

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

### Recommendation

- Without the one-off gains and fair value increases, PREH continued to post stronger results albeit from a low-base with revenue higher by 1.6% y/y to SGD18.1mn and reported EBIT increasing 14.5% y/y to SGD13.2mn.
- The stronger results were mainly due to consolidation of Capitol Singapore and improved performance at existing China malls. Going forward, results may remain supported with completions in the China property portfolio and opening of a 157-room luxury hotel at Capitol Singapore.
- Nevertheless, net gearing rose to 0.74x (1Q2018: 0.58x) due to the acquisition of Capitol Singapore and we expect net gearing to continue increasing to ~0.9x as PREH deploys capital to fund its integrated developments near high speed railways in China.
- We think PREHSP 4.9% '19s look interesting at 3.71% YTM after retracing somewhat since the beginning of the month. We also like both PREHSP '20s, preferring this over PREHSP '21s given their shorter maturity for a similar yield.

### Relative Value:

Bond	Maturity/Call date	Net gearing	Ask Yield	Spread (bps)
PREHSP 4.9% 2019	18-Mar-2019	0.74x	3.71%	201bps
PREHSP 4.55% 2020	29-Apr-2020	0.74x	4.54%	260bps
PREHSP 3.85% 2020	03-Jul-2020	0.74x	4.63%	266bps
PREHSP 3.9% 2021	12-Jan-2021	0.74x	4.67%	264bps

*Indicative prices as at 6 Aug 2018 Source: Bloomberg  
Net gearing based on latest available quarter*

**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 (69.8% by asset value) and Singapore (28.1%). 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 81.9%-owned by a group of shareholders, including Mr Kuok Khoon Hong (36.1%), 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.

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### Key Considerations

- Picking up from a low base:** PREH reported 2Q2018 revenue increasing 1.6% y/y to SGD18.1mn. Revenue from Singapore surged (+45.2% y/y to SGD5.2mn) due to the consolidation of Capitol Singapore following the acquisition of the remaining 50% stake and revenue from China increased (+21.2% y/y to SGD9.4mn) due to the improved performance of Perennial Qingyang Mall and Perennial Jihua Mall and new revenue stream from Perennial International Health and Medical Hub (“PIHMH”) which commenced operations in June 2018. The only drag was from the management business (-37.4% y/y to SGD5.2mn) due to the partial divestment of TripleOne Somerset in 2Q2017. Stripping out SGD28.7mn (2Q2017: SGD45.5mn) increase in fair value of investment properties due to the revaluation of PIHMH, reported EBIT would have increased ~14.5% y/y to SGD13.2mn on the back of strong revenues from Singapore and China.
- Progress on property portfolio:** With the commencement of PIHMH in June 2018, a number of specialist centres have already commenced business while anchor tenant Gleneagles Chengdu Hospital is expected to commence operations in 2H2018. Meanwhile, Beijing Tongzhou Integrated Development is still on track to complete in 2020-21. Beds operated by Renshoutang (PREH’s eldercare business) surged q/q to 5,006 (1Q2018: 3,656 beds) following the opening of 1,350-bed Wuhan Jiuzhoutong Renshoutang Xiehe Eldercare and Retirement Home while the committed pipeline of beds increased to ~9,000 (1Q2018: 8,520 beds). In Singapore, 157-room The Capitol 6-star Kempinski Hotel Singapore is slated to open on 1 Oct 2018. Meanwhile, PREH is exploring en-bloc sale opportunities for the sale of 31.2%-stake in AXA Tower. However, no further update was provided on PREH’s stake in United Engineers Ltd.
- Confident to refinance tower of short-term borrowings:** SGD1.07bn borrowings are current, which exceeds SGD154.7mn in cash. Of this, we understand that SGD666mn is due in 2018 and management mentioned that progress has been made to refinance SGD367mn of loans (both secured and

unsecured). Another SGD300mn from PREHSP 4.65% '18s will also come due, though management has not announced how this will be refinanced. We remain comfortable as PREH should retain access to the loans and capital markets. PREH may also obtain liquidity from divestments (e.g. sale of 31.2%-stake in AXA Tower).

- **Expected slide in credit metrics:** Net gearing surged q/q to 0.74x (1Q2018: 0.58x) after acquiring the remaining stake in Capitol Singapore. We expect net gearing to continue increasing to ~0.9x when PREH fully commits to its 45%-share (USD540mn) in the China High Speed Railway JV that it is leading. Already, the [PREH-led JV has announced that it is investing RMB2.7bn \(SGD564.3mn\) in a Tianjin South High Speed Railway Integrated Development](#). Management indicated that net gearing may unlikely be pushed beyond 1.0x and will seek to recycle assets as a source of capital, if funds are needed.

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#### 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.

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**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.

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