OCBC Bank

Asia Credit Research

Singapore Credit Outlook 2018

Tuesday, 09 January 2018

- **Low impact risk events, improving operating conditions and a flattening yield curve combined to produce the second highest SGD bond issuance volume on record. While volumes in 2H2017 were lower than 1H2017, they still remained solid and supported by repeat issuers.**

- **Higher supply was also supported by strong demand that was driven by flushed liquidity and yield-starved investors. This led to a strong technical environment throughout 2017 and improving underlying demand for high yield as orderbooks were much greater than the final issuance size.**

- **The flatter yield curve along with yield compression provided strong support for perpetuals issuance in 2017 which increased in size and breadth compared to prior years. It also caused spreads for existing perpetuals to lead overall spread tightening in the secondary market which remained well bid.**

- **The brief high yield sell-off in 4Q2017 highlighted market sensitivity to sentiment and susceptibility to a correction given prevailing technicals. While we believe any correction in the SGD space will be restrained given improved fundamentals, high market liquidity and solid market discipline, the prospect of monetary policy normalization, rising rates and inflation together with a large supply pipeline raises the odds for an unwinding of current full valuations. We emphasize lower duration and higher credit quality for insulation.**

- **The outlook for Financial Institutions remains balanced with underlying fundamental economic improvement and regulatory clarity mitigated by high systemic leverage and global monetary policy angled towards normalization. That said, financial institutions under our coverage appear leaner and meaner to tackle the next 12 months.**

- **The supply situation for industrial and office real estate will improve heading into 2018, though lease rates are expected to remain soft given prior overhangs. Secondary transactions in the Retail and Office have been completed at supportive levels, while transaction volume has broadly increased across commercial real estate, supporting REIT portfolio valuations. More development and foreign acquisitions expected.**

- **We expect Singapore property prices to continue trending higher. Demand-supply gap is closing and land prices are supported with keen bids. While risks are skewed to the upside in the short term, it is less certain if prices will continue to increase in the longer term. A rising tide may not lift all boats as leverage may climb when developers rebuild their land bank.**

- **Offshore upstream activity expected to recover given sustained crude oil rally. Increased spending forecasted by oil majors, including into offshore resources. Oversupply situation in drilling assets and OSVs mean utilization improvement before stronger earnings, hence 2018 remains challenging. Sector-wide restructuring approaching final stages.**

Treasury Advisory

Corporate FX & Structured Products

Tel: 6349-1888 / 1881

Fixed Income & Structured Products

Tel: 6349-1810

Interest Rate Derivatives

Tel: 6349-1899

Investments & Structured Products

Tel: 6349-1886

Andrew Wong
+65 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA
+65 6530 7348
NickWong@ocbc.com

Ezien Hoo, CFA
+65 6722 2215
EzienHoo@ocbc.com

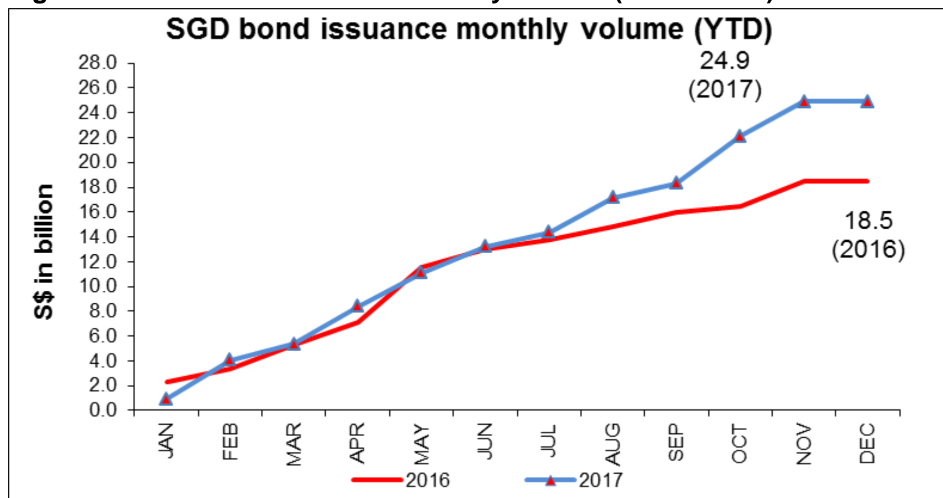
Wong Hong Wei
+65 6722 2533
WongHongWei@ocbc.com

2017 Singapore Corporate Bond Market Review

Overall issuance stronger y/y, with volumes in 2H2017 leaving 2H2016 in the dust

New issuance volume in 2017 was the highest since 2012 and the second highest on record, as a total of SGD24.9bn was priced across 124 issues (2016: SGD18.5bn across 104 deals). This represented a 30.4% increase y/y, with trends similar to the record year seen in the Asia dollar space (up ~68% y/y). While 1H2017 issuance was relatively stable y/y, issuance volume in 2H2017 picked-up strongly, with a total of SGD11.7bn of bonds priced, as opposed to the SGD5.4bn of bonds priced in 2H2016. The amount priced was very close to our estimate of SGD11.8bn in bonds that were expected to mature or be called in 2H2017.

Figure 1: SGD bond issuances monthly volume (Cumulative)



Source: OCBC, Bloomberg

We attribute the strong 2H2017 issuance volume to a few factors: (1) Similar to 1H2017, issuers were still looking to lock in stubbornly low rates. Both the 5-year and 10-year swap rates failed to make any sort of meaningful recovery in 2H2017, and reached YTD lows of 1.61% and 2.07% respectively in early-September; (2) Although supply increased y/y, demand remained stronger amidst ample liquidity. The strong demand for issuance led bonds to be priced at tight levels that were materially lower than their initial price guidance. This trend was particularly seen in high-grade issuers. The strong demand for high-grade issues flowed through to the high yield space, with a higher number of high yield deals done in 2H2017 albeit at smaller issue sizes; and (3) Unlike previous years, issuers were not just tapping the market to refinance maturing bonds but also to pursue growth opportunities using debt funding. In particular, we saw more opportunistic transactions in the real estate sector as sentiment picked up in 4Q2017. These factors existed in the context of an improving global economic outlook and reduced event risk in 2017 as election results went broadly with expectations. This overshadowed somewhat elevated geopolitical tensions between North Korea and the US, as well as the prospect of rising interest rates.

As per 1H2017 trends, secondary prices in the SGD space continued to remain well supported by the strong investor demand and high levels of market liquidity despite the higher supply. The subsequent yield compression throughout our bond coverage ran ahead of fundamentals in our view. As a result, the number of bond recommendations lowered in our Monthly Credit Views (refer to OCBC Credit Research - Monthly Credit View) tended to outnumber the number of bond recommendations raised as the divergence between technicals and issuer fundamentals became more pronounced. The stretched valuations corrected somewhat towards the end of the year on (1) a rosier global economic picture which led to some asset rotation into equities as well as (2) year-end positioning of portfolios which led to profit taking after the strong year. A sell off in high-yield credit in the Asia dollar space also raised investor concerns despite the lack of any fundamental developments. While the correction was somewhat short-lived as a result, it nevertheless showed how a highly strung market can be susceptible to sentiment and elevated market volatility.

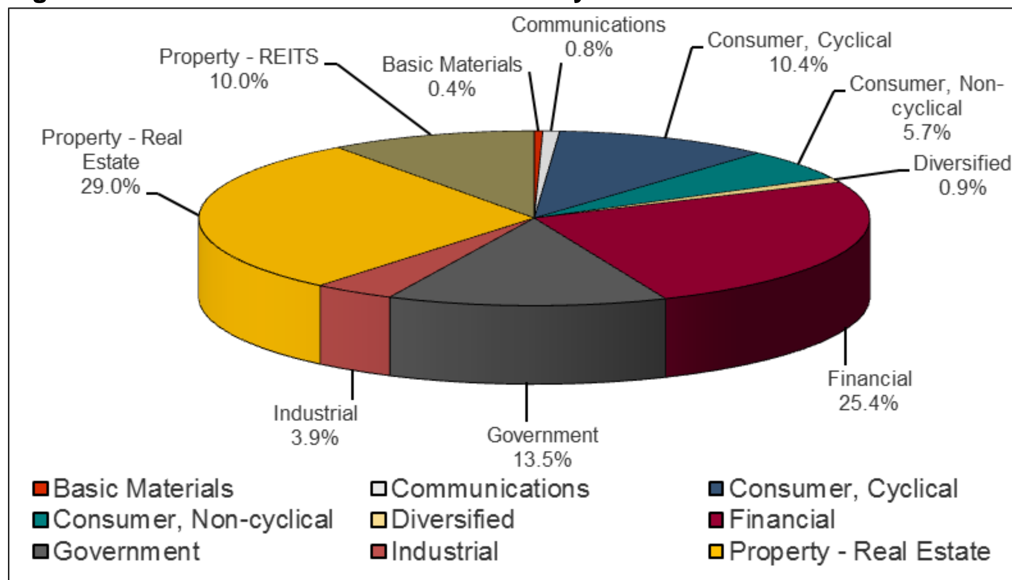
Real estate sector takes the crown this time

While 1H2017 saw strong issuance volume by financial issuers with large issuances by foreign banks including HSBC's SGD1bn Additional Tier 1 and Landesbank Baden-Württemberg's SGD500mn Tier 2 capital instruments as well as Huarong's SGD600bn senior unsecured issue, 2H2017 was dominated by the real estate sector. Real estate issuers priced a total of SGD3.0bn in 2H2017, bringing the total issuance volume by the real estate sector to SGD7.2bn for 2017. Quasi government issuances (ex-government and MAS bills) on the other hand in 2017 were significantly lower than 2016, as the market share of quasi government issues dropped from 32.5% in 2016 to 13.5% in 2017.

Elsewhere, the flushed market liquidity and demand from yield hungry investors stoked demand for mid –to-high quality issuers. Familiar names such as Frasers Centrepoint Ltd ("FCL") and CapitaLand Ltd ("CAPL") received strong demand for their papers, with FCL's 3.95% PERPc'22s receiving an over 3x orderbook and tightening from 4.25% IPG and CAPL's 3.08%'27s receiving over 1.5x in orders and tightening from 3.25% IPG. The issuer-friendly environment was also conducive for first-time issuers to tap the market, including relatively small domestic names such as ARA Asset Management and Gold Ridge Pte Ltd, as well as a good variety of foreign issuers such as CNQC International Holdings Ltd, China Eastern Airlines Corp Ltd, PT Ciputra Development Tbk and the entry of German banks into the SGD Tier 2 space (Commerzbank AG and Landesbank Baden-Württemberg).

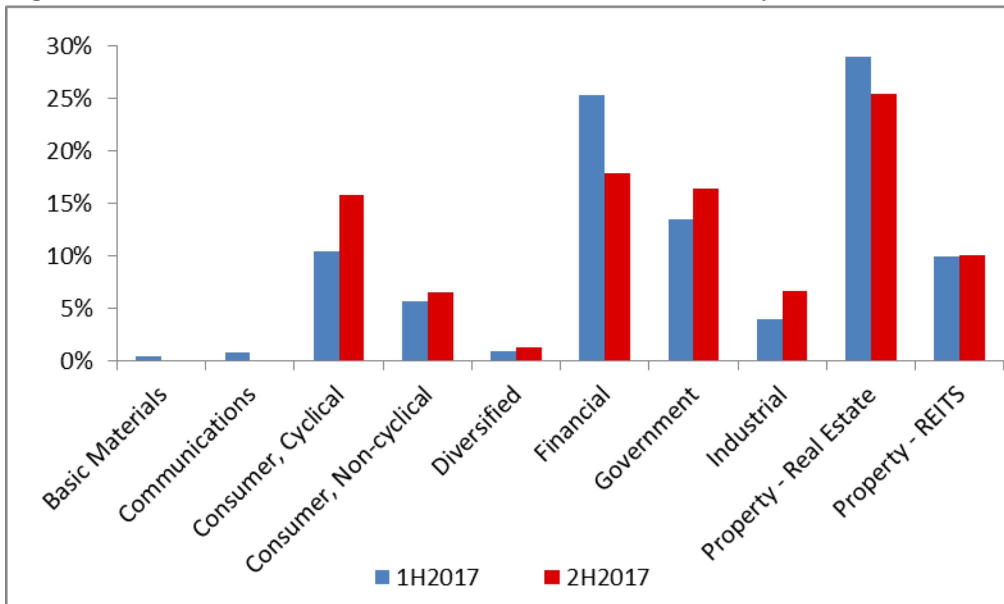
Finally, we saw a recovery in issuance from the consumer cyclical and industrials sectors which took a larger share of the market compared to FY2016 and 1H2017. This was mainly driven by Singapore Airlines Ltd and CITIC Envirotech Ltd, which sought out the debt market to fund their expansion plans. In general, while 1H2017 was characterized by an improved breadth of issuers tapping the market, we saw more repeat issuers tapping the market in 2H2017.

Figure 2: Breakdown of 2017 issuance size by sector



Source: OCBC, Bloomberg

Figure 3: Breakdown of 1H2017 and 2H2017 issuance size by sector

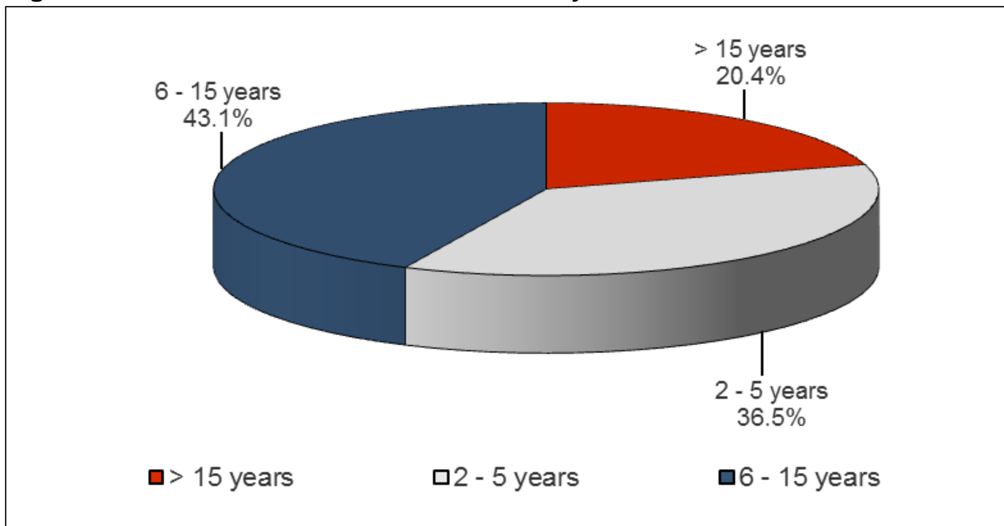


Source: OCBC, Bloomberg

Tenor trends in 2017 also evolved. As compared to 2016, issuers sought to move towards longer-dated bonds. While the proportion of issuance in the 6-15 year tenor range was similar y/y, total issuance size in the 2-5 year tenor range fell to 36.5% of total issuances, as compared to 42.6% in 2016. This was driven by both demand and supply considerations as investors acquired desired yields at the expense of duration given the flattening of the SGD swap curve over the year. On the supply side, issuers sought to lock in the still low rates before anticipated rate increases by tapping the longer end of the curve without paying significant term premium.

The drop in supply for the 2-5 year tenor range was made up in the longer-end of the curve (>15-year tenor range) with issuance volume increasing to 20.4% of total 2017 issuance volume (2016: 13.4%). This was driven by perpetuals issuance. In all, there were 14 perpetuals issued in 2017 totaling SGD4.0bn. We reiterate our view in the Singapore Mid-Year 2017 Credit Outlook that investors look somewhat complacent when it comes to perpetuals, as they continue to price to the call date (ie: implicitly assuming that a call will happen), and offer increasingly minimal yield pickup over senior unsecured papers. Although there remains a strong track record for SGD perpetuals to call at first call date, we think investors should take note of the current pricing environment and a possibly lower economic incentive to call in the future if rates continuously rise.

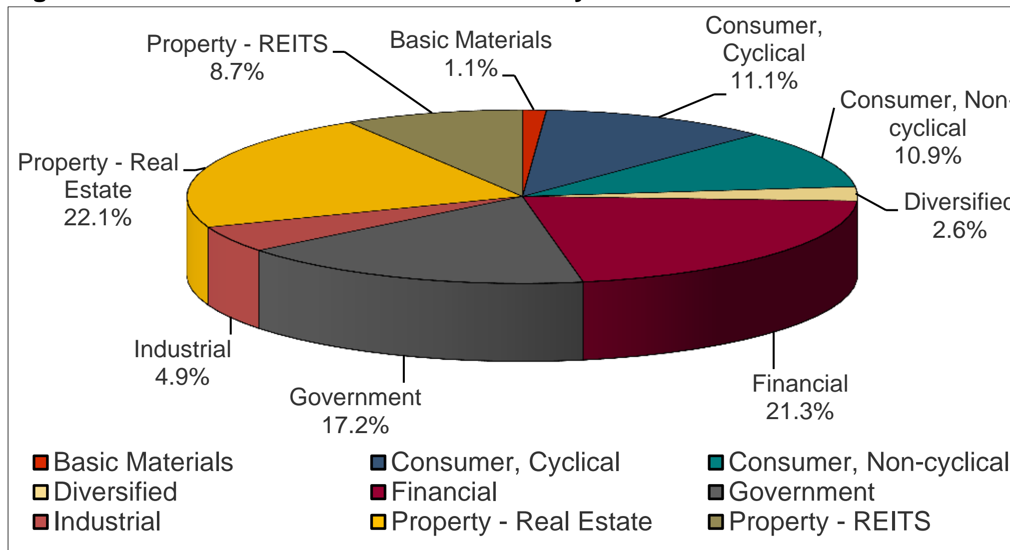
Figure 4: Breakdown of 2017 issuance size by tenor



Source: OCBC, Bloomberg

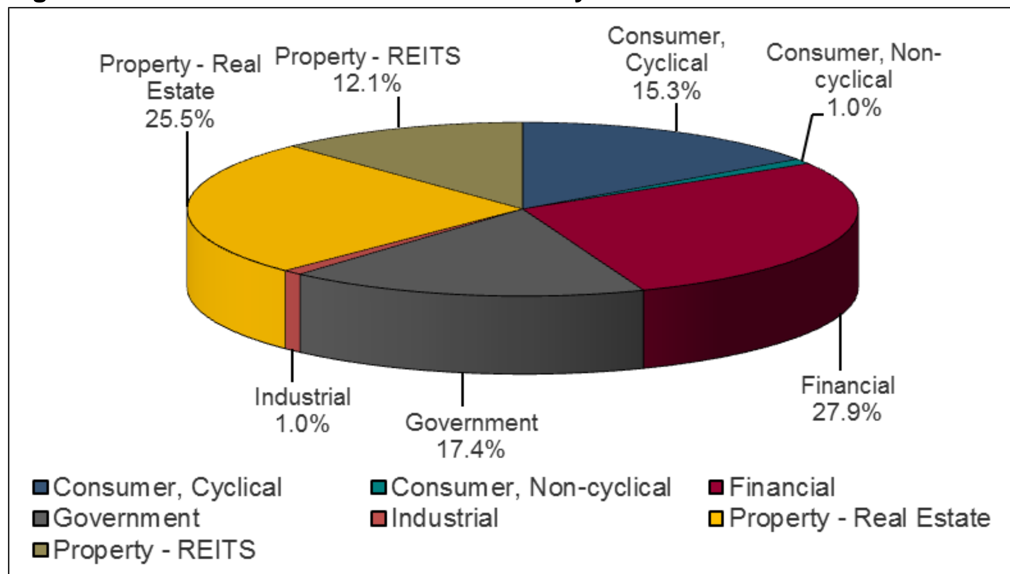
Sector issuance composition within the 2-5 year and 6-15 year tenor brackets followed the overall market sector issuance trend, with a majority of issuances stemming from real estate developers and financials. The consumer cyclical sector took a larger share in the 6-15 year tenor bracket, although this was due to Singapore Airlines Ltd pricing 3 bonds over the course of the year, totaling SGD1.6bn.

Figure 5: Breakdown of 2017 issuance size by sector for 2Y-5Y tenor



Source: OCBC, Bloomberg

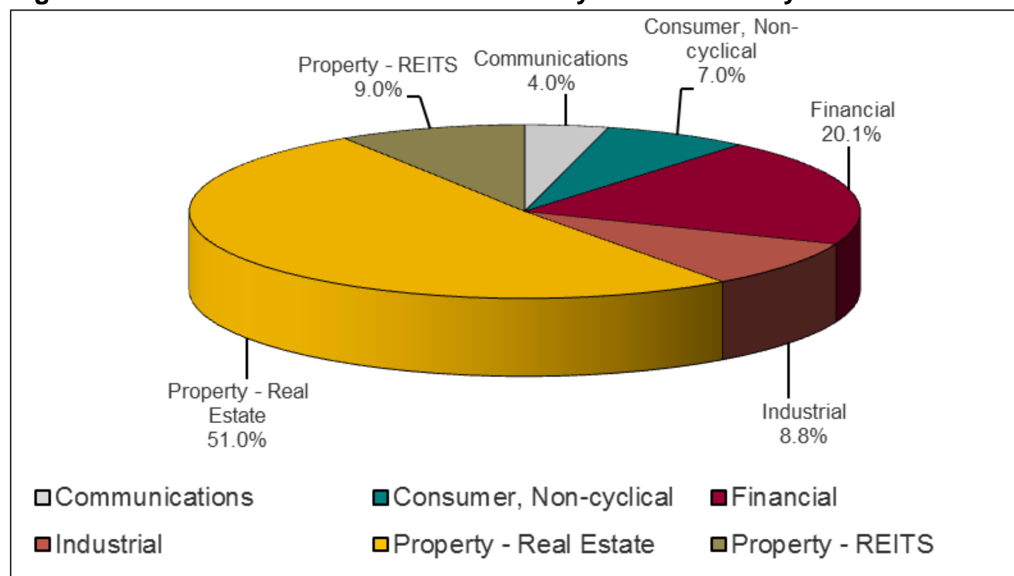
Figure 6: Breakdown of 2017 issuance size by sector for 6Y-15Y tenor



Source: OCBC, Bloomberg

Sector issuance in the >15-year tenor bracket, which was dominated by perpetuals, was skewed heavily towards real estate developers with over half of the issuance by volume from this sector. The crop of real estate issuers that issued perpetuals, however, came from diverse backgrounds, ranging from Temasek-linked issuers (Mapletree Investments Pte Ltd), lowly-geared issuers (Wing Tai Holdings and Wing Tai Properties) and more leveraged issuers (Frasers Centrepoint Ltd). That said, the preference for mostly well-known real estate names highlights the fact that investors were only willing to sacrifice duration for better credit quality or well-known names.

Figure 7: Breakdown of 2017 issuance size by sector for >15-year tenor

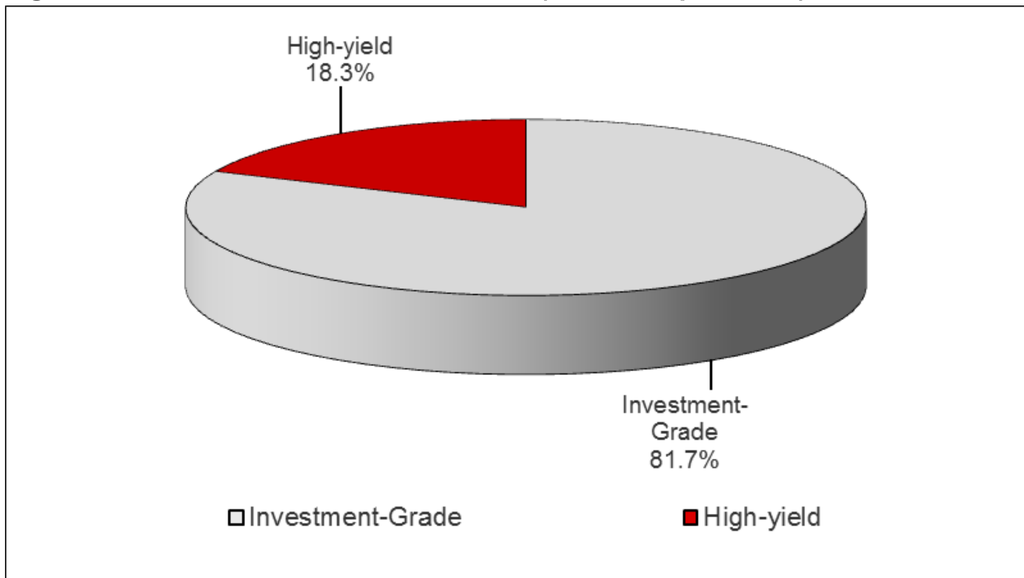


Source: OCBC, Bloomberg

Lastly, and continuing on the subject of credit quality, high-yield bond issuances (defined as paper with yields higher than 4.5%) contributed less to 2H2017 overall issuances compared to 1H2017. This was due more so to higher issuances of structurally driven higher-yielding instruments (HSBC Holdings PLC's Additional Tier 1, Commerzbank AG's Tier 2 and Mapletree Treasury Services Ltd's perpetual) in 1H2017 with demand for true high yield issuers (defined as paper with yields higher than 4.5% that are not structurally-driven (ie perpetuals or loss absorbing bank capital instruments)) remaining somewhat tepid in 1H2017. Demand for structurally-driven high yield paper in 2H2017 did not necessarily abate, however, with an equal number of perpetuals issued in 2H2017 compared to 1H2017. Instead, the ongoing low-yield environment drove perpetual issuances from high quality names below the 4.5% handle. As an example, Mapletree Treasury Services Ltd called its 5.125% Perp and refinanced it using a 3.95% Perp.

The 2H2017 low yield environment and the backdrop of an improving global economic environment actually provided comfort to investors to go down the credit curve and drove an underlying improvement in demand for true high yield issuers with absolute issuance for these names doubling in 2H2017 compared to 1H2017. In fact, the profile of perpetual issuers in 2H2017 with coupons above 4.5% (Olam International Ltd, ESR-REIT) were comparatively more aggressive than those perpetual issuers in 1H2017 (Lippo Malls Indonesia Retail Trust, Commerzbank AG, HSBC Holdings PLC, Hotel Properties Ltd, Mapletree Treasury Services Ltd). This further highlights the strong technical environment prevailing in 2H2017. The higher issuance of structurally driven higher-yielding instruments in 1H2017 also contributed to a rise in high yield issuance for the whole of 2017 compared to 2016. Underlying demand for true high yield in 2017 though was softer than 2016 on an absolute basis, despite the number of deals being higher as ticket sizes were smaller. This was likely driven by smaller and newer issuers tapping the market in 2017 to take advantage of solid issuing conditions.

Figure 8: Breakdown of 2017 FY issuance (>4.5% coupon rates)



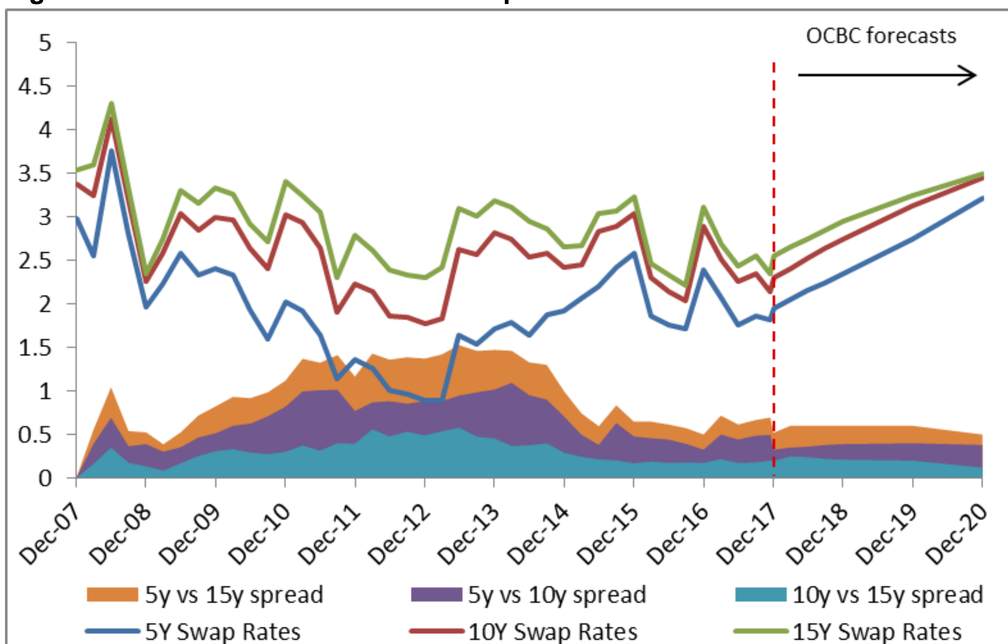
Source: OCBC, Bloomberg

Credit Outlook for 2018 – Saying goodbye to liquidity?

Our look towards 2018 starts with a look back at the key market drivers that drove the strong technical environment in 2H2017. In our view, these factors are unlikely to persist and could result in current rich valuations unwinding. This combination of current valuations and less conducive technical factors make the odds of a market correction higher than not, with the SGD credit outlook to be driven more by central bank policies than the improving economic landscape.

Firstly, the interest rate outlook appears somewhat clearer. The US interest rate trajectory is on the up following Trump's tax reform, oil prices remaining supported (our OCBC Commodities analyst expects Brent oil prices to gradually inch up to end 2018 at USD70/bbl) and a likely tight labour market which could push up inflation and spur additional rate hike expectations. SGD swap rates are also expected to follow and rise in 2018. With credit spreads compressing further than fundamentals suggest, we therefore do not see additional room for yields to tighten in 2018.

Figure 9: OCBC forecasts for SGD swap rates



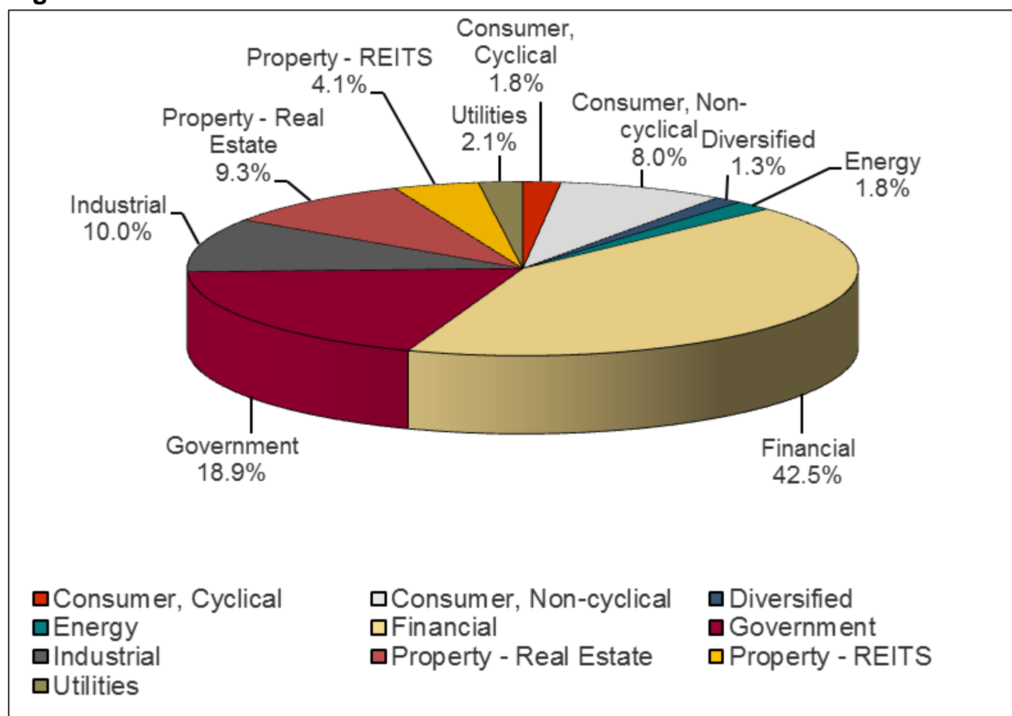
Source: OCBC, Bloomberg

In addition, the Federal Reserve balance sheet normalization program has started, with the Federal Reserve targeting to shrink its balance sheet by USD300bn from Oct 2017 to Sep 2018. Meanwhile, the European Central Bank ('ECB') has opted to reduce its monthly asset purchase by half to EUR30bn per month until September 2018 while deleveraging and capital control efforts in China has pushed the 10Y Chinese government bond yield above 4.0%. Although global central banks may not be synchronized in their monetary policy (the ECB will continue to expand its balance sheet albeit at a slower pace and the Bank of Japan is unlikely to shrink its QQE size or raise rates in the near term), we think global liquidity could very well reach its tipping point in 2018 following years of loose monetary policy and excessive market liquidity. This had brought with it low market volatility, tight valuations, and a build-up of financial risks, particularly in fixed income markets. Market complacency was evident with the brief high yield sell-off in 4Q2017, which highlighted the market's increased sensitivity to sentiment and susceptibility to a correction given prevailing technicals. In any case, we expect more market volatility in 2018 and higher investor activity from the changing macro dynamics and tighter funding conditions in the SGD space.

Although yields are expected to widen in 2018, we believe any correction in the SGD space will be restrained. Market liquidity is expected to remain high from funds flows, a strong SGD and rising SGD interest rates. In addition, the operating environment appears to be improving for many of the issuers we cover. This though may not necessarily translate into credit profile improvement for the issuers we cover, given that many have leveraged up for growth in view of better industry conditions and portfolio rejuvenation amidst still low rates. While these factors were conducive for issuance activity in the SGD space, we also note that market discipline has, in general, remained high with fewer signs of investor over-exuberance as was perhaps the case in 2013 and 2014. As mentioned previously, underlying high yield demand in 2017 was softer than 2016 on an absolute basis as investors appeared to be more cognizant of default risk given the stresses faced in the SGD market bond market over 2016 and 2017.

On the supply side, we expect issuance activity to remain robust. Higher rates clarity will incentivize issuers to tap the market before rates rise. We see issuance activity to be supported by an elevated maturity profile. We estimate that approximately SGD23.6bn of bonds will mature or be called in 2018. The profile is dominated by financials (42.5% of all maturities) and in particular legacy Additional Tier 1 capital instruments issued by local banks that are approaching their call date in 2018. We expect these instruments to be called given their relatively high coupons and current valuations and declining contributions to capital under Basel III regulations. Some issuers, particularly real estate developers will also have added motivation to issue given existing growth plans and previously announced investments.

Figure 10: Bond maturities in 2018



Source: OCBC, Bloomberg | Includes bonds callable in 2018

With the above dynamics in play, we continue to advocate selectivity for investors with a focus on better quality credits that (1) have sufficient scale and adequate financial flexibility to mitigate higher funding costs; (2) are well-positioned in terms of balance sheet headroom, which allows growth without additional vulnerabilities should financial stability decay; and (3) demonstrate visible operational improvements allowing for credit spread compression given benign macro environment. In terms of portfolio duration, we think investors should seek short to medium term issues and avoid duration with rates on the rise. As per our OCBC Interest rate forecasts, we expect short-term yields, which tend to move in line with the Fed Funds Target rate, to track higher over the year at a faster rate than the longer tenors. In contrast, we expect the long end of the yield curve to remain relatively flat, with the current ~20bps differential between 10-year swap rates and 15-year swap rates to remain unchanged through 2018. While the low term premium in the swap rates will incentivize issuers to price more bonds on the longer-end of the curve in 2018, particularly through perpetuals, we remain mindful of the elevated call risk facing investors from issuing duration at such tight valuations. Given the focus on selectivity, we think demand for true high-yield issuers will remain muted in 2018 and supply-constrained unless driven by liquidity pressure.

Expanded Scoring Scale for enhanced credit dispersion

Since January 2015, our coverage has swelled from 35 names in the Singapore Credit Outlook 2015 to 82 official and 76 published names in this year's Singapore Credit Outlook 2018. With the expansion of coverage, we felt the need to also expand our **Issuer Profile Recommendation ('IPR')** scale from just the three grades of Positive, Neutral and Negative. This made sense given the fairly large number of Neutral ratings assigned and the inability to adequately identify any credit dispersion within them. While we have elected to maintain the three grade scale for continuity and familiarity purposes, we have further subdivided the scale across a 7 point numbered scale to further differentiate relative credit quality of the issuers we cover. We identify each **Issuer Profile Score ("IPS")** by defined issuer characteristics and map each IPS back to an overall IPR:

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

Despite this modification, our analytical focus remains the same for both corporates and banks. Our fundamental credit analysis process to derive the IPR and IPS involves both business and financial

analysis. Business analysis is mostly qualitative and considers the broader environment in which an issuer operates, its business-specific factors within the broader environment, and the influence that ownership and management has on the issuer's future prospects. Financial analysis includes more quantitative analysis. Our bond level recommendation framework (Overweight, Neutral and Underweight) remains unchanged.

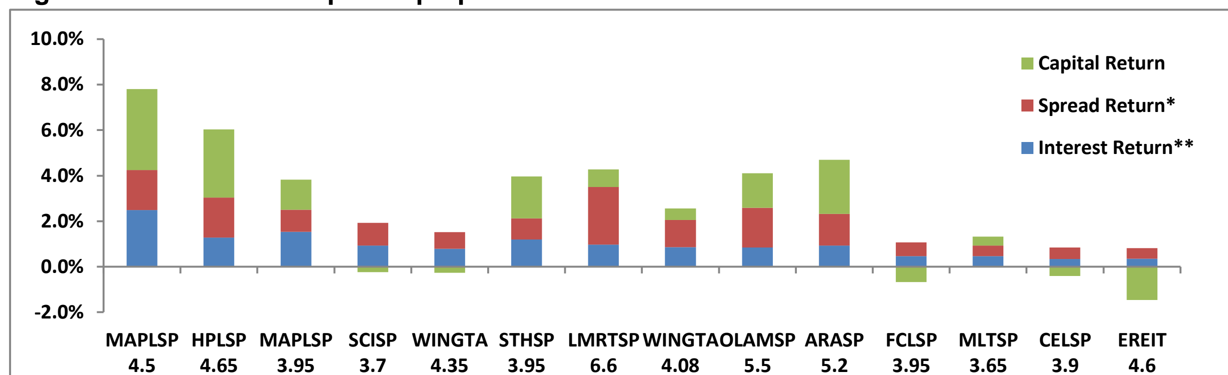
Of final note is that certain defaulted issuers are not considered part of this scale. This is because in some cases there is a lack of public information and/or uncertainty on restructuring outcomes when an issuer defaulted, such as in the case of liquidation or judicial management. This limits our ability to take a fundamental view on the credit and assign an IPR or IPS. As such, we will typically withdraw our issuer and/or bond level recommendations and cease coverage in such scenarios, until clearer details are available which enable us to evaluate the impact of any proposed corporate action and take a fundamental credit view.

We hope the new interplay between IPR and IPS will be of help to readers and provide better support for investment decisions. We also hope it enables us to provide better cross-sector and intra-sector peer comparisons. We welcome any feedback or questions.

SGD Corporate Perpetual – Party on but stay selective

2017 has been a banner year for corporate perpetuals, with 14 issues totalling SGD4.0bn, bringing the total issuance since 2011 to SGD15.9bn. Higher grade issuers anchored the supply (e.g. Mapletree Investments Pte Ltd, Sembcorp Industries Ltd and StarHub Ltd) though higher-yield issuers were also able to tap the market (e.g. Olam International Ltd, ARA Asset Management, Lippo Malls Indonesia Retail Trust). Most posted positive total returns in 2017 (average: 3.0%), on the back of a benign economic environment and favourable technicals with the call of SGD2.3bn from two Genting Singapore corporate perpetuals. However, the latter issuances (e.g. FCLSP 3.95% PERP, MLTSP 3.65% PERP, CELSP 3.9% PERP, EREIT 4.6% PERP) saw smaller returns due to the tighter initial spreads and shorter time to accrue interest.

Figure 11: Returns of corporate perpetual bonds issued in 2017



Source: Bloomberg, OCBC
** Based on the initial spread ** Based on the relevant swap offering rate*

While we questioned if it was still worthwhile to chase after compressing yields (refer to OCBC Asia Credit – SGD Corporate Perpetual Bonds, Oct) in Oct 2017, we opine that the recent pull backs in Nov-Dec have made selected issuances more attractive on a risk-reward basis. Since our update in Oct 2017, corporate perpetuals issued in 2017 have fallen by 0.9 pts on average, which is likely due to profit taking (most were trading above par) and uptick in shorter term rates. The LMRT curve now looks the most attractive following Moody's review to downgrade Lippo Malls Retail Trust, which brought LMRTSP 7% PERP and LMRTSP 6.6% PERP down by 3-4 pts while the credit profile has not materially deteriorated, in our view. We are also positive on SCISP 5% PERP, which offers 2.47% YTC (0.7Y to call) for a good quality name.

Figure 12: Corporate perpetual bonds with Overweight recommendation

Issuer	Issuer Profile	Issue	Call Date	Ask Price	Ask YTW
Keppel REIT	N	KREITS 4.98 PERP	02/11/2020	104.15	3.43
Lippo Malls Indonesia Retail Trust	N	LMRTSP 7 PERP	27/09/2021	104.50	5.65
Lippo Malls Indonesia Retail Trust	N	LMRTSP 6.6 PERP	19/12/2022	100.78	6.42
Sembcorp Industries Ltd	N	SCISP 5 PERP	21/08/2018	101.55	2.49

Source: Bloomberg, OCBC

Going into 2018, we think SCISP 5% PERP will likely be called. Sembcorp Industries Ltd could finance a new perpetual more cheaply, as demonstrated by the issuance of SCISP 3.7% PERP that sport a lower coupon and initial spread (192bps), in comparison to the 219bps initial spread on SCISP 5% PERP. The only other corporate perpetual with a 2018 call date is EZISP 7% PERP, though this should change following the restructuring exercise (refer to OCBC Asia Credit – Ezion Credit Update).

We expect conditions in 2018 to remain favourable for corporate perpetuals issuances. With the pickup in economic activity, we expect issuers to tap on perpetuals to fund expenditure for growth. We see the potential for property developers to issue more, given the significant bids made for land purchases. Perpetuals will help alleviate funding needs and keep the rising leverage in check. For similar reasons, we think REITs will continue to issue as they have limited debt headroom given the 45% aggregate leverage cap set by the regulator. In addition, while interest rates have inched higher, credit spreads remains low. To cap distribution rates, issuers could issue bonds with shorter call dates (e.g. SCISP 3.7% PERP with 3Y call), to take advantage of investors' expectations that most issuers will call (and hence price the perpetuals to call). We think another method to keep funding costs low is to structure perpetuals with equity upside, similar to convertible bonds.

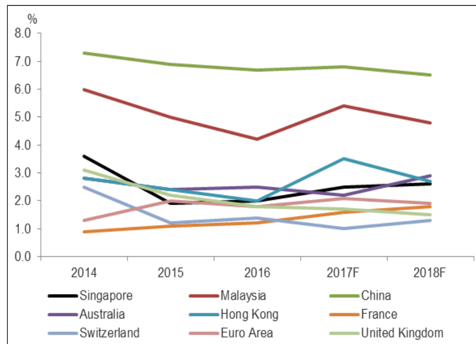
For investors, we think corporate perpetuals (in particular perpetuals issued by higher grade and and/or repeat issuers) may remain as the de facto high yield investment of choice. Tenor is usually effectively limited (due to call), while investment alternatives are decreasing with fewer SGD bonds priced over 4%. However, we continue to assert that covenants remain important (refer to OCBC Asia Credit – SGD Corporate Perpetual Bonds, Sep), and recommend investors not to forgo important protections (e.g. reset, dividend pushers & stoppers, step-up) in the hunt for yield. Investors should also be mindful of the rising interest rate environment, which could result in capital return risk.

Financial Institutions – Ready to launch / Leaner and meaner?

Earnings results for Financial Institutions under our coverage continue to be on a broadly positive trend. Top line performance, however, has been somewhat varied with operating income in emerging markets supported by some measure of credit expansion and loan growth along with positive trends in net interest margins and/or non-interest income. Elsewhere in developed markets (in particular Europe), operating income performance has been soft due to low interest rates which have depressed earnings in domestic retail banking businesses despite consistent loans growth. In addition, capital markets performance has been softer in 2017 from lower client activity in a relatively benign economic environment compared to 2016 which contained BREXIT and the US election. European elections in 2017 were not as impactful and did not elevate market volatility as much as expected.

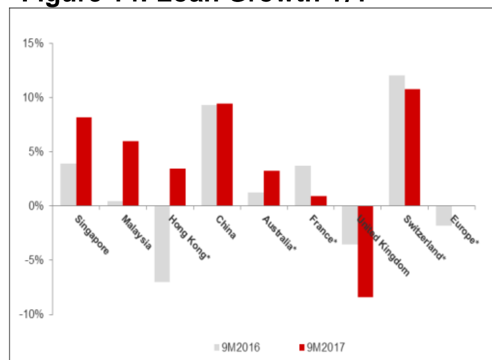
Neutralizing the impact of politics both in Europe and elsewhere has been broadly positive global economic performance. The IMF in October 2017 revised their global growth forecasts up to 3.7% for 2018 compared to its April 2017 forecast of 3.6% with better performance in Europe, Japan, emerging Asia (especially China), emerging Europe and Russia expected to mitigate slower expected growth in the US and the UK. Markets as well have been somewhat sanguine owing to a strong technical environment brought about by the slower pace of rate hikes translating into a flattish yield curve as well as still flush market liquidity.

Figure 13: GDP Growth Y/Y



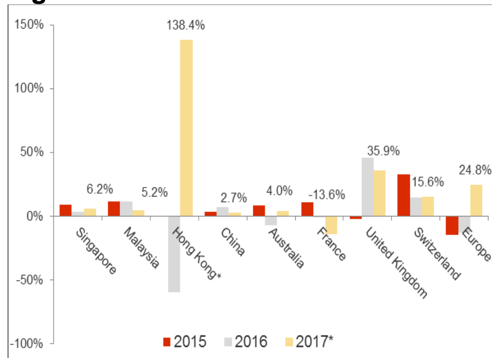
Source: IMF World Economic Outlook Oct 2017

Figure 14: Loan Growth Y/Y



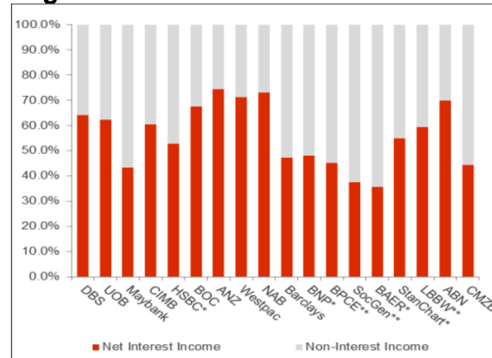
*Source: Company's Annual Reports and 3Q17 financial reports. *Data for HSBC, BNPP, LBBW and Julius Baer are as of 1H2017 hence comparison is 1H2016 vs 1H2017. Australian Banks are based on FY2017 results (30 Sep 17) hence comparison is FY2016 vs FY2017*

Figure 15: #PPOP Growth Year-on-Year



 # Pre-Provision Operating Profit
Source: Company's Annual Reports for 2015-2016 Data for 2017 are annualised*

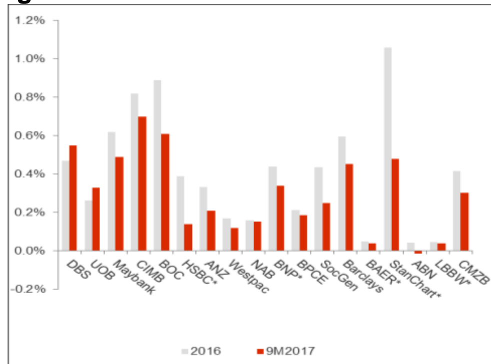
Figure 16: Total Income Breakdown



*Source: Company's most recent financial reports *1H2017 ** FY2016 as BPCE, LBBW and Socgen don't disclose interest and non-interest income in 2017*

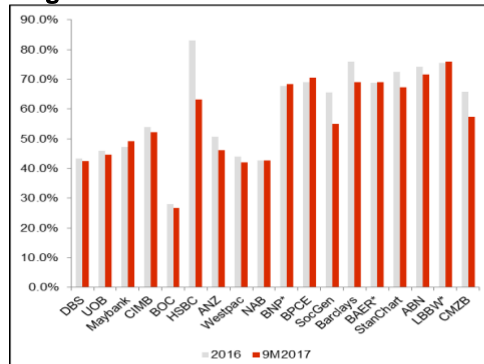
Instead, the main driver of better earnings has broadly been lower costs and cost management. Cost to income ratios continue to fall despite elevated investments in digital capabilities and ongoing restructuring charges, in line with each bank's strategic focus on lowering their cost base in the face of a depressed earnings outlook. In addition, credit costs have continued their positive y/y trend due to improving economic conditions, stabilizing commodity prices and strategic positioning of loan books towards better risk profile loan portfolios.

Figure 17: Credit Cost Performance



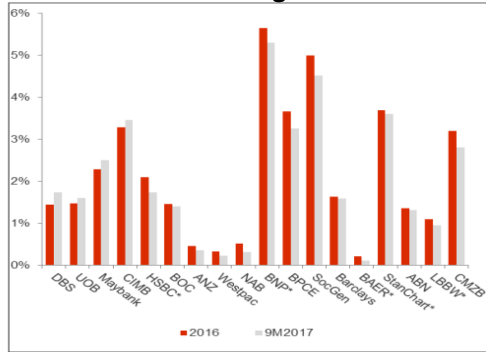
*Source: Company's Annual Reports and 3Q financial report *Data as of 1H 2017. Australian Banks are based on FY2017 results (30 Sep 17)*

Figure 18: Cost to Income Ratio



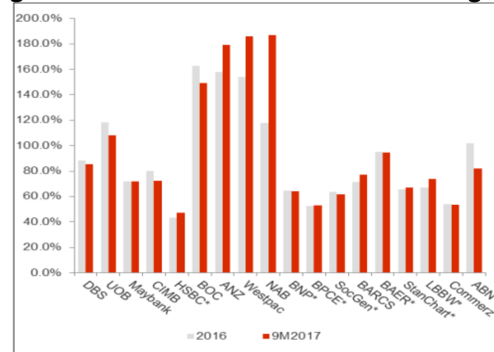
*Source: Company's Annual Reports and 3Q financial report *Data for French Banks, Julius Baer, LBBW and StanChart as of 1H 2017 while Australian Banks based on FY2017 (30 Sep 17)*

Figure 19: Non Performing Loans/Gross Loans



*Source: Company's Annual Reports and 3Q financial report *Data as at 30 Sep 2017 (FY17) for Australian Banks and 1H17 for HSBC, BNP Julius Baer, StanChart and LBBW*

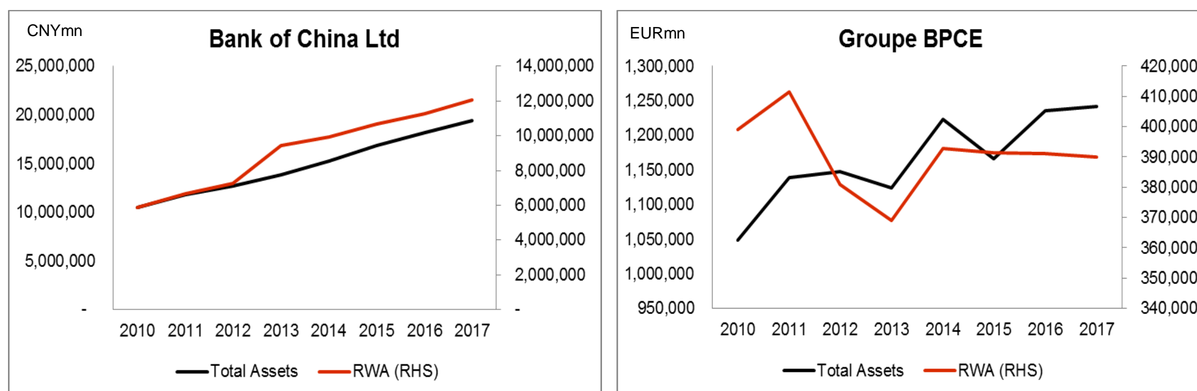
Figure 20: Allowances/Non Performing Loans



*Source: Company's Annual Reports and 3Q financial report *Data as at 30 Sep 2017 (FY17) for Australian Banks and 1H17 for HSBC, Julius Baer, LBBW, StanChart and French Banks*

Indeed, bank balance sheets have been repositioned as a whole as management have sought to focus towards lower risk and higher return businesses. These have invariably been in domestic markets where banks have established market positions, economies of scale and a competitive advantage or pricing power. At the same time, businesses have been strategically divested, either opportunistically (for example Australia and New Zealand Banking Group Ltd) but also routinely within targeted programs to run down non-core assets (Commerzbank AG, Standard Chartered PLC, Barclays PLC). Each bank's cost focus and balance sheet streamlining have contributed to (1) still solid and improving capital ratios despite operating income pressure; and (2) underlying improvement in the risk profile for banks under our coverage in our view. Although this has had some impact on earnings due to restructuring charges and loss of earnings, banks have become leaner and meaner. These trends in balance sheet growth were reflected in the Financial Stability Board's ('FSB') updated list of global systemically important banks ('G-SIBs'). The list is published and updated annually based on changes to bank's business activities in the context of methodology from the Basel Committee on Banking Supervision ('BCBS') as well as the judgment of the FSB. Key movements included the replacement of Groupe BPCE as a G-SIB with the Royal Bank of Canada and lower capital requirements for Citigroup, BNP Paribas and Credit Suisse (lower by 0.5%). Conversely, Bank of China ('BOC') and China Construction Bank ('CCB') saw their systemic importance increase and their capital buffer requirements increase by 0.5% to 2.0%. This reflects either balance sheet expansion or rationalization and hence lower (for European banks) or higher contribution (for Chinese banks) to global systemic risk.

Figure 21: Growth in total assets compared to growth in risk weighted assets



Source: OCBC, Bloomberg

While the above is a consequence of internal responses and strategic plans from past years and has seemingly put banks on a stronger foundation, what of the external environment that they will face in 2018? While our OCBC economist for China expects an upward trend in the global business cycle to support China's export industries and private domestic consumption to maintain China's economic resilience in 2018, we nevertheless believe that the government's recent de-leveraging policy and environmental protection measures will cause China's growth to slow slightly but at a manageable pace to 6.5% in 2018 from an estimated 6.8% in 2017. The IMF GDP growth forecasts for China are at similar levels with the 2018 forecast recently revised up by 0.3% to reflect better than expected 2017 performance and the government's ongoing expansionary policy.

China's better economic performance and the improved external environment in 2017 is also expected to support Hong Kong's economic growth with our OCBC economist predicting 2017 GDP growth at 3.6% (the strongest growth since 2011) and then moderate to a still healthy 2.9% in 2018. In Malaysia, 2017 economic performance surprised on the upside for similar reasons to China (domestic consumption and external environment influences including trade growth) and growth is expected to remain robust in 2018 for the same reasons along with an improving oil price outlook (Malaysia is a net oil exporter) and an expansionary budget. That said, risks from upcoming elections and still elevated systemic leverage could soften Malaysia's growth in 2018, especially with inflation poised to pick up from domestic demand and higher oil prices. Singapore's economic performance is expected to be stable and steady in 2018 with expected GDP growth of 3.0%, down from an anticipated 3.5% in 2017. Again, domestic sentiments have improved on confidence in the manufacturing and services sector although potential tax hikes and rising interest rates could jeopardize the outlook.

Elsewhere, the economic outlook for the Eurozone is somewhat disperse. Most of the Eurozone is expected to continue its slow and 'incomplete' economic recovery which is being supported by low interest rates and ECB balance sheet expansion but remains held back to an extent by weak productivity and elevated debt, according to the IMF. The European Commission upgraded its growth outlook for the Eurozone to 2.1% in 2018 from 1.8% earlier in Spring 2017 as growth in 2017 surpassed expectations. This recovery in Europe in part plays into the positive external environment influencing the outlook for Asia's economies. France's economy is expected to continue to perform on higher confidence and private consumption and investment growth. Germany as well will benefit from a strong labour market, rising real wages and both internal demand growth and an improving external environment. While Netherland's economic growth could moderate in 2018 from 2017, the European Commission's 2.7% growth expectation is still solid and based on government fiscal support and strong growth in employment. On the flip side, the UK is expected to experience weaker than previously expected growth due to the BREXIT impact on domestic consumption, GBP depreciation and overall loan quality. Finally Australia is expected to continue its stellar record of consecutive economic expansion, despite challenges to the housing and mining sectors causing 2018 economic growth forecasts to be lowered moderately.

On the banking regulatory front, the clouds seem to be clearing with recent regulatory developments appearing positive for banks or at least not as onerous as first expected. Several new initiatives such as IFRS 9 (transitioning the recognition of credit losses from actual to expected losses) and implementation of a Net Stable Funding Ratio (ensuring that long term assets are funded by long term and stable funding to protect liquidity positions) could reduce profitability by raising credit and funding costs although underlying credit profiles will benefit as a result. Current strong capital ratios are expected to absorb the impact of IFRS9 with the release of general reserves to fund likely higher provisions able to be accommodated within current credit profiles.

The Basel Committee on Banking Supervision ('BCBS') released its final version of Basel III in early December. A key component of the final piece of the existing legislation (which has also been referred to as Basel IV) addressed banks' approach for calculating risk weighted assets, which typically have been conducted using internal models and were therefore vulnerable to both a lack of comparability and understating losses in a stressed scenario (as occurred during the Global Financial Crisis). The resulting recommendation to limit the use of internal models and use a standardised approach to calculating risk weights (and likely resulting in higher risk weights and hence higher capital requirements to comply with minimum capital ratios implemented earlier under Basel III) was less onerous than expected. Specifically, a lower-than-expected allowable limit for internal models risk weight calculations versus one that is calculated under a standardised approach was finalised. In addition, the timeline set by BCBS for implementation and compliance of 2022 and 2027 respectively on a transitional basis was three years later than expected. On the whole, the announcement was viewed positively by the market and most banks as, although capital requirements will increase (BCBS estimate the total capital shortfall for internationally active banks at EUR90.7bn), they will not increase as much as expected. That said, execution risk remains as these guidelines are only effective when incorporated into local legislation. Local regulators may not implement all tenements of the finalised regulations and may voice objection to certain aspects.

Elsewhere, regulatory developments are painting a clearer picture of future capital requirements. The EU's Bank Recovery and Resolution Directive was amended to formalize a new layer of loss absorbing capital in bank capital structures in EU member countries domestic banking regulations. The form of this new layer of capital differs between countries but nevertheless clarifies what instruments can be used to contribute to capital ratios. The Single Resolution Board published in early December 2017 its policy statement which defined the Minimum Requirement for own funds and

Eligible Liabilities (MREL) for major banks and provided the basis for setting each bank's consolidated MREL target. This has led to Société Générale SA and Groupe BPCE disclosing their Pillar 2 requirements which are binding bank-specific capital requirements that are combined with Pillar 1 legal requirements for the purposes of restricting distributions if breached.

In Asia, government stances toward sector support are clearer. In Hong Kong, the government implemented the Financial Institutions (Resolution) Ordinance (FIRO) in early July 2017 making Hong Kong's resolution regime operational and similarly reducing the expectation of government support. On the flip side, Singapore's parliament passed the Monetary Authority of Singapore (Amendment) Bill 2017 (also in July 2017), which details further The Monetary Authority of Singapore (MAS)'s ability to resolve banks and maintain stability in Singapore's banking sector. Some key features of the bill amongst others include (1) a requirement for banks to prepare and maintain recovery plans and submit them to the MAS for resolution planning; (2) Amendments to MAS' power to write down or convert bank instruments issued post the effective date of the bail-in regime (although we understand this will still exclude senior debt and be related to contractual write-down arrangements); (3) recognition of resolution actions by foreign regulators that impact financial institutions in Singapore, subject to MAS' determination of the impact of such actions on Singapore's financial sector and economy; and (4) a compensation avenue for creditors and shareholders who are judged to have been worse off under the resolution as opposed to a liquidation scenario. Of interest is the introduction of a new provision that subordinates MAS' 'developmental objective' against its supervisory responsibilities to maintain financial stability. Although the desire is similar to Hong Kong, with regulators seeking to ensure a lower state burden for financial sector stress and eliminate moral hazard, government support for banks in Singapore is largely unchanged in our view given their inclination to seek practical solutions to address sector stress.

In Australia, the Australian Prudential Regulation Authority (APRA), announced its conclusions on the level of capital required for banks to have 'unquestionably strong' capital ratios, as recommended by the 2014 Financial System Inquiry which endorsed a strong and well capitalized banking system. As such, Australia's banks will need to meet a minimum common equity tier 1 capital ratio of 10.5% by Jan 1, 2020. This again was lower than expected and with the banks under our coverage (Westpac Banking Corporation ('WBC'), Australia & New Zealand Banking Group Ltd ('ANZ') and National Australia Bank Ltd ('NAB')) operating in range of this requirement already (ANZ and WBC are currently above it) from risk weighted asset reductions, asset sales as well as strong earnings, this requirement is unlikely to present a problem notwithstanding the potential impact of IFRS 9. This regulatory certainty is in contrast to other developments in Australia's banking sector such as the Australian Securities and Investment Commission's ('ASIC') formal civil proceedings against NAB, WBC and ANZ in relation to the alleged manipulation of the bank-bill swap rate (Australia's equivalent of LIBOR). These proceedings were settled by NAB and ANZ at the last minute for AUD50mn each with WBC on the other hand electing to proceed to trial on the basis that the accusations of unconscionable conduct against WBC is lower and WBC's belief that its case against ASIC is stronger than the other two banks. While the quantum of the fines payable to ASIC are immaterial to the banks' earnings, the key issue in the recent settlements is the banks' admission of attempting to engage in unconscionable conduct as opposed to a settlement with no admission of wrongdoing. This admission could have implications for future class actions, with a class action already filed by U.S. funds in the U.S. District Court. In addition, the Australian government announced that it will be establishing a royal commission to investigate the recent instances of misconduct that has been plaguing Australia's banking and financial services sector. This was in response to the CEOs of Australia's four largest banks sending an open letter to the Treasurer, Scott Morrison, calling on the government to establish an inquiry into the financial sector, as a means to help restore public trust and end political uncertainty. The royal commission will run for 12 months, with the final report due in early 2019. While the commission will not be able to award compensation resulting from uncovered violations by the banks, it will be able to make recommendations for schemes that will be able to award compensation. It still remains too early to assess the impact of these events on banks but they will nevertheless present an overhang for the names.

Finally, the perhaps biggest external factor for banks in 2018 is that interest rate normalization is gathering steam. While positive for banks net interest margins, higher funding costs could impact loan demand and cause stress for existing highly leverage borrowers which exist in China, Australia, Malaysia and Singapore. It may also increase funding costs for banks in Australia and Europe, who are more dependent on wholesale funding as opposed to deposit funding. If normalization is not managed properly, it could create another crisis with rising loan losses. It could also impact the economic outlook by reducing private investment. On the whole however, we expect governments will continue to tread cautiously so as not to impact the global growth trend and still fragile economic recovery. Banks as well have adequately strong fundamentals and solid capital ratios to meet any

challenges given their strategic actions in the past few years while governments on the whole remain supportive.

In summary, with a favorable economic outlook, a clearer regulatory landscape ahead, and better bank-specific fundamental indicators, we think 2018 will be another year of consolidation for bank credit profiles. The risk is if banks become more aggressive in chasing returns at a time of interest rate normalization and receding market liquidity. While this could exacerbate a downturn, banks are now better capitalized and hold more liquidity than the past to face any stress. In fact the clarity in capital requirements going forward and their less onerous nature means banks have no incentive to take on too much risk in order to generate similar levels of profits.

Singapore REITs – Continuation of 2H2017 trends

For 2H2017, with bond markets remaining receptive, Singapore REITs have been active with 9 REITs / Business Trust tapping debt markets. These were CMT, FCT, FHT, MLT, OUECT, MCT, SUN, EREIT and AREIT. A few of these issuers were repeat issuers for the year, having already placed bonds in 1H2017. An example would be CMT, which issued a SGD100mn 10-year bond in November 2017 after issuing a SGD100mn 6-year bond in March 2017. The issuance was opportunistic, with CMT looking to lock in low yields heading into 2018. In fact, CMT was able to price the 10-year bond at just 8bps coupon higher compared to the earlier 6-year bond (as the SGD swap curve flattened between the two issues). Refinancing remains the biggest driver of issuance, though we note some growth capital as well, such as EREIT funding the acquisition of 2 large assets. In a few instances, acquisitions were funded by bank borrowings, which may subsequently be refinanced by bond issuance.

As anticipated, the improving sentiment for Singapore commercial real estate seen in 2017 had driven some portfolio optimization, with certain long-rumored transactions coming to fruition. The largest of which would be CCT's divestment of 50% of One George Street and of Wilkie Edge, in part to create balance sheet room to acquire Asia Square Tower 2. We believe that the improving market may see REITs continue to monetize the more mature assets. On the acquisition front though, there will be a wider spectrum of potential developments. Aside from sponsor-held assets, the matured state of the domestic commercial real estate market means that in order to find growth opportunities, REITs have to consider development (477 Collins Street, Melbourne (SUN)), redevelopment (e.g. Park Mall (SUN), Golden Shoe Carpark (CCT)), foreign markets (e.g. Southgate, Melbourne (SUN)) or widening of mandates (e.g. MINT entering into data centres, FCOT expanding its mandate to invest into European assets). These venues of growth do come with certain risks. In the case of development / redevelopment properties, REITs need to fund these non-cash generating assets (likely via borrowings) before these assets can contribute to cash flow when completed. For foreign assets, though the typically higher NPI yield and longer WALE are boons to portfolio statistics, these foreign assets would expose the REIT to FX translation losses (as REITs don't typically fully hedge balance sheet FX risk). Though these are not realized, they do impact aggregate leverage ratios.

Finally, when considering financing beyond straight bonds, given the recent equity rally of the Singapore REIT space, straight equity issuance becomes more viable as part of acquisition funding. Comparatively, with the rising interest rate environment, perpetual securities have become more costly. As a result, we believe that though perpetual securities continue to provide the opportunity for REITs to create more debt headroom for growth (as reference to their aggregate leverage ratios) without diluting unit holders, for certain segments of the commercial real estate market (such as domestic office market), NPI yields are too low to justify such funding. Given the growth stance of REITs in general, and heavy sponsor balance sheets, we believe that all venues of funding will continue to be considered.

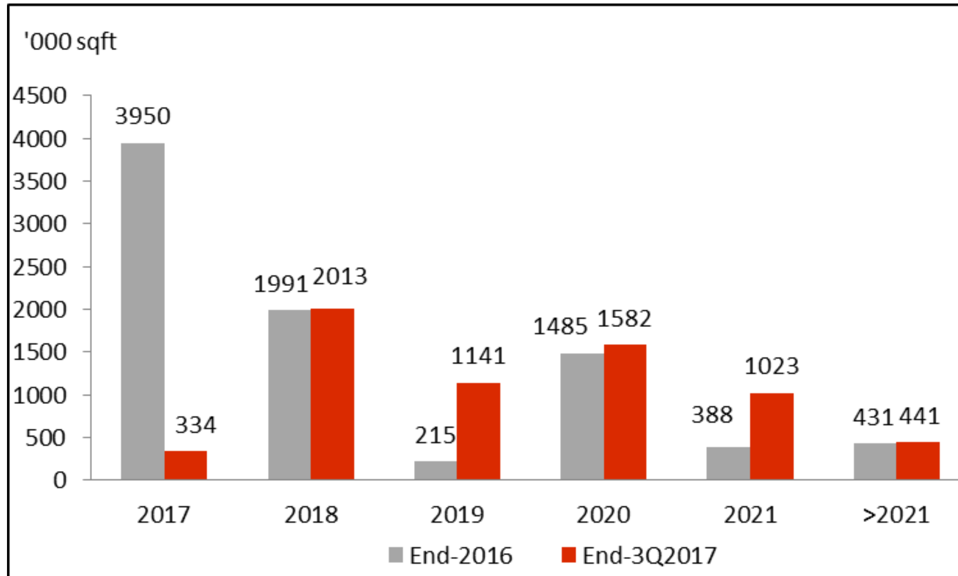
Table 1: REIT statistics (as of 30 September 2017)

	Aggregate leverage (%)	Debt Duration (years)	Debt cost (%)	Proportion of debt fixed/hedged (%)
OFFICE				
CapitaLand Commercial Trust	33.9	2.9	2.7	85.0
Keppel Real Estate Investment Trust	38.8	3.0	2.6	76.0
Mapletree Commercial Trust	36.4	3.9	2.7	78.0
Suntec REIT	36.8	2.8	2.6	65.0
Frasers Commercial Trust	34.7	2.5	3.1	80.7
Average:	**36.1**	**3.0**	**2.7**	**76.9**
RETAIL				
CapitaLand Mall Trust	34.7	4.8	3.2	100.0
Frasers Centrepoint Trust	29.0	2.3	2.3	55.0
Lippo Malls Indonesia Retail Trust	28.7	2.2	6.8	70.0
Mapletree Greater China Commercial Trust	38.5	3.4	2.7	76.0
Starhill Global REIT	35.4	3.8	3.1	99.0
Average:	**33.3**	**3.3**	**3.6**	**80.0**
INDUSTRIAL				
AIMS AMP Capital Industrial Trust	37.3	1.7	3.6	81.4
Ascendas REIT	33.1	3.3	2.9	79.3
ESR REIT	36.7	2.3	3.7	93.9
Mapletree Industrial Trust	30.0	3.2	2.9	76.7
Mapletree Logistic Trust	33.7	4.7	2.3	91.0
Sabana Shari'ah Compliant Industrial Trust	36.0	1.5	3.9	79.3
Soilbuild Business Space Trust	37.9	2.1	3.3	63.9
Viva Industrial Trust	39.6	2.7	3.9	83.9
Average:	**35.5**	**2.7**	**3.3**	**81.2**
HOSPITALITY				
Ascott Residence Trust	31.9	4.6	2.4	87.0
Frasers Hospitality Trust	32.1	2.1	2.6	74.7
Ascendas Hospitality Trust	32.6	2.3	2.9	77.9
Average:	**32.2**	**3.0**	**2.6**	**79.9**
Average:	**34.7**	**3.0**	**3.1**	**79.7**

Source: Company, OCBC

Singapore Office REITs – Mixed Feelings

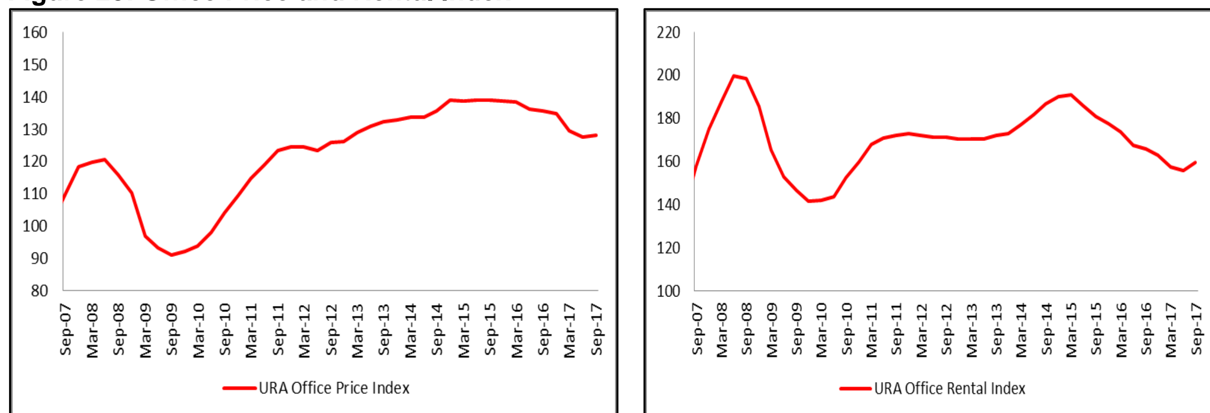
Figure 22: Office Supply Pipeline



Source: Urban Redevelopment Authority real estate statistics, OCBC

2018 will be the year that the balance of power tilts to office landlords. In prior years, the domestic office real estate market had faced sizable supply pressures, with mega projects such as Guoco Tower (890,000 sqft) and Marina One (1,880,000 sqft) coming online. Coupled with the muted economy, it was a battle royale between landlords to fill both new and existing schemes. This caused pressure in rental rates across the market. By 2H2017 though, there were signs that rental rates have bottomed out, as pressure eased with the filling of the new huge assets. The recovery was further substantiated by the URA, which for 3Q2017 reported a q/q 2.4% increase in its office rental index (after printing nine consecutive negative quarters). Though the rental index remains ~17% below the prior peak seen in 1Q2015, 2018 is expected to reflect further improvements in rental rates as the supply situation is more manageable.

Figure 23: Office Price and Rental Index



Source: Urban Redevelopment Authority real estate statistics, OCBC

Considering the office pipeline, the largest asset completing in 2018 is the Paya Lebar Quarter which is based outside the CBD. Take up for Frasers Tower was reported to be healthy (Microsoft was reported to take up ~18% of NLA). For 2019, supply is even lower, with only the former CPF building expected to be completed within the CBD. As such, for tenants seeking to upgrade to new schemes, there are fewer options going forward (particularly for tenants that require larger floor plates). For the office REITs under our coverage, the improving market has been reflected by fewer leases being renewed ahead of expiry (no longer the urgency to keep occupancy high at whatever costs). That said, despite these office REITs being able to generally secure above market rents due to their superior portfolios, due to the expiry of high rents for certain assets (such as Six Battery Road in CCT), rental reversion may continue to be negative over the next few quarters.

As for market office vacancy rates, these have been elevated by the TOP of Guoco Tower and Marina One during 2017. Specifically, Category 1 office vacancies surged to 17.7% in 3Q2017 from 11.8% in 1Q2017 due to these new schemes (we had previously mentioned the "double counting" of occupancy which occurs when tenants transit between buildings). Looking forward, we expect Category 1 office vacancies to improve given firming economic prospects as well as potential tenants upgrading from Category 2 offices. With regards to the office REITs under our coverage, portfolio occupancy tends to be near full given their newer, well-positioned assets. That said, property specific stress is expected, with older assets in the fringe of the CBD (such as Bugis Junction Towers in KREIT) facing more pressure.

Table 2: Office Pipeline Details

Property	Completion (est)	NLA (sqft)
Frasers Tower	**2Q2018**	**686,140**
Robinson Tower	**4Q2018**	**195,000**
Paya Leber Quarter (Office)	**2H2018**	**900,000**
Funan (Office)	2019	204,000
9 Penang Road (Park Mall)	2019	352,000
79 Robinson Road (CPF Building)	2020	500,000
Central Boulevard (IOI/HKL)	2020	1,080,000
Golden Shoe Redevelopment	2021	647,000
Beach Road White Site (Office)	2022	665,000

Table 3: Office REITs Statistics

Issuer	Occupancy				Expiry (NLA%)		
	2015	2016	9M2017		2017/18	2019	2020+
CCT	97.1%	97.1%	98.5%		11.0%	33.0%	56.0%
KREIT	99.3%	99.2%	99.6%		7.2%	11.2%	81.2%
SUN (Office)	99.3%	98.6%	98.6%		20.0%	15.3%	63.3%
MCT (Non-VivoCity)*	93.7%	97.4%	96.9%		1.2%	14.1%	84.7%
FCOT*	95.4%	93.0%	85.9%		28.6%	11.8%	43.3%

*Source: Company, OCBC, *FCOT: FY2016, FY2017, FY2018, MCT: FY2016, FY2017, 1HFY2018*

Reviewing the portfolio statistics of our office REIT coverage, it can be seen that most of the REITs have decisively stronger portfolio occupancy compared to the market (Category 1 office occupancy: 82.3%). Even when considering the case of the outlier, FCOT, this was largely due to transitional issues, with HP Enterprise and HP Singapore (collectively 17.5% of FY2016 portfolio gross rent) leaving Alexandra Technopark as well as construction work affecting China Square Central. The situation at FCOT is expected to improve after FY2018 when the AEI at Alexandra Technopark and construction work at China Square Central is completed. In the case of lease expiry profile, only FCOT and SUN have relatively sizable lease expiry in the near term. The challenges faced by the former have been mentioned while the latter could potentially face some rental pressure at its Suntec City offices as neighboring assets the South Beach and the Duo are still seeking tenants. Though the other REITs may also face rental pressure, the smaller near-term lease expirations would mitigate rental declines.

Table 4: Recent Office Transactions

Property	Stake (SGD'mn)	Lease Balance	Sale PSF	Seller	Buyer
One George Street (50%)	592	88y	**SGD2,650**	CCT	FWD
Wilkie Edge	280	88y	**SGD1,812**	CCT	Lian Beng Group / Consortium
Asia Square Tower 2	2100	89y	**SGD2,689**	BlackRock	CCT
Chevron House	660	71y	**SGD2,526**	Deka Singapore	OHL
AXA Tower	1650	64y	**SGD2,333**	**[Asking Price]**	

*Source: Company, OCBC, *FCOT: FY2016, FY2017, FY2018, MCT: FY2016, FY2017, 1HFY2018*

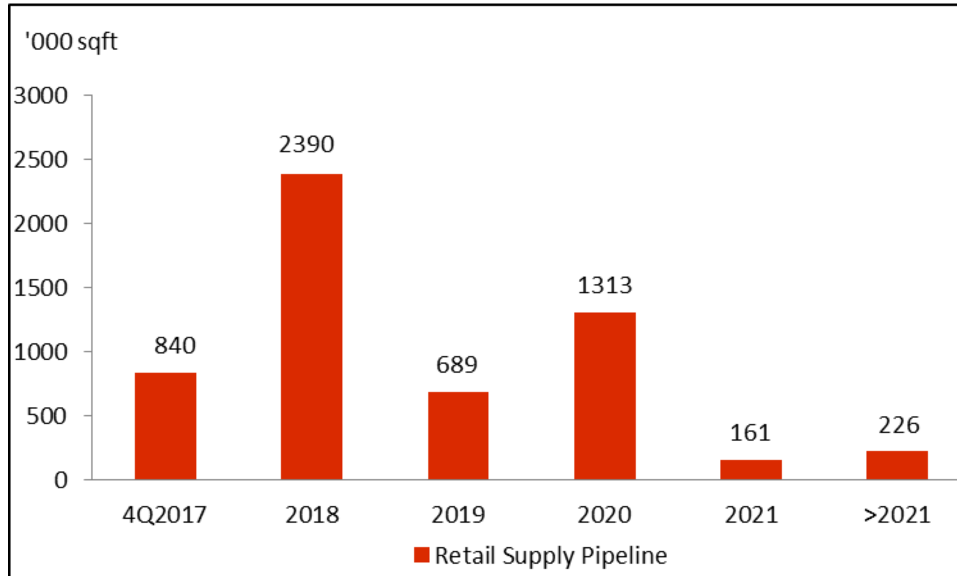
What's more meaningful for bondholders of these office REITs would be expected changes to balance sheets. Given supportive transactions in the domestic office market, we expect portfolio revaluation to generate gains. This is because despite potentially declining cash flows from negative rental reversions, cap rates have been compressing. Similar to what we saw for 2016, 2017 would likely see overall revaluation gains, though we may see some property-specific revaluation losses (particularly for older assets). Such gains would help improve aggregate leverage levels, which have been trending higher. That said, with cap rates at historical lows, decisive revaluation gains will have to be derived from improving cash flows (from higher rental rates).

With the recovery of the domestic office market, this may spur further portfolio optimization by the office REITs. For example, CCT was particularly active in 2017, having divested 50% of One George Street as well as Wilkie Edge. This in turn generated room for CCT to acquire Asia Square Tower 2. We may see more acquisitions by the REITs, such as asset injections from the sponsor when the properties stabilize (e.g. Mapletree Business City II, Frasers Tower). With white sites increasingly scarce and expensive (such as the Beach Road site), we may see more redevelopment being undertaking by the REIT and its sponsor, such as in the case of CCT redeveloping the Golden Shoe Car Park into a new office tower (though at present there are no other obvious redevelopment candidates being held by the REITs). With the domestic market becoming more competitive, we may see office REITs make more foreign acquisitions, be it stabilized properties (such as SUN acquiring stakes in Southgate, Melbourne) or development properties (KREIT's 311 Spencer Street, Melbourne). We note that FCOT had just expanded its investment mandate to include Europe, and had partnered with its sponsor, FCL, to acquire a portfolio of UK business parks. Though foreign assets may provide geographical diversification to the REIT, it may result in greater FX risk if not hedged, with the portfolio bearing potential translation gains / losses, which would in turn impact the REIT's aggregate leverage levels.

In summary, the office REITs under our coverage are benefitting from the recovery in the domestic office market. Rental rates look to have bottomed, with the supply situation more manageable compared to the last couple of years. That said, high expiring rents may imply further negative rental reversion in the near-term, and tight cap rates mean limited revaluation upside given weaker cash flows. The strengthening market may drive portfolio optimization, be it from sponsor or 3rd party, domestic or foreign, development/redevelopment of assets or acquisition of stabilized assets.

Singapore Retail REITs – The Haves and the Have Nots

Figure 24: Retail Supply Pipeline



Source: Urban Redevelopment Authority real estate statistics, OCBC

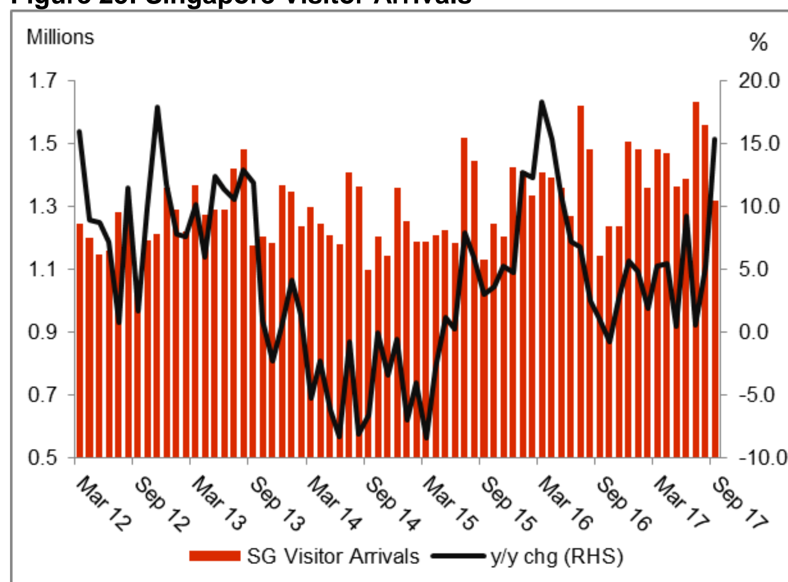
The largest retail real estate assets coming online in 2018 are the retail component of Paya Lebar Quarter ("PLQ", ~476,000 sqft GFA), expected in 2H2018, as well as Project Jewel at Changi Airport (retail component: ~970,000 sqft GFA), expected late 2018. Though sizable, both assets offer unique propositions, with PLQ a key part of URA's master plan to rejuvenate Paya Lebar, while Project Jewel is an integral part of Changi Airpoint's efforts to remain attractive as an aviation hub. As part of an integrated development spanning office and residential, PLQ's mall has natural catchment, while Project Jewel would likely draw the regional crowd beyond the airport's captive market. Coupled with the recently opened Northpoint City South Wing (~420,000 sqft GFA), which in aggregate with the North Wing would form the largest mall in Northern Singapore, these three assets would likely have a detrimental impact on existing retail properties that overlap with their catchment area. Some of the potentially affected properties are in the retail REITs under our coverage, given the sizable suburban mall assets that CCT and FCT has. These effects would be more pronounced in 2019, when the new assets' traffic ramps up and stabilizes.

The core Orchard Road shopping district looks to be supported by sustained strength in tourism. 9M2017 visitor arrivals are 5.1% higher y/y, while STB reported that tourism receipts grew 10% y/y for 1H2017 to SGD12.7bn[1]. At the current pace, full-year tourism receipts look to top the SGD25.1bn – SGD25.8bn forecast made by STB in February 2017. This view is reinforced by Genting Singapore's management, who commented that their 3Q2017 non-gaming business saw both y/y and q/q improvements due to the growth in international visitors to Singapore. For 1H2017, Tourism spending was up 20% y/y for Shopping, but more muted at +8% for Accommodation and +3% for F&B. Despite tailwinds, Orchard Road is not immune to the structural issues that face Singapore's retail landscape. With e-commerce targeted to reach 10% of total retail receipts in 2020 (from ~3% in 2016), the Orchard Road belt would likely continue to face disintermediation given changes in consumer preference. For example, Wisma Atria (in SGREIT) reported a 3.1% y/y decline in shopper traffic for 3Q2017. During the Singapore Retail Industry Conference held on 08/09/17, Minister Iswaran had announced that a Ministerial Steering Committee has been formed to drive rejuvenation plans for Orchard Road.[2] Initiatives floated include enhanced programming along the pedestrian malls, pop-up and permanent activations at available spaces and enhanced walkability for the precinct.

[1] *Singapore Tourism Board – Tourism Sector Performance 2Q2017 Report*

[2] https://www.mti.gov.sg/NewsRoom/Pages/Speech-by-Minister-Iswaran-at-the-Singapore-Retail-Industry-Conference.aspx

Figure 25: Singapore Visitor Arrivals



Source: Singapore Tourism Board, OCBC

With regards to broader retail spending, based on domestic retail sales data (*Table 4*), 2017 looks on track to achieve the first positive print since 2013. The acceleration of the domestic economy (2017 GDP growth was flagged at 3.5%) may have improved consumer sentiment. The OCBC house view for 2018 GDP growth remains sanguine at 2-4% for now[3], though possible GST hikes (if announced as part of the FY2018 Budget) may affect private consumption patterns.

Table 5: Singapore Retail Sales (excluding Motor Vehicles, Current Prices, NSA) Y/Y percentage change

2012	2013	2014	2015	2016
2.6%	0.9%	-0.5%	-1.2%	-2.6%

Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17
2.1%	-4.9%	0.6%	4.8%	0.5%	4.1%	1.9%	4.0%	3.2%	0.7%

Source: Singapore Department of Statistics

As mentioned in previous reports, the Singapore retail real estate industry faces the structural shift in consumer spending from physical stores to online platforms. The buzzword today is for retailers to move omni-channel, with the lines between physical and online retailers blurring. Previously mentioned endeavours include Challenger (a traditional brick and mortar electronics goods retailer) setting up Hachi.tech (an online tech-focused e-commerce portal). Online to offline attempts include Love Bonito (online apparel company) setting up its flagship store in 313@Somerset in 4Q2017. The role of landlords in this endeavour cannot be discounted. From facilitating pop-up stores to allow online retailers to "test" waters (Love Bonito previously at a pop-up store in 313@Somerset), to asset enhancements to integrate in-shop online ordering with backend logistics support (in the case of SPC Mall and Alibaba's Hema stores), retail landlords are still in the trial-and-error stage, seeking ways to ride on the e-commerce wave rather than to drown in the tides of change.

From the above, it would seem that a fair bit of coordination is required, such as mall managers unifying the delivery offerings available across their collection of malls. Scale is important as well, as it allows for some NLA to be set aside as "loss leaders" to drive traffic into the mall (such as pickup kiosks for last mile delivery). With these factors in mind, we continue to believe that the brunt of retail vacancies and rental weakness would fall on retail real estate that lacks scale and/or coordination, such as small retail podiums in mixed use developments (etc: King Albert Park mall), or strata-titled malls. In the latter's case, even new and well-positioned strata-titled malls such as Alexandra Central and Havelock II have faced challenges finding tenants and driving traffic.

[3] OCBC - S'pore 4Q17 GDP growth: A sweet end to 2017

Table 6: Retail REITs Statistics

Issuer	Occupancy				Expiry (NLA%)		
	2015	2016	9M2017		2017/18	2019	2020+
CMT**	97.6%	98.5%	99.0%		33.1%	30.1%	36.8%
FCT	94.5%	91.3%	92.0%		27.0%	25.9%	47.1%
SGREIT*	98.0%	95.4%	93.4%		7.3%	35.5%	57.2%
SUN (Retail)	97.9%	97.7%	98.8%		26.7%	27.4%	44.7%
MCT (VivoCity)*	99.9%	99.0%	99.7%		5.1%	37.4%	57.5%

Source: Company, OCBC, [MCT: FY2016, FY2017, 1HFY2018, SGREIT: FY2016, FY2017, 1QFY2018]*
**CMT lease expiry by gross rental*

In aggregate, the retail REITs under our coverage are well-positioned relative to the broader retail landscape. Assets tend to be stabilized, and located in areas with good catchment. Several have managers that control several assets (such as CapitaLand malls and Frasers Centrepoint malls) which facilitates coordination. These assets also tend to be sizable, leveraging off the hubs that they are based at, which offers scale. Finally, REITs also have access to capital, which facilitates asset enhancements.

With these advantages, it is unsurprising that portfolio occupancies remains strong relative to the broad market (for 3Q2017, Orchard Road: 92.6%, Central Ex-Orchard Road: 90.8%, Suburban: 92.1%). FCT continued to be the exception due to suppressed occupancy from the Northpoint AEI. That said, with the AEI completed (and committed occupancy for Northpoint City North Wing at ~95%), FCT would likely see its portfolio occupancy recover quickly. The convergence between Orchard Road and Suburban vacancy had persisted, though with majority of new retail supply coming in the suburban markets, suburban vacancies may rise further, resulting in heightened competition for FCT and CMT given their suburban exposure.

Rental rates have broadly remained soft (consistent with the industry, with rental rates lower for 11 consecutive quarters since end-4Q2014), likely a consequence of the REIT managers prioritizing occupancy. CMT's portfolio rental reversions are negative (-1.7% for 9M2017) after deteriorating the last couple of years (2015: +3.7%, 2016: +1.0%). For FCT, rental reversion was fair at +5.1% for FY2017 (FY2016: +9.9%), benefiting from the bulk of expiries occurring at Causeway Point, its best performing asset. Despite declining rents, portfolio valuations are expected to remain supported due to cap rate compression. For example, FCT reported +6.3% gain in portfolio valuation for FY2017 (fiscal year ending September 2017), thought this includes both the Yishun 10 retail podium acquisition as well as capitalization of AEI work done at Northpoint. That said, looking forward, there seems to be less room for further cap rate compression. In some instances, we have already observed some revaluation losses occurring for underperforming assets. For example, Bedok Point reported a 13.3% y/y decline in annual NPI for FY2017. This though translated only into a 2.8% decline in asset valuation to SGD105mn, largely due to cap rate compressing 25bps to 5.25%.

Looking forward, though the improving economy may boost consumer sentiment, the retail commercial real estate industry remains on tricky footing. With increasing competition entering into previously resilient suburban markets, coupled with overall softening rental reversion trends, gross rents are likely to continue to be pressured. With limited room for further compression, cap rates are less likely to offer mitigation going forward. Should REIT portfolio revaluations turn negative, this would in turn strain aggregate leverage, consuming debt headroom. Broadly speaking though, retail REIT assets tend to be better performing than average, while the REITs' scale and financial flexibility offers them more room to maneuver in this turbulent industry landscape.

Singapore Hospitality REITs – Turning around?

Hospitality-focused REITs in Singapore tend to be structured as stapled securities with a REIT and Business Trust component though for simplicity when we refer to Hospitality REITs for this sector piece, we are referring to the stapled entity. In aggregate, the Hospitality REITs listed on the SGX own 29 assets (hotels and serviced apartments) in Singapore, with an asset value of SGD8.4bn (representing about half of total asset values). Four Hospitality REITs in Singapore have issued SGD fixed income securities, with an amount outstanding of SGD1.4bn. Ascott Residence Trust ("ART") continues to be the dominating issuer in the Hospitality REIT sector, whose bonds and perpetuals make up 58% of total amount outstanding, followed by Frasers Hospitality Trust ("FHREIT") at 24%. This is followed by Ascendas Hospitality Trust ("ASCHTS") at 10% and Singapore-focused CDL Hospitality Trust ("CDREIT") making up the rest. Driven by the geographical diversity of major issuers, Singapore-based assets by value make up 31% of issuer total assets.

Tourist arrivals still growing

In January to December 2016, Singapore recorded 16.4mn in tourist arrivals (representing 7.7% y/y growth), led by a rebound from China and strong growth from India, Indonesia and Thailand. 76% of the full year tourist arrivals arrived within 9M2016. After the high growth recorded in 2016, it was widely expected that the growth rate in tourist arrivals would decelerate in 2017. At the beginning of 2017, the Singapore Tourism Board ("STB") projected tourism receipts to grow by 1% to 4% and tourist arrivals to increase by up to 2%. Encouragingly though, tourism arrivals have outperformed expectations, with Singapore recording 13.1mn in tourist arrivals for 9M2017 (up 5.0% versus 9M2016). China, the largest source market for Singapore built on the momentum in 2016 to record 9.5% y/y growth while India, which has become the second largest market for Singapore by numbers grew 16.3% y/y. Other high growth markets in 9M2017 included Vietnam, USA and the Philippines. In line with the past two years, the top five markets of China, Indonesia, India, Malaysia and Australia made up ~55% of total tourists. The top ten markets made up 74% of all tourist arrivals.

Strong tourism receipts

In 1H2017, total tourism receipts including Sightseeing, Entertainment & Gaming ("SEG") was SGD12.8 bn, rising 11.2% y/y. Accommodation made up 23% of total tourism receipts in 1H2017, stable against 1H2016. Visitors from India typically spend more as a proportion of total expenditure (37% of tourism receipts in 2Q2017) versus only 20% for visitors from China and 17% for visitors from Indonesia. We think this is mainly driven by (1) longer average length of stay ("ALOS") of Indian visitors at ~6.1 days versus less than 3.0 days for Chinese and Indonesian visitors; (2) differential in spending habits, with Chinese and Indonesian visitors focusing on shopping and other components when they are in Singapore. We increasingly see India as a surer growth market for hotels and serviced apartments in Singapore, in particular for the Mid-Tier-to-Upscale sub-segments, which the Hospitality REITs are focused on.

India visitors – a bright spot for Singapore

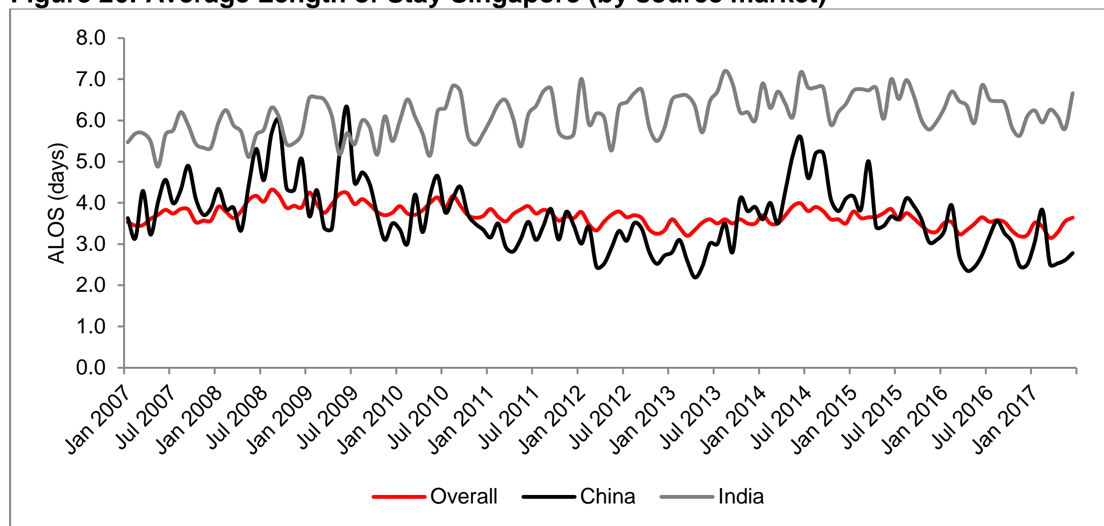
Within the top ten source markets, we see visitors from Australia, Japan, South Korea and the USA as being immediately addressable markets for Singapore Hospitality REITs. For 9M2017, average room rates for the Mid-Tier were SGD168 while Upscale was SGD257. Based on our analysis of accommodation spend, adjusted for ALOS, visitors from these four markets spend at least SGD211 each day on accommodation (assuming two visitors per room). In particular, we have seen strong ALOS growth from South Korea (from ~1.4 – 1.8 days in the early 2000s to 2.8 days in 2Q2017) as Singapore becomes a more attractive tourist and business destination. Japan, a traditional stronghold in terms of visitor numbers has been declining y/y for the past three years while we see limited scope for ALOS among visitors from Australia and the USA to extend further.

In terms of spending levels for accommodation (adjusted for ALOS), China, India and Malaysia are growth markets, though we see India as the best bet for Hospitality REITs' Singapore assets. ALOS for Chinese visitors has been historically volatile and since 2H2016, has declined to less than 3.0 days. We think this is in part driven by Singapore being increasingly viewed as a stopover destination by Chinese visitors before venturing to the rest of Southeast Asia and further to Australia / New Zealand. Driven by the cultural, geographical and historical linkages between Malaysia and

Singapore, visitors from Malaysia tend to have lower propensity to pay for accommodation given the existence of alternative accommodation with friends and family. In 9M2017, India was the third largest source market by visitor arrivals (versus being fifth largest in 9M2015 and top four in 9M2016). Visitors from India are still coming to Singapore as an end-destination in itself (eg: appeal of SEG activities). Sentosa Development Corporation's Chief Marketing Officer stated that visitors from India make up about 20% of Sentosa Island's total foreign visitors. ALOS for India visitors is long at 6.1 days in 2Q2017 and ranged from around 5.0 to 7.0 days over the past ten years. Singapore hoteliers with a developed India strategy are likely to benefit from STB's aggressive marketing campaigns in the Indian market.

Visitor numbers from Indonesia was 1.9% y/y higher in 9M2017 at 2.2mn, while visitors from the Philippines and Vietnam recorded significant growth. Nonetheless, we see these markets as laggards for Mid-Tier and Upscale hotels (adjusting for ALOS) due to a variety of factors including lower spending power, higher propensity to spend on non-accommodation items and, similar to Malaysian visitors, having alternative accommodation options in Singapore.

Figure 26: Average Length of Stay Singapore (by source market)



Source: CEIC

Accommodation sector should improve with tapering of new room supply

Total room revenue for 9M2017 was SGD2.4bn, down 2.3% against 9M2016, despite the growth in visitor arrivals and tourism receipts. Overall occupancy in 9M2017 was comfortable at 86.3% versus 85.0% in 9M2016. Among the four sub-segments tracked by STB, Revenue Per Available Room ("RevPar") for the Mid-Tier segment fared the worst, falling 1.1% y/y to SGD146 in 9M2017 while the Luxury segment fell 0.7% y/y to SGD379. The Upscale segment improved 0.5% y/y to SGD226, despite the fall in average room rates due to better occupancies. The Economy segment saw RevPar improve 5.6% to SGD85, which was driven by both higher occupancies and room rates.

In end-December 2016, there were 63,850 licensed rooms in Singapore and there were 6,496 rooms of upcoming supply, with 90% already under construction as at end-December 2016 per Urban Redevelopment Authority ("URA") data. All of these hotel rooms were targeted to complete by 2021, with the bulk coming online by 2019. In September 2017, Jones Lang Lasalle ("JLL") estimated that about 3,122 rooms may be added in 2017. Since then, at least two hotels with 295 rooms have delayed their proposed opening to 2018. Our base case assumes that 2,878 rooms (representing ~4.5% of end-2016 stock) have been added in 2017. Major additions in 2017 include the YOTEL Orchard Road (610 rooms), InterContinental Robertson Quay (225 rooms) and Andaz Singapore (342 rooms). We think the increase in supply weighed on room rates, particularly in the Mid-Tier and Upscale sub-segments which saw average room rates fall 1.5% and 2.2% y/y respectively in 9M2017. With some upcoming supply slipping into 2018, we estimate 512 rooms to come online in 2018. Given the location and marketing proposition of these properties (eg: heritage Luxury segment), we do not see these as competing directly with the InterContinental at Bugis (owned by FHREIT) and ART's Singapore-based assets in our view. As of 3Q2017, there were only 3,442 rooms in the Singapore

hotel room pipeline, with about 78% under construction. The most recent government land sale for a hotel plot was in January 2014 and there has been limited private land transactions for hotel developments in the central region. Amidst the influx of new supply and uncertainty over absorption outcomes, we think more hoteliers were prioritizing occupancy over room rates in 2017. Going into 2018, room rates are likely to stabilize as the growing tourism pie absorbs such new supply. We continue to see capital values holding up for the Singapore portfolio under our coverage given the scarcity of sizeable hospitality assets up for sale.

Serviced residences sub-segment continue to face headwinds

In July 2017, we propagated that the performance of serviced residences/extended long stay segment is positively correlated to the residential rental market. In particular, when rental rates are low, we think landlords are more willing to consider short term leases. In 30 June 2017, URA had also lowered the minimum stay duration of private housing to only three months. With cost of renting a private residential unit comparatively cheaper than serviced residences, we increasingly see the former as a viable competitor. As of 3Q2017, the private residential rental index for the core central region ("CCR") had fallen to 103.5, the 16th consecutive quarter where rents have fallen and vacancy rate for the CCR was 10.9% (up 10.3% in 2Q2017). Serviced residences such as Frasers Suites Singapore, Somerset Liang Court, Citadines Mount Sophia tend to be subjected to minimum length of stay requirements (eg: seven days). Much of the recent growth in visitors to Singapore have been driven by leisure travelers (including stopover visitors), who tend to have lower average length of stay ("ALOS") and little requirement for a seven day-stay. We expect to see negative performance of the service residences sector in Singapore going into 2018. While ART's "Ascott" is marketed as a serviced residences brand, we take comfort that the newly injected Ascott Orchard Singapore ("AOS") holds a hotel license and is not subject to minimum length of stay requirements.

Singapore Industrial REITs – Down cycle flattening out

The industrial property sector remained weak in 3Q2017 although encouragingly the pace of decline in rental rates has narrowed and is showing signs of flattening out. In 3Q2017, the overall rental index was at 91.3, down 1.1% against the quarter ended 30 June 2017 ("2Q2017"), and down only 3.2% y/y. This contrasted with the difference between 3Q2016 and 3Q2015 where the rental index showed a 7.3% y/y fall. As the acceleration in price decline only started in early 2016 (versus rents which had started to fall earlier), we saw a relatively large y/y fall in the overall price index in 3Q2017. The overall price index was at 91.0 in 3Q2017, representing the tenth consecutive quarterly decline, and was down 0.9% q/q and down 7.4% y/y. Among the various sub-segments, q/q rental decline was the largest for warehouses at negative 2.0%. On a y/y basis, warehouse was down 4.9%. This is in line with observations of the onslaught in supply in the warehouses sub-segment. In 3Q2017, the biggest rental decline in the multiple-user factory sub-segment was seen in the West Region (which includes Tuas which has been negatively affected by the decline in the offshore marine, oil and gas sectors) and the Northeast Region.

Vacancy rates for the overall industrial space sector was 11.4%. The multiple-user factory segment saw vacancy decline slightly to 13.4% in 3Q2017 from 13.6% last quarter. Single-user factory and warehouse respectively saw vacancy rates spike q/q. Single-user factory saw vacancy rate up 0.1% q/q to 9.9% while warehouse was up 0.6% q/q to 12.5%. Industrial properties zoned as Business Park includes a wide gamut of science parks, IT parks and city fringe office-like properties. Despite the high vacancy rate of 14.1% in 3Q2017, the business park sub-segment managed to report a small increase in rent of 0.3% q/q. We think this indicates (1) structural barriers for vacant space to be taken up; and (2) flight to quality where incremental demand of newer, higher spec properties are pushing up overall rental prices despite the persistent vacancy for this sub-segment. With little new supply expected in the next five years of only 0.2mn sqm gross area, business park rents are likely to tilt higher.

More than 450 transactions occurred in the industrial properties space in 3Q2014, a boom time for industrial property sales. A small proportion of transactions were sub-sales (where a purchaser who has signed an agreement to purchase from developer sold the unit to another purchaser before completion), about 210 transactions were new sales and the rest were resale transactions. In 3Q2017, at ~250 transactions, total volume was significantly lower than 3Q2014. Nonetheless, almost all of these were resale transactions and have exceeded the resale transaction volumes recorded in

3Q2014. Y/y caveats lodged have increased 7% and we see this as a greenshoot for the industrial space sector. While we are not ready to call the bottom on the Singapore industrial property market, a continuation of healthy transaction volumes over the next few quarters would be a positive sign. Encouragingly, annual net change in space occupied (which we use as a proxy for demand was 1.4mn sqm in the rolling four quarters to 3Q2017, within the 1.2-1.4mn exhibited historically and higher than the 0.9-1.1mn sqm exhibited in 2016.

Standing in end-3Q2017, 0.9mn sqm of industrial space is estimated to come on stream in 4Q2017 bringing the full year total of new space added to 2.3mn sqm. In 2018 though, supply is estimated to drop significantly to 1.4mn sqm and even less at 0.9mn sqm for the full year of 2019. Based on our estimates, the oversupply of space for the rolling 12 months to 3Q2017 was 0.4mn sqm, down significantly from the near 1.0mn sqm oversupply in 3Q2016. Notwithstanding that some of the new supply estimated to be ready in 2017 may slip into 2018, it is encouraging that the onslaught of supply is expected to fall off in the near-to-medium term. We think the oversupply situation will narrow further as we go into 2018.

One way which the government can influence the prices of industrial space in Singapore is via the Industrial Government Land Sales Programme ("IGLS"). For 2H2017, eight sites were confirmed land sites, totaling 4.51 ha while six were on the reserved list (9.39 ha in aggregate). In end-December 2017, the government announced that 13 industrial land sites will be released under the IGLS program for 1H2018. Six of these land sites are confirmed land sites which will be launched according to schedule regardless of demand. The six confirmed land sites have an area of 3.91 ha and are all zoned B2 while the seven reserve land sites have an area of 8.65 ha in aggregate. Sites on the reserve list are only put up for tender when a developer makes a minimum offer price that is deemed acceptable. The confirmed land sites (by area) is in line with what we have seen in both the first and second half of 2016 and significantly lower than 2015 and 2014. For the full year 2015, 12.58 ha were in the confirmed list while for the full year 2014, confirmed land sites totaled 24.13 ha. With relatively limited new land supply into the market, this bodes well for upholding capital values of existing assets in the medium term.

Based on advance estimates released by the Ministry of Trade and Industry for the full year 2017, the manufacturing sector (which contributed 19.6% to 2016 GDP) was estimated to have grown by 10.5% y/y, significantly higher than the 2.3% y/y exhibited in 2016. This was led by improvements in the electronics and precision engineering clusters which more than offset declines in biomedical engineering and transport engineering clusters. The Singapore Purchasing Manager Index (Manufacturing) rose to 52.9 in November 2017 from 48.5-51.0 during the first seven months of the year. While businesses in general were still cautious about their leasing demand for industrial space and we continued to see tenant defaults occurring throughout 2017, rising business confidence should help arrest the decline in rental rents going into 2018. We expect to see stabilisation in rents first occurring among higher-quality properties which are easier to let out and then broadening to other properties.

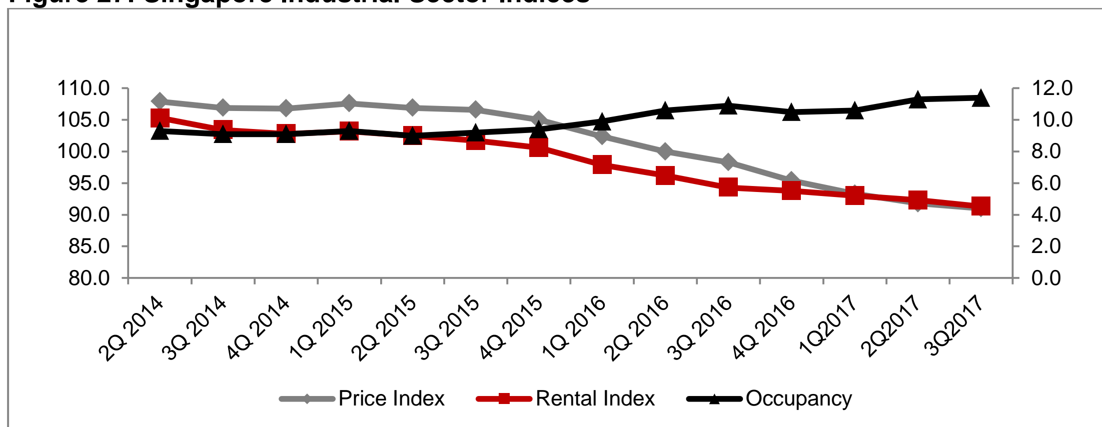
Significant Corporate Actions in the Industrial REIT space

Within the Industrial REIT space, 1H2017 saw the introduction of a new Sponsor (and new significant unitholder) at Cambridge Industrial Trust and managerial changes at the REIT which has been renamed as ESR REIT ("EREIT"). We also saw a failed shareholder attempt at Sabana Shari'ah Compliant Industrial REIT ("SSREIT") to change its REIT Manager. While the attempt failed, concerns were heard and certain changes have taken place (including a change in CEO, cancellation of three proposed asset acquisitions and de-leveraging). In 2H2017, all eyes were on a potential outcome from the strategic review being carried out at SSREIT and its implications among the mid-size industrial REITs. Particularly since August 2017 when it was confirmed that EREIT's REIT Manager ("EREITM") was in talks with the REIT Manager of SSREIT ("SSREITM"). By then, the Sponsor of EREIT (namely e-Shang Redwood Group) already held a 5%-stake in SSREIT and a combination of these two smaller Industrial REITs would have led to a REIT with an asset base of ~SGD2.2bn, near doubling that of the next largest peer. A re-rating of SSREIT bonds was also in the cards if a deal had happened, in our view. Ending a nine-month overture, EREITM announced in November 2017 that it was no longer exploring transaction options with SSREIT. EREIT had significantly stepped up asset acquisition activities in 4Q2017 while SSREIT's strategic review continues. Going into 2018, we will continue to monitor the potential changes surrounding these two REITs.

Rejuvenation coming due

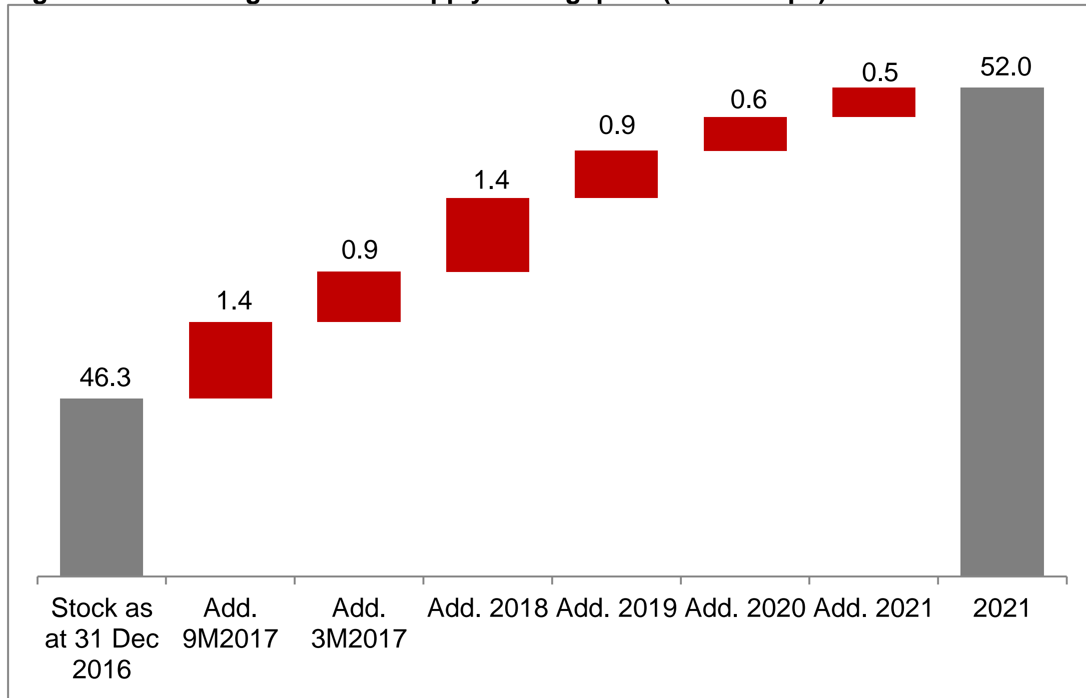
Since 2015, we have propagated that the Singapore industrial space is facing looming structural changes and that Industrial REITs would continue to reduce concentration to their existing Singapore portfolio. Portfolio rejuvenation had intensified as a key theme over the past 12 months. Main strategies included (1) foreign expansion, particularly into Australia; and (2) greenfield and redevelopment projects. Apart from Mapletree Logistics Trust which had been regionally focused since its initial public offering in 2005 and a handful of foreign assets owned by other peers, Industrial REITs under our coverage have tended to be domestic focused in Singapore. That is, until 2H2015 when Ascendas REIT acquired AUD1.0bn of an Australia asset portfolio as its initial Australian foray. In 2H2017, we saw portfolio rejuvenation via expansion of investment mandates to include new industrial sub-segments. In October 2017, Mapletree Industrial Trust ("MINT") teamed up with its Sponsor to acquire a 40%-stake in a portfolio of 14 US-based data centres worth USD750mn. Apart from the large cap Industrial REITs, this theme has broadened beyond the big three Industrial REITs (eg: Soilbuild Business Space REIT has announced that it will be seeking Australian opportunities while EREIT has announced and/or completed SGD335mn of acquisitions in 4Q2017). Singapore properties will likely continue to anchor the Industrial REIT sector, though we expect higher variability in terms of geographical location of assets and industrial asset sub-segments between the REITs going forward. Industrial REITs have a higher urgency to re-populate their portfolio with new assets to uphold operational metrics acceptable to stakeholders (eg: underlying land leases, weighted average lease expiries). While the Industrial REITs would attempt to sell existing assets to raise capital, asset sales tend to take time in the current market environment and thus far sales have been single-asset based (versus portfolio sales). We expect Industrial REITs to periodically report higher-than-historical aggregate leverage ratios while they undertake portfolio rejuvenation and to continue to tap the fixed income markets to support their respective endeavours.

Figure 27: Singapore Industrial Sector Indices



Source: JTC Quarterly Market Report for 3Q2017

Figure 28: Incoming Industrial Supply in Singapore (million sqm)



Source: JTC Quarterly Market Report for 3Q2017 | Note: Assumes no disposal from property stock

Singapore Property – Make hay while the sun shines

Bucking 15 consecutive quarters of decline, Singapore private residential property prices posted an increase of 0.7% q/q in 3Q2017. The recovery was broad-based, with prices increasing in the Core Central Region (+0.1% q/q), Rest of Central Region (+0.5% q/q) and Outside Central Region (+0.8% q/q). This is within our expectations as we called the bottom in our Mid-Year 2017 Credit Outlook after seeing the green shoots of recovery.

Figure 29: URA Price Index -10.3% since 3Q13

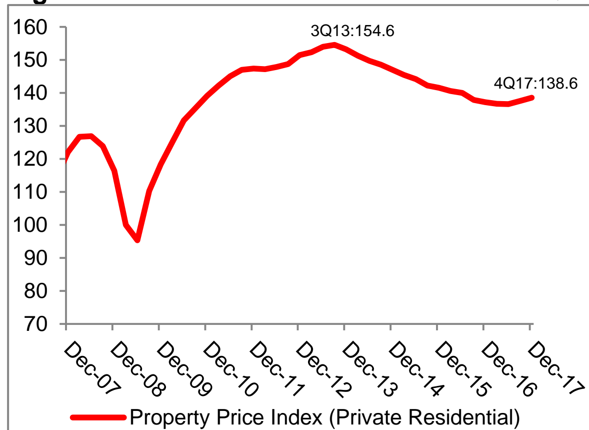
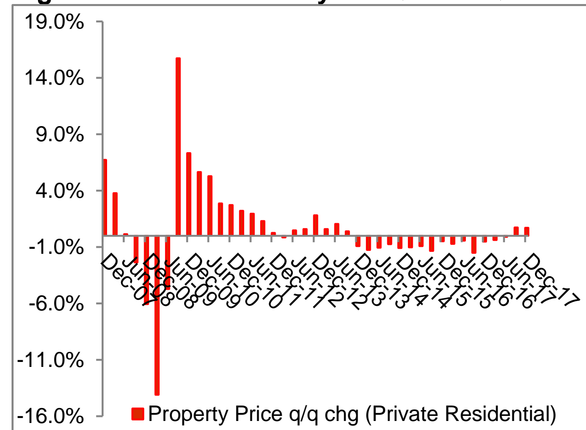
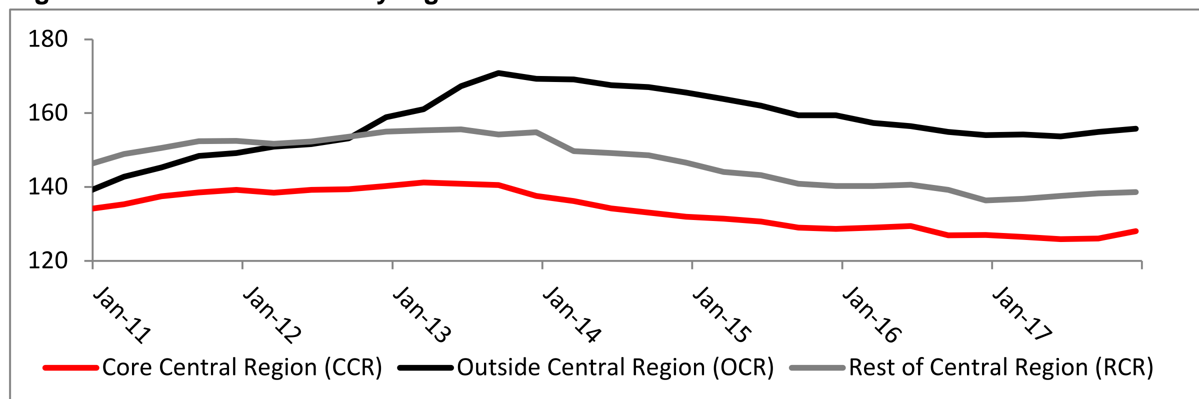


Figure 30: Price recovery in 3Q and 4Q2017



Source: Urban Redevelopment Authority, OCBC

Figure 31: URA Price Index by region

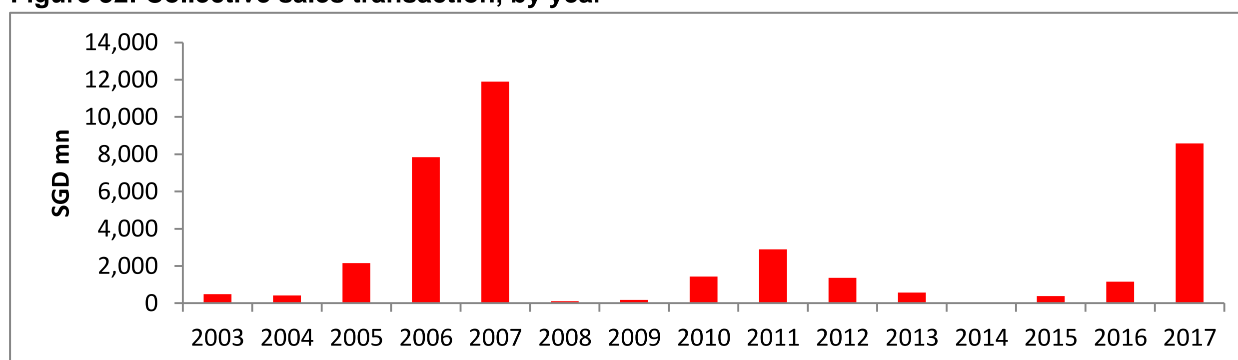


Source: Urban Redevelopment Authority, OCBC

According to URA's flash estimates, Singapore property prices have increased by another 0.7% q/q in 4Q2017. Going forward, we think property prices will continue to trend higher in the coming 12 months as the recovery looks sustainable. We detail the reasons in the following:

- **Demand-supply gap has been closing.** Unsold units in the pipeline fell to 16,031 as of 3Q2017 (3Q2016: 20,577) while new units sold increased to 11,018 over 4Q2016-3Q2017 (4Q2015-3Q2016: 7,259). While more supply may enter the market, we expect increased transactions to be sustained as displaced homeowners from collective sales may look for new units. Confident of moving units and avoid the punitive cooling measures (e.g. ABSD, LTV ratio, TDSR[4]), developers are less keen on cutting prices or offering incentive packages (e.g. profit participation securities, deferred payment schemes). At the same time, certain developers are beginning to hold back inventory in view of their declining landbank.
- **Land prices are supported with keen bids.** According to JLL, 58% of the winning land bids suggest that developers are expecting selling prices to be around current levels or up to 10% higher. Cushman & Wakefield similarly found that the top 5 residential sites were transacted at 22% price premium over comparable sites. According to The Real Estate Sentiment Index[5], 16.7% of the developers expect prices to increase substantially in the next 6 months. Another 52.8% expect prices to increase moderately. Total collective sales have reached SGD8.6bn, the highest since 2008, as developers seek to replenish their landbanks. The collective sales fever may spill over to 2018, with transactions intensifying into 4Q2017.

Figure 32: Collective sales transaction, by year



Source: Square Foot Research, OCBC

[4] Acronyms for Additional Buyer's Stamp Duty, Loan-to-value, Total Debt Servicing Ratio
[5] The index is jointly developed by the Real Estate Developers' Association of Singapore ("REDAS") and the Department of Real Estate, National University of Singapore

Figure 33: List of 2017 collective sales

Date	Property	Price (SGD mn)	Buyer
Jan-17	45 Amber road	156	UOL
May-17	One Tree Hill Gardens	65	Lum Chang Holdings
May-17	Goh & Goh Building	102	BBR Holdings
May-17	Rio Casa	575	Oxley, KSH, Lian Beng, Super Group
Jun-17	Eunosville	765	MCL Land
Jun-17	1 Draycott Park	72	Champsworth Development
Jul-17	Lotus at Pasir Panjang	121	Oxley Holdings
Jul-17	The Albracca	69	Sustained Land
Jul-17	Serangoon Ville	499	Oxley, Lian Beng, Heeton, KSH
Aug-17	Tampines Court	970	Sim Lian Development
Aug-17	Toho Green	8	Oxley Holdings
Sep-17	Seraya Crecsent	26	Tee Land
Sep-17	Sun Rosier	271	SingHaiYi
Sep-17	Jervois Gardens	72	SC Global
Sep-17	Nanak Mansions	201	Associate of UOL Group
Oct-17	Amber Park	907	City Development
Oct-17	Normanton Park	830	Kingsford Huray Development
Oct-17	Changi Gardens	249	Chip Eng Seng
Oct-17	Florence Regency	629	Logan Property
Oct-17	Dunearn Court	36	Roxy-Pacific
Nov-17	Casa Contendere	72	TEE Land
Nov-17	Tai Wah Building	85	Lucrum Capital
Nov-17	Mayfair Gardens	311	Oxley Holdings
Nov-17	Lodge 77	29	KTC Group
Nov-17	How Sun Park	81	Singhaiyi, Huajiang Properties
Dec-17	Royalville	478	Allgreen Properties
Dec-17	Crystal Tower	181	Allgreen Properties
Dec-17	Jervois Green	53	Investors led by Mike Ho
Dec-17	21 Meyappa Chettair Road	22	Oxley Holdings
Dec-17	Derby Court	74	Subsidiary of Roxy-Pacific Holdings
Dec-17	Parkway Mansions	147	Consortium led by Sustained Land
Dec-17	Vista Park	418	Oxley Holdings

Source: Straits Times, Business Times, OCBC

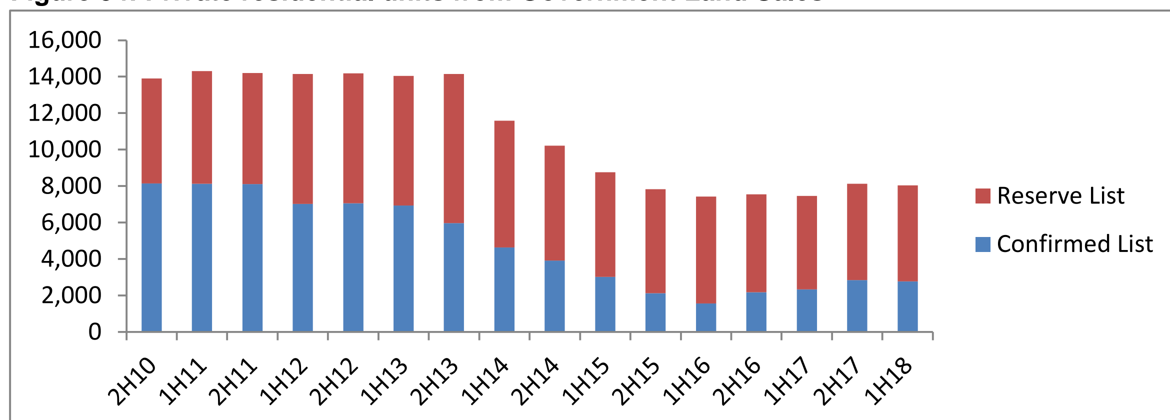
- **Housing prices in Singapore aren't expensive.** According to JLL and Demographia, Singapore's home price to income ratio is 4.8x, which looks manageable in our view, though this may have included figures from public housing. This compares favourably with other major cities such as London (8.5x), San Francisco (9.2x), Tokyo (10.4x), Sydney (12.2x) and Hong Kong (18.1x). In addition, the downside for Singapore housing prices is likely limited following a long period of price declines. We think bargain hunters with pent-up demand may support housing prices.
- **The state of the economy looks healthy.** 3Q2017 GDP grew 5.2% y/y while unemployment rate remains low at around 2.2%.Going into 2018-2019, our colleagues at OCBC Treasury Research forecasts Singapore GDP to grow at 3.0% p.a.

While risks are skewed to the upside in the short term (1Y-2Y), we are less certain if prices will continue to increase in the medium to longer term. Further increases in supply, still elevated vacancy rates, changes in economic conditions and government regulations could contain the price recovery.

- **Increase in supply.** According to MAS, the existing government land sales and enbloc will add 20,000 units to the pipeline. Most of this will enter the market in 2021 and beyond. The unit launches are expected in 2018 and 2019. If developers were to undertake more collective sales, supply could further increase.
- **High vacancy rates.** Vacancy rates increased to 8.4% in 3Q2017 (2Q2017: 8.1%), which is high in comparison to the 5-6% region seen during 2007-2013. Further increases in vacancy, which may result from the increase in supply, could pressure rental rates and in turn affect demand for residential units.
- **Change in economic conditions.** Our colleagues at OCBC Treasury Research forecasts Singapore's 3-month SIBOR to increase in 2018 (1.55%) and 2019 (1.95%). If interest rates rise, MAS finds that a small number of more highly-leveraged households could be at risk. Nevertheless, the affected households should be limited due to MAS' TDSR framework.
- **Change in government regulations.** Further relaxation in the property cooling measures, following adjustments to the Seller's Stamp Duty in Mar 2017, may be unlikely. We think risks are now skewed towards tightening as various representatives of the government have raised warnings (details in next paragraph). Already, the government has hiked the development charge rates[6], which increased by 13.8% on average. MAS has also mentioned that it will take actions, if necessary, "to maintain a stable and sustainable property market".

As a contrarian to the optimistic market, the government has made several warnings. According to the MAS Financial Stability Review ("FSR"), there is uncertainty if the new supply can be fully absorbed by the market, and this could weigh on rentals and property prices. National Development Minister Lawrence Wong warned about "excessive exuberance". The Urban Redevelopment Authority has flagged a potential surge in units from en-bloc sales and government land sales ("GLS"). As such, in the 1H2018 GLS, the government has kept the total supply of units for 1H2018 relatively unchanged from 2H2017 even though there is strong demand by real estate developers. Overall, GLS supply is tight, with the 8,045 units to be released in 1H2018 remaining lower than ~14,000 units in 2010-2013.

Figure 34: Private residential units from Government Land Sales



Source: Urban Redevelopment Authority

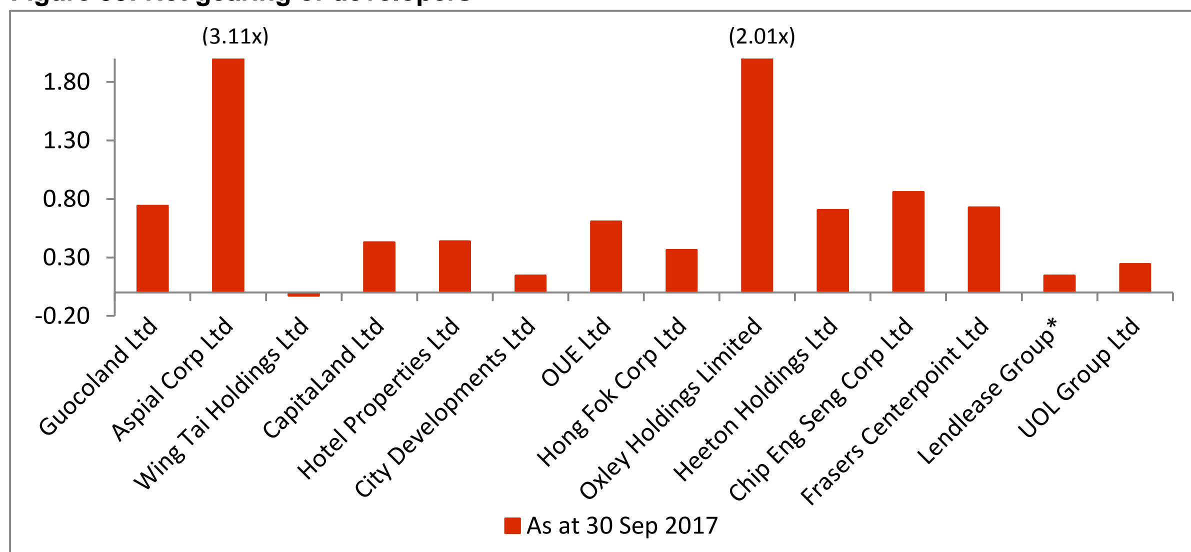
In our view, the market need not be overly alarmed on the housing market in relation to the warnings made by the government. According to MAS and URA, the redevelopment of en-bloc sites and GLS will add 20,000 new private housing units, which will more than double the number of unsold units in the pipeline. MAS also flagged that population growth has slowed, with compound annual growth rate of population moderating from 3.0% p.a. (2007-2012) to 1.1% p.a. (2012-2017). However, a doubling of the unsold stock (3Q2017: 16,301 units) would only bring the unsold units in-line with the preceding 10Y (2007-2016) average of 32,771 units. Completions in 2018-2020 totals 9,473 units p.a., which is lower than 11,018 new sales over 4Q2016-3Q2017. This should put the market in a strong position

[6] Development charge is a tax on developers for development projects that increase the value of the land, such as rezoning to a higher value use or increasing the plot ratio.

entering into the peak supply in 2021. If transactions continue at the current pace, we believe there is room for the market to digest 20,000 new private housing units in 2021-2022. Furthermore, we believe that homeowners have strong holding power. MAS found that the banking system would be resilient to a sharp drop in property prices of 50% over a three-year period. Meanwhile, asset quality of housing loans remains strong, with low NPLs of 0.4% and loans in arrears of 1.0%.

Despite a recovery in the housing market, a rising tide may not lift all boats. On the contrary, we expect credit profiles of developers to weaken in general. Although more units are sold, which should support profitability and cash flows, we expect leverage to climb due to aggressive land bids through en-blocs and GLS. In particular, the en-bloc fever may intensify, as SGD4.6bn of en-blocs took place in 4Q2017, out of SGD8.6bn total en-blocs in 2017, as developers look to rebuild their land bank. In addition, there is no guarantee that property prices will increase though the land bids suggest that selling prices have to be higher for developers to maintain similar levels of profitability. This appears to be in a sharp contrast to sentiments in 2013, when City Developments Ltd ("CDL") Executive Chairman Kwek Leng Beng said "If the Qualifying Certificate is there, it will be suicidal to keep tendering at high prices just because we want a land bank" – we note that ironically CDL had put in the winning bid of SGD906.7mn for the en-bloc of Amber Park in Oct 2017. Perhaps, developers have decided that they have stayed sidelined on land bids long enough and want to join in the fray, heeding the advice of George Soros, a legendary fund manager, who said "when I see a bubble forming, I rush in to buy, adding fuel to the fire." We agree "this is not irrational", as prices should trend higher in 2018 and developers are taking the opportunity to make hay while the sun shines, though margins would be significantly compressed if prices do not rise sufficiently. For now, we remain comfortable with most developers given their discipline in maintaining net gearing below 1.0x, though there are notable exceptions including Oxley Holdings (2.0x), Aspial Corp (3.1x) and Chip Eng Seng (0.86x, which may increase to ~1.5x following acquisitions).

Figure 35: Net gearing of developers

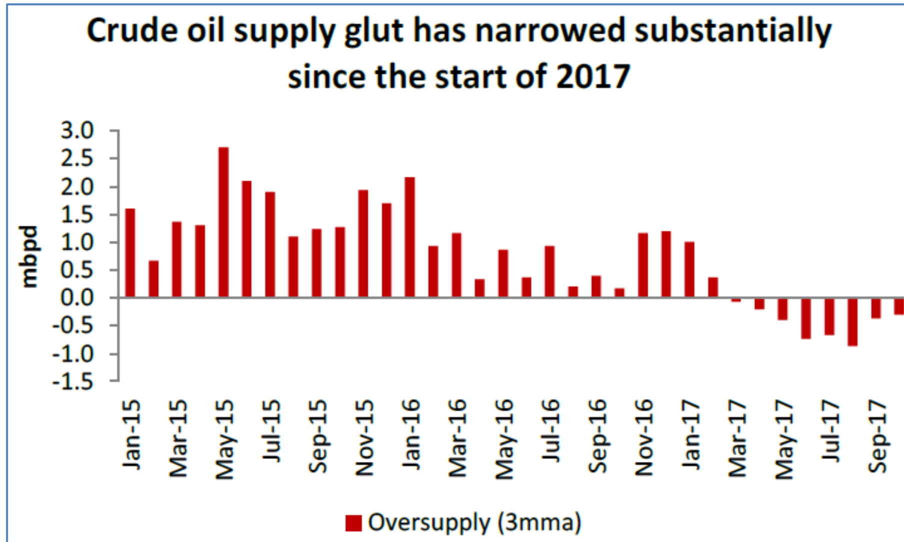


Source: Company
** Based on 30 June 2017*

Offshore Marine Sector – Rising Tide Lifts All Ships?

On firmer footing

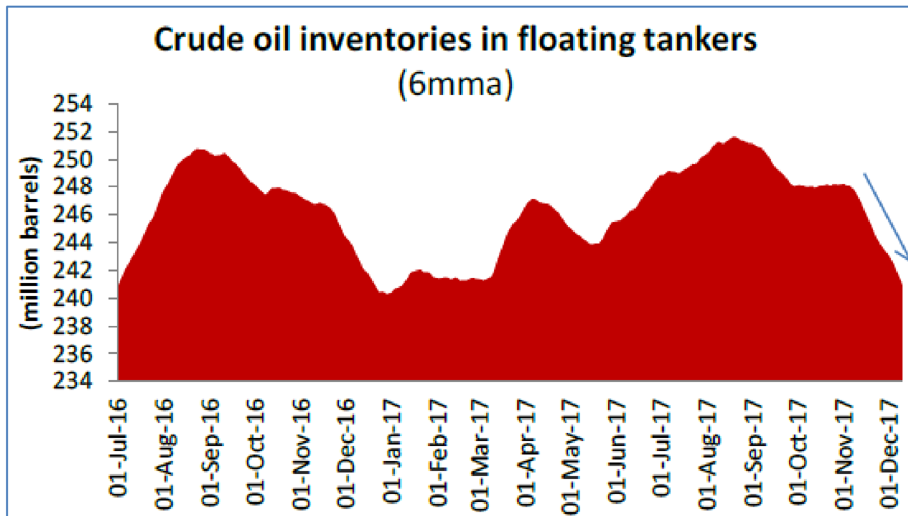
Figure 36: Crude Oil Oversupply



Source: Bloomberg, OCBC

How quickly things have reversed. Just half a year ago, crude oil markets remained challenged, with WTI crude oil prices plunging into a bear market at the end of June 2017 and reaching a low of USD42/bbl. Since then, sustained production coordination efforts by OPEC, coupled with recovering global growth have driven crude oil prices decisively higher, with WTI rallying more than 40% by the end of 2017 (from the mid-year trough). Our commodity analyst identified that the rally was driven by the confluence of better risk appetite and the narrowing of oil supply-demand fundamentals.[7] In particular, the crude oil supply glut, which had pressured energy markets since 4Q2014, had narrowed substantially into 2017. In fact, demand (in volume terms, on a 3-month moving average basis) had exceeded supply as early as March 2017, and had stayed this way through October last year. An observable proxy to excess crude oil demand would be declining inventories, such as those held on floating tankers. Existing trends look supportive of 2018 crude prices as well.

Figure 37: Declining Crude Inventories



Source: Bloomberg, CEIC, OCBC

That being said, our commodities analyst advised more caution heading into 2018. There are signs that the 2H2017 rally was driven in part by speculative technical buying. Investors had largely shrugged in the face of recent upticks in US crude oil suppliers and higher oil rig counts. Geopolitical tensions, such as those brewing in the Korean Peninsula, could disruption the global growth momentum and affect demand. Conversely, geopolitical escalations in the Middle East may impact supply, driving crude prices higher. Another factor to consider would be the coordination between

[7] OCBC - Commodities Outlook 2018

OPEC and Russia that had curbed supply thus far. Their agreement to sustain production cuts till end-2018 is a soft deadline, with the agreement potentially terminated ahead of time should the rebalancing of oil markets be deem to be completed. Risk of higher US oil production is also present, particularly given the increase in rig counts in recent weeks. In essence, given the various uncertainties, the oil rally looks to be fragile. As such, our commodities analyst does not see much headroom for oil prices to rally in 2018, with the OCBC house view for crude prices to be USD70/bbl at end-2018.

Spending picking up

Finally, after years of trimming capex, it would seem that some energy upstream players are now certain enough to increase spending. For example, Exxon Mobil expected to spend USD22bn in capex for 2017. For 2018, Exxon Mobil intends to spend ~USD25bn[8]. The conviction to increase spending is not industry wide though. In the case of Chevron, 2018 capex was targeted to be USD18.3bn, lower compared to USD19.8bn for 2017. That said, it should be noted that most oil majors emphasize on the flexibility they intend to exercise with regards to their capex plans. Another positive sign would be oil majors looking beyond short-cycle investments such as shale. For example, Exxon Mobil had won 10 blocks in the September 2017 bid round in Brazil. These were all deepwater reserves such as the Compos Basin. It was the first time that Exxon Mobil returned to Brazilian exploration in five years. The return of interest to deepwater exploration would be a balm to offshore contract drillers such as Transocean, which in turn might finally offer some stabilization to the offshore drilling rigs market.

The improvements to the offshore oil market was consistent with what Transocean (the world's largest contract driller) observed half a year ago about how several deepwater projects that were on hold the last couple of years now have break evens at USD50/bbl, and below due to cost deflation. Transocean had also opined that should oil prices stay at ~USD50/bbl, more FID would be made to initiate such projects. Today, with oil prices decisively above USD50/bbl, oil majors are now returning to deepwater assets. In fact, as part of Transocean's 3Q2017 earnings management discussion, Transocean indicated that activity was picking, with 10M2017 drillship / semi-submersible contracts awarded up ~40% compared to the whole of 2016, and that the deepwater drilling industry had seen six consecutive quarters of increasing drillship / semi-submersible contracting activity. That said, in a microcosm of what's happening more broadly in the offshore marine space, Transocean had also cautioned that though activity is picking up, charter rates for its drilling assets remain weak. This is likely to be driven by the oversupply situation plaguing both drilling assets as well as OSVs. In fact, during 3Q2017, Transocean made the decision to take USD1.39bn in impairments to retire a further 6 more assets from its fleet (including five ultra-deepwater assets) which they deemed challenged. In aggregate, Transocean had retired 39 assets from its fleet since the beginning of the downturn.

The changes to Transocean's fleet were not all just about scrapping though. With the more certain recovery in offshore upstream activity, Transocean had taken the opportunity to participate in industry consolidation, acquiring Songa Offshore for its fleet of high-spec harsh environment semisubmersibles (with attached contracts). Transocean had also requested Sembcorp Marine to resume active work on two drillships ordered previously. Transocean was not the only active party in fleet optimization. Borr Drilling had acquired from both Keppel Corp and Sembcorp Marine jack-up rig contracts that were previously due to other customers, at discounts to original contract prices in some instances. On the OSV side, there had been increasing charter tendering activity, though it is noted that given current low levels of industry-wide utilization, it would be some time before utilization rates have recovered enough for fleet owners to start lifting charter rates higher. This also implies that revenue recovery would lead margin recovery.

Cleaning house

In the middle of 2017, we had discussed about the restructuring of Tidewater, one of the largest OSV fleet owner globally. We had also considered some takeaways from the restructuring, in the context of the stress we have seen amongst the offshore marine issuers in our coverage. Given the subsequent restructuring attempts of Ezion Holdings and Nam Cheong Holdings in 2H2017, as well as the expected restructuring of Pacific Radiance in the near future, it is worth revisiting the takeaways mentioned given the recent developments.

- **Improving environment may not prevent restructuring**: As mentioned previously, though there are signs that the global offshore marine industry may have bottomed, the recovery in upstream activity may not be fast enough for issuers to support their debt service. Sure

[8] *Exxom Mobil – 3Q2017 earnings call*

enough, in both the Ezion and Nam Cheong restructurings, a material part of the restructuring was to extend the maturities of the bonds. In the case of Ezion, bonds of various tenures will be exchanged into either six or seven year bullet bonds[9] while the restructured Nam Cheong term loans will only start amortizing from the 4th year onwards[10]. This was to buy time for Ezion to improve the utilization of its liftboat and service rig fleet, and for Nam Cheong to dispose of its inventory of build-to-stock OSV in an orderly fashion (rather than via distressed sales). With Pacific Radiance a pure-play OSV fleet owner, it is likely to seek maturity extension as well to preserve cash flow till utilization rates improve.

- **The less time in restructuring the better**: As mentioned previously, a more rapid restructuring would allow the issuer to revert back to fiscal health more quickly, providing customers / potential customers with more confidence. With the recovery in the broader energy industry more certain given the oil rally, issuers need to revert to financial health more quickly to take advantage of the rising tide. In this case, Ezion's out-of-court restructuring via a consent solicitation exercise looks to be more rapid than Nam Cheong's court-driven Scheme of Arrangement. That said, Nam Cheong's restructuring may have been made more complicated due to corporate structure issues (such as its offshore operating entities). With the OSV industry currently in the winter lull, Pacific Radiance may be motivated to resolve its restructuring more rapidly via an out-of-court restructuring, so that it would be positioned to participate in tenders when activity picks up.

- **Equity holders and creditors both have to be realistic**: In the case of both the Ezion and Nam Cheong restructurings, we considered the terms offered to bondholders to be lacking. For Ezion, bondholders were not compensated for the sizable maturity extension (with coupons cut to trivial amounts) while the equity conversion upside was clouded by expensive conversion price and uncertain dilution. For Nam Cheong, the differences between the conversion price for the non-sustainable portion of debt versus the proposed rights issue implies an outright haircut on bondholders, while the cash component to the restructured term loan coupon is a low 2%. Unfortunately, the alternatives to the proposed restructurings are even less palatable with potentially heavy losses on bondholders should the failed restructuring result in liquidation.

Upon the completion of the restructuring for Ezion, Nam Cheong and Pacific Radiance, the restructuring in our offshore marine coverage would largely be completed (only the giants in the sector, Keppel Corp and Sembcorp, have not needed any form of restructuring). In most cases, bondholders would have been invested in these issuers longer than they had expected (given illiquid positions and maturity extensions). Hopefully, though the immediate future remains challenging, these restructured issuers would have enough financial flexibility to survive till they are able to profit from the opportunities that are returning to the market. This would in turn provide some sorely needed upside in the equity positions that bondholders may hold post restructuring.

[9] OCBC Asia Credit - Ezion Credit Update (24 Oct)
[10] OCBC Asia Credit - Nam Cheong Credit Update (6 Dec)

Top Trade Ideas

Top Picks

Company	Ticker	S&P / Moody's / Fitch	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM/YTC	Rationale
Lippo Malls Indonesia Retail Trust	LMRTSP	NR/Baa3/NR (Issuer)	7.000%	Perp c'21	SGD140mn	104.50	5.60%	Aside from LMRTSP 6.6%-PERPs, LMRTSP 7% PERP offers the highest yield in the S-REIT universe. The recent selloff due to the potential ratings downgrade as made the perpetual look very interesting again. The perpetual has a high chance to call, in our opinion.
OUE Ltd	OUESP	NR/NR/NR	3.750%	17-Apr-22	SGD200mn	101.45	3.38%	Given the spread of ~160bps above swaps, the OUESP'22s offer decent value with leverage still manageable at ~60% net gearing. Issuer has financial flexibility given the two REITs it manages.
Keppel REIT	KREIT	NR/NR/NR	4.980%	Perp c'20	SGD150mn	104.15	3.42%	The perp is likely to be called at 1st call (02/11/20) given the wide reset spread of 270.5bps versus 183bps currently. Underlying portfolio to benefit from office sector recovery.
Westpac Banking Corporation	WBC	BBB/Baa1/A+	4.000%	12-Aug-22	SGD325mn	104.10	3.03%	Although risks remain in Australia's housing sector, WBC's performance and overall risk profile continues to be sound. The WSTP '27c22s looks decent value against the NAB 4.15 '28c23s and offers decent spread pick up against the ANZ 3.75% '27c22s.
Mapletree Logistics Trust	MLTSP	NR/Baa1/NR (Issuer)	4.180%	25-Nov-21	SGD250mn	103.30	3.27%	The MLTSP 4.18%-PERP provides better value compared to the SPOST 4.25%-PERP with a YTW of 2.7% and call date in March 2022

Top Pans

Company	Ticker	S&P / Moody's / Fitch	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM/YTC	Rationale
Oxley Holdings Ltd	OHLSP	NR/NR/NR	5.000%	11-May-19	SGD300mn	101.27	4.26%	Although OHL has delivered strong results, we Underweight OHLSP '19s rising leverage. However, investors comfortable with OHLcan consider the USD-denominated OHLSP 6.375% '21s.
Sembcorp Industries Ltd	SCISP	NR/NR/NR	3.640%	27-May-24	SGD200mn	102.40	3.19%	It does not make sense for the SCISP'24s to be trading in line with the KEPSP'23s given the former's higher leverage as well as weaker profits from Utilities versus KEP's property segment.
Hotel Properties Ltd	HPLSP	NR/NR/NR	3.950%	13-Sep-19	SGD50mn	103.20	1.99%	While HPL offers a decent credit profile, HPLSP 3.95% '19s looks tight trading at 56.4bps over swaps.
Malayan Banking Berhad	MAYMK	BB+/Baa2/BB+	6.000%	11-Aug-18	SGD600mn	102.30	2.01%	With the MAYMK 6.0%-PERPc18s approaching first call date, investors may want to move to the European Tier 2 space and look at the ABNANV 4.75% '26c21s.
Ascendas REIT	AREIT	NR/A3/NR (Issuer)	2.500%	16-May-19	SGD95mn	101.00	1.75%	The AREIT 2.5% '19s is only paying a YTW of 1.75%, as such we see more value in City Development's CITSP' 3.38% '19s which is paying a YTW of 1.85%.

Indicative prices from Bloomberg as of 9 January 2018

Contents

A. COMPANY OUTLOOKS - CORPORATES

		Page No.
1.	AIMS AMP Capital Industrial Trust	6
2.	Ascendas Hospitality Trust	8
3.	Ascendas Real Estate Investment Trust	10
4.	Ascott Residence Trust	12
5.	ASL Marine Holdings Ltd	14
6.	Aspial Corp Ltd	16
7.	Banyan Tree Holdings	18
8.	CapitaLand Commercial Trust	20
9.	CapitaLand Ltd	22
10.	CapitaLand Mall Trust	24
11.	Century Sunshine Group Holdings Ltd	26
12.	China Eastern Airlines Corp Ltd	28
13.	Chip Eng Seng Corp Ltd	30
14.	CITIC Envirotech Ltd	32
15.	City Developments Ltd	34
16.	CK Hutchison Holdings Ltd	36
17.	CMA CGM (Parent of Neptune Orient Lines)	38
18.	CWT International Ltd (Parent of CWT Ltd)	40
19.	ESR-REIT	42
20.	Ezion Holdings Ltd	44
21.	Fraser & Neave Ltd	46
22.	Frasers Centrepoint Trust	48
23.	Frasers Commercial Trust	50
24.	Frasers Hospitality Trust	52
25.	G8 Education Ltd	54
26.	Golden Agri-Resources Ltd	56
27.	Henderson Land Development Co Ltd	58
28.	Hong Fok Corp Ltd	60
29.	Hongkong Land Holdings Ltd	62
30.	Hotel Properties Ltd	64
31.	Keppel Corp Ltd	66
32.	Keppel Real Estate Investment Trust	68

33. Keppel Telecommunications &Transportation 70
34. Lippo Malls Indonesia Retail Trust 72
35. Mapletree Commercial Trust 74
36. Mapletree Greater China Commercial Trust 76
37. Mapletree Industrial Trust 78
38. Mapletree Logistics Trust 80
39. Nam Cheong Ltd 82
40. Olam International Ltd 84
41. OUE Ltd 86
42. Oxley Holdings Ltd 88
43. Pacific Radiance Ltd 90
44. Sabana Shari'ah Compliant Industrial Trust 92
45. Sembcorp Industries Ltd 94
46. Singapore Airlines Ltd 96
47. Singapore Post Ltd 98
48. Singapore Telecommunications Ltd 100
49. Soilbuild Business Space REIT 102
50. Starhill Global REIT 104
51. StarHub Ltd 106
52. Suntec REIT 108
53. UOL Group Ltd 110
54. Viva Industrial Trust 112
55. Wharf Holdings Ltd 114
56. Wheelock & Co Ltd 116
57. Wing Tai Holdings Ltd 118
58. Wing Tai Properties Ltd 120

B. COMPANY OUTLOOKS - FINANCIAL INSTITUTIONS

		Page No.
59.	ABN AMRO Bank NV	123
60.	Australia & New Zealand Banking Group Ltd	125
61.	Bank of China Ltd	127
62.	Barclays PLC	129
63.	BNP Paribas SA	131
64.	BPCE SA	133
65.	CIMB Group Holdings Berhad	135
66.	Commerzbank AG	137
67.	DBS Group Holdings Ltd	139
68.	HSBC Holdings PLC	141
69.	Julius Baer Group Ltd	143
70.	Landesbank Baden-Württemberg	145
71.	Malayan Banking Berhad	147
72.	National Australia Bank Ltd	149
73.	Société Générale SA	151
74.	Standard Chartered Bank PLC	153
75.	United Overseas Bank Ltd	155
76.	Westpac Banking Corp	157

Please note that due to OCBC's engagement in other business activities, we have suspended our coverage on the following names until these activities are completed:

a) **First Real Estate Investment Trust**
b) **GuocoLand Limited**
c) **BreadTalk Group Limited**
d) **Heeton Holdings Limited**
e) **Perennial Real Estate Holdings Limited**
f) **Frasers Centrepoint Limited**

In addition, we have ceased coverage for the time being on the following names due to a variety of reasons including maturity of SGD bonds:

a) **Bank of East Asia Limited**
b) **Croesus Retail Trust**
c) **Gallant Venture Ltd**
d) **Genting Singapore PLC**
e) **China Vanke Co Ltd**

Corporate Outlooks

Credit Outlook – The AAREIT 4.35% '19s at an ask YTM of 4.6% provides good pick up against its rated Industrial REIT peers thought the curve tends to be less liquid.

Issuer Profile: Neutral (4)

S&P: BBB-/Stable

Moody's: Not rated

Fitch: Not rated

Ticker: **AAREIT**

Background

AIMS AMP Capital Industrial REIT ("AAREIT"), listed on the SGX is an industrials focused-REIT with total assets of SGD1.5bn as at 30 September 2017. AAREIT currently owns a portfolio of 26 completed properties in Singapore and a 49%-stake in a property in Australia. AAREIT is sponsored by Australia-based AIMS Financial Group and AMP Capital who collectively own ~12%. Other major shareholders are: Dragon Pacific Assets Limited (11%), APG Asset Management (~8.2%) and George Wang (~7.4%).

AIMS AMP Capital Industrial Trust

Key credit considerations

- **Decline in net property income generation:** For the first half of financial year ending March 2018 ("1HFY2018"), gross revenue was SGD60.0mn and relatively flat versus 1HFY2017. Net property income ("NPI") was SGD39.5mn, down 0.4% y/y and resultant EBITDA was also down 0.4% at SGD35.8mn against 1HFY2017. In 2QFY2018, gross revenue was SGD29.5mn, down 3.2% q/q and in our view, this is representative of AAREIT's performance on a same-store basis. The redevelopment of 8 Tuas Avenue was completed in August 2017. A new tenant was secured in September 2017 and unlikely to have contributed significantly to financial results. The lower revenue performance in 2QFY2018 was due to lower rentals, including at 20 Gul Way which had become a multi-tenanted property in July 2017 versus being 100% Master Leased by CWT. Q/q, NPI was down 3.6% to SGD19.4mn. Q/q portfolio occupancy as at 30 September 2017 was 3pp lower at 88.8% and only in line with the broader industrial space sector.

- **Interest coverage somewhat lower:** Interest expenses were 1.5% higher y/y at SGD9.6mn, partly due to interest on borrowings incurred for the redevelopment of 30 Tuas West Road and 8 Tuas Avenue 20. Also previously, such interest expense were capitalized and these are now expensed as the temporary occupancy permit ("TOP") for both properties has been received. As at 30 September 2017, overall blended funding cost was 3.6% while a year ago this was 3.9%. Unadjusted EBITDA/Interest was 3.7x versus 3.8x in 1FY2017. AAREIT holds a 49%-stake in the entity that owns the Optus Centre property in Sydney, Australia. In 1HFY2018, share of results from this joint venture to AAREIT was SGD7.4mn. Including the contribution from this building, we find Adjusted EBITDA/Interest at 4.5x (in line with 1HFY2017 interest coverage). In aggregate, net cash from operations (before interest and tax) and the cash distribution from Optus Centre was SGD45.5mn in 1HFY2018, and this was more than sufficient to cover dividends and interest.

- **Aggregate leverage declined post equity fundraising:** Aggregate leverage as at 30 September 2017 was 37.3%, somewhat higher than the 36.3% as at 30 June 2017. Net borrowings in 1HFY2018 were SGD19.2mn, mainly for capex as AAREIT was progressing redevelopment and developments. AAREIT's first greenfield built-to-suit property in Marsiling (for a third party client) achieved TOP in October 2017 and we expect capex to be minimal in the next 12 months, barring any new development contracts awarded. In November 2017, AAREIT raised gross proceeds of SGD55.0mn in an equity private placement. This was intended to partly repay existing borrowings to create additional headroom for potential acquisitions, asset enhancement initiatives and other developments. On a pro-forma basis, factoring the equity placement, aggregate leverage would have reduced to ~34.0%.

- **No short term debt due:** As at 30 September 2017, short term debt due at AAREIT amounted to SGD101.8mn. AAREIT had arranged for an updated facility agreement in August 2017 and refinancing would have occurred in November 2017. We see AAREIT's ability to raise further secured debt as moderate; and lower than other industrial REIT peers. 15 properties in Singapore have been collaterised for secured debt as at 30 September 2017 (up from 13 as at 31 March 2017). Optus Centre has also been used as security to raise AUD bank debt. Secured debt as at 30 September 2017 was ~76% of total debt. AAREIT announced an updated valuation to its Singapore-based properties, and we saw a 4.9% decline in valuation of 20 Gul Way (AAREIT's largest asset in Singapore) though the decline was made up by gains elsewhere. Net-net, excluding the newly developed Marsiling building and Optus Centre, AAREIT's portfolio value has dipped 0.6% between March 2017 and September 2017.

AIMS AMPS Capital Industrial Trust

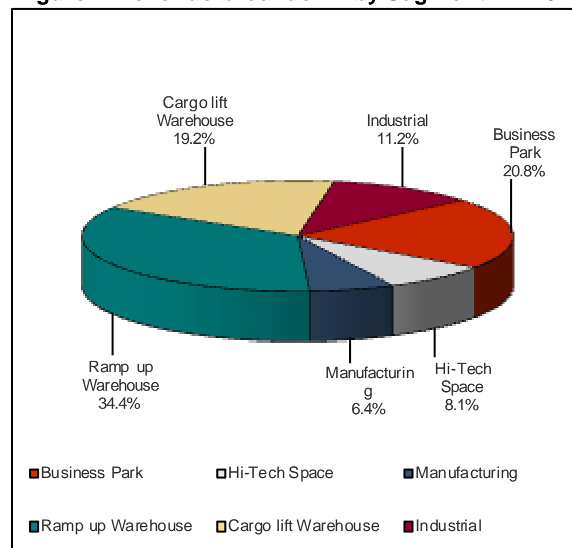
Table 1: Summary Financials

Year Ended 31st March	FY2016	FY2017	1H2018
Income Statement (SGD'mn)			
Revenue	124.4	120.1	60.0
EBITDA	73.5	72.0	35.8
EBIT	73.5	72.0	35.8
Gross interest expense	20.2	18.6	9.6
Profit Before Tax	45.7	15.0	17.4
Net profit	40.8	13.5	16.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	7.5	11.7	10.3
Total assets	1,459.5	1,465.5	1,467.5
Gross debt	471.5	527.5	546.7
Net debt	464.0	515.8	536.5
Shareholders' equity	940.7	888.4	873.9
Total capitalization	1,412.2	1,416.0	1,420.7
Net capitalization	1,404.7	1,404.2	1,410.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	40.8	13.5	16.8
* CFO	74.6	78.1	37.4
Capex	22.7	48.0	22.4
Acquisitions	0.4	0.0	0.0
Disposals	0.0	0.0	0.0
Dividends	68.0	71.5	33.8
Free Cash Flow (FCF)	51.9	30.1	15.0
* FCF Adjusted	-16.5	-41.5	-18.9
Key Ratios			
EBITDA margin (%)	59.1	60.0	59.7
Net margin (%)	32.8	11.2	28.0
Gross debt to EBITDA (x)	6.4	7.3	7.6
Net debt to EBITDA (x)	6.3	7.2	7.5
Gross Debt to Equity (x)	0.50	0.59	0.63
Net Debt to Equity (x)	0.49	0.58	0.61
Gross debt/total capitalisation (%)	33.4	37.3	38.5
Net debt/net capitalisation (%)	33.0	36.7	38.0
Cash/current borrowings (x)	0.1	0.1	0.1
EBITDA/Total Interest (x)	3.6	3.9	3.7

Source: Company, OCBC estimates

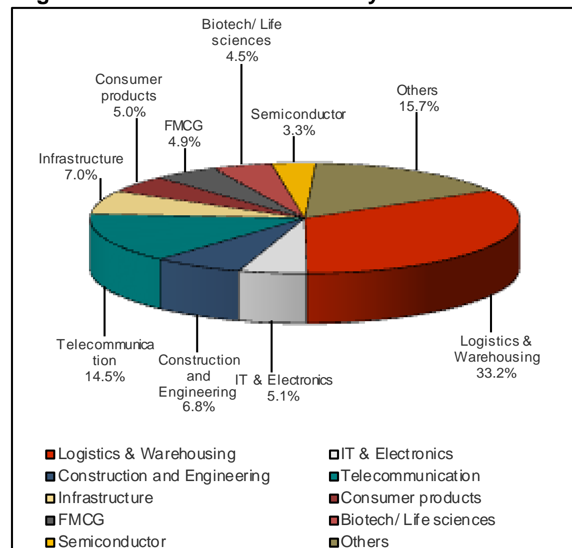
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1H2018



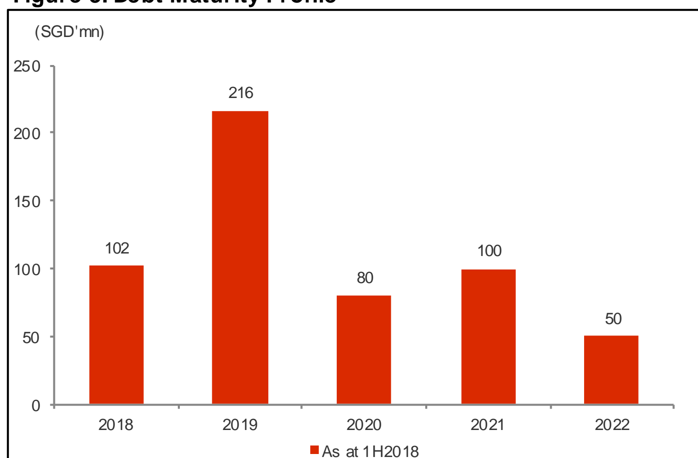
Source: Company

Figure 2: Revenue breakdown by Business - 1H2018



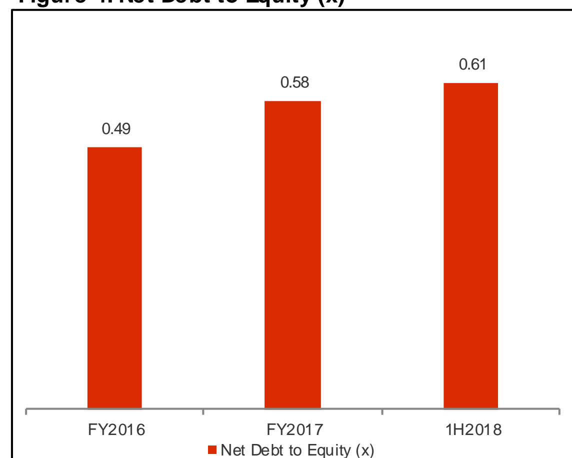
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Ascendas Hospitality Trust

Credit Outlook – The ASCHTS 3.3% '20s is trading at a YTW of 2.3% (79 bps), tight against the EREIT 3.95% '20s with a YTW of 2.9% (134bps) and a switch would allow a pick-up of 55bps for a 1.5 month longer maturity.

Issuer Profile: Neutral (4)

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **ASCHTSP**

Background

Listed in Singapore on 27 July 2012, Ascendas Hospitality Trust ("ASCHT") is a hospitality trust which owns a portfolio of 11 income-producing hotels in Australia, China, Japan and Singapore. ASCHT is a stapled group comprising Ascendas Hospitality Real Estate Investment Trust ("A-HREIT") and Ascendas Hospitality Business Trust ("A-HBT"). Total assets as at 30 September 2017 was SGD1.7bn. ASCHT is ~27.3%-owned by its Sponsor, Ascendas Pte Ltd and in turn, Ascendas Pte Ltd is owned by Temasek and JTC on a 51:49 basis.

Key credit considerations

- **Slightly lower net property income though interest coverage improved:** During the first half of financial year 2018 ("1HFY2018"), ASCHT's gross revenue improved by 3.7% y/y to SGD111.9mn, driven by increases in rental and F&B revenue. Nonetheless, net property income ("NPI") was slightly lower (down 0.3% y/y) at SGD46.8mn, dragged by higher staff cost, services and other taxes, operations and maintenance and sales and marketing expenses. Better underlying performance and tighter cost control measures in China had drove improvements in China NPI (up 9.3% y/y), and this helped offset lower contribution from hotels in Australia in 1HFY2018. ASCHT saw net profit attributable to unitholders at SGD17.5mn (1HFY2017: SGD13.6mn) though much of the net profit was wiped away from another comprehensive loss, mainly due to foreign currency translation loss of SGD13.7mn versus reporting other comprehensive gain in 1HFY2017. EBITDA in 1HFY2018 was SGD42.2mn, down 0.6% y/y though interest expense was 15.8% lower at SGD7.9mn. This resulted in a higher EBITDA/Interest of 5.4x against 4.5x in 1HFY2017. During 1HFY2018, ASCHT had a larger proportion of floating borrowings (22.1% as at 30 September 2017), resulting in a lower effective interest rate of 2.9% p.a. against 3.3% p.a. as at 30 September 2016. As at 30 September 2016, portion of floating borrowings was only 3.1% of total debt.

- **Australia remains largest contributor to NPI:** In 1HFY2018, Australia was the largest contributor to NPI at 50% while Japan contributed 26%. Singapore and China made up the rest. As at 31 March 2017, 63% of the Australian portfolio (by asset value) was from four hotels in Sydney. Melbourne and Brisbane contributed 20% and 16% respectively to the Australian portfolio. ASCHT's Japanese portfolio is primarily made up of hotels under master leases while the sole Singapore hotel, Park Hotel Clarke Quay is also under a Master Lease. The two China hotels saw a small dip in average occupancy rate at 88.6% (1HFY2017: 89.0%) though increase in ADR more than made up for the decline at RMB427 versus ADR of RMB409 in 1HFY2017. On average, the six hotels in Australia reported occupancy rate of 85.5% (1HFY2017: 82.8%) while average daily rate ("ADR") in AUD terms stayed flat. In 2QFY2018, the NPI for the overall Australian portfolio improved 2.2% y/y. Nonetheless, NPI was flat-to-negative for four properties in Australia, namely Novotel Sydney Parramatta, Pullman Sydney Hyde Park, Pullman and Mercure Brisbane King George Square, Pullman and Mercure Melbourne Albert Park. The hotel in Brisbane was negatively affected by increased occupancy at lower average rates while the remaining three were negatively affected by increases of various operating expenses items.

- **Healthy aggregate leverage levels:** The stapled group is comprised of a REIT and Business Trust. As at 30 September 2017, A-HREIT's aggregate leverage was 25.6% while A-HBT was 36.3%. The aggregate leverage of the stapled group was 32.6%, relatively flat against 30 June 2017, although lower than the 33.3% as at 31 December 2016. Whilst there is no regulatory cap on aggregate leverage of business trusts, ASCHT's bond covenants prescribe a cap of 60% on A-HBT and 45% on the stapled structure. Short term debt was SGD107.0mn as at 30 September 2017, though in October 2017, the short term debt has been repaid by a new JPY8.0bn bond issued by a Japanese subsidiary of A-HREIT and drawing down of a revolver. In December 2015, ASCHT agreed to purchase Aurora Melbourne Central for AUD120mn (~SGD123.2mn) from UEM Sunrise (scheduled for completion in 2019). Assuming the remaining unpaid 95% is fully debt funded, we expect aggregate leverage to go up to 37%, which is manageable in our view. As at 30 September 2017, all six of the hotels in Australia were secured for borrowings. Based on our estimates, this leaves SGD940mn in unencumbered assets and total unsecured debt represented 32% of unencumbered assets.

Ascendas Hospitality Trust

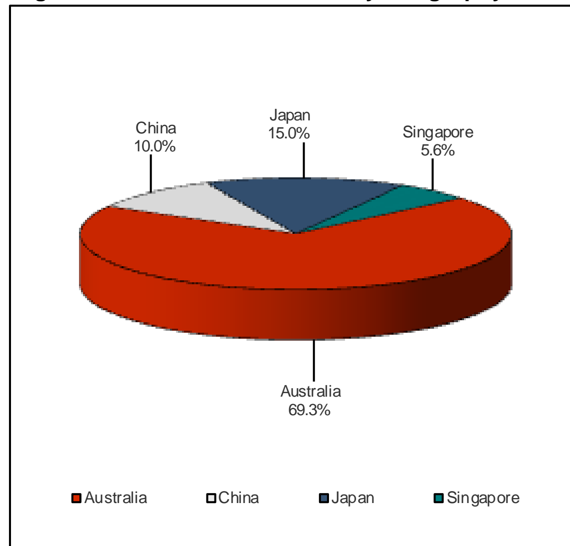
Table 1: Summary Financials

Year Ended 31st March	FY2016	FY2017	1H2018
Income Statement (SGD'mn)			
Revenue	215.1	224.4	111.9
EBITDA	82.4	89.9	42.2
EBIT	56.7	62.3	27.6
Gross interest expense	19.2	17.7	7.9
Profit Before Tax	184.0	56.7	20.7
Net profit	146.6	48.5	17.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	94.6	86.2	80.0
Total assets	1,631.9	1,725.9	1,692.5
Gross debt	533.3	555.2	551.6
Net debt	438.7	469.0	471.6
Shareholders' equity	963.3	1,033.2	1,005.4
Total capitalization	1,496.7	1,588.4	1,557.0
Net capitalization	1,402.1	1,502.2	1,477.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	172.4	76.2	32.0
* CFO	69.5	50.9	35.4
Capex	21.9	11.2	7.5
Acquisitions	0.0	0.0	0.0
Disposals	3.0	0.0	0.0
Dividends	58.2	60.8	33.9
Free Cash Flow (FCF)	47.6	39.7	27.9
* FCF Adjusted	-7.6	-21.1	-6.0
Key Ratios			
EBITDA margin (%)	38.3	40.0	37.7
Net margin (%)	68.1	21.6	15.6
Gross debt to EBITDA (x)	6.5	6.2	6.5
Net debt to EBITDA (x)	5.3	5.2	5.6
Gross Debt to Equity (x)	0.55	0.54	0.55
Net Debt to Equity (x)	0.46	0.45	0.47
Gross debt/total capitalisation (%)	35.6	35.0	35.4
Net debt/net capitalisation (%)	31.3	31.2	31.9
Cash/current borrowings (x)	1.6	1.3	0.7
EBITDA/Total Interest (x)	4.3	5.1	5.4

Source: Company, OCBC estimates

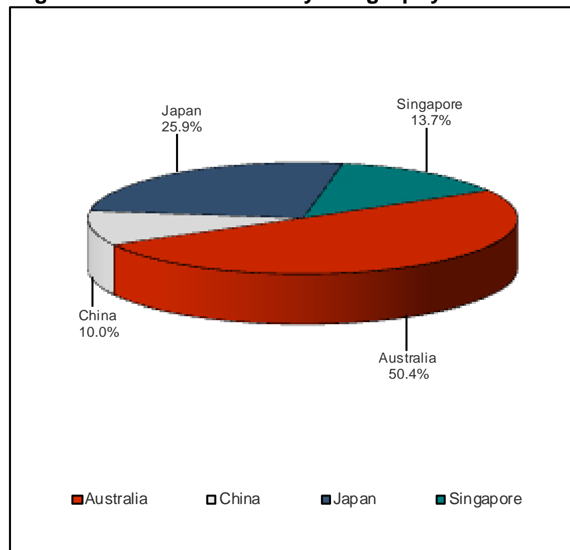
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Geography - 1H2018



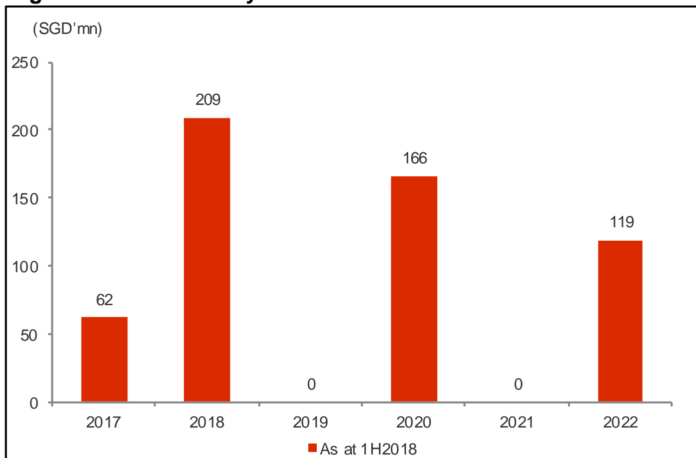
Source: Company

Figure 2: NPI breakdown by Geography - 1H2018



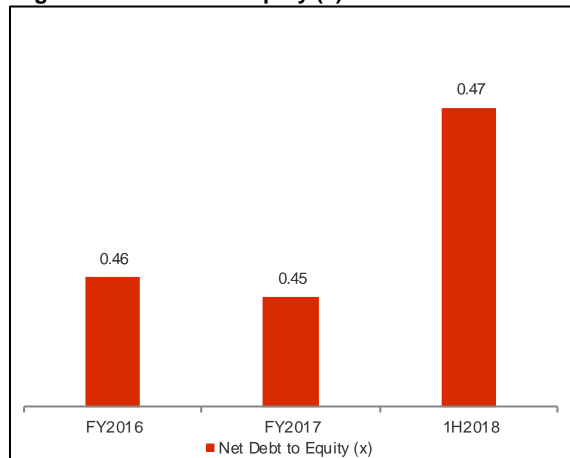
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We see City Development as having a stronger credit profile versus AREIT. The AREIT 2.5% '19s is only paying a YTW of 1.75% (38 bps), as such we see more value in City Development's CITSP' 3.38% '19s which is paying a YTW of 1.85% (51 bps) and recommend a switch. The AREIT 4%'22 has a YTW of 2.3% (52 bps) and trading at similar levels to CITSP' 3.75%'22s.

Issuer Profile: Neutral (3)

S&P: Not rated

Moody's: A3/Stable

Fitch: Not rated

Ticker: **AREIT**

Background

Listed in 2002, Ascendas REIT ("AREIT") is the first and largest business space and industrial REIT in Singapore, with total assets of about SGD10.3bn as at 30 September 2017. AREIT owns a diversified portfolio of 101 properties in Singapore (though one is being divested) and 31 properties in Australia. AREIT is sponsored by Ascendas-Singbridge group, which has a deemed interest of 20.3% in AREIT. Ascendas-Singbridge is in turned 49:51 owned by JTC Corporation and Temasek respectively.

Ascendas Real Estate Investment Trust

Key credit considerations

- **Inorganic growth drives stronger EBITDA generation:** In the six months for the financial year ending 2018 ("1HFY2018") gross revenue improved 3.9% y/y to SGD429.1mn mainly driven by the acquisition of two properties in Australia and 12, 14 and 16 Science Park Drive ("DNV/DSO") in Singapore which more than offset the divestments of AREIT City@Jinqiao, 10 Woodlands Link and No. 13 International Business Park. EBITDA though improved more at 4.9% y/y to SGD284.7mn, driven by lower trust expenses (eg: statutory expenses, professional fees, compliance costs and other non-property related expenses) as a result of the divestments of AREIT's China assets. Mainly due to the absence of fair value loss on Exchangeable Collateralised Securities ("ECS") in 1HFY2018, finance cost was down 20.1% at SGD54.1mn. In 2010, AREIT issued ECS as a new fundraising tool and the last of the ECS had been exchanged into AREIT units and cancelled. Driven by both stronger EBITDA generation and the lower finance cost, EBITDA/Interest was higher at 5.3x (1HFY2017: 4.0x). We assume AREIT pays out SGD14.3mn p.a. (ie: SGD7.1mn for six months) in perpetual distribution. Including 50% of these, we find Adjusted EBITDA/Interest at 4.9x in 1HFY2018.

- **Singapore portfolio steady amidst oversupply while Australian portfolio healthier:** Of AREIT's 72 multi-tenanted assets in Singapore, 24 saw a downtick in portfolio occupancy as at 30 September 2017 versus beginning of the financial year. The rest held steady or improved during this period. In 2QFY2018, net property income ("NPI") was SGD137.5mn (Singapore comprise 86% of total NPI) and NPI margin for the overall Singapore portfolio was better at 72.8% versus 70.4% in 1QFY2018. As at 30 September 2017, AREIT's Singapore portfolio occupancy (excluding properties de-commissioned for redevelopment) was 90.1%. The overall Singapore market occupancy was 88.6% as at 31 September 2017. AREIT's Australian properties are typically leased to single tenants under longer leases. Australia contributed SGD23.1mn in NPI in 2QFY2018 (14% of total NPI). As at 30 September 2017, AREIT's Australian portfolio occupancy was 98.7%, somewhat higher than 96.3% at the beginning of the financial year. Two Australian properties whose occupancy was below 60% were fully-filled. In September 2017, AREIT completed the acquisition of a property in Queensland for AUD89.9mn (SGD91.7mn) and the REIT is likely to continue expanding in Australia.

- **Aggregate leverage moderate:** During 1HFY2018, AREIT generated SGD296.1mn (before interest and tax) in cash flow from operations. The REIT paid out SGD120.6mn to capital sources (dividends, interest paid, perpetual distributions) and net investing outflows was SGD126.1mn (purchase of No. 100 Wickham Street in Queensland and Stage 4, Power Park Estate in Melbourne while AREIT divested two smaller properties in Singapore). AREIT also paid down debt during the period, resulting in SGD61.5mn net repayment of debt and leading to an overdraft of SGD38.7mn by end-September 2017. As at 30 September 2017, reported aggregate leverage was 33.1% (33.8% in end-March 2017). Perpetuals was SGD304.4mn and including 50% of perpetuals as debt, we find adjusted aggregate leverage healthy at 34.6%. Short term debt coming due in calendar year 2018 amounts to SGD750mn, representing 22% of total gross debt. As at 30 September 2017, 89.4% of AREIT's investment portfolio remains unencumbered (allows AREIT to raise secured debt if need be). In December 2017, AREIT completed the acquisition of No. 108 Wickham Street for ~SGD118.6mn (including transaction costs) and also announced the proposed divestment of another small Singapore property. Assuming the new acquisition was fully debt-funded, AREIT's aggregate leverage would rise to ~34%. With equity capital markets remaining conducive for AREIT and manageable asset enhancement/redevelopment projects obligations of only SGD73.7mn, we see manageable refinancing risk at AREIT.

Ascendas Real Estate Investment Trust

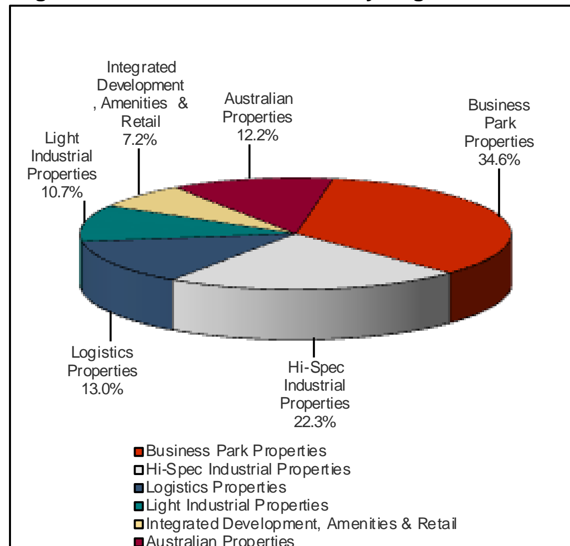
Table 1: Summary Financials

Year Ended 31st March	FY2016	FY2017	1H2018
Income Statement (SGD'mn)			
Revenue	761.0	830.6	429.1
EBITDA	466.5	550.3	284.7
EBIT	466.3	550.2	284.7
Gross interest expense	93.6	117.7	54.1
Profit Before Tax	369.3	408.5	247.2
Net profit	344.2	427.5	246.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	56.2	22.0	24.9
Total assets	9,876.0	10,170.8	10,289.8
Gross debt	3,664.6	3,400.1	3,357.2
Net debt	3,608.3	3,378.1	3,332.2
Shareholders' equity	5,796.9	6,335.1	6,524.8
Total capitalization	9,461.5	9,735.2	9,881.9
Net capitalization	9,405.2	9,713.2	9,857.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	344.3	427.5	246.6
* CFO	481.7	529.3	272.5
Capex	157.8	103.0	84.0
Acquisitions	1,377.2	468.9	97.6
Disposals	38.7	415.5	44.1
Dividends	442.1	515.2	64.4
Free Cash Flow (FCF)	323.9	426.3	188.6
* FCF Adjusted	-1,456.7	-142.3	70.7
Key Ratios			
EBITDA margin (%)	61.3	66.2	66.3
Net margin (%)	45.2	51.5	57.5
Gross debt to EBITDA (x)	7.9	6.2	5.9
Net debt to EBITDA (x)	7.7	6.1	5.9
Gross Debt to Equity (x)	0.63	0.54	0.51
Net Debt to Equity (x)	0.62	0.53	0.51
Gross debt/total capitalisation (%)	38.7	34.9	34.0
Net debt/net capitalisation (%)	38.4	34.8	33.8
Cash/current borrowings (x)	0.0	0.0	0.0
EBITDA/Total Interest (x)	5.0	4.7	5.3

Source: Company, OCBC estimates

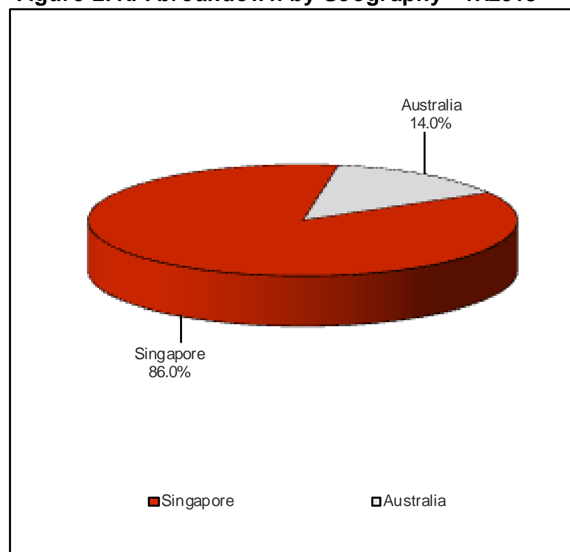
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1H2018



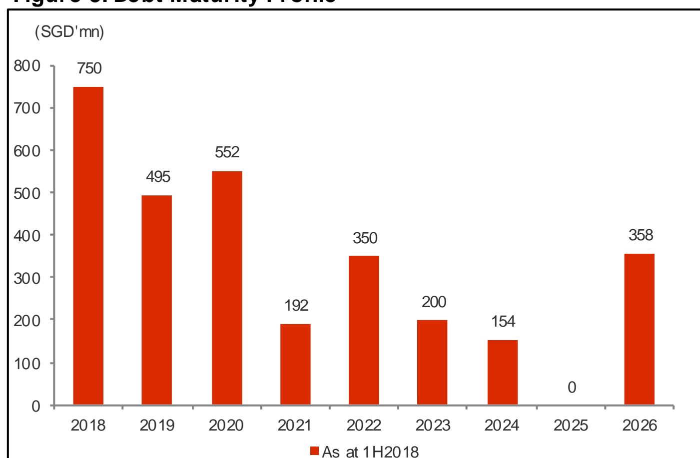
Source: Company

Figure 2: NPI breakdown by Geography - 1H2018



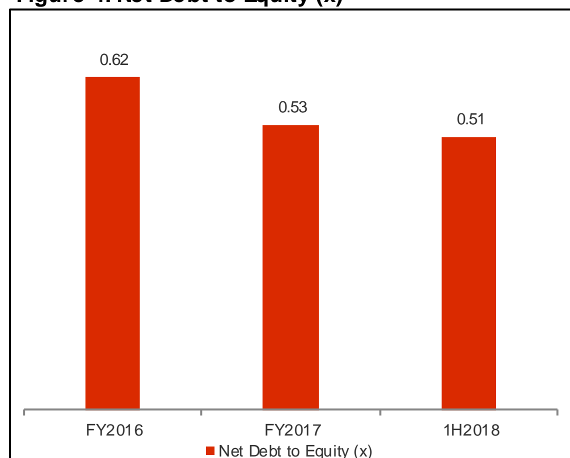
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – ARTSP 4.205% '22s is trading at a YTW of 2.7% (89 bps), which is now trading fair against the FHREIT 2.63%'22s (76bps) in our view. We prefer the ART 4.68%-PERP with a YTC of 3.3% over ARTSP 5.0%-PERP with a YTC of 2.75%. The ART 4.68%-PERP is trading 60 bps wider which more than compensates for its call date which is 8 months later than the ART 5.0%-PERP.

Issuer Profile: Neutral (4)

S&P: Not rated

Moody's: Baa3/Stable

Fitch: BBB/Stable

Ticker: **ARTSP**

Background

Ascott Residence Trust ("ART") invests primarily in serviced residences and rental housing properties. It is the largest hospitality trust listed on the SGX with a market cap of SGD2.7bn as at 8 January 2018. As at 8 January 2018, ART's portfolio consists of 73 properties with total assets of SGD5.5bn across 37 cities in 14 countries. CapitaLand has a 41%-stake in ART.

Ascott Residence Trust

Key credit considerations

- **Top line growth driven by acquisitions:** Gross revenue was 3.7% higher y/y to SGD361.8mn in 9M2017 mainly due to contribution from Sheraton Tribeca New York Hotel acquired in April 2016 and the acquisitions in 9M2017 (two properties in Germany and a new property in New York). On a same-store basis, existing properties grew by SGD1.4mn (0.4% growth y/y) while revenue per available unit ("REVPAU") was constant on a same-store basis. ART's properties in Vietnam saw stronger corporate demand while the Philippines started from a lower base (Ascott Makati was under renovations) in 9M2016. ART saw weaker underlying demand in Singapore and Malaysia and lower revenue from UK due to GBP's depreciation.Reported gross profit margins stayed relatively flat for properties under Master Leases and those under management contracts with minimum guaranteed income. ART view these income streams to be more stable. Properties under management contracts (no fixed/guaranteed rental component) saw gross profit margin contract 2pp to 37%. In 9M2017, these made up 57% of gross profit.

- **Stronger interest coverage:** 9M2017 EBITDA increased 1.3% y/y to SGD154.6mn, despite only a 0.7% increase in reported gross profit. Finance cost was 7.8% y/y lower at SGD34.4mn, driven by lower debt levels at ART in 9M2017 versus 9M2016. Effective borrowing rate was 2.4% as at 30 September 2017, relatively stable versus the beginning of the year, while in the previous year, effective borrowing rates were 2.8% initially before declining to 2.4% as the year progressed. Total debt on fixed rates was also higher at 87% versus the 80% a year ago. Unadjusted EBITDA/Interest was higher at 4.5x (9M2016: 4.1x). As at 30 September 2017, perpetuals amounted to SGD401.9mn, representing 8.5% of total capital. We assume ART pays ~SGD19.2mn p.a. in perpetual distribution. Assuming 50% of this as interest, we find Adjusted EBITDA/Interest at 4.1x.

- **Aggregate leverage now moderate with minimal short term refinancing risk:** As at 30 September 2017, reported aggregate leverage was 31.9%, slightly less than the 32.4% as at 30 June 2017 (39.8% in end-December 2016). Proceeds from an equity rights issue in 2Q2017 was partly used to acquire Ascott Orchard Singapore ("AOS") and the two German properties. On a pro-forma basis, ART expects aggregate leverage to rise to 36% post assets movements, including the divestment of two China properties (completed in January 2018). Adjusting 50% of perpetuals as debt, we estimate that adjusted aggregate leverage may settle at ~40%. In FY2018, SGD187mn of debt will come due, representing only 11.4% of total debt. These include SGD100mn in SGD bonds which mature in November 2018 and JPY5.0bn (~SGD62mn) in JPY bonds which mature in September 2018. With the AOS acquisition completed, there are no other competing short term obligations at ART. We expect ART's portfolio to hold its value despite the flat-to-negative operational performance of certain assets. Supply of hospitality assets in Asian gateway cities remains tight amidst strong investment demand. As at 30 September 2017, secured debt represented 16.1% of total assets, giving ART the financial flexibility to raise more secured financing if need be.

- **Singapore now SGD1.0bn of total assets:** ART's three Singapore properties contributed 7.6% to 9M2017 gross profit and 11.8% of total assets as at 30 September 2017. These properties historically focused on the extended-stay corporate travel market which has slowed. In October 2017, ART completed the acquisition of AOS for SGD405mn, bringing Singapore total assets to SGD1.0bn. We take some comfort that AOS holds a hotel license, targeting leisure travelers and is not subject to minimum stay requirements. AOS is under a Master Lease, containing a fixed lease revenue of SGD13.2mn p.a. (for an initial term of five years, renewable for another five years upon mutual agreement) and a variable portion.

Ascott Residence Trust

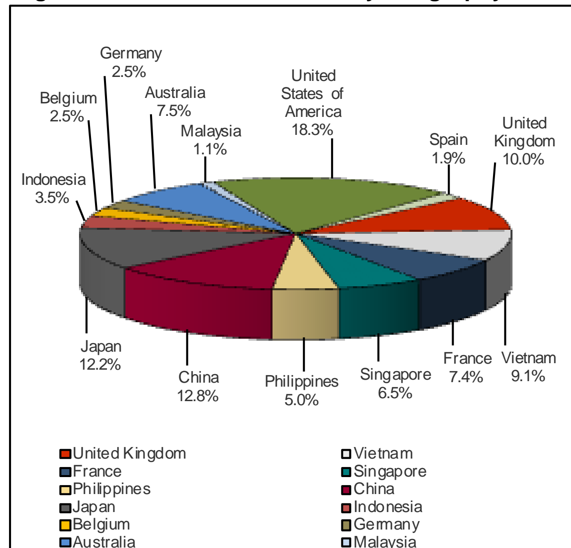
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	421.1	475.6	361.8
EBITDA	196.3	207.2	154.6
EBIT	179.7	194.3	145.0
Gross interest expense	49.9	50.0	34.4
Profit Before Tax	215.8	179.5	233.8
Net profit	165.2	143.3	184.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	220.5	143.1	275.1
Total assets	4,724.6	4,791.3	5,137.8
Gross debt	1,815.2	1,862.6	1,601.0
Net debt	1,594.7	1,719.6	1,325.9
Shareholders' equity	2,668.6	2,682.3	3,154.1
Total capitalization	4,483.8	4,544.9	4,755.1
Net capitalization	4,263.3	4,401.8	4,480.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	181.8	156.3	194.0
* CFO	177.5	200.1	142.4
Capex	46.8	57.4	18.7
Acquisitions	418.8	214.0	243.2
Disposals	67.3	74.8	156.8
Dividends	141.5	150.1	155.8
Free Cash Flow (FCF)	130.7	142.8	123.8
* FCF Adjusted	-362.2	-146.5	-118.5
Key Ratios			
EBITDA margin (%)	46.6	43.6	42.7
Net margin (%)	39.2	30.1	51.0
Gross debt to EBITDA (x)	9.2	9.0	7.8
Net debt to EBITDA (x)	8.1	8.3	6.4
Gross Debt to Equity (x)	0.68	0.69	0.51
Net Debt to Equity (x)	0.60	0.64	0.42
Gross debt/total capitalisation (%)	40.5	41.0	33.7
Net debt/net capitalisation (%)	37.4	39.1	29.6
Cash/current borrowings (x)	0.9	1.0	3.2
EBITDA/Total Interest (x)	3.9	4.1	4.5

Source: Company, OCBC estimates

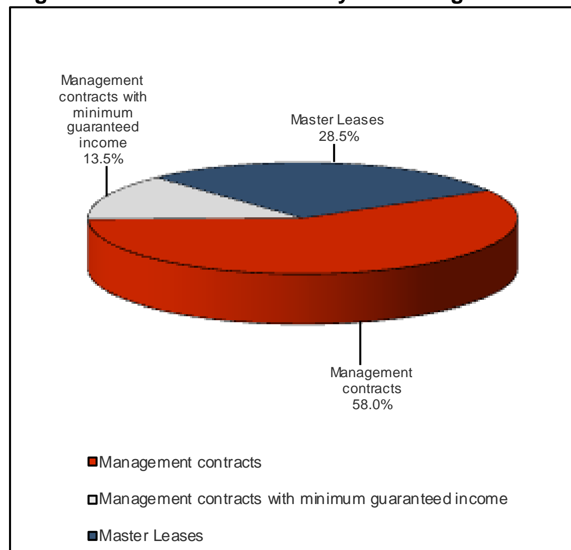
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Geography - 9M2017



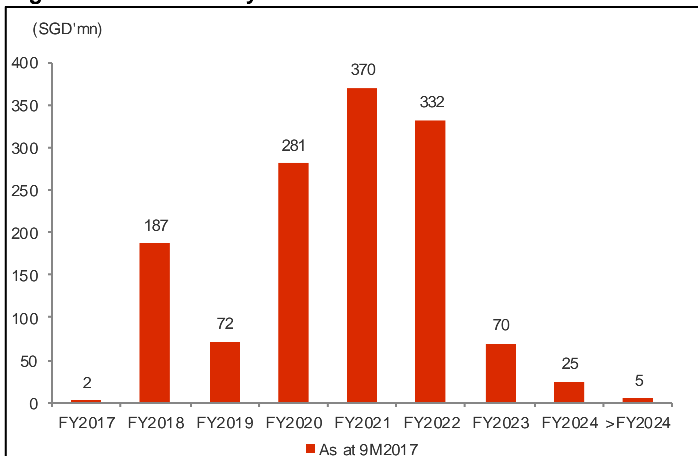
Source: Company

Figure 2: Gross breakdown by Profit Segment - 9M2017



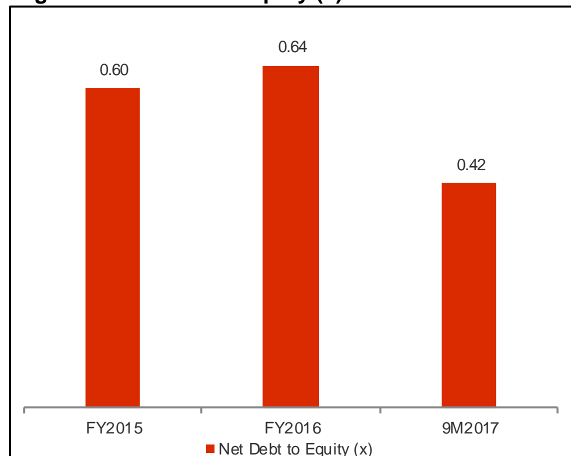
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Despite some stabilization the difficult environment and challenging short-term debt burden would weigh on the ASL curve until some positive catalysts can be identified.

Issuer Profile: Negative (6)

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **ASLSP**

Company Profile

Listed in 2003, ASL Marine Holdings ("ASL") is an integrated offshore marine firm. It has four businesses: shipbuilding, shiprepair & conversion, shipchartering and engineering. Majority of the firm's revenue is generated in Asia. The firm has shipyards in Singapore, Indonesia and China. It entered the dredging engineering segment after acquiring VOSTA LMG in 3Q2013. As of the end of FY2017, the firm has a fleet of 242 vessels for its shipchartering segment, with the majority being tugboats and barges. The founding Ang family continues to hold a ~65% stake in the firm.

ASL Marine Holdings Ltd

Key credit considerations

- **Drifting away from Oil & Gas**: ASL's revenue contribution from Oil & Gas continues to diminish, contributing just 7% of revenue in FY2017 compared to 11% in FY2016. Transportation (shipping & marine logistics) contributed 51% of revenue (FY2017) while Infrastructure & Construction contributed 39% of revenue. This is also reflected in ASL's charter fleet, which consists of 8 AHT / AHTS compared to 165 barges and 62 tugs. Though this allowed group revenue to be relatively stable (it declined 6.1% y/y to SGD342.3mn for FY2017), the shift away from Oil & Gas had impacted margins, with gross margin compressing to 9.8% (FY2016: 13.8%). It is also worth noting that for FY2017, ASL had assessed its balance sheet and took impairments of SGD13.8mn on inventories, SGD22mn on plant, property and equipment and SGD18.4mn net impairment of doubtful receivables. This in turn drove ASL to net loss of SGD73.3mn for FY2017.

- **Shiprepair & Conversion revenue lumpy**: 1QFY2018 reflected FY2017 trends, with revenue down 25.3% y/y to SGD72.3mn, mainly due to Shipbuilding (-18.3% y/y to SGD18.3mn), Shipchartering (-16.4% y/y to SGD23.2mn) and Engineering (-58.8% y/y to SGD3.5mn) while Shiprepair & Conversion consecutively continued as the main revenue contributor (+90.1% y/y to SGD27.2mn). The declines at Shipbuilding were driven largely by the various stages of completion of its tugs, which in turn influenced the percentage-of-completion revenue recognized for the quarter. Though Shiprepair & Conversion saw strong growth for the quarter, management reiterated that it was due to the higher valued jobs executed during the quarter, and that segment revenue may be lumpy. The Shipchartering segment remains impacted by the weak OSV market, with ASL reporting utilization of just 35% as well as lower charter rates. This was somewhat offset by higher demand for landing crafts for precast shipments from Batam to Singapore. Engineering segment was hit by the lack of revenue recognized for newbuild dredgers.

- **Lower activity and product mix shifts affected profitability**: Weaker revenue caused total gross profit to decline 60.0% y/y to SGD5.2mn for 1QFY2018 with Shipchartering continuing to generate a gross loss of SGD563k (1QFY2017 gross profit: SGD2.1mn) while margins were squeezed at Shipbuilding and Shiprepair & Conversion, which saw gross margin shrinking to 5.4% (1QFY2017: 11.3%) and 13.5% (1QFY2017: 23.8%) respectively. The gross loss from shipchartering was mainly due to the OSV segment (which includes compensation paid to a charter due to late delivery of two AHTS) and lower utilisation rate of grab dredgers. Margins were squeezed at Shipbuilding largely due to the shift in product mix to Tugs and Barges. Finally, margins for Shiprepair & Conversion were impacted by competition for high-value repair jobs. Loss for the quarter was SGD7.1mn (versus profit of SGD235k for 1QFY2017), largely due to the slump in gross profits. JV and associates had also contributed a loss of SGD2.0mn for the quarter.

- **Cash flow positive, credit profile weak but stable**: ASL had generated positive operating cash flow (net of interest service) of SGD18.7mn as well as free cash flow of SGD8.4mn for 1QFY2018. Cash generated was used to pay down some debt and boost cash balance. Net gearing remained stable q/q at 137%, with the cash generated offsetting losses that was shrinking the equity base. Liquidity remains tight with SGD44.3mn of cash on hand versus SGD252.5mn in short term borrowings. This, however, includes SGD64.7mn in longer-term borrowing classified as short-term due to covenant violations on its SGD99mn club term loan facility (lenders had waived this covenant violation late November 2017). EBITDA / Interest coverage was 2.6x for the quarter. Looking forward, though ASL was able to generate positive cash flow and stabilized its credit profile, the operating environment remains challenging and short-term debt remains high. As such, ASL will be retained at Negative (6) Issuer Profile.

ASL Marine Holdings Ltd

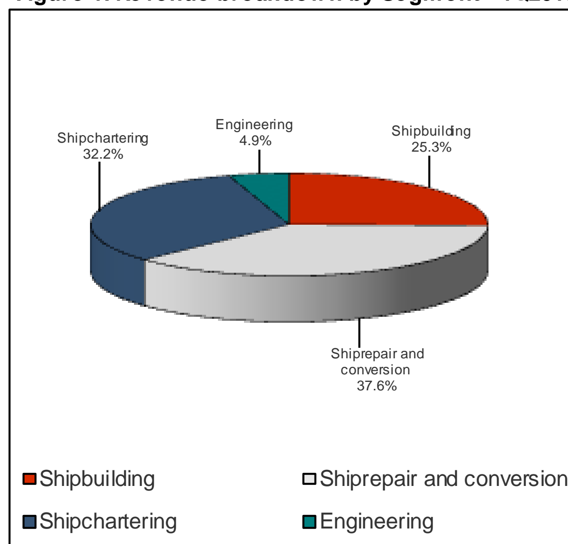
Table 1: Summary Financials

Year End 30th Jun	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	364.4	342.3	72.3
EBITDA	83.7	69.7	14.7
EBIT	27.1	5.7	0.1
Gross interest expense	21.9	19.5	5.6
Profit Before Tax	0.5	-71.3	-6.8
Net profit	2.0	-71.7	-6.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	24.7	36.1	44.3
Total assets	1,275.7	1,145.0	1,135.7
Gross debt	592.2	549.5	549.9
Net debt	567.5	513.4	505.6
Shareholders' equity	424.4	378.8	370.1
Total capitalization	1,016.6	928.3	920.0
Net capitalization	991.9	892.1	875.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	58.5	-7.6	7.8
* CFO	-17.3	61.7	18.7
Capex	97.2	29.5	10.3
Acquisitions	0.0	0.0	0.0
Disposals	9.3	4.4	0.2
Dividend	1.7	0.0	0.0
Free Cash Flow (FCF)	-114.4	32.2	8.4
* FCF adjusted	-106.8	36.6	8.6
Key Ratios			
EBITDA margin (%)	23.0	20.4	20.3
Net margin (%)	0.5	-20.9	-9.3
Gross debt to EBITDA (x)	7.1	7.9	9.4
Net debt to EBITDA (x)	6.8	7.4	8.6
Gross Debt to Equity (x)	1.40	1.45	1.49
Net Debt to Equity (x)	1.34	1.36	1.37
Gross debt/total capitalisation (%)	58.3	59.2	59.8
Net debt/net capitalisation (%)	57.2	57.5	57.7
Cash/current borrowings (x)	0.1	0.2	0.2
EBITDA/Total Interest (x)	3.8	3.6	2.6

Source: Company, OCBC estimates

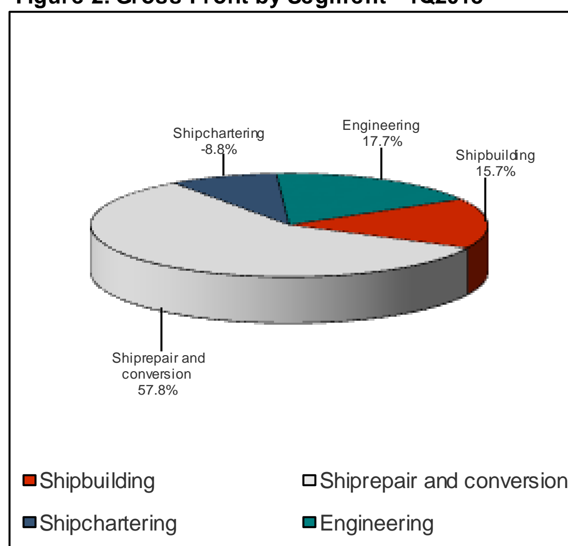
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1Q2018



Source: Company

Figure 2: Gross Profit by Segment - 1Q2018



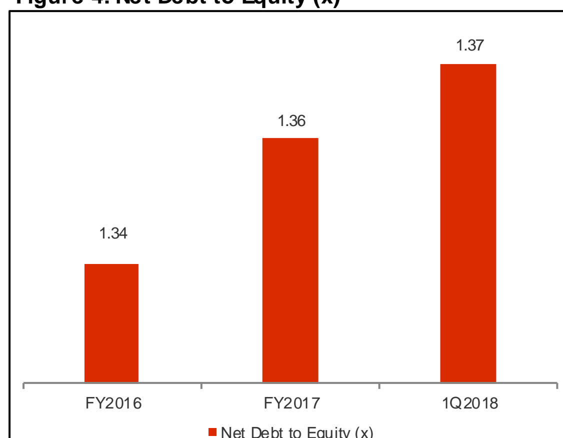
Source: Company | Shipchartering made gross profit loss

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	234.3	42.6%
Unsecured	18.2	3.3%
	252.5	**45.9%**
Amount repayable after a year		
Secured	152.4	27.7%
Unsecured	145.0	26.4%
	297.4	**54.1%**
Total	**549.9**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We are Underweight both ASPSP '20s due to the elevated balance sheet. However, we stay Neutral on ASP '18s and ASP '19s as project completions from Australia should offer revenue and cashflow visibility in the near-term. We note the potential for the bonds to rerate if Aspial can deleverage substantially.

Issuer Rating: Negative (6)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **ASPSP**

Company Profile

Aspial Corp. Ltd ("Aspial") was incorporated in 1970 and listed on the SGX in 1999. The company has evolved over the years from its roots in jewellery (main brands: Lee Hwa, Goldheart and CITIGEMS) to a diversified company with real estate and pawnshop businesses. Aspial has a market capitalization of SGD474.4mn as of 3 Jan 2018. Aspial is 83%-controlled by the members of the Koh family who are siblings to Mr Koh Wee Meng, the founder of Fragrance Group Ltd.

Aspial Corp Ltd

Key credit considerations

- **Lacklustre 3Q2017 results due to timing issue:** 3Q2017 revenue declined 34% y/y to SGD109.4mn, mainly due to the real estate segment which saw revenues declining to SGD39.3mn (3Q2016: SGD98.8mn). Financial services segment did well with 11% y/y increase in revenue to SGD45.6mn. Meanwhile, the jewellery segment remains lacklustre, with revenues declining 8.6% y/y to SGD26.3mn. Net profit fell 91% y/y to SGD1.3mn due to lower revenue and lower foreign exchange gain of SGD0.8mn (3Q2016: SGD4.4mn) and absence of fair value gain on investment properties (3Q2016: SGD3.1mn). However, Aspial is expected to receive more than SGD700mn in sales proceeds from its Australia projects in 2018 (SGD900mn if Singapore projects are included).

- **Stretched balance sheet to be delevered in 2018:** The high net gearing of 3.1x continues to be the main credit risk at Aspial. Nevertheless, Aspial may deleverage in 2018 as Aspial expects its equity, cash and debt position to improve in 2018. This is because the completions in 2018 (including first 3 phases of Australia 108 (Melbourne), Avant (Melbourne) and CityGate (Singapore) are expected to contribute SGD900mn of sales proceeds, which Aspial intends to use to partly repay outstanding loans. The remaining sales proceeds will be used to cover the remaining development costs for the projects. As such, we are not overly concerned about the SGD507.4mn borrowings due within the next 12 months. If this is repaid, net gearing may fall to 1.9x, though still high in our view. Further ahead, the locked-in sales revenue in both Singapore and Australia amounts to SGD1.3bn (implying another SGD400mn of sales proceeds after 2018). Aspial estimates that the potential sales for the remaining projects amount to SGD1.9bn. Thus, we recognise that Aspial has the ability to deleverage further (and if so, upgrade our view of the credit profile), though quantum would be contingent on sales and management's commitment to deleverage.

- **Good sell-through rate though concentration risks remain in Australia:** Aspial has nearly fully-sold Australia 108 (Melbourne), Avant (Melbourne) and sold 100% of the residential units at CityGate. Aspial is also moving more commercial units at CityGate with each passing quarter while continuing to progress on Nova City Tower 1 (Cairns). Going forward, Aspial intends to launch the 92-storey residential project at Albert Street (GFA: 76,301 sqm) in Brisbane. However, we note the concentration risks in Australia (where minimal FX hedging is done). The Australian properties are also still subject to settlement risks.

- **Steady contribution from financial service though jewellery is still a drag:** Through the "Maxi-Cash" brand which includes pawnshops, Aspial's financial service business 9M2017 pre-tax profit grew 10.2% y/y to SGD10.8mn. Aspial has also ventured into secured lending, and this is expected to grow further as SGD40mn has been invested by 31 Oct 2017 (up from SGD8mn in end Sep 2017). Aspial intends to invest another SGD30mn in the business in 4Q2017. Although the financial service business under Maxi-Cash holds SGD259.4mn trade and other receivables (out of Aspial group's SGD323.5mn), we are not concerned over the collection are these are typically over collateralised. However, the jewellery segment continues to disappoint with deepening pre-tax losses at SGD6mn (9M2016 loss: SGD3.8mn).

- **Substantial HoldCo-OpCo subordination though this remains manageable:** We see HoldCo-OpCo subordination for the Australian property business (which includes SGD1.2bn locked-in sales revenue) following the spin-off of World Class Global, though this is partly mitigated by Aspial retaining a majority stake of 81%. We also see similar subordination in Maxi-Cash which holds 22.4% of Aspial's total assets, though this is partly mitigated by Aspial holding a 64.9%-stake.

Aspial Corp Ltd

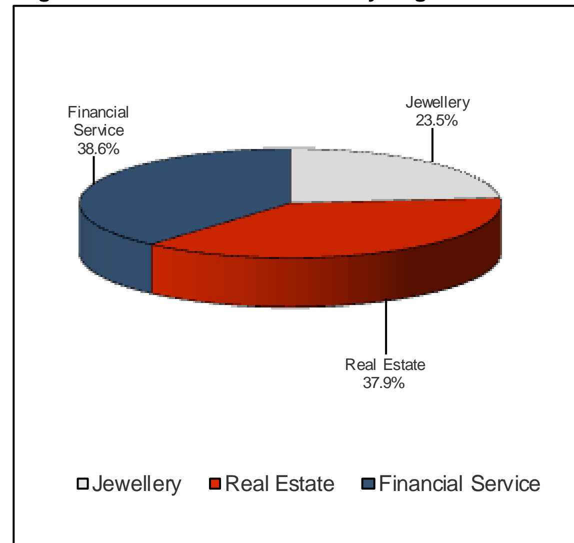
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	464.1	623.3	354.9
EBITDA	18.4	26.8	14.6
EBIT	13.8	22.1	10.8
Gross interest expense	39.6	54.9	18.2
Profit Before Tax	13.5	6.9	11.2
Net profit	8.8	1.1	-0.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	133.0	70.3	127.7
Total assets	1,760.7	1,721.8	1,939.9
Gross debt	1,305.2	1,253.1	1,426.8
Net debt	1,172.2	1,182.8	1,299.0
Shareholders' equity	376.3	376.9	417.0
Total capitalization	1,681.5	1,630.0	1,843.8
Net capitalization	1,548.5	1,559.7	1,716.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	13.3	5.8	3.7
* CFO	-21.5	4.6	-86.2
Capex	3.7	24.2	31.5
Acquisitions	9.7	0.1	205.6
Disposals	3.5	275.4	167.4
Dividend	15.9	9.9	4.8
Free Cash Flow (FCF)	-25.2	-19.6	-117.6
* FCF Adjusted	-47.3	245.8	-160.6
Key Ratios			
EBITDA margin (%)	4.0	4.3	4.1
Net margin (%)	1.9	0.2	0.0
Gross debt to EBITDA (x)	71.0	46.8	73.2
Net debt to EBITDA (x)	63.8	44.2	66.6
Gross Debt to Equity (x)	3.47	3.33	3.42
Net Debt to Equity (x)	3.12	3.14	3.11
Gross debt/total capitalisation (%)	77.6	76.9	77.4
Net debt/net capitalisation (%)	75.7	75.8	75.7
Cash/current borrowings (x)	0.2	0.1	0.3
EBITDA/Total Interest (x)	0.5	0.5	0.8

Source: Company, OCBC estimates

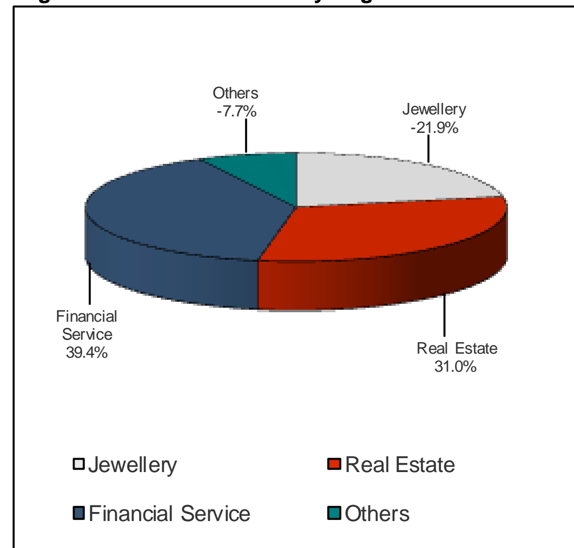
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2017



Source: Company

Figure 2: PBT breakdown by Segment - 9M2017



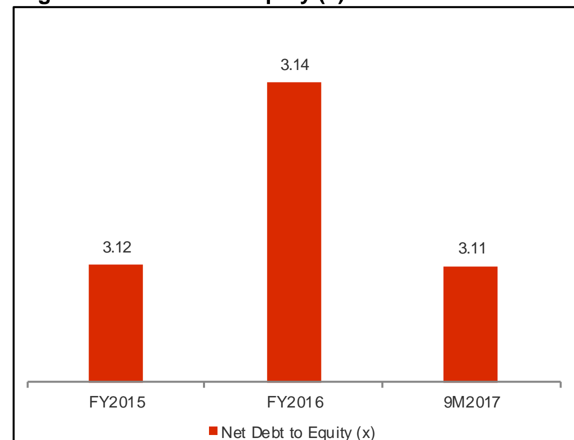
Source: Company | Jewellery & Others made losses before tax

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	507.4	35.6%
Unsecured*	0.0	0.0%
	507.4	**35.6%**
Amount repayable after a year		
Secured	297.4	20.8%
Unsecured	622.0	43.6%
	919.4	**64.4%**
Total	**1,426.8**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Banyan Tree Holdings

Credit Outlook – The BTHSP curve has tightened significantly since we initiated coverage and we see the BTHSP 4.85%'20s and BTHSP 4.875%'19s as trading as fair. Given BTH's liquidity profile, within its own curve we see the shorter dated bonds as having a higher credit standing. At only a YTW of 2.8%, we think the BTHSP 5.75% '18s is trading tight versus the CELSP 4.7% '18s at YTW 2.7%. CELSP is part of CITIC Ltd, an SOE.

Issuer Profile: Neutral (5)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **BTHSP**

Background

Banyan Tree Holdings ("BTH"), listed on the Singapore Stock Exchange since June 2006, has a market cap of SGD530mn (as at 8 January 2018). BTH is an international developer and operator of resorts, residences, spas, retail galleries and gold courses. BTH's flagship brand "Banyan Tree" is a household name regionally in the high-end hospitality segment. BTH holds a ~65.8%-stake in Laguna Resorts & Hotels Pcl, which is listed on the Thailand Stock Exchange.

Key credit considerations

- **9M2017 profits driven by one-off gains:** In 9M2017, BTH reported SGD228.6mn in revenue, relatively flat y/y. Hotel Investment revenue was SGD147.1mn (up 1% and affected by the de-recognition of BTH's China hospitality business), while the 9% improvement in fee-based segment to SGD48.7mn was insufficient to offset the 13% decline in property sales to SGD32.8mn in 9M2017. Reported operating profit was significantly higher at SGD53.7mn (up 260% y/y), though this was boosted by SGD41.9mn in other income. In August 2017, BTH completed an agreement with China Vanke Co., Ltd ("VANKE") to create a 50:50 joint venture, namely Banyan Tree China ("BTC"). As part of the new joint venture, BTH had disposed its Chinese hospitality assets into BTC and recorded a one-off gain of SGD40.4mn (effectively disposal of a subsidiary). BTC had also invested in a 40%-stake respectively in other companies which are involved in spa operations, gallery, provision of design, technical and management services. EBITDA (based on our calculation which does not include other income) was SGD11.7mn in 9M2017, down 2.2% y/y. Despite the flat revenue, increases in salaries, administrative and other operating expenses (eg: utilities, repairs and maintenance) collectively grew 3.9%, insufficient to offset cost savings elsewhere. BTH ended the period with a profit before tax of SGD14.4mn against a loss before tax of SGD22.3mn in 9M2016. Without the other income, BTH would have likely reported a similar loss as per 9M2016, in our view.

- **Thin interest coverage:** EBITDA/Interest in 9M2017 was 0.6x, in line with 9M2016. Despite generating an EBITDA of SGD18.1mn during 1Q2017, BTH recorded losses before interest, tax and depreciation during the second and third quarter. Given the seasonality prevalent among resort businesses, there is still a possibility for BTH to generate a stronger set of results in 4Q2017. Historically, we have observed BTH generating stronger revenue from Hotel Investments in the first and fourth quarters. In 4Q2016, BTH generated SGD10.0mn of EBITDA against SGD12.0mn for 9M2016 which helped drive full year EBITDA to SGD22.0mn.

- **Lower operating income in Thailand:** BTH owns a 65.8%-stake in Thailand Stock Exchange listed Laguna Resorts & Hotel Pcl ("LRH") and consolidates LRH's performance. Thailand resorts which BTH has an equity stake in are held via LRH. We estimate that LRH forms 60% of BTH's consolidated revenue in 9M2017 and 66% in 9M2016. In 9M2017, LRH reported THB3.3bn (~SGD138.0mn) in revenue, down 8.9% y/y, driven by lower revenue from property development operations (Cassia Phuket and Laguna Park was completed in 2016). Revenue from hotel operations was up 3.1% y/y to THB2.7bn (~SGD109.4mn) and we saw cost of hotel operations and property development operations moving largely in tandem with respective revenue trends. Overall administrative expenses however, swung 4.0% higher to THB1.1bn (~SGD43.8mn). LRH saw a 51.6% y/y decline in operating income to THB130.9mn (~SGD5.4mn) in 9M2017.

- **Bolstered by capital injection:** As at 30 September 2017, BTH's debt-to-equity was 0.8x (end-June 2017: 0.9x) while net gearing fell slightly to 0.6x. VANKE also invested SGD24.0mn in BTH as a new strategic shareholder while Accor S.A subscribed for SGD24.0mn in convertible debentures of BTH (recorded as debt, as yet to convert into equity). Short term debt was SGD142.7mn as at September 2017 and with cash representing 1.2x of short term debt, we see manageable short term refinancing risk at BTH. Both Accor S.A and VNKRLE hold options to raise further straight equity in BTH (each for a further ~5%-stake). In addition to a possible conversion of the convertible debenture held by Accor S.A, BTH's net gearing may trend lower to ~0.4x - 0.5x. Though until then and over the next 12 months, we still expect BTH's liquidity to be stretched. Cash flow from operations is likely to be still thin over the next 12 months versus ~SGD29.0mn p.a. in interest expense.

Banyan Tree Holdings

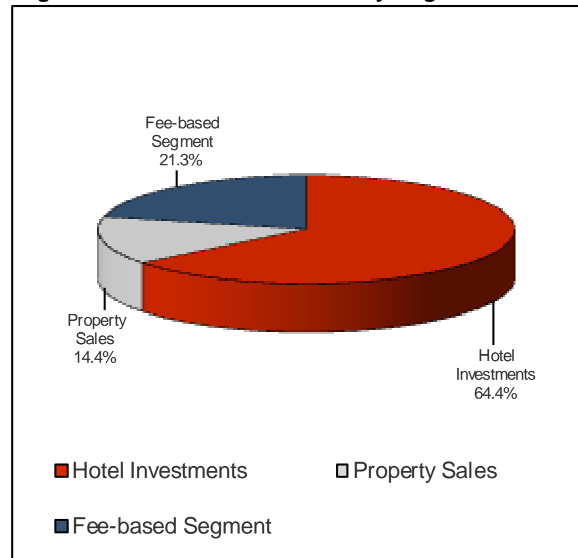
Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	370.7	309.6	228.6
EBITDA	24.6	22.0	11.7
EBIT	-0.1	-3.0	-7.1
Gross interest expense	32.6	35.7	21.3
Profit Before Tax	-19.5	0.7	14.4
Net profit	-27.5	-16.2	9.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	165.7	108.8	172.0
Total assets	1,593.0	1,608.2	1,699.4
Gross debt	652.7	616.6	618.5
Net debt	487.0	507.8	446.5
Shareholders' equity	699.5	732.8	759.5
Total capitalization	1,352.1	1,349.4	1,378.0
Net capitalization	1,186.5	1,240.7	1,206.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	-2.8	8.9	27.9
CFO	-110.7	-6.2	-16.3
Capex	23.5	15.9	8.6
Acquisitions	0.3	0.0	0.0
Disposals	0.1	0.0	65.8
Dividend	1.3	1.2	0.6
Free Cash Flow (FCF)	-134.2	-22.1	-24.9
* FCF adjusted	-135.7	-23.3	40.3
Key Ratios			
EBITDA margin (%)	6.6	7.1	5.1
Net margin (%)	-7.4	-5.2	3.9
Gross debt to EBITDA (x)	26.5	28.0	39.5
Net debt to EBITDA (x)	19.8	23.0	28.5
Gross Debt to Equity (x)	0.93	0.84	0.81
Net Debt to Equity (x)	0.70	0.69	0.59
Gross debt/total capitalisation (%)	48.3	45.7	44.9
Net debt/net capitalisation (%)	41.0	40.9	37.0
Cash/current borrowings (x)	1.8	0.7	1.2
EBITDA/Total Interest (x)	0.8	0.6	0.6

Source: Company, OCBC estimates | CFO after deducting interest expense

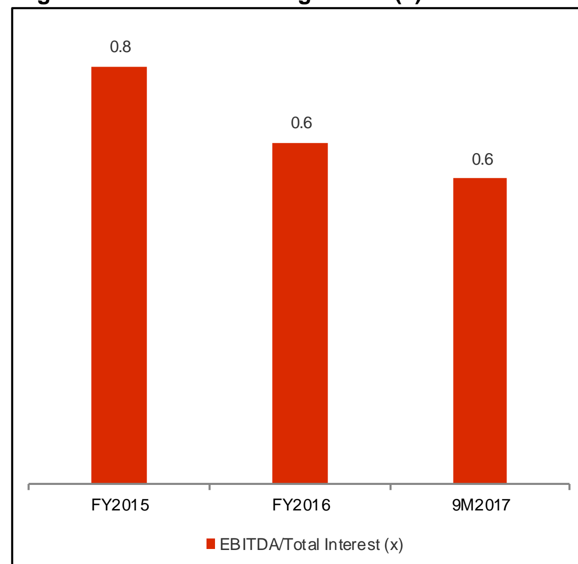
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 9M2017



Source: Company

Figure 2: Interest Coverage Ratio (x)



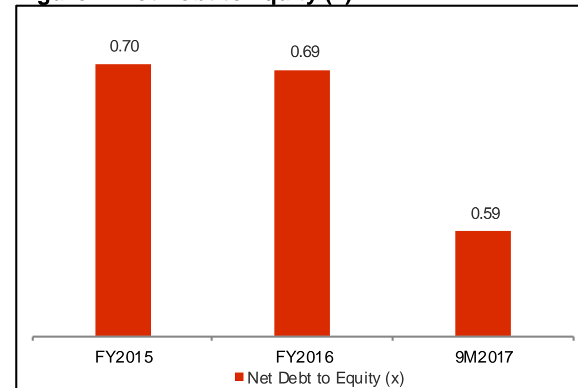
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	49.0	7.9%
Unsecured	93.7	15.1%
	142.7	**23.1%**
Amount repayable after a year		
Secured	168.0	27.2%
Unsecured	307.8	49.8%
	475.8	**76.9%**
Total	**618.5**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

CapitaLand Commercial Trust

Credit Outlook –

We believe the AREIT curve offers better value given comparable spreads, and higher credit ratings.

Issuer Profile: Neutral (3)

S&P: BBB+/Stable

Moody's: Baa2/Stable

Fitch: Not rated

Ticker: **CCTSP**

Background

Listed on the SGX in 2004, CapitaLand Commercial Trust ("CCT") is Singapore's first listed and one of the largest commercial REITs, with SG10.1bn of property holdings as at 01/11/17. It comprises eleven prime properties in Singapore, as well as investments in Malaysia. About ~84% of net property income (9M2017) is generated from Raffles City Singapore (RCS, 60%-owned), Capital Tower, 50% of One George Street, CapitaGreen and Six Battery Road. Asia Square Tower 2 was acquired in 4Q2017. CCT is 32.1%-owned by CapitaLand Ltd.

Key credit considerations

- **Leaving event risk behind:** 2017 had been an eventful year for CCT, with divestments (Wilkie Edge, 50% of One George Street, "OGS"), the closure and redevelopment of Golden Shoe Car Park ("GSCP"), as well as the acquisition of Asia Square Tower 2 ("AST2", the transaction was completed on 01/11/17, and hence will be reflected in 4Q2017 results). Some of these transactions were long-rumored. As such, the crystallization of these transactions, coupled with the details provided on their funding structure, has removed some of the uncertainty which had plagued CCT's credit profile trajectory. Ratings agencies have also reviewed and downgraded their issuer ratings on CCT (resulting from the AST2 acquisition), which mitigates ratings-driven bonds selloffs looking forward.

- **Results muddled by portfolio moves:** For 9M2017, revenue and NPI was up 20.3% and 23.1% y/y respectively, largely due to the acquisition of the balance of CapitaGreen in 3Q2016, offsetting the impact of divestments made. Specifically, for 3Q2017 gross revenue dipped 0.4% y/y to SGD74.1mn while NPI increased 2.7% y/y to SGD58.6mn. Compared to 2Q2017 though, gross revenue was actually lower by 15.3% due to contributions from GSCP, Wilkie Edge and OGS (off balance sheet as it's now a JV) falling off. Adjusting for portfolio changes, results highlighted revenue weakness at Twenty Anson (as forewarned by its low occupancy of 84.2% in 2Q2017). RCS was also impacted by lower hotel turnover rent due to renovations at the Swissotel. Looking forward, we expect a boost to revenue and NPI from 4Q2017 onwards due to contributions from AST2 (property pro-forma 1H2017 NPI provided was SGD35.3mn).

- **Rent and occupancy improving**: 3Q2017 saw slight improvements to occupancy at Twenty Anson (to 86.1%). Coupled with the closure and divestments mentioned earlier, CCT's portfolio occupancy improved q/q to 98.5% (remaining distinctly stronger than CBRE's Singapore core CBD office occupancy of 92.5% for 3Q2017). CCT's portfolio average office rent improved as well to SGD9.23 psf (2Q2017: SGD9.18 psf) reflecting both strengthening of the underlying market, as well as the closure / divestment of lower yielding assets. It was also stronger than CBRE's Grade A office average rents of SGD9.10 psf (which had also increased q/q). Regarding CCT's lease expiry profile, 2017 was largely resolved, 2018 and 2019 still had 10% and 33% of NLA due for renewal respectively. Like its other office REIT peers, CCT seems less inclined to renew leases way ahead of time given the rising rental rate environment. 2019 remains challenging for CCT as its average lease expiring then is SGD10.24 psf. That said, the office supply situation would taper off by end 2018, alleviating the situation. WALE was largely steady at 6.4 years (4Q2016: 6.6 years).

- **Leverage to rise due to acquisition and development:** Aggregate leverage had improved to 33.9% (2Q2017: 35.2%) due to the divestment of Wilkie Edge. However, with the USD2.1bn acquisition of AST2 (52% debt funded), though a rights issue was done to raise new equity, management had guided that aggregate leverage was expected to rise to 37.1% post acquisition. In addition, we believe that this pro-forma number does not factor CCT's 45% share of the GSCP redevelopment cost (~SGD820mn, of which SGD491.4mn will be debt funded). As such, aggregate leverage could potentially drift higher than 37.1%, though this may be mitigated by portfolio revaluation gains given the strengthening of the domestic office market. Interest / EBITDA had worsened to 3.7x for 9M2017 (2016: 4.3x) due to the fall in EBITDA resulting from the divestments. 2018 maturity schedule looks manageable, with SGD350mn across two bank loans due. We will retain CCT's Issuer Profile rating at Neutral (3) given management's willingness to endure higher levels of leverage (versus historical).

CapitaLand Commercial Trust

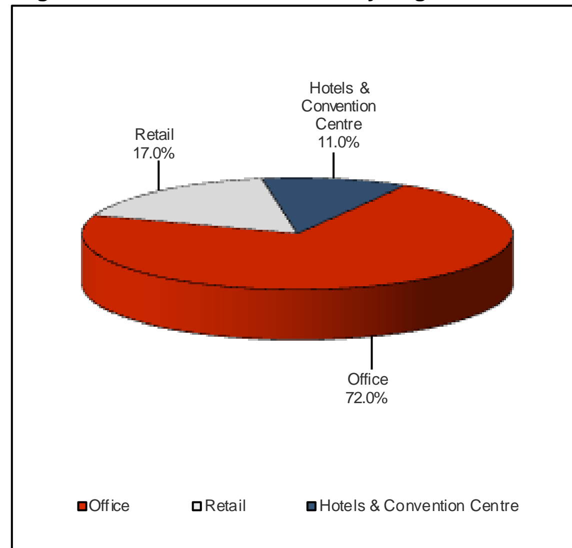
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	273.2	298.6	251.2
EBITDA	196.7	215.0	188.6
EBIT	193.7	212.4	182.3
Gross interest expense	36.0	50.1	50.3
Profit Before Tax	307.4	261.8	545.5
Net profit	307.3	260.6	545.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	81.2	160.0	857.5
Total assets	6,592.5	8,051.1	7,897.3
Gross debt	1,254.9	2,639.0	2,044.2
Net debt	1,173.7	2,479.1	1,186.7
Shareholders' equity	5,234.1	5,278.5	5,692.7
Total capitalization	6,489.0	7,917.6	7,736.9
Net capitalization	6,407.8	7,757.6	6,879.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	310.2	263.3	551.3
* CFO	196.8	203.1	139.3
Capex	21.3	17.3	4.4
Acquisitions	0.0	356.9	0.0
Disposals	0.0	0.0	1,230.5
Dividends	251.9	258.6	272.3
Free Cash Flow (FCF)	175.5	185.8	134.9
* FCF Adjusted	-76.4	-429.7	1,093.1
Key Ratios			
EBITDA margin (%)	72.0	72.0	75.1
Net margin (%)	112.5	87.3	217.0
Gross debt to EBITDA (x)	6.4	12.3	8.1
Net debt to EBITDA (x)	6.0	11.5	4.7
Gross Debt to Equity (x)	0.24	0.50	0.36
Net Debt to Equity (x)	0.22	0.47	0.21
Gross debt/total capitalisation (%)	19.3	33.3	26.4
Net debt/net capitalisation (%)	18.3	32.0	17.3
Cash/current borrowings (x)	NM	0.9	4.3
EBITDA/Total Interest (x)	5.5	4.3	3.7

Source: Company, OCBC estimates

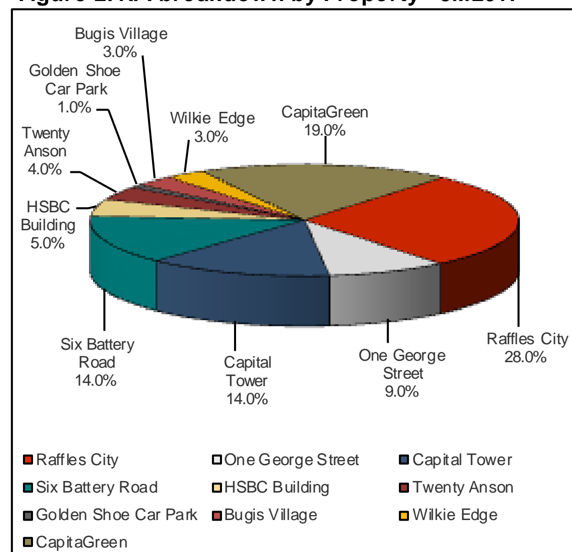
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2017



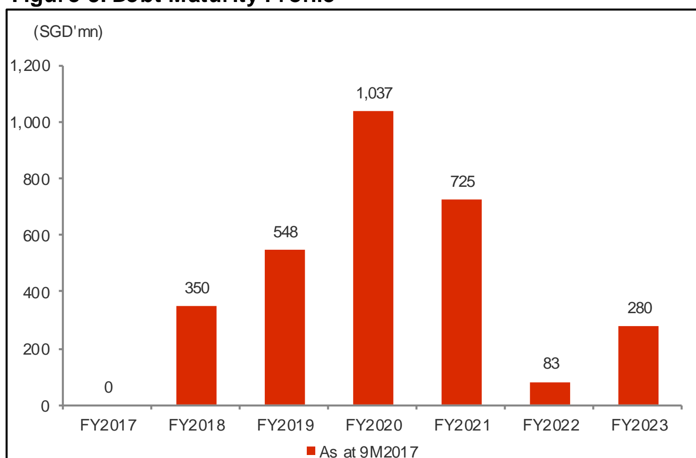
Source: Company

Figure 2: NPI breakdown by Property - 9M2017



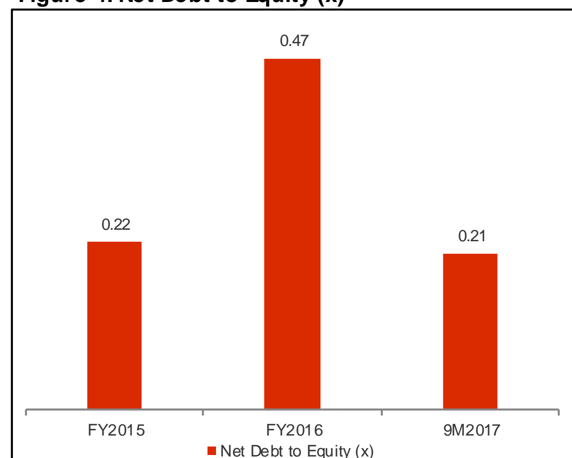
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

CapitaLand Ltd

Credit Outlook –

We prefer the CITSP curve versus the CAPLSP curve at comparable tenures given similar spreads.

Issuer Profile: Neutral (3)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **CAPLSP**

Company Profile

CapitaLand Ltd ("CAPL") is Singapore's leading real estate developer, operating across residential real estate development, serviced residences, retail & office REITs and real estate fund management with core markets in Singapore and China. Its four reporting segments are Capitaland Singapore ("CLS"), Capitaland China ("CLC"), Capitaland Mall Asia ("CMA") and The Ascott Ltd ("Ascott"). CAPL reported SGD58.1bn in total assets as at 30 Sep 17 and it is ~40%-owned by Temasek Holdings Ltd.

Key credit considerations

- **Consolidation of all REITs:** CAPL has consolidated CapitaLand Mall Trust ("CMT") as well as CapitaLand Retail China Trust ("CRCT") effective August 2017. As per FRS 110, these two REITs were previously accounted for as associates, but now CAPL deemed that it had sufficient interest (via gradual stake increases over the years) in CMT and CRCT to consolidate them as partly-owned subsidiaries. Note that CapitaLand Commercial Trust ("CCT") and Ascott Residence Trust ("ART") are already consolidated. The above also resulted in Raffles City Singapore Trust ("RCST") being consolidated too. This accounting change had impacts on CAPL's balance sheet and income statement, such as total assets surging q/q from SGD46.0bn to SGD58.1bn, while its total equity increased SGD5.8bn to SGD31.3bn. Revenue also increased SGD169.2mn while EBIT increased SGD114.8mn, largely driven by the CapitaLand Mall Asia segment.

- **China showing softness:** Total revenue was up 9.7% y/y to SGD1.51bn, with revenue from CapitaLand Singapore surging 46.5% y/y to SGD493.9mn, offsetting CapitaLand China revenue which slumped 34.2% to SGD418.8mn (23.9% higher q/q though). CapitaLand China had delivered fewer units (1,630 units) to buyers (3Q2016: 3,254 units). 3Q2017 also saw 2,087 units sold with a sales value of RMB4.3bn (3Q2016: 2,903 units for RMB5.8bn). Performance was impacted by fewer units available in inventory, as ~90% of launched units had been sold. Looking forward, CAPL has 605 launch-ready units in China for 4Q2017 as well as ~RMB1.4bn worth of pre-sold revenue to be recognized for the period. Further down, CAPL has RMB13.8bn in pre-sold revenue to be recognized across 8,000 units, with ~70% worth to be recognized in 2018 (~SGD2.0bn worth).

- **Singapore inventory depletion**: CapitaLand Singapore segment revenue was boosted by the inclusion of RCST as well as 108 residential units sold (sales value of ~SGD373mn). Sales were brisk at Victoria Park Villas and Marine Blue, though total units sold were sharply lower than 3Q2016 (206 units sold), which is consistent with our view that CAPL's inventory of Singapore residential projects is steadily depleting (aggregate remaining value of ~SGD630mn). Excluding Marine Blue (74% sold), the rest of CAPL's Singapore residential developments are >90% sold, which may necessitate land banking. Group performance was boosted by CapitaLand Mall Asia (revenue jumped 105.8% to SGD311.5mn), largely due to the consolidation of CMT. The segment also benefited from recent acquisitions in Japan as well as additions in owned/managed malls in China. Ascott saw sharp segment revenue increase of 18.4% y/y to SGD276.8mn, driven by newly acquired properties (19 for the quarter via various means) as well as investments made.

- **Strong cash flow, leverage drifting higher**: 3Q2017 operating PATMI (which excludes divestments, revaluation and impairments) fell 18.8% y/y to SGD204.5mn (but comparable q/q), likely due to fewer deliveries in CapitaLand China. CFO (including interest service) was strong at SGD679.3mn, largely from monetization of the development properties on its balance sheet. As a result of the consolidation of CMT and CRCT, as the REITs had higher leverage compared to CAPL, net gearing inched higher to 43% (2Q2017: 39%). Note that CCT's Asia Square Tower 2 acquisition was completed in 4Q2017. With CCT having subsequently raised SGD700mn via a rights issue, and ~SGD1120mn in new borrowings to fund the acquisition, pro-forma 3Q2017 net gearing would have been ~45%. 1Q2018 would also recognize the RMB3360mn Rock Square mall acquisition by CAPL / CRCT, which would drive net gearing higher to ~47%). Some funding needs were met by a SGD500mn 10-year bond issued in 4Q2017. Based on our revised ratings methodology, we now rate CAPL with a **Neutral (3) Issuer Profile**.

CapitaLand Ltd

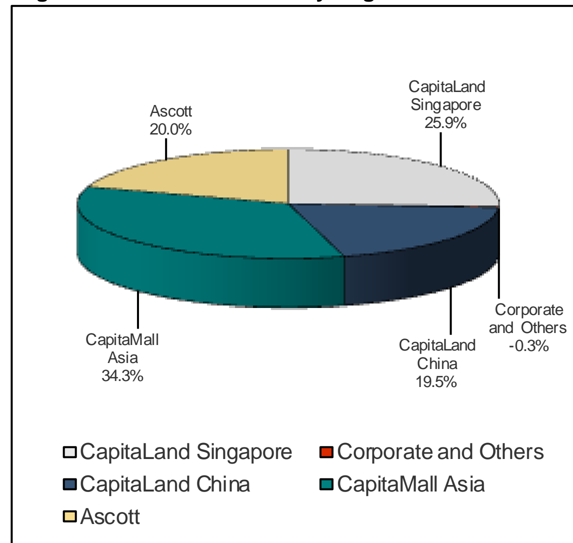
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	4,761.9	5,252.3	3,397.2
EBITDA	1,146.2	1,269.5	989.2
EBIT	1,073.1	1,203.5	936.7
Gross interest expense	477.3	452.7	337.4
Profit Before Tax	1,838.8	1,906.9	2,062.6
Net profit	1,065.7	1,190.3	1,283.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	4,173.3	4,792.6	6,097.2
Total assets	47,052.6	45,740.8	58,062.8
Gross debt	16,058.5	14,852.4	19,509.1
Net debt	11,885.2	10,059.7	13,411.9
Shareholders' equity	24,937.7	24,300.5	31,250.7
Total capitalization	40,996.1	39,152.9	50,759.8
Net capitalization	36,822.9	34,360.2	44,662.6
Cash Flow (SGD'mn)			
Funds from operations (FFO)	1,138.8	1,256.3	1,335.5
* CFO	1,946.1	2,799.1	942.9
Capex	64.0	76.0	118.8
Acquisitions	940.0	899.9	725.6
Disposals	513.0	327.2	2,578.3
Dividend	726.9	751.8	856.6
Free Cash Flow (FCF)	1,882.1	2,723.1	824.1
* FCF Adjusted	728.2	1,398.6	1,820.3
Key Ratios			
EBITDA margin (%)	24.1	24.2	29.1
Net margin (%)	22.4	22.7	37.8
Gross debt to EBITDA (x)	14.0	11.7	14.8
Net debt to EBITDA (x)	10.4	7.9	10.2
Gross Debt to Equity (x)	0.64	0.61	0.62
Net Debt to Equity (x)	0.48	0.41	0.43
Gross debt/total capitalisation (%)	39.2	37.9	38.4
Net debt/net capitalisation (%)	32.3	29.3	30.0
Cash/current borrowings (x)	1.9	2.0	3.0
EBITDA/Total Interest (x)	2.4	2.8	2.9

Source: Company, OCBC estimates

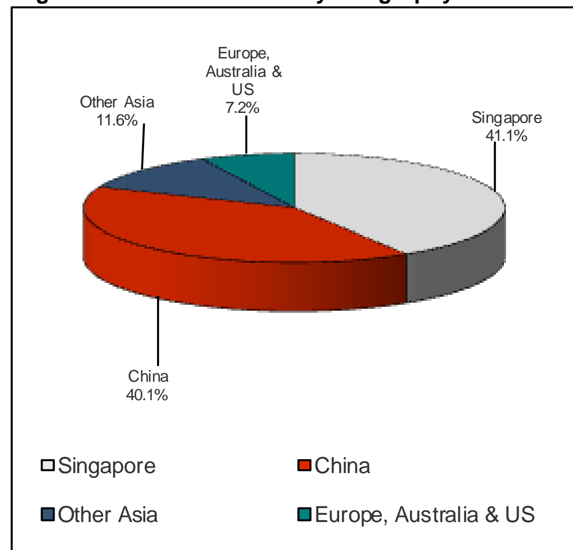
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: EBIT breakdown by Segment - 9M2017



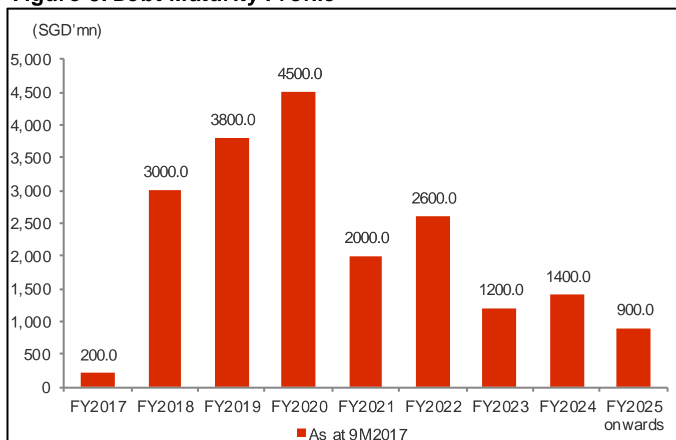
Source: Company | Corporate & others made operating losses

Figure 2: EBIT breakdown by Geography - 9M2017



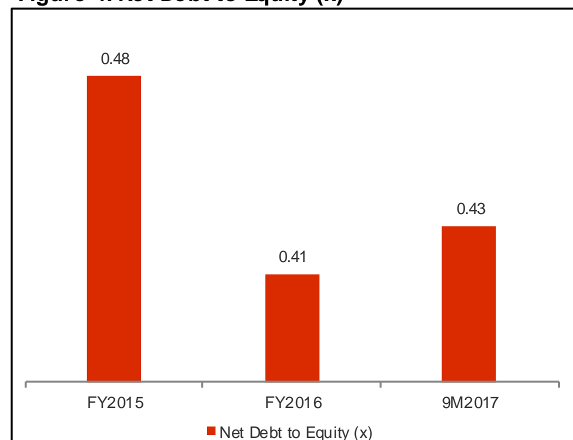
Source: Company

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

CapitaLand Mall Trust

Credit Outlook –

With the CAPITA curve trading in line with the parent CAPL, we prefer the CAPITA curve given its explicit credit rating which facilitates a larger investor base.

Issuer Profile: Neutral (3)

S&P: Not rated

Moody's: A2/Stable

Fitch: Not rated

Ticker: **CAPITA**

Background

Listed on the SGX in 2002, CapitaLand Mall Trust ("CMT") is the largest REIT by market capitalization. CMT's portfolio consists of 16 malls in Singapore, including Plaza Singapura, IMM Building, Bugis Junction, Tampines Mall, a 40% stake in Raffles City and a 30% stake in Westgate. In addition, CMT owns ~14% interest in CapitaLand Retail China Trust ("CRCT"), the first China shopping mall REIT listed on the SGX. CMT is ~30%-owned by CapitaLand Ltd ("CAPL").

Key credit considerations

- **Retail headwinds continue to pressure:** CMT has not been immune to the secular pressures facing the domestic retail industry. Though portfolio occupancy had improved to 99.0% (2016: 98.5%), and remains distinctly stronger than industry vacancy rates of 8.2% (source: URA 3Q2017 statistics), CMT had likely conceded on rental rates in exchange for securing tenants. This was reflected by the 1.7% decline in property rental rates seen for 9M2017 (2016: +1.0%). Specifically, we note that 9M2017 rental reversion at Bedok Mall (-6.0%) and Westgate (-10.5%) were sharply negative, likely due to competition from properties such as JEM. We had previously highlighted our concerns over Bedok Mall and Westgate given their sizable NLA expiring for the last nine months of 2017 (21.1% and 18.7% respectively) and the prior softness seen thus far. For 2018, ~1/3 of CMT's leases, accounting for 30.0% of rental income, are expiring. Other statistics also showed softness with tenants' sales psf flat in 9M2017 (2016: +0.9%) while shopper traffic growth slowed to +0.2% (2016: +2.3%).

- **Funan divestment impact wanes**: For 9M2017, gross revenue declined 2.0% y/y to SGD510.1mn (largely due to Funan, which ceased operations for redevelopment in July 2016). Excluding Funan, 9M2017 gross revenue would have been up 0.2% y/y. The recent 3Q2017 results had indicated other factors with gross revenue down 0.7% y/y to SGD156.3mn due to weaker performance at Bedok Mall (as discussed), Junction 8 and Plaza Singapura (ongoing AEI). 3Q2017 NPI had benefited from lower property tax (-9.3% y/y), driving NPI higher by 1.6% to SGD121.4mn. Looking forward, given retail sector pressures, it is unlikely that CMT would be able to increase its asking rents, limiting gross revenue growth.

- **Serviced residence divestment boost:** Aggregate leverage had remained stable at 34.7% (2016: 34.8%), as though total borrowings increased slightly, this was offset by gains realized from CMT's divestment of the serviced residence component of the Funan redevelopment to Ascott-QIA JV (announced in August 2017, completed in October 2018). Divestment proceeds total SGD101.8mn, with SGD58.8mn in sale consideration and balance SGD43.0mn used to discharge existing unitholders' loans and outstanding payables to CMT. Net debt / EBITDA had also remained stable at 6.4x (2016: 6.5x)

- **Heavy maturity in 1H2018:** CMT has USD400mn (~SGD540mn) bond due in March 2018, accounting for the bulk of debt maturing in 2018. This compares with the SGD507.8mn in cash held as of end-3Q2017. We believe that CMT would be able to refinance the bond given its relatively low leverage versus peers as well as totally unencumbered assets. CMT had only recently tapped capital markets, raising SGD100mn in 10-year bonds during November. EBITDA / Interest had remained stable at 4.1x for 9M2017 (2016: 4.1x).

- **Development costs and potential acquisitions a risk to balance sheet**: We expect the redevelopment of Funan (~SGD560mn cost) to go full swing in 2018 given the targeted opening in 2019. The balance 70% of Westgate (valued at ~SGD745mn) remains a potential injection by the sponsor. These factors could consume CMT's aggregate leverage debt headroom. That said, though rental reversion had weakened, recent transactions in the retail commercial real estate space (e.g. Jurong Point) had been done at lofty valuations, which may drive positive portfolio revaluation come end-2017. This could help mitigate any deterioration to CMT's credit profile. We will hold CMT's Issuer Profile at Neutral (3).

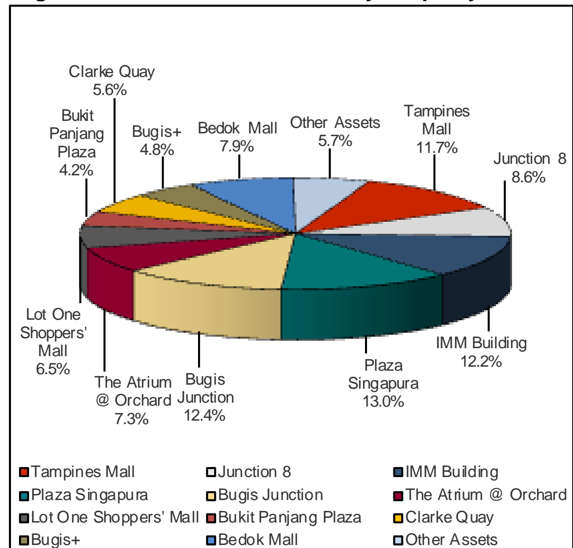
CapitaLand Mall Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	669.0	689.7	510.1
EBITDA	421.4	431.8	322.9
EBIT	420.3	430.7	322.4
Gross interest expense	103.8	106.3	78.0
Profit Before Tax	580.4	470.4	530.5
Net profit	579.8	469.4	530.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	604.3	483.5	507.8
Total assets	10,355.7	10,326.7	10,551.4
Gross debt	3,312.2	3,288.3	3,272.8
Net debt	2,707.8	2,804.8	2,765.0
Shareholders' equity	6,693.2	6,692.2	6,912.8
Total capitalization	10,005.3	9,980.5	10,185.6
Net capitalization	9,401.0	9,497.1	9,677.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	580.9	470.5	531.1
* CFO	422.4	432.9	313.9
Capex	95.7	76.5	53.0
Acquisitions	621.4	0.0	0.0
Disposals	186.6	0.0	0.0
Dividends	388.9	394.2	296.3
Free Cash Flow (FCF)	326.7	356.3	260.9
* FCF Adjusted	-497.0	-37.9	-35.4
Key Ratios			
EBITDA margin (%)	63.0	62.6	63.3
Net margin (%)	86.7	68.1	104.0
Gross debt to EBITDA (x)	7.9	7.6	7.6
Net debt to EBITDA (x)	6.4	6.5	6.4
Gross Debt to Equity (x)	0.49	0.49	0.47
Net Debt to Equity (x)	0.40	0.42	0.40
Gross debt/total capitalisation (%)	35.2	34.6	32.1
Net debt/net capitalisation (%)	28.8	29.5	28.6
Cash/current borrowings (x)	NM	1.9	0.9
EBITDA/Total Interest (x)	4.1	4.1	4.1

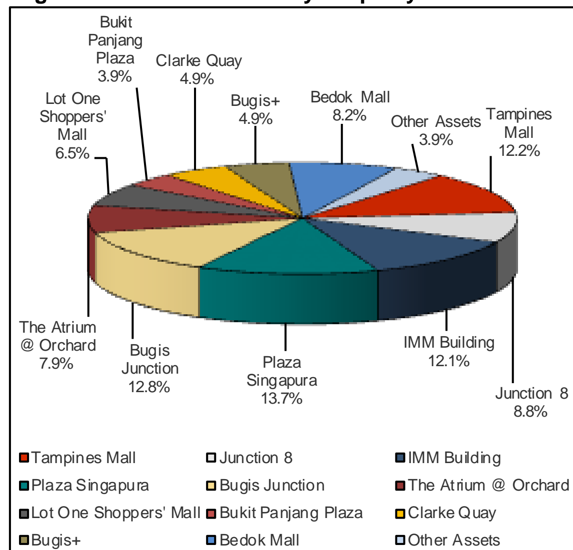
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - 9M2017



Source: Company

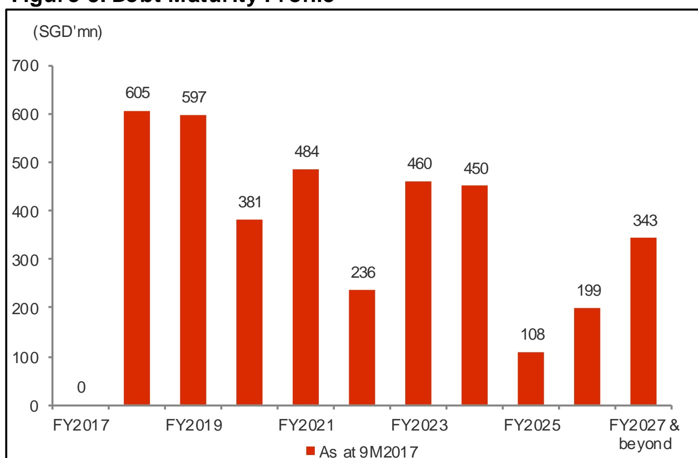
Figure 2: NPI breakdown by Property - 9M2017



Source: Company

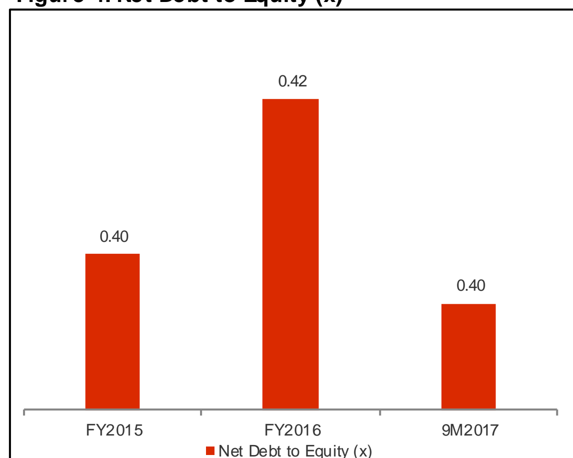
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We are Overweight the CENSUN'20s. Though CENSUN remains focused on growth, its balance sheet retains some room, while the uncertainty from the corporate reorganization has diminished. Downside risks include current margin pressures from shifts in product mix.

Issuer Profile: Neutral (5)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **CENSUN**

Company profile

Listed on the HKSE in 2004, Century Sunshine Group Holdings Limited ("CSG") has two main business segments: magnesium products (~34% of sales) and ecological fertilisers (~55% of sales). The magnesium business is held indirectly via partly owned subsidiary Group Sense International Limited ("GSIL"). The firm generates most of its revenue from the PRC and is vertically integrated (with captive mines). The founder / Chairman is the largest shareholder, owning ~35% of the firm.

Century Sunshine Group Holdings Limited

Key credit considerations

- **Corporate reorganization complete:** In November 2017, CSG had successfully injected its directly-held magnesium assets (the Jilin plant) into GSIL (which already held the Xinjiang plant). With this, all of CSG's magnesium related assets are now held via GSIL (though results remain consolidated at the group level). The consideration for the transaction was in shares (and a HKD420mn convertible bond issued to CSG), with CSG's stake in GSIL surging from 51.9% to 72.5%. The stated intent of the reorganization was for clearer delineation between the two businesses which would allow for better management focus on each entity. The separation may also allow for more corporate action flexibility (i.e. M&A) while GSIL could obtain better access to capital given its increase in scale. Finally, a potential better equity valuation for GSIL could be a factor.

- **Credit negative but manageable:** Summarizing our detailed review (OCBC Asia Credit - Century Sunshine Credit Update (13 Sep), the reorganization is a credit negative, as CSG will then face HoldCo-OpCo subordination (GSIL creditors get first claim). GSIL will not be a guarantor to the CENSUN'20 notes. As a reference, the fertilizer business generated HKD161.1mn in operating profits while the magnesium business generated HKD120.9mn in operating profits for 1H2017 (though the Xinjiang magnesium plant was already held via GSIL). As mitigation, the founding Chi family's exposure remains shareholdings in CSG (rather than GSIL) which provides alignment with CSG bondholders. The family also continues to be officers of both CSG and GSIL, while CSG's increased stake in GSIL infers more control. A higher valuation as well as better access to capital markets would provide GSIL with more financial flexibility. The existing financial covenants on CSG's bonds also provide some investor protection, with there being adequate covenant headroom as of end-1H2017.

- **Margin impact by SDHR:** 1H2017 revenue jumped 23.1% y/y to HKD1.52bn, boosted by both fertilizer and magnesium products segments. The fertilizer segment revenue increased 25.4% y/y to HKD855.1mn, in part driven by the consolidation of Shangdong Hongri ("SHDR", acquisition completed April 2017). Sales volume jumped 28.9% to 414,841 tonnes, though excluding SDHR's contribution volumes would have been flattish while segment sales would have dipped. The domestic fertilizer industry remains challenging with strong competitive pressures. Technical tests for new products also impacted the Jiangsu plant's production. Fertilizer segment margin also fell to 23.0% (1H2016: 27.6%), as the SHDR acquisition shifted more product mix to compound fertilizers (which are less lucrative versus organic as well as SiMg fertilizers).

- **Teething pains**: Magnesium segment, revenue increased 18.5% y/y to HKD503.0mn, driven by the surge in volume sold by 38.9% to 22,238 tonnes. However, ASP fell 12.4% to HKD 22,349 per tonne, as the volume surge was driven by Xinjiang ramping up (initial production focused on simpler product lines with lower margins before moving more to complex products). This caused magnesium margins to compress to 25.0% (1H2016: 30.7%). As such, group gross margin compressed to 24.5% (1H2016: 30.0%). Net profit remained stable at HKD130.0mn, with CSG making HKD41.0mn gain on bargain purchase due to SDHR. This was, however, offset against the increases in SG&A expenses (+25%) to HKD141.9mn for 1H2017 due to additional needs as a larger organization. Net gearing increased slightly from 21% (end-2016) to 28% (end-1H2017) due to higher borrowings. Cash over current borrowings remains manageable at 1.2x. We will hold CSG at Neutral (5) Issuer Profile, as though leverage remains low, the recent reorganization was a credit negative and there remains execution risk given its organic and inorganic expansion plans.

Century Sunshine Group Holdings Ltd

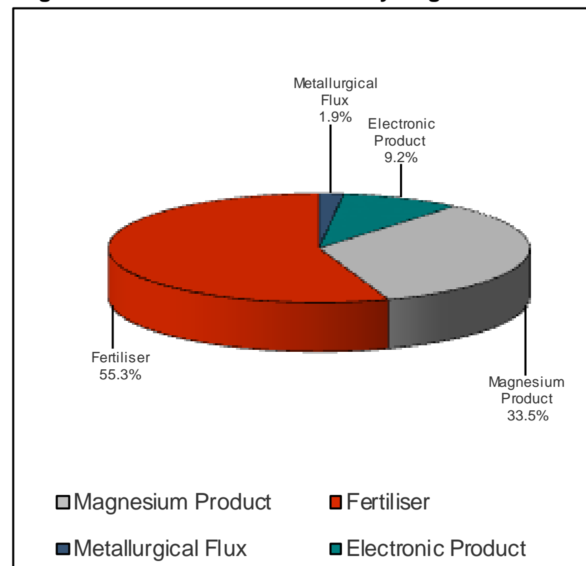
Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	1H2017
Income Statement (HKD'mn)			
Revenue	2,515.6	2,589.2	1,522.2
EBITDA	629.9	636.3	307.1
EBIT	532.9	506.6	231.8
Gross interest expense	97.0	126.6	73.5
Profit Before Tax	518.1	456.9	201.9
Net profit	314.5	313.1	127.5
Balance Sheet (HKD'mn)			
Cash and bank deposits	1,452.5	901.2	877.8
Total assets	5,421.7	5,246.5	6,579.3
Gross debt	1,394.2	1,540.6	1,821.0
Net debt	-58.3	639.4	943.2
Shareholders' equity	3,364.5	3,054.5	3,331.0
Total capitalization	4,758.7	4,595.1	5,152.0
Net capitalization	3,306.2	3,693.9	4,274.2
Cash Flow (HKD'mn)			
Funds from operations (FFO)	411.5	442.8	202.9
* CFO	84.3	428.6	128.7
Capex	217.3	479.0	NA
Acquisitions	200.8	63.2	NA
Disposals	0.4	1.3	NA
Dividend	21.8	59.8	NA
Free Cash Flow (FCF)	-133.0	-50.4	NA
* FCF adjusted	-355.2	-172.1	NA
Key Ratios			
EBITDA margin (%)	25.0	24.6	20.2
Net margin (%)	12.5	12.1	8.4
Gross debt to EBITDA (x)	2.2	2.4	3.0
Net debt to EBITDA (x)	-0.1	1.0	1.5
Gross Debt to Equity (x)	0.41	0.50	0.55
Net Debt to Equity (x)	-0.02	0.21	0.28
Gross debt/total capitalisation (%)	29.3	33.5	35.3
Net debt/net capitalisation (%)	-1.8	17.3	22.1
Cash/current borrowings (x)	4.1	2.8	1.2
EBITDA/Total Interest (x)	6.5	5.0	4.2

Source: Company, OCBC estimates

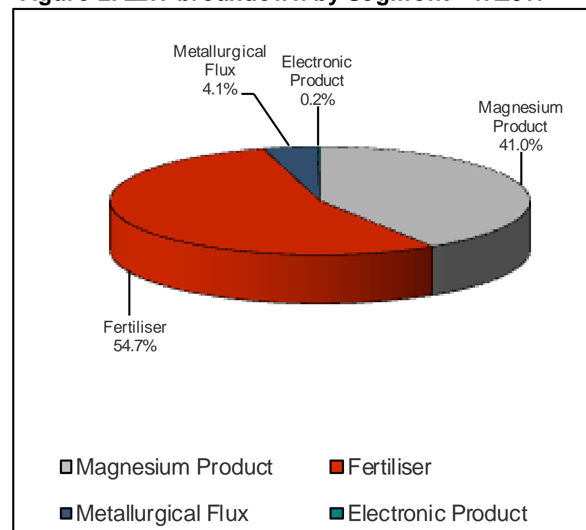
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1H2017



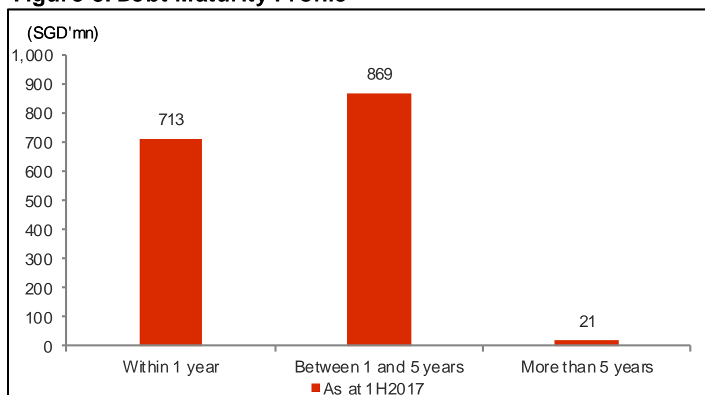
Source: Company

Figure 2: EBIT breakdown by Segment - 1H2017



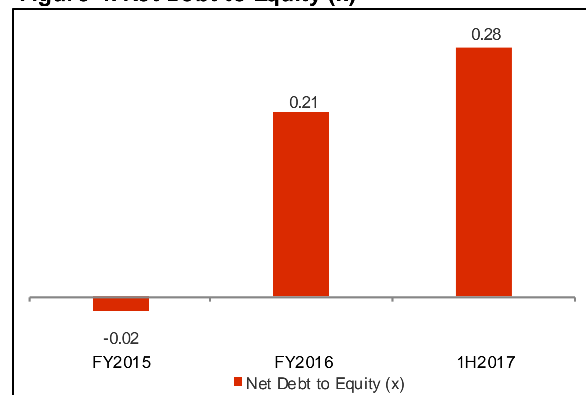
Source: Company

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

China Eastern Airlines Corporation Limited

Credit Outlook – The CHIEAS 2.8% '20s is trading at a YTW of 2.8% which is trading fair against Air China and Qantas bonds in implied SGD terms for a similar tenure.

Issuer Profile: Neutral (4)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **CHIEAS**

Background

China Eastern Airlines Corporation Limited ("CHIEAS") listed on the HKEX, Shanghai Stock Exchange and NYSE (via American Depository Receipts) has a market cap of HKD129.7bn as at 8 January 2018. Apart from its flagship carrier, China Eastern Airlines ("MU"), CHIEAS also owns Shanghai Airlines ("CSH") (managed as a separate brand), China United Airlines (a budget airline) and is involved in other businesses (eg: tour operations, air catering and other services. CHIEAS is ~56.4%-owned by China Eastern Air Holding Company (CEA Holding), a Chinese SOE.

Key credit considerations

- **Profitability affected by higher jet fuel:** In 1H2017, revenue at CHIEAS increased 4.5% y/y to RMB48.4bn. Growth in passenger revenue (contributes 89% to total revenue) was healthy at 9.7% y/y to reach RMB43.1bn while passenger traffic was up 10.2% y/y. Nonetheless, cargo and mail traffic revenues was only up 4.0% to RMB1.8bn while other revenue (ground service, tour operations etc) fell 18.6% y/y to RMB3.5bn. EBITDA (excluding government subsidies and other operating income) was 20.4% lower y/y, mainly due to the increase in aircraft fuel cost (38.2% rise in average jet fuel prices). In 1H2017, the company did not engage in any fuel hedging activities, a regulated activity in China. Including capitalised interest, we find EBITDA/Interest lower at 4.5x in 1H2017 (1H2016: 5.8x). We expect CHIEAS to face a decline in interest coverage in the next 12 months following expectations of higher fuel prices going into 2018 and increased interest burden as the company takes on more leverage.

- **Centrally administered SOE:** The SGD-bond is issued by CHIEAS' wholly-owned subsidiary Eastern Air Overseas (Hong Kong) Corporation Limited and CHIEAS is the guarantor of the bonds. CHIEAS is controlled by CEA Holding (~56.4%-stake) while CEA Holding is directly supervised and wholly-owned by the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC"). In our view, CHIEAS benefits from lower cost of funding on the back of implicit state support. CHIEAS receives subsidy income from the government and in addition, CNY bonds amounting to RMB7.8bn (out of RMB66bn in gross debt as at 30 June 2017) are guaranteed by CEA Holding. A Change of Control ("CoC") clause gives SGD bondholders the right to redeem the bonds should SASAC cease to directly or indirectly control CHIEAS.

- **Chinese travel still healthy and a credit positive:** The Chinese airline landscape is dominated by three big state-owned players: CHIEAS, China Southern and Air China. Medium and smaller airlines with different geographical focus, service standards and ownership profile are also present. The Big Three have scaled up significantly over the past two decades, with international capacity (excluding Hong Kong, Macau, Taiwan) growth intensifying in 2016. Collectively, international capacity grew 10% y/y in 1H2017 after growing 28% y/y in 1H2016. These airlines are growing where their customers are going. US-based Delta Air Lines owns a 3.2%-stake in CHIEAS and is a key strategic partner.

- **Levered capital structure:** As at 30 June 2017, unadjusted net gearing at CHIEAS was 1.0x (end-December 2016: 1.1x). Leases are commonly used by airline companies in aircraft financing. Obligations from finance leases and operating leases commitment (an off-balance sheet item) were significant at RMB64.4bn and RMB23.4bn respectively as at 30 June 2017. Factoring these two items as debt, we find adjusted net gearing at 2.5x (end-December 2016: 2.7x). While adjusted net gearing appears high (and higher than AirChina), CHIEAS' adjusted net gearing is in line with China Southern. RMB10.9bn in cash outflow for capex (bulk attributable to aircraft) was reported in 1H2017 against cash flow from operations (before interest and tax) of RMB8.4bn. The cash gap during the period was funded via new debt. This was in contrast to 1H2016 when CHIEAS issued new equity instead. CHIEAS has projected to pay RMB27.4bn for aircraft in the 12 months to end-June 2018. In October 2017, CHIEAS bought 10% of new shares in AirFrance-KLM (similarly also a SkyTeam alliance member) for EUR375mn (~RMB2.9bn). We expect CHIEAS to refinance short term debt coming due (RMB40.2bn as at 30 June 2017) instead of paring down debt levels. Despite our expectation of a weaker credit profile for CHIEAS, the company still has considerable market power in a profitable, growing industry. **We are initiating CHIEAS with a Neutral(4) issuer profile.**

China Eastern Airlines Corp Ltd

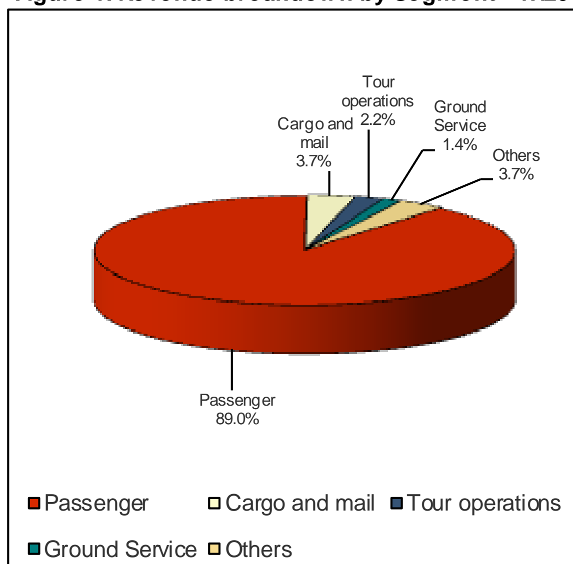
Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	1H2017
Income Statement (RMB'mn)			
Revenue	93,969.0	98,904.0	48,423.0
EBITDA	17,821.0	19,169.0	8,111.0
EBIT	7,350.0	7,015.0	1,564.0
Gross interest expense	8,192.0	7,021.0	1,809.0
Profit Before Tax	5,667.0	6,497.0	5,773.0
Net profit	4,537.0	4,498.0	4,341.0
Balance Sheet (RMB'mn)			
Cash and bank deposits	9,080.0	1,695.0	8,563.0
Total assets	197,992.0	212,324.0	225,965.0
Gross debt	66,712.0	56,732.0	66,018.0
Net debt	57,632.0	55,037.0	57,455.0
Shareholders' equity	39,931.0	52,366.0	57,203.0
Total capitalization	106,643.0	109,098.0	123,221.0
Net capitalization	97,563.0	107,403.0	114,658.0
Cash Flow (RMB'mn)			
Funds from operations (FFO)	15,008.0	16,652.0	10,888.0
* CFO	24,325.0	24,893.0	7,272.0
Capex	33,381.0	38,397.0	12,910.0
Acquisitions	0.0	0.0	33.0
Disposals	5,617.0	1,276.0	2,081.0
Dividend	38.0	796.0	22.0
Free Cash Flow (FCF)	-9,056.0	-13,504.0	-5,638.0
* FCF adjusted	-3,477.0	-13,024.0	-3,612.0
Key Ratios			
EBITDA margin (%)	19.0	19.4	16.8
Net margin (%)	4.8	4.5	9.0
Gross debt to EBITDA (x)	3.7	3.0	4.1
Net debt to EBITDA (x)	3.2	2.9	3.5
Gross Debt to Equity (x)	1.67	1.08	1.15
Net Debt to Equity (x)	1.44	1.05	1.00
Gross debt/total capitalisation (%)	62.6	52.0	53.6
Net debt/net capitalisation (%)	59.1	51.2	50.1
Cash/current borrowings (x)	0.2	0.1	0.2
EBITDA/Total Interest (x)	2.2	2.7	4.5

Source: Company, OCBC estimates

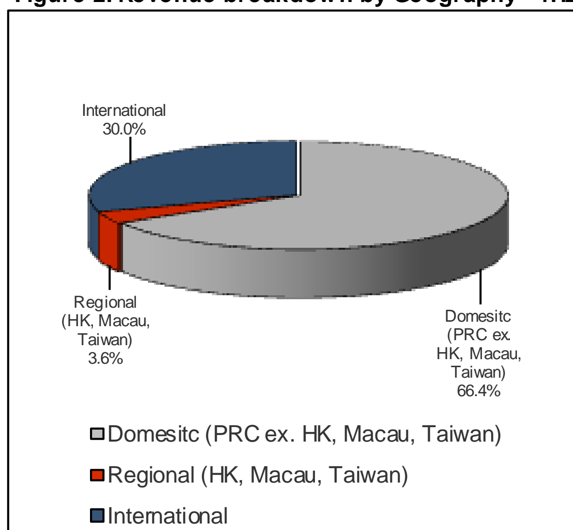
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1H2017



Source: Company

Figure 2: Revenue breakdown by Geography - 1H2017



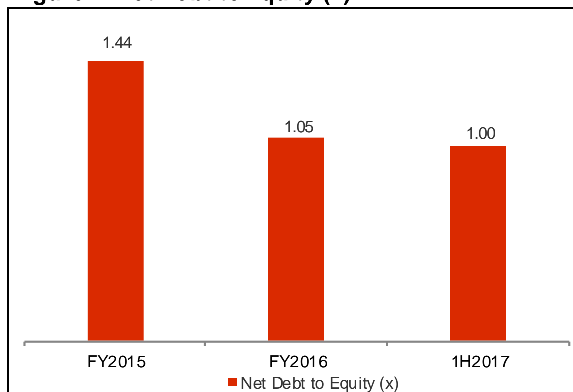
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (RMB'mn)	As at 30/06/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	1,183.0	1.8%
Unsecured	38,993.0	59.1%
	40,176.0	**60.9%**
Amount repayable after a year		
Secured	5,357.0	8.1%
Unsecured	20,485.0	31.0%
	25,842.0	**39.1%**
Total	**66,018.0**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Chip Eng Seng Corporation Ltd

Credit Outlook – With CES aggressively making purchases, we think CHIPEN '21s and '22s look fair despite trading higher than peers at 3.88% and 4.21% respectively.

Issuer Profile: Negative (6)

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **CHIPEN**

Background
Listed on the SGX in 1999, Chip Eng Seng Corp Ltd ("CES") is a Singapore property developer and contractor of condominiums, HDB flats and commercial and industrial properties. CES owns several commercial and industrial investment properties and two hospitality properties. CES is also present in Australia, Malaysia and Maldives. The shares of the company are held by Lim Tiam Seng and his wife (12.5%), Lim Tiang Chuan (7.11%) and Lee Meng Chia (4.16%). CES has a market capitalization of SGD627.2mn as of 3 Jan 2018.

Key credit considerations

- **Good 3Q2017 results due to property development:** 3Q2017 revenue increased 37.8% y/y to SGD209.2mn, mainly contributed by property development (+114.7% y/y to SGD145.8mn). This is due to the progressive recognition of High Park Residences (mostly sold). Fulcrum also moved more units (17 sold worth SGD23.1mn in 3Q2017) while Grandeur Park Residences also began to progressively recognise revenue. While hospitality performed better (+47.6% y/y to SGD10.4mn), construction revenue declined 31.9% y/y to SGD50.4mn. Net profit surged 105.7% y/y to SGD18.7mn due to increase in revenue and SGD13.8mn income from disposal of 420 St Kilda Road.

- **Parlay and double up on Singapore property development:** CES saw a very successful launch of the 100%-owned 720-unit Grandeur Park in Mar 2017 (82.1% sold), good sales at 60%-owned 1,399-unit High Park Residences (100% sold) and 100%-owned 128-unit Fulcrum (99.2% sold). In a bid to replenish its landbank, CES acquired a land parcel at Woodleigh Land for SGD700.7mn via a 60%-owned JV in Jul 2017. In Oct 2017, CES won the collective sale of Changi Garden for SGD248.8mn. These new sites are targeted for launch in 2H2018 and 1H2019 respectively. CES will continue to look for opportunities to further replenish its land bank.

- **Earnings visibility from construction orderbook:** Construction orderbook stands at SGD458.3mn as of 3Q2017, which should support revenues over the next 2Y (projects include Toa Payoh Bidadari Contracts 6 & 7 and 8 & 9, Grandeur Park, supply of precast concrete for Thomson-East Coast Line).

- **Ramping up the hospitality and investment portfolio:** Hospitality should contribute more when occupancy rates improve at the relatively new Park Hotel Alexandra (opened in Jul 2015) and Grand Park Kodhipparu (June 2017). CES has also acquired the 245-room Mercure & Ibis Styles Grosvenor Hotel and the adjoining commercial properties in Adelaide for AUD43mn (SGD43.7mn) and The Sebel Mandurah in Western Australia for AUD15mn (SGD15.2mn) in Nov 2017. Although property investment revenue fell as CES divested 420 St Kilda Road for AUD68.8mn (SGD69.9mn), the revenue may be replaced as a Grade A office building in New Zealand will be acquired for NZD174mn (SGD160.7mn) via a 50%-owned entity. CES is looking for opportunities to expand its hotel property portfolio and keen to acquire new investment properties in Australia.

- **Monetising the Australian development portfolio:** The 100%-owned Williamson Estate with 104 townhouses and 64 apartments which is fully sold will complete in 1Q2018. The small development at Willow Apartments (68.8% sold) will also begin to handover in 1Q2018. However, CES will terminate the sales contracts at the 100%-owned 581-unit Tower Melbourne (mostly sold) due to the indefinite delay since 2013 of the project timeline because of objection by the owner of the adjoining property. Nevertheless, we are not overly worried as CES will explore other viable exit options (e.g. offer property for sale) while property prices have increased since 2013 – giving rise to upside potential.

- **Credit metrics will be strained due to large purchases:** We believe that net gearing levels will be elevated, increasing to ~1.5x (3Q2017: 0.86x) due to the purchase of the Woodleigh land parcel, Grade A office building in New Zealand and enbloc of Changi Garden. These will likely expend the SGD508.3mn cash that CES holds as of 3Q2017. While we like that CES has a good track in moving units, we remain cautious as CES looks to make further purchases. **As such, we downgrade CES' issuer profile from Neutral (5) to Negative (6).**

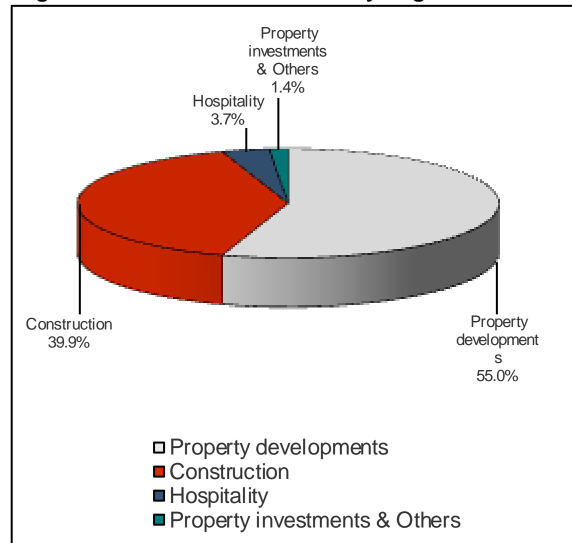
Chip Eng Seng Corp Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	676.5	748.0	603.6
EBITDA	81.9	83.2	45.4
EBIT	75.9	76.2	39.0
Gross interest expense	31.5	33.6	19.5
Profit Before Tax	67.6	76.1	44.0
Net profit	63.0	35.7	21.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	442.5	481.6	508.3
Total assets	1,907.0	2,232.2	2,327.6
Gross debt	858.7	1,170.9	1,184.6
Net debt	416.2	689.3	676.3
Shareholders' equity	743.0	776.6	786.0
Total capitalization	1,601.7	1,947.5	1,970.6
Net capitalization	1,159.2	1,465.9	1,462.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	69.1	42.8	27.3
* CFO	300.0	-251.3	60.7
Capex	20.7	1.7	97.5
Acquisitions	2.0	-3.2	1.0
Disposals	0.7	4.3	78.9
Dividend	37.4	24.8	24.8
Free Cash Flow (FCF)	279.4	-253.0	-36.8
* FCF Adjusted	240.7	-270.4	16.2
Key Ratios			
EBITDA margin (%)	12.1	11.1	7.5
Net margin (%)	9.3	4.8	3.5
Gross debt to EBITDA (x)	10.5	14.1	19.6
Net debt to EBITDA (x)	5.1	8.3	11.2
Gross Debt to Equity (x)	1.16	1.51	1.51
Net Debt to Equity (x)	0.56	0.89	0.86
Gross debt/total capitalisation (%)	53.6	60.1	60.1
Net debt/net capitalisation (%)	35.9	47.0	46.2
Cash/current borrowings (x)	3.7	2.1	3.2
EBITDA/Total Interest (x)	2.6	2.5	2.3

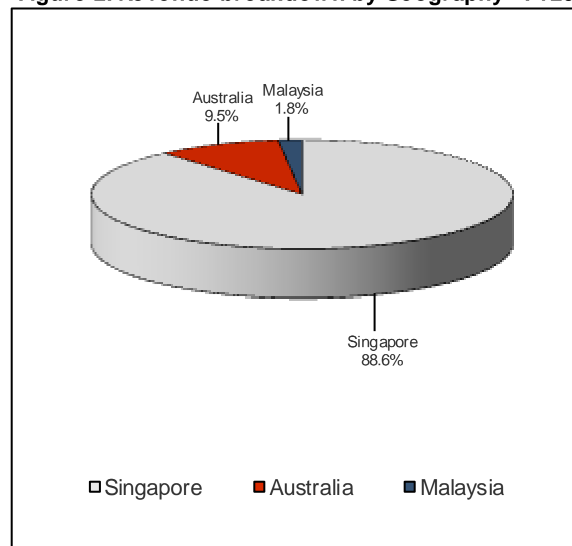
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2016



Source: Company

Figure 2: Revenue breakdown by Geography - FY2016



Source: Company

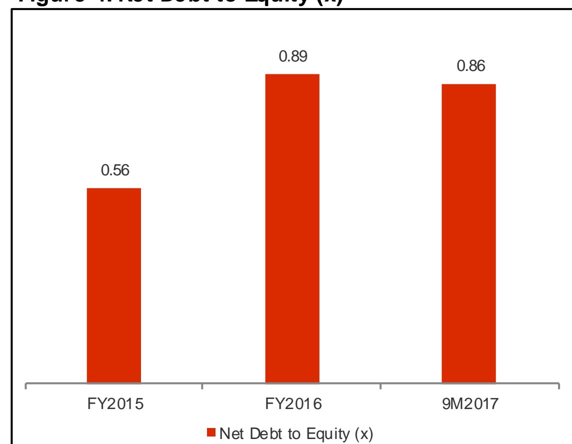
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	8.7	0.7%
Unsecured*	150.0	12.7%
	158.7	**13.4%**
Amount repayable after a year		
Secured	780.7	65.9%
Unsecured	245.0	20.7%
	1025.7	**86.6%**
Total	**1184.5**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

CITIC Envirotech Ltd

Credit Outlook – We prefer the CEL 3.9%-PERP, trading at a YTC of 3.9% which provides a pick-up of 30bps over the SCISP 4.75%-PERP. We think the spread more than compensates for the 5 month longer call date.

Issuer Profile: Neutral (4)

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **CELSP**

Background

CITIC Envirotech Ltd ("CEL") is an integrated water treatment solutions provider focusing on the Chinese market. CEL operates in three main business segments: Engineering, Treatment and Membrane. The company is listed on the SGX and is ~55%-owned by CITIC, a central government SOE. ~24% is owned by CRF Envirotech Co., Ltd (a joint venture between CRF Envirotech Fund L.P. and China Reform Soochow Overseas Fund I L.P. (affiliated with China Reform Holdings Corporation, an investment company beneficially owned by SASAC).

Key credit considerations

- **9M2017 income higher driven by the Engineering segment:** Gross revenue increased 38.6% y/y to SGD522.0mn, driven by the Engineering segment which increased 81.4% y/y to SGD368.1mn and Treatment which increased 7.2% to SGD129.1mn. The stronger performance from this segment more than offset the fall in Membrane revenue. Construction revenue from contract are typically recorded upfront and the performance reflects CEL's strong contract wins in 9M2017 and FY2016. We think being part of the CITIC group has helped accelerate CEL's growth. In 9M2017, Engineering contributed 71% of total revenue (9M2016: 54%). EBITDA (based on our calculation which does not include other operating expenses and other income) improved 29.8% y/y to SGD192.2mn while profit before tax increased by 74.8% to SGD135.3mn following stronger operating results and helped by lower finance costs and SGD20.6mn in government grants to modify the treatment processes recorded in 1H2017. Amidst China's focus on environment protection and green development, CEL is a strategic business for CITIC. We may relook CEL's issuer profile should this policy stance change.

- **Interest coverage better:** Finance cost declined 18.3% y/y to SGD24.2mn in 9M2017, mainly due to redemption of a high cost SGD bond that matured in September 2016. This bond was issued before CEL's change in shareholding and subsequent re-rating of CEL's cost of financing. Along with stronger EBITDA generation, EBITDA/Interest was higher at 7.9x against 5.0x in 9M2016. CEL's use of perpetuals within its capital structure is significant at 20% of total capital as at 30 September 2017. Following its issuance of SGD240mn in a new SGD perpetual in October 2017, we estimate that perpetuals now make up ~28% of total capital. We assume that CEL pays ~SGD35.6mn p.a. on perpetual distributions. Assuming 50% of this as interest, we find Adjusted EBITDA/Interest at 5.1x.

- **Leverage increasing significantly amidst business growth:** As at 30 September 2017, CEL's Unadjusted Net Gearing (net debt-to-equity) had increased to 0.2x from 0.04x in end-2016, though still optically low. CEL's accounting treatment records perpetuals as equity, though we adjust "net debt" upwards for the perpetuals in forming our view. The perpetuals are senior perpetuals which rank *parri passu* with other unsecured obligations of the issuer and contain onerous step-up margin which increases the likelihood of the perpetuals to be called. As at 30 September 2017, Adjusted Net Gearing (assumes 100% of perpetuals as debt) was 0.8x (0.5x in end-December 2016). In 2H2017, CEL had announced projects with SGD1.2bn of investment value. This includes its largest project to date (a RMB4.6bn (~SGD0.9bn) project in Gansu province). Detailed project timelines tend not to be publicly available though we expect the construction phase (and related cash outflow) to occur within 24 months from project announcements. We estimate debt to fund ~SGD781mn of the project value, with rest funded by further perpetuals in our base case. We estimate CEL's Unadjusted Net Gearing to increase to ~1.0x, with Adjusted Net Gearing potentially tripling.

- **Short term debt due:** As at 30 September 2017, including the SGD225mn bond due in April 2018, CEL's short term debt was SGD290mn. Short term debt represented 36% of total debt, significant in our view. On the same date, cash balance at CEL was SGD440.0mn, though these are mostly held in Chinese operating entities (against bulk of short term debt assumed at the Singapore holding company level). In December 2017, CEL announced that it has entered into a placement agreement with New Resources LLC (an investment holding company for China-based financial investors) to raise ~SGD70.7mn via new shares. We expect the pending equity proceeds and the latest perpetual to help fund short term debt due at CEL. In our view, CEL's near-term refinancing risk is manageable.

CITIC Envirotech Ltd

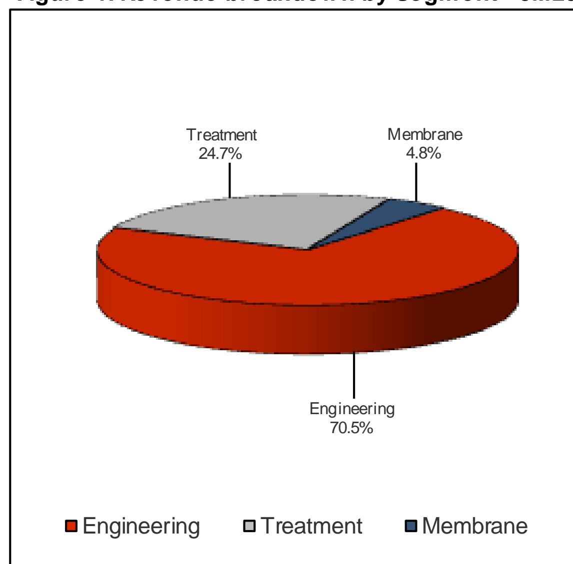
Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	274.8	544.6	522.0
EBITDA	128.8	213.3	192.2
EBIT	112.8	191.2	173.4
Gross interest expense	29.2	39.6	24.2
Profit Before Tax	61.5	131.4	135.3
Net profit	40.8	99.3	96.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	540.5	493.5	440.0
Total assets	2,172.9	2,550.0	3,017.3
Gross debt	746.1	556.8	799.8
Net debt	205.6	63.3	359.9
Shareholders' equity	1,140.8	1,495.5	1,573.5
Total capitalization	1,886.9	2,052.3	2,373.4
Net capitalization	1,346.4	1,558.8	1,933.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	56.7	121.5	115.6
* CFO	2.3	306.5	180.4
Capex	119.2	438.4	355.7
Acquisitions	96.7	36.5	59.1
Disposals	0.1	4.1	21.7
Dividend	5.6	21.2	36.4
Free Cash Flow (FCF)	-116.9	-131.9	-175.3
* FCF adjusted	-219.2	-185.5	-249.0
Key Ratios			
EBITDA margin (%)	46.9	39.2	36.8
Net margin (%)	14.8	18.2	18.5
Gross debt to EBITDA (x)	5.8	2.6	3.1
Net debt to EBITDA (x)	1.6	0.3	1.4
Gross Debt to Equity (x)	0.65	0.37	0.51
Net Debt to Equity (x)	0.18	0.04	0.23
Gross debt/total capitalisation (%)	39.5	27.1	33.7
Net debt/net capitalisation (%)	15.3	4.1	18.6
Cash/current borrowings (x)	1.6	6.5	1.5
EBITDA/Total Interest (x)	4.4	5.4	7.9

Source: Company, OCBC estimates

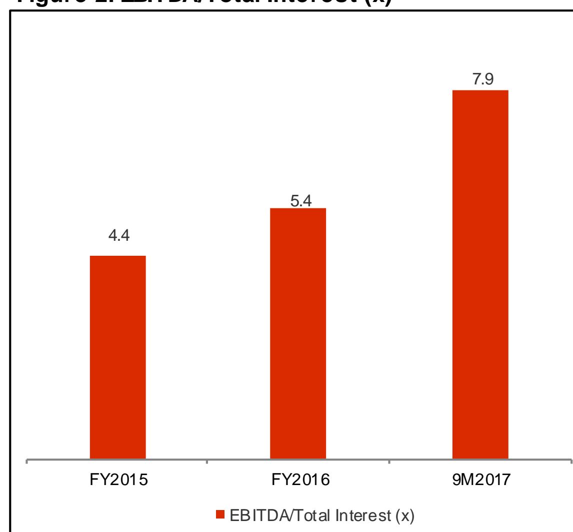
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2017



Source: Company

Figure 2: EBITDA/Total Interest (x)



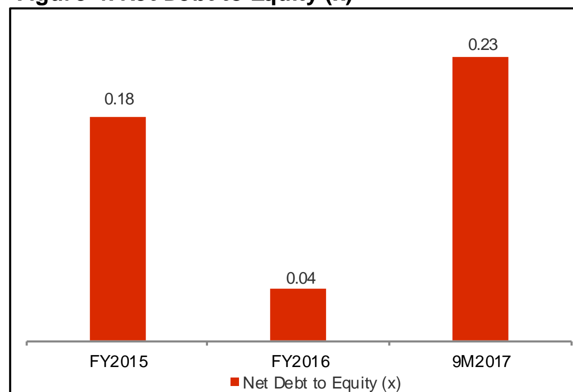
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/06/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	65.9	8.2%
Unsecured	224.3	28.0%
	290.2	**36.3%**
Amount repayable after a year		
Secured	509.9	63.7%
Unsecured	0.0	0.0%
	509.9	**63.7%**
Total	**800.1**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We believe that the CITSP'20s offer better value compared to the CAPL'20s.

Issuer Profile: Positive (2)

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **CITSP**

Company Profile
Listed in 1963, City Developments Ltd ("CDL") is an international property and hotel conglomerate. CDL has three core business segments – property development, hotel operations and investment properties. CDL's hotel operations are conducted through its ~65%-owned subsidiary, Millennium & Copthorne Hotels plc ("M&C"), while the investment and development property portfolio is Singapore-centric. CDL is a subsidiary of Hong Leong Group Singapore.

City Developments Ltd

Key credit considerations

- **Bellwether for Singapore Residential**: CDL was the top selling developer in Singapore in 2016, having sold 1,017 private residential units for SGD1.25bn sales value (including JV/associates as well as EC). 9M2017 numbers have outpaced this, with 1,056 units sold for a sales value of SGD1.76bn. For 3Q2017, units sold was more than doubled to 365 units with sales at Gramercy Park (37 units), Brownstone EC (31 units), Criterion EC (139 units) and Commonwealth Towers (118 units). The strong sales at Criterion EC highlight the market recovery as the EC launched September 2015, and was only 22% sold as of June 2016. Gramercy Park maintained its strong pace with 153 units out of 174 units sold (as of 5/11/17) while ASP continues to drift higher. Though sales at Gramercy Park have supported segment revenue, deferred payment schemes used to facilitate sales may have resulted in delayed revenue recognition. YTD segment revenue actually declined 22.1% to SGD893mn, largely due to timing issues.

- **Firm local pipeline**: CDL remains bullish, having delayed the launch of its New Futura project (3Q2017 TOP, 124 units) to 1Q2018 to capitalize on the improving sentiment. CDL also decided to launch South Beach Residences (190 units, received TOP end 2016) in 1H2018. Though unsold inventory looks lean at 254 units versus 737 units in 4Q2016, this excludes 203 units at The Residences at W Singapore and 156 units at Nouvel 18 (both held in Profit Participation Schemes) as well as the units at New Futura and South Beach. The pipeline includes the SGD370.1mn Tampines Ave 10 plot and SGD906.7mn Amber Park en-bloc (CDL has 80% stake, with 1H2018 transaction completion). CDL also guided that it would be able to book gains on the Brownstone EC in 4Q2017 (given TOP). Beyond Singapore, there are no sizable projects due for completion for the balance of 2017, and hence contributions would be lower. Note that CDL had monetized 70% of Huang Huayuan and 50% of Eling Residences to China Vanke Co for RMB986mn (completion expected in December 2017). Property development remains the lion's share of PBT at 47% YTD, generating SGD252mn.

- **M&C stabilizing, rental mixed**: Hotel operations were 50% of 9M2017 revenue (though just 27% of PBT). 3Q2017 saw segment revenue increasing 5.0% y/y to SGD445.3mn, with like-for-like RevPar up 0.3% y/y. Revenue was boosted by the reopening of Millennium Hilton New York One UN Plaza and a New Zealand hotel acquisition. Though performance in London was strong, FX swings affected reported revenues. Asia in aggregate still reported negative 2.1% RevPar in constant currency terms. Hotel 9M2017 PBT was up 17.6% y/y given overall stabilization. Rental segment revenue fell 6.1% for 9M2017 on the Exchange Tower divestment, Le Grove renovation and vacancies at Republic Plaza, though offset by the Pullman Munich acquisition. Divestments boosted segment PBT 20.6% to SGD129mn.

- **Transactions drive balance sheet**: In aggregate, 9M2017 EBITDA was SGD983.8mn, flattish compared to 9M2016. Operating cash flow (including interest service) remains fair at SGD493.9mn, while CDL received SGD201.3mn from China Vanke and ~SGD64mn from a Japan office divestment. CDL-HT (consolidated) did a SGD160mn rights issue, which was used to acquire Pullman Munich and Lowry Hotel. CDL had also paid out SGD237.9mn in dividends and paid down SGD461.2mn in net debt during 9M2017. In aggregate though, net gearing improved to 14% (2016: 18%) while interest / EBITDA remains strong at 11.1x. Assuming the successful acquisition of the balance of M&C (~SGD1.28bn impact) and Amber Park stake (~SGD723mn), net gearing would increase to pro-forma 32%. Despite the expected deterioration, CDL's credit profile remains more conservative compared to its peers. Strong domestic residential sales as well as pipeline would support near-term performance. As such, we will retain our Positive (2) Issuer Profile.

City Developments Ltd

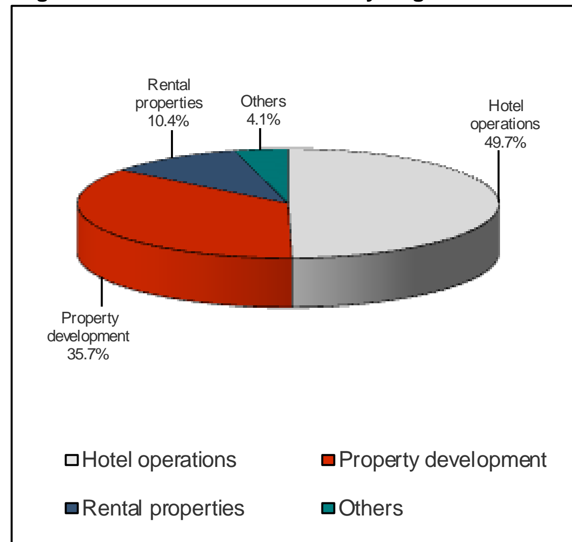
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	3,304.1	3,905.5	2,500.9
EBITDA	1,341.5	1,443.8	983.8
EBIT	1,126.9	1,221.9	821.2
Gross interest expense	167.5	155.3	89.0
Profit Before Tax	985.4	914.0	541.3
Net profit	773.4	653.2	351.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	3,564.9	3,673.0	3,502.3
Total assets	20,318.5	19,797.4	19,864.9
Gross debt	6,482.7	5,737.8	5,189.9
Net debt	2,917.8	2,064.7	1,687.6
Shareholders' equity	11,213.0	11,408.7	11,690.1
Total capitalization	17,695.7	17,146.5	16,880.0
Net capitalization	14,130.8	13,473.4	13,377.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	988.0	875.1	514.1
* CFO	-74.0	1,043.4	493.9
Capex	256.0	227.0	105.8
Acquisitions	227.2	523.9	283.8
Disposals	1,072.2	1,114.4	288.3
Dividend	271.2	237.4	237.9
Free Cash Flow (FCF)	-330.0	816.4	388.1
* FCF Adjusted	243.8	1,169.5	154.8
Key Ratios			
EBITDA margin (%)	40.6	37.0	39.3
Net margin (%)	23.4	16.7	14.1
Gross debt to EBITDA (x)	4.8	4.0	4.0
Net debt to EBITDA (x)	2.2	1.4	1.3
Gross Debt to Equity (x)	0.58	0.50	0.44
Net Debt to Equity (x)	0.26	0.18	0.14
Gross debt/total capitalisation (%)	36.6	33.5	30.7
Net debt/net capitalisation (%)	20.6	15.3	12.6
Cash/current borrowings (x)	1.9	2.1	2.0
EBITDA/Total Interest (x)	8.0	9.3	11.1

Source: Company, OCBC estimates

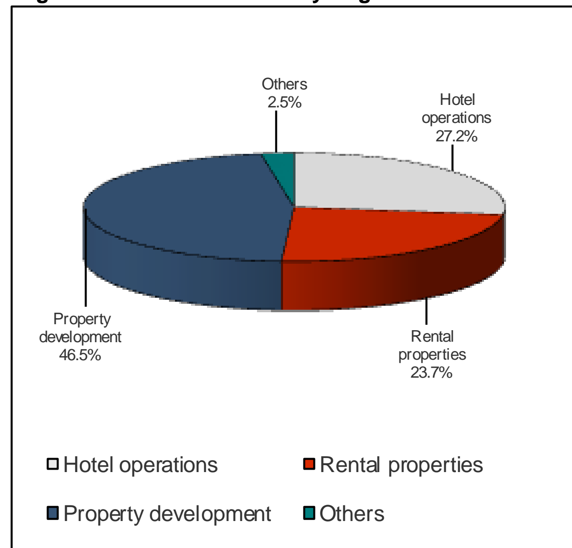
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2017



Source: Company

Figure 2: PBT breakdown by Segment - 9M2017



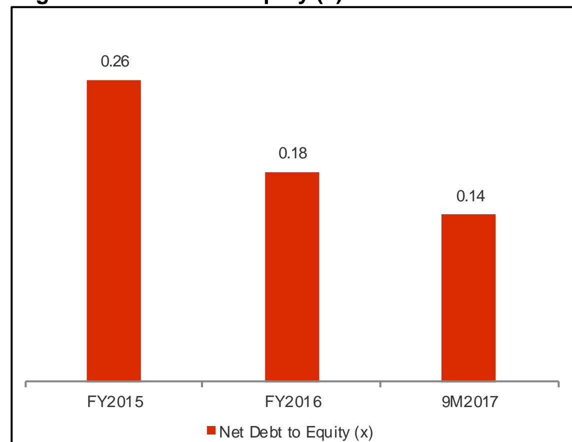
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	300.0	5.7%
Unsecured*	1,431.1	27.3%
	1,731.0	**33.0%**
Amount repayable after a year		
Secured	496.0	9.5%
Unsecured	3,016.6	57.5%
	3,512.6	**67.0%**
Total	**5,243.6**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – The CKHH 3.408% '18s have a very short tenure of only 6 months left and for its credit level, we see the bond trading at better value versus the SUNSP 2.83% '18s. Both are trading at a YTW of 1.8% though CKHH has a 4 notch higher credit rating at A-/A2/A-.

Issuer Profile: Positive (2)

S&P: A-/Positive
Moody's: A2/Stable
Fitch: A-/Stable

Ticker: **CKHH**

Background

CK Hutchison Holdings Ltd ("CKHH"), incorporated in the Cayman Islands and listed in Hong Kong, is a globally diversified conglomerate holding non-property businesses of the Cheung Kong Group. The company's business interests span infrastructure, telecommunications, retail, ports and related services and energy. CKHH was formed after the streamlining of the Cheung Kong and Hutchison Whampoa group of businesses.

CK Hutchison Holdings Ltd

Key credit considerations

- **Overall performance in 1HFY2017 steady:** Including proportionate contribution from JVs and associates, CKHH reported a 5% increase in revenue to HKD190.1bn in HKD terms. EBITDA (including proportionate contribution) in HKD terms was up 2% to HKD45.3bn, largely attributable to growth in 3 Group Europe (eg: Wind Tre joint venture in Italy), acquisitions made in the Infrastructure segment and improvements in the performance of Husky Energy and partly offset by lower contribution from the telecommunications business in Asia. There are 22 main business segments which make up CKHH's proportionate EBITDA, two of which contribute more than 10% to proportionate EBITDA. UK Infrastructure contributes one-fifth and (2) Europe (excluding UK) telecommunications (ie: 3 Group Europe) contributes 17%. The Infrastructure business mainly consists of CKHH's 72%-stake in Cheung Kong Infrastructure ("CKI"). Going forward we expect CKI's reliance on income from the UK to decrease, following the DUET Group acquisition and even more so assuming the completion of Ista (a European smart metering business) and Reliance LP (a heating, cooling and water services company in Canada).

- **Operating cash flow steady, Infrastructure forms bulk of investing outflows:** We sum up actual dividends received from associates and joint ventures with consolidated EBITDA to get a proxy for cash flow from operations before interest, tax and working capital ("CFO"). In 1H2017, CKHH's proxy CFO was HKD31.2bn, relatively steady y/y. Infrastructure contributed 39% to CFO, followed by 3 Group Europe (22%), Retail (19%) and Port (15%). During 1H2017, CFO/Interest paid was 6.8x (1H2016: 6.6x). CKHH reported investing outflows of HKD31.2bn in 1H2017 (up from HKD8.7bn in 1H2016). The increase was largely attributable to CKI's 40%-stake acquisition in DUET Group amounting to HKD17.3bn.

- **Aggregate leverage up but still healthy:** As at 30 June 2017, CKHH's headline net gearing was 0.32x (end-2016: 0.28x) though within historical levels. Refinancing risk at CKHH is minimal, with short term debt of only HKD40.3bn. In end-2016, capex commitments and operating lease commitments at CKHH was HKD67.1bn and it was disclosed that there are no material changes in end-June 2017. Contingent liabilities (inclusive of guarantees to associates and joint ventures, performance and other guarantees) were HKD7.1bn as at 30 June 2017. Adjusting net debt upwards to account for HKD72.1bn in commitments and contingent liabilities, we find adjusted net debt/equity healthy at 0.45x (end-2016: 0.41x).

- **Significant pending acquisitions though credit profile to stay defensible:** Typical transaction structures for CKI's large scale investments involve co-owning of acquired companies with associates and other related parties (including Li family entities outside CKHH). Post 30 June 2017, CKI announced two proposed acquisitions which collectively may cost up to HKD18.9bn. Additionally CKHH's telecommunications segment sold its Hong Kong fixed line business in October 2017 for HKD14.5bn in cash. CKI's two proposed acquisitions (Ista and Reliance LP) are pending completion. CKHH may receive up to ~HKD9.6bn, assuming a special dividend is paid out from the fixed line divestment. An associate of CKI, namely, Power Asset Holding had in July 2017 declared a dividend and we expect CKI's share of the dividend to amount to HKD6.9bn. Assuming both dividends are paid and used to offset impending acquisition cost, this would result in a minimal cash gap of HKD2.4bn. In our view, CKHH's headline net gearing is likely to stay relatively constant at 0.3x. Our base case assumes that the divestment of the fixed line business will reduce CFO by HKD670mn, though offset by contributions from new acquisitions, leading to CFO/Interest paid of 6.8x – 7.0x. We expect the new acquisitions to be cashflow generative from the outset, given they are matured Infrastructure assets.

CK Hutchison Holdings Ltd

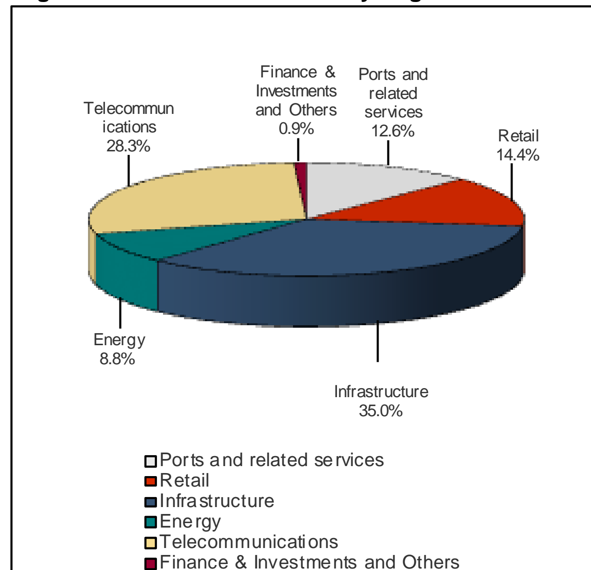
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1H2017
Income Statement (HKD'mn)			
Revenue	166,760	259,842	117,755
EBITDA	34,300	53,326	22,843
EBIT	24,682	37,312	15,605
Gross interest expense	4,566	7,444	4,066
Profit Before Tax	127,775	46,463	20,598
Net profit	118,570	33,008	15,919
Balance Sheet (HKD'mn)			
Cash and bank deposits	121,171	156,270	150,223
Total assets	1,032,944	1,013,465	1,052,838
Gross debt	308,379	307,423	329,751
Net debt	187,208	151,153	179,528
Shareholders' equity	549,111	544,190	558,658
Total capitalization	857,490	851,613	888,409
Net capitalization	736,319	695,343	738,186
Cash Flow (HKD'mn)			
Funds from operations (FFO)	128,188	49,022	23,157
* CFO	44,549	40,338	22,202
Capex	25,482	24,546	8,751
Acquisitions	-88,510	2,486	21,627
Disposals	3,876	3,347	106
Dividends	13,756	16,365	11,451
Free Cash Flow (FCF)	19,067	15,792	13,451
* FCF Adjusted	97,697	288	-19,521
Key Ratios			
EBITDA margin (%)	20.6	20.5	19.4
Net margin (%)	71.1	12.7	13.5
Gross debt to EBITDA (x)	9.0	5.8	7.2
Net debt to EBITDA (x)	5.5	2.8	3.9
Gross Debt to Equity (x)	0.56	0.56	0.59
Net Debt to Equity (x)	0.34	0.28	0.32
Gross debt/total capitalisation (%)	36.0	36.1	37.1
Net debt/net capitalisation (%)	25.4	21.7	24.3
Cash/current borrowings (x)	3.7	2.2	3.7
EBITDA/Total Interest (x)	7.5	7.2	5.6

Source: Company, OCBC estimates

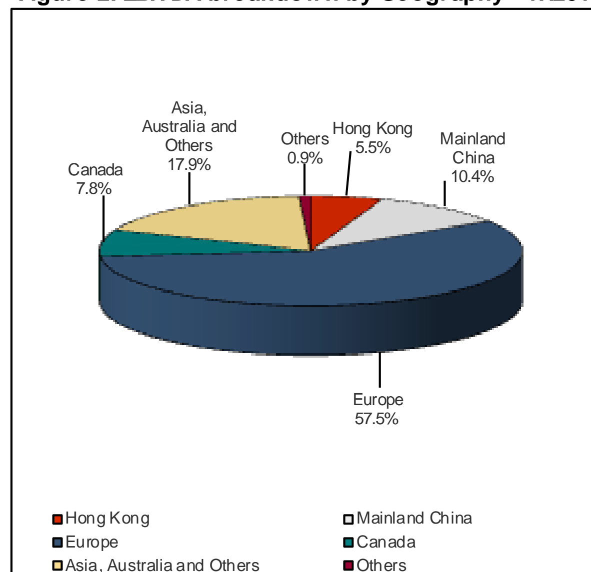
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: EBITDA breakdown by Segment - 1H2017



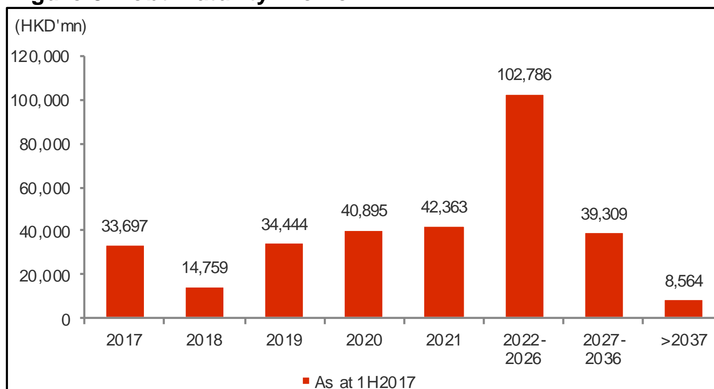
Source: Company | Chart shows proportionate EBITDA

Figure 2: EBITDA breakdown by Geography - 1H2017



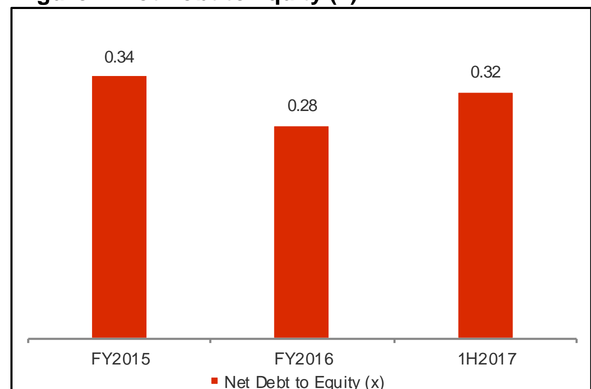
Source: Company | Chart shows proportionate EBITDA

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – Despite the move to investing for future capacity, CMA CGM's proven financial discipline when required gives confidence. The legacy NOLSP'20 and NOLSP'21 offer good carry for short-date paper.

Issuer Profile: Neutral (4)

S&P: B+/Stable

Moody's: B1/Positive

Fitch: Not rated

Ticker: **CMACGM**

Company profile

CMA CGM ("CMA CGM") is the 3rd largest container liner). As CMA CGM completed its acquisition of Neptune Orient Lines Ltd ("NOL") mid-June 2016, going forward financial results of NOL will be limited. As such, the performance of CMA CGM (the parent) will be used as a proxy for NOL's performance. <u>It should be noted that CMA CGM has not provided a corporate guarantee for NOL's existing bonds</u>. However, as a material operating subsidiary of CMA CGM, NOL would likely receive support from CMA CGM.

CMA CGM (Parent of Neptune Orient Lines)

Key credit considerations

- **Deleveraging cycle complete**: CMA CGM had announced the completion of the divestment of 90% of the Global Gateway South ("GGS") terminal in Los Angeles (USA) in December 2017. USD820mn in cash proceeds is expected to be received, and used to further pay down debt as part of CMA CGM's financial deleveraging plan (as communicated during end-2015 as part of the NOL acquisition). This follows the ~USD1.1bn in cash generated in 2016 from the sale and leaseback of 13 vessels as well as scrapping of 8 vessels, which was used to deleverage as well. In aggregate, net gearing had fallen from a peak of 170% (3Q2016) right after the NOL acquisition closed, to 132% (3Q2017) and is expected to fall further to pro-forma 118% assuming debt repayment from port proceeds. The port proceeds, coupled with USD1.49bn in cash balance, would also be useful in meeting CMA CGM's short-term debt of USD1.53bn.

- **Shift to investment mode**: It is worth noting that CMA CGM's strong performance YTD as well as improving container shipping environment had driven management to refocus on growth opportunities. As part of 2Q2017 results, CMA CGM announced that its board had approved for an order of nine 22,000 TEU vessels. The first of these vessels will come into service in 2020. News reported that these vessels were ordered at Shanghai's top two yards, Waigaoqiao and Hudong-Zhonghua, and cost USD133.3mn each, with a total cost of ~USD1.2bn. The vessels will be LNG powered, and hence would meet certain emission standards. CMA CGM's fleet expansion could be driven by 2 factors: First, there has been an industry move towards ever larger mega container ships, for better efficiency as well as due to increasing crowding of port terminals. Second, with the on-going merger between COSCO Shipping (#4 largest liner) and OOCL (#7), the combined fleet would be comparable with CMA CGM's. Ultimately, scale is important in the industry, with consolidation seen over the last 3 years amongst the largest 20 liners. Though the order is sizable and would strain CMA CGM's balance sheet, in mitigation delivery would commence in 2020, which would provide CMA CGM with time to further deleverage.

- **Strong performance, future caveats**: 3Q2017 results were telling, as growth was not driven by the acquisition of NOL (completed in 2Q2016). Instead, the 11.6% y/y increase in volumes carried (almost 4.98mn TEU) as well as a 14.4% y/y increase in average revenue carried per container drove revenue higher by 27.7% y/y to USD5.70bn. This was in spite of the 5.6% decrease in the Shanghai Containerized Freight Index seen during 3Q2017, potentially reflecting CMA CGM's relative pricing power. Core EBIT swung to USD568mn (3Q2016: USD86mn EBIT loss), with core EBIT margins expanding as well to 10.0% (2015: 5.8%). As such, EBITDA surged to USD706.8mn (3Q2016: USD71.8mn). Operating cash flow (including interest service) was USD468.6mn, while FCF was USD281.7mn. Based on 9M2017 EBITDA, interest coverage was 4.8x (2016: 1.2x) while net debt / EBITDA was 3.3x (2016: 13.2x). That said, during 4Q2017, freight rates have continued to be soft (with capacity reported as an issue). Bunker fuel prices have also increased sharply due to the oil rally.

- **Opportunistic balance sheet management**: Access to capital markets remains good, with CMA CGM having called the SGD300mn NOLSP'19s in December 2017, which was financed via its EUR750mn 5.25% 2025 bond issued during 4Q2017. The early redemption of the NOLSP'19s was likely opportunistic, with improving results coupled with the recent credit rating upgrades lifting the CMA CGM curve. CMA CGM's Issuer Profile will be held at Neutral (4), balancing CMA CGM's commitment towards its deleveraging plans versus still high absolute leverage as well as the refocus on growth

CMA CGM SA

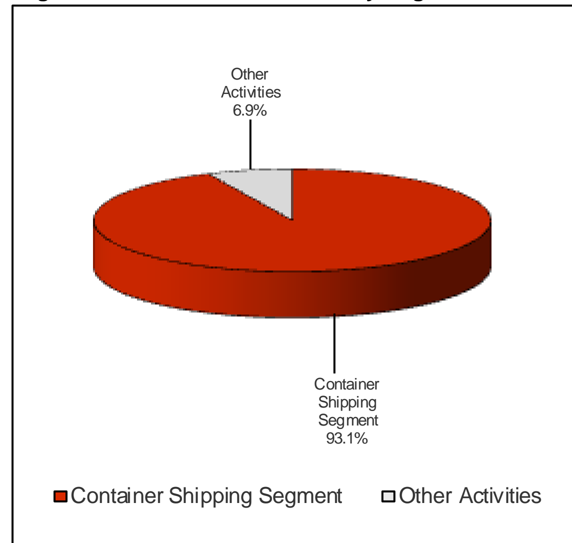
Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	9M2017
Income Statement (USD'mn)			
Revenue	15,674.1	15,977.2	15,632.8
EBITDA	1,253.5	534.8	1,700.7
EBIT	846.0	-36.2	1,238.2
Gross interest expense	291.4	450.0	373.1
Profit Before Tax	672.1	-362.1	700.1
Net profit	566.8	-452.3	628.9
Balance Sheet (USD'mn)			
Cash and bank deposits	1,224.0	1,211.6	1,488.6
Total assets	14,275.2	18,656.5	19,711.6
Gross debt	5,147.6	8,278.2	8,910.7
Net debt	3,923.6	7,066.6	7,422.1
Shareholders' equity	5,405.5	4,927.5	5,612.3
Total capitalization	10,553.1	13,205.7	14,523.0
Net capitalization	9,329.1	11,994.1	13,034.4
Cash Flow (USD'mn)			
Funds from operations (FFO)	974.3	118.7	1,091.4
* CFO	1,123.2	10.2	926.2
Capex	507.6	257.8	394.5
Acquisitions	48.7	2,387.1	11.2
Disposals	92.5	1,769.3	97.6
Dividend	99.1	18.9	13.0
Free Cash Flow (FCF)	615.6	-247.6	531.7
* FCF adjusted	560.3	-884.3	605.1
Key Ratios			
EBITDA margin (%)	8.0	3.3	10.9
Net margin (%)	3.6	-2.8	4.0
Gross debt to EBITDA (x)	4.1	15.5	3.9
Net debt to EBITDA (x)	3.1	13.2	3.3
Gross Debt to Equity (x)	0.95	1.68	1.59
Net Debt to Equity (x)	0.73	1.43	1.32
Gross debt/total capitalisation (%)	48.8	62.7	61.4
Net debt/net capitalisation (%)	42.1	58.9	56.9
Cash/current borrowings (x)	1.7	0.7	1.0
EBITDA/Total Interest (x)	4.3	1.2	4.6

Source: Company, OCBC estimates

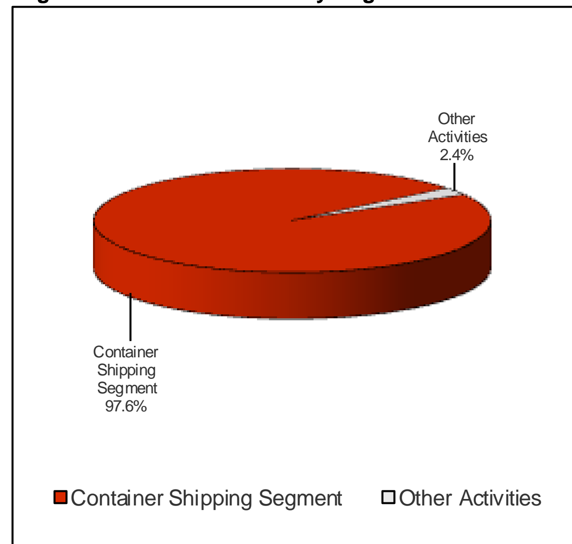
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2017



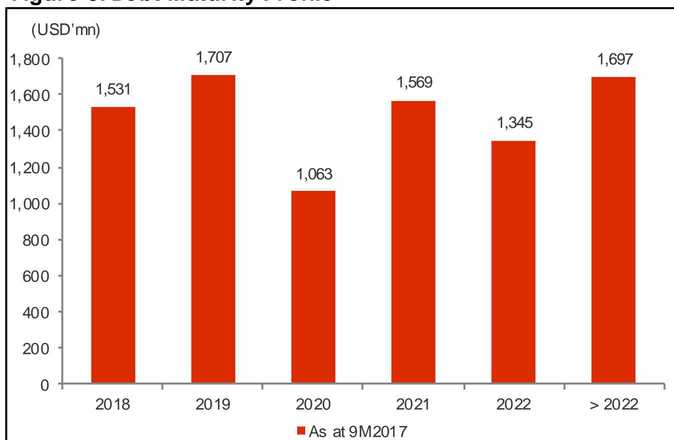
Source: Company | Excludes Inter-segment Elimination

Figure 2: EBIT breakdown by Segment - 9M2017



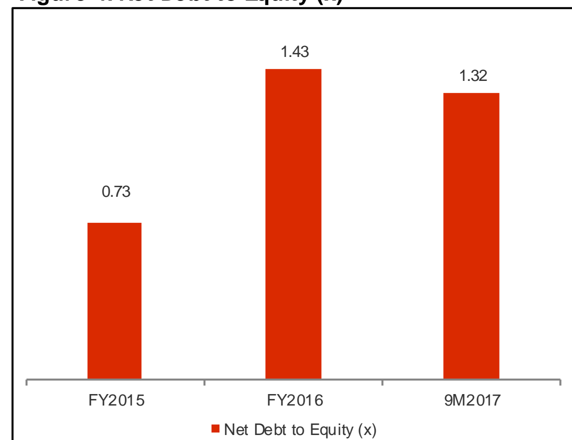
Source: Company | Excludes Inter-segment Elimination

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

CWT International Ltd (Parent of CWT Ltd)

Credit Outlook – The CWTSP curve has adjusted downwards since the acquisition by HNA Group. Barring further significant negative headlines around HNA Group, we see the CWTSP 3.9% '19s with a YTW of 4.8% and CWTSP 4.8% '20s with a YTW of 5.4% as trading at fair value.

Issuer Profile: Negative (6)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **CWTSP**

Background

CWT International Ltd ("CI"), formerly HNA Holding Group Co. Ltd ("HNA HK), was until 2015 known as Shougang Concord Technology Holdings Limited)). CI is the holding company of CWT Ltd ("CWT"), an integrated logistics solutions provider and provider of ancillary businesses, including commodity marketing, financial services and engineering services. CI, listed in Hong Kong is 66.8%-owned by HNA Group Co., Ltd, via its group entities ("HNA"). As at 30 June 2017, a ~13.0%-stake of CI held by HNA has been pledged to China Construction Bank Corporation.

Key credit considerations

- **HNA HK rebranded as CWT International:** Post-acquisition of CWT, HNA representatives were appointed to CWT's board and HNA HK had undergone a name change to CWT International Ltd ("CI"). We have assumed coverage of CI given CWT has been delisted from the SGX. CI was mainly a property-owning company, with an office building in London, eight golf courses in the USA and a golf club and hotel business in China immediately prior to buying CWT. Since then, CWT has become the main asset and profit generator for CI, although we will only see this in CI's consolidated financial statements from FY2017 onwards. We have used and shared CWT's standalone financials in the second page for this report. Where relevant, we have also used CI's standalone financials and our estimates of CWT and CI's combined financials to form our view of CI's Issuer Profile.

- **CWT acquisition likely debt funded:** In 1H2017, CI reported HKD62.8mn (~SGD10.9mn) in profit for the period. A loss of HKD25.6mn (~SGD4.4mn) was reported from continuing operations, while discontinued operations reported profits of HKD88.4mn (~SGD15.3mn) following gains from sale of a legacy business segment. CI's total assets amounted to HKD6.2bn (~SGD1.1bn) as at 30 June 2017 versus CWT's SGD4.1bn in end-September 2017. As at 30 June 2017, including convertible bonds issued, CI's gross debt-to-equity was 0.4x. As at 30 June 2017, the net amount due to CI from related parties (an asset item) was HKD414.5mn (~SGD71.6mn) while amount due by CI to related parties were negligible. With cash balance of only HKD1.5bn (~SGD260.9mn) as at 30 June 2017, our base case assumes that HKD6.6bn (~SGD1.1bn) of external debt and/or cash advances from other HNA group entities (a liability item at CI) was obtained by CI to acquire CWT. As at 30 September 2017, CWT's standalone gross debt-to-equity was higher at 1.5x while net gearing was 1.1x, given the commodity trading nature of its business. We expect gross debt-to-equity at CI to triple on a consolidated basis.

- **Weaker gross profit at CWT though interest coverage improved:** CWT's 9M2017 revenue was up 27% y/y to SGD8.3bn though reported gross profit saw a 9.1% y/y decline to SGD222.1mn. The weakness in 9M2017 was largely attributable to weakness in 3Q2017. In 3Q2017, gross profit was significantly down by 42% y/y to SGD54.6mn (3Q2016: SGD93.7mn). Per CWT's disclosures, there was a few reasons for the decline in gross profit, namely (1) lower gross profit from base metal concentrates trading despite higher volume traded as few deals were finalised and unrealised mark-to-market losses were recognised in 3Q2017; (2) lower contribution from the higher margin financial services segment; (3) start-up costs in relation to CWT's new integrated logistics hub; and (4) lower contribution from contract logistics and freight logistics. Uncertainties surrounding change of ownership could have weighed down CWT's business in 3Q2017. In 9M2017, EBITDA (based on our calculation which does not include other income and other expenses) was SGD138.1mn, a 2.7% y/y fall versus 9M2016. Together with lower finance cost to SGD39.1mn (9M2016: SGD46.4mn), EBITDA/Interest was stronger at 3.5x versus 9M2016's 3.1x.

- **CWT bonds structurally superior versus CI and HNA debt:** While we expect the senior management team of CWT to stay intact, HNA may effect strategic and capital structure changes, including further acquisitions to be bolted onto CI. The two outstanding SGD bonds continue to be assumed at the initial issuing entity, namely CWT. CWT's SGD bondholders sit nearer to the operations and assets of CWT and in a worst case scenario of insolvency, would take priority over debtholders of CI and HNA. We see very little possibility of CI replacing the existing CWT bonds prior to maturity, amidst the current challenging fundraising conditions for HNA.

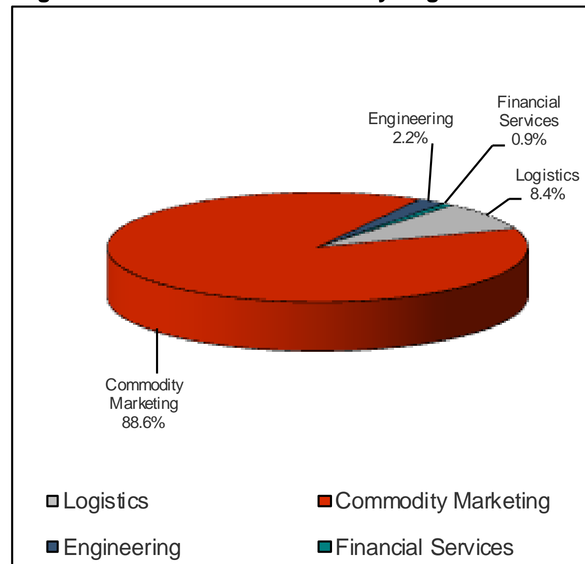
CWT Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	9,931.6	9,251.9	8,332.4
EBITDA	199.8	174.7	138.1
EBIT	152.1	129.3	102.4
Gross interest expense	51.0	56.3	39.1
Profit Before Tax	131.7	104.8	125.0
Net profit	108.9	73.6	100.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	310.3	334.4	334.5
Total assets	4,549.8	5,412.5	4,072.6
Gross debt	1,427.4	1,871.4	1,370.6
Net debt	1,117.1	1,537.0	1,036.1
Shareholders' equity	868.1	904.0	941.9
Total capitalization	2,295.5	2,775.5	2,312.5
Net capitalization	1,985.1	2,441.1	1,978.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	156.6	119.0	136.5
* CFO	317.3	-62.9	354.7
Capex	44.9	221.5	46.7
Acquisitions	0.0	0.0	0.0
Disposals	28.2	211.1	328.5
Dividend	46.2	40.2	21.2
Free Cash Flow (FCF)	272.4	-284.5	307.9
* FCF adjusted	254.3	-113.6	615.3
Key Ratios			
EBITDA margin (%)	2.0	1.9	1.7
Net margin (%)	1.1	0.8	1.2
Gross debt to EBITDA (x)	7.1	10.7	7.4
Net debt to EBITDA (x)	5.6	8.8	5.6
Gross Debt to Equity (x)	1.64	2.07	1.46
Net Debt to Equity (x)	1.29	1.70	1.10
Gross debt/total capitalisation (%)	62.2	67.4	59.3
Net debt/net capitalisation (%)	56.3	63.0	52.4
Cash/current borrowings (x)	0.4	0.2	0.4
EBITDA/Total Interest (x)	3.9	3.1	3.5

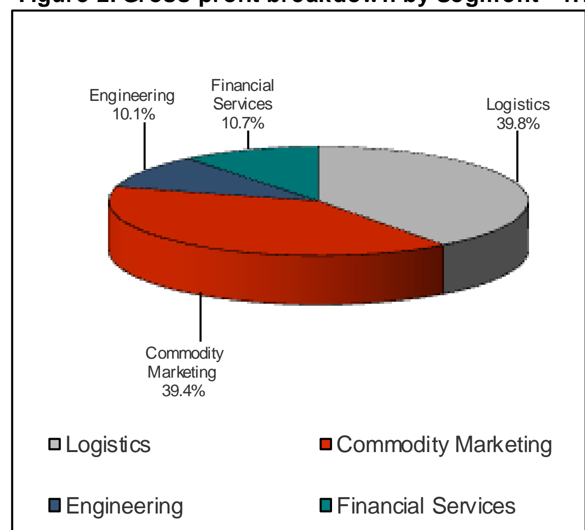
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2017



Source: Company | Excludes Inter-segment Eliminations and one-off items

Figure 2: Gross profit breakdown by Segment - 1H2017



Source: Company

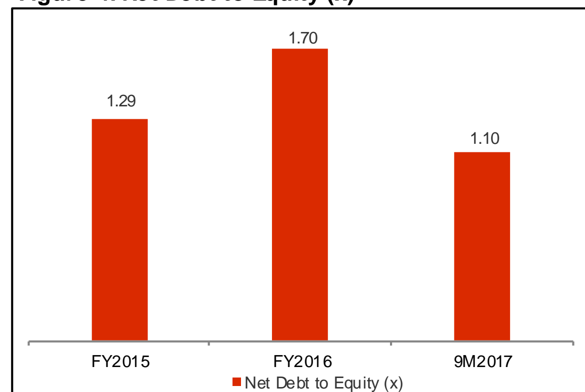
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	905.4	66.1%
Unsecured	2.0	0.1%
	907.4	**66.2%**
Amount repayable after a year		
Secured	262.2	19.1%
Unsecured	201.0	14.7%
	463.2	**33.8%**
Total	**1,370.6**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

ESR-REIT

Credit Outlook – At a YTW of 2.6%, we see the EREIT 3.5% '18s trading fair. We prefer the SBREIT 3.6% '21s with its YTW of 3.9% over the EREIT 3.95% '20s. The SBREIT 3.6% '21s is trading 100bps wider which more than compensates for its lack of credit rating and one year longer maturity.

Issuer Profile: Neutral (4)

S&P: Not rated

Moody's: Baa3/Negative

Fitch: Not rated

Ticker: **EREIT**

Background

Listed in 2006, ESR-REIT ("EREIT") is an industrial REIT in Singapore, with total assets of about SGD1.3bn as at 30 September 2017 though this would have increased to SGD1.7bn following its recent asset movements. The REIT's largest unitholder is Jinquan Tong with ~18.4%-stake. E-Shang Redwood Group, a company backed by private equity firm Warburg Pincus, is now the second largest unitholder with a 12.4%-stake in EREIT and 80%-stake in the EREIT's REIT Manager.

Key credit considerations

- **Decline in net property income generation:** EREIT's gross revenue was down 2.1% y/y to SGD82.5mn in 9M2017 though net property income ("NPI") fell further by 6.5% y/y to SGD58.5mn. The fall in NPI was driven by loss of revenue during the transition phase of properties moving from being single-tenanted to multi-tenanted, increase in property operating expenses, higher maintenance costs, property divestments and one-off costs due to the May 2017 fire at a property. Similarly, EBITDA also declined by 6.8% to SGD52.0mn. Borrowing costs declined by 5.2% to SGD15.2mn, driven by lower transaction costs and lower average debt balance. As such, despite the lower EBITDA generation, EBITDA/Interest only dropped somewhat to 3.4x (9M2016: 3.5x). Gross revenue and NPI in 3Q2017 was SGD27.1mn and SGD19.6mn respectively. Both reported a q/q 2.0% drop versus 2Q2017, driven largely by a decline in performance on a same-store basis and absent revenue from 55 Ubi Avenue 3 which was divested in August 2017 for SGD22.1mn. Earlier EREIT and SSREIT were in discussions with regards to SSREIT's strategic review (eg: possible sale of REIT, SSREIT REIT manager). In November 2017, EREIT announced that it was no longer exploring options with SSREIT.

  Intensification of asset recycling to push up aggregate leverage: As at 30 September 2017, aggregate leverage was at 36.7%. In November 2017, EREIT completed the divestment of 87 Defu Lane 10 and 23 Woodlands Terrace, generating SGD35.2mn in cash proceeds. As at 30 September 2017, all debt at EREIT are unsecured and there is no short term debt due until November 2018 when the SGD155mn bond comes due. On 13 December 2017, EREIT completed the acquisition of 8 Tuas South Lane under a partial sale and leaseback agreement with Hyflux, a global environmental solutions company. The total acquisition including transaction costs and an upfront land premium payable to JTC was SGD111.0mn. We think this was mostly funded by EREIT's maiden perpetual amounting to SGD150mn issued in October 2017. Subsequently in December 2017, EREIT announced its largest acquisition to date, a SGD240.0mn acquisition for an 80%-stake in 7000 Ang Mo Kio Avenue 5 ("7000 AMK"), a hi-tech industrial property. Per EREIT, existing cash balance, proceeds from the perpetuals and bank debt has been used for funding. Immediately post acquisition of 7000 AMK and factoring the acquisition of the Hyflux building, EREIT's unadjusted aggregate leverage is likely to have spiked to ~44%. The REIT is proposing to raise straight equity to recapitalise its balance sheet (deal has yet to occur as of report date). Assuming EREIT raises SGD125.0mn in straight equity, we think unadjusted aggregate leverage may settle at ~40% factoring all the recent asset moves.

- **Recent acquisitions to diversify counterparty credit risk:** Portfolio occupancy was lower at 91.1% as at 30 September 2017 versus 94.7% in end-2016. Post asset enhancement initiatives, 120 Pioneer Road had been re-included back into the portfolio for occupancy calculations while the tenant at 3 Pioneer Sector did not renew the lease in mid-2017. We consider 10-12% of EREIT's 3Q2017 gross rental income as "at-risk". This includes tenants who had pre-terminated, from industries facing generalised weakness and those who had announced plans for consolidation into a single-location, which may eventually see them moving out of EREIT properties. Including the impact of 7000 AMK, Hyflux, will be EREIT's largest tenant contributing 6.5% of EREIT's rental income. Hyflux's bonds and perpetuals though are trading at levels which suggest investors' uncertainty over Hyflux's outlook going forward. The acquisition of 7000 AMK helps diversify counterparty credit risk by introducing three new major tenants (collectively contributing 11.7%) to rental income. One is a data centre operator while the other two are in high value-added manufacturing.

ESR-REIT

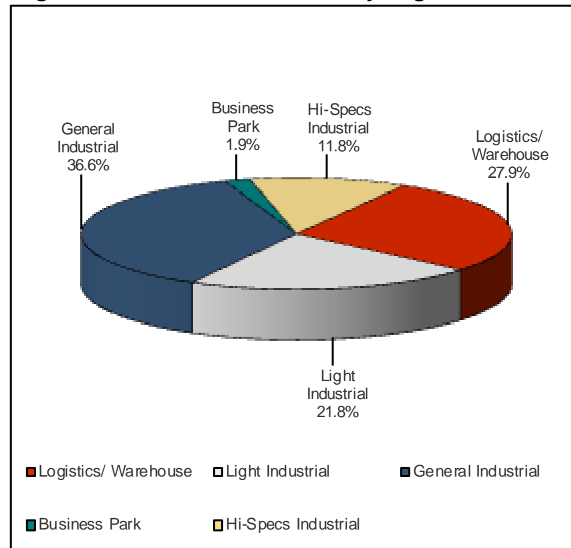
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	112.2	112.1	82.5
EBITDA	76.7	73.3	52.0
EBIT	76.7	73.3	52.0
Gross interest expense	22.2	21.1	15.2
Profit Before Tax	52.5	7.1	36.4
Net profit	52.5	7.1	36.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	2.7	3.7	2.8
Total assets	1,430.9	1,367.0	1,349.0
Gross debt	525.3	509.6	492.8
Net debt	522.6	505.9	490.1
Shareholders' equity	872.9	827.0	827.1
Total capitalization	1,398.2	1,336.6	1,319.9
Net capitalization	1,395.5	1,332.9	1,317.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	52.5	7.1	36.4
* CFO	79.1	68.5	51.1
Capex	21.0	5.6	9.1
Acquisitions	30.1	0.0	0.0
Disposals	0.0	27.0	22.1
Dividends	48.4	52.9	36.3
Free Cash Flow (FCF)	58.1	63.0	42.0
* FCF Adjusted	-20.3	37.0	27.8
Key Ratios			
EBITDA margin (%)	68.3	65.4	63.1
Net margin (%)	46.8	6.3	44.2
Gross debt to EBITDA (x)	6.8	6.9	7.1
Net debt to EBITDA (x)	6.8	6.9	7.1
Gross Debt to Equity (x)	0.60	0.62	0.60
Net Debt to Equity (x)	0.60	0.61	0.59
Gross debt/total capitalisation (%)	37.6	38.1	37.3
Net debt/net capitalisation (%)	37.4	38.0	37.2
Cash/current borrowings (x)	NM	N.A	NM
EBITDA/Total Interest (x)	3.5	3.5	3.4

Source: Company, OCBC estimates

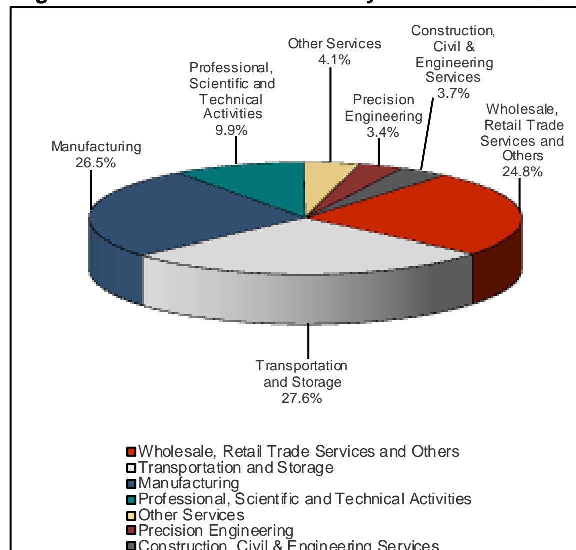
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 3Q2017



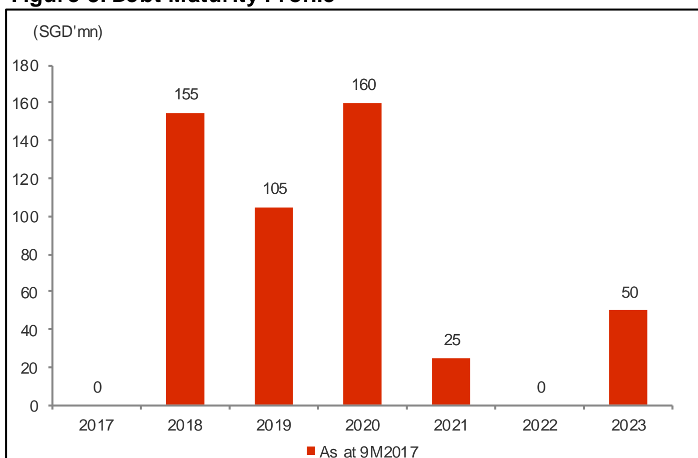
Source: Company

Figure 2: Revenue breakdown by Business - 3Q2017



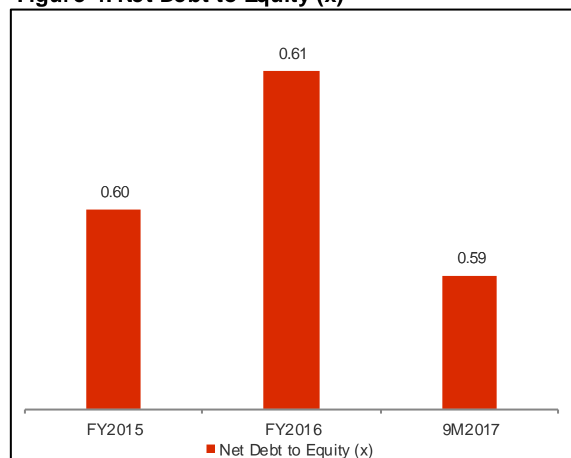
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Ezion Holdings Ltd

Credit Outlook – It is likely that the restructured bonds, when issued, will be illiquid as seen for other restructured bonds (such as ASL's). Only when EZI's fundamentals are on firmer footing would there be a clearing level.

Issuer Profile: Negative (7)

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **EZISP**

Company profile

Ezion Holdings Ltd ("EZI") is a company engaged in the provision of liftboats and service rigs, as well as offshore logistics support services to national oil majors and multinational oil majors on a long-term basis. With over 30 service rigs and 55 offshore logistics support vessels, it operates in South-East Asia, Middle East, West Africa, Central America, Europe and USA. Though the firm was listed since 2000, EZI only entered into the offshore marine industry from April 2007 onwards. The CEO, Chew Thiam Keng, is the largest shareholder with a 10.5% interest.

Key credit considerations

- **Bond restructuring approved**: Noteholders have largely supported EZI's restructuring proposal. Though we had opined that terms could have been better, we believed that on balance the restructuring should be supported. In summary, EZI seeks to exchange the existing senior unsecured bonds of various maturities into either a 7-year senior unsecured bond that pays a redemption premium (22% of noteholders choose this), or a 6-year senior unsecured bond that is convertible into equity (78% of noteholders choose this). In both instances the coupon is drastically reduced to 0.25%. The perpetual security holders were also restructured. Please refer to OCBC Asia Credit - Ezion Credit Update (24 Oct) for more details regarding the restructuring. Next steps would be for EZI to hold an EGM to obtain shareholder approval for conversion rights proposed. This was targeted to be completed in January 2018, though the documents have allowed for the EGM to be held by end-March 2018.

- **Review of assets undergoing:** EZI's management had finally acknowledged that impairment losses on EZI's assets are being assessed, across EZI's underutilized service rigs as well as offshore logistic vessels. Management has also acknowledged long overdue and disputed receivables on their balance sheet, and that these are also being assessed. We had flagged out our concerns over EZI's potential asset impairments over a year ago (refer OCBC Asian Credit Daily - 10 November 2016), and most recently during our review of EZI's debt restructuring exercise (refer OCBC Asia Credit - Ezion Credit Update (24 Oct). Unfortunately, EZI would only finalize the assessment before the release of 4Q2017 results. This would mean however that EZI's 3Q2017 balance sheet figures are less than useful when ascertaining EZI's actual financial status. Given the impairments taken by EZI's peers in the industry, the size of the impairments could be sizable, which could greatly worsen EZI's net gearing from 106% (end-3Q2017). It is likely that impairments have to be taken before any new investors are willing to commit fresh capital to EZI.

- **Performance shows further deterioration**: For 9M2017, revenue slumped 18.7% y/y to USD199.7mn. This was largely due to falling charter rates, drop in utilization of EZI's service rigs as well as further declines in the utilization of EZI's OSVs. Gross profit fell more sharply, declining 67.4% y/y to just USD17.1mn due to sticky COGS (which fell only 5.5%). The declines drove EZI to an operating loss of USD11.6mn (9M2016: USD53.4mn operating profit). EZI had previously benefitted from the relatively longer leases on its service rigs, but these are rolling off, with either the rigs unutilized or entering into contracts with lower charter rates. In October 2017, it was disclosed that only 50% of EZI's liftboats and 45% of service rigs are utilized. In addition, 2/3 of the utilized service rigs are in arrears (the clients owed EZI the charter rates). Operating cash flow generation was also poor at only USD15.6mn (including interest service) compared to USD77.6mn in 9M2016. Coupled with USD50.1mn in capex, FCF was negative USD34.5mn for the period.

- **Liquidity remains tight**: As EZI had also paid down USD108.9mn in net borrowings during 9M2017, the cash gap was funded by EZI drawing down on its cash balance which ended at just USD47.2mn (end-3Q2017). Comparatively, EZI had USD193.0mn in short-term secured borrowings to be met. This is the reason why EZI had in parallel worked with its lenders to structure a tentative 6-year refinancing plan with minimal principal payments. That said, the restructuring remains on-going while EZI's cash flow generation has continued to weaken. We will hold EZI at Negative (7) Issuer Profile.

Ezion Holdings Ltd

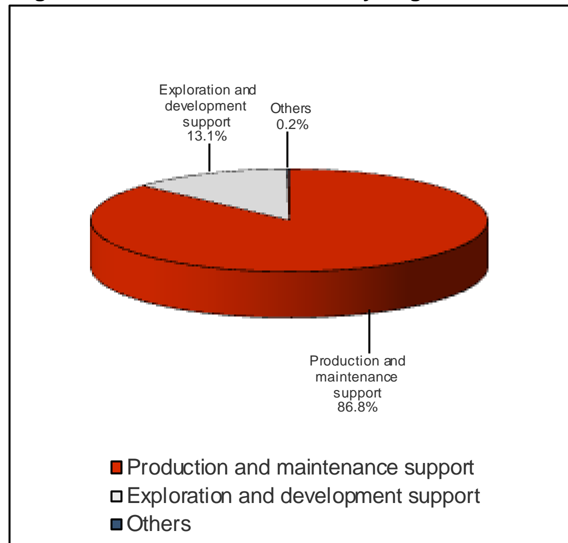
Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	9M2017
Income Statement (USD'mn)			
Revenue	351.1	318.2	199.7
EBITDA	233.8	193.5	114.7
EBIT	99.0	42.9	5.6
Gross interest expense	26.4	32.5	25.9
Profit Before Tax	38.4	-30.9	-27.0
Net profit	36.8	-33.6	-29.0
Balance Sheet (USD'mn)			
Cash and bank deposits	229.8	205.0	47.2
Total assets	3,108.4	3,001.7	2,868.1
Gross debt	1,605.0	1,491.2	1,409.4
Net debt	1,375.3	1,286.2	1,362.2
Shareholders' equity	1,241.3	1,315.4	1,286.4
Total capitalization	2,846.4	2,806.5	2,695.8
Net capitalization	2,616.6	2,601.6	2,648.6
Cash Flow (USD'mn)			
Funds from operations (FFO)	171.7	117.0	80.1
* CFO	171.0	107.5	15.6
Capex	381.9	67.5	50.1
Acquisitions	4.1	28.6	19.1
Disposals	0.0	22.8	0.0
Dividend	1.2	0.0	0.0
Free Cash Flow (FCF)	-210.9	40.0	-34.5
* FCF adjusted	-216.2	34.1	-53.6
Key Ratios			
EBITDA margin (%)	66.6	60.8	57.4
Net margin (%)	10.5	-10.6	-14.5
Gross debt to EBITDA (x)	6.9	7.7	9.2
Net debt to EBITDA (x)	5.9	6.6	8.9
Gross Debt to Equity (x)	1.29	1.13	1.10
Net Debt to Equity (x)	1.11	0.98	1.06
Gross debt/total capitalisation (%)	56.4	53.1	52.3
Net debt/net capitalisation (%)	52.6	49.4	51.4
Cash/current borrowings (x)	0.6	0.6	0.2
EBITDA/Total Interest (x)	8.9	6.0	4.4

Source: Company, OCBC estimates

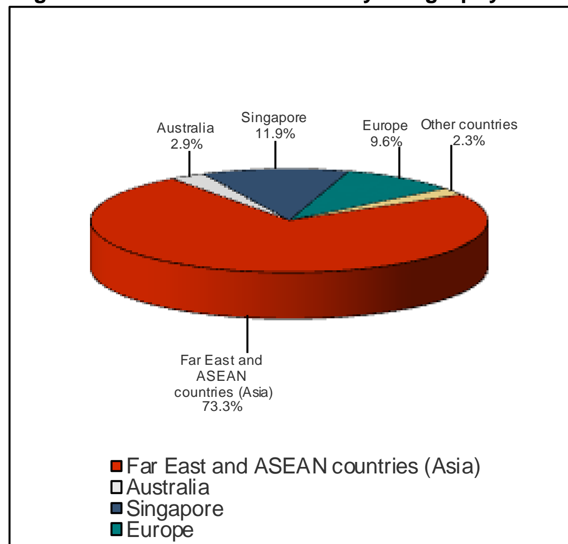
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2016



Source: Company

Figure 2: Revenue breakdown by Geography - FY2016



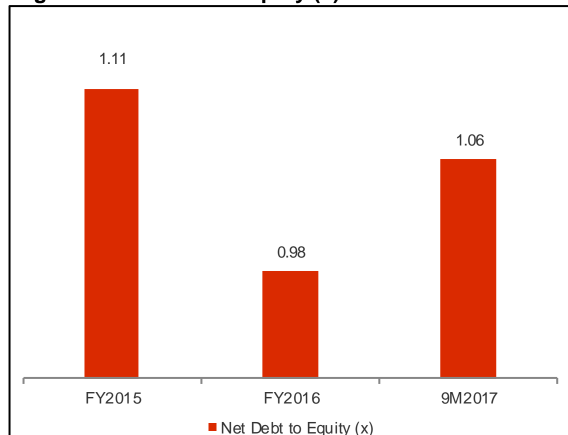
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 31/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	193.0	13.7%
Unsecured	97.3	6.9%
	290.3	**20.6%**
Amount repayable after a year		
Secured	765.1	54.3%
Unsecured	354.0	25.1%
	1,119.1	**79.4%**
Total	**1,409.4**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Fraser and Neave Ltd

Credit Outlook – We think FNNSP 3.09% '22s, FNNSP 2.8% '22s and FNNSP '27s looks fair trading around 2.6%, 2.7% and 3.4% respectively. However, we think FNN may appeal to investors looking for diversification as FNN is a rare F&B issuer in the SGD space.

Issuer Rating: Neutral (4)

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **FNNSP**

Company Profile

Fraser & Neave Ltd ("FNN") is a consumer group engaged in Food & Beverage ("F&B") and Publishing and Printing ("P&P") businesses. FNN is a F&B market leader in Southeast Asia, with brands including 100Plus, F&N Nutrisoy, F&N Seasons, F&N Magnolia and Farmhouse. FNN's P&P business include Marshall Cavendish and Times Publishing. FNN owns 55.5% stake in Fraser & Neave Holdings Bhd ("FNNB") and 19.06% stake in Vietnam Dairy Products ("Vinamilk"). FNN is owned by TCC Assets (59.3%) and Thai Beverage (28.5%), both linked to Thai billionaire Mr Charoen.

Key credit considerations

- **Lacklustre results:** Without the exceptional gains due to Vinamilk, core operating results was distinctively weaker. 4QFY2017 revenue (ending 30 Sep) was lower by 3.6% y/y to SGD468.9mn, dragged down by softer performance in the Beverages segment (-15.4% y/y to SGD105.2mn). While CHANG beer sales and Warburg vending machines saw higher contributions, Malaysia beverages continued to be impacted by weak consumer sentiments and intensified competition. Dairies in Malaysia similarly reported lower revenue (-3% in local currency ("LCL")) due to subdued consumer sentiments though Dairies in Thailand performed better with revenues higher by 4% y/y (+1% in LCL). For the full FY2017, total revenues were lower by 4.1% y/y to SGD1.9bn due to the softening of the Beverages segment (-12.7% y/y to SGD499.3mn). Excluding contributions from Vinamilk, PBIT (core) declined 31.8% y/y to SGD120.4mn.

- **Vinamilk as a core contributor:** Vinamilk will be a key contributor going forward as it has been accounted as an associate since 3QFY2017. We estimate Vinamilk will contribute ~SGD109mn in pre-tax earnings p.a. based on 2017's results. Future contributions will likely be higher as Vinamilk grew rapidly with revenue CAGR of 14.7% between 2012-2016. While FNN was contemplating acquiring stakes in Sabeco, FNN's CFO commented that Sabeco's market price is far in excess of its fair value. If cash will not be used for acquisition of Sabeco, we think FNN may potentially continue to acquire more shares in Vinamilk. With a payout ratio of at least 50%, we expect ~SGD55mn dividends to be upstreamed from Vinamilk. Meanwhile, Jardine Cycle & Carriage ("JCC"), a third party, has taken a 10%-stake in Vinamilk and it remains to be seen if JCC will boost the stake further.

- **Running on a single engine (Dairies), for now:** EBIT margin for Dairies in Thailand improved to 13% (FY2016: 12%), with favourable input costs of milk and packaging, as well as lower advertising and promotions spending. In the Indochina market (e.g. Thailand), FNN successful launched 2 new Bear Brand variants and TEAPOT Tube. This mitigated the fall in revenue contribution by Dairies in Malaysia. Publishing & Printing segment continues to struggle with SGD5mn PBIT losses in FY2017, though management expect that losses may narrow in FY2018, by keeping the cost structure in line with declining revenue. Meanwhile, FNN looks to transform the struggling F&B (Beverages & Dairies) segment in Malaysia.

- **Transforming F&B Malaysia:** FNN has allocated a total of MYR500mn capex for its F&B business in Malaysia (e.g. investments in Evap line, UHT line, Mineral water plant expansion, PET line, Cold Aseptic PET line & warehouse, 600bpm water line, Gable top filling machine) to achieve cost efficiencies and product innovation. Specifically, sustainable opex savings of MYR40mn p.a. is targeted in FY2018 and beyond. We think the performance of the Beverages segment may rebound going forward. We expect raw material costs to decline with a decrease in sugar prices and management expects sales volume to improve in FY2018.

- **HoldCo-OpCo subordination risks:** Most of the operating assets are held in FNNB and Vinamilk. However, subordination risks from FNNB are manageable given its low debt while FNN holds a controlling stake. Risks from Vinamilk are partly mitigated by upstreaming of the majority of the profits via dividends.

- **Healthy credit metrics, for now:** Net gearing remains healthy at 5.4% (FY2016: net cash) even with SGD1.0bn in acquisitions (mainly used to increase stakes in Vinamilk). Gearing may increase if FNN continues to acquire stakes in Vinamilk though this is capped by the gearing ceiling of 80% set by management. Meanwhile, net debt of SGD168.1mn looks healthy compared to the dividends from FNNB (est: ~SGD40mn p.a.) and Vinamilk (est: ~SGD55mn p.a.).

Fraser & Neave Ltd

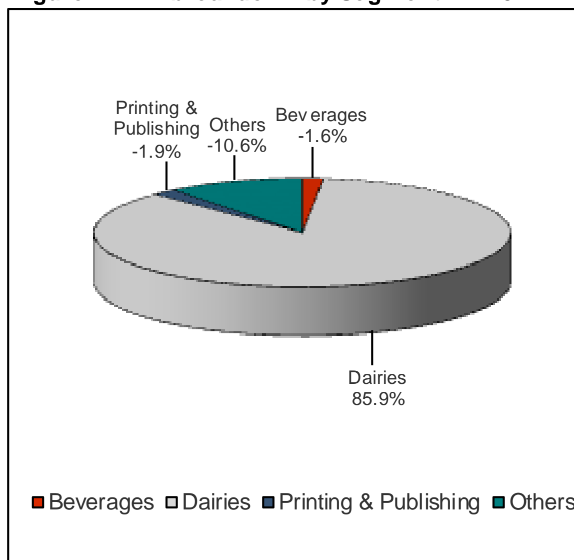
Table 1: Summary Financials

Year End 30th Sep	FY2015	FY2016	FY2017
Income Statement (SGD'mn)			
Revenue	2,121.1	1,978.6	1,898.0
EBITDA	141.7	161.8	142.8
EBIT	74.4	115.0	85.3
Gross interest expense	6.3	5.0	16.2
Profit Before Tax	101.7	188.2	1,343.9
Net profit	63.0	108.1	1,283.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	961.7	1,042.6	1,135.0
Total assets	3,142.9	3,772.9	4,894.7
Gross debt	100.5	137.0	1,303.1
Net debt	-861.2	-905.6	168.1
Shareholders' equity	2,556.1	3,152.5	3,135.7
Total capitalization	2,656.6	3,289.6	4,438.8
Net capitalization	1,694.8	2,247.0	3,303.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	320.2	154.9	1,340.5
CFO	224.8	184.7	71.6
Capex	56.1	65.5	64.7
Acquisitions	11.8	35.8	1,016.2
Disposals	559.5	0.4	1.1
Dividend	101.6	98.9	95.7
Free Cash Flow (FCF)	168.8	119.2	6.8
* FCF adjusted	614.9	-15.1	-1,104.0
Key Ratios			
EBITDA margin (%)	6.7	8.2	7.5
Net margin (%)	3.0	5.5	67.6
Gross debt to EBITDA (x)	0.7	0.8	9.1
Net debt to EBITDA (x)	-6.1	-5.6	1.2
Gross Debt to Equity (x)	0.04	0.04	0.42
Net Debt to Equity (x)	-0.34	-0.29	0.05
Gross debt/total capitalisation (%)	3.8	4.2	29.4
Net debt/net capitalisation (%)	-50.8	-40.3	5.1
Cash/current borrowings (x)	377.0	85.3	1.4
EBITDA/Total Interest (x)	22.5	32.6	8.8

Source: Company, OCBC estimates

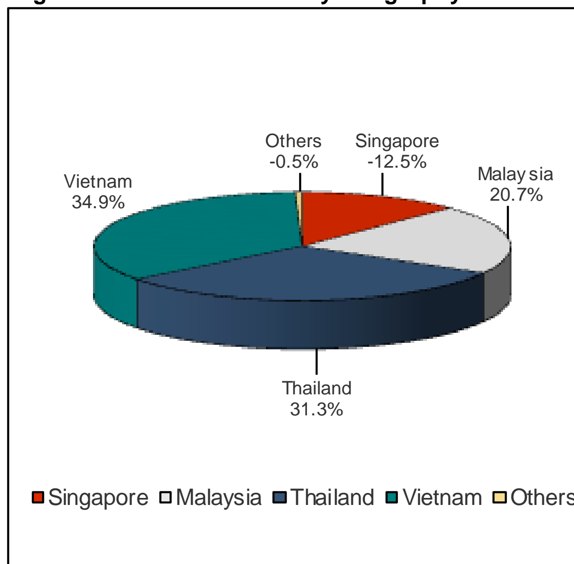
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: EBIT breakdown by Segment - FY2017



Source: Company | Printing, beverages & others made operating losses

Figure 2: EBIT breakdown by Geography - FY2017



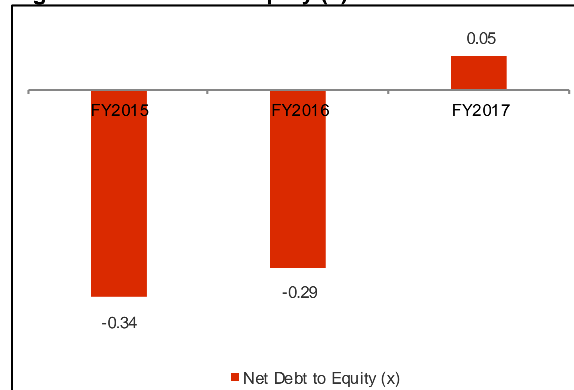
Source: Company | Singapore & others made operating losses

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	785.6	60.3%
	785.6	**60.3%**
Amount repayable after a year		
Secured	0.0	0.0%
Unsecured	517.5	39.7%
	517.5	**39.7%**
Total	**1,303.1**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Frasers Centrepoint Trust

Credit Outlook – Though we consider the FCTSP'24s trading a fair value, relative scarcity of the curve given small issue sizes may lift the bond higher, particularly with fundamentals set to improve with the completion of the Northpoint AEI.

Issuer Profile: Neutral (3)

S&P: BBB+/Stable

Moody's: Baa1/Stable

Fitch: Not rated

Ticker: **FCTSP**

Background

Listed on the SGX in July 2006, Frasers Centrepoint Trust ("FCT") is a pure-play suburban retail REIT in Singapore, sponsored by Frasers Centrepoint Ltd ("FCL", which holds a 42% interest in FCT). Since its IPO, FCT's portfolio value has grown to SGD2.67bn as at end-FY2017. Its portfolio comprises 6 suburban retail malls in Singapore - Causeway Point, Changi City Point, Northpoint, Bedok Point, Anchorpoint, and YewTee Point. FCT also owns a 31.2%-stake in Malaysia-listed Hektar REIT ("H-REIT", a retail focused REIT).

Key credit considerations

- **Negative impact of Northpoint AEI tapering**: FCT reported 4QFY2017 and full-year FY2017 results. For FY2017, revenue was down 1.2% to SGD181.6mn, largely due to the impact of the AEI at Northpoint (which caused occupancy to plunge). Continued poor performance at Bedok Point also impacted FCT (property NPI fell 13.5% to SGD3.66mn) though this was mitigated by its low percentage contribution (2.8% of portfolio NPI). Diving into 4QFY2017 results, gross revenue was up 8.1% y/y to SGD48.2mn (still +7.7% after adjusting for the Yishun 10 Retail Podium acquisition). The strong quarter performance was driven by improving property gross revenue from most of FCT's assets (with the exception of Bedok Point), improving over softer 3QFY2017 performance. There were also signs of the negative impact of Northpoint's AEI has finally bottoming, with property occupancy recovering to 81.6% from 65.9% q/q. This helped boost Northpoint's property income by 22.8% y/y. Northpoint occupancy was better than projected (though we note that management revised projections lower during 3QFY2017). The projected reduction in Northpoint's NLA (resulting from the AEI) was also worsened, reducing by 7.5% (compared to the originally projected 4.0%) due to the creation of additional corridor and common area. Looking forward though, the low base effect and ramping up of AEI reconfigured space should support Northpoint's performance in the near-term. Stronger gross revenue and lower property expenses (at Causeway Point and Changi City Point) also boosted 4QFY2017 NPI higher by 10.0% y/y to SGD35.6mn.

- **Occupancy recovery, rental reversion still positive**: Portfolio occupancy improved distinctly q/q from 87.1% to 92.0%, with material improvements seen in Northpoint (81.6%), Changi City Point (88.5%) and Bedok Point (85.2%). FCT's average rental reversion was +8.3% for 4QFY2017 (for 4.8% of portfolio NLA), recovering from the weak +0.4% seen in 3QFY2017. Causeway Point (84% of the 51,400sqft renewed) drove the outperformance, with +7.6% average rental reversion. Full-year rental reversion (representing 27.7% of portfolio NLA) was +5.1%, sharply lower than the +9.9% seen in FY2016, but commendable given the weak retail environment. FY2018's rental reversion looks manageable as the 27% of portfolio NLA expiring are attributed largely to Causeway Point (40%), Northpoint (14%) and Changi City Point (20%). These three large assets have reported decent positive rental reversions in FY2017.

- **Manageable lease expiry profile**: Lease expires remain well spaced out at ~30% of NLA per year through FY2020, reflecting a WALE of 1.82 years. One area of concern would be the sharp decline in shopper traffic (-9.9% y/y, -5.0% q/q) for the quarter, which management attributed to the AEI at Northpoint. With the AEI largely completed though, we hope to see recoveries in shopper traffic going forward. FCT had indicated that more than 95% of the reconfigured space at Northpoint has been leased and handed over to tenants for fitting out.

- **Portfolio gains stabilized leverage**: Aggregate leverage worsened slightly to 29.0% (FY2016: 28.3%), as total borrowings inched higher, though mitigated by portfolio revaluation gains. Portfolio value increased 6.3% y/y (boosted by the Yishun 10 acquisition as well as the capitalization of the AEI at Northpoint). Cap rate compression resulting from supportive secondary transactions in the retail CRE also helped support valuation. FY2018 debt maturities look manageable with ~19% coming due (which include SGD60mn in bonds and SGD92mn in unsecured loans), as FCT continues to have access to capital markets (FCT just issued SGD70mn in bonds in November). EBITDA / Interest remains healthy at 6.4x (FY2016: 6.6x). We will retain FCT's Issuer Profile at Neutral (3), with the caveat of potential acquisitions (e.g. Northpoint City retail) increasing leverage.

Frasers Centrepoint Trust

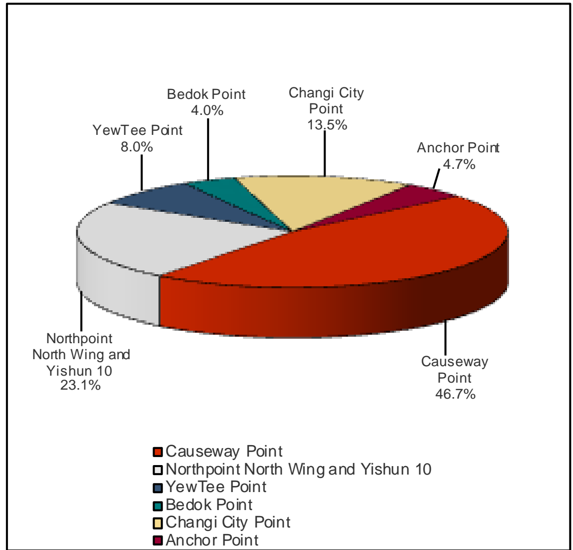
Table 1: Summary Financials

Year Ended 30th Sept	FY2015	FY2016	FY2017
Income Statement (SGD'mn)			
Revenue	189.2	183.8	181.6
EBITDA	115.4	114.1	112.5
EBIT	115.4	114.0	112.5
Gross interest expense	19.3	17.2	17.6
Profit Before Tax	171.5	123.4	193.9
Net profit	171.5	123.4	193.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	16.2	18.7	13.5
Total assets	2,548.7	2,594.5	2,750.9
Gross debt	718.0	734.0	797.5
Net debt	701.8	715.3	784.0
Shareholders' equity	1,754.5	1,775.6	1,872.2
Total capitalization	2,472.5	2,509.6	2,669.7
Net capitalization	2,456.3	2,490.9	2,656.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	171.5	123.5	194.0
* CFO	120.0	126.0	122.2
Capex	5.4	17.5	27.8
Acquisitions	0.0	0.0	45.2
Disposals	0.0	0.0	0.0
Dividends	105.7	108.4	108.2
Free Cash Flow (FCF)	114.6	108.4	94.4
* FCF Adjusted	8.9	0.0	-59.0
Key Ratios			
EBITDA margin (%)	61.0	62.1	62.0
Net margin (%)	90.6	67.2	106.8
Gross debt to EBITDA (x)	6.2	6.4	7.1
Net debt to EBITDA (x)	6.1	6.3	7.0
Gross Debt to Equity (x)	0.41	0.41	0.43
Net Debt to Equity (x)	0.40	0.40	0.42
Gross debt/total capitalisation (%)	29.0	29.2	29.9
Net debt/net capitalisation (%)	28.6	28.7	29.5
Cash/current borrowings (x)	0.1	0.1	0.1
EBITDA/Total Interest (x)	6.0	6.6	6.4

Source: Company, OCBC estimates

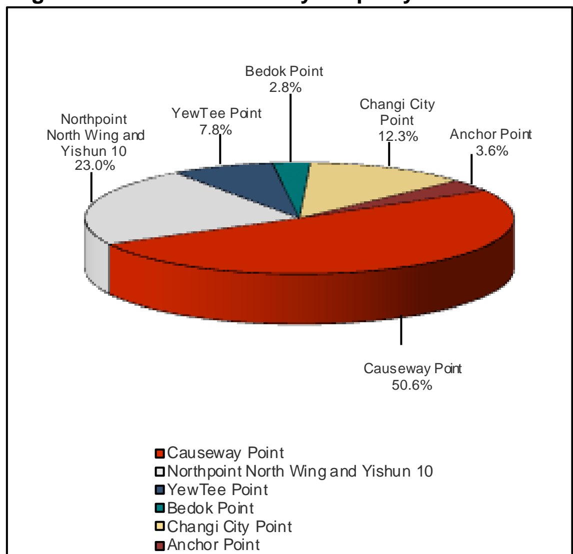
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Property - FY2017



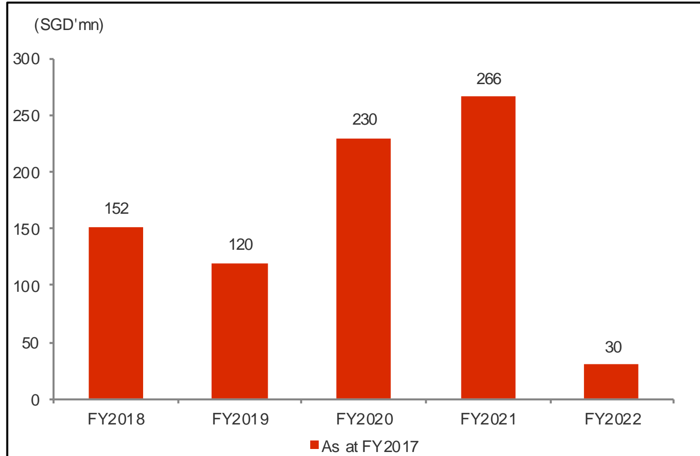
Source: Company

Figure 2: NPI breakdown by Property - FY2017



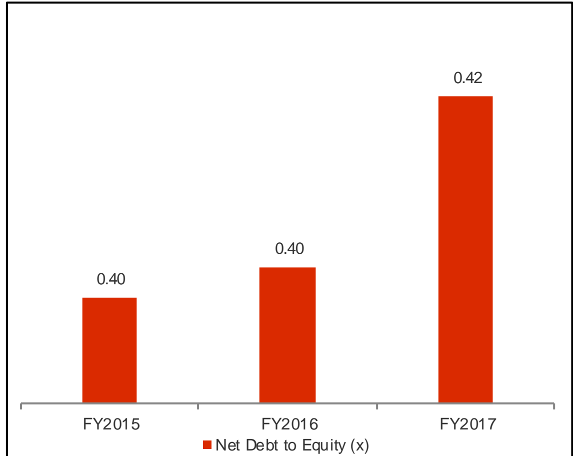
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Frasers Commercial Trust

Credit Outlook – The FCOTSP curve has traded wider relative to peers, potentially due to recent negative headlines. Though we believe the move to be overdone, there may be some events looming given FCOT's new mandates.

Issuer Profile: Neutral (4)

S&P: Not rated

Moody's: Baa2/Negative

Fitch: Not rated

Ticker: **FCOTSP**

Background

Frasers Commercial Trust ("FCOT") is a REIT that holds largely office and business park assets and is sponsored by Frasers Centrepoint Ltd ("FCL", which holds a 26.8% interest in FCOT). FCOT reported a portfolio value of SGD2,071mn (end-FY2017), which comprises of China Square Central ("CSC"), Alexandra Technopark ("ATP") and 55 Market Street in Singapore, as well as 357 Collins Street, Melbourne Caroline Chisholm Centre, Canberra and 50% of Central Park, Perth in Australia

Key credit considerations

- **Singapore assets face transitional pressure**: FCOT's two largest assets, CSC (27% of portfolio value) and ATP (25%) are being affected by idiosyncratic events. For CSC, property NPI had fallen 18.2% over the last two fiscal years due to development of a hotel (developed by FCL). With the hotel only expected to open mid-2019, the negative impact on FCOT (15% of portfolio NPI) is expected to persist, particularly with the recently announced SGD38mn AEI on CSC's retail podium to leverage off expected improvements to traffic. For ATP, it is impacted by the looming departure of its largest tenants, HP Singapore ("HPS", 10.5% of FY2016 portfolio gross rent) and HP Enterprise ("HPE", 7.0%). HPE (17.1% of ATP NLA) had departed in November 2017, while HPS (29.2% of ATP NLA) would exit ~65% of its space by end-April 2018 (the balance by end-2018). Though attempts to refresh the property are on-going with a SGD45mn AEI (completion mid-2018), time is needed for the ~46.3% of ATP NLA to be filled. As such, for FY2018, the hit to FCOT's gross revenue is expected to be material.

- **Australia assets offer growth and stable cash flows**: FCOT's assets in Australia are now 41% of portfolio value, contributing 47% of portfolio NPI. WALE of Australian assets tends to be longer, ranging 3.6 - 7.8 years for FCOT's assets (FY2017 portfolio WALE: 2.6 years). Most of the leases have rental escalation clauses as well. FCOT's sponsor, FCL, could also continue to inject assets given the sizable presence FCL has in the development of commercial real estate in Australia. For example, in FY2015, FCOT had acquired 357 Collins Street from FCL for AUD222.5mn. One caveat would be FX volatility that FCOT faces. For example, FCOT's Australian properties declined SGD103.2mn in value for FY2015, of which SGD73.2mn were driven by translation differences. Though these movements in value are unrealized, they impact the calculation of FCOT's aggregate leverage, and may require FCOT to maintain additional debt headroom to account for the volatility.

- **Recent performance as expected, Europe expansion**: FCOT reported FY2017 results, with gross revenue flat y/y at SGD156.6mn while NPI declined 1.5% y/y to SGD113.8mn. Performance was boosted by higher average occupancy at 357 Collins Street as well as on average stronger AUD supporting Australia contributions, mitigating the weakness seen in the two large Singapore assets. Average committed occupancy had weakened to 85.9% (3QFY2017: 92.6%), driven by the plunge in occupancy at CSC and ATP, driving Singapore average committed occupancy down to 77.8% (3QFY2017: 91.2%), mitigated in part by the increase in Australia committed occupancy. Given the looming departure of HPS as well as further planned vacancies at CSC, the occupancy of Singapore assets would continue to remain weak. WALE had remained stable at 3.4 years. The lease expiry for FY2018 remains challenging with 33.8% of gross rental expiring. Mid-December, it was announced that FCOT would expand its investment mandate to Europe, and will be spending SGD157.4mn for a 50% stake in a UK business park (January 2018 completion).

- **Liquidity and leverage in line:** Aggregate leverage had improved to 34.7% (FY2016: 36.0%), driven by the 4.1% increase in portfolio valuation (stronger AUD was a boon). Average borrowing rate had inched up to 3.06% (FY2016: 3.02%). This, coupled with weaker earnings, caused EBITDA / Interest coverage to decline slightly to 4.0x (FY2016: 4.1x). Debt maturity looks manageable with SGD183mn in near-term debt due, with FCOT issuing bonds three times in FY2017. We are **initiating FCOT with Neutral (4) Issuer Profile,** balancing the relatively lower aggregate leverage against current weakness in its Singapore assets as well as European expansion.

Frasers Commercial Trust

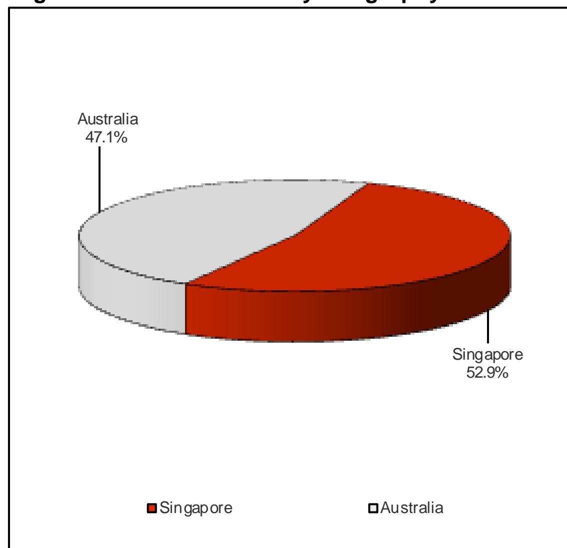
Table 1: Summary Financials

Year Ended 30th Sept	FY2015	FY2016	FY2017
Income Statement (SGD'mn)			
Revenue	142.2	156.5	156.6
EBITDA	87.1	100.3	98.4
EBIT	87.1	100.3	98.4
Gross interest expense	22.1	24.8	24.4
Profit Before Tax	70.0	76.1	135.1
Net profit	75.2	71.2	111.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	62.2	71.5	74.6
Total assets	2,034.4	2,069.4	2,158.9
Gross debt	731.9	742.3	748.0
Net debt	669.6	670.8	673.3
Shareholders' equity	1,206.9	1,228.4	1,289.3
Total capitalization	1,938.7	1,970.7	2,037.3
Net capitalization	1,876.5	1,899.2	1,962.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	75.2	71.3	111.4
* CFO	88.6	101.8	96.8
Capex	2.0	3.0	4.3
Acquisitions	239.7	0.0	0.0
Disposals	44.8	0.0	0.0
Dividends	53.9	65.7	64.5
Free Cash Flow (FCF)	86.6	98.8	92.5
* FCF Adjusted	-162.2	33.1	28.0
Key Ratios			
EBITDA margin (%)	61.3	64.1	62.9
Net margin (%)	52.9	45.5	71.2
Gross debt to EBITDA (x)	8.4	7.4	7.6
Net debt to EBITDA (x)	7.7	6.7	6.8
Gross Debt to Equity (x)	0.61	0.60	0.58
Net Debt to Equity (x)	0.55	0.55	0.52
Gross debt/total capitalisation (%)	37.7	37.7	36.7
Net debt/net capitalisation (%)	35.7	35.3	34.3
Cash/current borrowings (x)	NM	0.4	0.4
EBITDA/Total Interest (x)	3.9	4.1	4.0

Source: Company, OCBC estimates

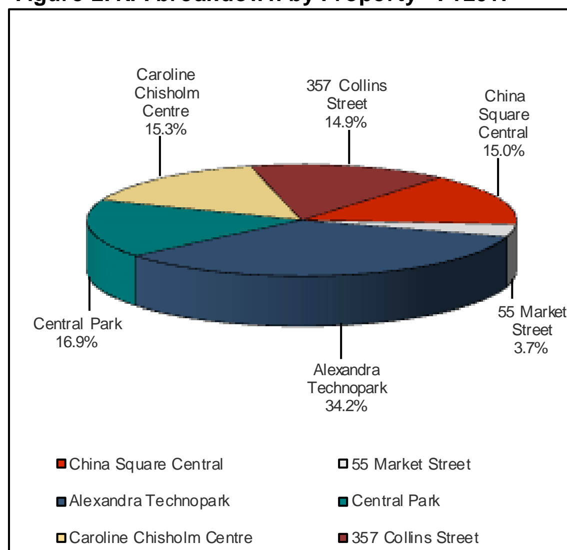
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: NPI breakdown by Geography - FY2017



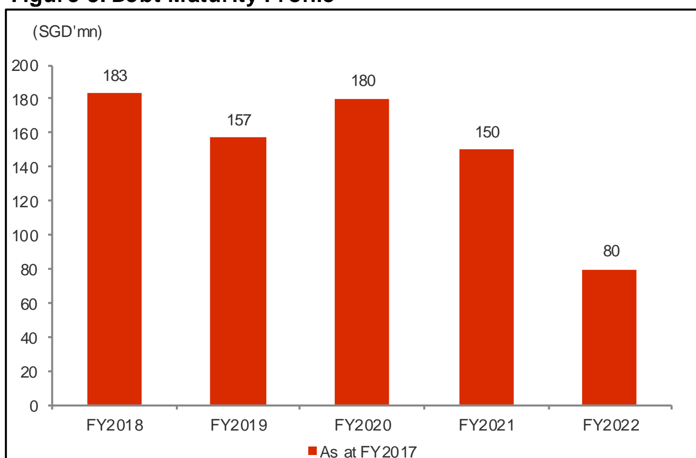
Source: Company

Figure 2: NPI breakdown by Property - FY2017



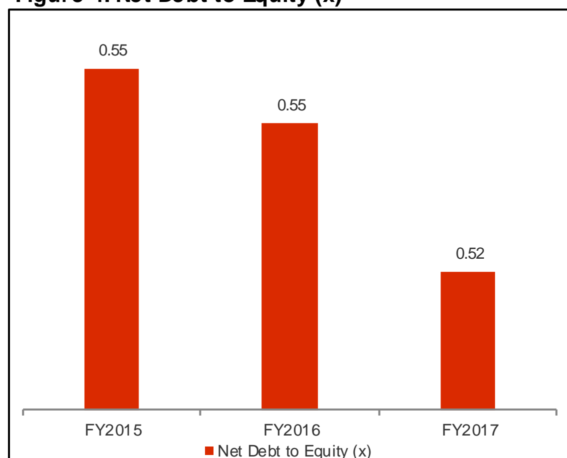
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – .
We see the FHREIT 2.63% '22s as trading fair against the ARTSP 4.205% '22s given the higher credit quality of FHREIT. For investors unconstrained by credit rating, we think the FHREIT 4.45%-PERP provides better value against the MLT 4.18%-PERP. For a 6 month shorter call date and only a one notch lower credit rating, the FHREIT 4.45%-PERP provides a 40bps pick-up.

Issuer Profile: Neutral (3)

S&P: Not rated

Moody's: Baa2/Stable

Fitch: Not rated

Ticker: **FHREIT**

Background

Listed on the SGX in July 2014, Frasers Hospitality Trust ("FHT") is a stapled group comprising a REIT and Business Trust. FHT invests in hospitality assets globally (except Thailand) and currently owns 15 properties across 9 cities with 3,914 rooms. It is sponsored by Frasers Centrepoint Limited ("FCL"), a major Singapore-based property developer. FCL holds a 23% stake whilst TCC Hospitality Limited ("THL") holds 38%. Both FCL and THL are ultimately controlled by Charoen Sirivadhanabhakdi and Khunying Wanna Sirivadhanabhakdi.

Frasers Hospitality Trust

Key credit considerations

- **Full year ended September 2017 ("FY2017") results boosted by acquisitions:** Gross revenue was up 28.4% y/y to SGD158.7mn, led by the full nine month contribution from Maritim Dresden Germany and Novotel Melbourne on Collins ("NOMC"). FHT-BT as the master lessee has taken on the employment and operating contracts in connection with the running of NOMC's hotel business. This includes the hotel management agreement with AccorHotels Group (Novotel is an AccorHotels brand). This has resulted in higher operations and maintenance, marketing and administrative expenses recorded in FY2017 for the stapled structure and NPI margin was lower at 76% (FY2016: 84%). Net property income ("NPI") was SGD120.2mn in FY2017, up 15.3% y/y. In 4QFY2017, gross revenue increased 24.2% y/y to SGD41.6mn. Taking out the impact of NOMC (which was only acquired in 4QFY2016), we estimate that same-store revenue declined 3.4% y/y. We think the drag was led by Japan, Singapore (from lower banquet revenue) and the three properties in Sydney which we think saw gross operating profit ("GOP") decline in local currency terms. FHT's portfolio recorded SGD97.5mn in net change of fair value of investment properties, largely from overseas assets.

- **Interest coverage stronger:** FHT generated SGD104.5mn in EBITDA in FY2017, up 15.9% y/y. Finance cost was relatively flat at SGD19.1mn. Effective cost of borrowing stayed relatively flat during the financial year and was 2.6% as at 30 September 2017. As a result of higher EBITDA, we find unadjusted EBITDA/Interest at 5.5x (FY2016: 4.7x). Assuming FHT pays out ~SGD4.5mn p.a. in perpetual distribution and assuming 50% of such distribution as interest, we find adjusted EBTIDA/Interest at 4.9x. The use of perpetuals at FHT is minimal, at only 4.1% of total capital as at 30 September 2017.

- **Aggregate leverage manageable:** As at 30 September 2017, unadjusted aggregate leverage was 32.0%, reduced from the 34.1% as at 30 June 2017 and 5.7pt lower than the 37.7% when the financial year started. This was due to the expansion of asset base (acquisition of NOMC) which was equity-funded and the uplift in valuation of existing properties. Adjusting 50% of its perpetuals as debt, we find adjusted aggregate leverage at only 34%. FHT is undergoing a comprehensive renovation of Novotel Rockford Darling Harbour (targeted to finish in the first half of calendar 2018). Going forward, we expect FHT to progressively carry out asset enhancement initiatives ("AEI") though we do not expect these to unduly stress its balance sheet. FHT has committed up to SGD53.1mn towards AEI of the retail component at ANA Crowne Plaza. When the retail component stabilizes (and in any case, no later than 31 December 2023), the Master Lease would be terminated and the SGD53.1mn would need to be paid by FHT. The transaction represents an off-balance sheet capital commitment for FHT for now, with no immediate cash outlay.

- **Lumpiness in 2019 refinancing partly resolved:** As at 30 September 2017, FHT faced SGD124.7mn in short term debt coming due in 2018 and SGD558.8mn in the following year. In November 2017, FHT had raise SGD120mn in bonds with maturity date in 2024 and subsequently used the bond proceeds to complete a partial repayment of bank debt amounting to SGD110mn. Originally the bank debt would mature in July 2019 and these have been extended. Following the partial repayment, weighted average debt maturity has been extended to 2.7 years (2.1 years as at 30 September 2017). Concurrently, FHT shared that its gross debt level was SGD760.0mn as at 14 November 2017 (down SGD50.9mn from end-September 2017) and we think debt was paid down by FHT's existing cash balance. Secured debt was minimal at SGD30.5mn and represented only 1.2% of FHT's total assets. We see ample financial flexibility at FHT to raise secured debt, if need be, as only Westin Kuala Lumpur has been used as security so far.

Frasers Hospitality Trust

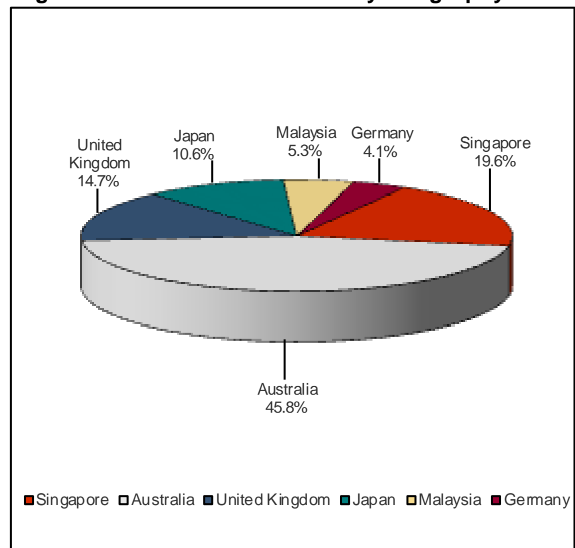
Table 1: Summary Financials

Year Ended 30th Sep	FY2015	FY2016	FY2017
Income Statement (SGD'mn)			
Revenue	78.6	123.6	158.7
EBITDA	55.9	90.2	104.5
EBIT	55.9	90.2	98.8
Gross interest expense	13.4	19.1	19.1
Profit Before Tax	102.9	78.7	185.5
Net profit	87.3	62.1	156.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	52.3	64.4	79.8
Total assets	2,031.7	2,161.0	2,533.9
Gross debt	785.0	810.0	810.9
Net debt	732.7	745.6	731.2
Shareholders' equity	1,172.3	1,244.2	1,606.2
Total capitalization	1,957.3	2,054.2	2,417.1
Net capitalization	1,905.0	1,989.8	2,337.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	87.3	62.1	162.4
* CFO	125.4	107.8	113.4
Capex	13.1	0.0	0.4
Acquisitions	243.6	102.3	246.9
Disposals	0.0	0.0	0.0
Dividends	71.0	63.6	94.1
Free Cash Flow (FCF)	112.3	107.8	113.0
* FCF Adjusted	-202.3	-58.1	-227.9
Key Ratios			
EBITDA margin (%)	71.2	73.0	65.9
Net margin (%)	111.2	50.2	98.6
Gross debt to EBITDA (x)	10.5	9.0	7.8
Net debt to EBITDA (x)	9.8	8.3	7.0
Gross Debt to Equity (x)	0.67	0.65	0.50
Net Debt to Equity (x)	0.63	0.60	0.46
Gross debt/total capitalisation (%)	40.1	39.4	33.6
Net debt/net capitalisation (%)	38.5	37.5	31.3
Cash/current borrowings (x)	NM	0.5	0.6
EBITDA/Total Interest (x)	4.2	4.7	5.5

Source: Company, OCBC estimates

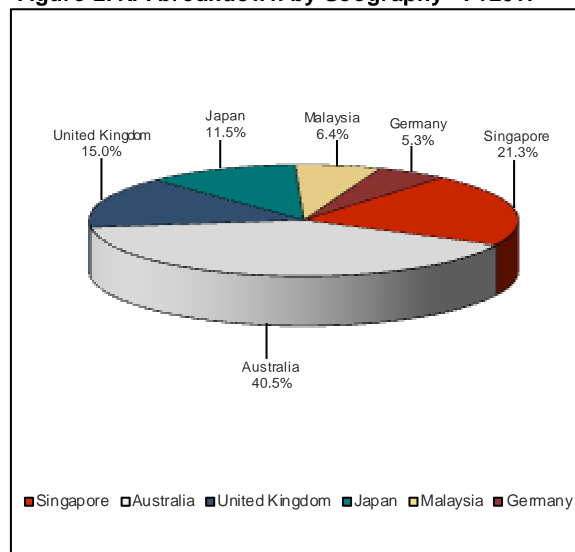
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Geography - FY2017



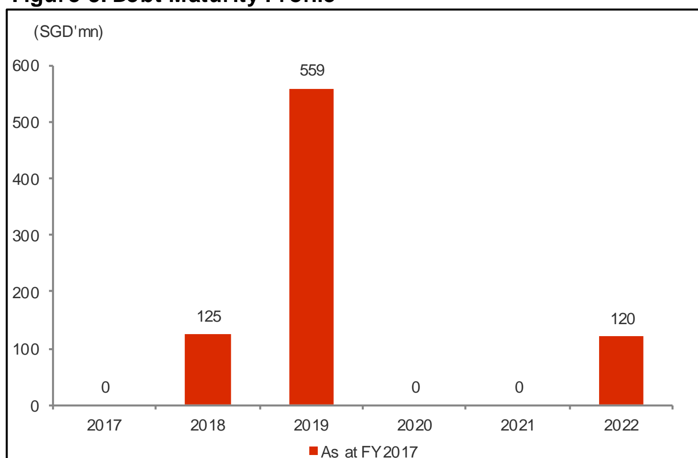
Source: Company

Figure 2: NPI breakdown by Geography - FY2017



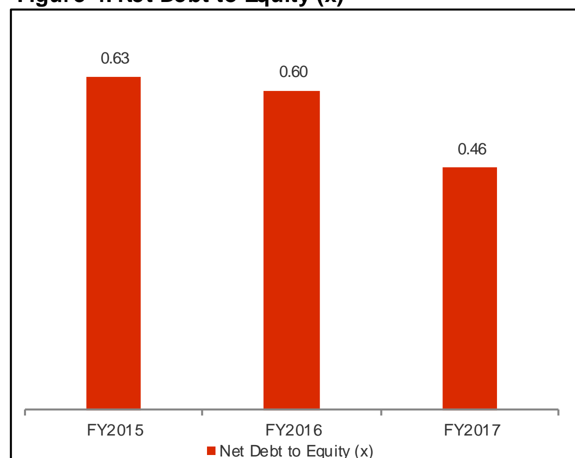
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – While prices have corrected post the trading update in Dec 2017, we are wary of potential overhang from uncertainties over the outlook of occupancy. As such, we stay Neutral on GEMAU '19s for now and look to the full 2017 results for further clarity on G8's operating performance.

Issuer Profile: Neutral (5)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **GEMAU**

Company Profile

G8 Education Ltd ("G8") is the largest for profit child care centre operator in Australia. Previously known as Early Learning Services Ltd in 2007, the group was renamed to G8 after the merger with Payce Child Care Pty Ltd. Following a series of acquisitions thereafter, G8 operates 478 centres across various cities in Australia and 20 centres in Singapore under 24 brands. The largest shareholders include Paradice Investment (5.0%) and Vanguard Group (3.8%). G8 has a market capitalisation of AUD1.6bn as of 8 Jan 2018.

G8 Education Ltd

Key credit considerations

- **Decent 1H2017 results but full year results forewarned to be weaker than originally expected:** 1H2017 results were decent, with revenue increasing 2.9% y/y to AUD368.3mn. Growth was mainly due to acquisitions made in 2016 (additional contribution: AUD17.5mn) and 1H2017 (additional AUD3mn), though there was a revenue reduction in like-for-like ("LFL") centres of AUD10.3mn as the fee increases were more than offset by lower occupancy, increased discounts and reduced Long Day Care Professional Development Programme ("LDCPDP") funding. Net profit surged 22.6% y/y to AUD30.5mn due mainly to a reduction in finance costs (-38% y/y to AUD16.2mn) while G8 has also repaid AUD70mn of 7.65% fixed AUD notes, which will save AUD5.4mn p.a. However, as per a trading update in Nov 2017, G8 has revised downwards its forecast of underlying EBIT for FY2017 to AUD160mn (from EBIT of mid-AUD170mn forecasted in Aug 2017) due mainly to slowing occupancy growth and additional AUD4mn in expenses - due to change in staffing ratios and acceleration of staff training.

- **Pressure on occupancy to persist in the near-term:** While 1H2017 reported higher y/y occupancy growth, the trading update in Nov 2017 forecasted FY2017 occupancy lower at 77% (FY2016: 79.7%) due to supply issues in Western Sydney, Gold Coast, East Brisbane and Inner Melbourne. Sluggish wage growth and employment conditions in North Queensland have also suppressed demand. New supply may continue to emerge in Sydney – directly pressuring an estimated 37% of G8's centres which are in Sydney. G8 expects conditions to remain challenging over 4Q2017-2Q2018. Other than supply issues, demand is also curbed as fees have escalated while there has been no increment in child care rebate since 2012. However, G8 may see a respite as child care funding would increase under the 'Jobs for Families Child Care Package' after Jul 2018.

- **Will G8 tone down its acquisition rate along with management changes?:** G8 has paid AUD8.6mn in 1H2017 for acquisitions. In 2H2017 G8 announced that it will be acquiring a portfolio of 19 existing early education and childcare centres in Australia for AUD27mn. As such, G8 may fall behind its AUD80mn acquisition target (set in 2016) for 2017. With the changes in management in 2017, it remains to be seen if G8 will still go ahead with the planned AUD200mn acquisition over 2017-19 for 49 child care centres around Australia. According to Think Childcare Ltd, which also owns and operates long day childcare facilities in Australia, it is seeing a number of new childcare centre projects being cancelled due to the declining acquisition appetite of G8 and other rivals.

- **Manageable credit metrics:** 1H2017 net debt/EBITDA improved to 1.3x (2016: 2.0x), due to a reduction in net debt following the AUD195mn equity raising. However, G8 does not own the properties of the day care centres. If we include the AUD560.1mn commitments for non-cancellable leases, (net debt plus commitments)/EBITDA would be 9.7x. As 77.5% of G8's total assets are made up of goodwill, we do not focus on net gearing ratios. We think leverage may increase as G8 looks to acquire more centres, though G8 may also consider simultaneous divestments (e.g. divested 17 centres in 1H2017). Though credit metrics look manageable for now, we remain wary of rising vacancy rates, which may hinder G8 from raising prices (to pass on costs as employee and other costs are increasing). G8's good liquidity profile helps provide some mitigation to possible weaker margins going forward.

- **Good liquidity profile:** In addition to the AUD195mn equity raised in 1H2017, G8 has finalised a AUD200mn 3-year club bank facility on 18 Aug 2017 to refinance the existing AUD50mn debt facility. There is minimal debt maturing by 2018, with only GEMAU '19s as the next substantial debt due.

G8 Education Ltd

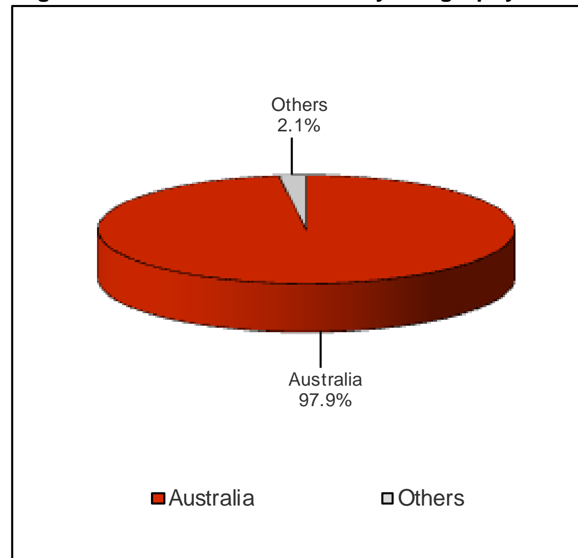
Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	1H2017
Income Statement (AUD'mn)			
Revenue	689.4	775.0	368.3
EBITDA	176.0	195.1	79.3
EBIT	166.6	183.4	72.8
Gross interest expense	40.3	47.1	16.2
Profit Before Tax	122.8	114.7	44.2
Net profit	88.6	80.3	30.5
Balance Sheet (AUD'mn)			
Cash and bank deposits	193.8	26.5	160.7
Total assets	1,234.2	1,173.2	1,336.6
Gross debt	516.3	410.6	369.7
Net debt	322.5	384.2	209.0
Shareholders' equity	602.8	625.9	822.2
Total capitalization	1,119.1	1,036.5	1,191.9
Net capitalization	925.3	1,010.1	1,031.1
Cash Flow (AUD'mn)			
Funds from operations (FFO)	98.0	92.0	37.0
CFO	95.1	108.6	24.7
Capex	21.1	25.0	7.3
Acquisitions	128.9	66.7	8.6
Disposals	0.0	0.0	0.0
Dividend	53.2	58.0	29.2
Free Cash Flow (FCF)	74.0	83.6	17.4
* FCF adjusted	-108.2	-41.1	-20.4
Key Ratios			
EBITDA margin (%)	25.5	25.2	21.5
Net margin (%)	12.8	10.4	8.3
Gross debt to EBITDA (x)	2.9	2.1	2.3
Net debt to EBITDA (x)	1.8	2.0	1.3
Gross Debt to Equity (x)	0.86	0.66	0.45
Net Debt to Equity (x)	0.54	0.61	0.25
Gross debt/total capitalisation (%)	46.1	39.6	31.0
Net debt/net capitalisation (%)	34.9	38.0	20.3
Cash/current borrowings (x)	1.3	NM	3.2
EBITDA/Total Interest (x)	4.4	4.4	4.9

Source: Company, OCBC estimates

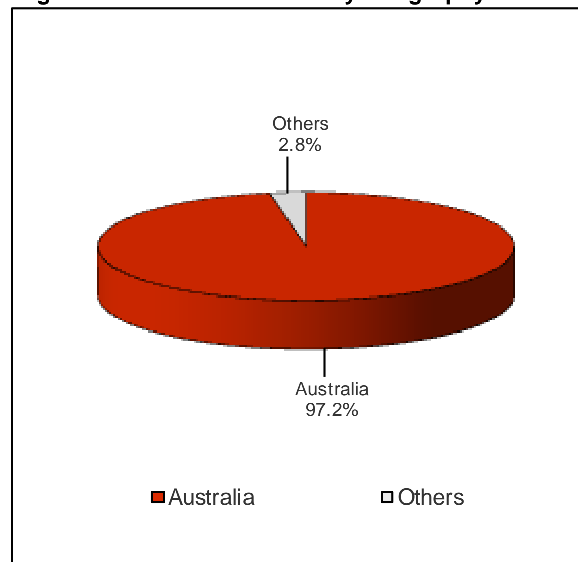
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Geography - 1H2017



Source: Company

Figure 2: Asset breakdown by Geography - 1H2017



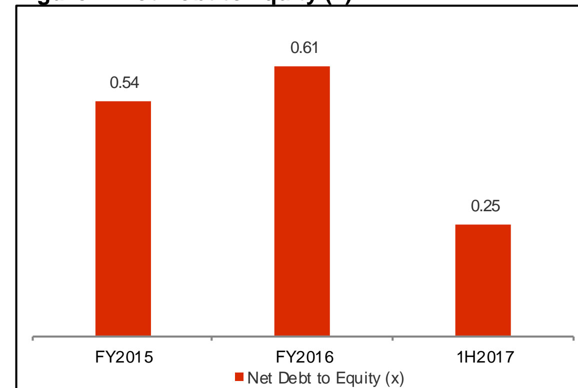
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (AUD'mn)	As at 30/06/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	49.6	13.4%
	49.6	**13.4%**
Amount repayable after a year		
Secured	0.0	0.0%
Unsecured	320.1	86.6%
	320.1	**86.6%**
Total	**369.7**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Golden Agri-Resources Ltd

Credit Outlook – At a YTW of 3.6%, we see the GGR 5.5% '18s as trading at good value against its agriculture peer OLAMSP 6.0% '18s which is trading at YTW 2.4%. We see refinancing risk at GGR as manageable. We have both at the same issuer profile.

Issuer Profile: Neutral (5)

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **GGRSP**

Background

Golden Agri-Resources Ltd ("GGR") is the world's second largest palm oil company with 486,684 ha of palm oil plantations in Indonesia. The company's integrated operations include oil palm cultivation, crude palm oil ("CPO") and palm kernel processing and downstream refining to produce consumer products such as cooking oil, margarine and shortening. The company is ~50.4%-owned by the Widjaja family and is listed on the SGX with a market cap of SGD4.9bn as at 8 January 2018.

Key credit considerations

- **Stronger 9M2017 EBITDA generation:** GGR's revenue increased 10.1% y/y to USD5.6bn while reported cost of sales only increased by 8.8% y/y to USD4.7bn. Selling, general and administrative expenses also increased, though only at 5.6% y/y collectively. The stronger performance was led by higher average crude palm oil ("CPO") price and the recovery in palm production. EBITDA (per company's calculation) increased 29.3% to USD508.3mn while financial expenses was higher in 9M2017 at USD102.8mn (9M2016: USD96.4mn), driven by higher cost of debt. The strong EBITDA generation led to an improvement in EBITDA/Interest to 4.9x in 9M2017 (9M2016: 4.1x). A foreign exchange loss, significantly lower net gain from changes in fair value of biological assets and lower share of results of joint ventures, led profit before tax to grow only by 2.7% y/y to USD146.6mn.

- **Growth in Plantation and Palm Oil Mills while margin compressed in the downstream:** In 9M2017, the plantation segment saw a 58% y/y growth in EBITDA to USD378.2mn (74% contribution to total EBITDA). In 3Q2017, CPO FOB price was USD663 per MT (down 1% q/q). We are less concerned over the q/q price drop. In our view the lower prices was driven by increase in palm product output, as demand has been resilient. GGR produced 15.6% q/q more in palm product output during 3Q2017. OCBC's Commodities Economist has upgraded projections of CPO prices to MYR3,000 (~USD734 per MT) by end-2017, with prices edging higher into 2018. Per management, GGR is able to pass increases in CPO prices to buyers of many of its downstream products. In 9M2017, revenue for the Palm and Lauric segment was USD4.9bn (up 11.0%) on only a 2.4% increase in sales volume. Segmental EBITDA though, declined 10.2% to USD122mn. EBITDA margin declined to 2.5% in 9M2017 (9M2016: 3.1%). While this is half of GGR's longer term target, it is still within its expectation of 2-3% EBITDA margin for the year.

- **Partial disposal in Oilseeds segment helps unlock cash:** Sales volume declined 1.4% y/y in 9M2017 while Oilseeds EBITDA was reported at USD8.0mn. In November 2017, GGR announced that it has entered into an agreement to sell its Tianjin oilseeds business in China to Louis Dreyfus for USD111mn. The transaction is subject to completion adjustments and governmental approvals. This asset has been a non-core business for GGR and we expect minimal impact to Oilseeds EBITDA. Currently, GGR intends to maintain its China Oilseeds business via its Ningbo facilities.

- **Investing outflow higher than expected:** In 9M2017, GGR reported USD273.7mn in cash from operations (before interest and tax) and spent USD198.6mn in investing outflows (of which USD62.1mn was invested in financial asset in 3Q2017). In December 2016, a GGR-subsidiary had subscribed for a limited partnership interest in a technology investment fund and we think further investments were made in 3Q2017. Until the time these investments become cash flow generative, this is a competing interest to cash accumulation at GGR for debt pare down.

- **Looming short term debt:** As at 30 September 2017, short term debt was USD2.1bn, we understand that ~USD1.5bn relates to working capital which is routinely rolled over while ~USD500mn would need to be refinanced. This includes SGD200mn in bonds due April 2018 and MYR500mn in sukuk due August 2018. As at 30 September 2017, GGR's cash balance (excluding pledged deposits) was USD116.8mn. As at 30 September 2017, GGR's net gearing was 0.7x, relatively flat against end-2016. GGR's adjusted asset base (excluding intangible assets, bearer plants and long term investments) provides a 2.0x coverage to gross debt. Our base case remains that the company is able to refinance, notwithstanding legacy issues surrounding the major shareholders and their other companies.

Golden Agri-Resources Ltd

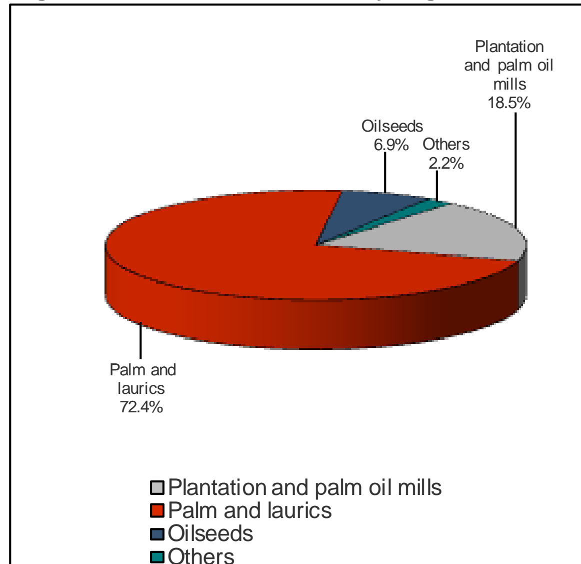
Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	9M2017
Income Statement (USD'mn)			
Revenue	6,510.1	7,208.8	5,584.5
EBITDA	483.1	524.8	455.8
EBIT	172.3	175.6	193.8
Gross interest expense	132.0	131.3	102.8
Profit Before Tax	-0.7	140.3	146.6
Net profit	10.4	399.6	103.1
Balance Sheet (USD'mn)			
Cash and bank deposits	243.6	153.0	142.9
Total assets	8,035.7	8,306.4	8,324.4
Gross debt	3,045.4	3,066.3	3,123.5
Net debt	2,801.8	2,913.3	2,980.6
Shareholders' equity	3,749.4	4,096.0	4,181.7
Total capitalization	6,794.8	7,162.2	7,305.2
Net capitalization	6,551.2	7,009.2	7,162.2
Cash Flow (USD'mn)			
Funds from operations (FFO)	321.1	748.8	365.2
* CFO	465.4	102.1	219.4
Capex	449.4	214.9	147.2
Acquisitions	60.1	13.7	71.1
Disposals	6.4	18.4	10.3
Dividend	57.4	47.5	57.4
Free Cash Flow (FCF)	16.0	-112.9	72.2
* FCF adjusted	-95.1	-155.6	-46.1
Key Ratios			
EBITDA margin (%)	7.4	7.3	8.2
Net margin (%)	0.2	5.5	1.8
Gross debt to EBITDA (x)	6.3	5.8	5.1
Net debt to EBITDA (x)	5.8	5.6	4.9
Gross Debt to Equity (x)	0.81	0.75	0.75
Net Debt to Equity (x)	0.75	0.71	0.71
Gross debt/total capitalisation (%)	44.8	42.8	42.8
Net debt/net capitalisation (%)	42.8	41.6	41.6
Cash/current borrowings (x)	0.2	0.1	0.1
EBITDA/Total Interest (x)	3.7	4.0	4.4

Source: Company, OCBC estimates

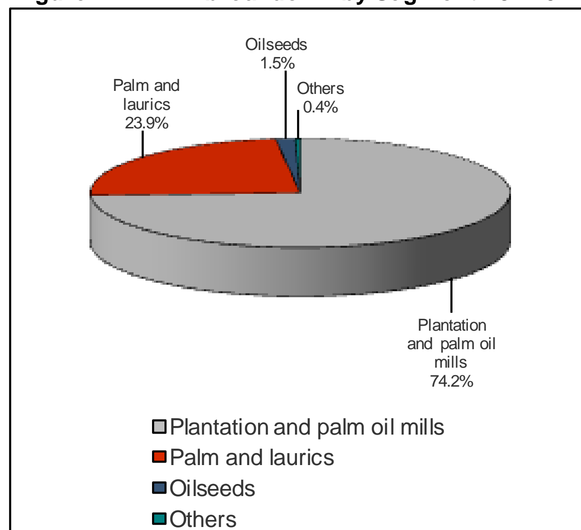
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2017



Source: Company | Excludes Eliminations

Figure 2: EBITDA breakdown by Segment - 9M2017



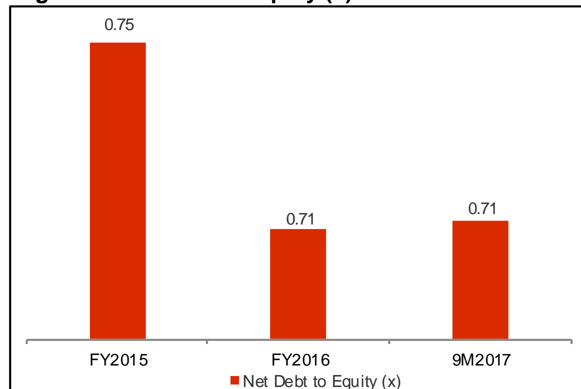
Source: Company | Excludes Eliminations

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	752.9	24.1%
Unsecured	1,335.6	42.8%
	2,088.5	**66.9%**
Amount repayable after a year		
Secured	864.1	27.7%
Unsecured	170.9	5.5%
	1,035.0	**33.1%**
Total	**3,123.5**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – As HLD offers a strong credit profile, we think that HENLND '18s trading at 1.73% looks fair for a 8.5 month paper. Investors looking for higher yield can consider HFCSP '19s trading at 3.11%.

Issuer Profile: Neutral (3)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **HENLND**

Company Profile

Henderson Land Development Co Ltd ("HLD") is a leading property developer with businesses in Hong Kong and China. It also holds strategic stakes in Henderson Investment Ltd and three listed associates, including The Hong Kong and China Gas Company Ltd ("HKCGC") which owns listed subsidiary, Towngas China Company Ltd, Hong Kong Ferry (Holdings) Company Ltd, Miramar Hotel and Investment Company Ltd. 72.5%-owned by its Chairman, Dr. Lee Shau Kee, HLD is one of the largest conglomerates in Hong Kong.

Henderson Land Development Co Ltd

Key credit considerations

- **Good 1H2017 results:** Revenue increased 31.1% y/y to HKD12.8bn, contributed mainly by the surge in property sales (+51% y/y to HKD8.9bn) with increased completions in Hong Kong properties (HKD5.2bn) and sales from completed projects (HKD2.4bn). Meanwhile, property leasing revenue remained relatively stable (+1.5% y/y to HKD2.8bn) and HKCGC delivered increased share of profits (+3.3% y/y to HKD1.9bn). HLD recorded higher fair value gains of HKD3.1bn (1H2016: HKD2.7bn) and gains from sale of property interest of HKD2.2bn (1H2016: HKD9mn) which include the sale of Beijing Henderson Centre for HKD3.3bn (gain of HKD1.0bn recorded) and sale of land site in Fangchun, Guangzhou for HKD1.9bn (gain of HKD1.0bn). As such, net profit surged 64% y/y to HKD14.3bn.

- **Recurrent cashflows from property leasing and HKCGC:** Investment properties forms 41% of HLD's total assets and contributed HKD2.1bn in segment profits in 1H2017 (flattish against 1H2016). In addition, HKD973mn gross rental income is contributed by HLD's 40.77% share from The International Finance Centre project. While HLD is concentrated in Hong Kong, committed occupancy in Hong Kong remains healthy at 96% (end 2016: 97%). Currently, HLD holds 8.8mn sq ft GFA in Hong Kong and 6.4mn in Mainland China. Going forward, contributions from property investments will likely increase. A 330k sq ft waterfront Grade A office tower at 18 King Wah Road was completed in Aug 2017 and another 100k sq ft of retail space is scheduled to open by end of 2017 beneath the residential project "Eltanin • Square Mile". In China, at Xu Hui Riverside development, a 2.6mn sq ft of Grade A office and 300k sq ft of retail space is targeted to complete from 2019 to 2020. At Haizhu Square Station project, a 800k sq ft shopping mall and 900k sq ft office towers is expected to complete in late 2019. Meanwhile, HLD receives dividend income from HKCGC (1H2017 attributable dividend: +10% y/y to HKD697mn).

- **Ample landbank with value to be unlocked:** HLD holds 4.0mn sq ft by attributable GFA across 45 newly-acquired urban redevelopment projects, which at HKD27.8bn implies an average land cost of HKD7,000 psf. This appears affordable compared to recent transacted land prices in Hong Kong Island and Kowloon, and as such should continue to support development margins (1H2017: 37%) going forward. In addition, HLD holds 44.9mn sq ft of land area in New Territories, which is the largest amongst all property developers in Hong Kong, which could unlock value if converted to residential projects. In Mainland China, the land bank remains ample at 48.2mn sq ft (including 4.8mn sq ft in Shanghai and Beijing) after selling the land and projects at Fangcun, Guangzhou (12mn sq ft), 9 projects at Shenyang, Anshan, Tieling, Dalian and Guangzhou (39mn sq ft). In 2H2017, HLD planned 1.4mn in GFA for sale in Hong Kong and intends to complete 4.2mn sq ft in China.

- **Balance sheet to remain healthy despite acquisitions:** Due to the settlement of HKD23.3bn land premium at Murray, net gearing increased to 0.19x (2016: 0.12x), which remains healthy. While HLD has made aggressive land bids, at the same time, we like that HLD has been active in disposal of non-core assets (e.g. above mentioned Henderson Centre, land sites in China) and will be recognising another HKD3.2bn proceeds in 2H2017 from sale of 2 Newton hotels, namely Newton Inn (HKD1bn) and Newton Place Hotel (HKD2.2bn). In addition, HLD will be selling a Grade A office building at North Point for HKD9.95bn. Even without including the dividend income from HKCGC (if we were to consider subordination risks), net debt to EBITDA remains manageable at 5.3x. However, we remain Neutral on HLD's Issuer Profile due to its concentration in Hong Kong.

Henderson Land Development Co Ltd

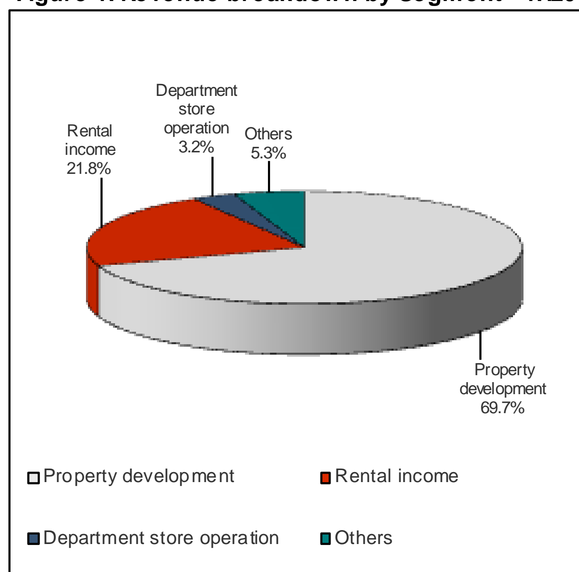
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1H2017
Income Statement (HKD'mn)			
Revenue	23,641	25,568	12,753
EBITDA	7,735	7,857	4,911
EBIT	7,596	7,751	4,857
Gross interest expense	1,795	1,740	724
Profit Before Tax	23,338	24,441	15,042
Net profit	21,326	21,916	14,158
Balance Sheet (HKD'mn)			
Cash and bank deposits	11,779	22,966	25,366
Total assets	336,269	355,498	388,929
Gross debt	52,096	56,400	78,204
Net debt	40,317	33,434	52,838
Shareholders' equity	256,269	269,301	281,114
Total capitalization	308,365	325,701	359,318
Net capitalization	296,586	302,735	333,952
Cash Flow (HKD'mn)			
Funds from operations (FFO)	21,465	22,022	14,212
* CFO	-2,668	4,639	3,115
Capex	729	3,414	27,138
Acquisitions	155	162	0
Disposals	427	5,224	0
Dividends	3,391	6,348	4,151
Free Cash Flow (FCF)	-3,397	1,225	-24,023
* FCF Adjusted	-6,516	-61	-28,174
Key Ratios			
EBITDA margin (%)	32.7	30.7	38.5
Net margin (%)	90.2	85.7	111.0
Gross debt to EBITDA (x)	6.7	7.2	8.0
Net debt to EBITDA (x)	5.2	4.3	5.4
Gross Debt to Equity (x)	0.20	0.21	0.28
Net Debt to Equity (x)	0.16	0.12	0.19
Gross debt/total capitalisation (%)	16.9	17.3	21.8
Net debt/net capitalisation (%)	13.6	11.0	15.8
Cash/current borrowings (x)	0.9	1.1	1.0
EBITDA/Total Interest (x)	4.3	4.5	6.8

Source: Company, OCBC estimates

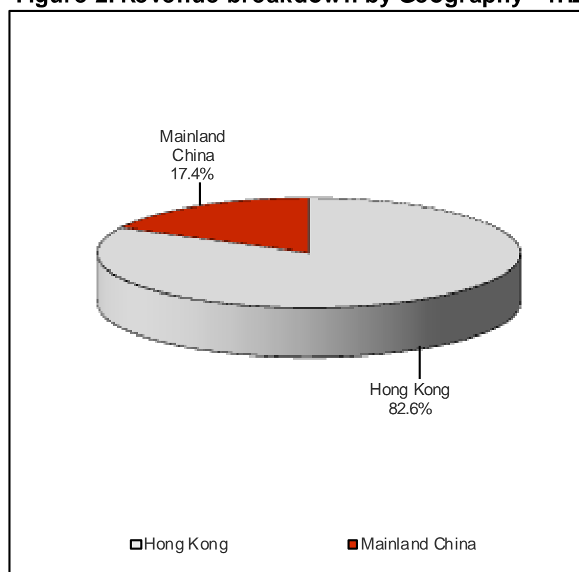
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1H2017



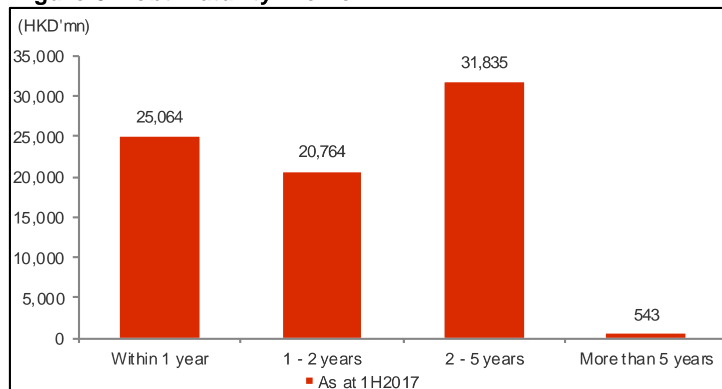
Source: Company

Figure 2: Revenue breakdown by Geography - 1H2017



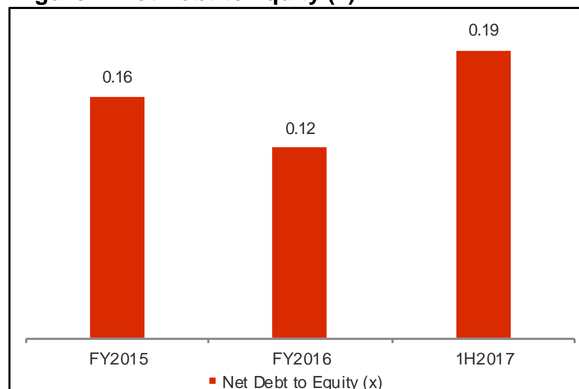
Source: Company

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – HFCSP '19s trading at 3.11% looks interesting, offering 179bps over swaps for a short 1.2Y paper. We note that management is confident to refinance/repay HFCSP '18s, which may support technical for HFCSP '19s.

Issuer Rating: Neutral (5)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **HFCSP**

Company Profile

Hong Fok Corp Ltd ("HFC") is an investment holding company, with principal activities in property investment, property development, construction and property management. Its investment properties, The Concourse and International Building, total over 74,000 sq m by gross floor area. The Cheong family substantially controls HFC. Its top shareholders are Hong Fok Land International Ltd (20.40%), Sim Eng Cheong (12.38%), Kim Pong Cheong (11.47%) and P C Cheong Pte Ltd (11.04%).

Hong Fok Corp Ltd

Key credit considerations

- **Continued losses despite increase in revenue:** 3Q2017 results continued to be lacklustre. Revenue increased 44.6% y/y to SGD20.2mn, mainly due to the sales of two residential units at Concourse Skyline. However, net loss deepened to SGD5.6mn (3Q2016's net loss: SGD2.1mn) as other expenses surged 35.9% y/y to SGD13.7mn. While additional expenses were incurred in relation to the opening of Yotel Singapore Orchard Road ("Yotel"), employee benefit (including remuneration for key management personnel) was likely still the largest expense item (constituted 47.5% of 2016's other expenses). Interest expense also increased to SGD6.5mn (3Q2016: SGD5.2mn) as interest expense is no longer capitalised following the completion of Yotel.

- **Better outlook ahead:** With the recovery of the Singapore property market, HFC has moved 9 units at the Concourse Skyline over Apr to Sep 2017, and we think more units will likely be moved with HFC continuing to market its development properties. As of 27 Oct 2017, HFC disclosed that 68% of the 360 residential units at Concourse Skyline have been sold. At Jewel of Balmoral, only one unit remains unsold. In addition, the 610-room YOTEL has commenced operations as of 1 Oct 2017, and hence we should expect expenses and cash outflow related to the construction of Yotel to diminish. However, Yotel is unlikely to begin fully contributing yet, as hotels typically take several years to reach a steady occupancy rate. Although HFC expects the hospitality sector to remain challenging with an increase in supply of hotel rooms, we note that Singapore's hospitality sector RevPAR has stabilised. Yotel is valued at SGD579mn as of 31 Dec 2016.

- **Recurring income from investment properties with green shoots in the office market:** Investment properties account for 89.2% of HFC's total assets as at 30 Sep 2017, and contributed SGD40mn rental income out of 2016's SGD58.4mn revenue. The largest assets are The Concourse (valued at SGD1.2bn together with retail units of Concourse Skyline) and International Building (SGD297mn). Following 8 consecutive quarters of decline in the Singapore Grade A office market, rents have stabilised (unchanged) in 2Q2017 and increased 1.7% q/q in 3Q2017, according to CBRE. This should bode well for HFC, which relies heavily on rental income from the office units at The Concourse and International Building. While International Building recorded a revaluation loss (~SGD16.5mn) in 31 Dec 2016, this has been more than offset by the revaluation gains by The Concourse (~SGD43.6mn).

- **Confident about upcoming debt maturities:** We estimate ~SGD155mn in borrowings will mature in 1Q2018 (including SGD100mn bond maturing in Jan 2018). While HFC only holds SGD56.5mn cash on hand as at 30 Sep 2017, HFC is confident that these will be refinanced and/or repaid from the available undrawn facilities by their due dates - we note HFC has prepared a supplementary information memorandum dated 3 Nov 2017. With the completion of Yotel, we do not expect loans and borrowings to further increase.

- **Investment properties underpin credit metrics:** Net gearing inched up to 36.5% (2Q2017: 35.5%) largely due to capex on investment properties (including construction of Yotel). We do not expect net gearing to increase further as Yotel has been completed. While cashflow from operations remained weak with an outflow of SGD21.1mn as of 9M2017, with a poor EBITDA/interest coverage of 0.4x, we remain comfortable with HFC's credit profile as it is backed by investment properties worth SGD2.6bn (in comparison to total debt of SGD797.3mn, of which SGD535.7mn is secured). In addition, we think operating results may improve when i) Yotel ramps up operations, ii) more units are moved at The Concourse and iii) the office market further recovers.

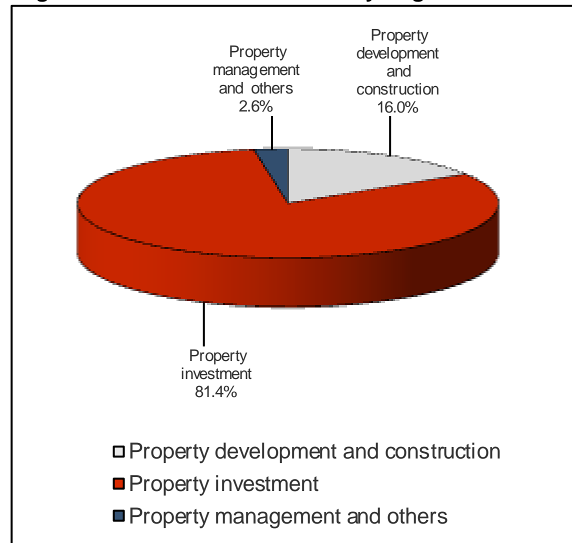
Hong Fok Corp Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	60.6	58.4	49.1
EBITDA	2.8	12.0	7.7
EBIT	2.3	11.3	7.2
Gross interest expense	22.7	28.4	19.0
Profit Before Tax	200.6	83.3	-0.6
Net profit	167.0	73.0	-3.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	163.8	77.4	56.5
Total assets	2,812.6	2,899.3	2,906.1
Gross debt	744.0	734.7	797.3
Net debt	580.2	657.3	740.8
Shareholders' equity	1,984.7	2,072.4	2,031.7
Total capitalization	2,728.7	2,807.1	2,828.9
Net capitalization	2,564.9	2,729.7	2,772.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	167.5	73.7	-2.7
* CFO	13.4	-1.8	-21.1
Capex	32.3	62.9	50.7
Acquisitions	0.0	0.0	0.0
Disposals	103.0	0.2	0.0
Dividend	12.6	6.9	6.9
Free Cash Flow (FCF)	-18.8	-64.7	-71.8
* FCF Adjusted	71.6	-71.5	-78.7
Key Ratios			
EBITDA margin (%)	4.6	20.6	15.6
Net margin (%)	275.7	124.9	-6.5
Gross debt to EBITDA (x)	265.9	61.0	77.9
Net debt to EBITDA (x)	207.4	54.6	72.4
Gross Debt to Equity (x)	0.37	0.35	0.39
Net Debt to Equity (x)	0.29	0.32	0.36
Gross debt/total capitalisation (%)	27.3	26.2	28.2
Net debt/net capitalisation (%)	22.6	24.1	26.7
Cash/current borrowings (x)	28.2	14.8	0.3
EBITDA/Total Interest (x)	0.1	0.4	0.4

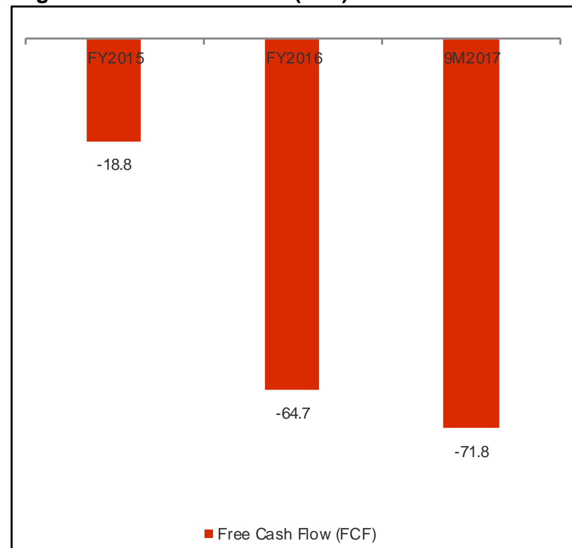
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2016



Source: Company

Figure 2: Free Cash Flow (FCF)



Source: Company

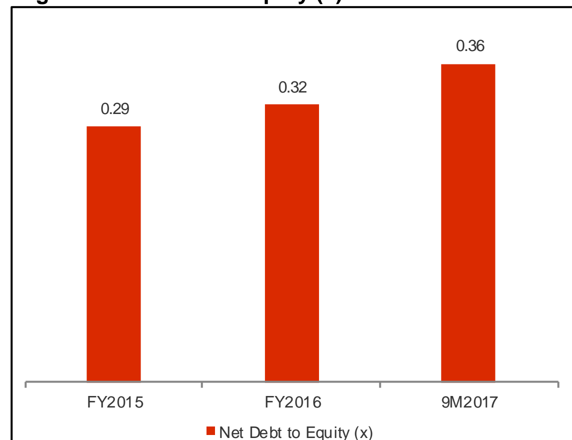
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	61.5	7.7%
Unsecured*	99.9	12.5%
	161.5	**20.3%**
Amount repayable after a year		
Secured	474.2	59.5%
Unsecured	161.6	20.3%
	635.8	**79.7%**
Total	**797.3**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – HKL offers a very strong credit profile but HKLSP '20s looks fair trading at 2.33%. Investors looking for higher yield can consider OUESP 3.8% '20s.

Issuer Rating: Positive (2)

S&P: A/Stable

Moody's: A3/Stable

Fitch: A/Stable

Ticker: **HKLSP**

Company Profile

Established in 1889 and listed in London, Bermuda and Singapore, Hongkong Land Holdings Ltd ("HKL") is a leading Asian property investment, management and development group. Its main portfolio is in Hong Kong, where it owns and manages ~4.9mn sq ft of prime office and retail space in Central. HK Land also develops premium residential properties in a number of cities in the region, principally in China and Singapore. HK Land is ~50%-owned by Jardine Strategic Holdings Ltd (A/A1/NR).

Hongkong Land Holdings Ltd

Key credit considerations

- **Better 1H2017 results driven by development:** Revenue surged 66% y/y to USD1.3bn, lifted mainly by increased sale of properties to USD783.9mn (1H2016: USD290.2mn) with the completion of LakeVille in 1H2017 and increased completions in Shanghai and Chongqing. Contracted sales from Mainland China remains strong, increasing 62.3% y/y to USD701mn and contracted sales from Singapore increased 69.6% y/y to USD268mn. Total sold but unrecognised sales amounts to USD2.4bn. Meanwhile, underlying profit increased 31.6% y/y to USD517mn, contributed by both investment properties (+5.6% y/y to USD433.5mn) and development properties (+50.4% y/y to USD110.4mn). Sizeable revaluation gains of USD2.6bn was recorded (1H2016: USD870mn) as office prices in Central continued to increase.

- **Continued performance by the Central portfolio with good recurring income:** Vacancy for the Central office portfolio increased to 2.4% as per the 3Q2017 interim management statement (end-1H2017: 1.5%), though vacancy is expected to decline in 4Q2017 when tenants take possession of space. Despite already delivering higher average net rent of HKD106 psf in 1H2017 (2H2016: HKD103), management continues to remain confident about rental reversions till 1H2018. The Central retail portfolio also performed well as it remains effectively fully occupied as of 3Q2017. HKL's investment properties is valued at USD30.4bn, of which we estimate about USD29bn is attributable to the Central portfolio. Hong Kong investment properties delivered USD430mn in segment profits in 1H2017. HKL also holds investment properties in other countries including Singapore (1H2017 segmental profit: USD59mn), Mainland China & Macau (USD5mn) and Rest of Asia (USD10mn). For Singapore, it is noteworthy that HKL reported positive rental reversions following declines since 2015.

- **Diversifying out of Hong Kong:** We note that HKL has been absent from land bids in Hong Kong (e.g. Murray Road), and instead is focused on investment properties in other regions. HKL announced that the 84%-owned retail portion of WF Central in Beijing (43,000 sqm) soft launched in 1st Nov 2017. The 50%-owned fifth tower of Jakarta Land (73,000 sqm) will complete in early 2018 while the 100%-owned Exchange Square in Phnom Penh has completed in early 2017. In Singapore, HKL will undertake a 1.3mn sq ft development in Central Boulevard through its 33%-owned JV with IOI Properties.

- **Property development as another engine of growth:** In addition to the strong contracted sales in China (USD701mn) and Singapore (USD268mn), HKL through its JVs and associates is progressing on developments in Indonesia (Projects: Nava Park, Anandamaya, Asya), Vietnam (The Nassim), Philippines (Two Roxas Triangle, Mandani Bay). Another 4 new projects are added to the pipeline, including the en bloc of Eunosville in Singapore for SGD766mn.

- **Healthy credit metrics to support development pipeline:** The already healthy levels of net gearing improved further to 5% as at 1H2017 (end-FY2016: 6%), though management expects net debt to increase by year end due to land purchases (e.g. winning a land parcel at Eunosville for SGD766mn). We also expect HKL to fund its share for the Central Boulevard site, which is estimated at SGD1bn including the land, capex and development costs. Nevertheless, we think HKL's profile remains resilient with strong cashflow generation (FCF averaging over USD700mn). Borrowings remain well-termed out, with maturity up to 2040. If HKL undertakes a spin-off of its assets similar to Wharf, this would be a major risk to its credit profile, though management mentioned that it currently has no plans to restructure HKL into a REIT-like structure and has no intention to do so.

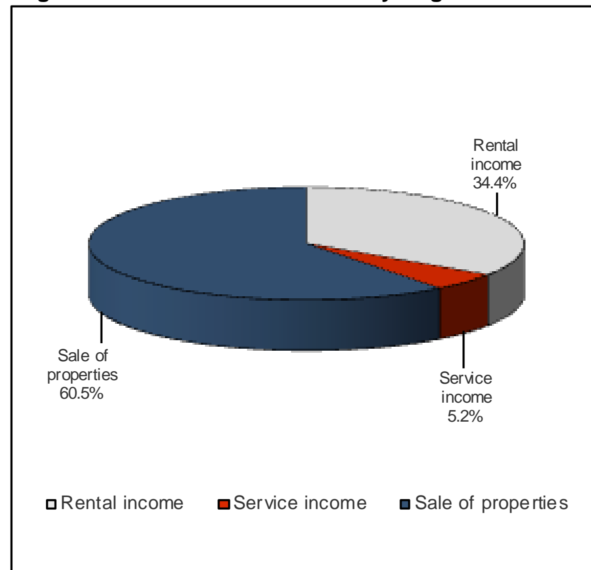
Hongkong Land Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1H2017
Income Statement (USD'mn)			
Revenue	1,932	1,994	1,297
EBITDA	924	962	506
EBIT	921	959	504
Gross interest expense	151	145	57
Profit Before Tax	2,143	3,512	3,227
Net profit	2,012	3,346	3,125
Balance Sheet (USD'mn)			
Cash and bank deposits	1,569	1,909	1,902
Total assets	34,372	36,955	39,663
Gross debt	3,910	3,916	3,784
Net debt	2,341	2,008	1,882
Shareholders' equity	28,720	31,314	34,253
Total capitalization	32,630	35,231	38,037
Net capitalization	31,061	33,322	36,135
Cash Flow (USD'mn)			
Funds from operations (FFO)	2,015	3,349	3,127
* CFO	896	1,096	573
Capex	210	240	100
Acquisitions	327	108	262
Disposals	0	0	0
Dividends	449	448	303
Free Cash Flow (FCF)	686	857	473
* FCF Adjusted	-90	300	-92
Key Ratios			
EBITDA margin (%)	47.8	48.2	39.0
Net margin (%)	104.1	167.8	241.0
Gross debt to EBITDA (x)	4.2	4.1	3.7
Net debt to EBITDA (x)	2.5	2.1	1.9
Gross Debt to Equity (x)	0.14	0.13	0.11
Net Debt to Equity (x)	0.08	0.06	0.05
Gross debt/total capitalisation (%)	12.0	11.1	9.9
Net debt/net capitalisation (%)	7.5	6.0	5.2
Cash/current borrowings (x)	9.3	8.6	5.2
EBITDA/Total Interest (x)	6.1	6.7	8.8

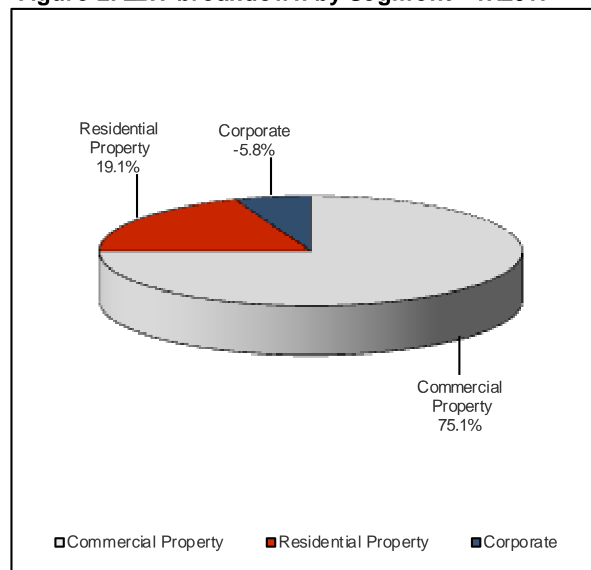
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2017



Source: Company

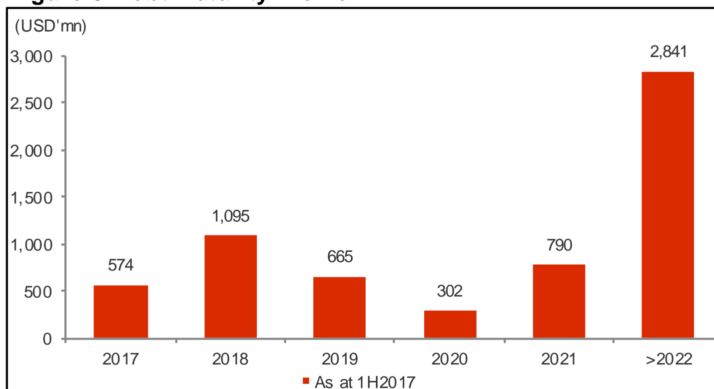
Figure 2: EBIT breakdown by Segment - 1H2017



Source: Company | Corporate made operating loss

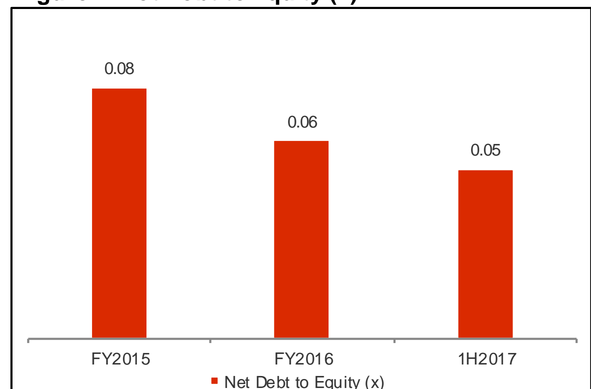
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Hotel Properties Ltd

Credit Outlook – We think that the HPL curve in general looks fair given its decent credit profile. While HPLSP 4.65% PERP at 3.89% YTC offers 101bps yield pickup over HPLSP 3.85% '21s, investors looking for yield can also consider WINGTA 4.35% PERP trading at 4.4%.

Issuer Rating: Neutral (4)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **HPLSP**

Company Profile

The principal activities of Hotel Properties Limited ("HPL") include hotel ownership, management and operation, property development and investment holding. HPL has ownership interests in 29 hotels under prestigious hospitality brands. HPL has also established itself as a niche property developer and owner in prime locations, including the Orchard Road area in Singapore. The controlling shareholder is 68 Holdings Pte Ltd, which owns 56.4% of HPL. 68 Holdings Pte Ltd is mainly owned by Wheelock Properties Singapore and HPL's co-founder, Mr Ong Beng Seng.

Key credit considerations

- **Stronger 3Q2017 results:** Revenue rose 17.9% y/y to SGD165.1mn mainly due to the sale of units from Tomlinson Heights and higher contribution from the hotels and resorts in Bali, Indonesia and Maldives. Net profit grew higher by 34.5% y/y to SGD42.0mn as associates and JVs contributed more (+22.2% y/y to SGD29.6mn). Profits from the 65%-owned Burlington Gate London (Gross development value ("GDV"): £224m (SGD408.1mn)) was also recognised upon its completion in 3Q2017.

- **Higher contributions expected from UK property development:** In addition to contribution from Burlington Gate, HPL expects the 50%-owned 72-unit Holland Park Villas (GDV: £550m (SGD1.0bn)) to attain practical completion before the end of 2017 – which will likely contribute significantly. In the UK, HPL holds 30% interest in another 2 properties (Ludgate House and Sampson House), with Temasek and Amcorp Properties as the other JV partners. This should contribute to future profits with a GDV of £1.3bn (SGD2.4bn).

- **Recurring income from investment properties:** HPL holds SGD686.3mn of investment properties, which include HPL House, Forum the Shopping Mall, Concorde Shopping Mall and Ming Arcade. Investment properties collectively contribute SGD25.3mn of rental income in 2016 (2015: SGD25.0mn).

- **Growing the portfolio of hospitality assets:** Hotels are the biggest contributor to revenue in 2016 (SGD461.3mn out of SGD577.6mn). The hospitality portfolio is somewhat diversified as we estimate that revenues are split between (1) Singapore, (2) Maldives, (3) other parts of the world which include rest of Asia and UK/Europe. HPL continues to grow its hospitality assets via a number of acquisitions in 2H2017 via associates and JVs, including 50% owned Four Seasons Resort Langkawi for USD55mn (SGD74.3mn), 80%-owned Hilton London Olympia in the UK for £114.9mn (SGD209.1mn) and 70%-owned DoubleTree by Hilton Hotel London £39.4mn (SGD71.8mn). These acquisitions should contribute to future results.

- **Benefit from the recovery in the Singapore property market:** With the improvements in the Singapore residential market, HPL has benefited from more sales in 3Q2017 at Tomlinson Heights (3 units sold for SGD40.6mn), The Interlace (11 units sold for SGD31.4mn) and D'Leedon (14 units sold for SGD42.4mn). More units at these developments continue to be moved in Oct and Nov 2017, according to the URA caveats.

- **Manageable credit metrics backed by recurring cashflow:** Net gearing was relatively stable q/q at 0.44x (2Q2017: 0.43x), which is still manageable. While HPL registered strong operating cash inflow of SGD136.4mn, HPL made SGD66.3mn payments for additional PPE and SGD106.7mn payments to associates and JVs, likely due to the hotel acquisitions. We like the recurring cashflows, with EBITDA/total interest at 5.8x. The issuance of the SGD150mn HPLSP 4.65% PERP in Apr 2017 drew SGD1.6bn orders, indicating that HPL maintains a strong access to the debt capital markets.

- **Diversification of assets though HoldCo-OpCo subordination risks remains:** We like that HPL's assets are widely diversified on a geographical basis. However, we recognise HoldCo-OpCo subordination risks from the associates and JVs which hold the UK developments and hospitality assets.

Hotel Properties Ltd

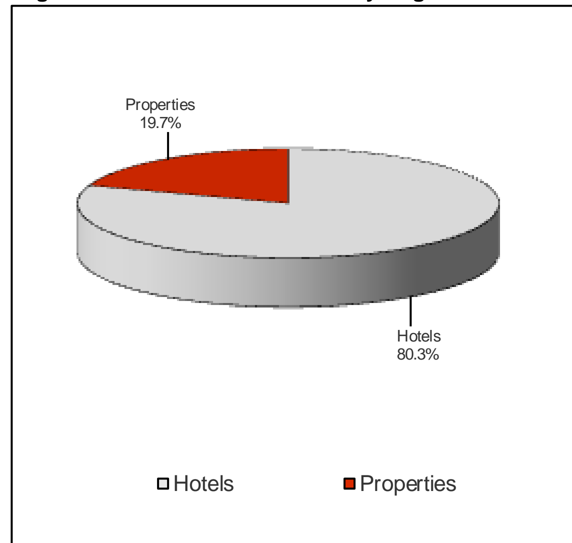
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	579.5	577.6	500.1
EBITDA	146.0	126.8	123.7
EBIT	94.2	72.7	82.3
Gross interest expense	34.9	30.3	21.2
Profit Before Tax	115.9	135.5	97.0
Net profit	81.7	103.5	74.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	158.8	117.2	210.1
Total assets	3,178.5	3,180.2	3,343.5
Gross debt	1,078.6	992.3	1,124.2
Net debt	919.8	875.1	914.1
Shareholders' equity	1,949.3	2,028.3	2,081.4
Total capitalization	3,027.9	3,020.6	3,205.5
Net capitalization	2,869.0	2,903.5	2,995.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	133.4	157.6	116.0
* CFO	141.9	111.6	210.8
Capex	120.3	80.0	100.7
Acquisitions	0.0	24.1	0.0
Disposals	31.0	66.8	0.6
Dividend	61.2	50.8	46.2
Free Cash Flow (FCF)	21.6	31.6	110.1
* FCF Adjusted	-8.5	23.5	64.4
Key Ratios			
EBITDA margin (%)	25.2	22.0	24.7
Net margin (%)	14.1	17.9	14.9
Gross debt to EBITDA (x)	7.4	7.8	6.8
Net debt to EBITDA (x)	6.3	6.9	5.5
Gross Debt to Equity (x)	0.55	0.49	0.54
Net Debt to Equity (x)	0.47	0.43	0.44
Gross debt/total capitalisation (%)	35.6	32.9	35.1
Net debt/net capitalisation (%)	32.1	30.1	30.5
Cash/current borrowings (x)	0.7	0.4	1.6
EBITDA/Total Interest (x)	4.2	4.2	5.8

Source: Company, OCBC estimates

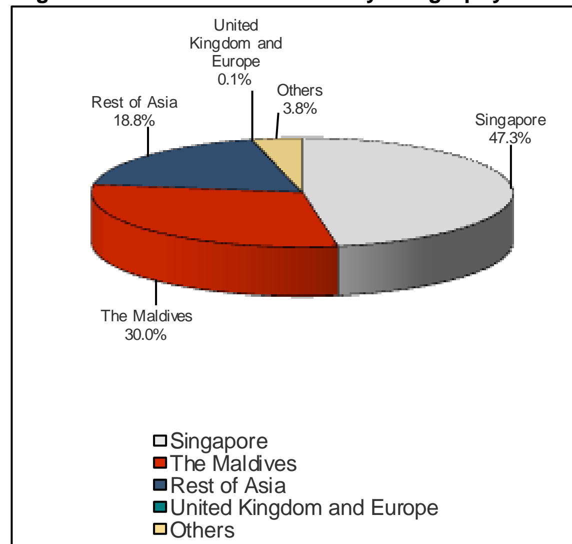
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2016



Source: Company

Figure 2: Revenue breakdown by Geography - FY2016



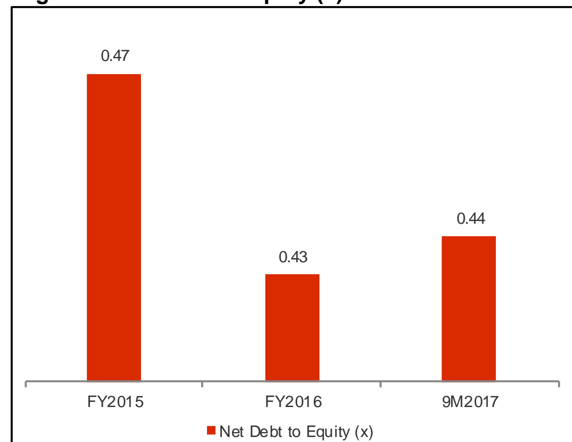
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	59.5	5.3%
Unsecured*	75.0	6.7%
	134.5	**12.0%**
Amount repayable after a year		
Secured	638.6	56.8%
Unsecured	351.1	31.2%
	989.6	**88.0%**
Total	**1124.2**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We are ambivalent about the KEPSP curve, as based on current earnings KEP is effectively a property play, and there are more attractive opportunities out there, such as WINGTA.

Issuer Profile: Neutral (3)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **KEPSP**

Company profile

Listed in 1986, Keppel Corp Ltd ("KEP") is a diversified conglomerate based in Singapore, operating in the offshore & marine ("O&M"), real estate, and infrastructure sectors. Its principal activities include offshore oil rig construction, shipbuilding and repair, environmental engineering, power generation, property investment and development, and the operation of logistics and data centre facilities. Keppel operates in more than 30 countries internationally, and is 21%-owned by Temasek Holdings Ltd.

Keppel Corp Ltd

Key credit considerations

- **Infrastructure picking up the slack:** For 9M2017, revenue fell 8.5% y/y to SGD4.42bn. O&M revenue continued to fall, declining 36.1% y/y to SGD1.31bn, driven by muted yard acitivity. Property revenue also fell 7.5% y/y due to fewer deliveries. Comparatively, Infrastructure revenue surged 29.3% y/y, driven by improvements in its power and gas business as well as progressive revenue recognition from its desalination plant project. 3Q2017 results further reflect YTD trends, with Infrastructure revenue up 44.2% y/y, contributing almost 40% of total revenue (compared to just 26% in 2016), though segment profitability remains lean with a pre-tax margin of 7.5% for the quarter.

- **Painful O&M hit**: Segment revenue had been declining sequentially since its last quarterly peak of SGD799.8mn in 4Q2016 and now stands at SGD380.6mn for 3Q2017 (-26.2% y/y). This was not unexpected given the low net contract value of SGD525mn for 2017 (as of end-2016). Despite the rally in oil prices, upstream activity remains more focused on short cycle projects (like US shale) versus offshore exploration. Coupled with supply overhang, order wins for drilling assets are likely to remain challenging. In mitigation, KEP had successes with non-drilling contracts, such as the USD400mn order for two LNG containerships (2020 delivery). This allowed KEP to grow its order book q/q for the first time in a while to SGD3.9bn (2Q2017: SGD3.4bn, excluding Sete Brasil orders) with YTD order wins exceeding SGD1bn. However, low activity levels squeezed margins, leading to a segment loss of SGD1.7mn for 3Q2017. 4Q2017 would likely remain a loss with the USD422.2mn settlement over Brazil corruption situation to be provision for. With net contract value lean at SGD156mn for 2018 (as of end-3Q2017), segment revenue as well as profitability is likely to remain lacklustre.

- **China property deceleration:** For 3Q2017, Property revenue increased 13.3% y/y to SGD546.3mn (flattish q/q), with 1,320 homes sold during the quarter (3Q2016: 1,370) totaling ~SGD800mn in sales value. Interestingly, Vietnam (620 units) has outpaced China (570 units) by units sold, with management highlighting tightening measures in China as a cause (though they believe regulations to be more region specific going forward). Regarding Singapore, KEP sold 80 units with a further 37 units committed under deferred payment schemes. Improving sentiment had also driven KEP to release 150 units previously held as corporate housing at Reflections at Keppel Bay. The new development at Serangoon North Ave 1 (a JV with Wing Tai Holdings with SGD446.3mn land purchase) was guided to be launched in mid-2018. Segment pipeline remains healthy at 62,000 homes (with 16,674 launch ready). Segment profits jumped 26.85% y/y to SGD197.9mn, partly driven by divestment gains like that of their Waterfront Residences in Nantong stake, which reaped a gain of ~SGD79mn.

- **Improving cash flow and credit profile:** In aggregate, gains in Property and Investments helped boost 9M2017 profits before tax by 9.2% y/y to SGD927.4mn. The monetization of KEP's housing inventory helped boost operating cash flow to SGD913.6mn (9M2016: SGD134.2mn) with FCF at SGD616.1mn. Cash generated was used to deleverage, with net gearing falling to 50% (2016: 56%). In contrast, margin compression caused Interest / EBITDA coverage to fall to 5.1x (2016: 6.3x). Looking forward, the 4Q2017 announced divestment of Keppel China Marina Holdings for RMB2.9bn, for a divestment gain of ~SGD290mn, partly offsetting the ~SGD570mn Brazil provision which cause pro-forma net gearing to inch higher to ~51%. Beyond this, the risk of KEP deploying capital to restock its domestic land bank remains while O&M outlook remains weak. As such, it is unlikely that KEP's credit profile would deviate greatly from current levels and hence we reiterate its Neutral (3) Issuer Profile.

Keppel Corp Ltd

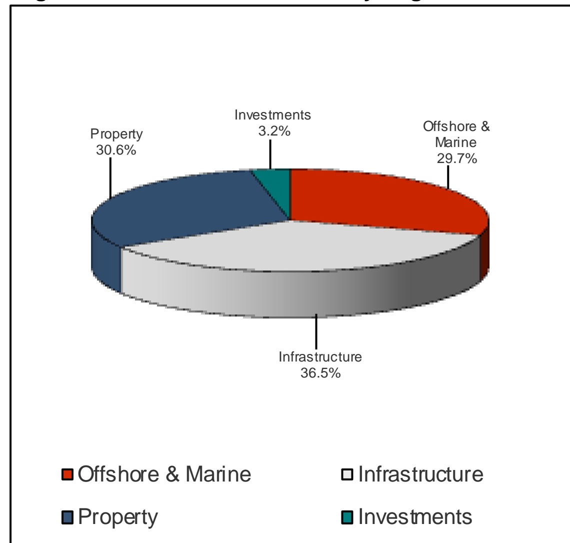
Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	10,296.5	6,767.3	4,419.1
EBITDA	1,673.1	1,407.8	745.2
EBIT	1,426.0	1,171.3	581.7
Gross interest expense	154.8	224.5	145.6
Profit Before Tax	1,997.4	1,054.9	927.4
Net profit	1,524.6	783.9	712.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,892.8	2,087.1	2,318.8
Total assets	28,920.6	29,234.2	28,417.6
Gross debt	8,258.7	9,053.0	8,564.0
Net debt	6,365.8	6,966.0	6,245.3
Shareholders' equity	11,925.9	12,333.6	12,534.1
Total capitalization	20,184.5	21,386.7	21,098.2
Net capitalization	18,291.7	19,299.6	18,779.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	1,771.7	1,020.4	876.0
* CFO	-705.0	330.0	913.6
Capex	1,147.0	466.2	297.4
Acquisitions	581.8	463.3	308.3
Disposals	1,504.4	99.4	776.1
Dividend	955.7	621.9	384.1
Free Cash Flow (FCF)	-1,852.0	-136.2	616.1
* FCF adjusted	-1,885.1	-1,122.0	699.8
Key Ratios			
EBITDA margin (%)	16.2	20.8	16.9
Net margin (%)	14.8	11.6	16.1
Gross debt to EBITDA (x)	4.9	6.4	8.6
Net debt to EBITDA (x)	3.8	4.9	6.3
Gross Debt to Equity (x)	0.69	0.73	0.68
Net Debt to Equity (x)	0.53	0.56	0.50
Gross debt/total capitalisation (%)	40.9	42.3	40.6
Net debt/net capitalisation (%)	34.8	36.1	33.3
Cash/current borrowings (x)	2.2	1.1	1.3
EBITDA/Total Interest (x)	10.8	6.3	5.1

Source: Company, OCBC estimates

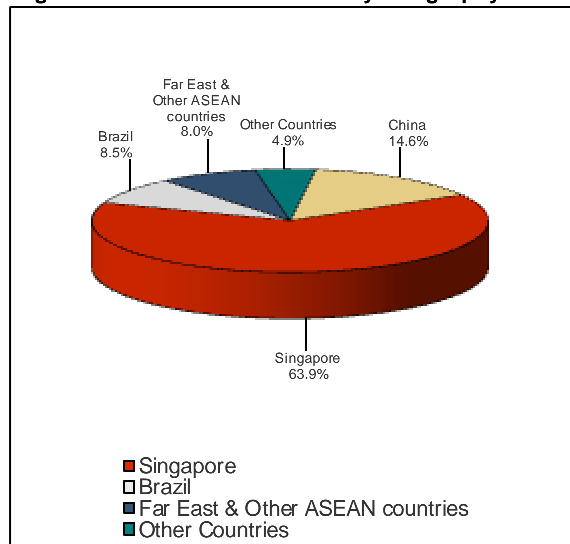
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2017



Source: Company

Figure 2: Revenue breakdown by Geography - 9M2017



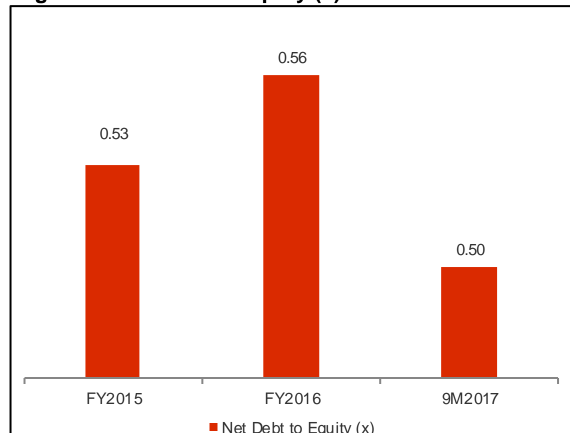
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	244.0	2.8%
Unsecured	1,554.1	18.1%
	1,798.1	**21.0%**
Amount repayable after a year		
Secured	619.3	7.2%
Unsecured	6,146.6	71.8%
	6,766.0	**79.0%**
Total	**8,564.1**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – After trading lower by 75bps since the middle of 2017, we are again constructive on the KREITS-perp, given the high spread and 1st call in ~2 years which we believe will be exercised given the wide reset spread.

Issuer Profile: Neutral (4)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **KREITS**

Background

Keppel REIT ("KREIT") is a real estate investment trust focused on mainly commercial assets. It was listed on the SGX in 2006, and currently has an AUM of SGD8.5bn (as of September 2017). 89% of the portfolio is based in Singapore, with the balance in Australia. The Singapore assets are mainly stakes in Grade A office assets in the CBD, such as Ocean Financial Centre ("OFC", 99.9% stake), Marina Bay Financial Centre Towers 1, 2 & 3 ("MBFC",33% stake in each) and One Raffles Quay ("ORQ, 33% stake). KREIT is 46.4% owned by Keppel Corp ("KEP"), its sponsor.

Keppel REIT

Key credit considerations

- **Associate assets were a drag**: During 3Q2017, there was some softness in KREIT's Singapore associates (its 1/3 interests in ORQ and MBFC) with contributions dipping 9.1% y/y to SGD30.3mn for the quarter. This was driven by declining rental support at MBFC and weaker dividend income from ORQ. As these two assets continue to sustain high committed occupancy (99.7% for MBFC, 99.6% for ORQ), the declines could be driven by rental pressure, particularly given competition from Marina One joining the supply in the area from mid-2017 onwards.

- **Headline numbers as expected**: For 9M2017, for assets directly held, property income declined 0.9% y/y to SGD120.1mn, while NPI fell 2.1% y/y to SGD95.0mn. The declines were largely driven by weakness seen at Bugis Junction Towers, though offset by contributions from 8 Exhibition Street. From the recent 3Q2017 results though, the issues faced by Bugis Junction Tower seemed to have been resolved with occupancy improving from 93.7% (end-2016) to 97.6% (end-3Q2017). As a result, Bugis Junction Tower income increased 2.4% q/q. In aggregate, 3Q2017 property income increased 2.3% y/y to SGD40.4mn while NPI increased 0.3% y/y to SGD31.7mn. KREIT also highlighted stronger performance at its Australian assets supporting overall performance.

- **Bearish market trends likely reversed**: In general, KREIT had sustained its strong portfolio occupancy, reporting 99.6% in committed occupancy (2Q2017: 99.8%). This was sharply higher than the industry-wide occupancy levels of 92.5% (as per CBRE's Singapore core CBD occupancy for 3Q2017), reflective of KREIT's portfolio of newish well-positioned Grade A office assets. From 2Q2017 onwards, there seemed to be a trend of KREIT decelerating its pace of advance lease renewals. Lease expiries for 2017 and 2018 in aggregate only fell slightly to 7.2% of NLA (2Q2017: 8.6% of NLA), with just 0.5% of NLA left to renew for 4Q2017. Though there continues to be meaningful office supply entering the market by the end of 2018, signs that Grade A office rents are bottoming, coupled with strong secondary transactions as well as commercial land sales, mean that office landlords have less reasons to pre-emptively fill out their buildings.

- **Negative rental reversion a disappointment**: That said, KREIT surprisingly reported a negative 3% rental reversion for 9M2017 (versus flat rental reversion reported for 1H2017), which implies sharply negative rental reversions for 3Q2017. Based on our estimates, majority of the leases executed during the quarter look to be from KREIT's associate assets (ORQ, MBFC), which were mentioned earlier to be facing pressure from neighbouring competition. Aside from this though, WALE for the portfolio remains healthy at ~6 years (benefitting from the longer leases on its Australia assets) while tenant retention for 9M2017 remains strong at 91.8%.

- **Development costs to be mitigated by likely portfolio gains**: Aggregate leverage worsened slightly q/q to 38.8% (2Q2017: 38.5%). As noted previously, construction on 50%-owned 311 Spencer Street, Melbourne, development had commenced, with pro-rata contributions from KREIT (~SGD145mn in purchase and expenditure into investment properties was spent during 3Q2017 as well as net loan drawdown of SGD48.8mn). Though KREIT's leverage is expected to creep up due to funding requirements for the development (completion is expected in 4Q2019), expected portfolio revaluation gains come year end would limit the deterioration to aggregate leverage. Reported interest coverage remained steady at 4.4x (our figures exclude associate / JV contribution). Proportion of fixed rate debt fell slightly to 76%, with unencumbered assets at 84% of the portfolio. Cost of debt decreased slightly to 2.58%. As it stands, KREIT's aggregate leverage is trending slightly higher compared with office REIT peers. We will hold KREIT's Issuer Profile at Neutral (4).

Keppel Real Estate Investment Trust

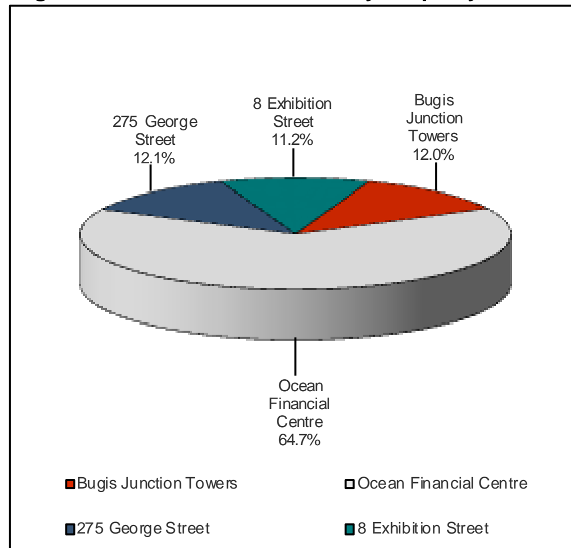
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	170.3	161.3	120.1
EBITDA	80.7	71.5	52.6
EBIT	61.9	56.2	43.3
Gross interest expense	67.3	64.0	48.6
Profit Before Tax	366.8	279.1	113.5
Net profit	337.5	250.2	102.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	144.6	278.7	197.5
Total assets	7,425.4	7,535.3	7,633.7
Gross debt	2,489.6	2,481.8	2,542.7
Net debt	2,345.0	2,203.1	2,345.3
Shareholders' equity	4,777.8	4,898.6	4,917.2
Total capitalization	7,267.4	7,380.3	7,460.0
Net capitalization	7,122.8	7,101.6	7,262.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	356.3	265.5	111.9
* CFO	114.3	108.2	90.1
Capex	2.5	2.2	13.7
Acquisitions	9.7	0.0	134.0
Disposals	0.0	157.2	0.0
Dividends	203.9	190.1	121.6
Free Cash Flow (FCF)	111.8	105.9	76.4
* FCF Adjusted	-101.9	73.1	-179.1
Key Ratios			
EBITDA margin (%)	47.4	44.3	43.8
Net margin (%)	198.1	155.2	85.4
Gross debt to EBITDA (x)	30.9	34.7	36.2
Net debt to EBITDA (x)	29.1	30.8	33.4
Gross Debt to Equity (x)	0.52	0.51	0.52
Net Debt to Equity (x)	0.49	0.45	0.48
Gross debt/total capitalisation (%)	34.3	33.6	34.1
Net debt/net capitalisation (%)	32.9	31.0	32.3
Cash/current borrowings (x)	5.7	N.A	0.5
EBITDA/Total Interest (x)	1.2	1.1	1.1

Source: Company, OCBC estimates

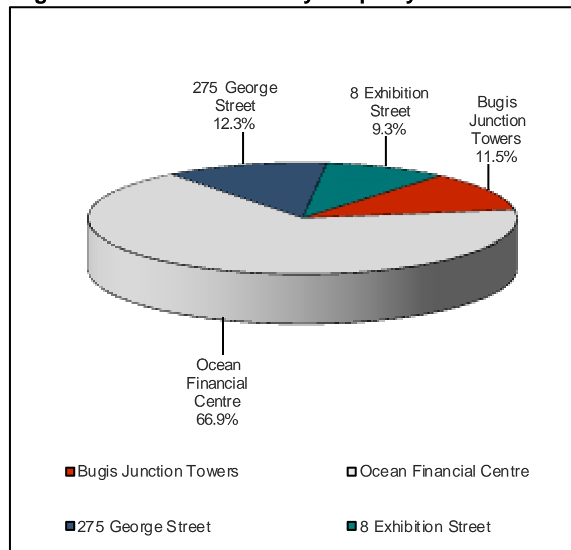
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Property - 9M2017



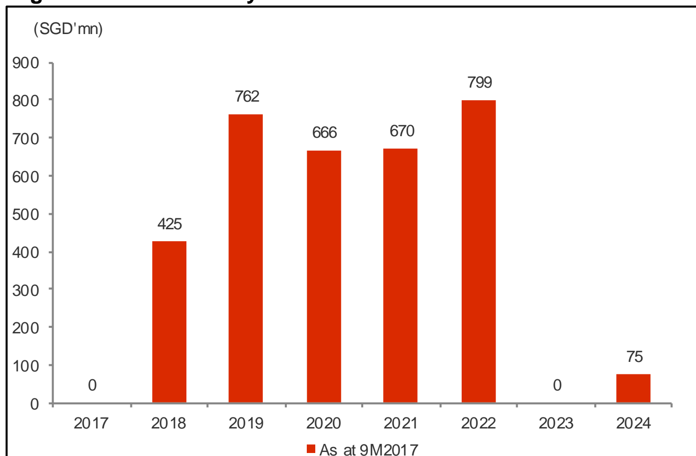
Source: Company

Figure 2: NPI breakdown by Property - 9M2017



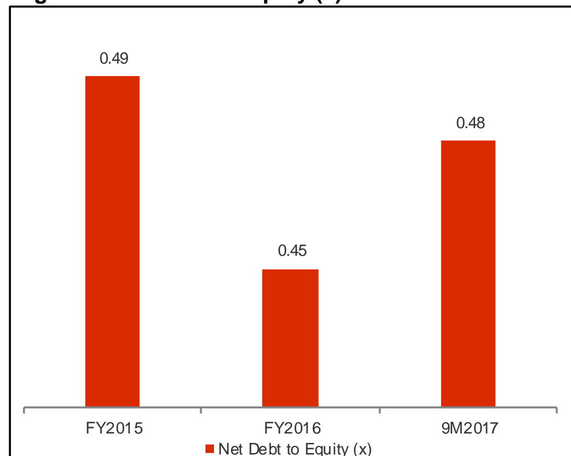
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Keppel Telecommunications & Transportation Ltd

Credit Outlook – The KPTTSP 2.85% '24s with a call date in September 2022 is trading at a YTW of 3.0% and YTM of 3.2%. Coupon after 2022 steps up 100bps to 3.85%, whether or not KPTT call is path dependent on interest rate trajectory. Assuming non-call, the bond provides a pick-up of 30bps to its sister company Keppel REIT's bullet bond, the KREITS 3.275% '24s.

Issuer Profile: Neutral (4)

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **KPTTSP**

Background

Keppel Telecommunications & Transportation Ltd ("KPTT") focuses on three businesses, namely logistics, data centres and investment holding. Within data centres, KPTT also holds a ~30.0% stake in Keppel DC REIT ("KDC REIT"). KPTT's main investment under the investment holding business is a ~19.3%-stake in M1 Ltd, a major telco focused on the Singapore market. KPTT, KDC REIT and M1 Ltd are listed on the SGX. KPTT is ~79.4% owned by Keppel Corp Ltd, a conglomerate which is in turn ~20.5%-owned by Temasek.

Key credit considerations

- **9M2017 profits declined:** In 9M2017, KPTT reported a 8.0% y/y decline in revenue to SGD133.3mn. This was mainly due to weaker warehousing revenue in the Logistics Division and the absence of revenue from the 90%-stake disposal of KDC SGP 3 data centre and 50%-sale of Keppel DC Reit Manager Pte Ltd ("KDC REITM", the REIT Manager of KDC REIT). Despite the lower revenue, operating expenses was 3.7% higher y/y, mainly driven by higher transportation costs, contract labour and subcontract costs in the Logistics Division and higher depreciation costs. Additionally, 9M2017 also lacked 9M2016's large one-off gains, resulting in a much reduced operating profit of only SGD3.9mn versus SGD78.9mn in 9M2016. Taxes were under-provided in the previous period and this was included in 9M2017, resulting in a higher proportionate taxes despite the lower profit before tax ("PBT") of SGD50.5mn (9M2016: SGD122.0mn).

- **Asset-Light Strategy in Data Centres:** The Data Centre Division owns and manages data centres. KDC REIT has 14 data centres and is Sponsored by KPTT. In mid-2016, KPTT's partly-owned subsidiary Keppel Data Centre Holding ("KDCH") formed a data centre focused private equity fund ("ADC") with Alpha Investment Partners Limited ("AIP"). AIP sits outside the KPTT structure but similarly has Keppel Corp as major shareholder. Both KDC REIT and ADC allows KPTT to recycle its capital for expansion. Via ADC, KPTT holds minority stakes in two other data centres. The stake in ADC, KDC REIT and KDC REITM are equity-accounted. KPTT also owns a 70%-effective stake in Almere 2, a data centre in the Netherlands. In 9M2017, the Data Centre division contributed SGD8.9mn to operating profit. It was the largest contributor to total PBT at 57%, contributing SGD28.7mn (bulk from share of results of associates and JVs).

- **Logistics continues to be challenging, decline in Investment Division:** Despite being the largest revenue contributor, Logistics only contributed 1.7% of total PBT at SGD0.8mn in 9M2017. Though this is a recovery from 9M2016 when the segment took SGD27.0mn in impairment losses on properties in China, a challenging market. Seven out of KPTT's 16 logistics facilities are located in China. In November 2017, KPTT announced that it was undertaking a strategic review of its China logistics portfolio. KPTT's 19%-stake in M1 Limited ("M1") is the largest contributor within the Investment Division. In 9M2017, Investments contributed SGD21.0mn to PBT, down 8.4% y/y. M1, being Singapore-focused, operates in a saturated market and is likely to face higher competition from new entrants in 2018.

- **Interest coverage has declined while commitments have expanded:** EBITDA (based on our calculation which does not include other income) was SGD14.5mn in 9M2017 (down 48.2% y/y), and this drove EBITDA/Interest lower at 1.6x versus 2.9x in 9M2016. KPTT received SGD46.2mn in cash dividends from associated companies in 9M2017. Adding dividends received into EBITDA, we find adjusted EBITDA/Interest still healthy at 6.9x versus 7.9x in 9M2016. Including short-term placements with a related party, we find net gearing manageable at 0.4x as at 30 September 2017 (end-2016: 0.5x). Given associates and investments being dominant contributors to KPTT, net cash from operating activities is typically low and in 9M2017, this was a negative SGD3.2mn. In end-2016, capital commitments, including commitments to ADC, ballooned to SGD250.6mn (from only SGD58.2mn in end-2015). In 9M2017, KPTT's investing outflow was SGD107.7mn. KPTT generated SGD302.7mn in cash proceeds from the partial sale of KDC SGP 3 and KDC SGP 4. Net-net, investing activities generated an inflow of SGD83.4mn. In August 2017, capital commitments to ADC increased further by USD180mn (~SGD239mn). Barring further asset sales, we expect such commitments to be partly debt-funded. **We are initiating KPTT's issuer profile at Neutral (4).**

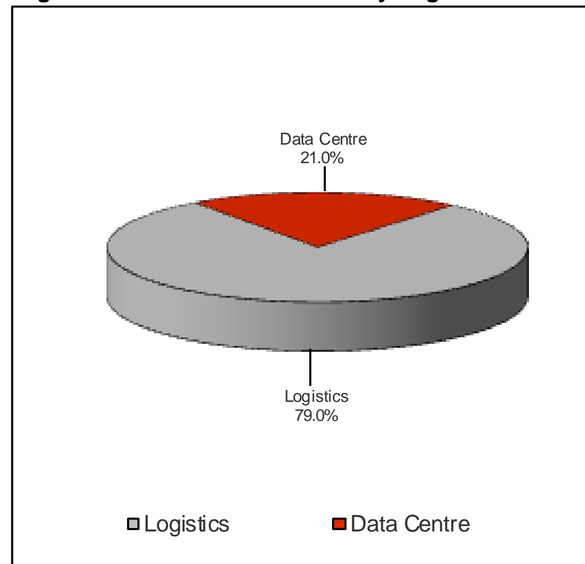
Keppel Telecommunications & Transportation Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	200.6	194.6	133.3
EBITDA	36.2	34.1	14.5
EBIT	19.8	15.4	-1.6
Gross interest expense	13.7	14.1	8.8
Profit Before Tax	129.6	130.3	50.5
Net profit	91.5	105.1	34.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	188.5	103.0	138.2
Total assets	1,499.6	1,722.9	1,551.5
Gross debt	515.4	528.8	490.4
Net debt	326.9	425.8	352.2
Shareholders' equity	824.5	908.0	923.7
Total capitalization	1,339.9	1,436.8	1,414.1
Net capitalization	1,151.4	1,333.8	1,275.9
Cash Flow (SGD'mn)			
Funds from operations (FFO)	107.9	123.8	50.7
* CFO	25.7	28.8	-3.2
Capex	130.3	116.5	128.1
Acquisitions	0.0	111.1	107.7
Disposals	1.5	41.9	303.2
Dividend	84.3	20.8	26.1
Free Cash Flow (FCF)	-104.6	-87.7	-131.3
* FCF adjusted	-187.3	-177.8	38.1
Key Ratios			
EBITDA margin (%)	18.1	17.5	10.9
Net margin (%)	45.6	54.0	26.0
Gross debt to EBITDA (x)	14.2	15.5	25.3
Net debt to EBITDA (x)	9.0	12.5	18.2
Gross Debt to Equity (x)	0.63	0.58	0.53
Net Debt to Equity (x)	0.40	0.47	0.38
Gross debt/total capitalisation (%)	38.5	36.8	34.7
Net debt/net capitalisation (%)	28.4	31.9	27.6
Cash/current borrowings (x)	3.1	1.4	0.9
EBITDA/Total Interest (x)	2.6	2.4	1.6

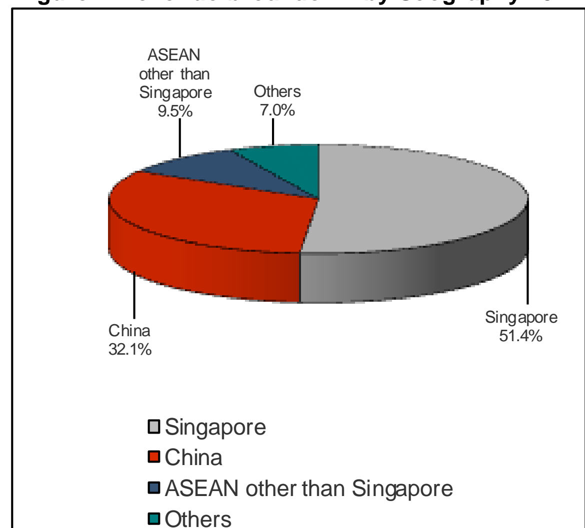
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2017



Source: Company

Figure 2: Revenue breakdown by Geography - 9M2017



Source: Company

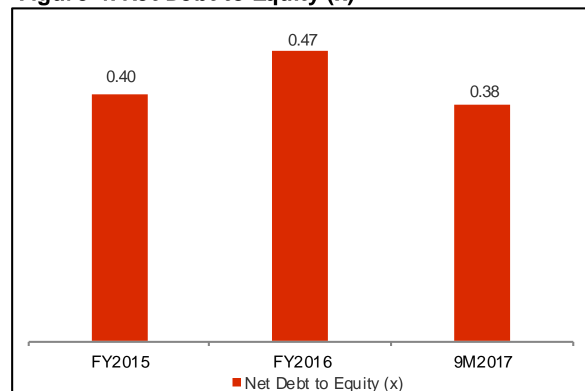
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	11.3	2.3%
Unsecured	139.2	28.4%
	150.5	**30.7%**
Amount repayable after a year		
Secured	47.0	9.6%
Unsecured	292.9	59.7%
	339.9	**69.3%**
Total	**490.4**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Lippo Malls Indonesia Retail Trust

Credit Outlook – After the recent pullback due to the potential Moody's ratings downgrade, LMRTSP 6.6% perp and LMRTSP 7% perp look the most interesting, offering 5.9% and 5.6% YTC respectively. We prefer LMRT curve over FIRT curve as LMRTSP offers higher yield despite having the same sponsor. We are also Overweight on LMRTSP '20s offering 4.1% while other REIT bonds of similar tenor typically trade below 3%.

Issuer Profile: Neutral (5)

S&P: Not rated

Moody's: Baa3/CW-Negative

Fitch: Not rated

Ticker: **LMRTSP**

Background

Listed on the SGX on 2007, Lippo Malls Indonesia Retail Trust ("LMRT") is a retail REIT with a portfolio of 20 retail malls and 7 retail spaces in Indonesia. The malls are mostly located within Greater Jakarta, Bundung, Medan and Palembang, targeted at the middle to upper-middle class domestic consumers. LMRT is the largest retail S-REIT by floor space, with an NLA of 851,850 sqm. LMRT is 29.85% owned by its sponsor, Lippo Karawaci ("LK"), as of 4 Jan 2018.

Key credit considerations

- **Decent results lifted by acquisitions:** 3Q2017 revenue increased 5.5% y/y to SGD49.9mn, with NPI higher by 7.1% y/y to SGD46.4mn mainly due to the acquisitions of Kuta, Kendari and positive rental reversions. While carpark income has fallen 18.3% y/y to SGD5.4mn, related expenses has fallen as the operator absorbs all the operating costs under the new contractual agreement. Due to higher revenue, net property income rose by 7.1% y/y to SGD46.4mn.

- **Slowdown in rental reversion:** Rental reversion rate for lease renewals fell to 2.9% in 3Q2017 (2Q2017: 13.0%), which appears in-line with the slowdown in Indonesia retail sales survey which posted only 1.8% y/y growth in Sep 2017 (Sep 2016: 10.7%). Rents on the 10Y master leases signed in 2007 for the retail spaces may record downward reversions, according to management. However, we remain comfortable with LMRT as we estimate these retail spaces account for only ~7% of 2016's NPI while occupancy for the portfolio remains healthy at 94.3%. LMRT's portfolio is also diversified across Indonesia.

- **Acquisitions with more in the pipeline:** LMRT will be acquiring 2 retail malls (Lippo Plaza Jogja, Kediri Town Square) for SGD98.1mn. LK manages 46 retail malls (28 held by LMRT) and plans to develop another 40 more which forms an acquisition pipeline for LMRT. We think more asset injections from LK are possible as this may alleviate LK's liquidity concerns. Separately, LMRT has sought the views of investment banks in carrying out a rights offering (leaving the quantum unsaid).

- **FX volatility as the biggest tail risk:** We believe FX is the biggest potential risk as most of the assets are in Indonesia (subject to IDR volatility) while all the debt (and perpetual securities) are priced in SGD. In 2017, the SGD has strengthened about 8% against the IDR though we think the impact remains manageable. We estimate that it will take a 55% plunge in the IDR against the SGD to wipe out shareholder's equity – the quantum we view as unlikely given that the total depreciation of IDR against the SGD is 35% over the past 10Y (including the 2008 Global Financial crisis period). Caps on aggregate leverage should mitigate the FX mismatch on the balance sheet.

- **Credit metrics remain manageable even with acquisitions:** Reported aggregate leverage is 28.7%, or 35.1% if we adjust perpetual bonds as half debt, half equity. After accounting for the (1) SGD98.1mn purchase of the retail malls (2) SGD16.1mn for the proposed purchase of the retail wing at Medan Fair (3) SGD14.5mn AEI works at Ekalokasari Plaza and (4) SGD75mn redemption of LMRTSP '17s, we expect asset leverage to inch up to 29.0% (adjusted: 35.1%), which remains manageable, in our view.

- **Potential downgrade by Moody's:** Moody's placed LMRT's rating on review for downgrade, flagging the deteriorating credit quality of the Lippo Group, which comprise one-third of LMRT's revenue. We are not overly concerned as the most tenants come from non-Lippo related entities. LMRT does not find non-payment risks by Lippo-related tenants. Further, we think the high occupancy of the malls (>90% on average) and healthy industry occupancy of 85% will support any potential vacancy left by the Lippo in the worst case scenario. In our view, there is two-thirds chance for LMRT to be downgraded as 2 out of 3 criteria from Moody's review looks unlikely to be satisfied, namely (1) reduction in exposure to the Lippo group of companies and (2) reduction in adjusted asset leverage well below 40% (Moody's calculates this at 39%). Only the criterion on the refinancing of the 2018 debt maturities is likely to be satisfied.

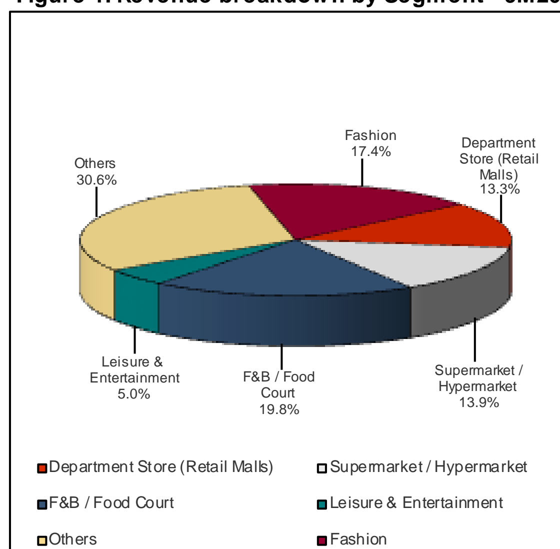
Lippo Mall Indonesia Retail Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	173.0	188.1	148.1
EBITDA	148.1	161.3	131.3
EBIT	147.1	159.6	129.6
Gross interest expense	44.4	44.5	30.7
Profit Before Tax	44.3	53.4	91.2
Net profit	26.4	28.8	66.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	80.6	77.8	74.9
Total assets	1,987.7	2,065.2	2,025.2
Gross debt	689.0	640.9	573.6
Net debt	608.4	563.1	498.7
Shareholders' equity	1,075.1	1,232.6	1,258.2
Total capitalization	1,764.1	1,873.4	1,831.8
Net capitalization	1,683.5	1,795.7	1,756.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	27.5	30.6	68.1
* CFO	125.3	143.7	117.4
Capex	9.9	14.8	20.7
Acquisitions	79.4	87.5	33.0
Disposals	0.0	0.0	0.0
Dividends	80.5	93.8	74.9
Free Cash Flow (FCF)	115.5	128.9	96.7
* FCF Adjusted	-44.3	-52.4	-11.2
Key Ratios			
EBITDA margin (%)	85.6	85.8	88.7
Net margin (%)	15.3	15.3	44.8
Gross debt to EBITDA (x)	4.7	4.0	3.3
Net debt to EBITDA (x)	4.1	3.5	2.8
Gross Debt to Equity (x)	0.64	0.52	0.46
Net Debt to Equity (x)	0.57	0.46	0.40
Gross debt/total capitalisation (%)	39.1	34.2	31.3
Net debt/net capitalisation (%)	36.1	31.4	28.4
Cash/current borrowings (x)	0.3	0.6	1.0
EBITDA/Total Interest (x)	3.3	3.6	4.3

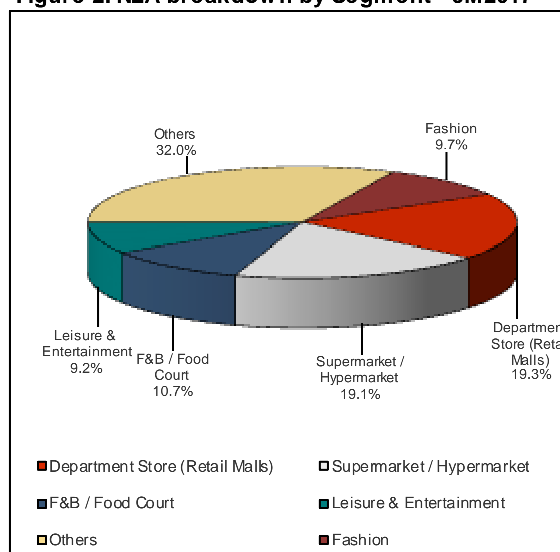
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2017



Source: Company

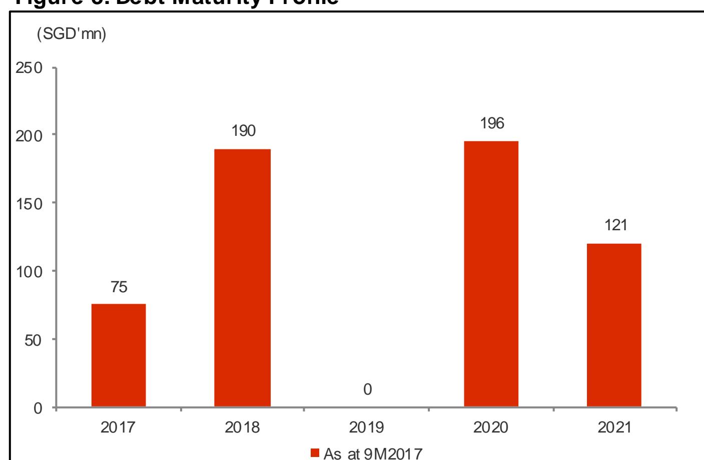
Figure 2: NLA breakdown by Segment - 9M2017



Source: Company

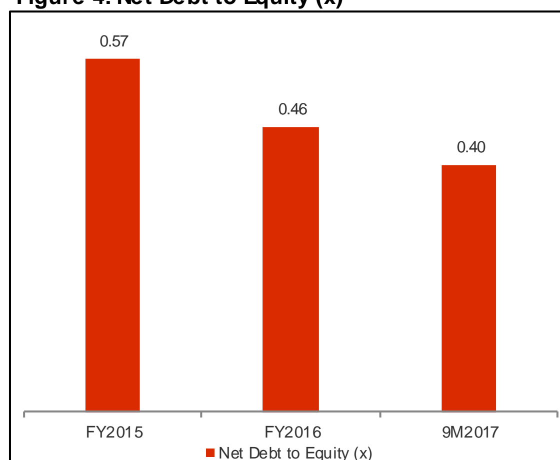
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Given current levels, we would wait till more clarity is provided regarding any potential MBC II acquisition, particularly regarding the funding structure.

Issuer Profile: Neutral (3)

S&P: Not rated

Moody's: Baa1/Stable

Fitch: Not rated

Ticker: **MCTSP**

Background

Mapletree Commercial Trust ("MCT") is a REIT that invests in office and retail assets. Its five key assets are: 1) VivoCity – a retail and leisure complex; 2) Mapletree Business City Phase 1 ("MBC"); 3) Bank of America Merrill Lynch HarbourFront ("MLHF"); 4) PSA office building ("PSAB") that includes a 40-storey office block and Alexandra Retail Centre ("ARC"); and 5) Mapletree Anson. The properties, with an NLA of 3.8mn sqft, are valued at SGD6.34bn as of 30 Sep 17. MCT is 33.9%-owned by Temasek through Mapletree Investments.

Mapletree Commercial Trust

Key credit considerations

- **Core remains strong:** For 2QFY2018 results (ending September 2017), gross revenue was up 21.7% y/y to SGD107.2mn while NPI was up 23.4% y/y to SGD84.4mn. Results continue to be boosted by MBC, which was acquired on 25/08/16. That said, MCT's performance remains fair as after adjusting for MBC, MCT still reported 1.2% and 1.5% y/y increase in gross revenue and NPI respectively for the quarter. MCT performance continues to be dominated by VivoCity (property NPI up 4.8% y/y), with the property receiving incremental contribution from the optimization of Basement 2 post AEI. The robust performance of VivoCity has led to further AEI plans, with the opening of a Public Library (3,000sqm) in 2018 on Level 3 (under CSFS), which in turn would grant VivoCity with bonus GFA. VivoCity intends to utilize this extra GFA to extend Basement 1 with an additional 24,000sqft of retail space. The AEI is expected to commence in 3QFY2018, and is expected to complete in phases by 3QFY2019.

- **Issues remain at the fringe:** Comparatively, Mapletree Anson and the PSA Building have underperformed, reporting y/y declines of 3.4% and 3.2% in property revenue respectively. Mapletree Anson, in particular, was a disappointment with occupancy falling back to 92.9%, when it had just recovered to 99.2% one quarter back. As a result, portfolio occupancy dipped slightly to 97.6% q/q (1QFY2018: 98.1%). On the bright side, committed occupancy is higher at 98.7%. Weakness at Mapletree Anson and PSA Building may have been responsible for the -4.4% rental reversion for office (excluding MBC). MCT also reported a pre-termination of space at MBC totaling 104,000sqft, which caused overall MCT portfolio rental reversion to decline 2.2%. That said, management had indicated that they already found a replacement lease, which would have caused MCT portfolio rental version to be +1.2%.

- **Retail stats mixed:** Portfolio tenant retention remains healthy at 80.8%, while retail rental reversion was +2.0% despite the difficult environment. That said, we note that shopper traffic growth looks to be negative for 2QFY2018 (flat for 1HFY2018) with management indicating that 1HFY2017 was particularly strong. Tenant sales look to have been slightly impacted as well during 2QFY2018. WALE for both Retail and Office/Business Park remained relatively stable at 2.0 years and 3.5 years respectively. The lease expiry profile looks manageable, with MCT having 2.5% and 0.6% of gross rental revenue expiring for Retail and Office/Business Park respectively for 2HFY2018.

- **Stable credit profile, though MBC II looms:** Aggregate leverage remained unchanged q/q at 36.4% (FY2017: 36.3%) with MCT's balance sheet relatively stable. MCT's portfolio remains entirely unencumbered, while proportion of fixed debt improved slightly q/q to 78.0% (FY2017: 73.7%) due to the refinancing of some bank debt with MCT's SGD100mn bond issue done during the quarter. Though MCT does not have any debt maturities during 2HFY2018, it does have SGD264mn in bank loans to be refinanced in FY2019 (versus SGD45.4mn in cash balance). We believe that MCT should be able to refinance its near-term debt, given its continued access to capital markets as well as its unencumbered balanced sheet. We will retain our Neutral (3) Issuer Profile on MCT given the strong performance of VivoCity, its largest asset. That said, we remain cognizant of the potential future acquisition of MBC phase 2. We believe, however, that should a transaction occur, MCT would rehash its past acquisition philosophy (based on the MBC phase 1 acquisition) and keep leverage in check.

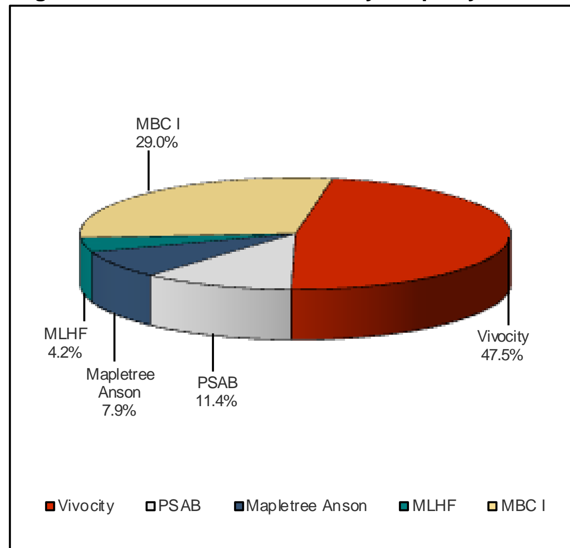
Mapletree Commercial Trust

Table 1: Summary Financials

Year Ended 31st March	FY2016	FY2017	1H2018
Income Statement (SGD'mn)			
Revenue	287.8	377.7	215.0
EBITDA	200.6	266.1	153.5
EBIT	200.5	266.0	153.4
Gross interest expense	39.7	54.2	31.6
Profit Before Tax	298.7	345.8	121.8
Net profit	298.7	345.8	121.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	63.6	53.9	45.4
Total assets	4,415.2	6,405.7	6,399.0
Gross debt	1,551.5	2,329.8	2,326.6
Net debt	1,487.9	2,275.8	2,281.1
Shareholders' equity	2,764.0	3,957.5	3,956.2
Total capitalization	4,315.5	6,287.2	6,282.7
Net capitalization	4,251.9	6,233.3	6,237.3
Cash Flow (SGD'mn)			
Funds from operations (FFO)	298.7	345.9	121.8
* CFO	212.7	287.6	162.0
Capex	7.4	0.1	0.0
Acquisitions	0.0	1,853.1	10.5
Disposals	0.0	0.0	0.0
Dividends	156.8	201.5	129.0
Free Cash Flow (FCF)	205.4	287.5	162.0
* FCF Adjusted	48.5	-1,767.1	22.4
Key Ratios			
EBITDA margin (%)	69.7	70.4	71.4
Net margin (%)	103.8	91.6	56.7
Gross debt to EBITDA (x)	7.7	8.8	7.6
Net debt to EBITDA (x)	7.4	8.6	7.4
Gross Debt to Equity (x)	0.56	0.59	0.59
Net Debt to Equity (x)	0.54	0.58	0.58
Gross debt/total capitalisation (%)	36.0	37.1	37.0
Net debt/net capitalisation (%)	35.0	36.5	36.6
Cash/current borrowings (x)	0.2	NM	0.2
EBITDA/Total Interest (x)	5.0	4.9	4.9

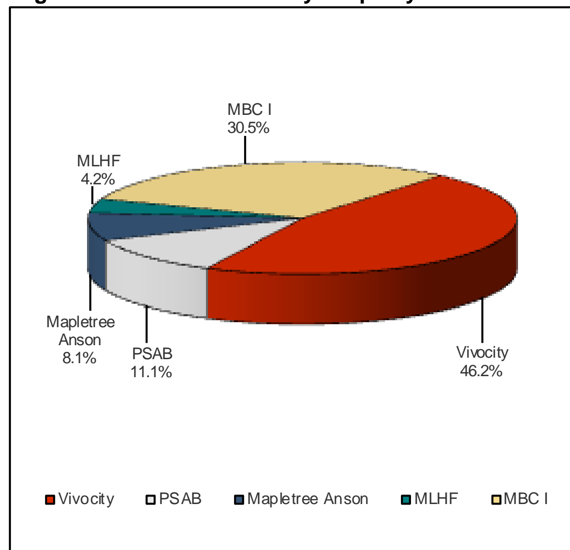
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - 1H2018



Source: Company

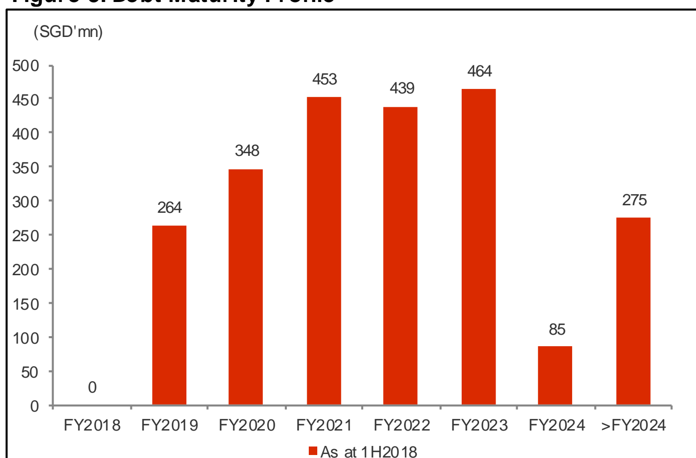
Figure 2: NPI breakdown by Property - 1H2018



Source: Company

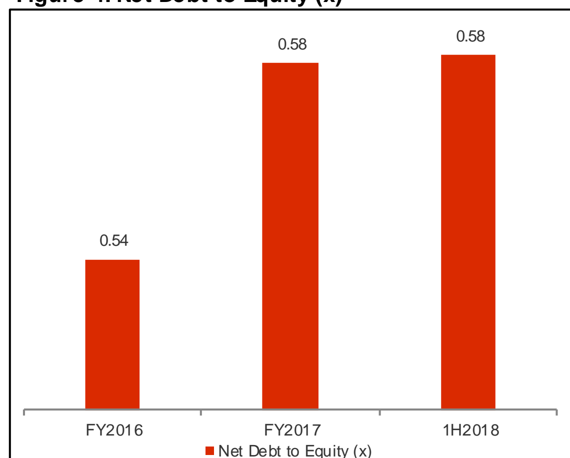
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – Although MAGIC is backed by Mapletree, which is a strong sponsor, we think MAGIC 3.2% '21s and MAGIC 3.96% '22s look fair trading at 2.24% 2.43% respectively.

Issuer Rating: Neutral (4)

S&P: Not rated

Moody's: Baa1/Stable

Fitch: Not rated

Ticker: **MAGIC**

Company Profile

Listed on the SGX in 2013, Mapletree Greater China Commercial Trust ("MAGIC") is a S-REIT with a mandate to invest in the Greater China region. MAGIC currently holds 3 commercial properties in its portfolio. Festival Walk is located in Hong Kong while Gateway Plaza and Sandhill Plaza is located in Beijing and Shanghai respectively. MAGIC has a market cap of SGD3.6bn as of 8 Jan 2018. Temasek Holdings is MAGIC's largest shareholder with a 33.76% stake. Mapletree Investments Pte Ltd is the sponsor of MAGIC.

Mapletree Greater China Commercial Trust

Key credit considerations

- **Decent 2QFY2018 results:** 2QFY2018 revenue grew 6.0% y/y to SGD88.1mn while net property income ("NPI") increased 5.7% y/y to SGD70.9mn. The growth was mainly due to stronger rental reversions at Festival Walk (+11%), Gateway Plaza (+10%) and Sandhill Plaza (+10%). In addition, Gateway Plaza rebounded from a lower revenue base in 2QFY2017 (which was due to uncertainty in the applicable value added tax rate).

- **Dark clouds lifted from Festival Walk:** Tenant sales and footfall increased 2.5% y/y and 2.0% y/y to HKD2.4bn and 19.4mn respectively at Festival Walk. This is a substantial improvement from FY2017's 8.8% dip in tenant sales and flattish growth in footfall as mini-anchors (e.g. MUJI) began operations and demand proved to be resilient with favourable labour market conditions and improved economic sentiment. MAGIC expects rental reversion rate to continue to grow.

- **Festival Walk's single-asset risk is manageable:** 69.3% of the portfolio's NPI as of 1HFY2018 is contributed by Festival Walk, with the remainder from Gateway Plaza (23.0%) and Sandhill Plaza (7.8%). By asset value, Festival Walk represents 73.1% of the portfolio. Nevertheless, we think concentration risks are manageable with a good track record of 100% occupancy since completion in 1998 and a diverse tenant mix. Furthermore, Festival Walk continues to benefit from tailwinds in rental reversion and we note that Hong Kong retail sales y/y has turned positive since March 2017.

- **China assets to continue seeing rental growth:** Management expects Gateway Plaza's rental reversion in FY2018 to grow modestly. Despite a deceleration of Beijing's tertiary growth which has impacted expansion plans of multinational retailers, occupancy remains high at Gateway Plaza (2QFY2018: 95.8%) while 81% of the expired/expiring leases in FY2018 has been renewed or re-let. Meanwhile, management continues to expect Sandhill Plaza to benefit from healthy rental reversion with demand for office space in business parks in Shanghai remaining robust.

- **Some balance sheet FX risks:** Although the China assets (Gateway Plaza, Sandhill Plaza) make up 26.9% of the property value, only 2% of the total debt is RMB-denominated. We estimate that gearing increases by ~1% for every 10% depreciation in RMB against HKD. We note that the SGD bonds and USD bank loans have been swapped to HKD, hence eliminating other FX risks.

- **Manageable credit metrics:** Aggregate leverage improved to 38.5% (FY2017: 39.2%) with the repayment of RMB105mn onshore loan in 2QFY2018. In addition, MAGIC has entered into loan facility agreements and looks to refinance HKD1.8bn (SGD306.4mn) of debt ahead of maturity. Debt profile is well-staggered, with no more than 24% of debt due in any year. In any case, we think MAGIC's credit profile remains manageable with the strong Mapletree sponsorship and access to the bond markets (total issuances to date: HKD4.1bn (SGD698.0). EBITDA/Total Interest also looks manageable at 3.7x, though this may inch down with rising interest rates. However, as aggregate leverage is nearer the 45% regulatory cap, we think MAGIC will have to raise equity or perpetual bonds for any significant acquisition with only ~SGD400mn debt headroom remaining.

Mapletree Greater China Commercial Trust

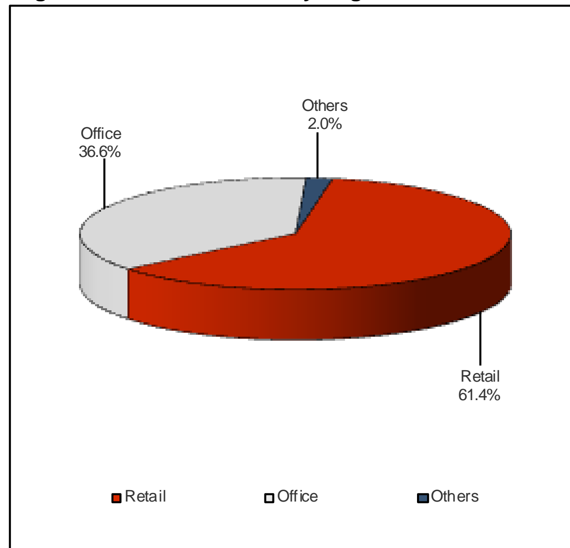
Table 1: Summary Financials

Year Ended 31st Mar	FY2016	FY2017	1H2018
Income Statement (SGD'mn)			
Revenue	336.6	350.6	177.0
EBITDA	252.4	264.4	131.9
EBIT	252.0	264.0	131.7
Gross interest expense	65.0	74.2	35.4
Profit Before Tax	465.9	412.6	99.7
Net profit	428.1	372.5	82.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	206.1	234.9	195.3
Total assets	6,153.5	6,528.9	6,191.8
Gross debt	2,422.3	2,556.2	2,382.7
Net debt	2,216.2	2,321.3	2,187.4
Shareholders' equity	3,416.2	3,636.3	3,505.0
Total capitalization	5,838.4	6,192.5	5,887.7
Net capitalization	5,632.3	5,957.6	5,692.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	428.6	372.9	83.2
* CFO	264.9	226.8	163.3
Capex	0.7	0.7	0.1
Acquisitions	335.3	6.9	0.5
Disposals	0.0	0.0	0.0
Dividends	188.3	204.3	104.3
Free Cash Flow (FCF)	264.2	226.0	163.2
* FCF Adjusted	-259.4	14.8	58.4
Key Ratios			
EBITDA margin (%)	75.0	75.4	74.5
Net margin (%)	127.2	106.2	46.8
Gross debt to EBITDA (x)	9.6	9.7	9.0
Net debt to EBITDA (x)	8.8	8.8	8.3
Gross Debt to Equity (x)	0.71	0.70	0.68
Net Debt to Equity (x)	0.65	0.64	0.62
Gross debt/total capitalisation (%)	41.5	41.3	40.5
Net debt/net capitalisation (%)	39.3	39.0	38.4
Cash/current borrowings (x)	0.4	1.4	2.7
EBITDA/Total Interest (x)	3.9	3.6	3.7

Source: Company, OCBC estimates

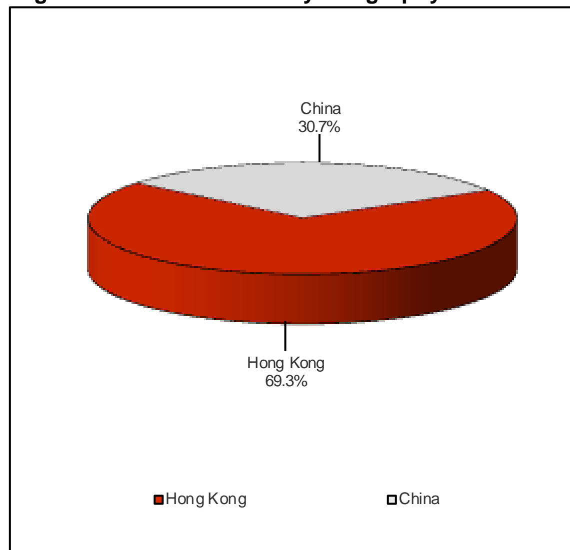
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: NPI breakdown by Segment - 1H2018



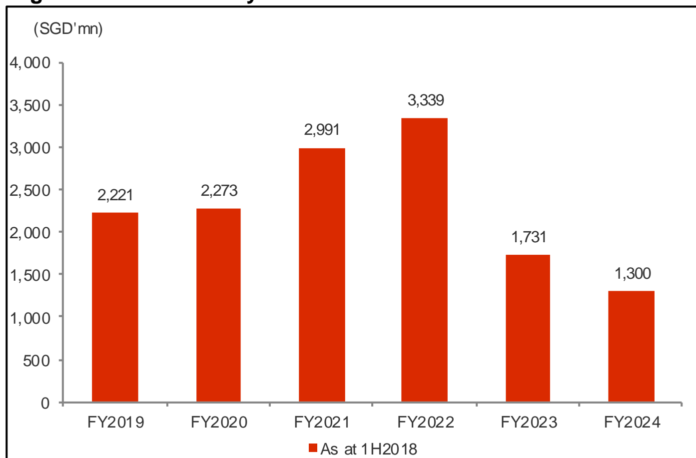
Source: Company

Figure 2: NPI breakdown by Geography - 1H2018



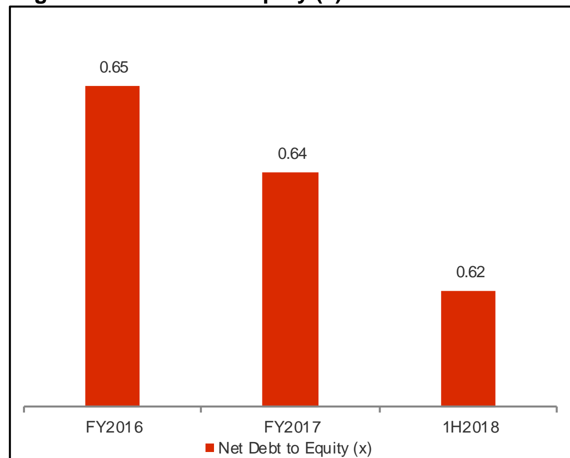
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – The MINTSP 3.75% '19s is trading at a YTW of 1.8% (44 bps spread) and we see better value in Frasers Centrepoint Trust's FCTSP 2.9% '19, which offers 10 bps higher. Both are rated at the BBB+ levels. Both MINTSP and FCTSP curves are less liquid.

Issuer Profile: Neutral (3)

S&P: Not rated
Moody's: Not rated
Fitch: BBB+/Stable

Ticker: **MINTSP**

Background
Mapletree Industrial Trust ("MINT") is a Singapore-centric industrial REIT. MINT owns a portfolio of flatted factories, hi-tech, business parks, stack-up/ramp-up and light industrial buildings. As at 30 September 2017, MINT's total assets were SGD3.8bn. Historically all of its properties were located in Singapore though, from October 2017 onwards, MINT (via a joint venture with its Sponsor) also owns 14 data centres in the USA. MINT is sponsored by Mapletree Investments Pte Ltd ("Mapletree") who also holds a 31%-stake in the REIT. Mapletree is in turned wholly-owned by Temasek.

Mapletree Industrial Trust

Key credit considerations

- **1HFYE March 2018 ("1HFY2018") operating results higher:** Gross revenue was up 7.8% y/y to SGD181.4mn mainly due to the contribution from the Hewlett-Packard ("HP") building (phase two of the redevelopment completed in June 2017) and a one-off pre-termination compensation received from J&J (amounting to SGD3.1mn). The stronger top line was partly offset by lower occupancies (90.4% as at 30 September 2017 against 92.5% a year ago). Operating expenses only increased by 4.0% y/y, mainly driven by higher marketing commission and property taxes, though partly offset by lower utilities expenses As a result, net property income ("NPI"), increased 6.5% to SGD135.8mn (removing J&J compensation). A small property, which contributed 0.3% to MINT's portfolio in FY2017 was disposed in July 2017. Amidst the oversupply of industrial space, MINT has been offering lower rents to aid tenant retention. As such we expect period-to-period revenue to be flat in 1HFY2018 on a same-store basis.

- **Interest coverage lower:** Unadjusted EBITDA was SGD124.1mn (up 9.4% y/y) though finance cost had increased 24.9% to SGD16.4mn. The increase in finance cost was driven by higher hedged rates (as existing hedges expired) and interest incurred on HP building. Weighted average cost of debt was 2.9% in 2QFY2018 versus 2.6% a year ago. Instead of being capitalised, interest related to HP is now expensed. Unadjusted EBITDA/Interest was lower at 7.6x against 8.6x in 1HFY2017 and removing the impact from J&J's compensation, EBITDA/Interest would be at 7.4x. Despite the increase in unadjusted EBITDA, cash from operations (before interest and tax) was SGD113.9mn (1HFY2017: SGD114.4mn) as HP was still enjoying a rent-free period. While income is recognised on the lease, no cash was actually received. In 1HFY2018, MINT continued to progress on the asset enhancement initiatives at 30A Kallang Place and Kallang Basin 4 ("Kallang Basin") and the greenfield data centre in Western Singapore. Kallang Place is expected to complete in the first quarter of 2018 and MINT is still trying to secure tenants for this. The lease on a greenfield data centre has been 100% committed by a data centre operator and is targeted to complete in the second half of 2018.

- **Aggregate leverage to increase with MINT's first overseas foray:** As at 30 September 2017, aggregate leverage was still low at 30.0% versus the 29.8% as at 30 June 2017. All debt remains unsecured and short term debt is manageable against cash balance of SGD39.3mn. In December 2017, MINT completed the joint acquisition (together with its Sponsor) of 14 data centres in the USA for USD754.2mn (~SGD1.0bn), inclusive of transaction cost. The deal was first announced in October 2017 and comes on the heels of MINT's expanded investment strategy into data centres globally. MINT's proportionate cost for its 40%-stake was USD304.8mn (~SGD415mn) and it has a right of first refusal to acquire the Sponsor's 60% stake. MINT will hold the investment as a joint venture and we expect the REIT to receive dividends from its investment. MINT has projected that on a pro-forma basis, (including the proportionate share of debt and assets), aggregate leverage will be ~34.0%. MINT launched an equity private placement in October 2017 and raised SGD155.7mn in gross proceeds; with the remainder of the investment funded via USD debt. By value, the US data centres will make up ~10% of MINT's portfolio post-acquisition. Despite the USA being a new geography, we see low-to-moderate operational management risk as (1) the buyers had entered into a two year management agreement with Carter Validus (the vendor) to continue managing the assets, smoothing transition for tenants; (2) 90.6% of gross rental income is leased to tenants on a core-and shell basis (ie: with little fit out obligations for MINT); and (3) Sponsor has a USA presence.

Mapletree Industrial Trust

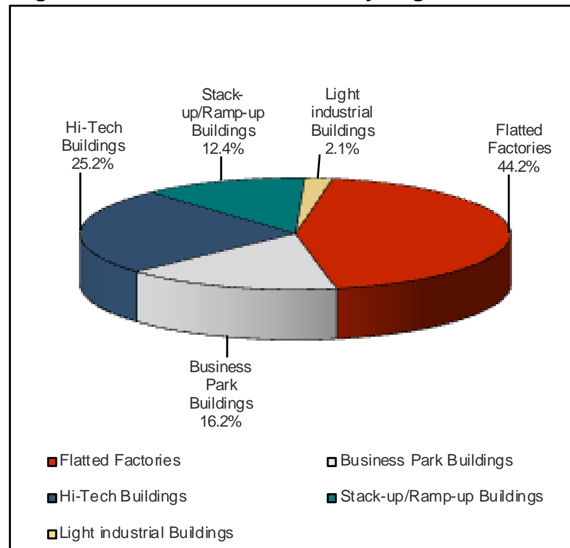
Table 1: Summary Financials

Year Ended 31st March	FY2016	FY2017	1H2018
Income Statement (SGD'mn)			
Revenue	331.6	340.6	181.4
EBITDA	218.0	228.6	124.1
EBIT	218.0	228.6	124.1
Gross interest expense	25.9	27.3	16.4
Profit Before Tax	190.6	270.6	106.8
Net profit	190.6	270.6	106.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	54.3	38.0	39.3
Total assets	3,623.9	3,798.1	3,832.6
Gross debt	1,021.2	1,106.4	1,147.7
Net debt	966.8	1,068.4	1,108.4
Shareholders' equity	2,465.2	2,532.8	2,534.5
Total capitalization	3,486.4	3,639.2	3,682.2
Net capitalization	3,432.0	3,601.2	3,642.9
Cash Flow (SGD'mn)			
Funds from operations (FFO)	190.6	270.6	106.8
* CFO	219.7	234.0	114.0
Capex	0.0	0.0	0.0
Acquisitions	43.5	103.9	49.1
Disposals	0.0	0.0	17.4
Dividends	114.6	203.9	104.5
Free Cash Flow (FCF)	219.7	234.0	114.0
* FCF Adjusted	61.6	-73.7	-22.3
Key Ratios			
EBITDA margin (%)	65.8	67.1	68.4
Net margin (%)	57.5	79.4	58.9
Gross debt to EBITDA (x)	4.7	4.8	4.6
Net debt to EBITDA (x)	4.4	4.7	4.5
Gross Debt to Equity (x)	0.41	0.44	0.45
Net Debt to Equity (x)	0.39	0.42	0.44
Gross debt/total capitalisation (%)	29.3	30.4	31.2
Net debt/net capitalisation (%)	28.2	29.7	30.4
Cash/current borrowings (x)	1.1	0.3	0.3
EBITDA/Total Interest (x)	8.4	8.4	7.6

Source: Company, OCBC estimates

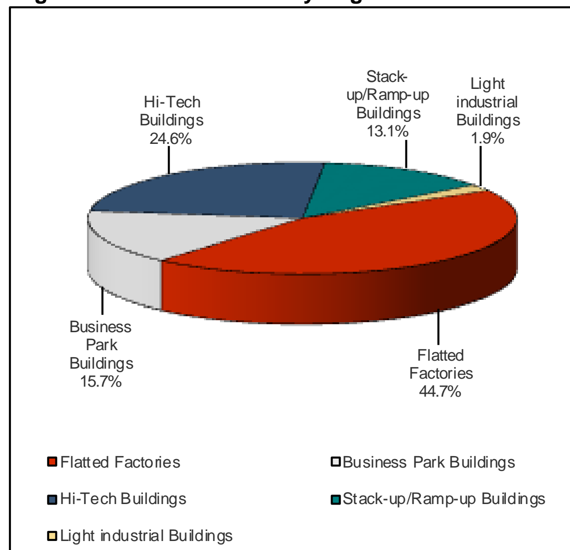
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1H2018



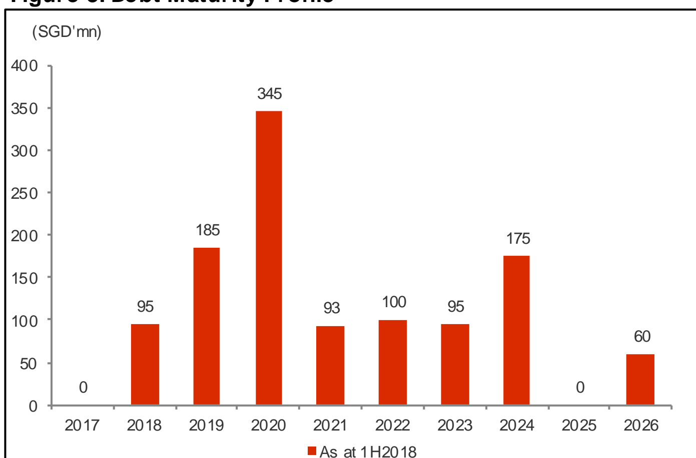
Source: Company

Figure 2: NPI breakdown by Segment - 1H2018



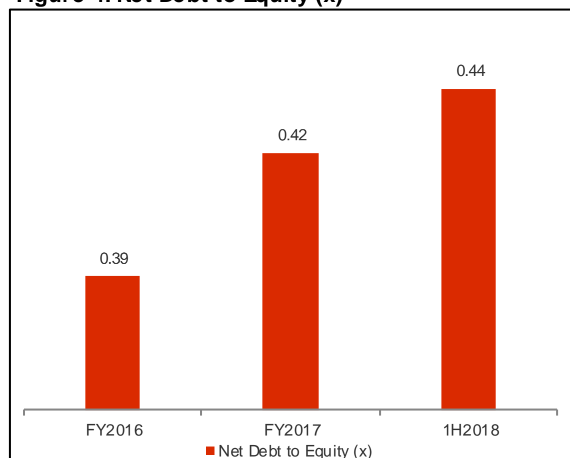
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Mapletree Logistics Trust

Credit Outlook – The MLTSP 4.18%-PERP with a call date in November 2021 is trading at a YTW of 3.3% while the MLTSP 3.65%-PERP with a call date in March 2023 is trading at a YTW of 3.6%. We think both perpetuals are providing better value than Singapore Post's SPOST 4.25%-PERP with a YTW of 2.7% and call date in March 2022.

Issuer Profile: Neutral (4)

S&P: Not rated
Moody's: Baa1/Stable
Fitch: Not rated

Ticker: **MLTSP**

Background

Listed in 2005, Mapletree Logistics Trust ("MLT") is the first Asia-focused logistics REIT in Singapore. Total assets were SGD5.5bn as at 30 September 2017. In October 2017, MLT acquired a property in Hong Kong which would have increased its total asset size to SGD6.3bn. In January 2018, MLT announced a 38%-stake acquisition of another Hong Kong property which it already held. MLT is sponsored by Mapletree Investments Pte. Ltd ("Mapletree"), who holds a 36%-stake in the REIT. Mapletree is in turned wholly-owned by Temasek.

Key credit considerations

- **Operating results for the first half of financial year ending March 2018 ("1HFY2018") doing better:** In 1HFY2018, gross revenue was up 4.6% y/y to SGD189.5mn driven by higher revenue from existing properties in Hong Kong, acquisitions in Australia, Malaysia and Vietnam completed in FY2017 and higher translated revenue due to the stronger HKD, AUD and KRW against SGD. This was partly offset by lower revenue from a multi-tenanted building in South Korea and the lack of revenue from Ouluo Logistics Centre in China which is undergoing redevelopment, absence of revenue from three assets that were divested and the negative impact from a weaker JPY and MYR against the SGD. Q/q, revenue was down 2.2% to SGD93.7mn in 2QFY2018. Between 1QFY2018 and 2QFY2018, two Japan assets and one Singapore asset were divested. We estimate that on a same-store basis, q/q revenue would have declined 0.8%. Portfolio weighted average lease expiry (by net lettable area) was 3.8 years as at 30 September 2017 against 4.1 years a year ago. Per company, this is a function of passage of time on existing leases as well as a reflection of end-users demanding shorter leases on their logistics facilities. MLT's overall portfolio occupancy was relatively stable at 95.8% as at 30 September 2017.

- **Interest coverage ratio:** In line with revenue growth and no major swings in expenses, EBITDA similarly increased 5.0% y/y to SGD140.2mn. Interest expense increased 8.6% to SGD25.4mn as more debt was taken to fund acquisitions (ie: properties in Australia, Malaysia and Vietnam). On an unadjusted basis, EBITDA/Interest was somewhat lower at 5.5x versus 1HFY2017's 5.7x. Perpetuals as a proportion of total capital was 8.3% as at 30 September 2017 versus 11.1% in end-March 2017. We assume MLT pays SGD17.0mn p.a. in perpetual distributions (SGD8.5mn for six months). Assuming 50% of the perpetual distributions as interest, we find EBITDA/(Interest plus 50% perpetual distribution) at 4.7x.

- **Large expansions in Hong Kong:** In August 2017, MLT announced the proposed acquisition of Mapletree Logistics Hub Tsing Yi in Hong Kong ("Tsing Yi") from its Sponsor for HKD4.9bn (~SGD847.6mn), inclusive of costs. This transaction would help MLT diversify its portfolio from low-growth Singapore and Japan. In conjunction with the acquisition, MLT had opted to raise straight equity and simultaneously lessen its reliance on perpetuals to lower down its adjusted aggregate leverage. In total, MLT needed SGD1.2bn to pay for Tsing Yi and to redeem the old SGD350mn MLT 5.375%-PERP. MLT launched an equity fundraising in September 2017 to raise SGD640mn (SGD353.5mn was raised in 2QFY2018 and SGD286.5mn raised in 3QFY2018). A smaller "replacement perpetual" of SGD180mn was issued in 2QFY2018, whilst the remainder is being funded by bank debt. In January 2018, MLT announced the acquisition of the remaining 38%-stake in Shatin No. 3 for HKD677mn (~SGD115.1mn), inclusive of costs, via bank debt and internal cash. Post-transaction, MLT would have full ownership of Shatin No.3.

- **Adjusted aggregate leverage tilting higher:** As at 30 September 2017, reported aggregate leverage was 33.7%, lower versus the 39.0% as at 30 June 2017. Including 50% of perpetuals as debt, adjusted aggregate leverage was lower at 38%. This was 44% as at 30 June 2017 and nearing the 45% level which may trigger a credit rating downgrade. The Tsing Yi acquisition closed in October 2017 and assuming completion of Shatin No. 3, reported aggregate leverage is expected to rise to 39.0%. Two properties are being disposed, 7 Tai Seng and Senai-UPS in Malaysia, and these collectively may generate cash proceeds of SGD78mn which can be used for future capex. As MLT is still in the midst of asset recycling (selling older, out-of-spec properties to make way for assets in faster-growing markets), we expect the REIT to continue its aggressive stance in utilising its balance sheet.

Mapletree Logistics Trust

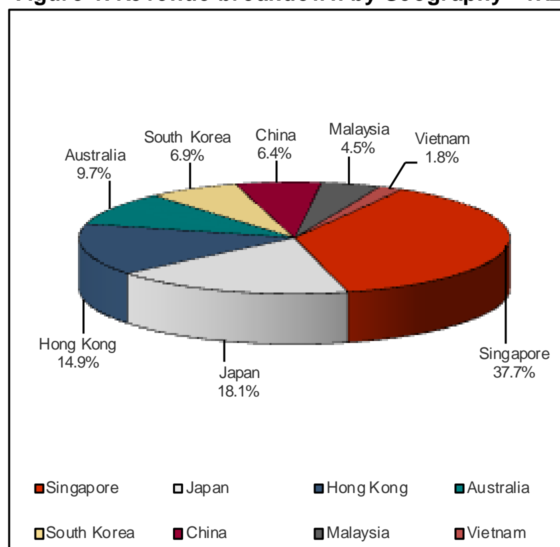
Table 1: Summary Financials

Year Ended 31st March	FY2016	FY2017	1H2018
Income Statement (SGD'mn)			
Revenue	349.9	373.1	189.5
EBITDA	255.9	274.3	140.2
EBIT	254.7	272.9	139.4
Gross interest expense	44.0	48.7	25.4
Profit Before Tax	235.4	252.8	154.8
Net profit	190.2	184.3	124.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	93.3	92.6	87.6
Total assets	5,207.4	5,686.7	5,494.8
Gross debt	2,058.3	2,184.1	1,845.9
Net debt	1,965.0	2,091.5	1,758.3
Shareholders' equity	2,878.5	3,189.7	3,327.3
Total capitalization	4,936.8	5,373.8	5,173.1
Net capitalization	4,843.5	5,281.2	5,085.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	191.3	185.6	125.4
* CFO	231.0	266.9	140.3
Capex	0.0	0.0	0.0
Acquisitions	422.5	374.0	47.1
Disposals	33.2	14.1	176.8
Dividends	187.8	200.0	108.9
Free Cash Flow (FCF)	231.0	266.9	140.3
* FCF Adjusted	-346.2	-293.0	161.1
Key Ratios			
EBITDA margin (%)	73.1	73.5	74.0
Net margin (%)	54.4	49.4	65.8
Gross debt to EBITDA (x)	8.0	8.0	6.6
Net debt to EBITDA (x)	7.7	7.6	6.3
Gross Debt to Equity (x)	0.72	0.68	0.55
Net Debt to Equity (x)	0.68	0.66	0.53
Gross debt/total capitalisation (%)	41.7	40.6	35.7
Net debt/net capitalisation (%)	40.6	39.6	34.6
Cash/current borrowings (x)	0.4	0.4	1.3
EBITDA/Total Interest (x)	5.8	5.6	5.5

Source: Company, OCBC estimates

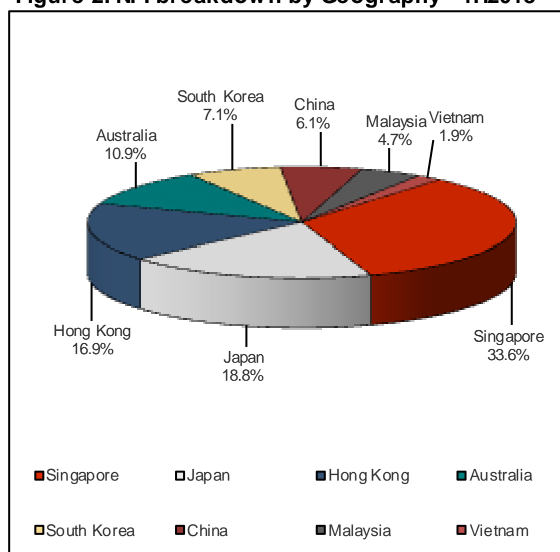
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Geography - 1H2018



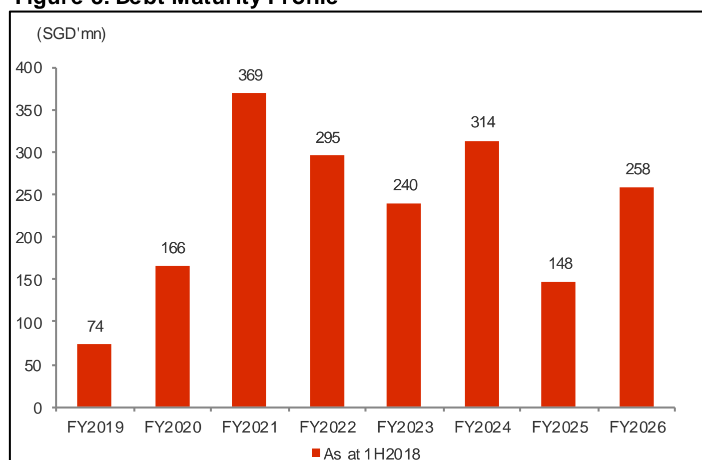
Source: Company

Figure 2: NPI breakdown by Geography - 1H2018



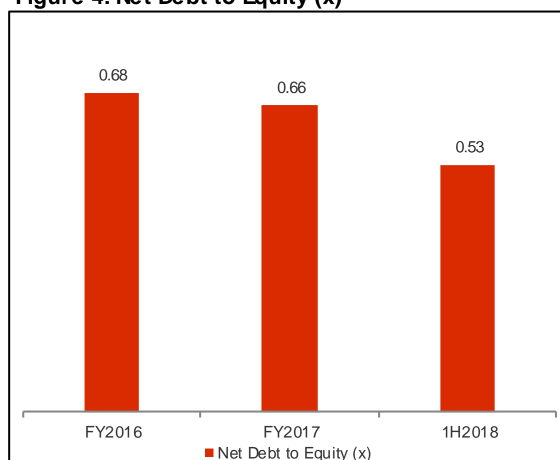
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We have previously withdrawn our bond level recommendation on the NCLSP curve pending the outcome of NCL's restructuring process.

Issuer Profile: Negative (7)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **NCLSP**

Company profile

Nam Cheong Ltd ("NCL") is an offshore marine group in Malaysia with an operating history of over 25 years in the Offshore Support Vessels ("OSV") segment. Its primary business is shipbuilding, with its product range including AHTS, PSVs, Accommodation Workboats, Barges and Safety Standby Vessels. For FY2016, ~86% of NCL's revenues were derived from shipbuilding while vessel chartering accounts for ~14%. The company is substantially controlled by Chairman Tan Sri Tiong Su Kouk with a total interest of ~50%. The firm has been listed on the SGX since 2011.

Nam Cheong Ltd

Key credit considerations

- **Restructuring proceeding:** NCL had formally commenced its restructuring, having received court approval on 27/10/17 to proceed with its proposal for restructuring via a Scheme of Arrangement ("SOA"). A debt moratorium had also commenced upon the court approval. Subsequently, on 23/11/17, the documents for the SOA were dispatched to creditors, including noteholders. In summary, as part of its restructuring, NCL intends to monetize the collateral of its secured debt and utilize proceeds to pay down secured debt. As secured debt is expected to be under collateralized, the balance remaining will be recognized as unsecured debt. As part of the SOA, these unsecured debt, along with the bonds issued by NCL, would be collectively split between non-sustainable debt (35% of notional) and sustainable debt (65% of notional). NCL is proposing to conduct a debt-for-equity exchange for the non-sustainable portion of debt (at SGD0.045 per share) while the sustainable portion of debt will be exchanged for a new 7-year amortizing unsecured term loan. Please refer to OCBC Asia Credit - Nam Cheong Credit Update (2 Oct) and OCBC Asia Credit - Nam Cheong Credit Update (6 Dec) for more details regarding the SOA.

- **Impairments taken:** As part of 2Q2017 results, NCL took MYR1.88bn in asset impairments and write-offs during the quarter. Specifically, NCL took MYR299.6mn impairment on its PPE, MYR15.5mn on its investment property and MYR8.6mn on trade receivables as well as wrote off MYR1.51bn in inventory and MYR47.5mn in prepayments. Aside from this, NCL also took a MYR54.4mn impairment on investment in associates (PT Pelayaran Nasional Bina Buana Raya Tbk, with a book value of MYR74.8mn as of end-2016) as well as MYR61.8mn on amounts owed by jointly controlled entities (the two material JVs are Synergy Kenyalang Offshore Bhd and Marco Polo Offshore (IV) Pte Ltd). In aggregate, the impairments and write downs drove NCL to a net loss of MYR2.02bn for the quarter and wiped out shareholders' equity (NCL reported negative MYR700.3mn in equity as of end-2Q2017). The "housekeeping" of NCL's balance sheet was likely to set stage for the SOA.

- **Recent operational performance**: For 9M2017, revenue was MYR248.2mn, up sharply from MYR50.1mn y/y, due to the absence of the revenue reversal seen in the previous period. Gross profit however was weak, increasing just 12% to MYR23.1mn (9% gross margin). For 3Q2017, revenue was MYR79.1mn (3Q2016: MYR25.8mn), driven by the sale and delivery of one vessel during the quarter. Chartering revenue increased as well due to fleet additions. However, FX losses as well as sharply higher finance cost (these are no longer capitalized) drove NCL to net loss of MYR48.6mn for 3Q2017. Operating cash flow was MYR11.9mn with NCL monetizing receivables. The debt moratorium met no further debt pay down while the restructuring caused NCL's MYR1.67bn in borrowings to accelerate and payable on demand (subject to moratorium). Looking forward, with demand for OSVs remaining weak and charter rates and utilization still low, 2018 performance would remain challenging.

- **What happens next**: The Scheme Meeting for Creditors to vote will be held on 24/01/18, while the voting instruction form by noteholders would have been submitted by 14/12/17. In the event that the SOA succeeds, noteholders would hold the new unsecured 7-year term loan for 65% notional of their original holdings. As these are not tradable, we would likely cease coverage on NCL. We would hold NCL's Issuer Profile at Negative (7) for now.

Nam Cheong Ltd

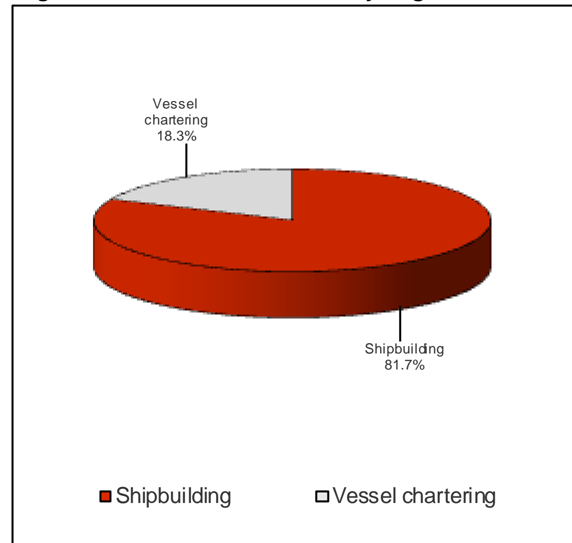
Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	9M2017
Income Statement (MYR'mn)			
Revenue	950.0	170.4	248.2
EBITDA	77.9	-12.1	14.6
EBIT	56.2	-34.4	-1.5
Gross interest expense	81.6	90.9	43.5
Profit Before Tax	31.0	-42.6	-2,120.1
Net profit	28.5	-42.0	-2,120.4
Balance Sheet (MYR'mn)			
Cash and bank deposits	506.1	301.5	208.6
Total assets	3,950.9	4,098.3	1,676.0
Gross debt	1,809.2	1,823.5	1,668.5
Net debt	1,303.1	1,522.0	1,459.8
Shareholders' equity	1,377.1	1,368.0	-733.2
Total capitalization	3,186.3	3,191.5	935.3
Net capitalization	2,680.3	2,890.0	726.6
Cash Flow (MYR'mn)			
Funds from operations (FFO)	50.2	-19.7	-2,104.3
* CFO	-547.9	-291.0	48.6
Capex	34.0	0.1	0.9
Acquisitions	0.0	0.0	0.0
Disposals	0.1	5.1	0.0
Dividend	84.9	0.0	0.0
Free Cash Flow (FCF)	-581.9	-291.1	47.7
* FCF adjusted	-666.7	-286.0	47.7
Key Ratios			
EBITDA margin (%)	8.2	-7.1	5.9
Net margin (%)	3.0	-24.7	-854.2
Gross debt to EBITDA (x)	23.2	-151.0	85.7
Net debt to EBITDA (x)	16.7	-126.0	75.0
Gross Debt to Equity (x)	1.31	1.33	-2.28
Net Debt to Equity (x)	0.95	1.11	-1.99
Gross debt/total capitalisation (%)	56.8	57.1	178.4
Net debt/net capitalisation (%)	48.6	52.7	200.9
Cash/current borrowings (x)	0.8	0.3	0.1
EBITDA/Total Interest (x)	1.0	-0.1	0.3

Source: Company, OCBC estimates

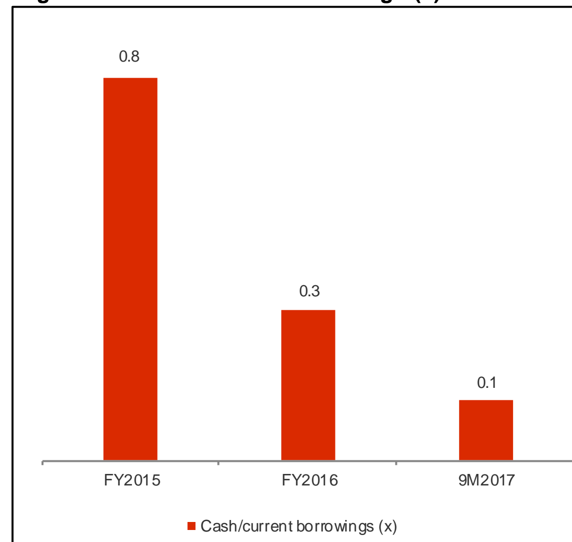
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2017



Source: Company

Figure 2: Cash/ Current Borrowings (x)



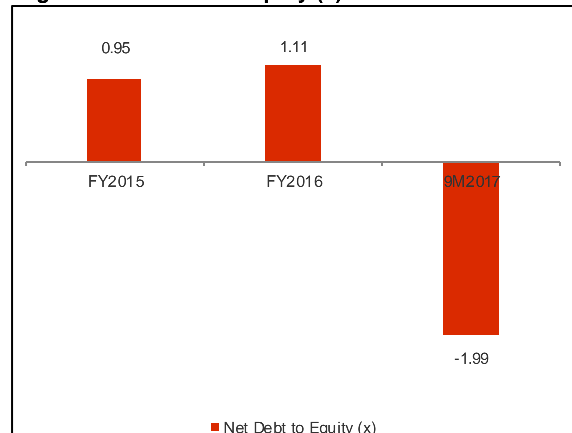
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (MYR'mn)	As at 31/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	588.7	35.3%
Unsecured	1,079.8	64.7%
	1,668.5	**100.0%**
Amount repayable after a year		
Secured	0.0	0.0%
Unsecured	0.0	0.0%
	0.0	**0.0%**
Total	**1,668.5**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – At a YTW of only 5.2%, the OLAMSP 5.5%-PERP provides insufficient compensation. The EREIT 4.6%-PERP has a YTW of 4.9% and both have their call dates in 2022. EREIT is rated at NR/Baa3/NR, backed by Singapore industrial property assets with a capped aggregate leverage at 45% per MAS regulations. This is in contrast to OLAMSP's significantly more levered profile.

Issuer Profile: Neutral (5)

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **OLAMSP**

Background
Olam International Limited ("Olam") is a diversified, vertically-integrated agri-commodities merchandiser, producer and trader. It also generates income from the sale of packaged food products, commodity financial services and holding minority stakes in longer term investments. Temasek is the largest shareholder with a ~54.8% stake followed by Mitsubishi Corp. with ~17.8%, senior management with ~5.7% and Kewalram Chanrai Group (founder) with ~7.2%.

Olam International Limited

Key credit considerations

- **9M2017 profits improved though interest coverage slightly down:** Olam's revenue for 9M2017 was up 31.5% y/y to SGD19.0bn while sales volume collectively increased 44.4% y/y. Reported EBITDA increased 18.9% y/y to SGD1.0bn, driven by increases in Edible Nuts, Spices and Vegetable Ingredients ("SVI"), Food Staples and Packaged Foods and Industrial Raw Materials, Ag Logistics & Infrastructure ("IRM"). In 9M2017, share of results from jointly controlled entities and associates ("JCE") doubled to SGD21.1mn and Olam ended the period with 25.2% higher profit after tax of SGD295.5mn. Driven by debt-funded investments made in FY2016, increase in benchmark interest rates and an increase in higher-cost local currency borrowings, finance costs increased 25.4% y/y to SGD407.1mn. Despite the rise in reported EBITDA generation, unadjusted EBITDA/Interest was slightly lower at 2.5x in 9M2017 (9M2016: 2.6x in 9M2016). Assuming perpetual distribution of ~SGD55mn p.a. and assuming 50% of this as interest, we find adjusted EBITDA/Interest at 2.4x. Olam has been a consistent payer of dividends and the perpetual terms contain a dividend stopper.

- **Stronger operating cash flow for 9M2017:** Olam's cash flow from operations (before tax and interest) was SGD1.8bn in 9M2017, significantly higher than 9M2016's SGD812.7mn, as working capital was a contributor to cash inflow. Per company, overall working capital needs fell from end-December 2016. This was attributable to third quarter being a seasonal low, working capital optimisation, lower inventory levels (by SGD1.2bn), lower prices across certain agri-commodities and a SGD261.0mn decrease in advance payments to suppliers. Y/y cash conversion cycle was down 44 days to only 106 days. Olam spent less on investing outflows in 9M2017 at SGD667.0mn (greenfield facilities and expansion of capacity in Africa).

- **Basic net gearing levels contained within 2.0x:** The cash gap at Olam after net repayment of borrowings, dividends and capex in 9M2017 was partly funded via existing cash, which reduced cash balance to SGD1.6bn (excluding overdrafts and deposits committed). Net debt was 9.4% lower at SGD10.6bn while Olam's book value equity increased by 4.0% to SGD5.9bn. Basic net debt-to-equity was lower at 1.8x (end-December 2016: 2.1x), though may reverse come 4Q2017 when working capital needs go higher. Adjusting basic net gearing downwards for Readily Marketable Inventory, which Olam considers as near-cash and secured receivables, we find adjusted net gearing stable at 0.8x versus a year ago though this has steadily crept up. We think this could be due to proportionately more inventory being held for the mid/downstream as inputs.

- **Near-term cash injection:** In October 2017, Temasek exercised all of its outstanding warrants in Olam, generating USD307mn (~SGD415mn) of new equity. Assuming remaining warrant-holders also exercise, this will generate another USD165mn (~SGD223mn). In December 2017, Olam completed the sale of farmland to a US REIT under a sale and leaseback arrangement. While lease payments would increase, upfront cash proceeds of USD110mn (~SGD149mn) was received. Assuming a total of SGD787mn in cash was received by 4Q2017, basic net gearing may decline to 1.5x, all else being equal. Olam faces SGD4.3bn in short term debt (including SGD250mn in bonds due in August 2018). Annualized EBITDA/Invested capital (company's proxy for Return on Invested Capital) was 8.1%. Similar across commodity trading firms, we expect continuous use of debt at Olam to boost shareholders returns and expect the company to manage upcoming maturities via tapping the debt markets. We take comfort that Olam has been regularly able to access debt financing, including working capital facilities from banks.

Olam International Ltd

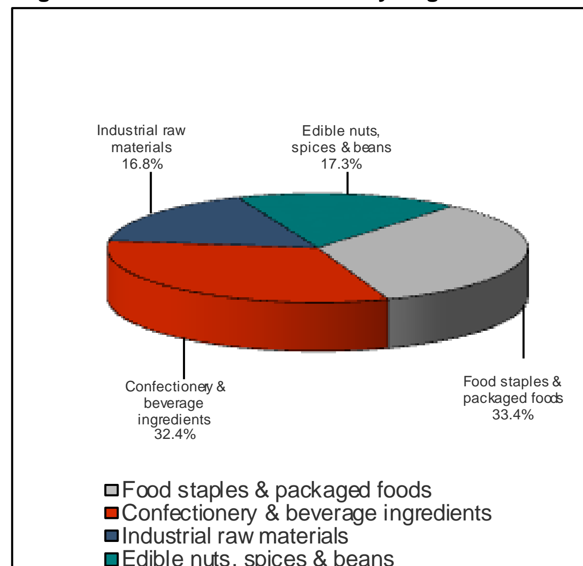
Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	19,052.6	20,587.0	19,037.3
EBITDA	1,086.2	1,202.8	957.4
EBIT	819.6	849.3	670.3
Gross interest expense	483.8	446.2	407.1
Profit Before Tax	-27.3	433.4	348.4
Net profit	-114.9	351.3	315.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	2,143.2	2,144.1	1,709.5
Total assets	20,854.9	23,468.9	21,539.9
Gross debt	12,293.9	13,670.6	12,207.8
Net debt	10,150.7	11,526.5	10,498.3
Shareholders' equity	5,319.7	5,634.3	5,859.9
Total capitalization	17,613.6	19,304.9	18,067.7
Net capitalization	15,470.4	17,160.8	16,358.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	151.7	704.8	602.7
* CFO	-472.3	619.6	1,380.2
Capex	369.8	751.8	632.5
Acquisitions	1,969.7	588.1	0.0
Disposals	244.5	32.0	46.0
Dividend	61.0	184.0	180.4
Free Cash Flow (FCF)	-842.1	-132.2	747.7
* FCF adjusted	-2,628.4	-872.4	613.3
Key Ratios			
EBITDA margin (%)	5.7	5.8	5.0
Net margin (%)	-0.6	1.7	1.7
Gross debt to EBITDA (x)	11.3	11.4	9.6
Net debt to EBITDA (x)	9.3	9.6	8.2
Gross Debt to Equity (x)	2.31	2.43	2.08
Net Debt to Equity (x)	1.91	2.05	1.79
Gross debt/total capitalisation (%)	69.8	70.8	67.6
Net debt/net capitalisation (%)	65.6	67.2	64.2
Cash/current borrowings (x)	0.4	0.4	0.4
EBITDA/Total Interest (x)	2.2	2.7	2.4

Source: Company, OCBC estimates

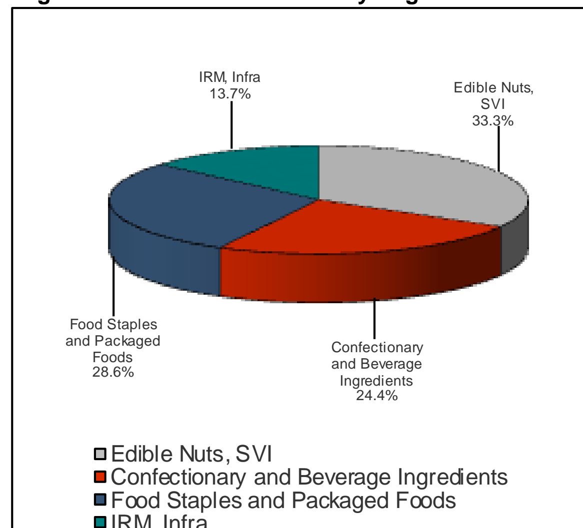
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2017



Source: Company

Figure 2: EBITDA breakdown by Segment - 9M2017



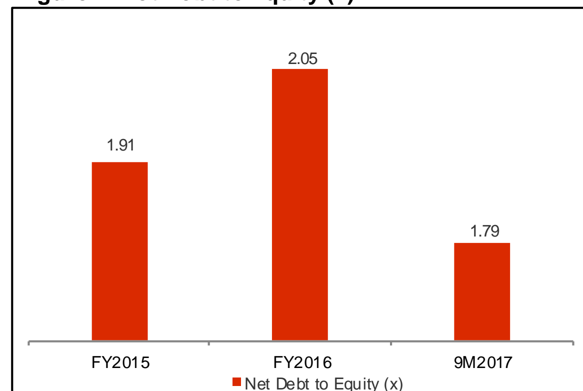
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	24.4	0.2%
Unsecured	4,274.7	35.0%
	4,299.1	**35.2%**
Amount repayable after a year		
Secured	106.9	0.9%
Unsecured	7,801.7	63.9%
	7,908.7	**64.8%**
Total	**12,207.8**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

OUE Ltd

Credit Outlook – We are generally Overweight the OUESP curve, as though OUE faces sizable short-term maturities, it has financial flexibility at the holdings level as well as at its REITs. Unrecognized revenue from Twin Peaks and the monetization of OUE Downtown are other positive factors.

Issuer Profile: Neutral (4)

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **OUESP**

Company Profile

Incorporated in 1964, OUE Ltd ("OUE") is a real estate developer and landlord with a real estate portfolio located at prime locations in Singapore (such as Orchard Road) and across the region. The group has diverse exposure across the office, hospitality, retail and residential property segments. A recent acquisition also caused OUE to enter into healthcare. OUE is the sponsor of OUE Hospitality Trust ("OUEHT") and OUE Commercial REIT ("OUECT"). The company is 68.6%-owned by the Lippo Group.

Key credit considerations

- **Year of transition**: OUE had entered into the healthcare sector via the acquisition of troubled International Healthway Corp during 1Q2017 (now known as OUE Lippo Healthcare Ltd, "OLH"), which increased OUE's total assets by ~SGD500mn (see OCBC Asia Credit - OUE Limited Credit Update (9 Jun)) but weighed on earnings. 9M2017 also saw the ramp up in contribution by OUE Downtown (both the retail podium and Oaktree serviced apartments), which mitigated declining contribution from the Twin Peaks condominium ("Twin Peaks") as well as prior year divestment of Crowne Plaza Changi Airport Extension.

- **Recent revenue declines as expected**: For 3Q2017, revenue fell 56.6% y/y to SGD181.9mn, lacking the SGD205mn in revenue recognized in 3Q2016 from the Crowne Plaza extension divestment. Development property income also declined due to fewer units of Twin Peaks being sold (100% had been sold as of October 2017). These two factors caused segment sales to fall 86.9% y/y to SGD38.5mn. Comparatively, OUE's other segments have improved. Investment property income was up 2.3% y/y to SGD67.0mn due to contribution from OUE Downtown, which helped mitigate the weaker results at OUECT (affected by lower occupancy at One Raffles Place Shopping Mall). Hospitality income increased 11.9% to SGD58.6mn due to better performance at Mandarin Orchard, the Crowne Plaza Changi extension as well as maiden contribution from Oakwood at OUE Downtown (opened June 2017). OLH also helped offset the development property income decline, with group revenue down just 2.9% q/q.

- **Healthcare drag mitigated by contingent gain**: Gross margin increased to 39% (3Q2016: 33%), but operating margin remained flattish at 27% due to higher administrative expenses resulting from the inclusion of OLH. Profit after tax was SGD18.4mn, down 83.8% y/y (lacking the gain on the sale of Crown Plaza extension as well as fewer units of Twin Peaks sold) but up 23.5% q/q due to SGD6.1mn in contingent gain crystalized from the prior divestment of OCZ Holdings Pte Ltd. OLH (still partly listed) had reported a net loss of SGD3.7mn for 3Q2017, and hence would have been a drag on OUE's consolidated results.

- **Leverage profile still stable, operating cash flow declining**: Operating cash flow (including interest service) was SGD31.8mn (2Q2017: SGD56.7mn), declining q/q due to fewer units of Twin Peaks monetized. Additions to investment properties (SGD21.5mn) were drags on cash, while OUE paid out SGD18.5mn in dividends as well as paid down SGD42.0mn in net borrowings. As such, cash balance declined to SGD302.9mn. Though OUE had SGD621.8mn in short-term debt due (~50% secured), SGD283.8mn in short-term secured debt was consolidated from OUECT, with OUECT having recently issued a SGD150mn bond in September 2017. OUE itself had also issued SGD400mn in bonds across two issuances in 2017. As such, OUE would likely be able to meet its short-term obligations. Net gearing worsened slightly to 61% (2016: 57%) due to OLH.

- **OUE Downtown and Twin Peaks to support performance**: Looking forward, though Twin Peaks is 100% sold, revenue for the units sold under the Deferred Payment Scheme has not yet been recognized. Unrecognized revenue is estimated to be ~SGD480mn, and these would be recognized over the next few quarters, supporting development property income. Note that OUE may potentially inject OUE Downtown into its REITs as well, monetizing part of its balance sheet. These factors will help mitigate the drag from the healthcare division until the situation turns around (OLH was a distressed acquisition). We will keep OUE at Neutral (4) Issuer Profile, balancing manageable debt levels against weaker liquidity as well as potential land banking.

OUE Ltd

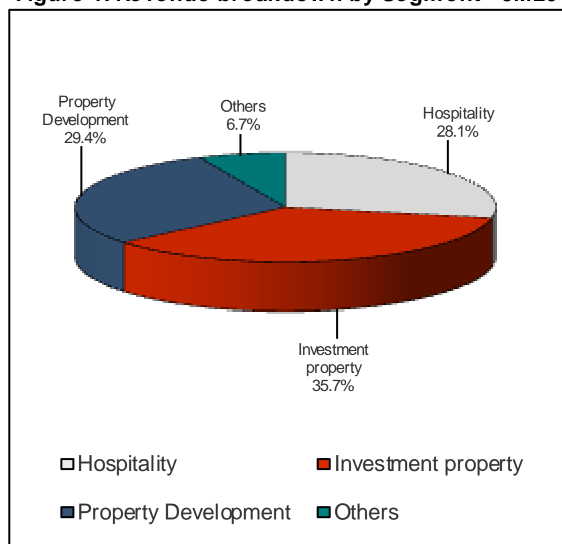
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	431.5	884.2	565.6
EBITDA	54.2	225.0	109.3
EBIT	50.2	220.5	104.8
Gross interest expense	90.9	127.8	100.3
Profit Before Tax	201.1	212.6	80.6
Net profit	156.4	144.4	33.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	172.4	239.0	302.9
Total assets	8,129.8	8,083.4	8,571.4
Gross debt	2,924.5	2,901.5	3,198.8
Net debt	2,752.2	2,662.5	2,895.9
Shareholders' equity	4,764.2	4,643.8	4,759.8
Total capitalization	7,688.7	7,545.3	7,958.6
Net capitalization	7,516.4	7,306.3	7,655.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	160.3	148.8	37.6
* CFO	-30.8	358.6	130.7
Capex	4.2	2.2	7.8
Acquisitions	893.0	254.5	190.9
Disposals	526.7	236.3	37.1
Dividend	71.2	73.8	59.9
Free Cash Flow (FCF)	-34.9	356.4	123.0
* FCF Adjusted	-472.3	264.4	-90.8
Key Ratios			
EBITDA margin (%)	12.6	25.4	19.3
Net margin (%)	36.2	16.3	5.9
Gross debt to EBITDA (x)	54.0	12.9	22.0
Net debt to EBITDA (x)	50.8	11.8	19.9
Gross Debt to Equity (x)	0.61	0.62	0.67
Net Debt to Equity (x)	0.58	0.57	0.61
Gross debt/total capitalisation (%)	38.0	38.5	40.2
Net debt/net capitalisation (%)	36.6	36.4	37.8
Cash/current borrowings (x)	1.1	0.4	0.5
EBITDA/Total Interest (x)	0.6	1.8	1.1

Source: Company, OCBC estimates

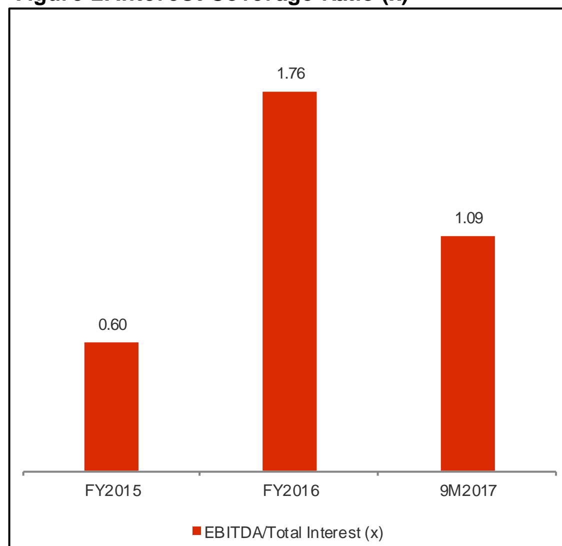
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2017



Source: Company

Figure 2: Interest Coverage Ratio (x)



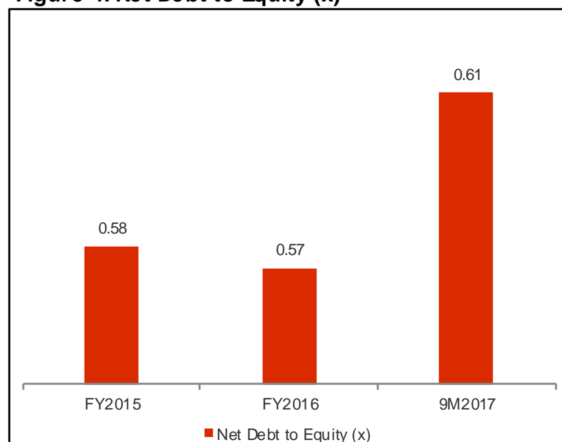
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	299.3	9.4%
Unsecured*	322.5	10.1%
	621.8	**19.4%**
Amount repayable after a year		
Secured	1,732.8	54.2%
Unsecured	844.2	26.4%
	2,577.0	**80.6%**
Total	**3,198.8**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Oxley Holdings Ltd

Credit Outlook – Although OHL has delivered strong results, we Underweight OHLSP '19s and '20s in view of the rising leverage. However, investors comfortable with OHL can consider the USD-denominated OHLSP 6.375% '21s.

Issuer Profile: Negative (6)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **OHLSP**

Background

Oxley Holdings Ltd ("OHL") is a property developer listed on the SGX in Oct 2010. Beginning with a portfolio of development projects in Singapore, OHL has expanded to overseas projects in the UK, Malaysia, Ireland, China, Cambodia, Myanmar and Indonesia. OHL is also building a pipeline of investment and hospitality properties. OHL's key shareholders are its CEO Mr Ching Chiat Kwong (42.7%-stake), its deputy CEO Mr Low See Ching (28.7%) and Mr Tee (12.1%) who appears to be a passive shareholder.

Key credit considerations

- **Strong 1QFY2018 results:** 1QFY2018 (for the quarter ending 30 Sep 2017) revenue grew 146% y/y to SGD310.6mn due to handover of certain plots in the Royal Wharf Phase 1A and progress on construction from 2 mixed-residential projects in Singapore (Floraville/Floraview/Floravista and The Rise @ Oxley-Residences). Net profit grew 199% y/y to SGD45.9mn due to higher revenues, FX gains of SGD12.4mn and increase in share of profits from JVs and associates by SGD13.4mn. 20%-owned Galliard contributed SGD5.6mn while a JV project in Cambodia contributed SGD7.3mn.

- **Earnings and cashflow visibility from significant amount of unbilled contracts:** The projects which will obtain TOP in the next 12 months have an unbilled contract value of SGD1.47bn, of which SGD1.18bn is related to the Royal Wharf project (Phase 1A, 1B, 2). The dropout rate at Royal Wharf has been minimal as many buyers are owner-occupiers. We understand from management that prices have risen significantly and a 20% deposit is required, hence buyers are unlikely to walk out. In the near-term, OHL will also handover units to buyers at The Bridge and The Peak in Cambodia. The total unbilled value across all projects stands at SGD2.3bn as of 1QFY2018.

- **Raising huge stakes in Singapore property:** OHL returned to Singapore in a big way through a number of acquisitions. These include acquisitions of residential projects such as Rio Casa for SGD575mn (35%-stake), Serangoon Ville for SGD499mn (40%-stake), 494 Upper East Coast Road for SGD10.5mn (100%-stake) and Lotus @ Pasir Panjang for SGD121mn (100%-stake). The total gross development value ("GDV") is estimated at SGD2.9bn. Purchased prices look reasonable compared to other developers, for example Serangoon Ville's SGD835 psf ppr is lower than a nearby land site (along Serangoon North Ave 1) bought by Keppel-WingTai JV for SGD965 psf ppr. [OHL acquired Mayfair Gardens for SGD311mn (100%-stake), Vista Park for SGD418mn (100%-stake) and 21 Meyappa Chettair Road for SGD22mn (100%-stake). In the commercial space, OHL has acquired Chevron House for SGD660mn and purchased a 15%-stake in United Engineers for SGD255mn.

- **Expanding the investment and hospitality portfolio:** In FY2017, investment properties generated only SGD10.9mn rental income but OHL expects this to grow to above SGD13mn after FY2019. National Treasury Management Agency in Ireland will take up 13,395 sqm in Dublin Landings and begin to move in by summer 2018. Novotel / Mercure Singapore on Stevens (GDV: SGD980mn) has opened in Oct 2017, which OHL expects to generate SGD46mn recurring profit based on 88% occupancy, while 11 commercial units at the same site will contribute SGD2.1m p.a. In Malaysia, OHL is building Jumeirah Kuala Lumpur Hotel and Jumeirah Living Kuala Lumpur Residences. By FY2021, OHL expects the hospitality portfolio to deliver SGD153.5mn p.a. income.

- **Stretched credit metrics, any improvements will be contingent on commitment to delever:** We expect net gearing to increase to ~2.9x in FY2018 (1QFY2018: 2.0x) due to the purchases such as Rio Casa, Pasir Panjang, Serangoon Ville, Vista Park, Mayfair Gardens and Chevron House, though the rise in gearing will be partly mitigated by profits recognised from near-term progress billings. We recognise that OHL has the potential to delever after FY2018, if management chooses to (management targets declining total debt / capitalisation), given the significant unbilled progress billings. Meanwhile, OHL maintains access to the debt capital markets with the issuance of USD355mn OHLSP 6.375% '21 (which the CEO holds USD5mn as of 30 Jun 2017).

Oxley Holdings Limited

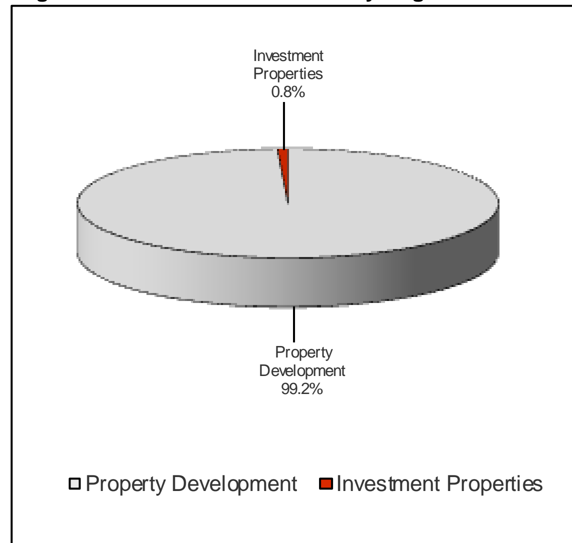
Table 1: Summary Financials

Year Ended 30th Jun	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	981.4	1,343.0	310.6
EBITDA	252.0	333.3	42.2
EBIT	251.5	332.6	41.7
Gross interest expense	131.9	131.5	8.9
Profit Before Tax	363.4	299.5	54.5
Net profit	206.0	218.1	48.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	551.3	413.5	295.7
Total assets	4,732.5	4,607.9	4,754.7
Gross debt	2,633.4	2,458.0	2,612.2
Net debt	2,082.2	2,044.4	2,316.5
Shareholders' equity	965.2	1,088.9	1,152.7
Total capitalization	3,598.6	3,546.9	3,764.9
Net capitalization	3,047.4	3,133.3	3,469.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	206.5	218.8	49.3
* CFO	196.6	361.1	42.2
Capex	33.0	124.3	62.8
Acquisitions	153.6	92.2	1.4
Disposals	29.1	3.3	5.6
Dividend	80.3	176.9	0.0
Free Cash Flow (FCF)	163.6	236.8	-20.7
* FCF Adjusted	-41.1	-29.0	-16.5
Key Ratios			
EBITDA margin (%)	25.7	24.8	13.6
Net margin (%)	21.0	16.2	15.7
Gross debt to EBITDA (x)	10.4	7.4	15.5
Net debt to EBITDA (x)	8.3	6.1	13.7
Gross Debt to Equity (x)	2.73	2.26	2.27
Net Debt to Equity (x)	2.16	1.88	2.01
Gross debt/total capitalisation (%)	73.2	69.3	69.4
Net debt/net capitalisation (%)	68.3	65.2	66.8
Cash/current borrowings (x)	0.4	0.7	1.0
EBITDA/Total Interest (x)	1.9	2.5	4.8

Source: Company, OCBC estimates

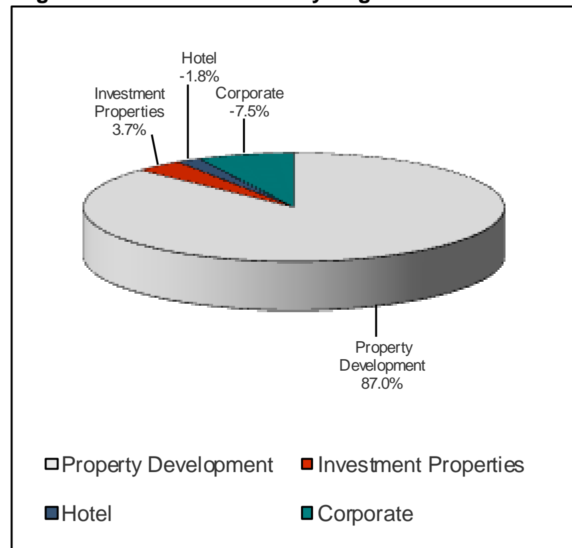
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2017



Source: Company

Figure 2: PBT breakdown by Segment - FY2017



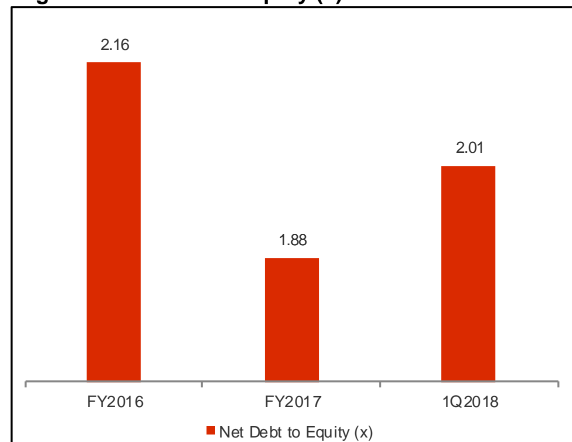
Source: Company | Hotel and Corporate made losses before tax

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	227.2	8.9%
Unsecured*	28.0	1.1%
	255.2	**10.0%**
Amount repayable after a year		
Secured	1,274.8	49.8%
Unsecured	1,032.2	40.3%
	2,307.0	**90.0%**
Total	**2,562.1**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Pacific Radiance Ltd

Credit Outlook – We have previously withdrawn our recommendations on the PACRA'18s given management's intention to propose a restructuring plan.

Issuer Profile: Negative (7)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **PACRA**

Company profile

Listed in 2013, Pacific Radiance Ltd ("PACRA") is primarily an owner and operator of offshore support vessels. The firm currently operates 139 vessels. Its fleet is relatively young, with an average age of ~5 years. The majority of its revenue is generated from the Asia region. The firm also has a subsea division, which includes the utilization of two dive support vessels. The key shareholder and Chairman, Mr Pang Yoke Min, has more than 30 years of experience in the offshore marine sector, having co-founded Jaya Holdings in 1981, and managed it till 2006. He controls ~68% of PACRA.

Key credit considerations

- **Restructuring looming**: We had previously opined that the reprieve from PACRA's vessel financing extensions and access to the new government-backed funding facilities was only transient in nature given the difficult environment. That said, the rapid souring of the situation was unexpected. The government-backed facilities (SGD85mn in aggregate, with IE Singapore / Spring bearing 70% of the risk) were approved early June 2017 and drawn on. By mid-August 2017, as part of its 2Q2017 results release, PACRA had indicated that it was working closely with major lenders to assess its debt position as well as appointed advisors to review their capital structure and propose a restructuring plan. In September 2017, PACRA had announced seeking a consensual restructuring of its borrowings, and in October 2017 PACRA had announced an informal standstill agreement with its bank lenders to facilitate its restructuring as well as the intent to engage noteholders. Subsequently, after 3Q2017 results were released mid-November 2017, PACRA had held its first informal noteholder's meeting in mid-December 2017. The main takeaway was expected poor recoveries for noteholders (only the coupon amounts in escrow) in the event of acceleration, and that a second informal noteholders meeting will be held mid-January 2018.

- **Our expectations**: It would seem that PACRA is seeking to avoid a court-driven process, instead looking to conduct a consent solicitation. Based on what PACRA's peers had done in the offshore marine space, we would expect some extension to the maturity of PACRA's existing SGD100mn bond (that is maturing in August 2017). In addition, given PACRA's liquidity situation, there may be attempts to reduce cash coupon, either by cutting the coupon rate outright, or to pay part of the coupon in kind (such as in shares or in accrual). PACRA may also seek to convert part of the bond into equity to relief PACRA's debt burden, though we expect significant dilution to existing shareholders in such a situation. The biggest factor that noteholders have to consider is that PACRA's capital structure is secured bank loan heavy (~85% loans, largely vessel financing) and that PACRA's net gearing is already very high at 195% affecting recoveries.

- **No further deterioration, but at weak levels**: For 9M2017, revenue declined 15.0% y/y to USD48.7mn, with utilization and charter rates remaining weak for PACRA's fleet. On a q/q basis though, 3Q2017 revenue was flattish. This was driven by the OSV division's revenue increasing 10.6% q/q, likely due to seasonal factors with activity sustained before slowing down into the winter months. PACRA's new shipyard segment commencing also helped mitigate the slowdown seen in its subsea division. With PACRA heading into the quieter winter season, 4Q2017 and 1Q2018 OSV division results are likely to weaken due to seasonal factors. Profitability remains weak with PACRA still generating a gross loss of USD9.5mn for 9M2017, though improving over the USD17.2mn gross loss generated during 9M2016.

- **Potentially more impairments**: Given continued gross losses, cash flow generation remains poor with negative USD24.4mn in operating cash flow (including interest service) seen during 9M2017 despite the sharp cut in capex as no further vessel deliveries were taken in 2017. The cash gap was funded by additional borrowings. During 3Q2017, PACRA was only able to generate net cash due to vessel divestments and the informal debt standstill (which reduced bank loan repayment). Even then, net gearing surged higher to 195% (2016: 161%) due to losses generated. Furthermore, as part of PACRA's year-end review, it may take more impairments on its fleet, which would worsen net gearing further. We will reiterate PACRA's Issuer Profile at Negative (7).

Pacific Radiance Ltd

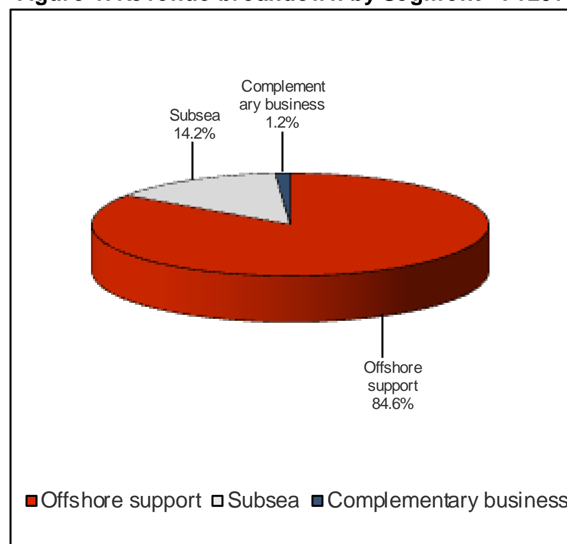
Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	9M2017
Income Statement (USD'mn)			
Revenue	121.8	69.4	48.7
EBITDA	26.7	-21.7	-1.9
EBIT	0.4	-52.8	-24.8
Gross interest expense	12.1	16.6	14.2
Profit Before Tax	5.3	-118.2	-35.0
Net profit	3.7	-118.8	-36.0
Balance Sheet (USD'mn)			
Cash and bank deposits	43.1	50.6	36.8
Total assets	916.6	904.3	880.2
Gross debt	399.4	514.6	526.6
Net debt	356.3	464.0	489.8
Shareholders' equity	416.0	289.0	250.8
Total capitalization	815.4	803.6	777.4
Net capitalization	772.3	753.0	740.6
Cash Flow (USD'mn)			
Funds from operations (FFO)	30.1	-87.7	-13.1
* CFO	24.4	-44.0	-24.4
Capex	161.6	126.3	2.0
Acquisitions	3.4	0.0	2.0
Disposals	7.6	57.1	11.9
Dividend	17.9	6.5	0.0
Free Cash Flow (FCF)	-137.2	-170.3	-26.3
* FCF adjusted	-151.0	-119.7	-16.4
Key Ratios			
EBITDA margin (%)	21.9	-31.2	-3.9
Net margin (%)	3.1	-171.2	-73.8
Gross debt to EBITDA (x)	14.9	-23.7	-209.6
Net debt to EBITDA (x)	13.3	-21.4	-195.0
Gross Debt to Equity (x)	0.96	1.78	2.10
Net Debt to Equity (x)	0.86	1.61	1.95
Gross debt/total capitalisation (%)	49.0	64.0	67.7
Net debt/net capitalisation (%)	46.1	61.6	66.1
Cash/current borrowings (x)	0.5	1.0	0.3
EBITDA/Total Interest (x)	2.2	-1.3	-0.1

Source: Company, OCBC estimates

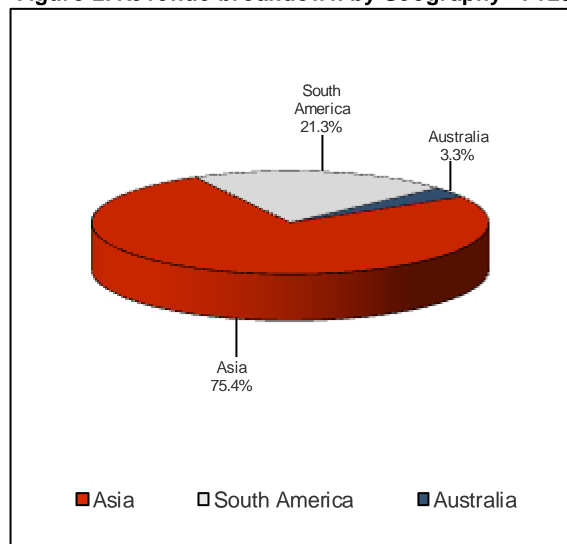
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2016



Source: Company

Figure 2: Revenue breakdown by Geography - FY2016



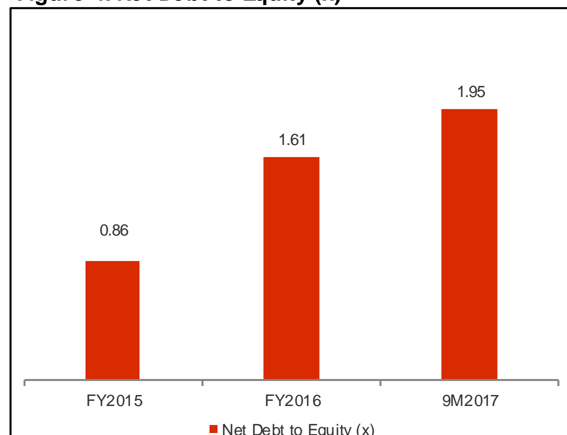
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 31/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	59.0	11.2%
Unsecured	73.7	14.0%
	132.7	**25.2%**
Amount repayable after a year		
Secured	393.9	74.8%
Unsecured	0.0	0.0%
	393.9	**74.8%**
Total	**526.6**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We prefer the VITSP 4.15% '18s with a YTW of 3.5% (226bps) over the SSREIT 4.0% '18s at a YTW of 2.6% (154 bps). The SSREIT 4.25% '19s has a YTW of 6.0% (471 bps) which more than compensates for its level of risk.

Issuer Profile: Neutral (5)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **SSREIT**

Background

Listed in 2010, Sabana Shari'ah Compliant Industrial REIT ("SSREIT") is an industrial REIT in Singapore, with total assets of SGD982.4mn as at 30 September 2017. SSREIT owns a portfolio of 20 properties as at 30 September 2017. Vibrant Group and its related parties hold ~12% in the REIT and 51% of the REIT Manager ("SSREITM"). Jinquan Tong is the single largest unitholder with a ~6.2%-stake, followed by the e-Shang Redwood Group (also second largest unitholder of ESR REIT) with 5%.

Sabana Shari'ah Compliant Industrial REIT

Key credit considerations

- **Weaker operating performance:** In 9M2017, gross revenue decreased 6.4% y/y to SGD64.8mn due to lower contribution from properties which were divested in 2016 and the divestment of 218 Pandan Loop in August 2017. Revenue on two Master Leases was no longer recognized from 3Q2017 onwards as rental collections were no longer probable. Additionally, six properties recorded lower contribution, which was only partly offset elsewhere. Net property income ("NPI") declined more at 7.9% to SGD39.7mn as SSREIT also recognized higher property operating expenses at 39 Ubi Road 1 (converted into a multi-tenanted building). Manager's fees were 38.6% lower y/y as the REIT manager took a reduction in its fees and the REIT had lower total assets. Despite the large fall in NPI, the concurrent decline in expenses helped contain the fall in EBITDA to SGD36.9mn (y/y fall of 4.6%). SSREIT undertook independent valuation of its properties and in 9M2017, net change in fair value of investment properties was a negative SGD27.9mn, resulting in SSREIT reporting a loss for the period before taxation of SGD5.0mn.

- **Interest coverage improved**: As at 30 September 2017, only 79.3% of borrowings were on fixed rate and we think this helped drive borrowing cost lower at 3.9%. SSREIT also saw lower average borrowings in 9M2017 versus 9M2016, resulting in lower finance cost of SGD13.5mn (down 14.2%). Despite the deterioration in operating performance, EBITDA/Interest increased to 2.7x from 2.5x in 9M2016.

- **Portfolio performance weaker though Sponsor has renewed leases by a year:** SSREIT's portfolio occupancy was 88.4% as at 30 September 2017, rising slightly from the 87.3% as at 30 June 2017. As at 30 September 2017, 25% of portfolio leases by Net Lettable Area ("NLA") were coming due by end-2017 (69% of which are made up of Sponsor-related Master Leases). In November 2017, SSREIT's Sponsor had renewed all three leases, though at lower rates. The leases were renewed collectively at SGD8.8mn for a one year period until 25 November 2018. These three leases contributed a total of SGD10.1mn in gross rental income in FY2016. As at 30 September 2017, 22.3% by NLA was expected to come due in 2018. As Sponsor-related leases have been effectively pushed forward by a year, we expect lease expiries coming due to balloon in 2018.

- **Aggregate leverage manageable:** During 9M2017, SSREIT paid down debt using sale proceeds from asset divestments and proceeds from a January 2017 rights issue. Proceeds were originally intended to help fund asset acquisitions though such plans were shelved. As at 30 September 2017, SSREIT's aggregate leverage was 36.0%, slightly lower than the 37.0% as at 30 June 2017 (end-2016: 43.2%). In light of recent Master Leases signed at lower rates and rental collections which are no longer probable, we expect lower revenue and further asset corrosion in 4Q2017. SSREIT's reduced leverage means its ability to withstand such corrosion has improved. Assuming gross debt stays at current levels, SSREIT can withstand a 20% fall in asset prices before breaching MAS' 45% aggregate leverage cap.

- **Significant short term debt due though low near-term refinancing risk:** As at September 2017, including SGD90mn in sukuk due in March 2018, SSSREIT faces SGD132.9mn in short term debt due (representing 38% of gross debt). SSREIT managed to raise SGD130mn collectively in various bank facilities from two existing lenders in November and December 2017. At least SGD80mn has been earmarked for refinancing, with the bulk of the remainder likely to go towards refinancing, in our view. There are no outstanding asset acquisition obligations at SSREIT and we take comfort that bank lending is still available despite discussions with EREIT falling through. SSREIT remains open to exploring options with regards to its Strategic Review. **We are lifting SSREIT to Neutral (5)** under our updated framework.

Sabana Shari'ah Compliant Industrial REIT

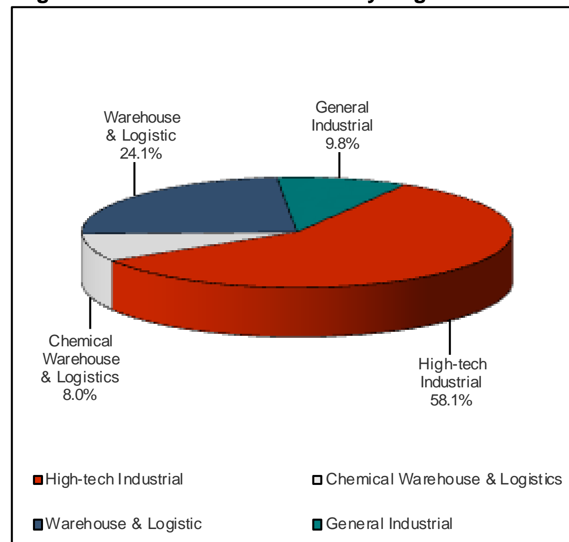
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	100.8	91.8	64.8
EBITDA	64.8	51.2	36.9
EBIT	64.4	51.2	36.9
Gross interest expense	21.5	21.1	13.5
Profit Before Tax	-73.4	-62.5	-5.0
Net profit	-73.4	-62.5	-5.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	10.4	9.2	8.5
Total assets	1,165.4	1,022.9	982.4
Gross debt	481.1	437.9	351.4
Net debt	470.6	428.7	342.9
Shareholders' equity	653.7	556.8	601.6
Total capitalization	1,134.8	994.7	953.0
Net capitalization	1,124.4	985.5	944.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	-73.0	-62.5	-5.0
* CFO	70.0	48.7	40.1
Capex	1.5	1.8	4.8
Acquisitions	0.0	0.0	0.0
Disposals	0.0	54.6	14.8
Dividends	50.4	38.7	27.1
Free Cash Flow (FCF)	68.5	46.8	35.3
* FCF Adjusted	18.2	62.7	23.1
Key Ratios			
EBITDA margin (%)	64.3	55.7	56.9
Net margin (%)	-72.8	-68.0	-7.8
Gross debt to EBITDA (x)	7.4	8.6	7.1
Net debt to EBITDA (x)	7.3	8.4	7.0
Gross Debt to Equity (x)	0.74	0.79	0.58
Net Debt to Equity (x)	0.72	0.77	0.57
Gross debt/total capitalisation (%)	42.4	44.0	36.9
Net debt/net capitalisation (%)	41.9	43.5	36.3
Cash/current borrowings (x)	0.1	0.1	0.1
EBITDA/Total Interest (x)	3.0	2.4	2.7

Source: Company, OCBC estimates

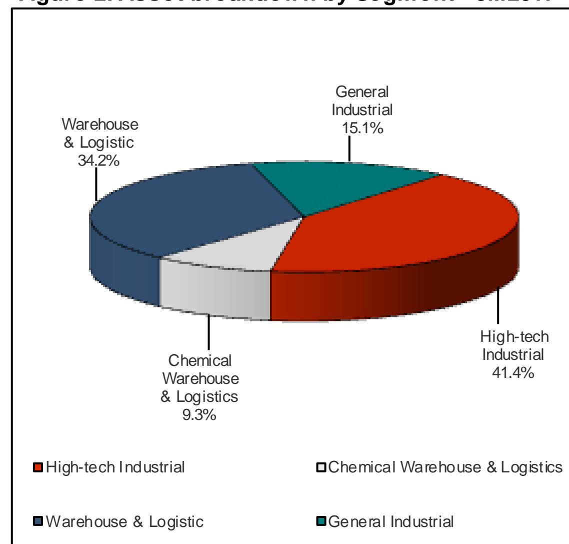
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2017



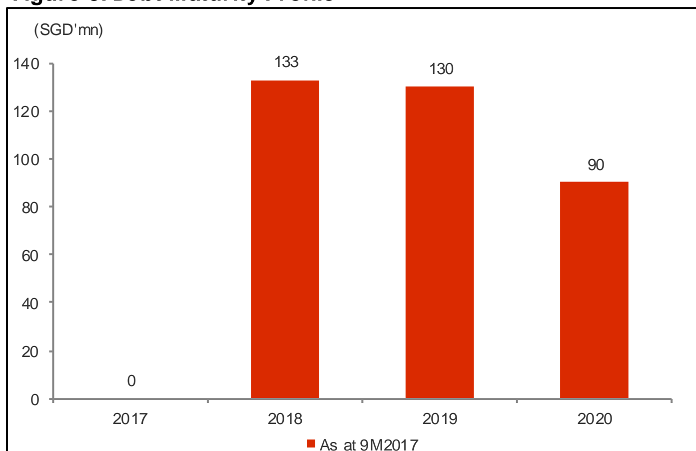
Source: Company

Figure 2: Asset breakdown by Segment - 9M2017



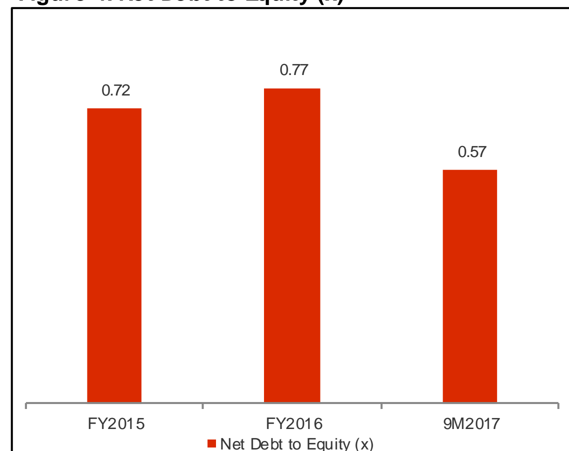
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Sembcorp Industries Ltd

Credit Outlook – We are Overweight the SCISP 5%-perp as given the high coupon, it is likely that the perp would call at first call (21/08/18) providing an annualized yield of 2.4%.

Issuer Rating: Neutral (4)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **SCISP**

Company profile

Sembcorp Industries Ltd ("SCI") was formed via the merger of Singapore Technologies Industrial Corporation and Sembawang Corporation in 1998. Today, SCI is focused on utilities (energy and water solutions), offshore marine (via its 61% stake in listed Sembcorp Marine ("SMM")) and urban development (focused on the development of industrial parks across the region). SCI has over 8,000 employees and generated SGD7.9bn in total revenue for 2016. Temasek Holdings is the largest shareholder of SCI, holding 49.5% stake.

Key credit considerations

- **Bulk sale of rigs removes uncertainty:** SCI's Marine segment (largely SMM) had been pressured by client stress, such as the bankruptcy of Sete Brasil. This has led to uncertain receivables as well as ballooning inventory of drilling assets. In October 2017, the situation improved with SMM announcing the bulk sale of 9 jack-up rigs to Borr Drilling Ltd for a total consideration of USD1.3bn. USD500mn has already been paid to SMM during October, with the balance to be paid within 5 years of delivery for each rig (delivery over a 14-month period from 4Q2017 till 1Q2019). Subsequently, SMM also entered into an agreement to divest the West Rigel semi-submersible rig for USD500mn (pending completion). Though these transactions were conducted at a slight loss, it removed uncertainty as most of these rigs were originally contracted to stressed customers (completion was uncertain). The Borr Drilling Ltd sale helped to boost net order book (including SGD3.1bn worth of Sete Brasil orders) to SGD8.0bn (2Q2017: SGD6.7bn).

- **O&M continues to be a drag:** For 9M2017, group revenue was up 5.8% y/y to SGD6.22bn, driven by the 43.2% surge in Utilities revenue which offset the 36.2% decline in Marine revenue. 3Q2017 was particularly weak for Marine, with segment revenue declining 64.3% y/y to SGD317mn due to revenue reversals (due to the cancellation of 2 rig contracts, likely to facilitate the Borr Drilling transaction) suppressing Rigs & Floaters revenue. The Offshore Platform segment was weaker too due to fewer projects. The weak top line caused Marine gross margins to plunge to 4% (2Q2017: 11.6%). With demand for drilling assets remaining weak, sizable drilling order wins look unlikely heading into 2018. A wild card would be potential Brazil-related corruption fines dragging earnings further.

- **Utilities see revenue growth, profit lag**: As mentioned, Utilities drove group revenue growth for 9M2017, with the recovery of the domestic power business as well as the ramp up of its India power assets (specifically Sembcorp Gayatri Power, "SGPL"). In 3Q2017, the segment still grew 16.9% y/y to SGD1.40bn (and accounted for ~80% of group revenue). Reflecting segment trends of previous quarters, Singapore revenue increased 17.5% y/y while India revenue increased 69.2% y/y. Profitability, however, remains weak for the segment, with just SGD125.9mn in segment net profit generated for 9M2017 (net margin of 2.9%). Though profits were weighed by SGD56.3mn in impairment charges, the bigger factor would be SCI's India power business still generating losses (a loss of SGD61.6mn for 9M2017). SGPL had not been able to secure a long-term PPA, and hence had to sell into the weak spot market (India is expected to face overcapacity in its power market for the next couple of years).

- **Cash flow generation remains weak:** Net profit for SCI fell 16.6% y/y to SGD237.1mn for 9M2017, due to the fall in Utilities profitability and minimal contribution from Marine. Numbers would have been weaker if not for the SGD37.2mn gain derived from the sale of land at the Nanjing Eco Island JV earlier in the year. After factoring working capital needs, operating cash flow (including interest expense) was negative SGD464mn for the period. Coupled with SGD489.4mn in capex (mainly in Utilities), FCF was negative SGD953.4mn. SCI also paid out SGD181.4mn in dividends / distributions. The cash gap was funded partly by ~SGD900mn in debt and SGD200mn in perpetual securities. As such, net gearing surged higher to 97% (2016: 90%). The higher interest expense also drove Interest / EBITDA lower to 2.3x (2016: 3.0x). That said, with the USD500mn received from Borr Drilling in October, net gearing would improve to a pro-forma 88%. Management had also commented that SCI's strategic review will be announced soon. We will retain our Neutral (4) Issuer Profile on SCI for now, monitoring any developments over Brazil closely.

Sembcorp Industries Ltd

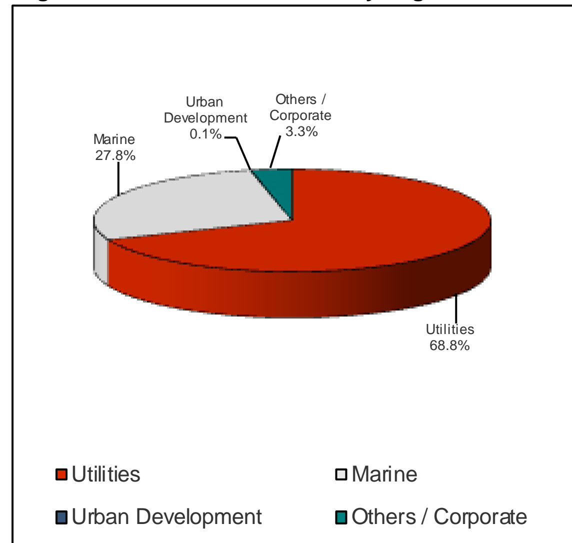
Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	9,544.6	7,907.0	6,222.5
EBITDA	612.2	1,198.0	933.0
EBIT	207.3	744.3	507.5
Gross interest expense	238.0	402.0	400.1
Profit Before Tax	426.3	537.4	312.0
Net profit	548.9	394.9	208.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,606.5	1,882.5	2,114.4
Total assets	19,915.5	22,290.2	22,936.5
Gross debt	6,832.9	9,221.3	10,017.8
Net debt	5,226.5	7,338.8	7,903.5
Shareholders' equity	8,043.5	8,162.7	8,181.8
Total capitalization	14,876.4	17,384.0	18,199.6
Net capitalization	13,270.0	15,501.5	16,085.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	953.8	848.6	633.5
* CFO	-1,061.8	466.1	-464.0
Capex	1,392.8	821.9	489.4
Acquisitions	640.6	132.4	17.4
Disposals	704.8	35.0	267.0
Dividend	439.6	263.4	181.4
Free Cash Flow (FCF)	-2,454.5	-355.8	-953.4
* FCF adjusted	-2,829.9	-716.6	-885.1
Key Ratios			
EBITDA margin (%)	6.4	15.2	15.0
Net margin (%)	5.8	5.0	3.3
Gross debt to EBITDA (x)	11.2	7.7	8.1
Net debt to EBITDA (x)	8.5	6.1	6.4
Gross Debt to Equity (x)	0.85	1.13	1.22
Net Debt to Equity (x)	0.65	0.90	0.97
Gross debt/total capitalisation (%)	45.9	53.0	55.0
Net debt/net capitalisation (%)	39.4	47.3	49.1
Cash/current borrowings (x)	0.9	0.9	0.9
EBITDA/Total Interest (x)	2.6	3.0	2.3

Source: Company, OCBC estimates

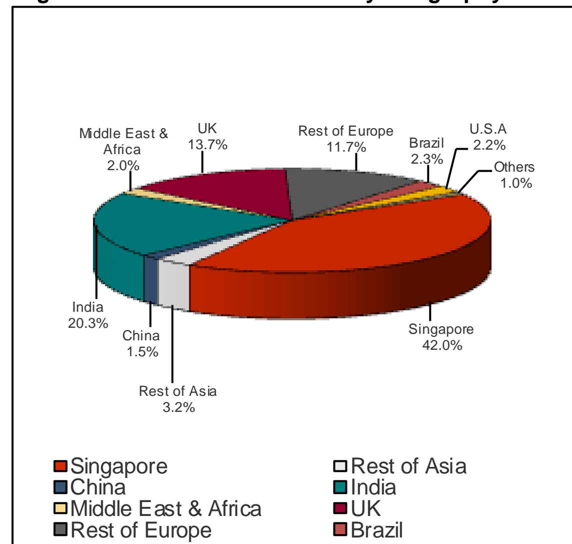
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2017



Source: Company

Figure 2: Revenue breakdown by Geography - 9M2017



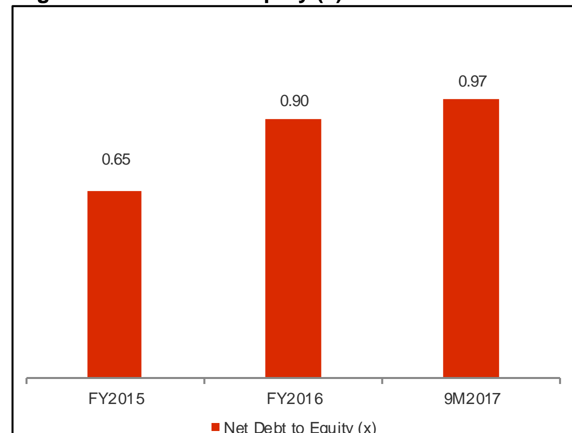
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	551.5	5.5%
Unsecured	1,674.6	16.7%
	2,226.1	**22.2%**
Amount repayable after a year		
Secured	3,021.5	30.2%
Unsecured	4,770.2	47.6%
	7,791.8	**77.8%**
Total	**10,017.8**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Singapore Airlines Ltd

Credit Outlook – With the compression of SIA 3.22% '20s over the past 3 months we now see this bond trading fairer to its nearest peer in the SGD space, the Singapore Telecommunications STSP 2.58% '20s. Notwithstanding STSP's stronger credit profile, the SGD curve is less liquid. Within its own curve we see the SIASP 3.035% '25s and SIASP 3.75% '24s as trading fair.

Issuer Profile: Neutral (3)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **SIASP**

Background

Singapore Airlines Group ("SIA Group"), listed on the SGX, has a market cap of SGD12.5bn as at 21 December 2017. Apart from its flagship carrier, Singapore Airlines ("SQ"), the company also operates other airlines and businesses via subsidiaries: SIA Engineering Company, SIA Cargo, SilkAir and Budget Aviation Holdings (which holds Scoot and Tiger Airways). SIA Group is ~55.6% owned by Temasek while the remaining shareholding is dispersed across institutional investors.

Key credit considerations

- **Operating profits improved in 1HFY2018:** SIA's gross revenue for the six months ended 30 Sept for the financial year 2018 ("1HFY2018") increased 5.5% y/y to SGD7.7bn driven by higher passenger flown revenue on all airlines, improvements in cargo revenue and the engineering services segment. Operating expenses increased by 2.7% despite overall airline capacity increasing 3.1%. Lower rentals on leased aircraft, accommodation and utilities expenses helped offset the expansion of other cost items which grew in line with capacity and passengers flown. In 1HFY2018, SIA's fuel hedging loss narrowed by SGD294.7mn to SGD28.9mn. This helped offset the y/y increase in higher average jet fuel price of 14.1%. Reported operating profit jumped to SGD513.4mn (1HFY2017: SGD302.3mn). In 1QFY2018, adjustments to the KrisFlyer and PPS Club loyalty programmes led to a net increase in operating income of SGD115mn while compensation for changes in aircraft delivery slots was SGD58mn. Conversely, 1QFY2017 was boosted by one-off up-front recognition of SGD151mn from unutilised tickets as certain assumptions were revised. Taking out one-offs, we find adjusted operating profit for 1HFY2018 only at SGD340.4mn, though the y/y growth was larger at 125% compared to adjusted 1HFY2017 results.

- **Operating profit at passenger airlines driven by SQ:** Passenger carriage (measured in Revenue Pax-KM) improved 3.3% y/y amidst relatively flat capacity at SQ, though yields declined 1.9%. Higher incidental income helped boost operating income despite the negative spread on scheduled services. Spread between passenger load factor and break-even load factor narrowed to -0.3% (1HFY2017: -0.5%). Silk Air's ("MI") passenger carriage increased 18.2% though yields declined by 10.9%. While we think passenger seats were profitable, operating profit though was 52.3% lower y/y at SGD21mn. Per company, the growth in MI's revenue was still insufficient to cover the cost of expansion of MI's network and fleet (capacity had increased 13.0% y/y). Scoot (together with the former Tigerair) saw revenue grow 13.3% though this was insufficient to cover the increase in cost from expansion in capacity, resulting in a 70.6% decline in operating profit to SGD5.0mn.

- **SIA Cargo turned profitable:** In 1HFY2018, SIA Cargo operated with seven aircraft versus nine in 1HFY2017. Nonetheless, improvements in freight volumes (up 6.1%) and a 6.7% improvement in cargo yield amidst improvement in trade flows helped SIA Cargo turn profitable in 1HFY2018 (SGD32.0mn in operating income versus SGD45.0mn loss in 1HFY2017). SIA Engineering's revenue in 1HFY2018 was SGD547.5mn (higher by 2.1% y/y) though reported operating profit was significantly higher at SGD37.6mn (up 64.2%) due to absence of one-off costs (from profit-sharing arrangements) that were present in 1H2017.

- **Debt-funded fleet renewals likely to turn SIA into a net debt position:** EBITDA was higher at SGD1.3bn in 1HFY2018 versus SGD1.1bn in 1HFY2017. Nonetheless, SIA had taken on more debt to fund capex, resulting in interest expense doubling to SGD42.2m in 1HFY2018. As a result, EBITDA/Interest was lower at 31.9x (1HFY2017: 53.0x), though still ample in our view. In total, SGD1.4bn in bonds was raised in 1HFY2018 to fund SIA's cash gap and another SGD200mn in bonds was raised in October 2017. SIA is projecting to spend another ~SGD6.0bn p.a. on capex between FY2019 to FY2021. In the next 12 months, we expect to see interest coverage decline and SIA turning net debt by end-2017. As at 30 September 2017, cash balance at SIA was SGD3.3bn. Typical of airlines, cash balance includes cash collections prior to service provision. As at 30 September 2017, sale in advance of carriage and deferred revenue (both current liability items) totalled SGD2.8bn. Including long-term debt-like liabilities, the cash surplus position at SIA has declined to SGD149.8mn (SGD1.5bn in beginning FY2018).

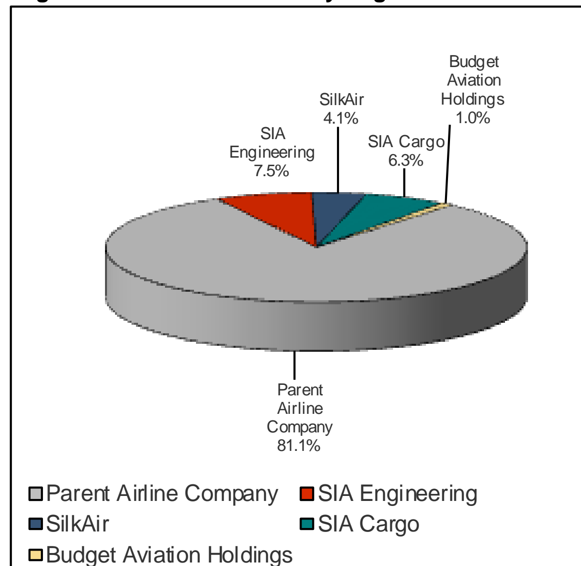
Singapore Airlines Ltd

Table 1: Summary Financials

Year End 31st Mar	FY2016	FY2017	1H2018
Income Statement (SGD'mn)			
Revenue	15,238.7	14,868.5	7,712.1
EBITDA	2,256.9	2,214.7	1,346.6
EBIT	681.2	622.8	513.4
Gross interest expense	50.3	46.1	42.2
Profit Before Tax	972.4	518.6	515.5
Net profit	804.4	360.4	425.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	3,972.4	3,380.5	3,287.3
Total assets	23,769.7	24,720.0	26,317.2
Gross debt	1,347.5	1,836.7	3,137.5
Net debt	-2,624.9	-1,543.8	-149.8
Shareholders' equity	13,132.9	13,470.2	13,831.9
Total capitalization	14,480.4	15,306.9	16,969.4
Net capitalization	10,508.0	11,926.4	13,682.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	2,380.1	1,952.3	1,258.2
* CFO	3,005.5	2,532.9	1,144.9
Capex	2,909.0	3,944.7	2,793.1
Acquisitions	130.3	225.3	21.3
Disposals	664.0	1,640.0	838.6
Dividend	359.0	558.9	168.6
Free Cash Flow (FCF)	96.5	-1,411.8	-1,648.2
* FCF adjusted	271.2	-556.0	-999.5
Key Ratios			
EBITDA margin (%)	14.8	14.9	17.5
Net margin (%)	5.3	2.4	5.5
Gross debt to EBITDA (x)	0.6	0.8	1.2
Net debt to EBITDA (x)	-1.2	-0.7	-0.1
Gross Debt to Equity (x)	0.10	0.14	0.23
Net Debt to Equity (x)	-0.20	-0.11	-0.01
Gross debt/total capitalisation (%)	9.3	12.0	18.5
Net debt/net capitalisation (%)	-25.0	-12.9	-1.1
Cash/current borrowings (x)	18.7	80.5	98.7
EBITDA/Total Interest (x)	44.9	48.0	31.9

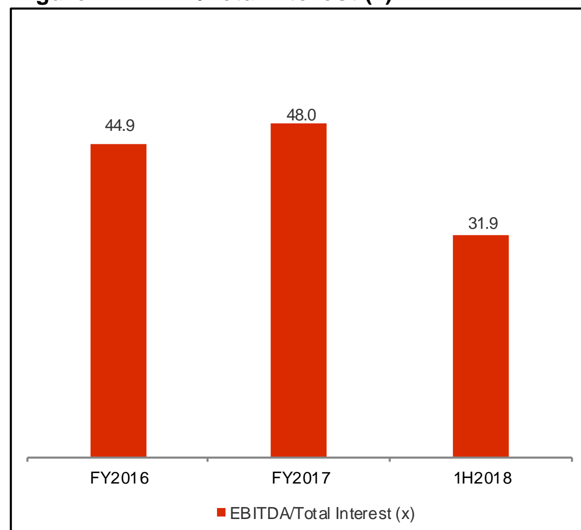
Source: Company, OCBC estimates

Figure 1: EBIT breakdown by Segment - 1H2018



Source: Company

Figure 2: EBITDA/Total Interest (x)



Source: Company

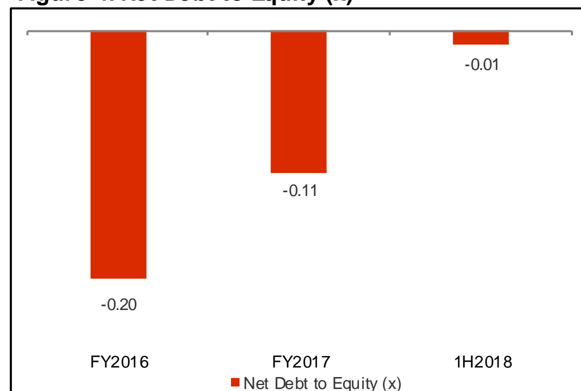
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	26.1	0.9%
Unsecured	7.2	0.2%
	33.3	**1.1%**
Amount repayable after a year		
Secured	66.7	2.3%
Unsecured	2,849.6	96.6%
	2,916.3	**98.9%**
Total	**2,949.6**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Singapore Post Ltd

Credit Outlook – We prefer the two MLTSP perps given comparable issuer credit ratings versus the SPOST perp for the 50-70bps pickup.

Issuer Profile: Neutral (3)

S&P: BBB+/Stable

Moody's: Not rated

Fitch: Not rated

Ticker: **SPOST**

Company profile

Singapore Post Ltd ("SPOST") is the incumbent mail operator in Singapore and was granted the Public Postal License in 1992. Other business segments SPOST participates in include logistics and e-commerce solutions. Through Singapore Telecom Ltd and a few other corporations, Temasek Holdings has an indirect ownership of ~22% of SPOST. Alibaba Group Holdings is the 2nd largest shareholder with ~14% of SPOST.

Key credit considerations

- **The Postal Core:** Despite the acquisitions made in recent years in the Logistics and eCommerce segments, the Postal segment continues to contribute almost 40% of total revenue, and generates almost SPOST's entire operating profit. Postal operating margins were 23.9% (for 1HFY2018) compared to just 0.1% for Logistics and an operating loss generated at eCommerce. Segment revenue growth remains healthy too at +13.0% y/y for 1HFY2018 compared to +8.2% at group level, with growth in international mail (+36.4%) offsetting the structural decline in domestic mail (-8.3%). That said, the continued shifts in product mix have continued to pressure segment operating margin, which have fallen from 28.6% in 1HFY2017, as SPOST has monopolistic pricing power in domestic mail, but faces competition in international mail. With profitability still lacking at the non-postal segments, and margin compression at Postal, SPOST faces near-term earnings headwinds.

- **No surprises:** For 2QFY2018, revenue increased 10.2% y/y to SGD354.7mn (flat q/q), with growth at the Postal and Logistics segments mitigating weakness at the eCommerce segment. Specifically, Postal segment benefited from the surge in international mail (+45.2% sales y/y, with higher volumes with the Alibaba Group being highlighted as a driver) which offset the 7.8% y/y decline in domestic mail. Postal operating margin compressed as anticipated to 23.6% (2QFY2017: 26.2%). The current revenue split between domestic and international mail is 40% / 60%.

- **Seeking profits**: Logistics segment revenue was up 7.6% y/y to SGD165.9mn for 2QFY2018, driven by higher volumes due to eCommerce deliveries recognized in Singapore (SP Parcels) and Australia (Couriers Please), as well as higher freight forwarding volumes, which offset continued weakness at Quantium Solutions (faced competitive pressures in Hong Kong). The Logistics segment actually swung to an operating loss of SGD4.2mn, driven by provisioning for a key Quantium Solutions Hong Kong customer. Even adjusting for this provision, segment operating profit would have been just SGD1.0mn (2QFY2017, SGD5.0mn, 1QFY2018: SGD4.4mn). In aggregate, segment performance was a disappointment, with the inorganic revenue growth from the Couriers Please and Famous Holdings acquisitions not translating into overall segment profits.

- **Seeking growth**: The eCommerce segment, which had previously driven group revenue growth, continued to see segment revenue decline for 2QFY2018, falling 0.8% y/y to SGD63.5mn (-2% q/q). Though Jagged Peak managed to grow its revenue by 15.8%, TradeGlobal was a drag, declining 11.2%. The eCommerce segment continued to generate operating losses (SGD2.9mn worth) due to sustained pressure at TradeGlobal. On the bright side, segment operating losses had improved q/q (1QFY2018: SGD4.2mn loss), with management executing its turnaround plan for the segment.

- **Earnings decline weakened cash flow**: Group operating margin fell to 8.4% (2QFY2017: 11.8%), which caused an operating cash outflow (including interest service) of SGD9.2mn (2QFY2017: SGD17.2mn inflow). In mitigation, historically the 2nd fiscal quarter tended to have the lowest operating cash flow due to the pay down of trade payables. That said, with SGD12.5mn in capex, FCF was negative SGD21.7mn for the quarter. In addition, SPOST paid out SGD34.5mn in dividends and paid down SGD24.3mn in net debt. The cash gap with funded with SPOST's cash balance, which fell SGD82.0mn to SGD282.3mn for the quarter, and in turn drove SPOST back to a net debt company. In aggregate, we will retain our Neutral (3) Issuer Profile on SPOST, balancing the structural and transient issues plaguing its business segments against its low leverage (net gearing of just 1.4%).

Singapore Post Ltd

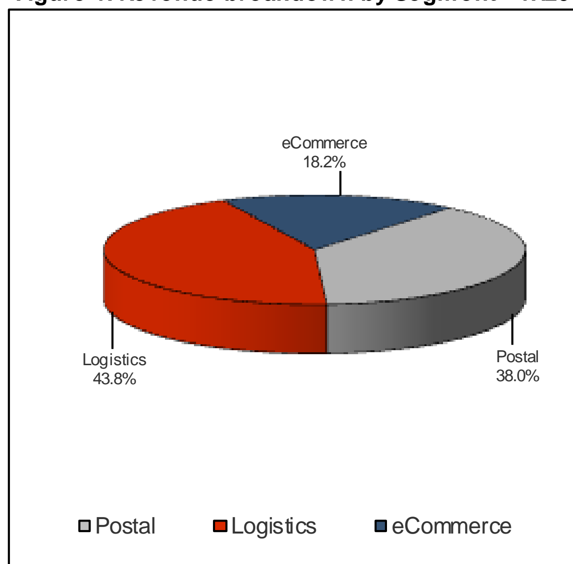
Table 1: Summary Financials

Year End 31st Mar	FY2016	FY2017	1H2018
Income Statement (SGD'mn)			
Revenue	1,151.5	1,348.5	708.8
EBITDA	159.8	155.1	73.2
EBIT	128.0	104.1	43.5
Gross interest expense	10.4	5.7	6.7
Profit Before Tax	287.2	54.9	69.8
Net profit	248.9	33.4	59.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	126.6	366.6	282.3
Total assets	2,415.8	2,716.6	2,685.6
Gross debt	280.3	364.0	306.9
Net debt	153.6	-2.6	24.6
Shareholders' equity	1,561.5	1,757.7	1,771.8
Total capitalization	1,841.8	2,121.7	2,078.7
Net capitalization	1,715.1	1,755.1	1,796.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	280.8	84.4	89.2
* CFO	122.9	190.4	48.8
Capex	279.7	199.8	38.9
Acquisitions	285.9	3.2	0.0
Disposals	67.8	86.1	0.2
Dividend	181.9	134.4	30.2
Free Cash Flow (FCF)	-156.8	-9.3	9.9
* FCF adjusted	-556.8	-60.9	-20.1
Key Ratios			
EBITDA margin (%)	13.9	11.5	10.3
Net margin (%)	21.6	2.5	8.4
Gross debt to EBITDA (x)	1.8	2.3	2.1
Net debt to EBITDA (x)	1.0	0.0	0.2
Gross Debt to Equity (x)	0.18	0.21	0.17
Net Debt to Equity (x)	0.10	0.00	0.01
Gross debt/total capitalisation (%)	15.2	17.2	14.8
Net debt/net capitalisation (%)	9.0	-0.1	1.4
Cash/current borrowings (x)	1.8	2.5	3.6
EBITDA/Total Interest (x)	15.4	27.3	10.9

Source: Company, OCBC estimates

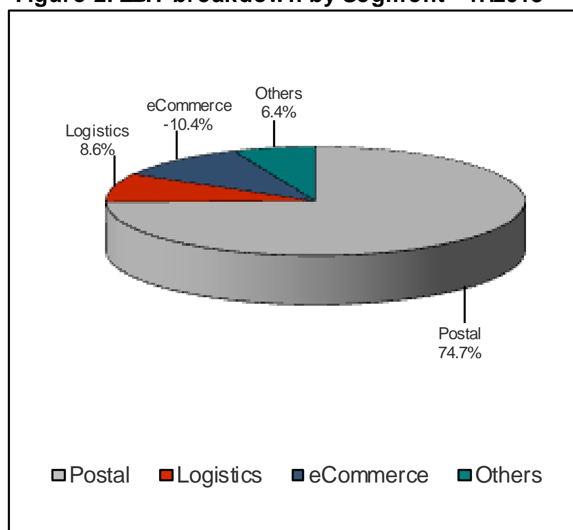
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1H2018



Source: Company | Excludes Eliminations

Figure 2: EBIT breakdown by Segment - 1H2018



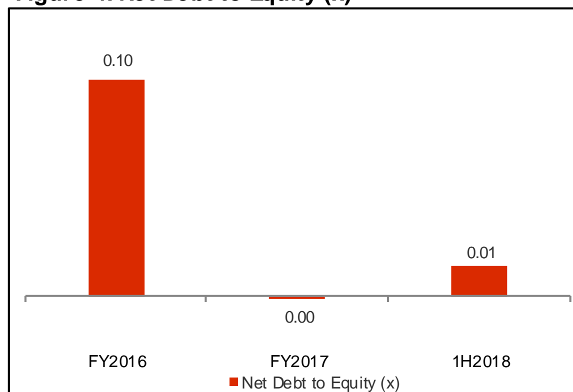
Source: Company | eCommerce made operating loss

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	3.1	1.0%
Unsecured	74.7	24.4%
	77.9	**25.4%**
Amount repayable after a year		
Secured	27.1	8.8%
Unsecured	201.9	65.8%
	229.1	**74.6%**
Total	**306.9**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We think SingTel offers a solid credit profile. However, the STSP curve looks fair with STSP 3.48% '20s, STSP 2.58% '20s and STSP '21s trading at 1.84%, 1.86% and 2.09% respectively.

Issuer Rating: Positive (2)

S&P: A+/Stable

Moody's: A1/Stable

Fitch: A+/Stable

Ticker: **STSP**

Company Profile

Singapore Telecommunications Ltd ("SingTel") is the largest listed company in Singapore with a market cap of SGD58.8bn. SingTel is a communications company, providing various services including mobile, data, fixed, pay television, internet, video, infocomms technology ("ICT") and digital solutions. Through various subsidiaries and associates, SingTel is the leading mobile player in Singapore, Australia, Indonesia, Philippines, Thailand and India. Temasek Holdings is the majority shareholder with 52.3% stake as of 04 Jan 2018.

Singapore Telecommunications Ltd

Key credit considerations

- **Decent core results with diversified revenue sources:** 2QFY2018 (quarter ending 30 Sep) revenue grew 6.9% y/y to SGD4.4bn, with growth in all key segments - Group Consumer (+2.3% y/y to SGD2.4bn), Group Enterprise (+5.5% y/y to SGD1.7bn) and Group Digital Life (+105.5% y/y to SGD277mn). Group Consumer's revenue (in SGD) was driven by stronger AUD though revenues were lower in Singapore (-2.1% y/y to SGD564mn) with lower equipment sales (due to timing of smartphone launches). Voice revenues in Australia (-1.0% y/y to AUD1.7bn) also saw lower sales of equipment. Group Enterprise's results were driven by growth in the ICT services (+13.8% y/y to SGD811mn) in Singapore and Australia. Group Digital Life's increase was led by SGD392mn acquisition of Turn in April 2017 and growth in Amobee's media business. Overall, reported EBITDA grew 4.8% y/y to SGD1.3bn. This was supported by Group Consumer (+8.7% y/y to SGD846mn) due to absence of smartphone launches in 2QFY2018 (which led to negative EBITDA due to hefty subsidies) while Group Enterprise slipped (-5.4% y/y to SGD476mn) due to changing revenue mix (ICT growth while traditional carriage services slipped). Additionally, SingTel's Group Enterprise business could have also faced increased competition as StarHub's Enterprise revenue grew 11.3% y/y to SGD109.4mn. In FY2018, SingTel expects both operating revenue and reported EBITDA from Group Consumer and Group Enterprise to grow by low single digit.

- **Regionally-diversified with stakes in leading operators:** In addition to Singapore and Australia (via Optus), SingTel owns stakes in leading mobile operators including 36.5% of Bharti Telecom Group ("Airtel"), 35.0% of PT Telekomunikasi Selular ("Telkomsel"), 23.3% of Advanced Info Service PCL ("AIS") and 47.1% of Globe Telecom Inc ("Globe"). The associates and JVs collectively contribute SGD1.0bn out of SGD3.8bn post-tax profits, though the post-tax profit contribution for 2QFY2018 has fallen 4.5% y/y mainly due to Airtel (-66.7% y/y to SGD30mn) as it struggled with continued price competition in India. Other associates did well, including Telkomsel (+1.8% y/y to SGD279mn), AIS (+20.3% y/y to SGD71mn), Globe (+67.6% y/y to SGD62mn).

- **Expect stiffening mobile competition:** Competition between the local telcos will likely heat up even before TPG Telecom, the fourth telco, begins operations (likely in 4QFY2018 or later). More mobile virtual network operators are likely to join and offer SIM only plans – while we note that an increasing proportion (2QFY2018: one-third) of SingTel's new customers are signing up to SIM only plans. While SingTel intends to compete aggressively for SIM only user base, this can be positive for margins as handset subsidies are not provided for SIM only users. However, SingTel expects Singapore's mobile communications revenue to decline.

- **Healthy credit metrics:** Net debt/EBITDA improved to 1.9x as of 1HFY2018 (FY2017: 2.2x) following the disposal of NetLink Trust (24.8% stake retained) for SGD1.1bn cash and a SGD1.1bn unitholder loan to NetLink Trust was repaid. However, we expect this improvement to be temporary as a SGD500mn special dividend was declared while SingTel intends to use the remainder of the proceeds for future spectrum acquisition and growth investment. Cash capex is guided at SGD2.4bn for FY2018, of which a majority will be spent for Optus (AUD1.5bn). Nevertheless, we think SingTel retains a strong credit profile, supported by SGD1.2bn dividends from in 1HFY2018 and FCF of SGD2.0bn.

- **Dividends from associates though they pose HoldCo-OpCo subordination risks:** While SingTel faces subordination risks, except for Airtel, the associates upstream significant dividends (FY2017: SGD1.5bn) to SingTel. Also, SingTel need not fund their capex and bids for spectrum, which limits further capital commitments The listed entities may provide liquidity (upon divestment) if needed.

Singapore Telecommunications Ltd

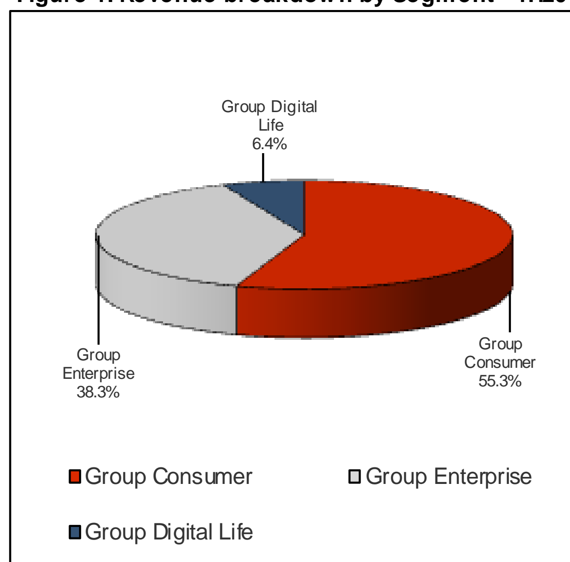
Table 1: Summary Financials

Year End 31st Mar	FY2016	FY2017	1H2018
Income Statement (SGD'mn)			
Revenue	16,961.2	16,711.4	8,602.0
EBITDA	4,864.4	4,848.4	2,441.5
EBIT	2,715.6	2,609.5	1,270.8
Gross interest expense	360.4	374.3	199.3
Profit Before Tax	4,580.8	4,515.4	4,121.7
Net profit	3,870.8	3,852.7	3,780.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	461.8	533.8	651.4
Total assets	43,565.7	42,376.7	47,979.4
Gross debt	9,940.7	11,185.9	10,168.9
Net debt	9,478.9	10,652.1	9,517.5
Shareholders' equity	25,002.5	28,213.6	29,978.5
Total capitalization	34,943.2	39,399.5	40,147.4
Net capitalization	34,481.4	38,865.7	39,496.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	6,019.6	6,091.6	4,951.3
CFO	4,647.7	5,314.7	3,221.7
Capex	1,930.0	2,260.6	1,210.4
Acquisitions	1,274.8	2,471.8	337.0
Disposals	5.7	109.2	1,198.0
Dividend	2,794.1	1,710.5	1,746.9
Free Cash Flow (FCF)	2,717.7	3,054.1	2,011.3
* FCF adjusted	-1,345.5	-1,019.0	1,125.4
Key Ratios			
EBITDA margin (%)	28.7	29.0	28.4
Net margin (%)	22.8	23.1	44.0
Gross debt to EBITDA (x)	2.0	2.3	2.1
Net debt to EBITDA (x)	1.9	2.2	1.9
Gross Debt to Equity (x)	0.40	0.40	0.34
Net Debt to Equity (x)	0.38	0.38	0.32
Gross debt/total capitalisation (%)	28.4	28.4	25.3
Net debt/net capitalisation (%)	27.5	27.4	24.1
Cash/current borrowings (x)	0.7	0.2	0.7
EBITDA/Total Interest (x)	13.5	13.0	12.3

Source: Company, OCBC estimates

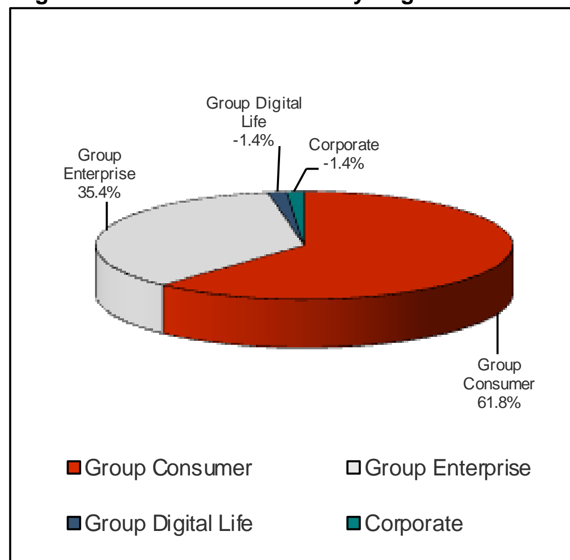
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 1H2018



Source: Company

Figure 2: EBITDA breakdown by Segment - 1H2018



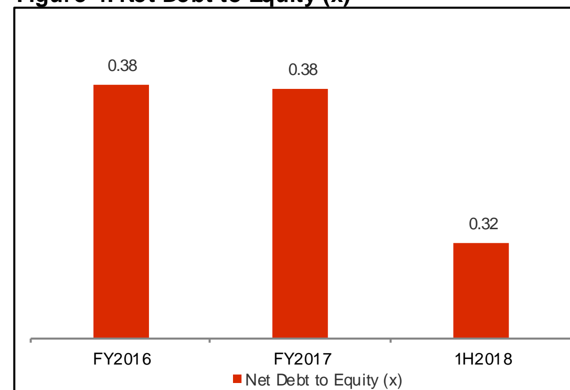
Source: Company | Group Digital Life & Corporate incurred EBITDA losses

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	68.2	0.7%
Unsecured	864.5	8.5%
	932.7	**9.2%**
Amount repayable after a year		
Secured	135.1	1.3%
Unsecured	9,101.1	89.5%
	9,236.2	**90.8%**
Total	**10,168.9**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – We see the SBREIT 3.45% '18s as trading at fair. The SBREIT 3.6% '21s at a YTW of 3.9% (229 bps) is offering a pick-up of 100bps against the EREIT 3.95%'20s which more than compensates for its one year longer maturity and lack of a credit rating.

Issuer Profile: Neutral (4)

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **SBREIT**

Background

Listed in 2013, Soilbuild Business Space REIT ("SBREIT") is an Industrial REIT in Singapore, with total assets of about SGD1.3bn as at 30 September 2017. SBREIT currently owns a portfolio of 12 properties in Singapore. The REIT is Sponsored by Soilbuild Group Holdings Ltd ("Soilbuild") and Soilbuild owns the REIT Manager. Soilbuild is wholly owned by Mr. Lim Chap Huat and the Lim family is the REIT's largest unitholder holding a ~28.6% stake.

Soilbuild Business Space REIT

Key credit considerations

- **Growth in net property income led ("NPI") by acquisition:** Gross revenue increased by 7.8% y/y to SGD64.1mn in 9M2017. This was mainly due to contribution from Bukit Batok Connection ("BBC") building which was acquired in September 2016 from Sponsor and improvements at Solaris, Tuas Connection and Tellus Marine. This was though partly offset by reduction in revenue from 72 Loyang Way. By 3Q2017, no more revenue was recognised from Technics, the earlier Master Lessee who had a security deposit placed with SBREIT. The building contributed only 1.2% or SGD0.8mn to 3Q2017 gross revenue. In 9M2017, 32% of NPI at SBREIT came from Solaris and Eightrium, both "office-like" business park properties which have proved resilient amidst the industrial space downturn. Finance expense was higher by 11.1% y/y at SGD11.9mn mainly due to the loan draw down to partly finance the acquisition of BBC. With operating expenses relatively stable as a proportion of revenue, EBITDA was up by 8.0% to SGD51.0mn, resulting in EBITDA/Interest of 4.3x (9M2016: 4.4x). Based on our estimates, business parks EBITDA would have provided 1.4x coverage to interest. Solaris' Master Lease is due to expire in August 2018, although the underlying lease expiries at Solaris are staggered over 2018 to after 2020 and we see low tenancy risk when SBREIT assumes the direct leases.

- **Arrears in 9M2017:** Trade receivables increased to SGD8.5mn as at 30 September 2017 from SGD4.3mn in end-December 2016. In 9M2017, the Master Lessee at 2 Pioneer Sector 1 had been in arrears on its rent (total of SGD3.4mn when it was disclosed in September 2017). SBREIT held SGD5.1mn in security deposit and to date the full deposit has been received. The second tranche of SGD1.7mn was also received in December 2017. In October 2017, it was disclosed that the Master Lessee at KTL Offshore building ("KTL Building") had been in arrears for seven months, amounting to SGD2.7mn. In 3Q2017, 2 Pioneer Sector 1 and KTL Building contributed 6.2% and 4.6% to gross revenue respectively. In December 2017, SBREIT announced that it has entered into an agreement to divest KTL Building to SBREIT's Sponsor for SGD55.0mn (SGD1.7mn gain over the valuation as at 31 December 2016). We take comfort that this sale would help reduce the counterparty credit risk at SBREIT. Marine offshore and oil & gas tenants (a sector facing generalised weakness) made up 12.7% of gross rental income and this would fall to 8.9% post divestment of KTL Building.

- **Short term obligations due though we see manageable refinancing risk:** As at 30 September 2017, aggregate leverage was 37.9%, stable against 30 June 2017. SBREIT faces SGD147.0mn in short term debt due within the next 12 months. This includes the SBREIT'18s (outstanding amount of SGD93.5mn) and the SGD55.0mn in an interest-free loan extended by the Sponsor. It is expected that this loan would not be rolled forward and instead repaid and/or refinanced by third party debt. Additionally, SGD18.7mn would also need to be refunded to the Sponsor with the pending Master Lease expiry of Solaris. Cash balance at SBREIT as at 30 September 2017 was only SGD10.5mn though we see refinancing risk as manageable. All assets, except Solaris (valued at SGD360mn) remains unencumbered, allowing SBREIT to raise more secured debt, if need be. In October 2017, SBREIT raised SGD200mn in bank debt to partly early refinance a loan due in 2020, a sign that bank lending channels remain open for SBREIT. While near-term EBITDA/Interest is likely to take a small dip due to absence of revenue from KTL Building, the sale of KTL Offshore building to Sponsor, when completed, would unlock ~SGD55.0mn in cash proceeds that can be used to repay debt and pursue other growth opportunities. In November 2017, SBREIT announced that it is expanding its investment mandate to include Australia.

Soilbuild Business Space REIT

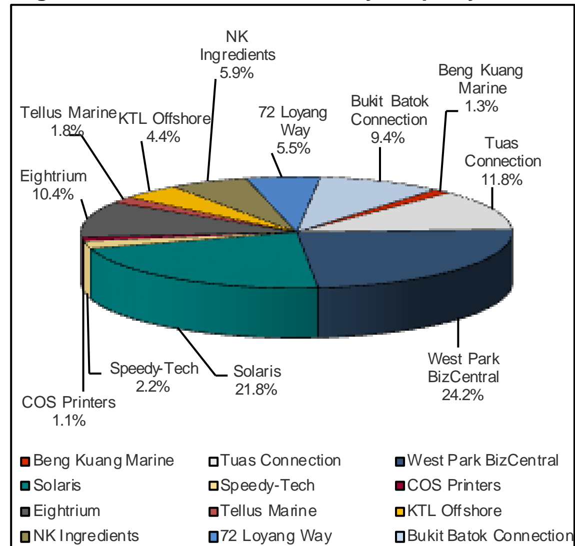
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	79.3	81.1	64.1
EBITDA	61.1	64.4	51.0
EBIT	61.1	64.4	51.0
Gross interest expense	13.5	14.6	11.9
Profit Before Tax	51.7	-0.6	39.7
Net profit	51.7	-0.6	39.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	16.8	25.7	10.5
Total assets	1,214.5	1,275.5	1,266.1
Gross debt	398.5	472.3	474.4
Net debt	381.8	446.6	463.9
Shareholders' equity	746.0	751.7	749.5
Total capitalization	1,144.5	1,224.1	1,223.9
Net capitalization	1,127.7	1,198.3	1,213.4
Cash Flow (SGD'mn)			
Funds from operations (FFO)	51.7	-0.6	39.7
* CFO	57.1	71.3	32.6
Capex	25.5	31.9	0.2
Acquisitions	98.1	103.9	0.0
Disposals	0.0	0.0	0.0
Dividends	55.7	58.9	47.3
Free Cash Flow (FCF)	31.6	39.3	32.4
* FCF Adjusted	-122.2	-123.5	-14.9
Key Ratios			
EBITDA margin (%)	77.1	79.4	79.7
Net margin (%)	65.1	-0.7	61.9
Gross debt to EBITDA (x)	6.5	7.3	7.0
Net debt to EBITDA (x)	6.2	6.9	6.8
Gross Debt to Equity (x)	0.53	0.63	0.63
Net Debt to Equity (x)	0.51	0.59	0.62
Gross debt/total capitalisation (%)	34.8	38.6	38.8
Net debt/net capitalisation (%)	33.9	37.3	38.2
Cash/current borrowings (x)	NM	NM	0.1
EBITDA/Total Interest (x)	4.5	4.4	4.3

Source: Company, OCBC estimates

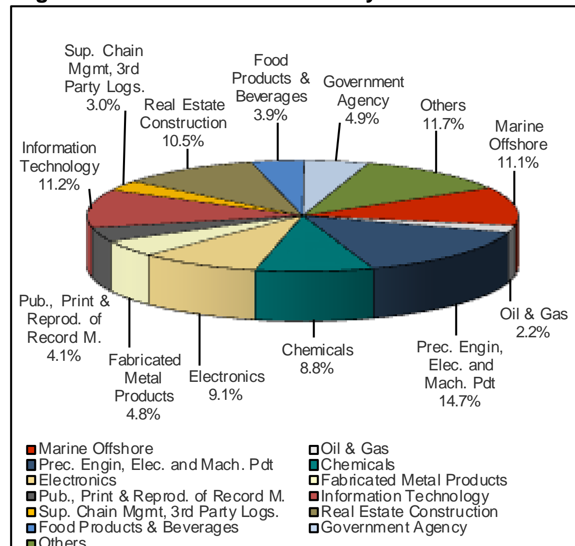
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Property - 9M2017



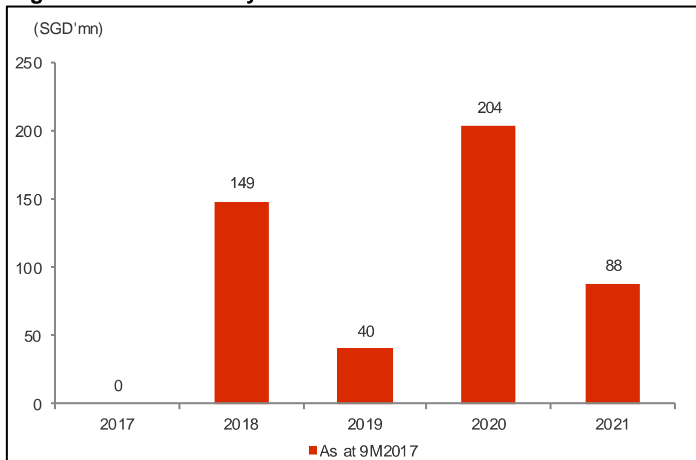
Source: Company, OCBC estimates

Figure 2: Revenue breakdown by Business - 9M2017



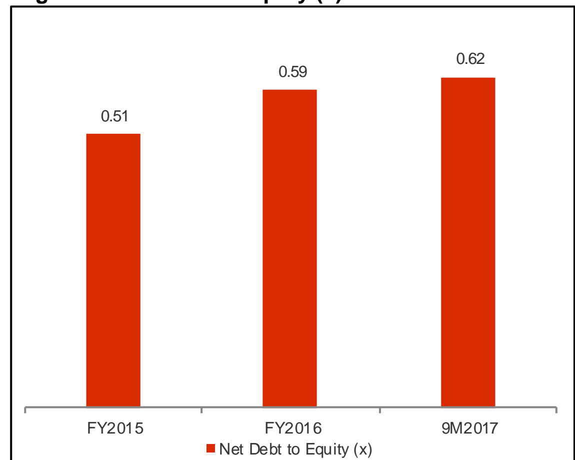
Source: Company, OCBC estimates

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Starhill Global Real Estate Investment Trust

Credit Outlook – The SGREIT curve trades slightly wider than the FCTSP curve though this is likely driven by the stronger and more diversified FCT portfolio.

Issuer Profile: Neutral (4)

S&P: BBB+/Stable

Moody's: Not rated

Fitch: Not rated

Ticker: **SGREIT**

Background

Listed on the SGX in September 2005, Starhill Global REIT ("SGREIT") invests primarily in real estate used for retail and office purposes, both in Singapore and overseas. It owns 11 mid to high-end retail properties in 5 countries, valued at ~SGD3.1bn as at 28 July 17. The properties include Wisma Atria (74.2% of strata lots) and Ngee Ann City (27.2% of strata lots) in Singapore, Starhill Gallery and Lot 10 in Malaysia, and 7 other malls in China, Australia and Japan. YTL Corp Bhd is SGREIT's sponsor and largest unitholder with a 35.8% stake.

Key credit considerations

- **Continued retail focus, consolidation of markets**: Over the last three year, it would seem that SGREIT had been trimming the markets it had been focused in, with revenue from its smaller markets (China and Japan) falling to just 2.5% of total revenue for 1QFY2018, from 7.1% three years ago. Comparatively, its Australia contribution had shot up from 10.4% of total revenue to 23.7% during the same time period, while Singapore continues to contribute the lion's share at 61.1% of total revenue. We expect this trend to continue, with SGREIT continuing to opportunistically exit its assets in the smaller markets. That said, SGREIT continues to be largely a retail play, with 89% of revenue derived from Retail and the balance derived from Office. On the bright side for bond investors, unlike its peer retail REITs, Master leases (etc: Toshin, Development for Ngee Ann City, YTL for Malaysia assets) and long-term leases (for Australia assets) represent 48.0% of gross rent. This has helped mitigate the downward rental reversion pressures seen given the still difficult domestic retail environment.

- **Weakness in Singapore Office and Retail**: For 1QFY2018 (ending September 2017), revenue was down 4.1% y/y to SGD53.0mn while NPI was down 3.5% y/y to SGD41.4mn. In a continuation of last fiscal year's trends, SGREIT's Singapore assets (~68% of portfolio value) have remained weak, reporting a 7.5% decline in revenue and 7.1% decline in NPI. Specifically, Wisma Atria reported weaker retail revenue (-11.1% y/y), lacking the one-off boost from pre-termination rental compensation seen in 1QFY2017. In mitigation the occupancy at Wisma Atria remained high at 97.4%. The office assets at Wisma Atria and Ngee Ann City reported 13.2% revenue declines to SGD5.7mn in aggregate, driven by a sharp q/q decline in occupancy from 92.9% to 83.5%. Management had reported the impact from island-wide office market competition, which is consistent with our view that CBD grade A office assets have recovered at the expense of older assets, or assets outside of the CBD area. That said, SGREIT reported that it is finalizing terms for roughly a third of its vacant Singapore office space.

- **FX and improving operations boosted Australia performance**: Australia revenue and NPI were up 6.9% y/y and 3.8% y/y respectively to SGD12.6mn and SGD7.8mn. This was driven by higher retail revenue at Myer Centre Adelaide and David Jones Building, as well as due to the appreciation of the AUD against SGD. The AEI on-going at Plaza Arcade, Perth, has continued to be a drag on performance, though it is expected to be completed by 3QFY2018. For SGREIT's other markets, there were some declines driven by currency weakness in Malaysia and Japan, and building transition (shifting to single tenant) in China. In aggregate, portfolio occupancy worsened q/q to 93.4% (4QFY2017: 95.5%) due to the sharp occupancy decline in Singapore Office, as well as increasing vacancies at Myer Centre Adelaide Office. WALE by NLA remains decent at 6.6 years, though numbers are skewed by the relatively longer leases on the Toshin master lease as well as on Australian assets.

- **Refinancing needs resolved**: SGREIT's aggregate leverage had remained stable at 35.4%. EBITDA / Interest worsened slightly to 3.5x (FY2017: 3.8x) on higher financing costs. FY2018 had previously been a peak year for debt maturities. However, SGREIT had entered into a SGD700mn unsecured club term loan facility and refinanced SGD450mn in short-term debt due ahead of their maturities. They have also refinanced AUD145mn in Myer Centre Adelaide related debt in 2QFY2018. FY2019 and FY2020 maturities are manageable at just SGD67mn and SGD106mm respectively. Though SGREIT has slightly lower aggregate leverage compared to peers, its Singapore assets remain an area to monitor. As such, we will be retaining SGREIT's Neutral (4) Issuer Profile.

Starhill Global Real Estate Investment Trust

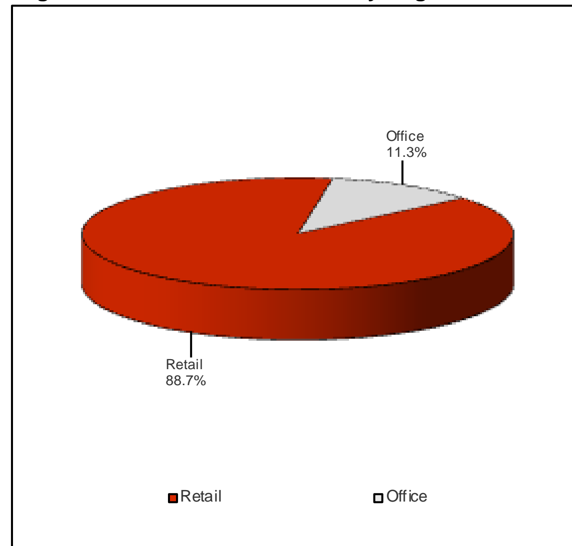
Table 1: Summary Financials

Year Ended 30th June	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	219.7	216.4	53.0
EBITDA	151.3	147.5	36.4
EBIT	151.0	147.2	36.4
Gross interest expense	38.8	38.9	10.5
Profit Before Tax	161.6	99.0	27.1
Net profit	163.9	110.4	26.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	77.0	76.6	69.9
Total assets	3,222.2	3,219.4	3,223.2
Gross debt	1,122.9	1,134.3	1,135.4
Net debt	1,046.0	1,057.7	1,065.5
Shareholders' equity	2,017.6	2,009.3	2,013.3
Total capitalization	3,140.5	3,143.6	3,148.7
Net capitalization	3,063.5	3,067.0	3,078.8
Cash Flow (SGD'mn)			
Funds from operations (FFO)	164.3	110.8	26.2
* CFO	155.3	141.1	31.4
Capex	1.0	9.1	2.9
Acquisitions	1.0	0.0	0.0
Disposals	29.1	4.9	0.0
Dividends	113.0	109.7	25.7
Free Cash Flow (FCF)	154.2	132.1	28.5
* FCF Adjusted	69.4	27.3	2.8
Key Ratios			
EBITDA margin (%)	68.9	68.2	68.7
Net margin (%)	74.6	51.0	49.4
Gross debt to EBITDA (x)	7.4	7.7	7.8
Net debt to EBITDA (x)	6.9	7.2	7.3
Gross Debt to Equity (x)	0.56	0.56	0.56
Net Debt to Equity (x)	0.52	0.53	0.53
Gross debt/total capitalisation (%)	35.8	36.1	36.1
Net debt/net capitalisation (%)	34.1	34.5	34.6
Cash/current borrowings (x)	5.0	0.2	NM
EBITDA/Total Interest (x)	3.9	3.8	3.5

Source: Company, OCBC estimates

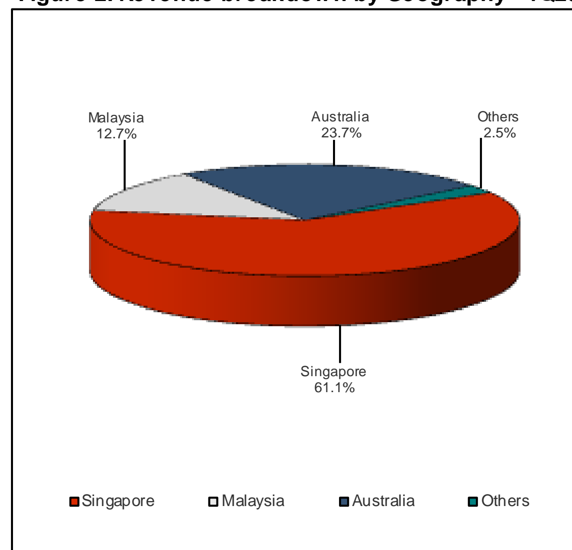
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1Q2018



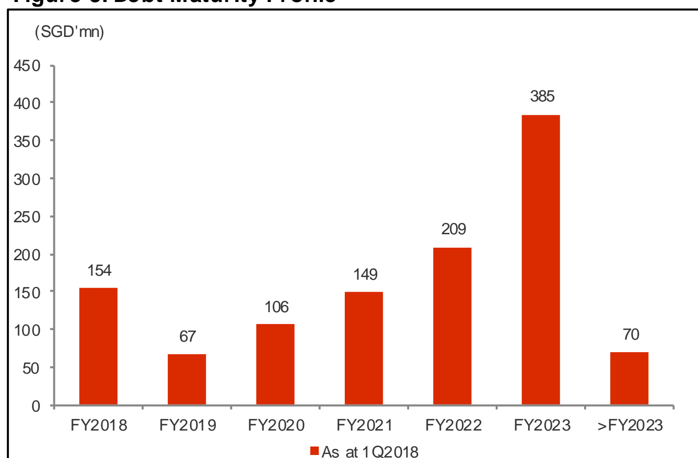
Source: Company

Figure 2: Revenue breakdown by Geography - 1Q2018



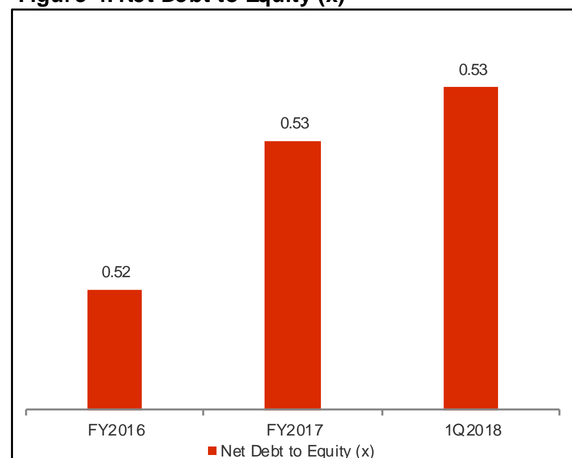
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – We think STHSP '26s looks fair trading at 73.2bps though STHSP 3.08% '22s seems tight at 2.26%. Meanwhile, STHSP 3.95% PERP seems fair trading at 3.53% though we think the upside may be limited given that MAPLSP 3.95% PERP trades at a higher yield of 3.63%.

Issuer Rating: Neutral (3)

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **STHSP**

Company Profile

StarHub Ltd ("StarHub") is a Singapore communications company, providing various services for consumer and corporates including mobile, data, fixed telecommunication, pay television, internet and broadband services. StarHub is 55.86% owned by Asia Mobile Holdings Pte Ltd, which is 75%-owned by STT Communications Ltd, which is in turn a wholly-owned subsidiary ST Telemedia. ST Telemedia is in turn a wholly-owned subsidiary of Temasek.

StarHub Limited

Key credit considerations

- **Mixed bag of results:** 3Q2017 revenue declined 0.8% y/y to SGD580.4mn. However, results were mixed for the various segments. Revenues were lower for mobile (-0.8% y/y to SGD297mn) due to lower voice, IDD and outbound roaming usage, Pay TV (-8.5% y/y to SGD85.7mn) and Broadband (-2.8% y/y to SGD53.2mn) due to a lower subscriber base. The only bright spot was enterprise fixed services (+11.3% y/y to SGD109.4mn), which management attributes to investments in capabilities (e.g. cyber security) and enterprise solutions (e.g. self-collection counter kiosk at Marina Bay Sands) that allow StarHub to compete aggressively. Reported EBITDA declined 1.7% y/y to SGD176mn partly due to lower service revenues as well as lower income grants which have been fully amortised. Going forward, revenue mix may change after the adoption of IFRS 15 in Jan 2018 that changes the booking of revenue for a handset sale that comes with subsidy, though this is credit neutral as there is no impact on cash flow.

- **Erosion of Hubbing metrics with intensifying competition:** StarHub bundles multiple services to increase customer stickiness and achieve cross-selling. However, the number of households which subscribe to three or more services ("Hubbing metrics") declined to 329k (lower by 4k q/q, or 16k y/y). Pay TV saw the steepest decline in subscribers (lower by 10k q/q, or 40k y/y) to 467k due to competition with Netflix and Amazon Prime Video. Post-paid mobile subscribers also declined to 1.36mn (2Q2017: 1.39mn) although this is due to a one-time termination of 23k inactive legacy data-only lines. We expect further pressure on mobile (ARPU and number of new subscribers) as TPG will compete as the fourth telco in Singapore (may begin operations in end-2018). Thus far, the revenues from voice, roaming and IDD continue to trend lower, though the increase in mobile usage has mitigated overall declines. However, Circles.Life is already aggressively targeting users with high data-usage needs while MyRepublic looks to join as a mobile virtual network operator. Otherwise, we expect the erosion on the mobile business from existing customers to be slow, with binding contracts (typically 21-24mths) while churn rates remain stable at ~1.0% (excluding one-off terminations).

- **Diversification via Enterprise and other investments:** While the traditional businesses are facing pressure, StarHub has stepped up on Enterprise fixed services (which focuses on managed networks, managed applications and maintenance type of solutions, such as managed security). In addition, StarHub acquired the remaining Accel Systems & Technologies stake in Jul 2017. Enterprise fixed services accounts for 18.9% of 9M2017's service revenue (9M2016: 17.8%), which may grow further. Meanwhile, StarHub purchased a 9.8% stake (market value: SGD64mn) in mm2 Asia, a firm with local production content (e.g. movies such as Ah Boys to Men), to differentiate itself from the competition.

- **Decent credit metrics for now:** 9M2017 net debt/EBITDA looks healthy at 0.8x. However, reported EBITDA has been falling since 2014 (SGD747.9mn) to SGD653mn in TTM due to weaker results and the fall off of the NBN adoption grant. While 2017 capex was guided lower at 10% of revenue from the original forecast of 13%, StarHub will need to pay SGD282mn for the 700MHz spectrum it won (due date in 2018-2019). Dividends look more sustainable after being cut (5cts to 4cts per share), with free cash flow (9M2017: SGD253mn) exceeding the dividend payout (SGD224.8mn). However, this does not factor 4Q FCF which has traditionally been weaker (4Q2016: -SGD45.4mn) due to increased subsidies for higher handset sales. We do not consider net gearing due to high level of intangible assets and group level equity is lower than the company level's due to merger accounting arising from StarHub's merger with StarHub Cable Vision Ltd in 2002. While StarHub faces operating challenges, credit metrics remain decent for now. **We initiate coverage of Starhub with a Neutral (3) Issuer Profile.**

Starhub Limited

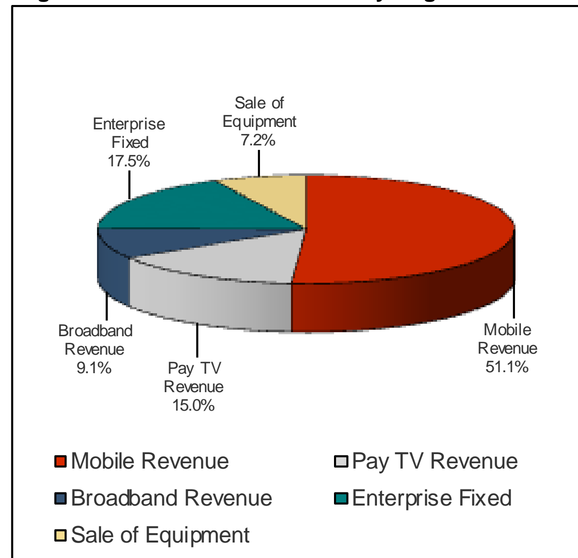
Table 1: Summary Financials

Year End 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	2,444.3	2,396.7	1,751.8
EBITDA	667.1	657.9	513.4
EBIT	395.7	392.9	304.1
Gross interest expense	17.8	26.2	22.6
Profit Before Tax	440.2	410.3	285.2
Net profit	372.3	341.4	234.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	173.4	285.2	454.3
Total assets	1,909.4	2,196.3	2,415.2
Gross debt	687.5	987.5	977.5
Net debt	514.1	702.3	523.2
Shareholders' equity	187.6	194.9	398.9
Total capitalization	875.1	1,182.4	1,376.4
Net capitalization	701.7	897.2	922.1
Cash Flow (SGD'mn)			
Funds from operations (FFO)	643.7	606.4	444.2
CFO	544.5	550.7	453.6
Capex	328.8	366.7	200.6
Acquisitions	12.0	0.0	22.6
Disposals	1.6	0.8	0.4
Dividend	345.9	346.2	224.8
Free Cash Flow (FCF)	215.7	184.0	253.0
* FCF adjusted	-140.6	-161.4	6.0
Key Ratios			
EBITDA margin (%)	27.3	27.5	29.3
Net margin (%)	15.2	14.2	13.4
Gross debt to EBITDA (x)	1.0	1.5	1.4
Net debt to EBITDA (x)	0.8	1.1	0.8
Gross Debt to Equity (x)	3.66	5.07	2.45
Net Debt to Equity (x)	2.74	3.60	1.31
Gross debt/total capitalisation (%)	78.6	83.5	71.0
Net debt/net capitalisation (%)	73.3	78.3	56.7
Cash/current borrowings (x)	1.3	28.5	NA
EBITDA/Total Interest (x)	37.5	25.1	22.7

Source: Company, OCBC estimates

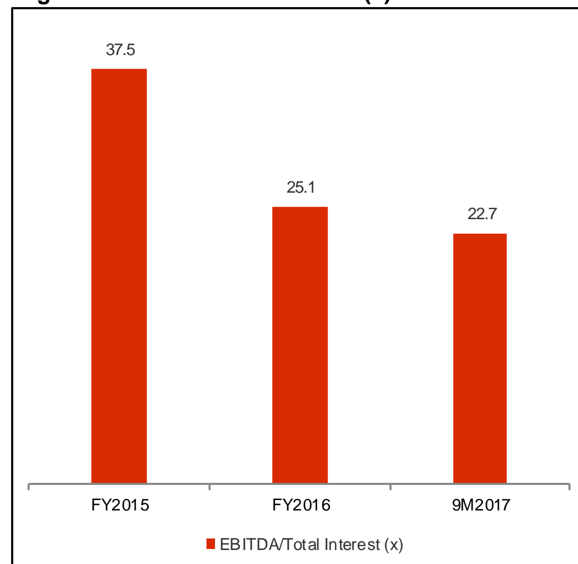
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - 9M2017



Source: Company

Figure 2: EBITDA/Total Interest (x)



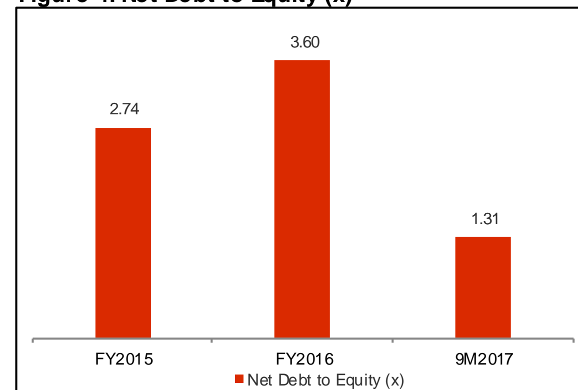
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	0.0	0.0%
	0.0	**0.0%**
Amount repayable after a year		
Secured	0.0	0.0%
Unsecured	977.5	100.0%
	977.5	**100.0%**
Total	**977.5**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook – The SUNSP'23s offer fair value on the SUNSP curve, while the shorter dated papers look rich.

Issuer Profile: Neutral (4)

S&P: Not rated
Moody's: Baa3/Stable
Fitch: Not rated

Ticker: **SUNSP**

Background

Listed on the SGX in 2004, Suntec REIT ("SUN") invests in real estates used for retail and office purposes. SUN's portfolio includes "Suntec City" (Suntec City Mall, units in Towers 1–3, and whole of Towers 4 & 5), a 60.8%-interest in Suntec Singapore Convention & Exhibition Centre ("Suntec Singapore"), a one-third interest in One Raffles Quay ("ORQ"), and a one-third interest in Marina Bay Financial Centre Towers 1 & 2 and Marina Bay Link Mall ("MBFC"). SUN holds a 100% interest in 177 Pacific Highway, an office development in Sydney as well as an interest in the Southgate and 477 Collins Street in Melbourne.

Suntec Real Estate Investment Trust

Key credit considerations

- **Growth Down Under**: As a REIT without a sponsor, portfolio growth stems from either redevelopment or asset enhancements of existing assets, or the acquisition of 3rd party assets. For the former, SUN is in a JV to redevelop the former Park Mall site (9 Penang Road, completion by end-2019). For the latter, SUN had been more focused on the Australian market. After SUN's maiden overseas acquisition in 177 Pacific Highway, Sydney (announced in November 2013 and completed in August 2016), SUN had acquired an effective 25% stake in Southgate, Melbourne in November 2016 for SGD154.9mn (and may potentially acquire a further 25% – 50%) as well as bought a 50% interest (for AUD414.2mn) in 477 Collins Street, Melbourne, in July 2017. The portfolio had benefited from the geographical diversification (though it remains largely skewed to Singapore) as well as extensions to WALE (given longer lease terms in Australia).

- **Softness in retail and associates**: For 9M2017, gross revenue and NPI were up 11.5% and 13.0% y/y to SGD266.9mn and SGD185.1mn respectively. Growth was driven by the completion and contribution of 177 Pacific Highway (in August 2016), which mitigated weak retail performance (Suntec City had reported a 1.8% decline in retail revenue). Looking in detail at 3Q2017 results, gross revenue and NPI increased 10.6% and 11.6% y/y to SGD91.1mn and SGD63.9mn respectively. Adjusting for the 177 Pacific Highway impact, NPI would have still increased 2.6% y/y due to improvements at Suntec Singapore (there was recovery in both its Retail and Convention components). This helped to mitigate continued weakness at the Retail component of Suntec City. The underperformance of SUN's retail segment is consistent with the headwinds seen across the sector given structural changes in consumer behavior. For SUN's office JVs, income contribution fell 8.2% y/y to SGD22.3mn. Specifically, NPI contribution from ORQ (-SGD1.91mn y/y) and MBFC (-SGD2.1mn y/y) continued to be soft with SUN's average office rentals for the quarter declining to SGD8.61 psf/mth (2Q2017: SGD8.89 psf/mth), weaker than CBRE's Grade A office average rents of SGD9.10 psf/mth. Both ORQ and MBFC may have faced heightened competition from the opening of Marina One mid-2017.

- **Occupancy firm, lease profile manageable**: Despite lease rate pressure, demand for SUN's office assets remain strong with SUN's total Singapore office occupancy healthy at 99.0% (2Q2017: 98.8%) and above the overall Singapore CBD Grade A occupancy rate of 88.1% in 3Q2017. Comparatively, total office occupancy rate for SUN was 98.6%, weaker primarily due to the Southgate complex (~90% occupancy). For both office and retail, the lease maturity profile has improved q/q with 20% and 26.7% of net lettable area for office and retail respectively scheduled to expire in the remainder of FY2017 and FY2018 (2Q2017: 24.3% and 30.7%).

- **Debt-funded growth risk to credit profile**: SUN had largely been funding its recent transactions with divestment proceeds (the partial sale of Park Mall) and debt. This includes the 477 Collins Street acquisition (though the debt drawn down would track development milestones). Aggregate leverage weakened marginally to 36.8% (2Q2017: 36.1%), following issuance of SGD100mn in bonds during the quarter. Reported interest coverage (which included JV/associate contributions) also weakening marginally to 4.0x (2Q2017: 4.2x). Debt maturity profile looks manageable with less than 20% of total debt (or SGD605mn) due in 2018. This includes SGD105mn in bonds due November 2018. Access to capital markets remains strong, with SUN raising a further SGD300mn in convertible bonds during November 2017. Should the convertible bond raised be not used for refinancing, pro-forma aggregate leverage would increase to ~39%. SUN's possible acquisition of more interest in Southgate would further consume debt headroom, though potential revaluation gains come year end may mitigate the situation. Retain at Neutral (4) Issuer Profile.

Suntec Real Estate Investment Trust

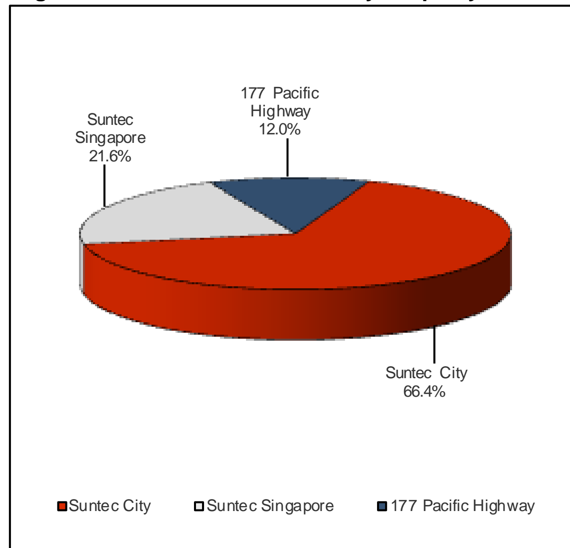
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	329.5	328.6	266.9
EBITDA	182.2	175.9	147.5
EBIT	171.2	174.8	146.6
Gross interest expense	87.9	94.5	74.7
Profit Before Tax	372.9	275.5	142.2
Net profit	354.1	246.5	133.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	445.3	182.5	169.1
Total assets	8,965.0	9,093.4	9,189.0
Gross debt	3,212.7	3,305.8	3,253.6
Net debt	2,767.4	3,123.3	3,084.5
Shareholders' equity	5,562.7	5,593.3	5,733.3
Total capitalization	8,775.4	8,899.1	8,986.8
Net capitalization	8,330.1	8,716.6	8,817.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	365.1	247.6	133.9
* CFO	231.3	197.7	170.9
Capex	287.0	140.8	20.2
Acquisitions	0.0	0.0	53.1
Disposals	409.9	0.0	0.0
Dividends	254.1	265.0	195.7
Free Cash Flow (FCF)	-55.7	56.8	150.7
* FCF Adjusted	100.2	-208.1	-98.1
Key Ratios			
EBITDA margin (%)	55.3	53.5	55.3
Net margin (%)	107.5	75.0	49.8
Gross debt to EBITDA (x)	17.6	18.8	16.5
Net debt to EBITDA (x)	15.2	17.8	15.7
Gross Debt to Equity (x)	0.58	0.59	0.57
Net Debt to Equity (x)	0.50	0.56	0.54
Gross debt/total capitalisation (%)	36.6	37.1	36.2
Net debt/net capitalisation (%)	33.2	35.8	35.0
Cash/current borrowings (x)	1.2	1.8	NM
EBITDA/Total Interest (x)	2.1	1.9	2.0

Source: Company, OCBC estimates

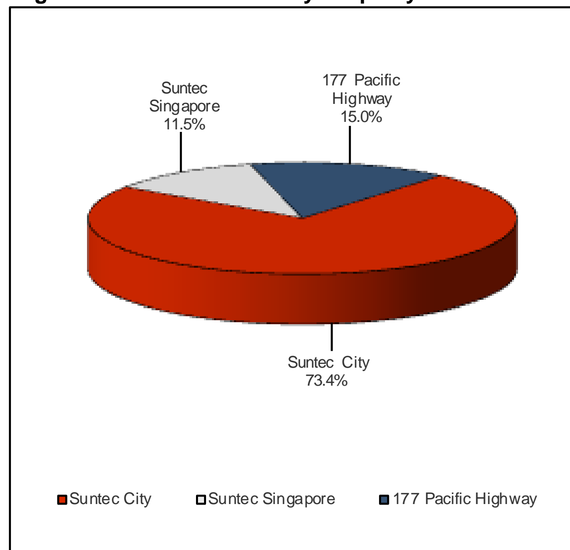
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Property - 9M2017



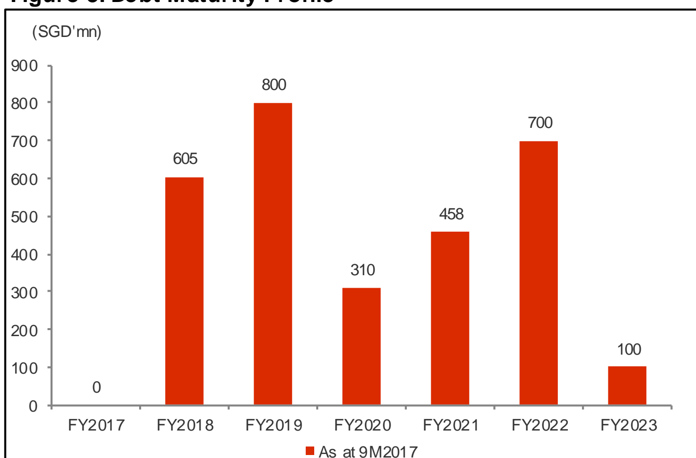
Source: Company | One Raffles Place revenue based on attributable interest

Figure 2: NPI breakdown by Property - 9M2017



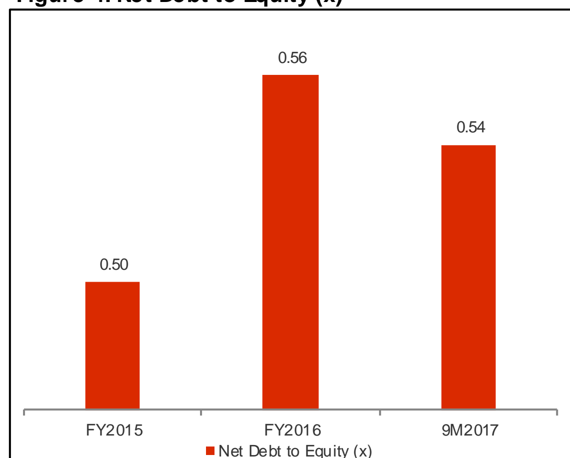
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Credit Outlook – UOLSP 2.5% '20s look fair trading at 2.28% given its strong credit profile. Investors looking for higher yield may consider OUESP 4.25% '19c16 trading at 3.35% (YTM).

Issuer Rating: Neutral (3)

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **UOLSP**

Company Profile

UOL Group Ltd ("UOL") is a leading Singapore property company with core businesses in property development, investment properties, hotels and serviced suites. UOL holds 50.02% stake in its subsidiary United Industrial Corp Ltd ("UIC"). Including UIC, the Singapore-concentrated investment properties span 326,693 sqm while UOL owns and/or manages over 10,000 hotel rooms via its acclaimed brands, namely 'Pan Pacific' and 'PARKROYAL'. Mr Wee Cho Yaw ("Mr Wee") directly and indirectly owns 35.9% of the stake in UOL.

UOL Group Ltd

Key credit considerations

- **Results lifted by consolidation of UIC:** Since 3Q2017, UOL will be consolidating UIC's results and treating it as a subsidiary after acquiring 60mn UIC shares from Haw Par Corp Ltd. This brought revenue higher by 36.7% y/y to SGD537.9mn. Without consolidation, revenue would have fallen 3% y/y due to completion of Riverbank@Fernvale, which resulted in lower progressive recognition of revenue. During the quarter, UOL also booked SGD542mn gains from negative goodwill as UOL accounted for the fair valuation of UIC's assets and liabilities (FRS 103).

- **Investment properties continue to contribute:** While property investments account for only 15.4% of UOL's revenue in 3Q2017, they anchor UOL's credit profile by contributing the majority of its profit from operations (2016: SGD151.2mn out of SGD279.8mn) and accounting for the majority of the assets (SGD10.9bn out of SGD19.7bn). These include prime properties such as Novena Square, United Square, OneKM, Singapore Land Tower, Clifford Centre, The Gateway, Marina Square Complex and SGX Centre 2. UOL has focused on growing profits from property investments (~6% p.a. growth from FY2012's SGD119.7mn) and is expected to grow this further with the opening of Park Eleven Mall in Shanghai (NLA: 4,000 sqm) and Bishopsgate in London (1,631 sqm) in 2018. We expect investment properties to continue contributing ~50% of the profits.

- **Hotels and other investments to also provide recurring income:** Hotel operations and investments contribute 28.0% (SGD96.6mn) of 3Q17's revenue and 27.5% (SGD80.9mn) of 2016's profit from operations. These include 24 owned hotels (8,290 rooms), 11 managed hotels (2,721) rooms and a 2.3%-stake in UOB (estimated market value: over SGD1.0bn). By reported adjusted EBITDA (UOL's calculation), UOL's hospitality segment is more concentrated in Singapore (2016 reported adjusted EBITDA: SGD60.2mn), followed by Australia (SGD29.2mn) and other countries (SGD28.2mn) including Malaysia, Vietnam, Myanmar and China. UOL looks to expand this segment with another 2,793 rooms in the pipeline, though this will be asset-light as only 417 rooms will be owned.

- **Ride the uptrend in Singapore's residential market:** UOL has been moving units at The Clement Canopy (3Q2017 sold: 69.9%) and Principal Garden (82.8%). According to the URA caveats, more units continue to be sold after end-3Q2017. In the pipeline, UOL will launch 3 projects in 2018-19 with a total saleable area of 79,234 sqm following its land purchases this year at 45 Amber Road (SGD156mn), Potong Pasir Ave 1 (SGD334.2mn) and 92-128 Meyer Road (SGD201.1mn). Meanwhile, UIC will also benefit from the recovery in the Singapore residential market as it moves its inventory of 103,443 sqm in saleable area, including Alex Residences, Mon Jervois, Pollen & Blue and V on Shenton.

- **HoldCo-OpCo subordination risks:** UIC holds SGD8.6bn out of SGD19.7bn of UOL's total assets. While we see subordination risks, this is partly mitigated by UOL's control over UIC while UIC's net gearing is manageable at 0.11x.

- **Decent credit metrics:** UOL's net gearing is decent at 0.25x, which is in-line with its net gearing of 20%-30% over 2011-16. Despite the foreseeable use of cash which include the recent land acquisitions (and consequently capex to be undertaken), and redevelopment of the 206-room Pan Pacific Orchard into a new 340-room hotel, we believe the uptrend in Singapore's residential market should help UOL move more units. However, its credit metrics could weaken if it continues to bid aggressively for land. For now, we like that UOL has a decent credit metrics with recurring cashflows from investment properties. However, we note that UOL remains concentrated in Singapore. **We initiate with a Neutral (3) Issuer Profile.**

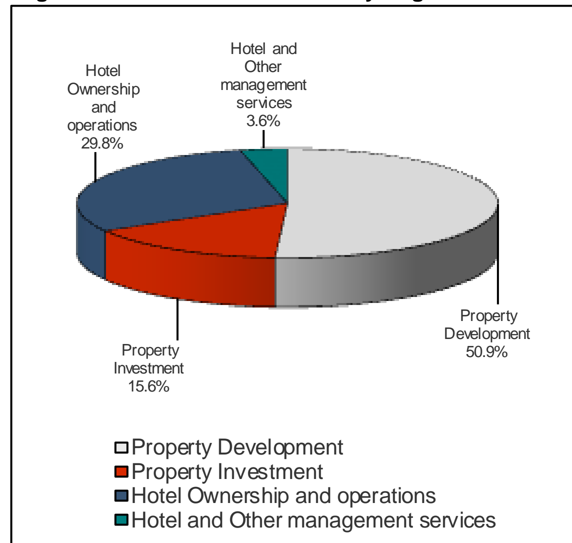
UOL Group Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	1,278.7	1,440.7	1,287.7
EBITDA	422.8	410.6	372.3
EBIT	355.6	344.0	301.1
Gross interest expense	73.4	60.2	44.2
Profit Before Tax	460.4	353.9	886.8
Net profit	391.4	287.0	807.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	276.4	301.5	719.2
Total assets	11,501.3	11,558.1	19,663.5
Gross debt	2,507.0	2,346.4	4,108.2
Net debt	2,230.6	2,044.9	3,389.0
Shareholders' equity	8,401.1	8,635.4	13,924.2
Total capitalization	10,908.1	10,981.8	18,032.5
Net capitalization	10,631.7	10,680.3	17,313.3
Cash Flow (SGD'mn)			
Funds from operations (FFO)	458.6	353.6	878.9
* CFO	458.9	481.5	310.6
Capex	47.3	66.3	35.6
Acquisitions	17.8	218.0	286.1
Disposals	3.4	1.3	0.3
Dividend	64.3	66.3	73.9
Free Cash Flow (FCF)	411.7	415.1	275.0
* FCF Adjusted	333.0	132.2	-84.8
Key Ratios			
EBITDA margin (%)	33.1	28.5	28.9
Net margin (%)	30.6	19.9	62.7
Gross debt to EBITDA (x)	5.9	5.7	8.3
Net debt to EBITDA (x)	5.3	5.0	6.8
Gross Debt to Equity (x)	0.30	0.27	0.30
Net Debt to Equity (x)	0.27	0.24	0.24
Gross debt/total capitalisation (%)	23.0	21.4	22.8
Net debt/net capitalisation (%)	21.0	19.1	19.6
Cash/current borrowings (x)	0.5	0.4	0.4
EBITDA/Total Interest (x)	5.8	6.8	8.4

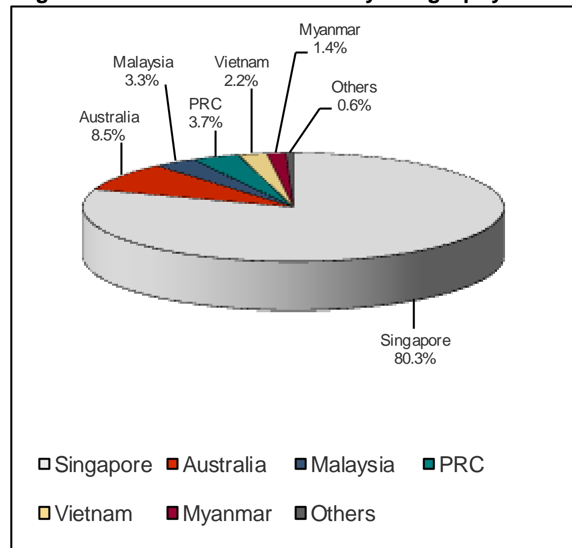
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2016



Source: Company

Figure 2: Revenue breakdown by Geography - FY2016



Source: Company

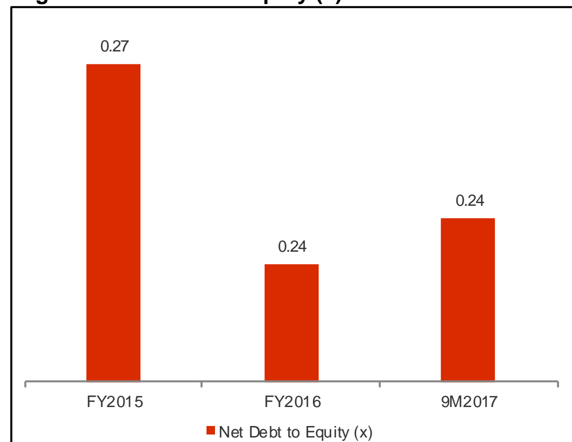
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	310.5	7.4%
Unsecured*	1,602.4	38.3%
	1,912.9	**45.8%**
Amount repayable after a year		
Secured	599.3	14.3%
Unsecured	1,667.8	39.9%
	2,267.2	**54.2%**
Total	**4,180.1**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Credit Outlook –

At a YTW of 3.5% (226 bps), we think the VITSP 4.15% '18s is providing good value among the short dated REIT space. We see refinancing risk as manageable.

Issuer Profile: Neutral (5)

S&P: Not rated

Moody's: Ba1/Stable

Fitch: Not rated

Ticker: **VITSP**

Background

Listed in 2013, VIVA Industrial Trust ("VITSP") is an Industrial REIT in Singapore, with total assets of SGD1.3bn as at 30 September 2017. It currently owns a portfolio of ten properties, inclusive of the hotel at UE BizHub East. Jinquan Tong is the major unitholder with ~49%. In aggregate, the Sponsors (Ho Lee Group Trust and Kim Seng Holdings Pte Limited) own a ~11% stake in the REIT. The Sponsors and Mr Tong (via Shanghai Summit) own ~78% of the REIT Manager while the rest is owned by the management team.

VIVA Industrial Trust

Key credit considerations

- **Growth in operating results:** VIT's gross revenue increased 19.8% y/y to SGD83.3mn in 9M2017, driven by contribution from 6 Chin Bee Avenue (acquired in January 2017), full nine-month impact from 30 Pioneer Road, higher rental and other income from VIVA Business Park, higher rental and contribution from UE BizHub East and partly offset by lower rental at Jackson Square. Removing the effects of the two new acquisitions, gross revenue would have increased by 10% y/y. Net property income ("NPI") increased 21.3% y/y to SGD61.1mn. Expenses rose 25.6% y/y (management fees went up), while EBITDA rose 20.9% to SGD55.3mn. In 9M2017, VIT received SGD12.3mn in rental support (9M2016: SGD9.7mn). Nonetheless, SGD4.1mn of these was a result of a settlement between VIT and the vendor of Jackson Square, namely Jackson International Private Limited ("JIPL") in May 2017. As part of the settlement, VIT had drawndown a bank guarantee and received SGD1.0mn in cash from JPIL while JIPL had been discharged from its obligations under the rental support agreement. Additionally, rental support for the UE BizHub building of SGD6.7mn in 9M2017 is due to expire in November 2018.

- **Interest coverage stronger:** VIT's interest coverage covenant takes the summation of NPI and contribution from rental support. We do not take into account of rental support in forming our view on VIT's issuer profile. Finance cost was 9.8% y/y lower in 9M2017 to SGD15.2mn mainly due to write-off of unamortised debt-related transaction cost and prepayment fees. These helped offset additional interest expense of SGD1.0mn in 9M2017 due to additional borrowings to partly fund the two new acquisitions and asset enhancement initiative ("AEI") works at VIVA Business Park. EBITDA/Interest was hence stronger at 3.6x (9M2016: 2.7x). All-in borrowing cost as at 30 September 2017 stayed at 3.9% as per a year ago.

- **Aggregate leverage has increased:** As at 30 September 2017, aggregate leverage was 39.6%, slightly higher versus 30 June 2017 and spiking from 37.2% in end-2016. The increase in leverage was driven by the financing for AEI at Viva Business Park and the acquisition of 6 Chin Bee Avenue in January 2017, which was partly funded by debt. The remainder was funded via new units issued to the vendor and an equity private placement. With the AEI completed at Viva Business Park in July 2017, capex reduced significantly in 9M2017 to only SGD2.3mn. As at 30 September 2017, the only short term debt due is the VIT'18s, maturing in September 2018 while cash balance stood at SGD17.0mn. Only two assets remain unencumbered, namely Jackson Square and Jackson Design Hub. The remaining underlying land lease at Jackson Square (a light industrial building) is ~11 years, hampering its potential as collateral for debt. Jackson Design Hub was last valued at SGD33.4mn in end-December 2016. Excluding a SGD50mn revolving credit facility, the next major refinancing is in FY2020, of which SGD213mn of debt is expected to come due. We see manageable refinancing risk for the VIT'18s.

- **Sizeable lease expiries coming due in FY2019**: As at 30 September 2017, 15.9% of leases at VIT (by gross rental income) is expected to come due in FY2018, with the bulk of expiries at VIVA Business Park and UE BizHub East. While lease expiries in FY2018 look manageable, VIT faces more lumpiness in FY2019 when 31.8% of the portfolio is expected to come due. VIT's top 10 tenants account for 43.3% of its monthly committed rental income, and four of these tenants comprise former owners who had sold their buildings to VIT under sales and leaseback structures (collectively making up ~21% of monthly rental income). Such lease structures provides VIT with a stable source of income over a longer period of time though VIT's income stream has become more concentrated versus a year ago.

Viva Industrial Trust

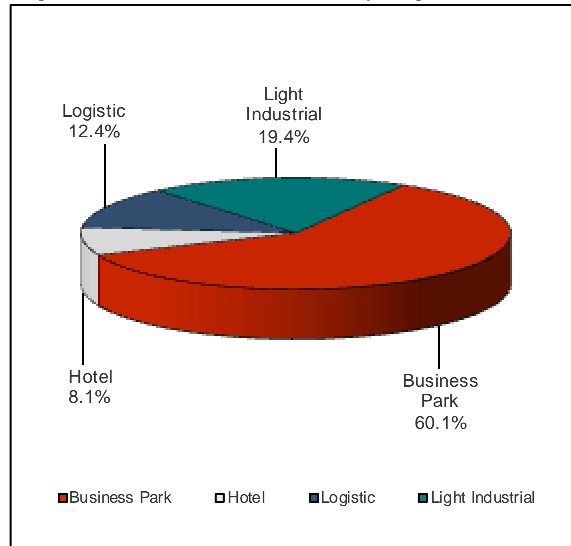
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Revenue	74.0	95.1	83.3
EBITDA	45.6	62.1	55.3
EBIT	41.5	58.8	52.8
Gross interest expense	15.6	21.7	15.2
Profit Before Tax	102.4	44.9	44.7
Net profit	100.1	42.8	42.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	48.9	29.5	17.0
Total assets	1,198.3	1,253.9	1,332.3
Gross debt	459.2	461.5	523.1
Net debt	410.3	432.0	506.1
Shareholders' equity	701.6	738.9	766.1
Total capitalization	1,160.8	1,200.4	1,289.2
Net capitalization	1,112.0	1,171.0	1,272.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	104.2	46.1	45.1
* CFO	72.1	89.3	63.5
Capex	13.3	23.9	2.3
Acquisitions	137.7	52.2	73.3
Disposals	0.0	0.0	0.0
Dividends	46.1	56.4	45.4
Free Cash Flow (FCF)	58.7	65.4	61.2
* FCF Adjusted	-125.1	-43.3	-57.5
Key Ratios			
EBITDA margin (%)	61.6	65.3	66.3
Net margin (%)	135.3	45.0	51.1
Gross debt to EBITDA (x)	10.1	7.4	7.1
Net debt to EBITDA (x)	9.0	7.0	6.9
Gross Debt to Equity (x)	0.65	0.62	0.68
Net Debt to Equity (x)	0.58	0.58	0.66
Gross debt/total capitalisation (%)	39.6	38.4	40.6
Net debt/net capitalisation (%)	36.9	36.9	39.8
Cash/current borrowings (x)	0.3	NM	0.2
EBITDA/Total Interest (x)	2.9	2.9	3.6

Source: Company, OCBC estimates

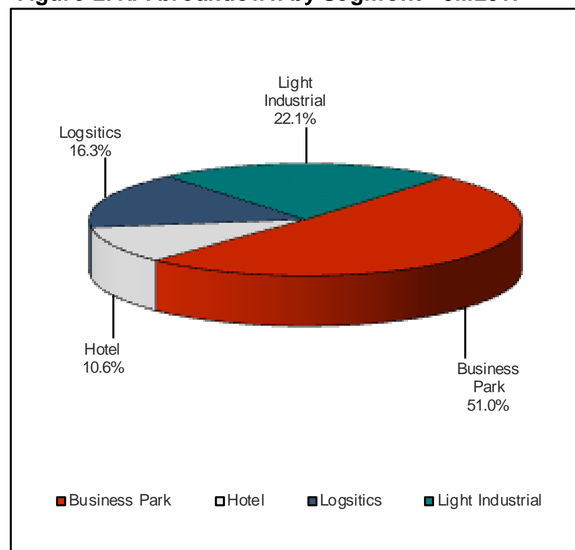
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 1: Revenue breakdown by Segment - 9M2017



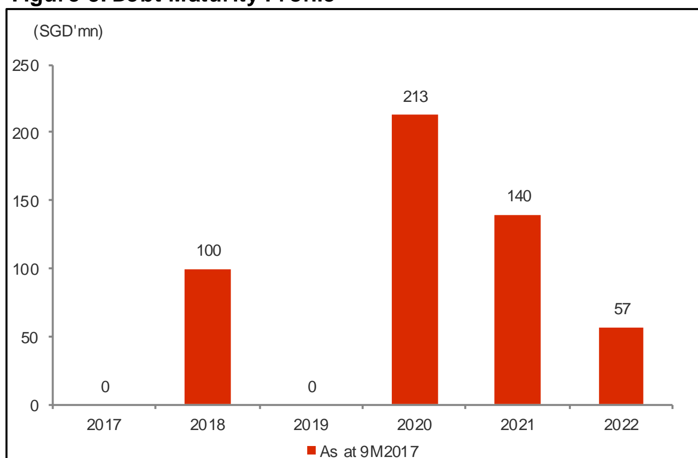
Source: Company

Figure 2: NPI breakdown by Segment - 9M2017



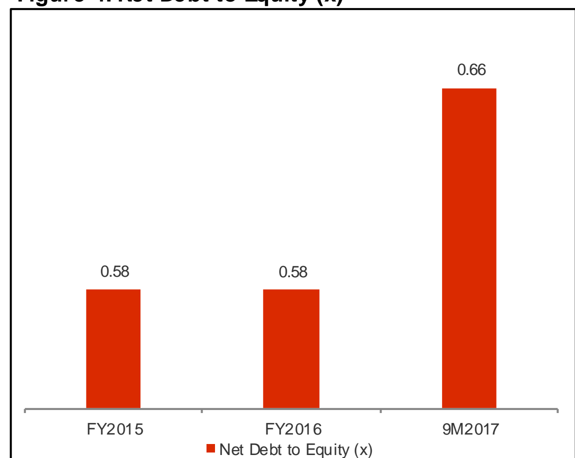
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Wharf Holdings Ltd

Credit Outlook – We think WHARF '18s look fair trading at 1.72% with ~9 months to maturity. Holders of WHARF 4.5% '21 may consider WHEELK 4.5% '21 instead for a similar yield.

Issuer Rating: Neutral (3)

S&P: Not rated

Moody's: Not rated

Fitch: A-/CW-Negative

Ticker: **WHARF**

Company profile

The Wharf (Holdings) Ltd ("Wharf") develops and invests in retail, hotel and office property in China and develops properties in Hong Kong. Wharf is also involved in managing hotels and container terminals businesses. In 2017, Wharf spun off its major investment properties in Hong Kong (which is currently listed as Wharf REIC). Wharf is a subsidiary of Wheelock & Co. Ltd, which owns a 60.9% stake in the company.

Key credit considerations

- **Shake-up to business profile post demerger:** Wharf has demerged its major Hong Kong investment properties and 72%-owned Harbour Centre Development Ltd. Wharf's remaining businesses include Hong Kong properties (incl. Peak, Kowloon East Waterfront) and logistics (incl. Modern Terminals, Hong Kong Air Cargo Terminals), China investment properties (incl. Times Square, Shanghai IPs, various mixed-use IFS) and development properties (targeting Beijing, Shanghai, Suzhou, Hangzhou), as well as hotel management (under Marco Polo and Niccolo). Based on 1H2017 pro-forma figures, the remaining Wharf's total assets and equity would shrink to HKD221bn and HKD129.5bn respectively. Going forward, Wharf intends to allocate not more than half of its equity to China properties and would use debt, if need be, to meet additional funding needs. Wharf will continue to be focused in Hong Kong, though Wharf would not conflict with Wharf REIC for strategic, substantial or commercial investment properties.

- **Development properties likely to be the largest contributor:** Development properties contributed higher profit before tax of HKD3.4bn in 1H2017 (1H2016: HKD1.6bn), though the sizeable increase may be one-off due to higher operating margins (later stages of Suzhou Times City yield higher margins) and write-back of provisions. The projects in Hong Kong include the remaining units at the Peak Portfolio (e.g. Mount Nicholson), which sold a house at a record lumpsum price of HKD1.2bn, and redevelopment of 3 luxury properties (total GFA: 179k sq ft). Wharf is also planning to further develop Kowloon Godown (GFA: 1mn) which will likely expand its GFA. At Yau Tong Bay (15% stake), Wharf will develop 4m sq ft GFA with 6,300 residential units. In Mainland China, contracted sales in Jan-Sep 2017 were RMB20.1bn (full year target: RMB25bn). Sizeable landbank of 3.8mn sqm remains, which includes 756k sqm of land purchased in 3Q2017. However, Wharf does not intend to compete with Mainland developers in scale.

- **Recurring income to be contributed by Chinese investment properties:** Contributions from investment property would fall as the Hong Kong investment properties (including the demerged entities) contributed HKD5.9bn operating profit in 1H2017. Nevertheless, we still expect recurring income from the Chinese investment properties, which contributed HKD732mn (+6% y/y) operating profit in 1H2017. Chengdu IFS (GFA: 6.1mn sq ft) is the largest contributor, which contributed HKD259mn (+24% y/y) operating profit. Other significant contributors include Wuxi IFS (GFA: 2.0mn sq ft), Shanghai Wheelock Square (GFA: 1.2mn sq ft) and Shanghai Times Square (GFA: 0.97mn sq ft). In the near-term, the contribution should increase significantly as the 50%-owned Chongqing IFS (GFA: 4.1mn sq ft) has sold more than 80% of 3 office blocks while the Chongqing IFS Mall has opened with more than 90% of the area leased. Changsha IFS (GFA: 7.9mn sq ft) is expected to complete in 2018-19. The completions may expand Wharf's attributable GFA from 13.9mn to 24mn sq ft.

- **Diversification via Logistics and Hotels:** Logistics comprising Modern Terminals recorded 1H2017 operating profit of HKD349mn. Hong Kong Air Cargo Terminals contributed HKD515mn. Hotels contributed HKD154mn.

- **Weakened credit profile mitigated by healthy balance sheet:** Wharf's credit profile is weaker after demerger without recurring income from its Hong Kong investment properties. Mitigating this, Wharf will turn net cash of HKD32.8bn (1H2017 net gearing: 6.4%) as debt is shifted to Wharf REIC. While Wharf's 3Q2017 land purchase in Mainland China amounts to RMB15.2bn, Wharf has disposed 8 Bay East for HKD9bn and is looking to sell Peninsula East (GFA: 43k sq ft) and Cable TV Tower Units (566k sq ft). In the near-term, management may deploy capital mostly towards Hong Kong properties & logistics.

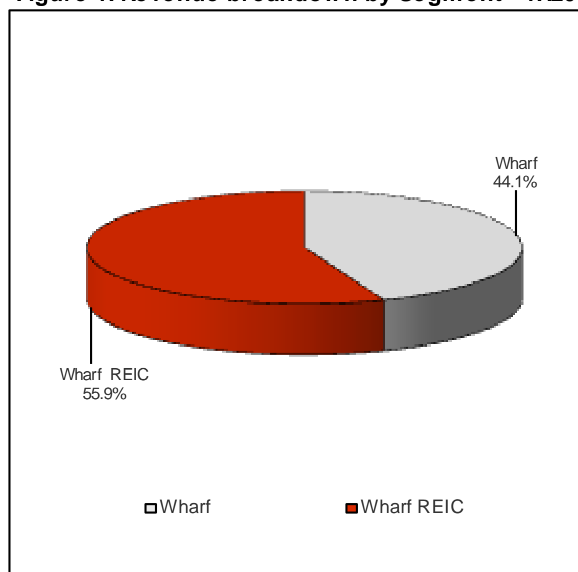
Wharf Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1H2017
Income Statement (HKD'mn)			
Revenue	40,875	46,627	7,517
EBITDA	16,401	18,471	1,951
EBIT	14,853	17,065	1,503
Gross interest expense	2,557	2,039	63
Profit Before Tax	20,635	25,772	4,492
Net profit	16,024	21,440	3,541
Balance Sheet (HKD'mn)			
Cash and bank deposits	23,510	36,957	63,326
Total assets	443,916	443,827	210,817
Gross debt	70,707	60,794	48,322
Net debt	47,197	23,837	-15,004
Shareholders' equity	317,180	325,406	122,754
Total capitalization	387,887	386,200	171,076
Net capitalization	364,377	349,243	107,750
Cash Flow (HKD'mn)			
Funds from operations (FFO)	17,572	22,846	3,989
* CFO	24,053	29,084	NA
Capex	6,849	14,077	NA
Acquisitions	1,340	-4,230	NA
Disposals	6,727	12,066	NA
Dividends	5,851	6,440	NA
Free Cash Flow (FCF)	17,204	15,007	NA
* FCF Adjusted	16,740	24,863	NA
Key Ratios			
EBITDA margin (%)	40.1	39.6	26.0
Net margin (%)	39.2	46.0	47.1
Gross debt to EBITDA (x)	4.3	3.3	12.4
Net debt to EBITDA (x)	2.9	1.3	-3.8
Gross Debt to Equity (x)	0.22	0.19	0.39
Net Debt to Equity (x)	0.15	0.07	-0.12
Gross debt/total capitalisation (%)	18.2	15.7	28.2
Net debt/net capitalisation (%)	13.0	6.8	-13.9
Cash/current borrowings (x)	2.8	2.4	6.9
EBITDA/Total Interest (x)	6.4	9.1	31.0

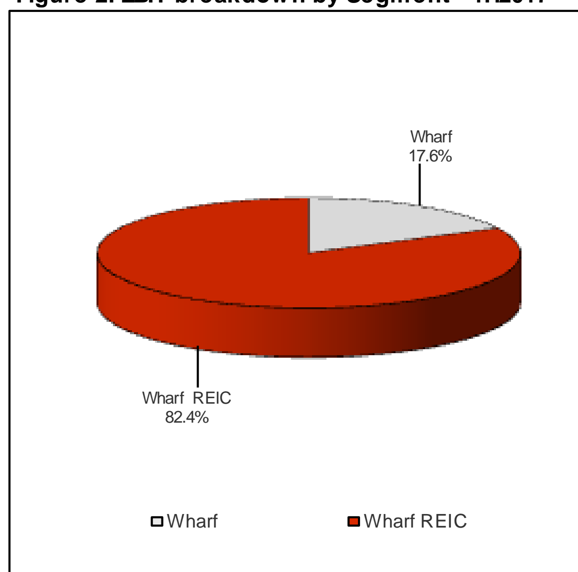
Source: Company, OCBC estimates | 1H2017 based on post-demerger pro forma figures
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1H2017



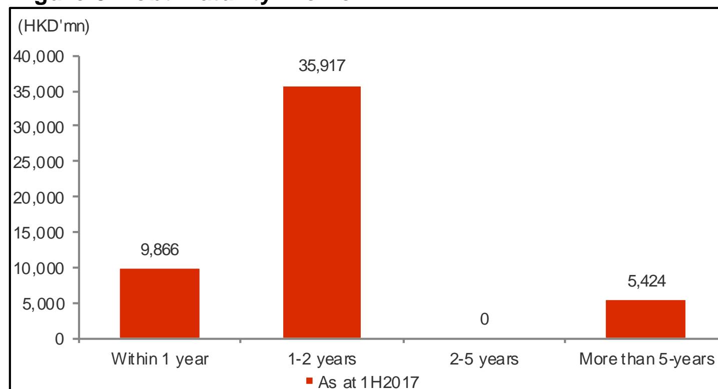
Source: Company | Based on post-demerger pro forma figures

Figure 2: EBIT breakdown by Segment - 1H2017



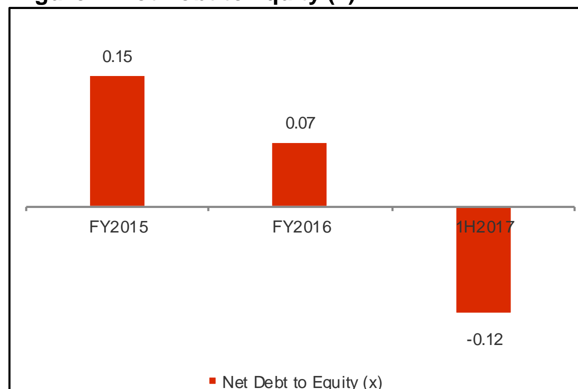
Source: Company | Based on post-demerger pro forma figures

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates | Based on pre-demerger figures

Figure 4: Net Debt to Equity (x)



Source: Company | 1H2017 based on post-demerger proforma figures

Credit Outlook – We like WHEELK's credit profile and prefer holding WHEELK '21s over its subsidiary WHARF '21s as WHEELK owns Wharf REIC, which holds the key investment properties of the group and generates steady recurring income.

Issuer Rating: Positive (2)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **WHEELK**

Company Profile

Founded in Shanghai in 1857, Wheelock & Co Ltd ("Wheelock") is a Hong Kong-listed investment holding company. Wheelock owns 61.6% of The Wharf (Holdings) Ltd ("Wharf") and Wharf Real Estate Investment Co ("Wharf REIC"). Together with Wheelock Properties Ltd ("WPL"), the subsidiary companies generate a solid recurring dividend income for the Group.

Wheelock & Co Ltd

Key credit considerations

- **Good results lifted by Hong Kong property development and investment:** Revenue for 1H2017 grew 21.4% y/y to HKD33.0bn, contributed mainly by HKD15bn contribution from development property in Hong Kong (1H2016: HKD5.9bn) due to completions of several projects (Capri, ONE HOMANTIN, SAVANNAH). While Wheelock's own core profit declined 46% y/y to HKD742mn, this was due to the recognition of One HarbourGate's profit in 1H2016. Overall, core profits still grew 6% y/y to HKD5.4bn, mainly contributed by the 61.6%-owned Wharf (Wheelock's share of Wharf's core profits: +22% y/y to HKD4.5bn).

- **Steady stream of income expected from subsidiaries:**
(1) Wharf REIC (which makes up 54.0% of total equity of Wheelock) will be the key subsidiary (spun-off from Wharf) as it holds prime investment properties in Hong Kong, including the key properties Harbour City ("HC") and Times Square ("TS"), which are retail-focused. We estimate that HK investment properties contributed HKD3.2bn core profits (Wheelock's attributable share) in 1H2017. HC and TS anchor Wharf REIC's portfolio, contributing HKD3.3bn and HKD1.1bn revenue respectively. The retail market have rebounded (with positive y/y prints over Apr-Sep 2017), which should bode well for retail sales for HC and TS. Meanwhile, both properties continue to post positive rental growth with occupancy at 96%.
(2) Wharf (post demerger) makes up 36.8% of Wheelock's total equity. This entity holds Wheelock's China investment properties and logistics (e.g. Modern Terminals) which should provide recurring income. Wharf also holds development properties in Hong Kong and China. While Wharf REIC has separated from Wharf, management has committed keeping dividend the same post spin-off (dividend-neutral). Hence, we expect ~HKD4bn p.a. contribution from both entities.
(3) For WPL, profit attributable to Wheelock is stable at HKD187mn (1H2016: HKD190mn). We estimate ~HKD320mn p.a. dividend contribution from WPL.

- **Strong residential development sales:** 1H2017 contracted sales dipped 14.4% y/y HKD10.1bn (1H2016: HKD11.8bn), though we are not worried as this was mainly due to the absence of One HarbourGate which was fully sold (HKD4.5bn) and 1H2017 contracted sales have exceeded its full year sales target (HKD10bn). The contracted sales in 1H2017 were mainly from MONTEREY (HKD5.8bn), Mount Nicholson (HKD1.6bn), ONE HOMANTIN (HKD1.2bn) and NAPA (HKD1.1bn). Land bank remains sufficient at 7.8mn sq ft. Furthermore, Wheelock has partnered with Sino Land and Shimao to acquire a site (max GFA: 988k sq ft) at Cheung Sha Wan for HKD17.8bn in Nov 2017. We expect continued sales as Wheelock in 2H2017 launched Kai Tak, Mount Nicholson Phase III (which hit the headlines with two apartments sold for a record HKD1.16bn) and LOHAS 5. The net order book of HKD8.9bn should sustain revenues over 2H2017 and 2018.

- **Strong credit metrics:** Net gearing fell to 0.13x (2H2016: 0.15x) as net debt levels fell at both Wheelock (own) and Wharf. While HKD5.3bn debt will mature in 2H2017 (and another HKD4.2bn in 2018), we think Wheelock can manage with i) HKD12.8bn sales receivables to be recouped over 18 months, ii) over HKD4bn p.a. income from subsidiaries and iii) HKD33.9bn undrawn facilities. Wheelock also holds a portfolio of equity and bond investments worth HKD13.0bn (2016: HKD9.5bn), which we think can be liquidated if in need. Meanwhile, EBITDA/Interest and Net debt/EBITDA remains very healthy at 9.4 (2016: 7.5x) and 2.3x (2016: 2.3x) respectively. In relation to Wharf's demerger, we think this is a slight credit positive to Wheelock as cashflows from the key investment properties would flow straight to Wheelock, instead of being passed through Wharf. Wheelock also has higher flexibility to dispose shares in Wharf REIC. However, we note that Wheelock has increased its stake in Wharf in 2016. Further significant increases in stake (e.g. privatisation of Wharf) may push net gearing higher.

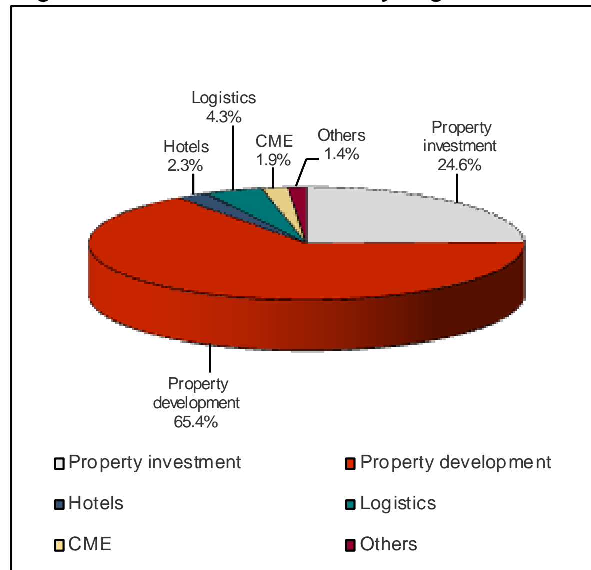
Wheelock & Co Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1H2017
Income Statement (HKD'mn)			
Revenue	57,431	60,579	33,005
EBITDA	21,608	22,547	10,221
EBIT	20,053	21,135	9,697
Gross interest expense	3,376	3,001	1,089
Profit Before Tax	26,544	29,763	12,499
Net profit	14,232	16,294	6,243
Balance Sheet (HKD'mn)			
Cash and bank deposits	27,266	43,964	36,878
Total assets	512,758	520,435	511,792
Gross debt	106,193	94,941	83,847
Net debt	78,927	50,977	46,969
Shareholders' equity	340,859	349,520	361,254
Total capitalization	447,052	444,461	445,101
Net capitalization	419,786	400,497	408,223
Cash Flow (HKD'mn)			
Funds from operations (FFO)	15,787	17,706	6,767
* CFO	32,676	31,636	7,017
Capex	7,540	9,718	3,600
Acquisitions	6,955	-559	161
Disposals	11,821	13,852	0
Dividends	5,048	5,415	3,846
Free Cash Flow (FCF)	25,136	21,918	3,417
* FCF Adjusted	24,954	30,914	-590
Key Ratios			
EBITDA margin (%)	37.6	37.2	31.0
Net margin (%)	24.8	26.9	18.9
Gross debt to EBITDA (x)	4.9	4.2	4.1
Net debt to EBITDA (x)	3.7	2.3	2.3
Gross Debt to Equity (x)	0.31	0.27	0.23
Net Debt to Equity (x)	0.23	0.15	0.13
Gross debt/total capitalisation (%)	23.8	21.4	18.8
Net debt/net capitalisation (%)	18.8	12.7	11.5
Cash/current borrowings (x)	2.6	1.7	1.9
EBITDA/Total Interest (x)	6.4	7.5	9.4

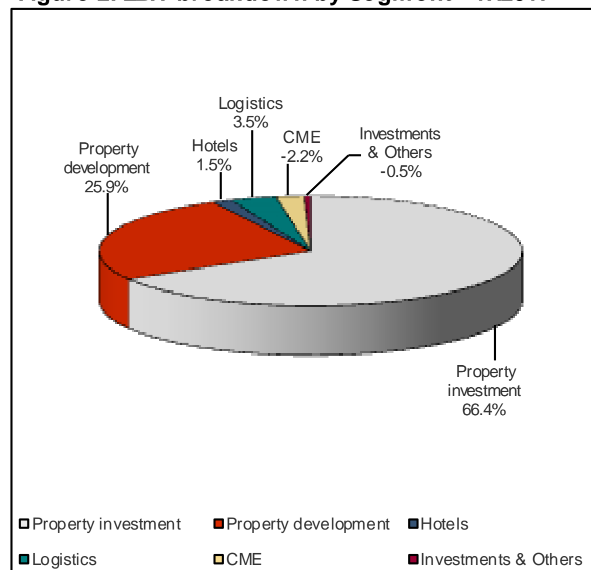
Source: Company, OCBC estimates
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1H2017



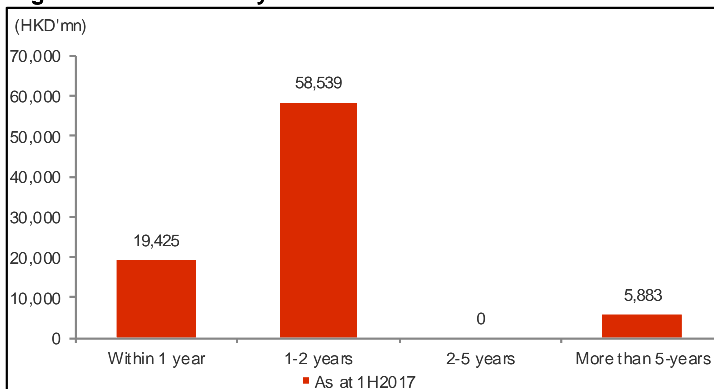
Source: Company

Figure 2: EBIT breakdown by Segment - 1H2017



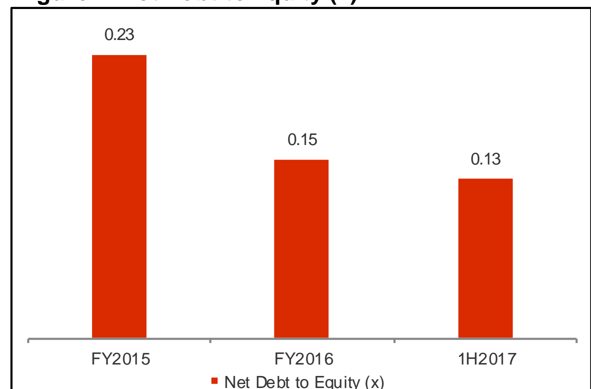
Source: Company | CME & Investments made operating losses

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Wing Tai Holdings Ltd

Credit Outlook – We think the WINGTA '21s to '24s look fair offering 110bps-170bps yield spread given the healthy balance sheet. We similarly stay Neutral on WINGTA 4.08% PERP as it offers only 85bps pickup over WINGTA 4.5% '22s. We prefer WINGTA 4.25% '22s (WTP) over WINGTA 4.5% '22s with 25bps pickup.

Issuer Profile: Neutral (4)

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **WINGTA**

Background

Listed on the SGX since 1989, Wing Tai Holdings ("WINGTA") is an investment holding company with core businesses in property investment and development, lifestyle retail and hospitality management in key Asian markets such as Singapore, Malaysia, Hong Kong and China. WINGTA's commercial properties include Winsland House in Singapore and Landmark East and W Square in Hong Kong. WINGTA owns a 34.4%-stake in Wing Tai Properties Ltd ("WTP"). The group's Chairman Mr. Cheng Wai Keung owns a 51.1% stake in WINGTA.

Key credit considerations

- **1QFY2018 results lifted by disposals:** Revenue declined 4.4% y/y to SGD67.1mn in 1QFY2018 (quarter ended 30 Sep), which we think is due to declining sellable inventories and the shift in geographical mix in sales of development properties. Nevertheless, net profit surged to SGD8.3mn (1QFY2017: SGD0.7mn) mainly due to SGD16.7mn gain on the disposal of a property development project located at Shanghai, though this is mitigated by 25% higher administration expenses (potentially due to the privatisation of Wing Tai Malaysia Bhd). Meanwhile, share of profits of associated and JV companies increased by 16.5% y/y to SGD6.7mn, which should be mainly due to higher contributions from Wing Tai Properties ("WTP").

- **Mixed blessings from a stronger property market:** As at 30 June 2017, 8 units were sold at the wholly-owned 43-unit Le Nouvel Ardmore. At 40%-owned The Crest, which obtained TOP in Feb 2017, 40% of the units at were sold. According to the URA caveats, another 26 units at The Crest worth SGD59.8mn were moved over Jul-Oct 2017, and we think this may continue to sell if the property market remains strong. However, optimism in the property market has translated into more aggressive land bids, with WINGTA partnering Keppel Land in a SGD446.3mn bid for a 17,189 sqm site at Serangoon North Avenue. We would not rule out further land bids as WINGTA appears to run low on landbank.

- **Recurring income from investment properties:** Rental income from investment properties contributed SGD30.0mn in FY2017 (FY2016: SGD31.7mn). The investment property portfolio include the commercial property Winsland Houses I-III and serviced residences Lanson Place in Singapore, residential and office units in Malaysia and a commercial property in Suzhou. While rental income has fallen, the trend may reverse when the 2 data centres and a commercial building in Australia acquired in May 2017 and Sep 2016 respectively begin to contribute fully.

- **Better performance from associates:** WTP continue to perform well, and we estimate that it upstreamed SGD14.6mn of dividends to WINGTA. While revenue from retail has continued declining to SGD144.0mn in FY2017 (FY2016: SGD169.6mn), Uniqlo has outperformed, with WINGTA's share of net profit from the 49%-owned Uniqlo (Singapore) and 45%-owned Uniqlo Malaysia increasing to SGD11.4mn (FY2016: SGD7.5mn) and SGD10.0mn (FY2016: SGD2.9mn) respectively.

- **Privatisation of Wing Tai Malaysia:** WINGTA has privatised and delisted Wing Tai Malaysia. We think this is credit neutral. While the cash outlay to privatise Wing Tai Malaysia was SGD70.7mn in 1QFY2017, we recognise that the privatisation diversifies earnings from Singapore while WINGTA expects cost saving and better operational efficiencies from privatisation.

- **Balance sheet remains healthy though keep watch on major cash outlay:** WINGTA is in a net cash position as of 1QFY2018, mainly due to SGD272.6mn cash receipts from the disposal of the Shanghai property development project. After accounting for its half share for the cash outlay for the Serangoon North Avenue site, net gearing would only increase to 4.1%, which is still healthy. However, we note that WINGTA holds SGD1.0bn of cash on hand – of which WINGTA recently raised SGD150mn from a perpetual bond issued in June 2017. If WINGTA has intentions for the use of cash, which may include land bids, net gearing may increase. Meanwhile, there is an insignificant amount of debt due within the next 12 months, with bonds well termed out into FY2021-2024. Investment properties which are encumbered fell to SGD301.7mn in FY2017 (FY2016: SGD547.6mn).

Wing Tai Holdings Ltd

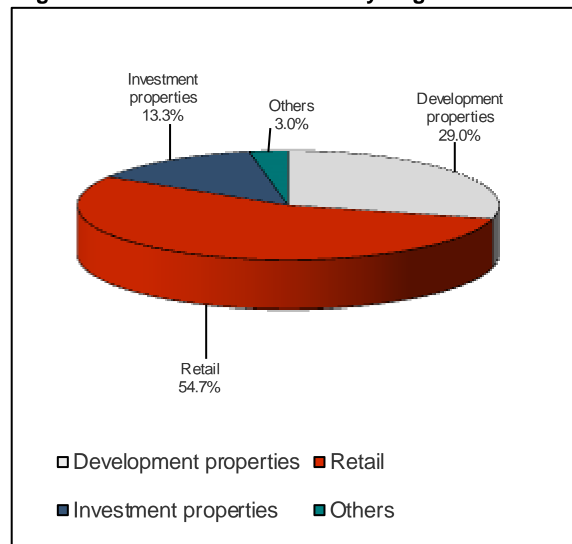
Table 1: Summary Financials

Year Ended 30th Jun	FY2016	FY2017	1Q2018
Income Statement (SGD'mn)			
Revenue	544.5	263.2	67.1
EBITDA	30.3	-9.6	-2.9
EBIT	19.8	-17.8	-4.9
Gross interest expense	50.5	42.0	9.2
Profit Before Tax	41.4	19.7	11.5
Net profit	7.1	20.1	8.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	722.9	847.4	1,011.3
Total assets	4,975.6	4,615.8	4,475.0
Gross debt	1,376.5	929.6	924.0
Net debt	653.6	82.3	-87.3
Shareholders' equity	3,332.5	3,415.7	3,355.0
Total capitalization	4,709.0	4,345.3	4,279.0
Net capitalization	3,986.1	3,498.0	3,267.7
Cash Flow (SGD'mn)			
Funds from operations (FFO)	17.6	28.3	10.2
* CFO	-80.4	98.0	13.8
Capex	4.6	7.7	1.1
Acquisitions	0.1	101.5	72.3
Disposals	2.5	499.6	272.7
Dividend	25.1	48.0	0.0
Free Cash Flow (FCF)	-85.0	90.3	12.8
* FCF Adjusted	-107.8	440.4	213.2
Key Ratios			
EBITDA margin (%)	5.6	-3.7	-4.3
Net margin (%)	1.3	7.6	12.2
Gross debt to EBITDA (x)	45.5	-96.6	-80.0
Net debt to EBITDA (x)	21.6	-8.5	7.6
Gross Debt to Equity (x)	0.41	0.27	0.28
Net Debt to Equity (x)	0.20	0.02	-0.03
Gross debt/total capitalisation (%)	29.2	21.4	21.6
Net debt/net capitalisation (%)	16.4	2.4	-2.7
Cash/current borrowings (x)	8.3	199.2	233.2
EBITDA/Total Interest (x)	0.6	-0.2	-0.3

Source: Company, OCBC estimates

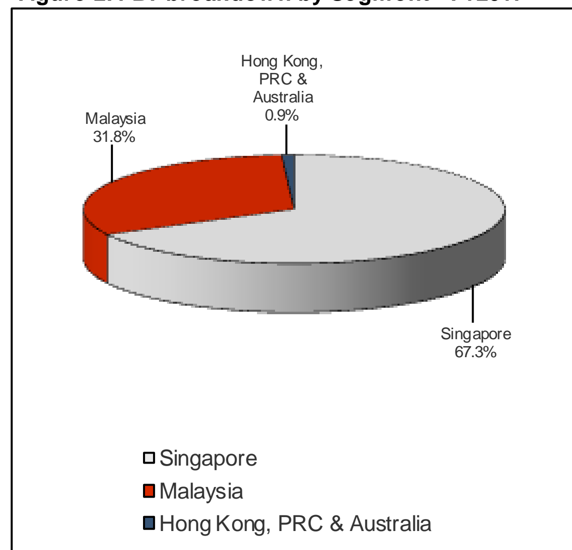
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - FY2017



Source: Company

Figure 2: PBT breakdown by Segment - FY2017



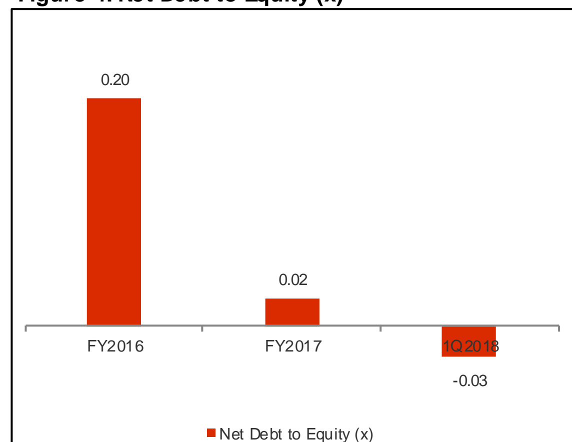
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2017	% of debt
Amount repayable in one year or less, or on demand		
Secured	4.3	0.5%
Unsecured*	0.0	0.0%
	4.3	**0.5%**
Amount repayable after a year		
Secured	219.6	23.8%
Unsecured	700.1	75.8%
	919.7	**99.5%**
Total	**924.0**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Wing Tai Properties Ltd

Credit Outlook –
We are Overweight on WINGTA 4.25% '22s which offer a decent 155bps yield spread as the credit profile remains decent despite the expected increase in net gearing.

Issuer Rating: Neutral (4)

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **WINGTA**

Company Profile
Listed in 1991 in HKSE, Wing Tai Properties Ltd ("WTP") is principally engaged in property development, property investment, and hospitality management in Hong Kong, China and South East Asia under the brand names of Wing Tai Asia and Lanson Place. It has developed an aggregate GFA of over 5mn sq ft in the luxury residential property projects and its premium serviced residences are located in China and South East Asia. WTP is 34.4% owned by Wing Tai Holdings Ltd and 13.7%-owned by Sun Hung Kai Properties Ltd.

Key credit considerations

- **Decent 1H2017 results:** Revenue grew 16.6% y/y to HKD545.8mn, lifted mainly by property development (+356% y/y to HKD94mn) due to sales of the remaining units at The Warren and The Pierre. Property investments also did well (+4.2% y/y to HKD381.2mn), mainly due to +12% rental reversion at Landmark East. Gross profit grew slower than revenue (+8.4% y/y to HKD407.4mn) as development is a lower margin contributor. Contributed by higher fair value gains of HKD254.1mn (1H2016: HKD162.1mn), net profit rose 50.1% to HKD450.8mn.

- **Recurring income from Landmark East and other investment properties:** Landmark East (GFA: 1.3mn sq ft), which is WTP's flagship investment property, recorded higher reversions (+12%) and occupancy (+1pp h/h to 94%). This lifted WTP's property investments and management segment profit before taxation (excluding fair value changes and one-off compensation income of HKD11mn) to HKD240mn (1H2016: HKD230mn), even though some weaknesses were seen at other smaller properties such as W Square (occupancy fell 6pp h/h to 94%) and 3 wholly-owned UK properties (occupancy fell 21pp to 73%). Despite increased office supply in the market, WTP expects Landmark East to maintain stable rental rates with high occupancy. Investment properties may also provide a source of liquidity. In Dec 2017, Winner Godown building was disposed for HKD2.2bn.

- **Expanding the development portfolio:** A WTP-led consortium has won the tender for Site C of Peel Street/Graham Street in Oct 2017 with a reported bid of HKD11.6bn. The consortium is a JV between WTP (65%) and CSI Properties Ltd (35%). The site area is 2,685 sqm, which will be developed into a 40,275 sqm GFA commercial complex including Grade-A office tower, a hotel and retail shops. According to The Standard, the targeted completion is in 2021. Prior to winning the tender, WTP has 6 projects, of which the 35%-owned Le Cap (GFA: 142k sq ft) and La Vetta (318k sq ft) are scheduled for completion in 2017 and early 2018 respectively. The fully-owned Shau Kei Wan (46k sq ft) will also complete in 2018.

- **Increased contribution from hospitality:** Hospitality profit before tax (excl fair value changes) improved to HKD10mn (1H2016: HKD2mn) mainly due to higher profit from hotel operations in Hong Kong. WTP holds Lanson Place Hotel (Hong Kong), 50% of Lanson Place Bukit Ceylon (Kuala Lumpur) and manages 9 third-party serviced residences. Hospitality contributions may increase when the new Tianfu Square Serviced Suites by Lanson Place opens in 4Q2017.

- **Credit metrics to remain manageable:** Net gearing inched down to 12.5% (end-2016: 14.4%) with improved cash collections. However, this will be temporary as net gearing levels is expected to increase to ~26% after paying WTP's 65% share of the tender at Peel Street/Graham Street and disposal of Winner Godown. If we account for the perpetual bonds as debt, as they are senior, we expect net gearing to increase to ~33% region. In addition to further borrowings, WTP may fund the tender through i) HKD2.3bn cash on hand, ii) SGD260mn (HKD1.5bn) from issuance of perpetual bonds, iii) HKD2.2bn from sale of Winner Godown, iv) sales of Le Cap, La Vetta and Shau Kei Wan and v) HKD2.2bn unutilised revolving loan facilities. Separately, we note that WTP has HKD2.5bn of contingent liability for certain JVs. We also see the possibility for WTP to make further acquisitions, given that management has explicitly stated that WTP is looking to acquire strategic sites and properties for residential, commercial and hospitality developments, both domestically and abroad. Despite the steady income from WTP's investment properties and cash proceeds from the completion of its residential property projects, in view of the expected increase in net gearing, we **downgrade WTP's Issuer Profile to Neutral (4)**.

Wing Tai Properties Ltd

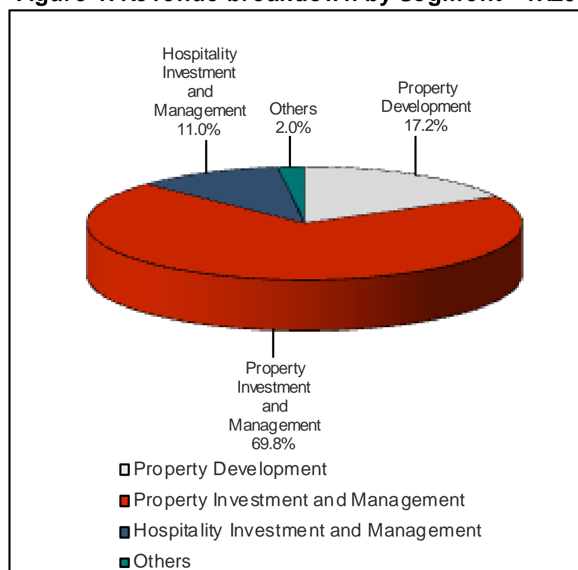
Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1H2017
Income Statement (HKD'mn)			
Revenue	1,009	1,103	546
EBITDA	433	487	225
EBIT	428	483	223
Gross interest expense	137	138	37
Profit Before Tax	1,182	1,260	504
Net profit	1,099	1,147	450
Balance Sheet (HKD'mn)			
Cash and bank deposits	2,089	1,683	2,268
Total assets	28,221	30,776	31,522
Gross debt	3,766	5,185	5,362
Net debt	1,678	3,502	3,095
Shareholders' equity	23,347	24,312	24,700
Total capitalization	27,114	29,497	30,062
Net capitalization	25,025	27,814	27,795
Cash Flow (HKD'mn)			
Funds from operations (FFO)	1,104	1,151	452
* CFO	1,059	-1,643	795
Capex	258	11	0
Acquisitions	0	0	8
Disposals	135	458	0
Dividends	181	202	186
Free Cash Flow (FCF)	801	-1,654	795
* FCF Adjusted	755	-1,398	601
Key Ratios			
EBITDA margin (%)	42.9	44.1	41.3
Net margin (%)	108.9	103.9	82.4
Gross debt to EBITDA (x)	8.7	10.6	11.9
Net debt to EBITDA (x)	3.9	7.2	6.9
Gross Debt to Equity (x)	0.16	0.21	0.22
Net Debt to Equity (x)	0.07	0.14	0.13
Gross debt/total capitalisation (%)	13.9	17.6	17.8
Net debt/net capitalisation (%)	6.7	12.6	11.1
Cash/current borrowings (x)	4.8	3.5	6.4
EBITDA/Total Interest (x)	3.2	3.5	6.1

Source: Company, OCBC estimates

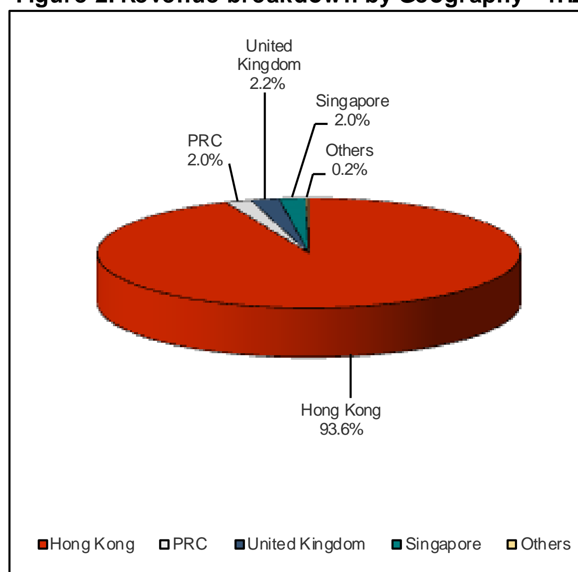
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Segment - 1H2017



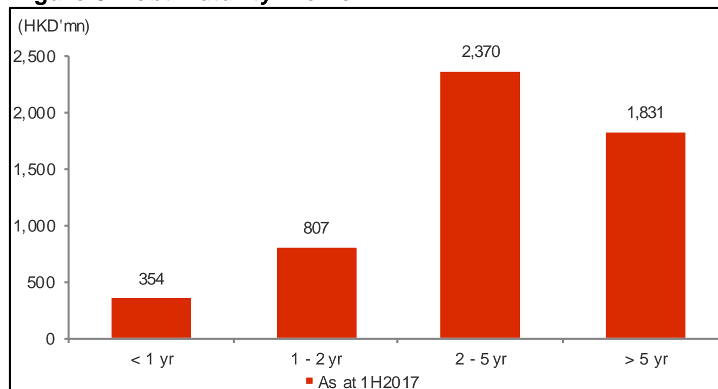
Source: Company

Figure 2: Revenue breakdown by Geography - 1H2017



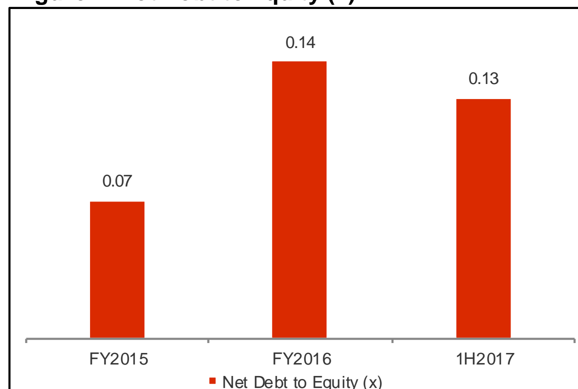
Source: Company

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Financial Institution Outlooks

ABN AMRO Bank N.V.

Credit Outlook – Current valuations for the ABNANV 4.75% '26c21s speak to ABN's solid fundamentals. We think the paper looks fairly valued in the T2 space with a higher reset spread then similar Tier 2 European issuers.

Issuer Profile: Neutral (3)

S&P: A/Positive

Moody's: A1/Stable

Fitch: A+/Stable

Ticker: **ABNANV**

Background

Wholly owned by ABN AMRO Group NV, ABN Amro Bank NV ('ABN') is 56.0% owned by the Dutch government through the Ministry of Finance. It was formed on 1 July 2010 through the merger of Fortis Bank (Nederland) NV with the Dutch activities of ABN AMRO Holding NV. As at 30 September 2017, it had total assets of EUR417.8bn

Key credit considerations

- **Earnings still constructive:** 3Q2017 underlying net profit for ABN was up 10.9% y/y to EUR673mn. Earnings performance was driven by cost improvements with cost saving programs, IT transformation and a reduction in employees pushing operating expenses 12% lower y/y for 3Q2017 and reducing the 3Q2017 underlying cost to income ratio to 56.9% against 61.8% in 3Q2016. Risk costs also reduced 80% y/y to just EUR5mn, in line with prior quarter trends given Netherland's improving economic fundamentals. Positive cost performance mitigated a 4% y/y fall in operating income due to a 1% y/y fall in net interest income (due mainly to the sale of ABN's Asian private banking business in 2Q2017). Elsewhere, net interest income was supported by corporate banking and mortgage loans growth and improvement in underlying net interest margins by 4bps y/y to 1.54% due to asset rebalancing and reduction in lower yielding assets. Net fee and commission income however fell 9% y/y due to fee changes in retail banking, lower clearing fees, and lower markets related fees. Excluding the Asian private banking business sale and other non-recurring items, net income performance improved y/y according to management. Year to date results remain solid and reflect the stronger operating results in 1H2017 with operating income up 7% y/y for 9M2017 (loan volume growth and divestment proceeds) and overall operating expenses (including impairment charges) down 3%. This translated into 9M2017 operating profit before tax improving 25% y/y.

- **Solid operating environment seen in balance sheet:** Overall loans as at 30 September 2017 were up by 1.7% from FY2016 with lower corporate and institutional banking loans (due to USD depreciation) offset by corporate banking and mortgage loans growth. In constant currency terms, corporate and institutional banking loans would have grown marginally. Loan quality indicators were stable q/q and remain improved compared to FY2016 with the reported past due ratio at 1.3% as at 3Q2017 (FY2016: 1.4%) and the reported impaired ratio at 2.9% as at 3Q2017 (FY2016: 3.3%) with lower impaired loans due to a combination of write-offs, impaired exposures returning to performing status and (to a lesser extent) currency movements. As risk costs declined faster than the decline in impaired loans, the reported impaired loan coverage ratio fell to 34.7% in 3Q2017 from 38.4% in FY2016.

- **Capital ratios above minimums:** Risk weighted asset ("RWA") growth of 1.4% since FY2016 was somewhat in line with overall loans growth with movements in credit RWAs mitigating movements in operational RWAs. Market RWAs continued to decline throughout FY2017 YTD. This, combined with solid earnings generation, contributed to ABN's capital ratios improving compared to FY2016 with ABN's fully loaded CET1 ratio of 17.6% for 3Q2017 up 60bps from FY2016. This remains well above its current minimum Supervisory Review and Evaluation Process CET1 requirements of 9%. Further, capital ratios for 3Q2017 exclude the call of ABN's SGD1bn Tier 2 in October and issuance of a EUR1bn AT1 instrument in September that settled in October. Recent changes in the European Banking Authority's view on certain capital regulations have no impact on ABN's capital ratios and hence credit profile although ABN Amro Group NV's Tier 1 Capital Ratio and Total Capital Ratio will be revised lower for FY2017.

- **Sale of government stake not a surprise:** The Dutch government's recent sell down in its ownership stake of ABN by 7% to 56% is in line with the government's previously stated desire to reduce its ownership in ABN over time. We currently do not factor any government support in the assessment of ABN notwithstanding its position as the third largest player in Dutch retail banking and small business segments.

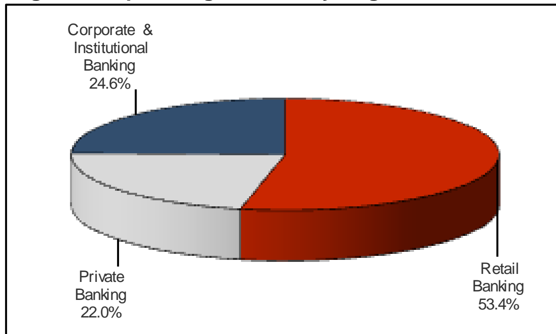
ABN AMRO Group N.V.

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (EUR'mn)			
Net Interest Income	6,077	6,268	4,760
Non Interest Income	2,378	1,905	2,050
Operating Expenses	5,228	5,657	3,930
Pre-Provision Operating Profit	3,227	2,516	2,881
Provisions	505	114	-29
Other Income/(Expenses)	1	55	50
PBT	2,723	2,457	2,960
Income Taxes	798	650	711
Net Income to Common Shareholders	1,920	1,806	2,233
Balance Sheet (EUR'mn)			
Total Assets	407,376	394,481	407,551
Total Loans (net)	276,376	267,678	271,917
Total Loans (gross)	275,881	266,551	271,114
Total Allowances	4,355	3,666	2,908
Total NPLs	4,203	3,602	3,556
Total Liabilities	389,788	375,543	386,584
Total Deposits	247,192	228,757	235,874
Total Equity	17,585	18,936	20,966
Key Ratios			
NIM	1.46%	1.52%	1.54%
Cost-income Ratio	61.8%	65.9%	57.3%
LDR	111.8%	117.0%	115.3%
NPL Ratio	1.52%	1.35%	1.31%
Allowance/NPLs	103.6%	101.8%	81.8%
Credit Costs	0.18%	0.04%	-0.01%
Equity/Assets	4.32%	4.80%	5.14%
CETier 1 Ratio (Full)	15.5%	17.0%	17.6%
Tier 1 Ratio	16.4%	18.0%	18.5%
Total CAR	19.1%	23.1%	25.8%
ROE	12.0%	11.8%	15.7%
ROA	0.48%	0.45%	0.73%

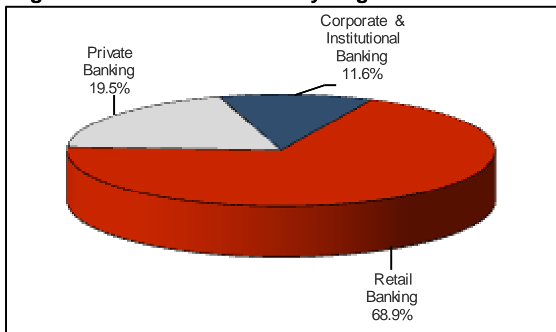
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - 9M2017



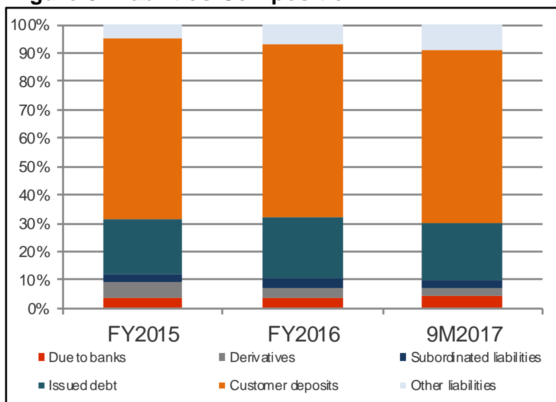
Source: Company

Figure 2: Profit Before Tax by Segment - 9M2017



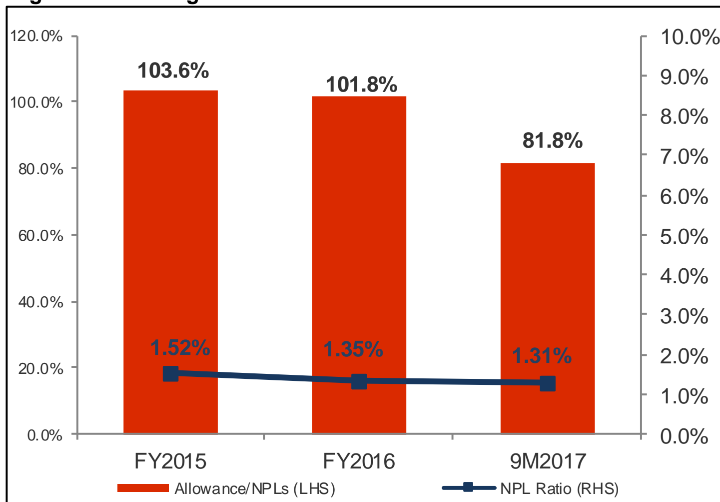
Source: Company

Figure 3: Liabilities Composition



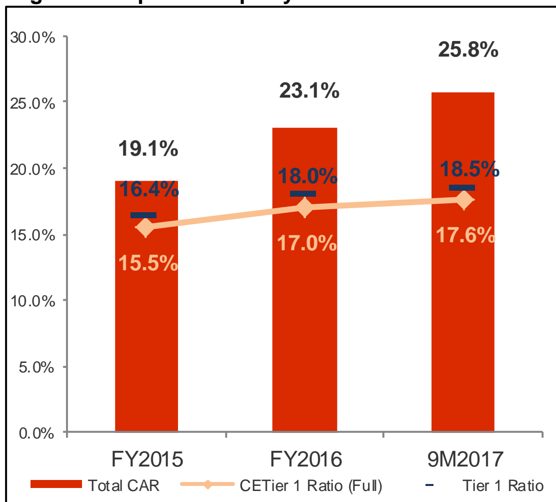
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Although its capital position appears solid and restructuring continues to yield results, we think there is slightly better value in other T2 papers, particularly the LBBW 3.75% '27c22s and BNP 4.3% '25c20s despite the notch differential and considering tenor.

Issuer Profile: Positive (2)

S&P: AA-/Negative

Moody's: Aa3/Stable

Fitch: AA-/Stable

Ticker: **ANZ**

Background

ANZ Banking Group Limited ('ANZ') is one of Australia's big 4 banks and the largest bank in New Zealand. It is ranked in the top 25 globally by market capitalization with operations in 34 markets. Its business segments cover retail, commercial and institutional banking as well as wealth management. As at 30 September 2017, the bank had total assets of AUD897.3bn.

Australia & New Zealand Banking Group Ltd

Key credit considerations

- **Earnings uplift from cost side:** ANZ's FY2017 profit before tax (PBT) on a cash basis (excluding non-core items) was up 20% y/y to AUD9.84bn. While operating income performance was soft (down 1% y/y due to a fall in reported net interest margins resulting in part from the bank levy), overall performance benefited from improvements on the cost side. Operating expenses were down 9% y/y due to higher prior period software and restructuring charges in FY2016 and lower personnel expenses in FY2017, which translated to an improved efficiency ratio of 46.1% in FY2017 vs 50.7% in FY2016. Similarly, credit impairment charges were down 39% y/y due to a fall in individual impairment charges and release in collective impairment charges from improved prevailing credit conditions and loan portfolio rebalancing benefits. H/h trends were somewhat similar to full year results with 2HFY2017 operating income down 1% h/h, operating expenses flat and credit impairment charges down 33% and contributing to PBT improving 3% in 2HFY2017 compared to 1HFY2017.

- **Reshaping continues:** Although not as apparent as in FY2016, results continue to be influenced by restructuring activities with various initiatives undertaken during FY2017 broadly cancelling each other out. These include derivative valuation methodology adjustments, gain on sale of 100 Queen St and sale of ANZ's Asian Retail and Wealth businesses (impact to occur in FY2018). Future results will continue to reflect ANZ's reshaping with the sale of its wealth management and life insurance businesses separately to IOOF Holdings Limited (IOOF) and Zurich Financial Services Australia (Zurich) respectively. ANZ will enter into strategic alliances with IOOF and Zurich to continue to sell superannuation and investment products as well as life insurance through its branch networks. According to ANZ, the combined sale will net total proceeds of AUD3.83bn with an estimated accounting loss on sale of AUD640mn. We estimate the divested businesses contribution to FY2017 cash profit at 3.3% and 2.1% on an adjusted (including internal funding costs & amortisation of intangibles) and unadjusted basis respectively. Management expects limited impact of the transactions in FY2018 with completion expected in FY2019.

- **Benefits seen on the balance sheet:** Supporting the decline in credit impairment charges, gross impaired assets fell 25% y/y and 19% h/h. This was due to ANZ's ongoing asset repositioning with institutional risk weighted assets (RWA) down 13.4% y/y while better risk profile retail and commercial RWAs increased 4.1% in FY2017. This trend in capital allocation is as much to do with risk as it is with returns given better margins achieved in ANZ's retail business in Australia and New Zealand compared to its Institutional segment. Combined with a 1% y/y and h/h rise in gross loans and advances, ANZ's gross impaired assets ratio fell to 0.41% in FY2017 from 0.55% in FY2016 and 0.51% in 1HFY2017.

- **Capital ratios benefit as a result:** Despite somewhat stable total assets, total risk weighted assets fell 4% y/y and 1% h/h due to ongoing asset repositioning and lower credit risk weighted assets. Combined with improved earnings results, ANZ's APRA compliant capital ratios improved noticeably with FY2017 CET1/CAR ratios of 10.6%/14.8% against FY2016 ratios of 9.6%/14.3%. Ratios remain above regulatory minimum requirements and are now also above APRA's minimum CET1 requirement of 10.5% by Jan 1, 2020 for 'unquestionably strong' capital ratios as recommended by the 2014 Financial System Inquiry. Capital ratios should continue to be strong as repositioning activities improve earnings quality. In addition, recently announced sales are expected to eventually increase ANZ's CET1 capital by 80bps. The impact will be progressive however. ANZ is using the proceeds from its completed sale of Shanghai Rural Commercial Bank to buyback AUD1.5bn in shares with a neutral impact on capital ratios.

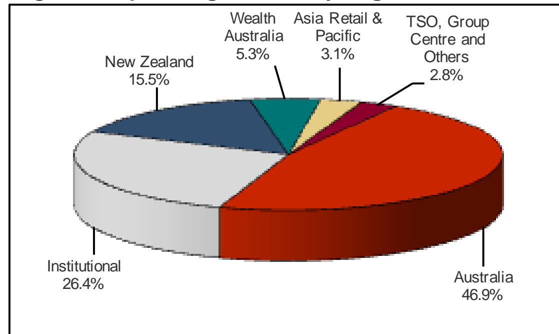
Australia & New Zealand Banking Group Ltd

Table 1: Summary Financials

Year Ended 30th Sep	FY2015	FY2016	FY2017
Income Statement (AUD'mn)			
Net Interest Income	14,616	15,095	14,872
Non Interest Income	5,849	4,893	5,101
Operating Expenses	9,378	10,422	9,448
Pre-Provision Operating Profit	11,087	9,566	10,525
Provisions	1,179	1,929	1,198
Other Income/(Expenses)	625	541	300
PBT	10,533	8,178	9,627
Income Taxes	3,026	2,458	3,206
Net Income to Common Shareholders	7,493	5,709	6,406
Balance Sheet (AUD'mn)			
Total Assets	889,900	914,869	897,326
Total Loans (net)	562,173	575,852	574,331
Total Loans (gross)	572,370	578,944	583,444
Total Allowances	4,017	4,183	3,798
Total NPLs	2,441	2,646	2,118
Total Liabilities	832,547	856,942	838,251
Total Deposits	570,794	588,195	595,611
Total Equity	57,353	57,927	59,075
Key Ratios			
NIM	2.04%	2.07%	1.99%
Cost-income Ratio	44.5%	50.7%	46.1%
LDR	98.5%	97.9%	96.4%
NPL Ratio	0.43%	0.46%	0.36%
Allowance/NPLs	164.6%	158.1%	179.3%
Credit Costs	0.21%	0.33%	0.21%
Equity/Assets	6.44%	6.33%	6.58%
CETier 1 Ratio (Full)	9.6%	9.6%	10.6%
Tier 1 Ratio	11.3%	11.8%	12.6%
Total CAR	13.3%	14.3%	14.8%
ROE	14.5%	10.0%	11.0%
ROA	0.88%	0.63%	0.70%

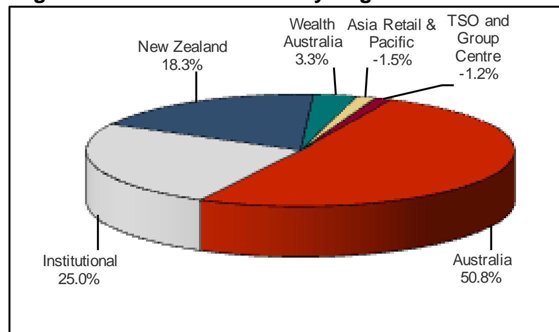
Source: Company

Figure 1: Operating Income by Segment - FY2017



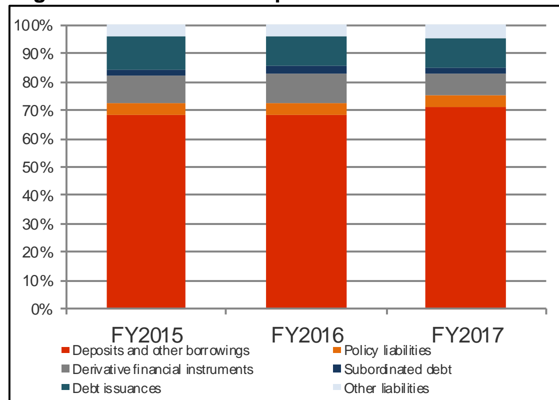
Source: Company

Figure 2: Profit Before Tax by Segment - FY2017



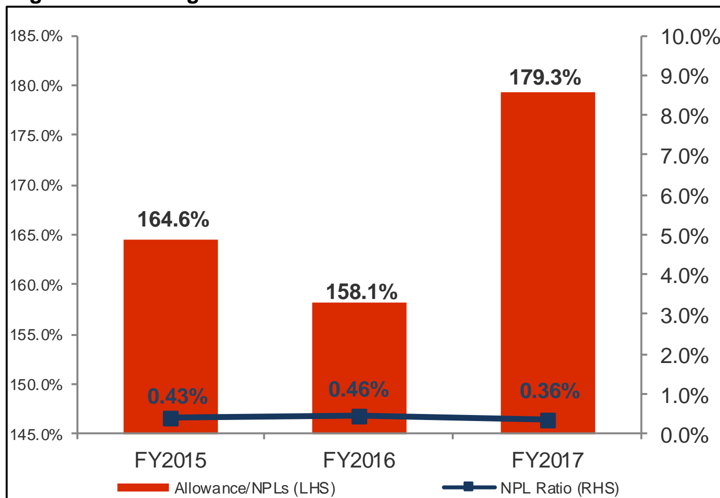
Source: Company | Asia Retail & TSO made losses before tax

Figure 3: Liabilities Composition



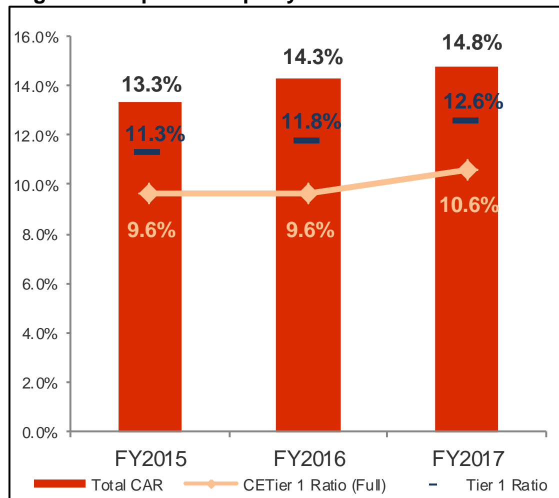
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Bank of China Ltd

Credit Outlook – Fundamentals for BOC remain resilient with its strong domestic market position, overseas business contribution and ongoing government support appearing to overcome external uncertainties. These fundamentals support decent value for the BCHINA 2.75% '19s for the shorter tenor.

Issuer Profile: Neutral (4)

S&P: A/Stable

Moody's: A1/Stable

Fitch: A/Stable

Ticker: **BCHINA**

Background

Established in 1912, Bank of China Ltd ('BOC') operates predominantly in China but also globally in 51 countries and regions providing a diverse range of financial services. Previously China's central bank, it became a state-owned commercial bank in 1994 and was listed in Hong Kong and Shanghai in 2006. Designated as a global systemically important bank, it had total assets of RMB19,422.4bn as at 30 September 2017.

Key credit considerations

- **Improved earnings dynamics a good sign:** Underlying operating income performance in FY2017 has been solid with 3Q2017 operating income up 7.5% y/y to RMB115.8bn. Although 9M2017 operating income was down 1.7% y/y, this was largely due to 9M2016's higher base which included the gain on disposal of Nanyang Commercial Bank, Limited in 1H2016. Absent this impact, net interest income grew y/y from stable net interest margins of 1.85% and higher loan volumes (+8.4% for 9M2017) while net fee and commission income rose 2.1% y/y due to broad based improvement. Overall operating expenses were more or less contained rising 0.5% y/y and this translated to a cost-to-income ratio for 9M2017 of 26.8% which is strong compared to other banks under our coverage.

- **Some divergence in loan quality trends:** Loan quality trends are somewhat mixed on a q/q and y/y basis with non-performing loans rising 3.9% q/q and loans rising only 1.5%. This translated in a slight weakening of the non-performing loan ('NPL') ratio to 1.41% as at 30 Sep 2017 from 1.38% as at 30 Jun 2017. Y/y trends are more positive however with y/y non-performing loans ('NPL') growth of 4.6% lower than the 9.4% growth in loans and resulting in the NPL ratio of 1.41% as at 30 Sep 2017 being improved on a y/y basis compared to 1.48% as at 30 Sep 2016. This provides some support for the movements in impairment losses on the income statement which rose materially q/q and y/y for 3Q2017 but are down 22% y/y for 9M2017. The Group's allowance coverage ratio remained broadly level q/q at 153.6% as at 3Q2017 (152.5% in 2Q2017) but still lower than 162.8% as at 31 Dec 2016. Lower coverage levels are likely tolerable given management's stated "strengthened credit asset quality management and enhanced country risk management" which saw NPL, special mention and overdue loan balances stabilize in 1H 2017.

- **Balance sheet growth to drive forward earnings:** As mentioned above, loans grew 8.4% for the 9 months to 30 Sep 2017. Loans growth trends disclosed in the 1H2017 results indicate the bank's alignment with key government policies including the 'Belt and Road Initiative' and as such progress in its internationalization strategy. This saw loans in China grow 8.7% y/y in 1H2017 while loans in Hong Kong, Macau, Taiwan and overseas grew 12.4% y/y. Better performance in overseas net interest margins was a driver for better performance of net interest margins in 1H2017. Overseas loans also have a much better NPL ratio (0.18% as at 1H2017). Segment wise, personal loans growth contributed 65% of y/y loans growth in 1H2017, in line with BOC's strategy for personal banking to contribute more than 50% of new deposits and loans and improve the contribution of personal banking to comprehensive income. Corporate loans continue to make up the bulk of total loans at 64% as at 30 June 2017.

- **Growth also driving current and future capital ratios:** BOC's capital ratios improved marginally q/q but remain weaker compared to FY2016 with CET1/CAR ratios at 11.1%/13.9% (FY2016: 11.4%/14.3%) as growth in capital continues to be lower than growth in risk weighted assets given dividend payments and balance sheet expansion. With China's economy forecast to grow by 6.5% in 2018, BOC's balance sheet is expected to expand further. Together with on-going rationalization of other global bank balance sheets, Chinese banks systemic importance is increasing. As a result, the Financial Stability Board in its recent updated list of global systemically important banks ('G-SIBs') increased the capital buffer requirement for both BOC and China Construction Bank ('CCB') by 0.5% to 2.0% for Total Loss Absorbing Capital requirements. That said, the compliance date with this requirement for BOC and CCB is still far away in January 2025 as China is recognized as an emerging market economy.

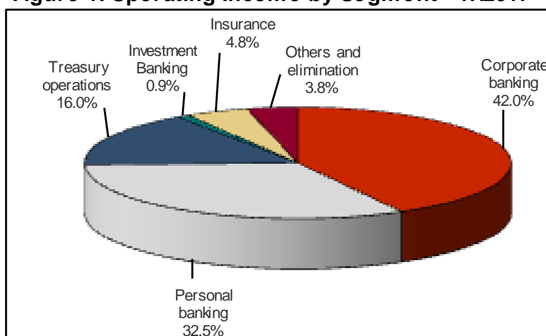
Bank of China Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (RMB'bn)			
Net Interest Income	328,650	306,048	252,084
Non Interest Income	145,262	179,608	120,519
Operating Expenses	185,401	175,069	133,301
Pre-Provision Operating Profit	288,511	310,587	239,302
Provisions	59,274	89,072	49,799
Other Income/(Expenses)	2,334	897	924
PBT	231,571	222,412	190,427
Income Taxes	52,154	38,361	35,292
Net Income to Common Shareholders	170,845	164,578	145,506
Balance Sheet (RMB'bn)			
Total Assets	16,815,597	18,148,889	19,422,438
Total Loans (net)	8,935,195	9,735,646	10,573,570
Total Loans (gross)	9,135,860	9,973,362	10,808,135
Total Allowances	200,665	237,716	227,565
Total NPLs	130,897	146,003	152,746
Total Liabilities	15,457,992	16,661,797	17,860,659
Total Deposits	11,729,171	12,939,748	13,836,476
Total Equity	1,357,605	1,487,092	1,561,779
Key Ratios			
NIM	2.12%	1.83%	1.85%
Cost-income Ratio	28.3%	28.1%	26.8%
LDR	76.2%	75.2%	76.4%
NPL Ratio	1.43%	1.46%	1.41%
Allowance/NPLs	153.3%	162.8%	149.0%
Credit Costs	0.65%	0.89%	0.61%
Equity/Assets	8.07%	8.19%	8.04%
CETier 1 Ratio (Full)	11.1%	11.4%	11.2%
Tier 1 Ratio	12.1%	12.3%	12.0%
Total CAR	14.1%	14.3%	13.9%
ROE	14.5%	12.6%	13.7%
ROA	1.12%	1.05%	1.10%

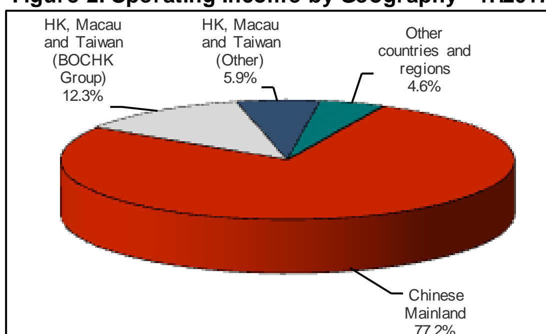
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - 1H2017



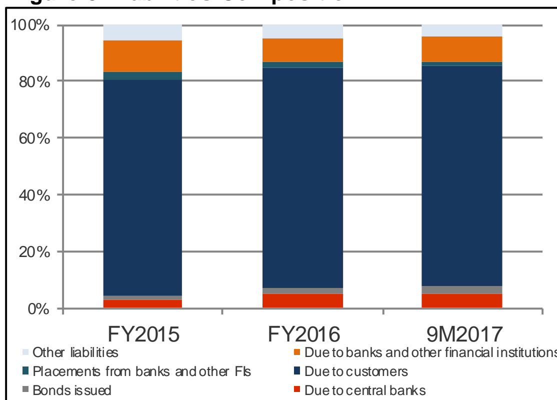
Source: Company

Figure 2: Operating Income by Geography - 1H2017



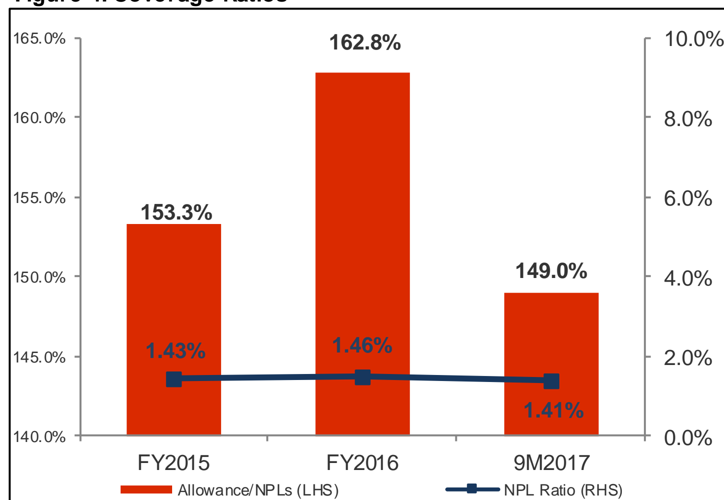
Source: Company

Figure 3: Liabilities Composition



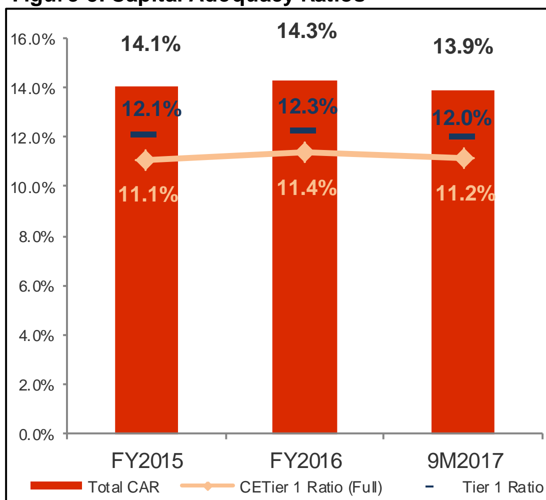
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Barclays PLC

Credit Outlook – Barclay's higher business risk and the long tenor makes the BACR 3.75% '30c25s look tight compared to other T2 names. The BPCEGP 4.5% '26c21s offer better value in our view.

Issuer Profile: Neutral (4)

S&P: BBB/Stable

Moody's: Baa2/Negative

Fitch: A/Stable

Ticker: **BACR**

Background

Based in the UK, Barclays PLC ('Barclays') operates in over 50 countries across two main business segments – Barclays UK and Barclays International. Its scale in the UK and globally makes Barclays systemically important on both a domestic and global level. As at 30 September, it had total assets of GBP1,149.3bn. It's largest shareholders comprise institutional investors including The Capital Group Companies Inc., Qatar Investment Authority, and BlackRock Inc.

Key credit considerations

- **Developed market focused with heightened business risk:** Barclays' geographic focus is somewhat concentrated with 41% of total assets as at 31 December 2016 in the UK. This is followed by the Americas at 33% and Europe at 21%. As the largest bank in the UK, Barclays commands solid market positions in retail, small and medium-sized enterprises and corporate banking which provide some measure of earnings stability and solid access to funding and liquidity. Business segments are split between Barclays UK (comprising personal and business banking) and Barclays International (includes transatlantic businesses comprising Corporate Banking, Investment Bank, Barclaycard, wealth management and payments). Segment asset weights however are skewed with 22% of total assets at Barclays UK and 70% within Barclays International. As the latter holds more volatile businesses (84% of risk weighted assets from Corporate Banking, Investment Bank), Barclays business risk is higher relative to more retail focused peers in our view.

- **Necessitating restructuring for future performance:** Barclay's segment split is a consequence of its restructuring plan with a view to simplifying its core transatlantic consumer, corporate and investment banking businesses in its two home markets of the UK and US and improving earnings stability. In addition, other businesses including its African operations were classified as non-core with a view to running down exposures while capital market activities transitioned to less capital intensive businesses. Management expects restructuring activities to largely complete by 2017 and positive impacts from cost reductions due to declines in staff and litigation costs.

- **Questions on operating environment:** Segment restructuring is also a consequence of the UK regulatory requirement for ring-fencing day-to-day banking services for retail and smaller corporates from riskier and more complex activities. Due to complete by January 2019, Barclays is expecting to set up a new bank (Barclays Bank UK PLC, which will be a direct subsidiary of Barclays) in 1H2018. In addition to exposure to UK regulations, Barclays also remains heavily exposed to the UK's economic performance. While this has been better than expected since BREXIT, the outlook remains challenging with growth expected to slow on potentially higher inflation, lower consumer spending and ongoing uncertainty.

- **Underlying improvement in recent earnings**: Barclays' recent results have been mixed with underlying stability in core business performance overshadowed by (1) ongoing restructuring; (2) the accelerated run-down of non-core businesses; (3) still elevated impairment charges; and (4) more recently weaker markets activity. In addition, Barclays continues to make provisions for UK customer redress and ongoing litigation. That said, Barclays cost to income ratio continues to improve as does its loan quality indicators. Litigation and conduct charges are also reducing.

- **Capital still supportive:** Despite earnings challenges, Barclay's capital position remains solid from growth in CET1 capital, risk weighted assets reduction and capital instrument issuance. Its current CET1 capital ratio of 13.1% is just above Barclay's expectation for its end state CET1 ratio of around 13%. Results from the Bank of England stress test highlighted business vulnerabilities from credit card exposures, market risk and misconduct costs, although these have been partially addressed in 2017. **We are initiating Barclays with a Neutral (4) issuer profile**.

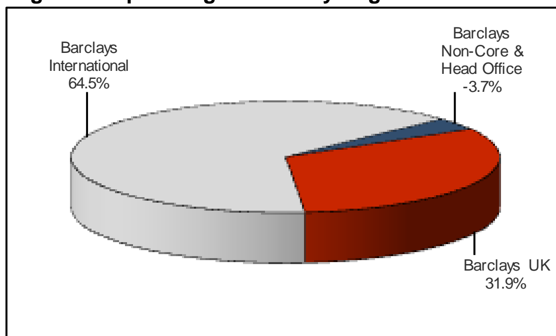
Barclays Plc

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (GBP'mn)			
Net Interest Income	10,608	10,537	7,573
Non Interest Income	11,432	10,914	8,481
Operating Expenses	18,536	16,338	11,087
Pre-Provision Operating Profit	3,504	5,113	5,211
Provisions	1,762	2,373	1,763
Other Income/(Expenses)	-596	490	0
PBT	1,146	3,230	3,448
Income Taxes	1,149	993	1,102
Net Income to Common Shareholders	-394	1,623	-628
Balance Sheet (GBP'mn)			
Total Assets	1,120,012	1,213,126	1,149,255
Total Loans (net)	399,217	392,784	383,517
Total Loans (gross)	404,138	397,404	388,280
Total Allowances	4,921	4,620	4,763
Total NPLs	7,817	6,491	6,193
Total Liabilities	1,054,148	1,141,761	1,082,210
Total Deposits	418,242	423,178	445,148
Total Equity	65,864	71,365	67,045
Key Ratios			
NIM	3.65%	3.76%	3.76%
Cost-income Ratio	84.0%	76.0%	69.0%
LDR	95.5%	92.8%	86.2%
NPL Ratio	1.93%	1.63%	1.59%
Allowance/NPLs	63.0%	71.2%	76.9%
Credit Costs	0.44%	0.60%	0.45%
Equity/Assets	5.88%	5.88%	5.83%
CETier 1 Ratio (Full)	11.4%	12.4%	13.1%
Tier 1 Ratio	14.7%	15.6%	16.9%
Total CAR	18.6%	19.6%	21.2%
ROE	-0.7%	3.6%	-1.4%
ROA	-0.08%	0.09%	0.27%

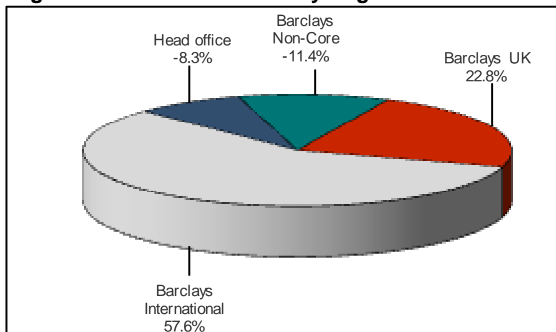
Source: Company

Figure 1: Operating Income by Segment - 9M2017



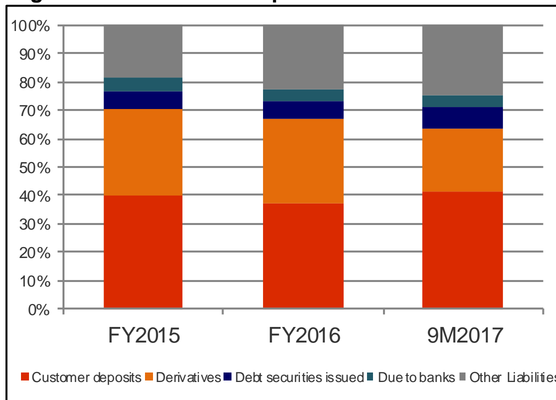
Source: Company | Barclays Non-Core & Head Office made operating losses

Figure 2: Profit Before Tax by Segment - 9M2017



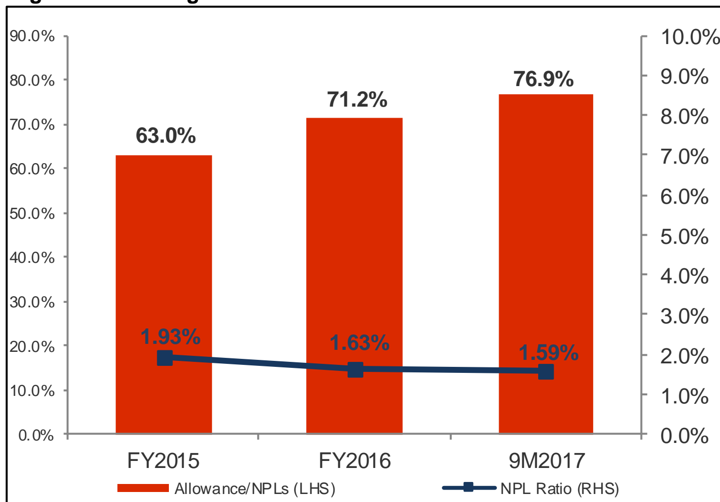
Source: Company | Barclays Non-Core & Head Office made losses before tax

Figure 3: Liabilities Composition



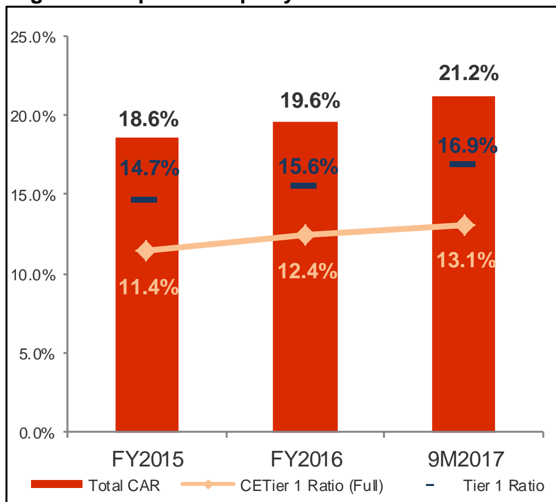
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Domestic pressure is less at BNPP given its better geographic diversity. Further, its underlying risk profile looks improved. While the domestic peers offer better value in the T2 space, we think the BNP 4.3% ‘25c20s offer good value against the Aussie T2s and against its own BNP 3.65% ‘24s.

Issuer Profile: Neutral (3)

S&P: A/Stable

Moody’s: Aa3/Stable

Fitch: A+/Stable

Ticker: **BNP FP**

Background

BNP Paribas S.A. (‘BNPP’)’s operations span domestic and international retail banking as well as corporate and institutional banking. Concentrated in Europe, its businesses operate in 75 countries. Created in 2000 through a merger of BNP and Paribas, it had total assets of EUR2,158.5bn as at 30 September, 2017. Its largest shareholder at ~8% is the Belgian government.

BNP Paribas S.A.

Key credit considerations

- **Modest results continue:** While BNPP’s bottom line performance for 3Q2017 was solid with a 6.9% y/y improvement in pre-tax income to EUR3.0bn, the key boost to pre-tax income came from the initial public offering of SBI Life (which generated a EUR326mn capital gain and is non-recurring in nature). Elsewhere, results were stable to modest, with broadly stable operating income generation of EUR2.6bn comprised of softer revenues (-1.8% y/y) that were mitigated by lower operating expenses (mainly from Corporate and Institutional Banking’s (CIB) transformation program) and a lower cost of risk (-1.2% and -12.6% respectively y/y). Revenue performance continues to be impacted by unfavourable FX movements and weaker trading performance in the CIB segment while domestic retail also continues to be challenging due to low interest rates. Business volumes however were positive with loans up 6.1% y/y and this helped mitigate to an extent the interest rate environment and ongoing renegotiation of mortgages at lower cost. YTD trends were similar with pre-tax income up 2.7% y/y to EUR9.2bn primarily as a result of non-operating items. Otherwise, 9M2017 operating income was down 1.5% due to soft top line performance (-0.4% y/y) and higher costs (+1.8% y/y) which overshadowed a 16.9% fall in risk costs.

- **International diversification mitigates domestic pressures:** Pressure on domestic retail is not unique to BNP with domestic peers also impacted. However, its influence on overall earnings is comparatively less due to BNP’s larger international retail presence through its International Financial Services division (‘IFS’). IFS revenues were up 2.8% for 9M2017. This along with strong 1H2017 performance in Corporate & Institutional Banking (‘CIB’) (+5.0% in 9M2017) drove consolidated y/y growth in operating division revenue of 2.3% in 9M2017. Solid IFS performance is more obvious in 3Q2017 results with IFS revenues up 3.4% y/y but overall operating division revenue down 2.5% y/y.

- **Broad based risk cost improvement:** Risk cost improvement occurred across most of BNPP’s segments with a EUR83mn y/y improvement in cost of risk at CIB-Corporate Banking and Europe-Mediterranean the main contributors. Risk costs in Personal Finance grew by EUR33mn although this was due to higher loan outstandings. Management stated that reduced risk costs were due to risk controls at loan origination, low interest rates, and improved risk in Italy.

- **Strategic plan seeing results:** Better risk costs are also due to BNP’s 2017-2020 business development plan to prepare the bank for the future through digital transformation and cost savings. Key targets include 6.5% average annual net income growth, a 12% CET1 ratio and a 10% return on equity by 2020. While management expect to achieve EUR3.4bn in savings over 2017-2020 and EUR2.7bn in annual savings once the program is completed, one-off transformation costs and investments of EUR3bn are expected to be spent to achieve this. As such, BNPP’s earnings may remain under pressure in FY2018.

- **Expected improvement in capital ratios:** BNPP's capital ratios continue to improve with CET1/CAR ratios at 11.9%/14.7% for 3Q2017 against 11.8%/14.7% for 2Q2017 and 11.6%/14.5% for FY2016. This was due to a marginal improvement in capital and a 0.6% fall in risk weighted assets. Ratios are expected to remain strong despite higher future regulatory requirements with plans to issue around EUR10bn per annum of senior non-preferred debt until January 2019. In addition, its TLAC requirement as a global systemically important bank (‘G-SIB’) is now lower following the recent updated list of G-SIBs. This is likely due more to BNPP’s ongoing restructuring and hence lower systemic risk in FSB’s view rather than lower systemic importance.

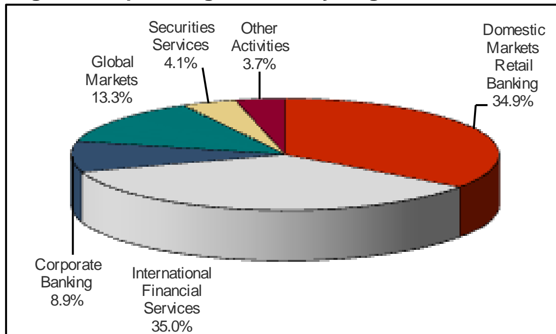
BNP Paribas S.A

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (EUR'mn)			
Net Interest Income	22,553	22,376	32,629
Non Interest Income	20,385	21,035	
Operating Expenses	29,254	29,378	22,323
Pre-Provision Operating Profit	13,684	14,033	10,306
Provisions	3,797	3,262	1,922
Other Income/(Expenses)	589	633	538
PBT	10,476	11,210	9,188
Income Taxes	3,335	3,095	2,523
Net Income to Common Shareholders	6,694	7,702	6,333
Balance Sheet (EUR'mn)			
Total Assets	1,994,193	2,076,959	2,158,500
Total Loans (net)	682,497	712,233	711,589
Total Loans (gross)	708,691	739,278	NA
Total Allowances	26,194	27,045	NA
Total NPLs	41,251	41,779	NA
Total Liabilities	1,894,116	1,971,739	2,053,294
Total Deposits	700,309	765,953	793,163
Total Equity	100,077	105,220	105,206
Key Ratios			
NIM	1.73%	1.64%	NA
Cost-income Ratio	68.1%	67.7%	68.4%
LDR	97.5%	93.0%	89.7%
NPL Ratio	5.82%	5.65%	NA
Allowance/NPLs	63.5%	64.7%	NA
Credit Costs	0.54%	0.44%	NA
Equity/Assets	5.02%	5.07%	4.87%
CETier 1 Ratio (Full)	10.9%	11.5%	11.9%
Tier 1 Ratio	11.7%	12.6%	13.1%
Total CAR	13.0%	14.2%	14.7%
ROE	8.3%	9.3%	9.8%
ROA	0.33%	0.38%	0.40%

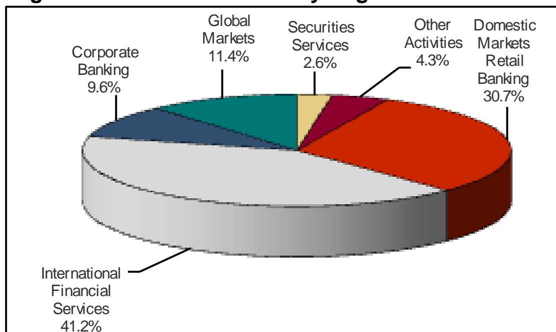
Source: Company | 9M2017 capital ratios on a transitional basis

Figure 1: Operating Income by Segment - 9M2017



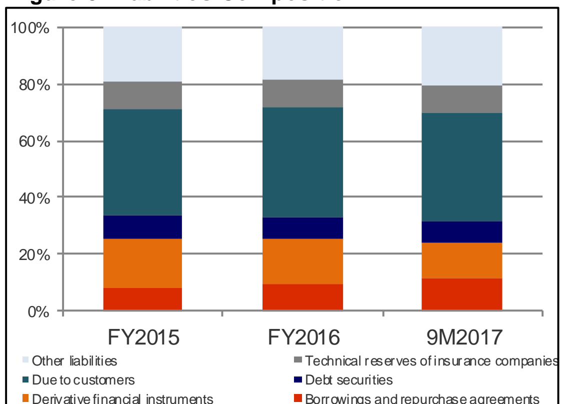
Source: Company

Figure 2: Profit Before Tax by Segment - 9M2017



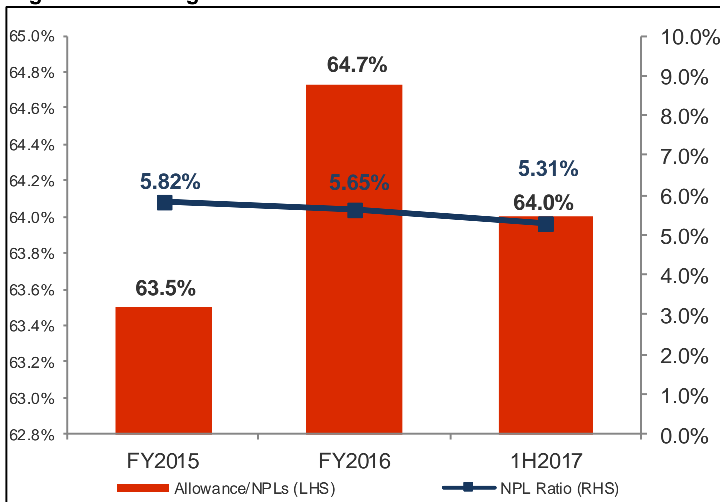
Source: Company

Figure 3: Liabilities Composition



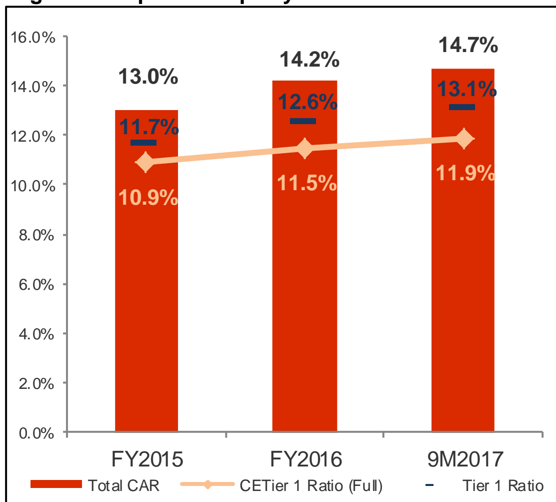
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

BPCE S.A.

Credit Outlook – BPCE papers continue to offer good value in the SGD T2 space compared to domestic peers considering its solid market positions in retail banking. In particular the BPCEGP 4.5% '26c21s continue to be the preferred pick.

Issuer Profile: Neutral (4)

S&P: A/Positive

Moody's: A2/Positive

Fitch: A/Stable

Ticker: **BPCEGP**

Background

Established in 2009, BPCE S.A. is the central entity of Groupe BPCE ('GBPCE'). Through its retail cooperative networks and subsidiaries, it provides retail and wholesale financial services to individuals, small and medium-size enterprises (SMEs), and corporate and institutional customers in France and abroad. As at September 30, 2017, it had total assets of EUR1,241.7bn.

Key credit considerations

- **Earnings in line with peers:** GBPCE reported similar trends to domestic peers with 3Q2017 net banking income down 1.3% y/y to EUR5.8bn. Marginally lower income was driven by GBPCE's domestic Retail Banking segment (-3.1% y/y excluding changes in provisions) as ongoing low domestic interest rates offset solid loans growth (+6.9% y/y). Weaker Retail Banking performance with weaker Corporate & Investment Banking performance ('CIB') (-4.7% y/y) on lower trading activities offset solid performance in Investment Solutions ('IS') with segment revenues up 16.9% y/y due to net inflows in asset management and insurance and new insurance product roll out. Overall expenses were up 1.7% (including a 10.9% fall in the cost of risk) due to business growth in CIB and IS. These combined to a 7.6% fall in income before tax for 3Q2017. YTD performance though remains more solid owing to 1H2017 results with 9M2017 net banking income up 2.8% y/y and 9M2017 income before tax up 5.3% due to slower growth in operating expenses and an 8% y/y fall in the cost of risk. Reduction in the cost of risk was driven by lower individual provisions in retail banking as well as a high base in FY2016 for provisions towards oil and gas exposures in CIB.

- **As is loan quality:** Overall loan quality continues to improve with GBPCE's reported ratio of non-performing loans to gross loan outstandings falling 20bps y/y to 3.3% as at 30 Sep 2017. The ratio was also down 10bps q/q from 3.4% as at 30 Jun 2017. The y/y improvement was due to both 2.0% y/y growth in gross outstanding customer loans as well as a 3.9% fall in non-performing loans. The reported impaired loans coverage ratio (including guarantees for impaired outstandings) remained broadly stable to slightly weaker at 82.5% as at 30 Sep 2017 (30 Sep 2016: 83.0%; 30 Jun 2017: 82.7%). While positive trends in risk costs appear broad based across GBPCE's segments, CIB's risk costs evidenced more volatility than the retail banking segment which has consistently improved. The dominant contribution of retail banking to GBPCE's earnings therefore makes overall loan quality metrics and the stability of its credit profile slightly stronger than peers in our view.

- **New path forward for growth:** 2017 marked the end of GBPCE's second strategic plan. Covering 2014-2017, the plan focused on growth and expansion around 4 investment priorities. Its third strategic plan covering 2018-2020 seeks to take GBPCE's development further through digital transformation to achieve specific growth targets and cost reductions. Key financial targets by 2020 include net banking income above EUR25bn (+6.8% against 2016 underlying net banking income), maintaining cost of risk between 20-30bps, and achieving annual cost synergies of EUR1bn.

- **And reinforcing capital position:** Another financial target by 2020 is a CET ratio above 15.5%. Improvement in the ratio is expected to come mainly from a mix of retained earnings and shift in the business mix with focus on growing asset and wealth management, given expectations of persisting low interest rates and the likely ongoing subdued performance of retail banking. GBPCE's capital position remains sound despite operating challenges with ongoing earnings generation, issuance of cooperative shares and a slight fall in risk weighted assets leading to estimated fully loaded CET1/CAR capital ratios for 3Q2017 at 15.0%/19.1%, improved from 2Q2017 (14.7%/18.8%) and FY2016 (14.3%/18.7%). Its TLAC position also remains solid with the estimated reported fully loaded TLAC ratio of 20.3% for 3Q2017, above the minimum requirement of 19.5% by January 2019. As a marginal global systemically important bank ('G-SIB'), GBPCE will still track and disclose its pro-forma TLAC ratios on an ongoing basis although it's no longer classified as a G-SIB.

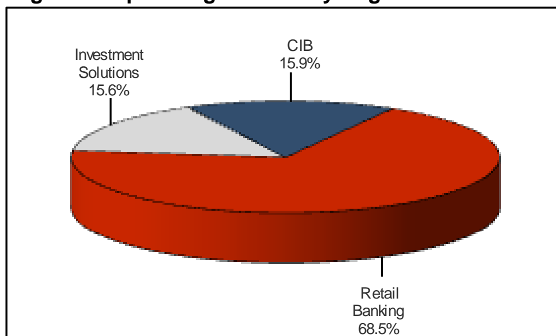
Groupe BPCE

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (EUR'mn)			
Net Interest Income	11,059	10,904	17,802
Non Interest Income	12,809	13,254	
Operating Expenses	16,248	16,673	12,681
Pre-Provision Operating Profit	7,620	7,485	5,122
Provisions	1,832	1,423	968
Other Income/(Expenses)	280	259	0
PBT	6,068	6,321	4,457
Income Taxes	2,323	1,882	1,485
Net Income to Common Shareholders	3,242	3,988	2,623
Balance Sheet (EUR'mn)			
Total Assets	1,166,535	1,235,240	1,241,701
Total Loans (net)	617,465	666,898	679,738
Total Loans (gross)	629,775	679,176	691,636
Total Allowances	12,310	12,278	11,899
Total NPLs	23,098	23,427	22,527
Total Liabilities	1,101,342	1,166,104	1,170,253
Total Deposits	499,711	531,778	556,130
Total Equity	65,193	69,136	71,448
Key Ratios			
NIM	1.06%	0.98%	NA
Cost-income Ratio	68.1%	69.0%	70.6%
LDR	123.6%	125.4%	122.2%
NPL Ratio	3.67%	3.45%	3.26%
Allowance/NPLs	53.3%	52.4%	52.8%
Credit Costs	0.29%	0.21%	0.19%
Equity/Assets	5.59%	5.60%	5.14%
CETier 1 Ratio (Full)	13.0%	14.1%	14.9%
Tier 1 Ratio	13.3%	14.5%	15.1%
Total CAR	16.8%	18.5%	18.9%
ROE	6.0%	6.9%	5.9%
ROA	0.27%	0.33%	0.27%

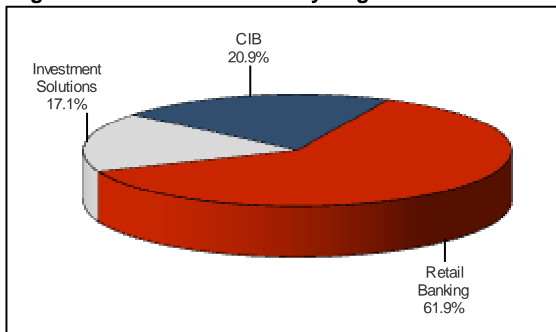
Source: Company

Figure 1: Operating Income by Segment - 9M2017



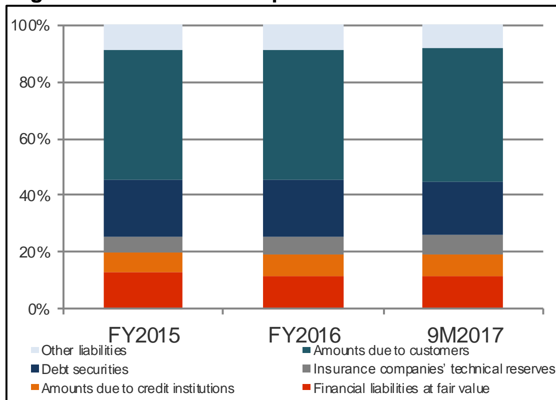
Source: Company

Figure 2: Profit Before Tax by Segment - 9M2017



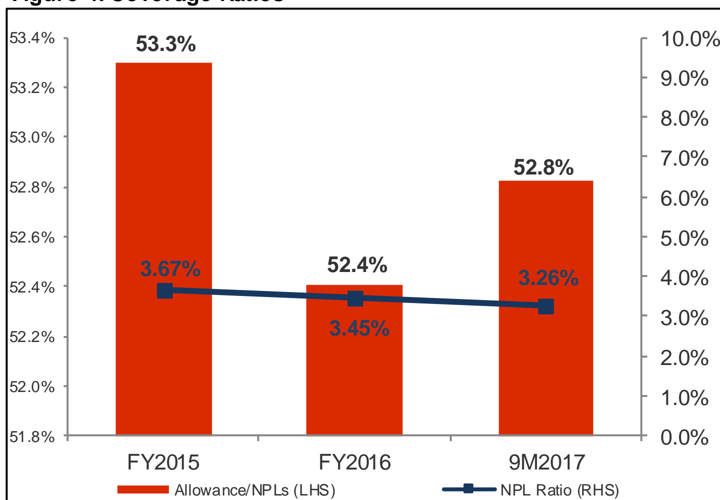
Source: Company

Figure 3: Liabilities Composition



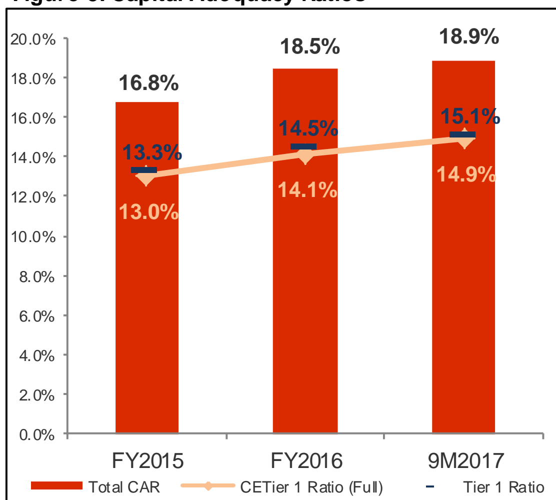
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

CIMB Group Holdings Berhad

Credit Outlook – CIMB's recent performance is supportive of management's strategic initiatives and its execution of it. With the CIMBMK 2.12% '18s close to maturity, investors that can tolerate loss absorption but are focused on strong fundamentals may want to look at the UOBSP 3.5% '26c20s Tier 2s which have a similar issue rating and yield to call.

Issuer Profile: Neutral (4)

S&P: Not rated

Moody's: Baa1/Stable

Fitch: Not rated

Ticker: **CIMBMK**

Background

CIMB Group Holdings Bhd ('CIMB') is an ASEAN focused financial services provider with a core focus on Malaysia, Singapore, Thailand and Indonesia. Business segments cover consumer banking, commercial banking, investment banking, Islamic banking and asset management. As at 30 September, 2017 it had total assets of MYR508.2bn. Its major shareholders are Khazanah Nasional and the Employee Provident Fund.

Key credit considerations

- **Record earnings performance:** CIMB's earnings performance continues to be solid. Operating income of MYR4.42bn for 3Q2017 was a record and represented a 7.3% and 2.2% improvement y/y and q/q respectively. Key drivers for CIMB's earnings performance continues to be loans growth and net interest margin improvement while commissions drove better non-interest income performance. With operating expense growth contained at growth rates lower than operating income growth, profit before allowances for 3Q2017 improved 11.7% y/y. Further, CIMB's cost to income ratio fell further to 51.3% for 3Q2017 from 53.2% in 3Q2016 and 52.3% in 2Q2017. Allowances rose 7.7% y/y although this was mostly due to lower writebacks compared to prior years, with impairment allowances for loans, advances and financing actually falling 1.2% y/y. That said, this didn't dent CIMB's PBT which rose 12.2% y/y in 3Q2017, adding to CIMB's strong 1H2017 results with 9M2017 PBT up 24.6% y/y.

- **Segment trends highlight business diversity:** Strong YTD performance has been due to CIMB's segment diversity with strong performance in consumer (non-interest income growth and contained expenses) and wholesale banking (better capital markets activity, loans growth and lower provisions) mitigating weak performance in CIMB's commercial banking segment as higher provisions offset revenue growth. This translated to Commercial Banking's contribution to consolidated PBT falling to 6.1% for 9M2017 against 8.6% for 9M2016. Conversely, wholesale banking comprised 40.3% of consolidated PBT (up from 36.5% in 9M2016). Consumer Banking's contribution fell to 41.9% in 9M2017 against 46.6% a year earlier but this was more due to strong performance in Wholesale Banking with consumer banking performance remaining resilient.

- **Loan quality not out of the woods:** Although underlying impairment allowances for loans, advances and financing fell y/y and q/q, impaired loans continue to rise, up15.4% y/y and 8.9% q/q. Most of the impaired loans growth occurred in construction and working capital, and likely drove the higher provisions in Commercial Banking. Geographic wise, impaired loans also rose the highest in Singapore and Thailand. Owing to the higher growth in impaired loans, CIMB's impaired loan ratio weakened to 3.5% in 3Q2017 against 3.2% in 2Q2017 and 3Q2016 while coverage ratios declined to 72.4% as at 3Q2017 from 80.6% as at 3Q2016. This could pressure future profitability should loan quality continue to worsen and the need for impairments rise.

- **Strategy on track:** CIMB's Target 2018 (T18) strategy to reduce CIMB's sensitivity to operating challenges continues to yield positive results. The cost to income ratio at 51.3% for 3Q2017 is close to the T18 target of 50% while the income contribution from consumer banking at 58% in 3Q2017 is also approaching the 60% target. Such results are pleasing given the importance management has placed on achieving the targets. That said, further execution will be needed for the remainder of the program to ensure a more resilient profit performance in the years to come.

- **Capital continues to improve:** The one target of CIMB's T18 strategy that has been met is the CET1 target of 12.0%. This was achieved in 3Q2017 given the record quarterly income and strong YTD performance with CIMB's reported CET1/CAR capital ratios at 12.0%/16.6% as at 30 September 2017 (FY2016 11.6%/16.2%). CIMB's ability to generate internal capital is a solid support to its credit profile, particularly given the rising trend in impaired loans. We also draw comfort from CIMB's strong domestic market positions and position as the fifth largest banking group in ASEAN and second largest in Malaysia with solid access to capital markets.

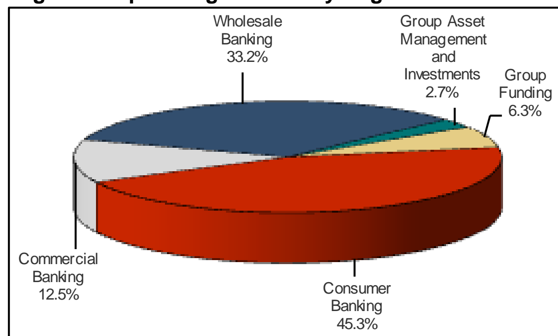
CIMB Group Holdings Berhad

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (MYR'mn)			
Net Interest Income	9,337	9,826	7,933
Non Interest Income	6,059	6,239	5,176
Operating Expenses	9,249	8,652	6,823
Pre-Provision Operating Profit	6,147	7,414	6,285
Provisions	2,318	2,645	1,720
Other Income/(Expenses)	86	116	9
PBT	3,914	4,884	4,575
Income Taxes	1,018	1,251	1,060
Net Income to Common Shareholders	2,850	3,564	3,415
Balance Sheet (MYR'mn)			
Total Assets	461,577	485,767	508,202
Total Loans (net)	290,296	315,373	317,728
Total Loans (gross)	297,822	323,720	325,780
Total Allowances	7,691	8,496	8,163
Total NPLs	9,082	10,645	11,279
Total Liabilities	419,345	438,688	458,331
Total Deposits	317,424	336,246	346,183
Total Equity	42,233	47,079	49,871
Key Ratios			
NIM	2.66%	2.63%	2.67%
Cost-income Ratio	60.1%	53.9%	52.1%
LDR	91.5%	93.8%	91.8%
NPL Ratio	3.05%	3.29%	3.46%
Allowance/NPLs	84.7%	79.8%	72.4%
Credit Costs	0.78%	0.82%	0.70%
Equity/Assets	9.15%	9.69%	9.81%
CETier 1 Ratio (Full)	11.5%	11.5%	11.1%
Tier 1 Ratio	12.7%	13.1%	12.5%
Total CAR	15.8%	16.2%	16.1%
ROE	7.3%	8.3%	9.8%
ROA	0.65%	0.75%	0.90%

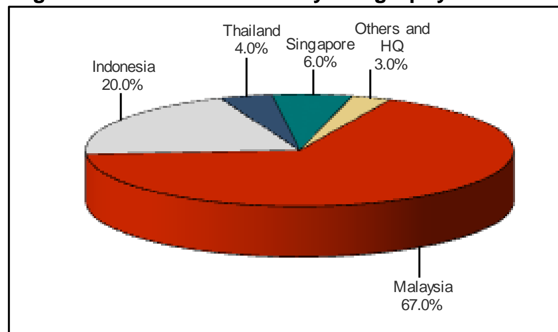
Source: Company | Capital Adequacy Ratios after proposed dividends

Figure 1: Operating Income by Segment - 9M2017



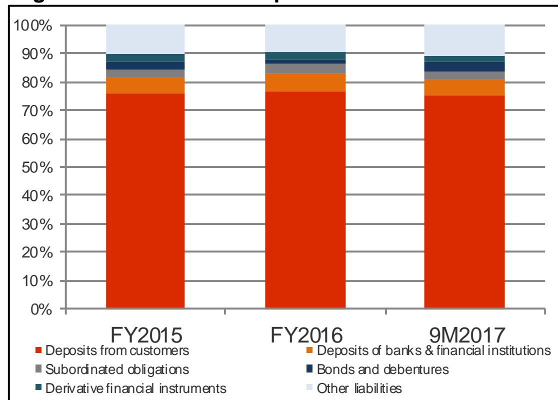
Source: Company

Figure 2: Profit Before Tax by Geography - 9M2017



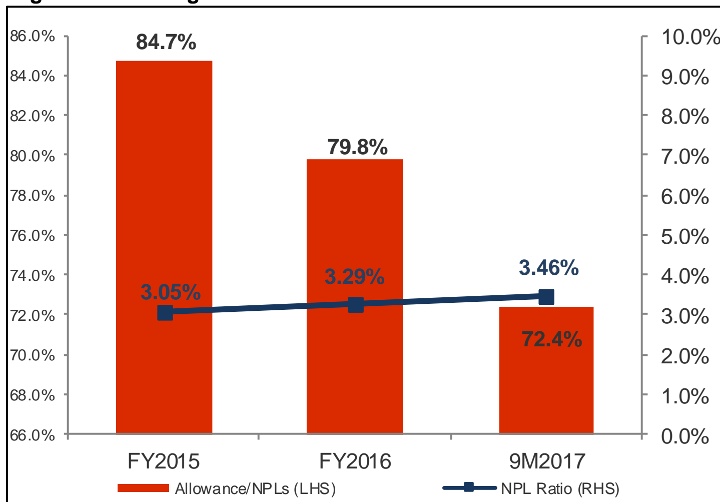
Source: Company

Figure 3: Liabilities Composition



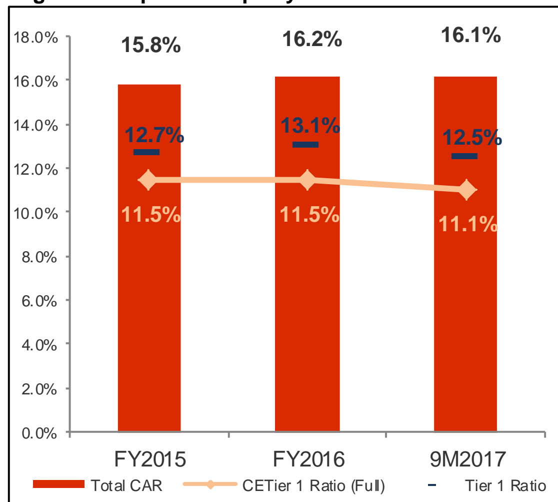
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – CMZB's underlying fundamentals are improving. We think the CMZB 4.875% '27c22s offer decent value against the LBBW 3.75% '27c22s.

Commerzbank AG

Key credit considerations

- **Tough operating environment although stable results:** CMZB's recent results were stable y/y with 9M2017 pre-tax profit of EUR337mn. This was despite a 20.7% y/y fall in net interest income after loan loss provisions, from weaker margins on new business and lower interest income on deposits from low and negative interest rates. This overshadowed higher Private and Small-Business loan volumes and improvement in loan loss provisions (which fell 13.1% y/y for 9M2017 due to lower provision requirements for corporate clients). Net fee and commission income was broadly stable but large improvements in net trading income, net investment income and other net income mitigated both the softer net interest income after loan loss provisions as well as the material increase in restructuring expenses through implementation of the "Commerzbank 4.0" strategy. Higher restructuring (staff redundancies) and investment costs (digital transformation) are expected to continue, especially with CMZB recently concluding negotiations on proposed job cuts.

Issuer Profile: Neutral (4)

S&P: A-/Negative

Moody's: Baa1/Stable

Fitch: BBB+/Stable

Ticker: **CMZB**

- **Restructuring benefits seen in segment trends:** CMZB's strategic endeavours are reflected in segment performance with improved results in CMZB's Asset & Capital Recovery ("ACR") segment with operating loss of EUR215mn improving 40.1% for 9M2017 (operating loss of EUR359mn in 9M2016). This was mostly due to ACR's shrinking loan balance (-11.7% compared to FY2016 from lower commercial real estate and shipping exposures) which lowered funding costs and lowered loan loss provisions, as well as a one-off gain in 1Q2017 from the write-back of a previously written off position. Elsewhere, operating profits in the Private and Small-Business Customer segment fell 15.1% as low interest rates, increased loan loss provisions and higher operating expenses offset higher loan volumes. Operating profit in the Corporate Clients segment also fell 20% as lower income due to lower demand for credit and structured capital market products overshadowed lower loan loss provisions and a fall in expenses.

Background

Commerzbank AG ('CMZB') is Germany's second largest privately owned bank after Deutsche Bank AG. Headquartered in Frankfurt, it had total assets of EUR489.9bn as at 30 September 2017. Its largest single shareholder at 15.5% is Germany's Special Fund for Financial Market Stabilization, set up during the Global Financial Crisis to stabilize Germany's banking system. The remaining shareholdings comprise institutional (~45%) and private (~25%) investors.

- **Also reflected in balance sheet:** The fall in loans at ACR supported overall loan quality with CMZB's reported NPL ratio falling marginally to 1.5% (driven by improvement in the Corporate Client segment) as at 30 Sep 2017 from 1.6% as at 31 Dec 2016. The lower loans also had a positive impact on CMZB's capital ratios with phased-in risk weighted assets ("RWA") down 7.1% compared to FY2016 due to the reduction in credit RWA's and positive foreign currency movements. Market risk and operational risk RWAs also fell. As the fall in RWA was more than a fall in Tier 1 capital due to the phase-in of Basel III compliant capital instruments, CMZB's CET1/CAR ratios at 14.4%/17.8% as at 30 Sep 2017 were up compared to 2Q2017 (13.9%/17.4%) and FY2016 (13.9%/16.9%). Given the positive impacts on loan quality and capital ratios, overall we think CMZB's underlying credit profile is improving albeit from a lower base.

- **Triggering potential acquisition interest:** Although underlying trends for CMZB are positive and Germany's economic outlook appears sound, returns in Europe's banking sector (and Germany's in particular) continue to be depressed due to the competitive and highly fragmented operating landscape and Europe's low interest rate environment. As such, consolidation within Europe's banking sector is seen as a possibility to establish stronger European banking entities. CMZB has been flagged as a possible acquisition target and is reportedly in the sights of UniCredit AG and BNP Paribas SA ('BNPP'). So far, speculation has been discounted with BNPP instead focused on organic growth in Germany and Unicredit pursuing their own restructuring and transformation exercise to improve their fundamentals. The German government as CMZB's largest shareholder has stated that the government's interest is largely financial rather than strategic.

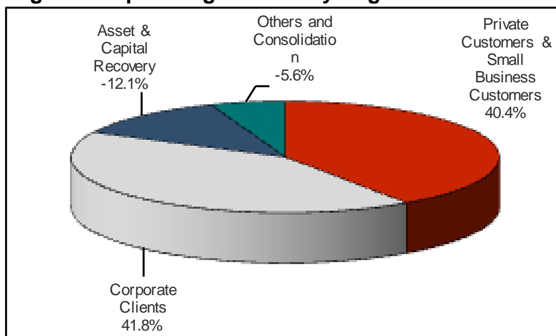
Commerzbank AG

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (EUR'mn)			
Net Interest Income	5,727	5,077	3,075
Non Interest Income	3,986	4,172	3,875
Operating Expenses	7,157	7,100	5,297
Pre-Provision Operating Profit	2,556	2,149	1,653
Provisions	696	900	530
Other Income/(Expenses)	82	150	21
PBT	1,942	1,399	1,144
Income Taxes	629	261	204
Net Income to Common Shareholders	1,084	279	66
Balance Sheet (EUR'mn)			
Total Assets	532,701	480,436	489,905
Total Loans (net)	218,875	212,848	229,374
Total Loans (gross)	222,737	216,518	232,806
Total Allowances	3,946	3,729	3,495
Total NPLs	7,124	6,914	6,549
Total Liabilities	502,576	450,818	460,178
Total Deposits	261,179	250,920	273,364
Total Equity	30,125	29,618	29,727
Key Ratios			
NIM	1.28%	1.24%	0.99%
Cost-income Ratio	73.1%	75.5%	76.0%
LDR	83.8%	84.8%	83.9%
NPL Ratio	3.20%	3.19%	2.81%
Allowance/NPLs	55.4%	53.9%	53.4%
Credit Costs	0.31%	0.42%	0.30%
Equity/Assets	5.66%	6.16%	6.07%
CETier 1 Ratio (Full)	12.0%	12.3%	13.5%
Tier 1 Ratio	12.0%	12.3%	13.5%
Total CAR	14.7%	15.3%	16.7%
ROE	4.9%	1.2%	6.5%
ROA	0.22%	0.20%	0.24%

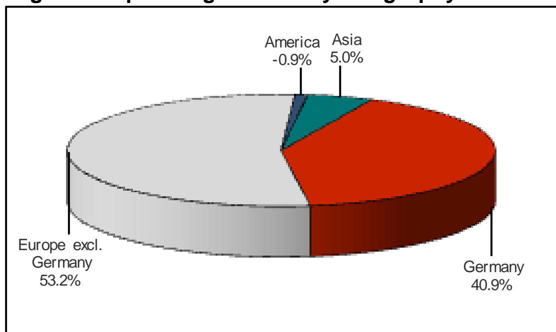
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - 9M2017



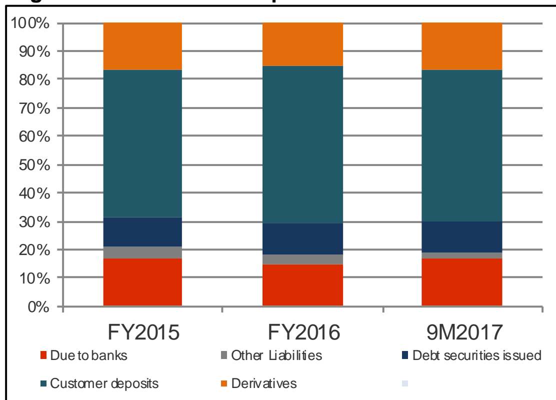
Source: Company | Asset & capital recovery & others made operating loss

Figure 2: Operating Income by Geography - 9M2017



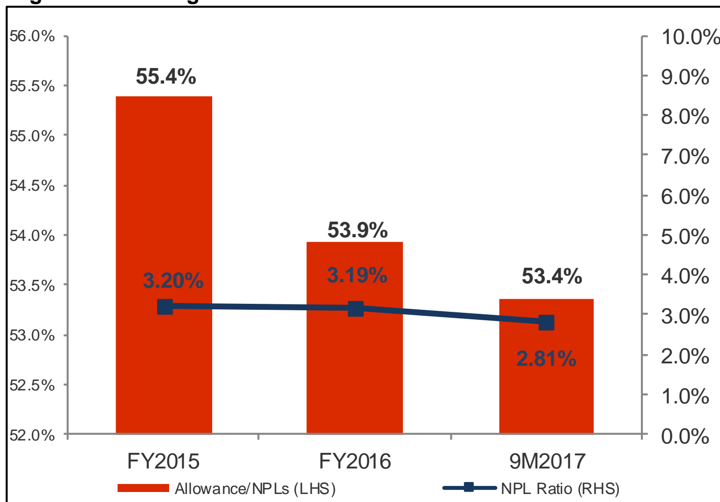
Source: Company | Operations in America made operating loss

Figure 3: Liabilities Composition



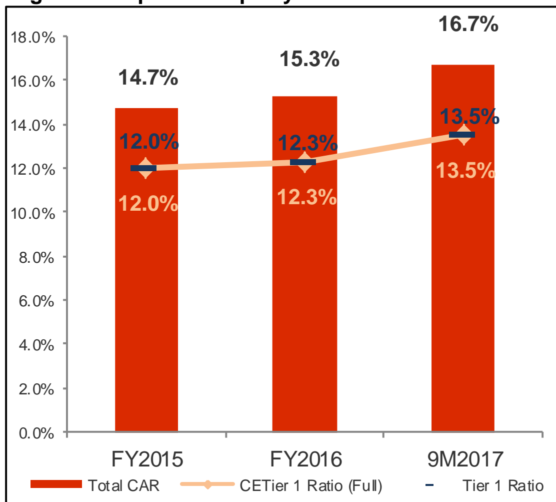
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

DBS Group Holdings Ltd

Credit Outlook – Recent challenges faced by DBS appear to have somewhat brought DBS back to the pack although its fundamentals remain sound. We continue to see the DBS curve as tight and see decent value in other names in the SGD space.

Issuer Profile: Positive (2)

S&P: Not rated

Moody's: Aa2/Stable

Fitch: AA-/Stable

Ticker: **DBSSP**

Background

DBS Group Holdings Limited ('DBS') primarily operates in Singapore and Hong Kong and is a leading financial services group in Asia with a regional network of more than 280 branches across 18 markets. With total assets of SGD507.8bn as at 30 September 2017, it provides diversified services across consumer banking, wealth management institutional banking, and treasury. It is 29% indirectly owned by the government through Temasek Holdings Pte Ltd as of 5th January, 2018.

Key credit considerations

- **The last of oil & gas impairments?** DBS' 3Q2017 results were characterized by a material jump in allowances for credit and other losses which were up 87% y/y to SGD815mn. This included a SGD850mn writeback of general allowances meaning that specific allowances actually rose by SGD1.39bn to SGD1.66bn y/y in 3Q2017. Almost all of the increase occurred in Singapore (+SGD1.26bn y/y) with specific allowances also up for South and South East Asia exposures. According to management, the increase relates to oil and gas support service sector exposures and the higher pro-active recognition of these exposures as non-performing in line with the implementation of Financial Reporting Standard 109 (which requires provisioning to be based on expected future credit losses rather than actual credit losses). As such, non-performing loans (NPLs) rose 43% y/y and 24% q/q to SGD5.55bn and the NPL ratio worsened to 1.7% as at 30 Sep 2017 (1.3% as at 30 Sep 2016 and 1.5% as at 30 Jun 2017). While DBS' NPL ratio is now higher than peers, future oil and gas losses should now be limited given the accounting driven nature of the impairments.

- **Underlying performance otherwise remains sound**: Higher loan impairments overshadowed otherwise solid revenue momentum with net interest income for 3Q2017 up 9% y/y and 5% q/q (due to solid loans growth of 8% y/y and 4% q/q and the acquisition effects of ANZ's wealth and retail banking businesses) and net fee income up 12% y/y and 8% q/q due to solid performance in wealth management and investment banking fees. Other non-interest income was down 20% y/y and stable q/q due to the inclusion of the property disposal gain in 3Q2016 and lower trading income. While expenses were also up 5% y/y due to revenue related and other costs, the higher allowances were ultimately the key driver of 3Q2017 profit before tax being lower by 24% y/y and 27% q/q. Segment wise, consumer banking/wealth management continues to drive earnings followed by Institutional Banking while Treasury Markets performance was weaker y/y and q/q on lower client activity and higher expenses.

- **Funding profile has improved but at a cost:** Another interesting trend in recent 3Q2017 results is DBS' stable to weaker net interest margins ('NIM') on a q/q and y/y basis. In contrast, United Overseas Bank Ltd's NIMs improved 2.3% q/q and 5.9% y/y in line with rising rates. A likely reason for the difference is DBS' more conservative loan to deposit ratio with average deposits up 11.0% q/q (partly due to the ANZ acquisition) while average loans grew 6.2% q/q. This translated to a loan to deposit ratio of 86.8% for 3Q2017 against 89.5% for 3Q2016. While its funding profile has improved, this improvement came at a cost with average rates on customer deposits increasing by 0.12% to 0.63% in 3Q2017 while average rates on customer non-trade loans grew 0.11% to 2.70%. Better funding could be a sign of anticipated loan growth in 2018 given the improving domestic and regional economic landscape.

- **Weaker capitalization but not a concern:** Given the above trends in loans growth and earnings, capital ratios weakened. Capital levels fell due to earnings being offset by dividends paid and redemption of capital instruments. At the same time, risk-weighted assets were higher due to loans growth and contribution from ANZ's wealth management and retail banking business. DBS' CET1/CAR ratios as at 3Q2017 were 14.0%/15.6% against 14.4%/16.5% for 2Q2017 (14.1%/16.2% as at FY2016). On a fully loaded basis, DBS' CET1 ratio was 13.6% as at 3Q2017, well above the regulatory minimum of 8.0%. Additionally, DBS' leverage ratio of 7.5% remains well above the minimum Basel III requirement of 3%. Strong positions against regulatory requirements mitigate loan quality concerns and support potential balance sheet growth in 2018.

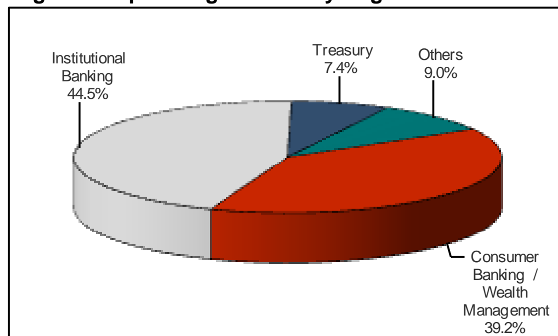
DBS Group Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Net Interest Income	7,100	7,305	5,694
Non Interest Income	3,837	4,184	3,175
Operating Expenses	4,900	4,972	3,818
Pre-Provision Operating Profit	6,037	6,517	5,051
Provisions	743	1,434	1,319
Other Income/(Expenses)	14	0	0
PBT	5,308	5,083	3,732
Income Taxes	727	723	453
Net Income to Common Shareholders	4,604	4,238	3,177
Balance Sheet (SGD'mn)			
Total Assets	457,834	481,570	507,766
Total Loans (net)	283,289	301,516	314,135
Total Loans (gross)	286,871	305,415	318,835
Total Allowances	3,582	3,899	4,700
Total NPLs	2,612	4,416	5,500
Total Liabilities	415,038	434,600	459,005
Total Deposits	320,134	347,446	362,102
Total Equity	42,796	46,970	48,761
Key Ratios			
NIM	1.77%	1.80%	1.74%
Cost-income Ratio	45.4%	43.3%	42.5%
LDR	88.5%	86.8%	86.8%
NPL Ratio	0.91%	1.45%	1.73%
Allowance/NPLs	137.1%	88.3%	85.5%
Credit Costs	0.26%	0.47%	0.55%
Equity/Assets	9.35%	9.75%	9.60%
CETier 1 Ratio (Full)	13.5%	14.1%	14.0%
Tier 1 Ratio	13.5%	14.7%	14.8%
Total CAR	15.4%	16.2%	15.6%
ROE	11.2%	10.1%	9.4%
ROA	0.96%	0.92%	0.87%

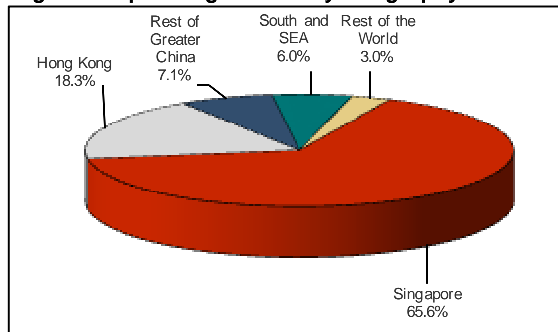
Source: Company

Figure 1: Operating Income by Segment - 9M2017



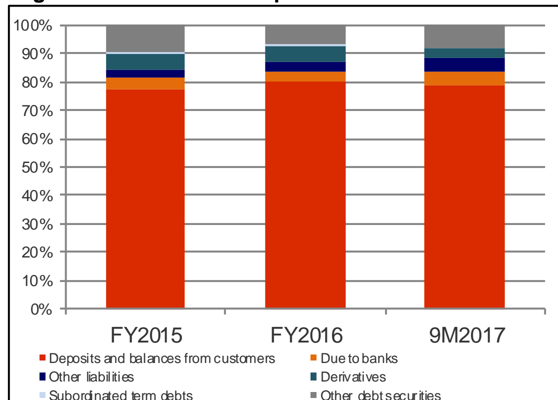
Source: Company | Barclays Non-Core & Head Office made operating losses

Figure 2: Operating Income by Geography - 9M2017



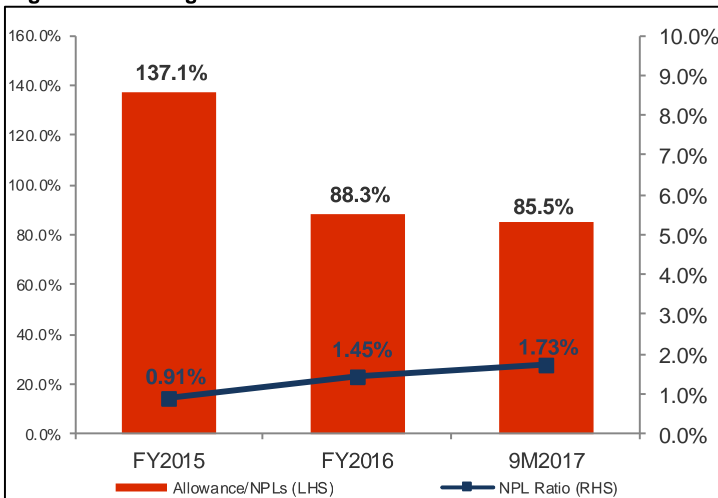
Source: Company | Barclays Non-Core & Head Office made losses before tax

Figure 3: Liabilities Composition



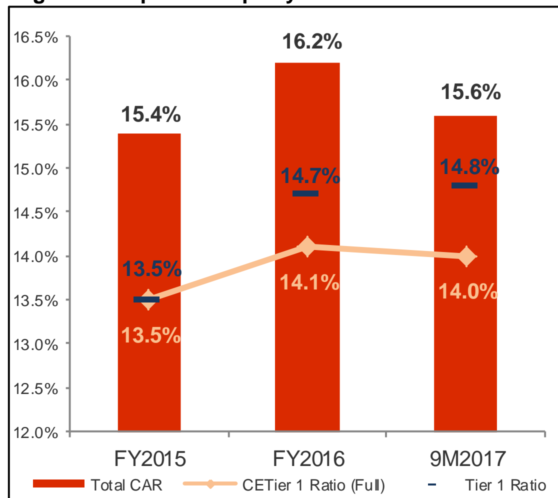
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

HSBC Holdings PLC

Credit Outlook – HSBC offers the strongest scale and diversity within the SGD AT1 space with decent carry. That said, the BAERVX 5.90%-PERPc20s and BAERVX 5.75%-PERPc22s offer slightly better value than the HSBC 4.7%-PERPc22s in our view.

Issuer Profile: Positive (2)

S&P: A/Stable

Moody's: A2/Negative

Fitch: AA-/Stable

Ticker: **HSBC**

Background

HSBC Holdings PLC ('HSBC') is the world's 5th largest bank by asset size as of April 2017 and a global systemically important bank ('GSIB'). Based in London, it is the holding company for the HSBC Group which includes global banking operations across 70 countries through major subsidiaries HSBC Bank PLC (in Europe and the UK) The Hongkong and Shanghai Banking Corporation, Limited (in Asia) amongst others. As at 30 September 2017, it had total assets of USD2,526.2bn.

Key credit considerations

- **Size and operating diversity enhances credit profile:** HSBC's size is a key strength for its credit profile. It operates across five geographical regions (Europe, Asia, Middle East and North Africa, North America and Latin America) and four global businesses (Retail Banking and Wealth Management ('RBWM'), Commercial Banking ('CB'), Global Banking and Markets ('GBM') and Global Private Banking ('GPB')). This makes it the most diversified of the 5 largest banks globally by asset size. While its profitability is largely generated in Asia (74% of adjusted profit before tax for FY2016) with increasing dependence on China, its business segment contributions are more balanced with RBWM, CB and GBM each contributing roughly one third to consolidated adjusted profit before tax (adjusted by management). GPB was recently restructured into a much smaller business with a substantial write-off of the remaining goodwill of the business in Europe. Overall risk profile of HSBC's businesses are sound given the complimentary nature of the segments and HSBC's aim to support CB with the provision of ancillary services to clients through its other segments.

- **Underlying stability in recent results**: HSBC's scale and diversity has by and large translated into underlying earnings stability in recent years. Annual adjusted net operating income over FY2014-FY2016 has remained within 1.5% of the average. Conversely, adjusted profit before tax has shown more volatility due to fluctuation in loan impairment charges, which increased annually over the same period due to weakness in commodities and oil and gas exposures. That said, with size and diversity comes complexity with reported results influenced by abnormals and showing larger variance y/y against net operating income. Significant items have included gains on disposals, elimination of results from disposal of Brazil operations and restructuring and settlement costs. HSBC's global scale also means higher exposure to regulatory risk and litigation with multiple ongoing proceedings globally and provisions for legal proceedings and regulatory matters of USD2.1bn as at 30 Jun 2017.

- **Earnings outlook though is clouded**: HSBC's future earnings are exposed to rising risks in its major economies of the UK (Brexit) and Hong Kong (increasing linkages to China and rising property prices) with both potentially exposed to slower economic growth and rising loan losses. That said, HSBC's loan quality has been improving with isolated weaknesses and the release of general provisions leading to declining reported loan impairments and lower non-performing loan ratios.

- **Strategic repositioning to leverage off of its network:** HSBC's strategic focus is on developing its international network and investing in retail banking and wealth management with local scale to take advantage of shifting wealth to Asia and the Middle East and the growing middle class. This has seen HSBC reduce risk weighted assets through the run off of its US consumer and mortgage lending portfolio and sale of HSBC Bank Brazil while deploying capital into Asia, in particular China, given its better returns. HSBC is also focused on cost savings with a plan to deliver USD6bn in annualized cost savings by the end of 2017.

- **Capital requirements rising but so are ratios:** Restructuring (lower RWAs), ongoing earnings stability, and regulatory changes have improved HSBC's CET1/CAR ratios despite its share buy-back program. That said, HSBC's minimum capital requirements are elevated under both TLAC and MREL regulations. Compliance with future requirements should not be an issue however given earnings resilience and strong access to capital markets. **We are initiating HSBC with a Positive (2) issuer profile.**

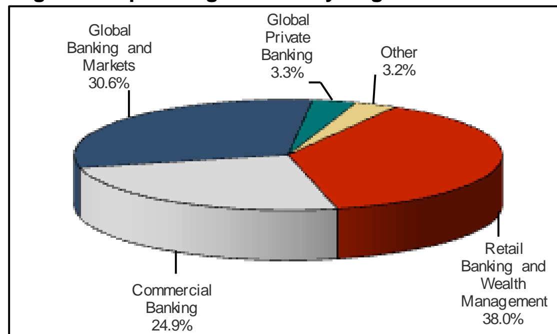
HSBC Holdings PLC

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (USD'mn)			
Net Interest Income	32,531	29,813	20,904
Non Interest Income	27,269	18,153	18,240
Operating Expenses	39,768	39,808	24,989
Pre-Provision Operating Profit	20,032	8,158	14,155
Provisions	3,721	3,400	1,111
Other Income/(Expenses)	2,556	2,354	1,819
PBT	18,867	7,112	14,863
Income Taxes	3,771	3,666	3,310
Net Income to Common Shareholders	13,522	2,479	9,957
Balance Sheet (USD'mn)			
Total Assets	2,409,656	2,374,986	2,526,214
Total Loans (net)	924,454	861,504	945,168
Total Loans (gross)	934,009	869,354	952,650
Total Allowances	9,555	7,850	7,482
Total NPLs	23,758	18,228	NA
Total Liabilities	2,212,138	2,192,408	2,327,470
Total Deposits	1,289,586	1,272,386	1,337,121
Total Equity	197,518	182,578	198,744
Key Ratios			
NIM	1.88%	1.73%	1.63%
Cost-income Ratio	66.5%	83.0%	63.8%
LDR	71.7%	67.7%	70.7%
NPL Ratio	2.54%	2.10%	NA
Allowance/NPLs	40.2%	43.1%	NA
Credit Costs	0.40%	0.39%	0.16%
Equity/Assets	8.20%	7.69%	7.87%
CETier 1 Ratio (Full)	11.9%	13.6%	14.6%
Tier 1 Ratio	13.9%	16.1%	17.4%
Total CAR	17.2%	20.1%	21.0%
ROE	7.2%	0.8%	8.2%
ROA	0.60%	0.10%	0.54%

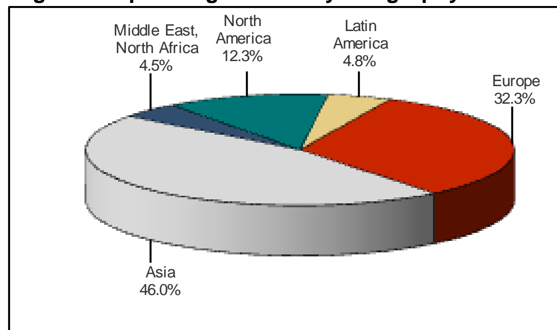
Source: Company

Figure 1: Operating Income by Segment - 9M2017



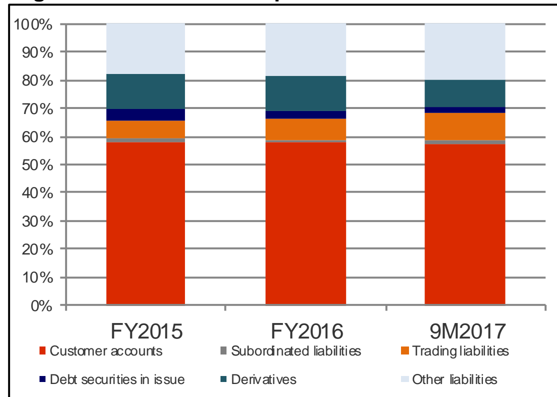
Source: Company

Figure 2: Operating Income by Geography - 9M2017



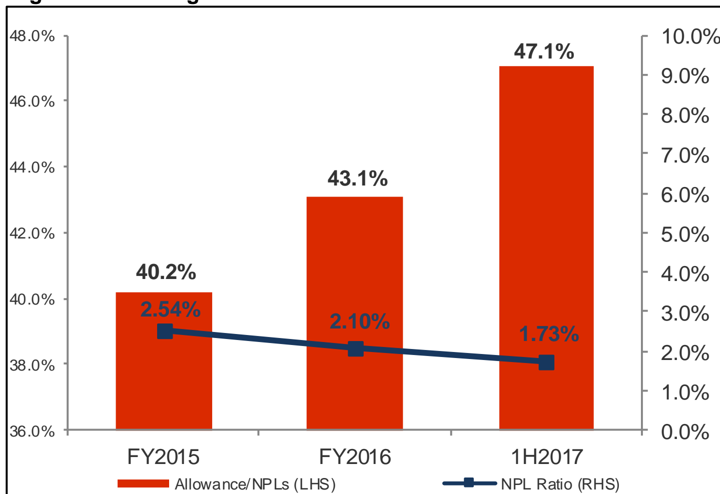
Source: Company | Excludes intra-HSBC items

Figure 3: Liabilities Composition



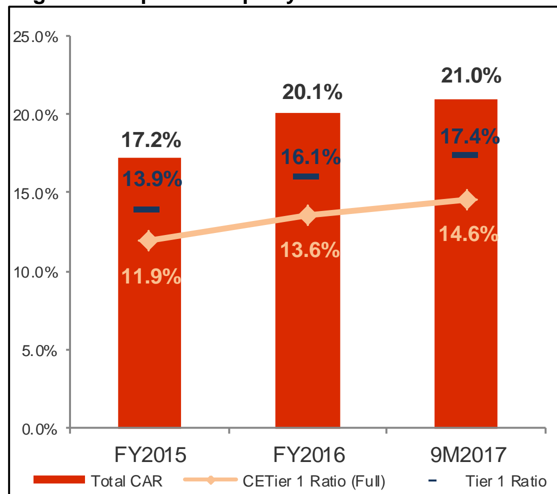
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Julius Baer Group Ltd

Credit Outlook – JBG's AT1s still look relatively attractive in the AT1 space on a carry basis against other SGD AT1s. We tend to favour the BAERVX 5.90%-PERPc20s given the shorter tenor and lower cash price compared to the BAERVX 5.75%-PERPc22s.

Issuer Profile: Neutral (3)

S&P: Not rated

Moody's: A3/Stable

Fitch: Not rated

Ticker: **BAERVX**

Background

Present in over 50 locations, Julius Baer Group Ltd. offers private banking services mainly through Bank Julius Baer & Co. Ltd. Services include wealth management, financial planning and investments and mortgages and other lending. As at 30 June, 2017 it had total client assets of CHF416.5bn and assets under management of CHF354.7bn.

Key credit considerations

- **Pure play private bank:** Julius Baer Group Ltd (JBG)'s business structure is unique amongst our coverage as the only pure play private bank. It is the third largest private bank in its home market Switzerland (after UBS Group and Credit Suisse Group). Its solid franchise and scale, which is mostly in Europe and growing in Asia, provides diversification and support to its credit profile (which otherwise is susceptible to high market risk). In general, pure play private banking is seen as relatively better business risk than investment banking and capital markets businesses (which are more volatile).

- **Management change brings some uncertainty:** Despite the better risk profile, a key vulnerability for private banks is its reliance on the quality of its personnel and their relationships with clients. This has been a source of strength with prior CEO Boris Collardi widely acknowledged as the driving force of JBG's recent growth which has included acquisitions and the expansion of JBG's pool of relationship managers, mostly in Asia. With his resignation to join competitor Pictet Group, JBG's future strategy or the successful execution of the current one, is now somewhat uncertain given Mr Collardi's influence on strategy and the competitive world of Private Banking. New CEO Bernhard Hodler, who is the current Chief Risk Officer and deputy CEO, has indicated that the current strategy will continue and his appointment confirms this continuity. That said, his appointment may not be permanent with JBG also stating it would undertake an evaluation process of the bank's long term leadership.

- **Benefits of prior investments continue to show:** JBG's growth strategy continues to generate results with solid growth in assets under management to record levels, improving cost to income ratios and better margins following a period of elevated investment. Assets under management (AuM) grew by CHF57bn or 17% YTD to a record CHF393bn in its interim management statement for the 10 months ended 31 October 2017 (10M2017) from net inflows as well as market performance and a stronger Euro to the CHF. According to management, the previous investments in relationship managers hired in 2016, mostly in Asia contributed to net new money growth remaining above its target 4-6% range. The rise in AuM has seen ongoing, albeit slight, improvement in cost to income ratios with the cost to income ratio for the first ten months of 2017 below 69% (compared to 69.1% in 1H2017), inching towards JBG's medium term target for cost to income of 64–68%. That said, the gross margin for 10M2017 fell slightly to just below 90bps from 92bps in 1H2017 due to lower FX trading in the second half of 2017 so far.

- **Similar positive trends in capital ratios:** JBG's capital ratios have similarly improved in line with its business profile and profitability. Solid earnings as well as issuance of USD300mn in AT1 capital in September (which according to management carries the lowest coupon of any USD AT1 issue from a European bank) resulted in JBG's CET1/CAR capital ratios at 16.4%/21.8%, remaining well above JBG's management floors of 11%/15% and minimum CET1/CAR regulatory requirements of 8%/12.2%. This should continue to support JBG's ambitions to grow both organically and through acquisitions.

- **Solid fundamentals mitigate the uncertainty:** JBG's current fundamentals should absorb leadership change. We will however continue to monitor developments including any other potential staff movements including JBG's 5 regional heads, who according to the new CEO are more involved in client interactions. This is given the relationship based nature of JBG's business and the potential impact on client numbers and assets under management.

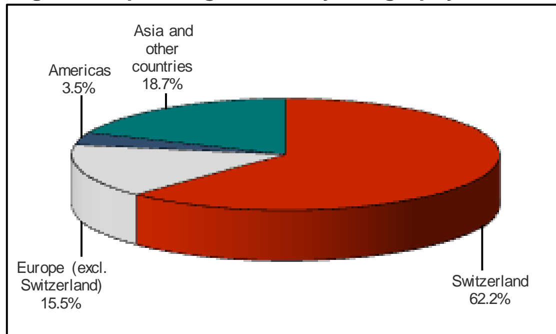
Julius Baer Group Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1H2017
Income Statement (CHF'mn)			
Net Interest Income	712	877	566
Non Interest Income	1,983	1,975	1,026
Operating Expenses	2,022	2,080	1,145
Pre-Provision Operating Profit	673	773	447
Provisions	534	20	8
Other Income/(Expenses)	0	0	0
PBT	139	753	439
Income Taxes	16	130	82
Net Income to Common Shareholders	121	620	353
Balance Sheet (CHF'mn)			
Total Assets	84,116	96,207	93,151
Total Loans (net)	36,381	38,419	40,733
Total Loans (gross)	36,464	38,491	40,774
Total Allowances	90	79	41
Total NPLs	72	83	43
Total Liabilities	79,174	90,853	87,723
Total Deposits	64,781	67,495	65,763
Total Equity	4,942	5,354	5,428
Key Ratios			
NIM	1.56%	1.69%	1.07%
Cost-income Ratio	67.2%	68.9%	69.1%
LDR	56.2%	56.9%	61.9%
NPL Ratio	0.20%	0.22%	0.11%
Allowance/NPLs	124.8%	95.0%	94.5%
Credit Costs	1.46%	0.05%	0.04%
Equity/Assets	5.88%	5.56%	5.83%
CETier 1 Ratio (Full)	18.3%	16.4%	14.9%
Tier 1 Ratio	18.3%	17.1%	18.1%
Total CAR	19.4%	17.5%	18.5%
ROE	2.4%	12.1%	6.5%
ROA	0.15%	0.69%	0.38%

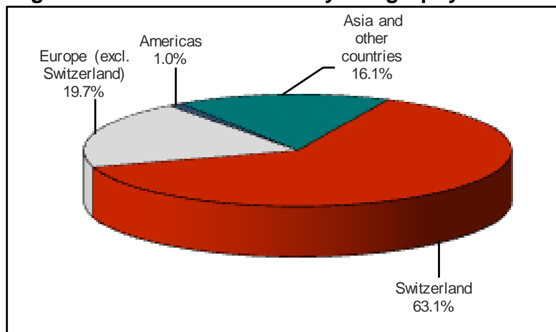
Source: Company

Figure 1: Operating Income by Geography - FY2016



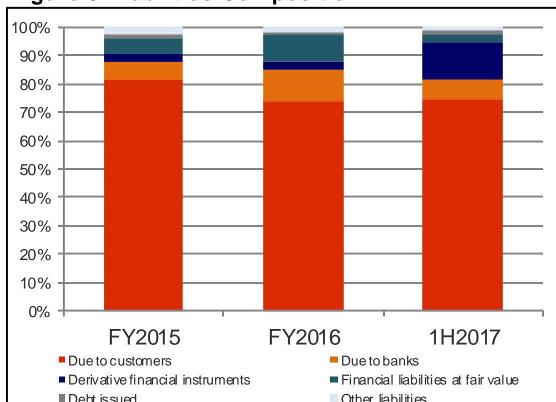
Source: Company | Excludese consolidation items

Figure 2: Asset breakdown by Geography - FY2016



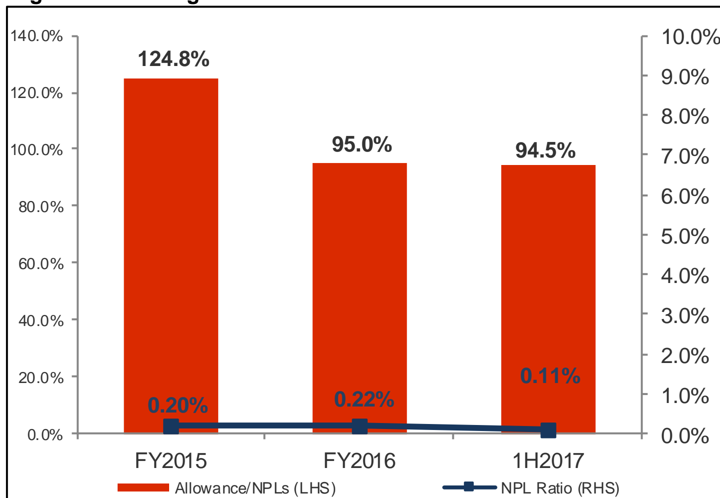
Source: Company | Excludes consolidation items

Figure 3: Liabilities Composition



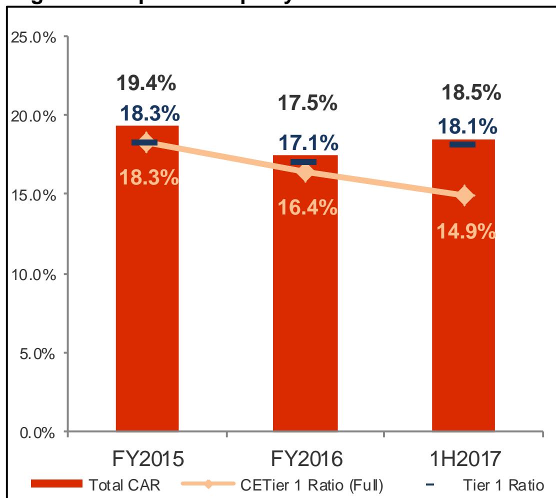
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Landesbank Baden-Württemberg

Credit Outlook – LBBW's credit profile is on the right track although its fundamentals remain challenged. LBBW continues to offer an attractive diversity play in our view although we think the CMZB 4.875% '27c22s offer better value in the German SGD T2 space.

Issuer Profile: Neutral (4)

S&P: Not rated

Moody's: A1/Negative

Fitch: A-/Stable

Ticker: **LBBW**

Background

Based in Stuttgart Germany, Landesbank Baden-Württemberg ('LBBW') is a public law institution providing universal services covering large corporates, capital markets businesses and real estate financing. As at 30 September 2017, it had total assets of EUR254bn. As per its 2016 annual report, the bank is 40.5% owned by the Savings Bank Association of Baden-Württemberg, the state capital of Stuttgart (18.9%) and the State of Baden-Württemberg (40.5%).

Key credit considerations

- **A look through the numbers:** LBBW's summarized results for 9M2017 look decent with operating income up 4.6% or EUR87mn y/y to EUR1.97bn. This was driven almost entirely by net gains from financial instruments measured at fair value through the P&L which rose by EUR164mn. This offset lower net gains from financial investments and net income from investments, as well as higher allowances y/y due to the low base effect in 3Q2016. Other key items include stable net interest income as well as a 3% rise in net fee and commission income. Other expenses were stable as the continued fall in guarantee commissions for the State of Baden-Württemberg was offset by higher restructuring expenses. Segment wise, the Corporates segment continues to generate the bulk of 9M2017 profit before tax (70.4%) but was 13% lower y/y due to higher allowances and higher expenses for IT transformation and restructuring. Transformation expenses also had an impact on LBBW's Retail/Savings bank which generated a loss of EUR20mn while LBBW's capital markets business continues to show the most improvement y/y with profit before tax of EUR209mn up from EUR45mn in 9M2016 due to stronger capital markets and treasury activities. We are mindful that the y/y improvement in results was driven by volatile sources while LBBW's Corporates and Retail/Savings segments continue to face some fundamental headwinds.

- **Solid underlying economy supports balance sheet:** That said, performance continues to be supported by Germany's strong economic fundamentals and Baden-Württemberg's position as one of the largest contributors to Germany's GDP. LBBW's other markets in Rhineland-Palatinate and Saxony are also solid contributors to Germany's output. Germany's solid economic performance from improving domestic demand contributed to overall stable net interest income so far in 2017, with growth in loan and deposit volumes mitigating continuing low interest rates and Germany's competitive banking sector. 1H2017 results provide more details of loan growth with loans and advances to customers up 3.5% in the first 6 months of FY2017, due to higher volumes in securities repurchasing loans, overnight and term money and borrower's note loans (which is being driven by new business). Of note is the fall in mortgage loans to 8.5% in 1H2017.

- **Risk weighted assets to fall:** Despite LBBW's balance sheet growth (total assets up 4.3% in the 9 months to 30 Sep 2017), risk weighted assets ('RWA') were down 3.0% over the same period. This is due to the ongoing wind down of LBBW's Credit Investment segment which has been faster than expected. This segment contains LBBW's legacy credit substitute business and certain distressed loans to an SPV (Sealink Funding) provided during the Global Financial Crisis. This SPV is covered by a guarantee provided by the State of Baden Württemberg so the recently announced sale of this segment will have positive impacts on LBBW's future balance sheet and income statement.

- **Leads to capital ratio improvement:** Lower RWA's along with capital instrument issuance earlier this year contributed to an improvement in LBBW's fully loaded CET1/CAR capital ratios at 15.9%/22.7% as at 3Q2017 compared to 15.2%/21.5% as at FY2016. This is in place of earnings performance which will likely remain muted from somewhat weak operating efficiency and ongoing low interest rates. That said, capital ratios should continue to exceed regulatory minimum capital requirements. LBBW's regulatory requirements have increased in line with the EU's Capital Requirements Regulations, which are set annually by the ECB on the basis of the Supervisory Review and Evaluation Process (SREP) with LBBW's phased in CET1/CAR capital requirement of 8.09%/11.59% from 1 Jan 2017.

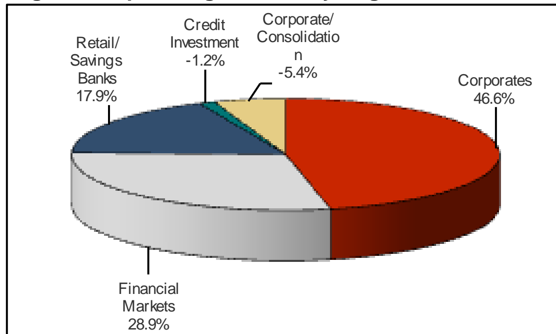
Landesbank Baden-Württemberg

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1H2017
Income Statement (EUR'mn)			
Net Interest Income	1,653	1,624	797
Non Interest Income	933	1,001	546
Operating Expenses	1,782	1,814	897
Pre-Provision Operating Profit	804	811	446
Provisions	55	51	40
Other Income/(Expenses)	19	13	-107
PBT	574	230	309
Income Taxes	109	131	77
Net Income to Common Shareholders	425	11	200
Balance Sheet (EUR'mn)			
Total Assets	234,015	243,627	255,050
Total Loans (net)	107,657	110,404	114,297
Total Loans (gross)	108,785	111,232	115,109
Total Allowances	1,121	817	802
Total NPLs	1,919	1,218	1,089
Total Liabilities	220,372	230,468	241,885
Total Deposits	62,540	70,641	84,786
Total Equity	13,643	13,126	13,164
Key Ratios			
NIM	0.83%	0.81%	0.79%
Cost-income Ratio	70.9%	74.3%	71.6%
LDR	172.1%	156.3%	134.8%
NPL Ratio	1.76%	1.10%	0.95%
Allowance/NPLs	58.4%	67.1%	73.6%
Credit Costs	0.05%	0.05%	0.07%
Equity/Assets	5.82%	5.37%	5.14%
CETier 1 Ratio (Full)	15.6%	15.2%	15.8%
Tier 1 Ratio	NA	NA	NA
Total CAR	21.4%	21.5%	22.6%
ROE	4.1%	1.1%	4.4%
ROA	0.19%	0.04%	0.18%

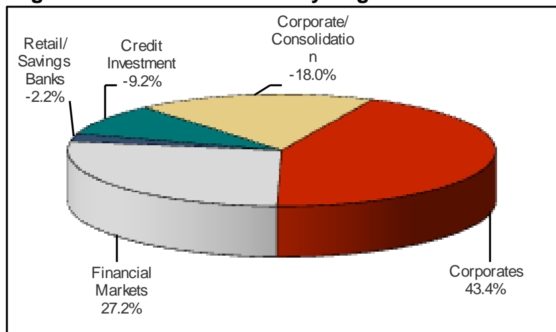
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - 1H2017



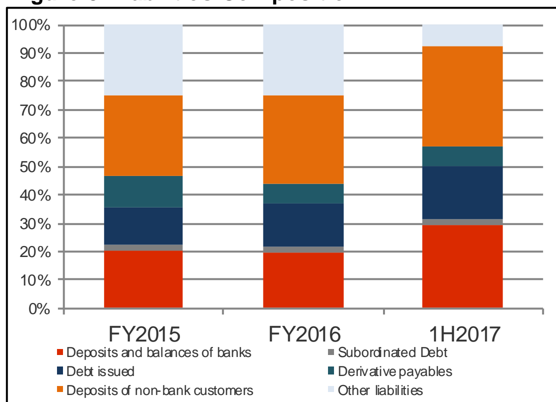
Source: Company | Credit Investment & Corporate made operating loss

Figure 2: Profit Before Tax by Segment - 1H2017



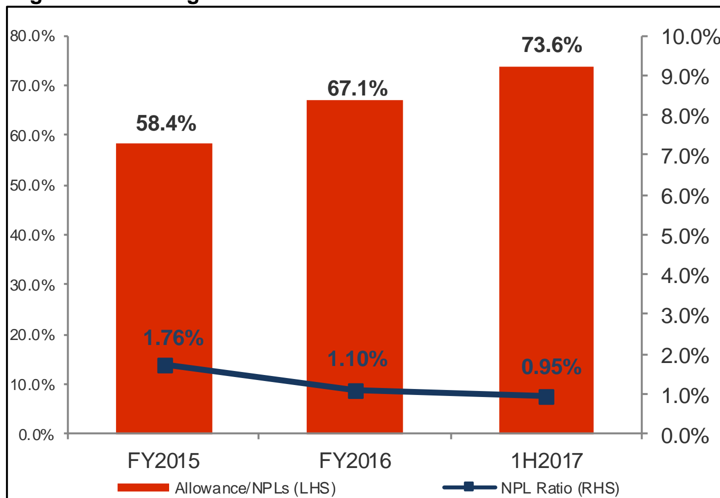
Source: Company | Credit Investment & Corporate made loss before tax

Figure 3: Liabilities Composition



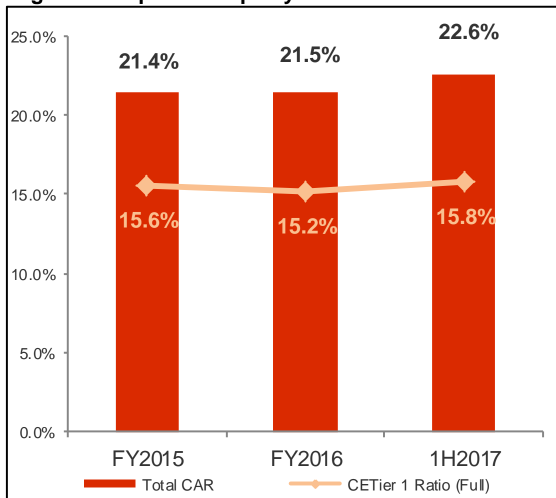
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – Maybank's fundamentals remain sound with the bank well poised to take advantage of improved operating conditions in Malaysia. With the MAYMK 6.0%-PERPc18s approaching first call date, investors may want to move to the European Tier 2 space and look at the ABNANV 4.75% '26c21s.

Issuer Profile: Neutral (3)

S&P: A-/Stable

Moody's: A3/Stable

Fitch: A-/Stable

Ticker: **MAYMK**

Background

Malayan Banking Berhad ('Maybank') is the largest financial services group in Malaysia and 4th largest in ASEAN. It is organized into three operating segments: Group Community Financial Services, Group Global Banking and Group Insurance and Takaful. As at 30 September 2017, it had total assets of MYR766.0bn. It is owned both directly and indirectly by the Malaysian government.

Malayan Banking Berhad

Key credit considerations

- **Balanced earnings growth continues:** 3Q2017 total operating income growth of 8.7% y/y and 1.4% q/q was due to balanced growth across net interest income (+8.6% y/y due to loans growth), Islamic banking (+24.3% y/y from higher fees) and net earned insurance premiums (+28.4% y/y due to higher insurance premiums). Other operating income was down 12% y/y and 1.8% q/q due to lower other income which overshadowed an 18.9% y/y and 15.1% q/q rise in commissions. 9M2017 results were also sound with total operating income up 7.1% y/y due to broad based growth (higher net interest margins and loan volumes) while operating profit was up 19.3% y/y due to lower provisions y/y (-20.6% y/y). Segment wise, Community Financial Services continues to drive better y/y performance for 9M2017 (due to higher net interest income and lower impairments) along with better performance in Insurance and Takaful and head office and others. Conversely, Corporate Banking & Global Markets and Investment Banking performance continues to be somewhat depressed from lower other operating income and higher expenses.

- **Economic momentum pushing balance sheet:** Maybank's balance sheet has expanded with Malaysia's solid economic growth from a pick-up in economic activity, with total assets up 7.2% y/y and net loans and advances up 5.2% y/y. While q/q growth was lower (net loans and advances up 1.2%), normalized q/q growth (which excludes FX translation effects) in group loans of 1.6% was the first q/q rise in FY2017. Loan growth continues to be focused on housing loans, hire purchase receivables and revolving credits although other segment loans also increased. Roughly half of new loans have been provided to individuals with key uses of loans being for the purchase of transport vehicles and landed properties. These uses represent a better risk profile than Maybank's entire portfolio with the gross non-performing loan ratio for purchase of transport vehicles and landed properties at 0.67% and 1.22% respectively. Conversely Maybank's overall gross non-performing loan ratio (which includes restructured and rescheduled loans as well as performing loans impaired due to judgmental/obligatory triggers) was at 2.50% as at 30 Sep 2017. NPL ratios continue to be burdened by elevated NPL ratios in Business Banking and Corporate Banking (12.2% and 11.0% respectively as at 30 Sep 2017). That said, management has indicated that the YTD growth rates in gross impaired loans are slowing and NPL ratios have stabilized.

- **Liability side also driving earnings:** Maybank's improved net interest margin performance y/y for 9M2017 (+13bps to 2.39%) was due not only to loans growth but also to better funding sources with overall deposit growth of 2.7% y/y. Lower cost savings and demand deposits grew 11.4% and 6.3% respectively while fixed deposits & negotiable instruments of deposit and structured deposits fell 3.2% collectively y/y. Similarly, money market deposits have almost doubled y/y and now contribute 4.0% to total deposit balances.

- **And ends with capital ratios:** Maybank's capital ratios remain solid and well above minimum requirements with CET1/CAR ratios after proposed dividend at 13.5%/18.0% for 3Q2017 (13.6%/19.0% for 2Q2017; 14%/19.3% for FY2016). Ratios were weaker q/q due to lower retained earnings and reserves, higher dividend payments and redemption of subordinated debt and stable risk weighted assets. Although loan quality concerns persist given a material exposure to oil and gas compared to domestic peers, Maybank's strong market position places the bank well to take advantage of expected improvement in domestic operating conditions in 2018.

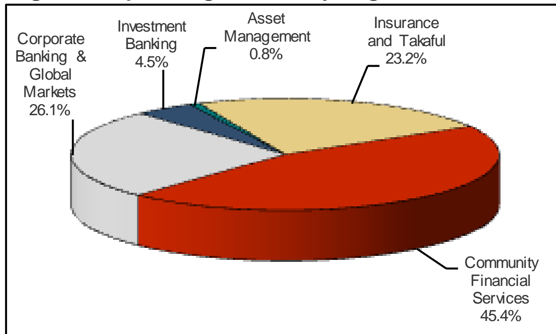
Malayan Banking Berhad

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (MYR'mn)			
Net Interest Income	11,114	11,568	9,125
Non Interest Income	13,908	14,803	11,988
Operating Expenses	14,069	14,685	12,335
Pre-Provision Operating Profit	10,953	11,686	8,778
Provisions	2,013	3,015	1,788
Other Income/(Expenses)	211	173	182
PBT	9,152	8,844	7,172
Income Taxes	2,165	1,881	1,626
Net Income to Common Shareholders	6,836	6,743	5,388
Balance Sheet (MYR'mn)			
Total Assets	708,345	735,956	766,006
Total Loans (net)	453,493	477,775	477,185
Total Loans (gross)	459,651	485,736	485,895
Total Allowances	6,158	7,961	8,710
Total NPLs	8,555	11,055	12,155
Total Liabilities	644,831	665,481	691,875
Total Deposits	478,151	489,833	490,372
Total Equity	63,513	70,475	74,131
Key Ratios			
NIM	2.31%	2.27%	2.39%
Cost-income Ratio	48.2%	47.3%	49.1%
LDR	94.8%	97.5%	97.3%
NPL Ratio	1.86%	2.28%	2.50%
Allowance/NPLs	72.0%	72.0%	71.7%
Credit Costs	0.44%	0.62%	0.49%
Equity/Assets	8.97%	9.58%	9.68%
CETier 1 Ratio (Full)	12.8%	14.0%	13.4%
Tier 1 Ratio	14.5%	15.7%	15.1%
Total CAR	17.7%	19.3%	18.0%
ROE	12.2%	10.6%	10.3%
ROA	1.15%	0.93%	0.94%

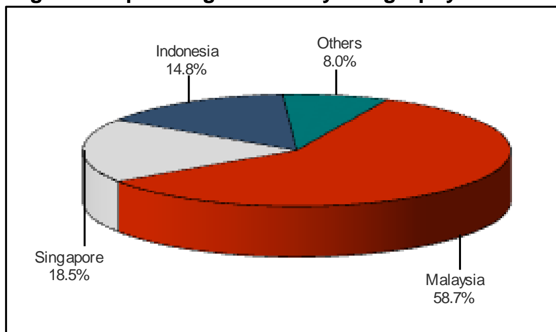
Source: Company

Figure 1: Operating Income by Segment - 9M2017



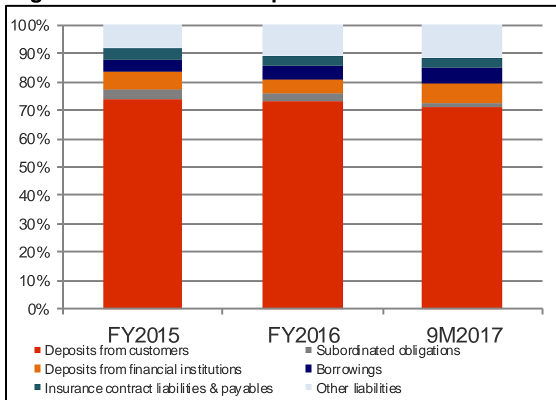
Source: Company

Figure 2: Operating Income by Geography - 9M2017



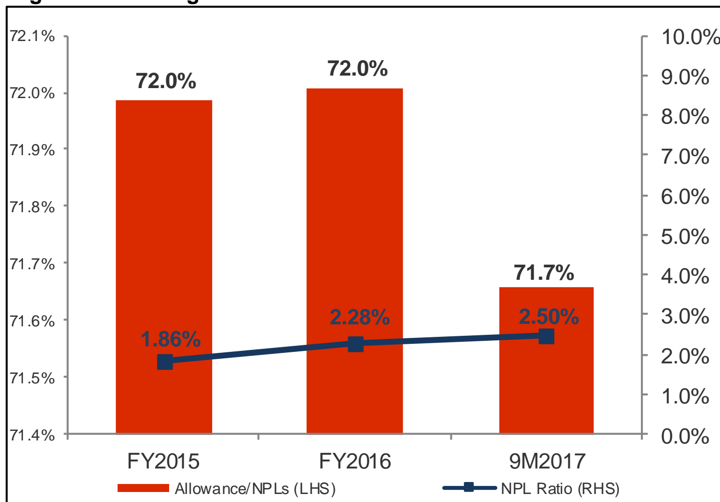
Source: Company

Figure 3: Liabilities Composition



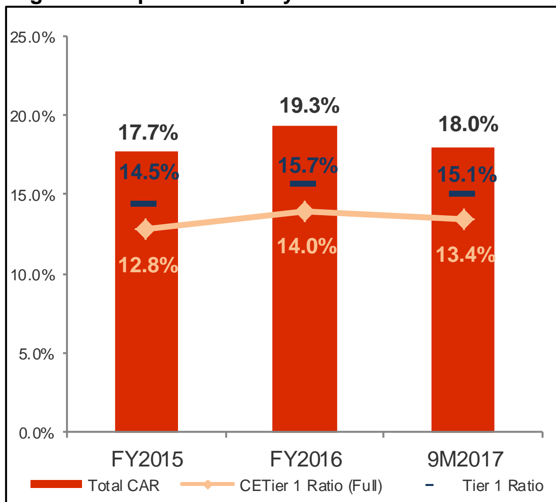
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – NAB's performance remains resilient as management continues to reinforce future earnings. The NAB 4.15 '28c23s is slightly rich compared to the WSTP '27c22s and fairly valued against the ANZ 3.75% '27c22s in our view, notwithstanding ANZ's better capital ratios.

Issuer Profile: Positive (2)

S&P: AA-/Negative

Moody's: Aa3/Stable

Fitch: AA-/Stable

Ticker: **NAB**

Background

National Australia Bank Ltd ('NAB') provides retail, business and corporate banking services mostly in Australia but also in New Zealand under the Bank of New Zealand brand. These services are complimented by the bank's wealth management division which provides superannuation, investment and insurance services under various brands. As at 30 September 2017, the bank had total assets of AUD788.3bn.

National Australia Bank Limited

Key credit considerations

- **Volumes supporting earnings:** NAB's FY2017 cash earnings were up 2.5% y/y to AUD6.6bn. Supporting earnings was a 2.7% jump in revenues from growth in housing and business lending which offset a 3bp fall in net interest margins (net interest income was +1.8% y/y). Markets and treasury income also boosted revenue performance with other operating income up 5.0% y/y. Expenses were up 2.6% (1.5% excluding redundancies) due to higher investment which was partially offset by productivity savings. Expenses are expected to remain elevated as the bank continues to transform its business to achieve better returns through increased digitization and optimizing its workforce. Cash earnings improvement was broad based across divisions with Consumer Banking & Wealth (+4.3% y/y) benefitting from volume growth and improved asset quality while Business & Private Banking (+6.3%) also saw lending growth and higher margins (though exposed to higher loan impairment charges y/y). Corporate & Institutional Banking cash earnings improved 12.3% y/y due to lower expenses and a material reduction in loan impairments while NZ Banking cash earnings improved 8.9% due to net interest income growth and lower impairments.

- **Higher credit costs pre-emptive:** While loan impairment charges rose 1.3% y/y to AUD810mn, they represented a smaller proportion of gross loans and acceptances compared to FY2016 due to solid growth in lending. As such, the higher credit costs can be seen as more proactive in nature and related to the implementation of IFRS9. Of note is that more than 30% of the charges were collective in nature. Supporting this assertion is that asset quality trends have improved with the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances down 15bps to 0.70%. Key supports of the better asset quality according to NAB were improved operating conditions in New Zealand Dairy exposures and the successful work-out of impaired business loans in Australia. That said, loan quality is expected to weaken (albeit from a position of strength) from economic imbalances stemming from still low wage growth, elevated household debt and potentially higher interest rates.

- **Focus on mortgage lending:** Trends in NAB's Australia housing lending metrics in FY2017 were positive. Variable rate loans have reduced y/y while fixed rate increased. Similarly, owner occupier loans marginally increased and investor loans dropped while interest only loans dropped to 29.8% from 32.1% in FY2016. Such movements are in line with the Australian Prudential Regulation Authority's (APRA) directions earlier this year to counter rising risks in Australia's housing sector by limiting the proportion of interest only residential mortgage loans and cap lending growth for residential investment loans.

- **Capital ratios lagging but no concern**: Although having lower ratios than domestic peers, NAB remains well-capitalised with its FY2017 APRA–compliant CET1 ratio at 10.1%, up by 30bps y/y. On an internationally comparable basis, NAB's CET1 capital ratio was 14.5% while other regulatory ratios (leverage ratio, liquidity coverage ratio, net stable funding ratio) remain sound and above current and future minimum requirements. NAB's earnings were the key driver for the improved capital ratios and mitigated dividends paid (net of the dividend reinvestment scheme) and higher risk weights on mortgages. Although the current CET1 ratio is below APRA's recently announced minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios in Australia's banking sector, NAB expects to be able to meet the minimum requirement by the time it comes into force (January 2020). This follows recent efforts to improve returns which saw FY2017 as a year of consolidation following the divestment of low return businesses in prior years.

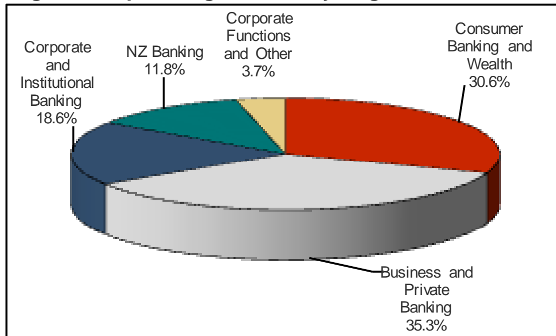
National Australia Bank Limited

Table 1: Summary Financials

Year Ended 30th Sep	FY2015	FY2016	FY2017
Income Statement (AUD'mn)			
Net Interest Income	12,462	12,930	13,182
Non Interest Income	5,975	5,192	4,842
Operating Expenses	8,189	8,331	8,539
Pre-Provision Operating Profit	10,248	9,791	9,485
Provisions	733	813	824
Other Income/(Expenses)	0	0	0
PBT	9,515	8,978	8,661
Income Taxes	2,709	2,553	2,480
Net Income to Common Shareholders	6,338	352	5,285
Balance Sheet (AUD'mn)			
Total Assets	955,052	776,710	788,325
Total Loans (net)	532,784	510,045	540,125
Total Loans (gross)	537,165	513,691	543,764
Total Allowances	3,520	3,114	3,224
Total NPLs	2,050	2,642	1,724
Total Liabilities	899,539	725,395	737,008
Total Deposits	489,010	459,714	500,604
Total Equity	55,513	51,315	51,317
Key Ratios			
NIM	1.89%	1.88%	1.85%
Cost-income Ratio	41.2%	42.7%	42.7%
LDR	109.0%	110.9%	107.9%
NPL Ratio	0.38%	0.51%	0.32%
Allowance/NPLs	171.7%	117.9%	187.0%
Credit Costs	0.14%	0.16%	0.15%
Equity/Assets	5.81%	6.61%	6.51%
CETier 1 Ratio (Full)	10.2%	9.8%	10.1%
Tier 1 Ratio	12.4%	12.2%	12.4%
Total CAR	14.2%	14.1%	14.6%
ROE	15.2%	0.5%	10.9%
ROA	0.73%	0.74%	0.79%

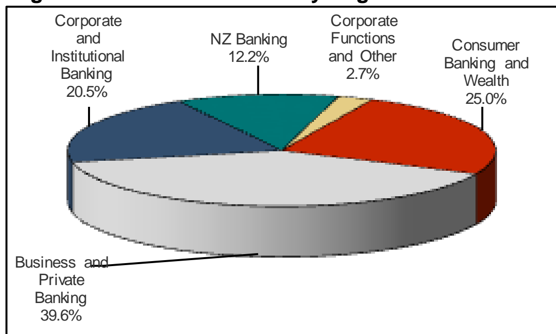
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - FY2017



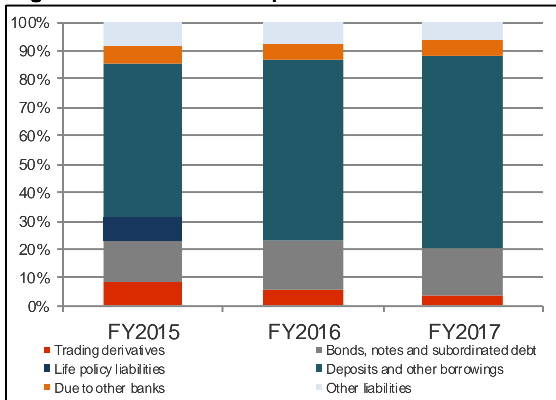
Source: Company

Figure 2: Profit Before Tax by Segment - FY2017



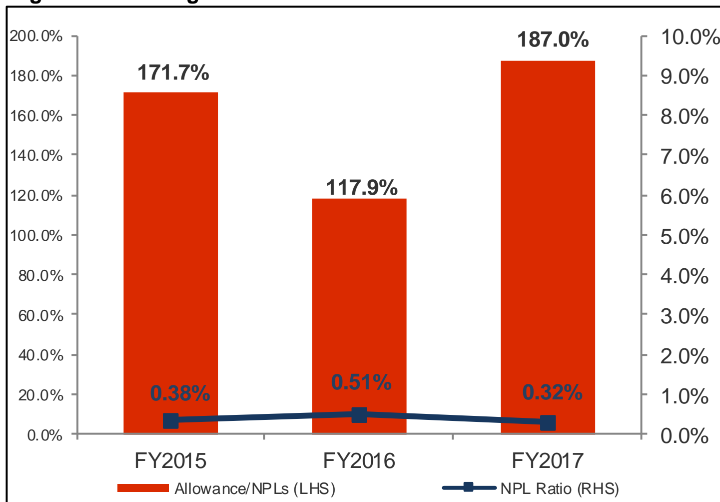
Source: Company

Figure 3: Liabilities Composition



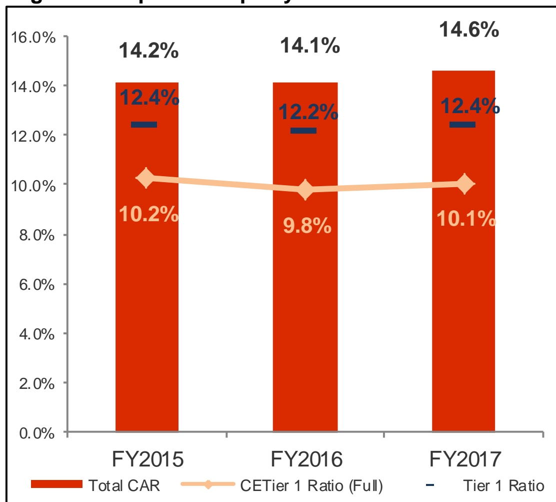
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – SG's FY2017 performance has been comparatively weak compared to prior year's stable results. Future results may not improve soon given its strategic plans. That said, the SOCGEN 4.3% '26c21s seems fairly valued in the SGD T2 space.

Issuer Profile: Neutral (4)

S&P: A/Stable

Moody's: A2/Stable

Fitch: A/Stable

Ticker: **SOCGEN**

Background

Headquartered in Paris, Société Générale ('SG') offers advisory services and financial solutions to individuals, large corporates and institutional investors. It operates across 66 countries through three core businesses covering retail banking, corporate and investment banking, private banking, and wealth management. As at March 31, 2017, it had total assets of EUR1,338.7bn.

Société Générale

Key credit considerations

- **Balanced businesses undermined by industry dynamics:** SG's 3Q2017 results were comparatively soft with net banking income down 0.9% y/y to EUR5.96bn. As per prior quarters, overall group performance was held back by soft performance in French Retail Banking which fell 5.0% due to a 13.9% y/y fall in net interest income from low interest rates and an exceptional adjustment for hedging costs. This was only partially offset by a 4% y/y rise in commissions in brokerage and life insurance. Global Banking and Investor Solutions was also soft, down 14.9% y/y from lower trading activity and asset and wealth management income, although financing and advisory revenues were stable. International Retail Banking & Financial Services however continues to perform solidly with net banking income up 3.8% y/y due to broad based improvement across retail banking and insurance with loans growth in Europe. Operating expenses were contained and actually fell y/y for 3Q2017 by 0.4% as cost savings plans in Global Banking & Investor Solutions mitigated ongoing retail banking investments. However due to the higher fall in net banking income, gross operating income fell 1.9% y/y to EUR1.96bn.

- **Underlying fundamentals sound but litigation still a drag:** SG's underlying commercial cost of risk continues to improve in line with better operating conditions at all of SG's business segments. In line with the lower cost of risk, SG's reported gross doubtful outstandings ratio was lower y/y at 4.5% for 3Q2017 (3Q2016: 5.1%). However with risk costs falling further than gross doubtful outstandings, the reported gross coverage ratio for doubtful outstandings fell to 62% in 3Q2017 against 65% for 3Q2016. Reported cost of risk however was up 22.8% to EUR512mn as it includes an additional EUR300mn provision for litigation disputes with the US Government/Libyan Investment Authority ('LIA') litigation as well as litigation related to LIBOR rigging). This follows a previous settlement with the LIA in 1H2017 of EUR963mn. SG subsequently announced that French prosecutors have now also opened investigations into SG's dealings with LIA and possible breaches of France's anti-corruption laws through use of bribery. SG's litigation reserves stood at EUR2.2bn in its 3Q2017 results with settlement talks ongoing with the US Justice Department to settle the LIA and LIBOR cases. While settlement amounts are hard to predict, there remains the potential for further provisions to be made in future results. This will add pressure to earnings which already face strain from weak domestic operating conditions and lower trading volumes.

- **Capital ratios insulate credit profile for now:** The counter to industry dynamics and litigation potential is SG's current solid CET1 capital ratios, which are above its 2019 minimum requirement of 19.5%. CET1 ratios have actually improved marginally from FY2016 with 3Q2017 fully loaded CET1/CAR ratios at 11.7%/17.6% (FY2016: 11.5%/17.9%) from a combination of earnings generation and lower risk weighted assets. Including senior non-preferred debt issues and other TLAC adjustments (senior preferred and others), SG's reported TLAC ratio was 21.6% as at 30 September 2017.

- **New strategic plan to meet challenges in the future:** SG's recently announced 2020 Strategic and Financial Plan is built on 5 key strategic and operational priorities – grow, accelerate digital business transformation, strict cost discipline, refocusing of the group, and fostering a culture of responsibility. As the new plan's broad theme is to focus on growth and digital transformation to reduce costs and improve profitability, SG's branch network and workforce will be rationalized. As such, SG expects to record exceptional charges beginning in 4Q2017. This will dent SG's full year and future profitability.

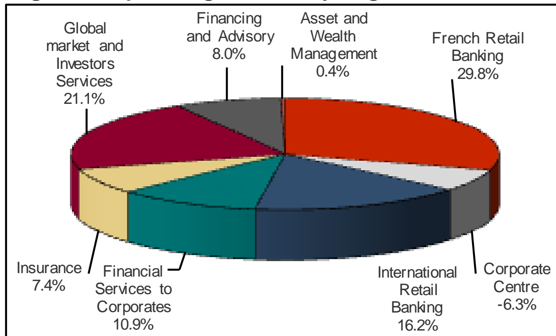
Société Générale

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (EUR'mn)			
Net Interest Income	9,306	9,467	17,631
Non Interest Income	16,333	15,831	
Operating Expenses	16,893	16,817	12,814
Pre-Provision Operating Profit	8,746	8,481	4,817
Provisions	3,065	2,091	880
Other Income/(Expenses)	428	-83	86
PBT	6,109	6,307	4,023
Income Taxes	1,714	1,969	1,150
Net Income to Common Shareholders	4,001	3,874	2,737
Balance Sheet (EUR'mn)			
Total Assets	1,334,391	1,382,241	1,338,700
Total Loans (net)	405,252	426,501	412,200
Total Loans (gross)	461,000	479,100	472,862
Total Allowances	15,700	15,200	13,200
Total NPLs	24,600	23,955	21,400
Total Liabilities	1,271,716	1,316,535	1,273,800
Total Deposits	379,631	421,002	396,700
Total Equity	62,675	65,706	64,800
Key Ratios			
NIM	0.80%	0.79%	NA
Cost-income Ratio	67.7%	65.6%	55.0%
LDR	106.7%	101.3%	103.9%
NPL Ratio	5.34%	5.00%	4.53%
Allowance/NPLs	63.8%	63.5%	61.7%
Credit Costs	0.66%	0.44%	0.25%
Equity/Assets	4.70%	4.75%	4.84%
CETier 1 Ratio (Full)	10.9%	11.5%	11.7%
Tier 1 Ratio	13.5%	14.5%	14.3%
Total CAR	16.3%	17.9%	17.6%
ROE	7.9%	7.3%	6.6%
ROA	0.30%	0.29%	0.24%

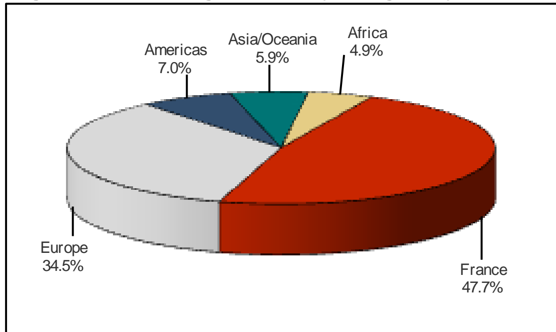
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - FY2016



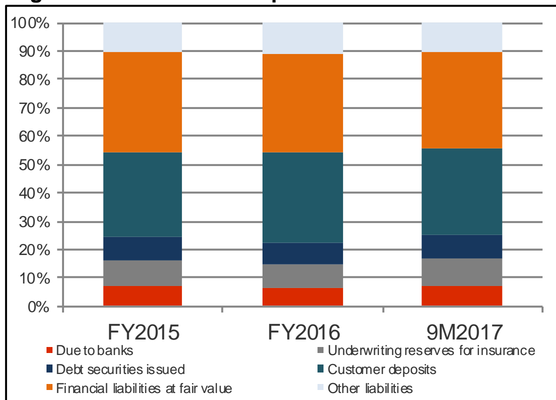
Source: Company

Figure 2: Operating Income by Geography - FY2016



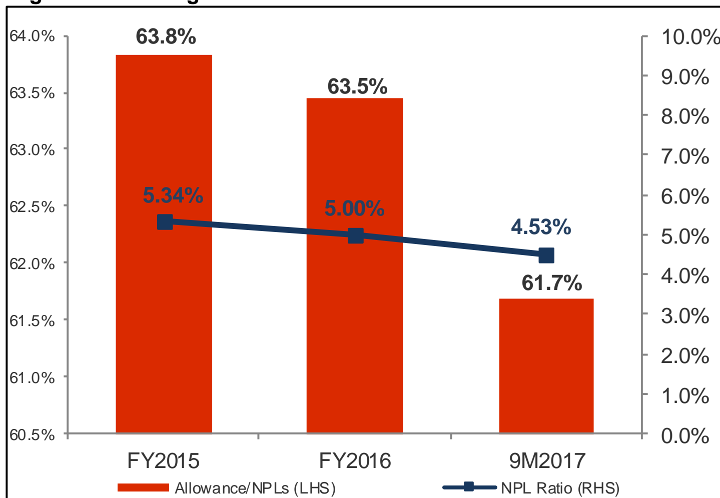
Source: Company | excludes intra-HSBC items

Figure 3: Liabilities Composition



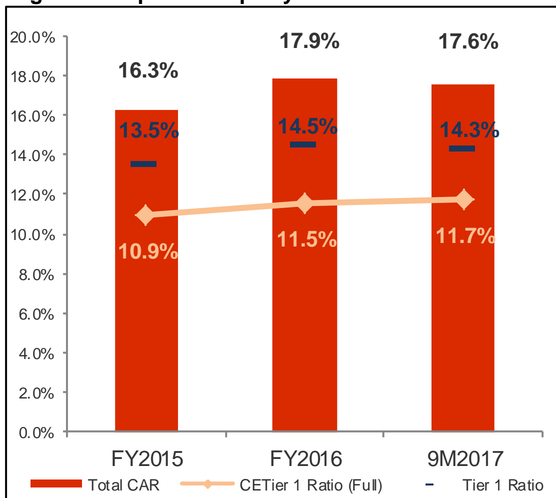
Source: Company | OCBC estimates

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – StanChart's ongoing focus on emerging markets raises its business risk in our view. While the carry on the STANLN 4.4% '26c21s is relatively high in the SGD T2 space, we like other names with better fundamentals, in particular the ABNANV 4.75% '26c21s and BPCEGP 4.5% '26c21s.

Issuer Profile: Neutral (4)

S&P: BBB+/Stable

Moody's: A2/Stable

Fitch: A+/Negative

Ticker: **STANLN**

Background

Formed almost 50 years ago though the merger of The Chartered Bank and The Standard Bank Ltd., Standard Chartered PLC ('StanChart') is one of 30 global systemically important institutions. As a universal bank, it offers broad services aligned both globally and regionally. As at 30 September, it had total assets of USD657.6bn. It's largest shareholder is Temasek Holdings Private Ltd at ~16% followed by various investors including Standard Life Aberdeen Plc, Franklin Resources and Blackrock, Inc.

Standard Chartered PLC

Key credit considerations

- **Footprint anchored on heritage:** Although headquartered in the UK, StanChart's footprint is skewed towards emerging markets. As per its 2H2017 results, 39% of reported operating income was generated in Greater China & North Asia (mostly Hong Kong, then Korea, China, Taiwan, Japan and Mongolia), followed by 27% in ASEAN & South Asia (mostly Singapore and India) and 19% in Africa & the Middle East (mostly United Arab Emirates). Europe & America contributed the lowest at 11%. Geographic contributions are broadly similar in FY2016 results. StanChart's geographic focus is likely due to a mix of (1) its parentage as a merger of two banks established and historically focused on North & South Asia and Africa; and (2) a continued focus on emerging markets given their higher growth potential.

- **Global breadth but local depth:** Balancing its geographic reach, StanChart has organized into four client segments with geographic focus depending on the nature of its business. Corporate & Institutional Banking ('CIB') and Private Banking ('PB') segments operate on a global platform while Commercial Banking ('CB') and Retail Banking ('RB') operate on a regional level (with global co-ordination on segment strategy). This structure fits into StanChart's strategy of focusing on clients and leveraging on its international network and local knowledge to build long term relationships. CIB is the major contributor to 2H2017 operating income by segment at 45%, while RB contributes 33% and CB and PB contribute 9% and 3% respectively. Transaction banking contributes the most to CIB by product followed by Financial Markets and Corporate Finance. Retail banking is further split by geography with Greater China & North Asia contributing more than half of 2H2017 segment operating income.

- **Higher risk has not led to higher returns:** StanChart's higher risk focus on corporates in emerging markets has not brought adequate rewards with strong historical revenue growth over 2010-2013 resulting in high credit costs and weaker profitability over 2014-2016. This is especially the case in StanChart's commodities (mining, trading, energy) exposures with credit costs and non-performing loan ratios peaking in 2015. In addition, the bank was impacted by one-off costs related to asset writedowns, goodwill impairments and restructuring charges and generated year end losses in 2015 and 2016.

- **Strategy seeking to right the ship:** To address historical short comings, StanChart implemented a strategic plan in late 2015. Key aspects of the review included a rights issue, reducing its risk appetite and loan book (particularly at the lower end of the credit scale), restructuring CIB and CB to improve returns and investing in PB and RB to expand opportunities. This plan came with 'trade-offs' although cost efficiencies achieved somewhat offset higher restructuring costs. Geographically, StanChart is investing in Africa and expansion in China, recently announcing ~USD20bn in financing for China's Belt and Road projects. Since the strategy implementation, the trend in StanChart's results has been positive. While revenue growth remains somewhat weak, bottom line results show improvement due to lower credit costs. Operating costs though remain somewhat elevated due to higher regulatory and investment expenditure.

- **Capital position a foundation:** Despite weaker earnings and constrained capital levels, StanChart's capital ratios have been broadly improving. This has been due to the reduction in risk weighted assets (mostly in CIB) and issuance of capital instruments. Its current CET1 capital ratio of 13.6% as at 3Q2017 remains above the bank's target range of 12-13% and its 2019 minimum requirement of 10.0%. **We are initiating StanChart with a Neutral (4) issuer profile.**

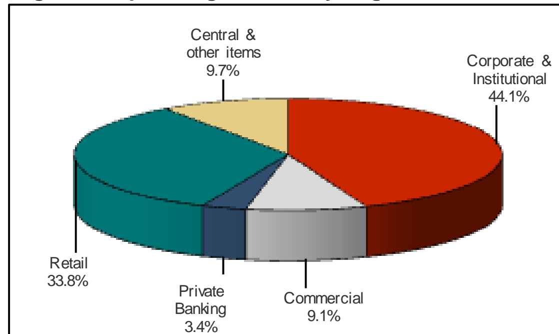
Standard Chartered PLC

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	1H2017
Income Statement (USD'mn)			
Net Interest Income	9,407	7,794	3,966
Non Interest Income	5,882	6,266	3,255
Operating Expenses	11,173	10,211	4,870
Pre-Provision Operating Profit	4,116	3,849	2,351
Provisions	4,976	2,791	655
Other Income/(Expenses)	192	-37	151
PBT	-668	1,021	1,847
Income Taxes	673	600	548
Net Income to Common Shareholders	-2,194	-247	1,196
Balance Sheet (USD'mn)			
Total Assets	640,483	646,692	657,638
Total Loans (net)	257,356	252,719	265,539
Total Loans (gross)	268,083	262,250	275,438
Total Allowances	6,680	6,354	6,648
Total NPLs	12,759	9,687	9,922
Total Liabilities	591,971	598,034	606,276
Total Deposits	350,633	371,855	392,139
Total Equity	48,512	48,658	51,362
Key Ratios			
NIM	1.70%	1.50%	1.60%
Cost-income Ratio	73.1%	72.6%	67.4%
LDR	73.4%	68.0%	67.7%
NPL Ratio	4.76%	3.69%	3.60%
Allowance/NPLs	52.4%	65.6%	67.0%
Credit Costs	1.86%	1.06%	0.48%
Equity/Assets	7.57%	7.52%	7.81%
CETier 1 Ratio (Full)	12.6%	13.6%	13.8%
Tier 1 Ratio	14.1%	15.7%	16.2%
Total CAR	19.5%	21.3%	21.3%
ROE	-0.4%	0.3%	5.2%
ROA	-0.30%	0.00%	0.39%

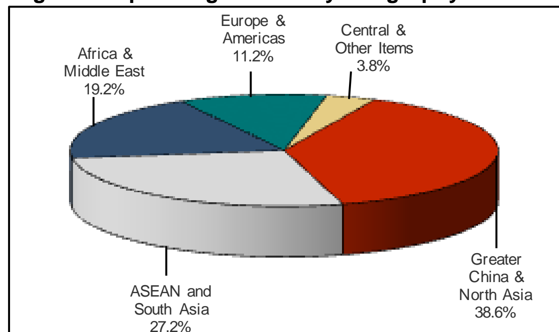
Source: Company, OCBC estimates

Figure 1: Operating Income by Segment - 1H2017



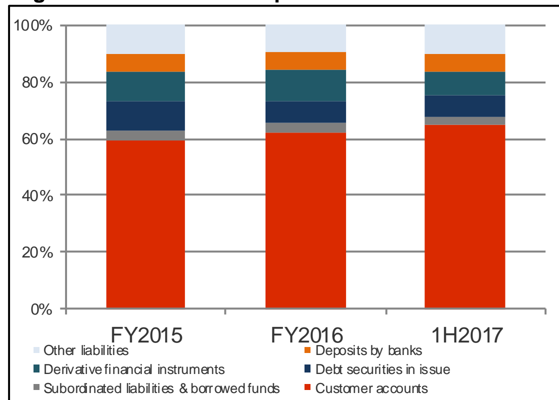
Source: Company

Figure 2: Operating Income by Geography - 1H2017



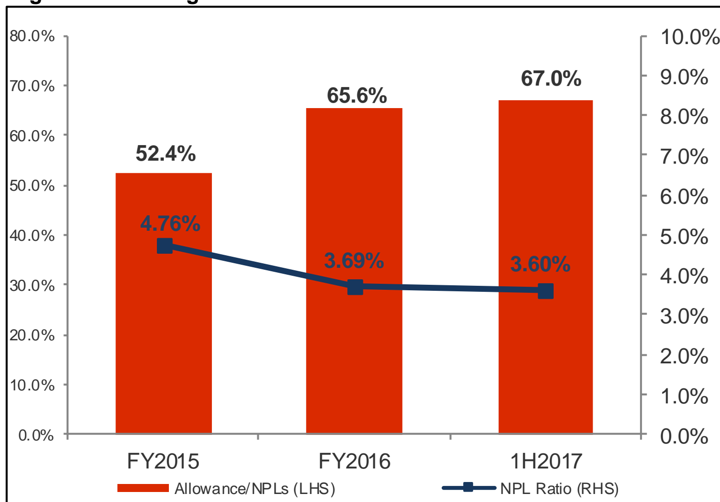
Source: Company

Figure 3: Liabilities Composition



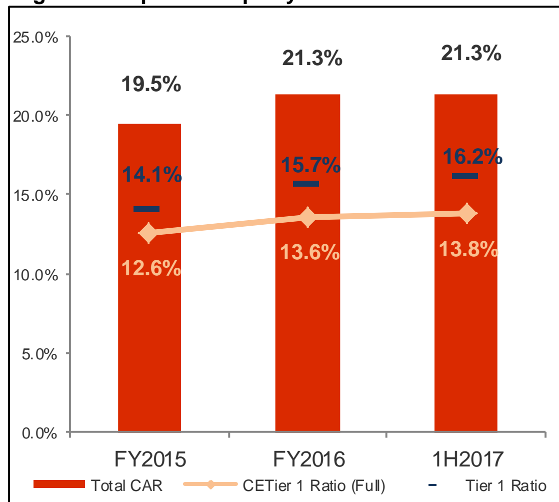
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – UOB's performance should benefit from improved economic conditions in its core markets. With generally improving operating conditions in other bank names, we think there is better value in other SGD names in the AT1 and Tier 2 space.

Issuer Profile: Positive (2)

S&P: AA-/Stable

Moody's: Aa1/Stable

Fitch: AA-/Stable

Ticker: **UOBSP**

Background

United Overseas Bank Limited ('UOB') is Singapore's third largest consolidated banking group with a global network of more than 500 offices in 19 countries in Asia Pacific, Europe and North America. Business segments comprise Group Retail, Group Wholesale Banking, Global Markets and Others. Wee Investments Pte Ltd and Wah Hin & co Pte Ltd have a 7.70% and 5.04% stake in UOB, respectively, as of 5th January 2018.

United Overseas Bank Ltd

Key credit considerations

- **Profitability intact despite loan quality issues:** UOB's 3Q2017 profitability was sound with total income up 10% y/y and 3% q/q due to growth in both net interest income (higher loan volumes and higher net interest margins which rose 10bps y/y and 4bps q/q to 1.79%) and fee and commission income (y/y rise due to wealth management and q/q rise due to loan related fees). Other non-interest income however was down 12% y/y and 10% q/q on weaker net trading income y/y and lower gains on investments and dividend income q/q. Expenses were up 5.9% y/y on staff costs and IT related investments (though down q/q) but given the solid rise in operating income, the expense to income ratio improved to 43.5% for 3Q2017 from 45.0% in 3Q2016 (45.6% in 2Q2017). Total allowances continue to rise, up 18% y/y and 23% q/q reflecting ongoing stress in UOB's oil and gas exposure although the y/y growth is partially due to a low base effect with lower 3Q2016 allowances due to a large writeback in general allowances while specific allowances were down 26.2% y/y. Meanwhile the q/q increase was due to a rise in specific allowances in Singapore and China exposures. This was not enough to dent profit before tax performance which rose 11.4% y/y and 3.7% q/q to SGD1.1bn. For 9M2017, UOB's profit before tax of SGD3.1bn was 9.1% higher y/y on trends similar to the quarterly results.

- **Core strength in retail offsetting other segment performance:** UOB's performance continues to be anchored in its Group Retail segment which comprises personal and small enterprise customers with 9M2017 operating income and profit before tax up 10.0% and 9.1% y/y respectively from better loan volumes and fee income performance in wealth management and credit cards. On the other hand, Group Wholesale Banking (corporate and institutional clients) performance was flat in terms of operating income and down 7.8% y/y for 9M2017 profit before tax due to the higher allowances. Global Markets (treasury products, market making, funding and liquidity management) was also down y/y for 9M2017. Of note though was the 9M2017 expense trends with lower expenses (-5% y/y) for Global Markets, a 4% rise in Group Wholesale Banking expenses but a 9% rise in Group Retail expenses which should support business volumes and protect segment returns going forward.

- **Performing and non-performing loans continue to grow**: UOB's loans growth continued in 3Q2017 with gross customer loans up 7.7% y/y and 2.8% q/q. The majority of loans growth occurred in Singapore and China on both a y/y and q/q basis while segment wise growth was fairly broad based (although in percentage terms loans to Financial Institutions and Manufacturing grew the highest y/y). Non-performing loan (NPL) formation continues with NPL's up 7.2% y/y and 8.1% q/q. With allowances rising lower at 3.6% y/y and 3.2% q/q, the allowance coverage ratio to non-performing loans fell to 111.8% in 3Q2017 from 115.7% in 3Q2016 and 117.2% in 2Q2017. That said, the coverage ratio against unsecured non-performing assets remains strong at 223.3% in 3Q2017. The most noticeable NPL movement was a sharp rise in Singapore within the Transport, storage and communications segment related to a specific oil and gas name.

- **Supporting solid capital ratios:** UOB's 3Q2017 capital ratios remain solid despite redemption of Tier 2 notes and have improved y/y and q/q due to solid earnings performance, issuance of shares pursuant to the scrip dividend scheme and only moderate growth in risk weighted assets with CET1/CAR ratios at 14.3%/17.8% (2Q2017: 13.8%/17.8%). On a fully loaded basis, CET1 ratios improved y/y to 13.8% in 3Q2017 from 13.3% in 2Q2017. We expect UOB's capital position to remain solid from on-going earnings generation as well as October's issuance of USD650mn in AT1 securities.

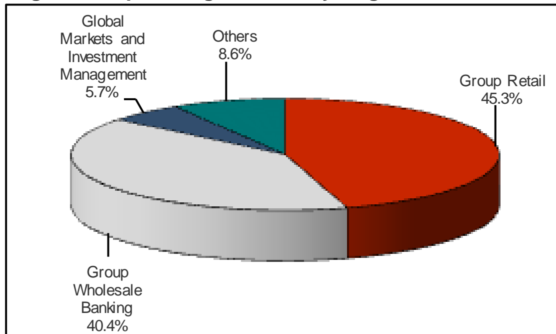
United Overseas Bank Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2015	FY2016	9M2017
Income Statement (SGD'mn)			
Net Interest Income	4,926	4,991	4,067
Non Interest Income	3,122	3,070	2,477
Operating Expenses	3,597	3,696	2,924
Pre-Provision Operating Profit	4,451	4,365	3,620
Provisions	672	594	587
Other Income/(Expenses)	90	6	87
PBT	3,869	3,777	3,120
Income Taxes	649	669	574
Net Income to Common Shareholders	3,209	3,096	2,536
Balance Sheet (SGD'mn)			
Total Assets	316,011	340,028	354,144
Total Loans (net)	203,611	221,734	230,068
Total Loans (gross)	207,371	225,662	234,115
Total Allowances	3,760	3,928	4,047
Total NPLs	2,882	3,328	3,748
Total Liabilities	285,087	306,986	318,814
Total Deposits	240,524	255,314	268,296
Total Equity	30,924	33,042	35,329
Key Ratios			
NIM	1.77%	1.71%	1.76%
Cost-income Ratio	44.7%	45.9%	44.7%
LDR	84.7%	86.8%	85.8%
NPL Ratio	1.39%	1.47%	1.60%
Allowance/NPLs	130.5%	118.0%	108.0%
Credit Costs	0.32%	0.26%	0.33%
Equity/Assets	9.79%	9.72%	9.98%
CETier 1 Ratio (Full)	13.0%	13.0%	14.3%
Tier 1 Ratio	13.0%	13.1%	14.8%
Total CAR	15.6%	16.2%	17.8%
ROE	11.0%	10.2%	10.3%
ROA	1.03%	0.95%	0.99%

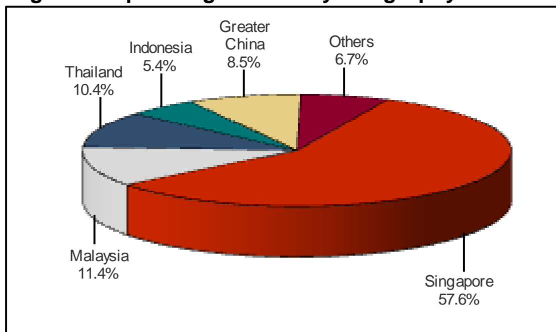
Source: Company

Figure 1: Operating Income by Segment - 9M2017



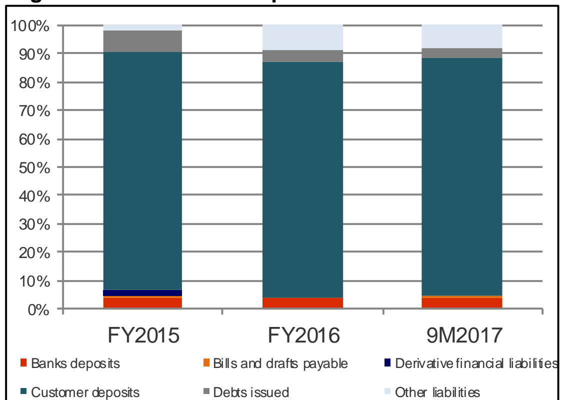
Source: Company

Figure 2: Operating Income by Geography - 9M2017



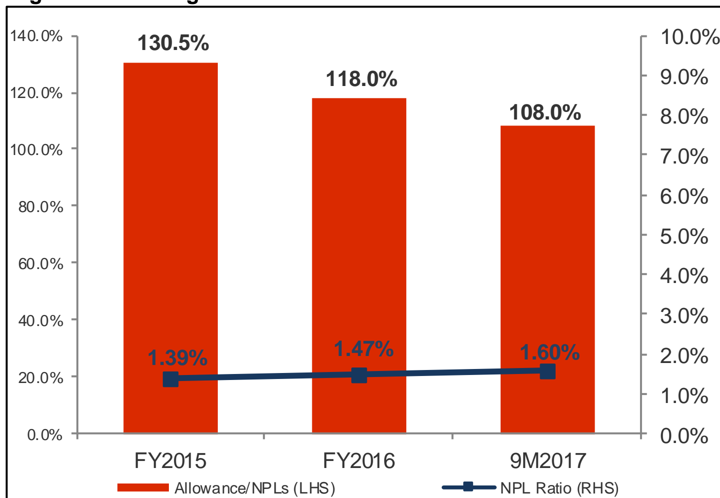
Source: Company

Figure 3: Liabilities Composition



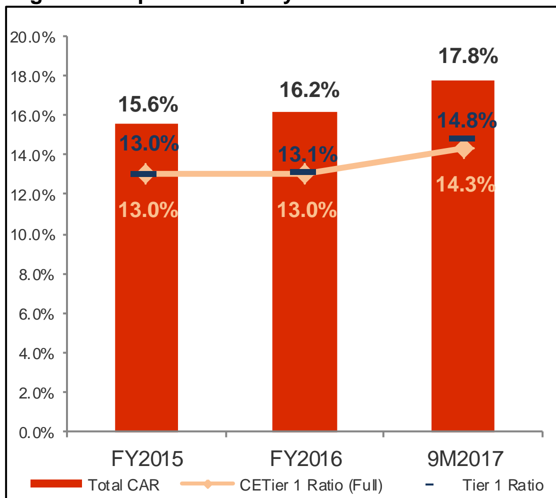
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Credit Outlook – WBC's performance and overall risk profile continues to be sound although pressure in Australia's housing market continues. The WSTP '27c22s look decent value against the NAB 4.15% '28c23s and offers decent spread pick up against the ANZ 3.75% '27c22s.

Issuer Profile: Positive (2)

S&P: AA-/Negative

Moody's: Aa3/Stable

Fitch: AA-/Stable

Ticker: **WSTP**

Background

Westpac Banking Corporation ('WBC') is Australia's oldest bank and second largest by market capitalization. It offers consumer, business and institutional banking services as well as wealth management and insurance across Australia and New Zealand using a multi-branded strategy. As at 30 September 2017, it had total assets of AUD851.9bn.

Westpac Banking Corporation

Key credit considerations

- **Resilient earnings continue:** WBC's reported cash net operating income for 2HFY2017 and FY2017 was stable h/h and up 2% y/y to AUD10.8bn and AUD21.6bn respectively. This was driven by solid net interest income performance, which was up 4% h/h and 2% y/y due to loans growth and loan repricing. This mitigated lower net interest margins from higher funding costs (deposit competition, wholesale funding), inclusion of the bank levy, the need to maintain higher liquid balances and lower general interest rates. Net interest income performance also mitigated softer non-interest income (-9% h/h and -1% y/y) as provisions for customer refunds and lower wealth management income overshadowed divestment gains for BT Investment Management Limited (BTIM), higher trading income and positive movements in economic hedges. Operating expenses were up 2% due to revenue related expenses and higher investment, regulatory and compliance costs but the driver of WBC's better operating profit before income tax performance for FY2017, which was up 4% y/y, was a 24% fall in impairment charges.

- **Continued improvement in loan quality:** WBC's lower loan impairments in FY2017 reflect not only a higher base in FY2016 from downgraded institutional exposures in mining and dairy but also its business mix which is skewed towards domestic retail and business banking. 68% of total loans as at 30 September 2017 were for housing (most of which is secured), followed by 17% for Business. In addition, reflecting the lower impairments was a fall in the reported impaired assets to gross loans ratio by 10bps to 0.22%. Given the higher decrease in loan impairments, the ratio of gross impaired assets provisions to gross impaired assets fell to 46.3% in FY2017 against 49.4% in FY2016. General loan quality indicators improved in FY2017 and justify to an extent the lower provision coverage. That said, housing risks and highly leveraged borrowers still present a latent risk in Australia's banking sector.

- **Execution of strategy broadly on track**: WBC's strategic priorities are focused on performance discipline and service leadership through digital transformation and improving returns through cost management and more targeted growth (particularly in wealth management and SME lending). These initiatives have seen positive progress in FY2017 although the expense to income ratio remains above WBC's 40% target at 42.2%. That said, WBC's expense ratio remains the best of its peers, which is likely due to its results being less affected by restructuring activities.

- **Capital ratios compliant with future requirements:** WBC's capital position remains strong with its FY2017 APRA compliant CET1 capital ratio at 10.6% (10.0% in 1HFY2017 and 9.5% in FY2016). This is above APRA's recently announced minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios for Australian banks (which are to be in place by January 2020). Based on international Basel III standards, WBC's CET1 ratio remains strong at 16.2% as at 30 Sep 2017 (15.3% as at 1HFY2017 and 14.4% in FY2016). Capital ratios benefited from a 100bps increase from cash earnings which mitigated a 50bps impact from interim dividends while risk weighted assets were stable h/h and fell y/y due to regulatory modeling changes. While current capitalization may limit the need for future issuance, it nevertheless provides a buffer against potential pressures to organic capital growth from a housing market downturn or unforeseen regulatory costs such as the recently approved government levy (which will rise in FY2018) and the outcome of ASIC's civil proceedings in relation to the alleged manipulation of the bank-bill swap rate (Australia's equivalent of LIBOR).

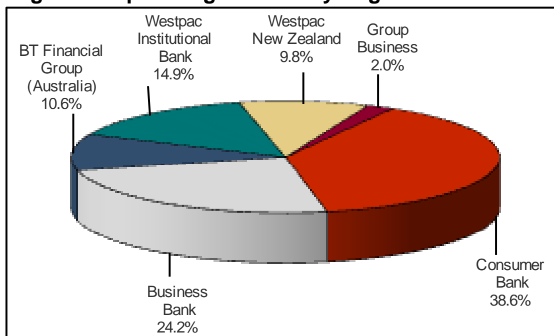
Westpac Banking Corporation

Table 1: Summary Financials

Year Ended 30th Sep	FY2015	FY2016	FY2017
Income Statement (AUD'mn)			
Net Interest Income	14,267	15,148	15,516
Non Interest Income	7,375	5,837	6,286
Operating Expenses	9,473	9,217	9,434
Pre-Provision Operating Profit	12,169	11,768	12,368
Provisions	753	1,124	853
Other Income/(Expenses)	0	0	0
PBT	11,416	10,644	11,515
Income Taxes	3,348	3,184	3,518
Net Income to Common Shareholders	8,012	7,445	7,990
Balance Sheet (AUD'mn)			
Total Assets	812,156	839,202	851,875
Total Loans (net)	623,316	661,926	684,919
Total Loans (gross)	626,344	665,256	687,785
Total Allowances	3,028	3,330	2,866
Total NPLs	1,895	2,159	1,542
Total Liabilities	758,241	781,021	790,533
Total Deposits	475,328	513,071	533,591
Total Equity	53,915	58,181	61,342
Key Ratios			
NIM	2.09%	2.10%	2.06%
Cost-income Ratio	43.8%	43.9%	43.3%
LDR	131.1%	129.0%	128.4%
NPL Ratio	0.30%	0.32%	0.22%
Allowance/NPLs	159.8%	154.2%	185.9%
Credit Costs	0.12%	0.17%	0.12%
Equity/Assets	6.64%	6.93%	7.20%
CETier 1 Ratio (Full)	9.5%	9.5%	10.6%
Tier 1 Ratio	11.4%	11.2%	12.7%
Total CAR	13.3%	13.1%	14.8%
ROE	16.2%	14.0%	13.8%
ROA	1.00%	0.88%	0.94%

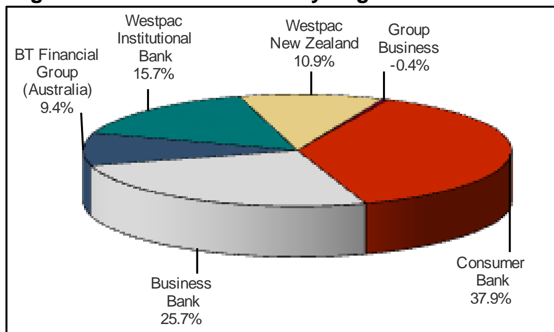
Source: Company

Figure 1: Operating Income by Segment - FY2017



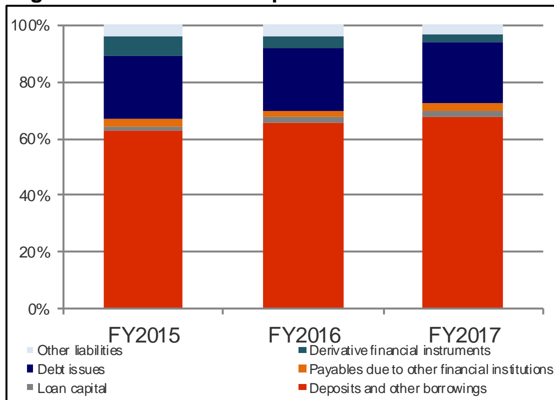
Source: Company

Figure 2: Profit Before Tax by Segment - FY2017



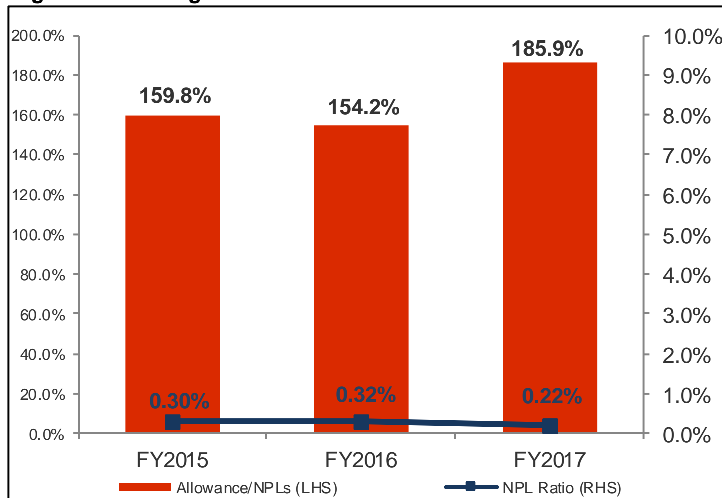
Source: Company | Group Business made Loss Before Tax

Figure 3: Liabilities Composition



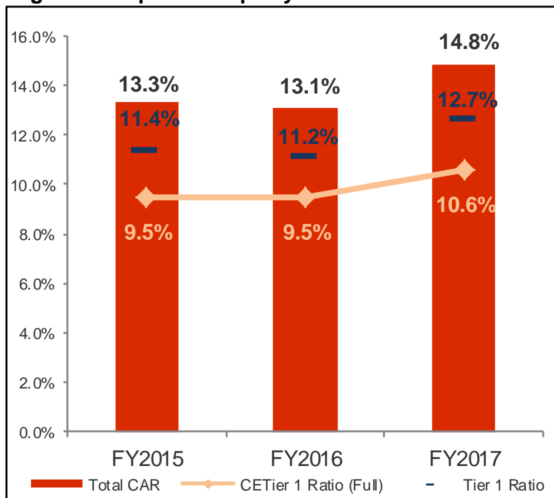
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

[This page has been intentionally left blank]

The Credit Research team would like to acknowledge and give due credit to the contributions of Soh Jia Xuan and Andrew Chok Rong Yao.

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.

Co.Reg.no.:193200032W