OCBC Bank

Issuer Profile:
Negative (6)

Ticker:
LMRTSP

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Lippo Malls Indonesia Retail Trust ("LMRT")

Recommendation

- **2Q2019 results showed continued recovery since 1Q2019, with NPI for 2Q2019 14.5% higher than the lows in 4Q2018. This is due to a stronger IDR against the SGD, higher gross rents, cost management and declines in allowance of doubtful debts.**
- **Tenants are still falling behind payments and we have yet to see faster repayment from related-party tenants despite the successful USD787.5mn rights issue by Lippo Karawaci.**
- **Despite improvements in liquidity and terming out of debt maturity post the issuance of USD250mn LMRTSP 7.25% '24s, interest cover has fallen with EBITDA/Interest (including perps) at 2.6x (1Q2019: 2.9x). Aggregate leverage has also increased to 35.2% (1Q2019: 33.9%). Though we still hold LMRT at Negative (6) Issuer Profile, we may upgrade LMRT's Issuer Profile should tenant risks (both related and unrelated) fade away, pending also clarity from the potential acquisition of Lippo Mall Puri.**
- **Despite the recovery in prices of LMRTSP 4.1% '20s, we remain Overweight on the issue post the issuance of LMRTSP 7.25% '24s, which boosts near-term liquidity. Meanwhile, we stay Neutral on both LMRTSP PERPs at ~8% YTW as we think LMRT may not redeem these on the first call date while we note the equity dividend yield is at 9.8%.**

Relative Value:

Bond	Maturity / Call date	Aggregate leverage	Ask YTW	Spread
LMRTSP 4.1% 2020	22/06/2020	35.2%	5.05%	336bps
LMRTSP 7% PERP	27/09/2021	35.2%	7.91%	578bps
LMRTSP 6.6% PERP	19/12/2022	35.2%	8.11%	599bps
LMRTSP 7.25% 2024 (USD)	19/06/2024	35.2%	6.51% (SGD)	502bps

Indicative prices as at 2 August 2019 Source: Bloomberg
Aggregate leverage based on latest available quarter

Background

- Listed on the SGX on 2007 with a market cap of SGD695mn, LMRT is a retail REIT with a portfolio of 23 retail malls and 7 retail spaces in Indonesia.
- LMRT is amongst the largest retail S-REIT by floor space, with an NLA of 910,749 sqm. The malls are mostly located within Greater Jakarta, Bundung, Medan and Palembang, targeted at the middle to upper-middle class domestic consumers.
- LMRT is 31.57%-owned by its sponsor, Lippo Karawaci Tbk PT ("LK"), which is an Indonesian property group. Sponsor-related parties accounts for 24.5% of LMRT's gross revenue.

Key Considerations

- **Continued recovery in results:** Following the stronger q/q NPI in 1Q2019, 2Q2019 results for the quarter ending 30 June continued to recover NPI higher 8.5% q/q to SGD44.0mn from better portfolio performance (higher occupancy, rental reversion) and . On a y/y basis though, NPI is up only 1.9% y/y. While lower provisions for receivables were recorded in 2Q2019, with allowance of doubtful debts falling by SGD1.2mn y/y, gross rental income fell 5.8% y/y to SGD39.0mn. The fall is due to lower income from Lippo Plaza Batu and Palembang Icon due to expiry of master leases in Jul 2018 and lower casual leasing income in 2019. According to management, the dip in casual leasing income is due to space given up by one sizeable tenant, which LMRT is in the process to fully lease out.

- **Tenants are still behind payments, related party or not:** Trade and other receivables rose q/q to SGD40.4mn (1Q2019: SGD37.3mn). This comprises trade receivables (net of allowance of doubtful debts) of SGD26.4mn and other receivables of SGD14.0mn. Trade receivables (before taking into account of allowance of doubtful debts) are SGD32.5mn (1Q2019: SGD30.6mn), of which SGD14.7mn (1Q2019: SGD12.7mn) is due to related party tenants and SGD17.8mn (1Q2019: SGD17.9mn) from non-related party tenants. According to management, this is due to the Lebaran holiday in June during which individuals may take time off from work.

- **Will the related parties eventually pay?:** According to LMRT, there is no reason to believe that the Lippo group of companies will not be able to fulfil their payment obligations. Management mentioned that the receivables are well under 90 days. Subsequent to the financial period end, LMRT has collected SGD1.8mn from related party though we note that an even larger SGD5.1mn was collected from non-related party tenants in receivables. The slower collection rate of receivables from related party tenants subsequent to 2Q2019 is somewhat unexpected as LK (the sponsor) has successfully raised USD787.5mn in rights issue in mid-July. For now, we are still somewhat cautious though we think the acquisition of Lippo Mall Puri from LK may further ease the liquidity profile of LK.

- **Acquisitions and capex, both confirmed and in the pipeline:** Acquisition of Lippo Mall Puri is still on the cards for 2H2019, though this may be delayed pending clearance of land title. LMRT announced the asset enhancement ("AEI") of Gajah Mada Plaza (to be completed in 2024). This follows the announced AEI of Sun Plaza in 1Q2019. According to management, ~SGD20mn capex for each AEI on average will be required which is targeted to deliver ~15% returns on investment. Management also flagged that The Plaza Semanggi may be considered for AEI in 2020.

- **Stable portfolio statistics:** Occupancy rate rebounded somewhat to 92.2% as of 2Q2019 (1Q2019: 91.5%) as part of the spaces vacated in 1Q2019 has been filled (4Q2018 occupancy: 92.9%). An average rental reversion of 4.4% is recorded for 1H2019, though this has fallen from 6.3% in 1Q2019 which may indicate that lower rents were offered to boost up occupancy rates. We do not have industry comparison for 2Q2019 – according to management, industry statistics from the big property consultants have yet to be provided for 2Q2019.

- **Improved liquidity profile:** Cash position rose q/q to SGD113.8mn (1Q2019: SGD74.7mn), mainly due to remaining proceeds from issuance of USD250mn LMRTSP 7.25% '24s that was used to repay SGD120mn revolving credit facility and SGD175mn term loan due in Aug 2020. Current debt has fallen to SGD74.6mn (1Q2019: SGD120mn), which is due to the outstanding SGD75mn LMRTSP 4.1% '20s, which is sufficiently covered by the cash position on hand. While we believe that most of the cash is unrestricted (only SGD4.0mn of cash is restricted in use for bank facilities), we understand that LMRT is hesitant to fully deploy the cash as liabilities include SGD45.5mn in security deposits and SGD91.6mn in deferred income – in other words, LMRT collects significant cash upfront from tenants.

- **Interest costs to weigh on credit metrics:** Aggregate leverage rose q/q to 35.2% (1Q2019: 33.9%) mainly due to increased net borrowing from the issuance of LMRTSP 7.25% '24s. However, as the issuance is fairly large in size and at a coupon rate that is even higher than LMRTSP 7% PERP, cost of debt (including perpetuals) rose to 6.42% (1Q2019: 5.59%). As such, we calculate that EBITDA/Interest (including perpetuals) has fallen to 2.6x (1Q2019: 2.9x) despite stronger operating performance in 2Q2019. Without perpetuals, we calculate EBITDA/Interest at 3.6x (1Q2019: 4.4x). While weighted average maturity of debt has increased q/q to 3.7 years (1Q2019: 1.99 years) post the USD250mn bond issuance, it remains to be seen how LMRT will tackle the resultant maturity wall in 2024 in the future.

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

Please note that Bond Recommendations are dependent on a bond's price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

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.

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