

## Earnings Review: Perennial Real Estate Holdings Ltd (“PREH”)

### Recommendation

- Excluding the effects from the deconsolidation of TripleOne Somerset, results appear decent with revenue increasing 10.1% y/y. While EBIT/interest remains weak at 1.4x, we expect this to improve when several major projects commence operations from June 2018.
- Net gearing remains largely unchanged at 0.58x q/q (4Q2017: 0.57x) though this is expected to increase to ~0.9x follow the acquisition of 50%-stake in Capital Singapore (~SGD500mn) that PREH does not already own, commitment to develop projects near high speed railways in China (~SGD707mn) and development of residential site in Singapore (SGD96.5mn). As such, we continue to hold PREH at a Neutral (5) Issuer Profile.
- In our view, we prefer the PREHSP curve over the GUOLSP curve as it provides a higher spread for a similar net gearing level (though we acknowledge that EBIT for PREH is weaker for now and PREH has a significant exposure to China). However, we think PREHSP curve looks fair as it yields lower than other HY property issues such as FRAG 6.125% '21s and LOGPH 6.125% '21s.

### Relative Value:

Bond	Maturity date	Net gearing	Ask Yield	Spread
PREHSP 3.9% '21s	12/01/2021	0.9x (Forecast)	4.10%	187bps
PREHSP 3.85% '20s	03/07/2020	0.9x (Forecast)	3.97%	181bps
PREHSP 4.9% '19s	18/03/2019	0.9x (Forecast)	3.20%	135bps
FRAG 6.125% '21s	26/04/2021	0.89x	5.68%	341bps
LOGPH 6.125% '21s	16/04/2021	0.51x	6.46%	420bps
GUOLSP 3.95% '19s	01/04/2019	0.95x (Forecast)	2.51%	63bps
GUOLSP 4.1% '20s	13/05/2020	0.95x (Forecast)	3.24%	110bps

Indicative prices as at 09 May 2018 Source: Bloomberg, OCBC, Company  
Net gearing based on latest available quarter

### Key Considerations

- 1Q2018 results impacted by one-offs:** Revenue declined 26.1% y/y to SGD14.9mn, largely due to the absence of revenue from TripleOne Somerset from its deconsolidation following the divestment of its 20.2% equity stake on 31 March 2017. This resulted in contribution from Singapore plunging 69.1% y/y to SGD3.2mn. Excluding TripleOne Somerset from 1Q2017 results, 1Q2018 revenue increased 10.1% y/y, mainly due to 17.8% y/y increase in revenue from China as a result of better performance at Perennial Qingyang Mall in Chengdu. Net profit declined 73.0% y/y mainly due to the absence of divestment gains (SGD35.5mn) and re-measurement gains (SGD20.2mn) from TripleOne Somerset, though this is offset by higher share of results from associates and JVs (SGD22.8mn) compared to 1Q2017 (SGD0.7mn) as a result of investments in United Engineers Ltd, WBL Corp Ltd and one-off adjustments at Shenyang Red Star macalline Furniture Mall.
- Short term maturities to be refinanced:** 2018 maturities amount to SGD799mn. Assuming PREH can rollover the SGD330mn secured loan, the remaining will still need to be refinanced, including SGD300mn in retail bonds and SGD169mn in unsecured loans. While cash of SGD108.9mn looks insufficient, we believe there is room for PREH to refinance with recent access to bank debt and capital markets.
- Credit metrics expected to weaken:** While net gearing remained largely unchanged at 0.58x q/q (4Q2017: 0.57x), PREH expects net gearing to increase to 0.7x following the acquisition of 50%-stake in Capitol Singapore (~SGD500mn) that PREH does not already own. We expect this to be funded with a newly

### Issuer Profile: Neutral (5)

Ticker: **PREHSP**

### Background

Perennial Real Estate Holdings Ltd (“PREH”) is an integrated real estate owner and developer, focused primarily in China (65.2% by asset value) and Singapore (30.0%). PREH is developing large scale developments in railway hubs of China while its portfolio of office and retail assets in Singapore and China provide stable rental income. The company is 81.4%-owned by a group of shareholders, including Mr Kuok Khoon Hong (35.8%), Chairman/CEO/co-founder of Wilmar International Ltd, Mr Ron Sim (15.4%), CEO/founder of Osim, Wilmar International (20.0%) and Mr Pua Seck Guan (10.3%), CEO of PREH.

Wong Hong Wei  
+65 6722 2533

[wonghongwei@ocbc.com](mailto:wonghongwei@ocbc.com)

obtained SGD688mn facility which is secured against Capitol Singapore. We expect net gearing to increase further to ~0.9x when PREH fully commits to its 45-% stake in a consortium to develop projects near high speed railways in China (~SGD707mn) and develop a 40%-owned residential site in Singapore (PREH's share of capital commitment: SGD96.5mn). Although EBIT/interest in 1Q2018 looks weak at 1.4x, we expect this to improve when several major projects commence operations. This includes (1) Perennial International Health and Medical Hub (GFA: 3.1mn sqft) which will officially launch on 1 June 2018; and (2) the 51%-owned Xi'an North HSR Integrated Development Plot 4&5 (GFA: 9.2mn sqft) which will be completing in 2018-19.

**OCBC Global Treasury**

**Treasury Advisory**

**Corporate FX & Structured Products**

Tel: 6349-1888 / 1881

**Interest Rate Derivatives**

Tel: 6349-1899

**Investments & Structured Products**

Tel: 6349-1886

**GT Institutional Sales**

Tel: 6349-1810

**Credit Research**

**Andrew Wong**

+65 6530 4736

[WongVKAM@ocbc.com](mailto:WongVKAM@ocbc.com)

**Nick Wong Liang Mian, CFA**

+65 6530 7348

[NickWong@ocbc.com](mailto:NickWong@ocbc.com)

**Ezien Hoo, CFA**

+65 6722 2215

[EzienHoo@ocbc.com](mailto:EzienHoo@ocbc.com)

**Wong Hong Wei**

+65 6722 2533

[wonghongwei@ocbc.com](mailto:wonghongwei@ocbc.com)

Explanation of Issuer Profile Rating / Issuer Profile Score

**Positive (“Pos”)** – The issuer’s credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

**Neutral (“N”)** – The issuer’s credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

**Negative (“Neg”)** – The issuer’s credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Explanation of Bond Recommendation

**Overweight (“OW”)** – The performance of the issuer’s specific bond is expected to outperform the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

**Neutral (“N”)** – The performance of the issuer’s specific bond is expected to perform in line with the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

**Underweight (“UW”)** – The performance of the issuer’s specific bond is expected to underperform the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

**Suspension** – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

**Withdrawal (“WD”)** – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

**Analyst Declaration**

The analyst(s) who wrote this report and/or her or his respective connected persons held securities in the above-mentioned issuer or company as at the time of the publication of this report.

**Disclaimer for research report**

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "**Relevant Materials**") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "**Relevant Entity**") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("**MiFID**") and the EU's Markets in Financial Instruments Regulation (600/2014) ("**MiFIR**") (together referred to as "**MiFID II**"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W