Asia Credit Research

Singapore Credit Outlook 2015

Thursday, 08 January 2015

Key Takeaways

- We expect total new issuances in 2015 to trail 2014 given impending interest rate hikes by the US Federal Reserve. Issuance pipeline is likely to be front-loaded in 1H2015, followed by a muted 2H2015. We believe that issuers will continue printing shorter tenor papers to suit investors' preference.

- In 2015, we advocate that investors be selective and focus on shorter-dated bonds with fair credit fundamentals. We also prefer high-yield bonds, which may provide buffer against rising rates relative to investment grade bonds.

- Credit metrics of the REITs under our coverage remain largely stable. We see limited liquidity issues as debt maturity schedules and interest rate risks have been well-managed.

- In our view, the proposed REITs regulatory changes by MAS may not significantly increase the credit risks of REITs. REITs have been cautiously managing their gearing ratios, with the sector average below 35%. We believe that REIT managers are cognizant of market negativity towards the reckless use of leverage.

- Gearing levels for property developers under our coverage remain largely stable, though interest coverage ratios have worsened due to weak earnings resulting from softness in the Singapore property development sector. Given forecasts of continued declines in private residential home prices over 2015-2016 due to oversupply, coupled with the higher interest rate outlook, home buyers will remain on the sidelines sustaining sector headwinds.

- Meanwhile, the credit profiles of the Hong Kong developers under our coverage will likely remain resilient, supported by diversified operations and rental income from investment properties. We remain constructive on China property credits as continued policy easing should contain tail risks for the sector while the oversupply situation should ease with the fall in real estate investment.

- Although we note that oil prices may not see a meaningful rebound in the near term, we think credit metrics for the oil & gas related names under our coverage remain fair. In addition, near-term volatility in energy markets is mitigated by these issuers' currently healthy order books.

- Regarding proposals to make the domestic bond market more accessible to retail investors, aside from providing more income-oriented options to an aging population, we believe these may incentivize quality issuers to consider tapping the retail channel as part of their capital raising plans and to diversify their funding sources.

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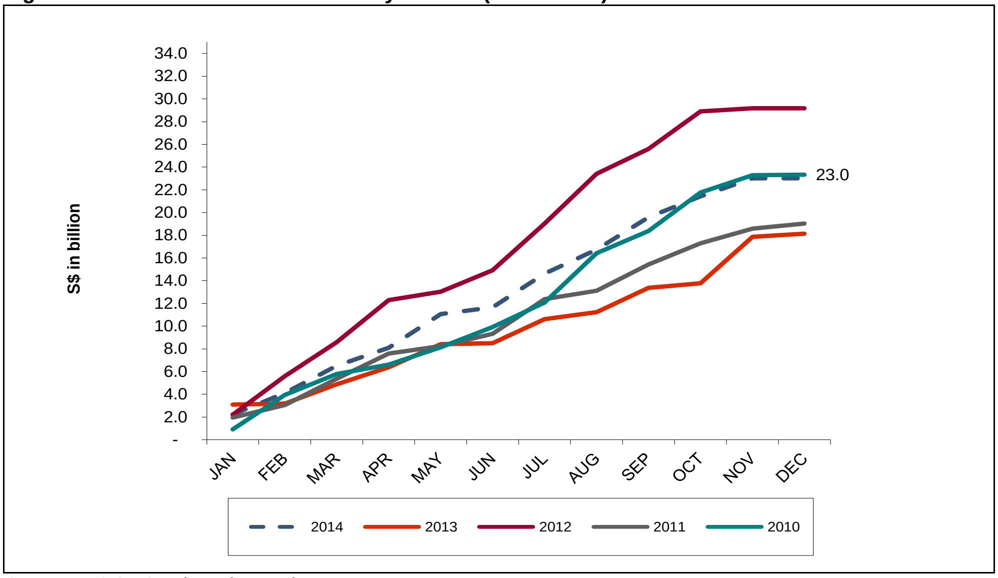
2014 Singapore Corporate Bond Market Review

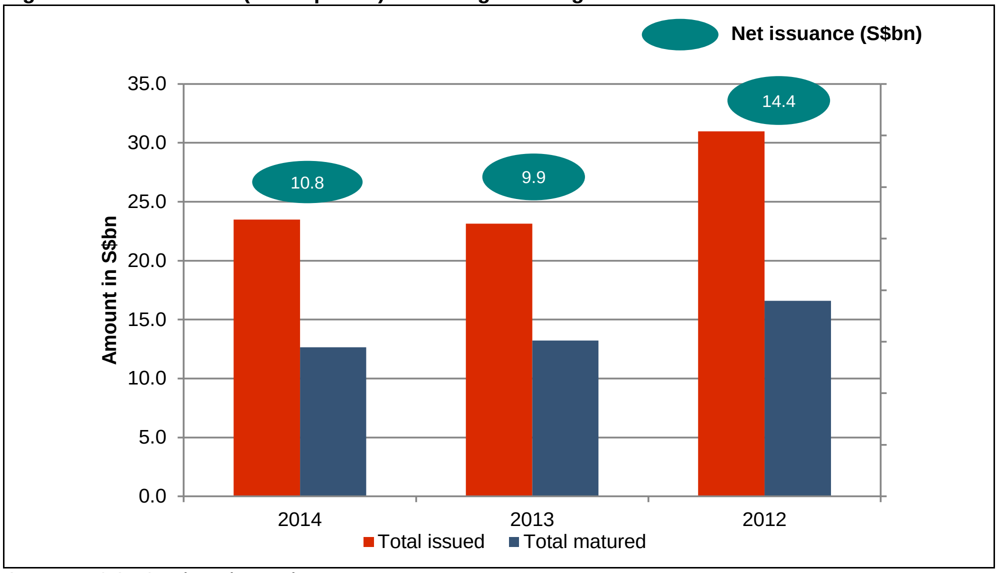
Total new issuances in the SGD bond market in 2014 grew 26.9% y/y to S$23.0bn. Nonetheless, it is still below the high of S$29.2bn in 2012. Momentum slowed in 4Q2014 as issuers held back due to an uncertain interest rate outlook. Besides, 4Q is also a seasonally slow quarter for new issuances. Not surprisingly, total new issuances from corporates in 2014 continued to outpace total maturities, with S$10.8bn of net issuance (excluding sovereign issues).

Figure 1:SGD bond issuances monthly volume (cumulative)



Sources: OCBC, Bloomberg Finance LP

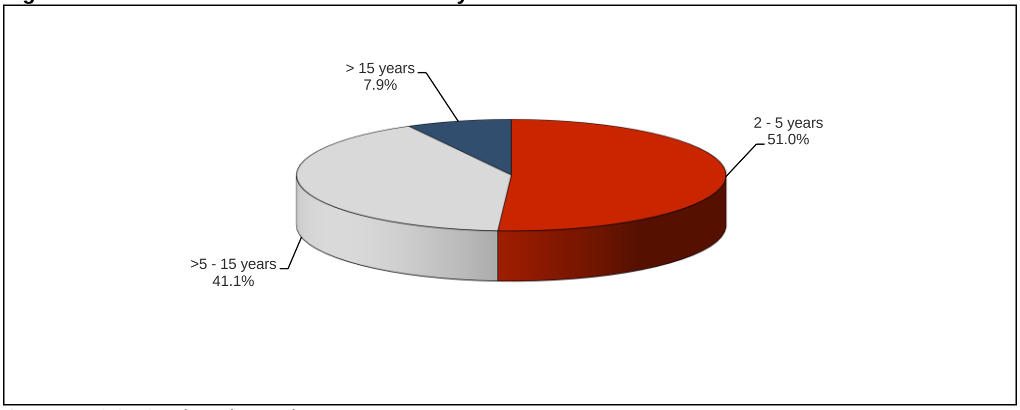
Figure 2: Net issuance/ (redemptions) excluding sovereigns



Sources: OCBC, Bloomberg Finance LP

Issuers mainly printed shorter-dated paper (2-5 years) in 2014, which accounted for 51.0% of the total new issuance. Meanwhile, 41.1% of the new issuances fell within the >5-15 years tenor, followed by the >15 years tenor (7.9%). Despite investors' concerns on higher interest rates going forward, seven companies successfully issued a total of $1.83bn of perpetual bonds, namely Ascott Residence Trust, Ezion Holdings Ltd, FCL Treasury Pte Ltd, Hyflux Ltd, Tata International Singapore Pte, Trafigura Beheer BV and Vibrant Group Ltd.

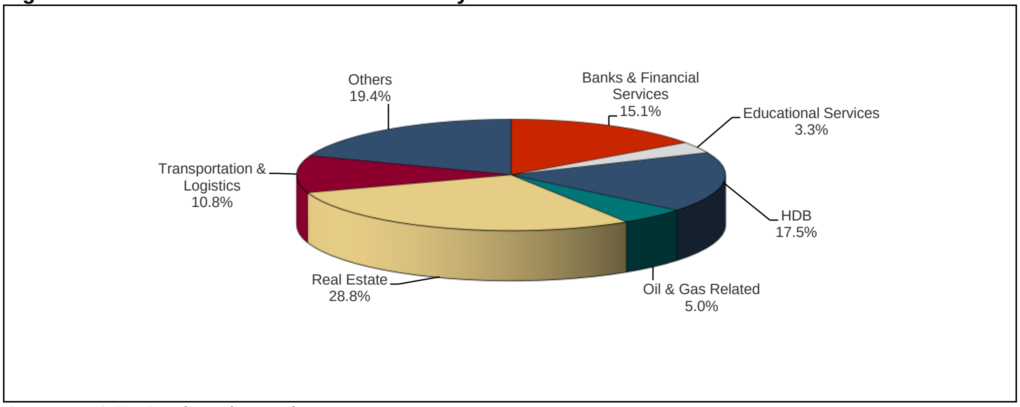
Figure 3: Breakdown of 2014 issuance size by tenor



Sources: OCBC, Bloomberg Finance LP

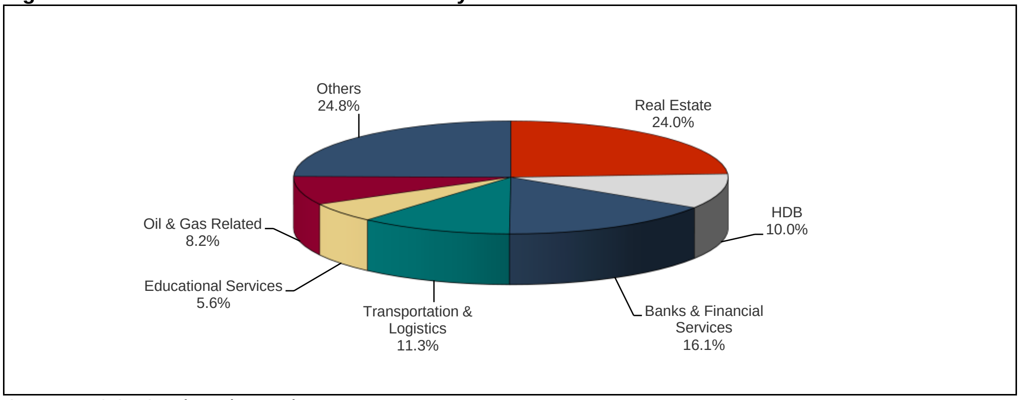
Overall, the issuers were from various sectors and majority of the new issuances were issued by the Housing & Development Board ("HDB"), real estate developers, REITs, banks & financial services companies, oil & gas operators and transportation & logistics companies (mainly offshore & marine related).

Figure 4: Breakdown of 2014 issuance size by sector



Sources: OCBC, Bloomberg Finance LP

Figure 5: Breakdown of 2014 issuance size by sector for 2Y-5Y tenor

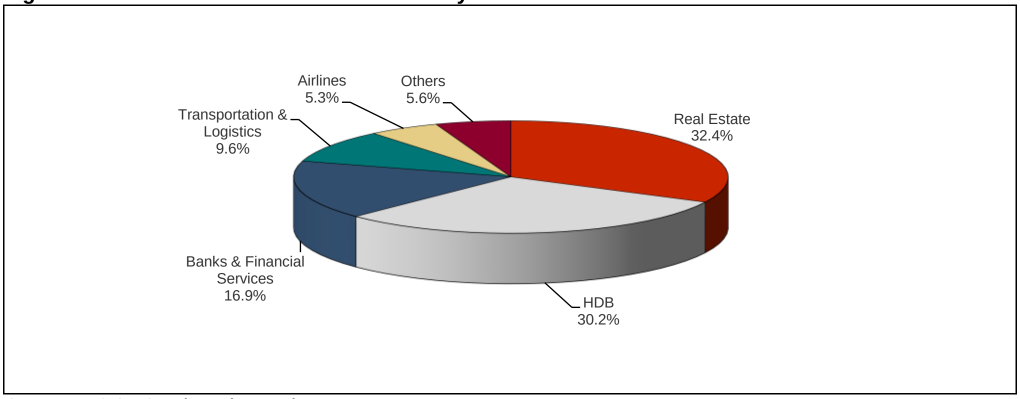


Sources: OCBC, Bloomberg Finance LP

Meanwhile, issuers in the 2-5 years tenor bracket mainly came from sectors such as real estate (24.0%), banking (16.1%), transportation (11.3%), oil & gas (8.2%) and education services (5.6%).

On the other hand, sectors like real estate (32.4%), banking (16.9%), transportation (9.6%) and airlines (5.3%) anchored the >5-15 years maturity bucket.

Figure 6: Breakdown of 2014 issuance size by sector for >5Y-15Y tenor

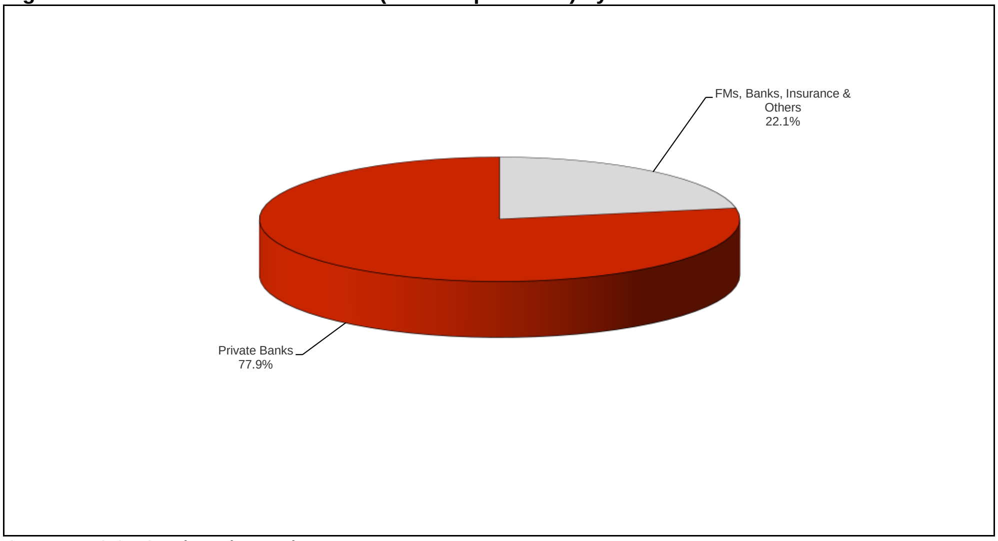


Sources: OCBC, Bloomberg Finance LP

A large proportion (74.0%) of the new issuances in 2014 was unrated but we think this may gradually change in the future. As the 3 domestic banking groups will be required to meet a SGD liquidity coverage ratio ("LCR") of 100% by 1st January 2015, we believe that this will increase demand for high-rated corporate issues and stimulate supply of rated bonds.

Given the prolonged low interest rates environment globally, demand for higher yielding products has been growing in Singapore. We note that about 30.0% of the new issuances in 2014 offer >5% coupon rates and they mainly comprised issuers from the real estate, oil & gas, and transportation industries. Although these issuers may have weaker credit metrics, they have been well received and typically oversubscribed by several times, especially from private banks. That said, demand from private banks dwindled slightly in 4Q2014 as investors became more selective on issuers' credit profiles, especially in oil & gas related names following the slump in oil prices.

Figure 7: Breakdown of HY issuance (>5% coupon rates) by demand



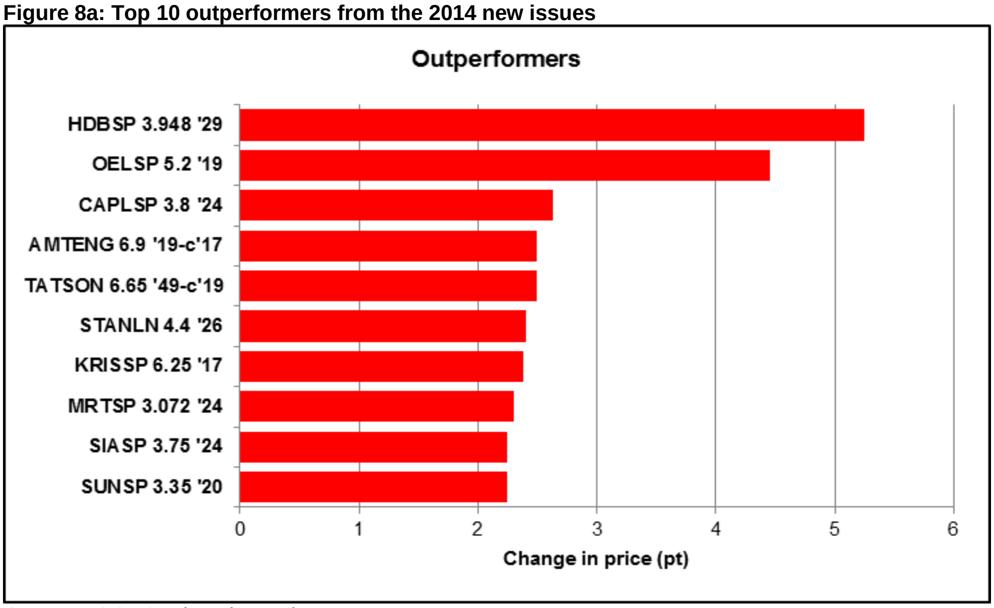
Sources: OCBC, Bloomberg Finance LP

We note that the SGD bond market has benefitted from an influx of foreign issuers, which accounted for about a quarter of total new issuances in 2014, such as Far East Horizon Ltd, G8 Education Ltd, Grand China Air Hong Kong, PT Profesional Telekomunikasi Indonesia (Protelindo) and Sun Hung Kai Properties Ltd. Going forward, we expect this trend to continue given relatively low borrowing costs in Singapore, as well as the stable SGD.

We expect total new issuances in 2015 to trail 2014 given the spectre of impending interest rate hikes by the US Federal Reserve. Meanwhile, issuance pipeline is likely to be front-loaded in 1H2015, followed by a muted 2H2015. In addition, as investors have become more prudent, some of the smaller market capitalization companies with weaker credit metrics may find it hard to issue bonds. As such, it is likely that they may raise funds in the equity market instead. We believe that issuers will still focus on printing shorter tenor papers to suit investors' preference, while real estate, financial and oil & gas related companies will still account for bulk of the new issuances.

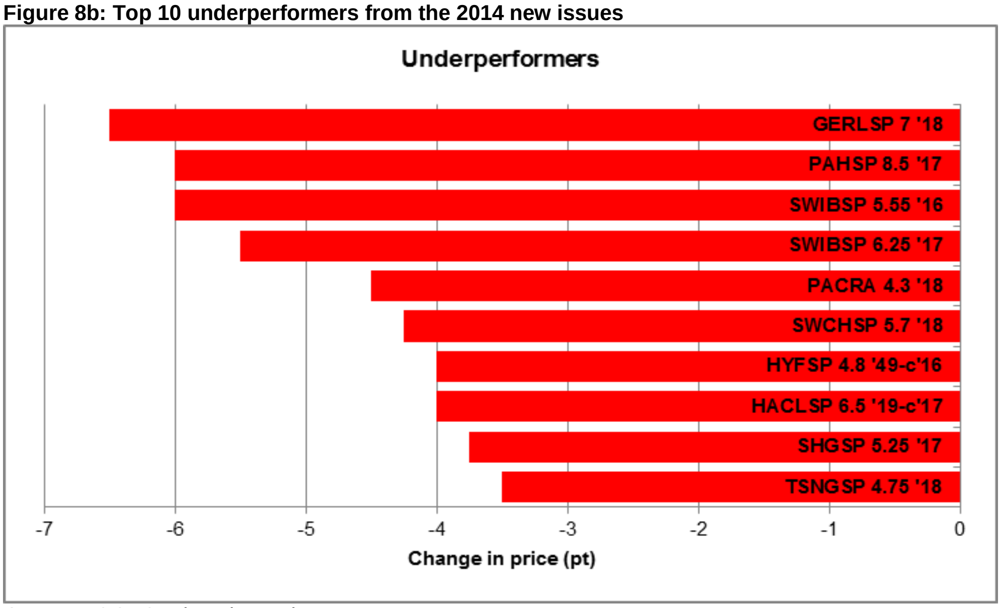
In 2015, we advocate that investors should be selective and focus on shorter-dated corporate names with fair credit fundamentals. We believe this approach should allow investors to weather any volatility in the near to medium term and minimize risk exposure. We also prefer high-yield bonds which can provide sufficient buffer against rising rates compared to investment grade bonds.

Figure 8a: Top 10 outperformers from the 2014 new issues



Sources: OCBC, Bloomberg Finance LP

Figure 8b: Top 10 underperformers from the 2014 new issues



Sources: OCBC, Bloomberg Finance LP

Credit metrics remain stable for Singapore REITs

We note that credit metrics of the REITs under our coverage are largely stable. Despite the requirement to distribute at least 90% of taxable income, we see limited liquidity issues as debt maturity schedules and interest rate risks have been well-managed. REITs have been actively refinancing their debt to extend their debt tenure and they have debt duration of about 3.7 years on average. Meanwhile, about 80.2% (on average) of their debt are either on fixed rates or have been hedged in anticipation of the interest rate hikes in 2015. We also take comfort that majority of the REITs have relatively long weighted average lease to expiry with diversified tenant base. In particular, CapitaCommercial Trust's and Mapletree Commercial Trust's ratings were upgraded to A- (from BBB+ by S&P) and Baa1 (from Baa2 by Moody's) respectively, in 2014.

Figure 9: Debt profile and statistics of S-REITs under coverage (as at 30th September 2014)

	Aggregate leverage* (%)	Debt duration (years)	Debt cost (%)	Proportion of debt fixed/hedged (%)
OFFICE				
CapitaCommercial Trust	30.2	4.0	2.3	80.0
Mapletree Commercial Trust	38.0	3.1	2.2	70.6
Suntec REIT	34.4	3.9	2.4	65.0
Average:	**34.2**	**3.7**	**2.3**	**71.9**
RETAIL				
CapitaMall Trust	34.1	4.7	3.6	99.7
Frasers Centrepoint Trust	29.3	2.5	2.5	75.0
Starhill Global REIT	29.1	3.6	3.2	100.0
Average:	**30.8**	**3.6**	**3.1**	**91.6**
INDUSTRIAL				
Ascendas REIT	32.6	4.0	2.7	68.8
Mapletree Industrial Trust	33.1	3.8	2.1	77.0
Mapletree Logistics Trust	33.3	3.3	2.0	76.0
Average:	**33.0**	**3.7**	**2.3**	**73.9**
HOSPITALITY				
Ascott Residence Trust	40.0	3.8	2.9	70.0
Average:	**40.0**	**3.8**	**2.9**	**70.0**
HEALTHCARE				
First REIT	32.5	4.0	3.9	100.0
Average:	**32.5**	**4.0**	**3.9**	**100.0**
Average:	**33.3**	**3.7**	**2.7**	**80.2**

Sources: Companies, OCBC estimates
** Aggregate leverage: Total interest bearing debt / total assets*

Overall, we believe that outlook for office REITs remains robust on the back of firm leasing demand from various sectors such as finance and insurance, as well as limited supply in the near term. Nonetheless, we caution that rental growth may soften from 2016 onwards due to large pipeline of office supply coming on stream. Meanwhile, retail REITs were hit by falling retail sales and decline in tourist arrivals in 2014. Going forward, headwinds may persist given the restrictions on foreign workers and impending supply of retail space (skewed towards suburban areas). As such, upside for positive rental growth for retail REITs may be capped. On the other hand, we think the lacklustre manufacturing growth in Singapore and oversupply of industrial space in the next few years does not bode well for Industrial REITs. In addition, the stricter subletting policy implemented by JTC will increase vacancy risks for Industrial REITs.

MAS has published a consultation paper in October 2014 on a set of proposals to strengthen Singapore's REIT market. Potentially credit negative proposals include increasing the development limit of REITs to 25% (from 10%) of its deposited property. In addition, the leverage limit imposed on REITs will be increased from 35% to 45% of the REIT's total assets, while the provision for REITs with credit ratings to leverage up to 60%, will be removed.

In our view, the proposed changes may not significantly increase the risks of over-leveraging by REITs. REITs have been cautiously managing their gearing ratios and the average gearing level for the sector is below 35%, despite the fact that more than 2/3 of the REITs are rated (maximum leverage of 60%). In fact, these rated REITs have kept their leverage ratios at an average of ~33.8%, with the highest at 42.1% (Keppel REIT). We believe that REIT managers acknowledge the fact that the market is not likely to have favourable views on REITs that leverage up recklessly.

Singapore property developers continue to face headwinds ahead

Singapore's property market continues to be affected by government's cooling measures, with the private residential property index falling by 0.7% q/q in 3Q2014, the 4th straight quarter of price decline (2Q2014: -1.0% q/q, 1Q2014: -1.3% q/q, 4Q2013: -0.9% q/q). Given that the government is of the view that it is premature to relax the cooling measures, it is likely that demand for residential property will remain lacklustre going forward, especially for the luxury property segment. As such, developers may incur higher sales and marketing expenses for their residential projects in Singapore going forward. City Developments Ltd commented that if the weakening trend continues, it may possibly lead to forced fire sales of properties as some mortgage borrowers are affected by lower rentals and have difficulty in servicing their loans. According to Colliers International for the first 11 months of 2014, 159 properties were put up for distressed sale (about five times higher than the 32 units in 2013), although it was still below the 270 mortgage listings in 2008.

OCBC property equity analyst forecasts private residential home prices to fall 10%-15% over 2015-2016 as oversupply situation in the near term, coupled with higher interest rate outlook will keep buyers on sidelines. Nonetheless, a significant dip in excess of 20% is unlikely as investor demand will surge at lower price points given the high price elasticity in the housing market. In addition, the authorities will probably look at removing some cooling measures such as sellers stamp duties and additional buyers stamp duties to avoid a market crash.

In view of the slowdown in Singapore's residential market, developers have been active in expanding overseas by tapping on the cheap funding costs in Singapore. Besides diversifying their projects overseas, developers have also increased their focus in investment properties to generate recurring income to weather the volatility in residential markets. Based on Bloomberg data, Singapore developers (including REITs) have spent ~US$19.1bn on foreign acquisitions in 2014, almost quadruple the size of 2013 (~US$5.1bn), snapping up retail malls, luxury apartments and hotels in cities such as Beijing, Sydney and London. For example, Frasers Centrepoint Ltd acquired Australia-based Australand Property Group in a deal that valued the company at A$2.6bn and issued S$800mn of bonds in 2014.

In general, gearing levels for property developers under our coverage remain stable yet their interest coverage ratios have declined slightly as earnings have been affected by weaker sales from the property development business in Singapore. We continue to favour developers with strong balance sheets, well-diversified geographical presence and recurring income streams from investment properties.

Challenging 2015 outlook for Hong Kong property after standout 2014

Residential property in Hong Kong had a standout year in 2014 with full-year new private residential sales estimated by Centaline Property Agency Ltd ("Centaline") at HK$175.0bn, the highest since 1996. A total of 16,190 new home sales were registered this year through 19th December 2014, up 66.0% y/y. In value terms, sales have brought in HK$174.0bn, up 89.0% y/y. Drivers were developers speeding up new launches and offering attractive prices and incentives while the double stamp duty adjustment in May boosted sentiment. Prime retail leasing had a challenging year due to the fall-off in mainland spending on luxury items as a result of the anti-corruption drive and a slowing economy while overall office rents improved slightly to HK$64.4 per sq ft per month as of end-3Q2014 from HK$63.8 as of end-2013 according to data from Colliers International.

However the outlook for 2015 looks challenging as Hong Kong's economy is not immune to slowing growth in mainland China while effectively importing interest rate policy from the US. The diverging dynamics of higher rates and sluggish growth could compound challenges posed by political unrest and other cooling measures. That said, our economics team believes that downside will be contained in the near term with prices continuing to rise for residential units below HK$7mn in 2015. In the medium term, increase in supply combined with an expected uptick in the Fed Funds Rate, mean that the residential property market is subjected to increasing market risks. Hong Kong office space should continue to benefit from the limited supply of Grade A office space over the next few years while retail rents could continue to stay soft due to the reduced mainland spending resulting from the on-going anti-graft drive.

Nevertheless, the credit profiles of the Hong Kong developers under our coverage will likely remain resilient, supported by diversified operations and rental income from investment properties. Net gearing, at an average of 19.0% is also significantly lower than their Singapore peers (average: 41.0%).

Policy easing to limit downside in China

The Chinese property sector slowed significantly in 1H2014 as oversupply and tight credit conditions led to poor sentiment among buyers who preferred to adopt a wait and see approach. Total property sales fell 6.7% y/y in 1H2014 while real estate investment growth plunged 14.1% y/y. However, a series of policy easing measures starting late 1H2014 enacted by the central government struggling to meet its GDP target of 7.5% has stemmed the decline and we're starting to see tepid signs of recovery in 2H2014. We started to see targeted easing of home purchase restrictions ("HPR") in various cities starting from the middle of 2014 and to date, 39 out of 46 cities with HPR have relaxed their policy stance. In September 2014, the People's Bank of China loosened its mortgage policy and allowed onshore debt sales by developers and followed up by unleashing rate cuts in November 2014. The housing market demonstrated signs of bottoming out in November, with prices falling at a slower pace in November (-0.6% m/m versus -0.8% m/m in October and -1.0% m/m in September) and a turnaround in the fall in sales volumes in the last two months of 2014 as the effects of mortgage policy easing begin to gain traction.

Moody's Investors Service ("Moody's") however, maintained its negative outlook for China property as the agency forecasts a decline in sales in 2015 with inventory levels remaining high and tight liquidity for the broader industry. Moody's expects nationwide contracted sales, in value terms, to further shrink by 0% to 5% y/y in 2015 after a decline of over 10.0% y/y in 9M2014. Moody's also believes that declining prices will pressure developers' gross margins and weaken their credit quality. The credit agency however expects sales volumes to stabilize in 2015 on improved mortgage availability, relaxing HPR in most cities and a lower comparison base.

We remain constructive on China property credits in 2015 as continued policy easing should contain tail risks for the sector while oversupply should alleviate with the fall in real estate investment this year (from 17.2% y/y in January 2014 to 11.9% y/y as of November 2014). That said, the on-going clamp down on corruption could provide event risks if a repeat of the issues surrounding Agile Property Holdings Ltd this year should rear its head in other companies in 2015. Among the developers under our coverage, China Vanke Co. Ltd's position as one of the largest developers, coupled with its strong balance sheet should put the company in good stead to weather any impending slowdown while the smaller developers such as Yanlord Land Group Ltd and Central China Real Estate Ltd have seen their credit profiles deteriorate this year on slower contracted sales and deliveries.

Oil & gas plays in the limelight

With WTI and Brent prices dropping to around US$50/bbl to US$60/bbl levels from around US$100/bbl on average in the middle of 2014, some oil & gas related bonds were badly hit. For example, price of SWIBSP 9.75% perp-c'15 has dropped to 87.5 (bid as of 5th January 2015) from around par in early November 2014. Although we note that oil prices may not see a meaningful rebound in the near term, we think credit metrics for the oil & gas related names under our coverage remain manageable.

We expect near-term earnings visibility for Ezra to be supported by its healthy order book of US$2.4bn. As Ezra is only involved in projects under development or production stages, we believe that it is less likely to face contract cancellations. Similarly, being focused in the shallow water segment, we think that Nam Cheong will be less affected by the lower oil prices as well. Meanwhile, given the healthy balance sheet of Sembcorp Industries Ltd (net cash position) and Keppel Corp Ltd (net gearing of 0.19x as at end-3Q2014), they should be able to navigate through the current headwinds, in our opinion. Furthermore, the price of oil needs to remain at depressed levels for more extended periods of time before the order books of these two rig builders become significantly affected.

According to OCBC Commodities research report[1], oil prices are likely to stay low in 1H2015, given the likelihood for the oil supply glut to persist into 2015. However, low oil prices does affect profit margins of oil producers, where US shale oil producers face an estimated marginal cost of US$70/bbl-US$77/bbl, versus OPEC's need for oil to stay above US$90/bbl-US$110/bbl in order to keep their fiscal balances positive. As such, we expect oil supplies to take a step down in 2H2015, especially when hedging instruments that ensure shale selling prices gradually expires, and keeping in mind an OPEC meeting in June 2015. Overall, we expect WTI and Brent to average around US$65/bbl-US$70/bbl in 1H2015, before a supply correction is seen in 2H2015, where WTI and Brent should average around US$75/bbl-US$80/bbl.

We have also provided a credit metrics summary of other oil & gas related names that are not under our coverage on the following page. We note that Ezion Holdings Ltd and Swiber Holdings Ltd ("Swiber") are the most active issuers in the sector between 2013-2014, having issued S$575.0mn and S$590.0mn of bonds in the SGD market. Swiber also issued a RMB450.0mn bond in September 2014.

[1] OCBC Commodities Research, Crude Oil: A market-balancing act, 16th December 2014.

Figure 10: Credit metrics of O&G related names not under coverage (as at 30th September 2014)

	CCY	Cash	Short-term debt	Long-term debt	Total Debt	Net gearing (x)	LTM EBITDA / LTM Interest	Net debt/ LTM EBITDA	Cash minus Short-term debt
ASL Marine Holdings Ltd	SGD	58.4	227.9	272.8	500.7	1.05	4.70	6.88	-169.5
AusGroup Ltd*	AUD	38.0	2.3	18.8	21.1	Net cash	3.59	Net cash	35.7
Dyna-Mac Holdings Ltd	SGD	47.3	72.6	0.2	72.8	0.14	57.68	0.57	-25.3
Ezion Holdings Ltd	USD	332.9	303.9	1187.7	1491.6	1.03	13.16	4.51	29.0
Falcon Energy Group Ltd	USD	40.6	54.3	123.9	178.2	0.53	5.05	5.47	-13.7
KrisEnergy Ltd	USD	116.9	0.0	264.3	264.3	0.34	2.45	5.30	116.9
Nam Cheong Ltd	MYR	206.6	206.9	596.7	803.6	0.60	6.81	2.16	-0.4
Otto Marine Ltd	USD	43.3	188.5	375.1	563.7	1.70	0.16	115.51	-145.3
Pacific Radiance Ltd	USD	73.1	46.0	227.8	273.8	0.48	5.08	3.03	27.1
Swissco Holdings Ltd	SGD	14.2	73.2	44.4	117.5	0.74	15.03	2.92	-59.0
Swiber Holdings Ltd	USD	101.7	381.7	843.4	1225.1	1.69	1.11	15.49	-280.0
Vallianz Holdings Ltd	USD	44.1	75.3	432.7	508.0	2.75	2.84	18.23	-31.2

*Sources: Bloomberg Finance LP * AusGroup has issued S$110.0mn bond in October 2014 that is not reflected in the numbers.*

Based on the table above, Otto Marine Ltd, Swiber and Vallianz Holdings Ltd appear to have weaker than average credit metrics. In addition, some of these companies may face refinancing issues given that their cash positions are insufficient to repay their short-term debt. We note that Swiber has proposed a rights issue to raise S$45.9mn for working capital in December 2014. Broadly speaking, we believe that bonds issued by smaller issuers with less balance sheet leeway will face near-term price volatility, particularly with technical pressure from negative headlines regarding the global energy market.

MAS aims to make bond trading easier for retail investors

Although there were increasing amount of corporate bond issuances in recent years, they were mainly targeted at institutional and accredited investors with limited offerings to the retail market. Nonetheless, MAS witnessed the growing demand of retail investors in fixed income products due to the low interest rates environment and it has released a consultation paper proposing changes to facilitate bond offerings to retail investors. In line with this, the SGX has proposed a bond seasoning framework where retail investors will be able to purchase bonds initially offered to institutional and accredited investors, after these bonds have been listed for six months (seasoned bonds).

The key points of the proposals (restricted to plain vanilla unsubordinated bonds with a maximum tenor of 10 years) are:

- Seasoned bonds issued by issuers that meet eligibility criteria stipulated by SGX under the seasoning framework, can be re-denominated into smaller lot sizes and made available to retail investors via secondary trading. Subsequent offers of new bonds to retail investors, with the same terms as the seasoned bonds, will be exempted from prospectus requirements.

- Bonds issued by issuers who are able to satisfy specified thresholds that are higher than the eligibility criteria under the seasoning framework (exempt bond issuers), can be offered to retail investors without a prospectus. This provides an avenue for retail investors to acquire bonds directly from an issuer, without having to wait for six months for the bonds to be seasoned.

Meanwhile, key criteria of the seasoning framework are:

- Market capitalisation of at least S$1.0bn over the past 180 market days or average net asset of at least S$500.0mn over the past three years as well as in the most recent audited annual financial statements.
- Minimum issue size of S$150.0mn for the initial offer to institutional investors and accredited investors.
- Has a credit rating of BBB (or higher) or listed at least S$500.0mn of bonds on SGX over the past 5 years.
- 'Look back' period of 3 years for the issuer's financial position, with no net loss and positive net operating cash flow, on average.

These proposals are open for consultation until 23 January 2015. Based on the eligibility criteria, about 120 issuers in Singapore can potentially issue bonds under the seasoning framework and about half of them can offer bonds directly to retail investors without a prospectus.

We believe the proposals are an important step to open up the bond market to retail investors. In addition, it also provides more investment options for the aging population in Singapore which requires a more stable and less risky income stream. Meanwhile, the proposals will allow quality issuers (especially those with investment grade ratings and above) to consider tapping liquidity in the retail space as part of their capital raising plans and diversify their funding sources. Together with the 100% LCR requirement for local banks, this should stimulate the supply of high-rated corporate issues going forward, in our view.

We note that retail bonds could trade somewhat tighter than comparable non-retail bonds, likely because of the increased pool of investors as there are only 7 retail bonds listed on SGX. In addition, bond prices quoted on the SGX are dirty prices (include accrued interest) and it may be difficult for retail investors that are less sophisticated to calculate the actual bond yields. For example, the retail bond of Genting Singapore Plc is trading at 5.51% while the non-retail bond is trading at a higher yield of 5.86%. As the retail tranche of GENSSP perp-c'17 is trading above par, its yield will be lower if it is called in 2017 (YTW of 4.0%).

Figure 11: Comparison of wholesale and retail bonds – Genting Singapore Plc

Genting Singapore Plc	Yield to maturity, mid (%)*	Difference
GENSSP 5.125% perp-c'12/09/2017 (Wholesale)	5.86%	The retail bond yields 35bps less. The call date for retail tranche is also about 1 month longer.
GENSSP 5.125% perp-c'18/10/2017 (Retail)	5.51%	

*Sources: OCBC, Bloomberg Finance LP, SGX *As at 05th January 2015*

Top Trade Ideas

Picks

Company	Ticker	S&P / Moody's / Fitch	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM	Rationale
Central China Real Estate Ltd	CENCHI	BB-/Stable, Ba3/Stable, NR	10.750%	18-Apr-16	S$200mn	104.25	7.20%	While CCRE's contracted sales were weak in 2014, we like CapitaLand's participation and the company's relatively conservative credit profile. CCRE's curve sold off in December 2014 and valuations look compelling at current levels. We see more value in CENCHI'16 (679bps over swap) over CENCHI'17 (672bps over swap) given a 7bps pick up in spread despite a shorter tenor.
Ezra Holdings Ltd	EZRASP	NR/NR/NR	5.000%	7-Sep-15	S$225mn	100.30	4.53%	With growth capex tapering off and the delivery of the Constellation in 2015 likely to boost subsea EBITDA, the EZRASP'15 looks attractive at 370bps above swaps for short duration paper. The refinancing risk is real, but mitigated by Ezra's healthy order book.
First REIT	FIRTSP	NR/NR/NR	4.125%	22-May-18	S$100mn	101.50	3.65%	We think FIRTSP'18 is attractive at 205bp over swap. FREIT has strong and stable earnings visibility as it enjoys a long portfolio lease expiry (10.7-year). Meanwhile, credit metrics were modest with limited interest rates exposure and foreign exchange risks.
Nam Cheong Ltd	NCLSP	NR/NR/NR	6.000%	5-Nov-15	S$110mn	102.05	3.45%	NCL's stable performance reflects its niche in the regional OSV market. Its contract manufacturing model helps balance the inventory risk from its BTS model. Gearing remains at fair levels with manageable short-term maturities. We like the NCLSP'15 and '17 which are offering 260bps and 280bps respectively for short duration paper.
			5.000%	28-Aug-17	S$90mn	101.05	4.57%	

Pans

Company	Ticker	S&P / Moody's / Fitch	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM	Rationale
Suntec REIT	SUNSP	NR, Baa3/Stable, NR	3.100%	8-Aug-16	S$150mn	102.60	1.43%	SUN's earnings have improved considerably following completion of Suntec City Mall's AEIs. However, credit profile remains weaker than peers and we don't see value in SUNSP'16 and '20, with spreads of 41bp and 87bp over swap, respectively.
			3.350%	10-Feb-20	S$310mn	102.50	2.82%	
Singapore Post Ltd	SPOST	A/Stable, NR, NR	3.500%	30-Mar-20	S$200mn	106.75	2.13%	The core business is changing with SPOST's sustained push towards e-commerce as well as potential strategic endeavours with Alibaba. Though the balance sheet remains robust, the SPOST'20 is trading rich at 20bps above swaps. The SPOST'49c22 is trading at 3.53% YTC while we see better value with ART'49c19 offering 4.52% YTC.
			4.250%	'49-c'22	S$350mn	104.50	3.53%	
Yanlord Land Group Ltd	YLLGSP	BB-/Negative, Ba3/Stable, NR	6.200%	8-May-17	S$400mn	101.85	5.34%	While we acknowledge YLG's quality land bank and track record in premium developments, we do not think current levels (YLLGSP'17: 5.34% offer yield, 429bps over swap) have priced in downgrade risks from the company's deteriorating credit profile. YLG's BB- rated peer CENCHI'17 (7.66% offer yield, 673bps over swap) looks better value for a 244bps spread pickup for similar tenor. We also note dislocations in value between YLG's SGD bonds which look rich vis-a vis its USD curve.
Henderson Land	HENLND	NR/NR/NR	4.000%	19-Sep-18	S$200mn	105.5	2.44%	We feel that HLD's credit profile is similar to it's A-rated peers such as Wharf and HK Land. While we acknowledge HLD's improving credit profile, HLD's curve is trading at a premium to its rated peers and CKH. HENLND'18 at 82 bps over swap is 65bps and 17bps tighter compared to CHEUNG'18 and WHARF'18, respectively.

Source: OCBC estimates, Bloomberg (as of market close 5th January 2015)

Contents

Company Outlook – Corporates

Credit Outlook – AREIT's credit metrics have deteriorated slightly due to new acquisitions and ongoing AEIs. Nonetheless, AREIT is well positioned to withstand the industry headwinds given its quality assets and solid track record. We underweight the AREIT complex due to the relatively rich valuations.

Underweight

S&P: Not rated
Moody's: A3/Stable
Fitch: Not rated

Ticker: **AREIT**

Company profile

Listed in 2002, Ascendas REIT ("AREIT") is the first and largest business space and industrial REIT in Singapore, with total assets of about S$7.9bn as at 30th September 2014. AREIT owns a diversified portfolio of 104 properties in Singapore spanning business and science parks, hi-specs industrial and light industrial properties and logistics & distribution centers, as well as 2 business park properties in China. Its key shareholder is Ascendas Pte Ltd, which owns 17.1% of the trust. Ascendas Pte Ltd is a wholly-owned subsidiary of JTC Corporation.

Ascendas Real Estate Investment Trust

Key credit considerations

- **Solid operating track record will guide AREIT through headwinds:** Gross revenue and NPI increased 8.4% y/y and 7.4% y/y respectively in 1HFY2015, driven mainly by contributions from new acquisitions (Aperia & Hyflux InnoCentre) and positive rental reversions. Management expects positive rental reversions on the remaining 8.0% of leases due for renewal in FY2015 as passing rents are lower than current market rent. Overall portfolio occupancy dropped to 85.6% (1HFY2014: 90.1%) due to acquisition of Aperia and conversion of one single tenanted building to multi-tenanted building. We expect the industrial property segment to face challenges from new supply, tight foreign labor conditions and regulatory impediments. The impending supply of ~3.5mn sq m of industrial space in 2015-2016 will likely exert downward pressure on rentals and occupancies going forward. Nonetheless, we consider AREIT better-positioned, as compared to its peers, to weather the tougher conditions given its strong operating track record, quality assets and low exposure to conventional manufacturing activities.

- **Diversified tenant base buffers against concentration risk:** Properties in Singapore made up 96.0% of AREIT's portfolio by GFA, with the other 4.0% accounted by 2 properties in China. However, geographical concentration risk is alleviated by a diversified tenant base of over 1,360 companies and MNCs across a spectrum of industries. During 1HFY2015, no single industry contributed more than 10.4% of gross rental income, protecting AREIT against industry-specific risk. In addition, the top 10 tenants contributed only 20.1% of its gross rental income.

- **Well-managed portfolio provides earnings stability:** AREIT's industrial portfolio is well-spread across 8 sub-categories that cater to different segments of the economy, diversifying its revenue stream. In addition, most of its properties are strategically located close to public transportation and expressways. AREIT's lease expiry profile is well-managed with 53.0% of its leases (by rental income) secured beyond FY2017, providing good mid-term earnings visibility. Its portfolio WALE of 4.0 years compares favorably against most of its industrial peers. Management had been active in managing leases in 1HFY2015, reducing the leases due for renewal in FY2015 from 21.3% to 8%. We also like that AREIT manages its portfolio proactively, undertaking AEIs and opportune acquisition activities to enhance the marketability and quality of its portfolio.

- **Credit metrics remain healthy despite slight deterioration:** Net debt/net capitalization hiked to 33.2% (FY2014: 30.3%) due to acquisition of Aperia and ongoing AEIs. Meanwhile, interest coverage ability weakened with FFO/gross interest and EBITDA/gross interest ratios at 3.9x (FY2014: 7.3x) and 4.1x (FY2014: 6.0x), respectively. AREIT still has debt headroom of ~S$1.8bn before aggregate leverage reaches 45.0%, giving it sufficient financial flexibility to pursue accretive acquisitions. Despite a series of ongoing AEIs, we expect AREIT's capital expenditure to taper going into 2HFY2015, keeping its balance sheet in check.

- **Manageable refinancing and interest rate risks:** AREIT's cash balance of S$40.2mn is insufficient to cover S$338.4mn of maturing debt. However, we believe that AREIT can comfortably refinance the debt given its existing undrawn credit facilities, strong access to capital markets and association with Ascendas Pte Ltd. AREIT demonstrated its ability to tap on diversified funding sources with two separate bond issuances in August – (1) a HK$620mn 3.5-year issue; and (2) a HK$640mn 15-year issue – that extended weighted average debt maturity from 3.7 years to 4.0 years. In addition, AREIT's debt maturity profile is well-termed with no more than 20.0% of debt due in any one year. Separately, AREIT's interest rate risk is manageable with 68.8% of borrowings on fixed rates or hedged.

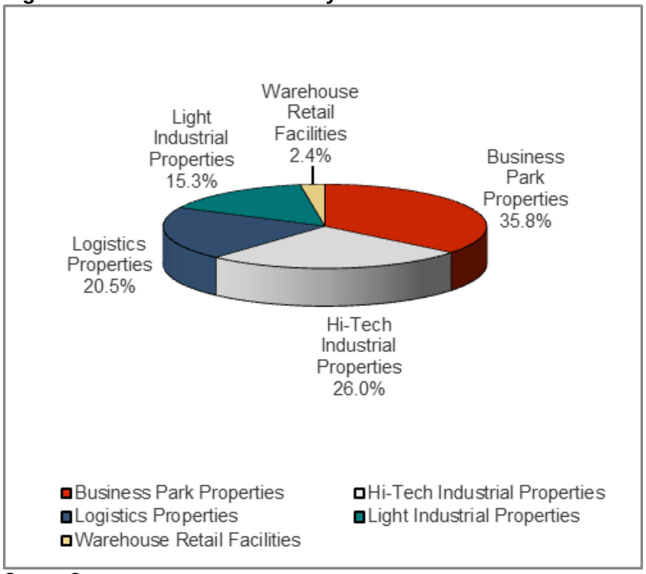
Ascendas Real Estate Investment Trust

Table 1: Summary financials

Year ended 31st March	FY2013	FY2014	1H2015
Income statement (S$ mn)			
Revenue	575.8	613.6	328.0
EBITDA	364.5	395.9	209.3
EBIT	363.7	395.2	209.2
Gross interest expense	73.4	66.4	51.6
Profit before tax	337.1	505.2	201.1
Net income	336.3	482.0	198.9
Balance sheet (S$ mn)			
Cash and equivalents	19.5	65.9	40.2
Total assets	6,959.0	7,357.5	7,866.5
Gross debt	1,979.1	2,177.0	2,513.4
Net debt	1,959.5	2,111.0	2,473.2
Total equity	4,661.1	4,848.6	4,965.8
Total capitalization	6,640.2	7,025.5	7,479.3
Net capitalization	6,620.7	6,959.6	7,439.0
Cash flow (S$ mn)			
Funds from operations (FFO)	337.1	482.7	199.0
CFO	375.3	407.0	206.2
Capex & acquisitions	236.6	164.7	483.8
Dividends	309.4	325.8	85.3
Adjusted FOCF	138.7	242.3	-277.5
Disposals	0.0	70.0	12.6
Free Cash Flow (FCF)	-170.7	-13.5	-350.2
Key ratios			
EBITDA margin (%)	63.3	64.5	63.8
Net margin (%)	58.4	78.5	60.7
Gross debt/EBITDA (x)	5.4	5.5	6.0
Net debt/EBITDA (x)	5.4	5.3	5.9
Gross debt/equity (x)	0.42	0.45	0.51
Net debt/equity (x)	0.42	0.44	0.50
Gross debt/total capitalization (%)	29.8	31.0	33.6
Net debt/net capitalization (%)	29.6	30.3	33.2
FCF/gross debt (%)	-8.6	-0.6	-27.9
FFO/gross interest (x)	4.6	7.3	3.9
EBITDA/gross interest (x)	5.0	6.0	4.1

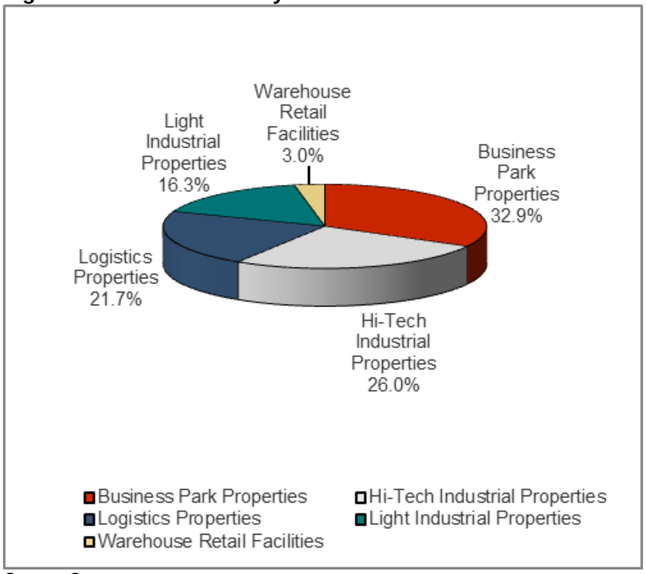
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business– FY2014



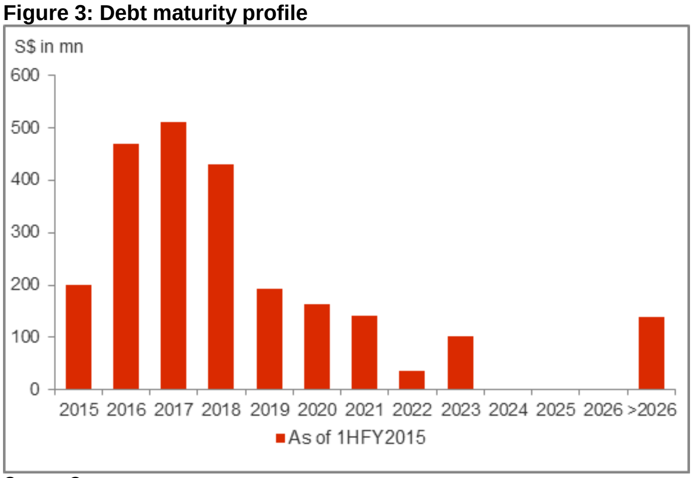
Source: Company

Figure 2: NPI breakdown by business– FY2014



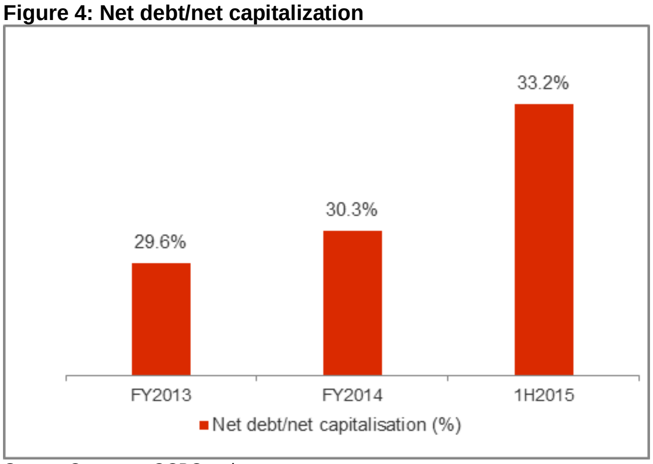
Source: Company

Figure 3: Debt maturity profile



Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – ART's leverage is on the rise due to its acquisition strategy. However, its portfolio remains resilient given the stable master leases and management contracts with minimum guaranteed income. We prefer ARTSP'49 to ARTSP'15 and '18 on the back of the more attractive YTC of 4.52% (SOR+261bps). Coupon for ARTSP'49 will be reset at 5YR SOR+341bps if not called.

Neutral

S&P: Not rated

Moody's: Baa3/Stable

Fitch: Not rated

Ticker: **ARTSP**

Company profile

Ascott REIT ("ART") invests primarily in serviced residences and rental housing properties. It is the largest hospitality trust listed on SGX, having more than tripled its portfolio value to about S$4.1bn (as at end-2013) since listing in 2006. ART's serviced residences are operated under the Ascott, Madison, Citadines and Somerset brands. As of 30th September 2014, its portfolio consists of 86 properties with 9,985 apartments in 36 cities across 13 countries in Asia-Pacific and Europe. CapitaLand Ltd has a 45.8% stake in ART.

Ascott Residence Trust

Key credit considerations

- **9M14 performance remained robust:** 9M2014 revenue increased 12.7% y/y to S$262.2mn, mainly due to higher contributions from newly acquired properties in 2014, as well as increased revenue from existing properties. Nonetheless, these were partly mitigated by cessation of operations of Somerset Grand Fortune Garden due to ongoing strata sale of units. Gross profit grew 12.5% y/y to S$134.5mn, in line with revenue growth. On a same store basis, gross profit increased by 4.0% y/y. Meanwhile, ART's gross margin was fairly stable at 51.3% in 9M2014 (9M2013: 51.4%).

- **Strong growth came from different countries:** Japan was ART's strongest performing market in 3Q2014, with revenue surging 25.8% y/y following the acquisition of Infini Garden in March 2014 and stronger demand from corporate and leisure travelers. China also performed well with revenue increasing 30.6% y/y, mainly due to the acquisitions of three new properties in 2014. In addition, revenue for Australia grew 30.0% y/y as a result of better demand for the renovated apartments at Citadines St Georges Terrace, Perth while revenue for Belgium increased 17.6% y/y on the back of higher rental rates from the refurbished apartments at Citadines Toison d'Or Brussels.

- **Resilient portfolio with stable income contribution:** ART's portfolio is well diversified with 65.7% of total assets in Asia-Pacific (such as China, Singapore and Japan) and the remaining 34.3% in Europe (such as France, United Kingdom and Germany). More importantly, 51.0% of ART's gross profit for 3Q2014 was contributed by master leases and management contracts with minimum guaranteed income (both with average weighted remaining tenure of ~4.3 years, respectively). This provides income stability and visibility to the group. Besides, the group's focus on corporate travel and leisure segments reduces dependence on any particular segment. The average length of stay for ART's portfolio (excluding properties under master leases) is about 4 months.

- **Well-executed acquisition strategy continues to support growth:** ART has been consistent with its strategy to acquire accretive assets in key cities of Asia Pacific and Europe. Its total asset value had grown at a CAGR of 18.5% from 2006-2013. In 2014, the group has added nine properties to its portfolio in countries such as Australia, China, Japan and Malaysia. Going forward, ART will continue to seek for growth opportunities from third-party owners and through right of first refusal from its sponsor, The Ascott Ltd. Furthermore, it will also focus on asset enhancement initiatives to unlock values of its properties. ART has been prudent in managing its forex exposure and it tries to naturally hedge the currency exposure of the underlying asset through the use of local currency borrowings. In addition, the group has entered into forward contracts to hedge distribution income derived in EUR, GBP and JPY.

- **Higher gearing, but interest rate and refinancing risks remain low:** Due to ART's acquisitive growth strategy, net debt/net capitalization has increased to 39.0% as at end-3Q2014 (FY2013: 31.2%). However, EBITDA/gross interest improved and remains healthy at 4.1x (FY2013: 3.5x). Interest rate risk also remains low with 70% of its borrowings on fixed interest payments. Meanwhile, although ART's S$151.3mn cash balance is insufficient to cover its short term debt of S$176.2mn, we see limited refinancing risks as ART has successfully issued S$150.0mn of perpetual securities in October 2014. ART's debt maturity profile is well termed out (as of end-3Q2014) with 57.9% of debt due only in FY2017 or beyond. Management is currently exploring opportunities to refinance ART's borrowings due in 2015.

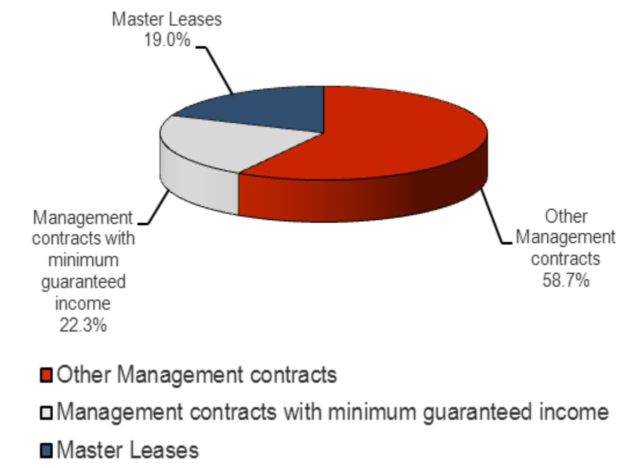
Ascott Residence Trust

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	9M2014
Income statement (S$ mn)			
Revenue	303.8	316.6	262.2
EBITDA	150.7	154.8	129.4
EBIT	139.9	141.3	117.9
Gross interest expense	42.3	44.6	31.4
Profit before tax	200.0	251.6	119.5
Net income	162.4	208.7	89.4
Balance sheet (S$ mn)			
Cash and equivalents	125.2	204.5	151.3
Total assets	3,002.5	3,585.1	3,907.7
Gross debt	1,170.8	1,197.1	1,528.1
Net debt	1,045.6	992.6	1,376.8
Total equity	1,641.0	2,187.1	2,154.9
Total capitalization	2,811.8	3,384.2	3,683.0
Net capitalization	2,686.6	3,179.7	3,531.7
Cash flow (S$ mn)			
Funds from operations (FFO)	173.2	222.2	101.0
CFO	125.2	152.0	106.9
Capex & acquisitions	361.5	201.2	245.8
Dividends	100.1	110.7	119.5
Adjusted FOCF	-236.4	-49.3	-138.9
Disposals	375.1	0.0	4.4
Free Cash Flow (FCF)	38.6	-159.8	-254.0
Key ratios			
EBITDA margin (%)	49.6	48.9	49.3
Net margin (%)	53.4	65.9	34.1
Gross debt/EBITDA (x)	7.8	7.7	8.9
Net debt/EBITDA (x)	6.9	6.4	8.0
Gross debt/equity (x)	0.71	0.55	0.71
Net debt/equity (x)	0.64	0.45	0.64
Gross debt/total capitalization (%)	41.6	35.4	41.5
Net debt/net capitalization (%)	38.9	31.2	39.0
FCF/gross debt (%)	3.3	-13.3	-22.2
FFO/gross interest (x)	4.1	5.0	3.2
EBITDA/gross interest (x)	3.6	3.5	4.1

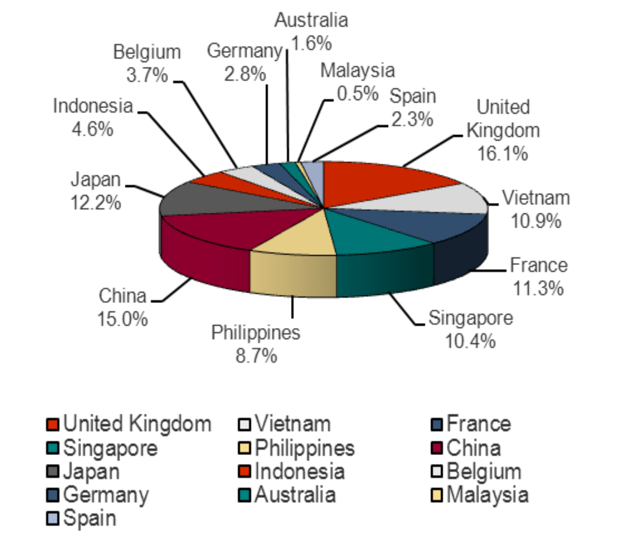
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – 9M2014



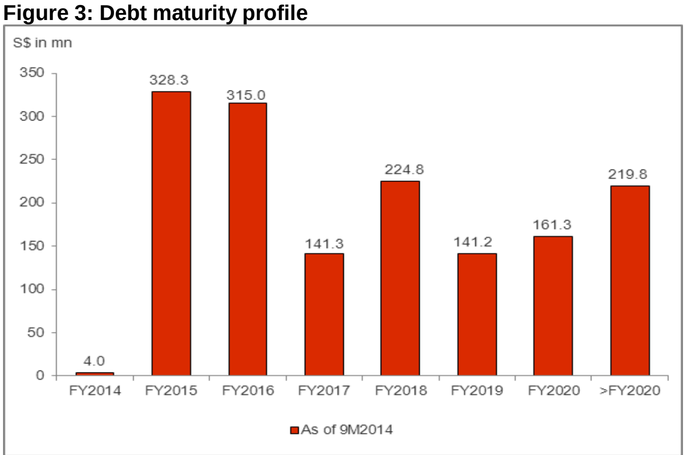
Source: Company

Figure 2: Revenue breakdown by geography – 9M2014



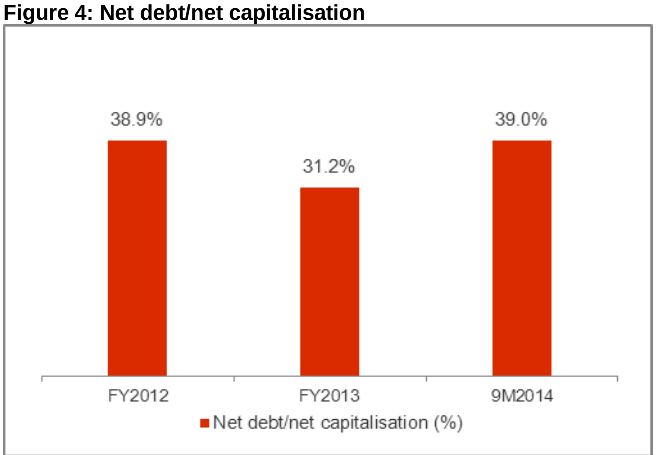
Source: Company

Figure 3: Debt maturity profile



Source: Company

Figure 4: Net debt/net capitalisation



Source: Company, OCBC estimates

Credit Outlook – Outlook for CCT remains supported by the limited new supply of office space in the near term. However, this has been largely priced in, in our opinion. We like CCTSP 3.25% '15 at 1.43% (SOR+60bps) for a less than one year paper.

Neutral

S&P: A-/Stable

Moody's: Baa1/Stable

Fitch: Not rated

Ticker: **CCTSP**

Company profile

Listed on the SGX in 2004, CapitaCommercial Trust ("CCT") is Singapore's first listed and largest commercial REIT, with S$7.4bn of property holdings as at 30th September 2014. It comprises ten prime properties in Singapore, as well as investments in Malaysia. Properties in Singapore comprise of Raffles City Singapore (60%), Capital Tower, One George Street, Six Battery Road, HSBC Building, Twenty Anson, Golden Shoe Car Park, Bugis Village, CapitaGreen (40%) and Wilkie Edge. CCT is 31.6%-owned by CapitaLand Ltd.

CapitaCommercial Trust

Key credit considerations

- **9M2014 results remained robust:** CCT's revenue rose 4.9% y/y to S$196.2mn as all properties contributed higher revenue except One George Street (due to expiry of yield protection in July 2013). Meanwhile, net property income grew at a slower pace of 4.5% y/y to S$154.6mn as the increased revenue was partly offset by higher property operating expenses of S$41.6mn (+6.4% y/y on the back of higher property tax).

- **Portfolio occupancy outperformed industry average:** CCT's portfolio of quality office and commercial buildings are well located in Singapore's Central Area, and close to MRT stations. As a result, CCT continued to achieve a stellar occupancy rate of 99.4% as at end-3Q2014 (end-3Q2013: 97.6%), above the market average of 96.6%. In particular, CCT's monthly average office portfolio rent was 4.9% higher y/y at S$8.42psf. Furthermore, CCT managed to sign ~131,000 sq ft of new leases and renewals in 3Q2014, of which 17% are new leases.

- **Long weighted average lease expiry ("WALE") supports income stability:** CCT's long portfolio WALE of 7.7 years (as at end-3Q2014) shall continue to provide good earnings visibility in the near to medium term. In addition, CCT's portfolio lease expiry profile was well spread with 24% of monthly gross rental income due in 2015, 19% in 2016, 13% in 2017 and 43% in 2018 and beyond. Although four key assets (Raffles City Singapore, Capital Tower, Six Battery Road and One George Street) contributed about 79.0% of CCT's net property income in 9M2014, we believe that asset concentration risk should be mitigated by CCT's diverse tenant mix.

- **Asset enhancement initiatives ("AEI") and CapitaGreen will provide impetus to growth:** CCT remains committed to enhance the value of its properties by carrying out AEI and it had commenced an AEI for Capital Tower in 4Q2013. The S$40mn AEI is expected to be completed in 4Q2015 with an estimated return on investment of 7.8%. Meanwhile, 40%-owned CapitaGreen obtained its Temporary Occupation Permit on 18th December 2014 and it has successfully secured leases for 50.4% of its net lettable area. Management also expects CCT to benefit from the tight office supply in the core Central Business District market, which is estimated to continue until 1H2016. Given that 18% of CCT's gross rental income from office leases will be due for renewal in 2015, it is well placed to capture the potential upside in rental rates.

- **Moderate financial metrics with low interest rate risk:** 9M2014 net debt/net capitalization increased slightly to 19.5% (FY2013: 18.8%) due to ongoing capital requirements from AEI and CapitaGreen's development. Nonetheless, EBITDA/gross interest improved to 5.2x from 4.4x in FY2013. S&P has upgraded the credit rating of CCT to "A-" from "BBB+", with a stable outlook in August 2014. Refinancing risk remains low for CCT as it enjoys good access to capital markets and support from its sponsor, CapitaLand Ltd. In addition, 80% of CCT's debts are fixed rate borrowings; which reduces interest rate risk. Going forward, capex should remain manageable with S$19.4mn needed for Capita Tower's AEI and S$109.6mn for CapitaGreen's progress payments. CCT has an option to acquire the remaining 60% of CapitaGreen from its partners at market valuation within 3 years (2015-2017) after completion.

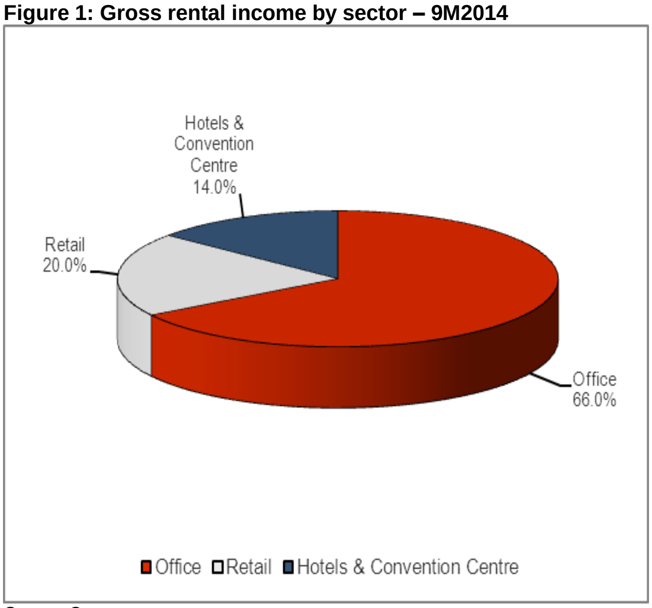
CapitaCommercial Trust

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	9M2014
Income statement (S$ mn)			
Revenue	375.8	386.9	196.2
EBITDA	274.7	273.5	142.9
EBIT	266.4	267.5	139.7
Gross interest expense	81.4	61.5	27.6
Profit before tax	386.0	374.6	263.8
Net income	385.9	374.6	263.8
Balance sheet (S$ mn)			
Cash and equivalents	139.5	84.1	55.1
Total assets	7,003.0	6,245.5	6,331.1
Gross debt	2,072.1	1,218.3	1,255.1
Net debt	1,932.6	1,134.3	1,200.0
Total equity	4,714.7	4,912.7	4,958.2
Total capitalization	6,786.7	6,131.0	6,213.3
Net capitalization	6,647.2	6,047.0	6,158.2
Cash flow (S$ mn)			
Funds from operations (FFO)	394.2	380.6	267.0
CFO	296.7	298.0	142.1
Capex & acquisitions	512.8	83.2	23.7
Dividends	218.6	231.3	236.5
Adjusted FOCF	-216.1	214.8	118.4
Disposals	6.3	0.0	0.0
Free Cash Flow (FCF)	-428.4	-16.5	-118.1
Key ratios			
EBITDA margin (%)	73.1	70.7	72.8
Net margin (%)	102.7	96.8	134.4
Gross debt/EBITDA (x)	7.5	4.5	6.6
Net debt/EBITDA (x)	7.0	4.1	6.3
Gross debt/equity (x)	0.44	0.25	0.25
Net debt/equity (x)	0.41	0.23	0.24
Gross debt/total capitalization (%)	30.5	19.9	20.2
Net debt/net capitalization (%)	29.1	18.8	19.5
FCF/gross debt (%)	-20.7	-1.4	-12.5
FFO/gross interest (x)	4.8	6.2	9.7
EBITDA/gross interest (x)	3.4	4.4	5.2

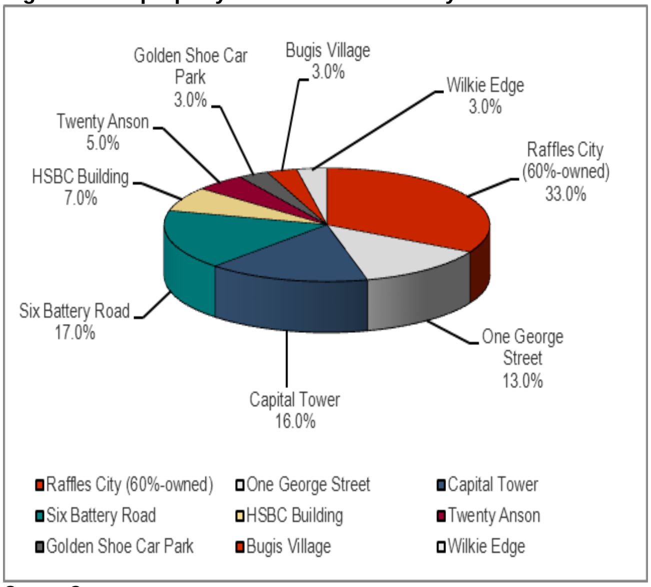
Source: Company, OCBC estimates

Figure 1: Gross rental income by sector – 9M2014



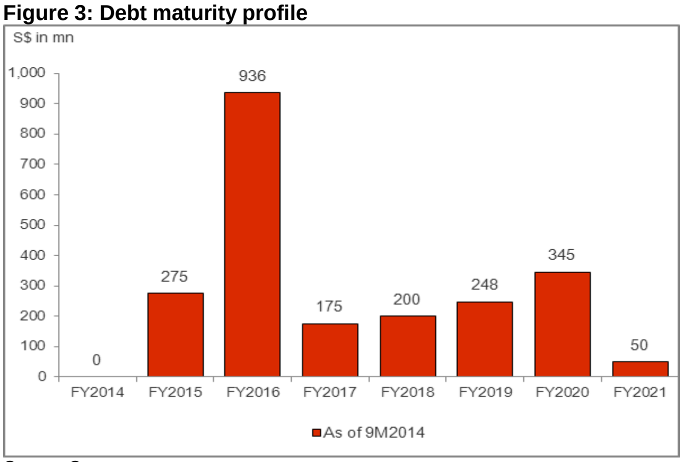
Source: Company

Figure 2: Net property income breakdown by asset – 9M2014



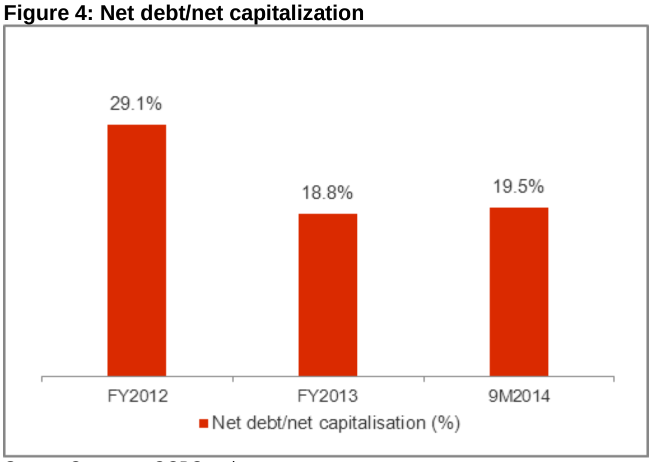
Source: Company

Figure 3: Debt maturity profile



Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

CapitaLand Ltd

Credit Outlook – Although CAPL's net gearing has increased post-acquisition of CMA, credit profile remains satisfactory due to its recurring income, diversified portfolio and financial flexibility. We prefer the CAPL curve over the CapitaMall Trust complex for shorter tenor papers, given the yield pickups of 20-50bps between similar tenors papers.

Neutral

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. CAPL has S$41.3bn of assets as at 30th September 2014 and it is 39.5%-owned by Temasek Holdings Ltd. As of 31st December 2014, CAPL has a market capitalization of S$14.1bn.

Key credit considerations

- **Better earnings from continuing operations in 9M2014:** Despite softer revenues (-7.5% y/y to S$2.41bn) due to lower contribution from Singapore and China development projects, CAPL's net profit from continuing operations (excluding contribution from Australand) was 15.7% higher y/y to S$716.1mn on the back of higher development profits in China and Vietnam, increased contribution from the shopping mall business (CapitaMalls Asia) and lower finance costs.

- **Singapore and China markets were major earnings contributors:** Singapore and China remained the key markets for CAPL, accounting for 48.3% and 32.0% of total EBIT, respectively. For 9M2014, CAPL sold only 237 residential units in Singapore (9M2013: 1,151 units) and 3,288 units in China (9M2013: 5,786 units) as sales were affected by weak market sentiment. Nonetheless, management thinks that long-term demand for new homes in Singapore remains positive and CAPL will continue to invest in well-located sites. CAPL has a similar view on China and will continue to acquire land bank to boost its development pipeline. About 4,000 residential units are launch ready in 4Q2014 and CAPL will market these units according to market conditions.

- **Well-diversified portfolio mitigates headwinds from residential markets:** While exposure to China and Singapore residential remains substantial, CAPL's business should remain resilient given its balanced portfolio across integrated developments, shopping malls, serviced residences (Ascott), offices and homes. For example, CAPL's exposure to residential assets declined to 26.0% of total assets as at end-3Q2014 from 32.0% as at end-2012. Meanwhile, the remaining assets comprise serviced residence (13.0%), retail (35.0%), commercial & integrated developments (25.0%) and others (1.0%).

- **Strong and stable recurring income stream:** Benefiting from its diversified portfolio, CAPL enjoys strong recurring income stream from its operations. For 9M2014, 76.0% of CAPL's EBIT (2013: 79.0%, 2012: 77.0%) were from recurring sources, providing stable contributions to the group. Going forward, 3 Raffles City projects will be completed in 2016-2017, while CAPL will be opening 17 shopping malls in 2015 & beyond. In addition, the group is targeting 12 new integrated projects across Asia, with about half in China. Besides, Ascott will continue to grow its fee-based income through by more management contracts. Meanwhile, CAPL is keen to increase its asset under management to ramp up capital recycling and third party fund management, with plans to set up 4-5 funds/JVs in two years. We believe that the significant pipeline going forward will continue to provide sustainable recurring income to CAPL.

- **Increasing leverage but liquidity remains adequate:** CAPL's net gearing increased to 0.6x from end-2013's 0.4x following the privatization of CapitaMalls Asia ("CMA"). Nonetheless, this is still manageable and the group's EBITDA/gross interest improved to 2.2x (2013: 0.7x). In addition, CAPL has sufficient financial flexibility as its cash balance of S$2.6bn is enough to cover the S$2.2bn of debt (less than 20.0% of total debt) maturing in 2015 (~S$1.0bn will be refinanced by the group). Despite rising debt levels, the group's borrowing costs decreased to 3.3% (2013: 3.7%, 2012: 5.0%) due to CAPL's proactive capital management. Interest rate risk remains low with 75% of borrowings on fixed rates. As at end-3Q2014, the group's total available undrawn facilities amounted to S$3.0bn and this should help CAPL to fund its growth strategy going forward.

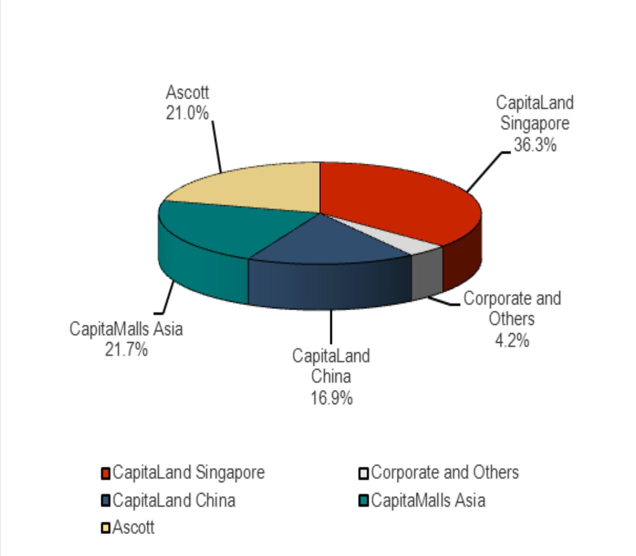
CapitaLand Ltd

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	9M2014
Income statement (S$ mn)			
Revenue	3,301.4	3,977.5	2,406.8
EBITDA	642.1	419.1	701.2
EBIT	595.7	369.5	652.1
Gross interest expense	658.4	444.5	325.0
Profit before tax	1,518.5	1,353.5	1,280.0
Net income	930.3	849.8	751.5
Balance sheet (S$ mn)			
Cash and equivalents	5,497.7	6,306.3	2,600.6
Total assets	37,787.6	45,063.1	42,415.0
Gross debt	14,179.8	15,936.2	15,756.3
Net debt	8,682.1	9,629.8	13,155.7
Total equity	19,443.8	24,454.8	21,946.0
Total capitalization	33,623.6	40,390.9	37,702.3
Net capitalization	28,125.9	34,084.6	35,101.6
Cash flow (S$ mn)			
Funds from operations (FFO)	976.7	899.4	800.6
CFO	249.3	523.0	393.5
Capex & acquisitions	3,010.0	1,086.3	941.3
Dividends	493.0	432.0	642.8
Adjusted FOCF	-2,760.7	-563.3	-547.8
Disposals	656.5	1,035.2	1,229.3
Free Cash Flow (FCF)	-2,597.2	39.8	38.7
Key ratios			
EBITDA margin (%)	19.4	10.5	29.1
Net margin (%)	28.2	21.4	31.2
Gross debt/EBITDA (x)	22.1	38.0	16.9
Net debt/EBITDA (x)	13.5	23.0	14.1
Gross debt/equity (x)	0.73	0.65	0.72
Net debt/equity (x)	0.45	0.39	0.60
Gross debt/total capitalization (%)	42.2	39.5	41.8
Net debt/net capitalization (%)	30.9	28.3	37.5
FCF/gross debt (%)	-18.3	0.2	0.3
FFO/gross interest (x)	1.5	1.5	2.5
EBITDA/gross interest (x)	1.0	0.7	2.2

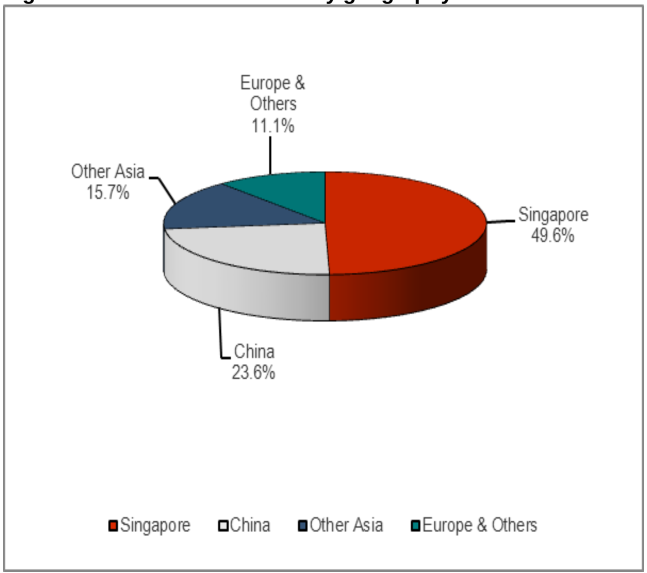
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – 9M2014



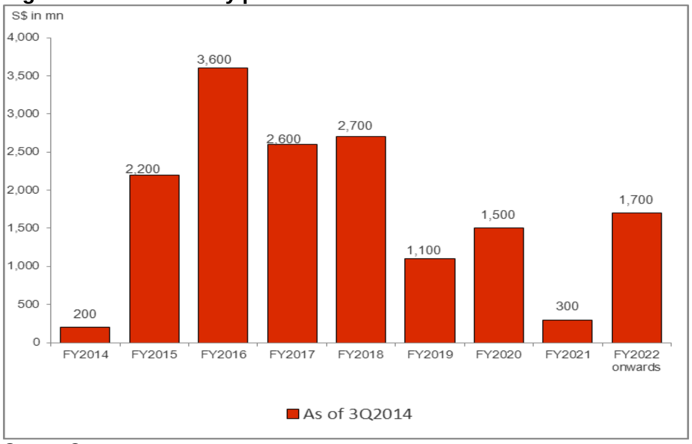
Source: Company

Figure 2: Revenue breakdown by geography – 9M2014



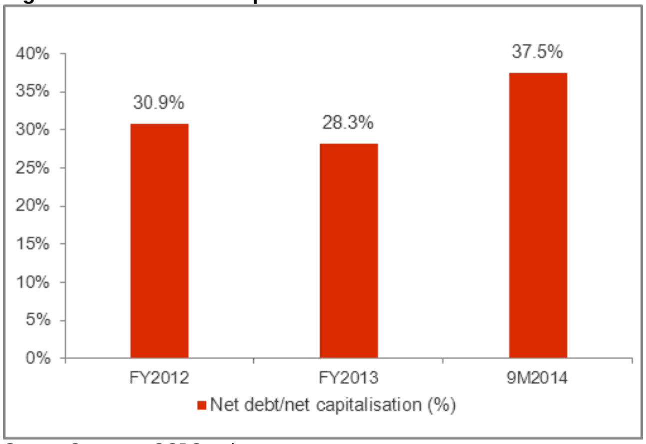
Source: Company

Figure 3: Debt maturity profile



Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – CMT's credit metrics remain stable despite a softening retail sector due to its quality assets and capable management. Nonetheless, we are neutral on the shorter-dated papers (< 5 years) and underweight the longer-dated papers (> 5 years) due to their rich valuations.

Neutral

S&P: Not rated

Moody's: A2/Stable

Fitch: Not rated

Ticker: **CAPITA**

Company profile

Listed on the SGX in 2002, CapitaMall Trust ("CMT") is the largest REIT by market capitalization at S$7.1bn as of 31st December 2014. 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. It is 28.0%-owned by CapitaLand Ltd ("CAPL"), which in-turn is 39.5%-owned by Temasek Holdings.

CapitaMall Trust

Key credit considerations

- **Decent operating results achieved in 9M2014:** CMT registered revenue of S$493.6mn (+3.7% y/y) in 9M2014, underpinned by higher occupancy at Plaza Singapura and The Atrium@Orchard, as well as the completion of asset enhancement initiatives ("AEI") at IMM (Phase 1) and Bugis Junction (Phase 2). Meanwhile, net property income growth was stronger at 4.3% y/y (S$342.4mn) as property operating expenses grew at a slower pace of 2.4% y/y. Going forward, CMT should recognize a gain of ~S$45.0mn in 4Q2014 from divestment of Westgate Tower, which obtained the temporary occupation permit on 9th October 2014.

- **Portfolio of high quality assets shall withstand softness in retail scene:** Shopper traffic and tenants' sales psf for CMT's portfolio were down 1.5% y/y and 3.0% y/y in 9M2014, respectively. However, as CMT's portfolio of shopping malls are well-connected to public transportation network and strategically located (near large population catchments or within popular destinations), they should continue to perform well. Furthermore, CMT's tenant base is well diversified and these should continue to provide stability to CMT's portfolio occupancy rate and rental income. As at end-9M2014, CMT achieved a high portfolio occupancy rate of 98.5% (end-FY2013: 98.5%).

- **Capable management with strong long-term track record:** Despite slower traffic and tenants' sales, management successfully renewed 417 leases (20.1% of total net lettable area) with positive rental reversions of 6.3% during 9M2014. In particular, CMT has been able to achieve positive rental reversions since 2003, including the global financial crisis period in 2008-2009. Besides, CMT's portfolio occupancy rate had consistently stayed above 95.0% since 2003 except in 2011 (94.8% due to AEI at The Atrium@Orchard). Being forward looking, management also constantly looks for AEI opportunities to revitalize its shopping malls and achieve higher returns. For example, recently completed AEI on Bugis Junction is estimated to have a return on investment of 9.0%. Currently, CMT is focusing on AEI on Tampines Mall, Bukit Panjang Plaza, Jcube and IMM Building (to house more outlet stores and strengthen its positioning as a value focused mall).

- **Modest credit metrics:** CMT's balance sheet as at end-3Q2014 remained healthy and net debt/net capitalization has improved to 24.4% from 30.3% in FY2013. In addition, unencumbered assets as percentage of total assets were maintained at 100.0%. Meanwhile, average cost of debt increased slightly to 3.6% from 3.4% in FY2013. Nonetheless, interest coverage remained satisfactory with EBITDA/gross interest at 3.6x (FY2013: 3.8x).

- **Limited refinancing risk:** Even though CMT is committed to pay out at least 90.0% of its distributable income to unitholders, its cash balance of S$1.0bn as at end-3Q2014 is sufficient to cover short-term borrowings of S$737.8mn. CMT's debt maturity profile is well managed, with ~68.0% of total borrowings due only in FY2017 and beyond. We note that CMT is still exploring new opportunities to acquire attractive properties and participate in greenfield development projects. We do not expect funding to be a problem if such opportunities arise as CMT has good access to capital markets. It demonstrated proactive capital management with four new bond issuances in 2014 (JPY5.0bn floating rate notes and S$350.0mn retail bonds in February, S$300.0mn fixed rate notes in August, as well as HK$650.0mn fixed rate bonds in November). Furthermore, CapitaMalls Asia (CMT's sponsor) is also likely to provide funding support for CMT's expansion initiatives going forward.

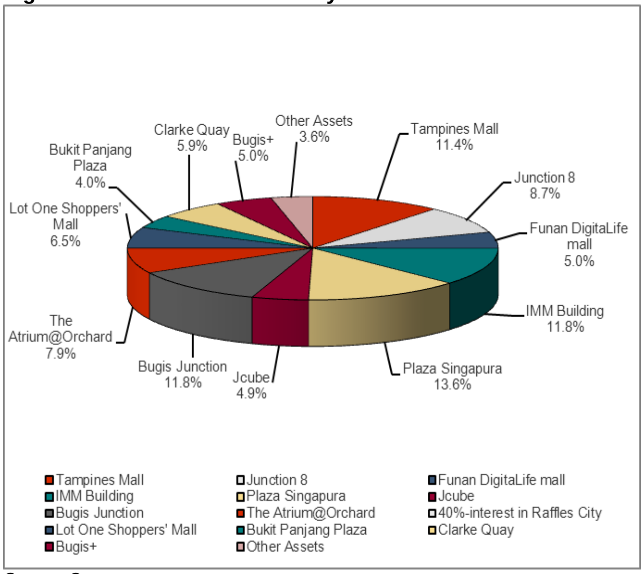
CapitaMall Trust

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	9M2014
Income statement (S$ mn)			
Revenue	661.6	729.2	493.6
EBITDA	398.3	455.5	309.6
EBIT	397.0	454.1	308.5
Gross interest expense	138.9	120.7	86.0
Profit before tax	534.3	574.9	445.1
Net income	536.3	574.4	445.1
Balance sheet (S$ mn)			
Cash and equivalents	1,118.3	832.7	1,021.2
Total assets	9,888.7	10,018	9,602.0
Gross debt	3,567.3	3,450.6	3,015.4
Net debt	2,449.0	2,617.9	1,994.2
Total equity	5,702.9	6,008.7	6,187.5
Total capitalization	9,270.2	9,459.4	9,202.9
Net capitalization	8,152.0	8,626.7	8,181.7
Cash flow (S$ mn)			
Funds from operations (FFO)	537.7	364.5	446.1
CFO	459.4	474.4	310.2
Capex & acquisitions	257.7	160.8	35.2
Dividends	311.6	340.7	276.1
Adjusted FOCF	201.7	313.6	275.0
Disposals	117.5	0.0	0.0
Free Cash Flow (FCF)	7.6	-27.1	-1.1
Key ratios			
EBITDA margin (%)	60.2	62.5	62.7
Net margin (%)	81.1	78.8	90.2
Gross debt/EBITDA (x)	9.0	7.6	7.3
Net debt/EBITDA (x)	6.1	5.7	4.8
Gross debt/equity (x)	0.63	0.57	0.49
Net debt/equity (x)	0.43	0.44	0.32
Gross debt/total capitalization (%)	43.8	40.0	36.9
Net debt/net capitalization (%)	30.0	30.3	24.4
FCF/gross debt (%)	0.2	-0.8	0.0
FFO/gross interest (x)	3.9	3.0	5.2
EBITDA/gross interest (x)	2.9	3.8	3.6

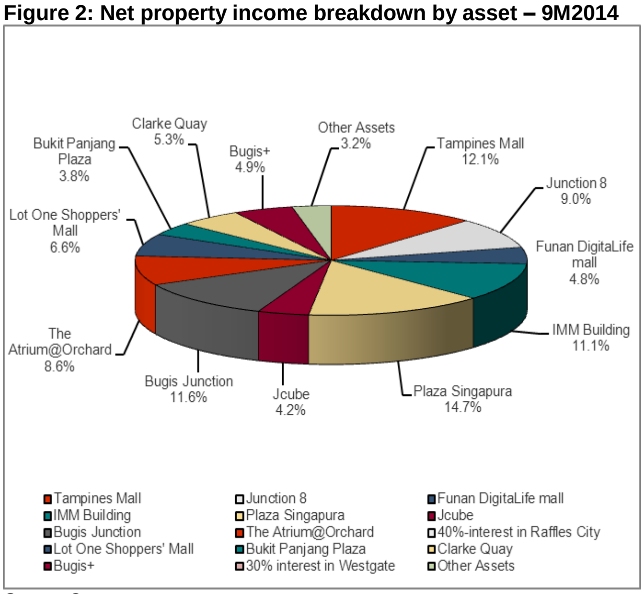
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by asset – 9M2014



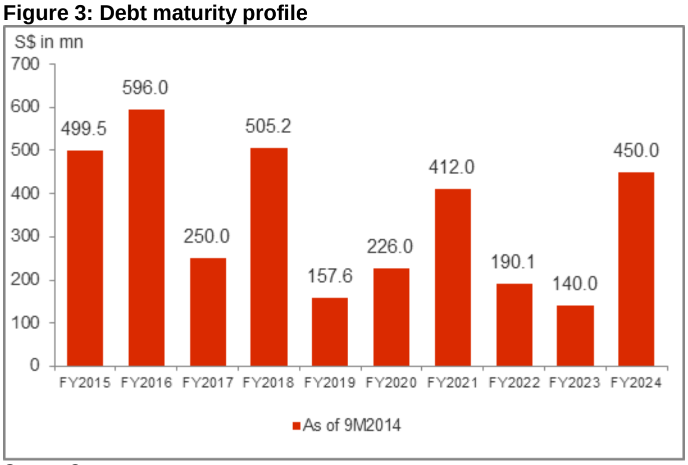
Source: Company

Figure 2: Net property income breakdown by asset – 9M2014



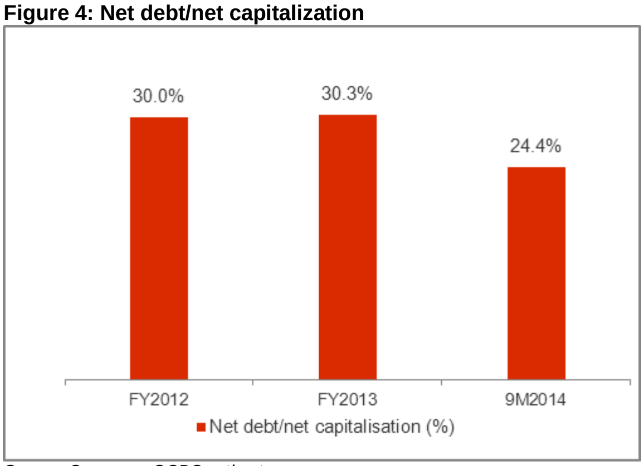
Source: Company

Figure 3: Debt maturity profile



Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Central China Real Estate Ltd

Credit Outlook – While CCRE's contracted sales were weak in 2014, we like CapitaLand's participation and the company's relatively conservative credit profile. CCRE's curve sold off in December 2014 and valuations look compelling at current levels. We see more value in CENCHI'16 (679bps over swap) over CENCHI'17 (672bps over swap) given a 7bps spread pick up despite a shorter tenor.

Overweight

S&P: BB-/Stable

Moody's: Ba3/Stable

Fitch: Not rated

Ticker: **CENCHI**

Company profile

Central China Real Estate Ltd ("CCRE") is a leading residential property developer in China's Henan province. Established in 1992, CCRE has a strong brand in Henan's residential property market. As of June 2014, CCRE has presence in Henan's 30 cities, with a market share of 5.2% in the Henan Province by contracted sales. Its key shareholders are the Chairman, Mr. Wu Po Sum, (46.7%) and CapitaLand Ltd (27.0%).

Key credit considerations

- **Weak 11M2014 contracted sales:** CCRE's contracted sales have been weak with the company recording contracted sales of RMB11.7bn in 11M2014 (78% of revised 2014 sales target of RMB15bn). Despite the downward revision from the initial RMB17.2bn target, the company is still likely to fall short given a RMB3.3bn hurdle to clear in December. Meanwhile the company reported solid 1H2014 results with revenue up 0.7% y/y to RMB3.07bn and EBITDA up 16.2% y/y to RMB944.8mn despite a 2H2014-skewed completion schedule (26 projects with GFA of 1.64mn sq m).

- **CapitaLand's ("CAPL") participation increases confidence in corporate governance and business management:** CAPL's strategic involvement in CCRE (two non-executive directors sitting on the board) provides some assurance in the company's internal controls especially in light of the sector's links to corrupt officials. CAPL has also supported CCRE in its capital raisings.

- **Small size and geographic concentration in Henan mitigated by constructive operating fundamentals in the province:** CCRE enjoys an incumbent advantage in Henan with a 21-year track record. The company however, is exposed to the vagaries of the Henan property market as all its projects are in the Henan province. CCRE is therefore relatively small due to its geographic focus when compared to its BB-rated China property peers. That said, the property sector in Henan benefits from constructive fundamentals and policies, being predominantly end-user driven while the province is now free from home purchase restrictions ("HPR") after the HPR relaxation in Zhengzhou. In addition, CCRE's low-cost land bank should see the company continue to deliver above average margins although the company would be hard pressed to replicate the 44.2% gross margins achieved in 1H2014.

- **No impact on credit profile from amendment of terms of 2016 SGD notes:** CCRE announced on 16th December 2014 that the company has received the requisite consents to amend the terms of the 2016 SGD notes to align them with the company's 2017 notes. While the terms afford CCRE more flexibility to incur and guarantee debt and make investments, we do not expect the prudent financial policies adopted by the company so far to change.

- **Sizeable off-balance sheet liabilities:** As of end-1H2014, CCRE provided guarantees for RMB4.8bn (end-2013: RMB2.37bn) of debt incurred by the company's joint ventures ("JV"). The exposure is sizable considering CCRE's reported gross debt of RMB10.4bn in 1H2014. In addition to that, the company also provided RMB7.30bn of guarantees for mortgages for pre-sold properties to its customers. That said, we note that less than 1% of mortgages defaulted in 2011, 2012 and 2013 while CCRE can take ownership and sell the related properties to recover any amounts paid by the company to the banks. However, it would be prudent to monitor the increasing amount of guarantees to its JVs.

- **Stable credit profile after increasing leverage in 2013 while there are limited refinancing risks:** CCRE's credit profile stabilized in 1H2014 after a debt funded balance sheet expansion in 2013. Net debt/EBITDA improved to 1.43x from 1.6x while net gearing was stable at 0.39x. The company also has a comfortable liquidity buffer with cash balances of RMB7.75bn and undrawn banking facilities of RMB6.81bn sufficient to cover contracted capital commitments of RMB5.33bn and RMB2.38bn of short-term debt. EBITDA interest coverage improved to 2.3x from 1.5x in 2013. CCRE issued S$200mn of senior notes to refinance maturing convertible bonds in May 2014.

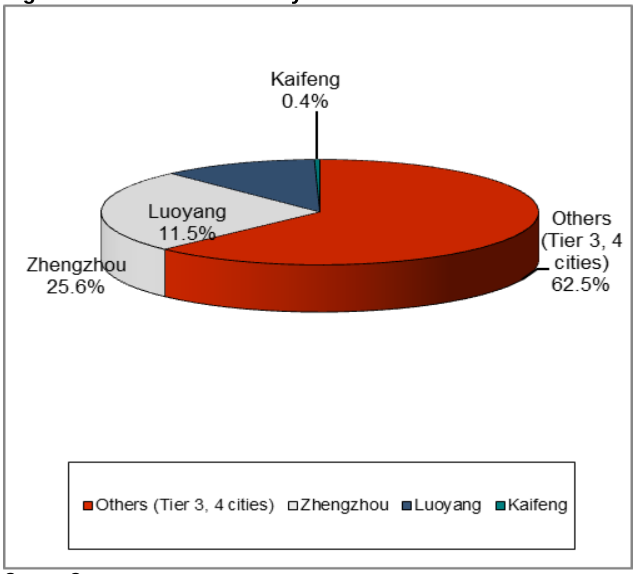
Central China Real Estate Ltd

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	1H2014
Income statement (RMB mn)			
Revenue	6,346	6,951	3,072
EBITDA	1,663	1,596	945
EBIT	1,626	1,520	870
Gross interest expense	563	1,055	404
Profit before tax	1,846	1,939	823
Net income	823	1,026	392
Balance sheet (RMB mn)			
Cash and equivalents	4,922	5,691	7,752
Total assets	24,348	31,517	37,564
Gross debt	6,570	8,183	10,445
Net debt	1,648	2,492	2,693
Total equity	5,623	6,700	6,820
Total capitalization	12,194	14,883	17,265
Net capitalization	7,271	9,191	9,513
Cash flow (RMB mn)			
Funds from operations (FFO)	860	1,102	467
CFO	620	246	572
Capex & acquisitions	1,379	1,164	N/A
Dividends	382	326	210
Adjusted FOCF	-759	-919	N/A
Disposals	-408	312	N/A
Free Cash Flow (FCF)	-1,549	-933	N/A
Key ratios			
EBITDA margin (%)	26.2	23.0	30.8
Net margin (%)	13.0	14.8	12.8
Gross debt/EBITDA (x)	4.0	5.1	5.5
Net debt/EBITDA (x)	1.0	1.6	1.4
Gross debt/equity (x)	1.17	1.22	1.53
Net debt/equity (x)	0.29	0.37	0.39
Gross debt/total capitalization (%)	53.9	55.0	60.5
Net debt/net capitalization (%)	22.7	27.1	28.3
FCF/gross debt (%)	-23.6	-11.4	N/A
FFO/gross interest (x)	1.5	1.0	1.2
EBITDA/gross interest (x)	3.0	1.5	2.3

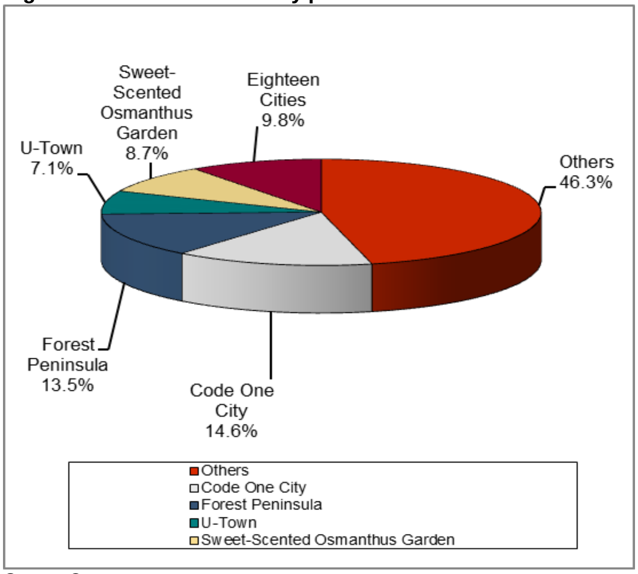
Source: Company, OCBC estimates

Figure 1: Contracted sales by cities – 1H2014



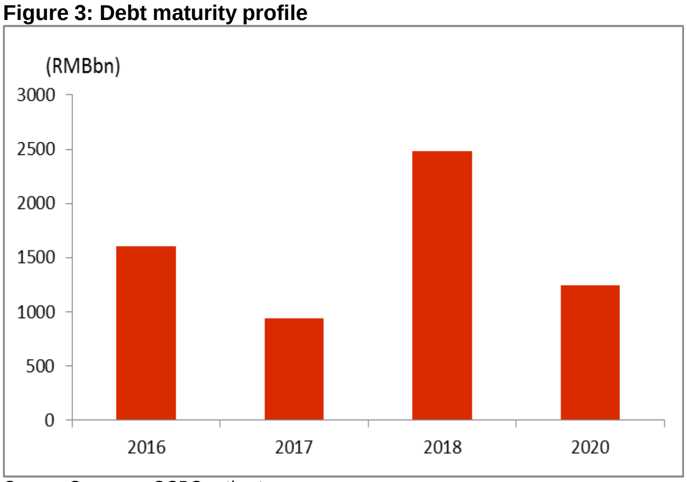
Source: Company

Figure 2: Contracted sales by product series – 1H2014



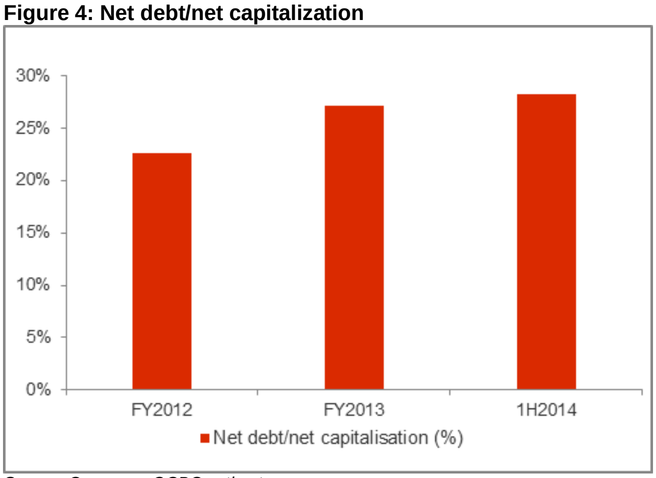
Source: Company

Figure 3: Debt maturity profile



Source: Company, OCBC estimates

Figure 4: Net debt/net capitalization



Source: Company. OCBC estimates

Cheung Kong Holdings Ltd

Credit Outlook – We like CKH's strong balance sheet and conservative financial management which we feel is equivalent to an A-rating. We like the unrated straight bonds for pickup over its A-rated peers. We underweight CHEUNG'49 perpetuals due to its fixed-for-life structure in a rising interest rate environment.

Overweight

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

Ticker: **CHEUNG**

Company profile

Cheung Kong Holdings Ltd ("CKH") is the investment holding and project management business established by Mr. Li Ka Shing in 1958, who holds a 39.4% ownership. It is engaged principally in property development and investment in Hong Kong, China, UK and Singapore across residential, retail, office, hotel and industrial sectors. Through its 52.45% ownership in Hutchison Whampoa Ltd ("HWL"), it is also involved in ports, property, hotels, retail, energy and infrastructure, finance and telecommunications.

Key credit considerations

- **Good operating performance in 1H2014 with an improvement in residential sales in Hong Kong while China residential underperformed:** CKH reported 1H2014 revenue up 50% y/y to HK$11.77bn, while net profit in 1H2014 was up 60% y/y, albeit off 1H2013's low base as Hong Kong's residential market continued to recover from a poor 2013 marked by poor sentiment from cooling measures. CKH delivered four key projects in Hong Kong (The Beaumont, One West Kowloon, Kennedy Park at Central and The Rise) while another four (Trinity Tower, City Point, Mont Vert, and Hemera) are slated for completion in 2H2014. Rental income decreased 6% y/y to HK$943mn due to the disposal of Kingswood Ginza in Tin Shui Wai while turnover from CKH's hotels also decreased 6% y/y due to challenging operating conditions in Hong Kong and China from the ongoing corruption clampdown in the Mainland.

- **Redeploying capital overseas to strengthen recurring income base:** CKH has been active in overseas acquisitions while remaining cautious in land banking in Hong Kong and China. The company bought a 50% stake in Park'N Fly, the largest off-airport car provider in Canada for C$190.5mn in July, Australian gas distributor Envestra in a US$2.37bn deal, and on 4 November entered the aircraft leasing business with an acquisition of 60 aircraft for HK$18bn. The three acquisitions outside the property space should strengthen and diversify CKH's recurring income base in 2015. Meanwhile, in a signal that land prices are starting to look attractive again, CKH won a site at Sham Shui Po on 22 December 2014 after two years of inactivity in the Hong Kong land market.

- **Challenging outlook in 2015:** With Hong Kong developers speeding up launches and offering discounts and incentives, transaction volumes have been exceptionally strong and secondary prices have gone up 9% while primary prices have been down 15 to 20% due to rebates. The double stamp duty easing in May 2014 also boosted buyer sentiment. 2015 could be different however, as the specter of imminent interest rate hikes coupled with slowing mainland growth could dampen sentiment and prices as Hong Kong's economy is increasingly linked to mainland China while its monetary policy is still tied to the US. The diverging dynamics could compound challenges posed by political unrest and other cooling measures. That said, falling prices should start to see demand step in containing the downside in prices.

- **Strong balance sheet:** Net debt position decreased to HK$6.54bn in H12014 from HK$8.70bn as of end-2013 while net gearing fell to 1.7% in 1H2014 from 2.3% as CKH has been largely absent from the land market while selling down properties. Net debt/EBITDA improved to 0.64x from 1.3x at the end of 2013 and EBITDA interest coverage improved to 14.4x from 8.4x at the end of 2013 on the back of strong EBITDA generation and reduction in debt. Not surprisingly, given CKH's strong balance sheet flexibility at the end of 1H2014, CKH made sizable acquisitions during 2H2014 as stated earlier.

- **Ample liquidity with muted refinancing risks:** CKH's HK$33.1bn cash position at the end of 1H2014 was more than sufficient to cover HK$9bn of debt due in a year by 3.67x. However, we note that CKH is exposed to interest rate risks with borrowings principally on a floating rate basis with swaps to convert fixed rate notes to floating rates where appropriate.

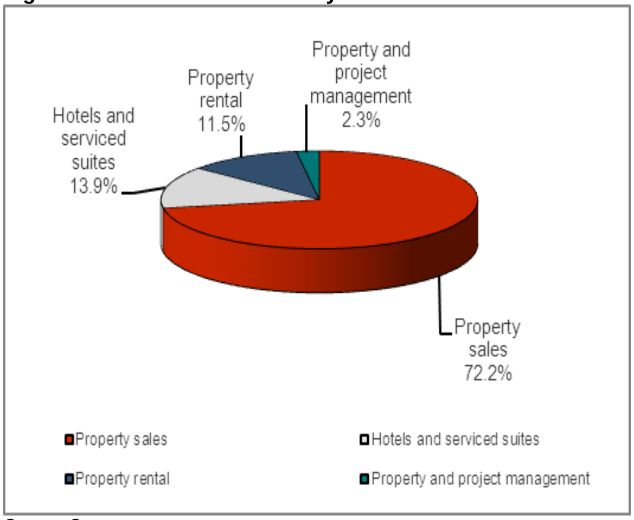
Cheung Kong Holdings Ltd

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	1H2014
Income statement (HK$ mn)			
Revenue	19,199	17,013	11,766
EBITDA	7,286	6,948	5,068
EBIT	6,946	6,623	4,914
Gross interest expense	925	828	353
Profit Before Tax	33,642	37,494	22,443
Net profit	32,036	35,260	21,345
Balance Sheet (HK$'mn)			
Cash and bank deposits	21,167	33,197	33,065
Total assets	406,725	428,837	444,528
Gross debt	48,099	41,890	39,601
Net debt	26,932	8,693	6,536
Shareholders' equity	342,652	372,821	390,833
Total capitalization	390,751	414,711	430,434
Net capitalization	369,584	381,514	397,369
Cash Flow (HK$'mn)			
Funds from operations (FFO)	32,376	35,585	21,499
CFO	4,159	14,620	-1,527
Capex and acquisitions	3,079	3,240	N/A
Dividend	7,378	7,524	N/A
Adjusted FOCF	1,080	11,380	N/A
Disposals	1,425	9,933	N/A
Free Cash Flow (FCF)	-4,873	13,789	N/A
Key Ratios			
EBITDA margin (%)	37.9	40.8	43.1
Net margin (%)	166.9	207.3	181.4
Gross debt to EBITDA (x)	6.6	6.0	3.9
Net debt to EBITDA (x)	3.7	1.3	0.6
Gross Debt to Equity (x)	0.14	0.11	0.10
Net Debt to Equity (x)	0.08	0.02	0.02
Gross debt/total capitalisation (%)	12.3	10.1	9.2
Net debt/net capitalisation (%)	7.3	2.3	1.6
FCF/gross debt (%)	-10.1	32.9	N/A
FFO/gross Interest (x)	35.0	43.0	60.9
EBITDA/Total Interest (x)	7.9	8.4	14.4

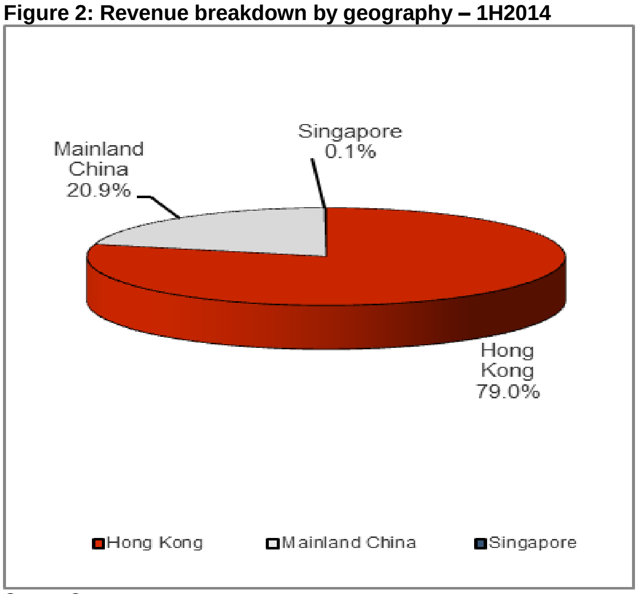
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – 1H2014



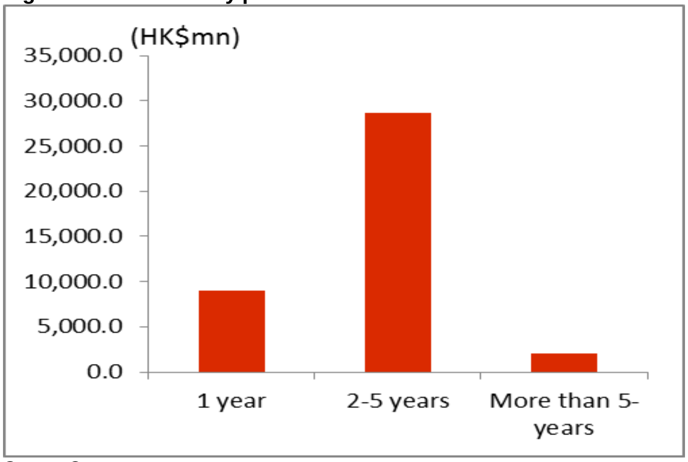
Source: Company

Figure 2: Revenue breakdown by geography – 1H2014



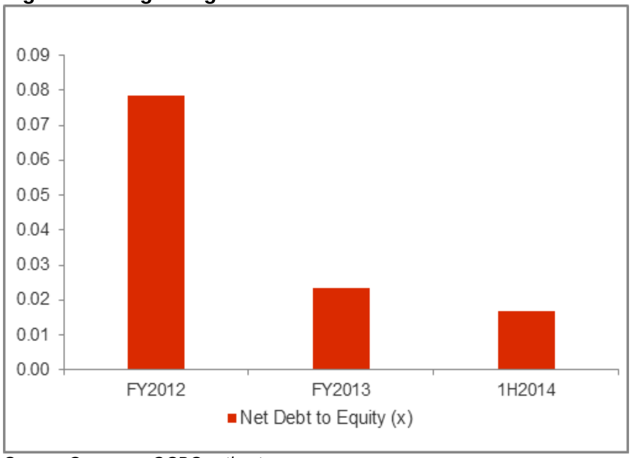
Source: Company

Figure 3: Debt maturity profile



Source: Company

Figure 4: Net gearing



Source: Company, OCBC estimates

Credit Outlook – We like Vanke's good track record, solid credit profile and market leading position. However, Vanke'17 at 168bps over swap looks fully valued.

Neutral

S&P: BBB+/Stable
Moody's: Baa2/Stable
Fitch: BBB+/Stable

Ticker: **VANKE**

Company profile
China Vanke Co Ltd ("Vanke") is the largest property developer in China in terms of contracted sales with a focus on the mass-market segment. With 25 years of experience in the property industry, Vanke has established a strong presence nationwide, and a geographically diversified land bank. Vanke is listed on both the Shenzhen and Hong Kong stock exchanges, and its largest shareholder is state-owned China Resources Co Ltd with a 14.7% stake.

China Vanke Co Ltd

Key credit considerations

- **Market leader with a diversified nationwide presence and good counter cyclical consolidation ability:** Vanke has a strong brand in China and is the largest property developer in the world by contracted sales, with a diversified land bank across 53 cities in China. Vanke's development needs are also sufficiently covered in the near term with ~39.9mn sq m in gross floor area (GFA) of projects being planned, sufficient to cover development needs for two to three years based on 2013's sales area of 14.9mn sq m. This enabled Vanke to maintain its prudent approach to land banking in 2014 as land prices have remained relatively high. That said, the company has the capacity to engage in opportunistic counter-cyclical acquisitions given its strong balance sheet.

- **Outperformance in contracted sales provides earnings visibility:** Vanke's 11M2014 contracted sales was up 19% y/y to RMB190.1bn, outperforming the nationwide decrease of 7.8% y/y despite a high base of comparison with 2013. The company continues to position itself firmly in the mass segment (92% of units sold in 1H2014 are below 144 sq m in size) which reduces vulnerability to regulations aimed at curbing excesses in the higher end of the market.

- **Good liquidity and strong access to funding:** Vanke has a strong liquidity profile with cash holdings of RMB47.8bn as of end-September 2014, sufficient to cover short-term debt of RMB19.9bn by 2.4x. The company has also demonstrated good access to offshore and onshore funding channels. The company's H-share listing in June opened the company to a larger pool of investors and should also improve corporate governance going forward. Vanke also issued RMB8bn of three-year onshore bonds on 24 December 2014 after China shifted to allow onshore debt sales by developers earlier this year after blocking them. The move by the Chinese central bank is positive for Vanke as it would allow the company to reduce its reliance on costly trust financing. Debt maturities are termed out with only RMB1bn in offshore bonds due in 2016 and other notes and loans due in 2017 and beyond.

- **PBOC rate cut will support flagging property sales and reduce borrowing costs:** The People's Bank of China asymmetrical rate cut in November 2014 (lending rate -40bps and deposit rate -25bps) is expected to spur property sales and reduce borrowing costs for developers with high levels of onshore bank loans or trust loans such as Vanke. In addition the PBOC's recent credit easing polices and rate cuts along with targeted HPR loosening in most cities should also provide tailwinds to the sector.

- **Contingent liabilities growing and trust financing a cause for concern:** As of end 1H2014, guarantees provided by Vanke for customer mortgages were CNY46.2bn an increase of 13% over RMB40.9bn at the end of 2013. We do not believe that this is a concern as the mortgages are secured against the underlying properties, providing some recovery. The company also has significant exposure to trust loans usually bearing interest rates in excess of 8%.

- **Credit profile remains solid:** Vanke's net gearing was down to 27% in 9M2014 from elevated levels of 38% in 1H2014 and 32% as of end-2013, mainly due to an increase in cash generated from operations. Net debt to EBITDA improved to 2.0x in 9M2014 from 2.7x in 1H2014. However this remains high compared to 1.2x as of end-2013. EBITDA interest coverage remained relatively stable at 2.0x. However we note that majority of the projects will be completed in 4Q2014 and accordingly, the leverage and coverage ratios based on EBITDA will be expected to moderate for the full-year 2014.

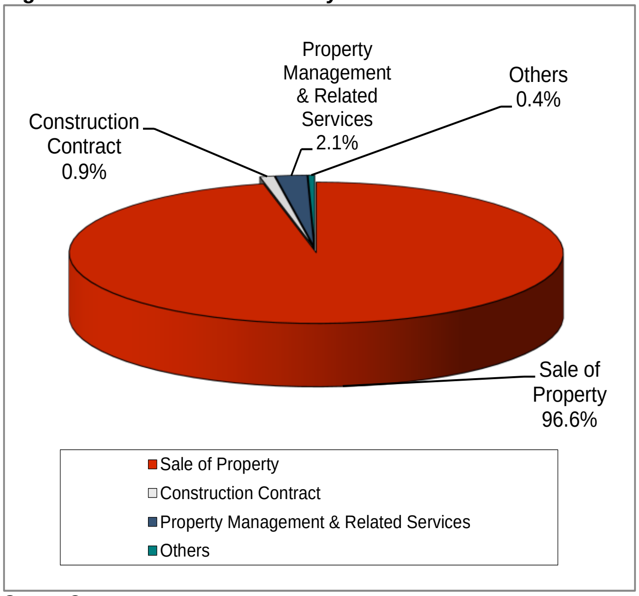
China Vanke Co Ltd

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	9M2014
Income statement (RMB mn)			
Revenue	96,860	127,454	59,331
EBITDA	25,686	27,865	10,711
EBIT	25,504	27,686	10,406
Gross interest expense	5,782	6,575	5,230
Profit before tax	25,698	27,847	11,743
Net income	12,551	15,119	6,458
Balance sheet (RMB mn)			
Cash and equivalents	51,120	43,004	47,821
Total assets	379,095	479,475	520,235
Gross debt	71,593	76,706	76,609
Net debt	20,473	33,702	28,788
Total equity	82,138	105,439	106,183
Total capitalization	153,732	182,145	182,791
Net capitalization	102,611	139,141	134,971
Cash flow (RMB mn)			
Funds from operations (FFO)	12,734	15,298	6,764
CFO	3,726	1,924	17,205
Capex & acquisitions	3,188	7,477	N/A
Dividends	7,319	8,755	N/A
Adjusted FOCF	538	-5,554	N/A
Disposals	14	938	N/A
Free Cash Flow (FCF)	-6,767	-13,371	N/A
Key ratios			
EBITDA margin (%)	26.5	21.9	18.1
Net margin (%)	13.0	11.9	10.9
Gross debt/EBITDA (x)	2.8	2.8	5.4
Net debt/EBITDA (x)	0.8	1.2	2.0
Gross debt/equity (x)	0.87	0.73	0.72
Net debt/equity (x)	0.25	0.32	0.271
Gross debt/total capitalization (%)	46.6	42.1	41.9
Net debt/net capitalization (%)	20.0	24.2	21.3
FCF/gross debt (%)	-9.5	-17.4	26.7
FFO/gross interest (x)	2.2	2.3	1.3
EBITDA/gross interest (x)	4.4	4.2	2.0

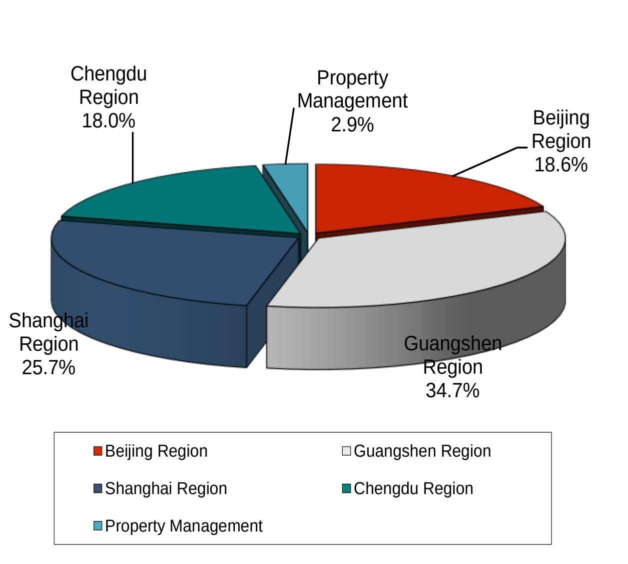
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – 1H2014



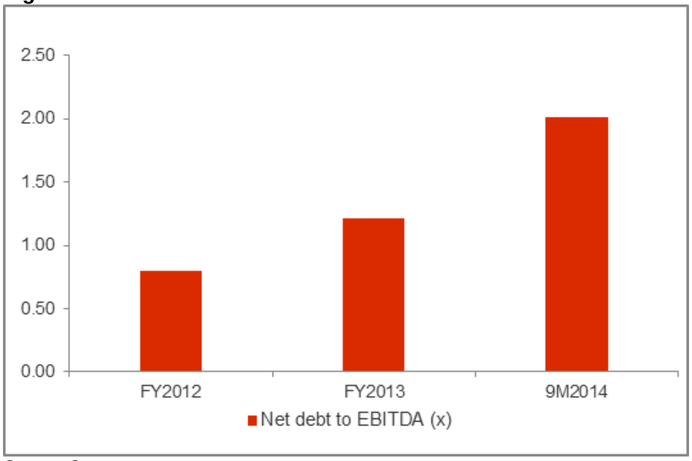
Source: Company

Figure 2: Revenue by region – 1H2014



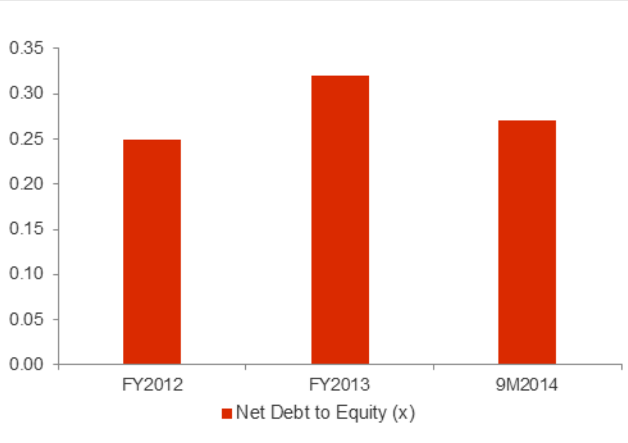
Source: Company

Figure 3: Net debt/EBITDA



Source: Company

Figure 4: Net gearing



Source: Company, OCBC estimates

Credit Outlook – CDL's healthy balance sheet and good liquidity position should allow it to navigate through the current headwinds. We prefer the longer-dated papers in the CITSP complex (such as CITSP 3.38% '19 and CITSP 3.9% '24) over the CAPLSP curve due to the yield pickups for issuances of similar tenor.

Neutral

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

Ticker: **CITSP**

Company profile

Listed in 1963, City Developments Ltd ("CDL") is a property developer and owner. CDL has three core business segments – property development, hotel operations and rental properties. CDL's hotel operations are conducted through its 61.2%-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

- **Lower 9M2014 earnings in absence of disposal gains:** 9M2014 revenue increased 20.3% y/y on the back of higher revenue recognized from property development (mainly from Blossom Residences, an executive condominium), contributions from two newly acquired hotels and stronger performance from refurbished hotels. However, net profit was 17.1% lower y/y in absence of divestment gains from non-core investment properties. Stripping these out, CDL's core profit would have increased by 25.5% y/y.

- **Singapore's and China's residential markets still facing headwinds:** Due to government's cooling measures, transaction volume and prices for Singapore's residential properties continue to face downward pressures. Management expects prices to remain subdued going forward and there may be forced fire sales (particularly the high-end segment) if prices continue to fall. In addition, competitions remain high in government land sale tenders as demand from foreign developers is still resilient. Similarly in China, the residential market remains sluggish with weak demand despite relaxed loan and home purchase restrictions in most cities. As such, CDL is monitoring market developments before launching three of its China projects. On a positive note, the group continues to register relatively healthy sales for its Singapore projects such as Coco Palms and Commonwealth Towers. Together with the fully sold Lush Acres and The Rainforest, these projects should contribute positively to CDL's earnings.

- **Diversified portfolio to weather downturn in residential market:** CDL believes that its commercial and hotel operations will help the group to sustain its growth. Demand for Grade A office space in Singapore is improving and the group's office portfolio reported healthy occupancy of 96.8% in 3Q2014 (vs. industry average of 91.6%). The office component of CDL's South Beach development ("SB") is expected to commence business in 1Q2015 and management is confident of securing tenants for 90.0% occupancy. Meanwhile, CDL notes that capital values for hotels have increased significantly and this should bode well for its hotel operations. The hotel component of SB is expected to soft launch by 2Q2015. Furthermore, M&C has been active in expanding its portfolio and acquired Chelsea Harbour Hotel, Novotel New York Times Square and Boscolo Palace Roma in 2014. M&C is also rolling out refurbishment programs for its existing hotels to improve performance.

- **Overseas development to bear fruit in longer term:** To reduce its reliance on Singapore's property market, the group has been cautiously expanding its property development business overseas, with a keen focus on United Kingdom, China, Japan and Australia. CDL acquired 6 freehold properties in Greater London area for GBP157.0mn and secured planning approval for 4 projects. Meanwhile, the group ventured into Japan by acquiring a majority stake in a 4.2-acre freehold land site in Tokyo for S$355.5mn in September 2014 with plans to develop high-end condominiums on the site.

- **Rising gearing level but should improve going forward:** On the back of CDL's diversification and expansion strategies, the group's net gearing increased to 0.36x as of end-3Q2014 (2013: 0.25x). However, we believe that gearing remains healthy and manageable. More importantly, CDL has sold the cash flows of its properties in Sentosa Cove (Quayside Collection) in December 2014 and this should reduce the group's net gearing to ~0.25x again. In addition, the group's EBITDA/gross interest is still strong at 9.7x (2013: 16.4x). CDL's S$3.32bn cash position is also sufficient to cover S$2.44bn of near-term debt maturing within a year.

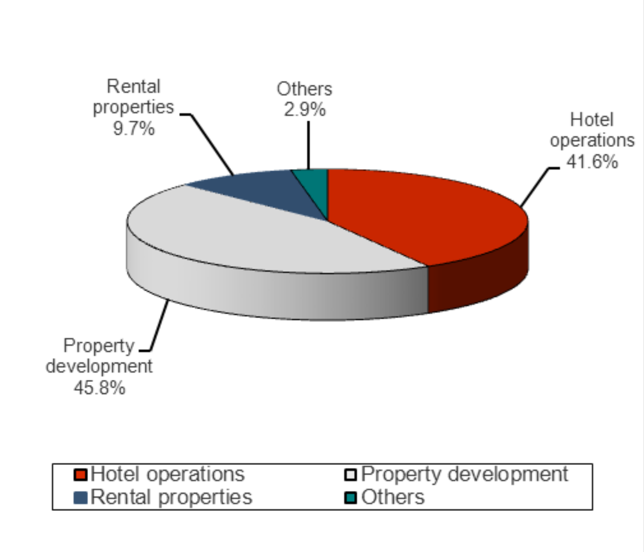
City Developments Ltd

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	9M2014
Income statement (S$ mn)			
Revenue	3,353.7	3,162.1	2,917.0
EBITDA	920.0	1,242.8	717.9
EBIT	771.7	1,083.4	572.5
Gross interest expense	69.1	75.7	73.7
Profit Before Tax	960.2	892.4	566.6
Net profit	678.3	683.0	384.7
Balance sheet (S$ mn)			
Cash and bank deposits	2,157	2,940.0	3,316.0
Total assets	15,608	17,774.1	19,413.2
Gross debt	4,467	5,514.5	7,081.5
Net debt	2,310	2,574.5	3,765.5
Shareholders' equity	9,257	10,215.9	10,390.3
Total capitalization	13,724	15,730.5	17,471.8
Net capitalization	11,567	12,790.5	14,155.8
Cash flow (S$ mn)			
Funds from operations (FFO)	826.6	842.3	530.1
CFO	65.3	540.7	-87.3
Capex and acquisitions	677.8	249.8	769.1
Dividend	181.6	250.8	248.4
Adjusted FOCF	-612.6	290.9	-856.4
Disposals	139.6	291.7	0.7
Free Cash Flow (FCF)	-654.5	331.8	-1,104.1
Key ratios			
EBITDA margin (%)	27.4	39.3	24.6
Net margin (%)	20.2	21.6	13.2
Gross debt to EBITDA (x)	4.9	4.4	7.4
Net debt to EBITDA (x)	2.5	2.1	3.9
Gross Debt to Equity (x)	0.48	0.54	0.68
Net Debt to Equity (x)	0.25	0.25	0.36
Gross debt/total capitalisation (%)	32.5	35.1	40.5
Net debt/net capitalisation (%)	20.0	20.1	26.6
FCF/gross debt (%)	-14.7	6.0	-20.8
FFO/gross Interest (x)	12.0	11.1	7.2
EBITDA/Total Interest (x)	13.3	16.4	9.7

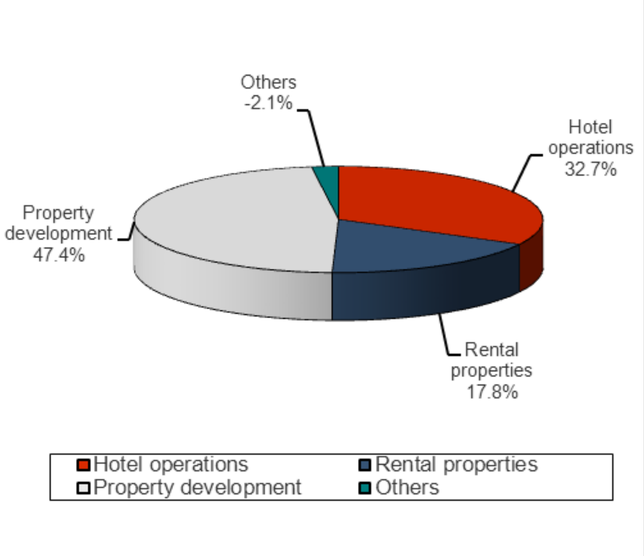
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – 9M2014



Source: Company

Figure 2: Profit before tax breakdown by business – 9M2014



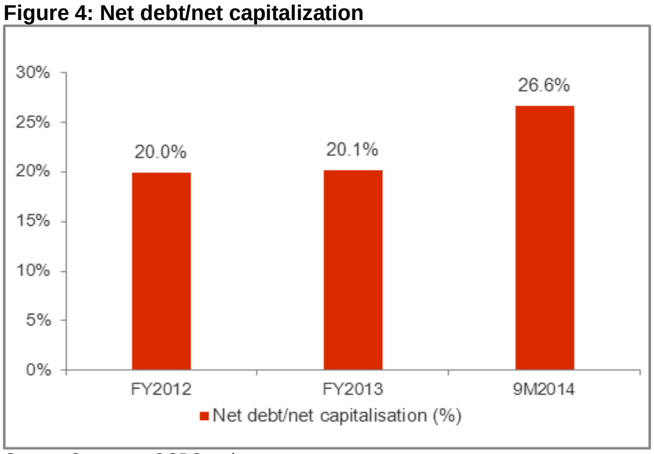
Source: Company

Figure 3: Debt maturity profile

Amounts in S$ mn	As at 30/09/2014	% of debt
Repayable within one year		
Secured	200.0	2.8%
Unsecured	2,238.6	31.5%
	2438.6	**34.4%**
Repayable after one year		
Secured	816.9	11.5%
Unsecured	3,841.5	54.1%
	4658.4	**65.6%**
Total	**7097.0**	**100.0%**

Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – With growth capex tapering off and the delivery of the Constellation in 2015 likely to boost subsea EBITDA, the EZRASP'15 looks attractive at 370bps above swap for short duration paper. The refinancing risk is real, but mitigated by Ezra's healthy order book.

Overweight

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **EZRASP**

Company profile

Listed in 2003, Ezra is an offshore contractor and provider of integrated offshore solutions to the global oil and gas industry. The group has three main business divisions, namely subsea services, offshore support & production services and marine services. Under the EMAS branding, it operates in more than 16 locations across Africa, Americas, Asia-Pacific and Europe. The key shareholders of Ezra are Mr Lee Chye Tek (18.9%), Aker Solutions ASA (7.4%) and Mondrian Investment Partners Ltd (5.4%).

Ezra Holdings Ltd

Key credit considerations

- **FY2014 results showed improvement in margin:** Ezra recorded FY2014 revenue of US$1.49bn (+17.9% y/y), largely attributed to stronger contribution from the subsea services division (+32.1% y/y to US$1.04bn). More importantly, EBITDA grew to US$141.8mn (FY2013: US$63.4mn) and EBITDA margin improved to 9.5% (FY2013: 5.0%). The biggest driver of margin expansion was the subsea services division generating operating profits after generating a loss in FY2013. In addition, performance has benefitted from the group's strategy to improve operational efficiency by increasing fleet capacity and optimizing deployment to undertake more projects. Nonetheless, revenue from offshore support services division was down 8.9% y/y to US$259.9mn as two leased-in vessels were returned to their owner during FY2014. Meanwhile, marine services division registered subdued revenue of US$188.2mn (FY2013: US$189.2mn).

- **Growing order book to support earnings visibility:** Management's efforts to grow the subsea services division ("EMAS AMC") have borne fruit. As at end-FY2014, the group registered a healthy order book of US$2.4bn, of which ~US$1.1bn are subsea orders, with about 25 projects under execution. This should support earnings visibility going forward as majority of the contracts are expected to be executed over the next 12 to 18 months. Order momentum seems strong as EMAS AMC was awarded three contracts by Noble Energy valued at >US$300mn and multiple contracts from various energy companies valued at >US$70mn in October 2014. In particular, Ezra's new flagship vessel, Lewek Constellation will turn fully operational in 1Q2015 and the group should be able to further enhance its economies of scale and optimize profitability by then.

- **Secondary listing of EMAS Offshore Ltd:** EMAS Offshore Ltd, a consolidation of EOC Ltd and EMAS Marine, has successfully dual-listed on the Mainboard of the SGX in October 2014 (besides being listed on the Oslo Bors). This has created an independent funding platform for the offshore support services business to tap the Asia Pacific and European markets, while allowing the group to focus on its subsea services business. EMAS Offshore Ltd owns a sizeable and diverse fleet of 51 vessels geared towards deep water operations.

- **High leverage ratio but should improve going forward:** Net gearing ratio increased in FY2014 to 1.16x (FY2013: 0.98x) as capex outlay remained high. Capex needs also kept FCF in the red at –US$184.1mn (FY2013: -US$83.6mn). On a positive note, net debt/EBITDA and EBITDA/gross interest were better at 9.7x (FY2013: 17.6x) and 2.8x (FY2013: 1.3x) respectively, on the back of higher earnings achieved. Management has guided that capex should moderate post completion of Lewek Constellation. In addition, they have indicated a focus on improving Ezra's operating cash flow while targeting to reduce net gearing level to ~0.7x going forward.

- **Front-loaded debt maturity profile but refinancing risk is partly mitigated:** Ezra's debt maturity profile remained front-loaded with 32.9% of total debt due within a year and 26.4% of total debt due within second year. Meanwhile, cash balance of US$178.9mn is insufficient to cover short-term debt of US$510.0mn. Nonetheless, refinancing risk is partly mitigated by the fact that most of the group's maturing obligations consist of multi-year revolving facilities related to vessel, project and working capital financing purposes. The focus would be on the SGD225mn bond due in September 2015. Ezra has been able to access the credit market with the issuance of 4 corporate bonds during 2012-2014, with the latest S$95mn 2-year issue in March 2014.

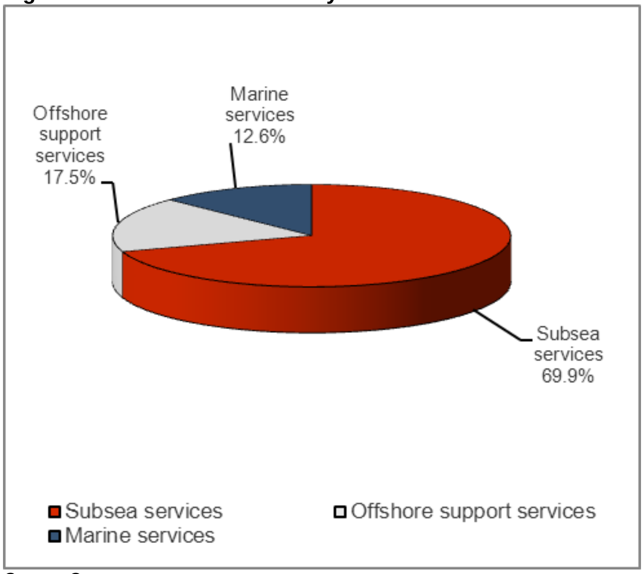
Ezra Holdings Ltd

Table 1: Summary financials

Year ended 31st August	FY2012	FY2013	FY2014
Income statement (US$ mn)			
Revenue	984.2	1,262.1	1,488.4
EBITDA	100.6	63.4	141.8
EBIT	52.4	3.5	69.6
Gross interest expense	47.5	49.8	51.3
Profit before tax	88.0	92.3	74.7
Net income	66.1	53.6	45.3
Balance sheet (US$ mn)			
Cash and equivalents	133.4	173.1	178.9
Total assets	2,733.0	2,926.7	3,363.0
Gross debt	1,245.6	1,285.8	1,551.9
Net debt	1,112.2	1,112.8	1,373.0
Total equity	1,012.3	1,139.9	1,185.8
Total capitalization	2,257.8	2,425.8	2,737.7
Net capitalization	2,124.5	2,252.7	2,558.8
Cash flow (US$ mn)			
Funds from operations (FFO)	114.3	113.5	117.4
CFO	-34.1	7.3	140.1
Capex & acquisitions	330.3	248.8	327.4
Dividends	0.0	5.3	5.4
Adjusted FOCF	-364.5	-241.5	-187.3
Disposals	67.2	163.2	8.5
Free Cash Flow (FCF)	-297.3	-83.6	-184.1
Key ratios			
EBITDA margin (%)	10.2	5.0	9.5
Net margin (%)	6.7	4.3	3.0
Gross debt/EBITDA (x)	12.4	20.3	10.9
Net debt/EBITDA (x)	11.1	17.6	9.7
Gross debt/equity (x)	1.23	1.13	1.31
Net debt/equity (x)	1.10	0.98	1.16
Gross debt/total capitalization (%)	55.2	53.0	56.7
Net debt/net capitalization (%)	52.4	49.4	53.7
FCF/gross debt (%)	-23.9	-6.5	-11.9
FFO/gross interest (x)	2.4	2.3	2.3
EBITDA/gross interest (x)	2.1	1.3	2.8

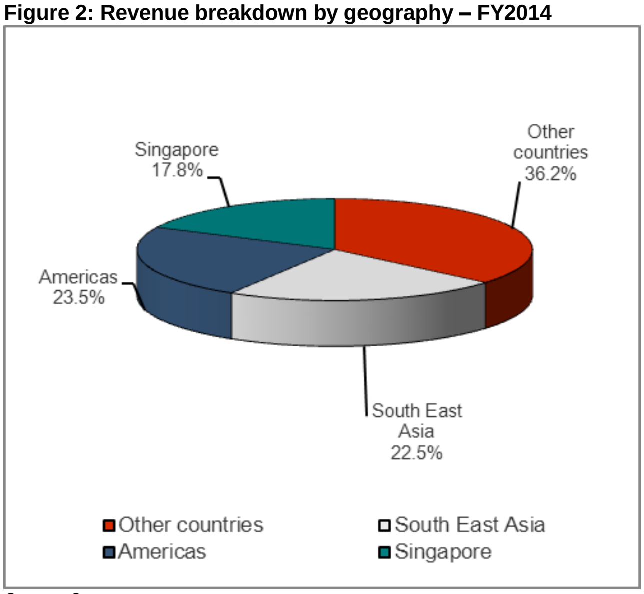
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – FY2014



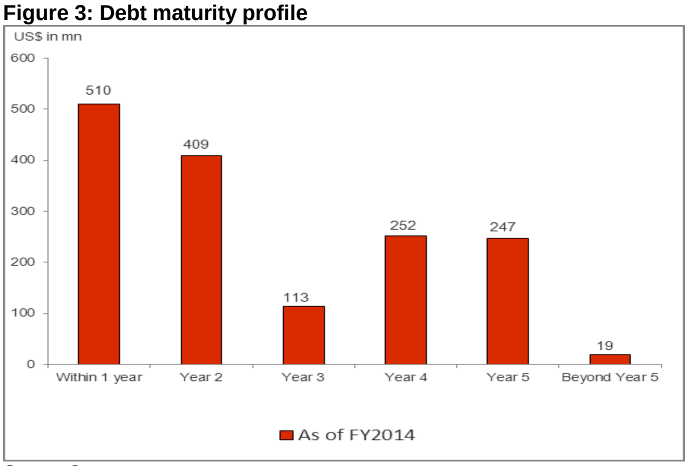
Source: Company

Figure 2: Revenue breakdown by geography – FY2014



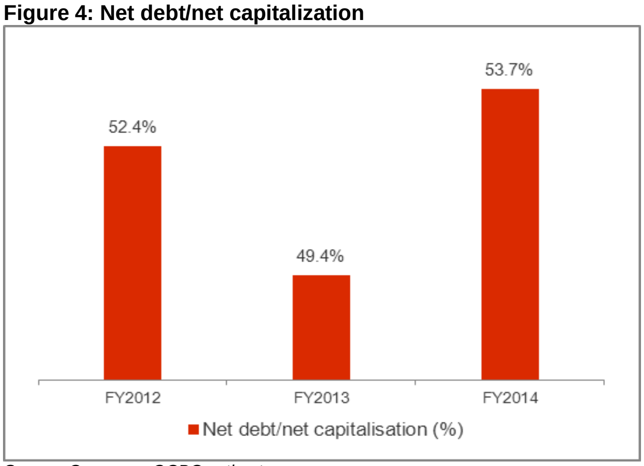
Source: Company

Figure 3: Debt maturity profile



Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

First REIT

Credit Outlook – We think FIRTSP'18 is attractive at 213bps over swap. FREIT has strong and stable earnings visibility as it enjoys a long portfolio lease expiry. Meanwhile, credit metrics were modest with limited interest rates exposure and foreign exchange risks.

Overweight

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **FIRTSP**

Company profile

Listed on the SGX in December 2006, First REIT ("FREIT") invests primarily in real estates that are used for healthcare and healthcare-related industries, both in Singapore and Asia. It owns 15 properties across Indonesia, Singapore and South Korea, valued at about S$1.09bn as at 30th June 2014. The properties include 10 hospitals, 3 nursing homes, 1 integrated hotel & hospital, and 1 hotel & country club. PT Lippo Karawaci Tbk is FREIT's sponsor and largest shareholder with a 27.7% stake.

Key credit considerations

- **Steady results in line with market expectations:** 9M2014 revenue surged 14.7% y/y to S$69.4mn (9M2013: S$60.4mn), driven mainly by contribution from the newly acquired Siloam Hospitals Purwakarta. On the other hand, property operating expenses tumbled 46.7% y/y as a result of lower expenses incurred for Sarang Hospital, aiding a 16.7% y/y increase in NPI to S$68.4mn (9M2013: S$58.6mn). Under the current lease agreements, the master lessees bear all operating costs relating to the properties. Hence, FREIT is able to enjoy consistently high EBITDA margins of above 85.0%.

- **Acquisition-led growth strategy:** FREIT has been successful in growing through acquisitions and it has achieved a CAGR of ~18.8% in Assets under Management from 2007–1H2014. FREIT's acquisition-led strategy is supported by it sponsor – PT Lippo Karawaci Tbk ("LPKR"). LPKR currently owns 18 hospitals under PT Siloam International Hospitals Tbk, as well as a pipeline of another 29 hospitals to which FREIT has the right-of-first-refusal for acquisitions. In December 2014, FREIT has acquired Siloam Sriwijaya, a seven-storey hospital building in Palembang, Indonesia for S$39.2mn, expanding its portfolio to 16 properties. Siloam Sriwijaya is leased out under a master lease with lease term of 15 years. The agreement also comes with an option to renew for a further term of 15 years.

- **Strong earnings visibility provided by long tenured leases:** FREIT's master leases are long-dated with lease terms varying between 10-15 years. As such, the long portfolio weighted average lease expiry of 10.7 years (as at 31st October 2014) provides a stable and recurring source of income to the trust. The earliest rental renewals will arise in 2017 when the lease at The Lentor Residence (1.7% of total portfolio GFA) matures. The other 98.3% of leases will only be due for renewal from year 2021 onwards. In addition, the rental structures of the leases are resilient to prevailing market conditions as they are based on fixed rates and adjusted for growth periodically.

- **High geographical concentration in Indonesia:** As of FY2013, FREIT derives 93.4% of its rental income from its Indonesia healthcare assets. High geographical concentration exposes FREIT to the geographic (particularly with Indonesia being prone to earthquakes), economic and political risks of Indonesia. In the event of an economic downturn, people may opt for lower-cost public healthcare instead. In addition, FREIT is heavily dependent on LPKR for rental income. Its sponsor is the sole tenant of most of its Indonesia properties, resulting in high tenant concentration risk.

- **Stable balance sheet with limited debt headroom:** Net debt/net capitalization was slightly higher at 32.5% (FY2013: 32.2%) due to acquisition of new asset. Meanwhile, interest coverage ability remained stable with EBITDA/gross interest at 5.7x (FY2013: 5.8x). FREIT's debt maturity profile is relatively back-loaded with 31.7%, 39.9% and 21.3% of debt obligations maturing in 2017, 2018 and 2019 respectively. FREIT has refinanced the S$26.5mn bridge loan due in 2014 recently and there will be no refinancing needs until 2017. Nonetheless, its financial flexibility is reduced by the considerable asset encumbrance and aggregate leverage of 32.9%, which is near to the regulation limit of 35.0%.

- **Limited interest rates and FX risks:** Interest rates exposure is low with all debt on fixed-rates. FX risks are also low with lease agreements for its Indonesia and Singapore properties denominated in SGD, the same currency as its debt.

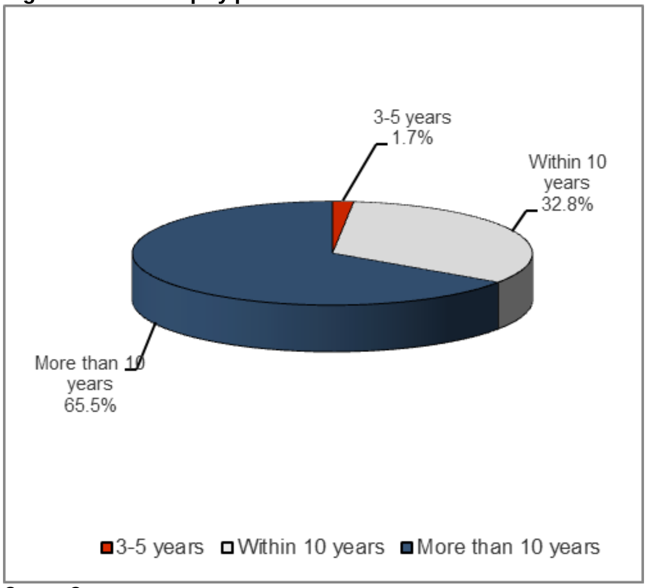
First REIT

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	9M2014
Income statement (S$ mn)			
Revenue	57.6	83.3	69.4
EBITDA	51.7	71.5	62.2
EBIT	51.3	70.2	61.3
Gross interest expense	4.3	12.4	10.9
Profit before tax	77.9	119.4	55.2
Net income	65.2	117.8	42.2
Balance sheet (S$ mn)			
Cash and equivalents	20.5	29.3	30.6
Total assets	828.8	1108.5	1,136.9
Gross debt	212.8	353.8	369.2
Net debt	192.3	324.5	338.6
Total equity	550.1	682.9	704.3
Total capitalization	762.9	1,036.7	1073.5
Net capitalization	742.4	1,007.4	1042.9
Cash flow (S$ mn)			
Funds from operations (FFO)	65.7	119.1	43.1
CFO	49.8	63.3	54.1
Capex & acquisitions	148.8	142.0	27.6
Dividends	53.6	42.8	30.3
Adjusted FOCF	-99.0	-78.7	26.5
Disposal	0.0	0.0	0.0
Free Cash Flow (FCF)	-152.6	-121.5	-3.8
Key ratios			
EBITDA margin (%)	89.8	85.8	89.7
Net margin (%)	113.2	141.5	60.8
Gross debt/EBITDA (x)	4.1	4.9	4.5
Net debt/EBITDA (x)	3.7	4.5	4.1
Gross debt/equity (x)	0.39	0.52	0.52
Net debt/equity (x)	0.35	0.48	0.48
Gross debt/total capitalization (%)	27.9	34.1	34.4
Net debt/net capitalization (%)	25.9	32.2	32.5
FCF/gross debt (%)	71.7	34.3	-1.4
FFO/gross interest (x)	15.3	9.6	4.0
EBITDA/gross interest (x)	12.1	5.8	5.7

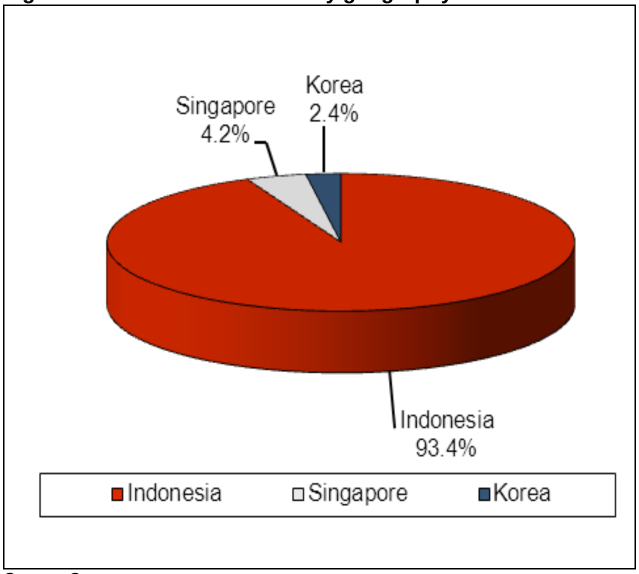
Source: Company, OCBC estimates

Figure 1: Lease expiry profile as % of GFA – 1H2014



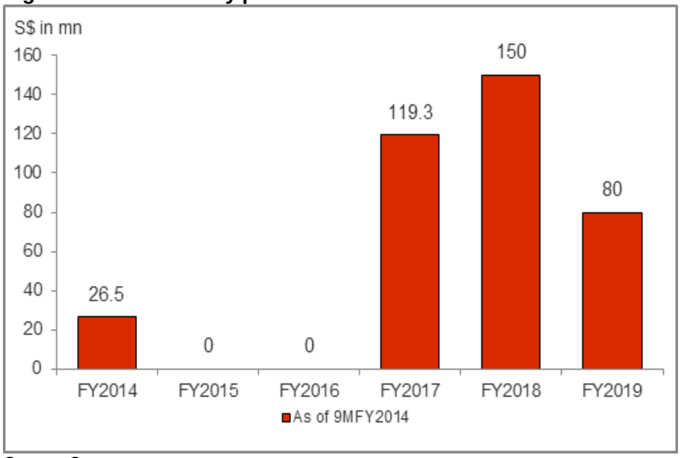
Source: Company

Figure 2: Revenue breakdown by geography – FY2013



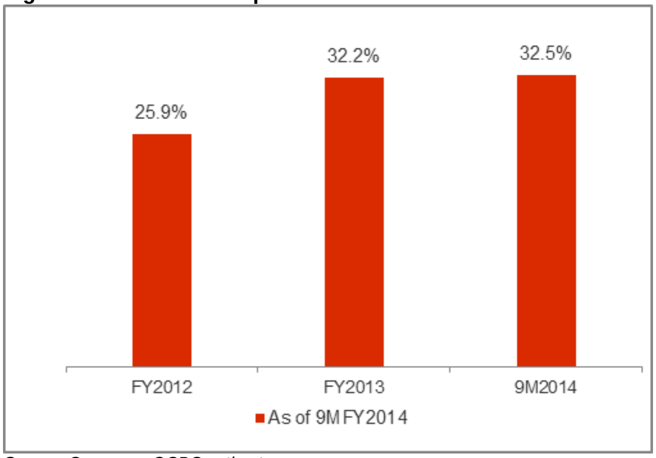
Source: Company

Figure 3: Debt maturity profile



Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – FCT's credit metrics continue to be anchored by its defensive portfolio of suburban malls. We like FCTSP'20 over CAPITA'20 and SUNSP'20 for yield pickups of 55bps and 51bps respectively, despite having a shorter maturity.

Overweight

S&P: BBB+/Stable

Moody's: Baa1/Stable

Fitch: Not rated

Ticker: **FCTSP**

Company profile

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"). Since its IPO, its properties have grown to S$2.4bn as of 30th September 2014. Its portfolio comprises 6 suburban retail malls in Singapore - Causeway Point, Changi City Point, Northpoint, Bedok Point, Anchorpoint, and YewTee Point. It also owns a 31.1%-stake in Malaysia-listed Hektar REIT ("H-REIT").

Frasers Centrepoint Trust

Key credit considerations

- **Decent operating performance in FY2014:** Gross revenue grew 6.8% y/y, driven mainly by average positive rental reversion of ~6.5% and maiden earnings contribution from Changi City Point ("CCP") that was newly acquired. With 37.9% of CCP's leases (by gross income) due for renewal in FY2015, we see room for further rental uplifts given that passing rents remain 20-30% below market rates. In addition, the lack of new retail supply within the vicinity of Causeway Point ("CWP") and Northpoint ("NP") lends support to leasing demand and rental reversions, providing potential upside in earnings for FCT.

- **Stable earnings anchored by well-located suburban malls:** FCT's portfolio is made up of 6 suburban retail malls. These malls are situated in good household catchment areas that are densely-populated and well-served by public transportation. We consider suburban malls a stable asset class given that their tenant compositions are made up mostly of retailers selling daily necessities and non-discretionary products. These shops are typically more resilient across economic cycles. FCT managed to maintain high occupancy levels throughout the financial crisis in 2008, highlighting the stability of its earnings.

- **Concentration risks underpinned by dependence on Causeway Point and Northpoint:** FCT relies heavily on CWP and NP for income, with both properties accounting for 68.8% of NPI in FY2014. However, asset concentration risks are partially mitigated by (1) a well-diversified tenant base from different sectors; and (2) high quality tenants that include large supermarkets like Cold Storage, major retailers like Metro and Courts, as well as established food-court operators like Food Republic Pte Ltd and Copitiam Pte Ltd. In addition, tenant concentration is low with the top 10 tenants contributing only 22.1% of gross rental income.

- **Acquisition of Changi City Point improves portfolio diversification:** Comprising 19.1% of portfolio NLA, it enjoyed a healthy occupancy rate of 97.9% as of FY2014. We view the acquisition positively as it diversifies income contribution away from CWP and NP that previously accounted for 81.0% of NPI in FY2013. In addition, it enlarged FCT's existing tenant base by 130 tenants, including new ones such as Samsonite Service Centre and Nike Factory Store.

- **Substantial portion of leases due for renewal:** The lease expiry profile of FCT is relatively front-loaded with a portfolio WALE of only 1.4 years (by gross rental income). 39.4% of portfolio leases are due for renewal in FY2015, exposing FCT to potential vacancy risks. This comes amidst concerns over manpower shortages and softening consumer sentiments in the retail segment. Nonetheless, 78.0% of the leases due for renewal are accounted for by CWP, NP and CCP where occupancy rates consistently exceed 97.0%. Hence, we expect renewals and new leases to be secured by FCT on competitive rates.

- **Prudent capital management and healthy financial position:** Net debt/net capitalization increased to 29.1% (FY2013: 27.3%) after the acquisition of CCP for S$305.0mn. FCT part-funded the acquisition through a private placement of new shares that raised S$161.5mn. In doing so, it limited the impact of the acquisition on credit metrics. Meanwhile, interest coverage was relatively unchanged with EBITDA/gross interest at 5.6x. While cash balance of S$41.7mn is insufficient to cover S$95.0mn of debt maturing in FY2015, FCT should be able to refinance the debt at competitive rates given its good access to capital markets. Interest rates risks are adequately managed with 75.0% of debt on fixed rates or hedged.

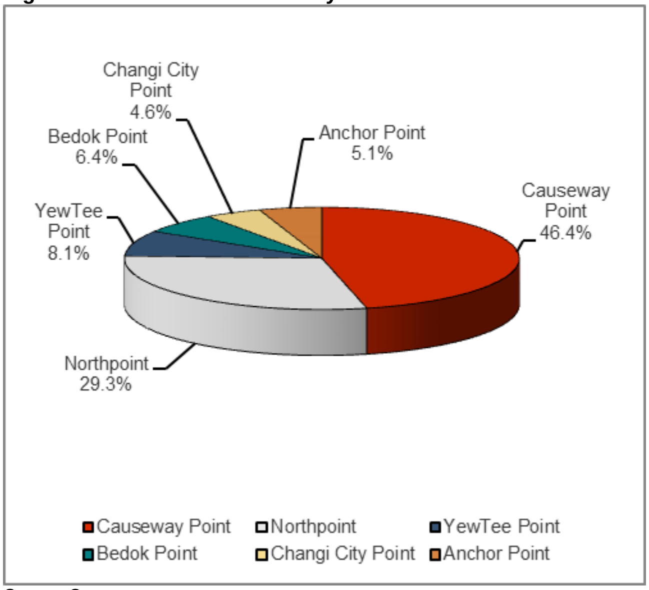
Frasers Centrepoint Trust

Table 1: Summary financials

Year ended 30th September	FY2012	FY2013	FY2014
Income statement (S$ mn)			
Revenue	147.2	158.0	168.8
EBITDA	92.2	98.5	103.5
EBIT	92.3	98.6	103.5
Gross interest expense	18.2	17.7	18.5
Profit before tax	185.6	287.8	165.1
Net income	185.6	287.8	165.1
Balance sheet (S$ mn)			
Cash and equivalents	22.9	39.7	41.7
Total assets	1,917.1	2,134.5	2,521.8
Gross debt	577.0	589.0	739.0
Net debt	554.1	549.3	697.3
Total equity	1,263.0	1,462.4	1,698.7
Total capitalization	1,840.0	2,051.4	2,437.7
Net capitalization	1,817.2	2,011.6	2,395.9
Cash flow (S$ mn)			
Funds from operations (FFO)	185.5	287.7	165.1
CFO	97.7	112.8	100.3
Capex & acquisitions	31.6	9.5	300.3
Dividends	78.4	87.8	94.5
Adjusted FOCF	66.2	103.2	-200.0
Disposals	0.0	0.0	0.0
Free Cash Flow (FCF)	-12.2	15.4	-294.5
Key ratios			
EBITDA margin (%)	62.7	62.4	61.4
Net margin (%)	126.1	182.2	97.8
Gross debt/EBITDA (x)	6.3	6.0	7.1
Net debt/EBITDA (x)	6.0	5.6	6.7
Gross debt/equity (x)	0.46	0.40	0.44
Net debt/equity (x)	0.44	0.38	0.41
Gross debt/total capitalization (%)	31.4	28.7	30.3
Net debt/net capitalization (%)	30.5	27.3	29.1
FCF/gross debt (%)	-2.1	2.6	-39.8
FFO/gross interest (x)	10.2	16.3	8.9
EBITDA/gross interest (x)	5.1	5.6	5.6

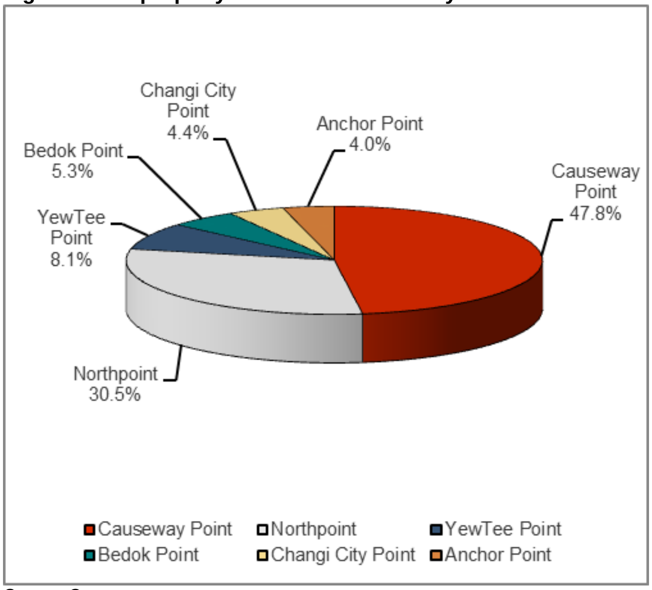
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by assets – FY2014



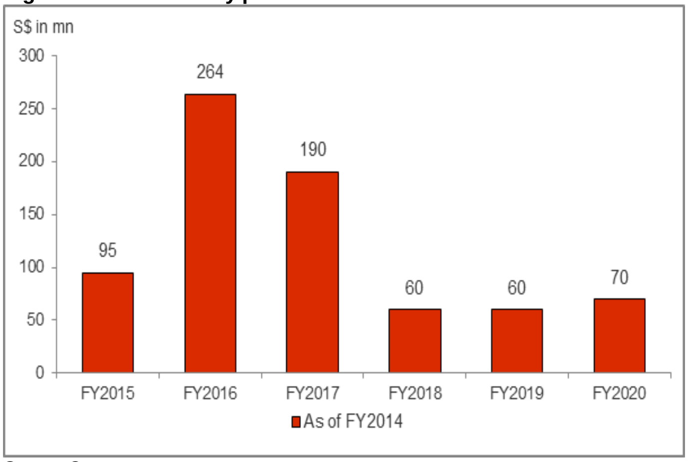
Source: Company

Figure 2: Net property income breakdown by assets – FY2014



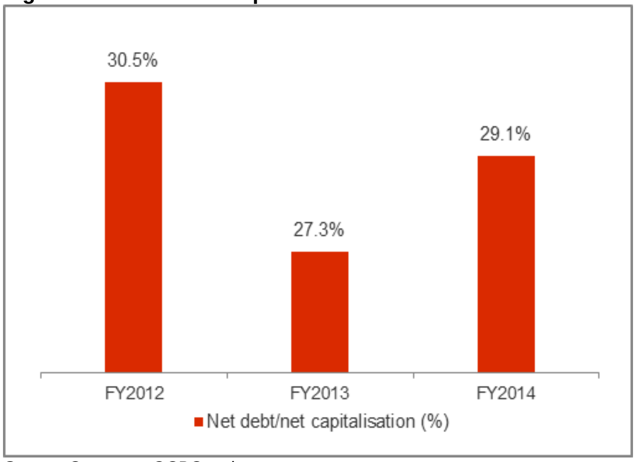
Source: Company

Figure 3: Debt maturity profile



Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Genting Singapore Plc

Credit Outlook – Though facing near-term headwinds, the business fundamentals of GS remain sound. Cash flow generation remains strong, easily supporting debt service while the balance sheet offers significant flexibility despite announced investment plans. The perps are offering YTC and YTW of 5.82% and 5.40% respectively. Near-term attractiveness given current levels and the solid credit profile is offset by future interest rate risk.

Neutral

S&P: Not rated

Moody's: Baa1/Stable

Fitch: A-/Stable

Ticker: **GENSSP**

Company profile

Listed on the SGX in 2005, Genting Singapore Plc ("GS") is involved in gaming and integrated resort development. Its principal asset is the 49ha flagship Resorts World Sentosa ("RWS"), comprising the Singapore Integrated Resort, with 6 hotels, a 15,000 sq m casino, Universal Studios Singapore ("USS") and Marine Life Park ("MLP"). RWS welcomed over 45mn visitors in its first three years of operation. GS is 52.5% owned by the Malaysia-listed Genting Bhd.

Key credit considerations

- **Weak 3Q2014 operating performance driven by slump in gaming revenues:** Total revenue for 9M2014 grew by 3.3% y/y to S$2.22bn, driven by growth in gaming revenue during the first half of the year. The situation sharply reversed in 3Q2014, with gaming revenues falling 21.3% y/y and 20.0% q/q. Low win percentage caused the premium player business to underperform. The non-gaming business has remained stable for the quarter, with revenue falling 1.6% y/y. Hotel occupancy remains high at 95%, improving 1pp q/q. Average daily attractions visitation grew 10% relative to the 17,000 visitations seen in 2Q2014.

- **Impairments have pressured profits:** GS has taken impairment losses on trade receivables of S$81.6mn in 2Q2014 relative to the S$40mn–S$50mn seen in prior quarters. Management has provided feedback that the provisioning was to be conservative given the macro environment (these were taken on accounts outstanding between 9 to 12 months). For 9M2014, impairment losses on trade receivables grew by 41.4% to S$180.1mn y/y. At the end of 3Q2014, trade receivables stand at S$1.16bn.

- **Gaming weakness likely to persist into 1H2015:** There continues to be pressure on both the mass and premium markets. Between January and August 2014, international visitor arrivals to Singapore have fallen 3.3% y/y. For visitors from the PRC, the decline has been more drastic at 29.2% over the same period. Given the macroeconomic pressures faced by regional economies, the trend is unlikely to reverse in the near future. The premium market will continue to face headwinds due to the clampdown on corruption by the PRC government. Macau's monthly gross revenue from gaming has declined by 23.2% and 19.6% m/m for October and November 2014 respectively. 2014 may be the first year that Macau seen a decline in annual gross gaming revenue since 2004. It is unlikely that Singapore's gaming market would remain unscathed given the challenges faced by Macau.

- **Growth prospects are mixed:** GS looks on track to open its new 550-room hotel in the Jurong Lakeside District during the middle of 2015. This would increase the company's room inventory by more than 30%. The average room rate for the new hotel is likely to be distinctly lower than the S$400 enjoyed by existing facilities. Given the distance of the new hotel to Sentosa, the incremental benefits to the company's gaming business remains uncertain. Resorts World Jeju, which originally had a ground breaking date of 24th June 2014, has been delayed. No new timeline beyond the original 2017 progressive opening date has been provided.

- **Sound balance sheet and liquidity profile offers mitigation:** Despite the challenges faced during 3Q2014, GS was able to generate S$186mn in operating cash flows net of capex (compared to S$92mn in 3Q2013). This compares to the S$131mn in loan repayments per quarter. Due to deleveraging, gross debt/EBITDA has declined from 2.0x at the beginning of the year to 1.5x at the end of 3Q2014. Net debt/EBITDA is negative, though GS is likely to tap on its cash reserves for its investments in South Korea and Japan. GS ended the quarter with S$3.2bn in unrestricted cash.

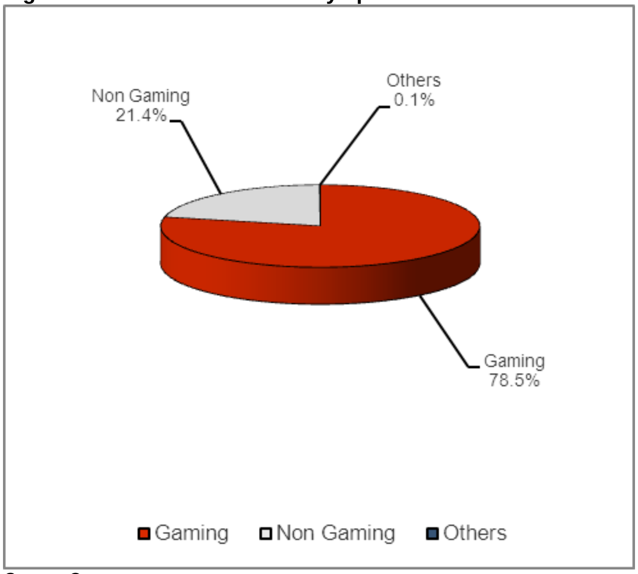
Genting Singapore Plc

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	9M2014
Income statement (SGD'mn)			
Revenue	2,948.1	2,847.3	2,224.6
EBITDA	1,300.5	1,086.2	943.3
EBIT	910.3	663.8	627.6
Gross interest expense	67.2	54.0	32.4
Profit Before Tax	864.7	845.5	650.1
Net profit	680.2	707.3	516.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	4,511.7	3,761.4	3,336.2
Total assets	12,955.6	13,074.1	12,897.4
Gross debt	2,707.9	2,225.3	1,834.1
Net debt	-1,803.8	-1,536.1	-1,502.0
Shareholders' equity	8,937.3	9,647.2	9,956.0
Total capitalization	11,645.2	11,872.5	11,790.2
Net capitalization	7,133.5	8,111.1	8,454.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	1,070.4	1,129.7	832.0
CFO	1,036.1	820.5	677.4
Capex and acquisitions	656.2	448.8	213.4
Dividend	181.3	240.1	227.5
Adjusted FOCF	379.9	371.7	464.0
Disposals	36.1	70.1	1.0
Free Cash Flow (FCF)	234.7	201.6	237.5
Key Ratios			
EBITDA margin (%)	44.1	38.1	42.4
Net margin (%)	23.1	24.8	23.2
Gross debt to EBITDA (x)	2.1	2.0	1.5
Net debt to EBITDA (x)	-1.4	-1.4	-1.2
Gross Debt to Equity (x)	0.30	0.23	0.2
Net Debt to Equity (x)	-0.20	-0.16	-0.2
Gross debt/total capitalisation (%)	23.3	18.7	15.6
Net debt/net capitalisation (%)	-25.3	-18.9	-17.8
FCF/gross debt (%)	8.7	9.1	17.3
FFO/gross Interest (x)	15.9	20.9	25.7
EBITDA/Total Interest (x)	19.3	20.1	29.1

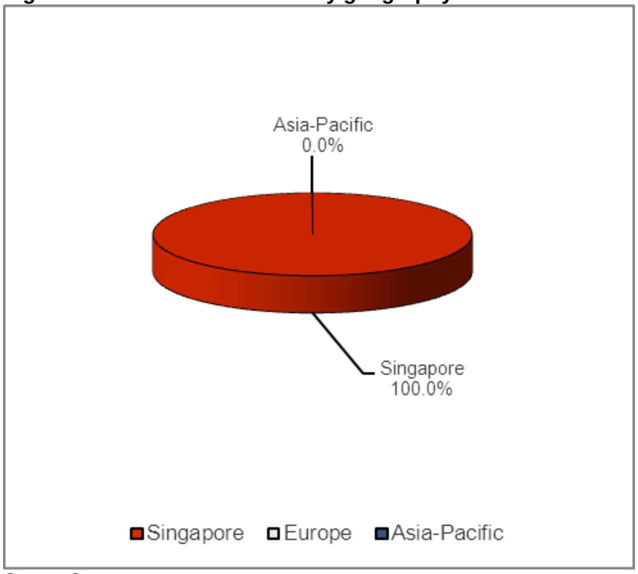
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by operations – 9M2014



Source: Company

Figure 2: Revenue breakdown by geography – FY2013



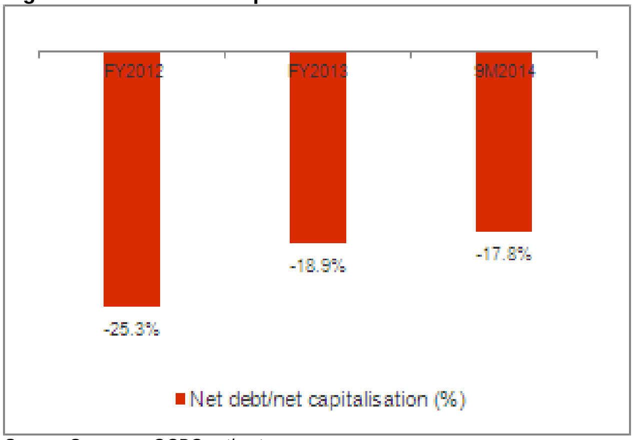
Source: Company

Figure 3: Debt maturity profile

Amounts in S$ mn	As at 30/09/2014	% of debt
Amount repayable		
One year or less, or on demand	519.9	28.3%
After one year	1,314.2	71.7%
Total	**1,834.1**	**100.0%**

Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – We are neutral on the GUOLSP complex, which offers spreads of 210-240bps above swap. Although the litigation overhang on the Dongzhimen project has been removed, GUOL's balance sheet remains stretched in the near term.

Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **GUOLSP**

Company profile

Listed on the SGX in 1978, GuocoLand Ltd ("GLL") is a property developer headquartered in Singapore, with investments in residential properties, commercial properties and integrated developments. The group's properties are located in Singapore, China, Malaysia and Vietnam. GLL is a 65.0%-owned subsidiary of Guoco Group, which is listed on the HKSE and is in turn, a member of the Hong Leong Group, one of the largest conglomerates in South East Asia.

GuocoLand Ltd

Key credit considerations

- **Lower earnings in 1QFY2015 due to absence of disposal gain:** GLL recorded net profit of S$27.0mn in 1QFY2015, down 68.1% y/y. The lower earnings were mainly due to the absence of one-off gains from the sale of subsidiaries in 1QFY2014. Meanwhile, revenue decreased by 4.4% y/y to S$223.6mn as higher revenue recognized for residential projects in Singapore (Goodwood Residence and Leedon Residence) was mitigated by lower sales from Seasons Park in Tianjin, China. On a positive note, GLL managed to achieve higher EBITDA margin of 22.8% in 1QFY2015 (1QFY2014: 12.5%).

- **High dependency on Singapore's and China's operations:** GLL's Singapore operations is the group's largest revenue contributor (57.3% of the group's total revenue in FY2014), with China and Malaysia accounting for the remaining 32.9% and 9.8%, respectively. As a result, GLL's earnings are vulnerable to slowdowns in Singapore's and China's property markets.

- **Financial metrics pressured by major developments in the pipeline:** Large scale integrated projects have kept GLL's financials under pressure. The group currently has three major integrated developments in the pipeline, namely, Tanjong Pagar Center ("TPC") in Singapore, Shanghai Guoson Centre in China, as well as Damansara City in Malaysia. In particular, TPC's high development cost (estimated at S$3.2bn including S$1.7bn land cost) has prompted GLL to divest a 20.0% stake in the project to Employees Provident Fund in Malaysia. TPC is an integrated development comprising office, retail, hotel and residential space that is expected to become Singapore's tallest building upon completion in mid-2016. In the longer term, management expects these integrated developments to increase the group's recurring income.

- **Positive development from Dongzhimen project:** GLL announced in September 2014 that a judgment has been obtained from the Hainan High Court, which effectively restored the group's 90.0% ownership in the Dongzhimen project in Beijing, China. This positive outcome should pave the way for further developments and GLL is currently exploring various options for the project. The resolution of the six-year appeal removes the litigation overhang on the company.

- **Debt leverage remains high:** GLL's net debt/equity in 1QFY2015 remained at elevated levels of 1.57x (FY2014: 1.46x; FY2013: 1.60x). Although interest coverage for FY2014 improved as FFO/gross interest increased to 1.7x (FY2013: 0.3x) and EBITDA/gross interest increased to 1.3x (0.5x), these ratios remain weak when compared to other Singapore property developers under our coverage. Given that GLL's capital expenditure will remain high in the near to medium term, its gearing level is unlikely to improve significantly. In 1QFY2015, GLL has completed the acquisition of a residential site at Sims Drive in Singapore for S$530.9mn.

- **Refinancing risk mitigated by good access to capital markets:** GLL's end-1QFY2015 cash balance of S$729.6mn (includes S$346.5mn pledged for a bank loan in China and restricted from use) was insufficient to cover near term debt of S$2.30bn. Besides, asset encumbrance remained high with 51.1% of total assets being pledged or mortgaged to secure loans. Nonetheless, GLL has demonstrated its ability to access credit in the SGD corporate bond market (4 issuances in 2013 and 1 issuance in 2014) and refinancing risk should be mitigated. In addition, the group may consider divesting its integrated developments in order to recycle capital.

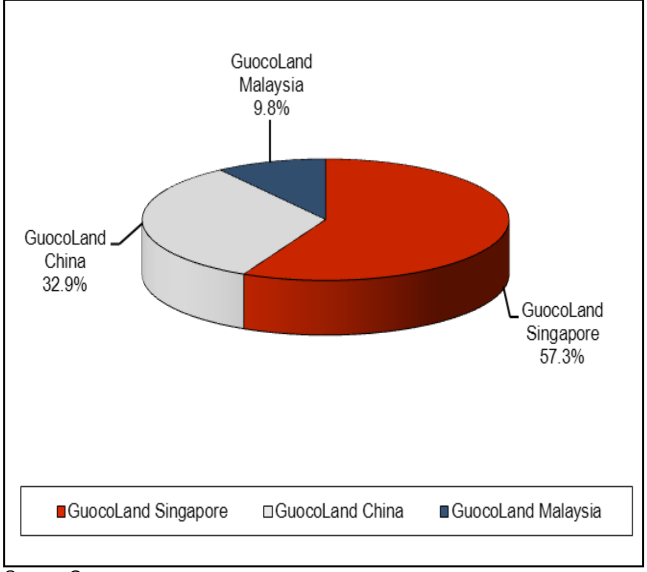
GuocoLand Ltd

Table 1: Summary financials

Year ended 30th June	FY2013	FY2014	1Q2015
Income statement (S$ mn)			
Revenue	677.4	1,251.4	223.6
EBITDA	91.4	242.3	50.9
EBIT	82.5	233.9	48.7
Gross interest expense	194.5	184.6	16.9
Profit before tax	98.5	410.0	38.0
Net income	40.5	304.2	27.0
Balance sheet (S$ mn)			
Cash and equivalents	934.3	716.0	729.6
Total assets	9,154.9	8,719.5	9,273.4
Gross debt	5,372.3	5,066.8	5,534.9
Net debt	4,438.0	4,350.8	4,805.3
Total equity	2,775.1	2,973.5	3,067.9
Total capitalization	8,147.4	8,040.3	8,602.8
Net capitalization	7,213.1	7,324.3	7,873.2
Cash flow (S$ mn)			
Funds from operations (FFO)	49.4	312.7	29.1
CFO	150.3	157.3	-338.4
Capex & acquisitions	83.9	89.3	33.8
Dividends	67.0	56.7	0.0
Adjusted FOCF	66.4	68.0	-372.2
Disposals	64.2	255.2	0.5
Free Cash Flow (FCF)	63.6	266.4	-371.7
Key ratios			
EBITDA margin (%)	13.5	19.4	22.8
Net margin (%)	6.0	24.3	12.1
Gross debt/EBITDA (x)	58.8	20.9	27.2
Net debt/EBITDA (x)	48.6	18.0	23.6
Gross debt/equity (x)	1.94	1.70	1.80
Net debt/equity (x)	1.60	1.46	1.57
Gross debt/total capitalization (%)	65.9	63.0	64.3
Net debt/net capitalization (%)	61.5	59.4	61.0
FCF/gross debt (%)	1.2	5.3	-26.9
FFO/gross interest (x)	0.3	1.7	1.7
EBITDA/gross interest (x)	0.5	1.3	3.0

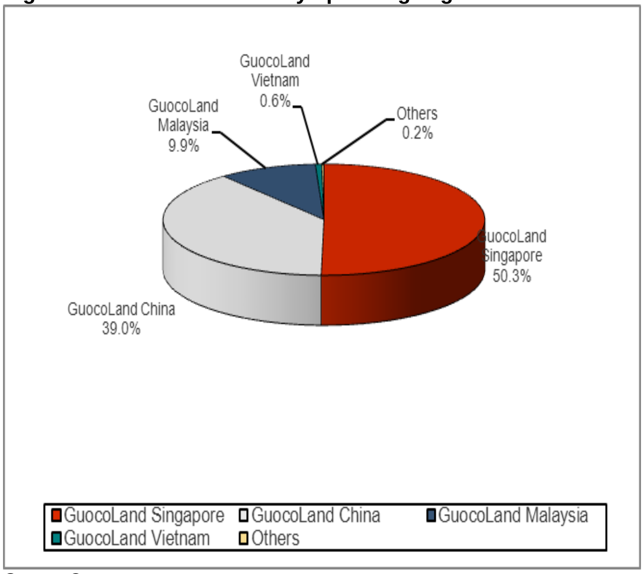
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by operating segment – FY2014



Source: Company

Figure 2: Asset breakdown by operating segment – FY2014



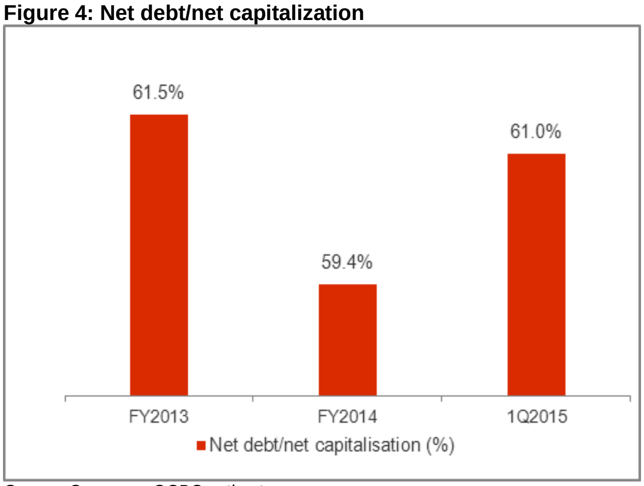
Source: Company

Figure 3: Debt maturity profile

Amounts in S$ mn	As at 30/09/2014	% of debt
Amount repayable in one year or less, or on demand		
Secured	925.5	16.7%
Unsecured	1,378.2	24.9%
	2,303.7	**41.6%**
Amount repayable after a year		
Secured	2,093.5	37.8%
Unsecured	1,137.7	20.6%
	3,231.2	**58.4%**
Total	**5,534.9**	**100.0%**

Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – We feel that HLD's credit profile is similar to it's A-rated peers such as Wharf and HK Land. While we acknowledge HLD's improving credit profile, HLD's curve is trading at a premium to its rated peers and CKH. HENLND'18 at 82 bps over swap is 65bps and 17bps tighter compared to CHEUNG'18 and WHARF'18, respectively.

Underweight

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. 68.4%-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

- **Stable 1H2014 results with strong project pipeline in 2015:** HLD recorded HK$8.6bn of revenue in 1H2014, flat y/y while EBITDA was flat as well at HK$2.4bn. Revenue from property development was down 11% y/y to HK$4.4bn which was offset by a 7.5% increase in property leasing to HK$2.6bn and a 25% increase in construction and urban redevelopment revenue to HK$667mn. Three projects were completed in Hong Kong comprising of a gross floor area of 308,385 sq ft while 3.5mn sq ft was completed in China. HLD's largest associate, Hong Kong and China Gas contributed HK$1.5bn to HLD's profits (up 7% y/y) in 1H2014, building on its sizable customer base in Hong Kong and continued expansion in China. Looking ahead to 2015, HLD has a strong pipeline of projects lined up with 7.4mn sq ft scheduled to be completed in China and an estimated total of 8.3mn sq ft of saleable resources in Hong Kong up to 2018.

- **Urban redevelopment and farm land conversion strategy with higher margins and lower turnover sets HLD apart from its peers:** HLD replenishes its land bank by acquiring old buildings for redevelopment and farmland for conversion instead of bidding through public auctions and tenders. While this provides higher margins, turnover is slower. The Land Arbitration Pilot Scheme announced by the government could expedite the process although management expects no significant progress until next year. HLD currently has a sizable land bank comprising 66.7mn sq ft in Hong Kong (24.1mn sq ft on Hong Kong Island and 42.6mn sq ft in the New Territories) and 130.6mn sq ft in China (mostly tier-2 cities).

- **Solid recurrent cash flows from investment property portfolio and Hong Kong & China Gas:** HLD has a sizable investment portfolio in Hong Kong (9.1mn sq ft) and China (7.3mn sq ft) which provide stable rental income. The Hong Kong portfolio was almost fully leased at 97% while presence in China increased with the completion of Henderson 688 in Shanghai in May 2014. HLD's associates, especially Hong Kong and China Gas also provide the company with a source of stable and sizable income base (share of profits from associates and JVs contributed HK$3.9bn in 1H2014).

- **Challenging outlook in 2015:** 2015 could shape up to be a challenging year for Hong Kong property trading as the spectre of interest rate hikes coupled with slowing mainland growth could dampen sentiment and prices as Hong Kong's economy is increasingly linked to mainland China while its monetary policy is still tied to the US. The diverging dynamics could compound challenges posed by political unrest and other cooling measures. That said, falling prices could result in demand stepping in, containing the downside in prices.

- **Improving credit profile as the company continues to deleverage:** HLD's net gearing improved to 14% in 1H2014 from 17% as at end 2013 while net debt to EBITDA remained stable at 6.6x. EBITDA interest coverage improved slightly y/y to 2.3x from 2.1x. HLD's disciplined financial management continues to see the company's credit profile improve with net debt position decreasing from HK$44.8bn in 2010 to HK$31.8bn as of end-1H2014.

- **Sufficient liquidity:** HLD's cash balance of HK$13.3bn is insufficient to cover the company's short term debt of HK$12.8bn and contracted capital commitments of HK$9.74bn. That said, we note that the company has recurrent income generation from operations and banking facilities in place to meet the shortfall.

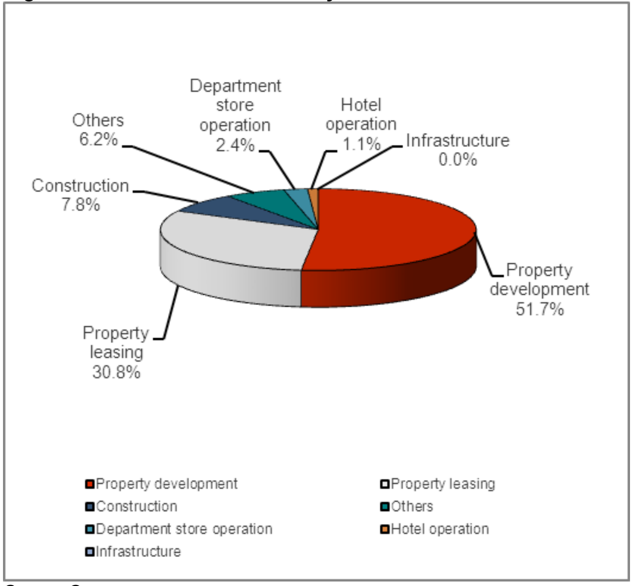
Henderson Land Development Co Ltd

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	1H2014
Income statement (HK$ mn)			
Revenue	15,592	23,289	8,569
EBITDA	4,481	5,792	2,407
EBIT	4,692	5,595	2,321
Gross interest expense	2,334	2,179	1,066
Profit Before Tax	21,614	17,795	10,055
Net profit	20,485	15,948	9,460
Balance sheet (HK$ mn)			
Cash and bank deposits	12,538	13,915	13,292
Total assets	281,508	304,114	309,919
Gross debt	47,743	52,259	45,139
Net debt	35,205	38,344	31,847
Shareholders' equity	209,852	228,000	235,494
Total capitalization	257,595	280,259	280,633
Net capitalization	245,057	266,344	267,341
Cash flow (HK$ mn)			
Funds from operations (FFO)	20,274	16,145	9,546
CFO	2,642	-1,350	5,204
Capex and acquisitions	755	3,798	N/A
Dividend	533	697	1,997
Adjusted FOCF	1,887	-5,148	N/A
Disposals	1,327	1,452	N/A
Free Cash Flow (FCF)	2,681	-4,393	N/A
Key ratios			
EBITDA margin (%)	28.7	24.9	28.1
Net margin (%)	131.4	68.5	110.4
Gross debt to EBITDA (x)	10.7	9.0	9.4
Net debt to EBITDA (x)	7.9	6.6	6.6
Gross Debt to Equity (x)	0.23	0.23	0.19
Net Debt to Equity (x)	0.17	0.17	0.14
Gross debt/total capitalisation (%)	18.5	18.6	16.1
Net debt/net capitalisation (%)	14.4	14.4	11.9
FCF/gross debt (%)	5.6	-8.4	N/A
FFO/gross Interest (x)	8.7	7.4	9.0
EBITDA/Total Interest (x)	1.9	2.7	2.3

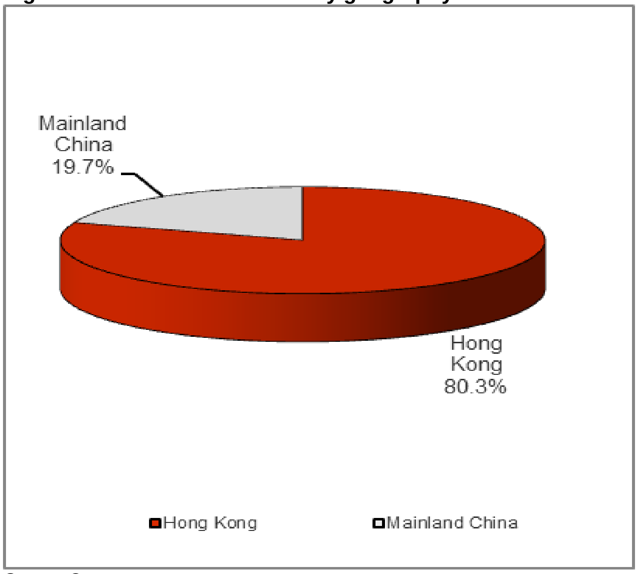
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – 1H2014



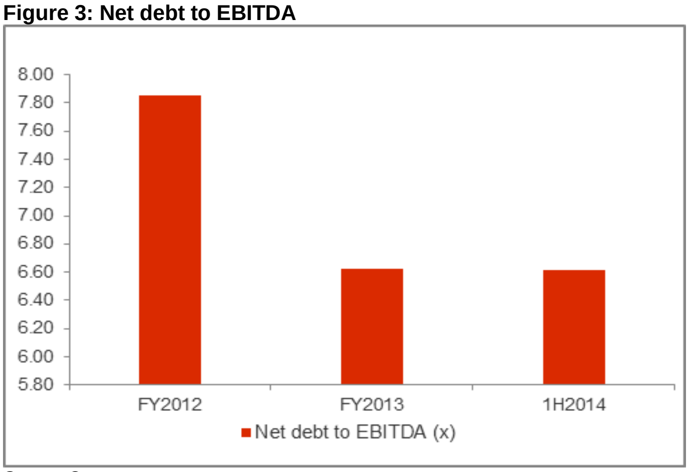
Source: Company

Figure 2: Revenue breakdown by geography – 1H2014



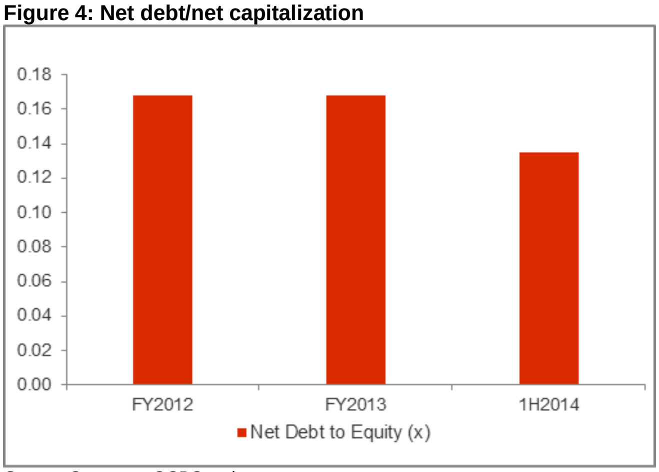
Source: Company

Figure 3: Net debt to EBITDA



Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – We think the HFCSP complex offers value with HFCSP'18 and '19 trading at ~300bps over swap, respectively. However, we see risk of more supply going forward as HFC has increased the limit of its MTN programme in October 2014.

Neutral

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 77,000 sq m by GFA. The Cheong family substantially controls HFC. Its top shareholders are Hong Fok Land International Ltd (20.4%), Goodyear Realty Co Pte Ltd (16.3%), Sim Eng Cheong (11.8%) and K P Cheong Investments Pte Ltd (11.0%).

Hong Fok Corp Ltd

Key credit considerations

- **Small but established real estate developer with long-term track record:** With history tracing back to 1967, HFC is an established property developer that has developed a number of commercial, industrial and residential projects in Singapore such as The Concourse and Concourse Skyline, Henderson Industrial Park, International Building and Teresa Ville. However the company's credit profile is somewhat constrained by its small size.

- **Lower 9M2014 results due to weak property development business:** Revenue for 9M2014 decreased 55.7% y/y to S$82.0mn due to lower recognition of revenue from residential units of Concourse Skyline. In particular, there was no recognition of sales from Concourse Skyline in 2Q2014 and 3Q2014. Due to government's cooling measures, take-up for Concourse Skyline has been weak with only 67.0% of the residential units were sold. As a result, HFC's net profit was 23.2% lower y/y to S$32.6mn, even after recognizing a gain of S$27.5mn from the disposal of subsidiary in 2Q2014. Management expects the residential property market to remain sluggish going forward but the office rental should remain resilient. In addition, HFC is leasing out the retail and residential units of Concourse Skyline to increase its rental revenue.

- **Quality investment properties to provide recurring rental income:** While revenue and profit from property development are lumpy in nature, this is mitigated by contribution of recurring rental income from HFC's investment properties. The group's key investment properties are International Building (a 12-storey commercial building situated on a prime site along Orchard Road) and The Concourse and retail units of Concourse Skyline on Beach Road. These properties are occupied by well-known companies. That said, we note the concentration of rental income in just two properties.

- **Geographic concentration in Singapore:** HFC's operations continue to be concentrated in Singapore. The company intends to mitigate this by leveraging on its strengths and expertise by continuing to expand its investment property portfolio at prime locations in Singapore. The group's latest project is the extension of a single-storey commercial block to existing International Building and the redevelopment of the existing car park block to a new 30-storey hotel. The hotel will be named YOTEL Singapore Orchard Road and it will include 609 guest rooms. The project is estimated to be completed in 2017 and should enhance the group's recurring income streams going forward.

- **Lower refinancing risk and moderate credit metrics:** HFC successfully refinanced its secured loans due in 3Q2014 and refinancing risk has been substantially reduced as only 9.8% of total debt (1Q2014: 55.4%) is repayable within a year. Net gearing improved to 0.39x as at end-3Q2014 (FY2013:0.44x) while EBITDA/gross interest was weaker at 1.5x (2013: 2.5x). Meanwhile, we note that HFC has increased the limit of its MTN programme to S$600.0mn from S$300.0mn in October 2014 and the group should be able to tap the bond market when needed. HFC has previously been successful in raising capital with a S$220.0mn issuance from its MTN programme in 2013.

- **Appointment of lead independent director:** Mr. Chow Yew Hon has been appointed as the lead independent director of HFC since 1 September 2014. Mr. Chow has held various senior positions with major international banks in Singapore, Hong Kong, London and Los Angeles and has more than 36 years of experience in banking.

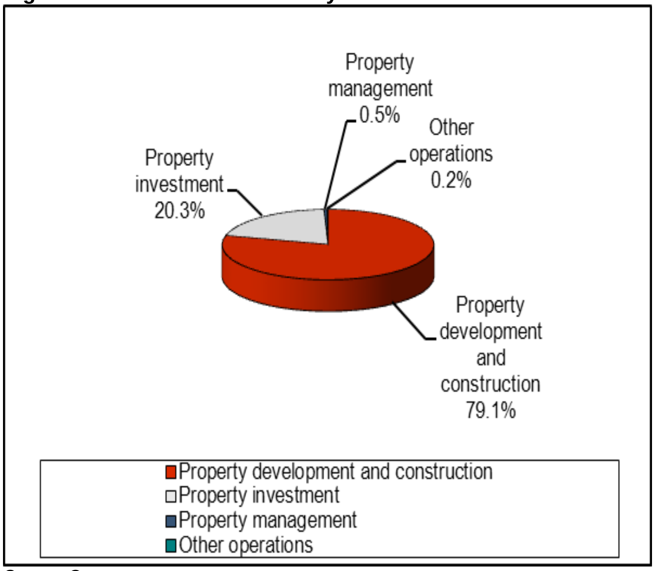
Hong Fok Corp Ltd

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	9M2014
Income statement (S$ mn)			
Revenue	156.0	227.6	82.0
EBITDA	38.5	42.6	22.7
EBIT	38.3	42.4	22.5
Gross interest expense	11.2	17.1	14.9
Profit before tax	81.5	362.5	35.5
Net income	77.5	357.0	16.0
Balance sheet (S$ mn)			
Cash and equivalents	72.8	37.6	62.2
Total assets	1,844.0	2,599.4	2,554.3
Gross debt	592.2	796.7	737.8
Net debt	519.4	759.1	675.6
Total equity	1,204.8	1,727.0	1,752.3
Total capitalization	1,797.0	2,523.7	2,490.1
Net capitalization	1,724.2	2,486.1	2,427.9
Cash flow (S$ mn)			
Funds from operations (FFO)	77.7	357.2	16.2
CFO	34.4	-44.2	90.6
Capex & acquisitions	2.8	21.8	16.0
Dividends	0.0	4.7	9.5
Adjusted FOCF	31.6	-66.1	74.6
Disposals	0.1	1.0	34.0
Free Cash Flow (FCF)	31.7	-69.9	99.2
Key ratios			
EBITDA margin (%)	24.7	18.7	27.7
Net margin (%)	49.7	156.8	19.5
Gross debt/EBITDA (x)	15.4	18.7	24.4
Net debt/EBITDA (x)	13.5	17.8	22.3
Gross debt/equity (x)	0.49	0.46	0.42
Net debt/equity (x)	0.43	0.44	0.39
Gross debt/total capitalization (%)	33.0	31.6	29.6
Net debt/net capitalization (%)	30.1	30.5	27.8
FCF/gross debt (%)	5.4	-8.8	17.9
FFO/gross interest (x)	6.9	20.9	1.1
EBITDA/gross interest (x)	3.4	2.5	1.5

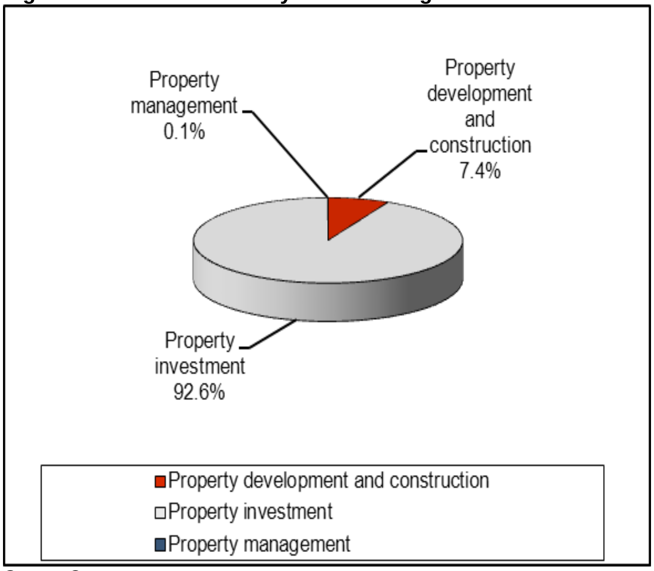
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – FY2013



Source: Company

Figure 2: EBT breakdown by business segment – FY2013



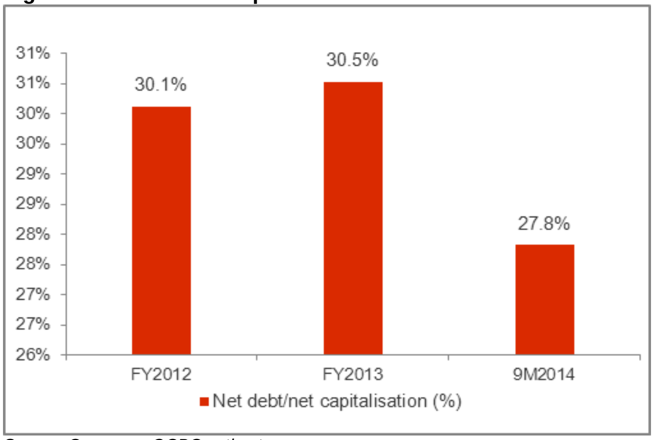
Source: Company

Figure 3: Debt maturity profile

(Amounts in S$ mn)	As at 30/09/2014	% of debt
Repayable in one year		
Secured	71.9	9.7%
Unsecured	0.2	0.0%
Sub-total	**72.1**	**9.8%**
Repayable after a year		
Secured	447.5	60.7%
Unsecured	218.1	29.6%
Sub-total	**665.7**	**90.2%**
Total	**737.8**	**100.0%**

Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – We like HK Land's recurring rental cash flows and conservative leverage which underpins the company's solid credit profile. The bonds look fairly valued at current levels. Across the HK Land SGD curve, we prefer the 20s (2.0% mid yield, 50.4bps spread) given the steeper 1 to 3-year portion of the swap curve. However we note that HK Land's bonds are generally not actively traded.

Neutral

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 ("HK Land") 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 50.01%-owned by Jardine Strategic Holdings Ltd (A/A3/NR).

Hongkong Land Holdings Ltd

Key credit considerations

- **Core commercial property operations in Hong Kong and Singapore performed well in 1H2014 while absence of residential completions distorted results:** HK Land's 1H2014 revenue was down 34.0% y/y as no Singapore projects were completed in 1H2014 compared to 1H2013 when two large projects were completed. This should be reversed later in the year with the company scheduled to complete two projects in Singapore in 2H2014, Terrasse, a 414-unit apartment complex and Uber 388, a 95-unit project. The company's commercial property segment posted stable results with revenue up 6.3% to US$484mn on positive rental reversions in Central despite vacancy rates creeping up. The commercial property portfolio in Singapore delivered stable results with flat gross rents of SGD9.1 per sq ft and improved vacancy rates of 1.4% from 1.7% in 2013.

- **Stable rental income from portfolio of prime commercial property in Central and Singapore supports the HK Land's credit profile:** HK Land is the largest landlord in Central with 12 Grade-A office buildings and retail space in prime locations with net floor area of 4.88m sq ft. The company also owns 1.78m sq ft of Grade-A office and retail space in Singapore and commercial properties in various other regions such as Jakarta, Hanoi, Bangkok and Phnom Penh. In addition to that, HK Land has 43,000 sq m of luxury retail space in Wangfujing, Beijing slated for completion in 2016. HK Land's total commercial property portfolio contributed about 80% to the company's underlying profit and is a steady source of recurring income.

- **Limited downside in office segment in Hong Kong:** Sentiment in the office leasing space in Central remained cautious with demand remaining lacklustre despite a rise in leasing enquiries. Vacancies rose to 6.0% in 1H2014 from 5.0% in December 2013 with tepid demand from the financial sector still evident. However, HK Land managed to secure positive rental reversions to HK$103 per sq ft from HK$101 in 2013. There should be limited downside going forward given the current depressed climate and limited supply of new Grade A office space in Central over the next few years.

- **Strong liquidity profile:** HK Land had US$1.35bn in cash as of June 2014 and committed unused facilities of US$2.4bn, which is sufficient to cover short-term borrowings of US$1.3mn, capital commitments of US$816.8mn and US$300.8mn of SGD notes due 2015. The company also has a termed-out debt maturity with average tenor of 7.5 years, up from 6.7 at the end of 2013.

- **Stable credit profile supported by recurring rental income and low leverage:** HK Land has consistently generated positive operating cash flows from its base of rental income from its commercial property portfolio. EBITDA interest coverage therefore remained strong at 8.0x despite falling from 9.2x in 1H2013 due to the lack of contribution from property development in Singapore. Net debt/EBITDA remained stable at 3.52x while net gearing remains low at 12% implying additional headroom for more debt if the need arises.

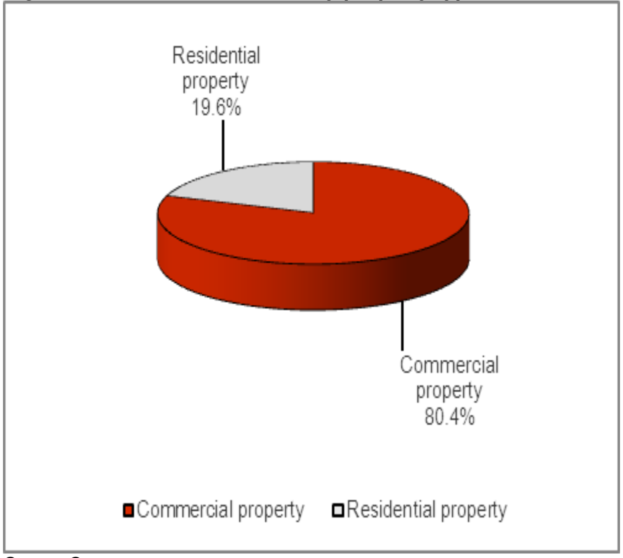
Hongkong Land Holdings Ltd

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	1H2014
Income statement (US$ mn)			
Revenue	1,115	1,857	602
EBITDA	797	908	458
EBIT	795	905	457
Gross interest expense	111	131	57
Profit Before Tax	1,573	1,357	640
Net profit	1,438	1,190	563
Balance sheet (US$ mn)			
Cash and bank deposits	982	1,406	1,349
Total assets	31,785	32,996	33,725
Gross debt	4,256	4,432	4,571
Net debt	3,273	3,025	3,223
Shareholders' equity	26,184	26,899	27,164
Total capitalization	30,440	31,331	31,736
Net capitalization	29,458	29,924	30,387
Cash flow (US$ mn)			
Funds from operations (FFO)	1,440	1,192	564
CFO	333	985	227
Capex and acquisitions	694	452	105
Dividend	375	405	282
Adjusted FOCF	-361	533	122
Disposals	8	0	0
Free Cash Flow (FCF)	-728	129	-161
Key ratios			
EBITDA margin (%)	71.5	48.9	76.0
Net margin (%)	129.0	64.1	93.4
Gross debt to EBITDA (x)	5.3	4.9	5.0
Net debt to EBITDA (x)	4.1	3.3	3.5
Gross Debt to Equity (x)	0.16	0.16	0.17
Net Debt to Equity (x)	0.13	0.11	0.12
Gross debt/total capitalisation (%)	14.0	14.1	14.4
Net debt/net capitalisation (%)	11.1	10.1	10.6
FCF/gross debt (%)	-17.1	2.9	-7.0
FFO/gross Interest (x)	13.0	9.1	9.8
EBITDA/Total Interest (x)	7.2	6.9	8.0

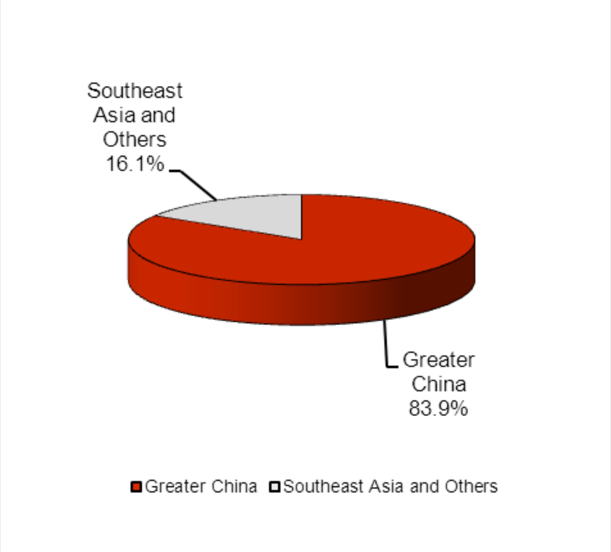
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by property type – 1H2014



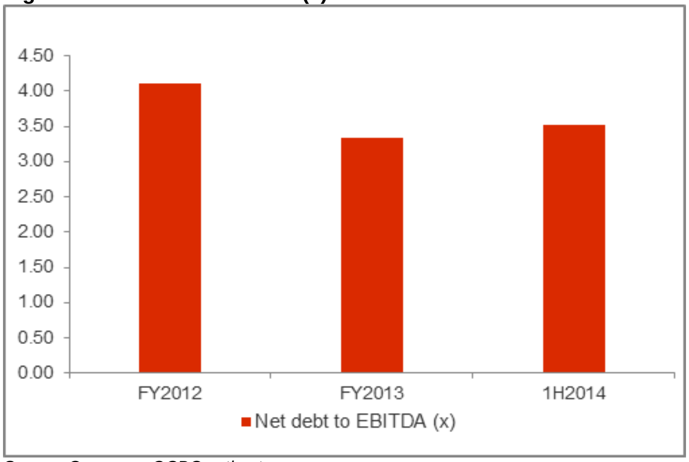
Source: Company

Figure 2: Revenue by geography – 1H2014



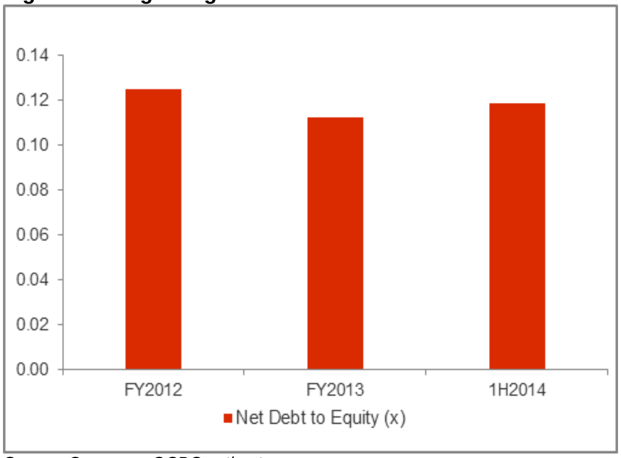
Source: Company

Figure 3: Net debt to EBITDA (x)



Source: Company, OCBC estimates

Figure 4: Net gearing



Source: Company, OCBC estimates

Credit Outlook – Despite weaker property sales, HPL's earnings continue to be anchored by its quality hotel assets. Longer dated papers in the HPLSP complex such as HPLSP'17-'20 offer values at ~200bps over swap. HPLSP'49c17 also looks interesting at 5.0% YTC for a 2.3-year tenor or its coupon will be reset at SDSW5Y+4.965% and step up of 100bps.

Overweight

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 interests in 29 hotels under prestigious hospitality brands. HPL has also established itself as a niche property developer and owner in the prime Orchard Road area in Singapore. HPL has a market capitalization of $2.1bn as of 31st December 2014. The controlling shareholder is 68 Holdings Pte Ltd, which owns 56.5% of HPL.

Hotel Properties Ltd

Key credit considerations

- **Weaker 9M2014 performance due to lower property sales:** 9M2014 revenue decreased 3.5% y/y to S$482.6mn on the back of lower contributions from the property division on the completion of Tomlinson Heights condominium in 1Q2014. However, this was partly mitigated by stronger contributions from the group's resorts in Maldives and Bali. Meanwhile, net profit was 46.8% lower y/y on the back of lower share of results of associates (following the completion of The Interlace condominium at Alexandra Road and d'Leedon condominium at Farrer Road in September 2013 and October 2014, respectively) and absence of S$12.6mn gain from disposal of investment properties at Kensington Square, London in 3Q2013.

- **Outlook for Singapore's residential property market remains weak going forward:** As the government's property cooling measures remain in place, management is of the opinion that sentiment for Singapore's residential property market remains weak with both transaction volume and prices declining. The group's residential projects in Singapore, namely Tomlinson Heights and d'Leedon (a joint venture project with CapitaLand) were 48.6% and 86.5% sold, respectively as at end-November 2014.

- **Focus will be on overseas projects:** Given the headwinds in the local residential market, the group will focus on its projects in London and has commenced soft marketing of apartments at Burlington Gate and Campden Hill. Nonetheless, income will only be recognized upon completion for these projects. Besides, HPL has formed a joint venture (70%-stake) to acquire a freehold property (~1.1 acres) located in Paddington, London for GBP111.0mn in October 2014. HPL will further assess the property's potential for residential and retail re-development. In addition, following the acquisition of additional 45%-stake in Laem Ka Properties Company Ltd for ~S$3.5mn in October 2014, HPL currently owns a 90%-stake in a plot of land (~59.4 acres) in Phuket, Thailand. That said, we note HPL's portfolio of significantly under-valued prime Orchard Road assets are ripe for potential redevelopment, albeit with limited visibility in terms of timeline at this point of time.

- **Hotel and resort division will anchor HPL's earnings:** Management expects the hotel and resort business to continue to contribute strongly to the group's operating results due to a seasonally strong last quarter barring geopolitical risks or global pandemics. With its hotels strategically located in numerous tourist destinations such as Maldives, Singapore, Bali and Penang, HPL will benefit from the ongoing strength in international tourism. Key hotel assets include Hilton Singapore, Four Seasons Hotel Singapore, Concorde Hotel Singapore, Four Seasons Resort Maldives at Landaa Giraavaru, Four Seasons Resort Bali at Jimbaran Bay and Hard Rock Hotel Bali. HPL also owns prime commercial and retail properties such as The Forum Shopping Mall and 61 shop units at Concorde Shopping Centre.

- **Manageable liquidity and credit metrics:** HPL's net gearing improved slightly to 0.49x as at end-3Q2014 (2013: 0.52x) while EBITDA/gross interest remained healthy at 6.0x (2013: 7.9x). Although short-term debt position (S$221.1mn) is larger than its cash balance (S$129.3mn), refinancing should not be a problem as the group continues to generate stable cash flows from its hotel business. Furthermore, HPL has the flexibility of capital recycling through a REIT should such a need arise.

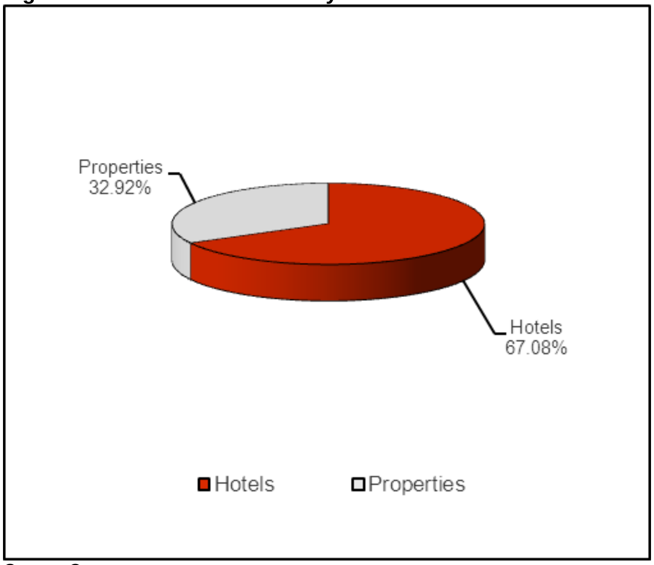
Hotel Properties Ltd

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	9M2014
Income statement (S$ mn)			
Revenue	542.8	692.0	482.6
EBITDA	157.3	199.1	140.9
EBIT	106.9	152.3	103.6
Gross interest expense	32.6	25.1	23.5
Profit before tax	159.5	212.8	93.9
Net income	129.8	177.6	66.7
Balance sheet (S$ mn)			
Cash and equivalents	83.2	115.3	129.3
Total assets	2,833.1	3,014.2	3,049.8
Gross debt	990.0	1,057.5	1,037.3
Net debt	906.8	942.2	908.0
Total equity	1,715.2	1,802.3	1,848.0
Total capitalization	2,705.2	2,859.8	2,885.3
Net capitalization	2,622.0	2,744.5	2,756.0
Cash flow (S$ mn)			
Funds from operations (FFO)	180.2	224.4	104.1
CFO	184.3	138.6	221.5
Capex & acquisitions	178.4	106.9	150.6
Dividends	25.3	38.1	45.9
Adjusted FOCF	5.9	31.7	71.0
Disposals	1.0	0.8	3.9
Free Cash Flow (FCF)	-18.4	-5.6	29.0
Key ratios			
EBITDA margin (%)	29.0	28.8	29.2
Net margin (%)	23.9	25.7	13.8
Gross debt/EBITDA (x)	6.3	5.3	5.5
Net debt/EBITDA (x)	5.8	4.7	4.8
Gross debt/equity (x)	0.58	0.59	0.56
Net debt/equity (x)	0.53	0.52	0.49
Gross debt/total capitalization (%)	36.6	37.0	36.0
Net debt/net capitalization (%)	34.6	34.3	32.9
FCF/gross debt (%)	-1.9	-0.5	3.7
FFO/gross interest (x)	5.5	8.9	4.4
EBITDA/gross interest (x)	4.8	7.9	6.0

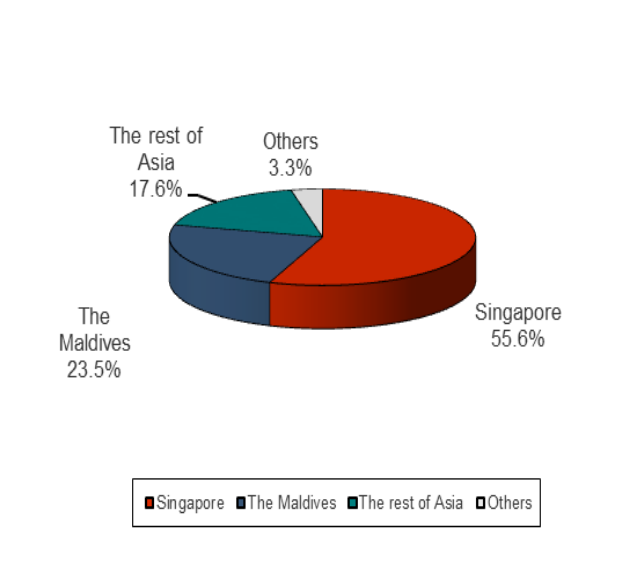
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – FY2013



Source: Company

Figure 2: Revenue breakdown by geography – FY2013



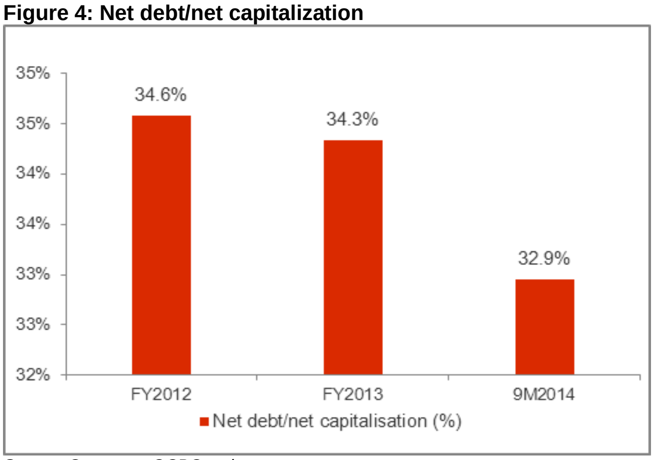
Source: Company

Figure 3: Debt maturity profile

Amounts in S$ mn	As at 30/09/2014	% of debt
Amount repayable in one year or less, or on demand		
Secured	181.2	17.5%
Unsecured	40.0	3.9%
	221.1	**21.3%**
Amount repayable after a year		
Secured	367.1	35.4%
Unsecured	449.1	43.3%
	816.2	**78.7%**
Total	**1,037.3**	**100.0%**

Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – Though Keppel Corp's fundamentals remain strong due to the visibility provided by the O&M order book helping to mitigate softness from its property segment, Keppel's bonds remain richly valued with the KEPSP'20 and '22 trading at 70-80bps over swaps. Furthermore, the outlook of the O&M sector looks challenging in the near term, tilting risk towards the downside.

Underweight

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

Ticker: **KEPSP**

Company profile
Listed in 1986, Keppel Corp Ltd ("Keppel") is a diversified conglomerate based in Singapore, operating in the offshore & marine, 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 21.1%-owned by Temasek Holdings Ltd.

Keppel Corp Ltd

Key credit considerations

- **O&M segment offset drag by property division:** For 9M2014, total revenue was S$9.36bn, up 6.6% y/y. The O&M segment grew 22.3% y/y, driven by the progress of on-going projects such as the semi-submersibles for Brazil (about 20% of O&M revenue is attributed to Brazil). The Property segment revenue declined 27.1% y/y during the period to S$896mn, driven by weakened sales in Singapore and China (Singapore homes accounted for 280 homes sold during the period, with the balance 1600 overseas homes). The Infrastructure division also saw a decline of 9.1% y/y to S$2.3bn, driven by a fall in power generation plant revenue. After the end of 3Q2014, CitySpring Infrastructure Trust and Keppel Infrastructure Trust announced they were merging (expected close is in 2Q2015) while Keppel successfully listed Keppel DC REIT (a data centre REIT) in December.

- **Trends in profit mirrored revenue**: The O&M segment saw pre-tax profit improve 18.0% y/y for the nine months ending 3Q2014 (to S$1.01bn), offsetting the declines of 11.8% (to S$149mn) and 18.9% (to S$489mn) for the Infrastructure and Property segments respectively. For O&M, margins have been stable relative to prior periods. The Infrastructure segment faced harder comps relative to 9M2013 due to the reversal of provisions upon a sale of a power barge. The Property segment was hit by lower volumes as well as the impact of the deconsolidation of Keppel REIT from end August 2013 onwards.

- **O&M order book deceleration:** At the end of 3Q2014, Keppel was able to secure S$3.7bn worth of new contracts for the first nine months of the fiscal year, with the net order book standing at S$12.7bn with execution visibility into 2019. Comparatively, Keppel secured S$5bn in new orders during the same period during the prior year, with the order book standing then at S$13.6bn. The management has commented that given the softening of oil prices some oil companies would defer some projects. They remain sanguine regarding the mid-to-long term prospects regarding E&P capex given the need by oil producers (particularly national oil companies) to replenish reserves and increase production. As of 3Q2014, ~S$2.1bn of O&M order balance is scheduled for delivery in 2015. As a reference, Keppel was still able to secure S$1.7bn in new contracts in 2009, the last trough in new orders.

- **China competition and the need for differentiation:** This year, China has actually overtaken Singapore in the number of jackups built. Keppel's management believes that some of these orders were speculative in nature, and that most are likely to be used in China's domestic market. Comparatively, Keppel has been able to differentiate itself by operating 20 yards across the world and working with closed markets such as Brazil (they have been working with Brazil for 15 years). Competition has however pressured Keppel to evolve its offering, moving into new areas such as FLNG conversions as well as drillships. With new offerings come execution risks, though Keppel's management has emphasized caution in its approach.

- **Leverage and liquidity metrics remain healthy:** Net gearing increased from 0.11 (end of 2013) to 0.19 (end of 3Q2014), driven by capex and working capital requirements. EBITDA / Interest remains high, improving from 16.9x (2013) to 20.5x (9M2014). Operating cash flow was sharply negative at -S$471mn for 9M2014 due to working capital needs. There are also about S$655mn in bonds maturing in 2015 (there are currently no maturities in 2016), as well as ~S$550mn in dividends to be paid in 2Q2015. These can be met by Keppel's cash balance, which stands at S$4.5bn at the end of 3Q2014.

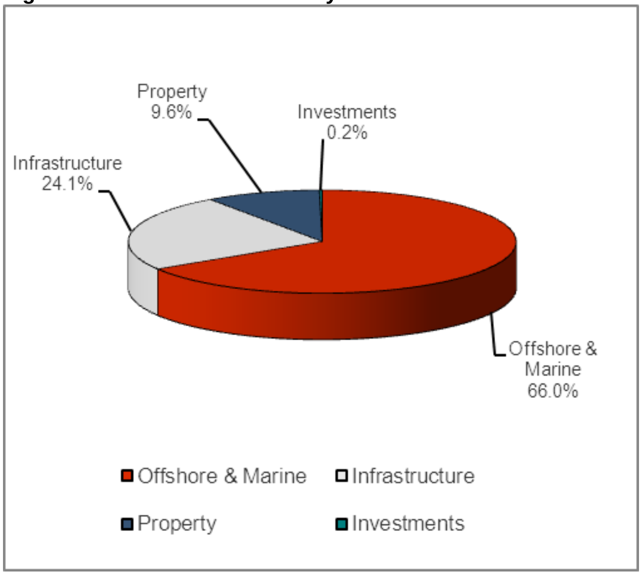
Keppel Corp Ltd

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	9M2014
Income statement (S$ mn)			
Revenue	13,964.8	12,380.4	9,357.7
EBITDA	2,820.1	2,108.5	1,669.8
EBIT	2,609.6	1,866.2	1,474.0
Gross interest expense	193.8	124.7	81.6
Profit Before Tax	3,256.3	2,793.7	1,727.4
Net profit	2,237.3	1,845.8	1,158.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	4,055.2	5,564.7	4,497.9
Total assets	29,170.5	30,055.6	30,319.4
Gross debt	7,207.9	7,099.5	7,236.2
Net debt	3,152.7	1,534.9	2,738.3
Shareholders' equity	13,578.1	13,688.9	14,104.6
Total capitalization	20,786.0	20,788.4	21,340.8
Net capitalization	16,730.8	15,223.7	16,842.9
Cash Flow (SGD'mn)			
Funds from operations (FFO)	2,447.8	2,088.1	1,354.8
CFO	1,006.6	624.7	-470.7
Capex and acquisitions	1,323.2	1,512.4	749.5
Dividend	1,001.4	843.1	954.2
Adjusted FOCF	-316.7	-887.7	-1,220.2
Disposals	96.5	567.2	607.7
Free Cash Flow (FCF)	-1,221.5	-1,163.7	-1,566.7
Key Ratios			
EBITDA margin (%)	20.2	17.0	17.8
Net margin (%)	16.0	14.9	12.4
Gross debt to EBITDA (x)	2.6	3.4	3.3
Net debt to EBITDA (x)	1.1	0.7	1.2
Gross Debt to Equity (x)	0.53	0.52	0.51
Net Debt to Equity (x)	0.23	0.11	0.19
Gross debt/total capitalisation (%)	34.7	34.2	33.9
Net debt/net capitalisation (%)	18.8	10.1	16.3
FCF/gross debt (%)	-16.9	-16.4	-28.9
FFO/gross Interest (x)	12.6	16.7	16.6
EBITDA/Total Interest (x)	14.6	16.9	20.5

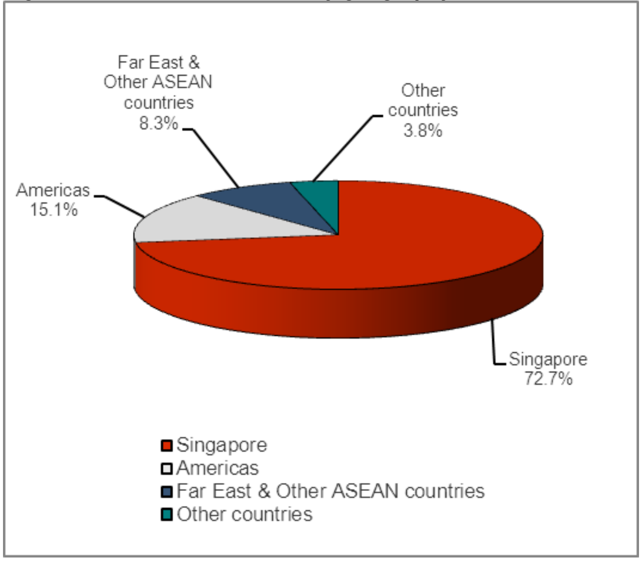
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – 9M2014



Source: Company

Figure 2: Revenue breakdown by geography – 9M2014



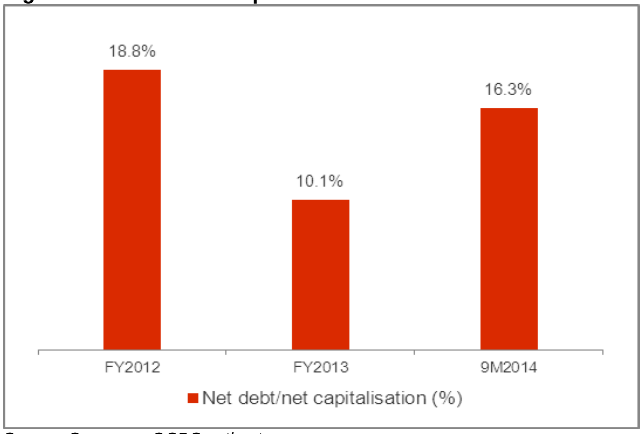
Source: Company

Figure 3: Debt maturity profile

Amounts in S$ mn	As at 30/09/2014	% of debt
Repayable within one year		
Secured	129.8	1.8%
Unsecured	1,046.8	14.5%
Sub-total	**1,176.6**	**16.3%**
Repayable after a year		
Secured	859.8	11.9%
Unsecured	5,199.9	71.9%
Sub-total	**6,059.6**	**83.7%**
Total	**7,236.2**	**100.0%**

Source: Company

Figure 4: Net debt/net capitalisation



Source: Company, OCBC estimates

Credit Outlook – KPLD's credit metrics have been kept under control despite its expansion plans. Nonetheless, we don't see value on the KPLDSP complex, which offers low spread levels of 40-130bps over swap.

Underweight

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **KPLDSP**

Company profile

Keppel Land ("KPLD"), the property arm of the Keppel Group (54.6% ownership), has a diversified portfolio of properties in office towers, residential properties, hotels, resorts, retail complexes, industrial buildings and townships across Singapore, China, Vietnam and Indonesia. In 2006, KPLD established Keppel REIT ("KREIT"), while Alpha Investment Partners ("Alpha") is its fund management arm. Together, both funds have a total AUM of S$17.4bn as at end-3Q2014. As of 31st December 2014, KPLD's market capitalization was S$5.3bn.

Keppel Land Ltd

Key credit considerations

- **Weaker performance from property trading segment:** Revenue for 9M2014 declined by 20.6% y/y to S$758.2mn, largely due to lower contributions from both Singapore and China projects. As a result, net profit dropped 3.3% y/y to S$308mn. However, stripping out a tax write-back of S$30.7mn in 9M2013, KPLD's net profit would have been 7.0% higher y/y. Lower earnings from the property trading segment were mitigated by the property investment business, which saw higher contributions from Marina Bay Financial Centre Tower 3 ("MBFC3") and share of Keppel REIT's gains from the divestment of Prudential Tower. In addition, earnings from the fund management division were aided by higher fee income from KREIT and improved performance from Alpha.

- **Optimistic about overseas sales:** Management believes that market sentiment has improved in Singapore's residential market due to encouraging sales at recent launches. In particular, the group's project in Tiong Bahru estate, Highline Residences, achieved a take-up rate of 91.9% as at end-November 2014. In China, KPLD expects the recent relaxation of mortgage rules and credit easing to boost homebuyers' demand. Meanwhile, rising urbanization and improving infrastructure will continue to support housing demand in Ho Chi Minh City ("HCMC"), Vietnam. Going forward, KPLD will launch projects in China (Waterfront Residence in Nantong and Hill Crest Villa in Chengdu), Vietnam (Estella Heights **-** Phase 2 of The Estella in HCMC) and Indonesia (West Vista in Jakarta). The group will remain focused on its core markets (Singapore and China) and growth markets (Indonesia and Vietnam), while continuing to look out for attractive investments in potential markets such as United States, Myanmar and Sri Lanka. Overseas earnings contributed about 28.6% of the group's net profit in 9M2014.

- **Recurring income from property investment and fund management segments:** For 9M2014, earnings from property investment and fund management segments accounted for 34.4% and 15.8% of KPLD's net profit, respectively. This should be positive to the group as the recurring income from these divisions should balance out the volatility from the property trading segment.

- **Asset recycling strategy and scaling up commercial portfolio overseas:** KPLD has been disciplined in executing its asset recycling strategy and is keen to expand its commercial development overseas. In 2014, the group divested its prime office properties such as MBFC3 and Equity Plaza in Singapore and other assets overseas to fund a pipeline of commercial developments in Indonesia, Vietnam, Philippines and Myanmar. In addition, KPLD also acquired a site for prime residential development (with a retail component) in New York. Net divestment proceeds of ~S$1.1bn were used to fund these acquisitions (~S$1.03bn).

- **Credit metrics remain intact:** Despite KPLD's expansion initiatives, the group's net gearing improved slightly to 0.37x as at end-3Q2014 (2013: 0.38x), benefitting from its asset recycling exercises. Although CFO remained negative at S$186.1mn, it was an improvement from 2013's -S$1.37bn. Meanwhile, KPLD's net debt/EBITDA and EBITDA/gross interest have deteriorated to 13.0x (2013: 11.1x) and 7.1x (2013: 9.2x), respectively. Nonetheless, the group continues to enjoy a healthy liquidity position with cash balances of S$1.32bn sufficient to cover S$1.1bn of borrowings maturing in 2015. KPLD also increased the proportion of fixed rate debt to 65.0% from 39.0% as at end-3Q2013.

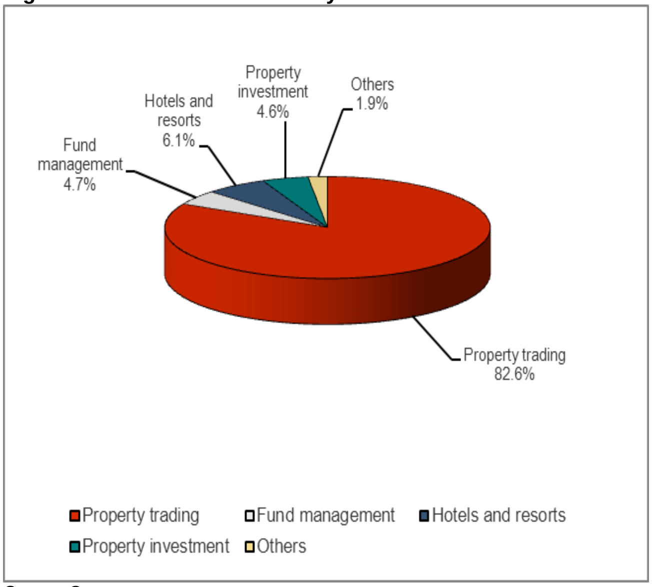
Keppel Land Ltd

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	9M2014
Income statement (S$ mn)			
Revenue	938.9	1,461.0	758.2
EBITDA	191.2	259.2	160.0
EBIT	180.3	244.5	148.2
Gross interest expense	40.3	28.3	22.6
Profit before tax	987.3	1,000.8	423.6
Net income	838.4	885.9	308.0
Balance sheet (S$ mn)			
Cash and equivalents	1,597	1,285	1,323.1
Total assets	11,461	13,823	13,842.0
Gross debt	3,063	4,153	4,096.9
Net debt	1,467	2,868	2,773.8
Total equity	6,646	7,486	7,545.9
Total capitalization	9,710	11,639	11,642.9
Net capitalization	8,113	10,353	10,319.7
Cash flow (S$ mn)			
Funds from operations (FFO)	849.3	900.6	319.7
CFO	-647.1	-1,367.2	-186.1
Capex & acquisitions	410.5	328.1	134.1
Dividends	133.6	202.0	284.6
Adjusted FOCF	-1,057.6	-1,695.4	-320.2
Disposals	44.7	227.3	566.5
Free Cash Flow (FCF)	-1,146.4	-1,670.1	-38.3
Key ratios			
EBITDA margin (%)	20.4	17.7	21.1
Net margin (%)	89.3	60.6	40.6
Gross debt/EBITDA (x)	16.0	16.0	19.2
Net debt/EBITDA (x)	7.7	11.1	13.0
Gross debt/equity (x)	0.46	0.55	0.54
Net debt/equity (x)	0.22	0.38	0.37
Gross debt/total capitalization (%)	31.5	35.7	35.2
Net debt/net capitalization (%)	18.1	27.7	26.9
FCF/gross debt (%)	-37.4	-40.2	-1.2
FFO/gross interest (x)	21.1	31.8	14.1
EBITDA/gross interest (x)	4.7	9.2	7.1

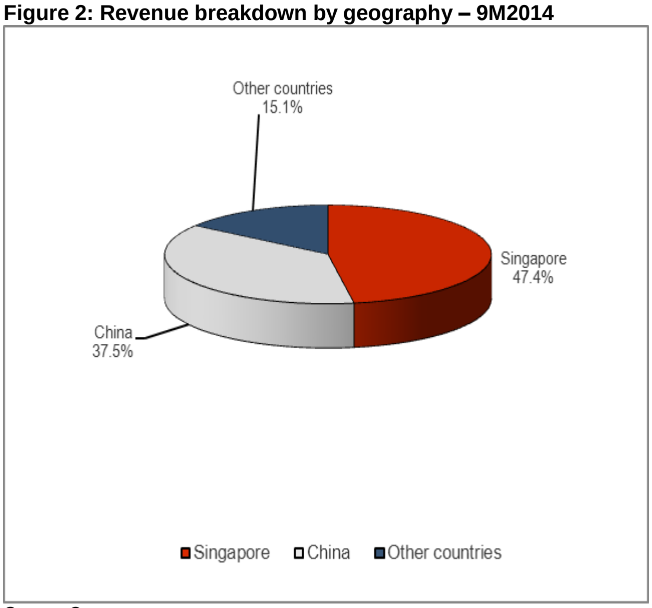
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – 9M2014



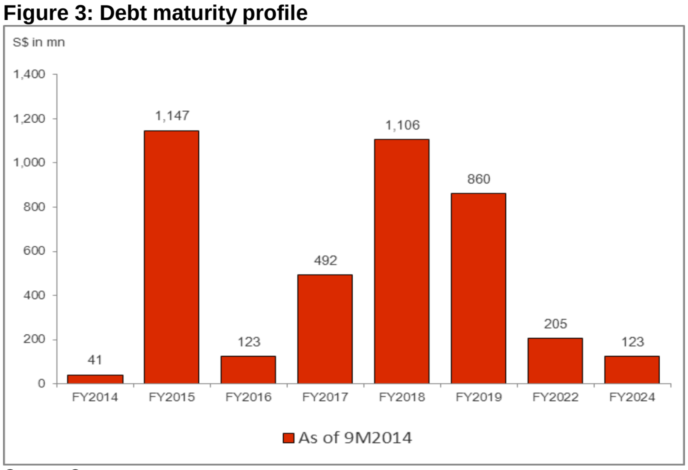
Source: Company

Figure 2: Revenue breakdown by geography – 9M2014



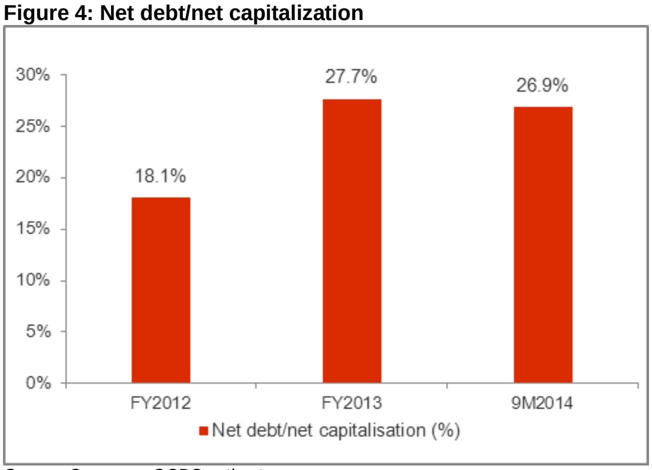
Source: Company

Figure 3: Debt maturity profile



Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – Despite a relatively short lease expiry and high leverage level, MCT's overall credit profile remains healthy with strong occupancy rate and quality assets. However, we think that valuations are rich for MCTSP'19, '20 and '21 bonds given the low spread levels of 71bps, 86bps and 103bps over swap respectively for tenors between 5-7 years.

Underweight

S&P: Not rated

Moody's: Baa1/Stable

Fitch: Not rated

Ticker: **MCTSP**

Company profile

Mapletree Commercial Trust ("MCT") is a REIT that invests in office and retail assets. Its four key assets are: 1) VivoCity – a retail and leisure complex; 2) Bank of America Merrill Lynch HarbourFront – an office occupied by Bank of America Merrill Lynch; 3) PSA office building that includes a 40-storey office block and Alexandra Retail Centre ("ARC"); and 4) Mapletree Anson – A Grade A office building in Tanjong Pagar CBD. The properties, with an NLA of 2.1mn sq ft, are valued at S$4.03bn as of 31st March 2014. MCT is 37.2% owned by Temasek through Mapletree Investments.

Mapletree Commercial Trust

Key credit considerations

- **Decent performance despite challenging conditions:** MCT's 1HFY2015 revenue of S$138.6mn (+6.5% y/y) was commendable as market conditions have been challenging for retailers and F&B operators in the past few quarters. Contribution from Bank of America Merrill Lynch HarbourFront was flat y/y. However, Vivocity, PSA Building and Mapletree Anson continued to post robust organic growth on the back of positive rental reversion on new and replacement leases as well as step-ups in existing leases. As a result, MCT reported 1HFY2015 net property income of S$103.8mn (+9.2% y/y). In addition, MCT also managed to achieve retention rates of 78.8% (with 16.5% rental uplift) and 100.0% (with 9.8% rental uplift) for its retail and office leases, respectively.

- **High occupancy levels but relatively short weighted average lease expiry:** MCT's portfolio occupancy rate remained high and improved slightly to 98.5% as at end-1HFY2015 from 98.2% as at end-FY2014. Bank of America Merrill Lynch HarbourFront and Mapletree Anson were fully occupied while PSA Building was 99.6% occupied. Meanwhile, VivoCity's committed occupancy was higher at 99.9% vs. occupancy level of 97.2% due to fit out period for some tenants. MCT's portfolio weighted average lease expiry of 2.0 years (office: 2.4 years, retail: 1.9 years) is relatively short and unchanged from end-FY2014's level. However, we take comfort that its lease expiry profile is well-staggered with only 10.4% expiring in FY2015 (FY2016: 27.7%, FY2017: 28.4%, FY2018: 19.7% and beyond FY2018: 13.8%).

- **Capitalizing on Vivocity's good connectivity:** Vivocity is Singapore's largest retail mall and it registered shopper traffic of 27.1mn visitors (+1.5% y/y) and tenant sales of S$437.5mn (+2.5% y/y) as at 1HFY2015. Management plans to carry out an asset enhancement initiative ("AEI") in 3QFY2015 to leverage on the strong traffic from Vivocity's connection to 2 MRT lines. The AEI will create about 15,000 sq ft of new retail space at basement 1 and is expected to be completed by 1HFY16. We believe that funding should not be an issue as the capex is a manageable sum of $5.5mn. Nonetheless, return on investment is attractive and estimated to be about 17.0%. We note that VivoCity contributed 64.9% of MCT's revenue in 1HFY2015 but the concentration risk should be partly mitigated by its diverse tenant mix from various trade sectors.

- **Minor improvements in credit metrics:** MCT's net debt/net capitalization and net debt/EBITDA have improved slightly to 38.2% (FY2014: 38.5%) and 8.0x (FY2014: 8.6x) respectively in 1HFY2015, while EBITDA/gross interest rose to 5.4x (FY2014: 5.1x). Capex was low at S$2.5mn although we expect it to increase going forward due to VivoCity's AEI.

- **Fully unencumbered assets with no major refinancing risk:** MCT's capital management remained prudent and average term to maturity of debt has been extended to 3.1 years as at end-1HFY2015 (end-FY2014: 2.5 years). Besides, MCT's debt maturity profile was staggered between FY2016 to FY2022. Although MCT's weighted average all-in interest cost for 1HFY2015 was low at 2.2% (annualized), interest rate risk remained low as 70.6% of total debt consists of either fixed rate debt or hedged via interest rate swaps or caps. Going forward, we do not anticipate refinancing risk for MCT, given its good access to capital markets and strong sponsor support. Furthermore, 100% of MCT's total assets are unencumbered and this should provide sufficient headroom for additional borrowings. Moody's has upgraded the issuer rating of MCT to "Baa1" from "Baa2", with a stable outlook in November 2014.

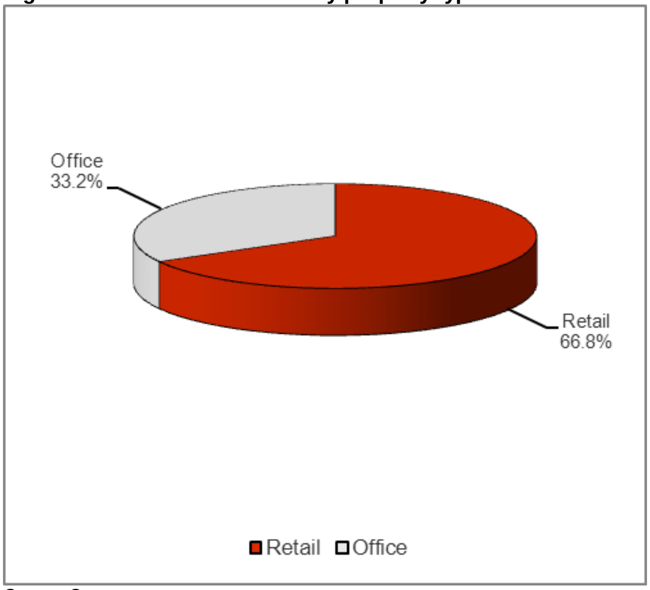
Mapletree Commercial Trust

Table 1: Summary financials

Year ended 31st March	FY2013	FY2014	1H2015
Income statement (S$ mn)			
Revenue	219.5	267.2	138.6
EBITDA	141.4	177.1	94.3
EBIT	141.4	177.1	94.3
Gross interest expense	26.3	34.9	17.4
Profit before tax	310.8	343.3	76.8
Net income	310.8	343.3	76.8
Balance sheet (S$ mn)			
Cash and equivalents	47.2	70.4	38.9
Total assets	3,886.1	4,109.6	4,080.2
Gross debt	1,586.0	1,587.5	1,546.8
Net debt	1,538.9	1,517.1	1,507.9
Total equity	2,194.8	2,425.6	2,442.4
Total capitalization	3,780.9	4,013.1	3,989.2
Net capitalization	3,733.7	3,942.7	3,950.3
Cash flow (S$ mn)			
Funds from operations (FFO)	310.8	343.3	76.8
CFO	156.5	188.8	95.0
Capex & acquisitions	690.0	3.9	2.5
Dividends	129.1	126.4	66.3
Adjusted FOCF	-533.4	184.9	92.5
Disposals	0.0	0.0	0.0
Free Cash Flow (FCF)	-662.5	58.5	26.2
Key ratios			
EBITDA margin (%)	64.4	66.3	68.0
Net margin (%)	141.6	128.5	55.4
Gross debt/EBITDA (x)	11.2	9.0	8.2
Net debt/EBITDA (x)	10.9	8.6	8.0
Gross debt/equity (x)	0.72	0.65	0.63
Net debt/equity (x)	0.70	0.63	0.62
Gross debt/total capitalization (%)	41.9	39.6	38.8
Net debt/net capitalization (%)	41.2	38.5	38.2
FCF/gross debt (%)	-41.8	3.7	3.4
FFO/gross interest (x)	11.8	9.8	4.4
EBITDA/gross interest (x)	5.4	5.1	5.4

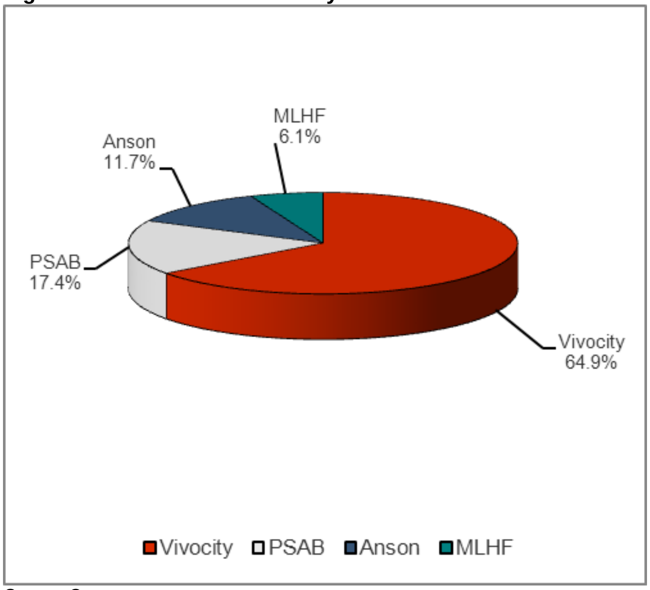
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by property type – 1H2015



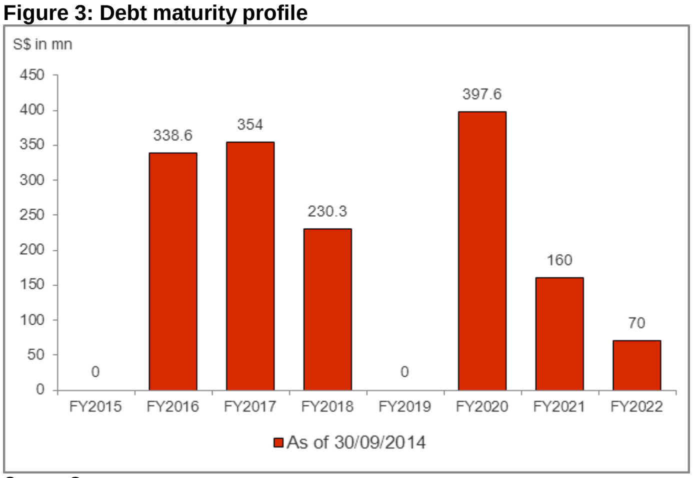
Source: Company

Figure 2: Revenue breakdown by asset – 1H2015



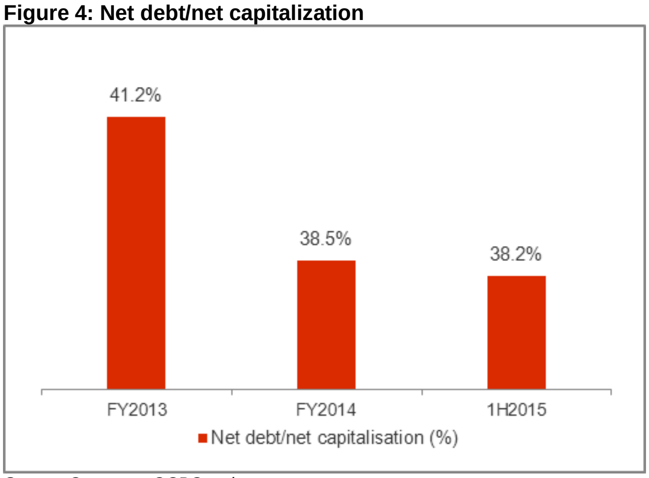
Source: Company

Figure 3: Debt maturity profile



Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – Although MINT's occupancy rate is on a downtrend, credit metrics remain stable with strong interest coverage ratio. However, we think MINT'19 and MINT'22 are not attractive with spreads of 77bps and 122bps over swap, respectively.

Underweight

S&P: Not rated

Moody's: Not rated

Fitch: BBB+/Stable

Ticker: **MINTSP**

Company profile

Mapletree Industrial Trust ("MINT") is a Singapore-focused industrial REIT with the largest tenant base. MINT owns a diversified portfolio comprising 85 properties such as Business Park Buildings, Flatted Factories, Stack-up / Ramp-up Buildings, Light Industrial Buildings and Hi-Tech Buildings. As of 31st March 2014, MINT's properties was valued at S$3.2bn, with a portfolio aggregate GFA of 19.7mn sq ft and NLA of 14.6mn sq ft. MINT is 32.3% owned by Temasek Holdings through Mapletree Investments Pte Ltd. As of 31st December 2014, its market capitalization was S$2.57bn.

Mapletree Industrial Trust

Key credit considerations

- **Improvement in net property income ("NPI") but headwinds in the industrial sector going forward:** 1HFY2015 NPI increased 6.0% y/y to S$112.9mn (1HFY2014: S$106.5mn), driven by positive rental reversions achieved across all segments. Portfolio occupancy rate of 91.5% was above industry average of 90.9%, but markedly below the 95.5% seen in 1QFY2014. While there may be room for further rental uplifts following AEIs at Toa Payoh North 1 Clusters and Woodlands Central, the pace of reversions should slow given the glut of new industrial space. According to JTC, 2.6mn sq m and 1.9mn sq m of new space are expected to come on-stream in 2015 and 2016 respectively, applying downward pressure on rental and occupancy rates. In addition, demand for industrial space may soften in the near-term, as manufacturers contend with tight foreign labor conditions and uncertainties in the global economy. We foresee limited organic growth opportunities for MINT given a lack of developments in the pipeline to act as growth catalysts amidst a tough operating environment. Constrained by regulations that restrict the total contract value of property development activities to only 10% of deposited property, MINT has limited scope to undertake other built-to-suit ("BTS") developments apart from the data centre for Equinix (expected completion in early-2015) and the Hi-Tech Buildings for Hewlett-Packard (expected completion in mid-2018). Nonetheless, we acknowledge that the situation may possibly change with MAS already proposing enhancements to the current REIT regulations that, if implemented, will liberalize property development opportunities and allow REITs to pursue accretive development projects.

- **Concentration risk partially mitigated by a diversified tenant profile:** MINT is heavily dependent upon the prevailing conditions of Singapore's industrial property segment. However, geographical risk is partially mitigated by a large tenant base that comprises more than 2,000 MNCs and local enterprises, and is diversified across 25 different trade sectors. Asset and tenant concentration risks are minimal with revenue being derived from 85 properties spread across 5 industrial sub-categories – flatted factories, hi-tech buildings, business parks, stack-up buildings and light industrial buildings. Meanwhile, the largest and top 10 tenants contributed only 3.3% and 15.7% of gross revenue, respectively.

- **Stable balance sheet with low interest rate risk:** Net debt/net capitalization remained relatively unchanged at 33.1% (FY2014: 33.7%) while EBITDA/gross interest improved slightly to 8.5x (FY2014: 7.4x). Despite the completion of AEI at Toa Payoh North Cluster, capital expenditure may remain elevated as MINT makes progressive payments for the 2 BTS developments that are estimated to cost a total of ~S$350mn. Nonetheless, strong internal cash flow generation and proceeds from the dividend reinvestment plan could be used to part-fund the developments, reducing reliance on debt financing. 77.0% of MINT's total debt is made up of fixed-rate borrowings, limiting the impact of a rise in interest rates on interest expenses.

- **Well-termed debt maturity profile with good financial flexibility:** MINT successfully rolled over S$251.0mn of borrowings due in 2014 to 2019. In doing so, it extended its weighted average debt maturity to 3.8 years, and maintained a steady all-in financing cost of 2.1%. Debt maturity is well-spread beyond FY2022, with no more than 27.0% of total debt due in any one year. With refinancing completed for FY2015, debt obligations will only arise in FY2016 with S$126.0mn due. We are confident that MINT can refinance the amount with minimal fuss given its strong track record and access to capital markets. Also, MINT benefits from added financial flexibility provided by its low asset encumbrance.

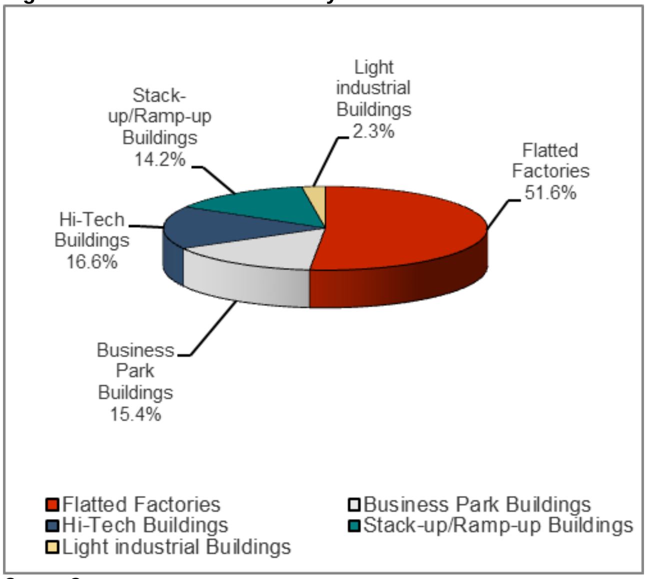
Mapletree Industrial Trust

Table 1: Summary financials

Year ended 31st March	FY2013	FY2014	1H2015
Income statement (S$ mn)			
Revenue	276.4	299.3	156.3
EBITDA	173.8	191.0	100.3
EBIT	173.8	191.0	100.3
Gross interest expense	27.1	25.9	11.8
Profit before tax	280.5	314.3	87.7
Net income	279.3	314.3	86.6
Balance sheet (S$ mn)			
Cash and equivalents	72.3	95.7	59.2
Total assets	2,967.6	3,275.1	3,270.8
Gross debt	1,032.4	1,127.5	1,083.1
Net debt	960.0	1,031.7	1,023.9
Total equity	1,803.7	2,028.7	2,065.5
Total capitalization	2,836.1	3,156.1	3,148.6
Net capitalization	2,763.7	3,060.4	3,089.4
Cash flow (S$ mn)			
Funds from operations (FFO)	279.3	314.3	86.6
CFO	173.9	190.0	106.4
Capex & acquisitions	30.6	137.9	34.9
Dividends	132.9	97.3	50.4
Adjusted FOCF	143.3	52.2	71.5
Disposals	0.0	0.0	0.0
Free Cash Flow (FCF)	10.3	-45.2	21.1
Key ratios			
EBITDA margin (%)	62.9	63.8	64.2
Net margin (%)	101.0	105.0	55.4
Gross debt/EBITDA (x)	5.9	5.9	5.4
Net debt/EBITDA (x)	5.5	5.4	5.1
Gross debt/equity (x)	0.57	0.56	0.52
Net debt/equity (x)	0.53	0.51	0.50
Gross debt/total capitalization (%)	36.4	35.7	34.4
Net debt/net capitalization (%)	34.7	33.7	33.1
FCF/gross debt (%)	1.0	-4.0	3.9
FFO/gross interest (x)	10.3	12.1	7.3
EBITDA/gross interest (x)	6.4	7.4	8.5

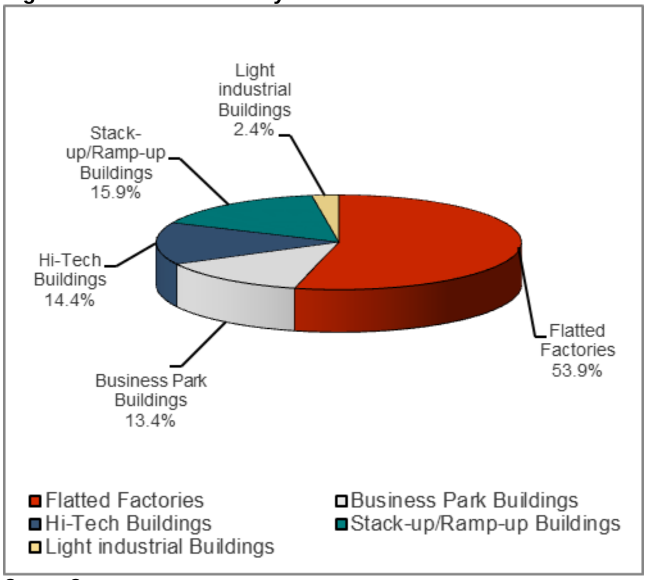
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – 1H2015



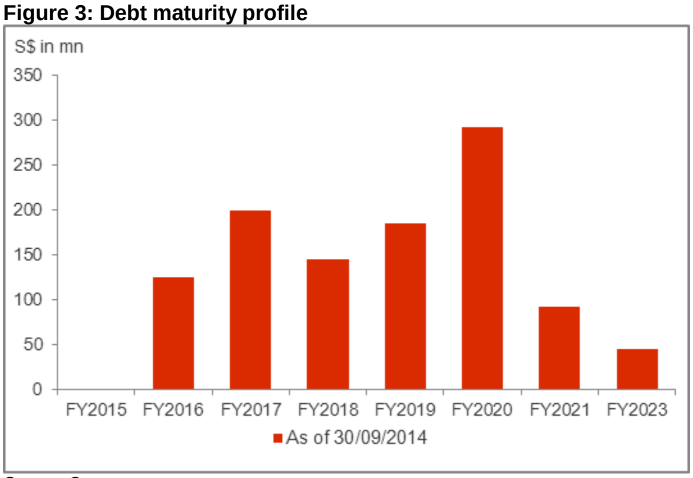
Source: Company

Figure 2: NPI breakdown by business – 1H2015



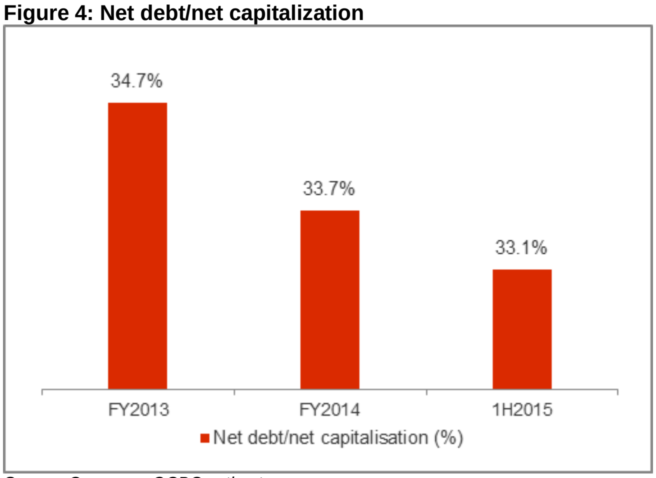
Source: Company

Figure 3: Debt maturity profile



Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Mapletree Logistics Trust

Credit Outlook – MLT is well positioned to withstand the short-term headwinds given its diversified portfolio and healthy balance sheet. MLTSP'49c17 at 3.52% YTC looks reasonable given the spread of 212bps over swap. The call may likely be exercise in 2017 as coupon for MLTSP'49 will be reset at SDSW5+418bps if not called, raising funding cost to more than 6.1%.

Neutral

S&P: Not rated

Moody's: Baa1/Stable

Fitch: Not rated

Ticker: **MLTSP**

Company profile

Mapletree Logistics Trust ("MLT") invests in a diversified portfolio of logistics real estate. This includes assets serving 3rd party logistics ("3PL"), supply chain management, distribution, warehousing, inventory management (oil / chemicals storage, cold storage), food processing & supply, and transportation. Listed on the SGX in 2005, MLT holds 113 properties in the Asia-Pacific region worth S$4.28bn as of 30 September 2014, with a market capitalization of S$2.93bn as at 31st December 2014. Temasek owns 40.3% of MLT through Mapletree Investments Pte Ltd.

Key credit considerations

- **Stronger 1HFY2015 revenue mitigated by higher property expenses:** Gross revenue rose 6.6% y/y to S$162.5mn, largely due to contribution from Mapletree Benoi Logistics Hub (following completion of the redevelopment), higher revenue from existing assets in Singapore, Hong Kong and Malaysia as well as new acquisitions in Malaysia and Korea. Stripping off the forex impact (mainly due to depreciation of Japanese Yen over the period), gross revenue would have increased by 7.1% y/y. Meanwhile, net property income grew at a slower pace of 4.3% y/y to S$137.6mn, as property expenses escalated by 21.0% y/y to S$24.9mn on the back of an enlarged portfolio and costs associated with the conversions of single user properties to multi-tenanted buildings.

- **Healthy occupancy level but facing headwinds in Singapore:** Although MLT's portfolio occupancy level remained healthy at 97.2% as at end-2QFY2015, it was lower than end-1QFY2015's 97.6% due to the conversion of several single-tenanted assets to multi-tenanted assets in Singapore. Management has successfully renewed/replaced 51% of the portfolio leases due to expire in FY2015 (about 18.0% of total lettable area). In particular, MLT achieved positive average rental reversions of 9.0% for leases renewed in 2QFY2015 (mainly in Hong Kong, Singapore and Malaysia). MLT expects the leasing environment in Singapore to become more challenging with tighter regulatory restrictions pertaining to the use of industrial space (such as changes made by JTC Corporation on the subletting policy). Furthermore, as some of MLT's single-tenanted buildings will be converted to multi-tenanted buildings, property expenses should remain on an uptrend while portfolio occupancy will likely be under pressure in the near term. As a result, management will focus on tenant re-positioning and retention, as well as portfolio review (such as recycling capital by divesting lower yielding assets) going forward.

- **Well-diversified portfolio to provide steady contributions:** MLT's portfolio is well distributed with 113 properties situated in 7 different countries, reducing concentration risk in any single market. In addition, customer concentration risk is low with a large tenant base of 398 clients (none accounts for >5% of total revenue) and the top 10 tenants constituting only ~23% of gross revenue. Besides, forex risk is well managed as ~90% of income stream for FY2015 has been hedged. The portfolio's long weighted average lease term to expiry of ~4.6 years also provides earnings stability and visibility to MLT.

- **Credit metrics remain manageable despite expansion plans:** Refinancing risk remains low for MLT as cash balance of S$113.7mn as at end-2QFY2015 is sufficient to cover short term debt of S$112.6mn. Besides, about 76% of total debt is hedged to fixed interest rates. For 1HFY2015, MLT executed its expansion plans in targeted growth markets such as China, South Korea and Malaysia and it had made four accretive acquisitions for ~S$149mn. Meanwhile, net debt/net capitalization remained stable for MLT at 33.1% (FY2014: 32.9%). On the other hand, EBITDA/gross interest decreased slightly to 7.7x (FY2014: 8.1x). In 3QFY2015, MLT acquired 190A Pandan Loop in Singapore for S$34mn and a Smart Logistics Centre in South Korea for ~S$25.5mn, while it divested 134 Joo Seng Road for $13.5mn. As such, gearing for MLT will continue to increase going forward. That said, MLT continues to enjoy good financial flexibility with its unencumbered balance sheet (all debts incurred on an unsecured basis). Furthermore, MLT has various funding sources including unused banking facilities, access to bond market through its MTN programme, asset recycling and proceeds from its distribution reinvestment plan.

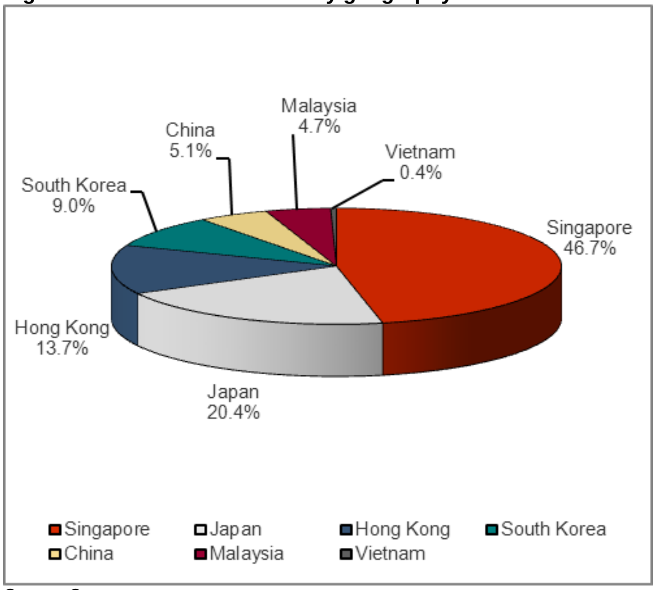
Mapletree Logistics Trust

Table 1: Summary financials

Year ended 31st Mar	FY2013	FY2014	1H2015
Income statement (S$ mn)			
Revenue	307.8	310.7	162.5
EBITDA	237.5	237.4	121.9
EBIT	236.3	236.2	121.2
Gross interest expense	36.7	29.4	15.7
Profit before tax	236.6	329.2	104.5
Net income	202.7	292.7	88.8
Balance sheet (S$ mn)			
Cash and equivalents	134.8	114.3	113.7
Total assets	4,236.9	4,397.0	4,440.3
Gross debt	1,433.5	1,455.4	1,473.1
Net debt	1,298.7	1,341.1	1,359.4
Total equity	2,582.3	2,732.2	2,745.1
Total capitalization	4,015.8	4,187.6	4,218.2
Net capitalization	3,880.9	4,073.3	4,104.5
Cash flow (S$ mn)			
Funds from operations (FFO)	203.8	293.9	89.4
CFO	257.9	210.2	124.9
Capex & acquisitions	197.3	116.5	77.9
Dividends	179.5	176.7	78.6
Adjusted FOCF	60.7	93.7	47.0
Disposals	0.0	15.5	0.0
Free Cash Flow (FCF)	-118.8	-67.6	-31.7
Key ratios			
EBITDA margin (%)	77.1	76.4	75.0
Net margin (%)	65.9	94.2	54.6
Gross debt/EBITDA (x)	6.0	6.1	6.0
Net debt/EBITDA (x)	5.5	5.6	5.6
Gross debt/equity (x)	0.56	0.53	0.54
Net debt/equity (x)	0.50	0.49	0.50
Gross debt/total capitalization (%)	35.7	34.8	34.9
Net debt/net capitalization (%)	33.5	32.9	33.1
FCF/gross debt (%)	-8.3	-4.6	-4.3
FFO/gross interest (x)	5.6	10.0	5.7
EBITDA/gross interest (x)	6.5	8.1	7.7

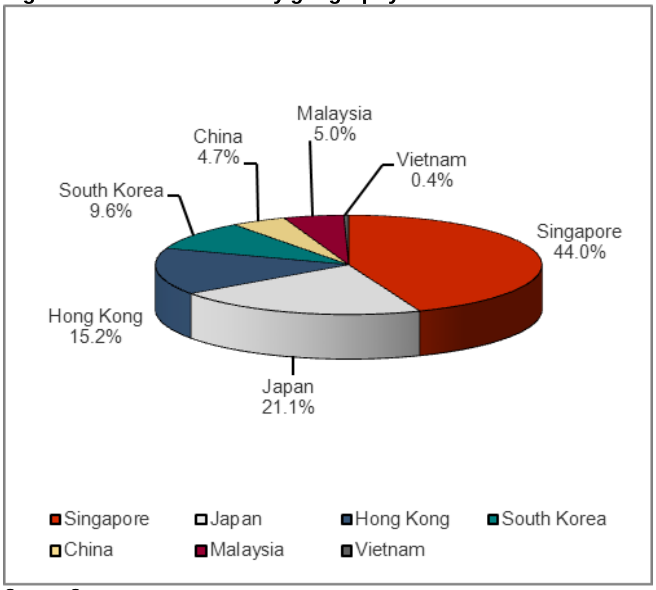
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by geography – 1H2015



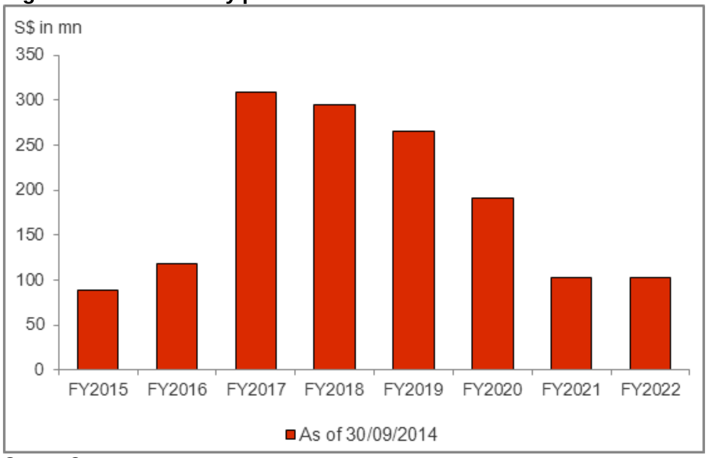
Source: Company

Figure 2: NPI breakdown by geography – 1H2015



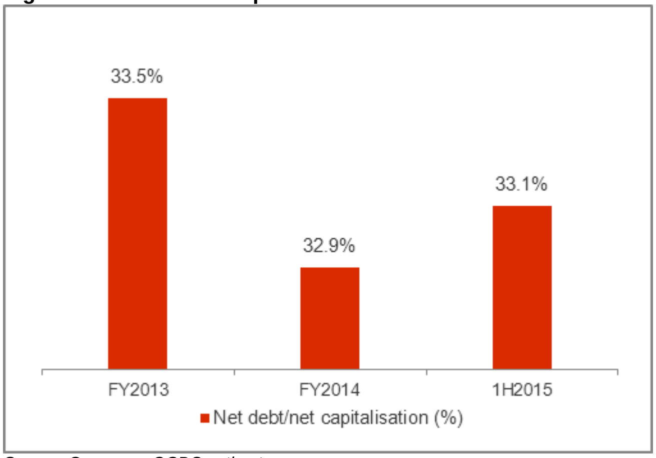
Source: Company

Figure 3: Debt maturity profile



Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – NCL's stable performance reflects its niche in the regional OSV market. Its contract manufacturing model helps balance the inventory risk from its BTS model. Gearing remains at fair levels with manageable short-term maturities. We like the NCLSP'15 and '17 which are offering 260bps and 280bps respectively for short duration paper.

Overweight

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 OSVs include AHTS, PSVs, Accommodation Workboats, Barges and Safety Standby Vessels. In 9MFY2014, 95.0% of NCL's revenues were derived from shipbuilding while vessel chartering accounts for 5.0%. The company is substantially controlled by Chairman Datuk Tiong Su Kouk with a total interest of 51.3%. The firm has been listed on the SGX since 2011.

Nam Cheong Ltd

Key credit considerations

- **Another year, another record performance:** NCL delivered another outstanding performance in 3Q2014 due to the record order win of 16 vessels (compared to 7 vessels in 3Q2013). As a result, 9M2014 surged 65% y/y to MYR1.40bn (9M2013: MYR851mn), an amount that has already exceeded full-year 2013 revenue of MYR1.26bn. Gross margin of the shipbuilding segment during 9M2014 improved to 21% (9M2013: 20%), while vessel chartering gross margins fell sharply to 24% (9M2013: 68%) as NCL had to charter-in a vessel to fulfill a time charter contract. The impact of this was minimal given that over 95% of group revenues were derived from shipbuilding. In addition, NCL has secured order wins of 25 vessels YTD worth US$505mn, again surpassing the previous full-year record of US$500mn. Total order book stood at MYR1.9bn (as of the end of 3Q2014) with delivery visibility up to 2016.

- **Build-to-stock ("BTS") model poses additional risk amidst softening oil prices:** NCL's unique BTS business model (contrary to the conventional bespoke model) allows higher earning margins as compared to other shipbuilders by shortening the lead time required for vessel delivery. However, it exposes the group to substantial inventorial risk, especially in a low oil price environment. Oil prices have slumped into a bear market amidst a glut in supply and sluggish global growth. As margins continue to get compressed, we expect to see lesser capital expenditure activity in the industry, raising the possibility of unsold vessels. Petronas Nasional Bhd, one of NCL's clients, had already announced plans to cut capital expenditure by 15%-20% for the next year should prices remain depressed. While NCL (1) operates in the shallow water segment of the E&P segment that is typically more resilient to oil prices; and (2) possesses a relatively strong order book, we remain cautious that a further slowdown on the industry may impact the sales of its BTS vessels. It is worth noting that despite the challenging environment NCL was still able to sell two vessels (an AHTS and a PSV) in December 2014 worth US$45mn in total.

- **Established track record in vessel building:** NCL is one of the leading OSV shipbuilders in the South-East Asian region. Its customer base is made up of reputable OSV operators or owners such as Bumi Armada Bhd. NCL's order book remains strong, providing some earnings visibility (we believe order cancellation risk is low for now). In addition, NCL's management has a good track record of delivering vessels that are in line with sector demand. 17 of 30 vessels in its 2015 BTS schedule comprises of AHTS vessels, including 14 improved 6,000bhp AHTS widely touted to be the workhorses of the near future. Demand for these vessels should be supported with 30% of global AHTS fleet exceeding 25 years old.

- **Stable financial position and healthy credit metrics:** Gross gearing increased to 1.13x (2013: 0.91x) after a S$200mn bond issuance in Aug 2014. However, net gearing remained healthy at 0.48x (2013: 0.52x) with a strong cash balance of MYR753mn. Hence, NCL is better placed to cope with the uncertain sector outlook as compared to its peers. In particular, given that the majority of its ship construction is outsourced to shipyards in the PRC, NCL does not have to manage the fixed costs arising from capacity underutilization during the down cycle. Interest coverage ability improved as FFO/gross interest and EBTIDA/gross interest increased to 7.0x (2013: 6.5x) and 6.9x (2013: 6.3x) respectively following another quarter of stellar earnings. We expect cash to be drawn down in order to fund capital outlays and working capital requirements for its shipbuilding program in 2015. Nonetheless, there should be sufficient liquidity to cover maturing debt obligations of MYR254.2mn.

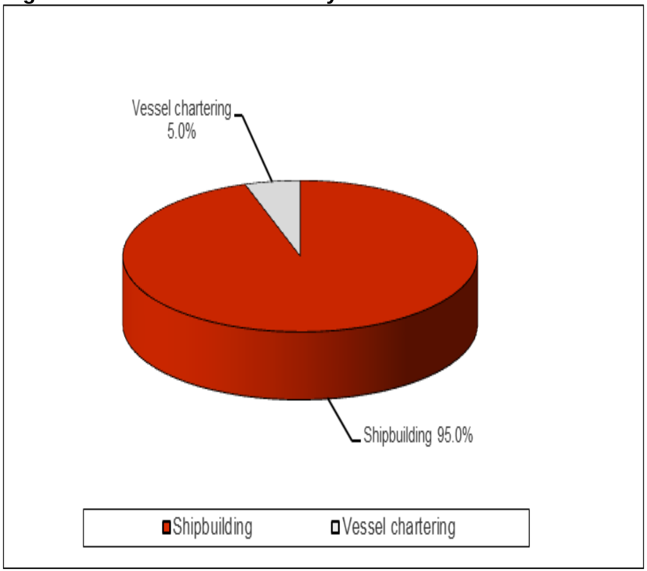
Nam Cheong Ltd

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	9M2014
Income statement (MYR mn)			
Revenue	876.6	1,257.4	1,404.7
EBITDA	145.3	211.9	271.7
EBIT	138.6	198.9	259.2
Gross interest expense	16.5	33.6	39.2
Profit before tax	138.6	199.2	265.4
Net income	136.6	205.6	260.7
Balance sheet (MYR mn)			
Cash and equivalents	216.3	362.0	753.3
Total assets	1,305.8	2,179.2	3,021.0
Gross debt	442.5	851.2	1,309.1
Net debt	226.3	489.1	555.8
Total equity	592.2	938.6	1,162.1
Total capitalization	1,034.7	1,789.8	2,471.2
Net capitalization	818.5	1,427.8	1,717.9
Cash flow (MYR mn)			
Funds from operations (FFO)	143.4	218.7	273.2
CFO	89.2	-197.0	33.1
Capex & acquisitions	22.2	46.1	12.3
Dividends	9.4	25.9	54.7
Adjusted FOCF	67.0	-243.1	20.9
Disposals	11.9	7.3	38.9
Free Cash Flow (FCF)	69.6	-261.7	5.1
Key ratios			
EBITDA margin (%)	16.6	16.9	19.3
Net margin (%)	15.6	16.4	18.6
Gross debt/EBITDA (x)	3.0	4.0	3.6
Net debt/EBITDA (x)	1.6	2.3	1.5
Gross debt/equity (x)	0.75	0.91	1.13
Net debt/equity (x)	0.38	0.52	0.48
Gross debt/total capitalization (%)	42.8	47.6	53.0
Net debt/net capitalization (%)	27.6	34.3	32.4
FCF/gross debt (%)	15.7	-30.8	0.5
FFO/gross interest (x)	8.7	6.5	7.0
EBITDA/gross interest (x)	8.8	6.3	6.9

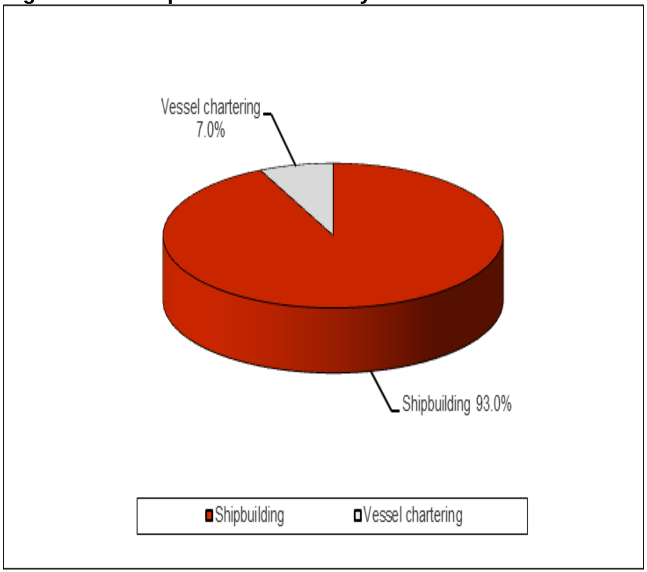
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business line – 9M2014



Source: Company

Figure 2: Gross profit breakdown by business line - 9M2014



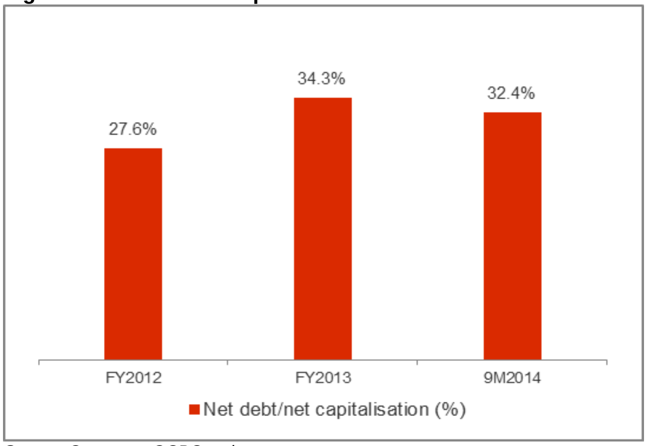
Source: Company

Figure 3: Debt maturity profile

Amounts in MYR mn	As at 30/09/2014	% of debt
Amount repayable in one year or less, or on demand		
Secured	254.2	19.4%
Unsecured	0.0	0.0%
	254.2	**19.4%**
Amount repayable after one year		
Secured	29.7	2.3%
Unsecured	1,025.1	78.3%
	1,054.8	**80.6%**
Total	**1,309.1**	**100.0%**

Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – NOL's core business continues to be pressured by sector headwinds, though lower fuel prices might offer some respite. It is also in transition given the strategic review of its logistic business. On a RV basis, we like the NOLSP'17 which offers a spread pickup of 10bps over the NOLSP'19 despite the shorter duration.

Neutral

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **NOLSP**

Company profile

Neptune Orient Lines Ltd ("NOL") is the largest shipping and transportation company listed on the Singapore Exchange (SGX). NOL is a dominant container transportation and logistics player on the Transpacific and Intra-Asia trade lines through its key brands: APL and APL Logistics. Each year, its transports a volume of over 3 million forty-foot equivalent units (FEU) worldwide. NOL is 67.1% owned by Temasek Holdings.

Neptune Orient Lines Ltd

Key credit considerations

- **Another loss-making quarter despite the peak shipping season:** 9M2014 revenue fell by 1.7% y/y to US$6.5bn (9M2013: US$6.39bn) on the back of lower freight volumes and rates. For the Liner segment, the peak season failed to deliver a timely boost as total volume transported dropped 2.5% y/y to 2.09mn FEUs. Meanwhile, average freight rates within NOL's core Transpacific (29.1% of YTD liner volume) and Intra-Asia (43.9% of YTD liner volume) routes dipped by 3.8% and 3.5% y/y respectively, placing NOL in the red again with a net loss of US$168mn in aggregate. With the industry plagued by overcapacity issues, NOL's focus remained on cost optimization and operational efficiency. Despite netting US$290mn YTD, momentum of cost savings has slowed compared to 2013, with operating expense per FEU decreasing by only 1% in 9M2014. With most of the newer (and more cost-efficient) vessels delivered, there may be less cost savings to be reaped from the fleet. Hence, it remains unlikely that cost savings will be sufficient to steer NOL back into the black in a weak market.

- **Turnaround unlikely amidst challenging shipping environment:** Demand and supply fundamentals for shipping will remain weak in 2015. Global trade will likely remain muted due to the anemic Eurozone recovery and the slump in China. Meanwhile, supply will continue to outstrip demand, limiting carriers' ability to raise freight rates.

- **Port congestion eroding benefits of G6 alliance:** Over the past 5 years, carriers had exited the chassis business along the Los Angeles-Long Beach complex (main gateway for Asian goods entering the US) through sale-and-leaseback arrangements with third party lessors. As a result, carriers lost control over chassis availability and schedule. A lack of chassis caused congestion ebbs over the year and created a backlog at various terminals that worsened during the peak period. This caused delays to NOL's ships as they were unable to dock on schedule. The situation was exacerbated by NOL's participation in the G6 alliance which mandated NOL's ships to call at several ports in order to pick up and offload cargo of partner lines. While the alliance was created to rationalize member carriers' services on key trade routes and minimize operating costs, it compounded the time delayed during congestion, costing NOL ~US$30mn in additional expenses during 3Q2014.

- **Potential sale of logistic business on the cards:** Whispers of a potential US$750–900mn sale of APL Logistics have been making its rounds in the market. However, management had been quick to caution that all considerations pertaining to its logistics business were exploratory and preliminary in nature, with nothing concrete set forth. If the sale materializes, we expect implications to be two-pronged. On one hand, NOL could use the proceeds to pare down its elevated leverage levels. We estimate that net gearing could drop to 1.70x (9M2014: 2.13x) in an all-cash settlement. The downside, however, will be the loss of stable contributions from NOL's most profitable unit over the past 3 years.

- **Balance sheet remains under pressure from poor operating performance:** NOL's credit profile reflected elevated leverage ratios with net gearing at 2.13x. Net gearing had risen substantially from 0.8x in 2011 following dismal operating performances over the past 3 years. For now, NOL's favorable liquidity profile should buy it some time to conjure a recovery in earnings. Its debt maturity profile is well staggered with only 8.3% of debt due within a year, and 49.8% due after 5 years or more. Cash balance of US$808.8mn sufficiently covers the maturing borrowings by approximately 2x.

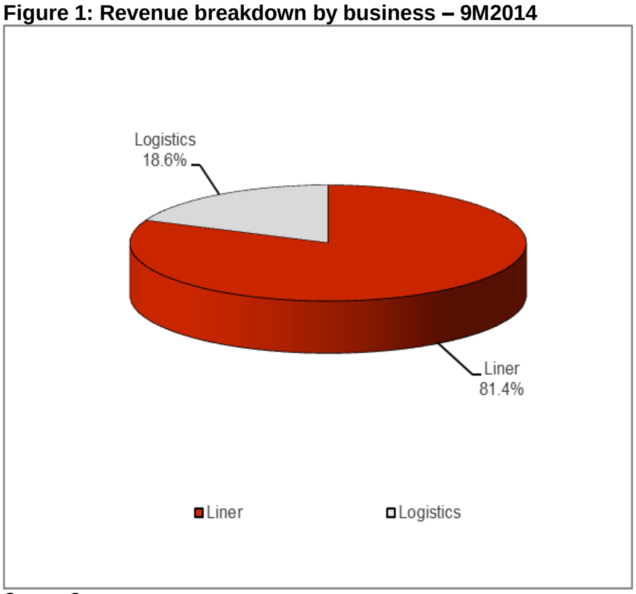
Neptune Orient Lines Ltd

Table 1: Summary financials

Year ended 28th December	FY2012	FY2013	9M2014
Income statement (US$ mn)			
Revenue	9,511.6	8,831.2	6,389.0
EBITDA	18.4	117.2	241.7
EBIT	-285.9	-199.9	-41.9
Gross interest expense	46.9	50.7	99.8
Profit before tax	-360.8	-15.8	-152.7
Net income	-419.4	-76.3	-174.8
Balance sheet (US$ mn)			
Cash and equivalents	897.0	981.0	808.8
Total assets	8,219.1	9,029.0	8,905.5
Gross debt	3,975.9	4,865.9	4,942.3
Net debt	3,078.9	3,885.0	4,133.4
Total equity	2,193.1	2,130.8	1,939.8
Total capitalization	6,169.0	6,996.8	6,882.1
Net capitalization	5,272.0	6,015.8	6,073.2
Cash flow (US$ mn)			
Funds from operations (FFO)	-115.2	240.9	108.8
CFO	-12.5	31.6	38.5
Capex & acquisitions	1,050.7	1,331.7	337.4
Dividends	2.6	3.0	2.2
Adjusted FOCF	-1,063.2	-1,300.2	-298.9
Disposals	150.0	442.9	66.4
Free Cash Flow (FCF)	-915.8	-860.3	-234.7
Key ratios			
EBITDA margin (%)	0.2	1.3	3.8
Net margin (%)	-4.4	-0.9	-2.7
Gross debt/EBITDA (x)	216.3	41.5	15.3
Net debt/EBITDA (x)	167.5	33.1	12.8
Gross debt/equity (x)	1.81	2.28	2.55
Net debt/equity (x)	1.40	1.82	2.13
Gross debt/total capitalization (%)	64.4	69.5	71.8
Net debt/net capitalization (%)	58.4	64.6	68.1
FCF/gross debt (%)	-23.0	-17.7	-6.3
FFO/gross interest (x)	-2.5	4.7	1.1
EBITDA/gross interest (x)	0.4	2.3	2.4

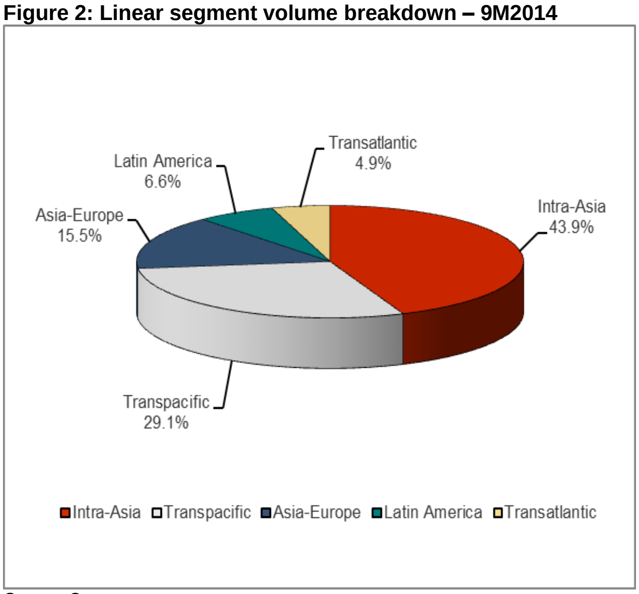
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – 9M2014



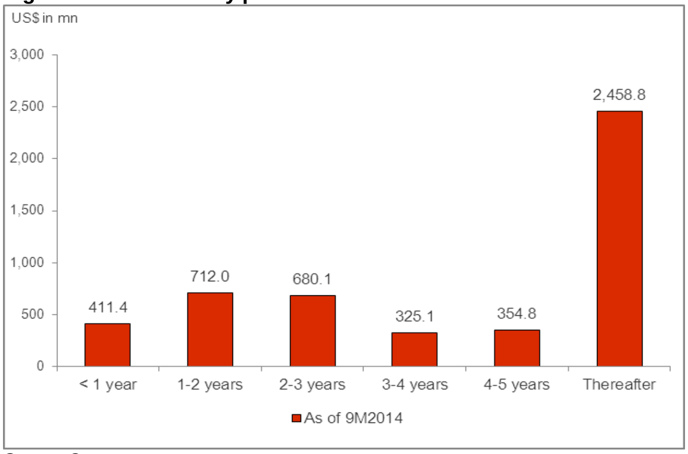
Source: Company

Figure 2: Linear segment volume breakdown – 9M2014



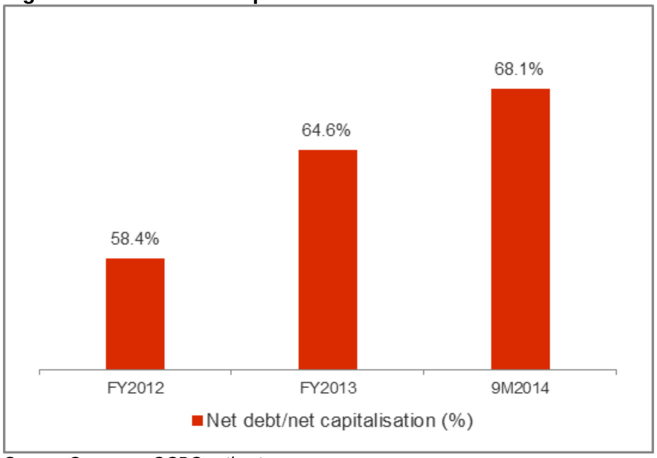
Source: Company

Figure 3: Debt maturity profile



Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – OUE's earnings will continue to be sustained by its quality hospitality and commercial properties despite slowdown in property development division. We see values in the short-dated OUESP'15 and '17, which offer 119bps and 200bps over swap, respectively.

Overweight

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 mainly focused in Singapore. The group has diverse exposure across the office, hospitality, retail and residential property segments. It focuses on prime assets located in key districts, i.e. the Central Business District (CBD) and Orchard Road. OUE is the sponsor of OUE Hospitality Trust ("OUEHT") and OUE Commercial REIT ("OUECT"). The company is 68.0%-owned by the Lippo Group.

OUE Ltd

Key credit considerations

- **9M2014 results aided by disposal gain:** OUE recorded a net profit of S$966.5mn in 9M2014 (9M2013: S$29.7mn), largely due to a one-off S$986.4mn gain from the disposal of Mandarin Orchard Singapore and Mandarin Gallery to OUEHT. The disposal gain was partly offset by a S$105.0mn allowance for foreseeable losses on the group's high-end residential project, Twin Peaks. Stripping out the one-off items and fair value changes, OUE's pretax profit increased by 51.4% y/y to S$59.2mn on the back of lower finance expenses and higher contribution from associates (One Raffles Place retail podium commenced operations in May 2014 after a revamp). Meanwhile, revenue from OUE's hospitality division declined by 11.6% y/y to S$154.8mn due to the absence of contributions from two hotels in China. On a positive note, revenue from the group's property investment division increased by 23.8% y/y to S$119.2mn, following the acquisition of U.S. Bank Tower and Lippo Plaza.

- **Property development division hit by cooling measures:** OUE's revenue from property development division was 47.3% lower y/y to S$32.1mn for 9M2014 due to lower sales achieved. Due to cooling measures in Singapore, take-up for Twin Peaks (scheduled to be completed in 2015) was slow with only 76 units (out of 462 units) sold as at end-3Q2014.

- **Quality commercial portfolio to generate recurring income:** OUE owns a portfolio of quality hospitality and commercial properties that generate recurring income to the group. The group's hospitality assets include hotels such as Marina Mandarin Singapore, Crowne Plaza Changi Airport ("CPCA") and Meritus Pelangi Beach Resort & Spa. Besides, the group's commercial assets include One Raffles Place Towers 1 & 2, OUE Downtown Towers 1 & 2 and U.S. Bank Tower. Meanwhile, OUE's two listed REITs, OUEHT and OUECT allow the group to recycle its assets and invest in other opportunities. OUEHT owns Mandarin Orchard Singapore and Mandarin Gallery, and it has proposed to acquire CPCA and its extension from OUE in November 2014 for S$495.0mn. OUECT, on the other hand, owns two commercial properties located in Singapore (OUE Bayfront) and Shanghai (Lippo Plaza), respectively.

- **Developments in the pipeline to sustain growth:** Asset enhancement works at OUE Downtown (to be completed in 2016) and the lobby renovation and observation deck projects at U.S. Bank Tower are on track. In addition, OUE has commenced the development of the 10-storey extension building to CPCA in August 2014. Upon completion by end-2015, the extension will add 243 rooms to CPCA's existing 320 rooms. Meanwhile, there is no update on OUE's participation in the integrated entertainment resort in South Korea.

- **Manageable credit metrics despite latest acquisition:** Although cash balance as at end-3Q2014 reduced to S$172.5mn (2013: S$730.6mn), this was largely due to debt repayments of S$350.0mn. As a result, OUE's net gearing was lowered to 0.45x (2013: 0.57x) while EBITDA/gross interest improved to 1.7x (2013: 1.5x). Furthermore, OUE invested S$254.2mn in a mutual fund in 3Q2014 and should be able to raise cash from this investment if needed. OUE has proposed to acquire 23.0% of Gemdale Properties and Investment Corporation Ltd ("GPI") for HK$1.5bn in December 2014 to gain access and exposure to the real estate market in China. GPI has total land bank of ~4.1mn sq m in 9 cities including Beijing, Shanghai, Shenzhen, Hangzhou, Xi'an, Tianjin, Shenyang, Ningbo and Dalian. Despite the acquisition, OUE should be able to keep its net gearing intact given that the impending disposal of CPCA should boost OUE's cash position.

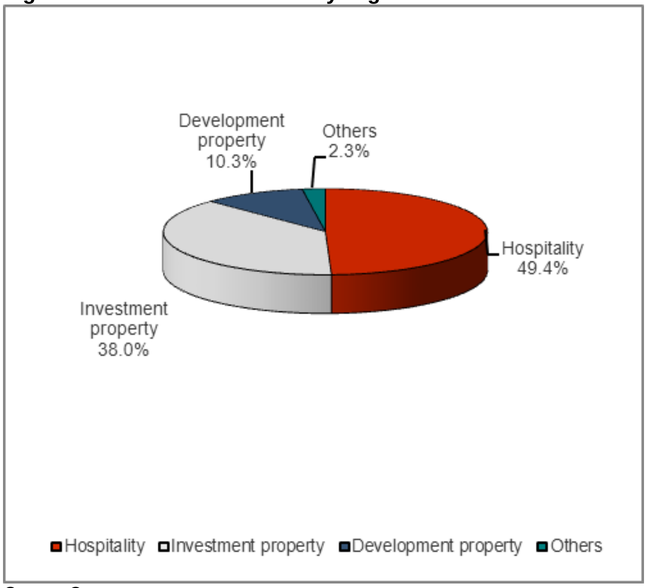
OUE Ltd

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	9M2014
Income statement (S$ mn)			
Revenue	418.0	436.6	313.4
EBITDA	205.7	161.8	90.7
EBIT	181.0	139.6	81.3
Gross interest expense	105.5	111.6	54.9
Profit before tax	102.9	14.1	1,097.2
Net income	90.1	-36.6	966.5
Balance sheet (S$ mn)			
Cash and equivalents	604.6	730.6	172.5
Total assets	5,887.5	6,418.2	6,372.8
Gross debt	2,574.4	2,742.0	2,003.3
Net debt	1,969.8	2,011.4	1,830.9
Total equity	3,173.5	3,515.0	4,104.0
Total capitalization	5,747.9	6,257.0	6,107.4
Net capitalization	5,143.3	5,526.4	5,934.9
Cash flow (S$ mn)			
Funds from operations (FFO)	114.8	-14.3	975.9
CFO	140.2	103.8	43.7
Capex & acquisitions	62.0	527.0	475.1
Dividends	127.4	263.9	59.1
Adjusted FOCF	78.3	-423.2	-431.3
Disposals	28.9	115.2	35.0
Free Cash Flow (FCF)	-20.2	-571.8	-455.4
Key ratios			
EBITDA margin (%)	49.2	37.1	29.0
Net margin (%)	21.5	-8.4	308.4
Gross debt/EBITDA (x)	12.5	16.9	16.6
Net debt/EBITDA (x)	9.6	12.4	15.1
Gross debt/equity (x)	0.81	0.78	0.49
Net debt/equity (x)	0.62	0.57	0.45
Gross debt/total capitalization (%)	44.8	43.8	32.8
Net debt/net capitalization (%)	38.3	36.4	30.8
FCF/gross debt (%)	-0.8	-20.9	-30.3
FFO/gross interest (x)	1.1	-0.1	17.8
EBITDA/gross interest (x)	2.0	1.5	1.7

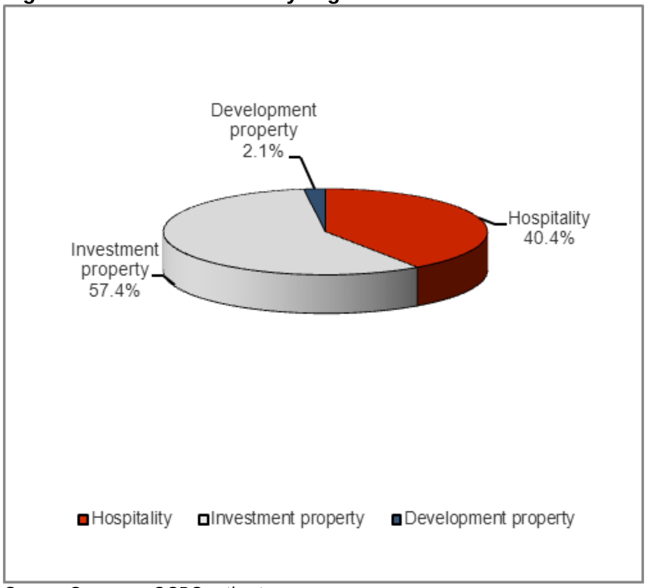
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by segment – 9M2014



Source: Company

Figure 2: EBIT breakdown by segment– FY2013



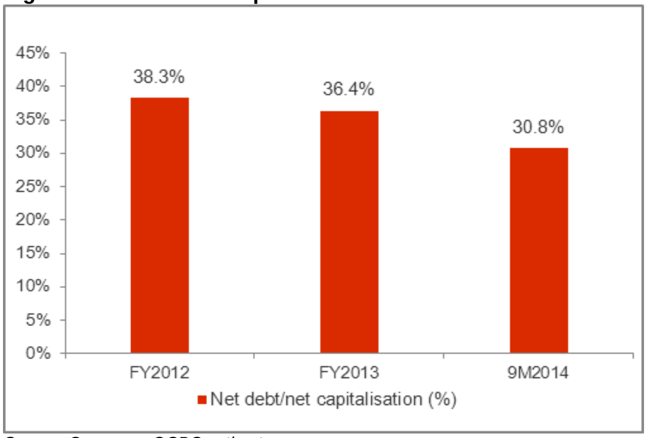
Source: Company, OCBC estimates

Figure 3: Debt maturity profile

Amounts in S$ mn	As at 30/09/2014	% of debt
Repayable in one year		
Secured	386.9	19.3%
Unsecured	199.5	10.0%
	586.5	**29.3%**
Repayable after a year		
Secured	920.6	46.0%
Unsecured	496.2	24.8%
	1,416.9	**70.7%**
Total	**2,003.3**	**100.0%**

Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – Though SCI's credit metrics remains strong, it has worsened. In addition, its energy power faces domestic pressures while its O&M business faces sector headwinds, limiting near-term improvements to performance. As such, it is difficult to recommend the SCISP'20 and '24 trading at 70-90bps above swaps. SCISP'25 offers a spread pickup of 20bps, but note that it is a high-dollar bond.

Underweight

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **SCISP**

Company profile

Formed in 1998, Sembcorp Industries Ltd ("SCI") grew to become a leading player in both the utilities industry as well as offshore marine industry. For the utilities business, SCI provides energy and water solutions to both industrial and municipal customers. Through its subsidiary, Sembcorp Marine Ltd (SMM), it is established in marine and offshore engineering, providing a wide range of services such as ship repairs and rig building. To date, it has operations in 6 different continents with a total asset of over S$16.5bn. Temasek Holdings is the largest shareholder of SCI, holding 49.5% stake.

Sembcorp Industries Ltd

Key credit considerations

- **Domestic energy business under pressure from lower spark spreads:** 9M2014 revenue and net profit for Sembcorp Utilities ("SU") declined 4.6% y/y to S$3.7bn and declined 2.2% y/y to S$298.6mn (excluding Salalah IPO gains and Teesside impairments in 9M2013) respectively. Competitive pressures in Singapore have pressured spark spreads, which have declined 3% q/q. While a turnaround in Singapore's power industry remains unlikely in the near-term, compressed margins are partially mitigated by increased contributions from SU's international units. Performance was particularly strong from the Rest of Asean, Australia & India region. A stream of overseas development projects are expected to come online by 1H2015 which includes (1) the 2nd TPCIL power plant in India; (2) Fujairah 1 desalination expansion; (3) Nanjing Industrial Water Plant expansion and (4) Huanghua Wing Power expansion. These projects will further diversify SU's revenue away from Singapore.

- **Headwinds faced by Sembcorp Marine ("SM"):** The marine segment remained a major earnings driver for SCI, accounting for ~53% and ~42% of 9M2014 revenue and net profit respectively. However, outlook for the segment stays bleak for now amidst the low oil-price environment that has reduced capital expenditure on exploration and production activities. Nonetheless, barring any significant order cancellations, SM's order book stands strong at S$12.6bn (2.3x of 2013 revenue for marine segment) with deliveries till 2019 (they won S$4.2bn in contracts during 9M2014). SM's order book should buy it some time to ride out the volatility in oil prices.

- **Diversified operations with stable earnings visibility:** While SU and SM accounted for ~95% of 9M2014 net profit, we note that SCI's operations are diversified across 6 continents with good track records. In addition, each business segment is further divided across various sub-categories (SM: Drillship, semi-submersible, jack-up rigs and conversion platforms; SU: Energy, water and logistics & solid waste management), providing further diversification effects. SCI has secured several long-term contracts to-date, which include a 25-year power purchase agreement with Andra Pradesh Power Distribution to supply 40% of TPCIL's production capacity, a 20-year water purchase agreement with Abu Dhabi Water & Electricity Company for the sale of water produced by the expansion of Fujairah as well as a 15-year contract to serve the coal-to-diesel project in Changzhi City, Shenzhen. These long-term commitments will provide SCI with a recurrent and stable stream of income.

- **Stable financial position despite surge in gearing:** Net gearing increased substantially to 0.33x as of 9M2014 from -0.05x (net cash position) in 2013. Meanwhile, debt servicing ratios weakened as gross debt/EBITDA increased to 3.5x (2013: 1.5x). The deterioration of credit metrics was due to the consolidation of TPCIL (became subsidiary in July 2014) into the group balance sheet which saw SCI assume ~S$1.3bn. In addition, SM borrowed for the capex of the new yard in Brazil. Subsequently, gross debt surged from S$2.3bn (1H2014) to S$4.5bn (9M2014) over the course of the quarter. Nonetheless, refinancing risk remains subdued as cash balance of S$2.2bn is sufficient to cover borrowings maturing within 1 year and 5 years by 2.4x and 0.9x respectively. The debt maturity profile is spread out, with the largest maturities due in 2020 (S$300mn in bonds) and 2021 (S$665mn in bonds and loans).

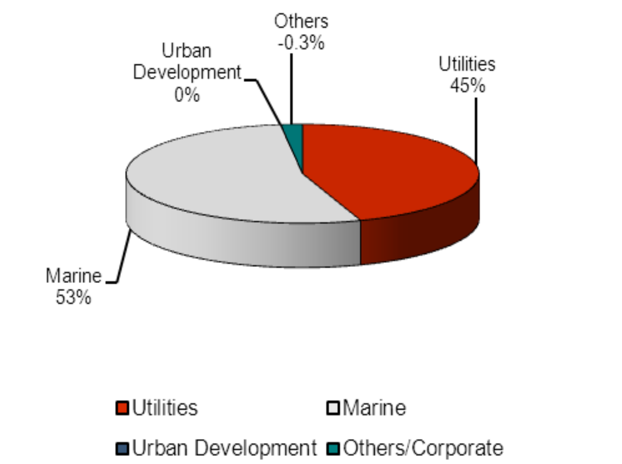
Sembcorp Industries Ltd

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	9M2014
Income statement (S$ mn)			
Revenue	10,189.1	10,797.6	8,230.3
EBITDA	1,341.5	1,268.9	961.4
EBIT	1,059.9	965.6	730.7
Gross interest expense	165.1	117.9	47.0
Profit before tax	1,154.8	1,231.7	888.2
Net income	753.3	837.8	560.5
Balance sheet (S$ mn)			
Cash and equivalents	2,059.8	2,255.9	2,202.7
Total assets	12,884.9	13,753.9	16,506.8
Gross debt	2,319.8	1,955.8	4,513.0
Net debt	260.0	-300.1	2,310.3
Total equity	5,644.4	6,530.0	6,934.4
Total capitalization	7,964.3	8,485.8	11,447.3
Net capitalization	5,904.5	6,229.9	9,244.6
Cash flow (S$ mn)			
Funds from operations (FFO)	1,034.9	1,141.1	791.2
CFO	620.4	1,470.3	253.8
Capex & acquisitions	1,323.4	1,488.7	1,155.6
Dividends	545.5	412.6	532.1
Adjusted FOCF	-702.9	-18.5	-901.8
Disposals	10.5	32.7	21.0
Free Cash Flow (FCF)	-1,238.0	-398.3	-1,412.9
Key ratios			
EBITDA margin (%)	13.2	11.8	11.7
Net margin (%)	7.4	7.8	6.8
Gross debt/EBITDA (x)	1.7	1.5	3.5
Net debt/EBITDA (x)	0.2	-0.2	1.8
Gross debt/equity (x)	0.41	0.30	0.65
Net debt/equity (x)	0.05	-0.05	0.33
Gross debt/total capitalization	29.1	23.0	39.4
Net debt/net capitalization (%)	4.4	-4.8	25.0
FCF/gross debt (%)	-53.4	-20.4	-41.7
FFO/gross interest (x)	6.3	9.7	16.8
EBITDA/gross interest (x)	8.1	10.8	20.5

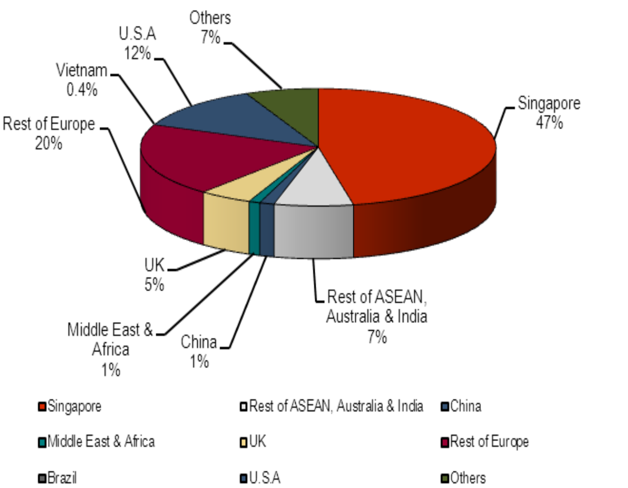
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by by business – 9M2014



Source: Company

Figure 2: Revenue breakdown by geography – 9M2014



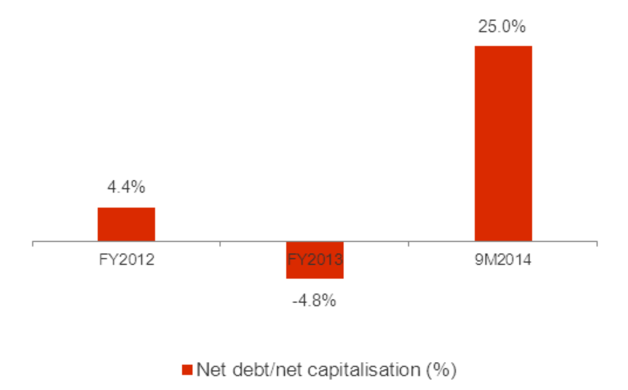
Source: Company

Figure 3: Debt maturity profile

Amounts in S$ mn	As at 30/09/2014	% of debt
Amount repayable in one year or less, or on demand		
Secured	530.5	11.8%
Unsecured	398.5	8.8%
	929.0	**20.6%**
Amount repayable after a year		
Secured	1,042.1	23.1%
Unsecured	2,541.8	56.3%
	3,584.0	**79.4%**
Total	**4,513.0**	**100.0%**

Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – The core business is changing with SPOST's sustained push towards e-commerce as well as potential strategic endeavours with Alibaba. Though the balance sheet remains robust, the SPOST'20 is trading rich at 20bps above swap. The SPOST'49c22 is trading at 3.53% YTC while we see better value with ART'49c19 offering 4.52% YTC.

Underweight

S&P: A/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 ~23% of SPOST. In 2014, Alibaba Group Holdings made a strategic acquisition of ~10% of SPOST.

Singapore Post Ltd

Key credit considerations

- **Growth from overseas revenue continues to mitigate domestic business decline:** For 1HFY2015, revenue grew by 6.4% y/y. The Mail segment saw 5.3% revenue growth y/y. Though domestic mail revenue (28.4% of total revenue) continued to face secular decline (falling 2.6% y/y), international mail revenue grew 22.2% y/y, driven by growth in international e-commerce transhipment growth. The Logistics segment (47.9% of total revenue) grew 9.6% y/y. Growth contributed by Famous Holdings was particularly strong at 18.5% y/y, partially driven by acquisitions in Japan and the UK. The Retail & e-Commerce segment grew 7.3% y/y, with e-commerce revenue helping to offset declines in traditional retail. The share of overseas revenue continues to increase, standing at 30.0% of total revenue compared to 12.9% at the end of FY2012. Given the recent acquisition of Australian courier company Couriers Please for A$95mn in December 2014, as well as potential strategic endeavours with the Alibaba Group, this trend of diversifying away from domestically generated revenue looks likely to persist.

- **Operating margins to remain pressured as product mix shifts:** The Logistics segment as well as the Retail & e-Commerce segment both has lower operating margins compared to the Mail segment. Part of this is due to the nature of the businesses (etc. freight forwarding). However, as the newer businesses gain operating leverage with scale and synergy, margins would improve (as seen in the recent quarter). It should be noted that the group saw an overall increase in operating expense due to both labour costs as well as increases in SG&A due to the new businesses acquired the past 18 months.

- **Capex and acquisition pipeline likely to remain elevated due to transformation efforts:** Aside from the S$100mn capex commitment announced previously (to be spent over three years from FY2014), SPOST looks positioned to continue to make sizable acquisitions to further enhance its footprint in regional e-commerce, such as the recent Couriers Please acquisition from New Zealand Post. Time will be needed to integrate these acquisitions, with the impact on future revenue growth and margins to be determined.

- **Cash situation worsened, but still healthy:** CFO generated in 1HFY2015 has fallen 38.8% y/y to S$72.2mn. This was due mainly to change in working capital (particularly a decrease in trade receivables). Management has attributed this to timing differences and business operational needs. Capex for the period was S$25.5mn, meaning that SPOST had to tap on its cash reserves to service its dividend payments. Alibaba's capital infusion (which closed at the end of the period) of ~S$310mn was timely, with SPOST ending the period with ~S$683mn in cash. For the remainder of FY2015, SPOST is expected to pay a further ~S$80mn in dividends and A$95mn for its Couriers Please acquisition.

- **Strong credit metrics:** SPOST currently only has S$200mn 10-year note (issued in March 2010) outstanding and hence is in a negative net debt position. It has no near-term financing needs (except for ad hoc acquisitions).

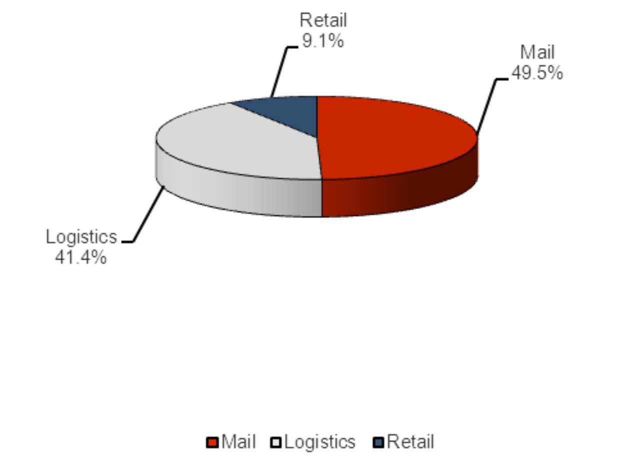
Singapore Post Ltd

Table 1: Summary financials

Year ended 31st March	FY2013	FY2014	1H2015
Income statement (SGD'mn)			
Revenue	658.8	821.1	431.3
EBITDA	162.1	170.9	82.9
EBIT	125.8	136.2	67.2
Gross interest expense	13.9	6.7	4.5
Profit Before Tax	167.0	178.8	95.2
Net profit	136.5	143.1	76.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	628.3	404.4	684.8
Total assets	1,554.2	1,321.9	1,637.8
Gross debt	536.6	234.1	235.5
Net debt	-91.8	-170.3	-449.4
Shareholders' equity	683.8	695.8	1,020.3
Total capitalization	1,220.3	930.0	1,255.8
Net capitalization	592.0	525.5	571.0
Cash Flow (SGD'mn)			
Funds from operations (FFO)	172.8	177.7	92.6
CFO	203.0	241.8	72.2
Capex and acquisitions	118.0	40.8	28.2
Dividend	133.0	133.6	82.0
Adjusted FOCF	85.0	201.1	44.0
Disposals	-0.1	1.4	10.8
Free Cash Flow (FCF)	-48.1	68.9	-27.2
Key Ratios			
EBITDA margin (%)	24.6	20.8	19.2
Net margin (%)	20.7	17.4	17.8
Gross debt to EBITDA (x)	3.3	1.4	1.4
Net debt to EBITDA (x)	-0.6	-1.0	-2.7
Gross Debt to Equity (x)	0.78	0.34	0.2
Net Debt to Equity (x)	-0.13	-0.24	-0.4
Gross debt/total capitalisation (%)	44.0	25.2	18.8
Net debt/net capitalisation (%)	-15.5	-32.4	-78.7
FCF/gross debt (%)	-9.0	29.4	-23.1
FFO/gross Interest (x)	12.4	26.6	20.7
EBITDA/Total Interest (x)	11.6	25.6	18.6

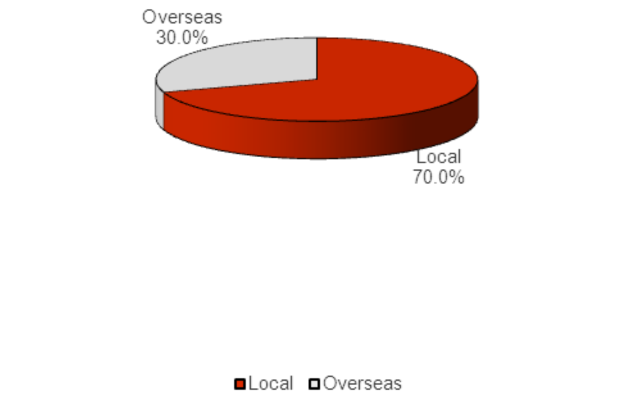
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – 1H2015



Source: Company

Figure 2: Revenue breakdown by geography – FY2014



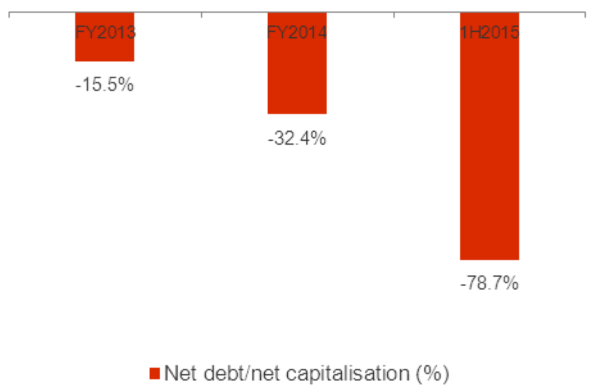
Source: Company

Figure 3: Debt maturity profile

Amounts in S$ mn	As at 30/09/2014	%-of-debt
Amount repayable in one year or less, or on demand		
Secured	2.7	1.1%
Unsecured	13.0	5.5%
	15.7	**6.7%**
Amount repayable after a year		
Secured	18.6	7.9%
Unsecured	201.3	85.5%
	219.8	**93.3%**
Total	**235.5**	**100.0%**

Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – SGREIT's credit profile remains stable while earnings visibility is supported by a long WALE of 4.8 years. Nonetheless, we think SGREIT'21 has limited upside at spread of 105bps over swap.

Neutral

S&P: BBB+/Stable

Moody's: Not rated

Fitch: Not rated

Ticker: **SGREIT**

Company profile

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 12 mid to high-end retail properties in 5 countries, valued at about S$2.8bn as at 31st December 2013. The properties include Wisma Atria and Ngee Ann City in Singapore, Starhill Gallery and Lot 10 in Malaysia, and eight other malls in China, Australia and Japan. YTL Corp Bhd is SGREIT's sponsor and largest unitholder with a 36.3% stake.

Starhill Global REIT

Key credit considerations

- **9M2014 results in line with expectations:** Excluding a one-time receipt of arrears from Toshin Development Singapore ("Toshin") in 2013, gross revenue was relatively unchanged at S$146.2mn. NPI rose modestly by 2.2% y/y to S$117.8mn (9M2013: S$115.3mn), driven by lower operating costs. However, NPI growth was dampened by: (1) lower contribution from the Renhe Spring Zongbei property in China that resulted from increased competition and a slowdown in China's high-end luxury retail market; and (2) losses arising from foreign currency translations.

- **Earnings anchored by quality assets in Singapore:** SGREIT's two assets in Singapore, namely Wisma Atria and Ngee Ann City, contributed 67.0% and 65.7% of its gross revenue and NPI respectively, in 9M2014. However, revenue concentration risks are largely contained given that both properties are strategically located within the retail hotspot of Orchard Road that oversees high shopper traffic. While tenant sales has tapered amidst softer retail sentiments and weaker tourist spending, we expect earnings to be supported by the resilient and high occupancy rates of both properties (>95.0% for the past 10 years). Separately, SGREIT's portfolio occupancy remained stable at 99.1% (2013: 99.4%).

- **Staggered lease expiry profile provides earnings visibility:** SGREIT's long WALE of 4.8 years (by gross rental income) brings stability to earnings with 52.8% of total leases concluding only in 2017 and beyond. Meanwhile, 45.9% of portfolio NLA will be up for renewal in 2016, which includes the master tenant leases in Malaysia (Starhill Gallery and Lot 10). However, we note that the master tenant leases in Malaysia have an option to be renewed for a further 3-year term.

- **High revenue concentration amongst top 2 tenants:** Toshin and YTL Group accounted for 38.5% of SGREIT's total gross revenue. However, we acknowledge that Toshin's existing master lease was renewed in 2013 and it will expire only in 2025. On the other hand, YTL Group is the sponsor of SGREIT and these factors should partially mitigate the tenant concentration risks.

- **Stable balance sheet with well-termed debt maturity:** Credit metrics held up steadily during 9M2014 as net debt/net capitalization was relatively unchanged at 27.8% (2013: 28.2%), while interest coverage ability deteriorated only slightly with EBITDA/gross interest decreased to 4.5x (2013: 4.7x). Besides, debt maturity is well-spread until 2021 with no more than 29.1% of borrowings due within any one year. Meanwhile, interest rate risks are well-contained with all of SGREIT's borrowings on fixed rates or hedged via interest rate caps or swaps.

- **Liquidity position enhanced by proactive capital management:** Cash position of S$79.4mn is low and insufficient to cover near-term debt due of S$124.0mn. However, we expect SGREIT to be able to refinance the maturing borrowings comfortably given its good access to capital: (1) it completed a S$100.0mn 7-year bond issuance that was more than 2x oversubscribed in February 2014; and (2) it successfully refinanced MYR330.0mn of debt ahead of maturity in June 2015 at a ~60bps lower interest rate, bringing the all-in interest rate down from 3.22% to 3.15%. Meanwhile, financial flexibility is enhanced by low asset encumbrance of 20.0% and untapped balance of ~S$1.77bn from its S$2.0bn MTN program.

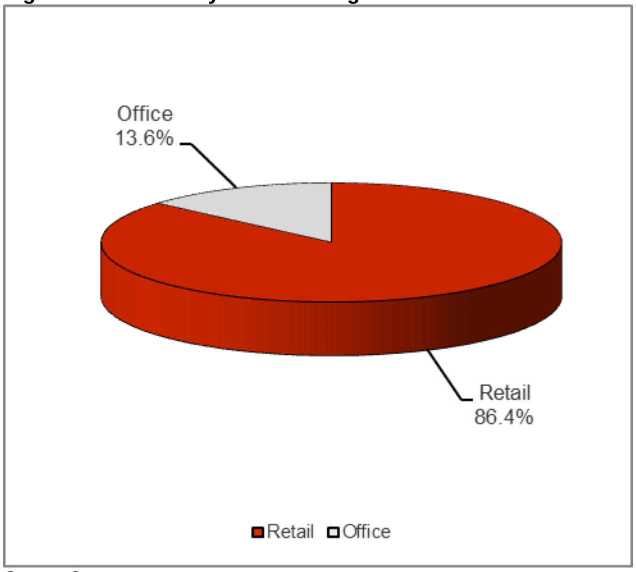
Starhill Global REIT

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	9M2014
Income statement (S$ mn)			
Revenue	186.0	200.6	146.2
EBITDA	131.6	141.0	104.9
EBIT	131.1	140.5	104.5
Gross interest expense	32.6	30.2	23.2
Profit before tax	135.6	252.8	81.2
Net income	131.7	250.0	79.0
Balance sheet (S$ mn)			
Cash and equivalents	79.4	58.0	79.4
Total assets	2,820.2	2,943.2	2,946.5
Gross debt	849.4	845.9	852.8
Net debt	770.0	787.9	773.4
Total equity	1,882.1	2,010.1	2,007.9
Total capitalization	2,731.4	2,856.0	2,860.7
Net capitalization	2,652.1	2,798.0	2,781.3
Cash flow (S$ mn)			
Funds from operations (FFO)	132.1	250.5	79.4
CFO	115.8	141.1	105.5
Capex & acquisitions	20.9	68.5	1.3
Dividends	92.3	105.3	80.9
Adjusted FOCF	94.9	72.6	104.2
Disposal	0.0	9.1	12.4
Free Cash Flow (FCF)	2.6	-23.7	35.7
Key ratios			
EBITDA margin (%)	70.7	70.3	71.7
Net margin (%)	70.8	124.6	54.0
Gross debt/EBITDA (x)	6.5	6.0	6.1
Net debt/EBITDA (x)	5.9	5.6	5.5
Gross debt/equity (x)	0.45	0.42	0.42
Net debt/equity (x)	0.41	0.39	0.39
Gross debt/total capitalization (%)	31.1	29.6	29.8
Net debt/net capitalization (%)	29.0	28.2	27.8
FCF/gross debt (%)	0.3	-2.8	5.6
FFO/gross interest (x)	4.1	8.3	3.4
EBITDA/gross interest (x)	4.0	4.7	4.5

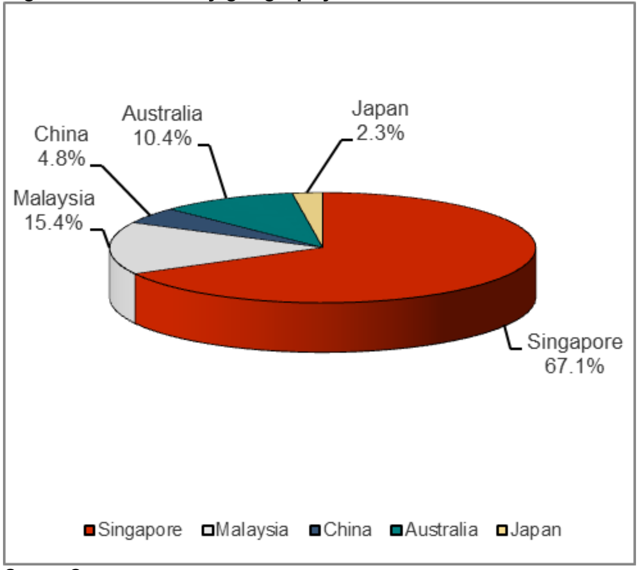
Source: Company, OCBC estimates

Figure 1: Revenue by business segment – 9M2014



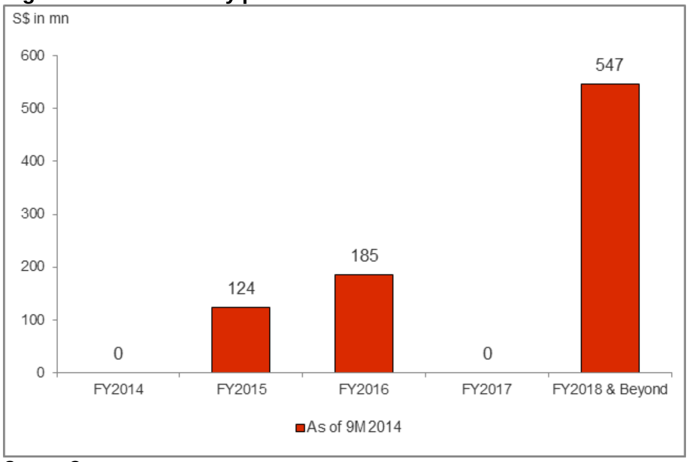
Source: Company

Figure 2: Revenue by geography – 9M2014



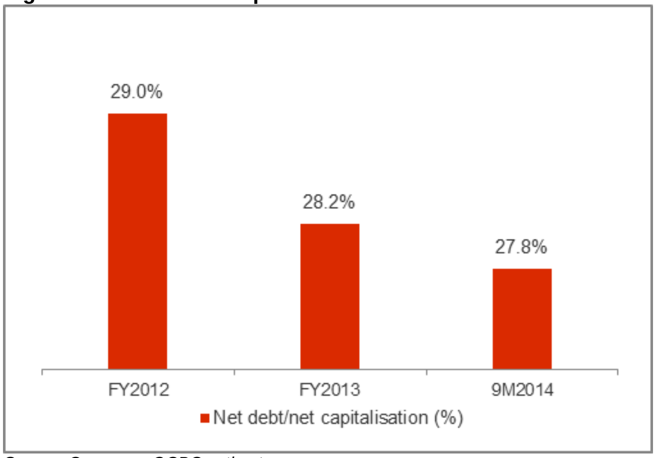
Source: Company

Figure 3: Debt maturity profile



Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – SUN's earnings have improved considerably following completion of Suntec City Mall's AEIs. However, credit profile remains weaker than peers and we don't see value in SUNSP'16 and SUNSP'20, with spreads of 50bps and 92bps over swap, respectively.

Underweight

S&P: Not rated
Moody's: Baa2/Stable
Fitch: Not rated

Ticker: **SUNSP**

Company profile

Listed on the SGX in 2004, Suntec REIT ("SUN") invests in real estates used for retail and office purposes. SUN's portfolio includes Park Mall, "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 properties"). SUN holds a 100% interest in 177 Pacific Highway, an office development in Sydney.

Suntec REIT

Key credit considerations

- **Earnings ability strengthen following completion of AEIs:** 9M2014 net property income increased 40.2% y/y to S$138.6mn (9M2013: S$98.9mn) due to the completion of Phase 1 and Phase 2 of AEIs in Suntec City Mall. The average passing rent achieved on both phases post-AEIs increased substantially by 21.8% y/y to S$12.59 psf. Meanwhile, SUN's portfolio occupancy remained high as of 9M2014, with the office and retail portfolios recording full and 98.4% occupancy, respectively.

- **Shortage of supply in Grade A office segment; headwinds in the retail segment:** Supply of office space will remain tight, with only two Grade A office developments due for completion before end-2015, providing near-term support for SUN's office portfolio. Meanwhile, the retail sector continues to face multiple headwinds from softening consumer sentiments, declining tourist arrivals and tight labor conditions. SUN has coped resiliently thus far, with post-AEIs Suntec City Mall Phase 1 and Phase 2 obtaining almost full occupancies. In addition, rental rates achieved were in line with management's targets. Phase 3, to be completed by end-2014, is currently 60% pre-committed. Nonetheless, we caution that the tough operating environment will continue to drag occupancy and rental rates of the retail segment.

- **Asset concentration risks are partially mitigated:** SUN is dependent upon Suntec City for a large portion (>90.0%) of its revenue. However, concentration risks are partially mitigated by (1) the diversification of Suntec City across the retail, office and convention segments; and (2) a large and high-quality tenant base diversified across different industries.

- **Favorable lease expiry profile:** SUN's lease expiry profile is well-staggered with no more than 20.0% of the total office NLA and 6.9% of the total retail NLA due for renewal before 2016. Although 35.0% of SUN's total retail NLA will expire in 2016, the trust should be able to renew/replace these leases given its good track record of proactive leasing management.

- **Improving credit metrics but capex will remain high:** SUN's net debt/net capitalization and EBITDA/gross interest have improved slightly to 34.4% (2013: 37.4%) and 1.6x (2013: 1.4x) respectively, due to greater post-AEIs earnings. Going forward, the completion of Phase 3 AEI of Suntec City Mall will continue to contribute positively to SUN. On the other hand, credit metrics may not improve significantly as SUN still needs to fund the development of 177 Pacific Highway – a grade A office tower in the heart of North Sydney, targeted for completion in early 2016.

- **Limited refinancing risk in the near term:** SUN has refinanced all its debt obligations maturing in 2014 and 2015. In doing so, it demonstrated strong access to capital, tapping both debt and equity markets to raise S$1.46bn via (1) a S$310.0mn 6-year bond issuance; (2) a S$800.0mn syndicated bank loan; and (3) a S$350.0mn private share placement. As such, further refinancing needs will only arise in 2016. SUN's debt maturity profile is well-spread till 2020, with weighted average term to expiry extended to 3.9 years (2013: 2.4 years). Meanwhile, all-in financing cost remained sound at 2.42%.

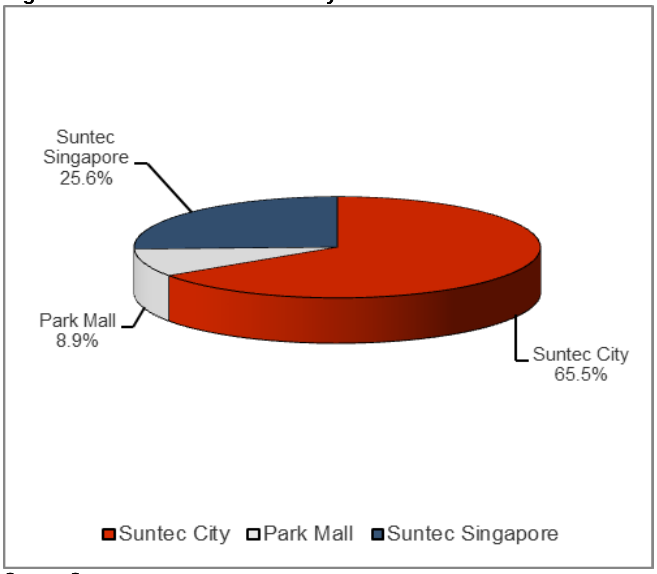
Suntec REIT

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	9M2014
Income statement (S$ mn)			
Revenue	261.9	234.1	205.6
EBITDA	123.3	106.3	89.0
EBIT	99.2	90.9	77.3
Gross interest expense	80.6	77.7	56.3
Profit before tax	427.0	377.3	102.6
Net income	413.2	364.4	101.7
Balance sheet (S$ mn)			
Cash and equivalents	199.7	181.1	107.7
Total assets	7,755.7	8,321.8	8,364.7
Gross debt	2,842.9	3,160.8	2,874.8
Net debt	2,643.3	2,979.6	2,767.1
Total equity	4,784.1	4,985.0	5,277.9
Total capitalization	7,627.0	8,145.8	8,152.7
Net capitalization	7,427.4	7,964.6	8,045.0
Cash flow (S$ mn)			
Funds from operations (FFO)	437.3	379.8	113.4
CFO	195.1	152.6	156.1
Capex & acquisitions	68.2	274.0	78.8
Dividends	214.0	209.4	168.6
Adjusted FOCF	126.9	-121.4	77.4
Disposal	147.0	0.0	12.9
Free Cash Flow (FCF)	59.8	-330.7	-78.3
Key ratios			
EBITDA margin (%)	47.1	45.4	43.3
Net margin (%)	157.8	155.7	49.5
Gross debt/EBITDA (x)	23.1	29.7	24.2
Net debt/EBITDA (x)	21.4	28.0	23.3
Gross debt/equity (x)	0.59	0.63	0.54
Net debt/equity (x)	0.55	0.60	0.52
Gross debt/total capitalization (%)	37.3	38.8	35.3
Net debt/net capitalization (%)	35.6	37.4	34.4
FCF/gross debt (%)	2.1	-10.5	-3.6
FFO/gross interest (x)	5.4	4.9	2.0
EBITDA/gross interest (x)	1.5	1.4	1.6

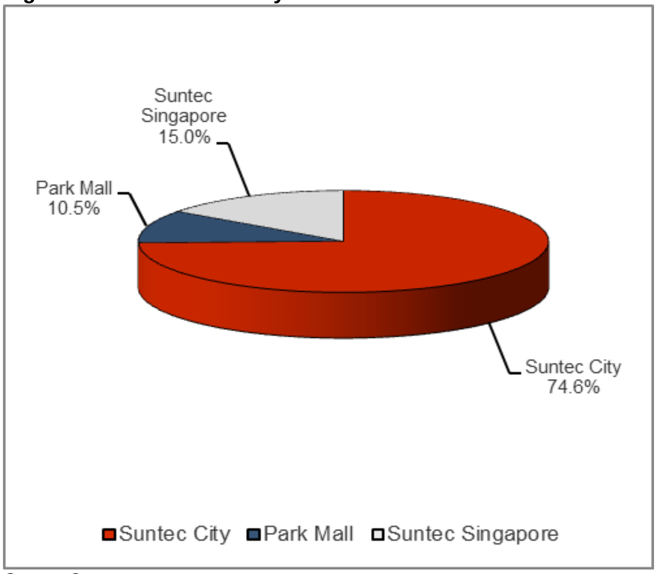
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – 9M2014



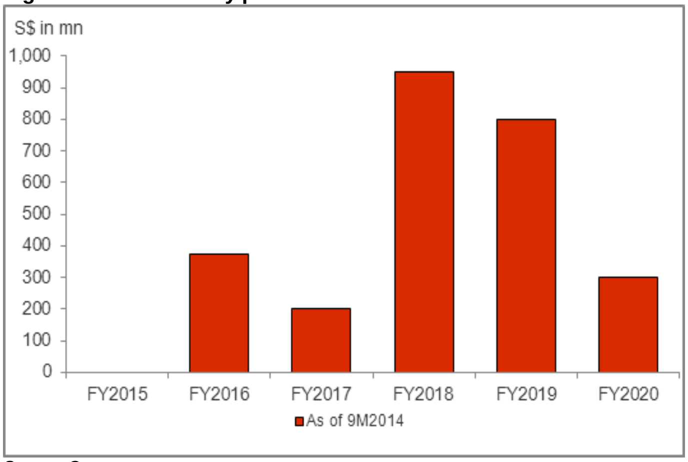
Source: Company

Figure 2: NPI breakdown by business – 9M2014



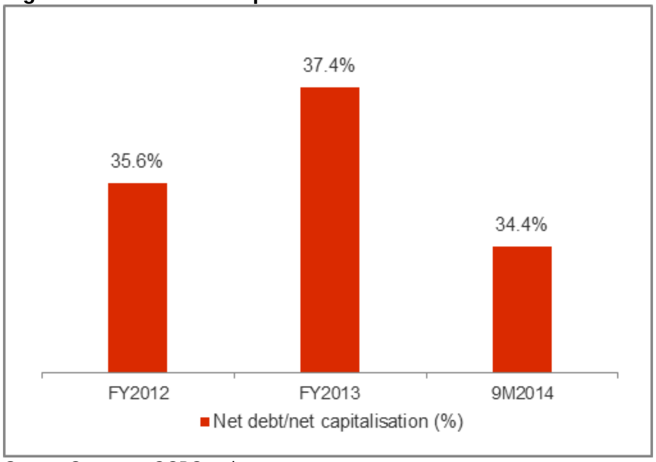
Source: Company

Figure 3: Debt maturity profile



Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – Wharf has a strong asset base in HK which anchors its credit profile, and mitigates execution risks from its expansion in China residential development. The WHARF complex is trading in-line with its A-rated peer HK Land and looks fairly valued. That said, it could be a more liquid alternative to gain exposure to the HK commercial sector compared to HK Land.

Neutral

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

Ticker: **WHARF**

Company profile

The Wharf (Holdings) Ltd ("Wharf") develops and invests in retail, hotel and office property in China and Hong Kong. The company is also involved in communications, media & entertainment, and container terminals businesses. Wharf has strong experience and expertise in operating prime-location, high-quality commercial properties in Hong Kong. Wharf is a subsidiary of Wheelock & Co. Ltd, which owns a 55.1% stake in the company.

The Wharf (Holdings) Ltd

Key credit considerations

- **Growth in investment property remains strong though there is margin compression:** For 1H2014, investment property segment revenue grew by 19.5% y/y to HK$6.4bn. Growth from mainland China was particularly strong at 56.5% y/y and now contributes 13% of segment revenue. The two core Hong Kong assets, Harbour City (62% of segment revenue) and Times Square (19% of segment revenue) combined account for 9% of Hong Kong's total retail sales. Despite negative headwinds from the slump in mainland luxury spending, tenants in Harbour City were still able to grow retail sales by 5% during the period. Occupancy for office space in Harbour City remains strong at 96% while lease renewals rates remain stable (retention rates were 69%). Revenue growth from Times Square was particularly strong at 26% as a result of the completion of a revamp of its mall. Occupancy was at ~100% while retail sales grew 34%. Office occupancy was strong at 97% (retention rates were 72%). Segment revenue attributed to mainland China was strong due to the opening of the 1st phase of Chengdu IFS in early 2014. Looking forward, growth for the segment will be from Wharf's pipeline in China (there are 5 IFS in all). These will be delivered by the end of 2017. There may be future margin compression as the segment's operating margin in Hong Kong is stronger compared to mainland China. Already, the operating margin for the segment has compressed 190bps y/y due to the shift in revenue mix towards China. 2H2014 may see some pressure on the segment's revenue due to the impact of social unrest in Hong Kong.

- **Development property segment pressured by policy measures:** Though segment revenue grew by 5.8% y/y to HK$5.3bn, cooling measures implemented by the Chinese government (mainland China contributes 98% of segment revenue) have pressured operating margins, causing a segment margin compression of 80bps. Contracted sales (of HK$8.9bn attributed by 641,000 square metres sold) during the period have lagged the target (only 39% of the full-year target was achieved). The net order book stood at HK$21.7bn for 1.73mn square metres at the end of the period. In combination with mainland China investment property assets, Wharf has a land bank of 11.1mn square metres.

- **Though China is the source of growth, Hong Kong remains the bulk of assets and income:** Wharf ended the period with HK$391.7bn in business assets (FY2013: HK$387.7bn). The investment property portfolio is 69% (or HK$269.6bn) while Harbour City and Times Square Hong Kong combined (net of hotels) are HK$190.6bn. Revenue from these two assets total ~HK$5.2bn at an operating margin of more than 80%. As such, we expect Wharf to be able to navigate near-term headwinds facing its China businesses.

- **Leverage remains manageable with no near-term refinancing risks:** At the end of the period, Wharf has ~HK$27.5bn in authorised and contracted commitments to be incurred in the forthcoming years. Capital and development expenditure totalled HK$9.6bn for the period, compared to HK$28.3bn for the whole of FY2013. Net debt increased slightly by HK$1.7bn to HK$59.8bn while net gearing increased by 1pp during the period to 0.21x. There are ~HK$9bn in loans and ~HK$3bn in revolvers due in 2015, and a further HK$2.4bn in bonds due in 2016. We believe that these maturities will be refinanced given the HK$20.3bn in cash and HK$4.8bn in operating cash flow generated during 1HFY2014. Wharf also has HK$14.8bn in undrawn credit facilities.

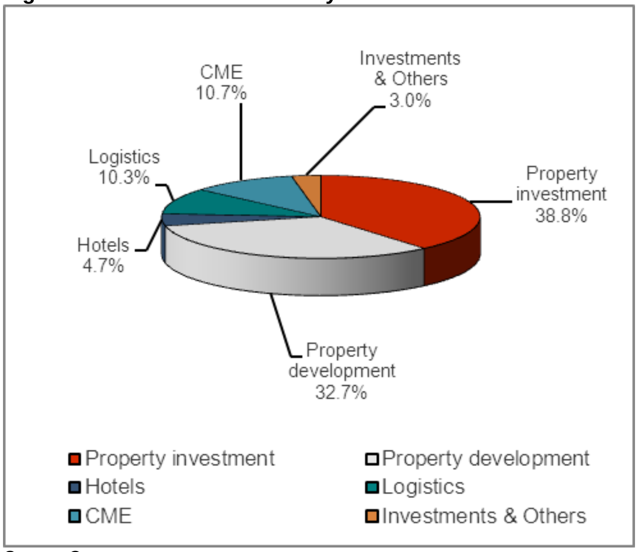
The Wharf (Holdings) Ltd

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	1H2014
Income statement (HK$ mn)			
Revenue	30,856	31,887	16,315
EBITDA	15,600	14,725	7,522
EBIT	14,170	13,280	6,783
Gross interest expense	1,535	1,299	1,534
Profit before tax	52,579	34,460	13,795
Net income	47,263	29,380	11,701
Balance sheet (HK$ mn)			
Cash and equivalents	18,795	24,515	20,270
Total assets	368,998	415,052	415,048
Gross debt	74,420	82,587	80,056
Net debt	55,625	58,072	59,786
Total equity	256,906	284,255	290,520
Total capitalization	331,326	366,842	370,576
Net capitalization	312,531	342,327	350,306
Cash flow (HK$ mn)			
Funds from operations (FFO)	48,693	30,825	12,440
CFO	14,346	16,437	4,794
Capex & acquisitions	20,376	14,051	N/A
Dividends	4,117	5,691	N/A
Adjusted FOCF	-6,030	2,386	N/A
Disposals	2,049	763	N/A
Free Cash Flow (FCF)	-8,098	-2,542	N/A
Key ratios			
EBITDA margin (%)	50.6	46.2	46.1
Net margin (%)	153.2	92.1	71.7
Gross debt/EBITDA (x)	4.8	5.6	5.3
Net debt/EBITDA (x)	3.6	3.9	4.0
Gross debt/equity (x)	0.29	0.29	0.28
Net debt/equity (x)	0.22	0.20	0.21
Gross debt/total capitalization (%)	22.5	22.5	21.6
Net debt/net capitalization (%)	17.8	17.0	17.1
FCF/gross debt (%)	-10.9	-3.1	12.0
FFO/gross interest (x)	31.7	23.7	8.1
EBITDA/gross interest (x)	10.2	11.3	9.8

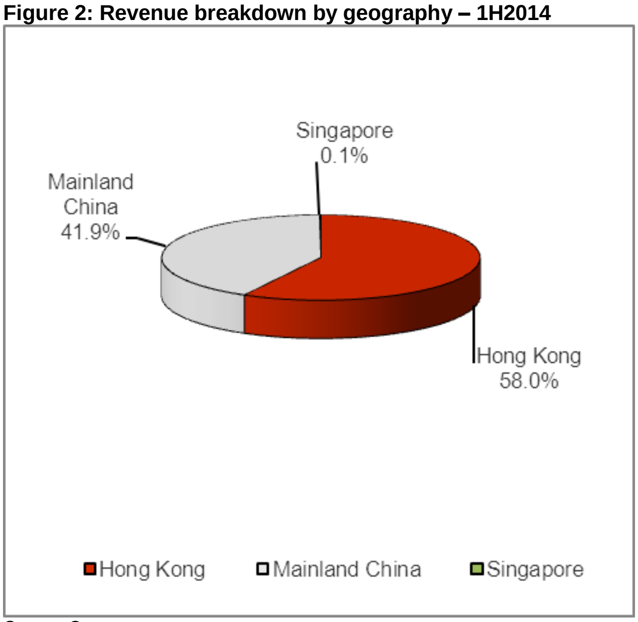
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – 1H2014



Source: Company

Figure 2: Revenue breakdown by geography – 1H2014



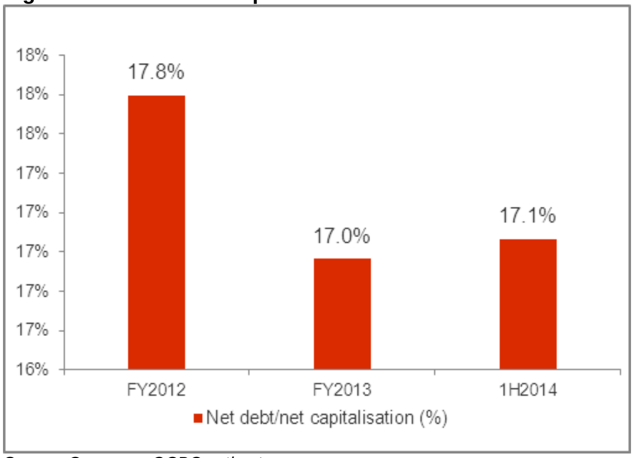
Source: Company

Figure 3: Debt maturity profile

Amounts in HK$ mn	As at 30/6/2014	% of debt
Amount repayable:		
Due in less than 1 year	4,029	5.0%
Due in between 1 - 5 years	65,549	81.9%
Due after 5 years	10,478	13.1%
Total debt	**80,056**	**100.0%**

Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Wheelock & Co Ltd

Credit Outlook – Wheelock's credit profile has stabilised after aggressive land acquisitions in Hong Kong led to a balance sheet expansion in 2013. WHEELK'21 (167 bps over swap) with a 29bps pick up over WHARF'21 (138bps spread over swap) represents a cheaper way to gain exposure to the Wharf complex for investors comfortable with duration exposure. Holding company discount is excessive at current levels considering Wheelock's strong ex-Wharf operations.

Overweight

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 55.1% of its principal subsidiary The Wharf (Holdings) Ltd ("Wharf"). While prime real estate is Wharf's strategic focus, mall management remains Wheelock's strategic differentiation. Together with Wheelock Properties Ltd ("WPL"), both companies generate a solid recurring dividend income for the Group.

Key credit considerations

- **Underlying profits weakened across all components y/y:** 1H2014 saw underlying profits (excludes investment property revaluation and mark-to-market gains / losses on swaps) decline 39.1% y/y for WPL, decline 9.5% y/y for Wharf and decline 78.4% for WPSL. For the period, Wheelock generated a total underlying profit of HK$3.5bn, a decline of 25.5% y/y. Wharf remains the largest contributor to performance, contributing 75% of group's underlying profits. Net profit fell 29.2% to HK$7.7bn (1H2013: HK$10.8bn) mainly due to a lower investment property revaluation gain (net of deferred tax and non-controlling interests) of HK$3.7bn compared to HK$5.7bn the prior period. It should be noted that net profit was supported by an exceptional gain of HK$509mn due to negative goodwill arising from the consolidation of HPL.

- **Rental income remains strong, though margins have compressed**: The investment property segment (which consists mainly of rental revenue) saw revenue growth of 18.8% y/y to HK$6.8bn (1H2013: HK$5.8bn). This was attributed to stronger sales performance by retail tenants and positive rental reversions for office leases. Revenue growth from mainland China was particularly strong at 57% (12% of segment revenues are attributed to mainland China) due to escalating revenues from the renovated Shanghai Times Square and the newly opened Chengdu IFS (virtually fully leased). Operating margins for the segment compressed 160bps to 82.9% due to the shift in revenue mix to mainland China (which offers lower operating margins compared to Hong Kong). It should be noted that in August 2014 WPL sold Crawford House to Wharf for HK$5.8bn.

- **Development property segment stable, with contracted property sales offering visibility**: The development property segment's revenue was flat at HK$6.9bn (1H2013: HK$ 6.9bn). Decline in revenue contribution in Hong Kong (-15%) was offset by gains from mainland China (+5%). However, margins were hit as a result, with segment operating margin compressing 50bps to 23.4%. That said the future pipeline looks healthy with the Hong Kong segment booking HK$10.1bn in contracted property sales during 1H2014. The contributors were One Bay East – East Tower (contributing HK$5.4bn) and the Grand Austin (contributing HK$4.1bn). This brings the net order book to HK$19.5bn.

- **Pace of land acquisitions slowing, capital commitments declined**: Compared to 2013, when the group spent HK$11.7bn building up its land bank, Wheelock won a tender worth HK$2.5bn for 413,000 square feet site in Kai Tak (situated in the heart of Kowloon) during the period. Commitments to capital and development expenditure have also declined from HK$100.3bn (at the end of FY2013) to HK$93.4bn at the end of the period. We believe that this is prudent given Hong Kong's softening real estate market.

- **Credit metrics have stabilized, with the maturity wall occurring in 2017:** Though net gearing has increased 2pp to 0.32x, net debt-to-EBITDA has fallen from 5.8x to 5.7x. Wheelock's standalone net gearing ended the period at 23.7%, below the management's comfort level of 25%. We believe that Wheelock's maturity profile remains manageable in the near future, with ~HK$9bn in loans due in 2015 and ~HK$8bn in loans and bond due in 2016. In comparison, Wheelock has ~HK$24bn in cash at the end of the period. The challenge comes in 2017, when the group has ~HK$28bn due.

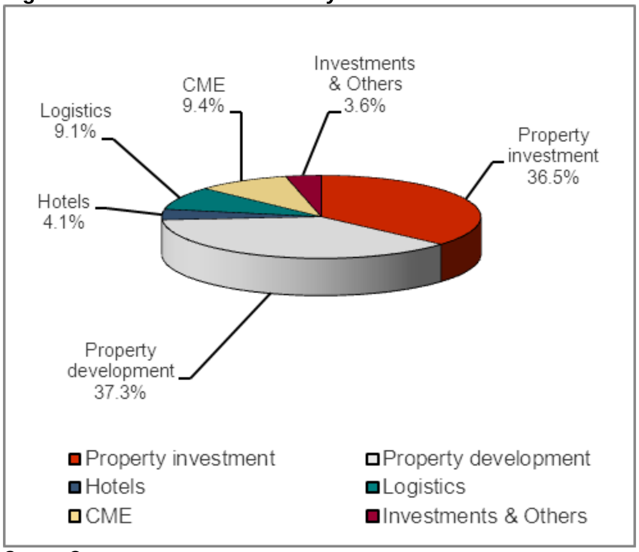
Wheelock & Co Ltd

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	1H2014
Income statement (HK$ mn)			
Revenue	33,124	35,071	18,474
EBITDA	17,006	16,390	8,982
EBIT	15,570	14,938	8,241
Gross interest expense	2,184	2,381	2,054
Profit Before Tax	55,703	36,557	15,678
Net profit	26,935	16,954	7,675
Balance Sheet (HK$'mn)			
Cash and bank deposits	30,016	29,345	23,757
Total assets	429,766	486,814	492,608
Gross debt	103,257	123,640	126,718
Net debt	73,241	94,295	102,961
Shareholders' equity	285,880	311,572	317,042
Total capitalization	389,137	435,212	443,760
Net capitalization	359,121	405,867	420,003
Cash Flow (HK$'mn)			
Funds from operations (FFO)	28,371	18,406	8,416
CFO	12,445	883	1,798
Capex and acquisitions	22,508	17,227	N/A
Dividend	3,902	5,572	N/A
Adjusted FOCF	-10,063	-16,344	N/A
Disposals	1,300	209	N/A
Free Cash Flow (FCF)	-12,665	-21,707	N/A
Key Ratios			
EBITDA margin (%)	51.3	46.7	48.6
Net margin (%)	81.3	48.3	41.5
Gross debt to EBITDA (x)	6.1	7.5	7.1
Net debt to EBITDA (x)	4.3	5.8	5.7
Gross Debt to Equity (x)	0.36	0.40	0.40
Net Debt to Equity (x)	0.26	0.30	0.32
Gross debt/total capitalisation (%)	26.5	28.4	28.6
Net debt/net capitalisation (%)	20.4	23.2	24.5
FCF/gross debt (%)	-12.3	-17.6	2.8
FFO/gross Interest (x)	13.0	7.7	4.1
EBITDA/Total Interest (x)	7.8	6.9	8.7

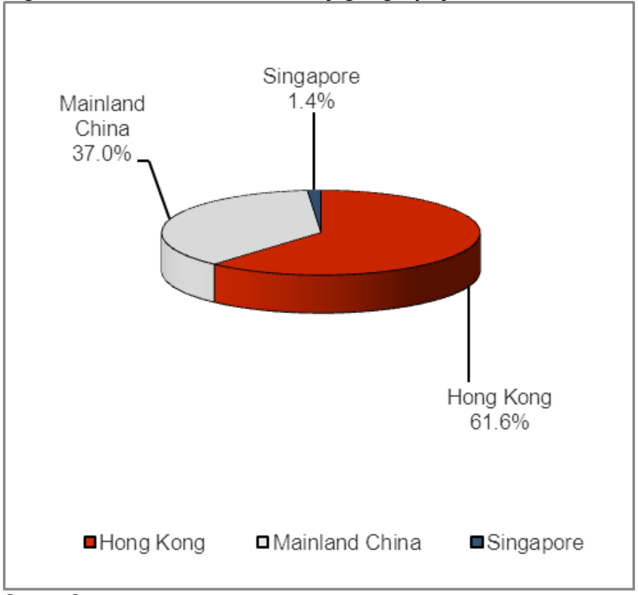
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – 1H2014



Source: Company

Figure 2: Revenue breakdown by geography – 1H2014



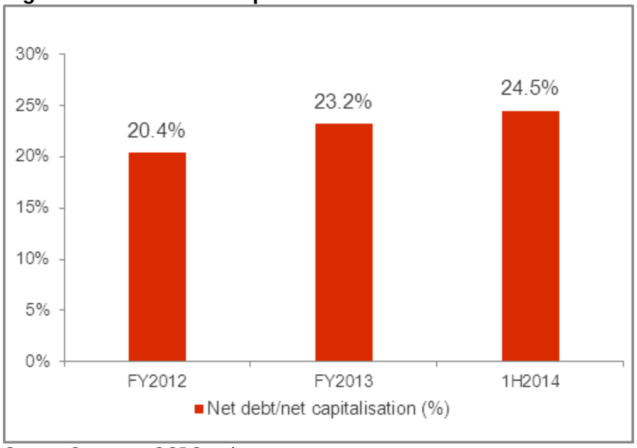
Source: Company

Figure 3: Debt maturity profile

Amounts in HK$ mn	As at 30/6/2014	% of debt
Amount repayable:		
Due in less than 1 year	6,465.0	5.1%
Due in between 1 - 5 years	106,413.0	84.0%
Due after 5 years	13,840.0	10.9%
Total debt	**126,718.0**	**100.0%**

Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – We continue to like WINGTA's low gearing levels and flexible financial position, which enable it to overcome the near term challenges in Singapore residential market. We think WINGTA's complex offers value (~140bps over swap for short dated papers like WINGTA'16 and '18, and ~200bps over swap for long dated papers like WINGTA'22-'24), taking into account its strong credit metrics.

Overweight

S&P: Not rated

Moody's: Not rated

Fitch: Not rated

Ticker: **WINGTA**

Company profile

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. The group's Chairman Mr. Cheng Wai Keung owns a 50.3% stake in WINGTA.

Wing Tai Holdings Ltd

Key credit considerations

- **Slowing property sales hurt 1QFY2015 earnings:** WINGTA's revenue in 1QFY2015 was 28.2% lower y/y to S$160.1mn due to lower contributions from development properties. Progressive sales were recognized from The Tembusu, the additional units sold in Helios Residences in Singapore and The Lakeview in China. Meanwhile, net profit was relatively flat at S$24.2mn (-1.4% y/y) as lower property sales were partly mitigated by higher share of operating profit from Wing Tai Properties Ltd in Hong Kong and S$21.2mn gain from the sale of shares in a property subsidiary in Indonesia.

- **Headwinds remain for Singapore's property market:** Management expects the operating environment in Singapore's property market to remain difficult in FY2015. As such, sales of its high-end property developments such as Le Nouvel Ardmore at Ardmore Park and Nouvel 18 at Anderson Road will be affected.

- **Geographical diversification to buffer slowdown in Singapore's residential market:** WINGTA has a few overseas development projects in the pipeline and these should help the group to sustain earnings. In Malaysia, a condominium development in The Bandar Sunway is awaiting approval from the Malaysian Authorities with launch expected in 3Q2015. Le Nouvel KLCC is currently under construction and will be launched in 4Q2015. In Hong Kong, about 5 residential projects are targeted to be completed by 2016-2018. In China, construction is expected to commence in 4Q2014 for the prime residential land in Shanghai (Luodian New Town of Baoshan District) and should be launch ready in 1Q2016. Meanwhile, a mixed development project (office and commercial) in Shanghai Huangpu district will commence construction in 3Q2015 and scheduled to be completed by end-2018. Going forward, the group will continue to monitor these geographies closely and will increase its landbank when opportunities arise.

- **Recurring income streams from investment properties:** WINGTA's investment properties in commercial buildings and serviced residences (under the brand name of Lanson Place) across Singapore, China, Hong Kong and Malaysia contributed 47.2% of the group's EBIT in FY2014. Besides, these investment properties accounted for 34.0% of WINGTA's total assets in FY2014. As of end-FY2014, occupancy rates for WINGTA's commercial properties in Singapore (Winsland House I and Winsland House II), serviced residences in Singapore and Malaysia remained healthy at 86.0%, 72.0% and 79.0%, respectively. Meanwhile, we note that Wing Tai also has a sizeable retail segment with over 250 stores in Singapore and Malaysia, including well-known brands such as Adidas, G2000, Uniqlo and Yoshinoya.

- **Adequate liquidity and healthy balance sheet:** As of end-1QFY2015, WINGTA's cash position of S$860.7mn is sufficient to repay its short-term debt of S$142.5mn maturing in one year. Although EBITDA/gross interest has declined to 1.6x (FY2014: 4.2x), WINGTA's net gearing remains sound at 0.14x, below most developers under our coverage. While several development projects in the pipeline will increase funding needs for WINGTA going forward, the group should be able to tap the capital market when necessary given its low net gearing level.

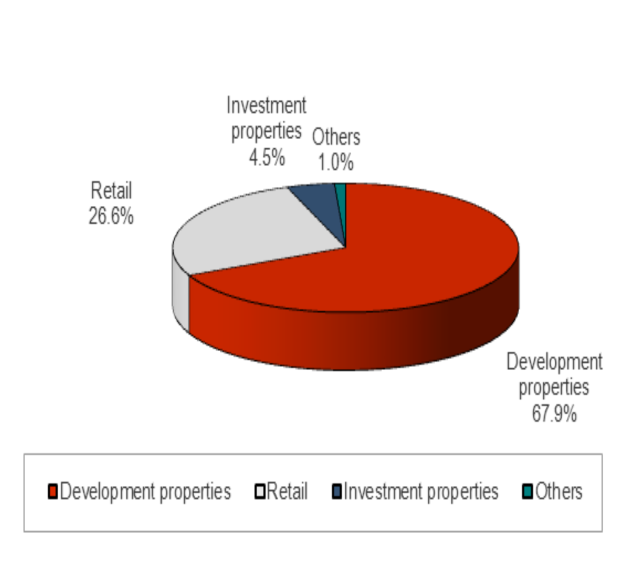
Wing Tai Holdings Ltd

Table 1: Summary financials

Year ended 30th June	FY2013	FY2014	1Q2015
Income statement (S$ mn)			
Revenue	1,332.5	803.4	160.1
EBITDA	376.4	169.0	17.8
EBIT	363.9	154.7	14.2
Gross interest expense	39.4	39.9	10.9
Profit Before Tax	690.8	312.5	39.7
Net profit	531.1	254.4	24.2
Balance sheet (S$ mn)			
Cash and bank deposits	1,024.5	834.8	860.7
Total assets	4,977.8	4,883.4	4,941.4
Gross debt	1,438.8	1,302.2	1,309.8
Net debt	414.3	467.5	449.1
Shareholders' equity	3,027.1	3,142.8	3,223.7
Total capitalization	4,465.9	4,445.0	4,533.5
Net capitalization	3,441.4	3,610.3	3,672.8
Cash flow (S$ mn)			
Funds from operations (FFO)	543.6	268.7	27.8
CFO	237.8	37.9	14.7
Capex and acquisitions	36.7	66.2	1.4
Dividend	112.3	124.1	0.0
Adjusted FOCF	201.2	-28.4	13.3
Disposals	5.5	59.7	27.4
Free Cash Flow (FCF)	94.4	-92.8	40.7
Key ratios			
EBITDA margin (%)	28.2	21.0	11.1
Net margin (%)	39.9	31.7	15.1
Gross debt to EBITDA (x)	3.8	7.7	18.4
Net debt to EBITDA (x)	1.1	2.8	6.3
Gross Debt to Equity (x)	0.48	0.41	0.41
Net Debt to Equity (x)	0.14	0.15	0.14
Gross debt/total capitalisation (%)	32.2	29.3	28.9
Net debt/net capitalisation (%)	12.0	12.9	12.2
FCF/gross debt (%)	6.6	-7.1	12.4
FFO/gross Interest (x)	13.8	6.7	2.5
EBITDA/Total Interest (x)	9.6	4.2	1.6

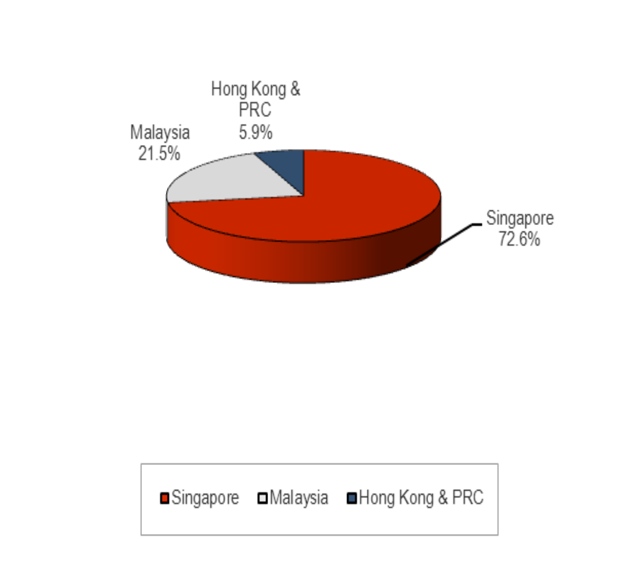
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – FY2014



Source: Company

Figure 2: Revenue breakdown by geography – FY2014



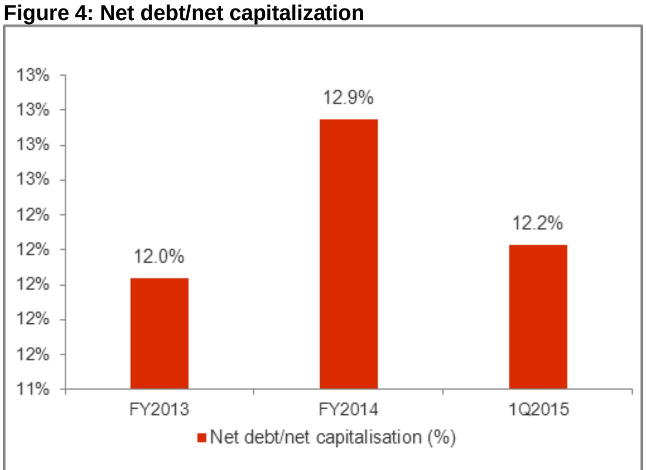
Source: Company

Figure 3: Debt maturity profile

(Amounts in S$ mn)	As at 30/09/2014	% of debt
Repayable in one year		
Secured	13.4	1.0%
Unsecured	129.0	9.9%
Sub-total	**142.5**	**10.9%**
Repayable after a year		
Secured	422.5	32.3%
Unsecured	744.8	56.9%
Sub-total	**1,167.3**	**89.1%**
Total	**1,309.8**	**100.0%**

Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Credit Outlook – While we are comfortable with WTP's leverage and liquidity positions, the company's credit profile is constrained by its small operating scale. WINGTA'22 at 217bps over swap looks fair value for long-dated exposure.

Neutral

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 34.6% owned by Wing Tai Holdings Ltd and 13.7%-owned by Sun Hung Kai Properties Ltd.

Wing Tai Properties Ltd

Key credit considerations

- **Solid 1H2014 results:** WTP reported solid 1H2014 results with revenue up 281% to HK$1.32bn from HK$346m in 1H2013 and net profit up 55% to HK$1.6bn from HK$1.03bn, mainly driven by the recognition of pre-sold units of The Pierre. An increase in rental and property management income and higher fair value gains on the company's investment properties (1H2014: HK$1.35bn vs 1H2013: HK$826mn) also contributed to the increase in profits as WTP's commercial property portfolio recorded strong growth in rental reversions and recurring income. EBITDA generated increased 140% y/y to HK$400mn. WTP won a tender for a prime residential site in Shau Kei Wan with gross floor area of 46,000 sq ft in April 2014 amid the government's policy to boost land supply. The company currently has seven development projects in the pipeline through 2018.

- **Rental income from investment properties provide an anchor to exposure to volatile earnings from property development in Hong Kong:** WTP's portfolio of investment properties comprising 1.5mn sq ft of Grade-A office buildings and 0.7mn sq ft of industrial building made up 73.3% of WTP's assets. Landmark East (90% of WTP's Grade A office space in Hong Kong) continued to benefit from increased demand in Kowloon East as tenants looked for cost saving alternatives. The office building achieved full occupancy as of 30th June 2014 with around 15% of leases renewed with rental reversions of 48%. Meanwhile the company's two industrial buildings had upward rental reversions of 27% with nearly full occupancies. While office leasing in Kowloon East continues to be characterized by intense competition for tenants, we feel that lower grade offices will bear the brunt of the downward pressure on rents with the Grade-A space relatively insulated but with flat to modest growth in 2015 due to relative lack of supply. In contrast, revenue from property development is expected to be relatively thin in 2H2014 and 2015 as only Upper Riverside in Shanghai is slated for completion in 2015 while WTP is expected to continue to sell down unsold units in its completed developments Seymour (96% sold), The Warren (78% sold), Providence Bay (61% sold), Providence Peak (81% sold) and The Graces (70% sold).

- **Credit profile improved in 1H2014:** Net gearing remained stable at 17% while net debt/EBITDA improved to 4.7x from 6.7x in 2013 on strong EBITDA generation despite an increase in net debt position. EBITDA interest coverage improved to 5.7x from 3.1x in 2013. Leverage and coverage ratios involving EBITDA should moderate for the full-year numbers on lower revenue recognition in 2H2014. We also note that WTP is exposed to interest rate risks via its HK$2.74bn of floating rate bank loans. The company has also pledged a substantial portion of its assets (HK$11.45bn, or 41.2% of total assets) to secure credit facilities.

- **Adequate liquidity:** WTP continues to enjoy good access to funding. The company drew down HK$100mn of seven-year bonds at 4.3% in August 2014 and listed a US$1bn medium term note program on the Hong Kong Stock Exchange in November 2014. Total cash and unutilized revolving facilities was HK$2.74bn as at June 2014, sufficient to cover HK$1.21bn of short term debt and HK$409.8mn of capital commitments.

- **Overhang from bribery trial removed:** An element of uncertainty has been removed with the conclusion of the graft trial of Sun Hung Kai Properties Ltd's (owns 13.7% of WTP) Kwok brothers. Raymond Kwok, who is also non-Executive Director of WTP was acquitted of all charges while Thomas Kwok who is not linked to WTP was sentenced to 5 years in prison.

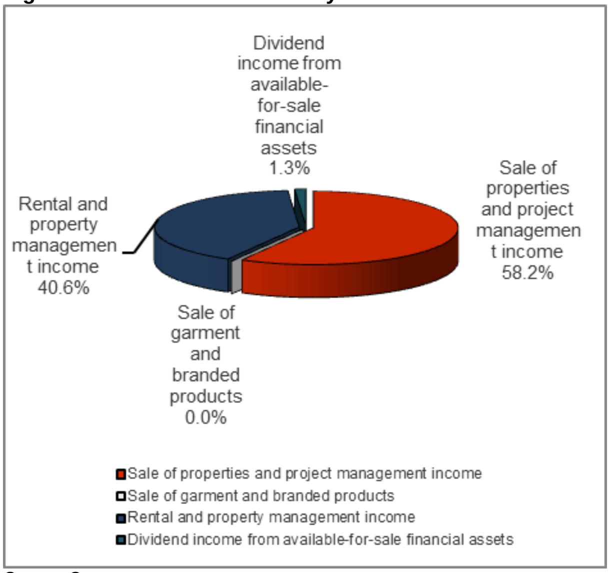
Wing Tai Properties Ltd

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	1H2014
Income statement (HK$ mn)			
Revenue	892	1,736	1,317
EBITDA	407	516	400
EBIT	382	496	393
Gross interest expense	105	167	71
Profit Before Tax	4,872	2,753	1,671
Net profit	4,737	2,661	1,601
Balance sheet (HK$ mn)			
Cash and bank deposits	1,080	1,242	585
Total assets	23,578	26,705	27,780
Gross debt	4,105	4,687	4,356
Net debt	3,025	3,445	3,770
Shareholders' equity	18,362	20,895	22,443
Total capitalization	22,466	25,582	26,799
Net capitalization	21,387	24,340	26,213
Cash flow (HK$ mn)			
Funds from operations (FFO)	4,762	2,681	1,608
CFO	364	401	-106
Capex and acquisitions	1,575	526	N/A
Dividend	101	181	56
Adjusted FOCF	-1,212	-125	N/A
Disposals	1,469	49	N/A
Free Cash Flow (FCF)	156	-257	N/A
Key ratios			
EBITDA margin (%)	45.7	29.7	30.4
Net margin (%)	531.2	153.3	121.6
Gross debt to EBITDA (x)	10.1	9.1	5.4
Net debt to EBITDA (x)	7.4	6.7	4.7
Gross Debt to Equity (x)	0.22	0.22	0.19
Net Debt to Equity (x)	0.16	0.16	0.17
Gross debt/total capitalisation (%)	18.3	18.3	16.3
Net debt/net capitalisation (%)	14.1	14.2	14.4
FCF/gross debt (%)	3.8	-5.5	-4.8
FFO/gross Interest (x)	45.2	16.1	22.7
EBITDA/Total Interest (x)	3.9	3.1	5.7

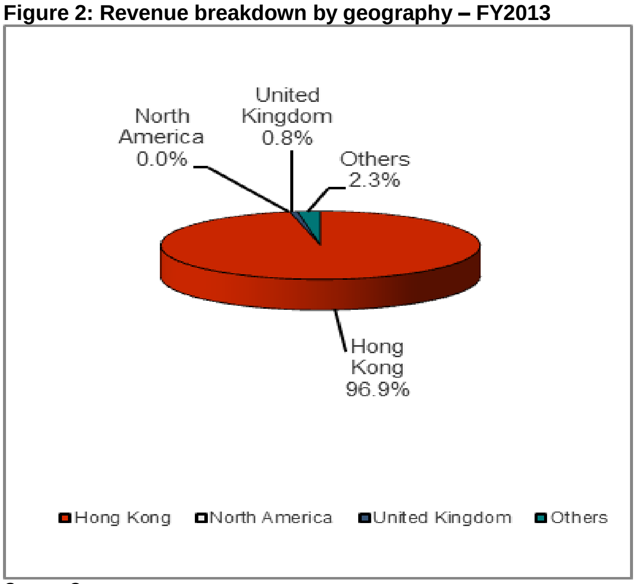
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by business – FY2013



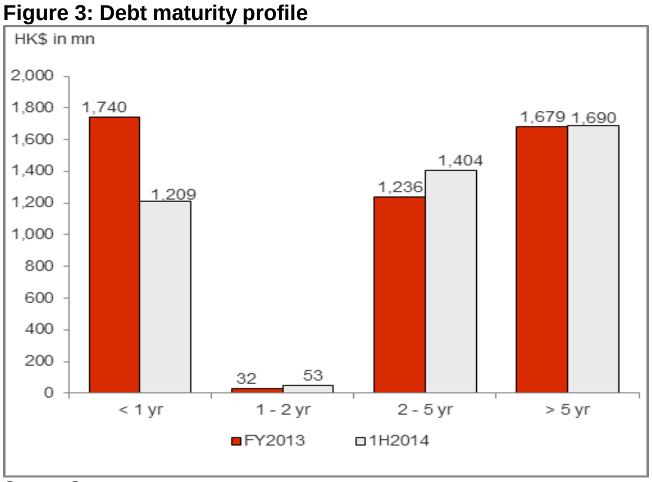
Source: Company

Figure 2: Revenue breakdown by geography – FY2013



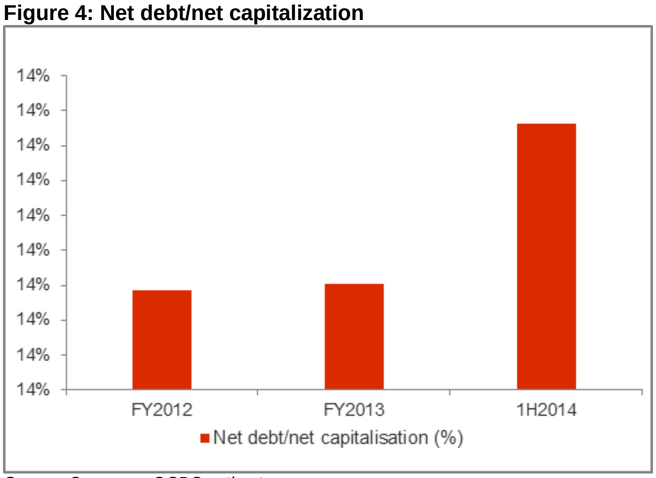
Source: Company

Figure 3: Debt maturity profile



Source: Company

Figure 4: Net debt/net capitalization



Source: Company, OCBC estimates

Yanlord Land Group Ltd

Key credit considerations

- **Slow sales and revenue recognition:** Following 2013's strong operating performance, Yanlord's contracted sales in 10M2014 disappointed, achieving only RMB7.66bn or 46% of its full-year sales target of RMB16.8bn. The year-to-date contracted sales performance has lagged the industry's run rate of 69% and the company is likely to miss its target even if a sales recovery is factored in as Yanlord typically launches more projects in the fourth quarter. Year-to-date revenue recognition has also been slow (9M2014: RMB4.25bn), down 35% y/y due to a back-ended delivery schedule and lower average selling prices.

- **High-end positioning could pose further challenges for sales in 2015:** Yanlord has a track record of developing premium residential properties in the Yangtze River Delta. However, the company's high-end positioning casts uncertainty over the prospects of a sales recovery in 2015. In addition, Yanlord's longer inventory turnover cycles could potentially expose the company to excess inventory risk. That said, we note that the PBOC's recent credit easing polices and rate cuts along with targeted HPR loosening in most cities should see Yanlord benefit from pent-up demand from upgraders in 2015.

- **Deterioration in credit profile on lower contracted sales and revenue recognition:** Yanlord's credit profile weakened significantly on the back of the company's weak revenue recognition. Net debt/EBITDA as of September 2014 spiked to 13.1x on poor EBITDA generation and operating cash outflows due to an increase in construction cost payments and land payments for Nanjing Eco Hi-tech island (RMB1.4bn) and a site in Suzhou (RMB1.4bn). As a result, the company's cash dwindled to RMB3.78bn as of September 2014 from RMB7.11bn as of end-2013. Net gearing also increased to 55% as of end-September 2014 from 40% in 2013. The rating agencies are cognizant of this and Standard & Poor's Ratings Services has downgraded the outlook on Yanlord's BB- senior unsecured rating to negative from stable. That said, we expect Yanlord's full-year leverage and coverage ratios involving EBITDA to moderate slightly.

- **Small and high quality land bank in prime locations:** In contrast to most peers with high asset turnovers, Yanlord has focused on high margins from a handful of projects. The company has 5.18mn sq m of high quality land bank in prime locations in first and second-tier cities in China which is nonetheless sufficient for development needs for the next five years.

- **Adequate liquidity with limited refinancing risks:** Short-term debt of RMB1.9bn is likely to be met with Yanlord's cash balance of RMB3.8bn. We like that the group does not have a heavy reliance on trust financing, and this is positive because i) cost of funding from banks are likely to be lower than the typical double-digit rates on trust loans and ii) on-balance sheet debt paints a better picture of Yanlord's leverage. Furthermore, the company has demonstrated its good access to both onshore and offshore debt capital markets.

- **Sizeable contingent liabilities partially mitigated by good track record in property development:** As of FY2013, Yanlord provided guarantees of ~RMB1.5bn to the mortgages loans of its customers, which could be a cause for concern if property prices were to decline. That said, Yanlord's management has reviewed and concluded that the likelihood of these guarantees being called by the banks given their customer's risk profile is low.

Credit Outlook – While we acknowledge YLG's quality land bank and track record in premium developments, we do not think current levels (YLLGSP'17: 5.64% mid yield, 441bps over swap) have priced in downgrade risks from the company's deteriorating credit profile. YLG's BB-rated peer CENCHI'17 (8.21% mid yield, 733bps over swap) looks better value for a 292bps spread pickup for similar tenor. We also note dislocations in value between YLG's SGD bonds which look rich vis-a-vis its USD curve.

Underweight

S&P: BB-/Negative

Moody's: Ba3/Stable

Fitch: Not rated

Ticker: **YLLGSP**

Company profile

Yanlord Land Group Ltd ("YLG") is a PRC real estate developer. Established in 1993, it focuses on the high-end residential, commercial and integrated property segments. It has a strong local brand and presence in (1) the Yangtze River Delta, (2) the Pearl River Delta, (3) Western China, (4) Bohai Rim and (5) Hainan Island. Listed on the SGX, it is 65.6% owned by Chairman and CEO Mr Zhong Seng Jian. YLG has a market capitalization of S$2.03bn as of 31st December 2014.

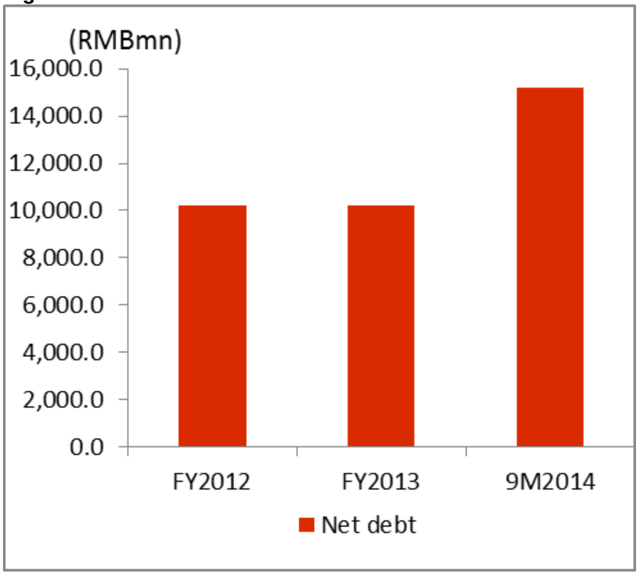
Yanlord Land Group Ltd

Table 1: Summary financials

Year ended 31st December	FY2012	FY2013	9M2014
Income statement (RMB mn)			
Revenue	10,301.9	11,280.1	4,249.0
EBITDA	3,187.1	3,260.3	869.8
EBIT	3,181.5	3,224.9	846.8
Gross interest expense	1,225.2	1,196.5	1,527.7
Profit before tax	4,137.0	3,738.0	918.7
Net income	2,451.8	2,092.1	461.9
Balance sheet (RMB mn)			
Cash and equivalents	3,540.6	7,082.0	3,781.6
Total assets	54,299.1	61,439.0	65,913.5
Gross debt	13,078.4	17,309.6	18,974.1
Net debt	9,537.9	10,227.5	15,192.5
Total equity	26,683.3	27,858.4	27,574.8
Total capitalization	39,761.7	45,167.9	46,548.9
Net capitalization	36,221.1	38,085.9	42,767.3
Cash flow (RMB mn)			
Funds from operations (FFO)	2,486.8	2,127.5	312.2
CFO	2,148.1	1,089.9	-3,714.8
Capex & acquisitions	160.6	416.9	309.2
Dividends	500.9	807.2	696.1
Adjusted FOCF	1,987.5	673.0	-4,024.0
Disposals	281.3	29.1	9.0
Free Cash Flow (FCF)	1,767.8	-105.1	-4,711.0
Key ratios			
EBITDA margin (%)	30.9	28.9	19.9
Net margin (%)	23.8	18.5	6.8
Gross debt/EBITDA (x)	4.1	5.3	16.4
Net debt/EBITDA (x)	3.0	3.1	13.1
Gross debt/equity (x)	0.49	0.62	0.69
Net debt/equity (x)	0.36	0.37	0.55
Gross debt/total capitalization (%)	34.4	38.3	40.8
Net debt/net capitalization (%)	28.0	26.8	35.5
FCF/gross debt (%)	12.8	1.3	-33.1
FFO/gross interest (x)	1.7	1.7	0.3
EBITDA/gross interest (x)	2.9	3.7	0.8

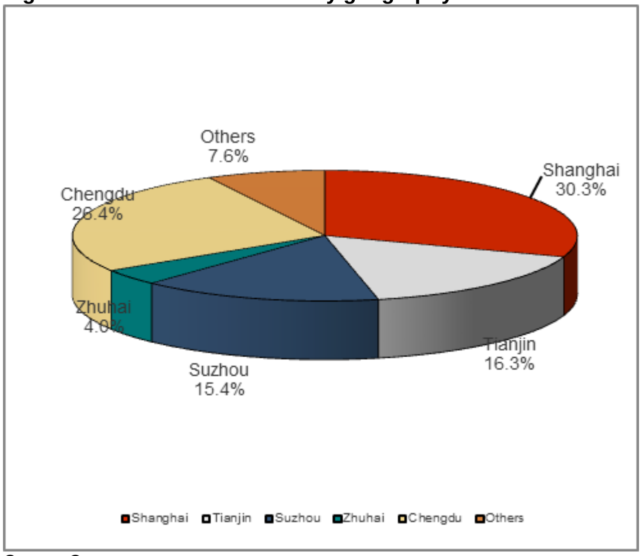
Source: Company, OCBC estimates

Figure 1: Net debt



Source: Company

Figure 2: Revenue breakdown by geography – 9M2014

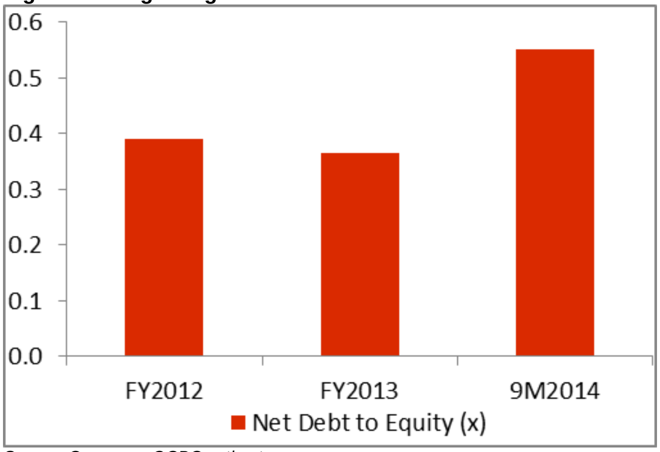


Source: Company

Figure 3: Debt maturity profile

(Amounts in RMB mn)	As at 30/09/2014	% of debt
Repayable in one year		
Secured	1012.5	5.31%
Unsecured	903.5	4.73%
Sub-total	**1916.0**	**10.04%**
Repayable after a year		
Secured	7082.1	37.11%
Unsecured	10086.7	52.85%
Sub-total	**17168.8**	**89.96%**
Total	**19084.8**	**100.00%**

Figure 4: Net gearing



Source: Company, OCBC estimates

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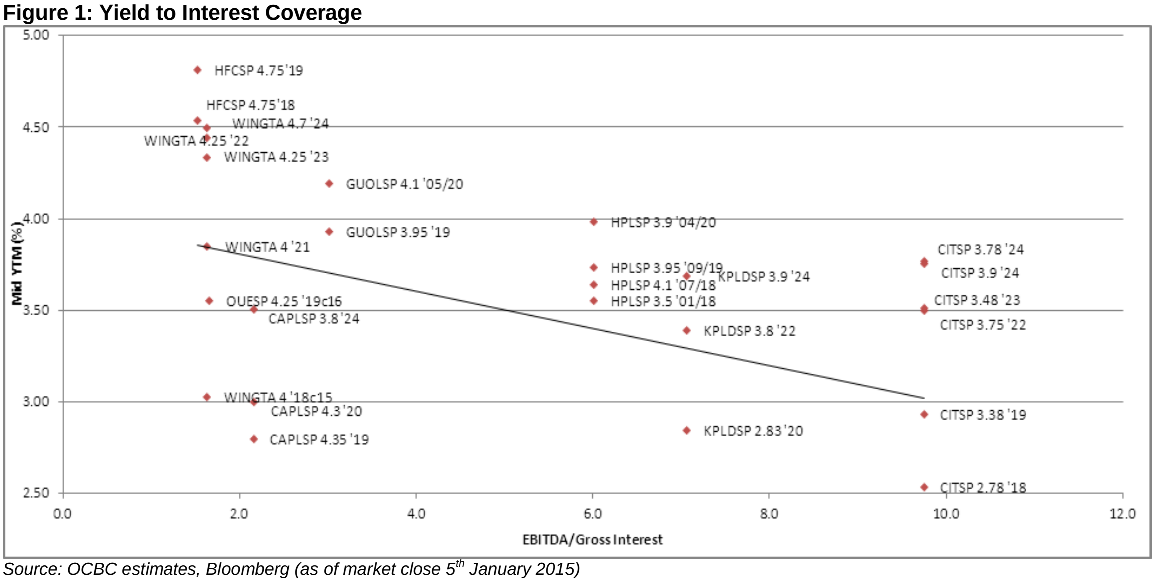
Appendix A – Relative Value Charts

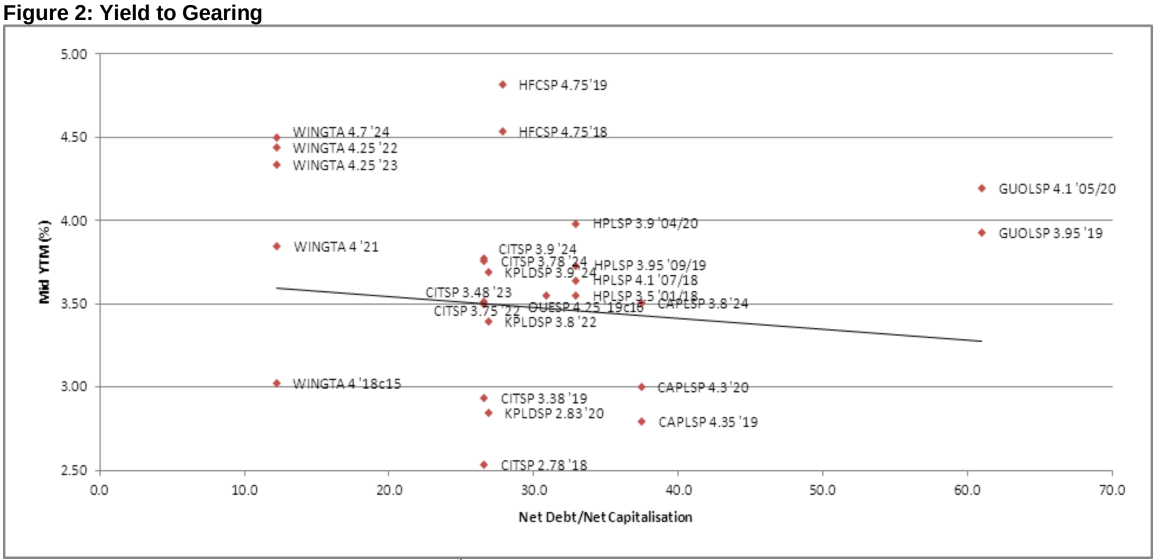
Singapore Property Developers (long-dated tenors)

Figure 1: Yield to Interest Coverage



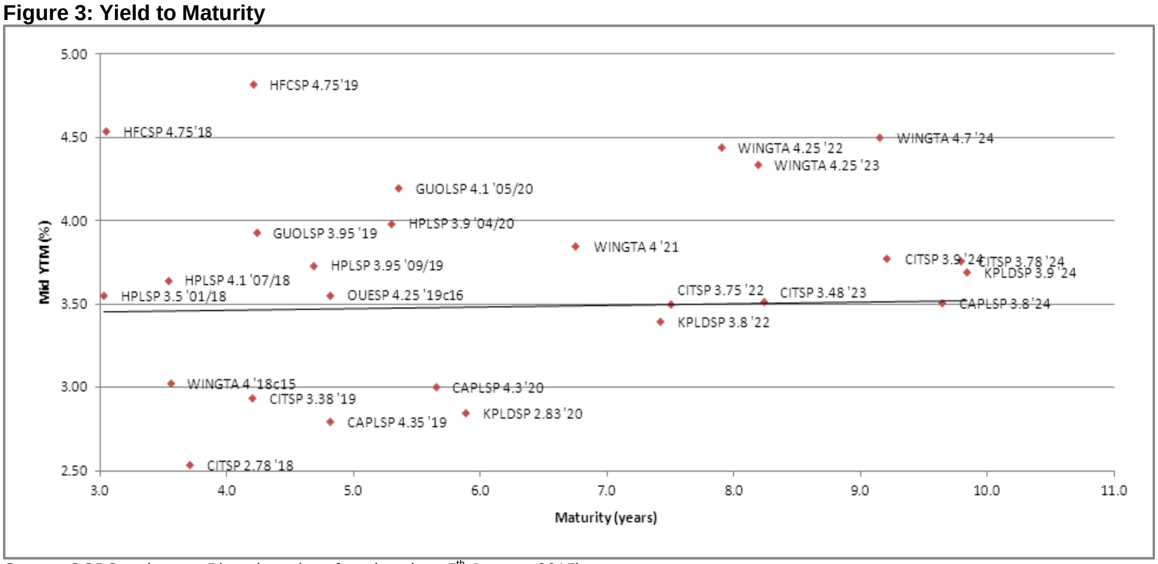
Source: OCBC estimates, Bloomberg (as of market close 5th January 2015)

Figure 2: Yield to Gearing



Source: OCBC estimates, Bloomberg (as of market close 5th January 2015)

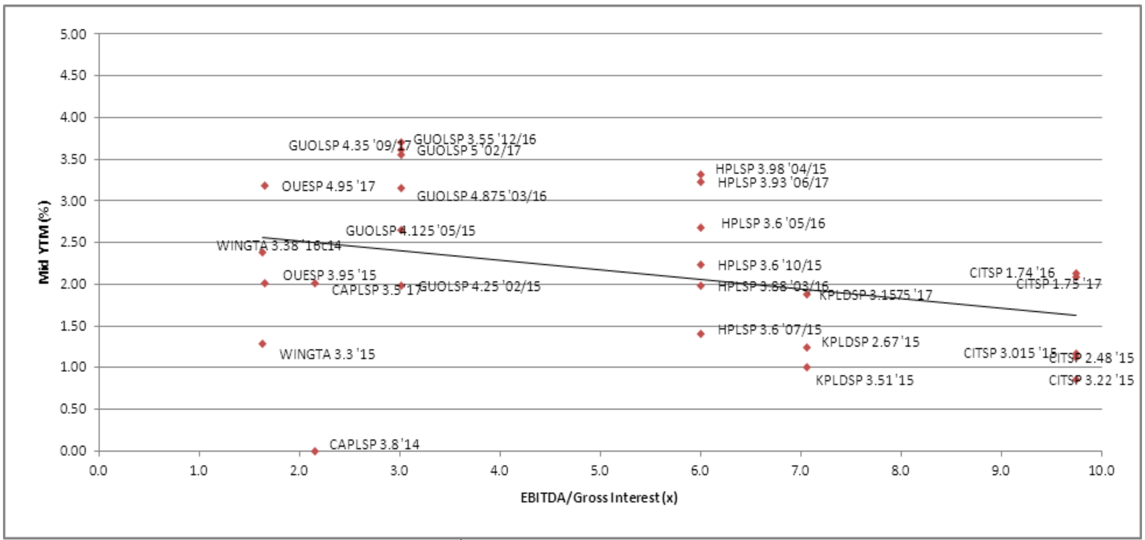
Figure 3: Yield to Maturity



Source: OCBC estimates, Bloomberg (as of market close 5th January 2015)

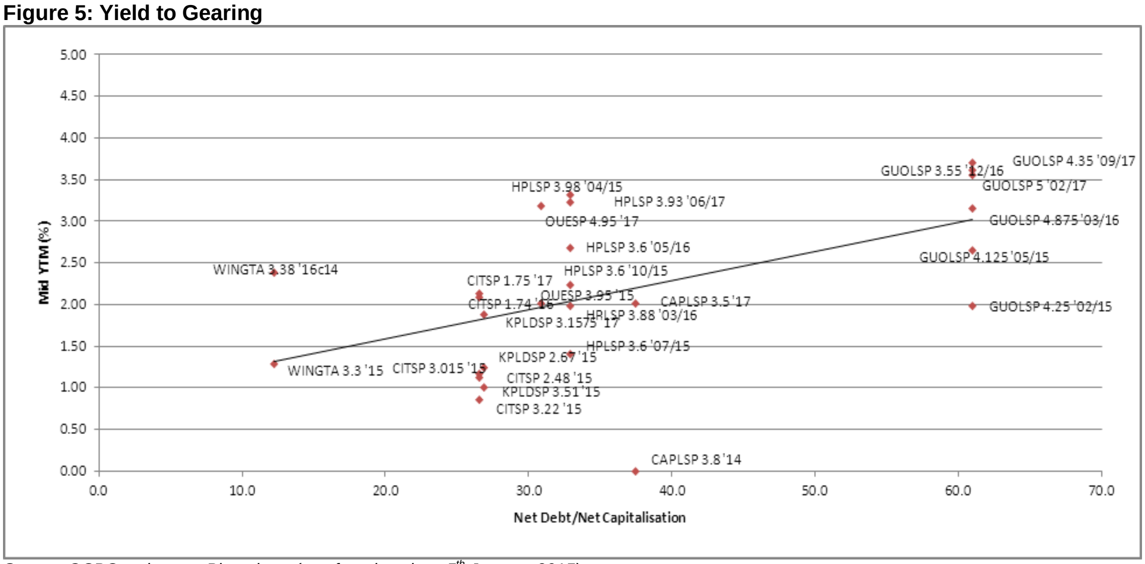
Singapore Property Developers (short-dated tenors)

Figure 4: Yield to Interest Coverage



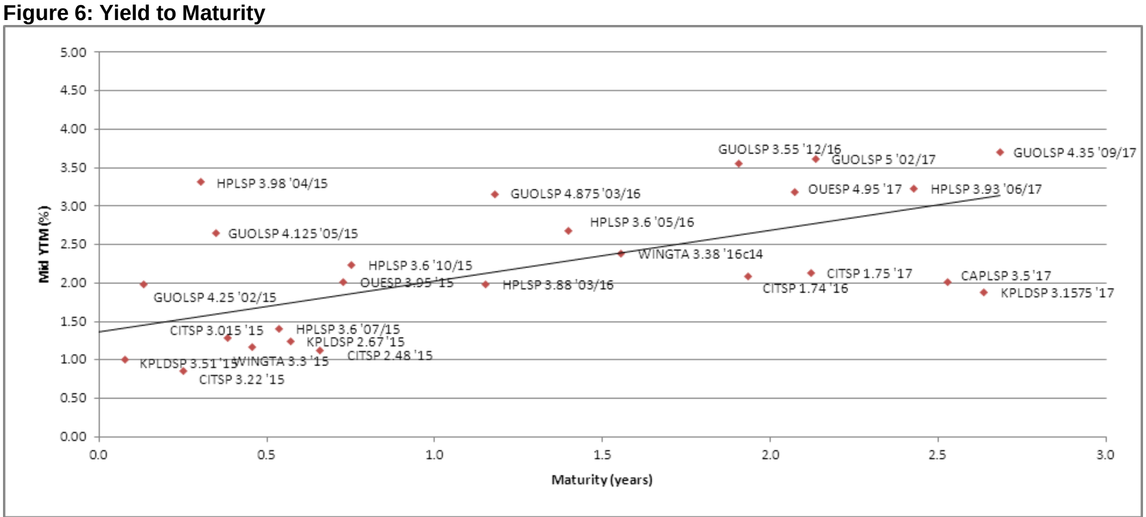
Source: OCBC estimates, Bloomberg (as of market close 5th January 2015)

Figure 5: Yield to Gearing



Source: OCBC estimates, Bloomberg (as of market close 5th January 2015)

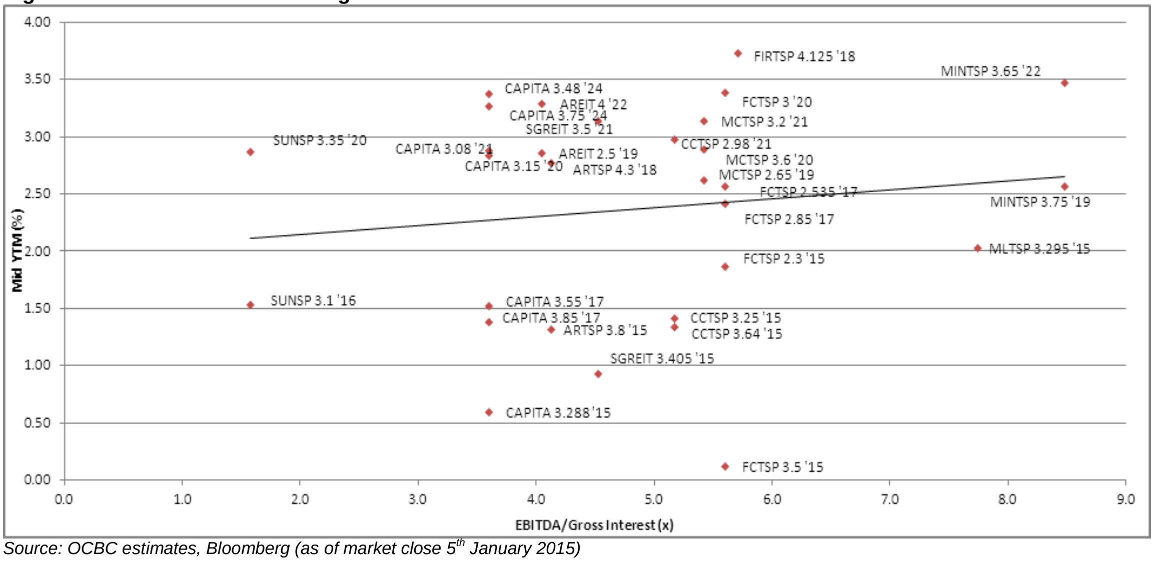
Figure 6: Yield to Maturity



Source: OCBC estimates, Bloomberg (as of market close 5th January 2015)

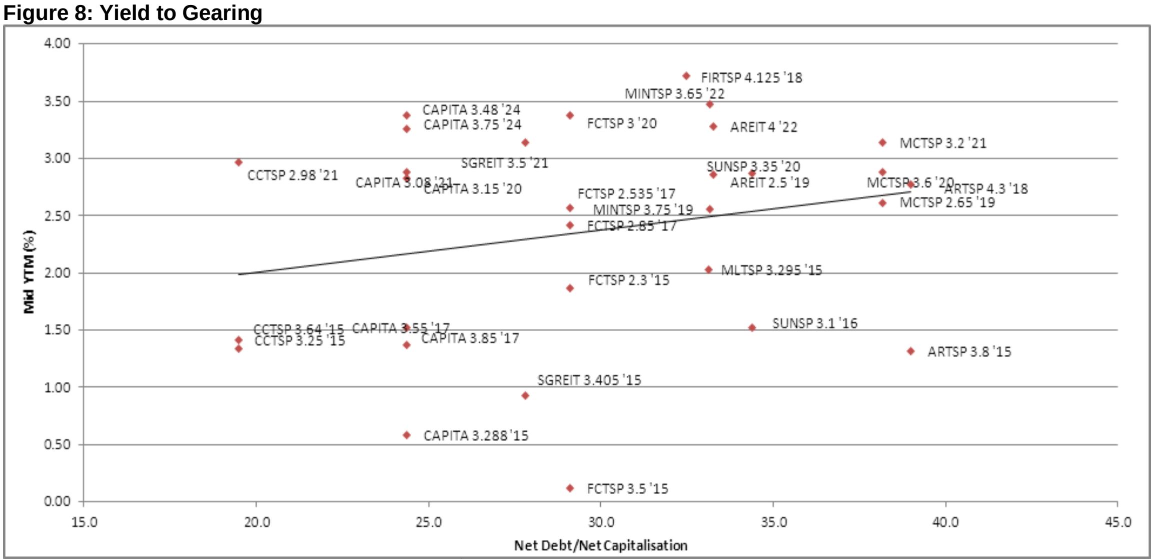
Singapore REITs

Figure 7: Yield to Interest Coverage



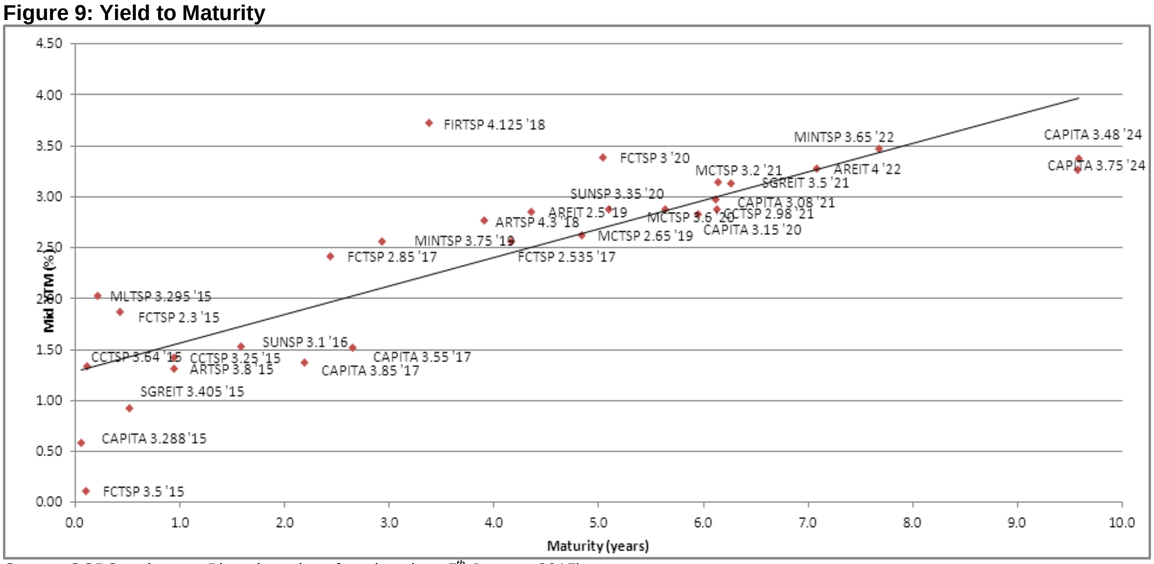
Source: OCBC estimates, Bloomberg (as of market close 5th January 2015)

Figure 8: Yield to Gearing



Source: OCBC estimates, Bloomberg (as of market close 5th January 2015)

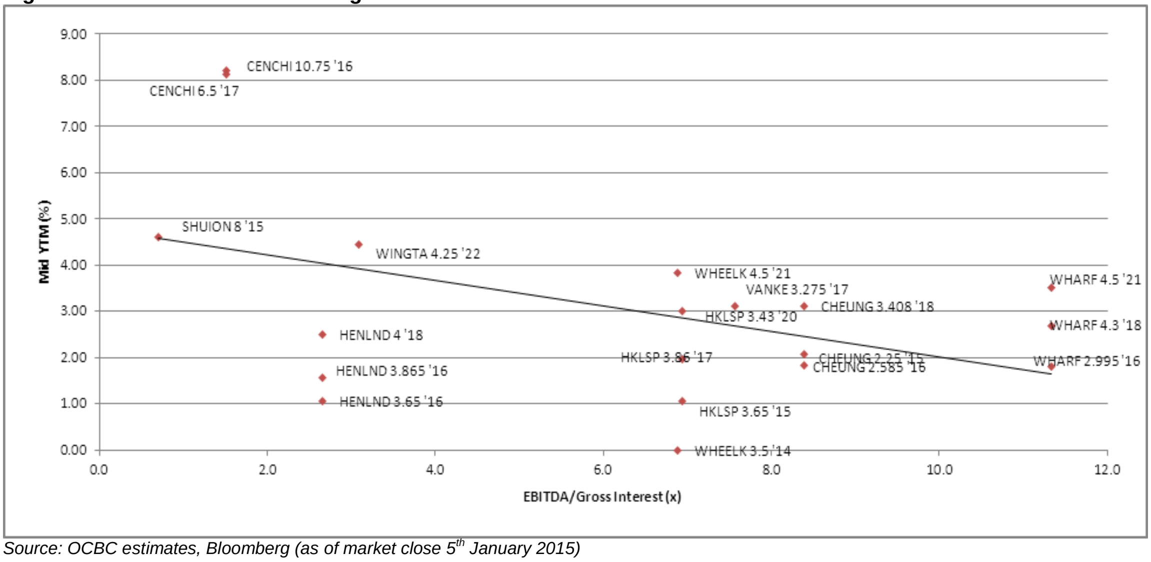
Figure 9: Yield to Maturity



Source: OCBC estimates, Bloomberg (as of market close 5th January 2015)

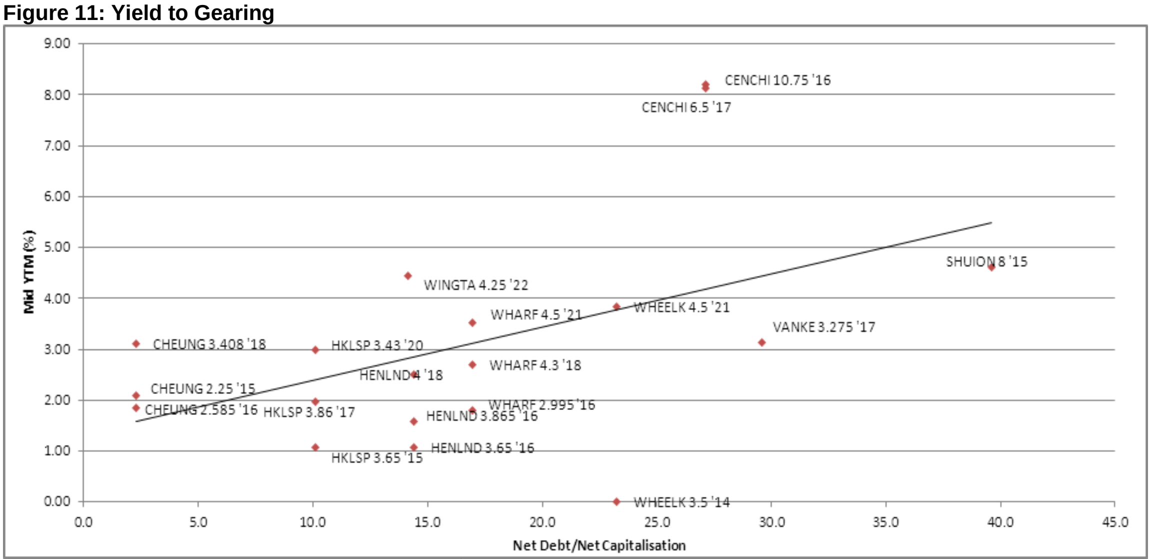
Hong Kong Property Developers

Figure 10: Yield to Interest Coverage



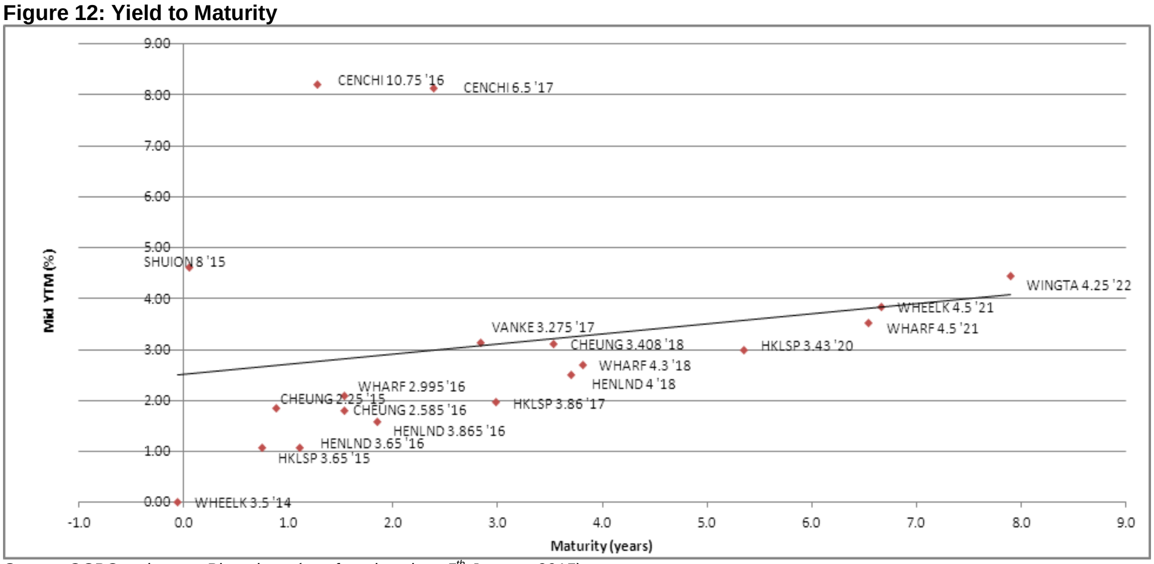
Source: OCBC estimates, Bloomberg (as of market close 5th January 2015)

Figure 11: Yield to Gearing



Source: OCBC estimates, Bloomberg (as of market close 5th January 2015)

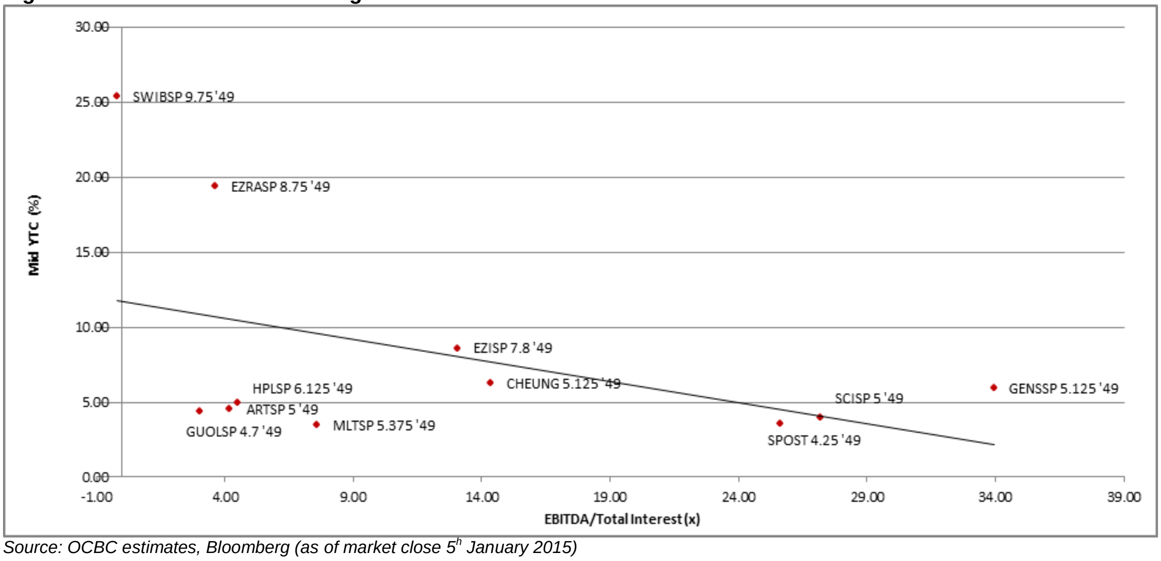
Figure 12: Yield to Maturity



Source: OCBC estimates, Bloomberg (as of market close 5th January 2015)

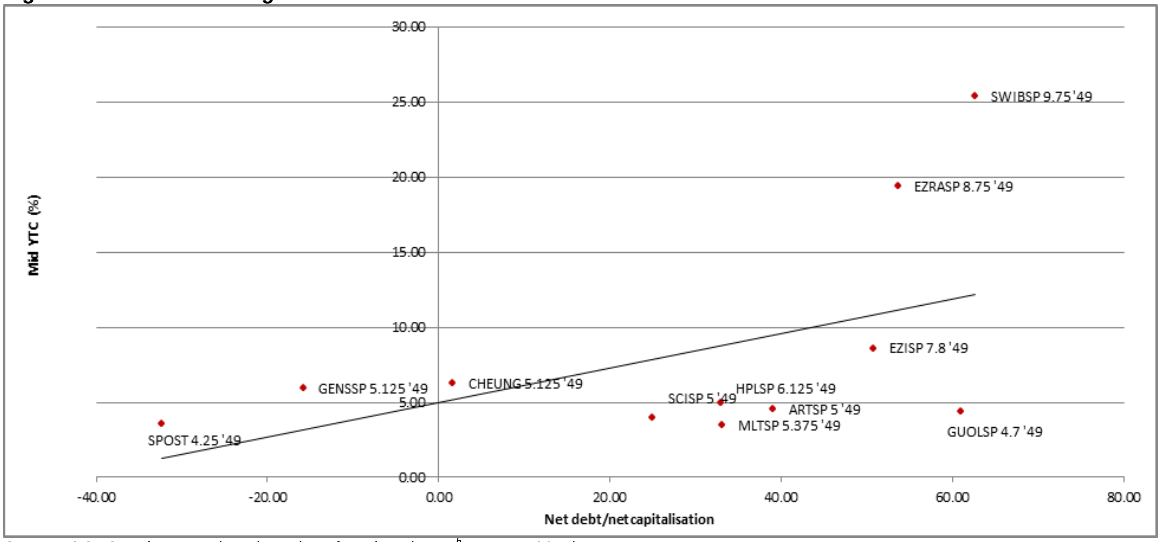
Singapore Corporate Perpetuals

Figure 13: Yield to Interest Coverage



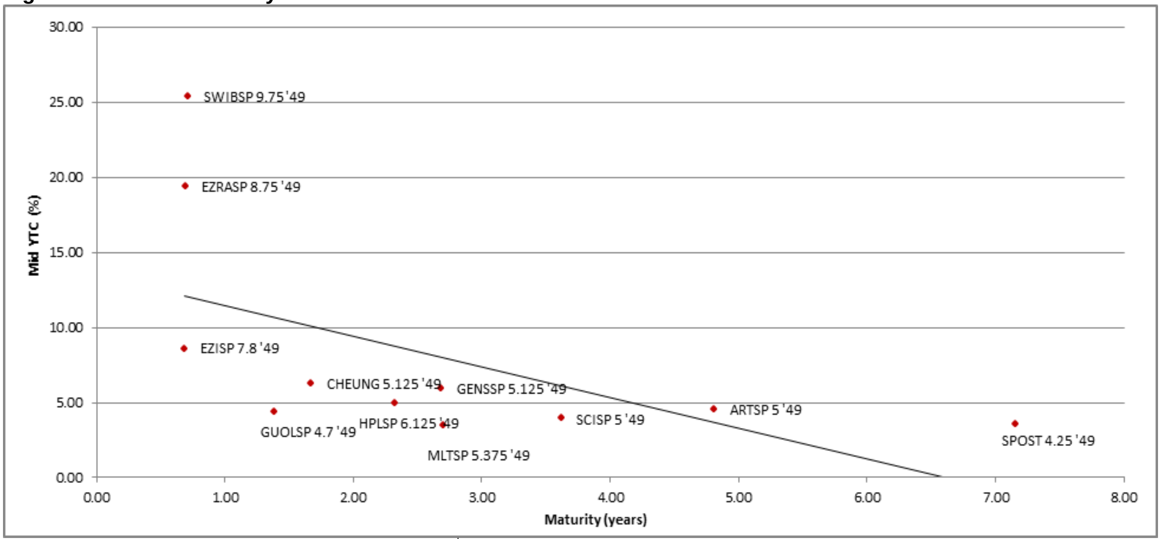
Source: OCBC estimates, Bloomberg (as of market close 5h January 2015)

Figure 14: Yield to Gearing



Source: OCBC estimates, Bloomberg (as of market close 5h January 2015)

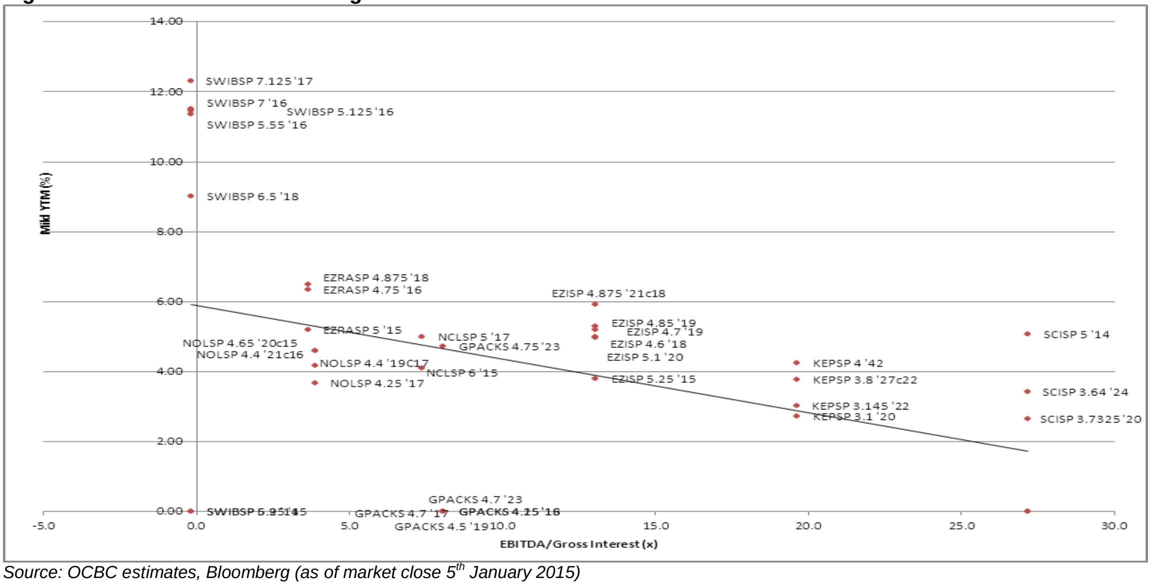
Figure 15: Yield to Maturity



Source: OCBC estimates, Bloomberg (as of market close 5h January 2015)

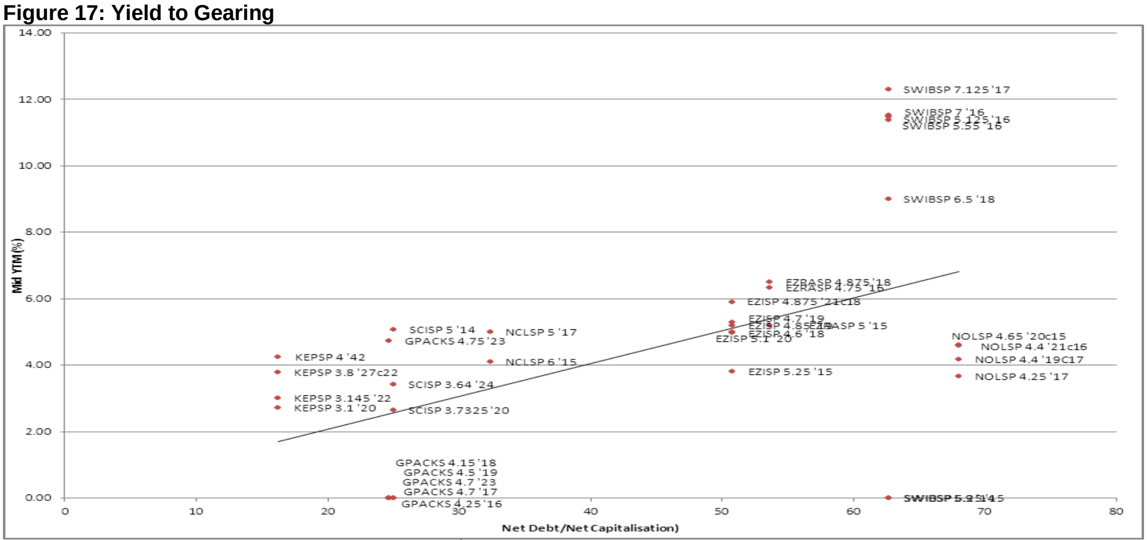
Offshore & Marine ("O&M")

Figure 16: Yield to Interest Coverage



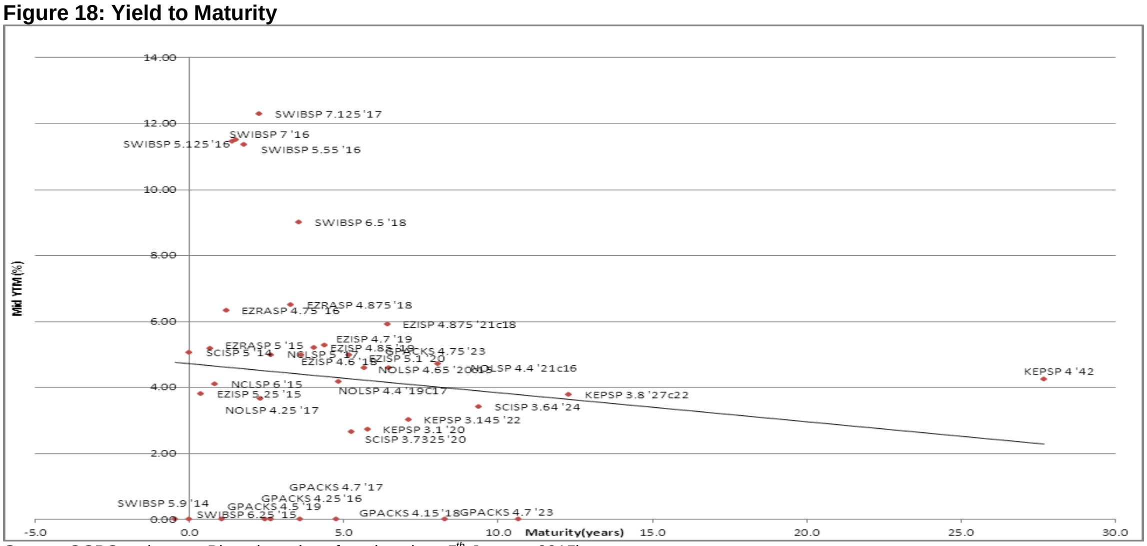
Source: OCBC estimates, Bloomberg (as of market close 5th January 2015)

Figure 17: Yield to Gearing



Source: OCBC estimates, Bloomberg (as of market close 5th January 2015)

Figure 18: Yield to Maturity



Source: OCBC estimates, Bloomberg (as of market close 5th January 2015)

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