Asia Credit Research

Keppel Infrastructure Trust:
New Credit Review

Tuesday, July 02, 2019

Recommendations Summary

Issuer Profile:	**Perpetual Recommendation:**	
Neutral (4)	KITSP 4.75%-PERP	**Neutral**
Fundamental Analysis Consideration • Substantial recurring income from diverse infrastructure assets and defensive businesses with highly manageable counterparty credit risk • Alignment of interest with KEP despite no explicit guarantee • Highly levered issuer • Asset-level debt are non-recourse to issuer • Sizeable asset base has finite lives and expire before 2029, unless concessions/agreements are extended	Technical Analysis Consideration • Subordinated perpetuals • Some protection against "asset stripping" • Dividend stopper is a positive, especially for a Business Trust which pays dividends regularly to unitholders • No change of control • No delisting put • Step-up margin of 100bps may be insufficient to incentivise a call at first call in 2029	

Ticker: **KITSP**

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Key credit considerations

- **Strong links with Keppel Corp Ltd ("KEP") entities:** KIT is sponsored by Keppel Infrastructure Holdings Pte. Ltd. ("KIH"), which is a wholly-owned subsidiary of KEP and the main entity of KEP's infrastructure business. KEP is a Singapore conglomerate with diverse business interests across property, infrastructure, telecommunications, asset management and offshore & marine with a market cap of SGD12.4bn as at 1 July 2019 which we hold with an issuer profile at Neutral (4). In addition to the ownership interest, KIT maintains relationships with various KEP entities including jointly owning KMC (49% is owned by Keppel Energy Pte Ltd, a wholly-owned subsidiary of KIH) with another KEP entity as its customer. KMC and three other Waste & Water assets are maintained by a KEP-entity. While all debt and perpetual issued by KIT is not guaranteed by KIH or KEP, there is strong alignment of interest between KIT and KIH and KEP on the back of KIT's ownership, KEP's board representation, shared ownership of KMC and operational links, in our view.

- **Sizeable exposure to assets expiring within the first 10 years of the perpetual:** All of KIT's Waste & Water assets in Singapore, KMC and Basslink are assets with finite lives by virtue of their fixed period agreements with customers, in our view. Such assets are typically purpose-built with a highly limited customer base. We assume that the recovery value from this asset is contained to the remaining tenure of their underlying land lease if contracts expire without an extension. Three out of four concession-based Waste & Water assets reach their end of concession period before June 2029 (first call date of the KITSP 4.75%-PERP). We do not have the specific asset-by-asset breakdown within Waste & Water though the segment in aggregate contributes 12% to KIT's total asset and 34% of 1Q2019's Proforma FFO (assuming IXOM was fully contributing for the quarter). It is too early to say whether the agreements would be extended and even if extended, at what cost to KIT (eg: capex outlay for contract renewal).

- **Substantial recurring income**: Excluding Basslink, a troubled asset, KIT generated SGD50.8mn in Funds from operations ("FFO") in 1Q2019 (SGD38.6mn in 1Q2018). We exclude Basslink as it does not contribute distributable cash flows to KIT (eg: FFO used for debt repayment at Basslink). We view KMC's FFO and the FFO from the remaining four Water & Waste assets to be stable with highly manageable counterparty credit risk. KIT's FFO is after minsusing the attributable FFO to minority investors. While the City Gas business is not a concession-based income stream and more variable, in practice, customers have little incentive to switch gas providers once they have connected with City Gas. IXOM was only acquired in February 2019, if we assume IXOM was fully contributing during the quarter, FFO would be SGD58.0mn ("Proforma 1Q2019 FFO") with IXOM making up 23% of Proforma 1Q2019 FFO. There is less historical data available for IXOM given it had been under private equity ownership before February 2019 although in our view its income stream is likely to be the most variable (versus the other KIT assets). That being said, IXOM's EBITDA had shown stability in the past 3 years. Based on IXOM's management's normalised EBITDA, this number has grown to AUD133.8mn for the financial year ended September 2018 (up 5% since the financial year ended September 2016).

- **Highly levered issuer:** We consider KIT to be a levered issuer within our coverage universe although not above our expectations for an infrastructure-focused business. As at 31 March 2019, KIT's consolidated gross gearing (we define as gross debt-to-total equity) was 1.86x (end-December 2018: 1.51x) although KIT has refinanced ~SGD194mn of bridge loans taken up to help buy IXOM with new equity raised post-quarter end. This should have reduced gross gearing back down to ~1.5x. We use gross debt rather than net debt as KIT has a sizeable advance payment from customers and customer deposits which we think would need to be returned down the road. As at 31 March 2019, reported gross debt-to-total asset was 0.50x. This is set to decline to 0.47x, back to end-2018 levels.

- **……though significant non-recourse debt:** Despite the relatively high leverage, debt at the asset-level is non-recourse to the rest of the group. 93.4% of consolidated debt (excluding outstanding ~SGD354mn of bridge loans) as at 31 March 2019 was non-recourse debt. KIT has partly refinanced its bridge loans with new equity; the remainder is possibly refinanced with the SGD perpetual post-quarter end. Non-recourse debt also means that operational issues at a specific asset which negatively affects debt servicing, repayment and refinancing ability is limited to that standalone level. Reputation risk aside, there is no legal obligation for KIT to support these non-recourse debt. For example, the technical breach in Basslink's loan covenants does not cause a cross default on other borrowings at KIT, allowing KIT to remain as a going-concern.

I) Company Background

Keppel Infrastructure Trust ("KIT") is structured as a Business Trust registered with the Monetary Authority of Singapore and domiciled in Singapore. KIT has three main segments, namely Energy, Distribution & Network and Waste & Water. KIT is listed on the Singapore Stock Exchange ("SGX") with a market cap of SGD2.3bn as at 1 July 2019 and Sponsored by Keppel Infrastructure Holdings Pte. Ltd. ("KIH"), the infrastructure holding company of KEP. KEP is a Singapore conglomerate with diverse business interests across property, infrastructure, telecommunications, asset management and offshore & marine. We hold KEP's issuer profile at Neutral (4).

Before its name change, KIT was known as CitySpring Infrastructure Trust ("CitySpring"), a Business Trust which was then Sponsored by Temasek Holdings (Private) Limited ("Temasek") and listed since 2007. In 2015, CitySpring acquired businesses and assets of Crystal Trust (renamed from "Keppel Infrastructure Trust"), a separately listed Business Trust as part of a business combination between the two. Prior to the business combination, Crystal Trust was Sponsored by KIH and managed by Keppel Infrastructure Fund Management ("KIFM").

In effect, while CitySpring was the acquisition vehicle and surviving entity, in substance, KIH and KIFM were retained as the Sponsor and Trustee-Manager respectively of the enlarged trust. The enlarged trust also adopted "Keppel Infrastructure Trust" as its new name.

Prior to the business combination, CitySpring's key assets included City Gas, SingSpring, Basslink, DataCentre One and CityNet (since liquidated) while Crystal Trust assets were two waste-to-energy ("WTE") plants and one NEWater plant (an advanced water recycling factory, including for drinking). The 51%-stake in Keppel Merlimau Cogen ("KMC"), a combine cycle gas turbine power plant was bought from KEP immediately post combination.

Business Trusts are trusts that are run and operated as a business enterprise. Similar to other Business Trusts, the role of the Trustee of KIT's assets and the Manager of such assets are combined, this is in contrast to real estate investment trusts ("REIT"). KIT is managed by its Trustee-Manager, namely KIFM where KIFM is an indirect wholly-owned subsidiary of KEP. KIT invests in infrastructure businesses in Singapore and elsewhere, whether through direct investments or indirect investments. These include incidental and/or ancillary businesses to infrastructure and the Trustee-Manager has discretion as to what constitutes as an infrastructure business. Assets which may be injected into KIT in the future include those from KEP's infrastructure segment and vessels being built by KEP's Offshore & Marine arm. We think these though would only be injected if they come with a defensive cash flow profile (eg: long term contract) and post-stabilisation.

The issuer of the KITSP 4.75%-PERP is KIFM (as Trustee-Manager of KIT). This is in a similar vein to REIT issuances, where legally the issuer is the trustee of the REIT. For the avoidance of doubt, the KITSP 4.75%-PERP is not guaranteed by its Sponsor, KIH, KEP and any other KEP-entities.

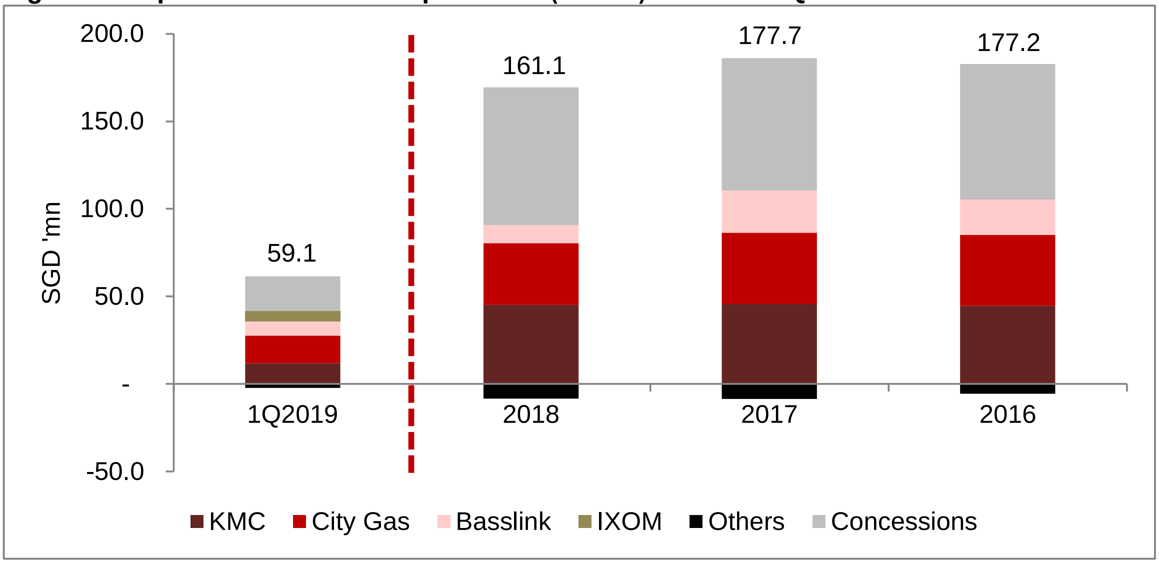
Figure 1: Main Assets and Businesses

Asset	Location	KIT's Interest	Brief Description	Customer	Contract Terms & Key License
Energy					
KMC	Singapore	• 51% in KMC • Remaining 49%-stake is owned by Keppel Energy Pte Ltd, which is indirectly wholly-owned by KEP `	• 1,300 MW combined cycle gas turbine power plant • Capacity based tolling agreement which does not vary with electricity demand • Merchant market risk of the electricity generated borne by customer • Most of the operating costs passed through	Keppel Electric Pte Ltd, indirectly wholly-owned by KEP	• Tolling agreement until 2030 • Option for 10 year extension • Underlying land lease until 2035, with option of a 30-year extension • Electricity Licence from the Energy Market Authority ("EMA") valid until 31 Dec 2032
Distribution & Network					
City Gas	Singapore	• 100% in City Gas Trust • Indirectly, owns a 51%-stake in City-OG Gas which retails natural gas to commercial and industrial customers in Singapore • Remaining 49%-stake in City-OG Gas is owned by third party Osaka Gas	• Sole producer and retailer of town gas in Singapore • Production facility Senoko Gasworks • Uses the underlying gas pipe network but has no ownership interest over this network	~849,000 customers across public and private housing, commercial and industrial segments	• City Gas holds the sole licence from EMA to produce and retail town gas in Singapore • 51%-owned City-OG holds a gas retail license
Basslink	Australia	• 100% in Basslink • Indirectly owns 100% in Basslink Telecoms, an alternative fibre optic telecommunications network between the Bass Strait	• Owner and operator of the Basslink Interconnector, a high-voltage electricity connector between the electricity grids of the States of Victoria and Tasmania (ie: crossing the Bass Strait) • Availability-based payments with a market risk sharing agreement • Under arbitration with customer over outage • Possible to be sold and/or restructured down the road	Hydro Tasmania, a power generation company owned by the Tasmanian state government	• Basslink Services agreement expires in 2031 • Option for 15 year extension
DataCentre One ("DCOne")	Singapore	• 51%-stake in DC One • Remaining 49%-stake owned by third party WDC Development Pte Ltd (in turn owned by Shimuzu Corporation)	• Data centre • Lease-based payments	1-Net, a wholly-owned subsidiary of MediaCorp, which is in turn owned by Temasek	• Lease agreement until 2036 • Option for 8 year extension
IXOM	Australia & New Zealand	• 100%-stake	• Supplier and distributor of water treatment chemicals, industrial and specialty chemicals • Sole manufacturer of liquefied chlorine in Australia • Trading of chemicals • Owns bulk storage facilities across Australia and New Zealand	More than 8,000 customers	• No single customer make up more than 6% of revenue for the financial year ended September 2018

Waste & Water (Concessions-based)					
Senoko WTE Plant	Singapore	• 100%-stake	• 2,310 tonnes/day waste incineration concession • Only waste incineration plant located outside of Tuas • Majority of income from fixed capacity payments • Also receives variable payment for refuse incineration service and electricity produced	National Environment Agency of Singapore ("NEA")	• Incineration Services Agreement until 2024 • Environmental Public Health Act ("EPHA") Licence from the NEA valid until 4 August 2025 • Electricity Licence from EMA valid until 23 August 2039
Keppel Seghers Tuas WTE Plant	Singapore	• 100%-stake	• 800 tonnes/day waste incineration concession • Majority of income from fixed capacity payments • Also receives variable payment for refuse incineration service and electricity produced	NEA	• Incineration Services Agreement until 2034 • EPHA Licence from the NEA valid until 28 June 2035 • Electricity Licence from EMA until 14 June 2040
Keppel Seghers Ulu Pandan NEWater Plant	Singapore	• 100%-stake	• 148,000 cbm/day NEWater concession • Capacity-based payments • Variable output payments	PUB, Singapore's national water agency	• NEWater Agreement until 2027
SingSpring Desalination Plant	Singapore	• 70%-stake • Remaining 30%-stake owned by third party Hyflux Ltd ("HYF")	• 136,380 cbm/day seawater desalination concession • Important contributor to Singapore's water needs • Capacity-based payments • Variable output payments • HYF is the operations & maintenance operator of the plant	PUB, Singapore's national water agency	• Water Purchase Agreement until 2025 • Underlying land lease until 2034

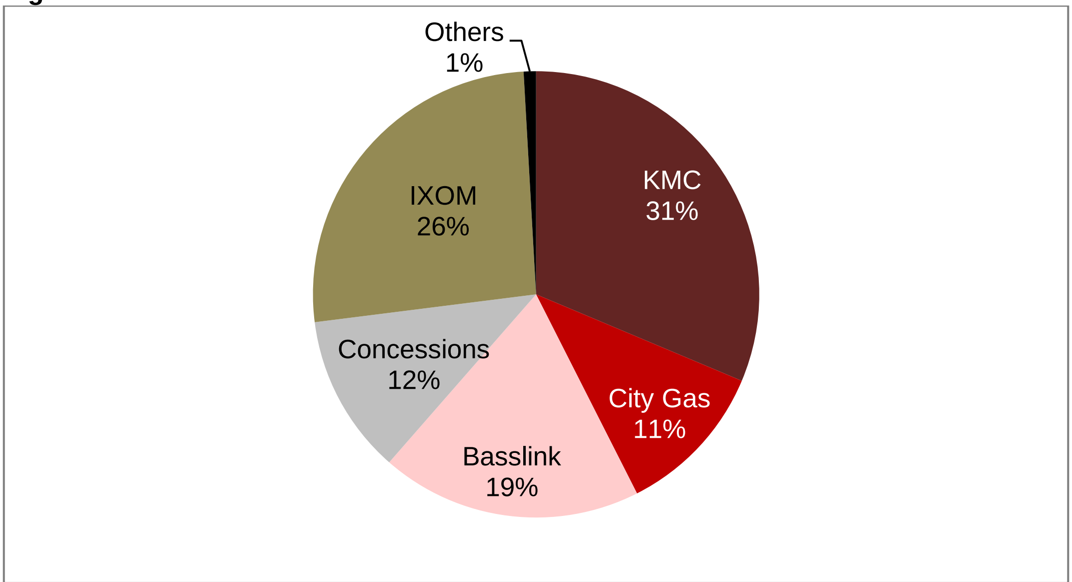
Source: KIT annual reports, investor presentations, information memorandum dated 23 May 2019, OCBC Credit Research

Figure 2: Reported Funds from Operations ("FFO") FY2016 - 1Q2019



Source: Company annual report and investor presentation
Note:
(1)KIT defines FFO as income/(loss) before tax, add back non-cash items (chiefly depreciation & amortisation) and after deducting FFO that is attributable to minority interests
(2) "Others" include contribution from DataCentre One and trust expenses
(3) Concessions refer to Waste and Water assets
(4) 1Q2019 only includes IXOM's FFO contribution from 19 February 2019 to end-March 2019), one-off IXOM transaction costs added back into FFO

Figure 3: Estimated Breakdown of Total Asset



Source: OCBC Credit Research estimates tabulated from KIT's FY2018 annual report and 1Q2019 financials
Note:
(1) On a consolidated total assets basis, based on SGD5.1bn in total assets
(2) Apart from IXOM which was bought in February 2019, assume assets value stayed the same per end-2018 information
(3) Others include DataCentre One and Corporate assets (ie: those not allocated to specific business segments)

Energy

The Energy segment comprises a sole-asset, KIT's 51%-stake in KMC a combined cycle gas turbine power plant located on Jurong Island, Singapore which it consolidates onto its financials. KMC is a shared asset with KEP, as the remaining 49%-stake is owned by Keppel Energy Pte Ltd (an indirect wholly-owned subsidiary of KEP).

KMC commenced operations in 2007 and was acquired by KIT in 2015 from KEP. Power generation is a liberalised and competitive sector in Singapore. By capacity, KMC is the fourth largest power plant in Singapore, making up ~10% of total.

KMC has entered into a 15-year tolling agreement with Keppel Electric, directly wholly-owned by Sponsor (indirect wholly-owned subsidiary of KEP) until June 2030, with the option to extend for another 10 years. Our base case assumes cash inflow until June 2030. This matches the tolling agreement and within the plant's design capacity of 25 years.

In practice, certain power plants may be operated beyond its design life. In the event Keppel Electric does not renew the agreement in June 2030, KMC can sell power directly into the grid since its electricity license is until 2032 with underlying land lease until 2035 (option to extend for another 30 years). We consider any extension of the tolling agreement by Keppel Electric to be an upside case.

While the electricity market is currently in an oversupply situation, the oversupply for power is projected to decline in the next few years as supply gets taken out (2018's reserve margin was ~80%, significantly higher than the 58% projected for 2019 and 46% for 2020). In any case, under the tolling agreement, KMC does not bear the merchant market risk, with KMC earning regular and stable fees from Keppel Electric as long as it meets availability and capacity targets. We also understand from management that fuel price risk is not borne by KMC. As it stands, we see little risk for Keppel Electric to rescind on this agreement before June 2030.

Capacity payments are negatively affected should there be unplanned maintenance works during the year though contractual availability for KMC has remained high. In 2018, the power plant achieved contractual availability of 98.9%. In 2017 and 2016, this was 100% and 98.5% respectively.
KMC has entered into a long-term operations and maintenance ("O&M") agreement with a wholly-owned subsidiary of its Sponsor. This entity also manages relationships with Alstom Power O&M Ltd and GE Power (Singapore) Pte. Ltd who has been contracted for the maintenance of the gas turbine and steam turbine (ie: the heart of a power plant) and other subcontractors.

<u>Distribution & Network business</u>

Main assets and businesses within Distribution & Network include City Gas and a 51%-stake in DataCentre One in Singapore while KIT owns Basslink and IXOM in Australia.

<u>Singapore: City Gas and City-OG</u>

In contrast to other assets in Singapore assets which are largely concession-based, City Gas is not concession-based, albeit a regulated business. In our view, the City Gas business remains "monopolistic" for now, being the only low-pressure piped town gas producer in Singapore serving ~849,000 commercial, residential and industrial customers in Singapore, with town gas used mainly for cooking and heating purposes. The distribution of natural gas to commercial and industrial customers is via City-OG Gas Energy Services Pte Ltd ("City-OG"), 51%-owned by City Gas. In 2013, City Gas sold 49%-stake in City-OG to third party, Osaka Gas, is an energy company based in Osaka, Japan. Both City Gas and City-OG operates under gas retailing licenses from the EMA.

City Gas owns a production facility Senoko Gasworks which has a 1.6 million cbm/day capacity and uses both natural gas and light virgin naphtha as feedstock. The gas tariffs charged by City Gas to end customers are reviewed by the EMA on a quarterly basis and adjusted in line with changes in the cost of feedstock (pegged to price of high sulphur fuel oil) and the cost of transporting town gas.

The town gas produced is transported through a gas pipe network specifically for town gas. While City Gas does not own the underlying network, it is the sole user and has entered into an agreement with the owner PowerGas Limited (a wholly-owned subsidiary of Singapore Power Limited) to use the network. While PowerGas Limited charges City Gas a transportation tariff, this is also subject to EMA's price control.

On gas supply, City Gas has entered into an agreement with Gas Supply Pte Ltd (since novated to Pavilion Gas Pte Ltd, wholly-owned by Temsaek) that allows City Gas to buy natural gas for 20 years from 2003 to 2023.

Earlier in 2014, the gas retail market was liberalised, allowing other gas retailers to sell gas to customers beyond Jurong Island, Jurong and Tuas. This liberalisation was extended to all industrial and commercial customers, including small consumers. As of report date, apart from City Gas and City-OG, there is another eight other gas retail licensees. While the policy has not been extended to residential customers, there is no assurance that this would not be considered in the future. As far as we are aware, for now the only direct competitor to City Gas in the residential customer market is electricity (eg: induction cookers) and cylinder gas that can operate standalone without being connected to the gas network.

Singapore: DataCentre One

DataCentre One, a small contributor, is a data centre located at Riverside Road, Singapore. KEP owns a 51%-stake in DataCentre One, though this is recognised as a share of results in joint venture. The remaining 49%-stake is held by Tokyo-based Shimizu Corporation.

The data centre is leased to 1-Net Singapore Pte Ltd, a wholly-owned subsidiary of Mediacorp Pte Ltd ("1-Net") until 2036, with an option to renew by another ~8 years. Mediacorp is a media and entertainment company based in Singapore. Some of its media brands include free-to-air TV channels Channel 5, 8, U, radio channels Class 95, Yes 933. Mediacorp is a wholly-owned subsidiary of Temasek.

Australia and New Zealand: Basslink

Basslink, is the sole electricity interconnector between the electricity grids of the Australian states of Victoria and the island-state of Tasmania. Of the 370km long monopole interconnector, 290km is sub-sea across the Bass Strait. The interconnector allows buying and selling of electricity into the national electricity grid. With its focus on hydroelectricity, the state of Tasmania is a leading player in Australia for renewable energy generation. Hydroelectricity though is susceptible to rainfall patterns where Basslink allows Tasmania to import electricity when dam levels are low.

Basslink has entered into a Basslink Services Agreement with Hydro-Electric Corporation ("Hydro Tasmania") to make available the interconnector to Hydro Tasmania, an electricity generation company owned by the State of Tasmania. As a main source of revenue, a facility fee is payable in full if the Basslink Interconnector's cumulative availability is equal or greater than 97%, though should this be unmet, the fees will be reduced.

This has been a problematic business for KIT that has not contributed to distributable cash flow. In end-2015 to mid-2016, Basslink was down for six months, occurring during a period of dry conditions which saw Tasmanian dams at a record low level. Basslink has claimed the unplanned outage as a "*force majeure*" event, with causes unknown, although this has been disputed by the customer who is alleging it was caused by the interconnector exceeding its design limit. Hydro Tasmania has not paid Basslink the full facility fee from December 2016 to August 2017 and has paid "good faith payments" instead. From September 2017, full facilities payments have resumed with the interconnector back in service.

In March 2018, the State of Tasmania had issued a notice of dispute alleging that Basslink should indemnify the State of Tasmania for alleged losses amounting AUD100mn (~SGD95mn). This sum is not taken as a provision in the 2018 and 1Q2019 financials for KIT. Matters in relation to this past outage are now pending arbitration.

In a separate incident, Basslink was down for two-months in an unplanned outage in March-June 2018 due to third-party contractor damage during maintenance work. Hydro Tasmania did not pay Basslink the full facility fees from July to August 2018. Per company though, Basslink remains current on its debt service obligation although Basslink is considered to be in technical default under its project finance. Among various reasons, one of it is due to Basslink not complying with the minimum debt-service coverage ratio covenant (computed on a trailing 12 months basis).

While these events have hit KIT's reputation in our view, the direct impact to KIT is limited for now as the debt at Basslink is non-recourse to the rest of the group. KIT has also not relied on FFO from Basslink for its distributable cash flow. One of the reasons for this is due to its' high leverage at the asset-level, certainly the highest among KIT's assets, with gross debt-to-asset of 0.68x based on our estimation. While some overhang persists, Basslink is a known issue among KIT's unitholders which should not unduly affect financial flexibility for the rest of KIT's assets. On 24 November 2017, KIT announced that it was undertaking a strategic review of Basslink and it was shared that KIT received a number of enquiries from parties expressing interest to acquire Basslink though no deal transpired at then. For now, management is focusing on the pending arbitration and it is possible that Basslink would be sold and/or restructured down the road.

Australia and New Zealand: IXOM

IXOM (spun-off from Orica, a global commercial explosive and blasting systems company), was newly acquired by KIT since February 2019 which significantly increased KIT's asset base from SGD3.8bn in end-2018 to SGD5.1bn as at 31 March 2019. IXOM was under private equity ownership prior to KIT's purchase. IXOM is a manufacturer, trader and distributor of chemicals with leading positions in Australia and New Zealand. IXOM's key segments are (1) Chlorine and chlorine derivatives which it produces and sells to the water and mining & metals industry. IXOM is the sole manufacturer and provider of liquefied chlorine in Australia (2) Caustic soda and water treatment and other chemicals which it also produces and sell to a various industries (eg: mining & metals, food & beverage, pulp & paper) (3) Industrial, packaged & bulk where IXOM trades bulk liquid chemicals in Australia, specifically sulphuric acid and nitric acid. In New Zealand, IXOM focuses on water treatment chemicals for the dairy industry and trade chemicals.

The acquisition is in line with management's strategy to increase its asset exposure to businesses that operate in perpetuity (at least in theory) versus assets with finite lives. Given the long-term nature of KITSP 4.75%-PERP, in our view, it is a credit positive that KIT is expanding beyond finite assets.

IXOM was purchased by KIT for a purchase price of AUD770mn (~SGD774mn) and an enterprise value of ~SGD1.1bn, representing an Enterprise Value-to-Financial year ended September 2018 EBITDA of 8.7x. The purchase was funded by a bridge loan facility of up to SGD750mn and senior secured debt of AUD532mn (~SGD519mn). To part refinance the bridge loan facility, KIT raised gross proceeds of ~SGD300mn from an equity private placement in March 2019 and another ~SGD200.8mn in gross proceeds from a preferential offering of equity in April 2019. KIT's Sponsor (wholly-owned by KEP) took up new units in the equity raising, maintaining its ~18%-stake in KIT.

Waste & Water

KIT's Waste & Water businesses are concentrated in Singapore, holding four concession based assets. We consider these four assets as critical infrastructure for the country. Singapore only has one landfill on Semakau island, with four WTE plants and Tuas Marine Transfer Station (facility to transfer waste to Semakau island) making up the rest of Singapore's solid waste disposal infrastructure. The incineration of solid waste reduces solid waste volume by 90%. Two of these WTE plants are owned by KIT where KIT treats almost half of Singapore's waste volume that can be incinerated. Within water, KIT owns 100% of Keppel Seghers Ulu Pandan Newater Plant and a 70%-controlling stake in SingSpring, a desalination plant located in Tuas.

Singapore: Senoko WTE Plant

The Senoko WTE Plant is located in Senoko, Sembawang and serves the eastern, northern and central areas of Singapore. The plant is held under a business trust with Senoko Waste-To-

Energy Pte Ltd ("Senoko Trustee") acting in its capacity of trustee. The WTE plant has a power generation capacity of 56MW from two condensing turbine generators.

In September 2009, Senoko Trustee entered into an agreement with NEA for 15 years with a contracted incineration capacity of 2,100 tonnes per day (net calorific value of 9,000 kJ/kh). A subsequent upgrade competed on September 2016 increased this to 2,310 tonnes per day.

Fixed capacity payments are received for the provision of incineration capacity and variable payments for the provision of incineration services, electricity generation and payment for energy market charges. For every month in the past three years, Senoko WTE plant's time availability factor exceeded the availability required to meet the contracted incineration capacities. Keppel Seghers Engineering Singapore Pte Ltd ("Keppel Seghers", wholly-owned subsidiary of Sponsor) is the operations & maintenance operator of the Senoko WTE under an agreement that runs parallel to the 15 year term. The O&M fees payable to Keppel Seghers is passed through to the NEA.

Singapore: Keppel Seghers Tuas WTE Plant

The Keppel Seghers Tuas WTE Plant is located in in Tuas, in the western part of Singapore the newest of four waste incineration plant currently operating in Singapore. The plant is held under a business trust with Keppel Seghers Tuas Waste-to-Energy Plant Pte Ltd ("Tuas Trustee") acting in its capacity as trustee. The WTE plant has a power generation capacity of 22MW from one condensing turbine generator. In October 2009, Tuas Trustee entered into an agreement with NEA for 25 years with a contracted incineration capacity of 800 tonnes per day.

Fixed capacity payments is received for the provision of incineration capacity and electricity generation (regardless of whether the plant exports any electricity to the grid and do not vary with the volume). Variable payments are payable for the variable costs in incinerating waste, electricity generation incentive payment and payment for energy market charges.

For every month in the past three years, Keppel Seghers Tuas WTE Plant's time availability factor exceeded the availability required to meet the contracted incineration capacities. Keppel Seghers is the operations & maintenance operator of the Keppel Seghers Tuas WTE Plant under an agreement that runs parallel to the 25 year term. The O&M fees payable to Keppel Seghers is passed through to the NEA.

Singapore: Keppel Seghers Ulu Pandan Newater Plant

The Keppel Seghers Ulu Pandan Newater Plant ("Ulu Pandan") is located at Toh Tuck, a largely industrial and commercial area. The plant was operational since March 2007 and has the capacity to produce 148,000 cbm/day of NEWater (high-grade reclaimed water produced from treated used water that is further purified per PUB) for its customer, PUB.

The plant is held under a business trust with Keppel Seghers NEWater Development Co Pte Ltd acting in its capacity as trustee. The Trustee has entered into a 20 year agreement with PUB from March 2007 with contracted warranted capacity of 148,000 cbm/day.

Under the agreement, fixed availability payments for the provision of production capacity (includes a fixed power payment from PUB) and variable output payments for the volume of feed water treated is received. However, cash flows from this plant fluctuate as variable output payments includes a power payment component. This component is based on power charges and fuel price index (fuel cost is a major component in Singapore electricity tariffs) and fluctuates.

Keppel Seghers is the O&M operator of the Keppel Seghers Ulu Pandan Newater Plant under an agreement that runs parallel to the 20 year term.

Singapore: SingSpring Trust

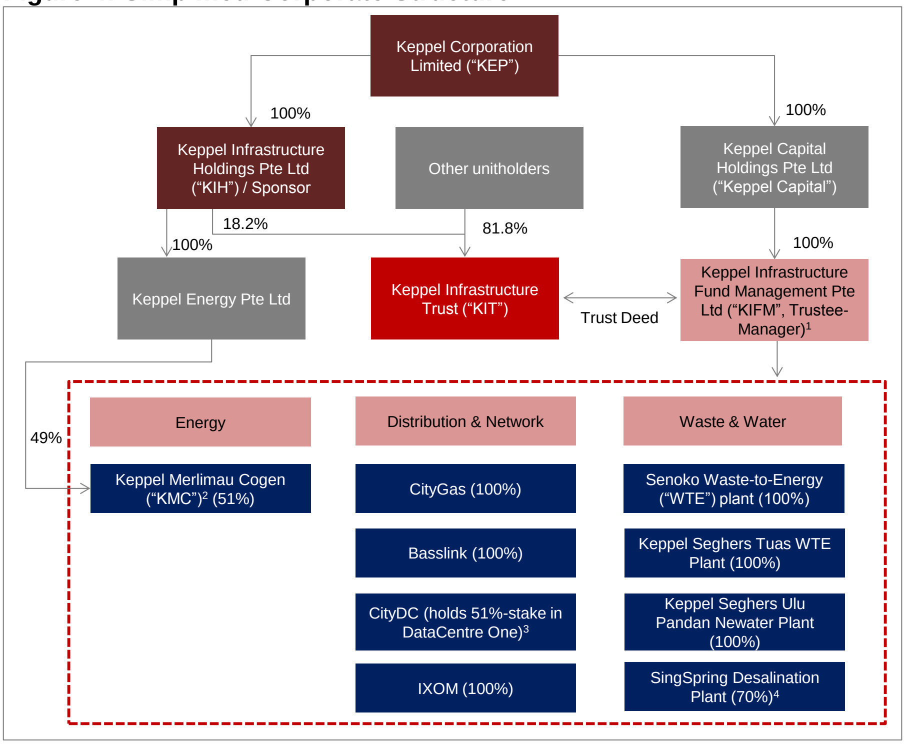
The SingSpring Desalination Plant is located at Tuas, a largely industrial area. The plant was operational since December 2005 and has the capacity to supply up to 136,380cbm/day of desalinated potable water. This plant is 70%-owned by KIT and 30%-owned by troubled Hyflux Ltd ("HYF"), a third party.

The plant is held under a business trust. The trust has entered into an agreement with PUB which will expire in December 2025 while the underlying land where the plant sits expires in 2034. SingSpring receives a fixed capacity payment for making available the output capacity of the plant (not affected by water supplied) and a variable output payment that is dependent on actual volume of water supplied to PUB. This includes variable costs in supplying water and covers the variable operations & maintenance payments payable to the operations and maintenance operator.

Hyflux Engineering Pte Ltd, a wholly-owned subsidiary of HYF is the O&M operator. KIT has heightened its monitoring of the SingSpring Desalination Plant and as of May 2019, on-going debt restructuring events at HYF have not yet impacted the operations of the plant. KIT holds the rights to acquire HYF's 30%-stake in SingSpring.

II) Ownership and Management

Figure 4: Simplified Corporate Structure



Source: OCBC Credit Research, KEP and KIT annual reports, exchange fillings
Note:
(1) The underlying assets and businesses are legally held by KIFM in its capacity as Trustee-Manager of KIT and for the benefit of KIT's unitholders. Certain assets and businesses are held via a trust structure (ie: sub-trusts of KIT)
(2) Keppel Merlimau Cogen is 51%-owned by KIT, the remaining 49%-stake is indirectly owned by KEP via Keppel Energy Pte Ltd and the tolling agreement is signed with Keppel Electric Pte Ltd, another indirect wholly-owned subsidiary of KEP
(3) DataCentre One is 51%-owned by KIT, the remaining 49%-stake is owned by a third-party
(4) SingSpring Desalination Plant is 70%-owned by KIT, the remaining 30%-stake is owned by a third party

Figure 5: Major unitholders as at 4 March 2019

Unitholder	Shares	Deemed interest
Keppel Infrastructure Holdings Pte. Ltd.	702,361,054	18.2%

("KIH")		
Tembusu Capital Pte Ltd ("Tembusu")	611,944,427	15.9%
Other public unitholders	1,122,071,354	65.9%

Source: Annual report

KIH, the largest unitholder and Sponsor of KIT is a wholly-owned subsidiary of Keppel Corp Limited ("KEP"), a conglomerate. KIH is the holding company for KEP's infrastructure-related businesses, including energy infrastructure, environmental infrastructure and services. KEP in turned is ~20%-owned by Temasek.

The remaining unitholders holding a ~82%-stake in KIT comprise of institutional and retail investors, including Tembusu with a ~15.9%-stake in KIT. Tembusu is a wholly-owned subsidiary of Temasek. We view Temasek's ownership in KIT as a financial investment since the completion of the combination between CitySpring and Crystal Trust in 2015. Other investors are mainly retail investors holding dispersed stakes. As KEP itself is ~20%-owned by Temasek, Temasek has a deemed interest of ~34% in KIT and an effective stake of ~19.5% in KIT. After Tembusu, the remaining unitholders are dispersed with the third and fourth largest unitholders holding only a 1.3% and 1.0%-stake respectively, likely from passive investment strategies.
Of the four senior management team members of the Trustee-Manager, three have been appointed in the past year. Mr Matthew Pollard was appointed as Chief Executive Officer ("CEO") of the Trustee-Manager from 1 July 2018 and has an extensive background in investment banking, direct investments and entrepreneurship with a sector focus in energy, power, renewables and infrastructure. Earlier, Mr Pollard was Managing Director, Infrastructure for Keppel Capital (since November 2017).

In our view, the appointment of a relatively new management team for KIT indicates a shift from earlier investing decisions (eg: investments into Basslink was made more than 10 years ago) which makes recent developments of KIT more important for our analysis.

The Trustee-Manager's board of directors comprises seven members, of which five are independent directors while KEP has two representatives on the board. Of the five independent directors, three are not considered to be strictly independent by virtue of their other on-going relationships with KEP and/or Temasek's various entities. These directors though abstain from board's decision in relation to any matter involving KEP and/or Temasek-entities.

III) Company Overview & Analysis

Strong links with KEP entities: KIT is sponsored by Keppel Infrastructure Holdings Pte. Ltd. ("KIH"), which is a wholly-owned subsidiary of Keppel Corp Ltd ("KEP") and the main entity of KEP's infrastructure business. KEP is a Singapore conglomerate with diverse business interests across property, infrastructure, telecommunications, asset management and offshore & marine with a market cap of SGD12.4bn as at 1 July 2019. We hold KEP's issuer profile at Neutral (4) on the back of its strong access to capital markets despite its weakened credit metrics from recent acquisitions. As part of KIT's 1Q2019 equity fund raising to partly fund IXOM's acquisition, KIH had took up new units in the equity raising, maintaining its 18.2%-stake in KIT. In Singapore, KMC is 51%-owned by KIT with the remaining 49%-owned by Keppel Energy Pte Ltd (a wholly-owned subsidiary by KIH). The customer of KMC is also a KEP entity while yet another KEP entity is the O&M operator of the power plant. Three out of four of the Waste & Water asset have Keppel Seghers as its O&M operator. While all debt and perpetual issued by KIT is not guaranteed by KIH or KEP, in our view, there is strong alignment of interest between KIT and KIH and KEP on the back of KIT's ownership, KEP's board representation, shared ownership of KMC and operational links.

Sizeable exposure to assets expiring within the first 10 years of the perpetual: All of KIT's Waste & Water assets in Singapore, KMC and Basslink are assets with finite lives by virtue of their fixed period agreements with customers, in our view. Such assets are typically purpose-built with a highly limited customer base. We assume that the recovery value from this asset is contained to the remaining tenure of their underlying land lease if contracts expire without an extension. During the quarter, IXOM only contributed 40 days of FFO given it was acquired on 19 February 2019. If we assume IXOM was contributed fully during the quarter, FFO would be SGD58.0mn ("Proforma 1Q2019 FFO"). Three out of four concession-based Waste & Water assets reaches their end of concession period before June 2029 (first call date of the KITSP 4.75%-PERP). We do not have the specific asset-by-asset breakdown within Waste & Water though the segment in aggregate contributes 12% to KIT's total asset and 34% of 1Q2019's Proforma FFO. It is still too early to say whether the concessions would be extended and even if extended, at what cost to KIT (eg: capex outlay for contract renewal).

……with KMC tolling agreement coming due in June 2030 complicating matters: The tolling agreement at KMC comes due a year after the first call date and the uncertainty over KMC's contract renewal could affect KIT's access to financing markets at that point. We estimate that KMC makes up 31% of KIT's total asset value and 20% of 1Q2019 Proforma FFO. Parts of KMC would have been in use for 23 years by then (versus design life of 25 years for similar plants). Even if power plants may technically continue operations beyond its design life, there is no certainty that Keppel Energy would extend the contract terms. We understand that KIT intends to increase its exposure to businesses operating in perpetuity (ie: similar to IXOM) though given that the underlying investment market for post-gestation infrastructure assets are highly competitive, it remains to be seen if KIT is able to continue diversifying its income stream.

Infrastructure is affected by regulatory and policy changes: KIT's main strength lies in its asset profile which generates a stream of highly recurring income. Even for its non-concession-based assets, these have tended to carry a "monopolistic" and/or highly defensive nature. However, there is no certainty that such business profile will remain over the medium-to-long term as infrastructure assets are subject to extensive regulatory and policy risk. KIT's assets operate under specific licenses issued by its regulators, some who are simultaneously its customers. As examples, KMC, City Gas and City Gas-OG (51%-owned by City Gas) hold specific licenses from the EMA for electricity and gas licensing respectively. Assuming a change in policy to increase competition for a particular business (eg: gas retailing for the residential segment), KIT's cost of doing business may increase. That being said, we currently see this risk as low given historically satisfactory service levels and KEP's strong reputation in the infrastructure segment. Outside of KIT, KIH is building Singapore's fourth desalination plant, the Keppel Marina Desalination Plant slated to open in 2020.

Infrastructure is an illiquid asset class and marketability may be restricted: Bulk of KIT's assets are critical infrastructure in our view. While not specifically stated, we think KIT's assets would by and large need approval from its customers and/or regulators before they are sold. This means that while KIT reports a sizeable asset base of SGD5.1bn, the marketability of such assets is restricted in practice, which may limit the pool of buyers. For example, as an Australian asset, a proposed sale of Basslink to non-local buyers would likely require approval from Australian's Foreign Investment Review Board ("FIRB"). In 2016, the FIRB rejected the proposed acquisition of Ausgrid (electricity distribution company focusing on the state of NeSizw South Wales) by State Grid Corp and Cheung Kong Infrastructure. While the FIRB is an advisory body, FIRB's views are in practice taken into account by the Treasurer and the Australian government when it comes to foreign investment policy. Closer to home, the sale process for Tuaspring Integrated Water and Power Project ("Tuaspring") was subject to pre-qualifications and approvals. Prior to PUB taking back the water portion of the plant, Tuaspring as a whole was owned by HYF, a third party.

IV) Financial Analysis

Substantial recurring income with highly manageable counterparties: Excluding Basslink, KIT generated SGD50.8mn in FFO in 1Q2019 (SGD38.6mn in 1Q2018). We exclude Basslink as it does not contribute distributable cash flows to KIT (eg: FFO used for debt repayment at Basslink). As FFO is an income figure less of cash interest and tax at the asset level, this is a substantial amount that can be used for debt repayment, with remaining distributed upwards to KIT. We view KMC's FFO and the FFO from the remaining four Water & Waste assets to be stable with highly manageable counterparty credit risk. In 1Q2019, KMC generated FFO of SGD11.7mn (1Q2018: SGD11.5mn) while the four concession-based assets under Waste & Water generated an FFO of SGD19.7mn (1Q2018: SGD19.5mn). We view KMC's counterparty credit risk to be highly manageable as the customer is its Sponsor (we equate Sponsor-credit risk to KEP credit risk) while the four-concession based Waste & water assets have PUB and NEA as their customer. Distributable cash flow is FFO less of debt repayment at the asset level, which we use as a proxy to cash receipts at the KIT standalone level. In 1Q2019, KIT reported distributable cash flow of SGD48.4mn (zero distributable cash flow contribution from Basslink), of which KMC and the four Waste & Water assets made up 61%.

Other FFO drivers: During the quarter, IXOM only contributed 40 days of FFO given it was acquired on 19 February 2019. If we assume IXOM was fully contributing during the quarter, FFO would be SGD58.0mn ("Proforma 1Q2019 FFO"). City Gas generated reported FFO of SGD15.8mn in 1Q2019 (representing 27% of Proforma 1Q2019 FFO). This was higher versus the SGD10.3mn generated in 1Q2018 driven by tariff adjustments. While the City Gas business is not a concession-based income stream and more variable, in practice, customers have little incentive to switch gas providers once they have connected with City Gas. IXOM, the newly acquired business makes up 23% of Proforma 1Q2019 FFO, as this is a new business, there is less historical data available although in our view its income stream is likely to be the most variable. Based on IXOM's management's normalised EBITDA, this number has grown to AUD133.8mn for the financial year ended September 2018 (up 5% since the financial year ended September 2016).

Expect distributable cash flow from KMC to decline from debt repayment: KMC faces a loan maturity in June 2020. We understand that management is in discussions over this loan and it remains to be seen what transpires from the discussions. In 1Q2019, KMC's FFO was SGD11.5mn and on average SGD45mn p.a for the past three years. Simplistically over 10 years, this is SGD450mn of cumulative FFO against SGD357mn of proportionate KMC debt (removing the 49% attributable to Keppel Energy, the minority investor indirectly wholly-owned by KEP). Our base case assumes prospective lenders would be comfortable with refinancing KMC's debt for 10 years although we think principal needs to be amortised and/or cash needs to be accumulated during time for eventual debt repayment to match the tolling agreement until June 2030. Due to our base case assumption of debt repayment, we think KMC's distributable cash flow will reduce to ~SGD10mn p.a after June 2020.

Looming refinancing risk: From 31 March 2019 to September 2020 (18 month period), KIT faces SGD1.7bn of debt coming due. This is SGD1.4bn if we take away the bridge loan that has been partly refinanced. Of the SGD1.4bn, AUD696.2mn (~SGD655mn) relates to Basslink debt which would come due in November 2019 and per KIT, it is in the process of negotiating with syndicate banks on the technical default, whose waiver is dependent on a long-term refinancing plan to be put in place for Basslink. Basslink aside, KIT faces refinancing risk in the form of KMC's upcoming SGD700mn loan due in June 2020 (proportionate debt of SGD357mn). The KMC loan has a bullet maturity coming due in June 2020 and we think KIT would need to refinance this loan rather than paying it down in full.

Highly levered issuer: We consider KIT to be a levered issuer within our coverage universe although not above our expectations for an infrastructure-focused business. Whilst infrastructure assets tend to be capital intensive, they tend to have stable recurring income (particularly for regulated infrastructure). A specialised project financing market has developed globally for the sector which accepts this higher leveraged structure among other traits unique to the sector. As at 31 March 2019, KIT's consolidated gross gearing (we define as gross debt-to-total equity) was 1.86x (end-December 2018: 1.51x) although KIT has refinanced ~SGD194mn of bridge loans taken up to help buy IXOM with new equity raised post-quarter end. This should have reduced gross gearing back down to ~1.5x. We use gross debt rather than net debt as KIT has a sizeable advance payment from customers and customer deposits which we think would need to be returned down the road amounting to ~SGD257mn as at end-2018. As at 31 March 2019, reported gross debt-to-total asset was 0.50x as though is set to decline to 0.47x, back to end-2018 levels. Headline debt levels should fall further with KIT's first perpetual issuance and re-tap which raised SGD300mn in aggregate in June 2019.

……though significant non-recourse debt: Despite the relatively high leverage, debt at the asset-level is non-recourse to the rest of the group. 93.4% of consolidated debt (excluding outstanding ~SGD354mn of bridge loans) as at 31 March 2019 was non-recourse debt. Post-quarter end, KIT has refinanced SGD194.4mn of the bridge loan with new equity with the remainder possibly refinanced with the SGD perpetual. Bridge loan aside, KIT had ~SGD149mn of straight debt as at 31 March 2019 at the trust level. Non-recourse debt also means that operational issues at a specific asset which negatively affects debt servicing, repayment and refinancing ability is limited to that standalone level. Reputation risk aside, there is no legal obligation for KIT to support these non-recourse debt. For example, Basslink, which has a higher leveraged profile versus other assets does not contribute to distributable cash flows for KIT. The technical breach in Basslink's loan covenants does not cause a cross default on other borrowings at KIT, allowing KIT to remain as a going-concern. Taking into account the SGD194.4mn of bridge loan that has been paid down and removing the debt and asset of Basslink, we estimate KIT's gross debt-to-total asset at 0.41x.

Bulk of assets has been used as collateral: Within expectations, a large portion of KIT's assets has been used as collateral to raise it's largely non-recourse debt. Among the collateral, bank borrowings have been secured over the assets and business undertakings of SingSpring, Basslink and Ixom. Bank borrowings for KMC are secured by the assignment of KMC's rights under the tolling agreement. Including IXOM, we estimate that the total assets which have been used as collateral amount to SGD4.1bn (representing 79% of total asset). The largest KIT's asset that remains unencumbered is City Gas which has an asset value of SGD576.6mn in end-2018. Excluding SingSpring, the three Waste & Water concessions with aggregate asset value of SGD448mn are unsecured. As these assets have a finite lives of five to 15 years, this may limit the amount of secured debt that can be raised.

Good interest coverage at trust-level for now: As it stands, we see little risk on KIT's standalone debt servicing ability. Hypothetically, assuming KMC refinance in June 2020 with an equal amortising structure over ten years and SingSpring amortises equally over four years, we think total distributable cash flow may reach SGD194mn per year against SGD5.9mn p.a of trust level interest expense and SGD14.25mn of perpetual distribution. This implies a distributable cash flow-to-interest and perpetual distribution coverage of 9.6x for KIT on a standalone basis. We ignore the bullet debt repayment for IXOM and City Gas, both due in 2024 given these are businesses in perpetuity with higher ability for a future refinancing and leave out Basslink as this is not contributing to distributable cash flow.

Basslink overhang: As of 31 December 2018, capex commitments were only SGD5.8mn, with no disclosure on what capex may be required for extension on its assets with finite lives. This is understandable given contract renewal negotiations which would only take place at a later date, though something which we would be monitoring. For now, the main contingent liability is the AUD100mn (~SGD95mn) claim by the State of Tasmania which KIT continues to defend and has not taken as a provision in its 2018 and 1Q2019 financials.

V) Perpetual structure and perpetual holders protection

Perpetual structure

Step-up/reset and call date: 10 year to first call date in June 2029 which matches reset date, with distribution rate to step-up by 100bps if not called.

Deferred distribution: Issuer can elect not to pay distributions on the perpetuals. Deferred distribution payments are cumulative but not compounding.

Dividend stopper: If distribution payments are deferred, a dividend stopper would restrict KIT from declaring or paying dividends to its unitholders (ie: common equity holders). KIT would also be restricted from redeeming, reducing, cancelling, buying-back to redeem, reduce, cancel, buy-back common equity. Given that KIT is a Business Trust whose common equity valuation is reliant on its ability to regularly pay dividends to unitholders, the dividend stopper encourages timely and continued distributions to perpetual holders in our view.

Seniority: KITSP 4.75%-PERP are subordinated perpetuals - senior to common equity though junior to straight debt. KIT's multicurrency debt issuance programme allows the flexibility for KIT to issue senior perpetual although to date no senior perpetuals have been issued.

Delisting call held by issuer: Issuer's option to redeem the perpetuals upon cessation or suspension of trading of units in KIT on the Singapore Stock Exchange. This is an option held by issuer, and not by perpetual holders. If issuer chooses not to exercise this option, perpetual holders would continue holding the perpetual of an unlisted entity in a delisting scenario.

Perpetual holders protection

Non-disposal covenant: As long as any perpetuals remains outstanding, KIT will ensure that none of its Principal Subsidiaries will sell, transfer, lease out, lend or otherwise dispose its assets which would have a material adverse effect on it or KIT (whether outright, by a sale-and-repurchase or sale-and leaseback arrangement). In our view Principal Subsidiaries would include KMC and IXOM only as of report date, where a proposed disposal would require perpetual holders' approval. Disposal of Basslink is not considered to be in breach of this covenant along with other exclusions (eg: normal course of business, exchanges of assets for other assets of a similar or superior nature).

VI) Technical Considerations

Positive

- Some protection against "asset-stripping"
- Dividend stopper encourages timely and consistent distribution payments to perpetual holders especially as Business Trust regularly pay out dividends to its unitholders
- Good name recognition via the association with KEP

Negatives

- Lack of external credit rating
- No change of control clause
- No delisting put
- Step-up margin of 100bps may not be sufficient to economically incentive issuer to call at first call date in 10 years
    - 10-year non-call longer than SGD market norms for corporate perpetuals

Figure 6: Relative Value

Bond	Maturity / Call Date	Gross gearing	YTM / YTC (SGD)	I-spread
KITSP 4.75%-PERP	12 June 2029	1.86x	4.76%	278
KEPSP 3.66% '29s	07 May 2029	0.86x	3.53%	155
SCISP 3.593% '26s	26 November 2026	1.30x	3.68%	182

Source: Bloomberg
Note: (1) Unadjusted gross gearing per latest available financial statements
(2) Finance lease payables at KIT amounted to SGD78.6mn in relation to the consolidation of IXOM is not included in gross gearing.

In our view, infrastructure and infrastructure-like businesses are unique and there are no close comparables in the SGD space. There is also a lack of comparables in terms of structure as corporate perpetuals with a first call in 10 years are rare in the SGD space. We have observed that management teams typically intend to call perpetuals at point of issuance, although commercial considerations down the road (eg: credit profile and interest rate trajectory down the road vis-à-vis need to maintain market access) would drive the decision in 10 years' time. Our base case assumes that KIT's management team intends to call at first call at this point.

We have compared the KITSP 4.75%-PERP to KEP's curve and Sembcorp Industries Ltd ("SCI"). We hold both KEP and SCI's issuer profile at Neutral (4). KIH (wholly-owned by KEP) is KIT's Sponsor, largest unitholder (with a 18.2%-stake) with KEP's various entities having business relationships with KIT (eg: tolling agreement on Keppel Merlimau, operations and maintenance agreements on other plants). Most recently, the Sponsor has supported KIT's equity raising to acquire IXOM by undertaking to subscribe for its proportionate share to maintain its stake in KIT. The KEPSP 3.66% '29s is trading at an ask spread of 155bps, assuming a senior-sub spread of 120bps, we think a hypothetical KEP perpetual NC10 may trade at YTC of 4.7%. We also compare the KITSP 4.75%-PERP to SCI, with SCI's utilities segment generating stable income. The SCISP 3.593% '26s are trading at 182bps spread, adjusting for maturity and senior-sub spread of 120bps, we think a hypothetical SCISP PERP NC10 may trade at YTC of 5.2%. The SCISP curve had widened post announcement that SCI would be lending SGD2.0bn to its partly owned subsidiary Sembcorp Marine Ltd (Issuer profile: Unrated).

As a sanity check for the 120bps senior-sub spread which we had applied, we looked at the senior-sub spread of CK Infrastructure Holdings Limited ("CKI") equity against its fixed for life perpetual (equity-like perpetual), the CKINF 4.85%-PERP. In the past year, CKI's equity dividend yield was 3.7% - 4.1%. The USD-denominated CKINF 4.85%-PERP trades at a yield-in-perpetuity of 4.98%, ~120bps more than the current equity dividend yield of 3.8%. CKI pays out ~65% of its net income as cash dividends. This implies a narrower average spread of ~100bps between its hypothetical equity dividend yield versus its perpetual yield-in-perpetuity, should CKI pay out 100% of its net income as cash dividend. CKI is a blue-chip investment holding company which invests in the energy, transportation, water and electricity generation sectors. We do not cover CKI.

The KITSP 4.75%-PERP is trading at a 4.76% YTC (278bps above swaps) 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.

VII) Conclusion & Recommendation

KIT is the owner of a diverse range of infrastructure concessions and defensible businesses which provides sizable recurring income and strong interest coverage at the trust level. While KIT's debt is not explicitly guaranteed by KEP, KIT maintains strong links with various KEP entities, encouraging alignment of interest between KIT and its Sponsor, beyond KIT's ownership interest and board representation. Constraining its credit profile are its leverage levels (gross gearing of 1.5x on a proforma basis), sizeable exposure to assets expiring within the first 10 years of the perpetual and overhang from Basslink which remains an unresolved situation, albeit one that is "ring-fenced" from the rest of KIT. We are initiating KIT with a Neutral (4) issuer profile.

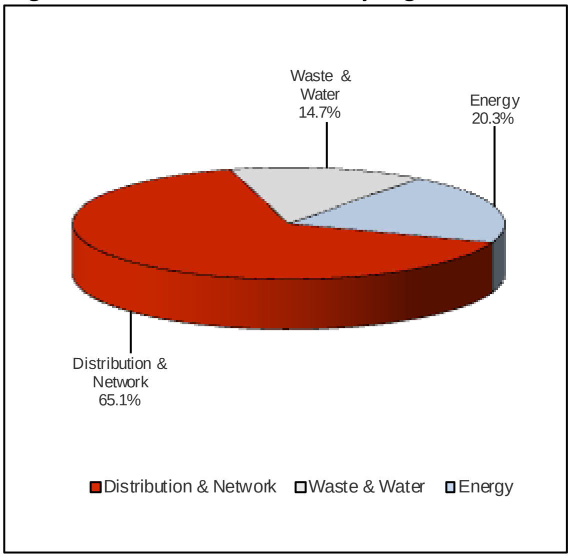
Keppel Infrastructure Trust

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

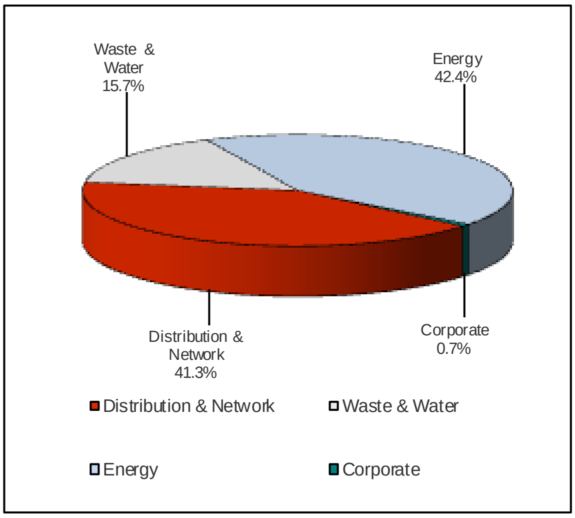
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2018



Source: Company | Excludes Corporate which was loss-making

Figure 2: Asset breakdown by Segment - FY2018



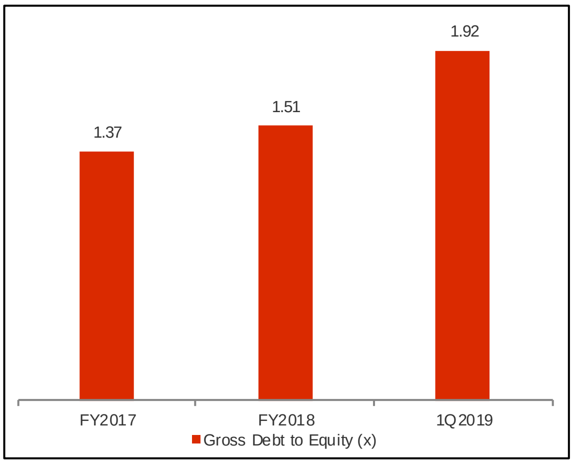
Source: Company

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

<table>
<tr><th colspan="2"><u>OCBC Global Treasury</u></th></tr>
<tr><td><u>Treasury Advisory</u>
Corporate FX & Structured Products
Tel: 6349-1888 / 1881
Interest Rate Derivatives
Tel: 6349-1899
Investments & Structured Products
Tel: 6349-1886

<u>GT Institutional Sales</u>
Tel: 6349-1810</td><td><u>Credit Research</u>
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Seow Zhi Qi
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ZhiQiSeow@ocbc.com</td></tr>
</table>

<u>Explanation of Issuer Profile Rating ("IPR") / Issuer Profile Score ("IPS")</u>

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 ("IPR") into a 7 point Issuer Profile Score ("IPS") scale.

<table>
<tr><td>IPR</td><td colspan="2">Positive</td><td colspan="3">Neutral</td><td colspan="2">Negative</td></tr>
<tr><td>IPS</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td><td>7</td></tr>
</table>

<u>Explanation of Bond Recommendation</u>

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.

<u>Other</u>

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 did not hold financial interests in the above-mentioned issuer or company as at the time of the publication of this report.

Co.Reg.no.:193200032W