarter.
- **Manageable credit metrics with upside risks to replace costly debt:** While CRT's aggregate leverage of 46.1% exceeds the typical gearing ratio of SREITs, we are not overly worried given that funding cost in Japan is low and the ample liquidity means bank debt markets remain highly accessible (e.g. above discussed JPY3.0bn term loan). We think it is likely for CRT to continue obtaining cheaper financing given the low interest rate environment in Japan. With a lower cost of debt, reported interest coverage has improved q/q from 4.2x to 4.8x. As such, while a chunky JPY29.5bn of debt will be due in FY2018, we see upside potential to substantially improve CRT's interest coverage ratio if these are refinanced at a cheaper cost.
- **Revaluation gains with cap rate compression:** CRT has recorded sizeable revaluation gains (FY2016: JPY5.7bn, FY2015: JPY6.3bn) due to decrease in industry-wide cap rates, and we think further revaluation gains are likely in the coming 4QFY2017 results. As highlighted by management, the key drivers for property cap rate compression in Japan include high liquidity, low interest rate and strong demand for investment properties. Foreign exchange risks are hedged on the balance sheet, with assets in Japan matched with JPY-denominated debt. While CRT has issued SGD bonds, these have been swapped into JPY.
- **Potential for privatisation:** Cyrus Bidco Pte Ltd (a Blackstone affiliate) has made a proposal to privatise CRT with an offer of SGD1.17 per share, with the transaction targeted to be completed by 4Q2017. We think it is likely for the privatisation to be completed as the offer price is 38% higher than the 1-year VWAP of the share price and 23% above the reported NAV. We are not overly concerned because if CRT were to be listed from the SGX, holders of the '20s may choose to redeem the bond at par plus accrued interest.

Croesus Retail Trust

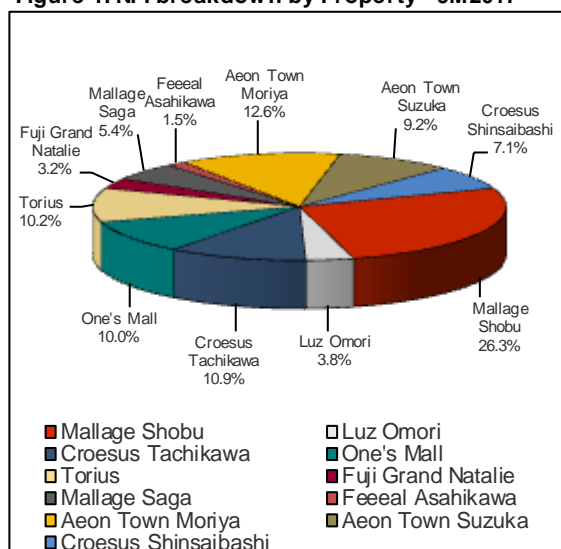
Table 1: Summary Financials

Year Ended 30th June	FY2015	FY2016	9M2017
Income Statement (JPY'mn)			
Revenue	7,635.4	9,581.2	9,325.7
EBITDA	4,043.2	4,645.3	4,343.3
EBIT	3,988.7	4,615.1	4,338.9
Gross interest expense	1,004.2	1,106.1	962.1
Profit Before Tax	9,666.4	7,786.4	3,953.4
Net profit	7,579.1	5,946.6	3,190.1
Balance Sheet (JPY'mn)			
Cash and bank deposits	6,241.9	9,672.2	5,559.7
Total assets	100,401.0	131,174.7	137,127.2
Gross debt	47,487.2	59,394.6	63,378.6
Net debt	41,245.3	49,722.4	57,819.0
Shareholders' equity	43,586.2	55,313.4	58,838.6
Total capitalization	91,073.4	114,708.1	122,217.2
Net capitalization	84,831.5	105,035.8	116,657.5
Cash Flow (JPY'mn)			
Funds from operations (FFO)	7,633.6	5,976.8	3,194.5
* CFO	3,210.3	2,426.8	3,015.0
Capex	413.4	408.7	595.3
Acquisitions	11,298.2	18,595.5	4,046.4
Disposals	0.0	0.0	0.0
Dividends	3,100.7	4,652.3	3,341.3
Free Cash Flow (FCF)	2,796.9	2,018.2	2,419.7
* FCF Adjusted	-11,601.9	-21,229.7	-4,968.1
Key Ratios			
EBITDA margin (%)	53.0	48.5	46.6
Net margin (%)	99.3	62.1	34.2
Gross debt to EBITDA (x)	11.7	12.8	10.9
Net debt to EBITDA (x)	10.2	10.7	10.0
Gross Debt to Equity (x)	1.09	1.07	1.08
Net Debt to Equity (x)	0.95	0.90	0.98
Gross debt/total capitalisation (%)	52.1	51.8	51.9
Net debt/net capitalisation (%)	48.6	47.3	49.6
Cash/current borrowings (x)	9.6	1.2	29.3
EBITDA/Total Interest (x)	4.0	4.2	4.5

Source: Company, OCBC estimates

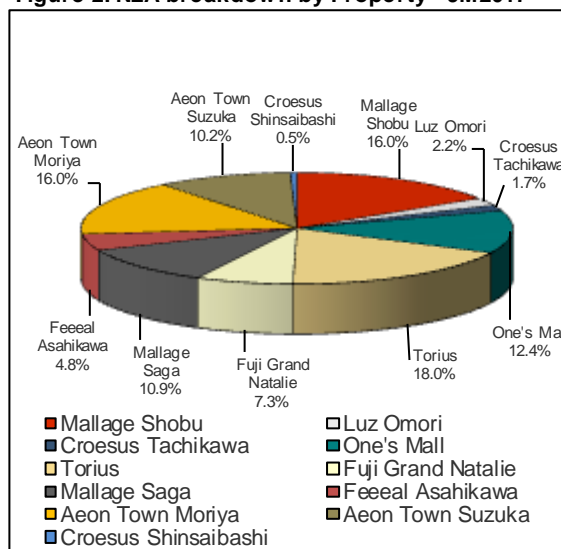
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 1: NPI breakdown by Property - 9M2017



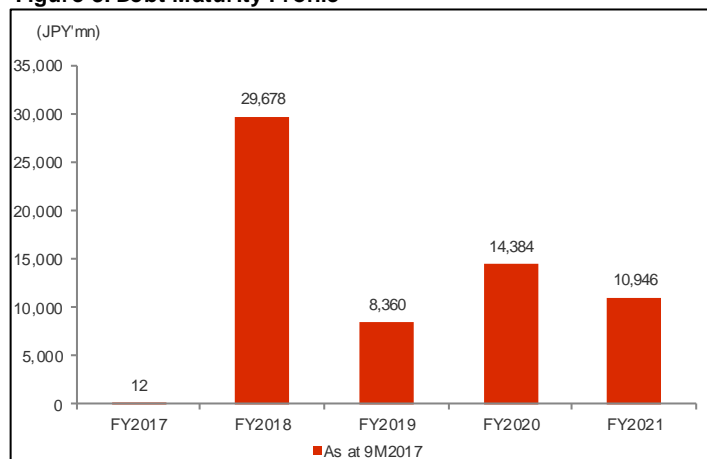
Source: Company

Figure 2: NLA breakdown by Property - 9M2017



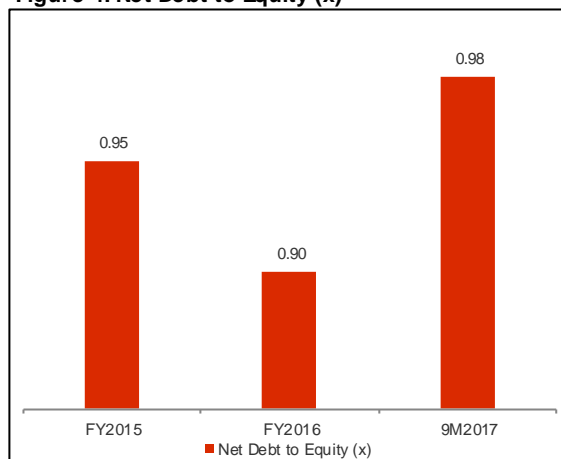
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We think both the CWTSP 3.9%'19s and the CWTSP 4.8%'20s are trading at fair value. There is now heightened uncertainty on the financing for the proposed acquisition by HNA Group (without which the deal may break). Any pull back on the potential deal should see the bonds tightened by 10-20bps.

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. The controlling shareholders of CWT (namely, C&P Holdings Pte Ltd) and certain other shareholders holding 65.1%-stake in CWT have given undertakings to tender their shares upon HNA making a voluntary general offer ("VGO").

CWT Ltd

Key credit considerations

- **Stronger results in 1Q2017:** In 1Q2017, revenue increased by 39% to SGD2.6bn largely driven by increases in CWT's commodity marketing and logistics businesses. Despite the significant improvement in top line, gross margin was lower at 3.5% due to weaker contribution from the financial services segment which traditionally reported higher gross margin (1Q2017: 30.5%) against 1-2% gross margin for commodity marketing. During the quarter, CWT reported gross profit of SGD91.9mn (1Q2016: SGD92.9mn). EBITDA (based on our calculation which does not include other income and other expenses) was SGD52.0mn, down 1% against 1Q2016. Boosted by lower net finance expenses of SGD5.2mn (against SGD9.9mn), profit before tax increased 7% in 1Q2017 to SGD36.4mn. Nonetheless, comprehensive income was only SGD15.4mn, dragged down by foreign currency translation losses. Our coverage assessment focuses on EBITDA/Interest. This was relatively flat y/y at 4.0x in 1Q2017.
- **Commodity marketing regains some steam:** Commodity marketing revenue was up 46% to SGD2.3bn. This was driven by higher trading volumes (especially naptha) and significant increases in pricing. Vis-à-vis 1Q2016, revenue from freight logistics and commodity logistics grew 11% and helped push overall logistics revenue up by 4% to SGD215.5mn. Financial services were down 34% to SGD20.8mn. Despite higher volume for both the brokerage and trade services business, revenue was lower due to fewer structured trade opportunities. As at 30 April 2017, adjusted net capital of Straits Financial LLC (a Futures Commission Merchant ("FCM") which forms the core of CWT's Financial Services business) amounted to USD19.6mn, with excess net capital at USD11.6mn. Adjusted net capital represented 2.5x of its minimum required net capital, lower than the sector median of 5.1x. The engineering segment (by nature lumpy) saw a 7% decline to SGD29.5mn due to a completion of a design and build project in end-2016.
- **Adjusted net gearing levels held steady:** Driven by declines in short term debt utilised for the commodity marketing and financial services business, CWT's net gearing was 0.8x as at 31 March 2017 (31 December 2016: 1.7x). We are disinclined to see this as a deleveraging trend given the volatile working capital nature of the business. Adjusting net debt downwards for self-liquidating collateralized short term debt, we find adjusted net gearing at 0.2x (in line with end-December 2016) levels. As at 31 December 2016, non-cancellable operating leases were significant at SGD488.2mn. As at 31 March 2017, CWT faces SGD613.4mn in short term debt, we estimate that only ~SGD17mn would need to be paid down, the rest are working capital related, which typically gets rolled-over, barring lenders concerns over business model viability concerns. We expect capex spent to taper off post-2017 as CWT's mega-logistics facility is targeted to complete by 3Q2017.
- **Proposed acquisition finally announced:** In April 2017, a wholly-owned subsidiary of HNA Holding Group Co. Limited (one of HNA Group's Hong Kong listed subsidiaries), announced a pre-conditional VGO to acquire CWT. The deal is subject to various pre-conditions, though in our view is fairly standard for transactions of this nature. There is no change of control on the bonds and CWT is likely to delist from the SGX and be subsumed as a subsidiary of HNA's Hong Kong subsidiary. In June 2017, news emerged that the Chinese banking regulator is examining the leverage exposure of certain conglomerates, including HNA Group. Financing is an important factor in assessing risk of deal completion and financing for the CWT deal is now thrown into question. Nonetheless, the proposed acquirer has gone agreed with issuing a shareholder's circular as of report date and has indicated that a general meeting to vote on the transaction would go ahead.

CWT Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	9,931.6	9,251.9	2,606.2
EBITDA	199.8	174.7	52.0
EBIT	152.1	129.3	41.3
Gross interest expense	51.0	56.3	13.1
Profit Before Tax	131.7	104.8	36.4
Net profit	108.9	73.6	30.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	310.3	344.3	346.7
Total assets	4,549.8	5,412.5	4,056.5
Gross debt	1,427.4	1,871.4	1,106.8
Net debt	1,117.1	1,527.1	760.2
Shareholders' equity	868.1	904.0	918.2
Total capitalization	2,295.5	2,775.5	2,025.0
Net capitalization	1,985.1	2,431.1	1,678.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	156.6	119.0	40.9
* CFO	317.3	-62.9	721.9
Capex	259.1	504.2	6.0
Acquisitions	0.0	0.0	0.0
Disposals	28.2	211.1	70.0
Dividend	46.2	40.2	1.3
Free Cash Flow (FCF)	58.2	-567.1	715.9
* FCF adjusted	40.1	-396.2	784.6
Key Ratios			
EBITDA margin (%)	2.0	1.9	2.0
Net margin (%)	1.1	0.8	1.2
Gross debt to EBITDA (x)	7.1	10.7	5.3
Net debt to EBITDA (x)	5.6	8.7	3.7
Gross Debt to Equity (x)	1.64	2.07	1.21
Net Debt to Equity (x)	1.29	1.69	0.83
Gross debt/total capitalisation (%)	62.2	67.4	54.7
Net debt/net capitalisation (%)	56.3	62.8	45.3
Cash/current borrowings (x)	0.4	0.2	0.6
EBITDA/Total Interest (x)	3.9	3.1	4.0

Source: Company, OCBC estimates

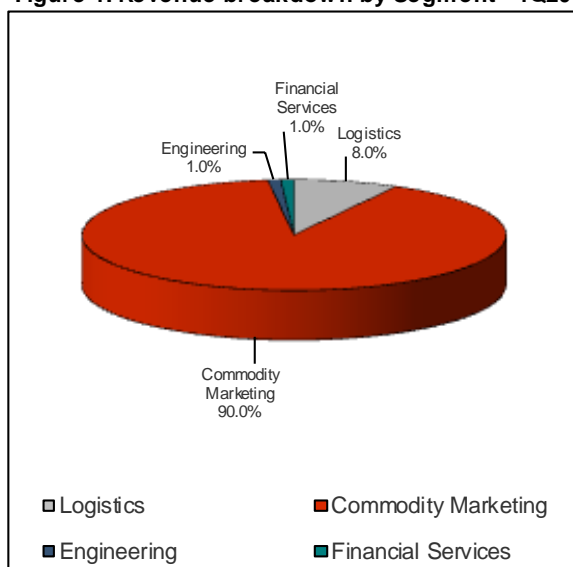
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after before interest expense

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	612.3	55.3%
Unsecured	1.1	0.1%
	613.4	55.4%
Amount repayable after a year		
Secured	292.5	26.4%
Unsecured	200.9	18.2%
	493.4	44.6%
Total	1,106.8	100.0%

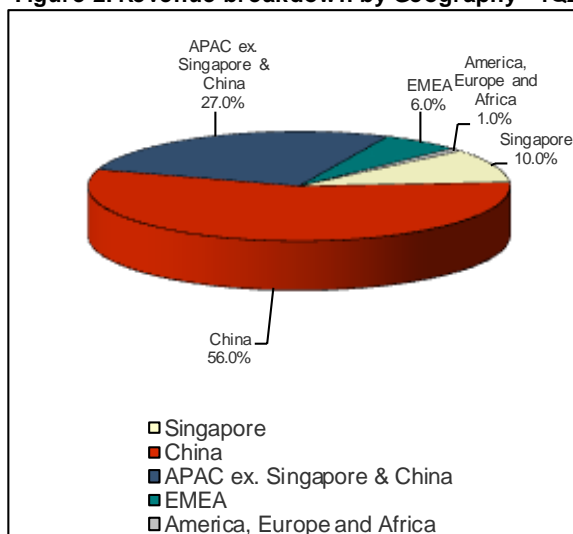
Source: Company

Figure 1: Revenue breakdown by Segment - 1Q2017



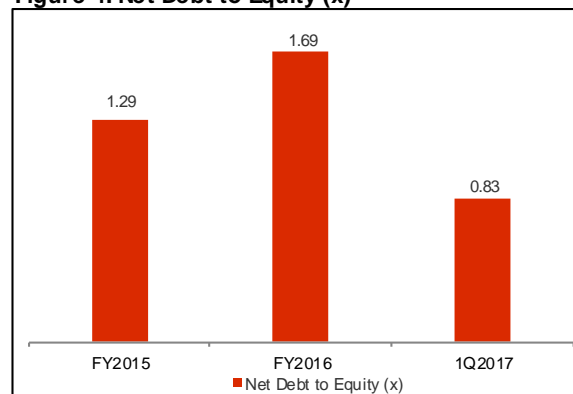
Source: Company | Excludes Inter-segment Eliminations

Figure 2: Revenue breakdown by Geography - 1Q2017



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We like the EREIT 3.5%’18s which provides a yield pick-up of 10bps against the SBREIT 3.45%’18s. The EREIT 3.95%’23s provide good value within its own curve. We hold the EREIT 4.1%’20s and EREIT 3.95%’20s at neutral.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa3/Stable

Fitch: Not rated

Ticker: **EREIT**

Background

Listed in 2006, ESR REIT (“EREIT”) is an industrial REIT in Singapore, with total assets of about SGD1.4bn as at 31 March 2017. EREIT owns a diversified portfolio of 49 properties in Singapore though it is in the process of selling a non-core asset. The REIT was independent at listing until January 2017. The REIT’s largest unitholder is Jinqian Tong with ~19%-stake and E-Shang Redwood Group, a company backed by private equity firm Warburg Pincus is now the second largest unitholder with a ~12%-stake.

ESR REIT (formerly Cambridge Industrial Trust)

Key credit considerations

- **Weaker 1Q2017 results:** EREIT’s gross revenue was down 2.2% to SGD27.7mn versus 1Q2016 though net property income (“NPI”) took a larger hit by 8.4% to SGD19.7mn. This was largely due to loss of revenue as properties moved from being single-tenanted to multi-tenanted. Property expenses were also higher as properties underwent conversions and NPI margin was lower at 71%. According to EREIT, it is now at the tail end of the cycle that saw conversions from single tenanted to multi-tenanted buildings. We expect NPI margin to stay relatively constant at around current levels or in a downside case to be kept within mid-60s. Following a 8.1% decline in management and trust expenses, the fall in EBITDA was capped at 8.4% to SGD17.6mn. There were no asset movements between 1Q2017 and 4Q2016. EREIT’s gross revenue was flat q/q.
- **Multi-tenanted buildings:** In 1Q2017, by rental income, multi-tenanted properties contributed 59.5% of gross revenue, higher than the 40-50% observed in the last three years. We expect contributions from multi-tenanted buildings to increase. We consider certain gross revenue at EREIT to be “at-risk”. This includes tenants from industries facing generalised weakness and those who had announced plans for consolidation into a single-location, which may eventually see them moving out of EREIT properties. We cap our downside risk scenario at 10% of gross revenue. Under our downside scenario, EREIT’s EBITDA/Interest may go to 3.2x, still higher than its covenanted levels of 1.5x.
- **Weaker interest coverage:** EBITDA/Interest was lower at 3.5x (1Q2016: 3.8x) due to weaker operating results even though interest expenses stayed relatively constant. Net operating cash before interest was sufficient to pay down sources of capital during the quarter. Capex was SGD5.0mn which we think relates to the ongoing asset enhancement initiatives at 120 Pioneer Road, a warehouse property. The AEI is targeted to be completed in 3Q2017. The capex spent was debt funded by new borrowings.
- **Aggregate leverage relatively constant:** As at 31 March 2017, EREIT’s aggregate leverage was 37.8% versus 37.5% as at 31 December 2016. Since June 2015, EREIT has not acquired any new property. It has focused instead on divesting its non-core portfolio. In FY2016, two properties were disposed. Taking out the impact of asset movements, EREIT’s portfolio saw a revaluation loss of 3% between end-2015 and end-2016. EREIT is in the process of disposing of 23 Woodlands Terrace for SGD17.7mn and 87 Defu Lane 10 for SGD17.4mn.
- **No short term debt due:** There are no short term debts due at EREIT nor acquisition obligations to be paid in the next 12 months. EREIT’s next debt is only due in November 2018, the SGD155mn EREIT 3.5%’18s. As at 31 March 2017, all debt at EREIT remains unsecured, giving the REIT financial flexibility to raise secured financing.
- **No longer an independent REIT:** In January 2017, 80% of the REIT Manager stake was acquired by e-Shang Redwood Group (“ESR”). Mitsui still holds the remaining 20%. In February 2017, ESR acquired a 10.7%-stake in EREIT and added to it to reach about 12% currently, becoming ESR REIT’s second largest unitholder. ESR is Warburg Pincus’ (a private equity firm’s) portfolio company. ESR is currently privately held but has raised pre-IPO funding. It is a leading developer, owner and operator of logistics real estate across Asia. ESR’s assets span China, Japan and South Korea. The REIT had stated that finding accretive properties in Singapore is difficult. With the change in REIT Manager and ownership profile, we expect to see geographical expansion beyond Singapore.

ESR REIT (formerly Cambridge Industrial Trust)

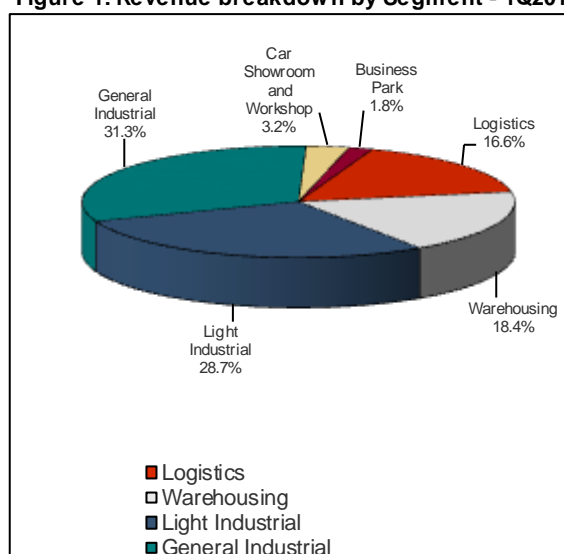
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	112.2	112.1	27.7
EBITDA	76.7	73.3	17.6
EBIT	76.7	73.3	17.6
Gross interest expense	22.2	21.1	5.0
Profit Before Tax	52.5	7.1	12.6
Net profit	52.5	7.1	12.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	2.7	3.7	4.5
Total assets	1,430.9	1,367.0	1,369.7
Gross debt	525.3	509.6	514.8
Net debt	522.6	505.9	510.3
Shareholders' equity	872.9	827.0	826.7
Total capitalization	1,398.2	1,336.6	1,341.5
Net capitalization	1,395.5	1,332.9	1,337.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	52.5	7.1	12.6
* CFO	79.1	68.5	15.1
Capex	21.0	5.6	5.0
Acquisitions	10.6	0.0	0.0
Disposals	0.0	27.0	0.0
Dividends	48.4	52.9	13.0
Free Cash Flow (FCF)	58.1	63.0	10.1
* FCF Adjusted	53.9	104.7	13.2
Key Ratios			
EBITDA margin (%)	68.3	65.4	63.6
Net margin (%)	46.8	6.3	45.6
Gross debt to EBITDA (x)	6.8	6.9	7.3
Net debt to EBITDA (x)	6.8	6.9	7.2
Gross Debt to Equity (x)	0.60	0.62	0.62
Net Debt to Equity (x)	0.60	0.61	0.62
Gross debt/total capitalisation (%)	37.6	38.1	38.4
Net debt/net capitalisation (%)	37.4	38.0	38.2
Cash/current borrowings (x)	NM	N.A	NM
EBITDA/Total Interest (x)	3.5	3.5	3.5

Source: Company, OCBC estimates

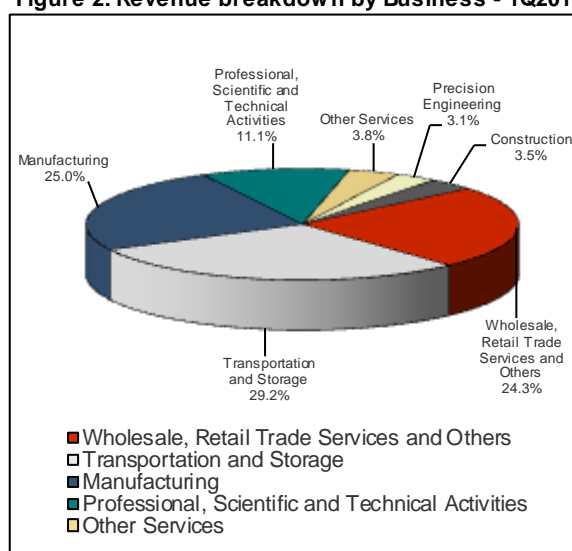
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 1: Revenue breakdown by Segment - 1Q2017



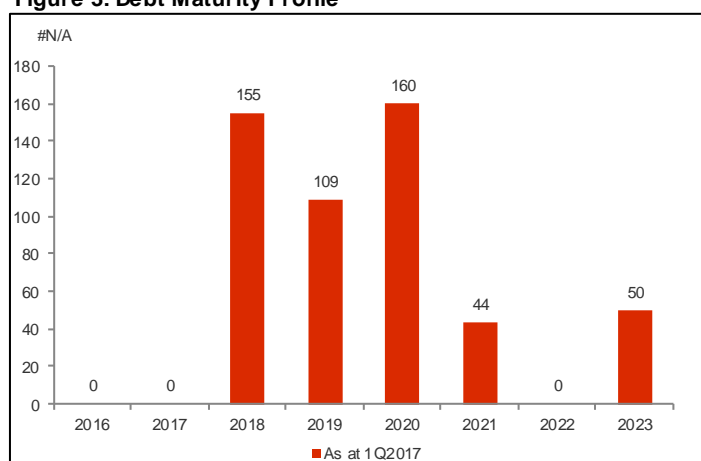
Source: Company

Figure 2: Revenue breakdown by Business - 1Q2017



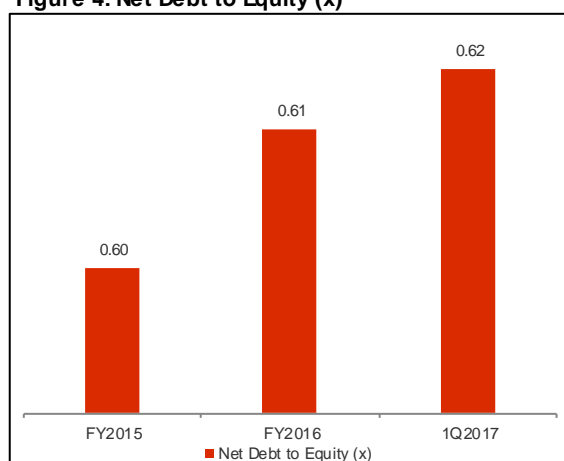
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

The deteriorating cash generation coupled with ambiguity over the Swissco JV resolution balances the improvements to EZI's current debt profile, resulting in a lack of conviction on the bond curve.

Issuer Profile:

Negative

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **EZISP**

Background

Ezion Holdings Ltd ("EZI") 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, EZI only entered into the offshore marine industry from April 2007 onwards. The CEO, Chew Thiam Keng, is the largest shareholder with a 13.4% interest.

Ezion Holdings Ltd

Key credit considerations

- **Weak environment and planned maintenance drove gross profits lower:** 1Q2017 results reflect continued revenue pressure, with revenue falling 16.4% y/y to USD68.6mn (5.5% lower q/q). The market environment for offshore marine asset owners such as EZI remains challenging, with offshore upstream activity remaining muted, while excess capacity drives asset utilization and charter rates lower. In addition, EZI had two of its rigs undergoing Class Survey and repairs during the quarter. COGS remained relatively sticky y/y, causing gross profits to plunge 57.7% y/y to USD8.7mn. Lacking the boost from asset disposal (on a liftboat sale in 1Q2016) as well as an unrealized FX loss of USD13.3mn, EZI generated an operating loss and net loss of USD8.9mn and USD12.8mn respectively.
- **Positive operating cash flow generation may be fleeting:** Operating cash flow (including interest service) remained positive at USD16.5mn, though sharply lower than USD37.2mn generated in 1Q2016. EZI's ability to sustain positive operating cash flows may be constrained by the lower charter rates that its fleet receives when existing higher rates expire (service rigs tend to have longer charters compared to OSVs hence there is some lag effect relative to the broader environment). Free cash flow was USD5.8mn, due to USD10.6mn in capex. It should be noted that EZI was successful in indefinitely postponing the capex on four service rigs (USD270mn commitment). EZI had paid down USD21.7mn in borrowings during the period as well (largely utilizing its cash balance).
- **Some solace for current debt burden:** Cash balance fell q/q to USD187.0mn, compared to USD331.8mn in short-term borrowings (USD238.3mn was secured borrowings, likely to be vessel financing). EZI's next bond maturing is SGD60mn due 20/08/18. Given the difficulty for offshore marine players to access capital markets, as well as the weak market for offshore marine asset sales, EZI would likely be reliant on bank funding to meet its short-term obligations. It should be noted that EZI had managed to completed discussions with its bankers to reduce its annual principal repayment as well as extend its loan facilities, subject to the completion of legal documentation. As such, there could be some reduction in EZI's short-term debt burden when 2Q2017 results are released. Net gearing has inched higher to 100% (4Q2016: 98%) due to the decline in cash balance.
- **Clean up at JVs and associates:** On 05/05/17, EZI completed the acquisition of Swissco Holdings ("SWCH")'s stake in their joint venture (specifically drilling rigs held in entities Strategic Offshore Ltd ("SOL") and Strategic Excellence Ltd ("SEL")) for USD5.0mn plus contingency consideration. In a related transaction, EZI will be divesting 50% of its interests in SOL and SEL as well as Teras Cargo Logistics Ltd ("TCL") to a Malaysian business partner in the O&M sector. The sales consideration is USD70mn in cash, and was originally expected to be completed during 2Q2017 (there hasn't been any further announcements). Though the monetization of the JVs is a credit positive, in our view, SOL and SEL remain a source of uncertainty until the transaction is completed. Though the sale consideration of USD70mn was indicated to be close to EZI's book value on the stake, it should be noted that EZI had made USD77.3mn in shareholder loans to its JVs (as of end-2016, up from USD55.5mn as of end-2015), with SOL being the only material JV (as disclosed in AR2016). SWCH had previously disclosed that the 3 jackup rigs held in SOL were on charter, but the charterer had not been making payments. In a separate matter, EZI's associate company, AusGroup Limited, had successfully conducted a debt-for-equity swap, with EZI converting USD5.9mn in shareholder loans into new equity (EZI's AusGroup stake now 20.0%). We will continue to hold EZI's Issuer Profile at Negative.

Ezion Holdings Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	1Q2017
Income Statement (USD'mn)			
Revenue	351.1	318.2	68.6
EBITDA	233.8	193.5	40.7
EBIT	99.0	42.9	4.7
Gross interest expense	26.4	32.5	8.0
Profit Before Tax	38.4	-30.9	-11.8
Net profit	36.8	-33.6	-12.7
Balance Sheet (USD'mn)			
Cash and bank deposits	229.8	205.0	187.0
Total assets	3,108.4	3,001.7	2,977.0
Gross debt	1,605.0	1,491.2	1,483.9
Net debt	1,375.3	1,286.2	1,297.0
Shareholders' equity	1,241.3	1,315.4	1,302.5
Total capitalization	2,846.4	2,806.5	2,786.5
Net capitalization	2,616.6	2,601.6	2,599.5
Cash Flow (USD'mn)			
Funds from operations (FFO)	171.7	117.0	23.3
* CFO	171.0	107.5	16.5
Capex	381.9	67.5	10.8
Acquisitions	4.1	28.6	3.9
Disposals	0.0	22.8	0.0
Dividend	1.2	0.0	0.0
Free Cash Flow (FCF)	-210.9	40.0	5.7
* FCF adjusted	-216.2	34.1	1.8
Key Ratios			
EBITDA margin (%)	66.6	60.8	59.4
Net margin (%)	10.5	-10.6	-18.6
Gross debt to EBITDA (x)	6.9	7.7	9.1
Net debt to EBITDA (x)	5.9	6.6	8.0
Gross Debt to Equity (x)	1.29	1.13	1.14
Net Debt to Equity (x)	1.11	0.98	1.00
Gross debt/total capitalisation (%)	56.4	53.1	53.3
Net debt/net capitalisation (%)	52.6	49.4	49.9
Cash/current borrowings (x)	0.6	0.6	0.6
EBITDA/Total Interest (x)	8.9	6.0	5.1

Source: Company, OCBC estimates

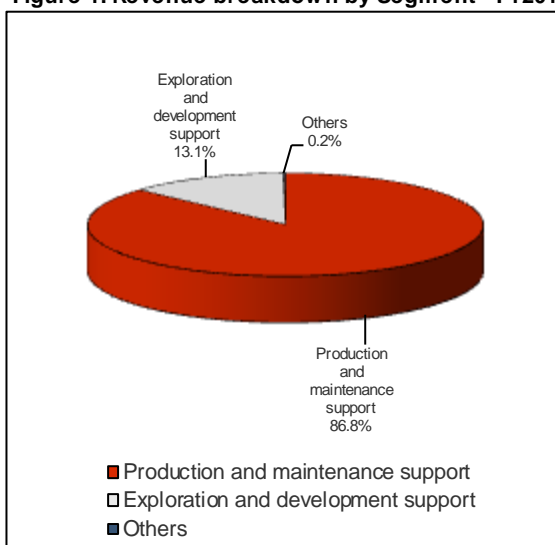
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	238.3	16.1%
Unsecured	93.4	6.3%
	331.8	22.4%
Amount repayable after a year		
Secured	753.9	50.8%
Unsecured	398.3	26.8%
	1152.1	77.6%
Total	1483.9	100.0%

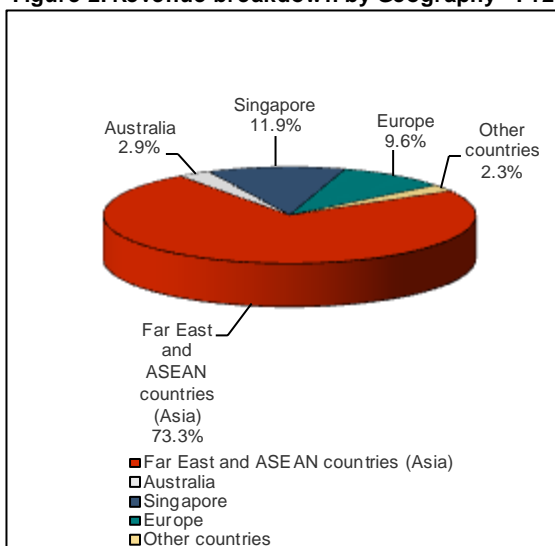
Source: Company

Figure 1: Revenue breakdown by Segment - FY2016



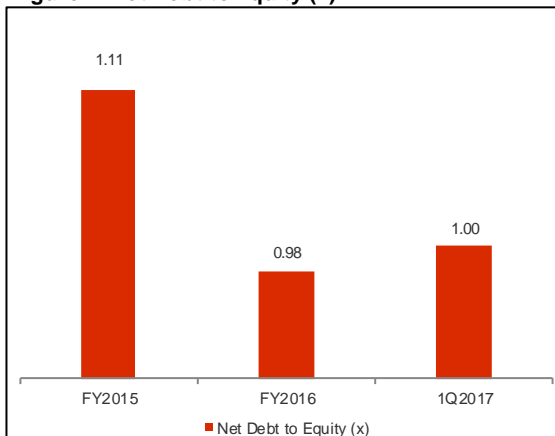
Source: Company | Excludes Inter-segment Elimination

Figure 2: Revenue breakdown by Geography - FY2016



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We see fair value of FIRT 4.125% '18s at another 30-40 bps wider, we are underweight this bond. For the perpetuals, we prefer its sister company's LMRTSP 7%-PERPs, which provides a 55bps pick up against the FIRT 5.68%-PERPs.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **FIRTSP**

Background

First Real Estate Investment Trust ("FIRT") invests primarily in real estate that is used for healthcare and healthcare-related industries, both in Singapore and Asia. It owns 18 properties across Indonesia, Singapore and South Korea, valued at about SGD1.3bn as at 31 March 2017. The properties include 12 hospitals, 3 nursing homes, 1 integrated hotel and hospital, 1 integrated hotel and retail mall and 1 hotel & country club. PT Lippo Karawaci Tbk ("Lippo") is FREIT's Sponsor and largest shareholder with a 27.5% stake.

First Real Estate Investment Trust

Key credit considerations

- **Growth in 1Q2017 results driven by inorganic expansion:** FIRT reported SGD27.2mn in gross revenue (up 2.5% from 1Q2016), largely due to the contribution from Siloam Hospitals Labuan Bajo ("SHLB") which was acquired in end-December 2016. Initial base rent of SHLB is SGD1.85mn p.a. Taking out the impact from SHLB, revenue growth would have been marginal at 0.7%. Interest expense was lower at SGD4.3mn (1Q2016: SGD4.6mn). This was mainly due to lower gross debt as debt was pared down, using proceeds from the issuance of perpetual securities where USD60mn was raised in mid-2016. Combined with the impact of higher EBITDA generated (up 2.6% to SGD24.1mn), headline EBITDA/Interest was higher at 5.6x (1Q2016: 5.1x). Adjusting 50% of perpetual distribution, we find EBITDA/(Interest plus 50% perpetual distribution) at 4.7x.
- **Sponsor/main tenant's credit profile has deteriorated:** FIRT's Sponsor, Lippo and its subsidiary contributed some 82.3% of rental income to FIRT in FY2016. In April 2017, Moody's downgraded the rating of Lippo to B1 from Ba3 on the back of delays in new project launches in Lippo's property development business and uncertainty over the completion of its targeted asset sales. Whilst Lippo is the Master Lessee and is responsible for bulk of the rent paid to FIRT, hospitals are sub-leased to PT Siloam Hospitals Tbk ("Siloam"). Siloam is still on a high growth phase. In FY2016, Siloam's net cash flow from operations (after interest and taxes) was ~SGD24.9mn and we think Lippo is subsidizing rents on properties that are still in gestation phase. Investing outflows for Siloam was ~SGD58.9mn and its' return from assets was thin at 2.7%. In FY2016, 13.3% of tenant income was attributable to PT Metropolis Propertindo Utama ("MPU"). Privately-held MPU is the second largest shareholder of Lippo with 5.3%-stake and an operating partner to Siloam.
- **Leases coming due:** As at 31 December 2016, 25% of the Master Leases at FIRT will come due in the next three to five years. Given the importance of the FIRT portfolio to Siloam and Lippo, we see the risk of non-renewal as low though there is heightened uncertainty on new terms to be agreed. Currently, Lippo bears the currency risk associated with the mismatch between the income from hospital operations and payment to unitholders in SGD. Unless in a distressed situation at Lippo, we see the risk non-renewal as minimal. Given that this is a related party transaction, unitholders would be able to vote on the new lease terms.
- **Proposed joint acquisition terminated for now:** In January 2017, FIRT and Lippo Malls Indonesia Retail Trust ("LMIRT"), a subsidiary of the Sponsor as well, had decided to mutually terminate the conditional sale and purchase agreement for the acquisition of a property in Yogyakarta. Nonetheless, the parties intention is to continue with the transaction upon approval of licenses (expected later part of 2017) and after asset enhancement works is carried out. Based on the earlier transaction terms, the portion to be paid by FIRT would have amounted to SGD40.8mn.
- **Aggregate leverage below management internal target:** As at 31 March 2017, FIRT's aggregate leverage was only 31% (lower than management's target of 35%). Adjusting for 50% of perpetuals as debt, aggregate leverage was manageable at 33%. Short term debt as at 31 March 2017 was SGD141.4mn (representing 34% of total debt). FIRT is in discussions with lenders for the refinancing of debt coming due. Secured debt as a proportion of total assets was 23% and four properties remain unencumbered. Nonetheless, we see FIRT's ability to raise additional secured debt as limited given the characteristics of the remaining unencumbered properties (eg: under renovation, under a Build-Operate-Transfer model etc). As at 31 March 2017, cash balance was SGD27.4mn and committed undrawn debt facilities was SGD34mn.

First Real Estate Investment Trust

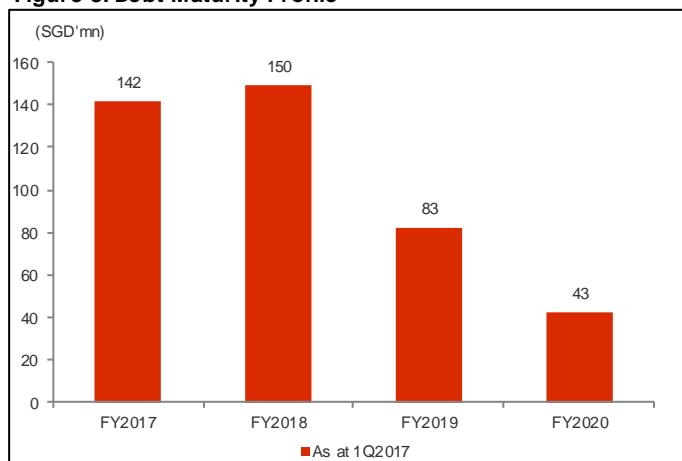
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	100.7	107.0	27.2
EBITDA	88.0	94.9	24.1
EBIT	88.0	94.9	24.1
Gross interest expense	16.5	17.8	4.3
Profit Before Tax	96.3	64.3	19.9
Net profit	67.8	40.4	15.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	26.8	33.6	27.4
Total assets	1,315.2	1,341.3	1,341.2
Gross debt	442.6	413.6	413.4
Net debt	415.7	380.0	386.0
Shareholders' equity	791.1	838.6	840.1
Total capitalization	1,233.7	1,252.2	1,253.5
Net capitalization	1,206.8	1,218.6	1,226.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	67.8	40.4	15.6
* CFO	74.3	81.5	12.0
Capex	0.0	39.1	0.0
Acquisitions	56.5	0.1	0.1
Disposals	0.0	8.2	0.0
Dividends	50.0	56.7	13.1
Free Cash Flow (FCF)	74.3	42.3	12.0
* FCF Adjusted	-32.3	-6.3	-1.1
Key Ratios			
EBITDA margin (%)	87.4	88.6	88.8
Net margin (%)	67.3	37.7	57.5
Gross debt to EBITDA (x)	5.0	4.4	4.3
Net debt to EBITDA (x)	4.7	4.0	4.0
Gross Debt to Equity (x)	0.56	0.49	0.49
Net Debt to Equity (x)	0.53	0.45	0.46
Gross debt/total capitalisation (%)	35.9	33.0	33.0
Net debt/net capitalisation (%)	34.4	31.2	31.5
Cash/current borrowings (x)	0.6	0.2	0.2
EBITDA/Total Interest (x)	5.3	5.3	5.6

Source: Company, OCBC estimates

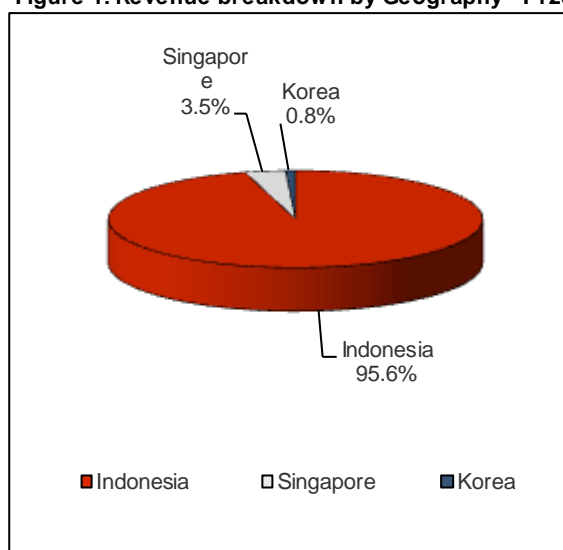
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 3: Debt Maturity Profile



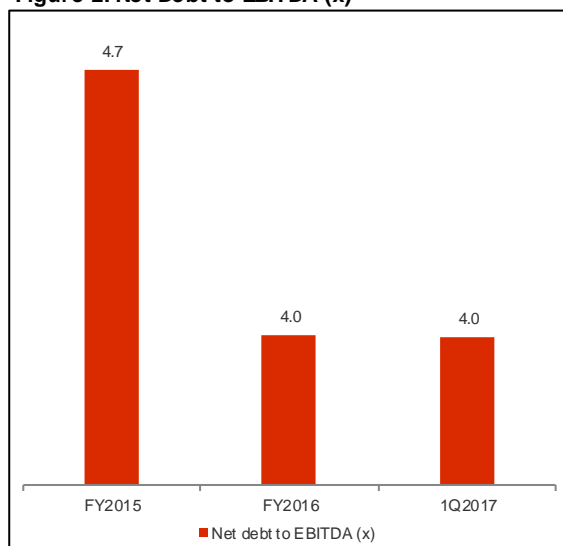
Source: Company | *Includes unamortised transaction costs

Figure 1: Revenue breakdown by Geography - FY2016



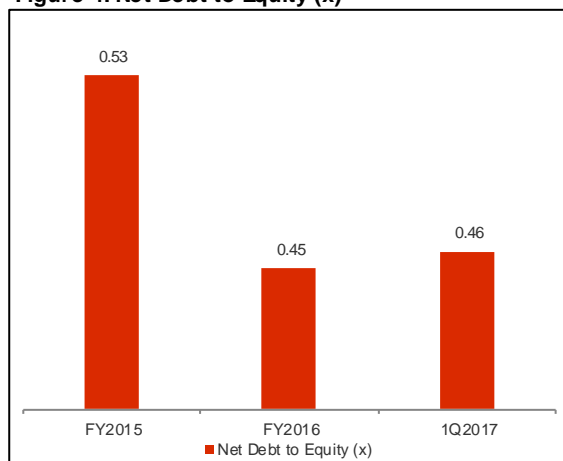
Source: Company

Figure 2: Net Debt to EBITDA (x)



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook

We think FNNSP '22s and '27s looks fair trading around 2.9% and 3.7% respectively. However, we recognise that FNN is a rare F&B issuer in the SGD space, which should appeal to investors looking for diversification.

Issuer Rating: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **FNNSP**

Background

Fraser & Neave Ltd ("FNN") is a consumer group engaged in Food & Beverage ("F&B") and Publishing and Printing ("P&P") businesses. FNN is a F&B market leader in Southeast Asia, with brands including 100Plus, F&N Nutrisoy, F&N Seasons, F&N Magnolia and Farmhouse. FNN's P&P business include Marshall Cavendish and Times Publishing. FNN owns 55.5% stake in Fraser & Neave Holdings Bhd ("FNNB") and 18.74% stake in Vietnam Dairy Products ("Vinamilk"). FNN is owned by TCC Assets (59.3%) and Thai Beverage (28.5%), both linked to Thai billionaire Mr Charoen.

Fraser and Neave Ltd

Key credit considerations

- **Growing with Vinamilk:** Vinamilk is Vietnam's largest dairy company with a market cap of VND224.7tn (SGD13.6bn). Vinamilk's contribution to FNN will increase as FNN has been increasing its stake to 18.74% as of report date, from 10.95% prior to 12 Dec 2016 when it acquired a 5.4% stake from the government of Vietnam. Given Vinamilk's 2017 growth target, we estimate Vinamilk will contribute an additional SGD62.7mn PBIT to FNN if it were fully equity-accounted. Having grown significantly between 2012-2016 (revenue CAGR of 14.7%), with 2016's revenue at VND46,965bn (SGD2.9bn), Vinamilk targets to grow by another 11.2% CAGR between 2017-2021 to reach VND80,000bn (SGD4.9bn).
- **Softer 1HFY2017 results though outlook is better:** Revenue declined 2.7% y/y to SGD946.3mn in 1HFY2017 mainly due to slower consumer spending for the Beverages business in Malaysia, with revenue from Beverages declining 8.7% y/y to SGD252.6mn. The segment has also seen margin pressures (PBIT: -82% y/y to SGD4mn) due to intensified competition (e.g. Coke and Pepsi have been slashing prices in Malaysia, likely in an attempt to push volumes) and rising raw material costs with higher sugar prices. Nevertheless, the overall fall in revenue was mitigated by growth in the Dairies segment (+2.3% y/y to SGD550mn). While the full year profits declined more (-13.3% y/y to SGD63.9mn) than revenue, 1H2017 results does not capture gains from Vinamilk because it was accounted for as an investment while Vinamilk only pays dividends in 2H2017. Going forward, we expect FNN's earnings to be lifted by Vinamilk as FNN will equity account its investment in Vinamilk after the increase in ownership.
- **Cashflow generative business supported by dividends from associates:** FNN has generated positive free cash flow of SGD168.8mn and SGD119.2mn in FY2015 and FY2016 respectively. Although the Beverages segment is seeing some pressure, we believe dividends from Vinamilk will continue to support FNN with at least SGD55.6mn dividends flowing through (2016: SGD48.6mn) based on Vinamilk's dividend policy of paying out more than 50% of net profits. Together with FNN's Malaysia Business ("FNNB") which has been paying relatively stable dividends of MYR200mn-MYR230mn p.a. (SGD64mn-SGD74mn p.a.) to its shareholders, we expect FNN to receive more than SGD91.6mn of annual dividends from both FNNB and Vinamilk going forward.
- **Healthy credit metrics, for now:** Balance sheet looks very healthy with a net gearing of just 3%. This is supported by SGD667mn in cash and equivalents, which is more than enough to cover near term borrowings of SGD492mn. Due to the low net debt position, net debt/EBITDA is only 0.6x. However, FNN has a gearing policy of up to 80%, which implies estimated debt headroom of SGD2.4bn. We think this can be potentially used to buy more stakes in Vinamilk. Mr Charoen has expressed interest in further M&A in Vietnam's Saigon Beer Alcohol Beverage Corp ("Sabeco"). As FNN is Mr Charoen's vehicle for M&A outside of Thailand (e.g. Vinamilk), we would not be surprised if FNN takes a stake in Sabeco, which has a market cap of VND132,617bn (SGD8.1bn). FNN is exposed to MYR and THB given the revenue exposure to Malaysia and Thailand. VND exposure will also have to be managed as we estimate that Vinamilk will account for 56% of FNN's total assets and 49% of PBIT. FNN has a policy to cover 50%-90% of the FX exposure from transactions in foreign currencies using currency forwards, though this may be ineffective to hedge FX exposure on the balance sheet for the longer term.
- **Return to the capital markets:** After a hiatus since 2013, FNN has returned to issue two bonds this year. Goodwill from investors appears to have been rebuilt as FNN received more than five times in ordebook for its Apr 2017 SGD100mn bond.

Fraser & Neave Ltd

Table 1: Summary Financials

Year End 30th Sep	FY2015	FY2016	1H2017
Income Statement (SGD'mn)			
Revenue	2,121.1	1,978.6	946.3
EBITDA	141.7	161.8	90.1
EBIT	74.4	115.0	60.8
Gross interest expense	6.3	5.0	3.9
Profit Before Tax	101.7	188.2	72.2
Net profit	63.0	108.1	30.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	961.7	1,042.6	667.3
Total assets	3,142.9	3,772.9	4,381.2
Gross debt	100.5	137.0	767.0
Net debt	-861.2	-905.6	99.7
Shareholders' equity	2,556.1	3,152.5	3,165.0
Total capitalization	2,656.6	3,289.6	3,931.9
Net capitalization	1,694.8	2,247.0	3,264.6
Cash Flow (SGD'mn)			
Funds from operations (FFO)	320.2	154.9	59.9
* CFO	224.8	184.7	50.9
Capex	56.1	65.5	29.6
Acquisitions	11.8	35.8	952.3
Disposals	559.5	0.4	0.4
Dividend	101.6	98.9	59.6
Free Cash Flow (FCF)	168.8	119.2	21.3
* FCF adjusted	614.9	-15.1	-990.2
Key Ratios			
EBITDA margin (%)	6.7	8.2	9.5
Net margin (%)	3.0	5.5	3.2
Gross debt to EBITDA (x)	0.7	0.8	4.3
Net debt to EBITDA (x)	-6.1	-5.6	0.6
Gross Debt to Equity (x)	0.04	0.04	0.24
Net Debt to Equity (x)	-0.34	-0.29	0.03
Gross debt/total capitalisation (%)	3.8	4.2	19.5
Net debt/net capitalisation (%)	-50.8	-40.3	3.1
Cash/current borrowings (x)	377.0	85.3	1.4
EBITDA/Total Interest (x)	22.5	32.6	23.3

Source: Company, OCBC estimates

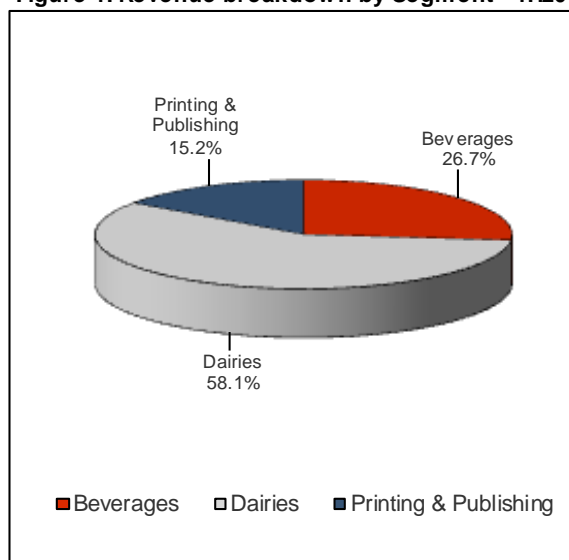
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.2	0.0%
Unsecured	491.7	64.1%
	491.9	64.1%
Amount repayable after a year		
Secured	0.0	0.0%
Unsecured	275.0	35.9%
	275.1	35.9%
Total	767.0	100.0%

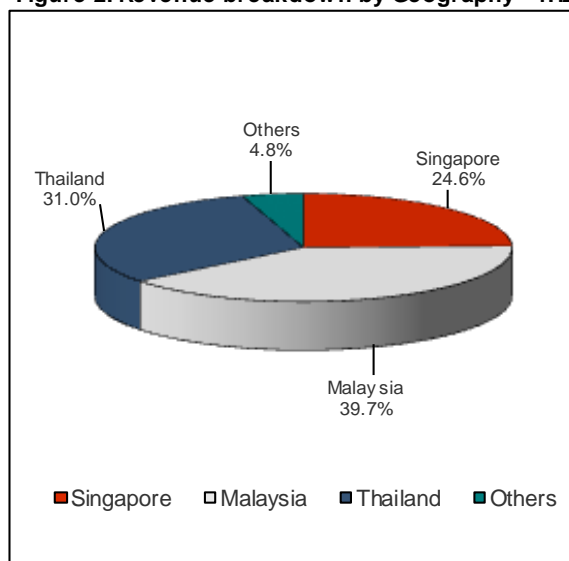
Source: Company

Figure 1: Revenue breakdown by Segment - 1H2017



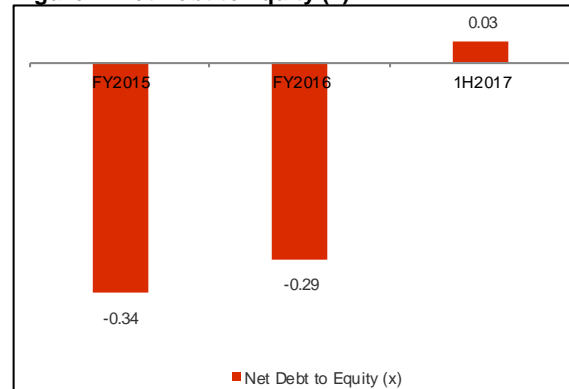
Source: Company

Figure 2: Revenue breakdown by Geography - 1H2017



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

Though credit profile improve is unlikely to be a catalyst for FCL, the FCTSP'19s, FCLSP 5-PERPs and FCLSP 4.88-PERPs look attractive given the spread relative to the short duration to maturity / first call.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **FCLSP**

Background

Frasers Centrepoint Limited ("FCL") is the 2nd largest property company in Singapore by total assets (SGD25.0bn as of end-March 2017). Core markets are Singapore and Australia, with secondary markets such as China and Thailand. Entities related to the Sirivadhanabhakdi family (of Thailand's TCC Group) control 87.5% of FCL's stock. Managed REITs include Frasers Centrepoint Trust ("FCT"), Frasers Commercial Trust ("FCOT"), Frasers Hospitality Trust ("FHT") and Frasers Logistics and Industrial Trust ("FLT").

Frasers Centrepoint Limited

Key credit considerations

- **Singapore pipeline a future bottleneck:** FCL reported 2QFY2017 results (ending-March 2017), with total sales declining 21.4% y/y SGD705.8mn, while PBIT fell 20.8% y/y to SGD179.3mn. This was largely driven by lower development revenue recognized at the Singapore SBU and International segments. Specifically, the Singapore SBU reported SGD175.3mn in revenue (-55.3% y/y), with Singapore development properties revenue and PBIT declining 77% y/y and 87% y/y to SGD66mn and SGD7mn respectively. 2QFY2016 was a difficult to beat quarter due to the TOP of the Twin Fountains EC. Looking forward, with the construction of North Park Residences ramping up (79% sold, 37% completed), it could be supportive of Singapore development revenue and PBIT. It is worth noting that FCL launched the last of its Singapore land bank, the Siglap plot (40% JV), as the Seaside Residences, on 22/04/17. Unless FCL acquires more land, the Singapore development contribution would taper off in the future. For the International segment, revenue and PBIT both plunged 75% y/y to SGD35mn and SGD18mn respectively, largely due to timing issues with development profit recognized in both China and the UK. In fact, China only contributed SGD2.4mn in PBIT for 2QFY2017 (1QFY2017: SGD126.2mn).
- **Recurring income expected to increase:** Revenue and PBIT for the Singapore Commercial Properties (largely recurring in nature) increased 4% y/y and 11% y/y respectively to SGD109mn and SGD78mn, benefitting from higher contributions from The Centrepoint (post its AEI). The expected completion of Northpoint City (retail) in 2H2017 as well as Frasers Tower in 1H2018 would be additive to performance. At the REIT level, FCT had reported declining NPI, largely due to the AEI at Northpoint to integrate it with Northpoint City.
- **Australia pre-sales and recurring income firm, Hospitality remains mixed:** The Australia SBU reported SGD306.5mn in revenue, up 69.9% y/y, largely driven by the completion and settlement of ~500 units during 2QFY2017. Pipeline looks firm, with a further ~2180 units expected for completion and settlement for 2HFY2017. Recurring PBIT from FLT contributed ~55% of segment PBIT for 1HFY2017. The Hospitality SBU saw revenue and PBIT increase 4% y/y and 51% y/y to SGD189mn and SGD33mn respectively. Performance benefitted from acquisitions (in Melbourne and Dresden) by FHT. There was distinct weakness in FCL's directly-held hospitality assets (majority UK based such as the MHDV Group), with the weaker GBP hitting PBIT.
- **Near-term credit profile improvements unlikely:** Operating cash flow (including interest service) was flattish at SGD5.5mn for the quarter (FCL paid down payables). Cash out flow was ~SGD208.0mn in acquisition / development on investment properties (such as Northpoint City) and ~SGD540.0mn in JV / Associates (the SGD520mn TICON acquisition). The cash gap was funded by SGD231.0mn draw down on cash balance as well as SGD545.6mn in bonds issued (SGD398mn done at the FCL level, SGD150mn done at the FCOT level). This drove net gearing higher from 68% to 74% q/q. Capital market access remains strong, with FCL tapping a further SGD102mn of bonds in 3QFY2017. Cash / current borrowings stood at 0.8x. The weaker EBITDA generation also worsened EBITDA / Interest coverage to 5.0x (1QFY2017: 8.6x). Looking forward, with development income volatile and FCL still pursuing organic and inorganic growth, it is possible for FCL's credit profile to deteriorate further. That said, sharp deterioration from current levels is unlikely. FCL is also supported by SGD0.6bn and SGD2.5bn in pre-sales in Singapore and Australia, as well as its sizable recurring income stream (63% of 1HFY2017 PBIT was reported to be recurring). These factors support FCL's current Neutral Issuer Profile.

Frasers Centrepoint Ltd

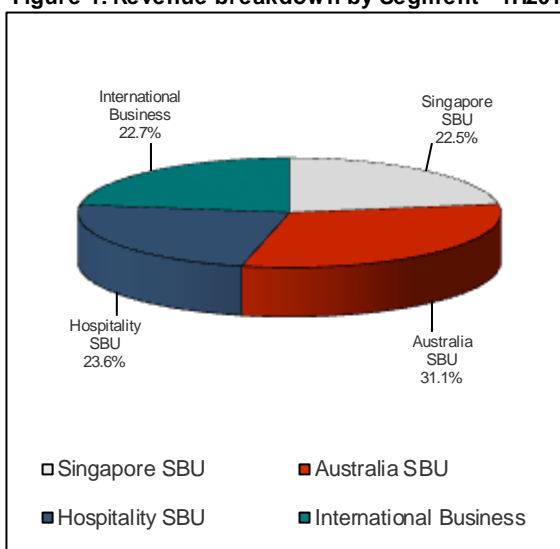
Table 1: Summary Financials

Year Ended 30th Sep	FY2015	FY2016	1H2017
Income Statement (SGD'mn)			
Revenue	3,561.5	3,439.6	1,677.4
EBITDA	874.5	826.2	483.0
EBIT	833.7	773.3	453.2
Gross interest expense	247.7	206.6	90.7
Profit Before Tax	1,196.5	960.3	466.0
Net profit	771.3	597.2	258.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,373.1	1,731.3	1,412.4
Total assets	23,066.7	24,204.4	24,992.8
Gross debt	10,529.2	9,795.5	10,530.2
Net debt	9,156.1	8,064.2	9,117.8
Shareholders' equity	10,651.0	11,843.5	12,245.2
Total capitalization	21,180.2	21,639.0	22,775.4
Net capitalization	19,807.0	19,907.7	21,363.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	812.0	650.1	288.6
* CFO	518.0	931.3	19.4
Capex	45.3	62.3	292.7
Acquisitions	1,784.2	794.6	398.4
Disposals	76.5	661.8	0.0
Dividend	481.8	520.7	336.6
Free Cash Flow (FCF)	472.7	869.0	-273.3
* FCF Adjusted	-1,716.8	215.5	-1,008.3
Key Ratios			
EBITDA margin (%)	24.6	24.0	28.8
Net margin (%)	21.7	17.4	15.4
Gross debt to EBITDA (x)	12.0	11.9	10.9
Net debt to EBITDA (x)	10.5	9.8	9.4
Gross Debt to Equity (x)	0.99	0.83	0.86
Net Debt to Equity (x)	0.86	0.68	0.74
Gross debt/total capitalisation (%)	49.7	45.3	46.2
Net debt/net capitalisation (%)	46.2	40.5	42.7
Cash/current borrowings (x)	1.3	1.2	0.8
EBITDA/Total Interest (x)	3.5	4.0	5.3

Source: Company, OCBC estimates

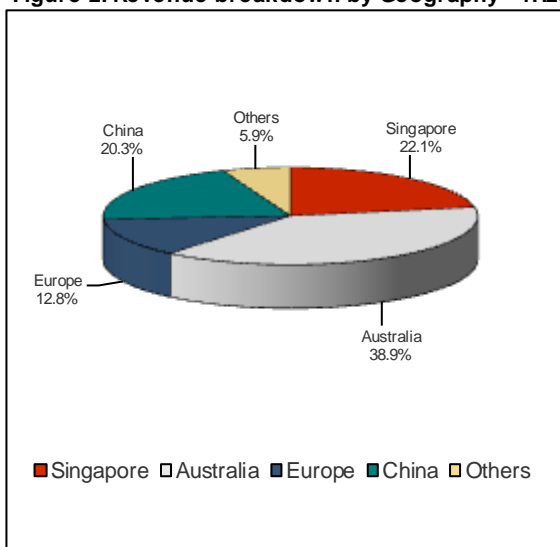
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 1: Revenue breakdown by Segment - 1H2017



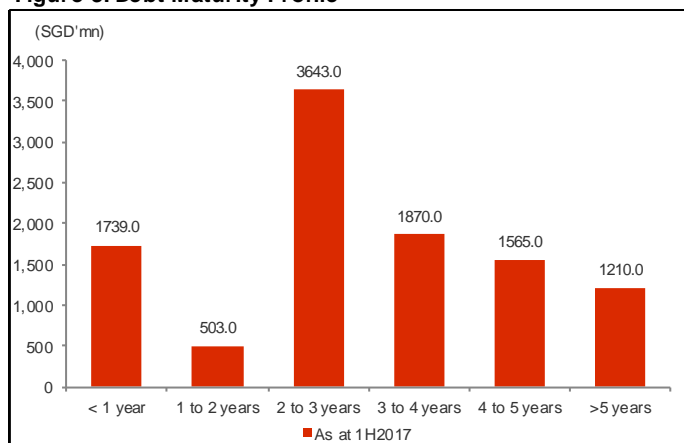
Source: Company

Figure 2: Revenue breakdown by Geography - 1H2017



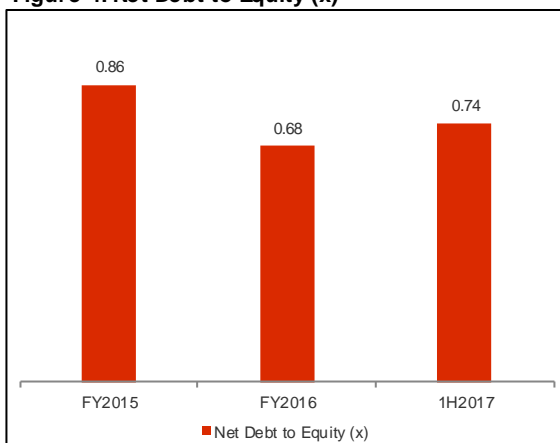
Source: Company, OCBC estimates

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

In general, the FCTSP curve is attractive, though the small issue sizes could make sourcing difficult.

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 41.6% interest in FCT). Since its IPO, FCT's portfolio value has grown to SGD2.51bn as at end-FY2016. 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 drives decline:** FCT reported 2QFY2017 results (ending March 2017), with gross revenue falling 2.9% y/y to SGD45.7mn, and NPI falling 3.3% y/y to SGD32.6mn. If contribution from the Yishun 10 Retail Podium acquisition (completed in November 2016) was excluded, portfolio gross revenue would have declined -3.9% while NPI would have declined 4.5%. As per the previous quarters, the decline was driven by lower occupancy at Northpoint due to its on-going AEI (2QFY2017: 59.4% versus 2QFY2016: 81.7%). The quarter also saw Bedok Point and Anchorpoint underperform, with property revenue down 2.9% y/y and 5.6% y/y respectively. On the bright side, Changi City Point continues to show signs of recovery in both occupancy (improved q/q from 85.9% to 89.7%) and property revenue, with the asset potentially showing the gains from the tweaking of its tenant mix.
- **Portfolio occupancy facing near-term pressure:** In aggregate, portfolio occupancy plunged to 87.2% (2QFY2016: 92.0%), largely driven by Northpoint. Looking forward, with Northpoint's projected occupancy averaging 65% for 3QFY2017 (3QFY2016: 82%), headlines are expected to remain soft in the near future. Bedok Point remains challenged, with occupancy recovering to 95% at end-September 2016, but plunging back to 83.2% as of end-March 2017. FCT managed an average rental reversion of +4.1% for 2QFY2017 (FY2016: +9.9%), which was fair given the challenging environment. Expectedly Bedok Point continues to be under pressure, seeing negative reversion of 17.9% (5.6% of property NLA). This was mitigated by FCT's 3 largest assets Causeway Point, Northpoint and Changi City Point which continue to see positive rental reversions (+6.3%, +3.3% and +21.7% respectively), driving portfolio trend.
- **Flight risk worth monitoring:** Lease expiry remains tricky, with 14.4% of NLA due to expire during 2HFY2017. Furthermore, 15% of NLA expiring is attributable to the challenged Bedok Point asset. In mitigation, 74% of NLA expiring is attributable to FCT's three largest properties, which are performing. One worrisome trend is shopper traffic which is down 3.5% y/y, 7.7% q/q, though management attributed this to the close gap between festive seasons compared to prior years. Looking forward, FY2018 could remain challenging with 29.6% of portfolio NLA lease expiring. Bedok Point's lease expiry profile is particularly tricky with 30.1% of NLA expiring in 2HFY2017 and 34.4% expiring in FY2018.
- **Borrowing headroom maintained:** Aggregate leverage was stable q/q at 29.4% (1QFY2017: 29.7%), with total borrowings falling slightly by SGD8mn. It is worth noting that FCT tapped bond markets and issued SGD90mn 3Y bond early April. This was used to repay FCT's SGD90mn unsecured loan facility due June 2017. Subsequently, FCT issued another SGD30mn 5Y bond early June, which was used to redeem SGD30mn in bonds due later that month. For the balance of CY2017, FCT has SGD60mn in bonds due (in December). We believe that FCT should have no problem refinancing given its access to capital markets. Reported EBIT / Interest remains strong at 7.6x (1QFY2017: 7.3x). Looking forward, we continue to believe that FCT would seek to grow its portfolio. Pipeline assets include the retail portion of Northpoint City (book value of SGD1.1bn) and 33% of Waterway Point (stake valued at SGD340mn). Acquisition of either of these assets could drive leverage higher. Furthermore, FCT had indicated interest in acquiring third-party assets, and was previously rumored to consider bidding for Jurong Point (FCT lost the bid to NTUC, which paid SGD2.2bn). In aggregate, we will retain FCT's Issuer Profile at Neutral.

Frasers Centrepoint Trust

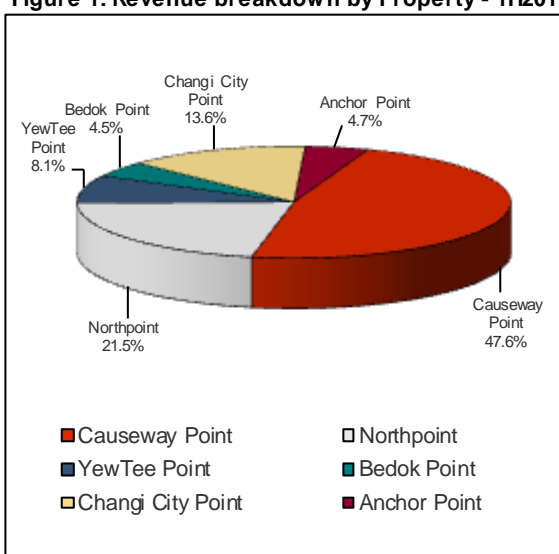
Table 1: Summary Financials

Year Ended 30th Sept	FY2015	FY2016	1H2017
Income Statement (SGD'mn)			
Revenue	189.2	183.8	89.8
EBITDA	115.4	114.1	55.9
EBIT	115.4	114.0	55.9
Gross interest expense	19.3	17.2	8.4
Profit Before Tax	171.5	123.4	50.1
Net profit	171.5	123.4	50.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	16.2	18.7	14.2
Total assets	2,548.7	2,594.5	2,637.5
Gross debt	718.0	734.0	776.7
Net debt	701.8	715.3	762.5
Shareholders' equity	1,754.5	1,775.6	1,778.1
Total capitalization	2,472.5	2,509.6	2,554.8
Net capitalization	2,456.3	2,490.9	2,540.6
Cash Flow (SGD'mn)			
Funds from operations (FFO)	171.5	123.5	50.1
* CFO	120.0	126.0	61.2
Capex	5.4	17.5	12.1
Acquisitions	0.0	0.0	38.4
Disposals	0.0	0.0	0.0
Dividends	105.7	108.4	52.5
Free Cash Flow (FCF)	114.6	108.4	49.1
* FCF Adjusted	8.9	0.0	-41.8
Key Ratios			
EBITDA margin (%)	61.0	62.1	62.2
Net margin (%)	90.6	67.2	55.8
Gross debt to EBITDA (x)	6.2	6.4	7.0
Net debt to EBITDA (x)	6.1	6.3	6.8
Gross Debt to Equity (x)	0.41	0.41	0.44
Net Debt to Equity (x)	0.40	0.40	0.43
Gross debt/total capitalisation (%)	29.0	29.2	30.4
Net debt/net capitalisation (%)	28.6	28.7	30.0
Cash/current borrowings (x)	0.1	0.1	0.1
EBITDA/Total Interest (x)	6.0	6.6	6.7

Source: Company, OCBC estimates

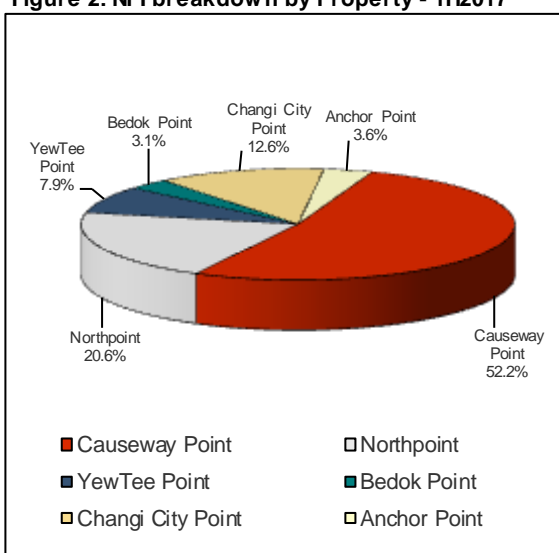
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 1: Revenue breakdown by Property - 1H2017



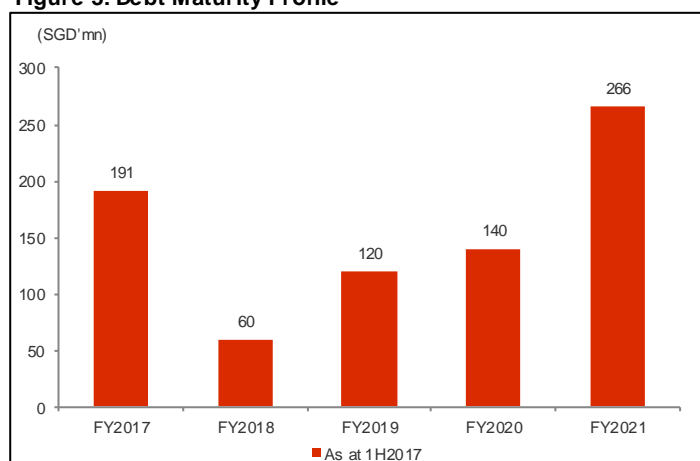
Source: Company

Figure 2: NPI breakdown by Property - 1H2017



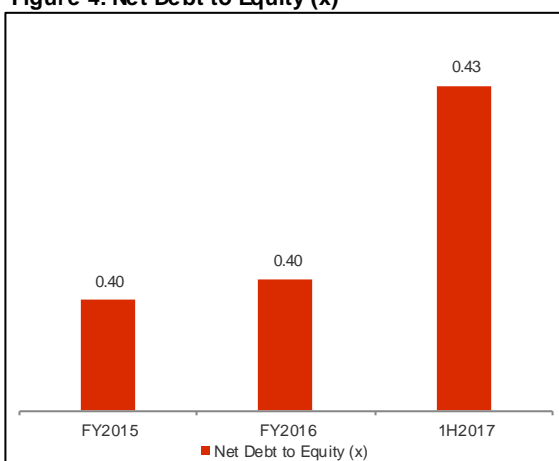
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

In our view, the FHREIT 2.63% '22s senior bond are priced fair to where the perpetuals are trading at. We recommend a switch into the FHREIT 4.45%-PERPs (YTC of 3.9%) from the ARTSP 4.68%-PERPs for a yield pick-up of 30bps. FHREIT 4.45%-PEPRs call date is one year later, though its credit rating is one-notch higher.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa2/Stable

Fitch: Not rated

Ticker: **FHREIT**

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 15 properties across 9 cities with more than 3,900 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 38%. Both FCL and THL are ultimately controlled by Charoen Sirivadhanabhakdi and Khunying Wannasirivadhanabhakdi.

Fraser's Hospitality Trust

Key credit considerations

- **1H2017 results boosted by inorganic acquisitions:** FHT reported gross revenue of SGD78.2mn for the six months ended March 2017 ("1H2017"). This was up 33.9% from 1H2016. We estimate that ~70% of the increase was due to the contribution from Maritim Dresden, Germany (acquired in June 2016) and Novotel Melbourne on Collins ("NOMC") (acquired in October 2016). Stronger performance from Sydney, UK and the Intercontinental Hotel in Singapore (coming out of renovation) also helped offset weaknesses in Japan and Malaysia. During the period, FHT's Business Trust ("FHT-BT") was also activated for the first time to be the Master Lessee for NOMC. Higher operations and maintenance, marketing and administrative expenses were recorded in 1H2017 for the stapled structure. NPI margin was lower at 76% (1H2016: 83%). FHT-REIT's gross revenue is comprised of gross rental income received from Master Lessees. Such agreements are structured on a fixed rent plus variable rent basis (Master Lessee bears operational expenses) and hence the stapled structure historically reported higher NPI margins.
- **Interest coverage:** FHT generated SGD53.5mn in EBITDA in 1H2017, up 25% from 1H2016, while EBITDA/Interest was stronger at 6.1x (1H2016: 4.5x). SGD100mn in perpetuals was raised to fund the Maritim Dresden acquisition. Factoring in 50% perpetual distribution into coverage, we find EBITDA/(Interest plus 50% perpetual distribution) at 5.4x. In 1H2017, fixed rent made up 40% of total gross revenue per management. Fixed rent-to-interest and 100% of perpetual distribution was 2.8x in 1H2017. Novotel Rockford Darling Harbour is undergoing renovation and expected to complete by December 2017. We expect the negative impact from loss in revenue to be manageable during this period. In 1H2017, FHT paid SGD8.2mn of management fees in stapled securities, helping conserve cash.
- **Operating performance of portfolio:** In our view, FHT's portfolio is sufficiently diversified across micro-markets and customer segments. In 1H2017, Australia contributed 43% of net property income ("NPI"). We are not overly concerned over FHT's concentration to Australia. Three properties (collectively valued at ~SGD476mn) are located in two different areas of Sydney while NOMC (purchased for SGD244mn) is located in Melbourne's city centre. In 1H2017, properties in the UK contributed 13% to NPI. Four of the six properties in the UK are located in London, a city which is expected to face subdued demand on heightened security concerns. Singapore and Malaysia (collectively contributed 26% to NPI) continues to be negatively affected by impending room supply and decline in corporate demand. As such, we expect operating performance to be flat for the rest of 2017.
- **Minimal refinancing risk:** FHT's Japan property, the ANA Crowne Plaza has both a retail and a hotel component. The yet-to-stabilize retail component is master leased to a wholly-owned subsidiary of the TCC Group ("YK"). Currently all economic benefits and losses are attributable to YK. YK plans to commit up to SGD53.1mn towards asset enhancement initiatives ("AEI") at the building. When the retail component reaches stabilization (and no later than 31 December 2023), FHT is obliged to terminate the Master Lease and pay for the AEI works. While there is no immediate capital outlay, from the perspective of FHT, this transaction represents an off-balance sheet capital commitment. As at 31 March 2017, aggregate leverage was 33.4% (31 December 2016: 33.7%). Adjusting 50% of perpetual as debt, we find adjusted aggregate leverage at 35.5%. Short term debt was SGD114.9mn and cash balances were SGD80.0mn. In June 2017, FHREIT raised SGD120mn in bonds, which we think will go towards refinancing the short term debt due. We are putting the issuer to **Neutral** from Positive. The improvement in FHT's credit profile has happened and we think it will be relatively constant during the next six months.

Frasers Hospitality Trust

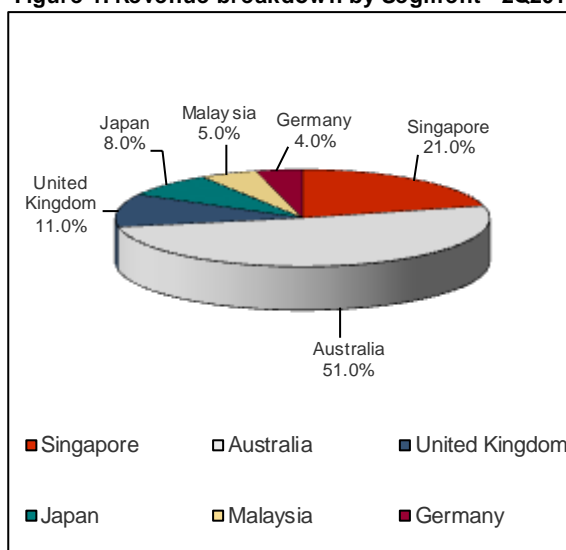
Table 1: Summary Financials

Year Ended 30th Sep	FY2015 [^]	FY2016	1H2017
Income Statement (SGD'mn)			
Revenue	78.6	123.6	78.2
EBITDA	55.9	92.9	53.5
EBIT	55.9	92.9	50.0
Gross interest expense	13.4	20.8	8.8
Profit Before Tax	102.9	78.7	34.1
Net profit	87.3	62.1	31.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	52.3	64.4	80.0
Total assets	2,031.7	2,161.0	2,396.8
Gross debt	785.0	810.0	796.7
Net debt	732.7	745.6	716.7
Shareholders' equity	1,172.3	1,244.2	1,510.9
Total capitalization	1,957.3	2,054.2	2,307.5
Net capitalization	1,905.0	1,989.8	2,227.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	87.3	62.1	35.3
* CFO	125.4	107.8	58.5
Capex	13.1	0.0	235.6
Acquisitions	243.6	102.3	0.0
Disposals	0.0	0.0	0.0
Dividends	71.0	63.6	45.1
Free Cash Flow (FCF)	112.3	107.8	-177.2
* FCF Adjusted	327.7	165.9	280.7
Key Ratios			
EBITDA margin (%)	71.2	75.1	68.4
Net margin (%)	111.2	50.2	40.6
Gross debt to EBITDA (x)	10.5	8.7	7.4
Net debt to EBITDA (x)	9.8	8.0	6.7
Gross Debt to Equity (x)	0.67	0.65	0.53
Net Debt to Equity (x)	0.63	0.60	0.47
Gross debt/total capitalisation (%)	40.1	39.4	34.5
Net debt/net capitalisation (%)	38.5	37.5	32.2
Cash/current borrowings (x)	NM	0.5	0.7
EBITDA/Total Interest (x)	4.2	4.5	6.1

Source: Company, OCBC estimates | [^]FY2015: Jan - Sep 2015

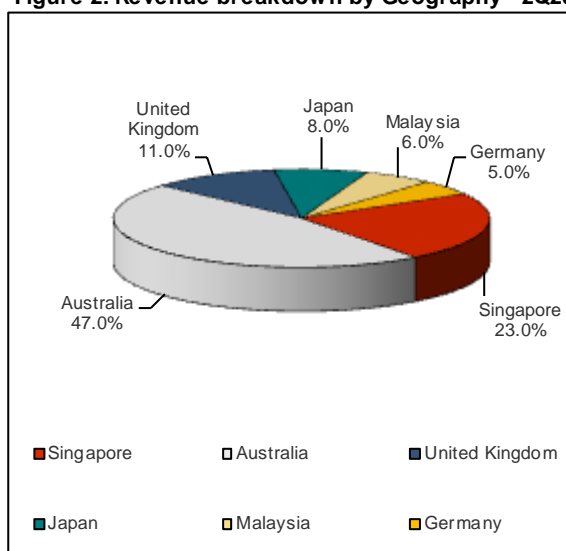
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 1: Revenue breakdown by Segment - 2Q2017



Source: Company

Figure 2: Revenue breakdown by Geography - 2Q2017



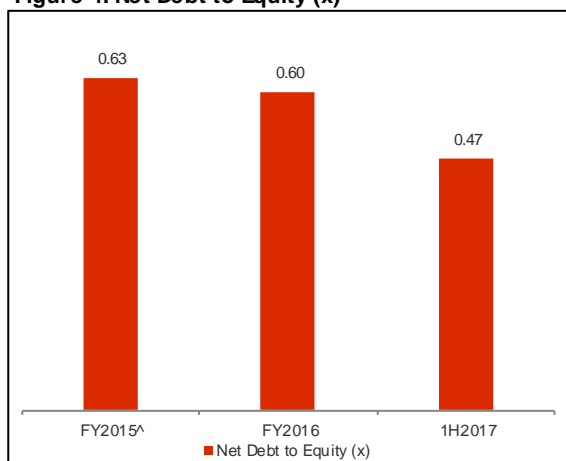
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	114.9	14.4%
	114.9	0.0%
Amount repayable after a year		
Secured	30.1	3.8%
* Unsecured	651.6	81.8%
	681.7	100.0%
Total	796.7	100.0%

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

Bond prices corrected after the trading update in May 2017. We continue to Overweight GEMAU '19s as EBIT continues to grow despite declining occupancy. As such, we think the dip in bond prices may provide a good chance to pick up more.

Issuer Profile: Neutral

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

Ticker: **GEMAU**

Background

G8 Education Ltd ("G8") is the largest for profit child care centre operator in Australia. Previously known as Early Learning Services Ltd in 2007, the group was renamed to G8 after the merger with Payce Child Care Pty Ltd. Following a series of acquisitions thereafter, G8 operates 478 centres across various cities in Australia and 20 centres in Singapore under 24 brands. The largest shareholders include First Capital (5.6%), FMR LLC (4.0%), Perpetual (4.0%) and Vanguard (3.8%). G8 has a market capitalisation of AUD1.7bn as of 7 Jul 2017.

G8 Education Ltd

Key credit considerations

- **Decent results though occupancy trended down:** G8 provided a trading update in May 2017, which revealed that occupancy as at end Apr declined 3.4 ppts y/y lower to 77.7% though EBIT and EBIT margins have improved. FY2016 results reflected largely similar trends with a 2.2 ppts decline in occupancy to 79.7%, though revenues grew 10.2% y/y to AUD778.5mn. This was mainly due to fee increases and acquisitions (21 centres acquired in 2016). Without one-off occurrences, such as the sale of shares in Affinity, G8's underlying net profit after tax grew 7.1% y/y to AUD93.3mn.
- **Potential supply increase may continue to weigh on occupancy:** We note that G8 has faced occupancy pressures from increased supply in the Australian Capital Territory and market-wide weakness in Western Australia and North Queensland. Moving forward, new supply may emerge in Sydney. 179 out of 471 of G8's child care centres are in Sydney. The Australian Childcare Alliance ("ACA") identified 28 local government areas with projected supply far exceeding projected demand in a report. Nevertheless, not all the 1,000 planning applications for privately operated day care services may eventually be turned into new supply. We are also not overly worried for now given that G8's EBIT and EBIT margins have improved due to price increases and cost control.
- **Manageable credit metrics expected to improve:** Net debt/EBITDA is manageable at 2.2x as of FY2016. Net gearing inched up 2 ppts in 2H2016 to 0.61x, which is manageable in our view. While goodwill accounts for 87% of total assets, we are not overly worried as the goodwill was derived from acquisition of centres, most of which have performed better since acquisition. While we think that the high dividend rate (AUD6 cts per share per quarter, c.AUD23mn per quarter) paid by G8 creates a large financing outflow, this is mitigated by the dividend reinvestment plan, which saved AUD36mn in FY2016. Going forward, credit metrics are expected to improve with the completion of the private placement in May.
- **Private placement to repay existing debt facilities:** G8 did a private placement to raise AUD100mn at AUD3.20 per share in May 2017, with the equity proceeds to be used for repayment of debt facilities (AUD50mn bond, AUD 40mn Bankwest working capital facility) and fund committed acquisitions of child-care centres. However, the equity raised was lower than originally expected. G8 was originally expected to receive AUD149mn from Tranche 2 of the share placement to CFCG Investment Partners International ("CIP"). However, the proceeds from CIP were renegotiated lower to AUD31.8mn. In total AUD131.8mn in new equity was raised. According to G8, the capital raising would reduce reported net debt/EBITDA to 1.1x (FY16: 2.2x).
- **Continued acquisition spree in the pipeline:** Over the next 2.5 years, G8 has a committed pipeline of AUD200mn worth of acquisitions for about 49 child care centres around Australia. Management has guided that they are priced around 4x-4.2x EBIT, hence the EBIT contribution is expected to be AUD50mn with revenue target of AUD1bn by Dec 2019. As such, we expect net debt/EBITDA to trend back near 2x over time.
- **Supportive government regulations:** The Australian childcare sector enjoys large subsidies under schemes such as Child Care Subsidy plan (worth AUD28.4bn), which provides means-tested 85% subsidy (with a cap). Management thinks this will be materially positive for a significant portion of G8's existing customer base. Government spending on childcare support will amount to AUD37bn over 2017-2020.

G8 Education Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	FY2016
Income Statement (AUD'mn)			
Revenue	482.1	689.4	775.0
EBITDA	115.9	176.0	195.1
EBIT	110.8	166.6	183.4
Gross interest expense	36.3	40.3	47.1
Profit Before Tax	72.6	122.8	114.7
Net profit	52.7	88.6	80.3
Balance Sheet (AUD'mn)			
Cash and bank deposits	120.8	193.8	26.5
Total assets	1,002.8	1,234.2	1,173.2
Gross debt	353.2	516.3	410.6
Net debt	232.4	322.5	384.2
Shareholders' equity	542.0	602.8	625.9
Total capitalization	895.2	1,119.1	1,036.5
Net capitalization	774.4	925.3	1,010.1
Cash Flow (AUD'mn)			
Funds from operations (FFO)	57.8	98.0	92.0
* CFO	74.7	95.1	108.6
Capex	16.5	21.1	25.0
Acquisitions	447.8	128.9	66.7
Disposals	0.0	0.0	0.0
Dividend	33.3	53.2	58.0
Free Cash Flow (FCF)	58.2	74.0	83.6
* FCF adjusted	-422.8	-108.2	-41.1
Key Ratios			
EBITDA margin (%)	24.0	25.5	25.2
Net margin (%)	10.9	12.8	10.4
Gross debt to EBITDA (x)	3.0	2.9	2.1
Net debt to EBITDA (x)	2.0	1.8	2.0
Gross Debt to Equity (x)	0.65	0.86	0.66
Net Debt to Equity (x)	0.43	0.54	0.61
Gross debt/total capitalisation (%)	39.5	46.1	39.6
Net debt/net capitalisation (%)	30.0	34.9	38.0
Cash/current borrowings (x)	NM	1.3	NM
EBITDA/Total Interest (x)	3.2	4.4	4.4

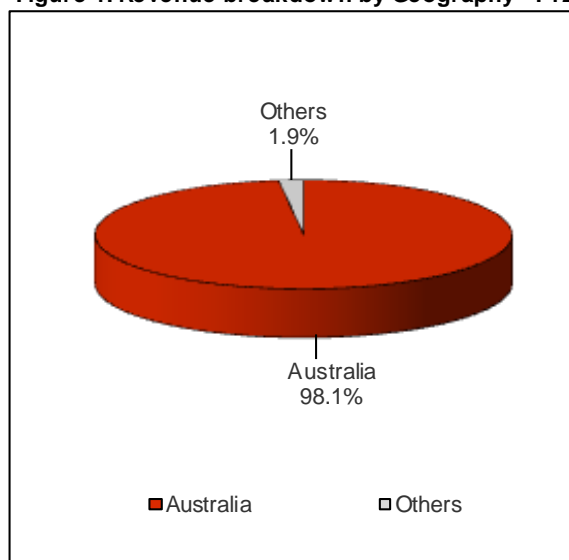
Source: Company, OCBC estimates

*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

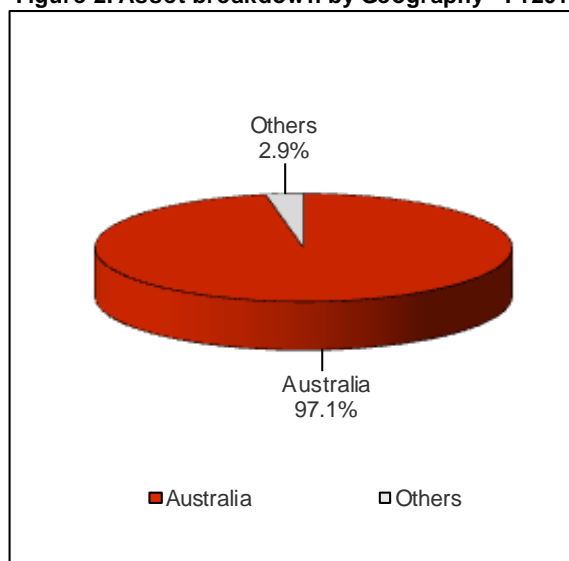
Figure 3: Debt Maturity Profile

Amounts in (AUD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	0.0	0.0%
	0.0	0.0%
Amount repayable after a year		
Secured	40.0	9.7%
Unsecured	370.6	90.3%
	410.6	100.0%
Total	410.6	100.0%

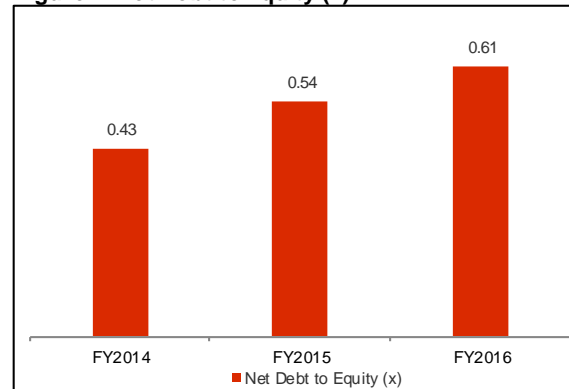
Source: Company

Figure 1: Revenue breakdown by Geography - FY2016


Source: Company

Figure 2: Asset breakdown by Geography - FY2016


Source: Company

Figure 4: Net Debt to Equity (x)


Source: Company, OCBC estimates

Credit Outlook –

We are underweight the GALV curve due to stretched liquidity at the company.

Gallant Venture Ltd

Key credit considerations

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, with operations across Indonesia and a service provider for industrial parks and resorts in Batam and Bintan. Salim Group has a ~75% deemed interest in GALV, while ~12% is owned by Sembcorp Industries Ltd which is holding its stake as a non-core asset.

- **1Q2017 results weak:** The independent auditors of GALV had issued a disclaimer opinion for the restated and re-audited financial statements for FY2014, FY2015 and FY2016. Per GALV's unaudited financial statements, revenue was down 7% to SGD436.9mn largely due to weaker revenues at its 72%-owned subsidiary, Indomobil Sukses International Tbk ("IMAS"). GALV's other businesses reported marginally higher revenue of SGD38.8mn (up SGD0.3mn against 1Q2016). This was attributable to higher revenue from the Utilities and Resort segments, though offset by lower revenue from Industrial Parks. Segmental profit was not disclosed in 1Q2017 though in FY2016, only the Utilities and Automotive segments reported operating profits (the rest made losses). Overall gross profit was 3% higher at SGD109.7mn. The non-IMAS segments only contributed less than 10% to gross profit. EBITDA (excluding other income and other expenses), was down 3% to SGD66.6mn. The decline in EBITDA was led by increase in general and administrative expenses (from higher provision for doubtful debts, salaries, wages and rental expenses). Loss before taxation expanded to negative SGD37.3mn (1Q2016: negative SGD12.3mn), driven by a SGD15.0mn loss from associated companies. Foreign currency translation losses further dragged GALV into the red, resulting in total comprehensive loss of SGD65.7mn.
- **Standalone liquidity stretched:** In 1Q2017, cash flow from operations before interest and tax paid was marginal at SGD0.1mn (1Q2016: SGD36.6mn). Operating receivables used SGD128.3mn in cash in 1Q2017 (1Q2016: SGD76.3mn). GALV does not break down trade-related versus other receivables within quarterly numbers though as at 31 December 2016, amounts owing by related parties made up 29% of total trade and other receivables (31 December 2015: 8.6%). After paying cash interest, GALV's net cash flow from operations was negative SGD86.0mn. Investing outflows was SGD28.8mn with the cash gap funded by drawing down on opening cash balances and increase in borrowings. As at 31 March 2017, cash balances at GALV was SGD342.3mn. In May 2017, GALV redeemed the GALV 5.9% '17s, which would have lowered its cash balances by SGD150mn (before factoring further cash burn).
- **IMAS headwinds:** In 1Q2017, IMAS gross revenue fell 11% to IDR3,745bn (SGD393.0mn) though gross profit (based on company's calculation) improved 6% to IDR705bn (SGD73.9mn). In 1Q2017, IMAS' gross margin was 19% against 16% in 1Q2016. We believe this is a result of the higher tilt towards higher margin businesses. In 1Q2017, loss before tax at IMAS was IDR110bn (SGD11.5mn) and the company reported net cash outflow from operating activities of IDR672bn (SGD70.5mn) in 1Q2017. Investing outflows was IDR289bn (SGD30.4mn). In line with the significant debt service at IMAS (up 21% versus 1Q2016) to IDR1,466bn (SGD153.8mn), we see the ability of IMAS to upstream dividends to GALV as curtailed. IMAS's IDR-denominated loans have a cost of 7.6%-11.5% p.a, which leaves the company with a thin buffer against its EBITDA margins of 8%. We think intensified automotive competition exacerbated the situation.
- **Heightened refinancing risk:** As at 31 March 2017, gross debt was SGD2.4bn, at similar levels to end-Dec 2016. About 46% of its debt relates to IMAS' car rental and financial services business. As at 31 March 2017, GALV's net gearing was 1.2x (end-Dec 2016: 1.1x). GALV faces ~SGD1.1bn in short term debt due and these are largely attributable to IMAS. We estimate that SGD362mn is unlikely to be regularly rolled-over and would need to be paid down/refinanced with replacement debt. Land inventories held at operating entities in Indonesia were recorded at SGD615mn, though as an asset class, land is relatively illiquid.

Gallant Venture Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	2,028.1	1,715.8	436.9
EBITDA	270.5	253.4	66.6
EBIT	144.5	132.5	37.8
Gross interest expense	145.2	132.7	32.4
Profit Before Tax	-136.3	63.5	-37.3
Net profit	-144.9	72.2	-39.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	201.9	425.4	342.3
Total assets	4,763.3	4,760.2	4,757.3
Gross debt	2,383.5	2,437.5	2,437.1
Net debt	2,181.6	2,012.1	2,094.8
Shareholders' equity	1,834.4	1,866.8	1,802.7
Total capitalization	4,217.9	4,304.3	4,239.8
Net capitalization	4,016.0	3,878.9	3,897.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	-18.8	193.1	-10.3
* CFO	65.1	57.5	-86.0
Capex	110.8	135.0	33.8
Acquisitions	14.6	114.7	-2.5
Disposals	35.9	438.2	1.9
Dividend	2.6	4.0	0.0
Free Cash Flow (FCF)	-45.7	-77.5	-119.8
* FCF adjusted	-26.9	242.1	-115.3
Key Ratios			
EBITDA margin (%)	13.3	14.8	15.3
Net margin (%)	-7.1	4.2	-9.0
Gross debt to EBITDA (x)	8.8	9.6	9.1
Net debt to EBITDA (x)	8.1	7.9	7.9
Gross Debt to Equity (x)	1.30	1.31	1.35
Net Debt to Equity (x)	1.19	1.08	1.16
Gross debt/total capitalisation (%)	56.5	56.6	57.5
Net debt/net capitalisation (%)	54.3	51.9	53.7
Cash/current borrowings (x)	0.2	0.4	0.3
EBITDA/Total Interest (x)	1.9	1.9	2.1

Source: Company, OCBC estimates

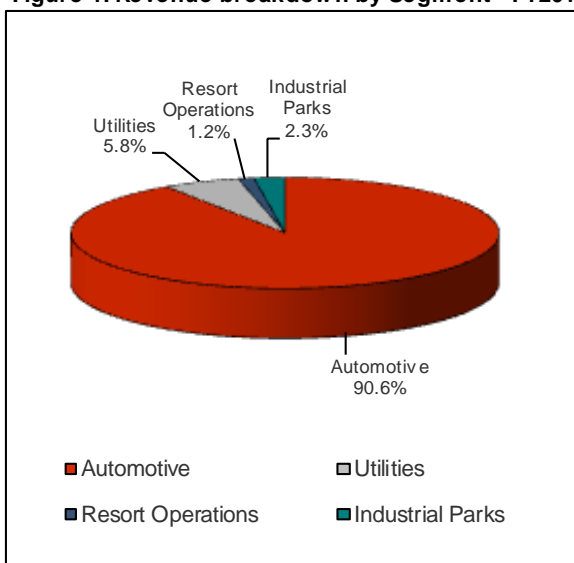
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after before interest expense

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	1,152.7	47.3%
Unsecured	0.0	0.0%
	1,152.7	47.3%
Amount repayable after a year		
Secured	873.7	35.9%
Unsecured	410.7	16.9%
	1,284.4	52.7%
Total	2,437.1	100.0%

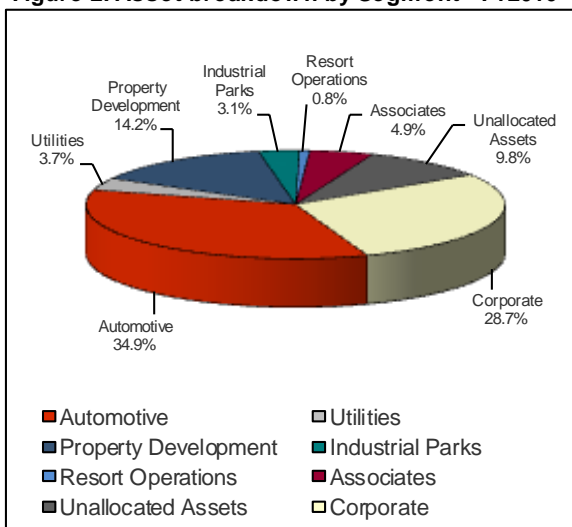
Source: Company

Figure 1: Revenue breakdown by Segment - FY2016



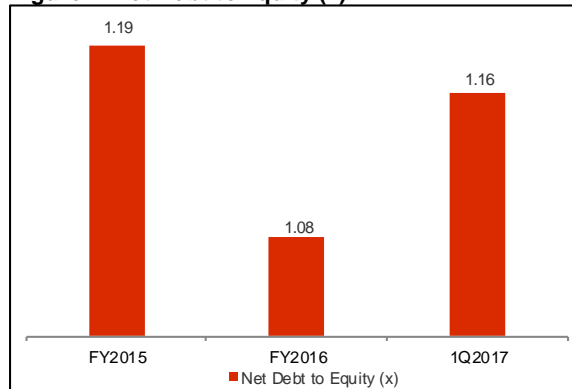
Source: Company | Excludes Inter-segment Eliminations

Figure 2: Asset breakdown by Segment - FY2016



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We are Neutral on the GENSSP-PERPs given the near-term call date.

Genting Singapore Plc

Key credit considerations

- **Strong sequential growth:** For 1Q2017, total revenue declined slightly by 3.7% y/y to SGD586.6mn, with gaming revenue and non-gaming revenue both slipping 3.6% y/y. Management had indicated that lower revenue from attractions had impacted non-gaming revenue for the quarter, though some improvement was guided for 2Q2017. During the previous quarters, management had also indicated that they intend to spend some capex refreshing RWS. Hotel occupancy remained unchanged at 92% q/q. On a q/q basis though, revenue growth was strong, increasing 5.3% y/y, led by gaming revenue which increased 9.0% y/y. Management reported solid performance at the VIP and premium mass segment, with growth seen all around (from various customer geographies). Peer Las Vegas Sands also reported strong results for the Marina Bay Sands during 1Q2017, with mass win per day the second highest on record. As such, it would seem that the gaming industry in Singapore is improving.
- **Lower impairments on gaming receivables a boost:** The long term rotation away from the VIP market has continued to reduce impairments on gaming receivables, which fell sharply to SGD15.0mn (1Q2016: SGD92.4mn). Trade receivables (which include gaming receivables) has fallen sharply y/y to SGD170.7mn (1Q2016: SGD533.8mn), reflecting the lower amounts of gaming credit being extended by GENS. Management had indicated that its current credit provision policy, as well as tweaks to incentivise early repayment (via the rebates given) have aided the reduction of impairments, and believe that current levels of impairments are sustainable. As such, gross profit surged 52.3% y/y to SGD260.9mn. GENS also booked a divestment gain of SGD96.3mn during the quarter, from the sale of its stake in the Jeju resort JV. In aggregate, net profit surged to SGD210.2mn for 1Q2017 (1Q2016: SGD40.2mn).
- **Cash continues to pile:** Operating cash flow was strong with SGD277.6mn generated (including interest service) for the quarter. Coupled with SGD18.0mn in capex, free cash flow was SGD259.6mn for the quarter. In addition, the Jeju JV disposal brought in SGD596.3mn in cash. In terms of cash outflow, SGD45.7mn was paid to perpetual securities while SGD87.5mn was used to pay down bank debt. In aggregate, the strong cash net inflow drove total cash balance to SGD5.8bn. As such, GENS ended the quarter with SGD2.4bn in net cash (net of SGD1.1bn in debt and SGD2.3bn in perpetual securities). It should be noted that GENS has announced that it will be calling its SGD2.3bn in perpetual securities (first call for the two tranches are in September and October this year) by utilizing cash on the balance sheet rather than refinancing. We have previously written that GENS didn't necessarily need such a large tranche of perpetual securities given its recurring cash flow generation, despite GENS's interest in bidding for a Japan IR license.
- **Manageable cash needs looking forward:** Management had indicated that they will need to consider how the Japan IR bidding resolves (bidding is expected to be around the middle of 2018) before deciding on their capital structure needs. Aside from this, management had also reiterated their intent to refresh RWS (they are awaiting certain regulatory approvals, and hence details would be shared at a later date). They have also indicated a desire to keep to the current dividend policy (SGD0.03 per share per annum, or SGD360.7mn per year). The quarter highlights GENS' strong and consistent cash flow generation, and removed the uncertainty with regards to the potential early redemption of the perpetual securities. We will retain our Positive Issuer Profile, and would hold the GENSSP-perp at Neutral with the expectation that GENS would easily be able to call the securities based on their current cash balance.

Issuer Rating: Positive

S&P: Not rated
Moody's: A3/Stable
Fitch: A-/Stable

Ticker: **GENSSP**

Background

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 7 hotels, a 15,000 sqm 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% owned by the Malaysia-listed Genting Bhd.

Genting Singapore PLC

Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	2,400.9	2,228.1	586.6
EBITDA	887.6	772.0	277.9
EBIT	543.5	475.3	207.7
Gross interest expense	54.5	44.6	9.2
Profit Before Tax	279.3	496.6	253.3
Net profit	193.1	384.5	210.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	5,115.3	5,066.5	5,759.3
Total assets	12,026.8	11,446.3	11,532.6
Gross debt	1,630.6	1,163.7	1,079.8
Net debt	-3,484.7	-3,902.8	-4,679.6
Shareholders' equity	9,625.8	9,530.3	9,678.6
Total capitalization	11,256.4	10,694.0	10,758.3
Net capitalization	6,141.1	5,627.4	4,999.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	537.2	681.2	280.4
* CFO	1,219.6	1,130.6	295.0
Capex	176.4	70.5	18.1
Acquisitions	0.0	176.7	0.0
Disposals	1.1	44.7	601.6
Dividend	238.7	478.6	45.7
Free Cash Flow (FCF)	1,043.2	1,060.1	277.0
* FCF adjusted	805.5	449.6	832.8
Key Ratios			
EBITDA margin (%)	37.0	34.6	47.4
Net margin (%)	8.0	17.3	35.8
Gross debt to EBITDA (x)	1.8	1.5	1.0
Net debt to EBITDA (x)	-3.9	-5.1	-4.2
Gross Debt to Equity (x)	0.17	0.12	0.11
Net Debt to Equity (x)	-0.36	-0.41	-0.48
Gross debt/total capitalisation (%)	14.5	10.9	10.0
Net debt/net capitalisation (%)	-56.7	-69.4	-93.6
Cash/current borrowings (x)	30.7	27.3	28.2
EBITDA/Total Interest (x)	16.3	17.3	30.3

Source: Company, OCBC estimates

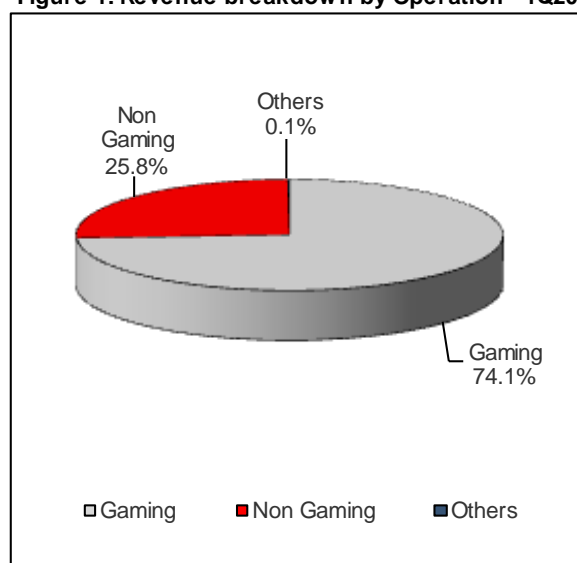
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	204.3	18.9%
Unsecured	0.0	0.0%
	204.3	18.9%
Amount repayable after a year		
Secured	877.1	81.1%
Unsecured	0.0	0.0%
	877.1	81.1%
Total	1,081.4	100.0%

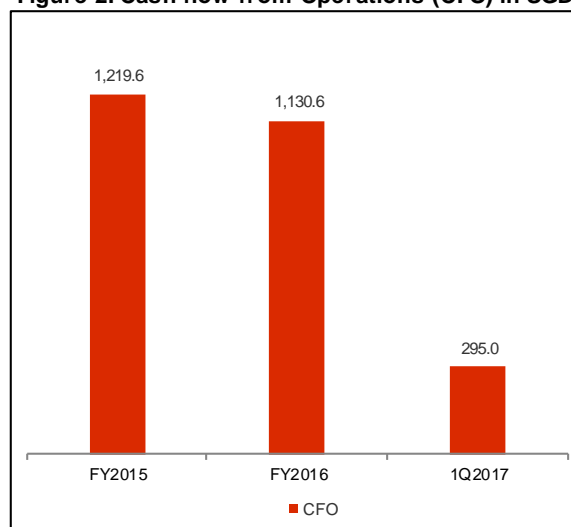
Source: Company

Figure 1: Revenue breakdown by Operation - 1Q2017



Source: Company | Excludes Inter-segment Eliminations

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



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

With the widening to a YTM of 4.0%, we are overweight the GGRSP 5.5% '18s.

Golden Agri-Resources Ltd
Key credit considerations
**Issuer Profile:
Neutral**

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **GGRSP**

Background

Golden Agri-Resources Ltd ("GGR") is the world's second largest palm oil company with 488,276 ha of palm oil plantations in Indonesia. The company's integrated operations include oil palm cultivation, crude palm oil ("CPO") and palm kernel processing and downstream refining to produce consumer products such as cooking oil, margarine and shortening. The company is 50.35%-owned by the Widjaja family and is listed on the SGX with a market cap of SGD4.7bn.

- **Improvement in 1Q2017 underlying operating results:** Revenue was up 37% to USD2.05bn driven by an increase in crude palm oil ("CPO") prices and higher average net realized prices, coupled with the recovery in palm production volumes and increase in sales volume in the palm and lauric segment. Overall EBITDA (based on company's calculation) saw a 29% improvement to USD182.8mn. Despite stronger revenue generation from palm and laurics, EBITDA margin for this segment was lower at 2.1% in 1Q2017 against 4.9% in 1Q2016, driven by higher input (ie: CPO) prices. Per our estimates (taking out impact of intersegment income), the upstream segment contributed 77% to overall EBITDA in 1Q2017 (up from 53% in 1Q2016) and the palm and lauric segment made up 21% of overall EBITDA. Profit before tax though was 32% lower at USD53.8mn (versus USD79.1mn in 1Q2016) mainly due to the absence of a foreign exchange gain of USD51.9mn in 1Q2016 versus a small foreign exchange loss of USD1.2mn in 1Q2017.
- **Improvements in interest coverage:** Financial expenses increased by 10.2% to USD35.5mn due to the higher average debt balance at GGR. Nevertheless, in light of the much stronger EBITDA generation, interest coverage as measured by company's EBITDA over interest expense was higher at 5.2x (1Q2016: 4.4x).
- **Decline in capex in FY2017 expected:** In aggregate, GGR projects that it will spend USD150mn in capex, half for the upstream sector (for replanting) and the other half for the downstream sector where GGR is expanding its biodiesel processing capacity and spending on logistics facilities. The average age of plantations at GGR are now 16 years old (47% of plantations by area are above 18 years old). GGR expects to replant 10,000 ha this year. In 1Q2017, GGR had spent USD62.8mn in capex. Projected capex numbers for the year have reduced from the peak where capex spent routinely exceeded USD300mn p.a. Going forward, we expect GGR to focus on growing profitability on its vertically integrated operations and to turnaround its China oilseed business (1Q2017: USD2mn in EBITDA).
- **Gearing flat:** As at 31 March 2017, cash balance (excluding pledged cash) was USD183.0mn (31 December 2016: USD122.7mn) while net gearing was relatively flat at 0.7x. In end-December 2016, GGR provided USD268mn in corporate guarantees on borrowings of joint ventures and entities owned by investees and joint ventures (rising from only USD199.1mn in end-2015). Subsequently in April 2017, GGR redeemed SGD150mn (~USD107mn) in bonds, some with external funding. Excluding estimated working capital-related debt, we think GGR still has some USD559mn that will need to be refinanced over the next 9 months. Our base case is that the company is able to refinance, notwithstanding legacy issues surrounding the major shareholders and their other companies. As at 31 March 2017, GGR's adjusted asset base (excluding intangible assets, bearer plants and long term investments) provided a 2.1 x coverage to gross debt.
- **Softer CPO price expectation:** While weaker palm oil prices continue to weigh on market sentiment for the company's listed equity, GGR's credit profile has improved in our view. This is premised on the company's stronger interest coverage and expectations that capex will taper off in FY2017. We expect net cash flow to improve during the next six months. The current weakness in CPO prices is led by increased volumes rather than a slump in demand. As such we think the softer CPO price outlook will pose a manageable credit impact during this period. OCBC Commodities Research has lowered its CPO price forecast to MYR2,250/MT by year end. We have uplifted our issuer profile on the company to **Neutral**.

Golden Agri-Resources Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	1Q2017
Income Statement (USD'mn)			
Revenue	6,510.1	7,208.8	2,046.4
EBITDA	483.1	524.8	167.8
EBIT	172.3	175.6	76.1
Gross interest expense	132.0	131.3	35.5
Profit Before Tax	-0.7	140.3	53.8
Net profit	10.4	399.6	37.6
Balance Sheet (USD'mn)			
Cash and bank deposits	243.6	153.0	190.0
Total assets	8,035.7	8,306.4	8,400.5
Gross debt	3,045.4	3,066.3	2,938.0
Net debt	2,801.8	2,913.3	2,748.1
Shareholders' equity	3,749.4	4,096.0	4,127.8
Total capitalization	6,794.8	7,162.2	7,065.8
Net capitalization	6,551.2	7,009.2	6,875.8
Cash Flow (USD'mn)			
Funds from operations (FFO)	321.1	748.8	129.3
* CFO	465.4	102.1	232.3
Capex	449.4	214.9	37.4
Acquisitions	60.1	13.7	0.6
Disposals	6.4	18.4	0.5
Dividend	57.4	47.5	0.0
Free Cash Flow (FCF)	16.0	-112.9	194.9
* FCF adjusted	-95.1	-155.6	194.8
Key Ratios			
EBITDA margin (%)	7.4	7.3	8.2
Net margin (%)	0.2	5.5	1.8
Gross debt to EBITDA (x)	6.3	5.8	4.4
Net debt to EBITDA (x)	5.8	5.6	4.1
Gross Debt to Equity (x)	0.81	0.75	0.71
Net Debt to Equity (x)	0.75	0.71	0.67
Gross debt/total capitalisation (%)	44.8	42.8	41.6
Net debt/net capitalisation (%)	42.8	41.6	40.0
Cash/current borrowings (x)	0.2	0.1	0.1
EBITDA/Total Interest (x)	3.7	4.0	4.7

Source: Company, OCBC estimates

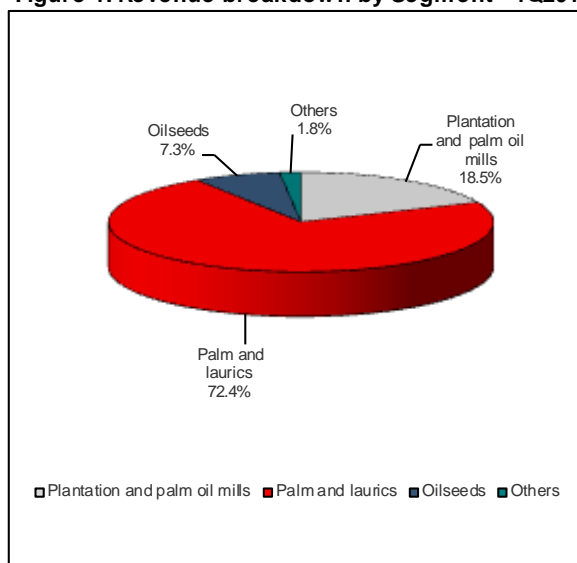
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	536.4	18.3%
Unsecured	987.7	33.6%
	1,524.2	51.9%
Amount repayable after a year		
Secured	988.7	33.7%
Unsecured	425.1	14.5%
	1,413.9	48.1%
Total	2,938.0	100.0%

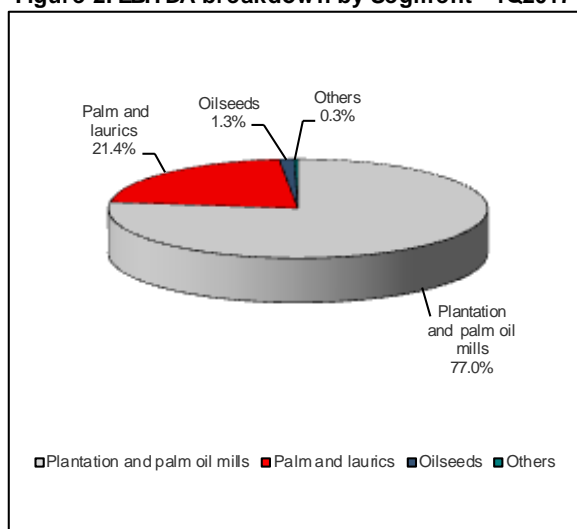
Source: Company

Figure 1: Revenue breakdown by Segment - 1Q2017



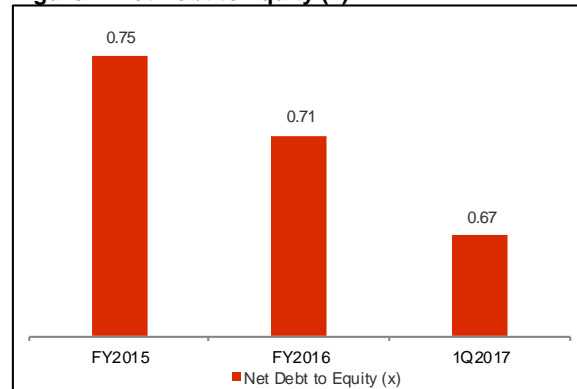
Source: Company

Figure 2: EBITDA breakdown by Segment - 1Q2017



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We think the GUOLSP curve looks fair, including the newly issued GUOLSP 3.85 '23. Due to GLL's rising leverage, we prefer HFCSP '19s over GUOLSP '19s for 86bps yield pickup.

Issuer Profile: Neutral

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.

GuocoLand Ltd

Key credit considerations

- **Good 3QFY2017 results:** Revenue increased 17% q/q to SGD271mn due to higher sales and progressive revenue recognition from Singapore's residential projects. We believe the growth is largely driven by strong sales in Sims Urban Oasis, which registered sales of 63 units in Jan-Mar 2017 with SGD72.8mn in sales value. This property has continued to sell well, with 102 units moved between Apr-May 2017 (SGD118mn in sales value). We think 75% of the 1,024 units project has been sold. Profits increased 134% y/y to SGD29.8mn due to the strong revenue recognized. However, 9MFY2017 profits are lower by 79% y/y to SGD121mn largely due to a huge one-off gain of SGD542mn (from the divestment of Dongzhimen) in the previous year.
- **Tanjong Pagar Centre to contribute significantly:** We look towards better results as the SGD3bn mixed development at Tanjong Pagar Centre begins to come on stream. Commitment levels for the office and retail lease components have reached 90%, and we expect revenues to be lifted by SGD20mn per quarter going forward. We also expect contribution from the 222-room Sofitel Singapore City Centre, which is expected to open in July 2017. However, the 181 homes at Wallich Residence have yet to contribute significantly, despite the upturn in the Singapore property market. Going forward, we see the potential for GLL to record revaluation gains from Tanjong Pagar Centre and to book profits from sales of its' residential properties.
- **Increase in net debt puts gearing far above peers:** Net gearing continued to increase in 3QFY2017 to 1.01x (2QFY2017: 0.96x) despite collecting RMB593.7mn (SGD130mn) from the disposal of subsidiaries related to the Dongzhimen project as GLL made a MYR777.6mn (SGD246mn) payment for a 27% stake in Eco World. Thus far, we note that its net gearing already towers above peers such as Frasers Centrepoint (0.74x) and CapitaLand (0.44x). We expect net gearing to continue creeping higher to the region of 1.2x when GLL funds its 75% share of the land purchase and development in Chengdu (won at a bid price of RMB3.6bn, or SGD730mn). Outstanding capital commitments include the development of Martin Place and the land parcel at Chengdu.
- **Lumpy debt profile to be refinanced:** As of 3QFY2017, a sizeable SGD2.35bn of borrowings are due within the next 12 months. Nevertheless, we think GLL will be able to refinance these as it has been active in the bond market (SGD580mn bonds issued YTD). We note the potential for further issuances with another SGD105mn bond due in Sep 2017.
- **Rebounding property market could lift sales:** On the back of increased property sales over 1Q2017, we think that GLL is a beneficiary if the property market continues its rebound (Sims Urban Oasis and Wallich Residence still has unsold units). GLL also has a 644-unit project in Shanghai (ie:Changfeng Residences), which could add to further sales, notwithstanding that the Shanghai property market has stabilised.
- **Recurring income from investment properties:** GLL recorded SGD24.5mn rental income in 2016, which may grow by a further SGD80mn when Tanjong Pagar Centre fully contributes. In addition, GLL received SGD1.9mn in management fee and SGD37mn from hotel operations. These help to partly cover the SGD160mn interest expense in 2016. As we expect significant contributions from Tanjong Pagar Centre and brisk property sales to mitigate credit deterioration from further expected increases in net gearing, we are upgrading GLL's Issuer Profile to **Neutral** from Negative.

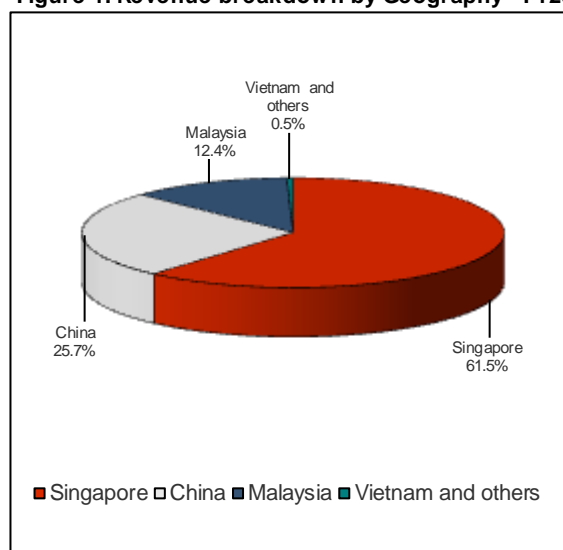
Guocoland Ltd

Table 1: Summary Financials

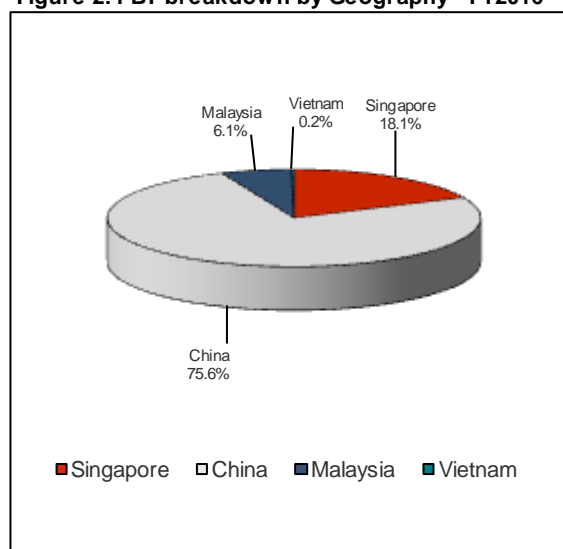
Year Ended 30th Jun	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	1,159.9	1,059.8	705.8
EBITDA	299.4	223.0	111.9
EBIT	290.4	213.0	107.5
Gross interest expense	183.6	159.8	124.1
Profit Before Tax	318.7	773.2	156.6
Net profit	226.4	606.7	112.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	663.1	1,430.2	980.8
Total assets	9,511.8	7,906.6	8,624.4
Gross debt	5,280.0	3,830.3	4,434.9
Net debt	4,616.9	2,400.0	3,454.0
Shareholders' equity	3,296.2	3,442.2	3,436.3
Total capitalization	8,576.3	7,272.5	7,871.2
Net capitalization	7,913.2	5,842.3	6,890.3
Cash Flow (SGD'mn)			
Funds from operations (FFO)	235.4	616.8	116.7
* CFO	-79.9	389.7	-850.0
Capex	231.5	286.9	105.4
Acquisitions	11.6	0.0	257.2
Disposals	20.7	2,251.6	130.2
Dividend	66.6	66.7	101.4
Free Cash Flow (FCF)	-311.3	102.8	-955.5
* FCF Adjusted	-368.7	2,287.7	-1,183.9
Key Ratios			
EBITDA margin (%)	25.8	21.0	15.8
Net margin (%)	19.5	57.2	15.9
Gross debt to EBITDA (x)	17.6	17.2	29.7
Net debt to EBITDA (x)	15.4	10.8	23.2
Gross Debt to Equity (x)	1.60	1.11	1.29
Net Debt to Equity (x)	1.40	0.70	1.01
Gross debt/total capitalisation (%)	61.6	52.7	56.3
Net debt/net capitalisation (%)	58.3	41.1	50.1
Cash/current borrowings (x)	0.4	0.7	0.4
EBITDA/Total Interest (x)	1.6	1.4	0.9

Source: Company, OCBC estimates

*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 1: Revenue breakdown by Geography - FY2016


Source: Company

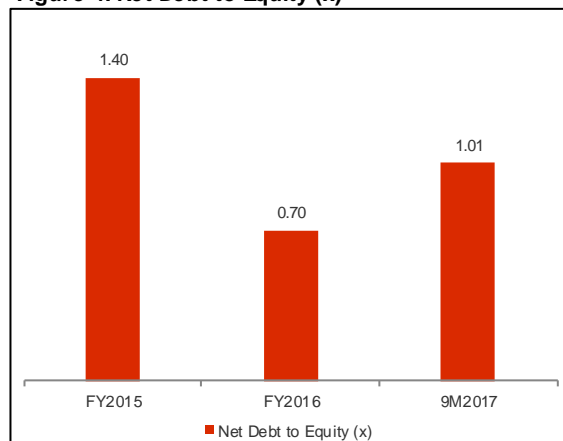
Figure 2: PBT breakdown by Geography - FY2016


Source: Company, OCBC estimates

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	1745.7	39.4%
Unsecured*	604.5	13.6%
	2350.2	53.0%
Amount repayable after a year		
Secured	1145.7	25.8%
Unsecured	939.0	21.2%
	2084.7	47.0%
Total	4434.9	100.0%

Source: Company

Figure 4: Net Debt to Equity (x)


Source: Company, OCBC estimates

Credit Outlook –

Although we like HLD's strong credit profile, we think that HENLND '18s trading at 1.71% looks fair. Investors looking for yield pick-up can consider GUOLSP '18s trading at 2.26% or HFCSP '18s trading at 2.88%.

Issuer Profile:
Neutral

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

Ticker: **HENLND**

Background

Henderson Land Development Co Ltd ("HLD") 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. 72.8%-owned by its Chairman, Dr. Lee Shau Kee, HLD is one of the largest conglomerates in Hong Kong.

Henderson Land Development Co Ltd**Key credit considerations**

- **Decent FY2016 results:** HLD's main business segments turned in a set of decent profits. The property leasing segment saw profits increasing 3% y/y to HKD6.5bn while property development increased 0.2% y/y to HKD4.0bn. 41.52%-owned Hong Kong and China Gas Company Limited ("HKCGC") contributed a flattish net profit (HLD's share: +0.3% y/y to HKD2.7bn). However, underlying profit surged 29% y/y to HKD14.2bn, mainly due to net gain of HKD3.8bn on the disposal of Golden Centre.
- **Recurring income from property leasing and HKCGC:** Most of FY2016's increase in net rental income was due to Hong Kong (+3.7% y/y to HKD5.1bn) while Mainland China's contribution was flattish in HKD terms (+5.6% y/y in RMB) due to a weaker RMB. The IFC project continued to deliver, with gross rental income increasing 2.8% y/y to HKD1.9bn while its core Hong Kong investment properties occupancy inched up to 98% (FY2015: 97%). HKCGC is the other key contributor to recurring cashflows, with FY2016 dividend attributable to HLD at HKD1.8bn (+10% y/y). Post the disposal of non-core investment properties, HLD's investment property portfolio fell in Hong Kong (-3.3% y/y to 8.8mn sq ft) and Mainland China (-12.3% y/y to 6.4mn sq ft). However, we expect HLD to rebuild its investment properties with the completion of a Grade A office building in North Point and a shopping podium in Mong Kok in 2017 that will deliver GFA of 370,000 sq ft. HLD is also developing a large-scale integrated project in Xu Hui Riverside in Shanghai that will deliver a Grade A office with 1,800,000 sq ft of GFA and a shopping mall with 200,000 sq ft of GFA.
- **Strong non-residential property sales to lift 1H2017 results:** HLD entered into a series of sales, which should lift 1H2017's revenue. 12 shops at Fairview Height in Mid-Levels were disposed for HKD515mn in Jan 2017, while Newton Place Hotel in Kwun Tong and Newton Inn in Northpoint were sold for HKD2.2bn and HKD1.0bn respectively in Feb 2017. In addition to the disposal of Henderson Centre in Beijing, non-residential property sales amounted to HKD7.0bn.
- **More sites to sell in 2017 and going forward:** Compared to 1,396 units sold in Hong Kong in 2016, HLD will be offering 2,600 units (FY2016: >2,100 units) and 600,000 sq ft of commercial space (FY2016: 226,000 sq ft) in Hong Kong for sale in 2017. While the residential property market may continue to be volatile due to increasing government/central bank interventions, we note that HLD has increasingly diversified into Mainland China. Profits from Mainland China development increased 129% y/y to HKD1.4bn while contracted sales for FY2016 increased 16% y/y to HKD8.5bn. There is potential for this segment to scale up as HLD holds sufficient land bank in Mainland China (91mn sq ft of attributable GFA). In Hong Kong, the land bank is also likely sufficient in the coming years with 1.3mn sq ft of GFA for new projects to be launched in 2017. In 2018-2019, HLD planned for 1.7mn sq ft GFA from urban redevelopment projects and has another 3.7mn sq ft GFA in landbank from 2019 and beyond.
- **Aggressive land bids:** HLD surprised markets with a record HKD23.3bn (HKD50,064 psf) purchase for an office land parcel at Murray Road in Central, outbidding eight rivals including Li Ka-Shing and a Chinese firm. It remains to be seen if HLD will eventually turn the purchase into a profitable one with completion around 2022.
- **Healthy credit metrics:** Net gearing improved to 0.12x in FY2016 (FY2015: 0.16x) on the back of strong property sales. However, with the purchase of the land at Murray Road, net gearing may increase to 0.18x, which is still healthy in our view.

Henderson Land Development Co Ltd

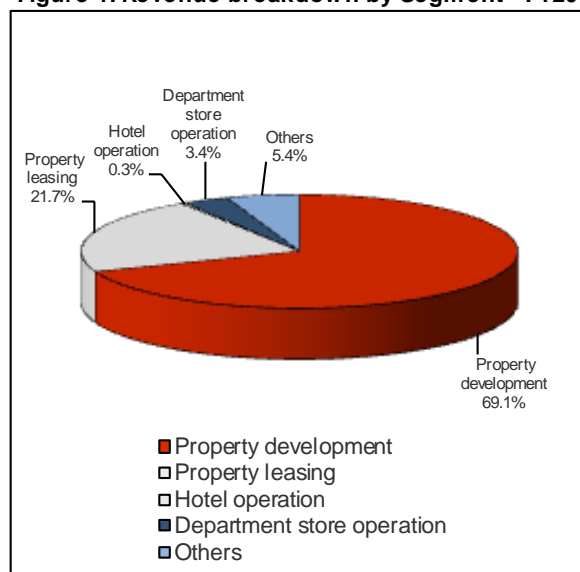
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	FY2016
Income Statement (HKD'mn)			
Revenue	23,371	23,641	25,568
EBITDA	6,167	7,735	7,857
EBIT	5,991	7,596	7,751
Gross interest expense	2,021	1,795	1,740
Profit Before Tax	18,473	23,338	24,441
Net profit	16,752	21,326	21,916
Balance Sheet (HKD'mn)			
Cash and bank deposits	10,303	11,779	22,966
Total assets	316,980	336,269	355,498
Gross debt	47,723	52,096	56,400
Net debt	37,420	40,317	33,434
Shareholders' equity	243,217	256,269	269,301
Total capitalization	290,940	308,365	325,701
Net capitalization	280,637	296,586	302,735
Cash Flow (HKD'mn)			
Funds from operations (FFO)	16,928	21,465	22,022
* CFO	2,302	-2,668	4,639
Capex	5,233	729	3,414
Acquisitions	80	155	162
Disposals	2,043	427	5,224
Dividends	2,297	3,391	6,348
Free Cash Flow (FCF)	-2,931	-3,397	1,225
* FCF Adjusted	-3,265	-6,516	-61
Key Ratios			
EBITDA margin (%)	26.4	32.7	30.7
Net margin (%)	71.7	90.2	85.7
Gross debt to EBITDA (x)	7.7	6.7	7.2
Net debt to EBITDA (x)	6.1	5.2	4.3
Gross Debt to Equity (x)	0.20	0.20	0.21
Net Debt to Equity (x)	0.15	0.16	0.12
Gross debt/total capitalisation (%)	16.4	16.9	17.3
Net debt/net capitalisation (%)	13.3	13.6	11.0
Cash/current borrowings (x)	0.7	0.9	1.1
EBITDA/Total Interest (x)	3.1	4.3	4.5

Source: Company, OCBC estimates

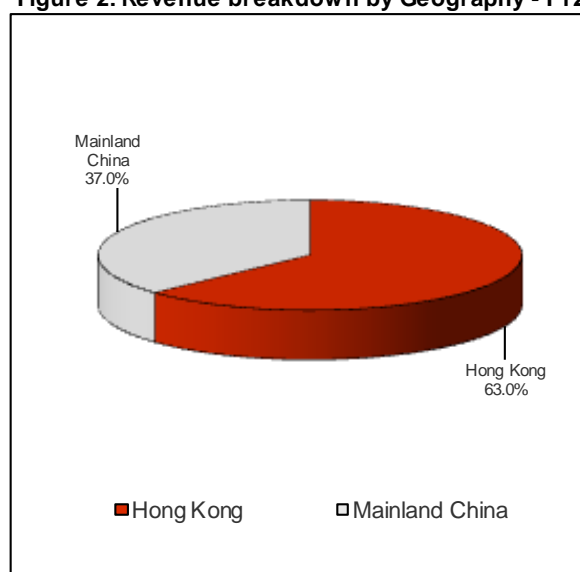
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 1: Revenue breakdown by Segment - FY2016



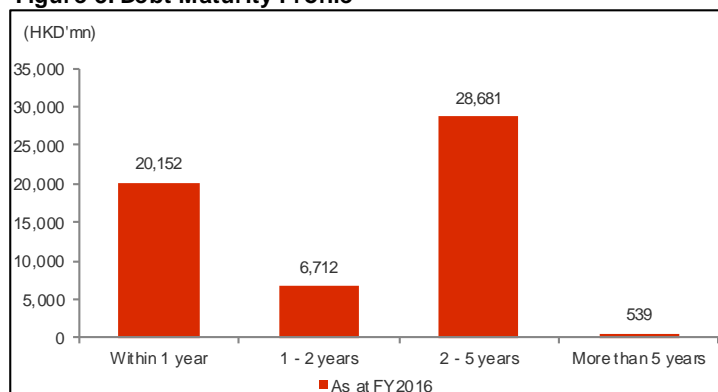
Source: Company

Figure 2: Revenue breakdown by Geography - FY2016



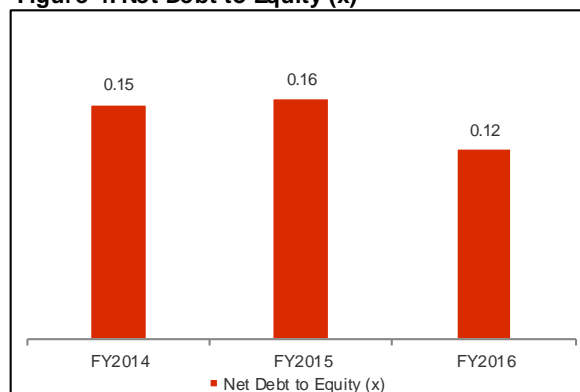
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We think HFCSP '19s trading at 3.67% looks interesting, offering 54bps-129bps yield pickup compared to GUOLSP '19s trading at 3.13% and HPLSP '19s trading at 2.38% while also offering a manageable net gearing of 0.34x.

Hong Fok Corp Ltd

Key credit considerations

- **Deepening core loss with elevated expenses:** 1Q2017 results were again disappointing, with net loss worsening to SGD3.3mn (1Q2016 loss: SGD1.2mn) as other expenses surged 15% y/y to SGD11.5mn due to costs incurred for renovation of a property in Hong Kong. Additionally, costs to construct Yotel were expensed in 1Q2017. We note that full year revenue in 2016 also declined by 3.4% y/y to SGD58.4mn as rental income from investment properties fell to SGD40mn (FY15: SGD42mn), likely due to declining office rents. Without the SGD97.6mn revaluation gain on investment properties (due to The Concourse), FY2016 losses before tax would have been SGD14.3mn. We note that the biggest expense line for HFC is due to employee benefit expenses (SGD21.3mn), which includes over SGD11mn expenses paid to the directors of the company.
- **Weakening office rental market:** Grade A office rents continued to soften for eight consecutive quarters, with rents declining 21.5% to SGD8.95 psf/mth in 1Q2017 according to CBRE. This does not bode well for HFC, which relies heavily on income from the office units at The Concourse and International Building. Despite the decline in rents, property valuations remained supported with revaluation gains.
- **Mixed outlook ahead:** Despite the recovering Singapore property market, HFC has moved only three units at the 118 unit Concourse Skyline, though we acknowledge this may be partly due to competition from CDL's South Beach Residences. On the positive note, the 610-room YOTEL is slated for completion in 2H2017. However, YOTEL is unlikely to begin contributing fully immediately, as hotels typically take several years to reach a steady occupancy rate. We also note the continuing softness in the Singapore's hotel market as more hotels come on stream.
- **Staggered debt maturity with access to financing:** HFC has termed-out debt, with minimal debt expiring in 2017. However, we estimate SGD155mn in bank loan and bond will mature in 1Q2018, which may need to be refinanced as cash on hand of SGD69mn is insufficient. We are not overly worried as HFC mentioned that it is confident that these loans and borrowings will be refinanced or repaid. HFC's assets are likely to be substantially encumbered, though we think the healthy gearing levels allows headroom for more debt. We no longer expect debt levels to increase significantly as capex should fall following the completion of Yotel.
- **Scaling back on dividends with lower profits:** Breaking away from past practices, HFC has adopted more shareholder-friendly policies by paying increasing dividends between 2013 and 2015. However, we are comforted that dividends have been reduced to SGD6.9mn in FY2016 (at SGD 1ct / share) as profit has come down, in addition to a dwindling cash pile due to payments of interest expense and capex.
- **Manageable credit metrics:** Net debt/equity at 0.34x is healthy, in comparison to larger peers such as CapitaLand (0.44x) and FCL (0.74x) though City Development (0.18x) has a lower leverage. We note that the valuation of The Concourse and retail units at Concourse Skyline (SGD1.2bn) is already greater than the SGD841mn total liabilities as of 1Q2017. However, due to the weak profitability, net debt/EBITDA remains elevated at [64x] in 1Q2017 (FY16: 55x). On the brighter side, we do not expect the cash burn to persist (1Q2017 FCF: -SGD27.7mn) as HFC is largely done with the construction of YOTEL. As such, we upgrade HFC's Issuer Profile to **Neutral** from Negative.

Issuer Rating: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **HFCSP**

Background

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 74,000 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 (12.38%), Kim Pong Cheong (11.47%) and P C Cheong Pte Ltd (11.04%).

Hong Fok Corp Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	60.6	58.4	14.2
EBITDA	2.8	12.0	2.7
EBIT	2.3	11.3	2.5
Gross interest expense	22.7	28.4	5.8
Profit Before Tax	200.6	83.3	-2.6
Net profit	167.0	73.0	-1.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	163.8	77.4	69.0
Total assets	2,812.6	2,899.3	2,893.8
Gross debt	744.0	734.7	763.3
Net debt	580.2	657.3	694.3
Shareholders' equity	1,984.7	2,072.4	2,052.5
Total capitalization	2,728.7	2,807.1	2,815.8
Net capitalization	2,564.9	2,729.7	2,746.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	167.5	73.7	-1.4
* CFO	13.4	-1.8	-17.4
Capex	32.3	62.9	18.6
Acquisitions	0.0	0.0	0.0
Disposals	103.0	0.2	0.0
Dividend	12.6	6.9	0.0
Free Cash Flow (FCF)	-18.8	-64.7	-36.0
* FCF Adjusted	71.6	-71.5	-36.0
Key Ratios			
EBITDA margin (%)	4.6	20.6	19.1
Net margin (%)	275.7	124.9	-11.3
Gross debt to EBITDA (x)	265.9	61.0	70.8
Net debt to EBITDA (x)	207.4	54.6	64.4
Gross Debt to Equity (x)	0.37	0.35	0.37
Net Debt to Equity (x)	0.29	0.32	0.34
Gross debt/total capitalisation (%)	27.3	26.2	27.1
Net debt/net capitalisation (%)	22.6	24.1	25.3
Cash/current borrowings (x)	28.2	14.8	0.4
EBITDA/Total Interest (x)	0.1	0.4	0.5

Source: Company, OCBC estimates

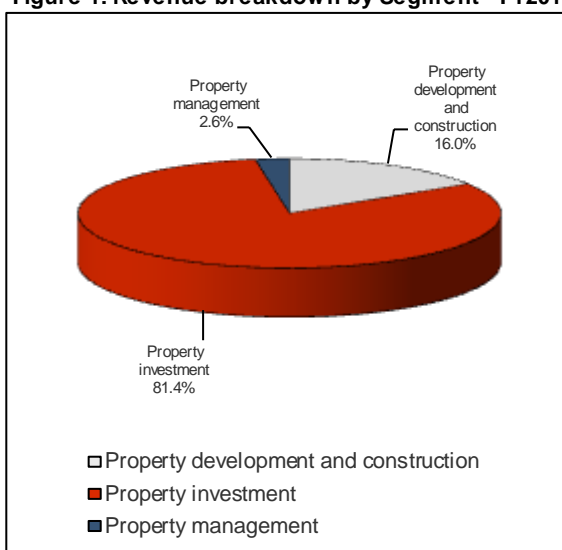
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	89.0	11.7%
Unsecured*	99.8	13.1%
	188.8	24.7%
Amount repayable after a year		
Secured	413.9	54.2%
Unsecured	160.6	21.0%
	574.5	75.3%
Total	763.3	100.0%

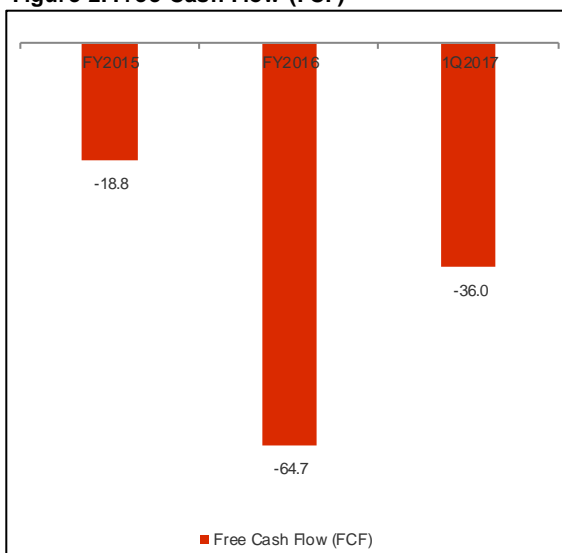
Source: Company

Figure 1: Revenue breakdown by Segment - FY2016



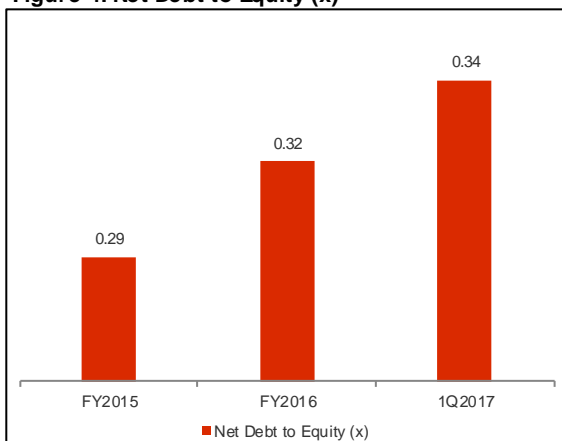
Source: Company

Figure 2: Free Cash Flow (FCF)



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We like HKL's strong credit profile but think that HKLSP '17s is trading too tight at 0.86%. For investors who like HKL, we prefer HKLSP '20s trading at 1.96%. Investors looking for higher yield can consider GUOLSP '20s or HPLSP '20s.

Issuer Rating: Positive

S&P: A/Stable

Moody's: A3/Stable

Fitch: A/Stable

Ticker: **HKLSP**

Background

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 50.01%-owned by Jardine Strategic Holdings Ltd (A/A2/NR).

Hongkong Land Holdings Ltd

Key credit considerations

- **Decent FY2016 results:** FY2016 revenue grew 3.2% y/y to USD1,994mn on the back of higher commercial property revenue (+1.3% y/y to USD986mn) and higher residential property revenue (+5.1% y/y to USD1,008mn). While underlying profit for commercial property grew in-line with revenue (+0.6% y/y to USD946mn), underlying profit for residential property fell 17.3% y/y to USD292.5mn due to the absence of USD57mn gain from the sale of a redeveloped property in Hong Kong. Despite slightly weaker overall underlying profit (-6.3% y/y to USD848mn), overall net profit surged 66.3% y/y to USD3.3bn mainly due to USD2,550mn gains on revaluation of investment properties with cap rates for Hong Kong office compressing to 3.5% in end-2016 (1H2016: 3.6%).
- **Central portfolio as the anchor of credit profile:** HKL's portfolio of prime property in Central (450,000 sqm) contributed the majority of the underlying profit in the commercial property segment (USD794mn out of USD946mn). Of these, 74% is estimated to be contributed by the office portfolio. This has done well with net rent increasing to HKD103 psf/mth in 2016 (2015: HKD101 psf/mth) mainly due to rental reversion and vacancy declining to 2.4% in 1Q17 (FY2015: 3.4%). The outperformance in Central-office has more than made up for the softness from the retail portfolio. Retail net rent fell to HKD218 psf/mth in FY2016 (FY2015: HKD221 psf/mth) due to the general weakness in Hong Kong retail. We think there are more upsides from the Central portfolio. Management has opined that positive rental reversion in Central is almost a certainty with a number of interested parties from China. Despite a large supply of offices entering the market, these are mainly outside of Central and the Central area will likely remain undersupplied.
- **Softness in Singapore office mitigated by termed out leases:** Although gross rents for Singapore-office fell to SGD9.3 psf/mth in FY16 (FY2015: SGD9.5 psf/mth), with HKL reporting further mild negative rental reversions in 1Q17, we are not overly worried. HKL's long weighted average lease to expiry (4.8 years) with minimal expiries/rent reversions (7.8% of total leases) in 2017 should mitigate the softness while the market digests supply of offices coming on stream in 2017.
- **Continuing the diversification out of Hong Kong:** In Mainland China, contracted sales increased to USD1.1bn in FY2016 (FY2015: USD802mn), with most of the sales expected to be recognised in 2017. There are 1.8mn sqm of residential property under development in China and these are in various stages of completion (up to 2024), though the first phase of New Bamboo Grove and Landmark Riverside are expected to complete in 2017. Other near-term completions include the 116,000 sqm Anandamaya Residences in Indonesia (2018), WTC 3 in Indonesia (2018), 98,000 sqm Two Roxas Triangle in Philippines (2018) while the 43,000 sqm WF Central in Beijing will open in 4Q2017.
- **Solid credit metrics though HKL may gear up with land acquisitions:** HKL's balance sheet remains very healthy with net gearing inching down to 6% in FY2016 (FY2015: 8%). Net debt to EBITDA and interest coverage are also healthy at 2.1x and 6.7x respectively. However, HKL has guided that investments in 2017s will be higher than that for 2016. We note that HKL has undertaken several large acquisitions to replenish its landbank in Singapore including winning a land parcel at Margaret Drive (SGD238mn), buying en-bloc Eunosville (SGD766mn) while teaming up with IOI Properties to develop a site in Marina Bay, which was acquired for SGD2.6bn. Funding remains sufficient with available liquidity of USD4.5bn.
- **Will Central valuations go higher?:** With Henderson Land paying a record HKD23bn (HKD50k psf) for a commercial plot at Central, HKL's Central property valuations may be uplifted, despite already compressed cap rates.

Hongkong Land Holdings Ltd

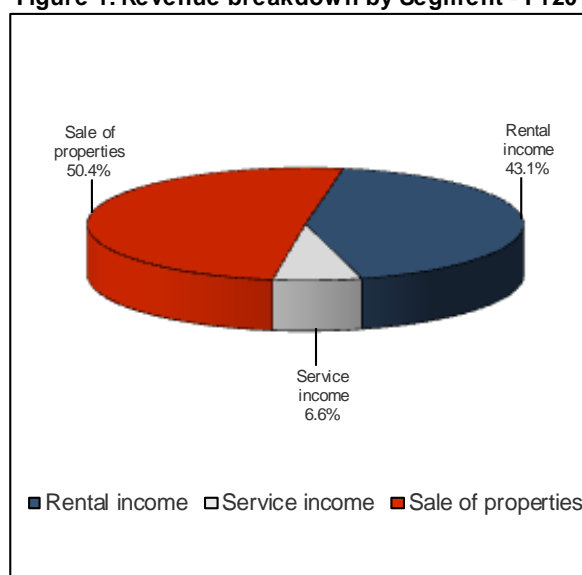
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	FY2016
Income Statement (USD'mn)			
Revenue	1,876	1,932	1,994
EBITDA	1,055	924	962
EBIT	1,053	921	959
Gross interest expense	144	151	145
Profit Before Tax	1,537	2,143	3,512
Net profit	1,327	2,012	3,346
Balance Sheet (USD'mn)			
Cash and bank deposits	1,663	1,569	1,909
Total assets	33,633	34,372	36,955
Gross debt	4,320	3,910	3,916
Net debt	2,657	2,341	2,008
Shareholders' equity	27,598	28,720	31,314
Total capitalization	31,918	32,630	35,231
Net capitalization	30,255	31,061	33,322
Cash Flow (USD'mn)			
Funds from operations (FFO)	1,330	2,015	3,349
* CFO	699	896	1,096
Capex	174	210	240
Acquisitions	216	327	108
Disposals	0	0	0
Dividends	426	449	448
Free Cash Flow (FCF)	525	686	857
* FCF Adjusted	-117	-90	300
Key Ratios			
EBITDA margin (%)	56.2	47.8	48.2
Net margin (%)	70.7	104.1	167.8
Gross debt to EBITDA (x)	4.1	4.2	4.1
Net debt to EBITDA (x)	2.5	2.5	2.1
Gross Debt to Equity (x)	0.16	0.14	0.13
Net Debt to Equity (x)	0.10	0.08	0.06
Gross debt/total capitalisation (%)	13.5	12.0	11.1
Net debt/net capitalisation (%)	8.8	7.5	6.0
Cash/current borrowings (x)	5.8	9.3	8.6
EBITDA/Total Interest (x)	7.3	6.1	6.7

Source: Company, OCBC estimates

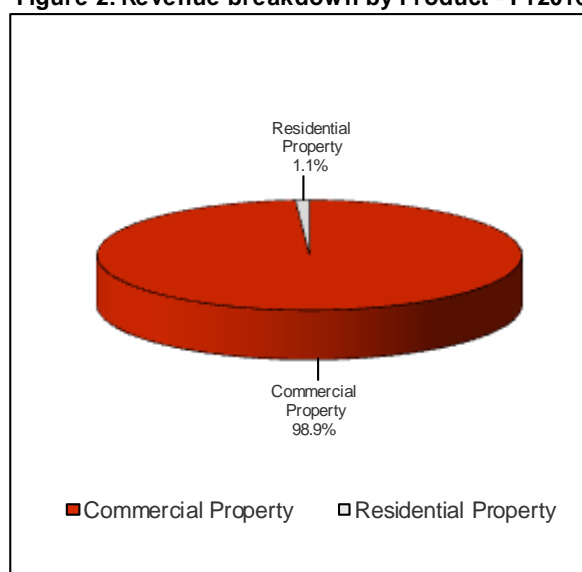
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 1: Revenue breakdown by Segment - FY2016



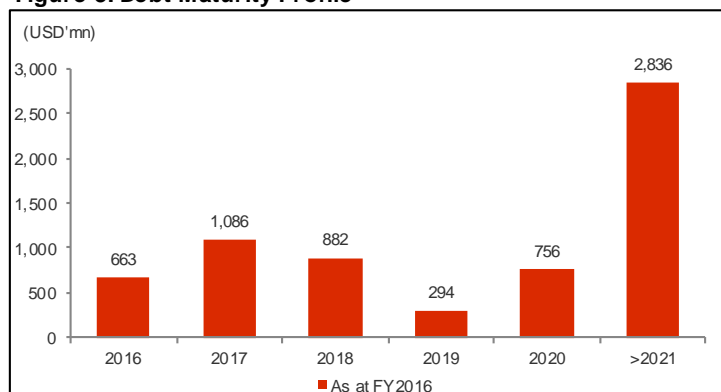
Source: Company

Figure 2: Revenue breakdown by Product - FY2016



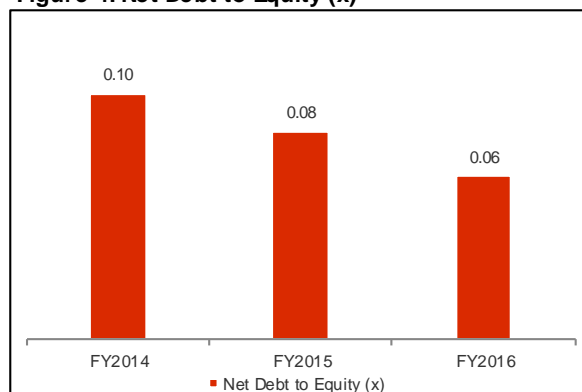
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook

We prefer HPLSP '20s and '21s over '18s and '19s as they offer 59bps-118bps for 2-year extension in tenor. The most recent HPLSP perps look fair at 4.22% YTC compared to WINGTA perps at 4.11% YTC. Compared to REIT perps though, which typically trade under 4% YTC, we find HPLSP perps somewhat more interesting offering some yield pickup.

Issuer Rating: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **HPLSP**

Background

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.

Hotel Properties Ltd

Key credit considerations

- **Flattish results:** After delivering a small 0.3% y/y decrease in revenue in FY2016 with softer demand in the Maldives, 1Q2017 was similarly somewhat flattish with revenue increasing 0.8% y/y to SGD145mn. The small increase was due to contributions from the newly acquired The Boathouse at Phuket and the newly refurbished Four Seasons resorts at Jimbaran Bay and Kuda Huraa. With more units moved at Tomlinson Heights in 4Q2016, HPL recorded a strong cash inflow from the collection of receivables in 1Q2017 that boosted the cash position to SGD163mn (4Q2016: SGD117mn).
- **Recurring income from investment properties:** Rental income held steady at SGD25.9mn in FY2016 (FY2015: SGD25.6mn), mainly due to contributions from its investment properties from Concorde Shopping Centre and Forum the Shopping Mall. This nearly covers the gross interest expense of SGD30.3mn.
- **Regional diversification mitigates tourism volatility:** Despite HPL's hotel revenue declined 3.2% y/y in FY2016 to SGD461mn (FY2015's hotel revenue also declined 3.6% y/y), we think that the volatility in tourism is mitigated by regional diversification. We estimate that hotel revenues are nearly evenly split between Singapore, the Maldives, Rest of Asia (e.g. Thailand, Indonesia, Vietnam, Malaysia) and the United States.
- **Manageable credit profile with good access to capital markets:** Although HPL recorded significant cash inflow in 1Q2017, headline net gearing worsened to 0.51x (4Q2016: 0.43x) due to the reclassification of SGD150mn perpetual bonds from equity to debt as it was called. If we classify the perpetual bonds as half equity and half debt, net gearing would have improved to 0.45x (4Q2016: 0.49x). A new SGD150mn perpetual bond was issued at a lower coupon of 4.65% (previous perpetual's coupon: 6.125%). Due to the decrease in net debt and refinancing with lower interest rates, interest coverage has significantly improved to 6.4x in 1Q2017 (FY2016: 4.2x). We note that HPL also has committed working capital lines of SGD500mn available.
- **Benefit from resurgence of interest in the property market:** According to URA caveat, Tomlinson Heights moved another 6 units between Apr to May 2017 with a combined value of SGD52.2mn. We estimate that HPL still holds another 14 units at Tomlinson Heights. In Bangkok, HPL is also looking to sell 12 condominium units at The Met.
- **UK properties to contribute in 2017:** HPL expects to complete two UK properties by end of 2017: (1) 50%-owned Holland Park Villas and (2) 65%-owned Burlington Gate. More than half of the former's 72 units have been pre-sold while the latter's 42 units are all sold except for five premium units and penthouse apartments which are held back from the market. Total pre-sales are likely more than GBP450mn (~SGD800mn). We are not worried about the volatility of GBP as HPL is more than hedged on the balance sheet with GBP liabilities of SGD261mn exceeding GBP assets of SGD100mn.
- **Looking to develop more in the UK:** HPL, with a consortium of investors, acquired Ludgate House and Sampson House in London, which is planned to be redeveloped into a 1mn sqft mixed-use project with residential, offices, retail and leisure components. HPL has also acquired a JV interest for a site in Paddington, which is undergoing the final confirmation stages of the planning process to be developed into an office building with retail and leisure spaces.

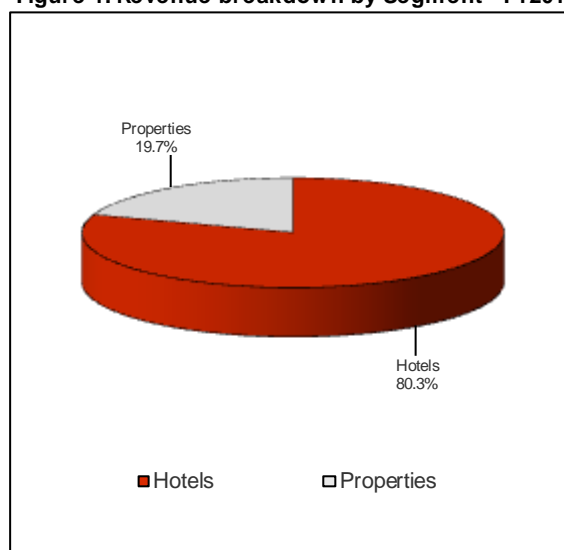
Hotel Properties Limited

Table 1: Summary Financials

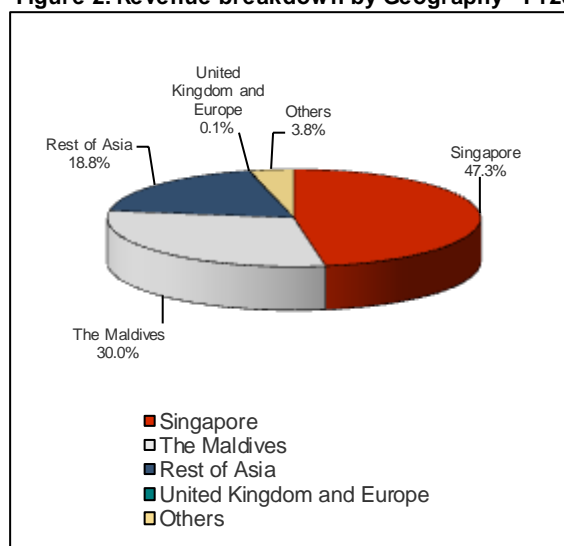
Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	579.5	577.6	144.8
EBITDA	146.0	126.8	44.8
EBIT	94.2	72.7	31.0
Gross interest expense	34.9	30.3	7.0
Profit Before Tax	115.9	135.5	27.8
Net profit	81.7	103.5	16.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	158.8	117.2	163.1
Total assets	3,178.5	3,180.2	3,143.6
Gross debt	1,078.6	992.3	1,121.1
Net debt	919.8	875.1	958.0
Shareholders' equity	1,949.3	2,028.3	1,885.4
Total capitalization	3,027.9	3,020.6	3,006.6
Net capitalization	2,869.0	2,903.5	2,843.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	133.4	157.6	29.8
* CFO	141.9	111.6	80.9
Capex	120.3	80.0	15.8
Acquisitions	0.0	24.1	0.0
Disposals	31.0	66.8	0.3
Dividend	61.2	50.8	0.0
Free Cash Flow (FCF)	21.6	31.6	65.1
* FCF Adjusted	-8.5	23.5	65.4
Key Ratios			
EBITDA margin (%)	25.2	22.0	30.9
Net margin (%)	14.1	17.9	11.1
Gross debt to EBITDA (x)	7.4	7.8	6.3
Net debt to EBITDA (x)	6.3	6.9	5.3
Gross Debt to Equity (x)	0.55	0.49	0.59
Net Debt to Equity (x)	0.47	0.43	0.51
Gross debt/total capitalisation (%)	35.6	32.9	37.3
Net debt/net capitalisation (%)	32.1	30.1	33.7
Cash/current borrowings (x)	0.7	0.4	0.4
EBITDA/Total Interest (x)	4.2	4.2	6.4

Source: Company, OCBC estimates

*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 1: Revenue breakdown by Segment - FY2016


Source: Company

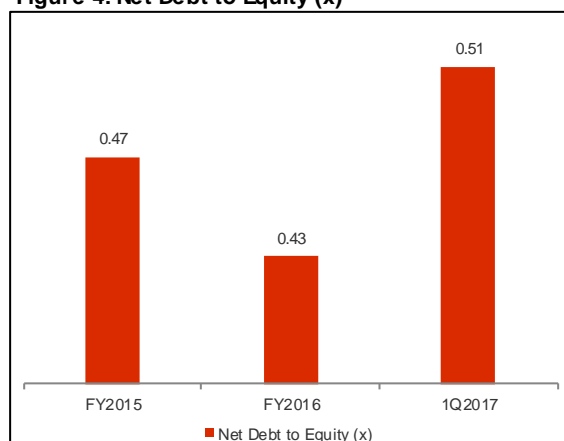
Figure 2: Revenue breakdown by Geography - FY2016


Source: Company, OCBC estimates

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	214.0	19.1%
Unsecured*	223.7	20.0%
	437.7	39.0%
Amount repayable after a year		
Secured	301.6	26.9%
Unsecured	381.8	34.1%
	683.4	61.0%
Total	1121.1	100.0%

Source: Company

Figure 4: Net Debt to Equity (x)


Source: Company, OCBC estimates

Credit Outlook –

We think that the KEPSP'22s are fully valued, trading at levels comparable with pure-play property companies.

Keppel Corp Ltd

Key credit considerations

- **Improving but lean marine order book:** O&M net order book (excluding the Sete Brasil orders) continues to shrink, falling to SGD3.5bn (4Q2016: SGD3.7bn). That said, KEP successfully completed the sale of 5 jack-up rigs (currently under construction) to Borr Drilling Ltd on 01/06/17. These rigs, with a contract value of ~USD1.1bn, were formerly built for Transocean Ltd, and originally had their delivery dates delayed by Transocean Inc to 2020/2021. The transaction brought the delivery dates of these rigs forward to 2017/2018 (for the first 3 rigs), which could support O&M segment revenue in the near future. Broadly speaking, demand for drilling assets remains weak. Recently announced order wins were non-drilling, including SGD120mn for two dredgers (one on option), as well as two LNG carriers worth SGD103mn (with 3 more on option). These orders are scheduled to be delivered in 2019.
- **O&M margins squeezed:** 1Q2017 results reported total revenue down 28.4% y/y to SGD1.25bn. On a q/q basis revenue was also 35.7% lower. The lower volume of O&M work weighed on segment performance, with O&M revenue declining 40.9% y/y to SGD483.2mn, resuming its decline after seeing some stabilization in 4Q2016. Segment operating margin plunged to 0.8%, with fixed costs a drag given lower volumes. As a result, the segment reported a loss of SGD3.4mn for the period. KEP continues to right size its O&M operations, trimming direct workforce by a further 6% (1,250 pax) during the quarter.
- **Property profitability held up:** Though segment sales plunged 47.9% y/y to SGD263.7mn, KEP managed to selling 980 homes during 1Q2017 (1Q2016: 940 units) totaling SGD530mn in sales value. The bulk of sales were in China (730 units), Vietnam (110 units) and Singapore (130 units), with foreign home sales only booked upon delivery. KEP had indicated that domestic home sales are picking up, such as Highline Residences and Corals at Keppel Bay (66% and 64% sold respectively). Pipeline remains healthy at ~18,000 homes ready-to-launch till 2019 (mostly in China, Vietnam and Indonesia). Segment profits were down by 3.8% y/y, with development profits offsetting declines from K-REIT.
- **One-offs boosted returns:** Infrastructure segment performance continues to improve, seeing revenue up 18.9% y/y to SGD472.0mn, driven by increased sales in the power and gas business. Segment profits jumped 104% to SGD33.3mn as a result of the stronger revenues as well as divestment gains. In aggregate, KEP reported SGD260mn in net profit, up 23.2% y/y. It should be cautioned that SGD125mn in profits were derived from Investments and are non-recurring (such as writebacks on KrisEnergy provisions and Tianjin land auction divestment gains). Excluding contributions from investments, net profit would have slumped 36% y/y.
- **Potential divestments a wildcard:** Operating cash outflow was just SGD9.4mn (4Q2016: SGD193.7mn) while free cash flow was negative SGD138mn. KEP had also made further investments in and made advances to associates totaling SGD186mn. The cash gap was met via SGD186.7mn in divestments (PT Sentral Tunjungan Perkasa as well as Keppel DC Singapore 3) as well as by drawing down on KEP's cash balance. As a result, net gearing worsened slightly from 56% to 57% q/q. Interest coverage was about 3.4x for the quarter (based on our calculations for EBITDA). Though the property segment should help mitigate O&M weakness in the near term, the recovery in domestic sentiment could drive KEP to stock up on its Singapore land bank. It should be noted that KEP (along with other shareholders) is undertaking a strategic review of its stake in telco M1 (worth ~SGD386mn), which could be a possible source of liquidity.

Issuer Profile: Neutral

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

Ticker: **KEPSP**

Background

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.

Keppel Corp Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	10,296.5	6,767.3	1,248.0
EBITDA	1,673.1	1,407.8	166.0
EBIT	1,426.0	1,171.3	110.1
Gross interest expense	154.8	224.5	49.3
Profit Before Tax	1,997.4	1,054.9	346.8
Net profit	1,524.6	783.9	260.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,892.8	2,087.1	1,853.5
Total assets	28,920.6	29,234.2	28,899.0
Gross debt	8,258.7	9,053.0	8,934.3
Net debt	6,365.8	6,966.0	7,080.8
Shareholders' equity	11,925.9	12,333.6	12,420.8
Total capitalization	20,184.5	21,386.7	21,355.1
Net capitalization	18,291.7	19,299.6	19,501.6
Cash Flow (SGD'mn)			
Funds from operations (FFO)	1,771.7	1,020.4	316.2
* CFO	-705.0	330.0	-9.4
Capex	1,147.0	466.2	128.6
Acquisitions	581.8	463.3	101.7
Disposals	1,504.4	99.4	189.1
Dividend	955.7	621.9	6.6
Free Cash Flow (FCF)	-1,852.0	-136.2	-138.1
* FCF adjusted	-1,885.1	-1,122.0	-57.3
Key Ratios			
EBITDA margin (%)	16.2	20.8	13.3
Net margin (%)	14.8	11.6	20.9
Gross debt to EBITDA (x)	4.9	6.4	13.5
Net debt to EBITDA (x)	3.8	4.9	10.7
Gross Debt to Equity (x)	0.69	0.73	0.72
Net Debt to Equity (x)	0.53	0.56	0.57
Gross debt/total capitalisation (%)	40.9	42.3	41.8
Net debt/net capitalisation (%)	34.8	36.1	36.3
Cash/current borrowings (x)	2.2	1.1	1.0
EBITDA/Total Interest (x)	10.8	6.3	3.4

Source: Company, OCBC estimates

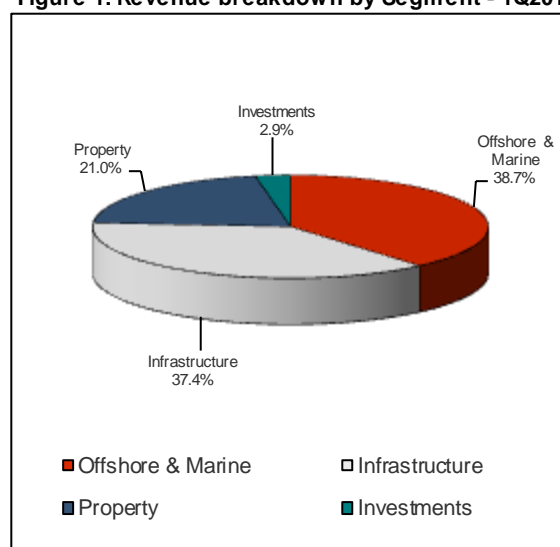
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	297.9	3.3%
Unsecured	1578.3	17.7%
	1876.2	21.0%
Amount repayable after a year		
Secured	637.4	7.1%
Unsecured	6420.7	71.9%
	7058.1	79.0%
Total	8934.3	100.0%

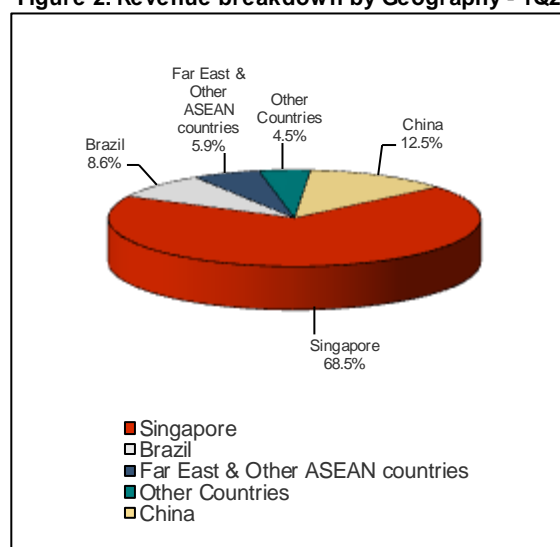
Source: Company

Figure 1: Revenue breakdown by Segment - 1Q2017



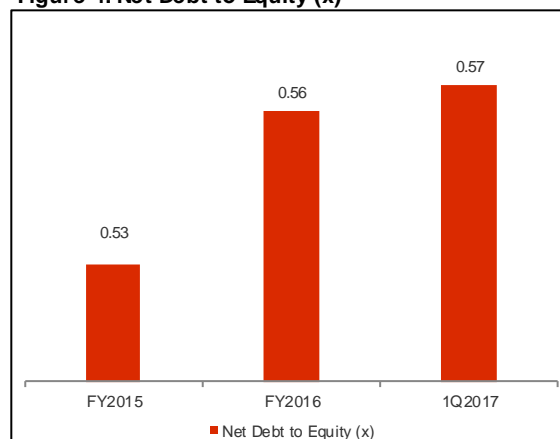
Source: Company

Figure 2: Revenue breakdown by Geography - 1Q2017



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

The KREITS-PERPs looks to be tight relative to the KREITS'24s, with the perp trading just 80bps wider than the senior.

Keppel REIT

Key credit considerations

- **Prior themes persist:** For 1Q2017, property income declined 3.2% y/y to SGD39.9mn, while NPI fell 4.6% y/y to SGD31.4mn. As mentioned previously, the sharp declines were partly driven by the divestment of the 77 King Street office asset in Sydney on 29/01/16. Adjusting for the divestment, property income would have declined 1.6% y/y while NPI would have fallen 3.1% y/y. Bugis Junction Tower continued to be a drag on overall performance (property revenue down 20.2% y/y), with reported occupancy plunging to 93.7% during 4Q2016. Though its occupancy recovered to 95.9% as of end-1Q2017, there is likely some lag effect before the improvements are reflected in the top line. Contributions from KREIT's associates (1/3 interest in ORQ and 1/3 interest in MBFC) have done well, with total income up 28.7% and 4.0% y/y respectively.
- **Quality assets support occupancy:** In aggregate, portfolio occupancy has improved q/q to 99.4% (4Q2016: 99.2%) and remained strong when compared to market occupancy (CBRE reported Singapore core CBD office occupancy at 95.6% for 1Q2017). Despite the looming supply of new office assets in the domestic market, KREIT remains well-positioned given its low lease expiries of 2.8%, 6.9% and 11.8% (as percentage of NLA) for 2017, 2018 and 2019 respectively. Pressure on rental reversions also look to have moderated to -1% for the quarter (compared to -9% for 2016). That said, we caution that only ~82,700 sqft of leases were committed during the quarter versus ~2.2mn sqft for the whole of 2016. In general, we believe demand for KREIT's portfolio of Grade A assets is sustained, as reflected in KREIT's tenant retention rate of 87%. WALE for the portfolio remains healthy at ~6 years, aided by the relatively longer leases on KREIT's Australian assets.
- **Stable credit profile:** Aggregate leverage improved slightly q/q to 38.4% (4Q2016: 38.5%), though we note that KREIT raised SGD75mn of bonds early April. Management had indicated that these bonds will be used to refinance existing debt (though KREIT does not have any maturities due in 2017, it does have SGD464mn due in 2018). Management reported interest coverage remains stable at 4.6x (4Q2016: 4.7x). It should be noted that our estimates of EBITDA exclude contributions from JV / associates, hence the much lower interest coverage number. Proportion of fixed rate debt remained steady at 75%, with unencumbered assets at 84% of the portfolio. Cost of debt increased slightly to 2.57%. As it stands, KREIT's aggregate leverage is currently comparable with its office REIT peers, with KREIT's aggregate leverage trending lower since it had issued its perpetual security in 4Q2015. Comparatively, we have seen peers like CCT bring leverage higher due to acquisitions (such as the balance of CapitaGreen). Acquisition remains as the key risk to KREIT's credit profile, particularly with office transactions heating up.
- **More activity Down Under:** On 29/06/17, KREIT announced that it would be acquiring a 50% stake in 311 Spencer Street, Melbourne, Australia, a 42-floor Grade A office building (NLA of 717,000 sqft) with practical completion expected in 4Q2019. The consideration is AUD347.8mn (~SGD362.4mn) to be paid progressively with construction and is expected to be funded by internal accruals and debt. Management estimated that end-2016 pro-forma aggregate leverage would increase by 1.8ppt to 40.3%, assuming that the loan funding the transaction is fully drawn. The stake was sold by the developer, who retained the balance 50% stake. The site is freehold, with the building 100% pre-leased to the Assistant Treasurer for the State of Victoria, for 30 years. When completed, the asset would boost both portfolio occupancy as well as portfolio WALE. Though the debt-funded transaction is a credit negative, we expect KREIT's aggregate leverage to only inch up when progressive payments are due. Portfolio revaluation gains could also mitigate deterioration to aggregate leverage. We will retain our Neutral Issuer Profile on KREIT for now.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **KREITS**

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 SGD8.4bn (as of March 2017). 89% 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 46.4% owned by Keppel Corp ("KEP"), its sponsor.

Keppel Real Estate Investment Trust

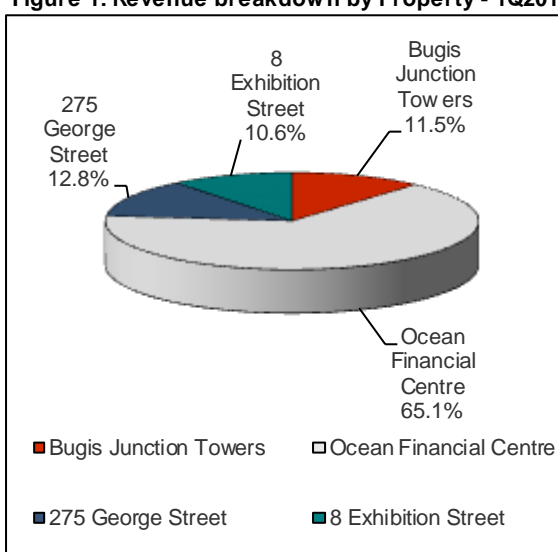
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	170.3	161.3	39.9
EBITDA	80.7	71.5	16.8
EBIT	61.9	56.2	13.5
Gross interest expense	67.3	64.0	15.8
Profit Before Tax	366.8	279.1	42.0
Net profit	337.5	250.2	38.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	144.6	278.7	264.7
Total assets	7,425.4	7,535.3	7,549.7
Gross debt	2,489.6	2,481.8	2,483.0
Net debt	2,345.0	2,203.1	2,218.3
Shareholders' equity	4,777.8	4,898.6	4,917.2
Total capitalization	7,267.4	7,380.3	7,400.2
Net capitalization	7,122.8	7,101.6	7,135.6
Cash Flow (SGD'mn)			
Funds from operations (FFO)	356.3	265.5	41.3
* CFO	114.3	108.2	29.2
Capex	2.5	2.2	1.0
Acquisitions	9.7	0.0	0.0
Disposals	0.0	157.2	0.0
Dividends	203.9	190.1	40.8
Free Cash Flow (FCF)	111.8	105.9	28.2
* FCF Adjusted	-101.9	73.1	-12.6
Key Ratios			
EBITDA margin (%)	47.4	44.3	42.0
Net margin (%)	198.1	155.2	95.6
Gross debt to EBITDA (x)	30.9	34.7	37.1
Net debt to EBITDA (x)	29.1	30.8	33.1
Gross Debt to Equity (x)	0.52	0.51	0.50
Net Debt to Equity (x)	0.49	0.45	0.45
Gross debt/total capitalisation (%)	34.3	33.6	33.6
Net debt/net capitalisation (%)	32.9	31.0	31.1
Cash/current borrowings (x)	5.7	N.A	NM
EBITDA/Total Interest (x)	1.2	1.1	1.1

Source: Company, OCBC estimates

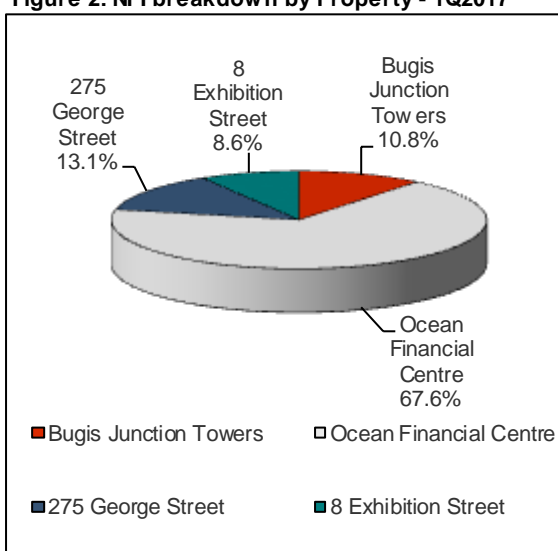
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 1: Revenue breakdown by Property - 1Q2017



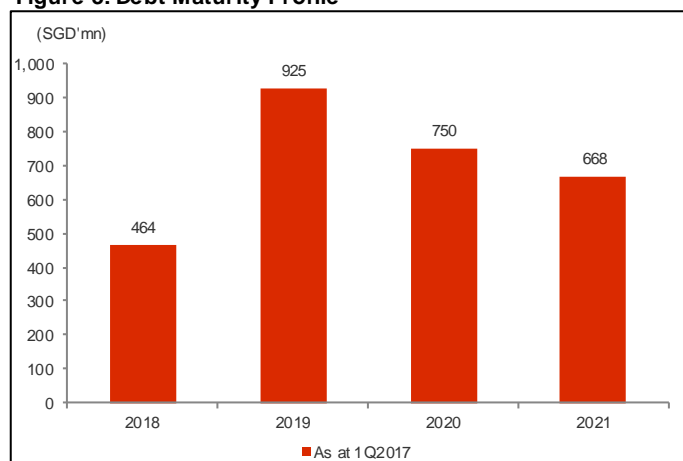
Source: Company

Figure 2: NPI breakdown by Property - 1Q2017



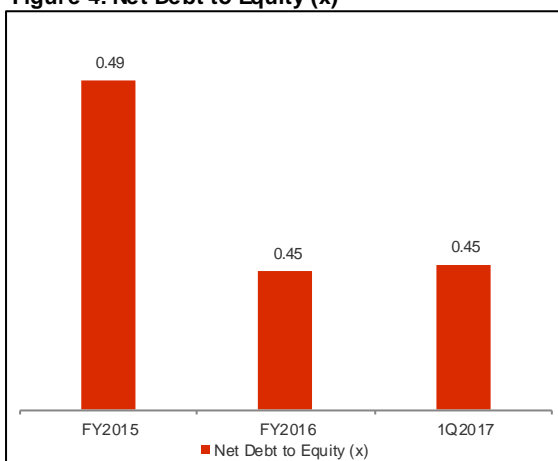
Source: Company

Figure 3: Debt Maturity Profile



Source: Company | *Excludes transaction expense

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – LMRTSP 6.6%-PERPs and LMRTSP 7%-PERPs look the most interesting offering 5.7% and 6.13% YTC respectively. We prefer LMRT curve over FIRT curve as LMRTSP offers higher yield despite having the same sponsor. We are also Overweight on LMRTSP '18s and '20s offering 3.2% and 3.79% yield respectively, while other REITs of similar tenor typically trade below 3% yield.

Issuer Profile: Neutral

S&P: Not rated
Moody's: Baa3/Stable
Fitch: Not rated

Ticker: **LMRTSP**

Background

Listed on the SGX on 2007, Lippo Malls Indonesia Retail Trust ("LMRT") is a retail REIT with a portfolio of 20 retail malls and 7 retail spaces in Indonesia. The malls are mostly located within Greater Jakarta, Bundung, Medan and Palembang, targeted at the middle to upper-middle class domestic consumers. LMRT is the largest retail SREIT by floor space, with an NLA of 851,850 sqm. LMRT is 29.85% owned by its sponsor, Lippo Karawaci ("LK"), as of 7 July 2017.

Lippo Malls Indonesia Retail Trust

Key credit considerations

- **Decent results on the back of rental growth:** LMRT delivered a decent FY2016 performance with 8.4% y/y increase in NPI (of which we estimate 4.2% increase was due to same-store increases). Continuing the good performance, revenue and NPI grew 6.7% y/y and 12.9% y/y respectively in 1Q2017 on the back of strong rental reversion (+7.5%) while NPI grew faster as carpark operating costs are absorbed by the operator. Portfolio occupancy remains healthy at 93.8% in 1Q2017, outperforming the industry average of 85.4% in 4Q16. LMRT's underlying properties performance have also been doing well, recording rental reversions upwards of 5.0% every quarter since 1Q2011.
- **Strong retail real estate performance to mitigate lease expiries:** LMRT has a chunky 20% of leases by NLA expiring in 2017, though we are not worried as LMRT has maintained a good record of high occupancy rate with strong rental renewals. In fact, the Indonesian retail real estate industry did well with average rents of retail centres in Jakarta rising 18.2% y/y in 2016 (2015: +2.6%) on the back of moderate supply increase and steady demand from the influx of fashion and F&B brands. We think the rental growth momentum may continue to spillover into 2H2017 with muted supply of retail spaces in the near term.
- **FX remains the biggest risk though FX volatility is subdued for now:** LMRT is exposed to significant FX risks as it borrows in SGD while its assets are in Indonesia. Currency translation reserve is deeply in the negative region at SGD512mn, which is significant compared to SGD1.1bn in equity (excluding perpetuals). Most of the FX losses were accumulated prior to 2014 when the IDR was volatile, though the volatility has since subsided. While FX risks are not hedged directly, we think it is mitigated by the gearing limit of 45%.
- **Credit metrics remain manageable:** Reported aggregate leverage as of 1Q2017 is 32.2%, which is expected to increase to 33.2% post acquisition of a 4-storey shopping mall at Kendari, South East Sulawesi for IDR310bn (SGD33.2mn). If we account for the perpetual bond as half debt, half equity, aggregate leverage would increase to 36.6%, which we think is still manageable and provides a buffer for further FX losses.
- **Good access to financing with a decline in financing costs:** LMRT tapped the bond market in Jun 2016 with a SGD120mn perpetual. Previously, LMRT raised SGD140mn in Sep 2016 to repay its '16s. We think LMRT maintains good access to financing as it obtained an unsecured term loan facility of up to SGD350mn in Aug 2016. The term loans due Aug 2020 and Aug 2021 come with a lower all-in cost of debt of 4.24% and 4.29% respectively, compared to another SGD145mn term loan at an all-in cost of 5.46% that was previously obtained. With its existing '20s trading at 3.8%, we would not be surprised if LMRT refinances its upcoming 5.875% '17s and 4.48% '17s at a lower cost.
- **More acquisitions likely with manageable credit impact:** LMRT has been aggressively acquiring assets, undertaking SGD1.24bn of acquisitions since 2011. LMRT will likely acquire further assets, given its rapid pace of acquisition while its sponsor Lippo Karawaci ("LK") is incentivised to recycle capital after the credit downgrade by S&P to B+ in July 2016 (from BB-) and Moody's to B1 in Apr 2017 (from Ba3). In particular, LK has plans to develop 40 new retail malls – which may join LMRT's pipeline for acquisition in the future. However, we think that other than small scale properties such as the recently acquired mall at Kendari, future acquisitions will likely have to be funded by a mix of debt and equity given the 45% regulatory debt/asset limit.

Lippo Mall Indonesia Retail Trust

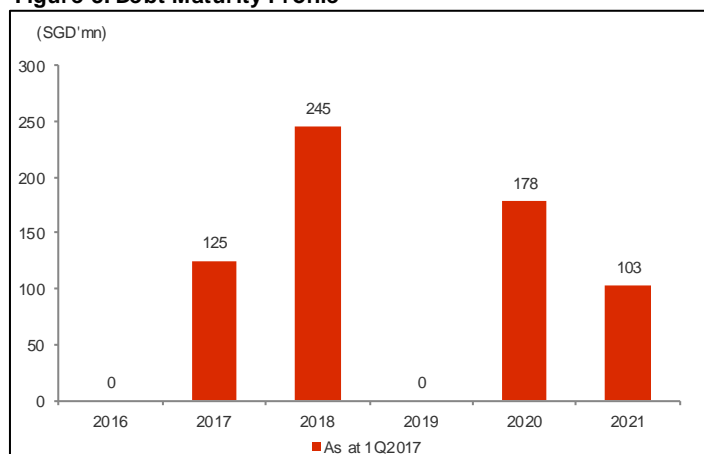
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	173.0	188.1	48.6
EBITDA	148.1	160.9	43.3
EBIT	147.1	159.6	42.9
Gross interest expense	44.4	44.5	10.6
Profit Before Tax	44.3	53.4	30.4
Net profit	26.4	28.8	22.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	80.6	77.8	67.8
Total assets	1,987.7	2,065.2	2,018.9
Gross debt	689.0	640.9	641.8
Net debt	608.4	563.1	573.9
Shareholders' equity	1,075.1	1,232.6	1,193.2
Total capitalization	1,764.1	1,873.4	1,835.0
Net capitalization	1,683.5	1,795.7	1,767.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	27.5	30.1	22.6
* CFO	125.3	143.7	36.2
Capex	9.9	14.8	4.6
Acquisitions	79.4	88.3	0.0
Disposals	0.0	0.0	0.0
Dividends	80.5	93.8	24.3
Free Cash Flow (FCF)	115.5	128.9	31.6
* FCF Adjusted	-44.3	-53.3	7.3
Key Ratios			
EBITDA margin (%)	85.6	85.5	89.2
Net margin (%)	15.3	15.3	45.7
Gross debt to EBITDA (x)	4.7	4.0	3.7
Net debt to EBITDA (x)	4.1	3.5	3.3
Gross Debt to Equity (x)	0.64	0.52	0.54
Net Debt to Equity (x)	0.57	0.46	0.48
Gross debt/total capitalisation (%)	39.1	34.2	35.0
Net debt/net capitalisation (%)	36.1	31.4	32.5
Cash/current borrowings (x)	0.3	0.6	0.5
EBITDA/Total Interest (x)	3.3	3.6	4.1

Source: Company, OCBC estimates

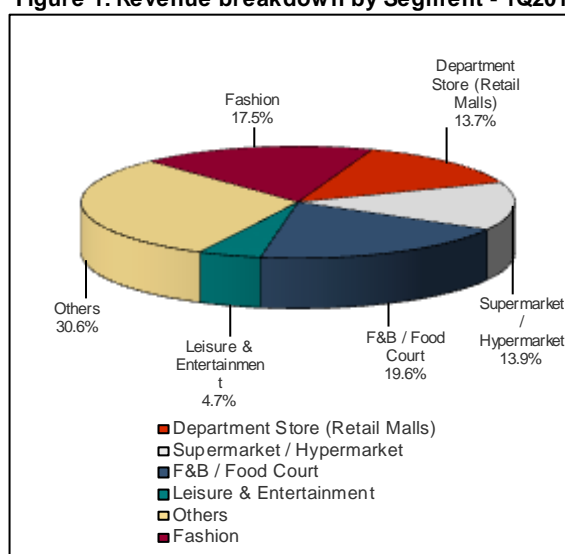
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 3: Debt Maturity Profile



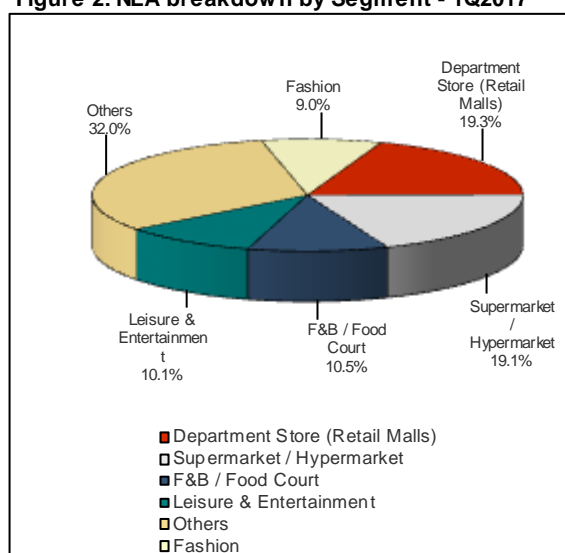
Source: Company

Figure 1: Revenue breakdown by Segment - 1Q2017



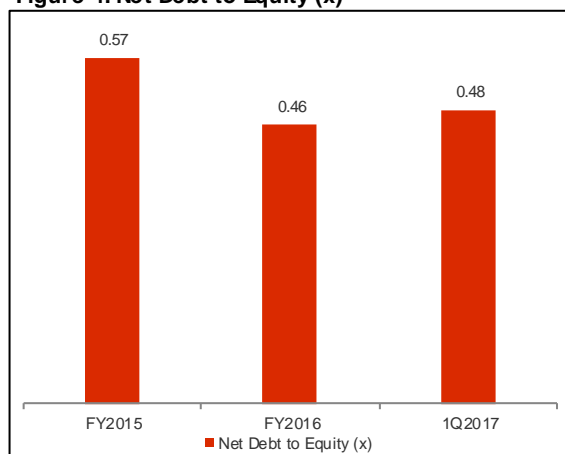
Source: Company

Figure 2: NLA breakdown by Segment - 1Q2017



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

Though we believe MCT's VivoCity and MBC to be best in class, the MCTSP'26s are offering only ~70bps above swaps for 9-year paper and hence look rich.

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 five key assets are: 1) VivoCity – a retail and leisure complex; 2) Mapletree Business City Phase 1 ("MBC"); 2) Bank of America Merrill Lynch HarbourFront ("MLHF"); 3) PSA office building ("PSAB") that includes a 40-storey office block and Alexandra Retail Centre ("ARC"); and 4) Mapletree Anson. The properties, with an NLA of 3.8mn sqft, are valued at SGD6.34bn as of 31 Mar 17. MCT is 33.8%-owned by Temasek through Mapletree Investments.

Mapletree Commercial Trust

Key credit considerations

- **Overall resilient performance:** MCT reported FY2017 full year results (ending March 2017), with gross revenue up 31.3% y/y to SGD377.7mn while NPI was up 32.4% y/y to SGD220.7mn. This was mainly due to contribution from Mapletree Business City Phase 1 ("MBC"), which was acquired on 25/08/16. Stripping out the MBC impact, performance remained strong with gross revenue and NPI up 5.3% and 4.7% y/y respectively for FY2017. VivoCity continued to perform with property NPI up 3.4% y/y to SGD150.4mn. Mapletree Anson too looked to have recovered from its slump in occupancy (FY2016: 91.0%), which allowed NPI to surge 15.9% y/y to SGD27.8mn. 4QFY2017 was largely reflective of full-year FY2017 themes with gross revenue up 47.3% y/y (+4.6% excluding MBC) and NPI up 51.2% y/y (+4.7% excluding MBC). It is worth noting that MBC had largely performed as expected with realized NPI yield of 5.6% in line with management guidance.
- **Minimal impact of MLHF on occupancy:** Though Bank of America Merrill Lynch has vacated the sixth floor of MLHF as planned (MCT had negotiated and allowed the tenant to terminate the existing lease earlier and vacate the sixth floor in exchange for renewing the leases on the balance of space at MLHF), property level committed occupancy remained at 91.6% as a replacement tenant was founded to backfill part of the space. In aggregate, portfolio committed occupancy remained healthy at 98.8%
- **Property stats reflect asset strength:** Retention rates are strong at 95.4% for Retail and 87.3% for Office/Business Park, reflecting the desirability of MCT's assets. VivoCity (accounting for 47% of 4QFY2017 gross revenue) performance continues to outperform the challenging environment for retail assets, with FY2017 Shopper Traffic up 4.8% y/y and Tenant Sales up 1.3% y/y. WALE for both Retail and Office/Business Park remained relatively stable q/q at 2.0 years and 3.4 years respectively. The lease expiry profile looks manageable, with MCT having 8.2% and 4.5% of gross rental revenue expiring for Retail and Office/Business Park respectively over the next 12 months. Lease reversions also remained strong at +13.5% for Retail and +8.5% for Office (excludes MBC). This is despite the challenges faced by MCT's peers in the office and retail space.
- **Leverage and liquidity profile remain average:** Aggregate leverage rose y/y to 36.3% (FY2016: 35.1%), mainly due to total outstanding debt climbing to SGD2.33bn (FY2016: SGD1.55bn) from financing the acquisition of MBC. It should be noted that aggregate leverage was lower than the 38.4% projected by management when acquiring MBC. MCT's portfolio remains entirely unencumbered, while proportion of fixed debt improved to 81.2% (FY2016: 73.8%). Reported interest coverage ratio remained stable at 4.9x (FY2016: 5.0x) despite the increase in gross borrowings. Maturity profile looks to be manageable with SGD264mn in bank debt due in FY2018, and SGD447.6mn in total debt due in FY2019. Comparatively, annualized NPI is ~SGD333mn. Looking forward, a potential pipeline asset would be Mapletree Business City Phase 2 ("MBC II") which was completed in April 2016. MBC II has 1.18mn sqft of NLA, and consists of four business park blocks (including a 30-floor one). Based on MBC I's business park component valuation (as of May 2016), MBC II is estimated to be valued at SGD1.14bn. Though it is likely that MCT would have to leverage up should it acquire MBC II, based on how MCT managed its balance sheet when acquiring MBC I, we believe that the deterioration to MCT's credit profile would be manageable. We will retain our Neutral Issuer Profile on MCT.

Mapletree Commercial Trust

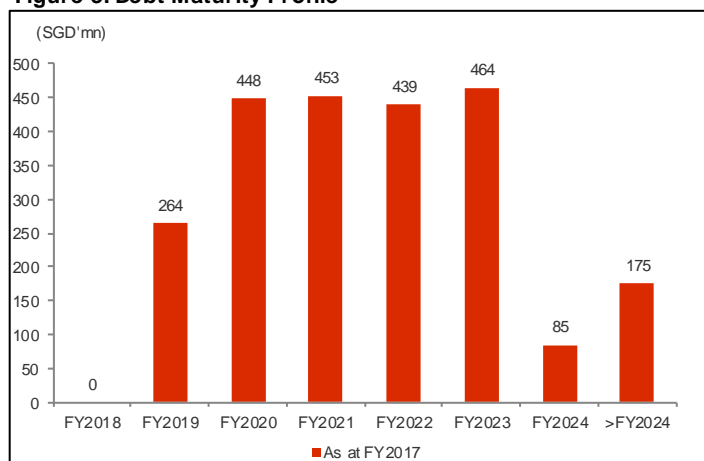
Table 1: Summary Financials

Year Ended 31st March	FY2015	FY2016	FY2017
Income Statement (SGD'mn)			
Revenue	282.5	287.8	377.7
EBITDA	192.4	200.6	266.1
EBIT	192.4	200.5	266.0
Gross interest expense	36.0	39.7	54.2
Profit Before Tax	312.1	298.7	345.8
Net profit	312.1	298.7	345.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	54.9	63.6	53.9
Total assets	4,262.8	4,415.2	6,405.7
Gross debt	1,546.5	1,551.5	2,329.8
Net debt	1,491.7	1,487.9	2,275.8
Shareholders' equity	2,617.0	2,764.0	3,957.5
Total capitalization	4,163.5	4,315.5	6,287.2
Net capitalization	4,108.7	4,251.9	6,233.3
Cash Flow (SGD'mn)			
Funds from operations (FFO)	312.1	298.7	345.9
* CFO	203.5	212.7	287.6
Capex	8.0	7.4	18.6
Acquisitions	0.0	0.0	1,834.3
Disposals	0.0	0.0	0.0
Dividends	136.4	156.8	201.5
Free Cash Flow (FCF)	195.5	205.4	269.0
* FCF Adjusted	59.1	48.5	-1,766.8
Key Ratios			
EBITDA margin (%)	68.1	69.7	70.4
Net margin (%)	110.5	103.8	91.6
Gross debt to EBITDA (x)	8.0	7.7	8.8
Net debt to EBITDA (x)	7.8	7.4	8.6
Gross Debt to Equity (x)	0.59	0.56	0.59
Net Debt to Equity (x)	0.57	0.54	0.58
Gross debt/total capitalisation (%)	37.1	36.0	37.1
Net debt/net capitalisation (%)	36.3	35.0	36.5
Cash/current borrowings (x)	0.3	0.2	NM
EBITDA/Total Interest (x)	5.4	5.0	4.9

Source: Company, OCBC estimates

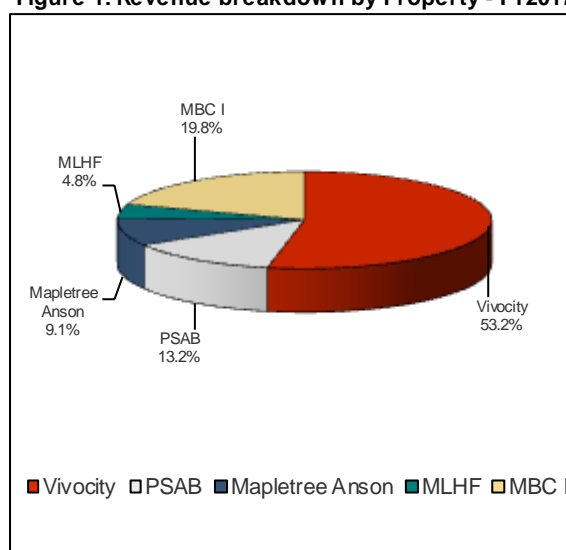
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 3: Debt Maturity Profile



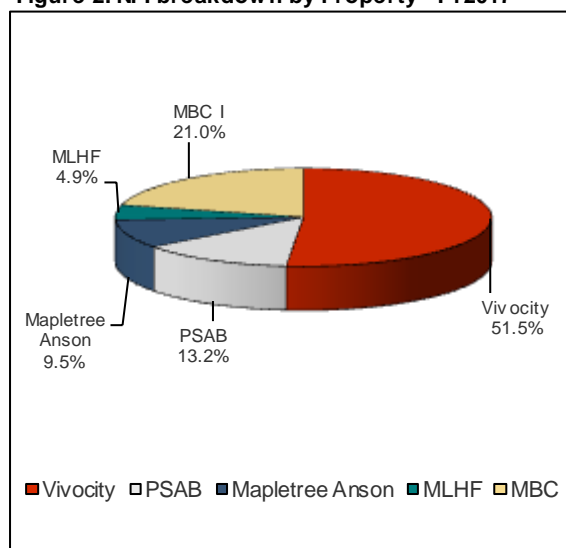
Source: Company

Figure 1: Revenue breakdown by Property - FY2017



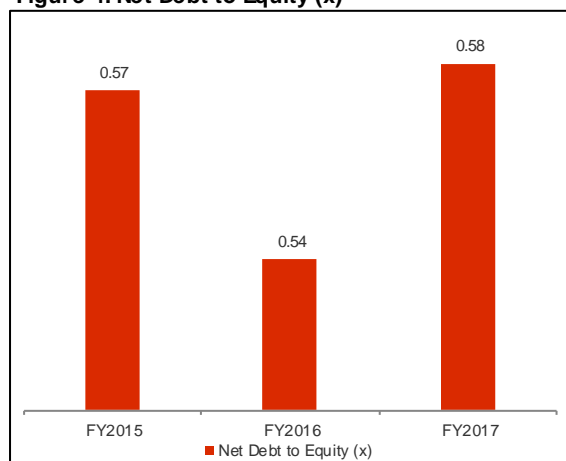
Source: Company

Figure 2: NPI breakdown by Property - FY2017



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We think MAGIC '21s and '22s look attractive at 3.01% 3.14% respectively, with spreads higher than other Mapletree REITs. However, we acknowledge that this may be partly because MAGIC bonds are less liquid.

Issuer Rating: Neutral

S&P: Not rated

Moody's: Baa1/Stable

Fitch: Not rated

Ticker: **MAGIC**

Background

Listed on the SGX in 2013, Mapletree Greater China Commercial Trust ("MAGIC") is a S-REIT with a mandate to invest in the Greater China region. MAGIC currently holds 3 commercial properties in its portfolio, located in Hong Kong, Beijing and Shanghai. MAGIC has a market cap of SGD3.0bn as of 7 Jul 2017. Temasek Holdings is MAGIC's largest shareholder with a 33.76% stake. Mapletree Investments Pte Ltd is the sponsor of MAGIC.

Mapletree Greater China Commercial Trust

Key credit considerations

- **Decent FY17 results:** Revenue grew 4.2% y/y to SGD350.6mn, with NPI higher by 2.9% y/y to SGD285.6mn on the back of higher rental income (mainly driven by Festival Walk). Although Gateway Plaza recorded lower NPI with additional property tax of 5% (SGD5.4mn), this was an improvement from 3Q2017's figures which assumed a higher tax rate of 11% prior to clarification from the tax authorities. Underlying occupancy of the portfolio remains very healthy, with Festival Walk remaining fully occupied while Gateway Plaza's occupancy has stabilised at 96.9%.
- **Festival Walk as a key contributor to portfolio performance:** Festival Walk contributed 69% of NPI and represents 73% of asset valuation in FY2017. We like Festival Walk as it has been delivering strong results with strong rental reversions (>10%), in spite of weaker Hong Kong retail sales and tenant sales (FY17 tenant sales: -8.8% y/y). The property has also remained fully occupied. We think that further declines in tenant sales may not continue as Hong Kong retail sales posted a gain (+3.0% y/y) in Mar 2017 for the first time since Mar 2015, which is attributed to the recovery of visitor arrivals and robust local consumption demand. The estimated dip in tenant sales in 4QFY2017 (-4.7%) is smaller than the decline for the full year (-8.8%). Moving forward, management expects rental reversions for Festival Walk to continue growing at a moderate pace.
- **Revenue concentration in Festival Walk mitigated by tenant diversification:** Although MAGIC's credit profile hinges on Festival Walk, we are comfortable with the concentration risk due to Festival Walk's stellar performance (full occupancy, positive rental reversion) and tenant diversification. Top ten tenants contributed 28.8% of revenue while the largest trade sector (Apparel & Fashion Accessories) contributed 21.9%. We think there is potential for MAGIC to further diversify its portfolio through acquisitions. The focus is on quality assets in Tier 1 cities in China.
- **Smaller assets to benefit from rental reversion:** Despite weaker sentiments amongst MNCs, management thinks that Gateway Plaza will continue to register positive rental reversion though occupancy may be negatively impacted. For Sandhill Plaza (office with a retail component), the decentralisation trend in Shanghai should continue to support healthy rental reversions.
- **Minimal FX hedging:** Better FX hedges are to be desired. Although 27% of the properties (Gateway Plaza, Sandhill Plaza) by valuation are located in China, only 3% of MAGIC's debt is denominated in RMB, subjecting MAGIC to risks when the RMB depreciates against the HKD. Although MAGIC also issues SGD bonds, these are swapped to HKD. MAGIC hedges 65% of the distributable income, which mitigates FX risks at the dividend level. However, we think these are ineffective to hedge the FX risks on the balance sheet.
- **Manageable credit metrics:** Aggregate leverage improved to 39.2% as of 4QFY2017 (3QFY2017: 40.5%) largely due to valuation gain on investment properties – despite cap rates remaining the same for all three properties in the portfolio. We think it is unlikely for MAGIC to take on further straight debt due to the regulatory limit of 45% on aggregate leverage. Reported interest cover of 3.6x remains healthy as of 4QFY2017, in our view.

Mapletree Greater China Commercial Trust

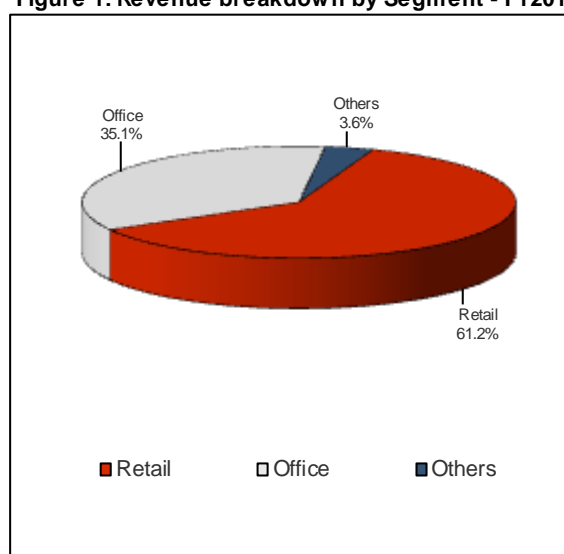
Table 1: Summary Financials

Year Ended 31st Mar	FY2015	FY2016	FY2017
Income Statement (SGD'mn)			
Revenue	281.1	336.6	350.6
EBITDA	206.8	252.4	264.4
EBIT	206.3	252.0	264.0
Gross interest expense	40.8	65.0	74.2
Profit Before Tax	352.7	465.9	412.6
Net profit	318.9	428.1	372.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	125.1	206.1	234.9
Total assets	5,488.1	6,153.5	6,528.9
Gross debt	1,984.0	2,422.3	2,556.2
Net debt	1,858.9	2,216.2	2,321.3
Shareholders' equity	3,260.2	3,416.2	3,636.3
Total capitalization	5,244.1	5,838.4	6,192.5
Net capitalization	5,119.0	5,632.3	5,957.6
Cash Flow (SGD'mn)			
Funds from operations (FFO)	319.4	428.6	372.9
* CFO	223.0	264.9	226.8
Capex	0.7	0.7	0.7
Acquisitions	5.0	335.3	7.0
Disposals	0.0	0.0	0.0
Dividends	168.7	188.3	204.3
Free Cash Flow (FCF)	222.3	264.2	226.1
* FCF Adjusted	48.6	-259.4	14.8
Key Ratios			
EBITDA margin (%)	73.5	75.0	75.4
Net margin (%)	113.4	127.2	106.2
Gross debt to EBITDA (x)	9.6	9.6	9.7
Net debt to EBITDA (x)	9.0	8.8	8.8
Gross Debt to Equity (x)	0.61	0.71	0.70
Net Debt to Equity (x)	0.57	0.65	0.64
Gross debt/total capitalisation (%)	37.8	41.5	41.3
Net debt/net capitalisation (%)	36.3	39.3	39.0
Cash/current borrowings (x)	0.5	0.4	1.4
EBITDA/Total Interest (x)	5.1	3.9	3.6

Source: Company, OCBC estimates

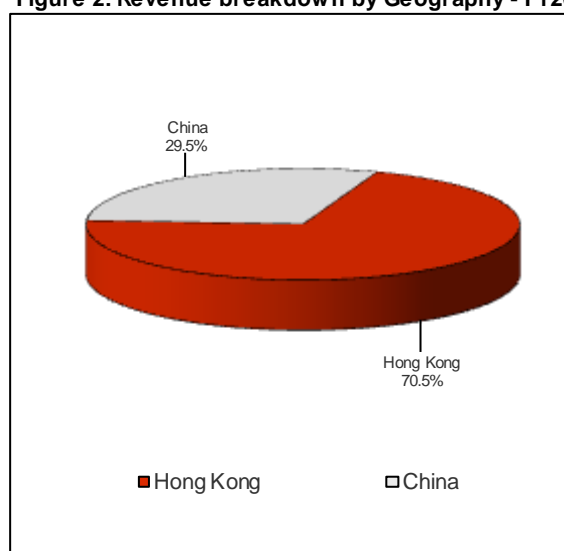
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 1: Revenue breakdown by Segment - FY2017



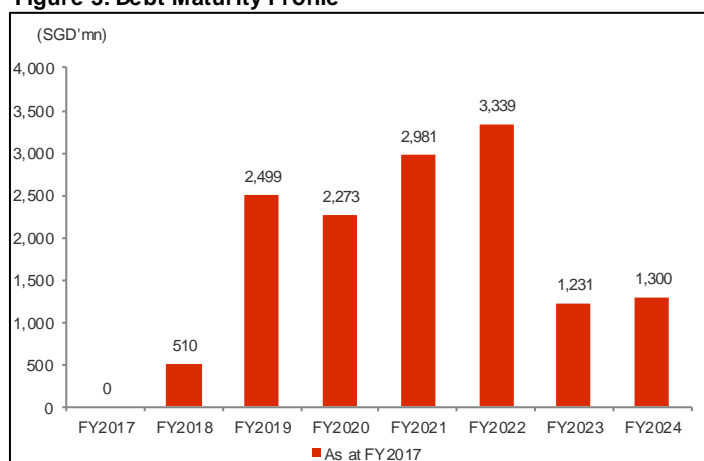
Source: Company

Figure 2: Revenue breakdown by Geography - FY2017



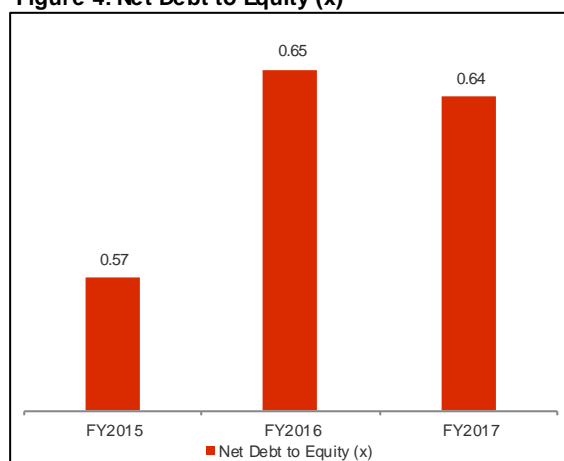
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

The MINTSP 3.75% '19s, and MINTSP 3.79% '26 is trading tight in our view. At the short end, we see better value in the MCTSP 2.65% '19s versus MINTSP 3.75% '19s and recommend a switch. MINTSP 3.02% '23 is at fair value. The curves though are illiquid, which may better suit buy-and-hold investors.

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 2017, MINT's total asset was SGD3.8bn. All of its 43 properties are currently located in Singapore. 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

- **FYE March 2017 ("FY2017") operating results stronger:** Gross revenue improved 2.7% to SGD340.6mn on the back of higher rental rates, higher occupancies in the high-tech segment and contribution from the HP Phase One building which reached TOP in October 2016. Gross revenue was SGD87.8mn in 1QFY2017, up 4.5% from 3QFY2017. Taking out the impact from HP Phase One, gross revenue would have been flat, based on our estimates. Net property income ("NPI") improved more at 4.8% to SGD256.8mn in FY2017, mainly due to lower property tax from retrospective downward revisions. MINT views this to be a one-off and NPI margin to revert back to more normalised levels of ~73% (FY2017: 75%).
- **Coverage declining:** EBITDA based on our calculation which does not take into account of other income and other expenses was SGD228.6mn (up 4.9% from FY2016). Interest expense was also up 5.4% to SGD27.3mn from higher debt due to development projects, with EBITDA/Interest coverage held steady at 8.4x. For 4QFY2017 though, EBITDA/Interest coverage was 8.1x, lower than full year. As at 31 December 2016, short term debt was SGD214.9mn, this has fallen to SGD115mn (10% of total debt). In our view, debt was refinanced at higher cost, in 4Q2017, weighted average cost of funding was 2.7%, rising from 2.5% at the beginning of the year. Going forward, we think EBITDA/Interest will fall as MINT takes on more debt to fund redevelopment and greenfield projects, though will still be more than 7.5x over the next six months. Net cash flow from operations before interest paid was SGD234mn. This was more than sufficient to cover distribution to unitholders, perpetual distributions and interest expense.
- **Aggregate leverage still healthy though expected to increase:** As at 31 March 2017, MINT's aggregate leverage was slightly lower at 29.2% (31 December 2016: 29.4%) despite the higher gross debt. This was a function of higher total asset value of SGD3.8bn. MINT had been ramping up redevelopments, greenfield projects and asset enhancement initiatives ("AEI"). As at 31 March 2017, all debt at MINT remains unsecured. As at 31 March 2017, MINT's short term debt was SGD115mn. Cash balances was SGD38.0mn and in June 2017, MINT had announced the sale of 65 Tech Park Crescent for SGD17.7mn. We view refinancing risk as low. As at 31 March 2017, MINT has three main developmental projects in its pipeline (1) BTS-1 and 1A Depot Close for Hewlett-Packard (2) AEI at 30A Kallang Place and (3) New greenfield data centre. The REIT has guided that assuming all the capex requirements are debt-funded, MINT's leverage will rise to about 32%, still manageable in our view. There had been some structural decline in valuation. For example, its Kallang Basin 1 and 2 clusters have less than 15 years left in its land tenure and valuation has reflected such time decay. As at 31 March 2017, the valuation for flatted factories was SGD1.55bn versus SGD1.57bn as at 31 March 2016. By land area, 6% of land leases have less than 20 years to expiry whilst about 28% are between 20 to 30 years to expiry.
- **Leasing likely to remain challenging over next six months but credit profile defensive:** As at 31 March 2017, 28.2% of MINT's portfolio by gross rental income will expire in the next 12 months (21.1% as at 31 March 2016). About half of those expiring in the near-term are flatted factories, the highest composition of property type at MINT (41% of portfolio value). In January 2017, Johnson & Johnson (contributed 2.2% to FY2017 gross rental income) announced that it was early terminating its lease. The compensation of SGD3.1mn provided covers about six months of rent though MINT has guided that it is unlikely to fully cover the whole downtime period. We expect a decline in occupancy in FY2018. Hewlett-Packard was the main contributor to rents at 5.3% in FY2017 and this is likely to rise to 10% when Phase Two commences.

Mapletree Industrial Trust

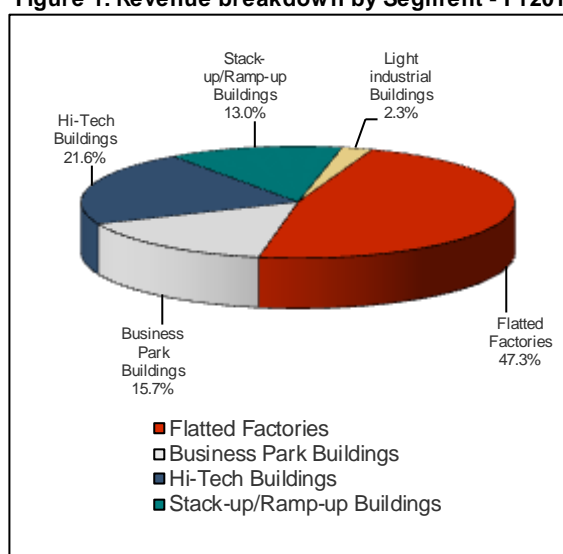
Table 1: Summary Financials

Year Ended 31st March	FY2015	FY2016	FY2017
Income Statement (SGD'mn)			
Revenue	313.9	331.6	340.6
EBITDA	203.4	218.0	228.6
EBIT	203.4	218.0	228.6
Gross interest expense	23.8	25.9	27.3
Profit Before Tax	375.4	190.6	270.6
Net profit	374.3	190.6	270.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	72.0	54.3	38.0
Total assets	3,516.0	3,623.9	3,798.1
Gross debt	1,074.7	1,021.2	1,106.4
Net debt	1,002.7	966.8	1,068.4
Shareholders' equity	2,312.2	2,465.2	2,532.8
Total capitalization	3,386.9	3,486.4	3,639.2
Net capitalization	3,314.9	3,432.0	3,601.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	374.3	190.6	270.6
* CFO	204.9	219.7	234.0
Capex	54.5	43.5	103.9
Acquisitions	0.0	0.0	0.0
Disposals	0.0	0.0	0.0
Dividends	97.5	114.6	203.9
Free Cash Flow (FCF)	150.4	176.1	130.2
* FCF Adjusted	52.9	61.6	-73.7
Key Ratios			
EBITDA margin (%)	64.8	65.8	67.1
Net margin (%)	119.3	57.5	79.4
Gross debt to EBITDA (x)	5.3	4.7	4.8
Net debt to EBITDA (x)	4.9	4.4	4.7
Gross Debt to Equity (x)	0.46	0.41	0.44
Net Debt to Equity (x)	0.43	0.39	0.42
Gross debt/total capitalisation (%)	31.7	29.3	30.4
Net debt/net capitalisation (%)	30.2	28.2	29.7
Cash/current borrowings (x)	0.6	1.1	0.3
EBITDA/Total Interest (x)	8.6	8.4	8.4

Source: Company, OCBC estimates

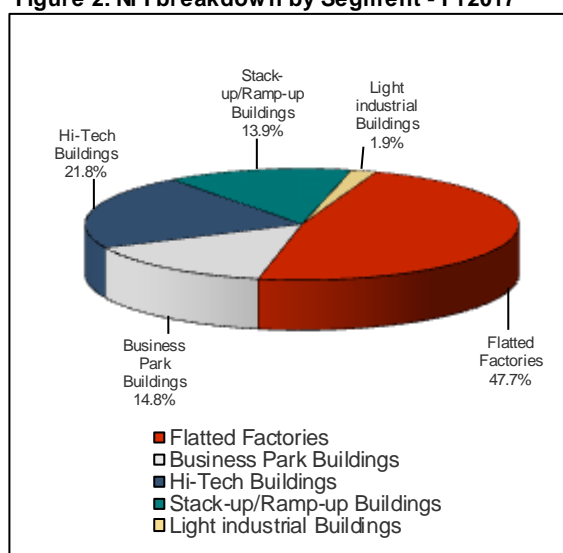
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 1: Revenue breakdown by Segment - FY2017



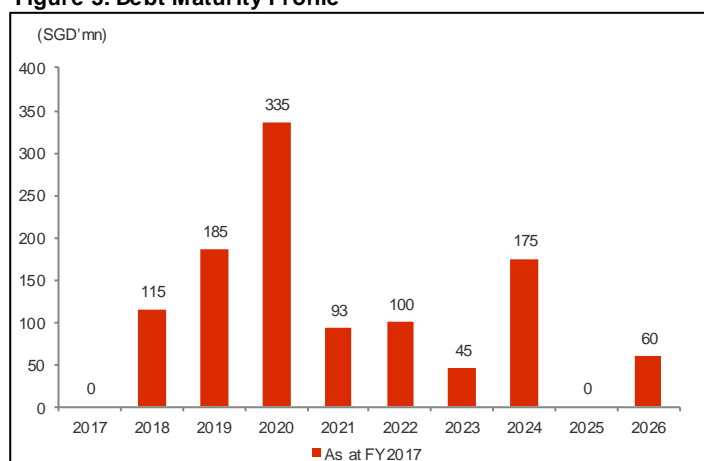
Source: Company

Figure 2: NPI breakdown by Segment - FY2017



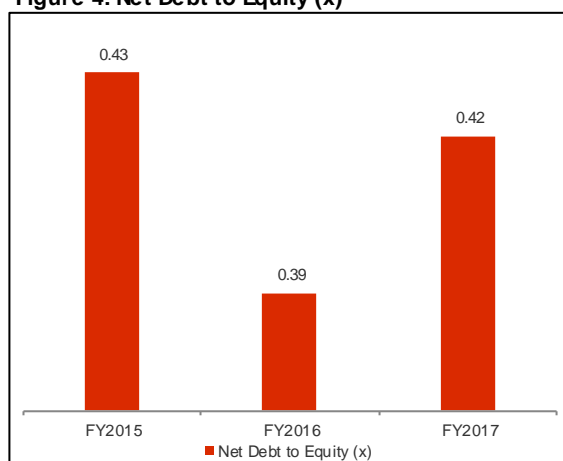
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

Our base case remains that the MLTSP 5.375%-PERPs would be called in September given the reset at SDSW5+418bps. The MLTSP 4.18%-PERPs is tight in our view for its rating level. We recommend a switch to FHREIT 4.45%-PERPs which gives a yield pick-up of 60bps, which more than compensates for its one-notch lower rating.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa1/Negative

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 SGD5.7bn as at 31 March 2017. MLT owns 127 properties (Singapore: 50, Japan: 22, Hong Kong: 8, Malaysia: 15, China: 9, South Korea: 11, Australia: 9, and Vietnam: 3). MLT is sponsored by Mapletree Investments Pte. Ltd, which is 100%-owned by Temasek. Temasek has a ~39% deemed interest in MLT.

Mapletree Logistics Trust

Key credit considerations

- **Growth in FYE March 2017 ("FY2017") results driven by acquisitions:** For the financial year ended March 2017 ("FY2017"), gross revenue at MLT improved 6.6% to SGD373.1mn, this was on the back of (1) Contribution from three properties acquired in FY2016, (2) Additional contribution from four new properties acquired in FY2017, (3) Additional contribution from existing properties in HK, (4) Building extension at Moriya Centre and stronger JPY. Revenue growth was offset by divestments in Singapore, absence of revenue from 76 Pioneer Road (undergoing redevelopment), negative rental reversions in South Korea and weaker RMB. Gross revenue in 1QFY2017 was 1% higher at SGD96.5mn versus 3QFY2016. Removing the impact from four Australian properties which were acquired on 15 December 2016, we estimate that gross revenue would have been 2% lower instead, dragged by weaker performance from the existing Singapore and Malaysia portfolio. Lower utilities, facility management costs and property tax rebate on certain Singapore properties helped offset higher property expenses associated with conversions of single user assets into multi-tenanted buildings in Singapore. Despite MLT's portfolio being exposed to eight different countries, 72% of amount distributable in FY2018 has been hedged into or derived in SGD.
- **Coverage weaker:** EBITDA based on our calculation which does not include other income and other expenses was 7.2% higher at SGD274.3mn. Nonetheless, headline EBITDA/Interest was weaker at 5.6x, as a result of higher debt load at MLT to fund acquisitions. As at 31 March 2017, perpetuals amount to SGD595.7mn representing 11% of total capital. Adjusting for perpetual distribution, we find EBITDA/(Interest plus 50% perpetual distribution) at 4.5x (FY2016: 4.8x). MLT's net cash flow from operations was SGD266.9mn in FY2017. Cash outflow for acquisitions was heavy at SGD359.3mn. During FY2017, MLT funded the cash gap via the issuance of SGD248mn in perpetuals and additional borrowings. We think the acquisition spree at MLT was intended to rejuvenate its portfolio and diversify into new markets such as Australia. In particular, Singapore (contributed 32% of net property income in 1Q2017) had also shown signs of weakness.
- **No acquisitions announced, spike in leverage stabilised:** Coinciding with its acquisition spree, MLT's adjusted aggregate leverage (which includes 50% of perpetuals as debt) was 44% as at 31 March 2017 (end-December 2016: 43%). MLT's headline aggregate leverage was 38.5% as at 31 March 2017 and still below the regulatory requirement. All debt remains unsecured. Year-to-date, MLT announced SGD179.7mn of asset disposals as part of its capital recycling efforts. Nonetheless, it remains the highest levered Industrial REIT in our portfolio.
- **Impending liquidity needs:** In April 2017, MLT had early refinanced SGD115mn in debt (pushed out to 2024). Post-refinancing, MLT faces short term debt of SGD109mn against cash balances of SGD92.6mn. The first call date on the MLTSP 5.375% 49c17 is in September 2017. Whilst MLT has not announced its intention on the perpetual, our base case assumes that the perpetual would be called as the coupon will reset at SDSW5+418bps. Moody's had opined that if the perpetual is replaced by straight debt, this is likely to bring about a rating downgrade. We think it is likelier for MLT to raise equity and/or raise replacement perpetuals. MLT is in the midst of redeveloping 76 Pioneer Road (cost of SGD100mn, expected to complete by September 2017) and commenced the SGD70mn redevelopment of Ouluo Logistics Centre in May 2017. We estimate that MLT still has about SGD90mn of capex to be funded on these redevelopments. In view of the considerable financial flexibility at MLT and leveling of adjusted aggregate leverage since December 2016, we are lifting our issuer profile of MLT to **Neutral**.

Mapletree Logistics Trust

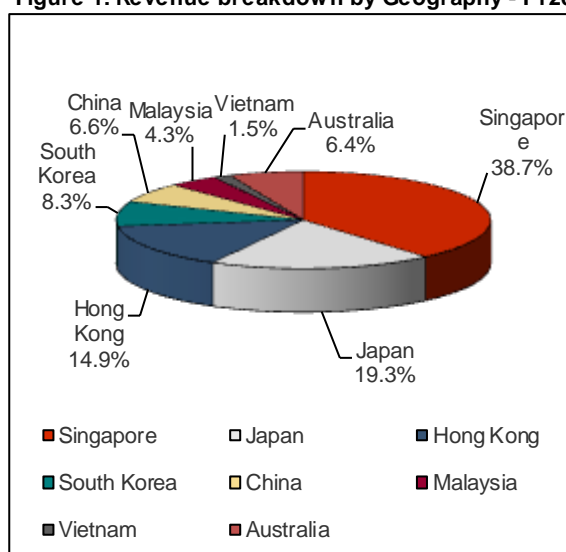
Table 1: Summary Financials

Year Ended 31st March	FY2015	FY2016	FY2017
Income Statement (SGD'mn)			
Revenue	330.1	349.9	373.1
EBITDA	245.1	255.9	273.9
EBIT	244.1	254.7	272.9
Gross interest expense	33.2	44.0	48.7
Profit Before Tax	289.4	235.4	252.8
Net profit	241.0	190.2	184.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	106.9	93.3	92.6
Total assets	4,787.7	5,207.4	5,686.7
Gross debt	1,631.9	2,058.3	2,184.1
Net debt	1,525.0	1,965.0	2,091.5
Shareholders' equity	2,888.3	2,878.5	3,189.7
Total capitalization	4,520.2	4,936.8	5,373.8
Net capitalization	4,413.3	4,843.5	5,281.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	242.0	191.3	185.3
* CFO	236.2	231.0	213.7
Capex	0.0	0.0	0.0
Acquisitions	247.3	422.5	422.5
Disposals	0.0	33.2	33.2
Dividends	176.8	178.3	0.0
Free Cash Flow (FCF)	236.2	231.0	213.7
* FCF Adjusted	-187.9	-336.7	-175.7
Key Ratios			
EBITDA margin (%)	74.3	73.1	73.4
Net margin (%)	73.0	54.4	49.4
Gross debt to EBITDA (x)	6.7	8.0	8.0
Net debt to EBITDA (x)	6.2	7.7	7.6
Gross Debt to Equity (x)	0.56	0.72	0.68
Net Debt to Equity (x)	0.53	0.68	0.66
Gross debt/total capitalisation (%)	36.1	41.7	40.6
Net debt/net capitalisation (%)	34.6	40.6	39.6
Cash/current borrowings (x)	1.9	0.4	0.4
EBITDA/Total Interest (x)	7.4	5.8	5.6

Source: Company, OCBC estimates

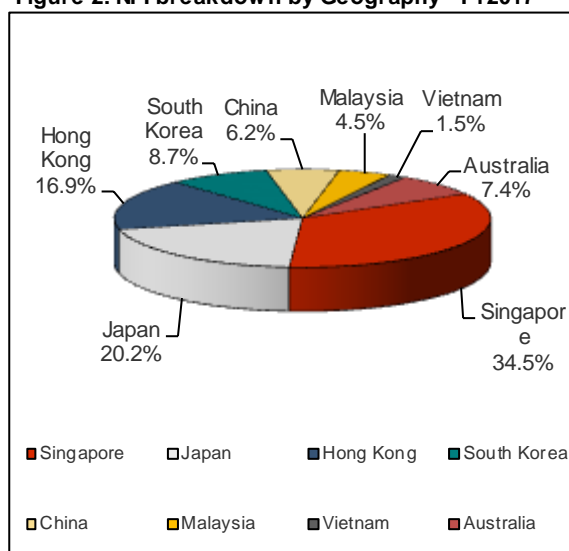
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 1: Revenue breakdown by Geography - FY2017



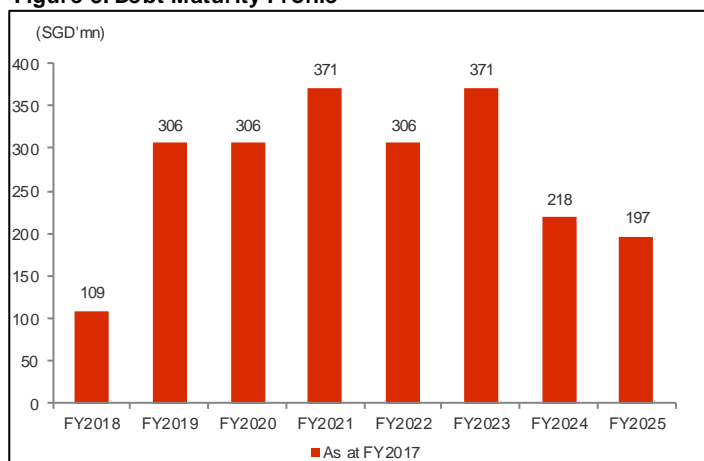
Source: Company

Figure 2: NPI breakdown by Geography - FY2017



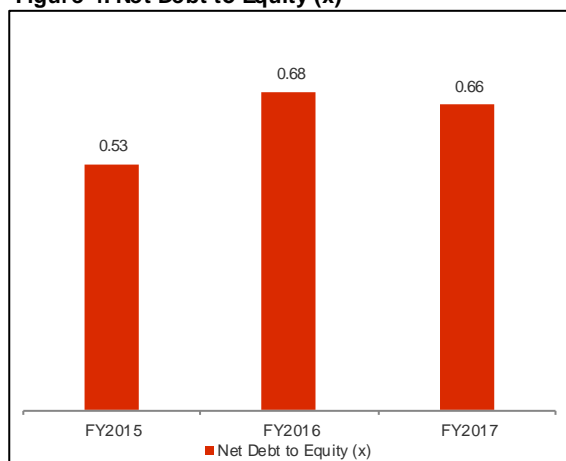
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

Given the looming maturity of the NCLSP'17s, and the comments by NCL's management regarding debt restructuring, the possibility of NCL's bonds being restructured in the near future cannot be discounted.

Issuer Profile: Negative

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

Ticker: **NCLSP**

Background

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 FY2016, ~86% of NCL's revenues were derived from shipbuilding while vessel chartering accounts for ~14%. The company is substantially controlled by Chairman Tan Sri Tiong Su Kouk with a total interest of ~50%. The firm has been listed on the SGX since 2011.

Nam Cheong Ltd

Key credit considerations

- **1Q2017 results paint a bleak picture:** NCL had reported just MYR17.9mn in revenue for the quarter (1Q2016 results were not comparable due to an order cancellation). In absolute terms though, revenue generation was dismal, considering that NCL generated MYR1.93bn in revenue for 2014 and MYR950.0mn in revenue for 2015. On a q/q basis, revenue plunged 85.1%, despite that 4Q2016 results was being pressured by revenue reversal on Perdana Petroleum Berhad ("Perdana")'s cancellation of its second Accommodation Work Barge ("AWB") order. Despite the slump in revenue, NCL managed to generate a gross profit of MYR7.2mn, an increase of 69.7% y/y. It was also an improvement over the gross loss of MYR12.2mn seen in 4Q2016. The main driver of this would be the MYR7.5mn gross profit generated from NCL's shipbuilding segment, on segment revenue of MYR8.2mn, indicating a gross margin of 92%. We believe that the huge gross margin realized during the quarter could be a function of timing, and is not sustainable. For 2015 and 2016, shipbuilding gross margins were only 17%.
- **Shipchartering surprisingly supportive:** The quarter was the first quarter that NCL's shipchartering revenue overtook shipbuilding revenues, generating MYR9.7mn. The segment looks to be picking up steam due to higher vessel utilization (commendable given the challenging environment for OSVs), with revenue up 30.6% q/q, and segment gross losses trimming sharply to MYR352,000 (4Q2016: gross loss of MYR3.0mn). In aggregate, NCL generated a net loss of MYR47.5mn, largely driven by the MYR42.7mn in unrealized FX losses, along with finance costs increasing to MYR6.1mn (1Q2016: MYR1.8mn) due to higher borrowings.
- **Cash burn persists:** NCL reported MYR69.9mn in operating cash outflow, worse than the MYR10.3mn seen in 4Q2016. Inventory continues to be a drag on cash (MYR69.8mn impact for 1Q2017 compared to MYR305.2mn for the whole of 2016). If NCL did not drag out its payables (MYR66.1mn), operating cash burn would have been worse. The cash gap was funded by NCL monetizing MYR18.0mn in financial assets (left with just MYR16.3mn), MYR7.1mn in additional borrowings as well as drawing down MYR44.3mn in cash. As such, NCL's cash balance continues to fall, ending the quarter at MYR259.7mn and causing net gearing to deteriorate to 120% (4Q2016: 111%). NCL also faces sizable short-term borrowings of MYR941.3mn, of which MYR269.1mn is the SGD90mn NCLSP'17s due in August. Based on our calculations, NCL generated just MYR5.1mn in EBITDA for the quarter, compared to MYR6.1mn in interest expense and MYR1.58bn in net debt.
- **Unsustainable capital structure:** As mentioned previously (Refer to [OCBC Asia Credit – Nam Cheong Credit Update 9 May](#)), NCL was reviewing options to restructure its business, operations and balance sheet. With 1Q2017 results on hand, given NCL's continued operating cash burn as well as weak EBITDA generation, it is highly unlikely that NCL would be able to persist without some form of debt restructuring. The SGD90mn in bonds due 28/08/17 serve as a hard catalyst. Bank lenders have already started to take action, with NCL reporting that on 19/06/17, NCL had received a writ of summons dated 02/06/17 and a statement of claim dated 26/05/17 by one of its principal lenders in the High Court of Labuan, Malaysia. The facility in question had a sum of USD10.0mn (as at end-April 2017). We have reiterated NCL's Negative Issuer Profile given the uncertainty over the path of restructuring as well as the broad spectrum of recovery outcomes.

Nam Cheong Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	1Q2017
Income Statement (MYR'mn)			
Revenue	950.0	170.4	17.9
EBITDA	77.9	-12.1	5.1
EBIT	56.2	-34.4	-0.3
Gross interest expense	81.6	90.9	6.1
Profit Before Tax	31.0	-42.6	-47.4
Net profit	28.5	-42.0	-47.5
Balance Sheet (MYR'mn)			
Cash and bank deposits	506.1	301.5	259.7
Total assets	3,950.9	4,098.3	4,105.7
Gross debt	1,809.2	1,823.5	1,836.5
Net debt	1,303.1	1,522.0	1,576.8
Shareholders' equity	1,377.1	1,368.0	1,311.7
Total capitalization	3,186.3	3,191.5	3,148.2
Net capitalization	2,680.3	2,890.0	2,888.5
Cash Flow (MYR'mn)			
Funds from operations (FFO)	50.2	-19.7	-42.2
* CFO	-547.9	-291.0	-69.9
Capex	34.0	0.1	0.0
Acquisitions	0.0	0.0	0.0
Disposals	0.1	5.1	0.0
Dividend	84.9	0.0	0.0
Free Cash Flow (FCF)	-581.9	-291.1	-69.9
* FCF adjusted	-666.7	-286.0	-69.9
Key Ratios			
EBITDA margin (%)	8.2	-7.1	28.6
Net margin (%)	3.0	-24.7	-265.7
Gross debt to EBITDA (x)	23.2	-151.0	89.8
Net debt to EBITDA (x)	16.7	-126.0	77.1
Gross Debt to Equity (x)	1.31	1.33	1.40
Net Debt to Equity (x)	0.95	1.11	1.20
Gross debt/total capitalisation (%)	56.8	57.1	58.3
Net debt/net capitalisation (%)	48.6	52.7	54.6
Cash/current borrowings (x)	0.8	0.3	0.3
EBITDA/Total Interest (x)	1.0	-0.1	0.8

Source: Company, OCBC estimates

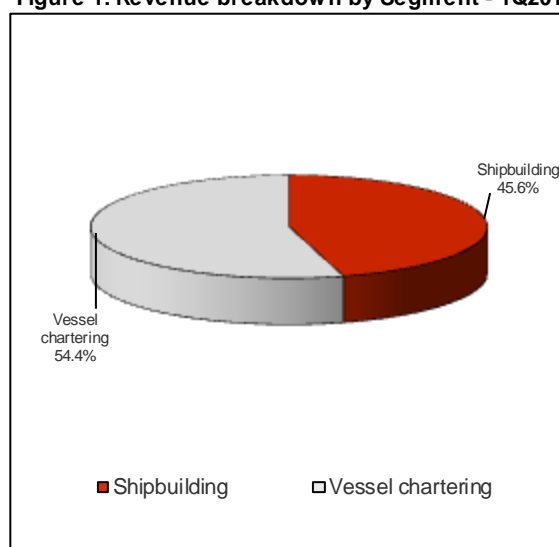
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 3: Debt Maturity Profile

Amounts in (MYR'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	672.1	36.6%
Unsecured	269.1	14.7%
	941.3	51.3%
Amount repayable after a year		
Secured	61.2	3.3%
Unsecured	834.1	45.4%
	895.2	48.7%
Total	1836.5	100.0%

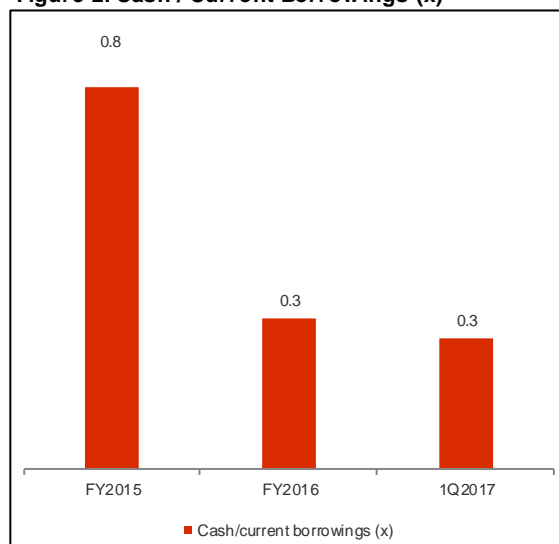
Source: Company

Figure 1: Revenue breakdown by Segment - 1Q2017



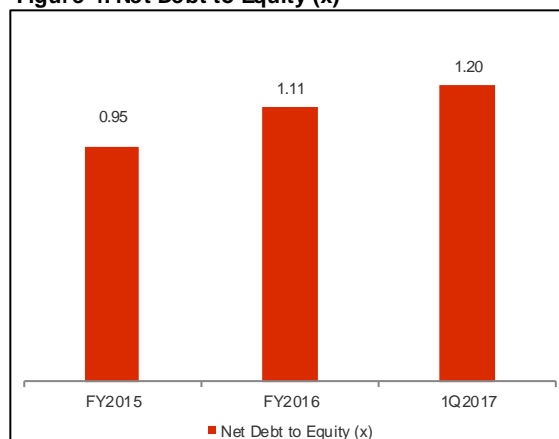
Source: Company

Figure 2: Cash / Current Borrowings (x)



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We are Neutral the OLAM 7.0%-PERPs as this would be called in September 2017. The new OLAM 5.5%-PERPs only provides a 70bps pick-up against the OLAM 6.0%'22, we are underweight the OLAM 5.5%-PERP.

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 52.2% stake followed by Mitsubishi Corp. with 20.3%, Kewalram Chanrai Group (founder) with 4.9% and senior management with 4.6%.

Olam International Limited

Key credit considerations

- **1Q2017 flat:** Revenue was up 21.9% to SGD5.8bn, driven by higher volumes in all segments except Confectionary & Beverage. Reported EBITDA was up 19.8% to SGD399mn on the back of stronger performance at the Edible Nuts, Spices & Vegetable Ingredients ("SPVI"), Food Staples & Packaging and Commodity Financial Services segment (collectively, up SGD99mn). This helped offset the declines in Confectionary & Beverage and Industrial Raw Materials (collectively, down SGD36mn). Taking out the impact of unrealized gains/losses from foreign exchange, we find EBITDA to have decreased 3.2% y/y to SGD343.9mn. Olam ended the quarter with a higher reported profit after tax of SGD143.8mn (1Q2016: SGD113.6mn). This was in spite of higher interest expense at SGD146.5mn (1Q2016: SGD120.4mn). Losses on foreign currency translation adjustment narrowed significantly in 1Q2017, leading to SGD137.5mn in total comprehensive income and raising Olam's book value equity buffer to SGD5.7bn (up SGD102mn).
- **Gearing levels flat Q-on-Q:** As at 31 March 2017, Olam's net debt-to-equity ("net gearing") was 2.0x and this has stayed flat since end-December 2016. Based on the company's calculation using book value equity before fair value adjustment reserves, net gearing was 1.98x, just about the level where the company has set its internal threshold. Conservatively though, we account 50% of perpetual as debt, given the existence of a dividend stopper and that Olam has consistently paid dividends. Adjusted net gearing was 2.3x as at 31 March 2017. Further adjusting basic net gearing downwards for Readily Marketable Inventory, which Olam considers as near-cash and secured receivables, we find net gearing at 0.8x. As at end-December 2016, non-cancellable operating leases (an off-balance sheet liability item) was significant at SGD909mn.
- **Cash flow from operations benefits from diversification:** Based on our estimates, the Confectionary & Beverage segment was a drag to cash flow from operation after factoring in working capital from higher coffee volume and prices (1Q2017: negative SGD297mn). Olam does not break down contribution of each individual product though we believe that the company's diversified business profile helps boost overall cash flow from operations and is a credit positive. Despite the drag from Confectionary & Beverage during 1Q2017, Olam reported cash flow from operations (before tax and interest paid) of SGD334mn. In 1Q2017, the company's cash conversion cycle ("CCC") was 139 days, declining 11 days from the same period last year. While lower CCC had helped in strengthening cash flow generation this quarter, there is no certainty that CCC will continue at these levels.
- **Inorganic expansions to slowdown in FY2017:** Management has stated that directionally, new acquisitions will come down from levels seen in FY2016. In 1Q2017, Olam did no inorganic acquisitions but focused on capacity expansions and investments into upstream plantations. In 1Q2017, total outflows for investing was SGD185.2mn (1Q2016: SGD444.3mn).
- **Evergreening of debt to continue:** In light of its levered profile, Olam's credit profile is underpinned by ready access to debt markets to manage its maturity schedule. As at 31 March 2017, Olam had SGD5.6bn in short term debt due and SGD2.6bn in cash. We expect the company to carry out fundraising exercises to fund repayment of its upcoming obligations. Olam's USD500mn OLAMSP 5.75%'17s mature in September 2017 and the company has announced its intention to redeem the outstanding perpetuals of SGD235.8mn in September 2017. On 3rd July 2017, Olam priced a SGD300mn perpetual at 5.5% in a moderately oversubscribed issuance.

Olam International Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	19,052.6	20,587.0	5,804.2
EBITDA	1,086.2	1,202.8	398.6
EBIT	819.6	849.3	310.0
Gross interest expense	483.8	446.2	146.5
Profit Before Tax	-27.3	433.4	170.4
Net profit	-114.9	351.3	143.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	2,143.2	2,144.1	2,643.7
Total assets	20,854.9	23,468.9	23,919.1
Gross debt	12,293.9	13,670.6	14,117.5
Net debt	10,150.7	11,526.5	11,473.8
Shareholders' equity	5,319.7	5,634.3	5,736.4
Total capitalization	17,613.6	19,304.9	19,853.9
Net capitalization	15,470.4	17,160.8	17,210.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	151.7	704.8	232.4
* CFO	-472.3	619.6	143.7
Capex	369.8	751.8	173.3
Acquisitions	1,969.7	588.1	0.0
Disposals	244.5	32.0	33.3
Dividend	61.0	184.0	0.0
Free Cash Flow (FCF)	-842.1	-132.2	-29.7
* FCF adjusted	-2,628.4	-872.4	3.6
Key Ratios			
EBITDA margin (%)	5.7	5.8	6.9
Net margin (%)	-0.6	1.7	2.5
Gross debt to EBITDA (x)	11.3	11.4	8.9
Net debt to EBITDA (x)	9.3	9.6	7.2
Gross Debt to Equity (x)	2.31	2.43	2.46
Net Debt to Equity (x)	1.91	2.05	2.00
Gross debt/total capitalisation (%)	69.8	70.8	71.1
Net debt/net capitalisation (%)	65.6	67.2	66.7
Cash/current borrowings (x)	0.4	0.4	0.5
EBITDA/Total Interest (x)	2.2	2.7	2.7

Source: Company, OCBC estimates

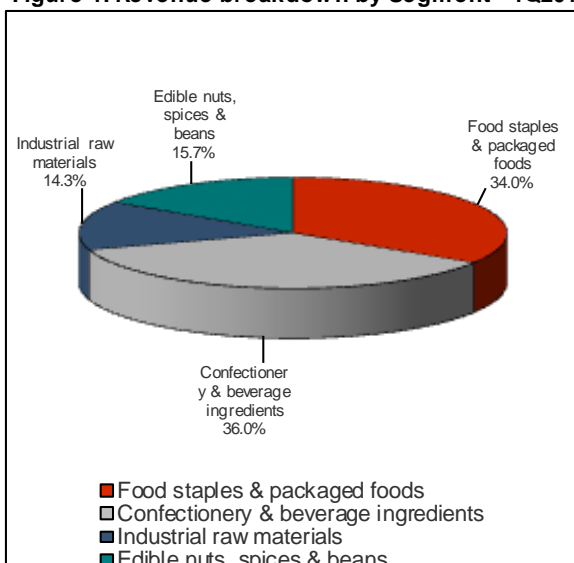
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after before interest expense

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	24.1	0.2%
Unsecured	5,588.1	39.6%
	5,612.2	39.8%
Amount repayable after a year		
Secured	94.0	0.7%
Unsecured	8,411.3	59.6%
	8,505.3	60.2%
Total	14,117.5	100.0%

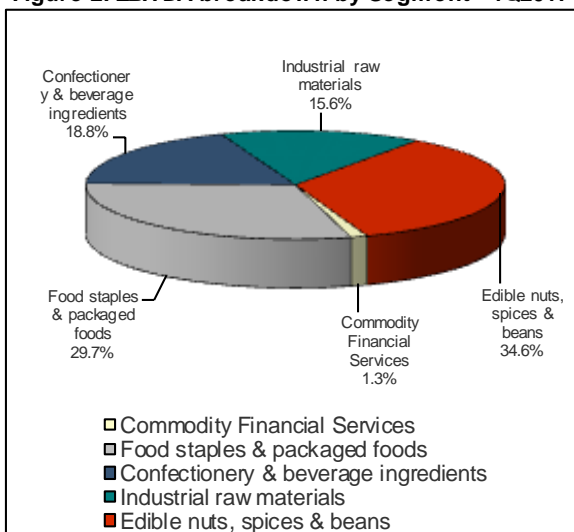
Source: Company

Figure 1: Revenue breakdown by Segment - 1Q2017



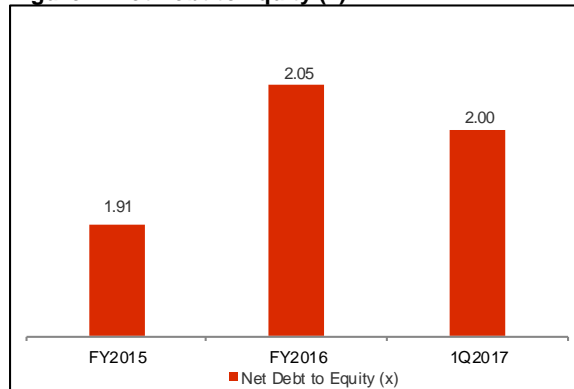
Source: Company | Excludes Inter-segment Eliminations

Figure 2: EBITDA breakdown by Segment - 1Q2017



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

With OHL issuing several retaps of its USD '21s at 6.375%, we think OHLSP '19s and '20s look rich comparatively trading under 5%. We also think that its net gearing may remain elevated. We prefer CHIPEN '21s and '22s with a more manageable gearing profile, though they yield 50bps lower.

Issuer Profile: Negative

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **OHLSP**

Background

Oxley Holdings Ltd ("OHL") is a property developer listed on the SGX in Oct 2010. Beginning with a portfolio of development projects in Singapore, OHL has expanded to overseas projects in the UK, Malaysia, Ireland, China, Cambodia, Myanmar and Indonesia. OHL is also building a pipeline of investment and hospitality properties. OHL's key shareholders are its CEO Mr Ching Chiat Kwong (43%-stake), its deputy CEO Mr Low See Ching (28.9%) and Mr Tee (12.2%) who appears to be a passive shareholder.

Oxley Holdings Ltd

Key credit considerations

- **Good 9MFY2017 results:** Revenue rose 37% y/y to SGD1.1bn in 9MFY2017, mainly contributed by revenue from Oxley Tower, The Flow and handover of certain plots at The Royal Wharf. Nevertheless, due to increase in FX losses (SGD8.8mn), impairment on development properties (SGD8.8mn) and decrease in share of profit from JVs and associates by SGD46.6mn, net profit declined by 13% y/y to SGD184mn.
- **Royal Wharf to contribute significantly in coming quarters:** The first phase of Royal Wharf has nearly sold out, with substantial profits expected to be booked when keys are handed over for about 1,400 units from Phase 1 of the project. Significant cash inflows should follow as the unbilled contract value is SGD740mn. Royal Wharf will likely further contribute through 2019 with another c.1,600 units pre-sold for Phase 2 & 3 of the project. We are not too worried over the implications of Brexit. Post the polls in June 2016, Royal Wharf continued to sell well with 685 units moved. Settlement risks should be minimal for the units sold in Phase 1 as units were sold at GBP550-600 psf, below Phase 2 and 3's which were sold at GBP700-900 psf. In the worst case scenario should buyers "bail-out" from completing sales, we think Royal Wharf should be able to find alternative buyers for the units.
- **Rebound in Singapore property market is a double edged sword:** OHL has moved more units since FY2016, with Floraville/Floraview completely sold out. However, signs of bottoming in the property market have piqued OHL's interest in rebuilding its Singapore landbank. As part of a consortium that is 35% owned by OHL, SGD575mn was paid to purchase Rio Casa, which is a former HUDC estate in Hougang via a collective sale. The consortium may pay another SGD208mn to top-up the land lease to 99 years. Meanwhile, OHL looks to redevelop a 1,292 sqm land area property at 494 Upper East Coast Road.
- **Geographically diversified developer:** In addition to Royal Wharf, OHL looks to develop a number of large-scale projects including The Peak at Phnom Penh (GFA: 208,750 sqm), Dublin Landings (GFA: 99,564 sqm), The Bridge at Phnom Penh (GFA: 150,399 sqm) and Oxley Convention City in Batam (Construction floor area: 191,420 sqm). OHL also owns 27.5% stake in Gaobeidian, which is a mixed-used development with 1,234,006 sqm in China.
- **Debt maturity profile looks manageable till 2019:** SGD266mn of debt will mature by 2017 (SGD150mn bonds, SGD116mn loan), which should be manageable. Oxley has SGD236mn cash on hand and it looks to receive cash from SGD557mn in receivables as a number of properties have obtained TOP. 2018's debt looks lumpier at SGD558mn, though we think this could be met by SGD1.05bn of unbilled contracts for the next 12 month. 2019's maturities look comparatively small at SGD171mn.
- **Gearing levels may remain elevated:** While we had previously expected OHL to deleverage further as it has been on a clear deleveraging trend since 1Q15 (when net gearing was 4x), this trend may not persist when OHL looks to rebuild its landbank. We note OHL has raised USD355mn in bond issue (incl the retap), which is significantly larger than needed to refinance its SGD150mn '17s which matured in May 2017. The proceeds may be used for new developments (e.g. purchase of Rio Casa). As such, net gearing may remain elevated despite the strong cash inflows expected from Royal Wharf. Hence, we downgrade OHL's Issuer Profile Rating to **Negative** (from Neutral) as OHL's leverage will likely remain significantly higher than its peers (e.g. GuocoLand, Chip Eng Seng).

Oxley Holdings Limited

Table 1: Summary Financials

Year Ended 30th Jun	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	701.8	981.4	1,118.7
EBITDA	174.2	252.0	302.1
EBIT	173.7	251.5	301.7
Gross interest expense	72.5	131.9	92.0
Profit Before Tax	172.5	363.4	242.2
Net profit	78.7	206.0	176.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	344.0	551.3	236.3
Total assets	4,143.7	4,732.5	4,167.4
Gross debt	2,406.0	2,633.4	2,218.5
Net debt	2,062.1	2,082.2	1,982.2
Shareholders' equity	790.4	965.2	1,047.2
Total capitalization	3,196.4	3,598.6	3,265.8
Net capitalization	2,852.4	3,047.4	3,029.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	79.2	206.5	176.9
* CFO	-78.1	196.6	375.4
Capex	19.6	33.0	117.2
Acquisitions	46.7	136.8	37.7
Disposals	0.0	29.1	3.2
Dividend	6.9	80.3	92.2
Free Cash Flow (FCF)	-97.7	163.6	258.2
* FCF Adjusted	-151.3	-24.4	131.6
Key Ratios			
EBITDA margin (%)	24.8	25.7	27.0
Net margin (%)	11.2	21.0	15.8
Gross debt to EBITDA (x)	13.8	10.4	5.5
Net debt to EBITDA (x)	11.8	8.3	4.9
Gross Debt to Equity (x)	3.04	2.73	2.12
Net Debt to Equity (x)	2.61	2.16	1.89
Gross debt/total capitalisation (%)	75.3	73.2	67.9
Net debt/net capitalisation (%)	72.3	68.3	65.4
Cash/current borrowings (x)	0.4	0.4	0.3
EBITDA/Total Interest (x)	2.4	1.9	3.3

Source: Company, OCBC estimates

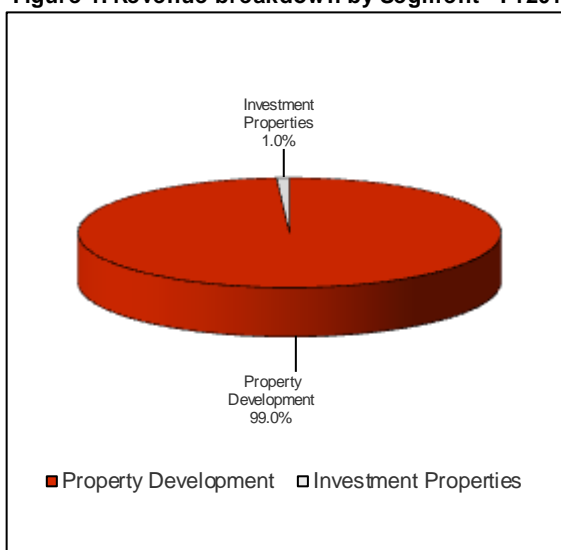
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	499.9	22.6%
Unsecured*	281.5	12.7%
	781.3	35.4%
Amount repayable after a year		
Secured	899.6	40.7%
Unsecured	527.9	23.9%
	1427.5	64.6%
Total	2208.8	100.0%

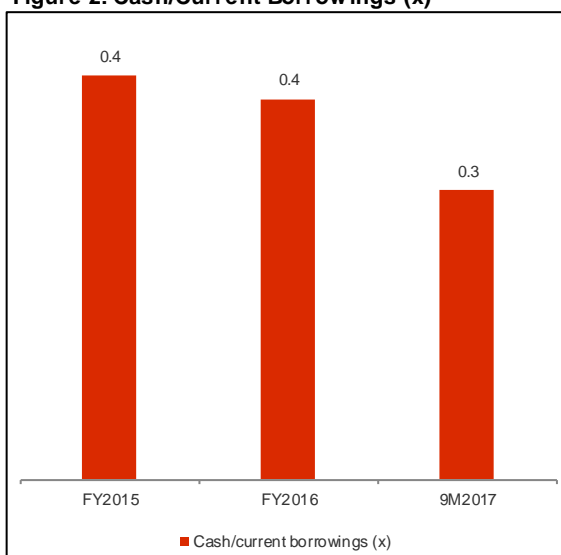
Source: Company

Figure 1: Revenue breakdown by Segment - FY2016



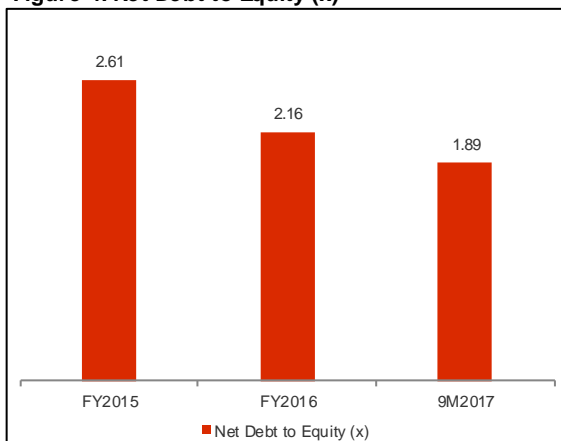
Source: Company

Figure 2: Cash/Current Borrowings (x)



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

The negative operating cash flows and difficult offshore marine environment means that reprieve from PACRA's vessel financing extensions and access to the new government-back funding facilities is only transient in nature. Stronger conviction will only arise from sustained operational improvements.

Issuer Profile: Negative

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

Ticker: **PACRA**

Background

Listed in 2013, Pacific Radiance Ltd ("PACRA") is primarily an owner and operator of offshore support vessels. The firm currently operates 139 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 ~68% of PACRA.

Pacific Radiance Ltd

Key credit considerations

- **Government schemes help alleviate working capital needs:** In early June, PACRA received approvals for two government-back financing schemes, specifically the Internationalisation Finance Scheme ("IFS") by IE Singapore and the Bridging Loan scheme by Spring Singapore. PACRA would be drawing SGD70mn (in phases) from the IFS and SGD15mn from the Bridging Loan. The facility providers are DBS and UOB, with the government taking 70% of the risk share for both schemes. The fresh capital would help bolster PACRA's current weak liquidity situation (PACRA reported USD23.7mn in cash balance as of end-1Q2017) and provide PACRA with buffer to ride through the still challenging environment.
- **Performance weak but bottoming out:** For 1Q2017, PACRA generated USD14.0mn in revenue, a decline of 23.9% y/y. The OSV division continued to be pressured, declining 53% y/y to USD9.1mn. This was mitigated by a pickup in its subsea division (mainly DSV), which saw revenue jump to USD4.4mn (1Q2016: USD1.0mn). PACRA's new shipyard (commenced 3Q2016) also contributed USD1.6mn in repair revenues. On a q/q basis, revenue saw 15.4% improvement, with management indicating a pickup in utilization for both its OSV and subsea divisions. In aggregate, revenue generation remains weak given the difficult environment, with offshore E&P activity remaining muted, while the OSV chartering industry continues to face overcapacity. In addition, seasonal factors (winter lull) also suppressed revenue generation. As COGS was relatively sticky (USD7.4mn of USD21.0mn was depreciation), PACRA generated a gross loss of USD7.0mn. Though this was wider y/y (1Q2016: USD1.3mn gross loss), it was an improvement over 4Q2016's gross loss of USD14.5mn. In aggregate, PACRA generated a net loss of USD15.2mn for the quarter.
- **Operating cash flow continues to weaken:** Cash flow generation remains weak, with PACRA seeing USD13.1mn in operating cash out flow and USD1.6mn in capex. PACRA also paid down USD18.6mn in borrowings during the quarter. To plug in the cash gap, PACRA generated USD6.4mn from asset / PPE divestments (PACRA had to book divestment losses) as well as drew on its cash balance. As a result, cash balance fell to just USD23.7mn. In aggregate, net gearing continued to climb higher to 174% (4Q2016: 161%). Currently, PACRA has USD44.9mn in short-term borrowings, as its SGD100mn in bonds will be due in August 2018. Though 2Q would likely show q/q improvements to revenue, given that operating cash flow remains negative, and that PACRA continues to have amortizing vessel financing to service, the current unencumbered cash balance of USD15.2mn does not provide much buffer.
- **New contracts won not sufficient:** PACRA has announced that it had secured USD45.3mn worth of contracts, which would deploy 10 OSVs (including a DSV), in Asia and the Middle East. These vessels will provide services which include towing, repair and maintenance, transportation and platform support. Given the still challenging oversupplied market for OSVs, it is unlikely that PACRA would be able to secure charters at rates much higher than market. The tenure of the contracts was also not announced. As such, though the contract wins are commendable, the operating cash flow generated from the contracts would unlikely be enough to move the needle. PACRA would need to exhibit stronger operating cash flow generation (from an increase in both fleet utilization as well as charter rates) before we see meaningful improvements to PACRA's credit profile. As such, we will retain our Negative Issuer Profile.

Pacific Radiance Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	1Q2017
Income Statement (USD'mn)			
Revenue	121.8	69.4	14.0
EBITDA	26.7	-21.7	-4.8
EBIT	0.4	-52.8	-12.5
Gross interest expense	12.1	16.6	4.3
Profit Before Tax	5.3	-118.2	-14.8
Net profit	3.7	-118.8	-14.7
Balance Sheet (USD'mn)			
Cash and bank deposits	43.1	50.6	23.7
Total assets	916.6	904.3	878.6
Gross debt	399.4	514.6	500.3
Net debt	356.3	464.0	476.6
Shareholders' equity	416.0	289.0	273.3
Total capitalization	815.4	803.6	773.6
Net capitalization	772.3	753.0	750.0
Cash Flow (USD'mn)			
Funds from operations (FFO)	30.1	-87.7	-7.0
* CFO	24.4	-44.0	-13.1
Capex	161.6	126.3	1.6
Acquisitions	3.4	0.0	0.0
Disposals	7.6	57.1	6.3
Dividend	17.9	6.5	0.0
Free Cash Flow (FCF)	-137.2	-170.3	-14.7
* FCF adjusted	-151.0	-119.7	-8.4
Key Ratios			
EBITDA margin (%)	21.9	-31.2	-34.1
Net margin (%)	3.1	-171.2	-105.6
Gross debt to EBITDA (x)	14.9	-23.7	-26.2
Net debt to EBITDA (x)	13.3	-21.4	-25.0
Gross Debt to Equity (x)	0.96	1.78	1.83
Net Debt to Equity (x)	0.86	1.61	1.74
Gross debt/total capitalisation (%)	49.0	64.0	64.7
Net debt/net capitalisation (%)	46.1	61.6	63.6
Cash/current borrowings (x)	0.5	1.0	0.5
EBITDA/Total Interest (x)	2.2	-1.3	-1.1

Source: Company, OCBC estimates

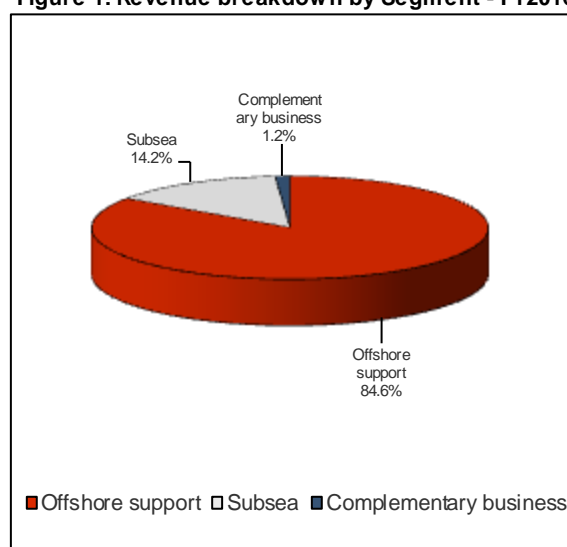
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	44.9	9.0%
Unsecured	0.0	0.0%
	44.9	9.0%
Amount repayable after a year		
Secured	385.1	77.0%
Unsecured	70.3	14.1%
	455.4	91.0%
Total	500.3	100.0%

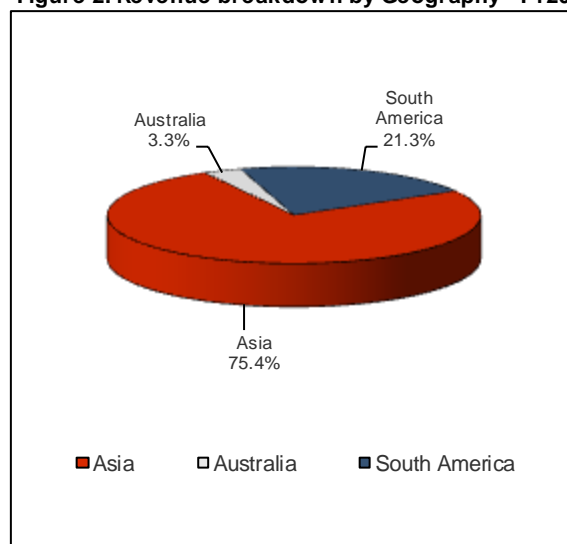
Source: Company

Figure 1: Revenue breakdown by Segment - FY2016



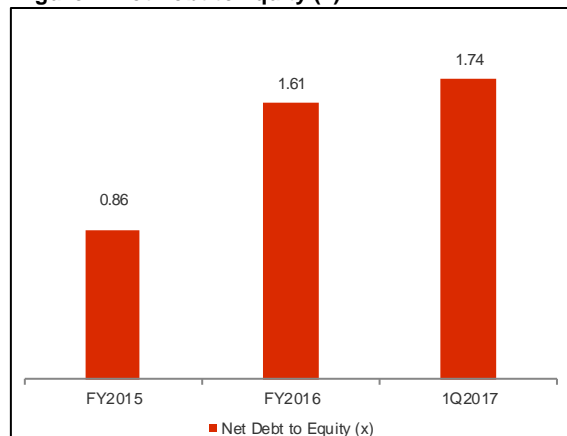
Source: Company | Excludes Inter-segment Elimination

Figure 2: Revenue breakdown by Geography - FY2016



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We are neutral both the SSREIT4.0%’18s and SSREIT4.25%’19s and we see positive signaling from SSREIT’s on-going strategic review.

Issuer Profile: Negative

S&P: Not rated

Moody’s: Not rated

Fitch: Not rated

Ticker: **SSREIT**

Background

Listed in 2010, Sabana Shari’ah Compliant Industrial REIT (“SSREIT”) is an industrial REIT in Singapore, with total assets of SGD1.0bn as at 31 March 2017. SSREIT owns a portfolio of 21 properties as at 31 December 2016 and is in the midst of acquiring two additional properties in Singapore. Vibrant Group and its related parties hold ~12% in the REIT and 51% of the REIT Manager. Jinqun Tong is the single largest unitholder with a 6.2%-stake, followed by the e-Shang Redwood Group (also second largest unitholder of ESR REIT) with 5%.

Sabana Shari’ah Compliant Industrial REIT

Key credit considerations

- **1Q2017 results weaker:** In 1Q2017, revenue decreased by 7% to SGD22.0mn on the back of lower contribution from properties divested, weaker performance at five properties and another building which was converted into a multi-tenanted building. Net property income (“NPI”) however, decreased by 12% to SGD13.3mn as a result of lower revenue and increased property expenses. Higher net impairment losses on trade receivables (arrears in excess of securities of deposits held) were recorded in 1Q2017. For 1Q2017, the REIT Manager had elected to forgo 75% of its management fees, resulting in lower operating expenses at SGD0.4mn (1Q2016: SGD1.5mn). EBITDA based on our calculation which does not take into account of other income and other expenses was SGD12.9mn (down 5% from 1Q2016). There were no asset movements between 1Q2017 and 4Q2016. Quarter-on-quarter, gross revenue and NPI declined 2% and 4% respectively on a same-store basis.
- **Coverage weaker:** The decline in EBITDA led EBITDA/Interest coverage lower at 2.4x from 2.6x q/q, interest expense was relatively constant at SGD5.3mn. Net cash flow from operations was 27% lower at SGD11.7mn and insufficient to cover payments to capital sources (collectively, SSREIT paid out SGD16.0mn to unitholders and interest expenses). Capex was insignificant. The cash gap at SSREIT was funded mainly via proceeds from the rights issue.
- **Aggregate leverage reduced significantly:** As at 31 March 2017, aggregate leverage reduced to 36.1% (31 December 2016: 43.2%). In December 2016, three acquisitions were announced. Following completion of SSREIT’s rights issue and pending deployment of the cash for acquisitions, SGD60mn (of SGD80.2mn) in gross proceeds was used to repay debt due in August 2017. One of the acquisitions is pending completion and the other two has been terminated following unitholder feedback. As it stands, such equity raised looks to be permanently deployed for debt repayment. We view curtailment of acquisitions as a credit positive.
- **Heavy impending obligations:** As at 31 March 2017, SSREIT faces (1) SGD57.8mn of debt due in the next nine months (2) Purchase obligation of SGD20.9mn for the remaining property though it is also due to receive SGD14.8mn from the divestment of 218 Pandan Loop. We see short term obligations of ~SGD56.4mn (cash balance as at 31 March 2017: SGD7.5mn). As at 31 March 2017, SSREIT still has SGD331.5mn in unencumbered assets which provides financial flexibility for the REIT to raise secured funding, if need be.
- **Strategic review on-going:** In April 2017, a shareholders requisition to replace the REIT Manager failed, though unitholders managed to parlay their concerns. SSREIT and its REIT Manager is currently undergoing a Strategic Review to assess options available to enhance growth. This includes possible changes in ownership. The Sponsor, Vibrant Group, is engaged in discussions to acquire a further stake in the REIT Manager, though as of report date, no binding agreements have been entered into. In FY2016, Vibrant Group was the largest tenant at SSREIT, accounting for 17% of NPI. There is no certainty that it will renew the Master Leases, especially if it is no longer involved with SSREIT post-Strategic Review.
- **Looming lease expiries:** 36.3% of leases are due to expire by Net Lettable Area by end-2017. Of SSREIT’s 21 properties, one vacant building is in the process of being sold, three are Master Leased to Sponsor until November 2017 while two properties are under Master Leases to third parties. These two properties are “at-risk” in our view, due to rent in arrears incurred. Excluding gross rental from these six properties SSREIT’s EBITDA/Interest may fall to only 2.0x, though still above its covenanted levels of 1.5x.

Sabana Shari'ah Compliant Industrial Trust

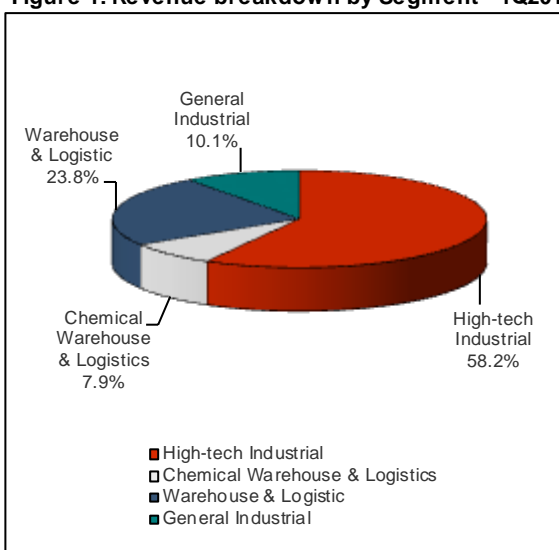
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	100.8	91.8	22.0
EBITDA	64.8	51.2	12.9
EBIT	64.4	51.2	12.9
Gross interest expense	21.5	21.1	5.3
Profit Before Tax	-73.4	-62.5	7.4
Net profit	-73.4	-62.5	7.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	10.4	9.2	7.5
Total assets	1,165.4	1,022.9	1,020.9
Gross debt	481.1	437.9	365.4
Net debt	470.6	428.7	357.9
Shareholders' equity	653.7	556.8	631.8
Total capitalization	1,134.8	994.7	997.2
Net capitalization	1,124.4	985.5	989.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	-73.0	-62.5	7.4
* CFO	70.0	48.7	11.7
Capex	1.5	1.8	0.3
Acquisitions	0.0	0.0	0.0
Disposals	0.0	54.6	0.0
Dividends	50.4	38.7	9.3
Free Cash Flow (FCF)	68.5	46.8	11.4
* FCF Adjusted	18.2	62.7	91.5
Key Ratios			
EBITDA margin (%)	64.3	55.7	58.7
Net margin (%)	-72.8	-68.0	33.5
Gross debt to EBITDA (x)	7.4	8.6	7.1
Net debt to EBITDA (x)	7.3	8.4	6.9
Gross Debt to Equity (x)	0.74	0.79	0.58
Net Debt to Equity (x)	0.72	0.77	0.57
Gross debt/total capitalisation (%)	42.4	44.0	36.6
Net debt/net capitalisation (%)	41.9	43.5	36.2
Cash/current borrowings (x)	0.1	0.1	0.1
EBITDA/Total Interest (x)	3.0	2.4	2.4

Source: Company, OCBC estimates

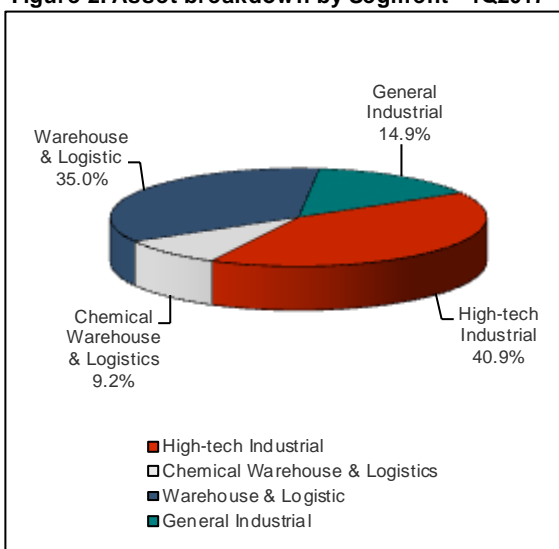
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 1: Revenue breakdown by Segment - 1Q2017



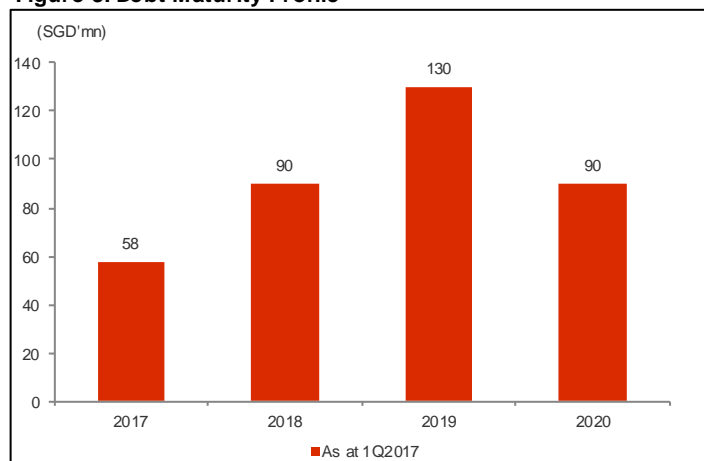
Source: Company

Figure 2: Asset breakdown by Segment - 1Q2017



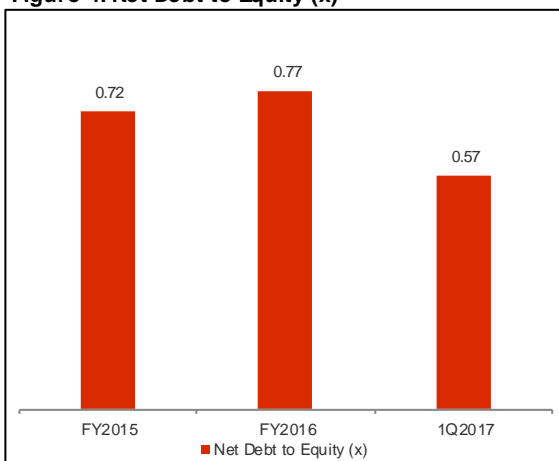
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We prefer the KEPSP'20s over the SCISP'20s given that the former is trading wider than the latter despite having a stronger credit profile and having a healthy property segment offsetting weakness at O&M.

Sembcorp Industries Ltd

Key credit considerations

- **Revenue trend away from O&M continues:** SCI reported SGD2.14bn in total revenue for 1Q2017, up 12.9% y/y. Utilities revenue surged 47.0% y/y to SGD1.32bn, mitigating weakness at the marine segment (declined 17.2% y/y). The marine business remains challenging, with the slump driven by lower revenue recognized (-35.8% y/y to SGD346.7mn) on the execution of drilling assets (such as rigs and floaters). Coupled with fixed costs, segment gross margins fell to just 2.6%, with a segment loss avoided due to the divestment of 30% of COSCO Shipyard Group (which contributed ~SGD28.5mn of the SGD24.1mn in marine segment net profit). The outlook for the marine business remains weak, with challenges in rebuilding the marine net order book (declined q/q from SGD7.8bn to SGD7.1bn) and uncertainties over the settlement of rigs ordered by Perisai Petroleum Teknologi (currently in default) and Oro Negro.

Issuer Rating: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **SCISP**

Background

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 8,000 employees and generated SGD9.5bn in total revenue for 2015. Temasek Holdings is the largest shareholder of SCI, holding 49.5% stake.

- **Sales growth, profitability lacking at utilities:** The utilities revenue surge was driven by Singapore and India, which jumped 40.5% y/y to SGD750.3mn and 70.0% y/y to SGD362.5mn respectively. The former was driven by higher heavy sulphur fuel oil prices leading to higher domestic electric tariffs, while the latter was driven by Sembcorp Gayatri Power ("SGPL") commencing commercial operation in February 2017. Utilities segment profitability was a disappointment, falling 26.5% y/y to SGD55.3mn. This was driven by continued losses at the India power business, which generated SGD21.8mn loss (including SGPL refinancing costs). Like in 4Q2016, SCI was still unable to secure long-term Power Purchase Agreements ("PPAs") for SGPL, and hence had to sell into the weak spot and short-term Indian power market. As such, SGPL was only able to cover cash cost (generating a loss after depreciation). Industry utilization is expected to remain weak over the next couple of years (due to oversupply). As such, the utilities segment could remain pressured by SGPL till long-term PPAs are signed.

- **Land sales propped up bottom line:** Total net profit increased 11.3% y/y to SGD119.1mn, largely due to the surge in profit at Urban Development segment of SGD37.2mn (from the sale of land at the Nanjing Eco Island JV). Excluding the non-recurring gains from Urban Development and the COSCO divestment, net profit would have been SGD53.4mn, a y/y decline of 50.1%. Operating cash flow (including interest service) was positive at SGD9.9mn, with inflows from the utilities business offsetting the outflows at marine. However, after factoring capex (of which SGD282.0mn was due to utilities), free cash flow remained negative at SGD342.0mn. The cash burn was plugged by a SGD358.8mn q/q increase in borrowings. This drove net gearing higher to 94% (4Q2016: 90%). Management reported interest cover also weakened to 2.7x (compared to 3.3x for 2016) largely to due higher financing costs. We expect both the utilities and marine segments to continue facing earnings pressure, and SCI to continue investing in the utilities segment (SCI won a ~SGD405mn bid for a new power project in Tamil Nadu), as such improvements to SCI's leverage profile are unlikely. That said, SCI continues to have capital market access, pricing a SGD200mn NC3 perpetual security mid-June. Assuming proceeds are used to reduce debt, pro-forma 1Q2017 net gearing is estimated to fall from 94% currently to 89%.

- **Winds of change:** Neil McGregor took over as CEO for SCI on 01/04/17. He had been on SCI's board for 3 years, and was formerly the Senior Managing Director and Head of Energy & Resources at Temasek Holdings. As part of the transition process, SCI is undertaking a strategic review of all its businesses and strategic direction. The outcome of the strategic review, after approval by the Board, was guided to take around six months. We will retain SCI's current Neutral Issuer Profile for now, and will monitor for any potential developments.

Sembcorp Industries Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	9,544.6	7,907.0	2,139.6
EBITDA	612.2	1,198.0	286.4
EBIT	207.3	744.3	152.7
Gross interest expense	238.0	402.0	129.1
Profit Before Tax	426.3	537.4	150.3
Net profit	548.9	394.9	119.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,606.5	1,882.5	1,852.7
Total assets	19,915.5	22,290.2	22,649.5
Gross debt	6,832.9	9,221.3	9,580.1
Net debt	5,226.5	7,338.8	7,727.4
Shareholders' equity	8,043.5	8,162.7	8,233.8
Total capitalization	14,876.4	17,384.0	17,813.9
Net capitalization	13,270.0	15,501.5	15,961.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	953.8	848.6	252.9
* CFO	-1,061.8	466.1	9.9
Capex	1,392.8	821.9	351.9
Acquisitions	640.6	132.4	6.7
Disposals	704.8	35.0	38.9
Dividend	439.6	263.4	10.9
Free Cash Flow (FCF)	-2,454.5	-355.8	-342.0
* FCF adjusted	-2,829.9	-716.6	-320.7
Key Ratios			
EBITDA margin (%)	6.4	15.2	13.4
Net margin (%)	5.8	5.0	5.6
Gross debt to EBITDA (x)	11.2	7.7	8.4
Net debt to EBITDA (x)	8.5	6.1	6.7
Gross Debt to Equity (x)	0.85	1.13	1.16
Net Debt to Equity (x)	0.65	0.90	0.94
Gross debt/total capitalisation (%)	45.9	53.0	53.8
Net debt/net capitalisation (%)	39.4	47.3	48.4
Cash/current borrowings (x)	0.9	0.9	0.8
EBITDA/Total Interest (x)	2.6	3.0	2.2

Source: Company, OCBC estimates

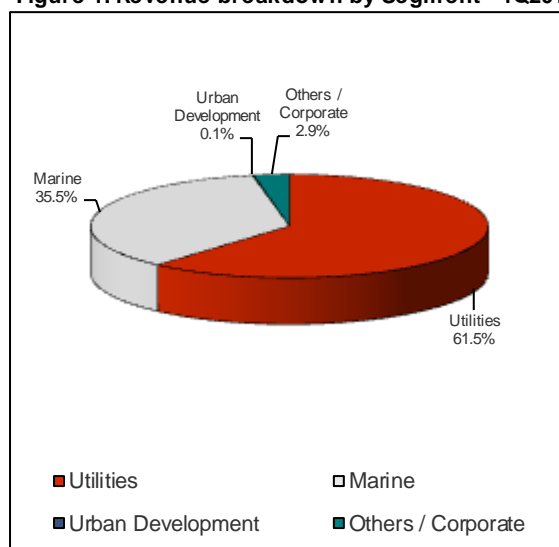
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	590.6	6.2%
Unsecured	1666.1	17.4%
	2256.7	23.6%
Amount repayable after a year		
Secured	3047.9	31.8%
Unsecured	4275.5	44.6%
	7323.4	76.4%
Total	9580.1	100.0%

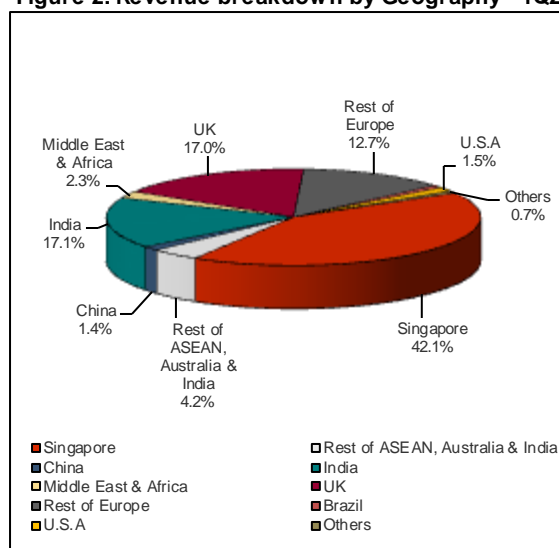
Source: Company

Figure 1: Revenue breakdown by Segment - 1Q2017



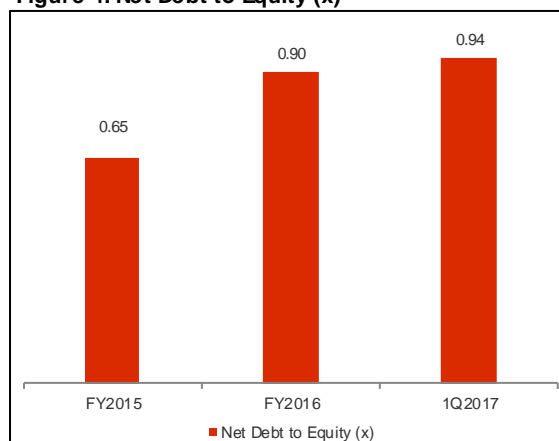
Source: Company

Figure 2: Revenue breakdown by Geography - 1Q2017



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We are underweight the SIASP 3.035%’25s, at a YTM of 2.7%, it is trading tight versus the STSP curve, an issuer with the same parentage which we see as having a stronger credit profile.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **SIASP**

Background

Singapore Airlines Group (“SIA Group”) listed on the SGX has a market cap of SGD11.9bn. Apart from its flagship carrier, Singapore Airlines (“SQ”), the company also operates other airlines and businesses via subsidiaries: SIA Engineering Company, SIA Cargo, SilkAir and Budget Aviation Holdings (which holds Scoot and Tiger Airways). SIA Group is ~56% owned by Temasek while the remaining shareholding is dispersed across institutional investors.

Singapore Airlines Ltd

Key credit considerations

- **FY2017 results weaker:** SIA Group reported a 2.4% decline in revenue to SGD14.9bn on the back of lower revenue seen at SQ and SIA Cargo. Following the adoption of a new accounting standard pertaining to unused tickets, SGD151.2mn in one-off revenue was recognized in FY2017. Removing this, revenue decline would have been wider at 3.4%. Operating profits declined 8.6% to SGD622.8mn. This was despite the one-off revenue recognition and 17% decline in fuel cost. Higher staff costs, handling charges, maintenance, repair and operations (“MRO”) expenses, landing, parking and overflying charges all dragged results. In FY2017, SIA Group reported net profit of SGD360.4mn, declining 55% y/y. The large swing in net profit was due to the re-imposition of penalties by the European Commission (“EC”) on SIA Cargo’s alleged cartel behavior (adverse decision from November 2010). SIA Cargo had paid a fine in FY2011 but in FY2016, SGD119.1mn was refunded following the European General Court’s annulment of the EC’s decision. SIA Group is pursuing a major business transformation plan that aims to improve efficiency and identify additional revenue opportunities. Details have yet to be revealed though we expect cost containment measures to be part of the plan.
- **Highly competitive industry:** SQ, SIA Group’s international full service airline business continues to be the key operating income driver of the company (61% of total). SQ has not been spared from sector-wide overcapacity. The carrier faces competition from aggressive growth of low-cost airlines (“LCC”) and expansion of Middle Eastern and Chinese airlines into Southeast-Asia. Passenger yields (a measure of average fare paid per Kilometre, per passenger) was 10.2 cents/pkm in FY2017 (FY2016: 10.6 cents/pkm). SilkAir was the second largest contributor at 16%. In FY2017, operating profit grew by 11% to SGD101mn; we think this was driven by capacity expansion and the reduction in fuel cost.
- **Budget Aviation Holdings (“BAH”), JVs and Associates (“JCE”):** A holding company BAH was set up to own/manage both Scoot and Tiger Airways. Operating profit rose 60.5% to SGD67.4mn y/y. This was largely led by capacity growth. BAH took a SGD127.5mn non-operating charge (largely attributable to write down of TigerAir-related brand and trademarks). Share of JCEs, including aviation-related businesses continue to be a drag (FY2017: negative SGD42.1mn). The media reported that its 49%-stake in Vistara (JV with Tata Sons Limited) in India had a net loss of SGD85.4mn in FY2016.
- **Operating cash flows:** In FY2017, SIA Group’s net cash from operations (excluding interest) was SGD2.5bn, about SGD473mn lower than FY2016. This was insufficient to fund investing outflows of SGD2.9bn. During the year, SIA Group paid out SGD559mn in dividends and bought back SGD134.3mn in shares. These were funded by issuance of bonds (SGD430mn) as well as drawing down of existing cash balances. As at 31 March 2017, SIA Group’s cash balance was SGD3.4bn, down from SGD4.0b at the beginning of the financial period.
- **Gearing increasing:** As at 31 March 2017, SIA Group’s gearing was still low at 0.14x, though had steadily increased over the past five years. Increased amounts of debt were taken mainly due to capex from fleet renewals and a weaker operating environment which had affected CFO generation. In end-FY2012, gearing was 0.08x. SIA Group was in a net cash surplus position of -0.11x as at 31 March 2017, though the surplus position had narrowed. SIA Group has around SGD40bn in firm orders placed for new aircrafts. We expect the company to tap onto debt funding (including other currencies) to finance the large capex and SIA Group to turn into a net debt company. We are initiating SIA Group with a Neutral issuer profile, in view that the company is starting from a commendable credit profile position.

Singapore Airlines Ltd

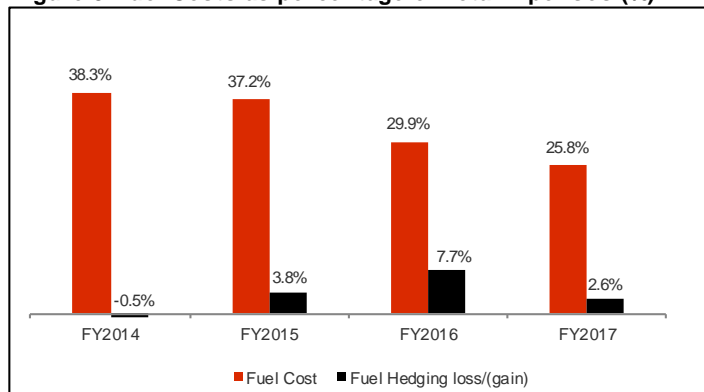
Table 1: Summary Financials

Year End 31st Mar	FY2015	FY2016	FY2017
Income Statement (SGD'mn)			
Revenue	15,565.5	15,238.7	14,868.5
EBITDA	1,974.1	2,256.9	2,214.7
EBIT	409.4	681.2	622.8
Gross interest expense	49.6	50.3	46.1
Profit Before Tax	442.9	972.4	518.6
Net profit	367.9	804.4	360.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	5,042.7	3,972.4	3,380.5
Total assets	23,921.6	23,769.7	24,720.0
Gross debt	1,739.5	1,347.5	1,836.7
Net debt	-3,303.2	-2,624.9	-1,543.8
Shareholders' equity	12,930.1	13,132.9	13,470.2
Total capitalization	14,669.6	14,480.4	15,306.9
Net capitalization	9,626.9	10,508.0	11,926.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	1,932.6	2,380.1	1,952.3
* CFO	2,067.2	3,005.5	2,532.9
Capex	2,600.2	2,909.0	3,944.7
Acquisitions	-31.9	130.3	225.3
Disposals	1,529.1	664.0	1,640.0
Dividend	553.2	359.0	558.9
Free Cash Flow (FCF)	-533.0	96.5	-1,411.8
* FCF adjusted	474.8	271.2	-556.0
Key Ratios			
EBITDA margin (%)	12.7	14.8	14.9
Net margin (%)	2.4	5.3	2.4
Gross debt to EBITDA (x)	0.9	0.6	0.8
Net debt to EBITDA (x)	-1.7	-1.2	-0.7
Gross Debt to Equity (x)	0.13	0.10	0.14
Net Debt to Equity (x)	-0.26	-0.20	-0.11
Gross debt/total capitalisation (%)	11.9	9.3	12.0
Net debt/net capitalisation (%)	-34.3	-25.0	-12.9
Cash/current borrowings (x)	11.3	18.7	80.5
EBITDA/Total Interest (x)	39.8	44.9	48.0

Source: Company, OCBC estimates

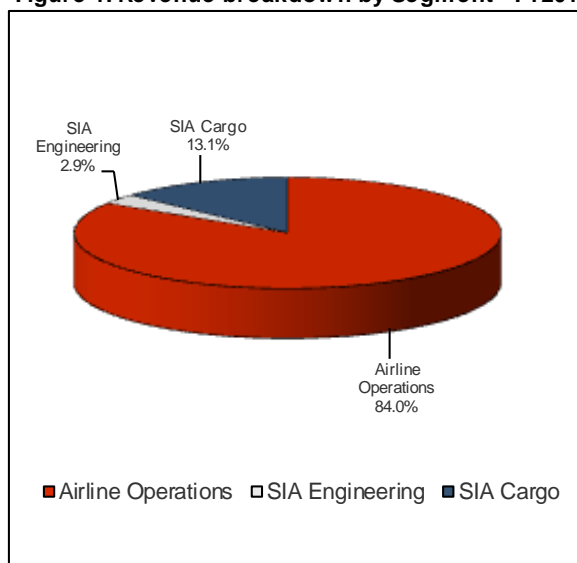
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after before interest expense

Figure 3: Fuel Costs as percentage of Total Expenses (%)



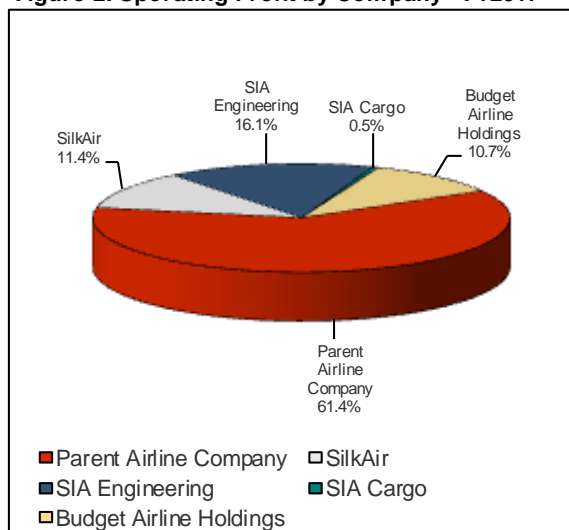
Source: Company

Figure 1: Revenue breakdown by Segment - FY2017



Source: Company | Excludes Inter-segment Eliminations

Figure 2: Operating Profit by Company - FY2017



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We continue to see better value in other peers such as STSP 2.58'20

Singapore Post Ltd

Key credit considerations

- **Impairments dominate results:** SPOST reported 4QFY2017 / full-year FY2017 results for the period ended March 2017. SPOST took SGD208.6mn in impairments during the last quarter, the bulk of which (SGD185.0mn) relates to SPOST's eCommerce subsidiary TradeGlobal. The balance was due to impairments on Famous Holdings, SPOST's freight forwarding subsidiary. During 3QFY2017, SPOST had already flagged out that TradeGlobal (acquired in November 2015 for USD168.5mn) had performed poorly during the peak holiday period, generating a SGD25.8mn loss for the year instead of a projected SGD9.4mn profit. We have previously highlighted our concerns that acquisitions made for the eCommerce segment seemed to have faced revenue declines despite being acquired for growth. The impairments taken were offset by SPOST booking a revaluation gain of SGD108.7mn, largely on SingPost Centre (redevelopment of its retail section is nearing completion).
- **eCommerce and Logistics remains underwhelming:** 4QFY2017 total revenue increased 2.0% y/y to SGD324.0mn (in part due to the Jagged Peak acquisition made in March 2016). As a result, eCommerce segment revenue was up 30.9% y/y to SGD56.7mn. However, segment revenue declined 30.1% q/q potentially due to seasonal factors. Operating losses for the segment also continued to widen to SGD15.1mn (3QFY2017: 8.4mn loss) with SPOST taking one-off write downs on receivables at TradeGlobal due to customers' bankruptcy. The Logistics segment revenue declined 7.7% y/y to SGD154.7mn, with growth at Couriers Please and SP Parcels offset by declines at Quantum Solutions (due to competitive pressures) and Famous Holdings (due to depressed industry freight rates and volumes). Segment operating profit also fell, slumping sharply to just SGD2.6mn, due to the weak performance.

Issuer Profile:

Neutral

S&P: BBB+/Stable

Moody's: Not rated

Fitch: Not rated

Ticker: **SPOST**

Background

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 Telecom Ltd and a few other corporations, Temasek Holdings has an indirect ownership of ~22% of SPOST. Alibaba Group Holdings is the 2nd largest shareholder with ~14% of SPOST.

- **Postal remains the main operating profit driver:** Only the Postal segment remained resilient, with revenue flat (+0.6% y/y) at SGD136.8mn, and operating margin unchanged at ~27%. In fact, the postal segment operating profit of SGD36.8mn was the bulk of SPOST's total operating profit. The revenue split between domestic and international mail was 45% / 55%. In aggregate, excluding the impairments and revaluation gains, SPOST's operating profit margin fell to 8.0% (4QFY2016: 12.5%) with labour, volume-related and selling expenses trending higher despite weaker revenue growth.
- **Alibaba plugging the gap:** For 4QFY2017, SPOST generated SGD44.8mn in operating cash flow (including interest service). However, capex was SGD35.7mn hence free cash flow was only SGD9.1mn. SPOST also paid out SGD18.7mn in perp distributions and dividends during the quarter, as well as paid down SGD50.6mn in net borrowings. The cash gap was funded by Alibaba completing its second tranche of investments into SPOST in January 2017, with SPOST issuing 107.6mn new shares for SGD187mn. The funding helped boosted SPOST's cash balance to SGD366.6mn. As SPOST reported SGD364.0mn in gross borrowings (end-FY2017), SPOST has reverted into a net cash company. Looking forward, we continue to believe that SPOST would face structural pressures on its margins (given the revenue shift away from Postal to Logistics and eCommerce), and this would in turn pressure cash flow. As such, despite the low absolute levels of leverage, SPOST's Issuer Profile will be retained at Neutral.

Singapore Post Ltd

Table 1: Summary Financials

Year End 31st Mar	FY2015	FY2016	FY2017
Income Statement (SGD'mn)			
Revenue	919.6	1,151.5	1,348.5
EBITDA	169.1	159.8	155.1
EBIT	134.6	128.0	104.1
Gross interest expense	4.4	10.4	5.7
Profit Before Tax	192.5	287.2	54.9
Net profit	157.6	248.9	33.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	584.1	126.6	366.6
Total assets	2,197.8	2,415.8	2,716.6
Gross debt	238.3	280.3	364.0
Net debt	-345.8	153.6	-2.6
Shareholders' equity	1,467.7	1,561.5	1,757.7
Total capitalization	1,706.1	1,841.8	2,121.7
Net capitalization	1,121.9	1,715.1	1,755.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	192.2	280.8	84.4
* CFO	227.9	122.9	190.4
Capex	104.4	279.7	199.8
Acquisitions	120.7	285.9	3.2
Disposals	11.0	67.8	86.1
Dividend	143.0	181.9	134.4
Free Cash Flow (FCF)	123.5	-156.8	-9.3
* FCF adjusted	-129.2	-556.8	-60.9
Key Ratios			
EBITDA margin (%)	18.4	13.9	11.5
Net margin (%)	17.1	21.6	2.5
Gross debt to EBITDA (x)	1.4	1.8	2.3
Net debt to EBITDA (x)	-2.0	1.0	0.0
Gross Debt to Equity (x)	0.16	0.18	0.21
Net Debt to Equity (x)	-0.24	0.10	0.00
Gross debt/total capitalisation (%)	14.0	15.2	17.2
Net debt/net capitalisation (%)	-30.8	9.0	-0.1
Cash/current borrowings (x)	34.5	1.8	2.5
EBITDA/Total Interest (x)	38.7	15.4	27.3

Source: Company, OCBC estimates

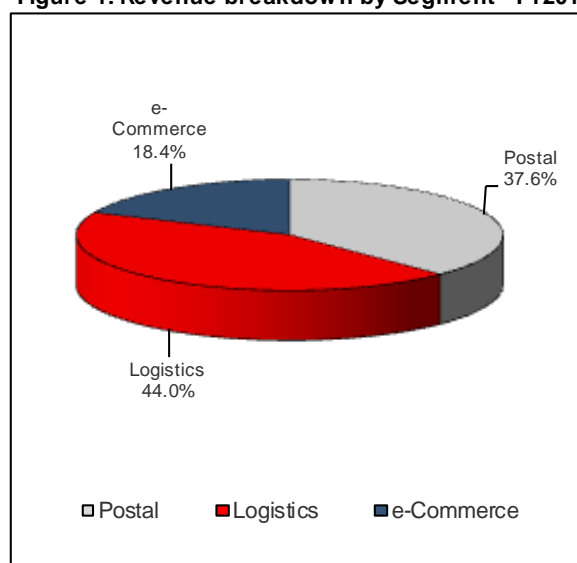
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	14.0	3.9%
Unsecured	134.7	37.0%
	148.8	40.9%
Amount repayable after a year		
Secured	12.9	3.5%
Unsecured	202.3	55.6%
	215.2	59.1%
Total	364.0	100.0%

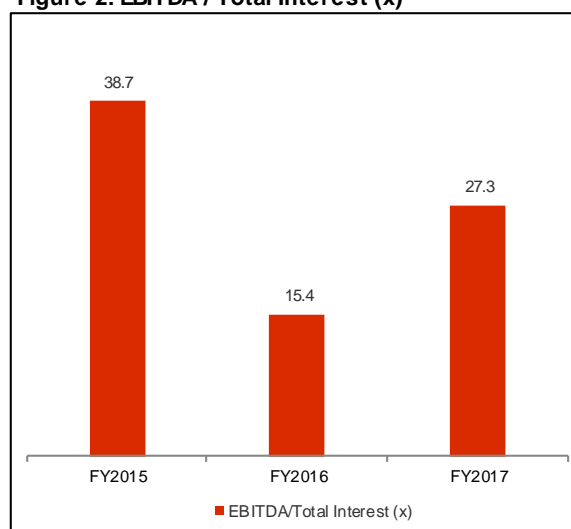
Source: Company

Figure 1: Revenue breakdown by Segment - FY2017



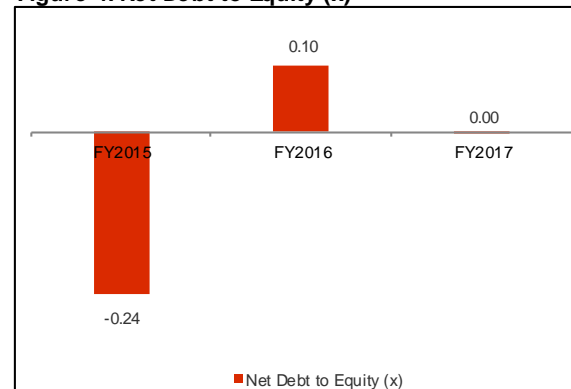
Source: Company | Excludes Inter-segment Eliminations

Figure 2: EBITDA / Total Interest (x)



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook

We think SingTel offers a solid credit profile. However, the STSP curve looks fair as we believe the market has already priced this in, with STSP '20s and '21s trading between 1.83% and 2.35%.

Issuer Rating: Positive

S&P: A+/Stable

Moody's: Aa3/Stable

Fitch: A+/Stable

Ticker: **STSP**

Background

Singapore Telecommunications Ltd ("SingTel") is the largest listed company in Singapore with a market cap of SGD62bn. SingTel is a communications company, providing various services including mobile, data, fixed, pay television, internet, video, infocomms technology ("ICT") and digital solutions. Through various subsidiaries and associates, SingTel is the leading mobile player in Singapore, Australia, Indonesia, Philippines, Thailand and India. Temasek Holdings is the majority shareholder with 52.3% stake as of 07 Jul 2017.

Singapore Telecommunications Ltd

Key credit considerations

- **Delivering decent results:** FY2016 revenue fell 1.5% y/y to SGD16.7bn mainly due to the decline in Australia mobile termination rates, which is manageable as traffic expenses fell along with mobile revenue. Meanwhile, reported EBITDA remained flattish at SGD5.0bn (-0.3% y/y). For 4QFY2017, operating revenue and reported EBITDA look decent, growing 5% and 4% y/y to SGD4.3bn and SGD1.3bn respectively. Growth is contributed by the group consumer segment, which delivered strong performance (revenue and reported EBITDA +7.1% and +7.4% y/y to SGD2.5bn and SGD908mn respectively) in Singapore and Australia.
- **Well-diversified leading mobile operator:** SingTel is a leading mobile operator in Singapore and Australia (via wholly-owned Optus). SingTel also owns stakes in leading mobile operators in other regions including Bharti Telecom Group ("Airtel"), PT Telekomunikasi Selular ("Telkomsel"), Advanced Info Service PCL ("AIS") and Globe Telecom Inc ("Globe"). These associates collectively contributed 54% of FY2017's pre-tax profits, while SingTel and Optus contributed 23% and 22% respectively. Despite earnings pressure at Airtel (pre-tax profit: -17% y/y to SGD580mn) due to competition, this has been more than offset by the growth in Telkomsel (+25% y/y to SGD1.4bn). Acknowledging the HoldCo-OpCo subordination risks, we think SingTel enjoys geographical diversification through its associates. Also, it does not directly fund their capex and bids for spectrum.
- **Ready to take on mobile competition:** SingTel will be facing additional competition from TPG, which will be the fourth mobile operator in Singapore and Australia. Already, costs are increasing with higher spectrum bids, which saw SingTel forking out SGD564mn in Singapore. Margins will likely be pressured if TPG were to price aggressively in a bid to capture market share, which also limits SingTel from passing on cost increases to consumers. Nevertheless, we think SingTel will be able to mitigate competition from a position of strength with higher network coverage (in both Singapore and Australia) as an incumbent. Consumers are also likely to be sticky with binding contracts (typically 21-24mths). In any case, the overall impact is contained, given SingTel's geographical diversification. Meanwhile, SingTel expects next 12 months outlook to be bright with revenue and EBITDA expected to grow by mid and low single digit respectively.
- **Singapore ICT as a main revenue driver:** Singapore information communications technology ("ICT") has been driving revenues, growing from SGD1.7bn in FY2013 to SGD2.3bn in FY2017. The recent growth was mainly due to cyber security and provision of government infrastructure services, which include the on-boarding of government's agencies to the G-Cloud platform (private government cloud). SingTel expects group ICT revenue to continue growing at mid-single digit.
- **Healthy credit metrics:** Despite net debt increasing by SGD1.2bn y/y, net debt/EBITDA still looks healthy at 2.2x considering SingTel's recurring cashflow. We estimate that SingTel's associates contribute about SGD1.3bn of dividends (net of withholding taxes) p.a., which is more than sufficient to cover the gross interest expense of SGD374mn in FY2017. SingTel expects this to increase to SGD1.4bn in FY2018. Reported free cash flow (excl dividends from associates) of SGD1.7bn in FY2017 is projected to increase to SGD1.8bn in FY18.
- **Divestment of NetLink Trust:** SingTel will be divesting its stake in NetLink Trust to less than 25% via an IPO. The impact on SingTel's credit depends on the use of proceeds, which we think can vary from special dividends to debt repayment.
- **Group Digital Life ("GDL") is only a minor drag:** GDL, which comprise Amobee in digital marketing, targets to reduce EBITDA loss to SGD100mn in FY18.

Singapore Telecommunications Ltd

Table 1: Summary Financials

Year End 31st Mar	FY2015	FY2016	FY2017
Income Statement (SGD'mn)			
Revenue	17,222.9	16,961.2	16,711.4
EBITDA	4,939.3	4,864.4	4,848.4
EBIT	2,777.9	2,715.6	2,609.5
Gross interest expense	315.9	360.4	374.3
Profit Before Tax	4,463.0	4,580.8	4,515.4
Net profit	3,781.5	3,870.8	3,852.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	562.8	461.8	533.8
Total assets	42,066.8	43,565.7	42,376.7
Gross debt	9,373.8	9,940.7	11,185.9
Net debt	8,811.0	9,478.9	10,652.1
Shareholders' equity	24,767.9	25,002.5	28,213.6
Total capitalization	34,141.7	34,943.2	39,399.5
Net capitalization	33,578.9	34,481.4	38,865.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	5,942.9	6,019.6	6,091.6
* CFO	5,786.6	4,647.7	5,314.7
Capex	2,237.6	1,930.0	2,260.6
Acquisitions	449.5	1,274.8	2,471.8
Disposals	15.2	5.7	109.2
Dividend	2,683.2	2,794.1	1,710.5
Free Cash Flow (FCF)	3,549.0	2,717.7	3,054.1
* FCF adjusted	431.5	-1,345.5	-1,019.0
Key Ratios			
EBITDA margin (%)	28.7	28.7	29.0
Net margin (%)	22.0	22.8	23.1
Gross debt to EBITDA (x)	1.9	2.0	2.3
Net debt to EBITDA (x)	1.8	1.9	2.2
Gross Debt to Equity (x)	0.38	0.40	0.40
Net Debt to Equity (x)	0.36	0.38	0.38
Gross debt/total capitalisation (%)	27.5	28.4	28.4
Net debt/net capitalisation (%)	26.2	27.5	27.4
Cash/current borrowings (x)	1.0	0.7	0.2
EBITDA/Total Interest (x)	15.6	13.5	13.0

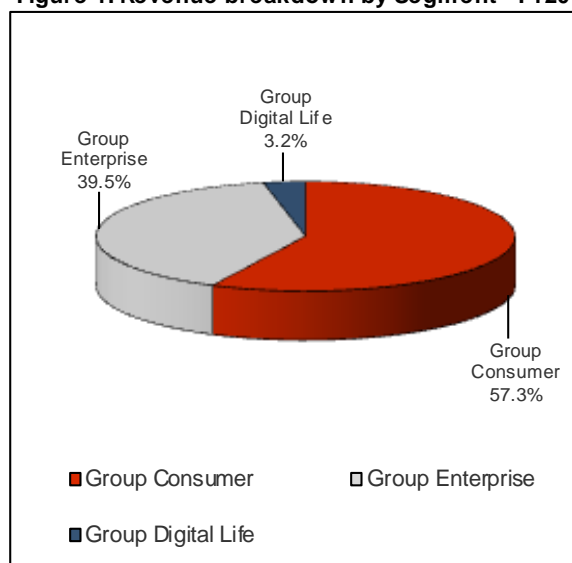
Source: Company, OCBC estimates

*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

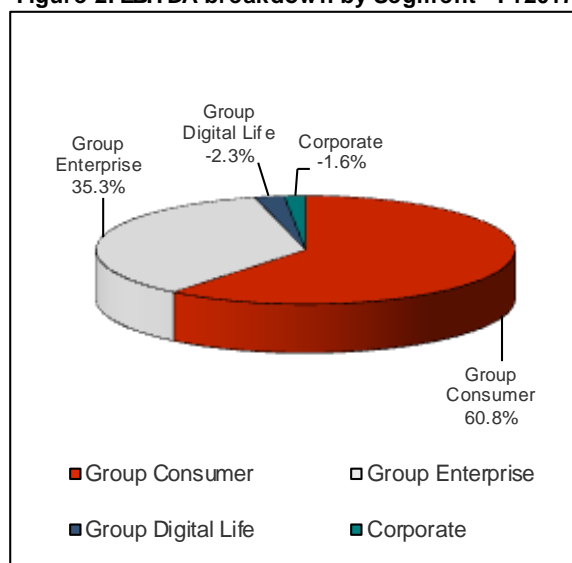
Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	86.7	0.8%
Unsecured	3,046.9	27.2%
	3,133.6	28.0%
Amount repayable after a year		
Secured	199.6	1.8%
Unsecured	7,852.7	70.2%
	8,052.3	72.0%
Total	11,185.9	100.0%

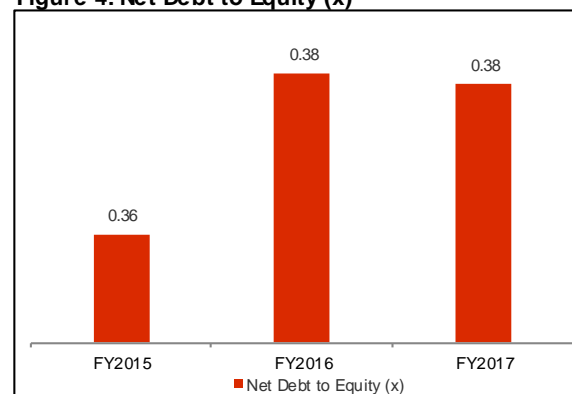
Source: Company

Figure 1: Revenue breakdown by Segment - FY2017


Source: Company

Figure 2: EBITDA breakdown by Segment - FY2017


Source: Company | Group Digital Life and Corporate Incurred EBITDA loss

Figure 4: Net Debt to Equity (x)


Source: Company, OCBC estimates

Credit Outlook –

We see the SBREIT 3.45%’18s at fair value and like the SBREIT 3.6%’21s. This bond provides a 50bps pick-up within its own curve, adjusting for maturity.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa3/Negative

Fitch: Not rated

Ticker: **SBREIT**

Background

Listed in 2013, Soilbuild Business Space REIT (“SBREIT”) is an Industrial REIT in Singapore, with total assets of about SGD1.3bn as at 31 March 2017. SBREIT currently owns a portfolio of 12 properties in Singapore. The REIT is Sponsored by Soilbuild Group Holdings Ltd (“Soilbuild”) which is wholly-owned by Lim Chap Huat. Lim Chap Huat and family is the REIT’s largest unitholder with a ~26% stake and is also controlling shareholder of the REIT Manager. Other major unitholders are Schoders, an investment manager and Jinqian Tong.

Soilbuild Business Space REIT

Key credit considerations

- **Bukit Batok Connection helps lift operating income:** 1Q2017 revenue was up 9.2% to SGD22mn while net property income (“NPI”) was up 11.7% to SGD19.2mn. This was mainly attributable to the Bukit Batok Connection building which was acquired from the Sponsor in October 2016. Revenue was still recorded on 72 Loyang Way in 1Q2017 though the tenant has defaulted. Unutilised deposit on the building only ran to mid-May 2017. Taking out revenue recognised from 72 Loyang Way and Bukit Batok Connection, we find revenue down slightly by 0.8% versus 1Q2016. Taking out the revenue impact of 72 Loyang Way, we estimate that adjusted EBITDA was SGD16.0mn (up by 13.4%). During the quarter, interest expense was higher at SGD3.9mn (up 19%) due to higher gross debt since the beginning of 1Q2017. Adjusted EBITDA/Interest was lower at 4.1x in 1Q2017 versus 4.3x in 1Q2016. SBREIT’s net cash from operations (before interest) was SGD16.9mn and the REIT spent marginal capex during the quarter. SBREIT paid out SGD16.4mn in distributions to unitholders and drew down on cash balances to help fund the cash gap. As at 31 March 2017, cash balance stood at SGD24mn.
- **Gross revenue more diversified:** In 1Q2016 (prior to the acquisition of Bukit Batok Connection in October 2016), 23.5% of gross rental income was attributable to the marine offshore and oil and gas segments. In 1Q2017, this had declined to 13.4% whilst real estate and construction made up 10.6% (zero contribution in 1Q2016). Bukit Batok Connection was purchased from the Sponsor with Sponsor entering into a Master Lease with SBREIT. Effectively, the Sponsor (a property developer and construction company) is paying the remaining rent as the building is not yet stabilized. Solaris is under a Master Lease with the Sponsor and taking into account the underlying sub-tenants at this building, the Sponsor is the largest contributor to gross rents at 9.1%. Under our downside case where all oil and gas and marine offshore tenants default, EBITDA/Interest would still be above 3.5x per our estimate.
- **Aggregate leverage flat:** As at 31 March 2017, aggregate leverage at SBREIT was 37.5%, flat against levels in end-2016. As at 31 December 2016, 72 Loyang Way (which saw the Maser Lessee defaulted) lost SGD32mn in valuation to SGD65mn. Excluding 72 Loyang Way and Bukit Batok Connection (being a new property), SBREIT’s portfolio was down 4% (SGD50mn) between end-2015 and end-2016.
- **No short term debt due:** The next major refinancing is due in May 2018 (the SBREIT 3.45%’18s) and SGD55mn in interest free loan from the Sponsor comes due in August 2018. Assuming that the interest free loan is not extended by the Sponsor, SBREIT would need to raise an additional SGD55mn externally. This would be a small drag to cash flow (assumed SGD1.9mn p.a at a cost of 3.4%). In June 2017, SBREIT entered into a new SGD200mn unsecured facility agreement for refinancing purposes, significantly enhancing the REIT’s financial flexibility (in end-2016, only SGD5mn of committed facility remains undrawn). We view SBREIT’s ability to raise secured funding as high, as the REIT has unencumbered properties of SGD883mn.
- **Solaris Master Lease expiring in August 2018:** 37% of SBREIT’s portfolio by value is made up of two Business Park properties. 38.5% of SBREIT’s leases by gross rental income will come due in 2018. 22.5% are attributable to the expiry of Solaris’s Master Lease. About 34% of the underlying leases at Solaris (by gross rental) is due to expire before August 2018. We see low tenancy risk despite the impending expiry of the Master Lease given the location and profile of the building. Post-expiry, we expect NPI margin from the building to be lower versus the current Master Lease, though we expect this to be offset by higher lease rates.

Soilbuild Business Space REIT

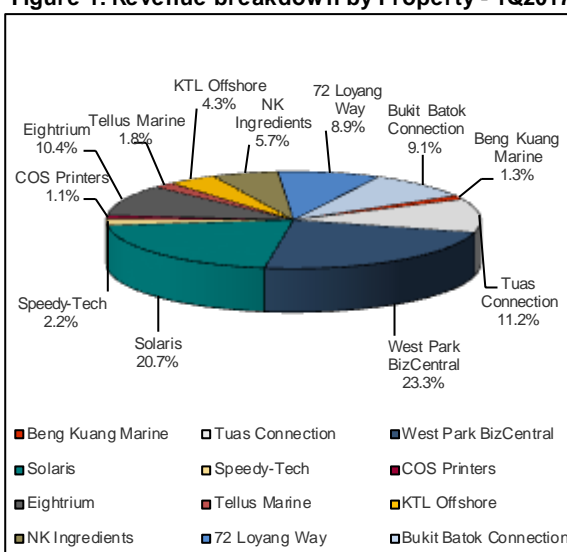
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	79.3	81.1	22.0
EBITDA	61.1	64.4	17.6
EBIT	61.1	64.4	17.6
Gross interest expense	13.5	14.6	3.9
Profit Before Tax	51.7	-0.6	13.9
Net profit	51.7	-0.6	13.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	16.8	25.7	24.3
Total assets	1,214.5	1,275.5	1,278.5
Gross debt	398.5	472.3	473.1
Net debt	381.8	446.6	448.8
Shareholders' equity	746.0	751.7	751.3
Total capitalization	1,144.5	1,224.1	1,224.4
Net capitalization	1,127.7	1,198.3	1,200.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	51.7	-0.6	13.9
* CFO	57.1	71.3	15.0
Capex	25.5	31.9	0.1
Acquisitions	98.1	103.9	0.0
Disposals	0.0	0.0	0.0
Dividends	55.7	58.9	16.4
Free Cash Flow (FCF)	31.6	39.3	15.0
* FCF Adjusted	-122.2	-123.5	-1.4
Key Ratios			
EBITDA margin (%)	77.1	79.4	80.1
Net margin (%)	65.1	-0.7	63.0
Gross debt to EBITDA (x)	6.5	7.3	6.7
Net debt to EBITDA (x)	6.2	6.9	6.4
Gross Debt to Equity (x)	0.53	0.63	0.63
Net Debt to Equity (x)	0.51	0.59	0.60
Gross debt/total capitalisation (%)	34.8	38.6	38.6
Net debt/net capitalisation (%)	33.9	37.3	37.4
Cash/current borrowings (x)	NM	NM	NM
EBITDA/Total Interest (x)	4.5	4.4	4.5

Source: Company, OCBC estimates

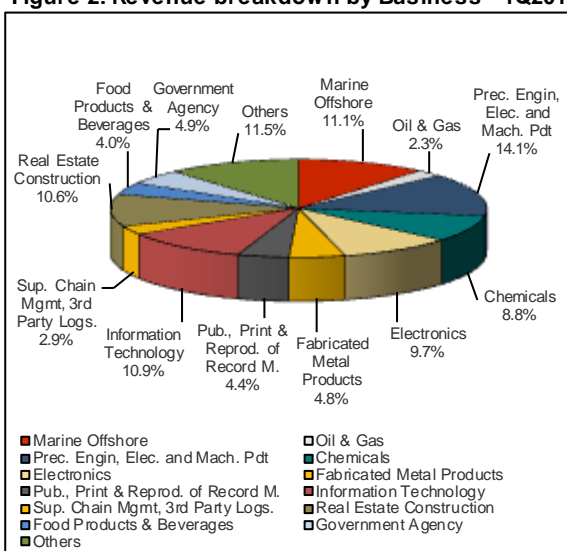
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 1: Revenue breakdown by Property - 1Q2017



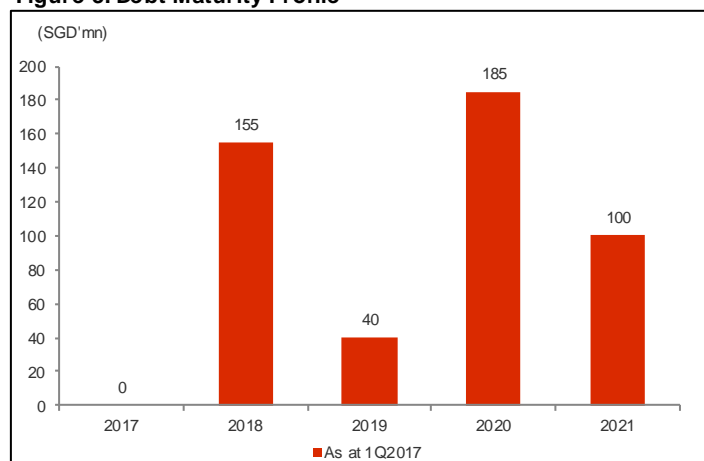
Source: Company

Figure 2: Revenue breakdown by Business - 1Q2017



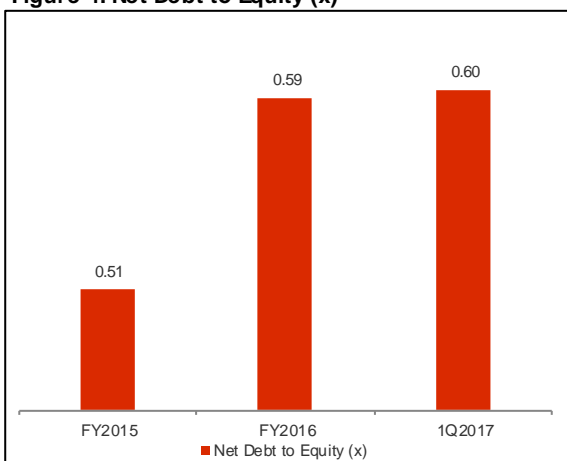
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

With the MCTSP'26s and SGREIT'26s trading at comparable spreads, we prefer the former given its more diversified portfolio of retail, office and business park assets. In aggregate though, both bonds do look fully valued.

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 11 mid to high-end retail properties in 5 countries, valued at ~SGD3.1bn as at 16 May 17. 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 7 other malls in China, Australia and Japan. YTL Corp Bhd is SGREIT's sponsor and largest unitholder with a 35.8% stake.

Starhill Global REIT

Key credit considerations

- **Master leases renewals supported core:** 3QFY2017 results (ending March 2017) reported flattish gross revenue of SGD53.3mn (-0.6% y/y). In general, SGREIT's three core markets have performed, with revenue up 0.6%, 1.8% and 2.7% y/y respectively for Singapore, Australia and Malaysia. Both Singapore and Malaysia benefitted from the increase of their respective Master Leases' positive rental reversions (both effective June 2016), while Australia benefitted from the stronger AUD.
- **Office shaky, retail surprisingly robust:** SGREIT's Singapore Office segment (~12% of total revenue) remains a drag, down 5.8% y/y for Wisma Atria and down 1.8% y/y for Ngee Ann City due to lower occupancies (fell from 95.9% to 94.7% q/q). This was weaker than CBRE reported Singapore core CBD office occupancy of 95.6% for 1Q2017. SGREIT may be suffering from tenant "upgrading", with tenants shifting to newer buildings in the CBD for the same rental. Interestingly, Wisma Atria's Retail decline seems to be stabilizing, with revenue down 0.9% y/y (+0.4% q/q). Underlying performance at the Australian assets maintained their status quo (vacancies at the Myer Centre Adelaide Office and planned lease terminations due to the looming Plaza Arcade AEI) though the stronger AUD was mitigation. In aggregate, portfolio occupancy dipped slightly to 95.1% (2QFY2017: 95.4%) due to the decline in Singapore Office and Retail occupancy. WALE by NLA remains decent at 6.7 years though note that numbers are skewed by the relatively longer lease on the Toshin master lease as well as on the Australian assets.
- **More non-core trimming:** Portfolio NPI declined slightly by 0.9% to SGD41.2mn, driven mainly by SGREIT's Chengdu mall (the asset ceased operations in preparation to be handed over to Markor International Home Furnishings, the new long-term anchor tenant). The Chengdu drag is expected to last till end-2017, as the asset handover was completed in April 2017, but renovations works just commenced. SGREIT had also announced mid-May 2017 that it had sold its Harajuku Secondo property in Tokyo for SGD5.1mn, at a premium of 22.4% to its latest valuation, or at a NPI yield of 2.5%. The asset was one of the four remaining Japanese assets that SGREIT had, which only constitute 0.1% of portfolio value. The divestment was in line with SGREIT's aim of streamlining its portfolio (it had previously divested another Japanese asset in January 2016). Since 2013, it had sold SGD57mn worth of Japanese assets, redeploying the capital largely in Australia. Total Japanese exposure (for the remaining 3 assets) is just 1.9% of portfolio value. Looking forward, we expect SGREIT to continue to pare down its non-core exposures in Japan and China.
- **Credit profile maintained status quo:** Aggregate leverage remained stable at 35.3% (end-2QFY2017: 35.2%), and is expected to dip slightly due to the Japanese asset divestment (~0.1% impact). Reported interest coverage improved to 4.2x (2QFY2017: 4.0x). Though SGREIT has no further debt due in FY2017, it should be noted that FY2018's maturities are heavy with SGD250mn term loan and AUD145mn loan due. That said, SGREIT had recently entered into a new 4-year AUD145mn facility to refinance the loan due, and expects to draw down on the facility in November 2017. This would improve SGREIT's maturity profile and is expected to increase its weighted average debt maturity to 3.3 years (from the current 2.8 years). Looking forward, 3QFY2017 seems to indicate that though SGREIT still faces a tepid domestic market, while its foreign assets still face transitional issues, there are signs of stabilization. As such, we will reiterate SGREIT's Neutral Issuer Profile.

Starhill Global Real Estate Investment Trust

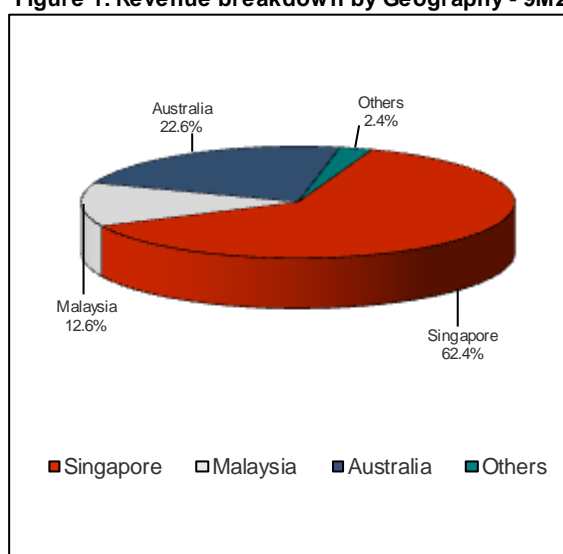
Table 1: Summary Financials

Year Ended 30th June	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	294.8	219.7	162.7
EBITDA	211.8	151.3	111.0
EBIT	210.8	151.0	110.7
Gross interest expense	46.9	38.8	29.4
Profit Before Tax	174.0	161.6	73.8
Net profit	174.5	163.9	75.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	51.6	77.0	72.5
Total assets	3,193.4	3,222.2	3,219.0
Gross debt	1,129.2	1,122.9	1,133.0
Net debt	1,077.7	1,046.0	1,060.5
Shareholders' equity	1,982.8	2,017.6	2,011.9
Total capitalization	3,112.0	3,140.5	3,144.9
Net capitalization	3,060.5	3,063.5	3,072.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	175.5	164.3	76.2
* CFO	212.4	155.3	102.3
Capex	4.5	1.0	2.2
Acquisitions	325.3	1.0	0.0
Disposals	12.4	29.1	0.0
Dividends	163.9	113.0	84.0
Free Cash Flow (FCF)	207.9	154.2	100.1
* FCF Adjusted	-268.9	69.4	16.1
Key Ratios			
EBITDA margin (%)	71.9	68.9	68.3
Net margin (%)	59.2	74.6	46.6
Gross debt to EBITDA (x)	8.0	7.4	7.7
Net debt to EBITDA (x)	9.3	6.9	7.2
Gross Debt to Equity (x)	0.57	0.56	0.56
Net Debt to Equity (x)	0.54	0.52	0.53
Gross debt/total capitalisation (%)	36.3	35.8	36.0
Net debt/net capitalisation (%)	35.2	34.1	34.5
Cash/current borrowings (x)	0.4	5.0	NM
EBITDA/Total Interest (x)	4.5	3.9	3.8

Source: Company, OCBC estimates

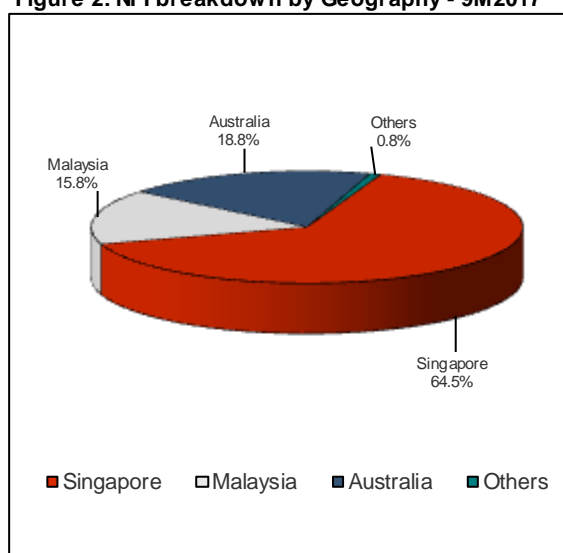
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 1: Revenue breakdown by Geography - 9M2017



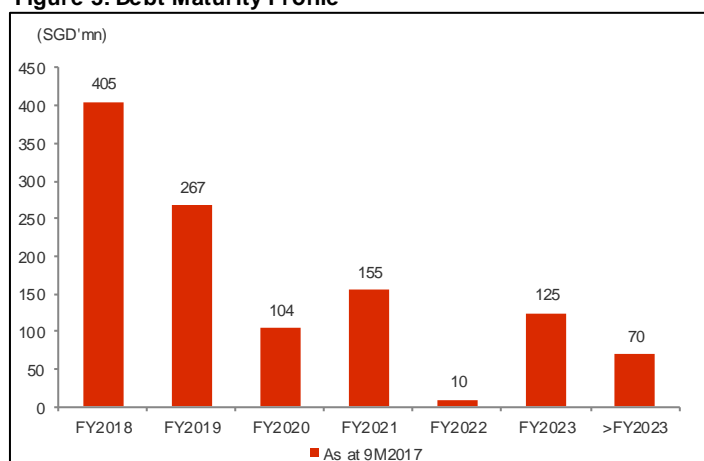
Source: Company

Figure 2: NPI breakdown by Geography - 9M2017



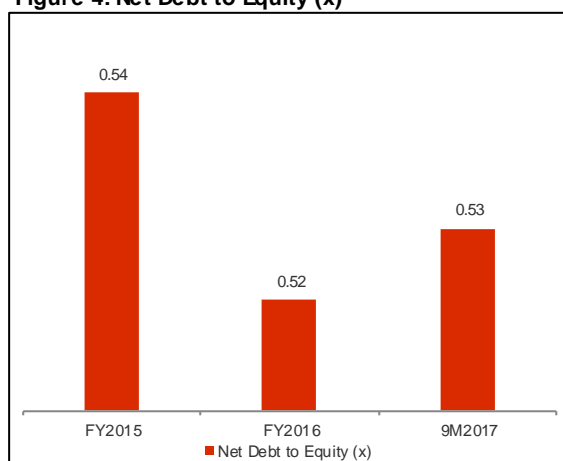
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

Despite the recent downgrade, we believe that the SUNSP'18s and SUNSP'20s offer fair value, though it has been harder to source for paper of recent.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Baa3/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 as well as an interest in the Southgate, Melbourne.

Suntec REIT

Key credit considerations

- **Retail numbers a drag:** For 1Q2017, SUN reported SGD88.4mn in gross revenue and SGD61.8mn in NPI, up 12.9% y/y and 14.6% y/y respectively. Performance was largely supported by contributions from 177 Pacific Highway (practical completion on 01/08/16). Adjusting for this (plus residue impact from the Park Mall divestment), gross revenue and NPI would have fallen 0.8% and 2.7% y/y respectively. The main drag to performance would be SUN's retail assets, which in aggregate saw revenue fall SGD2.1mn. The impact on NPI was even greater, with retail NPI declining SGD2.7mn y/y. Suntec Singapore convention centre continues to suffer. Though convention revenue improved by 5.3% y/y to SGD13.8mn (this tends to be lumpy and dependent on the events held), it is estimated that Suntec Singapore's retail contribution plunged ~22.9% y/y to SGD4.7mn. Suntec City's retail contribution was also lower by 2.3% y/y to SGD25.3mn. In aggregate, portfolio retail occupancy fell to 98.0% (1Q2016: 98.6%). The tenant retention ratio for retail was 72.6%, while SUN still has 41.7% of retail NLA to be renewed till end-2018. On the bright side, there are some operational performance improvements, with footfall up 7.3% and tenants sales per sqft up 4.3% y/y. In general though, we expect the domestic retail environment to remain challenging, hindering increases in lease rates.
- **Office numbers supportive:** Suntec City's office revenue, (basically the portfolio excluding 177 Pacific Highway), was up 2.1% y/y to SGD33.9mn while NPI was up 1.9% to SGD26.9mn. Occupancy for Suntec City's office component remained healthy at 99.0% (1Q2016: 97.5%). This compares well against CBRE's Singapore core CBD office occupancy of 95.6%. Occupancy at SUN's JV assets ORQ and MBFC have also held up at 100% and 99.8% respectively. What's curious though is that income from ORQ increased ~29% to SGD6.9mn for the quarter while MBFC saw a ~13% decline to SGD12.5mn. These discrepancies were attributed by management to one-off factors. Maiden contribution from the 25% stake in Southgate also boosted JV income by SGD1.4mn. On average, the rent secured during the quarter was SGD8.66 psf/month, which is comparable with the SGD8.67 psf/month seen in 1Q2016. SUN's office lease expiry profile for the balance of 2017 looks manageable with 5.9% of NLA up for renewal. 2018 looks tricky with 21.1% of NLA up for renewal, while there remains new office supply coming on stream (such as Frasers Tower). In general, SUN's WALE for its Singapore portfolio of 3.14 years is low relative to peers.
- **Leverage and liquidity manageable:** All-in financing costs decreased q/q from 2.8% to 2.42%, with reported interest coverage improving to 4.3x (4Q2016: 4.0x). SUN had no further debt maturities for 2017, though 2018 looks to be a challenge with SGD1,105mn in debt maturing. That said, SUN continues to enjoy access to capital markets, pricing a SGD100mn 5-year bond during the quarter. Aggregate leverage remains stable at 37.7%, unchanged q/q. Do note that Moody's recently downgraded SUN due to sustained alleviated net debt / EBITDA.
- **Change-of-control impact:** As ARA Asset Management (the parent of SUN's REIT manager) was acquired, this triggered a change-of-control clause effective 12/04/17, which impacted SUN's SGD300mn in convertible bonds (SUNSP'21s). It gave SUNSP'21 holders the option to 1) put the bond back to SUN, 2) convert it into equity or 3) do nothing. Fortunately, SUN's stock price traded higher since and ended above the strike price. Subsequently, SUN announced that 1) SGD166.5mn in bonds was converted into equity, 2) SGD45.5mn was put back to SUN and 3) presumably SGD88mn was left outstanding. The equity conversion was a credit positive, driving estimated pro-forma aggregate leverage lower to ~36%. Looking forward though, we expect the redevelopment of Park Mall, as well as the potential acquisition of a further 25% of Southgate to limit improvements to SUN's credit profile. As such, we will retain our Neutral Issuer Profile.

Suntec Real Estate Investment Trust

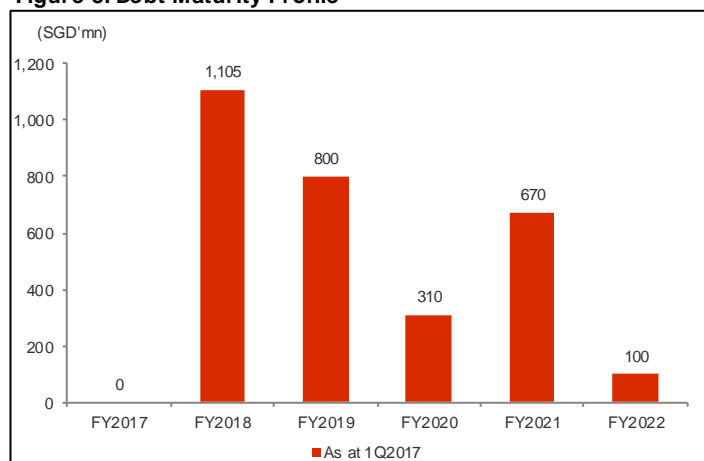
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	329.5	328.6	88.4
EBITDA	182.2	175.9	49.2
EBIT	171.2	174.8	48.9
Gross interest expense	87.9	94.5	20.3
Profit Before Tax	372.9	275.5	50.1
Net profit	354.1	246.5	46.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	445.3	182.5	149.2
Total assets	8,965.0	9,093.4	9,097.0
Gross debt	3,212.7	3,305.8	3,307.4
Net debt	2,767.4	3,123.3	3,158.2
Shareholders' equity	5,562.7	5,593.3	5,593.1
Total capitalization	8,775.4	8,899.1	8,900.5
Net capitalization	8,330.1	8,716.6	8,751.3
Cash Flow (SGD'mn)			
Funds from operations (FFO)	365.1	247.6	46.5
* CFO	231.3	197.7	52.0
Capex	287.0	140.8	0.4
Acquisitions	0.0	0.0	0.0
Disposals	409.9	0.0	0.0
Dividends	254.1	265.0	67.6
Free Cash Flow (FCF)	-55.7	56.8	51.6
* FCF Adjusted	100.2	-208.1	-16.0
Key Ratios			
EBITDA margin (%)	55.3	53.5	55.6
Net margin (%)	107.5	75.0	52.3
Gross debt to EBITDA (x)	17.6	18.8	16.8
Net debt to EBITDA (x)	15.2	17.8	16.1
Gross Debt to Equity (x)	0.58	0.59	0.59
Net Debt to Equity (x)	0.50	0.56	0.56
Gross debt/total capitalisation (%)	36.6	37.1	37.2
Net debt/net capitalisation (%)	33.2	35.8	36.1
Cash/current borrowings (x)	1.2	1.8	0.5
EBITDA/Total Interest (x)	2.1	1.9	2.4

Source: Company, OCBC estimates

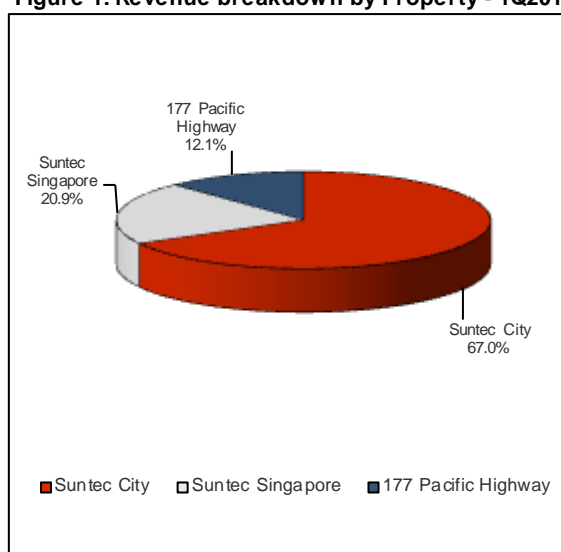
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 3: Debt Maturity Profile



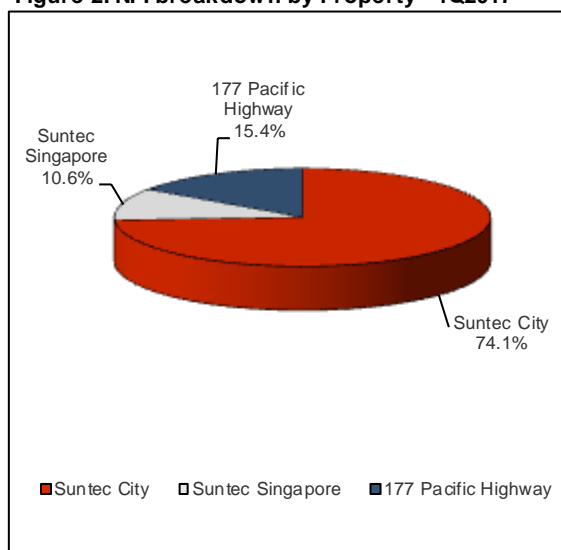
Source: Company

Figure 1: Revenue breakdown by Property - 1Q2017



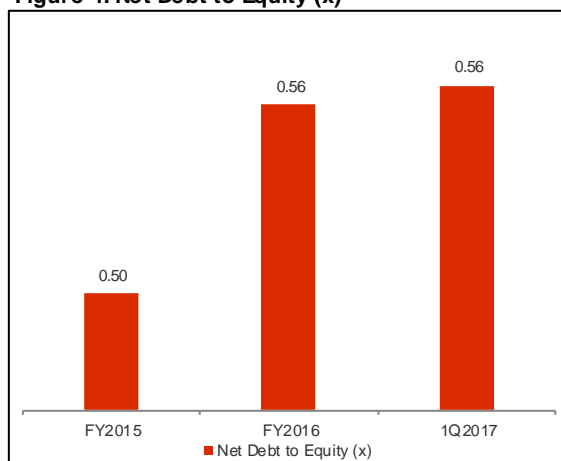
Source: Company

Figure 2: NPI breakdown by Property - 1Q2017



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We think the VITSP 4.15%’18s are at fair value and provide a good yield pick-up of 100bps against Baa3-rated industrial REITs which more than compensates for the one-notch rating differential. We see the credit concentration and tenancy risk at VITSP to be manageable, given the bond matures in 1.2 years.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Ba1/Stable

Fitch: Not rated

Ticker: **VITSP**

Background

Listed in 2013, VIVA Industrial Trust (“VITSP”) is an Industrial REIT in Singapore, with total assets of SGD1.3bn as at 31 March 2017 currently owns a portfolio of ten properties. Jinqun Tong is the major unitholder with ~49%. In aggregate, the Sponsors (Ho Lee Group Trust and Kim Seng Holdings Pte Limited) own a ~11% stake in the REIT. The Sponsors and Mr Tong (via Shanghai Summit) own ~78% of the REIT Manager while the rest are owned by the management team.

VIVA Industrial Trust

Key credit considerations

- **1Q2017 results driven by VIVA Business Park and inorganic expansions:** Gross revenue increased 25% to SGD27.4mn with 45% of the increase was attributable to contributions at VIVA Business Park which had reached TOP on its Phase One and Two asset enhancement initiatives in 1H2016. The remaining growth was largely attributable to 5 Chin Bee Avenue (acquired in April 2016) and 30 Pioneer Road (acquired in April 2016). Net property income (“NPI”) grew faster at 29% to SGD20.3mn largely due to the increase in gross revenue from white space at VIVA Business Park. Correspondingly, EBITDA (based on our calculation that does not take into account of other income and other expense) was SGD18.5mn. Due to the absence of debt fees, finance cost was 32% lower in 1Q2017 at SGD4.9mn. In line with stronger EBITDA generation, EBITDA/Interest coverage was significantly higher at 3.7x (1Q2016: 2.0x). VIT’s financial covenants factors in contribution from rental income support. NPI plus rental income support over interest was 4.7x, significantly higher than the covenanted level of 2.5x.
- **Leverage increased somewhat:** As at 31 March 2017, VIT’s aggregate leverage had increased somewhat to 39.2% (as at 31 December 2016: 37.2%). Gross debt had increased during the quarter to SGD521.0mn from SGD466.5mn from end-FY2016 while total assets increased SGD75.3mn, driven by the addition of 6 Chin Bee Avenue. On a “same-store basis”, VIT’s existing portfolio (excluding 6 Chin Bee Avenue and 30 Pioneer Road) saw a 2% improvement on valuation. Secured borrowings made up 80% of debt at VIT and only two properties remains unencumbered, namely Jackson Square and Jackson Design Hub. 6 Chin Bee Avenue has also been secured for a new term loan in May 2017. The land where Jackson Square is sitting on only has a remaining lease term of 12 years which reduces its attractiveness to secured lenders. VIT has limited headroom to raise more secured financing, in our view. We view refinancing risk at VIT to be low. The next major refinancing risk is only expected to occur in September 2018, when the SGD100mn VITSP’18s comes due.
- **Heightened counterparty credit risk:** As at 31 March 2017, the top ten tenants made up 43.6% of monthly rental income, and five made up 28.1%. Headline concentration numbers have decreased slightly from a year ago, though it is worth noting that four of its top ten tenants comprise of former owners who had sold their buildings to VIT under sales-and-leaseback structures (including one tenant on a partial leaseback). Such tenants collectively made up ~21% of monthly rental income. As at 31 March 2016, only two of its top ten tenants were under a sales-and-leaseback, collectively contributing ~10% to monthly rental income. Whilst such a lease structure provides VIT with a stable source of income over a longer period of time, it heightens counterparty credit risk.
- **Downside case on Jackson Square and Jackson Design Hub:** In November 2014, VIT acquired two buildings, Jackson Square and Jackson Design Hub from Jackson International Pte Ltd (“JIPL”) and Jackson Global Pte Ltd (“JGPL”) respectively. We estimate that the two buildings contributed 9% to portfolio value as at 31 March 2017. Whilst both JIPL and JGPL are privately held entities, they share a same director. Subsidiaries of JIPL are significant tenants at Jackson Square building, making up 19% of rental income in March 2017. JIPL had also agreed to provide rental support for Jackson Square for five years from 2014. JGPL, meanwhile is the Master Lessee at Jackson Design Hub. Unfortunately, in April 2017, VIT announced that JIPL was in liquidation, affecting its ability to continue on as a rental support provider. To date, JIPL’s subsidiaries and JGPL have not defaulted on their tenancy agreements. Conservatively though, assuming payments from these parties are not forthcoming, we estimate EBITDA/Interest will fall to 3.6x.

Viva Industrial Trust

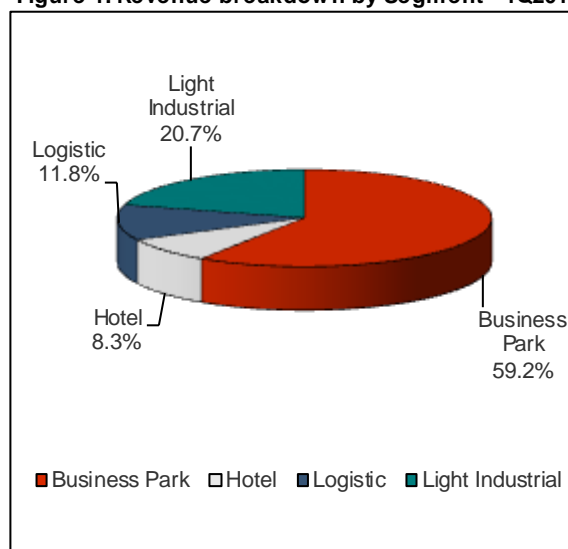
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	74.0	95.1	27.4
EBITDA	45.6	63.0	18.5
EBIT	41.5	59.7	17.7
Gross interest expense	15.6	21.7	4.9
Profit Before Tax	102.4	44.9	11.7
Net profit	100.1	42.8	11.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	48.9	29.5	10.9
Total assets	1,198.3	1,253.9	1,329.2
Gross debt	459.2	461.5	515.6
Net debt	410.3	432.0	504.7
Shareholders' equity	701.6	738.9	765.8
Total capitalization	1,160.8	1,200.4	1,281.4
Net capitalization	1,112.0	1,171.0	1,270.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	104.2	46.1	12.0
* CFO	72.1	89.3	17.2
Capex	13.3	23.9	0.8
Acquisitions	137.7	52.2	73.3
Disposals	0.0	0.0	0.0
Dividends	46.1	56.4	9.6
Free Cash Flow (FCF)	58.7	65.4	16.4
* FCF Adjusted	-125.1	-43.3	-66.5
Key Ratios			
EBITDA margin (%)	61.6	66.2	67.6
Net margin (%)	135.3	45.0	40.8
Gross debt to EBITDA (x)	10.1	7.3	7.0
Net debt to EBITDA (x)	9.0	6.9	6.8
Gross Debt to Equity (x)	0.65	0.62	0.67
Net Debt to Equity (x)	0.58	0.58	0.66
Gross debt/total capitalisation (%)	39.6	38.4	40.2
Net debt/net capitalisation (%)	36.9	36.9	39.7
Cash/current borrowings (x)	0.3	NM	NM
EBITDA/Total Interest (x)	2.9	2.9	3.7

Source: Company, OCBC estimates

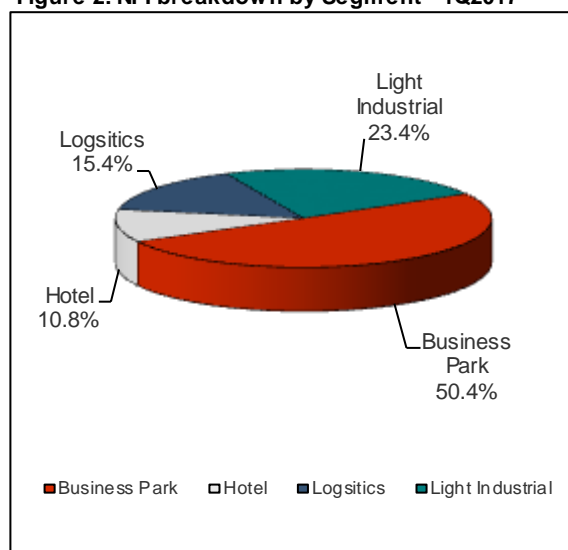
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense

Figure 1: Revenue breakdown by Segment - 1Q2017



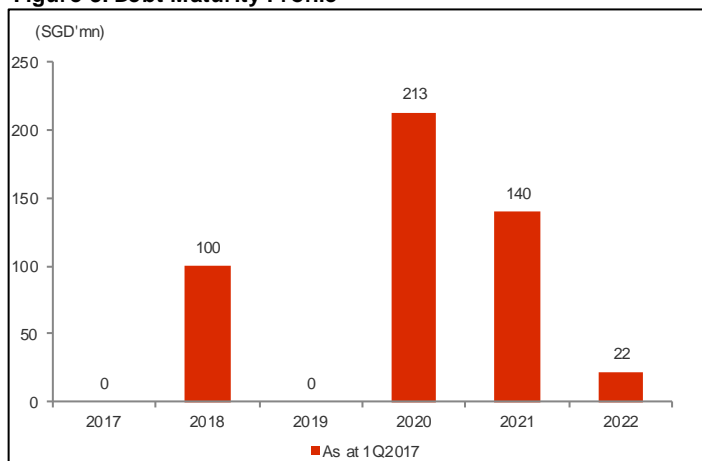
Source: Company

Figure 2: NPI breakdown by Segment - 1Q2017



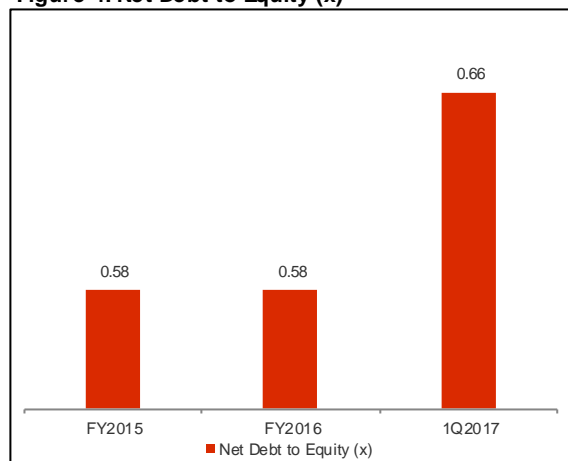
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

Wharf offers a strong credit profile but we think there may be limited upside from WHARF '18s and '21s trading at 1.33% and 2.42% respectively while the impact from the potential separate listing of its investment properties looks uncertain. We prefer its parent's WHEELK '21s trading at 2.43%.

Issuer Rating: Positive

S&P: Not rated

Moody's: Not rated

Fitch: A-/Positive

Ticker: **WHARF**

Background

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 61.6% stake in the company.

Wharf Holdings Ltd

Key credit considerations

- **Good FY16 results further lifted by gain on disposal:** FY2016 revenue grew 14% y/y to HKD46.6bn, contributed by investment property (+6% y/y to HKD15.3bn) and property sales (+29% y/y to HKD23.3bn). Harbour City ("HC") and Times Square ("TS") saw solid rental reversions while more projects were completed in Mainland and Hong Kong. Wharf's 50%-owned Mount Nicholson residential project sold well with proceeds of HKD11.6bn. Core profit rose 25% y/y to HKD13.8bn due to investment properties (+6% y/y to HKD8.8bn) and development properties (+185% y/y to HKD3.8bn). With a gain of HKD7.3bn from the disposal of Wharf T&T, net profit surged 34% y/y to HKD21.4bn.
- **Hong Kong investment properties continue to deliver despite headwinds:** HC and TS accounts for the majority (54%) of Wharf's investment property revenue, with revenue increasing by 4% y/y and 6% y/y to HKD6.2bn and HKD2.1bn respectively due to rental reversions. Retail sales had been weak and HC occupancy cost had increased to 22% in 2016 (FY2015: 19%). While we think that the divergence between retail sales (down 3.8% at HC and 7.0% at TS in 4Q2016) and rents cannot persist, Hong Kong retail may see light at the end of the tunnel. After 24 consecutive months of decline, Mar and Apr retail sales grew 3.0% and 0.1% respectively. Occupancy remains healthy at 96% and 99% for HC and TS respectively. Going forward, HC should grow with the opening of the extension building at Ocean Terminal (Area: 511,000 sq ft) in 3Q2017.
- **Chinese investment properties to contribute significantly:** China investment properties delivered 2% y/y growth in revenue to HKD2.4bn (+9% y/y in RMB terms). A large part of the growth is contributed by Chengdu IFS (retail) with revenue increasing 11% y/y to RMB633mn. Other investment properties include Chengdu IFS (office), Shanghai Wheelock Square, Shanghai Times Square and 2 Times Outlets which opened in Chengdu and Changsha. Moving forward, the contribution from Chinese investment properties will continue to grow. Chengdu IFS (retail) is expected to record double-digit growth in retail sales. The mall and an upscale hotel of the 50%-owned Chongqing IFS (area: 2,234,000 sq ft) will open in 3Q2017, with more than 90% of the retail space already being offered for lease or in advanced discussions. Changsha IFS (area: 7,864,000 sq ft) and Suzhou IFS (area: 3,221,600 sq ft) will be fully completed in 2018. The investment properties under development will more than double the existing completed investment properties by area to 27,218,400 sq ft. This should help reduce Wharf's dependency on its Hong Kong investment properties.
- **Will Wharf turn net cash?:** Net gearing and debt levels have been declining since 1H2013 due to Wharf's strong free cash flow generation, with net gearing decreasing to 7.3% as at end of 2016. Wharf has been selling its properties faster than it replenishes its land bank, in addition to receiving a steady income stream from its investment properties and disposing Wharf T&T. Contracted sales increased 21% y/y to RMB31.4bn, with 2017 sales target kept unchanged at RMB24bn. With capex forecast at HKD22.8bn for FY2017 lower than the capex in 2016 of HKD26.9bn, net gearing may continue to trend lower.
- **Uncertainty over impact from the potential for separate listing:** Wharf will be studying the separate listing of its investment properties via distribution in specie. The impact is uncertain as it depends on the amount of assets that will be separated. The impact may be negative if Wharf no longer has a stake in HC and TS, which contribute significant cashflows. However, if Wharf continues to hold a majority stake in both properties, we see the potential for Wharf to monetise its pipeline of assets in China. Meanwhile, Wharf has ended discussions to dispose i-Cable.

Wharf Holdings Ltd

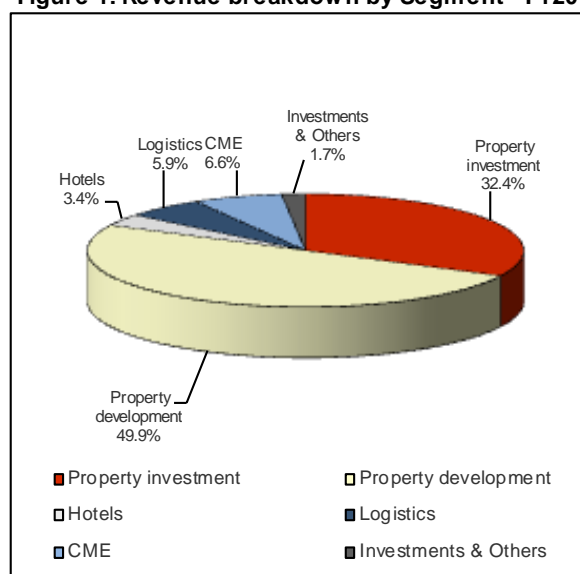
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	FY2016
Income Statement (HKD'mn)			
Revenue	38,136	40,875	46,627
EBITDA	15,805	16,401	18,471
EBIT	14,283	14,853	17,065
Gross interest expense	2,604	2,557	2,039
Profit Before Tax	40,154	20,635	25,772
Net profit	35,930	16,024	21,440
Balance Sheet (HKD'mn)			
Cash and bank deposits	18,725	23,510	36,957
Total assets	444,658	443,916	443,827
Gross debt	77,984	70,707	60,794
Net debt	59,259	47,197	23,837
Shareholders' equity	314,111	317,180	325,406
Total capitalization	392,095	387,887	386,200
Net capitalization	373,370	364,377	349,243
Cash Flow (HKD'mn)			
Funds from operations (FFO)	37,452	17,572	22,846
* CFO	18,253	24,053	29,084
Capex	11,277	6,849	14,077
Acquisitions	2,084	1,340	-4,230
Disposals	56	6,727	12,066
Dividends	5,871	5,851	6,440
Free Cash Flow (FCF)	6,976	17,204	15,007
* FCF Adjusted	-923	16,740	24,863
Key Ratios			
EBITDA margin (%)	41.4	40.1	39.6
Net margin (%)	94.2	39.2	46.0
Gross debt to EBITDA (x)	4.9	4.3	3.3
Net debt to EBITDA (x)	3.7	2.9	1.3
Gross Debt to Equity (x)	0.25	0.22	0.19
Net Debt to Equity (x)	0.19	0.15	0.07
Gross debt/total capitalisation (%)	19.9	18.2	15.7
Net debt/net capitalisation (%)	15.9	13.0	6.8
Cash/current borrowings (x)	2.2	2.8	2.4
EBITDA/Total Interest (x)	6.1	6.4	9.1

Source: Company, OCBC estimates

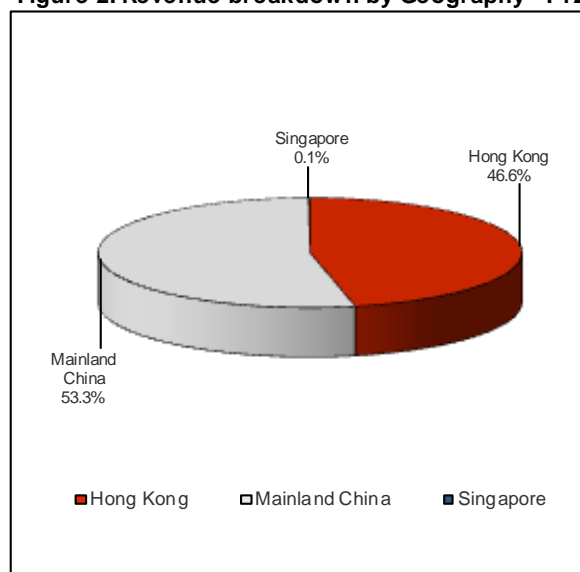
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 1: Revenue breakdown by Segment - FY2016



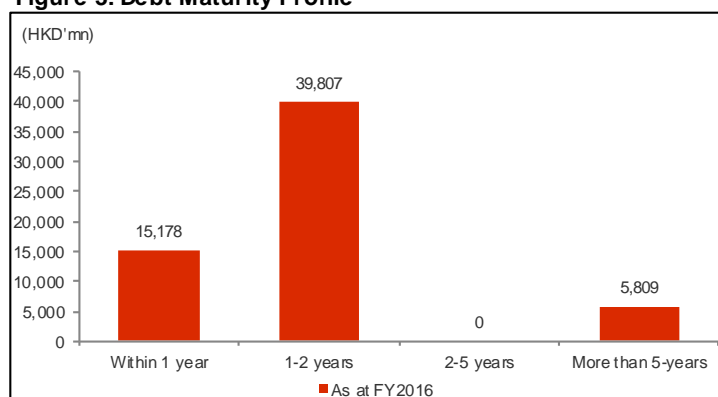
Source: Company

Figure 2: Revenue breakdown by Geography - FY2016



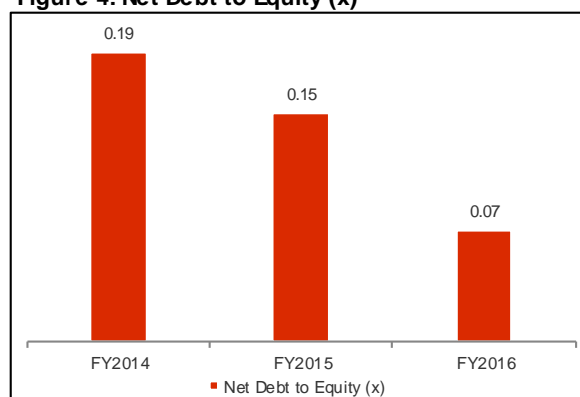
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook

We like WHEELK's credit profile and prefer holding WHEELK '21s over its subsidiary WHARF '21s due to the uncertainty over WHARF's potential dividend in specie of its investment properties.

Issuer Rating: Positive

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **WHEELK**

Background

Founded in Shanghai in 1857, Wheelock & Co Ltd ("Wheelock") is a Hong Kong-listed investment holding company. Wheelock owns 61.6% 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.

Wheelock & Co Ltd

Key credit considerations

- **Results lifted by Wharf's outperformance:** With Wheelock's 61.6%-owned subsidiary Wharf revenue and core profit increasing by 14% y/y and 25% y/y respectively to HKD46.6bn and HKD13.8bn respectively, it was no surprise that Wheelock's revenue and core profit rose 5% y/y and 11% y/y to HKD60.6bn and HKD11.8bn respectively. Wheelock's own core profit (without WPL and Wharf) was lower by 23.1% y/y to HKD3.1bn due to smaller GFA completed, though we think this is due to timing issues for revenue recognition as Wheelock's Hong Kong property sales did well.
- **Strong property sales:** Contracted sales reached all-time high at HKD22.1bn in FY2016, growing 71% y/y. This was mainly contributed by sales at Wheelock's residential sales of ONE HOMANTIN (HKD4.3bn), SAVANNAH (HKD5.4bn), NAPA (HKD1.0bn), Wharf's residential sales of Mount Nicholson (HKD5.0bn) and Wheelock's commercial sales of One HarbourGate (HKD4.5bn). Pre-sold but not yet completed contracted sales expanded 27% y/y to HKD15.9bn. Going forward, Wheelock targets 2017 contracted sales not less than HKD10bn. We think this is achievable given Wheelock's good performance (92% sell through rate in 2016).
- **Sufficient HK landbank for future development:** As of end-FY2016, Wheelock holds 8.2mn sq ft of land bank. Even though there was a net consumption of 0.5mn sq ft y/y, the existing land bank is sufficient for another 5-6 years of development. Wheelock's existing land bank (excl its portfolio at the Peak) has an average cost of HKD3,480 psf, which appears competitive relative to the latest acquisition at Kwun Tong (HKD7,700 psf). In 2017, four residential projects are planned for sale including Monterey (GFA: 855, 925 sq ft), Kai Tak (413,015 sq ft), LOHAS Phase 5 (GFA: 1,101,545 sq ft) and the remaining units at Mount Nicholson.
- **Wharf as a key contributor to Wheelock's credit profile:** We estimate that Wharf has been contributing over HKD3bn in dividend a year to Wheelock, and this looks to grow closer to HKD4bn a year due to an increase in shareholding of Wharf to 61.6% in FY2016 (FY2015: 59.2%) and Wharf's better results. Wharf's core profits may continue growing, with dividends likely to follow, as Chongqing IFS and Changsha IFS will be opening in 3Q2017 and late-2017 respectively. The dividends received from Wharf alone are more than enough to cover the HKD2.7bn interest charge for the whole Wheelock group.
- **Healthy credit metrics:** Wheelock's credit metrics looks healthy with net gearing before consolidation of WPL and Wharf falling to 13.8% in Dec 2016 (Dec 2015: 16%). As a group, net gearing has improved substantially to 14.6% (Dec 2015: 23.2%). While a chunky HKD10.7bn of debt (before consolidation) are due in 2017, we are not worried as Wheelock standalone still has HKD34.6bn in undrawn facilities as of end-2016. In addition, HKD10.3bn of sales receivables from development properties are expected to be recouped by mid-2018. Wheelock also holds a portfolio of equity and bond investments with HKD9.5bn market value, which can be liquidated if in need.
- **Potential credit positive from Wharf's potential dividend in specie:** Wharf is studying the listing of its investment properties by way of distribution in specie to its shareholders. We think this is a small credit positive to Wheelock as cashflows would flow directly to Wheelock (instead of being passed through Wharf).
- **Increased contribution from WPL:** Attributable profits from 76%-owned WPL increased 63% y/y to HKD428mn (3.6% of Wheelock's HKD11.8bn core profits). WPL's projects in Singapore and Hangzhou contributed contracted sales of SGD435mn and RMB560mn respectively.

Wheelock & Co Ltd

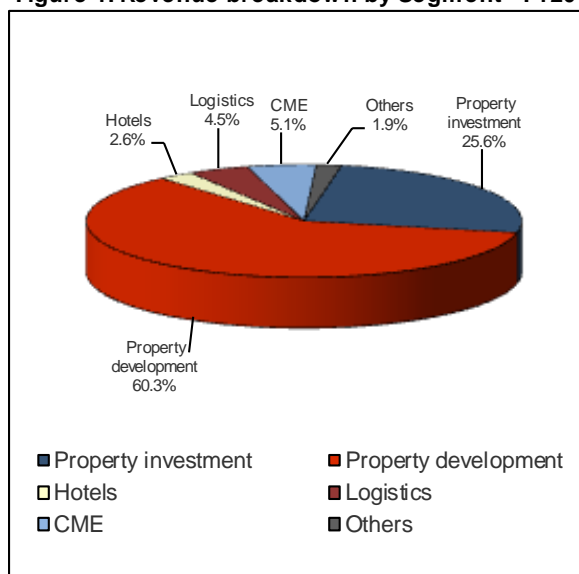
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	FY2016
Income Statement (HKD'mn)			
Revenue	40,953	57,431	60,579
EBITDA	17,257	21,608	22,547
EBIT	15,729	20,053	21,135
Gross interest expense	3,776	3,376	3,001
Profit Before Tax	42,984	26,544	29,763
Net profit	22,009	14,232	16,294
Balance Sheet (HKD'mn)			
Cash and bank deposits	21,279	27,266	43,964
Total assets	517,567	512,758	520,435
Gross debt	117,878	106,193	94,941
Net debt	96,599	78,927	50,977
Shareholders' equity	339,916	340,859	349,520
Total capitalization	457,794	447,052	444,461
Net capitalization	436,515	419,786	400,497
Cash Flow (HKD'mn)			
Funds from operations (FFO)	23,537	15,787	17,706
* CFO	13,933	32,676	31,636
Capex	9,017	7,540	9,718
Acquisitions	7,784	6,955	-559
Disposals	2,147	11,821	13,852
Dividends	5,219	5,048	5,415
Free Cash Flow (FCF)	4,916	25,136	21,918
* FCF Adjusted	-5,940	24,954	30,914
Key Ratios			
EBITDA margin (%)	42.1	37.6	37.2
Net margin (%)	53.7	24.8	26.9
Gross debt to EBITDA (x)	6.8	4.9	4.2
Net debt to EBITDA (x)	5.6	3.7	2.3
Gross Debt to Equity (x)	0.35	0.31	0.27
Net Debt to Equity (x)	0.28	0.23	0.15
Gross debt/total capitalisation (%)	25.7	23.8	21.4
Net debt/net capitalisation (%)	22.1	18.8	12.7
Cash/current borrowings (x)	2.0	2.6	1.7
EBITDA/Total Interest (x)	4.6	6.4	7.5

Source: Company, OCBC estimates

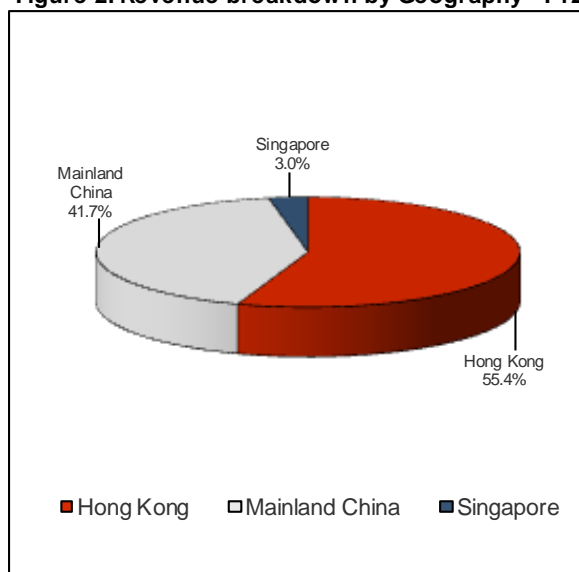
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 1: Revenue breakdown by Segment - FY2016



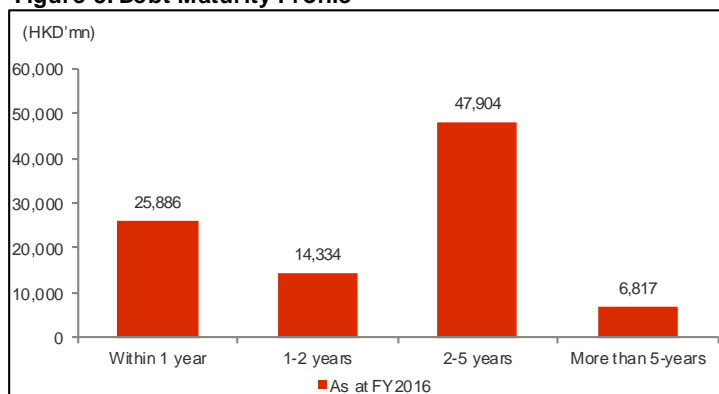
Source: Company

Figure 2: Revenue breakdown by Geography - FY2016



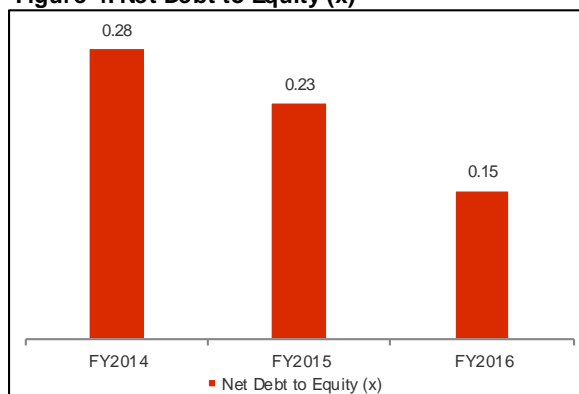
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

While the WINGTA complex offer 117bps-146bps yield spread for a very healthy balance sheet, we note the potential for event risks. Investors may consider HFCSP '19s with a shorter maturity and higher yield than WINGTA's straight bonds. We think WINGTA perp at 4.11% YTC looks fair relative to HPLSP perp at 4.22% YTC.

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 ("WINGTA") 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. WINGTA'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 51.1% stake in WINGTA.

Wing Tai Holdings Ltd

Key credit considerations

- **9MFY2017 results supported by associates and JVs:** 9MFY2017 revenue fell by 35% y/y to SGD73.5mn due to lower contributions from development properties with a dwindling number of development projects. Nevertheless, net profit surged 248% y/y to SGD8.6mn mainly due to increased share of profits from associates and JVs (+40% y/y to SGD41.2mn) (due to Wing Tai Properties and Uniqlo) while finance costs fell by 21% y/y to SGD9.3mn as borrowings fell.
- **Benefiting from the rebounding Singapore property market:** According to the URA caveat, WINGTA has moved 34 units with a total sales value of SGD66.2mn between Jan-May at the 469-unit The Crest. However for the higher end market, transaction flow remains slow as we estimate that the 43-unit Le Nouvel Ardmore still has 35 units remaining after selling only one unit for SGD15.2mn in 3QFY2017. Nevertheless, we note that WINGTA has been active in moving its balance sheet, including the sale of its 50% stake in the developer of Nouvel 18 to City Developments for SGD411mn.
- **Too much cash?:** Having maintained a cash balance of SGD748mn-SGD966mn since 3QFY2016, WINGTA proceeded to offer to repurchase SGD84mn of bonds in the '21s, '22s, '23s and '24s, though only SGD47.5mn was eventually redeemed. Curiously though, Wing Tai issued a SGD150mn perp in June 2017. The use of proceeds is not specific. As such, there is potential for event risks, including (1) replenishment of landbank, (2) significant acquisitions and/or 3) privatisation.
- **Offer to take private Wing Tai Malaysia:** WINGTA announced a MYR290.7mn (SGD93.9mn) offer to take Wing Tai Malaysia ("WTM") private at MYR1.8 per share. WINGTA already owns 66.13% of WTM, and we estimate WTM forms about 13% of WINGTA's total assets and 19% of revenue as of 9MFY2017. According to WINGTA, the offer would integrate both companies' financial and operational resources, which would result in cost savings and operational efficiencies. We see this exercise as credit neutral given WINGTA's healthy balance sheet while allowing WINGTA to diversify more from the Singapore property market.
- **Sale of Shanghai site is a credit positive:** WINGTA will be disposing a project at Shanghai Huangpu District's Huanhai Zhong Road for SGD270.8mn, which is intended to be developed into a commercial building with a planned GFA of 44,481 sqm. WINGTA came to own the project through a land tender in Nov 2013 at a price of RMB1.1bn (SGD223mn). We view this as a significant credit positive as it will be able to take back its shareholder loans to the company in cash.
- **Healthy balance sheet and recurring income:** Net gearing of 6.3% as of 3QFY17 is expected to decrease to 1.0% following the offer to take private WTM and selling the Shanghai site. While core EBITDA remains weak in 9MFY2017, FCF has been positive as it moved units for the development properties that obtained TOP. However, the issuance of the perpetuums may potentially be a precursor to expending its cash balance. WINGTA generates rental income of SGD37.4mn in FY2016, mainly from its Singapore investment properties (Winsland House I & II, Lanson Place Winsland Residences), shop offices in Malaysia and a commercial property in China. WINGTA also operates 11 management contracts across Singapore, Malaysia, China and Hong Kong, generating SGD5.5mn management fees in FY2016.
- **Termed out debt maturity:** There is an insignificant amount of debt due within the next 12 months, with bonds well termed out into FY2021-2024. Liquidity remains ample with SGD748.0mn cash on hand.

Wing Tai Holdings Ltd

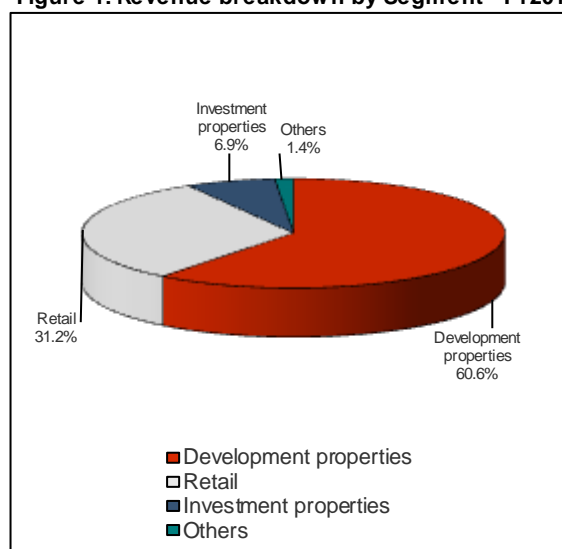
Table 1: Summary Financials

Year Ended 30th Jun	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	676.7	544.5	204.6
EBITDA	75.9	31.7	-4.3
EBIT	61.5	21.2	-10.5
Gross interest expense	51.9	50.5	30.3
Profit Before Tax	175.3	41.4	12.1
Net profit	150.3	7.1	10.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	880.6	722.9	748.0
Total assets	4,887.6	4,975.6	4,467.4
Gross debt	1,191.4	1,376.5	955.9
Net debt	310.7	653.6	207.8
Shareholders' equity	3,362.2	3,332.5	3,314.1
Total capitalization	4,553.6	4,709.0	4,269.9
Net capitalization	3,672.9	3,986.1	3,521.9
Cash Flow (SGD'mn)			
Funds from operations (FFO)	164.7	17.6	16.8
* CFO	213.7	-80.4	43.7
Capex	7.6	4.6	5.2
Acquisitions	17.9	0.1	34.6
Disposals	27.3	2.5	499.4
Dividend	51.4	25.1	48.0
Free Cash Flow (FCF)	206.1	-85.0	38.5
* FCF Adjusted	164.1	-107.8	455.3
Key Ratios			
EBITDA margin (%)	11.2	5.8	-2.1
Net margin (%)	22.2	1.3	5.2
Gross debt to EBITDA (x)	15.7	43.5	-167.5
Net debt to EBITDA (x)	4.1	20.6	-36.4
Gross Debt to Equity (x)	0.35	0.41	0.29
Net Debt to Equity (x)	0.09	0.20	0.06
Gross debt/total capitalisation (%)	26.2	29.2	22.4
Net debt/net capitalisation (%)	8.5	16.4	5.9
Cash/current borrowings (x)	24.5	8.3	158.6
EBITDA/Total Interest (x)	1.5	0.6	-0.1

Source: Company, OCBC estimates

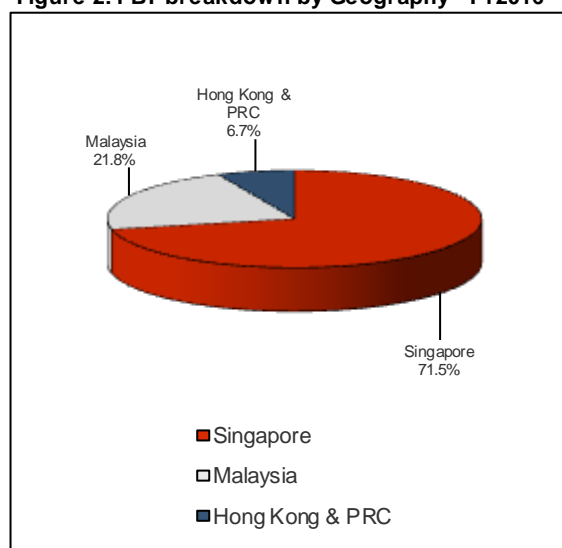
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 1: Revenue breakdown by Segment - FY2016



Source: Company

Figure 2: PBT breakdown by Geography - FY2016



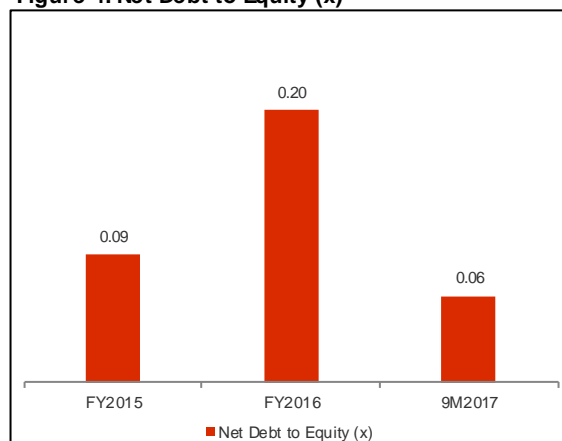
Source: Company, OCBC estimates

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	4.7	0.5%
Unsecured*	0.0	0.0%
	4.7	0.5%
Amount repayable after a year		
Secured	197.7	20.7%
Unsecured	753.4	78.8%
	951.2	99.5%
Total	955.9	100.0%

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –

We are Overweight on WTP's WINGTA 4.25% '22s trading at 3.43% with 21bps pickup over Wing Tai Holding's WINGTA 4.5% '22s.

Wing Tai Properties Ltd

Key credit considerations

- **Decent FY16 results:** Revenue rose 9.3% y/y to HKD1.1bn, mainly driven by strong sale of properties (+43% y/y to HKD213.2mn) and higher rental revenue from property investment (+7% y/y to HKD737.2mn). WTP moved most of the remaining units at Homantin Hillside, The Pierre, The Warren, Providence Bay, Providence Peak and The Graces. Meanwhile, WTP's flagship property, Landmark East, recorded a strong 30% upward rental reversion. Overall, results are decent with profit before taxation (before FV changes and one-off disposal gain) increasing 8.5% y/y to HKD529.1mn. During FY2016, WTP also took the opportunity to dispose Shanghai Upper Riverside development on an en-bloc basis for a gain of HKD35mn. Including fair value changes (fair value changes for property investment segment: HKD 733mn) and one-off gains, net profit increased 4.6% y/y to HKD1.1bn.
- **Investment properties as the main driver of credit profile:** Investment properties account for 71.4% of WTP's total assets and contribute 67% of the revenue. Despite 30% of the leases expiring at Landmark East in 2H2016, overall rental reversions are still positive with occupancy maintained at a still healthy level of 93% (1H2016: 98%). Though another chunky 21% of leases will expire in 2017, we think there's upside potential. Despite the looming supply of office space, management has guided for positive rental growth while very strong rental reversions were registered in 2016. WTP's other Hong Kong investment properties appear to perform decently, with W Square's occupancy improving to 100% (1H2016: 96%) and Winner Godown Building and Shui Hing Centre occupancy improving to 86% (1H2016: 83%). WTP expects rental income and capital value to increase after the completion of the Shui Hing revitalisation project in Hong Kong (conversion from industrial building to office use) and Cavendish Square's modernisation in London in 2018.
- **Expanding the hospitality portfolio and residential development:** While the hospitality segment revenue declined 11.2% y/y to HKD130.7mn in FY2016 as tourism in Hong Kong declined and the management contract in Beijing expired, revenue growth may rebound. WTP took up two more management contracts for serviced residences at Mid-Levels in Hong Kong (commencement from Mar 2016) and at central Chengdu (to open in 1H17). The management contract for Lanson Place Jinlin Tiandi Serviced Residences is also renewed for another seven years in Jul 2016. For the signed management contracts, two serviced suites by Lanson Place with 370 units in Shanghai opened in Jun-Sep 2016, which should continue to contribute in 2017. While WTP has nearly finished selling its completed developments with available GFA of 103,400 sq ft, two more 35%-owned low-density residential projects in Kau To (Le Cap, La Vetta) will be completed and launched this year (2017) with a total GFA of 460,000 sq ft. Thereafter, WTP has another 763,000 sq ft of residential properties from four projects lined up till 2022.
- **Healthy credit metrics though gearing is expected to increase:** Net debt/equity has increased to 0.14x (2015: 0.07x) largely due to settlement for HKD981.6mn land purchase for a plot at Castle Peak Road. If Le Cap and La Vetta sells well, the healthy level of net gearing may inch down going forward. WTP maintains good access to liquidity, with HKD1.7bn cash on hand and HKD2.2bn unutilized revolving loan facilities.
- **Will Wing Tai Holdings privatise Wing Tai Properties?:** Wing Tai Holdings ("WINGTA") offered to privatised 66.13%-owned Wing Tai Malaysia for SGD94mn. Though WTP is much larger (Market Cap: SGD1.3bn) and WINGTA only owns 34.4% of WTP, privatisation of WTP is possible. WTP equity trades at 0.3x P/B and we estimate that WINGTA currently holds SGD1.0bn of cash.

Issuer Rating: Positive

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

Ticker: **WINGTA**

Background

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 34.4% owned by Wing Tai Holdings Ltd and 13.7%-owned by Sun Hung Kai Properties Ltd.

Wing Tai Properties Ltd

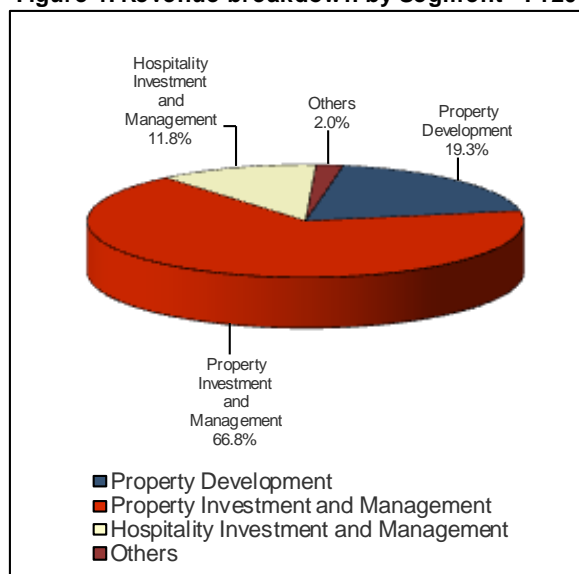
Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	FY2016
Income Statement (HKD'mn)			
Revenue	1,784	1,009	1,103
EBITDA	611	433	487
EBIT	601	428	483
Gross interest expense	159	137	138
Profit Before Tax	2,033	1,182	1,260
Net profit	1,944	1,099	1,147
Balance Sheet (HKD'mn)			
Cash and bank deposits	1,606	2,089	1,683
Total assets	27,528	28,221	30,776
Gross debt	3,879	3,766	5,185
Net debt	2,273	1,678	3,502
Shareholders' equity	22,680	23,347	24,312
Total capitalization	26,559	27,114	29,497
Net capitalization	24,953	25,025	27,814
Cash Flow (HKD'mn)			
Funds from operations (FFO)	1,954	1,104	1,151
* CFO	1,465	1,059	-1,643
Capex	6	258	11
Acquisitions	4	0	0
Disposals	1	135	458
Dividends	181	181	202
Free Cash Flow (FCF)	1,459	801	-1,654
* FCF Adjusted	1,275	755	-1,398
Key Ratios			
EBITDA margin (%)	34.3	42.9	44.1
Net margin (%)	109.0	108.9	103.9
Gross debt to EBITDA (x)	6.3	8.7	10.6
Net debt to EBITDA (x)	3.7	3.9	7.2
Gross Debt to Equity (x)	0.17	0.16	0.21
Net Debt to Equity (x)	0.10	0.07	0.14
Gross debt/total capitalisation (%)	14.6	13.9	17.6
Net debt/net capitalisation (%)	9.1	6.7	12.6
Cash/current borrowings (x)	25.2	4.8	3.5
EBITDA/Total Interest (x)	3.9	3.2	3.5

Source: Company, OCBC estimates

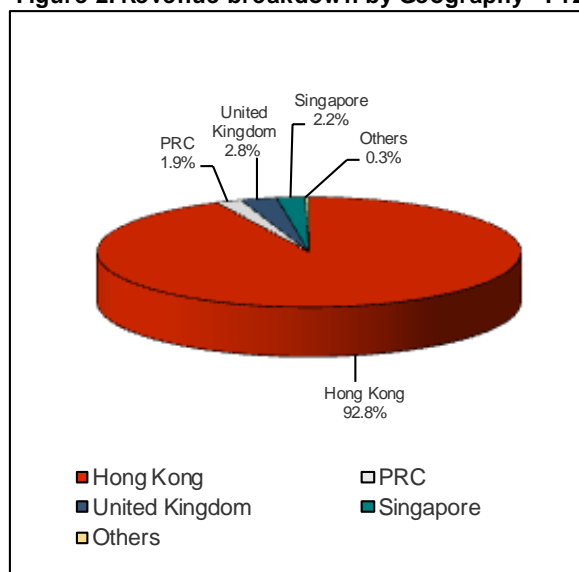
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 1: Revenue breakdown by Segment - FY2016



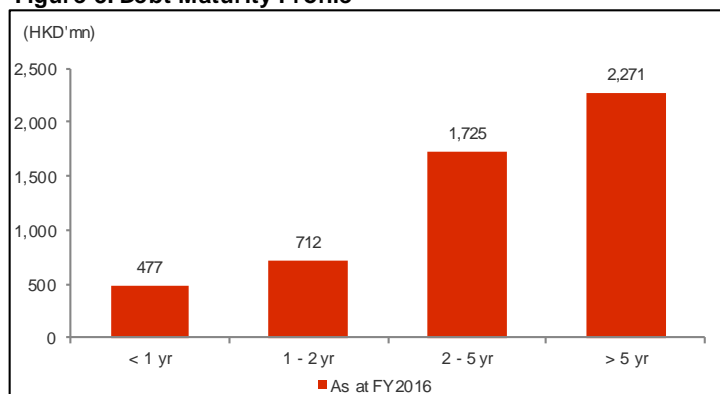
Source: Company

Figure 2: Revenue breakdown by Geography - FY2016



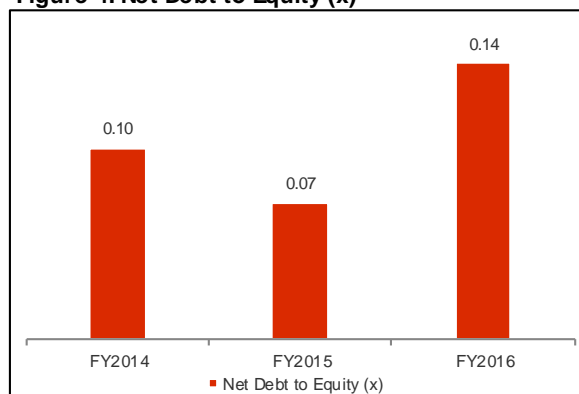
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

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Financial Institution Outlooks

Credit Outlook –

ABN's strength lies in its solid domestic market positions and moderately low risk balance sheet. Economic fundamentals are improving in the Netherlands and should support near term earnings performance. The ABNANV 4.75% '26c21 looks fairly valued in the in the T2 space and provides a decent diversity play in the SGD space.

Issuer Profile: Neutral

S&P: A/Stable
Moody's: A1/Stable
Fitch: A+/Stable

Ticker: **ABNANV**

Background

Wholly owned by ABN AMRO Group NV, ABN Amro Bank NV ('ABN') is 63.0% owned by the Dutch government through the Ministry of Finance. It was formed on 1 July 2010 through the merger of Fortis Bank (Nederland) NV with the Dutch activities of ABN AMRO Holding NV. As at 31 Mar 2017, it had total assets of EUR417.8bn.

ABN AMRO Bank NV

Key credit considerations

- **Strong foothold in key domestic markets:** ABN commands the second largest market share in Dutch retail banking, and is the market leader for Private Banking in its home market, with established positions in other large Eurozone economies (3rd in Germany, 4th in France). ABN's strength in traditional retail and commercial banking businesses at home provide the bank with stable net interest income. In 1Q2017, ABN derived 71% of operating income from stable and recurring businesses, while fees and commissions made up another 19%. A key downside however compared to other universal banking peers, is ABN's relative lack of geographical diversification, with 80% of its operating income derived from its domestic market (91% from Euro-region) in 1Q2017. That said, ABN stands to benefit as Netherland's economic recovery continues with to outpace other developed Eurozone peers.
- **Regulatory costs will weigh on profitability:** ABN's 1Q2017 operating income rose 14.0% y/y and 2.3% q/q to EUR2.25bn. On a y/y basis, net interest income rose 3.3% to EUR1.60bn, mainly due to (1) volume growth in corporate loans and residential mortgages, (2) re-pricing of low-margin mortgages, and (3) lower cost of deposits on retail savings accounts (1Q2017: 20bps, 1Q2016: 50bps). Fee and commission income remained flat, while other operating income rose by EUR225mn to EUR215mn in 1Q2017. Operating costs rose 2.6% y/y, mainly as a result of higher personnel expenses from severance payments and higher regulatory levies. While net interest margins rose by 5bps y/y to 1.56%, further upside in margins is expected to be limited as the impact of loan repricing dissipates. The cost-income ratio improved 6.7ppts y/y to 60.2% in 1Q2017 as a result of strong operating income and is a step closer to ABN's target range of 56-58% by 2020. While we expect ABN's profitability metrics to improve slightly from operating efficiencies through IT infrastructure upgrades, we also note that increased regulatory costs and restructuring provisions may continue to weigh.
- **Asset Quality:** ABN's non-performing loan ('NPL') ratio improved q/q to 1.3% in 1Q2017 as (1) NPLs fell slightly to EUR3.5bn from EUR3.6bn last quarter, and (2) ABN's loan portfolio increased. This improving trend is also noticeable in the declining cost of risk which is now below the 'through the cycle' average. That said, stress continues in ABN's energy, commodities and transportation arm with 1Q2017 impairments of EUR59mn up 69% q/q and 23% y/y. This is the one weak spot in an otherwise solid loan mix with the majority of ABN's loan portfolio comprised of residential mortgage loans (56% of customer loans as at 1Q2017) which have a very low and improving impaired loan ratio.
- **Idiosyncratic reliance on wholesale funding:** ABN's 1Q2017 Net Stable Funding Ratio ('NSFR') remained above 100%, with funding primarily sourced from customer deposits (57% of total funding). Like its Dutch peers, ABN remains somewhat reliant on wholesale funding (22% of total funding) due to the population's preference for life insurance products and mandatory pension system. That said, ABN's funding profile remains supported by its strong Private Banking business which consistently generates funding surpluses.
- **Capital ratios support credit profile for now:** ABN's fully-loaded 1Q2017 CET1 ratio of 16.9% fell 10bps q/q but gained 1.1ppt y/y with the q/q fall mainly due to higher RWAs from new operational risk assessment methods than organic growth in capital. While its current CET1 ratio is well above its current and future minimum Supervisory Review and Evaluation Process (SREP) CET1 requirement (9% and 11.75% respectively), there is potential downside risk should contemplated changes to risk weight assessments pass.

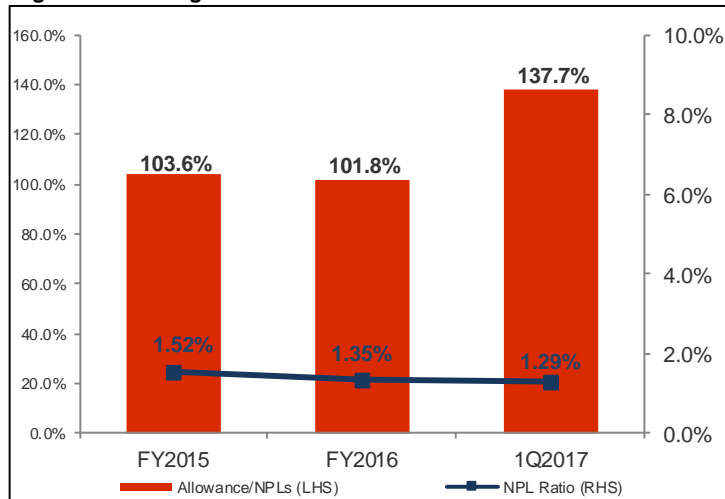
ABN AMRO Group N.V.

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (EUR'mn)			
Net Interest Income	6,077	6,268	1,596
Non Interest Income	2,378	1,905	650
Operating Expenses	5,228	5,657	1,353
Pre-Provision Operating Profit	3,227	2,516	893
Provisions	505	114	63
Other Income/(Expenses)	1	55	0
PBT	2,723	2,457	830
Income Taxes	798	650	215
Net Income to Common Shareholders	1,920	1,806	611
Balance Sheet (EUR'mn)			
Total Assets	407,376	394,481	417,798
Total Loans (net)	276,376	267,678	274,366
Total Loans (gross)	275,881	266,551	273,513
Total Allowances	4,355	3,666	4,849
Total NPLs	4,203	3,602	3,522
Total Liabilities	389,788	375,543	398,396
Total Deposits	247,192	228,757	236,769
Total Equity	17,585	18,936	19,403
Key Ratios			
NIM	1.46%	1.52%	1.56%
Cost-income Ratio	61.8%	65.9%	60.2%
LDR	111.8%	117.0%	115.9%
NPL Ratio	1.52%	1.35%	1.29%
Allowance/NPLs	103.6%	101.8%	137.7%
Credit Costs	0.18%	0.04%	0.09%
Equity/Assets	4.32%	4.80%	4.64%
CETier 1 Ratio (Full)	15.5%	17.0%	16.9%
Tier 1 Ratio	16.4%	18.0%	17.8%
Total CAR	19.1%	23.1%	24.1%
ROE	12.0%	11.8%	13.2%
ROA	0.48%	0.45%	0.58%

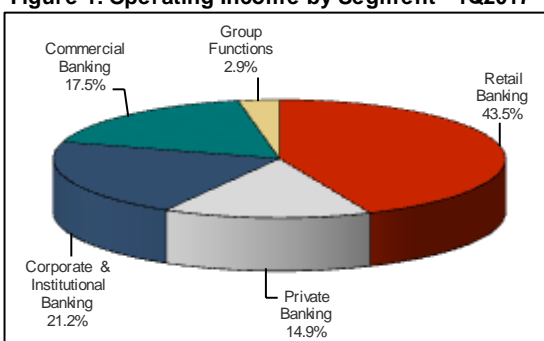
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 4: Coverage Ratios



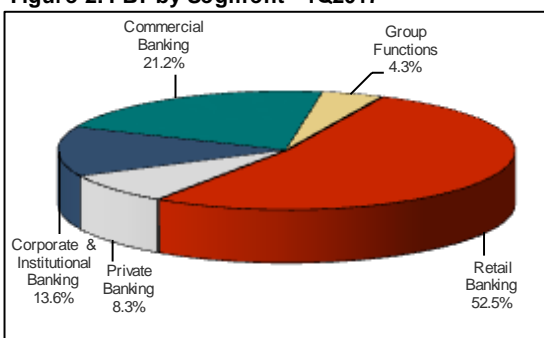
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - 1Q2017



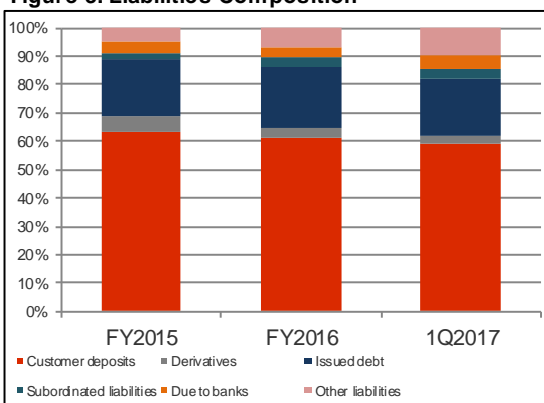
Source: Company

Figure 2: PBT by Segment - 1Q2017



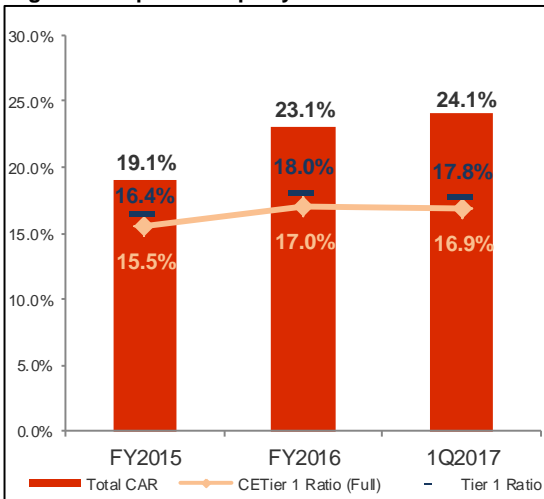
Source: Company

Figure 3: Liabilities Composition



Source: Company

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Portfolio rationalization is expected to reinforce ANZ's capital position against earnings pressures. We see slightly better value in ANZ 3.75% '27c22 in the Aussie T2 space given spread and shorter tenor as well as lower exposure to Australia's housing sector.

Issuer Profile: Neutral

S&P: AA-/Negative
Moody's: Aa3/ Stable
Fitch: AA-/Stable

Ticker: **ANZ**

Background

ANZ Banking Group Limited ('ANZ') 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 2017, the bank had total assets of AUD896.5bn.

Australia & New Zealand Banking Group Ltd

Key credit considerations

- **Still coping well:** Net interest margins fell h/h by 6bps to 2.00% in 1HFY2017 from 2.06% in 2HFY2016. This was mainly attributed to (1) funding costs rising due to increased wholesale funding costs, (2) intense competition for deposits in Australia and New Zealand leading to lower margins, and (3) adverse impact to earnings on capital as a result of lower interest rates, growth in the liquidity portfolio and lower earnings from market activities. However, successful cost management (lower personnel and restructuring expenses) and streamlined businesses were effective in pushing operating costs lower, with the key Australia segment reducing operating costs by 3% y/y. As a result, the reported cost-income ratio fell 1.5% h/h to 44.8% in 1HFY2017 from 46.3% in 2HFY2016. Credit impairment charges also fell 30% and 20% h/h and y/y respectively due to lower resource related exposures in the Institutional division and overall improvement in the loan book risk profile according to management. This pushed ANZ's cash profit higher by 23% h/h to AUD3.4bn in 1HFY2017.
- **Considerable exposure to Australian mortgage loans:** Australian housing loans (44.1% of ANZ's gross loans) grew 3.8% h/h and 5.5% y/y, while provisions grew alongside by 4.6% h/h, reflecting the mounting risk of an overheating housing market. Compared to Australian peers under our coverage, we note that ANZ's exposure to the Australian housing loan market (in terms of % of gross loans) is the smallest, while at the same time having the largest balance sheet. As a whole, gross loans was relatively flat h/h, while growing 2.6% y/y. Provisions for credit impairments fell 3.1% h/h, which is directionally consistent with other Australian peers. However, gross impaired assets (classified as non-payment >180 days past due) fell 7.3% h/h, and coupled with marginal loan growth, pushed reported NPL/Gross Loan ratios down to 0.51% (2HFY2016: 0.55%).
- **Funding profile remains robust:** ANZ was able to grow its customer deposits by 4.1% h/h and 4.8% y/y to AUD468.2bn. Among the four major Australian banks, ANZ possesses the smallest market share when it comes to the country's total deposits, at around 14.0%. Due to its relatively weaker retail banking franchise and presence, ANZ derives a significant portion of funding from the less stable wholesale funding market (30.9% of total funding), though we do note that the Group is less reliant compared to National Australia Bank Ltd (32.1% of total funding). Interestingly, ANZ's NSFR for 1HFY2017 stands at around 111%, which is higher than the other 2 banks under over coverage.
- **Capital ratio stability important for credit profile:** ANZ's APRA-compliant CET1 ratio rose 52bps h/h to 10.1% for 1HFY2017 from 9.6% in FY2016, while CAR ratios rose 20bps h/h to 14.5% from 14.3%. The improvement in capital ratios was mainly due to (1) improved cash profit generation h/h, (2) lower dividend distributions, and (3) non-core and non-recurring items in 1HFY2017 which was predominantly driven by RWA measurement changes and the movement in non-cash earnings. Comparing ANZ's capitalization to international peers based on Basel III regulations, ANZ's comparable CET1 ratio of 15.2% sits comfortably on the top quartile of Group 1 banks identified by BIS.
- **Management still looking to streamline businesses:** ANZ has narrowed the bidders for the proposed sale of its Australian Wealth Management business with second round offers expected by mid-Sept. This remains consistent with ANZ's current strategy to improve the efficiency and profitability of its business through ongoing repositioning initiatives, asset sales and cost rationalizing and follows recent asset sales which are expected to improve ANZ's CET1 capital ratio. This is important considering the competitive banking landscape and recent news on bank levies which could constrain internal capital generation going forward.

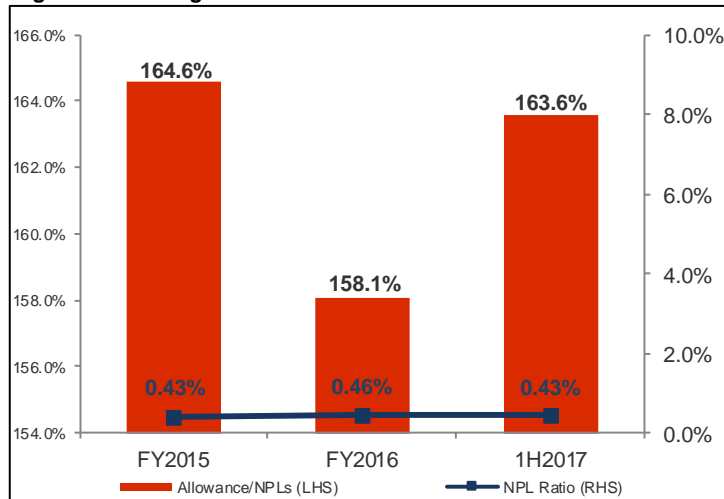
Australia & New Zealand Banking Group Ltd

Table 1: Summary Financials

Year Ended 30th Sep	FY2015	FY2016	1H2017
Income Statement (AUD'mn)			
Net Interest Income	14,616	15,095	7,416
Non Interest Income	5,849	4,893	2,407
Operating Expenses	9,378	10,422	4,731
Pre-Provision Operating Profit	11,087	9,566	5,092
Provisions	1,179	1,929	719
Other Income/(Expenses)	625	541	173
PBT	10,533	8,178	4,546
Income Taxes	3,026	2,458	1,627
Net Income to Common Shareholders	7,493	5,709	2,911
Balance Sheet (AUD'mn)			
Total Assets	889,900	914,869	896,511
Total Loans (net)	562,173	575,852	564,035
Total Loans (gross)	572,370	578,944	579,211
Total Allowances	4,017	4,183	4,054
Total NPLs	2,441	2,646	2,478
Total Liabilities	832,547	856,942	838,603
Total Deposits	570,794	588,195	581,407
Total Equity	57,353	57,927	57,908
Key Ratios			
NIM	2.04%	2.06%	2.00%
Cost-income Ratio	44.5%	48.2%	47.3%
LDR	98.5%	97.9%	97.0%
NPL Ratio	0.43%	0.46%	0.43%
Allowance/NPLs	164.6%	158.1%	163.6%
Credit Costs	0.21%	0.33%	0.25%
Equity/Assets	6.44%	6.33%	6.45%
CETier 1 Ratio (Full)	9.6%	9.6%	10.1%
Tier 1 Ratio	11.3%	11.8%	12.1%
Total CAR	13.3%	14.3%	14.5%
ROE	14.5%	10.0%	11.8%
ROA	0.88%	0.63%	0.64%

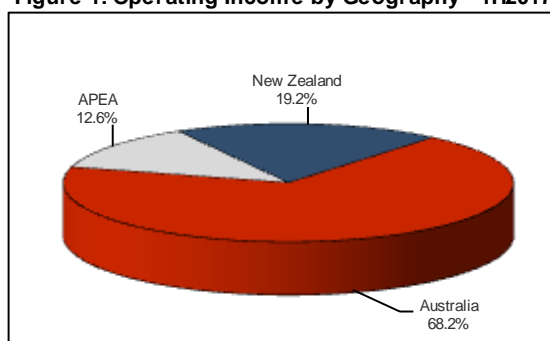
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 4: Coverage Ratios



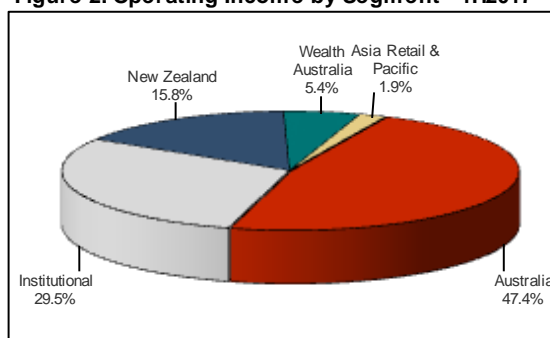
Source: Company, OCBC estimates

Figure 1: Operating Income by Geography - 1H2017



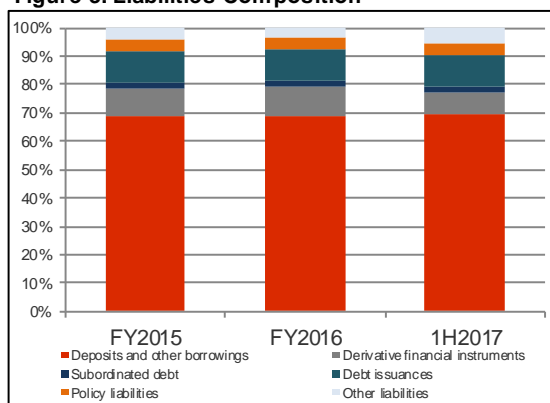
Source: Company

Figure 2: Operating Income by Segment - 1H2017



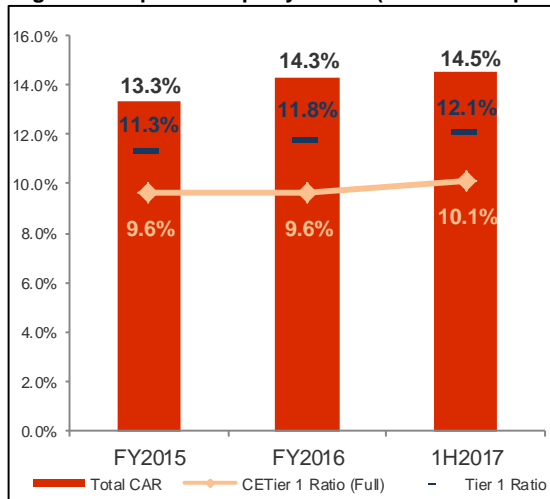
Source: Company

Figure 3: Liabilities Composition



Source: Company

Figure 5: Capital Adequacy Ratios (APRA - Compliant)



Source: Company

Credit Outlook –

Challenging operating conditions should be mitigated by BOC's strong domestic market position, overseas business contribution and ongoing government support. While these fundamentals support decent value for the BCHINA 2.75% '19s, we think the MAYMK 2.08% '18s offer better value in the bank senior space.

Issuer Profile: Neutral

S&P: A/Stable

Moody's: A1/Stable

Fitch: A/Stable

Ticker: **BCHINA**

Background

Established in 1912, Bank of China Ltd ('BOC') operates predominantly in China but also globally in 51 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 RMB18,917.5bn as at 31 March 2017.

Bank of China Ltd

Key credit considerations

- **Diversity and cost management mitigate industry pressures:** BOC's 1Q2017 results were adequate with operating income up 5.2% y/y to RMB129.5bn and profit before tax up 2.8% to RMB64.6bn. Results continue to be influenced by margin compression with net interest margins falling to 1.8% in 1Q2017 (1Q2016: 1.97%), however 16.8% growth in non-interest income somewhat mitigated ongoing industry pressures. Non-interest income growth was driven largely by net trading gains and growth in other operating income while net fee and commission income was stable and net gains on financial investments were negligible in 1Q2017 compared to 1Q2016. Non-interest income contribution to total operating income continues to increase, representing 39.3% of total income for 1Q2017, compared to 35.4% for 1Q2016 and 37.0% for FY2016. Profit performance was also assisted by continued solid expense management with operating expenses falling 3.3% y/y, translating to an operating efficiency of 24.2%. All in, 1Q2017 performance mirrored that of FY2016 with amplified industry pressures leading to sharper net interest margin compression and a fall in the contribution of net interest income to total operating income.
- **Segment trends in FY2016 more supportive:** The fall in net interest income also contributed to a fall in contribution from the Chinese Mainland to overall FY2016 operating income and a 38.3% rise in operating income contribution from Hong Kong. Contributions from other countries also rose 7.3%, although these movements are in line with BOC's internationalization strategy. Segment wise, personal banking continues to drive FY2016 operating income performance up 11% y/y while corporate banking grew 2.4% and treasury operations fell 41% y/y.
- **Loan quality still a concern:** Impairment losses continue to rise on a y/y basis, increasing 39.4% to RMB22.2bn in 1Q2017. The rate of increase was lower than the 50.3% y/y rise in impairment losses to RMB89bn in FY2016; however the FY2016 y/y increase was largely the result of defensive actions against possible asset deterioration in FY2017 with management indicating a more proactive and forward-looking approach to risk management. As such, practically all of the total impairment losses came from a rise in collectively-assessed impairment losses. With the 10.7% y/y growth in non-performing loans (NPLs) lower than the y/y rise in impairment losses, the loan loss coverage ratio improved to 159.5% in 1Q2017 against 149.1% in 1Q2016. Of note in the FY2016 NPL trends were the 35.5% y/y rise in loans classified as special mention and this likely drove management's concern for the operating environment in FY2017 in our view. With growth in BOC's loans and advances in 1Q2017 of 3.9% lower than the rise in NPLs, the NPL ratio rose slightly y/y to 1.45% (1Q2016: 1.43%) although fell marginally from FY2016 (1.46%).
- **Balance sheet growth pressuring capital ratios:** BOC's total assets grew 4.2% in 1Q2017 due to both growth in loans and advances as well as 4.9% y/y growth in total investments, noticeable for its faster growth rate compared to loans and advances. This likely led to higher growth in risk weighted assets against the growth in total capital and translated to BOC's capital ratios weakening q/q (1Q2017 CET1/CAR at 11.2%/13.8% vs 11.4%/14.3% for FY2016). With the government's recent focus on restricting growth in entrusted investments and financial risks in the economy, future balance sheet growth could be more muted in our view. This could be a positive given BOC's rising capital requirements as a global systemically important bank (GSIB). Although ratios still remain above current minimum requirements and BOC has time to comply with higher capital requirements for GSIBs, we expect active capital management to continue given ongoing earnings challenges and RWA growth.

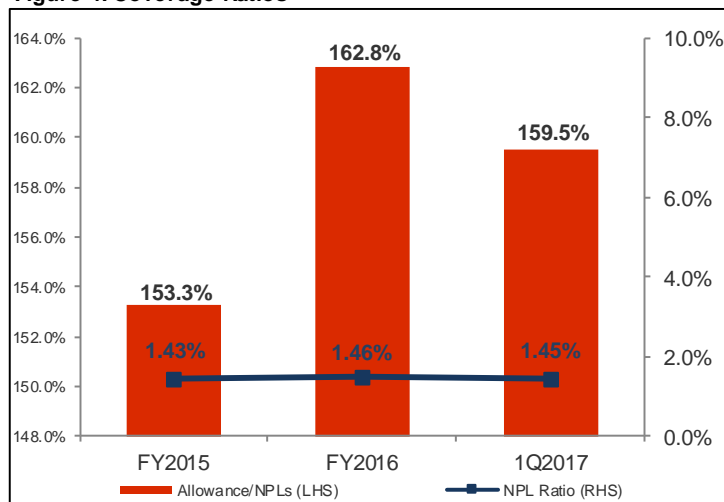
Bank of China Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (RMB'mn)			
Net Interest Income	328,650	306,048	78,608
Non Interest Income	145,262	179,608	53,432
Operating Expenses	185,401	175,069	45,503
Pre-Provision Operating Profit	288,511	310,587	86,537
Provisions	59,274	89,072	22,243
Other Income/(Expenses)	2,334	897	339
PBT	231,571	222,412	64,633
Income Taxes	52,154	38,361	14,306
Net Income to Common Shareholders	170,845	164,578	46,649
Balance Sheet (RMB'mn)			
Total Assets	16,815,597	18,148,889	18,917,549
Total Loans (net)	8,935,195	9,735,646	10,124,969
Total Loans (gross)	9,135,860	9,973,362	10,364,753
Total Allowances	200,665	237,716	239,784
Total NPLs	130,897	146,003	150,318
Total Liabilities	15,457,992	16,661,797	17,388,917
Total Deposits	11,729,171	12,939,748	13,759,960
Total Equity	1,357,605	1,487,092	1,528,632
Key Ratios			
NIM	2.12%	1.83%	1.80%
Cost-income Ratio	28.3%	28.1%	24.2%
LDR	76.2%	75.2%	73.6%
NPL Ratio	1.43%	1.46%	1.45%
Allowance/NPLs	153.3%	162.8%	159.5%
Credit Costs	0.65%	0.89%	0.86%
Equity/Assets	8.07%	8.19%	8.08%
CETier 1 Ratio (Full)	11.1%	11.4%	11.2%
Tier 1 Ratio	12.1%	12.3%	12.0%
Total CAR	14.1%	14.3%	13.8%
ROE	14.5%	12.6%	13.7%
ROA	1.12%	1.05%	1.09%

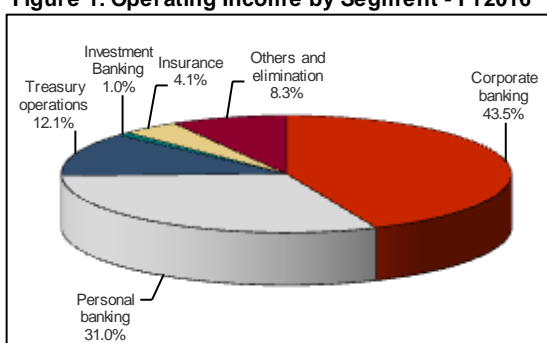
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 4: Coverage Ratios



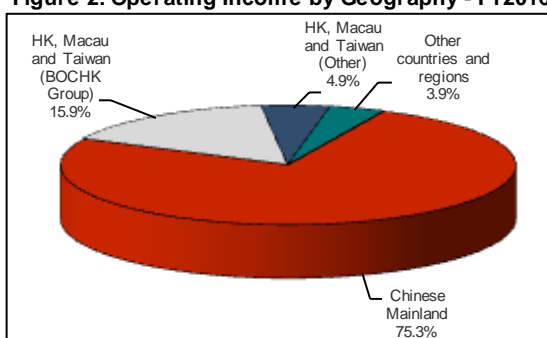
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - FY2016



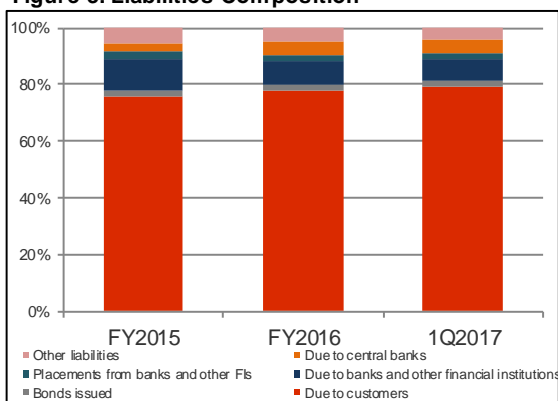
Source: Company

Figure 2: Operating Income by Geography - FY2016



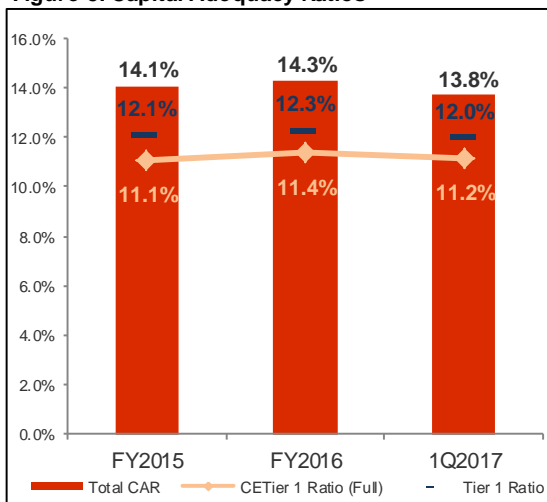
Source: Company

Figure 3: Liabilities Composition



Source: Company

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook –

Despite challenging operating conditions in Hong Kong and China, BEA's credit profile remains supported by its solid funding and liquidity. Diminishing government support does not affect our technical or fundamental views for BEA's capital instruments. With the BNKEA 4.25% '22c17s approaching call date, investors with tenor tolerance may want to consider the BPCE or SocGen curves for similar rated papers.

Issuer Profile: Neutral

S&P: A/CW-Neg

Moody's: A3/Negative

Fitch: Not rated

Ticker: **BNKEA**

Background

The Bank of East Asia, Ltd. ('BEA') is the 6th largest bank by total assets and the largest independent local bank in Hong Kong. As of 31 December 2016, the bank had total assets of HKD765.7bn. The largest shareholders are Japan's Sumitomo Mitsui Financial Group (18.7%), Spain's Caixabank (17.1% stake), and Malaysia's Guoco Management Co Ltd (13.6%). Disgruntled shareholder Elliot Capital Advisors is the next largest shareholder with 6.8%.

The Bank of East Asia Ltd

Key credit considerations

- **Continued pressure on earnings:** BEA FY2016 results were soft with operating profits after impairment losses falling 38% y/y to HKD3.0bn. This was due to multiple challenges at both the top line and expense levels. Top line performance was weaker y/y with net interest income down 7.0% (net interest margins (NIM) fell 6bps y/y to 1.60% due to a 17bps fall in BEA China's NIM to 1.65%) despite higher customer loans. Net fee and commission income was also down 10.7% y/y due to weaker loans, overdrafts and guarantee fees as well as lower trade finance, securities and brokerage fees. Overall expenses including impairment losses rose 7.8% y/y due to a 70% rise in impairment losses on loans and receivables due to the challenging operating environment in both Hong Kong and Mainland China, which masked a 6.3% fall in operating expenses due to the bank's ongoing focus on digitisation and branch rationalisation. In all, BEA's net profit of HKD3.7bn was its lowest in over 5 years, with its China operations recording its first loss since establishment in 2007 (operating loss after impairments of HKD1.3bn). Segment wise, Hong Kong personal banking continues to be resilient though impairments also rose materially (+79.7% y/y) with operating profit after impairment losses rising 3.1% y/y. In contrast, Corporate banking and Treasury markets segment operating profit after impairment losses fell 26.6% and 51.5% y/y respectively.
- **Volumes also under pressure:** An additional factor driving China's weaker performance was a contraction in loans which were down 6.7% y/y. This contributed somewhat to BEA's overall balance sheet contraction with total assets down 2% y/y to HKD765.7bn. Loan growth trends were skewed towards Hong Kong (+6.7%, mostly in property development) and other overseas exposures (+21.7%, mostly in UK and US) while China loans fell across the board and most noticeably in stressed sectors (wholesale and retail trade down 36% y/y, property investment down 13.5% and manufacturing down 13.1%). This is in line with management's strategies to improve its loan portfolio by focusing on more stable 'priority' industries and those supported by national policies.
- **Weaker loan quality but improved coverage.** BEA's impaired loans composition changed in 2016 with 32% of total impaired loans in Hong Kong against 13% in FY2015. This was due to a material rise in impaired advances in Hong Kong that drove the overall impaired loan ratio to 1.49% in FY2016 from 1.13% in FY2015. China continues to present concerns, with impairment allowances for China exposures rising 77% in FY2016 (and contributing 80% of the rise in total allowances for BEA in FY2016). That said, overall impaired advances rose lower than impairment allowances y/y (36% against 70%), translating to allowance coverage ratios improving to 56.1% for FY2016 against 47.9% for FY2015. Although the bank continues to struggle with loan quality issues (now more prominently in HK), we note that security coverage against impaired advances remains solid at 145.3% and rises above 200% including impairment allowances.
- **Capital Ratio buffers should improve:** CET1 capital ratios weakened marginally with risk weighted assets growing 2.9% and CET1 capital rising 2%. Total capital ratios however benefited from issuance of USD500mn in Tier 2 capital in 4Q2016 to meet upcoming capital instrument maturities. We expect 1H2017 capital ratios to recover from the disposal of its 75.6% interest in Tricor Holdings Ltd as well as improved earnings from higher interest rates and increased borrowing in Hong Kong by Chinese corporates to fund overseas expansion. Capital ratios will also benefit from the recent USD500mn AT1 Perp NC5.

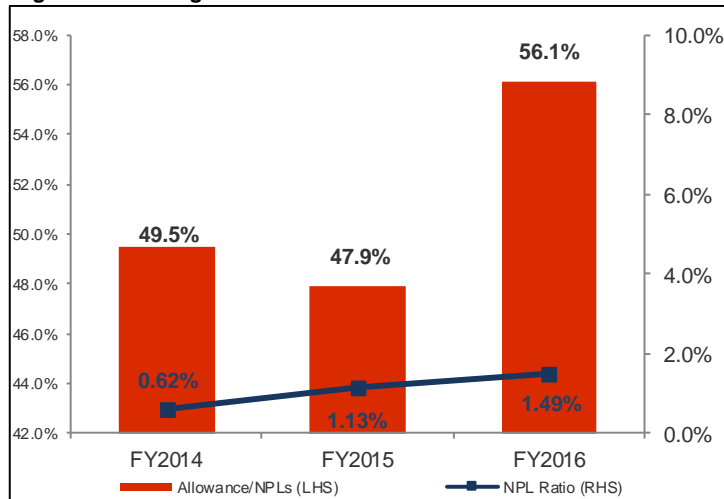
The Bank of East Asia Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	FY2016
Income Statement (HKD'mn)			
Net Interest Income	12,675	11,929	11,098
Non Interest Income	5,557	3,938	3,752
Operating Expenses	9,849	8,904	8,342
Pre-Provision Operating Profit	8,383	6,963	6,508
Provisions	1,001	2,048	3,463
Other Income/(Expenses)	645	556	431
PBT	8,027	5,471	3,476
Income Taxes	1,650	1,049	1,067
Net Income to Common Shareholders	6,661	5,522	3,723
Balance Sheet (HKD'mn)			
Total Assets	795,891	781,364	765,706
Total Loans (net)	441,933	439,125	450,445
Total Loans (gross)	443,287	441,506	454,242
Total Allowances	1,354	2,381	3,797
Total NPLs	2,736	4,973	6,767
Total Liabilities	722,447	695,723	679,070
Total Deposits	548,184	540,743	535,789
Total Equity	73,444	85,641	86,636
Key Ratios			
NIM	1.78%	1.66%	1.60%
Cost-income Ratio	54.0%	56.1%	56.2%
LDR	80.6%	81.2%	84.1%
NPL Ratio	0.62%	1.13%	1.49%
Allowance/NPLs	49.5%	47.9%	56.1%
Credit Costs	0.23%	0.46%	0.76%
Equity/Assets	9.23%	10.96%	11.31%
CETier 1 Ratio (Full)	11.8%	12.2%	12.1%
Tier 1 Ratio	12.5%	13.7%	13.5%
Total CAR	16.7%	17.2%	17.4%
ROE	9.6%	6.6%	4.1%
ROA	0.80%	0.60%	0.40%

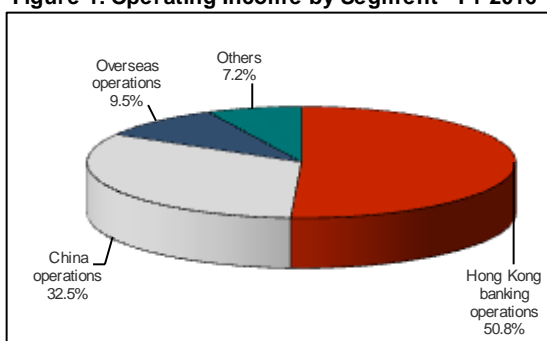
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 4: Coverage Ratios



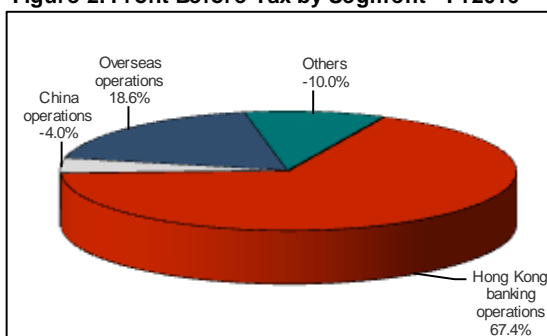
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - FY 2016



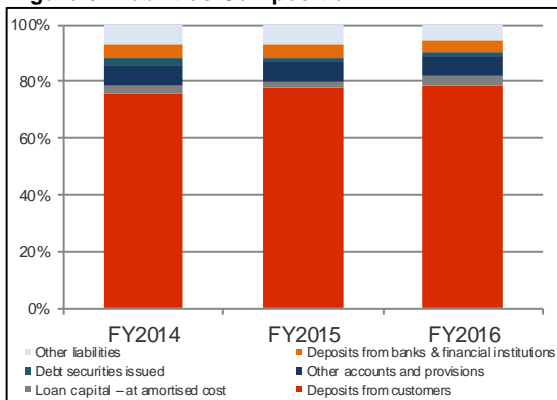
Source: Company

Figure 2: Profit Before Tax by Segment - FY2016



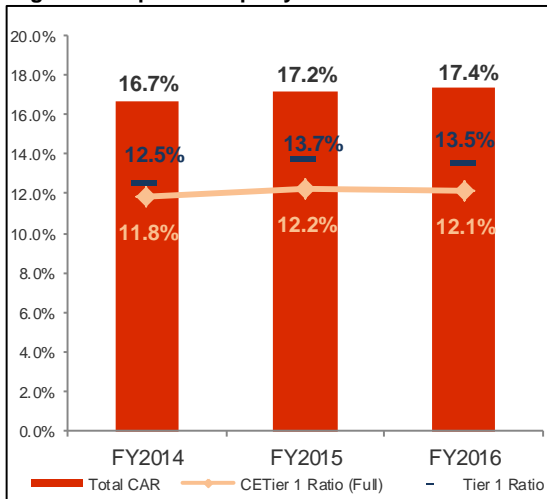
Source: Company | China Operations and Others made Loss before Tax

Figure 3: Liabilities Composition



Source: Company

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook –

BNPP's earnings outlook remains supported by its solid business profile and recovering conditions in France and Europe. With likely higher supply coming, the BNP 4.3% '25c20 looks a little rich compared to domestic peers SGD T2 papers in our view, notwithstanding the better rating.

Issuer Profile: Neutral

S&P: A/Stable

Moody's: A1/Stable

Fitch: A+/Stable

Ticker: **BNP FP**

Background

BNP Paribas S.A. ('BNPP')s operations span domestic and international retail banking as well as corporate and institutional banking. Concentrated in Europe, its businesses operate in 75 countries. Created in 2000 through a merger of BNP and Paribas, it had total assets of EUR2,197.7bn as at March 31, 2017. It's largest shareholder at ~10% is the Belgian government.

BNP Paribas SA

Key credit considerations

- **Resilience through scale:** BNPP results continue to reflect the benefits of scale with 1Q2017 total revenues up 4.2% y/y to EUR11.3bn. This included a 7% y/y increase in operating revenues with domestic markets performance (revenues down 0.3% y/y) soft as low interest rates mitigated 5.2% y/y growth in loans. However this was more than compensated for by solid performance in international businesses (+5.8% y/y due to personal finance, Europe-Mediterranean, Wealth and Asset Management, Insurance) and a sharp improvement in Corporate & Institutional Banking (CIB) (+20%y/y due to strong global markets performance in FICC, equity and prime services). Operating expenses rose 6.5% y/y due to exceptional restructuring costs related to acquisitions, transformation costs and full year tax expenses while risk costs continue to improve, down 21.8% y/y due to net write backs at CIB, risk controls at loan origination, low interest rates and continued improvement in operating conditions and loan book repositioning in Italy. As a result, group operating income was up 5.1% y/y to EUR2.59bn.
- **Broad based improvement in risk costs:** As a percentage of customer loans, BNPP's risk costs on a group basis fell to 32bps as at 1Q2017, 21bps lower than 4Q2016 and 12bps lower than FY2016. Of note is the broad based improvement across all segments, most notably in CIB with writebacks higher than provisions and resulting in a negative value for CIB risk costs. Elsewhere, French Retail Banking, Belgium Retail Banking and BancWest credit costs remain very low while other International Retail Banking segments (BNL banca commercial in Italy, Europe- Mediterranean and personal finance) that have historically higher credit costs are showing an improving trend. This reflects soft but recovering economic conditions in France and the rest of Europe, which should continue to support BNPP's earnings capacity for the remainder of 2017.
- **Positive influence on the Balance sheet:** Better operating conditions are also being reflected in BNPP's balance sheet with strong business activity translating to solid y/y loans growth. Loans in BNPP's domestic markets (comprising French, Belgian, Italian and Luxembourg retail banking) rose 5.2% y/y while deposits rose 9.1% y/y improving the segment loan to deposit ratio to 106% in 1Q2017 from 110% in 1Q2016. Similarly, loans in International Financial Services were up 11.2% in personal finance from higher demand and new partnerships, up 5.4% in all regions within the Europe-Mediterranean segment and up 7.7% in BancWest. Deposit growth also outpaced loan growth in International Financial Services translating to the consolidated net loans to deposit ratio improving to 89.6% in 1Q2017 from 97.4% in 1Q2016. The reported NPL ratio similarly improved to 3.6% as at 1Q2017 from 3.8% in FY2016 and 3.9% in 1Q2016.
- **Capital ratios need attention:** Solid earnings performance and a positive capital charge from the sale of a 20.6% stake in First Hawaiian Bank marginally improved BNPP's capital position q/q and compensated for the marginal growth in risk weighted assets. On a fully loaded basis, the CET1 ratio of 11.6% for 1Q2017 was ~15bps higher than FY2016 (11.45%). BNPP's future capital needs remain high given rising regulatory capital requirements and less active issuance of TLAC instruments in the past. With management also indicating still challenging times ahead for capital generation, the bank is pursuing ongoing cost rationalization and restructuring to achieve bottom line growth. The bank's 2017-2020 business development plan is focused on digital investments and operating efficiency programs costing EUR3bn to achieve average net income growth of 6.5% per annum, and target CET1 and ROE ratios of 12.0% and 10% respectively by 2020. Its fully loaded CAR ratio was 14.5% as at 1Q2017.

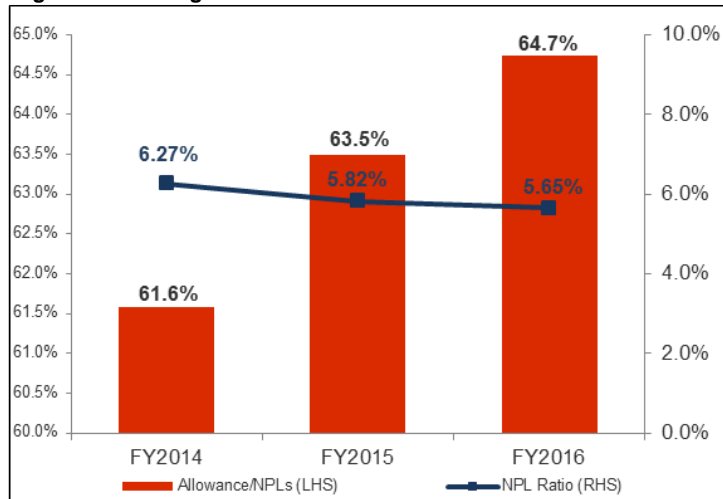
BNP Paribas S.A

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (EUR'mn)			
Net Interest Income	22,553	22,376	11,297
Non Interest Income	20,385	21,035	
Operating Expenses	29,254	29,378	8,119
Pre-Provision Operating Profit	13,684	14,033	3,178
Provisions	3,797	3,262	592
Other Income/(Expenses)	589	633	165
PBT	10,476	11,210	2,754
Income Taxes	3,335	3,095	752
Net Income to Common Shareholders	6,694	7,702	1,894
Balance Sheet (EUR'mn)			
Total Assets	1,994,193	2,076,959	2,197,658
Total Loans (net)	682,497	712,233	718,009
Total Loans (gross)	708,691	739,278	NA
Total Allowances	26,194	27,045	NA
Total NPLs	41,251	41,779	NA
Total Liabilities	1,894,116	1,971,739	2,090,376
Total Deposits	700,309	765,953	801,381
Total Equity	100,077	105,220	107,282
Key Ratios			
NIM	1.73%	1.64%	NA
Cost-income Ratio	68.1%	67.7%	71.9%
LDR	97.5%	93.0%	89.6%
NPL Ratio	5.82%	5.65%	NA
Allowance/NPLs	63.5%	64.7%	NA
Credit Costs	0.54%	0.44%	NA
Equity/Assets	5.02%	5.07%	4.88%
CETier 1 Ratio (Full)	10.9%	11.5%	11.6%
Tier 1 Ratio	11.7%	12.6%	12.8%
Total CAR	13.0%	14.2%	14.5%
ROE	8.3%	9.3%	10.4%
ROA	0.33%	0.38%	0.34%

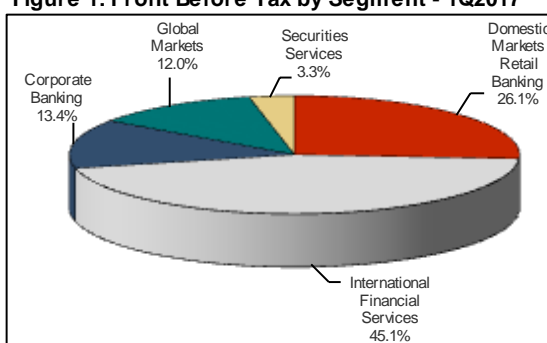
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 4: Coverage Ratios



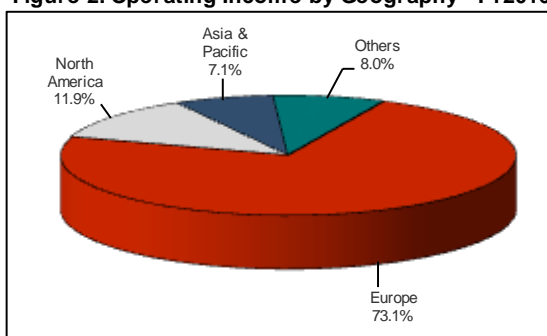
Source: Company, OCBC estimates

Figure 1: Profit Before Tax by Segment - 1Q2017



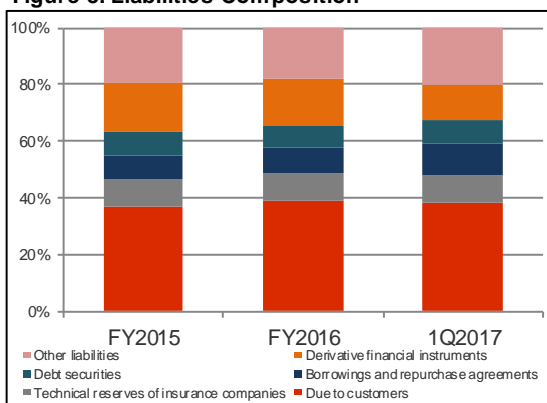
Source: Company

Figure 2: Operating Income by Geography - FY2016



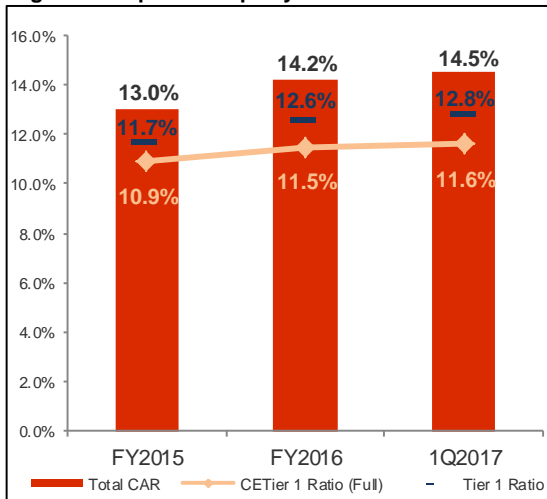
Source: Company

Figure 3: Liabilities Composition



Source: Company

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook –

BPCE benefits from its cooperative structure with solid earnings retention leading to relatively strong capital ratios. BPCE papers offer good value in the SGD space compared to domestic peers considering its solid market positions in retail banking, in particular the BPCEGP 4.5% '26c21.

Issuer Profile: Neutral

S&P: A/Stable

Moody's: A2/Stable

Fitch: A/Stable

Ticker: **BPCEGP**

Background

Established in 2009, BPCE SA is the central entity of Groupe BPCE. Through its retail cooperative networks and subsidiaries, it provides retail and wholesale financial services to individuals, small and medium-size enterprises (SMEs), and corporate and institutional customers in France and abroad. As at March 31, 2017, it had total assets of EUR1,238.7bn.

BPCE SA

Key credit considerations

- **Centerpiece of the group:** BPCE SA (BPCE) is the central institution of Groupe BPCE (Groupe). It's two functions include (1) housing Groupe's commercial banking and insurance subsidiaries and publicly listed Natixis which provides wholesale banking, investment solutions and specialized financial services; and more importantly (2) centralizing strategy for the wider Groupe BPCE which includes two co-operative retail and commercial banking networks. Although effectively a subsidiary of the cooperative networks, BPCE's role as the central institution means it is legally responsible for supervising and managing Groupe's strategies, operations and ensuring ongoing liquidity and solvency. As such, the credit profile of BPCE is effectively equal to that of the wider group.
- **Diverse revenue sources aid earnings stability:** Groupe's results continue to reflect solid broad-based performance from its diverse business segments and strong domestic market position in retail banking with loan growth partially mitigating lower net interest margins. Underlying 1Q2017 income before tax (excluding the impact of non-economic and exceptional items) was up 11.6% y/y to EUR1.3bn with net banking income improving 4.9% y/y while operating expenses grew slower y/y at 2.6% (higher regulatory costs and growth in Investment Solutions and Corporate & Investment Banking division expenses). This marginally improved BPCE's reported cost/income ratio to 68.3% for 1Q2017 (1Q2016: 69.8%). Segment wise, retail banking performance continues to be soft (revenues -0.8% y/y) given low interest rates but this was mitigated by improved commissions, operating expense control and a 4.5% y/y rise in loan outstandings (mainly from housing, equipment and consumer loans). Meanwhile Investment Solutions revenues grew 8.1% y/y due to solid asset management performance in Europe and improved insurance activities. Revenues in Corporate & Investment Banking grew a strong 25.9% y/y from global markets (+38% due to Fixed Income, Commodities & Treasury, and Equity). Finally, Global Finance & Investment banking performance was solid despite a y/y fall in new loan production.
- **Loan quality trends looking up:** Operating conditions for French banks are improving, albeit from a low base due to the recovering Eurozone economy and government measures to address market rigidities. This bodes well for Groupe especially given it generates over 80% of total net banking income from France, the most geographically focused of its SGD issuing domestic peers. Positive operating conditions together with the low interest rate environment and a focus on domestic retail banking show in Groupe's loan quality indicators with overall provisioning costs down 1.6% y/y reflecting improving operating conditions in domestic retail banking and absence of elevated oil and gas provisions that occurred in 1Q2016. The fall in provisioning costs was also consistent with the improvement in loan quality with the reported non-performing loans ratio falling to 3.4% in 1Q2017 from 3.6% in 1Q2016. Groupe's reported impaired loans coverage ratio (including guarantees related to impaired outstandings) also improved marginally to 82.5% from 82.3% over the same period.
- **Capital position already compliant with future requirements:** Due to solid earnings, cooperative shares issuance and stable risk weighted assets, Groupe's capital ratios improved marginally in 1Q2017 with the bank's CET1/CAR capital ratio at 14.3%/18.6% (FY2016: 14.1%/18.5%). This is well above the minimum fully loaded CET1 requirement of 8.92% as guided by the 2016 SREP which includes Pillar 2 requirements. Its TLAC position remains solid with a reported fully loaded TLAC ratio of 19.7% as at Mar 2017, now above the minimum requirement of 19.5% by January 2019.

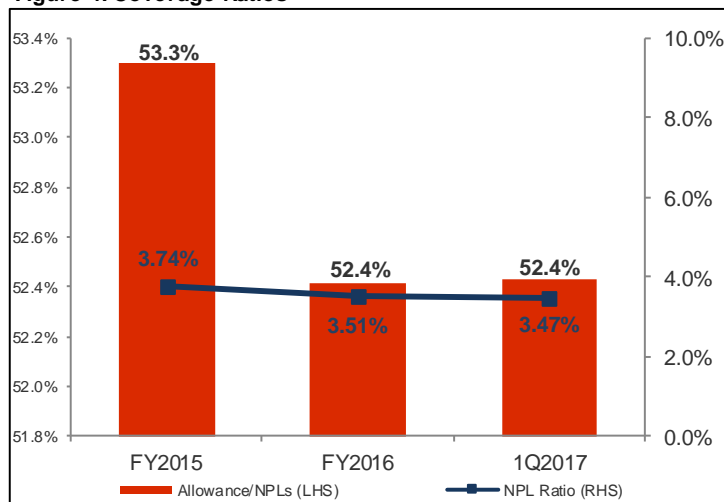
Groupe BPCE

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (EUR'mn)			
Net Interest Income	11,059	10,904	6,062
Non Interest Income	12,809	13,254	
Operating Expenses	16,248	16,673	4,561
Pre-Provision Operating Profit	7,620	7,485	1,501
Provisions	1,832	1,423	375
Other Income/(Expenses)	280	259	0
PBT	6,068	6,321	1,201
Income Taxes	2,323	1,882	473
Net Income to Common Shareholders	3,242	3,988	907
Balance Sheet (EUR'mn)			
Total Assets	1,166,535	1,235,240	1,238,654
Total Loans (net)	617,465	666,898	673,910
Total Loans (gross)	617,465	666,898	686,173
Total Allowances	12,310	12,278	12,264
Total NPLs	23,098	23,427	23,391
Total Liabilities	1,101,342	1,166,104	1,168,236
Total Deposits	499,711	531,778	539,101
Total Equity	65,193	69,136	70,418
Key Ratios			
NIM	1.06%	0.98%	NA
Cost-income Ratio	68.1%	69.0%	75.2%
LDR	123.6%	125.4%	125.0%
NPL Ratio	3.74%	3.51%	3.47%
Allowance/NPLs	53.3%	52.4%	52.4%
Credit Costs	0.30%	0.21%	0.22%
Equity/Assets	5.59%	5.60%	5.06%
CETier 1 Ratio (Full)	13.0%	14.1%	14.3%
Tier 1 Ratio	13.3%	14.5%	14.6%
Total CAR	16.8%	18.5%	18.6%
ROE	6.0%	6.9%	6.2%
ROA	0.27%	0.33%	0.20%

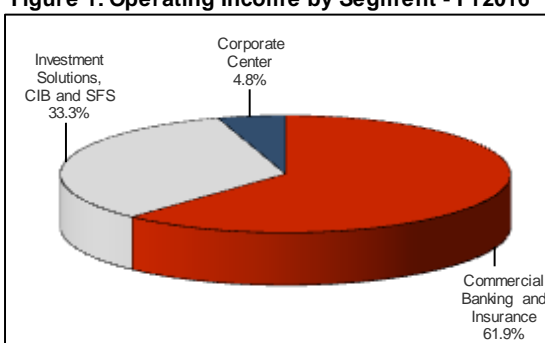
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 4: Coverage Ratios



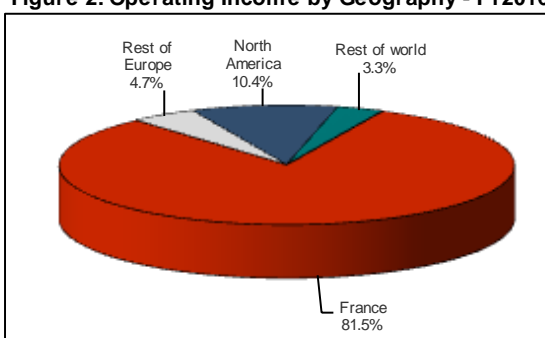
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - FY2016



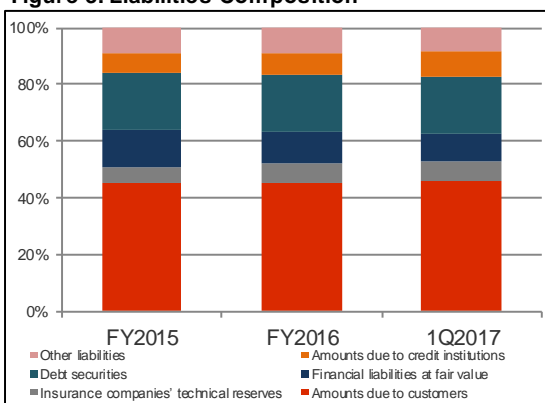
Source: Company

Figure 2: Operating Income by Geography - FY2016



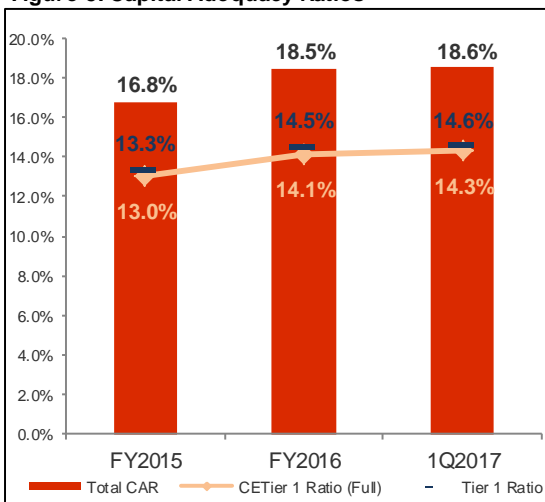
Source: Company

Figure 3: Liabilities Composition



Source: Company

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – CIMB's strategic initiatives combined with better operating conditions bode well for future performance. The CIMBMK 2.12% '18s look fairly valued, although based on fundamentals we think the MAYMK 2.08% '18s is trading a little cheaper.

Issuer Profile: Neutral

S&P: A-/Stable
Moody's: A3/Stable
Fitch: Not rated

Ticker: **CIMBMK**

Background

CIMB Group Holdings Bhd ('CIMB') is an ASEAN focused financial services provider with a core focus on Malaysia, Singapore, Thailand and Indonesia. Business segments cover consumer banking, commercial banking, investment banking, Islamic banking and asset management. As at 31 March, 2017 it had total assets of MYR506.2bn. Its major shareholders are Khazanah Nasional and the Employee Provident Fund.

CIMB Group Holdings Berhad

Key credit considerations

- **Continued earnings resilience:** CIMB's 1Q2017 results were solid with total operating income up 17.1% y/y and 1.1% q/q with strong y/y growth in both net interest income (loans growth and net interest margin improvement) and net non-interest income (stronger capital markets activity). Combined with somewhat moderate growth in operating expenses (+7.4% y/y and +2.9% q/q) and a fall in impairment allowances (-11.6% y/y and -48.7% q/q), pre-provision operating profit grew 30% y/y while profit before tax grew 43.7% to MYR1.6bn, its highest ever quarterly net profit performance. By segment performance, all major segments saw y/y operating income growth with consumer banking and commercial banking up 11.5% and 12% y/y respectively while wholesale banking net income grew 9.8%. Group Asset Management and Investments net income fell 14% y/y due to the absence of equity accounting for the Bank of Yingkou (sale announced early January 2017).
- **Loan quality issues are moderating:** CIMB's balance sheet continues to grow with loans growth of 12.1% y/y with growth focused in Malaysia and in housing loans and revolving credits. This performance was commendable in our view given the tough operating conditions facing Malaysian banks recently from low commodity prices, weaker regional growth, currency volatility and the political fallout from 1MDB which suppressed consumer confidence and overall demand for credit. Although loan volumes were flattish q/q, we expect this to be temporary with recovering macro conditions for Malaysian banks likely to improve credit demand for the rest of 2017. Loan quality issues still persist with impaired loans rising faster than overall loans, up 17.1% y/y with growth in impaired loans in Singapore, Indonesia and Thailand. As a result, the impaired loan ratio weakened to 3.17% for 1Q2017 from 3.04% in 1Q2016. Recent trends are more promising however with impaired loans falling 3.3% q/q and the impaired loan ratio of 3.17% lower than the 3.29% as at 4Q2016.
- **Strategy on track:** CIMB is currently implementing its Target 2018 (T18) strategy to reduce CIMB's sensitivity to operating challenges. Comprised of 18 initiatives, the program is focused on strategic and organization transformation, differentiation and optimization to sustain the bank's profit growth and reinforce its regional banking presence. Key targets include a 50% cost to income ratio ('CIR') and 60% income contribution from consumer banking by 2018. These targets remain broadly on track as CIMB is past the half way mark in its program with 1Q2017 CIR of 52.6% below FY2016 CIR of 53.9% (CIR trends tend to be seasonal with 1Q usually the highest for the year). Income contribution from consumer and commercial banking has been somewhat stable (although this is partially due to improved performance in Wholesale Banking from higher net interest income, cost containment and lower provisions) but this should also improve in line with Malaysia's expected improved economic performance with CIMB Malaysia's market share for both consumer loans and deposits reportedly increasing in 2016.
- **Capital management needs to remain active:** CIMB's 1Q2017 capital ratios weakened against 4Q2016 ratios with CIMB's reported CET1/CAR capital ratios of 10.8%/15.9% (CIMB Bank only) in 1Q2017 against 11.5%/16.2% in FY2016. This was due to higher growth in risk weighted assets against growth in capital which was impacted by higher regulatory adjustments. Going forward, we expect CIMB to remain active in managing its capital position given its target loans growth of 7.0% in 2017. The bank also maintains solid access to capital markets given its stable earnings capacity and position as the fifth largest banking group in ASEAN and second largest in Malaysia.

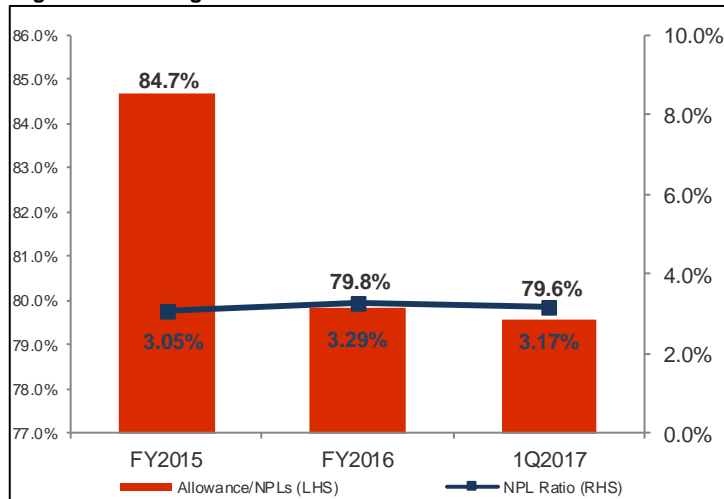
CIMB Group Holdings Berhad

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (MYR'mn)			
Net Interest Income	9,337	9,826	2,646
Non Interest Income	6,059	6,239	1,712
Operating Expenses	9,249	8,652	2,293
Pre-Provision Operating Profit	6,147	7,414	2,065
Provisions	2,318	2,645	455
Other Income/(Expenses)	86	116	4
PBT	3,914	4,884	1,614
Income Taxes	1,018	1,251	403
Net Income to Common Shareholders	2,850	3,564	1,180
Balance Sheet (MYR'mn)			
Total Assets	461,577	485,767	506,213
Total Loans (net)	290,296	315,373	316,420
Total Loans (gross)	297,822	323,720	324,486
Total Allowances	7,691	8,496	8,190
Total NPLs	9,082	10,645	10,291
Total Liabilities	419,345	438,688	457,651
Total Deposits	317,424	336,246	351,618
Total Equity	42,233	47,079	48,563
Key Ratios			
NIM	2.66%	2.63%	2.72%
Cost-income Ratio	60.1%	53.9%	52.6%
LDR	91.5%	93.8%	90.0%
NPL Ratio	3.05%	3.29%	3.17%
Allowance/NPLs	84.7%	79.8%	79.6%
Credit Costs	0.78%	0.82%	0.56%
Equity/Assets	9.15%	9.69%	9.59%
CETier 1 Ratio (Full)	11.5%	11.5%	10.8%
Tier 1 Ratio	12.7%	13.1%	12.3%
Total CAR	15.8%	16.2%	16.0%
ROE	7.3%	8.3%	10.3%
ROA	0.65%	0.75%	0.95%

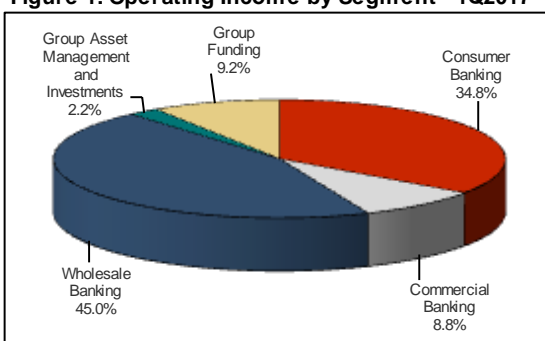
Source: Company, OCBC estimates | Capital Adequacy Ratios after proposed dividends

Figure 4: Coverage Ratios



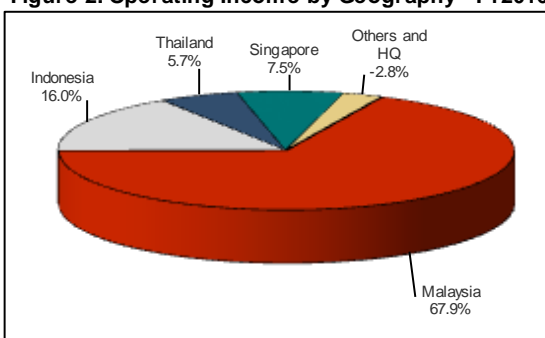
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - 1Q2017



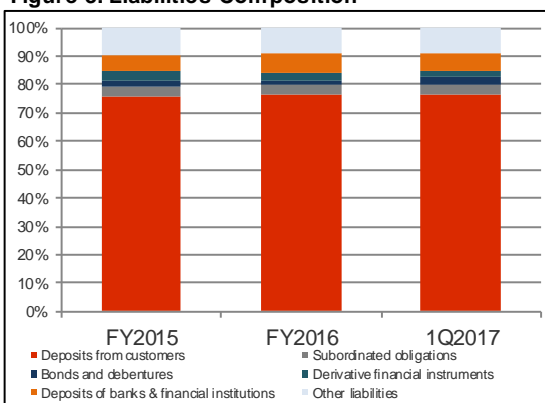
Source: Company

Figure 2: Operating Income by Geography - FY2016



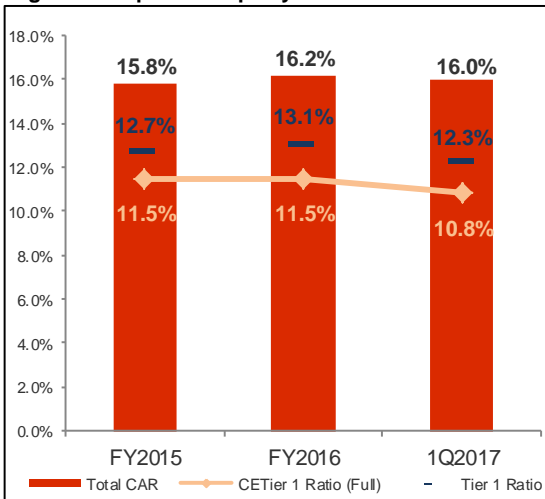
Source: Company | Others and HQ made Loss before Tax

Figure 3: Liabilities Composition



Source: Company

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook –

CMZB's future earnings hinges on the success of its strategic focus on core segments.

While restructuring will increase costs, earnings should remain sound from CMZB's market position and Germany's strong economy. We think French papers offer better value in the Euro Tier 2 space, in particular the BPCEGP 4.5% '26c21.

Issuer Profile: Neutral

S&P: A-/Negative

Moody's: Baa1/Stable

Fitch: BBB+/Stable

Ticker: **CMZB**

Background

Commerzbank AG ('CMZB') is Germany's second largest privately owned bank after Deutsche Bank AG. Headquartered in Frankfurt, it had total assets of EUR490.3bn as at 31 March 2017. Its largest single shareholder at 15.5% is Germany's Special Fund for Financial Market Stabilization, set up during the Global Financial Crisis to stabilize Germany's banking system. The remaining shareholdings comprise institutional (~45%) and private (~25%) investors.

Commerzbank AG

Key credit considerations

- **Corporate focus elevates business risk:** As Germany's second largest privately owned bank, CMZB provides universal banking services including capital markets activities largely to corporates and public sector clients. As part of its new strategic focus, the bank has reorganized into two core segments comprising (1) Private and Small Business Customers (including mBank with operations in Central and Eastern Europe); and (2) Corporate Clients (comprising the former Mittelstandsbank and Corporates & Markets segments). As part of its transformation, trading activities in CMZB's investment bank will be scaled back, while the bank's non-core commercial real estate, ship financing and public finance businesses are being wound down as part of its Asset & Capital Recovery (ACR) segment. Such moves are designed to reduce earnings volatility and regulatory risk, which is important given CMZB's lower reliance on stable retail earnings compared to peers and hence higher relative business risk.
- **Reducing risk the name of the game:** CMZB's restructuring also aims to improve profitability and hence organic capital generation. This is necessary because returns in Germany's banking sector remain depressed given the competitive and highly fragmented operating landscape as well as Europe's low interest rate environment. Costs are also targeted for reduction with expected staff redundancies by 2020 and investments in digital transformation. These actions are contained in the bank's 'Commerzbank 4.0' plan announced in September 2016, which seeks to simplify the bank's business model and focus on better return and risk profile segments (increase retail earnings) and improve efficiency. CMZB has announced that it will cease dividend payments for the time being to mitigate expected higher restructuring and investment costs in the near term, which is likely to depress earnings before medium term improvement.
- **Earnings reinforce the new way forward:** CMZB's recent earnings continue to face some pressure from the low interest rate environment as well as volatile capital markets performance. Net interest and trading income was been lower with low and negative interest rates impacting the domestic deposit business while contributions from the structured investment products business have fallen due to the bank's ongoing exposure reduction in structured products through its ACR segment. Loan losses from the bank's ship financing portfolio continue to plague results and hide otherwise solid loan quality in the bank's other business segments, reflective of Germany's sound economic performance. As part of its repositioning, restructuring expenses and goodwill write-offs have impacted bottom line profitability and hence capital generation.
- **Balance sheet seeing results:** CMZB's balance sheet continues to shrink due to CMZB's targeted efforts to reduce trading assets (fall in value and holdings). Total lending to customers and banks was also down as increased lending to private and small business customers (above the German market average) was overshadowed by a reduction in loans to banks and corporate clients. While CMZB's balance continues to be exposed to high risk shipping and commercial real estate exposures, exposure to these segments has reduced significantly.
- **Positively impacting capital ratios:** Despite the above challenges, CMZB's capital ratios have been improving and remain adequate in our view. This is due to risk weighted assets falling faster than capital. Its current CET1 ratio (12.5%) is above its SREP requirement as set by the ECB (8.51%) which has been lowered as per the ECB's revised methodology that eliminate the Pillar 2 guidance component. This alleviates some pressure on capital ratios which are unlikely to improve from current levels as CMZB's restructuring is underway.

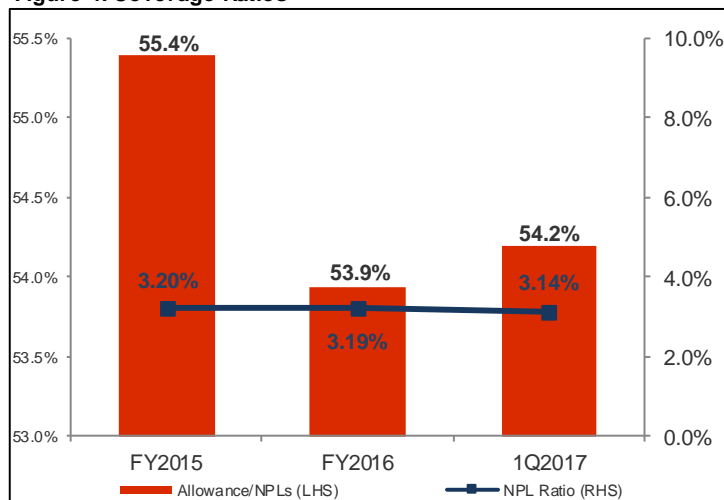
Commerzbank AG

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (EUR'mn)			
Net Interest Income	5,727	5,077	1,082
Non Interest Income	3,986	4,172	1,285
Operating Expenses	7,157	7,100	1,865
Pre-Provision Operating Profit	2,556	2,149	502
Provisions	696	900	195
Other Income/(Expenses)	82	150	7
PBT	1,942	1,399	314
Income Taxes	629	261	77
Net Income to Common Shareholders	1,084	279	217
Balance Sheet (EUR'mn)			
Total Assets	532,701	480,450	490,257
Total Loans (net)	218,875	212,848	216,378
Total Loans (gross)	222,737	216,518	220,050
Total Allowances	3,946	3,729	3,739
Total NPLs	7,124	6,914	6,899
Total Liabilities	502,576	450,810	460,447
Total Deposits	261,179	250,920	260,975
Total Equity	30,125	29,640	29,810
Key Ratios			
NIM	1.28%	1.24%	1.04%
Cost-income Ratio	73.1%	75.5%	78.6%
LDR	83.8%	84.8%	82.9%
NPL Ratio	3.20%	3.19%	3.14%
Allowance/NPLs	55.4%	53.9%	54.2%
Credit Costs	0.31%	0.42%	0.35%
Equity/Assets	5.66%	6.17%	6.08%
CET1 Ratio (Full)	12.0%	12.3%	12.5%
Tier 1 Ratio	12.0%	13.9%	12.5%
Total CAR	14.7%	15.3%	15.9%
ROE	4.9%	1.2%	3.3%
ROA	0.22%	0.20%	0.18%

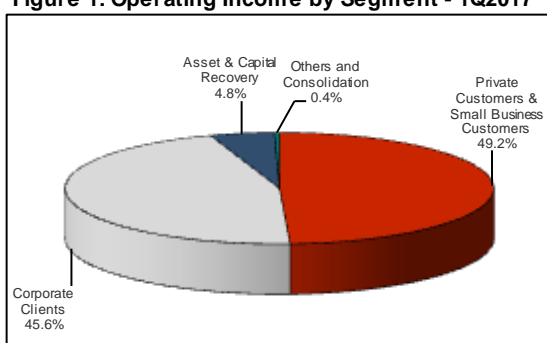
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 4: Coverage Ratios



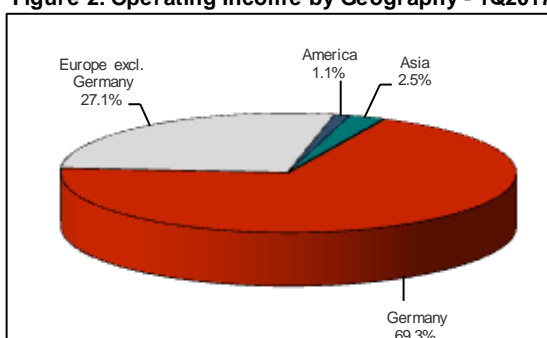
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - 1Q2017



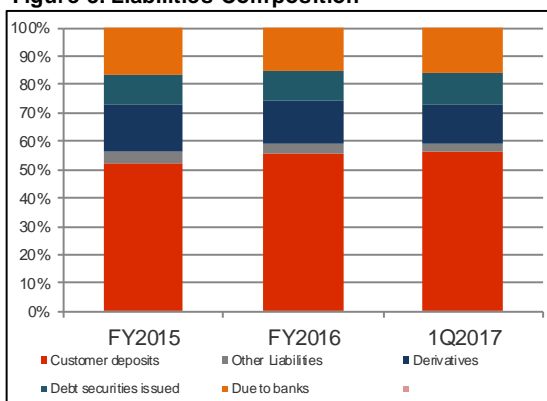
Source: Company

Figure 2: Operating Income by Geography - 1Q2017



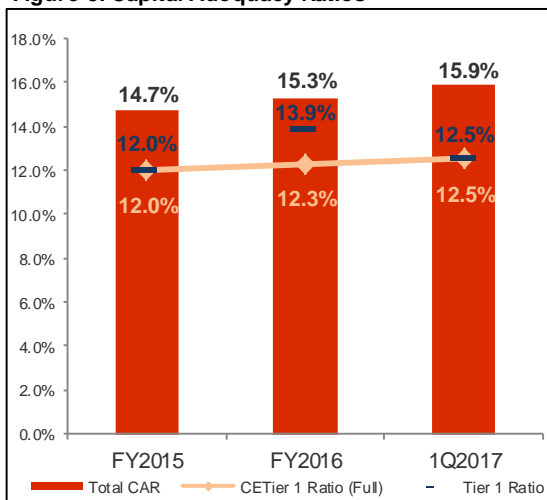
Source: Company

Figure 3: Liabilities Composition



Source: Company

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Loan quality issues should subside, and with rising interest rates the earnings outlook seems positive. The DBS curve continues to remain tight and we see decent value in other names in the SGD space.

DBS Group Holdings Ltd

Key credit considerations

- **Some signs of green shoots:** DBS Net Profit grew mildly in 1Q2017 by 0.6% y/y on the back of (1) stable net interest income as higher loan volumes mitigated a fall in net interest margins ('NIM') and (2) higher fee income from stronger wealth management and transaction services. These were offset partially however by continuing higher provisions for credit losses, which rose 17.8% y/y (26bps of total loans). NIM fell 11bps y/y to 1.74%, mainly due to softer Singapore-dollar interest rates, while interest-bearing asset volumes were higher as corporate, Singapore housing loans and interbank assets grew. Operating expenses fell moderately by 1.3% y/y due to productivity gains and ongoing digitization, bringing cost-income ratios down by 1.0% y/y to 43.2% in 1Q2017. Segment wise, consumer banking and wealth management was the outperformer for the quarter, with profit before tax up 22% y/y, 37% q/q while Institutional Banking segment performance improved q/q on lower allowances. In contrast, Treasury markets saw profit before tax down 68% y/y, 55% q/q. Despite stagnating net interest income growth, Singapore banks may be finally seeing daylight at the end of the storm for the remainder of 2017 and 2018, given expected rising US interest rates which should elevate NIMs and profitability.

Issuer Profile: Neutral

S&P: Not rated

Moody's: Aa2/Stable

Fitch: AA-/Stable

Ticker: **DBSSP**

Background

DBS Group Holdings Limited ('DBS') 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 SGD480.4bn as at 31 March 2017, 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 7th June, 2017.

- **Asset quality remains sound:** Loan quality trends are stabilizing with non-performing loans (NPL) down 1.2% q/q due to a 1.7% q/q fall in Institutional Banking NPLs. As such, the NPL ratio for 1Q2017 was stable at 1.6% compared to the 4Q2016 NPL ratio. Of note though within the NPL movements was a rise in NPLs in DBS' housing loans against the general fall in Institutional NPLs (although the NPL ratio for housing loans still remains low at 0.2%). In addition, loans classified as overdue by less than 90 days rose 39% q/q indicating possible future stress in the loan portfolio. This could be the reason why DBS fully allocated the proceeds from its sale of the PWC building to general allowances and assisted the q/q improvement in allowance coverage ratios with total allowances over non-performing assets at 103.2% (4Q2016: 96.9%) and total allowances over unsecured non-performing assets at 217.2% (4Q2016: 209.9%). With most of the embattled offshore and marine loans likely already impaired or defaulted, it is possible that NPL levels in Singapore will start to dip, as can be seen in the latest q/q change. Household and mortgage loan delinquencies should also remain low (NPL ratio at 0.2%), as the Singapore government's macroprudential measures continue to curb excessive borrowing to the housing sector.

- **Robust funding profile from deposits:** In 1Q2017, the Group's reported NSFR remained above 100% with ample liquidity and a liquidity coverage ratio of 138%. The Group's strong funding profile comes from its stable savings and current account deposits, which collectively contribute around 62.5% of total deposits. Like its domestic peers, DBS has limited reliance on wholesale market funding, at only around 10% of total assets at end-2016. As a result of its strong deposit franchise in Singapore and low reliance on confidence-sensitive market funding, we expect DBS' funding profile to remain robust in the medium term.

- **Capitalization continues to strengthen:** DBS CET1 and CAR ratios rose 60bps y/y to 14.6% and 16.6% respectively. CET1 capital rose mainly due to 1Q2017's Net Profits which was partially offset by increased Tier 1 regulatory adjustments and redemption of Tier 2 capital instruments. At the same time, RWAs fell 2.2% q/q mainly from a fall in credit RWAs, which fell 3.8% q/q. On a fully loaded basis, DBS' CET1 ratio was 14.2% as at 1Q2017, well above the regulatory minimum of 9.0% (in effect from start of 2019).

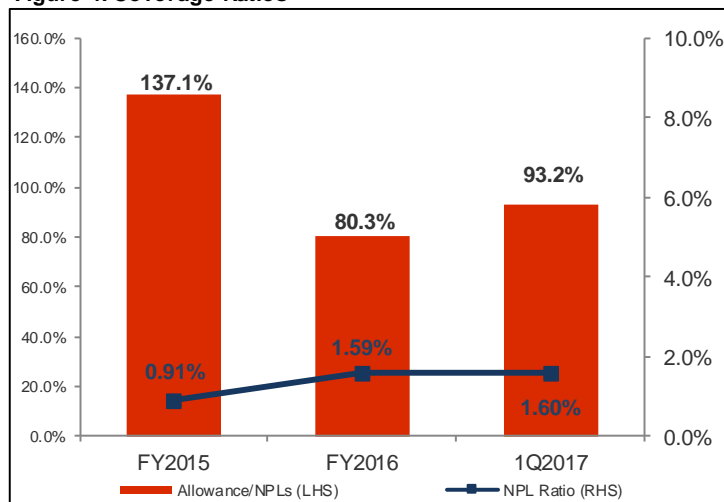
DBS Group Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Net Interest Income	7,100	7,305	1,831
Non Interest Income	3,837	4,184	1,055
Operating Expenses	4,900	4,972	1,258
Pre-Provision Operating Profit	6,037	6,517	1,628
Provisions	743	1,434	200
Other Income/(Expenses)	14	0	0
PBT	5,308	5,083	1,428
Income Taxes	727	723	150
Net Income to Common Shareholders	4,604	4,238	1,245
Balance Sheet (SGD'mn)			
Total Assets	457,834	481,570	480,356
Total Loans (net)	283,289	301,516	298,440
Total Loans (gross)	286,871	305,415	302,942
Total Allowances	3,582	3,899	4,502
Total NPLs	2,612	4,856	4,833
Total Liabilities	415,038	434,600	431,984
Total Deposits	320,134	347,446	342,452
Total Equity	42,796	46,970	48,372
Key Ratios			
NIM	1.77%	1.80%	1.74%
Cost-income Ratio	45.4%	43.3%	43.2%
LDR	88.5%	86.8%	87.1%
NPL Ratio	0.91%	1.59%	1.60%
Allowance/NPLs	137.1%	80.3%	93.2%
Credit Costs	0.26%	0.47%	0.26%
Equity/Assets	9.35%	9.75%	10.07%
CETier 1 Ratio (Full)	13.5%	14.1%	14.6%
Tier 1 Ratio	13.5%	14.7%	15.4%
Total CAR	15.4%	16.2%	16.6%
ROE	11.2%	10.1%	11.1%
ROA	0.96%	0.92%	1.03%

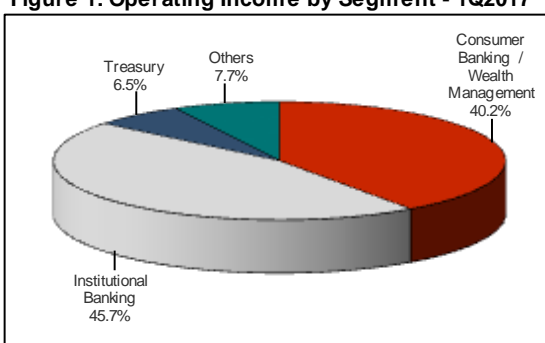
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 4: Coverage Ratios



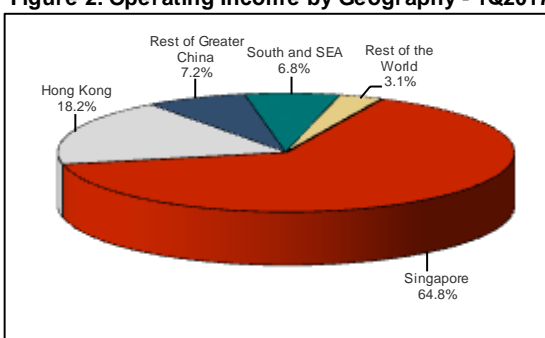
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - 1Q2017



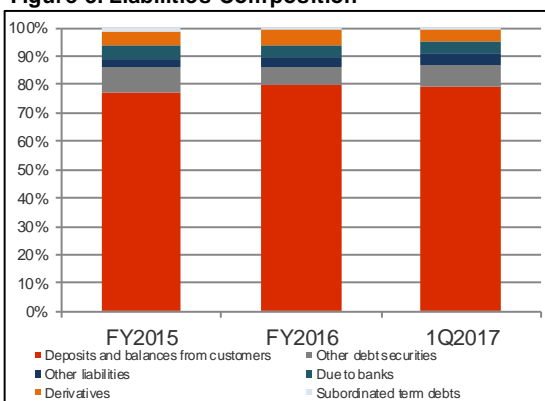
Source: Company

Figure 2: Operating Income by Geography - 1Q2017



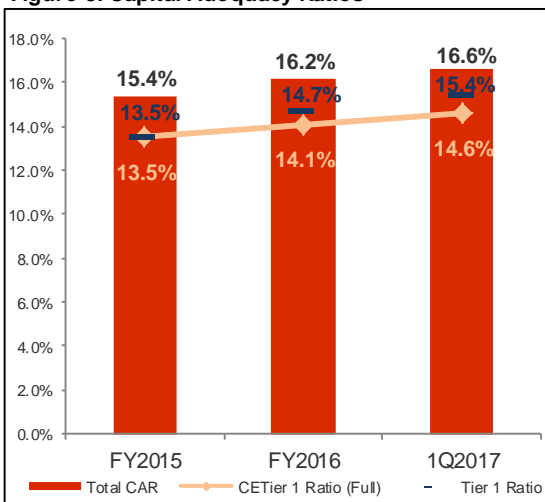
Source: Company

Figure 3: Liabilities Composition



Source: Company

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook –

Growth investments are starting to pay off for JBG with income growth after margin compression and a fall in capital ratios. The BAERVX 5.75%’49s and BAERVX 5.9%’49s still look attractive in the AT1 space given improving fundamentals and spread pick up against other SGD AT1s.

Issuer Profile: Neutral

S&P: Not rated

Moody's: A3/Stable

Fitch: Not rated

Ticker: **BAERVX**

Background

Present in over 50 locations, Julius Baer Group Ltd. offers private banking services mainly through Bank Julius Baer & Co. Ltd. Services include wealth management, financial planning and investments and mortgages and other lending. As at 31 December, 2016 it had total client assets of CHF391.6bn and assets under management of CHF336.2bn.

Julius Baer Group Ltd

Key credit considerations

- **Pure play private bank:** Julius Baer Group Ltd (JBG)'s business structure is unique amongst our coverage as the only pure play private bank. It is the third largest private bank in its home market Switzerland (after UBS Group and Credit Suisse Group). Its solid franchise and scale, which is mostly in Europe, provides diversification and support to its credit profile which otherwise is susceptible to high market risk. In general, pure play private banking is seen as relatively better business risk than investment banking and capital markets businesses (which are more volatile).
- **International expansion the focus:** Despite solid operating conditions at home, the private banking market in Switzerland remains highly competitive with margins under pressure and the growth outlook for private banking somewhat constrained. This has reinforced JBG's strategic focus on international expansion to seek growth by volume through organic means and supplemented by opportunistic acquisitions. Key to this is JBG's active expansion into Asia's competitive private banking landscape where JBG's CAGR in assets under management (AuM) over 2012-2016 has been the highest at 17.7% for the top 20 banks in Asia (ex-China) and where it remains the fifth-largest in Asia by AuM, according to Asian Private Banker's 2016 ranking. This is the same ranking as 2015 despite y/y AuM growth of 9.7%.
- **Benefits of investments are starting to show:** JBG's margins have recently compressed as the growth in underlying expenses from investments in personnel (acquisitions as well as aggressive hiring of experienced relationship managers) and technology was faster than the growth in operating income. This resulted in the reported cost to income ratio rising marginally to 68.9% for FY2016 against 67.2% for FY2015. JBG's gross margins (defined as operating income divided by average AuM) were also impacted falling slightly to 91bps in FY2016 from 93.5bps in FY2015 due to AuM growing faster than operating income (which was impacted by lower client activity). JBG's interim management statement for the 4 months ended 30 April 2017 however indicate that growth investments in 2H2016 are starting to pay off with gross margins to 30 April 2017 recovering 2bps to 90bps compared to 2H2016 despite further growth in AuM. Similarly, the cost to income ratio reduced to 71% compared to 73% for 2H2016.
- **Positive balance sheet growth trends:** JBG's investments in staff had a positive impact on its balance sheet with total assets up 14% in FY2016 to CHF96.2bn. This was due to 4% growth in client deposits and 6% growth in loans (mostly Lombard loans and mortgages which were fully collateralized) while AuM grew 12% or CHF36bn to a record CHF336.2bn. Of note was the balanced contribution to increased AuM from market performance (CHF12.2bn), net new money (CHF11.9bn) and net acquisitions (CHF11.2bn). While the loan-to-deposit ratio weakened slightly due to higher growth in loans, it still remained strong at 57%. AuM grew a further CHF20bn or 6% to 30 April 2017 to a new record of CHF356bn from both market performance as well as net inflows.
- **Capital ratios also on the mend:** Capital ratios are improving following a y/y drop in FY2016 with JBG's FY2016 phased in CET1/CAR capital ratios at 16.4%/17.5%, compared to 15.9%/17.3% for 1H2016. Capital ratios on a Basel III fully-applied basis also apparently improved to 30 April 2017. Management is expecting its larger asset base and personnel together with higher client activity to translate to better income generation and a year of organic growth in FY2017. This should bode well for JBG's future capital ratios, which should remain above JBG's floors (11%/15%) and minimum regulatory requirements (8%/12.2%).

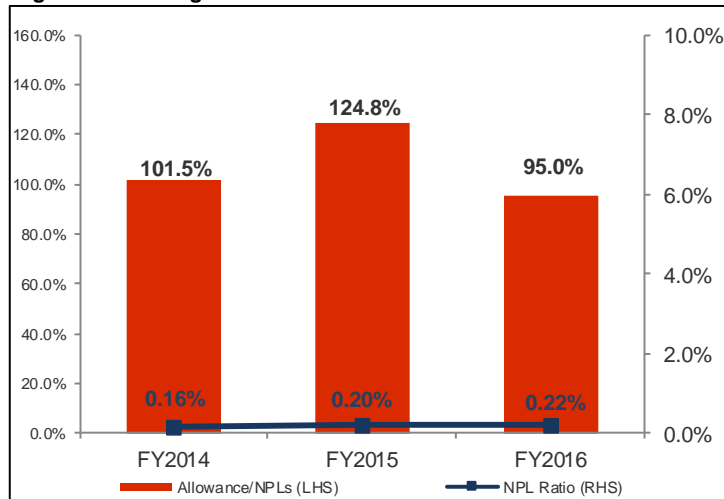
Julius Baer Group Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	FY2016
Income Statement (CHF'mn)			
Net Interest Income	648	712	877
Non Interest Income	1,899	1,983	1,975
Operating Expenses	2,042	2,022	2,080
Pre-Provision Operating Profit	505	673	773
Provisions	35	534	20
Other Income/(Expenses)	0	0	0
PBT	470	139	753
Income Taxes	103	16	130
Net Income to Common Shareholders	366	121	620
Balance Sheet (CHF'mn)			
Total Assets	82,234	84,116	96,207
Total Loans (net)	33,669	36,381	38,419
Total Loans (gross)	33,717	36,464	38,491
Total Allowances	55	90	79
Total NPLs	54	72	83
Total Liabilities	76,896	79,174	90,853
Total Deposits	61,821	64,781	67,495
Total Equity	5,338	4,942	5,354
Key Ratios			
NIM	1.44%	1.56%	1.69%
Cost-income Ratio	69.9%	67.2%	68.9%
LDR	54.5%	56.2%	56.9%
NPL Ratio	0.16%	0.20%	0.22%
Allowance/NPLs	101.5%	124.8%	95.0%
Credit Costs	0.10%	1.46%	0.05%
Equity/Assets	6.49%	5.88%	5.56%
CETier 1 Ratio (Full)	22.0%	18.3%	16.4%
Tier 1 Ratio	22.0%	18.3%	17.1%
Total CAR	23.4%	19.4%	17.5%
ROE	7.1%	2.4%	12.1%
ROA	0.47%	0.15%	0.69%

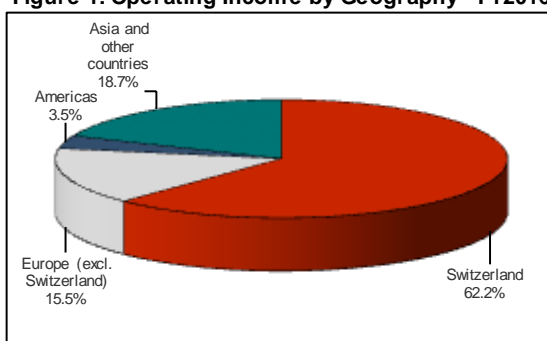
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 4: Coverage Ratios



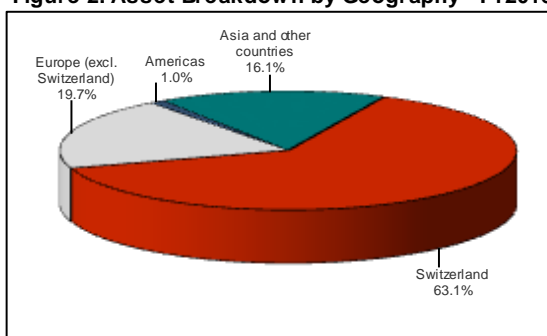
Source: Company, OCBC estimates

Figure 1: Operating Income by Geography - FY2016



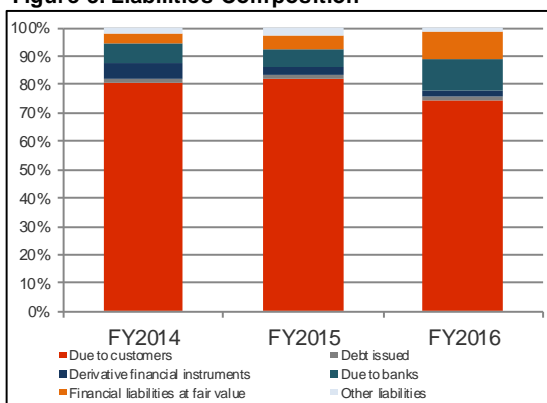
Source: Company

Figure 2: Asset Breakdown by Geography - FY2016



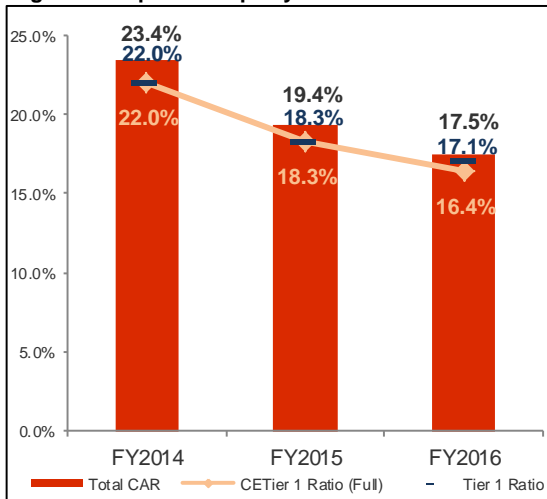
Source: Company | Includes *Consolidation Items (19.7% of Total Assets)

Figure 3: Liabilities Composition



Source: Company

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook –

While LBBW's credit profile has improved post GFC through derisking and a better operating environment, its fundamentals remain challenged by competition and low interest rates. The LBBW 3.75% '27c22 looks fairly valued against other Tier 2 European names and offers an attractive diversity play in our view.

Issuer Profile: Neutral

S&P: Not rated
Moody's: A1/Stable
Fitch: A-/Stable

Ticker: **LBBW**

Background

Based in Stuttgart Germany, Landesbank Baden-Württemberg ('LBBW') is a public law institution providing universal services covering large corporates, capital markets businesses and real estate financing. As at 31 March 2017, it had total assets of EUR268bn. As per its 2016 annual report, the bank is 40.5% owned by the Savings Bank Association of Baden-Württemberg, the state capital of Stuttgart (18.9%) and the State of Baden-Württemberg (40.5%).

Landesbank Baden-Württemberg

Key credit considerations

- **Public policy focus reflected in ownership and function:** As a Landesbank, LBBW is a regionally focused state owned bank tasked with supporting economic development in its related regions. Together with its owners, the local savings banks (or Sparkassen) who provide retail and SME banking services, LBBW provides universal banking services typical of a regional commercial bank including investment banking, wealth management, real estate financing and capital markets products. Its target segment is the 'Mittelstand' or Germany's SME's. LBBW also acts as a provider of wholesale funding for regional savings banks in its core markets which are the German states of Baden-Württemberg, Rhineland-Palatinate and Saxony. Its ownership structure, together with its less commercial role as the central bank for local savings banks, evidences a strong public policy mandate for the bank and strategic importance for its related states. That said, LBBW is classified as a legally independent institution under public law. Further, government ownership no longer necessarily provides a benefit given restrictions on bail outs under current banking regulations in Europe.
- **Competitive banking sector balanced by strong operating environment:** Germany's banking sector is highly fragmented with Landesbanks and Sparkassen (both as public sector banks) comprising one of Germany's three banking pillars. This fragmentation has resulted in a competitive banking landscape, with Europe's low interest rate environment compounding weak returns. Balancing this is Germany's strong economic fundamentals as the largest economy in the Eurozone with a diverse, flexible and export oriented economy. In terms of GDP contribution, Baden-Württemberg was the third largest contributor to Germany's 2015 GDP, with Rhineland-Palatinate the sixth and Saxony the eighth (out of 16 total states). Baden-Württemberg is known as one of the wealthiest parts of Germany with its economy home to globally renowned German auto exporters including Daimler AG, Porsche and Robert Bosch GmbH.
- **Earnings stabilizing after challenges in the past:** The improving operating environment has had a positive impact on earnings with lower allowances for losses on loans and advances y/y and stronger performance of LBBW's financial investments in FY2016 mitigating weak performance in net interest income from low interest rates and lower credit demand. Operating efficiency is also somewhat weak. Net fee and commission income on the other hand was improved due to securities and the custody business. 1Q2017 trends were somewhat similar to FY2016. Of note in LBBW's earnings are guarantee fees for a legacy guarantee provided by the state of Baden-Württemberg for certain distressed loans to an SPV provided during the Global Financial Crisis. While LBBW has actively derisked since 2008, fundamentals remain vulnerable to low returns with earnings exposed to credit costs and volatile trading performance.
- **Capital ratios comply with minimum:** LBBW's capital ratios exceed regulatory capital requirements with its CET1/CAR ratios of 15.2%/21.5% for FY2016 (15.6%/21.4% for FY2015) and 15.4%/21.7% for 1Q2017. Capital ratios reflect the positive impacts of the legacy state guarantee on selected exposures with recent improvement due to RWA rationalization rather than earnings performance. LBBW's regulatory requirements have increased in line with the EU's Capital Requirements Regulations, which are set annually by the ECB on the basis of the Supervisory Review and Evaluation Process (SREP). LBBW's current CET1/CAR capital requirement set in November 2016 by the ECB is 8.08%/11.59% from 1 January. While earnings generation is somewhat constrained, capital ratios are expected to remain above minimum requirements with RWA growth expected to remain muted.

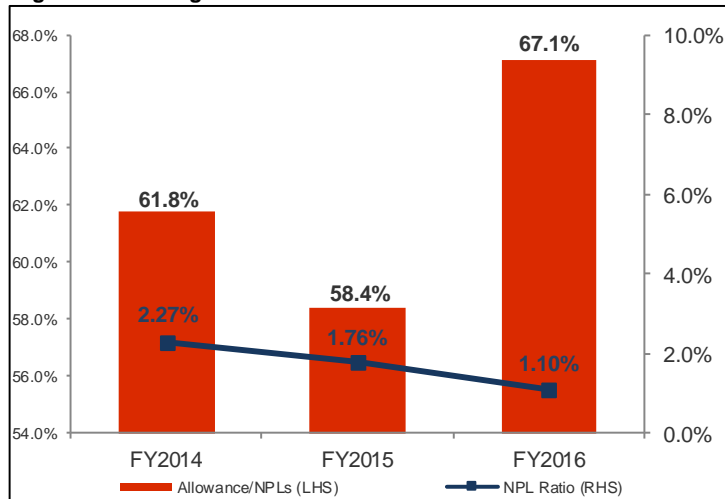
Landesbank Baden-Württemberg

Table 1: Summary Financials

Year Ended 31st Dec	FY2014	FY2015	FY2016
Income Statement (EUR'mn)			
Net Interest Income	1,878	1,653	1,624
Non Interest Income	645	724	1,001
Operating Expenses	1,770	1,782	1,814
Pre-Provision Operating Profit	753	595	811
Provisions	104	55	51
Other Income/(Expenses)	117	19	13
PBT	477	574	230
Income Taxes	39	109	131
Net Income to Common Shareholders	439	424	11
Balance Sheet (EUR'mn)			
Total Assets	266,267	234,015	243,620
Total Loans (net)	111,601	107,657	110,404
Total Loans (gross)	113,195	108,785	111,232
Total Allowances	1,585	1,121	817
Total NPLs	2,565	1,919	1,218
Total Liabilities	253,028	220,372	230,501
Total Deposits	69,874	62,540	70,641
Total Equity	13,241	13,643	13,119
Key Ratios			
NIM	0.84%	0.83%	0.81%
Cost-income Ratio	74.5%	70.9%	74.3%
LDR	159.7%	172.1%	156.3%
NPL Ratio	2.27%	1.76%	1.10%
Allowance/NPLs	61.8%	58.4%	67.1%
Credit Costs	0.09%	0.05%	0.05%
Equity/Assets	4.97%	5.82%	5.37%
CETier 1 Ratio (Full)	13.6%	15.6%	15.2%
Tier 1 Ratio	NA	NA	NA
Total CAR	18.9%	21.4%	21.5%
ROE	3.7%	4.1%	1.1%
ROA	0.33%	0.19%	0.04%

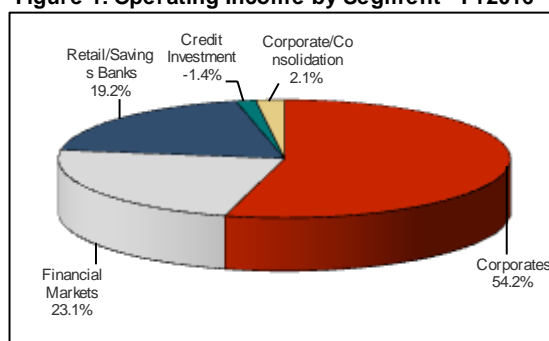
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 4: Coverage Ratios



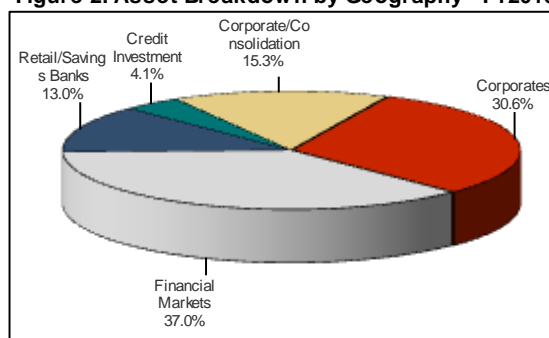
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - FY2016



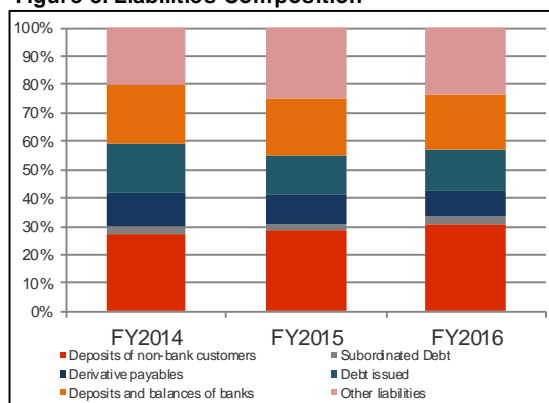
Source: Company

Figure 2: Asset Breakdown by Geography - FY2016



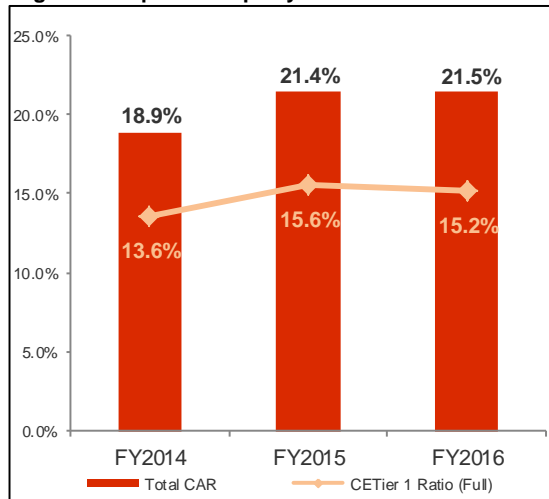
Source: Company

Figure 3: Liabilities Composition



Source: Company

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Maybank is well positioned to benefit from improved operating conditions in Malaysia. The MAYMK 6.0% '49s offer decent value against Singapore AT1 names with similar tenor. For the seniors, we think the MAYMK 2.08% '18s is trading a little cheaper than the CIMBMK 2.12% '18s.

Issuer Profile: Neutral

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

Ticker: **MAYMK**

Background

Malayan Banking Berhad ('Maybank') 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 2017, it had total assets of MYR745.5bn.

Malayan Banking Berhad

Key credit considerations

- **Consumers continuing to support performance:** 1Q2017 results were solid with total operating income of MYR6.9bn up 3.2% y/y and 4.1% q/q. This was driven by a 5.4% y/y increase in net interest income from higher loan volumes and improved net interest margins as well as a 24.2% rise in income from Islamic Banking operations. This mitigated the 15.4% y/y fall in other operating income. Overhead expenses rose 7% y/y due to higher personnel, administration and general expenses with the cost to income ratio deteriorating slightly to 50.3% (1Q2016: 48.4%). However, allowances for impairment losses on loans, advances, financing and other debts dropped materially by 37.3% y/y and translated to a 16.6% y/y improvement in operating profit to MYR2.2bn. Y/y and q/q movements in allowances for impairment losses showed some divergence with the y/y fall driven by lower collective allowances while the q/q fall in allowances of 11.9% was mainly due to lower net individual allowances made (offset by a rise in net collective allowances). By segment contribution for operating income, Community Financial Services improved 9.0% y/y (higher net interest income and lower allowances), while Corporate Banking declined 4.6% y/y and Investment Banking fell 6.3% y/y (lower other operating income). As a result, the contribution of Community Financial Services to total operating income rose to 47.5% in 1Q2017 from 45.0% in 1Q2016.
- **Loan quality continues to be a concern:** Maybank's balance sheet continues to show solid growth trends with net loans and advances up 9.8% y/y (and stable q/q). While lower allowances indicate some stabilization of Maybank's loan book quality, net impaired loans rose during the quarter by 6.4%. Combined with stable loan balances the reported net impaired loans ratio rose to 1.61% for 1Q2017 (4Q2016: 1.51%). That said, new loans impaired in 1Q2017 fell y/y and q/q, supporting the stabilization trend in loan quality, particularly in Malaysia. Further, management have stated that impaired loans growth was in part due to their proactive stance by restructuring or rescheduling accounts exposed to current operating conditions, particularly oil and gas exposures. Oil and gas continues to be a material exposure for Maybank compared to its domestic peers (although is still a small component of overall loan exposures at 4.0% as at Mar 2017, down from 4.3% as at Dec 2016) with only 40% of oil and gas exposures classified as 'normal' with the rest either classified as impaired (11%), special mention (3%) and watchlist (46%).
- **Direct and indirect government support:** Maybank benefits both directly and indirectly from the government. Its indirect majority government ownership, together with its domestic market leading position, makes the bank a safe haven in times of stress and gives it strong access to both corporate and low cost retail deposits. This enhances the bank's liquidity and funding position. Further, its position as Malaysia's largest bank makes Maybank systemically important and likely to receive government support in time of need. This is before considering the strong willingness to support the Bank given its indirect government ownership through the Employees Provident Fund and government investment fund Permodalan Nasional Berhad.
- **Capital ratios remain sound:** Capital ratios remain solid and well above minimum requirements. Ratios were impacted by a marginal q/q fall in capital due to CET1 regulatory adjustments while risk weighted assets rose 1.4% q/q. Capital ratios (CET1/CAR of 13.4%/18.9% for 1Q2017) should remain adequate given expected trends in Maybank's operating environment as well as management's focus on retaining capital through its dividend reinvestment plan. This should mitigate management's expected higher forecast loan growth in 2017 of 6-7%.

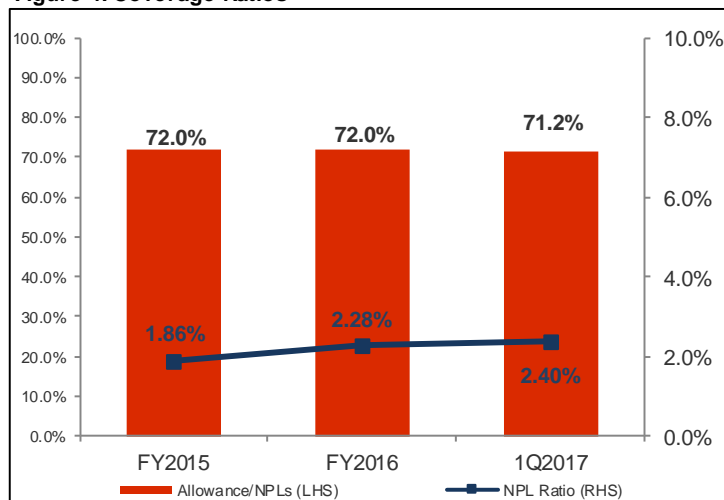
Malayan Banking Berhad

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (MYR'mn)			
Net Interest Income	11,114	11,568	3,035
Non Interest Income	13,908	14,803	3,899
Operating Expenses	14,069	14,685	4,182
Pre-Provision Operating Profit	10,953	11,686	2,751
Provisions	2,013	3,015	543
Other Income/(Expenses)	211	173	41
PBT	9,152	8,844	2,249
Income Taxes	2,165	1,881	504
Net Income to Common Shareholders	6,836	6,743	1,703
Balance Sheet (MYR'mn)			
Total Assets	708,345	735,956	745,476
Total Loans (net)	453,493	477,775	477,822
Total Loans (gross)	459,651	485,736	486,125
Total Allowances	6,158	7,961	8,303
Total NPLs	8,555	11,055	11,658
Total Liabilities	644,831	665,481	672,912
Total Deposits	478,151	489,833	481,653
Total Equity	63,513	70,475	72,564
Key Ratios			
NIM	2.31%	2.27%	2.43%
Cost-income Ratio	48.2%	47.3%	50.3%
LDR	94.8%	97.5%	99.2%
NPL Ratio	1.86%	2.28%	2.40%
Allowance/NPLs	72.0%	72.0%	71.2%
Credit Costs	0.44%	0.62%	0.45%
Equity/Assets	8.97%	9.58%	9.73%
CETier 1 Ratio (Full)	12.8%	14.0%	13.4%
Tier 1 Ratio	14.5%	15.7%	15.0%
Total CAR	17.7%	19.3%	18.9%
ROE	12.2%	10.6%	10.0%
ROA	1.15%	0.93%	0.92%

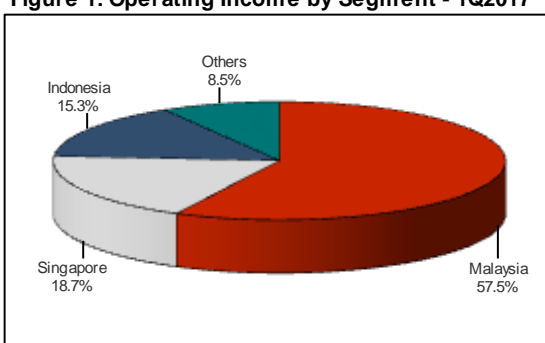
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 4: Coverage Ratios



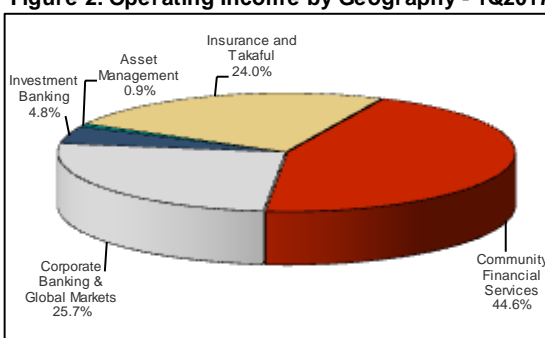
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - 1Q2017



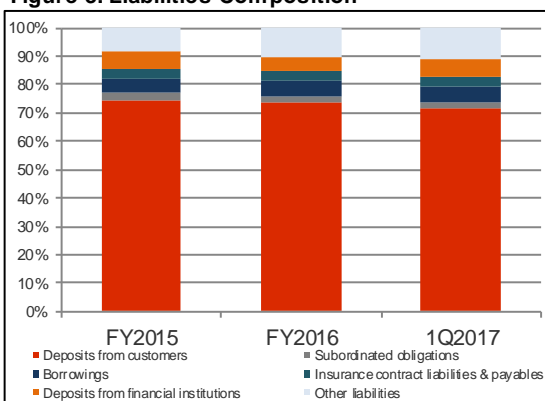
Source: Company

Figure 2: Operating Income by Geography - 1Q2017



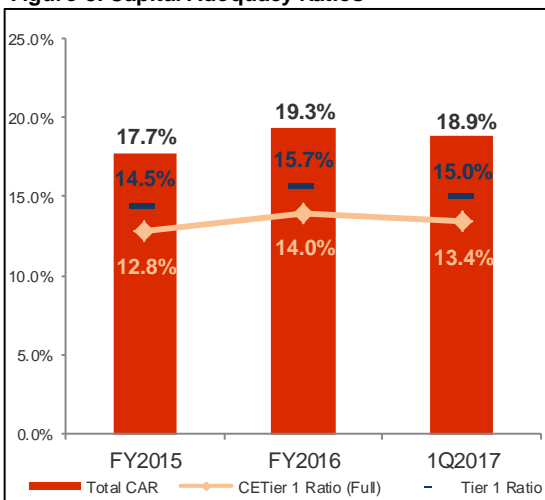
Source: Company

Figure 3: Liabilities Composition



Source: Company

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – NAB's future earnings will be balanced by structurally lower NIMs and profitability but also lower exposure to Australia's negative headline prone housing sector. The NAB 4.15 '28c23 is slightly rich compared to the ANZ 3.75% '27c22 and fairly valued against the WSTP '27c22 in our view.

Issuer Profile: Neutral

S&P: AA-/Negative
Moody's: Aa3/Stable
Fitch: AA-/Stable

Ticker: **NAB**

Background

National Australia Bank Ltd ('NAB') 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 2017, the bank had total assets of AUD790.2bn.

National Australia Bank Limited

Key credit considerations

- **The smaller fish in the big pond:** NAB's 1HFY2017 net interest margin ('NIM') was unchanged h/h at 1.82%, as increases in (1) lending margins due to repricing of home loans, and (2) higher growth in transactional deposit accounts (compared to higher cost term deposit accounts) was offset by (1) the low interest rate environment and industry competitive pressures, and (2) lower net interest income from treasury and hedging activities. 1HFY2017 cash earnings growth was supported mainly by strong trading income growth (rose by AUD126mn, 21.2% growth h/h, 106% y/y). Operating costs benefited from productivity savings, which helped the bank cut AUD102mn in 1HFY2017 expenses however overall expenses grew higher than operating income from personnel costs and redundancies and ongoing technology investment. As such, NAB's NIMs and profitability metrics continue to lag its "four pillar" rivals.
- **Australian Banking segment leading the way:** NAB's customer deposits rose 2.3% h/h, and 6.1% y/y, mainly due to an intake of deposits from its Business and Private Banking, Consumer Banking and Wealth segments. Compared to peers, NAB is significantly more reliant on short-term wholesale funding, which accounts for 15% of their total funding. Moreover, NAB's stable customer deposits make up 50% of total funding, the lowest compared to its peers under our coverage, further highlighting the group's reliance on confidence-dependent sources of funds. That said, the Group's NSFR sits comfortably above the regulatory minimum of 100% at 108% in 1HFY2017.
- **Asset quality still healthy:** Group Asset Quality remains at healthy levels, although the ratio of 90+ days past due loans to gross loans and acceptances crept up 5bps h/h to 0.41% in 1HFY2017. NAB has attributed the increase largely due to the Australian mortgage portfolio, from increased delinquencies in Victoria and NSW mortgage portfolios (where house prices have increased significantly), and the Western Australian mortgage portfolio due to mining sector stress affecting the state's economic conditions. Reported gross impaired assets ("GIA"), however, fell 5bps to 0.44% h/h in 1HFY2017, mainly driven by a number of successful work-out strategies across Australian businesses and an improving dairy price outlook leading to a moderation in the New Zealand impaired dairy portfolio. Similar to its peers, NAB's lending assets consist largely of home lending in Australia (51.9% as at 1HFY2017). NAB's Australian housing loan portfolio still remains manageable for now, with NPL and GIAs jointly accounting for only 0.69% of its AUD285bn portfolio. Within the portfolio, 32.1% of the housing loans are "Interest-only" assets, with average Loan-to-Value ratio at origination of around 69.0%. In addition, 27% of the mortgages were originated in riskier states (Western Australia and Queensland). That said, compared to peers, NAB's exposure (in terms of % of total loans which are Australian housing loans) to the overheating Australian housing market is the lowest.
- **Capital ratios resilient:** NAB remains well-capitalised, with APRA-compliant CET1 and CAR ratios staying at healthy levels. NAB's 1HFY2017 CET1 ratio improved 34bps to 10.1% h/h, while the CAR ratio rose 57bps to 14.7% h/h, as credit RWAs fell 4.1ppt h/h on the back of (1) better credit quality and portfolio mix, and (2) lower credit risk weighted assets. Higher CET1 capital also helped the bank improve its capital ratios, and this was mainly attributable to stronger cash earnings in 1HFY2017. Both on international and domestic regulatory standards, NAB is well-capitalised. Like its peers, we expect NAB's capital ratios to remain strong due to stricter and more conservative domestic regulations which have constantly reiterated the need for "unquestionably strong" capitalisation of Australia's systemically-important banks.

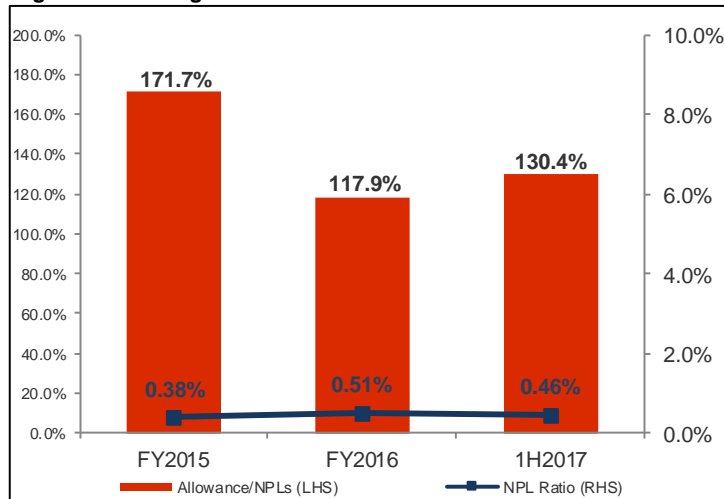
National Australia Bank Limited

Table 1: Summary Financials

Year Ended 30th Sep	FY2015	FY2016	1H2017
Income Statement (AUD'mn)			
Net Interest Income	12,462	12,930	6,397
Non Interest Income	5,975	5,192	2,242
Operating Expenses	8,189	8,331	4,256
Pre-Provision Operating Profit	10,248	9,791	4,383
Provisions	733	813	399
Other Income/(Expenses)	0	0	0
PBT	9,515	8,978	3,984
Income Taxes	2,709	2,553	1,126
Net Income to Common Shareholders	6,338	352	2,545
Balance Sheet (AUD'mn)			
Total Assets	955,052	777,622	790,227
Total Loans (net)	532,784	510,045	520,954
Total Loans (gross)	537,165	513,691	524,466
Total Allowances	3,520	3,114	3,120
Total NPLs	2,050	2,642	2,393
Total Liabilities	899,539	726,307	739,371
Total Deposits	489,010	459,714	487,252
Total Equity	55,513	51,315	50,856
Key Ratios			
NIM	1.89%	1.88%	1.82%
Cost-income Ratio	41.2%	41.4%	42.7%
LDR	109.0%	110.9%	106.9%
NPL Ratio	0.38%	0.51%	0.46%
Allowance/NPLs	171.7%	117.9%	130.4%
Credit Costs	0.14%	0.16%	0.15%
Equity/Assets	5.81%	6.60%	6.44%
CETier 1 Ratio (Full)	10.2%	9.8%	10.1%
Tier 1 Ratio	12.4%	12.2%	12.5%
Total CAR	14.2%	14.1%	14.7%
ROE	15.2%	0.5%	10.6%
ROA	0.73%	0.74%	0.72%

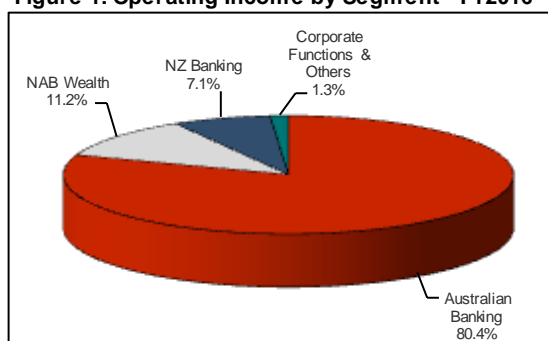
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 4: Coverage Ratios



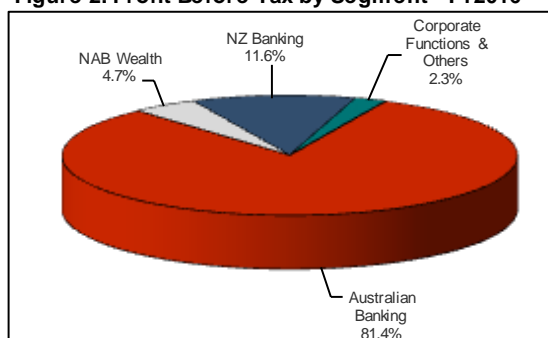
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - FY2016



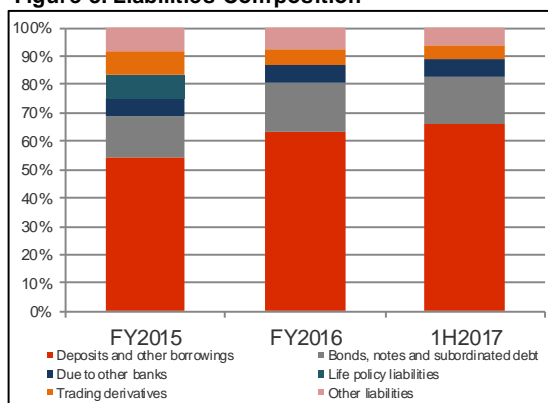
Source: Company

Figure 2: Profit Before Tax by Segment - FY2016



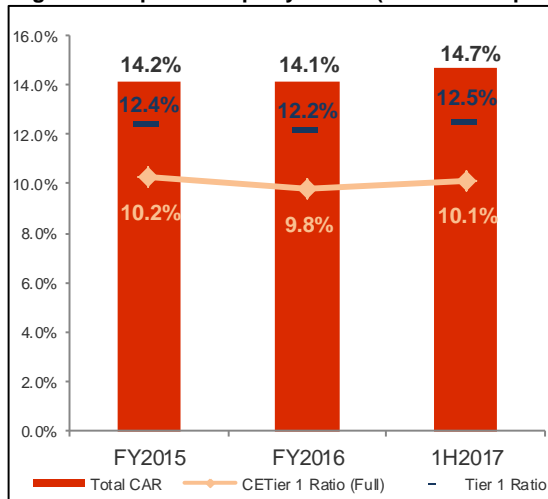
Source: Company

Figure 3: Liabilities Composition



Source: Company

Figure 5: Capital Adequacy Ratios (APRA - Compliant)



Source: Company

Credit Outlook – SG's performance is on trend with peers as improving operating conditions positively influence earnings and the balance sheet. The SOCGEN 4.3% '26c21 seems slightly rich against the BPCEGP 4.5% '26c21 but looks otherwise to be decent value across the broader T2 space.

Issuer Profile: Neutral

S&P: A/Stable

Moody's: A2/Stable

Fitch: A/Stable

Ticker: **SOCGEN**

Background

Headquartered in Paris, Société Générale ('SG') offers advisory services and financial solutions to individuals, large corporates and institutional investors. It operates across 66 countries through three core businesses covering retail banking, corporate and investment banking, private banking, and wealth management. As at March 31, 2017, it had total assets of EUR1,401.2bn.

Société Générale

Key credit considerations

- **Solid performance in line with industry:** SG's 1Q2017 results were in line with FY2016 with net banking income up 4% y/y to EUR6.5bn. The better performance was driven by International Retail Banking (+8.4% y/y due to Russia and Africa activity growth) and Global Banking & Investor Solutions (+5.4% y/y due to growth in FICC) while French Retail Banking (-1.3% y/y) continues to grapple with low interest rates. Operating expense growth (+2.6% y/y) was lower than income growth and stated by management to be 'controlled', with business growth related expenses in International Retail Banking & Financial Services and transformation expenses in French Retail Banking offset by cost savings in Global Banking & Investor Solutions. Overall results continue to reflect the bank's balanced and low volatility contributions from its three core businesses. SG's diversity is the key platform for its strategy to diversify risk and mix revenues from mature markets (75%) and from fast growing emerging markets (25%).
- **Improving operating environment showing in earnings:** While low interest rates are dampening domestic retail earnings, business activity appears solid and underlying performance in French Retail Banking (higher individual loans and customer numbers, lower loan to deposit ratio, rising commissions) is in line with soft but recovering economic conditions in France. Similarly, International Retail Banking benefitted from a 9.7% y/y increase in outstanding loans and a 9.6% increase in deposits as economic conditions in Europe and Russia appear to be stabilizing. Concurrently, operational risk costs for SG's businesses continued its improving trend down 22bps y/y to 24bps with improvements seen across all segments, particularly International Retail Banking. Overall cost of risk however was 20% higher y/y due to a EUR350mn settlement provision for a civil dispute with the Libyan Investment Authority (LIA) dating back to 2007. This resulted in underlying group net income of EUR747mn for 1Q2017, 19% lower than 1Q2016 group net income of EUR924mn.
- **Impact on balance sheet is also positive:** SG's balance sheet continues to be sound with total assets up 3.6% in FY2016 and 1.4% q/q in 1Q2017. FY2016 growth was largely driven by customer loan growth of 5.2%, mostly in short term loans and housing loans. Customer deposits grew by 10.9% and as such the calculated loan to deposit ratio fell to 101.3% for FY2016 from 106.7% in FY2015. This is positive for SG's credit profile in our view as it lowers dependence on wholesale funding, particularly short term wholesale funding which remains vulnerable to market conditions. In line with the improving risk cost position, the NPL ratio has continued to improve y/y and q/q to 4.8% as at 1Q2017 compared with 5.3% for 1Q2016 and 5.0% for FY2016. The allowance coverage ratio improved marginally q/q by 1bps to 64%.
- **Capital ratios already above future minimum requirements:** CET1 ratios improved marginally q/q from a combination of earnings generation and lower risk weighted assets with 1Q2017 fully loaded CET1/CAR ratios at 11.6%/17.8% (FY2016: 11.5%/17.9%), exceeding the 2017 SREP requirement of 7.75% which includes the Pillar 2 requirement but excludes the Pillar 2 guidance amount by 400bps according to management. Including recent senior non-preferred debt issues and other TLAC adjustments (senior preferred and others), SG's reported TLAC ratio was 21.5% as at 31 March 2017, above the 2019 minimum requirement. That said, SG has a substantial capital issuance program in 2017 to ensure ongoing compliance with capital ratios as well as provide a buffer for continued RWA growth given improving economic conditions in France and other key international businesses.

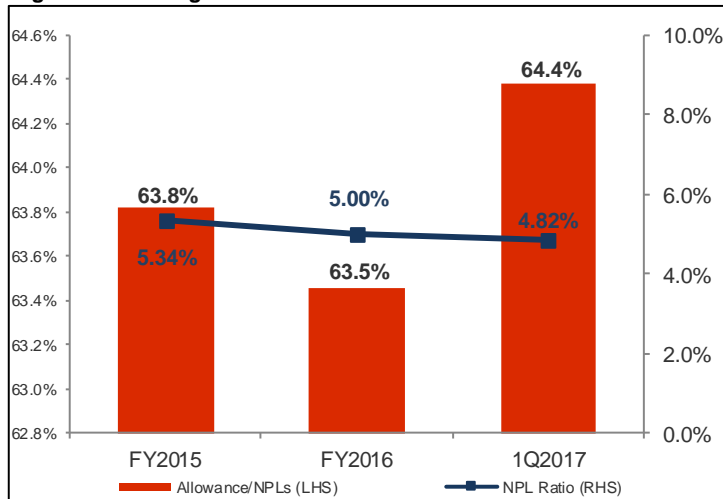
Société Générale

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (EUR'mn)			
Net Interest Income	9,306	9,467	6,474
Non Interest Income	16,333	15,831	
Operating Expenses	16,893	16,817	4,644
Pre-Provision Operating Profit	8,746	8,481	1,830
Provisions	3,065	2,091	627
Other Income/(Expenses)	428	-83	37
PBT	6,109	6,307	1,240
Income Taxes	1,714	1,969	389
Net Income to Common Shareholders	4,001	3,874	747
Balance Sheet (EUR'mn)			
Total Assets	1,334,391	1,382,241	1,401,100
Total Loans (net)	405,252	426,501	433,900
Total Loans (gross)	461,000	479,100	483,100
Total Allowances	15,700	15,200	15,000
Total NPLs	24,600	23,955	23,300
Total Liabilities	1,271,716	1,316,535	1,335,000
Total Deposits	379,631	421,002	415,700
Total Equity	62,675	65,706	66,000
Key Ratios			
NIM	0.80%	0.79%	NA
Cost-income Ratio	67.7%	65.6%	61.0%
LDR	106.7%	101.3%	104.4%
NPL Ratio	5.34%	5.00%	4.82%
Allowance/NPLs	63.8%	63.5%	64.4%
Credit Costs	0.66%	0.44%	0.52%
Equity/Assets	4.70%	4.75%	4.71%
CETier 1 Ratio (Full)	10.9%	11.5%	11.6%
Tier 1 Ratio	13.5%	14.5%	14.3%
Total CAR	16.3%	17.9%	17.8%
ROE	7.9%	7.3%	5.2%
ROA	0.30%	0.29%	0.20%

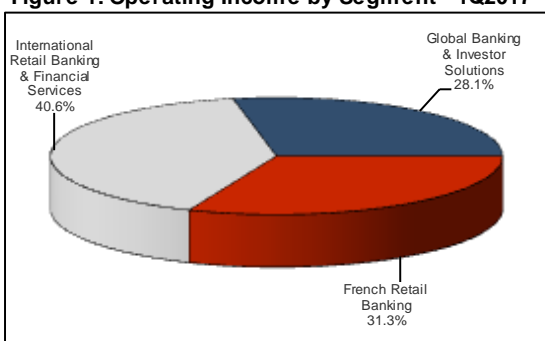
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 4: Coverage Ratios



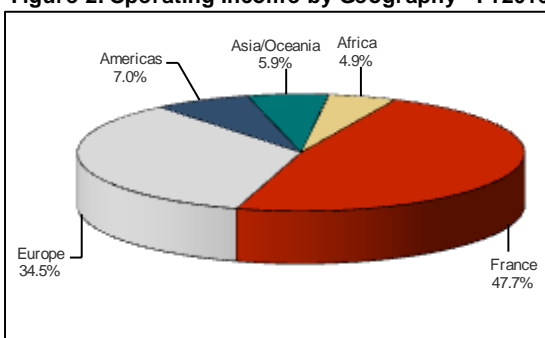
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - 1Q2017



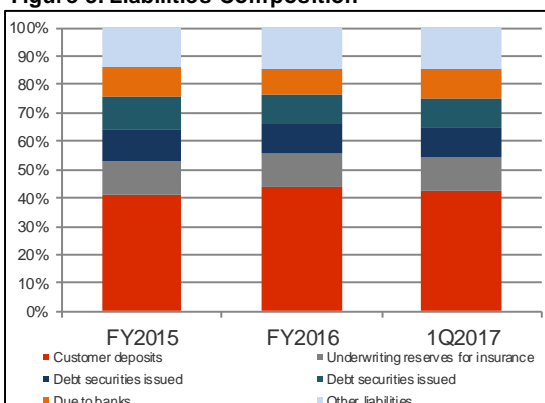
Source: Company | Excludes Corporate Center Segment

Figure 2: Operating Income by Geography - FY2016



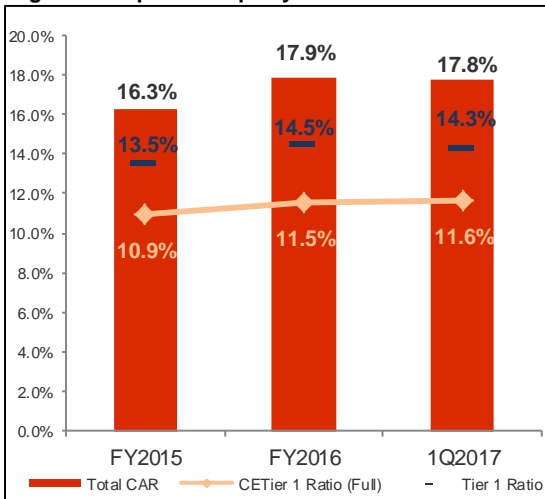
Source: Company

Figure 3: Liabilities Composition



Source: Company

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook –

UOB's profitability metrics should continue to improve, given an expected rising US rates environment and loan quality issues expected to have peaked. Despite solid fundamentals, Singapore Bank names appear rich in our view. We think there is better value in other names in the AT1 and Tier 2 space.

Issuer Profile:

Neutral

S&P: AA-/Stable

Moody's: Aa1/Stable

Fitch: AA-/Stable

Ticker: **UOBSP**

Background

United Overseas Bank Limited ('UOB') 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 7.83% and 5.12% stake in UOB, respectively, as of 7th June 2017.

United Overseas Bank Ltd

Key credit considerations

- **Profitability expected to improve going forward:** UOB reported 1Q2017 Net Profit of SGD807mn, 5.4% higher y/y, 9.3% higher q/q. This was driven by strong earnings from (1) net interest income rising 2.3% to SGD1.3bn y/y due to strong loan growth (9.4% y/y to SGD229bn) which offset lower net interest margins ('NIMs') by 5bps y/y (though NIMs rebounded on a q/q basis by 4bps), (2) non-interest income 18.0% higher y/y at SGD819mn due to stronger fees and commission income (17.5% higher y/y) and trading and investment income (20.5% higher y/y). Segment wise, Group Retail performance continues to support overall performance with 1Q2017 operating income up 11.5% y/y and 1.1% q/q while Group Wholesale Banking was impacted by the rise in allowances with operating income from Group Wholesale Banking rising 1.7% y/y but falling 2.0% q/q. Expenses rose 7% y/y, partly due to higher base salaries and operating costs. That said, UOB still maintained overall cost discipline in the context of strong operating income growth with cost-income ratios falling 30bps y/y and 2.1ppts q/q, to 45.1% in 1Q2017. In the bigger picture, UOB's profitability metrics should continue to improve, given an expected rising US rates environment which should continue to elevate NIM further.
- **Asset quality still in focus but unlikely to deteriorate further:** Overall allowances continued to rise, up 59% y/y due to ongoing struggles within UOB's oil & gas and shipping exposures. Similar to its allowances approach in 2016, overall allowance growth was a mixture of a release in general allowances and a material rise in specific allowances which rose 110% to SGD277mn with almost all of the specific allowance increase coming from UOB's Singapore exposures. UOB's NPL to gross loan ratio changed little q/q at 1.5% in 1Q2017, while rising 10bps y/y as NPLs rose 2.1% q/q and 19.6% y/y. 55% of UOB's gross loans are accounted for by Singaporean borrowers which, compared to foreign borrowers, pose less credit risk with foreign NPLs representing 2.0% of gross foreign loans compared with 1.1% for Singapore loans. Housing loans rose 6.3% y/y, and continues to comprise 27.1% of total loans and advances (highest industry exposure). Loans to the building and construction industry (+13.0% y/y), financial institutions (+27.2%) and general commerce (+11.7%) also grew noticeably as part of broad based loans grew 9.4% y/y. While the Group's NPL to gross loan ratio remains the highest among its peers (average of 1.35%), we think that the bank's asset quality is unlikely to deteriorate further, given the oil and gas and commodity sectors and shipping sector are seeing signs of bottoming-out.
- **Funding lower y/y, but funding profile remains strong:** Deposit growth was lower at 1.9% y/y and this resulted in the loan to deposit ratio (LDR) weakening to 86.7% in 1Q2017 from 80.7% in 1Q2016 (although the LDR was relatively stable q/q at 86.8% for 4Q2016). The more stable savings and current account deposits made up 44.9% of total deposits, compared to DBS' 62.5% in 1Q2017, due to its weaker market share of Singapore dollar deposits (UOB has 21% market share). Similar to its peers, UOB has limited reliance on wholesale funding, which makes up 13.2% of total funding (including long-term wholesale funding). UOB's liquidity position remains strong, with its all currency liquidity coverage ratio high at 154% in 1Q2017.
- **Stronger capitalization:** UOB's CET1 ratio rose 40bps y/y and 20bps q/q to 13.2%, while its total CAR ratio rose 1.3ppt y/y and 1.1ppt q/q to 17.3%. The Group has managed to improve its capital ratios from (1) capital management initiatives, (2) organic capital growth, and (3) issuance of new equity shares through scrip dividends. On a fully loaded basis, UOB's CET1 ratio of 12.8% remains well above the regulatory minimum fully-loaded CET1 ratio of 9%.

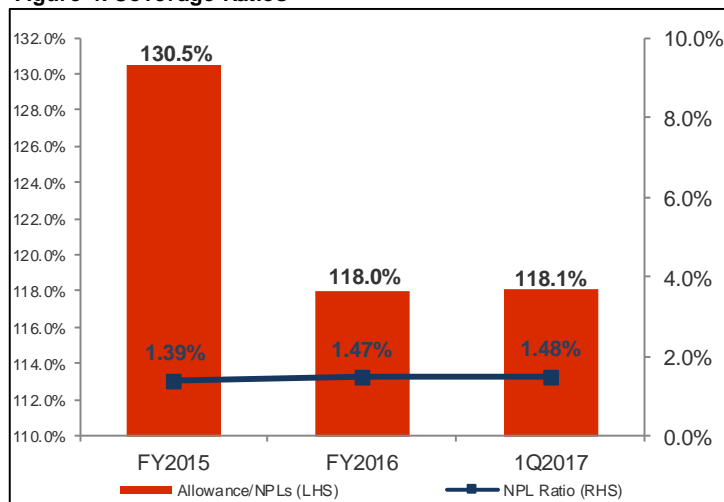
United Overseas Bank Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Net Interest Income	4,926	4,991	1,303
Non Interest Income	3,122	3,070	819
Operating Expenses	3,597	3,696	956
Pre-Provision Operating Profit	4,451	4,365	1,166
Provisions	672	594	186
Other Income/(Expenses)	90	6	34
PBT	3,869	3,777	1,014
Income Taxes	649	669	203
Net Income to Common Shareholders	3,209	3,096	808
Balance Sheet (SGD'mn)			
Total Assets	316,011	340,028	342,574
Total Loans (net)	203,611	221,734	225,107
Total Loans (gross)	207,371	225,662	229,120
Total Allowances	3,760	3,928	4,013
Total NPLs	2,882	3,328	3,399
Total Liabilities	285,087	306,986	308,660
Total Deposits	240,524	255,314	259,672
Total Equity	30,924	33,042	33,914
Key Ratios			
NIM	1.77%	1.71%	1.73%
Cost-income Ratio	44.7%	45.9%	45.1%
LDR	84.7%	86.8%	86.7%
NPL Ratio	1.39%	1.47%	1.48%
Allowance/NPLs	130.5%	118.0%	118.1%
Credit Costs	0.32%	0.26%	0.32%
Equity/Assets	9.79%	9.72%	9.90%
CETier 1 Ratio (Full)	13.0%	13.0%	13.2%
Tier 1 Ratio	13.0%	13.1%	13.8%
Total CAR	15.6%	16.2%	17.3%
ROE	11.0%	10.2%	10.0%
ROA	1.03%	0.95%	0.95%

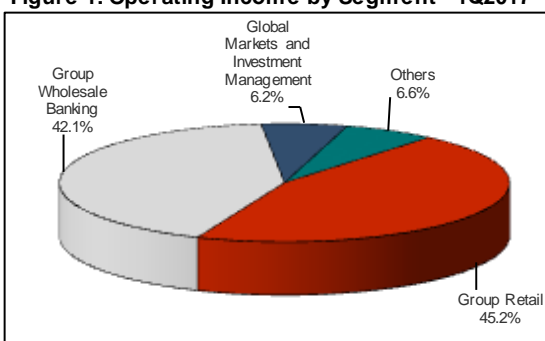
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 4: Coverage Ratios



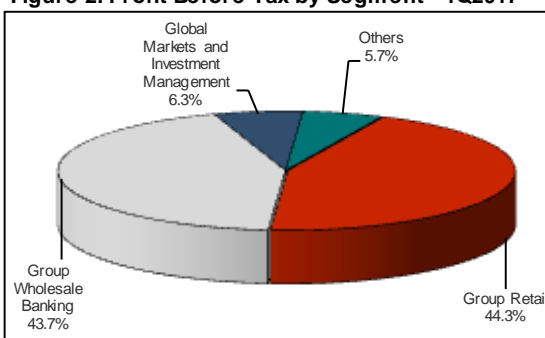
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - 1Q2017



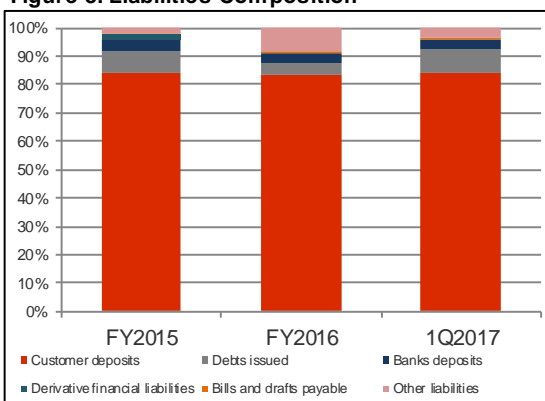
Source: Company

Figure 2: Profit Before Tax by Segment - 1Q2017



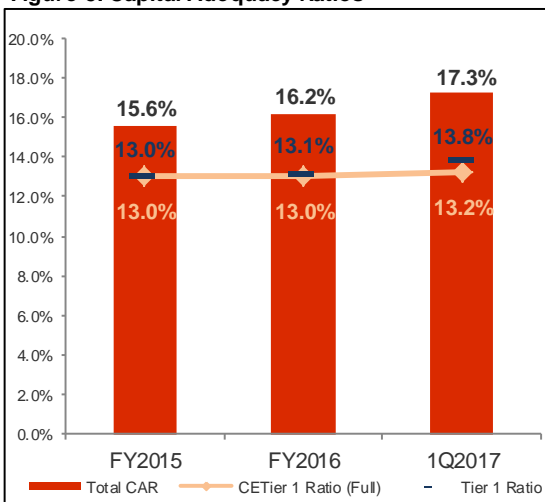
Source: Company

Figure 3: Liabilities Composition



Source: Company

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook –

WBC's results reflect the solid quality of its Australian and New Zealand consumer lending franchises. While pressure has risen, particularly in Australia's housing sector, we expect the bank to remain well capitalized and funded. The WSTP '27c22 is fairly valued against the NAB 4.15 '28c23 but both are slightly rich compared to the ANZ 3.75% '27c22 in our view.

Issuer Profile: Neutral

S&P: AA-/Negative
Moody's: Aa3/Stable
Fitch: AA-/Stable

Ticker: **WSTP**

Background

Westpac Banking Corporation ('WBC') 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 2017, it had total assets of AUD840bn.

Westpac Banking Corporation

Key credit considerations

- **Net interest income pressured:** 1HFY2017 Cash earnings rose 3% h/h to AUD4.0bn, after net interest margins ('NIM') fell 4bps h/h. This was mainly attributable to (1) increased competition for term deposits; (2) higher term wholesale funding costs, and (3) increased holdings of third party liquid assets to meet minimum liquidity coverage ratio ('LCR') requirements. This was mitigated to an extent by loan growth in the consumer bank and a 4bps increase in loan spreads from loan repricing mostly in Australian mortgages. Non-interest income rose 6% h/h to AUD3.05bn, on the back of a 39% increase in trading income, which offset a 9% fall h/h in wealth management and insurance income. Better cost management drove reported cost-income ratios lower by 59bps h/h to 41.7%, with operating expenses near flat h/h as higher personnel, technology and compliance costs were offset by productivity benefits and reduced professional and processing services costs.
- **Funding mix is improving:** In 1HFY2017, around 14% of WBC's funding was derived from short-term (less than 1-year maturity) wholesale funding, 15% from long-term wholesale funding, and the majority of the remainder from customer deposits (62% of total funding). WBC was able to attract customer deposits, with deposit growth of 2.6% h/h and 8.3% y/y higher than WBC's overall loan growth and this resulted in a lower loan to deposit ratio (127.6% for 1HFY2017 against 129.0% for 2H2016). Compared to Australian banking peers under our coverage, WBC commands the largest market share of Australia's household and non-financial corporate deposits (22.0% of total deposit market), placing the bank in an advantageous position for access to cheap, stable funding. WBC's estimated Net Stable Funding Ratio (NSFR) has improved by 3ppts h/h to 108% in 1HFY2017.
- **Stepping on the brakes:** Gross loans grew by AUD5.0bn or 0.74% h/h in 1HFY2017 with Australian housing loans growth of AUD9.7bn or 2.4% h/h offset by a fall in Australian business loans from a weak commercial property market. As the second largest mortgage lender in the booming Australian housing market, WBC appears to be limiting further exposure with portfolio growth below the system average in 1HFY2017 as the Group further tightened origination standards, reduced new lending discounts and increased interest rates on certain loans. WBC's current Australian mortgage loan portfolio remains healthy, with Mortgage 90+ day delinquencies only rising 1bps h/h to 0.67%, although on a y/y basis, the ratio rose significantly by 12bps, mainly due to the implementation of new prudential rules for the reporting of delinquencies for customers granted hardship assistance. As a whole, the Group's gross impaired loans fell 8.4% h/h, mainly reflecting the work-out of a small number of institutional and New Zealand facilities, bringing gross impaired assets to gross loans 2bps lower h/h to 0.30% in 1HFY2017.
- **Conservative APRA pushing for strong capitalization:** WBC was able to raise its APRA-compliant CET1 ratio by 49bps h/h to 10.0% in 1HFY2017, mainly on the back of (1) higher cash earnings of AUD4.0bn, (2) disciplined loan growth and improved asset quality, (3) regulatory modeling changes, and (4) reduction in deferred tax assets. WBC's CAR ratio was 89bps higher than 2HFY2016, at 14.0% in 1HFY2017 mainly due to AUD2.1bn of Tier 2 capital being issued. WBC's capital adequacy ratios still sit comfortably above APRA's regulatory requirements and management's target. Like its peers, we expect WBC to remain well-capitalised. Mounting regulatory costs may threaten WBC's organic capital growth in the medium-term however, considering the recently approved government levy.

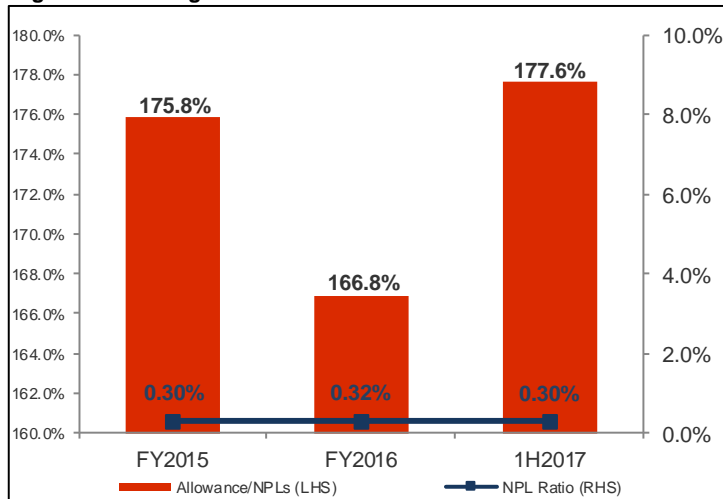
Westpac Banking Corporation

Table 1: Summary Financials

Year Ended 30th Sep	FY2015	FY2016	1H2017
Income Statement (AUD'mn)			
Net Interest Income	14,267	15,148	7,613
Non Interest Income	7,375	5,837	3,156
Operating Expenses	9,473	9,217	4,633
Pre-Provision Operating Profit	12,169	11,768	6,136
Provisions	753	1,124	493
Other Income/(Expenses)	0	0	0
PBT	11,416	10,644	5,643
Income Taxes	3,348	3,184	1,731
Net Income to Common Shareholders	8,012	7,445	3,907
Balance Sheet (AUD'mn)			
Total Assets	812,156	839,202	839,993
Total Loans (net)	623,316	661,926	666,946
Total Loans (gross)	626,344	665,256	670,208
Total Allowances	3,332	3,602	3,513
Total NPLs	1,895	2,159	1,978
Total Liabilities	758,241	781,021	780,621
Total Deposits	475,328	513,071	522,513
Total Equity	53,915	58,181	59,372
Key Ratios			
NIM	2.09%	2.10%	2.07%
Cost-income Ratio	43.8%	43.9%	43.0%
LDR	131.1%	129.0%	127.6%
NPL Ratio	0.30%	0.32%	0.30%
Allowance/NPLs	175.8%	166.8%	177.6%
Credit Costs	0.12%	0.17%	0.15%
Equity/Assets	6.64%	6.93%	7.07%
CETier 1 Ratio (Full)	9.5%	9.5%	10.0%
Tier 1 Ratio	11.4%	11.2%	11.7%
Total CAR	13.3%	13.1%	14.0%
ROE	16.2%	13.3%	13.6%
ROA	1.00%	0.90%	0.93%

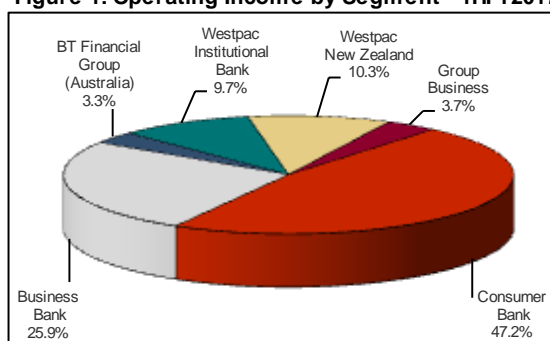
Source: Company, OCBC estimates | Capital Adequacy Ratios before proposed dividends

Figure 4: Coverage Ratios



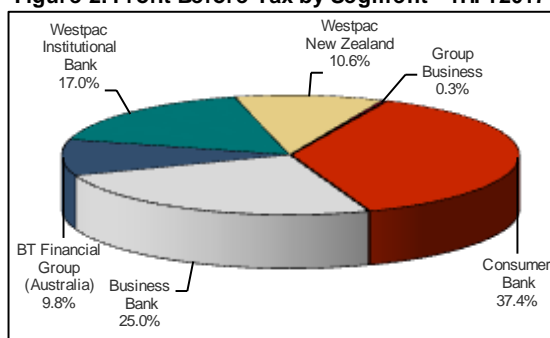
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - 1HFY2017



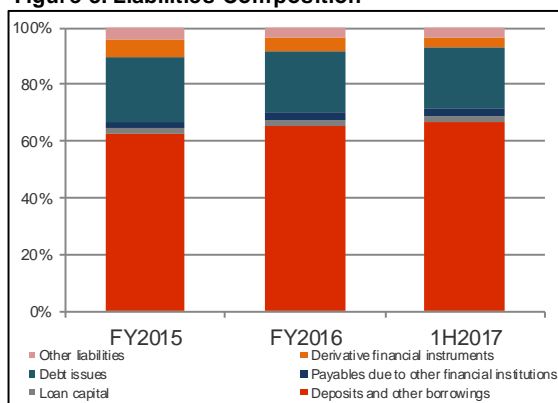
Source: Company

Figure 2: Profit Before Tax by Segment - 1HFY2017



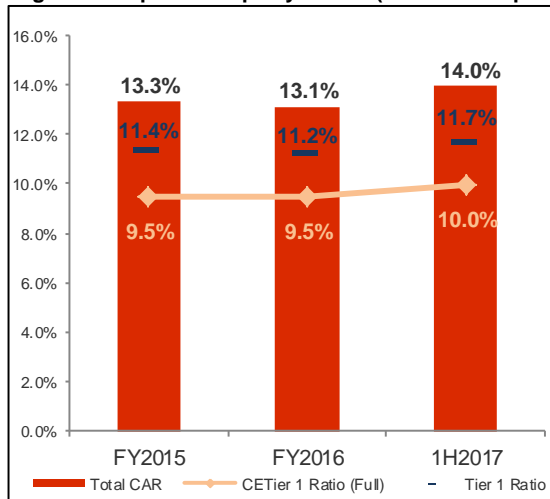
Source: Company

Figure 3: Liabilities Composition



Source: Company

Figure 5: Capital Adequacy Ratios (APRA - Compliant)



Source: Company

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

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