

Housing & Development Board (“HDB”): Special Interest Commentary

Thursday, 06 June 2019

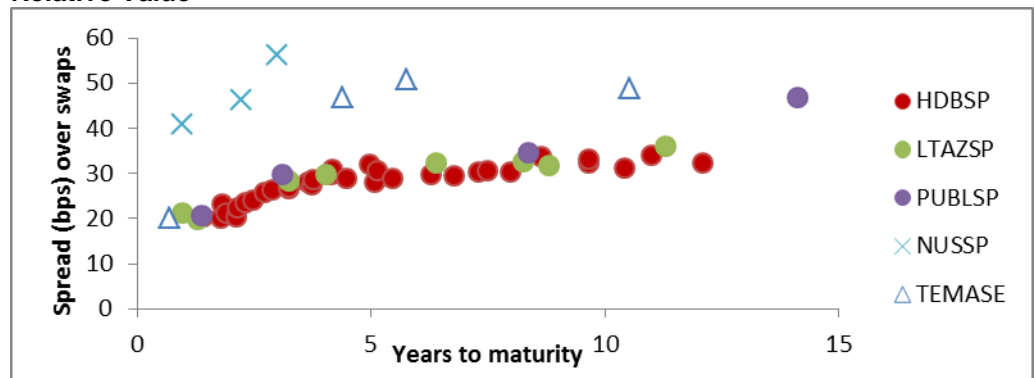
- HDB is the single largest non-sovereign issuer in the SGD space with SGD23.0bn in outstanding amount, representing 16.5% of the SGD universe (excluding sovereign).
- HDB is the only Singapore statutory board rated “Aaa” by an international credit rating agency.
- Reiterating our view expressed in our previous update in June 2015, **we expect HDB to remain well supported by the Singapore Government.** Although the Singapore Government does not provide a guarantee over HDB’s debt, the **Ministry of Finance has funded HDB’s past deficits and will act as a lender of last resort to HDB.**
- While HDB’s standalone financials are weak (e.g. negative EBITDA, high leverage), this is a function of government policy (e.g. selling HDB flats at subsidized prices to home buyers). Deficits are financed by grants from the Government. HDB plays a crucial role in the implementation of Singapore’s public housing policy, which in turn is key to maintaining Singapore’s social harmony. More than 80% of Singapore’s population live in public housing.
- As per MAS notice 649¹, bonds of HDB (as a statutory board) may qualify as liquid assets (Paragraph 7f (i)). According to MAS Notice 637² (Paragraph 7.3.17), based on our interpretation, bonds of HDB should be assigned 0% risk weight. This means that investors of HDB bonds (e.g. bank ALM desks) will have more limits to acquire HDB bonds.

OCBC Credit Research currently does not cover HDB. We have presented this paper as a special interest commentary. Where legal, financial or other professional advice is required in relation to any particular matter, please seek advice from your own legal, financial or other professional advisors.

Despite having the highest credit rating, the HDBSP curve trades in-line with the other Singapore statutory boards (PUBLSP, LTAZSP) which are not rated. Meanwhile, HDBSP trades tighter compared to other bonds rated with the highest credit rating (NUSSP, TEMASE). We note National University of Singapore and Temasek Holdings Pte Ltd are not statutory boards.

HDB trades wider than bonds issued by the Singapore Government. As per the [Budget Debate Round-Up Speech 2018](#), the Government is considering to provide guarantees of debt by statutory boards. If a guarantee is provided, we think the spread over the Singapore Government Securities should be significantly narrowed.

Relative Value



Source: Bloomberg, OCBC

Treasury Advisory
Corporate FX & Structured
Products

Tel: 6349-1888 / 1881

Interest Rate Derivatives

Tel: 6349-1899

**Investments & Structured
Products**

Tel: 6349-1886

GT Institutional Sales

Tel: 6349-1810

Wong Hong Wei, CFA

+65 6722 2533

wonghongwei@ocbc.com

¹ Minimum Liquid Assets And Liquidity Coverage Ratio

² Notice On Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore

I) Background of HDB

HDB is constituted under the [Housing and Development Act \(Chapter 129\)](#) and is a statutory board of the Ministry of National Development.

HDB develops public housing (e.g. HDB flats), of which more than 80% of Singapore's population resides. As of 31 Mar 2018, HDB has built 1,164,490 units. HDB also functions to allocate properties, manage public housing and related facilities.

In addition, Public housing is used to maintain social harmony. For example, under the Ethnic Integration Policy introduced in 1989, HDB ensures there is a balanced mix of various ethnic communities in HDB towns. HDB also provides Lease Buyback Scheme since 2009 to allow elderly homeowners to sell part of the flat lease to HDB. Since 1968, Central Provident Fund ("CPF") savings can be used to pay the downpayment and service the monthly mortgage loan instalments for HDB flats.

II) Management

Mr Bobby Chin is the Chairman of HDB since 1 Oct 2016, after serving as the Deputy Chairman (1 Oct 2015 – 30 Sep 2016). Mr Chin is the Chairman of NTUC FairPrice Co-operative Ltd and holds directorships in Temasek Holdings Pte Ltd and Singapore Labour Foundation.

Dr Cheong Koon Hean is the CEO of HDB since Aug 2010. Previously, she was the CEO of Urban Redevelopment Authority. She is a board member of NUS Board of Trustees and is a Council member of the International Federation of Housing & Planning.

III) Key considerations

Deficits are a function of Government policy objectives; HDB is not profit-driven: While in FY2018 HDB generated SGD8.40bn revenue (FY2017: SGD7.48bn) from sales proceeds from home ownership, deficit before government grant and taxation is SGD1.38bn (FY2017: SGD861mn). We think this reflects [subsidies for new HDB flats](#) with [HDB's mission](#) to provide affordable housing. The next biggest deficit by segment of SGD639mn relates to Upgrading (FY2017: SGD482mn) which HDB undertakes to maintain existing HDB estates, for example through Lift Upgrading Programme and Home Improvement Programme. The third largest deficit at SGD338mn (FY2017: SGD428mn) relates to residential ancillary functions, which includes car parks and planning and building administration.

Weak standalone financials mitigated by government support: Mainly due to the deficits as discussed in the previous paragraph, HDB has run a persistent negative net deficit (2018: -SGD1.72bn). Net gearing is elevated at 4.22x. That said, deficits have been met by government grants (2018: SGD2.81bn, FY2017: SGD1.86bn). In addition, SGD40.8bn out of SGD64.8bn (~63%) of the total loans payable by HDB are represented by Government loans, mainly through mortgage financing loans (SGD40.6bn). Such loans are granted to eligible purchasers of flats under the public housing schemes. If mortgage financing loans were offset against loan receivables, adjusted net gearing would fall to 1.57x.

No explicit guarantee but we perceive very strong implicit guarantee: HDB bonds [are not explicitly guaranteed](#) by the Singapore Government. This is in-line with other statutory boards (e.g. PUB, LTA). However, we note that [the Ministry of Finance \("MOF"\) will act as the lender of last resort](#) and the MOF has funded HDB's past deficits. We see an implicit obligation for continuous government support for HDB given its crucial role for the implementation of Singapore's public housing and related policies.

Put option if HDB ceases to be an authority: Noteholders have a put option if "HDB ceases to be an authority or body established by written law to discharge functions of a public nature".

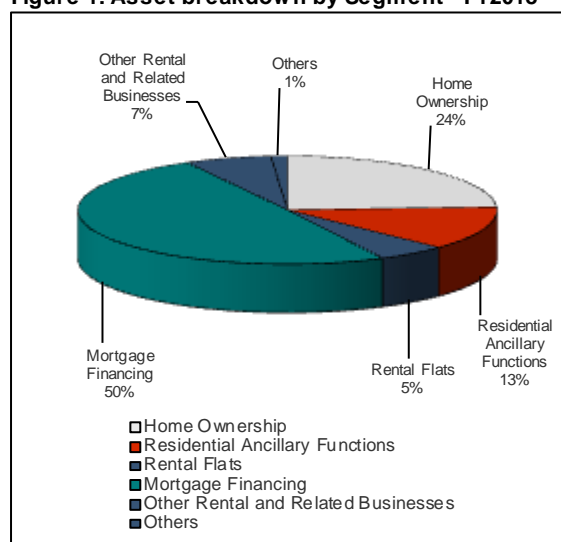
Housing & Development Board

Table 1: Summary Financials

Year Ended 31st Mar	FY2016	FY2017	FY2018
Income Statement (SGD'mn)			
Revenue	6,521.5	7,341.5	8,030.0
EBITDA	-2,382.1	-3,298.2	-4,167.9
EBIT	-2,779.7	-3,725.8	-4,605.7
Gross interest expense	1,274.9	1,326.7	1,367.4
Profit Before Tax	2.8	12.4	291.7
Net profit	0.0	6.4	287.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	94.7	100.4	79.2
Total assets	89,761.4	90,684.8	85,076.3
Short term debt	0.0	0.0	0.0
Gross debt	69,519.6	70,501.9	64,761.0
Net debt	69,424.9	70,401.6	64,681.8
Shareholders' equity	15,205.0	15,181.8	15,320.1
Cash Flow (SGD'mn)			
CFO	-1,828.1	-119.1	860.5
Capex	2,226.4	2,021.4	1,362.1
Acquisitions	0.0	0.0	1.7
Disposals	35.2	60.0	4,170.7
Dividend	2.1	3.1	3.6
Interest paid	-634.3	-768.2	-732.2
Free Cash Flow (FCF)	-4,054.5	-2,140.5	-501.6
Key Ratios			
EBITDA margin (%)	-36.53	-44.93	-51.90
Net margin (%)	0.00	0.09	3.58
Gross debt to EBITDA (x)	-29.18	-21.38	-15.54
Net debt to EBITDA (x)	-29.14	-21.35	-15.52
Gross Debt to Equity (x)	4.57	4.64	4.23
Net Debt to Equity (x)	4.57	4.64	4.22
Gross debt/total assets (x)	0.77	0.78	0.76
Net debt/total assets (x)	0.77	0.78	0.76
Cash/current borrowings (x)	0.01	0.01	0.01
EBITDA/Total Interest (x)	-1.87	-2.49	-3.05

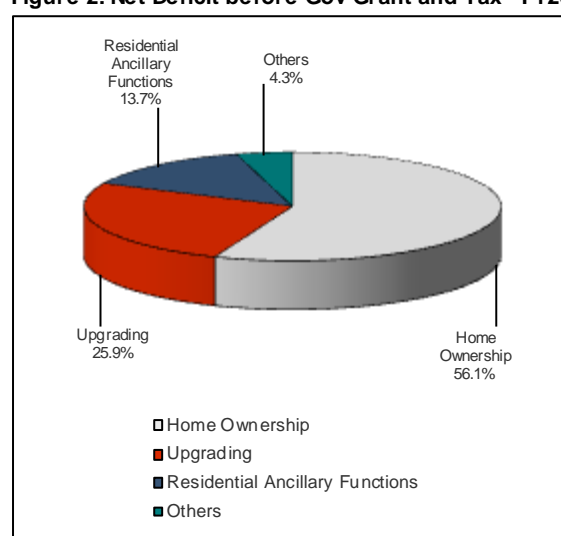
Source: Company, OCBC estimates

Figure 1: Asset breakdown by Segment - FY2018



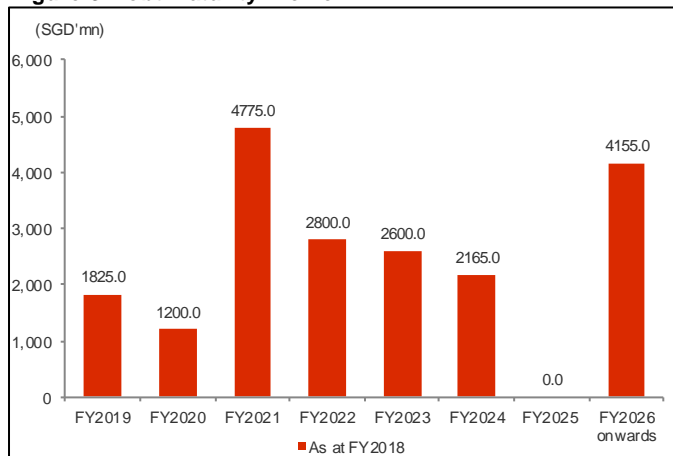
Source: Company

Figure 2: Net Deficit before Gov Grant and Tax - FY2018



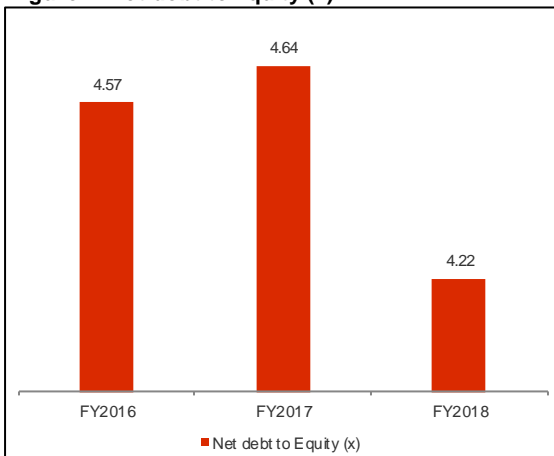
Source: Company | Excludes Other Rental and Related Businesses (surplus)

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 2: Net debt to Equity (x)



Source: Company

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold financial interests in the above-mentioned issuer or company as at the time of the publication of this report.

Disclaimer for research report

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

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

Co.Reg.no.:193200032W