Asia Credit Research

OCBC Bank

Singapore Mid-Year 2018 Credit Outlook

Friday, 06 July 2018

- **Following a fast start to 2018, credit markets turned increasingly bearish through 1H2018 as yield curves steepened from constructive US economic prints and rising inflation and the US Federal Reserve upgraded its median dot plot from 3 rate hikes this year to 4.**
- **At the same time, geopolitical concerns (including trade tensions) and signs of moderating economic growth (with rising Chinese rising defaults) led to rates volatility, prevailing risk off sentiments and a generally cautious market tone.**
- **These factors, together with prevailing tight valuations, contributed to a credit market correction with the subsequent re-pricing of primary issues and secondary curves leading to bid-ask spreads increasingly widening and issuance volumes dropping sharply.**
- **As market liquidity recedes, our attention has turned from absolute levels of leverage to issuers' ability to pay short term financial commitments when they come due.**
- **With the above in play, our themes from the Singapore Credit Outlook 2018 still hold. We advocate that investors remain selective and focus on names higher up the credit curve that have moderately leveraged balance sheets, sufficient scale and (more importantly) adequate liquidity. This should provide a buffer against tighter funding conditions and a rising rate environment as well as mitigate potential ongoing market volatility.**
- **Recent results for Financial Institutions have been broadly supportive, with stable to growing loan volumes and improving loan quality indicators. Rising interest rates should be positive for top lines but the impact on earnings and capital ratios depends on where banks are in their restructuring processes which are ongoing.**
- **The prior period lackluster performance of office REITs is expected to give way to improved operating conditions for the remainder of 2018. However, the same may not apply to retail REITs with downcast business confidence in the retail sector despite Singapore's recent strong economic performance.**
- **Although industrial property prices and rental rates were down q/q, the declines have decelerated. We are encouraged that the market looks to be slowly improving after a challenging period. We expect an increasingly dual-track market in Singapore with higher specification properties attracting significant bidding interest while Industrial REITs intensify the selling of lower potential properties to a smaller pool of buyers.**
- **Despite the recent cooling measures, Singapore property prices may continue to rise, albeit at a slower pace, through 2H2018 due to displaced homeowners from enblocs looking for replacement homes while supply has yet to fully come on stream. However, we are wary going into 2019 as due the upcoming supply. Further government intervention, rising interest rates and changes in economic environment may bring the party to a halt.**

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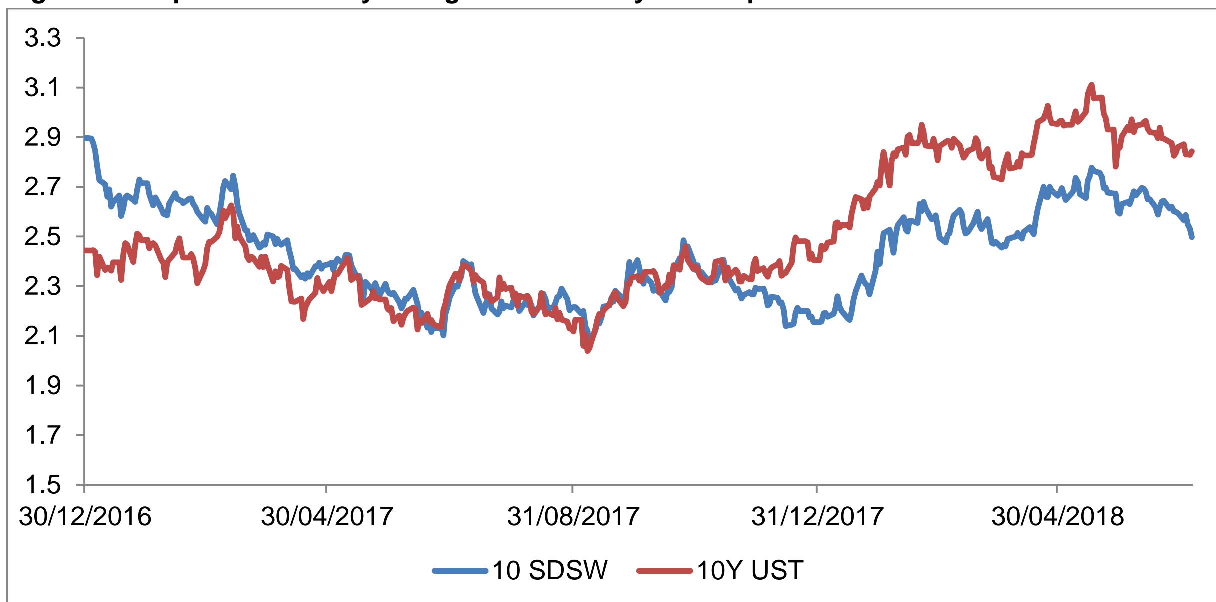
1H2018 Singapore Corporate Bond Market Review

Significantly weaker overall issuance volume y/y, with issuances volume down 39% y/y 1H2018

After a stellar start to 2018 with strong issuance volumes in January, credit markets turned increasingly bearish throughout 1H2018 as the rich technical environment of 2017 amplified the impact of several first half events such as geopolitical (including trade) tensions, the possibility of the Fed raising its Federal Reserve fund rate faster than market expectations and less optimistic economic expectations. This led investors to become more wary of longer duration papers as well as papers issued by high-yield companies. Investors also heightened their focus on the issue structure of bonds and perpetuals which may have impacted their return expectations. This is contrary to the market sentiment in 2017 where demand for bonds was strong and investors had a preference for higher-yielding papers with atypical term structures. We attribute the weak issuance in 1H2018 to (a) higher swap rates and hence higher cost of debt for issuers; (2) correction of rich valuations from tight credit spreads in 2017 as well as (3) higher risk premium demanded by investors due to a rise in credit profiles facing stretched liquidity.

Increasing conviction on the path of US interest rates from constructive economic data and rising inflation saw the US yield curve steepen sharply in the second half of January to find a new floor above 2.75% from February onwards. The US economy's performance led to the US Federal Reserve (FOMC) subtly upgrading its median dot plot in the recent June meeting from a finely balanced 3 rate hikes this year to 4 and the release of the Fed's minutes hinting at the probability of raising short-term interest rates twice more in 2018. As expected, shorter-term SGD swap rates (less than 10 years) moved in tandem with the Fed Funds Target rate and tracked higher over the year at a faster rate than the long end of the yield curve which remained relatively flat.

Figure 1: Graph of 10Y UST yield against SGD 10-year swap rates

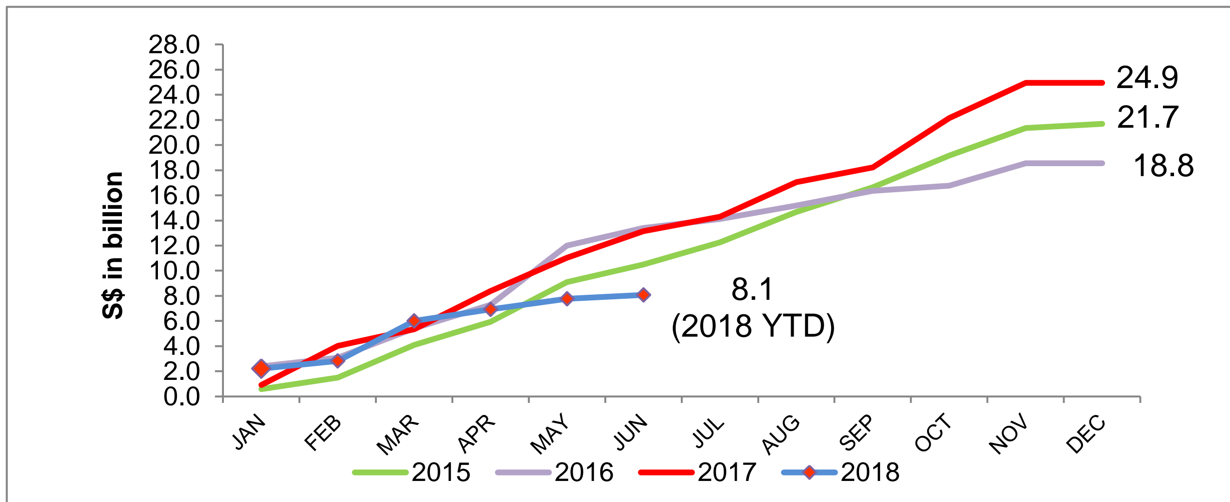


Source: OCBC, Bloomberg

At the same time, geopolitical concerns became a consistent theme as the severity of US-North Korea posturing and US-Everywhere trade tensions ebbed and flowed. Meanwhile, economic growth signals globally began to moderate due to base effects and the peaking of global manufacturing cycles with China's economic growth also losing momentum domestically due to both one-off events as well as the government's structural de-leveraging campaign. With the reduction in on-shore liquidity and higher funding costs, defaults by Chinese companies rose. These factors, along with ongoing positive US data prints led to bouts of rates volatility with prevailing risk off sentiments and a cautious market tone. Primary issues had to offer new issue premiums to find traction in the market while secondary curves were repriced and this, together with prevailing tight valuations, led to the correction in credit

markets that we expected in our 2018 Credit Outlook. Bid-ask spreads increasingly widened as investors sought compensation for the steeper yield curve and an increasing risk premium while issuers did not want to commit to higher rates in the context of an uncertain operating environment. This led to SGD issuance volumes dropping sharply as market liquidity receded.

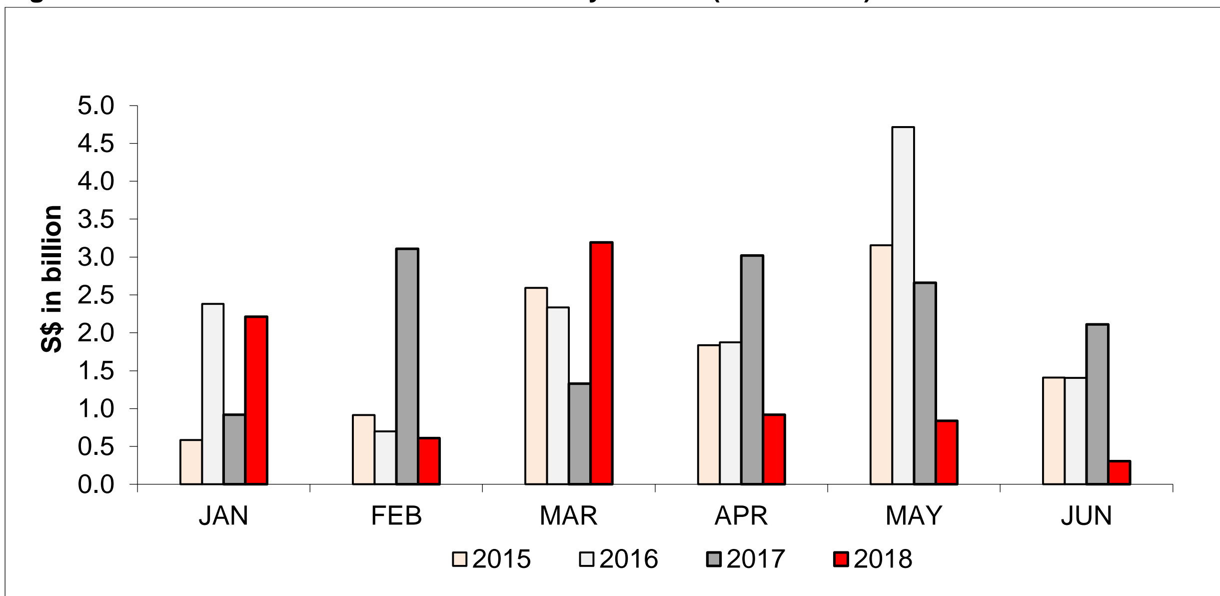
Figure 2: SGD bond issuances monthly volume (Cumulative)



Source: OCBC, Bloomberg

Comparing 1H2018 issuances over the past four years, it is evident that issuances in 1H2018 tapered off significantly after March when the Fed hiked its federal fund target rate for the second time in March 2018 by 25bps from 1.5% to 1.75%. This caused the issuance in Apr 2018 to fall ~70% y/y to SGD0.9bn (SGD3.0bn in Apr 2017). There were a total of 47 issuers that came into the market in 1H2018 relative to 80 issuers in 1H2017. This represents a ~60% y/y fall in the number of issuers in 1H2018.

Figure 3: 1H2018 SGD bond issuances monthly volume (Cumulative)



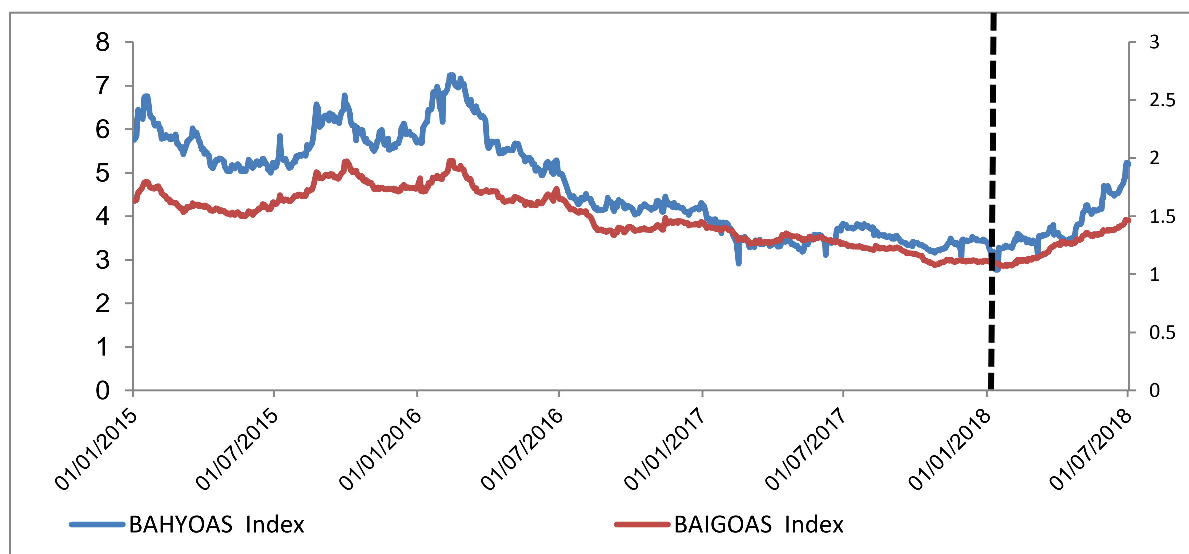
Source: OCBC, Bloomberg

Although we expected elevated bond maturities in 2018 to provide some support to supply, almost 40% of maturities in 1H2018 were from Financial Institutions who (1) are typically opportunistic issuers with the capability to issue in different currencies depending on funding costs and foreign exchange movements (indeed many chose to issue in EUR, AUD and USD); and (2) have solid capital positions relative to minimum regulatory requirements and therefore are not compelled to issue. Other maturities that did not contribute to supply included those related to distressed

companies including Hyflux Ltd and CW Group Holdings Ltd. These fresh instances of stress, along with ongoing restructurings in the offshore and marine sector, cast somewhat of a pall over the SGD corporate bond market and contributed to the already heavy market tone. Among smaller high yield issuers with bond redemptions in 1H2018, we observed issuers redeeming bonds via raising bank debt. This was due to a mix of factors including market accessibility and issuers' cost consideration.

Market sentiment was perhaps exemplified by the troubles that CW Group Holdings Ltd had in refinancing their maturing bond (due June 25th). Efforts to tap the SGD bond market since early April 2018 were unsuccessful due to the challenging market conditions and, in the absence of securing alternate financing (and other potential idiosyncratic factors), the company has since faced material liquidity issues. The company is now seeking the appointment of provisional liquidators to assist with the restructuring of its debts in the face of winding up petitions from creditors and statutory demands from bank lenders. This highlights how high yield has been at the epicentre of the change in sentiment and is most susceptible to the reduction in liquidity, as witnessed by (1) continuing outflows from emerging market and high yield bond funds; and (2) extensive spread widening in the 6 months to end June of the Bloomberg Barclays Asia USD High Yield Bond Index Average Option Adjusted Spread (BAIGOAS) (+183bps) against the Bloomberg Barclays Asia USD Investment Grade Bond Index Average OAS (BAHYOAS) (+35bps). That said, when compared to 2016 index levels when spreads were wider, it actually seems that further widening spread could take place in 2H2018.

Figure 4: Movement in the Bloomberg Barclays Asia USD Bond Index Average Option Adjusted Spread



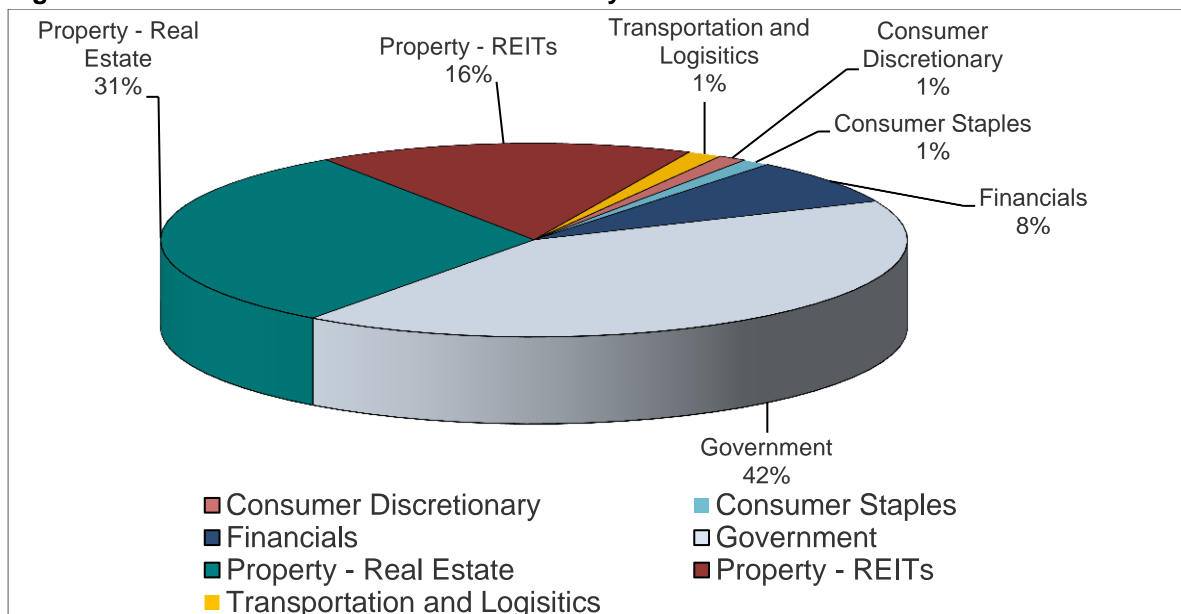
Source: OCBC, Bloomberg

Government issuers to the fore; Real Estate prominent as usual

With issuance by Financial Institutions lagging, the year so far saw a larger number of issuances from the government sector with a total issuance of SGD3.4bn. The Land Transport Authority of Singapore (LTA) issued a total of SGD1.5bn with the SGD1.2bn 30-year bond at 3.35% and the 10-year SGD300m issue at 2.75%, which are LTA's first issues since 2015. Given scarcity value and the prevailing risk-off sentiment, the issues were well received given LTA's high credit quality through its government linkage. In addition, Housing & Development Board (HDB) issued a total of SGD1.6bn while SMRT also issued SGD100mn. This is in the context of Singapore's 2018 Budget which in February anticipated around SGD20bn in infrastructure spending in 2018. At the time, the government also announced that it was considering providing guarantees for long term borrowings by statutory boards and government linked companies involved in the construction of large infrastructure projects. Most of the bonds issued by the government sector were of longer duration, mainly in the 10 – 30 year tenors.

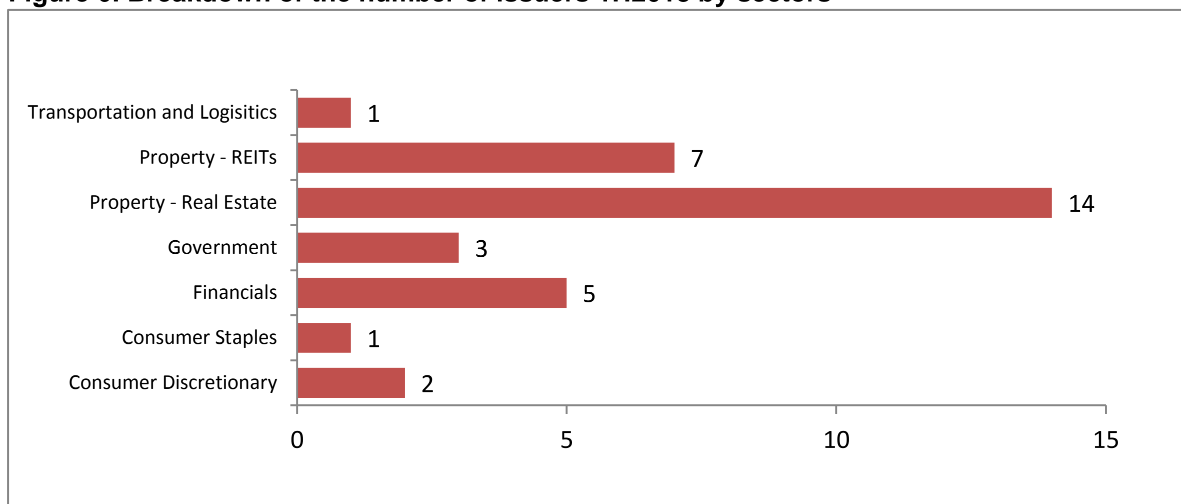
As usual (and as expected for this year), Real Estate (both developers and REITs) also made up a significant portion of issuance. In particular, developers made up a higher portion of 1H2018 supply by issuance size given the buoyant Singapore property market which saw aggressive bids for land bank amidst an en-bloc fever. We previously flagged how real estate developers had added motivation to issue in 2018 given existing growth plans and previously announced investments. In terms of the number of issuers coming to market, issuers from the real estate sector actually led the rest of the sectors. This is in line with prior years as property developers required a large amount of capital to replenish their land bank as well as needed to refinance upcoming debt maturities. Familiar names that tapped the market include Guocoland Ltd, Frasers Property Ltd and Mapletree Investments Pte Ltd. Highly-levered players such as Oxley Holdings Ltd also entered the market, with the issuance of SGD150mn OHLSP 5.7%'22s. Fragrance Group Ltd issued a SGD125mn bond, paying a high yield of 6.125%. Finally, and in line with the risk-off sentiment, we saw lower y/y issuance by industries more typically concentrated in Singapore high-yield such as consumer discretionary, transportation and logistics and consumer staples.

Figure 5: Breakdown of 1H2018 issuance size by sector



Source: OCBC, Bloomberg

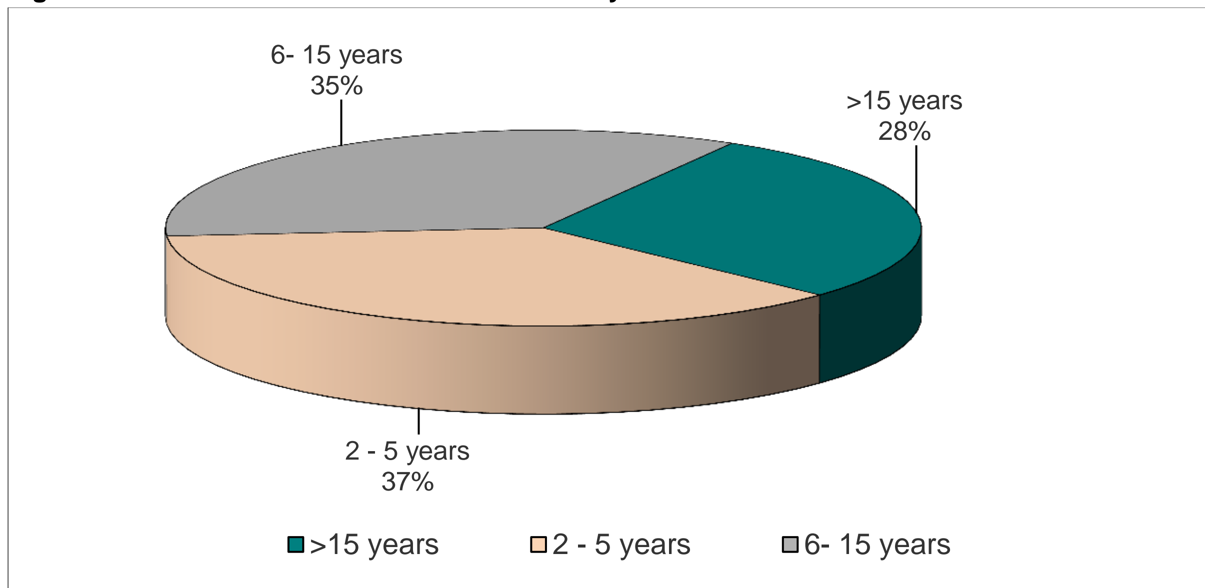
Figure 6: Breakdown of the number of issuers 1H2018 by sectors



Source: OCBC, Bloomberg

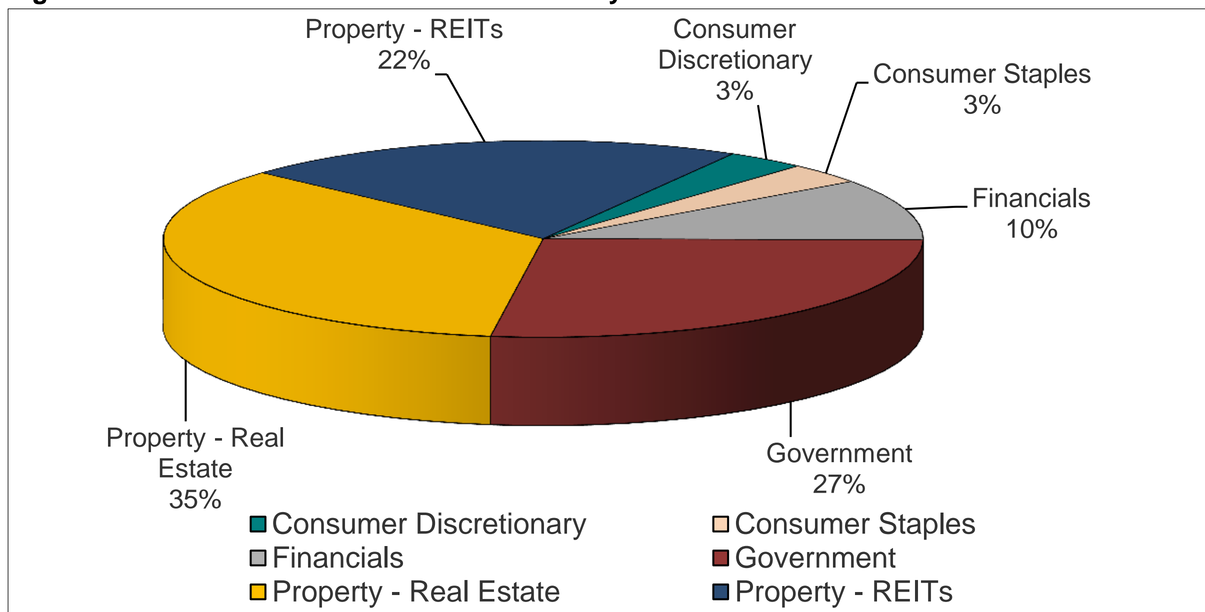
In terms of tenor, we saw the proportion of short dated (0-5 years) issuance remain unchanged y/y, while the proportion of long dated issues (>15 years) rose from 20.4% in 1H2017 to 28% in 1H2018. We attribute this to (1) the higher proportion of government issuers which typically issue longer dated papers as well as (2) the flatter yield curve which incentivizes issuers to tap the long end of the curve rather than the belly (6-15 years). The belly of the curve saw issuance fall to 36% of total issuance from 43% in the prior corresponding period, likely due to the absence of Financial Institutions which issued Tier 2 papers in this bucket in the past few years. Despite the previously mentioned aversion to duration, short-dated issuances as a proportion of total issuances held firm y/y due to the real estate sector, in particular several high yield property developers (for example Fragrance Group, GSH Corp Ltd, Aspial Corp Ltd, Oxley Holdings Ltd) which issued at wider than required spreads to compensate investors for the risk premium taken. Four perpetual bonds were issued in 1H2018, all related from the real estate sector (SGD300mn ARA 5.65%-PERP, SGD100mn CACHE 5.5% PERP, SGD400mn GUOLSP 4.6%-PERP and SGD300mn FPL 4.38%-PERP).

Figure 7: Breakdown of 1H2018 issuance size by tenor



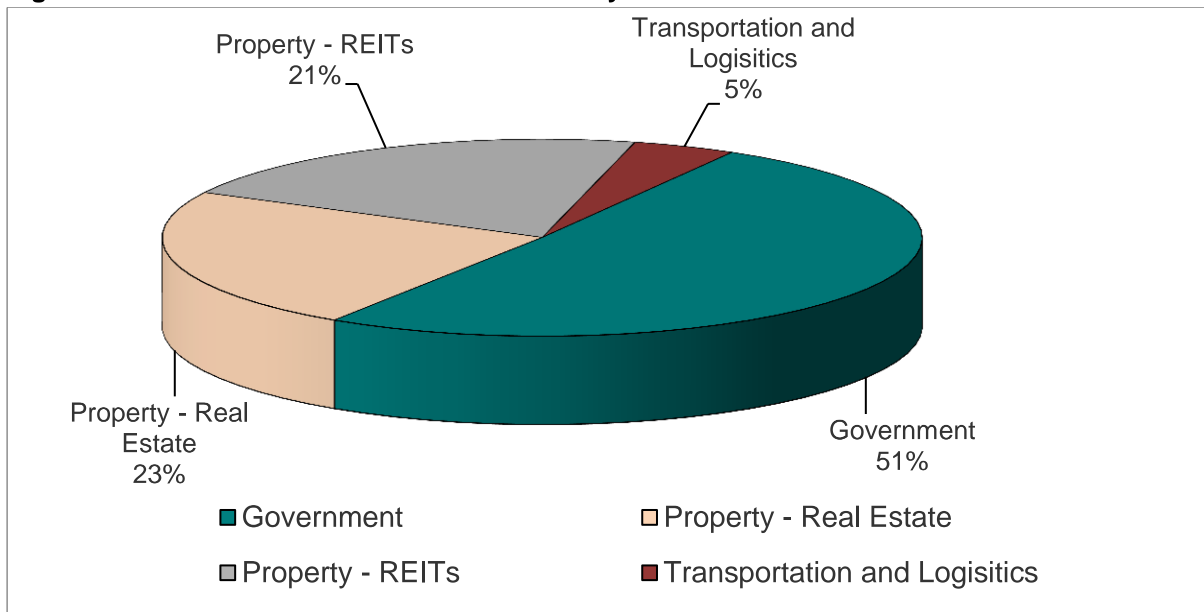
Source: OCBC, Bloomberg

Figure 8: Breakdown of 1H2018 issuance size by sector for 2Y-5Y tenor



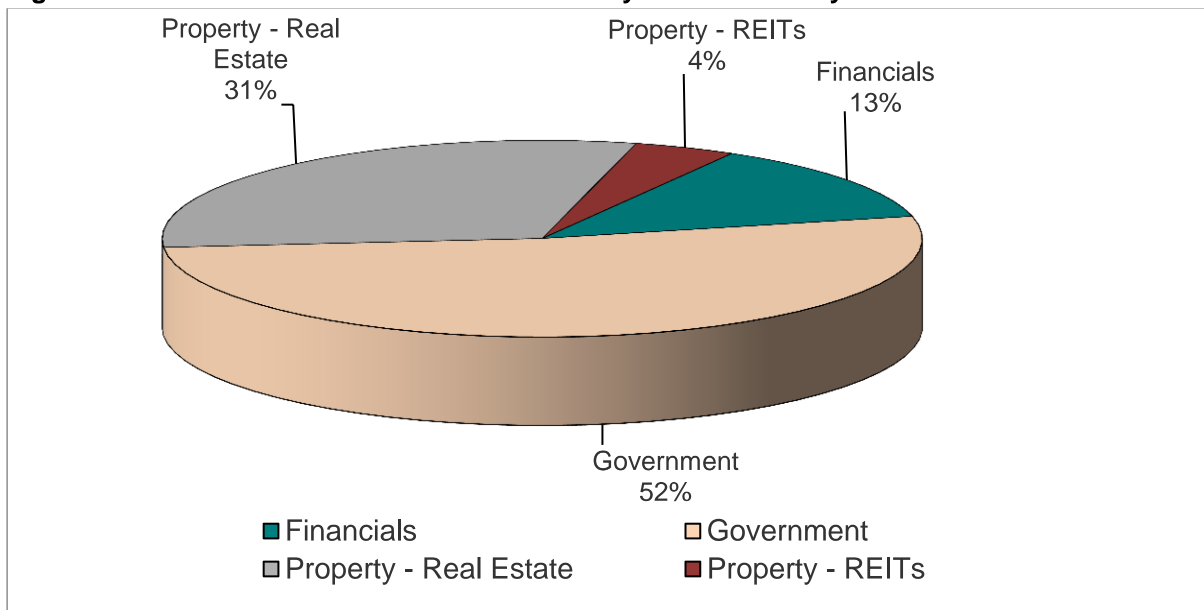
Source: OCBC, Bloomberg

Figure 9: Breakdown of 1H2018 issuance size by sector for 6Y-15Y tenor



Source: OCBC, Bloomberg

Figure 10: Breakdown of 1H2018 issuance size by sector for >15-year tenor



Source: OCBC, Bloomberg

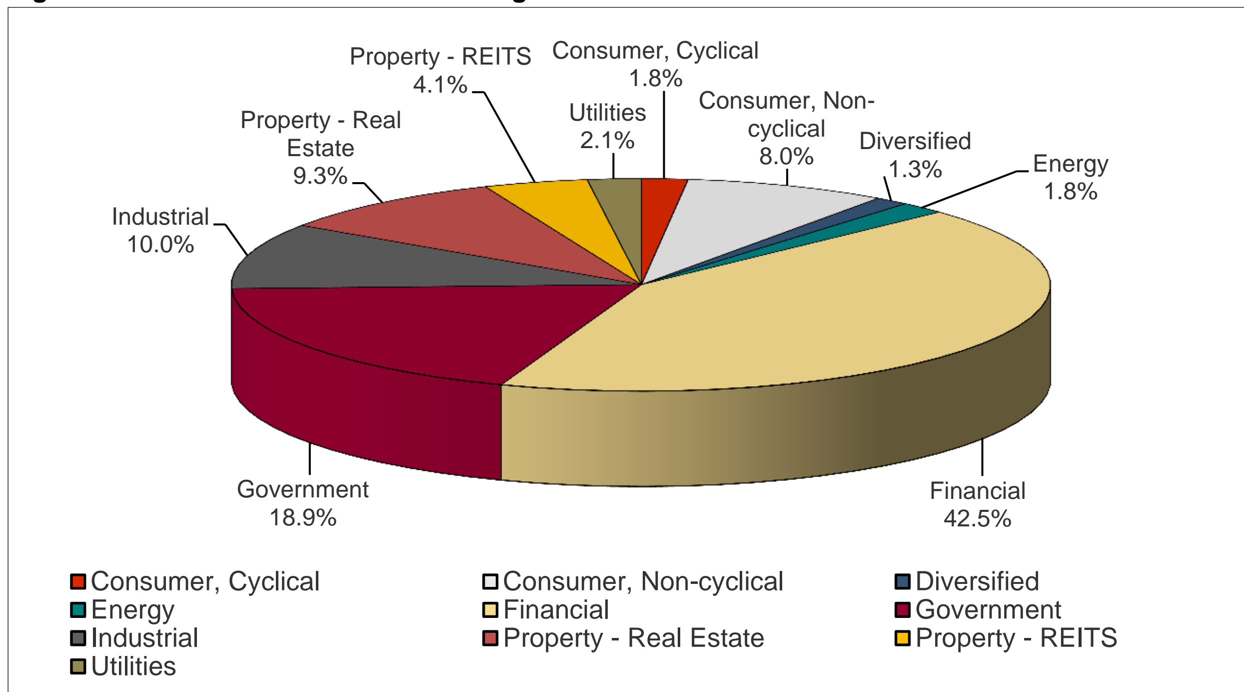
Credit Outlook for 2H2018 – Saying hello to a new normal

With the widening of yields and winding back of liquidity, our attention has turned from absolute levels of leverage to issuers' ability to pay short term financial commitments when they come due. This can come from a variety of sources including existing cash, sale of assets or external capital. Given prevailing dynamics in debt and equity markets that are currently in bear territory from a somewhat uncertain operating environment, access to external capital is likely to remain challenging especially for high yield. Issuers will need to demonstrate multiple avenues to external capital or sufficient financial flexibility to ensure they maintain sufficient financial resources in times of need.

With the above in play, we reiterate our themes from the Singapore Credit Outlook 2018 and advocate that investors remain selective and focus on names higher up the credit curve that have moderately leveraged balance sheets, sufficient scale and adequate liquidity. This should provide a buffer against tighter funding conditions and a rising rate environment as well as mitigate potential ongoing market volatility. With the long end of the yield curve remaining flat, we think there's better value in the short to medium term ends of the yield curve. That said, investors should focus on reliable or identifiable sources of repayment when the bonds mature. Lack of investor demand may preclude high yield issuers from tapping the market in 2H2018 given their business profiles are usually less predictable than investment grade issuers. With the recent distressed events in the Asia bond space, issuers would need to price at a higher yield in order to sufficiently satisfy investors' appetite for risk.

We think current conditions could lead to muted activity in the SGD space in 2H2018 until greater certainty of the external environment arrives that gives clarity to issuers and investors of prevailing risks and an appropriate return. While there still remains approx. SGD14.6bn in bonds maturing in 2H2018, almost half are from Financial Institutions and we expect their likelihood of refinancing to follow similar trends to 1H2018. That said, we do see some support for future supply from (1) refinancing and (2) issuances that may have been postponed from 1H2018 given market conditions. This supply is however only likely to come from higher grade issuers such as larger developers and Temasek-linked companies as they may not need a significant new issue premium given strong market recognition. We expect that constrained supply could also contribute to muted 2H2018 activity, with potential issuance trends by sector to largely follow that of 1H2018. For property companies, supply may remain contingent on land purchases (which requires significant capital), though it remains to be seen if issuers will be willing to pay up to access the capital markets.

Figure 11: Breakdown of bonds maturing in 2H2018



Source: OCBC, Bloomberg

Top Trade Ideas

Top Picks

Company	Ticker	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM/YTC	Rationale
Hotel Properties Ltd	HPLSP	3.850%	27-May-21	SGD100mn	101.00	3.48%	HPLSP '21s look interesting offering a decent yield with a strengthening credit profile.
Frasers Property Ltd	FPLSP	4.250%	21-Jun-26	SGD280mn	100.40	4.19%	Rare for a senior paper of a large Singapore property to trade above 4%, we like FPLSP '26s despite the climbing net gearing levels.
Singapore Post Ltd	SPOST	4.250%	2-Mar-22	SGD350mn	102.80	3.42%	We have upgraded SPOST's issuer profile to Positive (2) on the back of improvements from its Logistics and eCommerce segments. The widened yield provides an attractive entry point.
ESR-REIT	EREIT	3.950%	21-May-20	SGD130mn	100.90	3.45%	While the REIT is in the midst of a proposed merger, we see little risk that this would unduly stretch the credit profile of EREIT.
BPCE SA (Tier 2 Capital)	BPCEGP	4.500%	3-Jun-21	SGD130mn	101.30	4.02%	GBPCE Tier 2 papers look attractive in the SGD Tier 2 space given fundamentals. Within the BPCEGP curve, we prefer BPCEGP 4.50 '26c21 given the spread pick up more than compensates for the longer tenor.

Top Pans

Company	Ticker	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM/YTC	Rationale
Chip Eng Seng Corp Ltd	CHIPEN	4.900%	19-May-22	SGD125mn	98.75	5.26%	With property cooling measures on the minds of investors, the CHIPEN curve may be shunned due to its elevated net gearing levels. We prefer to switch to HTONSP '20s or '21s which offer higher yields.
GuocoLand Ltd	GUOLSP	4.600%	23-Jan-23	SGD400mn	97.50	5.23%	Call risk is elevated as the structure is poor with the first reset date (2025) differing from the first call date (2023). With the recent property cooling measures, we prefer to switch to LMRTSP '20s, which offers a lower net gearing while negative headlines from its sponsor creates opportunities with a widening of yield spreads.
Sembcorp Industries Ltd	SCISP	3.700%	22-Jun-20	SGD200mn	98.48	4.52%	The SCISP 3.7%-PERP with a first call date in June 2020 remains vulnerable to non-call risk in our view. If the perpetual is not called in June 2020, first reset date will occur two years later in June 2022, with a step-up margin of only 100 bps.
CITIC Envirotech Ltd	CELSP	3.900%	19-Oct-20	SGD240mn	97.90	4.88%	We think CELSP 3.9%-PERP may continue to widen on the back of increasing leverage levels and as the first call date on its USD-perpetual nears.
Barclays PLC	BACR	3.750%	23-May-25	SGD200mn	93.92	4.80%	Barclays' results indicate some fundamental challenges in our view. We are underweight the BACR 3.75 '30c25 due to its long call date.

Indicative prices from Bloomberg as of 6 July 2018

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:

Nil

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) **Henderson Land Development Co. Ltd**

Contents

	A. COMPANY OUTLOOKS - CORPORATES	Page No.
1.	Ascendas Hospitality Trust	5
2.	Ascendas REIT	7
3.	Ascott Residence Trust	9
4.	Aspial Corp. Ltd	11
5.	Banyan Tree Holdings Ltd	13
6.	BreadTalk Group Ltd	15
7.	CapitaLand Commercial Trust	17
8.	CapitaLand Ltd	19
9.	CapitaLand Mall Trust	21
10.	Century Sunshine Group	23
11.	China Eastern Airlines Corp Ltd	25
12.	Chip Eng Seng Corporation Ltd	27
13.	CITIC Envirotech Ltd	29
14.	City Developments Ltd	31
15.	CMA CGM (Parent of Neptune Orient Lines)	33
16.	CWT International Limited	35
17.	ESR REIT	37
18.	First REIT	39
19.	Fraser and Neave Ltd	41
20.	Frasers Commercial Trust	43
21.	Frasers Centrepoint Trust	45
22.	Frasers Hospitality Trust	47
23.	Frasers Property Ltd	49
24.	G8 Education Ltd	51
25.	Golden Agri-Resources Ltd	53
26.	GuocoLand Ltd	55
27.	Heeton Holdings Ltd	57
28.	Hong Fok Corp Ltd	59
29.	Hongkong Land Holdings Ltd	61
30.	Hotel Properties Ltd	63
31.	Keppel Corp Ltd	65

32. Keppel REIT 67

33. Keppel Telecommunications &Transportation Ltd 69

34. Lippo Malls Indonesia Retail Trust 71

35. Mapletree Commercial Trust 73

36. Mapletree Logistics Trust 75

37. Mapletree North Asia China Commercial Trust 77

38. Mapletree Industrial Trust 79

39. Olam International Ltd 81

40. OUE Ltd 83

41. Oxley Holdings Ltd 85

42. Perennial Real Estate Holdings Ltd 87

43. Sabana Industrial REIT 89

44. Sembcorp Industries Ltd 91

45. Singapore Airlines 93

46. Singapore Post Ltd 95

47. Singapore Telecommunications Ltd 97

48. Soilbuild Business Space REIT 99

49. Starhill Global REIT 101

50. StarHub Ltd 103

51. Suntec REIT 105

52. Wharf Holdings Ltd 107

53. VIVA Industrial Trust 109

54. Wheelock & Co Ltd 111

55. Wing Tai Holdings Ltd 113

56. Wing Tai Properties Ltd 115

B.	COMPANY OUTLOOKS – FINANCIAL INSTITUTIONS	Page No.
1.	ABN AMRO Bank NV	118
2.	Australia & New Zealand Banking Group Ltd	120
3.	Bank of China Ltd/Singapore	122
4.	Barclays PLC	124
5.	BNP Paribas SA	126
6.	BPCE SA	128
7.	Commerzbank AG	130
8.	DBS Group Holdings Ltd	132
9.	HSBC Holdings PLC	134
10.	Julius Baer Group Ltd	136
11.	Landesbank Baden-Wuerttemberg	138
12.	Malayan Banking Bhd	140
13.	National Australia Bank Ltd	142
14.	Société Générale SA	144
15.	Standard Chartered Bank Plc	146
16.	United Overseas Bank Ltd	148
17.	Westpac Banking Corp	150

Corporate Outlooks

Ascendas Hospitality Trust

Credit Outlook – The ASCHTS 3.3% '20s which is trading at a YTW of 2.77% is tight in our view and we are underweight the bond.

Issuer Profile: Neutral (4)

Ticker: **ASCHT**

Background

Ascendas Hospitality Trust ("ASCHT") is a hospitality trust which owns a portfolio of 11 hotels in Australia, China, Japan and Singapore. As of report date, 2 hotels in China are being divested while ASCHT is also in the midst of buying its first property in South Korea. ASCHT is a stapled group comprising Ascendas Hospitality Real Estate Investment Trust ("A-HREIT") and Ascendas Hospitality Business Trust ("A-HBT"). ASCHT is Sponsored by the Ascendas-Singbridge Group, which has a ~28% deemed interest in ASCHT.

Key credit considerations

- **Operating performance decline:** Gross revenue for the full year ended March 2018 ("FY2018") was stable at SGD203.3mn, driven by +0.7% y/y improvement in gross rental revenue which mitigated the slightly weaker food & beverage revenue (-0.1% y/y). Net property income though underperformed y/y (down 4.4%) due to a 3.2% rise in total property expenses. For the quarter, ASCHT saw gross revenue for continued operations (ie: excluding China which had been earmarked to be sold) decline 5.9% y/y to SGD49.7mn while net property income was down 9.0% y/y to SGD22.0mn. This was driven by performance decline in Australia and Japan while Singapore stayed flat. The Australian portfolio saw revenue per available room ("RevPAR") fall 3.1% y/y to AUD154 in 4QFY2017, despite average daily rates increasingly somewhat by 1.1%, occupancy fell to only 84.1% (from 87.7% in 4QFY2017). ASCHT's Brisbane hotel was worst hit in our view, negatively affected by room oversupply and 20% decline in valuation while the hotel in Melbourne saw weaker convention and exhibition revenue. The weaker performance in the Japan property was driven by ongoing renovation.

- **Fair value gains from investment properties drove bottom line growth:** In 4QFY2018, other trust income was SGD4.7mn, this relates to the look fee that was received by ASCHT as part of the sale of its China hotels. A further SGD22.0mn was recorded as net fair value gains from investment properties (1Q2017: SGD9.4mn was recorded). The largest gains in SGD terms was seen from the Pullman Sydney Hyde Park and Hotel Sunroute Ariake and Oakwood hotels which helped offset declines in (1) Pullman and Mercure Melbourne (2) Pullman and Mercure Brisbane King George Hotel and (3) Novotel Sydney Paramatta. The fair value gains helped drive profit before tax from continuing operations higher at SGD34.5mn in 1QFY2018 (1QFY2017: SGD18.9mn).

- **Interest coverage healthy:** EBITDA (based on our calculation which does not include other income and other expenses) was SGD19.7mn (down 9.8% y/y), while interest coverage as measured by EBITDA/Interest was stronger at 5.3x, relatively flat from the previous year. Interest expense continues to fall due to lower interest rates (4QFY2018 effective interest rate was 2.6% against 2.9% for 4QFY2017) amidst relatively unchanged gross debt levels.

- **Low refinancing risk:** As at 31 March 2018, aggregate leverage improved to 30.8% (31 December 2018: 33.2%). As at 31 March 2018, short term debt was SGD155.7mn, largely consist of secured bank loans. This represents 29% of total gross debt. We see refinancing risk as low given that ASCHT has sold down its China hotel portfolio for RMB1.16bn (~SGD235.9mn), to be adjusted for working capital and proceeds can be used for debt repayment.

- **Bought South Korean hotel and buying more in Japan:** On 21 May 2018, ASCHTS announced that it has acquired 98.7%-stake in KY-Heritage Hotel Dongdaemun in South Korea (1.3% stake is indirectly owned by the Sponsor of ASCHT). Total acquisition cost (including transaction costs) attributable to ASCHT's 98.7%-stake amounts to KRW81.6bn (~SGD100.7mn). In June 2018, ASCHT announced that it will acquire three new 3-star hotels in Osaka, Japan with total cost of acquisition of JPY11.2bn (~SGD137.8mn) and is intended to be fully debt funded. The company had guided that on a pro forma basis ASCHT's aggregate leverage may rise slightly to ~32%. This includes the effects from the completion of (1) sale of the China portfolio (2) the acquisition of the South Korean hotel and (3) SGD160mn of cash is used to repay debt.

Ascendas Hospitality Trust

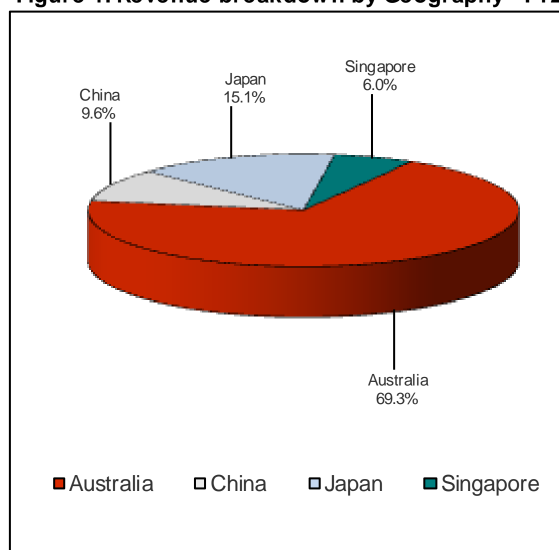
Table 1: Summary Financials

Year Ended 31st March	FY2016	FY2017	FY2018
Income Statement (SGD'mn)			
Revenue	215.1	224.4	203.3
EBITDA	82.4	89.9	77.9
EBIT	56.7	62.3	54.0
Gross interest expense	19.2	17.7	15.3
Profit Before Tax	184.0	56.7	27.1
Net profit	146.6	48.5	17.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	94.6	86.2	67.4
Total assets	1,631.9	1,725.9	1,739.3
Gross debt	533.3	555.2	535.2
Net debt	438.7	469.0	467.7
Shareholders' equity	963.3	1,033.2	1,039.4
Total capitalization	1,496.7	1,588.4	1,574.6
Net capitalization	1,402.1	1,502.2	1,507.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	172.4	76.2	41.2
* CFO	69.5	50.9	72.7
Capex	21.9	11.2	13.7
Acquisitions	0.0	0.0	0.0
Disposals	3.0	0.0	19.5
Dividends	58.2	60.8	64.7
Free Cash Flow (FCF)	47.6	39.7	59.0
* FCF Adjusted	-7.6	-21.1	13.7
Key Ratios			
EBITDA margin (%)	38.3	40.0	38.3
Net margin (%)	68.1	21.6	8.5
Gross debt to EBITDA (x)	6.5	6.2	6.9
Net debt to EBITDA (x)	5.3	5.2	6.0
Gross Debt to Equity (x)	0.55	0.54	0.51
Net Debt to Equity (x)	0.46	0.45	0.45
Gross debt/total capitalisation (%)	35.6	35.0	34.0
Net debt/net capitalisation (%)	31.3	31.2	31.0
Cash/current borrowings (x)	1.6	1.3	0.4
EBITDA/Total Interest (x)	4.3	5.1	5.1

Source: Company, OCBC estimates

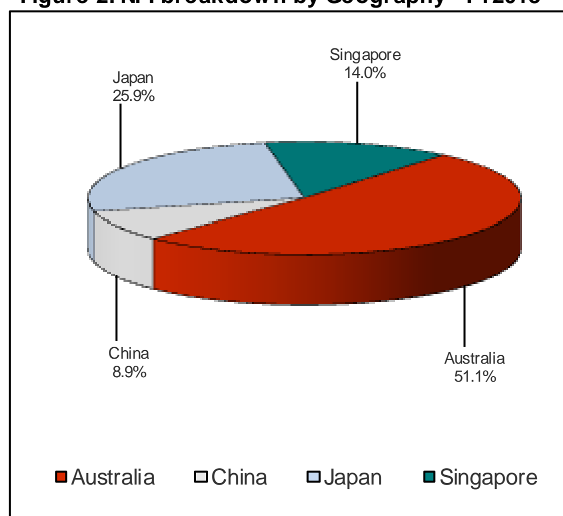
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Geography - FY2018



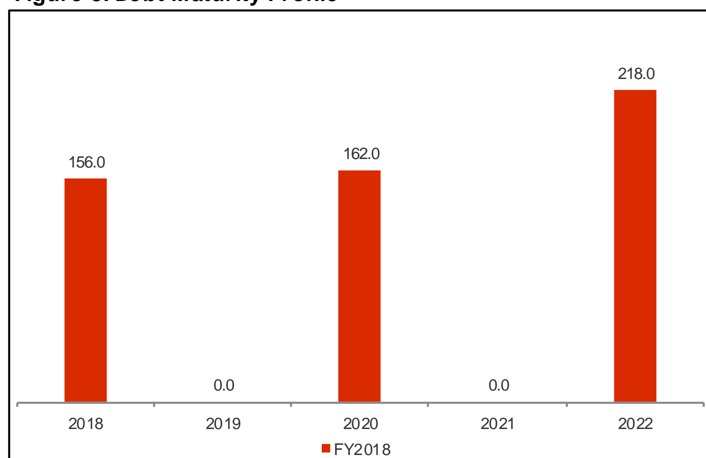
Source: Company

Figure 2: NPI breakdown by Geography - FY2018



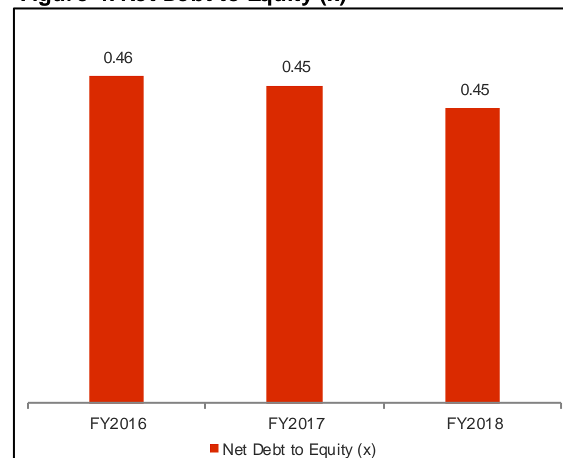
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Ascendas Real Estate Investment Trust

Credit Outlook – We hold the issuer profile of AREIT and CAPL at issuer profile (3) and refer the AREIT curve over CAPL's. At the short end, AREIT's 19s and 20s are trading 10-20bps higher versus CAPL and we are recommending a switch into both AREIT 2.5%'19s and AREI 2.95%'20s. We are lifting the AREIT 4.75%-PERP to Neutral from Underweight. The AREIT 4.75%-PERP is trading 75bps above its comparable seniors (50bps for much of 2018 and 1Q2018).

Issuer Profile: Neutral (3)

Ticker: **AREIT**

Background
Ascendas REIT ("AREIT") is the largest business space and industrial REIT in Singapore, with total assets of SGD10.4bn as at 31 March 2018. AREIT owns a diversified portfolio of 99 properties in Singapore and 32 properties in Australia. AREIT is sponsored by the Ascendas-Singbridge group, which has a deemed interest of 20% in AREIT.

Key credit considerations

- **Growth in 4QFYE March 2018 ("4QFY2018") driven by acquisitions**: Gross revenue increased 3.3% to SGD215.7mn mainly due to acquisitions of three new properties in Australia, full period contribution from 12, 14, 16 Science Park Drive and completion of redevelopment works at 50 Kallang Avenue. This was partly offset by divestment of three investment properties in Singapore. Property-related expenses increased 5.5% y/y to SGD57.9mn in 4QFY2018, driven by the absence of a one-off property tax refund. Net property income thus saw a narrower growth at 2.5% y/y at SGD157.9mn. No performance fees were incurred in 4QFY2018, while AREIT did not elaborate, this is likely due to performance of the REIT not meeting the specified distributable per unit ("DPU") target. On a q/q basis, gross revenue in 4QFY2018 had declined 0.7% (3QFY2018: SGD217.3mn). 108 Wickham Street in Australia was bought on 22 December 2017 while 84 Genting Lane was sold on 19 January 2018. Removing the impact of these asset movements (ie: on a same-store basis), we estimate that AREIT's gross revenue has declined by 1.5% q/q.

- **Interest coverage lower though still healthy:** EBITDA (based on our calculation which does not include other income and other expenses) was 4.4% higher y/y at SGD143.5mn. Reported finance cost was 22.3% lower y/y at SGD28.2mn (though 4QFY2017's finance cost had incorporated a loss on Exchangeable Collateralised Securities ("ECS") and other borrowing costs). Taking only interest expense given that the last of the ECS have all been exchanged into AREIT units and cancelled, we find adjusted EBITDA/Interest at 5.3x in 4QFY2018 versus 5.9x in 4QFY2017.

- **Aggregate leverage:** As at 31 March 2018, aggregate leverage was manageable at 34.4% (end-2017: 35.2%). Perpetuals outstanding was SGD304.4mn. Adjusting 50% of these as debt, we find adjusted aggregate leverage manageable at 35.9%. Short term debt was SGD909.9mn as at 31 March 2018, representing 26% of total gross debt (relatively significant refinancing coming due). Nonetheless, ~70% of these are likely related to revolving credit facilities which we think will be rolled forward. The remainder consists of bank borrowings. With SGD9.1bn of unencumbered assets, we see refinancing risk as manageable at the company. AREIT has diverse funding access. In May 2018, AREIT had raised HKD729mn in bonds (swapped into SGD125.0mn) for refinancing of existing borrowings and/or working capital.

- **Singapore portfolio:** Overall Singapore rental reversions for 4QFY2018 was at -6.8% against a slight positive of 0.5% for the full financial year. In particular, High-Specifications properties saw a -18.8% hit during the quarter. AREIT's Singapore portfolio weighted average lease expiry ("WALE") was manageable at 4.0 years. For the next 12 months to end-March 2019, 15.2% of gross revenue is due for renewal, with a quarter of the expiring leases within the High-Specification segment; we think AREIT would face further lease rate pressures. AREIT's Singapore occupancy tilted up slightly to 89.5% as at March 2018 (end-2017: 88.8%).

- **Australian portfolio:** There were no leases renewed during the quarter for the Australian portfolio. AREIT's Australian occupancy kept stable at 98.5% as at 31 March 2018. In line with what we observe with industrial property leases in Australia, AREIT's Australia WALE was longer at 5.1 years. For the next 12 months to end-March 2019, only 6.3% of gross revenue is due for renewal, driven by properties located in Brisbane.

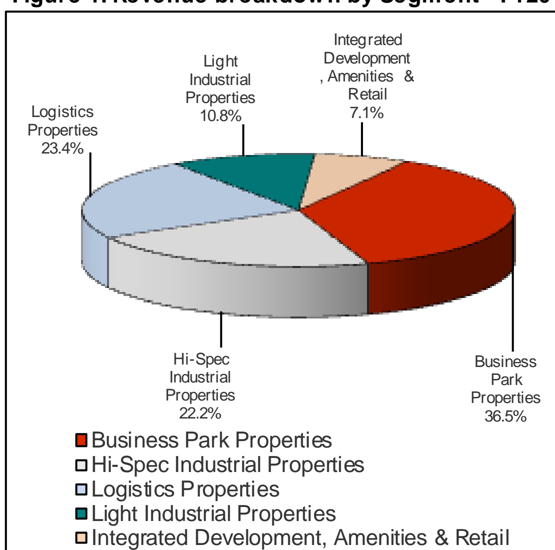
Ascendas Real Estate Investment Trust

Table 1: Summary Financials

Year Ended 31st March	FY2016	FY2017	FY2018
Income Statement (SGD'mn)			
Revenue	761.0	830.6	862.1
EBITDA	466.5	550.3	571.0
EBIT	466.3	550.2	571.0
Gross interest expense	93.6	117.7	109.8
Profit Before Tax	369.3	408.5	496.9
Net profit	344.2	427.5	494.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	56.2	22.0	25.0
Total assets	9,876.0	10,170.8	10,353.8
Gross debt	3,310.6	3,400.1	3,519.2
Net debt	3,254.3	3,378.1	3,494.2
Shareholders' equity	5,796.9	6,335.1	6,498.7
Total capitalization	9,107.5	9,735.2	10,017.9
Net capitalization	9,051.2	9,713.2	9,992.9
Cash Flow (SGD'mn)			
Funds from operations (FFO)	344.3	427.5	494.1
* CFO	481.7	529.3	538.9
Capex	157.8	103.0	132.7
Acquisitions	1,377.2	468.9	226.6
Disposals	38.7	415.5	60.8
Dividends	442.1	515.2	308.8
Free Cash Flow (FCF)	323.9	426.3	406.2
* FCF Adjusted	-1,456.7	-142.3	-68.5
Key Ratios			
EBITDA margin (%)	61.3	66.2	66.2
Net margin (%)	45.2	51.5	57.3
Gross debt to EBITDA (x)	7.1	6.2	6.2
Net debt to EBITDA (x)	7.0	6.1	6.1
Gross Debt to Equity (x)	0.57	0.54	0.54
Net Debt to Equity (x)	0.56	0.53	0.54
Gross debt/total capitalisation (%)	36.4	34.9	35.1
Net debt/net capitalisation (%)	36.0	34.8	35.0
Cash/current borrowings (x)	0.1	0.0	0.0
EBITDA/Total Interest (x)	5.0	4.7	5.2

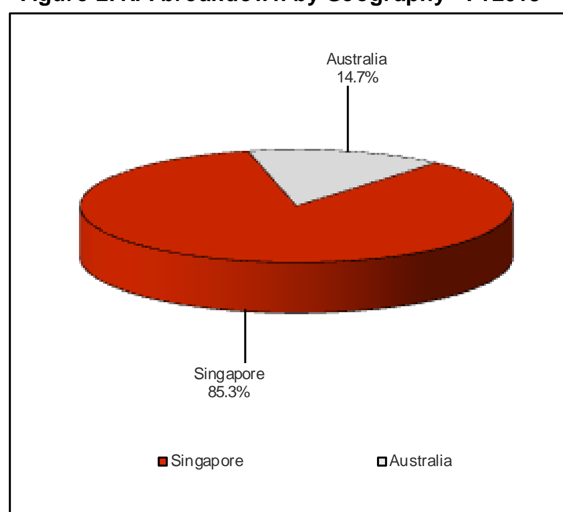
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2018



Source: Company

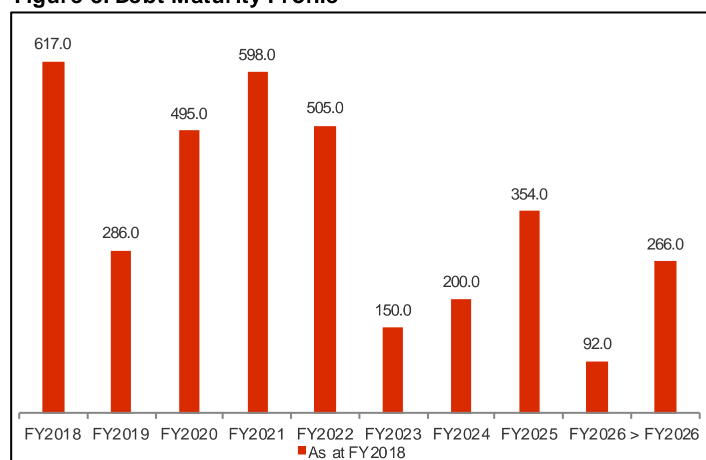
Figure 2: NPI breakdown by Geography - FY2018



Source: Company

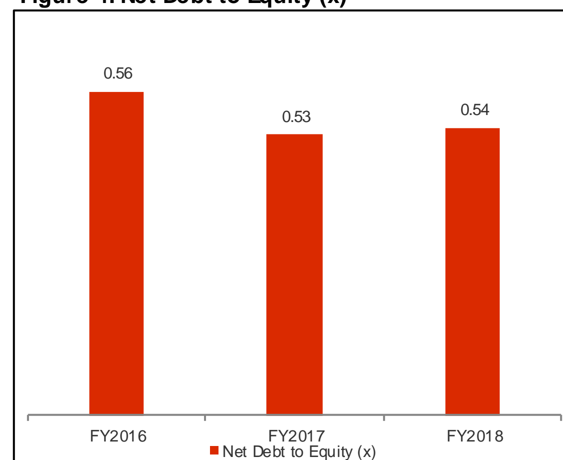
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – In our view both the ART 4.205% '22s and the ART 4.0% '24s are trading fair to the FHREIT seniors. We prefer the FHREIT 4.45%-PERP over both the ART perpetuals. Though between the ARTSP 5%-PERP and ARTSP 4.68%-PERP, we prefer the ARTSP 4.68%-PERP which has a YTC of 4.01%.

Issuer Profile: Neutral (4)

Ticker: **ARTSP**

Background
Ascott Residence Trust ("ART") invests primarily in serviced residences and rental housing properties. It is the largest hospitality trust listed on the SGX with a market cap of SGD2.3bn. As at 31 March 2018, ART's portfolio consists of 73 properties with 11,430 apartment units in 37 cities across 14 countries.

Ascott Residence Trust

Key credit considerations

- **Increase in revenue driven by acquisitions:** 1Q2018 reported gross revenue was up 1.4% y/y to SGD112.8mn. This was driven by additional revenue from acquisitions made in 2017, namely Ascott Orchard Singapore ("AOS"), two serviced residences in Germany and DoubleTree by Hilton Hotel in New York. These helped mitigate the revenue impact of (1) divestments (18 rental housing properties in Japan and two properties in China) and (2) decline in performance in certain existing properties. Reported gross profit was up 2.7% y/y to SGD48.7mn. On a same-store basis (excludes the impact of acquisitions and divestments), ART's portfolio saw a 2.5% y/y decline, we think driven by weaker performance in Vietnam, Singapore, and the Philippines.

- **39% of gross profit now from Master Leases:** This has increased from 31% y/y in 1Q2017 following the acquisition of AOS (which is under a Master Lease with ART's Sponsor). Other significant assets under Master Leases include Ascott Raffles Place Singapore and all of ART's 17 assets in France. Singapore and France made up 65% of total gross profit from Master Leases. On the back of deterioration in the French hospitality market, we note that the four leases from France were renewed at lower rents. ART's remaining French Master Leases would expire in less than one to three years, and we think these are likely to be renewed at lower rates. Corporate demand for ART's Singapore properties have been weak, compounded by additional room supply which have led to declines in average daily room rates, despite still strong occupancies. Of ART's four Singapore properties (totaling SGD0.97bn in valuation), two properties are on Master Leases which help insulate volatility. 11% of gross profits are from management contracts with a minimum guaranteed income.

- **Interest coverage improved:** EBITDA (based on our calculation which does not include other income and other expenses) was SGD45.1mn (up 1.7% y/y). Finance cost was down 2.3% y/y to SGD11.6mn, with resultant interest coverage as measured by EBITDA/Interest higher at 3.9x versus 3.7x in 1Q2017. Outstanding perpetuals at ART was SGD400mn as at 31 March 2018 (representing 8.0% of total capital). We estimate ART would pay SGD19.2mn p.a. on distributions to perpetuals holders. Adjusting 50% of these as interest, we find Adjusted EBITDA/Interest at 3.2x.

- **Manageable aggregate leverage:** As at 31 March 2018, aggregate leverage was manageable at 36.1% (relatively flat against end-2017). ART's aggregate leverage has come down from 41.1% in end-March 2017, post ART's rights issue that raised SGD442.7mn in equity to help fund acquisitions. Adjusting 50% of perpetuals as debt, we find adjusted aggregate leverage at 40% as at 31 March 2018.

- **Short term refinancing risk manageable:** Short term debt at ART was SGD231.5mn (this includes a JPY5.0bn (~SGD62.0mn) bond due in September 2018 and SGD100mn in bonds due in November 2018, with the remaining in bank debt). Cash balance was SGD190.9mn as at 31 March 2018, which allows ART to pay down the bulk of its debt from cash (if it so chooses). Nonetheless, we note that traditionally ART maintains a cash buffer, with cash making up ~4% of total assets. With aggregate leverage manageable, there is a good chance that ART may opt to refinance debt instead and keep the cash as war chest (eg: to acquire assets from Sponsor, which remains keen to recycle assets via ART).

Ascott Residence Trust

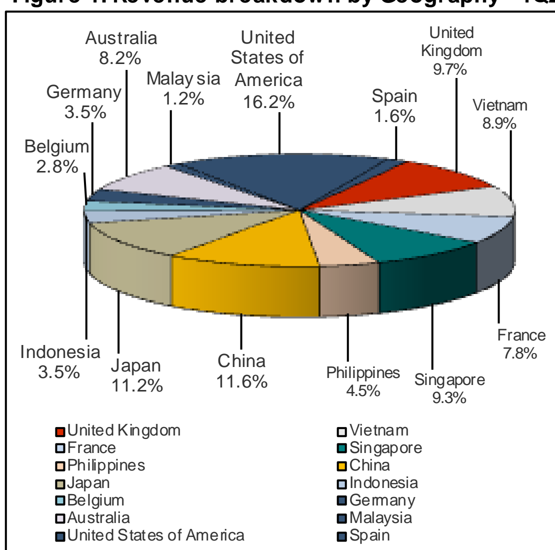
Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	475.6	496.3	112.8
EBITDA	207.2	212.1	45.1
EBIT	194.3	198.8	41.8
Gross interest expense	50.0	46.7	11.6
Profit Before Tax	179.5	274.4	32.7
Net profit	143.3	214.2	28.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	143.1	257.3	190.9
Total assets	4,791.3	5,493.1	5,249.5
Gross debt	1,862.6	1,945.4	1,852.7
Net debt	1,719.6	1,688.0	1,661.8
Shareholders' equity	2,682.3	3,171.7	3,130.8
Total capitalization	4,544.9	5,117.1	4,983.5
Net capitalization	4,401.8	4,859.7	4,792.6
Cash Flow (SGD'mn)			
Funds from operations (FFO)	156.3	227.5	31.4
* CFO	200.1	181.3	36.8
Capex	57.4	26.2	4.2
Acquisitions	214.0	628.0	0.0
Disposals	74.8	262.5	90.2
Dividends	150.1	166.8	80.2
Free Cash Flow (FCF)	142.8	155.1	32.5
* FCF Adjusted	-146.5	-377.2	42.6
Key Ratios			
EBITDA margin (%)	43.6	42.7	40.0
Net margin (%)	30.1	43.2	24.9
Gross debt to EBITDA (x)	9.0	9.2	10.3
Net debt to EBITDA (x)	8.3	8.0	9.2
Gross Debt to Equity (x)	0.69	0.61	0.59
Net Debt to Equity (x)	0.64	0.53	0.53
Gross debt/total capitalisation (%)	41.0	38.0	37.2
Net debt/net capitalisation (%)	39.1	34.7	34.7
Cash/current borrowings (x)	1.0	1.0	0.8
EBITDA/Total Interest (x)	4.1	4.5	3.9

Source: Company, OCBC estimates

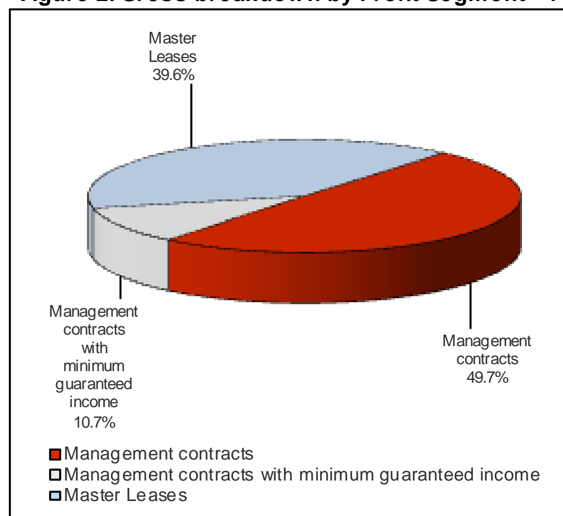
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Geography - 1Q2018



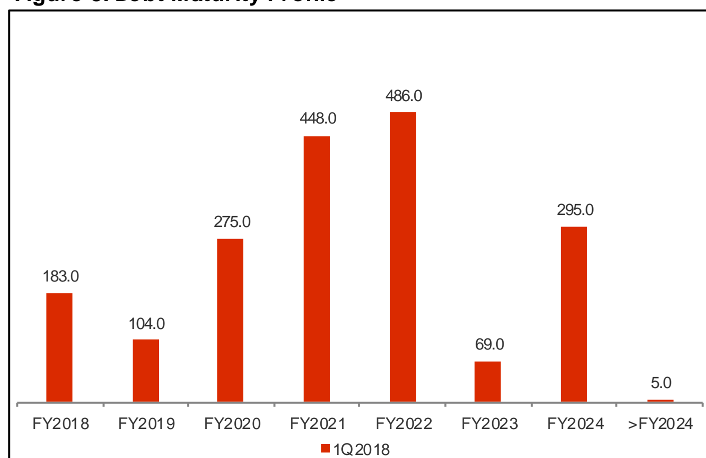
Source: Company

Figure 2: Gross breakdown by Profit Segment - 1Q2018



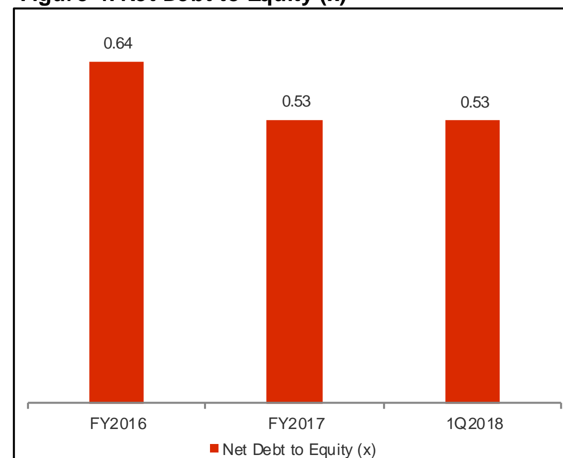
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –
We are Underweight the new ASPSP 5.9 ‘21s given the elevated net gearing levels despite the 7.4% YTM. For investors who are comfortable with Aspial, ASPSP 5.3% ‘20s offer better value trading at 9.76% YTM for a shorter maturity.

Issuer Profile: Negative (6)

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 (main brands: Lee Hwa, Goldheart and CITIGEMS) to a diversified company with real estate and pawnshop businesses. Aspial has a market capitalization of SGD474.4mn as of 5 Jul 2018. 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

- **Stronger results lifted by property development segment:** 1Q2018 revenue grew 51% y/y to SGD212.4mn, mainly due to the real estate segment (+96.9% y/y to SGD133.7mn) from the sales of CityGate and the settlement and handover of complete residential units for Avant project in Australia. The higher revenues translated to higher pre-tax profit of SGD11.6mn from the segment (1Q2017: SGD8.8mn). Financial service segment revenue (+19.7% y/y to SGD44.1mn) also did better, with higher interest income from pawnbroking and secured lending. However, pre-tax profit fell to SGD2.6mn (1Q2017: SGD3.5mn) due to SGD2.2mn FX losses. Higher sales from retail and trading of jewellery were also seen though the Jewellery segment continues to post SGD1.7mn pre-tax losses. Overall, pre-tax profit increased 20.8% y/y to SGD10.6mn.

- **Weak credit metrics to be alleviated by further cash inflows:** Net gearing declined q/q to 3.26x (4Q2017: 3.35x) due to cash proceeds received from its development projects. We expect this to come down further (likely below 2.0x, depending on management’s commitment to deleverage) as Aspial expects to receive SGD1.0bn of cash proceeds in FY2018. This mainly comprises more than SGD700mn from the completion of Avant in 2018 and 3 out of 6 stages of Australia 108 (Melbourne’s tallest building). Aspial also has SGD120mn locked-in revenue from CityGate, which is expected to obtain TOP in 2H2018. Aspial intends to use the cash proceeds to repay outstanding loans and cover the remaining development costs (2017 capital commitments for property development expenditure: SGD417.9mn). Over 2018-19, Aspial expects a total of SGD1.5bn in gross cash proceeds (inclusive of FY2018’s SGD1.0bn). However, we note Aspial guarantees another SGD157.6mn, from borrowings by joint operations, joint ventures and associates.

- **Strong execution and refinancing key to tackle tight liquidity:** SGD720.3mn interest-bearing loans and borrowings are current, of which SGD241.0mn are consolidated from 64.0%-owned subsidiary Maxi-Cash. Cash of SGD169.1mn is insufficient to cover the remaining SGD479.3mn of current debt, though this is partly alleviated by the issuance of SGD50mn ASPSP 5.9% ‘21s. However, the small issuance size may indicate the limited appetite by the market, and we note that SGD74mn out of SGD100mn holders of ASPSP 5.5% ‘18s chose not to proceed with the exchange to ASPSP 5.9% ‘21s. While Aspial holds SGD185.2mn of investment securities, there is uncertainty if this can be easily liquidated in the market. Similarly, we think that Aspial’s 64.0% stake in Maxi-Cash (worth SGD93.9mn) and 81.1%-owned World Class Global (worth SGD178.3mn) may be difficult to quickly liquidate. As such, execution in delivering the units will be crucial.

- **Property development as the primary driver:** Real estate accounts for SGD1.1bn out of SGD2.0bn of Aspial’s total assets, which should be mainly attributed to the Australian assets at World Class Global (SGD908.3mn). As discussed, Australia 108 and Avant are expected to contribute significantly with close to 100% of the units sold. In Cairns (Australia), Aspial is developing Nova City Tower 1 Cairns, which has sold 40% based on 101 units launched. Nova City has 120,000 sqm total GFA and is targeted for completion from 2019.

- **Growth in financial service segment:** Financial service accounts for SGD446.2mn of Aspial’s total assets. Through the “Maxi-Cash” brand, Aspial conducts pawnbroking. We note that pre-tax profits of the financial service segment have grown significantly from SGD4.3mn in 2015 to SGD15.0mn in 2017. We like that this segment contributes near-recurring income with interest-bearing loans of 1.0%-1.5% to customers that are typically significantly over collateralised.

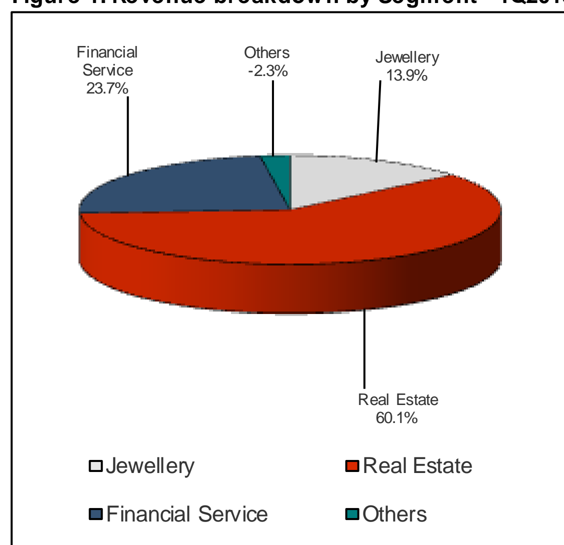
Aspial Corp Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	621.0	485.1	212.4
EBITDA	24.5	26.4	14.7
EBIT	19.8	20.8	13.3
Gross interest expense	54.9	54.6	7.1
Profit Before Tax	6.9	14.8	12.8
Net profit	1.1	2.3	7.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	70.3	54.9	169.1
Total assets	1,721.8	2,000.5	2,106.3
Gross debt	1,253.1	1,484.6	1,577.1
Net debt	1,182.8	1,429.7	1,408.0
Shareholders' equity	376.9	426.7	432.3
Total capitalization	1,630.0	1,911.3	2,009.4
Net capitalization	1,559.7	1,856.4	1,840.3
Cash Flow (SGD'mn)			
Funds from operations (FFO)	5.8	7.9	9.1
* CFO	4.6	-198.5	26.5
Capex	24.2	40.0	7.9
Acquisitions	0.1	6.1	0.0
Disposals	275.4	246.4	43.1
Dividend	9.9	5.3	0.0
Free Cash Flow (FCF)	-19.6	-238.5	18.5
* FCF Adjusted	245.8	-3.4	61.6
Key Ratios			
EBITDA margin (%)	3.9	5.4	6.9
Net margin (%)	0.2	0.5	3.6
Gross debt to EBITDA (x)	51.1	56.3	26.7
Net debt to EBITDA (x)	48.3	54.2	23.9
Gross Debt to Equity (x)	3.33	3.48	3.65
Net Debt to Equity (x)	3.14	3.35	3.26
Gross debt/total capitalisation (%)	76.9	77.7	78.5
Net debt/net capitalisation (%)	75.8	77.0	76.5
Cash/current borrowings (x)	0.1	0.1	0.2
EBITDA/Total Interest (x)	0.4	0.5	2.1

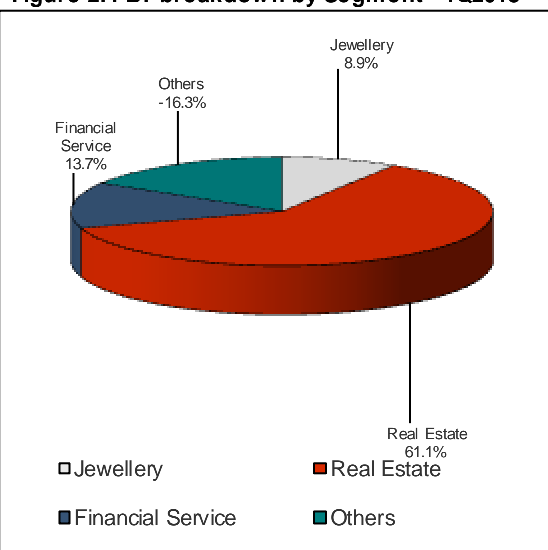
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1Q2018



Source: Company

Figure 2: PBT breakdown by Segment - 1Q2018



Source: Company

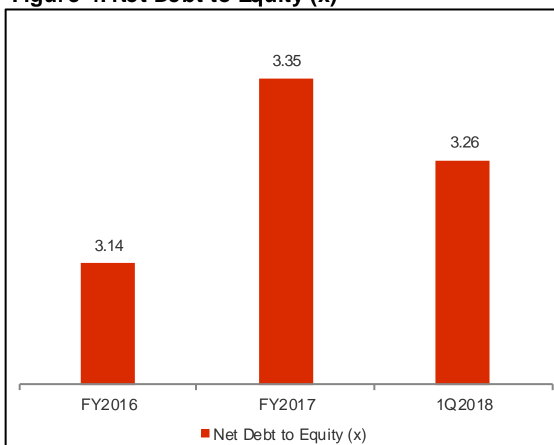
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	720.3	45.7%
Unsecured	98.0	6.2%
	818.3	**51.9%**
Amount repayable after a year		
Secured	217.3	13.8%
Unsecured	541.5	34.3%
	758.8	**48.1%**
Total	**1,577.1**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook –
We are neutral the BTH 5.35% '18s though underweight the BTH 4.875% '19s and prefer the HTONSP 6.1% '20s. A switch will provide a spread pick up of 130 bps which more than compensates for the 11 month longer duration.

Issuer Profile: Neutral (5)

Ticker: **BTHSP**

Background
Banyan Tree Holdings ("BTH"), listed on the SGX is an international developer and operator of resorts residences, spas, retail galleries and golf courses. BTH's flagship brand "Banyan Tree" is a household name regionally in the high-end hospitality segment. BTH holds an ~86%-stake in Laguna Resorts & Hotels Pcl ("LRH"), which is listed on the Thailand Stock Exchange ("SET") .

Banyan Tree Holdings

Key credit considerations

- **Relatively stronger EBITDA interest coverage:** Revenue increased 8.6% y/y to SGD98.2mn in 1Q2018, driven by higher revenue from the Property Sales segment (both hotel residences and Laguna Property Sales grew) and the Hotel Investments segment (up 4.5% y/y). This was partly offset by lower revenue from the Fee-based segment (Spa/Gallery Operations no longer consolidate China operations and Design & Others saw revenue decline while Hotel/Fund/Club Management saw revenue increase 7.3% y/y). High revenue was recognised at the Property Sales segment mainly due to the phase two completions of Cassia Bintan and Cassia Phuket. A total of 29 property units were recognised in 1Q2018 (versus 6 units in 1Q2017). Hotel Investments saw an increase from stronger contribution from hotels in Thailand and Seychelles.

- **Profits boosted by one-off income:** Reported operating profit was significantly higher at SGD37.3mn (up 100.9% y/y) though the growth was mainly due to other income of SGD17.1mn (one-off gain from dilution of the group's China joint venture in its partnership with China Vanke Co. Ltd). EBITDA (based on our calculation which does not include other income and other expenses) was SGD20.2mn (up 11.4% y/y). Excluding capitalized interest resultant EBITDA/Interest coverage was stronger at 2.8x (2.6x in 1Q2017). Finance costs increased slightly by 2.7% to SGD7.2mn despite the lower average debt in 1Q2018 versus 1Q2017, indicating that cost of debt at BTH had risen. Given seasonality in the resorts business, the first quarter tends to be a strong quarter for BTH. BTH ended 1Q2018 with profit attributable to owners of the company of SGD20.2mn against SGD1.2mn in 1Q2017. In 2017 and 2016, the first quarter made up ~77% of full year EBITDA (second and third quarters were loss-making). Full year 2017 EBITDA of SGD23.7mn was insufficient to cover interest of SGD28.2mn.

- **Expect a rise in net gearing from buying more stakes in LRH:** As at 31 March 2018, net gearing at BTH was 0.5x, relatively flat against end-2017. In April 2018, BTH completed the voluntary tender offer for remaining shares in its subsidiary LRH which is listed in Thailand. Post-the transaction, BTH's stake in LRH had increased to 86.28% from 65.75% and we expect BTH to have paid THB1.4bn (~SGD58mn) to purchase these shares. We take some comfort that the final transaction size was smaller than originally planned. As an already partly-owned subsidiary, LRH results were already consolidated into the financials of BTH prior to the transaction. Assuming that the additional stake in LRH was purchased via debt and that minority interest had been reduced (since BTH had effectively bought stakes from minority investors in LRH), we expect net gearing to rise somewhat and this would be seen in 2Q2018 financials.

- **Short term debt coming due:** As at 31 March 2018, cash balance at BTH amounted to SGD158.9mn and we expect this would have declined to SGD100.9mn. As at 31 March 2018, short term debt at BTH amounted to SGD187.9mn (representing 34% of BTH's total debt) and BTH would need to refinance this debt rather than paying them down, especially more so post the LRH stake acquisition. Of the short term debt, SGD120mn relates to two bonds due in end-July and end-November 2018 respectively while the rest relate to secured bank loans. SGD467.4mn of assets (largely property related) has been secured to obtain loans. The amount of collateral represents ~45% of property-related assets and signify that BTH still has some financial flexibility to raise secured debt for refinancing, if need be.

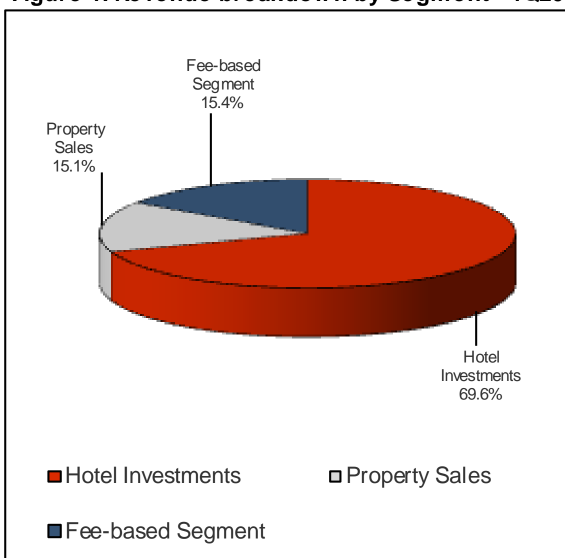
Banyan Tree Holdings

Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	309.6	317.5	98.2
EBITDA	22.0	23.7	20.2
EBIT	-3.0	-1.4	14.5
Gross interest expense	35.7	34.0	8.7
Profit Before Tax	0.7	22.7	25.5
Net profit	-16.2	12.9	20.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	108.8	159.0	158.9
Total assets	1,608.2	1,679.7	1,732.8
Gross debt	616.6	565.9	554.9
Net debt	507.8	407.0	396.1
Shareholders' equity	732.8	777.5	806.0
Total capitalization	1,349.4	1,343.5	1,360.9
Net capitalization	1,240.7	1,184.5	1,202.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	8.9	38.0	25.9
* CFO	-6.2	-0.3	19.5
Capex	16.3	13.0	6.4
Acquisitions	3.8	0.0	0.0
Disposals	0.0	69.3	0.1
Dividend	1.2	0.6	0.0
Free Cash Flow (FCF)	-22.5	-13.3	13.1
* FCF adjusted	-27.5	55.4	13.3
Key Ratios			
EBITDA margin (%)	7.1	7.5	20.6
Net margin (%)	-5.2	4.1	20.6
Gross debt to EBITDA (x)	28.0	23.8	28.3
Net debt to EBITDA (x)	23.0	17.1	20.2
Gross Debt to Equity (x)	0.84	0.73	0.69
Net Debt to Equity (x)	0.69	0.52	0.49
Gross debt/total capitalisation (%)	45.7	42.1	40.8
Net debt/net capitalisation (%)	40.9	34.4	33.0
Cash/current borrowings (x)	0.7	0.8	0.8
EBITDA/Total Interest (x)	0.6	0.7	2.3

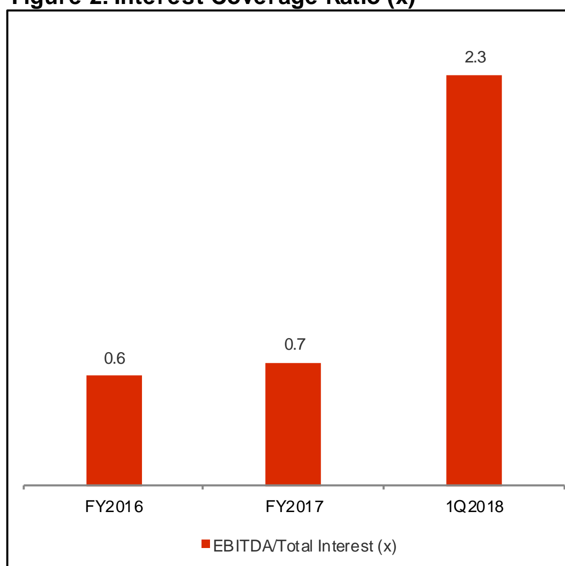
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1Q2018



Source: Company

Figure 2: Interest Coverage Ratio (x)



Source: Company

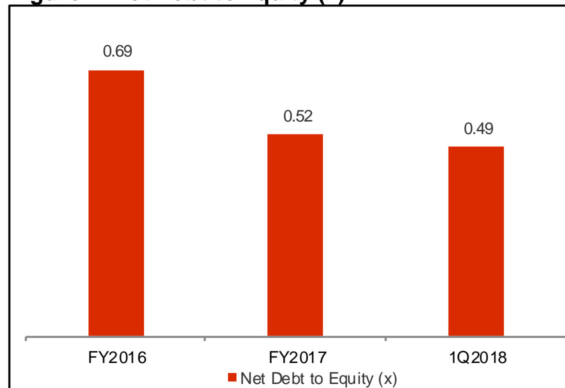
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	59.0	10.6%
Unsecured	128.9	23.2%
	187.9	**33.9%**
Amount repayable after a year		
Secured	136.3	24.6%
Unsecured	230.7	41.6%
	367.1	**66.1%**
Total	**554.9**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

BreadTalk Group Ltd

Credit Outlook – We think both BREAD '19s and BREAD '23s look fair. However, as a rare F&B issuer, they offer diversification for investors. In the retail space, we prefer BREAD '23s (4.0% YTM) over FCTSP '24s (3.25% YTM) with a yield pickup and shorter maturity.

Issuer Profile: Neutral (5)

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 943 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 Din Tai Fung ("DTF") as a franchisee. The company is majority owned by founders George Quek (34.01%) and Katherine Lee (18.62%).

Key credit considerations

- **Bakery as a drag on performance:** 1Q2018 revenue was flattish (+0.5% y/y to SGD148.5mn) mainly due to a disparity in performance between BGL's main business segments. Bakery's revenue fell 4.5% y/y to SGD70.4mn, mainly due to lower revenue from direct operated stores at Shanghai, Beijing and Hong Kong while lower franchise revenue was received from China (at 254 outlets, 24 fewer outlets y/y). Food Atrium's revenue increased 3.3% y/y to SGD37.5mn with strong same store growth, though this was partially offset by 4 fewer outlets. Restaurant was the outperformer, growing 6.4% y/y to SGD36.9mn with 1 outlet in Singapore and 2 outlets added in Thailand. While revenue was flattish, total EBITDA for the 3 core segments fell 2.2% y/y to SGD17.8mn, with Bakery segment as the largest drag (-31.0% y/y to SGD3.8mn) due to lower revenue (which also depresses margins). Food Atrium EBITDA (-3.7% y/y to SGD5.3mn) was dragged down by outlet closures while Restaurant reported stronger EBITDA (+24.4% y/y to SGD8.7mn).

- **Growing the F&B business:** BGL has been in a consolidation phase to slow down expansion and close underperforming outlets, which resulted in a stagnation of revenue since 2015. With the clean-up of the Food Atrium segment, BGL appears to be attempting to arrest the decline, with expansions including (a) entering into a 90-10 JV to partner Song Fa Bak Kut Teh in China and Thailand, (b) opening Din Tai Fung restaurant in the UK, (c) partnering Shinmei in sourcing, procurement and supply of key raw materials and ingredients, (d) partnering Shenzhen Pindao to operate and manage popular tea beverage brands in Singapore and Thailand, (e) development of new brands (e.g. rebranding of RamenPlay to Sō, (f) partnering Pura Indah to operate Toast Box in Indonesia.

- **Potential utilisation of cash:** BGL surprised us with the issuance of SGD100mn BREAD 4% '23s in Jan 2018 given its highly cash flow generative business and healthy credit metrics. Thus far, BGL has committed to deployment significant capital (~SGD80mn) to subscribe for a 5%-stake in a Perennial-led China JV for property development in China. BGL has also purchased shop properties at 8 and 8A Sixth Avenue for SGD12.5mn and freehold shop house located in Holland Village for SGD16.2mn. We surmise that BGL may also undertake a significant increase in capex and large-scale partnerships/acquisitions to turn around the decline in revenue.

- **Din Tai Fung as an outsized contributor:** The restaurant segment, which mainly comprises Din Tai Fung ("DTF"), contributed SGD8.7mn out of SGD16.3mn reported EBITDA in 1Q2018. While BGL's DTF franchise agreement will expire in July 2021, we are not overly worried as BGL has been successfully running the franchise since 2003 and management has expressed confidence in the continuation of the franchise given its track record. The franchisor's interest is aligned, with 20% stake in DTF. As a testimony to the confidence in BGL, the franchisor has also chosen to partner BGL in the UK.

- **Credit metrics intact, for now:** net gearing inched down to 0.24x (2017: 0.26x), mainly due to an increase in equity with investment securities increasing SGD51.9mn q/q due to the adoption of SFRS (9) on 1 Jan 2018. Reported net debt/EBITDA improved to 0.28x (2017: 0.49x). We expect credit metrics to deteriorate when BGL consumes its cash balance for growth. However, we remain comfortable given BGL's highly cash flow generative business. We also see the potential for monetisation of its property assets, including 5.3% stake in AXA Tower and 29% stake in CHIJMES.

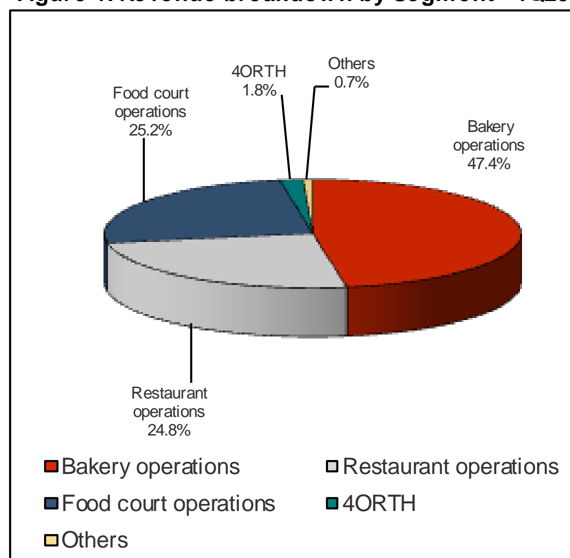
BreadTalk Group Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	615.0	599.7	148.5
EBITDA	58.0	51.2	17.9
EBIT	5.8	10.8	9.2
Gross interest expense	5.9	5.4	2.5
Profit Before Tax	29.7	41.0	14.7
Net profit	11.4	21.8	9.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	120.6	141.2	210.6
Total assets	533.9	557.1	673.6
Gross debt	181.3	183.3	260.9
Net debt	60.7	42.1	50.2
Shareholders' equity	151.9	160.5	209.5
Total capitalization	333.3	343.8	470.3
Net capitalization	212.7	202.6	259.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	63.6	62.3	18.6
* CFO	85.2	84.3	6.2
Capex	31.9	37.1	6.4
Acquisitions	2.8	25.5	6.0
Disposals	16.4	30.8	0.0
Dividend	9.7	20.3	0.0
Free Cash Flow (FCF)	53.3	47.2	-0.3
* FCF adjusted	57.2	32.2	-6.3
Key Ratios			
EBITDA margin (%)	9.4	8.5	12.1
Net margin (%)	1.9	3.6	6.6
Gross debt to EBITDA (x)	3.1	3.6	2.8
Net debt to EBITDA (x)	1.0	0.8	0.5
Gross Debt to Equity (x)	1.19	1.14	1.25
Net Debt to Equity (x)	0.40	0.26	0.24
Gross debt/total capitalisation (%)	54.4	53.3	55.5
Net debt/net capitalisation (%)	28.6	20.8	19.3
Cash/current borrowings (x)	3.8	2.5	4.0
EBITDA/Total Interest (x)	9.8	9.5	7.2

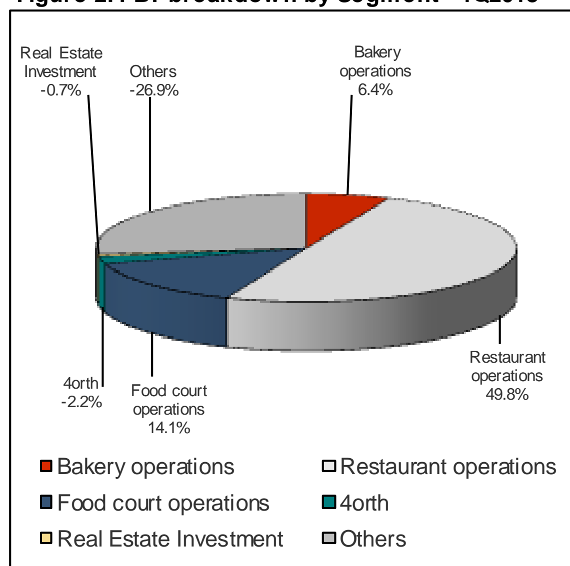
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1Q2018



Source: Company

Figure 2: PBT breakdown by Segment - 1Q2018



Source: Company | Printing & others made operating losses

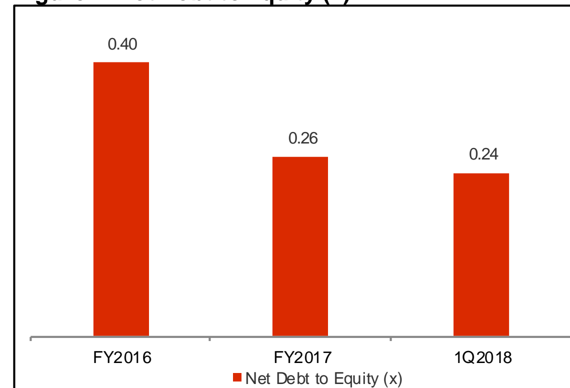
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	35.5	13.6%
Unsecured	17.7	6.8%
	53.2	**20.4%**
Amount repayable after a year		
Secured	32.2	12.3%
Unsecured	175.5	67.3%
	207.6	**79.6%**
Total	**260.9**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We think the CCTSP curve looks fair against similarly rated peers such as MCTSP. Comparing outside the REIT universe, we prefer the CITSP curve over the CCTSP curve given the former's stronger credit profile

Issuer Profile: Neutral (3)

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 SG9.3bn of total assets as of 31 Mar 2018. The portfolio comprises nine prime properties in Singapore, a property in Germany as well as investments in Malaysia. About ~81% of the portfolio's valuation (2017) is contributed by Asia Square Tower 2, Raffles City Singapore (RCS, 60%-owned), Capital Tower, CapitaGreen and Six Battery Road. CCT is 30.0%-owned by CapitaLand Ltd.

CapitaLand Commercial Trust

Key credit considerations

- **Results fuelled by acquisitions:** 1Q2018 revenue increased 7.7% y/y to SGD96.4mn, driven mainly by the acquisition of Asia Square Tower 2 ("AST2") in Nov 2017, which offset the 50% divestment of One George Street ("OGS") in June 2017, Wilkie Edge in Sep 2017 and closure of Golden Shoe Car Park (for redevelopment) in Jul 2017. Most assets saw stable or uplifts in revenue though at Twenty Anson's (which accounts for 4.2% of portfolio by value), revenue was down 19.3% y/y to SGD4.6mn. In-line with higher revenue, portfolio NPI increased 10.5% y/y to SGD77.2mn.

- **Pressure on rental reversion receding:** Performance in 2018 may remain volatile as CCT's portfolio average expiring rents stand at SGD10.82 psf/mth versus 1Q2018 Grade A market rents at SGD9.70 psf/mth. Nevertheless, CCT seems to indicate that rental reversions are starting to recover, with committed rents largely higher than expiring rents in 1Q2018. The upward reversions may be stronger going forward with CCT's expiring rents in 2019 and 2020 lower at SGD10.37 psf/mth and SGD9.45 psf/mth respectively. Meanwhile, market clearing rents are expected to pick up given the sharp decline in office supply for 2019 (556,000 sqft) and 2020 (782,000 sqft) (2013-2017: 1.0mn sqft p.a.)

- **Turning overseas for growth**: With limited acquisition opportunities in Singapore, CCT targets to allocate 10%-20% of total deposited properties (~SGD2.1bn) for overseas acquisitions. In June 2018, CCT completed the EUR342.7mn (~SGD548.3mn) acquisition of a 94.9% interest in Gallileo Property, which is a Grade A office building (NLA: 436,175 sqft) in Frankfurt CBD, Germany. The property NPI yield is 4.0%, with 98% of the space leased to Commerzbank. Foreign assets may offer more opportunities for CCT to grow and may have longer WALE, though this introduces FX risks into the portfolio.

- **Portfolio repositioning:** CCT is redeveloping the former Golden Shoe Car Park (Valuation of CCT's 45% interest: SGD472.5mn, which represents 4.5% of portfolio) into CapitaSpring, with the project slated for completion in 1H2021. Meanwhile, the government will be taking back Bugis Village (which contributed 2.2% of CCT's 1Q2018 NPI) with a compensation of SGD40.7mn, which we note is below 31 Dec 2017's valuation of SGD44.0mn. Separately, CCT has announced the sale of Twenty Anson to an unrelated third party for SGD516mn (valued at SGD433mn as at 31 Dec 2017). Proceeds may be used for debt repayment and/or growth opportunities.

- **Manageable vacancy and lease expiry:** Portfolio committed occupancy remained unchanged at 97.3% q/q. WALE is healthy at 5.7 years (2017: 5.9 years) with just 5% of leases (by NLA) outstanding in 2018. While 2019's lease expiries are sizeable (31% of NLA), work has begun with lease extension of 4% of NLA. Meanwhile, JPMorgan committed to 155,000 sqft at CapitaSpring.

- **Stable leverage with extension in debt maturity profile:** Aggregate leverage inched higher to 37.9% (2017: 37.3%) due to additional borrowings taken. With the acquisition of Gallileo, CCT guided aggregate leverage worsening to 39.0% with the acquisition funded by EUR350mn (~SGD560mn) loan facility and placement of 130mn units (~SGD212.0mn). CCT had managed to extend its average debt maturity to 3.9 years (4Q2017: 2.4 years), partly due to its SGD300mn 6-year bond issued in Feb 2018 and SGD200mn 7-year bond issued in Mar 2018. CCT also partially refinanced SGD1.1bn in bank loans (which were bridge financing taken to acquire AST2) due in 2019 to 2022 (SGD448mn) and 2023 (SGD300mn). Reported interest coverage remains healthy at 5.1x.

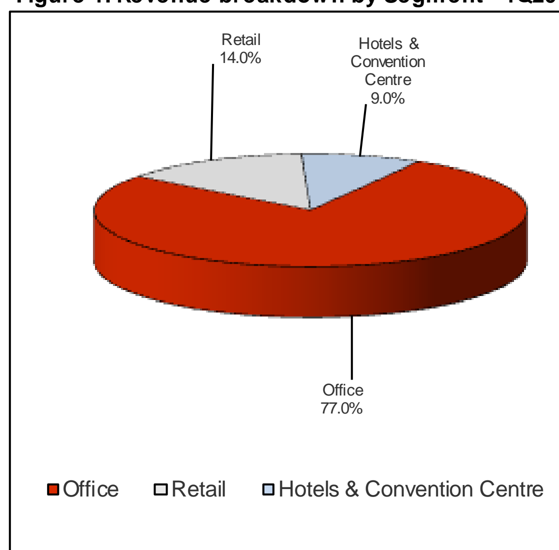
CapitaLand Commercial Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	298.6	337.5	96.4
EBITDA	215.0	249.9	73.1
EBIT	212.4	244.4	71.6
Gross interest expense	50.1	69.0	19.3
Profit Before Tax	261.8	582.5	78.1
Net profit	260.6	578.8	77.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	160.0	122.6	98.8
Total assets	8,051.1	9,354.0	9,341.2
Gross debt	2,639.0	2,720.2	2,781.8
Net debt	2,479.1	2,597.6	2,683.0
Shareholders' equity	5,278.5	6,416.9	6,369.2
Total capitalization	7,917.6	9,137.1	9,151.0
Net capitalization	7,757.6	9,014.6	9,052.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	263.3	337.9	78.5
* CFO	203.1	250.8	63.8
Capex	17.3	5.3	3.2
Acquisitions	356.9	2,067.2	19.1
Disposals	0.0	1,230.4	0.0
Dividends	258.6	279.7	140.8
Free Cash Flow (FCF)	185.8	245.5	60.6
* FCF Adjusted	-429.7	-870.9	-99.3
Key Ratios			
EBITDA margin (%)	72.0	74.0	75.8
Net margin (%)	87.3	171.5	79.8
Gross debt to EBITDA (x)	12.3	10.9	6.1
Net debt to EBITDA (x)	11.5	10.4	5.9
Gross Debt to Equity (x)	0.50	0.42	0.44
Net Debt to Equity (x)	0.47	0.40	0.42
Gross debt/total capitalisation (%)	33.3	29.8	30.4
Net debt/net capitalisation (%)	32.0	28.8	29.6
Cash/current borrowings (x)	0.9	NM	5.2
EBITDA/Total Interest (x)	4.3	3.6	3.8

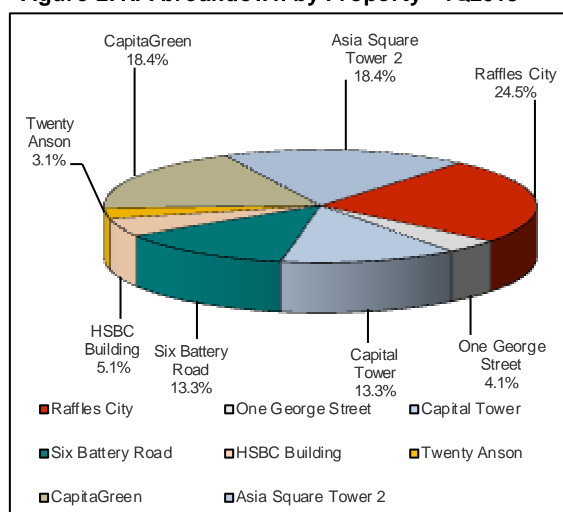
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1Q2018



Source: Company

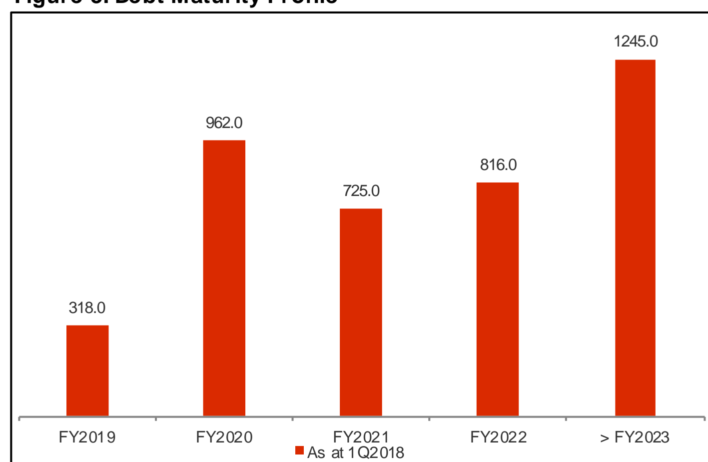
Figure 2: NPI breakdown by Property - 1Q2018



Source: Company

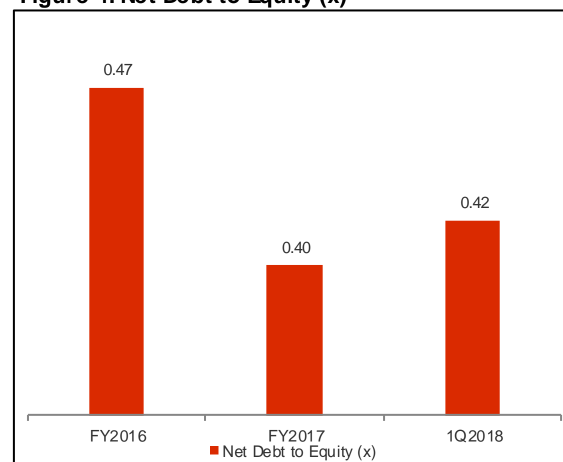
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

CapitaLand Ltd

Credit Outlook – We continue to prefer the CITSP curve versus the CAPLSP curve given similar spreads. We are currently Overweight on CITSP '26s (3.64% YTM), CITSP '24s (3.26% YTM) and CITSP '23s (3.07% YTM).

Issuer Profile: Neutral (3)

Ticker: **CAPLSP**

Background

CapitaLand Ltd ("CAPL") is Singapore's leading real estate developer, operating across residential development, serviced residences, retail & office REITs and real estate fund management. Geographical segments include CL Singapore, Malaysia and Indonesia ("CLSMI"), CL China ("CLC"), CL Vietnam ("CLV") and CL International ("CLI"). CAPL reported SGD62.1bn in total assets as at 1Q2018 and it is 40.6%-owned by Temasek Holdings Ltd.

Key credit considerations

- **Accounting changes and REIT consolidation impacted results:** Revenue increased sharply by 53.3% y/y to SGD1.38bn due to higher contributions from development projects in Singapore and China, rental from new properties and consolidation of revenue (from Aug 2017 onwards) from CapitaLand Mall Trust ("CMT"), CapitaLand Retail China Trust ("CRCT") and Raffles City Singapore Trust ("RCST"). CAPL also restated its financials to adhere to SFRS (I) 15 accounting standards, which relates to how revenue for development assets are recognized, versus the previous Percentage of Completion method for domestic developments. As mentioned, effective from Jan 2018, CAPL has organised its structure with a primary focus on geographical segment (CLSMI, CLC, CLV, CLI) while presentation by business segment (Residential & Commercial Strata, Retail, Commercial and Serviced Residences) is secondary.

- **Steady cashflows from REITs and investment properties**: Investment properties (SGD51.5bn) make up 83% of the total assets (SGD62.1bn). This is mainly represented by retail and commercial assets in Singapore (SGD25.2bn) and China (SGD15.0bn) and serviced residences (SGD9.3bn) globally. CAPL may receive ~SGD300mn dividends p.a. from listed REITs (CMT, CCT, CRCT, ART).

- **Depletion of the Singapore land bank:** CAPL reported increase in CLSMI development revenue (exact figures not available) on the sale of further units at Victoria Park Vilas (6 units, fully sold), Sky Habitat (16 units) and Marine Blue (4 units). However, development revenue would likely decline going forward due to falling levels inventory, with CAPL mainly only replenishing its land bank through the SGD929.4mn (SGD1,515 psf) enbloc purchase of Pearl Bank Apartments. Already, residential units sold in Singapore fell to 40 units (1Q2017: 84 units) while sales value fell harder to SGD150mn (1Q2017: SGD504mn). As such, we would not be surprised if CAPL undertakes further significant land acquisition - we also note that CAPL targets to increase the proportion of assets in trading properties to 20-30% of total assets (1Q2018: 13%). However, we would be cautious if CAPL bids too aggressively as land prices have already run up and we are wary going into 2019 as we expect a ramp up in competing launches. 1Q2018 EBIT for CLSMI fell 4% y/y to SGD338.9mn even with the consolidation of CMT and RCST due to the absence of gain from sale of The Nassim in 1Q2017.

- **Revenue visibility from China development sales though momentum may slow:** CLC handed over 9% more units y/y to 1,328 in 1Q2018 though realized value fell 35.3% y/y to RMB1,918mn due to lower selling prices. Nevertheless, strong results are to be expected with CAPL expecting to recognize ~RMB10.6bn revenue in 2018 from 8,000 units sold to be handed over from 2Q2018 onwards. Nevertheless, we note that sales value in 1Q2018 have declined 57% y/y to RMB1.68bn with units sold falling 54% y/y to 998 units with fewer available units as ~96% of launched units are already sold. However, we are not overly worried as 5,725 units are ready to be launched in the coming 9 months. Meanwhile, EBIT from China surged 45.5% y/y to SGD283.3mn, driven by divestment gains on the sale of 20 non-core retail malls and the consolidation of CRCT.

- **Stable credit profile for now:** Net gearing remained stable q/q at 49%. Operating cash flow (including interest service) was strong at SGD257.9mn on residential inventory monetization (1Q2017: SGD205.3mn operating cash outflow). Cash balance fell q/q by SGD535.0mn however, on share repurchases (SGD120.8mn), debt repayment (SGD171.1mn) and investments (SGD240.1mn). Short-term debt of SGD2.42bn and capital required to settle the purchase of Pearl Bank is manageable given SGD5.63bn in cash balance.

CapitaLand Ltd

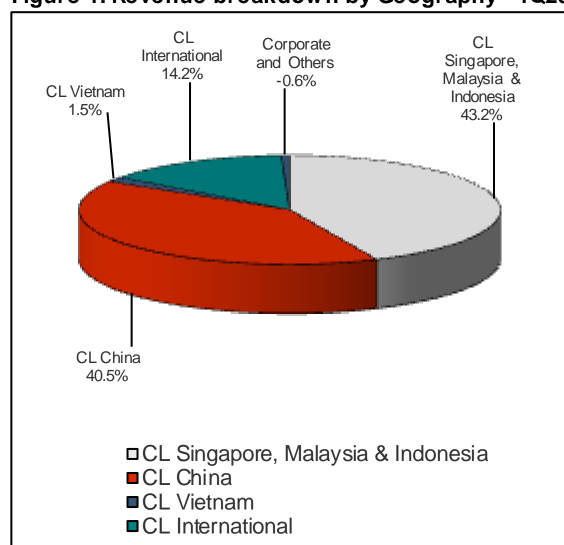
Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	5,252.3	4,609.8	1,375.5
EBITDA	1,269.5	1,490.7	529.7
EBIT	1,203.5	1,415.1	512.4
Gross interest expense	512.2	553.8	148.5
Profit Before Tax	1,906.9	2,623.8	571.3
Net profit	1,190.3	1,550.7	319.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	4,792.6	6,105.3	5,625.0
Total assets	45,740.8	61,445.7	62,103.0
Gross debt	14,852.4	21,694.9	21,778.8
Net debt	10,059.7	15,589.6	16,153.8
Shareholders' equity	24,300.5	32,083.1	32,763.4
Total capitalization	39,152.9	53,778.0	54,542.2
Net capitalization	34,360.2	47,672.7	48,917.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	1,256.3	1,626.4	336.4
* CFO	2,799.1	1,641.2	257.9
Capex	76.0	149.3	11.9
Acquisitions	899.9	4,311.2	494.0
Disposals	327.2	2,733.8	100.4
Dividend	751.8	1,022.3	239.4
Free Cash Flow (FCF)	2,723.1	1,491.9	246.0
* FCF Adjusted	1,398.6	-1,107.8	-386.9
Key Ratios			
EBITDA margin (%)	24.2	32.3	38.5
Net margin (%)	22.7	33.6	23.2
Gross debt to EBITDA (x)	11.7	14.6	10.3
Net debt to EBITDA (x)	7.9	10.5	7.6
Gross Debt to Equity (x)	0.61	0.68	0.66
Net Debt to Equity (x)	0.41	0.49	0.49
Gross debt/total capitalisation (%)	37.9	40.3	39.9
Net debt/net capitalisation (%)	29.3	32.7	33.0
Cash/current borrowings (x)	2.0	2.2	2.3
EBITDA/Total Interest (x)	2.5	2.7	3.6

Source: Company, OCBC estimates

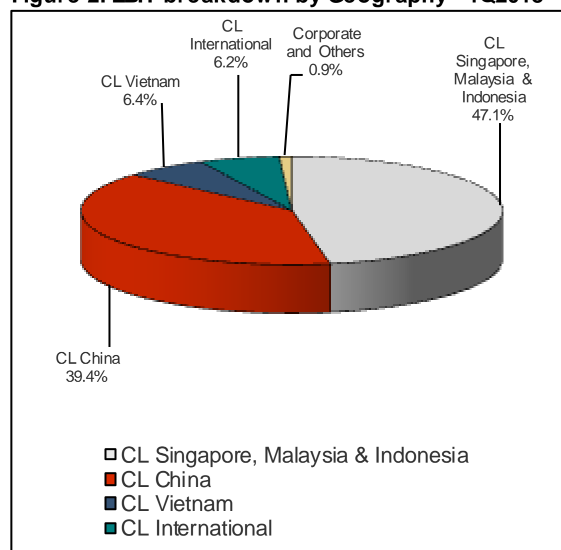
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Geography - 1Q2018



Source: Company

Figure 2: EBIT breakdown by Geography - 1Q2018



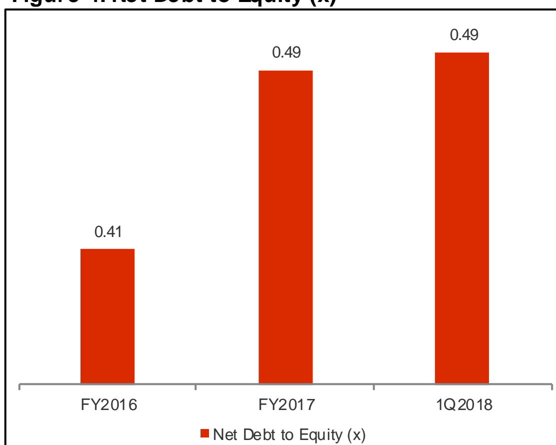
Source: Company | Corporate & hospitality made operating losses

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	411.4	1.9%
Unsecured	2,008.9	9.2%
	2,420.3	**11.1%**
Amount repayable after a year		
Secured	5,427.8	24.9%
Unsecured	13,930.7	64.0%
	19,358.5	**88.9%**
Total	**21,778.8**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We think the CAPITA curve looks fair. However, we prefer the CAPITA curve over its parent's CAPL curve given that the former is positioned closer to the cash-generative assets.

Issuer Profile: Positive (2)

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 15 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 ~12.6% interest in CapitaLand Retail China Trust ("CRCT"), the first China shopping mall REIT listed on the SGX. CMT is ~28.2%-owned by CapitaLand Ltd ("CAPL").

CapitaLand Mall Trust

Key credit considerations

- **Decent results though growth remains slow with pockets of weaknesses:** 1Q2018 revenue increased 1.8% y/y to SGD175.2mn while NPI increased 4.7% y/y to SGD125.7mn. Results were decent, with most of CMT's assets reporting flattish or higher y/y property revenue (except Lot One Shoppers' Mall which declined by ~1% to SGD11.1mn), with higher occupancy for IMM, Clarke Quay, The Atrium@Orchard, Plaza Singapura and higher car park income. Bedok Mall though saw NPI fall 3.8% y/y to SGD10.1mn. Most properties reported flattish or higher NPI, with higher revenue and lower operating expenses (declined 4.7% y/y to SGD49.5mn) as a result of lower marketing and utilities expenses.

- **Well-diversified defensive portfolio:** CMT holds a portfolio of 15 retail malls in Singapore, which are well-located in close proximity to public transport with large population catchments. 79.5% of the revenue is derived from necessity shopping and located in suburban areas which are more resilient to economic downturn.

- **Recovery in rental trends**: Portfolio rental reversion trends look to be improving, with 1Q2018 portfolio rental reversion at +0.8% (compared to -1.7% seen in 2017). Better performance was seen from the more challenged assets (in terms of rental reversion) such as Tampines Mall (2017: -3.2%), Westgate (2017: -10.2%) and Bedok Mall (2017: -6.5%). These have shown improvements to +1.7%, -3.3% and -0.9% respectively. However, rental pressure looks to be worsening at Raffles City Singapore (2017: -1.5%, 1Q2018: -2.6%) though 1Q2018's reversion was based only 4.2% of property NLA which may not be reflective. Meanwhile, portfolio retention rates remained healthy at 82.9% (2017: 79.3%) reflecting demand for CMT's largely suburban malls.

- **Occupancy is strong though sectorial pressures persist:** Portfolio committed occupancy remains high at 98.9% (4Q2017: 99.2%). Lease expiry for the balance of 2018 stands at 17.0% of NLA, with largest expiries at Lot One Shoppers' Mall and IMM Building. These two assets have printed positive rental reversion for 1Q2018 and the lease renewals should be manageable. While CMT has performed well given its suburban profile, it is not immune. Areas of concern include weaker shopper traffic (1Q2018: -2.1% y/y, 2017: -0.3%) as well as tenant sales (1Q2018: -0.2% y/y, 2017: flat over 2016).

- **Repositioning the portfolio:** CMT divested Sembawang Shopping Centre for SGD248.0mn to a JV between Lian Beng Group Ltd and Apricot Capital Pte Ltd. CMT will book a net gain of SGD119.6mn though this is small compared to CMT's total assets of SGD10.5bn. Meanwhile, CMT is undertaking a minor SGD8.2mn AEI at Tampines Mall which will complete in 4Q2018. At Funan, the redevelopment is a major one, which will boost the GFA to 888,400 sq ft (before: 482,097 sq ft) with completion expected in 4Q2019.

- **Strong credit profile though acquisitions remain a risk**: Aggregate leverage fell q/q to 33.5% (4Q2017: 34.2%). This was due to a decline in total borrowings of SGD153.3mn q/q as CMT refinanced its USD400mn (~SGD505.2mn) bonds due March 2018 with unsecured bank debt and cash on hand. No debt remains in 2018 after the JV (40%-stake) that holds RCS trust refinanced its debt with a SGD275mn 7-year bond. While 2019's maturities tower at SGD619.6mn, the divestment of Sembawang Shopping Centre could be used to retire debt – if so, aggregate leverage could fall to ~32% though proceeds may be used to acquire sponsor assets, such as the balance 70% stake in Westgate (SGD675.5mn). With improving aggregate leverage and repositioning of portfolio, **we upgrade CMT to Positive (2) from Neutral (3) Issuer Profile Rating.**

CapitaLand Mall Trust

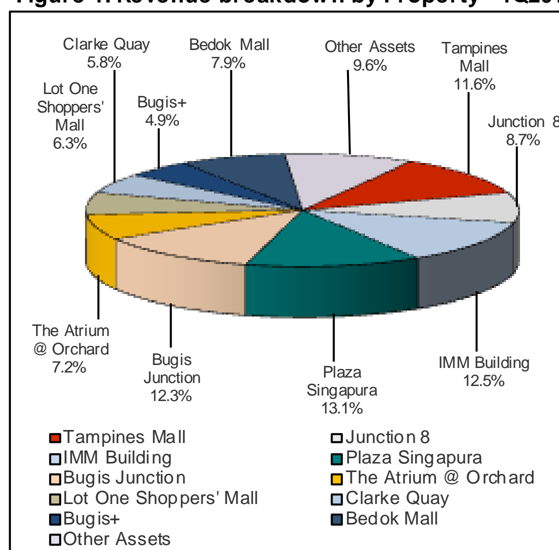
Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	689.7	682.5	175.2
EBITDA	431.8	430.0	113.8
EBIT	430.7	429.3	113.6
Gross interest expense	106.3	104.1	24.4
Profit Before Tax	470.4	657.8	110.5
Net profit	469.4	657.6	110.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	483.5	522.7	340.9
Total assets	10,326.7	10,504.4	10,331.3
Gross debt	3,288.3	3,183.1	3,029.6
Net debt	2,804.8	2,660.4	2,688.7
Shareholders' equity	6,692.2	6,928.0	6,941.5
Total capitalization	9,980.5	10,111.1	9,971.1
Net capitalization	9,497.1	9,588.4	9,630.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	470.5	658.4	110.6
* CFO	432.9	427.7	97.4
Capex	76.5	99.3	37.0
Acquisitions	0.0	0.0	0.0
Disposals	0.0	98.5	0.0
Dividends	394.2	394.9	102.8
Free Cash Flow (FCF)	356.3	328.4	60.5
* FCF Adjusted	-37.9	32.0	-42.4
Key Ratios			
EBITDA margin (%)	62.6	63.0	65.0
Net margin (%)	68.1	96.4	63.1
Gross debt to EBITDA (x)	7.6	7.4	4.0
Net debt to EBITDA (x)	6.5	6.2	3.6
Gross Debt to Equity (x)	0.49	0.46	0.44
Net Debt to Equity (x)	0.42	0.38	0.39
Gross debt/total capitalisation (%)	34.6	33.2	30.4
Net debt/net capitalisation (%)	29.5	27.7	27.9
Cash/current borrowings (x)	1.9	1.0	NM
EBITDA/Total Interest (x)	4.1	4.1	4.7

Source: Company, OCBC estimates

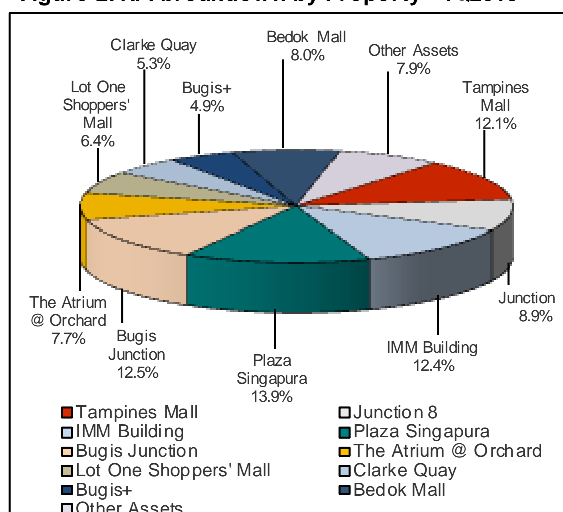
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Property - 1Q2018



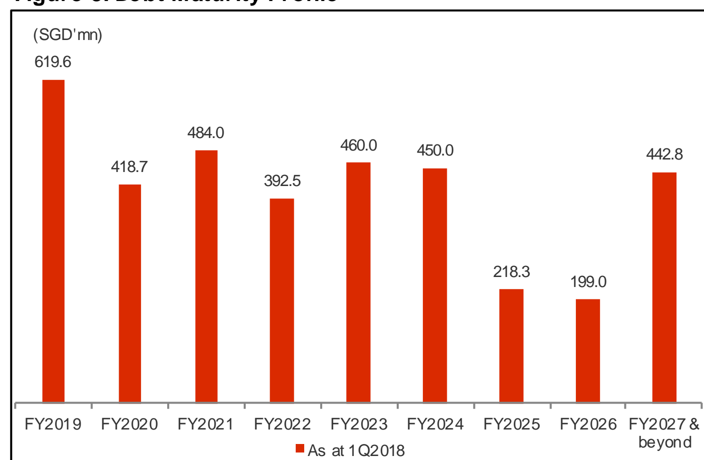
Source: Company

Figure 2: NPI breakdown by Property - 1Q2018



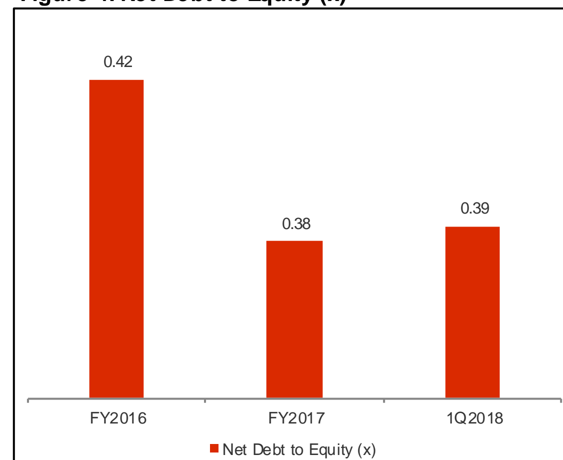
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Century Sunshine Group Holdings Limited

Credit Outlook – We are Overweight the CENSUN 7.0% '20s with a YTW of 8.0% and this bond remains one of the highest returns bonds within our Neutral (5) universe.

Issuer Profile: Neutral (5)

Ticker: **CENSUN**

Background

Listed on the HKSE in 2004, Century Sunshine Group Holdings Limited ("CENSUN") has two main business segments: magnesium products and ecological fertilisers. The magnesium business is held indirectly via 72.4%-owned subsidiary, Group Sense International Limited ("GSIL"). CENSUN generates most of its revenue from China and is vertically integrated with captive mines. The founder/Chairman is the largest shareholder of CENSUN, owning ~34% of the firm.

Key credit considerations

- **Lower but manageable interest coverage:** FY2017 revenue increased 46% y/y to HKD3.8bn (restated FY2016 revenue: HKD2.6bn), driven by growth in Fertilizers. Fertilizers contributed 57% to reported operating profits, magnesium (38%) and others (metallurgical flux and GSIL's legacy businesses electronic products) made up the rest. All segments performed better. Selling and marketing costs increased 70% y/y to HKD159.5mn, likely on the back of CENSUN's expansion of sales network across China for its Fertilizer business. Administrative expenses (depreciation and amortisation aside) more than doubled to HKD112.3mn. This was affected by a sizable increase in operating scale (distressed acquisition of Shangdong Hongri Acron Chemical Joint Stock Company ("Shandong Hongri"), ramp up of Xinjiang Magnesium plant and phase one completion of the Jiangxi Fertilizer plant. As such, adjusted EBITDA (based on our calculation which does not include other income, other expenses and certain one-off reorganisation fees and impairments) only increased 10% y/y to HKD703.0mn. Interest expense (including capitalised interest) increased 26% y/y to HKD159.2mn mainly due to higher levels of debt, resulting in a lower EBITDA/Interest coverage of 4.4x (2016: 5.0x).

- **Fertiliser business driven by volume growth:** In FY2017, we saw 1.07mn tonnes of fertiliser sold (up 54.1% y/y) though average selling price ("ASP") only increased 3.3% y/y to HKD2,087 per tonne. Sector gross profit margin fell sharply by 5.2 ppt to 23.2%. This was driven by shift in product mix upon the Shandong Hongri acquisition which increased the proportionate contribution from general compound fertilizer which has lower margins compared to CENSUN's existing organic and silicon magnesium fertilizer products. The fall in margin was anticipated as margins would only recover when operations at Shandong Hongri and the Jiangxi facility stabilizes. Post-stabilization, it is likely that CENSUN would be able to adjust its product mix to boost gross margins.

- **Magnesium business held by GSIL:** The Magnesium business focuses both on basic magnesium products and rare earth magnesium alloys. Overall Magnesium volume increased 39.4% y/y to 50,463 tonnes. 12,583 tonnes was attributed to the Xinjiang plant which was acquired in 2016 (with production ramping up in FY2017). The Xinjiang facility focuses on simpler magnesium ingots which have lower margins. We saw a fall in ASP of 7.9% y/y to HKD22,468 per tonne, leading to magnesium gross margins declining 4.7 ppt to 24.3%. The SGD bond sits at CENSUN and is structurally subordinated as far as the Magnesium operations and assets are concerned. As investments back into the business were prioritized instead, no dividend was declared nor paid by GSIL to shareholders (including CENSUN) in FY2017.

- **Leverage levels manageable:** Gross borrowings increased 32.9% y/y to HKD2.0bn, led by high capex and working capital needs from new acquisitions. Short term debt was HKD626.4mn against cash balance (excluding pledged cash) of HKD673.7mn. As at 31 December 2017, net gearing (excluding pledged cash) was 0.4x, rising from 0.2x in end-2016. Shandong Hongri has entered into corporate guarantees with third parties (largely companies based in Linyi City, Shandong) amounting to RMB270.4mn (~HKD318.9mn), and assuming these as debt, we find adjusted net gearing somewhat higher at 0.5x. 65% of FY2017 capex was attributable to the Fertilizer business, which we think went towards the greenfield Jiangxi facility. In end-2017, capital commitments at CENSUN amounted to HKD224.7mn, and barring any unannounced acquisitions, we expect a smaller investing outflows in FY2018.

Century Sunshine Group Holdings Ltd

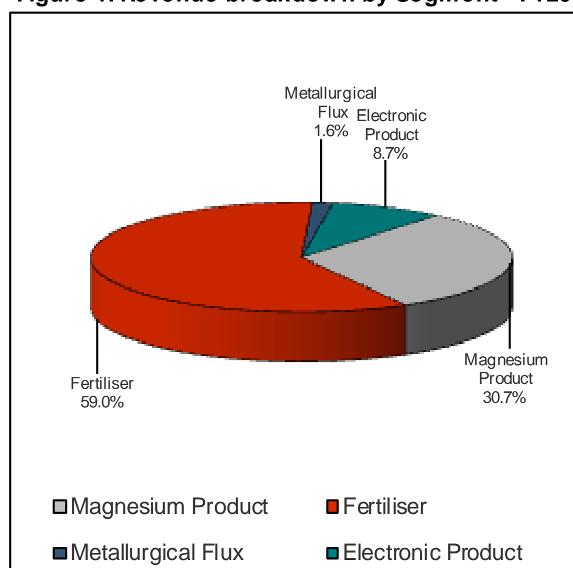
Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	FY2017
Income Statement (HKD'mn)			
Revenue	2,515.6	2,589.2	3,772.3
EBITDA	630.0	636.3	646.9
EBIT	533.0	506.6	484.6
Gross interest expense	97.0	126.6	159.2
Profit Before Tax	496.9	456.9	405.9
Net profit	303.5	302.3	260.3
Balance Sheet (HKD'mn)			
Cash and bank deposits	1,452.5	901.2	930.9
Total assets	5,421.7	5,246.5	7,502.3
Gross debt	1,394.2	1,540.6	2,047.2
Net debt	-58.3	639.4	1,116.3
Shareholders' equity	3,364.5	3,054.5	3,653.4
Total capitalization	4,758.7	4,595.1	5,700.6
Net capitalization	3,306.2	3,693.9	4,769.7
Cash Flow (HKD'mn)			
Funds from operations (FFO)	400.5	432.1	422.6
* CFO	84.3	428.6	484.9
Capex	217.3	479.0	914.6
Acquisitions	200.8	63.2	-202.2
Disposals	0.4	1.3	10.9
Dividend	21.8	59.8	0.0
Free Cash Flow (FCF)	-133.0	-50.4	-429.7
* FCF adjusted	-355.2	-172.1	-216.7
Key Ratios			
EBITDA margin (%)	25.0	24.6	17.1
Net margin (%)	12.1	11.7	6.9
Gross debt to EBITDA (x)	2.2	2.4	3.2
Net debt to EBITDA (x)	-0.1	1.0	1.7
Gross Debt to Equity (x)	0.41	0.50	0.56
Net Debt to Equity (x)	-0.02	0.21	0.31
Gross debt/total capitalisation (%)	29.3	33.5	35.9
Net debt/net capitalisation (%)	-1.8	17.3	23.4
Cash/current borrowings (x)	4.1	2.8	1.5
EBITDA/Total Interest (x)	6.5	5.0	4.1

Source: Company, OCBC estimates

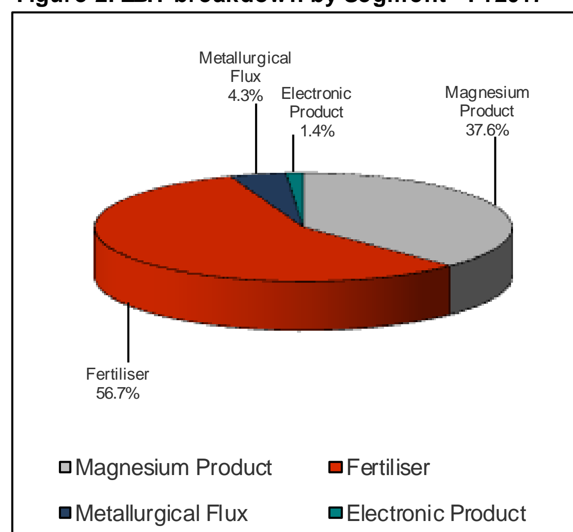
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2017



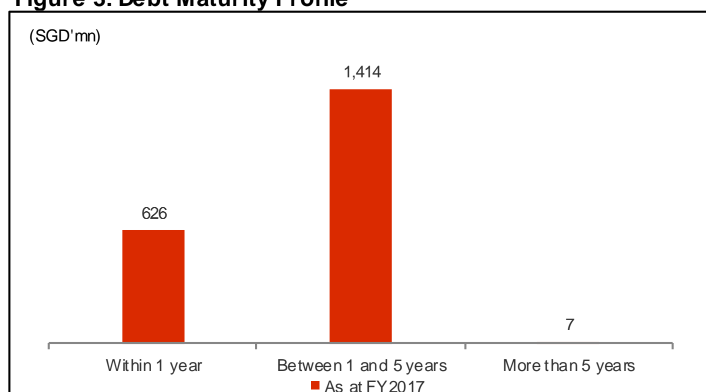
Source: Company

Figure 2: EBIT breakdown by Segment - FY2017



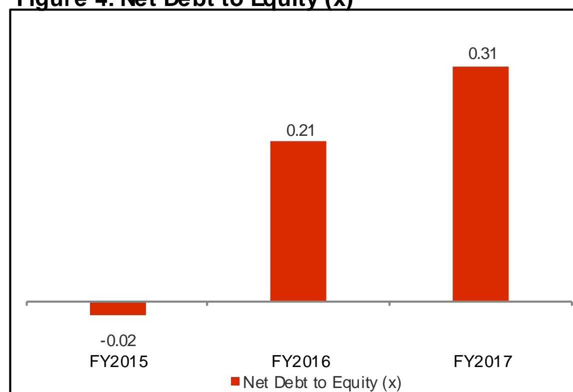
Source: Company

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – The CHIEAS 2.8% '20s is trading at a YTW of 3.02%, we see better value in the EREIT 3.95% '20s which is trading at a YTW of 3.45% (implying pick up of 40 bps).

Issuer Profile: Neutral (4)

Ticker: **CHIEAS**

Background

China Eastern Airlines Corporation Limited ("CHIEAS"), listed on the HKEX, Shanghai Stock Exchange and NYSE (via American Depository Receipts), has a market cap of HKD94.7bn as at 04 July 2018. Apart from its flagship carrier, China Easter Airlines ("MU"), CHIEAS also owns Shanghai Airlines (("CSH"), managed as a separate brand), China United Airlines ("KN", a budget airline) and is involved in other businesses (eg: tour operations, air catering and other services). CHIEAS is ~56.4%-owned by China Eastern Air Holding Company (CEA Holding), a Chinese SOE.

China Eastern Airlines Corporation Limited

Key credit considerations

- **Higher passenger traffic growth in line with capacity growth:** CHIEAS announced its first quarter results for the period ended March 2018 based on China Accounting Standards for Business Enterprise versus IFRS which is used for its annual and interim financials. Revenue increased 9.0% y/y to RMB26.8bn driven by higher passenger traffic volume (up 9.1% y/y) while passenger load factor of 81.7% was relatively flat against 1Q2017. Operating costs grew relatively in line with gross revenue (up 9.7% y/y) to RMB23.6bn. CHIEAS made a net finance income of RMB465mn in 1Q2018 primarily due to foreign exchange gains of RMB1.5bn (1Q2017: net finance cost of RMB507mn). Backing out the foreign exchange gains, we think CHIEAS's interest expense was RMB1.0bn in 1Q2018 (against RMB695mn in 1Q2017). We think interest expense was higher from both increased average debt level and higher interest rates. Reported cash flow from operations before interest and tax ("CFO") was RMB6.2bn, representing a 6.2x interest coverage (1Q2017: 4.2x).

- **Expect near-term profitability decline with rising fuel cost:** Reported operating profit (including government grants for operating in certain routes) was up 8.4% y/y to RMB2.6bn. Common across major airlines in China, CHIEAS receives subsidies from local governments and other parties to operate certain routes. 1Q2018's reported operating profit includes government grants (the grants were reclassified from non-operating income to other income) while 1Q2017's operating profit included a one-off investment gain (e from the sale of Eastern Air Logistics). For comparability, we take out both investment gain and the grant and find adjusted operating profit of CHIEAS at RMB1.2bn versus an adjusted operating loss of RMB691mn in 1Q2017. Fuel cost was 25% of revenue in FY2017. Along with its closest peers, CHIEAS does not hedge fuel cost which points towards lower profitability with rising fuel prices. Since 1 April 2018 to date, crude oil prices have increased 16%, which is expected to squeeze near-term margins. In June 2018, major Chinese airlines announced that they will resume charging a fuel surcharge, which could offset some of the cost. OCBC Commodities Research is calling for lower oil prices in 2H2018, which if happens, would help buffer full year profitability.

- **Highly levered on an adjusted basis:** As at 31 March 2018, unadjusted net gearing was 0.9x (end-2017: 1.0x). Non-cancellable operating leases are mostly aircraft-related, we assume this was ~RMB21.0bn as at 31 March 2018. Adjusting net gearing upwards also for such operating leases and finance leases, we find adjusted net gearing at 2.4x, slightly lower versus the 2.5x in end-2017. While heavy, finance lease obligations are typically secured against fixed assets (eg: aircraft). As at 31 March 2018, total fixed assets was RMB164.7bn and we estimate assets held under finance leases at RMB83.7bn, representing a finance lease over fixed asset coverage of 0.8x.

- **Low cost carriers ("LCC") small but growing:** Airline operations are the largest segment at CHIEAS, making up 76% of profit before tax in 2017 (mostly attributable to its two full service airlines). KN is fast growing and profitable (revenue up 18.8% y/y) to RMB5.0bn in 2017; it is only 5% of CHIEAS' total revenue. According to aviation consultants, LCCs now represent ~9% of the seat capacity in the Chinese airline market. This is still small versus Southeast Asia where LCC seats are ~56% of total capacity. CHIEAS is majority owned by a Chinese state-owned enterprise though we only consider the government grant (which contributes to income) but not a further uplift from the state in our issuer profile for CHIEAS. For now we are maintaining CHIEAS at Neutral (4).

China Eastern Airlines Corp Ltd

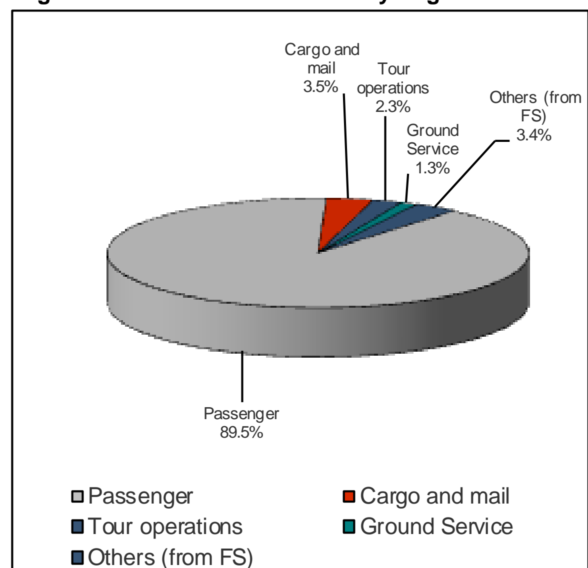
Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	FY2017
Income Statement (RMB'mn)			
Revenue	93,969.0	98,904.0	102,475.0
EBITDA	17,821.0	19,169.0	16,230.0
EBIT	7,350.0	7,015.0	2,261.0
Gross interest expense	8,192.0	7,021.0	3,977.0
Profit Before Tax	5,667.0	6,497.0	8,610.0
Net profit	4,537.0	4,498.0	6,342.0
Balance Sheet (RMB'mn)			
Cash and bank deposits	9,080.0	1,695.0	4,605.0
Total assets	197,992.0	212,324.0	229,727.0
Gross debt	66,712.0	56,732.0	63,801.0
Net debt	57,632.0	55,037.0	59,196.0
Shareholders' equity	39,931.0	52,366.0	58,778.0
Total capitalization	106,643.0	109,098.0	122,579.0
Net capitalization	97,563.0	107,403.0	117,974.0
Cash Flow (RMB'mn)			
Funds from operations (FFO)	15,008.0	16,652.0	20,311.0
* CFO	24,325.0	24,893.0	19,572.0
Capex	33,381.0	38,397.0	24,555.0
Acquisitions	0.0	0.0	0.0
Disposals	5,617.0	1,276.0	3,230.0
Dividend	38.0	796.0	769.0
Free Cash Flow (FCF)	-9,056.0	-13,504.0	-4,983.0
* FCF adjusted	-3,477.0	-13,024.0	-2,522.0
Key Ratios			
EBITDA margin (%)	19.0	19.4	15.8
Net margin (%)	4.8	4.5	6.2
Gross debt to EBITDA (x)	3.7	3.0	3.9
Net debt to EBITDA (x)	3.2	2.9	3.6
Gross Debt to Equity (x)	1.67	1.08	1.09
Net Debt to Equity (x)	1.44	1.05	1.01
Gross debt/total capitalisation (%)	62.6	52.0	52.0
Net debt/net capitalisation (%)	59.1	51.2	50.2
Cash/current borrowings (x)	0.2	0.1	0.1
EBITDA/Total Interest (x)	2.2	2.7	4.1

Source: Company, OCBC estimates

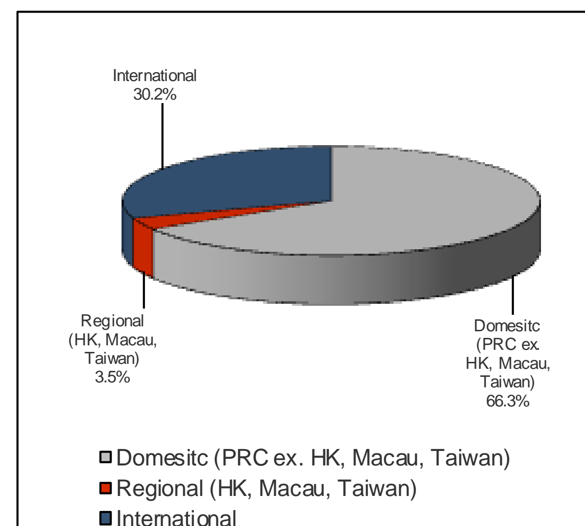
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2017



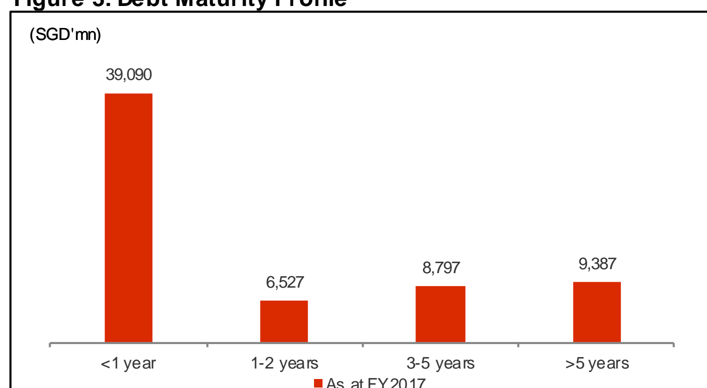
Source: Company

Figure 2: Revenue breakdown by Geography - FY2017



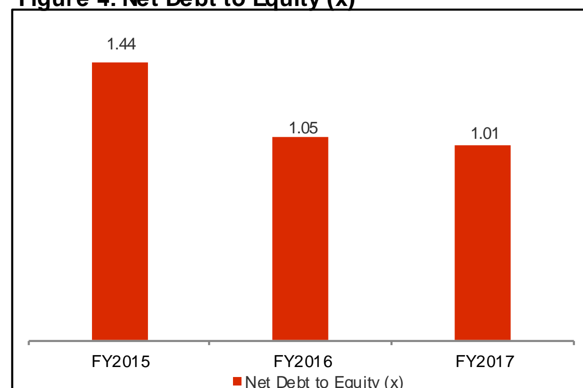
Source: Company

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook –
Despite trading around 5% yield, we are Underweight on CHIPEN 4.7% '21s and CHIPEN 4.9% '22s with increasing pressure on credit metrics. We prefer HTONSP '20s and HTONSP '21s trading at higher yields (~5.5%).

Issuer Profile: Negative (6)

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, and is looking to expand into the education sector. 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%).

Chip Eng Seng Corp Ltd

Key credit considerations

- **Results weighed by FX losses, decent otherwise:** 1Q2018 revenue increased 22.3% y/y to SGD204.3mn largely driven by stronger contribution from property developments (+52.3% y/y to SGD137.2mn) due to higher progressive recognition from High Park Residences, Grandeur Park Residences and Williamsons Estate. Hospitality (+147.4% y/y to SGD18.1mn) also did well with contribution from Grand Park Kodhipparu Resort (which opened in 2017), 2 hotels which were acquired in 2H2017 (The Sebel Mandurah and Mercure & Ibis Styles Grosvenor Hotel) and improved occupancy at Park Hotel Alexandra. The underperformer was the construction segment, with revenue declining 29.4% y/y to SGD47.1mn as newer projects were not sufficient to replenish the segment's revenue. Despite overall higher revenues, net profit fell 13.1% y/y to SGD11.6mn as administrative expenses increased 42.6% y/y to SGD22.3mn, primarily due to higher depreciation (+249% y/y to SGD4.4mn) and FX loss of SGD4.1mn in 1Q2018 (1Q2017: SGD1.5mn gain).

- **Significant Singapore property landbank:** The 100%-owned 720-unit Grandeur Park which was launched in March 2017 is already 95.3% sold, following the good sales achieved at 60%-owned 1,399 unit High park Residences (100% sold) and 100%-owned 128-unit Fulcrum (99.2% sold). CES has launched 805-unit Park Colonial (formerly Woodleigh Lane which was acquired for SGD700.7mn via a 60%-owned JV in Jul 2017), which reportedly drew a crowd close to 10,000. The acquisition of Changi Garden for SGD248.8mn via collective sales has also completed in June 2018.

- **Progress on Australia developments:** After protracted legal tussles with the owner of the adjoining property, CES sold its property at 150 Queen Street, Melbourne ("Tower Melbourne") for AUD55mn (~SGD56mn), with disposal to be completed on 3 Jul 2018. We expect Williamsons Estate to contribute in 2018 as all 104 townhouses and 48 out of 64 apartments have been sold, with handing over by 3Q2018. Meanwhile, the South Melbourne launch date is slated for 2Q2018, which will be redeveloped into 703 residential apartments.

- **Rebuilding the construction orderbook:** Following the SGD168mn HDB design and build contract awarded in 1Q2018, the construction orderbook stands as SGD524.6mn in 1Q2018 (4Q2017: SGD403.6mn). With BCA expecting the construction contracts to reach at least SGD26bn in 2018 with further improvements in construction demand over 2019-22, this bodes well for CES which is looking to participate in new tenders.

- **Entry into the education sector:** CES announced in 1Q2018 that it is looking to diversify into the education sector. Thus far, CES has entered into collaboration with Repton International to establish international kindergartens within Asia-Pacific and proposed to acquire 75% of American Scholar Group which is an education consulting organisation that facilitates study-in-America opportunities and cross-cultural experiences for students and educators.

- **Sales execution crucial to alleviate increasing pressure on credit metrics:** Net gearing inched up q/q to 1.57x (4Q2017: 1.54x), mainly due to AUD43mn (SGD43.8mn) acquisition of Mercure & Ibis Styles Grosvenor Hotel in Adelaide and commercial properties at Hindley Street in Adelaide. Net gearing may continue increasing in the short term if CES continues to acquire more properties and sites. In the medium term, execution of the upcoming sales launches will be crucial to support CES's credit profile.

Chip Eng Seng Corp Ltd

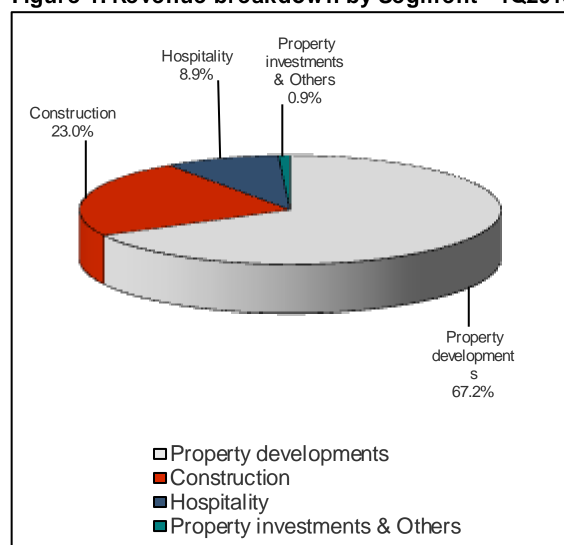
Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	748.0	859.7	204.3
EBITDA	83.2	78.2	24.8
EBIT	76.2	67.3	20.4
Gross interest expense	33.6	45.8	5.6
Profit Before Tax	76.1	70.2	17.3
Net profit	35.7	35.5	6.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	481.6	257.8	256.2
Total assets	2,232.2	2,727.9	2,783.5
Gross debt	1,170.9	1,532.8	1,563.9
Net debt	689.3	1,275.0	1,307.6
Shareholders' equity	776.6	808.6	834.0
Total capitalization	1,947.5	2,341.4	2,397.9
Net capitalization	1,465.9	2,083.5	2,141.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	42.8	46.4	10.5
* CFO	-251.3	-491.5	12.1
Capex	1.0	118.0	33.3
Acquisitions	2.5	5.4	13.4
Disposals	3.6	77.9	0.1
Dividend	24.8	24.8	0.0
Free Cash Flow (FCF)	-252.3	-609.5	-21.2
* FCF Adjusted	-276.1	-561.9	-34.5
Key Ratios			
EBITDA margin (%)	11.1	9.1	12.1
Net margin (%)	4.8	4.1	3.0
Gross debt to EBITDA (x)	14.1	19.6	15.8
Net debt to EBITDA (x)	8.3	16.3	13.2
Gross Debt to Equity (x)	1.51	1.90	1.88
Net Debt to Equity (x)	0.89	1.58	1.57
Gross debt/total capitalisation (%)	60.1	65.5	65.2
Net debt/net capitalisation (%)	47.0	61.2	61.1
Cash/current borrowings (x)	2.1	29.5	10.2
EBITDA/Total Interest (x)	2.5	1.7	4.4

Source: Company, OCBC estimates

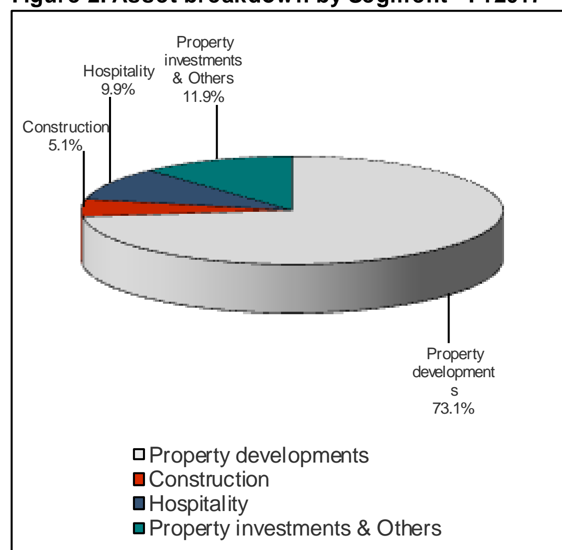
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1Q2018



Source: Company

Figure 2: Asset breakdown by Segment - FY2017



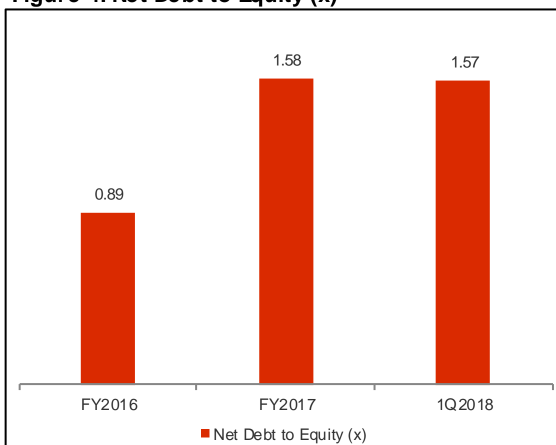
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	25.2	1.6%
Unsecured	0.0	0.0%
	25.2	**1.6%**
Amount repayable after a year		
Secured	1,293.6	82.7%
Unsecured	245.0	15.7%
	1,538.6	**98.4%**
Total	**1,563.9**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – The spread between the CELSP 3.9%-PERP and FPLSP 5.0%-PERP has widened 30 bps since our earlier call and we are underweight the CELSP 3.9%-PERP.

Issuer Profile: Neutral (5)

Ticker: **CELSP**

Background
CITIC Envirotech Ltd ("CEL") is an integrated water treatment solutions provider focusing on the Chinese market. CEL operates in three main business segments: Engineering, Treatment and Membrane. The company is listed on the SGX and is ~62.9%-owned by CITIC, a central government SOE. China Reform Fund Management Co. Ltd has deemed interested in CEL of ~23.6% (via investment funds).

CITIC Envirotech Ltd

Key credit considerations

- **Stronger top line growth with improved interest coverage:** CEL reported 1Q2018 results with total revenues (including up 133.1% y/y to SGD259.2mn. Revenue growth occurred across all segments with continued growth in the Engineering (+127% y/y) and Treatment (+23% y/y) segments while Membrane system segment performance reversed against FY2017 trends (- 50.3% y/y in FY2017) with sales up 361% y/y in 1Q2018. CEL ended the period with profit attributable to owners of the company at SGD39.3mn (140.5% higher y/y) while currency translation gains was SGD17.9mn versus a translation loss of SGD23.2mn in 1Q2017, resulting in total comprehensive income of SGD59.7mn against a total comprehensive loss of SGD6.1mn in 1Q2017. Since 2017, the nature of CEL's revenue stream has intensified to one driven by lumpier engineering revenue against treatment (engineering contributed 76% to revenue in 2017 versus 56% in 2016). Following revenue growth, expenses have also risen with materials purchased, consumables used and subcontractors' fees up 148.6% y/y and gross profit up 109% y/y. SG&A expenses though rose only 1.1% and as such, EBITDA (based on our calculation which does not include other income) improved 324.8% y/y to SGD61.7mn. Interest coverage as measured by EBITDA/Interest was higher at 6.7x (1Q2017: 2.4x), despite interest expense increasing 50.4% to SGD9.3mn mainly as a result of higher borrowings taken at CEL.

- **Growth phase consuming cash flow:** In 1Q2018, CEL's cash flow from operations (before tax and interest) ("CFO") was an outflow of SGD57.2mn (1Q2017: outflow of SGD11.3mn), while investing outflows was SGD29.3mn. The cash gap at CEL was funded mainly by the equity raising and drawing down SGD66.6mn in existing cash. As at end-March 2018, CEL's cash balance had declined to SGD568.0mn versus SGD631.3mn in end-2017. By end-2017, commitments to be undertaken by CEL on investment projects total SGD1.3bn (end-2016: SGD378.5mn) from more than RMB10.0bn (~SGD2.1bn) in contract wins. CEL announced a new build-operate-transfer project win in June 2018 in Anyang City worth RMB1.0bn (~SGD208mn) and an engineering contract worth RMB680mn (~SGD140mn). Certain of these projects have third party investors, and taking only the proportion attributable to CEL, we estimate that CEL will need to fund SGD1.4bn over the next two years (about half for the Lanzhou city project). Assuming a 70:30 debt-to-equity/perpetual funding structure, we expect CEL to take on a significant amount of new bank debt at the project level with existing cash to fund the equity portion.

- **CEL is more levered than it appears:** Optically, CEL's net gearing appears low. As at 31 March 2018, CEL's unadjusted net gearing was 0.1x. Perpetuals make up 26% of total capital as at 31 March 2018. Adjusting net debt upwards for the perpetuals which in our view is more debt-like (contains onerous step-up and ranks *pari passu* with all other unsecured obligations of the issuer), we find adjusted net gearing at 0.7x (31 December 2017: 0.8x), marginally improved due to solid earnings and the equity placement of new shares in CEL to New Resources LLC (raised SGD70.7mn). The USD-denominated CELSP 5.45%-PERP with an outstanding amount of USD355mn faces first call in November 2018. Given the significant step-up margin of 500 bps, we think CEL would likely try to replace this perpetual amidst a more challenging funding environment for perpetuals. We expect adjusted net gearing would progressively increase as the commitments are carried out as such **we are lowering CEL's issuer profile to a Neutral (5)**. We do not factor in state support for CEL's standalone issuer profile.

CITIC Envirotech Ltd

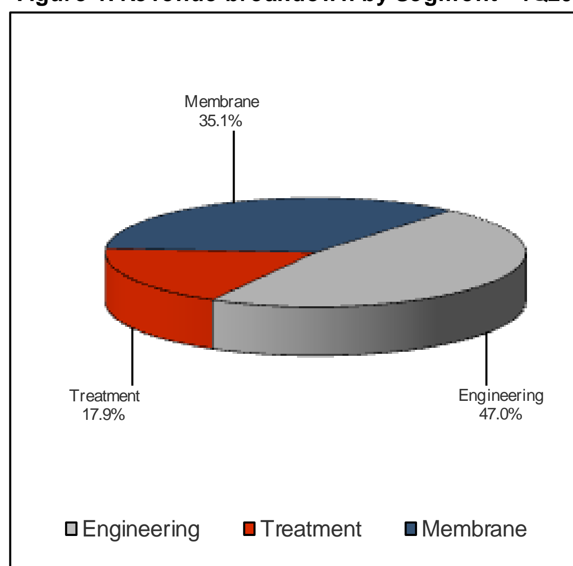
Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	544.6	908.8	259.2
EBITDA	163.8	192.9	61.7
EBIT	141.6	169.0	53.4
Gross interest expense	39.6	34.0	9.3
Profit Before Tax	131.4	176.9	58.2
Net profit	99.3	115.9	39.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	493.5	631.3	568.0
Total assets	2,550.0	3,608.8	3,750.5
Gross debt	556.8	809.7	771.6
Net debt	63.3	178.4	203.5
Shareholders' equity	1,495.5	1,841.1	1,960.4
Total capitalization	2,052.3	2,650.8	2,732.0
Net capitalization	1,558.8	2,019.5	2,164.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	121.5	139.8	47.6
* CFO	306.5	226.2	-70.1
Capex	438.4	315.9	28.2
Acquisitions	36.5	123.5	0.0
Disposals	4.1	22.6	0.0
Dividend	21.2	49.8	0.0
Free Cash Flow (FCF)	-131.9	-89.7	-98.3
* FCF adjusted	-185.5	-240.4	-98.3
Key Ratios			
EBITDA margin (%)	30.1	21.2	23.8
Net margin (%)	18.2	12.8	15.2
Gross debt to EBITDA (x)	3.4	4.2	3.1
Net debt to EBITDA (x)	0.4	0.9	0.8
Gross Debt to Equity (x)	0.37	0.44	0.39
Net Debt to Equity (x)	0.04	0.10	0.10
Gross debt/total capitalisation (%)	27.1	30.5	28.2
Net debt/net capitalisation (%)	4.1	8.8	9.4
Cash/current borrowings (x)	6.5	1.5	1.3
EBITDA/Total Interest (x)	4.1	5.7	6.7

Source: Company, OCBC estimates

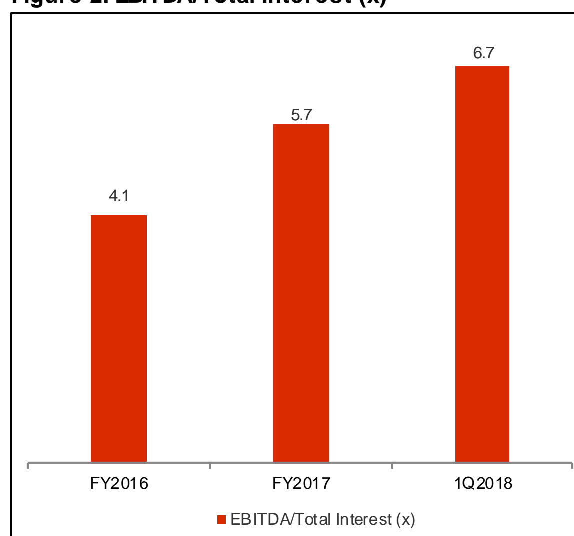
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1Q2018



Source: Company

Figure 2: EBITDA/Total Interest (x)



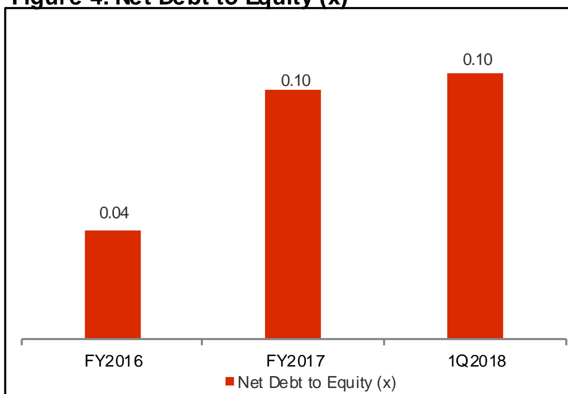
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	197.3	25.6%
Unsecured	224.8	29.1%
	422.1	**54.7%**
Amount repayable after a year		
Secured	349.5	45.3%
Unsecured	0.0	0.0%
	349.5	**45.3%**
Total	**771.6**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook –

We prefer the CITSP curve over the CAPLSP curve given its stronger credit metrics. We are Overweight on CITSP '20s, '23s, '24s and '26s.

Issuer Profile: Positive (2)

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, a conglomerate controlled by the Kwek family.

City Developments Ltd

Key credit considerations

- **Strong 1Q2018 results**: 1Q2018 revenue increased 35.0% y/y to SGD1.06bn, driven by property development (+88.3% y/y to SGD563.2mn) in part due to recognition of revenue of Criterion EC upon its TOP in Feb 2018. Progressive revenue from sales of New Futura (Phase 1) with 62 out of 64 launched sold have also contributed to performance. In total, residential sales value increased 66.1% y/y to SGD792.6mn with 459 units sold (1Q2017: 293 units), which include the sales of 329 out of 450 launched units at The Tapestry (launched in March 2018). Apart from Criterion (32 units), other developments that sold well include Gramercy Park (13 units). While property development drove revenue, profit before tax which rose 33.7% y/y to SGD167.4mn was not due to property development (PBT: -12.2% y/y to SGD80.8mn) as the margins of the Criterion are lower than the projects delivered in 1Q2017. Hotel operations PBT jumped to SGD21mn (1Q2017: SGD5mn) on higher revenue and better performance at the South Beach mixed development. PBT at rental properties surged to SGD61mn (1Q2017: SGD28mn) in part driven by the divestments of the Mercure Brisbane and Ibis Brisbane by CDLHT.

- **Still a significant property pipeline**: Like most of its peers, CDL had rapidly depleted its inventory with only 261 units (CDL's share of unsold inventory) remaining amongst the launched projects. Nonetheless, CDL's pipeline is strong. Over 3000 units are ready to be launch over 2018-1H2019. This includes South Beach Residences (3Q2018, 190 units), West Coast Vale (4Q2018, 730 units), former Boulevard Hotel site (2H2018, 154 units), Amber Park (1H2019, 600 units) and Sumang Walk (2Q2019, 820 units). Property development remains core to CDL's profitability and we expect this to continue anchoring results going forward.

- **Growth in hotel operations mainly driven by FX**: Hotel operations revenue grew to SGD378mn (1Q2017: SGD367mn) though this was mainly due to the strengthening of the GBP against the SGD, coupled with contribution from the opening of M Social Auckland (Oct 2017) and The Lowry Hotel (1Q2017). For M&C, in constant currency terms, RevPAR increased 3.2% y/y with broad-based gains across various regions. In GBP terms M&C's revenue declined 2.7% y/y to GBP217mn, due to the fall in RevPar (-3.1% y/y to GBP68.5) across most of M&C's markets due to the strengthening of the GBP. London, however, was also badly hit with RevPar declining 9.4% y/y while we note that peers in the UK commented that F&B spending in London have been affected by weaker consumer sentiment.

- **Weaker office returns**: Rental properties reported softer revenue (-1.2% y/y to SGD84.2mn). Performance was potentially affected by the AEI at Republic Plaza, with CDL's office portfolio occupancy declining q/q to 92.7% (4Q2017: 94.8%). For CDL's retail portfolio, occupancy also eased q/q to 97.0% (4Q2017: 97.4%). Looking forward, the Le Grove Serviced Apartments (closed since Dec 2016 for renovation) is expected to contribute from Jul 2018 when it reopens.

- **Land banking to consume cash flow though liquidity remains healthy**: Operating cashflow (incl. interest service) worsened to an outflow of SGD61.1mn (1Q2017: SGD47.8mn), in part due to deposits paid for land site at Amber Park and Sumang Walk. Meanwhile, trade and receivables spiked, likely due to billings at Criterion EC. Free cash flow was negative SGD114.8mn as a result, though this is mitigated by SGD80.6mn received from the divestment of two Brisbane hotels. That said, cash of SGD3.4bn is more than enough to repay short-term debt of SGD1.0bn.

- **Healthy credit metrics**: Net gearing inched higher q/q to 12% (4Q2017: 11%) though this remains very healthy, in comparison to peers. Meanwhile, Net debt/EBITDA remains below 1x (1Q2018: 0.6x) with EBITDA/Interest at 7.7x.

City Developments Ltd

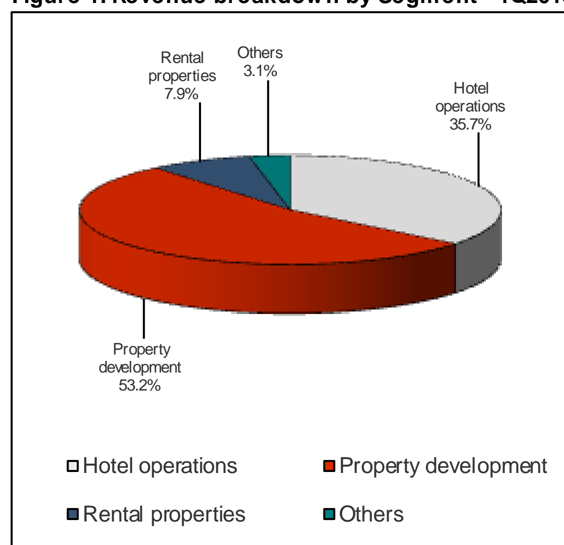
Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	3,905.5	3,828.6	1,057.8
EBITDA	1,443.8	1,371.2	288.3
EBIT	1,221.9	1,155.2	238.2
Gross interest expense	155.3	136.3	37.6
Profit Before Tax	914.0	780.4	167.4
Net profit	653.2	538.2	80.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	3,673.0	3,775.9	3,407.7
Total assets	19,797.4	19,503.3	19,601.2
Gross debt	5,737.8	5,036.2	4,837.1
Net debt	2,064.7	1,260.3	1,429.4
Shareholders' equity	11,408.7	11,841.2	12,309.2
Total capitalization	17,146.5	16,877.3	17,146.4
Net capitalization	13,473.4	13,101.4	13,738.6
Cash Flow (SGD'mn)			
Funds from operations (FFO)	875.1	754.2	130.1
* CFO	1,043.4	951.3	-61.1
Capex	227.0	154.2	65.9
Acquisitions	523.9	307.1	8.3
Disposals	1,114.4	257.4	80.6
Dividend	237.4	243.8	34.3
Free Cash Flow (FCF)	816.4	797.2	-127.0
* FCF Adjusted	1,169.5	503.6	-89.0
Key Ratios			
EBITDA margin (%)	37.0	35.8	27.3
Net margin (%)	16.7	14.1	7.6
Gross debt to EBITDA (x)	4.0	3.7	4.2
Net debt to EBITDA (x)	1.4	0.9	1.2
Gross Debt to Equity (x)	0.50	0.43	0.39
Net Debt to Equity (x)	0.18	0.11	0.12
Gross debt/total capitalisation (%)	33.5	29.8	28.2
Net debt/net capitalisation (%)	15.3	9.6	10.4
Cash/current borrowings (x)	2.1	3.0	3.4
EBITDA/Total Interest (x)	9.3	10.1	7.7

Source: Company, OCBC estimates

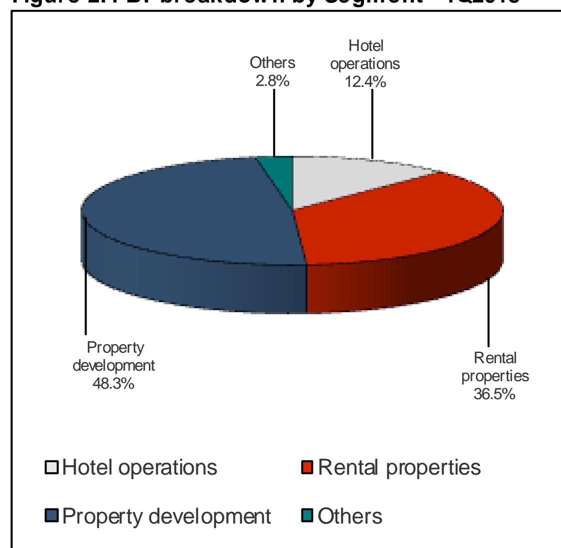
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1Q2018



Source: Company

Figure 2: PBT breakdown by Segment - 1Q2018



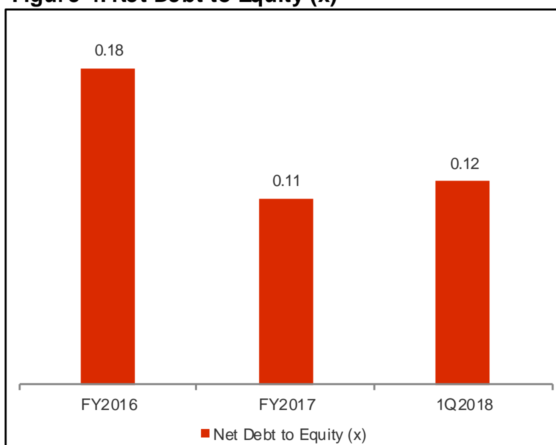
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	83.7	1.7%
Unsecured	925.1	19.1%
	1,008.8	**20.9%**
Amount repayable after a year		
Secured	463.8	9.6%
Unsecured	3,364.4	69.6%
	3,828.2	**79.1%**
Total	**4,837.1**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

CMA CGM (Parent of Neptune Orient Lines)

Credit Outlook –
CMA CGM's outlook appears clouded with recent external developments potentially threatening improved industry fundamentals. That said, proven financial discipline and experience with difficult operating conditions provides some comfort to fundamentals and the NOL curve.

Issuer Profile: Neutral (4)

Ticker: **CMACGM**

Background
CMA CGM ("CMA CGM") is the world's 3rd largest container liner by capacity. In mid-June 2016, CMA CGM completed the acquisition of Neptune Orient Lines Ltd ("NOL") and 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.

Key credit considerations

- **Recent sector gains potentially at risk:** Operating conditions for container shipping companies recovered in 2017 as global economic growth supported global trade flows. At the same time, industry consolidation and fleet rationalization (scrapping, idling, delivery deferments) contained capacity growth. This drove a recovery in freight rates as demand for container volumes outpaced supply. Further improvement in freight rates however appears uncertain. Container volume supply is expected to rise from delivery of ultra large container ships (greater than 14,500 Twenty-foot Equivalent Units ('TEUs')) in 2018 while improving freight rates have incentivized existing operators to reduce scrapping and idling and lower postponements of new vessel deliveries. At the same time, rising trade tensions and geo-political concerns could potentially dampen global trade growth. This raises downside risks to current expectations that the anticipated higher supply will at best cap freight rates at current levels.

- **Top line results reflect improved environment:** CMA CGM's revenue performance was solid in 1Q2018 with revenue increasing 17.1% y/y to USD5.41bn. This was largely driven by a 15.0% y/y boost in volumes traded, faster than overall industry volume growth according to management. At the same time, fleet capacity also rose 17.1% y/y to 2.53mn TEU. Comparatively, revenue per container only rose slightly y/y as average freight rates likely were stable in 1Q2018 from 1Q2017.

- **Elevated margin pressure but relief in sight:** Despite solid topline performance, CMA CGM's reported core EBIT (excluding asset sales, depreciation and non-recurring items) plunged sharply by 65.1% to USD88.3mn, or an EBIT margin of just 1.6% (versus 5.5% in 1Q2017). This was due to operating expenses surging 22.5% y/y to USD5.19bn, caused by volume growth (chartering and slot purchases, handling and stevedoring, inland and feeder transportation etc. up 21.8% y/y) as well as a spike in bunker fuel prices (up 19.4% y/y). These challenges look sectorial though, as peer A.P Maersk reported a net loss of USD239mn (excluding discontinued operations), also due to fuel prices. We expect margins to recover however for the remainder of FY2018 with CMA CGM implementing an exceptional surcharge to counter higher bunker prices. In addition, our OCBC Commodities economist expects crude oil prices to soften in 2H2018 on the expectation of higher oil production by OPEC and in the US and tame demand in key importers (China and India). Bunker prices should moderate in kind given its correlation to crude oil prices as a derivative.

- **Cashflows still positive, but leverage is up:** Although the sharp fall in operating profit drove CMA CGM to a net loss of USD67.2mn for the quarter, CMA CGM managed to generate USD136.0mn in operating cash flow (including interest service) versus a small USD1.3mn outflow seen in 1Q2017. Coupled with USD63.1mn in capex, CMA CGM managed to generate USD72.9mn in free cash flow. The sharp fall in EBITDA though, drove EBITDA / Interest coverage lower to 1.9x (1Q2018) versus 3.4x (1Q2017). The quarter also saw a cash draw down of USD113.4mn, driven by USD113.1mn pay down in net borrowings, as well as USD80.6mn in dividends paid. This caused net gearing to inch higher to 131% (4Q2017: 125%). CMA CGM also acquired a ~25% stake in CEVA Logistics in May 2018 and this will further elevate CMA CGM's net leverage.

- **Heightened sensitivity to industry performance:** Higher leverage increases sensitivity of CMA CGM's credit profile to industry performance. Leverage could rise further with CMA CGM resuming its capacity expansion, with the order of nine 22,000 TEU vessels made last year (deliveries to commence in 2020). This will need to be balanced by on-going improvement in its core container liner business and continuing focus on cost containment.

CMA CGM SA

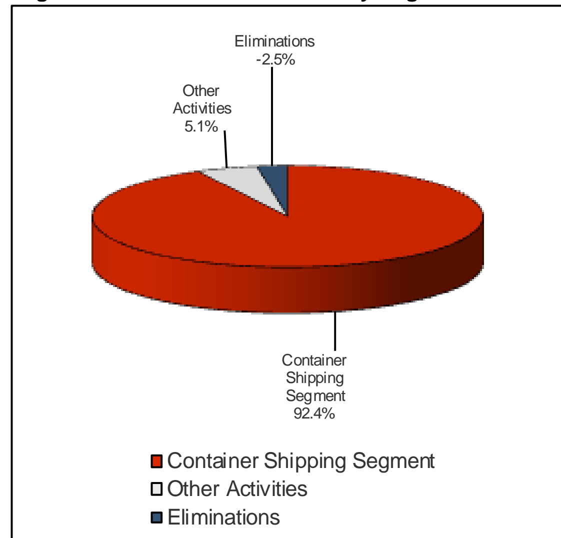
Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	1Q2018
Income Statement (USD'mn)			
Revenue	15,977.2	21,116.2	5,411.4
EBITDA	534.8	2,117.3	219.2
EBIT	-36.2	1,493.2	70.8
Gross interest expense	450.0	515.6	115.6
Profit Before Tax	-362.1	805.5	-54.7
Net profit	-452.3	701.4	-76.7
Balance Sheet (USD'mn)			
Cash and bank deposits	1,211.6	1,393.4	1,174.6
Total assets	18,656.5	19,657.3	19,713.4
Gross debt	8,278.2	8,418.1	8,515.4
Net debt	7,066.6	7,024.7	7,340.8
Shareholders' equity	4,927.5	5,644.1	5,575.4
Total capitalization	13,205.7	14,062.2	14,090.8
Net capitalization	11,994.1	12,668.8	12,916.2
Cash Flow (USD'mn)			
Funds from operations (FFO)	118.7	1,325.5	71.7
* CFO	10.2	1,169.5	136.0
Capex	257.8	757.2	63.1
Acquisitions	2,387.1	-538.8	17.6
Disposals	1,769.3	150.9	12.7
Dividend	18.9	17.5	80.6
Free Cash Flow (FCF)	-247.6	412.3	72.9
* FCF adjusted	-884.3	1,084.5	-12.6
Key Ratios			
EBITDA margin (%)	3.3	10.0	4.1
Net margin (%)	-2.8	3.3	-1.4
Gross debt to EBITDA (x)	15.5	4.0	9.7
Net debt to EBITDA (x)	13.2	3.3	8.4
Gross Debt to Equity (x)	1.68	1.49	1.53
Net Debt to Equity (x)	1.43	1.24	1.32
Gross debt/total capitalisation (%)	62.7	59.9	60.4
Net debt/net capitalisation (%)	58.9	55.4	56.8
Cash/current borrowings (x)	0.7	1.2	1.7
EBITDA/Total Interest (x)	1.2	4.1	1.9

Source: Company, OCBC estimates

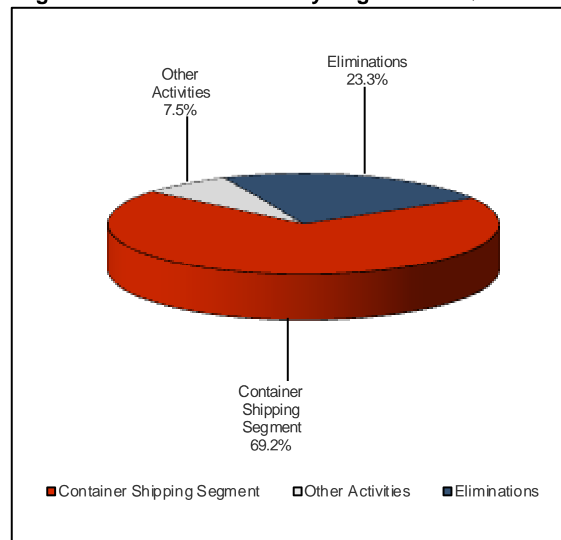
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1Q2018



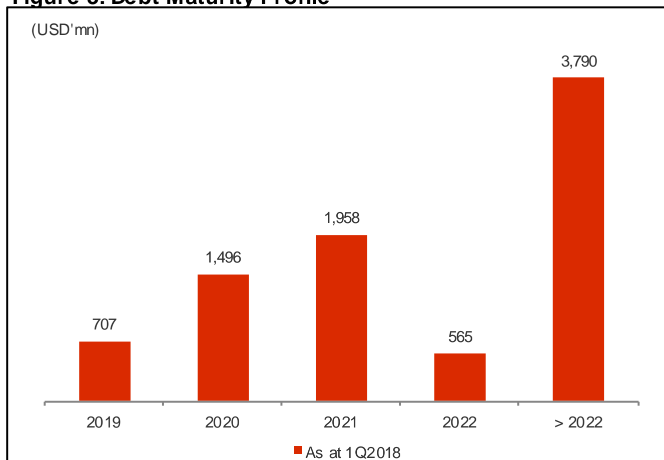
Source: Company

Figure 2: EBIT breakdown by Segment - 1Q2018



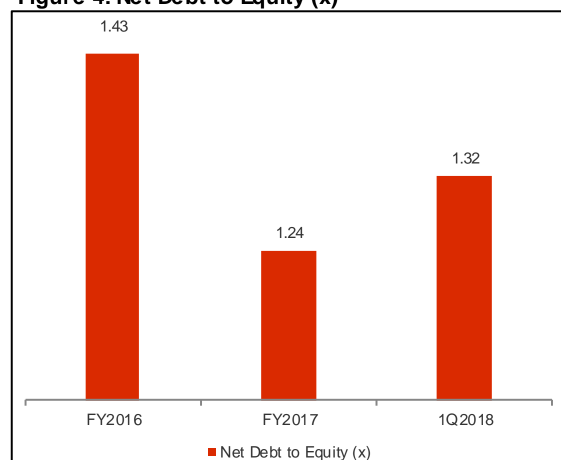
Source: Company

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 CWT'19s and '20s on the back of heightened event risk at the parent company, namely CWT International Ltd ("CWTI").

Issuer Profile: Negative (6)

Ticker: **CWTSP**

Background
CWT International Ltd ("CI") is the holding company of CWT Pte Ltd (previously CWT Ltd, when it was publicly listed "CWT SG"). CWT SG is an integrated logistics solutions provider and provider of ancillary businesses, including commodity marketing, financial services and engineering services. CI, listed in Hong Kong is 66.8%-owned by HNA Group Co., Ltd, via its group entities ("HNA").

CWT International Ltd (Parent of CWT Ltd)

Key credit considerations

- **CWT SG makes up large part of CWTI:** CWTI reported HKD24.0bn in revenue in FY2017, HKD811.2mn in gross profit and HKD137.8mn in profit from continuing operations. This y/y increase in profit was mainly attributable to a non-recurring gain of HKD327.2mn in bargain purchase from the acquisition of CWT SG and (2) the consolidation of profits from CWT SG from 7 September 2017 to end-2017. CWTI's business profile has changed significantly post-the acquisition of CWT SG. The four new CWT SG business segments contribute ~97% of CWTI's adjusted profit before tax from continuing operations. We adjusts out one-off gains from disposal of property, plant and equipment in CWT SG's Logistics segment (occurred in 3Q2017, prior to its delisting)

- **Weak interest coverage and elevated gross gearing:** Finance costs had ballooned to HKD383.7mn in FY2017 (FY2016: HKD113.1mn). HKD129.2mn in interest expense for FY2017 was attributable to underlying business operations while HKD201.9mn of interest expense is considered as unallocated expenses. In our view, bulk of the incremental interest expense was attributable to interest incurred on expensive acquisition debt taken at the CWTI level to fund the acquisition of CWT SG. Based on our EBITDA calculation which does not include other income (eg: one-off gain from the bargain purchase) and other expenses, we find EBITDA/Interest at CWTI weak at only 0.8x. In end-2017, we find gross gearing levels elevated at 2.5x (30 June 2017: 0.4x). It was disclosed that USD561mn in acquisition debt was taken. USD300mn was due in May 2018 while the rest is coming due in September 2018. In contrast, as at 30 September 2017, CWT SG's standalone gross gearing was only 1.5x.

- **Asset stripping:** On 5 July 2019, CWTI announced the proposed sale of 5 warehouses owned by CWT SG for SGD730mn (3.3% discount to independent valuation) and slightly above book value. These properties will be leased back under Master Leases, with total first year rent of ~SGD48mn. The acquisitions are subject to (a) JTC approval and (b) approval of shareholders of CWTI given that in aggregate the disposals constitute a very substantial disposal under Hong Kong listing rules. As at 31 December 2017, net assets for the Logistics segment where the assets are likely to sit under was HKD5.9bn (~SGD1.0bn). Some asset disposal (including via sales-and-leaseback) is possible and reasonably allowed. For CWT SG, we are unable to opine on whether this proposed sale is in breach of its bond terms based on available public information and we urge bondholders to seek legal advice on protections afforded. We no longer have access to standalone CWT SG financials though annually; these should still be availed to CWT SG's bondholders.

- **Uncertainty as to whether or not acquisition debt has been refinanced:** The acquisition debt (USD300mn due in May 2018 and USD261mn due in September 2018) assumed by CWTI to buy CWT SG is guaranteed by its substantial shareholder. As of April 2018, CWTI's auditors have cast material uncertainty related to the going concern of CWTI as the refinancing for the acquisition debt had not been put in place. ~SGD541mn of net proceeds from the proposed sale can be used for refinancing at CWTI (and likely to be used for that purpose in our view). The proposed buyer, namely, Mapletree Logistics Trust ("MLT") is obliged to provide a bridging loan of at least USD100mn to CWT SG. This is intended to offset amounts payable by MLT for the properties, assuming the acquisition goes through. If bridge loan amounts are drawn down and the transaction does not go through, CWT SG would be a debtor to MLT. The bridge loan and sale assuming it goes through would likely be used to alleviate liquidity strains at CWTI in our view.

CWT International Ltd

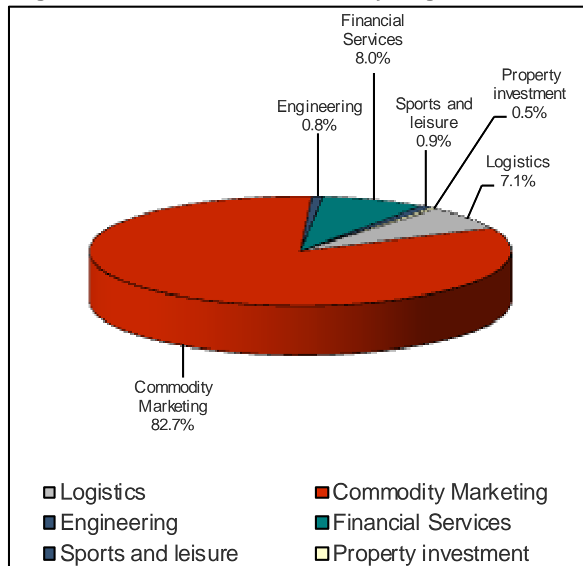
Table 1: Summary Financials

	CWT Ltd		
Year End 31st Dec	**FY2015**	**FY2016**	**FY2017**
Income Statement	**SGD'mn**	**SGD'mn**	**HKD'mn**
Revenue	9,931.6	9,251.9	23,955.9
EBITDA	199.8	174.7	317.7
EBIT	152.1	129.3	85.0
Gross interest expense	51.0	56.3	389.3
Profit Before Tax	131.7	104.8	179.7
Net profit	108.9	73.6	204.5
Balance Sheet			
Cash and bank deposits	310.3	334.4	2,137.9
Total assets	4,549.8	5,412.5	31,181.7
Gross debt	1,427.4	1,871.4	14,728.1
Net debt	1,117.1	1,537.0	12,590.2
Shareholders' equity	868.1	904.0	5,971.3
Total capitalization	2,295.5	2,775.5	20,699.4
Net capitalization	1,985.1	2,441.1	18,561.6
Cash Flow			
Funds from operations (FFO)	156.6	119.0	437.2
* CFO	317.3	-62.9	-697.7
Capex	44.9	221.5	137.7
Acquisitions	0.0	0.0	6,473.4
Disposals	28.2	211.1	1,158.1
Dividend	46.2	40.2	3.8
Free Cash Flow (FCF)	272.4	-284.5	-835.4
* FCF adjusted	254.3	-113.6	-6,154.6
Key Ratios			
EBITDA margin (%)	2.0	1.9	1.3
Net margin (%)	1.1	0.8	0.9
Gross debt to EBITDA (x)	7.1	10.7	46.4
Net debt to EBITDA (x)	5.6	8.8	39.6
Gross Debt to Equity (x)	1.64	2.07	2.47
Net Debt to Equity (x)	1.29	1.70	2.11
Gross debt/total capitalisation (%)	62.2	67.4	71.2
Net debt/net capitalisation (%)	56.3	63.0	67.8
Cash/current borrowings (x)	0.4	0.2	0.2
EBITDA/Total Interest (x)	3.9	3.1	0.8

Source: Company, OCBC estimates

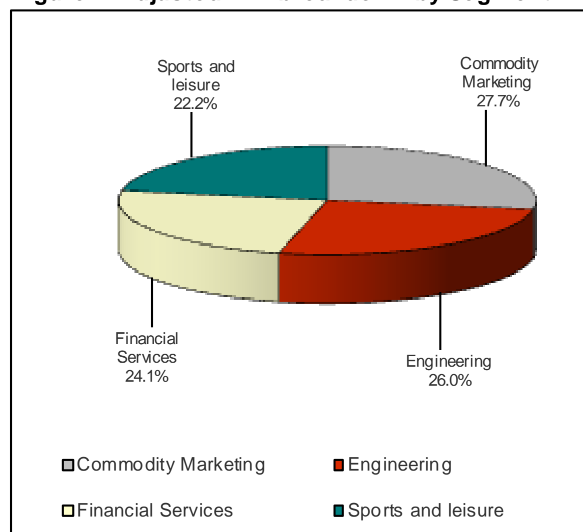
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2017



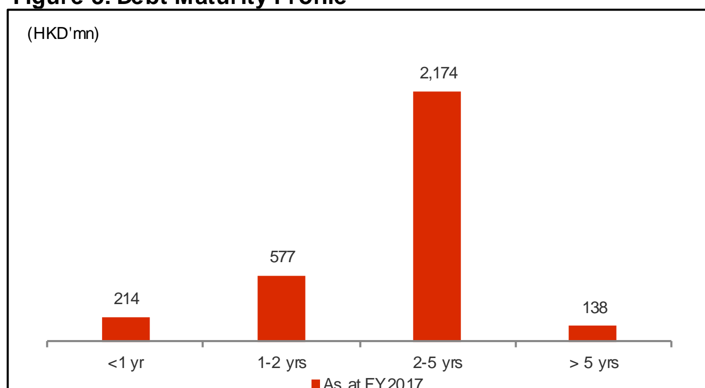
Source: Company

Figure 2: Adjusted PBT breakdown by Segment - FY2017



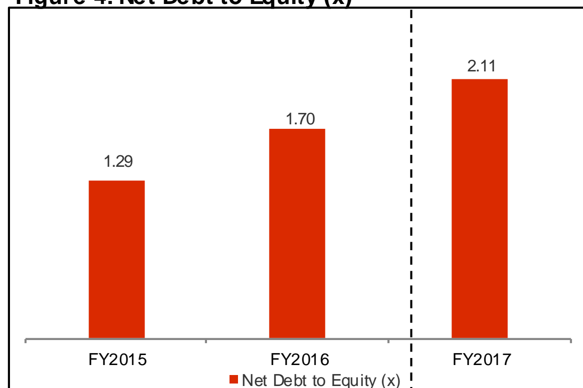
Source: Company | Logistics & property investment made losses

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We are overweight the EREIT 3.5% '18s which has a YTW of 2.4% and the EREIT 3.95% '20s which has a YTW of 3.45%. While the REIT is in the midst of a proposed merger, we see little risk that this would unduly stretch the credit profile of EREIT. We prefer the EREIT 4.6%-PERP (first call date in November 2022) over the GUOLSP 4.6%-PERP (first call date in January 2023) and a switch would allow a pickup of 80bps assuming that both call at first call.

Issuer Profile: Neutral (4)

Ticker: **EREIT**

Background

Listed in 2006, ESR-REIT ("EREIT") is an industrial REIT in Singapore, with total assets of SGD1.7bn as at 31 March 2018. The REIT's largest unitholder is Jinquan Tong with ~15.2% stake. E-Shang Redwood Group, a company backed by Warburg Pincus, is now the second largest unitholder with a 12.9%-stake in EREIT and 80%-stake in the EREIT's REIT Manager.

ESR-REIT

Key credit considerations

- **Growth in 1Q2018 driven by acquisitions under new management:** 1Q2018 gross revenue increased 21% y/y to SGD33.6mn, mainly driven by the full quarter contributions from two acquired properties, namely 8 Tuas South Lane and 7000 Ang Mo Kio Avenue 5. This was partly offset by declines from (1) conversion of 21B Senoko Loop and 3 Pioneer Sector 3 into multi-tenanted buildings, (2) non-renewal of leases at 12 Ang Mo Kio, 31 Kian Teck and 30 Toh Guan and (3) four property divestments (gross proceeds of SGD81.2mn) since 1Q2017 (87 Defu Lane, 23 Woodlands Terrace, 55 Ubi Avenue 3 and 9 Bukit Batok). Borrowing costs have increased 21% y/y to SGD6.1mn as higher debt was drawn down in 4Q2017 to help fund new acquisitions. Interest coverage as measured by EBITDA/Interest was 3.5x, relatively flat against 1Q2017.

- **Aggregate leverage lower post-equity fundraise:** As at 31 March 2018, aggregate leverage was significantly lower at 30.0% (4Q2017: 39.6%). SGD170mn of debt was repaid during the quarter, bulk from the SGD141.9mn in equity raised at EREIT's preferential offering and SGD23.7mn of net proceeds from divestment of 9 Bukit Batok. Perpetuals at EREIT make up 10% of its total capital and assuming 50% of perpetuals as debt, we find adjusted aggregate leverage at 35%, significantly down from 44% in end-2017. As at 31 March 2018, all debt at EREIT remains unsecured and all SGD1.6bn of investment properties (assuming 100% of 7000 Ang Mo Kio) was unencumbered, providing ample financial flexibility to raise secured debt, if need be. Short term debt amounted to SGD155.0mn (the EREIT 3.5% '18 bond coming due in November 2018) against available committed revolving credit facilities of SGD213.0mn. EREIT is proposing to buy 15 Greenwich Drive, a logistics facility for a total acquisition cost of SGD99.9mn. Assuming full debt-funding, aggregate leverage may rise to 33.9%.

- **Portfolio occupancy down and expect soft leases:** Portfolio occupancy was 90.7% as at 31 March 2018, falling from 93.0% in end-2017. Without factoring in the proposed merger with Viva Industrial Trust ("VIVA"), we expect EREIT's EBITDA to fall in FY2018. EREIT faces a downsizing tenant and pre-termination of another tenant in the offshore marine sector and these two collectively make up 7.1% of portfolio rental income. A third tenant (subsidiary of Hyflux) contributing 6.8% of rental income is still paying rents promptly though Hyflux is undergoing financial restructuring. We assume that 13.9% of rent is at heightened risk of dropping out of the portfolio in the next 12 months. Assuming all these tenants are non-contributing, we estimate EREIT's EBITDA/Interest at 3.0x. A negative rental reversion of 15.8% was recorded for FY2017. As at end-2017, 22.4% of rental income would have come due by end-2018, though by end-March 2018, this figure (while still significant) had dropped to 18.1%, implying certain leases had been renewed. EREIT disclosed that in 1Q2018, rental reversion was -0.2%. In our view, this may not be reflective of the next few quarters. With lease expiries pressures building, EREIT is more likely to take offer more competitive lease rates to keep occupancy up.

- **EREIT and VIVA has entered into definitive agreements:** In May 2018, EREIT and VIVA announced that they are intending to merge by way of a trust scheme of arrangement. The deal will see VIVA stapled security holders receiving 10% of the purchase consideration in cash and 90% of new units in EREIT. The deal is subject to unitholder approvals though we see likelihood of the deal happening as high.

ESR-REIT

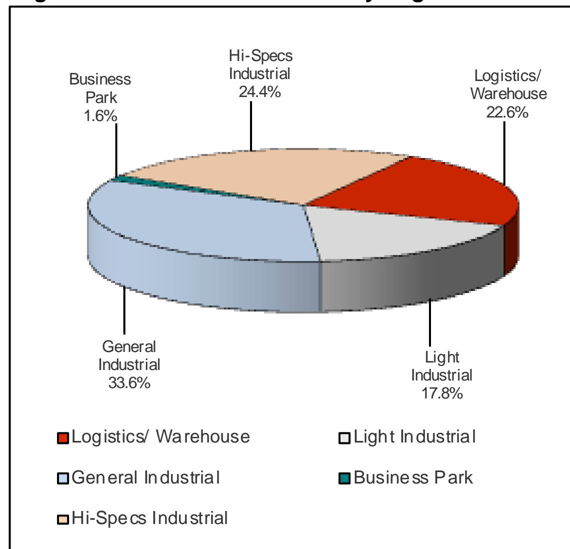
Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	112.1	109.7	33.6
EBITDA	73.3	69.3	21.1
EBIT	73.3	69.3	21.1
Gross interest expense	21.1	20.4	6.1
Profit Before Tax	7.1	1.4	15.2
Net profit	7.1	0.6	14.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	3.7	11.7	9.9
Total assets	1,367.0	1,695.8	1,675.6
Gross debt	509.6	669.8	500.0
Net debt	505.9	658.1	490.2
Shareholders' equity	827.0	930.0	1,076.9
Total capitalization	1,336.6	1,599.8	1,576.9
Net capitalization	1,332.9	1,588.1	1,567.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	7.1	0.6	14.2
* CFO	68.5	69.0	16.2
Capex	5.6	9.8	1.0
Acquisitions	0.0	348.2	1.2
Disposals	27.0	56.9	23.7
Dividends	52.9	46.0	8.4
Free Cash Flow (FCF)	63.0	59.2	15.1
* FCF Adjusted	37.0	-278.0	29.4
Key Ratios			
EBITDA margin (%)	65.4	63.2	62.8
Net margin (%)	6.3	0.6	42.3
Gross debt to EBITDA (x)	6.9	9.7	5.9
Net debt to EBITDA (x)	6.9	9.5	5.8
Gross Debt to Equity (x)	0.62	0.72	0.46
Net Debt to Equity (x)	0.61	0.71	0.46
Gross debt/total capitalisation (%)	38.1	41.9	31.7
Net debt/net capitalisation (%)	38.0	41.4	31.3
Cash/current borrowings (x)	N.A	0.1	0.1
EBITDA/Total Interest (x)	3.5	3.4	3.5

Source: Company, OCBC estimates

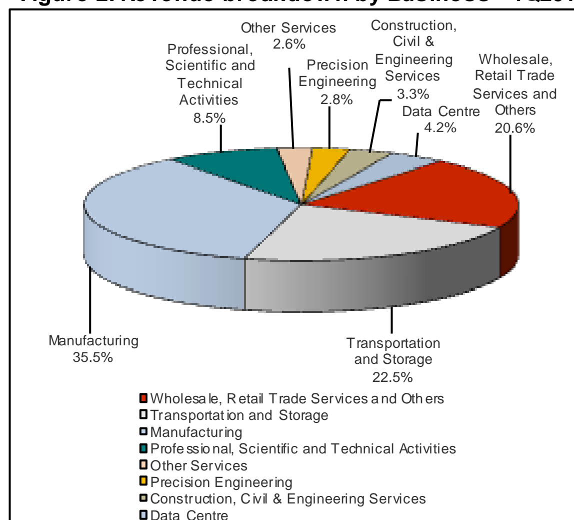
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1Q2018



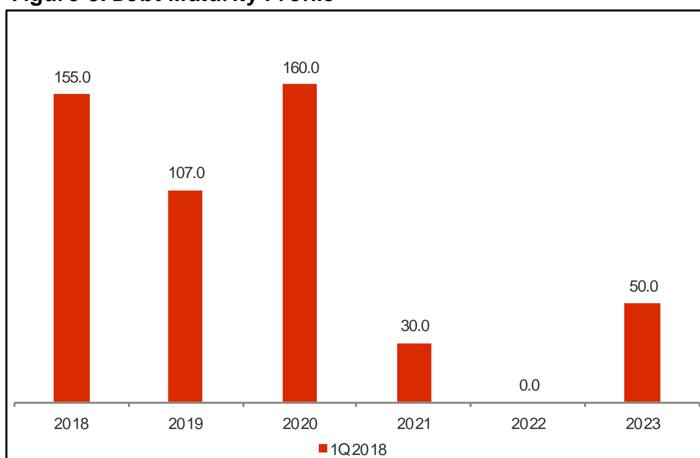
Source: Company

Figure 2: Revenue breakdown by Business - 1Q2018



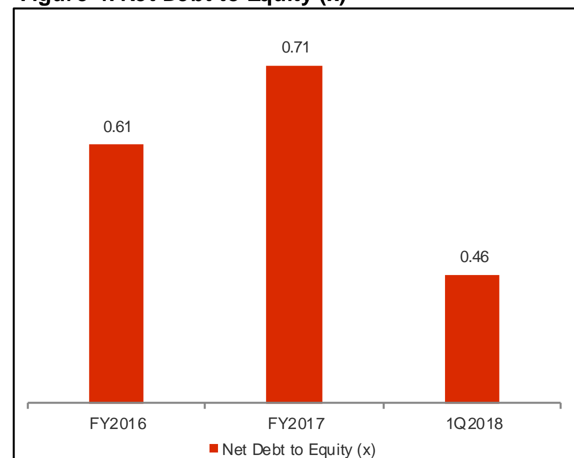
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

First REIT

Credit Outlook – We are underweight the FIRTSP 5.68%-PERP (first call date in July 2021) and for investors who are comfortable with Lippo-linked issuers, we prefer the LMRTSP 7%-PERP which has a first call date in September 2021.

Issuer Profile: Negative (6)

Ticker: **FIRTSP**

Background

Listed on the Singapore Stock Exchange ("SGX") with a market cap of SGD1.0bn as at 04 July 2018, FIRT is a REIT that invests primarily in real estate used for healthcare and healthcare-related industries. Investment properties totaled SGD1.3bn as at 31 March 2018 and in FY2017, 96% of gross revenue was attributable to properties in Indonesia. FIRT is ~28%-owned by its Sponsor, Lippo Karawaci ("LK").

Key credit considerations

- **Increase in operating income driven by acquisitions:** Gross revenue for 1Q2018 was up 5.8% y/y to SGD28.7mn. This was driven by the full quarter contributions from Siloam Hospitals Buton & Lippo Plaza Buton ("Buton", acquired in October 2017) and Siloam Hospitals Yogyakarta ("Jogja", acquired in December 2017). EBITDA (based on our calculation which does not include other income and other expense) was SGD25.5mn (up 5.7% y/y), while finance cost was 10.7% higher y/y at SGD4.8mn following higher debt to finance the acquisitions and the second progress payment for the development of the new Siloam Hospitals Surabaya. Interest coverage as measured by EBITDA/Interest was 5.4x (1Q2017: 5.6x). In 1Q2018, FIRT paid SGD1.7mn in cash to perpetual holders. Taking 50% of this payment as interest, we find Adjusted EBITDA/Interest at 4.5x. We have noted accumulation of trade receivables at FIRT and continue to expect rental collection delays at FIRT. Our base case assumes that LK would eventually find ways to repay FIRT given there are strong economic incentives for LK to keep the value of FIRT intact. As at 04 July 2018, LK's ownership in FIRT and Siloam is worth ~USD468mn collectively (versus LK's market cap of only ~USD544mn).

- **Reported aggregate leverage manageable:** As at 31 March 2018, aggregate leverage was still manageable at 34% versus 33% in end-2017. FIRT is a non-traditional REIT which owns properties crucial to Sponsor's underlying business operations. In our view, asset valuations for non-traditional REITs tend to be less certain versus a traditional REIT where properties are leased to third parties. As a mitigating factor, FIRT's bank lenders have extended secured debt amounting to SGD378.2mn to FIRT as at 31 March 2018 (secured debt-to-total asset at 26%). With the exception of six healthcare properties (collectively valued at ~SGD159mn), secured debt are secured against all other FIRT's properties, indicating a level of comfort over the marketability and valuation of assets. In May 2018, FIRT had obtained a short term unsecured bank debt of SGD100mn which was likely used to refinance the FIRT '18s bond due.

- **Counterparty credit risk heightened:** In FY2017, 82.4% of rental income at FIRT was concentrated with the Sponsor, namely LK and LK's subsidiaries. A further 12.9% of rental income is attributable to PT Metropolis Propertindo Utama, a business partner of LK. FIRT owns properties which are necessary to the Sponsor and Siloam's healthcare operations. Additionally, FIRT's assets are highly specialised in nature and in our view, it is unlikely that replacement tenants can be found within a short period of time. Over the past few months, investors had become increasingly concerned over LK's liquidity situation. While we do not cover LK and its subsidiaries, based on our credit framework, a hypothetical issuer profile of LK would be no better than a Negative (6).

- **Tri-party relationship between FIRT / Siloam / LK:** Siloam was in a high growth phase and its cash flow generation has been thin. We think LK has been subsidizing rents paid to FIRT, despite LK now only owning a 51%-stake in Siloam (down from 100%-ownership before Siloam's IPO). Typically, selling assets into REITs and then leasing these assets back is akin to using the REIT as a financing vehicle to recycle/unlock capital. In 2017, Siloam's operating profit-to-total capital (a proxy for returns to capital providers) was at 3.4% while dividend yield at FIRT is around 5-6%. There is less economic incentive for LK to continue subsidising rents by being FIRT's master lessee, should (1) the apparent liquidity strain at LK continue and/or (2) returns at Siloam continue to be lower than the cost of financing of using FIRT as a financing vehicle.

First Real Estate Investment Trust

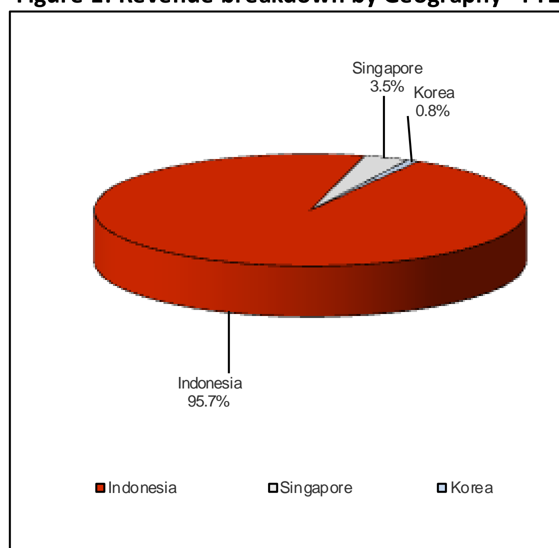
Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	107.0	111.0	28.7
EBITDA	94.9	98.2	25.5
EBIT	94.9	98.2	25.5
Gross interest expense	17.8	17.8	4.8
Profit Before Tax	64.3	93.6	20.8
Net profit	38.7	70.0	15.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	33.6	15.7	17.0
Total assets	1,341.3	1,423.8	1,430.7
Gross debt	413.6	476.4	479.3
Net debt	380.0	460.7	462.3
Shareholders' equity	838.6	852.3	854.3
Total capitalization	1,252.2	1,328.8	1,333.6
Net capitalization	1,218.6	1,313.0	1,316.6
Cash Flow (SGD'mn)			
Funds from operations (FFO)	38.7	70.0	15.4
* CFO	81.5	72.4	18.5
Capex	0.0	0.0	0.0
Acquisitions	39.2	72.2	0.2
Disposals	8.2	0.0	0.0
Dividends	56.7	66.4	16.4
Free Cash Flow (FCF)	81.5	72.4	18.5
* FCF Adjusted	-6.4	-66.2	2.0
Key Ratios			
EBITDA margin (%)	88.6	88.5	88.8
Net margin (%)	36.2	63.1	53.5
Gross debt to EBITDA (x)	4.4	4.9	4.7
Net debt to EBITDA (x)	4.0	4.7	4.5
Gross Debt to Equity (x)	0.49	0.56	0.56
Net Debt to Equity (x)	0.45	0.54	0.54
Gross debt/total capitalisation (%)	33.0	35.9	35.9
Net debt/net capitalisation (%)	31.2	35.1	35.1
Cash/current borrowings (x)	0.2	0.1	0.2
EBITDA/Total Interest (x)	5.3	5.5	5.4

Source: Company, OCBC estimates

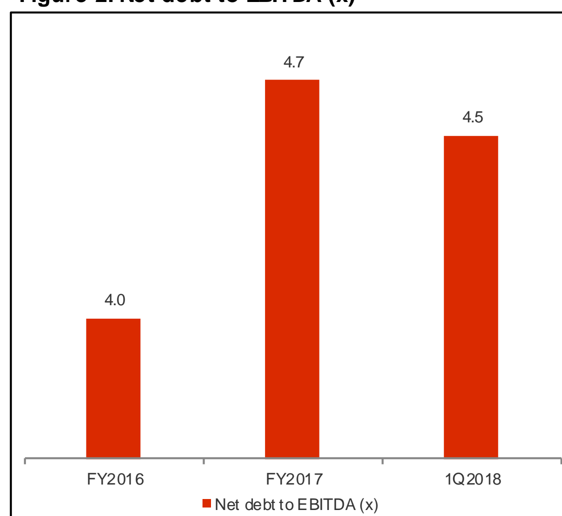
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Geography - FY2017



Source: Company

Figure 2: Net debt to EBITDA (x)



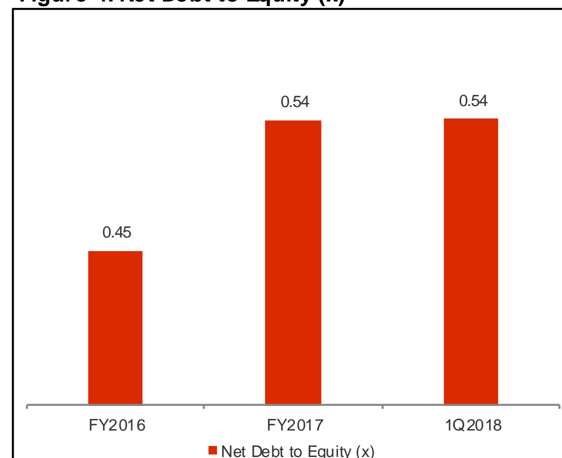
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	369.4	77.1%
Unsecured	0.0	0.0%
	369.4	**77.1%**
Amount repayable after a year		
Secured	0.0	0.0%
Unsecured	109.9	22.9%
	109.9	**22.9%**
Total	**479.3**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – With the Beverages segment continuing to struggle and climbing net gearing, we Underweight both FNNSP 3.09% '22s and FNNSP 2.7% '22s. We prefer BREAD '23s for exposure to the F&B segment. Outside the F&B but still in the retail space, investors can also consider a switch to SUNSP '23s.

Issuer Profile: Neutral (4)

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 19.06% 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.

Frasers and Neave Ltd

Key credit considerations

- **Mixed results with Beverages continuing to struggle:** Revenue for the quarter ending 31 March 2018 ("2QFY2018") grew 4.8% y/y to SGD473.1mn. This was contributed by (1) Beverages segment (+10.6% y/y to SGD125.6mn) with successful execution of CNY festive promotions and (2) Dairies segment (+4.7% y/y to SGD284.4mn) which benefited from pricing promotions and growth in export sales. However, reported EBIT for Beverages remained lacklustre, posting a small loss of SGD0.8mn though this has improved y/y (2QFY2017 loss: SGD5.2mn) as a result of increased sales and lower sugar input cost. Dairies' reported EBIT surged 29.6% y/y to SGD51.6mn, though this is mainly due to the additional profit contribution by associate Vinamilk. Without Vinamilk, we estimate reported EBIT would have declined ~10% y/y to ~SGD35mn, due to lower contribution from Malaysia Dairies (affected by higher raw material prices). Overall, net profit rose 28.4% y/y to SGD30.1mn due to higher share of associated companies profits at SGD17.1mn (2QFY2017: SGD1.5mn) due to contribution by Vinamilk.

- **Increasing contribution by Vinamilk:** Since our initiation a year ago in Jul 2017, FNN has boosted its stake in Vinamilk further from 18.74% to 20.01%. Accounted for as an associate, we estimate Vinamilk may contribute ~SGD120mn to FNN's bottomline in 2018. Future contributions may continue increasing as Vinamilk has exhibited strong growth with revenue CAGR of 12.8% in 2013-2017 though the growth trajectory has noticeably slowed in more recent quarters. We also expect Vinamilk to upstream ~SGD90mn dividends p.a. to FNN.

- **Beverages segment from contributor to earnings drag:** Beverages segment used to be a larger contributor to reported EBIT (FY2012-14 average: SGD131mn) though this has fallen significantly since FY2015 with increased competition and increased input cost. There was some recovery in the latest results though, with Malaysia's soft drinks segment reporting that 2QFY2018 PBIT improved SGD4.5mn y/y, to turn around from a loss. This was due to increased sales, positive sales mix and lower input cost. With PBIT for the segment still at a SGD0.8mn loss for the quarter, we think Singapore (Revenue: -7% y/y) and the New Markets (-27% y/y) continued to struggle and tipped the segment into a loss.

- **Dairies as the sole contributor:** Aside from Vinamilk, Thailand is the largest contributor to the Dairies segment, contributing SGD296mn (+5.3% y/y) out of SGD577mn of 1H2018 segment revenue. Dairies is also the only positive contributor (2QFY2018 Dairies PBIT: SGD51.6mn) to the total reported PBIT (SGD36.3mn). However, Dairies Malaysia (1HFY2018 revenue: SGD164mn) contributed lower y/y PBIT in 2QFY2018 as a result of higher raw material prices and related raw and packaging materials. Dairies Singapore revenue was reported to be flat in 2QFY2018. Meanwhile, Publishing & Printing segment continued to struggle with SGD8.4mn in PBIT losses in 2QFY2018, though management expects narrower losses in FY2018 as a result of restructuring activities.

- **Significant HoldCo-OpCo subordination:** Most of the operating assets are held in FNNB and Vinamilk. However, subordination risks from FNNB are manageable given its low debt and FNN holds a controlling stake. Risks from Vinamilk are partly mitigated as majority of the profits have been upstreamed to FNN via dividends.

- **Credit metrics still healthy, for now:** Net gearing climbed q/q to 13.3% (1QFY2018: 8.1%) due to investments in associated company (SGD125.8mn), which is likely due to the purchase of additional stakes in Vinamilk. Net gearing may continue heading higher if FNN continue its purchase though this will be capped with a gearing policy of up to 80%.

Fraser & Neave Ltd

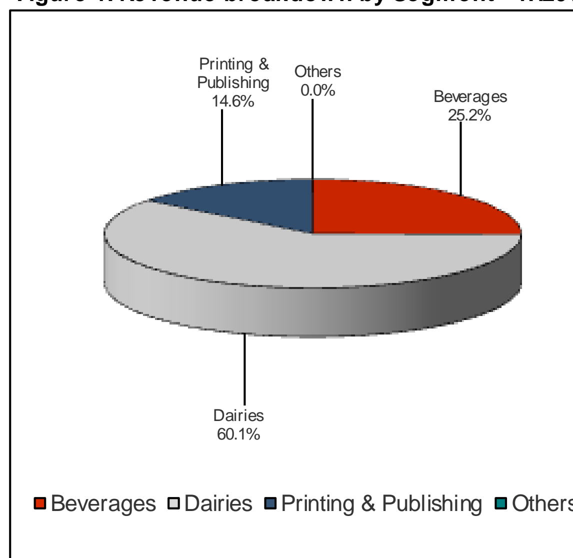
Table 1: Summary Financials

Year End 30th Sep	FY2016	FY2017	1H2018
Income Statement (SGD'mn)			
Revenue	1,978.6	1,898.0	960.2
EBITDA	161.8	142.8	86.2
EBIT	115.0	85.3	57.4
Gross interest expense	5.0	16.2	15.2
Profit Before Tax	188.2	1,343.9	79.4
Net profit	108.1	1,283.1	41.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,042.6	1,135.0	734.0
Total assets	3,772.9	4,894.7	4,655.6
Gross debt	137.0	1,303.1	1,143.9
Net debt	-905.6	168.1	410.0
Shareholders' equity	3,152.5	3,135.7	3,076.8
Total capitalization	3,289.6	4,438.8	4,220.7
Net capitalization	2,247.0	3,303.8	3,486.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	154.9	1,340.5	70.4
* CFO	184.7	71.6	45.1
Capex	65.5	64.7	44.8
Acquisitions	35.8	1,016.2	207.9
Disposals	0.4	1.1	1.4
Dividend	98.9	95.7	60.3
Free Cash Flow (FCF)	119.2	6.8	0.3
* FCF adjusted	-15.1	-1,104.0	-266.6
Key Ratios			
EBITDA margin (%)	8.2	7.5	9.0
Net margin (%)	5.5	67.6	4.3
Gross debt to EBITDA (x)	0.8	9.1	6.6
Net debt to EBITDA (x)	-5.6	1.2	2.4
Gross Debt to Equity (x)	0.04	0.42	0.37
Net Debt to Equity (x)	-0.29	0.05	0.13
Gross debt/total capitalisation (%)	4.2	29.4	27.1
Net debt/net capitalisation (%)	-40.3	5.1	11.8
Cash/current borrowings (x)	85.3	1.4	1.1
EBITDA/Total Interest (x)	32.6	8.8	5.7

Source: Company, OCBC estimates

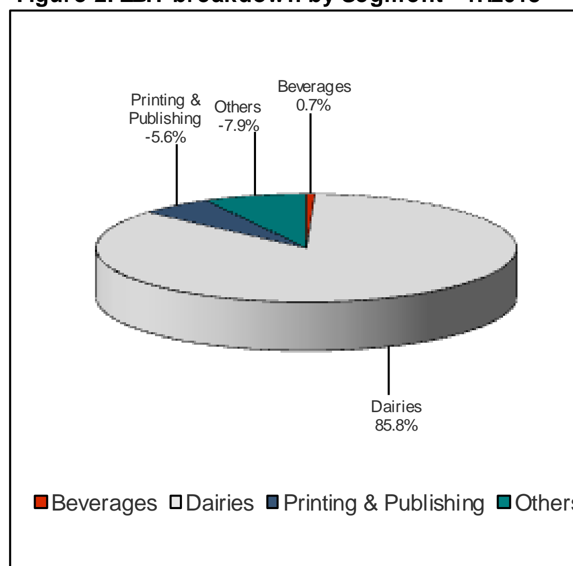
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1H2018



Source: Company

Figure 2: EBIT breakdown by Segment - 1H2018



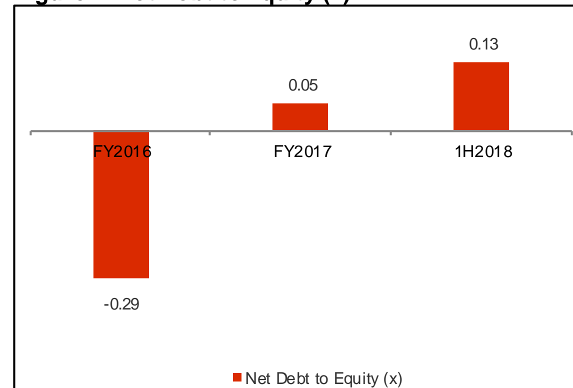
Source: Company | Printing & others made operating losses

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	684.8	59.9%
	684.8	**59.9%**
Amount repayable after a year		
Secured	0.0	0.0%
Unsecured	459.2	40.1%
	459.2	**40.1%**
Total	**1,143.9**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Frasers Commercial Trust

Credit Outlook –
FCOT continues to face transitional issues with its Singapore assets, with improvement unlikely in FY2018. In addition, potential future asset injections by the sponsor may burden FCOT's balance sheet. We prefer the FCOTSP 2.625% '20s over the FCOTSP 2.835% '21s given the recent price correction. It also looks fair against the SUNSP 3.35% '20s.

Issuer Profile: Neutral (4)

Ticker: **FCOTSP**

Background
Frasers Commercial Trust ("FCOT") is a REIT that holds largely office and business park assets and is sponsored by Frasers Property Ltd ("FPL", which holds a 25.0% interest in FCOT). FCOT reported a portfolio value of SGD2,219mn at 31 March 2018, which comprises of China Square Central ("CSC"), Alexandra Technopark ("ATP") and 55 Market Street in Singapore, as well as 357 Collins Street, Melbourne, Caroline Chisholm Centre, Canberra, 50% of Central Park, Perth in Australia, and 50% of Farnborough Business Park in the UK.

Key credit considerations

- **Weakness in Singapore as expected**: 2QFY2018 gross revenue was down 18.0% y/y to SGD33.0mn and NPI down a sharper 25.3% y/y to SGD22.4mn. This was largely expected, given the exit of HP Enterprise and the staggered exit of HP Singapore from ATP (current committed occupancy stands at 70.4%, down almost 10ppt q/q), which caused property NPI to plunge 34% y/y to SGD6.4mn (ATP is FCOT's largest asset by NPI contribution). CSC also saw property NPI fall by 28% to SGD3.2mn due to the closure of the retail podium for its SGD38mn AEI (construction started in 1Q2018), to better position the asset for when the Capri hotel opens in mid-2019. 55 Market Street in Raffles Place also had a weak quarter, reporting an NPI decline of almost 20% y/y due to softer occupancy (87.9%). Our previous expectations[1] for FCOT's FY2018 performance are being realized, though given the low committed occupancy of ATP as at 1HFY2018, the asset may take a longer time than expected to ramp back higher. Given the timing of the opening of the new hotel, and completion of CSC's AEI, FCOT's portfolio may only see stabilized cash flows in the latter part of FY2019.

- **Weakness in Australia a disappointment**: FCOT's Australian assets continued to be affected by the weaker AUD (which weakened ~3.5% against SGD during 2QFY2018). Lower occupancy had also affected Central Park, Perth and 357 Collins Street, Melbourne. Central Park was badly affected by the 16.9ppt y/y fall in committed occupancy to 68.3%, which caused property revenue and NPI to decline 26.2% and 40.0% respectively. The asset was affected by the lower amount of space renewed by major tenant, Rio Tinto. In general, though Prime Grade office vacancies in the Perth CBD are recovering, it still stands at 14.2%. Looking forward, the Farnborough Business Park acquisition (50% stake, completed end-January 2018) may help contribute to performance. On a full-quarter basis, the asset is estimated to contribute SGD2.2mn in NPI to FCOT.

- **Portfolio statistics remain lacklustre**: In aggregate, portfolio committed occupancy remained weak at 83.5%, falling further q/q from 86.6% (1QFY2018) with all six assets reporting lower occupancy. WALE improved q/q to 4 years (1QFY2018: 3.6 years). That being said, the Australia leases have longer WALE. Singapore WALE is lower with CSC at 1.7 years, ATP at 1.6 years and 55 Market Street at 1.8 years. Portfolio WALE had also benefited from the acquisition of Farnborough Business Park (7.5 years).

- **UK acquisition results in modest impact to aggregate leverage**: Aggregate leverage increased slightly to 35.3% (1QFY2018: 34.8%). The increase was largely driven by the acquisition of 50% of Farnborough Business Park, which was ultimately funded by SGD100mn in rights issue and SGD60mn in bonds. Reported interest coverage stood at 4.1x (1QFY2018: 4.3x), with the average borrowing rate at 2.99% (1QFY2018: 3.04%). Floating rate borrowings represent 18% of gross borrowings. Near-term borrowings look manageable, with SGD136mn in AUD bank loans and SGD40mn in SGD bank loans due. Maturity profile is well termed-out, with an average of ~SGD160mn due annually till FY2022. All of FCOT's assets are unencumbered, which offers flexibility. The biggest risk to FCOT's credit profile remains potential asset injections by its sponsor, with SGD4bn in pipeline assets and right of first refusal granted by its sponsor for assets in Singapore, Australia and the UK. As a mitigating factor however, the sponsor's industrial and logistic assets in Europe are intended for injection in Frasers Logistics & Industrial Trust based on recent transactions[2].

[1] Singapore Credit Outlook 2018
[2] OCBC Asian Credit Daily (20 Apr)

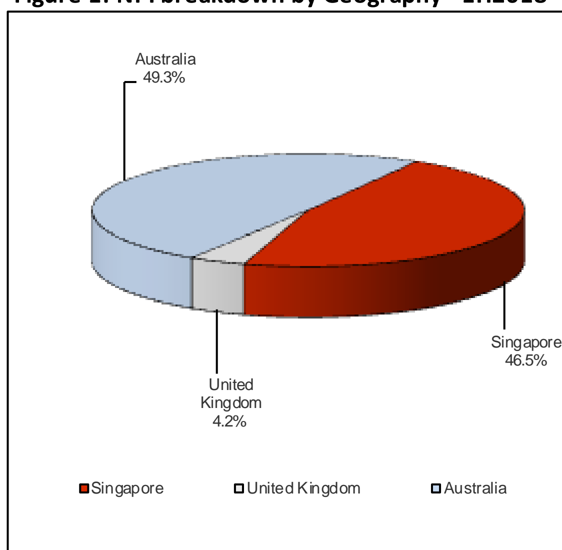
Frasers Commercial Trust

Table 1: Summary Financials

Year Ended 30th Sept	FY2016	FY2017	1H2018
Income Statement (SGD'mn)			
Revenue	156.5	156.6	68.3
EBITDA	100.3	98.4	40.1
EBIT	100.3	98.4	39.6
Gross interest expense	24.8	24.4	12.1
Profit Before Tax	76.1	135.1	25.8
Net profit	71.2	111.4	24.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	71.5	74.6	37.8
Total assets	2,069.4	2,158.9	2,265.4
Gross debt	742.3	748.0	799.2
Net debt	670.8	673.3	761.4
Shareholders' equity	1,228.4	1,289.3	1,353.0
Total capitalization	1,970.7	2,037.3	2,152.2
Net capitalization	1,899.2	1,962.7	2,114.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	71.3	111.5	25.0
* CFO	101.8	96.8	44.5
Capex	3.0	4.3	33.1
Acquisitions	0.0	0.0	154.5
Disposals	0.0	0.0	0.0
Dividends	65.7	64.5	39.6
Free Cash Flow (FCF)	98.8	92.5	11.4
* FCF Adjusted	33.1	28.0	-182.7
Key Ratios			
EBITDA margin (%)	64.1	62.9	58.6
Net margin (%)	45.5	71.2	35.9
Gross debt to EBITDA (x)	7.4	7.6	10.0
Net debt to EBITDA (x)	6.7	6.8	9.5
Gross Debt to Equity (x)	0.60	0.58	0.59
Net Debt to Equity (x)	0.55	0.52	0.56
Gross debt/total capitalisation (%)	37.7	36.7	37.1
Net debt/net capitalisation (%)	35.3	34.3	36.0
Cash/current borrowings (x)	0.4	0.4	0.2
EBITDA/Total Interest (x)	4.1	4.0	3.3

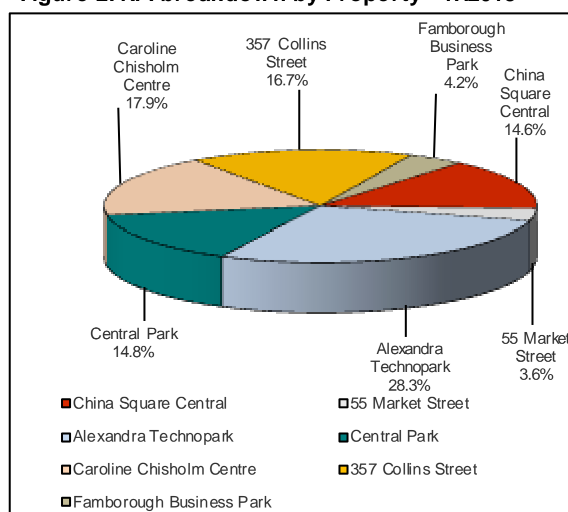
Source: Company, OCBC estimates

Figure 1: NPI breakdown by Geography - 1H2018



Source: Company

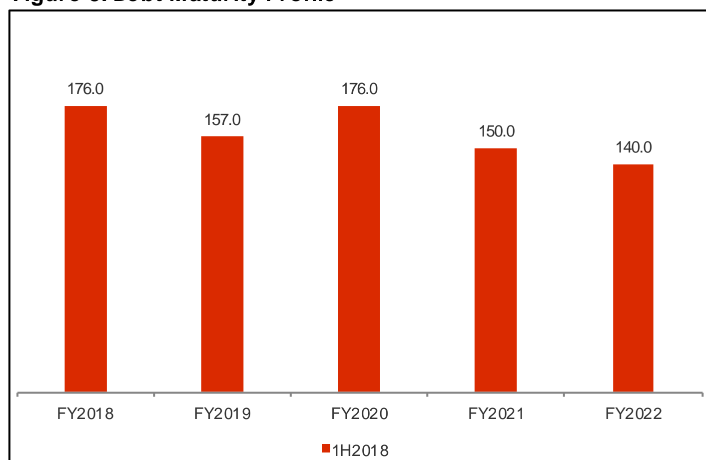
Figure 2: NPI breakdown by Property - 1H2018



Source: Company

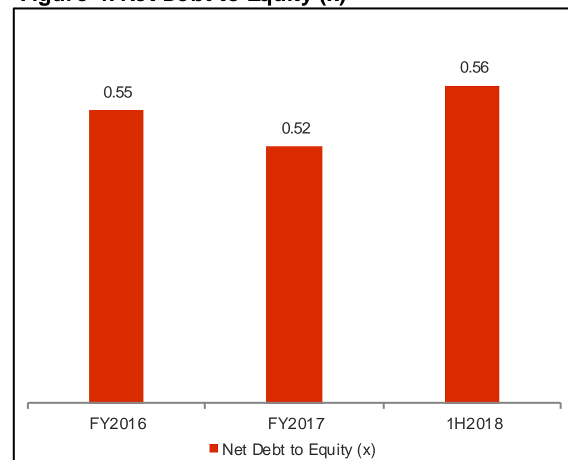
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –
We are underweight the FCTSP curve . A switch into the AREIT 2.5% '19s pays 30 bps more versus the FCTSP 2.9% '19.

Issuer Profile: Neutral (3)

Ticker: **FCTSP**

Background
Listed on the SGX in July 2006, Frasers Centrepoint Trust ("FCT") is a pure-play suburban REIT in Singapore, sponsored by Frasers Property Ltd ("FPL", which holds a 42% interest in FCT). Since its IPO, FCT's portfolio value has grown to SGD2.67bn as 31 March 2018. 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

- **Stabilization of Northpoint mitigates NPI weakness:** Gross revenue for the second quarter ended March 2018 ("2QFY2018") increased 6.3% y/y to SGD48.6mn, while net property income ("NPI") was up 6.9% y/y to SGD34.8mn. Similar to the prior periods, the biggest driver of performance was Northpoint City North Wing ("Northpoint") which reported 31.7% y/y higher gross revenue to SGD13.3mn and 44.8% y/y higher NPI to SGD10.0mn as it completed its AEI and occupancy ramped back up to 94.0% (compared to the low of 60.7% seen in 2QFY2017). This helped mitigate NPI declines at the four other FCT assets (including Causeway Point and Changi City Point). Excluding Northpoint, portfolio NPI would have declined 3.3% y/y to SGD24.8mn. Northpoint's performance has been largely consistent with our expectations though we note that the positive effect would start to ebb post FY2018.

- **One-off items impacted the largest assets:** For Causeway Point, despite the 1.3% y/y increase in gross revenue, NPI declined 0.2% y/y due to a 6.3% increase in expenses, partly driven by the absence of a non-recurring property tax write back seen in 2QFY2017. For Changi City Point, both gross revenue (-3.6% y/y) and NPI (-9.7% y/y) declined with the former due to the absence of one-off back-billing seen in 2QFY2017, while the latter was driven by higher marketing related expenses. In our view, Causeway Point is likely to see a reversion to its historical strong performance, given that rental reversion and occupancy both remain firm. NPI trend at Changi City Point has been more mixed over the past three years. We continue to see weakness at Bedok Point, a small mall, with its NPI falling 31.7% y/y to SGD0.56mn. It's sharp negative rental reversion of 21.3% seen in FY2017 may affect future mall performance.

- **Improving portfolio statistics:** Portfolio committed occupancy had improved q/q to 94.0% (up 1.4 ppt), driven by the sharp increase at Northpoint and Changi City Point. Portfolio rental reversion was strong at +9.1%, as 62% of the leases executed were at Causeway Point (a key performing asset). Northpoint reported a -6.1% rental reversion, though we take some solace that this is only for 2.1% of mall net lettable area ("NLA"). Near-term lease expiries look manageable at 9.1% of NLA for 2HFY2018 though 26.1% of the portfolio NLA will expire in FY2019. Noticeably, Anchorpoint (a small mall) and Causeway Point will see 52.8% and 36.2% of leases coming due respectively in FY2019. WALE (by NLA) had improved ~3 months to 2.1 years, though we note that mall leases typically run for 3 years. The retail sector continues to face structural changes. Though providing portfolio resiliency, contribution from food & restaurants has steadily increased (2QFY2018: 37.9% of gross rental income).

- **Strong credit profile:** Aggregate leverage remains low at 29.2% (1QFY2018: 29.4%) while reported EBIT/Interest coverage was stable q/q at 6.6x. FCT faces SGD91mn in debt coming due in 2HFY2018, vis-à-vis cash balance of SGD15.8mn in end-March 2018. Secured borrowings though only make up ~10% of FCT's total assets, with only the three smaller assets mortgaged. The larger malls: Causeway Point, Northpoint City North Wing and Changi City Point collectively make up 86% of portfolio FY2017 NPI. As at 30 September 2017, these malls were valued at SGD2.2bn and remain unencumbered, providing financial flexibility. Net-net we think refinancing risk is manageable. Management has guided that they are looking at both third-party assets in Singapore and overseas (especially Australia and Malaysia). In our view, FCT has largely retained its sizable debt headroom for potential acquisitions, and such acquisitions would determine FCT's future leverage trajectory.

Frasers Centrepoint Trust

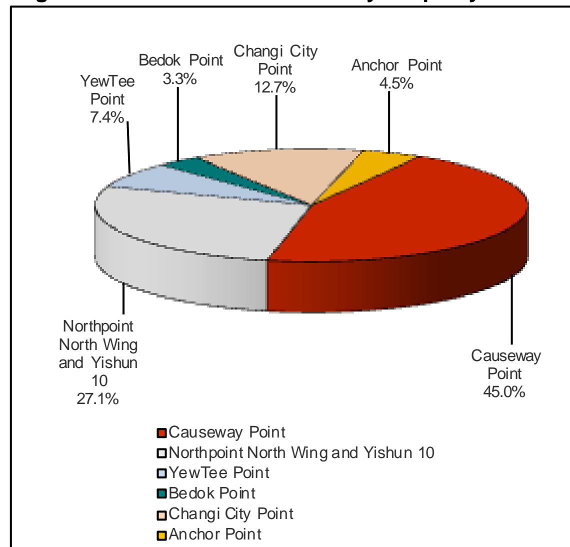
Table 1: Summary Financials

Year Ended 30th Sept	FY2016	FY2017	1H2018
Income Statement (SGD'mn)			
Revenue	183.8	181.6	96.5
EBITDA	114.1	112.5	60.9
EBIT	114.0	112.5	60.9
Gross interest expense	17.2	17.6	9.7
Profit Before Tax	123.4	193.9	53.1
Net profit	123.4	193.9	53.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	18.7	13.5	15.8
Total assets	2,594.5	2,750.9	2,762.8
Gross debt	734.0	797.5	806.5
Net debt	715.3	784.0	790.7
Shareholders' equity	1,775.6	1,872.2	1,877.0
Total capitalization	2,509.6	2,669.7	2,683.4
Net capitalization	2,490.9	2,656.2	2,667.6
Cash Flow (SGD'mn)			
Funds from operations (FFO)	123.5	194.0	53.1
* CFO	126.0	122.2	64.4
Capex	17.5	27.8	8.2
Acquisitions	0.0	45.2	0.0
Disposals	0.0	0.0	0.0
Dividends	108.4	108.2	55.3
Free Cash Flow (FCF)	108.4	94.4	56.2
* FCF Adjusted	0.0	-59.0	0.9
Key Ratios			
EBITDA margin (%)	62.1	62.0	63.1
Net margin (%)	67.2	106.8	55.0
Gross debt to EBITDA (x)	6.4	7.1	6.6
Net debt to EBITDA (x)	6.3	7.0	6.5
Gross Debt to Equity (x)	0.41	0.43	0.43
Net Debt to Equity (x)	0.40	0.42	0.42
Gross debt/total capitalisation (%)	29.2	29.9	30.1
Net debt/net capitalisation (%)	28.7	29.5	29.6
Cash/current borrowings (x)	0.1	0.1	0.2
EBITDA/Total Interest (x)	6.6	6.4	6.3

Source: Company, OCBC estimates

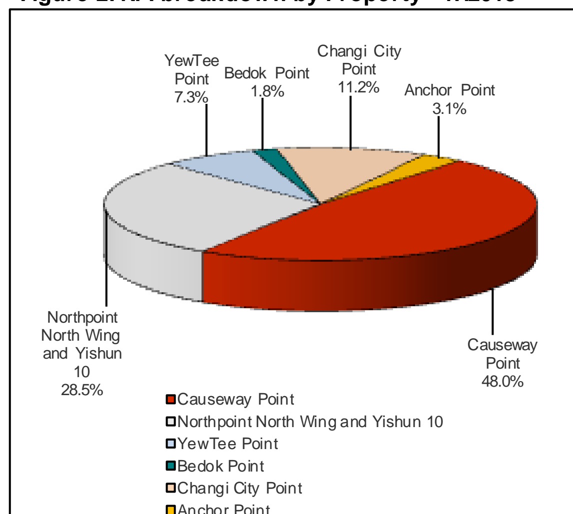
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Property - 1H2018



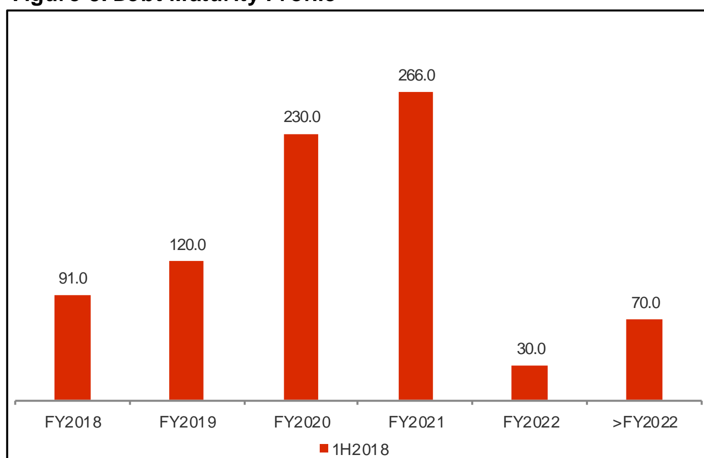
Source: Company

Figure 2: NPI breakdown by Property - 1H2018



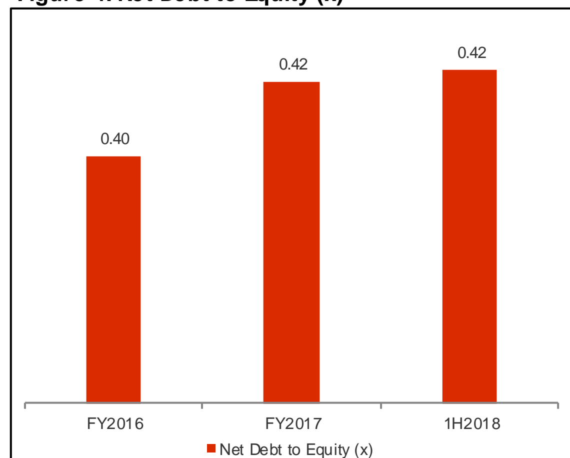
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – The FHREIT 2.63% '22s and FHREIT 3.08% '2024s are trading fair in our view. We are overweight the FHREIT 4.45%-PERP which has a first call date in May 2021 and a YTW of 4.4%.

Issuer Profile: Neutral (3)

Ticker: **FHREIT**

Background

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 3,914 keys. As at 31 March 2018, total assets stood at SGD2.5bn. It is sponsored by Frasers Property Limited ("FPL"), a major Singapore-based property developer.

Frasers Hospitality Trust

Key credit considerations

- **Weaker operating results with interest rate coverage lower:** Second quarter gross revenue for the financial year ended September 2018 ("2QFY2018") decreased 3.1% y/y to SGD37.5mn, driven by weaker performance in Australia (48% contributor to gross revenue), Singapore (20%), UK (11%) and Malaysia (5%). Japan (11%) and Germany (5%) saw increases in gross revenue in 2QFY2018. Operations, maintenance and staff costs were higher during the quarter, resulting in a larger y/y decline in net property income of 4.0% to SGD27.7mn. Management and trustee fees was relatively stable at SGD3.2mn, while EBITDA (based on our calculation that does not include other income and other expenses) was SGD24.6mn (down 4.6% y/y). Interest expense was 11.1% higher at SGD4.9mn mainly due to higher debt levels and higher interest rate from refinancing into longer tenured bonds. Resultant EBITDA/Interest coverage was lower at 5.0x in 2QFY2018 versus 5.8x in 2QFY2017.

- **Japan and Germany operating performance up:** FHREIT tracks both Gross Operating Revenue ("GOR") and Gross Operating Profit ("GOP") at the asset level. These two metrics along with fixed rent are key components that go into rent formulas which ultimately decides the rent paid to FHREIT under each agreement. While the ANA Crowne Plaza Kobe saw a 3.2% y/y decline in GOR, GOP increased 3.5% y/y due to tighter cost controls and we think this helped drive rentals from Japan higher. The sole property in Germany (Maritim Hotel Dresden) is under a Master Lease agreement where the Master Lessee pays an annual fixed rent with a variable rent that provides upside. We think that the hotel had performed better beyond the annual fixed rent.

- **Australia operating performance down:** While 41% of net property income is from Australia, we view the properties to be sufficiently diversified across micro-markets. In 2QFY2018, Australia performance was dragged by softer corporate demand (including softer banquet revenue) in the Sydney market and Novotel Sydney Darling Square ("NSDS") which is still undergoing renovation. Novotel Melbourne on Collins performed well. Additionally, 2QFY2018 results were absent a one-off write-back of consultancy fees that was included in 2QFY2017. Excluding the one-off item, GOP for Australia would be lower at 7.1% y/y.

- **Singapore serviced residences a drag though InterContinental did well:** Gross revenue for Singapore was down 7.7% y/y to SGD7.5mn. While the exact revenue split between the InterContinental Singapore Bugis and Fraser Suites Singapore ("FSS") was not provided, it was disclosed that Intercon achieved higher RevPAR, allowing us to infer that average daily rates at FSS was weak. Given that service residence properties are subject to onerous minimum stay requirements, we expect continued negative performance across the Singapore service residences sector in 2018.

- **Aggregate leverage healthy though refinancing significant:** As at 31 March 2018, aggregate leverage was 33.1% and healthy in our view. Perpetuals only make up 4% of FHREIT's capital structure and taking 50% of these as debt, we find adjusted aggregate leverage at 35%. SGD118.7mn of debt will come due for the remainder of 2018. FHREIT has commenced refinancing discussions with lending banks. Beyond 2018, SGD386.4mn of debt will come due next year. This is significant,, though FHREIT would only look at refinancing at a later stage. Secured debt remains a very small portion of FHREIT's total debt and we estimate that SGD2.3bn in property assets remains unencumbered, providing ample financial flexibility to raise secured debt, if need be.

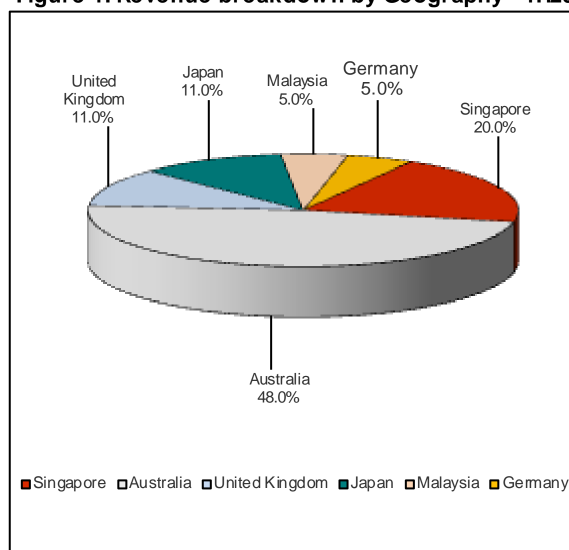
Frasers Hospitality Trust

Table 1: Summary Financials

Year Ended 30th Sep	FY2016	FY2017	1H2018
Income Statement (SGD'mn)			
Revenue	123.6	158.7	78.9
EBITDA	90.2	107.8	52.7
EBIT	90.2	102.0	50.5
Gross interest expense	19.1	19.1	10.0
Profit Before Tax	78.7	185.5	37.7
Net profit	62.1	156.6	35.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	64.4	79.8	96.4
Total assets	2,161.0	2,533.9	2,537.7
Gross debt	810.0	810.9	838.9
Net debt	745.6	731.2	742.5
Shareholders' equity	1,244.2	1,606.2	1,583.2
Total capitalization	2,054.2	2,417.1	2,422.1
Net capitalization	1,989.8	2,337.4	2,325.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	62.1	162.4	37.5
* CFO	107.8	113.4	53.7
Capex	0.0	0.4	0.3
Acquisitions	102.3	246.9	8.1
Disposals	0.0	0.0	0.0
Dividends	63.6	94.1	49.0
Free Cash Flow (FCF)	107.8	113.0	53.4
* FCF Adjusted	-58.1	-227.9	-3.7
Key Ratios			
EBITDA margin (%)	73.0	67.9	66.7
Net margin (%)	50.2	98.6	44.7
Gross debt to EBITDA (x)	9.0	7.5	8.0
Net debt to EBITDA (x)	8.3	6.8	7.0
Gross Debt to Equity (x)	0.65	0.50	0.53
Net Debt to Equity (x)	0.60	0.46	0.47
Gross debt/total capitalisation (%)	39.4	33.6	34.6
Net debt/net capitalisation (%)	37.5	31.3	31.9
Cash/current borrowings (x)	0.5	0.6	0.7
EBITDA/Total Interest (x)	4.7	5.7	5.3

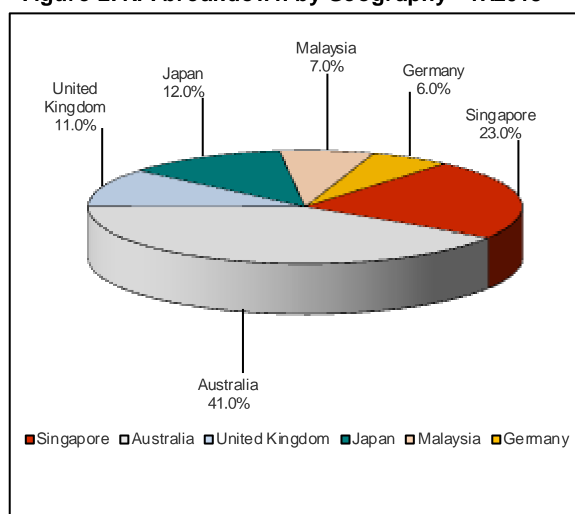
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 1H2018



Source: Company

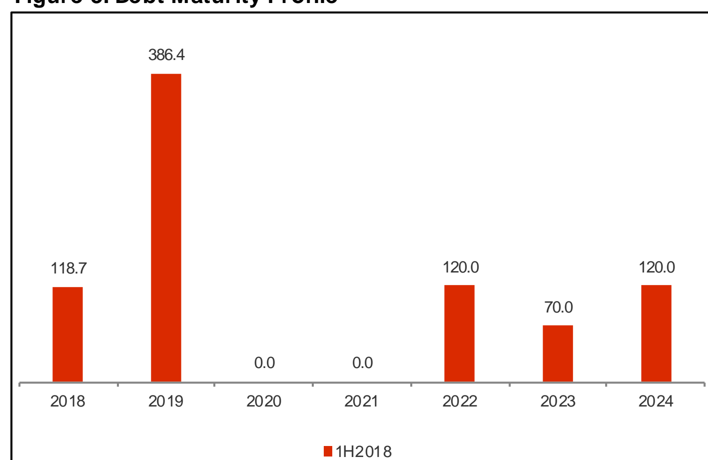
Figure 2: NPI breakdown by Geography - 1H2018



Source: Company

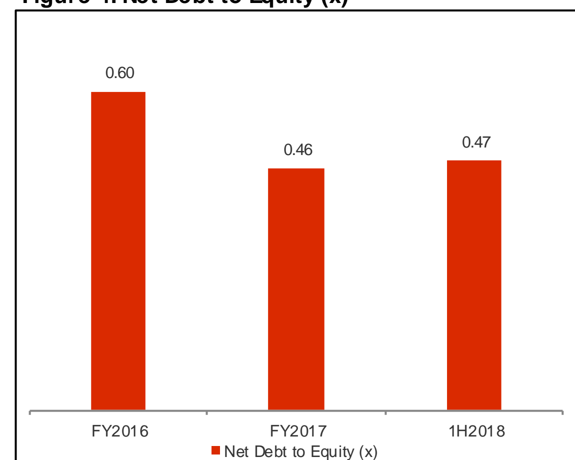
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Frasers Property Limited

Credit Outlook – Despite the climbing net gearing, we are Overweight on FPLSP '26s as it is rare for a senior paper of a large Singapore property company to trade above 4%. However, we Underweight FPLSP '21s (3.16% YTM) and recommend a switch to HPLSP '21s (3.48% YTM) for 32bps pickup.

Issuer Profile: Neutral (4)

Ticker: **FPLSP**

Background

Frasers Property Ltd ("FPL") is a leading Singapore developer by total assets (SGD29.9bn as of end-March 2018). 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 87.2% of FPL's stock. Sponsored REITs include Frasers Centrepoint Trust ("FCT"), Frasers Commercial Trust ("FCOT"), Frasers Hospitality Trust ("FHT") and Frasers Logistics and Industrial Trust ("FLT").

Key credit considerations

- **Decent set of 2QFY2018 results:** Revenue for the quarter ending 31 March 2018 ("2QFY2018") was decent, with revenue increasing 19% y/y to SGD842mn. This is due to better performance from (1) Singapore SBU (+12% y/y to SGD197mn) with revenue recognised from North Park Residences and Seaside Residences as well as commencement of parts of Northpoint City. (2) Australia SBU's (+61% y/y to SGD311mn) outsized increase in revenue was due to high levels of sales settlements. (3) Europe & Rest of Asia revenue increased more than threefold to SGD147mn with sales settlements and contributions from Geneba Properties (acquired Jul 2017) in Europe and business parks in the UK (acquired Nov 2017). The hospitality SBU, however, saw flattish revenue at SGD186mn. Overall, reported PBIT increased 47% y/y to SGD225.9mn with the increase mainly due to sales settlements in China, Australia and contributions from business parks in the UK.

- **Expanding recurring income**: Recurring income accounts for 71% (FY2017: 61%) of reported PBIT with the increase due to the acquisitions in Europe and UK. By assets, ~80% of total assets of SGD26.5bn generate recurring income, contributed by retail (SGD4.8bn), hospitality (SGD4.7bn), business parks and offices (SGD7.0bn) and logistics and industrial (SGD4.5bn). Looking ahead, recurring income is expected to increase with Frasers Tower (NLA: 686,140 sqft) on track to complete in 1H2018 (already 70% pre-leased), with the potential to generate ~SGD82mn in rental revenue p.a. Northpoint City (South Wing opened in Dec 2017), when stabilised, should also see increased contribution.

- **Contribution from listed REITs**: FPL receives ~SGD100mn dividends p.a. from its listed REITs (FCT, FCOT, FHT, FLT). The REITs are major contributors to group, forming 36% of FPL's consolidated total assets. Importantly, the REITs help FPL to recycle capital, for example from the listing of FLT in FY2016 (SGD1.7bn) and injection of industrial assets in FY2017 (SGD240mn). Assets ready to be recycled include Waterway Point, Northpoint City and industrial assets in Australia. FPL can also partner its REITs in acquisitions. For example, UK business parks were acquired under a 50-50 JV with FCOT.

- **Development revenue visibility:** Pre-sales revenue of SGD3.1bn is represented by Singapore (SGD0.9bn), Australia (SGD1.9bn) and China (SGD0.3bn). However, Singapore's development pipeline is expected to slow though with only 2 projects (North Park Residences and Parc Life) completing by end-FY2018. Conversely, in Australia, the residential development pipeline remains healthy with 17,100 units and gross development value at SGD8.8bn, of which FPL plans to release 2,500 units in FY2018.

- **Numerous acquisitions to be funded**: We estimate SGD1.2bn is required for investments and acquisitions, without including spending required for various developments. These include 26.1% stake in TICON (via 49% JV) for SGD175.4mn, 22.4% direct stake in TICON (SGD306.7mn), Alpha Industrial Holdings (SGD460.5mn), Netherlands warehouse (SGD39.3mn) and Germany docking facilities (SGD198.0mn). Thus far, FPL has raised SGD300mn in perpetuals in 2QFY2018, bringing total outstanding perpetuals to SGD1.95bn (representing ~15% of total equity). Another THB5bn (~SGD210mn) has been raised in 1QFY2018, likely for the One Bangkok development (19.9% stake). Thus far, net gearing has increased to 96% from the lows of 68% in 1QFY2017, following payments for Jiak Kim site (SGD878mn), Farnborough Business Park (SGD320mn) and German docking facilities (SGD211mn). Meanwhile, EBITDA/Interest worsened to 3.2x with increase in interest expense.

Frasers Property Ltd

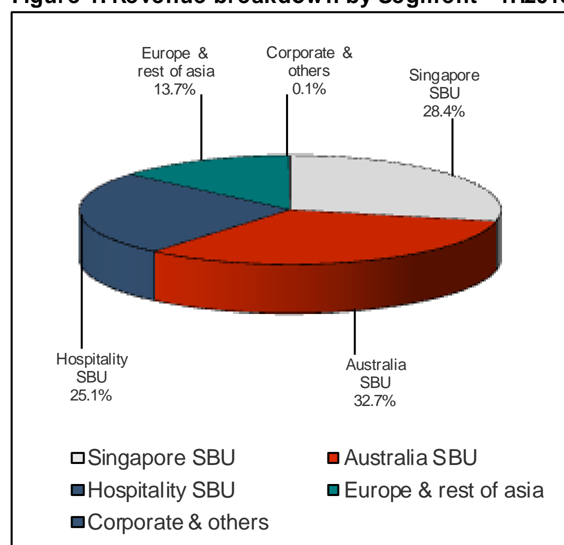
Table 1: Summary Financials

Year Ended 30th Sep	FY2016	FY2017	1H2018
Income Statement (SGD'mn)			
Revenue	3,439.6	4,026.6	1,581.8
EBITDA	827.9	953.5	471.7
EBIT	773.3	894.9	444.6
Gross interest expense	206.6	186.5	146.8
Profit Before Tax	960.3	1,248.0	397.8
Net profit	597.2	689.1	201.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,731.3	2,137.3	1,415.6
Total assets	24,204.4	27,009.4	29,877.6
Gross debt	9,795.5	11,627.8	14,199.3
Net debt	8,064.2	9,490.6	12,783.7
Shareholders' equity	11,843.5	13,049.2	13,292.6
Total capitalization	21,639.0	24,677.0	27,491.8
Net capitalization	19,907.7	22,539.8	26,076.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	651.7	747.7	228.1
* CFO	931.3	794.2	-1,051.8
Capex	62.3	52.4	32.7
Acquisitions	1,169.4	2,185.3	1,693.2
Disposals	702.0	129.8	68.7
Dividend	520.7	612.6	339.1
Free Cash Flow (FCF)	869.0	741.9	-1,084.4
* FCF Adjusted	-119.0	-1,926.3	-3,048.1
Key Ratios			
EBITDA margin (%)	24.1	23.7	29.8
Net margin (%)	17.4	17.1	12.7
Gross debt to EBITDA (x)	11.8	12.2	15.1
Net debt to EBITDA (x)	9.7	10.0	13.6
Gross Debt to Equity (x)	0.83	0.89	1.07
Net Debt to Equity (x)	0.68	0.73	0.96
Gross debt/total capitalisation (%)	45.3	47.1	51.6
Net debt/net capitalisation (%)	40.5	42.1	49.0
Cash/current borrowings (x)	1.2	1.4	0.8
EBITDA/Total Interest (x)	4.0	5.1	3.2

Source: Company, OCBC estimates

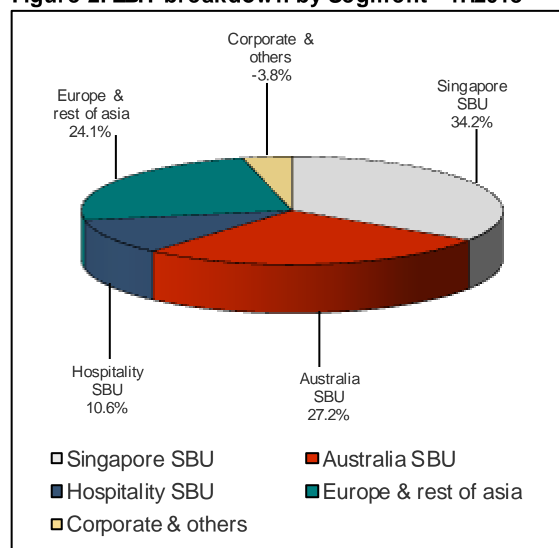
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1H2018



Source: Company

Figure 2: EBIT breakdown by Segment - 1H2018



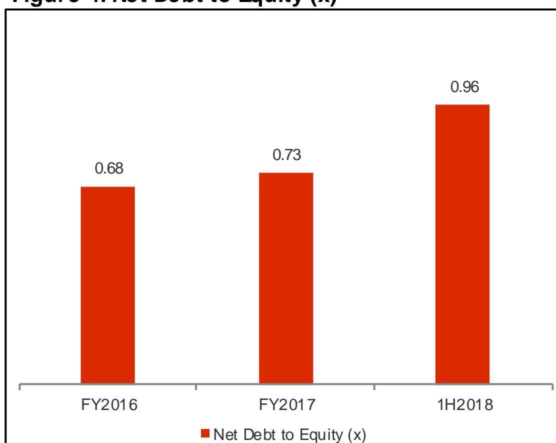
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	1,156.6	8.1%
Unsecured	718.3	5.1%
	1,874.9	**13.2%**
Amount repayable after a year		
Secured	2,766.9	19.5%
Unsecured	9,557.4	67.3%
	12,324.4	**86.8%**
Total	**14,199.3**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

G8 Education Ltd

Credit Outlook – With a deteriorating credit metrics and negative headlines from investigations, we are Underweight GEMAU 5.5% '19s (despite trading below par for a <1Y paper) till we see clarity on refinancing of the bond.

Issuer Profile: Negative (6)

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 ~500 centres across various cities in Australia and ~20 centres in Singapore. The largest shareholders include Fil Ltd (6.3%) and Legg Mason Inc (5.5%). G8 has a market capitalisation of AUD1.1bn as of 5 Jul 2018.

Key credit considerations

- **Weaker 2017 results as guided by management:** Weaker results were not surprising given the guidance from the trading update in Dec 2017. Although 2017 revenue increased 2.4% y/y to AUD795.8mn, this was mainly due to acquisitions in 2016 (AUD29mn in incremental revenue) and 2017 (AUD18mn in incremental revenue). For like-for-like ("LFL") centres, although tuition fees increased, revenues were offset by lower occupancy (declined by 3.2pp to 76.7%). G8's revenue was also offset by increased discounting (AUD5mn), increased training investment and Long Day Care Professional Development Program ("LDCPDP") grant net funding impact of AUD9mn (one-off impact) and absence of revenue from divested centres (AUD15mn). With expenses increasing 4.6% y/y to AUD644.9mn due to staff ratio change and increases in depreciation (+19.2% y/y to AUD14.0mn), reported EBIT fell 6.1% y/y to AUD150.9mn and underlying EBIT softened 2.9% y/y to AUD156.0mn.

- **Pressure on occupancy through 1H2018:** G8 expects the supply/demand imbalance to persist through 1H2018 due to the supply overhang in many areas in Australia. Already, according to the updates provided in the AGM in April, LFL occupancy is down another 2.5pp to 3pp in YTD2018. We think it may be challenging for G8 to maintain its revenue (e.g. by increasing tuition fees) as employee and other costs are increasing. It remains to be seen if the new Child Care Funding Package (starting from Jul 2018) will increase demand sufficiently.

- **Acquisitions in the pipeline:** As at end 2017, G8 has 495 centres in Australia, after acquiring 36 centres and disposing 22 centres in 2017. Going forward, G8 has an acquisition pipeline of 40 centres in 2018-19 and targets to open 30 new greenfield centres in 2018 at a capital cost of AUD120mn and we expect minimal immediate contribution as they are in the starting up phase.

- **Investigations into takeover bid of Affinity:** Jenny Hutson, former chairwoman of G8 (Mar 2010 – Oct 2015), was charged after an Australian Securities and Investments Commission investigation into G8's takeover bid for Affinity Education Group ("Affinity") in 2015. According to The Sydney Morning Herald, The Takeovers Panel was alerted as an Affinity shareholder accepted G8's offer (AUD162mn) over a more compelling competing offer (AUD208mn). It was found that interests linked to Ms Hutson held 10% stakes in Affinity which had not been declared. G8's CEO, Gary Carroll, said that 'all the allegations are about her'. While we see no immediate impact on G8's operations as Ms Huston had already resigned in 2015, this nonetheless puts G8 in a negative light. We will continue to monitor potential impacts on G8, noting that G8 had acquired numerous childcare centres when Ms Hutson was at the helm.

- **Potential refinancing hurdles:** The largest outstanding liability in the horizon is SGD270mn GEMAU 5.5% '19s due in May 2019. While G8 has a AUD200mn bank loan facility and operating cashflows are healthy (2017: AUD92.0mn), G8 has been paying substantial dividends (2017: AUD62.8mn) and undertaking significant acquisitions of new centres (2017: AUD67.4mn). The fall in share price may also hinder G8 from undertaking further equity issuances.

- **Credit metrics expected to weaken:** Net debt/EBITDA may deteriorate to 2.3x if G8 funds the development of the new centres with debt. While net debt/EBITDA appears manageable on first sight (2017: 1.4x), this is masked by non-cancellable operating leases which surged to AUD629.1mn (2016: AUD493.3mn). Credit metrics could also deteriorate with continued pressures on occupancy. Together with reduced financial flexibility from equity markets, we downgrade G8 to **Negative (6) Issuer Profile from Neutral (5)**.

G8 Education Ltd

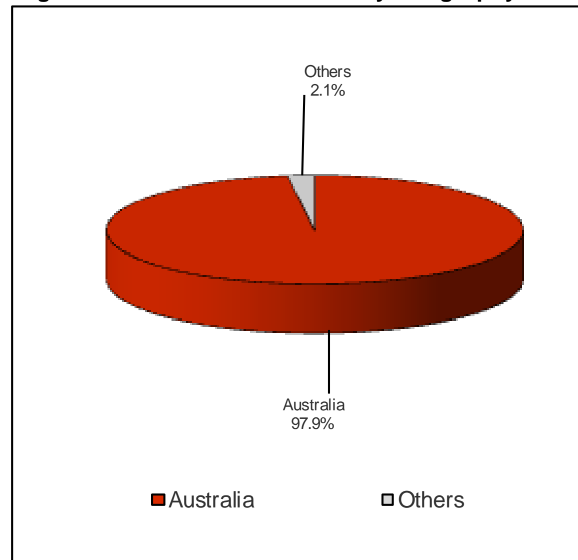
Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	FY2017
Income Statement (AUD'mn)			
Revenue	689.4	775.0	789.0
EBITDA	176.0	195.1	186.8
EBIT	166.6	183.4	172.8
Gross interest expense	40.3	47.1	34.1
Profit Before Tax	122.8	114.7	117.8
Net profit	88.6	80.3	80.6
Balance Sheet (AUD'mn)			
Cash and bank deposits	193.8	26.5	49.2
Total assets	1,234.2	1,173.2	1,293.2
Gross debt	516.3	410.6	303.5
Net debt	322.5	384.2	254.3
Shareholders' equity	602.8	625.9	865.3
Total capitalization	1,119.1	1,036.5	1,168.8
Net capitalization	925.3	1,010.1	1,119.6
Cash Flow (AUD'mn)			
Funds from operations (FFO)	98.0	92.0	94.5
CFO	95.1	108.6	92.0
Capex	21.1	25.0	18.4
Acquisitions	128.9	82.1	67.4
Disposals	0.0	0.0	-0.4
Dividend	53.2	58.0	62.8
Free Cash Flow (FCF)	74.0	83.6	73.6
* FCF adjusted	-108.2	-56.5	-57.0
Key Ratios			
EBITDA margin (%)	25.5	25.2	23.7
Net margin (%)	12.8	10.4	10.2
Gross debt to EBITDA (x)	2.9	2.1	1.6
Net debt to EBITDA (x)	1.8	2.0	1.4
Gross Debt to Equity (x)	0.86	0.66	0.35
Net Debt to Equity (x)	0.54	0.61	0.29
Gross debt/total capitalisation (%)	46.1	39.6	26.0
Net debt/net capitalisation (%)	34.9	38.0	22.7
Cash/current borrowings (x)	1.3	NM	NM
EBITDA/Total Interest (x)	4.4	4.4	4.4

Source: Company, OCBC estimates

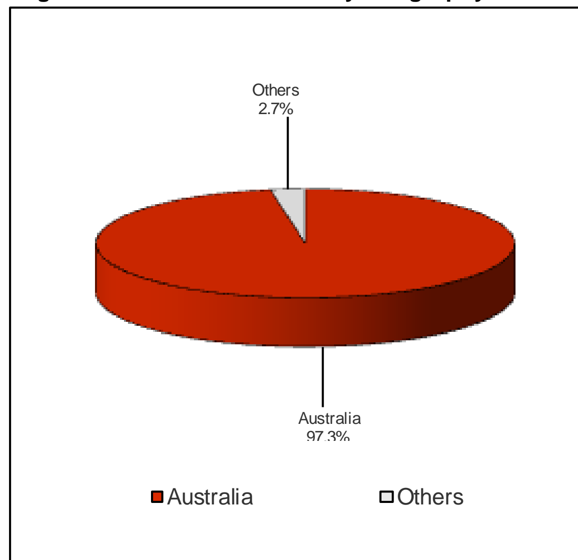
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Geography - FY2017



Source: Company

Figure 2: Asset breakdown by Geography - FY2017



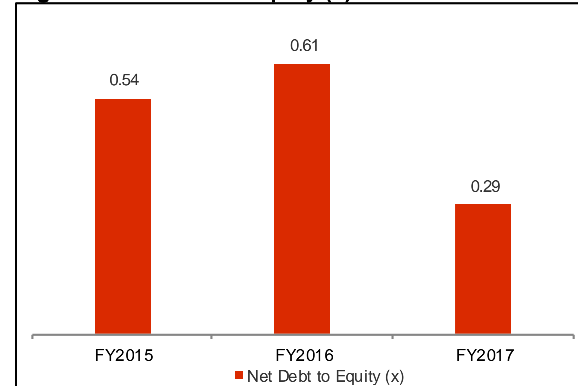
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (AUD'mn)	As at 31/12/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	-0.1	0.0%
Unsecured	50.0	16.5%
	49.9	**16.4%**
Amount repayable after a year		
Secured	-4.7	-1.5%
Unsecured	258.3	85.1%
	253.6	**83.6%**
Total	**303.5**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Golden Agri-Resources Ltd

Credit Outlook – We are neutral the GGRSP 4.75% '21s which has a YTW of 5.28% though prefer the HTONSP 6.08% '21s instead which allows a spread pick up of 50bps which more than compensates for the 6 months longer maturity.

Issuer Profile: Neutral (5)

Ticker: **GGRSP**

Background

Golden Agri-Resources Ltd ("GGR") is a major palm oil company, managing 500,345 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 ~50.4%-owned by the Widjaja family and is listed on the SGX.

Key credit considerations

- **Lower palm oil price and volume:** Revenue declined 11.3% y/y to USD1.8bn driven by declines in the Plantations and Palm Oil Mills, Palm and Laurics and the Oilseeds segments while reported EBITDA was down 33.7% y/y to USD121.1mn. The overall weaker results were driven by a 12% decline in palm product output as well as a 12% decline in CPO FOB prices (USD645 /MT in 1Q2018 versus USD734/MT in 1Q2017). In our view for 1Q2018, the earlier fall in prices and production volume was not idiosyncratic to GGR. We had observed large y/y EBITDA declines among Indonesian palm oil producers. With the decline in earnings, interest coverage as measured by reported EBITDA/Interest declined to 3.3x versus 5.2x in 1Q2017 (4Q2017: 4.3x). GGR ended the quarter with a profit attributable to owners of the company at USD11.9mn (1Q2017: USD37.6mn). Demand for crude palm oil ("CPO") has been weak into June 2018 and it remains to be seen if trade tariffs and China's threat to restrict soybean imports from the US (an alternative to CPO) would materially drive CPO prices higher. We may see a y/y weaker 2Q2018.

- **Unadjusted net gearing steady though off-balance sheet items have increased:** As at 31 March 2018, unadjusted net gearing was 0.73x, slightly higher from the median of 0.70x seen in FY2017. That said, in April 2018, GGR had paid down SGD200mn (~USD150mn) of bonds and with the completion of the sale of a business to Louis Dreyfus post-1Q2018, we expect the company to have received USD111mn in cash proceeds. In end-2017, corporate guarantees provided on borrowings of joint ventures (an off-balance sheet item) ballooned to USD433.0mn (end-2016: USD268.1mn). We note that increased bank loans were withdrawn by the joint venture with CEPSA Quimica S.A. Non-cancellable operating leases increased to USD24.8mn (end-2016: USD22.3mn). Estimated post-employment benefit liabilities, which we consider as debt-like, also increased to USD99.8mn (end-2016: USD80.6mn). Assuming that these three items have stayed at similar levels as at 31 March 2018 and adding them into net debt, we find adjusted net gearing at 0.9x.

- **Short term debt coming due:** We estimate that GGR has USD1.58bn in short term debt due until end-March 2019. Working capital debt is typically rolled forward. Assuming USD1.0bn relates to working capital requirement, this leaves ~USD580mn that still needs to be refinanced against unpledged cash balance of USD67mn. MYR500mn (~USD124mn) relates to bond due which GGR may seek to refinance from the MYR debt market. The remaining is largely made up of USD bank debt taken at GGR's Indonesian operating companies. Adjusted tangible assets (we exclude intangible assets, bearer plants and long term investments) was USD6.3bn at GGR as at 31 March 2018, against total debt of USD3.1bn, which should help GGR in gaining access to debt markets.

- **Investments into technology fund is a competing cash outflow:** During the quarter, GGR's cash flow from operations (before interest and tax) was SGD26.0mn (1Q2017: SGD197.1mn), lower due to the lower earnings as well as higher working capital needs. In 1Q2018, GGR's total cash outflow for investments was USD138.4mn, of which USD101.4mn went towards investment in financial assets (~USD80mn for investments in a technology fund which GGR had first subscribed to in Dec 2016). Notwithstanding that certain investees could be synergistic to GGR's business down the road, we think GGR's day-to-day management team has little control over end investments made by the fund as the fund is likely to be separately managed. Net-net, we do not expect these investments to be cash flow generative in the near term.

Golden Agri-Resources Ltd

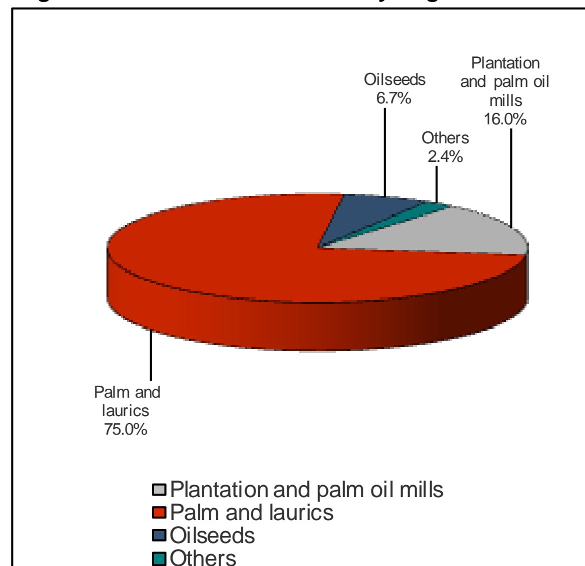
Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	1Q2018
Income Statement (USD'mn)			
Revenue	7,208.8	7,507.6	1,816.2
EBITDA	524.8	584.7	112.3
EBIT	175.6	240.8	40.8
Gross interest expense	131.3	139.3	37.2
Profit Before Tax	140.3	114.1	17.4
Net profit	399.6	74.0	11.9
Balance Sheet (USD'mn)			
Cash and bank deposits	153.0	159.2	118.0
Total assets	8,306.4	8,137.8	8,367.0
Gross debt	3,066.3	2,992.1	3,110.2
Net debt	2,913.3	2,833.0	2,992.2
Shareholders' equity	4,096.0	4,108.6	4,120.7
Total capitalization	7,162.2	7,100.7	7,230.9
Net capitalization	7,009.2	6,941.5	7,112.9
Cash Flow (USD'mn)			
Funds from operations (FFO)	748.8	418.0	83.3
* CFO	102.1	532.6	-13.2
Capex	216.1	209.3	45.3
Acquisitions	12.5	118.2	102.5
Disposals	18.4	28.8	4.8
Dividend	47.5	122.5	0.0
Free Cash Flow (FCF)	-114.0	323.3	-58.5
* FCF adjusted	-155.6	111.4	-156.3
Key Ratios			
EBITDA margin (%)	7.3	7.8	6.2
Net margin (%)	5.5	1.0	0.7
Gross debt to EBITDA (x)	5.8	5.1	6.9
Net debt to EBITDA (x)	5.6	4.8	6.7
Gross Debt to Equity (x)	0.75	0.73	0.75
Net Debt to Equity (x)	0.71	0.69	0.73
Gross debt/total capitalisation (%)	42.8	42.1	43.0
Net debt/net capitalisation (%)	41.6	40.8	42.1
Cash/current borrowings (x)	0.1	0.1	0.1
EBITDA/Total Interest (x)	4.0	4.2	3.0

Source: Company, OCBC estimates

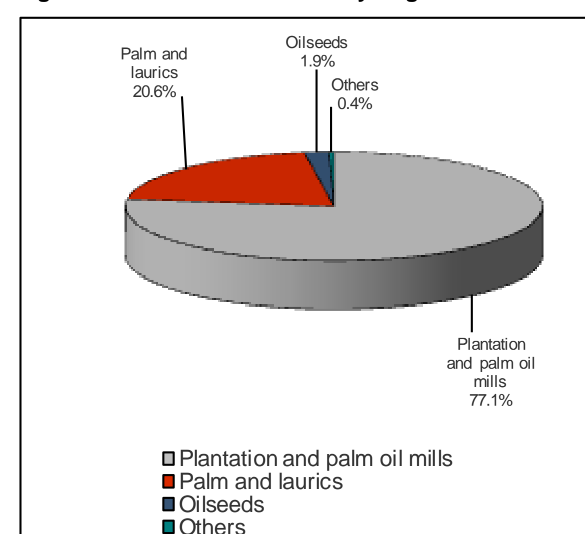
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1Q2018



Source: Company

Figure 2: EBITDA breakdown by Segment - 1Q2018



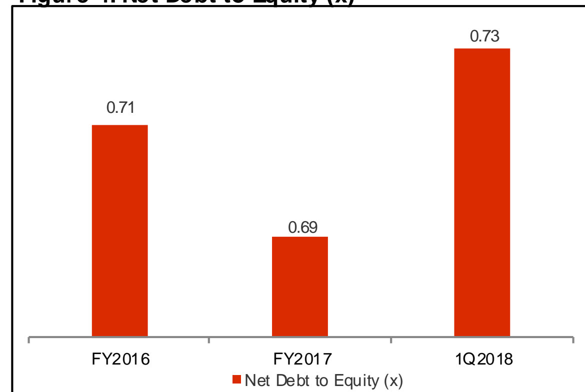
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 31/03/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	955.6	30.7%
Unsecured	778.4	25.0%
	1,734.0	**55.8%**
Amount repayable after a year		
Secured	1,064.7	34.2%
Unsecured	311.4	10.0%
	1,376.1	**44.2%**
Total	**3,110.2**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We think GUOLSP '19s (2.56% YTM) and '20s (3.14% YTM) looks rich, preferring a switch to HFCSP '19s (3.53% YTM) for yield pickup. We also Underweight GUOLSP 4.6% PERP as we see call risk given its poor structure (5Y call but 7Y reset) and prefer a switch to HPLSP 4.65% PERP.

Issuer Profile: Neutral (5)

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 controlled by the Quek family.

GuocoLand Ltd

Key credit considerations

- **Weaker 3QFY2018 results not a reason to fret:** Revenue for the quarter ending 31 March 2018 ("3QFY2018") declined 15% y/y to SGD230.6mn as revenue recognised from residential projects fell, likely due to the decline in inventory. Conversely, revenue from property investment increased (amount undisclosed), which is likely due to the ramp up from Tanjong Pagar Centre ("TPC"), which was completed in 2016. Meanwhile, net profit declined 21% y/y to SGD23.5mn in tandem with revenue while finance costs (+35% y/y to SGD29.3mn) increased due to higher borrowings and lower capitalised costs.

- **TPC as a major driver of the credit profile:** The office (890,000 sq ft) and retail (100,000 sqft) components of TPC are valued at SGD2.3bn, which makes up ~22% of total assets and will contribute ~SGD100mn revenue p.a. going forward on a stabilised basis. The contribution from the entire TPC development is expected to grow further when the 223-room Sofitel Singapore City Centre, which soft launched in Aug 2017, ramps up. Another major investment property is 20 Collyer Quay, which is valued at SGD455.4mn.

- **Positioned in the Singapore property market:** The strong recovery in property price (1Q2018 URA Price Index: +3.9% q/q) benefits GUOL, which moved 41 units (worth SGD92.6mn) at Martin Modern and 6 units (SGD22.2mn) at Wallich Residence in Jan-Mar 2018. Sales appear sustainable at Wallich Residence, which sold another 8 units (SGD20.9mn) in Apr-May 2018. Other significant developments include, Pacific Mansion, which GUOL purchased for SGD980mn through a 40%-owned joint venture in Mar 2018. However, we cannot rule out further mega acquisitions as GUOL remains on the lookout (we note that GUOL had put in a failed SGD1.06bn bid for a site at Holland Road) – which may put pressure on its gearing profile.

- **Sizeable refinancing ahead:** SGD3.2bn of loans and borrowings are current, which far exceeds the SGD989.9mn cash on hand, SGD552.7mn receivables (likely due to sales proceeds) and ~SGD100mn p.a. recurring income. Nevertheless, we are not overly concerned as SGD2.9bn (out of SGD3.2bn) of the short-term debt is secured, which GUOL may seek to refinance with lenders. In any case, we believe GUOL still maintain access to the capital markets (e.g. via SGD350mn issuance of GUOLSP 4.6% PERP in Jan 2018 and SGD50mn re-tap in Feb 2018) while there is still room to pledge another ~SGD571mn of investment properties and SGD443.8mn of inventories to raise secured debt, if need be. We also see the potential for GUOL to monetise TPC (e.g. via REIT).

- **Some pressure on credit metrics due to expansion:** Net gearing increased to 0.92x in 3QFY2018 (2QFY2018: 0.84x) due to ~SGD1.0bn outlay to complete the acquisition of the Beach Road commercial site (which was acquired for SGD1.62bn), despite the total issuance of SGD400mn perpetuals in 3QFY2018 (which is accounted for as equity). We expect net gearing to increase to ~0.95x after the acquisition of Pacific Mansion. While finance costs have risen to SGD29.3mn in 3QFY2018, we expect this to be largely covered by recurring income from investment properties. Meanwhile, EBITDA covers Total Interest by 1.9x.

- **Major developments outside Singapore:** GLL has plans to develop 4 land plots in Chongqing (GFA: 5.5mn sq ft) with a GDV of RMB16bn (~SGD3.3bn) and Changfeng Business & Retail Park (GFA: 2mn sq ft) with a GDV of RMB6bn (~SGD1.3bn).

GuocoLand Ltd

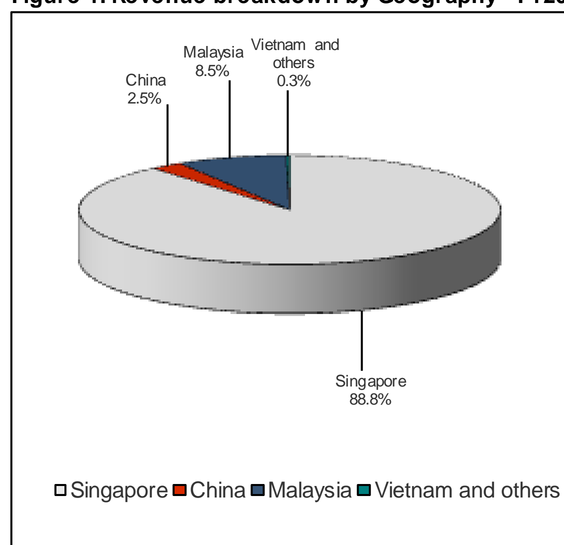
Table 1: Summary Financials

Year Ended 30th Jun	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	1,059.8	1,113.2	963.1
EBITDA	223.0	185.8	160.0
EBIT	213.0	179.3	150.2
Gross interest expense	159.8	136.8	84.4
Profit Before Tax	773.2	455.8	260.4
Net profit	606.7	357.2	240.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,430.2	1,118.5	988.9
Total assets	7,906.6	8,955.7	10,604.6
Gross debt	3,830.3	4,344.5	5,138.5
Net debt	2,400.0	3,226.0	4,149.6
Shareholders' equity	3,442.2	3,833.4	4,491.9
Total capitalization	7,272.5	8,177.9	9,630.4
Net capitalization	5,842.3	7,059.5	8,641.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	616.8	363.7	250.0
* CFO	389.7	-700.3	-73.1
Capex	286.9	157.7	6.4
Acquisitions	0.0	245.3	1,408.4
Disposals	2,251.6	130.7	0.6
Dividend	66.7	101.4	79.2
Free Cash Flow (FCF)	102.8	-857.9	-79.5
* FCF Adjusted	2,287.7	-1,073.8	-1,566.5
Key Ratios			
EBITDA margin (%)	21.0	16.7	16.6
Net margin (%)	57.2	32.1	24.9
Gross debt to EBITDA (x)	17.2	23.4	24.1
Net debt to EBITDA (x)	10.8	17.4	19.4
Gross Debt to Equity (x)	1.11	1.13	1.14
Net Debt to Equity (x)	0.70	0.84	0.92
Gross debt/total capitalisation (%)	52.7	53.1	53.4
Net debt/net capitalisation (%)	41.1	45.7	48.0
Cash/current borrowings (x)	0.7	0.5	0.3
EBITDA/Total Interest (x)	1.4	1.4	1.9

Source: Company, OCBC estimates

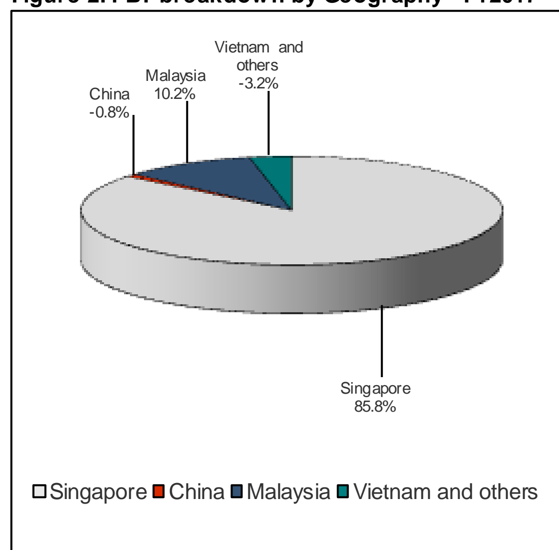
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Geography - FY2017



Source: Company

Figure 2: PBT breakdown by Geography - FY2017



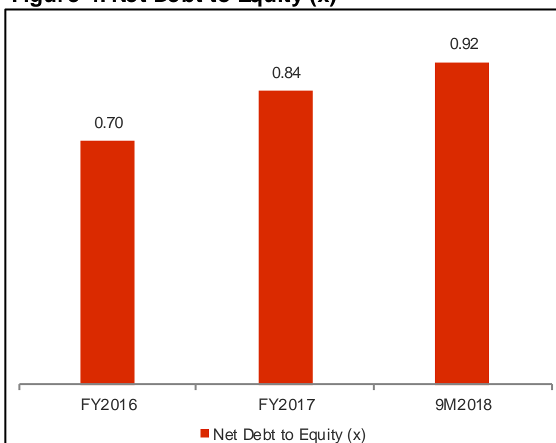
Source: Company | China, Vietnam & others made operating losses

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	2,866.1	55.8%
Unsecured	321.0	6.2%
	3,187.1	**62.0%**
Amount repayable after a year		
Secured	773.4	15.1%
Unsecured	1,178.0	22.9%
	1,951.4	**38.0%**
Total	**5,138.5**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – Both HTONSP '20s (5.51% YTM) and '21s (5.82% YTM) look interesting, offering a decent carry with improving credit metrics and benefiting from a stronger property market

Issuer Profile: Neutral (5)

Ticker: **HTONSP**

Background

Heeton Holdings Ltd ("HHL") is a property company with assets and revenue predominantly in Singapore and UK. HHL focuses on property development, property investments and hospitality. HHL owns or holds stakes in 5 commercial properties and 9 hotel assets (with 884 rooms). The Toh family owns about 69% interest in HHL, which are represented by Heeton Investments Pte Ltd (27.63%), Hong Heng Co Pte Ltd (16.81%), Toh Giap Eng (11.96%), Toh Khai Cheng (6.79%) and Toh Gap Seng (5.78%).

Heeton Holdings Ltd

Key credit considerations

- **Higher profits boosted by disposal gains:** 1Q2018 revenue declined 23.9% y/y to SGD11.8mn, mainly due to lower sales from Onze @ Tanjong Pagar (declined SGD4.4mn y/y), likely due to depleting inventory as only one unit was moved (SGD2.8mn). Rental revenue also declined SGD0.28mn y/y due to the disposal of The Woodgrove in Feb 2018, though hotel operation revenue increased SGD1.0mn due to the commencement of Luma Concept Hotel Hammersmith in London. Nevertheless, net profit surged 130.4% y/y to SGD6.4mn, mainly due to (1) SGD4.2mn gain on disposal of Woodgrove (completion in Feb 2018) and (2) higher share of results from associated companies/joint ventures (+44.7% y/y to SGD3.5mn) from progressive profit recognition of High Park Residences and Westwood Residences though this is partly offset by (3) increase in finance expenses (which rose 57.8% y/y to SGD4.6mn due to the issuance of SGD118mn HTONSP 6.08% '21s). Without disposal gains, net profit would have declined 19.7% y/y to SGD2.8mn, in-line with declines in revenue.

- **Residential projects lined up in Singapore and abroad:** The recovery in Singapore property prices should lend support to HHL's developments. Over Mar-May 2018, HHL sold 4 units at 100%-owned Onze@Tanjong Pagar for SGD10.7mn, according to URA caveats. While HHL is light on ready inventory, the pipeline is significant as HHL owns a 20%-stake in Park Colonial with 805 units (GFA: 58,640 sqm, completion: 2021) and 5%-stake in Affinity at Serangoon with 1,052 units (GFA: 77,235 sqm, completion: 2024). In addition, HHL owns a 20%-stake in High Park Residences with 1,390 units (GFA: 112,300 sqm), which is targeted for TOP in 2019. Meanwhile, HHL is planning a 700-unit development at New York Road, Leeds, UK (GFA: 77,749 sqm) which HHL holds a 55%-stake.

- **Investment properties provide recurring income:** Following the divestment of The Woodgrove, investment properties account for 28% of SGD897.5mn in total assets after including HHL's 50%-stake in Sun Plaza (SGD88.3mn). The largest investment property is the wholly-owned Tampines Mart (SGD115mn), which has a healthy occupancy rate of 96%. In 2017, we estimate investment properties contributed SGD17.9mn EBITDA, though this may fall with divestment of Sun Plaza.

- **Building the hospitality portfolio:** Following the opening of Luma Concept Hotel in 2017, the portfolio (including JVs, associates) includes 8 hotels: UK (5), Thailand (2) and Japan (1) with 1,048 rooms. Thus far, the hospitality portfolio's contribution is small as we estimate the segment EBITDA at SGD2.9mn even though we estimate that HHL's share of the hotels is valued at SGD136.6mn. Going forward, we expect the hospitality segment to contribute more significantly when the hotels fully ramps up (e.g. LUMA Concept Hotel Hammersmith London which opened in Apr 2017). In addition, the portfolio will be expanded when developments are completed, which include 2 more hotels in the UK with ~300 rooms and one hotel in Australia with 198 room. We also understand that HHL is still on a lookout for acquisition of hospitality assets (investment and/or development) in Europe.

- **Improvements in credit metrics likely to be temporary:** Net gearing fell q/q to 0.53x (4Q2017: 0.65x) mainly due to the disposal of Woodgrove (proceeds: SGD50.3mn). However, we expect net gearing to trend up to ~0.8x, as we expect HHL to deploy the proceeds from the SGD118mn issuance of HTONSP 6.08% '21s. We understand that HHL is still exploring opportunities, which may include acquisition of hospitality assets, further acquisition of land sites in Singapore and funding the development of residential projects. Meanwhile, we are comfortable with HHL given SGD99.6mn cash and SGD30.7mn bank deposits which more than covers SGD50.0mn in short term bank loans.

Heeton Holdings Ltd

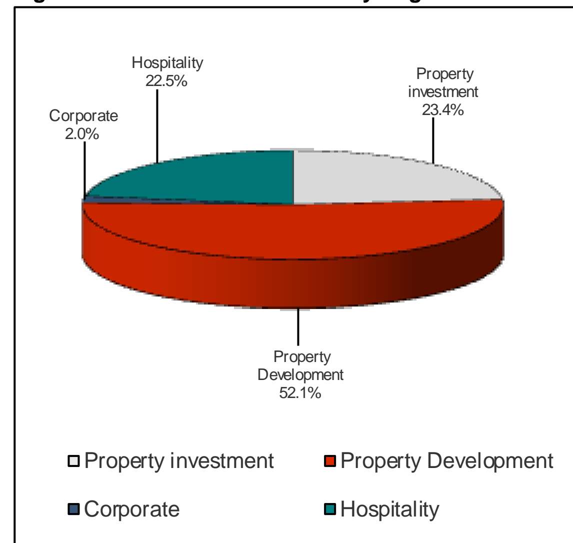
Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	67.4	57.1	11.8
EBITDA	16.6	3.9	6.6
EBIT	15.2	2.3	6.2
Gross interest expense	14.5	13.6	4.6
Profit Before Tax	17.1	73.2	6.9
Net profit	12.5	71.0	6.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	27.8	26.6	130.3
Total assets	734.0	823.7	897.5
Gross debt	297.3	291.8	354.6
Net debt	269.5	265.2	224.3
Shareholders' equity	345.6	416.2	424.8
Total capitalization	642.9	708.0	779.4
Net capitalization	615.1	681.4	649.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	13.9	72.6	7.2
* CFO	-6.8	42.7	8.9
Capex	28.0	14.2	1.4
Acquisitions	0.0	3.6	0.0
Disposals	4.2	15.0	50.3
Dividend	2.0	2.0	0.0
Free Cash Flow (FCF)	-34.8	28.5	7.5
* FCF Adjusted	-32.5	38.0	57.7
Key Ratios			
EBITDA margin (%)	24.6	6.8	56.2
Net margin (%)	18.5	124.3	57.1
Gross debt to EBITDA (x)	17.9	74.8	13.4
Net debt to EBITDA (x)	16.3	68.0	8.5
Gross Debt to Equity (x)	0.86	0.70	0.83
Net Debt to Equity (x)	0.78	0.64	0.53
Gross debt/total capitalisation (%)	46.2	41.2	45.5
Net debt/net capitalisation (%)	43.8	38.9	34.6
Cash/current borrowings (x)	0.1	0.3	2.0
EBITDA/Total Interest (x)	1.1	0.3	1.4

Source: Company, OCBC estimates

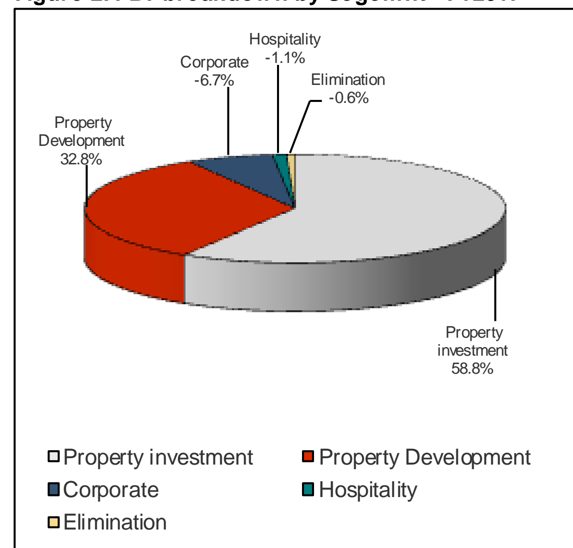
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2017



Source: Company

Figure 2: PBT breakdown by Segemnt - FY2017



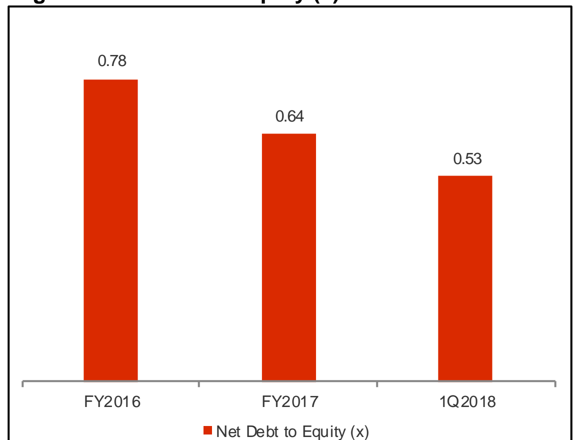
Source: Company | Corporate & hospitality made operating losses

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	50.1	14.1%
Unsecured	0.0	0.0%
	50.1	**14.1%**
Amount repayable after a year		
Secured	111.6	31.5%
Unsecured	193.0	54.4%
	304.6	**85.9%**
Total	**354.6**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We like HFCSP '19s, offering a decent 3.53% YTM for a <1Y paper while management has expressed confidence in refinancing it.

Issuer Profile: Neutral (5)

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. HFC also owns 610-room YOTEL. 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

Key credit considerations

- **Turnaround in results with contribution from YOTEL:** With the commencement of YOTEL Singapore Orchard Road in Oct 2017, 1Q2018 revenue increased 25% y/y to SGD17.7mn. We also note increased sales at Concourse Skyline which moved 5 units worth SGD10.6mn during Jan-Mar 2018 (as a comparison, no unit was sold in 1Q2017). As a result of increased revenue, HFC turned from a net loss (1Q2017: SGD3.3mn) to a net profit of SGD0.6mn.

- **Expect operating results to continue improving though from a low base:** Profitability though remains weak, due to the high expenses incurred. This is mainly due to finance costs (1Q2018: SGD6.3mn) and other expenses (SGD10.2mn), of which employee benefit expense forms the largest cost item (eg: senior management remuneration). Nevertheless, we expect operating results to improve when (1) Yotel, which accounts for 24% of total assets, ramps up operations, (2) more units are moved at Concourse Skyline and (3) office market further recovers.

- **Recovery in Singapore's office market to benefit HFC:** The Concourse and International Building, both located in Singapore are commercial properties with significant office content. These collectively accounts for SGD1.6bn out of SGD3.1bn of total assets as of 1Q2018. Grade A office rents has improved to SGD9.70 psf according to CBRE (4Q2017: SGD9.40 psf). With the average annual net supply of office declining to 0.7mn sq ft p.a. from 2018-2021 (2013-2017: 1.0mn sq ft p.a.), according to CapitaLand Commercial Trust, rents may continue increasing, which in turn may lift performance at HFC's office assets. We note that in 2017, sizeable fair value gains were recorded for both The Concourse (+SGD20.5mn) and International Building (+SGD39.8mn).

- **Stronger sales with recovery in Singapore's property market:** With the residential property market staging a strong recovery (1Q2018 URA Price Index: +3.9% q/q), the 360-unit Concourse Skyline is poised to benefit with another 7 units sold in Apr-May 2018 worth SGD14.7mn. We believe that the pipeline is still large given that not more than 40 units have been moved since 2015 (completion: 2014). As of 1Q2018, HFC records SGD236.5mn in development properties, which should be largely attributable to Concourse Skyline.

- **Confident about upcoming debt maturities:** Following the redemption of SGD100mn HFCSP 4.75% '18s, SGD124.4mn of loans remains current, which is made up mainly by SGD120mn HFCSP 4.75% '19s due in March 2019. While HFC holds only SGD60.0mn in cash, HFC has expressed confidence in refinancing with a bond or repaying this with available undrawn facilities (amount undisclosed). The remainder of HFC's debt is well termed-out, with SGD442.3mn (out of SGD817.6mn total debt) due in 2022. Meanwhile, we note that HFC has prepared a supplementary information memorandum dated 3 Nov 2017.

- **Manageable credit metrics backed by investment properties:** Net gearing remained moderate, inching up q/q to 0.34x (4Q2017: 0.33x) mainly due to SGD3.3mn capex incurred on investment properties. We do not expect net gearing to increase further as minimal commitments remain (2017: SGD3.4mn) after the completion of YOTEL (2016 capital commitments: SGD48.0mn). Operating cashflows before changes in working capital is healthy at SGD7.6mn in 1Q2018 with EBITDA of SGD7.5mn though this is insufficient to cover SGD9.8mn in interest payment. We are not overly worried, however, given the low gearing levels (which allow room for more borrowings against SGD2.8bn of investment properties) while we expect operating results to substantially improve going forward.

Hong Fok Corp Ltd

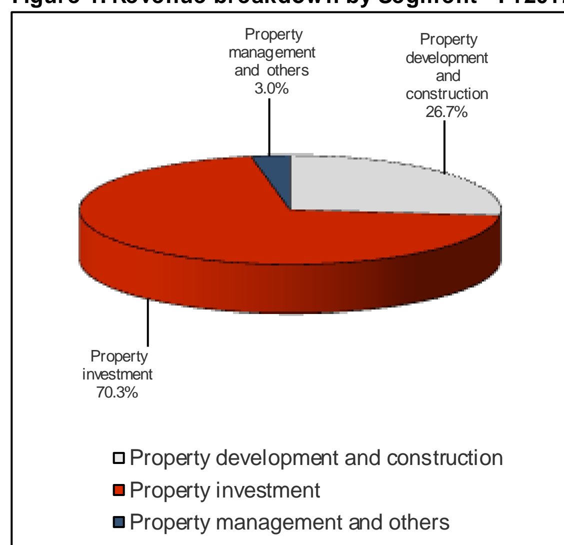
Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	58.4	70.0	17.7
EBITDA	12.0	9.3	7.5
EBIT	11.3	8.8	7.4
Gross interest expense	28.4	25.4	6.3
Profit Before Tax	83.3	227.8	1.4
Net profit	73.0	178.1	1.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	77.4	50.6	60.0
Total assets	2,899.3	3,131.9	3,128.8
Gross debt	734.7	798.8	817.6
Net debt	657.3	748.1	757.6
Shareholders' equity	2,072.4	2,249.8	2,240.1
Total capitalization	2,807.1	3,048.5	3,057.7
Net capitalization	2,729.7	2,997.9	2,997.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	73.7	178.6	1.6
* CFO	-1.8	-11.9	-10.6
Capex	62.9	61.2	4.0
Acquisitions	0.0	1.4	0.0
Disposals	0.2	0.0	1.4
Dividend	6.9	6.9	0.0
Free Cash Flow (FCF)	-64.7	-73.1	-14.6
* FCF Adjusted	-71.5	-81.3	-13.3
Key Ratios			
EBITDA margin (%)	20.6	13.3	42.3
Net margin (%)	124.9	254.5	8.4
Gross debt to EBITDA (x)	61.0	86.1	27.2
Net debt to EBITDA (x)	54.6	80.7	25.2
Gross Debt to Equity (x)	0.35	0.36	0.36
Net Debt to Equity (x)	0.32	0.33	0.34
Gross debt/total capitalisation (%)	26.2	26.2	26.7
Net debt/net capitalisation (%)	24.1	25.0	25.3
Cash/current borrowings (x)	14.8	0.3	0.5
EBITDA/Total Interest (x)	0.4	0.4	1.2

Source: Company, OCBC estimates

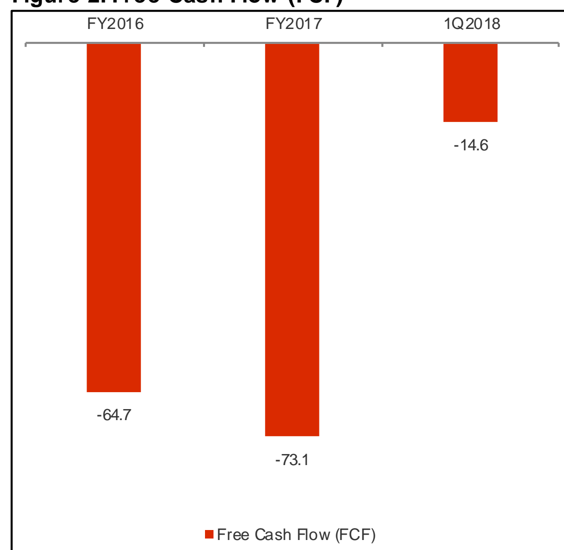
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2017



Source: Company

Figure 2: Free Cash Flow (FCF)



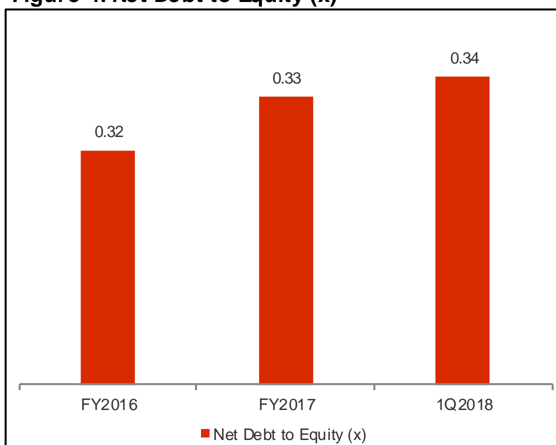
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	4.5	0.6%
Unsecured	119.9	14.7%
	124.4	**15.2%**
Amount repayable after a year		
Secured	652.6	79.8%
Unsecured	40.6	5.0%
	693.2	**84.8%**
Total	**817.6**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – Given HKL's strong credit profile, HKLSP '20s looks fair trading at 2.42% YTM. Investors looking for yield pickup can consider CITSP '20s (2.70% YTM), which we similarly hold at a Positive (2) Issuer Profile Rating.

Issuer Profile: Positive (2)

Ticker: **HKLSP**

Background

Established in 1889 and listed in London, Bermuda and Singapore, Hongkong Land Holdings Ltd ("HKL") 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. HKL also develops premium residential properties in a number of cities in the region, principally in China and Singapore. HKL is 50.01%-owned by Jardine Strategic Holdings Ltd.

Hongkong Land Holdings Ltd

Key credit considerations

- **Decent 2017 results overall:** While 2017 revenue declined 1.7% y/y to USD2.0bn with sales of properties declining 9.6% y/y to USD907.8mn, this is largely due to timing differences. More importantly, rental income has increased (+6.2% y/y to USD911.7mn) on the back of stronger contribution from the Hong Kong Central portfolio. Reported underlying profit rose 14% y/y to USD970mn, driven by higher contributions from associates and JVs of USD298.5mn (2016: USD117.0mn) due to the timing of completions of development projects in Mainland China. This include revenue recognised on 6,457 units sold across 6 projects in Chongqing, 730 units at WE City (Chengdu), 490 units at Parkville (Shanghai). Overall, net profit surged 67% y/y to USD5.6bn, lifted by USD4.6bn in revaluation gains derived from lower capitalisation rates, mainly from the Hong Kong portfolio.

- **Hong Kong Central portfolio as the core of HKL:** 77% of HKL's gross assets are located in Hong Kong, which is mainly represented by the office portfolio totalling 4.1mn sqft in Central (with another 733k sq ft in Retail and Hotel). Thus far, the portfolio has done well with average rent rising to HKD108 psf/mth in end- 2017 (end-2016: HKD103 psf/mth) with 1.4% vacancy (2016: 2.2%). As of the 1Q2018 Interim Management Statement, HKL reported that rental reversions for the Central Office portfolio continued to be positive, with vacancy falling to 0.9%. We estimate that Hong Kong Central office contributed ~USD660mn out of USD911.7mn rental income in 2017. HKL guided for the strong contribution from its investment properties to be maintained in 2018. We can expect rents to increase given that average expiring net rent in 2018 is HKD101 psf/mth.

- **Rebound expected for the Singapore portfolio:** HKL is also a big landlord in Singapore, with 1.7mn in office assets (mostly Grade A). We estimate that Singapore offices contribute ~USD130mn out of USD911.7mn rental income in 2017. While rentals have fallen to SGD9.1 psf/mth as of end-2017 (end-2016: SGD9.3 psf/mth), we expect market rents to pick up given the sharp decline in office supply for 2019 (556,000 sqft) and 2020 (782,000 sqft) in comparison to the average net supply of 1.0mn sqft in 2013-2017. However, it has been announced that HKL will no longer be going ahead with the joint venture with IOI to develop a mixed-use development in Singapore's Marina Bay financial district (which IOI won the land bid for SGD2.57bn in June 2017).

- **Continued performance and diversification outside Hong Kong:** Unlike peers, HKL has been relatively absent from land bids in Hong Kong. Outside of Hong Kong, HKL holds 8.6mn sqm in developable area, with the majority (5.8mn sqm) located in Mainland China. In Mainland China, contracted sales remained healthy at USD1.1bn, with sold but unrecognised sales amounting to USD1.0bn. In Beijing, the 84%-owned retail portion of WF Central in Beijing (43,000 sqm) was launched in 1st Nov 2017, with the hotel component opening in 2H2018. In Jakarta, the 5th tower of World Trade Centre completed in early 2018 while EXCHANGE SQUARE in Phnom Penh opened in early 2017. In Singapore, Sol Acres (GFA: 115k sqm) and Lake Grande (50k sqm) are mostly pre-sold with completion expected in 2018 and 2019 respectively. HKL guided that the development properties business is expected to generate higher profits from both Mainland China and Singapore.

- **Healthy credit metrics:** Net gearing inched up 1pp y/y to 7% as of 2017 due to USD670.5mn investments in associates and JVs - likely due to the JV with Yanlord and Transfar Group to develop two sites in Xiaoshan District (776k sqm) and 50% JV with Zall Group to develop a site in Dongxihu District (493k sqm). Net debt is guided to increase modestly, with total capital commitments increasing to USD1.4bn (2016: USD623.0mn). Nevertheless, the balance sheet remains very healthy, with USD2.7bn in committed but unused facilities as of end-2017.

Hongkong Land Holdings Ltd

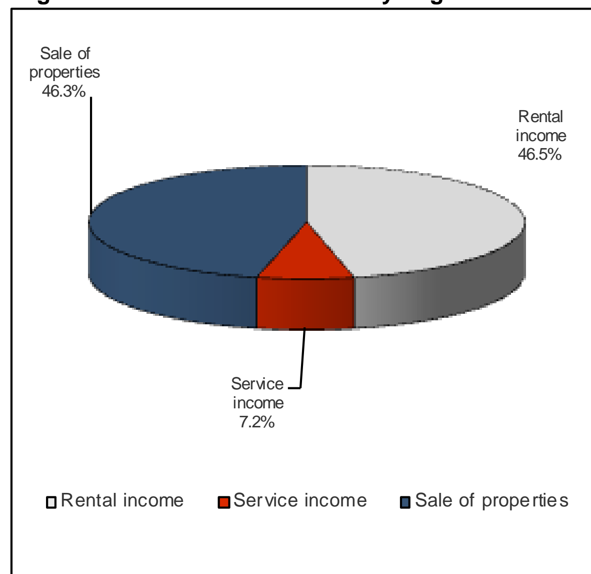
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	FY2017
Income Statement (USD'mn)			
Revenue	1,932.1	1,993.9	1,959.8
EBITDA	923.5	962.0	893.6
EBIT	920.6	958.9	890.6
Gross interest expense	151.0	144.5	153.4
Profit Before Tax	2,142.9	3,511.9	5,755.7
Net profit	2,011.7	3,346.3	5,585.4
Balance Sheet (USD'mn)			
Cash and bank deposits	1,569.2	1,908.9	1,622.1
Total assets	34,372.1	36,954.7	42,951.5
Gross debt	3,909.7	3,916.4	4,170.9
Net debt	2,340.5	2,007.5	2,548.8
Shareholders' equity	28,720.4	31,314.4	36,808.4
Total capitalization	32,630.1	35,230.8	40,979.3
Net capitalization	31,060.9	33,321.9	39,357.2
Cash Flow (USD'mn)			
Funds from operations (FFO)	2,014.6	3,349.4	5,588.4
* CFO	896.2	1,096.2	800.2
Capex	210.1	239.5	213.5
Acquisitions	326.7	108.4	713.1
Disposals	0.0	0.0	0.0
Dividends	449.3	448.0	447.2
Free Cash Flow (FCF)	686.1	856.7	586.7
* FCF Adjusted	-89.9	300.3	-573.6
Key Ratios			
EBITDA margin (%)	47.8	48.2	45.6
Net margin (%)	104.1	167.8	285.0
Gross debt to EBITDA (x)	4.2	4.1	4.7
Net debt to EBITDA (x)	2.5	2.1	2.9
Gross Debt to Equity (x)	0.14	0.13	0.11
Net Debt to Equity (x)	0.08	0.06	0.07
Gross debt/total capitalisation (%)	12.0	11.1	10.2
Net debt/net capitalisation (%)	7.5	6.0	6.5
Cash/current borrowings (x)	9.3	8.6	8.5
EBITDA/Total Interest (x)	6.1	6.7	5.8

Source: Company, OCBC estimates

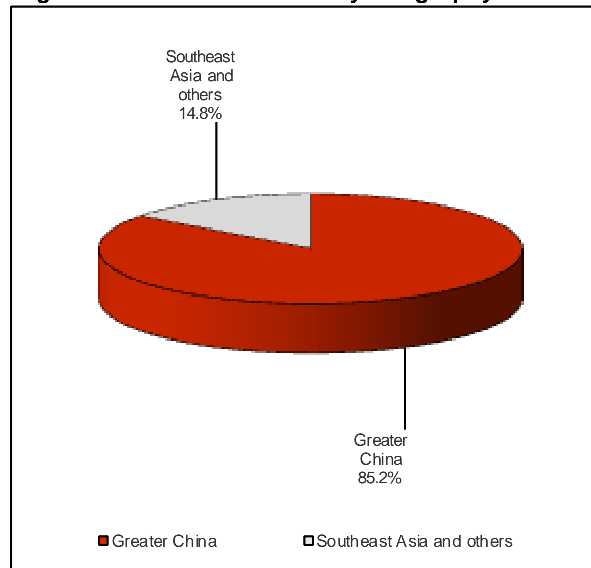
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2017



Source: Company

Figure 2: Asset breakdown by Geography - FY2017



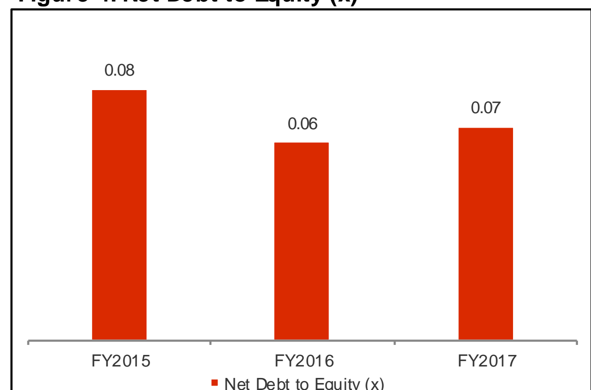
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 31/12/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	190.6	4.6%
Unsecured	0.0	0.0%
	190.6	**4.6%**
Amount repayable after a year		
Secured	1,127.0	27.0%
Unsecured	2,853.3	68.4%
	3,980.3	**95.4%**
Total	**4,170.9**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – Despite a strengthening credit profile, we think HPLSP '19s look tight trading at 2.23% YTM and prefer a switch to HFCSP '19s (3.53% YTM). Meanwhile, HPLSP '21s (3.48% YTM) and HPLSP 4.65% PERP (4.59% YTC) look interesting.

Issuer Profile: Neutral (4)

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

- **Decent 1Q2018 results:** Revenue increased 19.7% y/y to SGD173.4mn due to sales of units from Tomlinson Heights (2 units sold for SGD23.7mn), and at ~SGD120mn, we estimate that hotel revenue should still account for the bulk of total revenue. Net profit surged to SGD92.8mn (1Q2017: SGD21.0mn) due to a significant increase in contribution from associates and jointly controlled entities to SGD66.7mn (1Q2017: SGD2.4mn). This is due to profits from Holland Park Villas development in London, which completed construction in 4Q2017. HPL also recorded SGD15.5mn in other operating income (1Q2017: SGD1.7mn) as a result of SGD12.3mn fair value gain in investments.

- **Hospitality as the main contributor:** Hotels account for the largest portion of the portfolio (inclusive of hotel investments in equity accounted investees), representing 52.3% of the total assets. By revenue, hotels contributed 73.9% of 2017's total revenue of SGD659.2mn. The hospitality portfolio is somewhat diversified as we estimate that revenues are split nearly evenly between (1) Singapore, (2) Maldives and (3) other parts of the world which include rest of Asia and UK/Europe. HPL has been actively increasing its hospitality exposure. Acquisitions in 2017 include 80%-stake in Hilton London Olympia (£114.9mn), 70%-stake in DoubleTree by Hilton Hotel London Ealing (£39.4mn), and 50%-stake in Four Seasons Langkawi Malaysia (USD55mn).

- **Recurring income from investment properties:** Investment properties account 21.8% of total assets (SGD3.2bn). As of 2017, they contributed SGD26.1mn in revenue and SGD8.5mn of operating expenses (net property income estimated at SGD17.6mn). These properties are mainly represented by Forum The Shopping Mall (valued at: SGD420mn), Concorde Shopping Mall (SGD167mn), HPL House (SGD115mn) and Ming Arcade (SGD26mn).

- **Recovery in Singapore property is a boon in the short term:** With a strong recovery in Singapore's residential property market, HPL is a beneficiary with 3 major projects. According to the URA caveats, the last remaining 4 units at Tomlinson Heights have been sold for SGD45.7mn in Feb-May 2018. Meanwhile, projects by HPL's associates including The Interlace (34 units sold for SGD85.1mn) and D'Leedon (36 units sold for SGD116.5mn) have also sold well over Jan to May 2018. However, we note that land bank appears rather bare aside from these projects

- **Next steps for developments in London:** Following the completions of Holland Park Villa and Burlington Gate in 2017, HPL is progressing on the planning and final proposals for the 1.4mn sq ft mixed use developments at 30%-owned Ludgate House and Sampson House in the UK, with Temasek and Amcorp Properties as the other JV partners. These have a gross development value of £1.3bn (SGD2.4bn). HPL is also developing 70%-owned Paddington Square in London, which is targeted for completion in 2022 with 360,000 sq ft of office space and 76,000 sq ft of retail space.

- **Improved credit metrics:** Net gearing fell sharply to 24.7% in 1Q2018 (4Q2017: 36.4%) mainly as a result of SGD206.9mn net repayment of shareholders' loan and dividends from associates and jointly controlled entities related to the Holland Park Villas. Meanwhile, operating cashflows remain positive at SGD48.4mn, more than covering SGD6.8mn finance costs. Liquidity is sufficient with SGD213.2mn cash covering SGD175.5mn short-term borrowings. However, it remains to be seen if HPL intends to continue running at a low net gearing level (2012-2016 net gearing averaged 49.3%).

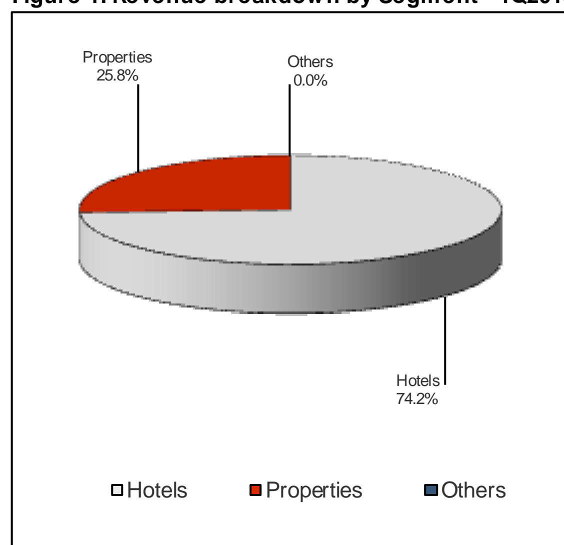
Hotel Properties Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	577.6	659.2	173.4
EBITDA	184.7	163.4	52.1
EBIT	130.5	106.2	37.5
Gross interest expense	30.3	28.7	6.8
Profit Before Tax	135.5	217.3	112.5
Net profit	103.5	173.7	87.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	117.2	211.8	213.2
Total assets	3,180.2	3,361.6	3,227.4
Gross debt	992.3	1,004.2	775.4
Net debt	875.1	792.4	562.2
Shareholders' equity	2,028.3	2,175.2	2,275.5
Total capitalization	3,020.6	3,179.4	3,050.9
Net capitalization	2,903.5	2,967.6	2,837.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	157.6	230.9	102.1
* CFO	111.6	255.9	40.7
Capex	80.0	153.6	18.7
Acquisitions	24.1	48.7	0.3
Disposals	66.8	1.0	0.4
Dividend	50.8	49.7	0.0
Free Cash Flow (FCF)	31.6	102.2	22.0
* FCF Adjusted	23.5	4.9	22.1
Key Ratios			
EBITDA margin (%)	32.0	24.8	30.0
Net margin (%)	17.9	26.3	50.5
Gross debt to EBITDA (x)	5.4	6.1	2.2
Net debt to EBITDA (x)	4.7	4.8	1.6
Gross Debt to Equity (x)	0.49	0.46	0.34
Net Debt to Equity (x)	0.43	0.36	0.25
Gross debt/total capitalisation (%)	32.9	31.6	25.4
Net debt/net capitalisation (%)	30.1	26.7	19.8
Cash/current borrowings (x)	0.4	1.1	1.2
EBITDA/Total Interest (x)	6.1	5.7	7.6

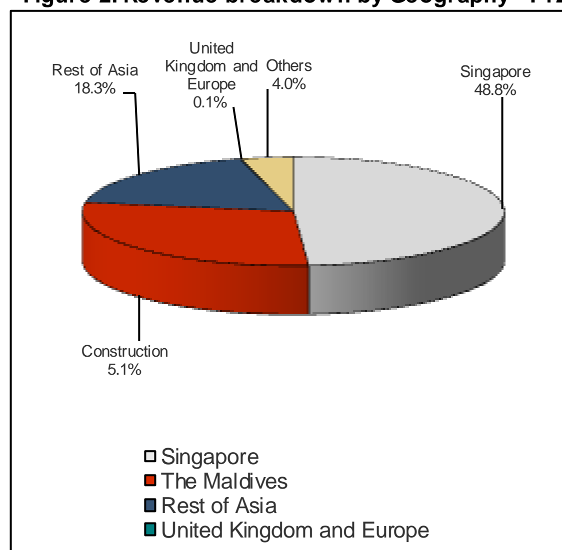
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1Q2018



Source: Company

Figure 2: Revenue breakdown by Geography - FY2017



Source: Company

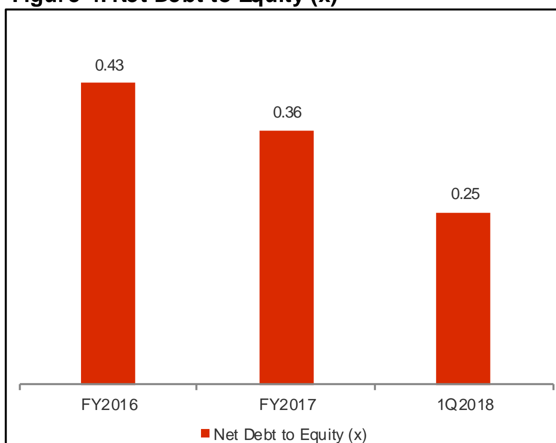
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	145.5	18.8%
Unsecured	30.0	3.9%
	175.5	**22.6%**
Amount repayable after a year		
Secured	249.6	32.2%
Unsecured	350.3	45.2%
	599.9	**77.4%**
Total	**775.4**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We prefer the CHIEAS 2.8% '20s over the KEPSP 3.1% '20s. Both have a similar maturity date though the KEPSP 3.1% '20s pay 20 bps less. We are underweight the KEPSP 3.145% '22s and KEPSP 4% '42s and neutral the rest of the curve.

Issuer Profile: Neutral (3)

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, the operation of logistics and data facilities and asset management (via Keppel Capital). Keppel operates in more than 30 countries internationally, and is ~21%-owned by Temasek Holdings Ltd.

Keppel Corp Ltd

Key credit considerations

- **Block sales of property projects drove KEP overall profits**: KEP's total revenue in 1Q2018 was up 17.8% y/y to SGD1.47bn while net profit to owners was SGD337.5mn (up 33.7% y/y). Group net profit was driven by the property segment. Property net profit was SGD378mn (1Q2017: SGD95mn), driven by sale of the Keppel Cove China project, and resulting in SGD289mn of net divestment gains. KREIT (a 45% associate) saw softer results during 1Q2018. With Singapore inventories declining and an overall slowdown in China, 2Q2018 segment revenue may be pressured. In July 2018, KEP completed the 100%-stake sale of a residential township project in Shenyang (gain of ~SGD43mn to be recognised in 3Q2018). Management may resume the conversion of Keppel Towers' offices into condominium units following strong momentum for Singapore housing.

- **Weak O&M performance, though advancing in liquid natural gas ("LNG"):** O&M segment revenue continues to decline (-31.3% y/y to SGD332.1mn) due to reduced volume of work done. Net value left for execution in 9M2018 is only at SGD165mn. SGD8mn in operating profit was generated (SGD4mn in 1Q2017), though interest expenses and losses at associates dragged segmental net loss to SGD23mn. O&M orderbook stands at SGD4.3bn, up from SGD3.9bn (end-2017). Encouragingly, KEP won a USD425mn semisub order in March 2017, a first since the oil downturn. Net orderbook exposure of SGD2.1bn was for Floating Production Storage and Offloading ("FPSOs") and Floating LNG ("FLNGs") vessels. Management indicated a desire to be both an owner and operator of floating energy infrastructure, as part of their end-to-end gas strategy, potentially utilizing more of KEP's balance sheet towards this end.

- **Infrastructure still muted while capital going towards asset management:** Infrastructure revenue grew 20.6% y/y to SGD569.1mn, supported by increased revenue in the electric, gas business and progressive revenue recognition from the desalination plant in Marina East. 1Q2018 net profit was 19% lower y/y at SGD26mn on the absence of divestment gain from GE Keppel Energy seen in 1Q2017. Dragged by its logistics business, 79%-subsidiary KPTT saw profitability decline while 49%-owned power generation associate Keppel Merlimau Cogen reported a net loss of SGD18.9mn. The Investment division (where Keppel Capital sits) reported a net loss of SGD44mn (1Q2017: SGD125mn profit) due to the absence of sale of Tianjin Eco-City land parcels (occurred in 1Q2017) as well as the impact of fair value losses on warrants of 40%-owned KrisEnergy. In end-2017, SGD450mn of capital commitments (out of SGD1.3bn in total) is targeted to go towards Alpha Investment Partners (("AIP"), which focuses on private funds holding real estate and data centres.

- **Monetization of balance sheet supports credit profile:** KEP saw operating cash outflow of SGD10.3mn, largely due to working capital needs (increase in inventory and receivables, while payables declined), though levels are lower than the SGD45.0mn outflow seen in 1Q2017. We note that the sizable SGD395.0mn cash outflow to creditors may have partly included the Brazil penalties. The Keppel Cove China divestment helped boost investing cash flows to SGD246.9mn while net borrowings were SGD277.2mn. These caused KEP's cash balance to increase by SGD453.4mn to SGD2.7bn. Though gross borrowings increased, net gearing improved q/q from 46% to 42%. Short-term borrowings of SGD1.68bn can be met by the SGD2.70bn cash balance. For now, we are maintaining KEP's issuer profile to Neutral (3) on a standalone basis which does not factor in uplift from its significant shareholder ownership.

Keppel Corp Ltd

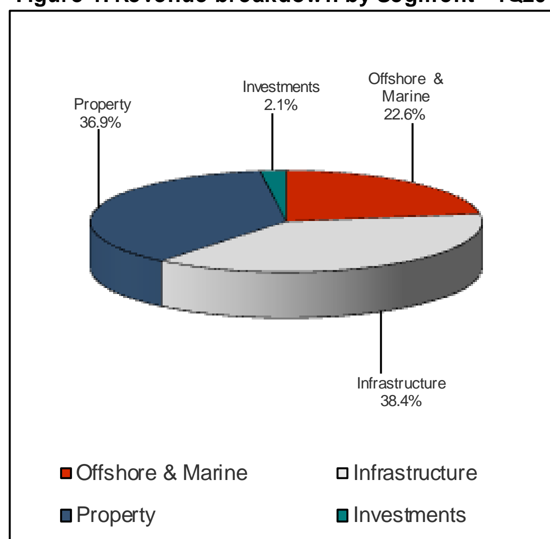
Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	6,767.3	5,963.8	1,469.9
EBITDA	1,407.8	937.7	214.3
EBIT	1,171.3	725.3	167.9
Gross interest expense	224.5	189.2	43.7
Profit Before Tax	1,054.9	515.6	430.2
Net profit	783.9	216.7	337.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	2,087.1	2,273.8	2,739.8
Total assets	29,234.2	28,112.8	27,670.1
Gross debt	9,053.0	7,793.0	7,867.3
Net debt	6,966.0	5,519.2	5,127.5
Shareholders' equity	12,333.6	11,960.4	12,147.6
Total capitalization	21,386.7	19,753.4	20,014.8
Net capitalization	19,299.6	17,479.6	17,275.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	1,020.4	429.0	383.9
* CFO	330.0	1,377.5	-10.3
Capex	466.2	393.0	57.3
Acquisitions	463.3	291.4	1.2
Disposals	99.4	838.7	414.5
Dividend	621.9	390.1	1.4
Free Cash Flow (FCF)	-136.2	984.5	-67.6
* FCF adjusted	-1,122.0	1,141.7	344.3
Key Ratios			
EBITDA margin (%)	20.8	15.7	14.6
Net margin (%)	11.6	3.6	23.0
Gross debt to EBITDA (x)	6.4	8.3	9.2
Net debt to EBITDA (x)	4.9	5.9	6.0
Gross Debt to Equity (x)	0.73	0.65	0.65
Net Debt to Equity (x)	0.56	0.46	0.42
Gross debt/total capitalisation (%)	42.3	39.5	39.3
Net debt/net capitalisation (%)	36.1	31.6	29.7
Cash/current borrowings (x)	1.1	1.3	1.6
EBITDA/Total Interest (x)	6.3	5.0	4.9

Source: Company, OCBC estimates

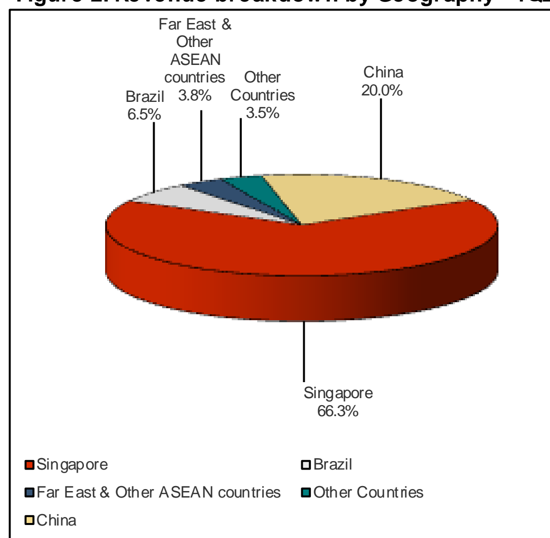
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1Q2018



Source: Company

Figure 2: Revenue breakdown by Geography - 1Q2018



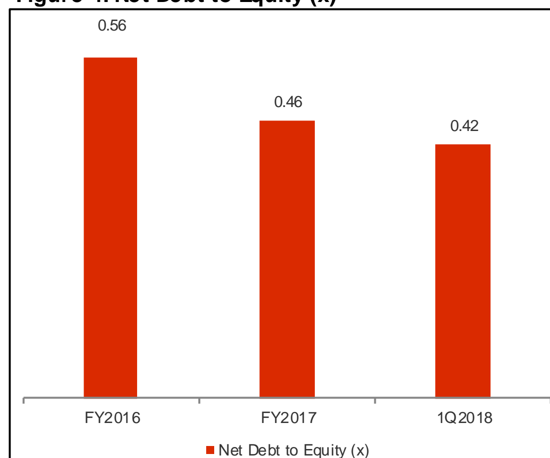
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	113.2	1.4%
Unsecured	1,562.4	19.9%
	1,675.6	**21.3%**
Amount repayable after a year		
Secured	195.3	2.5%
Unsecured	5,996.3	76.2%
	6,191.6	**78.7%**
Total	**7,867.3**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Keppel REIT

Credit Outlook – KREIT's credit profile remains stable with the rising office rental environment mitigating aggregate leverage at 38.6%. We still like the KREITS 4.98%-perp. It offers a YTC above 4% for less than 2.5 years to first call with wider spreads than most of the other REIT perps that have the same issuer profile.

Issuer Profile: Neutral (4)

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 total AUM of ~ SGD8.5bn (as of 31 March 2018). 87% 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 46.7% owned by Keppel Corp ("KEP"), its sponsor.

Key credit considerations

- **Softer numbers due to 275 George Street:** KREIT reported 1Q2018 results, with property income down 0.3% y/y to SGD39.7mn while NPI declined 0.6% y/y to SGD31.2mn. Performance was affected by the lower occupancy at 275 George Street (committed occupancy fell from 99.3% to 93.4% y/y) likely due to Telstra returning some space (portfolio committed NLA attributed to Telstra fell 1.2ppt q/q to 3.2%). This caused property income from 275 George Street to decline 26.5% to SGD3.73mn, while NPI fell harder to SGD2.82mn (-31.1%). This could be the reason why despite the sharp plunge in property income, occupancy at 275 George Street only dipped from 99.7% to 93.4% q/q. That said, KREIT may have been able to obtain commitments for some of the space returned, stating that a government agency took up space in 275 George Street. As such, contributions from the asset could recover in the next few quarter. Overall performance was also mitigated by improvements at Bugis Junction Towers on occupancy recovery.

- **ORQ and MBFC contributions fell:** Total return before tax fell sharply by 11.8% y/y to SGD37.1mn, driven largely by weaker contributions from associates (-10.9% y/y) and JV (-5.7% y/y) with dividend income from ORQ and MBFC falling sharply. As committed occupancy remains almost full for both ORQ (100%) as well as MBFC (99.8%), this implies the assets could be facing negative rental reversion pressure. As KREIT no longer (effective 1Q2018) discloses rental reversion data, it can't be verified directly. As a reference, KREIT reported -4% rental reversion for 2017. Based on 2017 annual report disclosures, property income from ORQ fell 2.6% y/y while property income from MBFC fell 5.5% y/y. In our opinion, ORQ and MBFC likely faced competitive pressure due to the ramp up at Marina One (1.88mn sqft NLA), which is a neighbouring mega asset.

- **Occupancy and retention remains strong:** KREIT holds newish, well-positioned, high quality assets. This supports demand (there will be a clearing price) and as such portfolio statistics remain strong. Committed occupancy stands at 99.4% (4Q2017: 99.7%), retention rate at 93.0% and WALE at 5.3 years. Portfolio occupancy rates for both Singapore (99.8%) and Australia (97.9%) remain higher than market averages of 94.1% (*source: CBRE 1Q2018*) and 89.6% (*source: JLL, end-Dec 2017*) respectively. Rental expiry for 2018 was reduced to just 6.2% of NLA (4Q2017: 8.3%). Given the rising office rental environment, with CBRE reporting SGD9.70 psf market Grade A office rents for 1Q2018 (versus SGD9.40 psf in 4Q2017), KREIT has less incentive to renew leases ahead of expiry. KREITs top 10 tenants occupy 41.4% of portfolio NLA and contribute 38.9% of gross rental income as at 31 March 2018 and comprise high quality tenants from banking, insurance and financial services (including DBS, ANZ, BNP Paribas, and Standard Chartered) as well as from the legal and government agency sectors (including the West Australian Government).

- **Credit profile remains stable**: Aggregate leverage remained stable at 38.6% (4Q2017: 38.7%) though all-in interest rate increased to 2.75% (versus 2.62% for 2017). This caused reported interest coverage to weaken to 4.1x (2017: 4.3x). KREIT has no maturities due in 2018, though it's worth noting that KREIT has sizable bank loans aggregating SGD762mn (or 22% of total debt) due in 2019. In our opinion, KREIT should be able to refinance its loans when it comes due given that 84% of its assets remain unencumbered. In addition, KREIT had SGD1231.7mn in unutilized facilities as at 31 March 2018. Part of these lines could also be used for the pro-rata development costs at 50%-owned 311 Spencer Street, Melbourne. Completion of the 42 storey Grade A office tower is expected in 4Q2019. The building already has a pre-committed occupancy of 100% and will be the headquarters for the Victoria Police.

Keppel REIT

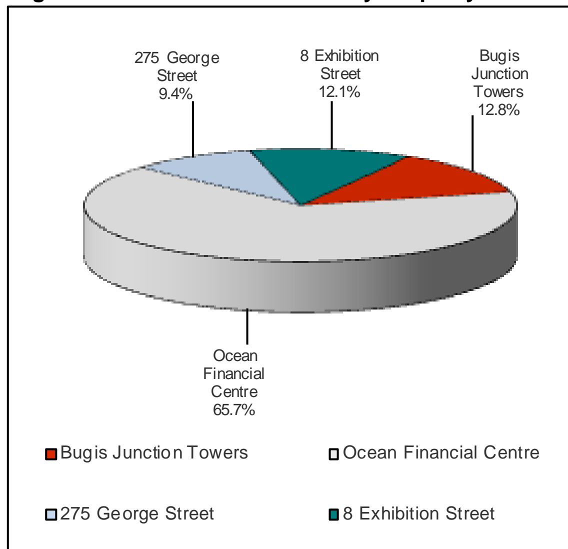
Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	161.3	164.5	39.7
EBITDA	70.9	74.7	18.0
EBIT	55.6	62.9	15.9
Gross interest expense	64.0	63.2	16.2
Profit Before Tax	279.1	197.3	37.1
Net profit	250.2	172.6	33.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	278.7	198.2	149.2
Total assets	7,535.3	7,604.3	7,614.8
Gross debt	2,481.8	2,522.2	2,514.1
Net debt	2,203.1	2,324.0	2,364.9
Shareholders' equity	4,898.6	4,915.3	4,953.9
Total capitalization	7,380.3	7,437.4	7,468.0
Net capitalization	7,101.6	7,239.3	7,318.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	265.5	184.4	35.8
* CFO	108.2	120.0	25.6
Capex	2.2	14.4	1.8
Acquisitions	0.0	143.4	15.5
Disposals	157.2	0.0	0.0
Dividends	190.1	164.5	44.3
Free Cash Flow (FCF)	105.9	105.5	23.7
* FCF Adjusted	73.1	-202.3	-36.1
Key Ratios			
EBITDA margin (%)	44.0	45.4	45.2
Net margin (%)	155.2	104.9	85.0
Gross debt to EBITDA (x)	35.0	33.7	35.0
Net debt to EBITDA (x)	31.1	31.1	32.9
Gross Debt to Equity (x)	0.51	0.51	0.51
Net Debt to Equity (x)	0.45	0.47	0.48
Gross debt/total capitalisation (%)	33.6	33.9	33.7
Net debt/net capitalisation (%)	31.0	32.1	32.3
Cash/current borrowings (x)	N.A	0.5	0.3
EBITDA/Total Interest (x)	1.1	1.2	1.1

Source: Company, OCBC estimates

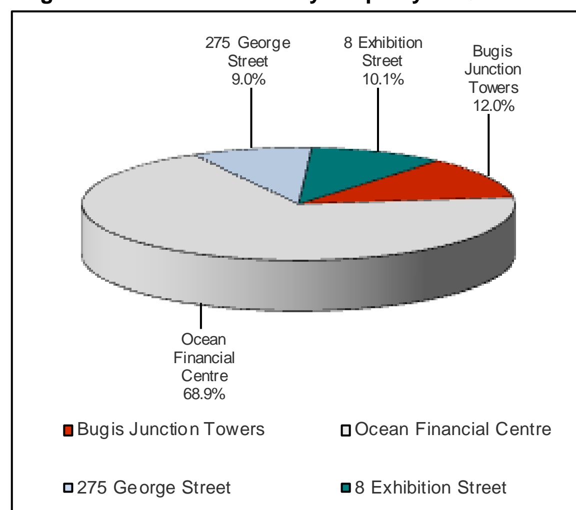
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Property - 1Q2018



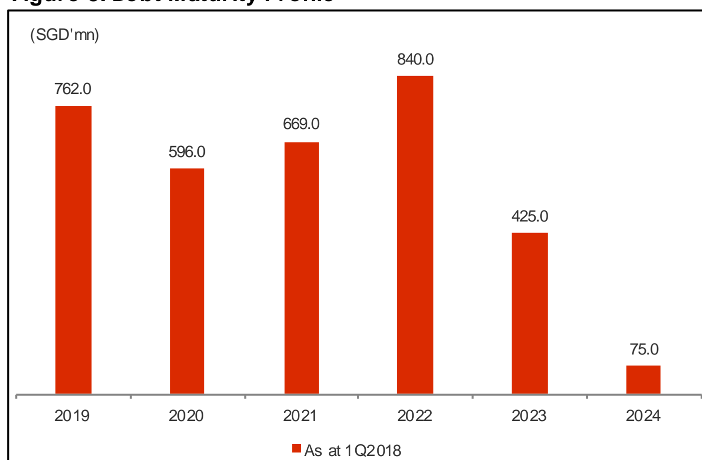
Source: Company

Figure 2: NPI breakdown by Property - 1Q2018



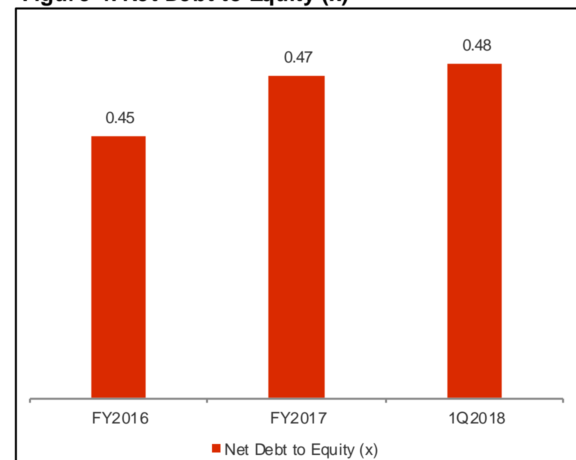
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – The KPTTSP 2.85% '24s with a call date in September 2022 is trading at a YTW of 3.0% and YTM of 3.2%. Coupon after 2022 steps up 100bps to 3.85%, whether or not KPTT call is path dependent on interest rate trajectory. Assuming non-call, the bond still provides a pick-up of 30bps to its sister REIT's KREITS 3.275% '24s.

Issuer Profile: Neutral (4)

Ticker: **KPTTSP**

Background
Keppel Telecommunications & Transportation Ltd ("KPTT") focuses on three businesses, namely logistics, data centres and investment holding. Within data centres, KPTT also holds a ~30.0% stake in Keppel DC REIT ("KDC REIT"). KPTT's main investments under the investment holding business is a ~19.3% stake in M1 Ltd, a major telco focused on the Singapore market. KPTT is ~79.4% owned by Keppel Corp Ltd.

Keppel Telecommunications & Transportation Ltd

Key credit considerations

- **Decline in profitability despite top line growth:** Reported gross revenue was up 5.1% y/y to SGD42.8mn. In 1Q2018, Data Centre made up 20% of total revenue and contributed the most to the y/y growth in revenue, driven by higher facility and project management fee income. On a top line basis, the Logistics segment makes up ~80% of revenue and in 1Q2018, revenue from Logistics declined 2.1% y/y. Overall operating expenses though increased 7.7% y/y to SGD47.0mn mainly due to higher transportation, contract labour and subcontractor costs in the Logistics division and increase in staff costs from higher headcount. KPTT reported an operating loss of SGD3.4mn (operating loss of SGD1.7mn in 1Q2017). Interest expense was 14.9% lower, driven by lower borrowing levels y/y. As a holding company, KPTT's share of results of associates and joint ventures ("JCE") is a significant contributor to its bottom line, chiefly, its stakes in KDC REIT, M1 Ltd (Singapore's third largest telco) and 50%-stake in KDC REIT's REIT Manager ("KDCREITM"). In 1Q2018, JCEs contributed SGD16.0mn while profit to shareholders was down 16.3% y/y at SGD9.4mn. As of report date, there has been no development on the strategic review of its underperforming China logistics portfolio.

- **KPTT is subject to capital calls at Alpha DC Fund:** Majority of KPTT's data centre assets are held at KDC REIT and Alpha DC Fund. Alpha DC Fund is a data centre focused private equity fund set up by KPTT (via its 70%-owned subsidiary Keppel Data Centre Holding Pte Ltd ("KDCH")) and sister company Alpha Investment Partners Limited (owned by Keppel Corp). In mid-2017, KPTT sold a data centre to a jointly owned entity by KPTT and Alpha DC Fund for SGD170.0mn. KPTT's effective interest in Alpha DC Fund had reduced following an outside investor's participation in the fund in 2017. As at 31 March 2018, reported net gearing (including amount owed to associates) was 0.4x (relatively flat against end-2017). As of end-2017, capital commitments at KPTT were SGD337.8mn, from only SGD250.6mn in end-2016. In end-2017, 96% of these relate to commitment to purchase shares in other companies (likely outstanding commitment to Alpha DC Fund). In June 2018, KPTT announced that its' wholly-owned subsidiary has entered into a loan agreement with a sister company to provide a SGD378mn loan to KDCH so this entity can meet its capital commitment for Alpha DC Fund. While 30% of the loan will come from the sister company, the full amount will be consolidated at the KPTT level. We think KPTT will need to fund the 70% externally, with net gearing rising.

- **Dividends receipt a significant credit driver:** KPTT receives significant and recurring cash dividends from associates (eg: M1 Ltd and KDC REIT). For the full year 2017, cash dividends received was SGD46.9mn, and taking a quarter of these into EBITDA and without factoring in capitalised interest, we find adjusted EBITDA/Interest at 5.1x in 1Q2018 (versus the thin unadjusted EBITDA/Interest of 0.5x before adding in cash dividends). We note that dividends from M1 Ltd have been falling on the back of a challenging domestic telecommunications market. The cash gap of SGD9.4mn at KPTT was funded by borrowings during the quarter.

- **Short term debt:** SGD133.6mn in short term debt will come due (representing 28% of total debt) against cash balance of SGD111.8mn. In end-2017, 71% of KPTT's fixed assets were made up of leasehold land and buildings. Assuming this proportion stayed constant, we estimate that KPTT has SGD342.9mn in investment properties, leasehold land and buildings, giving KPTT the financial flexibility to raise more secured financing facilities, if needed.

Keppel Telecommunications & Transportation Ltd

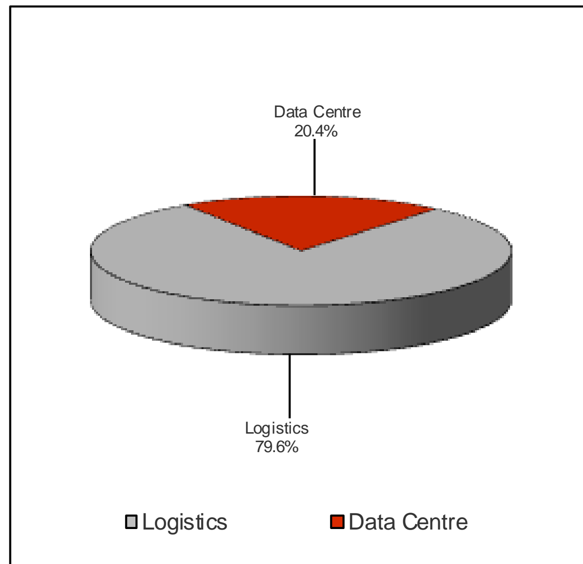
Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	194.6	177.0	42.8
EBITDA	34.1	15.2	1.2
EBIT	15.4	-6.4	-4.2
Gross interest expense	14.1	13.0	2.9
Profit Before Tax	130.3	71.8	10.1
Net profit	105.1	51.8	9.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	103.0	96.0	111.8
Total assets	1,722.9	1,549.7	1,596.3
Gross debt	528.8	457.4	483.7
Net debt	425.8	361.4	371.8
Shareholders' equity	908.0	960.7	973.4
Total capitalization	1,436.8	1,418.1	1,457.1
Net capitalization	1,333.8	1,322.1	1,345.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	123.8	73.4	14.8
* CFO	28.8	-5.4	-7.8
Capex	116.5	29.9	5.5
Acquisitions	111.1	216.2	0.4
Disposals	41.9	304.5	0.4
Dividend	20.8	26.3	0.0
Free Cash Flow (FCF)	-87.7	-35.3	-13.4
* FCF adjusted	-177.8	26.7	-13.4
Key Ratios			
EBITDA margin (%)	17.5	8.6	2.8
Net margin (%)	54.0	29.3	22.0
Gross debt to EBITDA (x)	15.5	30.1	101.2
Net debt to EBITDA (x)	12.5	23.8	77.8
Gross Debt to Equity (x)	0.58	0.48	0.50
Net Debt to Equity (x)	0.47	0.38	0.38
Gross debt/total capitalisation (%)	36.8	32.3	33.2
Net debt/net capitalisation (%)	31.9	27.3	27.6
Cash/current borrowings (x)	1.4	0.8	0.8
EBITDA/Total Interest (x)	2.4	1.2	0.4

Source: Company, OCBC estimates

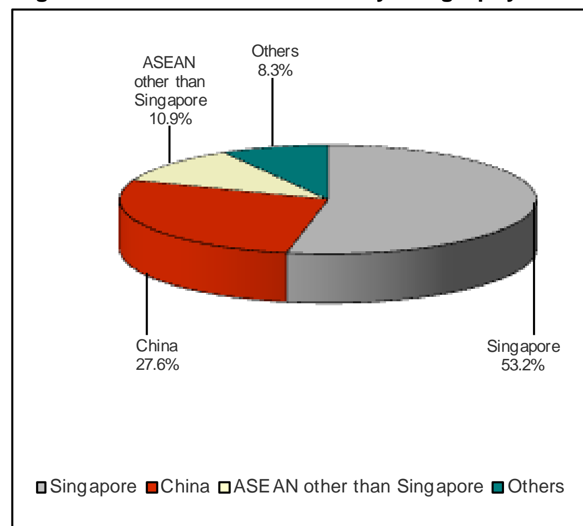
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1Q2018



Source: Company

Figure 2: Revenue breakdown by Geography - 1Q2018



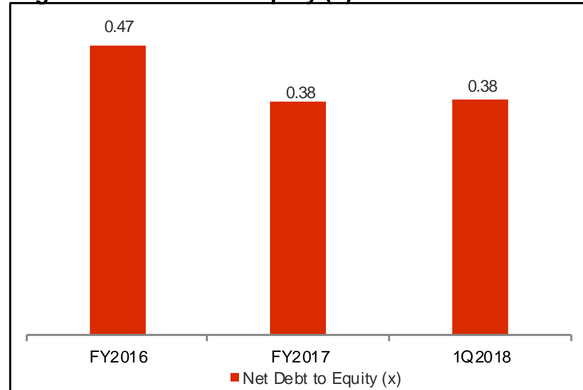
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	1.2	0.2%
Unsecured	132.4	27.4%
	133.6	**27.6%**
Amount repayable after a year		
Secured	5.1	1.1%
Unsecured	345.0	71.3%
	350.1	**72.4%**
Total	**483.7**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – Despite trading at high yields, we are Neutral on LMRTSP 6.6% PERP given the negative headlines. Between the perps, we prefer LMRTSP 7% PERP given its higher coupon (likelier than LMRTSP 6.6% PERP to be called) and nearer reset. As we expect LMRT will eventually survive and overcome near-term refinancing, we are Overweight on LMRTSP '20s (5.6% YTM).

Issuer Profile: Negative (6)

Ticker: **LMRTSP**

Background

Listed on the SGX on 2007, Lippo Malls Indonesia Retail Trust ("LMRT") is a retail REIT with a portfolio of 23 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 S-REIT by floor space, with an NLA of 851,850 sqm. LMRT is 29.85% owned by its sponsor, Lippo Karawaci ("LK"), as of 6th July 2018.

Lippo Malls Indonesia Retail Trust

Key credit considerations

- **Softer 1Q2018 results due to FX:** 1Q2018 revenue grew only 1.1% y/y to SGD49.1mn, with additional income from the acquisition of Lippo Plaza Kendari (June 2017), Lippo Plaza Jogja and Kediri Town Square (Dec 2017) which was mostly offset by the weakening of the IDR against the SGD by 9.1% y/y. Net property income fell 4.6% y/y to SGD43.9mn mainly due to a new 10% tax introduced on service charges and utilities recovery charges in Jan 2018 and an increase in total operating property expenses.

- **Pressure developing at sponsor:** Lippo Karawaci ("LK"), the sponsor of LMRT, has seen pressures on its credit profile. Such deterioration in credit is negative for LMRT with ~30% of revenue derived from Lippo-related entities. Already, SGD15.2mn in Lippo-related party tenants' receivables remains due (likely from Hypermart). Hypermart, which contributed 9.2% of LMRT's gross rental income in 4Q2017 (fresh figures for 1Q2018 not available), is facing intense competition and we note that the owner of Hypermart, Matahari Putra Prima Tbk PT, recorded significant losses in 2017.

- **Significant acquisitions in the horizon?:** LMRT has been active in acquisitions and has signaled to acquire more, with Lippo Mall Puri (NLA: 122,595 sqm) in West Jakarta likely to be considered as early as 2018. We estimate SGD300-500mn acquisition value by comparing with LMRT's malls in Jakarta. In total, there are 17 completed malls owned by LK (which are not already owned by LMRT) and another 38 malls in the development pipeline. Such acquisitions may alleviate the liquidity strain at LK. However, we will not rule out the potential for LK to divest the stake in LMRT to raise liquidity.

- **Stable composition of portfolio to mitigate tenant risk:** LMRT owns a diversified mix of 30 retail malls and retail spaces across Indonesia, with high portfolio occupancy at ~94% (industry average: 84.8%) as of 1Q2018. In the worst-case scenario if the Lippo group were to pull out, we think that occupancy may be rebuilt, over time. By revenue, the trade sectors are well-diversified with the highest concentration being casual leasing (15%), F&B / Food Court (13%) and Fashion (12%). Average rental reversion in 1Q2018 was 5.3%.

- **Not overly concerned over significant refinancing needs in the near term:** LMRT holds SGD278.8mn of borrowings due in the coming 12 months, which comprise (1) SGD100mn LMRTSP 4.5% '18s, (2) SGD90mn in unsecured bank debt (3.0% p.a.) which previously used to be secured and (3) ~SGD90mn from revolving credit facilities. We believe LMRT may eventually refinance given its low asset leverage and zero asset encumbrance. However, with the LMRTSP curve trading lower, refinancing via a bank loan may be more attractive.

- **Credit metrics remain manageable:** Aggregate leverage increased to 35.0% q/q (4Q2017: 33.7%), mainly due to a weaker IDR. As we believe that LMRT will be instrumental to recycle capital for LK, LMRT's aggregate leverage may climb higher. We think LMRT may no longer be incentivised to keep a low aggregate leverage following the withdrawal of its external ratings. Nevertheless, we are comforted that the regulatory limit allowed on aggregate leverage is 45%. As such, sizeable acquisitions will need to be funded at least in part by equity.

- **Uncertainty with change in management:** CEO and Executive Director Ms Chan Lie Ling resigned, citing family commitments. In our view, this appears to be a sudden event as Ms Chan had helmed LMRT only since 16 Mar 2017. Her resignation may leave LMRT with further uncertainty.

Lippo Mall Indonesia Retail Trust

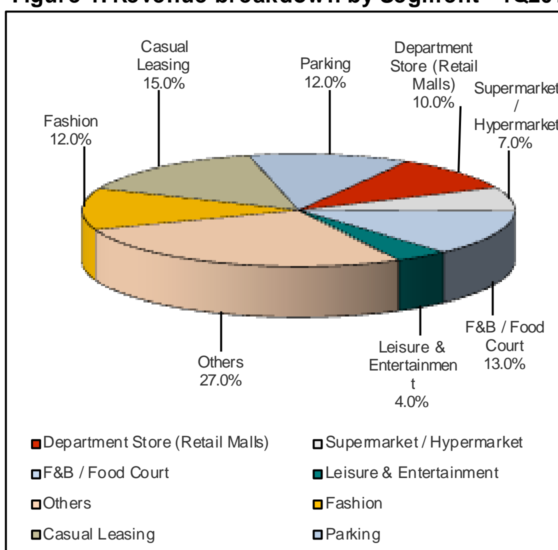
Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	188.1	197.4	49.1
EBITDA	161.3	173.8	41.4
EBIT	159.6	171.3	40.8
Gross interest expense	44.5	40.4	8.0
Profit Before Tax	53.4	88.1	29.3
Net profit	28.8	62.7	19.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	77.8	64.9	78.3
Total assets	2,065.2	2,063.9	2,016.8
Gross debt	640.9	688.3	698.9
Net debt	563.1	623.4	620.6
Shareholders' equity	1,232.6	1,167.9	1,113.0
Total capitalization	1,873.4	1,856.2	1,811.9
Net capitalization	1,795.7	1,791.3	1,733.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	30.6	65.2	20.4
* CFO	143.7	151.6	49.2
Capex	14.8	51.3	5.4
Acquisitions	88.3	133.4	0.0
Disposals	0.0	0.0	0.0
Dividends	93.8	112.8	27.1
Free Cash Flow (FCF)	128.9	100.3	43.8
* FCF Adjusted	-53.3	-145.9	16.6
Key Ratios			
EBITDA margin (%)	85.8	88.0	84.3
Net margin (%)	15.3	31.8	40.2
Gross debt to EBITDA (x)	4.0	4.0	4.2
Net debt to EBITDA (x)	3.5	3.6	3.7
Gross Debt to Equity (x)	0.52	0.59	0.63
Net Debt to Equity (x)	0.46	0.53	0.56
Gross debt/total capitalisation (%)	34.2	37.1	38.6
Net debt/net capitalisation (%)	31.4	34.8	35.8
Cash/current borrowings (x)	0.6	0.2	0.3
EBITDA/Total Interest (x)	3.6	4.3	5.2

Source: Company, OCBC estimates

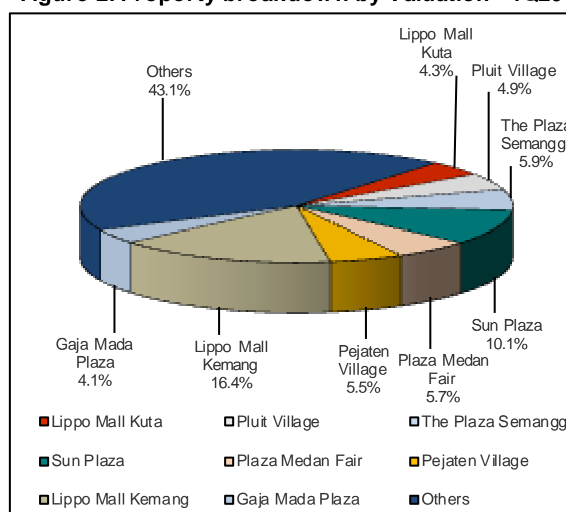
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1Q2018



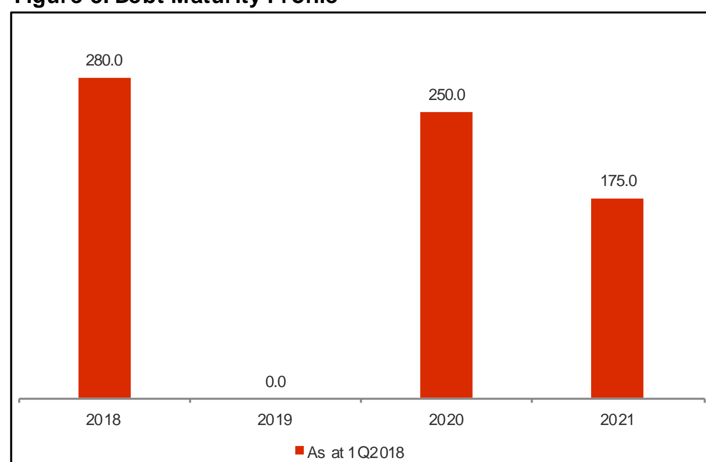
Source: Company

Figure 2: Property breakdown by Valuation - 1Q2018



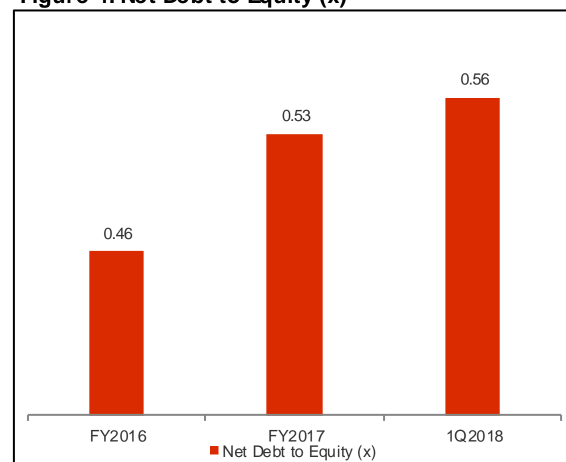
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Performance of MCT's core assets continues to mitigate weakness in its office assets. Comparing the MCTSP '24s, CCTSP'24s and CAPITA '24s, MCTSP '24s look slightly more attractive given its stronger credit profile versus CCTSP '24s and spread pickup against the CAPITA '24s despite CAPITA's better issuer profile.

Issuer Profile: Neutral (3)

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"); 3) Bank of America Merrill Lynch HarbourFront ("MLHF"); 4) PSA office building ("PSAB") that includes a 40-storey office block and Alexandra Retail Centre ("ARC"); and 5) Mapletree Anson. The properties, with a Net Lettable Area ('NLA') of 3.9mn sqft, are valued at SGD6.68bn as of 31 March 2018. MCT is 34.0%-owned by Temasek Holdings Pte Ltd through Mapletree Investments.

Mapletree Commercial Trust

Key credit considerations

- **VivoCity & MBC mitigating PSAB and Mapletree Anson weakness**: MCT's reported 4QFY2018 / full-year FY2018 results (ending March 2018) were largely boosted by the full-year contribution from Mapletree Business City I ('MBC') which was acquired in August 2016, or 2QFY2017. For FY2018, gross revenue was up 14.8% to SGD433.5mn while NPI was up 15.9% to SGD338.8mn. For 4QFY2018, gross revenue was up 1.3% y/y to SGD108.9mn while NPI was up 1.2% y/y to SGD84.3mn. Specifically VivoCity, MBC and Merrill Lynch Harbourfront ('MLHF') performed decently, reporting +1.1%, +2.3% and +12.7% in property revenue growth for the quarter. MLHF likely benefitted from the leasing of the space that Merrill Lynch returned in 4QFY2017, bringing actual occupancy to 100% (actual occupancy was just 79.2% in 4QFY2017). These factors helped to mitigate continued weakness seen at PSA Building (-1.2%) and Mapletree Anson (-3.4%).

- **Occupancy improving though retail rental reversions slow**: On the bright side, PSAB and Mapletree Anson have high committed occupancy of 98.7% and 100% respectively, versus the current actual occupancy of 96.1% and 86.6%. As such, performance is expected to pick up for these two assets. Overall portfolio committed occupancy had also improved q/q as well to 99.5% (3QFY2018: 98.7%). In terms of rental reversion, retail remained positive at +1.5% for FY2018, though it had fallen from the +2.3% seen in 9MFY2018. Office rental reversion remains weak at -4.2%, while adjusted rental reversion for MBC was -0.7%. Portfolio WALE remained constant q/q at 2.7 years. Lease expiry for FY2019 looks manageable at 12.6% of gross rental revenue for retail and 6.0% of gross rental revenue for office/business park.

- **AEI at VivoCity looks on track**: VivoCity (45% of portfolio NPI) continued to show strong performance. Though shopper traffic dipped 1.4% to 55.0mn, tenant sales increase 0.7% y/y to SGD958.2mn. The ongoing AEI to extend basement 1 is proceeding, and is expected to be completed by 3QFY2019. When completed, MCT would have created 24,000 sqft of contiguous retail space in basement 1 (likely to be higher yielding compared to the 3,000 sqm space on the 3rd floor "traded" away to become a public library). It is worth noting that the newly created space in basement 1 has already been fully committed. Conversely, performance at MCT's office assets is expected to remain sluggish (in rental terms).

- **Valuation gains supported credit profile**: Aggregate leverage has improved, falling q/q to 34.5% (4QFY2018: 36.3%). This was largely driven by strong portfolio revaluation gains of 5.4% to SGD6.7bn. In particular, VivoCity saw its valuation increase 10.5% y/y to SGD3.03bn, driven by the sharp compression in cap rates from 5.15% (4QFY2017) to 4.75% (4QFY2018). In general, Singapore retail assets saw sharp compression in cap rates in the most recent fiscal year due to the Jurong Point transaction (at record psf NLA, which lifted asset valuations across the industry). MCT's other assets also booked valuation gains, though we note that for PSAB and Mapletree Anson, gains were more modest. Reported interest coverage was stable at 4.8x (FY2017: 4.9x). Short-term debt due in FY2019 is manageable at SGD144.0mn, as MCT had just refinanced SGD120mn via a 6-year bond. MCT's assets are all unencumbered, which provides financial flexibility. The risk to MCT's credit profile however remains potential asset injections by its sponsor, such as the 1.2mn sqft Mapletree Business City II which had received TOP in April 2016. Based on the valuation for MBC as at 31 March 2018 at SGD1,109 psf NLA, Mapletree Business City II is currently valued at around SGD1.31bn.

Mapletree Commercial Trust

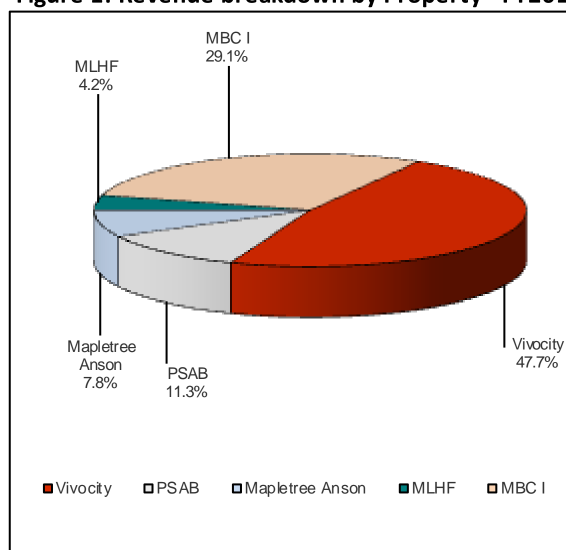
Table 1: Summary Financials

Year Ended 31st March	FY2016	FY2017	FY2018
Income Statement (SGD'mn)			
Revenue	287.8	377.7	433.5
EBITDA	200.6	266.1	307.9
EBIT	200.5	266.0	307.8
Gross interest expense	39.7	54.2	64.3
Profit Before Tax	298.7	345.8	567.6
Net profit	298.7	345.8	567.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	63.6	53.9	45.1
Total assets	4,415.2	6,405.7	6,740.8
Gross debt	1,551.5	2,329.8	2,329.4
Net debt	1,487.9	2,275.8	2,284.3
Shareholders' equity	2,764.0	3,957.5	4,283.4
Total capitalization	4,315.5	6,287.2	6,612.8
Net capitalization	4,251.9	6,233.3	6,567.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	298.7	345.9	567.6
* CFO	212.7	287.6	332.3
Capex	7.4	0.1	0.1
Acquisitions	0.0	1,853.1	18.5
Disposals	0.0	0.0	0.0
Dividends	156.8	201.5	259.8
Free Cash Flow (FCF)	205.4	287.5	332.2
* FCF Adjusted	48.5	-1,767.1	53.9
Key Ratios			
EBITDA margin (%)	69.7	70.4	71.0
Net margin (%)	103.8	91.6	130.9
Gross debt to EBITDA (x)	7.7	8.8	7.6
Net debt to EBITDA (x)	7.4	8.6	7.4
Gross Debt to Equity (x)	0.56	0.59	0.54
Net Debt to Equity (x)	0.54	0.58	0.53
Gross debt/total capitalisation (%)	36.0	37.1	35.2
Net debt/net capitalisation (%)	35.0	36.5	34.8
Cash/current borrowings (x)	0.2	NM	0.3
EBITDA/Total Interest (x)	5.0	4.9	4.8

Source: Company, OCBC estimates

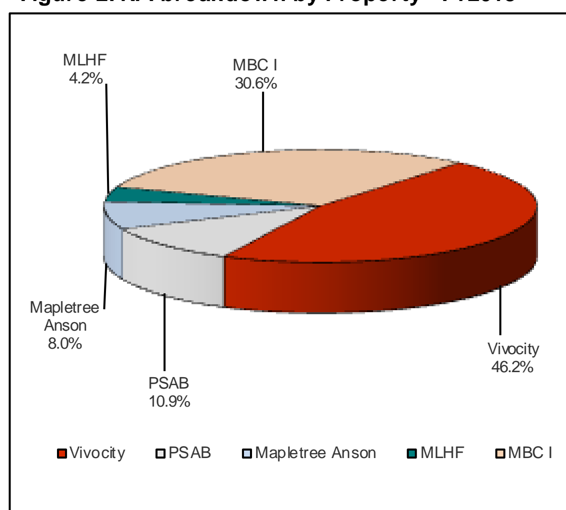
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Property - FY2018



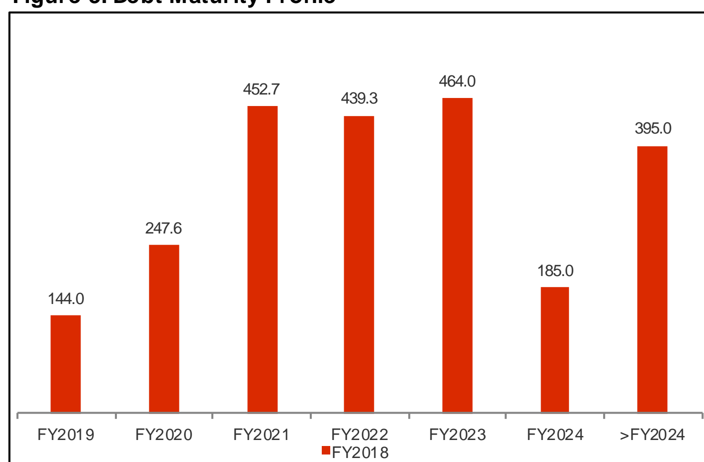
Source: Company

Figure 2: NPI breakdown by Property - FY2018



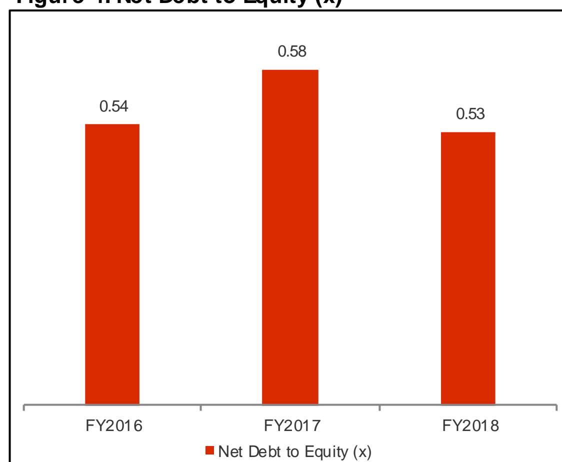
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –
We are underweight the MLT curve post the announcement of MLT's proposed acquisition of assets from CWT Pte Ltd which may add to supply risk.

Issuer Profile: Neutral (4)

Ticker: **MLTSP**

Background
Mapletree Logistics Trust ("MLT") is the first Asia-focused logistics REIT in Singapore. Total assets were SGD6.7bn as at 31 March 2018. MLT owns 124 properties as at 31 March 2018 and has acquired a 50%-economic interest in 11 properties in China in June 2018. Including the latest acquisition, MLT's assets are located in Hong Kong (33%), Singapore (26%), Japan (14%), China (9%), Australia (8%) and South Korea, Malaysia, Vietnam (collectively 10%). MLT is sponsored by Mapletree Investments Pte Ltd ("Mapletree") who holds a ~33.7%-stake in MLT.

Mapletree Logistics Trust

Key credit considerations

- **Growth in 4QFYE March 2018 ("4QFY2018") driven by acquisitions and redevelopment:** In 4QFY2018, gross revenue increased 11.4% y/y to SGD107.5mn driven by higher revenue from existing properties, Mapletree Hub Tsing Yi, and contribution from the redeveloped Mapletree Pioneer Logistics Hub. This was partly offset by a conversion of a building to multi-tenancy in South Korea, lower revenue from Ouluo Logistics Centre (undergoing redevelopment), absence of revenue from divested buildings and currency impact. With property expenses relatively constant, net property income increased 13.7% y/y to SGD91.3mn. In 4QFY2018, MLT recorded significant net movement in the value of investment properties of SGD240.3mn. We saw MLT's Hong Kong portfolio (on a same store basis) increase HKD865mn (~SGD151mn) on the back of cap rate compression. While there is no cash flow impact, this had helped in asset value growth. As at 31 March 2018, 24.4% of MLT's portfolio by net lettable area will expire by end-March 2019, 81% of these relate to multi-tenanted buildings and is relatively significant.

- **Healthy interest coverage:** EBITDA (based on our calculation which does not include other income and other expenses) was SGD80.3mn (also up 13.7% y/y), while interest expense was up 15.0% to SGD14.8mn as MLT took on more debt to fund acquisitions, resulting in a lower EBITDA/Interest coverage of 5.4x (versus 5.5x in 4QFY2017). Perpetuals make up 6.8% of total capital as at 31 March 2018. Assuming that SGD17.0mn p.a. is distributed to perpetual holders and taking 50% as interest, we find Adjusted EBITDA/Interest coverage at 4.7x. Short term debt of SGD53.2mn had been refinanced post-quarter end.

- **Acquired 50%-economic interest in 11 China-based properties ("China Portfolio"):** On 6 June 2018, MLT completed the acquisition of the China Portfolio, comprising mainly e-commerce tenants from its Sponsor and Itochu Corporation. The total acquisition price (excluding transaction cost) of SGD203.6mn comprise (1) an aggregate share consideration of RMB120.5mn (~SGD24.9mn) and (2) shareholders' loans of RMB864.8mn (~SGD178.7mn) extended by MLT to the Hong Kong SPVs that indirectly hold the assets. The targets carry RMB944.2mn (~SGD195.2mn) in bank debt (we assume MLT would take 50% of this). The transaction was fully equity funded.

- **Proposing to buy five warehouses from CWT Pte Ltd ("CWT SG):** On 5 July 2018, MLT announced that it will be acquiring five high-specification Singapore warehouses from CWT SG for a total acquisition cost of ~SGD805.9mn. CWT SG would lease back all the properties from MLT and become the single largest tenant at MLT post-acquisition (estimated to contribute 9.5% to revenue). The funding structure has not been firmed up; though management has guided that asset divestment proceeds may be used. In June 2018, MLT completed the SGD68.0mn divestment of 7 Tai Seng where ~SGD33mn may be used for asset acquisitions. Additionally, MLT is targeting to divest more than SGD200mn of assets with limited redevelopment potential. The funding structure is likely to also feature debt and straight equity/perpetuals. We think MLT may favour a higher proportion of debt and perpetual as unitholders were already tapped for SGD220mn in May 2018. Our base case assumes MLT would contain aggregate leverage at 40%. As part of the terms, MLT is obliged to provide a bridge loan of at least USD100mn to CWT SG. While bridge loan terms have not been fixed, this is intended to offset amounts payable by MLT for the properties, assuming the acquisition goes through.

Mapletree Logistics Trust

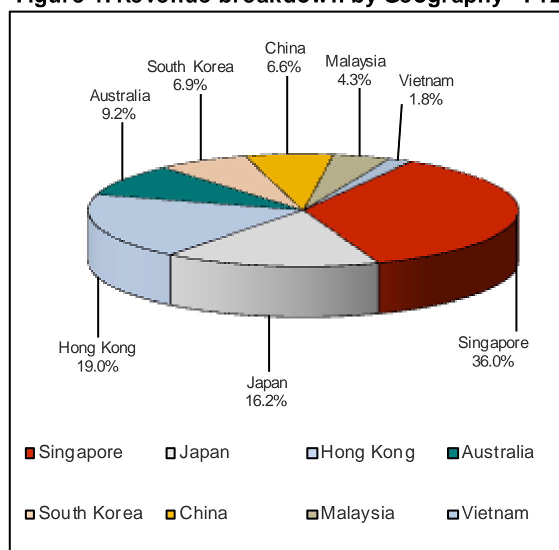
Table 1: Summary Financials

Year Ended 31st March	FY2016	FY2017	FY2018
Income Statement (SGD'mn)			
Revenue	349.9	373.1	395.2
EBITDA	255.9	274.3	292.9
EBIT	254.7	272.9	291.3
Gross interest expense	44.0	48.7	54.1
Profit Before Tax	235.4	252.8	521.3
Net profit	190.2	184.3	449.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	93.3	92.6	101.2
Total assets	5,207.4	5,686.7	6,678.3
Gross debt	2,058.3	2,184.1	2,511.8
Net debt	1,965.0	2,091.5	2,410.6
Shareholders' equity	2,878.5	3,189.7	3,811.8
Total capitalization	4,936.8	5,373.8	6,323.6
Net capitalization	4,843.5	5,281.2	6,222.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	191.3	185.6	450.8
* CFO	231.0	266.9	266.5
Capex	0.0	0.0	0.0
Acquisitions	422.5	374.0	698.3
Disposals	33.2	14.1	186.1
Dividends	187.8	200.0	224.1
Free Cash Flow (FCF)	231.0	266.9	266.5
* FCF Adjusted	-346.2	-293.0	-469.8
Key Ratios			
EBITDA margin (%)	73.1	73.5	74.1
Net margin (%)	54.4	49.4	113.7
Gross debt to EBITDA (x)	8.0	8.0	8.6
Net debt to EBITDA (x)	7.7	7.6	8.2
Gross Debt to Equity (x)	0.72	0.68	0.66
Net Debt to Equity (x)	0.68	0.66	0.63
Gross debt/total capitalisation (%)	41.7	40.6	39.7
Net debt/net capitalisation (%)	40.6	39.6	38.7
Cash/current borrowings (x)	0.4	0.4	1.9
EBITDA/Total Interest (x)	5.8	5.6	5.4

Source: Company, OCBC estimates

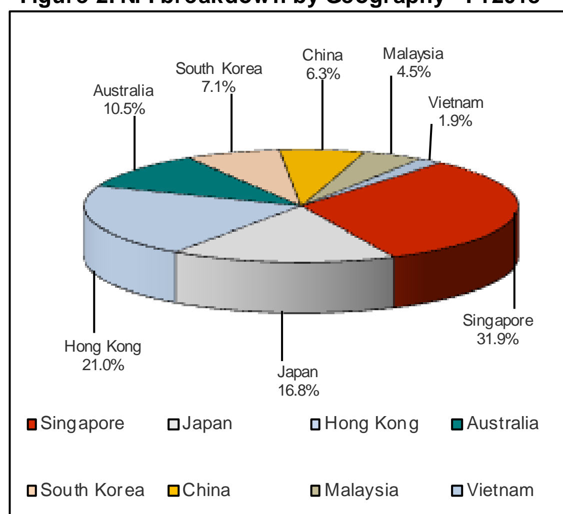
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Geography - FY2018



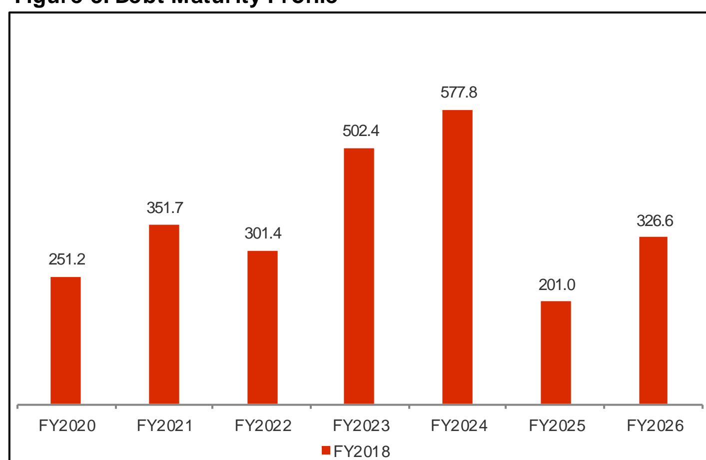
Source: Company

Figure 2: NPI breakdown by Geography - FY2018



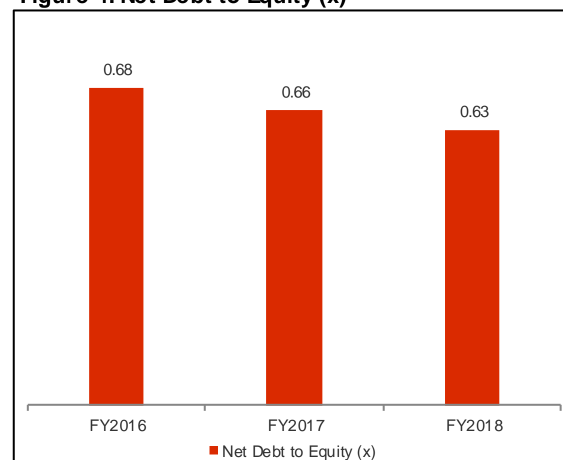
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –
Both MAGIC '21s (2.89% YTM) and MAGIC '22s (2.99% YTM) look rich. We prefer MCTSP '21s (2.82% YTM) and MAGIC '23s (3.11% YTM) which offer a stronger credit profile for similar yields.

Issuer Profile:
Neutral (4)

Ticker: **MAGIC**

Background
Listed on the SGX in 2013, Mapletree North Asia Commercial Trust ("MAGIC") is a S-REIT with a mandate to invest in the North Asia region (Greater China and Japan). MAGIC currently holds 3 commercial properties in its portfolio, located in Hong Kong, Beijing and Shanghai. MAGIC has a market cap of SGD3.6bn as of 5 Jul 2018. Temasek Holdings is MAGIC's largest shareholder with a 30.7% stake. Mapletree Investments Pte Ltd is the sponsor of MAGIC.

Mapletree North Asia Commercial Trust

Key credit considerations

- **Expansion of investment mandate:** As part of broadening its investment mandate, MAGIC will be including Japanese assets as investment targets, in addition to the Greater China region (Hong Kong, Tier 1 cities and key Tier 2 cities). At the same time, MAGIC undertook a change of name from Mapletree Greater China Commercial Trust to Mapletree North Asia Commercial Trust.

- **FY2018 results posted modest gains:** FY2018 revenue for the year ending 31 March 2018 rose 1.3% y/y to SGD355.0mn, mainly from increased contributions from Gateway Plaza (+7.1% y/y to SGD84.7mn) due to higher rental rate and higher average occupancy. MAGIC continues to expect rental growth at Gateway Plaza. However, revenues for Festival Walk (-0.4% y/y to SGD246.1mn) and Sandhill Plaza (-0.4% y/y to SGD24.2mn) were slightly lower due to weaker HKD against SGD though rental rates have increased. In-line with revenue trends, net property income rose 0.5% y/y to SGD287.2mn.

- **Acquisition of Japan portfolio:** MAGIC completed the acquisition of a Japanese portfolio with 6 freehold office assets in the greater Tokyo area (3 in Tokyo, 1 in Yokohama, 2 in Chiba).The Japan portfolio has a WALE of 5.8 years and 99.9% occupancy, which will boost MAGIC's overall portfolio's WALE and occupancy to 3.1 years and 98.0% respectively (from 2.7 years and 96.9% occupancy). To fund the SGD770.5mn acquisition, an equity private placement of SGD330.0mn was undertaken (we assume the balance will be funded by debt). The acquisition will increase the NLA to 4.2mn sq ft (existing: 2.6mn sq ft) and somewhat diversify MAGIC away from its dependence on Festival Walk, which contributed ~69% of FY2018 NPI (post acquisition: 61%).

- **Festival Walk remains a significant contributor as the largest asset:** Even after including the Japan portfolio, Festival Walk remains as the largest asset by valuation at 64.8% (73.1% before Japan portfolio). Aside from the fluctuations in FX, we like Festival Walk as it is a major contributor to MAGIC's stability, with 100% occupancy since its completion in 1998. Tenant sales (+7.4% y/y to HKD5.2bn) and footfall (+3.2% y/y to 41.7mn) increased in FY2018, reversing much of the declines seen in FY2017 as domestic demand was resilient with favourable labour market conditions and improving retail sentiments. As of Apr 2018, Hong Kong retail sales has posted 14 consecutive months of y/y increase since Mar 2017. MAGIC expects Festival Walk's revenue in HKD to grow moderately in FY2019 with some rental reversion.

- **Some balance sheet FX risks:** MAGIC is exposed to FX risks as only 2% of the debt is in RMB while Gateway Plaza and Sandhill Plaza (which are based in China) makes up 26.9% of the assets and 31% of the NPI in FY2018 (before acquisition of Japan portfolio). It remains to be seen if the Japan portfolio will be FX-hedged.

- **Manageable credit metrics:** Aggregate leverage fell to 36.2% (3QFY2018: 39.3%), largely due to sizeable fair value gains (SGD417.1mn) on investment properties versus total assets of SGD6.5bn. The gains were driven by higher rental rates and cap rates compression. Including the acquisition of the Japan portfolio, aggregate leverage may increase to 38.5%. Debt maturity profile is well-staggered, with no more than 24% of debt due in any year though average term to maturity fell to 3.43 years (FY2017: 3.73 years). We see minimal refinancing risks with only HKD496mn (~SGD84mn) of debt due in the next 12 months while HKD225mn of debt due in FY2021 has been early-refinanced. Reported interest cover improved to 3.9x (FY2017: 3.6x).

Mapletree North Asia Commercial Trust

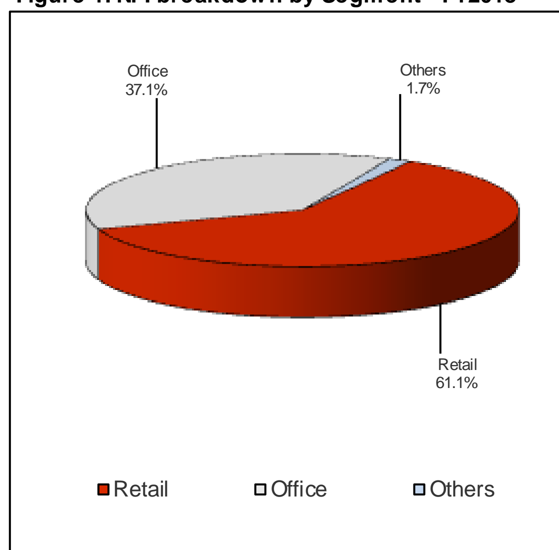
Table 1: Summary Financials

Year Ended 31st Mar	FY2016	FY2017	FY2018
Income Statement (SGD'mn)			
Revenue	336.6	350.6	355.0
EBITDA	252.4	264.4	265.2
EBIT	252.0	264.0	264.5
Gross interest expense	65.0	74.2	69.7
Profit Before Tax	465.9	412.6	618.3
Net profit	428.1	372.5	574.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	206.1	234.9	178.0
Total assets	6,153.5	6,528.9	6,522.7
Gross debt	2,422.3	2,556.2	2,361.1
Net debt	2,216.2	2,321.3	2,183.1
Shareholders' equity	3,416.2	3,636.3	3,888.8
Total capitalization	5,838.4	6,192.5	6,249.8
Net capitalization	5,632.3	5,957.6	6,071.9
Cash Flow (SGD'mn)			
Funds from operations (FFO)	428.6	372.9	575.1
* CFO	264.9	226.8	306.4
Capex	0.7	0.7	1.6
Acquisitions	335.3	6.9	5.0
Disposals	0.0	0.0	0.0
Dividends	188.3	204.3	208.7
Free Cash Flow (FCF)	264.2	226.0	304.8
* FCF Adjusted	-259.4	14.8	91.1
Key Ratios			
EBITDA margin (%)	75.0	75.4	74.7
Net margin (%)	127.2	106.2	161.8
Gross debt to EBITDA (x)	9.6	9.7	8.9
Net debt to EBITDA (x)	8.8	8.8	8.2
Gross Debt to Equity (x)	0.71	0.70	0.61
Net Debt to Equity (x)	0.65	0.64	0.56
Gross debt/total capitalisation (%)	41.5	41.3	37.8
Net debt/net capitalisation (%)	39.3	39.0	36.0
Cash/current borrowings (x)	0.4	1.4	2.1
EBITDA/Total Interest (x)	3.9	3.6	3.8

Source: Company, OCBC estimates

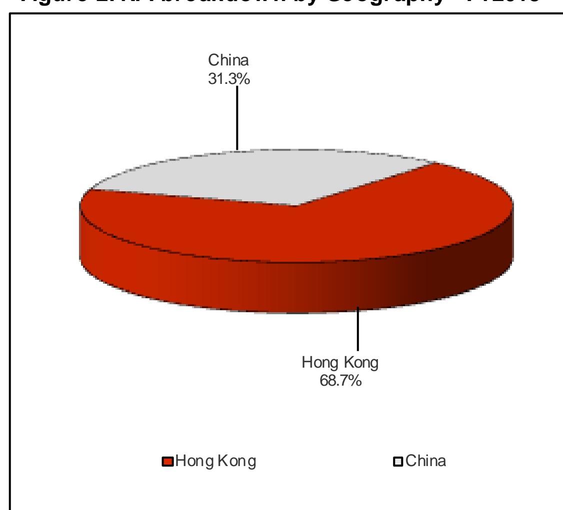
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: NPI breakdown by Segment - FY2018



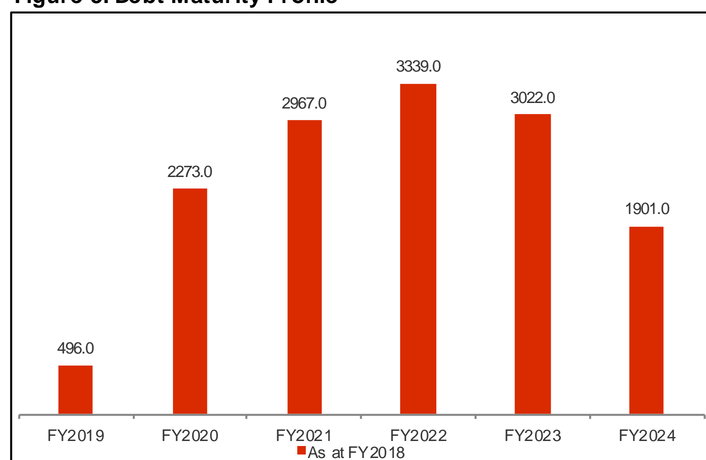
Source: Company

Figure 2: NPI breakdown by Geography - FY2018



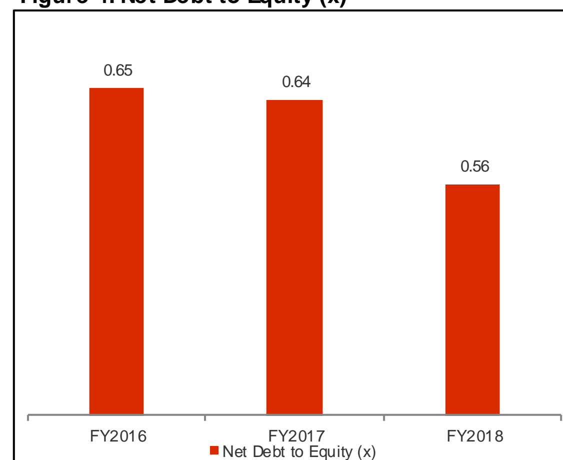
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We are underweight the MINTSP 3.75% '19s which is only trading at YTW of 1.76% and prefer the MCTSP 2.65% '19s which pays 70bps more. We are neutral the MINTSP 3.65% '22 and MINTSP 3.02% '23s and underweight the MINTSP 3.16% '24.

Issuer Profile: Neutral (3)

Ticker: **MINTSP**

Background

Mapletree Industrial Trust ("MINT") owns a portfolio of 85 flatted factories, hi-tech business parks, stack-up/ramp-up and light industrial buildings in Singapore. As at 31 March 2018, MINT's total assets were SGD4.2bn. From October 2017 onwards, MINT (via a joint venture with its Sponsor) also owns 14 data centres in the USA. MINT is Sponsored by Mapletree Investments Pte Ltd ("Mapletree").

Mapletree Industrial Trust

Key credit considerations

- **Growth in 4QFYE March 2018 ("4QFY2018") driven by contribution from HP Singapore and share of results from USA data centres:** Gross revenue increased 2.9% y/y to SGD90.4mn in 4QFY2018, mainly due to revenue contribution from the build-to-suit project for HP Singapore, partly offset by lower portfolio occupancies across all sub-segments except light industrial. With expenses in-check, net property income simultaneously increased 2.9% y/y to SGD67.9mn. On a q/q basis, gross revenue had decreased 1.2% (3QFY2017: SGD91.5mn). We think MINT's existing portfolio on a same-store basis saw a decline q/q as rents were reduced to prioritize tenant retention. Via a joint venture with Sponsor, 14 data centres in the USA were acquired in December 2017. Share of joint venture including revaluation gains from investment properties was SGD21.0mn, which helped drive total return after income tax higher at SGD138.4mn (up 13.8% y/y) for 4QFY2018.

- **Interest coverage lower despite US JV:** EBITDA (based on our calculation which does not include other income and other expenses) was 2.8% higher y/y to SGD60.5mn. Interest expense though was significantly higher at SGD9.3mn, resulting in a lower EBITDA/Interest coverage of 6.5x (4QFY2017: 8.1x). The higher interest expense was driven by MINT taking up new debt to fund its investment in the US joint venture (completed in December 2017). While MINT currently holds a 40%-stake in the joint venture, it has a right of first refusal to acquire Sponsor's 60%-stake. Adjusting EBITDA to include SGD3.2mn (being the share of USA joint venture and excluding net fair value gain on the investment properties), we find Adjusted EBITDA/Interest at 6.9x.

- **Weighted average lease expiry ("WALE") has improved:** As at 31 March 2018, MINT's Singapore portfolio had a WALE of 3.6 years, while the USA portfolio WALE was 6 years. MINT's rent is now relatively concentrated, with HP Singapore contributing 9.9% of rental income (up from 5.3%). Mitigating this somewhat, the other nine largest tenants collectively only make up 16.2% of rents, and on an individual basis, none contributes more than 3.3%.

- **Bought 7 Tai Seng from Mapletree Logistics Trust ("MLT") in June 2018:** On 27 April 2018, MINT announced that it has taken over the option to purchase 7 Tai Seng from its Sponsor. The option to purchase allowed MINT to buy the property from its sister REIT, MLT. Both MLT and MINT share the same Sponsor. 7 Tai Seng was originally proposed to be sold to Sponsor (rather than MINT) in August 2017 for SGD68.0mn (representing 114% of valuation as at 31 March 2017). MINT has entered into a lease agreement with a tenant in the information and communications ("ICT") sector for an initial 25-year term for 100% of the space, subject to extension of land lease for an additional 30 years, approvals from JTC and completion of upgrading works in the second half of 2019.

- **Aggregate leverage no longer below Industrial REIT peers:** While we think the cash balance of SGD37.4mn as at 31 March 2018 may be sufficient for the remaining redevelopment of 12 Sunview Drive, MINT would have needed to fund 7 Tai Seng externally in our view. Apart from the SGD68.0mn in purchase price, cost for upgrading works will bring the total cost to SGD95.0mn. Assuming this is 100% debt funded, MINT's aggregate leverage may have risen to ~35%. As at 31 March 2018, aggregate leverage (taking into account MINT's proportionate debt and asset at the JV level) was 33.1%. For much of 2016 and 2017, MINT's aggregate leverage was below 30%.

Mapletree Industrial Trust

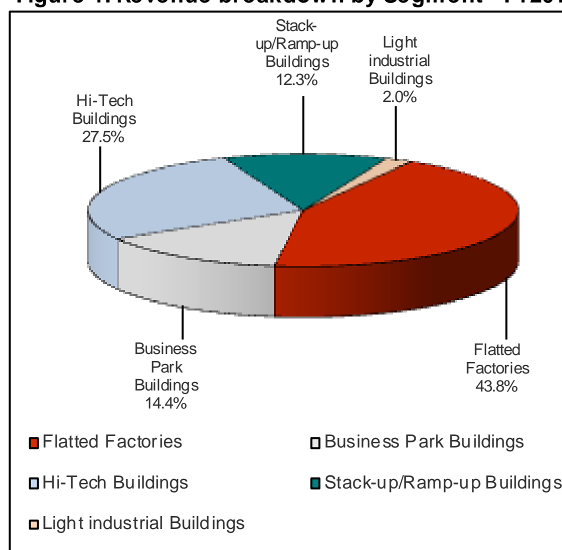
Table 1: Summary Financials

Year Ended 31st March	FY2016	FY2017	FY2018
Income Statement (SGD'mn)			
Revenue	331.6	340.6	363.2
EBITDA	218.0	228.6	247.9
EBIT	218.0	228.6	247.8
Gross interest expense	25.9	27.3	34.1
Profit Before Tax	190.6	270.6	300.6
Net profit	190.6	270.6	300.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	54.3	38.0	37.4
Total assets	3,623.9	3,798.1	4,154.3
Gross debt	1,021.2	1,106.4	1,218.1
Net debt	966.8	1,068.4	1,180.7
Shareholders' equity	2,465.2	2,532.8	2,780.1
Total capitalization	3,486.4	3,639.2	3,998.2
Net capitalization	3,432.0	3,601.2	3,960.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	190.6	270.6	300.5
* CFO	219.7	234.0	245.6
Capex	0.0	0.0	0.1
Acquisitions	43.5	103.9	284.7
Disposals	0.0	0.0	17.4
Dividends	114.6	203.9	212.1
Free Cash Flow (FCF)	219.7	234.0	245.5
* FCF Adjusted	61.6	-73.7	-233.9
Key Ratios			
EBITDA margin (%)	65.8	67.1	68.2
Net margin (%)	57.5	79.4	82.7
Gross debt to EBITDA (x)	4.7	4.8	4.9
Net debt to EBITDA (x)	4.4	4.7	4.8
Gross Debt to Equity (x)	0.41	0.44	0.44
Net Debt to Equity (x)	0.39	0.42	0.42
Gross debt/total capitalisation (%)	29.3	30.4	30.5
Net debt/net capitalisation (%)	28.2	29.7	29.8
Cash/current borrowings (x)	1.1	0.3	0.2
EBITDA/Total Interest (x)	8.4	8.4	7.3

Source: Company, OCBC estimates

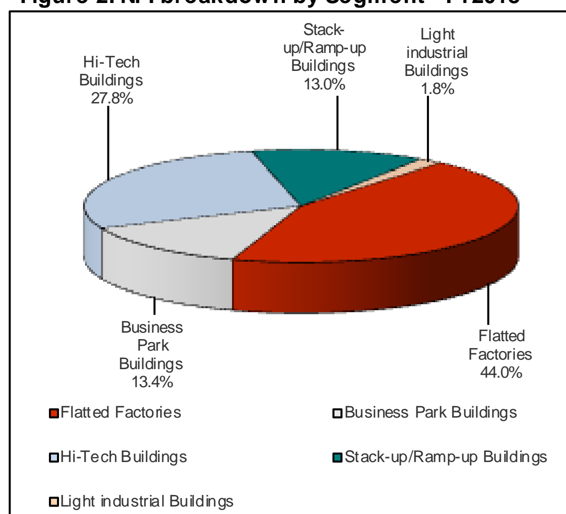
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2018



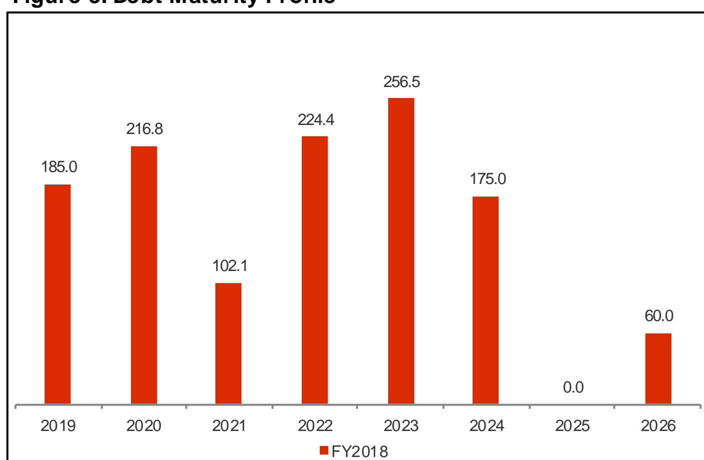
Source: Company

Figure 2: NPI breakdown by Segment - FY2018



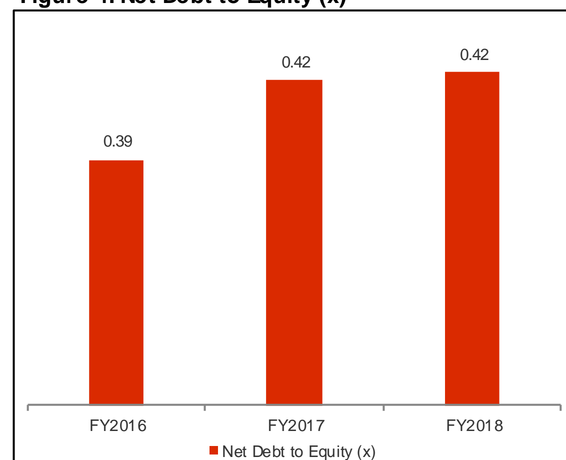
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We are underweight the OLAMSP 5.8% '19s and OLAMSP 4.25% '19s and within the curve, we prefer the OLAMSP 6.0% '22s which is trading at a YTW of 4.7%. We are underweight the OLAMSP 5.5%-PERP (first call date in July 2022) as the spread between this perpetual has compressed to only 90bps versus its comparable senior.

Issuer Profile: Neutral (5)

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. Temasek is the largest shareholder with a ~54%-stake followed by Mitsubishi Corp. with ~17%.

Olam International Limited

Key credit considerations

- **Lower EBITDA generation though interest coverage improved:** Revenue increased 8.5% y/y to SGD6.3bn driven by increased volumes from the Food Staples and Packaged Foods segment (mainly from Grains sub-segment) and Industrial Raw Materials, Ag Logistics & Infrastructure ("IRM"). Reported EBITDA was SGD368.1mn (down 7.7% y/y) with all segments except IRM showing lower EBITDA contribution compared to 1Q2017. Other expenses were 58.2% higher y/y at SGD332.6mn (this included a SGD24.0mn exceptional loss from sale of Nauvu Investments) though finance costs were 25.1% lower y/y at SGD109.7mn which helped lift profits higher. The decline was primarily due to Olam's average debt which had fallen to SGD11.7bn in 1Q2018 from SGD13.9bn in 1Q2017. Interest coverage as measured by reported EBITDA/Interest was 3.4x against 2.7x in 1Q2017

- **Unadjusted net gearing lower versus a year ago:** As at 31 March 2018, Olam's unadjusted net gearing was relatively stable at 1.5x against end-2017 and significantly lower versus the 2.0x as at 31 March 2017. Net gearing includes finance lease commitments (eg: from palm and almond plantations which had been sold for cash and leased back). Despite the slightly higher gross debt, Olam received SGD71.8mn in proceeds from conversion of warrants into equity in 1Q2018 and this helped boost share capital of the company. In end-2017, non-cancellable leases (eg: rent on land, offices, warehouses, vessels) was lower versus end-2016 but still significant at SGD888.6mn respectively. Given the broad-base lower commodity prices in 1Q2018, working capital needs may increase for the rest of the year which could tilt short term debt higher. Net-net Olam is a price-taker and focuses on managing its cash flow via cash conversion cycle. In 1Q2018, the cash conversion cycle was 109 days (down from 139 days in 1Q2017) and within its internal target.

- **Disposal helped increase cash flow:** In 1Q2018, OLAM reported an operating cash outflow (before interest paid and tax) of SGD290.8mn (versus SGD334.0mn in operating cash inflow in 1Q2017). Purchase of property, plant and equipment, intangible assets and investment/loans to associates and jointly controlled entities was SGD221.6mn. The cash gap at Olam was funded by (1) additional of borrowings of SGD334.1mn (2) the conversion of warrants (3) the drawing down of SGD66.7mn of existing cash and (4) the disposal of Olam's 50%-stake in Nauvu Investments for USD148mn (subject to adjustments).

- **Short term debt due:** Olam faces SGD250mn in bonds due in August 2018 (the OLAMSP 6.0% '18s). This high cost bond was issued in 2011 (prior to Olam being re-rated) and we think Olam will be able to secure refinancing at a lower cost. Similar to 2016, Olam targeted 25-35% of its working capital needs to be fulfilled by medium and long term sources of funds in 2017. Historically, 58% of working capital was funded by medium and long term sources of funding. We think the reduction in proportion of medium and longer tenured debt to fund working capital had helped reduce finance cost as longer tenured debt tends to cost more. As at 2 April 2018, free float of Olam's publicly listed equity was only ~10.3%. We continue to expect Olam to be debt reliant for its working capital needs though its bank debt and fixed income market access remains strong. Apart from the SGD250mn in bonds due, Olam has SGD3.9bn of short term debt due. Cash balance stood at SGD1.9bn and Olam has SGD8.4bn in unutilised bank loans (we understand ~15% committed) that can provide the liquidity needed to help refinance the short term debt coming due.

Olam International Ltd

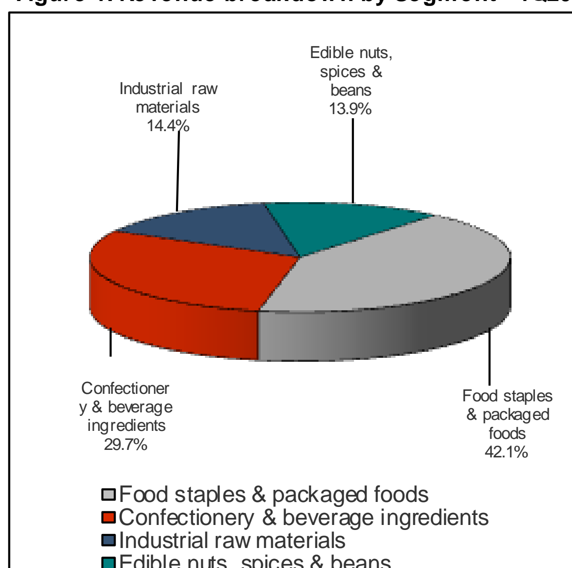
Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	20,587.0	26,272.5	6,295.4
EBITDA	1,202.8	1,217.2	328.9
EBIT	849.3	836.6	233.2
Gross interest expense	446.2	531.2	109.7
Profit Before Tax	433.4	630.9	184.1
Net profit	351.3	580.7	158.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	2,144.1	1,986.4	1,863.5
Total assets	23,468.9	22,298.5	23,012.4
Gross debt	13,670.6	11,587.9	11,846.7
Net debt	11,526.5	9,601.6	9,983.2
Shareholders' equity	5,634.3	6,621.0	6,688.1
Total capitalization	19,304.9	18,209.0	18,534.8
Net capitalization	17,160.8	16,222.6	16,671.3
Cash Flow (SGD'mn)			
Funds from operations (FFO)	704.8	961.4	253.7
* CFO	619.6	1,657.8	-438.7
Capex	751.8	951.1	164.0
Acquisitions	588.1	0.0	0.0
Disposals	32.0	310.9	251.1
Dividend	184.0	180.4	0.0
Free Cash Flow (FCF)	-132.2	706.7	-602.7
* FCF adjusted	-872.4	837.2	-351.6
Key Ratios			
EBITDA margin (%)	5.8	4.6	5.2
Net margin (%)	1.7	2.2	2.5
Gross debt to EBITDA (x)	11.4	9.5	9.0
Net debt to EBITDA (x)	9.6	7.9	7.6
Gross Debt to Equity (x)	2.43	1.75	1.77
Net Debt to Equity (x)	2.05	1.45	1.49
Gross debt/total capitalisation (%)	70.8	63.6	63.9
Net debt/net capitalisation (%)	67.2	59.2	59.9
Cash/current borrowings (x)	0.4	0.4	0.4
EBITDA/Total Interest (x)	2.7	2.3	3.0

Source: Company, OCBC estimates

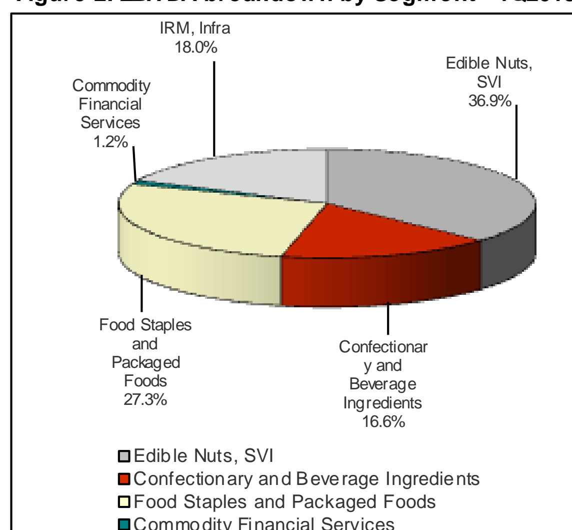
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1Q2018



Source: Company

Figure 2: EBITDA breakdown by Segment - 1Q2018



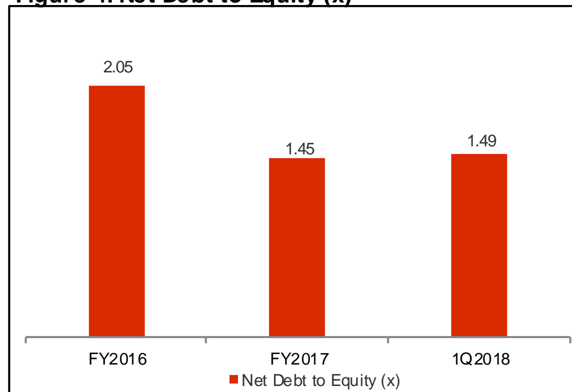
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	23.1	0.2%
Unsecured	4,152.3	35.1%
	4,175.4	**35.2%**
Amount repayable after a year		
Secured	118.8	1.0%
Unsecured	7,552.4	63.8%
	7,671.2	**64.8%**
Total	**11,846.7**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook –
We are overweight the OUESP curve which tends to trade wider versus other comparably sized developers. Notwithstanding its recent transaction which have led to a cash outflow, OUE's credit profile continues to be supported by its commercial properties which are monetizable.

Issuer Profile: Neutral (4)

Ticker: **OUESP**

Background
Incorporated in 1964, OUE Ltd ("OUE") is a real estate developer and landlord with a real estate portfolio located at prime locations in Singapore (such as Orchard road) and across the region. The group has diverse exposure across the office, hospitality, retail and residential property segments. OUE had also recently entered the healthcare segment. OUE is the sponsor of OUE Hospitality Trust ("OUE-HT") and OUE Commercial REIT ("OUE-CT"). OUE is 68.6%-owned by the Lippo Group.

OUE Ltd

Key credit considerations

- **Lack of development revenue; asset growth drove other segments:** In 1Q2018, revenue fell 25.8% y/y to SGD145.6mn. No development property income was recognised in 1Q2018 versus SGD72.6mn in 1Q2017. OUE had fully sold its Twin Peaks condominium development by October 2017. Some revenue though is still likely to be recognized in the future when units sold via Deferred Payment Schemes achieve transaction completion (unrecognized revenue estimated at ~SGD480mn). Investment properties income was up 2.2% y/y to SGD69.5mn while hospitality income grew 13.5% y/y to SGD59.0mn. Investment properties performance was driven by incremental rental income from Downtown Gallery (opened May 2017) mitigating mixed results at OUE-CT (55.7%-owned subsidiary). The mall at One Raffles Place is expected to remain a drag, though committed occupancy at OUE-CT's offices remain high which should help mitigate retail performance at OUE-CT. While market rents are still lower than expiring rents, this may turn in the future with a brightening outlook for rents. Existing hospitality properties showed stronger performance, while Oakwood Premier (opened in June 2017) also contributed.

- **Decline in bottom line**: EBITDA increased 78.5% y/y to SGD44.7mn, driven by a 39.3% decline in SG&A expenses (absence the marketing and transaction expenses relating to Twin Peaks). Total net profit however plunged 50.5% y/y to SGD8.3mn due to higher finance cost (+11.8% y/y to SGD35.6mn) on larger borrowings, mark-to-market losses on a mutual fund investment (-SGD8.1mn impact) and absent impairment reversal & fair value gains on Twin Peaks seen in 1Q2017 (-SGD18.3mn impact). Profit to owners for 1Q2018 was SGD1.0mn.

- **Focus on the outflows**: Investing cash outflow was high at SGD235.4mn, with SGD67.3mn and SGD159.4mn used respectively for "acquisition of other investments" and "deposits placed for investments". Some of OUE's investment outflows may be related to the sale of PT Alpha. We understand that OUE had extended ~SGD228.9mn in shareholder loans to PT Alpha (quantum ties closely with the investment outflows mentioned earlier). These shareholder loans have been novated to the purchaser. Effectively, the purchaser is now obliged to repay OUE, rather than PT Alpha being liable. Mr Mas Agoes Ismail Ning (who has various on-going business relationships with the broader Lippo Karawaci group ("LK")) is involved in the PT Alpha transaction while LK is controlled by OUE's ultimate majority shareholders. Financing cash flows helped fill the cash gap with SGD96.6mn in additional borrowings as well as SGD78.8mn in fresh equity raised at the OUE Lippo Healthcare Ltd level.

- **Heavy short-term debt burden**: Net gearing had increased from 0.60x 0.65x q/q as a result of the additional borrowings. OUE's short-term debt burden also looks heavy at SGD1.52bn versus SGD370.7mn in cash balance. In mitigation, SGD520.6mn was taken at the OUE-CT level (SGD483.2mn secured) and these are being refinanced. In April 2018, OUE issued both a convertible bond and an exchangeable bond into stapled securities of OUE-HT (37%-owned associate). Collectively, the net proceeds were SGD298.5mn and likely used for debt refinancing. Per management, of the ~SGD1.0bn in OUE HoldCo debt, SGD0.2bn has already been paid post 1Q2018. The balance SGD0.2bn due for 2018 (in 4Q2018) is in the process of refinancing negotiations while SGD0.6bn of OUE Holdco debt will be due in 1Q2019. In our view, OUE should be able to refinance its near-term borrowings given its sizable unrecognized sales at the Twin Peaks, as well as investment properties directly held (such as the OUE Downtown, last valued at SGD1.59bn).

OUE Ltd

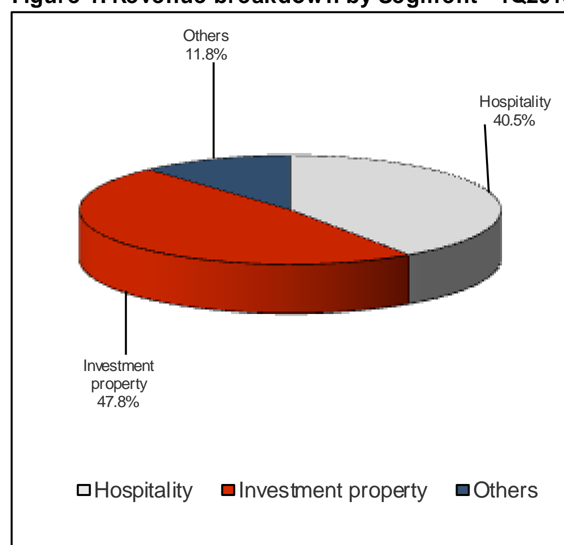
Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	884.2	754.1	145.6
EBITDA	225.0	163.9	50.4
EBIT	220.5	156.1	48.2
Gross interest expense	127.8	130.9	35.6
Profit Before Tax	212.6	193.7	14.8
Net profit	144.4	98.9	1.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	239.0	535.2	370.7
Total assets	8,083.4	9,034.1	9,259.9
Gross debt	2,901.5	3,480.9	3,579.2
Net debt	2,662.5	2,945.7	3,208.5
Shareholders' equity	4,643.8	4,875.7	4,952.8
Total capitalization	7,545.3	8,356.7	8,532.1
Net capitalization	7,306.3	7,821.4	8,161.3
Cash Flow (SGD'mn)			
Funds from operations (FFO)	148.8	106.7	3.3
* CFO	358.6	124.5	49.4
Capex	2.2	10.5	1.9
Acquisitions	254.5	234.7	241.6
Disposals	236.3	39.0	0.0
Dividend	73.8	59.9	15.7
Free Cash Flow (FCF)	356.4	114.1	47.5
* FCF Adjusted	264.4	-141.6	-209.7
Key Ratios			
EBITDA margin (%)	25.4	21.7	34.6
Net margin (%)	16.3	13.1	0.7
Gross debt to EBITDA (x)	12.9	21.2	17.7
Net debt to EBITDA (x)	11.8	18.0	15.9
Gross Debt to Equity (x)	0.62	0.71	0.72
Net Debt to Equity (x)	0.57	0.60	0.65
Gross debt/total capitalisation (%)	38.5	41.7	42.0
Net debt/net capitalisation (%)	36.4	37.7	39.3
Cash/current borrowings (x)	0.4	0.5	0.2
EBITDA/Total Interest (x)	1.8	1.3	1.4

Source: Company, OCBC estimates

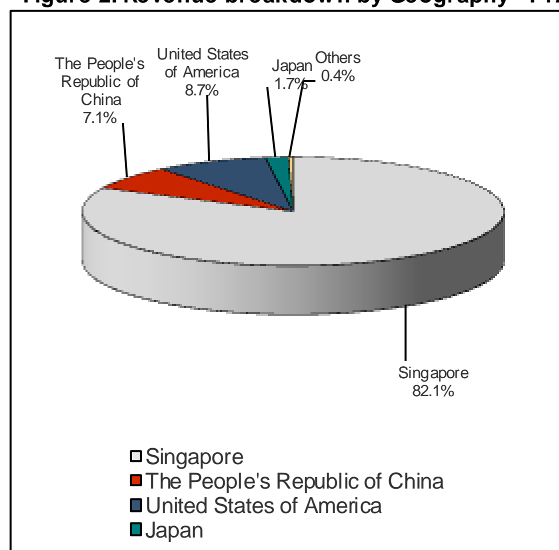
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1Q2018



Source: Company

Figure 2: Revenue breakdown by Geography - FY2017



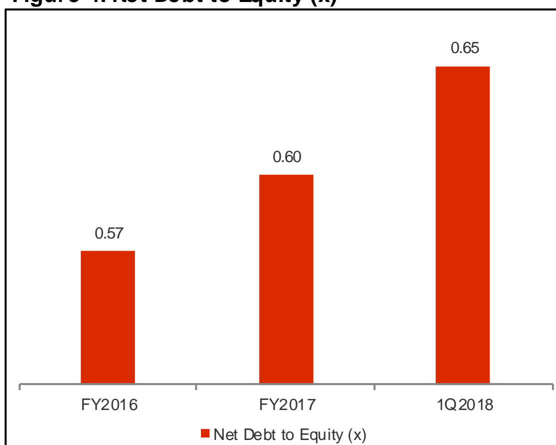
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	1,349.3	37.7%
Unsecured	167.0	4.7%
	1,516.3	**42.4%**
Amount repayable after a year		
Secured	1,019.3	28.5%
Unsecured	1,043.6	29.2%
	2,062.9	**57.6%**
Total	**3,579.2**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Oxley Holdings Limited

Credit Outlook – We prefer OHLSP '19s (5.79% YTM) over OHLSP '20s (5.92% YTM) with better visibility over the cash proceeds (from e.g. Royal Wharf) in the coming 12 months. Given the elevated net gearing levels, OHLSP '22s looks fair at 6.82% YTM.

Issuer Profile: Negative (6)

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 (41.1%-stake), its deputy CEO Mr Low See Ching (27.6%) and Mr Tee (11.6%) who appears to be a passive shareholder.

Key credit considerations

- **Lacklustre 3QFY2018 results due to timing of revenue recognition:** Revenue for the quarter ending 31 March 2018 ("3QFY2018") revenue declined 38% y/y to SGD238.8mn due to the timing of recognition of revenue. Revenue from The Royal Wharf Phase 1A and 1B is lower than 3QFY2017 revenue from The Flow and Floraville/Floraview/Floravista. Net profit fell 33% y/y to SGD30.4mn, in-line with the decline in revenue, despite SGD22.2mn FX gain and SGD10.3mn fair value gain on investment properties as finance costs surged 34% y/y to SGD15.5mn (due to increase in borrowings) and fair value loss on financial instruments amount to SGD11.8mn.

- **Raising big stakes on Singapore properties though acquisitions appear reasonable:** OHL returned to Singapore in a big way through a number of en-bloc acquisitions, committing significant capital with SGD5.2bn in gross development value ("GDV") in Singapore (less recognised billings and future progress billings). Thus far, several of the purchased prices look reasonable when compared to the prices paid by other developers. For example (1) Serangoon Ville's SGD835 psf ppr is lower than the nearby Serangoon North Ave 1 bought by Keppel-WingTai JV for SGD965 psf ppr, (2) Rio Casa's SGD669 psf ppr is cheaper than Florence Agency's SGD842 psf ppr purchased by Logan Property, (3) Mayfair Gardens' SGD1,244 psf ppr is cheaper than the average ~SGD1,800 psf ppr paid by Allgreen for nearby properties.

- **Good sales thus far with a significant property landbank ahead:** Amongst the projects that are launched, good sales have been achieved with 112 units sold out of 300 units over a weekend launch at Affinity at Serangoon (former Serangoon Ville) and 129 sold out of 170 units over a weekend launch at Verandah Residences. Riverfront Residences may also do well, with over 1000 buyers and agents attending its launch. By end of 2018, the significant projects that OHL intends to launch include the former Vista Park and Mayfair Gardens. Outside of Singapore, OHL is targeting to launch Deanston Wharf in UK (GDV: SGD646.5mn) in 2H2018 as well as the office segment and So Sofitel Residences at Oxley Towers KLCC in Malaysia (GDV: SGD970.3mn)

- **Somewhat stretched liquidity partly mitigated by asset backing:** SGD218.4mn cash looks insufficient compared to SGD293.9mn of short term debt maturing and amounts needed for the settlement of en-bloc purchases. Nevertheless, we note that OHL maintains access to the capital markets, as demonstrated through the recent issuance of OHLSP 5.7% '22s (though it currently trades below par) and placement of 156.8mn shares which raised SGD78.1mn. In the worst case scenario, we think OHL can monetise its stakes in the listed United Engineers Ltd (worth ~SGD320mn), Novotel Singapore / Mercure Singapore (indicative valuation of hotels: SGD886mn) and Chevron House (indicative valuation: SGD750mn). However, the more easily monetisable parts of OHL's balance sheet is insufficient to cover SGD3.3bn in total debt. Hence, strong execution in property sales will be crucial.

- **Weak credit metrics:** Net gearing surged to 2.4x q/q (2QFY2018: 1.9x), following the completion of SGD660mn acquisition of Chevron House. We think net gearing may continue increasing and peak at ~2.9x in 4QFY2018 as we expect land purchases made in the preceding 6 months to be settled (e.g. SGD311mn purchase of Mayfair Gardens, SGD418mn purchase of Vista Park). Nevertheless, OHL has the potential to deleverage, if management chooses to. Unbilled contracts which will TOP in coming 12 months amount to SGD0.85bn OHL expects to receive SGD263mn from sale of Block D1 at Dublin Landings

Oxley Holdings Limited

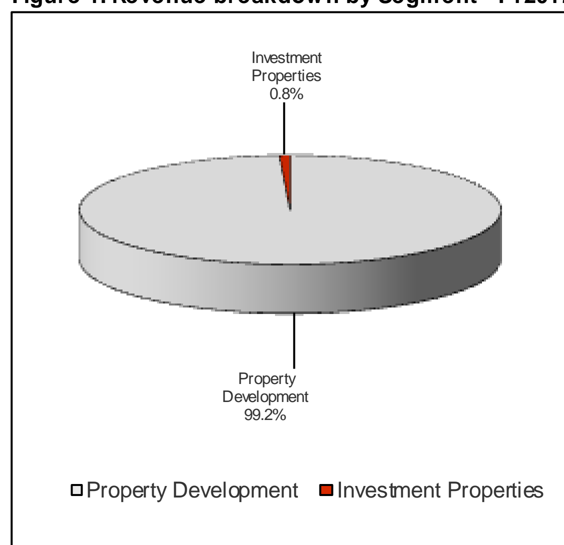
Table 1: Summary Financials

Year Ended 30th Jun	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	981.4	1,343.0	955.6
EBITDA	252.0	333.3	123.2
EBIT	251.5	332.6	115.0
Gross interest expense	131.9	131.5	40.2
Profit Before Tax	363.4	299.5	168.4
Net profit	206.0	218.1	147.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	551.3	413.5	218.4
Total assets	4,732.5	4,607.9	5,641.0
Gross debt	2,633.4	2,458.0	3,301.5
Net debt	2,082.2	2,044.4	3,083.1
Shareholders' equity	965.2	1,088.9	1,298.3
Total capitalization	3,598.6	3,546.9	4,599.9
Net capitalization	3,047.4	3,133.3	4,381.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	206.5	218.8	155.2
* CFO	196.6	361.1	137.7
Capex	33.0	124.3	812.9
Acquisitions	155.8	92.2	292.3
Disposals	29.1	3.3	5.6
Dividend	80.3	176.9	20.6
Free Cash Flow (FCF)	163.6	236.8	-675.1
* FCF Adjusted	-43.4	-29.0	-982.5
Key Ratios			
EBITDA margin (%)	25.7	24.8	12.9
Net margin (%)	21.0	16.2	15.4
Gross debt to EBITDA (x)	10.4	7.4	20.1
Net debt to EBITDA (x)	8.3	6.1	18.8
Gross Debt to Equity (x)	2.73	2.26	2.54
Net Debt to Equity (x)	2.16	1.88	2.37
Gross debt/total capitalisation (%)	73.2	69.3	71.8
Net debt/net capitalisation (%)	68.3	65.2	70.4
Cash/current borrowings (x)	0.4	0.7	0.7
EBITDA/Total Interest (x)	1.9	2.5	3.1

Source: Company, OCBC estimates

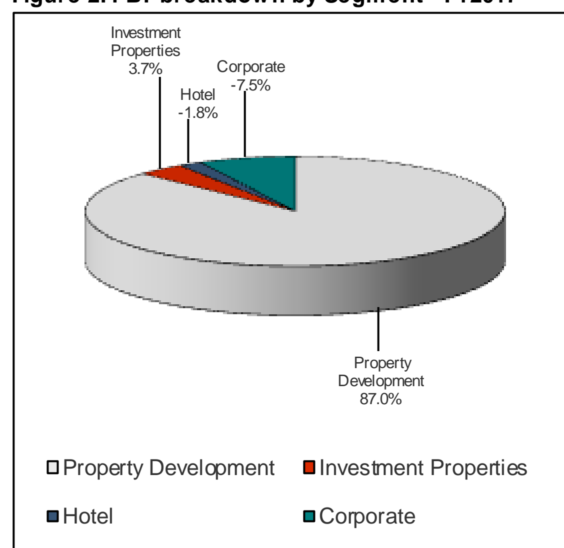
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2017



Source: Company

Figure 2: PBT breakdown by Segment - FY2017



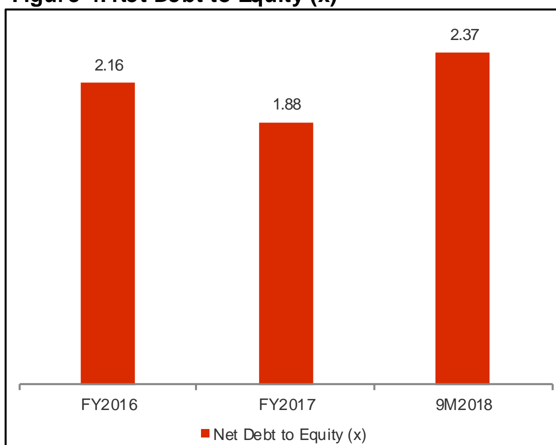
Source: Company | Corporate & Hotel made operating losses

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	186.5	5.6%
Unsecured	104.0	3.2%
	290.5	**8.8%**
Amount repayable after a year		
Secured	1,853.2	56.1%
Unsecured	1,157.9	35.1%
	3,011.1	**91.2%**
Total	**3,301.5**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Perennial Real Estate Holdings Ltd

Credit Outlook – Given the expected increase in net gearing, we turned Underweight on PREHSP '19s (3.51% YTM) and prefer HFCSP '19s (3.53% YTM). Both PREHSP 4.55% '20s and PREHSP 3.85% '20s look fair around 4.4% YTM and prefer these over PREHSP 3.9% '21s (4.34% YTM).

Issuer Profile: Neutral (5)

Ticker: **PREHSP**

Background

Perennial Real Estate Holdings Ltd is an integrated real estate owner and developer focused primarily in China (70.1% by asset value) and Singapore (20.9%). PREH is developing large scale mixed-use developments in railway hubs of China while portfolio of stabilised office and retail assets in Singapore and China provide stable rental income. The company is 81.7%-owned by Mr Kuok, CEO of Wilmar, Mr Ron Sim CEO of Osim, Wilmar International Ltd and Mr Pua, CEO of PREH. PREH has a market capitalisation of SGD1.36bn.

Key credit considerations

- **1Q2018 results impacted by one-offs:** Revenue declined 26.1% y/y to SGD14.9mn, largely due to the absence of revenue from TripleOne Somerset. This was deconsolidated following the divestment of 20.2% equity stake on 31 March 2017 and resulted in contribution from Singapore plunging 691% y/y to SGD3.2mn. Excluding TripleOne Somerset from 1Q2017 results, 1Q2018 revenue increased 10.1% y/y, mainly due to 17.8% y/y increase in revenue from China as a result of better performance at Perennial Qingyang Mall in Chengdu. Net profit declined 73.0% y/y mainly due to the absence of divestment gains (SGD35.5mn) and remeasurement gains (SGD20.2mn) from TripleOne Somerset, though this is partly offset by higher share of results from associates and JVs (SGD22.8mn) compared to 1Q2017's SGD0.7mn as a result of investments in United Engineers Ltd, WBL Corp Ltd and one-off adjustments at Shenyang Red Star Macalline Furniture Mall.

- **Short term maturities ahead:** 2018 maturities amount to SGD799mn. Assuming PREH can rollover SGD330mn in secured loan, the remaining amounts to be refinanced include SGD300mn in retail bonds and SGD169mn in unsecured loans. While cash of SGD108.9mn looks insufficient, we believe there is room for PREH to refinance with its access to the capital markets. PREH may also obtain liquidity from divestments - we understand that PREH is still looking to sell its 31.2% stake in AXA Tower (since Jul 2017) though no transaction has taken place, likely because PREH is now looking for a price higher than its original asking price (SGD1.65bn at SGD2,333 psf) due to a stronger office market.

- **Plans in Singapore with residential development and Capitol Singapore:** PREH entered into a 40-60 JV with Qingjian Realty ("CNQC") to develop a freehold residential site (GFA: 554,605 sq ft), which was purchased via a collective sale for SGD610mn (PREH's share: SGD244mn). Aside from the 39 units at Capitol Singapore, this marks PREH's first major foray into Singapore's residential development. PREH has also partnered CNQC to bid, albeit unsuccessfully, for a 642,767 sq ft mixed-use site at Holland Road. In May 2018, PREH gained fully ownership of Capitol Singapore after purchasing Chesham's 50% stake for ~SGD500mn, thereby resolving the deadlock. Going forward, we expect higher contributions with the opening of the 157-room 6-star hotel (by end-2018), which may also benefit the mall (NLA: 131,170 sq ft).

- **China healthcare and development portfolio coming on stream:** China real estate and healthcare comprise 72.2% of total assets in 2017 though EBIT is minimal at SGD4.3mn. However, contribution should grow significantly over 2018-21 with completions of several mega projects. 80%-owned Perennial International Health and Medical Hub (GFA: 3.1mn sq ft) officially opened in June 2018. 51%-owned Xi'an North HSR Integrated Development Plot 4 & 5 will complete in 2018-19 (9.2mn sq ft). In 2020-21, Beijing Tongzhou Integrated Development Phase 1 (40%-owned) and Phase 2 (23.3%-owned) with a total GFA of 8.4mn sq ft will also complete. PREH will be committing another up to USD540mn (SGD707mn) in China as it is leading a consortium for healthcare integrated mixed-use developments connected to high speed railway stations("HSR") in China.

- **Gearing up for growth:** PREH expects net gearing to increase to 0.7x (1Q2018: 0.58x) after acquiring the balance 50%-stake in Capitol Singapore, which may be partly funded by a newly obtained SGD688mn facility. We expect net gearing to further increase to ~0.9x when PREH fully commits to its 45% stake in the HSR consortium. While reported EBIT/Interest in 1Q2018 remains weak at 1.4x, we expect this to improve when the mega projects complete and contribute.

Perennial Real Estate Holdings Ltd

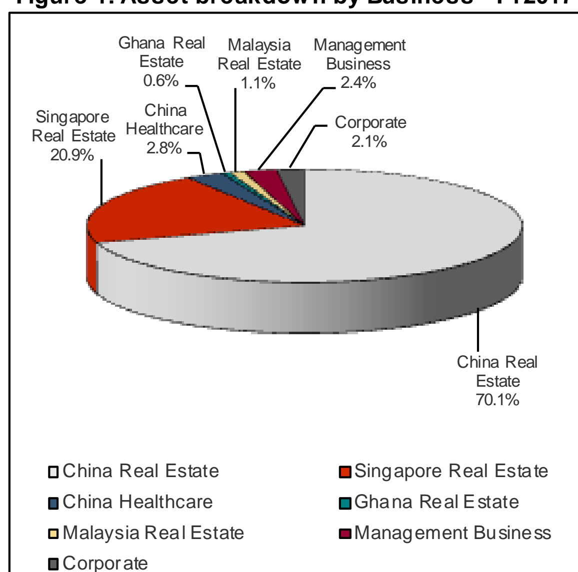
Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	110.2	74.5	14.9
EBITDA	46.8	23.2	1.5
EBIT	42.8	22.6	0.7
Gross interest expense	98.4	99.0	17.5
Profit Before Tax	53.9	170.2	11.4
Net profit	35.1	100.3	5.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	226.2	111.7	108.9
Total assets	7,046.4	6,704.7	6,850.8
Gross debt	2,859.5	2,344.8	2,406.5
Net debt	2,633.3	2,233.1	2,297.6
Shareholders' equity	3,781.9	3,915.9	3,987.2
Total capitalization	6,641.4	6,260.6	6,393.7
Net capitalization	6,415.2	6,149.0	6,284.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	39.1	100.9	6.0
* CFO	-172.1	-216.0	-41.4
Capex	65.4	34.6	2.5
Acquisitions	122.3	163.4	12.7
Disposals	3.9	73.1	0.0
Dividends	7.5	6.7	0.0
Free Cash Flow (FCF)	-237.5	-250.5	-44.0
* FCF Adjusted	-363.4	-347.5	-56.7
Key Ratios			
EBITDA margin (%)	42.4	31.1	9.9
Net margin (%)	31.8	134.6	34.4
Gross debt to EBITDA (x)	61.1	101.2	404.9
Net debt to EBITDA (x)	56.3	96.4	386.5
Gross Debt to Equity (x)	0.76	0.60	0.60
Net Debt to Equity (x)	0.70	0.57	0.58
Gross debt/total capitalisation (%)	43.1	37.5	37.6
Net debt/net capitalisation (%)	41.0	36.3	36.6
Cash/current borrowings (x)	0.3	0.1	0.1
EBITDA/Total Interest (x)	0.5	0.2	0.1

Source: Company, OCBC estimates

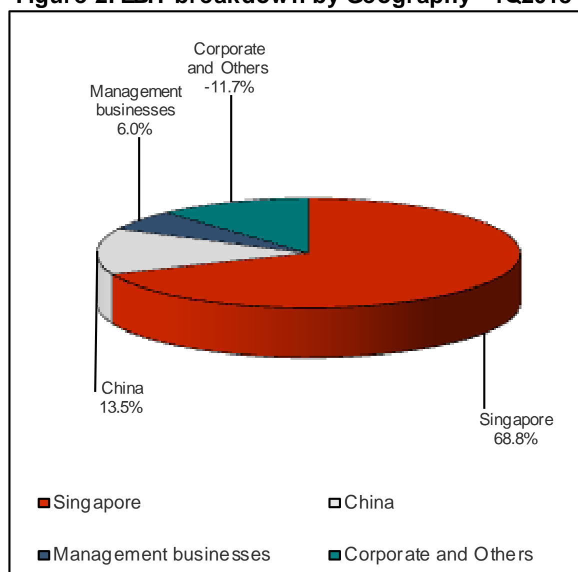
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Asset breakdown by Business - FY2017



Source: Company

Figure 2: EBIT breakdown by Geography - 1Q2018



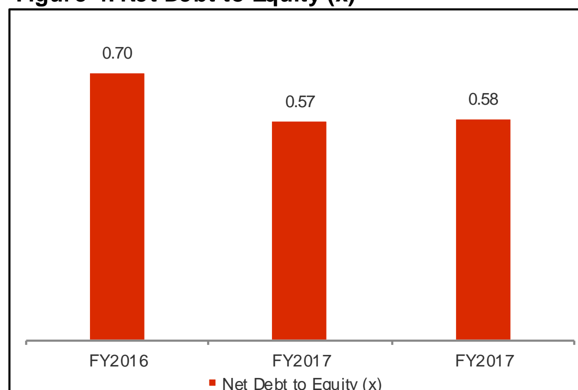
Source: Company | Corporate & others made operating losses

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	330.3	13.7%
Unsecured	605.3	25.2%
	935.6	**38.9%**
Amount repayable after a year		
Secured	798.0	33.2%
Unsecured	672.9	28.0%
	1,470.9	**61.1%**
Total	**2,406.5**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We are overweight the SSREIT 4.25% '19s with a YTW of 5.0%.

Issuer Profile: Neutral (5)

Ticker: **SSREIT**

Background
Sabana Shari'ah Compliant Industrial REIT ("SSREIT") is an industrial REIT in Singapore, with total assets of SGD966.3mn and a portfolio of 19 properties as at 31 March 2018. Vibrant Group and its related parties hold ~10.4% in the SSREIT, followed by the e-Shang Redwood Group ("ESR", also second largest unitholder of ESR REIT) with 7.9%.

Sabana Shari'ah Compliant Industrial REIT

Key credit considerations

- **Decline in operating results:** Gross revenue declined 4.4% y/y to SGD21.0mn in 1Q2018, on the back of weaker occupancy and negative rental reversions on certain master leases. Additionally, revenue was no longer recognised on 1 Tuas Avenue 4 (property now vacant). Despite the fall in gross revenue, net property income increased 9.4% y/y to SGD14.6mn, driven by (1) a reversal of impairment losses on recovery of trade receivables from the former master tenant at 6 Woodlands Loop and (2) lower impairment losses on trade receivables from 1 Tuas Avenue 4 and (3) lower property expenses from 218 Pandan Loop which was divested. In 1Q2018, the REIT Manager's manager fees were SGD1.0mn (versus SGD0.3mn in 1Q2017). In 1Q2018, the REIT Manager had opted to forgo only 20% of its fees versus the 75% forgone in 1Q2017 (which was done to cushion impact on deterioration in distributable income to unitholders, amidst unitholder revolt then).

- **Interest expense lower:** EBITDA (based on our calculation which does not include other income and other expenses) was higher by 4.8% y/y to SGD13.5mn while finance cost declined 24.7% y/y to SGD4.0mn as a result of lower outstanding borrowings as proceeds from the rights issue was used to pay down debt, refinancing at lower cost of facilities and absent a one-time break fee that was recognised in 1Q2017. Resultant EBITDA/Interest coverage was stronger at 3.4x (1Q2017: 2.4x).

- **Aggregate leverage stable:** As at 31 March 2018, aggregate leverage was 38.1%, stable against end-2017. On 19 March 2018, SSREIT had redeemed the SSREIT'18s with bank debt. As at 31 March 2018 short term debt was only SGD47.0mn (representing only 13% of gross debt and made up of revolvers) while cash was SGD20.3mn, increasing from SGD7.7mn in end-2017. 6 Woodlands Loop was sold on 29 March 2018 and SSREIT received SGD13.8mn in divestment proceeds. Revolvers aside, the next debt due is in April 2019 when the SGD100mn Sukuk comes due.

- **Heavy looming lease expiries:** SSREIT's overall occupancy was 84.1%. Nonetheless, this number is boosted by eight properties on Master Leases (100% occupied). Average occupancy on SSREIT's ten multi-tenanted properties was 79.0% (end-2017: 78.4%). As at 31 March 2018, a total of 40.1% of leases by net lettable area is due to expire by end-2018, majority-related to properties on Master Leases. Three of these properties are master leased to Sponsor related companies (making up about half of the lease expiries). In November 2017, the leases were renewed for one year for SGD8.8mn collectively, at lower rents. For the full year 2017, Sponsor-related companies paid SSREIT SGD10.3mn in rental income. It is yet uncertain if Sponsor would renew leases that are coming due, and if so, at what terms.

- **Changes taking place:** Since January 2018, SSREIT has announced the appointment of a new CEO who is an industry veteran in the real estate space and there has been a renewed focus at SSREIT to enhance its business. SSREIT was earlier in merger/acquisition talks with ESR-REIT, although negotiations fell through by November 2017. In a twist, ESR acquired an additional 2%-stake in SSREIT in 1Q2018. Notwithstanding the recent overture, we do not expect the REITs to embark on acquisition/merger talks in the near term given that ESR / EREIT would be focusing on the merger and integration with VIVA Industrial Trust ("VIT") for now.

Sabana Shari'ah Compliant Industrial Trust

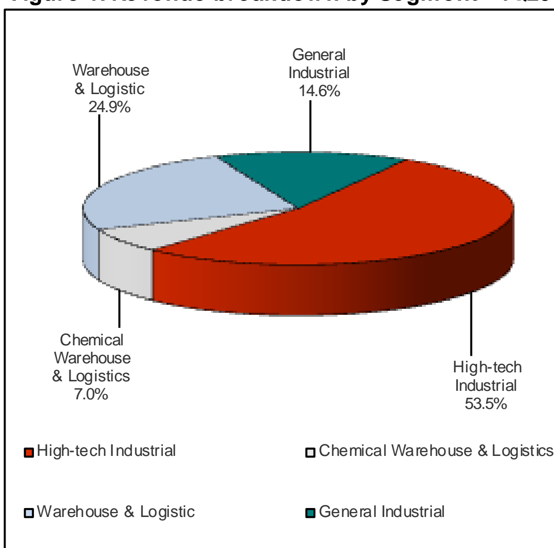
Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	91.8	85.2	21.0
EBITDA	51.2	49.3	13.5
EBIT	51.2	49.3	13.5
Gross interest expense	21.1	17.2	4.0
Profit Before Tax	-62.5	-26.8	10.5
Net profit	-62.5	-26.8	10.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	9.2	7.7	20.3
Total assets	1,022.9	966.1	966.3
Gross debt	437.9	365.8	365.0
Net debt	428.7	358.1	344.7
Shareholders' equity	556.8	571.5	573.3
Total capitalization	994.7	937.4	938.3
Net capitalization	985.5	929.7	918.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	-62.5	-26.8	10.5
* CFO	48.7	50.7	12.6
Capex	1.8	18.6	0.5
Acquisitions	0.0	0.0	0.0
Disposals	54.6	14.8	13.8
Dividends	38.7	35.4	8.7
Free Cash Flow (FCF)	46.8	32.2	12.1
* FCF Adjusted	62.7	11.6	25.9
Key Ratios			
EBITDA margin (%)	55.7	57.8	64.4
Net margin (%)	-68.0	-31.5	50.1
Gross debt to EBITDA (x)	8.6	7.4	6.7
Net debt to EBITDA (x)	8.4	7.3	6.4
Gross Debt to Equity (x)	0.79	0.64	0.64
Net Debt to Equity (x)	0.77	0.63	0.60
Gross debt/total capitalisation (%)	44.0	39.0	38.9
Net debt/net capitalisation (%)	43.5	38.5	37.5
Cash/current borrowings (x)	0.1	0.1	0.4
EBITDA/Total Interest (x)	2.4	2.9	3.4

Source: Company, OCBC estimates

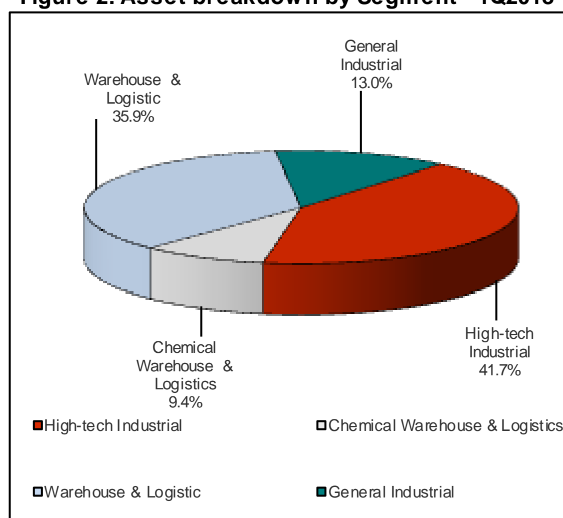
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1Q2018



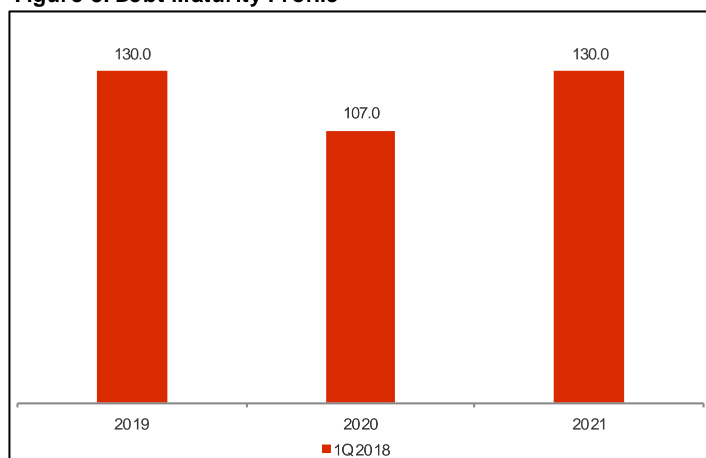
Source: Company

Figure 2: Asset breakdown by Segment - 1Q2018



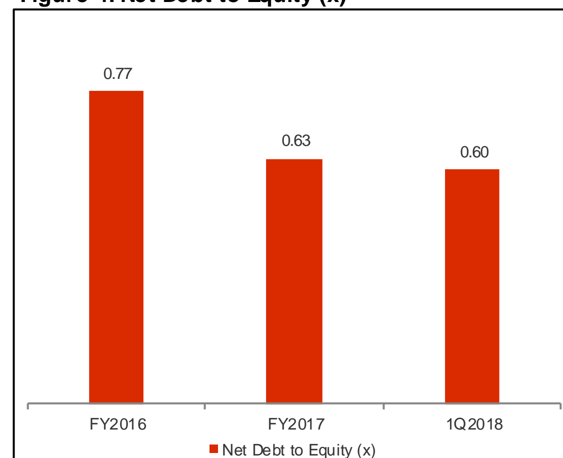
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We are underweight the SCISP 3.7325% '20s and SCISP 3.593% '26s. We are neutral the SCISP 2.94 '21s, SCISP 3.64% '24s and SCISP 4.25% '25s. Among the perpetuals, we are neutral the SCISP 5.0%-PERP (issuer announced will redeem at first call), underweight the SCISP 3.7%-PERP and SCISP 4.75%-PERP.

Issuer Rating: Neutral (4)

Ticker: **SCISP**

Background

Sembcorp Industries Ltd ("SCI") was formed via the merger of Singapore Technologies International Corporation and Sembawang Corporation in 1998. SCI is focused on utilities (energy and water solutions), offshore marine (via its 61%-stake in Sembcorp Marine ("SMM")) and urban development (focused on the development of industrial parks across the region). Temasek is the largest shareholding of SCI with a 49.5%-stake.

Sembcorp Industries Ltd

Key credit considerations

- **Utilities drove SCI overall profits**: SCI's total revenue in 1Q2018 was up 30.0% y/y to SGD2.8bn though net profit to owners was down 34.1% y/y to SGD76.6mn. The main driver was Utilities which generated net profit before exceptional items ("net profit") of SGD70.3mn, was up 16% y/y. This was led by growth in China. In January 2018, SCI's 49%-owned Chongqing Songzao supercritical coal-fired power plant had achieved full commercial operations. Singapore Utilities contributed 50% of segmental net profit at SGD35.2mn. This comprises mainly power generation (including renewables), natural gas and electricity retail. India Utilities was still a drag to profitability (1Q2018: net loss of SGD15.6mn) though management expects a turnaround into profitability by end-2018. The second thermal power plant in India commenced commercial operations in February 2017. Entry into a long-term power purchase agreement ("PPA") would help smooth profitability though no PPA has been signed as yet. India is still in a power oversupply situation while the country is increasing its renewable energy capacity rapidly.

- **Urban development lower while marine profits elusive:** Net profit for Urban Development is driven by associates & joint ventures and is a lumpy business. In 1Q2018, SGD9.6mn of net profit was recognised, largely from industrial land sales in Vietnam (where bulk of land is located). 1Q2018 was absent the large commercial & residential land plot in Nanjing which helped net profit go to SGD37.2mn in 1Q2017. In 1Q2018, Marine segment revenue was SGD1.2bn (up 58% y/y), driven by revenue recognition of three jack up rigs. Margins were lower though due to high overhead costs. The adoption of a new accounting standard also resulted in some changes in revenue recognition (revenue to be recognised for constructed assets upon delivery versus percentage of completion method). Net profit from the Marine segment was minimal at SGD1.8mn (versus SGD22.6mn in 1Q2017 due to a one-off gain on disposal of the 30%-stake in Cosco Shipyard). As at April 25, 2018, total net orderbook excluding Sete Brasil drillships were SGD4.6bn. SMM's management has guided that while oil majors capex spending outlook has improved, the oversupply situation in drilling assets (mainstay of SMM) has persisted.

- **Credit profile stable for now:** Interest expense reduced 12% y/y to SGD114.2mn following repayment of debt at the Marine segment and refinancing into lower cost financing at the second Indian plant. Overall EBITDA (excluding non-operating income) was SGD312.8mn in 1Q2018, up 12% y/y, with EBITDA/Interest improving to 2.7x (1Q2017: 2.2x). Cash flow from operations (before interest paid and tax) ("CFO") was at SGD210.9mn while capex was lower at only SGD50.5mn (versus 1Q2017's SGD351.9mn) as outlays at Utilities reduced. SCI spent SGD291.6mn acquiring non-controlling interests in relation to the reorganization of its Indian energy business in preparation for an IPO under Sembcorp Energy India Limited ("SEIL"). SEIL's pro-forma condensed consolidated statement for 1HFY2018 (ending September 2017) showed a net loss of INR3.2bn. An IPO can help with deleveraging though it remains to be seen if the IPO is feasible. Net repayment of debt was SGD223.5mn in 1Q2018 with the cash gap funded by CFO and existing cash balance. This drove net gearing slightly higher to 0.89x. Short term debt of SGD1.8bn looks manageable as this can be met by the cash balance. Adjusting net debt upwards for SGD1.0bn in SCI perpetuals, we find adjusted net gearing at 1.2x. In end-2017, contingent liabilities (provision for fines and corporate guarantees) and capital commitments (including commitments on capital calls) were significant at SGD1.6bn, though in line with end-2016.

Sembcorp Industries Ltd

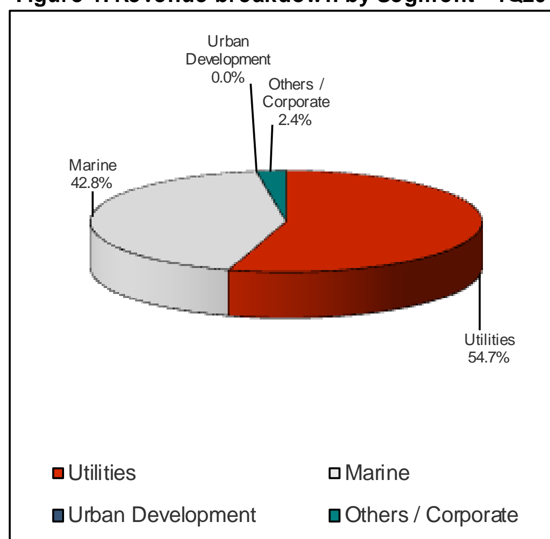
Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	7,907.0	8,345.6	2,757.7
EBITDA	1,198.0	1,091.8	312.8
EBIT	744.3	520.5	173.4
Gross interest expense	402.0	525.8	114.2
Profit Before Tax	537.4	312.1	116.0
Net profit	394.9	230.8	76.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	2,093.9	2,686.7	2,237.9
Total assets	21,664.3	23,213.2	22,497.4
Gross debt	8,734.3	9,847.6	9,527.9
Net debt	6,640.4	7,160.9	7,290.0
Shareholders' equity	7,835.6	8,215.8	8,154.9
Total capitalization	16,569.8	18,063.4	17,682.8
Net capitalization	14,475.9	15,376.7	15,444.9
Cash Flow (SGD'mn)			
Funds from operations (FFO)	848.6	802.1	216.0
* CFO	466.1	166.1	97.6
Capex	821.9	736.0	50.5
Acquisitions	132.4	18.6	1.2
Disposals	35.0	276.7	0.1
Dividend	263.4	204.4	11.8
Free Cash Flow (FCF)	-355.8	-569.9	47.2
* FCF adjusted	-716.6	-516.2	34.3
Key Ratios			
EBITDA margin (%)	15.2	13.1	11.3
Net margin (%)	5.0	2.8	2.8
Gross debt to EBITDA (x)	7.3	9.0	7.6
Net debt to EBITDA (x)	5.5	6.6	5.8
Gross Debt to Equity (x)	1.11	1.20	1.17
Net Debt to Equity (x)	0.85	0.87	0.89
Gross debt/total capitalisation (%)	52.7	54.5	53.9
Net debt/net capitalisation (%)	45.9	46.6	47.2
Cash/current borrowings (x)	1.2	1.7	1.2
EBITDA/Total Interest (x)	3.0	2.1	2.7

Source: Company, OCBC estimates

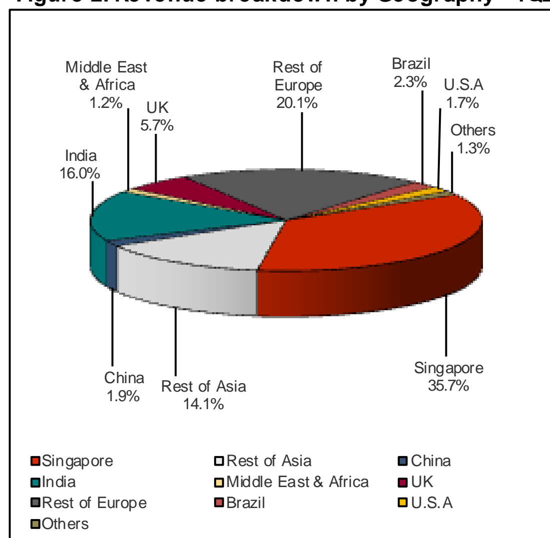
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1Q2018



Source: Company

Figure 2: Revenue breakdown by Geography - 1Q2018



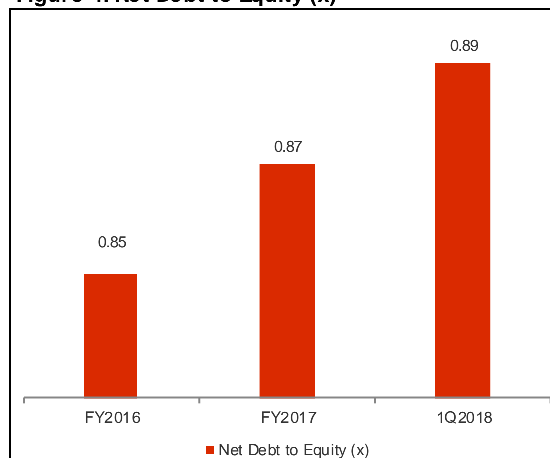
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2018	% of debt
.		
Amount repayable in one year or less, or on demand		
Secured	731.5	7.7%
Unsecured	1,074.2	11.3%
	1,805.7	**19.0%**
Amount repayable after a year		
Secured	2,973.8	31.2%
Unsecured	4,748.5	49.8%
	7,722.2	**81.0%**
Total	**9,527.9**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We are underweight the SIASP curve and are looking out for supply risk.

Issuer Profile: Neutral (3)

Ticker: **SIASP**

Background
Singapore Airlines Ltd ("SIA"), listed on the SGX, has a market cap of SGD13.6bn as at 13 June 2018. 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 (holds Scoot and Tiger Airways which had merged). SIA is ~55.6% owned by Temasek while the remaining shareholding is dispersed.

Singapore Airlines Ltd

Key credit considerations

- **Significant increase in reported operating profit:** For the year quarter March 2018 ("4QFY2018"), revenue increased 8% y/y to SGD4.0bn, driven by top line growth in the main airline SQ, SIA Cargo and the low cost carrier arm Scoot. Reported operating profit grew significantly by 677% to SGD214.5mn (4QFY2017: SGD27.6mn) from higher contribution from SQ, SIA Cargo and Scoot. SQ's fuel hedging gains of SGD84.1mn helped to keep a lid on fuel costs despite the rising fuel prices and fuel cost was relatively stable at 25% of revenue. For FY2019, only 20% of jet fuel had been hedged at USD65/BBL which may indicate higher unit cost amidst a rising oil price environment. In 4QFY2018, profit before tax was also boosted by (1) healthier share of profits from joint ventures and associates (SGD21.6mn in 4QFY2018 against SGD1.2mn in 4QFY2017) and (2) the absence of a fine in 4QFY2017 (made up bulk of SGD148.7mn non-operating loss). SIA reported a profit before tax of SGD236.5mn in 4QFY2018 (4QFY2017: loss before tax of SGD132.1mn).

- **Interest coverage had declined though still very healthy:** EBITDA was up 50% y/y to SGD640mn in 4QFY2018 while interest expense almost doubled to SGD22.2mn, rendering a still very healthy, albeit lower interest coverage of 28.8x against 33.5x in 4QFY2017. Interest expense had increase following higher average total debt to SGD3.1bn in 4QFY2018 (SGD1.6bn in 4QFY2017).

- **Profits from SQ come from elsewhere:** For 4QFY2018, SQ (SIA's key profit driver) saw SGD137mn in operating profit, up from an operating loss of SGD41mn in 4QFY2017. Passenger carriage (measured in revenue passenger-kilometre) grew by 1.4% y/y, though the negative spread between passenger load factor and passenger breakeven load factor of 3.4% indicate continued losses from seats on scheduled services. This indicates that the stellar improvements in operating profits at SQ was driven by higher incidental income (eg: air miles sold to programme partners on its KrisFlyer programme) and compensation for changes in aircraft delivery slots. We expect SQ to grow its non-seat income streams, with efforts intensifying within the next 12 months.

- **Net gearing to tilt upwards from projected capex:** As at 31 March 2018, unadjusted net gearing at SIA was 4%, still very low, though had turned from the cash surplus position at the beginning of the financial year. Optically, cash balance at SIA was still reasonable at SGD2.6bn, though sales in advance of carriage and deferred revenue (eg: sale of KrisFlyer miles) totaled SGD3.0bn. These are current liability items representing services which SIA would need to carry out down the road. While a common item across airlines, cash would need to be kept to carry out these day-to-day operations. SIA shared that it targets to spend SGD6.2bn in FY2019 (SGD5.7bn p.a. on average over the next five years) on capital expenditure mainly to buy aircraft. In April 2018, Scoot raised a SGD480mn secured 10 year term loan. Including this additional debt, we estimate that unadjusted net gearing would have increased to 7%.

- **Higher dividends likely to be debt funded:** In FY2018, SIA's net cash flow from operations was SGD2.6bn. Removing a one-time fine paid, this would have been SGD2.7bn vis-a-vis SGD248.3mn of cash paid in dividends to shareholders during the financial year. SIA had also proposed to pay a final dividend of SGD0.30 per share (representing a further SGD355mn expected to be paid in August 2018). We expect SIA's net gearing levels to increase as cash flow generated from operations is insufficient to fund the large capex needs and simultaneously sustain its dividend payments at current levels.

Singapore Airlines Ltd

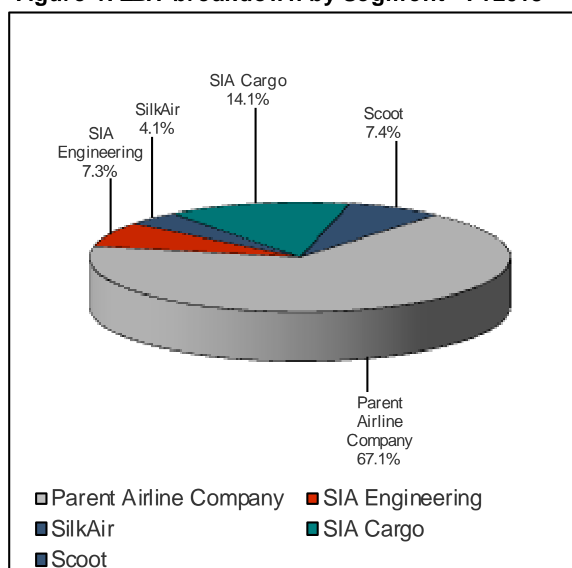
Table 1: Summary Financials

Year End 31st Mar	FY2016	FY2017	FY2018
Income Statement (SGD'mn)			
Revenue	15,238.7	14,868.5	15,806.1
EBITDA	2,256.9	2,214.7	2,741.3
EBIT	681.2	622.8	1,057.3
Gross interest expense	50.3	46.1	89.8
Profit Before Tax	972.4	518.6	1,101.0
Net profit	804.4	360.4	892.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	3,972.4	3,380.5	2,568.3
Total assets	23,769.7	24,720.0	27,549.2
Gross debt	1,347.5	1,567.8	3,127.3
Net debt	-2,624.9	-1,812.7	559.0
Shareholders' equity	13,132.9	13,470.2	14,619.3
Total capitalization	14,480.4	15,038.0	17,746.6
Net capitalization	10,508.0	11,657.5	15,178.3
Cash Flow (SGD'mn)			
Funds from operations (FFO)	2,380.1	1,952.3	2,576.9
* CFO	3,005.5	2,532.9	2,610.9
Capex	2,909.0	3,944.7	5,209.5
Acquisitions	130.3	225.3	93.8
Disposals	664.0	1,640.0	1,287.4
Dividend	359.0	558.9	298.4
Free Cash Flow (FCF)	96.5	-1,411.8	-2,598.6
* FCF adjusted	271.2	-556.0	-1,703.4
Key Ratios			
EBITDA margin (%)	14.8	14.9	17.3
Net margin (%)	5.3	2.4	5.6
Gross debt to EBITDA (x)	0.6	0.7	1.1
Net debt to EBITDA (x)	-1.2	-0.8	0.2
Gross Debt to Equity (x)	0.10	0.12	0.21
Net Debt to Equity (x)	-0.20	-0.13	0.04
Gross debt/total capitalisation (%)	9.3	10.4	17.6
Net debt/net capitalisation (%)	-25.0	-15.5	3.7
Cash/current borrowings (x)	18.7	80.5	124.7
EBITDA/Total Interest (x)	44.9	48.0	30.5

Source: Company, OCBC estimates

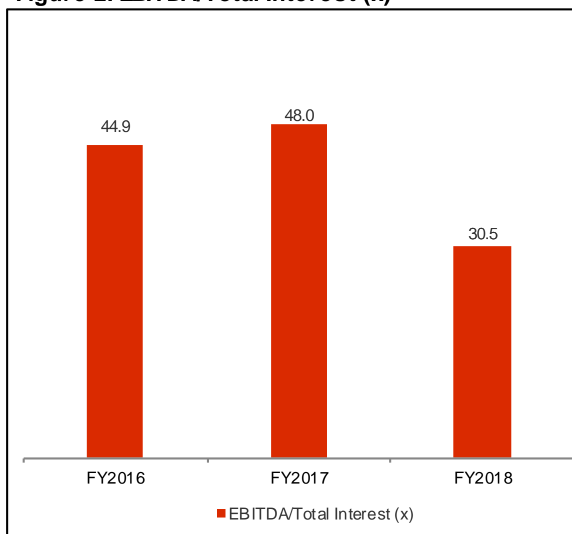
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: EBIT breakdown by Segment - FY2018



Source: Company

Figure 2: EBITDA/Total Interest (x)



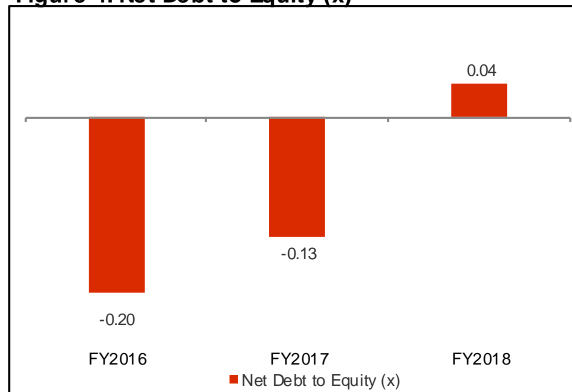
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	14.7	0.5%
Unsecured	5.9	0.2%
	20.6	**0.7%**
Amount repayable after a year		
Secured	59.3	1.9%
Unsecured	3,047.4	97.4%
	3,106.7	**99.3%**
Total	**3,127.3**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – The SPOST 4.25%-PERP with a first call date in March 2022 is now trading at YTC of 3.45%. We are now overweight this perpetual.

Issuer Profile: Positive (2)

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

Singapore Post Ltd

Key credit considerations

- **Overall**: SPOST's revenue for the quarter ended March 2018 ("4QFY2018") was SGD367.5mn (up 14% y/y) while Overall net profit to owners was SGD23.9mn against a net loss of SGD65.2mn in 4QFY2017. Net loss in 4QFY2017 was driven by impairment charges taken on TradeGlobal, Postea and Toh Guan building though partly offset by fair value gains on SingPost Centre) and 4QFY2018 was absent of such impairments. Reported underlying net profit which takes away exceptional items was SGD15.3mn versus SGD21.4mn in 4QFY2017. Despite the overall strong operating performance, bottom line was negatively affected by higher losses from associates (particularly at Shenzhen 4PX) and higher tax expenses in 4QFY2018.

- **Postal segment is still the main contributor:** The overall postal segment saw revenue increased 18% y/y to SGD161.7mn, driven by international mail revenue which grew 38.8% y/y and more than offset the declines in domestic mail. Postal operating margins though was lower at 20.5% in 4QFY2018 (4QFY2017: 26.9%) due to the secular decline seen at the domestic postal business. The international/domestic split was 63%/37% in 4QFY2018 versus 55%/45% a year ago. While volume growth in International Postal helped, margins for International Postal are about one-third that of Domestic Postal margins. Operating profit before exceptional items ("OPBEI") for Postal fell 9.8% y/y to SGD33.2mn (4QFY2017: SGD36.8mn).

- **Recent improvements seen at Logistics and eCommerce:** eCommerce revenue saw some recovery, growing 15.7% y/y to SGD65.3mn. The recovery was supported by TradeGlobal (48% of eCommerce revenue) as it added new customers. Management had focused on turning around TradeGlobal with operating losses narrowing to SGD5.8mn in 4QFY2018, (4QFY2017: loss of SGD15.1mn). Logistics revenue grew 2% y/y to SGD157.9mn, led by the freight forwarding arm Famous Holdings, SP Parcels and Couriers Please which helped offset the declines in revenues at Quantium Solutions. Logistics OPBEI doubled for the quarter to SGD5.3mn (4QFY2017: SGD2.6mn). Segment operating margin while higher still remains thin at 3.4% versus SPOST's traditional business. A 101.8% y/y increase in property income to SGD11.6mn helped mitigate the fall in overall OPBEI. Without property income, we would have seen a 5% y/y fall in OPBEI to SGD19.8mn.

- **Strong cash generation and defensive credit profile:** In 4Q2018, SPOST generated cash flow from operations (before interest and tax) ("CFO") of SGD52.6mn. FY2017 CFO was resilient at SGD229.4mn. SPOST's net investing outflow was only SGD48.8mn in FY2018 (FY2017: SGD172.9mn), having decline due to the completion of SingPost Centre retail mall's redevelopment and SPOST's regional logistics hub. CFO was used to pay down debt (net repayment of SGD118.9mn). SPOST's cash balance as at 31 March 2018 stood at SGD314.1mn, which easily meets short term debt coming due of SGD23.5mn. As at 31 March 2018, SPOST was in a cash surplus position of SGD70.0mn. Perpetuals make up 17% of total capital at SPOST and these ranks *pari passu* with all other present and future unsecured and unsubordinated obligations. Taking the perpetual as debt, we find adjusted net gearing low at 0.2x. EBITDA (excluding rental and property-related income)/Interest coverage was healthy at 9.1x (4QFY2018: 5.1x) following (1) lower selling expenses (absence of provision for doubtful debt) and (2) lower interest expense from lower average debt balance. **We are lifting our issuer profile to Positive (2) from Neutral (3)** on the back of improvements from its Logistics and eCommerce segments.

Singapore Post Ltd

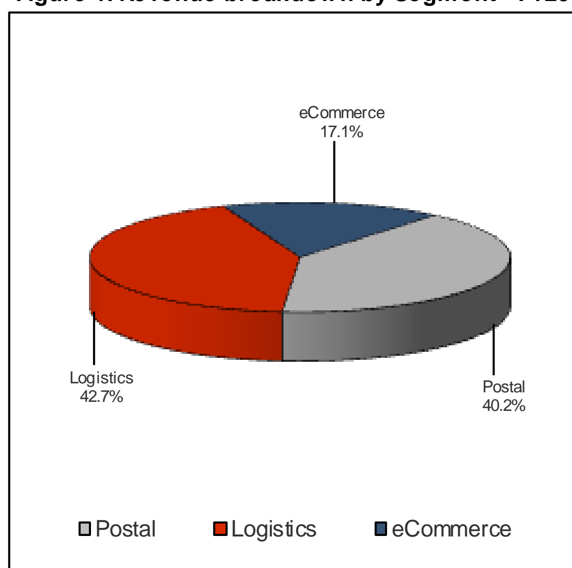
Table 1: Summary Financials

Year End 31st Mar	FY2016	FY2017	FY2018
Income Statement (SGD'mn)			
Revenue	1,151.5	1,348.5	1,464.1
EBITDA	159.8	155.1	150.1
EBIT	128.0	104.1	89.3
Gross interest expense	10.4	5.7	13.4
Profit Before Tax	287.2	54.9	146.2
Net profit	248.9	33.4	126.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	126.6	366.6	314.1
Total assets	2,415.8	2,716.6	2,724.7
Gross debt	280.3	364.0	244.0
Net debt	153.6	-2.6	-70.1
Shareholders' equity	1,561.5	1,757.7	1,789.9
Total capitalization	1,841.8	2,121.7	2,033.9
Net capitalization	1,715.1	1,755.1	1,719.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	280.8	84.4	187.1
* CFO	122.9	190.4	191.8
Capex	279.7	199.8	62.1
Acquisitions	285.9	3.7	4.2
Disposals	67.8	86.1	11.7
Dividend	181.9	134.4	60.2
Free Cash Flow (FCF)	-156.8	-9.3	129.7
* FCF adjusted	-556.8	-61.4	76.8
Key Ratios			
EBITDA margin (%)	13.9	11.5	10.3
Net margin (%)	21.6	2.5	8.6
Gross debt to EBITDA (x)	1.8	2.3	1.6
Net debt to EBITDA (x)	1.0	0.0	-0.5
Gross Debt to Equity (x)	0.18	0.21	0.14
Net Debt to Equity (x)	0.10	0.00	-0.04
Gross debt/total capitalisation (%)	15.2	17.2	12.0
Net debt/net capitalisation (%)	9.0	-0.1	-4.1
Cash/current borrowings (x)	1.8	2.5	13.4
EBITDA/Total Interest (x)	15.4	27.3	11.2

Source: Company, OCBC estimates

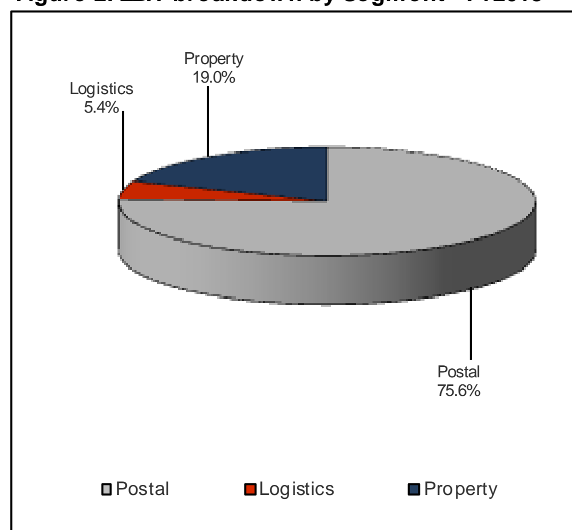
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2018



Source: Company

Figure 2: EBIT breakdown by Segment - FY2018



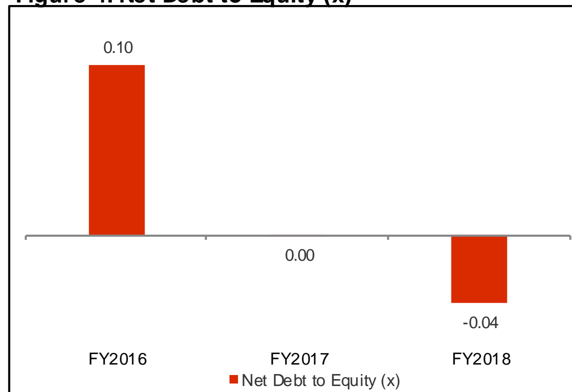
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	6.5	2.7%
Unsecured	17.0	7.0%
	23.5	**9.6%**
Amount repayable after a year		
Secured	18.9	7.8%
Unsecured	201.6	82.6%
	220.5	**90.4%**
Total	**244.0**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Singapore Telecommunications Ltd

Credit Outlook – Despite intense competition, we think SingTel still offer a strong credit profile. However, the STSP curve looks fully priced, offering merely ~25-35bps over swaps.

Issuer Rating: Positive (2)

Ticker: **STSP**

Background

Singapore Telecommunications Ltd ("SingTel") is the largest listed company in Singapore with a market cap of SGD52bn. 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 49.8% stake as of 05 Jul 2018.

Key credit considerations

- **Lacklustre core 4QFY2018 results:** Excluding NBN migration revenues, operating revenue for the quarter ending 31 March 2018 ("4QFY2018") grew only 0.4% y/y to SGD4.3bn. Core business segments declined, including Group Consumer (-1.8% y/y to SGD2.4bn) and Group Enterprise (-0.9% y/y to SGD1.7bn) though Group Digital Life performed better (+61.5% y/y to SGD205mn) with the acquisition of Turn in April 2017. Meanwhile, overall EBITDA declined 5.6% y/y to SGD1.2bn, led by declines in Group Consumer (-9.3% y/y to SGD824mn) and Group Enterprise (-5.3% y/y to SGD441mn) though encouragingly, Group Digital Life ("GDL") managed to breakeven on EBITDA. Looking ahead, GDL may be the only bright spot. Revenue at Amobee (4QFY2018: SGD196mn) is expected to grow by mid-teens with increases in EBITDA (4QFY2018: breakeven). Meanwhile, net profit fell 18.5% y/y to SGD778.9mn as share of results from associates and JVs declined 14.6% y/y to SGD400.7mn.

- **Challenging mobile outlook in Singapore though Australia is less affected:** Singapore Consumer struggled (4QFY2018 revenue: -4.4% y/y to SGD563mn) due to increasing competition on the mobile communications front (-5.7% y/y to SGD302mn). While postpaid subscribers grew 19,300 q/q, this was mainly on SIM-only plans (which have a lower ARPU) and the shift to SIM-only plans has offset the growth in from data. Meanwhile, national (-3.2% y/y) and international (-13.2% y/y) calls continued their structural decline in 4QFY2018. Going forward, mobile service revenue from Singapore is expected to decline by mid-single digit. In Australia, revenue increased 3% y/y to AUD1.79bn with a strong 131k increase in mobile customers to 6.24mn (postpaid handset customers increased 86k in 4QFY2018). EBITDA would have been higher by 2.6%, excluding the negative impact of NBN migration on revenues. Optus appears less affected despite the competition from TPG in Australia, due to its superior network coverage, with 96.9% of 4G population coverage. SingTel expects mobile service revenue from Australia to grow by low single digit.

- **Unexciting performance by Group Enterprise:** Revenue remained relatively flattish as the increases by cyber security (4QFY2018 revenue: +16.1% y/y to SGD147mn) were offset by declines in data and internet (-5.0% y/y to SGD422mn) with slowdown in maritime industry, timing of contract milestones and price erosion in Singapore. Meanwhile, Australia performed well (+4.8% y/y to AUD383mn) due to strong gains in ICT and Managed Services (+11.3% y/y to AUD153mn). Overall, SingTel expects Group ICT revenue to increase by mid-single digit, though we are unexcited about Group Enterprise (as a whole) with declines in the traditional services (e.g. International and national phone) from continued data substitution.

- **Slowdown in largest associates:** Airtel remained as the largest underperformer, with no signs of turnaround in the near-term. Airtel's pre-tax profit contribution declined 93% y/y to SGD6mn with intense competition from Reliance Jio's aggressive pricing strategy. Telkomsel revenue also declined 22.4% y/y to SGD289mn due to the steep decline in voice and SMS revenue with intense price competition, with EBITDA margin expected to continue declining in 2018.

- **Comfortable given healthy credit metrics and diversification:** Despite keen competition which has weighed on results, we remain comfortable with SingTel given its healthy credit metrics with reported Net Debt/(EBITDA & share of associates' pre-tax profits) at 1.3x and net gearing at 24.9%. In FY2019, SingTel expects ~SGD3.3bn free cashflow and dividends from associates which are leading mobile players regionally despite the slowdown. Listed entities may provide liquidity (upon divestment), including Airtel (SingTel's 4QFY2018 share: SGD12.69bn), AIS (SGD6.05bn), Intouch (SGD1.64bn) and Globe (SGD2.55bn).

Singapore Telecommunications Ltd

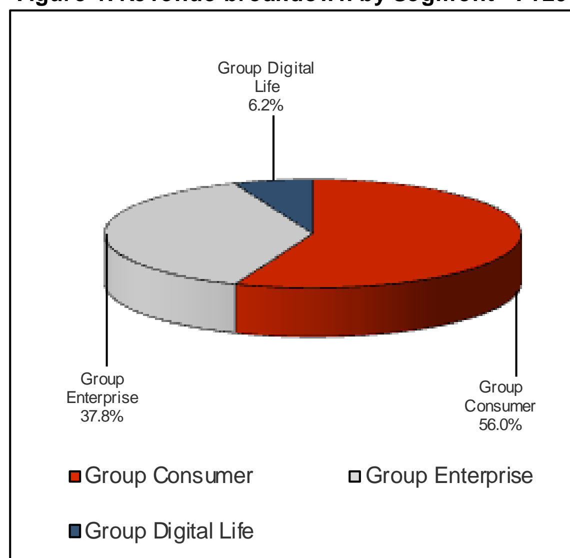
Table 1: Summary Financials

Year End 31st Mar	FY2016	FY2017	FY2018
Income Statement (SGD'mn)			
Revenue	16,961.2	16,711.4	17,531.8
EBITDA	4,864.4	4,782.4	4,830.3
EBIT	2,715.6	2,543.5	2,490.2
Gross interest expense	360.4	374.3	390.2
Profit Before Tax	4,580.8	4,515.4	6,131.5
Net profit	3,870.8	3,852.7	5,451.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	461.8	533.8	524.9
Total assets	43,565.7	48,294.2	48,253.7
Gross debt	9,940.7	11,185.9	10,430.2
Net debt	9,478.9	10,652.1	9,905.3
Shareholders' equity	25,002.5	28,213.6	29,653.6
Total capitalization	34,943.2	39,399.5	40,083.8
Net capitalization	34,481.4	38,865.7	39,558.9
Cash Flow (SGD'mn)			
Funds from operations (FFO)	6,019.6	6,091.6	7,791.5
CFO	4,647.7	5,314.7	5,955.2
Capex	1,930.0	2,260.6	2,349.0
Acquisitions	1,274.8	2,476.7	877.1
Disposals	5.7	34.2	142.6
Dividend	2,794.1	2,820.5	3,351.7
Free Cash Flow (FCF)	2,717.7	3,054.1	3,606.2
* FCF adjusted	-1,345.5	-2,208.9	-480.0
Key Ratios			
EBITDA margin (%)	28.7	28.6	27.6
Net margin (%)	22.8	23.1	31.1
Gross debt to EBITDA (x)	2.0	2.3	2.2
Net debt to EBITDA (x)	1.9	2.2	2.1
Gross Debt to Equity (x)	0.40	0.40	0.35
Net Debt to Equity (x)	0.38	0.38	0.33
Gross debt/total capitalisation (%)	28.4	28.4	26.0
Net debt/net capitalisation (%)	27.5	27.4	25.0
Cash/current borrowings (x)	0.7	0.2	0.3
EBITDA/Total Interest (x)	13.5	12.8	12.4

Source: Company, OCBC estimates

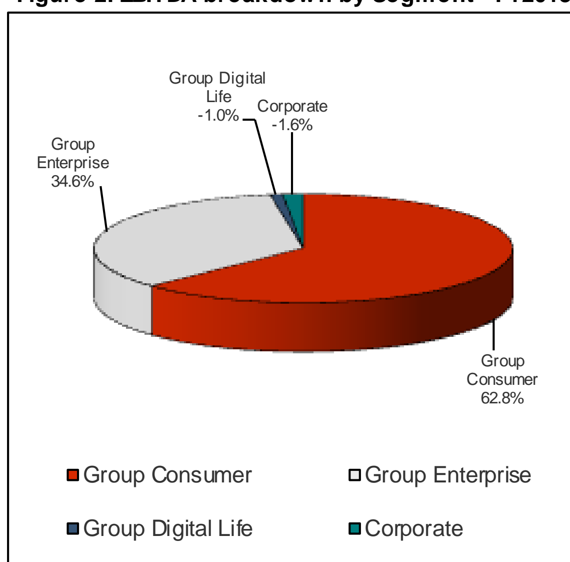
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - FY2018



Source: Company

Figure 2: EBITDA breakdown by Segment - FY2018



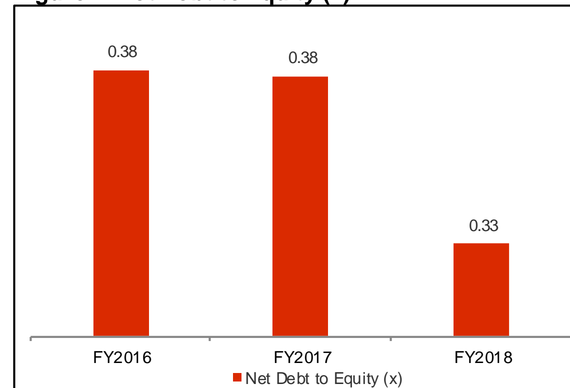
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	23.1	0.2%
Unsecured	1,800.5	17.3%
	1,823.6	**17.5%**
Amount repayable after a year		
Secured	81.5	0.8%
Unsecured	8,525.1	81.7%
	8,606.6	**82.5%**
Total	**10,430.2**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We are overweight the SBREIT 3.6% '21s with a YTW of 3.95%. A switch from the SGREIT 3.5% '21s will allow a 120 bps pick up which more than compensates for the two month longer maturity.

Issuer Profile: Neutral (4)

Ticker: **SBREIT**

Background

Listed in 2013, Soilbuild Business Space REIT ("SBREIT") is an Industrial REIT in Singapore, with total assets of SGD1.2bn as at 31 March 2018. SBREIT currently owns a portfolio of 11 properties in Singapore. The REIT is Sponsored by Soilbuild Group Holdings Ltd ("Soilbuild") and Soilbuild is wholly owned by Mr. Lim Chap Huat. The Lim family is the REIT's largest unitholder, with a 28.9% stake..

Soilbuild Business Space REIT

Key credit considerations

- **Decline in profitability in 1Q2018:** Reported gross revenue was down 11.5% y/y to SGD19.4mn. This was driven by revenue declines at 72 Loyang Way, West Park BizCentral, Eightrium and KTL Offshore building. 72 Loyang Way was affected by the absence of security deposits (used up by mid-2017), West Park BizCentral and Eightrium both saw reduction in occupancies while only two months of revenue was recognised at KTL Offshore building (property was sold to Sponsor in February 2018). SBREIT reported a SGD1.7mn gain from the sale as its price was above book value. The tenant was previously in arrears and one of the stated reasons for the sale was to minimise SBREIT's counterparty credit risk exposure. On 5 April 2018, the tenant had terminated the lease agreement with Sponsor (ie: a termination that SBREIT would have had to face if the sale did not happen). We see it as a positive sign that management had taken creditor-friendly steps in managing the REIT.

- **Interest coverage manageable against peers:** Based on our EBITDA calculation (excludes gain on divestment from the KTL Offshore building and other expenses), we find EBITDA to have fallen 11.7% y/y to SGD15.5mn. Interest expense was down 3.8% y/y to SGD3.8mn, driven by interest savings from refinancing of a bank loan. Despite the reduction in EBITDA, interest coverage as measured by EBITDA/Interest was still healthy at 4.1x (1Q2017: 4.5x). On the back of rental arrears, during the quarter, SBREIT had also taken possession of 39 Senoko Way (ie: Tellus Marine building) which is a small contributor to gross revenue at 1.9% in FY2017. Removing the contribution from KTL Offshore building (since sold) and 39 Senoko Way, we find adjusted EBITDA/Interest at 3.9x, still manageable versus its immediate peers.

- **Aggregate leverage likely has fallen following redemption of the SBREIT'18s:** Reported aggregate leverage was 40.2% as at 31 March 2018, in line with end-2017 figures though we expect this has fallen to 37% following the repayment of the SGD100mn bond (the SBREIT'18s) on 21 May 2018. We think the bond was repaid by the ~SGD54.7mn net proceeds from the sale of KTL Offshore building, committed debt facility of SGD15.0mn and some additional new debt (SGD30mn in new bank loans was obtained in May 2018). As at 31 March 2018, unencumbered properties were SGD751.3mn (end-2017: SGD803mn). Secured debt-to-total asset was still manageable at 15.5%.

- **Weaker operating performance at West Park BizCentral and Eightrium:** As at 31 March 2018, SBREIT's portfolio occupancy was 87.5%, significantly lower than the 92.7% recorded in end-2017 though more in line with market. We understand from management that the decline in West Park BizCentral (down to 81.5% from 90.4% in end-2017) is due to certain tenants who have downsized/closed and tenants who have relocated to owned-space. Occupancy at Eightrium (a business park property) is down to only 84.9% from 97.7% in end-2017, driven by a tenant's back office operations moving out.

- **Solaris Master Lease coming due though we see little cause for concern:** As at 31 March 2018, SBREIT's crown jewel Solaris (a business park property in One-North contributing 32% to investment property value) will see its master lease expiry come due in August 2018. Though expiry on sub-tenant leases are staggered. Upsides in rents are also likely given that the Master Lease with Sponsor was entered into in 2013 at below market rates. Currently, Solaris' market rents at ~SGD6.50 psf per month versus ~SGD5.42 psf per month on the Master Lease.

Soilbuild Business Space REIT

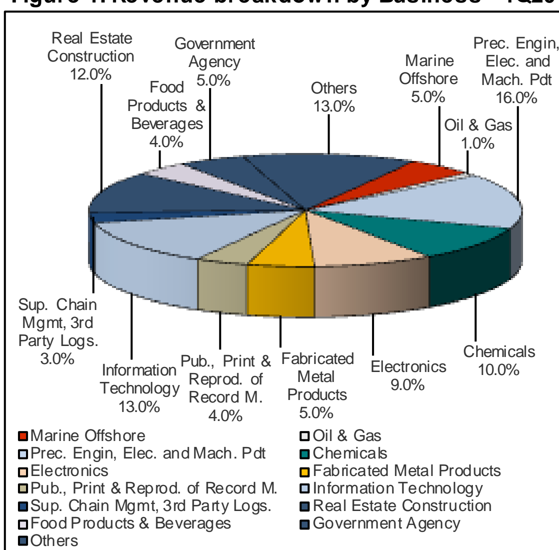
Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	81.1	84.8	19.4
EBITDA	64.4	67.3	15.5
EBIT	64.4	67.3	15.5
Gross interest expense	14.6	15.7	3.8
Profit Before Tax	-0.6	-28.3	13.9
Net profit	-0.6	59.9	13.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	25.7	11.7	74.9
Total assets	1,275.5	1,181.6	1,193.3
Gross debt	472.3	474.4	475.1
Net debt	446.6	462.7	400.2
Shareholders' equity	751.7	668.6	669.7
Total capitalization	1,224.1	1,143.0	1,144.8
Net capitalization	1,198.3	1,131.3	1,069.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	-0.6	59.9	13.9
* CFO	71.3	49.3	23.7
Capex	31.9	0.4	0.7
Acquisitions	103.9	0.0	0.0
Disposals	0.0	0.0	55.0
Dividends	58.9	61.7	14.6
Free Cash Flow (FCF)	39.3	48.9	23.0
* FCF Adjusted	-123.5	-12.9	63.5
Key Ratios			
EBITDA margin (%)	79.4	79.3	79.9
Net margin (%)	-0.7	70.7	71.4
Gross debt to EBITDA (x)	7.3	7.1	7.6
Net debt to EBITDA (x)	6.9	6.9	6.4
Gross Debt to Equity (x)	0.63	0.71	0.71
Net Debt to Equity (x)	0.59	0.69	0.60
Gross debt/total capitalisation (%)	38.6	41.5	41.5
Net debt/net capitalisation (%)	37.3	40.9	37.4
Cash/current borrowings (x)	NM	0.1	0.5
EBITDA/Total Interest (x)	4.4	4.3	4.1

Source: Company, OCBC estimates

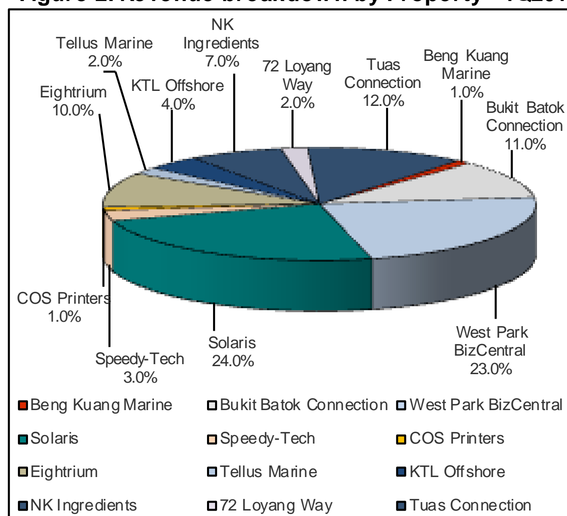
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Business - 1Q2018



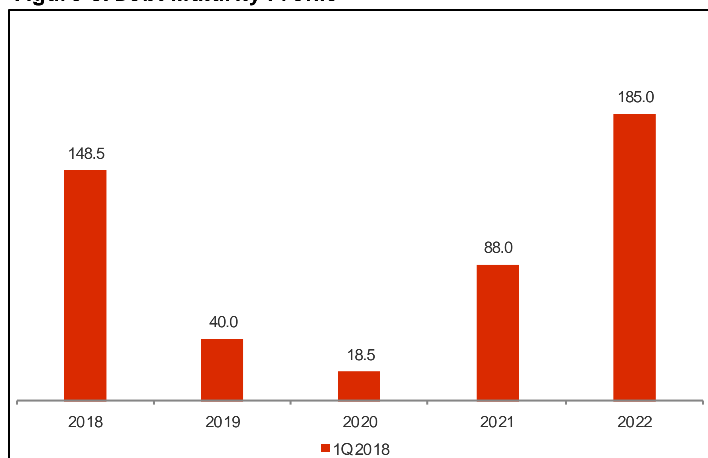
Source: Company

Figure 2: Revenue breakdown by Property - 1Q2018



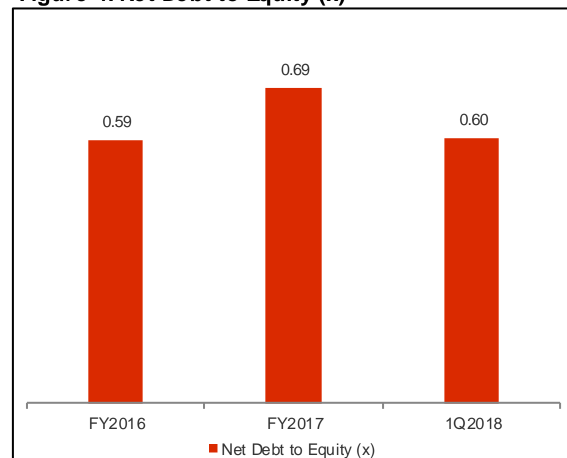
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook –
SGREIT's credit profile remains stable despite continued weakness in its Singapore and Australia segments, though completion of the Plaza Arcade AEI could mean future improvements for the latter. The CAPITA curve looks more attractive in our view, particularly given our better view of its fundamentals.

Issuer Profile: Neutral (4)

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 10 mid to high-end retail properties in 5 countries, valued at ~SGD3.1bn as at 31 March 2018. 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 6 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

- **Prior trends persisted**: SGREIT's recent 3QFY2018 results (ending March 2018) were similar to previous periods with gross revenue declining 3.0% y/y to SGD51.7mn while NPI fell 2.3% y/y to SGD40.3mn. SGREIT's Singapore office revenue was weak (-10.4% y/y to SGD5.9mn) due to vacancy issues. Specifically, Singapore office committed occupancy fell to 90.7% (3QFY2017: 97.3%). Performance at Ngee Ann City's offices had weakened in the last few quarters with committed occupancy declining from 95.8% (3QFY2017) to as low as 77.9% (1QFY2018). Though Ngee Ann City's office committed occupancy has recovered back to 90.1% as at end-3QFY2018, some tenants may still be in their fitting-out rent free period and hence rental might be lagging. Looking forward, SGREIT's Singapore office performance could remain choppy given sizable lease expiries of 27.1% / 40.7% of gross rent for Wisma Atria / Ngee Ann City respectively for FY2019. Occupancy is also weaker than market occupancy of 94.2% (as reported by CBRE). In mitigation, Singapore office's YTD NPI contribution is just 10.5% of total.

- **Retail slips, Australia slumps**: On the retail front, Wisma Atria (Ngee Ann City not meaningful due to master lease structure) reported a 1.6% y/y revenue decline to SGD13.8mn and a 1.1% y/y decline in NPI to SGD10.8mn. This was driven by the 7.2% decline in shopper traffic (which management attributed to tenants' renovation). Australia's revenue contribution weakened as well by 10.0% y/y to SGD11.0mn, with the AEI impact at Plaza Arcade, office vacancies at Myer Centre Adelaide and the weaker AUD affecting performance. SGREIT's smaller markets performed better during the quarter, with Malaysia reporting a 6.4% y/y increase in revenue to SGD7.1mn and 6.3% y/y increase in NPI to SGD6.9mn, largely driven by MYR appreciation (as the assets are held under master lease).

- **Relief possible in the near future**: Aside from the still challenging situation for its Singapore office assets, SGREIT's other exposures look to be stabilizing. For Australia, with the Plaza Arcade AEI wrapping up, and the new anchor tenant, UNIQLO, having commenced renovation works (the fitting out period), contribution for the asset is expected to improve by 2H2018 when the renovation is expected to end. SGREIT has also completed the conversion of its sole China departmental store (based in Chengdu) into a single tenancy model. The asset used to generate as much as SGD2.5mn in revenue per quarter (last seen in FY2015), though changes in the market and competition drove revenue sharply lower to SGD1.0mn for 4QFY2016. With the new tenant, Markor International Home Furnishings Co, having officially opened in March 2018, the asset's performance may start to improve. Overall, committed occupancy for SGREIT had improved q/q to 94.3% (2QFY2018: 94.1%).

- **Static quarter for credit profile**: Aggregate leverage remained stable q/q at 35.3%. Reported interest cover also remained unchanged at 4.1x q/q. Maturity profile looks manageable with no debt due in FY2018, SGD63mn due in FY2019 (AUD93mn loan) and SGD112mn due in FY2020 (MYR300mn MTN). 73% of assets remain unencumbered as at 31 March 2018 which supports financial flexibility while its fixed/hedged debt ratio remains strong at 99%. Such metrics indicate solid capital management, which is one of three current strategic focuses along with active asset management (organic growth, AEI) and acquisition growth. To this end, SGREIT divested its entire ownership interests in Nakameguro Place Property in May 2018. While the transaction was small (cash proceeds of JPY525mn (~SGD6.4mn) or 0.2% of the total portfolio asset value), it nevertheless shows SGREIT's willingness to divest assets from its smaller markets, including the remaining 2 Japan assets still held as well as the repositioned China asset with use of proceeds a potential credit positive if used to repay debt.

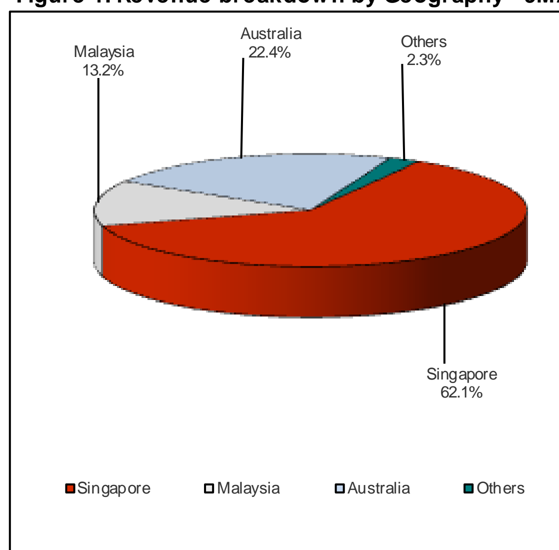
Starhill Global Real Estate Investment Trust

Table 1: Summary Financials

Year Ended 30th June	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	219.7	216.4	157.2
EBITDA	151.3	147.5	107.2
EBIT	151.0	147.2	107.2
Gross interest expense	38.8	38.9	29.0
Profit Before Tax	161.6	99.0	81.0
Net profit	163.9	110.4	77.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	77.0	76.6	62.2
Total assets	3,222.2	3,219.4	3,214.9
Gross debt	1,122.9	1,134.3	1,131.0
Net debt	1,046.0	1,057.7	1,068.8
Shareholders' equity	2,017.6	2,009.3	2,010.2
Total capitalization	3,140.5	3,143.6	3,141.2
Net capitalization	3,063.5	3,067.0	3,079.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	164.3	110.8	77.8
* CFO	155.3	141.1	99.8
Capex	1.0	9.1	10.0
Acquisitions	1.0	0.0	0.0
Disposals	29.1	4.9	0.0
Dividends	113.0	109.7	77.4
Free Cash Flow (FCF)	154.2	132.1	89.8
* FCF Adjusted	69.4	27.3	12.4
Key Ratios			
EBITDA margin (%)	68.9	68.2	68.2
Net margin (%)	74.6	51.0	49.5
Gross debt to EBITDA (x)	7.4	7.7	7.9
Net debt to EBITDA (x)	6.9	7.2	7.5
Gross Debt to Equity (x)	0.56	0.56	0.56
Net Debt to Equity (x)	0.52	0.53	0.53
Gross debt/total capitalisation (%)	35.8	36.1	36.0
Net debt/net capitalisation (%)	34.1	34.5	34.7
Cash/current borrowings (x)	5.0	0.2	NM
EBITDA/Total Interest (x)	3.9	3.8	3.7

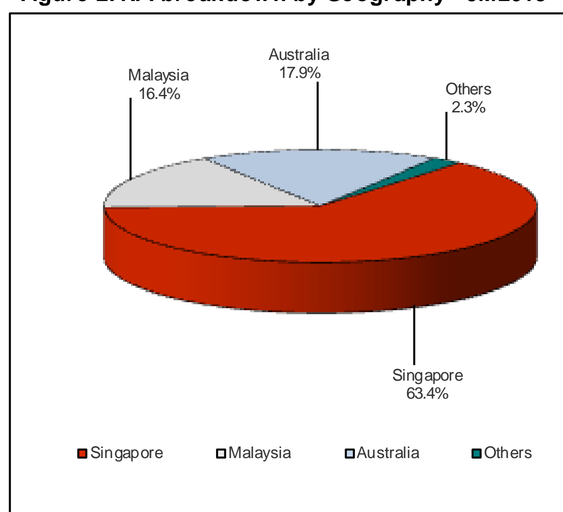
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 9M2018



Source: Company

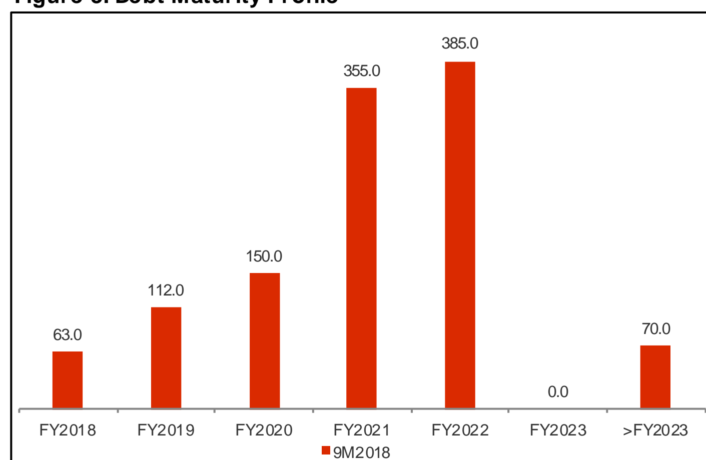
Figure 2: NPI breakdown by Geography - 9M2018



Source: Company

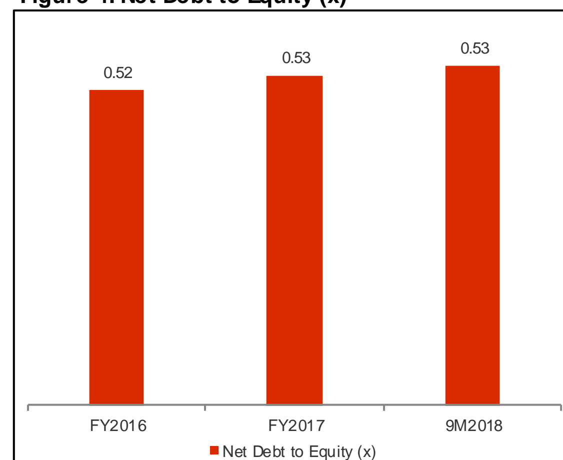
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – With a deteriorating credit outlook from intensifying competition, we remain Underweight on STHSP '22s (2.98% YTM) and STHSP '26s (3.48% YTM), preferring CAPITA '23s (3.03% YTM) and CAPITA '26s (3.40% YTM) which offers a more stable credit profile. We also Underweight STHSP 3.95% PERP given its poor structure (5Y call but 10Y reset).

Issuer Profile: Neutral (3)

Ticker: **STHSP**

Background

StarHub Ltd ("StarHub") is a Singapore communications company, providing various services for consumer and corporates including mobile, data, fixed telecommunication, pay television, internet and broadband services. StarHub is 55.86% owned by Asia Mobile Holdings Pte Ltd, which is 75%-owned by STT Communications Ltd, which is in turn a wholly-owned subsidiary ST Telemedia, which is in turn a wholly-owned subsidiary of Temasek.

StarHub Ltd

Key credit considerations

- **Lacklustre results:** 1Q2018 service revenue declined 1.4% y/y to SGD450.8mn due to weaknesses in Mobile (-7.1% y/y to SGD205.1mn) and Pay TV (-10.0% y/y to SGD80.7mn) though the fall was partly cushioned by Enterprise Fixed (+18.0% y/y to SGD117.5mn). Meanwhile, revenue from sales of equipment declined 16.3% y/y due to lower volume of handsets sold (likely due to timing of phone launches) though the fall at rival SingTel was smaller (-4.1% y/y). Although cost of equipment sold is lower by 15.9% y/y to SGD102.5mn (in-line with fewer handsets sold), cost of services increased 10.6% y/y to SGD118.1mn. As a result of revenue declines outpacing the fall in operating expenses, EBITDA and service EBITDA fell 4.8% y/y and 3.7% y/y to SGD152.2mn and SGD144.5mn respectively.

- **Competition heating up on the mobile front:** The fall in mobile revenue is partly due to long-term declines in IDD and voice. However, revenues also declined as StarHub recorded lower excess data usage revenue with higher take-up of DataJump (which upsizes monthly data capacity) and unlimited weekend data plans. Plan subscription revenue also declined, driven by higher mix of SIM only plans and lower subscriber base (post-paid subscribers: declined 1.9% y/y to 1,365k). Starhub expects competition to intensify with more options offered by traditional MNOs (SingTel, StarHub, M1) and MVNOs (e.g. Circles Life, Zero Mobile, Zero1). To capture the MVNO market, StarHub formed a partnership with MyRepublic in May 2018, allowing MyRepublic to utilise Starhub's mobile network. In 2018, StarHub expects service EBITDA margin to decline to 27-29% (1Q2018: 32.1%), with mobile service revenue forecasted to decline by 1-3% y/y.

- **Weakness at Pay TV segment increases vulnerability of bundling:** Pay TV's revenue was impacted by decline in subscribers (-7.8% y/y to 449k), continuing the structural decline with StarHub facing challenges from piracy and alternative viewing options (e.g. Netflix, Amazon Prime). StarHub will also be ceasing 11 channels from Discovery Networks from 31 Aug 2018. We think this poses vulnerability to StarHub's Hubbing metrics (households which subscribe to 3 or more services), and we note that such bundling has allowed StarHub to increase customer stickiness and achieve cross-selling between products. Meanwhile, we also note that StarHub has stopped reported this metric in 1Q2018. Meanwhile, churn rates look stable at both Pay TV (0.9% monthly) and mobile (1.0% monthly).

- **Growing the Enterprise Fixed Services segment and diversifying into other areas**: The growth in Enterprise Fixed services was mainly due to the increase in managed services (+124.2% y/y to SGD36.8mn), largely due to higher demand for cyber security, cloud, cryptographic and digital security solutions and includes revenues from D'Crypt (purchased in Jan 2018) and Accel (remaining stakes acquired in Jul 2017). Meanwhile, StarHub owns 9.8%-stake in mm2 Asia (market value: SGD49.6mn). StarHub has also joined Singapore-based sustainable energy firm Sunseap to retail electricity under Singapore's Open Electricity Market.

- **Decent credit metrics for now:** Reported net debt to TTM EBITDA at 1.09x looks healthy still though this has increased y/y from 0.88x in 1Q2017. Aside from deterioration in EBITDA, net debt is on an uptrend. Capex is guided at 11% of revenue though this excludes spectrum payments which can be sizeable. Dividends are still maintained at 4.0cts per share per quarter, which implies SGD276.9mn dividends paid p.a. As such, net debt may climb as forecasted EBITDA (~SGD600mn) looks insufficient to cover capex (~SGD250mn), spectrum (~SGD282.0mn), dividends (~SGD277mn), interest and perpetual distribution payments (2017: SGD34.0mn) and taxes (2017: SGD65.3mn). While we still hold StarHub at Neutral (3), we may look to revise the ratings down in the future should net debt continue to increase and operating metrics continue to weaken.

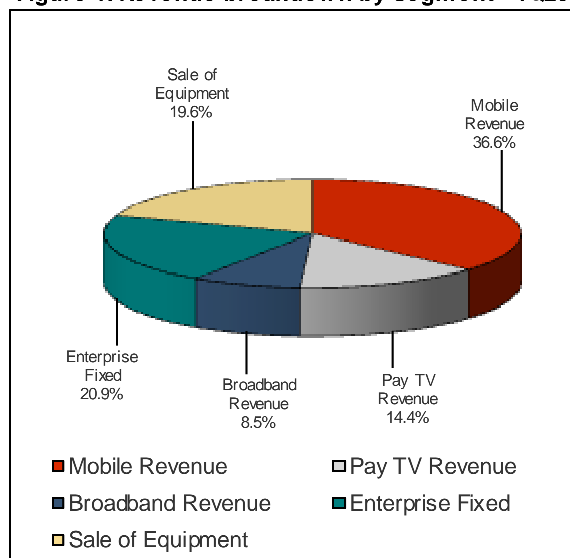
StarHub Limited

Table 1: Summary Financials

Year End 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	2,396.7	2,400.7	561.0
EBITDA	657.9	609.4	151.8
EBIT	392.9	329.0	81.5
Gross interest expense	26.2	29.9	7.2
Profit Before Tax	410.3	304.4	75.3
Net profit	341.4	249.0	61.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	285.2	345.2	293.9
Total assets	2,196.3	2,628.4	2,642.0
Gross debt	987.5	977.5	978.4
Net debt	702.3	632.3	684.5
Shareholders' equity	194.9	599.6	663.5
Total capitalization	1,182.4	1,577.1	1,641.9
Net capitalization	897.2	1,231.9	1,348.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	606.4	529.4	131.8
* CFO	550.7	517.2	77.9
Capex	366.7	295.9	68.0
Acquisitions	18.0	37.6	56.6
Disposals	0.7	1.9	0.1
Dividend	346.2	293.9	0.0
Free Cash Flow (FCF)	184.0	221.3	9.9
* FCF adjusted	-179.5	-108.3	-46.6
Key Ratios			
EBITDA margin (%)	27.5	25.4	27.1
Net margin (%)	14.2	10.4	11.0
Gross debt to EBITDA (x)	1.5	1.6	1.6
Net debt to EBITDA (x)	1.1	1.0	1.1
Gross Debt to Equity (x)	5.07	1.63	1.47
Net Debt to Equity (x)	3.60	1.05	1.03
Gross debt/total capitalisation (%)	83.5	62.0	59.6
Net debt/net capitalisation (%)	78.3	51.3	50.8
Cash/current borrowings (x)	28.5	2.9	2.4
EBITDA/Total Interest (x)	25.1	20.4	21.1

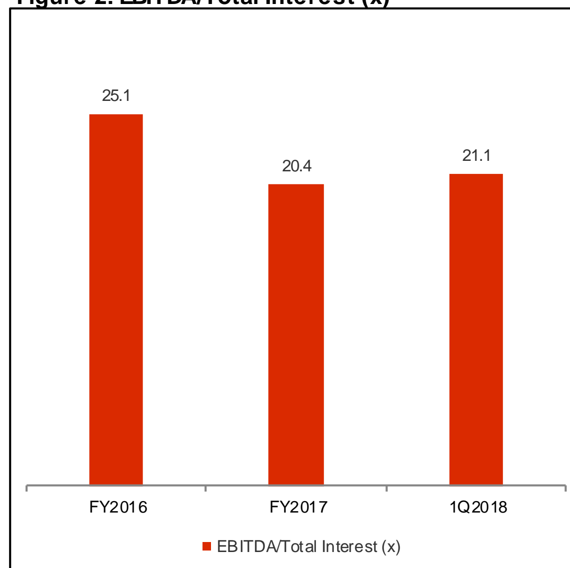
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1Q2018



Source: Company

Figure 2: EBITDA/Total Interest (x)



Source: Company

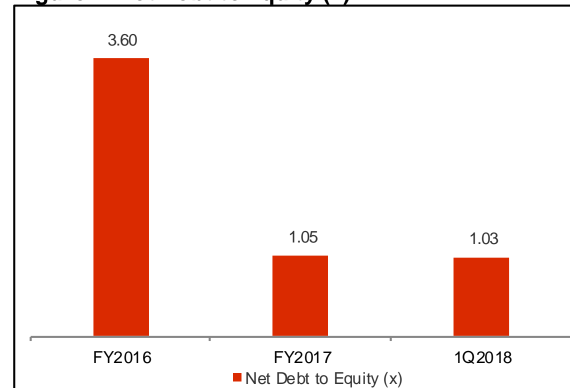
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	120.0	12.3%
	120.0	**12.3%**
Amount repayable after a year		
Secured	0.0	0.0%
Unsecured	858.4	87.7%
	858.4	**87.7%**
Total	**978.4**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Suntec REIT

Credit Outlook –
Aggregate leverage might drift higher to pro-forma ~38% based on our estimates, but is still manageable at our Neutral (4) Issuer Profile Rating. Across the SUNSP curve, we think the SUNSP'23s offers better value, while SUNSP'22s look fair and the SUNSP'20s look a little rich.

Issuer Profile: Neutral (4)

Ticker: **SUNSP**

Background
Listed on the SGX in 2004, Suntec REIT ("SUN") invests in retail and office real estate in Singapore and Australia. This includes "Suntec City" (Suntec City Mall, units in Towers 1–3, and whole of Towers 4 & 5), 60.8%-of Suntec Singapore Convention & Exhibition Centre ("Suntec Singapore"), one-third of One Raffles Quay ("ORQ"), and one-third of Marina Bay Financial Centre Towers 1 & 2 and Marina Bay Link Mall ("MBFC"). SUN also holds 100% of 177 Pacific Highway in Sydney as well as an interest in the Southgate and 477 Collins Street in Melbourne.

Key credit considerations

- **Improvements at retail and convention cover patchy office performance**: 1Q2018 gross revenue was up 2.6% y/y to SGD90.7mn while NPI was up 1.9% y/y to SGD63.0mn. In general, revenue contribution for SUN's office assets was soft (-3.8% y/y to SGD42.9mn), mitigated by better performance at retail (+3.7% y/y to SGD31.1mn) and convention (+21.0% y/y to SGD16.7mn). Specifically, Suntec City revenue fell 1.5% y/y to SGD58.4mn on lower office contribution, 177 Pacific Highway revenue fell 2.0% y/y to SGD10.5mn on the weaker AUD, while Suntec Singapore revenue increased 18.2% y/y to SGD21.9mn due to stronger convention flows. When considering SUN's off balance sheet assets, contributions from JV declined by 6.5% y/y to SGD22.7mn, largely due to the 22.3% y/y decline in contributions from ORQ to SGD6.9mn (SUN described this as due to ORQ benefitting from certain one-off items in 1Q2017). Comparatively, contributions from MBFC of SGD13.9mn (+2.2% y/y) and Southgate of SGD1.9mn (+5.8% y/y) have held up.

- **Suntec City office issues look transitional**: It should be noted that despite the weakness seen in office during the quarter, office portfolio committed occupancy remains strong at 99.1% (4Q2017: 99.2%) while tenant retention ratio remains healthy at 88%. Management had indicated that some office spaces committed at Suntec City are commencing progressively. The timing of these tenants ramping up (during the rent free fitting out period) had driven the decline in Suntec City's office contribution. That being said, a bright spot would be SUN's average office rents being secured at SGD9.02 psf/mth, higher than the SGD8.50 psf/mth seen in 4Q2017, and reversing the downward trend seen the last couple of quarters. Outstanding expiring office leases are manageable at 9.0% of NLA for the balance of 2018 and 15.1% of NLA for 2019, particularly given the decline in Singapore new office supply these past two years. Office WALE stands at 3.62 years (2017: 3.8 years). SUN's Australian assets look to be performing as well with 177 Pacific Highway reporting 100% committed occupancy, Southgate seeing committed occupancy improve to 92.5% (end-2017: 91.7%) and pre-commitments for 477 Collins Street increasing to 45.8%.

- **Retail statistics indicate sustainable recovery**: For retail, committed occupancy eased q/q to 98.4% (4Q2017: 98.8%) though it could be due to seasonal factors, as y/y occupancy increased from 98.0%. Retail lease expiries look heavy at 21.1% of NLA for the balance of 2018. Retail WALE stands at 2.22 years (end-2017: 2.35 years). Operational statistics were strong for Suntec City Mall though (the largest retail asset) with footfall up 12.7% y/y, while tenant sales were up 5.2% y/y. This built on the 7.3% y/y increase in footfall and 5.2% y/y increase in tenant sales seen in 1Q2017. Management had indicated that the strong showing was in part driven by higher footfall from the Promenade MRT station entrance.

- **Credit profile to worsen with additional Southgate acquisition**: Aggregate leverage remained relatively stable q/q at 36.6% (4Q2017: 36.4%). Reported interest coverage worsened slightly to 3.8x (4Q2017: 3.9x) as all-in financing costs had increased to 2.73% (4Q2017: 2.62%). It should also be noted that fixed / hedged debt had declined to ~65% of total debt (end-2017: ~75%). This could have been driven by the SGD400mn 5-year loan facility which SUN obtained end-March 2018. Given the new facility, short-term debt of SGD237.0mn (SGD105mn in bonds due November, balance in partial drawdown of SGD500mn loan facility) looks manageable. As noted previously (refer to OCBC Asian Credit Daily (28 Feb 2018)), SUN will be acquiring a further 25% stake in the Southgate, Melbourne (~SGD160mn consideration with completion expected in 2Q2018). The acquisition is being funded via additional borrowings, and as such aggregate leverage could rise to ~38%. The acquisition would bring SUN's stake in Southgate to 50% (with the balance held by a fund managed by SUN's sponsor).

Suntec Real Estate Investment Trust

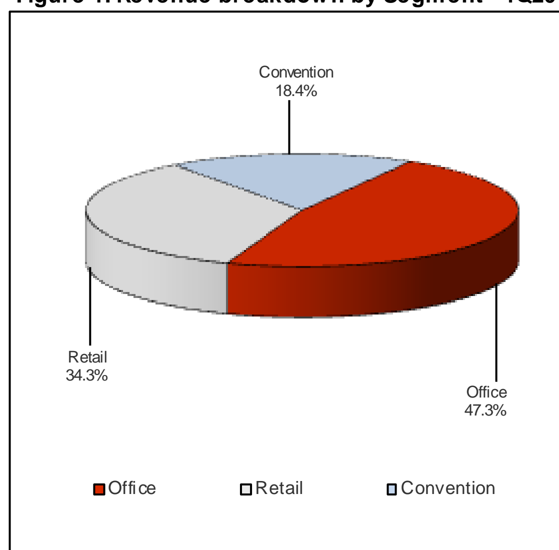
Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	328.6	354.2	90.7
EBITDA	175.9	195.6	50.6
EBIT	174.8	194.4	50.2
Gross interest expense	94.2	96.7	22.2
Profit Before Tax	275.5	247.3	63.7
Net profit	246.5	220.3	60.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	182.5	172.7	117.9
Total assets	9,093.4	9,241.6	9,193.9
Gross debt	3,305.8	3,230.9	3,232.4
Net debt	3,123.3	3,058.2	3,114.5
Shareholders' equity	5,593.3	5,767.0	5,733.7
Total capitalization	8,899.1	8,997.8	8,966.1
Net capitalization	8,716.6	8,825.2	8,848.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	247.6	221.5	60.5
* CFO	197.7	226.1	47.3
Capex	140.8	25.8	10.5
Acquisitions	0.0	53.1	0.0
Disposals	0.0	0.0	0.0
Dividends	265.0	263.1	71.1
Free Cash Flow (FCF)	56.8	200.4	36.8
* FCF Adjusted	-208.1	-115.8	-34.3
Key Ratios			
EBITDA margin (%)	53.5	55.2	55.7
Net margin (%)	75.0	62.2	66.3
Gross debt to EBITDA (x)	18.8	16.5	16.0
Net debt to EBITDA (x)	17.8	15.6	15.4
Gross Debt to Equity (x)	0.59	0.56	0.56
Net Debt to Equity (x)	0.56	0.53	0.54
Gross debt/total capitalisation (%)	37.1	35.9	36.1
Net debt/net capitalisation (%)	35.8	34.7	35.2
Cash/current borrowings (x)	1.8	0.7	0.5
EBITDA/Total Interest (x)	1.9	2.0	2.3

Source: Company, OCBC estimates

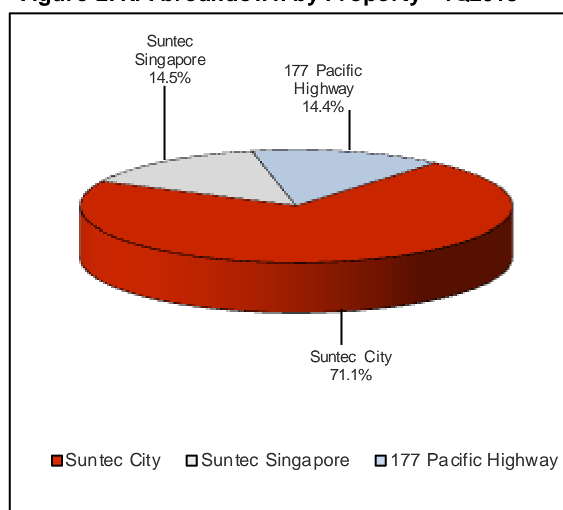
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1Q2018



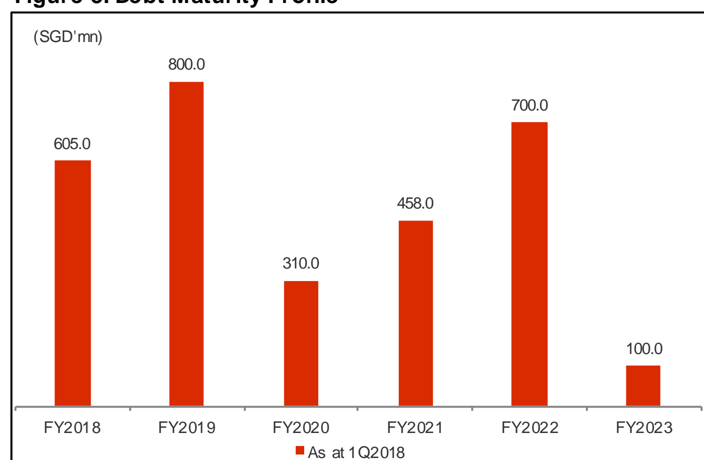
Source: Company

Figure 2: NPI breakdown by Property - 1Q2018



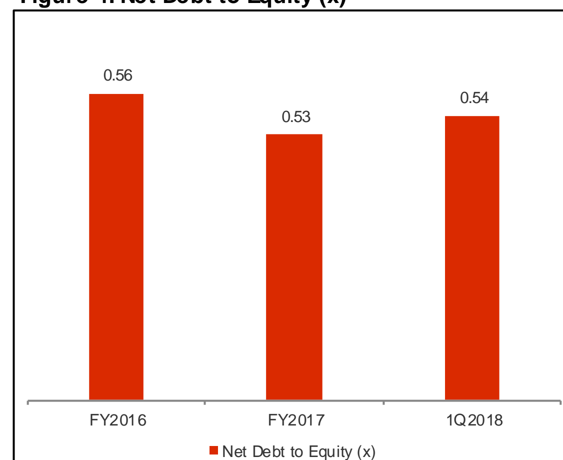
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We think WHARF '21s look fair at 70bps over swaps given its healthy credit profile. However, we prefer its parent WHEELK '21s trading at similar levels as WHEELK benefits from recurring income from Wharf REIC.

Issuer Profile: Neutral (3)

Ticker: **WHARF**

Background

The Wharf (Holdings) Ltd ("Wharf") develops and invests in retail, hotel and office property in China and develops properties in Hong Kong. Wharf is also involved in managing hotels and container terminals businesses. In 2017, Wharf spun off its major investment properties in Hong Kong (which is currently listed as Wharf REIC). Wharf is a subsidiary of Wheelock & Co. Ltd, which owns a 60.9% stake in the company.

Wharf Holdings Ltd

Key credit considerations

- **Changes in profile post-demerger:** Wharf has spun off Wharf Real Estate Investment Co Ltd ("Wharf REIC") in Nov 2017, and as such 2017 results reflect ~10 months' worth of contributions from Wharf REIC with full year revenue declining 7.2% y/y to HKD43.3bn due to the spin off. Otherwise, excluding the demerged business, 2017 core profit increased 36% y/y to HKD7.1bn. This is mainly contributed by much stronger growth by development properties, which comprise (1) Hong Kong (+22% y/y to HKD2.4bn) that includes the sale of Mount Nicholson with 5 houses and 14 apartments sold for HKD9.4bn at an eye-popping average of HKD91,600 psf (~SGD15,897 psf) and Mainland China (+145% y/y to HKD3.8bn). Performance of investment properties though was lacklustre with a 7% y/y fall in core profit to HKD747mn.

- **Development properties no longer taking the backseat:** Following the demerger of Wharf REIC, Wharf has become more geared towards development properties, which accounts for HKD56.8bn out of HKD222.6bn of total assets (up 13.2pp to 25.6%). This comprises 3.0mn sqft of attributable GFA in Hong Kong (of which 56% of GFA is made up of Kowloon East Waterfront Portfolio) and 3.9mn sqm of landbank in China (in cities including Hangzhou, Shanghai, Suzhou, Wuxi, Chengdu and Chongqing). Wharf continues to increase its exposure to development properties, with a HKD12.5bn purchase of a new land site in Kowloon Tong (GFA: 436.k sqft) and purchase of 9 sites in China for RMB15.7bn (GFA: 701.3k sqm) and another 10 sites in early 2018 for RMB12.2bn (GFA: 599.1k sqm). Meanwhile, attributable interest in Mainland China contracted sales remains sizeable at RMB25.3bn (though down 19% y/y) with net order book at RMB19.2bn Nevertheless, we note that Wharf has signaled that it intends to allocate not more than half the its equity to China properties going forward.

- **Ramping up the investment property portfolio:** The remaining investment properties post demerger includes Times Square, Shanghai IPs and various mixed-use International Finance Square ("IFS"). Going forward, we expect investment properties to deliver more (excluding the effects of Wharf REIC), with the opening of the Chongqing IFS (in Sep 2017) and the opening of Changsha IFS in May 2018, with 94% of the area already leased/under offer.

- **Holdings in listed investments?:** As of end-2017, equity investments accounts surged to HKD19.1bn (end-2016: HKD5.7bn) of the total assets, represented by HKD14.8bn in Hong Kong and HKD4.3bn outside Hong Kong. Post 2017, the total amounts spent on buying equities amount to HKD25.5bn, including blue-chip Hong Kong developers and companies in the telecom, media and entertainment sectors. While we acknowledge that investments in the listed Greentown China has appreciated significantly in value to HKD6.6bn (original cost: HKD2.9bn), it remains to be seen if such investments will pan out.

- **Contribution by Logistics and Hotels:** Logistics contributed HKD667mn to operating profit and hotels contributed another HKD328mn. While communications, media and entertainment recorded an operating loss of HKD294mn, Wharf had completed the exit in Sep 2017.

- **Weakened but still healthy credit profile with demerger of Wharf REIC:** Without Wharf REIC's recurring income from investment properties, Wharf's profile has weakened. We expect net gearing to increase from net cash at end-2017 to ~10% (though still healthy) with the significant purchases of listed equities and land site in Kowloon Tong. We think Wharf can manage the cash outlay with HKD16.1bn of net cash (excluding debts with no recourse to Wharf). In any case, Wharf is still backed by HKD82.1bn in investment properties.

Wharf Holdings Ltd

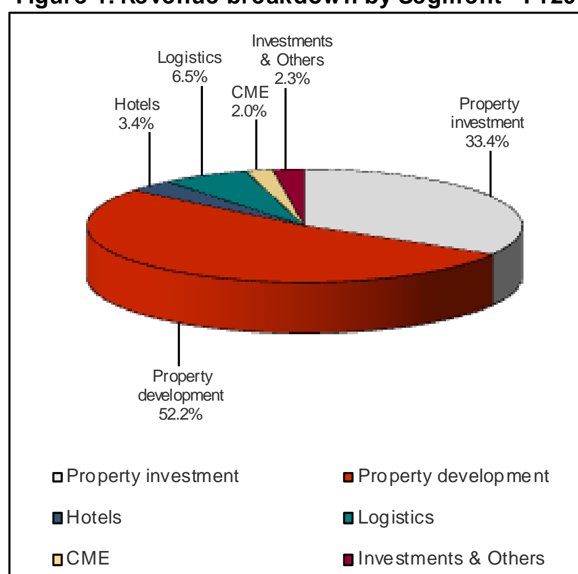
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	FY2017
Income Statement (HKD'mn)			
Revenue	40,875.0	46,627.0	43,273.0
EBITDA	16,401.0	18,471.0	21,560.0
EBIT	14,853.0	17,065.0	20,622.0
Gross interest expense	2,557.0	1,926.0	1,382.0
Profit Before Tax	20,635.0	25,772.0	30,570.0
Net profit	16,024.0	21,440.0	21,876.0
Balance Sheet (HKD'mn)			
Cash and bank deposits	23,510.0	36,957.0	45,697.0
Total assets	443,916.0	443,827.0	222,647.0
Gross debt	70,707.0	60,794.0	36,409.0
Net debt	47,197.0	23,837.0	-9,288.0
Shareholders' equity	317,180.0	325,406.0	145,471.0
Total capitalization	387,887.0	386,200.0	181,880.0
Net capitalization	364,377.0	349,243.0	136,183.0
Cash Flow (HKD'mn)			
Funds from operations (FFO)	17,572.0	22,846.0	22,814.0
* CFO	24,053.0	29,084.0	5,208.0
Capex	6,849.0	14,077.0	5,368.0
Acquisitions	7,167.0	-3,913.0	11,355.0
Disposals	6,727.0	12,066.0	7,715.0
Dividends	5,851.0	6,440.0	6,995.0
Free Cash Flow (FCF)	17,204.0	15,007.0	-160.0
* FCF Adjusted	10,913.0	24,546.0	-10,795.0
Key Ratios			
EBITDA margin (%)	40.1	39.6	49.8
Net margin (%)	39.2	46.0	50.6
Gross debt to EBITDA (x)	4.3	3.3	1.7
Net debt to EBITDA (x)	2.9	1.3	-0.4
Gross Debt to Equity (x)	0.22	0.19	0.25
Net Debt to Equity (x)	0.15	0.07	-0.06
Gross debt/total capitalisation (%)	18.2	15.7	20.0
Net debt/net capitalisation (%)	13.0	6.8	-6.8
Cash/current borrowings (x)	2.8	2.4	4.5
EBITDA/Total Interest (x)	6.4	9.6	15.6

Source: Company, OCBC estimates

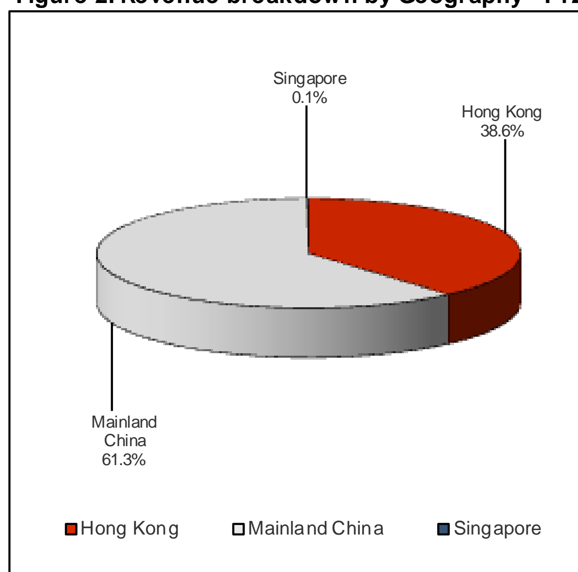
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2017



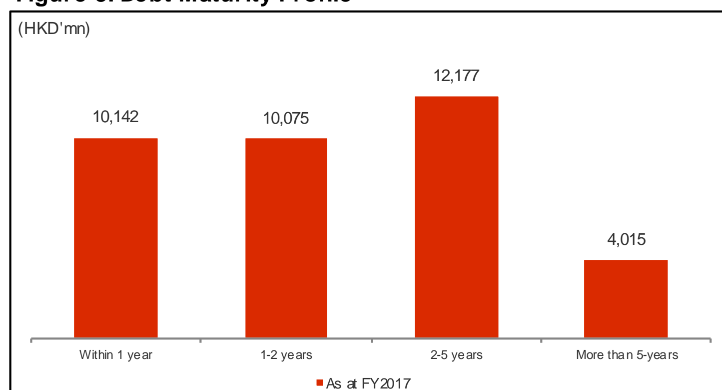
Source: Company

Figure 2: Revenue breakdown by Geography - FY2017



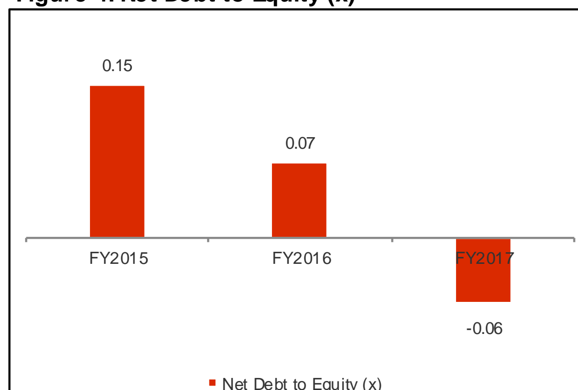
Source: Company

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Viva Industrial Trust

Credit Outlook – We are neutral the VITSP 4.15% '18s which is due to mature in September 2018.

Issuer Profile: Neutral (5)

Ticker: **VITSP**

Background

Viva Industrial Trust ("VIT") is an Industrial REIT in Singapore, with total assets of SGD1.3bn as at 31 March 2018. It currently owns a portfolio of ten properties (inclusive of the hotel at UE BizHub East). VIT is in exclusive negotiations with ESR-REIT ("EREIT") with regards to a proposed merger. EREIT is a separately listed Industrial REIT in Singapore with total assets of SGD1.7bn as at 31 March 2018.

Key credit considerations

- **Increase in gross revenue in 1Q2018:** Gross revenue increased 4.8% y/y to SGD28.7mn driven by higher rental contribution from 6 Chin Bee Avenue as well as higher revenue at Viva Business Park ("VBP") and UE BizHub (both hotel and business park components). These partly offset decline in rents at Jackson Square. Net property income however only increased 3.5% y/y to SGD21.1mn as property expenses at UE BizHub and Jackson Square rose. VIT has a relatively concentrated tenant profile, reflecting that six of its properties and the hotel component of UE BizHub are held under Master Lease agreements. 42% of VIT's gross rental income is attributable to its top 10 tenants. The lease on the hotel component at UE BizHub (contributes 8.1% to 1Q2018 revenue), is due to expire in November 2018. Nonetheless, per VIT, the Master Lessee is obliged to renew the lease for a second five year term.

- **Interest coverage relatively stable:** EBITDA (based on our calculation which does not include rental support income) was up 3.8% y/y to SGD19.2mn in 1Q2018 while finance expense was 5.8% higher at SGD5.2mn, resulting in a slightly lower EBITDA/interest coverage of 3.67x against 3.74x in 1Q2017. The higher finance expense was driven by a small increase in debt taken to help fund asset enhancement at VBP and to buy 6 Chin Bee.

- **Aggregate leverage above median:** As at 31 March 2018, aggregate leverage was 40.6% (end-2017: 39.8%). Short term debt relates to VIT's sole SGD100mn bond due in September 2018 while cash balance was SGD11.3mn (excluding pledged deposits). With secured debt making up 33% of investment properties, VIT still has some financial flexibility to raise more secured debt, if need be and we see refinancing risk as manageable.

- **Certain properties have short underlying land lease:** At 31 March 2018, investment properties were valued at SGD1.28bn, unchanged from end-2017. Excluding 6 Chin Bee which was purchased in January 2017, the portfolio would have been valued at SGD1.19bn against SGD1.20bn as at 31 December 2016. Among which, revaluation losses were taken at Jackson Square and VBP, which we think is in part due to acceleration of time decay in the underlying land lease (11 years left for Jackson Square and 13 years left for Viva Business Park). Nonetheless, as at 31 March 2018, VIT's portfolio occupancy was relatively healthy at 91.5% (end-2017: 90.6%) and we saw Jackson Square's occupancy improved to 90%. Portfolio occupancy had significantly increased from 70.1% at time of IPO in November 2013.

- **Looming lease expiries in 2019:** As at 31 March 2018, only 10% of leases by gross rental income at VIT would come due by end-2018. This includes committed leases, assumes that renewal options are not exercised and excludes the impending expiry on the master lease of the hotel portion at UE BizHub. While the remaining lease expiries in 2018 looks manageable, 2019 though will see VIT facing large lease expiries (representing 31% of total gross rental income) with 45% of these 2019 lease expiries would come from VBP.

- **EREIT and VIT have entered into definitive agreements:** In May 2018, EREIT and VIT announced that they are intending to merge by way of a trust scheme of arrangement. The deal will see VIT stapled security holders receiving 10% of the purchase consideration in cash and 90% of new units in EREIT. The deal is subject to unitholder approvals though we see likelihood of the deal happening as high.

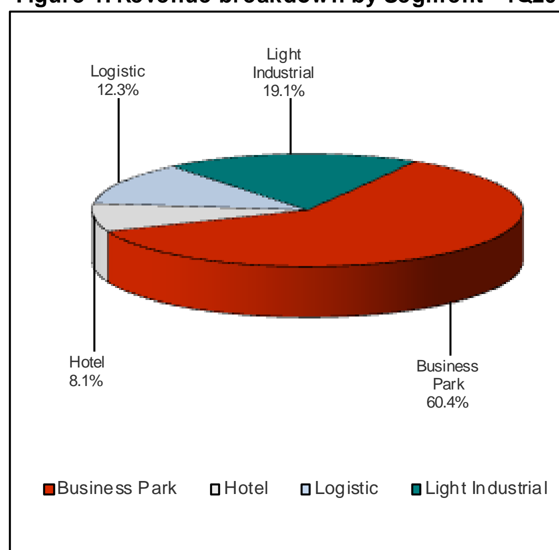
Viva Industrial Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	95.1	111.7	28.7
EBITDA	62.1	72.9	19.2
EBIT	58.8	69.6	18.4
Gross interest expense	21.7	20.5	5.2
Profit Before Tax	44.9	41.1	13.0
Net profit	42.8	38.6	12.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	29.5	8.2	11.3
Total assets	1,253.9	1,318.4	1,319.3
Gross debt	461.5	520.5	531.0
Net debt	432.0	512.2	519.7
Shareholders' equity	738.9	746.6	741.1
Total capitalization	1,200.4	1,267.0	1,272.1
Net capitalization	1,171.0	1,258.8	1,260.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	46.1	41.9	13.4
* CFO	89.3	86.6	21.2
Capex	23.9	8.8	4.2
Acquisitions	52.2	73.3	0.0
Disposals	0.0	0.0	0.0
Dividends	56.4	63.8	18.1
Free Cash Flow (FCF)	65.4	77.8	17.0
* FCF Adjusted	-43.3	-59.4	-1.1
Key Ratios			
EBITDA margin (%)	65.3	65.3	66.9
Net margin (%)	45.0	34.6	43.8
Gross debt to EBITDA (x)	7.4	7.1	6.9
Net debt to EBITDA (x)	7.0	7.0	6.8
Gross Debt to Equity (x)	0.62	0.70	0.72
Net Debt to Equity (x)	0.58	0.69	0.70
Gross debt/total capitalisation (%)	38.4	41.1	41.7
Net debt/net capitalisation (%)	36.9	40.7	41.2
Cash/current borrowings (x)	NM	0.1	0.1
EBITDA/Total Interest (x)	2.9	3.6	3.7

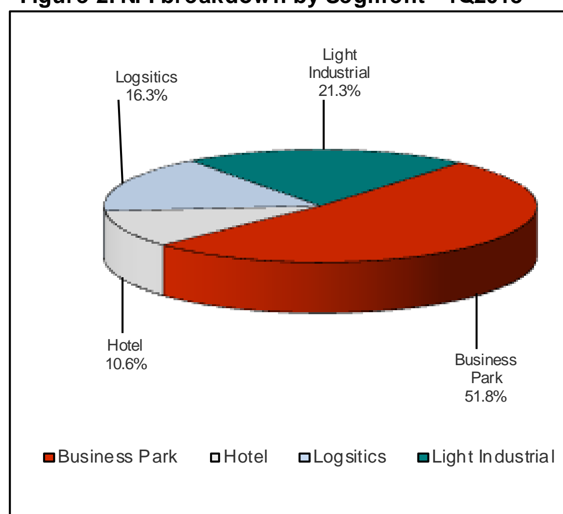
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1Q2018



Source: Company

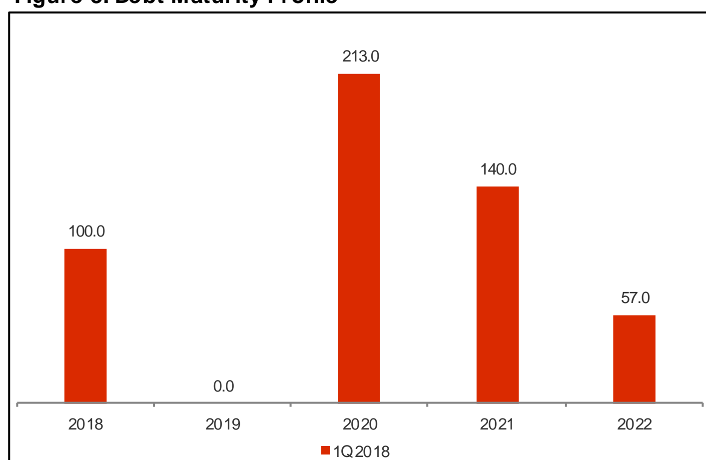
Figure 2: NPI breakdown by Segment - 1Q2018



Source: Company

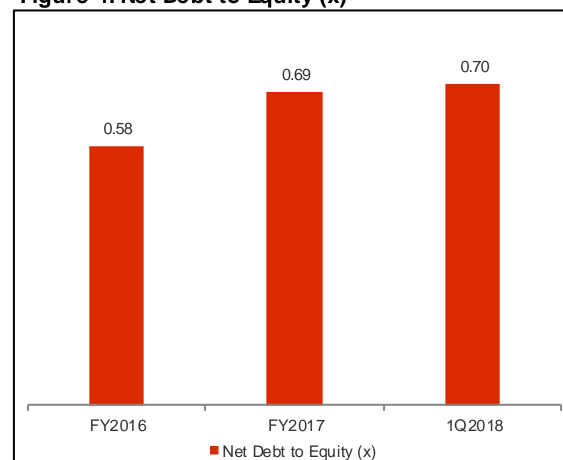
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Wheelock & Co Ltd

Credit Outlook – We prefer WHEELK '21s over its subsidiary WHARF '21s as Wheelock benefits from dividends upstreamed from Wharf REIC while both papers trade similarly around 70bps over swaps

Issuer Profile: Positive (2)

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 The Wharf (Holdings) Ltd ("Wharf") and Wharf Real Estate Investment Co ("Wharf REIC"). Together with 76.2%-owned Wheelock Properties Ltd ("WPL"), the subsidiary companies generate a solid recurring dividend income for the Group.

Key credit considerations

- **Development properties delivering outperformance:** Wheelock's 2017 revenue increased 17.1% y/y to HKD71.0bn, driven by higher contributions from development properties (+30.9% y/y to HKD47.8bn) with completions including CAPRI (HKD4.1bn), ONE HOMANTIN (HKD5.8bn), SAVANNAH (HKD5.5bn), NPAP (HKD2.3bn) and Island Residences (HKD1.1bn) and increased sales in Mainland China (+8.0% y/y to HKD23.4bn) due to completion of higher margin projects. As a result, net profit from development properties increased 46.6% y/y to HKD14.0bn. However, we note that this was contributed mainly by Wharf (HKD12.3bn). Excluding Wharf's contribution, we estimate Wheelock's profit from development properties would have fallen to HKD1.7bn (2016: HKD3.8bn).

- **Wharf REIC as a key contributor to Wheelock:** Wharf REIC is the largest subsidiary of Wheelock, holding HKD272.7bn out of Wheelock's HKD569.7bn total assets. Wharf REIC's demerger from Wharf is slight credit positive to Wheelock as cashflows from Wharf REIC would be received directly (instead of being passed through Wharf). Wharf REIC is also the largest Hong Kong listed landlord by revenue in 2016 (HKD12.8bn). Wharf REIC holds 6 prime investment properties in Hong Kong, including key properties Harbour City ("HC") valued at ~HKD178bn and Times Square ("TS") valued at ~HKD57bn. Performance has been decent with HC's revenue increasing 5% y/y to HKD9.4bn and TS revenue flattish at HKD2.8bn. Wharf REIC has a net gearing of 19.9% (target: gearing < 30%). We expect Wharf REIC to contribute ~HKD3.7bn dividends (with a target dividend payout of 65%) to Wheelock, which may continue to grow in line with a positive Hong Kong retail outlook.

- **Revenue visibility from development sales:** Properties transactions increased 18% y/y to HKD26.1bn, with residential sales at HKD17.1bn. Units sold/presold totaled 1,325, including MONTEREY (657 units worth HKD5.9bn), OASIS KAI TAK (306 units worth HKD3.0bn), MOUNT NICHOLSON (5 houses and 14 apartments worth HKD4.7bn on attributable basis). Wheelock also disposed 8 Bay East for HKD9.0bn at HKD16,600 psf. In total, HKD9.5bn of HK property sales receivables are expected to be recouped in 2018-1H2019. Going forward, we expect continued property sales with Wheelock targeting property sales of not less than HKD10bn. Wheelock has been replenishing its landbank, which stands at 7.9mn sq ft, for example with the purchase from HNA Group for HKD6.36bn a plot at Kai Tak in Mar 2018. Wharf also won a Kowloon Tong site at HKD12.45bn in Jan 2018.

- **Contribution from Wheelock Properties Ltd ("WPL"), Hotel, Logistics and Terminals:** WPL has been steadily contributing ~HKD320mn p.a. in dividends to Wheelock. In addition, the Hotel, Logistics and Terminals segments (mainly held under Wharf) contributed HKD2.0bn profit before tax in 2017 (2016: HKD1.6bn).

- **Strong credit metrics:** Net gearing remained largely unchanged at 14.9% (2016: 14.6%). This may increase to ~19% following the acquisition of the sites at Kowloon Tong and Kai Tak. Debt profile is well termed out with just HKD2.2bn of debt due in 2019. With the demerger of Wharf REIC, we also see the flexibility for Wheelock to dispose shares in Wharf REIC. However, we note that Wheelock has increased its stake in Wharf in 2016 – if further significant increases occur (e.g. privatisation), this may push net gearing higher. For now, we remain comfortable with Wheelock's profile given the recurrent dividend income (over HKD4bn p.a.) from its subsidiaries which exceed the gross interest expense (HKD2.5bn p.a.) as well as its healthy net gearing.

Wheelock & Co Ltd

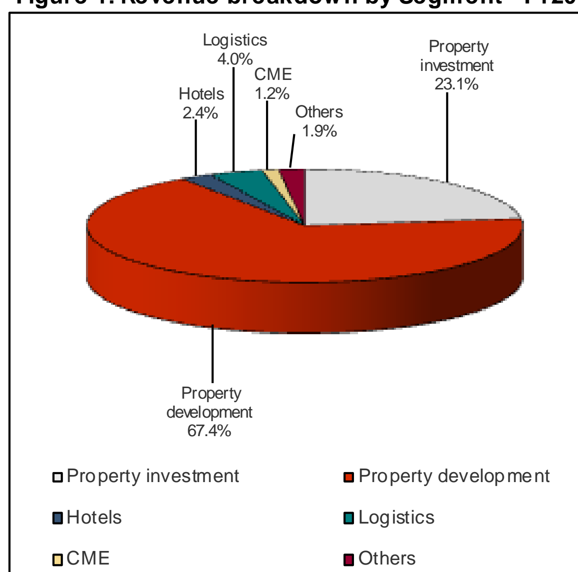
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	FY2017
Income Statement (HKD'mn)			
Revenue	57,431.0	60,579.0	70,953.0
EBITDA	21,608.0	22,547.0	24,841.0
EBIT	20,053.0	21,135.0	23,857.0
Gross interest expense	3,376.0	3,001.0	2,247.0
Profit Before Tax	26,544.0	29,763.0	41,466.0
Net profit	14,232.0	16,294.0	20,570.0
Balance Sheet (HKD'mn)			
Cash and bank deposits	27,266.0	43,964.0	56,474.0
Total assets	512,758.0	520,435.0	569,672.0
Gross debt	106,193.0	94,941.0	114,191.0
Net debt	78,927.0	50,977.0	57,717.0
Shareholders' equity	340,859.0	349,520.0	387,823.0
Total capitalization	447,052.0	444,461.0	502,014.0
Net capitalization	419,786.0	400,497.0	445,540.0
Cash Flow (HKD'mn)			
Funds from operations (FFO)	15,787.0	17,706.0	21,554.0
* CFO	32,676.0	31,636.0	17,233.0
Capex	7,540.0	9,718.0	8,041.0
Acquisitions	15,512.0	1,050.0	20,310.0
Disposals	11,821.0	13,852.0	8,812.0
Dividends	5,048.0	5,415.0	5,979.0
Free Cash Flow (FCF)	25,136.0	21,918.0	9,192.0
* FCF Adjusted	16,397.0	29,305.0	-8,285.0
Key Ratios			
EBITDA margin (%)	37.6	37.2	35.0
Net margin (%)	24.8	26.9	29.0
Gross debt to EBITDA (x)	4.9	4.2	4.6
Net debt to EBITDA (x)	3.7	2.3	2.3
Gross Debt to Equity (x)	0.31	0.27	0.29
Net Debt to Equity (x)	0.23	0.15	0.15
Gross debt/total capitalisation (%)	23.8	21.4	22.7
Net debt/net capitalisation (%)	18.8	12.7	13.0
Cash/current borrowings (x)	2.6	1.7	1.6
EBITDA/Total Interest (x)	6.4	7.5	11.1

Source: Company, OCBC estimates

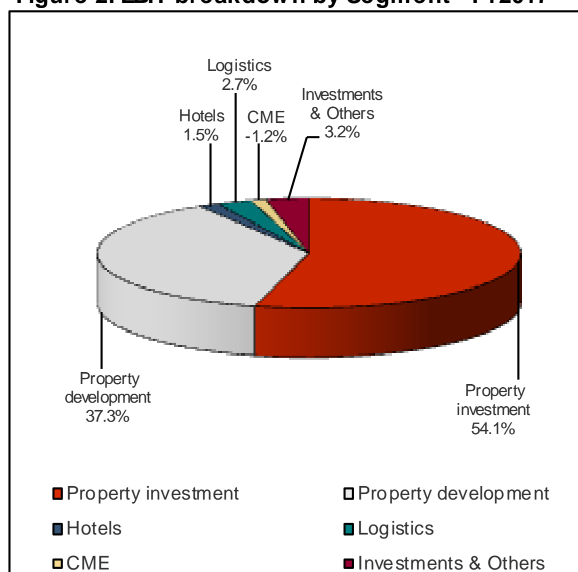
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2017



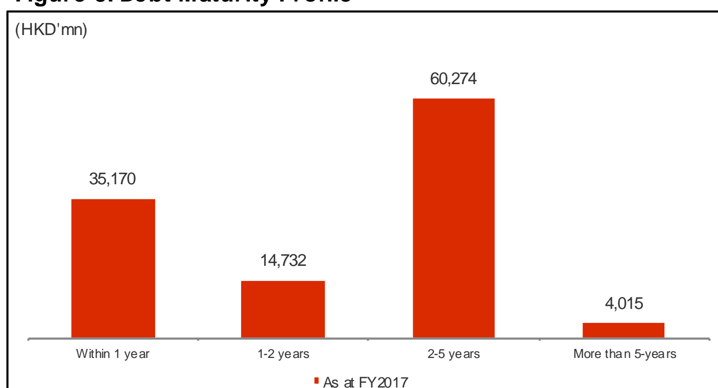
Source: Company

Figure 2: EBIT breakdown by Segment - FY2017



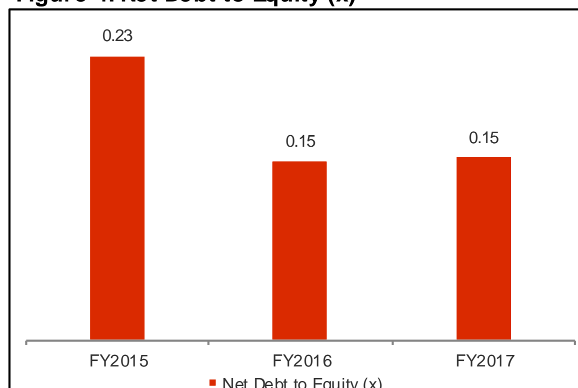
Source: Company | CME made operating losses

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We think WINGTA '21s (2.99% YTM) looks rich, preferring GUOLSP '21s (3.42% YTM) for 43bps yield pickup. We also prefer Wing Tai Properties Ltd's WINGTA 4.25% '22s (3.70% YTM) over WINGTA 4.5% '22s (3.35% YTM) for 35bps yield pickup. Meanwhile, WINGTA '23s and '24s look interesting trading at 3.72% YTM and 3.86% YTM respectively.

Issuer Profile: Neutral (4)

Ticker: **WINGTA**

Background

Listed on the SGX since 1989, Wing Tai Holdings ("WINGTA") core businesses are 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. WINGTA owns a 34.4%-stake in Wing Tai Properties Ltd ("WTP"). The group's Chairman Mr. Cheng Wai Keung owns a 51.1% stake in WINGTA.

Wing Tai Holdings Ltd

Key credit considerations

- **3QFY2018 results lifted by associates:** Revenue for the quarter ending 31 March 2018 ("3QFY2018") was somewhat lacklustre, falling 4% y/y to SGD70.3mn, likely due to decline in sales of residential units as we note that only 1 unit was sold at Le Nourvel Ardmore for SGD15.7mn. We estimate that the revenue comprise the retail segment (~SGD36mn), income from investment properties (~SGD9mn) and contribution from BM Mahkota Penang which obtained TOP in Nov 2017. Despite lower revenue, net profit surged to SGD69.7mn (3QFY2017: SGD8.6mn) mainly due to increase in contributions from profits of associated and joint venture companies (+326% y/y to SGD72.0mn), which is mainly from WINGTA's share of gain from its associate WTP. WINGTA is structurally subordinated to WTP, as far as WTP's operations and assets are concerned.

- **Decent property sales achieved though pipeline looks dry:** Thus far, the rising property prices have benefited WINGTA's projects in Singapore. This includes (1) 613-unit The Garden Residences (JV between Keppel Land and WINGTA) which is expected to complete by 2021, (2) the remaining units at Le Nouvel Ardmore and (3) 40%-owned The Crest. Thus far, The Garden Residences reported sold more than 60 units over its first weekend launch in early June, which looks modest perhaps because this is priced higher at SGD1,660 psf than the nearby competing launch at Affinity at Serangoon (SGD1,575 psf). Le Nouvel Ardmore continues to sell another 2 units (SGD32.8mn) in Apr-May 2018 while The Crest sold 34 units (SGD74.8mn) in the same period. Aside from the JV with Keppel on The Garden Residences, we note that WINGTA has been relatively quiet in the Singapore property scene for now.

- **Very clean balance sheet:** WINGTA remains in net cash position as of 3QFY2018, though we expect net gearing to increase to 5% after adjusting for perps (which are ranked senior unsecured) as debt and completion of purchase of a AUD95.4mn (~SGD96mn) property at St Kilda Road in Australia (target closing by end-May 2018). We think net gearing is likely to increase as WINGTA stated its intention since 2QFY2018 to continue looking for investment opportunities in Singapore and overseas markets. Meanwhile, liquidity remains very healthy with cash of SGD835.3mn exceeding current borrowings of SGD3.4mn. Debt maturity is also well-termed out with bond maturities spread evenly (SGD80mn-SGD117.3mn maturing p.a. in 2021-2024). While EBITDA generation (9M2018: SGD36.5mn) is weak with EBITDA/Total Interest at 1.5x, we are not overly concerned due to the strong balance sheet which allows WINGTA headroom to borrow more.

- **Contribution from associates:** WTP continue to outperform and delivered a one-off disposal gains in 3QFY2018 due to the disposal of Winner Godown Building. Based on the TTM dividends, we estimate that WINGTA will receive ~HKD125mn (SGD21.3mn) p.a. from its 34.4%-stake in WTP, which covers about half of gross interest expense (FY2017: SGD42.0mn).

- **Backed by investment properties:** Investment properties worth SGD651.8mn represent 15.0% of total assets. These contributed SGD30.0mn rental income in FY2017 (FY2016: SGD31.7mn). The investment property portfolio include the commercial property Winsland Houses I-III and serviced residences Lanson Place in Singapore, residential and office units in Malaysia and a commercial property in Suzhou.

- **Retail presence in Singapore and Malaysia:** We estimated that retail contributed more than half of revenue in 3QFY2018 and contributed SGD27.5mn in reported EBIT as of FY2017 though it represented just SGD58.3mn in segment assets in FY2017. WINGTA retails through brands such as G2000 and Uniqlo.

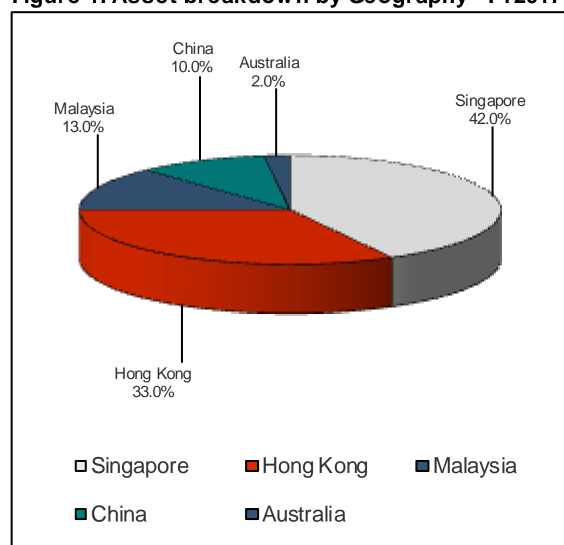
Wing Tai Holdings Ltd

Table 1: Summary Financials

Year Ended 30th Jun	FY2016	FY2017	9M2018
Income Statement (SGD'mn)			
Revenue	544.5	263.2	267.5
EBITDA	30.3	-9.6	36.5
EBIT	19.8	-17.8	30.8
Gross interest expense	50.5	42.0	24.3
Profit Before Tax	41.4	19.7	96.9
Net profit	7.1	20.1	89.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	722.9	847.4	835.3
Total assets	4,975.6	4,615.8	4,346.7
Gross debt	1,376.5	929.6	784.0
Net debt	653.6	82.3	-51.3
Shareholders' equity	3,332.5	3,415.7	3,379.5
Total capitalization	4,709.0	4,345.3	4,163.5
Net capitalization	3,986.1	3,498.0	3,328.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	17.6	28.3	94.7
* CFO	-80.4	98.0	40.6
Capex	4.6	7.7	5.5
Acquisitions	0.1	119.9	75.0
Disposals	2.5	499.6	273.5
Dividend	25.1	48.0	49.5
Free Cash Flow (FCF)	-85.0	90.3	35.1
* FCF Adjusted	-107.8	422.1	184.1
Key Ratios			
EBITDA margin (%)	5.6	-3.7	13.6
Net margin (%)	1.3	7.6	33.3
Gross debt to EBITDA (x)	45.5	-96.6	16.1
Net debt to EBITDA (x)	21.6	-8.5	-1.1
Gross Debt to Equity (x)	0.41	0.27	0.23
Net Debt to Equity (x)	0.20	0.02	-0.02
Gross debt/total capitalisation (%)	29.2	21.4	18.8
Net debt/net capitalisation (%)	16.4	2.4	-1.5
Cash/current borrowings (x)	8.3	199.2	248.5
EBITDA/Total Interest (x)	0.6	-0.2	1.5

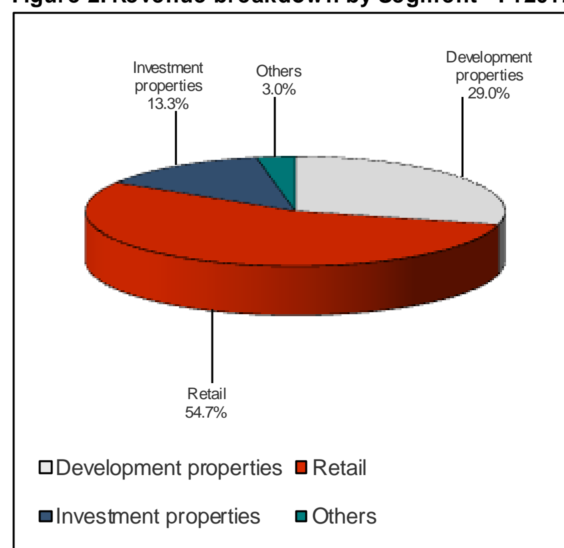
Source: Company, OCBC estimates

Figure 1: Asset breakdown by Geography - FY2017



Source: Company

Figure 2: Revenue breakdown by Segment - FY2017



Source: Company

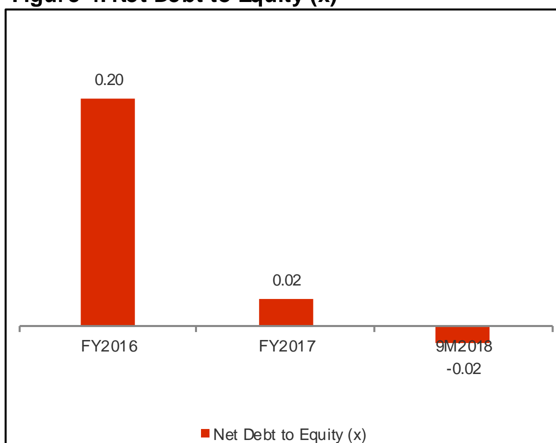
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	3.4	0.4%
	3.4	**0.4%**
Amount repayable after a year		
Secured	84.8	10.8%
Unsecured	695.9	88.8%
	780.6	**99.6%**
Total	**784.0**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Wing Tai Properties Ltd

Credit Outlook – We prefer WINGTA 4.25% '22s (3.70% YTM) over its parent WINGTA 4.5% '22s (3.35% YTM) for 35bps yield pickup. We think WINGTA 4.25% '22s also look more interesting than GUOLSP '22% (3.55% YTM) as the former has stronger credit metrics.

Issuer Profile: Neutral (4)

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.

Key credit considerations

- **Mixed bag of results:** Revenue fell 3.5% y/y to HKD1.06bn in FY2017, with property development revenue down 35% y/y to HKD139.5mn, likely due to the drawdown in inventory compared to 2016. As a result, segment profit fell to HKD44mn (2016: HKD51mn). Nevertheless, property investment and management continue to outperform, with revenue at HKD776mn in 2017 (2016: HKD737mn) due to continued growth in rental rates. Excluding fair value changes and one-off disposal gains, segment profit was HKD489mn (2016: HKD457mn). Net profit surged 74.2% y/y to HKD2.0bn mainly due to higher fair value gains (+24.4% y/y to HKD882.5mn) and HKD661.2mn gains on disposal (2016: nil). Excluding these one-off gains, overall core results still appear decent with profit before fair value changes and gains on divestment increasing 2.1% y/y to HKD487.8mn.

- **Landmark East as the anchor of the investment portfolio:** WTP holds 2.0mn sq ft of investment properties, which accounts for HKD19.3bn out of HKD35.5bn of total assets. WTP's investment properties are mainly represented by its flagship investment property Landmark East (GFA: 1.3mn sq ft) located in Kowloon East. Landmark East has continued to perform well with healthy occupancy (99%) and 7% upward rental reversion. Shui Hing Centre (187k sq ft) located in Kowloon Bay and Central Park (66.7k sq ft) located in Beijing have also performed well with occupancy of 93% and 91% respectively. However, the income from investment properties may fall going forward with the divestment of 2 wholly-owned properties in Hong Kong: Winner Godown Building (GFA: 497k sq ft) located in Tsuen Wan and W Square (129k sq ft) located in Wan Chai. Meanwhile, 33%-owned Cavendish Square (11k sqft) located in London is completing its refurbishment in 1H2018, which should partially replace the lost income from the divestments. In the mid-to-long term, WTP is exploring investment avenues in Hong Kong, London and other key gateway cities.

- **Increasing exposure to Hong Kong properties:** Under a 65% stake in a JV with CSI Properties, HKD11.6bn was reportedly paid for a land plot in Central, Site C of the Gage Street/Graham Street (GFA: 433,500 sq ft). Scheduled for completion in 2023, this will be developed into a Grade A office tower, a hotel, retail shops and public green space. We understand that WTP is still on a lookout to expand its land bank and development pipeline via public land tender programme and private treaty for development properties.

- **Strong property market to lift sales:** The continued strength in Hong Kong property prices is expected to benefit WTP as the 35%-owned Le Cap (GFA: 142k sq ft) and Le Vetta (318k sq ft) will be launching for sale. In addition, 100%-owned The Carmel (159k sq ft) will be completing in 2019. In the mid to long term, in addition to the land site at Central (completion: 2023), WTP is developing sites at 100%-owned So Kwun Wat Road, Tuen Mun (264k sq ft, completion in 2021) and 70%-owned Castle Peak Road, Tai Lum (294k sq ft, completion in 2022).

- **Contribution from hospitality:** Hospitality investment and management revenue fell to HKD127mn in 2017 (2016: HKD131mn). Nevertheless, this segment has improved, with segment profit excluding fair value changes increasing to HKD26mn (2016: HKD13mn) with Lanson Place Hotel in Hong Kong recording improvement in occupancy with stable rental rates.

- **Manageable credit metrics:** Net gearing increased to 19.9% (1H2017: 12.5%) with contingent liabilities increasing to HKD5.2bn (1H2017: HKD2.7bn), likely due to the HKD11.6bn purchase of the Central land plot. However, net gearing may decline to ~10% due to collection of proceeds from disposal of Winner Godown (HKD2.2bn, March 2018) and W Square (HKD2.9bn, June 2018).

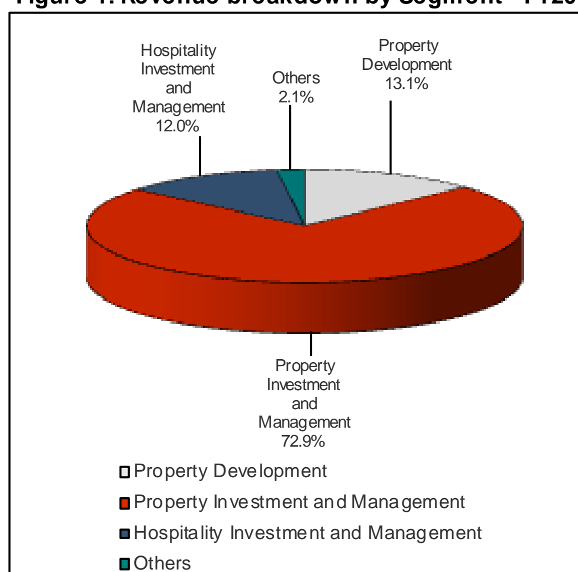
Wing Tai Properties Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	FY2017
Income Statement (HKD'mn)			
Revenue	1,009.2	1,103.3	1,064.3
EBITDA	432.8	487.0	476.1
EBIT	427.8	482.8	471.1
Gross interest expense	137.0	137.9	160.6
Profit Before Tax	1,182.3	1,260.4	2,101.0
Net profit	1,099.1	1,146.5	1,981.9
Balance Sheet (HKD'mn)			
Cash and bank deposits	2,088.8	1,682.8	654.2
Total assets	28,220.9	30,776.1	35,496.1
Gross debt	3,766.3	5,184.8	6,184.1
Net debt	1,677.5	3,502.0	5,529.9
Shareholders' equity	23,347.3	24,312.1	27,809.9
Total capitalization	27,113.6	29,496.9	33,994.0
Net capitalization	25,024.8	27,814.1	33,339.8
Cash Flow (HKD'mn)			
Funds from operations (FFO)	1,104.1	1,150.7	1,986.9
* CFO	1,058.9	-1,643.2	897.1
Capex	258.4	11.0	75.2
Acquisitions	0.0	0.0	0.0
Disposals	135.4	458.3	314.5
Dividends	181.3	201.7	246.5
Free Cash Flow (FCF)	800.5	-1,654.2	821.9
* FCF Adjusted	754.6	-1,397.6	889.9
Key Ratios			
EBITDA margin (%)	42.9	44.1	44.7
Net margin (%)	108.9	103.9	186.2
Gross debt to EBITDA (x)	8.7	10.6	13.0
Net debt to EBITDA (x)	3.9	7.2	11.6
Gross Debt to Equity (x)	0.16	0.21	0.22
Net Debt to Equity (x)	0.07	0.14	0.20
Gross debt/total capitalisation (%)	13.9	17.6	18.2
Net debt/net capitalisation (%)	6.7	12.6	16.6
Cash/current borrowings (x)	4.8	3.5	0.5
EBITDA/Total Interest (x)	3.2	3.5	3.0

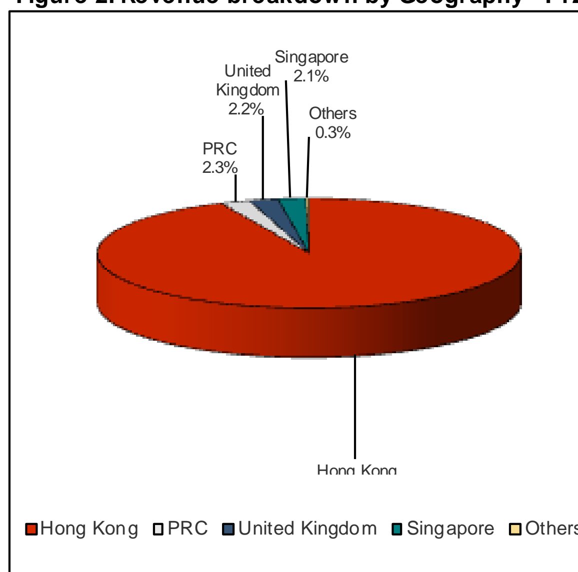
Source: Company, OCBC estimates
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2017



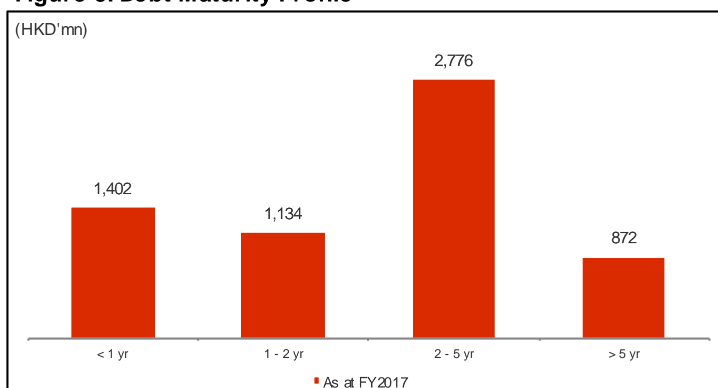
Source: Company

Figure 2: Revenue breakdown by Geography - FY2017



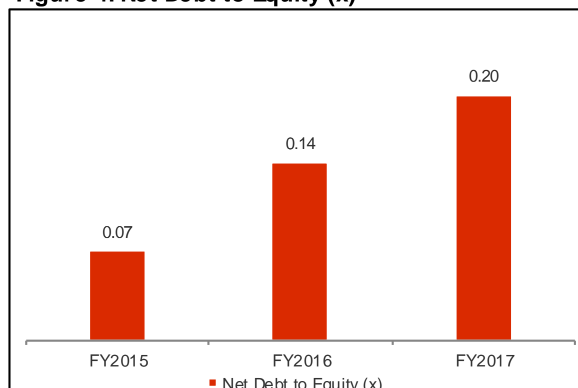
Source: Company

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Financial Institution Outlooks

Credit Outlook – ABN is on track to achieve its cost/income target by 2020 and its CET 1 ratio at 17.5% remains well above the minimum requirement of 11.75% That said, compared to similarly rated banks, we see better value elsewhere against the ABNANV 4.75 '26c22, in particular the BNP 4.3 '25c20.

Issuer Profile: Neutral (3)

Ticker: **ABNANV**

Background

Wholly owned by ABN AMRO Group NV, ABN Amro Bank NV ('ABN') is 56.0% 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. In FY2017, ABN derived 78% of operating income from the Netherlands followed by Europe (11%), Asia (6%) and the US (4%). As at 31 March 2018, it had total assets of EUR397.2bn.

ABN AMRO Bank NV

Key credit considerations

- **Solid underlying performance offset by higher impairments:** 1Q2018 operating results were up 10% y/y, driven by higher operating income and well-managed operating expenses. 1Q2018 operating income was up 4% y/y on the back of higher net interest income (+5% y/y) and other operating income (+15% y/y). Net interest income grew on the back of loan growth and a higher net interest margin ('NIM') of 1.66% (1Q2017: 1.56%). Other operating income was higher due to higher equity participation results and revaluations gains on the stake in equensWordline. Net profit for 1Q2018 however fell 3% y/y to EUR595mn due to higher impairment charges on loans and other advances which totaled EUR208mn (1Q2017: EUR63mn). On a q/q basis, despite higher impairment charges incurred and lower operating income (-4% q/q), net profit was 10% higher q/q due to a decrease in operating expenses (-18% y/y) relative to the higher year-end expenses and incidental cost incurred in 4Q2017.

- **Operating expenses kept in check:** Due to incidental costs such as restructuring provisions and EUR25mn penalty fees from interest averaging, operating expenses remained flat y/y despite an underlying decline in costs as a result cost-saving programs. Personnel expenses were 6% lower y/y due to the reduced workforce while other expenses were broadly stable as IT cost savings were balanced against higher IT expenditure on innovation. Higher income coupled with flat operating expenses led to the cost/income ratio improving to 57.9% (1Q2016: 60.2%), within ABN's target range of 56-58% by 2020.

- **Pressures in mortgage loans:** Retail Banking, which contributes~41% to overall operating income, has seen flattish growth due to the competitive landscape in the mortgage lending market. While ABN's market share of new mortgage production was ~20% in 1Q2018 (in line with ABN's market share in the overall mortgage market), some market share has been foregone versus prior periods to maintain the profitability of the mortgage book. New mortgage production in 1Q2018 decreased 24%y/y to EUR4bn. This led to operating income for the Retail Banking segment falling 9% q/q and 2% y/y 1Q2018. Lower income was also attributable to the transfer of clients to Private Banking. As for other segments, better operating income from business growth was over-shadowed by higher impairments in Commercial Banking and Corporate & Institutional Banking, while Private Banking performance benefited from lower expenses.

- **Shift of focus in Private banking:** In Nov 2016, ABN sold its private banking operations in Asia and the Middle East to focus on further strengthening its private banking business in Northwest Europe. With ABN's announcement in February 2018 that it will be selling its Luxembourg business to focus even more on its core private banking market in North-West Europe, ABN is hoping to simplify its operations and harmonise its client segment, service offering and platforms to create a single private bank. This initiative is part of ABN's broader strategy to streamline its operations through digitalisation and efficiency improvements, which has so far included a gradual decline in headcount and size of the retail branch network.

- **Capital ratios above minimums:** Despite still decent earnings performance this quarter, an increase in risk-weighted assets ("RWA") (+1.7% y/y) due to the impact of IFRS9 as well as growth in credit RWA from loans growth led to a drop in ABN's capital ratios. ABN's fully loaded CET1 ratio fell 20bps to 17.5% (4Q2017: 17.7%). Although at the lower end of its capital target range for 2018 of 17.5%-18.5%, the ratio is well above its reported 2019 fully-loaded minimum Supervisory Review and Evaluation Process CET1 requirement of 11.75%. ABN's fully loaded leverage ratio also dipped to 4.0% for 1Q2018 (4Q2017: 4.1%), but nevertheless above the 3.0% minimum requirement and in line with ABN's target level.

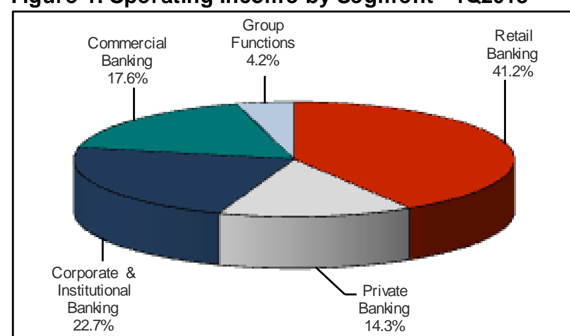
ABN AMRO Group N.V.

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (EUR'mn)			
Net Interest Income	6,268	6,456	1,671
Non Interest Income	1,905	2,779	695
Operating Expenses	5,657	5,581	5,582
Pre-Provision Operating Profit	2,516	3,654	976
Provisions	114	-63	208
Other Income/(Expenses)	55	54	50
PBT	2,457	3,771	3,773
Income Taxes	650	979	178
Net Income to Common Shareholders	1,806	2,773	2,777
Balance Sheet (EUR'mn)			
Total Assets	394,481	393,171	397,224
Total Loans (net)	267,678	274,906	275,830
Total Loans (gross)	266,551	273,666	275,084
Total Allowances	3,666	2,460	2,698
Total NPLs	8,912	6,909	6,839
Total Liabilities	375,544	371,841	375,764
Total Deposits	228,757	236,699	234,251
Total Equity	18,937	21,330	21,460
Key Ratios			
NIM	1.52%	1.57%	1.66%
Cost-income Ratio	65.9%	60.1%	57.9%
LDR	117.0%	116.1%	117.7%
NPL Ratio	3.34%	2.52%	2.49%
Allowance/NPLs	41.1%	35.6%	39.5%
Credit Costs	0.04%	-0.02%	-0.02%
Equity/Assets	4.80%	5.43%	5.40%
CETier 1 Ratio (Full)	17.0%	17.7%	17.6%
Tier 1 Ratio	18.0%	18.5%	18.5%
Total CAR	24.6%	21.3%	21.2%
ROE	11.8%	14.5%	11.5%
ROA	0.45%	0.70%	0.70%

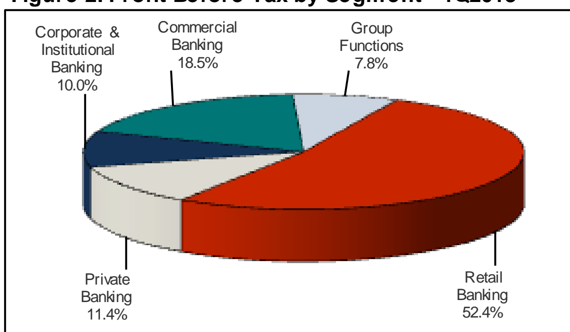
Source: Company

Figure 1: Operating Income by Segment - 1Q2018



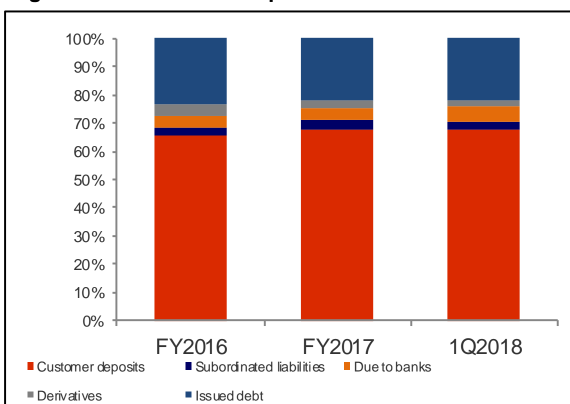
Source: Company

Figure 2: Profit Before Tax by Segment - 1Q2018



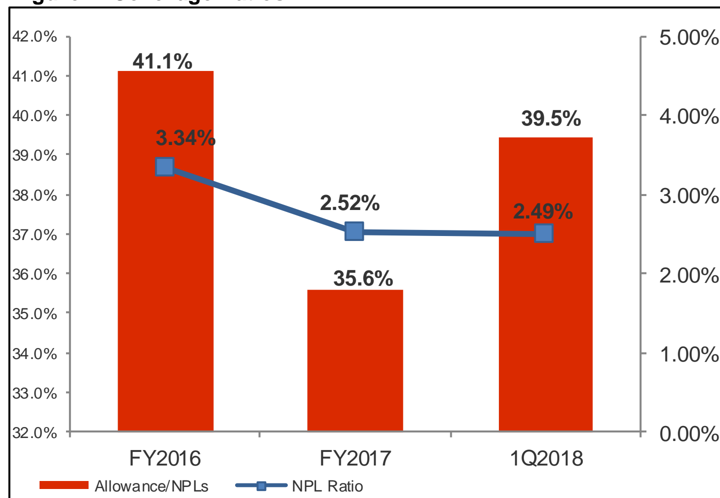
Source: Company

Figure 3: Liabilities Composition



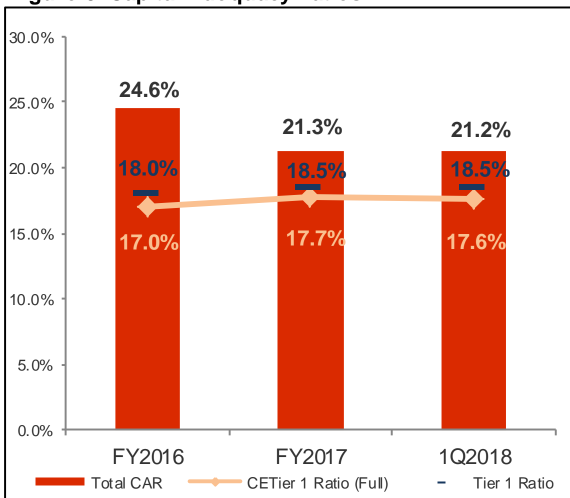
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Improved underlying results highlight the impact of ANZ's repositioning strategies and a benign operating environment. ANZ's strong capital position will be important given potential challenges to future profitability facing Australian banks. The ANZ 3.75% '27c22s represent decent value although the NAB 4.15% '28c23s look cheaper. We currently rate all the Australian banks at a Positive (2) Issuer Profile.

Issuer Profile: Positive (2)

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 2018, the bank had total assets of AUD935.1bn.

Australia & New Zealand Banking Group Ltd

Key credit considerations

- **Underlying profit performance helped by cost management:** 1HFY2018 underlying cash profits (which reflects the results of continuing businesses) for the 6 months ended 31 March was up 4% y/y to AUD3.5bn. Better y/y profit performance was driven entirely by the cost side with a 2% y/y fall in operating expenses from lower personnel and premises expenses outside Australia and 43% y/y reduction in credit impairment charges mitigating a 2% y/y fall in operating income. The weaker operating income result was driven by a 1% y/y fall in net interest income as a 7bps y/y fall in net interest margins to 1.93% overshadowed a 3% y/y rise in average interest earnings assets. Other operating income was also weak, down 4% y/y due mostly to lower markets related income despite growth in market-related assets.

- **Segment performance reflects strategic initiatives:** Profit by segment reflects ANZ's on-going restructuring activities with solid profit growth in ANZ's core Australia and New Zealand segments of 9% y/y and 7% y/y respectively while Institutional and the remaining Wealth Australia segments fell 26% y/y and 24% y/y respectively. As such, the combined contribution of the Australia (comprises Retail and Business & Private Banking) and New Zealand (comprises Retail and Commercial Banking) segments to overall profits rose to above 90% for 1HFY2018, compared to ~70% in 1HFY2017. This is in line with management's focus on more profitable segments such as Australia and New Zealand (stronger net interest margins) as opposed to the Institutional segment (comprises global institutional and business customers). Asia Retail & Pacific segment performance improved materially following the sale of ANZ's retail and wealth businesses in Singapore, Hong Kong, China, Taiwan and Indonesia to DBS Group Holdings Ltd and ANZ's retail business in Vietnam to Shinhan Bank Vietnam.

- **Restructuring also seen in balance sheet**: Total assets (including discontinued operations) grew 4.3% y/y to AUD935.1bn and was supported by a 4.4% y/y increase in net loans and advances. This was driven mostly by foreign currency translation impacts with underlying growth in average net loans and advances of 1% y/y due to growth in home loans in Australia and New Zealand to AUD271bn. Growth in markets-related assets drove a corresponding increase in ANZ's liquidity portfolio holdings. In line with reduced impairment charges, new impaired assets fell 46% y/y (-32% h/h) due to the Institutional segment's improved risk profile from portfolio rebalancing, better performance in New Zealand Commercial and Agri business and reduced exposure to Asia Retail and Wealth businesses following its partial sale. Gross impaired assets fell 31% y/y. However as individual provisions fell only 21% y/y, the fall in net impaired assets y/y was higher at 39% indicating still solid metrics for loan quality.

- **And supporting capital ratios:** Despite growth in total assets, risk weighted assets were broadly stable y/y. Along with solid earnings generation and asset divestments, ANZ's APRA compliant capital ratios improved with 1HFY2018 CET1/CAR ratios of 11.0%/14.9% against FY2017 CET1/CAR ratios of 10.6%/14.8% and 1HFY2017 ratios of 10.1%/14.5%. Ratios are now further above regulatory minimum requirements and APRA's minimum CET1 requirement of 10.5% by Jan 1, 2020 for 'unquestionably strong' capital ratios as recommended by the 2014 Financial System Inquiry. On an internationally comparable basis, the CET1 ratio improved to 16.3% for 1HFY2018 from 15.8% for FY2017 and 15.2% for 1HFY2017. This incorporates the 88bps impact from dividend payments and share buyback. Capital ratios will further improve once regulatory approval is obtained for recently announced Wealth Australia divestments and the transactions complete. Strong capital buffers will become increasingly important given the anticipated future impact from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry with earnings potential constrained by possibly lower loan growth and higher regulatory and operating expenses.

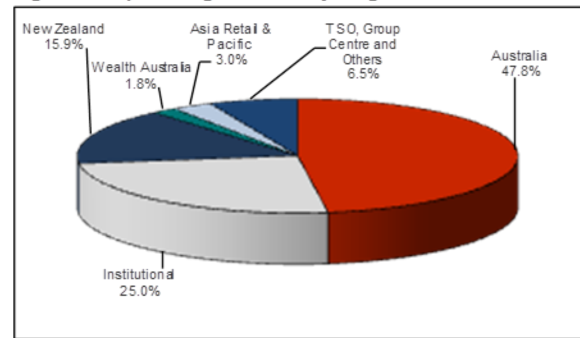
Australia & New Zealand Banking Group Ltd

Table 1: Summary Financials

Year Ended 30th Sep	FY2016	FY2017	1H2018
Income Statement (AUD'mn)			
Net Interest Income	15,095	14,872	7,350
Non Interest Income	4,893	5,101	2,737
Operating Expenses	10,422	9,448	4,411
Pre-Provision Operating Profit	9,566	10,525	5,676
Provisions	1,929	1,198	408
Other Income/(Expenses)	541	300	88
PBT	8,178	9,627	5,356
Income Taxes	2,458	3,206	1,426
Net Income to Common Shareholders	5,709	6,406	3,323
Balance Sheet (AUD'mn)			
Total Assets	914,869	897,326	935,116
Total Loans (net)	575,852	574,331	588,946
Total Loans (gross)	578,944	583,444	594,939
Total Allowances	4,183	3,798	3,595
Total NPLs	2,646	2,118	1,863
Total Liabilities	856,942	838,251	875,616
Total Deposits	588,195	595,611	616,230
Total Equity	57,927	59,075	59,500
Key Ratios			
NIM	2.07%	1.99%	1.93%
Cost-income Ratio	50.7%	46.1%	46.8%
LDR	97.9%	96.4%	95.6%
NPL Ratio	0.46%	0.36%	0.31%
Allowance/NPLs	158.1%	179.3%	193.0%
Credit Costs	0.33%	0.21%	0.14%
Equity/Assets	6.33%	6.58%	6.35%
CETier 1 Ratio (Full)	9.6%	10.6%	11.0%
Tier 1 Ratio	11.8%	12.6%	12.9%
Total CAR	14.3%	14.8%	14.9%
ROE	10.0%	11.0%	11.3%
ROA	0.63%	0.70%	0.71%

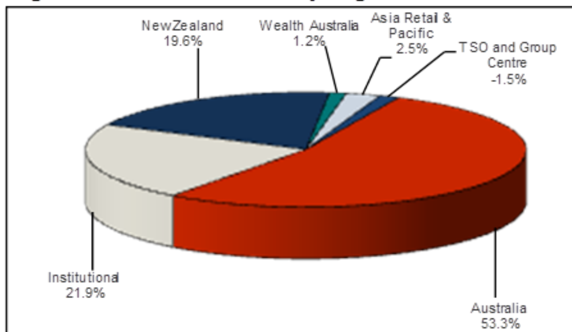
Source: Company

Figure 1: Operating Income by Segment - 1H2018



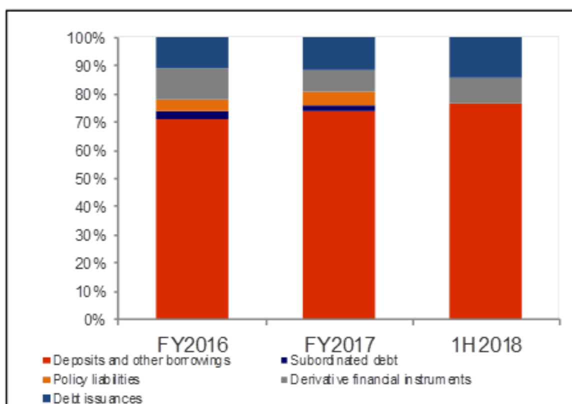
Source: Company

Figure 2: Profit Before Tax by Segment - 1H2018



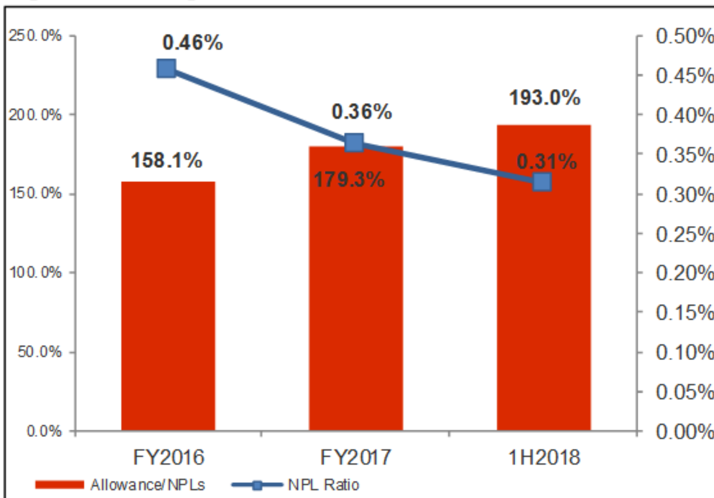
Source: Company

Figure 3: Liabilities Composition



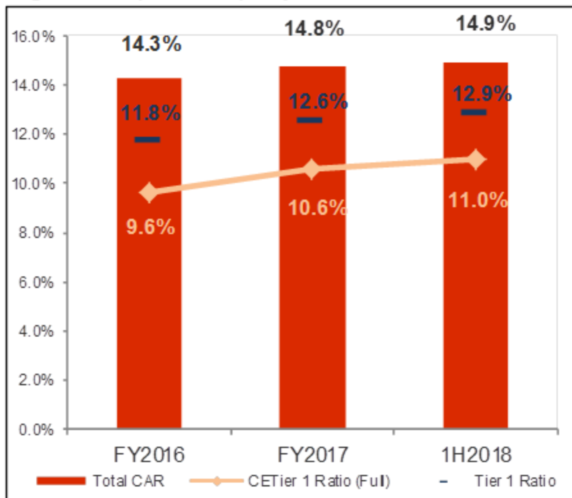
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Bank of China Ltd

Credit Outlook – BOC's strong business franchise and government importance should mitigate a slowing operating environment. These fundamentals continue to support fair value for the BCHINA 2.75% '19s for the short tenor within the bank senior space.

Issuer Profile: Neutral (4)

Ticker: **BCHINA**

Background

Established in 1912, Bank of China Ltd ('BOC') operates predominantly in China but also globally in 54 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 RMB20,159.8bn as at 31 March 2018.

Key credit considerations

- **Earnings support from net interest income and lower expenses:** Positive momentum in FY2017 earnings carried through into BOC's 1Q2018 results. Net interest income of RMB86.1bn for 1Q2018 rose 9.5% y/y due to a 5bps increase in net interest margins to 1.85%. This partially mitigated a 21.4% fall in non-interest income due to trading losses and a fall in other operating income while net fee and commission income was broadly stable y/y. This drove operating income down 2.7% y/y to RMB126.1bn. Overall expense performance however was positive, with a marginal increase (+1.0% y/y) in operating expenses more than mitigated by a 30.3% reduction in expenses recognized for impairment losses. As a result, BOC's operating profit rose 4.5% y/y. These trends are similar to FY2017 performance with operating income down marginally (-0.39% y/y) to RMB483.7bn as gains from net interest income (+10.57% y/y from net interest margin improvement y/y to 1.84% from 1.83% and higher loan volumes) were partially offset by weak performance in non-interest income (-19.06% y/y) and net fee and commission income (+0.03% y/y). Operating profit rose however by RMB226bn (+0.10% y/y) due to lower operating expenses (-0.69% y/y) and a decline in impairment losses on assets (-1.02% y/y).

- **Balance sheet growth also contributing**: BOC's balance sheet grew in both 1Q2018 and FY2017 with total assets up 7.3% y/y for FY2017 and up a further 3.6% q/q for 1Q2018. This was driven by growth in both investments and gross loans to customers. Total loans continue to be skewed towards Corporate Loans which comprised 64% of total gross loans and advances as at 31 December 2017. This was down from 66% as at 31 December 2016 as mortgages growth was higher y/y in FY2017 at 16.1% against y/y growth in corporate loans of 6.1%. Credit cards (3.4% of total gross loans at 31 December 2017) also saw strong y/y growth by 23.8%. This rebalancing contributed to the y/y and q/q improvement in the non-performing loan ratio ('NPL') by 1bps and 2bps respectively to 1.45% as at 31 December 2017 and 1.43% as at 31 March 2018. This is because NPL ratios for personal loans (0.71% as at 31 December 2017) are much lower than corporate loans (1.86% as at 31 December 2017) and improved noticeably y/y for FY2017 (FY2016: 0.85%). The impaired loans ratio also improved for BOC's overseas exposures (excluding Hong Kong, Macau and Taiwan) to 0.19% against 0.24% over the same period. The reported loan impairment loss coverage ratio remains solid at 168.10% as at 31 March 2018 (FY2017: 159.2%).

- **Growth influencing capital ratios:** Despite CET1/CAR capital improvement q/q of 0.7%/0.4% respectively, capital ratios weakened q/q due to higher growth in risk-weighted assets ('RWAs') of 2.7% with CET1/CAR ratio for 1Q2018 of 10.94%/13.87% against 11.15%/14.19% for FY2017. RWAs similarly rose in FY2017 (+7.9% y/y). That said, BOC's capital ratios remain well above expected 2018 minimum requirements of 8.5%/11.5% for CET1/CAR ratios respectively including a fully phased in capital conservation buffer of 2.5%. Minimums however do not include any counter cyclical capital buffer (yet to be finalized) nor any capital buffer requirement as a global systemically important bank (currently 1.5% with compliance date in January 2025).

- **Operating environment and regulatory reforms in the right direction:** Our OCBC economist expects China's economy to grow by 6.5% in 2018 and 6.4% in 2019, lower than 2017 as supportive external factors in 2017 and earlier in 2018 (with a better than expected GDP growth print in 1Q2018 of 6.8%) give way to a slowdown in momentum domestically. Banking industry reform also continues with measures to reduce systemic corporate leverage and curtail shadow banking along with reserve requirement ratio cuts to support further lending to small and micro companies expected to contribute to sustainable future economic growth. These dynamics have led rating agencies to upgrade their outlook and fundamental views for Chinese banks.

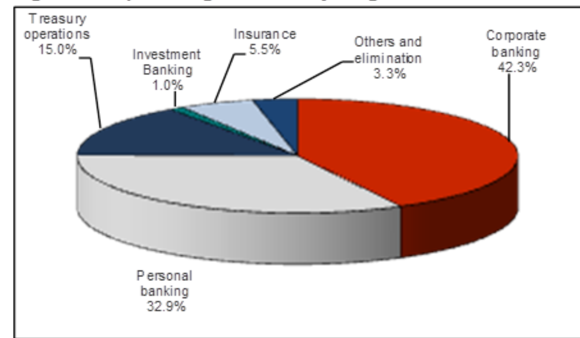
Bank of China Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (RMB'bn)			
Net Interest Income	306,048	338,389	86,051
Non Interest Income	179,608	145,372	42,865
Operating Expenses	175,069	173,859	46,227
Pre-Provision Operating Profit	310,587	309,902	82,689
Provisions	89,072	88,161	15,495
Other Income/(Expenses)	897	1,162	489
PBT	222,412	222,903	67,683
Income Taxes	38,361	37,917	15,500
Net Income to Common Shareholders	164,578	172,407	49,001
Balance Sheet (RMB'bn)			
Total Assets	18,148,889	19,467,424	20,159,826
Total Loans (net)	9,735,646	10,644,304	10,863,269
Total Loans (gross)	9,973,362	10,896,558	11,130,549
Total Allowances	237,716	252,254	268,367
Total NPLs	146,003	158,469	159,647
Total Liabilities	16,661,797	17,890,745	18,576,156
Total Deposits	12,939,748	13,657,924	14,351,098
Total Equity	1,487,092	1,576,679	1,583,670
Key Ratios			
NIM	1.83%	1.84%	1.85%
Cost-income Ratio	28.1%	28.3%	26.2%
LDR	75.2%	77.9%	75.7%
NPL Ratio	1.46%	1.45%	1.43%
Allowance/NPLs	162.8%	159.2%	168.1%
Credit Costs	0.89%	0.81%	0.56%
Equity/Assets	8.19%	8.10%	7.86%
CETier 1 Ratio (Full)	11.4%	11.2%	10.9%
Tier 1 Ratio	12.3%	12.0%	11.8%
Total CAR	14.3%	14.2%	13.9%
ROE	12.6%	12.2%	13.9%
ROA	1.05%	0.98%	1.05%

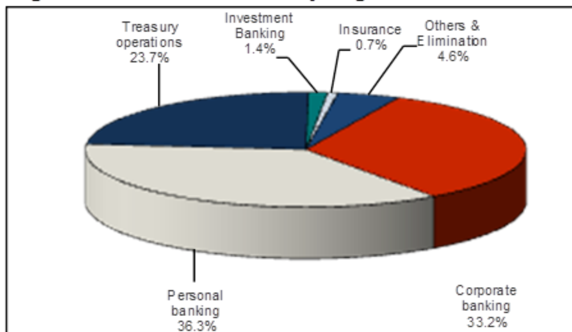
Source: Company

Figure 1: Operating Income by Segment - FY2017



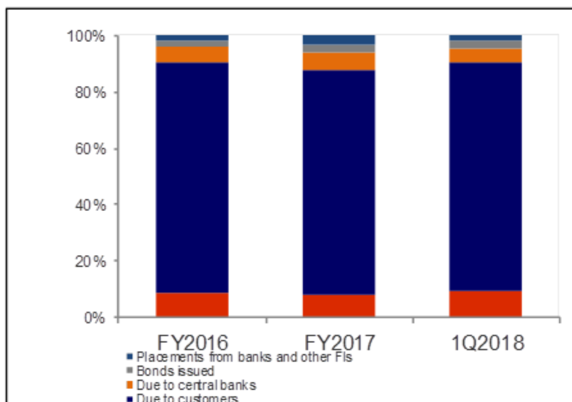
Source: Company

Figure 2: Profit Before Tax by Segment - FY2017



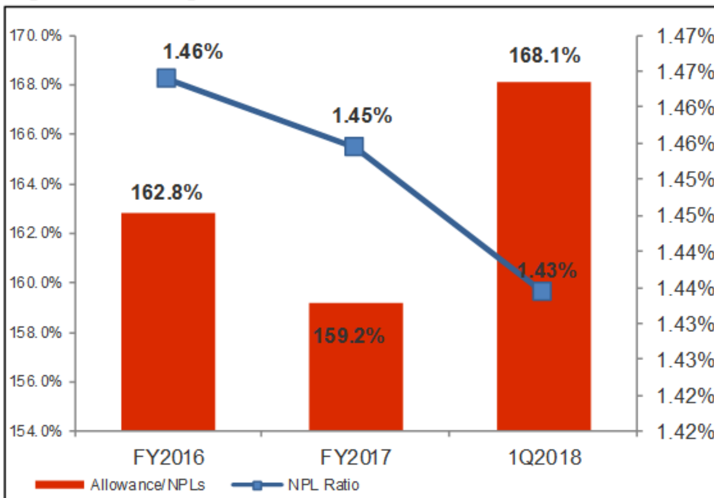
Source: Company

Figure 3: Liabilities Composition



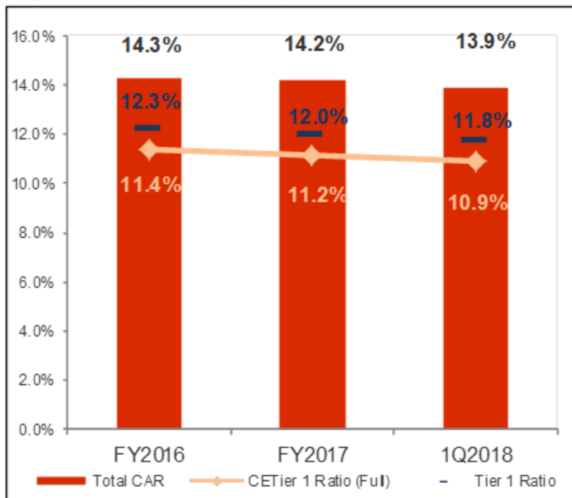
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Barclays' results indicate some fundamental challenges in our view aside from headline numbers that were impacted by one-offs. That said, management believe the business is now positioned for improved performance going forward. We are underweight the BACR 3.75 '30c25 due to its long call date.

Issuer Profile: Neutral (4)

Ticker: **BARC**

Background
Based in the UK, Barclays PLC ('Barclays') operates in over 50 countries across two main business segments – Barclays UK and Barclays International. Its scale in the UK and globally makes Barclays systemically important on both a domestic and global level. As at 31 March 2018, it had total assets of GBP1,142.2bn. It's largest shareholders comprise institutional investors including The Capital Group Companies Inc., Qatar Investment Authority, and BlackRock Inc.

Barclays PLC

Key credit considerations

- **Results impacted by higher than expected one-off charges**: Barclays 1Q2018 results were somewhat mixed with supportive underlying performance overshadowed by large litigation and conduct provisions of GBP2.0bn. These resulted in a loss before tax for the quarter of GBP236mn. Excluding litigation and conduct charges, profit before tax was GBP1.73bn, up 1% y/y. The bulk of the charges comprised a GBP1.4bn settlement with the US Department of Justice ('DoJ') for sales of toxic RMBS from 2005-2007. While this settlement with the DoJ was previously announced, what was unexpected was an additional GBP400mn charge for Payment Protection Insurance ('PPI'). Nevertheless, with total provisions at GBP3.54bn as at 31 December 2017 (and management's assertion that PPI provisions remaining to be used until 29 August 2019 as at 31 March 2018 was GBP1.7bn), recent settlement and higher charges can likely be accommodated within existing resources.

- **Solid underlying performance but some challenges remain:** Barclays' underlying earnings benefited from improved expense performance with a 45% y/y reduction in credit impairment charges from both single name recoveries and a better US economic outlook as well as a 6% y/y fall in operating expenses. These, along with better performance in Barclays International, offset an 8% fall in total income from weaker performance in the UK, USD depreciation and absence of one-off gains from 1Q2017. In particular, Corporate & Institutional Banking ('CIB') income improved 1% y/y in 1Q2018 as markets related income growth (equities derivatives and financing from increased client activity and market volatility) of 8% mitigated a 4% fall in banking income from lower fee income and an 11% decline in corporate lending. While we caution that improved underlying performance has come from a somewhat volatile income source, the positive trend in expenses provides comfort for future underlying earnings performance.

- **Balance sheet growth/risk profile change:** Business growth in investment banking (derivatives and securities trading activity) translated into a 2.5% rise in risk weighted assets. This offset the impact on risk weighted assets of USD depreciation against the GBP (-0.6%) and improvements in book quality (-0.3%). Quality improvements largely occurred in Barclays International with the re-allocation of RWAs in CIB and repositioning of the US Cards portfolio in Consumer, Cards and Payments. Such movements also explain the weaker earnings and lower impairment charges in these respective divisions as part of Barclays' on-going restructuring activities which has in general seen RWAs falling over previous quarters.

- **Capital ratios weaker:** Barclays' loss before tax for the quarter of GBP236mn contributed to a reduction in Barclays CET1 ratio to 12.7% as at 31 Mar 2018 (13.3% as at 31 Dec 2017). Capital ratios were also impacted by a GBP4.9bn increase in risk weighted assets. These negative movements offset the positive impact on CET1 capital from the implementation of IFRS9. The CET1 ratio is now just below Barclay's expectation for its end state CET1 ratio of around 13%, but nevertheless above its regulatory minimum requirement of around 11.4% (this level is also what management expects would be the Mandatory Distribution Restrictions hurdle). Its UK leverage ratio of 4.8% is also above the transitional minimum requirement of 3.6% as at 31 March 2018 and expected minimum 4.0% requirement applicable from 2019. Management focus on capital will continue to be high in our view, particularly given their intention to return capital to shareholders through dividends and share buybacks in the future.

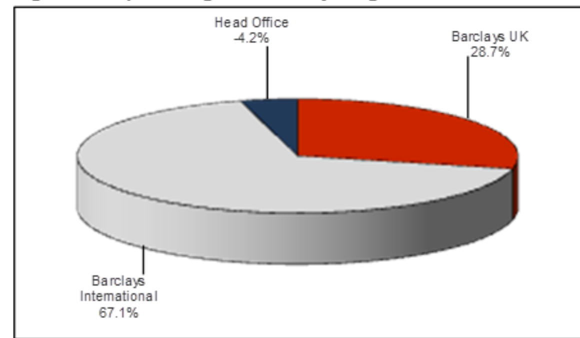
Barclays Plc

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (GBP'mn)			
Net Interest Income	10,537	9,845	2,188
Non Interest Income	10,914	11,231	3,170
Operating Expenses	16,338	15,456	5,325
Pre-Provision Operating Profit	5,113	5,620	52
Provisions	2,373	2,336	288
Other Income/(Expenses)	490	257	0
PBT	3,230	3,541	-236
Income Taxes	993	2,240	304
Net Income to Common Shareholders	1,623	-1,922	-764
Balance Sheet (GBP'mn)			
Total Assets	1,213,126	1,133,248	1,142,200
Total Loans (net)	392,784	365,552	319,085
Total Loans (gross)	397,404	370,204	325,990
Total Allowances	4,620	4,652	6,905
Total NPLs	6,491	5,994	N.A
Total Liabilities	1,141,761	1,067,232	1,080,570
Total Deposits	423,178	429,121	381,326
Total Equity	71,365	66,016	61,630
Key Ratios			
NIM	3.76%	3.74%	3.71%
Cost-income Ratio	76.0%	73.0%	99.0%
LDR	92.8%	85.2%	83.7%
NPL Ratio	1.63%	1.62%	N.A
Allowance/NPLs	71.2%	77.6%	N.A
Credit Costs	0.60%	0.63%	0.09%
Equity/Assets	5.88%	5.83%	5.40%
CETier 1 Ratio (Full)	12.4%	13.3%	12.7%
Tier 1 Ratio	15.6%	17.2%	16.4%
Total CAR	19.6%	21.5%	20.3%
ROE	3.6%	-3.6%	-6.5%
ROA	0.09%	-0.16%	-0.27%

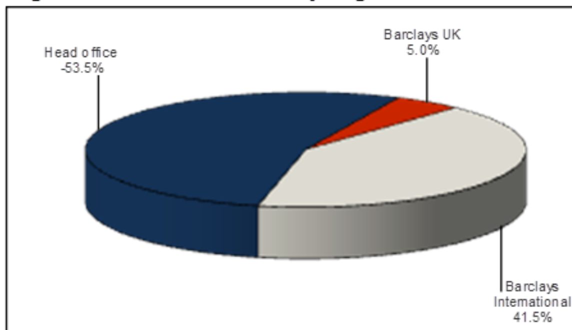
Source: Company

Figure 1: Operating Income by Segment - 1Q2018



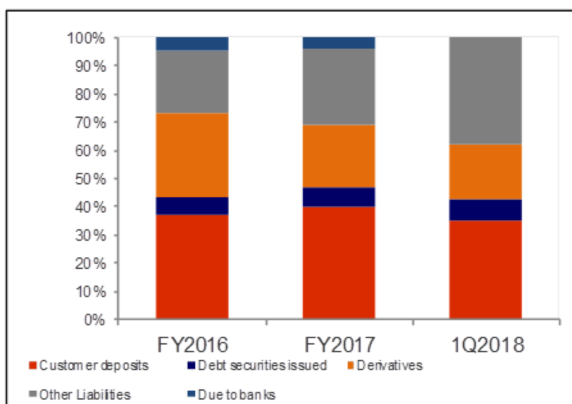
Source: Company

Figure 2: Profit Before Tax by Segment - 1Q2018



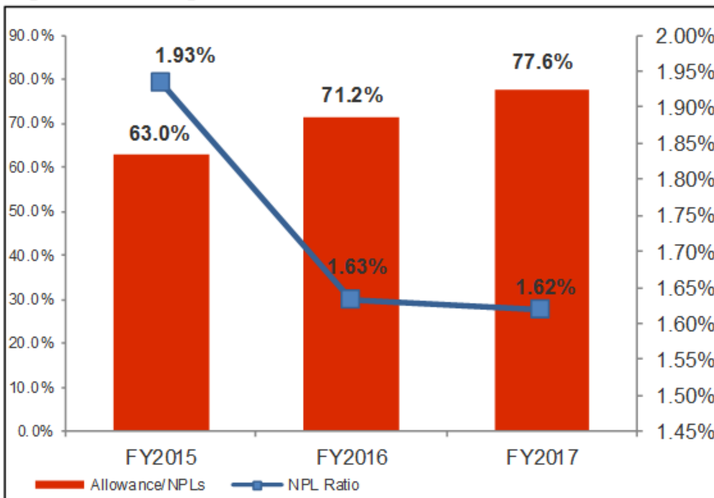
Source: Company

Figure 3: Liabilities Composition



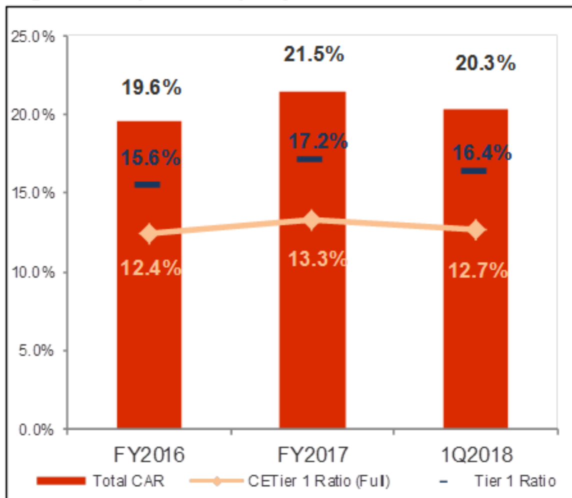
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

BNP Paribas SA

Credit Outlook – Earnings pressures for BNPP are consistent with domestic peers, however its scale and diversity insulates the credit profile in our view. We see the BPCE Tier 2 papers as better value considering fundamentals and spread across domestic peers. We rate BNP Paribas one level higher at Neutral (3) in view of its more geographically diversified.

Issuer Profile: Neutral (3)

Ticker: **BNP**

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 EUR2,150.5bn as at 31 March, 2018. Its largest shareholder at ~8% is the Belgian government.

Key credit considerations

- **Softer headline numbers from multiple sources:** BNPP's 1Q2018 results continue to reflect somewhat challenging operating conditions for French banks with revenues down 4.4% y/y. Although this was partially due to inclusion of the capital gain from sale of Shinhan shares in 1Q2017, revenues from the operating divisions were also down 1.4% y/y due to unfavourable foreign exchange movements as well as weak markets performance, particularly in fixed income, currencies and commodities. In addition, operating expenses rose 1.7% y/y due to EUR211mn from exceptional business transformation and acquisition restructuring costs as well as the booking of full year anticipated tax increases from application of IFRIC 21. Excluding these exceptional costs, operating expenses actually fell 0.6%. That said, the combination of weaker revenues and higher costs translated to gross operating income down 20.1% y/y. In a change of prior period trends, BNPP's cost of risk rose 3.9% and this translated to operating income down 25.6% y/y. This was offset by EUR171mn in other non-operating items from sale of a building which moderated the y/y fall in pre-tax income to 18.1% or EUR2.2bn.

- **Q/q comparison is more promising:** Q/q results show more positive trends with revenues up 2.5% and cost of risk down 37.6%. This however was offset by an 8.4% rise in operating expenses (likely due to exceptional items) which resulted in broadly stable operating income of EUR1.9bn q/q. However due to the aforementioned EUR171mn in other non-operating items and stronger q/q performance in 'Other Activities' (comprises insurance activities, investment property, assets leased under operating leases, and property development activities), pre-tax income was up 6.3% q/q.

- **Diversification continues to support operating performance:** Operating division performance was slightly better than reported results although still somewhat weak. Operating division revenues were down 1.4% y/y (-4.4% reported), principally due to 9.8% y/y fall in revenues at Corporate and Institutional Banking ('CIB') due to weaker European markets. Mitigating this however was a 0.3% y/y rise in Domestic Markets despite ongoing low interest rates due to business growth (outstanding loans up 5.3% y/y), and a 3.8% y/y rise International Financial Services ('IFS') which was also from business growth (outstanding loans up 12.1% y/y in Personal Finance and up 3.8% in International Retail Banking). Although cost of risk in IFS rose noticeably y/y and marginally q/q, including share of earnings from equity method entities, pre-tax income from IFS was up 4.8% y/y while Domestic Markets and CIB were down 6.5% and 28.2% respectively y/y. Q/q trends differed with the aforementioned q/q improvement in pre-tax income driven instead by a 13.8% q/q rise in CIB (principally due to a net write-back in provisions). Domestic Market and IFS pre-tax income was weaker q/q by 20.1% and 11.6% respectively. Nevertheless, BNPP's scale and diversity continues to provide support for underlying earnings.

- **Capital ratios to remain satisfactory**: BNPP's CET1 ratio at 11.6% as at 31 March 2018 was slightly weaker q/q (11.9% as at 31 December 2017) due to the impact of full implementation of IFRS9. Excluding this impact, CET1 ratios would have been stable as quarterly earnings and a fall in risk weighted assets from foreign exchange impacts were offset by dividend payments. Absent foreign exchange effects, risk weighted assets rose q/q. BNPP's Tier 1 and Total Capital ratios were also weaker marginally q/q (13.0%/14.7% as at 31 March 2018 against 13.2%/14.8% as at 31 Dec 2017 respectively). Nevertheless, BNPP's capital ratios remain well above minimum transitional requirements of 9.125%/10.625%/12.625% for 2018 as disclosed in BNPP's 2017 annual report. Although future minimum regulatory requirements will rise, BNPP's capital ratios are expected to remain satisfactory given plans to issue around EUR10bn of senior non-preferred debt until January 2019.

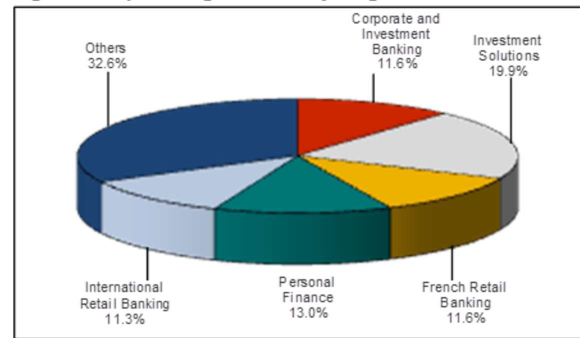
BNP Paribas S.A

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (EUR'mn)			
Net Interest Income	22,376	21,774	10,798
Non Interest Income	21,035	21,387	
Operating Expenses	29,378	29,944	8,260
Pre-Provision Operating Profit	14,033	13,217	2,538
Provisions	3,262	2,907	615
Other Income/(Expenses)	633	713	162
PBT	11,210	11,310	2,256
Income Taxes	3,095	3,103	558
Net Income to Common Shareholders	7,702	7,759	1,567
Balance Sheet (EUR'mn)			
Total Assets	2,076,959	1,960,252	2,150,517
Total Loans (net)	712,233	727,675	734,053
Total Loans (gross)	739,278	752,361	756,153
Total Allowances	27,045	24,686	22,100
Total NPLs	41,779	37,531	N.A
Total Liabilities	1,971,739	1,853,043	2,045,191
Total Deposits	765,953	766,890	789,912
Total Equity	105,220	107,209	105,326
Key Ratios			
NIM	1.64%	1.60%	1.50%
Cost-income Ratio	67.7%	69.4%	76.5%
LDR	93.0%	94.9%	92.9%
NPL Ratio	5.65%	4.99%	N.A
Allowance/NPLs	64.7%	65.8%	N.A
Credit Costs	0.44%	0.39%	0.16%
Equity/Assets	5.07%	5.47%	4.90%
CETier 1 Ratio (Full)	11.5%	11.9%	11.6%
Tier 1 Ratio	12.6%	13.2%	13.0%
Total CAR	14.2%	14.8%	14.7%
ROE	9.3%	8.9%	10.4%
ROA	0.38%	0.38%	0.29%

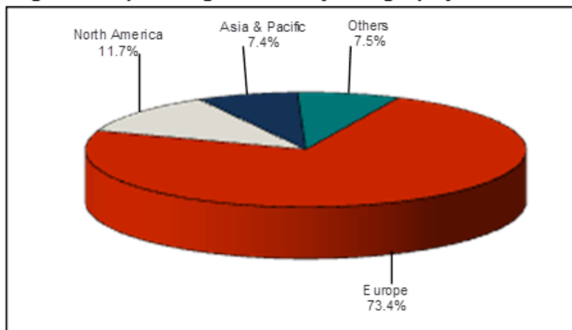
Source: Company

Figure 1: Operating Income by Segment - FY2017



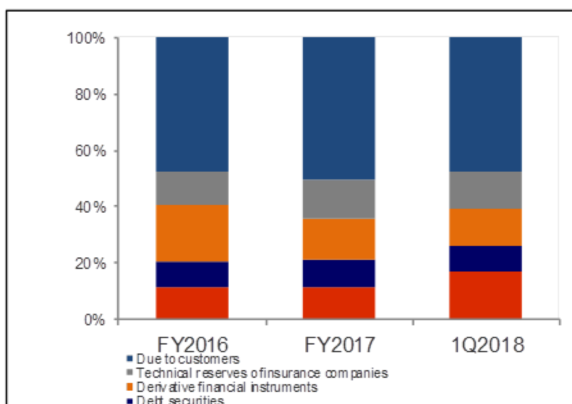
Source: Company

Figure 2: Operating Income by Geography - FY2017



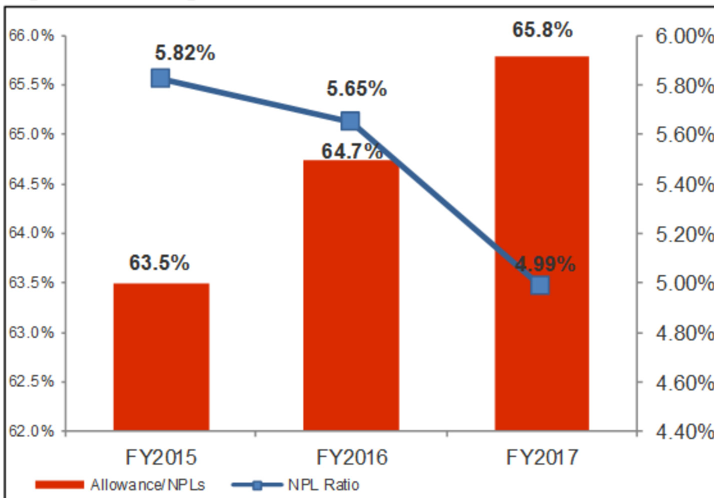
Source: Company

Figure 3: Liabilities Composition



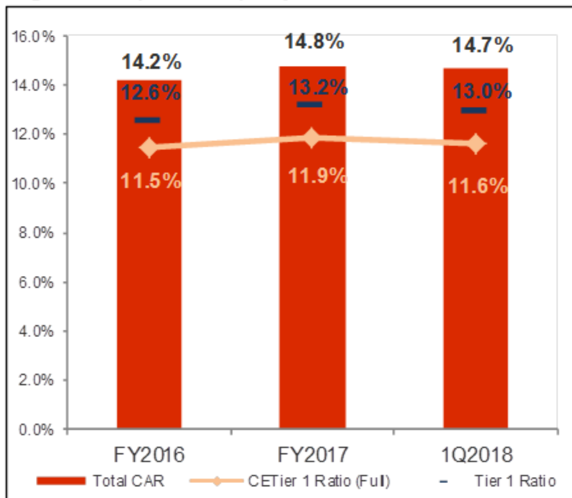
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – The GBPCE Tier 2 papers look attractive in the SGD Tier 2 space in our view given its business profile and sound capital position. Within the BPCEGP curve, we prefer BPCEGP 4.50 '26c21 relative to BPCEGP 4.45 '25c20 given the spread pick up more than compensates for the longer tenor.

Issuer Profile: Neutral (4)

Ticker: **BPCEGP**

Background

Established in 2009, BPCE S.A. is the central entity of Groupe BPCE ('GBPCE'). 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 31 December, 2017, it had total assets of EUR1,259.9bn.

BPCE SA

Key credit considerations

- **Growth in underlying business operations, partially dragged by weakness in USD against the EUR:** GBPCE reported its 1Q2018 results with net profit, after restating the impact of IFRIC 21 impact, up 0.9% y/y to EUR955mn. Within these results, 1Q2018 revenue was impacted by weakness in the USD against the EUR, with net banking income down 0.8% y/y. However, at constant exchange rates to better reflect underlying performance, net banking income in fact increased by 0.9% y/y. This was supported by a rise in net banking income in the Asset & Wealth Management (+20.2% y/y), Specialised Financial Services (+5.2% y/y), and Insurance divisions (+7.7% y/y).

- **Volumes and strategic initiatives helped mitigate soft performance within Retail Banking:** The Retail Banking segment accounted for 71% of aggregate net banking income in 1Q2018 (down from 73% in 1Q2017). The segment has been challenged by the low interest rate operating environment in Europe. However, with the strategic development of fee and commission based activities, namely Specialised Financial Services (SFS) and Insurance within the Retail Banking segment, the decline in net banking income was limited to 3% y/y to EUR4.18bn. The Insurance segment continues to maintain good profitability with its gross operating income (GOI) up 6.7% y/y due to an increase in premiums collected for its Life and Personal Protection insurance. The SFS payment business also enjoyed faster pace of growth with GOI up 5.8% y/y to EUR118mn. That said, while low interest rates have suppressed overall net banking income of the retail banking segment, underlying fundamentals within Retail Banking remain intact with loan outstandings growing 4.8% y/y to EUR548bn. This was driven by a 5.7% y/y rise in home loans and a 7.4% rise in equipment loans.

- **Operating expenses kept in check:** 1Q2018 operating expenses were up 1.2% y/y to EUR4.6bn (+2.5% y/y on constant exchange rate basis). As a result, the cost to income ratio has risen to 69% (4Q2017: 68.3%). Excluding the Single Resolution Fund (SRF) contribution which rose 31% y/y, operating expense remained steady at EUR4.2bn (-0.7% on current exchange rates, +0.7% y/y at constant exchange rates) indicating that cost performance of GBPCE remains somewhat controlled despite underlying business growth.

- **Higher loan quality:** Cost of risk, after restating for the impact of IFRIC 21, fell 29.2% y/y to EUR259mn (1Q2017:EUR366mn). This was driven mainly by reduction in the Retail Banking & Insurance division while the cost of risk in Corporate & Investment Banking remained unchanged. Lower impairments this quarter contributed to a marginal rise in the group's PBT (+0.8% y/y) to EUR1.2bn. Improvement in the reported non-performing loan ratio to 3.0% (4Q2017: 3.2%) was driven by both 1.3% y/y growth in gross outstanding loans and a 3.9% fall in reported non-performing loans. This, together with higher reported impaired loans coverage ratio (including guarantees related to impaired outstanding) to 74.2% (4Q2017: 71.4%) points to an overall healthier loan book for GBPCE and supports the lower cost of risk in 1Q2018.

- **Capital adequacy ratios at levels above the minimum requirement:** GBPCE's CET1 ratio remained healthy at 15.1% despite having dipped marginally by 3bps from 15.4% in 4Q2017. The fall in CET1 ratio was attributed to first time application of IFRS 9 (-17 bps) and reductions to regulatory capital due to Single Resolution Fund and irrevocable payment commitments (IPC) (-12bps). SRF contribution this quarter surged 31% y/y to EUR340mn. Absent these one-off impacts, the underlying CET1 ratio was stable as the rise in risk-weighted assets (-17bps q/q) were offset by issues of cooperative shares (+14bps y/y) and retained earnings (+13bps y/y). In addition, GBPCE's Total Loss-Absorbing Capacity (TLAC) ratio, including the impact of deduction of IPC, improved to 21.5% (4Q2017: 20.8%). This is close to the target fixed in its TEC 2020 strategic plan of more than 21.5% by early 2019.

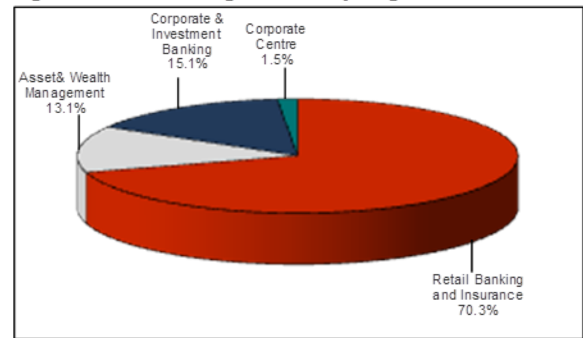
Groupe BPCE

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	FY2017
Income Statement (EUR'mn)			
Net Interest Income	11,059	10,904	10,232
Non Interest Income	12,809	13,254	13,488
Operating Expenses	16,248	16,673	17,099
Pre-Provision Operating Profit	7,620	7,485	6,621
Provisions	1,832	1,423	1,384
Other Income/(Expenses)	280	259	276
PBT	6,068	6,321	5,513
Income Taxes	2,323	1,882	1,811
Net Income to Common Shareholders	3,242	3,988	3,024
Balance Sheet (EUR'mn)			
Total Assets	1,166,535	1,235,240	1,259,850
Total Loans (net)	617,465	666,898	693,128
Total Loans (gross)	629,775	679,176	704,905
Total Allowances	12,310	12,278	11,777
Total NPLs	23,098	23,427	22,918
Total Liabilities	1,101,342	1,166,104	1,188,649
Total Deposits	499,711	531,778	569,879
Total Equity	65,193	69,136	71,201
Key Ratios			
NIM	1.06%	0.98%	0.90%
Cost-income Ratio	68.1%	69.0%	72.1%
LDR	123.6%	125.4%	121.6%
NPL Ratio	3.67%	3.45%	3.25%
Allowance/NPLs	53.3%	52.4%	51.4%
Credit Costs	0.29%	0.21%	0.20%
Equity/Assets	5.59%	5.60%	5.65%
CETier 1 Ratio (Full)	13.0%	14.1%	15.3%
Tier 1 Ratio	13.3%	14.5%	15.4%
Total CAR	16.8%	18.5%	19.2%
ROE	6.0%	6.9%	4.8%
ROA	0.27%	0.33%	0.24%

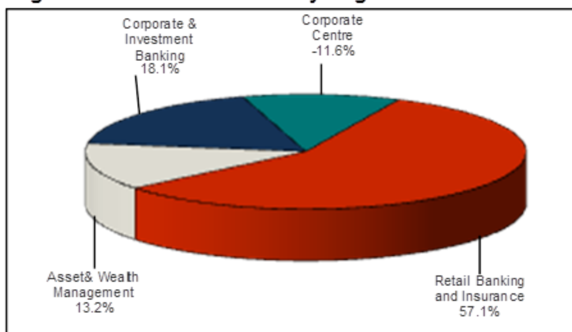
Source: Company

Figure 1: Net banking income by Segment - FY2017



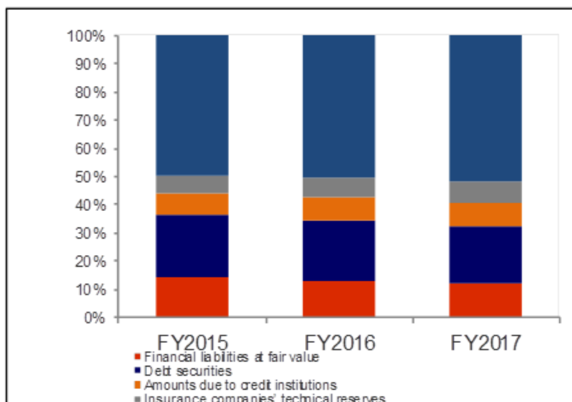
Source: Company

Figure 2: Profit Before Tax by Segment - FY2017



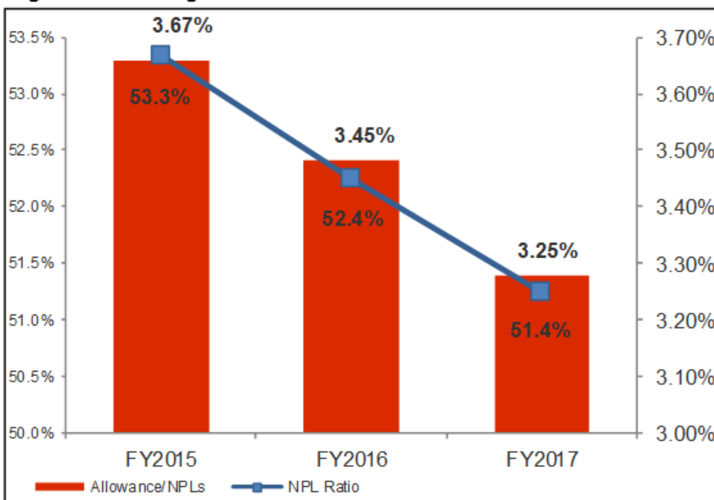
Source: Company

Figure 3: Liabilities Composition



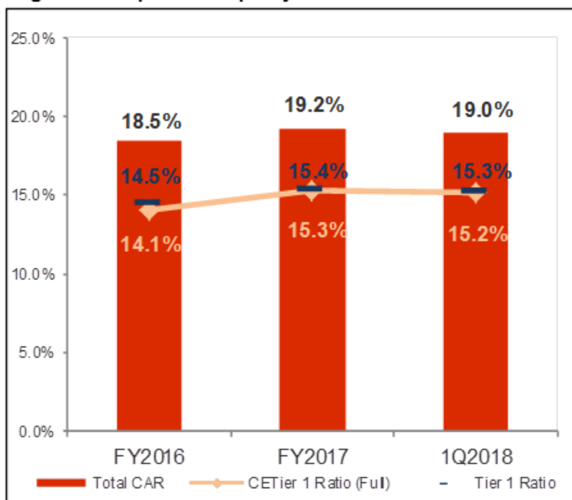
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – CMZB's underlying fundamentals are seemingly on firmer footing in our view. Compared to LBBW 3.75 '27c22s (we also rate Landesbank Baden-Wuerttemberg at Neutral (4)), we see better value in CMZB 4.875 '27c22 given the spread pick up more than compensates for the weaker CET1 ratio.

Issuer Profile: Neutral (4)

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 EUR470.0bn as at 31 March 2018. 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

- **Loan growth and lower loan loss provisions overshadowed by expenses:** Commerzbank announced its 1Q2018 results, with revenue including exceptional items down 3.7% y/y to EUR2.30bn (1Q2017: EUR2.39bn). Excluding exceptional items, underlying revenue inched up marginally by 0.8% y/y. This was due to higher loan growth across its two core segments, namely Private and Small Business Customers ("PSBC") and Corporate Clients ("CC"), which more than offset the drag on net interest income from Europe's low interest rate environment and Germany's competitive banking environment. Operating profit performance for 1Q2018 however was weaker (down 12.3% y/y) as a result of higher operating expenses (+3.8% y/y) from higher investment in digitalisation and growth as well as higher costs for regulatory projects and compulsory bank levies. Although this elevated the cost to income ratio to 84.1% in 1Q2018 (1Q2017: 78%, 4Q2017: 81.4%), net operating profits rose 9.2% y/y on the back of materially lower loan loss provisions and taxes on income this quarter. Loan loss provisions fell to EUR77mn (1Q2017: EUR195mn, 4Q2017: EUR251mn) due to the revaluation of the Ship Finance portfolio under IFRS9 as well as stable economic conditions in Germany, while lower taxes on income in 1Q2018 at EUR5mn (1Q2017:EUR 81mn) also helped the bottom line.

- **On track to meet 2018 net new customer targets:** CMZB's focus on its core operating segments, PSBC and CC, have been effective as both segments enlarged their customer base and are on track to achieving their 2018 customer growth targets. Net new customers for PSBC grew to 712k (target of 1m net new customers by 2018) and its revenue grew to EUR1.2bn (1Q2017: EUR1.1bn) due to good loan growth, offsetting the impact of negative interest rates. The CC segment gained 1,000 net new corporate clients, bringing total clients to 6,500 (well ahead of its target to reach 7,000 by year-end). Despite increased lending volumes to German Mittelstand companies and large corporates, CC operating profit was down to EUR145mn (1Q2017: EUR267mn) due to competitive pricing and muted client demand for capital market products in 1Q2018. The above and the recently announced acquisition of CMZB's Equity Markets & Commodities business by Société Générale is consistent with CMZB's 4.0 strategy.

- **Asset & Capital Recovery (ACR) segment finally making profits:** Net interest income and operating expenses continue to fall within ACR as the segment continues to be wound down. With CMZB's efforts to dispose of bad shipping loans in 2017 and the introduction of IFRS9 (which caused ACR loans and securities to be revalued at fair value), the ACR segment did not incur any provision for loan losses this quarter (1Q2017: -EUR119mn, 4Q2017: -EUR59mn). This, along with a one-off write-back for a hedge position, led to a reversal in fortunes for the ACR segment with an operating profit of EUR18mn in 1Q2018 compared to a net operating loss of EUR33mn in 1Q2017. IFRS9 also had a positive impact on loan quality with the default portfolio reducing by 24.4% and loan loss provisions also falling 41.4%. This translated to the NPL ratio falling 3bps q/q to 1% in 1Q2018 (4Q2017: 1.3%) and coverage ratio falling q/q to 39% for 1Q2018 from 50% in 4Q2017 (62% as at 1Q2018 including collateral).

- **Underlying CET1 capital ratio stable:** Fully-phased in CET1 ratios rose 80bps y/y to 13.3% (1Q2017: 12.5%) however this was entirely due to the impact of IFRS9. Elsewhere, a 10bps improvement in capital from earnings was offset by a 10bps rise in risk weighted assets from aforementioned loans growth. CMZB expects its CET1 ratio to remain at least 13% by the end of 2018 and to provide adequate buffer against regulatory minimums notwithstanding anticipated loan growth. This is due to the improvement in underlying fundamentals from ACR wind-down and on-going implementation of the Commerzbank 4.0 strategy, which remains broadly on track. In line with this, CMZB announced plans to resume dividend payments for 2018 which were previously ceased to mitigate expected higher restructuring and investment costs.

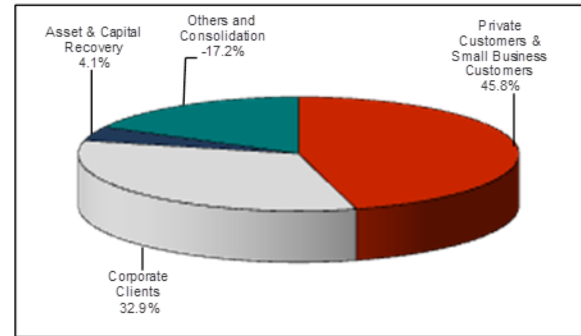
Commerzbank AG

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (EUR'mn)			
Net Interest Income	4,165	4,201	1,046
Non Interest Income	5,084	4,938	1,256
Operating Expenses	7,100	7,079	1,936
Pre-Provision Operating Profit	2,149	2,060	366
Provisions	900	781	77
Other Income/(Expenses)	150	23	0
PBT	1,399	1,302	289
Income Taxes	261	245	5
Net Income to Common Shareholders	279	156	250
Balance Sheet (EUR'mn)			
Total Assets	480,436	452,493	470,032
Total Loans (net)	272,662	262,398	269,629
Total Loans (gross)	276,578	265,712	271,252
Total Allowances	3,916	3,314	1,623
Total NPLs	6,914	5,569	4,209
Total Liabilities	450,862	422,452	440,985
Total Deposits	241,940	248,995	250,156
Total Equity	29,573	30,040	29,047
Key Ratios			
NIM	0.89%	1.09%	1.05%
Cost-income Ratio	75.5%	77.3%	84.1%
LDR	112.7%	105.4%	107.8%
NPL Ratio	1.60%	1.30%	1.00%
Allowance/NPLs	56.6%	59.5%	38.6%
Credit Costs	0.33%	0.29%	0.11%
Equity/Assets	6.16%	6.64%	6.18%
CETier 1 Ratio (Full)	12.3%	14.1%	13.3%
Tier 1 Ratio	13.9%	15.2%	13.8%
Total CAR	16.9%	18.3%	16.9%
ROE	1.1%	0.6%	4.0%
ROA	0.20%	0.21%	0.21%

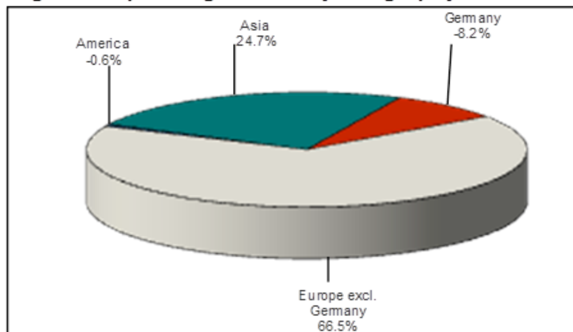
Source: Company

Figure 1: Operating profit by Segment - 1Q2018



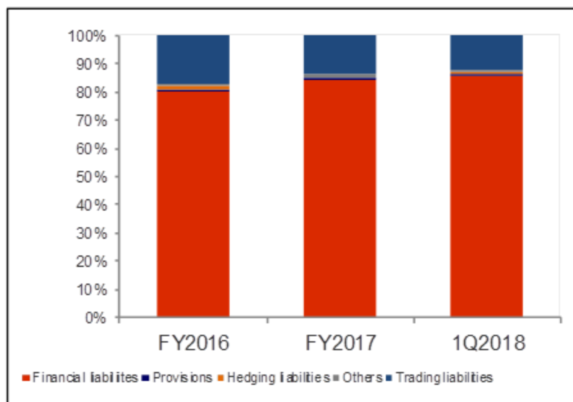
Source: Company

Figure 2: Operating Income by Geography - 1Q2018



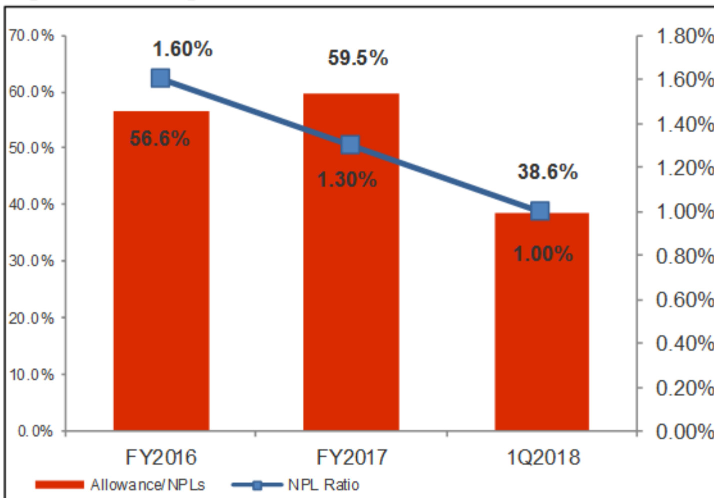
Source: Company

Figure 3: Liabilities Composition



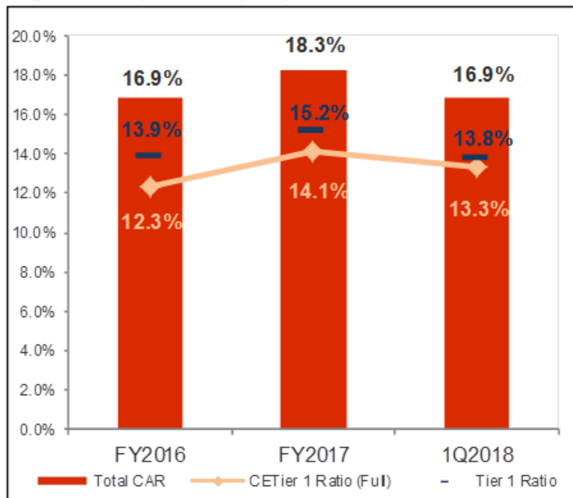
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – 1Q2018 results reflect supportive business conditions and DBS's ability to benefit from it. We tend to look to other names in the bank capital space for higher yield as the DBS curve continues to trade tight. We currently rate the Australian banks also at a Positive (2) Issuer Profile and see the NAB 4.15% '28c23s as being the better value in the Aussie Tier 2 space.

Issuer Profile: Positive (2)

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 SGD529.9bn as at 31 March 2018, it provides diversified services across consumer banking, wealth management institutional banking, and treasury. It is 29% indirectly owned by the government through Temasek Holdings Pte Ltd as of 6th July, 2018.

DBS Group Holdings Ltd

Key credit considerations

- **Earnings momentum from solid business conditions:** 1Q2018 results were strong with total income up 16% y/y to SGD3.4bn. This was driven by broad based growth across net interest income (+16% q/q due to loan growth and 9bps y/y improvement in net interest margins ('NIM') to 1.84%; NIMs also improved q/q by 5bps), net fee and commission income (+12% q/q due to wealth management and cards while investment banking and loans related income was weak) and other non-interest income (+25% q/q due to net trading income and net gain on divestment of a Hong Kong property while net income from investment securities was weak). In particular, the average rate on interest bearing assets improved 25bps y/y and 14bps q/q as interest rates rose from the start of the year although this was partially offset by a 17bps y/y and 9bps q/q rise in average rates on interest bearing liabilities.

- **Slower expense growth supporting profitability**: Expenses grew at a slower pace than total income, up 12% y/y and 3% q/q. Around half of the y/y growth came from higher staff related costs arising from the acquisition of Australia and New Zealand Banking Group Ltd's ("ANZ") Asian retail and wealth management businesses. Excluding this acquisition, expenses grew 6% y/y. Business growth also contributed to higher expenses. However, with the solid income growth, the cost to income ratio fell to 41.6% for 1Q2018 against 43.2% and 44.4% for 1Q2017 and 4Q2017 respectively. In addition, allowances for credit losses continued to fall (-18% y/y and -27% q/q) and this translated into profit before tax ('PBT') improving 25% y/y. Segment wise, all segments recorded growth in PBT y/y due to either business growth or improved expense management (including allowances for credit losses).

- **Balance sheet growth in line with the economy**: DBS's balance sheet grew in line with the solid operating environment with total assets up 10% y/y. This was driven by a 10% y/y growth in customer loans. Growth was still decent q/q with total assets and customer loans up 2%. Y/y loan growth was even across Consumer Banking / Wealth Management and Institutional Banking while the latter contributed to the bulk of loans growth q/q. Deposit growth was also solid (+10% y/y and +1% q/q) and as such the loan to deposit ratio was broadly stable at 87.3% q/q. Part of the reason for the jump in average cost of interest bearing liabilities (in addition to rising interest rates) was higher fixed deposits although growth in current and savings accounts was also solid.

- **Positive underlying trajectory in loan quality**: Loan quality metrics were weaker y/y due to the higher pro-active recognition of oil and gas support services exposures as non-performing in line with the implementation of Financial Reporting Standard 109 (which requires provisioning to be based on expected future credit losses rather than actual credit losses). Q/q performance was better, with non-performing loans falling 2.3% due to improvements outside Singapore. NPL's rose in Singapore slightly q/q by 2.6%.

- **Capital ratios remain robust**: Despite solid earnings performance, total capital growth was moderate (+3.0% y/y and +2.4% q/q) due to the full phasing in of CET1 regulatory adjustments from 1 January 2018. As such the movement in capital ratios (which was also driven by 2.5% q/q and 8.2% y/y growth in risk weighted assets from loans growth and contribution from ANZ's wealth management and retail banking business) on a fully phased in basis was not as much as the reduction in transitional ratios. The fully phased in CET1 ratio as at 1Q2018 was 14.0% against 13.9% for 4Q2017 (14.2% as at 1Q2017), still well above the CET1 regulatory minimum requirement of 8.7%. Additionally, DBS' leverage ratio of 7.6% remains well above the minimum Basel III requirement of 3%. The strong positions against regulatory requirements should support further potential balance sheet growth in 2018.

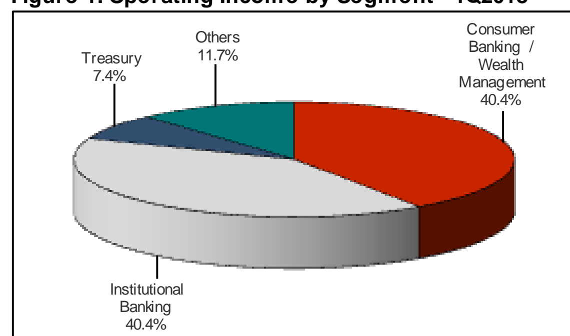
DBS Group Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Net Interest Income	7,305	7,791	2,128
Non Interest Income	4,184	4,483	1,232
Operating Expenses	4,972	5,205	1,410
Pre-Provision Operating Profit	6,517	7,069	1,950
Provisions	1,434	1,894	164
Other Income/(Expenses)	0	0	0
PBT	5,083	5,175	1,786
Income Taxes	723	671	245
Net Income to Common Shareholders	4,238	4,371	1,511
Balance Sheet (SGD'mn)			
Total Assets	481,570	517,711	529,909
Total Loans (net)	301,516	323,099	328,218
Total Loans (gross)	305,415	327,769	332,868
Total Allowances	3,899	4,670	4,650
Total NPLs	4,416	5,517	5,391
Total Liabilities	434,600	467,909	478,828
Total Deposits	347,446	373,634	375,826
Total Equity	46,970	49,802	51,081
Key Ratios			
NIM	1.80%	1.75%	1.83%
Cost-income Ratio	43.3%	43.0%	41.6%
LDR	86.8%	86.5%	87.3%
NPL Ratio	1.45%	1.68%	1.6%
Allowance/NPLs	88.3%	84.6%	86.3%
Credit Costs	0.47%	0.58%	0.20%
Equity/Assets	9.75%	9.62%	9.64%
CETier 1 Ratio (Full)	14.1%	14.3%	14.0%
Tier 1 Ratio	14.7%	15.1%	15.0%
Total CAR	16.2%	15.9%	15.8%
ROE	10.1%	9.7%	13.1%
ROA	0.92%	0.89%	1.18%

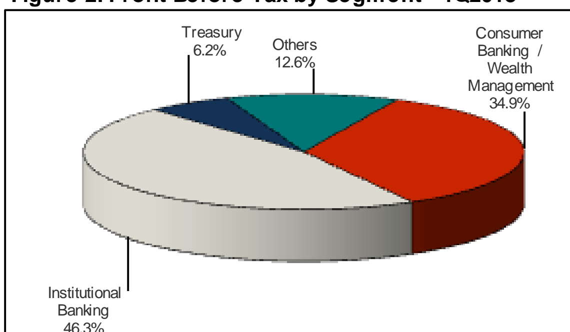
Source: Company

Figure 1: Operating Income by Segment - 1Q2018



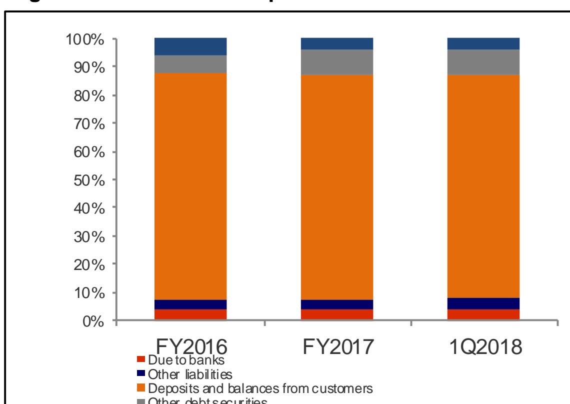
Source: Company

Figure 2: Profit Before Tax by Segment - 1Q2018



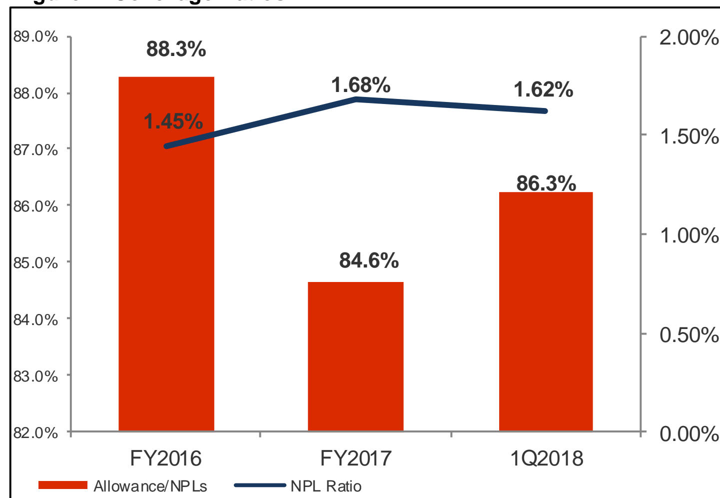
Source: Company

Figure 3: Liabilities Composition



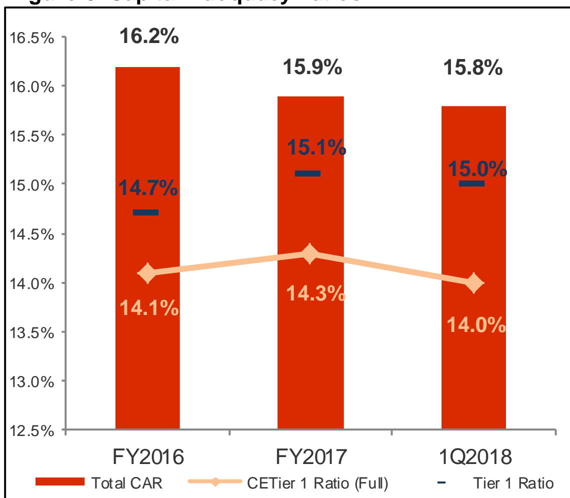
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – HSBC's size and operating diversity is a key credit strength in our view and supports its credit profile despite a clouded earnings outlook in its major economies. While the HSBC 4.70 PERPc22 is decent value within the AT1 space compared to Singapore banks which have the same Issuer Profile, we think the BAERVX 5.75 PERPc22 could be a better pick. The spread pick up more than compensates for the smaller but more focused business profile.

Issuer Profile: Positive (2)

Ticker: **HSBC**

Background

HSBC Holdings PLC ('HSBC') is one of the world's largest banks by asset size and a global systemically important bank ('GSIB'). Based in London, it is the holding company for the HSBC Group which includes global banking operations across 67 countries and territories through major subsidiaries HSBC Bank PLC (in Europe and the UK) and The Hongkong and Shanghai Banking Corporation, Limited (in Asia) amongst others. As at 31 March 2018, it had total assets of USD2,652.1bn.

HSBC Holdings PLC

Key credit considerations

- **Rising expenses dent profits:** HSBC's 1Q2018 reported profit before tax fell 4% y/y to USD4.8bn as 6% y/y growth in reported revenue and lower reported impairment costs were offset by a 13% rise in operating expenses due to business investment and enhancing digital capabilities. Business investment was concentrated on Retail Banking & Wealth Management ('RBWM') in the UK and Mainland China, while technology investment was broad based. Elevated expenses are likely to continue as the bank continues to push into technology and the operating environment remains supportive for on-going business growth. Future expenses may also include further costs associated with Brexit as well as corporate re-organization costs (UK ring-fencing, Hong Kong intermediate hold co). Results also reflected USD897mn in provisions in relation to active discussions with the Department of Justice investigations into prior year residential mortgage-backed securities activities. Adjusting for the provisions and other significant items, adjusted profit before tax of USD6.0bn was still down 3% y/y, primarily due to a significant fall in Corporate Centre performance (balance sheet management, adverse swap mark-to-market movements).

- **Business growth supporting top line:** Revenue growth was driven by deposits and UK mortgage lending volume growth in RBWM as well as higher deposit margins. Within Commercial Banking, lending growth in Hong Kong and the UK, along with better deposit margins and volumes also supported Global Liquidity & Wealth Management performance. Global Banking and Markets ('GBM') performance was flat y/y as lower client activity in fixed income was mitigated by growth in transaction banking and equities revenues. Overall, net interest margins improved q/q and y/y, up by 3bps and 4bps respectively to 1.67% due to a larger rise in gross yields (especially in Hong Kong) compared to the increase in the cost of funds. By segment, Commercial Banking continues to be the highest contributor to total adjusted profit before tax at 35% for 1Q2018. This is followed by somewhat even contributions from RBWM and GBM at 32% and 28% respectively. This broadly balanced mix of businesses supports some level of underlying stability in HSBC's results in our view.

- **European and Asian businesses driving growth**: Supporting the higher business investment, HSBC's balance sheet grew in 1Q2018 with net loans and advances to customers up 2% q/q. As mentioned previously, growth came from UK mortgage lending as well as commercial lending in Hong Kong and the UK. This likely helped segment performance by geography with reported profit before tax in Europe and Asia improving noticeably y/y. Middle East and North Africa and Latin America also improved y/y but their contribution to overall reported profit before tax is relatively small. North America generated a loss before tax of USD596mn, which was due to the higher provisions for investigations into RMBS. As a result of the above, Asia contributed the bulk of reported profit before tax for HSBC (100% for 1Q2018 due to losses in Europe and North America). Excluding provisions and other significant items, Asia's contribution still remains dominant with 79% of adjusted profit before tax.

- **Active capital management with an eye on the future position**: Given earnings and balance sheet growth as well as a transitional impact from implementation of IFRS9 and dividends paid, HSBC's CET1 capital ratio and leverage ratio remained stable q/q at 14.5% and 5.6% respectively as at 31 March 2018. Risk weighted assets growth of 2.6% was marginally ahead of loans growth due to foreign currency translation differences, asset growth and changes in asset quality. Notwithstanding the stable q/q CET1 ratios, HSBC announced an up-to-USD 2bn share buyback as well as its intention to call USD6bn in AT1 capital instruments. Management has guided that given potential growth opportunities, there will be no more share buy-backs expected in 2018. HSBC also recently released a strategy update focused on a return to growth to improve returns.

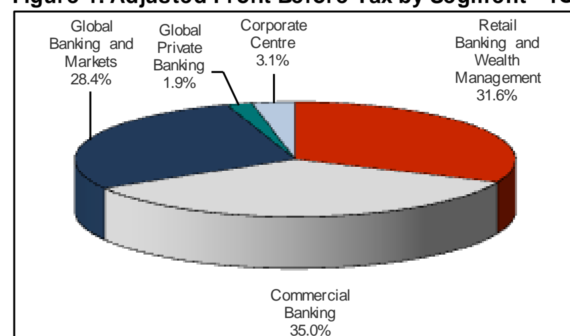
HSBC Holdings PLC

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (USD'mn)			
Net Interest Income	29,813	28,176	7,456
Non Interest Income	18,153	23,269	6,254
Operating Expenses	39,808	34,884	9,383
Pre-Provision Operating Profit	8,158	16,561	4,327
Provisions	3,400	1,769	170
Other Income/(Expenses)	2,354	2,375	598
PBT	7,112	17,167	4,755
Income Taxes	3,666	5,288	1,017
Net Income to Common Shareholders	2,479	10,798	3,396
Balance Sheet (USD'mn)			
Total Assets	2,374,986	2,521,771	2,652,123
Total Loans (net)	861,504	962,964	981,165
Total Loans (gross)	869,354	970,448	990,523
Total Allowances	7,850	7,484	9,358
Total NPLs	18,228	15,470	16,167
Total Liabilities	2,192,408	2,323,900	2,448,561
Total Deposits	1,272,386	1,364,462	1,379,679
Total Equity	182,578	197,871	203,562
Key Ratios			
NIM	1.73%	1.63%	1.67%
Cost-income Ratio	61.0%	60.4%	68.4%
LDR	67.7%	70.6%	71.1%
NPL Ratio	2.10%	1.59%	1.63%
Allowance/NPLs	43.1%	48.4%	57.9%
Credit Costs	0.39%	0.18%	0.02%
Equity/Assets	7.69%	7.85%	7.68%
CETier 1 Ratio (Full)	13.6%	14.5%	14.5%
Tier 1 Ratio	16.1%	17.3%	17.6%
Total CAR	20.1%	20.9%	20.7%
ROE	0.8%	5.9%	7.5%
ROA	0.10%	0.44%	0.51%

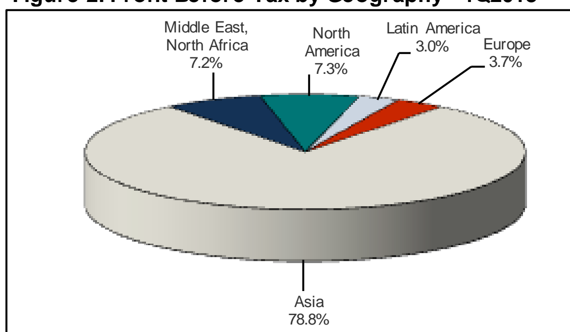
Source: Company

Figure 1: Adjusted Profit Before Tax by Segment - 1Q2018



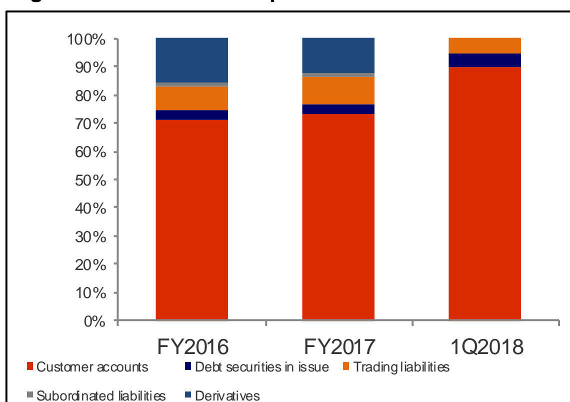
Source: Company

Figure 2: Profit Before Tax by Geography - 1Q2018



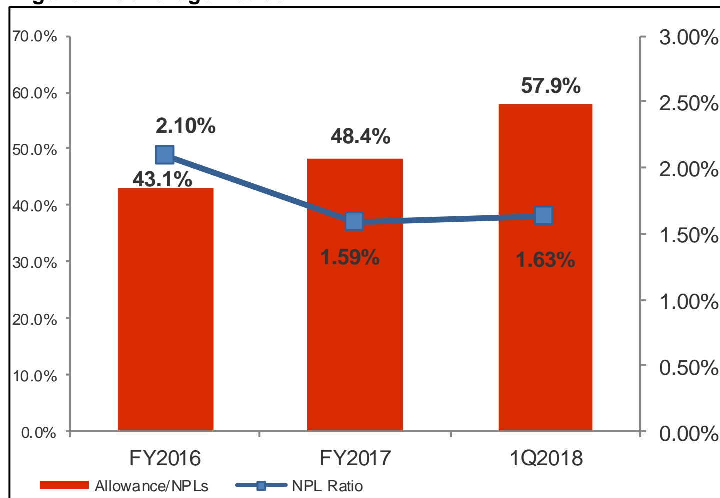
Source: Company

Figure 3: Liabilities Composition



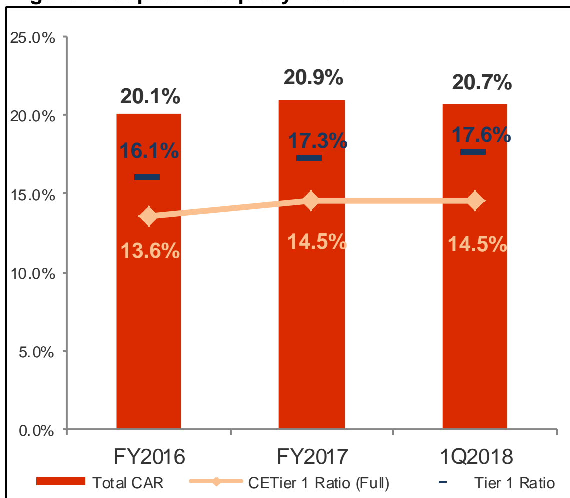
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Recent financial performance show the benefits of elevated investments from prior periods. We are overweight both the BAERVX 5.75 PERPc22 and BAERVX 5.90 PERPc20 over the HSBC 4.7PERPc22 as the spread differential more than compensates for the smaller but more focused business profile and lower CET1 ratio in our view. In addition, the reset step-up is higher for the BAERVX AT1s.

Issuer Profile: Neutral (3)

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, 2017 it had total client assets of CHF388.4bn and as at 30 April, 2018 it had assets under management of CHF401bn.

Julius Baer Group Ltd

Key credit considerations

- **Record high assets under management (AUM):** JBG reported its interim management statement for the 4 months ended 30 April 2018. AUM had grown CHF13bn, or 3% from 31 December 2017 to a record CHF401bn due to continued net inflows as a result of positive FX movements from a stronger US dollar while market performance was flat. Growth has slowed somewhat versus the same period in 2017 (which saw a 6% growth), potentially due to the deceleration of relationship managers hiring under new CEO, Bernhard Hodler, with 41 relationship managers hired in 2017.

- **New CEO may be key to growth trajectory and financial performance:** Bernhard Hodler, the former Chief Risk Officer, has officially stepped in as the new CEO of JBG following the resignation of prior CEO Boris Collardi. Hodler has since affirmed the continuity of the current strategy in expanding JBG's pool of relationship managers, mostly in Asia. He is targeting to hire 80 new relationship managers in 2018 versus 166 in 2016 under the previous CEO. Management have cited JBG's previous expansion strategy as being responsible for healthy net new money inflows of over 5% annualized for the first four months of 2018, within JBG's target range for full year growth of 4% – 6% with particular strong inflows from Europe, Switzerland and Asia. Gross margin also expanded over the same period by 5bps to 93bps (versus 2H2017: 88bps), driven by heightened client activity in January and March, which boosted both net commission and fee income as well as net trading income. As a consequence, JBG's cost to income ratio improved to around 67% (FY2017: 69.0%), achieving its medium-term target range of 64% – 68% for the first time. As mentioned in prior publications, the sustained revenue growth outpacing underlying expenses in hiring and digitalization indicates that the benefits of prior period elevated investments is starting to show.

- **Capital adequacy remains strong:** Solid financial performance likely supported JBG's BIS CET1 ratios which remained somewhat stable at 13.3% as at 30 April 2018 (FY2017: 13.5%). This was despite the acquisition of the residual 20% stake in Kairos Investment Management SpA of Milan in January 2018. JBG's BIS total capital ratio however fell to 19.8% (FY2017: 21.2%) as JBG redeemed CHF250mn of AT1 securities in March 2018. Both the CET1 ratio and total capital ratio are well above the minimum regulatory requirement of 8% and 12.2% respectively as defined by the Swiss Financial Market Supervisory Authority. These regulatory minimums also include an anti-cyclical CET1 capital buffer for mortgages on residential properties in Switzerland and an additional anti-cyclical CET1 capital buffer for commitments outside Switzerland.

- **Expanding its presence in Asia:** JBG has successfully introduced its new core banking platform, based on Temenos T24 banking software, in two Asian booking centres of Singapore and Hong Kong at the end of March 2018. This represents the first major step in JBG's effort to integrate its platform in Asia, after its first initiation in Luxembourg last year. Management expects this investment to provide a platform for further expansion in Asia where JBG is seeking to establish a second home. To this end, JBG announced in April the establishment of a joint venture in Thailand with Siam Commercial Bank ('SCB') to provide solutions and advice to SCB's high net worth clients. JBG is also targeting to grow selectively through acquisitions in its other strategic markets of Europe and Latin America, specifically Germany and Brazil, recently agreeing to acquire 95% of Reliance Group, one of the largest independent wealth managers in Brazil. With client assets of around CHF5bn, the transaction is expected to close before the end of June 2018. Not forgetting home, New CEO Hodler has also identified Switzerland as a key growth market given its relatively smaller market share compared to domestic rivals.

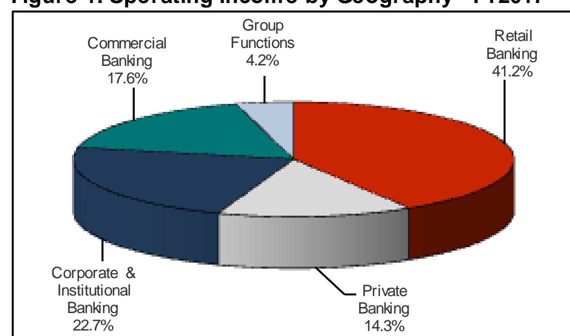
Julius Baer Group Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	FY2017
Income Statement (CHF'mn)			
Net Interest Income	712	877	988
Non Interest Income	1,983	1,975	2,265
Operating Expenses	2,022	2,080	2,329
Pre-Provision Operating Profit	673	773	923
Provisions	534	20	37
Other Income/(Expenses)	0	0	0
PBT	139	753	887
Income Taxes	16	130	171
Net Income to Common Shareholders	121	620	705
Balance Sheet (CHF'mn)			
Total Assets	84,116	96,207	97,918
Total Loans (net)	36,381	38,419	46,624
Total Loans (gross)	36,464	38,491	46,656
Total Allowances	90	79	39
Total NPLs	72	83	44
Total Liabilities	79,174	90,853	92,064
Total Deposits	64,781	67,495	67,637
Total Equity	4,942	5,354	5,854
Key Ratios			
NIM	1.56%	1.69%	1.72%
Cost-income Ratio	67.2%	68.9%	69.0%
LDR	56.2%	56.9%	68.9%
NPL Ratio	0.20%	0.22%	0.09%
Allowance/NPLs	124.8%	95.0%	88.6%
Credit Costs	1.46%	0.05%	0.08%
Equity/Assets	5.88%	5.56%	5.98%
CETier 1 Ratio (Full)	18.3%	16.4%	16.7%
Tier 1 Ratio	18.3%	17.1%	21.6%
Total CAR	19.4%	17.5%	22.0%
ROE	2.4%	12.1%	12.8%
ROA	0.15%	0.69%	0.73%

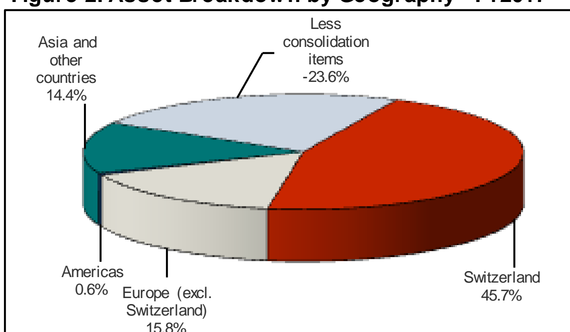
Source: Company

Figure 1: Operating Income by Geography - FY2017



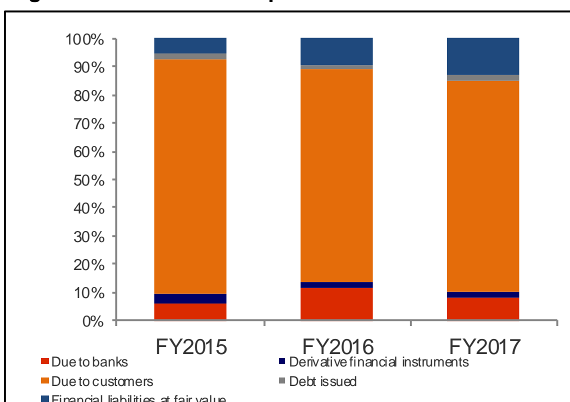
Source: Company

Figure 2: Asset Breakdown by Geography - FY2017



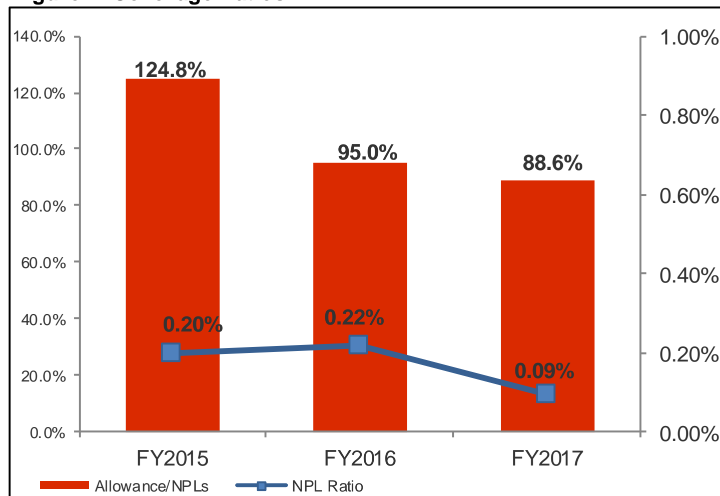
Source: Company

Figure 3: Liabilities Composition



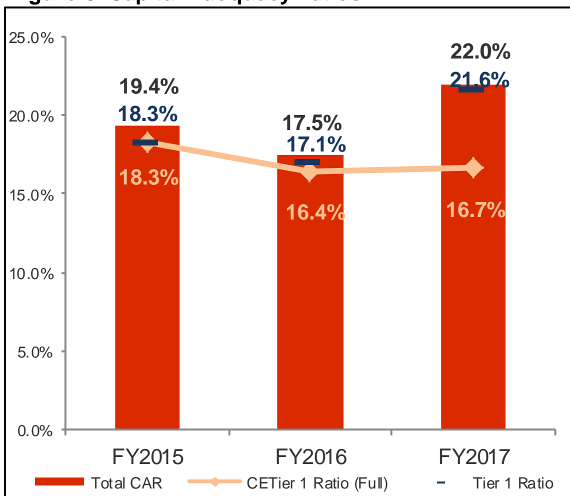
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Landesbank Baden-Württemberg

Credit Outlook – A constructive economic outlook and improved expense performance is expected to keep LBBW's capital ratios above regulatory minimum capital requirements. Compared to the LBBW 3.75 '27c22, we see better value in CMZB 4.875 '27c22 given the spread pick up more than compensates for the weaker CET1 ratio.

Issuer Profile: Neutral (4)

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 2018, it had total assets of EUR254bn. As per its 2017 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%).

Key credit considerations

- **One-offs driving lower y/y performance but underlying business still pressured:** LBBW recently released its 1Q2018 results with total operating income down 7.9% y/y to EUR634mn. This was driven by a 41.8% y/y fall in net gains on disposal due to lower earnings from sale of securities and equity holdings and absence of non-recurring income from the prior year. Net interest income was down marginally y/y (-1.0% y/y as lending and deposit volumes partially offset on-going low interest rates and Germany's competitive banking environment) while net fee and commission income was also weaker y/y by 3.8% y/y as higher income from asset management was offset by lower financing commissions. While the trend in 1Q2018 y/y total operating income performance is weaker than FY2017 trends (total operating income was down 2.9% y/y to EUR2.51bn), of note is the better y/y net interest income performance in 1Q2018 and lower allowances for losses on loans and advances.

- **Bottom line growth however from lower costs**: Expense performance however continues to improve y/y due to well controlled administrative expenses (-5.6% y/y from inclusion of expenses in 1Q2017 from investment in new core banking systems) and absence of restructuring expenses and state guarantee commission following the sale of the Sealink portfolio. This more than offset higher bank levy and deposit guarantee fees which are system wide expenses and relate to full year Single Resolution Fund payments (European bank levy) and LBBW's membership in the Landesbanks' bank-related guarantee fund under the German Deposit Guarantee Act. Combined with lower tax expense, net consolidated profit improved 6.3% y/y for 1Q2018 to EUR84mn. Consolidated profit before tax (PBT) was down 7.2% y/y.

- **Segment trends highlight operating environment and strategic intent**: In terms of PBT by segment under LBBW's new reporting segment model, Corporate Customers were down 20.7% due to absence of non-recurring equity sales, competitive pressures impacting margins and higher regulatory and growth expenses despite higher lending volumes to medium sized and large enterprises; the Real Estate/Project Finance segment was down 25.4% due to absence of one-off from 1Q2017, competition and weaker project financing growth compared to commercial real estate; and Capital Markets was down 53.5% from lower sales of securities and lower primary market activities. PBT from Private Customers/Savings Banks however improved materially due to lower administrative expenses and better deposit volumes which generated higher demand for investment solutions.

- **Business growth from strong operating environment despite ongoing competitive banking sector:** Despite Germany's competitive banking landscape, LBBW managed to increase lending volumes to medium-sized and large corporates as well as new commercial real estate loans while deposit volumes improved in the Private Customers/Savings Banks segment. This trend supports the European Commission's ('EC') recent Spring 2018 economic forecast for Germany with the economy expected to continue steady growth from solid domestic demand and foreign trade. Although business sentiment was weaker in 1Q2018, the EC opined that this was due to supply side constraints including a skilled labour shortage. This should support private consumption from upward pressure on real wages and rising household incomes.

- **Capital ratios remain a strength despite accounting change impact**: Previously mentioned loans growth translated into a 3% q/q rise in risk weighted assets and together with first time adoption of IFRS9 (which resulted in a reduction in equity), LBBW's capital ratios weakened with LBBW's fully loaded CET1/CAR capital ratios at 15.1%/21.5% against 15.7%/22.2% as at 31 Dec 2017. This remains above regulatory minimum phased in CET1/CAR capital requirements of 8.80%/12.30%.

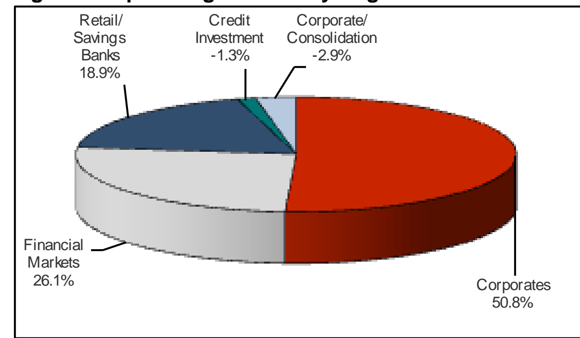
Landesbank Baden-Württemberg

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	FY2017
Income Statement (EUR'mn)			
Net Interest Income	1,653	1,669	1,587
Non Interest Income	933	957	986
Operating Expenses	1,782	1,814	1,824
Pre-Provision Operating Profit	804	812	749
Provisions	55	51	92
Other Income/(Expenses)	-194	-543	-130
PBT	574	231	558
Income Taxes	109	131	97
Net Income to Common Shareholders	425	10	416
Balance Sheet (EUR'mn)			
Total Assets	234,015	243,623	237,713
Total Loans (net)	107,657	110,404	107,648
Total Loans (gross)	108,785	111,232	108,332
Total Allowances	1,121	817	684
Total NPLs	1,898	1,181	908
Total Liabilities	220,359	230,489	224,336
Total Deposits	62,540	70,641	79,415
Total Equity	13,659	13,134	13,377
Key Ratios			
NIM	0.95%	0.95%	0.98%
Cost-income Ratio	70.9%	74.3%	74.8%
LDR	172.1%	156.3%	135.6%
NPL Ratio	1.74%	1.06%	0.84%
Allowance/NPLs	59.1%	69.2%	75.3%
Credit Costs	0.05%	0.05%	0.08%
Equity/Assets	5.83%	5.38%	5.61%
CETier 1 Ratio (Full)	15.6%	15.2%	15.7%
Tier 1 Ratio	NA	NA	NA
Total CAR	21.4%	21.5%	22.2%
ROE	4.1%	1.1%	4.1%
ROA	0.19%	0.04%	0.19%

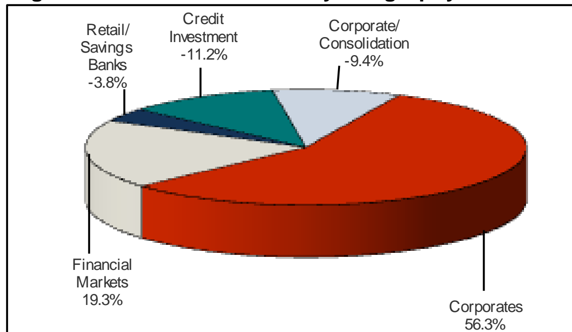
Source: Company

Figure 1: Operating Income by Segment - FY2017



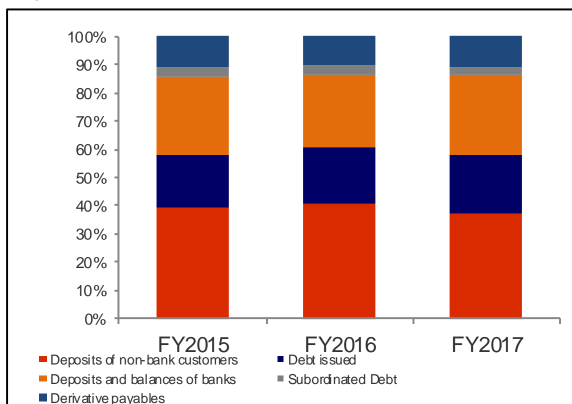
Source: Company

Figure 2: Asset Breakdown by Geography - FY2017



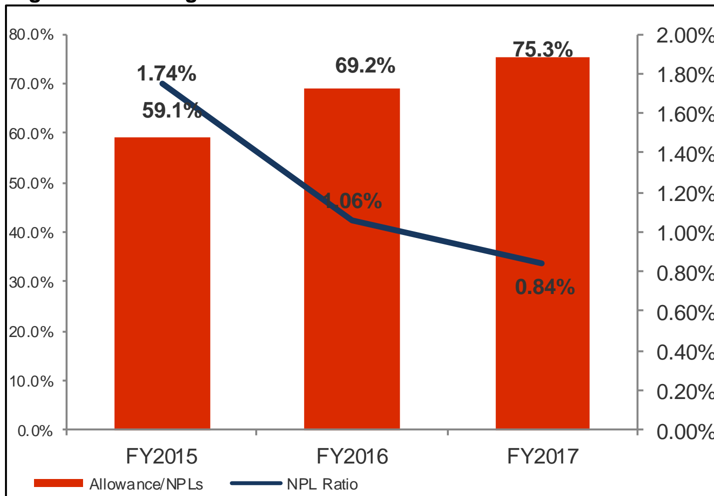
Source: Company

Figure 3: Liabilities Composition



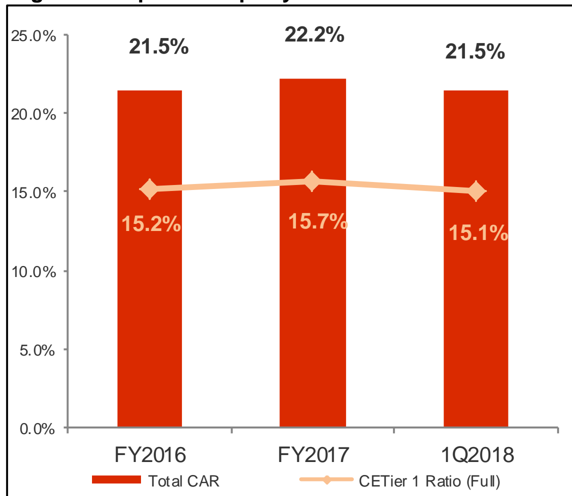
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – With the MAYMK 6.0 PERPc18 approaching call, we think investors can look to our Monthly Credit View for switch recommendations.

Issuer Profile: Neutral (3)

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 2018, it had total assets of MYR769.6bn. It is owned both directly and indirectly by the Malaysian government.

Malayan Banking Berhad

Key credit considerations

- **Other segments driving earnings**: 1Q2018 total operating income was up 3.9% y/y to MYR7.18bn as marginally lower net interest income (-0.5% y/y due to lower net interest margin y/y by 4bps to 2.9%) and lower other operating income (-7.4% y/y) was more than compensated for by higher income from Islamic Banking Scheme operations (+11% y/y) and net earned insurance premiums (+20.5% y/y). This is a slight contrast to FY2017 performance with total operating income up 7.8% y/y due to broad based growth across net interest income (+6.9% y/y to MYR12.1bn), income from Islamic banking operations (+17% to MYR4.9bn) and net earned insurance premiums (+18.2% to MYR5.3bn). Key drivers for FY2017 performance include improved net interest margin (+9bps y/y to 2.36%) while higher net earned insurance premiums, higher other operating income and higher net interest income drove insurance performance. Other operating income was marginally softer however (-4.2% y/y).

- **Expenses remain under control and improved the bottom line:** Overhead expenses were flat y/y with lower administration and general expenses and lower establishment costs balanced by higher personnel and marketing expenses. Overall allowances for impairment losses fell 7.7% y/y as a result of implementation of MFRS9 from 1 Jan 2018 with lower expected credit loss of MYR550.6mn in 1Q2018 compared to higher individual and collective allowances of MYR601.8mn in 1Q2017. Given the cost performance, Maybank's profit before tax and zakat (PBT) rose 13.7% y/y. This is broadly similar to FY2017 PBT performance which improved 14.2% y/y to MYR10.1bn as better operating income performance offset higher overhead expenses.

- **Consumer segment holding up results**: Overall 1Q2018 PBT performance was supported by Community Financial Services ('CFS') with reported PBT up 15.7% y/y to MYR1.4bn from both higher net interest and other income and lower overhead expenses and impairment losses and contributing just over half of consolidated PBT. Conversely, Corporate Banking & Global Markets' PBT (approx. 40% of consolidated PBT) was 11.6% lower y/y from opposite trends to CFS with lower income and higher expenses and impairment losses. Other segment performance (Investment Banking, Asset Management, Insurance and Takaful) contributed around 8% to consolidated PBT and had mixed y/y performance. Segment trends are expected to persist for the rest of FY2018.

- **Capital ratios weaker but still above minimum requirements:** As a result of MFRS9, Maybank's capital ratios weakened with CET1/CAR ratios (before proposed dividend) at 14.3%/19.1% as at 31 Mar 2018 against 14.8%/19.4% for FY2017. Excluding the impact of MFRS9, Maybank's CET1 ratio fell 7bps from 14.4% as at 1 Jan 2018. These remain well above minimum CET1/CAR requirements of 6.375%/9.875% which includes the phased in Capital Conservation Buffer (but excludes any countercyclical capital buffer requirement). Of note is that total group risk weighted assets ('RWA') fell 3.7% y/y and 1.2% q/q despite gross loans growth of 1.5% y/y and -0.1% q/q. This was driven entirely by a 5.4% y/y and 2.3% q/q fall in credit RWA.

- **No change in outlook:** Maybank are maintaining their economic forecasts for Malaysia on the back of the recent election results with potential improvements in consumer spending balanced by a likely slowdown in business investment until the new government's policies become clearer. Malaysia's 1Q2018 GDP growth print of 5.4% y/y was slightly above our forecast of 5.3% y/y and our OCBC Economist for Malaysia is maintaining the full year GDP growth forecast of 5.5% y/y on the expectation that private consumption growth has the potential to strengthen in 2018 and investment should pick up later in the year as confidence in the Malaysian economy will still be strong.

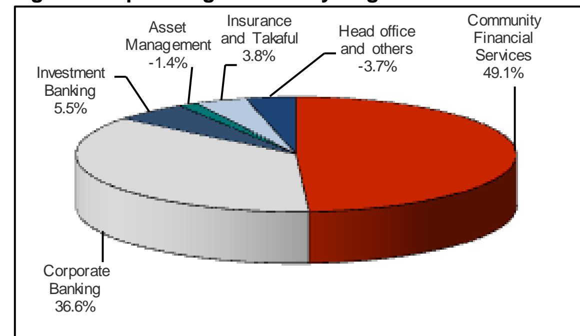
Malayan Banking Berhad

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (MYR'mn)			
Net Interest Income	11,568	12,147	3,020
Non Interest Income	14,803	16,178	4,161
Operating Expenses	14,685	16,414	4,132
Pre-Provision Operating Profit	11,686	11,911	3,049
Provisions	3,015	2,028	501
Other Income/(Expenses)	173	215	9
PBT	8,844	10,098	2,557
Income Taxes	1,881	2,301	657
Net Income to Common Shareholders	6,743	7,521	1,871
Balance Sheet (MYR'mn)			
Total Assets	735,956	765,302	769,554
Total Loans (net)	477,775	485,584	483,119
Total Loans (gross)	485,736	493,845	493,394
Total Allowances	7,961	8,261	10,275
Total NPLs	11,055	11,550	11,709
Total Liabilities	665,481	690,118	694,072
Total Deposits	489,833	502,017	510,284
Total Equity	70,475	75,184	75,482
Key Ratios			
NIM	2.27%	2.36%	2.39%
Cost-income Ratio	47.1%	48.7%	47.6%
LDR	97.5%	96.7%	94.7%
NPL Ratio	2.28%	2.34%	2.37%
Allowance/NPLs	72.0%	71.5%	87.8%
Credit Costs	0.62%	0.41%	0.41%
Equity/Assets	9.58%	9.82%	9.81%
CETier 1 Ratio (Full)	14.0%	14.8%	14.3%
Tier 1 Ratio	15.7%	16.5%	15.9%
Total CAR	19.3%	19.4%	19.1%
ROE	10.6%	10.9%	10.5%
ROA	0.93%	1.00%	1.52%

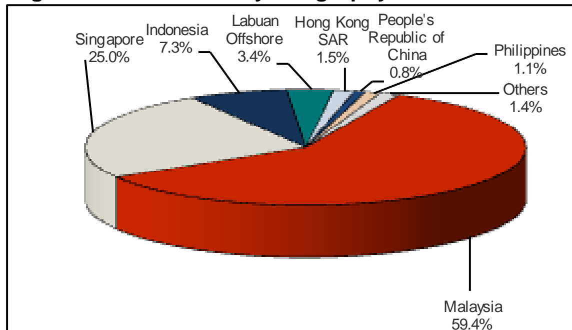
Source: Company

Figure 1: Operating Income by Segment - 1Q2018



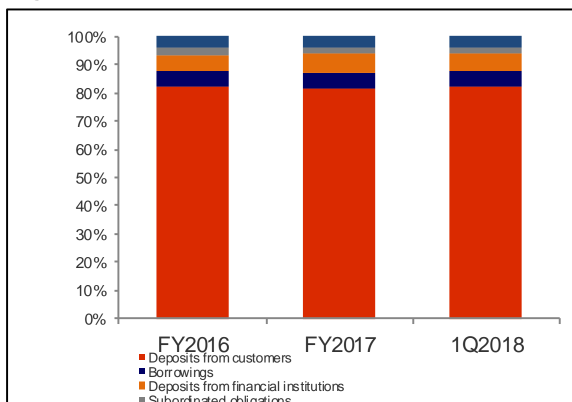
Source: Company

Figure 2: Gross Loan by Geography - 1Q2018



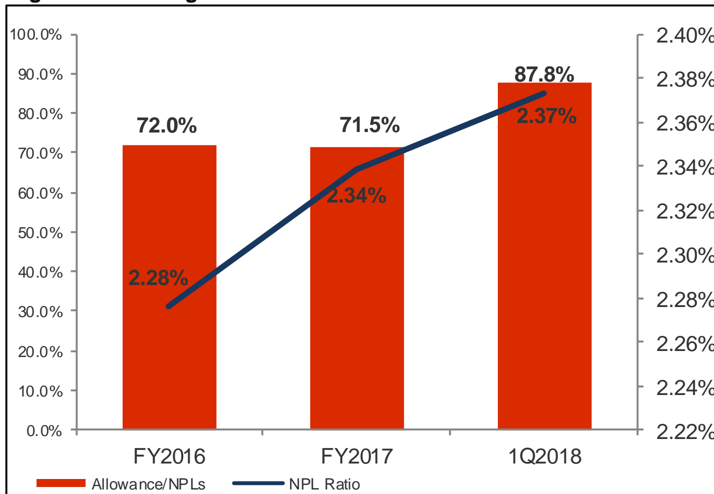
Source: Company

Figure 3: Liabilities Composition



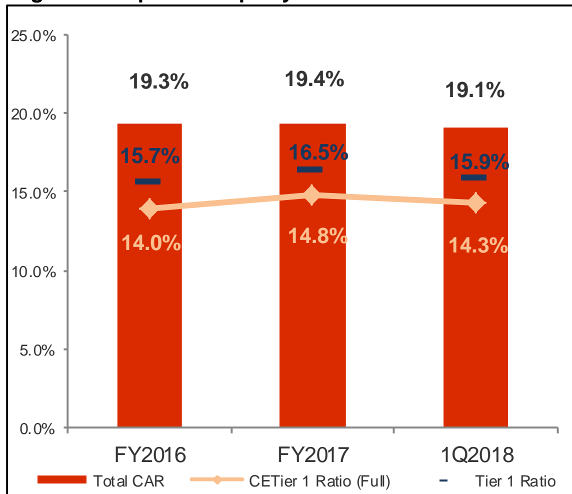
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

National Australia Bank Limited

Credit Outlook – NAB's future performance will be pressured by ongoing restructuring costs as well as industry margin pressures. That said, recent performance of NAB's business bank franchise was solid. The NAB 4.15% '28c23s look cheaper than the other Aussie Tier 2 papers. We currently rate all the Australian banks at a Positive (2) Issuer Profile.

Issuer Profile: Positive (2)

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 2018, the bank had total assets of AUD796.1bn.

Key credit considerations

- **Restructuring still influencing results:** NAB's 1HFY2018 results for the 6 months ended 31 March 2018 were decent with revenue up 2.5% y/y on growth in housing and business lending and a 5bps y/y improvement in net interest margins ('NIM') from repricing and lower funding costs. Markets and treasury income was lower however. Underlying expenses rose 5% y/y due to continued investments. Including restructuring-related costs, expenses were up 25.3% y/y. This was previously foreshadowed by NAB, with cash earnings down 16.0% y/y due to restructuring expenses. Excluding these, underlying profit improved 0.4%.H/h performance was more muted with revenue up 0.7% h/h primarily due to a -0.3% h/h fall in net interest income as net interest margins fell 1bps due to the full period impact of the bank levy, lower markets performance and a 1.1% h/h rise in gross loans and acceptances.

- **Overshadowing a benign operating environment:** Credit impairment charges fell 5.3% y/y, as lower specific provisions more than offset higher collective provisions. Overall asset quality continues to improve in line with FY2017 trends with the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances improving 14bps y/y to 0.71% as New Zealand dairy performance improved and workouts in Australian business lending are seeing some success. H/h loan quality weakened slightly indicating some loan weakness in certain sectors and this likely necessitated the higher collective provisions.

- **Segment performance focused on strength**: NAB's business remains anchored in its strong market position in Business Banking with the Business and Private Banking ('BPB') segment contributing 54% to 1HFY2018 cash earnings (45.1% excluding restructuring related costs). Improvement in NIM in BPB was noticeable, rising 13bps y/y and 6bps q/q to 2.97%. Segment contributions are followed by Consumer Banking and Wealth ('CBW') and Corporate and Institutional Banking ('CIB') at ~23/24% each and NZ Banking at 14%. In comparison, NIMs from these segments for 1HFY2018 were 2.06%, 0.79% (1.64% excluding markets) and 2.24% respectively. Going forward, CIB looks to be increasingly important to future earnings with NAB's focus on growth in Asian infrastructure financing opportunities in US, Europe, Asia and Australia. At the same time, NAB has announced the eventual exiting of its Advice, Platform & Superannuation and Asset Management businesses under the MLC and other brands. While the form of the divestment is yet to be decided, timing for the separation is expected towards the end of 2019.

- **Modest improvement in capital ratios:** The benefit to capital ratios from NAB's earnings were somewhat muted given the high restructuring related costs, with NAB's CET1 ratio up marginally y/y to 10.2% for 1HFY2018 from 10.1% in FY2017 (ended Sept 2017). NAB's capital ratios continue to lag peers with its CET1 ratio still below APRA's minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios in Australia's banking sector (comes into force January 2020). Although management remain confident of meeting APRA's minimum CET1 benchmark, we think active capital management will likely remain key for NAB with expectations that expenses are expected to remain elevated with expenses to grow 5-8% in FY2018 as the bank continues to transform its business and improve returns through increased digitization and optimizing its workforce. According to management, these costs include workforce reductions which are scheduled to occur over the next 3 years. This, together with changes in its wealth management strategy (exit of the Advice, Platform & Superannuation and Asset Management businesses), indicates some potential volatility in capital ratios in the next 1-2 years.

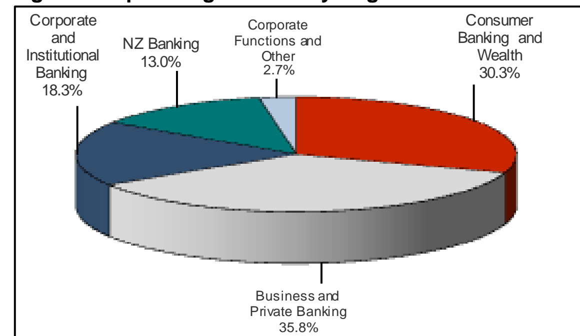
National Australia Bank Limited

Table 1: Summary Financials

Year Ended 30th Sep	FY2016	FY2017	1H2018
Income Statement (AUD'mn)			
Net Interest Income	12,930	13,182	6,750
Non Interest Income	5,192	4,842	2,343
Operating Expenses	8,331	8,539	4,744
Pre-Provision Operating Profit	9,791	9,485	4,349
Provisions	813	824	373
Other Income/(Expenses)	0	0	0
PBT	8,978	8,661	3,976
Income Taxes	2,553	2,480	1,168
Net Income to Common Shareholders	352	5,285	2,583
Balance Sheet (AUD'mn)			
Total Assets	776,710	788,325	796,068
Total Loans (net)	510,045	540,125	550,262
Total Loans (gross)	513,691	543,764	553,986
Total Allowances	3,114	3,224	3,648
Total NPLs	2,642	1,724	1,609
Total Liabilities	725,395	737,008	743,667
Total Deposits	459,714	500,604	502,690
Total Equity	51,315	51,317	52,401
Key Ratios			
NIM	1.88%	1.85%	1.87%
Cost-income Ratio	42.7%	42.7%	43.9%
LDR	110.9%	107.9%	109.5%
NPL Ratio	0.51%	0.32%	0.29%
Allowance/NPLs	117.9%	187.0%	226.7%
Credit Costs	0.16%	0.15%	0.13%
Equity/Assets	6.61%	6.51%	6.58%
CETier 1 Ratio (Full)	9.8%	10.1%	10.2%
Tier 1 Ratio	12.2%	12.4%	12.4%
Total CAR	14.1%	14.6%	14.4%
ROE	0.5%	10.9%	12.6%
ROA	0.74%	0.79%	0.72%

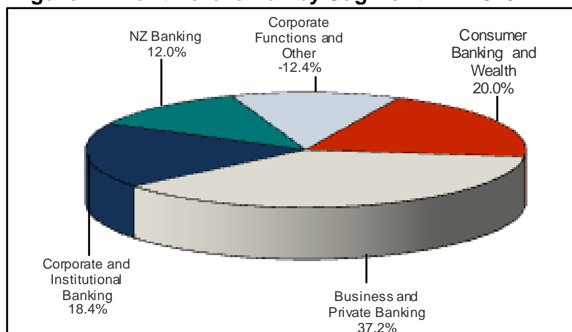
Source: Company

Figure 1: Operating Income by Segment - 1H2018



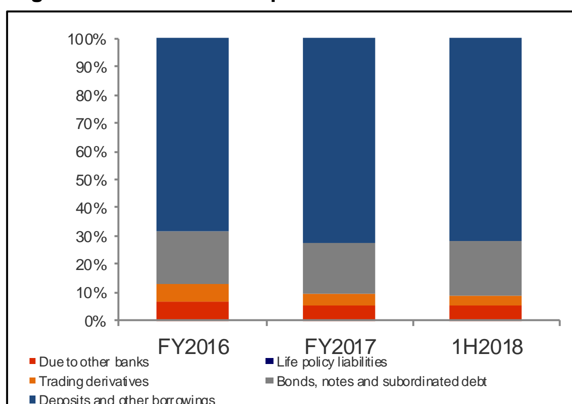
Source: Company

Figure 2: Profit Before Tax by Segment - 1H2018



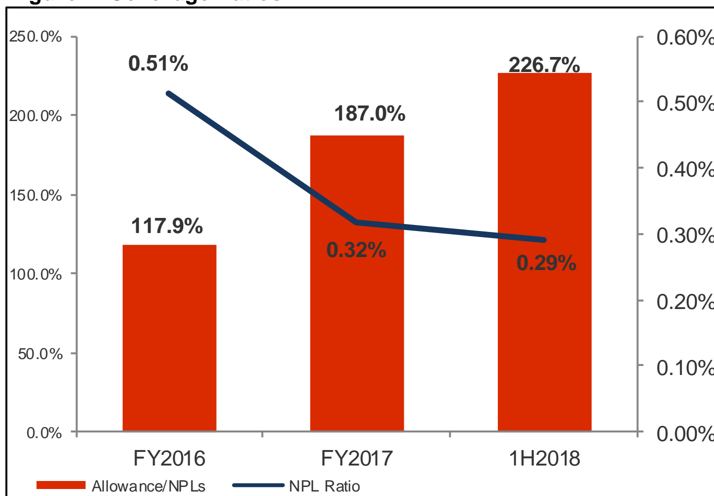
Source: Company

Figure 3: Liabilities Composition



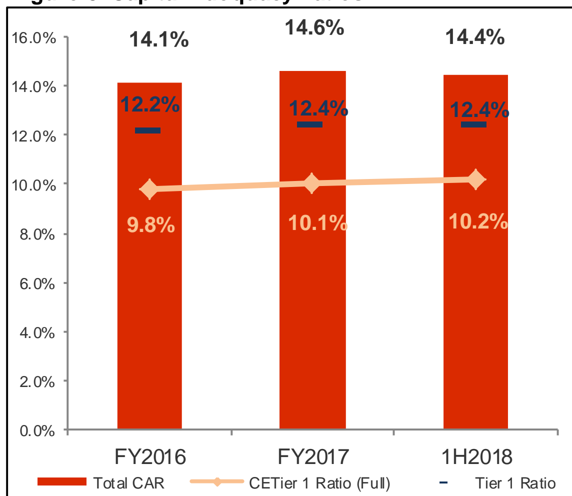
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Société Générale

Credit Outlook – Solid capital ratios insulate SG's credit profile against earnings challenges from prevailing industry dynamics, on-going litigation and recent management changes. We see the BPCE Tier 2 papers as better value considering fundamentals and spread across domestic peers. We rate BNP Paribas one level higher at Neutral (3) in view of its more geographically diversified.

Issuer Profile: Neutral (4)

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, 2018, it had total assets of EUR1,271.9bn.

Key credit considerations

- **Earnings challenges persist**: SG's 1Q2018 performance continues to reflect challenging industry dynamics with gross operating income down 14.5% y/y. Driving the weaker performance was a 2.8% y/y fall in net banking income from lower French Retail Banking and weaker markets performance. At the same time, the internal environment also faces headwinds with a 1.8% y/y rise in operating expenses from higher transformation and regulatory costs. Underlying performance (which is adjusted for non-economic and exceptional items as well as the impact of IFRIC 21) was slightly better with an 8.7% y/y fall in underlying gross operating income to EUR2.1bn.

- **International businesses performing better**: By segment, French Retail Banking performance continues to be weak due to low interest rates as well as lower prepayment and renegotiation fees and lower mortgage prepayment volumes y/y in 1Q2018, while Global Banking & Investor Solutions performance was also lower y/y due to a weaker dollar, weaker trading performance and comparing to a relatively strong 1Q2017. Conversely (and similar to BNP Paribas S.A.'s 1Q2018 results), International Retail Banking & Financial Services performance was improved y/y due to better performance in SG's overseas markets compared to France as well as improved insurance performance. On the expense front, French Retail Banking continues to be weighed down by transformation costs while cost inflation at International Retail Banking & Financial Services was due to business growth. SG's recently announced acquisition of Commerzbank AG's Equity Markets & Commodities business should provide further diversification away from the low return domestic retail business from a product and geographic perspective.

- **Cost of risk trend remains supportive**: SG's cost of risk continues to fall y/y in line with improvements in underlying operating environments, both domestically and abroad. Cost of risk trends also benefited from a write-back in provisions in the Global Banking & Investor Solutions segment. This helped reverse the weaker y/y gross operating income performance with operating income after risk costs up 12.8% y/y. In line with the trend in risk costs, the reported gross doubtful outstandings ratio was lower at 4.2% as at 31 March 2018 against 4.4% as at 31 December 2017 and 4.8% as at 31 March 2017. Despite the fall in risk costs, the reported gross coverage ratio for doubtful outstandings was slightly improved at 55% as at 31 March 2018 against 54% as at 31 December 2017.

- **Capital ratios protect credit profile for now:** SG's balance sheet was stable q/q but contained a 1.5% fall in net customer loan outstandings (excluding assets and securities sold under repurchase agreements). That said, risk weighted assets rose 1% q/q and this, along with implementation of IFRS9 (-14bps) and inclusion of Single Resolution Fund guarantees (-8bps) translated to a q/q fall in CET1 ratios to 11.2% as at 31 March 2018 (11.4% as at 31 December 2017). This still remains above SG's minimum phased in CET1 ratio requirement of 8.63% as disclosed in SG's annual report. Including senior non-preferred debt issues and other TLAC adjustments, SG's reported TLAC ratio was 21.8% as at 31 March 2018, up from 21.4% as at 31 December 2017 and above the Financial Stability Board's 2019 minimum requirement.

- **Management shake-up:** Concurrent with the release of 1Q2018 results, SG also announced a change in senior management composition following the departure of deputy CEO and head of Investment Banking Didier Valet. Four new deputy CEOs were named to oversee investment banking, international retail operations, compliance and French retail banking. As much as the change was driven by the departure of Mr Valet, the re-organization is seen as timely given subdued performance in investment banking and French retail banking. This could result in fresh restructuring initiatives on top of SG's 2020 Strategic and Financial Plan announced in late 2017 and dent SG's future profitability.

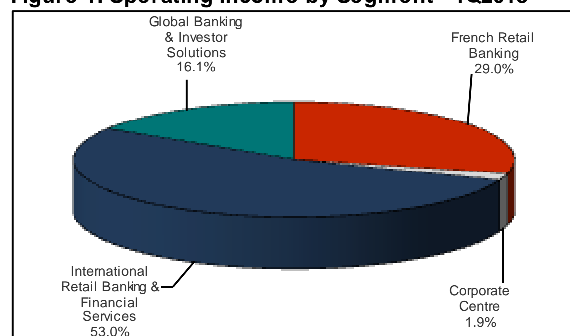
Société Générale

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (EUR'mn)			
Net Interest Income	9,467	10,416	6,294
Non Interest Income	15,831	13,538	
Operating Expenses	16,817	17,838	4,729
Pre-Provision Operating Profit	8,481	6,116	1,565
Provisions	2,091	1,349	208
Other Income/(Expenses)	-83	92	16
PBT	6,307	4,859	1,373
Income Taxes	1,969	1,708	370
Net Income to Common Shareholders	3,874	2,806	850
Balance Sheet (EUR'mn)			
Total Assets	1,382,241	1,275,128	1,271,900
Total Loans (net)	426,501	425,231	423,300
Total Loans (gross)	479,100	478,700	482,100
Total Allowances	15,200	12,600	13,400
Total NPLs	23,955	20,900	20,400
Total Liabilities	1,316,535	1,211,091	1,208,400
Total Deposits	421,002	410,633	409,400
Total Equity	65,706	64,037	63,500
Key Ratios			
NIM	0.79%	0.93%	N.A
Cost-income Ratio	65.6%	74.3%	N.A
LDR	101.3%	103.6%	103.4%
NPL Ratio	5.00%	4.37%	4.23%
Allowance/NPLs	63.5%	60.3%	65.7%
Credit Costs	0.44%	0.28%	0.17%
Equity/Assets	4.75%	5.02%	4.99%
CETier 1 Ratio (Full)	11.5%	11.4%	11.2%
Tier 1 Ratio	14.5%	13.8%	13.6%
Total CAR	17.9%	17.0%	16.8%
ROE	7.3%	4.9%	7.4%
ROA	0.29%	0.19%	0.26%

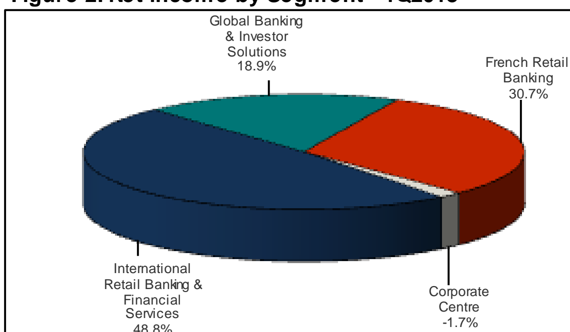
Source: Company

Figure 1: Operating Income by Segment - 1Q2018



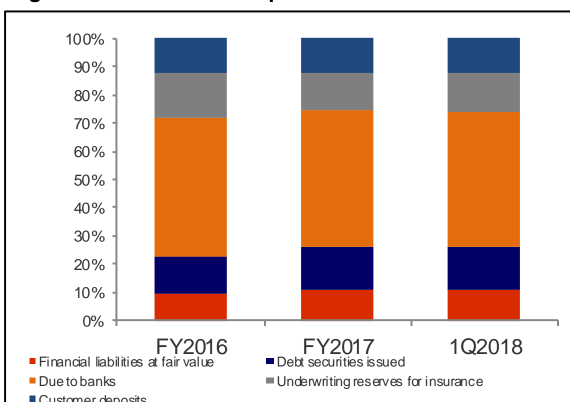
Source: Company

Figure 2: Net income by Segment - 1Q2018



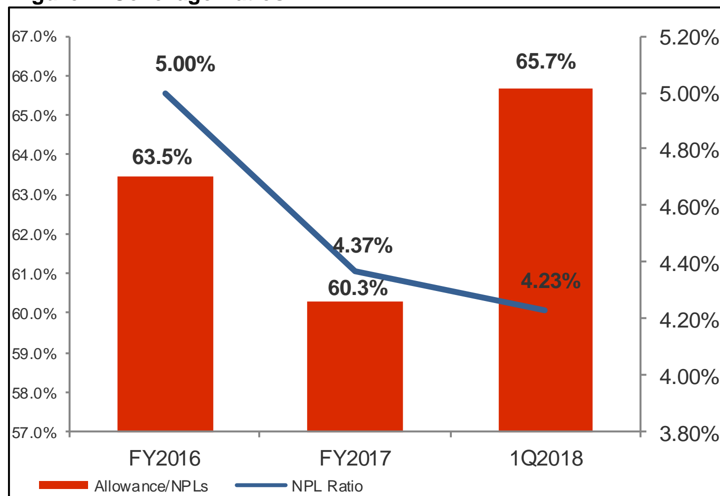
Source: Company

Figure 3: Liabilities Composition



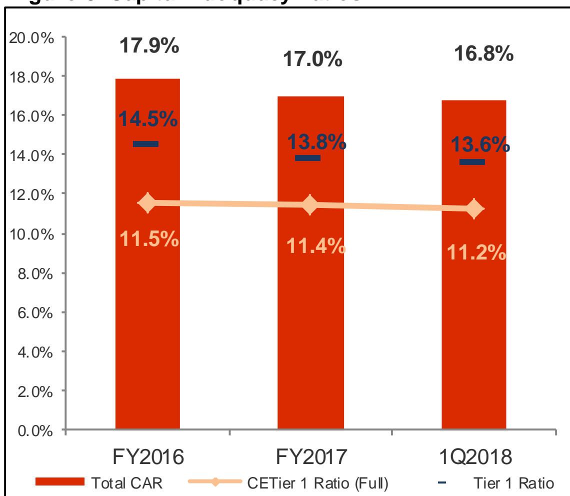
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Standard Chartered PLC

Credit Outlook – Trends in recent results were positive in our view from underlying profit growth and successful execution of its 2015 strategic plan. We see better value in the CMZB Tier 2 4.875% '27c22s as we think the pick up more than compensates for the extension in duration. We hold both Commerzbank AG and StanChart at Neutral (4) Issuer Profile.

Issuer Profile: Neutral (4)

Ticker: **STANLN**

Background

Formed almost 50 years ago, Standard Chartered PLC ('StanChart') is a universal bank, offering broad services aligned both globally and regionally. Although headquartered in the UK, StanChart's footprint is skewed towards emerging markets, mostly in Greater China & North Asia (Hong Kong), followed by ASEAN & South Asia. As at 31 December 2017, it had total assets of USD663.5bn.

Key credit considerations

- **Decent trends in results:** StanChart's 1Q2018 interim management results appear constructive. Operating income of USD3.9bn was up 7% y/y (+5% y/y on a constant currency basis) driven by performance in transaction banking, mortgages, wealth management and deposits. Other segments including credit cards, personal loans and corporate finance performance were also positive although treasury income was lower y/y due to absence of one-off gains from 1Q2017. What is positive in segment performance from management's view is that the solid y/y growth trends are in line with StanChart's strategic plan implemented in late 2015 to reduce its risk appetite and loan book and invest in Private Banking and Retail Banking to expand opportunities.

- **Lower cost growth helped bottom line:** Operating expenses of USD2.2bn increased 5% y/y or 1% on a constant currency basis as prior year cost efficiency programs appear to be paying off as per management's statements. Regulatory costs were also lower y/y due to the implementation of several regulatory programs at the end of 2017. Supporting overall cost trends, impairment expenses were lower (-4% y/y and -29% q/q) with management indicating that this is the result of portfolio rebalancing and improved macro conditions in StanChart's main markets including Hong Kong, China and Singapore. The 29% q/q fall in impairment losses was larger due to the inclusion of a one-off provision in the prior quarter in Korean retail banking following a change in regulation.

- **Macro environment and strategy shows in segment performance:** Segment wise, operating income performance was supportive across all segments with Corporate & Institutional Banking ('CIB') and Commercial Banking up 7% y/y with CIB benefitting from a 20% increase in client operating account average balances. As mentioned above, revenues connected with Private Banking ('PB') and Retail Banking ('RB') grew the most with these segments improving 23% y/y and 14% y/y respectively with PB growth due to capacity expansion from senior relationship manager hiring and over USD700mn in net new money in 1Q2018. CIB continues to generate the bulk of segment income at 45% (same as 1Q2017) of total income for 1Q2018. This is followed by RB at 35% (up from 32% in 1Q2017). Geographic wise, income performance grew the most in Greater China & North Asia (+13% y/y) followed by ASEAN & South Asia (+7% y/y) while performance in Europe & Americas and Africa and Middle East were flat.

- **Capital Ratios benefitting from loan portfolio improvements**: StanChart's balance sheet continues to grow with net loans and advances up 3% q/q and 9% y/y. As growth was marginally ahead of customer account growth, the advance to deposit ratio rose y/y and q/q. At the same time, asset quality was slightly weaker q/q but improved y/y. Trends in loan quality will continue to be a focus in our view, particularly given the declining trend in credit impairment provisions with coverage ratios before and after collateral falling q/q. Management also continues to wind down its liquidation portfolio. As a result, risk weighted assets were stable q/q despite loan growth and combined with earnings for the quarter, StanChart's CET1 ratio improved 26bps q/q to 13.9%. This remains above the bank's target range of 12-13% and our estimate of its 2019 minimum Supervisory Review and Evaluation Process CET1 requirement of 10.0%. StanChart also disclosed in the release of its FY2017 results that it estimates its minimum requirement for own funds and eligible liabilities (MREL) position as at 31 December 2017 was ~25.5%, above the Bank of England's estimated MREL requirement of 16.0 per cent in 2019. As such, StanChart's capital position remains sound in our view.

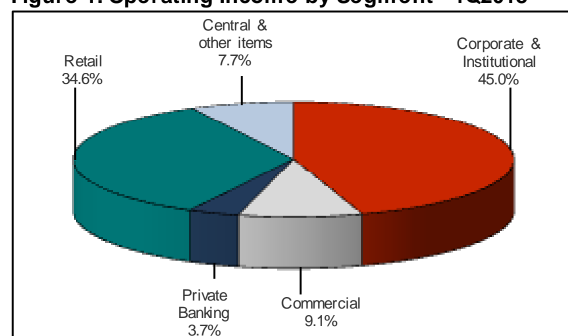
Standard Chartered PLC

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	FY2017
Income Statement (USD'mn)			
Net Interest Income	9,407	7,794	8,181
Non Interest Income	5,882	6,266	6,244
Operating Expenses	11,173	10,211	10,417
Pre-Provision Operating Profit	4,116	3,849	4,008
Provisions	4,976	2,791	1,861
Other Income/(Expenses)	192	-37	268
PBT	-668	1,021	2,415
Income Taxes	673	600	1,147
Net Income to Common Shareholders	-2,194	-247	1,219
Balance Sheet (USD'mn)			
Total Assets	640,483	646,692	663,501
Total Loans (net)	261,403	255,896	285,553
Total Loans (gross)	268,083	262,250	291,255
Total Allowances	6,680	6,354	5,702
Total NPLs	12,759	9,687	8,679
Total Liabilities	591,971	598,034	611,694
Total Deposits	350,633	371,855	370,509
Total Equity	48,512	48,658	51,807
Key Ratios			
NIM	1.70%	1.50%	1.60%
Cost-income Ratio	73.1%	72.6%	72.2%
LDR	74.6%	68.8%	77.1%
NPL Ratio	4.76%	3.69%	2.98%
Allowance/NPLs	52.4%	65.6%	65.7%
Credit Costs	1.86%	1.06%	0.64%
Equity/Assets	7.57%	7.52%	7.81%
CETier 1 Ratio (Full)	12.6%	13.6%	13.6%
Tier 1 Ratio	14.1%	15.7%	16.0%
Total CAR	19.5%	21.3%	21.0%
ROE	-0.4%	0.3%	3.5%
ROA	-0.30%	0.00%	0.20%

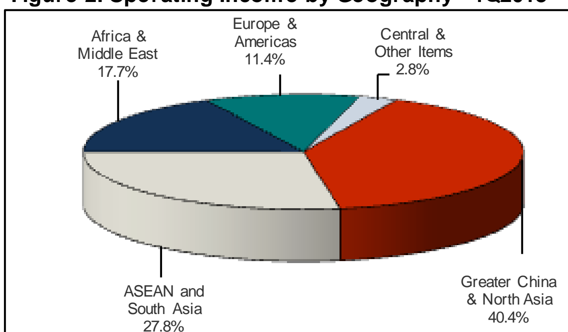
Source: Company

Figure 1: Operating Income by Segment - 1Q2018



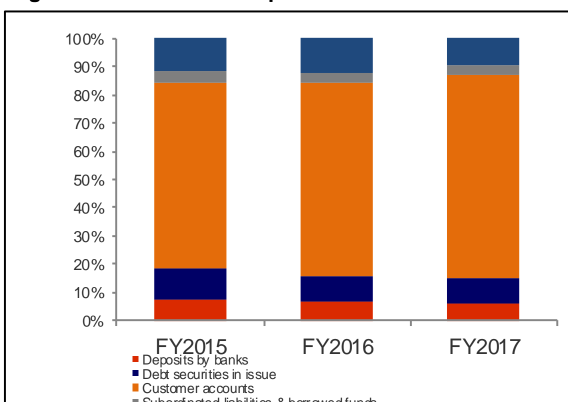
Source: Company

Figure 2: Operating Income by Geography - 1Q2018



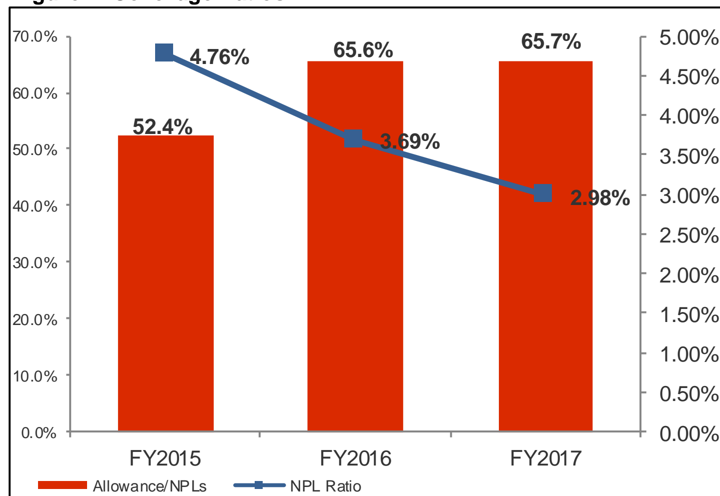
Source: Company

Figure 3: Liabilities Composition



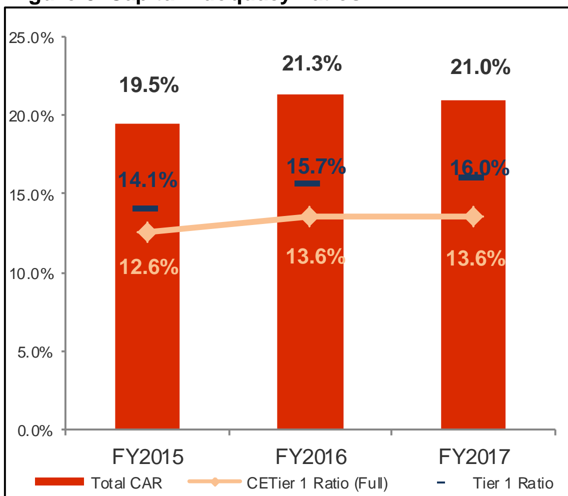
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Record earnings in 1Q2018 highlight the positive environment for banks in 2018 with expectations of higher interest rates and solid economic growth. We tend to look to other names for higher yield. This means looking at Aussie Tier 2 paper, such as the ANZ 3.75% '27c22s and NAB 4.15% '28c23s. We currently rate the Australian and Singapore banks at a Positive (2) Issuer Profile.

Issuer Profile: Positive (2)

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, Global Markets and Others. Wee Investments Pte Ltd and Wah Hin & co Pte Ltd have a 7.81% and 5.15% stake in UOB, respectively, as of 6th July 2018.

United Overseas Bank Ltd

Key credit considerations

- **Solid environment translates to record earnings:** UOB's 1Q2018 results were strong with total income up 9% y/y to SGD2.2bn. Net interest income grew 13% y/y to a new record high on customer loans growth of +5% y/y and net interest margin growth of +9bps y/y to 1.84%. Net fee and commission income performance was also strong, up 18% y/y with growth due to strong wealth management and fund management performance. Loan-related fee income increased sharply as well by 24% while credit card fees rose 11% y/y. These results were balanced by a 22% y/y fall in other non-interest income mainly from lower net trading income. Evidencing a broadly solid operating environment, all business segments delivered improved performance y/y. Group Retail reported y/y income growth of 6%, mainly from wealth management and fee based products. Group Wholesale Banking income grew 4% supported by higher cash management, trade and investment banking activities while Global Markets net income grew 20% y/y, benefitting from favourable foreign exchange movements.

- **Also supports overall expenses:** Operating expense growth for UOB was similarly higher due to growth-related staff and IT expenses. As expense growth of 11% y/y was higher than total income growth, the improvement in operating profit was slightly more moderate at 7% y/y than growth in total income while the expense to income ratio weakened slightly to 44.2% (43.2% in 1Q2017). This was mitigated however by credit loss allowances falling 57% y/y due to improved macro environments and lower additional stress in UOB's oil and gas and shipping sectors. Combined, overall expenses including credit loss allowances were stable and this translated to net profit before tax improving 18% y/y. In essence, operating expense trends are not necessarily negative in our view given that they appear to support current and future business growth.

- **Balance sheet expansion in kind:** UOB's solid loan growth is an indication of supportive operating conditions, with loan growth continuing to occur q/q (+2% q/q). Loan growth was broad-based across most territories (except Indonesia) and industries (except transport, storage and communication and others). The fall in loans within Indonesia and transport, storage and communication and others seems positive given these locations/sectors have the highest non-performing loan ratios within UOB's overall portfolio. Overall non-performing loans remain higher y/y due to the one-off recognition of stressed exposures although it fell slightly q/q. With operating conditions supportive, total allowances have been on a declining trend since March 2017. With this decline faster than the fall in non-performing loans ('NPL'), non-performing asset ('NPA') coverage ratios have been falling (91% as at 1Q2018; 117% as at 1Q2017). Coverage ratios including only unsecured NPA's have also fallen although it remained solid at 190% as at 1Q2018. Given current operating conditions, the fall in coverage is not a concern in our view.

- **Bumper growth in capital ratios:** Capital ratio improvement on a y/y basis was noticeable with UOB's CET1 ratio up 170bps to 14.9% due to earnings performance and a y/y fall in risk weighted assets from changes to the risk weighted asset computation methodology. The CET1 ratio was however down 20bps q/q due to a higher rise in risk weighted assets from loans growth. On a fully loaded basis, the CET1 ratio was also 14.9% as at 31 March 2018, well above the CET1 regulatory minimum requirement of 8.7%. Tier 1 and total capital ratios had also improved due to the issuance of USD650mn in AT1 securities in October 2017. This also assisted in the y/y improvement in UOB's leverage ratio, which was at 8.2% as at 31 March 2018 (7.6% as at 31 March 2017), well above the minimum Basel III requirement of 3%. As we mentioned in the earnings review for DBS Group Holdings Ltd, these strong positions against regulatory requirements should support further potential balance sheet growth in 2018.

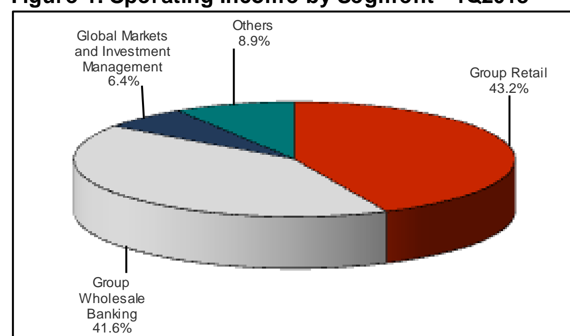
United Overseas Bank Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Net Interest Income	4,991	5,528	1,470
Non Interest Income	3,070	3,323	761
Operating Expenses	3,696	4,027	987
Pre-Provision Operating Profit	4,365	4,824	1,244
Provisions	594	727	80
Other Income/(Expenses)	6	110	29
PBT	3,777	4,207	1,193
Income Taxes	669	800	212
Net Income to Common Shareholders	3,096	3,391	978
Balance Sheet (SGD'mn)			
Total Assets	340,028	358,592	364,455
Total Loans (net)	221,734	232,212	237,447
Total Loans (gross)	225,662	236,028	240,788
Total Allowances	3,928	3,816	3,913
Total NPLs	3,328	4,211	4,138
Total Liabilities	306,986	321,554	326,389
Total Deposits	255,314	272,765	273,817
Total Equity	33,042	37,037	38,066
Key Ratios			
NIM	1.71%	1.77%	1.84%
Cost-income Ratio	45.9%	45.5%	44.2%
LDR	86.8%	85.1%	86.7%
NPL Ratio	1.47%	1.78%	1.72%
Allowance/NPLs	118.0%	90.6%	94.6%
Credit Costs	0.26%	0.31%	0.13%
Equity/Assets	9.72%	10.33%	10.44%
CETier 1 Ratio (Full)	13.0%	15.1%	14.9%
Tier 1 Ratio	13.1%	16.2%	16.4%
Total CAR	16.2%	18.7%	18.8%
ROE	10.2%	10.2%	11.0%
ROA	0.95%	0.98%	1.09%

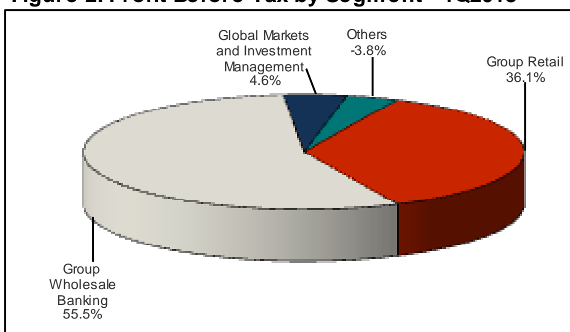
Source: Company

Figure 1: Operating Income by Segment - 1Q2018



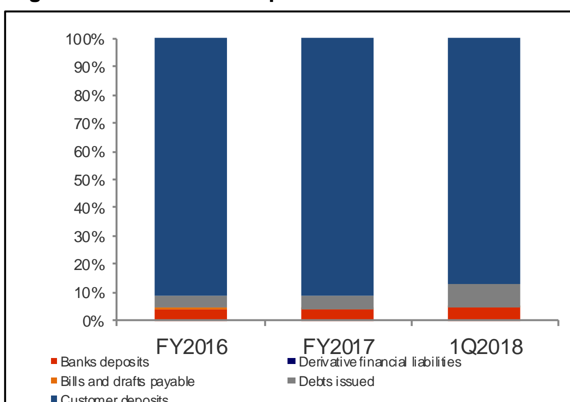
Source: Company

Figure 2: Profit Before Tax by Segment - 1Q2018



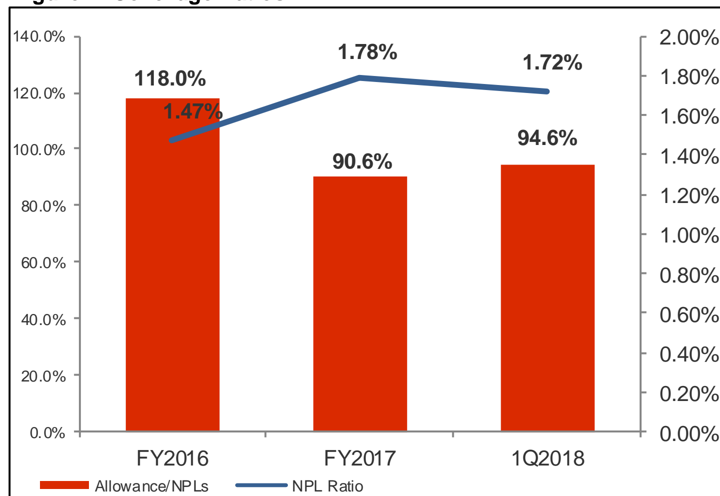
Source: Company

Figure 3: Liabilities Composition



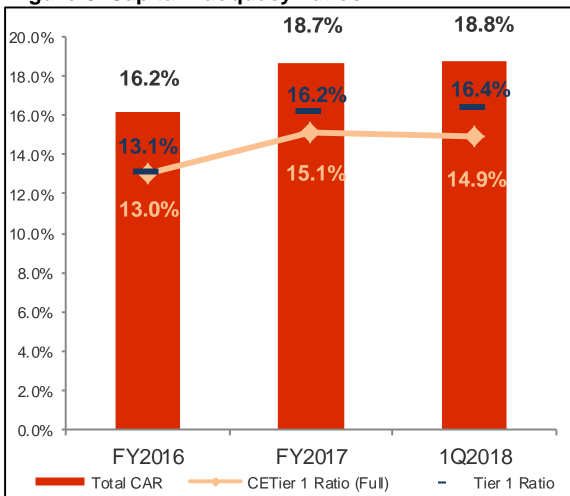
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Westpac's results continue to reflect its stable and entrenched business positions in Australia and New Zealand. Asset quality shows some slight weakness h/h and together with anticipated cost increases and lower mortgage growth, earnings may not be so stellar going forward. The NAB 4.15% '28c23s look cheaper than the other Aussie Tier 2 papers. We currently rate all the Australian banks at a Positive (2) Issuer Profile.

Issuer Profile: Positive (2)

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 2018, it had total assets of AUD871.9bn.

Westpac Banking Corporation

Key credit considerations

- **Firing on all cylinders:** Westpac's 1HFY2018 results for the 6 months ended 31 March 2018 appear on trend as a stable operating environment translated into broad based growth across business segments. Net operating income rose 4% y/y due to 9% y/y growth in net interest income from loans growth and the reported net interest margin improving 11bps to 2.16%. This was balanced by a 9% y/y fall in non-interest income from lower net trading income and economic hedges impact on New Zealand earnings. Expenses rose 2% y/y due to higher salary and technology expenses as well as an increase in regulatory and compliance costs. Of interest is that the cost increases already factor in costs associated with the on-going Royal Commission into misconduct in the Banking industry. That said, given the lower growth in expenses (versus income), net profit before impairment charges rose 5% y/y to AUD6.4bn.

- **Still strong asset quality but for how long**: Impairment charges fell 20% y/y, primarily in individual provisions, as portfolio quality appears sound according to management. Westpac's reported stressed exposures as a percentage of total committed exposures were 1.09% as at 31 March 2018, down 5bps from 31 March 2017. In kind, the ratio of gross impaired asset provisions to gross impaired assets fell to 45.5% as at 31 March 2018 from 52.1% as at 31 March 2017. This trend should be watched considering mortgages 90+ day delinquencies ratio rose marginally y/y (albeit from a low base) and the ratio of reported stressed exposures as a percentage of total committed exposures weakened h/h (1.05% as at 30 September 2017). The rise in stressed exposures came primarily from mortgage delinquencies. This explains why impairment charges rose h/h by 9%. As impaired assets and the gross impaired assets to gross loans ratio remained stable h/h at 0.22%, the rise in impairment charges was from collectively assessed provisions. Individually assessed provisions fell.

- **Broadly positive results by segment**: Lower impairment charges and a positive JAWs ratio (Income Growth Rate - Expense Growth Rate) led to profit before tax up 7% y/y to AUD6.0bn. Segment performance by cash earnings (which reflects profits generated by ongoing operations) was broadly positive with y/y growth in cash earnings from Consumer Bank, Business Bank, BT Financial Group and Westpac New Zealand due to business growth and/or improved lending volumes as well as lower impairments. Only Westpac's Institutional Bank had a y/y fall in cash earnings although this came off a strong performance in 1HFY2017. This was reversed however on a h/h basis with a 6% increase in loans and a 2bps improvement in margins from better loan pricing and changes in the deposit mix.

- **Driven by loan growth**: Supporting segment performance was broad-based loans growth with total loans up 2% h/h and 5% y/y. Growth occurred in all of Westpac's major geographic segments with Australian loans up 2% h/h and 5% y/y and New Zealand loans up 4% h/h and 6% y/y. While Other Overseas loans was up 14% h/h and 25% y/y, its contribution to overall loans as at 31 March 2018 remains low at 2%, loans dominated by Australia (87% of total loans) and New Zealand (11%). Loan growth in Australia and New Zealand was driven mostly by mortgage growth to owner occupiers, while the better loans growth in New Zealand was due to better business conditions, particularly in Agriculture. Overseas loan growth was driven mostly by increased trade financing in Asia.

- **Capital ratios above minimum requirements**: Given solid earnings, capital ratios improved 50bps y/y to 10.5% as at 31 March 2018, in line with minimum regulatory CET1 requirements by Jan 1, 2020 and above the bank's own minimum CET1 requirement of at least 8.0%. Improvement was driven by higher growth in CET1 capital (+8%) y/y against growth in risk weighted assets (+3% y/y). H/h trends were different with CET1 ratios marginally lower as 102bps improvement in cash earnings was offset by the impacts of final dividend payment (-70bps), regulatory model changes (-22bps) and RWA growth (-8bps).

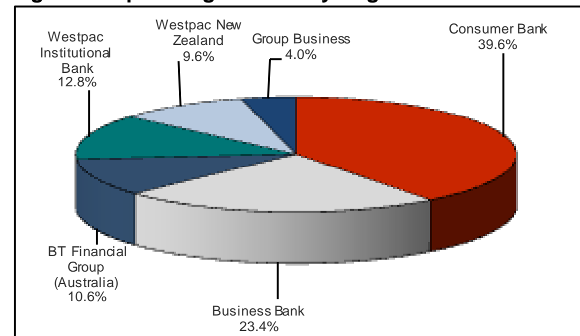
Westpac Banking Corporation

Table 1: Summary Financials

Year Ended 30th Sep	FY2016	FY2017	1H2018
Income Statement (AUD'mn)			
Net Interest Income	15,148	15,516	8,278
Non Interest Income	5,837	6,286	2,875
Operating Expenses	9,217	9,434	4,725
Pre-Provision Operating Profit	11,768	12,368	6,428
Provisions	1,124	853	393
Other Income/(Expenses)	0	0	0
PBT	10,644	11,515	6,035
Income Taxes	3,184	3,518	1,835
Net Income to Common Shareholders	7,445	7,990	4,198
Balance Sheet (AUD'mn)			
Total Assets	839,202	851,875	871,855
Total Loans (net)	661,926	684,919	701,393
Total Loans (gross)	665,256	687,785	704,306
Total Allowances	3,330	2,866	2,913
Total NPLs	2,159	1,542	1,535
Total Liabilities	781,021	790,533	809,190
Total Deposits	513,071	533,591	547,736
Total Equity	58,181	61,342	62,665
Key Ratios			
NIM	2.10%	2.06%	2.17%
Cost-income Ratio	43.9%	43.3%	42.4%
LDR	129.0%	128.4%	128.1%
NPL Ratio	0.32%	0.22%	0.22%
Allowance/NPLs	154.2%	185.9%	189.8%
Credit Costs	0.17%	0.12%	0.11%
Equity/Assets	6.93%	7.20%	7.19%
CETier 1 Ratio (Full)	9.5%	10.6%	10.5%
Tier 1 Ratio	11.2%	12.7%	12.8%
Total CAR	13.1%	14.8%	14.8%
ROE	14.0%	13.8%	14.0%
ROA	0.88%	0.94%	0.96%

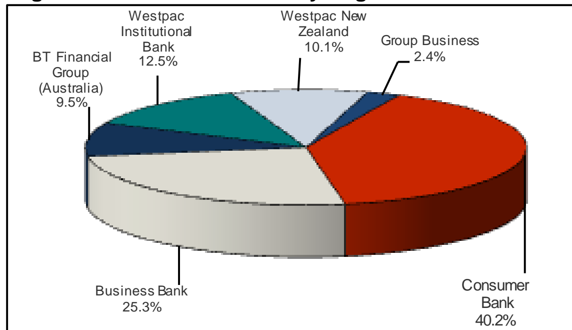
Source: Company

Figure 1: Operating Income by Segment - 1H2018



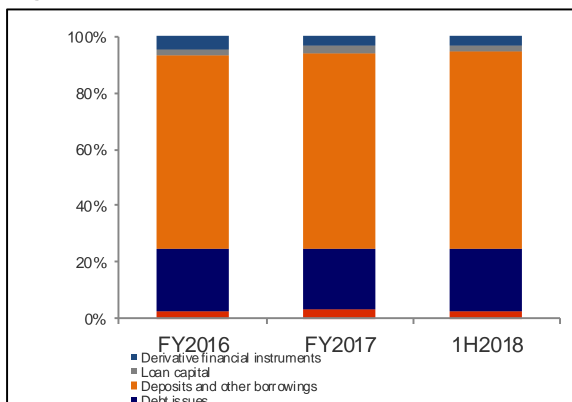
Source: Company

Figure 2: Profit Before Tax by Segment - 1H2018



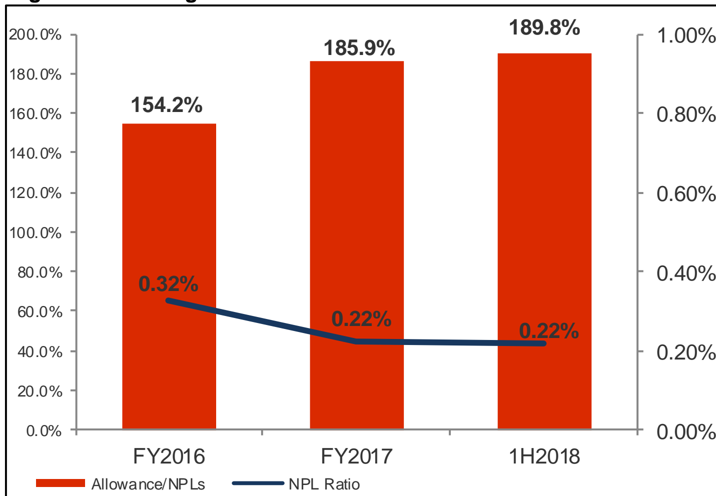
Source: Company

Figure 3: Liabilities Composition



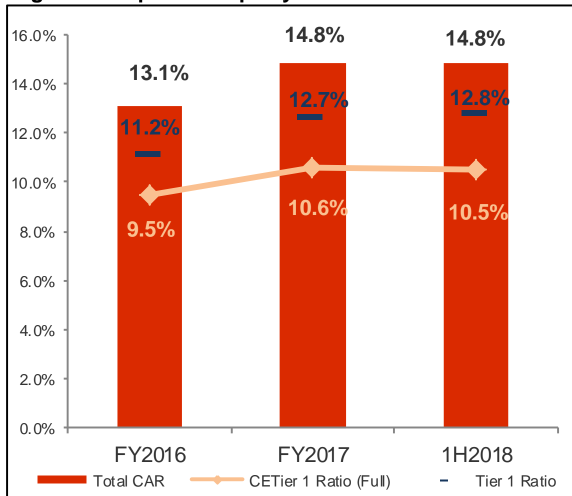
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

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The Credit Research team would like to acknowledge and give due credit to the contributions of Nick Wong Liang Mian, Soh Jia Xuan and Ferlicia Leow Soh Koon.

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons held securities in the following above-mentioned issuers or companies as at the time of the publication of this report: GuocoLand Ltd, Perennial Real Estate Holdings Ltd, Ascendas Hospitality Trust

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