OCBC Credit Research

OCBC Bank

Singapore Mid-Year 2019 Credit Outlook

Friday, 05 July 2019

- **Lower interest rates, increasing conviction of the rates outlook and continued repricing of secondary curves drove stellar activity in the SGD corporate bond market with near record issuance in the first half of 2019.**

- **This was despite moderating economic growth forecasts and persistent risk events as solid market liquidity was met with funding demand from familiar corporates for growth investments. At the same time, conducive conditions also led new issuers to tap the market improving the breadth of issuers in the SGD corporate bond market.**

- **Negative headlines and an at times challenging operating outlook continued to constrain demand for true high yield issuers. That said, investors continued to search for yield leading to heavy demand for duration and structurally driven higher-yielding instruments.**

- **Technicals are now more in balance with fundamentals following the 1H2019 credit rally. We see a fine balance between positive and negative influences on credit spreads for the remainder of 2019. This may lead to increased volatility and dispersion within credit markets. As such, our preference in 2H2019 is for high quality credits that are better able to withstand market influences from a fundamental and technical perspective.**

- **With the ongoing search for yield amidst uncertain times and a flattening yield curve, we think it is important to remind investors of bond investing fundamentals and in particular the most basic principle that higher returns come with higher risks. In the case of structurally driven higher-yielding instruments, this means understanding the underlying structural features that drive the bond's risk profile and yield.**

- **Despite a choppy outlook, earnings headwinds from lower interest rates, subdued credit demand and sticky costs, we expect fundamentals for Financial Institutions to remain resilient from their strong capital positions and improved fundamentals following prior years repositioning.**

- **Office REITs have performed well, in line with the sector as the supply squeeze persists. Retail REITs, however, continue to look challenged as it continues to undergo a prolonged structural change. We think malls that foster community bonds have a better chance of thriving.**

- **Expect a smaller oversupply in the industrial property market with lease rates flat y/y. Though, with manufacturing and the economic growth outlook weakening, a step up in fiscal expansion in Singapore may lead to higher supply. Some deterioration in credit metrics are observed over the past five years, with Industrial REITs finding it harder to generate organic growth.**

- **Despite 2Q2019 Singapore residential property prices increasing 1.3% q/q, we do not turn optimistic. Take-ups still fall short of supply and further supply is expected in 2H2019-20 as sentiments remain somewhat subdued. Developers may compete (e.g. cut prices) to move inventory. That said, downside risks may be limited, noting the government's aim to 'ensure a sustainable market' while government land sales have been dialled back.**

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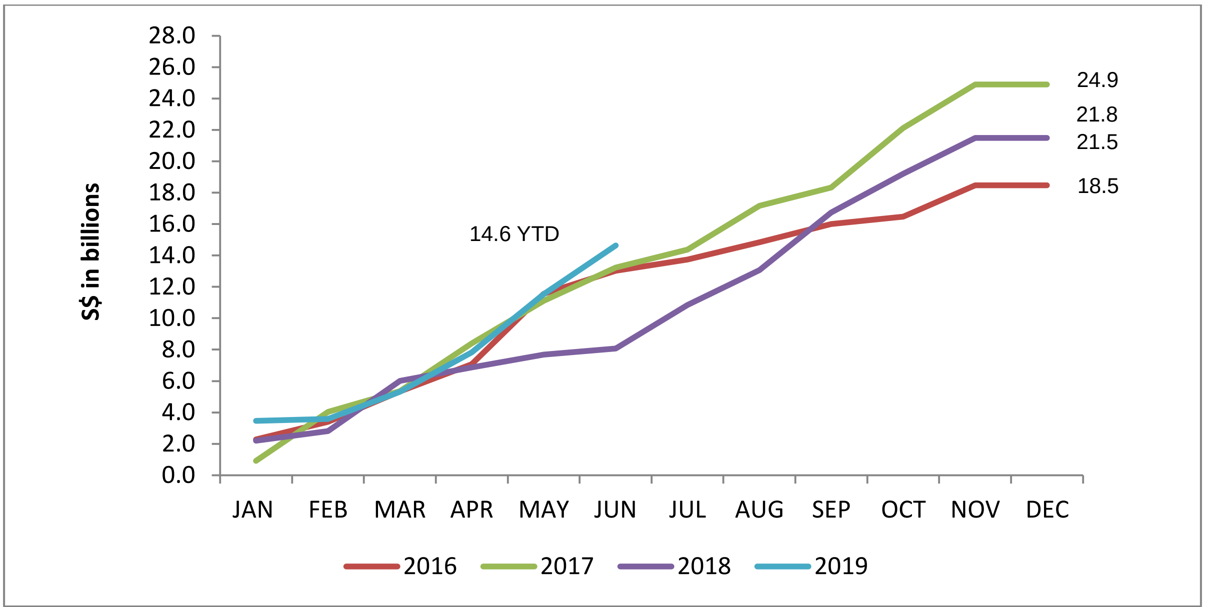
2019 Mid—Year Singapore Corporate Bond Market Review

Strong recovery in issuance as fundamental uncertainty was Trumped by technical conviction

It was a bumper first half for issuance volumes in the Singapore Corporate bond market with SGD14.6bn issued in the first 6 months of 2019, a near record issuance amount and the highest since 2012. This was in contrast to the first half of 2018 with SGD8.1bn issued. Of note is that while overall issuance volumes were 80% higher y/y, the total number of issues was only up by ~15% y/y indicating a higher average issue amount per issue. This was driven by the technical environment and the profile of issuers in 1H2019.

Figure 1: SGD bond issuance monthly volume (cumulative)



Source: OCBC, Bloomberg

Several technical drivers impeding issuance in 1H2018 reversed in 1H2019 with lower interest rates and increasing conviction of the rates outlook leading to re-pricing of secondary curves. We saw bond prices rally gradually as time went on, fuelled by risk-on sentiments and subsequently from dovish comments by central banks globally. At the same time, issuer fundamentals remained broadly resilient and within expectations indicating issuers were operating within the limitations of their current credit profiles. The exceptions in our view were (1) CMA CGM which we downgraded twice in 1H2019 to Negative (6) issuer profile as higher than expected leverage meant the company was less in control of their destiny; (2) Century Sunshine Group Holdings Ltd which was lowered to Negative (6) issuer profile on weaker financial flexibility and rising business competition; and (3) City Developments Ltd which was lowered to Neutral (3) issuer profile through a combination of lackluster results and ambitious growth plans which weakened financial metrics outside our expectation for a Positive (2) issuer profile. We had previously identified all three issuers in our April Monthly Credit View as issuers with evolving credit profiles that were more susceptible to developments through 2019. Conversely, we only upgraded one issuer under our framework with Oxley Holdings Ltd raised to Neutral (5) from Negative (6) on a confirmed deleveraging path through divestments and asset sales.

The prevalence of downgrades to upgrades in part reflected the weaker operating outlook but more so idiosyncratic factors. Economic growth forecasts have been lowered while persisting risk events such as ongoing trade tensions, Brexit and rising Middle East conflicts have had negative impacts on sentiment of varying intensity throughout 1H2019. US treasury yields progressively slipped from around 2.6% at the start of the year to below 2.0% by early July. SGD rates moved in tandem with 10 year SGD swap rates falling from a peak of 2.4% in early March to around 1.9% in early July. Still, these prevailing concerns did little to dent demand for Singapore corporate bonds as solid market liquidity was met with ongoing funding demand from well-known, large cap corporates for growth investments including CapitaLand Ltd and Keppel Corp Ltd. This is not surprising in our view with high quality corporates seeking to use their solid market access and strong balance sheet in a positive technical environment of low rates to expand their business footprint and leverage up in a desire to boost growth. This is what drove our issuer profile review on City Developments Ltd.

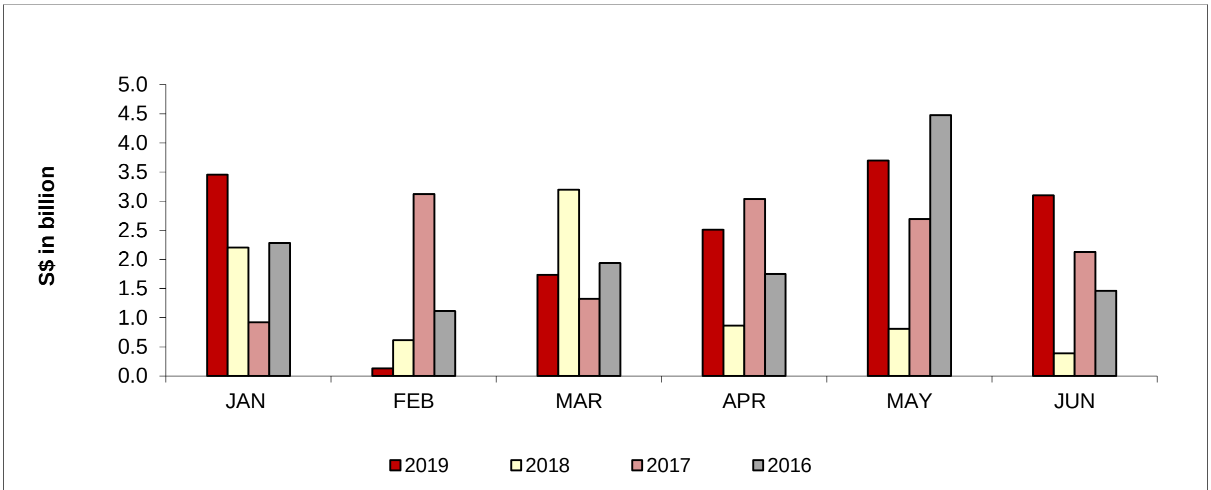
Well-established corporates were not the only ones to benefit from conducive issuing conditions. We saw an improving breadth of issuers tapping the market in 1H2019 with Keppel Infrastructure Trust, Crédit Agricole SA, Credit Suisse Group AG, Chongqing Banan Economic Park Development & Construction Co (tapped more than once) and CJ Logistics Asia Pte Ltd all launching inaugural deals in the SGD space. Of note is the dispersion in issuers by industry and location and the range of structures amongst the issues which included corporate perpetuals, bank capital (both Tier 2 and Additional Tier 1) and short term vanilla senior unsecured debt.

We also saw infrequent SGD issuers returning to the market with Singapore Press Holdings Ltd and Singapore Technologies Telemedia Pte Ltd launching perpetuals, Ford Motor Credit Co LLC issuing a SGD300mn 5yr bond in June after the maturity of its previous SGD350mn 3yr bond in March and Emirates NBD PJSC issuing its first sizeable issue after tapping the market in 2018 for a small amount. Finally, we saw Metro Holdings Ltd leverage on the market traction it gained from its inaugural issue in 2018 with a larger and longer tenor deal while Shangri-La Hotel Ltd privately placed two additional issuances after its large issuance in 2018.

As a consequence of the above, we continuously adjusted our coverage throughout 1H2019. We dropped certain names due to bond maturities and other corporate actions and initiated coverage on Keppel Infrastructure Trust, Metro Holdings Ltd, Shangri-La Asia Ltd, Lendlease Group and Cache Logistics Trust. We are further expanding our coverage in this Singapore Mid-Year 2019 Credit Outlook and initiating on Crédit Agricole SA, Credit Suisse Group AG, and UBS Group AG. All up, while the overall size of our coverage portfolio remains somewhat unchanged, we think the ongoing adjustment to our portfolio and the infusion of diversity into the Singapore Corporate bond market indicates a healthy and maturing bond market that is increasingly aware of credit differentiation and idiosyncratic events. This is despite the predictions of doom and gloom cast earlier in the year following the deteriorating developments in the restructuring of Hyflux Ltd and ongoing restructurings at ASL Marine Ltd and Pacific Radiance Ltd.

That's not to say that investors should let down their guard, particularly with the ongoing hunt for yield and the perception that the credit cycle is turning. With the flatter yield curve and still ample market liquidity, we think it important to remind investors of bond investing fundamentals (see: https://www.straitstimes.com/business/invest/bond-investing-going-back-to-basics) and in particular the most basic principle that higher returns usually come with higher risks. With the search for yield driving demand for duration and structurally high yield papers (ie corporate perpetuals and bank capital instruments), investors needs to understand (1) the fundamental and structural differences of the instrument driving the return (rather than focus just on the yield); and (2) ultimately whether the higher return adequately compensates for the additional risk.

Figure 2: SGD bond issuances monthly volume by individual months (non-cumulative)



Source: OCBC, Bloomberg

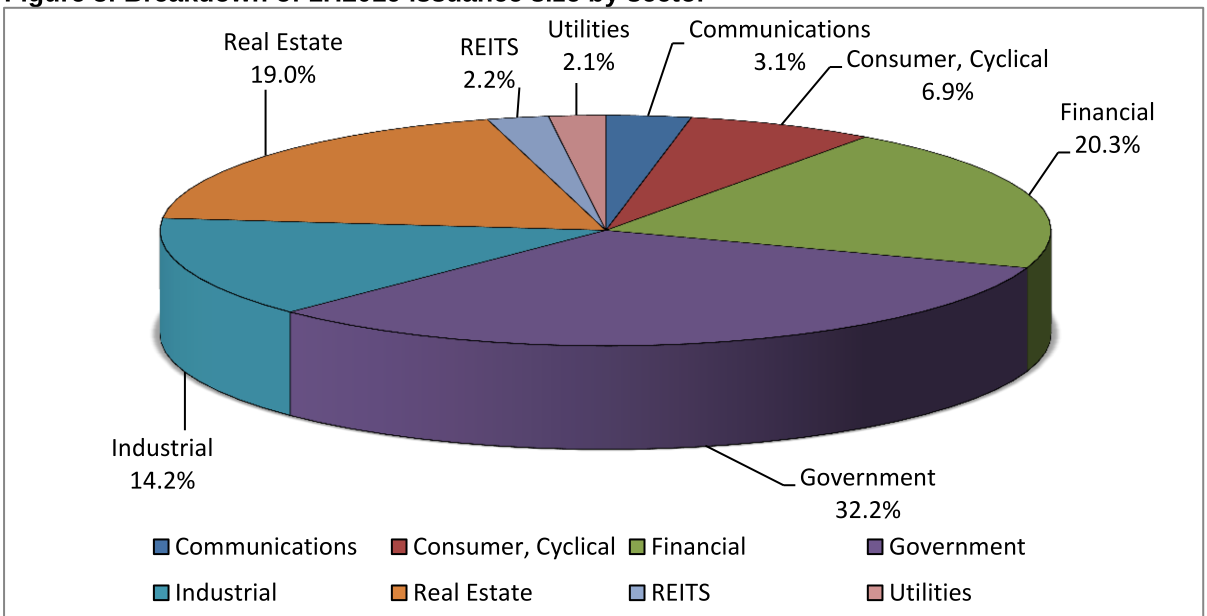
Government-linked issuance remained strong with Financial Institutions the runner up

1H2019 sector trends in issuance were driven by fundamental and technical considerations. From a fundamental perspective, the subdued conditions in Singapore's property market reduced demand for capital and hence led to lower relative issuance for Real Estate companies. REITs issuance was also lower with 1H2019 capital requirements funded by equity due to their relatively high leverage against the current regulatory aggregate leverage cap of 45% which restricted their ability to issue more debt (though it is worth noting MAS is proposing to raise this aggregate cap). On the flipside, government-linked issuers continued to dominate the market with Housing & Development Board pricing SGD1.8bn across 3 deals and Land Transport Authority of Singapore ("LTA") pricing SGD2.9bn across 2 deals. Both of the LTA's deals were of noticeably long duration (SGD1.4bn issued for 35years and SGD1.5bn issued for 40 years) and fulfilled pockets of demand in the market for high grade and long duration paper to satisfy both fundamental (high credit quality and government linkage for investors; long dated nature of projects for the issuer) and technical considerations (yield).

Solid issuance by Financial Institutions in 1H2019 followed the momentum in 2H2018. Again we saw an increase in the number of Additional Tier 1 papers with Standard Chartered PLC, Credit Suisse Group AG and Société Générale SA issuing this instrument. For Standard Chartered PLC and Société Générale SA, this represented their maiden SGD Additional Tier 1 issue while the CS 5.625% PERPc24s was Credit Suisse Group AG's inaugural SGD issue following UBS Group AG's inaugural SGD700mn 5.875% Additional Tier 1 issued in November 2018. Again these issues provide evidence of the healthy development of the Singapore corporate bond market as a reliable source of capital for foreign banks. Crédit Agricole SA also issued its inaugural SGD issue (the Tier 2 ACAFP 3.8% 31c26s) while BNP Paribas SA raised its second SGD Tier 2 instrument (BNP 4.35% 01/22/29c24). Overtime, our coverage of Financial Institutions has continued to grow where there is now a robust portfolio of comparable issuances – we would not be surprised if the seasoning of bank capital instruments in the SGD space leads to further issuance by existing names and new ones. Similar to government linked issuance, bank capital instruments were easily digestible for the market given their structurally higher yielding nature from their loss absorbing nature.

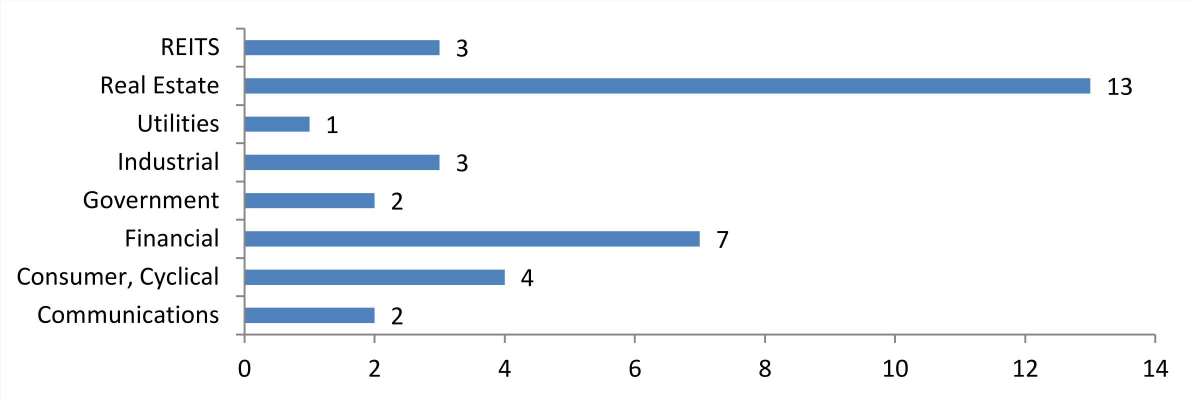
Aside from the above, the previously mentioned expansion in breadth of issuers showed through in sector trends with new issuance by Utilities (Keppel Infrastructure Trust), Communications (Singapore Press Holdings Ltd, Singapore Technologies Telemedia Pte Ltd), and Industrials (Keppel Corp Ltd., Sembcorp Industries Ltd). Consumer cyclical related issuances continue to be driven by Singapore Airlines Ltd's significant capital expenditure - our base case assumes that SIA may fund at least half of its FY2020 projected capex spend of SGD6.1bn with debt.

Figure 3: Breakdown of 1H2019 issuance size by sector



Source: OCBC, Bloomberg

Figure 4: Breakdown of the number of 1H2019 issuers by sector

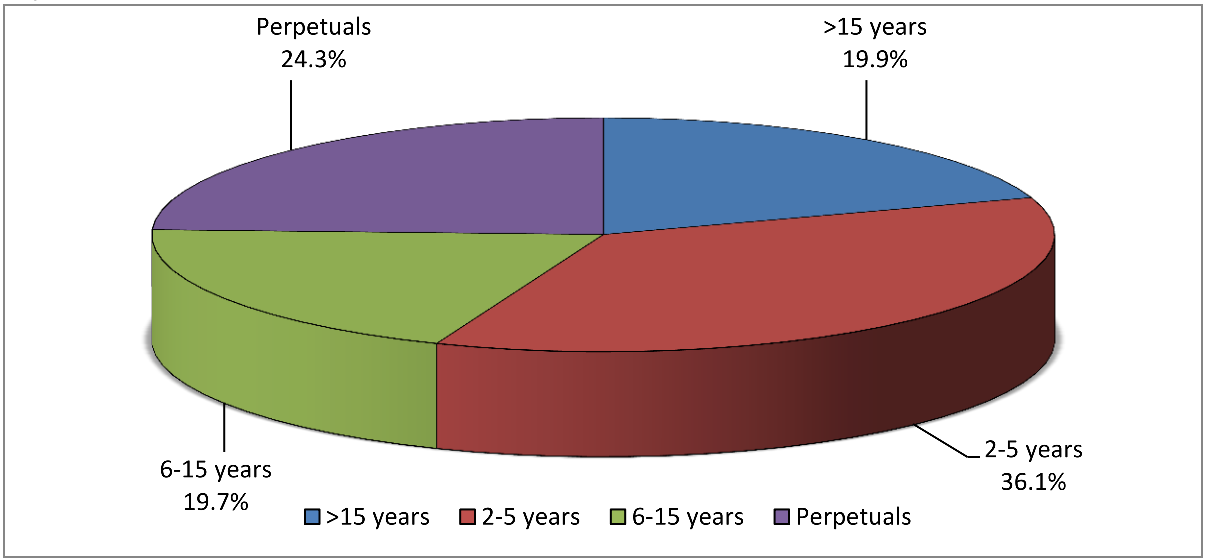


Source: OCBC, Bloomberg

Just as prevailing technicals in 2018 (rising rates and flattening of the SGD swap curve) along with ongoing market volatility drove demand for shorter tenor papers with better adjusted returns, technical considerations have also led to an increasing preference for duration with the fall in swap rates in 1H2019 and rising dovishness from central banks. Issuance in the 2-5 year tenor range dropped to 36.1% of total issuance in 1H2019 against 44.6% in FY2018 while issuance in the 6-15 year tenor range fell to 19.7% of total issuance in 1H2019 against 29.7% for FY2018. Picking up the slack was the strengthening preference for duration as 1H2019 went on with 44.2% of total 1H2019 issuance represented by either perpetuals/Additional Tier 1 bank capital instruments or papers with a tenor greater than 15 years (20.3% in FY2018). Technicals however were only a part of the rise in long dated issuance as a proportion of total issuance. The nature of issuance also skewed proportions with the three Additional Tier 1 bank capital instruments having issue amounts of SGD750mn. While these are sizeable amounts compared to traditional SGD corporate bond issues, the issue size is considered as more of a benchmark for financial institutions that are typically larger than that of corporates recognizing the different purpose of bank capital instruments (fulfilling regulatory requirements) vis-a-vis corporate perpetuals and the banks' much larger balance sheets. Average issue sizes for other recent European Bank AT1s have been above SGD700mn including the SGD750mn HSBC 5.0% PERPc23s and SGD700mn UBS 5.875% PERPc23s.

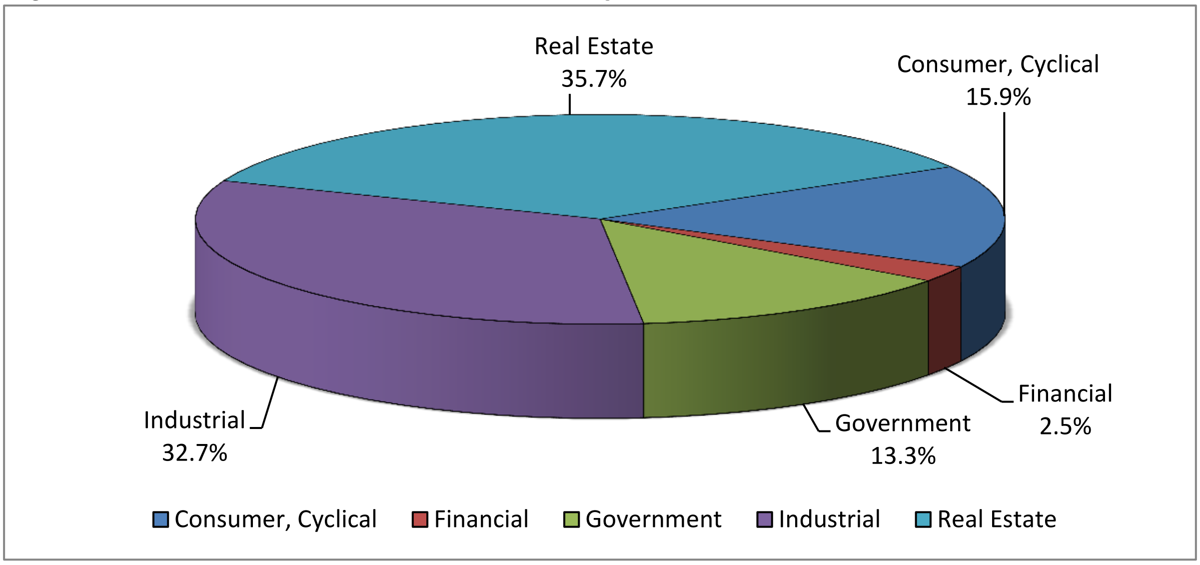
In all, there were eight perpetuals and Additional Tier 1 bank capital instruments issued in 1H2019 totaling SGD3.6bn across issuers in financial institutions, utilities, communications and property. In comparison, the whole of 2018 saw ten perpetuals issued but only from real estate or financial institution issuers totaling SGD4.6bn. Of note was that only one perpetual was issued before April with five of the eight perpetuals issued in the last six weeks of 1H2019.

Figure 5: Breakdown of 1H2019 issuance size by tenor



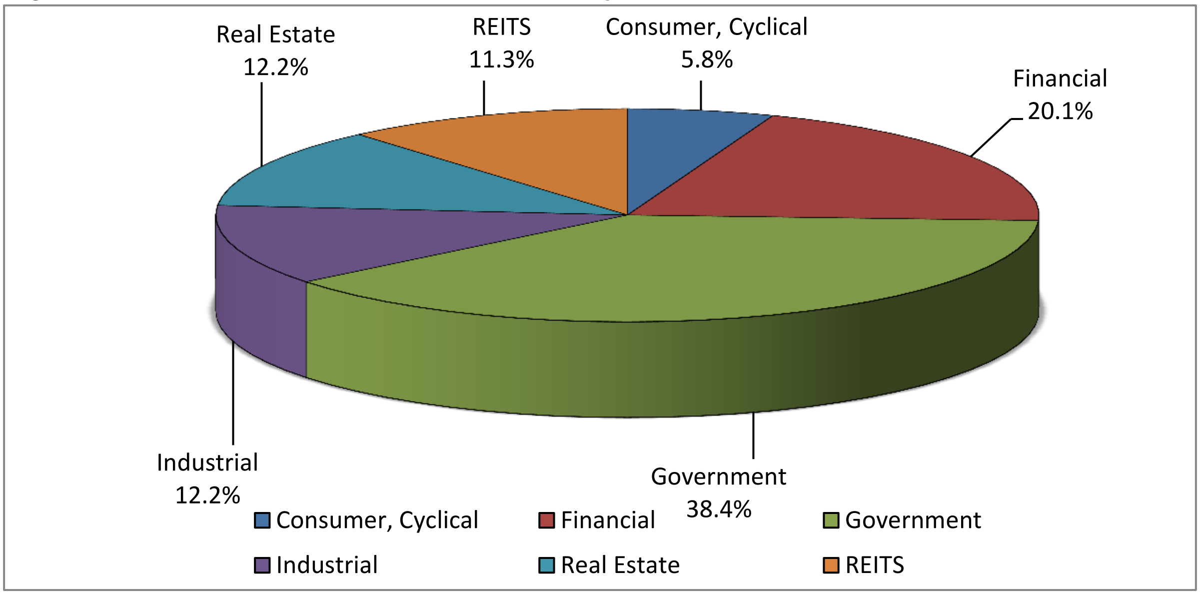
Source: OCBC, Bloomberg

Figure 6: Breakdown of 1H2019 issuance size by sector for 2Y-5Y tenor



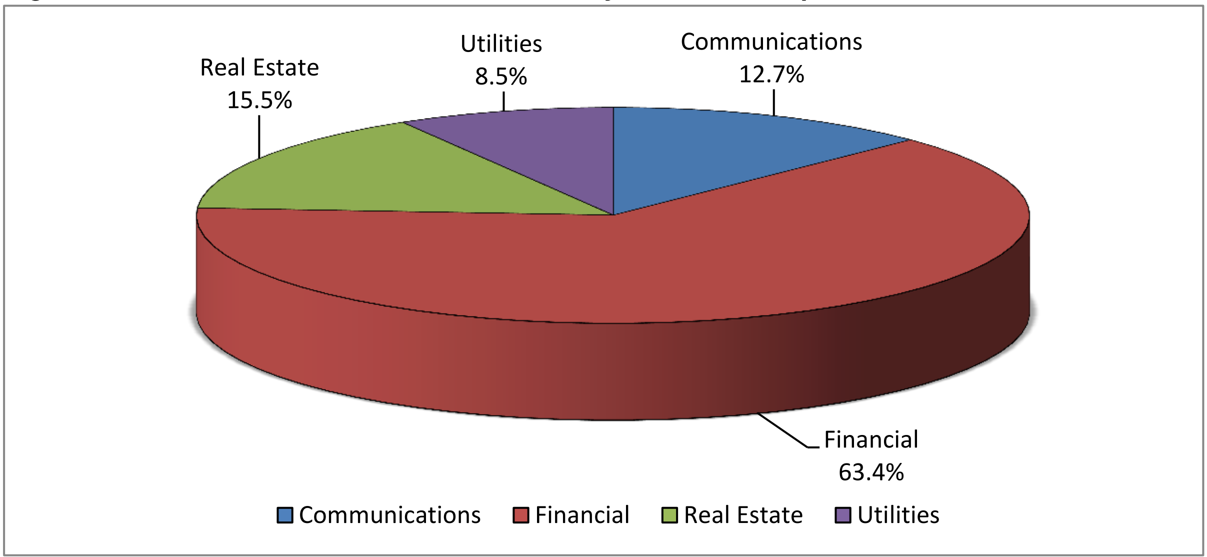
Source: OCBC, Bloomberg

Figure 7: Breakdown of 1H2019 issuance size by sector for 6Y-15Y tenor



Source: OCBC, Bloomberg

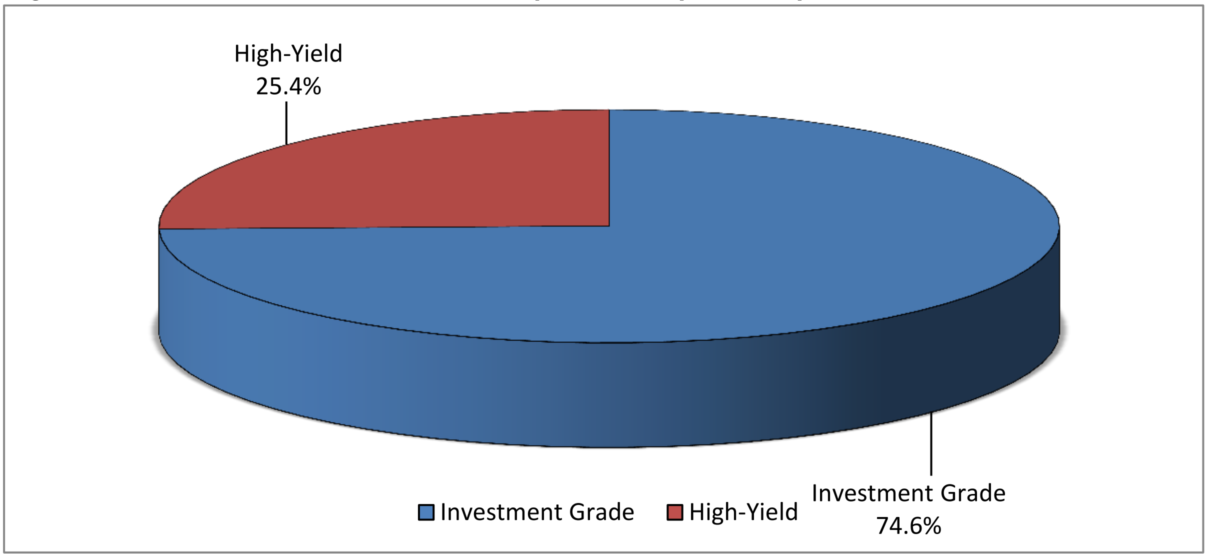
Figure 8: Breakdown of 1H2019 issuance size by sector for Perpetuals



Source: OCBC, Bloomberg

Lastly, higher-yielding (defined as paper with yields higher than 4.5%) bond issuers as a proportion of total issuers fell to 25.4% of total issuance in 1H2019 compared to 29.7% in FY2018. The change is largely immaterial and shows the balancing influences of lower swap rates with a higher proportion of structurally driven higher-yielding instruments (perpetuals and Additional Tier 1 papers). Demand for true high yield issuers remains constrained as ongoing geopolitical uncertainties and macro concerns as well as idiosyncratic events (such as Hyflux Ltd) continue to impact sentiments. This resulted in lingering investor caution and a gap between what high yield issuers can pay and what investors can accept.

Figure 9: Breakdown of 1H2019 issuance (> 4.5% coupon rates)

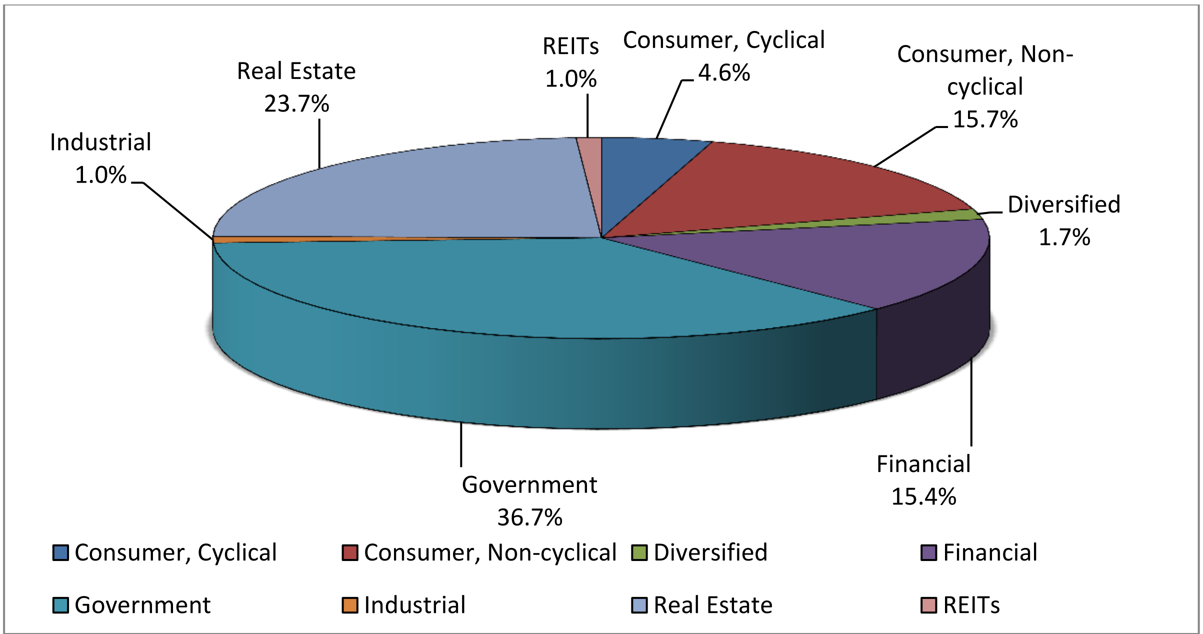


Source: OCBC, Bloomberg

Credit Outlook for 2019 – Proceeding with caution

Our 2H2019 credit outlook begins with a look at upcoming bond maturities. We estimate around SGD8bn in bonds will mature or be callable in the remainder of 2019. The majority of maturing bonds are from Housing & Development Board, real estate and financial institutions issuers which should generate some base level of activity.

Figure 10: Bond Maturities breakdown by sector for 2019



Source: OCBC, Bloomberg

It also begins in the context of 1H2019 credit market developments with a tightening in credit that started in January and continued to gather pace as conviction about the rates path became clearer. While credits tightened across the board, sectors which outperformed in the SGD space included industrials in our coverage (which are mostly high yield) as well as the perpetuals. Bank capital instruments also saw tightening which continued a little longer than other bonds under our coverage, with activity aided by the recent issuance of new Additional Tier 1 instruments. In general, technicals have found more of a balance with fundamentals following the sell-off in December 2018.

To this end we see five key themes that will weigh on credit markets for the remainder of 2019:

1. Difficult conditions for high yield valuations given the expected global macro-economic slowdown, persisting negative headlines, and the credit rally to date;
2. Elevated bond maturities and potentially improving issuance activity from possible future cheaper financing costs from rate cuts, although issuance will ultimately be driven by timing limitations, opportunistic transactions or refinancing needs;
3. Dovish global central banks and flush market liquidity;
4. Supportive government policies which should maintain some positive sentiment towards the economy, market liquidity and, in China, the property sector and overall sentiment; and
5. Increased volatility and dispersion in credit markets going forward with these two positive and two negative factors for credit in play.

With the expectation of increased volatility, we see the potential for negatives to outweigh positives for credit spreads in 2H2019. Combined with the year to date rally, this dynamic makes us favour investment grade credit over high yield for both fundamental and technical considerations. We think investment grade names now have higher potential for spread tightening given better fundamentals amongst potentially weaker future operating conditions while from a technical angle, high grade credit has in general not tightened as much as high yield. While there is potential for credit spreads to widen, we think any sell off will be measured with credit spreads sticky at current levels given solid market liquidity that will likely translate into solid bids at cheaper levels. However with fundamentals still sound, we continue to think that any widening in credit spreads can create more opportunities than pitfalls and carry can outweigh price movements for select high yield issuers.

With increased market volatility, we see careful credit selection as increasingly important. We advocate selecting good quality names to avoid cash price volatility and future stress in weaker economic conditions. We think selectivity remains key as (a) earnings susceptibility to external conditions has increased although underlying fundamentals appear sound; and (b) while market liquidity is flush, it is becoming increasingly discerning with prevailing event risks. Concerns on liquidity may heighten amid the global slowdown and asset re-allocation.

These factors can weaken demand for and attractiveness of true high yield issuers with high yield credits more volatile in weaker credit markets. This could further lead to dispersion in credit market issuance notwithstanding the expectation of lower rates for longer with investment grade names having easier market access and higher potential for spread tightening.

We still expect though that investors in this climate will continue to pursue yield. In this regard, should investors decide to look at fundamental high yield issuers then the most important consideration in our view is liquidity. Should investors continue to look to structural high yield issues such as perpetuals and bank capital then the most important consideration in our view is structure.

Structural considerations for corporate perpetuals and bank capital instruments add an additional layer of complexity when analyzing the ultimate underlying investment risk of structural high yield issues. This risk is not captured in our issuer profile ratings. Rather than assign an additional rating for structurally high yield issues, we instead opine on whether the higher yield on these securities adequately compensates for the additional risk that can come from coupon deferral, extension risk, subordination in liquidation and write-down risk for bank capital instruments. While we currently capture this in our bond level recommendations, we caution that this may still not fully reflect the structural considerations.

Finally, we advocate staying short to moderate on duration depending on the risk profile. For high grade perpetuals and bank capital instruments, we suggest focusing on call dates of 5 years or less. For fundamental high yield issuers, we think the shorter the duration the better.

The above outlook frames our Top Trade Ideas for our Singapore Mid-Year 2019 Credit Outlook. We would like to thank our readers for your continued support and hope you continue to find our publications useful. ***With appreciation, OCBC Credit Research***

Top Trade Ideas

Top Picks

Company	Ticker	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM/YTC	Rationale
Oxley Holdings Ltd	OHLSP	5.000%	5-Nov-19	SGD300mn	99.90	5.24%	We think the OHLSP curve looks attractive at 5.2% yield given commitment to deleverage and a plan to tackle upcoming maturities.
Frasers Property Ltd	FPLSP	4.980%	9-Mar-20	SGD400mn	101.05	4.73%	We like FPLSP 4.98% PERP offering a good yield while the perpetual structure is good with coinciding first call, reset and step-up dates.
HSBC Holdings PLC (Additional Tier 1)	HSBC	4.700%	8-Jun-22	SGD1,000mn	101.50	4.14%	HSBC's size and operating diversity should mitigate an expected slowdown in its major economies. We think the HSBC 4.7% PERPc22s offer better value against the newer AT1s at a shorter tenor.
CMA CGM	CMACG	4.650%	9-Sep-20	SGD280mn	87.00	18.11%	We think NOLSP 4.65% '20s could look attractive for investors holding a diversified portfolio and looking to raise portfolio returns, as this bond has widened substantially since the start of the year and now offers ~18% yield.
Keppel Corp Ltd	KEPSP	3.800%	23-Apr-22	SGD300mn	101.64	3.18%	We think the KEPSP 3.8% '27c22 has a good chance to be called come April 2022. The KEPSP 3.145% '22s is trading at an ask YTM of 2.64%.

Top Pans

Company	Ticker	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM/YTC	Rationale
Singapore Telecommunications Ltd	STSP	2.580%	24-Sep-20	SGD150mn	100.60	2.09%	We are Underweight STPSP '20s as it offers only 44bps over swaps while SingTel has been facing earnings pressure.
Crédit Agricole SA (Tier 2)	ACAFP	3.800%	30-Apr-26	SGD325mn	100.50	3.71%	The ACAFP 3.8% 31c26s look expensive compared to other names. BPCE papers offer better value although supply may be limited.
Suntec Reit	SUNSP	2.85%	02-Aug-23	SGD100mn	99.4	3.00%	We think SUNSP 2.85% '23s are less appealing than its peers as it is offering 141bps over swap for a period of ~4 years.
Sembcorp Industries Ltd	SCISP	3.640%	27-May-24	SGD200mn	102.60	3.06%	Apart from the SCISP 4.75%-PERP and the SCISP 3.7325% '20s we prefer to take profit rather than ride out the heightened event risk at SCI.
Olam International Ltd	OLAMSP	5.500%	11-Jul-22	SGD350mn	102.20	4.72%	This perpetual is providing only a senior sub-soread of ~70bps against the OLAMSP 6%'22s senior.

Indicative prices from Bloomberg as of 5th July 2019

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Corporate Issuers to Watch

Credit Outlook – Notwithstanding our view that ART's proposed merger with its sister REIT Ascendas Hospitality Trust is positive to ART's issuer profile, the ARTSP 4.205% '22s and ARTSP 4.68%-PERP with a short call date in June 2020 trades tight in line with under Neutral (3) REIT names. We prefer the FHREIT 4.45%-PERP which is trading at an ask yield to call of 3.8% (221bps) over the ARTSP 4.68%-PERP. We think the 100bps additional spread pick up more than compensates for its 11 month longer call date and smaller scale.

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 SGX with a market cap of SGD2.3bn. As at 30 Sept 2018, ART's portfolio consists of 73 properties with 11,430 units across 37 cities in 14 countries. By asset value, 60% of ART's assets are located in the Asia-Pacific region (Singapore contributing 18.8% to ART), 27.7% in Europe (of which France and UK contributes 10.6% and 9.5% respectively). 12.4% of assets are in New York City.

Ascott Residence Trust

Key credit considerations

- **Overall good performance in 1Q2019:** Gross revenue was up 3% y/y in 1Q2019 to SGD115.9mn on the back of stronger performance mainly from Singapore, the UK and the Philippines. In Singapore, stronger demand was seen at the Master Leased properties as well as the two properties on management contracts (collectively, up 18% y/y). In the UK, stronger market demand also lifted underlying revenue in GBP-terms (up 13% y/y). The Philippines saw a revenue increase of 26% y/y in SGD-terms, driven by completion of asset enhancement initiatives which allowed an increase in daily rates with improved occupancy at Ascott Makati. These helped offset revenue declines elsewhere in SGD-terms, mainly France (down 7% y/y, from lower renewal rates of Master Leases and weaker EUR), USA (down 3% y/y, dragged by renovations, partly offset by the stronger USD). Revenue from overall Australia was down 6% y/y while China was down 3% y/y. Both these markets were dragged by weaker local currencies against the SGD despite stronger underlying performance.

- **Manageable interest coverage:** EBITDA (based on our calculation which does not include other expenses and other income) was up 13% y/y to SGD51.0mn. While some of the declines in costs were attributable to lower professional and audit fees, the biggest difference was due to the reduction in direct expenses as a result of adoption of accounting standard FRS 116. Prior to the change, operating lease expense was taken in direct expenses and this is no longer the case. Finance expense was 15% y/y higher at SGD13.4mn as interest expense is recognised on lease liabilities. On a like-for-like basis, finance expense would have been SGD1.0mn lower per company as a result of lower effective borrowing cost by 20bps to 2.1% p.a. We find EBITDA/Interest manageable at 3.8x though if we assume that ART pays out SGD19.2mn p.a. in perpetual distribution (SGD4.8mn per quarter) and adjust 50% of that as interest, we find EBITDA / (Interest plus 50% perpetual distribution) at 3.2x.

- **Low refinancing risk at ART**: As at 31 March 2019, reported aggregate leverage was 35.7% and manageable. Perpetuals though were relatively significant at ~SGD400mn, taking 50% of this as debt, we find adjusted aggregate leverage at 39%. ART is developing lyf at one-North with a total development cost of SGD117mn and it bought Felix Hotel in Sydney in May 2019 (rebranded as Citadines Connect Sydney Airport) for ~SGD59mn. Assuming net proceeds from the May 2019 sale of Ascott Raffles Place fully funded the new Sydney hotel and lyf development, excess liquidity would still be available to fund the short-term debt coming due of SGD157.4mn as at 31 March 2019. Secured debt to total assets remains moderate at 16%.

- **Expect perpetual to be replaced in October 2019:** The ARTSP 5.0%-PERP faces first call in October 2019 (amount outstanding of SGD150mn) and we see high likelihood for this perpetual to be called. We think ART is able to raise a replacement perpetual at a lower cost of funding by at least ~80bps versus the current 5.0% distribution rate in our view.

- **Watching ART for an upgrade:** CapitaLand Ltd ("CAPL") (Issuer profile: Neutral (3)) has acquired Ascendas Pte Ltd and Singbridge Pte Ltd. On 3 July 2019, ART announced a proposed combination with Ascendas Hospitality Trust ("ASCHT") (Issuer profile: Unrated), Sponsored by Ascendas Land International Pte Ltd by way of a trust scheme of arrangement. ART would be buying all the stapled units in ASCHT on a 5% cash and 95% equity basis (ART to issue new equity). While ASCHT is smaller in scale with total assets of SGD1.9bn, its standalone credit metrics are stronger and the combination would lead to an enlarged REIT with a relatively stronger credit profile with a combined total asset size of SGD7.6bn, improved EBITDA/Interest coverage and slightly lower adjusted aggregate leverage of 38% (assuming 50% of ART perpetuals as debt). Our base case assumes the combination will be approved by unitholders and we are likely to upgrade ART's issuer profile to Neutral (3) following completion of the combination of ART and ASCHT.

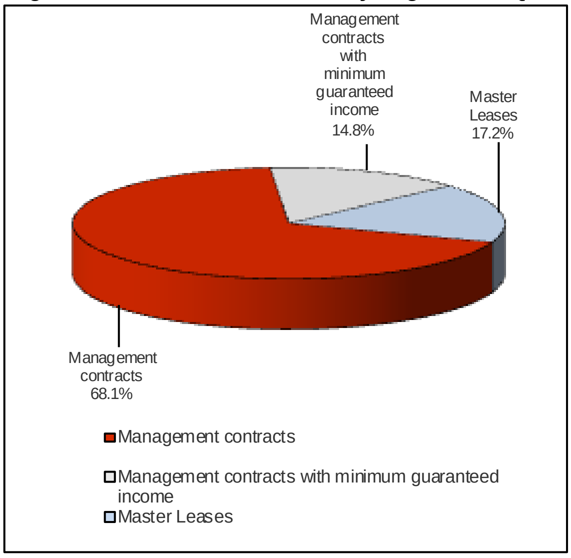
Ascott Residence Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1Q2019
Income Statement (SGD'mn)			
Revenue	496.3	514.3	115.9
EBITDA	211.8	222.3	51.0
EBIT	199.0	209.6	48.0
Gross interest expense	46.7	47.1	13.4
Profit Before Tax	274.7	195.4	169.8
Net profit	222.7	151.8	165.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	257.3	227.8	199.7
Total assets	5,493.1	5,309.1	5,702.4
Short term debt	264.3	70.1	175.0
Gross debt	1,945.4	1,905.5	2,186.6
Net debt	1,688.0	1,677.6	1,986.9
Shareholders' equity	3,171.7	3,130.9	3,216.9
Cash Flow (SGD'mn)			
CFO	181.1	226.7	49.7
Capex	26.2	27.6	4.7
Acquisitions	628.0	65.0	5.9
Disposals	262.5	95.4	48.2
Dividends	166.8	171.8	85.8
Interest paid	46.6	43.4	12.2
Free Cash Flow (FCF)	154.8	199.1	45.0
Key Ratios			
EBITDA margin (%)	42.67	43.23	43.99
Net margin (%)	44.88	29.53	142.82
Gross debt to EBITDA (x)	9.19	8.57	10.72
Net debt to EBITDA (x)	7.97	7.55	9.74
Gross Debt to Equity (x)	0.61	0.61	0.68
Net Debt to Equity (x)	0.53	0.54	0.62
Gross debt/total asset (x)	0.35	0.36	0.38
Net debt/total asset (x)	0.31	0.32	0.35
Cash/current borrowings (x)	0.97	3.25	1.14
EBITDA/Total Interest (x)	4.54	4.72	3.81

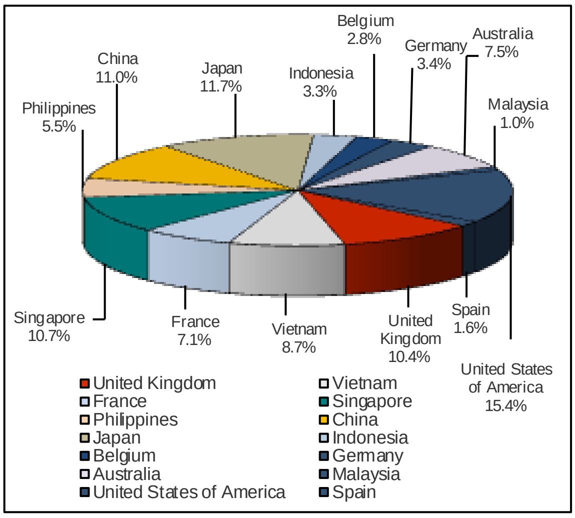
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1Q2019



Source: Company | Excludes Corporate which was loss-making

Figure 2: Revenue breakdown by Geography - 1Q2019



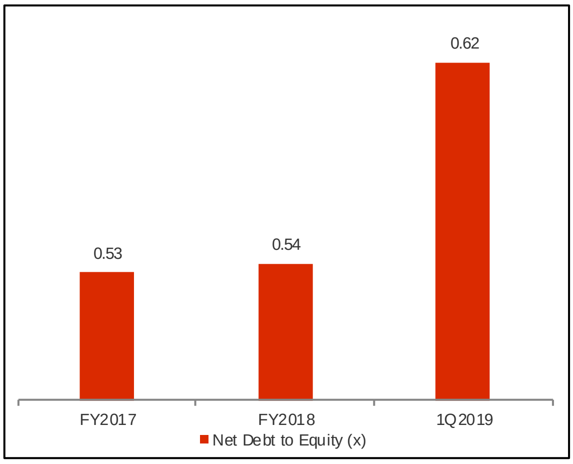
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	97.1	5.1%
Unsecured	60.4	3.2%
	157.4	**8.3%**
Amount repayable after a year		
Secured	808.7	42.8%
Unsecured	923.7	48.9%
	1732.4	**91.7%**
Total	**1889.8**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – With the acquisition of Ascendas Singbridge, net gearing is expected to increase. We Underweight CAPLSP's curve and prefer to switch into FPLSP's curve for yield pickup.

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. Following the acquisition of Ascendas-Singbridge Pte Ltd ("ASB"), CAPL will structure its business segments along (1) China, (2) Singapore, Vietnam & International, (3) India, (4) Lodging, (5) CapitaLand Financial and (6) Centres of Excellence. CAPL reported SGD66.5bn in total assets as at 1Q2019 and it is 40.3%-owned by Temasek Holdings Ltd.

CapitaLand Ltd

Key credit considerations

- **Reorganisation of strategic business units ("SBUs"):** With the SGD10.9bn acquisition of ASB, CAPL is restructuring its SBUs and the way results are reported. Our reading is that the current SBUs of (1) CapitaLand Singapore, Malaysia and Indonesia, (2) CapitaLand Vietnam and (3) CapitaLand International will be merged into CapitaLand Singapore, Vietnam and International ("CL SMI, Vietnam and International") as a single SBU. CapitaLand China ("CLC") will remain as a SBU. 3 new SBUs with financial reporting will be formed. This includes (1) CapitaLand India, which will incorporate ASB's business parks/logistics/industrial segment, (2) CapitaLand Lodging ("CL Lodging"), which incorporates The Ascott Ltd, (3) CapitaLand Financial ("CL Financial"), which include the managers of CAPL's REITs.

- **Subdued core results partly due to one-offs and timing:** 1Q2019 revenue declined 23.8% y/y to SGD1.05bn mainly due to lower handovers in China (declining to RMB1.2bn from RMB1.9bn in 1Q2018) and a largely dry landbank in Singapore. However, weaker results from China are largely due to timing as ~RMB10bn of units is expected to be recognized in the remainder of 2019 upon handing over. Residential sales (by value) surged to RMB2.6bn (1Q2018: RMB1.7bn). Another 5,259 units is expected to be launched over the remainder of 2019. However, results from Singapore may begin to pickup with the launch of Pearl Bank (774 units) and expected launch of Sengkang Central (680 units) while Jewel Changi Airport (~577k sq ft) opened on 17 Apr 2019 with 98% occupancy. Profit before tax (before fair value gains) fell by 31% y/y (larger extent than revenue) to SGD429.8mn, due to absence of gain from divestment of 20 malls recognized in 1Q2018.

- **REITs as a pillar of stability and part of monetization strategy:** We estimate that CAPL's listed SREITs (CapitaLand Mall Trust, CapitaLand Retail China Trust ("CRCT"), CapitaLand Commercial Trust ("CCT"), Ascott Residence Trust ("ART")) upstreams ~SGD320mn dividends p.a. This covers ~73% of CAPL's gross interest expense (less REITs' portion) as of 2018. Listed REITs represent ~45% of CAPL's total assets as of 1Q2019. In addition to generating recurring fee and ownership income, REITs allow CAPL to more easily monetise assets. For example, CAPL divested 3 malls in China to CRCT for RMB2.96bn (~SGD589.2mn) in June 2019. REITs also allow CAPL to raise capital indirectly, for example through rights issue by ART in Mar 2017 and CCT in Sep 2017. With the acquisition of ASB which sponsors Ascendas Hospitality Trust, Ascendas REIT and Ascendas India Trust, CAPL will in total hold stakes in 8 REITs and trusts.

- **Growing CL Lodging and CL Financial segments:** CL Lodging segment EBIT (excluding SGD134mn divestment gain from Ascott Raffles Place) grew 31.3% y/y to SGD59.2mn due to acquisition of Synergy Global Housing (in Jul 2017) and Tauzia (in 3Q2018) while RevPAU increased 4% y/y. CL Lodging segment is expected to grow strongly with ~43.3k units under development in the pipeline, with the target to achieve 160k units by 2023 (YTD2019: 101.5k). CL Financial segment EBIT fell 42.7% y/y to SGD26.5mn mainly due to operating expenses for structure of new funds. We understand that CAPL intends to expand real estate debt funds.

- **Expect credit metrics to weaken due to significant acquisitions:** We expect net gearing to increase to ~70% (1Q2018: 57.9%) upon the completion of acquisition of ASB. On a standalone basis (excluding REITs), we estimate adjusted net gearing would reach ~90% after acquiring ASB and net debt/EBITDA may exceed 10x. That said, we remain comfortable as CAPL continues to benefit from recurring income from its investment properties. Liquidity remains ample with cash and undrawn facilities of SGD4.1bn. According to CAPL, the target is to reduce net gearing to 64% by Dec 2020 based on asset recycling (~SGD3bn p.a.) and cash from operations. Following the divestment of 3 malls to CRCT and acquisition of Liang Court mall, we estimate CAPL still has SGD15bn of investment properties available for asset recycling.

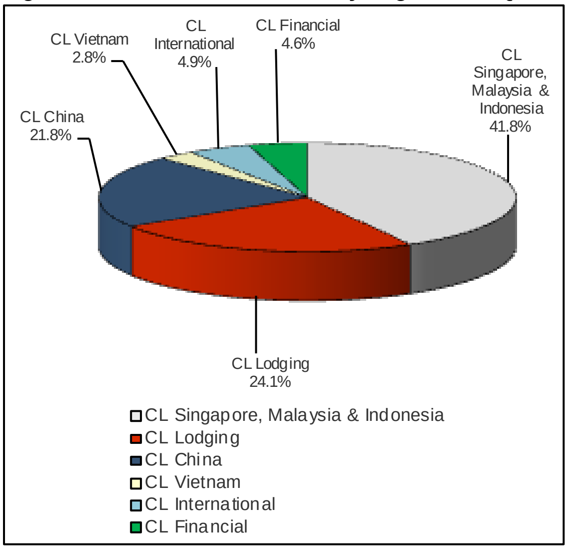
CapitaLand Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1Q2019
Income Statement (SGD'mn)			
Revenue	4,618.2	5,602.4	1,048.3
EBITDA	1,677.4	2,313.3	506.8
EBIT	1,601.1	2,238.8	478.8
Gross interest expense	546.3	696.1	182.1
Profit Before Tax	2,815.5	3,508.5	620.1
Net profit	2,346.6	2,849.8	574.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	6,105.3	5,059.8	5,274.6
Total assets	61,539.2	64,647.6	66,483.0
Short term debt	2,739.0	3,193.5	3,110.9
Gross debt	21,694.9	23,633.9	24,880.1
Net debt	15,589.6	18,574.1	19,605.5
Shareholders' equity	32,117.8	33,306.9	33,876.1
Cash Flow (SGD'mn)			
CFO	2,166.3	553.4	84.6
Capex	149.3	89.3	9.2
Acquisitions	4,542.8	3,215.1	212.5
Disposals	2,829.7	1,127.5	79.7
Dividend	1,022.3	1,247.7	256.9
Interest paid	-525.1	-731.7	-215.7
Free Cash Flow (FCF)	2,017.1	464.0	75.4
Key Ratios			
EBITDA margin (%)	36.32	41.29	48.34
Net margin (%)	50.81	50.87	54.78
Gross debt to EBITDA (x)	12.93	10.22	12.27
Net debt to EBITDA (x)	9.29	8.03	9.67
Gross Debt to Equity (x)	0.68	0.71	0.73
Net Debt to Equity (x)	0.49	0.56	0.58
Gross debt/total assets (x)	0.35	0.37	0.37
Net debt/total assets (x)	0.25	0.29	0.29
Cash/current borrowings (x)	2.23	1.58	1.70
EBITDA/Total Interest (x)	3.07	3.32	2.78

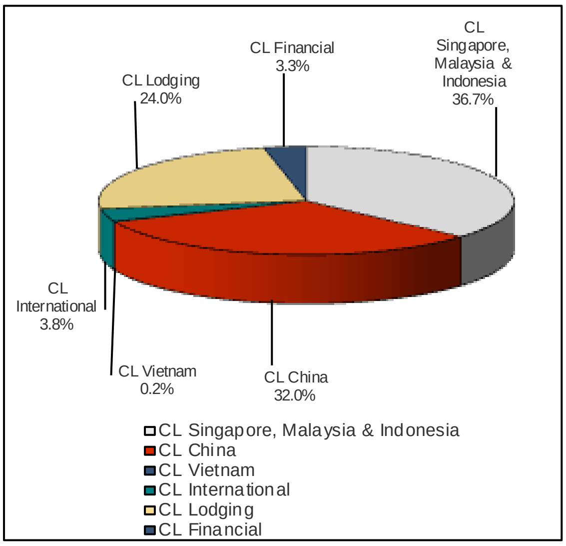
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1Q2019



Source: Company | Excludes Corporate and Others (loss-making)

Figure 2: EBIT breakdown by Segment - 1Q2019



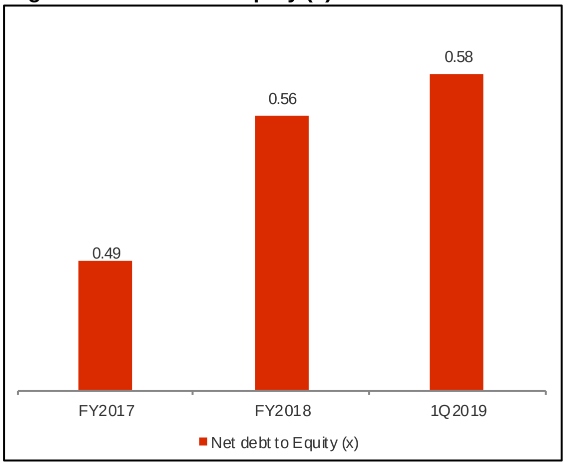
Source: Company | Excludes Corporate and Others (loss-making)

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	919.2	3.7%
Unsecured	2,191.8	8.8%
	3,110.9	**12.5%**
Amount repayable after a year		
Secured	6,750.0	27.1%
Unsecured	15,019.1	60.4%
	21,769.2	**87.5%**
Total	**24,880.1**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

City Developments Ltd

Credit Outlook – Expect credit metrics to continue weakening with the takeover attempt of Millennium & Copthorne and expansion in China. We are no longer Overweight on the CITSP curve and instead prefer the FPLSP curve.

Issuer Profile: Neutral (3)

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.

Key credit considerations

- **Weaker results due to slower development segment:** 1Q2019 revenue declined 29.5% y/y to SGD746.2mn, mainly due to the absence of contribution from The Criterion EC (which obtained TOP in Feb 2018). Excluding this, revenue in 1Q2019 would have risen by 6% y/y. Meanwhile, rental properties revenue rose to SGD103mn in 1Q2019 (1Q2018: SGD84mn) due to 3 buildings acquired in 2H2018 (Aldgate House, 125 Old Broad Street, Central Mall Office Tower) though hotel operations revenue dipped 4.8% y/y to SGD360mn due to weaker GBP while several hotels were closed for refurbishment. Due to weaker revenues, EBITDA fell 6.2% y/y to SGD277.2mn.

- **Looking to takeover Millennium & Copthorne Hotels PLC ("M&C"):** Following the previous attempt in Oct 2017, CDL has launched another takeover attempt of M&C. The maximum cash consideration will be GBP776.29mn. The takeover attempt has a high likelihood of succeeding, in our view, as several key shareholders against CDL's previous takeover bid have provided irrevocable undertakings to accept CDL's offer. If the takeover succeeds, this should boost CDL's recurring income though we note that CDL is looking to enhance underperforming assets at M&C, guiding that significant capex is required.

- **Sincerely expanding in China:** CDL will be acquiring ~24% effective stake in Sincere Property Group ("Sincere"), which is one of China's top 100 developers with RMB21.3bn contracted sales in 2018. The consideration, including loans to Sincere, is RMB5.5bn (SGD1.1bn). In addition, CDL will acquire a 70%-stake in Shanghai Hongqiao Sincere Centre (Phase 2), a prime commercial asset, from Sincere for RMB1.2bn (SGD247mn). These transactions will increase CDL's exposure in China to ~SGD3bn by asset, which forms 15% of CDL's total assets (from 9% as of 1Q2019).

- **Achieving decent property sales despite lackluster market:** Despite Singapore private residential property prices falling by ~0.8% over 4Q2018-1Q2019, property sales was overall decent even for those launched post Jul 2018 cooling measures. Boulevard 88 (40%-stake by CDL) sold 53 units for SGD507.4mn (154 total units), according to URA caveats despite only launching in Mar 2019. Amber Park (80%-stake) sold 157 units for SGD347.9mn (592 total units). Meanwhile, New Futura (launched in Jan 2018) with 124 total units is already nearly fully sold (estimate sales: >SGD800mn) along with The Tapestry (launched in Mar 2018) which sold 631 units for SGD616.4mn (861 total units). Whistler Grand (launched in Nov 2018) has sold 339 units out of 716 total units for SGD378.1mn. Meanwhile, South Beach Residences (launched in Sep 2018) sold 58 units for SGD388.4mn. Going forward, CDL will be launching the 680-unit Sengkang Central and 820-unit Sumang Walk, which we think should be easier to move given lower potential price points. In total, including sales at The Jovell (30%-stake), we estimate CDL has achieved ~SGD2.5bn in attributable sales. As a sign of confidence in the Singapore market, CDL won a land parcel at Sims Drive for SGD383.5mn in a 40-60 JV with Intrepid Pte Ltd in Apr 2019.

- **Significantly more leveraged though credit profile remains decent:** In May 2019, we had downgraded the Issuer Profile Rating of City Developments Ltd to Neutral (3) from Positive (2) given the significant acquisitions. Assuming the takeover attempt of M&C is successful, we expect net gearing of CDL to surge to ~60% (1Q2018: 36.2%). We believe that CDL has sufficient liquidity given it has SGD2.18bn cash as of 1Q2019, and GBP660mn credit facility to partly finance the acquisition of M&C and had in Jun 2019 issued SGD280mn CITSP 2.8% '23s . We will not rule out further acquisitions as CDL has made explicit ambitions to grow its full year recurring income to SGD900mn by 2028 while we think some headroom to borrow remains. That said, we are comfortable as 2018 recurring EBITDA of SGD530mn should still more than cover an estimated ~SGD300mn in interest expense p.a. with net/debt EBITDA at ~5-6x (estimated) post acquisitions.

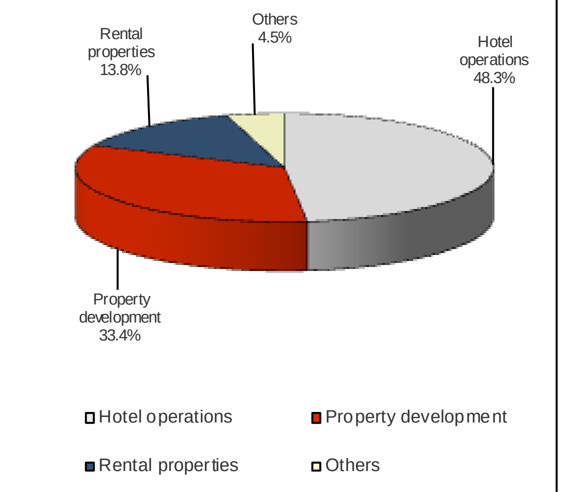
City Developments Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1Q2019
Income Statement (SGD'mn)			
Revenue	3,829.2	4,222.6	746.2
EBITDA	947.4	1,604.1	277.2
EBIT	1,162.7	1,385.2	213.2
Gross interest expense	146.0	154.8	43.8
Profit Before Tax	747.6	875.5	265.6
Net profit	641.7	660.8	211.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	3,775.9	2,289.2	2,175.7
Total assets	19,364.3	20,885.7	21,543.1
Short term debt	1,266.0	1,258.4	1,363.0
Gross debt	5,036.2	6,341.8	6,693.1
Net debt	1,260.3	4,052.5	4,517.3
Shareholders' equity	11,646.1	12,273.9	12,468.8
Cash Flow (SGD'mn)			
CFO	1,087.5	-599.6	213.7
Capex	154.2	261.1	66.7
Acquisitions	307.1	1,347.0	30.7
Disposals	257.4	94.7	80.8
Dividend	243.8	285.3	38.9
Interest paid	-124.6	-127.8	-33.6
Free Cash Flow (FCF)	933.3	-860.7	147.0
Key Ratios			
EBITDA margin (%)	24.74	37.99	37.15
Net margin (%)	16.76	15.65	28.35
Gross debt to EBITDA (x)	5.32	3.95	6.04
Net debt to EBITDA (x)	1.33	2.53	4.07
Gross Debt to Equity (x)	0.43	0.52	0.54
Net Debt to Equity (x)	0.11	0.33	0.36
Gross debt/total assets (x)	0.26	0.30	0.31
Net debt/total assets (x)	0.07	0.19	0.21
Cash/current borrowings (x)	2.98	1.82	1.60
EBITDA/Total Interest (x)	6.49	10.36	6.32

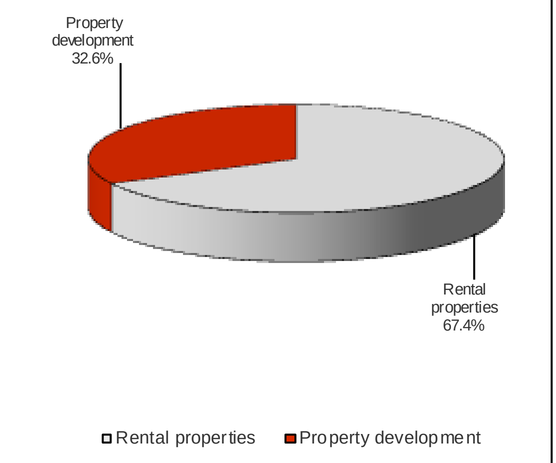
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1Q2019



Source: Company

Figure 2: PBT breakdown by Segment - 1Q2019



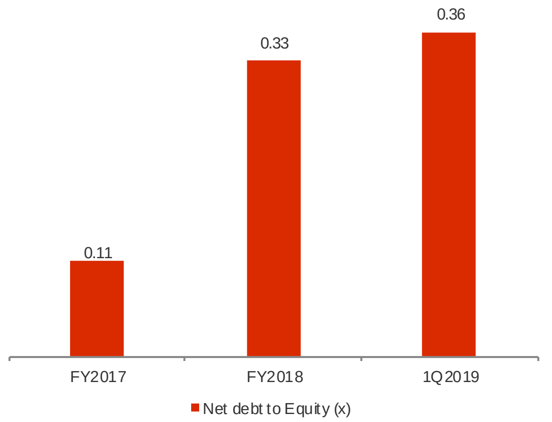
Source: Company | Excludes Hotel Operations & Others (loss-making)

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	307.7	4.5%
Unsecured	1,070.3	15.5%
	1,378.0	**20.0%**
Amount repayable after a year		
Secured	1,686.7	24.4%
Unsecured	3,840.6	55.6%
	5,527.3	**80.0%**
Total	**6,905.2**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – CMA CGM's acquisition of CEVA with largely debt, more committed use of funds down the road, the weaker operating environment and less certain cash flow generating ability led to a downgrade. That said, NOLSP 4.65% '20s and NOLSP 4.4% '21s offer good carry for short-dated paper.

Issuer Profile: Negative (6)

Ticker: **CMACGM**

Background

CMA CGM ("CMA"), one of the largest container liners globally, acquired Neptune Orient Lines Ltd ("NOL") in June 2016. With that, there are limited financial results on NOL and performance of CMA (the parent) will be used as a proxy for NOL's performance. CMA has not provided a corporate guarantee for NOL's existing bonds but as a material operating subsidiary of CMA, NOL is likely to receive support from CMA in our view.

CMA CGM (Parent of Neptune Orient Lines)

Key credit considerations

- **Weak credit metrics**: Net gearing of CMA stood at a high of 3.19x as at 31 March 2019 and at 1.61x excluding IFRS 16 effects (2018: 1.41x, 2017: 1.25x). The higher leverage was largely due to the acquisition of CEVA. Eliminating IFRS 16 effects, we find interest coverage of CMA and CEVA combined (including capitalised interest) at 2.06x. CMA's standalone interest coverage was 1.65x while that for standalone CEVA was 3.51x in 1Q2019. EBIT generated in 3M2019 (USD252.9mn) was unable to cover its interest expenses on borrowings (USD321.7mn), though reported net consolidated loss (before tax) was lower y/y. The interest expenses on borrowings were higher, largely due to the adoption of IFRS 16, impacting recognition of operating leases. Pre-IFRS 16 EBIT would have been USD188.3mn which was more than sufficient to cover both adjusted interest expenses (USD169.4mn) and capitalized interest (USD3.4mn).

- **Unexpectedly acquired 100% of CEVA:** Management at CMA had earlier guided that it was committed to keep CEVA listed on the Swiss stock exchange with a significant free float in terms of share capital. Consequently, we had not expected CMA to hold 97.89% of CEVA's equity on 4 April 2019 and 99.4% as at 29 May 2019. In fact, CMA is looking to delist CEVA by the end of 2019. If debt is used to fund the additional 10.53% in CEVA, CMA's credit metrics will be under further pressure. Even though it is arguable that with a 100% stake in CEVA, CMA may be able to integrate both businesses, turnaround CEVA and reap the benefits of the acquisition more quickly, we think it is premature to assign a value to these potential synergy benefits at this point.

- **Higher regulatory costs in sight:** The new International Maritime Organisation ("IMO") Low Sulphur Regulation of 0.5% global sulphur cap on fuel content will be effective from 1 Jan 2020 and is estimated to add ~USD160 cost per Twenty-foot Equivalent Units ("TEU") according to CMA. Consulting firm AlixPartners estimated that the IMO 2020 could cost the container shipping industry as much as USD10bn globally, and that cost could increase significantly in 2020. Combined with a weaker operating environment for the shipping industry on prolonged trade tensions and a weaker global economic outlook that may impact global trade, earnings generation capacity for containers shippers is expected to be volatile, though the exact timing and extent remain difficult to foretell.

- **Significant refinancing risk:** While CMA has refinanced USD1.27bn of its current borrowings (i.e. 28.5%), it still has another USD3.17bn coming due this year (USD1.74bn of which is lease liabilities under IFRS16). This is material given CMA's disclosed total liquidity of USD2.03bn as at 31 March 2019 is less than the balance amount the company has to refinance or repay this year. Excluding IFRS 16, CMA would have a liquidity of USD0.60bn in excess of its current borrowings, lower than previous years (2018: USD0.91bn, 2017: 1.38bn). Assuming its entire bank borrowings are secured against assets, the leftover assets for unsecured debtholders amounts to ~USD3.80bn (versus ~USD3.36bn of unsecured senior bonds outstanding as at 31 March 2019). As such, we think the liquidity situation looks tight and CMA is likely to be faced with recurring refinancing needs. CMA's ability to repay or refinance its debt is largely dependent on bank support, access to debt markets (CMA's equity is unlisted), ability to integrate CEVA and reap financial benefits. This is also assuming that the market conditions for the shipping industry remains intact.

- **Obtained facility for early redemption of CEVA's borrowings:** We take comfort that CMA has obtained financing of USD825mn for the borrowings that are subject to early redemption as a consequence of the change of control (should the clause be exercised). We think this demonstrates CMA's ability to access funding and receive support from banks. Such access is crucial for CMA.

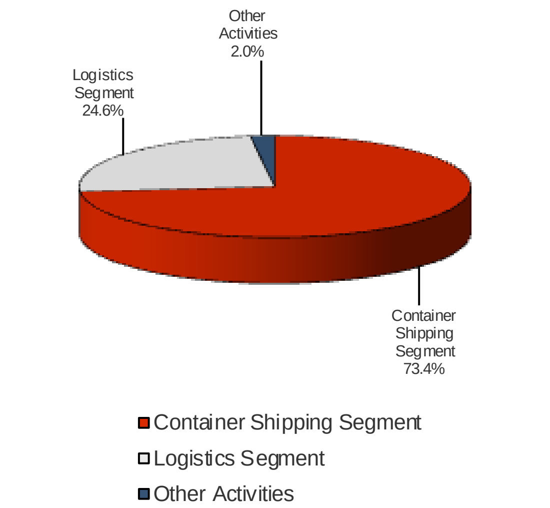
CMA CGM SA

Table 1: Summary Financials

Year End 31st Dec	FY2017	FY2018	1Q2019
Income Statement (USD'mn)			
Revenue	21,116.2	23,476.2	7,409.2
EBITDA	2,117.3	1,157.0	779.0
EBIT	1,493.2	523.0	127.6
Gross interest expense	514.7	511.6	324.6
Profit Before Tax	800.7	167.7	-25.6
Net profit	696.6	33.9	-43.0
Balance Sheet (USD'mn)			
Cash and bank deposits	1,383.5	1,401.9	1,738.5
Total assets	18,906.7	20,322.4	33,215.5
Gross debt	8,419.3	9,180.5	19,920.9
Short term debt	1,183.9	1,020.6	4,441.1
Net debt	7,035.8	7,778.6	18,182.4
Shareholders' equity	5,620.4	5,525.0	5,700.9
Cash Flow (USD'mn)			
CFO	1,169.5	806.3	572.9
Capex	757.2	426.8	101.8
Acquisitions	0.0	769.6	0.0
Disposals	689.7	167.8	356.7
Dividend	17.5	184.4	0.4
Free Cash Flow (FCF)	412.3	379.5	471.1
Key Ratios			
EBITDA margin (%)	10.0	4.9	10.5
Net margin (%)	3.3	0.1	-0.6
Gross debt to EBITDA (x)	3.98	7.93	6.39
Net debt to EBITDA (x)	3.32	6.72	5.84
Gross Debt to Equity (x)	1.50	1.66	3.49
Net Debt to Equity (x)	1.25	1.41	3.19
Gross debt/total assets (x)	0.45	0.45	0.60
Net debt/total assets (x)	0.37	0.38	0.55
Cash/current borrowings (x)	1.17	1.37	0.39
EBITDA/Total Interest (x)	4.11	2.26	2.40

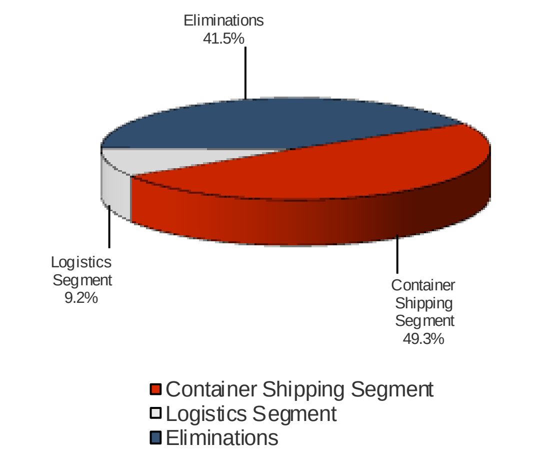
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1Q2019



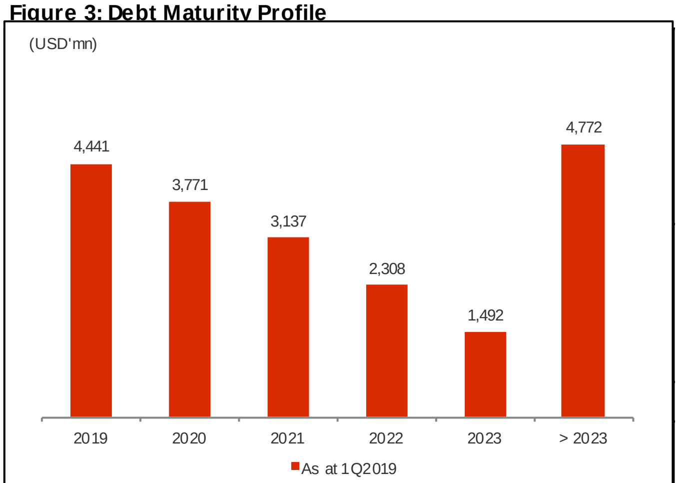
Source: Company | Excludes Eliminations

Figure 2: EBIT breakdown by Segment - 1Q2019



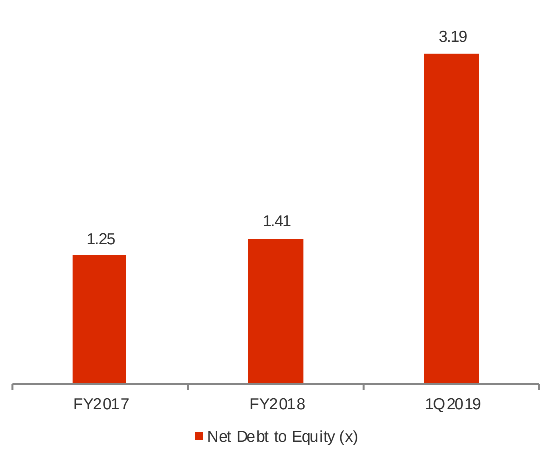
Source: Company | Excludes Other Activities (loss-making)

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We are neutral on the FCT curve as it is trading in line with other Neutral (3) names. While aggregate leverage remains very manageable at ~33%, we continue to think that its Sponsor is likely to inject assets into FCT whenever the opportunity arises. As such, we think aggregate leverage may inch higher with time.

Issuer Profile: Neutral (3)

Ticker: **FCTSP**

Background

Frasers Centrepoint Trust ("FCT") is a pure-play suburban retail in Singapore listed on SGX in July 2006 and 42% owned by sponsor Frasers Property Ltd ("FPL"). FCT's ~SGD2.75bn portfolio comprises 6 suburban retail malls in Singapore – Causeway Point, Changi City Point, Northpoint, Bedok Point, Anchorpoint, and YewTee Point. FCT also owns a ~31.15% stake in Malaysia-listed retail focused Hektar REIT and a 21.13% stake in PGIM Real Estate Asia Retail Fund ("PGIM ARF").

Frasers Centrepoint Trust

Key credit considerations

- **Broad based growth:** Gross revenue was up by 2.3% y/y to SGD49.7mn while NPI was 4.8% higher y/y at SGD36.4mn in the second quarter of financial year ending 30 September 2019 ("2QFY2019"). The improvement was broad-based, led by Changi City Point (+12.0% y/y and +24.6% y/y increase in gross revenue and NPI respectively). Changi City Point also saw occupancy rate increase to 96.7% (from 90.6% a year ago). Overall portfolio occupancy came off slightly to 96.0% at end-March 2019 from 96.4% as at 31 Dec 2018, with 3.7% of FCT's total NLA renewed at an average rental reversion of +2.0% during the quarter. Looking forward, there is a remaining 11.4% of leases by gross rental income coming due in FY2019 and 37.8% in FY2020. Shopper traffic was up by 2.4% y/y from Jan – Mar 2019 while tenants' sales dipped by 1.3% y/y over a three-month period from Dec to Feb 2019. The lower tenants' sales were attributed mainly to transitional vacancies at Causeway Point.

- **Acquisition of PGIM Real Estate AsiaRetail Fund ("PGIM ARF"):** FCT had on 28 Feb 2019 announced the purchase of an initial 17.1312% stake (for SGD342.5mn, completed on 4 April 2019) and subsequently an additional 1.67% stake (for SGD33.5mn, completed on 26 April 2019) and another 2.33% stake on 2 July 2019 (with no cost disclosed) in PGIM ARF. This fund owns and manages six retail malls in Singapore – namely Tiong Bahru Plaza, White Sands, Liang Court, Hougang Mall, Century Square and Tampines 1 – and office property, Central Plaza and four retail malls in Malaysia. We think this move entrenches FCT's position in the suburban mall space and enlarges the potential pipeline of assets that FCT may pursue in the future for growth. We note that the FPL holds a 53.74% stake in PGIM ARF and in aggregate, FPL has a deemed interest of 74.87% stake in the fund. As such, we think it would make sense for FPL and FCT to jointly pursue gaining control of the fund and possibly reap the synergies between the malls in PGIM ARF and FPL/FCT. We understand that despite the deemed 74.87%, FPL has not gained control over PGIM ARF. Management has financed the first and second leg of the transaction with a bridging loan and repaid SGD188.7mn of the bridging loan via equity raised from a private placement.

- **Purchased one-third stake in Waterway Point:** FCT also bought 33.3% stake in Waterway Point on 16 May 2019 for SGD433.3mn from its Sponsor, with a net property income yield of 4.7%. Given that both Jurong Point and Westgate transacted at a NPI yield of ~4.2%-4.4%, we think FCT's most recent purchase was at a good price. Total consideration for FCT is SGD440.6mn, made up of SGD240.8mn for a one-third of the total issued units of Sapphire Star Trust, SGD191mn for the pro rata share of a bank loan and SGD8.8mn for fees and expenses. Management has guided that it will fund ~SGD249.6mn (~56.6% of total consideration)with equity, and the balance of SGD191mn via borrowings. Waterway Point, located in Punggol Central, has a NLA of 371,200 sq ft and committed mall occupancy of 98.1%. Net property income recorded in FY2018 was SGD61.1mn. We estimate that Waterway Point will account for ~12.2% of the new portfolio valuation (including 18.8% of PGIM ARF).

- **Credit profile remains strong:** Considering the Waterway Point and PGIM ARF transactions and the SGD437.4mn equity fund raising, we find resultant aggregate leverage at ~32.8% (31 March 2019: 28.8%). The increase in aggregate leverage is less than expected, as a significant amount of equity financing was used. Even though debt coming due in FY2019 is SGD291mn, and FCT has a cash balance of SGD13.4mn as at 31 March 2019, we are not overly concerned as only the smaller three assets are mortgaged. FCT's three largest assets (Causeway Point, Northpoint and Changi City Point) remain unencumbered, providing FCT financial flexibility. Outside of PGIM, Northpoint City South wing remains a potential asset that may be injected into FCT by its Sponsor, which could drive FCT's leverage higher.

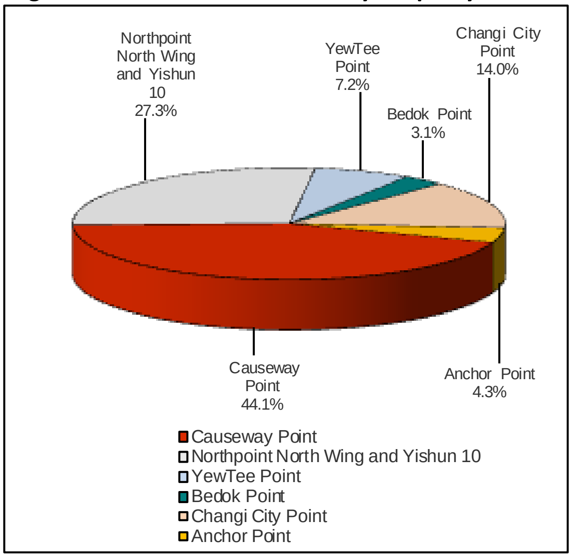
Frasers Centrepoint Trust

Table 1: Summary Financials

Year Ended 30th Sept	FY2017	FY2018	1H2019
Income Statement (SGD'mn)			
Revenue	181.6	193.3	99.0
EBITDA	112.5	120.1	63.2
EBIT	112.5	120.0	63.2
Gross interest expense	17.6	20.0	11.0
Profit Before Tax	193.9	166.8	53.2
Net profit	193.9	166.8	53.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	13.5	21.9	13.4
Total assets	2,750.9	2,840.4	2,832.6
Short term debt	152.0	217.0	358.9
Gross debt	797.5	812.6	814.7
Net debt	784.0	790.7	801.3
Shareholders' equity	1,872.2	1,933.8	1,934.3
Cash Flow (SGD'mn)			
CFO	122.2	136.9	55.6
Capex	27.8	15.5	2.4
Acquisitions	45.2	0.0	0.0
Disposals	0.0	0.0	0.0
Dividends	108.2	112.2	54.6
Interest paid	0.6	19.6	10.3
Free Cash Flow (FCF)	94.4	121.3	53.2
Key Ratios			
EBITDA margin (%)	61.96	62.11	63.86
Net margin (%)	106.78	86.28	53.70
Gross debt to EBITDA (x)	7.09	6.77	6.44
Net debt to EBITDA (x)	6.97	6.58	6.34
Gross Debt to Equity (x)	0.43	0.42	0.42
Net Debt to Equity (x)	0.42	0.41	0.41
Gross debt/total asset (x)	0.29	0.29	0.29
Net debt/total asset (x)	0.28	0.28	0.28
Cash/current borrowings (x)	0.09	0.10	0.04
EBITDA/Total Interest (x)	6.38	5.99	5.77

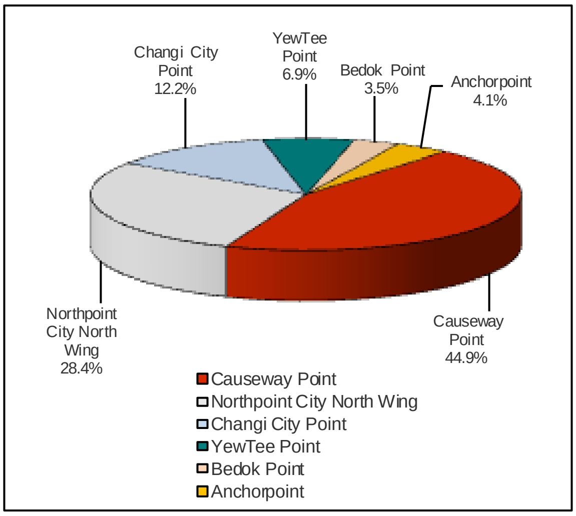
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - 1H2019



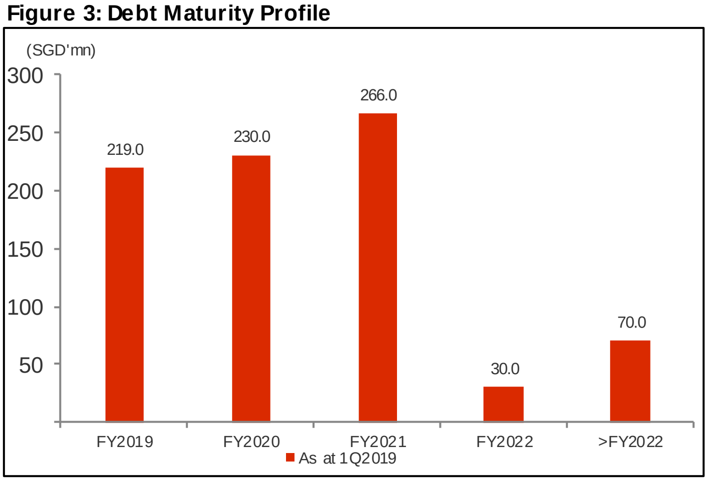
Source: Company

Figure 2: Asset breakdown by Property - 1H2019



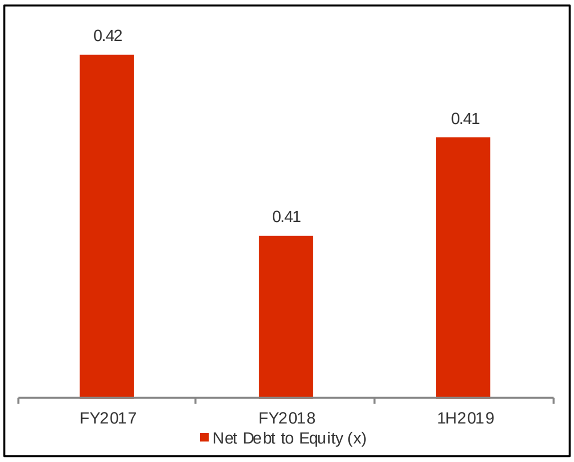
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Within the FPLSP curve, we think FPLSP 4.98% PERP looks the most interesting as it offers a high yield (~4.73% YTC) and the structure of the perpetual is good, having coinciding first call date, reset date and step-up date. FPLSP '26s and '27s also look interesting trading just under 4%.

Issuer Profile: Neutral (4)

Ticker: **FPLSP**

Background

Frasers Property Ltd ("FPL") is a leading Singapore property company by total assets (SGD33.2bn as of end-March 2019). 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% of FPL's equity. Sponsored REITs include Frasers Centrepoint Trust ("FCT"), Frasers Commercial Trust ("FCOT"), Frasers Hospitality Trust ("FHT") and Frasers Logistics and Industrial Trust ("FLT").

Frasers Property Ltd

Key credit considerations

- **Lacklustre results with fewer Singapore development projects:** 2QFY2019 reported EBIT fell by 9.9% y/y to SGD191.1mn due to a sharp 39.9% y/y decline in contribution from JVs and associates as a result of timing of settlements of development projects – especially in Singapore, where only SGD2mn development revenue was recorded. Otherwise, the Singapore SBU saw reported EBIT rise 9.0% y/y to SGD96.6mn, mainly from completion of Frasers Tower (opened in May 2018) and higher occupancy at south wing of Northpoint City while the REITs also delivered higher results (+1.6% y/y to SGD50.5mn).

- **No longer much of a Singapore developer; focus is on Australia and investment properties:** The development landbank in Singapore is rather dry, with the only significant launch being Rivière (535 total apartments) at Jiak Kim St. Development assets (including Singapore and abroad) comprises just 15% of property assets as of 2QFY2019. That said, the dry landbank is not a negative as the Singapore property market outlook appears lacklustre. In Australia, the pre-sold development pipeline has also shrunk considerably to SGD0.9bn (FY2018: SGD1.5bn, FY2017: SGD2.2bn). That said, the gross development value in Australia remains substantial at SGD7.9bn, which should provide sufficient work ahead. Overall, resources have been increasingly allocated to sources generating recurring income.

- **Listed REITs as a key source of stability:** The 4 listed REITs (FCT, FCOT, FHT, FLT) are expected to upstream ~SGD125mn dividends p.a. to FPL. This covers a ~48% of FPL's SGD260mn gross interest expense (less REITs' portion) incurred in FY2018. The listed REITs account for 31.9% of FPL's total assets. Listed REITs also allow FPL to recycle capital. For example, FPL's one-third interest in Waterway Point was divested to FCT for SGD433.3mn in May 2019 while FPL's industrial assets in UK and Australia are divested to FLT in Jul 2019. Going forward, we think assets which may be potentially divested include south wing of Northpoint city. In total, FPL holds ~SGD11bn of investment assets which may be potentially recycled.

- **Building up the recurring income:** As of 1HFY2019, recurring EBIT forms 68% of the reported operating EBIT (FY2018: 65%). The most recent move, to acquire 47.82% stakes in PGIM fund which totals SGD958mn, should boost earnings from the recurring income segment. We understand that FPL does not have control over the PGIM fund even with FCT's 18.8%-stake in the PGIM fund. Recurring income may still grow as Frasers Tower and south wing of Northpoint city stabilizes. In total, the commercial, industrial and hospitality non-REIT segment from Singapore, Australia and Hospitality contributed SGD108.8mn reported EBIT in 1HFY2019 (FY2018: SGD2227.4mn). As such, gross interest expense should be more than sufficiently met from the recurring EBIT from the non-REIT segment and dividends from REITs.

- **Diversifying further into Thailand:** Following increase in stakes in Frasers Property Thailand PCL in FY2018 (89.5%-stake held currently), which has a market cap of THB33.0bn (~SGD1.45bn), FPL is undertaking a tender offer for 39.9%-owned Golden Land Property Development PCL (market cap: THB19.6bn, or SGD864mn). In addition, FPL owns a 19.8%-stake in One Bangkok, a mixed-use development worth THB120bn (~SGD5.3bn). We understand the acquisition is to grow its Thailand property arm into a diversified and integrated real estate platform.

- **Remain comfortable with credit profile:** Net gearing of 87% as of 2QFY2019 is somewhat high though we are comfortable given FPL's diversified profile (by geography and assets), anchored by recurring income from its REITs and investment properties. While 2QFY2019 gearing levels has yet to factor for the settlement for ~SGD600mn acquisition of a further 29.99% stake in PGIM fund, we are not overly concerned as gearing should be contained with the divestment of Waterway Point and SGD400mn raised from FPLSP 4.98% PERP.

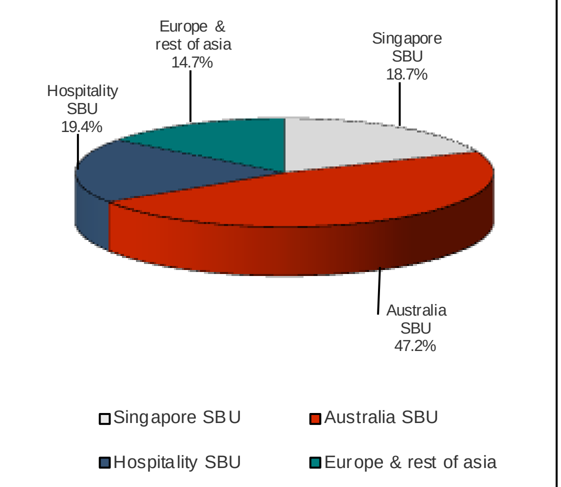
Frasers Property Ltd

Table 1: Summary Financials

Year Ended 30th Sep	FY2017	FY2018	1H2019
Income Statement (SGD'mn)			
Revenue	4,026.6	4,311.6	2,017.6
EBITDA	953.5	1,100.8	595.4
EBIT	894.9	1,042.0	566.3
Gross interest expense	186.5	395.5	206.4
Profit Before Tax	1,248.0	1,476.9	499.2
Net profit	1,032.3	1,195.3	397.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	2,409.5	2,585.2	3,333.4
Total assets	27,009.4	32,420.9	33,232.4
Short term debt	1,571.7	2,642.9	2,487.2
Gross debt	11,627.8	14,926.2	15,592.4
Net debt	9,218.4	12,341.0	12,259.0
Shareholders' equity	13,049.2	14,628.1	14,566.0
Cash Flow (SGD'mn)			
CFO	944.6	492.6	1,051.1
Capex	52.4	83.7	14.8
Acquisitions	2,185.3	2,441.3	851.8
Disposals	2.4	477.3	445.3
Dividend	612.6	603.3	377.0
Interest paid	-150.3	-309.2	-196.3
Free Cash Flow (FCF)	892.2	408.8	1,036.3
Key Ratios			
EBITDA margin (%)	23.68	25.53	29.51
Net margin (%)	25.64	27.72	19.70
Gross debt to EBITDA (x)	12.20	13.56	13.09
Net debt to EBITDA (x)	9.67	11.21	10.30
Gross Debt to Equity (x)	0.89	1.02	1.07
Net Debt to Equity (x)	0.71	0.84	0.84
Gross debt/total assets (x)	0.43	0.46	0.47
Net debt/total assets (x)	0.34	0.38	0.37
Cash/current borrowings (x)	1.53	0.98	1.34
EBITDA/Total Interest (x)	5.11	2.78	2.89

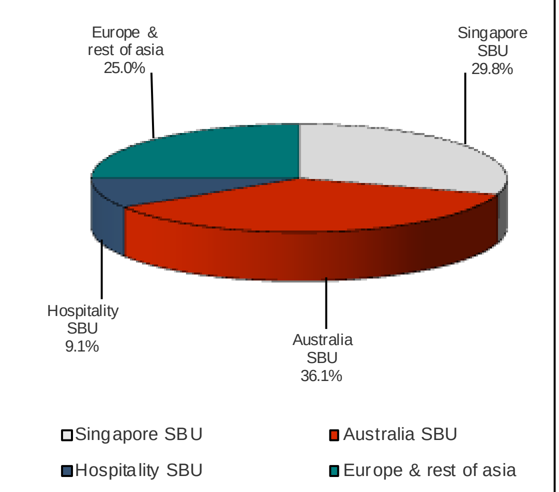
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2019



Source: Company | Excludes Corporate & Others (loss-making)

Figure 2: EBIT breakdown by Segment - 1H2019



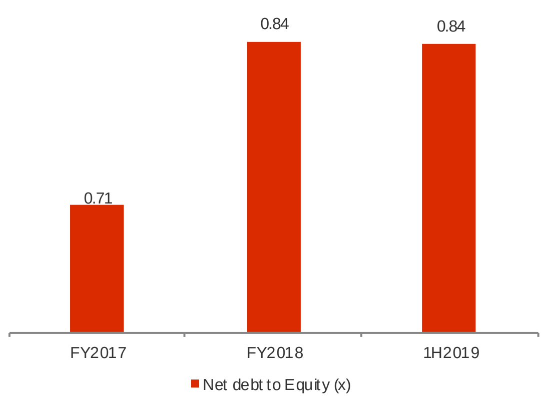
Source: Company | Excludes Corporate & Others (loss-making)

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	367.6	2.4%
Unsecured	2,119.6	13.6%
	2,487.2	**16.0%**
Amount repayable after a year		
Secured	3,815.3	24.5%
Unsecured	9,289.8	59.6%
	13,105.2	**84.0%**
Total	**15,592.4**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – Within the KEPSP curve, we are overweight the KEPSP 3.8% '27c22s trading at an ask YTC of 3.18% (159bps). KEPSP's 3 year bond, the KEPSP 3.145% '22s is trading at an ask YTM of 2.64% (105bps) and we think there is a good chance for KEP to call the KEPSP 3.8% '27c22s come April 2022 as it is able to replace this with lower cost debt.

Issuer Profile: Neutral (4)

Ticker: **KEPSP**

Background

Listed in 1986, Keppel Corp Ltd ("KEP") is a diversified conglomerate based in Singapore, operating in the real estate, offshore & marine ("O&M"), infrastructure, logistics, mobile data centres and asset management sectors. Among KEP's significant associates are: Keppel REIT, Sino-Singapore Tianjin Eco-City Investment and Development Co, Limited, Keppel DC REIT, Floatel International Limited and Keppel Infrastructure Trust. KEP is ~21%-owned by Temasek.

Keppel Corp Ltd

Key credit considerations

- **M1 consolidated since 1Q2019 boosted top line:** Gross revenue was up 4.1% y/y to SGD1.5bn in 1Q2019 on the back of higher revenue from its Investment Division as M1 Limited ("M1")'s results has been consolidated since 15 February 2019, higher revenue from asset management, higher sales from the power and gas businesses and progressive revenue recognition from a Hong Kong waste management facility and Singapore desalination plant being built by KEP. KEP Offshore & Marine ("KOM") segment saw flat y/y revenue while main income driver, the Property Division, saw revenue decrease SGD186mn as there were fewer projects in Singapore.

- **Lack of en-bloc sales drove pre-tax profits lower:** KEP reported pre-tax profits of SGD282.8mn in 1Q2019, down 37% y/y from 1Q2018. Pre-tax profits would have been lower at SGD124.4mn if not for a SGD158.4mn in one-off fair value gains (from M1 business combination accounting effects). Pre-tax profits were mainly lower as en-bloc property transactions was smaller in 1Q2019 versus 1Q2018 when KEP divested the Keppel Cove project in Zhongshan, China though we are not overly concerned given the lumpy nature of en-bloc sales. During the quarter, Keppel REIT results were somewhat weaker. EBITDA (based on our calculation which does not include other income and other expenses) was SGD245.0mn, up 5.3% y/y from 1Q2018, although with interest expense increasing by a whopping 58% y/y to SGD69.0mn, EBITDA/Interest was lower at 3.5x (1Q2018: 5.3x). This was driven by higher average debt balance, as well as recognition of lease payments as interest under SFRS (1) 16.

- **Waiting for KOM to turn around decisively:** KOM saw net profit of SGD6.0mn in 1Q2019, a positive against the SGD23mn of net loss in 1Q2018. While the New Build business continued to report losses, Repairs & Conversions swung to net profit of SGD5.0mn while associates (mainly from Floatel International Limited - accommodation and construction support vessels) contributed SGD10mn to net profit. Net orderbook (excluding Sete Brasil contracts) was SGD4.7bn (up from SGD4.3bn in end-2018). For the five months of 2019, KOM won a total of SGD1.8bn in new orders, of which SGD800mn are contracts in the offshore renewable sector. Additionally, KOM has submitted a bid to buyback two rigs that were being built by its Brazil shipyard for Sete Brasil. We continue to monitor this given the potential cash outlay.

- **Net gearing increased:** As at 31 March 2019, KEP's net gearing was significantly higher at 0.7x (0.5x in end-2018) though below its internal threshold of 1.0x. While the new lease accounting played a role, the much larger reason in our view was the funding needs to buy M1 (1Q2019: SGD1.1bn cash outflow, net of cash acquired). Working capital needs had also increased due to work done on orders won by KOM. In end-2018, off-balance sheet capital commitments continued to be significant at SGD1.4bn, where ~27% relates to commitments to private funds in the Keppel Capital business. With Keppel Capital unwavering from its SGD50bn asset under management ("AUM") target by 2022, we expect these commitments to increase.

- **Expect funding needs to rise for transformation:** KEP is aiming to have each key division contribute no more than 40% of its annual net profit over the long term. As part of its transformation, KEP has been investing into multiple new areas and increasing the cooperation between various businesses. In March 2019, KEP announced that its Property Division and a fund managed by Keppel Capital is partnering up to buy Yi Fang Tower, a prime commercial building in Shanghai. Post quarter end, KEP (1) Completed the take-private of Keppel Telecommunications & Transportation Ltd ("KPTT"), (2) Subscribed for new units in KIT (to part fund the acquisition of IXOM), (3) Invested in a lithium battery company, and (4) Invested alongside its client in a company which owns a vessel that KOM is converting. Most recently, KEP had signed up to become a cornerstone investor and take a 30%-stake in the REIT Manager of Prime US REIT (targeted IPO in July 2019).

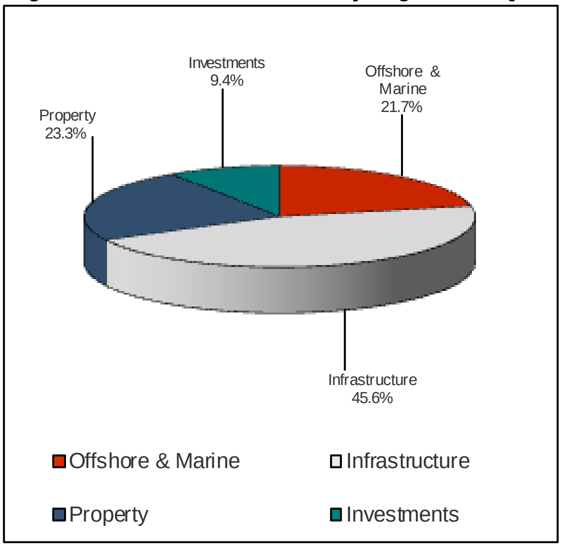
Keppel Corp Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2017	FY2018	1Q2019
Income Statement (SGD'mn)			
Revenue	5,963.8	5,964.8	1,530.7
EBITDA	979.4	789.3	245.0
EBIT	767.0	606.9	177.4
Gross interest expense	189.2	198.4	69.0
Profit Before Tax	441.4	1,239.9	282.8
Net profit	197.4	956.1	236.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	2,273.8	1,981.4	1,719.6
Total assets	28,685.6	26,606.3	30,469.9
Gross debt	7,793.0	7,548.5	10,474.2
Short term debt	1,714.1	1,480.8	3,275.3
Net debt	5,519.2	5,567.1	8,754.6
Shareholders' equity	11,973.0	11,587.1	12,180.7
Cash Flow (SGD'mn)			
CFO	1,257.0	168.9	-646.9
Capex	393.0	254.5	241.3
Acquisitions	291.4	403.9	1,244.7
Disposals	1,013.2	1,270.5	2.4
Dividend	390.1	546.5	0.6
Free Cash Flow (FCF)	864.0	-85.6	-888.2
Key Ratios			
EBITDA margin (%)	16.42	13.23	16.01
Net margin (%)	3.31	16.03	15.45
Gross debt to EBITDA (x)	7.96	9.56	10.69
Net debt to EBITDA (x)	5.64	7.05	8.93
Gross Debt to Equity (x)	0.65	0.65	0.86
Net Debt to Equity (x)	0.46	0.48	0.72
Gross debt/total assets (x)	0.27	0.28	0.34
Net debt/total assets (x)	0.19	0.21	0.29
Cash/current borrowings (x)	1.33	1.34	0.53
EBITDA/Total Interest (x)	5.18	3.98	3.55

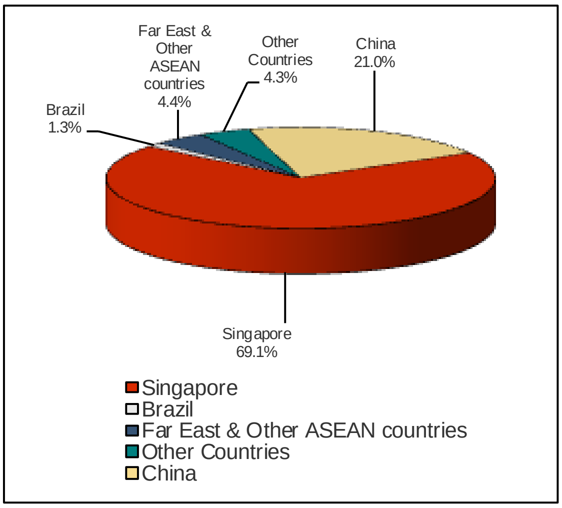
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1Q2019



Source: Company | Excludes Eliminations

Figure 2: Revenue breakdown by Geography - 1Q2019



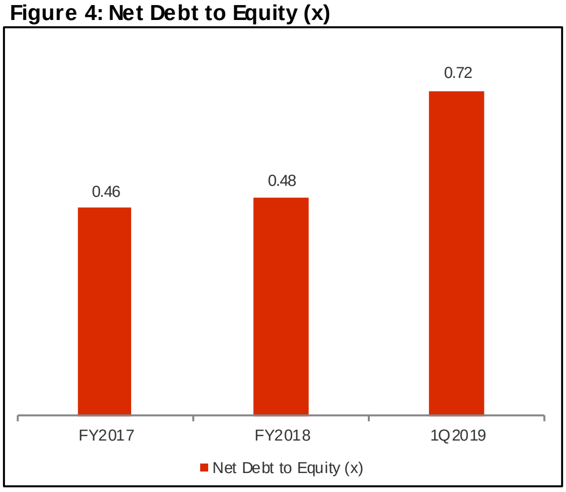
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2019	% of debt
.		
Amount repayable in one year or less, or on demand		
Secured	399.1	3.8%
Unsecured	2,876.2	27.5%
	3,275.3	**31.3%**
Amount repayable after a year		
Secured	857.8	8.2%
Unsecured	6,341.1	60.5%
	7,198.9	**68.7%**
Total	**10,474.2**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Keppel REIT

Credit Outlook – Although KREITS 4.98%-Perp has tightened (from a YTC of 3.89%) since the start of the year, we continue to find this perpetual bond attractive as it is offering a YTC of 3.11% for ~7 months to call. KREITS 3.275% ‘24s, on the other hand, is offering a similar yield of 3.10%, for a 5 year long period.

Issuer Profile: Neutral (4)

Ticker: **KREITS**

Background

Keppel REIT (“KREIT”) is a real estate investment trust focused mainly on commercial assets. Listed on SGX in 2006, KREIT has an Asset Under Management (“AUM”) of ~SGD8.4bn, with 82.4% of the portfolio based in Singapore with the balance in Australia and South Korea. The Singapore assets are mainly Grade A office assets in the CBD, such as Ocean Financial Centre, 33% stake in Marina Bay Financial Centre Towers 1, 2 & 3 and 33% stake in One Raffles Quay. KREIT is 43.9% owned by Keppel Corp, its Sponsor.

Key credit considerations

- **Maiden entry into Seoul, South Korea**: KREIT has acquired a 99.38% interest in a freehold CBD Grade A building – T Tower on 27 May 2019 for SGD301.4mn (KRW252.6bn) while Keppel Capital Investment Holdings Pte Ltd (“Keppel Capital”), an indirect wholly-owned subsidiary of Keppel Corporation Limited bought the balance 0.62% interest in the property. While South Korea is new for KREIT, Keppel Capital has managed ~SGD3bn of assets in South Korea since 2004. The total acquisition cost for KREIT was SGD168.3mn (~KRW141.1bn) and SGD157.02mn (~93.3% of total acquisition cost) was funded using proceeds from the convertible bond issued in April 2019. The property, a 28-storey office building (NLA: 228,000 sq ft), is currently 100% leased with a WALE of 2.8 years. T Tower is expected to contribute ~SGD3.46mn to property revenue (~5.3% of total portfolio income) and majority of the leases within the property have fixed annual rental escalations of 3%.

- **Weak 1Q2019 results**: Property income rose marginally by 0.7% y/y to SGD40.0mn in 1Q2019 from SGD39.7mn. One-off income from Bugis Junction Towers more than offset the lower contributions from Ocean Financial Centre (“OFC”) (down 1.7% y/y), 275 George Street (down 4.0% y/y) and 8 Exhibition Street (down 2.2% y/y). These Australian properties saw the depreciation of AUD against SGD erode their better operating performance. Net property income (“NPI”) moved in tandem and rose by 0.3% y/y to SGD31.3mn. Profit before tax, however, fell by 2.6% y/y to SGD36.1mn. The decline was largely attributable to (1) a lower share of results of associates and joint ventures (down 7.1% y/y, mainly due to One Raffles Quay (“ORQ”) which saw dividend income fall by 13.0% y/y as occupancy rate was lower at 96.1% vs. 100% at 1Q2018) and (2) unfavourable foreign exchange differences.

- **Stable portfolio statistics expected**: Overall portfolio committed occupancy was 98.7% (1Q2018: 99.4%). Given KREIT has just 2.7% (down by 4.2% reported at end-2018) and 0.4% of leases by net lettable area expiring and 0.4% due for review for the remaining of 2019, we think the room for KREIT to ride the recovery wave in the office market in somewhat small. That said, KREIT appears to have done well in its leasing in 1Q2019 with the average signing rent for KREIT’s Singapore office leases at SGD12.03 psf pm for ~136,400 sf, above the market average of SGD11.15 psf pm. KREIT’s FY2018 average signing rent was SGD11.10 psf pm.

- **Manageable credit metrics**: Unadjusted aggregate leverage was 35.7% as at 31 March 2019. Subsequently, KREIT issued a SGD200mn 5-year convertible bond on 10 April 2019 at just 1.9%. SGD157.02 of the SGD200mn was used to acquire T Tower in Seoul, while SGD40.43mn was used refinance existing debt and for general corporate and working capital purposes. As a result, we expect pro forma aggregate leverage to climb to 38.0% and possibly higher as KREIT continues to pursue the buy-back of units (SGD18.9mn spent on buyback YTD). We also expect KREIT’s all-in interest rate to fall from the 2.88% in end-March with the convertible bond issuance. Taking 50% of perpetuals as debt, we find adjusted aggregate leverage at 36.7%. EBITDA (including associates and JVs)/Interest was healthy at 3.0x in 1Q2019 and KREIT has also received commitments to refinance the loans coming due in 2019. The REIT also holds SGD105mn cash as at end March 2019 and has SGD650mn of bank loans maturing in 2020. We see refinancing risk as low as KREIT has unutilized facilities of SGD1.0bn available and only Bugis Towers in its portfolio of assets is encumbered which translates to 83% of total assets is unencumbered (excluding T Tower in Seoul).

- **Development in Australia continues to progress**: Looking ahead, construction of a freehold Grade A office tower which KREIT has a 50%-stake in at 311 Spencer Street in Melbourne is ongoing (costs not disclosed). Commencement of the 30-year lease to the Victoria Police is expected in 1H2020. Management expects this property to contribute a steady income stream with fixed annual rental escalations.

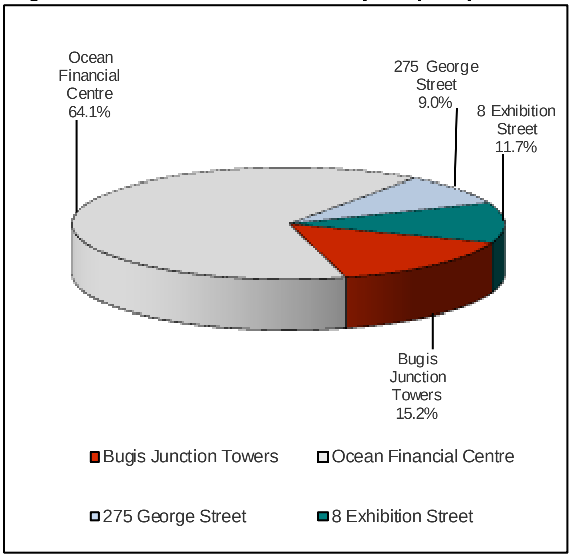
Keppel REIT

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1Q2019
Income Statement (SGD'mn)			
Revenue	164.5	165.9	40.0
EBITDA	74.7	78.8	18.9
EBIT	62.9	70.6	16.3
Gross interest expense	67.3	71.2	15.1
Profit Before Tax	197.3	164.8	36.1
Net profit	180.2	154.6	34.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	198.2	258.9	105.4
Total assets	7,604.3	7,784.5	7,615.5
Short term debt	425.0	59.9	60.0
Gross debt	2,522.2	2,285.7	2,177.1
Net debt	2,324.0	2,026.8	2,071.7
Shareholders' equity	4,915.3	5,335.6	5,294.3
Cash Flow (SGD'mn)			
CFO	120.0	117.1	25.0
Capex	157.8	90.7	22.1
Acquisitions	0.0	0.0	4.4
Disposals	0.0	439.3	0.0
Dividends	164.5	189.7	46.2
Interest paid	62.5	68.2	14.2
Free Cash Flow (FCF)	-37.8	26.3	3.0
Key Ratios			
EBITDA margin (%)	45.43	47.50	47.12
Net margin (%)	109.51	93.20	86.55
Gross debt to EBITDA (x)	33.75	29.01	28.86
Net debt to EBITDA (x)	31.09	25.73	27.47
Gross Debt to Equity (x)	0.51	0.43	0.41
Net Debt to Equity (x)	0.47	0.38	0.39
Gross debt/total asset (x)	0.33	0.29	0.29
Net debt/total asset (x)	0.31	0.26	0.27
Cash/current borrowings (x)	0.47	4.32	1.76
EBITDA/Total Interest (x)	1.11	1.11	1.25

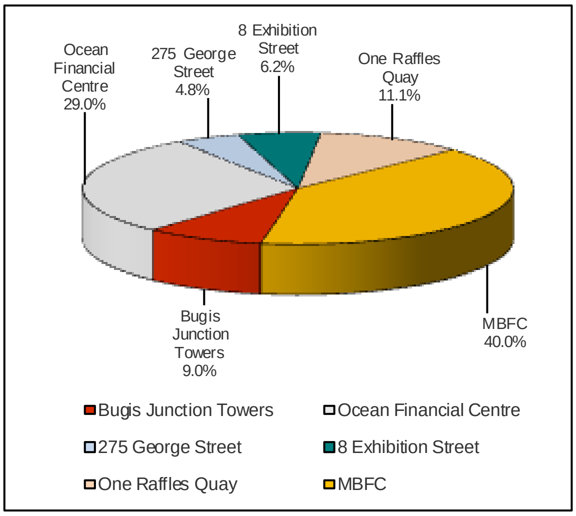
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - 1Q2019



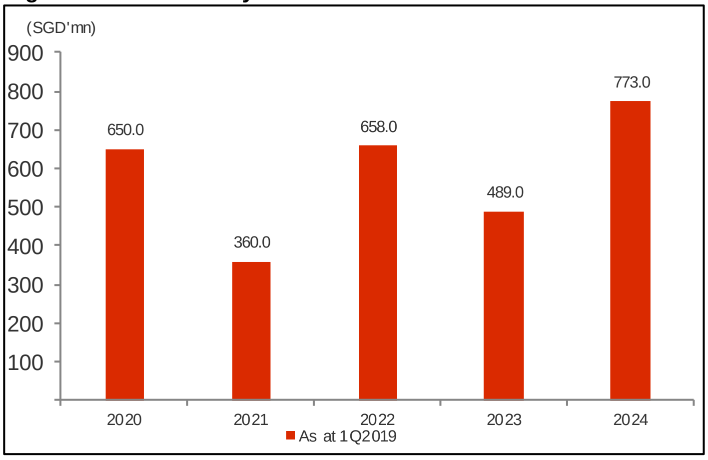
Source: Company

Figure 2: NPI breakdown by Property - 1Q2019



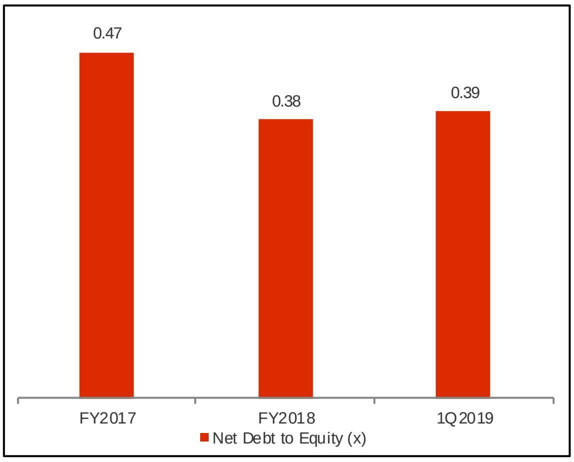
Source: Company

Figure 3: Debt Maturity Profile



Source: Company | Includes borrowings accounted for at the level of associates

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Olam International Ltd

Credit Outlook – The OLAMSP 5.5%-PERP with a first call date in July 2022 is trading at an ask YTC of 4.7% (314bps), post rallying 2ppt since early June 2019. We are now underweight this perpetual as it is only providing a senior-sub spread of ~70bps against the OLAMSP 6% '22s which is a senior bond. Based on our observations, senior-sub spread of ~70bps only occurs for high grade issuers in SGD, with higher yielding issuers exhibiting at least ~100bps senior-sub spread.

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%. Kelwaram Chanrai Group (a co-founder of OLAM) retains a 7%-stake while management team holds a 6.3%.

Key credit considerations

- **Midstream/Downstream getting more important:** OLAM's 1Q2019 saw revenue up 16.7% y/y to SGD7.3bn while reported EBITDA was up 14.2% y/y to SGD420.3mn. Excluding the effects of SFRS(I)16, reported EBITDA for 1Q2019 would have been up by 7.5% y/y. The increase in reported EBITDA was driven by an increase in the Edible Nuts & Spices, Confectionary & Beverage Ingredients and Commodity Financial Services segments while the two remaining segments: Food Staples & Packaged Foods and Industrial Raw Materials, Infrastructure and Logistics saw a decline in reported EBITDA. Resultant EBITDA/Interest was lower at 3.0x (1Q2018: 3.4x) from higher interest rates and an increase in finance charges of SGD7.5mn from the adoption of SFRS(1) 16, though stronger than the 2.1x in 4Q2018. In 2018, the low-margin supply chain business only contributed 33% to EBITDA (53% contribution in 2015). We expect contribution from supply chain to fall going forward, with OLAM continuing to focus on the midstream/downstream. By 2024, ~50% of capital allocation is targeted to go towards midstream/downstream versus 37.8% in 2018.

- **Expect unadjusted net gearing to tilt back up:** As at 31 March 2019, OLAM's unadjusted net gearing was 1.29x, lower than the 1.36x in end-2018. This was driven by the accumulation of profits during the quarter (with less severe foreign exchange translation adjustment) along with lower working capital needs. In 1Q2019, OLAM acquired a 85%-stake in YTS Holdings Pte Ltd which indirectly owns the largest cocoa processor in Indonesia and had announced the proposed purchase of Dangote Flour Mills Plc ("Dangote") in April 2019. We think this may tilt unadjusted net gearing back up to ~1.37x (in line with end-2018 levels).

- **Pursuing a major Nigerian acquisition:** Dangote is a leading flour and pasta manufacturer in Nigeria, which OLAM is acquiring for an enterprise value of NGN130bn (~SGD493mn at time of announcement on 23 April 2019) on a debt free, cash free basis. The proposed acquisition is in line with OLAM's strategy to grow its Grain and Animal Feed business (particularly in wheat milling). Per Bloomberg data, Dangote reported a full year net loss in 2018 of NGN1.2bn (net loss of ~SGD4.3mn). While it is too early for us to say if OLAM is able to turnaround the Dangote business, it is worth noting that this is a large impending outflow for the company.

- **Looming refinancing risk:** As at 31 March 2019, short term debt at OLAM was SGD5.77bn, higher than the ~SGD4.81bn average observed over 2018 and 2017. Short term debt includes (1) SGD750mn across two bonds due July 2019 (2) bonds totaling USD350mn and AUD180mn due in 1Q2020. OLAM's cash balance was SGD2.36bn as at 31 March 2019, although we expect the debt due to be refinanced via debt capital markets. OLAM has low financial flexibility from its public equities. Of OLAM's ~16% free float, we see only ~9% as "actual float", with ~7% held by one long term institutional investor. Unutilised bank facilities of SGD9.51bn as at 31 March 2019 helps, while OLAM continues to proactively diversify its sources of funding. Post quarter end, OLAM raised USD120mn via a private placement and USD350mn in the world's first digital loan (revolver with pricing linked to digital targets).

- **Monitoring OLAM's strategic plan:** For the next six years (2019 to 2024), OLAM is targeting to spend ~SGD4.74bn in total capex, of which ~SGD1.35bn is catered for maintenance capex leaving ~SGD3.39bn as growth capex. OLAM is also looking to exit certain businesses orderly on a partial or full basis, predominantly in the Rubber, Sugar, Wood Products and Fertiliser businesses, with the aim to unlock ~SGD2.2bn over the six years. Conceptually, we see this as a credit positive that the company is refocusing on its strength, although this is likely to be a drawn out affair in our view, given the specialized nature of OLAM's businesses and geographies. For now, we are maintaining OLAM's issuer profile at Neutral (5) although would review this should OLAM diverge from its capex and divestment plans. Already we see the proposed Dangote acquisition making up ~15% of its growth capex target.

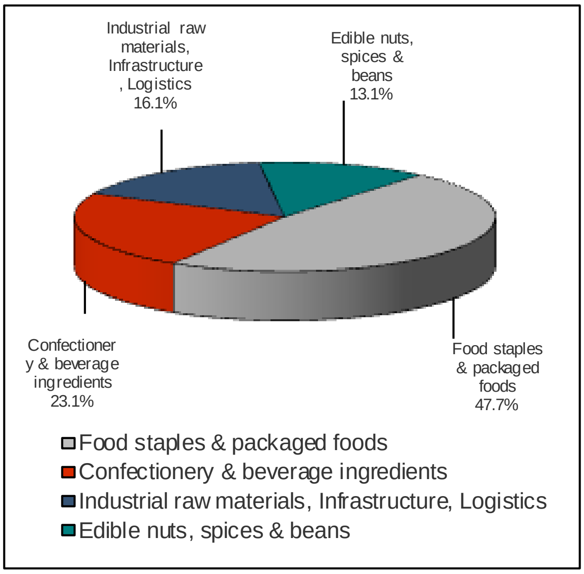
Olam International Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2017	FY2018	1Q2019
Income Statement (SGD'mn)	**SGD'mn**	**SGD'mn**	**SGD'mn**
Revenue	26,272.5	30,479.1	7,347.9
EBITDA	1,217.2	1,030.7	393.4
EBIT	836.6	637.9	268.7
Gross interest expense	531.2	548.5	141.1
Profit Before Tax	630.9	380.6	179.7
Net profit	551.6	323.2	158.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,986.4	2,480.4	2,424.0
Total assets	22,298.5	23,446.8	24,454.3
Short term debt	4,660.2	4,777.1	5,838.8
Gross debt	11,587.9	11,268.2	11,601.7
Net debt	9,601.6	8,787.9	9,177.7
Shareholders' equity	6,621.0	6,464.1	6,567.0
Cash Flow (SGD'mn)			
CFO	2,121.8	1,947.4	615.0
Capex	951.1	804.2	126.9
Acquisitions	0.0	31.7	66.3
Disposals	310.9	292.4	9.1
Dividend	180.4	237.7	27.8
Free Cash Flow (FCF)	1,170.7	1,143.2	488.1
Key Ratios			
EBITDA margin (%)	4.63	3.38	5.35
Net margin (%)	2.10	1.06	2.16
Gross debt to EBITDA (x)	9.52	10.93	7.37
Net debt to EBITDA (x)	7.89	8.53	5.83
Gross Debt to Equity (x)	1.75	1.74	1.77
Net Debt to Equity (x)	1.45	1.36	1.40
Gross debt/total assets (x)	0.52	0.48	0.47
Net debt/total assets (x)	0.43	0.37	0.38
Cash/current borrowings (x)	0.43	0.52	0.42
EBITDA/Total Interest (x)	2.29	1.88	2.79

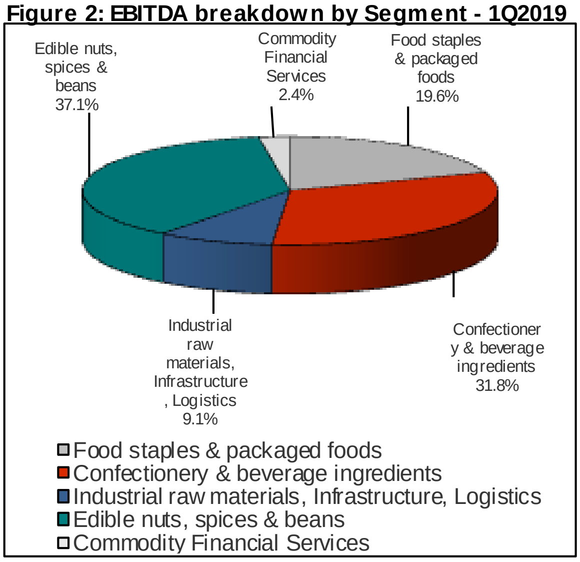
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1Q2019



Source: Company | Excludes Commodity Financial Services (no external revenue)

Figure 2: EBITDA breakdown by Segment - 1Q2019



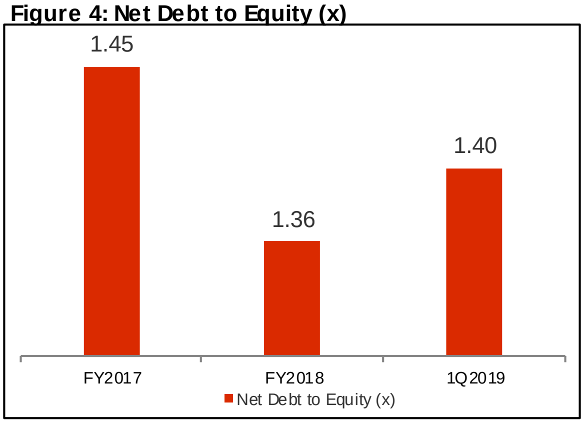
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	84.3	0.7%
Unsecured	5,754.6	49.6%
	5,838.8	**50.3%**
Amount repayable after a year		
Secured	90.4	0.8%
Unsecured	5,672.4	48.9%
	5,762.8	**49.7%**
Total	**11,601.7**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – With deleveraging in the works and a plan to tackle the upcoming maturities, we continue to favour the OHLSP curve.

Issuer Profile: Neutral (5)

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 (42.0%-stake), its deputy CEO Mr Low See Ching (28.1%) and Mr Tee (11.3%) who appears to be a passive shareholder.

Oxley Holdings Limited

Key credit considerations

- **Deleveraging in the works:** Following the announced sale of Chevron House for SGD1.025bn, OHL has received an initial sum of at least SGD168.6mn (being SGD210mn less SGD41.4mn retention sum) from the buyer. We think completion risks (e.g. buyer walking out) should be manageable given that SGD168.6mn forms a significant (16.4%) of the total consideration. Separately, OHL is selling No.4 and No.5 Dublin Landings for EUR204mn (~SGD315.6mn) to Central Bank of Ireland (of which EUR20.4mn in deposit was paid), with completion targeted in Oct 2019. OHL also announced the sale of Blocks B and E of Dublin Landings for EUR175.5mn (~SGD271mn) though we are becoming cautious as there has been no update since end Feb 2019, which is the targeted completion date. Aside from the announced sale, OHL has also shown its intent to sell the Novotel and Mercure hotels on Stevens Road (indicative valuation: SGD953mn). Assuming Chevron House completes (estimated: early-FY2020), we expect net gearing to fall to ~1.5x (3QFY2019: 2.49x).

- **Tackling the 2019 maturities:** SGD1.06bn debt will mature in 2019, which we believe OHL can tackle. SGD542mn is due to debt on Novotel and Mercure hotel, which we think can be refinanced. Assuming the hotels are not sold, OHL intends to borrow more against the hotels, which should result in a surplus from refinancing of SGD125mn. We think the remainder of the debt (SGD392mn) should be more than sufficiently covered from the initial sum of at least SGD168.6mn received from sale of Chevron House, sale proceeds of Dublin Landings No.4 and No.5 (~SGD315.6mn) and USD204mn (~SGD276mn) expected to be received from the TOP of The Peak Cambodia retail units (TOP estimated: Sep 2019). In addition, there may be further proceeds from sale of Dublin Landings Blocks B and E (SGD271mn) as well as another EUR78mn (SGD120mn) from potential sales proceeds at Dublin Block A3.

- **Strong property sales achieved despite weaker market sentiments:** According to URA caveats, OHL has achieved ~2,200 units worth ~SGD2.4bn in property presales in Singapore since 2018, de-risking about half of the Singapore development portfolio. The main contributing projects are Riverfront Residences (~SGD970mn), Affinity at Serangoon (~SGD590mn), The Verandah Residences (~SGD250mn) and Mayfair Gardens (~SGD220mn). We understand that OHL is targeting to clear substantially most of the units by Dec 2020. We are not overly worried as the major projects at Riverfront Residences (35%-stake) and Affinity at Serangoon (40%-stake) are already more than half sold while decent sales have been achieved at other projects. However, we think margins may be compressed if OHL prices competitively to move the remaining units, as we expect the outlook of Singapore residential market to remain subdued in 2019. Beyond Singapore, we note another SGD1.7bn presales from overseas projects have yet to be recognized.

- **Credit metrics expected to improve:** We upgraded OHL's Issuer Profile to Neutral (5) from Negative (6) in Jan 2019 on expectations that OHL will deleverage. Although we had wrongly anticipated in Feb 2017 that OHL would deleverage based on management's guidance, this time talks are backed up with actions. The transactions thus far (assuming Chevron House completes) should already cut net gearing to 1.5x (3QFY2019: 2.49x). The target, as communicated by OHL through Bloomberg, is to reduce net gearing to 1x via divestments and sales. We think this is achievable, if management chooses to, though it may take some time as proceeds from Singapore residential projects are not immediate given their TOP dates in 2020-22.

- **Remaining comfortable with other sources of liquidity:** Even if OHL does not eventually monetize the hotels, we think OHL can monetize its stakes in listed United Engineers Ltd (worth ~SGD310mn). The Peak Cambodia residential units will TOP by May 2020, which OHL disclosed to be valued at USD204mn (~SGD276mn). In total future progress billings stand at SGD3.68bn from Singapore (SGD2.0bn) and overseas (SGD1.6bn) projects. OHL also holds SGD270.0mn cash as of 3QFY2019.

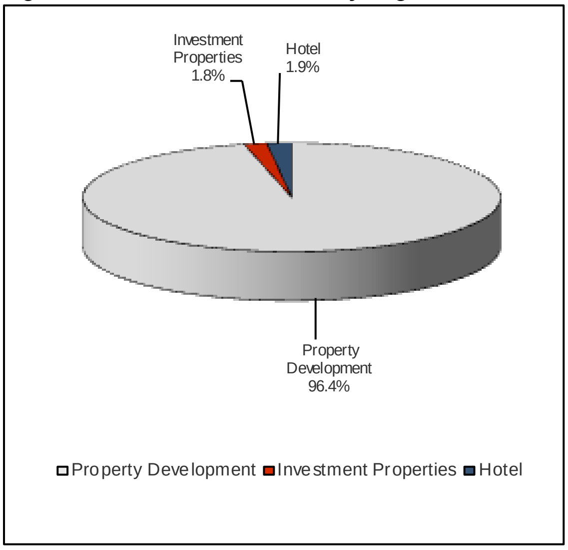
Oxley Holdings Limited

Table 1: Summary Financials

Year Ended 30th Jun	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	1,343.0	1,188.6	585.6
EBITDA	333.3	132.7	80.7
EBIT	332.6	118.7	64.5
Gross interest expense	131.5	130.0	75.2
Profit Before Tax	299.5	305.3	144.7
Net profit	227.7	282.1	119.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	413.5	255.0	270.0
Total assets	4,607.9	5,995.5	6,476.8
Short term debt	609.6	246.8	1,090.3
Gross debt	2,459.1	3,460.5	3,939.2
Net debt	2,045.6	3,205.5	3,669.2
Shareholders' equity	1,088.9	1,477.0	1,471.3
Cash Flow (SGD'mn)			
CFO	461.3	109.9	-324.9
Capex	124.3	43.1	48.8
Acquisitions	92.2	1,230.4	79.4
Disposals	3.3	200.5	116.3
Dividend	176.9	49.8	7.8
Interest paid	-100.2	-95.2	0.0
Free Cash Flow (FCF)	337.0	66.8	-373.7
Key Ratios			
EBITDA margin (%)	24.82	11.16	13.79
Net margin (%)	16.95	23.74	20.32
Gross debt to EBITDA (x)	7.38	26.08	36.59
Net debt to EBITDA (x)	6.14	24.16	34.08
Gross Debt to Equity (x)	2.26	2.34	2.68
Net Debt to Equity (x)	1.88	2.17	2.49
Gross debt/total assets (x)	0.53	0.58	0.61
Net debt/total assets (x)	0.44	0.53	0.57
Cash/current borrowings (x)	0.68	1.03	0.25
EBITDA/Total Interest (x)	2.54	1.02	1.07

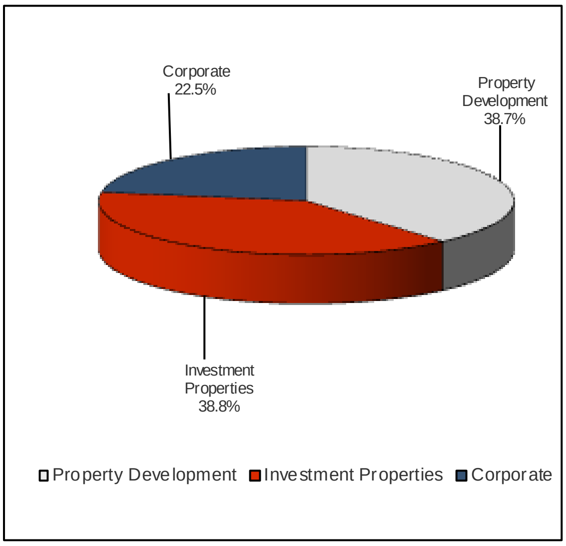
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2018



Source: Company | Excludes Corporate (no external revenue)

Figure 2: PBT breakdown by Segment - FY2018



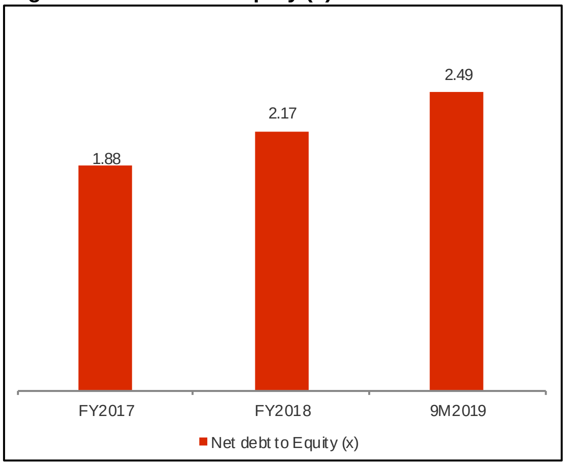
Source: Company | Excludes Hotel (loss-making)

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	710.9	18.1%
Unsecured	378.8	9.6%
	1,089.6	**27.7%**
Amount repayable after a year		
Secured	1,936.8	49.2%
Unsecured	911.8	23.2%
	2,848.6	**72.3%**
Total	**3,938.2**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We are neutral the SCISP 3.7325% '20s and lowering our call on the SCISP 4.75%-PERP to neutral. We are underweight the SCISP 3.7%-PERP and underweight the rest of the curve as we think any intensification of event risk surrounding SCISP's may lead to heightened price volatility on bonds. We recommend taking this rally to profit take and pare down SCISP risk.

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 focuses on utilities (energy and water solutions), offshore marine (via its 61%-stake in Sembcorp Marine Ltd ("SMM")) and urban development (focused on development of industrial parks across the region) with a market cap of SGD4.4bn as at 1 July 2019. Temasek is the largest shareholder of SCI with a ~49.5%-stake.

Sembcorp Industries Ltd

Key credit considerations

- **Utilities (renamed as Energy) held up in 1Q2019:** SCI breaks down profit from operations ("PFO"), excluding exceptional items by segment, an aggregation of earnings before interest and taxes and share of results of associates and joint ventures (net of tax). In 1Q2019, overall PFO was SGD223mn (97% from Energy) versus SGD214mn in 1Q2018. Energy PFO saw a 14% y/y increase driven by contribution from the UK (particularly from UK Power Reserve ("UKPR") acquired on 1 June 2018), rest of Southeast Asia and India which helped offset weakness elsewhere. 1Q2019 tends to be seasonally stronger as UKPR serves as a peaker.

- **Sizeable amount of debt "swapped" into SCI debt:** Driven by lower overall business volume, Marine PFO was only SGD4mn in 1Q2019. As at 3 May 2019, the net orderbook excluding Sete Brasil contracts had dwindled to SGD2.6bn (end-2018: SGD3.1bn) while SMM's unadjusted net gearing, excluding lease liabilities, was still high at 1.5x as at 31 March 2019. On 21 June 2019, SCI announced that it will be lending SMM SGD2.0bn where SGD1.5bn will go towards refinancing SMM-debt and the remaining for working capital and general purposes. SCI would raise SGD1.5bn from a privately placed bond and the remaining SGD500mn from existing resources and facilities. Barring the SGD500mn, SCI's consolidated credit metrics would be little changed, although in our view, lenders are more comfortable assuming SCI-risk rather than SMM-risk. SMM is due to receive cash from Borr Drilling Ltd ("Borr") from now to 1Q2024 as all rigs have been delivered. This could be a medium term credit positive although we have turned cautious over the financial health of Borr.

- **Significant event risk at SMM:** On 3 July 2019, SMM announced that Brazilian authorities have executed a search warrant on its subsidiary in Brazil in connection with Operation Car Wash. We continue to monitor developments. While it is too premature for us to comment on the knock on effects, we note that Keppel Corp Ltd ("KEP") whose subsidiary in Brazil was affected in Operation Car Wash took a one-off hit from global resolution and related costs of SGD619mn in FY2017.

- **Lower interest coverage and a slight decline in net gearing:** EBITDA (based on our calculation) increased by 4.2% y/y to SGD326mn due to lower cost of sale while interest expense increased 25% y/y, mainly due to higher average gross debt in 1Q2019 and a SGD6mn drag from lease liabilities from adoption of SFRS(I) 16 Leases. EBITDA/Interest coverage was thinner at 2.3x (1Q2018: 2.7x). As at 31 March 2019, SCI's unadjusted net gearing was 1.09x, slightly lower than the 1.11x in end-2018 while unadjusted net gearing (taking 50% of perpetuals as debt) was lower at 1.2x. SCI is continuing to divest its non-core assets and reinvesting this towards renewable energy. For example: SCI is in the midst of selling a municipal water plant in China and sold its legacy ~10.3%-stake in Gallant Venture Ltd ("GALV").

- **Potential equity injection to subsidiary SEIL a competing cash flow to debt repayment:** SCI was preparing for an IPO of ~94%-owned Sembcorp Energy India Limited ("SEIL"), the holding company for its India energy business, though Indian equity markets were choppy in the past 18 months. In June 2019, SCI announced that it would be injecting new equity into SEIL and as a result of a proposed change to SEIL's capital structure had withdrew this IPO filling until a later stage. For now we are using SGD800mn as the ceiling of SCI's equity injection into SEIL as reportedly SEIL had intended to raise up to INR40.95bn (~SGD805mn) in new money from the IPO.

- **Watching for a downgrade:** Following June's transaction, we assume that ~SGD875mn of short term SMM-debt is refinanced, leaving SGD0.8bn of consolidated short term debt against consolidated cash of SGD1.7bn as at 31 March 2019. We may downgrade SCI should the company diverge from its deleveraging path, taking on more debt (eg: to support its subsidiaries SMM and SEIL) and/or adverse developments from SMM arise.

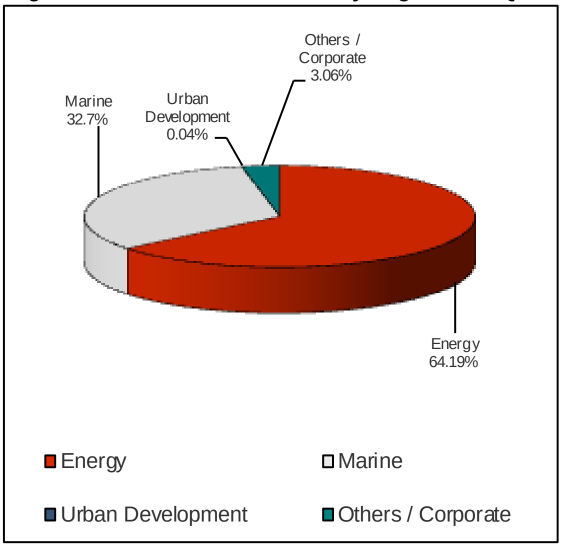
Sembcorp Industries Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2017	FY2018	1Q2019
Income Statement (SGD'mn)			
Revenue	8,345.6	11,689.0	2,480.0
EBITDA	1,097.3	1,107.0	326.0
EBIT	526.0	512.0	158.0
Gross interest expense	525.8	508.0	142.0
Profit Before Tax	312.1	420.0	115.0
Net profit	230.8	347.0	93.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	2,686.7	1,925.0	1,685.0
Total assets	23,213.2	23,321.0	23,685.0
Gross debt	9,847.6	10,732.0	10,970.0
Short term debt	1,572.5	1,862.0	1,680.0
Net debt	7,160.9	8,807.0	9,285.0
Shareholders' equity	8,215.8	7,938.0	8,071.0
Cash Flow (SGD'mn)			
CFO	650.3	739.0	332.0
Capex	736.0	1,107.0	241.0
Acquisitions	184.5	821.0	89.0
Disposals	471.7	465.0	80.0
Dividend	204.4	345.0	4.0
Free Cash Flow (FCF)	-85.7	-368.0	91.0
Key Ratios			
EBITDA margin (%)	13.15	9.47	13.15
Net margin (%)	2.77	2.97	3.75
Gross debt to EBITDA (x)	8.97	9.69	8.41
Net debt to EBITDA (x)	6.53	7.96	7.12
Gross Debt to Equity (x)	1.20	1.35	1.36
Net Debt to Equity (x)	0.87	1.11	1.15
Gross debt/total assets (x)	0.42	0.46	0.46
Net debt/total assets (x)	0.31	0.38	0.39
Cash/current borrowings (x)	1.71	1.03	1.00
EBITDA/Total Interest (x)	2.09	2.18	2.30

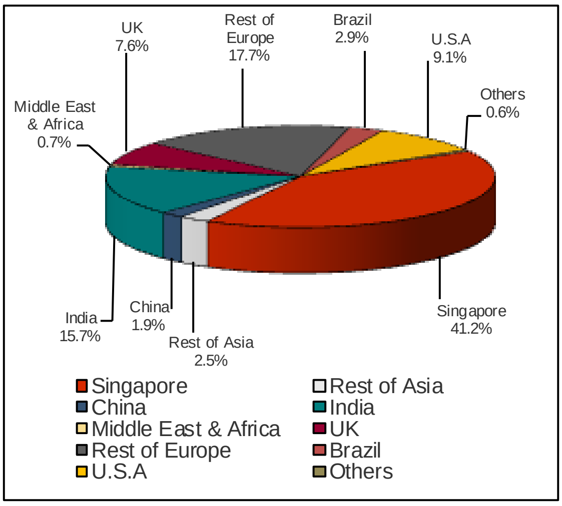
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1Q2019



Source: Company | Excludes Eliminations

Figure 2: Revenue breakdown by Geography - 1Q2019



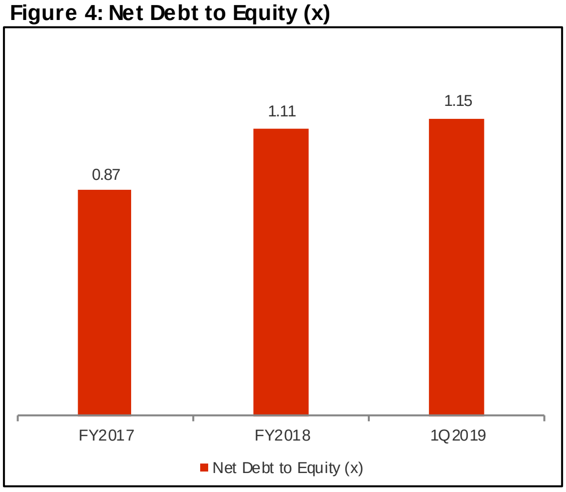
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2019	% of debt
.		
Amount repayable in one year or less, or on demand		
Secured	647.0	6.2%
Unsecured	1,006.0	9.6%
	1,653.0	**15.8%**
Amount repayable after a year		
Secured	3,301.0	31.5%
Unsecured	5,514.0	52.7%
	8,815.0	**84.2%**
Total	**10,468.0**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Singapore Airlines Ltd

Credit Outlook – The SIAPSP curve traditionally trades tight for a weakening issuer profile. Within its own curve though, we prefer the SIASP 3.75% '24s which is trading at an ask YTM of 2.81% (120bps) and the more actively traded SIASP 3.035% '25s which is trading at an ask YTM of 2.96% (130bps).

Issuer Profile: Neutral (3)

Ticker: **SIASP**

Background

Singapore Airlines Ltd ("SIA Group"), listed on the SGX has a market cap of SGD11.0bn as at 1 July 2019. Apart from its flagship carrier, Singapore Airlines ("SQ"), the company also operates other airlines and businesses: SIA Engineering Company, SilkAir and Scoot. SIA owns a 20%-stake in Virgin Australia Holdings Limited and a 49%-stake in TATA SIA Airlines Limited (operates Vistara Airlines). SIA Group is ~56% owned by Temasek while the remaining shareholding is dispersed.

Key credit considerations

- **Top line gains harder to come by, while interest coverage thinner:** For fourth quarter for the financial year ended March 2019 ("4QFY2019"), revenue was up 1.4% y/y to SGD4.1bn, however fuel costs was up by 8.0% y/y (~31% of total cost in 4QFY2019), wiping out the top line gains. In a sign of good cost control, total expenses (excluding fuel) had only increased by 2.1% y/y against an increase in overall passenger capacity of 8.0% y/y. We did not see SIA benefiting much from the lower spot prices during the quarter as 80% of fuel was hedged for 4QFY2019. In our view, this is indicative of the difficulties faced by airlines including SIA in hedging fuel given the high volatility in the past nine months. For FY2020, SIA has hedged ~69% of its fuel requirement, mainly in jet fuel at USD76/bbl. 4QFY2019 EBITDA (based on our calculations) was down 6.5% y/y although interest expense had increased to SGD28mn versus SGD22mn in 4QFY2018, resulting in still healthy though thinner EBITDA interest coverage of 22.3x (4QFY2018: 30.2x). The increase in interest expense was predominantly due to higher average debt balance in 4QFY2019.

- **Higher gross gearing with capex to push this higher:** SIA's unadjusted net gearing was 0.28x, slightly lower than the 0.31x in end-2018. Despite higher debt drawdown, SIA was able to receive cash in advance of services. We note that sales in advance of carriage and deferred revenue (eg: cash from KrisFlyer partners) had increased by ~SGD342mn collectively q/q while book value of equity had increased from positive net fair value changes on jet fuel hedges. On the back of higher total debt, gross gearing was higher at 0.49x as at 31 March 2019 versus 0.42x in end-2018 and 0.21x as at 31 March 2018. Apart from additional debt taken to fund SIA's largely aircraft related capex, debt was also used to fund dividend payments of SGD484.2mn for the full financial year. Rather than curtailing dividend payments, we expect dividend payout ratios to be consistent for FY2020 at ~52-53% while additional equity injection into Vistara is still possible. As at 31 March 2019, cumulative capex projections for FY2020 – FY2024 was still significant at SGD25.3bn, albeit had declined from SGD26.7bn (projections as at 30 September 2018) from assumptions of a weaker USD (ie: aircraft priced in USD) and delays in deliveries. Our base case assumes that SIA would need to fund at least half of its FY2020 projected capex spend of SGD6.1bn with debt, increasing gross gearing by at least 50%.

- **SQ and SilkAir did better:** Reported total operating profit in 4QFY2019 for SIA was SGD253.5mn (80% attributable to SQ-the parent airline which now includes cargo). While breakeven load factors were not provided directly, we estimate that SQ's passenger business was able to record a small positive spread of 0.3% over break-even load factor in 4QFY2019. SQ-cargo's load factor was lower at 58.8% in 4QFY2019 versus 62.9% in 4QFY2018. Cargo's positive spread had declined to 6.5% versus 10.2% in 4QFY2018, dragging operating profit down. On the plus side, SilkAir reported operating profit of SGD11mn. We estimate that SilkAir saw a positive 0.9% spread over its break-even load factor though Scoot reported an operating loss of SGD6mn driven by higher expenses from increased capacity though was insufficiently compensated by revenue growth. FY2019's reported operating profit was SGD1.1bn (down from SGD1.5bn in FY2018). Removing significant one-off items in FY2018, the y/y fall would have been at 18%. In our view, intense competition in the passenger segment is not abating and it is increasingly harder for SQ to justify premium pricing which makes other income streams crucial for the company's longer-term profitability.

- **Orders placed with Boeing so far intact:** Originally, SilkAir had expected to take delivery of nine 737 MAX 8s in the short term, out of total of 31 on order, which would allow SilkAir to transfer certain existing planes to Scoot. Given incidences in 3Q2018 and 1Q2019, 737 MAX 8s are still being grounded by Singapore and more than 50 countries. SIA's plane orders remain intact, though has been non-committal in terms of any compensation from Boeing due to the grounding (and conversely, any costs SIA may need to bear from related complications).

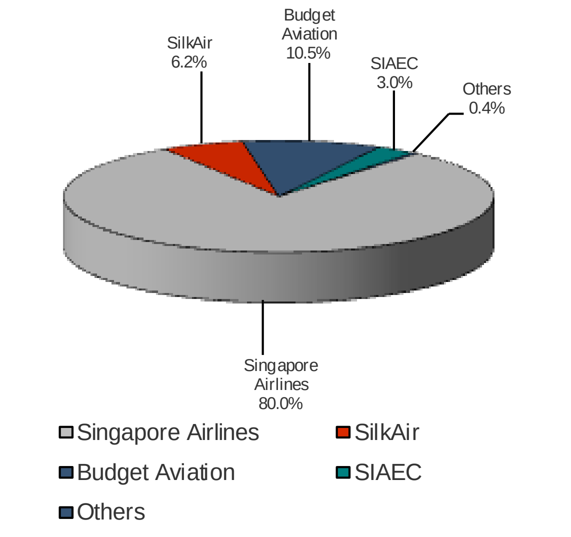
Singapore Airlines Ltd

Table 1: Summary Financials

Year End 31st Mar	FY2017	FY2018	FY2019
Income Statement (SGD'mn)	**SGD'mn**	**SGD'mn**	**SGD'mn**
Revenue	14,868.5	15,806.1	16,323.2
EBITDA	2,214.7	2,741.3	2,456.9
EBIT	622.8	1,548.8	1,067.1
Gross interest expense	46.1	89.8	116.1
Profit Before Tax	518.6	1,593.2	868.6
Net profit	441.9	1,345.5	721.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	3,380.5	2,568.3	2,944.0
Total assets	24,720.0	25,892.5	30,505.2
Short term debt	42.0	20.6	231.1
Gross debt	1,567.8	3,127.3	6,654.4
Net debt	net cash	559.0	3,710.4
Shareholders' equity	13,470.2	13,228.4	13,683.2
Cash Flow (SGD'mn)			
CFO	2,532.9	2,610.9	2,801.1
Capex	3,944.7	5,209.5	5,562.3
Acquisitions	225.3	93.8	251.1
Disposals	69.6	160.8	343.4
Dividend	558.9	298.4	484.2
Free Cash Flow (FCF)	-1,411.8	-2,598.6	-2,761.2
Key Ratios			
EBITDA margin (%)	14.90	17.34	15.05
Net margin (%)	2.97	8.51	4.42
Gross debt to EBITDA (x)	0.71	1.14	2.71
Net debt to EBITDA (x)	net cash	0.20	1.51
Gross Debt to Equity (x)	0.12	0.24	0.49
Net Debt to Equity (x)	net cash	0.04	0.27
Gross debt/total assets (x)	0.06	0.12	0.22
Net debt/total assets (x)	net cash	0.02	0.12
Cash/current borrowings (x)	80.49	124.67	12.74
EBITDA/Total Interest (x)	48.04	30.53	21.16

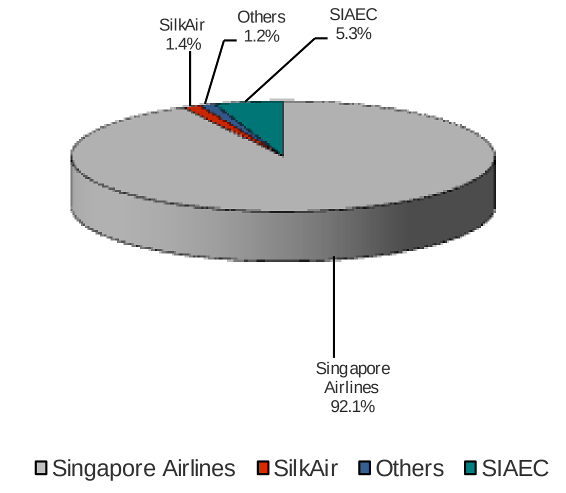
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2019



Source: Company | Excludes Eliminations

Figure 2: EBIT breakdown by Segment - FY2019



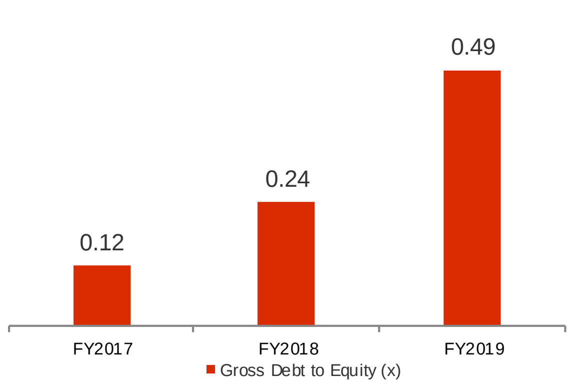
Source: Company | Excludes Eliminations and Budget Aviation (Loss-making)

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	223.0	3.4%
Unsecured	8.1	0.1%
	231.1	**3.5%**
Amount repayable after a year		
Secured	2,033.7	30.6%
Unsecured	4,389.6	66.0%
	6,423.3	**96.5%**
Total	**6,654.4**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Gross Debt to Equity (x)



Source: Company

Singapore Post Ltd

Credit Outlook – We like the SPOST curve. The SPOST 4.25%-Perp is offering a YTC of 3.06% for ~2 years 7 months despite being in a net cash position. SPOST 3.5% '20s matures in 9months and offers a yield of 2.06% which is decent though its perp is no doubt more attractive.

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 include logistics, e-commerce and property. Through Singapore Telecom Ltd ("Singtel") and a few other corporations, Temasek Holdings has an indirect interest of ~22% in SPOST. Alibaba Group Holdings is the 2nd largest shareholder with ~15% stake.

Key credit considerations

- **Exiting loss making US eCommerce business:** SPOST announced in April 2019 that it will exit Jagged Peak and TradeGlobal. The eCommerce segment recorded SGD51.9mn operating losses in the financial year ended 31 March 2019 ("FY2019") and SPOST is in the process of selling this segment, though the carrying value of the business had already been substantially impaired by SGD98.7mn (comprising SGD67.6mn for goodwill and intangible assets and SGD31.0mn for property, plant and equipment) in 4QFY2019 versus ~SGD250mn paid to buy these in Oct 2015. SPOST expects to continue to incur operating losses on these US businesses until it completes its exit. Operating profit is expected to improve post the sale.

- **Resilience in Post and Parcel segment:** The segment saw higher revenue (+4.1% y/y) and slightly better operating profit (+1.0% y/y) in FY2019, on the back of increased cross-border online shopping-related deliveries, as well as operating synergies from the integration of its domestic post and parcel divisions. Operating profit margin, however, dipped to 21.7% from 22.4% a year ago, dragged by 4QFY2019 results where operating profit margin was just 18.2%. This is largely in line with our expectations as SPOST had in the previous quarter mentioned efforts and measures to improve processes and service quality. These efforts – hiring of additional postmen and increasing incentive payments to meet the standards of delivery of mail brought about higher expenses. Separately, profit margin was also dragged by reduced non-core mail items such as advertisement mail. Overall, we think the above trend where revenue grows but operating profit margin slips may persist.

- **Firmness in Property segment:** In FY2019, revenue rose 13.5% y/y while operating profit gained 29.8% y/y, largely due to rental income from the SingPost Centre retail mall which opened in Oct 2017. Having recorded steadily stronger figures since the commencement of operations of the mall in October 2017, we think there is little room for organic growth and expects flattish figures going forward, especially with the opening of Paya Lebar Quarter which is located just 450 metres away. Both Post and Parcel and Property cumulatively account for ~161% of SPOST's operating income and more than offset the operating losses incurred by eCommerce.

- **Turnaround of Logistics continues, improvement observed:** Loss on operating activities in the Logistics segment narrowed from SGD10.6mn to SGD2.5mn in FY2019. This was largely due to a reduction in losses at Quantium Solutions after the exit of unfavourable contracts and successful implementation of cost rationalization. It is worth noting that FY2018 saw a doubtful debt provision of SGD5.2mn for a key customer, without which the losses on operating activities for FY2018 would have been ~50% lower. This segment remains overall loss making for SPOST and continues to be a work-in-progress. We may possibly see further improvements in the near future as there are benefits from the cost leadership program that will only be recognized in FY2020 while the one-time cost has already been incurred.

- **Defensive credit metrics:** In FY2019, net operating cash flow fell by 23.2% y/y, largely due to shortening of trade and other payable days as compared to the previous financial year. Free cash flow fell by a smaller extent of 11.2% y/y as lower capital expenditure was incurred given the SingPost Centre retail mall redevelopment has been completed. Having said that, SPOST remained in a strong net cash position of SGD101.3mn. Taking the perpetual (which rank pari passu with the claims of all its unsecured debt at the SPOST holding company level) as debt, we find adjusted net gearing slightly better at 0.15x at end March 2019 as compared to 0.16x a year ago, due to higher cash of SGD392mn versus SGD314mn at end March 2018. Based on our calculation though, EBITDA/Interest dipped to 18.8x from 19.3x a year ago given EBITDA fell more than interest expense. Having said that, SPOST's credit metrics remains intact.

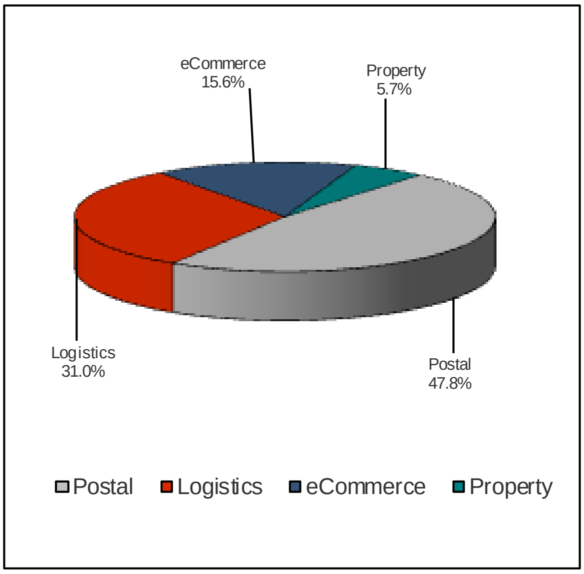
Singapore Post Ltd

Table 1: Summary Financials

Year End 31st Mar	FY2017	FY2018	FY2019
Income Statement (SGD'mn)	**SGD'mn**	**SGD'mn**	**SGD'mn**
Revenue	1,347.8	1,513.4	1,556.7
EBITDA	155.1	205.0	192.8
EBIT	104.1	145.7	134.9
Gross interest expense	5.7	10.8	10.3
Profit Before Tax	54.9	155.3	54.7
Net profit	29.7	124.6	26.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	366.6	314.1	392.2
Total assets	2,716.6	2,684.1	2,619.2
Short term debt	148.8	23.5	281.8
Gross debt	364.0	244.0	290.9
Net debt	net cash	net cash	net cash
Shareholders' equity	1,757.7	1,746.2	1,660.5
Cash Flow (SGD'mn)			
CFO	200.1	198.2	152.2
Capex	199.8	62.1	31.3
Acquisitions	1.3	0.5	0.4
Disposals	0.4	9.3	37.8
Dividend	134.4	60.2	94.6
Free Cash Flow (FCF)	0.3	136.1	120.9
Key Ratios			
EBITDA margin (%)	11.51	13.54	12.39
Net margin (%)	2.20	8.24	1.73
Gross debt to EBITDA (x)	2.35	1.19	1.51
Net debt to EBITDA (x)	net cash	net cash	net cash
Gross Debt to Equity (x)	0.21	0.14	0.18
Net Debt to Equity (x)	net cash	net cash	net cash
Gross debt/total assets (x)	0.13	0.09	0.11
Net debt/total assets (x)	net cash	net cash	net cash
Cash/current borrowings (x)	2.46	13.38	1.39
EBITDA/Total Interest (x)	27.34	19.04	18.78

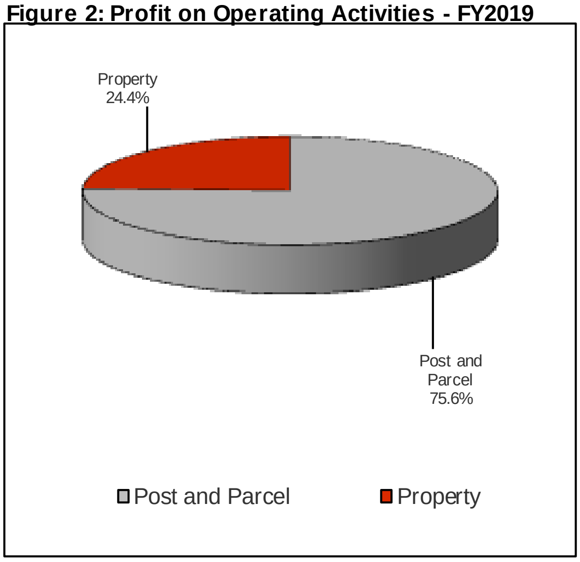
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2019



Source: Company | Excludes Inter-Segment Eliminations

Figure 2: Profit on Operating Activities - FY2019



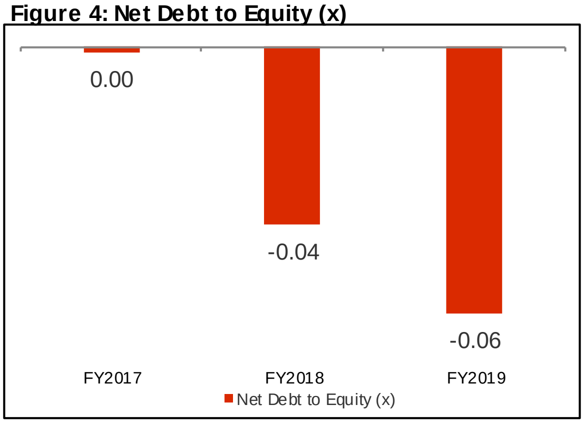
Source: Company | Excludes eCommerce, Logistics and Others (Loss-making)

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	1.7	0.6%
Unsecured	280.2	96.3%
	281.8	**96.9%**
Amount repayable after a year		
Secured	9.0	3.1%
Unsecured	0.0	0.0%
	9.0	**3.1%**
Total	**290.9**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We think the STSP curve looks rich amidst weakening profitability. Credit metrics may see further pressure with subscription to Airtel's rights.

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.

Singapore Telecommunications Ltd

Key credit considerations

- **Weaker results from all key segments:** 4QFY2019 reported EBITDA (excluding National Broadband Network ("NBN") migration revenues) fell 11.2% y/y to SGD1.08bn. This is due to weaker results in all major segments including Group Consumer (-6.5% y/y to SGD742mn) and Group Enterprise (-15.7% y/y to SGD379mn) while Group Digital Life continues to generate a small EBITDA loss of SGD18mn. This is not just a quarter of hiccup; reported EBITDA was down 7.0% y/y to SGD4.51bn for the full FY2019. SingTel projects reported EBITDA to remain stable going forward though we still see challenges in its core segments.

- **Continued pressure on Group Consumer especially in Singapore:** In Singapore, mobile service revenue continued to decline (-2.1% y/y to SGD249mn) due to post-paid ARPU declining 9.4% y/y with higher mix of SIM-only plans and lower voice revenues. Breaking trend from financial releases prior to 4QFY2019, SingTel no longer provides guidance for the Group Consumer segment into FY2020. We expect further deterioration in the Group Consumer segment going forward with intensifying competition. Offered plans by rivals include Circles Life (20GB for SGD18/mth), SingTel (20GB for SGD20/mth), M1 (30GB for SGD25/mth), TPG (2GB/day free). Australia Consumer segment is more stable with revenue up 8.9% y/y for 4QFY2019 (in AUD terms) on the back of 4G mobile subscribers growth (+5.9% y/y) which offset declines in ARPU (-2%) due to higher mix of SIM-only plans and price competition.

- **Slowdown in Group Enterprise:** Group Enterprise is no longer a good buffer against headwinds from Group Consumer. Reported EBITDA for Group Enterprise fell 15.7% y/y as the +3.6% y/y growth in ICT to SGD839mn (comprising Cyber security and business solutions) generates lower margins (low to mid-teens) compared to other segments such as Data and Internet (revenue: -6.7% y/y to SGD182mn), mobile service (-9.8% y/y to SGD182mn) and fixed voice (-17.4% y/y to SGD106mn). SingTel has attributed this to a cautious business environment. We think SingTel is also facing increased competition in the enterprise space with prices lower for renewal of major public sector ICT contracts. We think Group Enterprise segment may slowdown if the higher margin legacy services segments continue to decline. That said, SingTel is guiding the ICT segment to continue growing by low single digit.

- **Regional associates are key contributors though still weighed down by Airtel:** Airtel continues to deliver significant pre-tax losses of SGD143mn (4QFY2018 pre-tax loss: SGD8mn), continuing past quarter trend due to intense price competition. Despite the losses, SingTel is still increasing its exposure to Airtel by subscribing for USD525mn (SGD714mn) via Airtel's rights issue. That said, other regional associates appear to be stabilizing or doing well. Telkomsel saw pre-tax profits increase 2.3% y/y to SGD296mn with 5.7mn growth in customer base q/q following declines seen in 2018 (due to SIM card registration creating disruption). Globe pre-tax profits grew 45% y/y to SGD120mn. Collectively, stakes in the listed regional associates (Airtel, Telkomsel, AIS, Intouch, Globe) is worth SGD20.5bn as of 31 Mar 2019 and they contribute SGD389mn (42%) out of SGD919.1mn in SingTel's pre-tax profit.

- **Despite weaker profitability, credit metrics remains strong:** Reported net debt / (EBITDA + share of associates' pre-tax profits) remains stable at 1.6x q/q though weaker y/y (4QFY2018: 1.3x). Net gearing is also stable q/q at 24.9% with a still strong EBITDA/Total Interest of 11.4x as of FY2019. However, we think credit metrics may weaken somewhat as SingTel is subscribing to Airtel's rights amidst headwinds to its core business segments. Net debt may also rise as dividends represent 101% of reported underlying net profit (FY2018: 81%) while dividends from regional associates are expected to decline. That said, we understand that SingTel may monetize the stake in Amobee (via IPO) and note that Amobee has turned EBITDA positive in 4QFY2019 (+SGD4mn) and FY2019 (+SGD1mn).

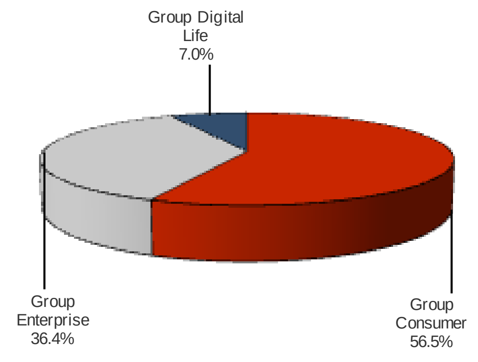
Singapore Telecommunications Ltd

Table 1: Summary Financials

Year End 31st Mar	FY2017	FY2018	FY2019
Income Statement (SGD'mn)			
Revenue	16,711.4	17,268.0	17,371.7
EBITDA	4,782.4	4,791.7	4,467.2
EBIT	2,543.5	2,541.7	2,245.0
Gross interest expense	374.3	390.2	392.8
Profit Before Tax	4,515.4	6,154.9	3,745.9
Net profit	3,831.0	5,451.9	3,071.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	533.8	524.9	512.7
Total assets	48,294.2	48,495.5	48,914.8
Short term debt	3,133.6	1,823.6	1,880.2
Gross debt	11,185.9	10,491.2	10,664.1
Net debt	10,652.1	9,966.3	10,151.4
Shareholders' equity	28,213.6	29,711.5	29,809.7
Cash Flow (SGD'mn)			
CFO	5,314.7	5,955.2	5,367.6
Capex	2,260.6	2,349.0	1,718.1
Acquisitions	2,476.7	936.7	584.2
Disposals	34.2	1,366.7	205.9
Dividend	2,820.5	2,862.0	2,862.0
Interest paid	-351.3	-379.9	-385.1
Free Cash Flow (FCF)	3,054.1	3,606.2	3,649.5
Key Ratios			
EBITDA margin (%)	28.6	27.7	25.7
Net margin (%)	22.9	31.6	17.7
Gross debt to EBITDA (x)	2.34	2.19	2.39
Net debt to EBITDA (x)	2.23	2.08	2.27
Gross Debt to Equity (x)	0.40	0.35	0.36
Net Debt to Equity (x)	0.38	0.34	0.34
Gross debt/total assets (x)	0.23	0.22	0.22
Net debt/total assets (x)	0.22	0.21	0.21
Cash/current borrowings (x)	0.17	0.29	0.27
EBITDA/Total Interest (x)	12.8	12.3	11.4

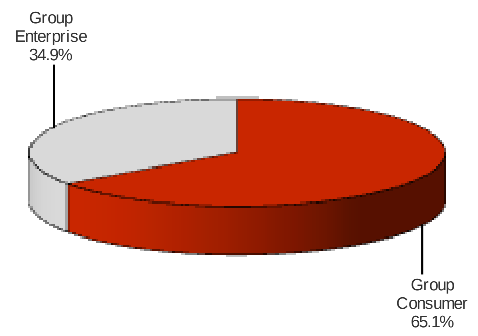
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2019



Source: Company | Excludes Corporate

Figure 2: EBITDA breakdown by Segment - FY2019



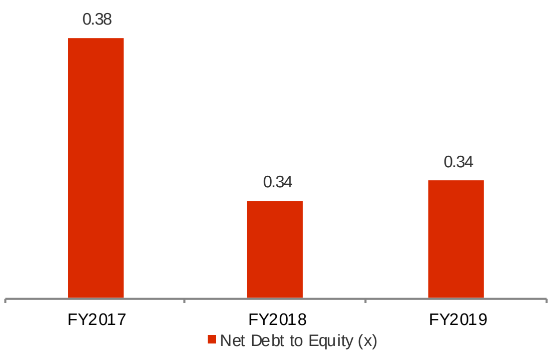
Source: Company | Excludes Corporate and Group Digital Life (loss-making)

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	34.0	0.3%
Unsecured	1,846.2	17.3%
	1,880.2	**17.6%**
Amount repayable after a year		
Secured	49.5	0.5%
Unsecured	8,734.4	81.9%
	8,783.9	**82.4%**
Total	**10,664.1**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We are overweight on the front end of SUN curve and neutral on the medium to longer end. We think SUNSP 3.35% '20s, SUNSP 3% '21s and SUNSP 3.025% '22s look somewhat attractive as they are offering between 2.78% to 2.93% yield for maturities between 2 to 2.75 years. Comparatively, SUNSP '23s (YTM: ~3%) and SUNSP 3.355 '25s (YTM: ~3.26%) look less appealing.

Issuer Profile: Neutral (4)

Ticker: **SUNSP**

Background

Suntec REIT ("SUN"), listed on SGX in 2004, owns retail and office real estate in Singapore and Australia. This includes "Suntec City" (Suntec City Mall, unit in Towers 1, 2 and 3 and whole of Towers 4 & 5), 60.8% of Suntec Singapore Convention & Exhibition Centre ("SSECE"), one-third interest in One Raffles Quay and Marina Bay Financial Centre Towers 1 & 2 and Marina Bay Link Mall and 30% interest in 9 Penang Road. SUN also holds 177 Pacific Highway in Sydney, as well as 50% interest in both Southgate and 477 Collins Street in Melbourne.

Suntec Real Estate Investment Trust

Key credit considerations

- **Mixed performance:** In the first quarter of 2019, SUN saw gross revenue slip by 1.1% y/y to SGD89.7mn, mainly due to lower revenue from the Convention segment (-12.6% y/y by SGD2.1mn) and 177 Pacific Highway due to the weaker AUD against SGD. This was partially offset by an increase in revenue from the retail arm in Suntec City (+5.5% y/y by SGD1.7mn). Net property income ("NPI") fell by a larger extent (-7.6% y/y) to SGD58.2mn. This was mainly attributable to the sinking fund contribution for Suntec City upgrading works (to be completed by end 2021) which amounted to SGD4.8mn in 1Q2019. Excluding the sinking fund contribution, SUN's NPI would have been flat y/y. Contributions from joint ventures (ORQ, MBFC Properties and Southgate Complex) increased 5.7% y/y, mainly due to the additional 25%-interest in Southgate Complex, which was more than offset by weakness seen at ORQ (-10.9% y/y) partly due to a 3.9% dip in occupancy to 96.1% from full occupancy a year ago.

- **Resilient office segment:** Office portfolio committed occupancy was largely stable at 98.9%, as compared to 99.1% in 1Q2018, with a tenant retention ratio of 80%. The small dip was due to lower occupancies at Suntec City Office and ORQ, though supported by stronger occupancies at Southgate Complex. Against the backdrop of a firm leasing market and tightening of supply in Singapore, we think there is demand for the vacated space at ORQ (from technology firms in particular) and also expects both occupancy and rental levels to improve. Balance of office leases expiring in 2019 looks manageable at 6.0% of total office NLA.

- **Retail pales in comparison:** Committed retail occupancy was 97.4% (1Q2018: 98.4%) and the tenant retention ratio for the retail portfolio was 39% in 1Q2019, versus 55% in 2018. The retail segment for SUN also has a balance of 19.0% of NLA that will be expiring in 2019. Even though the retail segment is less rosy than Office, Suntec City Mall did see a 3.3% y/y growth in footfall and a 1.3% y/y gain in tenant sales per sq ft. Furthermore, asset enhancement works at Basement 1 of Suntec City Mall is on track to complete in July 2019. Management has been strengthening the tenancy mix of the mall since 2018, and will continue to do so in 2019. We think the retail sector is no doubt challenging, but SUN has managed its portfolio well so far.

- **Raised equity funds, largely to pursue acquisitions**: SGD200mn of funds was raised via an equity private placement (net proceeds of ~SGD195.9mn after deducting transaction costs) in April 2019. ~SGD167.5mn of the gross proceeds is intended to be used to finance the purchase of Australian asset(s), while ~SGD28.4mn is intended for the refinancing of existing debt and/or funding asset enhancement and capital expenditure. In May 2018, SUN had increased its stake in Southgate Complex to 50% from 25%, the balance 50% stake for Southgate Complex is ~SGD350mn and in our view this fundraising may partly go towards the funding for the remaining 50%-stake.

- **Moderate credit profile:** Aggregate leverage was high at 38.6% at 1Q2019 (4Q2018: 38.1%) while interest coverage was 2.9x (4Q2018: 3.3x). Should SGD28.4mn of the funds raised via equity be used to repay debt, we find adjusted aggregate leverage lower at 38.3%. Despite its above average leverage level, SUN does not have any maturing borrowings for the remaining three quarters of the year and just SGD310mn worth of debt coming due in 2020, versus the SGD122mn cash it has on hand as at end March 2019. As such, we are not overly concerned about its debt levels.

- **Projects under development:** 9 Penang Road, Singapore (Grade A office building) is on track to complete in 4Q2019. It is ~81% constructed at March 2019 and 100% pre-leased to UBS (who will move out of ORQ and Suntec City) with a targeted occupation in 2H2020. 477 Collins Street which SUN holds a 50%-stake in will be a freehold premium office building in Melbourne CBD. It is estimated to complete in mid-2020 (~61% completed at March 2019). SUN had also on 1st July acquired 21 Harris Street, Sydney for ~SGD114.2mn, with expected fees for development of ~ SGD170.9mn.

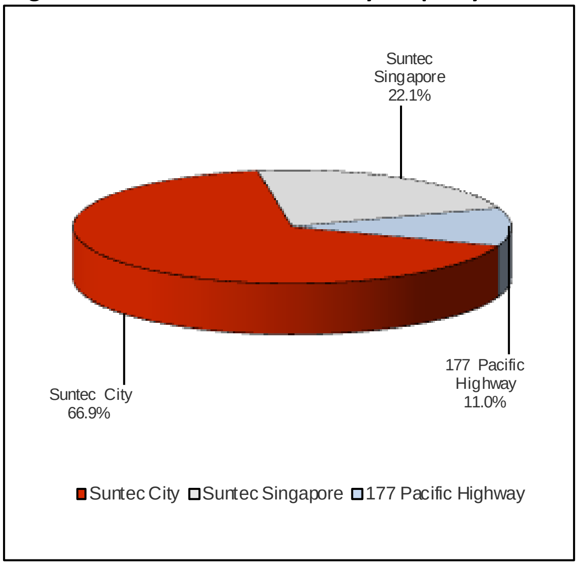
Suntec Real Estate Investment Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1Q2019
Income Statement (SGD'mn)			
Revenue	354.2	363.5	89.7
EBITDA	195.6	190.4	45.5
EBIT	194.4	189.3	45.3
Gross interest expense	96.7	98.2	26.6
Profit Before Tax	247.3	331.1	39.8
Net profit	229.0	318.2	38.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	172.7	136.7	121.9
Total assets	9,241.6	9,512.4	9,537.4
Short term debt	237.0	513.8	754.0
Gross debt	3,230.9	3,491.8	3,548.7
Net debt	3,058.2	3,355.2	3,426.8
Shareholders' equity	5,767.0	5,768.1	5,743.2
Cash Flow (SGD'mn)			
CFO	226.6	210.3	46.3
Capex	25.8	37.0	23.9
Acquisitions	53.1	174.9	3.7
Disposals	0.0	0.0	0.0
Dividends	263.1	273.7	71.2
Interest paid	82.3	94.6	30.3
Free Cash Flow (FCF)	200.8	173.3	22.5
Key Ratios			
EBITDA margin (%)	55.22	52.37	50.72
Net margin (%)	64.66	87.53	42.95
Gross debt to EBITDA (x)	16.52	18.34	19.51
Net debt to EBITDA (x)	15.64	17.63	18.84
Gross Debt to Equity (x)	0.56	0.61	0.62
Net Debt to Equity (x)	0.53	0.58	0.60
Gross debt/total asset (x)	0.35	0.37	0.37
Net debt/total asset (x)	0.33	0.35	0.36
Cash/current borrowings (x)	0.73	0.27	0.16
EBITDA/Total Interest (x)	2.02	1.94	1.71

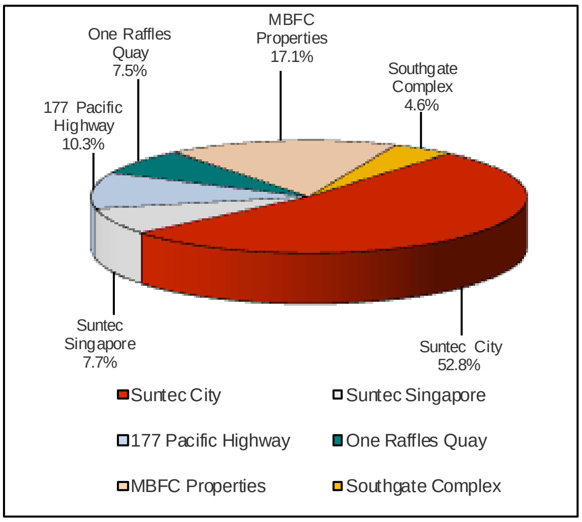
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - 1Q2019



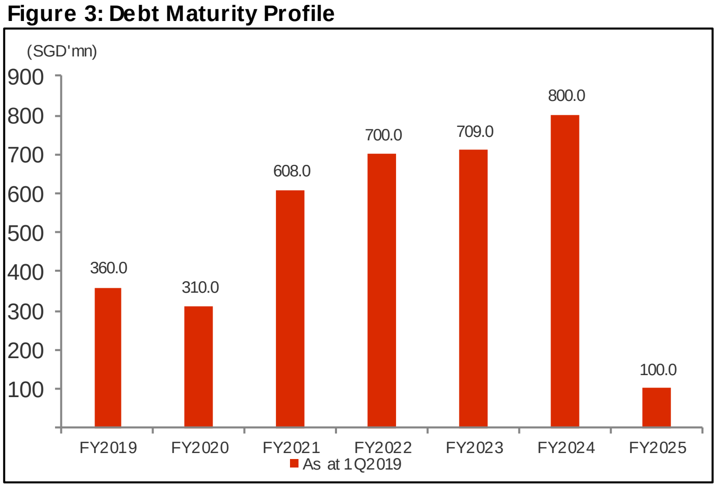
Source: Company

Figure 2: NPI breakdown by Property - 1Q2019



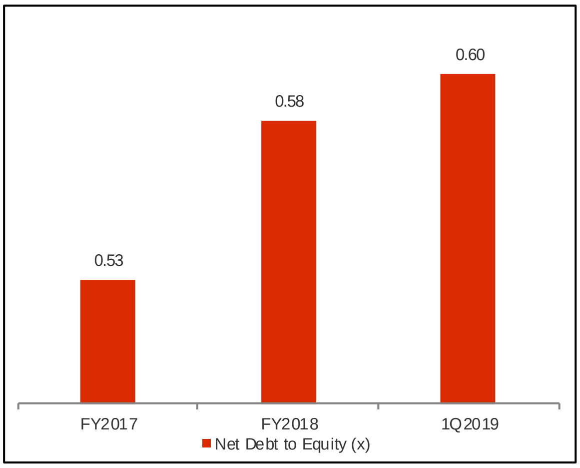
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Financial Institution Issuers to Watch

Credit Outlook – Future profitability will be tested by economic and industry developments going forward although the strong regulatory environment, past repositioning strategies and a solid capital position hold ANZ in good stead. The ANZ 3.75% '27c22s continue to be better value against other Aussie Tier 2 SGD papers.

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 2019, the bank had total assets of AUD980.2bn.

Australia & New Zealand Banking Group Ltd

Key credit considerations

- **Industry pressures apparent but underlying performance still decent:** 1HFY2019 statutory profits indicate both current operating conditions and implementation of ANZ's strategy with profit before income tax down 15% y/y to AUD4.54bn. Driving the performance was a 9% y/y fall in operating income to AUD9.29bn driven by a 31% y/y fall in other operating income. Net interest income was also weaker (albeit marginally, down 1% y/y) from lower net interest margins that offset growth in gross loans and advances. The weaker operating income overshadowed a 2% y/y fall in operating expenses due to lower personnel and technology expenses. As such, profit before credit impairments and income tax fell 15% y/y to AUD4.93bn. H/h trends however are more constructive with profit before credit impairment and income tax up 2% h/h. This was driven entirely by a 11% h/h fall in operating expenses (absence of accelerated software amortisation charges and lower customer remediation, restructuring and legal expenses). Otherwise, operating income performance continues to be soft, down 5% h/h due to the fall in other operating income. Underlying performance however appears more constructive with cash profit (which excludes non-core items) before income tax stable y/y at AUD4.99bn.

- **Credit quality trends need to be watched:** Credit quality indicators appear solid with overall credit impairment charges falling 3.7% y/y on lower new and increased individual impairments. While credit impairments rose 40.4% h/h, this was due to lower write backs and recoveries h/h with overall new and increased impairments also lower h/h. Overall gross impaired assets remain constant at AUD2.0bn compared to 1H2018 and 2H2018 while the gross impaired assets to gross loans and advances ratio was broadly stable on a y/y and h/h basis. While recent developments including Australia's elections and Australian Prudential Regulation Authority's ("APRA") proposed revision to serviceability assessments on residential mortgage loan applications appear supportive for Australia's housing outlook, the sector continues to see some strain with 90+ day delinquency rate continuing to edge higher and accelerating in 1HFY2019, likely necessitating the higher credit impairments. Credit quality trends will need to be monitored with the total credit impairment charge as a percentage of average gross loans and advances at 0.13% as at 31 March 2019, marginally down from 0.14% as at 31 March 2018 and the ratio of individual provisions to gross impaired assets down to 44.1% from 50.0% over the same period.

- **Institutional Division holding the fort:** By segment contribution for 1HFY2019, ANZ's institutional segment saw profit before provisions rise 22% y/y due to loans growth, cost reduction and lower provisions while the New Zealand division profit before provisions rose 1% y/y on home lending growth. Conversely, the Australia division saw an 8% y/y decline in profit before provisions due to lower loans and advances while net interest margins also fell despite loan re-pricing from a shift in product mix to principal and interest loans, higher funding costs and competition. Provisions in the Australia division also increased 27% y/y and as a result cash profits after provisions fell 12% y/y.

- **Capital position remains best in class:** ANZ's capital position remains solid and well above APRA's minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios in Australia's banking sector (comes into force January 2020). Its APRA CET1 ratio improved to 11.5% as at 31 March 2019 against 11.4% as at 30 September 2018 and 11.0% as at 31 Mar 2018. Y/y improvement was driven by capital generation which offset dividends paid and AUD3bn in share buyback. On an internationally comparable basis, the CET1 ratio improved to 16.9% against 16.8% as at 31 September 2018 and 16.3% as at 31 March 2018. Its APRA compliant leverage ratio was at 5.4% as at 31 March 2019, above APRA's proposed minimum leverage ratio requirement for internal ratings-based approaches of 3.5%. On an internationally comparable basis, the leverage ratio was 6.0% as at 31 March 2019.

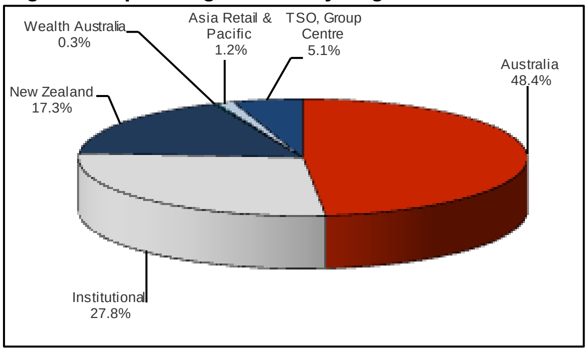
Australia & New Zealand Banking Group Ltd

Table 1: Summary Financials

Year Ended 30th Sep	FY2017	FY2018	1H2019
Income Statement (AUD'mn)			
Net Interest Income	14,875	14,514	7,299
Non Interest Income	4,223	5,134	1,863
Operating Expenses	8,967	9,248	4,365
Pre-Provision Operating Profit	10,131	10,400	4,797
Provisions	1,198	688	392
Other Income/(Expenses)	300	183	131
PBT	9,233	9,895	4,536
Income Taxes	2,874	2,784	1,284
Net Income to Common Shareholders	6,406	6,400	3,173
Balance Sheet (AUD'mn)			
Total Assets	897,326	943,156	980,244
Total Loans (net)	574,331	604,438	609,255
Total Loans (gross)	583,444	607,813	613,269
Total Allowances	3,798	3,443	4,269
Total NPLs	2,118	1,676	1,697
Total Liabilities	838,251	883,751	920,273
Total Deposits	595,611	618,150	634,989
Total Equity	59,075	59,405	59,971
Key Ratios			
NIM	1.99%	1.87%	1.79%
Cost-income Ratio	46.1%	51.6%	48.6%
LDR	96.4%	97.8%	95.9%
NPL Ratio	0.36%	0.28%	0.28%
Allowance/NPLs	179.3%	205.4%	251.6%
Credit Costs	0.21%	0.11%	0.13%
Equity/Assets	6.58%	6.30%	6.10%
CETier 1 Ratio (Full)	10.6%	11.4%	11.5%
Tier 1 Ratio	12.6%	13.4%	13.4%
Total CAR	14.8%	15.2%	15.3%
ROE	11.00%	10.90%	10.80%
ROA	0.70%	0.68%	0.65%

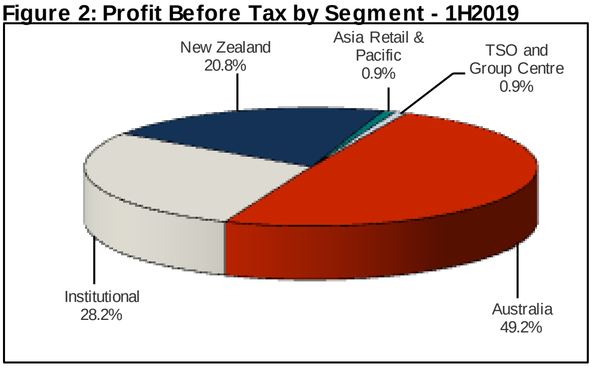
Source: Company

Figure 1: Operating Income by Segment - 1H2019



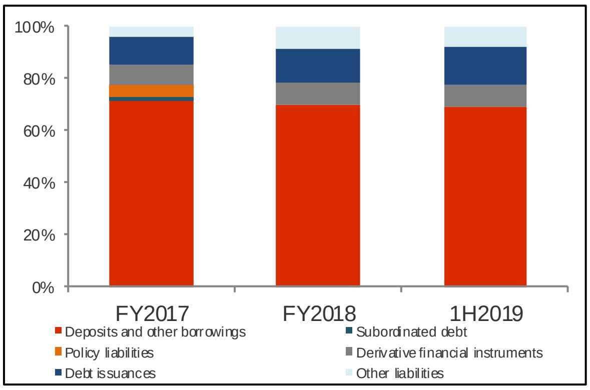
Source: Company

Figure 2: Profit Before Tax by Segment - 1H2019



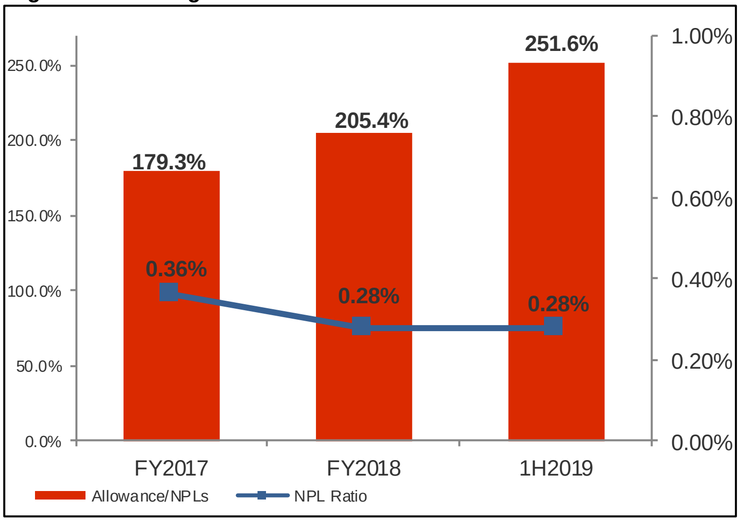
Source: Company | Excludes Wealth Australia which was loss-making

Figure 3: Liabilities Composition



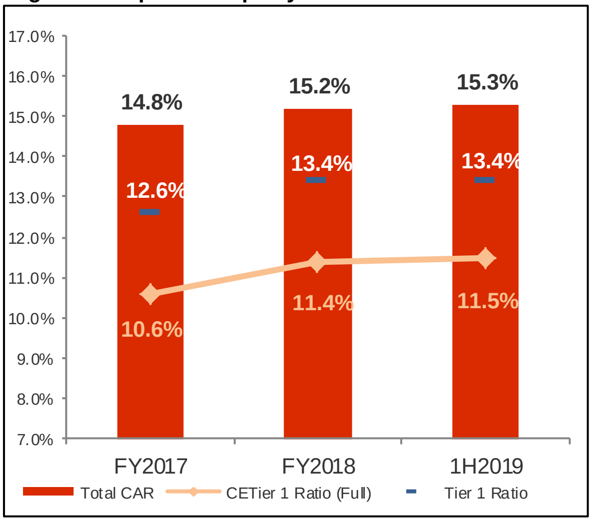
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Fundamentals for DBS continue to support earnings and capital strength against the prospect of lower rates and potentially slower demand for credit. With underlying fundamentals for other banks in our coverage sound in our view, we look to other names in the bank capital space for higher yield.

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 SGD558.5bn as at 31 March 2019, it provides diversified services across consumer banking, wealth management institutional banking, and treasury. It is 30% indirectly owned by the Singapore government through Temasek Holdings Pte Ltd as of 5th July, 2019.

DBS Group Holdings Ltd

Key credit considerations

- **Powering on:** DBS announced record 1Q2019 results with total income up 6% y/y. This was driven by continued strong net interest income growth of 9% y/y (net interest margin rose to 1.88% from 1.83% a year ago on higher rates as well as loans growth). Elsewhere, net fee and commission income was down 2% y/y due to lower wealth management, brokerage and investment banking fees following a high base in 1Q2018 while other non-interest income was up 5% y/y due to higher trading income and net gains on investment securities. Net trading income recovery was also strong compared to 4Q2018, up 93% q/q. Overall q/q performance was stronger compared to y/y with total income up 9% q/q due to better performance in net fee and commission income (+15% q/q on higher wealth management fees) and other non-interest income (+83% q/q).

- **Income performance offsetting costs:** Expenses rose 7% y/y due to higher staff, occupancy and computerisation costs however allowances for credit and other losses fell 54% y/y and as a result, profit before tax ("PBT") rose 10% y/y to SGD1.98bn. With regards the allowances, the improvement was driven entirely by a SGD100mn writeback for stage 1 and 2 expected credit losses (or general provisions) on an expected improvement in portfolio credit quality. Otherwise stage 3 expected credit losses (or specific provisions) rose 10% y/y driven by stage 3 expected credit losses for contingent items. Stage 3 expected credit losses on loans fell 20% y/y in line with management's view of better portfolio credit quality and improved external conditions. Q/q trends were similar with solid expense performance despite growth in total income (expenses stable q/q) while allowances for credit and other losses fell 63% q/q due to a 40% q/q fall in specific allowances, mostly for Hong Kong and Greater China loans.

- **Broad based segment performance continues:** All business segments reported improved PBT y/y in particular Treasury Markets which saw PBT up 35.7% y/y. Consumer Banking/Wealth Management PBT was also up 15.2% y/y while Institutional Banking improvement appears to be the main driver of overall PBT performance, up 21.6% y/y on higher cash management and loan-related income which mitigated weaker trade finance and treasury customer activities and a write-back in general allowances. Q/q trends also showed broad based improvement and highlight the different underlying fundamentals for each business segment with solid performance in Consumer Banking/Wealth Management (+22.5% q/q) and Institutional Banking (+24.6% q/q) and a strong recovery in the volatile Treasury Markets business (+381% q/q).

- **Balance sheet continues to grow**: DBS' balance sheet continues to grow with customer loans up 6% y/y and 1% q/q. Loans growth was concentrated in non-trade corporate loans which rose 7.4% y/y while Consumer Banking/Wealth Management loans grew 2.8% y/y. In line with the lower allowances for credit and other losses, the non-performing loan ratio improved y/y and was stable q/q at 1.5% as at 31 March 2019. Non-performing loans were stable while overall loans rose. Trends within this appear constructive with lower new non-performing asset formation in 1Q2019 against average quarterly new non-performing asset formation for FY2018. Overall non-performing asset coverage has improved y/y and q/q to 100% (181% coverage of unsecured non-performing assets).

- **Improved capital despite growth momentum:** DBS's capital position remains strong with its fully phased in CET1 ratio of 14.1% as at 31 March 2019 (14.0% as at 31 March 2018; 13.9% as at 31 December 2018). This was due to earnings growth outpacing risk weighted assets growth from asset growth and accounting changes. The ratio remains above minimum CET1 requirements of 9.4% as at 31 March 2019 which includes a capital conservation buffer of 2.5%, a countercyclical capital buffer of 0.4%, and a domestic-systemically important buffer of 2.0%. We expect capital generation to remain sound despite a weaker operating outlook given its solid and diversified business franchise.

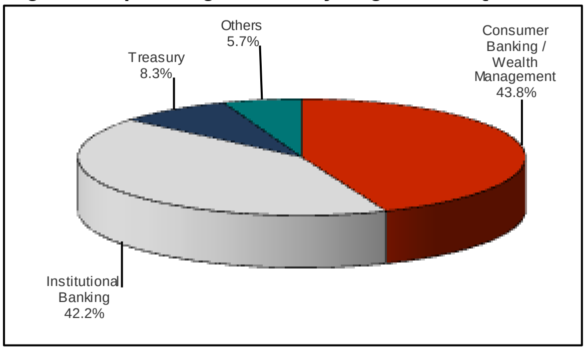
DBS Group Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1Q2019
Income Statement (SGD'mn)			
Net Interest Income	7,791	8,955	2,310
Non Interest Income	4,483	4,228	1,241
Operating Expenses	5,205	5,814	1,498
Pre-Provision Operating Profit	7,069	7,369	2,053
Provisions	1,894	710	76
Other Income/(Expenses)	0	0	0
PBT	5,175	6,659	1,977
Income Taxes	671	1,006	316
Net Income to Common Shareholders	4,371	5,577	1,651
Balance Sheet (SGD'mn)			
Total Assets	517,711	550,751	558,525
Total Loans (net)	323,099	345,003	347,061
Total Loans (gross)	327,769	349,645	351,773
Total Allowances	4,670	4,642	4,712
Total NPLs	5,517	5,251	5,241
Total Liabilities	467,909	500,876	506,914
Total Deposits	373,634	393,785	394,995
Total Equity	49,802	49,875	51,611
Key Ratios			
NIM	1.75%	1.85%	1.88%
Cost-income Ratio	43.0%	44.0%	42.2%
LDR	86.5%	87.6%	87.9%
NPL Ratio	1.68%	1.50%	1.49%
Allowance/NPLs	84.6%	88.4%	89.9%
Credit Costs	0.58%	0.20%	0.09%
Equity/Assets	9.62%	9.06%	9.24%
CETier 1 Ratio (Full)	14.3%	13.9%	14.1%
Tier 1 Ratio	15.1%	15.1%	15.2%
Total CAR	15.9%	16.9%	17.0%
ROE	9.70%	12.10%	14.00%
ROA	0.89%	1.05%	1.21%

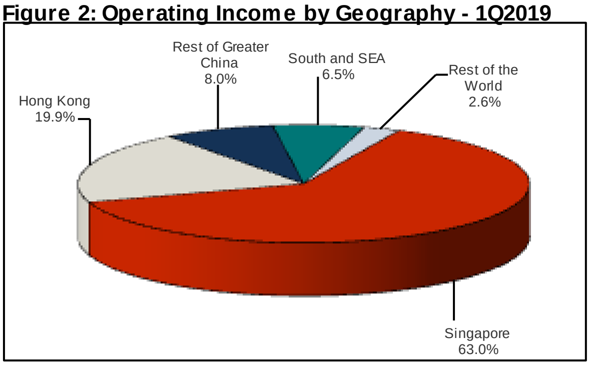
Source: Company

Figure 1: Operating Income by Segment - 1Q2019



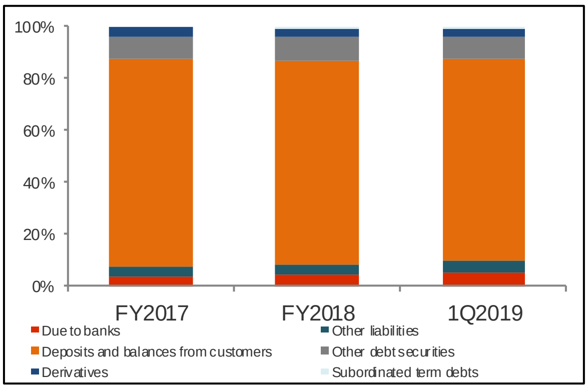
Source: Company

Figure 2: Operating Income by Geography - 1Q2019



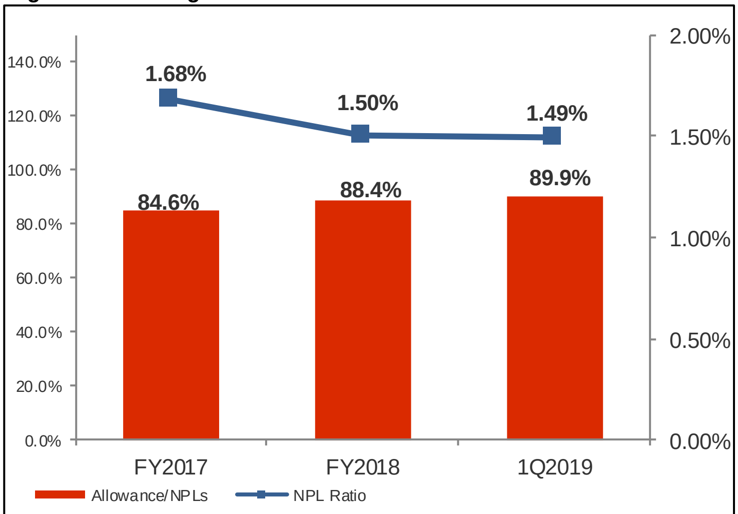
Source: Company

Figure 3: Liabilities Composition



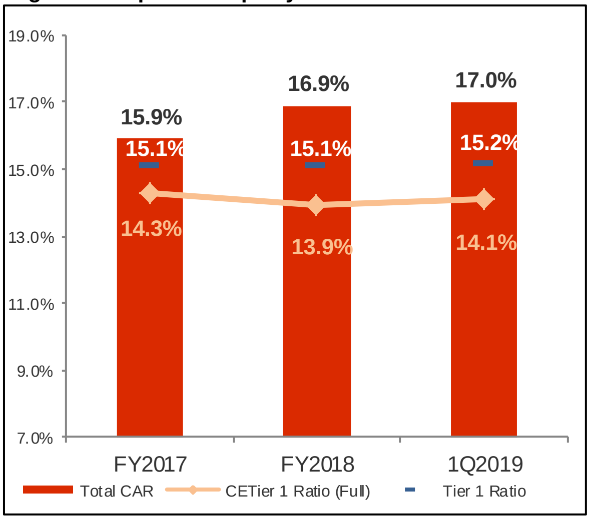
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – HSBC's size and operating diversity continues to be key credit strengths in our view and supports its fundamentals despite an expected slowdown in its major economies. We continue to like the HSBC 4.7% PERPc22s against the HSBC 5.0% PERPc23s given the better spread against tenor and higher reset spread.

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 2019, it had total assets of USD2,659.0bn.

HSBC Holdings PLC

Key credit considerations

- **Strength in numbers**: HSBC announced a solid set of results for 1Q2019 with profit before tax up 31% y/y to USD6.2bn. Driving the performance was a 5% y/y improvement in revenue (mostly in Asia) and a 12% y/y fall in operating expenses. Most of the reduction in expenses was due to the USD0.9bn in legal and regulatory settlements recognized in 1Q2018. That said, underlying expense performance was still solid despite on-going investment for growth and digitisation. Revenues were driven by balance sheet growth and better margins from higher interest rates in Retail Banking and Wealth Management while Commercial Banking performance continues to be supported by Global Liquidity and Cash Management as well as lending. Global Private Banking revenue was down 4% y/y on repositioning as well as lower revenue in Switzerland that was partially offset by better performance in Asia. Revenue growth mitigated a significant rise in expected credit losses and other credit impairment charges to USD585mn (from USD170mn in 1Q2018). This was due to individual stresses within UK Commercial Banking, higher allowances to reflect the uncertain UK outlook from Brexit and inclusion of net releases in 1Q2018.

- **Segment contribution:** Segment wise, the above translated to Commercial Banking adjusted profit before tax down 0.7% y/y as expected credit losses slightly more than offset revenue growth (segment profit before tax rose 20.3% q/q from higher insurance and global markets product revenue in Asia). Global Banking & Markets performance was stable y/y as higher revenue was offset by business investment (up 133% q/q due to seasonal influence on client activity which was weak in 4Q2018) while Retail Banking and Wealth Management was up 18.9% y/y due to the aforementioned revenue growth (+64.8% q/q from insurance and investment distribution revenue growth). Retail Banking and Wealth Management is now the largest contributor to overall adjusted profit before tax at 35.1% in 1Q2019, while Commercial Banking (previously the largest) contributed 31.7% and Global Banking and Markets contributed 25.8%.

- **Asia in focus**: By region, Asia continues to be the main driver of HSBC's performance contributing 79% of total adjusted profit before tax. This is not by accident with HSBC's current strategy centred on eight strategic priorities, first of which is to accelerate growth from HSBC's Asian business. This has seen solid revenue performance in Hong Kong, mainland China and the Pearl River Delta and an ongoing focus on supporting projects tied to China's Belt and Road Initiative. Other strategic priorities include gaining market share in HSBC's international network, turning around its US business and transforming the bank through investment in technology. Three of the eight priorities are targeted for growth while two are aimed at improving profitability to create capacity to fulfill a further two priorities that deal with increasing investment. While there appears solid progress to date, rising challenges on the horizon from the ongoing trade war and slowing global economic growth may necessitate a strategic rethink, especially with the current strategic plan targeted to end in 2020.

- **Balance sheet growth/growth ambitions mitigated by capital position**: Given its growth ambitions, HSBC's balance sheet continued to expand in 1Q2019 with total assets up 3.9% q/q (+2.6% y/y). This was driven by 2.3% q/q (+2.4 y/y) growth in lending, mostly in Hong Kong within Global Private Banking and Retail Banking. Loans also grew in Europe with most from HSBC UK. Although this and implementation of IFRS16 led to growth in risk weighted assets, HSBC's capital position improved due to strong capital generation as well favourable currency and other movements with its CET1 ratio of 14.3% as at 31 March 2019 (14.0% as at 31 December 2018). This remains well above expected minimum capital requirements which have risen in 2019 due to step ups in bank specific additional CET1 buffer requirements. While aforementioned risks may constrain future capital growth, we continue to see HSBC's size and operating diversity along with its solid capital position as enduring key credit strengths.

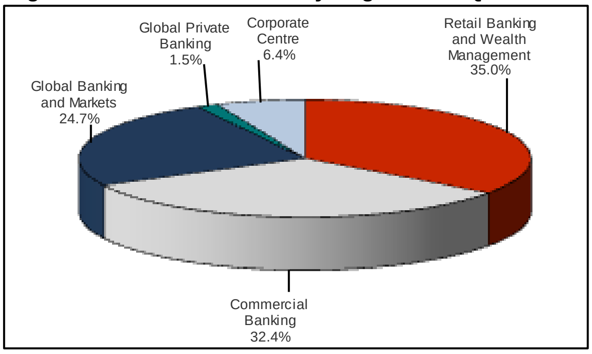
HSBC Holdings PLC

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1Q2019
Income Statement (USD'mn)			
Net Interest Income	28,176	30,489	7,468
Non Interest Income	23,269	23,291	6,960
Operating Expenses	34,884	34,659	8,222
Pre-Provision Operating Profit	16,561	19,121	6,206
Provisions	1,769	1,767	585
Other Income/(Expenses)	2,375	2,536	592
PBT	17,167	19,890	6,213
Income Taxes	5,288	4,865	1,303
Net Income to Common Shareholders	10,798	13,727	4,888
Balance Sheet (USD'mn)			
Total Assets	2,518,430	2,558,124	2,658,996
Total Loans (net)	949,737	981,696	1,005,279
Total Loans (gross)	959,080	990,321	1,013,829
Total Allowances	9,343	8,625	8,550
Total NPLs	13,882	13,023	13,016
Total Liabilities	2,322,206	2,363,875	2,462,668
Total Deposits	1,360,227	1,362,643	1,356,511
Total Equity	196,224	194,249	196,328
Key Ratios			
NIM	1.63%	1.66%	1.59%
Cost-income Ratio	67.8%	64.4%	57.0%
LDR	69.8%	72.0%	74.1%
NPL Ratio	1.45%	1.32%	1.28%
Allowance/NPLs	67.3%	66.2%	65.7%
Credit Costs	0.18%	0.18%	0.23%
Equity/Assets	7.79%	7.59%	7.38%
CETier 1 Ratio (Full)	14.6%	14.0%	14.3%
Tier 1 Ratio	17.4%	17.0%	17.3%
Total CAR	21.0%	20.0%	20.2%
ROE	5.90%	7.70%	10.20%
ROA	0.44%	0.54%	0.74%

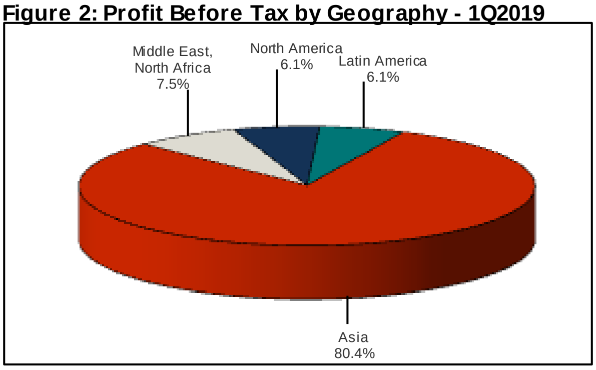
Source: Company

Figure 1: Profit Before Tax by Segment - 1Q2019



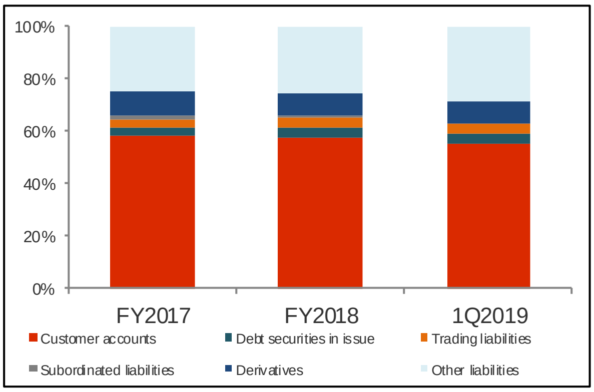
Source: Company

Figure 2: Profit Before Tax by Geography - 1Q2019



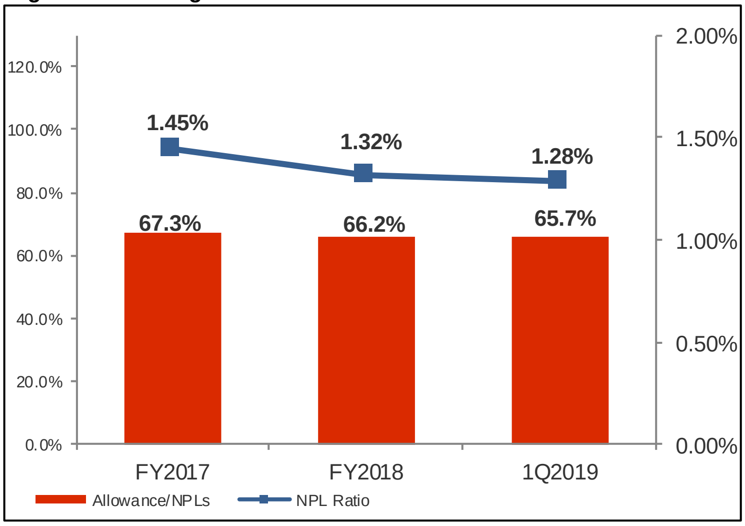
Source: Company| Excluding Europe which was loss-making

Figure 3: Liabilities Composition



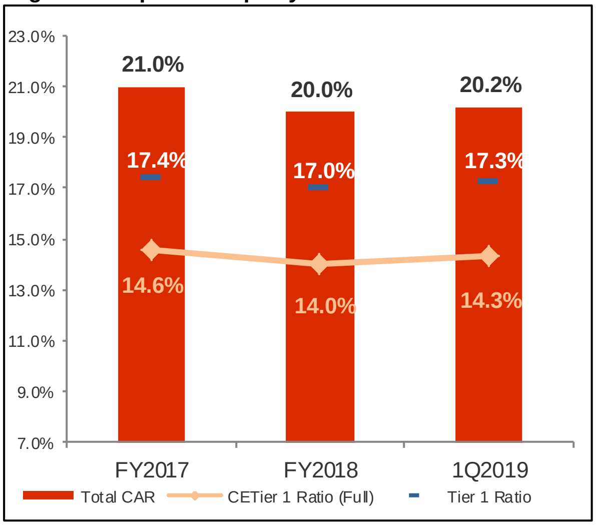
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – We have fewer questions on JBG's credit profile compared to January although its transition period continues. We remain overweight the BAERVX 5.90% PERPc20s which still remains good value in the SGD European AT1 bank capital space.

Issuer Profile: Neutral (3)

Ticker: **BAERVX**

Background

Present in over 60 locations and 25 countries, Julius Baer Group Ltd. ("JBG") offers private banking services mainly through Bank Julius Baer & Co. Ltd. Headquartered in Zurich, its services include wealth management, financial planning and investments and mortgages and other lending. As at 31 December 2018, JBG had total client assets of CHF443.9bn. As at 30 April, 2019, it had assets under management of CHF427bn.

Julius Baer Group Ltd

Key credit considerations

- **Undergoing transition:** Since previous CEO Boris Collardi resigned to join rival Pictet Group in November 2017, JBG has been in transition. This has included expected and unexpected leadership and management changes with a new chairman in Romeo Lacher (following previous chairman Daniel Sauter's decision not to seek re-election) and the commencement of succession planning for its current CEO and former chief risk officer Bernhard Hodler. Mixed with high level management changes have been staff movements including the departure of JBG's market head of Brazil along with 6-7 relationship managers in 1Q2019 and the defection of JBG's Head of Middle East Markets along with seven other private bankers in December 2018 to Pictet Group. This highlights the strong influence of staff movements in the competitive world of Private Banking which is based as much on brand and platform as it is on people and relationships.

- **Strategy adjustments to focus on the long term:** Although previous strategic growth has reaped benefits, management changes as well as challenging operating conditions has necessitated an adjustment to JBG's strategy. In particular, management has turned from growth towards cost reduction to protect margins, a reversal from previous years with heavy investment in technology and new relationship managers to expand JBG's international platform and scale in Asia's competitive private banking landscape. Management have indicated that the benefits of the cost reduction program are yet to be seen and will occur in 2H2019 and 2020 although associated costs, particularly in relation to headcount reduction, were mostly recognized in 4M2019 results. That said, JBG's long term strategy to grow a sustainable private banking business mostly through organic growth and supplemented by opportunistic acquisitions remains. Key elements include rationalizing its network (expanding presence in Brazil, Germany and the UK, strategic cooperation agreements in Thailand and Japan, closing or selling offices in Peru, Panama, and the Netherlands and reviewing its Italian subsidiary Kairos), growing the share of assets under management held in discretionary or advisory mandates, and implementing technology to improve productivity, scalability and efficiency. Medium term financial targets include net new money organic growth 4-6% per annum, a cost to income ratio below 68% and a pre-tax margin of 25-28bps and a return on common equity Tier 1 of more than 32%.

- **Recovery in recent results:** Strategic actions to address the challenging operating environment that impacted FY2018 results were partially seen in JBG's recent interim management statement for the 4 months ended 30 April 2019. Assets under management rose 12% year to date to a record CHF427bn. Contributing to the growth was solid market performance, favourable currency impacts along with net new money inflows and the consolidation of NSC Asesores in Mexico following the acquisition of an additional 30% stake in early March 2019. Growth in net new money came from wealth management clients in Europe and Asia and offset net outflows from Kairos, client exits and persisting negative interest rates. Client activity increased and brokerage commissions improved in Asia. Together with better performance fees from Kairos, the overall gross margin improved to 82bps from 79.6bps in 2H2018 while the cost to income ratio also improved to below 73% for 4M2019 (74.3% in 2H2018).

- **Capital ratios still a cushion:** JBG's capital ratios remain sound with its CET1 ratio at 13.1% as at 30 April 2019, up 30bps against 31 December 2018 (12.8%) despite the first time consolidation of NSC Asesores. Its total capital ratio also improved to 19.2% as at 30 April 2019, up 50bps against 31 December 2018 (18.7%). Both ratios remain above JBG's own floor of 11% for CET1 (and above the regulatory minimum of 8.1%) and 15.0% for total capital (and above the regulatory minimum of 12.3%). Although JBG's situation may continue to evolve, we expect fundamentals to remain largely sound driven by its capital position, which will be enhanced following the recent issuance of CHF325mn in Additional Tier 1 capital.

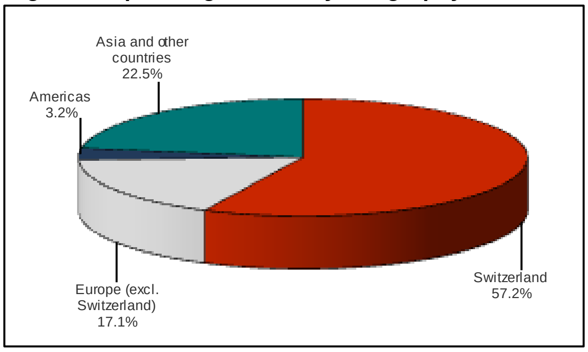
Julius Baer Group Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	FY2018
Income Statement (CHF'mn)			
Net Interest Income	877	988	919
Non Interest Income	1,975	2,265	2,449
Operating Expenses	2,080	2,329	2,462
Pre-Provision Operating Profit	773	923	906
Provisions	20	37	12
Other Income/(Expenses)	0	0	0
PBT	753	887	894
Income Taxes	130	171	159
Net Income to Common Shareholders	619	705	735
Balance Sheet (CHF'mn)			
Total Assets	96,207	97,918	102,898
Total Loans (net)	38,419	46,624	45,323
Total Loans (gross)	38,491	46,656	45,355
Total Allowances	79	30	31
Total NPLs	83	64	73
Total Liabilities	90,853	92,064	96,857
Total Deposits	67,495	67,637	71,506
Total Equity	5,354	5,854	6,042
Key Ratios			
NIM	1.69%	1.72%	1.50%
Cost-income Ratio	68.9%	69.0%	70.6%
LDR	56.9%	68.9%	63.4%
NPL Ratio	0.22%	0.14%	0.16%
Allowance/NPLs	95.0%	46.6%	43.1%
Credit Costs	0.05%	0.08%	0.03%
Equity/Assets	5.56%	5.98%	5.87%
CETier 1 Ratio (Full)	16.4%	16.7%	12.8%
Tier 1 Ratio	17.1%	21.6%	18.4%
Total CAR	17.5%	22.0%	18.7%
ROE	12.10%	12.80%	12.50%
ROA	0.69%	0.73%	0.73%

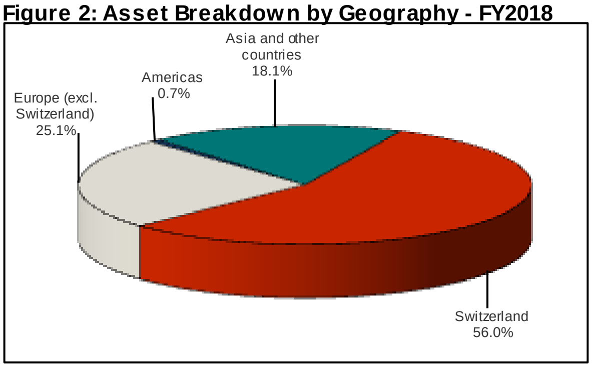
Source: Company

Figure 1: Operating Income by Geography - FY2018



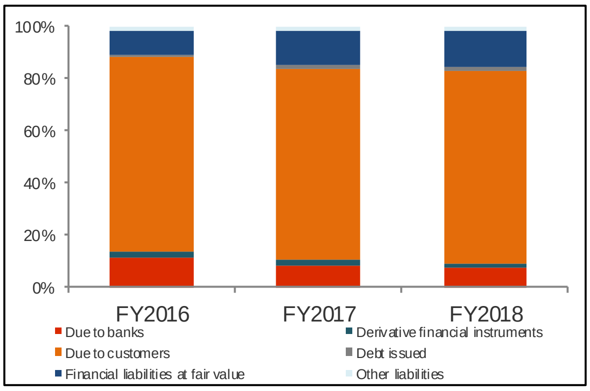
Source: Company | Excludes Consolidation Items

Figure 2: Asset Breakdown by Geography - FY2018



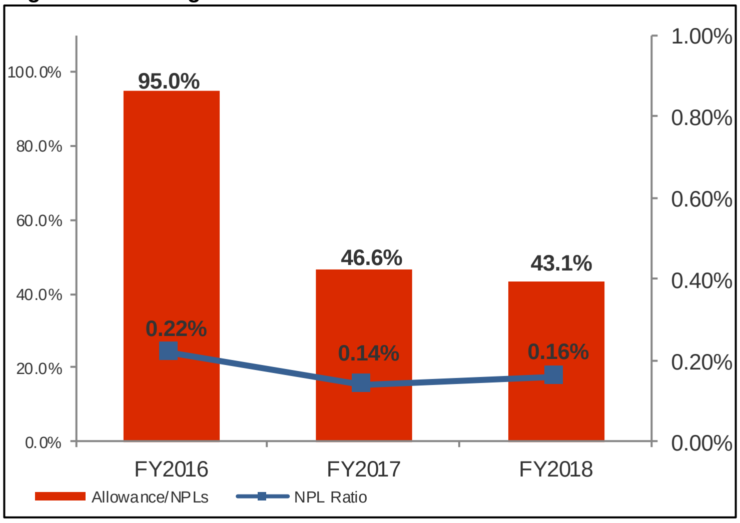
Source: Company| Excludes Consolidation Items

Figure 3: Liabilities Composition



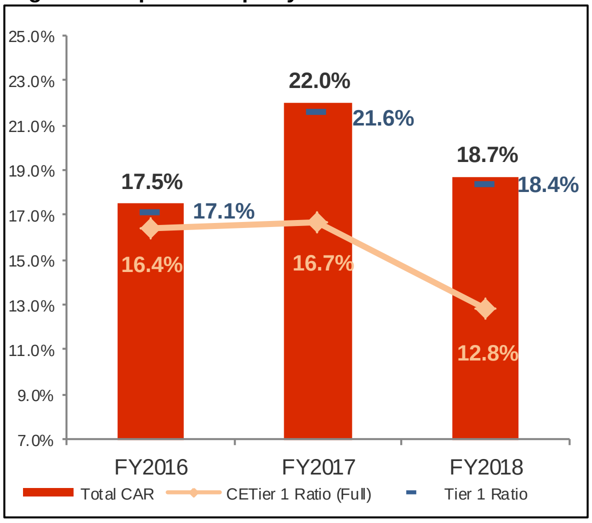
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Robust performance continues for UOB, which benefits from solid business positions and solid geographic diversity. While we prefer other names in the bank capital space which provide better returns considering the risk, within the UOB curve we like the UOBSP 4.0% PERPc21s which offers decent carry and has a wide reset spread.

Issuer Profile: Positive (2)

Ticker: **UOBSP**

Background

United Overseas Bank Limited ('UOB') is Singapore's third largest consolidated banking group with total assets of SGD400.5bn as at 31 March 2019. It has 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 8.0% and 5.15% stake in UOB, respectively, as of 5th July 2019.m

United Overseas Bank Ltd

Key credit considerations

- **Robust performance continues:** 1Q2019 results for UOB were robust on a y/y and q/q basis. Net profit before tax was up 5% y/y on solid operating profit performance (+7% y/y to SGD1.33bn), which was partially offset by higher allowances for credit and other losses and lower share of profit of associates and joint ventures. Operating profit was driven by growth in net interest income (+8% y/y due to strong y/y growth in loans which mitigated a 5bps fall in net interest margins to 1.79%) and other non-interest income (+40% y/y due to higher trading income and better customer-related income). This offset a 7% y/y fall in net fee and commission income from a fall in wealth management and fund management fees and a 9% y/y increase in operating expenses (higher staff and technology costs). Q/q trends were overall better with net profit before tax up 14% q/q on an 8% q/q rise in operating profit from total income growth (+9% q/q on trading and investment income growth) and a 27% q/q fall in allowances for credit and other losses which offset operating expense growth (+9 q/q). As in y/y trends, a material rise in other non-interest income drove the total income growth q/q. Net interest income however was marginally weaker q/q (-1%) despite only a 1bps q/q fall in net interest margin and a 3% q/q rise in net customer loans due to the lower amount of days q/q.

- **Balanced segment performance:** UOB's segments continue to show balanced performance. Group Retail profit before tax had consistent growth (+1.3% q/q and +1.1% y/y) on volume growth and higher deposit margins while expenses grew y/y and fell q/q on seasonality. Global Markets profit before tax was up 42.9% q/q and 31.1% y/y on the aforementioned trading and investment income performance and lower allowances. While Group Wholesale Banking profit before tax performance was divergent (+9.9% q/q and -4.0% y/y), this was due mostly to a significant y/y rise in credit allowances (1Q2018 had a net write-back). Excluding this, Group Wholesale Banking profit before tax and allowances was up 8.9% q/q and up 11.9% y/y on volume and margin growth as well as stronger treasury and fee based income. Group Wholesale Banking continues to be the largest contributor to UOB's consolidated profit before tax (53.9% for 1Q2019) with Group Retail contributing 37.5% to 1Q2019 consolidated profit before tax.

- **Watching credit costs:** The 16.3% y/y rise in allowances for credit and other losses was due to higher net customer loans (+12% y/y) with credit costs as a proportion of impaired loans relatively stable at 13 bps in 1Q2019 (12bps in 1Q2018). Otherwise, UOB's non-performing loan ratio fell to 1.5% as at 31 March 2019 from 1.7% as at 31 March 2018 (stable against 31 December 2018). This was due however more to the loans growth which was mostly in the building and construction segment (the building and construction segment represents the lowest industry segment non-performing loan ratio of UOB's major industry segment at 0.8%). The better non-performing loan ratio was also due to non-performing loan balances falling 2.0% y/y (stable q/q). The coverage for non-performing assets was broadly stable q/q and y/y at 89%, or 203% after taking collateral into account as at 31 March 2019. That said, we do note that movements in total allowances have not exactly matched the movements in non-performing loans, slightly exposing UOB to higher potential future allowances.

- **Capital needs to rise?** Capital ratios remain solid albeit stable or reduced against prior periods with CET1/CAR ratios of 13.9%%/17.0% as at 31 March 2019 (unchanged q/q) against 14.9%/18.8% as at 31 March 2018. This was due to risk weighted assets growth above growth in capital from earnings as well as the call of SGD850mn in AT1. UOB has another SGD500mn in AT1 due to call later in 2019. While ratios remain above minimum capital requirements, we would not be surprised to see more capital issuance to buffer against future balance sheet growth and given the conducive technical environment and UOB's solid fundamentals.

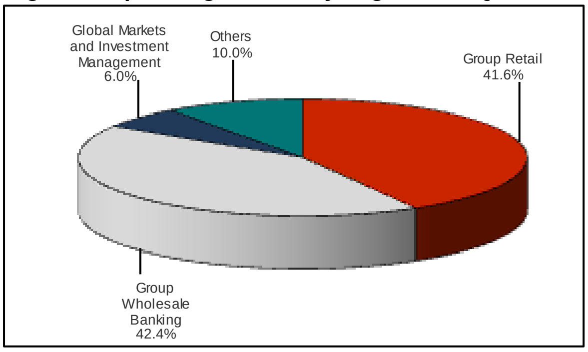
United Overseas Bank Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1Q2019
Income Statement (SGD'mn)			
Net Interest Income	5,527	6,220	1,588
Non Interest Income	3,323	2,896	819
Operating Expenses	4,026	4,004	1,073
Pre-Provision Operating Profit	4,824	5,113	1,333
Provisions	727	393	93
Other Income/(Expenses)	109	106	17
PBT	4,206	4,826	1,257
Income Taxes	800	805	200
Net Income to Common Shareholders	3,390	4,008	1,052
Balance Sheet (SGD'mn)			
Total Assets	358,592	388,092	400,467
Total Loans (net)	232,212	258,627	266,515
Total Loans (gross)	236,028	261,707	269,683
Total Allowances	3,816	3,080	3,167
Total NPLs	4,211	3,994	4,055
Total Liabilities	321,554	350,280	361,279
Total Deposits	272,765	293,186	307,701
Total Equity	37,037	37,813	39,188
Key Ratios			
NIM	1.77%	1.82%	1.79%
Cost-income Ratio	43.7%	43.9%	44.6%
LDR	85.1%	88.2%	86.6%
NPL Ratio	1.78%	1.53%	1.50%
Allowance/NPLs	90.6%	77.1%	78.1%
Credit Costs	0.31%	0.15%	0.14%
Equity/Assets	10.33%	9.74%	9.79%
CETier 1 Ratio (Full)	15.1%	13.9%	13.9%
Tier 1 Ratio	16.2%	14.9%	14.9%
Total CAR	18.7%	17.0%	17.0%
ROE	10.2%	11.3%	11.4%
ROA	0.98%	1.07%	1.07%

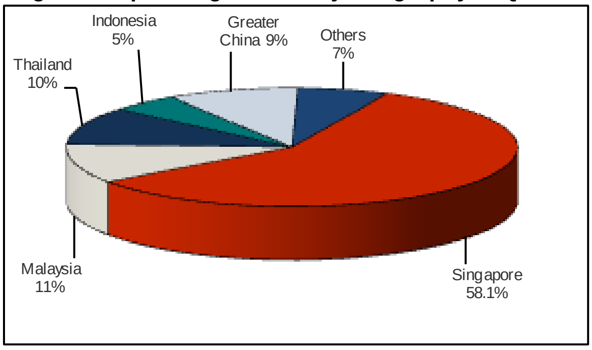
Source: Company

Figure 1: Operating Income by Segment - 1Q2019



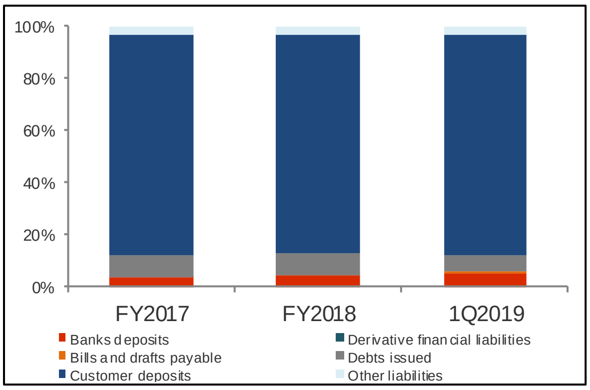
Source: Company

Figure 2: Operating Income by Geography - 1Q2019



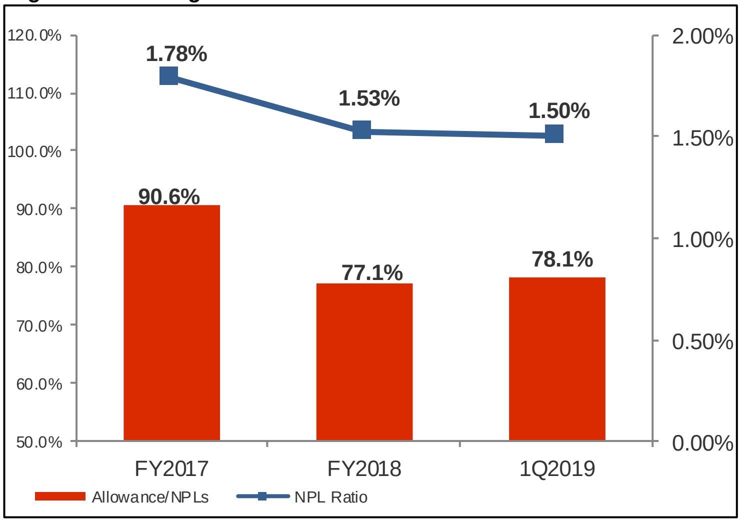
Source: Company

Figure 3: Liabilities Composition



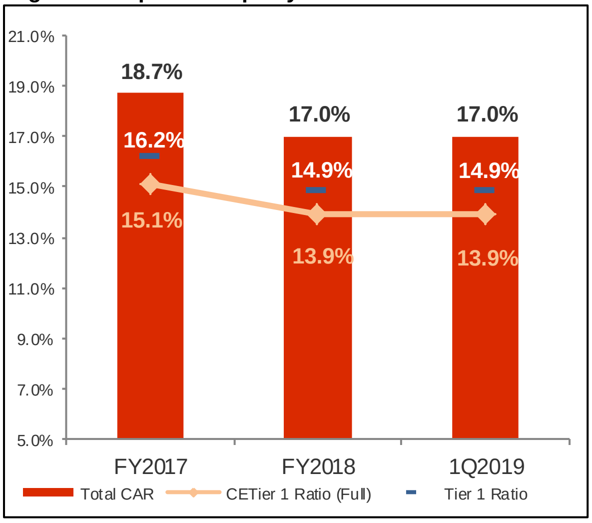
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

New Coverage & Initiations

Credit Outlook – We think the CACHE 5.5%-PERP trading at a YTC of 5.46% (388bps above swap) is attractive relative to its REIT peers and are overweight the perpetual.

Issuer Profile: Neutral (4)

Ticker: **CACHE**

Background

Cache Logistics Trust ("CACHE") is structured as a real estate industrial trust ("REIT") and listed on the Singapore Stock Exchange ("SGX") with a market cap of ~SGD852n as at 1 July 2019 with total assets of SGD1.41bn as at 31 March 2019. CACHE focuses on logistics warehouse properties with properties located across Singapore and Australia. ARA Asset Management ("ARA"), who also owns the REIT Manager and Property Manager, holds a 9.6%-stake in CACHE.

Cache Logistics Trust

Key credit considerations

- **Highly manageable interest coverage:** In 1Q2019, NPI increased by 4.0% y/y to SGD 23.8mn. This was mainly due to the full quarter contribution from the nine properties in Australia acquired, though offset by divestments and the conversion of CWT Commodity Hub from a master lease to a multi-tenancy lease. Resultant EBITDA was 4.6% higher y/y at SGD21.8mn in 1Q2019 while EBITDA/Interest coverage was 4.8x, slightly higher versus the 4.7x seen in 1Q2018. This was despite of a 2.5% y/y increase in interest expense, driven by an increase in all-in-financing cost. Assuming CACHE pays out SGD5.5mn in perpetual distribution payment per year (SGD1.375mn per quarter) and we take 50% of this as interest, we find EBITDA/ (Interest and 50% perpetual distribution) at 4.2x, still healthy.

- **Adjusted aggregate leverage on the high side:** As at 31 March 2019, CACHE's reported aggregate leverage was 37.4%, higher versus the 36.2% as at end-2018. The main reason for this was a SGD23.6mn drawdown in debt to in part fund the new acquisition in Australia (acquired in April 2019). Following the acquisition, we estimate that CACHE's aggregate leverage would be ~37%. Perpetuals was SGD100mn as at 31 March 2019, taking 50% of this as debt, we estimate adjusted aggregate leverage at CACHE would be ~41%, on the high side versus our REIT coverage universe.

- **Improved financial flexibility since October 2018:** As at 31 March 2019, CACHE faced short term debt due of SGD85.4mn, representing 17% of gross debt which is manageable in our view. In 3Q2018, secured borrowings were significantly higher at 21% of total assets (similarly for periods prior to that). As at 31 March 2019, secured borrowings only made up 5% of total assets, leaving significant room for CACHE to raise secured financing again if need be. In October 2018, CACHE successfully raised a 5.5-year SGD265mn unsecured term loan facility. We take this as a signal of improved bank loan market access for CACHE, despite being a small Industrial REIT.

- **Exposure to largest tenant CWT Pte Ltd ("CWT SG") reduced:** At IPO, CACHE was fully exposed to the counterparty credit risk of CWT SG and C&P (then largest shareholder of CWT SG). In 2010, CWT SG made up 65.7% of gross rental income though this has declined over time with CACHE buying new properties in Australia and the conversion of master leased properties by CWT SG into multi-tenanted properties. In 2015, the proportion contribution from CWT SG had declined to 37.9% and subsequently to 20.6% in 2018. By April 2019, CACHE's exposure to CWT SG had fallen to 16.5%.

- **……though still an evolving situation:** Historically, the concentration risk towards CWT SG was less of an issue, with CWT SG being a leading integrated logistics provider. However, after CWT SG was sold to CWT International Ltd (majority owned by HNA) and subsequently delisted, its financial standing had been questioned from time to time. Most recently, due to the inability of CWTI to fulfil debt obligations, CWT SG had been put under receivership. Currently, the day-to-day operations of CWT SG is understood to be intact though this situation is still evolving where a sale of CWT SG, including in parts, is still possible in the near term unless CWTI manages to refinance. We take some comfort that the exposure of CACHE to CWT SG had fallen and CWT SG has not defaulted in its rental payments to any REIT as of April 2019.

- **Early foresight to expand into Australia:** We estimate that as at 1 July 2019, the weighted average remaining years to expiry (by net lettable area) for Singapore properties is ~18 years. This is low in our view and limits the ability of redevelopment. CACHE has been an early proponent of expanding into Australia and going forward CACHE's exposure to Singapore is likely to decline. There is some balance sheet currency mismatch from the Australian exposure though we expect the aggregate leverage impact of a weakening AUD against the SGD to be minimal in the next 12 months.

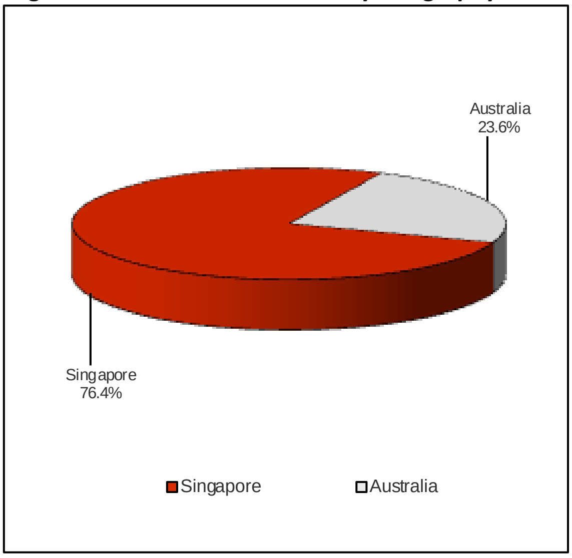
Cache Logistics Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1Q2019
Income Statement (SGD'mn)			
Revenue	112.0	121.5	30.8
EBITDA	80.0	82.8	21.8
EBIT	79.1	82.1	21.6
Gross interest expense	18.7	18.6	5.3
Profit Before Tax	25.2	32.2	15.2
Net profit	23.9	29.7	14.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	15.0	33.3	52.4
Total assets	1,229.0	1,309.7	1,412.7
Short term debt	125.0	28.1	88.5
Gross debt	444.7	470.2	574.5
Net debt	429.7	436.8	522.0
Shareholders' equity	765.7	814.7	812.5
Cash Flow (SGD'mn)			
CFO	82.4	80.5	20.8
Capex	2.8	5.6	0.5
Acquisitions	25.4	193.8	0.0
Disposals	25.3	89.0	0.0
Dividends	65.6	67.0	19.0
Interest paid	17.0	14.8	5.1
Free Cash Flow (FCF)	79.6	74.9	20.3
Key Ratios			
EBITDA margin (%)	71.46	68.16	70.66
Net margin (%)	21.36	24.43	47.36
Gross debt to EBITDA (x)	5.56	5.68	6.59
Net debt to EBITDA (x)	5.37	5.27	5.99
Gross Debt to Equity (x)	0.58	0.58	0.71
Net Debt to Equity (x)	0.56	0.54	0.64
Gross debt/total asset (x)	0.36	0.36	0.41
Net debt/total asset (x)	0.35	0.33	0.37
Cash/current borrowings (x)	0.12	1.19	0.59
EBITDA/Total Interest (x)	4.29	4.46	4.10

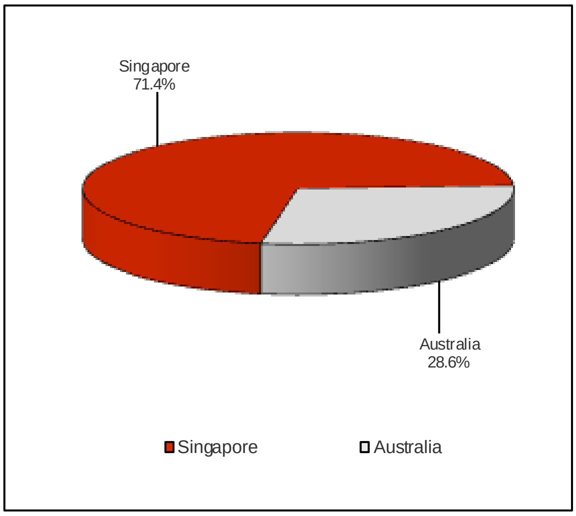
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 1Q2019



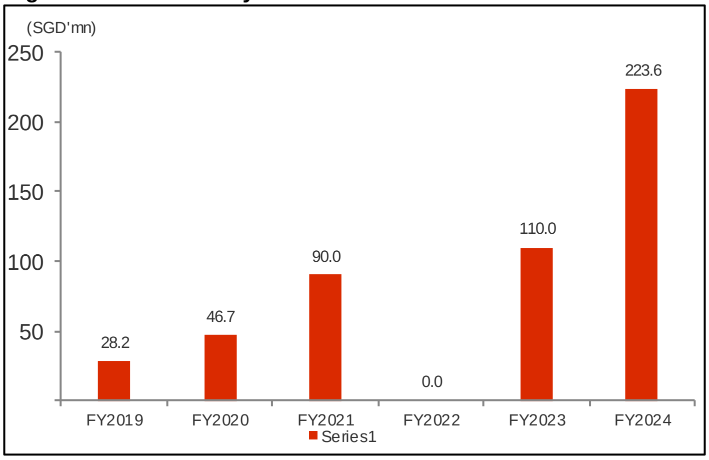
Source: Company

Figure 2: Portfolio Valuation By Geography - 1Q2019



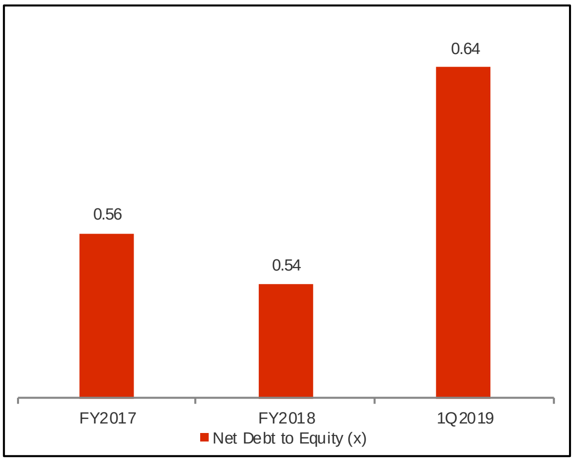
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Crédit Agricole SA's ("CA") credit fundamentals are supported by the quality and quantity of its earnings based on its business contributions and corporate structure. A conservative management approach reinforces the credit profile. The ACAFP 3.8% 31c26s look expensive compared to other names. BPCE papers offer better value although supply may be limited.

Issuer Profile: Neutral (3)

Ticker: **ACAFP**

Background

Founded in 1894, the Crédit Agricole Group ("CAG") has grown steadily through the years from a local farm co-operative to a universal bank operating across 47 countries. Its businesses comprise mostly domestic retail banking through its retail cooperative networks as well as international retail banking, asset gathering, specialized financial services and financing of large customers. As at 31 March, 2019, it had total assets of EUR1,893.7bn. Total assets of CA were EUR1,660.4bn in the same period.

Crédit Agricole Group

Key credit considerations

- **Strength as the group's central entity:** Similar to BPCE SA's role within Groupe BPCE, CA exists as the central entity and lead institution of CAG. As per article L511-31 of France's Financial & Monetary Code, it is legally responsible for supervising, reviewing and monitoring the credit and financial risks of group members and ensuring ongoing group member liquidity and solvency as the Central Bank to CAG's 39 regional banks. As a consequence of this role, the regional banks provide a joint and several cross guarantee over all the obligations of CA, limited to the aggregate of their share capital, reserves and retained earnings. Together, the regional banks are the majority shareholders of CA while the public owns the rest. While France operates under a statutory write-down regime and CA has indicated there could be some uncertainty as to whether the guarantee can be enforced if a regulator driven resolution occurs prior to liquidation, the existence of the 'no creditor worse off' principle in France's Financial & Monetary Code and the EU's Bank Recovery and Resolution Directive effectively means that the credit profile of CA is effectively equal to that of the wider group.

- **Segment composition another support:** The wider group comprises CA's other role as holdco for CAG's other businesses. These include international retail banking (Italy, Poland, Serbia, Romania, Ukraine, Morocco, Egypt), asset management (Amundi Asset Management), specialized financial services (consumer finance, leasing & factoring) and corporate & investment banking services to large customers. These businesses complement CA's large domestic retail banking franchise through cross-selling opportunities, particularly in insurance and wealth management where CAG is reportedly Europe's largest bankassurance group and asset manager. Overall, retail banking contributed 59% to group underlying revenues in 1Q2019 (69% of which from regional banks), followed by asset gathering at 17%, large customers at 16% and specialized financial services at 8%. 13% of total retail banking comes from CAG's International Retail Banking business, two thirds of which come from Italy. While these exposures have somewhat higher risk, contribution is relatively low to total earnings and balance sheet. Overall, CA's focus on retail banking and its strong market position as the largest retail bank in France provide a solid foundation for its business risk and partially offset the effects of low interest rates.

- **New Strategy ahead**: With the early completion of CAG's "Strategic Ambition 2020" Medium Term Plan, a new strategic plan to 2022 was unveiled in June 2019. Key financial targets include a cost to income ratio below 60%, group CET1 ratio above 16% (>11% for CA), group minimum requirement for own funds and eligible liabilities ratio of 24-25% and compound annual revenue growth of 2.5% pa spread evenly across business segments. Business targets include a more balanced and equal revenue contribution amongst retail banking, asset gathering and large customers, a slightly better revenue contribution from the rest of Europe, and lower reliance on interest income.

- **All reflected in the capital ratios**: CA's ability to achieve its 2020 targets early is due to solid underlying earnings from 12.2% y/y growth in underlying net income in FY2018. This offset weaker performance in CAG's regional banks. 1Q2019 trends were more constructive with a recovery in CAG's regional bank performance. CAG's CET1 ratio improved as a result, up 30bps q/q to 15.3% as at 31 March 2019 (11.5% for CA), and remains well above CAG's 9.5% Supervisory Review and Evaluation Process threshold which includes a global systemically important bank buffer of 1.0%. Its TLAC ratio as at 31 March 2019 was 22.6% excluding eligible senior preferred debt. We expect CAG's capital position to remain sound as a consequence of its business structure (higher quantity through retained earnings) and segment skew towards retail banking (higher quality of earnings) and **initiate coverage on CA with a Neutral (3) Issuer Profile.**

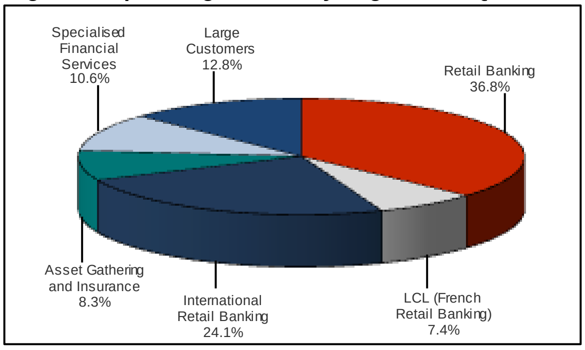
Credit Agricole Group

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1Q2019
Income Statement (EUR'mn)			
Net Interest Income Non Interest Income	32,113	32,926	8,206
Operating Expenses	20,911	21,454	5,699
Pre-Provision Operating Profit	11,202	11,472	2,507
Provisions	1,651	1,720	281
Other Income/(Expenses)	732	266	95
PBT	10,283	10,018	2,321
Income Taxes	3,479	2,733	848
Net Income to Common Shareholders	6,536	6,844	1,350
Balance Sheet (EUR'mn)			
Total Assets	1,763,169	1,854,763	1,893,700
Total Loans (net)	814,758	854,681	870,600
Total Loans (gross)	908,490	874,156	889,820
Total Allowances	19,643	19,475	19,250
Total NPLs	25,484	23,048	22,802
Total Liabilities	1,655,433	1,742,575	1,777,700
Total Deposits	732,420	789,835	792,900
Total Equity	107,736	112,188	116,000
Key Ratios			
NIM	2.10%	2.09%	N.A
Cost-income Ratio	64.2%	64.1%	64.4%
LDR	111.2%	108.2%	109.8%
NPL Ratio	2.81%	2.64%	2.56%
Allowance/NPLs	77.1%	84.5%	84.4%
Credit Costs	0.18%	0.20%	0.13%
Equity/Assets	6.11%	6.05%	6.13%
CETier 1 Ratio (Full)	14.9%	15.0%	15.3%
Tier 1 Ratio	15.8%	15.9%	16.4%
Total CAR	18.2%	18.3%	19.0%
ROE	5.88%	6.03%	4.66%
ROA	0.36%	0.36%	0.29%

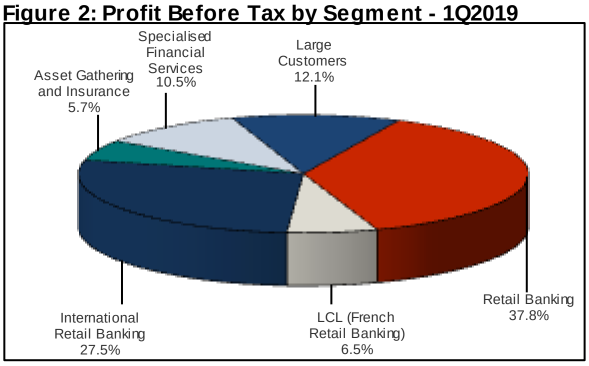
Source: Company

Figure 1: Operating Income by Segment - 1Q2019



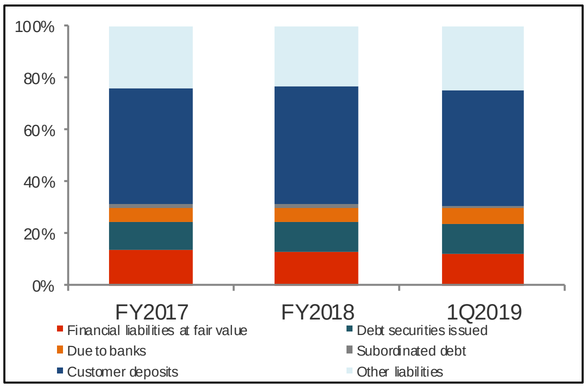
Source: Company | Excludes Corporate Centre which was loss-making

Figure 2: Profit Before Tax by Segment - 1Q2019



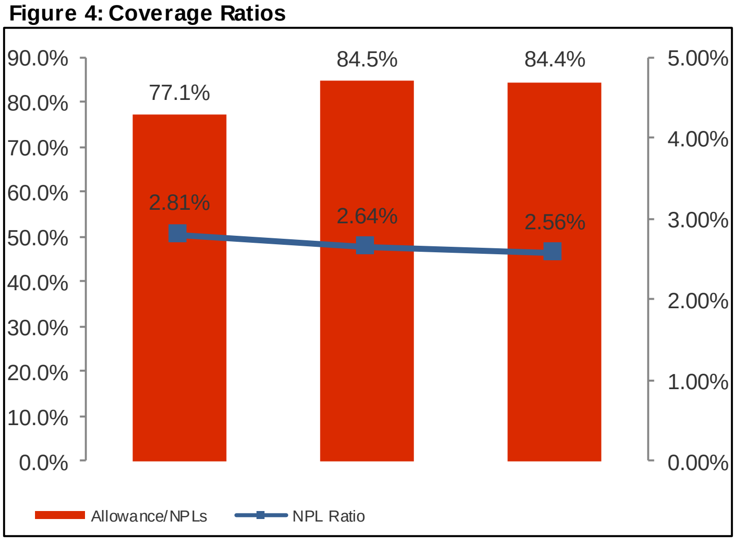
Source: Company | Excludes Corporate Centre which was loss-making

Figure 3: Liabilities Composition



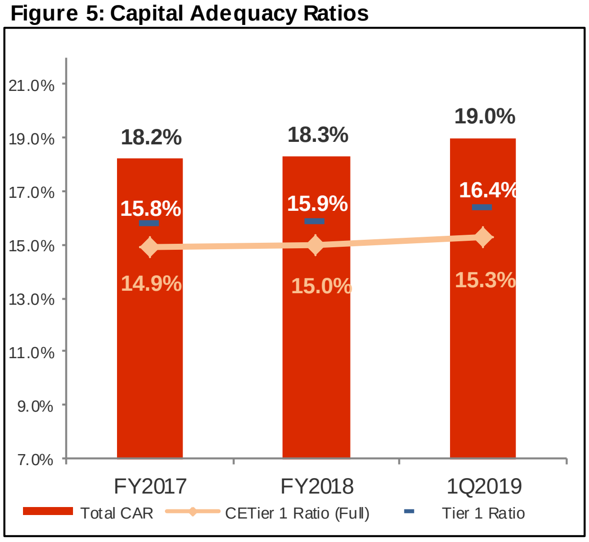
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – CS's business structure seeks to balance its high quality Swiss universal bank and growing wealth management platform with volatile capital markets exposure which constrains its business risk. At current levels, we think the UBS 5.875% PERPc23s (with a spread of 344bps above swaps) provides better value than the CS 5.625% PERPc24s with a spread of 348 bps above swaps.

Issuer Profile: Neutral (4)

Ticker: **CS**

Background

Based in Zurich and operating across 50 countries, Credit Suisse Group AG ("CS") operates three regionally focused divisions across (1) Switzerland, (2) Asia-Pacific and (3) Europe, the Middle East, Africa and Latin America. Providing private banking and other universal banking services, these regional businesses are supplemented by two global investment banking divisions. As at 31 March 2019 it had total assets under management of CHF786.1bn.

Credit Suisse Group AG

Key credit considerations

- **Regional focus for core businesses:** As Switzerland's second largest financial institution, CS provides a broad range of financial services both at home and abroad. That said, services are tailored to specific geographies through three regionally focused divisions. Its Swiss Universal Bank provides the broadest range of services through its Private Banking and Corporate & Institutional Banking businesses across individual and business clients located in Switzerland. International Wealth Management provides Private Banking and Asset Management services to private clients, asset managers, governments and corporates in Europe, the Middle East, Africa and Latin America. Finally, the Asia Pacific division services high net worth individuals, corporates and institutional clients through its Private Banking and Investment Banking businesses. Supporting these divisions on a global scale are Global Markets (sales, trading and execution, prime brokerage and comprehensive investment research on equities, solutions and credit) and Investment Banking & Capital Markets (mergers & acquisitions, equity underwriting, and leveraged finance). Its aim is to be a leading wealth manager and use its investment banking capabilities to capitalize on the existing wealth pool in developed markets (in particular Switzerland) and growing wealth in emerging markets (in particular Asia Pacific).

- **Volatility in historical financial performance:** Historical profitability has been more volatile than peers UBS Group AG and Julius Baer Group Ltd due to the relatively larger contribution of revenues generated from investment banking which typically comprise over 40% of total revenues. Private banking and corporate & institutional banking make up most of the rest. In comparison, most revenues for UBS Group AG come from Wealth Management and Business Banking while all of Julius Baer Group Ltd's revenues come from Private Banking. This makes CS's business risk comparatively higher than peers. From a geographic perspective, 41.7% of net revenues come from the Americas followed by 36.5% from Switzerland, 13.7% from Asia-Pacific and 8.1% from Europe, Middle East & Africa. CS's business and geographic split is somewhat interconnected with broader services in its home market the foundation for its global businesses while riskier investment banking is skewed towards developed markets and private banking is targeted to emerging markets.

- **Better positioned going forward:** Another segment is CS's Strategic Resolution Unit. Housing former non-strategic units and non-core exposures from current business divisions, its purpose was to wind down non-strategic exposures and reduce the negative impact on the group from a capital usage and cost perspective. This aim was one part of CS's three year restructuring program that commenced in October 2015 and also aimed to rebalance capital allocation, improve resilience and resolve legacy issues. With the completion of the restructuring program and a decline in losses and exposures, the Strategic Resolution Unit has been renamed to the Asset Resolution Unit and ceased to be a separate unit (now housed under Corporate Center). We expect earnings stability and quality to improve going forward which is positive for fundamentals.

- **Solid capital position to meet the future:** Part of improving CS's resilience was strengthening its capital position for future growth and compliance with increasing minimum regulatory requirements. These requirements include Basel III (minimum CET1/CAR ratios of 8.0%/11.5% including additional requirements for CS as a global systemically important bank), as well as higher obligations for systemically important banks under Swiss legislation (minimums include both going concern and gone concern requirements). While Basel III minimums were easily met at 12.6%/17.7% as at 31 December 2018 and at 12.6%/17.6% as at 31 March 2019, they have nevertheless been under pressure from higher regulatory deductions, dividend payments and redemption of capital instruments. Together with still elevated exposure to investment banking revenues, we **initiate coverage on CS with a Neutral (4) Issuer Profile.**

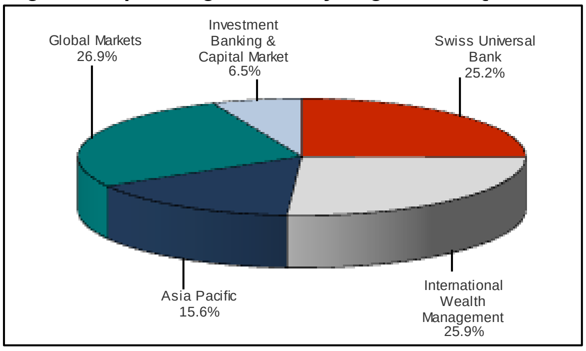
Credit Suisse Group AG

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1Q2019
Income Statement (CHF'mn)			
Net Interest Income	6,557	7,009	1,532
Non Interest Income	14,343	13,911	3,855
Operating Expenses	18,897	17,303	4,244
Pre-Provision Operating Profit	2,003	3,617	1,143
Provisions	210	245	81
Other Income/(Expenses)	0	0	0
PBT	1,793	3,372	1,062
Income Taxes	2,741	1,361	313
Net Income to Common Shareholders	-983	2,024	749
Balance Sheet (CHF'mn)			
Total Assets	796,289	768,916	793,636
Total Loans (net)	279,149	287,581	292,970
Total Loans (gross)	280,137	288,596	294,049
Total Allowances	882	902	966
Total NPLs	2,110	2,192	2,148
Total Liabilities	754,100	724,897	749,705
Total Deposits	361,162	363,925	367,147
Total Equity	42,189	44,019	43,931
Key Ratios			
NIM	0.88%	0.98%	0.83%
Cost-income Ratio	90.4%	82.7%	78.8%
LDR	77.3%	79.0%	79.8%
NPL Ratio	0.75%	0.76%	0.73%
Allowance/NPLs	41.8%	41.1%	45.0%
Credit Costs	0.07%	0.08%	0.11%
Equity/Assets	5.30%	5.72%	5.52%
CETier 1 Ratio (Full)	12.8%	12.6%	12.6%
Tier 1 Ratio	17.4%	16.2%	16.2%
Total CAR	18.9%	17.4%	17.4%
ROE	-2.30%	4.70%	6.90%
ROA	-0.12%	0.20%	0.38%

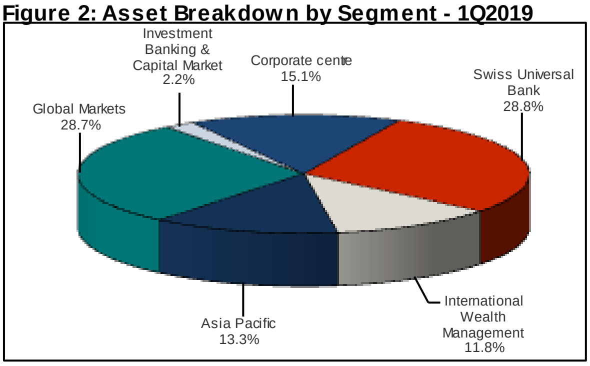
Source: Company

Figure 1: Operating Income by Segment - 1Q2019



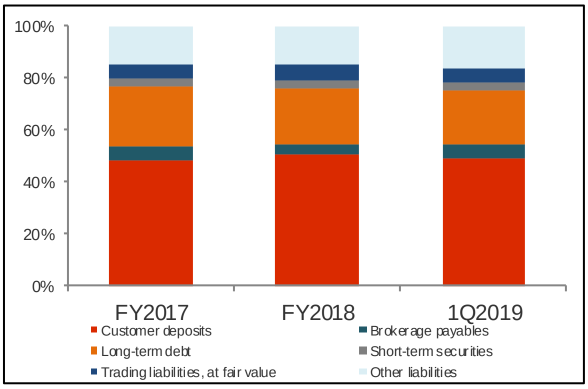
Source: Company | Excludes Corporate Centre which was loss-making

Figure 2: Asset Breakdown by Segment - 1Q2019



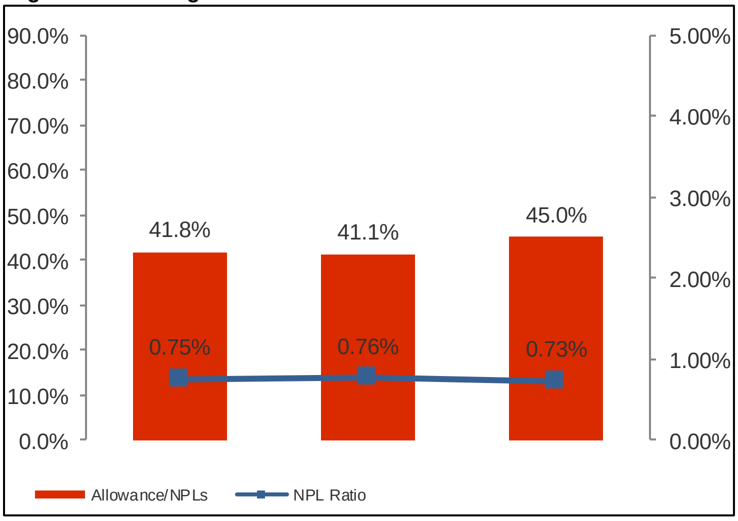
Source: Company

Figure 3: Liabilities Composition



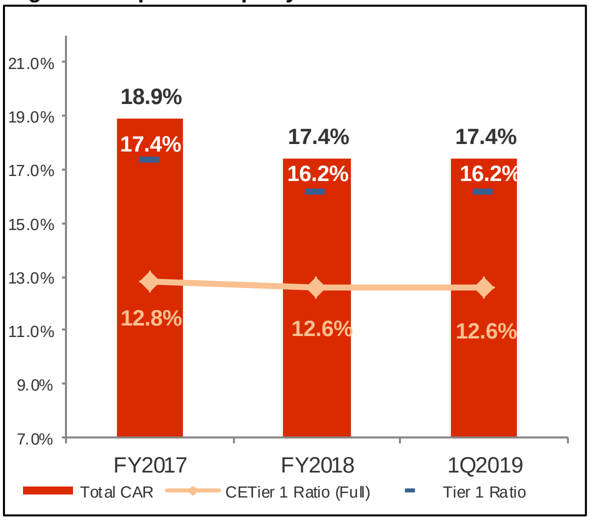
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Keppel Infrastructure Trust

Credit Outlook – KITSP 4.75%-PERP is trading at a 4.74% YTC (288bps above swap) which we think is somewhat tight in our view though insufficient for us to push it into underweight due to high dispersion in senior-sub spread assumptions for a NC10 perpetual. We see fair value at ~4.9% YTC, assuming a senior-sub spread of 120bps.

Issuer Profile: Neutral (4)

Ticker: **KITSP**

Background

Keppel Infrastructure Trust ("KIT") is structured as a Business Trust and domiciled in Singapore. The trust has nine assets across three main segments, namely Energy, Distribution & Network and Waste & Water. KIT is listed on the Singapore Stock Exchange with a market cap of SGD2.3bn as at 2 July 2019 and is Sponsored by Keppel Infrastructure Holdings Pte Ltd, the infrastructure holding company of Keppel Corp Ltd ("KEP"). KIT's Sponsor is also the largest unitholder holding an 18.2%-stake.

Key credit considerations

- **Substantial recurring income across a diversified asset base:** KIT provides a breakdown of Funds from Operations ("FFO") for its main assets with FFO defined as income/(loss) before tax, adding back non-cash items and after deducting FFO that is attributable to minority interests. FFO can be used for debt repayment at the asset level, with the excess (what KIT termed as "Distributable Cash Flow") upstreamed for KIT-standalone's debt repayment and distribution to the trust unitholders. The Singapore assets are: City Gas (piped town gas), 51%-stake in Keppel Merlimau Cogen ("KMC"), four concession-based Waste & Water assets (one of which is a 70%-stake in SingSpring desalination plant) and 51%-stake in DataCentre One, a small asset. KMC is a power plant where a tolling agreement has been signed with an indirect wholly-owned subsidiary of KEP and KMC does not bear merchant market risk. In Australia, KIT owns Basslink (high-voltage electricity connector between the States of Victoria and Tasmania) and IXOM, a supplier and distributor of specialized chemicals bought in February 2019. Excluding Basslink, KIT generated SGD50.8m of FFO in 1Q2019 versus SGD38.6mn in 1Q2018. We exclude Basslink as it does not contribute Distributable Cash Flows to KIT. KIT is in arbitration over Basslink, with the State of Tasmania claiming ~SGD95mn over a past outage.

- **Highly levered though KIT has significant non-recourse debt:** While KIT is a levered issuer, it is not above our expectations for an infrastructure-focused business. As at 31 March 2019, KIT's consolidated unadjusted gross gearing was 1.86x (end-2019: 1.5x), 1.92x if we include finance leases. Post 1Q2019, KIT has refinanced ~SGD194mn of bridge loans taken to help buy IXOM with common equity. This should have reduced unadjusted gross gearing to ~1.5x and possibly even lower from perpetuals raised in June 2019. Excluding bridge loans, as at 31 March 2019, 93.4% of consolidated debt was non-recourse debt (ie: at the project level). Among various reasons (eg: not meeting its debt service coverage ratio), Basslink is in a technical breach on its project financing covenants. This has not caused a cross default on other borrowings at KIT. Reducing the refinanced SGD194mn, we find gross debt-to-total asset at 0.47x. Removing Basslink, we estimate KIT's gross debt-to-total asset lower at 0.41x as Basslink has a higher leverage profile versus other KIT assets.

- **Expect Distributable Cash Flow from KMC to decline from debt repayment:** In the next 18 months from 31 March 2019, KIT faces SGD1.7bn of debt coming due (SGD1.4bn if we exclude the bridge loan). Of the SGD1.4bn, ~SGD655mn relates to Basslink coming due in November 2019 while KMC has an upcoming SGD700mn loan due in June 2020 (proportionate debt of SGD357mn). We understand that management is in discussion over this loan and it remains to be seen what transpires. Our base case assumes that KMC will need to start paying down principal and/or accumulate cash for an eventual repayment to match the tolling agreement until June 2030. We think prospective lenders would be comfortable with a refinancing though we assume that KMC's Distributable Cash Flows will reduce to ~SGD10mn p.a. after June 2020 (FY2018 KMC Distributable Cash Flows: SGD45.1mn).

- **Bulk of assets used as collateral though for now good interest coverage at trust level:** Unsurprisingly, a large portion of KIT's assets have been used as collateral to raise it's largely non-recourse debt. The largest asset that remains unencumbered is City Gas which has an asset value of SGD577mn in end-2018. Excluding SingSpring (used as collateral), the three Waste & Water concessions with an aggregate asset value of SGD448mn are unencumbered. As these have finite lives expiring in five to ten years unless extended, the ability of them being used as collateral may be limited. Under our base case which assumes amortization of debt at KMC and SingSpring but ignores the debt repayment at IXOM and City Gas in 2024, we estimate a healthy Distributable Cash Flow-to-interest and perpetual distribution coverage of 9.6x. We ignore the bullet debt repayment for IXOM and City Gas as these are businesses in perpetuity with a higher ability for future refinancing, in our view.

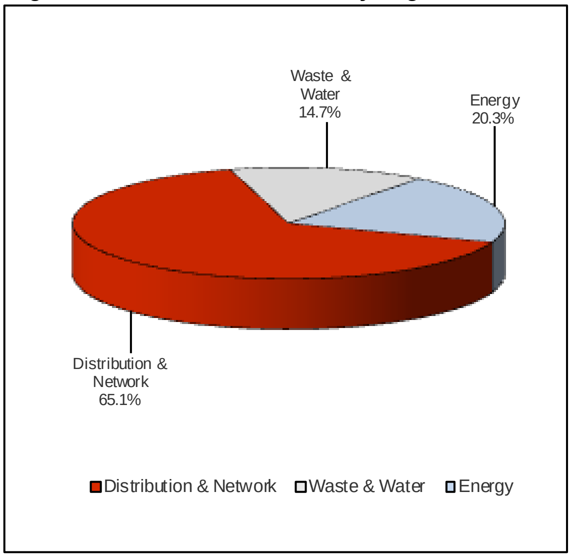
Keppel Infrastructure Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1Q2019
Income Statement (SGD'mn)			
Revenue	632.5	637.4	318.5
EBITDA	246.6	225.5	50.0
EBIT	141.6	122.0	19.1
Gross interest expense	124.9	123.7	34.1
Profit Before Tax	14.1	-2.3	-20.1
Net profit	13.8	-2.4	-24.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	214.0	231.6	309.4
Total assets	3,956.4	3,805.0	5,148.7
Short term debt	722.4	1,034.6	1,036.8
Gross debt	1,794.3	1,774.9	2,670.2
Net debt	1,580.3	1,543.3	2,360.8
Shareholders' equity	1,311.9	1,178.3	1,389.7
Cash Flow (SGD'mn)			
CFO	186.0	289.4	82.2
Capex	1.7	8.5	3.8
Acquisitions	0.0	0.0	1,096.7
Disposals	0.7	0.3	0.0
Dividends	146.0	145.7	36.6
Interest paid	105.6	110.9	29.3
Free Cash Flow (FCF)	184.2	280.9	78.5
Key Ratios			
EBITDA margin (%)	38.99	35.37	15.69
Net margin (%)	2.18	-0.37	-7.77
Gross debt to EBITDA (x)	7.28	7.87	13.36
Net debt to EBITDA (x)	6.41	6.84	11.81
Gross Debt to Equity (x)	1.37	1.51	1.92
Net Debt to Equity (x)	1.20	1.31	1.70
Gross debt/total asset (x)	0.45	0.47	0.52
Net debt/total asset (x)	0.40	0.41	0.46
Cash/current borrowings (x)	0.30	0.22	0.30
EBITDA/Total Interest (x)	1.97	1.82	1.47

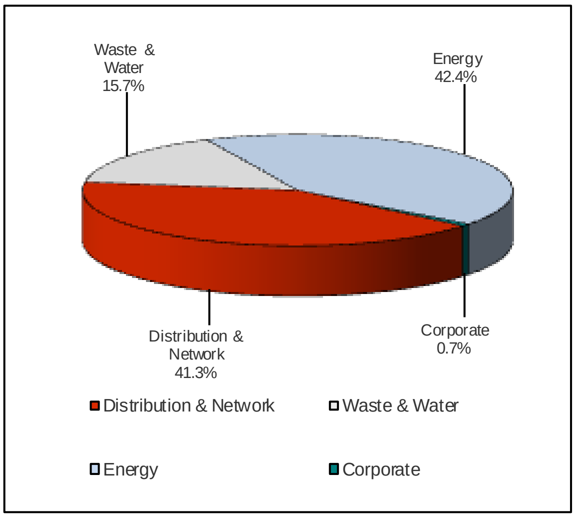
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2018



Source: Company | Excludes Corporate which was loss-making

Figure 2: Asset breakdown by Segment - FY2018



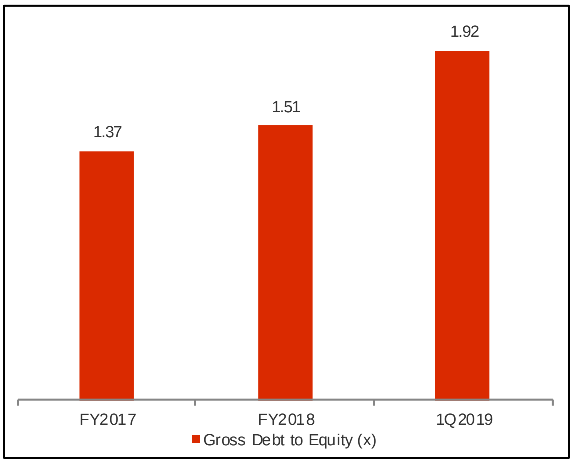
Source: Company

Figure 3: Debt Maturity Profile

	As at 31/03/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	674.5	26.0%
Unsecured	353.9	13.7%
	1028.4	**39.7%**
Amount repayable after a year		
Secured	1237.2	47.7%
Unsecured	325.9	12.6%
	1563.1	**60.3%**
Total	**2591.6**	**100.0%**

Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We think the credit metrics of LLC remains manageable even with poor results from the Engineering & Services segment. We like LLCAU '27s trading at 3.7%.

Issuer Profile: Neutral (4)

Ticker: **LLCAU**

Background

Founded in 1958, Lendlease Group ("LLC") today is a leading Australian property company listed on the Australian Securities Exchange ("ASX") with a market cap of AUD7.9bn. LLC structures its businesses along (1) Development (2) Construction and (3) Investments. Australia is the core market which contributed ~68% of operating EBITDA over FY2014-18 though increasingly LLC is diversifying into Europe, Asia and America. There is no controlling shareholder of LLC.

LendLease Group

Key credit considerations

- **Results weighed down by Engineering & Services ("E&S") business:** We estimate that LLC's EBITDA fell to negative AUD322.8mn in 1HFY2019 (FY2018: +AUD622.5mn) mainly due to the E&S business delivering a negative AUD473.7mn reported EBITDA from underperforming projects. We understand that LLC may eventually exit the E&S business, which should lighten the balance sheet as the business takes up AUD1.56bn in total assets. Other segments in Development (-41% y/y to AUD260.8mn) and Investments (-29% y/y to AUD273.2mn) saw weaker y/y operating EBITDA though we are not overly worried; 2HFY2019 should be stronger with LLC guiding for higher completions.

- **Recurring income from investments segment:** We estimate that recurring EBITDA from investments (excluding revaluations) should amount to ~AUD400mn p.a. This covers 1HFY2019 gross interest expense (annualized) by 3.2x. This segment is targeted to contribute 35-45% of total reported EBITDA and should buffer earnings volatility from other segments. LLC boasts of AUD34.1bn Funds under Management ("FUM") and AUD26.6bn Assets under Management ("AUM"). This segment should continue growing with a significant pipeline, with AUD2.9bn secured FUM from LLC's development projects. Bigger projects include Paya Lebar Quarter (AUD359.6mn), International Quarter London (AUD125.3mn) and The Lifestyle Quarter (AUD361.6mn).

- **Significant pipeline of work with flexibility on timing and delivery:** The development pipeline of AUD74.5bn covers FY2018's development revenue of AUD3.2bn by 23.3x, providing plenty of work ahead. Conversely, development properties and inventories on the balance sheet is just AUD4.9bn; the pipeline is held in capital efficient structures (e.g. staged payments where LLC may not pay for full land price upfront, capital provided by partners) which frees up capital. There is also flexibility on the timing and delivery for most of these projects, which allows LLC to ride the market cycles.

- **Diversification outside Australia mitigates slowdown in domestic home sales:** Going forward, there should be an increasing proportion of contribution outside Australia given that invested capital in Australia, as a proportion, as fallen to 54.3% in 1HFY2019. In addition, the development pipeline of work outside Australia forms 58.3% of the total pipeline. This should buffer against slowdown in the Australian market. In any case, we think the Australian housing market, which has declined 8.4% over 4Q2017-1Q2019, may find a bottom. The Australia Prudential Regulation Authority is looking to ease mortgage rates which may improve affordability for borrowers while Australia Cash Rate has been lowered to 1.25% in Jun 2019.

- **Credit metrics remain healthy though significant amount of assets are held under associates and JVs:** Reported net gearing rose to 15.2% h/h (end-FY2018: 8.2%) mainly due to increase in capital allocated to the Development segment with invested capital climbing to AUD5.1bn (FY2018: AUD4.3bn) to support the growth of the development pipeline. EBITDA/Total Interest is healthy at 5.0x with manageable net debt/EBITDA at 1.9x. The healthy balance sheet is partly due to LLC's methods in lightning the balance sheet, for example through associates and JVs. For example, LLC holds only minority stakes in most of its AUD3.5bn investments. We think most of the associates/JVs hold substantial amount of debt.

- **Ample liquidity still:** Even though AUD500mn bond issuance in Nov 2018 was cancelled, LLC retains ready access to liquidity. LLC obtained AUD960mn 5-year loan facility in May 2019, which was upsized from an original AUD500mn. In addition, LLC has AUD1.02bn of undrawn facilities. In 1HFY2019, we expect cash inflows with AUD2.0bn of revenue from apartment settlements. While LLC does not have a listed REIT to recycle assets, we would not preclude a potential REIT listing going forward.

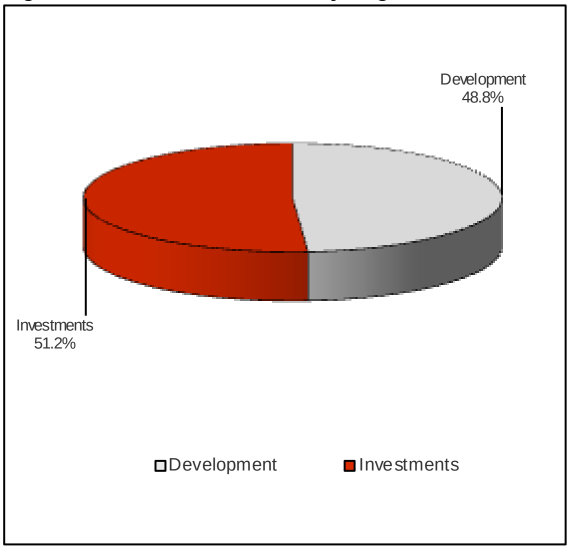
Lendlease Group

Table 1: Summary Financials

Year Ended 30th Jun	FY2017	FY2018	1H2019
Income Statement (AUD'mn)			
Revenue	16,659.0	16,556.1	7,761.7
EBITDA	843.3	618.3	-322.7
EBIT	745.1	511.7	-384.2
Gross interest expense	133.9	124.2	77.6
Profit Before Tax	1,007.0	1,066.2	-31.0
Net profit	758.7	793.6	15.7
Balance Sheet (AUD'mn)			
Cash and bank deposits	1,249.2	1,177.1	1,088.1
Total assets	20,854.2	16,963.6	17,457.6
Short term debt	291.9	474.8	0.0
Gross debt	2,152.4	2,358.5	3,364.1
Net debt	903.2	1,181.4	2,276.0
Shareholders' equity	6,166.5	6,414.2	6,106.8
Cash Flow (AUD'mn)			
CFO	256.5	181.8	-744.8
Capex	136.4	110.3	46.9
Acquisitions	501.7	561.3	219.5
Disposals	561.5	441.5	239.6
Dividend	337.9	372.0	190.2
Interest paid	-120.4	-122.1	-85.2
Free Cash Flow (FCF)	120.1	71.5	-791.7
Key Ratios			
EBITDA margin (%)	5.06	3.73	-4.16
Net margin (%)	4.55	4.79	0.20
Gross debt to EBITDA (x)	2.55	3.81	-5.21
Net debt to EBITDA (x)	1.07	1.91	-3.53
Gross Debt to Equity (x)	0.35	0.37	0.55
Net Debt to Equity (x)	0.15	0.18	0.37
Gross debt/total assets (x)	0.10	0.14	0.19
Net debt/total assets (x)	0.04	0.07	0.13
Cash/current borrowings (x)	4.28	2.48	NM
EBITDA/Total Interest (x)	6.30	4.98	-4.16

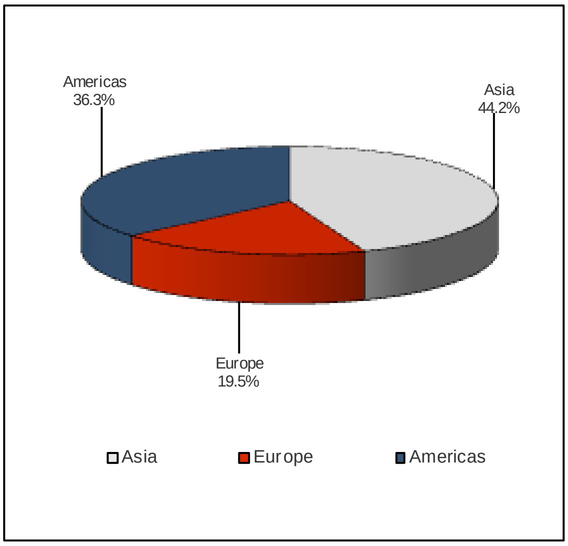
Source: Company, OCBC estimates

Figure 1: EBITDA breakdown by Segment - 1H2019



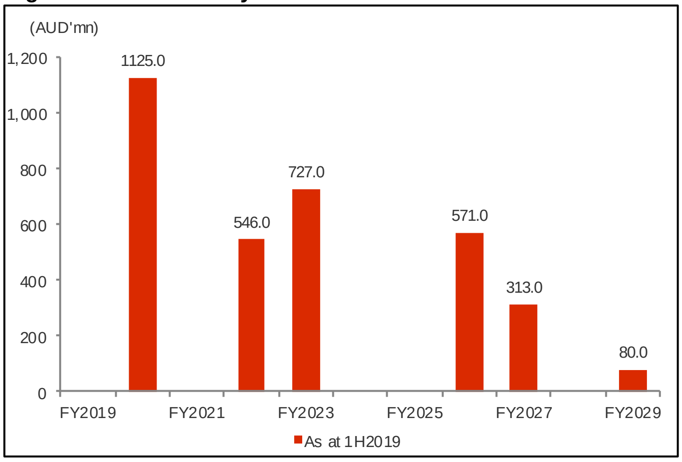
Source: Company | Excludes Construction (loss-making)

Figure 2: EBITDA breakdown by Geography - 1H2019



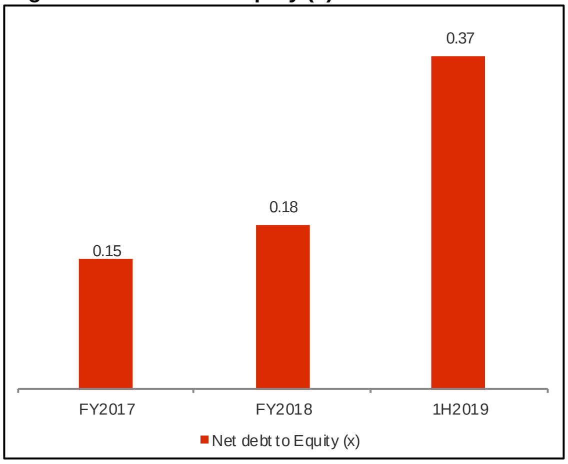
Source: Company | Excludes Australia (loss-making)

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We find both METRO 4% '21s which is offering a yield of 3.45% for a 2 year 3 months period and METRO 4.3% '24s which is offering a yield of 4.04% for a 3 year 11 months period attractive. Even though bonds are exposed to significant structural subordination risk as ~50% of its total assets are in associates and JVs, we take comfort in its net cash position as at 31 March.

Issuer Profile: Neutral (4)

Ticker: **METRO**

Background

Metro Holdings Ltd ("METRO") was listed on SGX in 1973. Its principal activities are property investment, property development, and retail operations. METRO's investment and development properties are situated in tier-1 cities in China – Shanghai and Guangzhou, UK, Indonesia and Singapore. These properties include office towers, residential spaces, mixed-use developments and retail malls. METRO's retail arm serves customers through a chain of three Metro department stores in Singapore, and another 10 stores in Indonesia.

Metro Holdings Ltd

Key credit considerations

- **Improvement in performance:** In the full year ended 31 March 2019 ("FY2019"), revenue grew by 26.1% y/y to SGD172.0mn, largely due to the sale of property rights of the residential development properties in Bekasi, Jakarta, while gross profit rose 30.0% y/y to SGD10.1mn. Profit before tax (including interest in associates and JV), however, had fallen by 37.3% y/y to SGD107.0mn. This is largely attributable to the absence of a SGD159.2mn gain arising from the one-off disposal of eight property projects by Top Spring in 2018. Excluding all one-off gains and losses, we find the adjusted profit before tax at ~SGD66.3mn (~1.38x that of FY2018's adjusted profit before tax). Looking forward, we expect METRO to continue to receive stable recurring income from its investment properties – GIE Tower, Metro City and Metro Tower, and make progress on the construction and sales of residential and mixed-use developments in Singapore, UK and Indonesia.

- **Recent acquisitions:** In April, METRO acquired a 50% stake in 7 & 8 Tampines Grande, Singapore for SGD45.6mn. The property is situated in Tampines Regional Centre and made up of two linked blocks of 8-storey office with retail and F&B outlets on the ground floor with 91% committed occupancy rate. Subsequently in May, METRO also acquired a 25% stake in The Mall, Chengdu, China, a Class A office tower, luxury residences and premier serviced apartments for SGD39.8mn. Separately, while these are rather small transactions relative to the SGD1.9bn investment properties METRO holds, we think this demonstrates METRO's keenness to pursue growth in China. Apart from those transactions, Bay Valley, Shanghai (acquired in Sep-2017) and Shanghai Plaza (acquired in May-2018) are also properties that will contribute to METRO's recurring income in the future. That said, Bay Valley has been undergoing leasing for a few consecutive quarters now. In addition, over the fourth quarter for financial year ended 31 March 2019 ("4QFY2019"), METRO had also invested another SGD12.2mn into InfraRed NF China Real Estate Fund III L.P and loaned SGD54.4mn to an associate, Global Charm Ventures Ltd.

- **Substantial associates and JVs:** METRO held 52% of its total assets and 82% of its non-current assets in associates and JVs as at 31 March 2019. As a result, associates and JVs contributed to 60% of the Group's profit before tax. METRO's associates and JVs are mainly involved in property investment and development. It is worth noting that METRO may not have control or influence over the assets of its associates and JVs, though having a seat on the board of the associated company and having stakes that also represent voting rights do help reduce such risks. In addition, the debt taken up by the JVs and associates are not reflected on METRO's balance sheets and hence it will remain a risk that comes with the structure METRO so chooses to conduct its business. We also expect these percentages to increase with the acquisition of 7 & 8 Tampines Grande, Singapore and The Mall, Chengdu, China. Bondholders of METRO are therefore exposed to significant structural subordination risk as assets held by the associates and JVs.

- **Healthy credit metrics:** Despite the risk involved as a result of METRO's business structure, we take comfort in METRO's net cash position. Net gearing (excluding pledged fixed deposits of SGD37.2mn) was 0.02x at 31 March 2019. METRO also has cash of SGD195.3mn, which is more than sufficient to its current debt of SGD80.5mn and acquisitions costs of SGD85.4mn cumulatively. We note that METRO has a SGD1.0bn multicurrency debt issuance programme established with METRO issuing a SGD200mn 5-year bond in March this year at 4.3%. We estimate net gearing (excluding pledged fixed deposits of SGD118.5mn) to climb higher to 0.14x with the issuance, which in our view still falls within the healthy range. As such, we think METRO has the financial flexibility to pursue opportunities especially in the property space and there is room for leverage to creep higher over time.

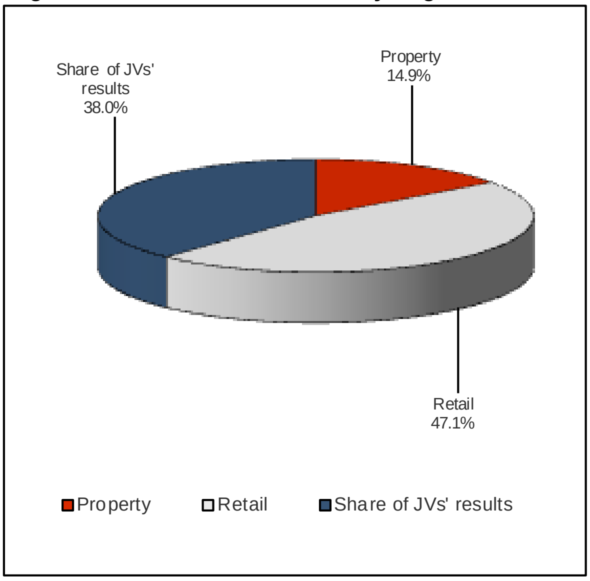
Metro Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Mar	FY2017	FY2018	FY2019
Income Statement (SGD'mn)			
Revenue	131.2	136.3	172.0
EBITDA	-11.3	-15.4	-10.4
EBIT	-13.0	-17.5	-13.7
Gross interest expense	25.0	31.5	35.3
Profit Before Tax	82.5	170.7	107.0
Net profit	81.0	159.7	95.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	278.2	159.4	195.3
Total assets	1,556.1	1,701.9	1,904.6
Short term debt	65.9	136.8	80.5
Gross debt	65.9	136.8	229.7
Net debt	net cash	net cash	34.4
Shareholders' equity	1,350.7	1,482.1	1,539.1
Cash Flow (SGD'mn)			
CFO	-20.7	-49.8	-32
Capex	2.0	1.5	2
Acquisitions	58.7	7.1	34
Disposals	18.2	45.8	4
Dividends	58.0	41.4	41
Free Cash Flow (FCF)	-22.6	-51.3	-34
Key Ratios			
EBITDA margin (%)	-8.58	-11.30	-6.07
Net margin (%)	61.74	117.14	55.64
Gross debt to EBITDA (x)	-5.86	-8.88	-22.01
Net debt to EBITDA (x)	net cash	net cash	-3.29
Gross Debt to Equity (x)	0.05	0.09	0.15
Net Debt to Equity (x)	net cash	net cash	0.02
Gross debt/total assets (x)	0.04	0.08	0.12
Net debt/total assets (x)	net cash	net cash	0.02
Cash/current borrowings (x)	4.22	1.17	2.43
EBITDA/Total Interest (x)	-0.45	-0.49	-0.30

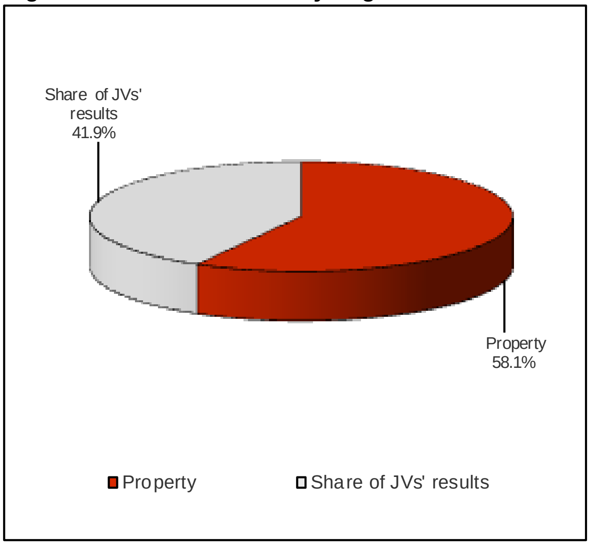
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2019



Source: Company

Figure 2: PBT breakdown by Segment - FY2019



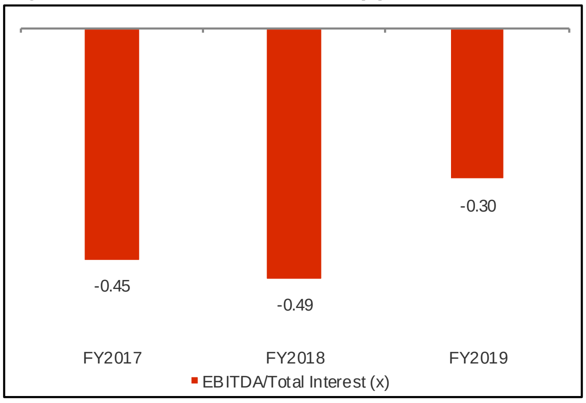
Source: Company | Excludes Retail (Loss Making)

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	57.1	24.9%
Unsecured	23.4	10.2%
	80.5	**35.0%**
Amount repayable after a year		
Secured	0.0	0.0%
Unsecured	149.2	65.0%
	149.2	**65.0%**
Total	**229.7**	**100.0%**

Source: Company, OCBC estimates

Figure 4: EBITDA/Total Interest (x)



Source: Company

Credit Outlook – The SLHSP 4.5% '25s is trading at an ask YTM of 3.45% (176bps). We think this bond is trading at fair value though for investors who are willing to take a slightly higher risk can consider this bond against the ARTSP 4% '24 which is trading at an ask YTM of 3.02% (141bps) for a spread pick up of 35bps, which more than compensates for the 1.6 years longer maturity.

Issuer Profile: Neutral (4)

Ticker: **SLHSP**

Background

Shangri-La Asia Limited ("SHANG"), incorporated in Bermuda, is an investment holding company focused on the ownership and management of hotels. In addition, SHANG also holds a portfolio of investment properties and develops properties for sale. SHANG's primary listing is on the Hong Kong Stock Exchange, with a secondary listing in Singapore. Kerry Group Ltd holds a ~36% deemed interest in SHANG while Kerry Group itself is a subsidiary of Kuok (Singapore) Limited.

Shangri-La Asia Limited

Key credit considerations

- **Good revenue growth but pockets of weakness in the Hotel segment:** The SGD bonds are issued by Shangri-La Hotel Limited, though unconditionally and irrevocably guaranteed by SHANG as such we would refer to SHANG's financials. Shangri-La Hotel Limited is a wholly-owned subsidiary of SHANG. In 2018, SHANG's revenue increased 15% y/y to USD2.5bn driven by an increase in all of its business segments. In particular hotel room and food & beverage collectively grew 9.5% y/y while property development grew 2.8x as sales was recognized post-handover of residential units in Sri Lanka and continued residential property sales in China. SHANG though reported a USD123.2mn in provision for impairment losses, bulk from three relatively new hotels in London, Shangri-La City and Ulaanbaatar. Despite relatively stagnant reported operating profit and higher net finance costs, share of profits from associates of USD305.4mn (2017: USD203.7mn) helped boost reported profit before tax to USD290.4mn (2017: USD250.2mn). The increase in share of profits from associates was driven by fair value gains in the Investment Properties segment.

- **Substantial recurring income from the Investment Properties segment:** In 2018, total SHANG Adjusted Operating Profits ("AOP", operating profit after tax (inclusive of results from associates, after minority interest at subsidiaries where SHANG has no full ownership)) was USD336.5mn. 46% of SHANG's 2018 AOP came from Investment Properties, driven by rental income from office, commercial and residential properties such as serviced apartments. Share of associates are important income contributors to SHANG. For example, in Mainland China, only three investment properties (collectively, 139,560 sqm) are more than 51%-owned by SHANG. The remaining properties (collectively, 1.7 million sqm) are held by SHANG's associated companies where Kerry Properties Limited (a sister company to SHANG) is the major shareholder. Hotel AOP made up 27% of total AOP, further generating a relatively steady stream of income.

- **Adjusted net gearing relatively significant:** As at 31 December 2018, SHANG's unadjusted net gearing was optically moderate at 0.61x in line with 30 June 2018 and end-2017. However, SHANG receives cash in advance of services and is liable for unredeemed loyalty points and refunds. It also provides USD129.2mn in financial guarantees for certain associates. Adjusting net debt for these items, we find adjusted net gearing at 0.67x. Non-cancellable operating leases (eg: for hotels owned by third parties but leased by SHANG) in end-2018 was significant at USD1.4bn. Simplistically, if we add these as debt, we find net gearing at 0.91x.

- **Healthy interest coverage:** Consolidated EBITDA (based on our calculation which does not include other income and other expenses) was USD659.6mn, up 26% y/y while interest expense including capitalized interest increased 20% y/y despite the lower average debt in 2018 versus 2017. This is indicative of higher interest cost, especially from banks which was the main source of SHANG's debt in 2018. We find SHANG's EBITDA/Interest coverage very manageable at 3.7x (2017: 3.5x). We think SHANG has been tapping SGD bond markets (amount outstanding of SGD1.1bn) to get longer term funding at better rates, keeping costs in check.

- **"Asset-heavy" hotel operator**: SHANG's hotel assets are significant versus its asset-light competitors in our view. Adjusting for ownership stake, we estimate that SHANG owns 25,405 hotel keys, representing an attributable 73% (25,405 out of total of 34,993 keys where it leases and/or has an ownership interest in). Crown jewel "Shangri-La" flagged hotels are located in key Asian cities including Shanghai, Shenzhen, Hong Kong, Singapore, Kuala Lumpur and Manila and are majority owned and can be monetized and/or used to secure financing in the event of a liquidity crunch. As at 31 December 2018, SHANG has USD11.6bn of investment properties, property, plant and equipment (eg: hotels), land use rights and interest in associates (largely property based) with only few assets used as collateral.

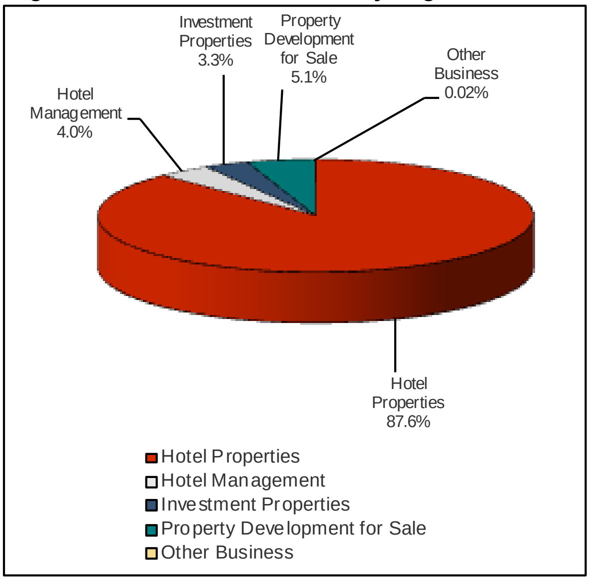
Shangri-La Asia Limited

Table 1: Summary Financials

Year Ended 31st Dec	FY2016	FY2017	FY2018
Income Statement (USD'mn)			
Revenue	2,055.4	2,189.8	2,517.9
EBITDA	505.0	522.8	659.6
EBIT	179.7	194.1	306.9
Gross interest expense	167.5	148.2	204.9
Profit Before Tax	149.5	250.2	290.4
Net profit	62.0	144.1	183.7
Balance Sheet (USD'mn)			
Cash and bank deposits	944.2	921.9	1,059.4
Total assets	12,993.8	13,675.2	13,170.6
Short term debt	808.6	234.8	431.2
Gross debt	5,295.5	5,184.7	5,134.8
Net debt	4,351.3	4,262.8	4,075.5
Shareholders' equity	6,412.4	7,042.0	6,676.9
Cash Flow (USD'mn)			
CFO	533.2	625.7	618.7
Capex	479.1	374.6	154.3
Acquisitions	116.2	55.4	141.2
Disposals	1.5	62.4	32.7
Dividends	76.6	85.9	107.4
Free Cash Flow (FCF)	54.1	251.1	464.4
Key Ratios			
EBITDA margin (%)	24.57	23.87	26.20
Net margin (%)	3.02	6.58	7.30
Gross debt to EBITDA (x)	10.49	9.92	7.79
Net debt to EBITDA (x)	8.62	8.15	6.18
Gross Debt to Equity (x)	0.83	0.74	0.77
Net Debt to Equity (x)	0.68	0.61	0.61
Gross debt/total assets (x)	0.41	0.38	0.39
Net debt/total assets (x)	0.33	0.31	0.31
Cash/current borrowings (x)	1.17	3.93	2.46
EBITDA/Total Interest (x)	3.01	3.53	3.22

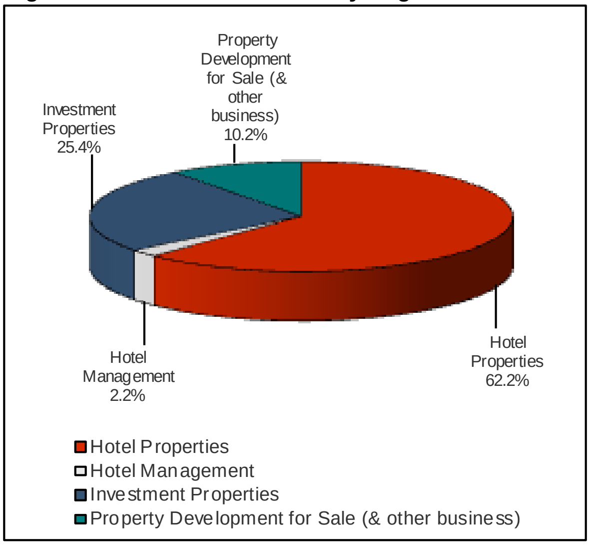
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2018



Source: Company | Excludes Eliminations

Figure 2: EBITDA breakdown by Segment - FY2018



Source: Company

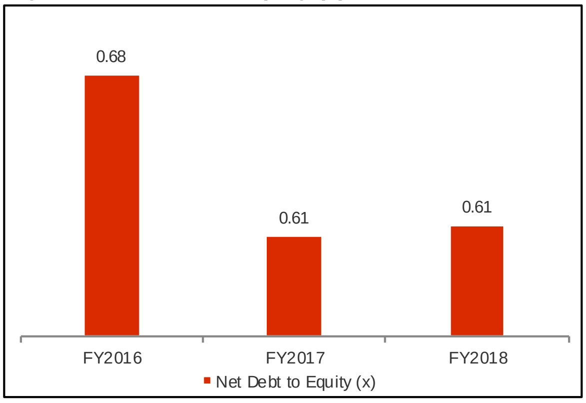
Note: Aggregate effective share of EBITDA of Company, subsidiaries & associate

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 31/03/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	91.0	1.8%
Unsecured	340.2	6.6%
	431.2	**8.4%**
Amount repayable after a year		
Secured	18.0	0.4%
Unsecured	4,685.6	91.3%
	4,703.6	**91.6%**
Total	**5,134.8**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

UBS Group AG

Credit Outlook – While business fundamentals are sound, earnings and capital ratios will continue to be in focus due to high shareholder returns, rising costs and potential litigation impacts. We think the UBS 5.875% PERPc23s look attractive compared to other higher rated European AT1 issues from HSBC Holdings PLC and Julius Baer Group Ltd.

Issuer Profile: Neutral (3)

Ticker: **UBS**

Background

UBS Group AG ("UBS") is the world's largest wealth manager by assets under management. Based in Zurich and operating across 50 countries, UBS also provides Personal & Corporate Banking, Asset Management and Investment Banking. As at 31 December 2018 it had total invested assets of USD3,101bn. There is no major shareholder of UBS with shareholdings widely spread across institutional investors with BlackRock Inc. and GIC amongst the 5 largest institutional investors.

Key credit considerations

- **Global footprints but feet planted at home:** UBS is the world's largest wealth manager with total invested assets of USD3,101bn as at 31 December 2018. This was spread across fund assets managed by UBS (11%), discretionary invested assets (investment decision held by UBS, 32%) and non-discretionary invested assets (investment decision rests with the client, 57%). Given its scale, its geographic reach is broad with 41% of total operating income for FY2018 generated in the US, 16% in Asia-Pacific and 21% in Europe, Middle East and Africa. While management expect most future growth to come from gaining market share in the US and Asia Pacific, Switzerland (24% of FY2018 total operating income) remains very much at the core of UBS' consolidated business. It is the only country where UBS operates all business segments including personal banking, wealth management, corporate and institutional banking, asset management and investment banking. Focus on its domestic market aids underlying income stability in our view given its position as the largest bank in Switzerland and the relatively strong operating environment in terms of regulation and financial stability. The Swiss National Bank's most recent 2Q2019 quarterly bulletin published in June expects Switzerland's economic growth to be slightly above global expectations on improving business conditions, positive employment dynamics and low interest rates.

- **Leveraging on Strengths:** Much as it uses Switzerland as its global springboard, UBS's strategy is centred on its dominant position in Global Wealth Management, which contributed around 48% of UBS's business unit (excluding corporate center) operating profit before tax ("OPBT") in FY2018. Wealth Management capabilities are complemented by other businesses including Investment Banking (22% of FY2018 OPBT) and Asset Management (6%). Concentration on wealth management has enabled UBS to remain entrenched in the mature wealth management market of the US while supporting growth in emerging wealth management markets such as Asia. It has clearly defined business unit growth targets over FY2019-2021 including net new money growth of 2-4% for Wealth Management and 3-5% for Asset Management and ~10-15% growth in adjusted pre-tax profit. For the Investment Bank, UBS is targeting ~15% growth in return on attributed equity while limiting risk weighted assets to a third of the group total (33% in FY2018). Rounding out UBS's business segments is Personal & Corporate Banking (25% of FY2018 OPBT and 22% of total risk weighted assets), which UBS views as core to its universal banking model in Switzerland as a supply avenue for new Wealth Management clients, through cross selling Asset Management and Investment Banking services, and as the manager for UBS's Swiss infrastructure and banking products platform.

- **Building buffers for the future:** Recent reported financial performance has been decent from operating income growth and expense control. While this has been accretive for UBS's capital position, overall capital ratios have fallen due to risk weighted assets growth primarily as a result of changes in methodology, policy and models. Minimum capital ratio requirements for UBS are stringent due to both higher obligations for systemically important banks under Swiss legislation (minimums include both going concern and gone concern requirements), its dominant domestic market position as well as its classification as a global systemically important bank – all factors that would make resolution of UBS a complex and painful exercise. As a result, UBS's capital issuance has been active in order to (1) maintain its CET1 ratio within its capital guidance of around 13.0%, (2) meet minimum requirements, as well as (3) to meet ongoing high shareholder payouts in the form of dividends and share buybacks. As per its 2018 annual report, UBS is already in compliance with its 1 January 2020 minimum fully loaded going concern CET1/CAR requirements. Its Total Loss-Absorbing Capacity as at 31 December 2018 and 31 March 2019 is also above its minimum requirement. Given its solid capital position and strong business franchise**, we initiate coverage on UBS with a Neutral (3) Issuer Profile.**

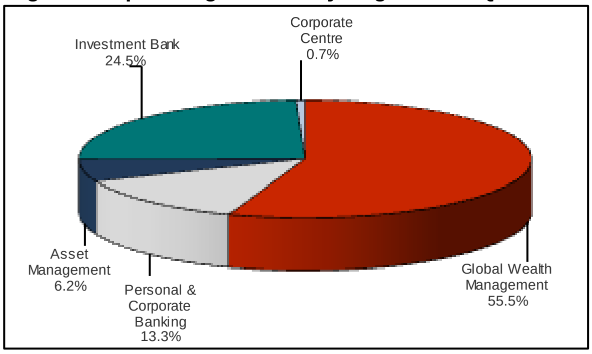
UBS Group AG

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1Q2019
Income Statement (USD'mn)			
Net Interest Income	6,656	6,025	1,123
Non Interest Income	23,098	24,306	6,116
Operating Expenses	24,272	24,222	5,673
Pre-Provision Operating Profit	5,482	6,109	1,566
Provisions	131	118	20
Other Income/(Expenses)	0	0	0
PBT	5,351	5,991	1,546
Income Taxes	4,305	1,468	407
Net Income to Common Shareholders	969	4,516	1,141
Balance Sheet (USD'mn)			
Total Assets	939,280	958,490	956,578
Total Loans (net)	326,746	320,352	318,623
Total Loans (gross)	327,424	321,132	319,383
Total Allowances	678	780	760
Total NPLs	2,149	2,419	2,991
Total Liabilities	886,725	905,385	902,740
Total Deposits	419,577	419,838	425,943
Total Equity	52,555	53,104	53,841
Key Ratios			
NIM	1.57%	1.57%	1.50%
Cost-income Ratio	81.6%	79.9%	78.4%
LDR	77.9%	76.3%	74.8%
NPL Ratio	0.66%	0.75%	0.94%
Allowance/NPLs	31.5%	32.2%	25.4%
Credit Costs	0.04%	0.04%	0.01%
Equity/Assets	5.60%	5.54%	5.63%
CETier 1 Ratio (Full)	13.8%	12.9%	13.0%
Tier 1 Ratio	17.6%	17.5%	18.5%
Total CAR	21.7%	19.8%	20.7%
ROE	1.80%	8.60%	8.60%
ROA	0.11%	0.48%	0.48%

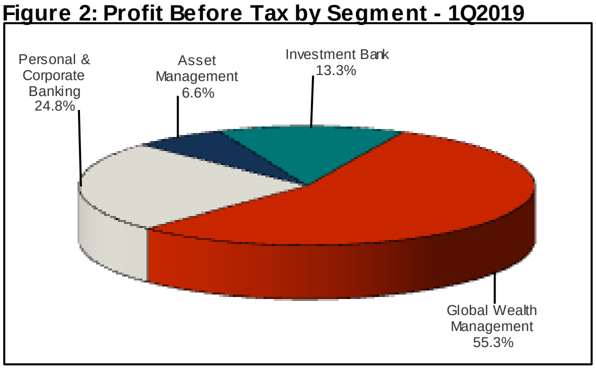
Source: Company

Figure 1: Operating Income by Segment - 1Q2019



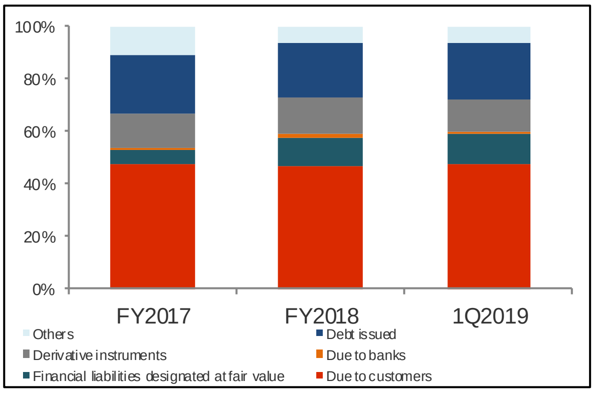
Source: Company

Figure 2: Profit Before Tax by Segment - 1Q2019



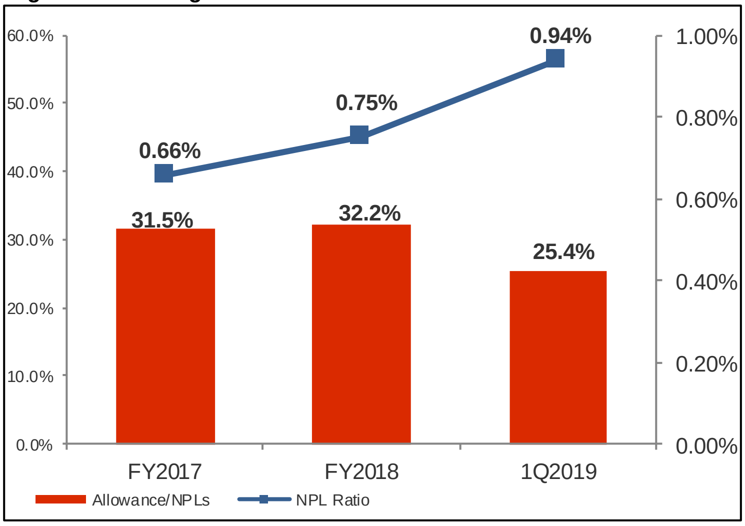
Source: Company| Excludes Corporate Centre which was loss-making

Figure 3: Liabilities Composition



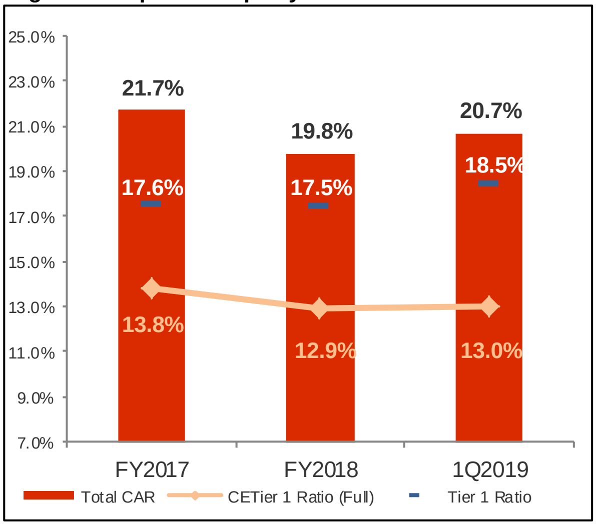
Source: Company

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 Ng Yong Jie and Benjamin Lim Yong Quan.

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, Oxley Holdings Ltd, Suntec Real Estate Investment, Mapletree Commercial Trust, Frasers Hospitality Trust, United Overseas Bank Ltd.

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