Singapore Credit Outlook 2020

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- **2019 was a firm year for credit despite ongoing geopolitical noise and macro-economic concerns as strong end-investor liquidity, broadly constructive issuer performance and the pursuit of growth through acquisitions mixed with falling interest rates and still selective bank lending.**

- **This drove secondary bond prices up and incentivized both issuer and investor activity with primary market issuance recovering from a lull in 2018. SGD bond issuance volumes rose 11.9% y/y in 2019 as SGD credits concluded on a firm tone with no defaults and a larger aggregate issuance size.**

- **Issuance trends were broadly consistent with past years, although we continued to see an improvement in breadth of issuers in the SGD space with maiden issues from Singapore Press Holdings Limited, SPH REIT and Keppel Infrastructure Trust. We also saw a strong bid for duration given the fall in interest rates and the pursuit for yield with a significant shift towards longer tenor bonds and perpetuals.**

- **We enter 2020 at an interesting point in the credit cycle with fundamental and technical drivers delicately balanced in our view. On the one hand, end-investor liquidity remains high while the macro outlook remains supportive notwithstanding unresolved event risks. On the other hand, credit valuations remain stretched with technicals running ahead of fundamentals in our view. While the inter-play between rates and supply will be critical to credit market performance in 2020. we would not be surprised if market technicals prevail, leading to a further tightening in credit spreads.**

- **Following the harsher developments in 2019, Financial Institutions under our coverage are entering 2020 in a somewhat defensive mode. The operating environment is expected to remain challenging for the next 12 months while buffers within financial risk profiles have eroded. This has put more pressure on the business risk profile to uphold overall Financial Institutions credit profiles at current levels.**

- **Overall, we have observed REITs increasing their geographical footprint as well as into new property types in the past year. We think REITs will become more diversified in the coming 12-24 months, with REIT yield convergence by scale (rather than asset type) a key trend going forward.**

- **Within the office REIT sector, we see easing demand though narrowing supply providing support in the short term. Overall, growth in office rent is expected to soften. For retail REITs, growth is expected to remain broadly muted in 2020. We have yet to see the subdued supply spur growth in rents and prices of retail space. After a sanguine 2019, impending supply in the industrial space sector in 2020 is likely to weigh on rents and occupancy for industrial properties, exacerbating the oversupply situation. We expect Singapore hospitality assets to do well in 2020, although a weaker outlook in Australia may drag the performance of both Hospitality REITs under our coverage.**

- **Despite tighter property cooling measures and a heavier supply, URA private properties prices still eked out a small gain of 2.5% in 2019. In 2020, we expect prices to rise by mid-single digit, supported by an increasingly affluent aspirational society looking to upgrade to private property. Easing supply situation, higher rental rates and a benign economic outlook should also lend support to properties. That said, we think government regulations (if any) may again be a wildcard with Singapore General Elections on the horizon.**

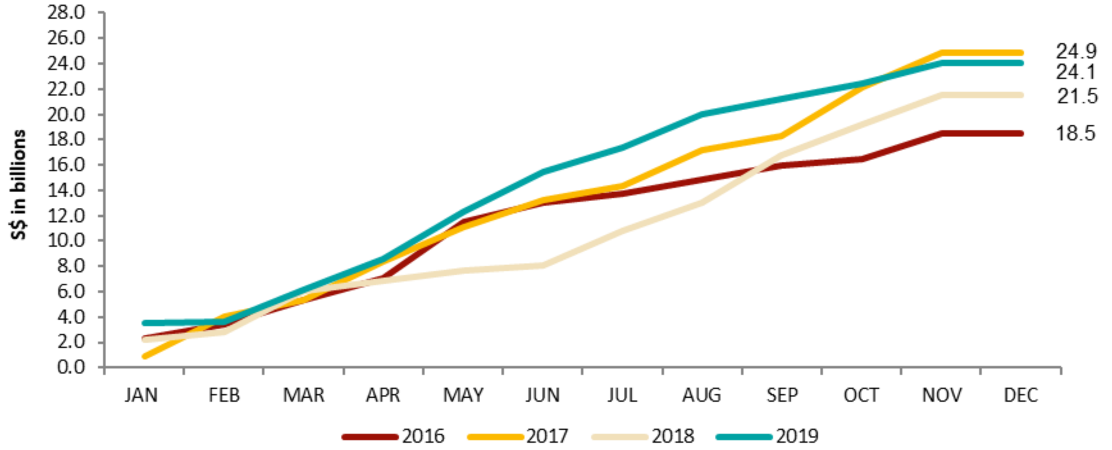
Contents

2019 Singapore Corporate Bond Market Review

<u>Stronger overall issuance volume y/y, with issuances volume up 11.9% y/y for 2019</u>

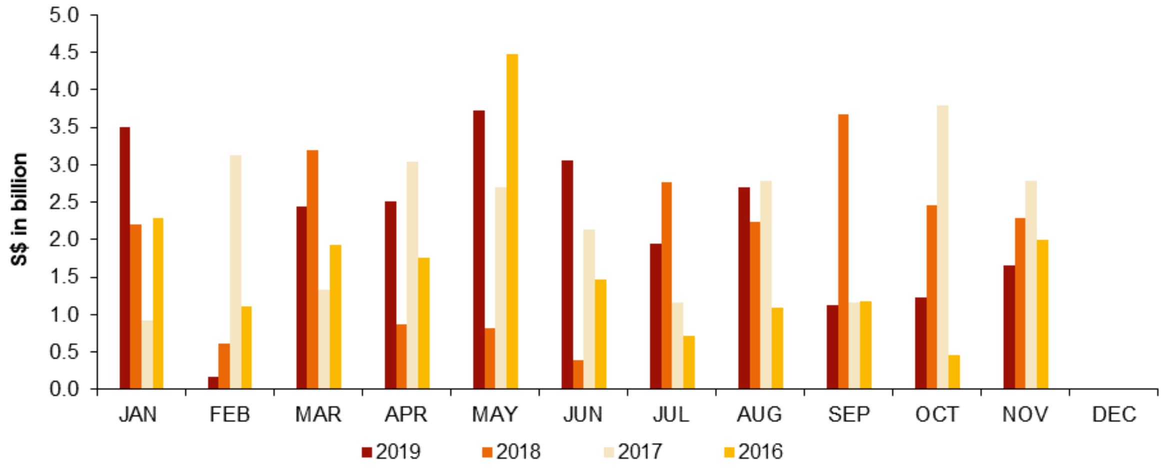
Total new issuances in 2019 (including those issued by the Housing Development Board ("HDB") and the Land Transport Authority ("LTA")) were 11.9% higher y/y at SGD24.1bn across 89 issues compared to the new issuance volume in 2018 of SGD21.5bn across 92 issues. The rise in issuances was mainly driven by the fall in costs of borrowing, with the US Federal Reserve cutting its benchmark rates by 25bps three times, bringing the Fed funds rate to a range of 1.5% to 1.75%. Real Estate names were the key contributor to the strong increase in issuances.

Figure 1: SGD bond issuances monthly volume (cumulative)



Source: Bloomberg, OCBC Credit Research

Figure 2: SGD bond issuances monthly volume by individual months (non-cumulative)



Source: Bloomberg, OCBC Credit Research

As mentioned in our Singapore Mid-Year 2019 Credit Outlook, the credit market got off to a stellar start in 2019. January alone saw the pricing of SGD3.5bn deals, the second highest month in 2019 after May which recorded SGD3.7bn. 2H2019 was comparatively quieter. In July, issuance activity took a breather following two busy months. Although issuance volume held up in August, events that took place over the month brought about a wonky September. President Trump upped the ante in the trade war, with additional tariffs on USD300bn in Chinese imports in the beginning of August causing spreads to widen as markets were overall more concerned over the fundamental implications of continued tensions over the real economy, including the indirect impact on economies beyond the US and China (e.g. export-dependent Germany). The Fed had also turned more dovish as a response to such risks. Furthermore, within Asia, HKSAR underwent social unrest and trade tensions between South Korea and Japan continued to persist. As a result, with all the risk events at bay, issuances in SGD in September slipped (from a record high in September 2018).

Despite the turbulent few months as uncertainties rose coupled with weaker global growth outlook, investors were encouraged by favourable macroeconomic events including (1) positive developments on the Sino-US trade war with agreement likely to be reached on 'Phase 1' of the trade deal, (2) optimism on Brexit as the EU is ready to grant a 3-month extension and (3) resumption by the Fed to expand the balance sheet (which the Fed refuses to recognize as Quantitative Easing). Overall, global risk sentiments appear to have improved significantly and fears of recession appears to be behind us with a sharp steepening of the yield curve in December 2019; the yield curve is no longer inverted as the 3M/10Y spread swung decisively back into the positive territory, which previously sank as low as negative 50bps in early September 2019.

SGD credits concluded on a firm tone in 2019 with no defaults and a larger aggregate issuance size. Seemingly, the positive tone is persisting into 2020. While the uncertainties are not completely in the rear view, we can possibly expect another strong January as issuers take advantage of this issuance window following a joyous year end with minimal negative news.

Government-linked issuers slow, otherwise issuance increased from most sectors

2019 saw a smaller number of issuances y/y from statutory boards and the government-linked sector, with a total issuance of SGD6.5bn across 8 issues (2018: 8.2bn across 14 issues). The LTA issued a total of SGD2.9bn across two issues in 1H2019, including the SGD1.5bn 40-year bond at 3.38% and the SGD1.4bn 35-year bond at 3.3%, although LTA did not come to the market with further issuances in 2H2019. These issuances were well received given LTA's high credit quality through its government affiliation, and the markets' strong appetite for quality papers as seen in 1H2019 despite LTA having already tapped the bond market significantly in 2018 (2018: SGD4.0bn over 5 issues). HDB's issuance volume was largely similar to 2018, with a total of SGD3.6bn issued across 6 issues this year (2018: SGD3.5bn across 6 issues). These issuances by LTA and HBD are aligned to the Singapore Budget 2019 statement announced in February, where development expenditure for both statutory boards was estimated to total SGD6.7bn. We could also see an increase in the number of bonds issued by statutory boards and government-linked names in 2020 due to Singapore's climate change push announced by Prime Minister Lee Hsien Loong during the National Day Rally address, with the Singapore Government considering the issuance of state bonds to partly fund the SGD100bn it could take to tackle rising sea levels over the next century.

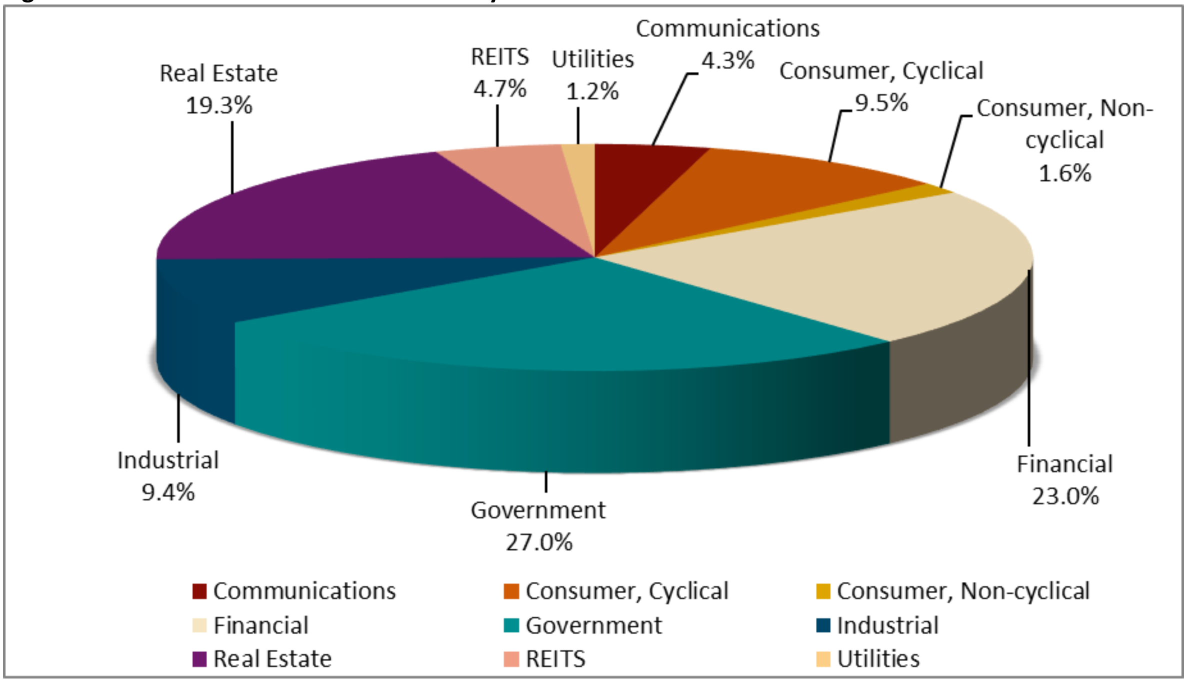
Most sectors also saw increased issuances, with the exception of REITs. It was a quiet year for REITs issuances, with both number of issues and total volume plunging by more than half y/y, to SGD1.125bn across 7 issues in 2019 (2018: SGD2.31bn across 16 issues). This is in part attributed to the strong equity outperformance by Singapore REITs, with YTD returns of around 19%, in contrast to the Straits Times Index's YTD performance of around 5%. The strong rise in REITs unit prices made it relatively cheaper for the REITs to fund their acquisitions using equity (specifically, right issues). 2019 saw the amount of equity offerings by REITs almost double from 2018, with a total amount of SGD6.2bn in equity offering announced. Ascendas REIT's SGD1.3bn rights issue is also the largest equity amount raised by a REIT in 2019. A still healthy bank loan market for REITs, including the rise of green and sustainability loans has also increased the funding options for this sector. Additionally, many of the REITs have already refinanced their maturing debts in 2018. Namely, Ascendas REIT, CapitaLand Retail China Trust, CCT MTN Pte Ltd, CMT MTN Pte Ltd, MapleTree Commercial Trust, Suntec REIT and FCOT Treasury Pte Ltd have all issued bonds last year. Issuances from Real Estate developers increased by about 91% y/y, with SGD4.65bn across 26 issues this year (2018: SGD2.43bn over 16 issues). Continued unrest in the region could continue to support demand for properties in Singapore, where demand has weakened since the implementation of property cooling measures in 2H2018.

Issuances from Financial Institutions slowed y/y to SGD5.40bn (2018: SGD6.3bn). Foreign banks such as UBS Group AG, Credit Suisse Group AG and Société Générale SA priced Additional Tier 1 papers to support bank capital requirements, along with BNP Paribas SA, Credit Agricole SA and Emirates NBD Bank all pricing Tier 2 bullets. Increasing pressure from regulators, alongside weaker interest margins from low interest rates will boost demand for capital instruments by banks. The higher yielding nature of these instruments also makes them attractive to investors.

2019 saw new corporate issuers tapping into the Singapore bond market, with maiden issues from Singapore Press Holdings Limited, SPH REIT and Keppel Infrastructure Trust, as well as foreign issuer Ford Motor Credit Co LLC. Metro Holdings Limited and Shangri-La Hotel Limited, which first issued in the Singapore bond market in 2018, returned with new issuances in 2019. This period also marked Singapore Technologies Telemedia's first return to the bond market since 2015. STT GDC Pte Ltd, a subsidiary of Singapore Technologies Telemedia, followed its parent with a maiden issue of SGD225mn 5-year bond at 3.59%. Chongqing Banan Economic Park Development & Construction

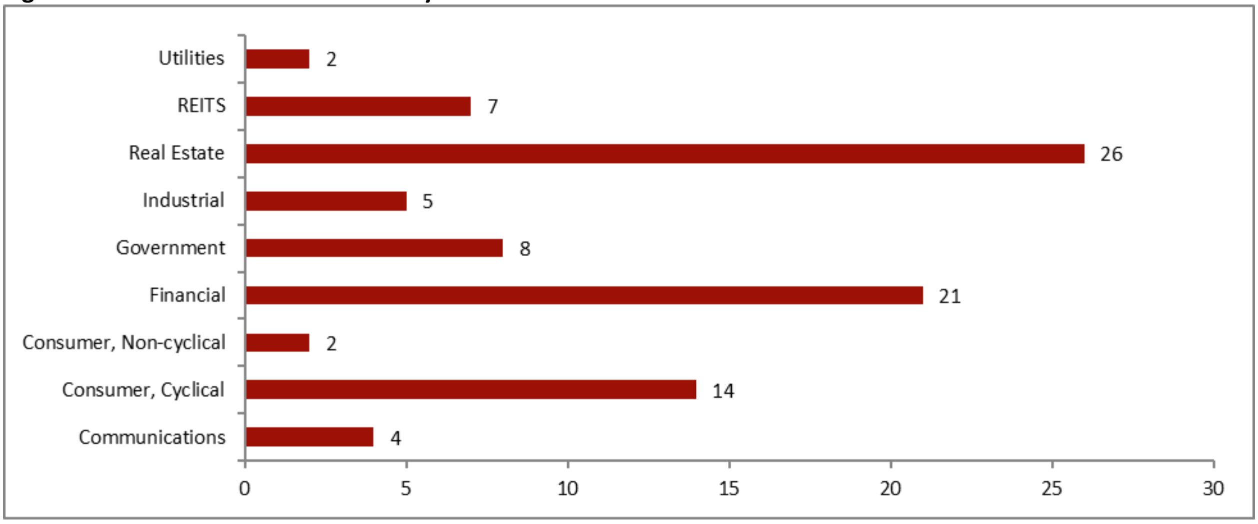
Company ("CQ Banan") made its debut in the international bond market with a SGD150mn 2-year bond at 4.35%. CQ Banan is just one in a wave of Chinese local government financing vehicles seeking refinancing for its maturing debts after China loosened its bond issuance regulations. However, several high profile defaults by Chinese names in 2019, such as Peking University Founder Group, might hurt investors' sentiment towards these companies. Even China's offshore market, which has largely been more insulated from defaults, has been showing signs of stress. Tewoo Group, a large state-owned commodities trader based in Tianjin, had trouble repaying its USD300mn bond due on 16 December. The company also missed coupon payments on the USD500mn bond, prompting ICBC Ltd (which issued a standby letter of credit on the note) to transfer USD7.88mn to the bondholders on its behalf. In November 2019, bondholders were invited to tender existing Tewoo bonds at a steep discount or exchange these for new bonds in a new issuer, in what is effectively a "distressed exchange". Reportedly at completion of offer in December 2019, 57% of Tewoo's USD bond investors (by value) had accepted the discount.

Figure 3: Breakdown of 2019 issuance size by sector



Source: Bloomberg, OCBC Credit Research

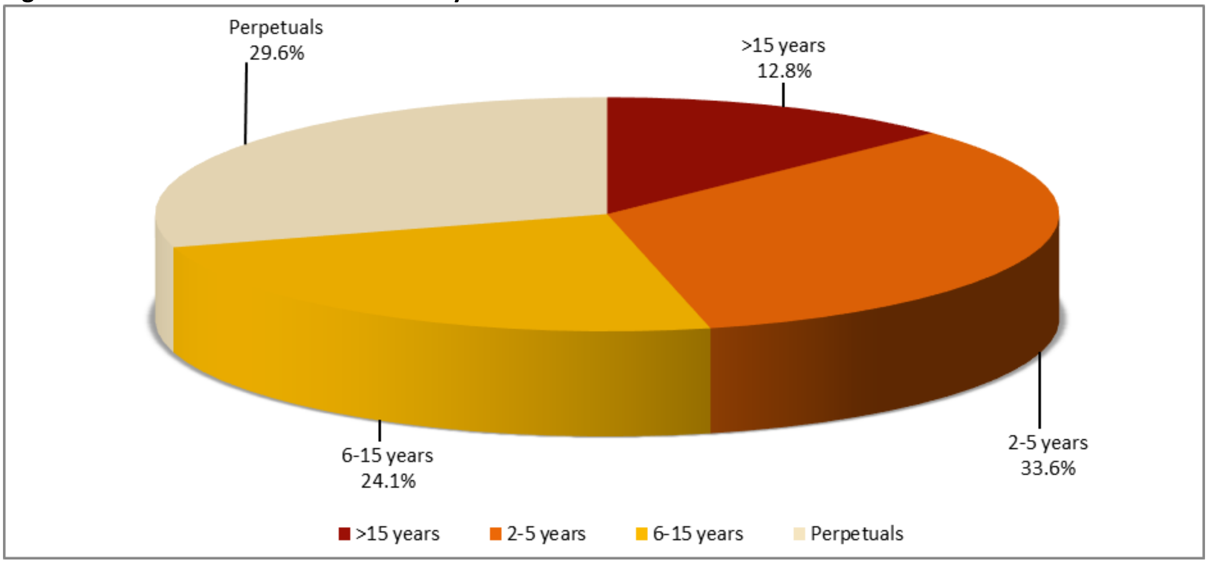
Figure 4: Breakdown of 2019 issuers by sectors



Source: Bloomberg, OCBC Credit Research

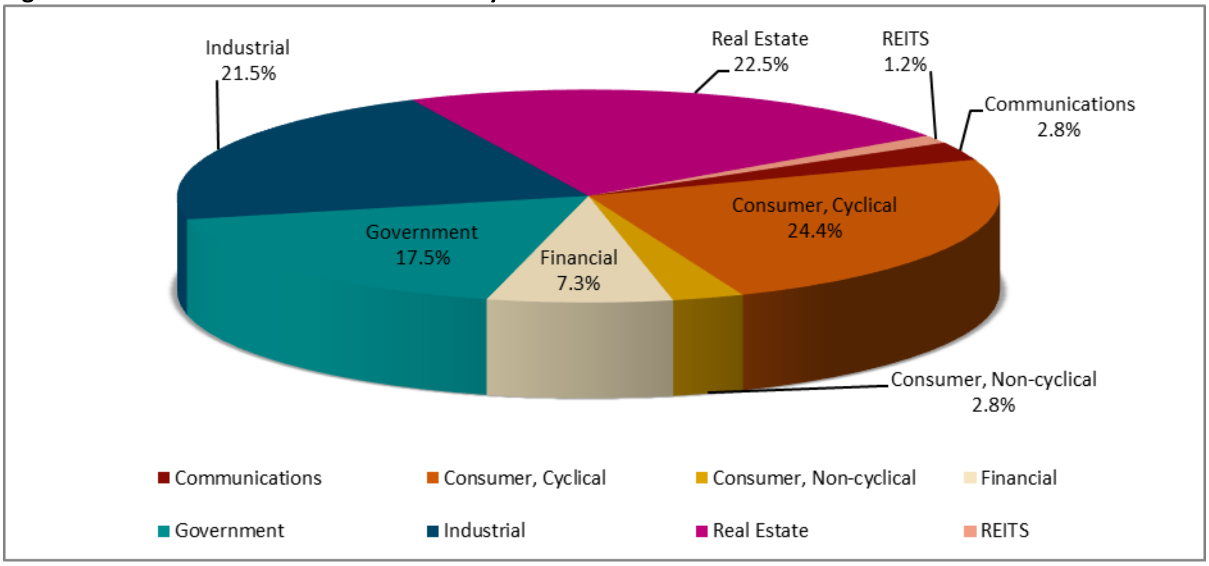
In 2019, we saw a significant shift towards longer tenor bonds, with issuances at the longer end of the curve (perpetuals and above 15 years) comprising 42.4% of total issuances. Short-dated issuances (2-5 years), which made up the largest proportion of issuances in 2018 (2018: 44.6%) in terms of tenor, was down to 33.6% of total issuances. This can be attributed to (1) a flatter yield curve which enabled issuers to tap the longer end of the curve without having to pay up much and (2) the low interest rates environment driving investors to buy longer-dated papers and perpetuals in search for higher yields, and issuers wanting to lock in the low rates for longer. Similar to 2018, longer dated tenor paper in the 6-15Y bucket continued to be driven by issues from government-linked entities. In all, 17 perpetuals were issued with a total issuance size of SGD7.1bn in 2019 (2018: 10 perpetual bonds; total issuance size of SGD4.6bn), from mostly REITS, Real Estate developers, and Financial Institutions issuing bank capital papers. Perpetual issuers from other sectors include Singapore Technologies Telemedia, Singapore Press Holdings Limited and Keppel Infrastructure Trust. In general, perpetual bonds saw better demand by yield-chasing investors due to its structurally higher-yielding nature.

Figure 5: Breakdown of 2019 issuances by tenor



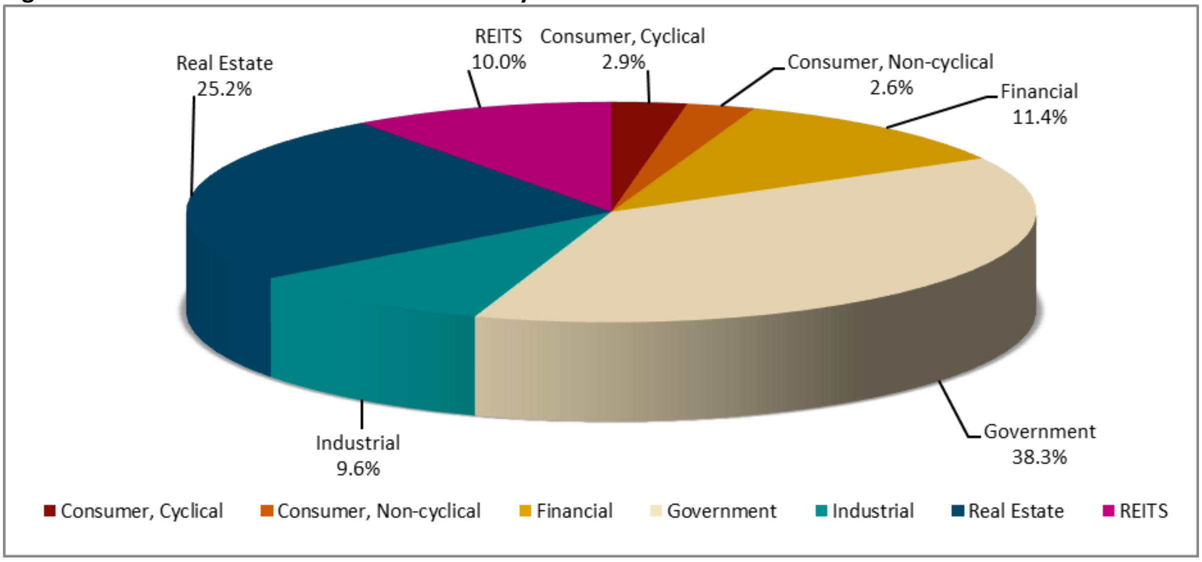
Source: Bloomberg, OCBC Credit Research

Figure 6: Breakdown of 2019 issuance size by sector for 2-5Y tenor



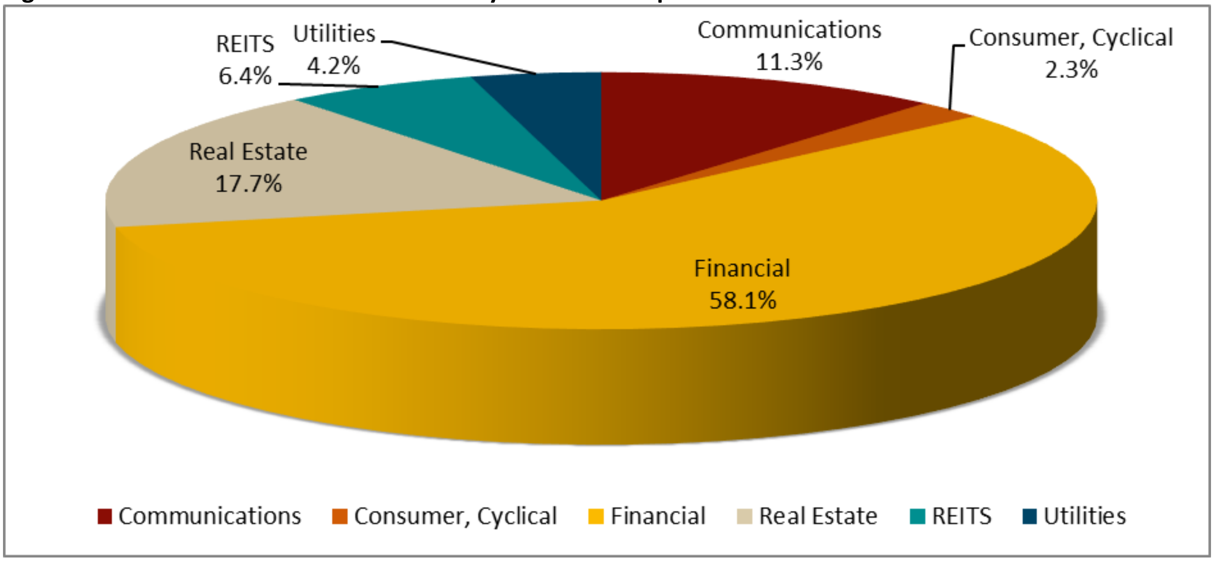
Source: Bloomberg, OCBC Credit Research

Figure 7: Breakdown of 1H2019 issuance size by sector for 6-15Y tenor



Source: Bloomberg, OCBC Credit Research

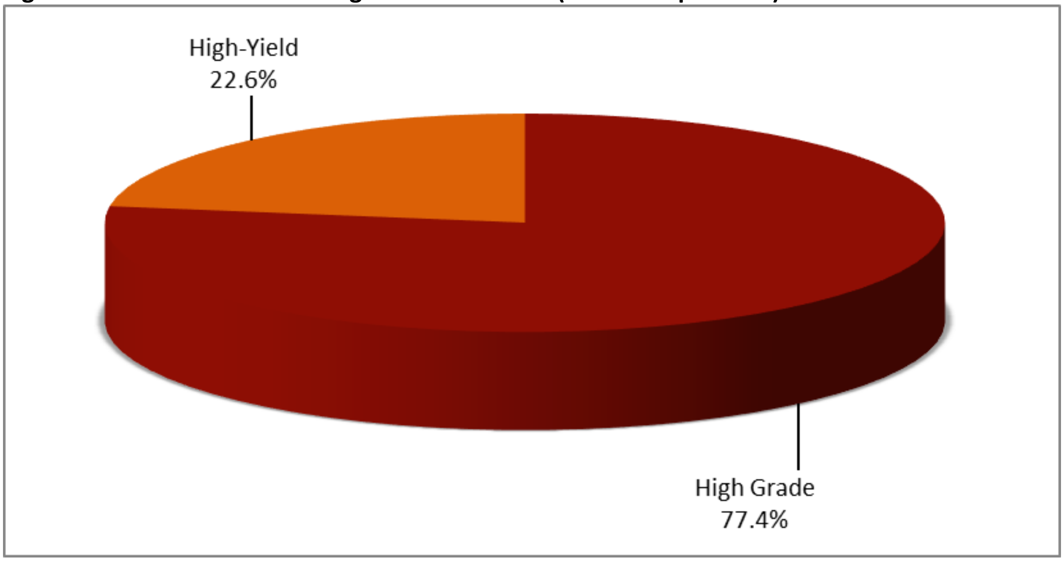
Figure 8: Breakdown of 2019 issuance size by sector for Perpetuals



Source: Bloomberg, OCBC Credit Research

2019 saw the proportion of higher-yielding papers (defined as papers with yields higher than 4.5%) shrink slightly y/y to 22.6%, with higher grade papers comprising the remaining 77.4%. This could be attributed to the overall decrease in rates, with corporate perpetual and bank issuers generally able to price at lower yields compared to last year. However, several high profile defaults which unfolded in 2018 such as the Hyflux Ltd restructuring saga might have brought credit risks to the forefront of investors' minds, reducing demand for true high-yield papers. The ongoing geopolitical and macroeconomic uncertainty also drove up demand for higher grade or government-linked names where investors sought safe-haven shelter from risk and volatility. This put upward pressure on yields for papers from relatively riskier names. The lingering investor caution and risk-off sentiments with regards to true high-yield issuers resulted in the continued discrepancy between what these high-yield issuers can pay and what investors can accept.

Figure 9: Breakdown of 2019 High-Yield issuances (>4.5% coupon rate)



Source: Bloomberg, OCBC Credit Research

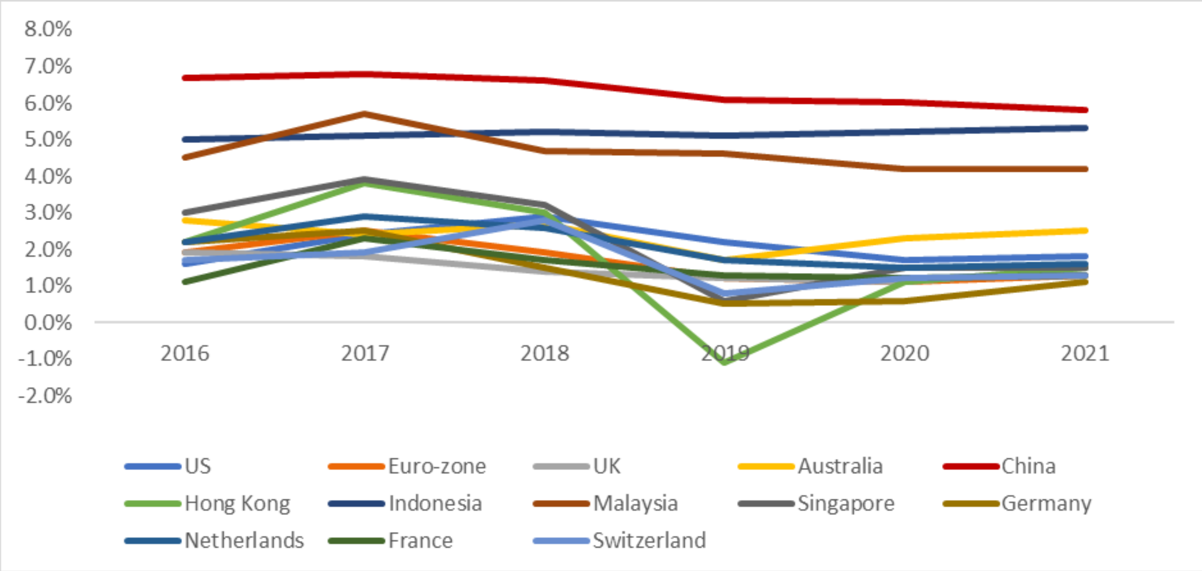
Credit Outlook for 2020 – Riding a technical wave into a new decade

The credit market's direction and conviction became somewhat clearer as 2019 progressed. Amidst volatility in the external environment, yield curves flattened, and interest rates fell. Along with high levels of end-investor liquidity, 2019 was a bumper year for both issuance volumes and credit spreads which continued to tighten in the secondary market despite stretched valuations all the way into December before market liquidity thinned at the end of the year. That being said, investors still remained selective owing to ongoing geo-political event risks, meaning that while everyone wanted to jump in the water, investors were happy staying in the shallow end first in case an unexpected wave washed them out to sea.

We enter 2020 then at an interesting point in the credit cycle with fundamental and technical drivers delicately balanced in our view. On the one hand, end-investor liquidity will continue to search for a home to be put to work while the macro outlook remains supportive notwithstanding certain event risks (BREXIT, US-China trade negotiations) remain unresolved.

- In our Global Outlook published on December 6th, our macro colleagues expect macro-economic stabilisation but mixed with volatile financial markets given persisting event risks (trade war, BREXIT and the upcoming US elections).
- While China remains the key piece in the puzzle and has to contend with both external (US trade, tech and other tensions) and domestic policy challenges (including labour and asset market stability, and Hong Kong developments), a mix of still accommodative monetary policy and potential fiscal stimulus is likely to provide some support for market sentiment in 2020.

Figure 10: GDP Growth Forecasts

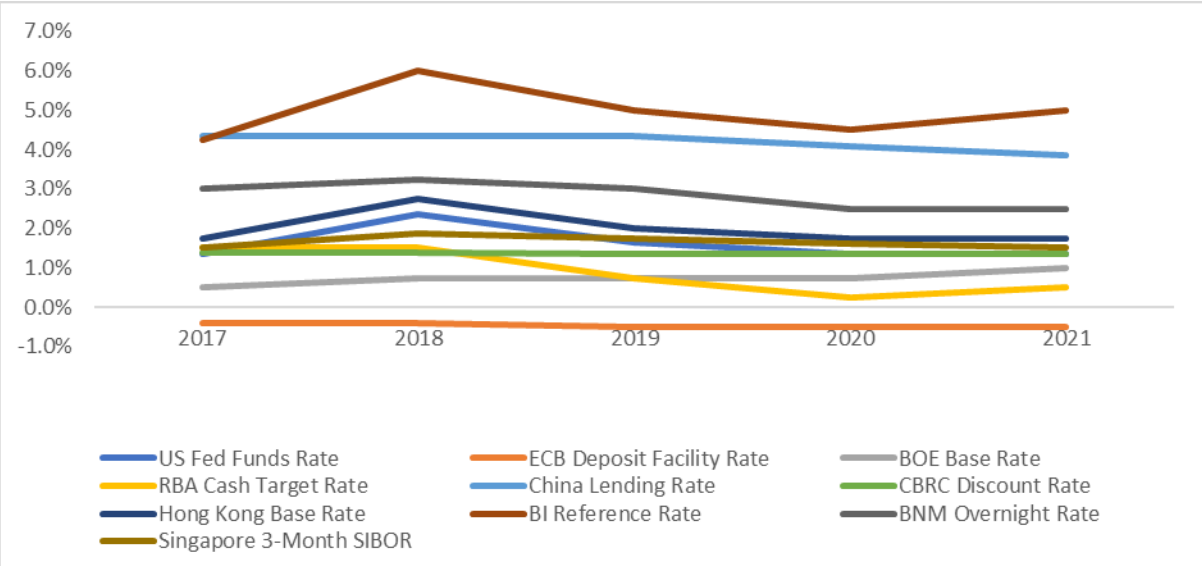


Source: OCBC Global Outlook 2020, Bloomberg

On the other hand, credit valuations remain tight as seen in our recent Monthly Credit Views where there were more bond recommendation downgrades than upgrades given stretched valuations that have run ahead of fundamentals in our view. This makes the inter-play between rates and supply critical to credit market performance in 2020.

- Given the volatility and still cautious outlook, we expect central bank rates to either remain stable or still fall in 2020 to aid an anticipated recovery in economic growth in 2021.

Figure 11: Central Bank Policy Rates

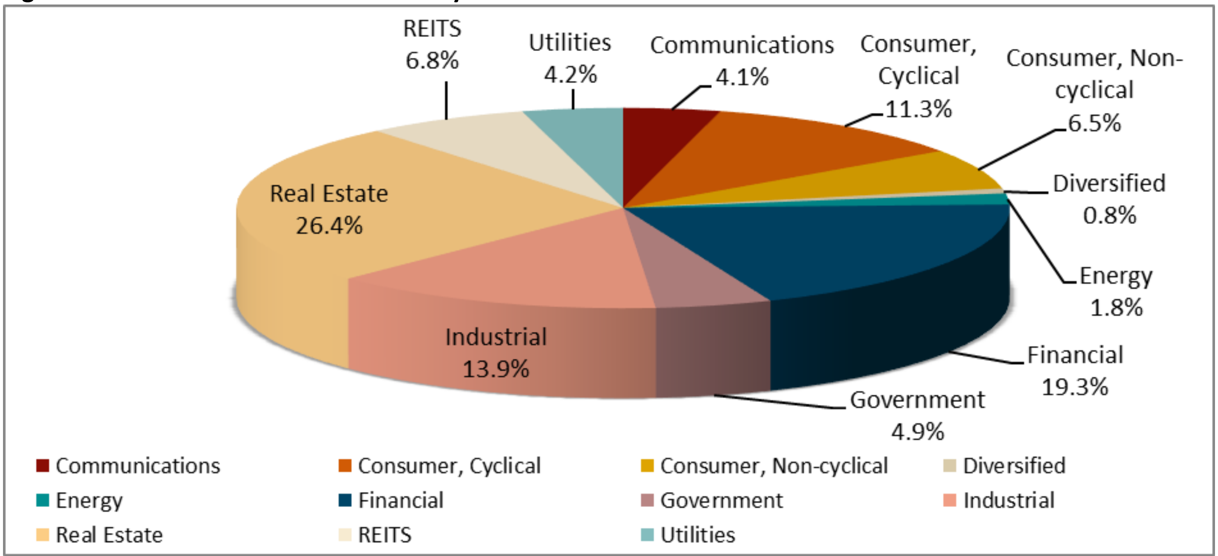


Source: OCBC Global Outlook 2020, Bloomberg

- On the supply side, we expect refinancing needs to be higher than 2019 based on bonds maturing or callable in 2020 of ~SGD18.5bn (excluding government bonds, Certificates of Deposit, floating rate notes and zero-coupon bonds) with the largest contributions by segment from real estate and financial institutions-related issuers. With rates being as low as they are, and central banks around the world increasingly calling for more fiscal policy rather than monetary policy to boost the economy, corporate issuers may seek to refinance maturing debts and lock in the low interest rates, with rates unlikely to fall much further. However, it is ultimately dependent on their refinancing needs, timing limitations or opportunistic transactions.
- We also anticipate more mergers and acquisitions activities in 2020 (as was the case in 2019) in the property and REITs sector as issuers seek to enhance scale and would not be surprised if financial institutions continue to be active to deepen their funding base and meet rising investment and capital requirements. Financial

institutions may also have to contend with constrained internal capital generation from persisting low interest rates, potential regulatory fines, and rising compliance, investment and credit costs.

Figure 12: Bond Maturities breakdown by sector for 2020



Source: Bloomberg, OCBC Credit Research; includes bonds callable in 2019

Given the delicate balance then between weaker fundamentals and stretched valuations, we have again this year sought to answer questions at the top of our (and investors') minds to help you swim your way through 2020. Unsurprisingly, there are more questions addressing technical considerations rather than fundamentals although appropriate attention is also given to relevant concerns on where we are in the Singapore corporate credit cycle and on whether more defaults are likely in the SGD space in 2020. We also discuss the rise of Private Credit Markets, Environment, Social Responsibility and Governance Investment in the ongoing evolution of global credit markets and Artificial Intelligence.

Where are we in the Singapore corporate credit cycle?

While the term "credit cycle" is frequently used in one broad brush, we do not think there is one cycle to contend with, rather different debt sectors move at different pace. Per the findings of MAS' 2019 Financial Stability Review, balance sheets for households have strengthened while Singapore's banking system is healthy with strong capital and liquidity positions. However, the corporate sector has exhibited elevated levels of debt (since 2010 corporate debt-to-GDP has been above 100%, reaching 157% in 2Q2019 per the same report). As financial conditions were conducive, along with subsided maturity risk and manageable currency mismatches, MAS did not sound alarm bells in relation to corporate debt.

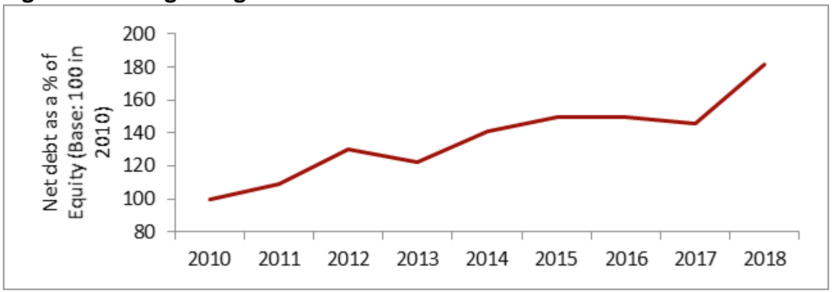
Nonetheless, we think the credit direction of corporates affects investment decisions of SGD bond investors and we focus our attention on answering where we are in the Singapore corporate credit cycle and the implications to investors. While issuers within the corporate sector may also have different credit cycles (e.g.: the offshore oil and gas defaults dragged certain non-offshore oil and gas issuers but did not cause a contagion), for the purposes of this article, we consider the corporate credit sector as a whole. While there is no one universal definition of a credit cycle, we take the four-phase credit cycle (1) Expansion (2) Downturn (3) Repair and (4) Recovery as our reference point, being the most familiar to our investor base.

Our macro-economic colleagues in OCBC Treasury Research are projecting a stabilizing economic growth outlook for 2020 after a weak 2019, benign inflation and an accommodative monetary policy stance for Singapore. Macroeconomic factors indicate that we should be in a Recovery phase for bonds. However, as far as the investable universe for SGD corporate bonds is concerned, we think valuations and credit direction are exhibiting Expansion traits (e.g.: deterioration in credit metrics with corporate perpetuals recording stretched valuations versus history) going into 1H2020. While these appear to be conflicting signals, we think this means investors are not being fully paid as though as we are in a Recovery phase where more gains ought to be had. Based on fundamentals, credit spreads going into 1H2020 should stabilize, although with investors' still bullish, market technical will likely supersede, leading to further tightening in our view.

Deterioration in Credit Quality

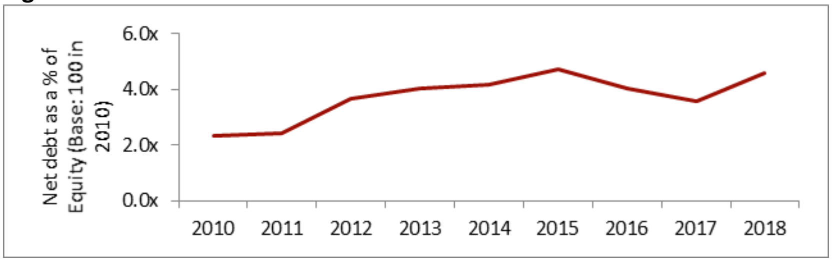
Based on a historical plot of non-financial institution corporates listed on the SGX, we find that both net gearing levels and Debt-to-EBITDA have increased in 2018 despite declining in 2015 to 2017. Despite a ~30bps increase in benchmark rates (we use five-year SGD swaps), EBITDA interest coverage had declined to 6.4x in 2018 from 9.2x in 2017. While rates have switched to a decline in 2019, we think interest coverage will continue its worsening trend since 2010 when full year 2019 results are available, this time due to possible earnings pressure amidst still levered balance sheets. On the positive side, short term debt-to-total debt has stayed relatively constant at 23% signaling manageable liquidity risk.

Figure 13: Net gearing



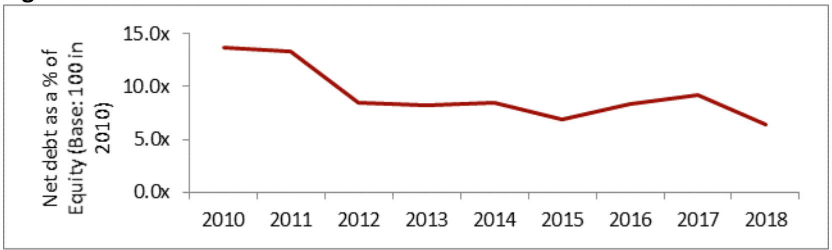
Source: OCBC Credit Research tabulated from Bloomberg data

Figure 14: Debt-to-EBITDA



Source: OCBC Credit Research tabulated from Bloomberg data

Figure 15: EBITDA-to-Interest



Source: OCBC Credit Research tabulated from Bloomberg data

Note: Based on end of financial year; data from a pool of more than 100 listed companies on the SGX which in our view is a representative sample of companies listed on the SGX in 2010 – 2018. Where companies are no longer listed, past information where data is available is used in calculating credit metrics for that year.

OCBC Credit Research officially covers 72 SGD-bond issuers as at time of writing, representing 60% of total SGD-bonds outstanding (excluding statutory bodies and government bonds). The remaining uncovered universe include large issuers such as Temasek (i.e.: bonds guaranteed by Temasek Holdings (Private) Limited ("Temasek")), China Huarong International Holdings Ltd, the unlisted Mapletree Treasury (100%-owned by Temasek) and dispersed smaller issuers. Since the introduction of our Issuer Profile Score (also proverbially known as "the seven-rating scale") in January 2018 to end-2019, we have downgraded seven and upgraded four issuers from the initial issuer profiles assigned to these 72 issuers. This includes LendLease Group which had been upgraded in the Singapore Credit Outlook 2020. Additionally, we are monitoring seven issuers for a potential downgrade and two for a potential upgrade in the next 12 months, though it is worth noting the ones we are monitoring for downgrade include high-grade issuers, who are deteriorating from a strong credit base. There are no industry trends in our downgrade candidates though our upgrade candidates are concentrated on the REIT and property sectors. While the short history of our scale means it has been untested over a full credit cycle, we think the issuer profiles still serves as a starting point for discussions and individual credit selection.

Active Year for M&A and Investments

2019 has been an especially active year for M&A concerning SGD corporates. As reported by Business Times, deal values had increased 70.6% y/y to reach ~SGD119bn YTD (from 1 January 2019 to 21 September 2019) per Refinitiv data.

Table 1: Notable transactions undertaken and announced by SGD-bond issuers in 2019

Issuer	Brief Description
CapitaLand	Bought Ascendas and Singbridge for SGD11bn
Ascott Residence Trust	Ascott Residence Trust and Ascendas Hospitality Trust combination
OUE Ltd	OUE Commercial Trust OUE Hospitality Trust combination
Singtel	Injects SGD730mn of new equity into associate Bharti Airtel
CMA CGM (parent of Neptune Orient Lines)	Bought CEVA Logistics
City Development	Successful takeover and delisting of Millennium & Copthorne
Keppel Corp	Temasek announces conditional partial offer of Keppel Corp
Frasers Property Ltd	Frasers Commercial Trust announces proposed combination with Frasers Logistics & Industrial Trust
CITIC Envirotech Ltd	CITIC Group announces conditional takeover offer of CITIC Envirotech
United Engineers Ltd	Yanlord announces take private of United Engineers Ltd
Standard Chartered	Announces stake sale of Bank Permata

Source: OCBC Credit Research, Company

Issuance spread

Using issuance spreads as a gauge; senior papers did not appear to have been priced at a stretch versus comparable past issuance. Excluding first time issuers, prices of perpetuals were priced at fair value in the primary market though bid up in the secondary market, narrowing senior-sub spreads. At this point, we do not think that spreads are overvalued.

Table 2: Selected SGD bond issues from frequent issuers

Issue	Pricing Date	Tenor	Credit Spread at Pricing
CITSP 3.0% '24s	08 January 2019	5 years	96bps
SIASP 3.03% '24s	19 March 2019	5 years	104.5bps
CAPLSP 3.15% '29s	22 August 2019	10 years	144bps
ARTSP 3.88%-PERP	26 August 2019	5 year to first call	235.2bps
MCTSP 3.05% '29s	13 November 2019	10 years	136.5bps

Source: Bloomberg data

Table 3: Comparable bonds

Issue	Pricing Date	Tenor	Credit Spread at Pricing
CITSP 2.93% '21s	15 March 2016	5 years	77.5bps
SIASP 3.16% '23s	18 October 2018	5 years	70.5bps
CAPLSP 3.08% '27s	09 October 2017	10 years	76bps
ARTSP 4.68%-PERP	23 June 2015	5 year to first call	250bps
MCTSP 3.045% '27s	16 August 2017	10 years	76.5bps

Source: Bloomberg data

Structural high yield over true high yield issuance

The SGD corporate bond market is a predominantly unrated market. We use a coupon rate of more than 4.5% for a senior paper as a proxy for true high yield issuance. There were few true high yield issuances priced in 2019, with only SGD0.8bn priced, representing 4.7% of total issuance in the SGD bond market (excluding stat board and government bonds).

However, 2019 was a bumper year for perpetual issuances with SGD4.8bn priced. These perpetuals were largely subordinated instruments from issuers which we would consider as high grade, making these perpetuals structurally high yield.

We think the rise in structural high yield that has come amidst of the fall in true high yield is a reflection that investors have become more discerning in the chase of yield and there are no signs of indiscriminate buying in 2019. We continue to expect perpetual issuance to be strong going into 1H2020 though on an absolute volume basis, we could still see true high yield issuance revert to the more than SGD1.5bn observed in 2016 to 2018 given the stronger risk-on mode and upcoming maturities within the SGD high yield space.

Table 4: SGD High Yield Breakdown

Year	2015	2016	2017	2018	2019
Total High Yield (SGD bn)	3.0	2.5	4.3	4.7	5.6
Perpetual (SGD bn)	2.5	1.0	2.7	2.3	4.8
True High Yield (SGD bn)	0.6	1.5	1.6	2.4	0.8
Total corporate bonds priced (SGD bn)	12.3	10.2	22.0	14.0	18.0
% of true HY to total priced	4.6%	14.3%	7.1%	17.2%	4.7%

Source: OCBC Credit Research tabulated from Bloomberg data
Note: Bonds and perpetuals with a coupon/distribution rate of 4.5% or more used as a proxy for high yield

Limited default risk

There were no new defaults in the SGD bond market in 2019. OCBC Credit Research caps bonds at risk of default at ~SGD650mn in 2020, representing 4.5% of total bonds coming due in the same year.

Will we see more defaults in the SGD space in 2020?

Since the default of Trikomsel Pte Ltd ("Trikomsel") in October 2015, which was touted as the first bond default since 2009, there has been increased attention among investors with regards to possible defaults in the SGD bond market. At OCBC Credit Research, our starting point is that defaults would and should happen in any mature bond market and as the SGD bond market grows in diversity and depth of issuers, we expect defaults to occur. While we do not purport to be prescient, the more important action point for us then is to reduce the risk of being invested in "future defaulters".

The sharp fall in 2014 and prolonged slump in oil prices until end-2017 resulted in a spate of defaults among issuers within the offshore oil and gas sectors, accelerated by capital structures which had become untenable as marketable asset values fell below levels when initial bond investment decisions were made. Tellingly, though perhaps not coincidentally, the bulk of the issuances which defaulted since October 2015 were issued in 2013-2014, a period of loose liquidity and a low interest rate environment. We use three year swaps as the benchmark rate for a typical true high yield bond issued then. In April 2013, three year swaps hit a 10 year low at 49bps before climbing in 2H2014. The average three year swap rates for 2013-2014 were 90bps.

Coming off the heels of the often out-of-court restructuring proceedings and judicial management proceedings with little recovery values, the SGD bond market saw the default of Hyflux Ltd ("HYF") in May 2018, an issuer of SGD1.2bn of bonds, perpetuals and preference shares outstanding. The pain of the original end-2015 - 2017 wave of bond defaults was largely contained among institutional and private banks investors though this time, retail investors were hit as well. As of writing, a working group chaired by the CEO of Singapore Exchange Regulation ("SGX RegCo"), comprising of Singapore banks, law firms and other market participants had been set up to propose measures aiming to increase retail investor protection in the bond market.

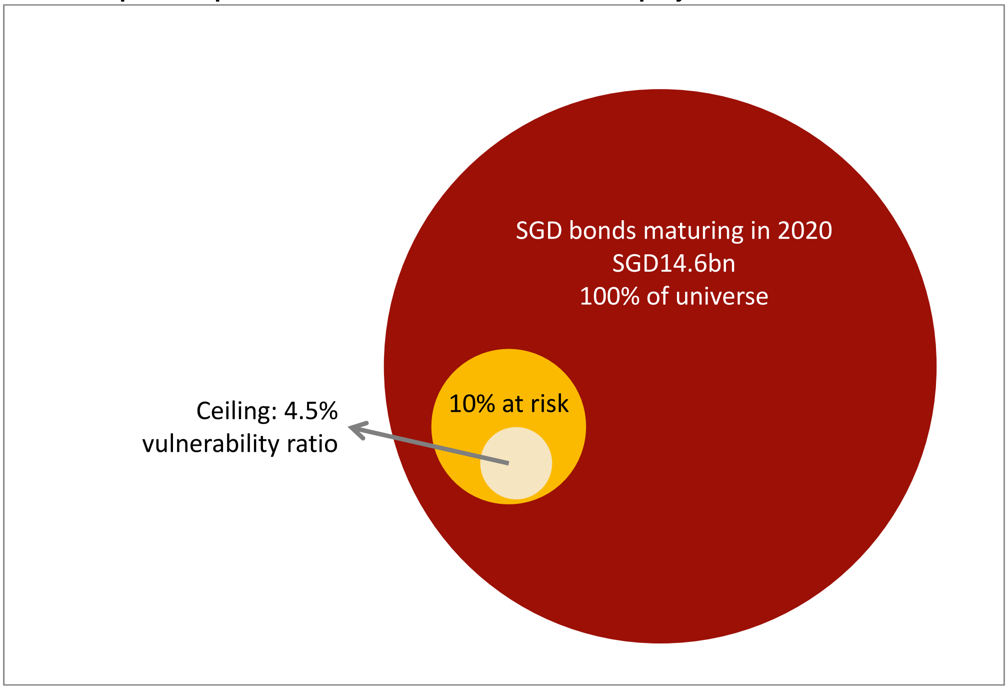
At this stage of the SGD bond market's development, we do not think predicting default rates based off historical default rates is meaningful nor justified for the SGD bond market given the (1) relatively short history of the SGD corporate bond market, (2) even shorter history of defaults, and (3) concentrated industry profile of defaulted SGD bonds to the offshore oil and gas sector. Post the wave of offshore oil and gas defaults, there had been no notable new issuance from this industry sector. We have presented our thoughts below based on our bottoms up analysis.

Excluding perpetuals (which are facing their first call dates) and callable bonds, SGD14.6bn of corporate bonds will face maturity in 2020. This represents 13.5% of the total outstanding SGD corporate bonds. 2020 is set to be a relatively heavy maturity year given that only SGD8.7bn of bonds would face maturity in 2021 while 2019 saw SGD13.6bn of bonds mature.

Vulnerability Ratio for 2020

Excluding floaters issued by banks and excluding Falcon Energy Group which was previously restructured, there are 74 issues, issued by 59 unique issuers maturing in 2020. OCBC Credit Research officially covers and/or pays attention to about half of these issuers. The remaining half is a combination of highly rated issuers (e.g.: Temasek, Khazanah, Cagamas, PSA Corp Ltd, Citigroup, Heineken) and smaller issuers, many who we would consider as true high yield issuers if they were officially covered by us. Of these 59 unique issuers, we consider ten issuers to be at higher risk with a total amount outstanding of SGD1.5bn (representing 10% of total bonds maturing in 2020). These issuers range from diverse sectors including property development, industrial, logistics and small shippers. Ultimately, we think we are being conservative as we include issuers who are likely to face difficulties accessing the SGD bond market for refinancing, though these issuers may still have access to bank lending markets which would not result in a default. We see ~SGD650mn as bonds with the highest risk of default and place the ceiling of this "vulnerability ratio" as a percentage of total bonds outstanding in 2020 at 4.5%.

Figure 16: Graphical representation of OCBC Credit Research projections



Source: OCBC Credit Research tabulated from Bloomberg data
Note: Excluding perpetuals, which are facing their first call dates and excluding callable bonds

Defaulted bonds in the SGD bond market

We define default to be the earliest date of any of the following:

1) Missing interest or principal payment on any borrowings
2) Statements by management / board regarding the issuer's inability to meet debt service
3) Out-of-court restructuring via consent solicitation to change coupon or maturity (i.e.: such as maturity extension)
4) Issuer announcing intent to enter court driven restructuring (i.e.: liquidation, judicial management, schemes of arrangement, Chapter 11)

Table 5: Defaulted bonds in the SGD bond market since 2015 to date

Date of Default	Issuers	Affected Bonds and Perpetuals	Nominal Value	Comments
25/06/2018	CW Advanced Technologies	CWADTE 7% '18	SGD55.25mn	Defaulted
22/05/2018	Hyflux Ltd	HYFSP 6% PERP (pref) (stepped up to 8% as not called) HYFSP 6% PERP (perp) HYFSP 4.25% '18 HYFSP 4.6% '19 HYFSP 4.2% '19	SGD400mn SGD500mn SGD100mn SGD65mn SGD100mn	Undergoing restructuring
08/09/2017	Pacific Radiance Ltd	PACRA 4.3% '18	SGD100mn	Undergoing restructuring
14/08/2017	Ezion Holdings Ltd	EZISP 7% PERP EZISP 4.875% '21 EZISP 4.7% '19 EZISP 4.85% '19 EZISP 5.1% '20 EZISP 4.6% '18	SGD150mn SGD150mn SGD110mn SGD50mn SGD55mn SGD60mn	Restructured
20/07/2017	Nam Cheong Ltd	NCLSP 5% '17 NCLSP 5.05% '19 NCLSP 6.5% '18	SGD90mn SGD200mn SGD75mn	Restructured
14/06/2017	Falcon Energy Group Ltd	FALESP 4.5% '20	SGD50mn	Restructured
18/03/2017	Ezra Holdings Ltd	EZRASP 4.875% '18	SGD150mn	Defaulted
11/11/2016	ASL Marine Holding Ltd	ASLSP 4.75% '20	SGD100mn	Restructured for the second time in January 2019
03/11/2016	KrisEnergy Ltd	KRISSP 6.25% '17 KRISSP 5.75% '18	SGD130mn SGD200mn	Undergoing restructuring for the second time
12/10/2016	Swissco Holdings Ltd	SWCHSP 5.7% '18	SGD100mn	Defaulted
23/09/2016	Marco Polo Marine Ltd	MPMSP 5.75% '19	SGD50mn	Restructured
07/09/2016	Rickmers Maritime	RMTSP 8.45% '17	SGD100mn	Defaulted
07/09/2016	Perisai Petroleum Teknologi Bhd	PPTMK 6.875% '16	SGD125mn	Restructured
27/07/2016	Swiber Holdings Ltd	SWIBSP 5.55% '16 SWIBSP 7.125% '17 SWIBSP 6.25% '17 SWIBSP 6.5% '18	SGD100mn SGD160mn SGD50mn SGD150mn	Defaulted
24/06/2016	Ausgroup Ltd	AUSGSP 7.45% '16	SGD110mn	Restructured
24/01/2016	Pacific Andes Resource Development	PAHSP 8.5% '17	SGD200mn	Defaulted
26/10/2015	Trikomsel Pte Ltd	TRIOIJ 5.25% '16 TRIOIJ 7.875% '17	SGD115mn SGD100mn	Restructured

Source: OCBC Credit Research tabulated from Bloomberg data, Business Times, Company
Note: Consent solicitations to adjust financial covenants are not included

Should I still be in bonds when equity is rallying?

Stocks have outperformed bonds in 2019: As the adage goes "when stocks go up, bonds go down", the intuition is to shift allocation towards equities (from bonds) when equities are doing well. With equities delivering outsized returns (MSCI World Index 2019 returns: +28%), allocations to bonds (Bloomberg Barclays US Treasury 2019 returns: +7%) would have weighed down returns. As such, do bonds still have a place in a portfolio?

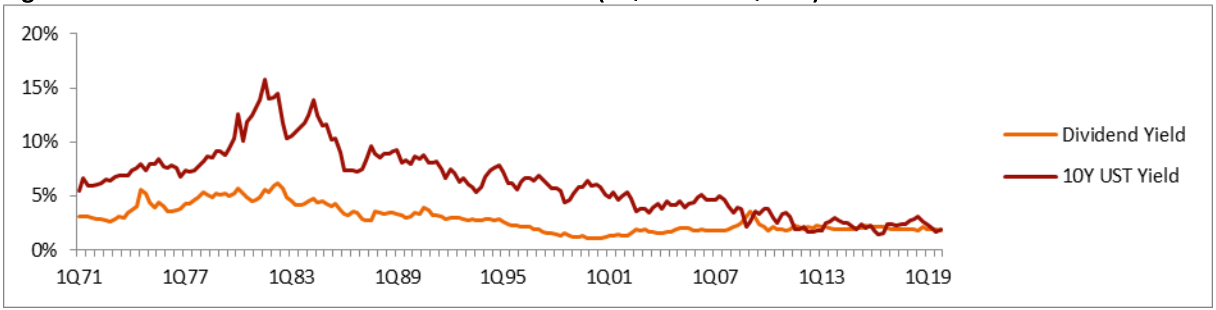
Why bonds are being relatively shunned…: To understand if investors should still stay invested in bonds, we first look from the angle of its detractors. Aside from the relative underperformance vis-à-vis equities in 2019, the absolute returns of bonds (risk-free ones) may look somewhat unappealing (UST 10Y: ~1.9%) for investors looking to hold to maturity. Meanwhile, price returns are under threat as countries begin to emerge out of negative rates. For example, Sweden has raised its main interest rates to zero (from negative 25bps) and 10Y JGBs are now yielding around 0% (as recent as August 2019, rates were negative 25bps).

… while equities especially in the US have been preferred: Robert Shiller[1] thinks the equity market can go higher, in an interview with CNBC, despite the Shiller PE ratio (31x as of Dec 2019) surpassing that of ~27x during the peak in

[1] Robert Shiller is a Nobel-prize winner in Economics in 2013. Robert Shiller famously predicted the last U.S. housing market crash leading to the global financial crisis in 2007-08.

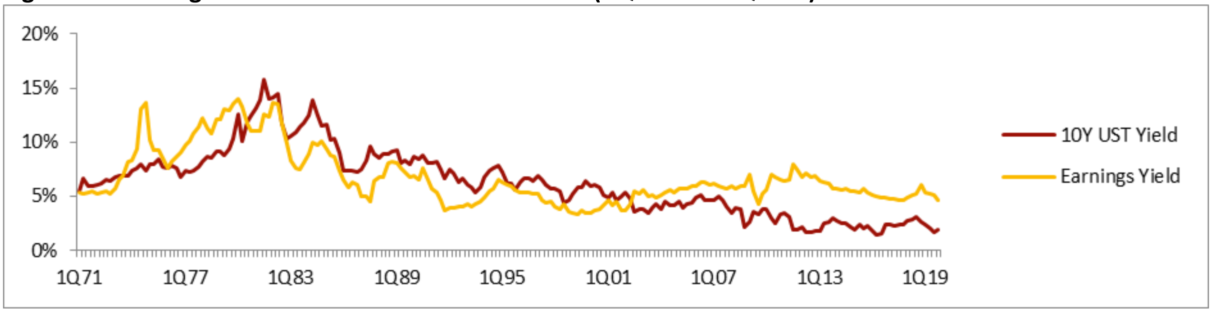
2007 (recall the 2007-08 global financial crisis). This is partly due to 'animal spirits' that is driving market confidence higher and also partly due to the absence of a recession (our colleagues at OCBC Treasury Research and Strategy expects global economy to continue growing in 2021). We also found that equities have beaten bonds at their own game as an income generating asset. S&P 500 dividend yield has caught up with 10Y UST Yield (see Figure 17). Meanwhile, the earnings yield of S&P 500 (see Figure 18) has convincingly overtaken 10Y UST yields.

Figure 17: Dividend Yield of S&P 500 vs 10Y UST Yield (1Q1971 to 4Q2019)



Source: Bloomberg, OCBC Credit Research

Figure 18: Earnings Yield of S&P 500 vs 10Y UST Yield (1Q1971 to 4Q2019)



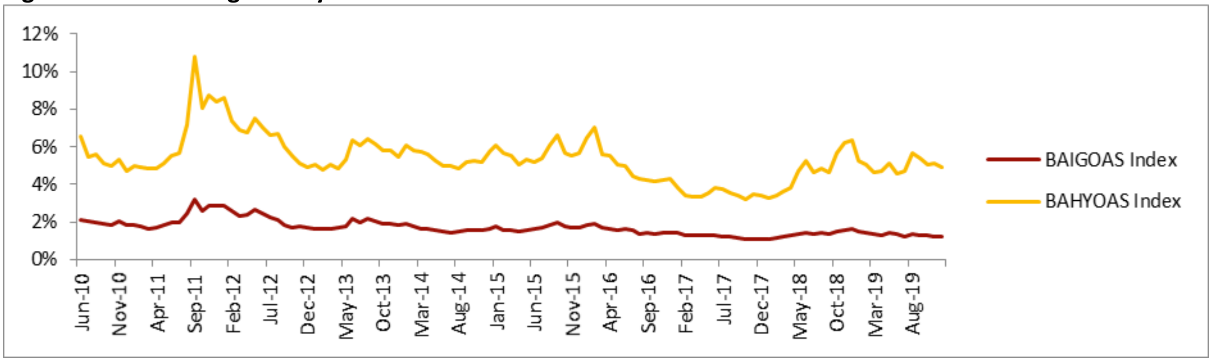
Source: Bloomberg, OCBC Credit Research

Equity rally does not spell doom for bonds: Despite the relative underperformance of bonds, we still favour bonds as they are useful as a hedge to equities. Although low yields may impact returns, the impact may be mitigated by taking on selected credit/structural risks. We detail our explanations in the following.

Bonds are still useful as a hedge: While we observed positive correlation between equities and bonds in 2019, the correlation is not static between bonds and equities as detailed in Credit Outlook 2019. Crucially, the correlation was low-to-negative during times of significant equity market stress. Ultimately, bonds have a maturity date with a pre-determined return if held to maturity. Conversely, there is no guarantee (or near certainty) of any price for equities at any given date.

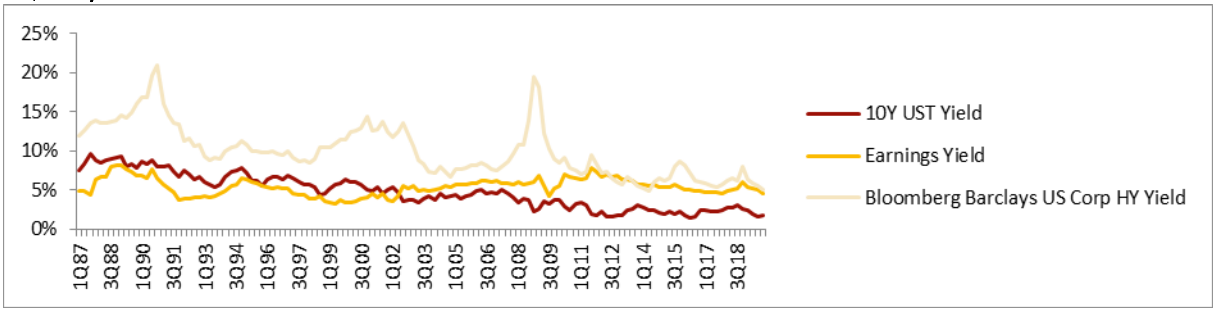
Deriving enhanced returns out of bonds through credit and structure yield enhancements: With risk-free yields near all-time lows, we think that higher returns can be achieved by taking on selected credit/structural risks. For the hold-to-maturity investor, if safer credits do not generate sufficient returns given significant spread compression, spreads remain wide in the high yield space (see Figure 19) – we believe sufficient opportunities remain though this requires careful credit selection. HY space can potentially offer near equity-like returns, with the yield of Bloomberg Barclays US Corporate High Yield remaining higher than S&P 500 earnings yield. Aside from credit risks, there is also room to take on structural risks to enhance yields. In general, perpetuals have had a good run in 2019. While several corporate perpetuals (e.g. CAPLSP 3.65% PERP trading at 3.2%) are now looking a bit tight, we think selected bank AT1s still look attractive.

Figure 19: Bloomberg Barclays Asia USD IG vs HY OAS Index



Source: Bloomberg, OCBC Credit Research

Figure 20: Earnings Yield of S&P 500 vs 10Y UST Yield vs Bloomberg Barclays US Corporate High Yield (1Q1987 to 4Q2019)



Source: Bloomberg, OCBC Credit Research

In conclusion: We still like bonds as they have the potential to deliver decent returns though this may require careful selection of credit and structural risks. In today's market which can be volatile, we should expect the unexpected. Though equities have outperformed, bonds are still important as part of diversification. In conclusion, to err is human, to hedge is divine.

Which is better - Singapore REITs ("S-REITs") or Bonds?

Although prima facie Real Estate Investment Trust ("REIT") and bonds may appear to have similar risk reward profile, they are inherently different. Therefore, before delving deeper into each of them, we are for the view they are not substitutes for each other and hold a separate place in a diversified investment portfolio.

Equity vs. Bond

First, we consider the structure of both instruments. Bonds are debt instruments and when one purchases a bond, one becomes a creditor to the company. Since it is debt, the company is legally obligated to repay the creditor the full borrowed sum at a future date and compensates the creditor bearing the risk over the term of the debt through a fixed interest payment. This also means that bondholders' return (should they hold the bond to maturity) is capped. Regardless of the price fluctuation of the bond throughout its life, should the creditor hold the bond to maturity, an investor will be paid the face value of the bond. Bonds can also come with covenants which safeguard the interest of bondholders.

Equity on the other hand is an equity instrument and investors are shareholders of the business. Equity instruments are structurally different from debt instruments. As such, shareholdings do not have a maturity date which means that shareholders can hold their investments for as long as the company remains in existence and the shares are not cancelled. In addition, shareholders are not entitled to any periodic payment. Although dividends are usually distributed for stable companies, they are dependent on the performance of the company and are neither guaranteed nor fixed. Prices of equity shares are also by nature more volatile than bond prices given there is less certainly with regards to the returns one may receive from its investment relative to bonds with a fixed maturity date. That said shareholders enjoy the upside when performance of the company improves via higher distributions and increase in share price.

Second, creditors' claims are ranked ahead of shareholders in the event of liquidation of the company. This essentially suggests that bonds are comparatively less risky than equity. While there exist other differences between equity and bonds, we have pointed out above what we think are key.

REIT Equity

If we were to explain REIT equity, they may possibly start to look like bonds.

REITs are trusts and the trustee has legal ownership of trust assets and holds them on behalf of the REIT. Strictly speaking, REITs are not legally structured as corporations. Legally there are nuances between REIT unitholders vs. shareholders of a corporation. In practice though REIT unitholders are equity holders from the perspective of REIT bondholders.

Is rental income equivalent to coupon?

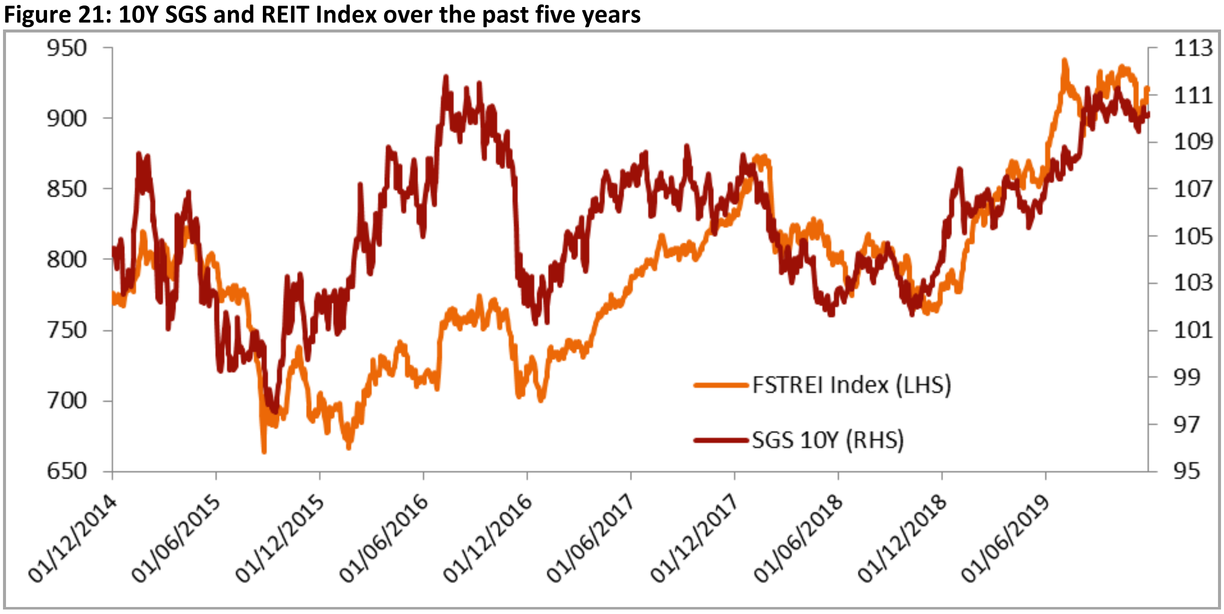
REITs hold a portfolio of properties. Bondholders receive interest payments. Property receives rents which are passed on to REIT unitholders. In both cases, there lies a contractual agreement which obligates the predetermined payment for a fixed period. That said, for REITs in Singapore, they need to distribute at least 90% of taxable income in order to be exempt from tax. While the likelihood of a distribution is high, it is not guaranteed and subject to the performance of the REIT as well as broader property cycles and performance of underlying tenants, unlike coupon payments which are legally contractual.

Is the valuation of the property portfolio equivalent to face value of a bond?

Although companies must repay bondholders the face value of their investment at maturity or run the risk of defaulting (while non-payments to REIT equity holders do not), REITs hold properties and these properties have value. REITs are structurally asset heavy, unlike equity investment in other types of businesses where this is not a given. Therefore, we think equity holdings in REITs are essentially backed by the properties held within the REIT and the risk of one's investment dwindling to zero is extremely low. Though we saw certain Singapore REITs facing financial distress due to the financial crisis of 2008, new equity investors had stepped in to buy equity stakes in these REITs, owing to the underlying portfolio value. This is especially more so as REIT's aggregate leverage is capped per MAS regulation which limits how much debt a REIT can assume, leaving an "asset buffer" for equity holders. The loss of principal investment sum in REIT equity in its entirety is unlikely and this makes REIT equity slightly more similar to bonds where the face value of the bond is returned to the investor at the end of the investment period than an investment in the equity of other type of businesses.

Both negatively correlate with interest rate, though the correlation differs by economic regime. Broadly speaking, in a rising interest rate environment, bond prices will fall and so has unit prices of REIT equity as what we have observed in the past decade. From a financial theory perspective, as interest rates rise, cost of funding for REITs goes up and the discount rate for future cash flows from these assets goes up, leading to a decline in asset valuation (assuming ceteris paribus).

Figure 21: 10Y SGS and REIT Index over the past five years



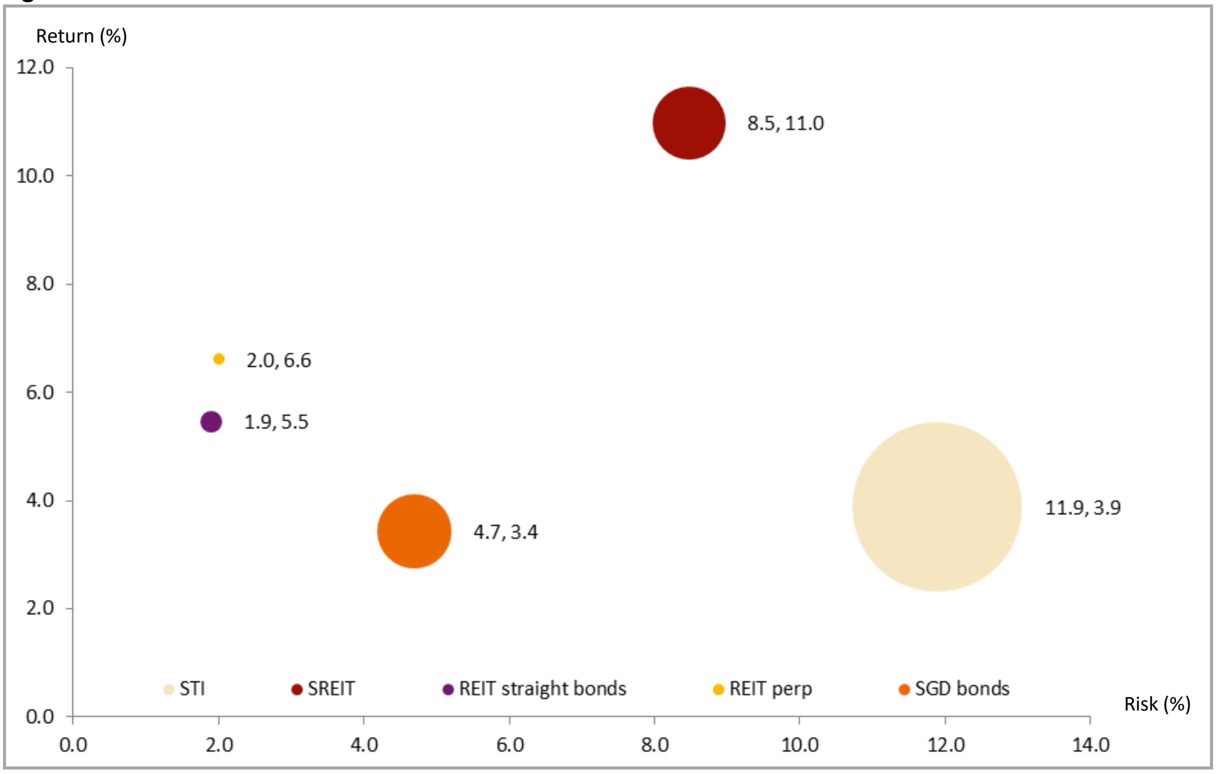
Source: Bloomberg, OCBC Credit Research

On to the apparent differences, REIT equity does conduct rights issuances and private placements as a way to raise capital from time to time, and one's equity holdings may be diluted if one does not participate. Another difference is that REIT equity offers a hedge against inflation since rents are likely to move in line with inflation.

REIT Equity vs. REIT Bonds & Perpetuals

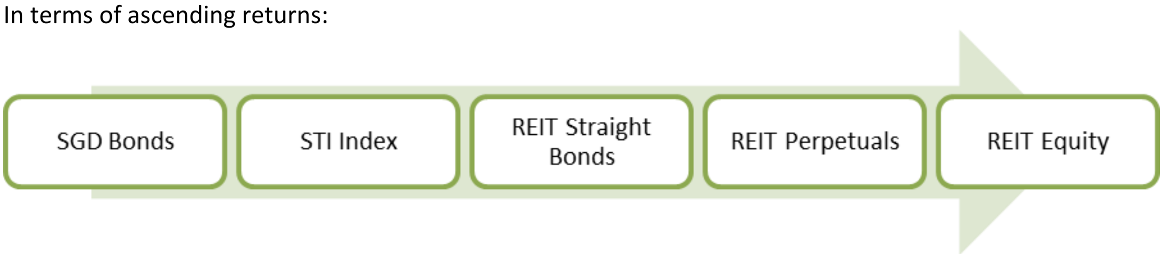
We have plotted the historical risk vs. return of the STI Index, S-REIT instruments, straight REIT bonds, REIT perpetual and SGD bonds. The size of the bubbles represents the size of the market.

Figure 22: Return over Risk



Source: Bloomberg, OCBC Credit Research
Note: (1) E.g. 8.5, 11.0 represents 8.5% risk (estimated via standard deviation from annual price change) and 11.0% represents annual return for 2019

In terms of ascending returns:



In terms of ascending risk:

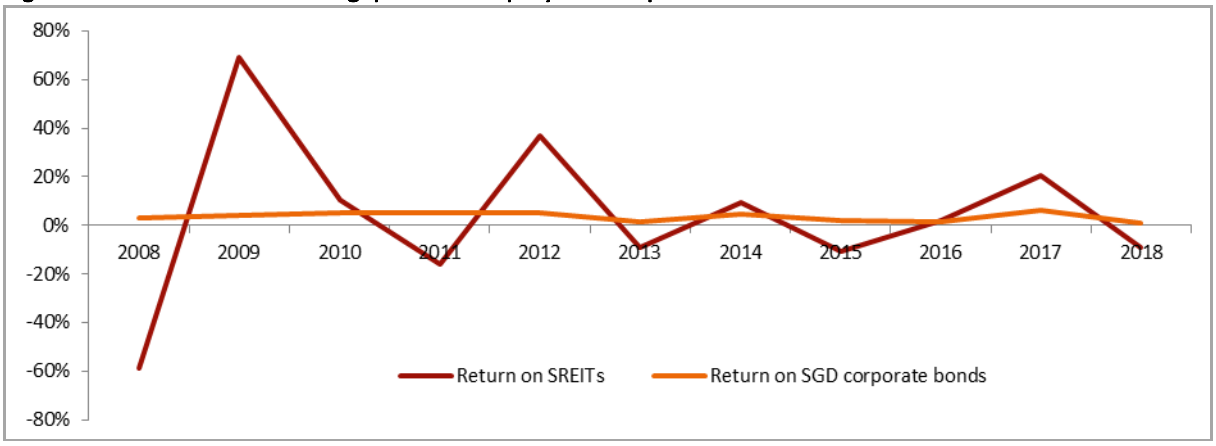
Arranged this way, we think REIT related instruments clearly offer better risk adjusted rewards during the period we have examined - Dec 2017 to Nov 2019. That said, we note that relative to the entire market, REIT bonds and REIT perpetuals together only made up ~11.6% of the SGD bond market. Liquidity for REIT related bonds and perpetuals may be thin versus the ample liquidity within REIT equity. As at 17 December 2019, REIT perpetuals and bonds have an amount outstanding of SGD9.2bn against the free float of REIT equity at SGD69.1bn.

We continue to hold our view that while they may be comparable, they remain different and are not alternatives for each other. Therefore, we think substituting one for another is not wise.

Deciding between REIT equity and bonds in our view is a question of equity vs. debt, and hence we think investors can first consider their allocation to equity and bonds and within allocation to equity, determine the amount one would allocate to REIT equity vs. other businesses. Equity typically become more preferred than bonds in the late credit cycle while prices of REIT equity tend to rise more quickly in an environment where rates are coming down. As always, not all REITs are equal.

Finally, Figure 23 depicts the return of Singapore REIT and Corporate bonds over time. For Singapore REIT equity, the highest return (including dividend yield) recorded over the past 12 years is 69% in 2009 while the lowest return is -59% in 2008, with an average return of 11%. For bonds, the highest return was 6% in 2017, while the lowest was 1% in 2013, 2016 and 2018. The average was 4%. We think this alone strongly supports the view that REIT equity and bonds are not substitutes for each other.

Figure 23: Annual Return of Singapore REIT Equity and Corporate Bonds over Time



Source: Bloomberg, OCBC Credit Research

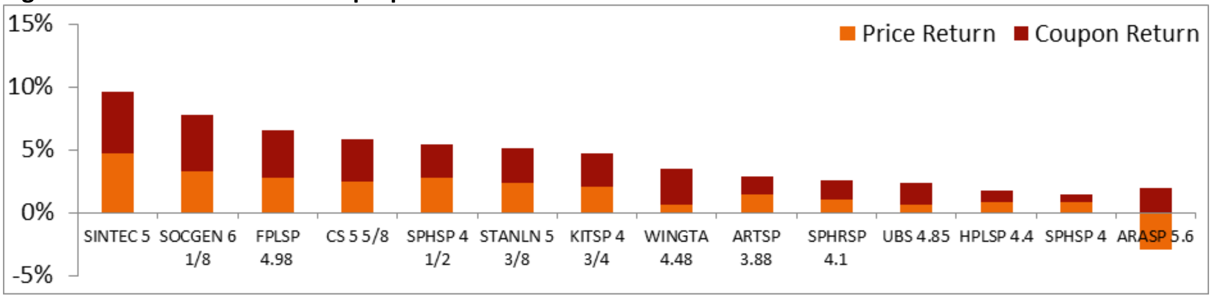
That said, noticeably, volatility of returns of S-REIT equity moderated sharply in late 2000s. The Singapore REIT market goes back to 1999 where regulations for REITs were launched. In 2001, the attempt to list the first REIT failed. A year later, on 17 July 2002, CapitaLand Mall Trust, Singapore's inaugural REIT made its debut. We think back then more unitholders of REITs equity saw REITs more as equity, therefore returns in the earlier years is in our opinion less useful relative to that of the recent 5 years where the REIT market became more mature and recognized. In 2019, we also saw more REITs becoming part of indices with Frasers Centrepoint Trust and Keppel DC REIT joining FTSE EPRA NAREIT Developed Asia Index and Mapletree Commercial Trust and Mapletree Logistics Trust becoming part of the Straits Times Index.

Can Corporate Perpetuals and Bank Capital Instruments be viewed the same in the search for yield?

Structurally high-yield in favour…: Persisting event risks, evolving views on the macro-economic outlook and falling rates saw strong interest for perpetuals and bank capital instruments in 2019. In 2019, most perps delivered healthy positive total returns, including those issued in the year (Figure 24) and before (Figure 25-28). This is given the combination of higher yields through structural features and generally high-quality issuers, which is attractive to credit-risk adverse investors seeking higher returns.

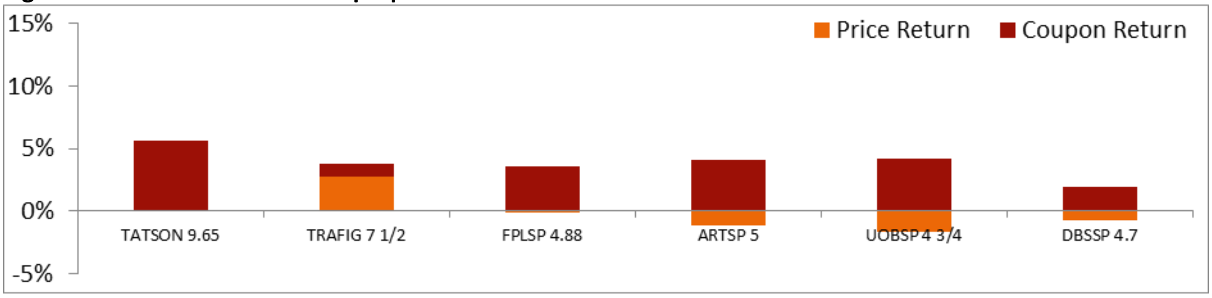
… with outlook remaining favourable though pace of price appreciation may slow: With lingering questions on the macro-economic outlook and the prospects of rates staying where they are for longer, we expect structural high yield instruments to remain in demand as investor familiarity with these instruments continues to improve. That said, given the significant rally in 2019, prices are unlikely to rise by the same magnitude going into 2020.

Figure 24: 2019 total returns of perps issued in 2019



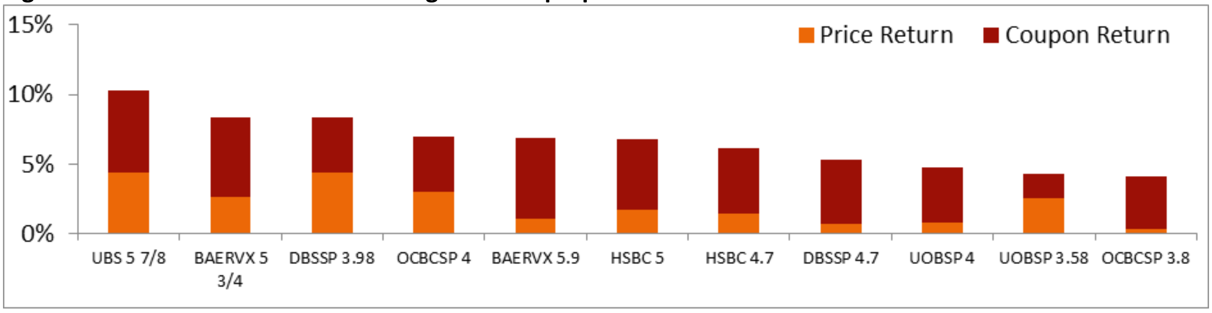
Source: Bloomberg, OCBC Credit Research

Figure 25: 2019 total returns of perps called in 2019



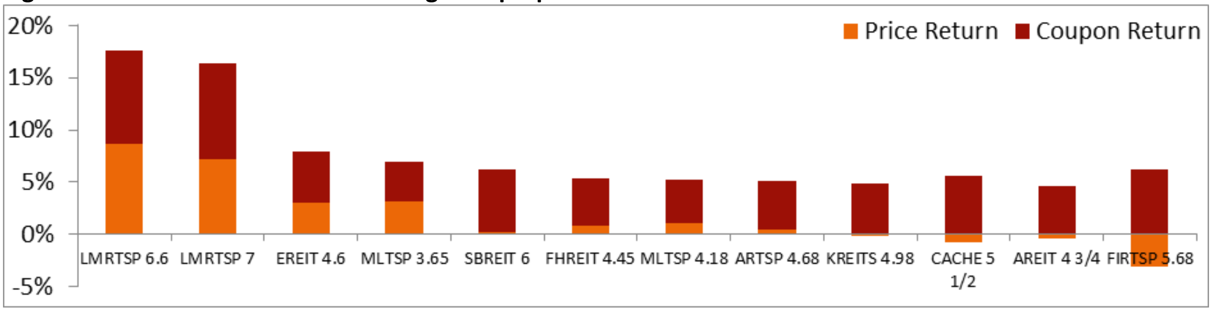
Source: Bloomberg, OCBC Credit Research

Figure 26: 2019 total returns of existing financial perps



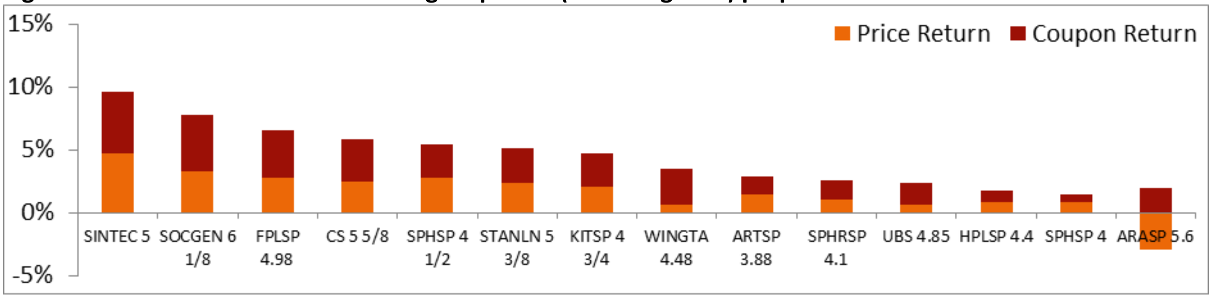
Source: Bloomberg, OCBC Credit Research

Figure 27: 2019 total returns of existing REIT perps



Source: Bloomberg, OCBC Credit Research

Figure 28: 2019 total returns of existing corporate (excluding REIT) perps



Source: Bloomberg, OCBC Credit Research

Are bank capital instruments and corporate perpetuals the same…: The hunt for yield has benefited both bank capital instruments (Figure 26) and corporate perpetuals (Figure 27-28). However, should these instruments be viewed interchangeably aside from the fundamental differences in the credit profiles of corporates and financial institutions? On the first glance, there are many similarities between the two and it is not farfetched to think of them as one peer group. In comparison to straight vanilla bonds, the perpetual instruments (1) offer higher yields, (2) have no maturity date, (3) are allowed to defer distributions and (4) are typically covenant-lite. In comparison to equity, the perpetual instruments (1) are ranked relatively senior, (2) are expected to pay a steadier distribution though (3) do not confer voting rights.

… or different? In spite of the similarities, we note several key differences between both perpetual instruments. Notably, bank capital instruments are structured with (1) loss-absorption features. In addition, (2) other structural differences may exist (such as seniority, step-ups, accumulation of unpaid distributions) and (3) the intention of issuance may differ. Furthermore, the complexity and variability of each issuance (even from the same issuer) warrant individual attention when analyzing both default and call risk. These make it difficult to put both perpetual instruments together as one peer group. We detail our explanations in the following:

Key differences:

(1) Loss absorption:

- **a. Somewhat unquantifiable risk of loss:** Unlike corporate perpetuals, bank capital instruments include loss absorption features, which expose the risk for bank capital instruments to be written down or converted to equity. Usually, this includes a trigger level[2] (e.g. CET1 ratio falling below a certain level). However, this can also be triggered by regulators who have the statutory ability to determine in their sole right that a bank has reached the point of non-viability and that a conversion and/or write-down of bank capital will be necessary for the bank to continue as a going concern. This makes the risk of loss somewhat unquantifiable in theory.
- **b. Significant variability in loss absorption features:** The form and substance of these features vary significantly amongst bank capital instruments themselves. This is because although bank capital instruments seek to conform to global guidelines, regulations are by and large determined and implemented by local regulators. These variations include the trigger level upon which an instrument can be written down or converted to equity, the potential for a capital injection from the government and whether any write down provisions in the documentation are purely contractual or also statutory in nature.
- **c. Trigger of loss absorption can be used to achieve different outcomes:** We expect regulator decision making to be driven by practicalities and idiosyncratic factors rather than theory with regulators using the flexibility within their regulatory frameworks as well as ongoing pro-active oversight to ensure systemic stability, as we previously expressed the view in our Singapore Mid-Year 2017 Credit Outlook. As has been seen in past instances, European regulators have used the same bank resolution mechanism to achieve different outcomes given the specific circumstances at hand.

(2) Other structural differences:

- **a. Seniority:** In the SGD space, we observe that all bank perpetuals issued thus far are junior whereas several corporate perpetuals are senior. We think this is because senior bank issues are not treated as loss-absorbing in certain jurisdictions (e.g. Singapore) while there is no restriction for issuance of senior perpetuals by corporates. In other jurisdictions though, senior bank capital can be eligible for loss absorption albeit in different ways (e.g. France and Germany).
- **b. Step-ups:** All banks Additional Tier 1 instruments ("AT1s") issued in SGD do not include a step-up or else they cannot be counted towards regulatory capital. This is different from SGD corporate perpetuals, which include step-ups in their structures except for those issued by REITs. For REITs perpetuals, they are more similar to bank perpetuals; perpetuals with step-ups will not be treated as equity by the regulators for the purpose of REIT leverage rules.
- **c. Accumulation of unpaid distributions:** For bank AT1s, distributions are non-cumulative. This is also the same for perpetuals issued by REITs (in order to meet regulatory requirement). However, the distributions of all other SGD corporate perpetuals thus far are cumulative.

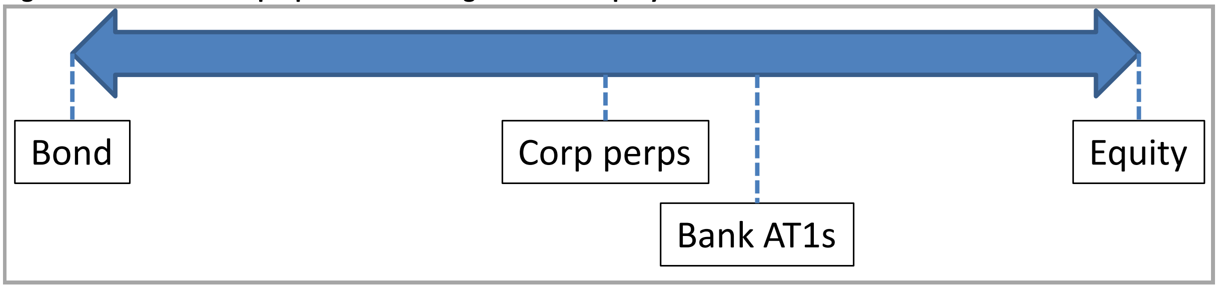
(3) Difference in intent impacts degree of permanence in capital structure: While both instruments seek to achieve an optimal capital structure for the purposes at hand, the intention differs. Financial institutions use bank capital instruments to support their capital ratios to conform to minimum regulatory requirements and comply with the desire of regulators to improve the loss absorbing capacity of banks in times of stress. For REITs in Singapore, they are similarly subjected to a regulatory cap on aggregate leverage of 45% and have

[2] The point at which bank capital is written down or converted to equity.

used perpetuals to manage their gearing whilst pursuing inorganic expansion. In this regard, Financial Institutions and REITs have used structural features to turn an equity instrument into a debt-like one. However for non-REIT corporates, this largely revolves around managing their leverage and keeping credit metrics manageable through deflating the leverage impact of a debt instrument with equity like features. In our view, this makes corporate perpetuals mostly a want (i.e. balance sheet management) while bank capital instruments (and to some extent REIT perpetuals) is mostly a need (i.e. a regulatory requirement). As such, bank AT1s and REIT perpetuals are more likely to form a permanent part of the capital structure. For non-REIT corporate perpetuals, we think it will depend more on the funding needs; perpetuals need not form a permanent part of the capital structure. For example, Ascendas Pte Ltd, Genting Singapore Ltd and Global Logistic Properties Ltd did not issue new perpetuals to replace the called JTCSP 4.75% PERP, GENSSP 5.125% PERP and GLPSP 5.5% PERP respectively.

Where does bank capital/corporate perpetuals lie along the bond-equity continuum?: Perpetuals have features distinct from equity and bonds (as covered earlier) though we think that a perpetual is in effect somewhere between the bond-equity continuum (see Figure 29). The more debt-like features the perpetual has (e.g. high step-up rate, senior in ranking, short call date), the closer it is to a bond while the vice versa (e.g. non-cumulative distribution, junior in ranking) is true. In general, bank AT1s are closer to equity than corporate perpetuals as the former are (1) structured with loss absorption features, (2) have no step-ups, distributions are non-cumulative and tend to be junior in ranking and (3) due to intention differences, bank AT1s are likely to be a permanent part of the capital structure.

Figure 29: Where does perpetuals lie along the bond-equity continuum?



Source: OCBC Credit Research

Do investors need to get paid more for holding bank capital versus corporate perpetuals?: The required compensation (or distribution rate) should be dependent on the risks that the investor assumes. The key risks of perpetuals, in our view, include (1) credit, (2) call and (3) regulatory. In general, for similar credit risks, bank capital ought to trade somewhat wider as we perceive higher call and regulatory risks. We detail our reasons below:

- **Credit risk:** We think credit can be the larger driver of risk. Generally, banks have a stronger credit profile than corporates given their scale and systemic importance. However, credit risk should be analyzed individually for each issuer; we provide our views on the credit profiles of issuers under our coverage in the latter part of the Credit Outlook 2020.
- **Call risk generally driven more by credit events…:** Thus far, non-calls in the SGD market are driven more by credit risks, for example from issuers under severe liquidity stress (e.g. Ezion Holdings Ltd, Hyflux Ltd). As such, we argue that call risk of bank capital instruments in the SGD space is lower than that of corporate perpetuals (in general) as banks issuing in the SGD space typically offer strong credit profiles. In addition, financial institutions are incentivized to call as long as it is economical to do so by maintaining ongoing access to support balance sheet growth, given that perpetuals are a necessary and permanent contributor to capital for regulatory compliance. This fundamental and technical reasoning for a non-call is also similar for REITs issuing perpetuals. Otherwise, the SGD market has not really been tested by non-call of a corporate perpetual or bank capital.
- **… Though there have been instances when non-call was driven by economics:** That said, for bank capital, there have been examples globally where banks have elected not to call even in the absence of liquidity stress. Here the call risk is somewhat impacted by the regulatory necessity and also by economics. In 2019, Banco Santander elected not to call a EUR denominated AT1. Although prices dropped when the non-call was confirmed, prices have subsequently rallied across the Banco Santander curve. In another example in 2016, Standard Chartered PLC and Commerzbank AG did not call the legacy Tier 1 instruments. While the market similarly reacted negatively initially, investors eventually saw the economic practicalities of the non-call in each case. These economic practicalities may increase going forward in a rising rate environment given banks are expected to operate in a low return setting going forward. For corporate perpetuals, we think that risks

of non-call are driven mostly by economics given our earlier point that corporate perpetuals are more a want than a need. For example, CK Infrastructure Holdings Ltd (despite being a highly rated issuer) did not elect to call the fixed-for-life CKINF 6.625% PERP on the first call date in Sep 2015. Agile Group Holdings Ltd also did not call AGILE 10.215% PERP on the first call date in Jul 2018 till Jul 2019 when it was more economical to refinance with a new perpetual. As such, we think it ultimately depends on whether corporates are sufficiently incentivized to call - corporates have to decide between refinancing the perpetual or keeping the existing one in spite of the step-up and reset. That said, beyond economics, we acknowledge that issuers may consider reputational impacts of a non-call.

- **Regulatory risk:** Given that bank AT1s are loss-absorbing capital, they are subject to regulatory risk, which we mentioned is difficult to quantify. That said few regulators thus far have triggered the bail-in of banks. On the whole, we think regulators are unlikely to be trigger-happy and instead seek to ensure the stability of their respective banking sector through pro-active regulatory oversight and the maintenance of sufficiently robust capital buffers. While there is a desire to keep banks strong (bailing in helps to shore up capital), we think keeping banks profitable (and hence continue lending) is equally important as they are crucial to the proper functioning of the modern economy. A trigger-happy regulator would presumably increase the cost of bank capital, which depresses the profitability and competitiveness of banks. An example of this is the Reserve Bank of New Zealand's ("RBNZ") recent final decision on a proposal to raise minimum regulatory capital requirements for New Zealand banks. In its decision, RBNZ stated their position that a banking system with higher minimum capital requirements will generate more benefits for banks from increased financial stability and better fundamentals than potential additional costs from holding more capital. Conversely, if regulators choose not to trigger bail-ins but continue to inject capital (and bail-out) during times of need, this would lend support to the valuation of bank AT1s. However, we argue that the likelihood of bail-outs has declined post 2008 Great Financial Crisis especially since bank AT1s are meant to serve the purpose for bail-ins.

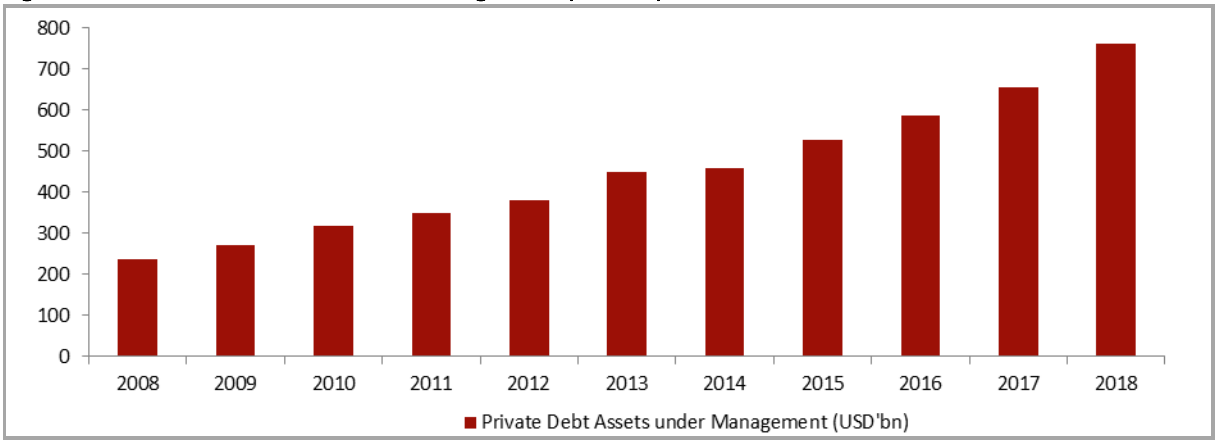
Wider spreads needed for higher risk though are the current levels justified?: Overall, we argue that bank capital instruments necessitate somewhat wider spreads than corporate perpetuals (assuming similar credit risks) given regulatory write-down risks and somewhat higher non-call risks, notwithstanding the variability and complexity of bank capital instruments. However, are current yield levels of bank capital instruments fair relative to corporate perpetuals? While we acknowledged the difficulty in quantifying the differences, we see better relative value in bank AT1s at this point. For a similar Issuer Profile Rating, bank capital instruments are trading anywhere from ~30 to100bps wider depending on their structure even though they benefit more from external ratings (none of the SGD corporate perpetuals are rated), proactive regulatory oversight and potential systemic importance of the issuers and manageable write-down risk in our view considering fundamentals and regulator intent. We think the thinner investor pool is likely one of the bigger drivers for the wider spreads (and volatility) relative to corporate perpetuals. As such, we think the opportunity still remains for investors willing to take on bank capital risks.

Watch out for call risks going into 2020: Back in Mar 2018, we cautioned that investors should expect a number of issuers not to call at the first call date, as call risks should be driven by the issuer's economic incentive. 2020 is shaping as an interesting year for perpetuals and bank capital instruments with SGD3.3bn in perpetuals approaching first call. The largest ones include SGD800mn DBSSP 4.7% PERP, SGD700mn FPLSP 5.0% PERP, SGD600mn SCISP 4.75% PERP and SGD450mn BAERVX 5.90% PERP. While investors have largely priced these to call (likewise we think so for e.g. FPLSP 5.0% PERP and BAERVX 5.90% PERP), we think the risks of non-call cannot be discounted, especially for issuers which cannot refinance economically.

The Rise of Private Credit

Private debt refers to debt transactions where a lending source directly provides a loan to the borrower without the use of an intermediary, and the debt instrument is not traded in an open market. Globally, the private debt asset under management has increased three-fold over the past decade from USD238bn in 2008 to USD761bn in 2018 with North America making up half of the investments (~50%), followed by Europe (~39%) and Asia (~9%).

Figure 30: Private Debt Assets under Management (USD bn) over Time

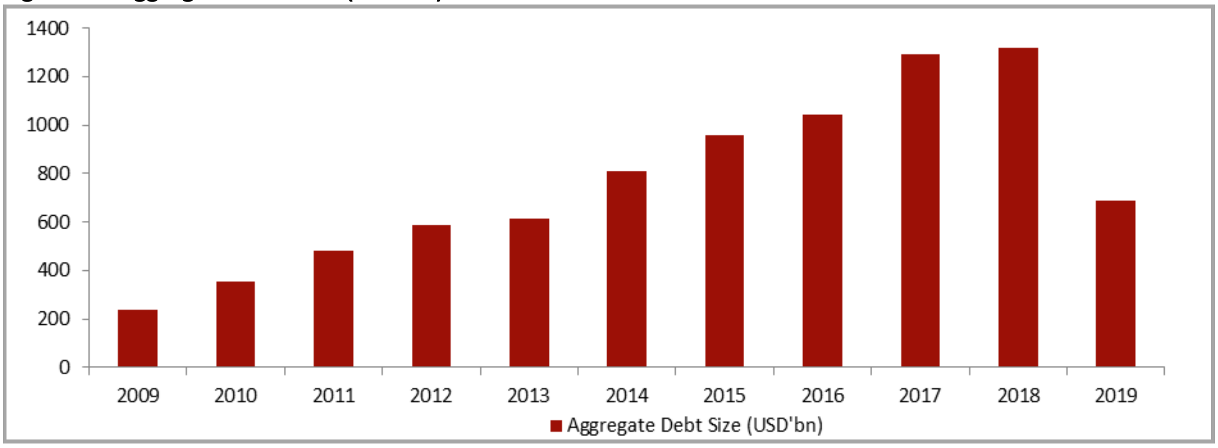


Source: Preqin

The origin of the private debt market can be traced back to the 1980s where it mostly comprised of special situation or mezzanine lending. The 1990s which saw the consolidation of banks in the United States led to the disappearance of the middle market-focused (defined as companies with annual revenue of USD10mn to USD1bn) banks and a shift in lending preferences away from loans to the small and mid-sized businesses and towards large corporate borrowers. This trend was further accelerated by the Global Financial Crisis in 2008 which saw the emergence of increasingly stringent banking regulations such as higher bank capital that disincentivized banks from extending credit to the smaller borrowers and thus, reduced overall bank lending (particularly to smaller private companies).

Post these structural changes, the lack of supply of financing for the middle market by traditional banks spurred the growth of the private debt market including direct lending. Demand factors which brought about the strong growth include investors seeking yield and diversification, and companies looking for capital to grow. In fact, according to Preqin, the volume of private debt deals has grown every year since 2009 with the exception of 2019. The reversal of the growth trend in 2019 can be attributed to the belief that markets are nearing the end of the current cycle. With investors expecting more uncertainty and turning cautious, deals done in 2019 have slipped.

Figure 31: Aggregate Debt Size (USD bn) over Time



Source: Preqin

Historically, such debt was deemed a peripheral asset class and had struggled to find a place in institutional investors' asset allocations. With the above-mentioned yield compression in liquid products and banks shrinking their loan book, there is a gap/opportunity in the market for market players to fill. Private debt is attractive to investors. First, these instruments deliver good returns relative to public debt and bonds. Annual return averaged around 10% since 2008 according to McKinsey Global Private Markets Review 2019. We think this can be partly attributed to the illiquidity premium of such instruments as well as the arrangement fee. Second, private debt, perceived as a cross-over asset with equity-like returns and bond-like volatility, offers diversification benefits (i.e. low correlation with other asset classes). This trait of private debt boosts its attractiveness to pension funds in particular. Third, private debt allows for flexible customized terms comprising covenants which can serve as an early warning to borrowers' financial condition. These include having a prior charge on borrowers' assets over unsecured investors and floating rates linked to market benchmarks which are particularly appealing in a rising interest rate environment. Fourth, investors can derive a variety of risk and return profiles from the wide range of private debt instruments and strategies available, and perhaps take opportunistic positions resulting from market dislocations. As such, private debt has become increasingly mainstreamed with ~33% of the institutional investors globally active in this market according to Preqin.

Institutional investors, namely, public pension funds, insurance companies and family offices are some of the biggest investors.

Table 6: Largest Asia-based Private Debt Investors by Allocation to Private Debt

Firm	Type	Headquarters	AUM (USD mn)	Current allocation to Private Debt (USD mn)
National Pension Service	Public Pension Fund	South Korea	577,835	2,942
Eastspring Investments	Asset Manager	Singapore	188,000	1,050
IIFL Capital	Asset Manager	India	12,000	800
KB Insurance	Insurance Company	South Korea	22,512	743
Kyobo Life Insurance	Insurance Company	South Korea	67,202	538
Public Officials Benefit Association	Public Pension Fund	South Korea	10,205	520
Hyundai Marine & Fire Insurance	Insurance Company	South Korea	30,103	229
Mirae Asset Life Insurance	Insurance Company	South Korea	15,989	144
Hana Alternative Asset Management	Asset Manager	South Korea	464	139
Shin Kong Life Insurance	Insurance Company	Taiwan	82,413	137
National Pension Service	Public Pension Fund	South Korea	577,835	2,942
Eastspring Investments	Asset Manager	Singapore	188,000	1,050
IIFL Capital	Asset Manager	India	12,000	800
KB Insurance	Insurance Company	South Korea	22,512	743
Kyobo Life Insurance	Insurance Company	South Korea	67,202	538

Source: Preqin

Evidently, what was once an opportunistic play has become a viable permanent allocation in the portfolio of many institutional investors. Looking ahead, we think the private debt market which is inherently less risky than equity continues to be attractive, has a place within portfolios and certainly, has scope to grow. In addition, we are also likely to see innovative new strategies emerge and see private debt evolve along with the needs and preferences of investors. That said, the journey ahead may not be a smooth one as typically in the later stages of the credit cycle, credit quality is likely to deteriorate across the board and we may see more speculative debt financing or more involvement of distressed companies as opposed to small strong companies that were not able to attract bank lending solely due to its size.

An example closer to home is CMA CGM. Reported on Bloomberg in December 2019, hedge funds offered CMA CGM new loans as the shipping giant steps up efforts to refinance bonds coming due in 2021 with vessels guaranteeing the debt. Although management has turned down the offer, this is no doubt an example of the situation in the later stages of the credit cycle.

Much like private equity vs. public equity, we think private debt is by and large different from bonds including high yield bonds given the differences in terms of (1) barriers to entry, (2) risk appetite, (3) illiquidity, and (4) information availability. That said, we think private debt (direct lending in particular) can be an alternative to high yield bonds for investors who have access to both since the investment methodology and expected returns are broadly similar.

Artificial Intelligence in Credit Research – Promising but Practical?

Artificial Intelligence ("AI"), essentially man-made thinking power, was first coined in 1956. It exists when a machine can learn and reason logically to solve problems and make decisions like a human can. With technology improving by leaps and bounds – faster processing speed and cheaper computing power, along with enhanced data availability, applications of AI are seemingly only limited by our imagination. All in, AI can bring about wide-ranging and permanent changes to the way we work, play, and live.

Delving into how the power of AI can be harnessed in the field of credit research, be it a boost in terms of quality or speed on research on the creditworthiness of companies, we ascertained some advantages and limitations of this still-developing technology.

Machine learning models are able to process large amounts of past data to learn and form patterns, then make a prediction or forecast pertaining to new incoming data. The most common method for models to "learn" is through supervised learning where a large dataset including "correct answers" is provided to the algorithm which will then make predictions based on the dataset it was provided with. The supervised learning process stops when the algorithm reaches a satisfactory level of performance. Within the investment decision making function, a more common application of this method is sentiment analysis, where financial news and financial reports are analysed to determine whether they are positive, neutral, or negative.

AI has already found widespread adoption in the finance industry, especially in areas involving credit decisions. This can be attributed to AI's capability to process a large amount of data points much more accurately than human beings and at a lower cost. This is especially more so where lending decisions are made based on alternative data where otherwise this pool of customers remains unbanked. For quantitative data, AI programs tend to be more accurate, less likely to be biased, and can never experience fatigue. This all leads to a better-informed and data-backed decision on the counterparty's creditworthiness, and at a lower cost than humans, if the program is implemented at scale. Successful use cases have been concentrated in micro, small and medium size commercial lending and retail banking loans. Often, the quantum of each loan is small as a percentage of a lender's total portfolio where a single mistake is tolerable.

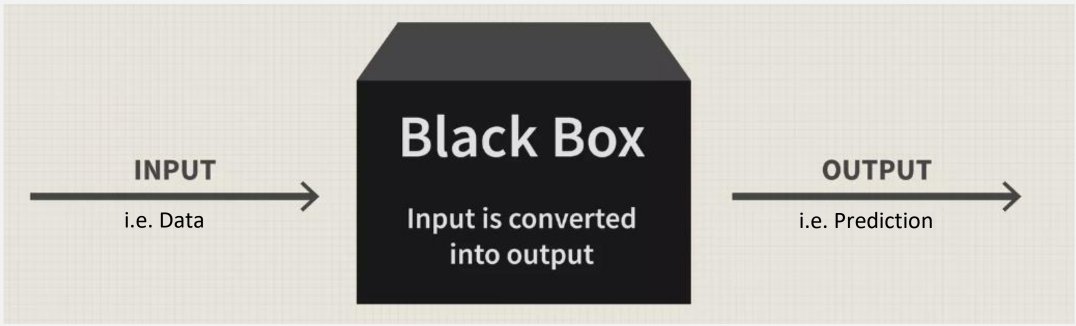
In theory, AI has vast potential for improving the credit research process by combing through immense amounts of data accurately and without bias. In practice however, there are several limiting factors that make it difficult for the technology to fully replicate the human analyst.

First, in order for the program to process natural language data, it requires what is called "clean data" to perform natural language processing. This can be very hard to do; especially in the field of credit research where data points are wide and varied, ranging from text in financial statements, graphs in investor presentation slides, to audio from analyst briefings and conference calls. Even within regulated and standardized documents like financial statements, the data within can still vary widely in terms of languages, currencies and presentation. As it stands, while natural language processing technology exists, these are still in its infancy as far as credit research is concerned in our opinion.

Second, the information that can have the most significant impact on a company's ability to service its debt are often idiosyncratic and non-standardized, such as a mergers and acquisitions transaction, and changes in business model or management objectives. Cleaning the data points from all these events to fit into an AI or machine learning model can be difficult and time consuming, if not impossible.

Third, the legal liabilities involved in employing AI programs in conducting and publishing credit research are also a limiting factor. In Singapore, financial analysts are licensed and regulated, and are bound by ethical and fiduciary responsibilities when publishing research reports and issuing recommendations. Problems arise when the program employs what is known as a "black box" or opaque model, where it is not known why or how the program arrives at a decision or prediction. When the program makes a mistake or is inaccurate, which can happen due to the varied and unpredictable scenarios of real life, should the AI model be responsible? Do we point our fingers at the creator of the program? Or is the analyst to blame? It is a conundrum similar to problems faced in the self-driving cars industry and will require the legal system to evolve and adapt to the increasing prevalence of AI in all aspects of our lives.

Figure 32: Black Box Model



Source: Julie Bang

In conclusion, we think there is no question that AI is a promising technology that will improve the way we conduct credit research. However, at this current stage, while AI and machine learning models cannot fully replicate human credit research analysts, we think AI can be deployed to automate or speed up certain parts of the research process, in order to improve the speed and accuracy of the research.

Everything Seems Greener

Our Macroeconomics Research colleagues recently published a Primer on Environment, Social Responsibility and Governance ("ESG") Investment. While the concept is not necessarily new, it has gathered pace in the last four to five years in terms of prominence and acceptance. So has the volume of global sustainable debt issued, which makes the topic hard to ignore. However, it is not only the 'quantity' of the concept that demands attention but also the underlying 'quality' of ESG in investment analysis. Again, as our Macroeconomics Research colleagues covered, incorporation of ESG analysis is expected to generate long term alpha and better investment performance in the long run for riskier assets through identifying and factoring out tail risks and black swan events. According to the Luxembourg Stock Exchange's LuxSE Guide to ESG Reporting, "strong performance on ESG factors correlates positively with improved cost of capital and financial performance." MSCI's research paper from March 2019 titled "Banking on ESG: Examining the financial relevance of ESG to banks," stated their research has shown a link between ESG factors and stronger corporate financial performance. Finally from a broader viewpoint, the latest IMF Global Financial Stability Report highlighted that ESG issues can materially impact financial system stability with governance failures at banks and corporations contributing to the Asian and Global Financial crises.

There also remains little doubt of the benefit of increasing ESG awareness given it incentivizes good behaviour and habits for the betterment of society and the environment. As individuals, we are aware of climate change, recycling and waste management and the benefits of renewable and clean energy. It is also a more prominent part of children's education hence the knowledge and awareness of these factors will only continue to increase. Companies in turn are also more actively reporting their activities in this space, highlighting their commitment to the cause and belief in its importance. Standard Chartered PLC published a Sustainability Summary 2018 highlighting how it (1) is incorporating sustainability into its businesses to ensure it is a responsible corporate citizen, (2) contributes to sustainable economic growth and development in its key markets through its clients and (3) directly invests in communities for their economic and social development. Similarly, CapitaLand Ltd voluntarily publishes its Sustainability Reports according to Global Reporting Initiatives Guidelines. Per CapitaLand Ltd.'s website, "The report includes the Group's management approach in integrating sustainability into its policies, structure, management and operations. It shares the Group's sustainability journey, provides insights into its strategies, as well as highlights the economic, environmental and social aspects of the Group's developments and operations." In line with this, CapitaLand Commercial Trust Management Limited, the Manager of CapitaLand Commercial Trust, issued its first green bond in mid-December 2019 under its Sustainability Financing Framework raising JPY10.0bn in 8-year unsecured bonds.

Regulators are throwing their support behind the cause as well to create more sustainable or green economies given the significant funding requirements needed in green investment to meet policy goals. In 2018, the Monetary Authority of Singapore ("MAS") signed an MOU with the World Bank's International Finance Corporation to accelerate the green bond market in Asia. This followed the launch of the MAS Green Bond Grant Scheme in 2017 to drive growth of the green bond market by covering the additional eligible costs related to obtaining an external review for issuing green bond. Since its launch, the scheme has been expanded to include social and sustainability bonds (and renamed as the Sustainable Bond Grant Scheme[3]) while the minimum issuance size requirement was lowered and the program's expiry date was extended a further three years to May 2023. To date, SGD6bn in green bonds have been issued according to the MAS. Adding on to this program, MAS also launched in November 2019 a USD2bn Green Investments Program[4] where MAS will invest in asset managers that have a strong green focus and who are committed to deepening green finance activities and capabilities in Singapore. MAS' efforts to drive Green Finance in Asia are just a part of a more regional effort to grow sustainable finance in ASEAN with the ASEAN Capital Markets Forum (comprising capital markets regulators from all 10 ASEAN countries) also developing the ASEAN Green Bonds Standards in conjunction with, and based on, the International Capital Market Association's globally recognized Green Bond Principles. According to MAS, 80 green/social/sustainability bonds/sukuks from Singapore, Malaysia, Thailand and the Philippines have been issued for renewable energy, green buildings and low carbon transportation as of October 2019 to meet an estimated USD200bn in annual green investment requirements in ASEAN until 2030.

But while individual, issuer and regulator awareness are growing, the direction for the development of ESG investment is not necessarily a one-way street. Despite the existence of established Green Bond Principles and Climate Bond Standards and the development of ASEAN Green Bonds Standards, there still appears lack of consistency in how and when corporations report their sustainability efforts. The IMF highlighted that this is particularly the case with regards to environmental and social obligations. As such, it can be difficult for investors to make an accurate relative assessment of ESG risk between issuers. While external experts including international ratings agencies have clear and detailed frameworks for assessing ESG risks, these too could be compromised by the quality of information and be highly subjective. Evaluating the success of ESG plans for issuers is also longer term in nature and sometimes dependent on the existence of a black swan event. As per the IMF's October 10 statement on 'Connecting the Dots between Sustainable Finance and Financial Stability,' even issuers cannot be certain whether their ESG initiatives are appropriate while implementation costs are upfront. These information or timing gaps could lead to what has been termed "Greenwashing" which is the act of labelling a product, service, technology or a project as green or with ESG benefits when in fact they aren't so. Therefore, while standards exist that can be put to use, there is still room for improvement.

In addition, with ESG as a new component in investment analysis, the question is whether the previously discussed benefit of increasing ESG awareness is offset by the additional costs. With more assessment criteria comes more potential for problems and more compliance requirements and in practice, the implications of ESG analysis are likely only on the downside. That is, being superior at ESG awareness, management and preparedness may not benefit the current credit view given it considers risk factors that relate to a potential future stress and not a current one. On the other hand, a perception of being unaware and unprepared for future ESG issues may damage investor perception. Companies are now subject to more and more ESG related standards and codes related to investment, corporate governance, accounting and disclosure. Companies as well may be subject to more volatile and negative public and investor reactions, particularly with the prevalence of social media. This was made apparent in the recent allegations by Australia's financial crimes regulator AUSTRAC against Westpac Banking Corporation ("Westpac") for systemic breaches of the Anti-Money Laundering and CounterTerrorism Financing Act, some of which were connected to possible child exploitation offences. This last aspect drove the intensity of adverse attitudes from investors, regulators, politicians and the public and transformed the implications from these breaches to not only financial but reputational. It forced the resignation of Westpac's CEO and the preponing of the retirement of its Chairman. It also resulted in Westpac providing a withdrawal option to retail shareholders following discussions with the Australian Securities and Investments Commission ("ASIC") who applied for shares under the share purchase plan announced prior to the AUSTRAC announcement. Amongst the many actions since the initial announcement has been the setting up of both internal and external reviews and the hiring of additional staff to deal with financial crime indicating a crossover or multiplier effect between Westpac's regulatory and ESG obligations that will have longer lasting impacts on financial performance.

The intensity of the reaction may indicate that the overall quantum of operating risks for issuers has risen. However, we think the volume of risk has not changed so much, it is more the impact of these risks that has changed given social media and that regulators and investors are more emboldened to act on them through rising awareness. It could also be argued to an extent that the intensity of such reactions (or possible over-reaction) could be a consequence of the aforementioned lack of a common, standardized assessment framework given that a lack of understanding of or familiarity with long-term risks naturally can lead to short term conservative views and reactions. Perhaps the concept is just still somewhat in its development phase – it should be noted that Westpac is a member

[3] https://www.mas.gov.sg/schemes-and-initiatives/sustainable-bond-grant-scheme
[4] https://www.mas.gov.sg/news/media-releases/2019/new-us$2-billion-investments-programme-to-support-growth-of-green-finance-in-singapore

of the MSCI Global ESG Leaders index with a 'AA' score per its 2019 Sustainability Performance Report, which indicates it is "A company leading its industry in managing the most significant ESG risks and opportunities."

Nevertheless, this environment no doubt raises the bar for issuers to conduct their business and forces issuers to constantly adapt to environmental, regulatory, and social changes. It also means the ongoing development of the quality of issuer's disclosures (i.e. reporting benchmarks) as well as the continued refinement of investor's understanding of what information is required and in what format as well as how to use that information to adequately assess ESG performance (i.e. assessment benchmarks). These formats should be standardized to ensure an appropriate relative value analysis and very much form the next stage of development in ESG in our view. The longer-term phase of development will be in understanding how past ESG policies and performance were able to adequately mitigate a black swan event (i.e. impact benchmarks). As the impact looks set to continue rising, it means the significance of establishing reporting and assessment benchmarks becomes more important. Issuers that have been practicing ESG for some time will be clearly ahead of the curve and better prepared for what lies ahead.

In Conclusion

As mentioned previously, there are no clear fundamental reasons for credit spreads to continue to tighten in our view. If anything, we think they should stabilize in 1H2020 given slightly weaker fundamentals. That being said, with investors still bullish and on the hunt for yield, and central bank rates to either remain stable or still fall in 2020 to aid an anticipated recovery in economic growth in 2021, there does not appear any clear reasons for spreads to widen. In this regard, we would not be surprised if market technicals prevail, leading to a further tightening in credit spreads despite already stretched valuations.

It is clear however from current market dynamics that developments outside our expectations can tilt the delicate balance either way. Spread widening could occur if macro-economic developments weaken outside expectations forcing a more aggressive loosening in monetary policy and a deterioration in issuer fundamentals. On the flipside, better than expected economic growth and rising inflation could lead central banks to turn hawkish. We already saw a noticeable shift in central bank positioning throughout 2019.

Should the latter scenario eventuate then a potential wild card in a constructive macro and rates outlook could be a come-back in true high yield, particularly with structural high yield papers having done very well this year and high grade paper looking somewhat over-valued. True high yield issuance has also been limited in the past 2-3 years given the macro back drop, overall market caution and the proximity of recent SGD defaults in the offshore and marine space and the ongoing restructuring of Hyflux Ltd. Finally, Asian high yield is currently viewed as still offering better value against US high yield.

That being said, we still view the likelihood of a true high yield comeback as muted. Bank lending continues to be selective, constraining the short-term liquidity position of true high yield issuers – credit costs will need to be contained in this low rate and weaker earnings environment together with the prospect of ongoing investment in compliance and technology spend. The rising impact of Environment, Social Responsibility and Corporate Governance analysis could also be an outsized influence for true high yield issuers for the time being, perhaps more so than for high grade issuers considering their respective industries and transparency and the relative infancy in the awareness of its concepts as previously discussed. Finally, we continue to witness a general preference for good quality credits and expect this to remain so until the macro-outlook becomes clearer and more constructive. At the same time, demand for true high yield remained highly selective and concentrated on certain sectors (Real Estate) with a constructive underlying story. Several high yield issuers in our coverage (Golden Agri-Resources Ltd ("GGR") and First Real Estate Investment Trust ("FIRT")) found bond market access and secondary market liquidity somewhat challenging in 2019 despite the recovery in palm oil prices for GGR and FIRT's credit profile having improved in our view.

With macro-economic stability and low interest rates in 2020, we think selective risk taking is appropriate with carry to outweigh potential volatility in price movements. A continued focus on short term liquidity remains important with bank lending likely to remain selective towards better quality credits. An understanding of alternate forms of funding such as asset sales, parent support and access to private debt markets as we talked about earlier would also assist in understanding if riskier issuers can pay short term commitments on time and in full. With yield curves flat, we think shorter duration seniors make sense although we expect a pull towards longer duration and subordinated structures for extra yield. In that respect, structure is key as is call risk, more so now than 12 months ago given the spread tightening to date.

All up 2020 looks to be another interesting year for credit markets. Although technicals look to prevail, we continue to advocate a focus on fundamentals. We would like to thank our readers for your continued support and hope you find our publications useful in year ahead.

With appreciation,
OCBC Credit Research

Top Trade Ideas

Top Picks

Company	Ticker	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM/YTC	Rationale
Oxley Holdings Ltd	OHLSP	5.700%	31-Jan-22	SGD150mn	98.50	6.49%	We think OHLSP 5.7% '22s looks attractive trading ~6.5% yield for ~2years in tenor. Despite the high net gearing, we like the OHLSP curve as it is on a deleveraging path, with proceeds expected from asset sales. Meanwhile, OHL's residential projects are selling well.
Société Générale	SOCGEN	6.125%	16-Apr-24	SGD750mn	104.63	4.90%	Softer net banking income generation in 3Q2019 overshadowed solid performance in operating expenses which fell due to SocGen's cost reduction program. That said, SocGen's capital ratios continued to improve . The SOCGEN 6.125% PERPc24 has the highest reset spread amongst SGD AT1s.
CMA CGM (Parent of Neptune Orient Lines Ltd)	NOLSP	4.650%	9-Sep-20	SGD280mn	96.50	10.44%	NOLSP 4.65% '20s is interesting for investors with an appetite for risk. Although operating performance has improved steadily, the liquidity situation remains tight. We think the sale of investment stakes in ten port terminals to Terminal Link is likely to go through which will supply CMA CGM with the needed funds to repay NOLSP 4.4% '21s.
Keppel Corp Ltd	KEPSP	3.100%	12-Oct-20	SGD500mn	100.70	2.19%	We are broadly underweight the KEPSP curve due to heightened event risk at the company though like the short dated KEPSP 3.1% '20s with a yield of 2.19%, especially over the SCISP 3.7325% '20s.
Keppel Infrastructure Trust	KITSP	4.750%	12-Jun-29	SGD300mn	102.30	4.45%	We are overweight the KITSP 4.75%-PERP with first call date in June 2029. While there are no senior papers issued by KITSP, the senior paper KEPSP 3.66% '29s is trading at a yield of 3.13%, rendering a proxy senior sub-spread of ~130bps.

Top Pans

Company	Ticker	Coupon	Maturity/ Call Date	Amount	Offer Price	Offer YTM/YTC	Rationale
Aspial Corp Ltd	ASPSP	5.250%	28-Aug-20	SGD150mn	98.90	7.14%	We are Underweight the ASPSP curve as risk-reward is not attractive while prices are around par. We prefer switching into bonds issued by China HY developers instead.
Credit Agricole SA	ACAFP	3.800%	30-Apr-26	SGD325mn	103.60	3.16%	While CA's credit fundamentals are supported by the quality and quantity of its earnings the ACAFP 3.8% 31c26s still look expensive compared to other names. BNP Paribas papers offer better value in our view.
Shangri-La Asia Limited	SLHSP	4.500%	12-Nov-25	SGD825mn	106.84	3.21%	We are underweight the SLHSP 4.5% '25s which now only pays a yield of 3.21% and prefer the METRO curve instead for a yield pick up of ~60bps.
Ascendas REIT	AREIT	4.750%	14-Oct-20	SGD300mn	101.88	2.30%	We are underweight the AREIT 4.75%-PERP which is now only paying YTC of 2.3% and prefer to switch into the MLTSP 4.18%-PERP with a YTC of 3.4% which more than compensates for its one year longer call date in November 2021 and weaker credit profile.
ESR-REIT	EREIT	4.600%	3-Nov-22	SGD150mn	98.90	5.02%	We prefer the senior paper EREIT 3.95% '20s over the EREIT 4.6%-PERP and we think the perpetual faces high non-call risk at first call relative to other REIT perpetuals. While the perpetual trades at a YTC of 5.02%, yield-in-perpetuity is at 4.38%

Financial Institutions – Batten down the hatches

A year ago, our view was that Financial Institutions under our coverage could adequately navigate a challenging 2019 from potential political risks (elections, ongoing BREXIT uncertainty and trade tensions between the US and China) as well as a general tightening in monetary policy and a slowing macro-economic outlook, particularly for China and the US. These influences were expected to provide the backdrop for a tougher operating environment for Financial Institutions to grow revenues and earnings (and hence internal capital generation) while at the same time manage operating costs which were expected to remain elevated from (1) potentially higher compliance and regulatory costs (namely in Australia); (2) ongoing investment in digital transformation roadmaps, the savings of which will not be seen in the near term; and (3) rising competition for business and deposits from incumbent operators and from non-traditional competitors such as fintech players and large tech companies.

While by and large this view held true, developments in 2019 for Financial Institutions were somewhat harsher than anticipated. Instead of tighter monetary policy, Financial Institutions had to deal with flatter yield curves and falling interest rates impacting net interest margins. This overshadowed to an extent still decent underlying loan demand. Ongoing geopolitical uncertainty and event risk played on macro-economic outlooks and investor sentiment, dragging down the performance of markets and investment banking activities as well as putting downward pressure on asset quality. This led to a rise in absolute credit costs and growth in non-performing loans although credit cost and non-performing loan ratios were kept at still manageable levels due to growth in loan volumes. At the same time, operating costs remained somewhat elevated as prior year cost savings through restructuring were offset by investment spend on digitalisation. 2019 was also the year when regulators tightened the screws on Financial Institution's compliance obligations with earnings impacted by customer remediation costs in Australia and additional provisions for potential money laundering charges in the Netherlands amidst a general rise in compliance-related operating expenses. Still, earnings generation for the banks under our coverage remained solid given their established market positions and banks continued to growth their capital ratios, albeit at a slower pace.

Figure 33: Net Interest Margins

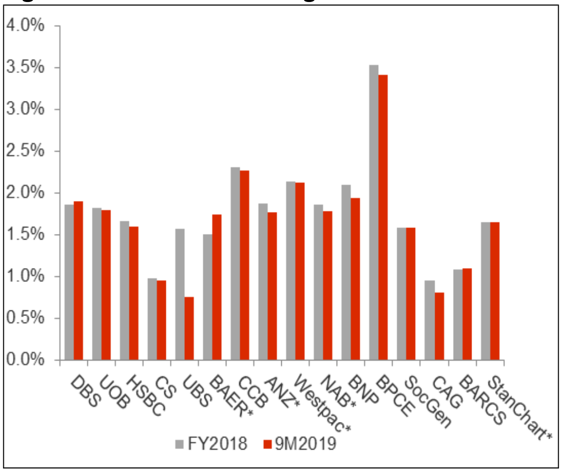


Figure 34: Loan Volumes (in local currency)

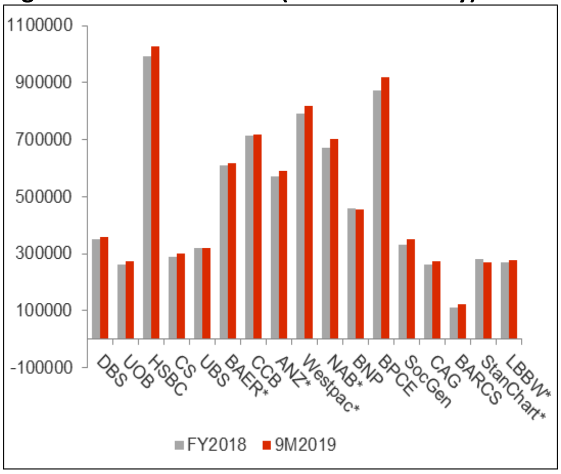


Figure 35: Credit Costs Performance

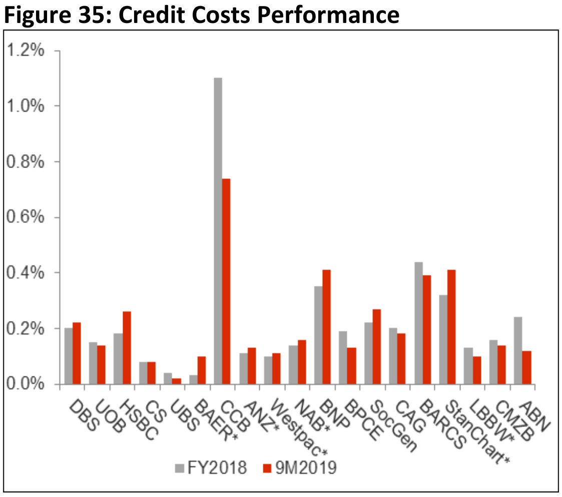


Figure 36: Non Performing Loans/Gross Loans

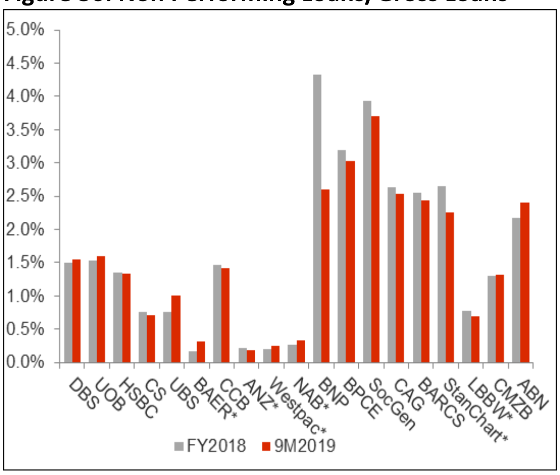


Figure 37: Common Equity Tier 1 Ratio

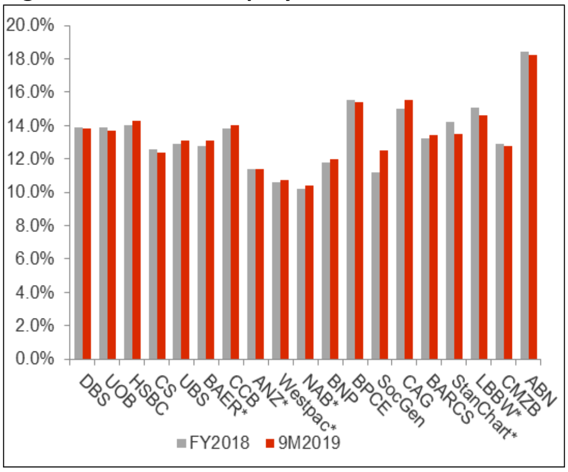
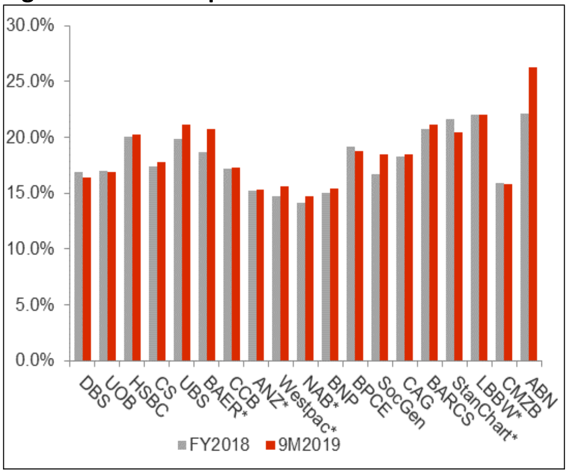


Figure 38: Total Capital Ratio



Source: Company latest financial reports, OCBC Credit Research. * Data for LBBW and BAER as at 30 June 2019 while Australian Banks are based on FY2019 (30 September 2019)

Following the harsher developments in 2019, Financial Institutions under our coverage are entering 2020 in a somewhat defensive mode. The operating environment is expected to remain challenging for the next 12 months while buffers within financial risk profiles have been eroded after 2019. With 2020 expected to provide no respite, there is now more pressure on the business risk profile to uphold overall credit profiles at current levels.

How are Financial Institutions trying to ensure that Business Risk profiles remain robust and adequately mitigate external challenges? **Firstly, Financial Institutions are revisiting their strategic plans**. While partly due to impending expiration dates of existing plans, many strategy adjustments have instead been brought forward to combat the expected weaker operating environment ahead with management seeking to change direction and recalibrate targets to fit in with shifting conditions. We highlight several examples of Financial Institutions in various geographies making significant changes:

HSBC Holdings PLC

After a very disappointing 3Q2019 result and slowing global economic growth altering the operating environment outside prior expectations, management at HSBC Holdings PLC ("HSBC") highlighted in the 3Q2019 earnings release that current strategic plans targeted to end in 2020 "are no longer sufficient to improve performance" for underperforming businesses and that management are "accelerating plans to remodel them, and move capital into higher growth and return opportunities." While prior strategic actions and financial targets were more focused on growth, management now expect lower returns due to a combination of the weaker revenue growth outlook as well as the likelihood of additional restructuring and impairment charges as a result of the strategic refocus. With the foreshadowing of material changes, planned capital instrument issuance in 4Q2019 was shelved with the outcome of the strategic review to be announced in February 2020 with the release of the FY2019 results.

Commerzbank AG

In Germany, Commerzbank AG is implementing its "Commerzbank 5.0" strategic programme that was announced in late September 2019. This announcement followed the unsuccessful exploration of mergers with Deutsche Bank AG and UniCredit AG in the first half of 2019. Key aspects of the plan include a focus on mobile banking and branch network rationalisation as well as digitisation in the Corporate Clients segment along with portfolio adjustments to improve returns in the persisting challenging domestic operating environment. Management is expecting cost reductions of around EUR600mn by 2023 compared to the current year to offset the weak revenue environment and help the bank achieve a return on equity of more than 4% over the medium term. Already however, this plan has met some roadblocks with the sale of its stake in Polish mbank S.A. and acquisition of the remaining 18% stake it does not already own in online bank Aktiengesellschaft ("Comdirect") hitting some roadblocks.

Westpac Banking Corp

In Australia, multiple regulator proceedings for alleged systemic breaches under the Anti-Money Laundering and Counter-Terrorism Financing Act is likely going to result in Westpac Banking Corp ("Westpac") needing to adjust its current strategy which is focused on maintaining its customer franchise, executing performance discipline and digital transformation. This is given the increased willingness, capacity and urgency to address outstanding compliance issues and implementing Royal Commission recommendations and resolve the impending Anti-Money Laundering proceedings. These will likely result in both financial impacts through fines as well as business impacts for Westpac with (1) independent and internal reviews underway on procedural failings that led to the breaches and Board risk governance and accountability, as well as (2) the setting up of a new financial crime subcommittee and hiring an additional 200 staff in 2020 to its 750 existing internal staff dedicated to financial crime.

Secondly, several Financial Institutions are pursuing restructuring or refinement within their existing strategy. Again, we provide illustrations in the following:

UBS Group AG

With expectations of persisting challenges and considering both changing clients' needs and ongoing digital investment, UBS Group AG ("UBS") is restructuring its Investment Bank with the aim to strengthen collaboration between the Investment Bank and Wealth Management divisions. To guide the restructured Investment Bank in 2020, senior management changes have also been made while the wealth management division is also planned for restructuring under new co-head Iqbal Khan. These changes are expected to be part of UBS's strategy update to be announced in January.

Credit Suisse AG

With its three-year restructuring program completed and having built a more resilient business, Credit Suisse AG ("CS") is embarking on its next phase of transformation with a focus on the future after largely resolving legacy issues. In August, CS announced a reorganisation of its Swiss Universal Bank ("SUB") division to address shifting industry dynamics and improve its relatively low market share in both younger clients and Swiss retail banking with additional investment in digitisation, client advisory and marketing over the next three years to establish a "needs-oriented product and service offering" that will combine digital solutions and higher interaction with personal advice depending on the client segment. SUB's investment banking business will be managed as a separate area to provide services to clients both within and outside of the SUB division while CS is expanding its advisory teams for Wealth Management and Premium clients as well as in its Corporate Banking and Institutional business areas. For the International Wealth Management division, a new Private Banking International unit has been set up primarily to focus on clients with lower Assets under Management using more technology to cut servicing costs given rising competition that is suppressing margins.

Standard Chartered PLC

Standard Chartered PLC announced refreshed strategic priorities in February 2019 covering the 2019-2021 periods as the bank moves from its turnaround phase to a transformation phase. The key aim of the refreshed priorities is (1) to improve returns on tangible equity to 10% to generate surplus capital to fund shareholder returns or additional growth investments in its international network and affluent client businesses, (2) improving performance in targeted low-returning markets including India, Korea, the UAE and Indonesia, (3) streamlining operations to enhance client satisfaction and drive productivity, and (4) invest in digitisation. Key financial targets include 5-7% compound annual growth rate in income, expense growth below the rate of inflation, and active management of risk weighted assets through efficiencies and divestments including its recent sale of Bank Permata in Indonesia to Bangkok Bank.

BNP Paribas SA

For BNP Paribas SA ("BNPP"), a moderate rise in operating expenses at constant scope and exchange rates indicated positive progress in cost reduction measures as part of BNPP's 2017-2020 development plan while the Domestic Markets and International Financial Services strategy of new customer experiences, cost reduction and digitalization remains on track. That being said, the changing operating environment and weaker revenue generation and profitability has forced a relook at the transformation strategy within Corporate & Institutional Banking along three key actions – rationalization (reviewing non-strategic, subscale or unprofitable segments); industrialization (reducing costs); and prioritisation (selective investment into growth businesses and regions). 2020 targets have been updated, principally through downward adjustments to revenue growth and upward revisions to cost savings to generate positive JAWs. This relook is part of an overall revision of the 2020 plan according to management.

Finally, Financial Institutions are preparing to face the path forward with new leaders, either by force or by design. We provide several illustrations below:

Julius Baer Group Ltd
Julius Baer Group Ltd.'s new CEO Philipp Rickenbacher commenced 1 September and since then has set the bank on a path driven by focus (reduction in executive leadership, streamlining geographic coverage, possible job cuts), investment and growth (new offices in the UK and Spain, increasing its stake in NSC Asesores in Mexico, expanding local presence in Brazil and Germany, entering into strategic cooperation agreements in Thailand and Japan, recommitting to Latin America).

HSBC, Westpac
Both HSBC and Westpac, which are under the most pressure to uphold credit profiles, are currently operating under interim CEOs with prior CEO's being casualties from underperformance for HSBC (prior Group Chief Executive John Flint stepped down in early August after only 18 months with HSBC stating that new leadership was needed to meet economic uncertainty, replaced by Noel Quinn, the Chief Executive of Global Commercial Banking) and anti-money laundering breaches for Westpac (to ensure stability for the bank, prior CEO Brian Hartzer resigned in late November following intense public pressure and was replaced by Chief Financial Officer Peter King on an interim basis).

National Australia Bank Ltd
National Australia Bank Ltd.'s ("NAB") new CEO Ross McEwan started in early December with a mandate to address past failures by the bank identified by the Royal Commission that saw prior CEO Andrew Thorburn depart earlier in 2019 while Chairman at the time Ken Henry departed later in the year. Mr McEwan's prior turnaround experience with the Royal Bank of Scotland was a key reason for his hire given the need for NAB to repair its reputation with regulators and the public and address outstanding regulatory matters (recent court action by the Australian Securities & Investments Commission for fees for no service and fee disclosure statement failures, breaches of the National Credit Act, ongoing discussions with AUSTRAC for potential breaches of the Anti-Money Laundering and Counter-Terrorism Financing Act).

ABN Amro Bank NV
ABN Amro Bank NV's ("ABN") current CEO Kees van Dijkhuizen will end his term at the next Annual General Meeting on 22 April 2020 while ABN remains under investigation with regards to requirements under the Dutch Act on the prevention of money laundering and financing of terrorism. While the search for a new CEO continues, ABN's current Target 2020 strategy remains in place.

Société Générale
After 11 years in the job, Société Générale has announced that it is searching for a successor to current CEO Frederic Oudea when his term ends in three years. While the time frame is long, the news may cast some uncertainty on the way forward and raise the possibility that the current CEO could be replaced earlier should there be any severe under-performance or perhaps a strong candidate identified to better handle the current environment.

Therefore, with Financial Institutions entering 2020 under the influence of change what are the key influences on credit profiles for Financial Institutions in 2020 in our view:

1. Macro-economic performance: This drives income generation, asset quality and hence earnings potential. Current expectations are for a soft 2020, however the consensus is for 2020 to represent a trough with economic growth stabilizing or picking up in 2021 across major economies that Financial Institutions under our coverage are exposed to (see Figure 10: GDP Growth Forecasts);
2. The three C's: All Financial Institutions are exposed to each or all the influences of **C**ompetition, **C**osts and **C**ompliance in varying degrees although in general these influences are increasing. This makes the relative success of restructuring activities, the effectiveness of management and cost management programs more critical than prior years given rising exposure to additional litigation and compliance costs (both event driven and ongoing), a possible rise in restructuring costs from new or revised strategic plans and the ongoing need for digital investment (which must now focus not only on the customer experience or revenue generating side but also on addressing operational risk). These influences are also not independent with increased competition for loans and deposits possibly leading to more aggressive business growth that could lead to an eventual rise in credit and/or compliance costs.
3. Regulations: Although stronger capital bases have been built in the 10 years since the Global Financial Crisis, the regulatory focus remains on maintaining systemic stability and increasing loss absorbing capacity for Financial Institutions. This is in recognition of Financial Institutions' larger balance sheets, a global economy

that contains higher leverage (according to the International Institute of Finance, global debt reached a record USD250tr in the first half of 2019), and an increasingly interconnected global financial market. This, along with potentially limited government capacity for monetary or fiscal stimulus, indicates a higher susceptibility of the global financial system to systemic shocks. With key pillars of Financial Institution regulations in place, the next focus for regulators appears to be solidifying existing regulations and also turning an eye towards compliance matters as seen from various compliance related actions across various Financial Institutions, principally related to anti money laundering and counter terrorism financing breaches. Other regulatory developments include the growth of sustainable finance, the ongoing rise of fintech and benchmark rate reform. In general, regulatory developments in 2020 are likely to be tighter with possible impacts including higher compliance costs, weaker earnings, and risk weighted asset inflation which may pressure business volumes and capital ratios. The rise of environmental, social and governance ("ESG") influences on Financial Institutions together with regulator focus on compliance adds an additional layer of obligations given Financial Institutions' (1) social mandate as a provider of credit to the economy; (2) governance obligations given their systemic importance; and (3) exposure to environment risk or vulnerability through the loan book.

4. Regulator and government intent: These remain supportive in our view. While regulators continue to monitor Financial Institutions for breaches of their legal, regulatory and social obligations, we believe they will remain pragmatic in any proceedings given that Financial Institutions remain systemically important to the overall financial sector and economy. Even in Australia where the environment appears conducive right now for a long-lasting negative outcome for Westpac given regulators' higher willingness and capacity to litigate the Financial Institutions (scaling up of resources and higher motivation to actively pursue proceedings against Australia's Financial Institutions in the shadow of the Royal Commission) and Financial Institutions' reduced desire to contest any charges given current negative public perception on their behaviour, we think a harsh, yet balanced outcome for Westpac is likely. Management changes have been affected, organisational changes are being explored and, while the financial penalty is yet to be confirmed, APRA in its recent comments sought to affirm that Westpac remained financially sound. The recently announced application of AUD500mn in additional capital requirements to reflect Westpac's heightened operational risk profile and indications that the investigation would take time to complete given the large scope indicates to us that regulators may seek to make these impacts material but manageable to ensure banking system stability. Similarly, following the volatility in the market from the takeover of Baoshang Bank in May 2019 by China's regulators, issues at the Bank of Jinzhou were managed with three strategic investors investing in the bank to shore up its capital. The introduction of strategic investors along with support for the issuance of certificate of deposits by the Bank of Jinzhou through guarantees (Credit Risk Mitigation Warrants) which improved market liquidity following the Baoshang Bank takeover, showed regulator's willingness to try alternative measures and commitment to contain financial risk.

In conclusion, the balance of influences are tilted to the downside for 2020 but in the absence of a black swan event, we think by and large that issuer profiles for the Financial Institutions under our coverage will remain stable in 2020, notwithstanding that buffers under existing credit profiles have reduced. Macro-economic weakness could be somewhat short-lived, regulatory developments will generate short term earnings pain but longer-term improvement in underlying fundamentals while ESG influences should incentivize better behaviour and better habits for financial institutions going forward. Finally, regulator influence will remain accretive to stability and credit quality. 2020 still shapes as a challenging year for credit growth, asset quality and hence profitability but sufficient capital buffers and liquidity as well as ongoing regulatory support will provide the cushion in the next 12 months. As mentioned above, the influence of business risk profiles will be key.

Singapore REITs – Pushing Forward

Monetary Authority of Singapore (MAS) pondering to increase aggregate leverage

In July 2019, MAS published a consultation paper on allowing REIT's aggregate leverage to exceed 45% but not more than 50% if the REIT is able to meet a minimum interest coverage requirement of 2.5x and allowing perhaps an even higher leverage, say 55%, if the REIT has demonstrated good financial discipline such as having a higher minimum interest coverage. As MAS is in the midst of seeking clarification on the views provided to them, we think an update would only come this year.

A higher aggregate leverage is a pro-business move for Singapore capital markets. With greater capital structure flexibility, S-REITs may potentially be able to scale greater heights. That said, we think debt markets can no longer take a broad brush approach to assume that REITs are a low credit risk sector. Instead, we think debt markets are likely to respond accordingly to the actions committed by each REIT (i.e.: case by case basis). The traditional assumption that REITs have lower growth can no longer be relied upon as we think REITs are likely to use the opportunity to expand their asset base (inorganically or through redevelopments / developments).

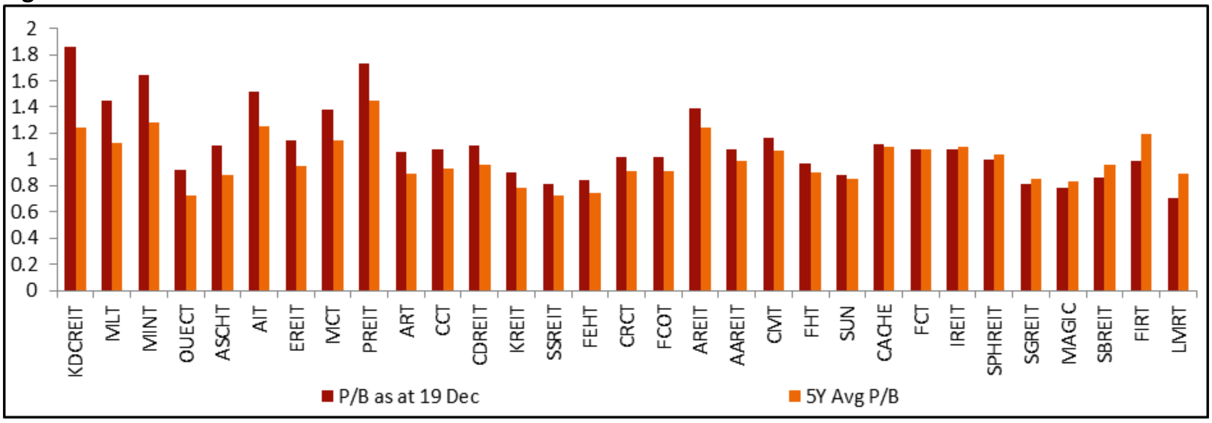
Overall, we expect aggregate leverage to creep up, though settling at a new norm (which factors in the markets' comfort level with the credit risk against the returns investors are getting out of this sector) over time. REIT managers that continue to practice financial discipline and uphold the market's expectation of REITs as lower risk vehicles that generate stable income to pay its capital source providers are likely to continue to be favoured.

From our perspective as credit research analysts, should the new aggregate leverage cap be above 50%, some possible safeguards include (1) a higher EBITDA/Interest coverage that is above the suggested 2.5x. We think a more stringent coverage ratio would better serve its purpose and reduce the likelihood of a "false sense of security", especially in the current low interest rate environment which has suppressed the denominator and (2) a cap on the secured debt a REIT could take relative to its total deposited asset value to allow for higher financial flexibility and a better recovery in the off chance of a default given that bondholders are invariably unsecured debt holders.

<u>Record year for equity fund raising</u>

Over 75% of all REITs which has been around for over five years recorded higher Price-to-Book ratio ("P/B") as at 19 Dec 2019 relative to its five year average. Keppel DC REIT leads the pack with its P/B at 1.86x, up from 1.24x five years ago. With such high P/B ratio, it makes raising equity funds as oppose to debt to pursue growth opportunities very attractive from the REIT's point of view.

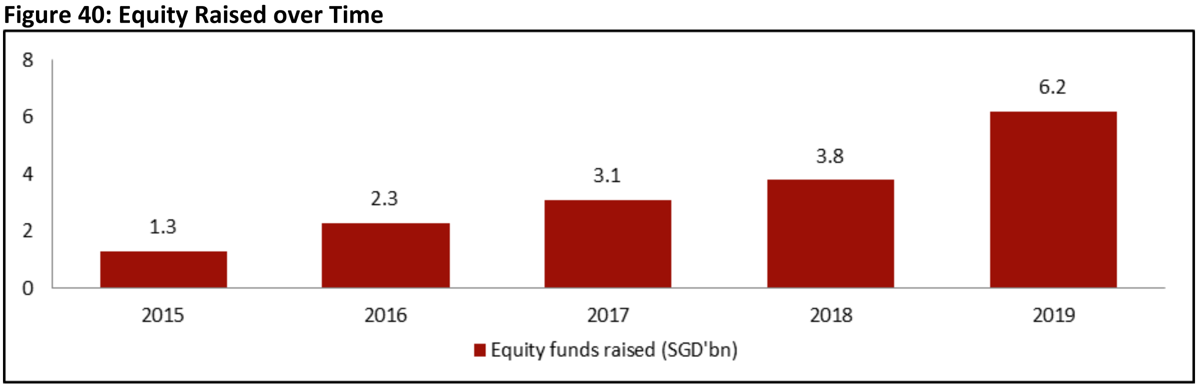
Figure 39: Price-to-Book of S-REITs



Source: Bloomberg, OCBC Credit Research

Consequentially, S-REITs raised SGD6.2bn of equity funding in secondary markets (excluding REIT IPOs) in YTD2019 (as at 19 Dec 2019) across 19 S-REITs. This is SGD2.4bn more than 2018 and 1.63x that of 2018, and double of 2017. The stronger S-REITS - Ascendas REIT ("AREIT") and Mapletree Commercial Trust (MCT") raised the most equity funds of SGD1.3bn and SGD0.9bn each respectively.

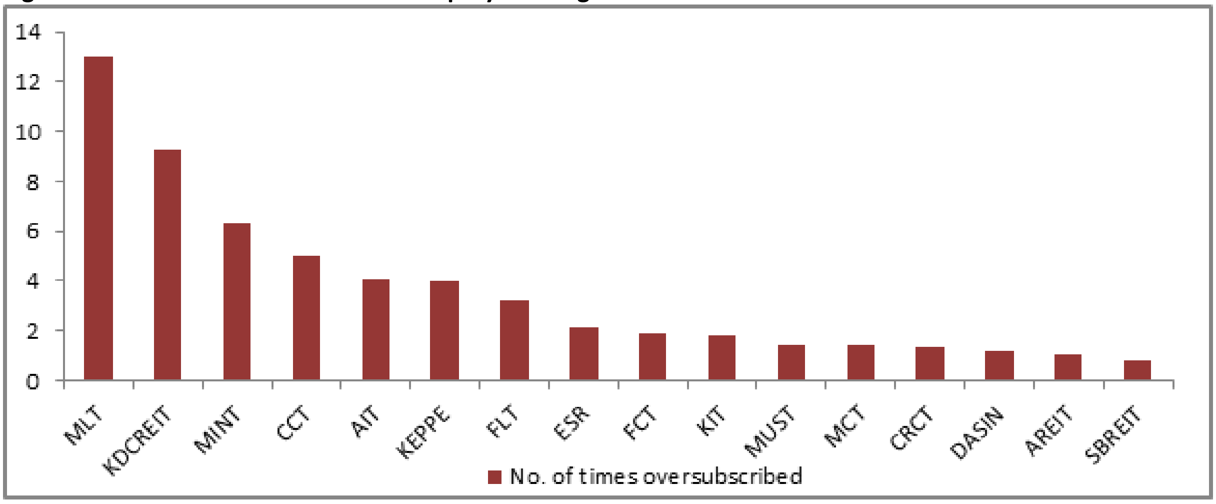
Figure 40: Equity Raised over Time



Source: Bloomberg, OCBC Credit Research (excluding REIT IPOs)

Interestingly, all of the equity offerings in 2019 were oversubscribed with the exception of one and some the S-REITs have also opted to upsize the issuance as a result. On average, the equity offerings were more than 3.2 times oversubscribed. Mapletree Logistics Trust ("MLT") saw its offering at a record of 13 times oversubscribed. In second place was Keppel DC REIT ("KDCREIT") whose offering 9.3x oversubscribed. Bulk of the offerings though was between 1.2x to 2x oversubscribed. Demand clearly outstripped supply.

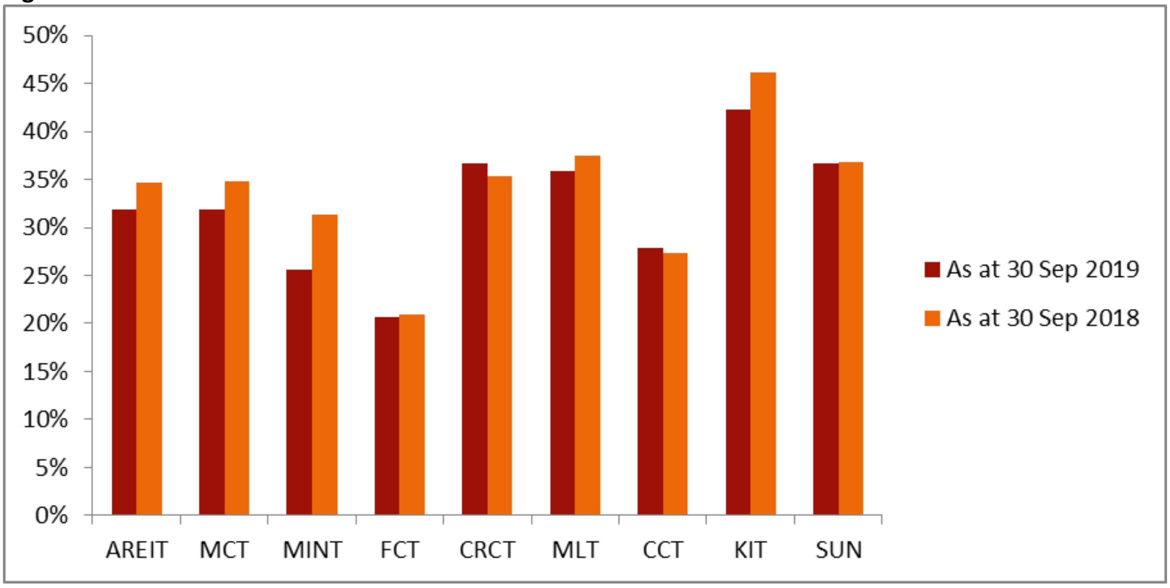
Figure 41: Number of times the REIT's equity offering was oversubscribed in 2019



Source: Bloomberg, OCBC Credit Research (excluding REIT IPOs)
Note: Excluded SPH REIT, SUNTEC REIT and Cromwell European REIT which did not disclose the actual number

Evidently, 2019 was an opportune time for REITs to raise equity. Total Debt-Over-Total Assets as at 30 Sep 2019 was lower than that at 30 Sep 2018 for a handful of the REITs under our coverage that have raised equity in 2019. We think some of these REITs have utilized a larger portion of equity relative to debt to acquire assets in pursuit of growth, leading to the lower Total Debt-Over-Total Assets ratio.

Figure 42: Total Debt-over-Total Assets of the REITs



Source: Bloomberg, OCBC Credit Research

<u>Offshore Opportunities and Geographical Diversification</u>

Although majority of the S-REITs started with a portfolio of Singapore properties, there is a clear trend of these REITs venturing offshore to pursue acquisition opportunities overseas. We think the biggest push is the limited opportunities onshore.

First, there are relatively fewer properties available for REITs to consider in Singapore. According to "A Global Hub for REIT Listing" by KPMG Singapore, more than 70% of Singapore CBD Grade A office stock are already owned by S-REITs and developers. We see a similar trend for the retail properties in Singapore. Few of the REITs have substantial pipeline except for Frasers Centrepoint Trust ("FCT") which has acquired stakes in PGIM Real Estate Asia Retail Fund - an open-ended fund holding retail malls in Singapore and Malaysia.

Second, yield of properties in Singapore is low, with valuation of the properties high. As such, it makes little financial sense for the REITs to pursue acquiring properties locally. Comparatively, overseas properties become attractive from a valuation point of view.

Office REITs: CapitaLand Commercial Trust ("CCT"), for instance, has gone into Germany in 2018 and has continued to grow its presence there in 2019 with its overall exposure to Germany at 8% by asset value. Keppel REIT ("KREIT") made in maiden investment in South Korea this year. That said Australia remains a favourite destination. Frasers Commercial Trust ("FCOT") is 37% exposed to Australia; Suntec REIT's ("SUN") exposure is ~16% while KREIT is at 15%. Mapletree Commercial Trust ("MCT") remains the only REIT that is 100% Singapore exposure for now.

Retail REITs: Relative to Office REITs, Retail REITs are more Singapore-centric. CapitaLand Mall Trust ("CMT") and Frasers Centrepoint Trust ("FCT") hold only Singapore retail properties. Starhill Global REIT ("SGREIT") though is an exception. Its exposure by country based on asset value is Singapore (69%), Australia (16%), Malaysia (12%) and Others (3%).

Industrial REITs: Mapletree Logistic Trust ("MLT") has historically been very geographically diversified. Ascendas REIT ("AREIT") on the other hand had accelerated geographically diversification since 2015. Including its acquisitions in 2019, AREIT's exposure by asset value will be Singapore (72%), United States (10%), Australia (12%) and United Kingdom (6%). Mapletree Industrial Trust ("MINT") too ventured overseas to the United States for data centres in 2017. Post its 2019 acquisitions, MINT has 76% exposure to Singapore and 24% exposure to United States and Canada. We think these acquisitions of overseas properties could be an indication of the structural issues within the industrial sector in Singapore where we see demand for factories related space decline as businesses become more high-tech. That said the smaller industrial REITs may not have the capacity for expansion of such scale. Cache Logistics Trust ("CACHE") expanded into Australia in 2018 while it divested properties in China and Singapore. ESR-REIT ("EREIT") though has zero foreign exposure and continues to buy assets in Singapore and in our view may combine with Sabana Shari'ah Compliant Industrial REIT overtime.

Hospitality REITs: This class of REITs is the most diversified. Ascott Residence Trust ("ART"), for instance, consists of 74 properties with more than 11,700 units across 37 cities in 14 countries on a standalone basis. Post completion of its combination with Ascendas Hospitality Trust, the enlarged REIT will see higher exposure to Australia and Japan, and lower exposure to the USA, China, Europe and Southeast Asia (dominated by Singapore). Frasers Hospitality REIT ("FHREIT"), a smaller hospitality REIT, is concentrated to Singapore and Australia. The hospitality sector in Australia has been challenging due to supply headwinds and weak economic outlook. Therefore, we think the REITs' exposure to Australia could drag performance.

Healthcare REITs: First REIT ("FIRT") has been Indonesia focused from the start with a small exposure to South Korea and Singapore. We think FIRT may look to buy nursing homes in Japan that is owned by one of its Sponsors - OUE Lippo Healthcare overtime though will remain Indonesia-focused in the short term.

Both single country REITs and geographically diversified REITs have their advantages and disadvantages. Single country REITs appeal to investors who would like to manage their allocation and exposure to a specific country and/or have a deep understanding of the single country. Geographically diversified REITs no doubt offer more growth opportunities given the wider mandate though the benefit comes with currency risk.

Overall, we think it is fair to say that the overall trend of geographical diversification is here to stay though dependent on the property type of the REIT while different REITs will venture and scale at different pace.

Diversified REITs – Structural or a Fad?

In October 2018, ESR-REIT ("EREIT") completed the combination with its Industrial REIT peer VIVA Industrial Trust ("VIT") to form a REIT with a total asset size of SGD3.1bn. This "merger of equals" was a landmark transaction for the S-REIT market, being the first completed REIT merger since the first REIT listed on the SGX in July 2002.

2019 had proved to be a busy year in terms of REIT combinations, with the completion of the M&A between OUE Commercial Trust ("OUE-CT") and OUE Hospitality Trust ("OUE-HT"). Further to that, Ascott Residence Trust ("ART") and Ascendas Hospitality Trust ("ASHCTS") have combined while more recently an Australia focused Industrial REIT had announced a proposed combination with a mid-size office REIT. The three completed and/or announced REIT combinations in 2019 had noticeably involved REITs who share the same Sponsor (and significant unitholder), despite owning assets from different property types. In contrast, both EREIT and VIT held Industrial assets.

This M&A wave had come on the heels of earlier geographical expansion and REITs buying new property types. For example: Mapletree Industrial Trust buying data centers in 2018 and 2019 while Mapletree North Asia Trust Commercial Trust had bought more offices in 2019 to reduce its reliance on Retail.

In our view, it is likelier for operational synergies to exist for pure-play REITs versus Diversified REITs. For example, a pure-play Retail REIT with multiple properties spread around Singapore can manage its tenants holistically although the same is hard to be said for a portfolio cutting across property types, particularly if these assets are also not in the same geographical location.

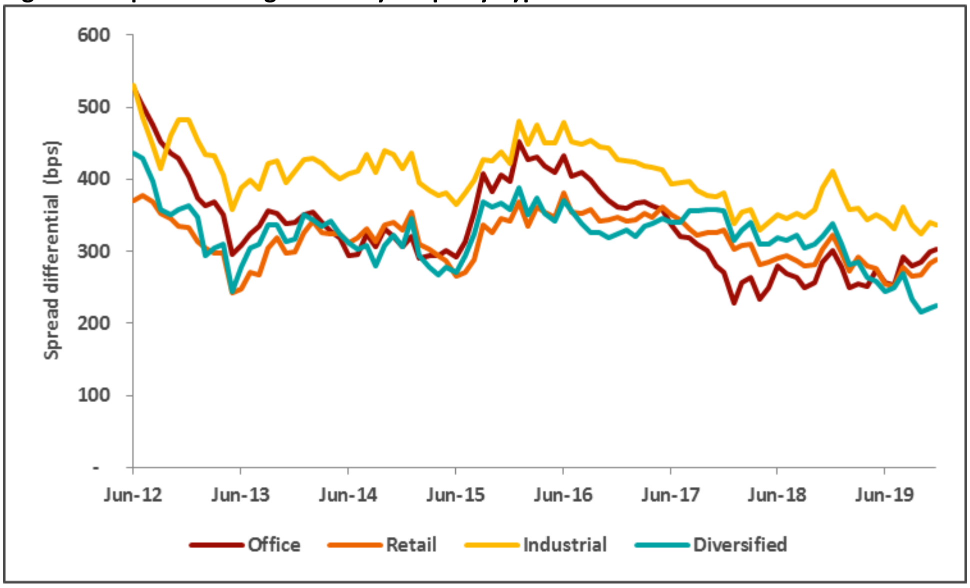
We think the trend of S-REITs becoming more diversified would continue into 2020, with REITs less differentiated by property type but by scale. This means that REIT managers and their stakeholders may become more open to merger talks with other REITs holding assets that do not fall within their current investment mandates. In our view, this is exacerbated by the global chase for yield and the inclusion of a REIT in an index leads to increased flow into large REITs.

Convergence of REIT yields

Based on our analysis of REITs whose income and assets are predominantly Singapore based, we find that large REITs have shown yield convergence in particular since 2H2016. This is despite differences in the underlying physical market suggesting that risk premium should differ across property types. For example, given shorter underlying land tenures of Industrial property versus other property types, this segment should trade at wider premiums, however, spreads of large REITs in this space had compressed and converged with large peers.

(1) Large REITs have Shown Yield Convergence

Figure 43: Spread of Large REITs by Property Type



Source: Bloomberg, OCBC Credit Research
Note: (1) Office, Retail and Industrial represented by average spread of the large REITs within those sectors; Diversified represented by MCT
(2) Equity dividend yield spreads against the Singapore Government 10 Year Bond Yield

Figure 44: Large Office REITs versus Large Retail REIT Spreads

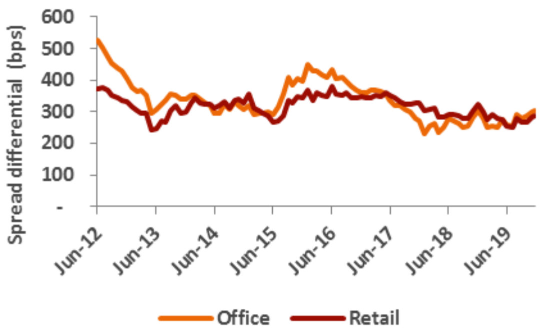
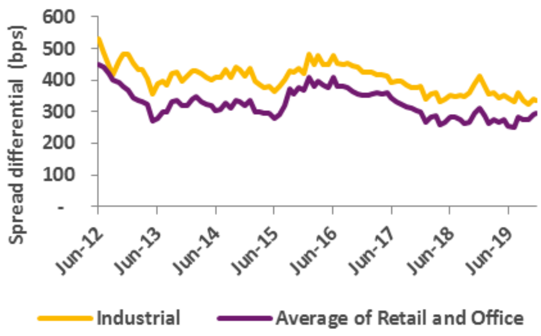


Figure 45: Large Industrial REIT versus Average of Large Retail REITs and Office REITs



Source: Bloomberg, OCBC Credit Research
Note: (1) Equity dividend yield spreads against the Singapore Government 10 Year Bond Yield

(2) Widening "Scale Spread"

We find that spread differentials across large and small REITs within the same property type (we are calling this "scale spread" for the purposes of this article) fluctuates overtime. Though observably, since 2H2016, scale spreads had widened (or widening again in the case of Retail).

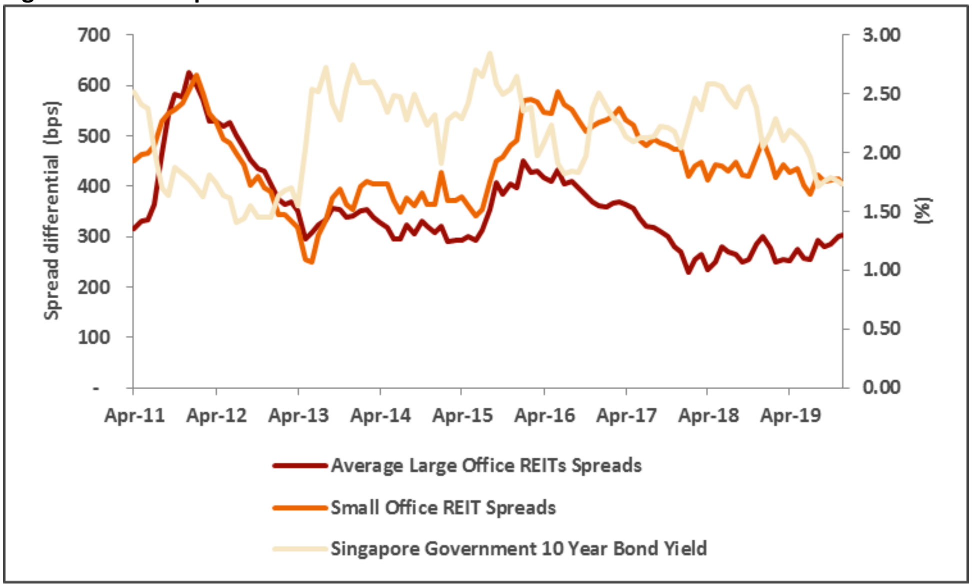
Using a composite index of large REITs within Retail, Office, Industrial and Mapletree Commercial Trust (currently the largest Diversified REIT in Singapore), we find that spreads of large REITs have converged overtime. While the smaller Office and Retail REIT had also shown signs of converging with each other, the same was not observed for smaller Industrial REITs. We did not include Hospitality REITs given their geographically diversified nature.

Table 6: Property types and scale spreads over Time

Property Type	2019 Scale Spread	From July 2016 to Dec 2019	From Data Set Availability to June-2016
Office	146bps	164bps	41bps (April 2011 to June 2016)
Retail	133bps	114bps	75bps (April 2011 to June 2016)
Industrial	229bps	228bps	184bps (December 2014 to June 2016)

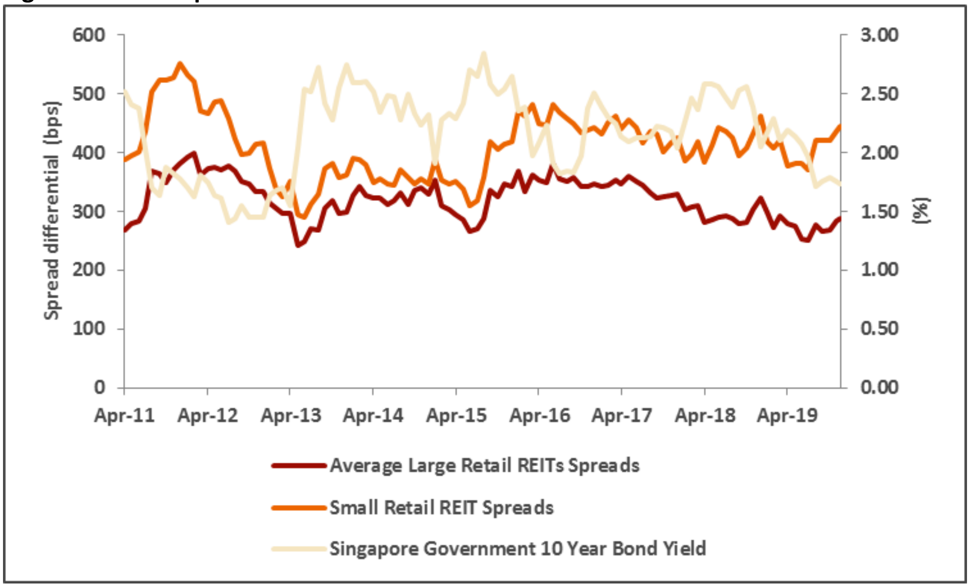
Source: Bloomberg, OCBC Credit Research

Figure 46: Scale Spread – Office REITs



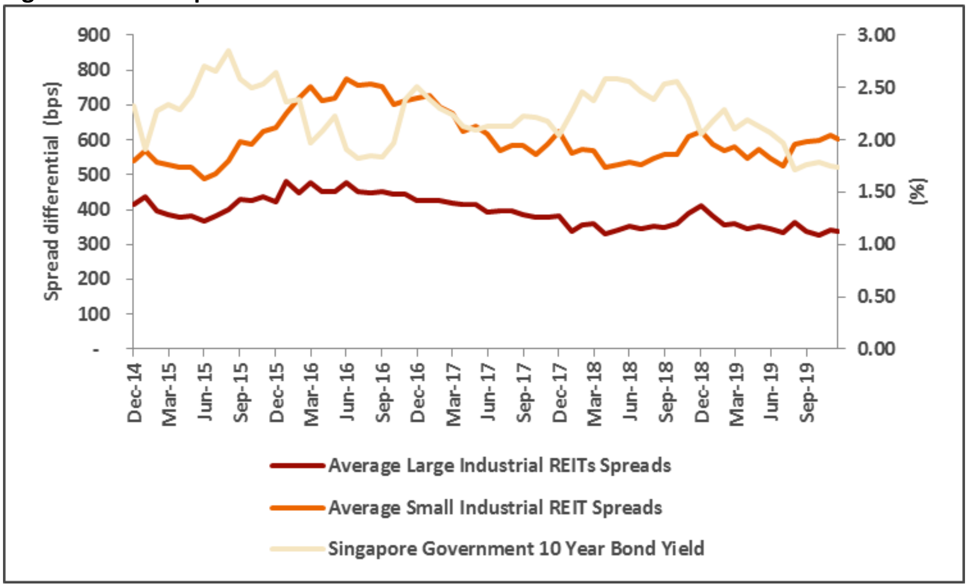
Source: Bloomberg, OCBC Credit Research
Note: (1) Equity dividend yield spreads against the Singapore Government 10 Year Bond Yield
(2) Large Office REITs comprise of CCT, KREIT and SUN while small Office REIT comprise FCOT
(3) We start from April 2011 due to data availability

Figure 47: Scale Spread – Retail REITs



Source: Bloomberg, OCBC Credit Research
Note: (1) Equity dividend yield spreads against the Singapore Government 10 Year Bond Yield
(2) Large Retail REITs comprise of CAPITA and FCT while small Retail REIT comprise SGREIT
(3) We start from April 2011 due to data availability

Figure 48: Scale Spread – Industrial REITs



Source: Bloomberg, OCBC Credit Research
Note: (1) Equity dividend yield spreads against the Singapore Government 10 Year Bond Yield
(2) Large Industrial REITs comprise of AREIT and MINT while small Industrial REIT comprise SSREIT, SBREIT and AAREIT. We exclude EREIT as it had combined with VIT since October 2018, making historical data less comparable while MLT is highly geographically diversified
(3) Starts from 2014 as SBREIT was listed in June 2013

Concentration Levels among Asia-Pacific REIT Markets

In our view, the S-REIT market is not yet highly concentrated relative to other APAC REIT markets. This is especially more so when compared to Australia and Hong Kong which are both REIT markets attractive to international investors. Further combinations and asset acquisitions outside of Singapore is likely to lead to a higher concentration in the S-REIT market in our view.

Table 7: REIT Market by Country

REIT Market	No. of Listed REITs	Total REIT Market Size (SGD'bn)	Average Market Cap (SGD'bn)	Median Market Cap (SGD'bn)	Top Five Largest REITs as a % of REIT Market	Top Ten Largest REITs as a % of REIT Market
Japan	64	199.31	3.11	2.37	26%	44%
Australia	45	135.29	3.01	0.91	57%	79%
Singapore	38	99.23	2.61	1.54	41%	63%
Singapore (Proforma)	36	99.23	2.76	1.71	41%	65%
HKSAR	11	48.50	4.41	1.44	90%	99%
Thailand	28	13.10	0.47	0.22	64%	79%
Malaysia	17	9.72	0.57	0.17	75%	92%

Source: Bloomberg data, OCBC Credit Research
Note: (1) Singapore (Proforma) assumes completion of announced but yet completed REIT combinations (2) HKSAR REIT market dominated by Link REIT with a ~SGD28.8bn market cap

Experience from the Australian REIT ("A-REIT") Market

While A-REITs do not conform to the exact same structure as S-REITs, we think it serves as a reference point, being the oldest and most matured REIT market in the Asia-Pacific Region (first A-REIT listed 48 years ago). Among the key point of difference, A-REITs tend to be stapled securities with an integrated business model (developers, owners and active managers) versus S-REITs who tend to be landlords where rental drives income.

The A-REIT market underwent a period of being largely pure-play REITs with assets focused in the domestic market to managers filling portfolios with overseas assets. Additionally, the market also went through waves of M&A and REIT failures during the crisis of 2008 led to the concentration we see today. Ten of the largest A-REITs collectively represent ~79% of the total REIT market cap. Of these ten, eight are Diversified REITs holding traditional property types while only two are pure-play REITs (both within Retail). Being a market dominated by Diversified REITs has not dampened investor interest in the A-REIT market.

Credit Impact of Observed Trends

Broadly speaking the pursuit for growth through geographical and property type or industry diversification is credit positive. However, we think the crux lies in how the REIT goes about going so. First, is it through equity funding or by borrowing more debt? Second, what are the properties the REIT is acquiring, how much the REIT is buying these assets at and do they fit into the portfolio? Third, does the REIT have the expertise to manage its newly acquired properties? Therefore we think investors ought to evaluate any proposed transactions independently.

OCBC Credit Research Views on REIT Property Sectors

Table 8: REIT statistics (as of 30 September 2019)

	Aggregate Leverage (%)	EBITDA/Interest (Latest available quarter)	EBITDA/Interest (previous year corresponding quarter)	Debt Duration (years)	Debt cost (%)	Proportion of debt fixed/hedged (%)
OFFICE						
CapitaLand Commercial Trust	35.5	4.5	4.7	3.30	2.50	92.0
Keppel REIT	38.9	1.2	0.8	3.40	2.82	91.0
Mapletree Commercial Trust	31.7	4.4	4.5	3.10	3.00	82.6
Suntec REIT	38.2	1.6	1.7	3.30	3.01	-
Frasers Commercial Trust	28.6	4.0	2.8	2.10	2.97	87.6
Average:	**34.58**	**3.14**	**2.90**	**3.04**	**2.86**	**88.30**
RETAIL						
CapitaLand Mall Trust	34.4	4.3	4.9	4.70	3.20	100.0
Frasers Centrepoint Trust	32.9	4.2	5.4	2.30	2.60	50.0
Lippo Malls Indonesia Retail Trust	34.7	3.8	4.2	3.40	6.15	100.0
Mapletree North Asia China Commercial Trust	37.1	4.2	4.0	3.21	2.49	89.0
Starhill Global REIT	36.2	3.6	3.7	3.20	3.31	90.0
CapitaLand Retail China Trust	37.2	4.1	4.1	3.11	3.00	82.6
Average:	**35.4**	**4.0**	**4.4**	**3.32**	**3.46**	**85.3**
INDUSTRIAL						
Ascendas REIT	36.2	4.0	4.5	3.60	3.00	76.8
ESR REIT	41.6	3.1	3.8	2.80	3.91	85.3
Mapletree Industrial Trust	29.2	6.3	6.1	4.20	2.90	87.9
Mapletree Logistics Trust	37.0	4.5	4.7	3.70	2.60	83.0
CACHE Logistics Trust	38.3	3.5	4.7	3.30	3.87	70.1
Average:	**36.5**	**4.3**	**4.8**	**3.52**	**3.26**	**80.6**
HOSPITALITY						
Ascott Residence Trust	33.0	4.7	5.0	3.70	2.10	88.0
Frasers Hospitality Trust	35.1	4.9	4.6	4.63	2.50	68.9
Average:	**34.1**	**4.8**	**4.8**	**4.17**	**2.30**	**78.5**
OTHERS						
First REIT	34.5	5.0	4.7	2.26	4.1	60.2

Source: OCBC Credit Research, Company

Table 9: Summary of sector calls

Property Type	Key Highlights	Sector Direction for 2020
Industrial	• Supply is likely to re-emerge again as an issue in 2020. • Multiple user factory and warehouse sub-segments to remain soft. • Expect credit profiles of the Industrial REITs to broadly be steady at their current issuer profiles.	↓
Office	• Easing demand. • Narrowing supply to provide support in the short term • Growth in office rent is expected to soften. • Expect credit profiles of the Office REITs to be stable.	↑
Retail	• Expect growth to remain broadly muted in 2020. • Yet to see the subdued supply spur growth in rents and prices of retail space. • Limited domestic acquisition opportunities for the Retail REITs under our coverage except for Frasers Centrepoint Trust. • Overall, the REITs are expected to hold up well.	→
Hospitality	• Hotel supply in Singapore to remain muted in 2020 while tourists' arrivals to remain commendable, keeping hotel performance decent. • Credit profile of ART and FHREIT may diverge in 2020, with FHREIT being dragged by its Australia exposure.	→

Source: OCBC Credit Research

Singapore Industrial REITs – Supply to spring back as an issue in 2020

In 3Q2019, q/q price index for all industrial properties was up 0.1% to 89.9. Single-user factory saw a 0.3% q/q uptick while multiple-user factory was flat q/q. The rental index for all industrial properties was flat q/q, although the rental index for the Warehouse sub-segment was down by 0.2% q/q (continuing a fall of 0.2% q/q in 2Q2019). According to Savills, a property brokerage, the industrial leasing market had remained healthy in 3Q2019, with deal count increasing 5.3% y/y.

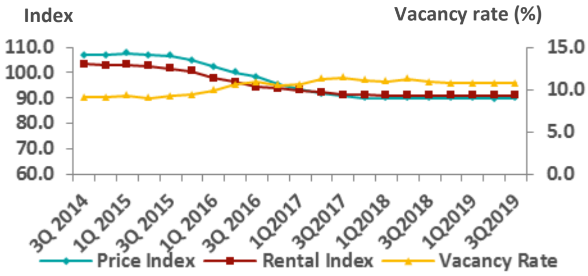
While 3Q2019 numbers has held up, we expect a weakening in the next 12 months given the large impending supply of new industrial space. At the beginning of the year, the expected supply for 2019 and 2020 was only 1.5mn sqm and 1.2mn sqm respectively (ie: collectively 2.7mn sqm across two years). However, we estimate that in 9M2019, 0.9mn sqm of new supply had been added into the market, with 0.3mn sqm more expected in 4Q2019. Based on the updated supply expectation, another 1.9mn sqm will come in 2020 (collectively, 3.1mn sqm across these two years).

All industrial vacancies were flat at 10.7% and have been constant since 4Q2018. By sub-segment, vacancy for warehouses deteriorated to 11.9% (2Q2019: 11.3%) while multiple-user factory deteriorated slightly by 0.1% to 12.9%. Single-user factory and Business Park both saw improving occupancies. We expect vacancies to increase for the multiple-user factory sub-segment given the large impending supply by the public sector in 2020. Out of the 1.7mn sqm of additional multiple-user space in the pipeline from 4Q2019 to 2023, 64% are public sector projects. We are less concern over the single-user sub-segment as these tend to be developed with end-users in mind. Notably, developments in the pipeline include data centres given the rise of Singapore as a hub (we estimate 17% of the single-user factories are catered for data centres).

In November 2019, the Singapore Purchasing Manager Index rebounded slightly to 49.8 (September 2019: 49.5). For 2020, our macro colleagues are projecting a slightly more positive NODX of 2-4% y/y if there is no further escalation of US-China trade tensions in the form of fresh tariffs/hikes. This comes from a low base in 2019.

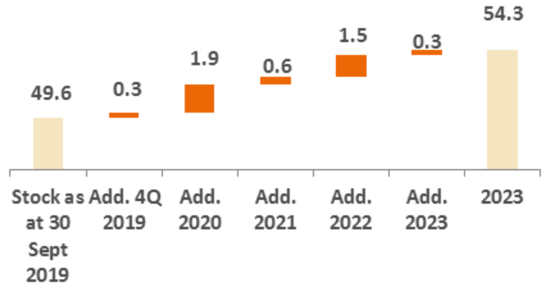
Despite our relatively bearish outlook now versus when we stood in beginning 2019, we expect credit profiles of the Industrial REITs to broadly be steady at their current issuer profiles.

Figure 49: Industrial Price, Rental and Vacancy



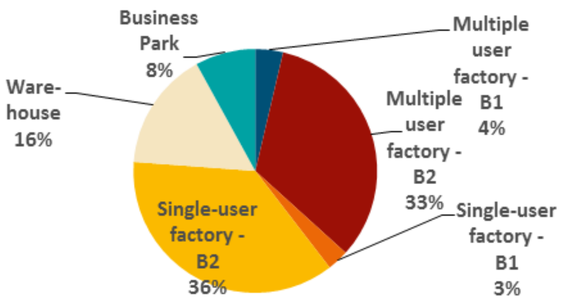
Source: JTC, OCBC Credit Research

Figure 50: Industrial stock and supply pipeline



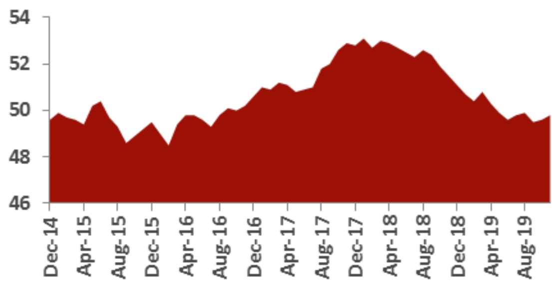
Source: JTC, OCBC Credit Research

Figure 51: Additional supply by sub-segment Cumulative 4Q2019 to 2023



Source: JTC, OCBC Credit Research
Note: Total of 4.7mn sqm over 4Q2019 to 2023

Figure 52: Singapore PMI - Manufacturing Index



Source: Singapore Institute of Purchasing and Materials Management

Singapore Office Sector – Growth running out of steam

Office rents were seen bottoming out in June 17 and recording q/q growth up till 2019 where a plateau was observed. In 3Q2019, office rents were largely dragged by areas outside the core business district, as Grade A office rent was up by 1.3% q/q. With a still soft economic growth outlook and expectations that expansion and hiring plans by corporations will slow going into 2020, demand for office space is expected to likewise slow. Co-working operators and technology firms who had been the key consumer of office spaces have also showed signs of easing.

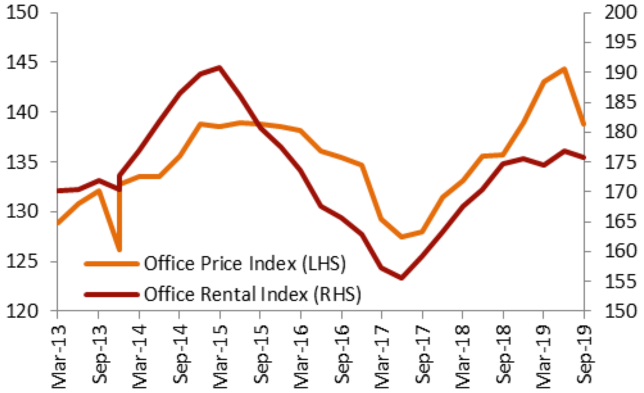
Finally, in 3Q2019, commitment levels at projects in the supply pipeline did not see much progress. Overall, demand has softened. That said, positive rental reversions remain likely in our view and this is especially applicable to the quality office buildings whose upcoming expiring leases were committed a few years ago. 2020 average expiring rents for CapitaLand Commercial Trust, for instance, is 16.2% below 3Q2019 Grade A office market rent.

Prices of office space slipped for the first time in two years by 3.9% q/q. We attribute this to the transactions located in various submarkets away from core CBD such as Mapletree Business City 2 and Duo Tower.

Office space under construction has been rather stable across 2018 and 2019, with planned spaces at all-time low. The absence of completions has drove vacancy rate lower to 10.6% in Sep 2019, from a high of 13.3% in Sep 2017. Grade A office vacancy rate was the tightest across the island at 3.5%.

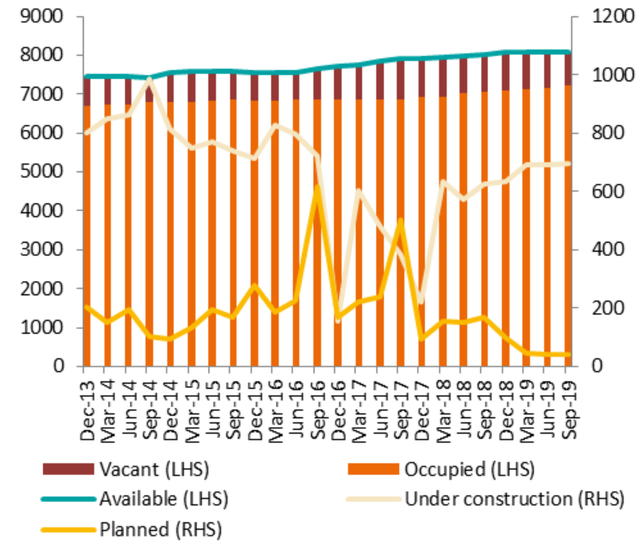
Looking ahead, we think rental growth could be capped, on the back of easing demand from the technology and co-working industries. That said, we continue to take comfort in the narrowing supply which provides support in the short term as supply is only estimated to expand in 2022. Overall, growth in island wide office rent is expected to soften albeit gradually. Finally, the office segment is susceptible to the risk of co-working spaces underperforming. According to Colliers, these operators have tripled since 2015 and takes up 3.7mn sq. ft in net lettable area of Singapore's commercial space (2015: 1.2mn sq. ft).

Figure 53: Office Price and Rental Index



Source: URA, OCBC Credit Research

Figure 54: Office stock and supply pipeline



Source: URA, OCBC Credit Research

Figure 55: Vacancy rate

Source: URA, OCBC Credit Research

Singapore Retail Sector – Cruise along the bottom

Prices of retail space and retail rental rates slipped to a low in 1H2019. Although both rebounded slightly in Sep-2019 (retail price: +1.1% q/q, retail rent: +2.3% q/q), we are reluctant to label the uptick as an indication of recovery. We expect growth to remain broadly muted in 2020.

Although the supply under construction has been coming down meaningfully with total available supply growing marginally at +1.0% y/y over 2016-2019, vacancy rate fluctuated between 7.3%-8.7% (Sep-2019: 7.5%). Back in Dec-2013 where retail price and retail rent were 15.6% and 18.8% above Sep-2019 figures, vacancy rate was 4.5%. No doubt we have yet to see the subdued supply spur growth in rents and prices of retail space. We attribute this to the lack of growth in demand.

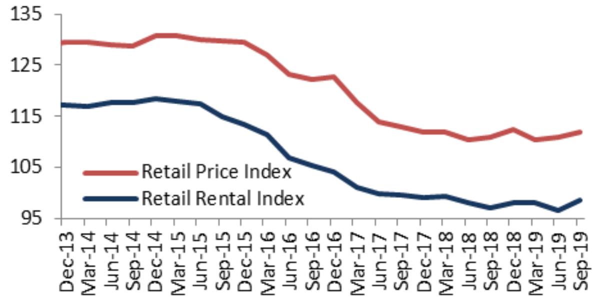
Although Retail sales had climbed over mid-2016 to 3Q2018 to come close to 2014 levels, it was largely volatile in 2019. The retail sector continues to face long term structural competition from e-commerce. According to Statista, the e-commerce market is expected to show a revenue growth of 22.8% in 2020, more than in 2019. We think this represents a "leakage" from the retail sector and possibly explain the cause of the lack of growth in the demand for retail spaces.

In 2019, we saw a mix of home-grown household names and large international chains exit. They include SASA, DFS, MPH Bookstore, Crabtree and Evelyn, Forever 21 and Home-Fix. Competition is evidently strong and perhaps all the more so with the continuous boom of e-commerce which has reshaped the retailers' landscape.

Having said that, brick-and-mortar retail is not dead. Retailers who can keep up with the evolving demand of their consumers and engage their patrons through, for instance, experiential retailing will continue to attract crowd and generate sales. In addition, non-discretionary consumer spending is expected to be resilient and suburban malls are expected to be defensive.

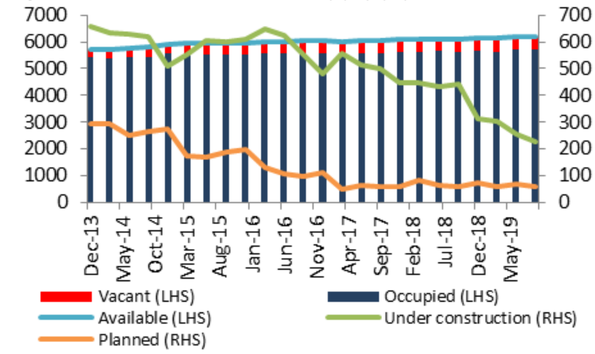
For the Retail REITs under our coverage, we see limited acquisition opportunities except for Frasers Centrepoint Trust. We think the REITs are likely to pursue organic growth through redevelopment to maintain the attractiveness of its malls, particularly the smaller ones. Overall, the REITs are expected to hold up well. Occupancy rates of the REITs are above 96%, with an average of 98.5% in 3Q2019.

Figure 56: Retail Price and Rental Index



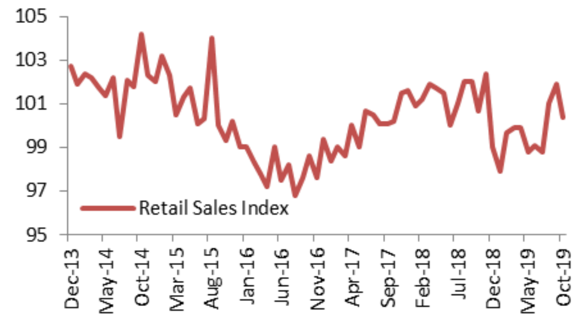
Source: URA, OCBC Credit Research

Figure 57: Retail stock and supply pipeline



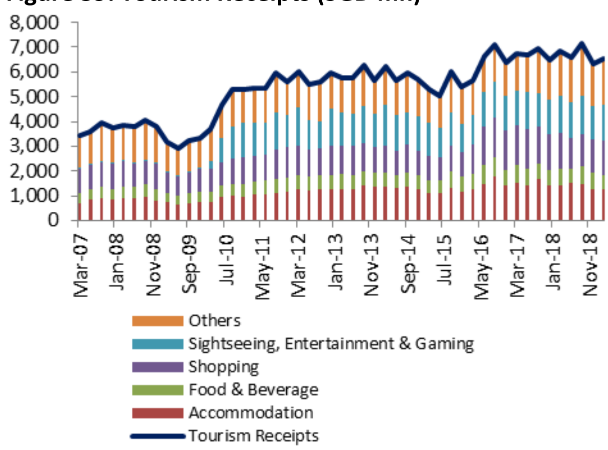
Source: URA, OCBC Credit Research

Figure 58: Retail Sales Index (Excl. Motor Vehicles) At Current Prices, SA



Source: URA, OCBC Credit Research

Figure 59: Tourism Receipts (SGD mn)



Source: URA, OCBC Credit Research

Singapore Hospitality REITs – Tourists Continue to Visit

For the first ten months of 2019 ("10M2019"), Singapore saw 15.85 million of tourist arrivals (up 2.3% y/y). The largest percentage increase was from the Americas (up 10.8% y/y), followed by North Asia (up 4.6% y/y), Greater China (up 4.0% y/y) though arrivals from South Asia (eg: India) saw a 2.1% y/y fall after recent years of strong growth, likely due to weakness in its domestic economy. We think arrival volumes to Singapore, along with other key gateway cities, had benefitted from flows away from HKSAR. Noticeably between July and October 2019, we saw tourist arrivals growing by 3.6% y/y versus only up by 1.4% y/y for 1H2019. Total visitor days encouragingly were higher by 3.6% y/y, driven by both increase in volume and higher average length of stay (average of 3.40 days in 10M2019 versus 3.35 days in 10M2018).

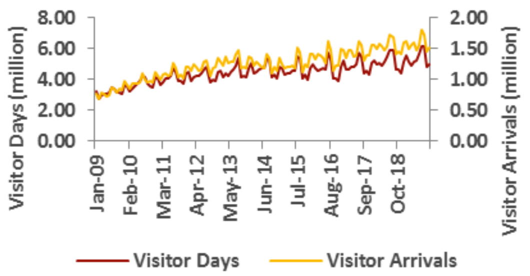
Despite the positive growth in tourist arrivals, tourism receipts fell 3.4% y/y in 1H2019 to SGD10.2bn and less than half of the targeted SGD27.3bn to SGD27.9bn for the full year. Gazetted hotels (which form bulk of the Singapore properties in the hospitality REITs) though saw room revenue for 10M2019 up by 3.8% y/y to SGD3.5bn.

Apart from the Upscale sub-segment which saw a 70bps dip in average occupancy, the other sub-segments saw growth in occupancy, with 10M2019 average occupancy at 88.4%, 86.1% and 89.2% respectively for the Luxury, Upscale and Mid-Tier segments. Average Room Rate for Upscale though was flat, with the rest of the sub-segments improving, leading to a growth in Revenue Per Available Room ("RevPAR") across sub-segments apart from Upscale.

As at end-2018, there were 66,994 hotel room stock in Singapore, with JLL, a property brokerage expecting room growth to be muted in 2019 – 2022 (0.7% compound annual growth rate). Notable additions to supply this year included the re-opening of Raffles Hotel, YOTEL in Changi and Capri by Fraser in China Square. Singapore's physical market for hospitality properties had been traditionally tight though in 9M2019, Singapore saw SGD1.7bn of transaction volume for hotels, while the completion of the SGD289mn sale of Oakwood Premier occurred in November 2019.

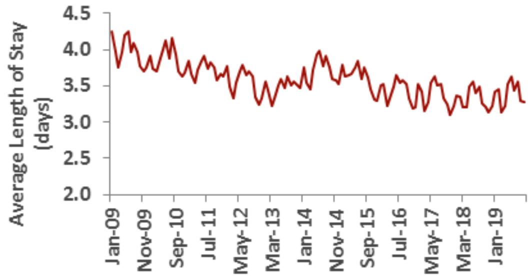
Ascott Hospitality Trust ("ART") and Ascendas Hospitality Trust ("ASCHT") have combined and we upgraded the issuer profile of ART to Neutral (3) in October 2019.

Figure 60: Visitor Arrivals and Visitor Days



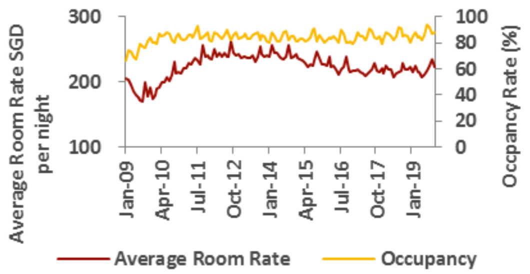
Source: Singapore Tourism Board

Figure 61: Average Length of Stay



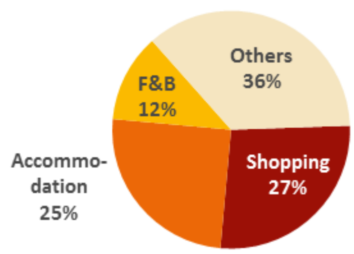
Source: Singapore Tourism Board

Figure 62: Singapore Historical Average Room Rate and Occupancy



Source: Singapore Tourism Board

Figure 63: Tourism Receipts by Major Components in 1H2019

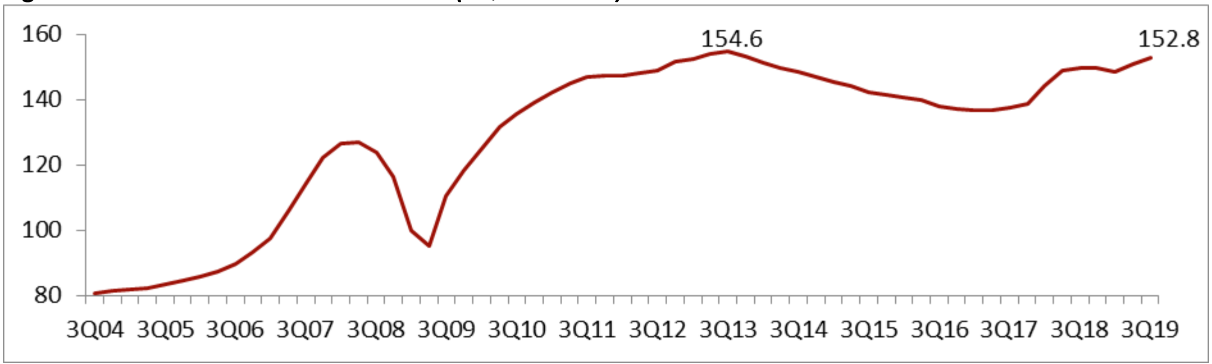


Source: Singapore Tourism Board

Singapore Property – Supported by an aspirational society

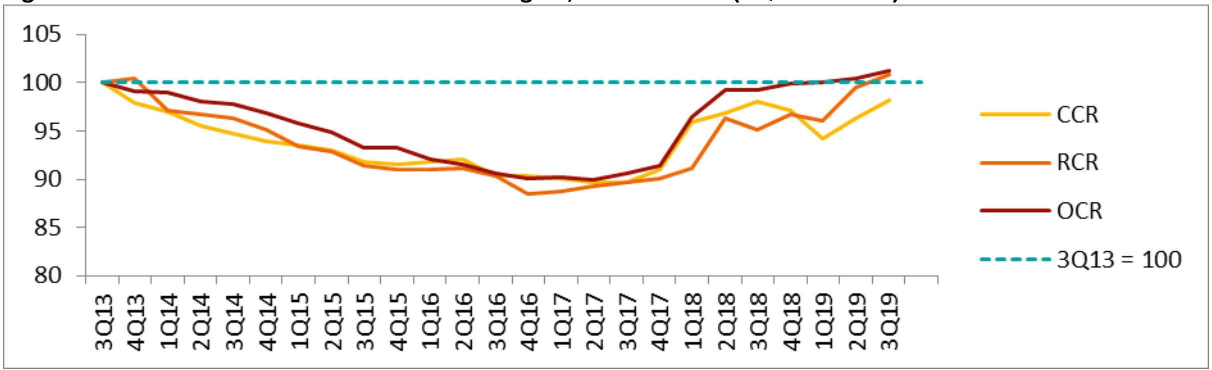
Recovery poised to take property prices above 3Q2013 peak: The 0.7% dip in private residential property prices over 3Q2018-1Q2019 turned out to be short-lived; prices resumed its recovery to gain 2.8% over 1Q2019-3Q2019 and 4Q2019 URA flash estimates up 0.3% q/q. As of 3Q2019, the URA Property Price Index was just 1.2% shy from the peak in 3Q2013. In particular, prices of properties in Rest of Central Region ("RCR") and Outside Central Region ("OCR") have already surpassed that of 3Q2013 (see Figure 65 below). As discussed in our Industry Outlook (25 October), we think sentiments have improved since the property cooling measures announced in July 2018.

Figure 64: URA Private Residential Index (1Q2009 = 100)



Source: Urban Redevelopment Authority, OCBC Credit Research

Figure 65: Residential Prices of Core Central Region, RCR and OCR (3Q2013 = 100)



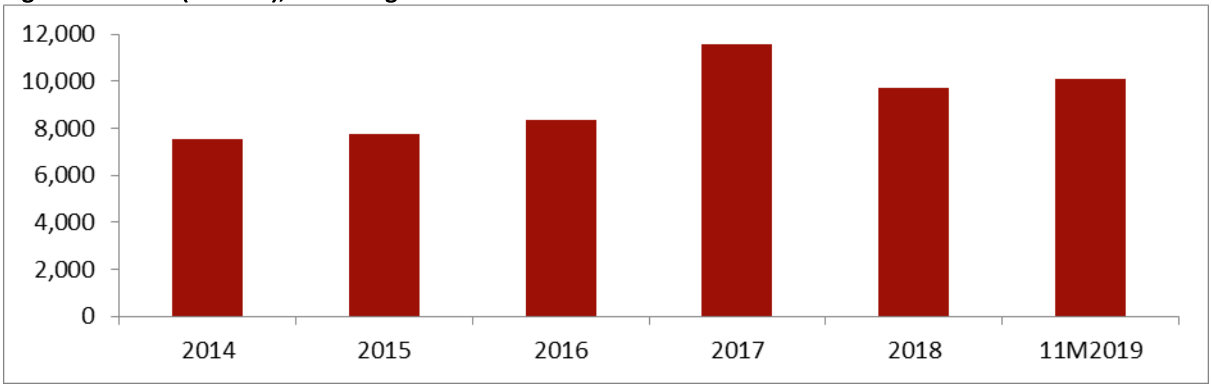
Source: Urban Redevelopment Authority, OCBC Credit Research

Changing tides: As a recap, we were somewhat pessimistic in our 2019 Credit Outlook (07 January 2019) mainly due to (1) a surge in supply, (2) government regulations and (3) less rosy economic outlook – factors which contributed to lower prices over 3Q2018-1Q2019. However, going forward, we think the impact from these factors have eased or reversed. We also think that the rebound in prices is testimony to the aspirational society in Singapore.

- **Easing supply situation.** Encouragingly, the supply of unsold units has reduced significantly to 31,948 units as of 3Q2019 from 36,839 units at the peak in 1Q2019. This is driven by healthy sales of 6,082 units in 2Q2019-3Q2019. While the supply (31,948 units) still looks somewhat high (~3x) in comparison to the sales of 10,106 units (excluding ECs) in 11M2019, we think this is manageable as we expect the supply of unsold units to continue falling. Developers are no longer active on the en bloc market while the confirmed list of government land sales has fallen to 3,740 units in 2019, which is significantly lower[5] than the sales amount achieved in 11M2019. Going forward in 1H2020, the confirmed list of government land sales will fall further to 1,775 units (1H2019: 2,025 units). With scarcity of new land sites, we believe that land prices will remain high – which in turn should support prices of completed units as developers may not be willing to cut margins below zero.

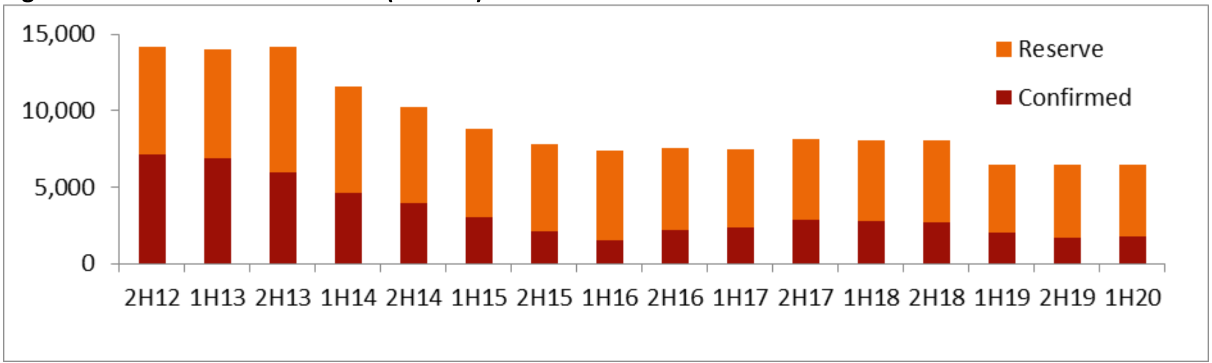
[5] We have not considered the reserve list of 4,715 units as developers have not been triggering the tender for reserve list sites.

Figure 66: Sales (in units), excluding ECs



Source: Urban Redevelopment Authority, OCBC Credit Research

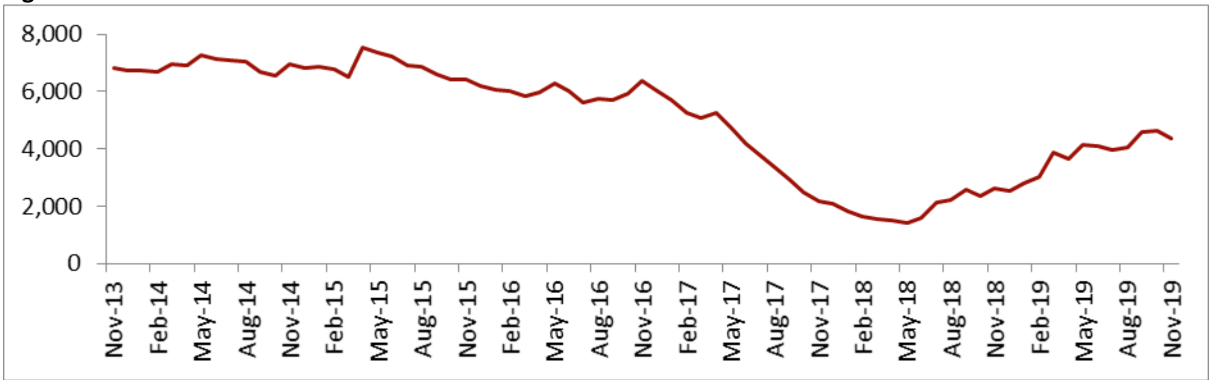
Figure 67: Government Land Sales (in units)



Source: Urban Redevelopment Authority, OCBC Credit Research

- **Wouldn't the property cooling measures negatively impact the market?:** The property cooling measures has negatively impacted the market by (1) reducing demand and (2) curbing developers' enthusiasm. However, we see a recovery in demand, as evidenced by still healthy sales (Figure 66) and an aspirational society ready to buy into the market (to be discussed in latter paragraphs). We think increasingly, property cooling measures have been accepted by buyers as a new normal. For developers, the fall in enthusiasm is evidenced by the dearth of en blocs. That said, we are no longer overly worried[6] that developers in general will cut prices due to the property cooling measures as property sales thus far are still healthy. While supply is still high, it appears that developers have staggered the launches, which slows down the buildup of unsold units. The 4,375 launched but unsold units as of Nov 2019, while sharply increased since the lows in mid-2018, is still below the levels of 6,000 to 7,000 units seen in 2013-15 (See Figure 68).

Figure 68: Launched but unsold units



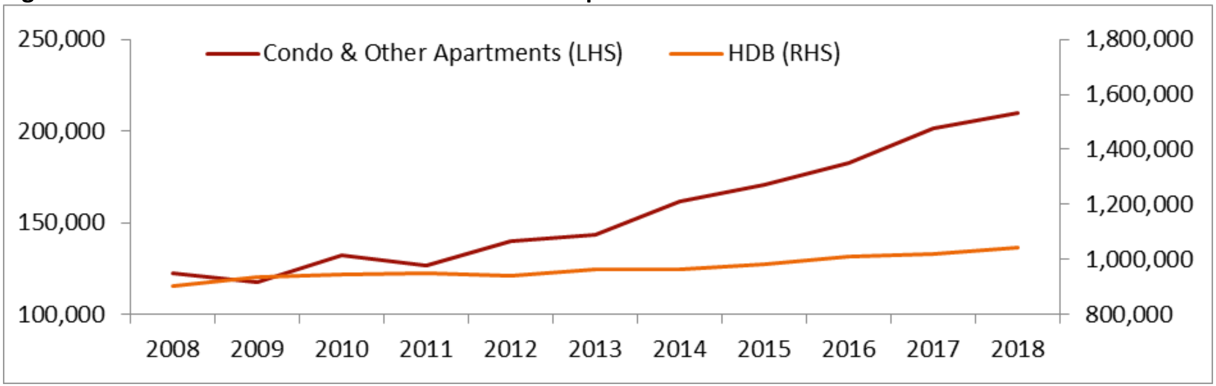
Source: Urban Redevelopment Authority, OCBC Credit Research

[6] Previously, we cautioned that developers may cut prices to move units as they face potential hefty penalties from property cooling measures (e.g. ABSD, Qualifying Certificate) if units remain unsold

- **Still somewhat supportive economic conditions:** Our macro-economic research colleagues at OCBC Treasury Research expect that GDP growth is likely to pick up into 2020. Interest rates also look to remain "low for longer". These should lend support to the property market.

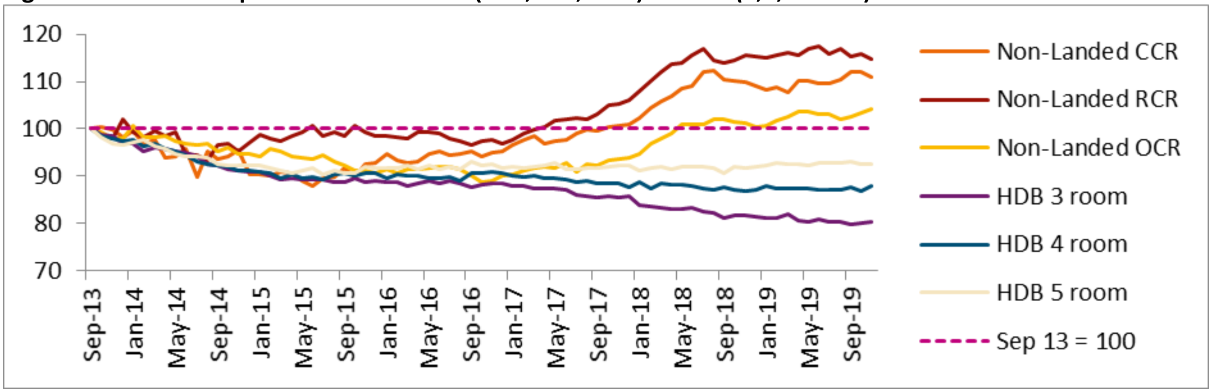
Condominium demand anchored by an aspirational society…: We believe that the aspirations of Singaporeans anchor the long-term demand for private residential. Over 2008-18, the number of resident households living in condominiums and other apartments (excluding HDB) increased 71.4% and makes up an increased share of 15.9% of all households as of 2018 (2008: 11.2%). Comparatively, over the same period, HDB resident households grew by just 15.3% with the share declining to 78.7% (2008: 82.8%). We believe that this is part of the social psyche of Singaporeans to upgrade. The preference to upgrade may be further entrenched when National Development Minister Lawrence Wong suggested in 2017 that HDB prices will decline when the lease is near expiry, which implies that HDB prices will go to zero upon lease expiry. We note that HDB prices, especially the smaller rooms, have underperformed (and further so since 2017) relative to non-landed private residential (see Figure 70).

Figure 69: Number of households in Condo & other apartments vs HDB



Source: Singapore Department of Statistics, OCBC Credit Research

Figure 70: SRX resale prices of non-landed (CCR,RCR, OCR) vs HDB (3,4,5 room)

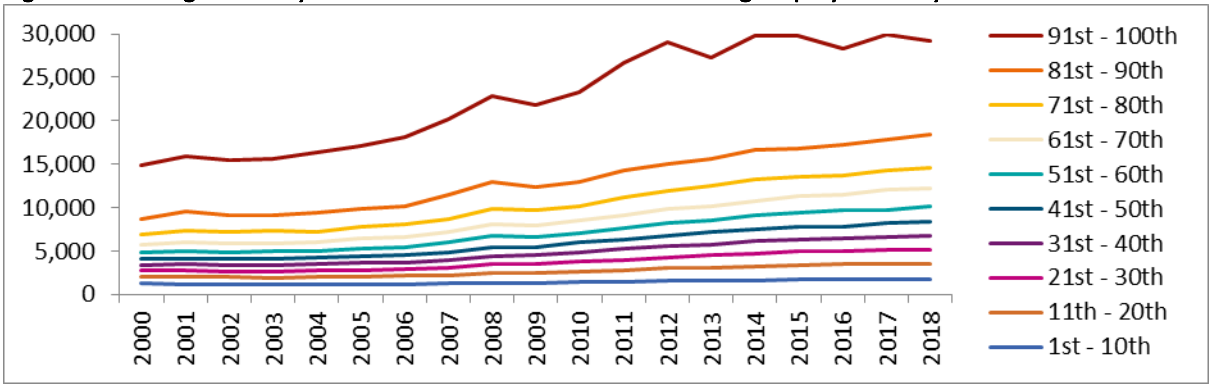


Source: SRX, OCBC Credit Research

… property prices to be guided by income growth: National Development Minister Lawrence Wong mentioned in November 2018 that property prices should move in line with income growth. As mentioned in our Credit Outlook 2019, we think the upside in property prices would hinge on income growth – if price growth exceeds income growth significantly, the government may intervene with tighter property cooling measures again.

Increasing affluence of Singaporean households: Since end-2Q2018 (property cooling measures were tightened in July 2018), property prices have risen 2.6% as of 3Q2019. Excluding the top 20% of households by income bracket (which we think already more comfortably afford non-landed private property), the income of the next 30% of households by income bracket ("50-80th decile") rose ~3.4% p.a. over 2013-18. If we adjust income by the size of households, which has been shrinking, the income growth rate for each household member of the 50-80th decile is ~4.3% p.a over 2013-18.

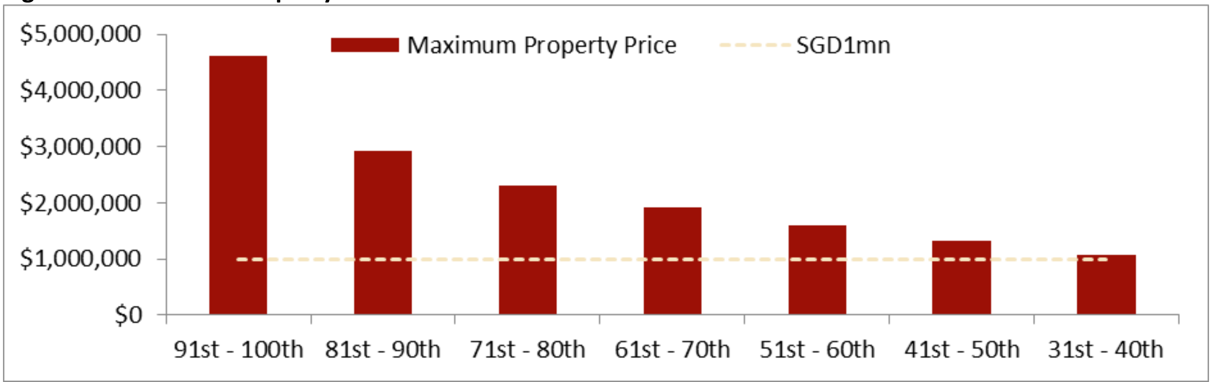
Figure 71: Average monthly household income from work excluding employer CPF by decile



Source: Singapore Department of Statistics, OCBC Credit Research

Condominiums not entirely out of reach for the median Singapore household: Based on the total debt servicing ratio ("TDSR"), we calculate that the 31st-40th decile of Singapore household by income can afford a condominium of SGD1mn (see Figure 72), subject to major assumptions including (1) debt free household and (2) household having sufficient accumulated capital to pay for the 25% down payment and other fees and duties. It appears financially imprudent for households from this income decile to finance such a purchase (with price to income at 12x) though we think it looks like a plausible option for higher income deciles (50th and above) willing to take a longer term loan. According to Monetary Authority of Singapore ("MAS"), the household financial vulnerability index ("FVI")[7] has declined y/y as of 3Q2019 with increase in net wealth exceeding total liabilities. This is a result of lower housing loan growth following the July 2018 property cooling measure. Thus, we surmise that there is more room for households to take on debt to buy a property.

Figure 72: Maximum Property Price for each income decile based on TDSR

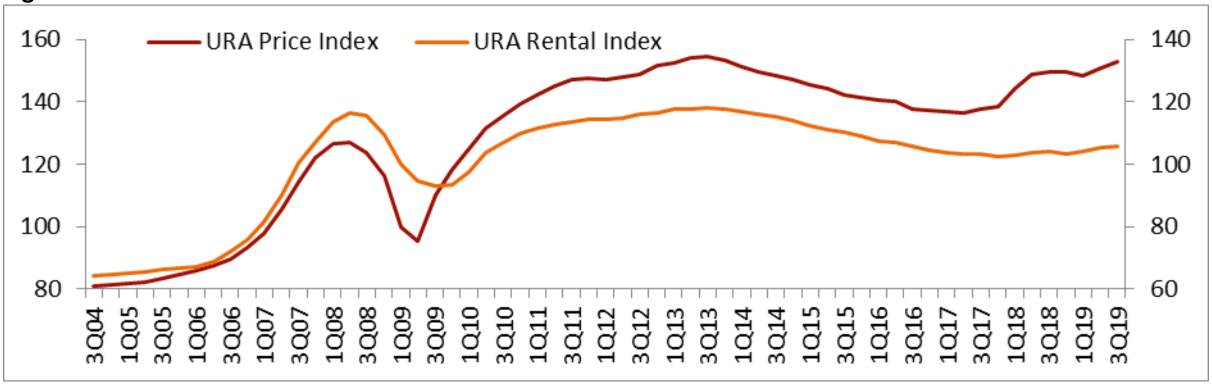


Source: OCBC Credit Research estimates

Recovery in rents and occupancy bodes well for property prices: We observe that price is correlated with rents (see Figure 73). With the URA Rental Index increasing 1.4% y/y, we believe this has partly supported the increase in the URA Price Index. As the occupancy rate has increased (see Figure 74), in other words vacancy rates have fallen, we think there is greater potential for rents to increase further. We observe that changes in occupancy rate tend to precede changes in prices (see Figure 75). As occupancy rate is still on an uptrend, we think this bodes well for property prices.

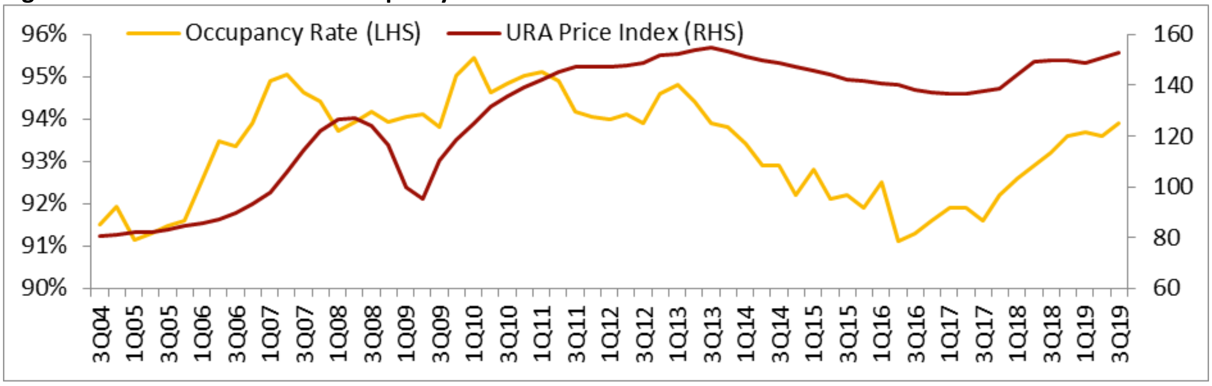
[7] FVI is a new measure introduced in 2019 by MAS, which is a quantity-based measure used to monitor current financial vulnerabilities relative to historical levels.

Figure 73: URA Price Index vs URA Rental Index



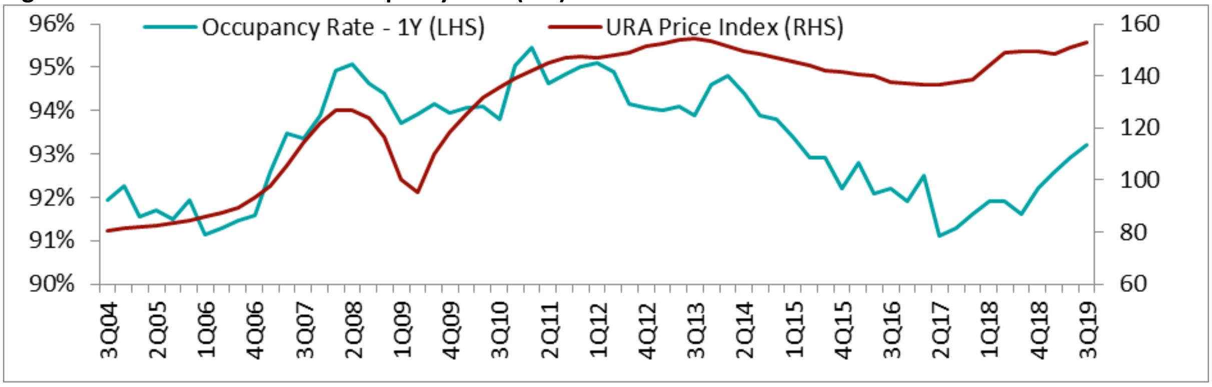
Source: Urban Redevelopment Authority, OCBC Credit Research

Figure 74: URA Price Index vs Occupancy Rate



Source: Urban Redevelopment Authority, OCBC Credit Research

Figure 75: URA Price Index vs Occupancy Rate (Y-1)



Source: Urban Redevelopment Authority, OCBC Credit Research

Expect recovery to extend into 2020 though we caution against over optimism: We expect property prices to rise around mid-single digit in 2020 due to the aforementioned reasons of declining supply of unsold units, still somewhat supportive economic outlook, recovery in rents and continued demand from an aspirational and increasingly affluent society. That said, we believe that it will be difficult for property prices to significantly overtake income growth due to the potential for further property cooling measures. Another wildcard in the medium term will be potential policy changes with the Singapore General Elections in the horizon, which has to take place by April 2021. We think it is likely that elections may be held as early as 1H2020 given that the Electoral Boundaries Review Committee has been formed, as announced in Sep 2019. Housing is anticipated to be a topic of focus (as it has been in past elections), and we note that the Workers' Party (an opposition party) has published a housing policy paper.

Positive for developers in the shorter term though longer term is an uncertainty: Recovery in the property market will be positive for developers under our coverage holding significant inventory (City Developments Ltd, Oxley Holdings Ltd, GuocoLand Ltd) as we expect units to be moved. However, the reduction in land supply is likely to keep land prices high (and margins low) as well as reduce the overall pie of the development market. Without sufficient opportunities locally, we find that developers have increasingly leveraged up and/or invested in overseas markets to keep profitability up. For example, City Developments Ltd privatised Millennium & Copthorne Hotels PLC for GBP776.3mn and invested SGD1.1bn in a China property developer. CapitaLand Ltd acquired Ascendas-Singbridge Pte Ltd with an enterprise value of SGD11bn and acquired a multifamily portfolio in the US for USD835mn. Frasers Property Ltd acquired PGIM Real Estate AsiaRetail Fund Ltd for SGD1.4bn and acquired a 94.5%-stake in Golden Land for SGD840mn. The Singapore property market will be decreasing in relevance for developers diversifying into other assets and geographies. The overall impact in the longer term will hinge on successful execution in the new businesses/markets and the eventual capital structure.

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

a) Frasers Commercial Trust

Contents

B. COMPANY OUTLOOKS – CORPORATES (cont.) **Page No.**

Corporate Outlooks

Issuer Profile:
Neutral (3)

Ticker:
AREIT

Outlook:
We are broadly underweight-to-neutral the AREIT curve, especially after the AREIT 2.655% '21s had snapped in to be in line with peer REIT bonds. We are underweight the AREIT 4.75%-PERP which is now only paying YTC of 2.3% and prefer to switch into the MLTSP 4.18%-PERP with a YTC of 3.4% which more than compensates for its one year longer call date in November 2021 and weaker credit profile.

Background:
Ascendas REIT ("AREIT") is the largest business space and industrial REIT in Singapore, with total assets of SGD12.0bn as at 30 September 2019. AREIT is currently sponsored by CapitaLand Ltd ("CAPL", Issuer profile: Neutral (3)), which has a deemed interest of ~19% in AREIT. On 30 June 2019, CAPL completed the acquisition of Ascendas Pte Ltd and Singbridge Pte Ltd. AREIT announced a change in financial year end from 31 March to 31 December (matching CAPL). As such the current financial year is a nine-month period from 1 April 2019 to 31 December 2019 ("2019").

Ascendas Real Estate Investment Trust

Key Considerations

- **Increase in gross revenue driven by acquisitions:** Gross revenue was up 5.3% y/y for the quarter ended 30 September 2019 ("2Q2019") to SGD229.6mn driven by full quarter contribution from AREIT's first UK portfolio of 12 logistics properties bought in August 2018 and another 26 properties bought in October 2018. Taking out the contribution from the UK, AREIT's gross revenue would have only increased 1.3% y/y. While the quantum was undisclosed, AREIT received one-off liquidated damages on the back of a pre-termination of lease in Australia which in our view helped keep q/q revenue flat. Tellingly there was still a lack of performance fee received by the REIT manager in 2Q2019 (no performance fee in 1Q2019 either).

- **Stable interest coverage ratio:** EBITDA (based on our calculations which do not include other income and other expenses) was up 12.9% y/y at SGD161.6mn mainly due to adoption of FRS116 (no land rent expenses were included in 2Q2019). Q/q, EBITDA increased 0.2%. Interest expense (excluding interest on lease liabilities) was up by 5.6% y/y to SGD33.4mn from higher average debt balance, with resultant EBITDA/Interest coverage at 4.8x, relatively stable compared to 4.7x in 1Q2019. Assuming AREIT pays out SGD14.3mn p.a. in perpetual distribution (SGD3.6mn per quarter) and taking 50% of this as interest, we find EBITDA/(Interest plus 50% perpetual distribution) at 3.9x.

- **Monitoring Singapore lease expiries:** As at 30 September 2019, overall occupancy at AREIT was marginally lower at 91.0% (30 June 2019: 91.1%), dragged by Singapore and the UK while Australia occupancy rose. Notable declines in Singapore occupancy were at Logis Hub@Clementi, 31 International Business Park, Plaza 8 (Part of Changi Business Park Crescent) and the Cintech buildings. 24.7% of Singapore leases will come due by end-2020, about half from business and science parks, posing some downside rental pressures in our view given the lackluster occupancy for these segments (we estimate weighted average occupancies for AREIT's business and science parks at 80%, lower than the sector-wide's 86.2%). AREIT had accelerated geographically diversification since 2015, indicating that the REIT is fully aware of structural issues with the industrial space sector in Singapore.

- **Short term debt manageable:** As at 30 September 2019, AREIT faced SGD646.5mn in short term debt, representing only 15% of total debt. SGD447mn relates to revolving credit facilities which we think will be rolled forward under normal business circumstances. AREIT is also developing a built-to-suit business park for Grab and redevelopment of two properties at Ubi Road 4 with an estimated value of SGD216.2mn (we think another SGD85mn to be spent) while it is also carrying out small asset enhancement initiatives ("AEI").

- **Entry into the USA:** As at 30 September 2019, reported aggregate leverage was 36.2% (30 June 2019: 37.2%). AREIT pays dividends semi-annually and did not pay out dividends in 2Q2019 with cash flow generated from operations going towards debt repayment and adding to cash balance. In 2Q2019, net of drawdown, debt repayments were SGD40.4mn. Taking 50% of AREIT's perpetuals as debt, we find unadjusted aggregate leverage at ~38%. In October 2019, AREIT announced that it is acquiring a yet to be built suburban office in Melbourne for ~SGD105.6mn (including transaction costs). In the following month, AREIT announced that it will buy 30 business park properties from its Sponsor for SGD1.71bn, including transaction costs. 28 of these are located in knowledge-industries intensive cities of the USA with two in Singapore. Eight properties are located in San Diego (valued at SGD581.5mn), five in Raleigh (valued at SGD411.7mn) and 15 in Portland (valued at SGD288.4mn). The transaction is targeted to be ~76% equity funded, with the remaining via a USD bank loan. Taking into account asset movements (including redevelopment, development and AEI), we expect aggregate leverage to stay around ~36%.

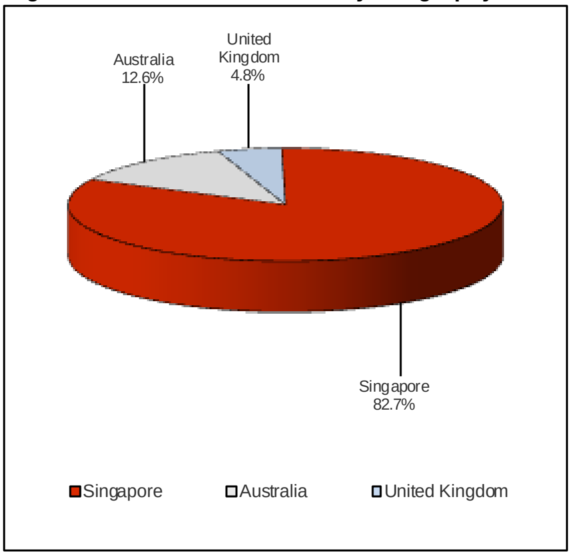
Ascendas Real Estate Investment Trust

Table 1: Summary Financials

Year Ended 31st March*	FY2018	FY2019	1H2020
Income Statement (SGD'mn)			
Revenue	862.1	886.2	459.3
EBITDA	571.0	587.5	322.9
EBIT	571.0	587.5	322.9
Gross interest expense	109.8	126.5	81.1
Profit Before Tax	496.9	517.5	267.2
Net profit	494.1	503.1	260.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	25.0	52.3	80.4
Total assets	10,353.8	11,413.8	12,052.8
Short term debt	909.9	396.1	646.5
Gross debt	3,519.2	4,097.8	4,109.9
Net debt	3,494.2	4,045.5	4,029.5
Shareholders' equity	6,498.7	6,946.0	6,937.7
Cash Flow (SGD'mn)			
CFO	538.9	612.4	335.1
Capex	132.7	186.4	32.7
Acquisitions	226.6	903.9	0.0
Disposals	60.8	37.6	27.0
Dividends	308.8	477.3	260.5
Interest paid	118.4	128.7	74.6
Free Cash Flow (FCF)	406.2	426.1	302.4
Key Ratios			
EBITDA margin (%)	66.23	66.30	70.30
Net margin (%)	57.31	56.77	56.79
Gross debt to EBITDA (x)	6.16	6.97	6.36
Net debt to EBITDA (x)	6.12	6.89	6.24
Gross Debt to Equity (x)	0.54	0.59	0.59
Net Debt to Equity (x)	0.54	0.58	0.58
Gross debt/total asset (x)	0.34	0.36	0.34
Net debt/total asset (x)	0.34	0.35	0.33
Cash/current borrowings (x)	0.03	0.09	0.12
EBITDA/Total Interest (x)	5.20	4.64	3.98

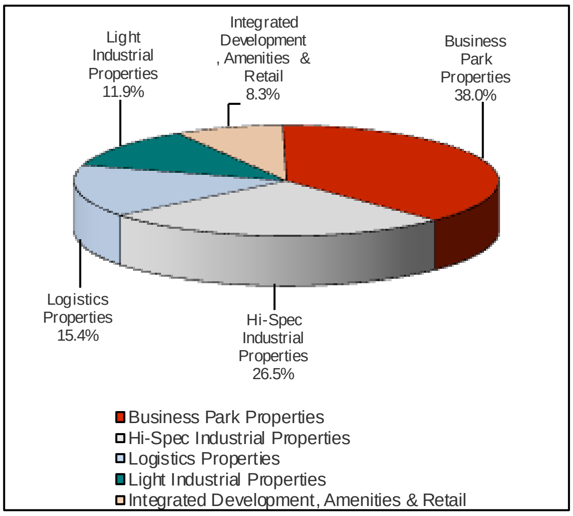
*Source: Company, OCBC estimates | *1H2020 refers to 1H Financial Year 2019 ended 31st Dec*

Figure 1: Revenue breakdown by Geography - 1H2020



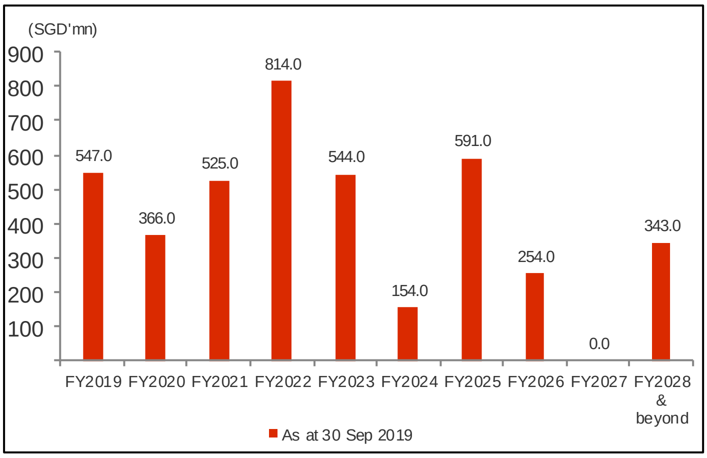
Source: Company

Figure 2: Revenue breakdown by Segment - 1H2020



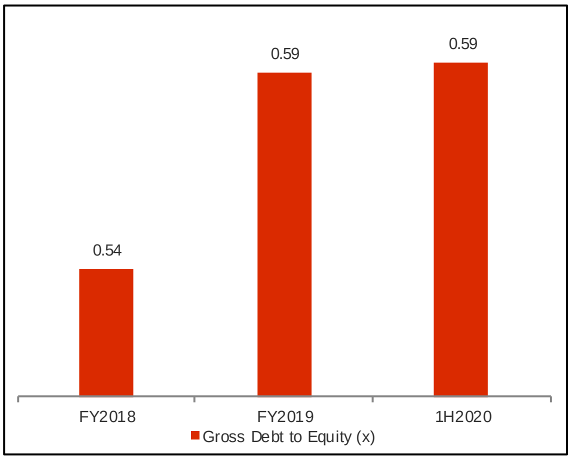
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:

Neutral (3)

Ticker:

ARTSP

Outlook:

Within the ARTSP curve, we prefer the ARTSP 4.0% '24s which is paying an ask yield of 2.66% and offering 12bps more than the ARTSP 3.523% '23s for less than 6 months longer in maturity. We are underweight both the ARTSP perpetuals and prefer the FHREIT and MLTSP perpetuals instead.

Background:

Listed on the SGX, Ascott Residence Trust ("ART") invests primarily in serviced residences and rental housing properties. It is the largest hospitality trust listed on the SGX. As at 30 September 2019 and including the lyf at one-North co-living space that is being developed, ART's standalone portfolio consists of 74 properties across 37 cities in 14 countries. ART has completed its combination with Ascendas Hospitality Trust ("ASCHTS") as of 31 December 2019, bringing the total portfolio to 88 properties (14 from ASCHTS).

Ascott Residence Trust

Key Considerations

- **Completed combination with ASCHTS:** ART's combination with ASCHTS was completed on 31 December 2019, with total assets of the enlarged ART expected at SGD7.6bn. We think ART's financial flexibility would improve given its enlarged scale while hospitality assets are highly marketable (particularly those located in gateway cities).

- **Revenue down for ART-standalone:** Driven by the fall in revenue from Singapore due to the sale of Ascott Raffles Place in May 2019, 3Q2019 revenue was down by 1.5% y/y to SGD132.4mn though on a same-store basis, revenue from Singapore would have improved 6.6% y/y (per our estimation). Revenue from ART's New York City properties was down 5.6% y/y in USD-terms due to increased market competition from new supply. We expect New York City numbers to continue being weak in 4Q2019 and 2020 versus 2018. China was also weaker, with underlying performance down 4.3% y/y, compounded by the depreciation of the RMB against the SGD and due to softer corporate demand particularly in Tier 2 cities. The declines in revenue though were partly offset by higher top line contribution from Australia, albeit driven by an acquisition, while Australia same-store revenue and gross profit was lower. Vietnam performed well with RevPAU up 9% y/y from stronger corporate demand.

- **Expect interest coverage ratio to be stronger on an enlarged basis:** EBITDA (based on our calculation which does not include other income, other expenses and foreign exchange losses/gains) was SGD60.8mn, while interest expense was higher at SGD12.8mn due to the FRS 116 – Leases impact, with resultant EBITDA/Interest coverage of 4.7x. In September 2019, ART managed to save 112bps p.a. on its distribution rate via its replacement perpetual. The older perpetual was redeemed on 29 October 2019. Assuming that ART pays out SGD17.5mn in perpetual distribution per year (SGD4.4mn per quarter) and taking 50% of this as interest, we find adjusted EBITDA/(Interest plus 50% perpetual distribution) coverage at 4.0x, still manageable. Using the same EBITDA/Interest calculation, we estimate proforma EBITDA/Interest of the enlarged ART at 5.0x for the most recent quarter.

- **Adjusted aggregate leverage for the enlarged ART:** As at 30 September 2019, reported aggregate leverage at ART was 33.0%, though taking 50% of the outstanding perpetuals as debt, we find adjusted aggregate leverage at 37%. Short term debt was SGD271.4mn, representing only 14% of gross debt. We expect cash balances to decline by ~SGD84mn to ~SGD301mn as 5% of the total proposed combination consideration would be in cash (rest in new ART equity to be issued to ASCHT equity holders) and high transaction costs in relation to the proposed combination. Even at ~SGD301mn, cash-to-short term debt due would be comfortable at 1.1x. Taking the lyf development impact and combining with ASCHTS's current standalone balance sheet, we think the enlarged ART would see an aggregate leverage of ~37%, with adjusted aggregate leverage at ~39% and on the higher end of REITs under our coverage. We do not expect ART's redevelopment of Somerset Liang Court into a new serviced residence (with hotel license) to impact its credit profile given that proceeds from the partial sale of the land site where the existing Somerset Liang Court sits will be used to fund the redevelopment.

- **Expect marginally weaker geographic spread:** The key geographical impact from the combination of ASCHTS would be the increase in properties located in Australia and Japan. Based on our estimation, gross profit from Australia could increase to ~15% while exposure to Japan could rise from 11.2% to ~16%. On the flipside, the enlarged ART would have lower exposure to the USA, China, Europe and Southeast Asia (dominated by Singapore). While the outlook for Australia has weakened, this is partly offset by (1) Reduction to China, which had seen weaker performance outside of Tier 1 cities (2) Reduction to New York City, which had faced oversupply issue in 2019 and is not expected to turnaround in the next 12 months and (3) Reduction to Europe where ART's French properties may face lower lease renewals.

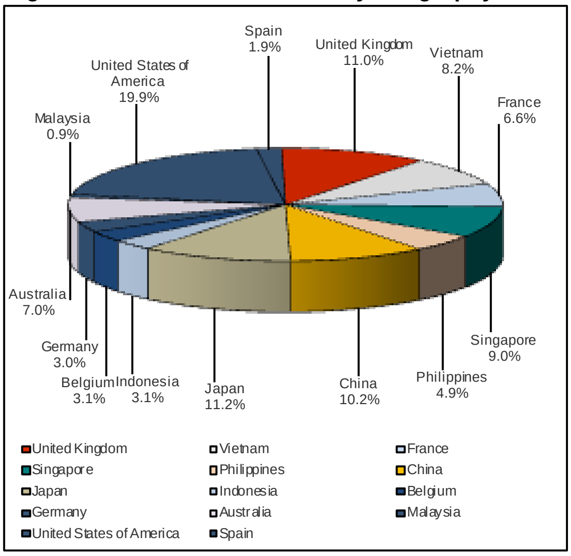
Ascott Residence Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	496.3	514.3	380.9
EBITDA	212.1	222.3	175.2
EBIT	198.8	209.6	166.0
Gross interest expense	46.7	47.1	39.2
Profit Before Tax	274.4	195.4	274.6
Net profit	222.5	151.8	251.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	257.3	227.8	385.4
Total assets	5,493.1	5,309.1	5,674.3
Short term debt	264.3	70.1	271.4
Gross debt	1,945.4	1,905.5	1,737.0
Net debt	1,688.0	1,677.6	1,351.5
Shareholders' equity	3,171.7	3,130.9	3,358.6
Cash Flow (SGD'mn)			
CFO	181.3	226.7	165.8
Capex	26.2	27.6	21.3
Acquisitions	628.0	65.0	58.1
Disposals	262.5	95.4	352.5
Dividends	166.8	171.8	172.2
Interest paid	46.6	46.3	34.9
Free Cash Flow (FCF)	155.1	199.1	144.5
Key Ratios			
EBITDA margin (%)	42.73	43.23	45.99
Net margin (%)	44.83	29.53	66.02
Gross debt to EBITDA (x)	9.17	8.57	7.44
Net debt to EBITDA (x)	7.96	7.55	5.79
Gross Debt to Equity (x)	0.61	0.61	0.52
Net Debt to Equity (x)	0.53	0.54	0.40
Gross debt/total asset (x)	0.35	0.36	0.31
Net debt/total asset (x)	0.31	0.32	0.24
Cash/current borrowings (x)	0.97	3.25	1.42
EBITDA/Total Interest (x)	4.54	4.72	4.47

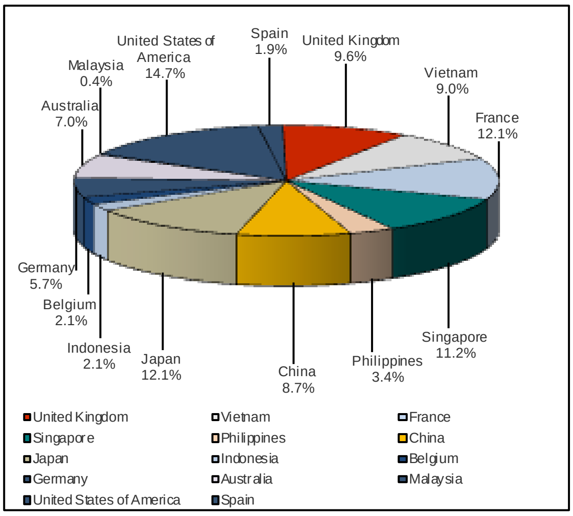
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 9M2019



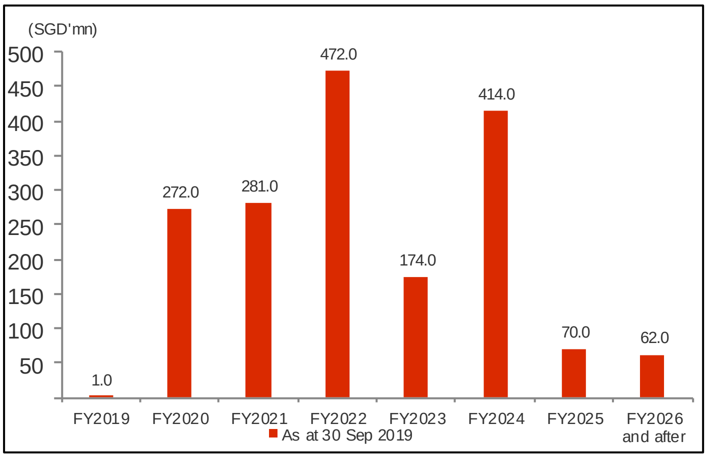
Source: Company

Figure 2: Gross Profit by Geography - 9M2019



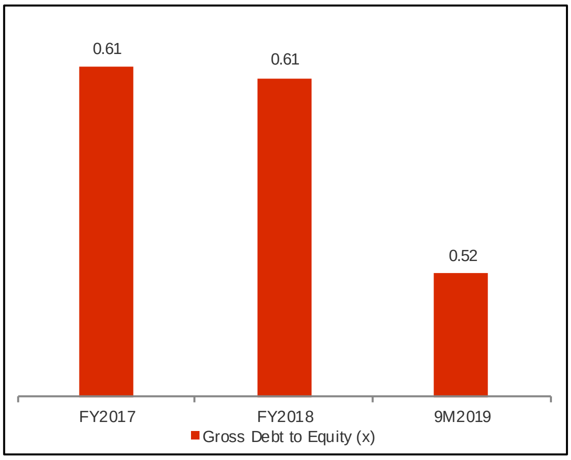
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

OCBC Bank

Issuer Profile:

Negative (6)

Ticker:

ASPSP

Outlook:

As liquidity looks tight and bonds are trading around par, risk-reward is not attractive and we prefer to switch out from the Aspial curve. If the tight liquidity situation persists, we may downgrade Aspial's Issuer Profile.

Background:

Incorporated in 1970 and listed on the SGX since 1999, Aspial Corp Ltd ("Aspial) has evolved over the years from its roots in jewellery (main brands: Lee Hwa, Goldheart and CITIGEMS) to a diversified company with real estate and pawnshop businesses (Maxi-Cash). Aspial has a market cap of SGD298.4mn as of 5 Dec 2019. Aspial is ~83%-controlled by the members of the Koh family who are siblings to Mr Koh Wee Meng, the founder of Fragrance Group Ltd.

Aspial Corp Ltd

Key Considerations

- **Continued lackluster results with fewer units handed over:** 3Q2019 revenue fell by 60% y/y to SGD138.7mn with profit before tax declining 62% y/y to SGD12.2mn. We note significant q/q declines in real estate revenue to SGD40.5mn (2Q2019:SGD268mn) due to fewer settlements. As a result, profit before tax for the segment fell by 31% y/y to SGD39.7mn. Meanwhile, the other segments are holding up better. Financial services saw 27.4% y/y rise in revenue to SGD65.1mn and pre-tax profit rising 132% y/y to SGD6.5mn due to higher revenue from pawn broking and secured lending operations. Jewellery revenue rose 15.3% y/y to SGD34.7mn, with pre-tax losses narrowing to SGD0.3mn (3Q2018 pre-tax losses: SGD2.1mn) from higher sales from overseas operations and a reduction in operating costs.

- **Impending maturity coupled with low liquidity:** Liquidity looks tight with SGD30.8mn of cash insufficient to cover SGD745.7mn debt coming due in the next 12 months. Excluding Maxi-Cash's SGD258.7mn short term debt, which is consolidated on Aspial's balance sheet, SGD487.0mn debt still remains. It is not immediately clear if Aspial can monetize SGD74.8mn of investment properties and ~65%-stake in Maxi-Cash worth SGD87.5mn and SGD9.3mn in investment securities. To pare down the debt position and redeem the bonds with impending maturity, this will rely on successful settlement and cash proceeds from Australia 108 or external capital support (e.g. by securing Aspial's investment assets).

- **Debt repayment hinges on successful settlements from Australia 108:** Aspial intends to tackle its upcoming debt maturity through cash proceeds from the settlement and handover of units for Australia 108. Aspial expects to realize AUD400mn (~SGD372mn) cash proceeds from the settlement and handover of Australia 108. In our view, successful, settlement and completion of Australia 108 is critical for Aspial to pare down its debt. According to Aspial, Australia 108 is expected to complete in 1H2020, with its main contractor Multiplex Construction Pty Ltd reporting no defects that are structural in nature.

- **How successful will the settlements at Australia 108 be?** We note that the sales rate on Australia 108 has fallen significantly to 88% as of 1Q2019 from its height of 98% in 1Q2018, which indicates that purchases which have been entered into may not be completed. Curiously, Aspial has stopped disclosing the sales rate of Australia 108 in 2Q2019 and 3Q2019 and we will not be surprised if the sales rate has fallen more. As Melbourne (where Australia 108 is) has seen prices fall as much as 10.6% from early 2018, we think certain buyers may be unwilling to complete the settlement. We think that successful settlement of units from Australia 108 is not a certainty. That said, prices are recovering (Nov 2019 Melbourne: +2.2%, Oct 2019: +2.3%) and if the momentum continues in subsequent months, this may help Aspial to move several of the remaining unsold units.

- **Significant HoldCo-OpCo subordination:** Out of SGD1.62bn in total assets, we note that a significant amount of assets are held in subsidiaries which are consolidated on the financials, including World Class Global Ltd (SGD634.3mn) and Maxi-Cash (SGD537.4mn). We note these subsidiaries hold substantial debt, resulting in subordination of Aspial's bondholders.

- **Credit metrics still weak:** Net gearing rose q/q to 2.51x (2Q2019: 2.45x) with Aspial incurring SGD10.1mn operating cash outflows mainly due to SGD18.5mn working capital consumed. This is due to on-going construction at Australia 108 and other overseas projects. While net gearing has already come down significantly since 1H2018 (2Q2018 net gearing: 3.37x), debt levels remain very substantial. Aspial expects that the debt position will improve though this will be contingent on cash proceeds from handover of units for Australia 108. We expect Aspial to attempt to repurchase its bonds due in 2020s when it receives the cash proceeds.

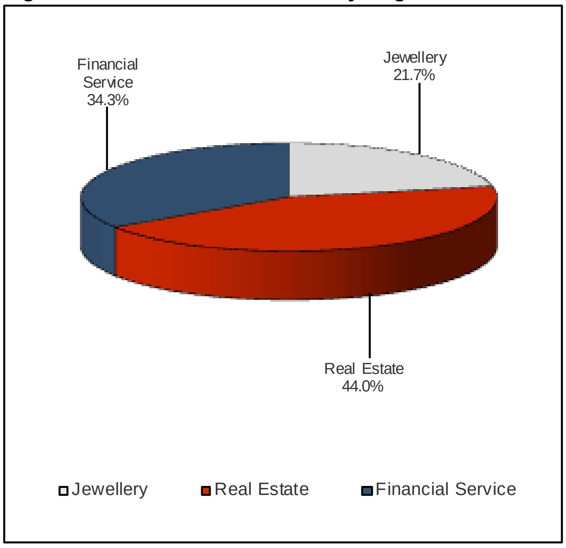
Aspial Corp Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	489.5	898.5	451.1
EBITDA	25.5	66.7	56.9
EBIT	19.9	60.1	37.3
Gross interest expense	54.6	59.0	26.1
Profit Before Tax	14.8	56.6	39.7
Net profit	5.8	37.1	27.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	54.9	59.0	30.8
Total assets	1,985.3	1,672.4	1,616.5
Short term debt	777.2	544.4	768.0
Gross debt	1,484.6	1,153.9	1,092.2
Net debt	1,429.7	1,094.9	1,061.3
Shareholders' equity	411.5	409.8	423.7
Cash Flow (SGD'mn)			
CFO	-147.3	341.2	103.5
Capex	40.0	19.2	19.8
Acquisitions	14.2	3.0	3.0
Disposals	244.5	163.2	71.9
Dividend	5.3	14.1	7.2
Interest paid	-51.2	-63.9	-41.6
Free Cash Flow (FCF)	-187.3	322.1	83.6
Key Ratios			
EBITDA margin (%)	5.21	7.42	12.62
Net margin (%)	1.19	4.13	6.04
Gross debt to EBITDA (x)	58.19	17.31	14.39
Net debt to EBITDA (x)	56.03	16.42	13.98
Gross Debt to Equity (x)	3.61	2.82	2.58
Net Debt to Equity (x)	3.47	2.67	2.51
Gross debt/total assets (x)	0.75	0.69	0.68
Net debt/total assets (x)	0.72	0.65	0.66
Cash/current borrowings (x)	0.07	0.11	0.04
EBITDA/Total Interest (x)	0.47	1.13	2.18

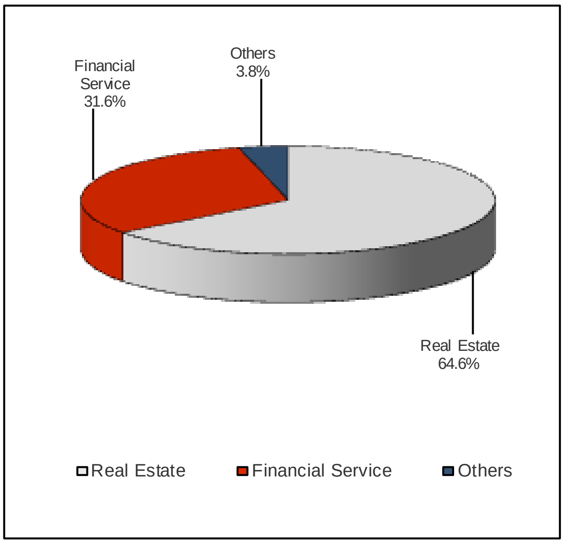
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2019



Source: Company | Excludes Others

Figure 2: PBT breakdown by Segment - 9M2019



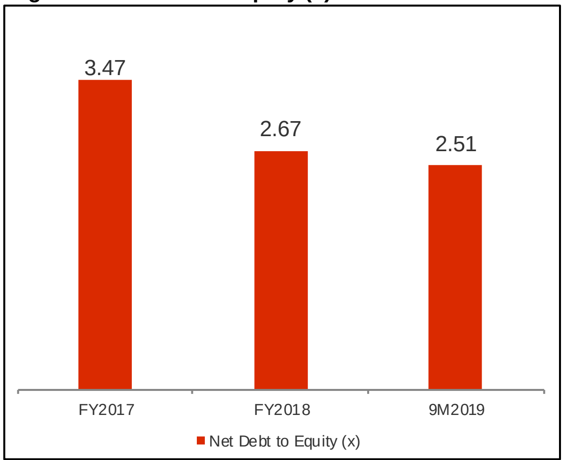
Source: Company | Excludes Jewellery

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	381.8	35.0%
Unsecured	386.2	35.4%
	768.0	**70.3%**
Amount repayable after a year		
Secured	108.1	9.9%
Unsecured	216.1	19.8%
	324.2	**29.7%**
Total	**1,092.2**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:
Neutral (5)

Ticker:
BREAD

Outlook:
While BGL is a household name generating strong cashflows, we are Neutral on the BREAD curve as credit metrics is expected to deteriorate following the acquisition of Food Junction.

Background:
Listed on the SGX in 2003 with a market cap of SGD346mn, BreadTalk Group Ltd ("BGL") is a household F&B brand owner. Prominent brands include BreadTalk, Toast Box and Food Republic. As a franchisee, BGL operates Din Tai Fung ("DTF"), Song Fa Bak Kut Teh ("Song Fa"), Wu Pao Chun Bakery, Nayuki and TaiGai. BGL has expanded beyond Singapore. As of end-Sep 2019, BGL operates 400 outlets in China, Singapore, Thailand and other parts of Asia and Middle East. BGL is also the franchisor to 611 bakery stores (mainly through the BreadTalk brand). BGL is majority owned by founders George Quek (35.86%) and Katherine Lee (20.49%).

BreadTalk Group Ltd

Key Considerations

- **Improving revenue…:** 9M2019 revenue rose by 8.7% y/y to SGD494.6mn with broad-base growth in all segments. The biggest driver is the Restaurant Division (+14.8% y/y to SGD129.6mn) benefiting from 5 additional outlets (4 in Singapore, 1 in Thailand). 4orth Division (+141.2% y/y to SGD23.3mn) saw strong growth with new brands added (e.g. TaiGai, Nayuki, Wu Pao Chun). Meanwhile, Bakery Division (+3.3% y/y to SGD218.9mn) and Food Atrium Division (+2.0% y/y to SGD119.6mn) also recorded growth.

- **… led to disimproving profitability:** Despite higher revenue, reported PBT fell by 33.8% y/y to SGD13.3mn in 9M2019. Bakery division is the main drag, with PBT falling to negative SGD3.4mn (9M2018: +SGD4.8mn) following BGL's acquisition of the remaining 50%-interest in BTM (Thailand) Ltd from Minor Food Group (which supported the topline but not the bottom line). In addition, BGL recorded lower revenue from direct operated stores and franchise business in China. The revenue growth in 4orth Division similarly impacted the bottom line due to start-up costs for new outlets, with PBT loss for the segment deepening to SGD8.1mn (9M2018: SGD1.3mn PBT loss). Meanwhile, Food Atrium (PBT: +5.9% y/y to SGD11.1mn) and Restaurant (+6.1% y/y to SGD19.5mn) continue to hold up. That said, we expect profitability to improve when the new outlets fully contribute. We note EBITDA is not comparable on a y/y basis due to accounting changes from SFRS (I) 16 Leases.

- **Setting sights on more food courts:** BGL is acquiring 100%-stake in Food Junction ("FJ"), which includes 12 food courts in Singapore and 3 food courts in Malaysia. While the transaction size is SGD80mn, the net profit of FJ is a mere SGD3,183 based on statements as at 30 Jun 2019. We note that the transaction size is significantly higher than in 2013 when Auric Pacific valued FJ at SGD31.1mn via a cash offer. That said, BGL's management cited that the transaction values FJ at 7.6x EV/EBITDA, which we think looks reasonable – we note that depreciation can be significant for food courts (e.g. in Food Republic's case). We think that there is room for FJ's profitability to improve when BGL integrates and streamlines FJ's head office (which cost SGD3mn p.a.). That said, we expect the transaction to be credit negative given the significant size relative to BGL's net assets of SGD147.1mn.

- **Change in leadership…:** Despite joining BGL for only 2.5 years, Mr. Henry Chu is stepping down as its CEO at end-2019. We note that Mr. Chu led BGL to resume its expansion path (previously BGL was in consolidation phase), including partnerships with Wu Pao Chun Bakery and Song Fa Bak Kut Teh and expansion in London and Cambodia. BGL's founder George Quek will take over as the interim CEO. We note the proposed acquisition of FJ (in Sep) came after the announced change in leadership (in Aug).

- **… with greater sights set?:** In Oct 2019, through an interview with Business Times, BGL provided targets including (1) improving net profit margin to 8% by 2022 (1H2019: 1.0%) and (2) expansion in outlets for Toast Box, Food Court (from 78 to 100) and Din Tai Fung. This looks somewhat aggressive and we think significant capex and start-up costs could be incurred which may weigh on margins.

- **Credit metrics to deteriorate:** While net gearing is already somewhat high at 3.5x, credit metrics may deteriorate post acquisition of FJ. If BGL expands aggressively by undertaking significant capex/acquisition, net gearing may still rise further. Meanwhile, BGL is no longer as diversified given that Bakery is no longer contributing positively to profits for two consecutive quarters while profitability is now much skewed towards Din Tai Fung as the main anchor of the whole BGL portfolio. That said 9M2019 net operating cashflow of SGD98.6mn is currently sufficient to cover SGD18.0mn of interest expense with net debt/EBITDA of 0.65x. We continue to hold BGL at a Neutral (5) Issuer Profile, albeit precariously given the deterioration in credit metrics.

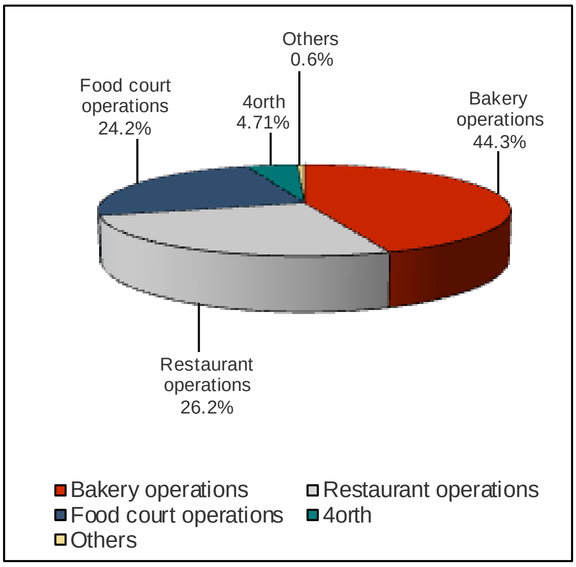
BreadTalk Group Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	599.7	609.8	494.6
EBITDA	51.2	47.4	70.7
EBIT	10.8	6.1	4.0
Gross interest expense	5.4	9.2	18.0
Profit Before Tax	41.0	31.1	13.3
Net profit	29.9	19.7	5.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	141.2	185.0	124.2
Total assets	551.6	608.4	982.1
Short term debt	57.3	98.0	183.4
Gross debt	183.3	226.7	643.3
Net debt	42.1	41.7	519.1
Shareholders' equity	154.9	162.7	147.1
Cash Flow (SGD'mn)			
CFO	77.6	65.6	98.6
Capex	30.2	47.9	17.6
Acquisitions	20.0	4.1	21.8
Disposals	30.8	20.0	4.9
Dividend	20.3	11.3	8.5
Interest paid	-5.4	-9.2	-18.0
Free Cash Flow (FCF)	47.4	17.7	81.1
Key Ratios			
EBITDA margin (%)	8.5	7.8	14.3
Net margin (%)	5.0	3.2	1.1
Gross debt to EBITDA (x)	3.58	4.78	6.82
Net debt to EBITDA (x)	0.82	0.88	5.50
Gross Debt to Equity (x)	1.18	1.39	4.37
Net Debt to Equity (x)	0.27	0.26	3.53
Gross debt/total assets (x)	0.33	0.37	0.66
Net debt/total assets (x)	0.08	0.07	0.53
Cash/current borrowings (x)	2.46	1.89	0.68
EBITDA/Total Interest (x)	9.5	5.1	3.9

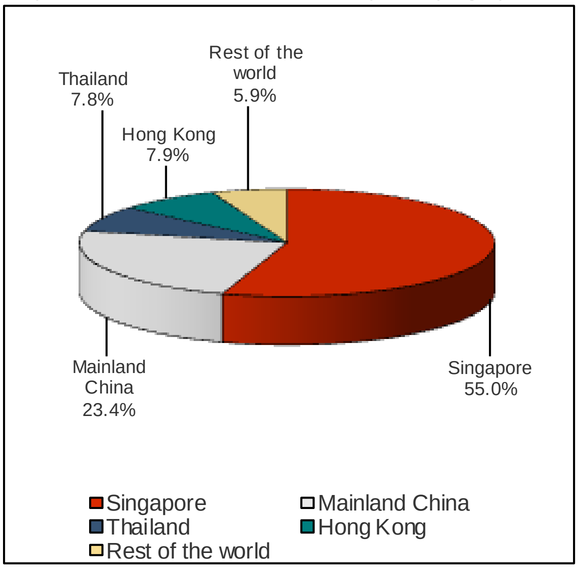
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2019



Source: Company

Figure 2: Revenue breakdown by Geography - 9M2019



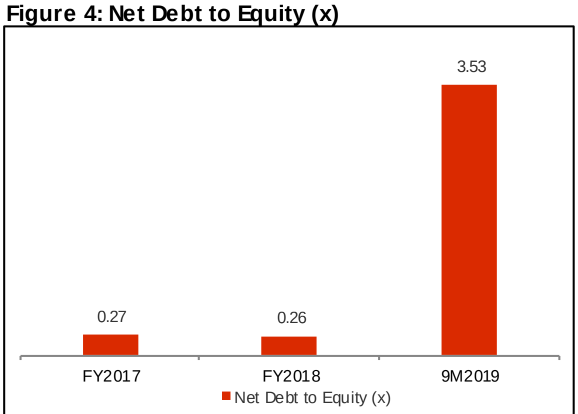
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	4.1	0.6%
Unsecured	179.5	27.9%
	183.6	**28.5%**
Amount repayable after a year		
Secured	24.9	3.9%
Unsecured	435.2	67.6%
	460.1	**71.5%**
Total	**643.7**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:
Neutral (4)

Ticker:
CACHE

Outlook:
We think the CACHE 5.5%-PERP with a YTC of 6.2% with first call in February 2023 more than compensates for its weaker credit profile versus other Industrial REIT peers and prefer this perpetual over the EREIT 4.6%-PERP.

Background:
Cache Logistics Trust ("CACHE"), structured as a real estate investment trust ("REIT") and listed on the Singapore Stock Exchange ("SGX") with a market cap of ~SGD768mn as at 20 December 2019 with total assets of SGD1.4bn as at 30 September 2019. CACHE focuses on logistics warehouse properties, with properties located across Singapore and Australia. ARA Asset Management ("ARA"), who also owns the REIT Manager and Property Manager, holds a ~10%-stake in CACHE.

Cache Logistics Trust

Key Considerations

- **Revenue down y/y:** Gross revenue was down by 12% y/y to SGD27.7mn driven by (1) revenue decline at Cache GulLogisCentre which was converted from a master lease to multi-tenancy lease, (2) tenant transition at Commodity Hub, (3) lease expires at Pandan Logistics Hub, Cache Changi DistriCentre 1 and 41-51 Mills Road, (4) absence of contribution from Jinshan Chemical Warehouse (sold in December 2018) and (5) weaker AUD versus SGD. This was despite CACHE acquiring 182-198 Maidstone Street, Altona in April 2019 where the property also comes with a rental guarantee. Net property income ("NPI") had a narrower fall of 8.3% y/y. While CACHE also recognized higher expenses from the conversion of Cache GulLogisCentre, this was partly offset by certain items that were taken out of property expenses due to the adoption of FRS116 – Leases since beginning 2019. Gross revenue for 3Q2019 was down 0.3% q/q although NPI was up 3.3% q/q, driven by commencement of new leases while property expenses were lower. We think the full quarter contribution from Maidstone contributed ~30% of the additional NPI.

- **Manageable interest coverage:** EBITDA (based on our calculation which does not include other income and other expenses) was SGD19.2mn in 3Q2019, up 3.5% q/q although interest expense (excluding interest on lease liabilities) was down 0.1% q/q, with resultant EBITDA/Interest coverage higher at 4.1x (2Q2019: 3.9x). Assuming CACHE pays out SGD5.5mn p.a. of perpetual distribution (SGD1.4mn per quarter and taking 50% of this as interest, we find EBITDA/(Interest plus 50% distribution) at 3.5x, somewhat higher versus 3.4x in 2Q2019. CACHE continues to pay high dividends of 100% of taxable and tax-exempt income. In 9M2019, cash flow from operations (after tax but before interest) was SGD59.4mn and insufficient to cover payments to capital source providers, with the gap funded by drawing down of existing cash.

- **Adjusted aggregate leverage on the high side:** As at 30 September 2019, reported aggregate leverage was 38.3%, marginally up from 37.9% as at 30 June 2019 following an increase in average debt balance. Taking 50% of perpetual as debt, we find adjusted aggregate leverage at 42% relatively high within our REIT coverage. With short term debt of SGD94.9mn (representing 19% of total debt), we see refinancing risk as manageable. Bulk of the short term debt coming due relates to AUD borrowing where CACHE's management is in the process of refinancing into lower cost financing. Despite low committed unutilized financing at the company, as at 30 September 2019, secured borrowings as a proportion of total assets was only 5% (~20% in mid-2018), which allows CACHE to raise secured debt, if need be.

- **Significant leases coming due:** At the beginning of 2019, 22.0% of leases were due to expire in 2019 although in 9M2019, CACHE had managed to renew and sign new leases amounting to ~1.3mn sq. ft. with a reported negative rental reversion of 0.7% (per CACHE's calculation which exclude certain leases which they think are less comparable). Much of the leases were signed in 3Q2019, which saw negative rental reversion of 11.9%. CACHE faces 21.1% of leases coming due by gross rental income in 2020, which looks chunky, though within what we had observed in the past two years where the respective one year forward lease expiries were 28.2% (30 Sept 2018) and 20.7% (30 Sept 2017) respectively. We think CACHE will continue to prioritize occupancy over lease rates for the upcoming renewals. As at 30 September 2019, committed portfolio occupancy was decent at 94%.

- **Lower CWT exposure:** Top ten tenants at CWT collectively made up 55.3% of gross rental income as at 30 September 2019, with income relatively concentrated to DHL (14.3% contribution) and CWT (10.7% contribution). Concentration risk has fallen from one year ago with CWT contributing 22.9% then. Going forward, the exposure to CWT should fall slightly. A new tenant operating in the global technology, defence and engineering sector (we think ST Engineering) had signed a lease for more than 300,000 sq. ft. of Commodity Hub in 3Q2019.

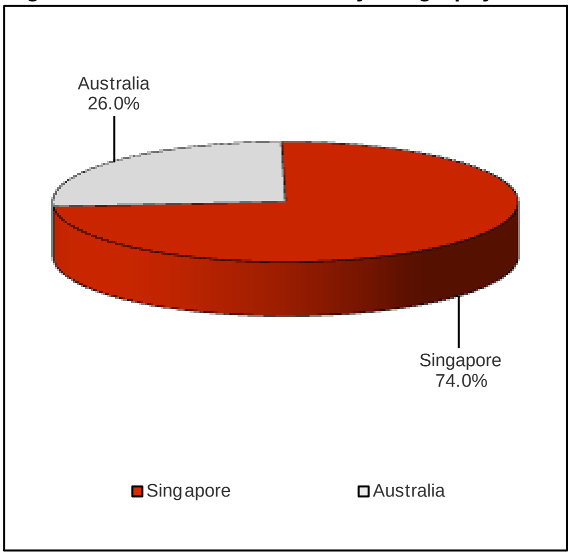
Cache Logistics Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	112.0	121.5	86.4
EBITDA	80.0	82.8	59.5
EBIT	79.1	82.1	59.1
Gross interest expense	18.7	18.6	16.2
Profit Before Tax	25.2	32.2	34.3
Net profit	23.9	29.7	32.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	15.0	33.3	14.2
Total assets	1,229.0	1,309.7	1,403.4
Short term debt	125.0	28.1	98.0
Gross debt	444.7	470.2	582.6
Net debt	429.7	436.8	568.4
Shareholders' equity	765.7	814.7	792.1
Cash Flow (SGD'mn)			
CFO	82.4	80.5	59.4
Capex	2.8	5.6	3.9
Acquisitions	25.4	193.8	39.5
Disposals	25.3	89.0	0.0
Dividends	65.6	67.0	52.3
Interest paid	17.0	14.8	15.4
Free Cash Flow (FCF)	79.6	74.9	55.4
Key Ratios			
EBITDA margin (%)	71.46	68.16	68.86
Net margin (%)	21.36	24.43	38.01
Gross debt to EBITDA (x)	5.56	5.68	7.35
Net debt to EBITDA (x)	5.37	5.27	7.17
Gross Debt to Equity (x)	0.58	0.58	0.74
Net Debt to Equity (x)	0.56	0.54	0.72
Gross debt/total asset (x)	0.36	0.36	0.42
Net debt/total asset (x)	0.35	0.33	0.41
Cash/current borrowings (x)	0.12	1.19	0.14
EBITDA/Total Interest (x)	4.29	4.46	3.66

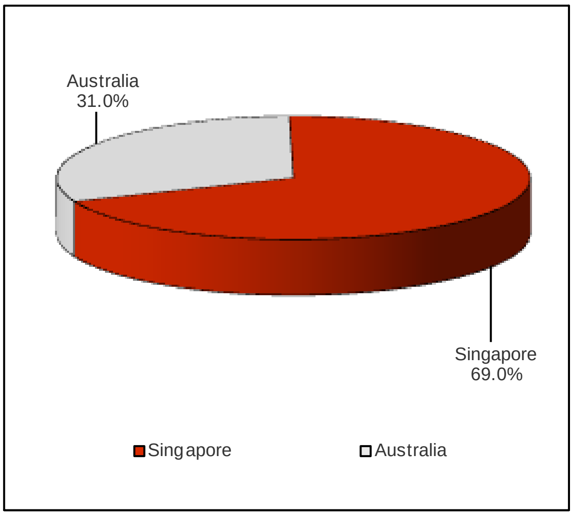
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 9M2019



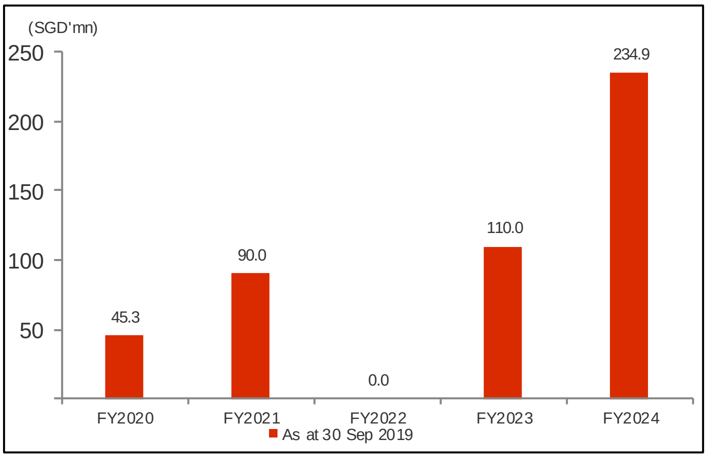
Source: Company

Figure 2: Asset breakdown by Geography - 9M2019



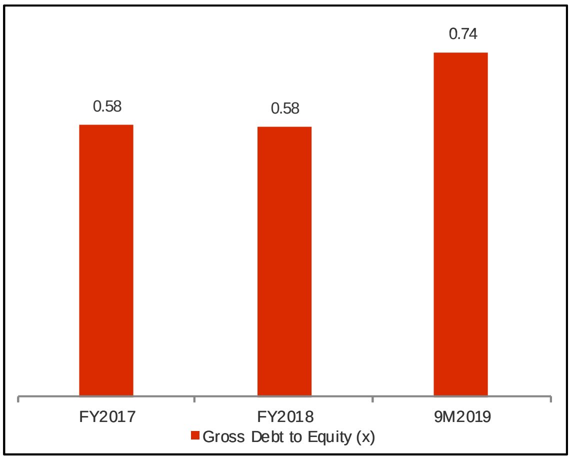
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

OCBC Bank

Issuer Profile:

Neutral (3)

Ticker:

CAPLSP

Outlook:

While CAPL's credit profile is strong from its diversified recurring income sources and Temasek parentage, the CAPLSP curve in general looks too tight, especially CAPLSP 3.65% PERP which is trading at low 3% YTC.

Background:

CapitaLand Ltd ("CAPL") is Singapore's leading real estate company, with development and investments in retail, office, serviced residences and residential properties. Following the acquisition of Ascendas-Singbridge Pte Ltd ("ASB"), CAPL will structure its business segments along (1) CL China, (2) CL Singapore and International (comprising CL Singapore, Malaysia, Indonesia, CL Vietnam & CL International), (3) CL India, (4) CL Lodging, (5) CL Financial (which includes stakes in REIT managers) and (6) Centres of Excellence. Listed on the SGX with a market cap of SGD18.7bn, CAPL holds SGD82.9bn in total assets. CAPL is 51.0%-owned by Temasek.

CapitaLand Ltd

Key Considerations

- **Significant changes to financials following the acquisition of ASB:** Due to the acquisition of Ascendas-Singbridge Pte Ltd ("ASB") which completed at the end of 2Q2019, the financials (income statement, balance sheet, cashflow) are significantly impacted. 3Q2019 revenue rose by 37.1% y/y to SGD1.73bn with reported EBIT higher by 30.2% y/y to SGD1.07bn, due to acquisition of ASB with an enterprise value of SGD11bn and acquisition of multifamily portfolio in the US for USD835mn.

- **Business risk profile remains relatively stable post ASB acquisition:** CAPL's asset mix remains Singapore and China centric, with the former accounting for 37.9% of YTD2019 reported EBIT (YTD2018: 46.9%) and the latter accounting for 44.8% of YTD2019 reported EBIT (YTD2018: 40.3%). Most of CAPL's assets and reported EBIT continue to be derived from recurring income sources (Retail, Commercial, Lodging, Business Park, Industrial & Logistics), which accounts for 82% of CAPL's total assets and 84% of 9M2019 reported EBIT. After acquiring ASB, CAPL is the sponsor of 8 listed REITs. The 3 REITs added from the ASB portfolio are (1) Ascendas REIT, (2) Ascendas Hospitality Trust and (3) Ascendas India Trust. CAPL continues to hold (4) CapitaLand Mall Trust, (5) CapitaLand Commercial Trust, (6) Ascott Residence Trust, (7) CapitaLand Retail China Trust and (8) CapitaLand Malaysia Mall Trust.

- **Credit profile well supported by recurring income sources…:** As of 3Q2019, assets from recurring income sources account for 78% of total assets of SGD82.9bn, contributing 81% of 9M2019 total EBIT of SGD3.1bn. Excluding portfolio, FV and revaluation changes, recurring income sources contributed SGD1.76bn or 81% of operating reported EBIT in 9M2019. We think recurring income should continue increasing with CAPL targeting to grow to 160k lodging units (3Q2019: 112k) while 79 Robinson Road (NLA: 518k sq. ft.) and CapitaSpring (NLA: 647k sq. ft.) will be completing in 2020 and 2021 respectively. Aside from CAPL-held assets, REITs are significant contributors to CAPL.

- **… REITs as a core part of CAPL:** We estimate that CAPL's REITs will upstream ~SGD500mn in dividends p.a. This covers CAPL's standalone (excluding REITs) interest expense of ~SGD500mn p.a. In addition, REITs generate fee income for CAPL, which we estimate at ~SGD200mn p.a. CAPL's stakes in the REITs is worth SGD9.64bn, which we think allows CAPL some room to partly divest (if needed) for liquidity. In addition, REITs are integral for CAPL to recycle capital. For example, in Nov 2019, CAPL divested SGD1.66bn worth of Business Parks in US and Singapore to Ascendas REIT. CAPL holds SGD71.7bn total assets under management across its 8 REITs, business trusts and 25 private equity funds.

- **Decent development sales:** In 9M2019, CAPL sold 3,694 units (9M2018: 2,570 units) worth RMB8.5bn (9M2018: RMB7.5bn) in China. From 4Q2019 onwards, CAPL is expecting to handover RMB16.1bn of sold units with ~30% of this expected to be recognized in 4Q2019. In Singapore, CAPL sold 248 units (9M2018: 84 units) worth SGD365mn (9M2018: SGD309mn) which is mainly due to One Pearl Bank. Meanwhile, its Sengkang Grand Residences (JV with City Developments Ltd) also saw strong demand. In Vietnam, while sales have fallen to SGD99mn (9M2018: SGD262mn), CAPL expects to hand over 2,393 units worth SGD786mn from 4Q2019 with ~10% of this expected to be recognized in in 4Q2019.

- **Targeting to reduce net gearing:** Credit metrics has deteriorated since 4Q2018 with net gearing at 69% (4Q2018: 56%) while net debt/EBITDA has increased to 8.1x (2018: 8.0x), mainly due to the acquisition of ASB. That said, CAPL is looking to reduce net gearing to 64% by end-2020 and we think the target is achievable. Already, q/q trends showed a decline in gearing (2Q2019: 73%) with healthy cashflow generated from operating activities of SGD800.3mn in 3Q2019. Next, the announced SGD1.66bn divestments to Ascendas REIT and issuance of SGD500mn CAPLSP 3.65% PERP should help keep gearing further in check.

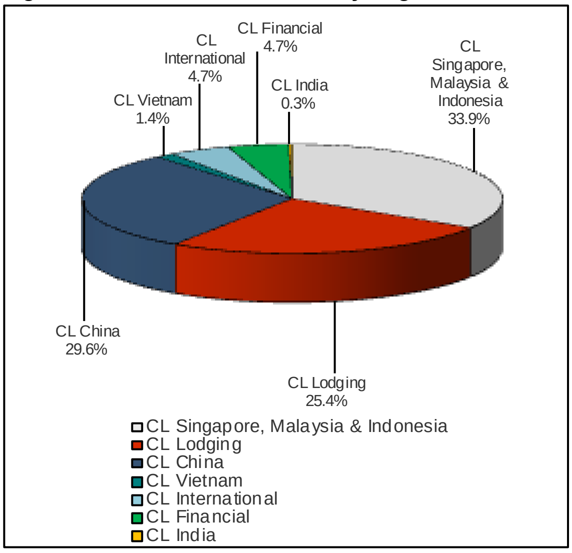
CapitaLand Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	4,618.2	5,602.4	3,858.8
EBITDA	1,677.4	2,313.3	1,831.0
EBIT	1,601.1	2,238.8	1,708.7
Gross interest expense	546.3	696.1	606.0
Profit Before Tax	2,815.5	3,508.5	2,528.3
Net profit	2,346.6	2,849.8	2,038.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	6,105.3	5,059.8	5,666.2
Total assets	61,539.2	64,647.6	82,920.2
Short term debt	2,739.0	3,193.5	5,521.1
Gross debt	21,694.9	23,633.9	32,600.4
Net debt	15,589.6	18,574.1	26,934.2
Shareholders' equity	32,117.8	33,306.9	39,009.9
Cash Flow (SGD'mn)			
CFO	2,166.3	553.4	1,400.2
Capex	149.3	89.3	40.0
Acquisitions	4,542.8	3,215.1	3,096.9
Disposals	2,829.7	1,127.5	538.4
Dividend	1,022.3	1,247.7	1,153.8
Interest paid	-525.1	-731.7	-652.3
Free Cash Flow (FCF)	2,017.1	464.0	1,360.2
Key Ratios			
EBITDA margin (%)	36.32	41.29	47.45
Net margin (%)	50.81	50.87	52.82
Gross debt to EBITDA (x)	12.93	10.22	13.35
Net debt to EBITDA (x)	9.29	8.03	11.03
Gross Debt to Equity (x)	0.68	0.71	0.84
Net Debt to Equity (x)	0.49	0.56	0.69
Gross debt/total assets (x)	0.35	0.37	0.39
Net debt/total assets (x)	0.25	0.29	0.32
Cash/current borrowings (x)	2.23	1.58	1.03
EBITDA/Total Interest (x)	3.07	3.32	3.02

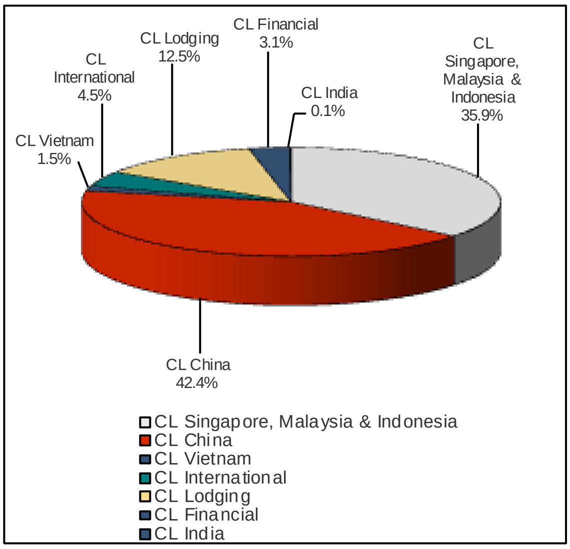
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2019



Source: Company | Excludes Corporate and Others

Figure 2: EBIT breakdown by Segment - 9M2019



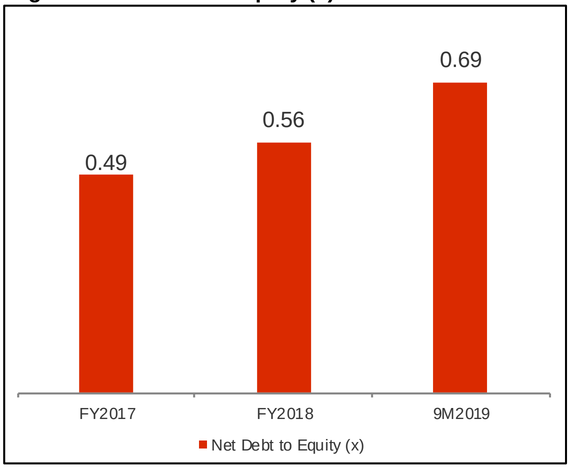
Source: Company | Excludes Corporate and Others

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	1,402.8	4.3%
Unsecured	4,118.3	12.6%
	5,521.1	**16.9%**
Amount repayable after a year		
Secured	9,438.2	29.0%
Unsecured	17,641.2	54.1%
	27,079.4	**83.1%**
Total	**32,600.4**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:
Neutral (3)

Ticker:
CCTSP

Credit Outlook:
We prefer the medium to longer end of the curve. CCTSP 3.17% '24s looks the most interesting relative to its own curve as it is offering 2.63% yield for a ~4year tenor, around 25ps pick up against CCTSP 2.77% '22s. Therefore, we are Overweight on CCTSP'24s. CCTSP curve is also more attractive than MCTSP curve in our view

Background:
CapitaLand Commercial Trust ("CCT"), listed on the SGX in May 2004, is Singapore's first listed commercial REIT. CCT has SGD11.6bn in deposited properties as at 30 June 2019. The portfolio comprises eight prime office properties in Singapore, two office buildings in Frankfurt, Germany and 10.9% stake in MRCB-Quill REIT listed in Malaysia. CCT is 29.35% owned by CapitaLand Ltd ("CAPL")..

CapitaLand Commercial Trust

Key Considerations

- **Flat net property income ("NPI") y/y:** Gross revenue for 3Q2019 increased y/y by 3.3% to SGD103.8mn. The improvement was largely due to higher rental from 21 Collyer Quay, Asia Square Tower 2, Capital Tower and Gallileo. Asia Square Tower 2 also saw a one-off compensation of SGD2.1mn received from a tenant for early surrender of lease. All these though were partially offset by lower revenue from Six Battery Road and Bugis Village, as well as the divestment of Twenty Anson in August 2018. CCT also completed the acquisition of Main Airport Center in Frankfurt, Germany, which has been contributing income since 18 September 2019. NPI grew by a smaller extent (0.9% y/y to SGD81.8mn) mostly due to higher property operating expenses from rental charges payable to Singapore Land Authority for Bugis Village and higher marketing expenses. 9M2019, gross revenue rose 3.3% y/y with NPI higher by 1.7% y/y. Contributions from joint ventures also rise 3.1% y/y over the nine month period.

- **Good portfolio statistics:** CCT's portfolio committed occupancy fell slightly to 97.6% (30 June 2019: 98.6%, 31 March 2019: 99.1%), largely due to the newly acquired Main Airport Center, which has occupancy of 93.1% and Asia Square Tower 2 whose occupancy rate was 94.0% (30 June 2019: 95.8%). We think the dip in Asia Square Tower 2 occupancy relates to the early surrender of lease by a tenant and is likely to be transitory as CCT seeks a replacement. In fact, should the Singapore office sector remain firm, we think the dip in occupancy is good for CCT and provides an opportunity for them to lock in new tenant at a higher rental rate. Overall, we expect CCT's portfolio occupancy to recover. CCT has completed the negotiation for most of its expiring leases for 2019 as at 30 Sep 2019. We note that for 2020, the average rent of leases expiring is SGD9.60psf, against the 3Q2019 Grade A office market rent at SGD11.45psf pm according to CBRE. As such we continue to think that CCT can maintain its positive rental reversion beyond 2019.

- **Plans for existing portfolio:** First, CCT has planned a SGD35mn asset enhancement work ("AEI") at 6 Battery Road from 1Q2020 to 3Q2021 to create a new facade and a new through-block link. Second, a SGD45mn upgrading works at 21 Collyer Quay from 2Q2020 to 4Q2020 after the lease with HSBC expires to achieve BCA Green Mark Gold rating. Finally, CapitaSpring, a 51 storey integrated development comprising Grade A office, serviced residences and retail and food centre, is ongoing and expected to be completed in 1H2021. Capex for the remaining construction is estimated to be SGD245.7mn. We think these initiatives will most likely increase aggregate leverage for CCT to the ~37% handle. Separately, we note that CapitaSpring has a committed occupancy rate of ~31%, the two new leases (tenant JPMorgan was committed in 2018) are from the Real Estate and Property Services sector with one of them being The Work Project (Commercial) Pte Ltd, a wholly owned subsidiary of the JV between The Work Project and Sponsor, CapitaLand.

- **Manageable credit metrics:** Aggregate leverage rose slightly to 35.5% from 34.8% in the preceding quarter as expected following the acquisition of Main Airport Centre. All-in average cost of debt remained stable at 2.5%. Refinancing risk is minimal as CCT only has a JPY bond with an amount outstanding of SGD272mn (7% of total borrowings) in 2020. Majority of CCT's assets (78.5% by asset value) are unencumbered except for CapitaGreen and Gallileo. Looking ahead, CCT's growth pipeline includes the call option for the balance 55% of CapitaSpring's commercial component (not currently owned by CCT). The call option is exercisable within five years after the development obtained TOP (expected to be 1H2021). Besides, with the completion of the merger of CAPL and Ascendas-Singbridge, CCT can look forward to a larger pipeline of projects in Singapore from its Sponsor.

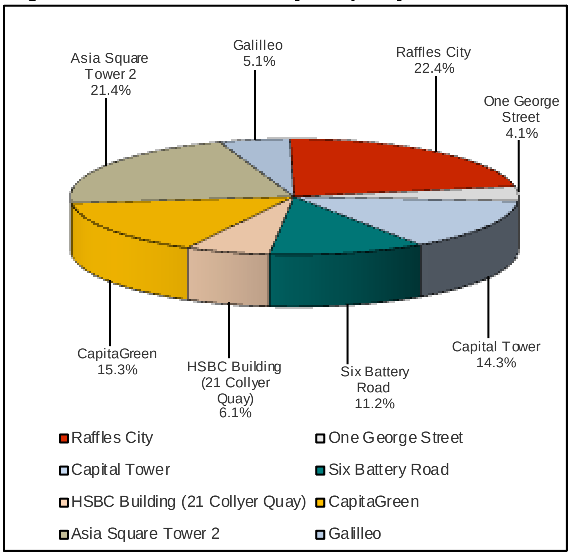
CapitaLand Commercial Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	337.5	394.0	304.6
EBITDA	252.0	294.8	226.2
EBIT	246.5	289.7	222.4
Gross interest expense	69.0	84.5	51.4
Profit Before Tax	582.5	529.2	306.5
Net profit	578.8	522.9	301.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	122.6	174.9	124.0
Total assets	9,354.0	9,690.5	10,081.5
Short term debt	0.0	120.8	149.9
Gross debt	2,720.2	2,614.0	2,812.9
Net debt	2,597.6	2,439.1	2,688.8
Shareholders' equity	6,416.9	6,909.2	7,081.3
Cash Flow (SGD'mn)			
CFO	250.8	282.0	220.3
Capex	5.3	9.7	6.6
Acquisitions	2,067.2	548.9	382.5
Disposals	1,230.4	511.3	40.7
Dividends	279.7	304.2	344.0
Interest paid	64.8	71.2	53.7
Free Cash Flow (FCF)	245.5	272.3	213.7
Key Ratios			
EBITDA margin (%)	74.66	74.84	74.26
Net margin (%)	171.53	132.72	99.14
Gross debt to EBITDA (x)	10.80	8.87	9.33
Net debt to EBITDA (x)	10.31	8.27	8.92
Gross Debt to Equity (x)	0.42	0.38	0.40
Net Debt to Equity (x)	0.40	0.35	0.38
Gross debt/total asset (x)	0.29	0.27	0.28
Net debt/total asset (x)	0.28	0.25	0.27
Cash/current borrowings (x)	NM	1.45	0.83
EBITDA/Total Interest (x)	3.65	3.49	4.40

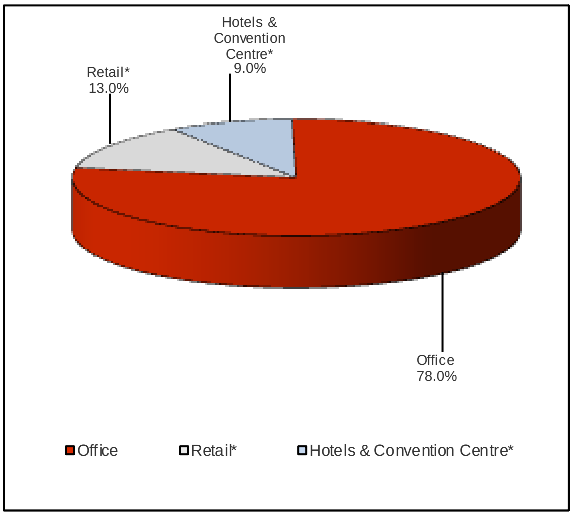
Source: Company, OCBC estimates

Figure 1: NPI breakdown by Property - 9M2019



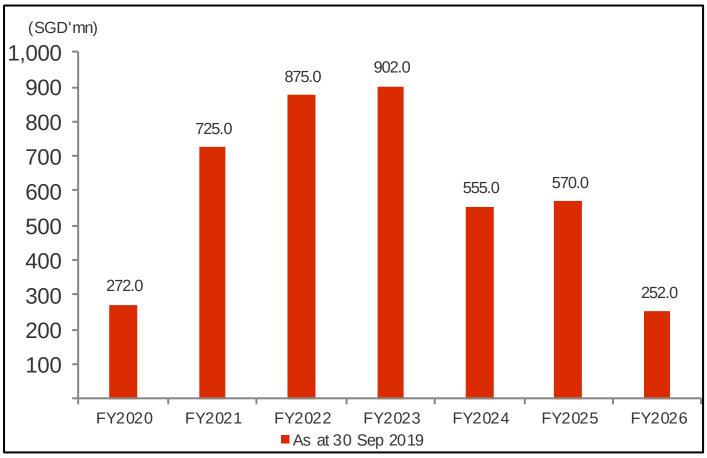
Source: Company

Figure 2: Revenue breakdown by Segment - 9M2019



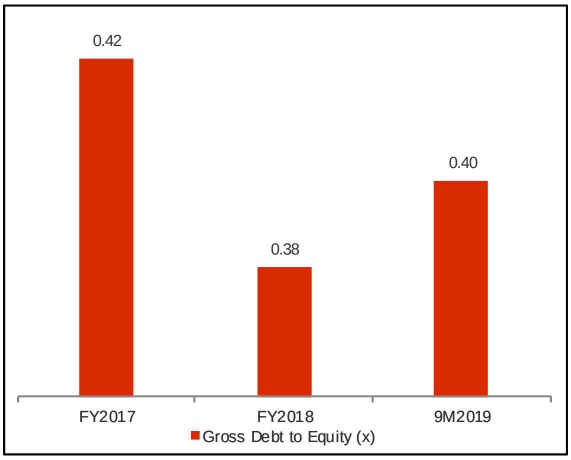
*Source: Company | *Mainly from 60%interest in Raffles City*

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:

Positive (2)

Ticker:

CAPITA

Credit Outlook:

We are neutral on the CMT curve as it is broadly fair in our view. Much like CCT, we prefer the medium to longer end of the curve. Perhaps, CAPITA 3.15 '26s is the most enticing bond of its curve. The bond is offering 2.78% yield for a 6 year tenor.

Background:

CapitaLand Mall Trust ("CMT"), listed on the SGX in 2002, is the largest REIT by market capitalization. CMT's portfolio consists of 15 malls in Singapore, including Tampines Mall, Funan, IMM Building, Bugis Junction, Plaza Singapura, Westgate and a 40% stake in Raffles City. In addition, CMT owns 11% interest in CapitaLand Retail China Trust ("CRCT"), the first China shopping mall REIT listed on the SGX. CMT is ~27.2% owned by CapitaLand Ltd ("CAPL").

CapitaLand Mall Trust

Key Considerations

- **Strong performance over 9M2019:** Gross revenue was up 12.8% y/y to SGD583.4mn while net property income ("NPI") rose 13.1% y/y to SGD417.5mn in 9M2019. This was mainly due to the acquisition of the balance 70% interest in Westgate in Nov 2018 and the commencement of operations at Funan in June 2019, though partially offset by the divestment of Sembawang Shopping Centre in June 2018. Excluding contributions or absence of contributions from three properties, we find gross revenue higher by 0.9% y/y and NPI higher by 1.6% y/y on the back of organic growth. CMT also saw growth in contribution from its joint ventures. On a comparable mall basis (which excludes Westgate as it is no longer accounted for as a joint venture), 9M2019 NPI from joint ventures was up 3.2% y/y to SGD53.9mn.

- **Well-diversified defensive portfolio:** CMT holds 15 well-located retail malls which are in close proximity to public transport at large population catchments in Singapore, with no mall accounting for more than 12% of portfolio's NPI. Over 50% of its total revenue is derived from necessity shopping and from malls located in suburban areas which are more resilient to economic downturn. Over 9M2019, although shopper traffic was up 1.3% y/y, tenants' sales fell 1.3% y/y over 9M2019. Delving deeper into tenants' sales, we find that Food & Beverage, Fashion, Beauty & Health, Department Store and Supermarket which account for over 70% of total gross rental income saw a 1.2% y/y increase in tenants' sales. Therefore, we think that necessity shopping continues to hold up tenants' sales for CMT's malls. Without which, the fall in tenants' sales would have been more severe. Given that shopper traffic rose, we think the opportunity for the malls and their tenants to increase sales exists.

- **Strong management team:** Management also has a strong track record in managing malls and this is reflected in CMT having signed 557 renewals and new leases, with a retention rate of 83.3% (9M2018: 82.4%) and a rental reversion of +1.2% (9M2018: +0.6%) over 9M2019. Overall portfolio occupancy stood at 98.9%. Lease expiry for 2020 is 26.2% of CMT's total rental income which we think is manageable. WALE is 2.1 years. Within CMT's portfolio are four big malls – Plaza Singapura, IMM Building, Bugis Junction and Tampines Mall. Apart from IMM Building which recorded a 0.2% y/y decline in NPI, all the other three malls saw 0.6% to 2.7% y/y growth. All of which are either fully occupied or close to full occupancy and recorded positive rental reversion between 0.8% and 3.3% over 9M2019. We expect these assets to continue to be strong and continue to record organic growth.

- **Stable credit profile:** Aggregate leverage inched higher to 34.4% from 34.2% in the preceding quarter while reported interest coverage was stable q/q at 4.7x (1Q2019: 4.9x, 4Q2018: 5.2x). Reported net debt/EBTIDA was also unchanged at 6.7x. We have previously mentioned that we think net debt/EBITDA may improve further as contributions from Funan progressively roll in since debt had been drawn down for the development works. While this was not seen in this quarter's numbers, we note that CMT has repaid some SGD377mn worth of borrowings in October 2019, after the reported quarter has ended and with that CMT has completed all the refinancing for 2019. In 2020, CMT will see SGD327.1mn of borrowings come due (representing ~8% of total debt), we think this is very manageable as none of CMT's assets are encumbered post the repayment of the bank loan secured by parts of Westgate in our view.

- **Asset rejuvenation update:** Rejuvenation of Lot One Shoppers' Mall is underway. Shoppers can look forward to an expanded public library and reformatted cinema which will offer more entertainment variety for movie goers progressively from 2H2020. Having completed the acquisition of Westgate last year, we think it is timely for CMT to relook at its existing assets and perform the essential asset enhancement works at some of the older malls.

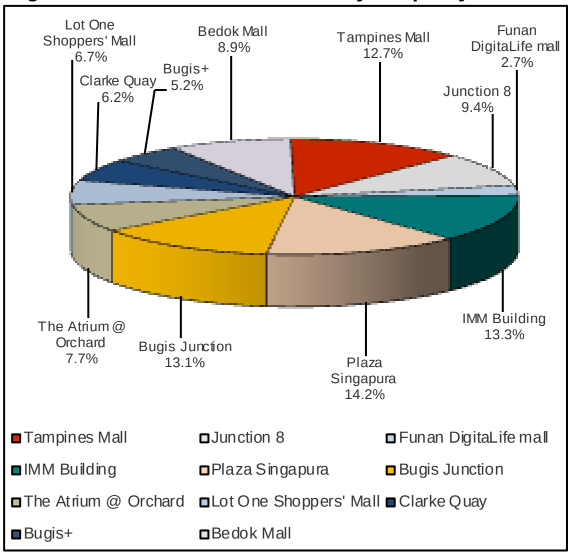
CapitaLand Mall Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	682.5	697.5	583.4
EBITDA	430.0	445.4	377.9
EBIT	429.3	444.9	376.9
Gross interest expense	104.1	98.2	88.5
Profit Before Tax	657.8	676.4	458.3
Net profit	657.6	676.7	458.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	522.7	507.7	392.2
Total assets	10,504.4	10,523.0	11,804.3
Short term debt	534.7	528.6	385.7
Gross debt	3,183.1	3,627.8	3,767.0
Net debt	2,660.4	3,120.1	3,374.7
Shareholders' equity	6,928.0	7,429.3	7,661.8
Cash Flow (SGD'mn)			
CFO	427.7	455.9	371.7
Capex	99.3	201.5	112.0
Acquisitions	0.0	357.7	0.0
Disposals	98.5	242.9	0.0
Dividends	394.9	455.6	271.4
Interest paid	104.3	97.1	90.1
Free Cash Flow (FCF)	328.4	254.4	259.7
Key Ratios			
EBITDA margin (%)	63.01	63.86	64.78
Net margin (%)	96.36	97.02	78.56
Gross debt to EBITDA (x)	7.40	8.14	7.48
Net debt to EBITDA (x)	6.19	7.00	6.70
Gross Debt to Equity (x)	0.46	0.49	0.49
Net Debt to Equity (x)	0.38	0.42	0.44
Gross debt/total asset (x)	0.30	0.34	0.32
Net debt/total asset (x)	0.25	0.30	0.29
Cash/current borrowings (x)	0.98	0.96	1.02
EBITDA/Total Interest (x)	4.13	4.54	4.27

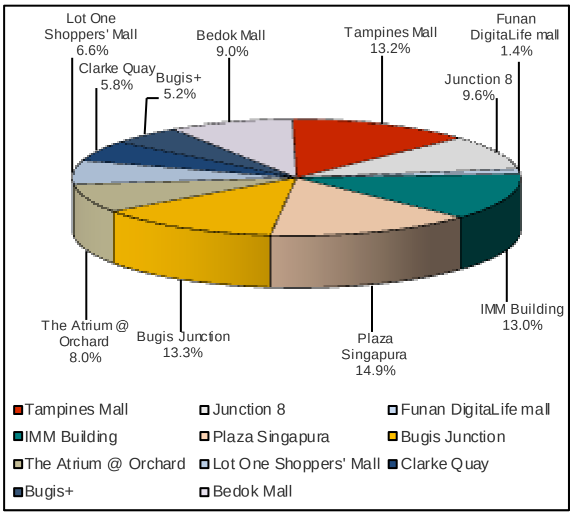
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - 9M2019



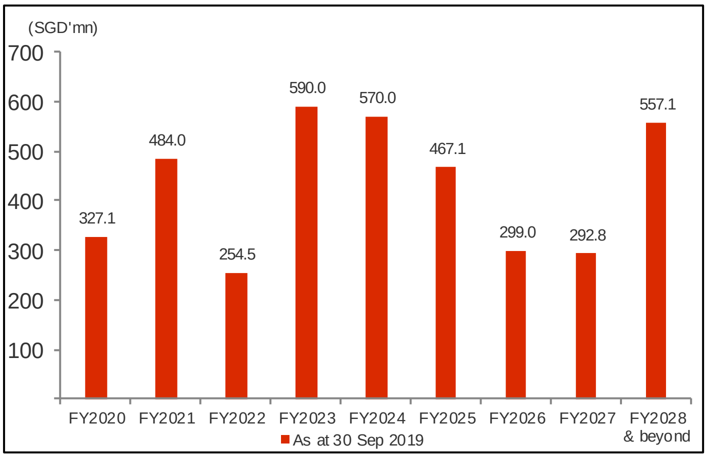
Source: Company

Figure 2: NPI breakdown by Property - 9M2019



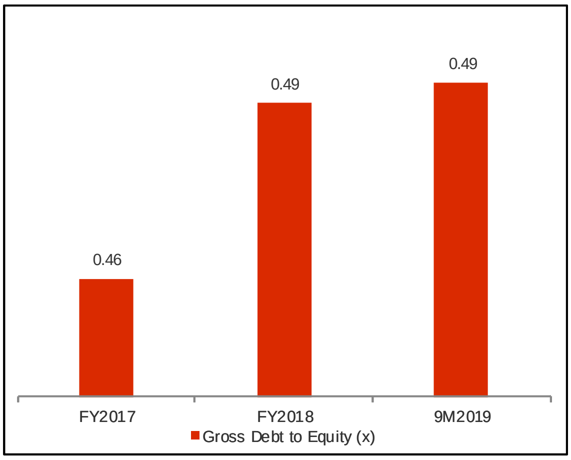
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:
Neutral (4)

Ticker:
CRCTSP

Credit Outlook:
The CRCTSP 3.25 '22s is offering a decent yield of 2.55% for around 2 year tenor. SUNSP 3.025% '22s is trading ~10bps wider for a 4 months shorter tenor.

Background:
CapitaLand Retail China Trust ("CRCT"), listed on the SGX in 2006, is the first pure-play China shopping mall REIT in Singapore. CRCT owns and invests in a portfolio of 13 shopping malls located across nine Chinese cities. As at 30 September 2019, CRCT's total asset size is SGD3.1bn, a fourfold increase from listing. CapitaLand Group ("CAPL") has a total of 24.2% interest in CRCT, including the 11.0% stake held by CapitaLand Mall Trust ("CMT").

CapitaLand Retail China Trust

Key Considerations

- **Newly acquired assets drove growth:** In 3Q2019, revenue in RMB terms was up 9.8% y/y to RMB300.9mn while NPI was up 14.4% y/y to RMB208.0mn. The increase was largely due to maiden contributions from the newly acquired CapitaMall Xuefu ("Xuefu"), CapitaMall Yuhuating ("YHT") and CapitaMall Aidemengdun ("ADMD") (completed in 30 Aug 2019). Excluding contributions from these new acquisitions, revenue growth would have moderated to 1.1% y/y (RMB276.9mn) with NPI growth (excluding effects of FRS116) at 5.1% y/y (RMB192.7mn). In SGD terms though gross revenue was up 7.5% y/y to SGD59.5mn while NPI was up 11.9% y/y to SGD41.1mn, slightly weighed down by a weaker RMB against the SGD over the quarter. 4Q2019 will see the first quarter of full contributions from the newly acquired malls. In addition, YHT's occupancy rate was 95.6% as at 30 Sep 2019 (below portfolio average of 97.1%). As such, we think there is room for occupancy rate to improve and in turn improve top line figures. The acquisition of the three malls boosted CRCT's portfolio size of 17.1% and gross rentable area by 23.5%.

- **Weaker portfolio statistics compared to a year ago:** Portfolio occupancy was 97.1% (3Q2018: 97.7%). All malls recorded marginally lower occupancy rates relative to a year ago, with the exception of Rock Square. 9M2019 rental reversion was firm at 7.5% (9M2018: 11.6%) and positive across all the malls except CapitaMall Qibao ("Qibao") and CapitaMall Minzhongleyuan ("MZLY"). Weighted Average Lease Expiry ("WALE") is 2.5 years by gross rental income (3Q18: 2.9 years). Although CRCT has 10.6% of total leases (by gross rental income) expiring in the last quarter of 2019 as at 3Q2019 and 30.9% in 2020, we take comfort in the 7.3% y/y growth in portfolio shopper traffic (excluding master-leased malls) and 8.4% y/y increase in tenant sales (excluding master-leased malls, supermarket and department stores) over 9M2019. We think these growth will could possibly help CRCT retain its tenants, attract new tenants and remain competitive.

- **Significant foreign currency exposure:** While CRCT's assets are predominately denominated in RMB, only 7% of its total debt is denominated in RMB (majority is denominated in SGD). CRCT hedges ~50% of its half-yearly distribution income into SGD to reduce the impact of foreign currency fluctuations. This reduces but does not eliminate the impact of the currency mismatch in its balance sheet on its debt/asset ratio. For instance, RMB weakened against SGD over 3Q2019. Even though investment properties valuation in RMB terms increased relative to a year ago, when converted into SGD terms the increase would have been to a smaller extent due to the depreciation of RMB against SGD. Borrowings which are mostly in SGD on the other hand did not benefit from the weaker RMB against SGD. As such aggregate leverage which stood at 37.2% could have been slightly lower if there was no currency mismatch on its balance sheet. Exposure to currency fluctuation remains an issue that CRCT faces.

- **Aggregate leverage rose though debt maturity profile remains well-staggered:** Aggregate leverage (including the proportionate share of its JV's borrowings and deposited property) was higher at 37.2% (2Q2019: 33.8%, 1Q2019: 35.5%) due to higher borrowings to fund the acquisition of the three new malls – Xuefu, YHT and ADMD. Reported interest coverage was lower q/q at 4.9x (2Q2019: 5.0x). CRCT has just SGD38.9mn of borrowings coming due for the remaining of 2019 as at 30 Sep 2019, which can be more than covered by its SGD170.3mn cash on hand. In 2020, CRCT will see SGD155.8mn of loans come due. Its debt maturity is well-staggered with a maximum of 21% of debt coming due in a year. 85.4% of its total assets by value (excluding proportionate share of its JV assets) remains unencumbered. CRCT's assets used to be 100% unencumbered in June 2019, before Xuefu and YHT were acquired. Both malls were acquired with a legal mortgage.

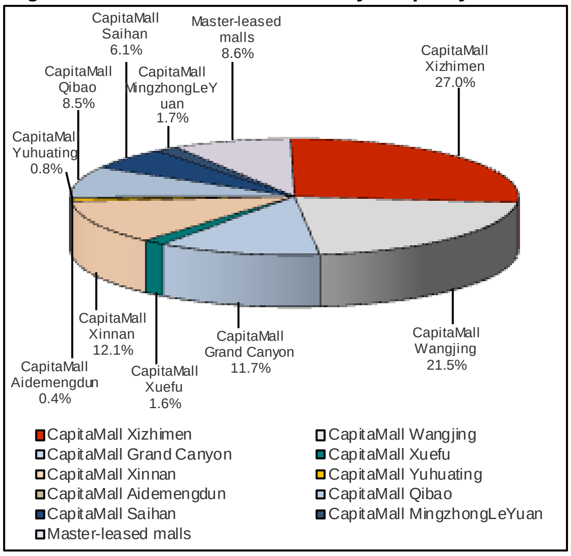
CapitaLand Retail China Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	229.2	206.6	170.6
EBITDA	137.0	117.4	109.8
EBIT	135.3	116.1	109.0
Gross interest expense	23.5	27.2	25.7
Profit Before Tax	207.3	184.0	162.1
Net profit	143.1	127.5	112.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	186.5	173.9	170.3
Total assets	2,668.1	2,982.7	3,761.2
Short term debt	0.0	161.3	196.6
Gross debt	747.5	1,038.0	1,411.9
Net debt	561.0	864.1	1,241.7
Shareholders' equity	1,568.1	1,571.6	1,868.4
Cash Flow (SGD'mn)			
CFO	116.3	117.8	89.3
Capex	15.1	11.4	8.3
Acquisitions	29.0	229.3	-15.7
Disposals	216.8	0.0	0.0
Dividends	82.6	44.3	68.3
Interest paid	22.1	22.5	24.1
Free Cash Flow (FCF)	101.1	106.4	81.0
Key Ratios			
EBITDA margin (%)	59.77	56.83	64.37
Net margin (%)	62.42	61.70	66.02
Gross debt to EBITDA (x)	5.46	8.84	9.64
Net debt to EBITDA (x)	4.10	7.36	8.48
Gross Debt to Equity (x)	0.48	0.66	0.76
Net Debt to Equity (x)	0.36	0.55	0.66
Gross debt/total asset (x)	0.28	0.35	0.38
Net debt/total asset (x)	0.21	0.29	0.33
Cash/current borrowings (x)	N.A	N.A	0.87
EBITDA/Total Interest (x)	5.84	4.32	4.27

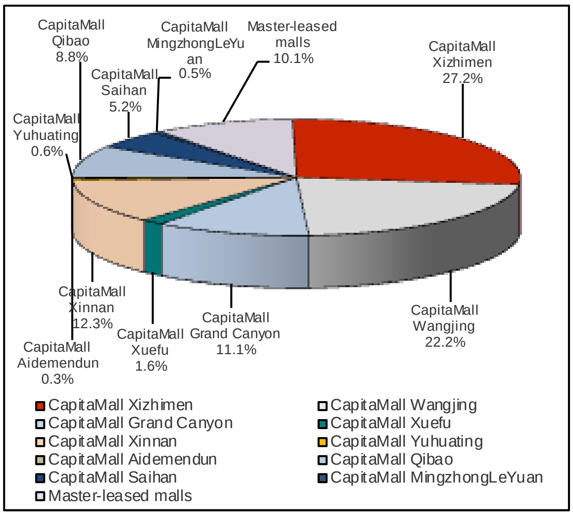
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - 9M2019



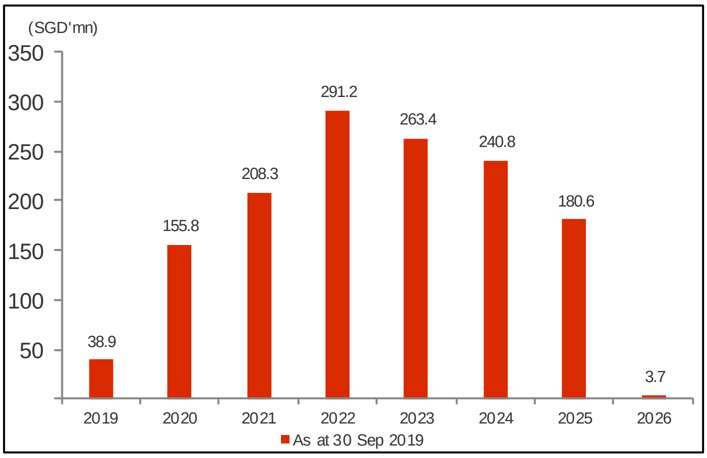
Source: Company | Excludes CapitaMall Wuhu

Figure 2: NPI breakdown by Property - 9M2019



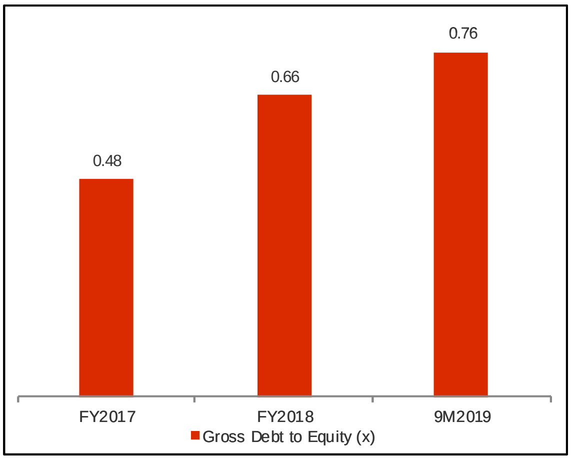
Source: Company | Excludes CapitaMall Wuhu

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:

Negative (6)

Ticker:

CENSUN

Outlook:

The company faces a significant maturity wall in the form of HKD1.1bn in mostly bank debt coming due in the 12 months from 30 June 2019 to 30 June 2020 while its sole SGD-denominated bond, the CENSUN 7.0%' 20s, is due soon after. We are Underweight this bond.

Background:

Listed on the HKSE, Century Sunshine Group Holdings Limited ("CENSUN") with a market cap of HKD1.0bn as at 23 December 2019, has two main business segments: magnesium products and fertilisers. CENSUN is ~35%-owned by the founder/Chairman while IFC has a ~17% interest in the company via a 5% direct stake and 12%-stake held as collateral for a loan. The remaining shareholding interest is dispersed.

Century Sunshine Group Holdings Ltd

Key Considerations

- **Decline in 1H2019 top line led by Magnesium segment while we watch for margin compression in Fertiliser over longer term:** For 1H2019, CENSUN reported overall revenue that was down 4.2% y/y to HKD2.12bn though overall gross profit was only down by 2.5% y/y to HKD535.1mn. By key segments, the main drag to top line was its magnesium business held under separately listed Rare Earth Magnesium Technology Group Holdings Ltd ("REMT") where revenue had declined 8.7% y/y to HKD726.2mn mainly due to the fall in sales volume which was insufficiently offset by a 2.9% y/y increase in average selling price. Magnesium gross profit though held up at HKD206.3mn (1H2018: HKD202.7mn), indicating that REMT's focus on rare earth magnesium alloy had buffered the decline. The Overall Fertiliser segment saw a narrower revenue decline at 1.6% y/y, led by its General Fertiliser sub-segment which was affected by a gradual decline in production and sales at its Shandong Hongri facility. Gross profit margin though held up for the Overall Fertiliser segment at 23%, despite a fall in margins for its General Fertiliser sub-segment. That being said, we continue to expect Fertiliser gross margin to fall as competitors are trying to move up the value-chain as well which may lead to longer term margin compression. For now, we take comfort that CENSUN had managed to get its serpentine mine license extended to 2027, with serpentine being a key input into its high margin Functional Fertiliser business.

- **Relocation of Shandong Hongri production capacity:** In July 2019, CENSUN announced that it will gradually scale down and cease the production of its Shandong Hongri facility and shift production to its existing plants in Jiangxi and Jiangsu. This is in conjunction with the requirements of the Shandong Provincial Government to relocate industrial facilities from the urban city area to industrial parks. Subject to approval from authorities, the company intends to sell the underlying land where the Shandong Hongri production facility sits for commercial use (i.e.: industrial to commercial land conversion). The value of the land is expected to be more than RMB2.6bn (as at 30 June 2019). In our view, this is an upside case given the uncertain timing, uncertain quantum of net proceeds and regulatory approvals required.

- **Facing a large maturity wall which requires lenders to be supportive of a refinancing/roll-over:** CENSUN faces HKD1.1bn in debt coming due in the 12 months between 30 June 2019 and 30 June 2020, representing 51% of gross debt. The SGD-denominated bond, the CENSUN 7% '20s, with an outstanding amount of SGD101.75mn (~HKD585.4mn) coming due in July 2019 adds to this HKD1.1bn. Cash had continued to dwindle at CENSUN, with unpledged cash of only HKD436.6mn as at 30 June 2019 (end-2018: HKD568.7mn), representing unpledged cash-to-short term debt of only 0.26x if we include the SGD bond due. Based on our preliminary analysis of short term uses and sources of funds, we think CENSUN faces a HKD1.2bn gap (a gap of HKD844mn if it defers all capex). We think rather than fully paying down its obligations, a sizeable amount of upcoming obligations would need to be refinanced/rolled-over. The SGD-bond amounting to ~HKD585mn only matures in July 2020, after the HKD1.1bn of debt comes due (likely mainly bank funded). Should CENSUN be required to fully pay down the HKD1.1bn, this would decrease the company's leverage levels but simultaneously mean the company exhausting its immediate liquidity sources (egg: existing cash balance, unutilised committed banking facilities) and near-term operating cash flow to repay bank lenders. A significant reliance on the high yield bond market, without proportionate assumption of risk by other capital providers justifies a downgrade in our view.

- **High market implied net gearing though interest coverage manageable:** As at 30 June 2019, CENSUN's gross gearing was 0.50x, slightly lower than end-2018, though, adjusted net gearing, taking only unpledged cash was 0.40x. The company's book value net gearing numbers continues to be incongruent with market implied levels of 1.7x. CENSUN's EBITDA interest coverage ratio was manageable at 5.9x in 1H2019 and we think a likelier scenario will be the partial refinancing of bank debt rather than full payment.

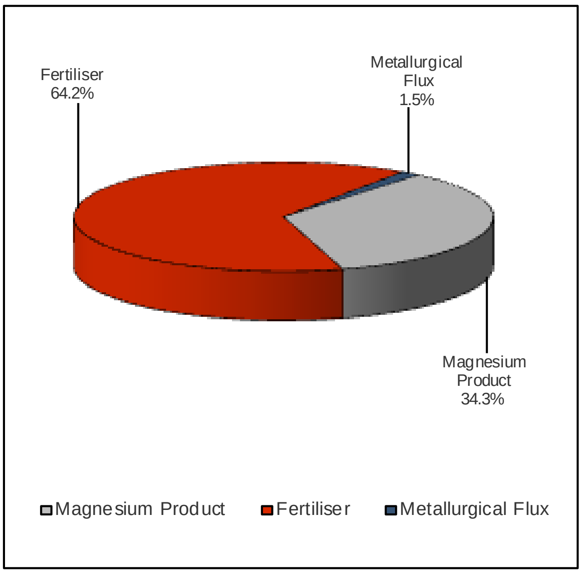
Century Sunshine Group Holdings Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2017	FY2018	1H2019
Income Statement (HKD'mn)	HKD'mn	HKD'mn	HKD'mn
Revenue	3,443.2	4,655.1	2,115.0
EBITDA	636.0	992.6	483.3
EBIT	479.3	775.1	381.5
Gross interest expense	158.4	164.9	82.4
Profit Before Tax	405.9	691.8	330.7
Net profit	261.6	572.8	228.1
Balance Sheet (HKD'mn)			
Cash and bank deposits	930.9	708.0	523.4
Total assets	7,502.3	7,474.6	7,439.6
Short term debt	626.4	1,087.5	1,073.9
Gross debt	2,047.2	2,065.1	2,110.5
Net debt	1,116.3	1,357.0	1,587.1
Shareholders' equity	3,653.4	3,956.6	4,170.5
Cash Flow (HKD'mn)			
CFO	616.0	778.4	191.7
Capex	914.6	699.8	NA
Acquisitions	-195.5	0.0	NA
Disposals	10.9	38.5	NA
Dividend	0.0	0.0	NA
Free Cash Flow (FCF)	-298.7	78.6	NA
Key Ratios			
EBITDA margin (%)	18.47	21.32	22.85
Net margin (%)	7.60	12.31	10.78
Gross debt to EBITDA (x)	3.22	2.08	2.18
Net debt to EBITDA (x)	1.76	1.37	1.64
Gross Debt to Equity (x)	0.56	0.52	0.51
Net Debt to Equity (x)	0.31	0.34	0.38
Gross debt/total assets (x)	0.27	0.28	0.28
Net debt/total assets (x)	0.15	0.18	0.21
Cash/current borrowings (x)	1.49	0.65	0.49
EBITDA/Total Interest (x)	4.01	6.02	5.86

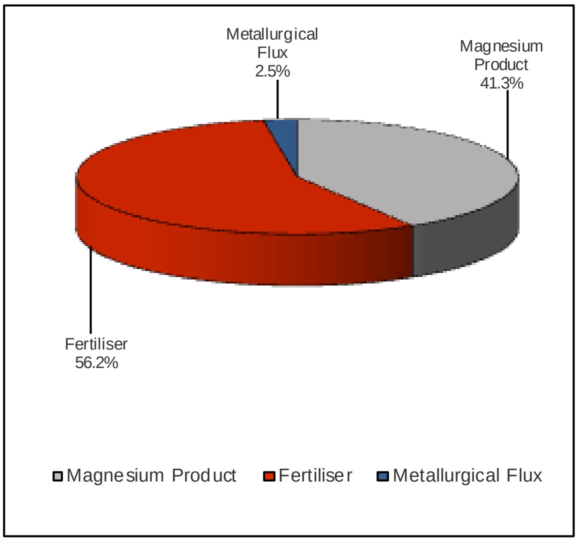
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2019



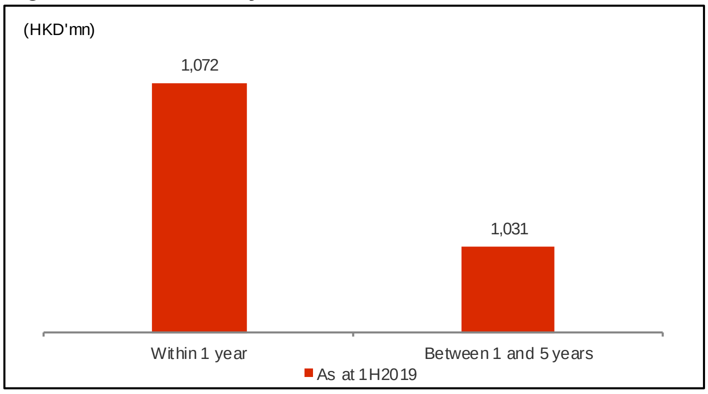
Source: Company

Figure 2: EBIT breakdown by Segment - 1H2019



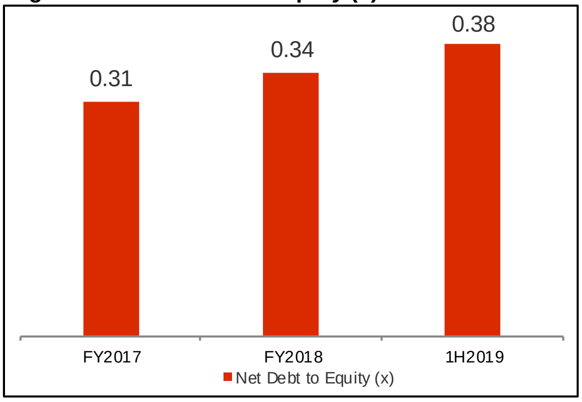
Source: Company

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Gross Debt to Equity (x)



Source: Company

Issuer Profile:
Neutral (5)

Ticker:
CAPG

Outlook:
While we think CAPG would be a beneficiary from the flight to stronger high yield Chinese property names, we think its sole SGD bond is trading tight at a YTP of 2.73%.

Background:
China Aoyuan Group Limited ("CAPG") is incorporated in the Cayman Islands and listed on the Hong Kong Stock Exchange. As at 23 December 2019, CAPG has a market cap of HKD32.8bn (~SGD5.7bn). CAPG focuses on property development mainly in China. Headquartered in Guangzhou City, CAPG has an established position in the Greater Bay Area. Mr Guo Zi Wen, CAPG's Chairman is the largest shareholder in CAPG with a ~55%-deemed interest in the company.

China Aoyuan Property Group Limited

Key Considerations

- **Strong profits in 1H2019 from previously sold properties:** Revenue was up 73.2% y/y in 1H2019 to RMB23.7bn while gross profit was up by 80.6% y/y to RMB7.0bn on the back of strong contracted sales where properties were handed over in 1H2019. Despite the expanded operations, the increase in selling and distribution and administrative expenses were contained at 68% y/y, leading to a higher EBITDA (based on our calculation which does not include other income and other expenses) by 87% y/y to RMB4.9bn. In our view, the gross amount of interest (including amounts capitalised) is more representative of the interest coverage at CAPG. This was RMB3.3bn in 1H2019 versus only RMB1.7bn in 1H2018, with resultant EBITDA/Interest coverage of 1.5x in 1H2019, in line with 1H2018 though lower than the 1.8x for 2018.

- **Gearing levels have risen:** As at 30 June 2019, unadjusted gross gearing (excluding amounts due to minority interest investors, joint venture partners and lease liabilities) had risen to 2.19x, up from the 1.88x as at end-2018 and 1.58x as at 30 June 2018. We focus on the gross gearing levels as contract liabilities (egg: sales receipt in advance) is at RMB68.6bn, far exceeding the cash balance at CAPG. Unadjusted gross debt to the aggregate amount of investment properties and property for sale was 0.53x, higher than the 0.47x in end-2018. During 1H2019, property-construction-related working capital was significant, unsurprisingly, given the ample pre-sales which CAPG had achieved in 2018, with new starts of 9.62mn sq. m. During 1H2019, CAPG reported cash flow from operations (after tax but before interest) at RMB2.0bn and insufficient to cover cash interest paid of RMB2.7bn while the company also paid RMB13.25bn in land premium.

- **Short term debt coming due:** CAPG faces RMB33.6bn in short term debt as at 30 June 2019, representing 43% of gross debt. Post 1H2019 though, RMB2.5bn in short term debt had been repaid per company, bringing down short term debt-to-gross debt to 40% (we assume that debt is refinanced, rather than paid down). We expect CAPG to continue seeking refinancing instead as cash balance at CAPG has large competing uses in the form of working capital to deliver on the housing units that had been pre-sold. CAPG continues to maintain a strong access to diverse funding channels, which should help support CAPG's refinancing. We think the market is increasingly conscious over credit dispersion, which should assist CAPG's refinancing as investors move up the China property high yield credit curve.

- **Moderation in growth:** Growth rate of contracted sales have slowed at CAPG (albeit decelerating from earlier very high growth rates) and the broader China property sector faces headwinds. That being said, for 1H2019, CAPG managed to achieve contracted sales of RMB53.6bn (up 33% y/y) while for full year 2019, CAPG managed to achieve ~RMB118.06bn in contracted sales (up 29% y/y). For full year 2018, contracted sales had grown 100% y/y over 2017. We see moderated growth rates as a credit positive vis-à-vis continuing CAPG's breakneck sales pace which opens up the company to financing risks.

- **Possible entry into insurance business:** In July 2019, CAPG announced that it has entered into share transfer agreements to buy a ~13.86%-stake in Aeon Life Insurance Company Ltd ("Aeon Life", Issuer profile: Unrated) for RMB3.26bn in cash. CAPG's proposed entry into an unfamiliar business at a rich valuation would increase unadjusted net gearing and we think CAPG's credit direction will increasingly be inconsistent with that of an issuer profile of Neutral (5) should the deal happen. That being said, the proposed transaction is subject to various conditions precedents, including regulatory approval. In our view, there is still execution risk on this transaction and it is not yet certain if the deal will reach completion.

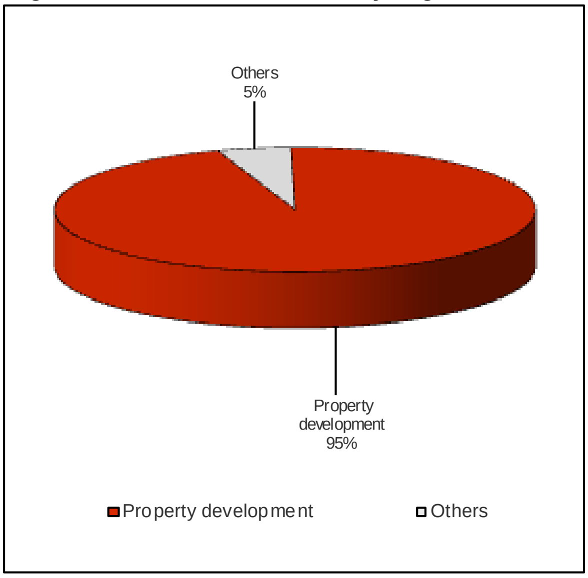
China Aoyuan Property Group Limited

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1H2019
Income Statement (RMB'mn)			
Revenue	19,115.3	31,005.8	23,669.7
EBITDA	3,439.7	6,585.4	5,025.0
EBIT	3,385.7	6,465.9	4,948.7
Gross interest expense	2,135.1	3,975.9	3,261.7
Profit Before Tax	3,625.6	6,954.3	5,434.1
Net profit	1,952.0	2,939.5	2,800.0
Balance Sheet (RMB'mn)			
Cash and bank deposits	24,769.2	36,012.3	47,873.5
Total assets	125,805.9	188,858.2	232,567.8
Short term debt	20,489.6	23,770.7	33,697.0
Gross debt	40,369.8	58,021.3	78,190.7
Net debt	15,600.6	22,009.0	30,317.2
Shareholders' equity	27,126.3	30,733.8	35,367.3
Cash Flow (RMB'mn)			
CFO	-4,756.3	12,163.9	2020.3
Capex	124.4	453.3	106.3
Acquisitions	6,889.9	10,515.7	2025.1
Disposals	112.0	255.2	-0.6
Dividends	812.0	1,140.6	206.8
Free Cash Flow (FCF)	-4,880.7	11,710.6	1914.0
Key Ratios			
EBITDA margin (%)	17.99	21.24	21.23
Net margin (%)	10.21	9.48	11.83
Gross debt to EBITDA (x)	11.74	8.81	7.78
Net debt to EBITDA (x)	4.54	3.34	3.02
Gross Debt to Equity (x)	1.49	1.89	2.21
Net Debt to Equity (x)	0.58	0.72	0.86
Gross debt/total assets (x)	0.32	0.31	0.34
Net debt/total assets (x)	0.12	0.12	0.13
Cash/current borrowings (x)	1.21	1.51	1.42
EBITDA/Total Interest (x)	1.61	1.66	1.54

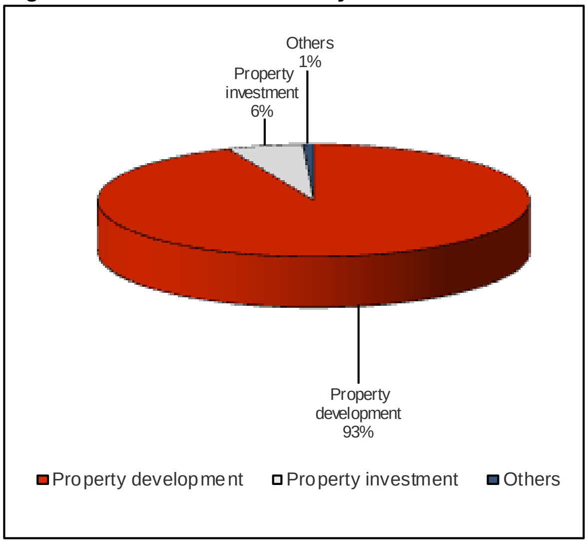
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2019



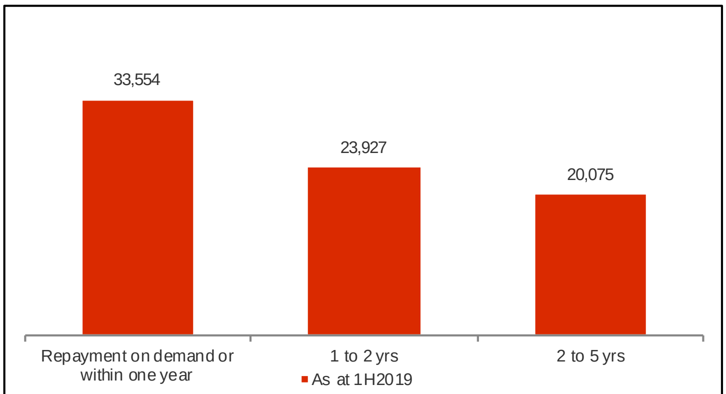
Source: Company | Excludes Property Investment

Figure 2: Asset breakdown by Business - 1H2019



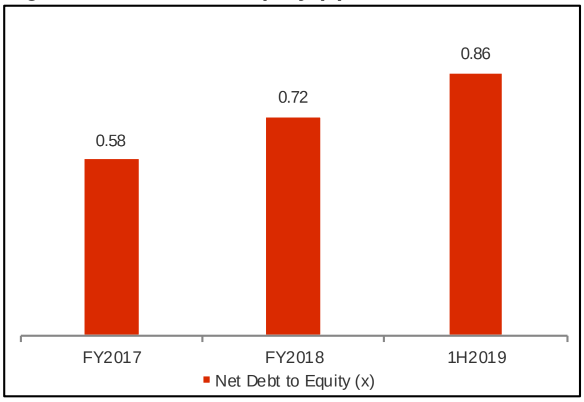
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:
Neutral (5)

Ticker:
CELSP

Outlook:
CELSP 3.9%-PERP is trading at a YTC of 5.07%, we see the likelihood of a call at first call in October 2020 as good post the takeover offer by its parent company and are overweight this perpetual.

Background:
CITIC Envirotech Ltd ("CEL") is an integrated water treatment solutions provider focusing on the Chinese market. CEL operates in three main business segments: Engineering, Treatment and Membrane system sales. CITIC Limited holds a deemed 56.36%-stake in CEL while China Reform Fund Management Co., Ltd ("CRF"), a state-backed private equity firm has a deemed interest of 22.12%-stake in CEL (via investment funds). 0.6%-stake is owned by individual founders of the company while ~21%-stake is held by the public. As at 23 December 2019, CITIC Limited has a market cap of USD38.2bn.

CITIC Envirotech Ltd

Key Considerations

- **3Q2019 dragged by FX loss and higher interest:** Gross revenue was down 31.0% y/y to SGD164.3mn in 3Q2019, mainly due to the decline in the more volatile Engineering segment and Membrane segment (down 61.2% y/y and 18.3% y/y respectively). Treatment revenue which is generally more stable saw a 26.7% y/y rise to SGD63.1mn, which we understand was driven by hazardous waste treatment fees. However, on an EBITDA level (based on our calculation which does not include other income though includes other operating expenses) performance was relatively better at SGD43.8mn, down only 10.9% y/y. Per company, gross margin was higher in 3Q2019 from membrane-based engineering projects. CEL though reported large foreign exchange losses of SGD26.0mn (3Q2018: foreign exchange losses of only SGD2.2mn) which dragged profitability along with a higher finance cost of SGD17.2mn (3Q2018: SGD10.7mn), resulting in a profit before tax of SGD5.0mn in 3Q2019 (3Q2018: SGD37.6mn). Finance cost at CEL had increased by 60.2% y/y, mainly from additional debt taken to help fund new projects and redeem its USD-perpetual. Resultant EBITDA/Interest coverage was 2.6x.

- **Higher net gearing:** As at 30 September 2019, unadjusted net gearing (assuming perpetual as equity) was 1.0x, increasing from 0.9x as at 30 June 2019 while adjusted net gearing (assuming 100% of the perpetual as debt) was 1.4x, up from 1.3x as at 30 June 2019. We continue to expect this number to rise. CEL faces SGD166.6mn in short term debt while the SGD240mn SGD-perpetual faces first call in October 2020. We see this perpetual as more debt-like given they rank *pari passu* with all other present and future unsecured obligations of the issuer and a high step up margin. As at 30 September 2019, cash balance of SGD520.6mn covers short term debt and the perpetual by 1.3x.

- **Major shareholder has announced a voluntary delisting:** On 6 November 2019, CEL and its immediate holding company CKM (Cayman) Company Limited ("Offeror") jointly announced that the Offeror is seeking a voluntary delisting of CEL, subject to pre-conditions. The Offeror is an indirect wholly-owned subsidiary of CITIC Environment Investment Group Co Ltd ("CITIC Environment"), the environmental services arm of CITIC Limited, a conglomerate majority controlled by a central government state-owned enterprise, which also plays a role in executing public policy objectives. While there will be less publicly available disclosure post-delisting, net-net we think this is a credit positive event for CEL.

- **Stronger alignment of interest with CITIC:** Assuming that the transaction is successful, 77.9%-stake in CEL (from the current ~56.4%) would be indirectly owned by CITIC Environment. The higher ownership stake implies increased economic alignment between CITIC Limited and CEL in our view. Already we have seen CEL benefitting from broader access to external banking relationships and related party financing via CITIC Finance Company Limited since October 2018. More recently in September 2019, CEL also announced that it has entered into a conditional agreement with a CITIC Group associate company in Kazakhstan which signals further cooperation with the broader CITIC Group. The remaining ~22.1%-stake would continue to be deemed held by CRF, the state-back private equity fund.

- **Perpetual likelier to be called:** The SGD-denominated CELSP 3.9%-PERP comes with a high step-up margin of 500bps if not called in October 2020 and we think CEL would be more economically incentivized to redeem and/or replace the perpetual during that time. Based on forward swap rates as at 23 December 2019, the perpetual distribution rate will rise to ~8.9% p.a. if not called. For the avoidance of doubt, CITIC Limited does not explicitly guarantee the obligations of CEL. That being said, with CITIC Limited's cost of funding being lower (for example, its USD-denominated senior bonds maturing in April 2021 is trading at 2.76%), we see the likelihood of CITIC Limited supporting a redemption and/or replacement as good, if required.

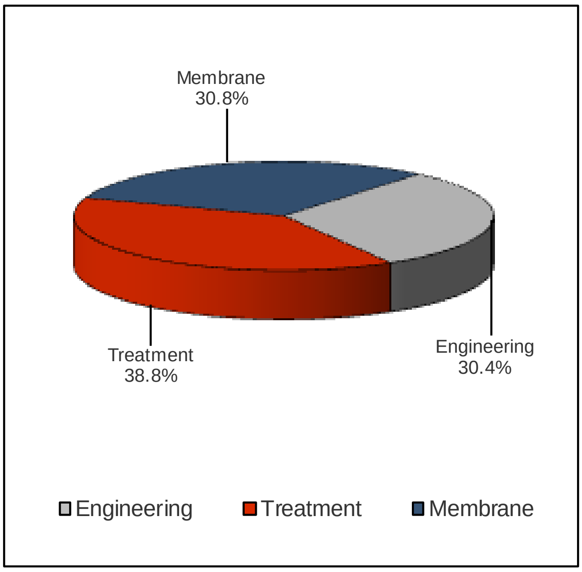
CITIC Envirotech Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)	**SGD'mn**	**SGD'mn**	**SGD'mn**
Revenue	908.8	994.5	439.3
EBITDA	192.9	195.9	123.2
EBIT	169.0	156.9	94.2
Gross interest expense	34.0	41.0	53.1
Profit Before Tax	176.9	161.4	38.5
Net profit	127.3	113.2	15.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	631.3	376.5	520.6
Total assets	3,608.8	3,786.8	4,163.5
Short term debt	421.7	377.7	166.5
Gross debt	809.7	1,383.5	1,905.2
Net debt	178.4	1,007.0	1,384.6
Shareholders' equity	1,841.1	1,374.1	1,378.2
Cash Flow (SGD'mn)			
CFO	-19.9	-278.3	-208.7
Capex	70.2	88.1	65.7
Acquisitions	105.6	3.7	15.5
Disposals	22.6	19.3	1.7
Dividend	49.8	83.3	23.0
Free Cash Flow (FCF)	-90.1	-366.4	-274.4
Key Ratios			
EBITDA margin (%)	21.22	19.70	28.04
Net margin (%)	14.01	11.38	3.50
Gross debt to EBITDA (x)	4.20	7.06	11.60
Net debt to EBITDA (x)	0.92	5.14	8.43
Gross Debt to Equity (x)	0.44	1.01	1.38
Net Debt to Equity (x)	0.10	0.73	1.00
Gross debt/total assets (x)	0.22	0.37	0.46
Net debt/total assets (x)	0.05	0.27	0.33
Cash/current borrowings (x)	1.50	1.00	3.13
EBITDA/Total Interest (x)	5.68	4.78	2.32

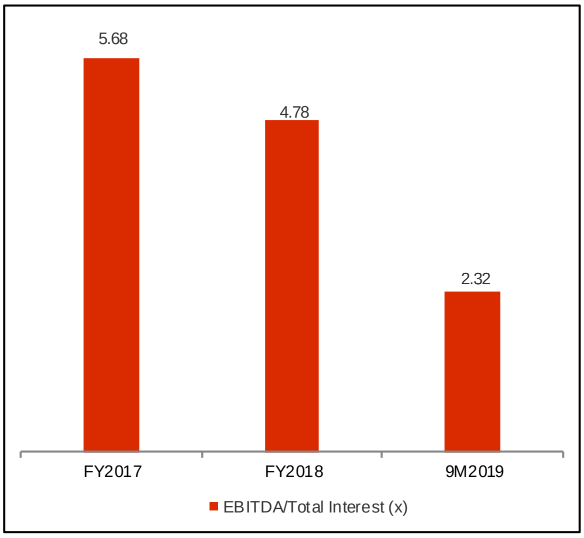
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2019



Source: Company

Figure 2: Interest Coverage Ratios - 9M2019



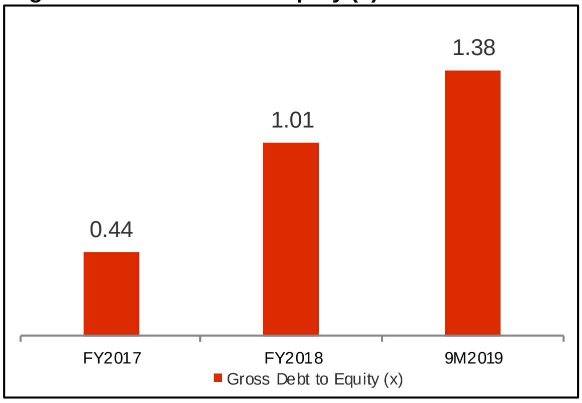
Source: Company, OCBC estimates

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	44.1	2.3%
Unsecured	122.5	6.4%
	166.6	**8.7%**
Amount repayable after a year		
Secured	555.6	29.2%
Unsecured	1,182.9	62.1%
	1,738.6	**91.3%**
Total	**1,905.2**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Gross Debt to Equity (x)



Source: Company

Issuer Profile:
Neutral (3)

Ticker:
CITSP

Outlook:
We are broadly Neutral on the CITSP curve. While CITSP curve offers some yield pickup over the CAPLSP curve, CDL's credit metrics are deteriorating due to significant acquisitions including privatisation of M&C.

Background:
Listed in 1963, City Developments Ltd ("CDL") is an international property and hotel conglomerate. CDL has three core business segments – property development, hotel operations and investment properties. CDL's hotel operations are conducted through its no wholly-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, a conglomerate controlled by the Kwek family.

City Developments Ltd

Key Considerations

- **Weaker results due to timing of property development revenue recognition:** 9M2019 revenue fell by 27.7% y/y to SGD2.48bn mainly due to 55.3% y/y decline in revenue from property development to SGD826.2mn. This is due to timing as CDL recognized revenue in entirety in 9M2018 for the completion of The Criterion EC. Meanwhile, hotel operations revenue which remained flattish at ~SGD1.23bn became the largest contributor to revenue. Rental properties revenue rose by 24.8% y/y to SGD318.7mn due to increased contribution from properties acquired in 2018 including Aldgate House (London), 125 Old Broad Street (London) and Central Mall Office Tower.

- **Decent sales achieved for development projects:** CDL sold SGD2.56bn in residential units in 9M2019 (9M2018: SGD1.56bn), with several projects fully sold or high sales rate achieved (as a percentage of launched units). This includes (1) New Futura, (2) The Tapestry, (3) Whistler Grand, (4) South Beach Residences, (5) Boulevard 88, (6) Amber Park, (7) Haus on Handy, (8) Nouvel 18, (9) Piermont Grand EC and (1) Sengkang Grand Residences. While CDL has 1,515 units remaining unsold (CDL's share) as of end 30 Sep 2019, we expect this to be substantially moved given the sales momentum and the recovering property market. By reported EBITDA, property development segment contributed SGD333mn out of CDL's group total of SGD904mn for 9M2019.

- **Investment portfolio to provide stability in earnings…:** Recurring income segments contributed SGD571mn in reported EBITDA in 9M2019, which is mainly due to investment properties (SGD405mn) and hotel operations (SGD137mn). For investment properties, committed occupancy looks healthy though somewhat weaker q/q at 91.3% for office (2Q2019: 92.1%) and 94.2% for retail (2Q2019: 95.1%) in Singapore. We think this provides rental resilience with (1) a healthy mix of tenants, (2) a well-staggered lease expiry profile and (3) minimal concentration risks with 15 office properties (NLA: 2.1mn sq. ft.) and 19 retail properties (NLA: 775k sq. ft.).

- **… with increased focus on hospitality:** CDL has privatized M&C, which we estimate the outlay at ~SGD1.34bn. This move is in-line with CDL's focus to boost recurring income and we understand that CDL is also looking to enhance underperforming assets – CDL highlighted that significant capex is required across M&C's properties to unlock value. Profit before tax from hotel operations (SGD1.6mn) look suppressed in 9M2019 (9M2018: SGD93.1mn) as several assets were closed for refurbishment (e.g. Millennium Hotel London Mayfair, Orchard Hotel Singapore) while CDL incurred privatization costs of SGD24.0mnn for M&C and SGD36.9mn impairment losses for Millennium Hilton New York One UN Plaza and Millennium Hilton Seoul. As a proportion, hotel operations and rental properties segment represent ~53% of CDL's total assets.

- **Sizeable expansion in China:** Following up on the announcement in 1Q2019 to invest in Sincere Property Group ("Sincere"), CDL has subscribed for USD230mn (~SGD320mn) bond issued by Sincere Property Group. This follows SGD657.9mn loans made to Sincere in 1Q2019. In addition, CDL is targeting to complete the acquisition of Shanghai Hongqiao Sincere Centre for RMB1.75bn (SGD344mn).

- **Expect credit metrics to deteriorate due to significant acquisitions:** Although credit metrics look manageable with net gearing at 44%, we expect this to deteriorate due to (1) takeover of M&C for SGD1.34bn and (2) acquisition of Shanghai's Hongqiao Sincere Centre for SGD344mn. We expect more capital outlay as (1) CDL may undertake asset enhancements in the M&C portfolio, (2) develop unutilized land, (3) redevelop its existing portfolio following the CBD Incentive Scheme and (4) acquire to grow recurring income. We expect net gearing to reach ~70%-80% though we continue to hold CDL at Neutral (3) Issuer Profile, for now.

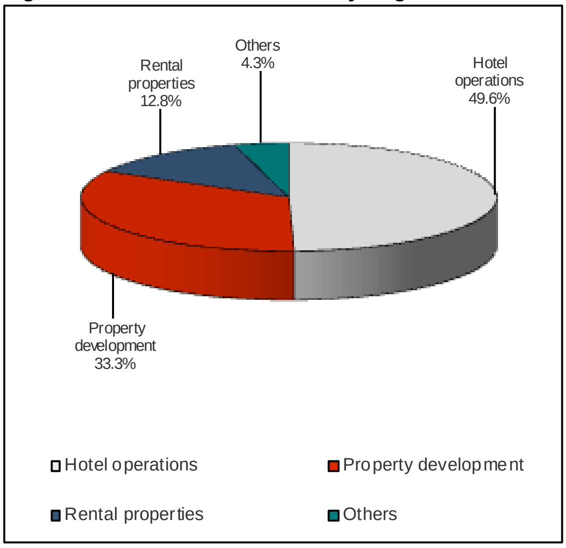
City Developments Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	3,829.2	4,222.6	2,481.8
EBITDA	902.9	1,077.8	576.2
EBIT	687.6	859.0	378.1
Gross interest expense	146.0	154.8	160.2
Profit Before Tax	272.6	349.3	645.8
Net profit	166.7	134.5	518.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	3,775.9	2,289.2	2,728.6
Total assets	19,364.3	20,885.7	22,977.1
Short term debt	1,266.0	1,258.4	1,567.6
Gross debt	5,036.2	6,341.8	8,392.4
Net debt	1,260.3	4,052.5	5,663.9
Shareholders' equity	11,646.1	12,273.9	12,441.4
Cash Flow (SGD'mn)			
CFO	1,087.5	-599.6	563.2
Capex	154.2	261.1	240.2
Acquisitions	307.1	1,347.0	113.3
Disposals	257.4	94.7	122.3
Dividend	243.8	285.3	267.2
Interest paid	-124.6	-127.8	-128.3
Free Cash Flow (FCF)	933.3	-860.7	323.0
Key Ratios			
EBITDA margin (%)	23.58	25.53	23.22
Net margin (%)	4.35	3.19	20.89
Gross debt to EBITDA (x)	5.58	5.88	10.92
Net debt to EBITDA (x)	1.40	3.76	7.37
Gross Debt to Equity (x)	0.43	0.52	0.67
Net Debt to Equity (x)	0.11	0.33	0.46
Gross debt/total assets (x)	0.26	0.30	0.37
Net debt/total assets (x)	0.07	0.19	0.25
Cash/current borrowings (x)	2.98	1.82	1.74
EBITDA/Total Interest (x)	6.18	6.96	3.60

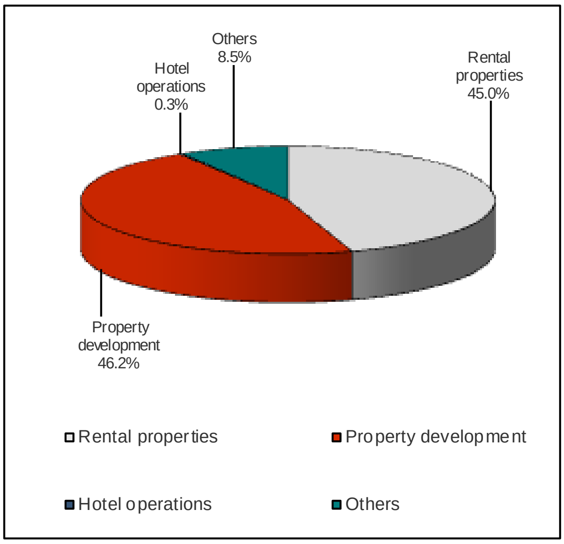
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2019



Source: Company

Figure 2: PBT breakdown by Segment - 9M2019



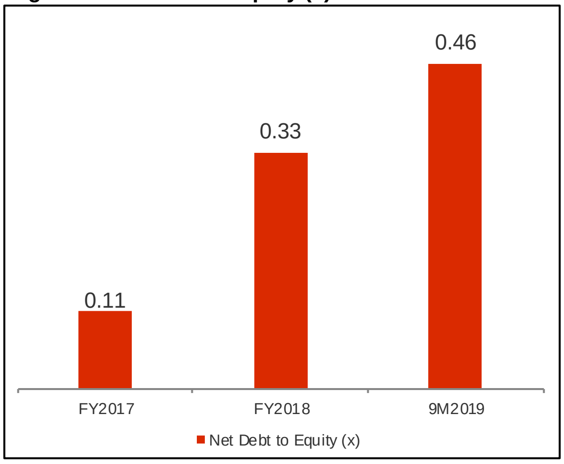
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	200.5	2.4%
Unsecured	1,368.1	16.3%
	1,568.7	**18.7%**
Amount repayable after a year		
Secured	1,758.5	20.9%
Unsecured	5,083.9	60.4%
	6,842.3	**81.3%**
Total	**8,411.0**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:

Negative (6)

Ticker:

CMACG

Credit Outlook:

NOLSP 4.65% '20s is offering a 10.4% yield to maturity, which we think is interesting for investors with an appetite for risk. The sale of investment stakes in ten port terminals to Terminal Link is likely to go through and supply CMA CGM with the needed funds to repay NOLSP 4.65% '20s. Therefore, we are Overweight on NOLSP 4.65% '20s.

Background:

CMA CGM SA ("CMA") is one of the largest container liners in the world. Having completed the acquisition of Neptune Orient Lines Ltd ("NOL") in mid-June 2016, financial results of NOL is limited. As such, the performance of CMA (the parent) will be used as a proxy for NOL's performance. Although CMA has not provided a corporate guarantee for NOL's existing bonds, as a material operating subsidiary of CMA, NOL would likely receive support from CMA.

CMA CGM SA (Parent of Neptune Orient Lines)

Key Considerations

- **Cost reduction programme reaped benefits q/q:** Although revenue was down by 1.0% q/q, operating expenses fell by 2.0% q/q, led by reduction in chartering and handling costs. This brought about a 6.0% q/q increase in EBITDA to USD1.0bn from USD954.2mn in the preceding quarter. Overall, CMA managed to record a profit to owners (i.e. after minority investors) of USD45.4mn, a reversal of the loss of USD109.2mn in 2Q2019.

- **Steady 9M2019:** Revenue rose 32.3% y/y to USD22.7bn over 9M2019. This was driven by CEVA which contributed USD5.3bn over 9M2019. Without CEVA, revenue would have risen by 2.5% y/y, on the back of growth in volumes (+5.5% y/y). With a less than proportionate increase in operating expenses (+1.7% y/y), EBITDA margin for standalone CMA (excl. IFRS16 effects and CEVA) improved to 5.3% (9M2018: 4.6%). Profit before tax attributable to standalone CMA (excl. IFRS16 and CEVA) rose by 2.3x to USD329.9mn from USD143.1mn a year ago. That said, CEVA continues to drag consolidated CMA's results with an EBITDA margin of 2.6% (excl. IFRS16). Over 9M2019, CEVA (excl. IFRS16) also recorded a loss of USD103.7mn before tax.

- **Deleveraging:** Q/q, net debt fell by USD273.3mn (i.e. 1.5%) and hence net gearing edged lower to 3.47x from 3.48x in 2Q2019. Excluding liabilities under IFRS16, net gearing would fall to 1.78x (2Q19: 1.95x, 1Q19: 1.75x). The good operating performance over the quarter lifted the EBITDA/Interest ratio (incl. capitalised interest) to 2.83x from 2.62x in the preceding quarter. Evidently, credit metrics of CMA has improved slightly over the quarter. CMA has also announced plans to lighten its capital structure by divesting and refinancing certain assets. We think these will enhance its credit health.

- **Sales of assets:** CMA is estimated to raise ~USD1.4bn of liquidity (excl. what has already been received) from (1) vessel sale and leaseback transaction where USD210mn is scheduled to close over the coming weeks (as at 25 Nov 2019). The proceeds will be used to pay down the bridge acquisition facility relating to CEVA. (2) Sale of investment stakes in ten port terminals to Terminal Link ("TL"). The transaction is subject to antitrust and other regulatory approvals and is expected to close during 1H2020. While CMA is expected to receive USD968mn proceeds from the sale, it appears CMA is getting a "shareholders' advance" of USD500mn from TL, and we think CMA will have to pay as much as USD740mn (USD500mn in principal and USD240mn of interest) in 8 years when the maturity is up. (3) Sale of a 50% stake in a logistics hub in India (expected in 1Q2020) for USD93mn. (4) Increase in CEVA's receivables securitisation program which is expected to provide CMA with USD100mn proceeds.

- **Much needed liquidity boost:** NOLSP 4.65% '20s will mature on 9 Sep 2020, which is less than 12 months away from 30 Sep 2019. As such NOLSP 4.65% '20s is included in CMA's short term borrowings which were USD4.1bn as at 30 Sep 2019. Given that CMA has historically kept ~USD600mn cash for day-to-day operations, we do not think the company can draw down all of its existing cash on hand. As such, the liquidity situation is very tight with sources of funds from the next 12 months from 30 Sep 2019 amounting to SGD1.4bn and uses of funds at USD2.3bn. Therefore, the four transactions mentioned above are crucial in providing CMA with its much needed liquidity boost. In fact, we think the sale of investment stakes in the ten port terminals to TL must happen for CMA to be able to cope with all of its short term using of fund as the other three transactions in aggregate will only add USD395mn liquidity. Overall, the plan to divest and refinance certain assets to raise proceeds, extend debt maturities and reduce its net debt by over USD900mn is credit positive for CMA in the short term and we wait the completion of these transactions.

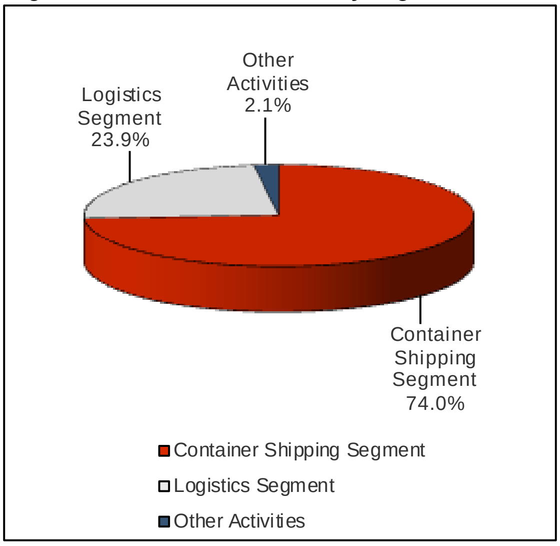
CMA CGM SA

Table 1: Summary Financials

Year End 31st Dec	FY2017	FY2018	9M2019
Income Statement (USD'mn)			
Revenue	21,116.2	23,476.2	22,732.4
EBITDA	2,117.3	1,157.0	2,744.9
EBIT	1,493.2	523.0	706.5
Gross interest expense	514.7	511.6	1,037.3
Profit Before Tax	800.7	167.7	-15.7
Net profit	696.6	33.9	-106.8
Balance Sheet (USD'mn)			
Cash and bank deposits	1,383.5	1,401.9	1,334.0
Total assets	18,906.7	20,322.4	32,555.7
Gross debt	8,419.3	9,180.5	19,709.9
Short term debt	1,183.9	1,020.6	4,143.1
Net debt	7,035.8	7,778.6	18,375.9
Shareholders' equity	5,620.4	5,525.0	5,298.8
Cash Flow (USD'mn)			
CFO	1,169.5	806.3	2,513.3
Capex	757.2	426.8	459.6
Acquisitions	0.0	769.6	1,131.0
Disposals	689.7	167.8	446.5
Dividend	17.5	184.4	12.2
Free Cash Flow (FCF)	412.3	379.5	2,053.7
Key Ratios			
EBITDA margin (%)	10.03	4.93	12.07
Net margin (%)	3.30	0.14	-0.47
Gross debt to EBITDA (x)	3.98	7.93	5.39
Net debt to EBITDA (x)	3.32	6.72	5.02
Gross Debt to Equity (x)	1.50	1.66	3.72
Net Debt to Equity (x)	1.25	1.41	3.47
Gross debt/total assets (x)	0.45	0.45	0.61
Net debt/total assets (x)	0.37	0.38	0.56
Cash/current borrowings (x)	1.17	1.37	0.32
EBITDA/Total Interest (x)	4.11	2.26	2.65

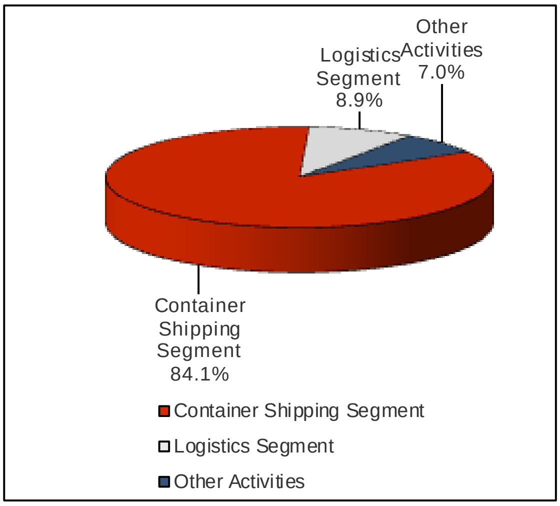
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2019



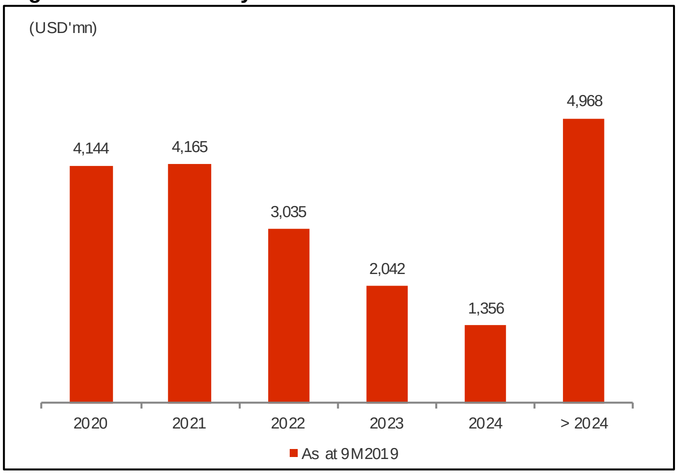
Source: Company | Excludes Eliminations

Figure 2: EBIT breakdown by Segment - 9M2019



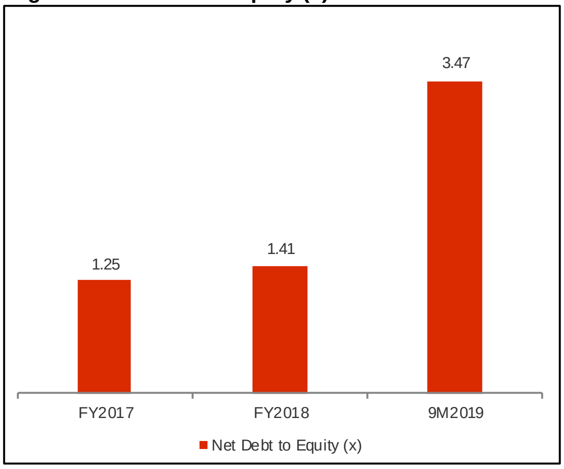
Source: Company | Excludes Eliminations

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:
Neutral (4)

Ticker:
EREIT

Outlook:
We prefer the senior paper EREIT 3.95% '20s over the EREIT 4.6%-PERP as we think the perpetual faces high non-call risk at first call. The EREIT 3.95% '20s paper is trading at an ask yield of 2.6%.

Background:
EREIT, which invests primarily in industrial assets, completed its combination with its peer, VIVA Industrial Trust ("VIVA") in October 2018. As at 30 September 2019, EREIT's total assets was SGD3.3bn and is now the fourth largest industrial REIT listed on the Singapore Stock Exchange. All properties are located in Singapore. Mr. Tong Jinquan is now EREIT's largest unitholder with a ~31%-stake while ESR, the Sponsor of EREIT, is the second largest unitholder with a ~8%- stake. The EREIT REIT Manager is now owned by ESR (67.3%), Mr. Tong (including deemed interests) (25.0%) and Mitsui & Co., Ltd (7.7%).

ESR-REIT

Key Considerations

- **Q/q revenue down:** Given that EREIT had combined with its peer VIVA Industrial Trust ("VIVA") in October 2018, we think y/y comparison is less useful for 3Q2019. Gross revenue was down by SGD1.8mn (2.8% q/q) to SGD62.0mn in 3Q2019, while net property income was down 5.1% q/q to SGD45.3mn, this was despite portfolio occupancy staying stable q/q at 91.0%. EREIT did not specify the reasons behind the q/q fall. Apart from possible rental rate declines on certain properties, one plausible reason is that EREIT had refrained from recognizing revenue on the space at 8 Tuas South Lane occupied by Hyflux Membrane Manufacturing (S) Pte. Ltd, a subsidiary of the troubled Hyflux Ltd ("HYF"). In September 2019, EREIT announced that it had signed up a new tenant to take up some space at 8 Tuas South Lane and further in November 2019, EREIT had drawn down SGD2.1mn of bank guarantees (equivalent to three months of rental deposits). While HYF is under debt moratorium and the restructuring is still in progress, HYF remains a tenant of EREIT though actual rent collections are highly uncertain.

- **Interest coverage lower q/q:** EBITDA (based on our calculation which does not include other income and other expenses) was SGD39.5mn in 3Q2019, down 8.7% q/q while interest expense (excluding interest on lease liabilities) was down 3.7% q/q to SGD12.7mn driven by lower average debt balance, with resultant EBITDA/Interest coverage lower at 3.1x (2Q2019: 3.3x). EREIT had SGD150mn in perpetual outstanding as at 30 September 2019. Assuming EREIT pays out distribution in full, this would be SGD6.9mn per year and SGD1.7mn per quarter, taking 50% of this as interest, we find Adjusted EBITDA/(Interest plus 50% distribution) at 2.9x, weakening from 3.1x in 2Q2019. In August 2019, EREIT completed the 49%-stake acquisition of 48 Pandan Road for SGD43.2mn, which was debt funded in 3Q2019 and in 3Q2019 recorded a share of results of joint venture of SGD0.7mn. Taking this as EBITDA, we find Adjusted EBITDA/(Interest plus 50% distribution) at 3.0x.

- **Aggregate leverage on the high side versus REIT peers:** As at 30 September 2019, reported aggregate leverage which includes the proportionate debt and asset of 48 Pandan Road was 41.6%, increasing from the 39.0% as at 30 June 2019. This property was purchased by a joint venture comprising of EREIT (49%-stake) and Poh Tiong Choon ("PTC", 51%-stake) who would be leasing back the property for its operations. Apart from contribution from EREIT and PTC, ~SGD146mn of debt was assumed at the joint venture to buy the property from PTC. Post quarter end in October 2019, EREIT completed a preferential offering of equity that raised SGD50mn (comes on the back of SGD100mn in equity raised via private placement in June 2019). We expect reported aggregate leverage to be around ~41% post completion of announced but yet to be completed asset enhancement works amounting to ~SGD46mn.

- **Manageable short term debt coming due:** As at 15 October 2019, only SGD160mn comes due in 2020, comprising two SGD-denominated bonds maturing in April and May 2020 respectively. We see refinancing risk as manageable as the bonds represent only 13% of consolidated debt. Undrawn available committed facilities had reduced to SGD85.0mn from SGD140mn as at 30 June 2019, we think this was due to EREIT using some of the committed debt facilities to fund its 49%-stake purchase of 48 Pandan Road. However, all properties consolidated at EREIT remains unencumbered, which allows EREIT to raise secured debt, if need be. As at 30 September 2019, only the 48 Pandan Road property is encumbered.

- **More roll-up possible:** ESR currently also controls the REIT Manager of a competing industrial REIT, Sabana Shari'ah Compliant Industrial REIT ("SSREIT", Issuer profile: Unrated) and holds a ~21% stake in SSREIT as the single largest unitholder. Mr. Tong, the second largest equity holder of EREIT holds a ~7%-stake in SSREIT. While the two REITs are managed independently of each other, we think the (1) Cross-ownership (2) Benefits of scale and (3) Rising merger call by public investors may encourage EREIT to catalyze a further roll-up.

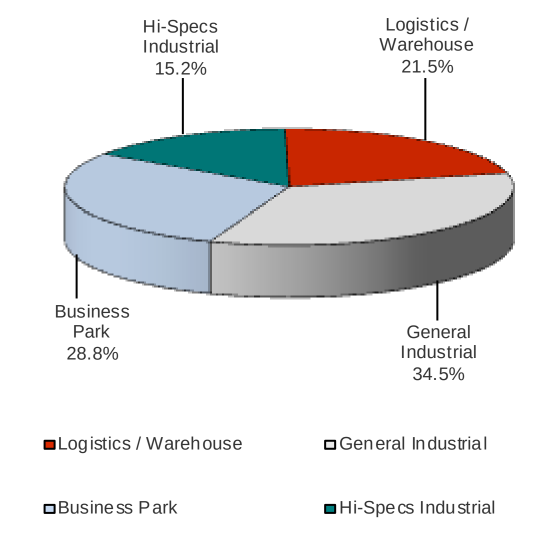
ESR-REIT

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	109.7	156.9	190.5
EBITDA	69.3	100.3	127.2
EBIT	69.3	100.3	127.2
Gross interest expense	20.4	27.4	46.7
Profit Before Tax	1.4	-228.3	78.3
Net profit	1.4	-228.4	78.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	11.7	17.7	17.6
Total assets	1,695.8	3,050.7	3,334.1
Short term debt	0.0	281.9	181.0
Gross debt	669.8	1,268.2	1,465.8
Net debt	658.1	1,250.5	1,448.2
Shareholders' equity	930.0	1,630.8	1,718.4
Cash Flow (SGD'mn)			
CFO	69.0	67.8	127.5
Capex	9.8	5.3	15.4
Acquisitions	351.0	167.8	43.2
Disposals	56.9	23.7	5.8
Dividends	46.0	65.9	92.3
Interest paid	19.4	30.8	43.6
Free Cash Flow (FCF)	59.2	62.5	112.1
Key Ratios			
EBITDA margin (%)	63.15	63.95	66.76
Net margin (%)	1.27	-145.55	41.09
Gross debt to EBITDA (x)	9.67	12.64	8.64
Net debt to EBITDA (x)	9.50	12.46	8.54
Gross Debt to Equity (x)	0.72	0.78	0.85
Net Debt to Equity (x)	0.71	0.77	0.84
Gross debt/total asset (x)	0.39	0.42	0.44
Net debt/total asset (x)	0.39	0.41	0.43
Cash/current borrowings (x)	0.08	0.06	0.14
EBITDA/Total Interest (x)	3.39	3.66	2.72

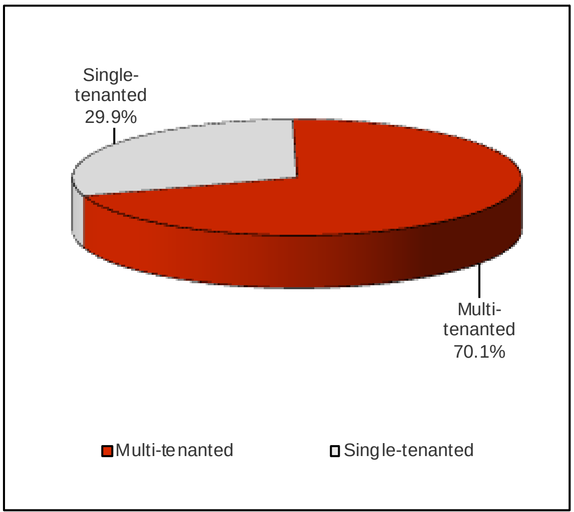
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2019



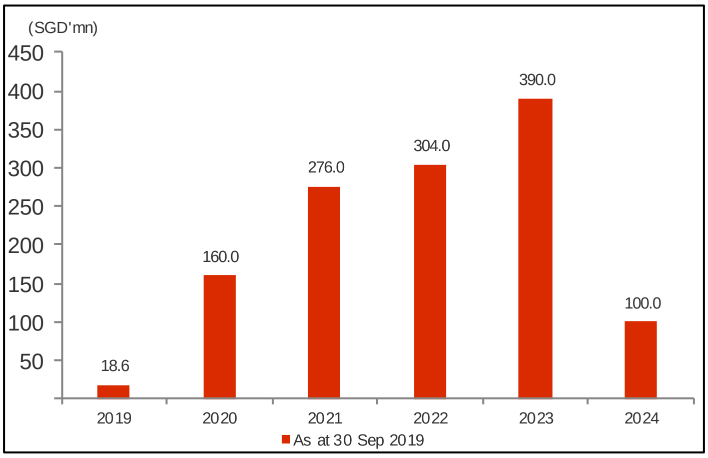
Source: Company

Figure 2: Revenue breakdown by Business - 9M2019



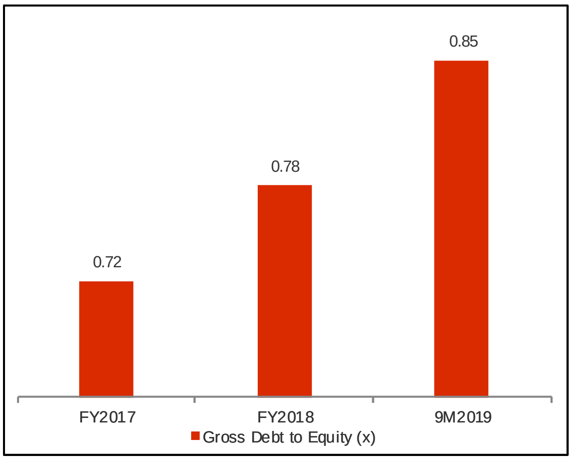
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:
Negative (6)

Ticker:
FIRTSP

Outlook:
We have turned neutral on FIRTSP sole perpetual, the FIRTSP 5.68%-PERP. Following the decline in liquidity risk at Lippo Karawaci, we think FIRTSP's credit profile in the short term has improved, though the REIT still faces refinancing risk in 2021.

Background:
Listed on the Singapore Stock Exchange with a market cap of SGD805.7mn as at 20 December 2019. FIRT is a REIT that invests primarily in real estate used for healthcare and healthcare-related sectors. Investment properties totaled SGD1.4bn as at 30 September 2019. We estimate that OUE Ltd has a 17.6%-deemed ownership stake in FIRT while PT Lippo Karawaci Tbk (“LK”)’s stake has declined to ~10.4%.

First Real Estate Investment Trust

Key Considerations

- **Net property income down y/y:** Gross revenue was down 1.5% y/y in 3Q2019 to SGD28.8mn driven by the decline in variable rent at its Indonesia properties while net property income was down larger by 2.5% y/y to SGD28.2mn following higher property expenses at Indonesia and South Korea. In prior quarters, FIRT had taken a provision at the South Korean hospital and it also took a provision in 3Q2019, though the amount was undisclosed. In December 2015, FIRT entered into an asset swap arrangement where the existing Siloam Hospital Surabaya would be sold to LK, with FIRT buying a new Surabaya hospital when construction completes for SGD90mn (SGD27mn of progress payments had been paid by FIRT, with LK paying interest to FIRT). Originally, the new hospital was targeted to complete by 2019, however, development was halted since January 2019 (with no updated completion date). The existing Siloam Hospital Surabaya is still operational and contributing to rental income.

- **Manageable interest coverage:** EBITDA (based on our calculation which does not include other expenses and other income) was SGD25.2mn, with finance costs declining by 7.7% to SGD5.1mn (3Q2018 finance cost included loan related costs), resulting in a stronger EBITDA/Interest of 5.0x (3Q2018: 4.7x and 2Q2019: 5.1x). Assuming FIRT pays out SGD3.4mn per year in perpetual distribution (SGD0.9mn per quarter) and taking 50% of this as interest, we find adjusted EBITDA/(Interest plus 50% perpetual distribution) at 4.6x, still manageable.

- **Non-traditional asset type caps how high aggregate leverage should go:** As at 30 September 2019, FIRT’s reported aggregate leverage was 34.5%, in line with 30 June 2019. Adjusting 50% of FIRT’s SGD60mn in perpetual as debt, we find FIRT’s adjusted aggregate leverage at 36.6%, moderate in our view. FIRT has not sold any properties to third parties since inception as its properties are being used for LK’s healthcare business (including via 51%-owned subsidiary PT Siloam International Hospitals Tbk (“Siloam”)), adding uncertainty over the marketability of such assets. Any downward adjustments to renewal rates would also negatively impact FIRT’s asset values. The master leases of five of FIRT’s properties will expire in 2021 and we understand that FIRT is in the midst of negotiations. We do not expect FIRT to gear up significantly beyond current levels, with divergence being a credit negative.

- **No short term debt due until 2021:** In April 2019, FIRT secured a SGD100mn syndicated term loan with a three year maturity that was used to refinance its SGD100mn loan due in May 2019. With this refinancing completed, there is no debt due in FIRT until 2021 when SGD196.3mn of term loans comes due (representing 39.8% of total debt). In addition to the debt maturity, FIRT’s sole perpetual would face first call in July 2021. We expect refinancing risk to pile up in 2021 as FIRT would also be seeking unitholders approval over master lease renewals before then. Our base case though expects secured bank lenders to stay supportive of FIRT per what they have done through 2018-2019 when LK was facing liquidity stresses.

- **Short term liquidity risk at Lippo Karawaci has eased:** Encouragingly, FIRT’s day sales outstanding in 3Q2019 were 74 days based on our estimation and 67 days in 2Q2019. This indicates that LK had resumed payment terms closer to historical levels after receivables piled up through 2018. While OUE Ltd (Issuer profile: Neutral (5)) has become FIRT’s other Sponsor, LK (and its subsidiaries including Siloam) is still FIRT’s main tenant. Since March 2019, LK’s USD-denominated LPKRIJ 6.75% ‘26s had climbed back above 89 cents to the dollar. For 9M2019, LK reported a loss for the period of IDR1.7bn (~SGD163.6mn). LK’s operating cash flow and investing outflows were negative (collectively outflow of IDR6.3bn (~SGD607.2mn)) though the company raised IDR11.2bn (~SGD1.1bn) in new equity, including from LK’s key shareholders the Riady family, resulting in a cash-to-short term debt of 6.4x (end-2018: 1.2x). We may upgrade FIRT’s issuer profile should (1) Lippo’s credit profile markedly improve to a level suggestive of Neutral (5) and/or (2) FIRT reduces its reliance on income from Indonesia (and thereby reducing LK counterparty credit risk).

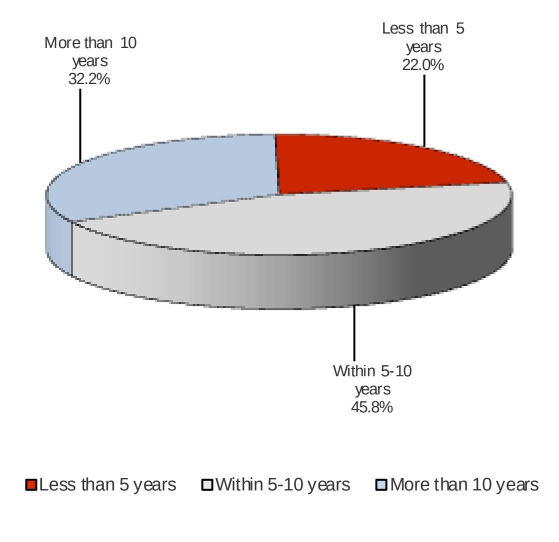
First Real Estate Investment Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	111.0	116.2	86.4
EBITDA	98.2	102.5	75.7
EBIT	98.2	102.5	75.7
Gross interest expense	17.8	21.6	15.2
Profit Before Tax	93.6	74.8	60.3
Net profit	73.4	75.9	46.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	15.7	27.8	28.5
Total assets	1,423.8	1,438.8	1,429.2
Short term debt	198.3	109.7	0.0
Gross debt	476.4	496.4	486.1
Net debt	460.7	468.7	457.6
Shareholders' equity	852.3	869.2	868.1
Cash Flow (SGD'mn)			
CFO	72.4	82.7	75.6
Capex	63.2	1.2	0.2
Acquisitions	0.0	0.0	0.0
Disposals	0.0	0.0	0.0
Dividends	66.4	68.8	54.5
Interest paid	16.1	16.9	11.6
Free Cash Flow (FCF)	9.2	81.4	75.4
Key Ratios			
EBITDA margin (%)	88.47	88.24	87.60
Net margin (%)	66.16	65.30	53.51
Gross debt to EBITDA (x)	4.85	4.84	4.82
Net debt to EBITDA (x)	4.69	4.57	4.53
Gross Debt to Equity (x)	0.56	0.57	0.56
Net Debt to Equity (x)	0.54	0.54	0.53
Gross debt/total asset (x)	0.33	0.35	0.34
Net debt/total asset (x)	0.32	0.33	0.32
Cash/current borrowings (x)	0.08	0.25	NM
EBITDA/Total Interest (x)	5.51	4.74	5.00

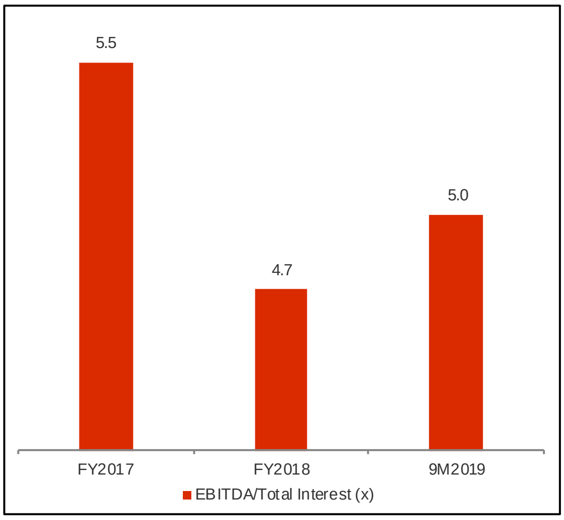
Source: Company, OCBC estimates

Figure 1: Lease Expiry by GFA - 9M2019



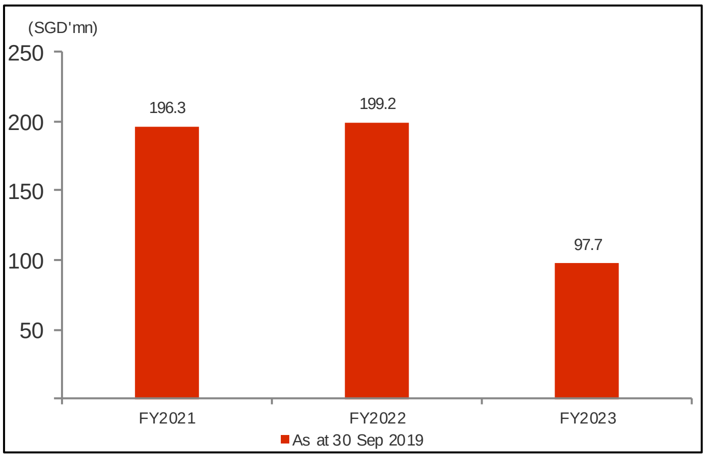
Source: Company | As at 30 Sep 2019

Figure 2: EBITDA/Total Interest (x)



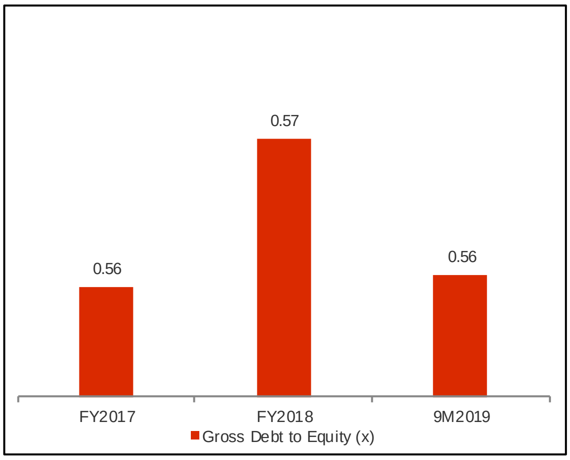
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:
Neutral (4)

Ticker:
FNNSP

Outlook:
The FNN curve looks largely fair. Despite F&N's healthy credit metrics, FNN has been impacted by weak profitability from the Beverages segment. The business profile is evolving with FNN looking to transform into a significant dairies company.

Background:
Listed on SGX with a market cap of SGD2.5bn, Fraser and Neave Ltd ("FNN") is a consumer group primarily engaged in Food & Beverage ("F&B"). FNN is an F&B market leader in Southeast Asia, with brands including 100Plus, F&N Nutrisoy, F&N Seasons, F&N Magnolia and Farmhouse. FNN also owns a Publishing and Printing ("P&P") business ("P&P"), which include Marshall Cavendish and Times Publishing. FNN owns 55.5% stake in Fraser & Neave Holdings Bhd and ~20% stake in Vietnam Dairy Products JSC ("Vinamilk"). FNN is owned by TCC Assets Ltd (59.2%) and Thai Beverage (28.5%), both linked to Thai billionaire Mr. Charoen.

Fraser and Neave Ltd

Key Considerations

- **Decent results with profitability driven by dairy:** FY2019 revenue rose by 3.7% y/y to SGD1.9bn, with broad-based increase in major segments including Beverages (+6.5% y/y to SGD470.7mn) and Dairies (+3.6% y/y to SGD1.15bn) while P&P remains relatively unchanged at SGD277.4mn (FY2018: SGD279.1mn). That said, profitability is still mainly anchored by Dairies with reported PBIT growth of 19.3% y/y to SGD275.5mn due to 16.6% y/y growth in share of results of associates to SGD113.9mn (which is mostly attributable to Vinamilk) as well as 36.6% y/y reported PBIT growth in Thailand from higher sales and favourable input costs. Meanwhile, Beverages reported PBIT still remains sluggish at SGD6.7mn, though improved y/y (FY2018: SGD0.4mn) from higher sales in most countries.

- **No longer really a Beverages company:** Although Beverages used to be a key contributor to FNN's profitability, we think that it will be challenging for the segment to make a full comeback as competition remains intense. While FNN has faced policy headwinds (e.g. excise duty on sweetened beverages, sales and services tax), it is encouraging that FNN's re-formulated products (e.g. healthier options) have received positive response from consumers which contributed to higher revenue.

- **Vinamilk as a substantial contributor:** FNN's stake in Vinamilk is worth ~SGD2.5bn, with Vinamilk upstreaming nearly SGD100mn dividends p.a. to FNN, which has been steadily increasing since 2011. Dividends from Vinamilk alone are more than sufficient to cover FNN's SGD21.7mn interest expense in FY2019. Vinamilk results are decent with 9M2019 net profit increasing 6.8% y/y to VND2,652bn (~SGD154mn). While FNN had, prior to FY2019, been increasing its stake in Vinamilk, we note that FNN no longer did so in recent quarters.

- **Positioning to be a larger Dairies company:** F&N has identified fresh milk as a new pillar of growth and will be making MYR650mn (~SGD210mn) investment (phase 1) into dairy farming with the aim to be a producer of fresh milk. In the phase 1 investment, 4,000 milking cows will be imported with the potential to produce 40mn litres of fresh milk and 4,454 hectares of leasehold land at Ladang Chuping will be acquired. Production is expected to start by FY2021. In the longer term, FNN is targeting to host 20,000 milking cows. According to FNN, in Malaysia, dairy consumption is worth MYR5bn, with prices (MYR6 to MYR10 per litre) higher than elsewhere in the world while dairy self-sufficiency is only at 3%. This is in-line with supporting Malaysia's ambition to attain self-sufficiency.

- **Diversifying/expanding into other segments including Agriculture, Brewery and Coffee:** Given weak profitability from Beverages, FNN has been diversifying into other segments. Aside from fresh milk production, FNN will be undertaking farming of corn grains at the Ladang Chuping site to supply the dairy farm, with the excess to be sold to the local market. Separately, FNN invested 79.88%-stake in Emerald Brewery Myanmar Ltd with an estimated total investment of SGD111mn, which started operations on 1 Oct 2019. FNN also acquired ~35.7% effective stake in Starbucks Thailand for an estimated SGD114.8mn acquisition cost. Separately, FNN acquired 60%-stake in Print Lab Pte Ltd for SGD24.5mn and 20.75% effective stake in Genki Sushi (Thailand). FNN is also exploring other fields including goat farming and R&D in grain or seed science. In Singapore, FNN is constructing a SGD80mn 375k sq. ft. facility to house production, warehousing and R&D of product offering.

- **Credit metrics remains healthy:** Net gearing fell q/q to 12.3% (3QFY2019: 15.2%) mainly from SGD88.8mn cash generated from operating activities. Cash of SGD420.3mn is more than sufficient to cover SGD9.2mn in short-term borrowings. Net debt/EBITDA is also healthy at 2.7x as of FY2019 (FY2018: 3.5x) with strong EBITDA/Interest of 7.0x (FY2018: 3.8x). Though we are cautious on further acquisitions, we remain comfortable with FNN's profile due to its healthy credit metrics and cash-generating Dairies business.

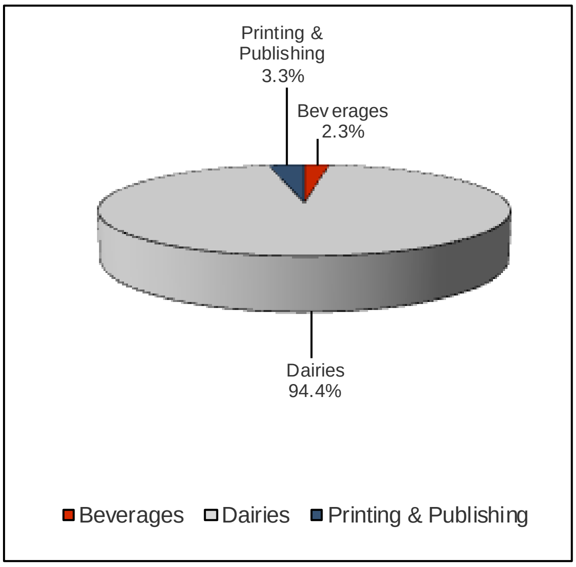
Fraser & Neave Ltd

Table 1: Summary Financials

Year End 30th Sep	FY2017	FY2018	FY2019
Income Statement (SGD'mn)			
Revenue	1,898.0	1,834.8	1,902.3
EBITDA	142.8	173.9	211.8
EBIT	85.3	115.9	151.0
Gross interest expense	16.2	30.5	21.7
Profit Before Tax	1,340.3	200.4	268.6
Net profit	1,325.6	180.7	212.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,135.0	530.1	420.3
Total assets	4,891.2	4,506.1	4,719.3
Short term debt	785.6	374.1	9.2
Gross debt	1,303.1	871.4	829.7
Net debt	168.1	341.3	409.4
Shareholders' equity	3,132.1	3,164.4	3,332.4
Cash Flow (SGD'mn)			
CFO	76.3	176.5	226.8
Capex	64.7	93.2	159.0
Acquisitions	1,022.8	236.8	137.9
Disposals	1.1	4.9	28.1
Dividend	95.7	96.2	96.2
Interest paid	-13.7	-30.3	-21.5
Free Cash Flow (FCF)	11.6	83.3	67.8
Key Ratios			
EBITDA margin (%)	7.5	9.5	11.1
Net margin (%)	69.8	9.8	11.2
Gross debt to EBITDA (x)	9.13	5.01	3.92
Net debt to EBITDA (x)	1.18	1.96	1.93
Gross Debt to Equity (x)	0.42	0.28	0.25
Net Debt to Equity (x)	0.05	0.11	0.12
Gross debt/total assets (x)	0.27	0.19	0.18
Net debt/total assets (x)	0.03	0.08	0.09
Cash/current borrowings (x)	1.44	1.42	45.56
EBITDA/Total Interest (x)	8.8	5.7	9.8

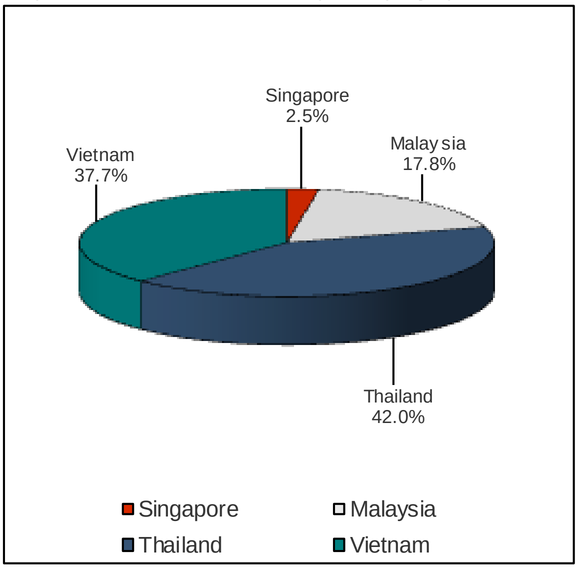
Source: Company, OCBC estimates

Figure 1: EBIT breakdown by Segment - FY2019



Source: Company | Excludes Others

Figure 2: EBIT breakdown by Geography - FY2019



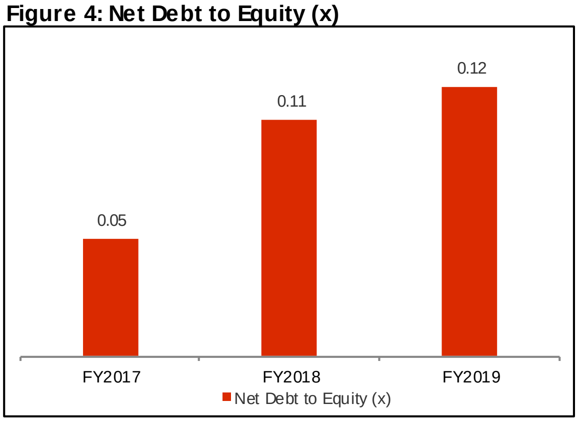
Source: Company | Excludes Others

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.1	0.0%
Unsecured	9.1	1.1%
	9.2	**1.1%**
Amount repayable after a year		
Secured	0.2	0.0%
Unsecured	820.2	98.9%
	820.5	**98.9%**
Total	**829.7**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:
Neutral (3)

Ticker:
FCTSP

Credit Outlook:
We are overweight on FCTSP 2.77% '24s which is trading at a yield of 3.01% as it is offering a ~40bps spread over MCTSP 3.28% '24s which matures 2 months earlier. As such, we think FCTSP 2.77% '24s is attractive.

Background:
Listed on the SGX in July 2006, Frasers Centrepoint Trust ("FCT") is a pure-play suburban retail landlord in Singapore, sponsored by Frasers Property Ltd ("FPL", which holds a 36.5% interest in FCT). The portfolio comprises 7 suburban retail malls in Singapore – Causeway Point, Changi City Point, Northpoint, Bedok Point, Anchorpoint, YewTee Point and Yishun 10 retail podium. FCT also owns a 24.82% stake in PGIM Real Estate AsiaRetail Fund Ltd, 40% stake in Waterway Point and a 31.15% stake in Malaysia listed Hektar REIT ("H-REIT", a retail focused REIT).

Frasers Centrepoint Trust

Key Considerations

- **Broad based growth:** Gross revenue was up by 1.6% y/y to SGD196.4mn while NPI was up 1.5% y/y at SGD137.2mn for the financial year ended 30 Sep 2019 ("FY2019"). The improvement was broad-based with all properties recording positive growth in revenue except Causeway Point (-0.3% y/y). That said, on the NPI front, Causeway Point saw a 0.6% growth and all properties had higher contributions except Anchorpoint. Overall occupancy rose to 96.5% from 94.7% and FCT recorded a portfolio rental reversion of FY2019 of +4.8% for 28.9% of its' mall's NLA (higher compared to rental reversion of +3.2% for FY2018). Looking forward, 35.7% of leases by total gross rental income will expire in FY2020, which we think is manageable given shopper traffic rose 8.9% y/y from Jul to Sep 2019 though tenants' sales was flat.

- **Transformational FY2019:** FCT's stake in PGIM Real Estate AsiaRetail Fund ("PGIM ARF") is 24.82% in aggregate. This is after five occasions of acquisitions (all within 2019). This fund owns and manages six retail malls in Singapore – namely Tiong Bahru Plaza, White Sands, Liang Court, Hougang Mall, Century Square and Tampines 1 – and office property, Central Plaza and four retail malls in Malaysia. We think this move entrenches FCT's position in the suburban mall space and enlarges the potential pipeline of assets that FCT may pursue in the future for growth. We note that FPL holds a 63.11% stake in PGIM ARF and in aggregate, FPL has a deemed interest of 87.93% stake in the fund. As such, we think it would make sense for FPL and FCT to jointly pursue control of the fund and possibly reap the synergies between the malls in PGIM ARF, FPL and FCT. We understand that despite the deemed 87.93% interest in PGIM ARF, FPL does not yet control PGIM ARF.

- **Purchased 40% stake in Waterway Point:** FCT also bought 33.3% stake in Waterway Point on 16 May 2019 for SGD433.3mn from its Sponsor, with a net property income yield of 4.7% and another 6.6% in Sep 2019. Given that both Jurong Point and Westgate transacted at an NPI yield of ~4.2%-4.4%, we think FCT's most recent purchase was at a good price. Total consideration paid by FCT was SGD491.0mn. Waterway Point, located in Punggol Central, has an NLA of 371,200 sq. ft. and committed mall occupancy of 98.1%. Net property income recorded in FY2018 was SGD61.1mn. We estimate that Waterway Point will account for ~25.6% of the new portfolio net lettable area by property (excluding PGIM ARF assets).

- **Equity fund raising:** To fund the above acquisitions, FCT has raised SGD437.4mn of equity funding (SGD369.6mn from private placement and SGD67.7mn from preferential offering). As such, FCT's net debt levels rose by just SGD236.0mn from a year ago, despite having invested SGD910mn in the acquisitions of significant stake in PGIM ARF and in Waterway Point.

- **Credit profile remains firm:** Aggregate leverage was 32.9% as at 30 Sep 2019 (30 Sep 2018: 28.6%), due to the recent acquisition mentioned above. Even though debt coming due in FY2020 is SGD295.1mn, and FCT only has a cash balance of SGD13.1mn as at 30 Sep 2019, we are not overly concerned as 77% of total investment property (by value) remain unencumbered, providing FCT financial flexibility. Outside of PGIM, Northpoint City South wing remains a potential asset that may be injected into FCT by its Sponsor, which could drive FCT's leverage higher. FCT is focused on the Singapore suburban retail sector and will continue to expand its presence in this sector. Its key malls are located in outer north and outer north east regions that enjoy low retail floor space per capita of about 2.7 per sq. ft., compared to the nation's average of ~6 per sq. ft. FCT thinks lower retail space per capita implies higher opportunity to grow footfall to the malls in the region. Overall, we expect the suburban malls to remain resilient despite the structural slowdown in the retail sector as a whole.

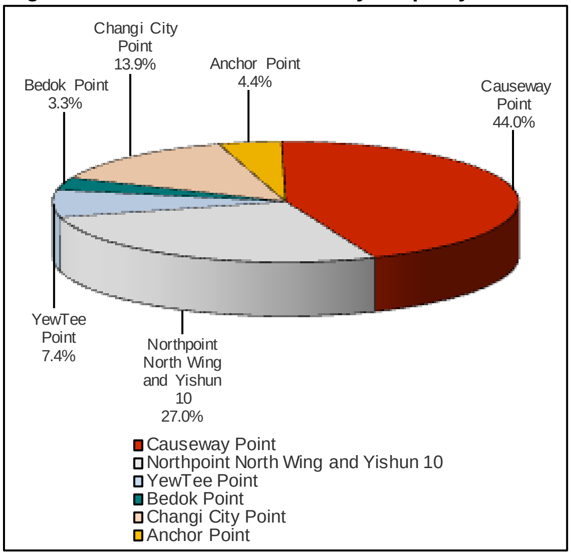
Frasers Centrepoint Trust

Table 1: Summary Financials

Year Ended 30th Sept	FY2017	FY2018	FY2019
Income Statement (SGD'mn)			
Revenue	181.6	193.3	196.4
EBITDA	112.5	120.1	120.7
EBIT	112.5	120.0	120.6
Gross interest expense	17.6	20.0	24.6
Profit Before Tax	193.9	166.8	206.0
Net profit	193.9	166.8	205.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	13.5	21.9	13.1
Total assets	2,750.9	2,840.4	3,610.9
Short term debt	152.0	217.0	295.0
Gross debt	797.5	812.6	1,039.8
Net debt	784.0	790.7	1,026.7
Shareholders' equity	1,872.2	1,933.8	2,471.1
Cash Flow (SGD'mn)			
CFO	122.2	136.9	130.8
Capex	27.8	15.5	5.0
Acquisitions	45.2	0.0	668.5
Disposals	0.0	0.0	0.0
Dividends	108.2	112.2	113.6
Interest paid	0.6	19.6	-428.3
Free Cash Flow (FCF)	94.4	121.3	125.7
Key Ratios			
EBITDA margin (%)	61.96	62.11	61.47
Net margin (%)	106.78	86.28	104.87
Gross debt to EBITDA (x)	7.09	6.77	8.61
Net debt to EBITDA (x)	6.97	6.58	8.51
Gross Debt to Equity (x)	0.43	0.42	0.42
Net Debt to Equity (x)	0.42	0.41	0.42
Gross debt/total asset (x)	0.29	0.29	0.29
Net debt/total asset (x)	0.28	0.28	0.28
Cash/current borrowings (x)	0.09	0.10	0.04
EBITDA/Total Interest (x)	6.38	5.99	4.90

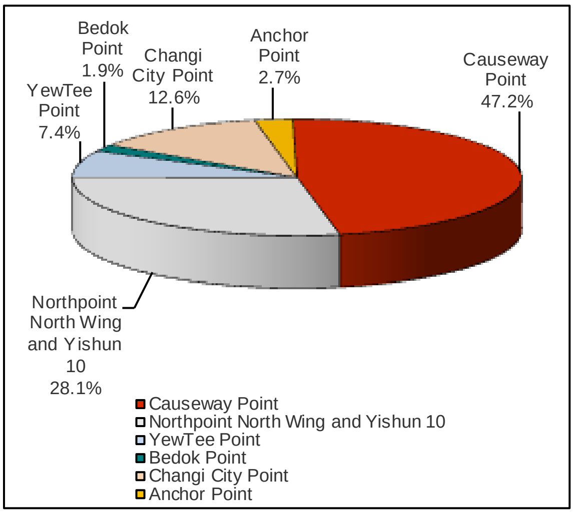
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - FY2019



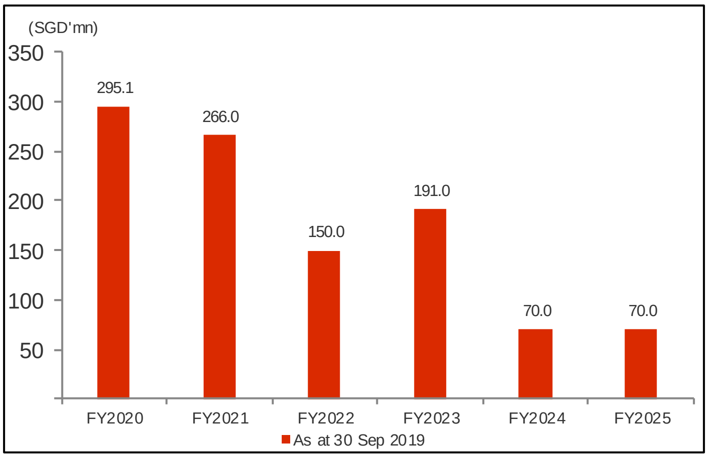
Source: Company

Figure 2: NPI breakdown by Property - FY2019



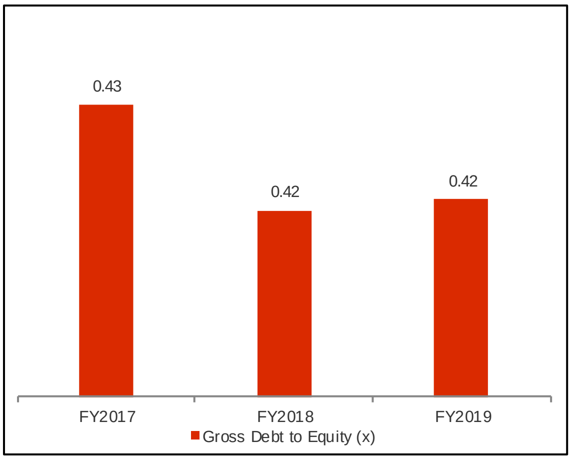
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:

Neutral (3)

Ticker:

FHREIT

Outlook:

We are broadly neutral the FHREIT curve though continue to like the FHREIT 4.45%-PERP paying a YTC of 3.5%. The senior paper FHREIT 2.63% '22s has tightened to only 2.5% yield and we are no longer overweight this bond.

Background:

Frasers Hospitality Trust ("FHT") is a stapled group comprising a REIT and Business Trust. FHT invests in hospitality assets globally (except Thailand) and currently owns 15 properties across 9 cities with 3,913 keys. As at 30 September 2019, total assets stood at SGD2.4bn. It is sponsored by Frasers Property Limited ("FPL"), a major Singapore-based property developer.

Frasers Hospitality Trust

Key Considerations

- **Results weighed down by Australia:** Gross revenue for the fourth quarter ended September 2019 ("4QFY2019") was up 2.1% y/y to SGD39.5mn, driven by higher top line across all key markets, except Australia which saw revenue down 7.6% y/y. FHREIT's net property income ("NPI") was up 2.3% y/y to SGD30.0mn in 4QFY2019. Australia Revenue per Available Room ("RevPAR") for 4QFY2019 was down by 3.0%, dragged by lower average daily rates ("ADR") and occupancy (though still respectable at 86.2% and above market). Increase in room supply across both Sydney and Melbourne weighed down on results, while a weaker macro environment did not help given that the Australian properties are dependent on domestic demand. Singapore, FHREIT's second largest contributor by NPI saw NPI increased by 11% y/y driven by both improvements in ADR and occupancies which had hit a very high rate of 92.5% in 4QFY2019 (though likely unsustainable over the medium term) driven by independent travelers on short stay. All properties in the UK performed well, with the overall UK portfolio reporting RevPAR growth of 8.5% y/y in GBP-terms, though partly offset by higher staff costs. Australia, Singapore and UK collectively contributed 76% of total NPI for 4QFY2019.

- **Highly manageable interest coverage:** EBITDA (based on our calculation which does not include other income and other expenses) was SGD26.8mn (up 2.9% y/y) though finance cost declined by 2.4% y/y, driven by the lower cost of borrowing, particularly from its AUD borrowings. Resultant EBITDA/Interest coverage was healthy at 4.9x (4QFY2018: 4.6x). Assuming FHREIT pays out SGD4.5mn in perpetual distribution per year (SGD1.1mn per quarter) and taking 50% of that as interest, we find adjusted EBITDA/(Interest plus 50% perpetual distribution) at 4.4x in 4QFY2019, still manageable. FHREIT was not materially affected by the SFRS(1) 16 Leases accounting change.

- **Manageable adjusted aggregate leverage:** As at 30 September 2019, reported aggregate leverage was 35.1%, at similar levels to the previous quarter. FHREIT has SGD100mn of outstanding perpetual, adjusting 50% of perpetual as debt; we find adjusted aggregate leverage at 37.0%, still manageable. 96.2% of FHREIT debt remains unsecured debt as at 30 September 2019, with only the Westin KL property (valued at ~SGD138.2mn) encumbered under asset based securities issued in the ringgit bond market and refinanced in July 2019. We estimate that ~SGD2.2bn of hotel-related property, plant and equipment and investment properties remains unencumbered and can be used to raise secured debt, if need be.

- **Very minimal refinancing risk:** As at 30 September 2019, refinancing risk at FHREIT was very minimal with only SGD25.0mn from a revolving facility coming due (representing 3% of gross debt). FHREIT's cash balance of SGD85.0mn more than covers the short term debt due. In July 2019, FHREIT had refinanced SGD325mn of bank loans via a new facility, the ringgit asset based securities and JPY2.35bn (~SGD29.6mn) in Tokutei Mokuteki Kaisha bonds. The next major debt repayment of SGD150.1mn only occurs in FY2022, after the first call date on the FHREIT 4.45%-PERP in May 2021.

- **No near term plans to reduce concentration to Australia:** In July 2019, FHREIT announced that it was discussing options over Sofitel Sydney Wentworth ("SSW") (valued at AUD280mn as at 30 September 2019 (30 September 2018: AUD307.9mn)) with various parties after months of media reports over a possible sale. While not in our base case, we viewed an eventual sale of SSW as a credit positive given the concentration to Australia (30% of portfolio valuation). However, we understand that there is no financial urgency by FHREIT's new management team to sell SSW. In 4QFY2019, FHREIT took a large fair value loss of SGD15.6mn on its investment properties, with the main drag coming from Australia (down 5% y/y at a time where benchmark rates used in discount rates would have declined) though fair value gains elsewhere helped. A further deterioration in its portfolio operating performance, namely Australia could lead us to lower our issuer profile on the company.

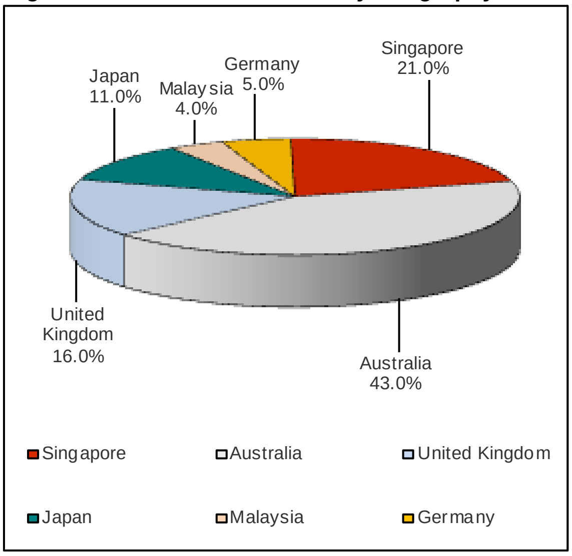
Frasers Hospitality Trust

Table 1: Summary Financials

Year Ended 30th Sep	FY2017	FY2018	FY2019
Income Statement (SGD'mn)			
Revenue	158.7	155.9	149.8
EBITDA	107.8	104.1	99.2
EBIT	102.0	99.8	95.3
Gross interest expense	19.1	20.6	20.5
Profit Before Tax	185.5	72.4	55.7
Net profit	156.6	66.5	51.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	79.8	77.1	85.0
Total assets	2,533.9	2,494.7	2,446.5
Short term debt	134.8	408.1	25.0
Gross debt	810.9	835.0	854.2
Net debt	731.2	757.9	769.2
Shareholders' equity	1,606.2	1,552.5	1,483.7
Cash Flow (SGD'mn)			
CFO	113.0	112.3	107.7
Capex	13.1	26.9	12.2
Acquisitions	234.1	0.0	0.0
Disposals	0.0	0.0	0.0
Dividends	94.1	96.5	90.9
Interest paid	17.8	20.7	20.0
Free Cash Flow (FCF)	99.8	85.4	95.5
Key Ratios			
EBITDA margin (%)	67.89	66.77	66.19
Net margin (%)	98.65	42.67	34.55
Gross debt to EBITDA (x)	7.53	8.02	8.62
Net debt to EBITDA (x)	6.79	7.28	7.76
Gross Debt to Equity (x)	0.50	0.54	0.58
Net Debt to Equity (x)	0.46	0.49	0.52
Gross debt/total asset (x)	0.32	0.33	0.35
Net debt/total asset (x)	0.29	0.30	0.31
Cash/current borrowings (x)	0.59	0.19	3.40
EBITDA/Total Interest (x)	5.65	5.05	4.84

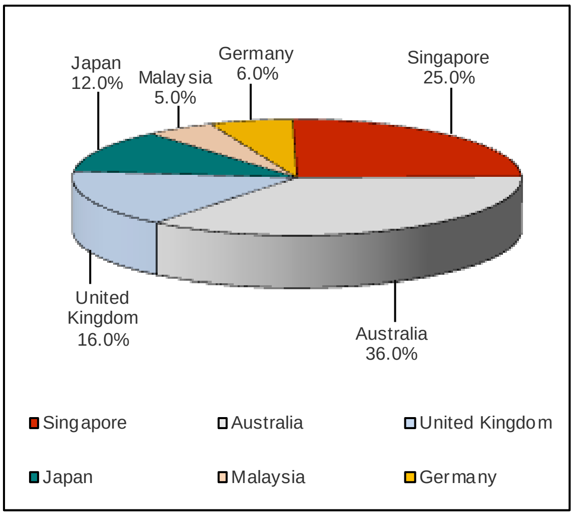
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - FY2019



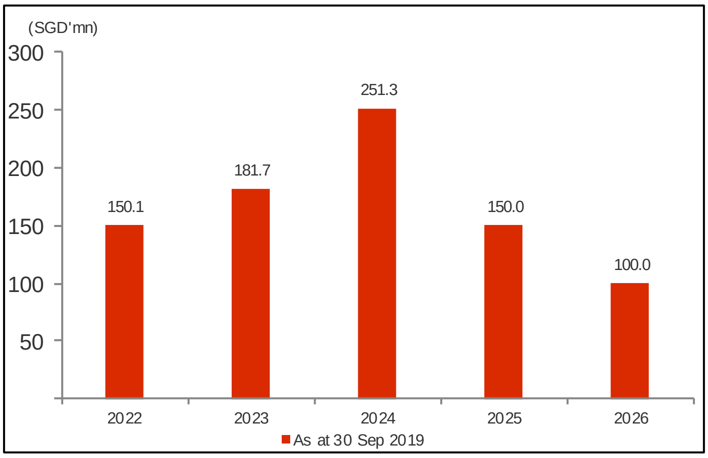
Source: Company

Figure 2: NPI breakdown by Geography - FY2019



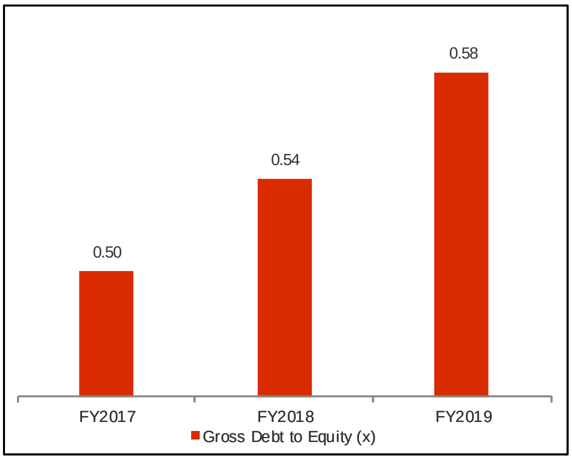
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:
Neutral (4)

Ticker:
FPLSP

Outlook:
We like the long dated FPLSP seniors (FPLSP '27s and FPLSP '26s) as they still provide a decent yield. FPL's credit profile is stable, anchored by recurring income from diversified sources.

Background:
Frasers Property Ltd ("FPL") is a leading Singapore developer by total assets (SGD37.6bn as of end-Sep 2019). Core markets are Singapore and Australia, with secondary markets such as China and Thailand. Entities related to the Sirivadhanabhakdi family (of Thailand's TCC Group) control ~87% of FPL's stock. Sponsored REITs include Frasers Centrepoint Trust ("FCT"), Frasers Hospitality Trust ("FHT"), an office REIT and an industrial REIT

Frasers Property Ltd

Key Considerations

- **Lacklustre results due to decline in contribution from residential development:** FY2019 revenue for the year ended 30 Sep fell 12% y/y to SGD3.79bn mainly due to the decline in contribution from residential development, especially from the Singapore SBU (residential revenue fell by SGD766mn y/y to SGD122mn) due to absence of contribution from fully sold Parc Life EC and North Park Residences in FY2018. In addition, Australia SBU revenue fell by 5% y/y to SGD1.51bn with fewer settlements at Tailor's Walk in New South Wales. As a result, EBITDA fell by 8.5% y/y to SGD1.06bn.

- **No longer much of a developer; scaling down the development pipeline though some earnings visibility remains:** Pre-sold revenue amounts to SGD1.6bn, with the bulk from Australia (SGD1.0bn). We note the pre-sold amount has reduced significantly y/y (FY2018: SGD2.2bn, FY2017: SGD3.4bn). That said, we estimate that the gross development value of the pipeline in Australia is still substantial at SGD7.9bn, which FPL may look to monetize when the Australian property market recovers. Elsewhere, we note that FPL has acquired land in the prime Xuhui district in Shanghai (first acquisition in over a decade). That said, we think FPL may not aggressively expand its development pipeline (for now).

- **Increased focus on diversified recurring income:** Reported recurring PBIT in FY2019 represents 75% of SGD1.19bn reported PBIT (FY2018: 59%). This is mainly contributed by properties in Singapore (SGD483mn), Australia (SGD218.4mn) and Hospitality (SGD141.6mn). FPL is no longer heavily focused on development, with the development portfolio representing just SGD5.5bn or 17% of total assets in FY2019 (compared to 23% in FY2016). Aside from development, assets as of FY2019 comprise retail (SGD8.1bn), industrial/logistics (SGD6.7bn), business parks/offices (SGD6.6bn) and hospitality (SGD4.8bn). We like that PBIT generated from investment properties can cover finance expense in FY2019 by ~2x.

- **REITs are very significant contributors:** FPL's stakes in the listed REITs are worth SGD2.37bn by market cap. As FPL is also the manager of the REITs, FPL also received ~SGD60mn management fees in FY2019. REITs are crucial for FPL to recycle its capital. For example, in FY2019, (1) industrial assets were divested to FPL's industrial REITs for SGD520.8mn (2) 33.3%-stake in Waterway Point were divested to FCT for SGD240.5mn and (3) 50%-stake in Farnborough business park was divested to the office REIT for SGD157.7mn. When FPL's industrial and office REITs merge, this is credit positive to FPL as the ROFR assets of SGD5.0bn can be more easily injected into the enlarged REIT (which should have improved liquidity). In general, FPL's REITs provide stable recurring dividends to FPL, which we estimate should upstream ~SGD130mn in dividends p.a.

- **Scaling via inorganic growth:** Together with FCT, FPL acquired ~88% of PGIM Real Estate AsiaRetail Fund Ltd ("PGIM") for SGD1.4bn in FY2019. PGIM owns several heartland malls (including Tiong Bahru Plaza, Hougang Mall, Century Square, Tampines 1, White Sands). As FPL has likely gained effective control of PGIM given that financials of PGIM are consolidated as of FY2019, we think FPL may undertake asset enhancement / redevelopment of PGIM's assets. Separately, FPL has successfully acquired 94.5%-stake in Golden Land (Thailand developer) for SGD840mn.

- **Comfortable with credit profile despite somewhat high gearing:** Net gearing looks somewhat high at 86%. Adjusting perps as 50% debt, we calculate adjusted net gearing at 98%. That said, we remain comfortable as REITs and investment properties anchor FPL's credit profile, with EBITDA/Interest at 2.4x though weakened y/y (FY2018: 3.4x). Debt maturity is also well termed out. However, should FPL undertake acquisitions/capex that stretch its credit metrics significantly further, we may look to downgrade FPL's Issuer Profile.

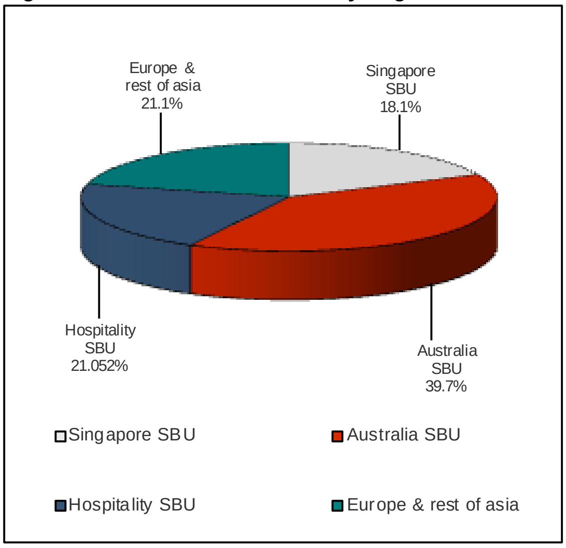
Frasers Property Ltd

Table 1: Summary Financials

Year Ended 30th Sep	FY2017	FY2018	FY2019
Income Statement (SGD'mn)			
Revenue	4,026.6	4,311.6	3,791.9
EBITDA	953.5	1,100.8	1,060.2
EBIT	894.9	1,042.0	999.1
Gross interest expense	186.5	395.5	520.6
Profit Before Tax	1,248.0	1,476.9	1,353.1
Net profit	1,032.3	1,195.3	1,067.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	2,409.5	2,585.2	3,580.0
Total assets	27,009.4	32,420.9	37,632.9
Short term debt	1,571.7	2,642.9	3,490.6
Gross debt	11,627.8	14,926.2	17,395.9
Net debt	9,218.4	12,341.0	13,815.9
Shareholders' equity	13,049.2	14,628.1	16,090.5
Cash Flow (SGD'mn)			
CFO	944.6	492.6	1,371.5
Capex	52.4	83.7	35.2
Acquisitions	2,185.3	2,441.3	2,466.2
Disposals	2.4	477.3	764.8
Dividend	612.6	603.3	658.8
Interest paid	-150.3	-309.2	-425.5
Free Cash Flow (FCF)	892.2	408.8	1,336.2
Key Ratios			
EBITDA margin (%)	23.68	25.53	27.96
Net margin (%)	25.64	27.72	28.14
Gross debt to EBITDA (x)	12.20	13.56	16.41
Net debt to EBITDA (x)	9.67	11.21	13.03
Gross Debt to Equity (x)	0.89	1.02	1.08
Net Debt to Equity (x)	0.71	0.84	0.86
Gross debt/total assets (x)	0.43	0.46	0.46
Net debt/total assets (x)	0.34	0.38	0.37
Cash/current borrowings (x)	1.53	0.98	1.03
EBITDA/Total Interest (x)	5.11	2.78	2.04

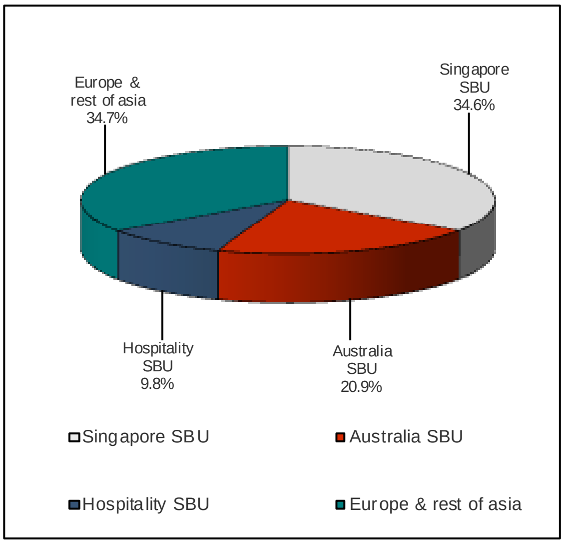
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2019



Source: Company

Figure 2: EBIT breakdown by Segment - FY2019



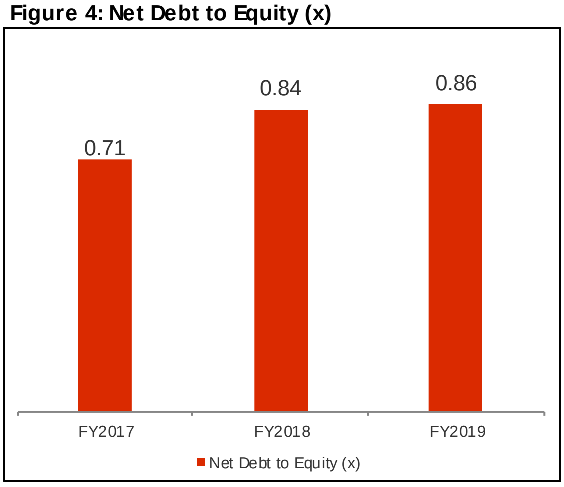
Source: Company | Excludes Corporate & Others

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	648.6	3.7%
Unsecured	2,842.0	16.3%
	3,490.6	**20.1%**
Amount repayable after a year		
Secured	3,734.7	21.5%
Unsecured	10,170.6	58.5%
	13,905.3	**79.9%**
Total	**17,395.9**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:
Neutral (5)

Ticker:
GGRSP

Outlook:
For investors comfortable with true high yield, we think the GGRSP 4.75% '21s trading at a yield of ~9% with a one year maturity looks interesting.

Background:
Golden Agri-Resources Ltd ("GGR") is a major palm oil company, managing 499,235 ha of palm oil plantations in Indonesia. The company's integrated operations include palm oil cultivation, crude palm oil ("CPO") and palm kernel processing and downstream refining to produce consumer products such as cooking oil, margarine and shortening. The company is ~50.4%-owned by the Widjaja family and is listed on the SGX with a market cap of SGD2.7bn as at 23 December 2019. While palm oil as a sector continues to face sustainability challenges (e.g.: Europe biofuel ban), it is a high yielding oilseed that is unlikely to lose its usage in the long term. GGR is part of the FTSE4Good index (inclusion since 2018) though has dropped out of the STI Index in December 2019.

Golden Agri-Resources Ltd

Key Considerations

- **Palm, Laurics and Others: Growth in reported EBITDA:** 3Q2019 revenue fell by 15.0% y/y to USD1.6bn, mainly due to the decline in both of GGR's core segments with Plantations and palm oil mills down 14.5% y/y and Palm, Laurics and others down 15.0% y/y. Reported EBITDA was down 19% y/y to USD107mn. However, we take comfort that on a q/q basis, revenue and reported EBITDA had grown 0.9% and 38.4% respectively. For 9M2019, CPO Free on Board ("FOB") prices were 18% y/y lower at USD494/MT while palm product output was down by 5% y/y. In 3Q2019 though, CPO FOB price had increased 2% q/q while palm product output had increased 25% q/q (due to seasonable increase in production), helping to pull up q/q results. GGR projects that full year 2019 output would be 3.0% down y/y, implying that they expect 4Q2019 output to be strong at around 830,000 MT. Reported EBITDA/Interest improved to 2.5x (2Q2019: 1.9x) though lower than 3Q2018's 3.0x. Since 3Q2019, CPO price has come off five year lows, which should keep credit ratios supportive for 4Q2019. OCBC Treasury Research & Strategy is projecting CPO prices to hit MYR3,000/MT in 1Q2020 and MYR2,775/MT for the full year 2020.

- **Palm, Laurics and Others:** In 3Q2019, GGR reported a 15.0% y/y fall in revenue for the Palm, Laurics and Others segment although segmental EBITDA grew 60% y/y to USD38mn. This was mainly driven by the higher EBITDA margin of 2.5% for 3Q2019 versus 1.3% in 3Q2018. While the specific EBITDA breakdown within the segment is undisclosed, expansion in EBITDA was attributed to biodiesel, which is a high margin business vis-a-vis refining business that comes with razor thin margins. Biodiesel is a segment which GGR is set to grow given that it has been allocated 0.78 million kiloliter of biodiesel for 2020 (projected up 41% y/y from full year 2019) in line with Indonesia moving to B30 mandate from January 2020 onwards (30% of diesel to consist of bio-content, predominantly from palm oil).

- **Unadjusted net gearing relatively stable though 2020 capex could rise somewhat:** Unadjusted net gearing (without adding lease liabilities which is not significant at GGR) was 0.68x (30 June 2019: 0.67x) as a function of higher debt taken during the quarter which went to part fund capex. For full year 2019, GGR has a capex target of USD250mn; excluding investments in financial assets and by 9M2019, USD206.7mn had been spent on property, plant and equipment and bearer plants. The remaining capex for 4Q2019 should be relatively contained. 2020 capex target has not been set though GGR would be spending ~USD50mn in the short term to expand its biodiesel capacity to cater for future increases in allocation. GGR's current capacity is only sufficient to fulfill its 2020 allocation.

- **Other competing outflows:** Beyond capex though, in 3Q2019, GGR spent another USD44.4mn on investments in financial assets (including to the technology fund and palm plantation in Liberia). In 9M2019, USD126.1mn had been spent on financial assets. We continue to view GGR's diversions into the technology fund as a competing outflow. Debtholders have to be contractually paid, which helps mitigates some of this risk, though we are increasingly cautious over such outflow as GGR faces other competing outflows including replanting into higher yielding seeds and investments to improve sustainability of palm oil products.

- **Expect company to seek refinancing:** As at 30 September 2019, GGR faces short term debt of USD1.7bn, representing 56% of total debt against unencumbered cash balances of USD127.8mn. While significant, this is within the company's historical range. We estimate that ~USD1.0bn relates to working capital which tends to get rolled forward. Excluding the working capital related debt, we think GGR still has USD0.7bn in short term debt (representing 23% of total debt). GGR is targeting to de-leverage when possible though we expect the company to seek refinancing instead in the next 12 months given the thin cash flow generation versus its potential investing outflows.

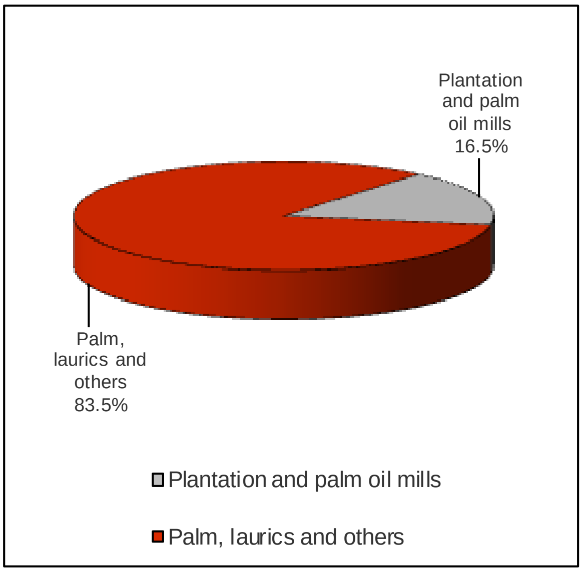
Golden Agri-Resources Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2017	FY2018	9M2019
Income Statement (USD'mn)	**USD'mn**	**USD'mn**	**USD'mn**
Revenue	7,507.6	7,167.4	4,729.6
EBITDA	584.7	432.0	263.5
EBIT	240.8	148.0	34.1
Gross interest expense	139.3	163.9	124.1
Profit Before Tax	114.1	85.6	-11.3
Net profit	79.1	1.9	-29.3
Balance Sheet (USD'mn)			
Cash and bank deposits	159.2	192.8	142.9
Total assets	8,137.8	8,545.6	8,496.7
Short term debt	1,741.8	1,500.9	1,750.9
Gross debt	2,992.1	3,010.1	3,128.7
Net debt	2,833.0	2,817.3	2,985.8
Shareholders' equity	4,108.6	4,310.1	4,250.8
Cash Flow (USD'mn)			
CFO	638.1	403.3	409.3
Capex	209.3	264.4	207.8
Acquisitions	118.2	6.1	126.1
Disposals	28.8	77.1	12.6
Dividend	122.5	11.5	65.7
Free Cash Flow (FCF)	428.8	138.9	201.5
Key Ratios			
EBITDA margin (%)	7.79	6.03	5.57
Net margin (%)	1.05	0.03	-0.62
Gross debt to EBITDA (x)	5.12	6.97	8.91
Net debt to EBITDA (x)	4.84	6.52	8.50
Gross Debt to Equity (x)	0.73	0.70	0.74
Net Debt to Equity (x)	0.69	0.65	0.70
Gross debt/total assets (x)	0.37	0.35	0.37
Net debt/total assets (x)	0.35	0.33	0.35
Cash/current borrowings (x)	0.09	0.13	0.08
EBITDA/Total Interest (x)	4.20	2.64	2.12

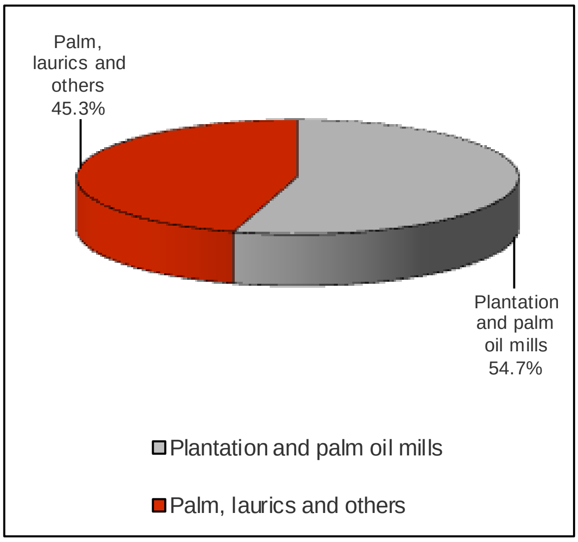
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2019



Source: Company | Excludes Inter-segment Eliminations

Figure 2: EBITDA breakdown by Segment - 9M2019



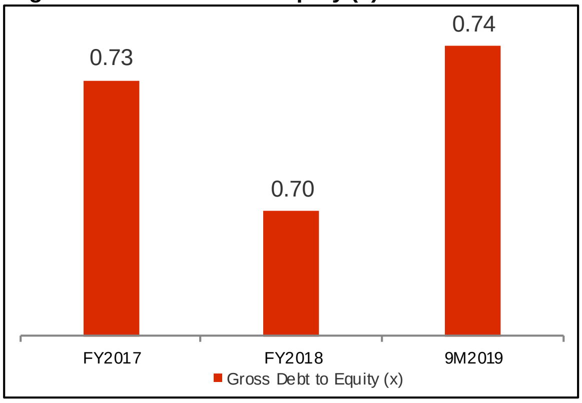
Source: Company | Excludes Inter-segment Eliminations

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	996.4	31.8%
Unsecured	754.5	24.1%
	1,750.9	**56.0%**
Amount repayable after a year		
Secured	1,034.3	33.1%
Unsecured	343.6	11.0%
	1,377.8	**44.0%**
Total	**3,128.7**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Gross Debt to Equity (x)



Source: Company

Issuer Profile:

Neutral (5)

Ticker:

GUOLSP

Outlook:

We expect earnings to remain supported in the medium term from the strong property sales. We like GUOLSP '22s and GUOLSP '23s which provide a still decent yield.

Background:

Listed on the SGX in 1978 with a market cap of SGD2.4bn, GuocoLand Ltd ("GUOL") is a property developer headquartered in Singapore, with investments in residential properties, commercial properties and integrated developments. GUOL's properties are located primarily in Singapore (e.g. Guoco Tower, Guoco Midtown) though there is also exposure to China, Malaysia and Vietnam. GUOL is a 69.2%-owned subsidiary of Guoco Group Ltd, which is listed on the HKSE. Guoco Group is in turn a member of the Hong Leong Group Malaysia, one of the largest conglomerates in South East Asia, which is controlled by the Quek family.

GuocoLand Ltd

Key Considerations

- **Decent 1QFY2020 results:** 1QFY2020 revenue rose by 62% y/y to SGD272.5mn due to progressive recognition of sales from Martin Modern. Over the quarter ended 30 Sep 2019, new sales include 27 units worth SGD67.7mn at Martin Modern, 5 units worth SGD35.3mn at Wallich Residence and 30 units worth SGD95.8mn at Meyer Mansion. As a result, EBITDA rose by 104.8% y/y to SGD72.6mn. Meanwhile, PBT grew by 62% y/y to SGD54.1mn. The growth is lower than EBITDA due to (1) 39% y/y fall in other income to SGD7.2mn as a result of net foreign exchange loss of SGD0.5mn (1QFY2019: gain of SGD6.1mn) and (2) fall in share of profit of associate and joint ventures by 55% y/y to SGD6.0mn due to lower share of profit from the Shanghai joint venture and costs incurred for a Singapore joint venture (which includes Pacific Mansion, which has not booked any sales yet as it is not launched).

- **Anchored by investment properties:** GUOL reported 100% occupancy for 80%-owned Guoco Tower (890k sq. ft. office space and 100k sq. ft. retail space) and 100%-owned 20 Collyer Quay (estimated area: 142k sq. ft.) as of 30 Jun 2019. As of FY2019, revenue from investment properties (e.g. rental income) rose by 1.8% y/y to SGD117.0mn, which should be mostly attributable to Guoco Tower. While ~20% of leases at Guoco Tower should be for renewal p.a. from FY2020, we think rental reversion could be in the double digit region as Grade A office market has rallied over 20% since 2016-2017 (Guoco Tower was completed in 2016). Going forward, the recurring income should be boosted when Guoco Midtown comes to completion in 2022 (office & retail portion: ~800k sq. ft.).

- **Significant Singapore property pipeline:** According to GUOL, more than 45% of 181-units at Wallich Residences have been sold while 450-units Martin Modern is over 75%-sold. We expect GUOL to continue to move the remainder given the momentum of sales while we observe that pricing has been maintained (GUOL does not need to cut price to move units). With the recovering Singapore residential property market, we think this should also support sales at the 100%-owned 200-unit Meyer Mansion which is over 10%-sold (landsite acquired for SGD320mn) and 70%-owned 219-unit Midtown Bay which is over 20%-sold (landsite for whole Guoco Midtown site including office: SGD1.62bn). Projects yet to be launched include 40%-owned Pacific Mansion (acquired in Mar 2018 for SGD980mn) and 60%-owned site at Tan Quee Lan Street (acquired in Sep 2019 for SGD800.2mn). We think it will be crucial for GUOL to monetize these developments given the sizeable exposure. According to GUOL, there has been an increase in enquiries following geopolitical events in HKSAR.

- **Ongoing projects abroad:** Outside Singapore, GUOL has two large scale development projects in China (Shanghai, Chongqing) and several smaller scale projects in Malaysia. Collectively, China and Malaysia account for 22% of total assets (FY2018: 26.7%) and 3.7% of PBT (FY2018: 32.9%) as of FY2019.

- **Dabbling into co-working and a REIT listing?:** GUOL management was interviewed by Business Times on 15 Jul 2019. GUOL is studying co-working / flexible spaces, and we note that this is already implemented at parts of 20 Collyer Quay. GUOL is also looking at the potential to do a REIT listing though we think this may not materialize in the near term; GUOL may prefer to complete the upcoming leasing cycle which should see significant positive rental reversion given the buoyant Grade A office market.

- **Gearing looks somewhat high though still manageable in our view:** Net gearing rose q/q to 81% (4QFY2019: 79%) due to (1) SGD71.5mn deposits for land due to progressive payment for acquisition of Tan Quee Lan Street Site, (2) SGD115.7mn for inventories which is likely due to ongoing construction of properties in Singapore. Credit metrics look somewhat weak though manageable with EBITDA/Interest at 2.9x in 1QFY2020.

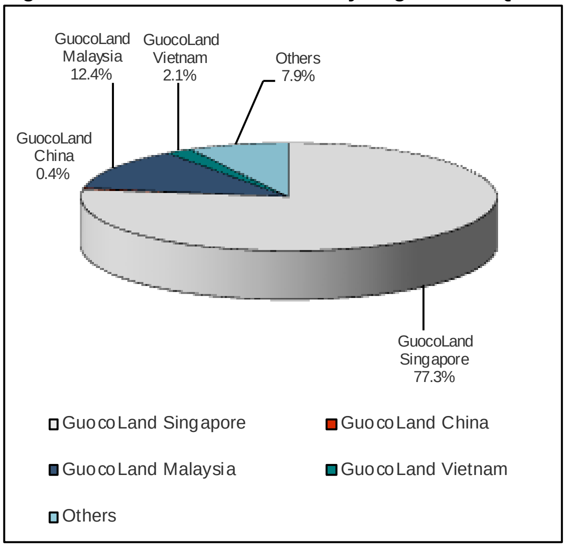
GuocoLand Ltd

Table 1: Summary Financials

Year Ended 30th Jun	FY2018	FY2019	1Q2020
Income Statement (SGD'mn)			
Revenue	1,160.2	927.0	272.5
EBITDA	205.5	219.4	72.6
EBIT	189.5	202.6	68.2
Gross interest expense	169.3	180.8	25.1
Profit Before Tax	447.0	309.0	54.1
Net profit	392.7	287.6	43.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	884.9	823.7	802.1
Total assets	10,499.2	10,031.4	10,170.1
Short term debt	1,632.0	285.4	299.9
Gross debt	4,923.8	4,489.8	4,564.8
Net debt	4,038.9	3,666.1	3,762.8
Shareholders' equity	4,641.5	4,642.5	4,666.0
Cash Flow (SGD'mn)			
CFO	231.0	321.5	-97.0
Capex	1,453.8	50.0	7.6
Acquisitions	1.6	0.0	0.0
Disposals	0.9	0.0	0.0
Dividend	79.2	98.0	9.1
Interest paid	-151.0	-156.1	-38.7
Free Cash Flow (FCF)	-1,222.8	271.5	-104.6
Key Ratios			
EBITDA margin (%)	17.72	23.67	26.63
Net margin (%)	33.85	31.03	15.80
Gross debt to EBITDA (x)	23.96	20.47	15.73
Net debt to EBITDA (x)	19.65	16.71	12.96
Gross Debt to Equity (x)	1.06	0.97	0.98
Net Debt to Equity (x)	0.87	0.79	0.81
Gross debt/total assets (x)	0.47	0.45	0.45
Net debt/total assets (x)	0.38	0.37	0.37
Cash/current borrowings (x)	0.54	2.89	2.67
EBITDA/Total Interest (x)	1.21	1.21	2.90

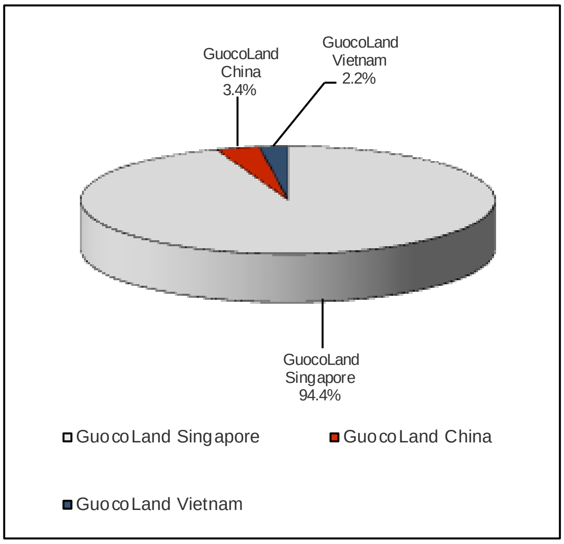
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1Q2020



Source: Company | Excludes Others

Figure 2: PBT breakdown by Segment - 1Q2020



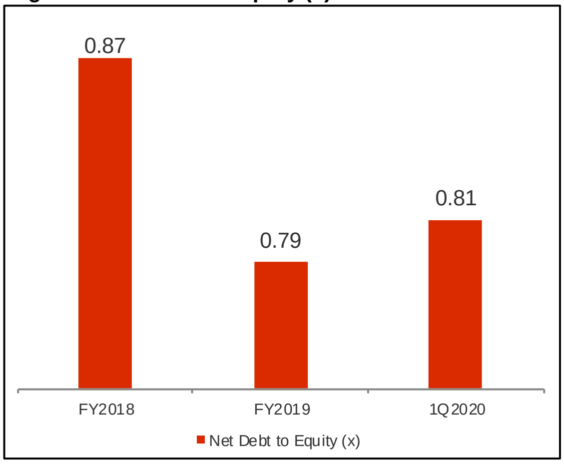
Source: Company | Excludes GuocoLand Malaysia and Others

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	13.2	0.3%
Unsecured	286.6	6.3%
	299.9	**6.6%**
Amount repayable after a year		
Secured	3,387.1	74.2%
Unsecured	877.9	19.2%
	4,265.0	**93.4%**
Total	**4,564.8**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:
Neutral (5)

Ticker:
HTONSP

Outlook:
HTONSP '20s and '21s look attractive. Despite weaker credit metrics, we think HTON has sufficient liquidity and asset coverage.

Background:
Heeton Holdings Ltd ("HHL") is a property company with assets and revenue predominantly in Singapore and UK. HHL focuses on property development, property investments and hospitality. HHL owns or holds stakes in 12 hospitality assets. The Toh family owns about 69% interest in HHL, which are represented by Heeton Investments Pte Ltd (27.76%), Hong Heng Co Pte Ltd (16.81%), Toh Giap Eng (12.18%), Toh Khai Cheng (6.79%) and Toh Gap Seng (5.83%).

Heeton Holdings Ltd

Key Considerations

- **Results (without one-offs) increasingly contributed by hospitality:** 9M2019 revenue rose 33.3% y/y to SGD49.6mn, mainly due to increased contribution from hotel operation income (+SGD18.1mn y/y) as several hotels have been acquired, including Indigo Hotel in Scotland (Oct 2018), Smile Hotel Asakusa in Japan (Aug 2018), Stewart Aparthotel in Scotland (Oct 2018) and Crowne Plaza London Kensington in UK (Apr 2019). We do not compare EBITDA on a y/y basis due to SFRS(I) 16 accounting change. Due to stronger revenue, 9M2019 pre-tax profit before fair value changes and gain on disposal ("Adjusted Pre-tax Profit") increased 29.5% y/y to SGD6.6mn, even though contribution from associated companies/joint ventures companies declined 31.3% y/y to SGD5.6mn as certain residential projects (High Park Residences, Westwood Residences) have already been substantially sold.

- **Anchored by investment properties and hospitality assets:** The stronger profitability based on Adjusted Pre-tax Profit is most likely due to increased contribution from the hospitality segment. HHL has 12 hospitality assets in operations and another 4 to be constructed. Noting that reported profit before depreciation for hospitality was SGD2.5mn in 2018, we think the contribution from this segment going forward will increase given the recently acquired hotels – we note that fixed assets (which consolidated hotels are classified under) has grown from SGD216.9mn as of 31 Dec 2018 to SGD381.0mn as of 30 Sep 2019. Aside from hospitality assets, HHL owns several investment properties. The more notable ones in Singapore include 100%-stake in Tampines Mart (valuation: SGD120mn), 50%-stake in Sun Plaza (valuation: SGD180mn after adjusting for stake), 100%-stake in 62 Sembawang Drive (SGD10.5mn). In the UK, HHL owns a 100%-stake in Adam House (SGD31.1mn). In total, we estimate that the investment properties and hospitality assets are worth SGD648.9mn.

- **Change in CEO – a boon or a bane?:** Under Mr. Teng, the previous CEO, HHL expanded significantly in the hospitality space from 3 hotels (prior to Jan 2016 when Mr. Teng took over as CEO) to 12 hotels in operations (with another 4 hotels to be constructed). This significantly expanded the fixed assets on the balance sheet to SGD381.0mn as of 3Q2019 (4Q2015: SGD105.2mn). Depending on the direction of the new CEO (Mr. Toh Giap Eng is currently the interim CEO), HHL has meanwhile tone down on hotel acquisitions, with no new hotels acquired since Apr 2019. Under Mr. Teng, HHL's balance sheet was not worsened though, as exposure to Singapore's residential market has reduced with development properties on the balance sheet falling to a mere SGD33.1mn as of 3Q2019 (4Q2015: SGD198.8mn). HHL no longer undertakes significant development projects alone but rather enter into joint venture with other developers to share the risk. This shift in the nature of business profile has been somewhat credit positive as hospitality assets provide recurring income for HHL and we note that development projects are riskier (for e.g., HHL booked SGD29.1mn in provision for property development in 2015).

- **Good property sales achieved:** HHL owns a 20%-stake in Park Colonial. Despite launching only in Jul 2018, this project has sold ~700 units out of 805 units worth SGD953.5mn, according to URA caveat. HHL also owns a 5%-stake in Affinity at Serangoon, which sold 626 units out of 1052 units worth SGD677.5mn since launch.

- **Somewhat weak credit metrics though this may improve:** Net gearing (without lease liabilities) rose q/q to 87.3% (2Q2019: 83.5%) due to SGD10.4mn operating cash outflows from working capital of SGD9.9mn. While profit from operations of SGD11.4mn does not cover SGD15.4mn in finance expense in 9M2019, this is offset by SGD5.0mn in finance income (which should be due to fixed deposits). We are not overly worried as we expect finance expense to reduce when SGD75mn HTONSP 6.1% '20s are redeemed. We remain comfortable as HHL holds SGD107.7mn in cash and fixed deposits.

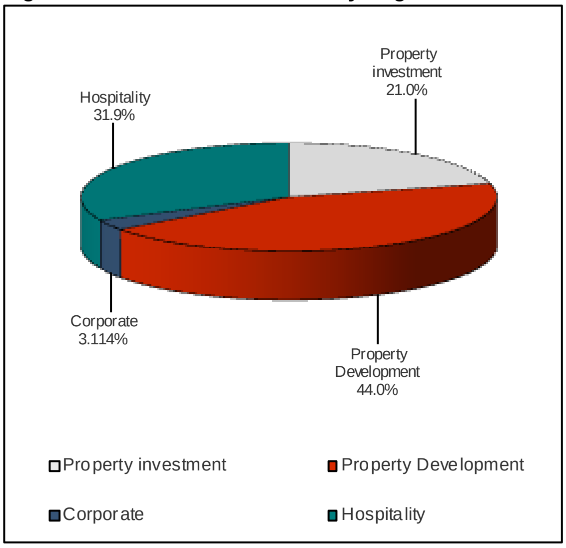
Heeton Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	57.1	55.1	49.6
EBITDA	0.8	3.4	12.4
EBIT	-0.8	1.1	9.2
Gross interest expense	13.6	18.6	15.4
Profit Before Tax	77.0	19.2	11.6
Net profit	75.4	16.2	9.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	22.9	52.9	107.7
Total assets	819.6	855.6	1,032.8
Short term debt	94.0	104.1	113.1
Gross debt	291.8	324.1	489.7
Net debt	269.0	271.2	382.1
Shareholders' equity	412.1	420.9	431.0
Cash Flow (SGD'mn)			
CFO	48.8	25.4	16.1
Capex	14.2	104.8	163.9
Acquisitions	3.6	0.0	0.0
Disposals	15.0	50.3	0.0
Dividend	2.0	3.3	2.0
Interest paid	-12.6	-17.6	0.0
Free Cash Flow (FCF)	34.6	-79.4	-147.8
Key Ratios			
EBITDA margin (%)	1.32	6.19	24.96
Net margin (%)	132.04	29.42	18.51
Gross debt to EBITDA (x)	386.04	94.98	29.66
Net debt to EBITDA (x)	355.76	79.47	23.14
Gross Debt to Equity (x)	0.71	0.77	1.14
Net Debt to Equity (x)	0.65	0.64	0.89
Gross debt/total assets (x)	0.36	0.38	0.47
Net debt/total assets (x)	0.33	0.32	0.37
Cash/current borrowings (x)	0.24	0.51	0.95
EBITDA/Total Interest (x)	0.06	0.18	0.80

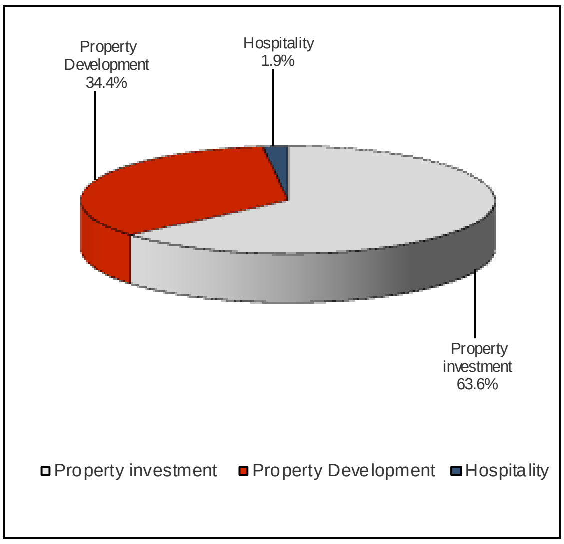
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2018



Source: Company | Excludes Others

Figure 2: PBT breakdown by Segment - FY2018



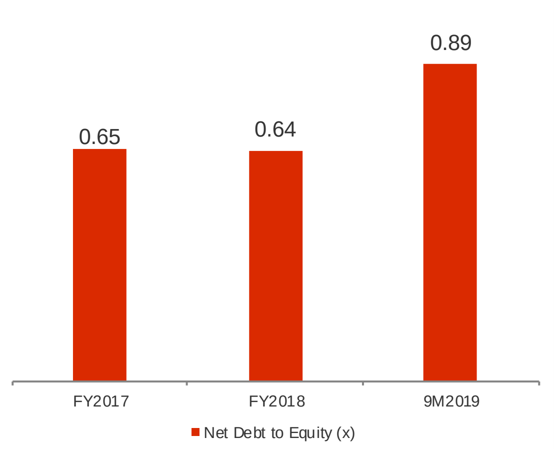
Source: Company | Excludes Corporate and Elimination

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	37.9	7.8%
Unsecured	75.0	15.5%
	112.9	**23.3%**
Amount repayable after a year		
Secured	253.4	52.4%
Unsecured	117.8	24.3%
	371.2	**76.7%**
Total	**484.1**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:
Neutral (5)

Ticker:
HFCSP

Credit Outlook:
We are overweight on HFCSP 4.2% '22s as it is offering 3.63% yield for a 1.25y tenor which we think looks interesting. Net gearing for HFC has been improving q/q and y/y and continues to be manageable.

Background:
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 75,000 sq. m by gross floor area. HFC also owns 610-room YOTEL. The Cheong family substantially controls HFC. Its top shareholders are Hong Fok Land International Ltd (20.67%), Sim Eng Cheong (13.32%), Kim Pong Cheong (11.62%) and P C Cheong Pte Ltd (11.18%).

Hong Fok Corp Ltd

Key Considerations

- **Weak top line figures:** In 3Q2019, revenue fell by 15% y/y to SGD41.4mn from SGD48.8mn over the same period a year ago. This decline was due to lower contribution from sales of its development properties even though revenue from its investment properties (including YOTEL Singapore Orchard Road) has increased. In particular, according to URA caveats, HFC moved five units at Concourse Skyline worth SGD13.1mn over the three month period. This is in stark contrast to 3Q2018 where HFC sold 14 units for SGD38.1mn. EBITDA based on our calculation slumped by 30% y/y to SGD17.0mn from SGD24.1mn in 3Q2018, partly due to higher maintenance expenses (+22.4% y/y). Overall reported net profit declined 54% y/y to SGD5.6mn from SGD12.1mn a year ago.

- **Residential property sales at HFC remain slow:** On top of the weak quarter, residential property sales seem to have slowed further. With reference to URA caveats, only one unit was sold in October for SGD3.0mn. While this slowing trend could be partly due to the broader market, we also think that Concourse Skyline itself has been for sale for years now and therefore the units left could possibly be the less attractive or ideal ones and hence it can be increasingly difficult to move units without a price discount. As such, we do not foresee a jump in units sold in the future quarters but expect the current trend where a couple of units are sold every month on average. Apart from Concourse Skyline, HFC does not have any other development properties available for sale. With no growth drivers in sight, we think performance of HFC may possibly remain muted or even weaken further.

- **Generated positive cash flow:** Despite the weak quarter, HFC still managed to record net cash from operations amounting to SGD27.3mn, though down by 28% y/y due to lower profit before tax. Over the quarter, on the investing activities front, HFC saw a larger disposal of other investments than its purchase of other investments (mainly shares and bonds). This brought about net cash from investing activities. We think the lack of new investment into its operations would also constraint its ability to generate income in the future. That said, HFC spent most of its positive operating cash flow on repaying SGD26.0mn worth of loans and borrowings which improves its credit metric. HFC also paid SGD7.3mn of interest in 3Q2019. As such, cash balance fell from SGD51.0mn in the preceding quarter to SGD46.7mn.

- **Firm Singapore's office market to provide support for HFC:** The Concourse and International Building, both located in Singapore are commercial properties with significant office content. Given that in 3Q2018, rental index for Grade A office rose by 0.2% q/q to SGD10.81 psf/mth and continues to be firm. Grade A office vacancy rate for 3Q2019 was 3.5%, tightest across the island. Furthermore, we are expecting near term supply to continue to be tight. Although the office market is expected to see slower growth in 2020, these trends can provide support for the office component within HFC's portfolio and perhaps partially offset the weakness seen in sales of its development properties. 2019 figures are not available but in FY2018, investment properties accounted for ~50% of HFC's revenue.

- **Manageable credit metrics:** EBITDA/Interest fell from 3.4x a year ago to 2.2x due to lower EBITDA and higher interest expenses (+10.0% y/y), while net gearing improved both q/q and y/y to 29.5% (2Q2019: 30.4%. 3Q2018: 33.1%) following the repayment of borrowings. Given that HFC also has more than sufficient cash on hand to cover its short term borrowings of SGD2.2mn, we think its credit metrics remain manageable. HFC had also in the year issued HFCSP 4.2% '22s SGD100mn to partially refinance its SGD120mn HFCSP 4.75% '19s which matured in March 2019. We think HFC as financial flexibility as it has SGD3.1bn investment properties, with as much as SGD2.4bn estimated to be unencumbered.

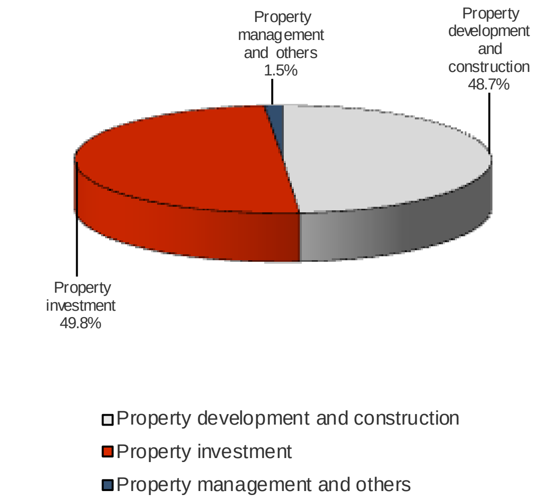
Hong Fok Corp Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	70.0	131.1	88.6
EBITDA	9.3	50.7	56.1
EBIT	8.8	49.9	54.7
Gross interest expense	25.4	28.9	23.3
Profit Before Tax	227.8	273.6	16.4
Net profit	223.3	269.0	12.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	50.6	50.2	46.8
Total assets	3,131.9	3,379.9	3,377.4
Short term debt	178.2	122.6	3.2
Gross debt	798.8	776.6	791.7
Net debt	748.1	726.4	744.8
Shareholders' equity	2,249.8	2,528.5	2,523.2
Cash Flow (SGD'mn)			
CFO	10.2	81.5	40.6
Capex	61.2	16.0	3.4
Acquisitions	1.4	41.3	23.4
Disposals	0.0	23.4	17.8
Dividend	6.9	6.9	8.9
Interest paid	-22.1	-25.8	-21.8
Free Cash Flow (FCF)	-51.0	65.5	37.1
Key Ratios			
EBITDA margin (%)	13.25	38.66	63.26
Net margin (%)	319.14	205.11	13.79
Gross debt to EBITDA (x)	86.13	15.32	10.59
Net debt to EBITDA (x)	80.67	14.33	9.97
Gross Debt to Equity (x)	0.36	0.31	0.31
Net Debt to Equity (x)	0.33	0.29	0.30
Gross debt/total assets (x)	0.26	0.23	0.23
Net debt/total assets (x)	0.24	0.21	0.22
Cash/current borrowings (x)	0.28	0.41	14.77
EBITDA/Total Interest (x)	0.37	1.75	2.41

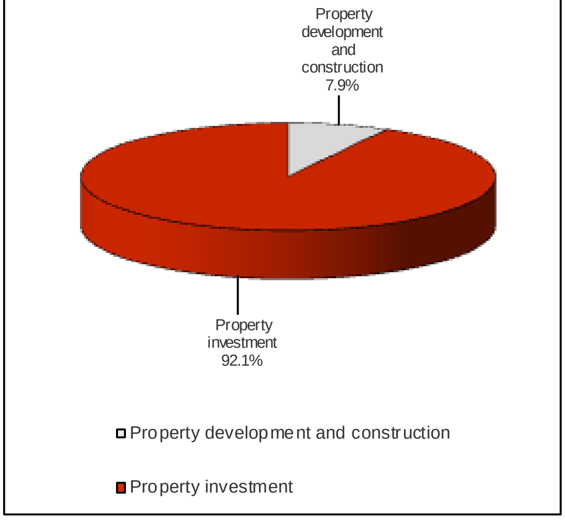
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2018



Source: Company | Excludes Other Operations

Figure 2: PBT breakdown by Segment - FY2018



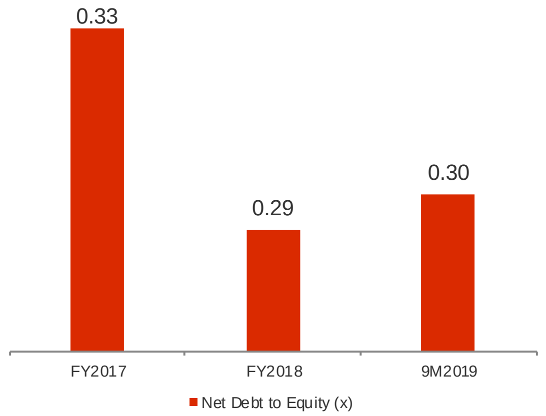
Source: Company | Excludes Property Management and Other Operations

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	2.2	0.3%
Unsecured	1.0	0.1%
	3.2	**0.4%**
Amount repayable after a year		
Secured	649.3	82.0%
Unsecured	139.2	17.6%
	788.5	**99.6%**
Total	**791.7**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:

Positive (2)

Ticker:

HKLSP

Credit Outlook:

We are neutral on both HKL's bonds. Its balance sheet remains robust. HKLSP 3.43% '20s is offering a yield of 1.85% for a 5 month maturity while HKLSP 3.45% '39s is offering 3.43% yield for ~19y tenor.

Background:

Established in 1889 and listed in London, Bermuda and Singapore, Hongkong Land Holdings Ltd ("HKL") is a leading Asian property investment, management and development group. Its main portfolio is in Hong Kong, where it owns and manages ~4.9mn sq. ft. of prime office and retail space in Central. HKL also develops premium residential properties in a number of cities in the region, principally in China and Singapore. HKL is 50.01% owned by Jardine Strategic Holdings Ltd.

Hongkong Land Holdings Ltd

Key Considerations

- **Lumpy revenue:** In 1H2019, revenue was down by 47.0% h/h to USD803.9mn from USD1.5bn, largely due to lower sales of properties from the development properties segment. Rental income though was up 5.3% h/h. Profit before tax (excluding non-trading items) was down slightly by just 0.4% h/h despite the lower revenue, due to a 72.8% h/h increase in contributions from share of results of associates and joint ventures under development properties. Although revenue fell, we are not overly concerned as HKL has significant sold but unrecognized contracted sales in Mainland China of over USD2.0bn (~+50% y/y) and over USD500mn in Singapore (~+29% y/y) at 30 Sep 2019.

- **Expecting weakness in Investment properties:** HKL's investment properties, largely office, are 52% (by net floor area) located in Hong Kong, followed by another 18.9% in Singapore and 12.0% in Jakarta, Indonesia. Hong Kong office portfolio has done well in 9M2019 with average net rent higher by 3.5% to HKD117 psf/month from end-2018, and weighted average lease expiry ("WALE") longer at 4.7 years from 4.0 years nine months ago. That said, we note that in 2020 these properties will see 20% of total space subject to expiration or rent revisions and the average expiring net rent is HKD123 psf/month. Given the ongoing disruptive activities within the country, we think it may be tricky for landlords to see a positive rental reversion. In 2021, another 28% of total space will expire with an average expiring net rent of HKD121 psf/month. Having said that, we expect the Singapore office market to be comparatively stable.

- **Development properties segment continues to grow:** Bulk of HKL's development properties (i.e. 57%) is located in Mainland China. We note that revenue recognized over 9M2019 from property sales in Mainland China had slipped by 60.1% relative to 2018, while contracted sales declined by 23.4%. As at 30 Sep 2019, HKL has USD2.0bn sold but unrecognized sales (+50.9% versus 2018) which will be recognized over time. Overall, market sentiment in Mainland China remains stable. In Singapore, contracted sales in 9M2019 were up by 9.5% from 2018, while sold but unrecognized sales higher by 28.6%. Given the pipeline of sold but unrecognized sales, we would expect development properties to deliver better revenue in the upcoming quarters. Furthermore, HKL is building a healthy pipeline and had over 9M2019 invested USD1.1bn to obtain six new development properties projects (majority in Mainland China). In Singapore, Parc Esta is 44% pre-sold, Margaret Ville is 65% pre-sold and Leedon Green (formerly Tulip Garden) is expected to be completed in 2022. We expect HKL to continue to generate good income from the development properties segment of its business.

- **Strong balance sheet:** Overall, HKL's balance sheet remains robust with net debt at 30 Sep 2019 down by USD253mn to USD3.6bn (30 June 2019: USD3.9bn). As a result, net gearing based on our estimation was ~9.4% (30 June 2019: 10.1%). That said, management expects net debt to move modestly higher by end of 2019 due to payments for land purchased in mainland China. Delving deeper into HKL's debt management, we find that as at 30 June 2019, it uses a 57%/43% mix of bank debt and bonds. Its borrowings are also across currencies with 66% in HKD, 18% in SGD, 11% in RMB and 5% in THB. We think this somewhat reduces HKL's exposure to foreign currency movement in terms of the funds needed to fund its development properties across the different countries though not entirely. In 2020, HKL will see USD306mn of its borrowings come due (~4% of total borrowings). While we do not have the EBITDA and Interest expense figures from 3Q2019, we note that in 1H2019 EBITDA/Interest was 4.6x based on our calculation, down from 6.6x a year ago, though still healthy.

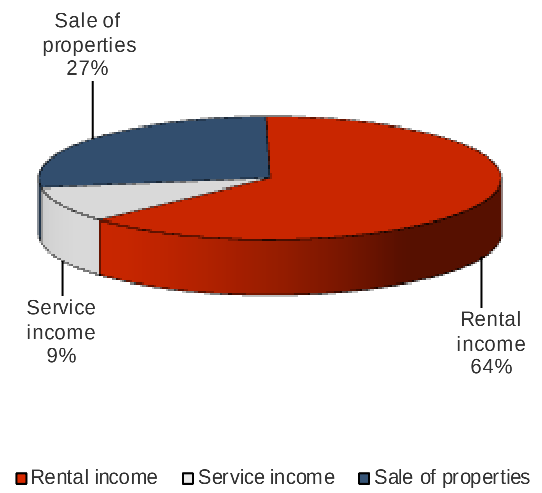
Hongkong Land Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1H2019
Income Statement (USD'mn)			
Revenue	1,959.8	2,665.4	803.9
EBITDA	893.6	1,065.9	464.8
EBIT	890.6	1,061.7	458.3
Gross interest expense	153.4	181.1	100.0
Profit Before Tax	5,755.7	2,671.2	485.9
Net profit	5,597.1	2,457.1	411.3
Balance Sheet (USD'mn)			
Cash and bank deposits	1,622.1	1,375.2	1,153.9
Total assets	42,951.5	44,963.0	45,516.7
Short term debt	190.6	793.8	705.4
Gross debt	4,170.9	4,939.0	5,034.4
Net debt	2,548.8	3,563.8	3,880.5
Shareholders' equity	36,808.4	38,369.5	38,529.0
Cash Flow (USD'mn)			
CFO	800.2	776.1	533.6
Capex	213.7	150.4	66.3
Acquisitions	713.1	978.4	328.4
Disposals	0.0	0.0	38.8
Dividends	447.2	469.1	369.2
Free Cash Flow (FCF)	586.5	625.7	467.3
Key Ratios			
EBITDA margin (%)	45.60	39.99	57.82
Net margin (%)	285.60	92.19	51.16
Gross debt to EBITDA (x)	4.67	4.63	10.83
Net debt to EBITDA (x)	2.85	3.34	8.35
Gross Debt to Equity (x)	0.11	0.13	0.13
Net Debt to Equity (x)	0.07	0.09	0.10
Gross debt/total assets (x)	0.10	0.11	0.11
Net debt/total assets (x)	0.06	0.08	0.09
Cash/current borrowings (x)	8.51	1.73	1.64
EBITDA/Total Interest (x)	5.83	5.89	4.65

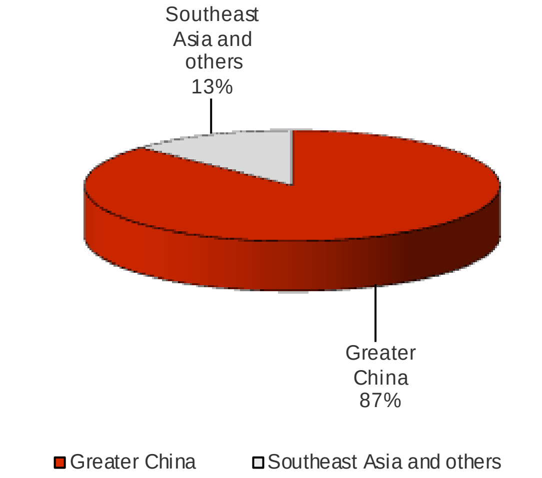
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2019



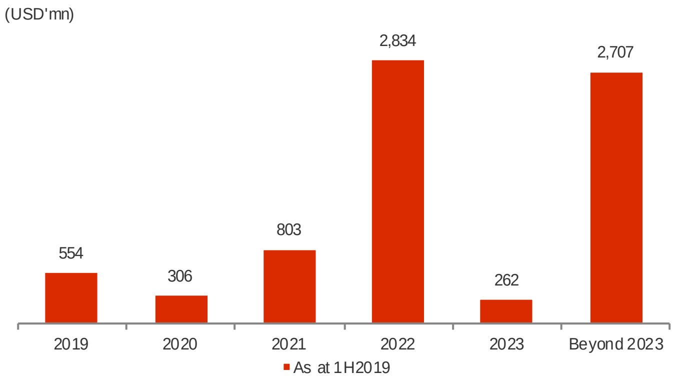
Source: Company

Figure 2: Asset breakdown by Geography - 1H2019



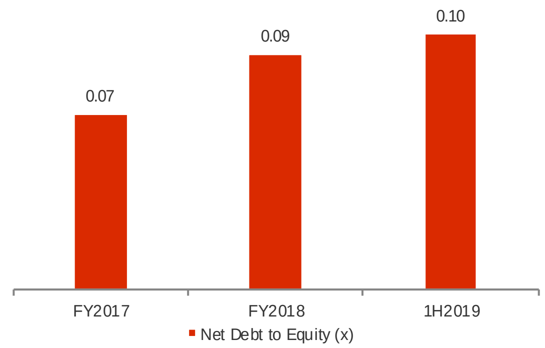
Source: Company

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:
Neutral (4)

Ticker:
HPLSP

Outlook:
We are Neutral on the HPLSP curve. Profitability has declined due to the slowdown in contribution from property development though we expect HPL's credit profile to remain supported by recurring income from its hospitality assets.

Background:
Listed on the SGX with a market cap of SGD1.8bn, the principal activities of Hotel Properties Ltd ("HPL") include hotel ownership, management and operation, property development and investment properties. As of Dec 2018, we estimate that hotels account for ~58% of HPL's total assets, with hospitality revenues split nearly evenly between (1) Singapore, (2) Maldives and (3) other parts of the world including rest of Asia and UK/Europe. Investment properties account for ~36% of HPL's total assets, which are mainly represented by retail malls in Singapore. Managing Director/co-founder Mr. Ong Beng Seng has 38.28% deemed interest in HPL while Wheelock and Co Ltd has 22.52% stake in HPL.

Hotel Properties Ltd

Key Considerations

- **Results weaker y/y with lower contribution from property division:** 9M2019 revenue declined 6.7% y/y to SGD410.8mn, mainly due to lower revenue from property division as Tomlinson Heights development in Singapore was fully sold in 2018. Meanwhile, HPL reports that the resorts in Bali have performed well though revenue from Maldives was impacted in 3Q2019 due to refurbishment of a resort at Landaa Giraavaru. Meanwhile, EBITDA fell by just 1.9% y/y to SGD104.3mn, lower than the decline in revenue. Net profit for 9M2019 though plunged 86% y/y to SGD16.5mn due to the decline in profit from Holland Park Villas and Burlington Gate developments in London.

- **Anchored by diversified hospitality assets:** Hospitality is the most significant segment, contributing SGD506.8mn revenue (out of SGD659.2mn for HPL as a whole) and SGD64.7mn in reported EBIT before fair value changes (out of SGD103.9mn for HPL as a whole) in 2018. Hospitality revenue is reasonably diversified geographically, with each of (1) Singapore, (2) Maldives and (3) rest of the world (mainly rest of Asia) contributing nearly equally in terms of revenue. Contribution from hospitality segment is expected to grow as HPL continually invests/acquire more (e.g. USD22.6mn purchase of 198-key 5-star resort Marriott Weligama Bay Resort & Spa in Sri Lanka). Property, plant and equipment rose to SGD1.63bn as of 30 Sep 2019 from SGD1.45bn as of 31 Dec 2018.

- **Recurring income from investment properties:** HPL holds SGD705.6mn investment properties on the book as of 30 Sep, which include Forum the Shopping Mall (valuation: SGD421mn), 64 shop units at Concorde Shopping Mall (SGD171.3mn) and HPL House (SGD118mn). In 2018, HPL generated SGD26.4mn in rental income (2017: SGD26.6mn). Investment properties represent 20.5% of HPL's total assets as of 30 Sep 2019.

- **Slowdown in contribution from property development:** We estimate property sales declined to SGD45.6mn in 2018 (2017: SGD143.1mn), with 2019 likely to report even lower sales as the landbank runs largely dry. The remaining significant developments are mainly in London. The first is Paddington Square (70%-owned by HPL), to be developed into 360k sq. ft. of office and 78k sq. ft. of retail), which commenced construction worth GBP825mn (~SGD1.4bn) in Aug 2019. The next is Bankside Yards (30%-owned by HPL), to be developed into 1.4mn sq. ft. of office, residential and retail with a gross development value of GBP1.3bn (~SGD2.3bn).

- **Credit metrics weaker though still manageable:** Net gearing looks manageable at 43% though this is higher than 26% as of 31 Dec 2018 due to acquisition of hotels and changes to accounting from the adoption of SFRS(I) 16 that resulted in the recognition of long-term lease liabilities. We also note that EBITDA/Interest has fallen to 3.6x as of 9M2019 (9M2018: 5.1x). However, we remain comfortable with HPL given that the earnings are largely recurring - the fall in EBITDA is mainly due to reduction in development revenue (which is one-off).

- **Still comfortable with HPL despite higher borrowings:** While short-term borrowings have increased q/q to SGD257.1mn (2Q2019: SGD97.9mn), we believe this can be managed with the recent issuance of SGD160mn HPLSP 4.4% PERP and SGD88.0mn cash on hand while operating cashflow remains healthy at SGD49.2mn (3Q2018: SGD39.8mn).

- **Lack of shareholding free-float:** According to Bloomberg, the free float of the company has fallen to 11.6%, exacerbated by the purchases by the main shareholders of HPL. We note that the HPLSP perps do not have a delisting put while there have been attempts in the past by the main shareholders (Mr. Ong Beng Seng, Wheelock and Co Ltd) to privatize the company.

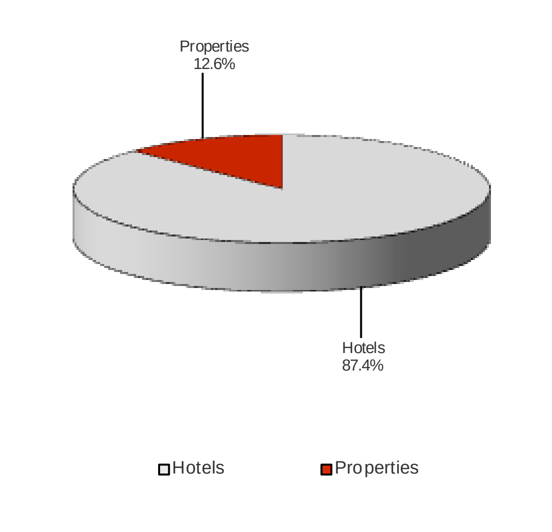
Hotel Properties Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	659.2	579.5	410.8
EBITDA	144.4	132.3	76.1
EBIT	87.2	69.5	22.2
Gross interest expense	28.7	27.5	29.3
Profit Before Tax	221.8	153.8	40.4
Net profit	184.0	124.7	16.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	211.8	118.3	88.0
Total assets	3,361.9	3,154.9	3,439.5
Short term debt	195.0	95.7	257.1
Gross debt	1,004.2	712.4	1,040.7
Net debt	792.4	594.1	952.7
Shareholders' equity	2,175.2	2,256.3	2,205.9
Cash Flow (SGD'mn)			
CFO	283.8	155.2	55.2
Capex	153.6	123.8	77.9
Acquisitions	48.7	31.0	174.6
Disposals	1.0	1.0	0.7
Dividend	49.7	59.1	52.1
Interest paid	-27.9	-28.6	-28.7
Free Cash Flow (FCF)	130.2	31.4	-22.7
Key Ratios			
EBITDA margin (%)	21.91	22.83	18.53
Net margin (%)	27.91	21.52	4.02
Gross debt to EBITDA (x)	6.95	5.38	10.25
Net debt to EBITDA (x)	5.49	4.49	9.39
Gross Debt to Equity (x)	0.46	0.32	0.47
Net Debt to Equity (x)	0.36	0.26	0.43
Gross debt/total assets (x)	0.30	0.23	0.30
Net debt/total assets (x)	0.24	0.19	0.28
Cash/current borrowings (x)	1.09	1.24	0.34
EBITDA/Total Interest (x)	5.04	4.81	2.60

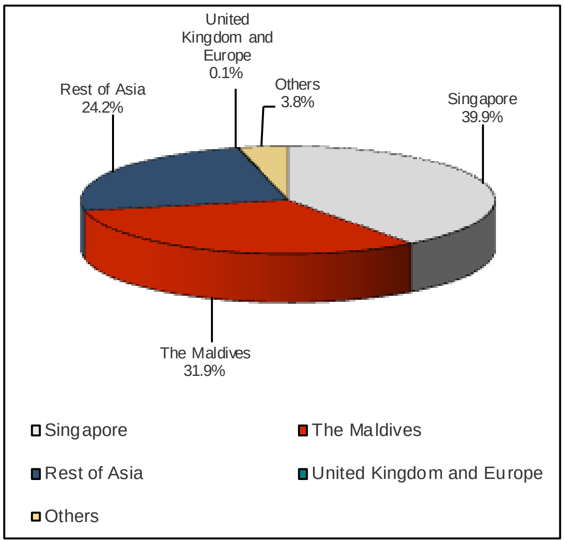
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2018



Source: Company | Excludes Others

Figure 2: Revenue breakdown by Geography - FY2018



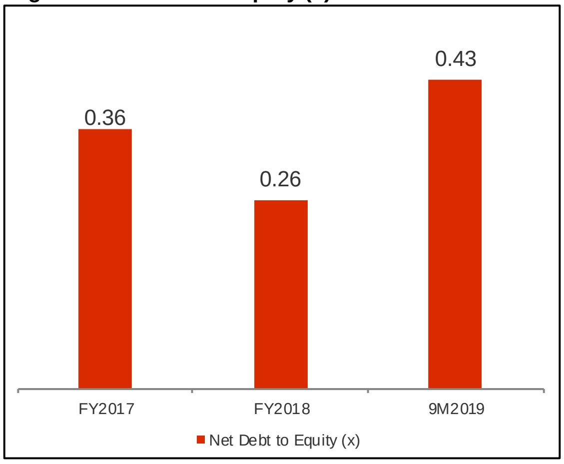
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	157.1	15.1%
Unsecured	100.0	9.6%
	257.1	**24.7%**
Amount repayable after a year		
Secured	599.9	57.6%
Unsecured	184.1	17.7%
	783.9	**75.3%**
Total	**1,041.0**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:
Neutral (4)

Ticker:
KEPSP

Outlook:
We are broadly underweight the KEPSP curve due to heightened event risk at the company though like the short dated KEPSP 3.1% '20s with a yield of 2.2%, especially over the SCISP 3.7325% '20s.

Background:
Listed in 1986, Keppel Corp Ltd ("KEP") is a diversified conglomerate operating in the real estate, offshore & marine ("O&M"), infrastructure, logistics, mobile data centres and asset management sectors. Significant associates include: Keppel REIT, Sino-Singapore Tianjin Eco-City Investment and Development Co, Limited, Keppel DC REIT, Floatel International Limited and Keppel Infrastructure Trust. KEP is currently ~21%-owned by Temasek, with the remaining shareholding dispersed across institutional and retail investors.

Keppel Corp Ltd

Key Considerations

- **Significant changes looming:** Prior to Temasek's surprise move in announcing a voluntary pre-conditional partial offer for an additional ~30.55%-stake in KEP, KEP had been in the midst of a transformation. For example, KEP had been investing heavily into new areas such as telecommunications, asset management and targeting new types of clients in a bid to turnaround its offshore & marine ("KOM") business with some successes. While we think it is premature to come to a conclusion on what Temasek has in mind for its stake in KEP, possibilities which the future KEP board can consider are wide-ranging given KEP's operations in broad industry sectors. Net-net, event risk is heightened at KEP during this period until such time a concrete strategic review plan is unveiled to the market.

- **All of KEP's main segments saw top-line growth in 3Q2019:** KEP's gross revenue was SGD2.1bn for 3Q2019, growing 59.6% y/y, driven by all of KEP's main segments, namely Investments, Infrastructure, Offshore & Marine and Property. KEP's profit before tax ("PBT") for 3Q2019 was down by 32.3% y/y to SGD227.0mn. The decline was driven by the Property segment, which saw lack of en-bloc sales during the quarter. In contrast, in 3Q2018, KEP recorded SGD173.7mn in gains from the sale of property projects in China. While having reduced, Property continues to be the biggest profit driver at KEP, contributing 54% to total 3Q2019 PBT.

- **Infrastructure as the second profit driver:** In 3Q2019, KEP's Infrastructure segment reported SGD92mn in PBT (making up 41% of total PBT). This segment includes its share of associates from Keppel Infrastructure Trust ("KIT", Issuer profile: Neutral (4)), which now includes results from IXOM, acquired by KIT in 1Q2019. Energy and Environmental Infrastructure performed better and per KEP, the Infrastructure segment also recorded dilution gains from Keppel DC REIT ("KDC REIT")'s equity private placement in September 2019. These were partly offset by lower contribution from Infrastructure Services and the logistics business (parts of which is in the midst of being sold).

- **Other segments somewhat profitable though Kris Energy an overhang:** KOM managed to generate a PBT of SGD8mn in 3Q2019 though lower than 3Q2018 by ~SGD2mn. As at 30 September 2019, KOM's net orderbook was SGD5.1bn (end-2018: SGD4.3bn), of which 67% was related to gas solutions and renewable projects, new areas for KOM. With regards to the settlement agreement with Sete Brasil, KEP continues to view it SGD476mn in provisions previously taken as adequate. For Investments, KEP recorded only ~SGD4.0mn in PBT in 3Q2019 against SGD20mn in 3Q2018. Despite consolidating M1's results and recording higher share of profit from the Sino-Singapore Tianjin Eco City from land plots sold, KEP took a SGD17mn charge on amortization of intangibles, funding costs and professional fees and recorded higher share of losses from 40%-owned KrisEnergy Ltd ("KrisEnergy") as well as fair value losses on KrisEnergy warrants. We think any decision on whether KEP would provide further financial support to KrisEnergy's debt restructuring would be deferred to the extent possible given the impending new major shareholder.

- **Stable 3Q2019 credit metrics:** Based on our calculation, 3Q2019 EBITDA (which does not include other income and other expenses) was SGD288.6mn while interest expense (including lease liabilities) was SGD85.9mn, leading to an EBITDA/Interest coverage of 3.4x (3Q2018: 3.4x). KEP's unadjusted net gearing (inclusive of lease liabilities) was 0.88x as at 30 September 2019 versus 0.82x as at 30 June 2019 (end-2018: 0.48x), mainly due to debt funding taken for the M1 acquisition. As at 30 September 2019, short term debt and short term lease liabilities at KEP were collectively significant at SGD4.3bn (represents 37% of its gross debt). KEP's secured debt represents only 3.4% of total tangible assets which should facilitate market access, notwithstanding the event risks at the company.

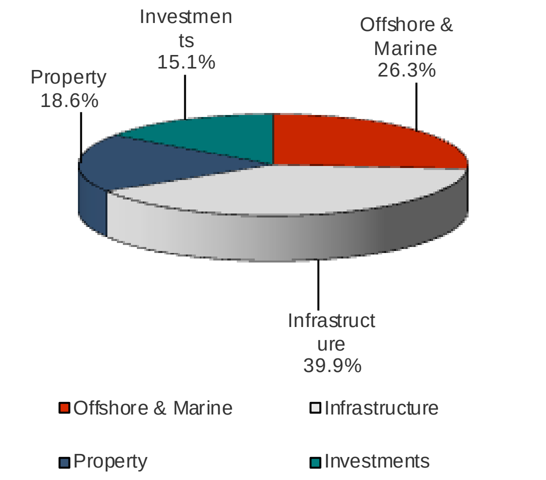
Keppel Corp Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	5,963.8	5,964.8	5,382.5
EBITDA	979.4	789.3	819.2
EBIT	767.0	606.9	544.3
Gross interest expense	189.2	198.4	236.5
Profit Before Tax	441.4	1,239.9	716.0
Net profit	197.4	956.1	554.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	2,273.8	1,981.4	1,349.2
Total assets	28,685.6	26,606.3	30,831.3
Gross debt	7,793.0	7,548.5	11,396.5
Short term debt	1,714.1	1,480.8	4,262.5
Net debt	5,519.2	5,567.1	10,047.3
Shareholders' equity	11,973.0	11,587.1	11,470.6
Cash Flow (SGD'mn)			
CFO	1,257.0	168.9	-1,017.1
Capex	393.0	254.5	378.2
Acquisitions	291.4	403.9	1,604.0
Disposals	1,013.2	1,270.5	28.1
Dividend	390.1	546.5	428.3
Free Cash Flow (FCF)	864.0	-85.6	-1,395.3
Key Ratios			
EBITDA margin (%)	16.42	13.23	15.22
Net margin (%)	3.31	16.03	10.31
Gross debt to EBITDA (x)	7.96	9.56	10.43
Net debt to EBITDA (x)	5.64	7.05	9.20
Gross Debt to Equity (x)	0.65	0.65	0.99
Net Debt to Equity (x)	0.46	0.48	0.88
Gross debt/total assets (x)	0.27	0.28	0.37
Net debt/total assets (x)	0.19	0.21	0.33
Cash/current borrowings (x)	1.33	1.34	0.32
EBITDA/Total Interest (x)	5.18	3.98	3.46

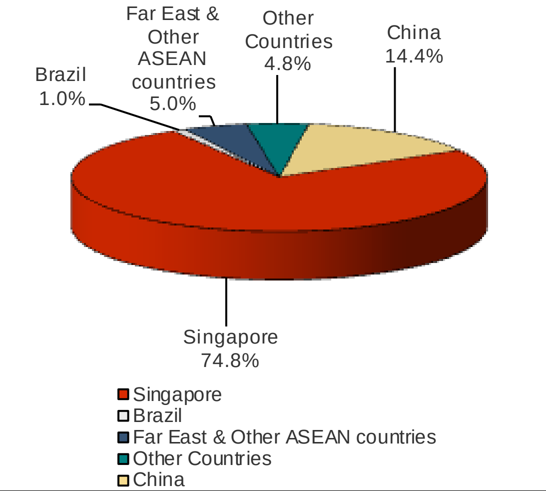
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2019



Source: Company | Excludes Eliminations

Figure 2: Revenue breakdown by Geography - 9M2019



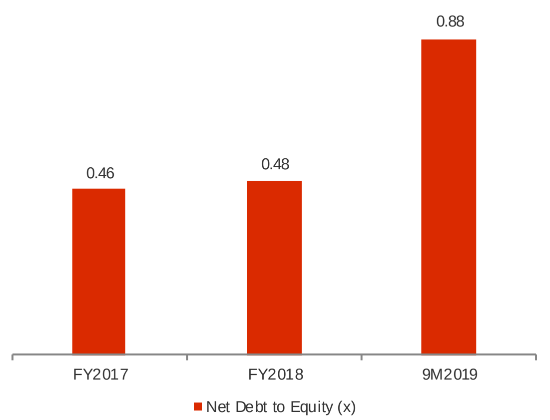
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
.		
Amount repayable in one year or less, or on demand		
Secured	168.0	1.5%
Unsecured	4,094.5	35.9%
	4,262.5	**37.4%**
Amount repayable after a year		
Secured	821.2	7.2%
Unsecured	6,312.8	55.4%
	7,134.0	**62.6%**
Total	**11,396.5**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:

Neutral (4)

Ticker:

KITSP

Outlook:

We are overweight the sole perpetual KITSP 4.75%-PERP which is paying a YTC of 4.45%, with first call date in June 2029. While there are no senior papers issued by KITSP, its Sponsor KEPSP's 10 year senior paper is trading at a yield of 3.13%, rendering a proxy senior sub-spread of ~130bps.

Background:

Keppel Infrastructure Trust ("KIT") is structured as a Business Trust and domiciled in Singapore. The trust has nine assets across three main segments, namely Energy, Distribution & Network and Waste & Water. KIT is listed on the Singapore Stock Exchange with a market cap of SGD2.7bn as at 20 December 2019 and is Sponsored by Keppel Infrastructure Holdings Pte Ltd, the infrastructure holding company of Keppel Corp Ltd ("KEP"). KIT's Sponsor is also the largest unitholder holding a 16.5%-stake.

Keppel Infrastructure Trust

Key Considerations

- **FFO higher due to seasonality at IXOM:** KIT provides a breakdown of Funds from Operations ("FFO") for its main assets with FFO defined as income/(loss) before tax, adding back non-cash items and after deducting FFO that is attributable to minority interests. FFO can be used for debt repayment at the asset level, with the excess (what KIT termed as "Distributable Cash Flow") upstreamed for KIT-standalone's debt repayment and distribution to the trust unitholders. Reported FFO was SGD53.4mn in 3Q2019 (down 2.0% q/q), driven mainly by negative FFO at Basslink (faced outage for a month from August to September 2019). Basslink though does not contribute to distributable cash flows to the holding company and if we exclude Basslink, we find Adjusted FFO 18.8% higher q/q at SGD57.7mn. This was mainly due to higher reported FFO at IXOM and City Gas which more than offset the 3.8% q/q lower contribution from Keppel Merlimau Cogen ("KMC", which KIT owns 51%-stake). KMC faced an unplanned maintenance though the affected unit is expected to resume service next month. IXOM's FFO jumped to SGD21.7mn in 3Q2019 (versus SGD10.2mn in 2Q2019, when KIT consolidated IXOM for the full quarter). Per company, IXOM's business profile is seasonal and the stronger performance in 3Q2019 is typical of the business. Concessions (the most stable part of KIT's cash flow) grew 2.5% q/q to SGD20.1mn. Distributable cash flow to KIT in 3Q2019 was SGD55.7mn (2Q2019: SGD45.8mn).

- **Unadjusted gross gearing fallen since initiation:** As at 30 September 2019, KIT's consolidated unadjusted gross gearing (excluding lease liability) was 1.24x, slightly higher than the 1.20x as at 30 June 2019 though much lower than the 1.86x as at 31 March 2019. As at 30 September 2019, KIT has SGD300mn in perpetuals. Adjusting finance leases as debt and taking 50% of perpetual as debt (and 50% of perpetual as equity), we find adjusted gross gearing at 1.49x as at 30 September 2019 (30 June 2019: 1.44x and 31 March 2019: 1.92x). KIT's gross gearing has fallen since 31 March 2019, after repaying SGD406.4mn of debt via its perpetual issuance and raising SGD195.7mn in net proceeds from an equity placement where the Sponsor took up its proportionate share. Excluding Basslink and excluding perpetual and finance lease, we find consolidated debt-to-asset for KIT at 0.36x (in line with 30 June 2019).

- **KMC refinancing risk:** As at 30 September 2019, KIT faced large refinancing risk with SGD1.4bn of short term debt due (63% of total debt). This is made up of ~SGD640mn of debt at the problematic Basslink, an electricity interconnector between Tasmania and mainland Australia and SGD700mn of debt maturing at KMC power plant (proportionate KIT debt of SGD357mn given its 51%-ownership in KMC). The Basslink loan has been in technical default, though on 7 November 2019, the loan had been extended for another 12 months while all breaches and event of defaults had been waived. We have seen Basslink as credit neutral given that the debt is ring-fenced and does not cause a cross-default to KIT or elsewhere within the KIT group while historically, Basslink had not generated distributable cash flow to KIT. As such the extension and waiver of default in itself does not move our issuer profile from Neutral (4). Basslink though had been a negative headline and this development provides some respite to KIT's reputation. KIT has disclosed that it is in negotiations over the KMC loan, which has a bullet structure due in June 2020. Our base case assumes that the KMC loan would be refinanced though would have an amortization structure and/or cash needs to be accumulated for an eventual repayment to match the tolling agreement until June 2030. Assuming equal amortization over ten years, this may lead to a lower distributable cash flow from KMC of ~SGD2.0mn per quarter (3Q2019: SGD10.8mn).

- **Sold DataOne:** In October 2019, KIT sold its 51%-stake in DataCentre One to Keppel DC REIT (whose Sponsor is also a KEP subsidiary) for SGD102.9mn. DataCentre One is a purpose-built data centre facility located near the Woodlands Regional Centre. Post repaying asset-level loans, net proceeds to KIT is ~SGD51.3mn, which would have increased cash buffer to ~SGD440mn of unrestricted cash, forming KIT's war chest for future acquisitions.

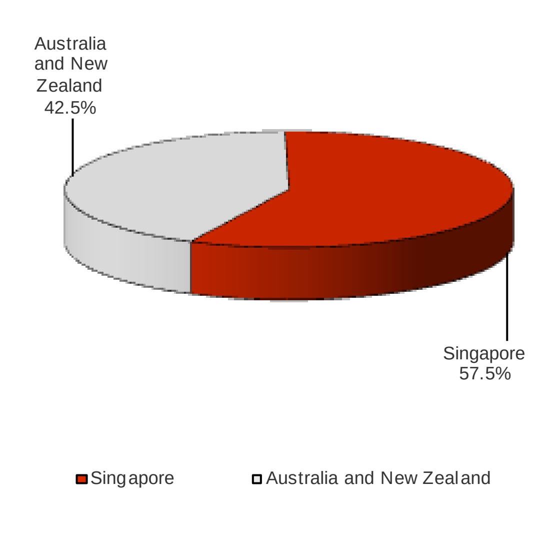
Keppel Infrastructure Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	632.5	637.4	1,144.0
EBITDA	246.6	225.5	217.8
EBIT	141.6	122.0	114.7
Gross interest expense	124.9	123.7	108.3
Profit Before Tax	14.1	-2.3	-0.1
Net profit	13.8	-2.4	-12.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	214.0	231.6	438.2
Total assets	3,956.4	3,805.0	5,096.2
Short term debt	722.4	1,034.6	1,364.6
Gross debt	1,794.3	1,774.9	2,489.3
Net debt	1,580.3	1,543.3	2,051.1
Shareholders' equity	1,311.9	1,178.3	1,744.4
Cash Flow (SGD'mn)			
CFO	186.0	289.4	304.6
Capex	1.7	8.5	17.1
Acquisitions	0.0	0.0	1,096.7
Disposals	0.7	0.3	1.0
Dividends	146.0	145.7	122.3
Interest paid	105.6	110.9	111.6
Free Cash Flow (FCF)	184.2	280.9	287.6
Key Ratios			
EBITDA margin (%)	38.99	35.37	19.04
Net margin (%)	2.18	-0.37	-1.11
Gross debt to EBITDA (x)	7.28	7.87	8.57
Net debt to EBITDA (x)	6.41	6.84	7.06
Gross Debt to Equity (x)	1.37	1.51	1.43
Net Debt to Equity (x)	1.20	1.31	1.18
Gross debt/total asset (x)	0.45	0.47	0.49
Net debt/total asset (x)	0.40	0.41	0.40
Cash/current borrowings (x)	0.30	0.22	0.32
EBITDA/Total Interest (x)	1.97	1.82	2.01

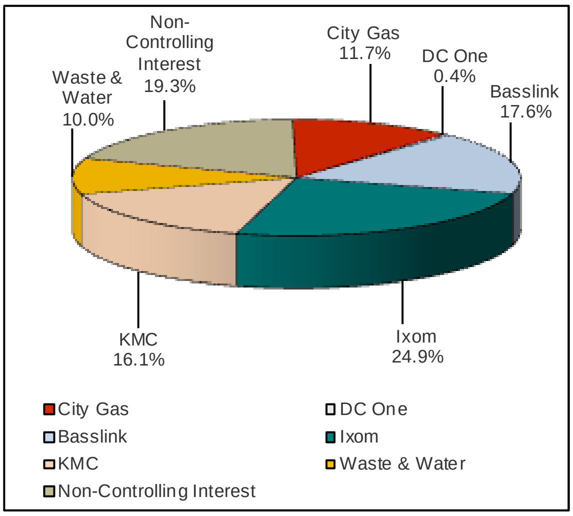
Source: Company, OCBC estimates

Figure 1: Asset breakdown by Geography - 9M2019*



*Source: Company | *As at 30 Sep 2019*

Figure 2: Asset breakdown by Property - 9M2019*



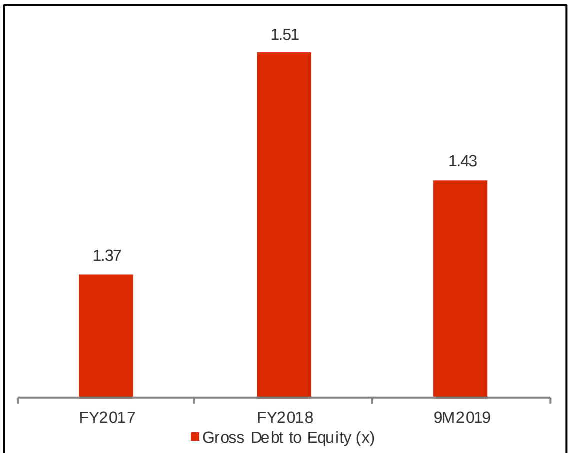
*Source: Company | *As at 30 Sep 2019*

Figure 3: Debt Maturity Profile

	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	1357.3	60.9%
Unsecured	7.4	0.3%
	1364.6	**61.2%**
Amount repayable after a year		
Secured	521.4	23.4%
Unsecured	343.3	15.4%
	864.7	**38.8%**
Total	**2229.3**	**100.0%**

Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:
Neutral (4)

Ticker:
KREITS

Credit Outlook:
We have turned Neutral from Overweight on KREITS 4.98% PERP as it is offering a yield of 2.61%, ~111bps above swaps for a 11 months tenor, tightening ~65bps from two months ago. That said, the likelihood of KREIT calling the bond remains high because we think KREIT will most likely be able to come to market and raise a new perpetual or a senior bond at a lower coupon rate.

Background:
Listed on the SGX on 28 Apr 2006, Keppel REIT's ("KREIT") portfolio comprises interests in ten office assets located in the central business districts of Singapore, Australian cities – Sydney, Melbourne, Brisbane and Perth, as well as Seoul, South Korea. Assuming Bugis Junction~~s~~ Towers was divested on 30 Sep 2019, total asset under management would be SGD7.9bn. KREIT is 49.3% owned by Keppel Land Ltd, it's Sponsor. Key assets are Ocean Financial Centre ("OFC", 79.9% interest), Marina Bay Financial Centre ("MBFC", 33% interest) and One Raffles Quay ("ORQ", 33% interest).

Keppel REIT

Key Considerations

- **Newly acquired South Korea property provides support:** 9M2019 revenue was down by 4.5% y/y to SGD122.3mn while 9M2019 net property income ("NPI") was down by 6.9% y/y to SGD95.5mn. Although KREIT reported a 15.6% y/y increase in revenue to SGD42.4mn from SGD36.7mn and a 17.6% y/y gain in net property income ("NPI") to SGD33.2mn from SGD28.2mn in 3Q2019, this was before adjusting out NPI attributable to minority investors. Excluding the 20.1% minority interest stake in OFC (which was consolidated into its financial statements), we find adjusted NPI higher by just 2.9% y/y at SGD29.0mn instead. This was largely driven by T Tower (acquired on 27 May 2019) where full quarter results were consolidated in 3Q2019.

- **Divestment of Bugis Junction Towers, Singapore:** Post 3Q2019, KREIT had on 1 Oct 2019 sold Bugis Junction Towers in Singapore for SGD547.5mn (SGD2,200 psf). Completion is scheduled for 4Q2019. Over 9M2019, the property contributed to 12.1% of total portfolio NPI (i.e. SGD11.6mn). Although the sale will realise capital gains of SGD378.1mn based on the difference between the sale price and purchase price, after taking into consideration capitalised expenditures and divestments costs, we expect the top line figures of KREIT to shrink given the absence of contributions from the property.

- **311 Spencer Street in Melbourne has topped out:** The structure of the 40-storey office tower was completed on 19 Aug 2019 and is in the midst of fitting out. 311 Spencer Street which KREIT has a 50% stake in will be fully leased to the Victoria Police for 30 years. The lease is expected to commence in 2Q2020 and includes a market rent review at the commencement of Year 16 subject to a cap and collar, and options to review for three additional terms of 5 years each. While new contributions from 311 Spencer Street may be able to offset the absence of contributions from Bugis Junction Towers, there seems to be a timing mismatch as the new contributions are only expected to come in two quarters after the divestment. Having said that, the lease at the property will nevertheless contribute a steady income stream to KREIT.

- **Portfolio statistics remains healthy:** Overall portfolio committed occupancy was 98.9%, up from 98.0% a year ago, with a weighted average lease expiry of 5.1 years. In 2020, KREIT will see 8.3% of leases based on net lettable area expire and 3.6% up for rent review (11.9% in total). 9.8% (i.e.: 82% of the 11.9%) will come from its Singapore portfolio. We think this is very manageable and KREIT has much room to lock in higher rents as the average signing rents for its Singapore properties was SGD12.35 psf pm in 9M2019, above the average expiring rents of Singapore office leases of SGD9.59 psf pm in 2020. Over the year, KREIT has also diversified its tenant base further by increasing the number of tenants to 355 from 340 in 3Q2018 as well as the percentage of NLA the top 10 tenants occupy has dropped to 37.2% from 40.2% in 3Q2018.

- **Manageable credit metrics:** Reported aggregate leverage inched higher to 38.9% from 38.4% in the preceding quarter, though lower relative to a year ago (3Q2018: 39.1%). This was due to marginally lower deposited property value and slightly higher borrowings. All-in interest rate was 2.82% (2Q2019: 2.86%, 3Q2018: 2.80%) while reported EBITDA/Interest was 3.8x (2Q2019: 3.7x, 3Q2018: 4.0x). KREIT does not have any borrowings coming due in 2019. For 2020, KREIT has SGD637mn of bank loans maturing. We think this will be manageable for KREIT as it has SGD100.5mn of cash on hand and is looking to complete the divestment of Bugis Junction Towers for SGD547.5mn in the next quarter. Should the funds received from the divestment be used to pay down its debt, we see the resultant aggregate leverage at 34.6%. Separately, we note that KREIT's assets (by value) are 73% unencumbered.

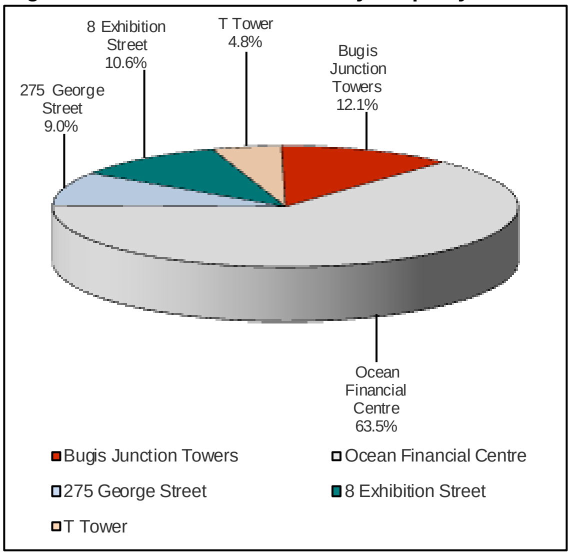
Keppel REIT

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	164.5	165.9	122.3
EBITDA	74.7	78.8	49.1
EBIT	62.9	70.6	46.6
Gross interest expense	67.3	71.2	49.2
Profit Before Tax	197.3	164.8	93.7
Net profit	180.2	154.6	89.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	198.2	258.9	100.5
Total assets	7,604.3	7,784.5	7,925.7
Short term debt	425.0	59.9	99.9
Gross debt	2,522.2	2,285.7	2,552.6
Net debt	2,324.0	2,026.8	2,452.1
Shareholders' equity	4,915.3	5,335.6	5,206.2
Cash Flow (SGD'mn)			
CFO	120.0	117.1	66.5
Capex	157.8	90.7	82.2
Acquisitions	0.0	0.0	155.4
Disposals	0.0	439.3	0.0
Dividends	164.5	189.7	147.9
Interest paid	62.5	68.2	41.6
Free Cash Flow (FCF)	-37.8	26.3	-15.7
Key Ratios			
EBITDA margin (%)	45.43	47.50	40.16
Net margin (%)	109.51	93.20	73.19
Gross debt to EBITDA (x)	33.75	29.01	38.97
Net debt to EBITDA (x)	31.09	25.73	37.44
Gross Debt to Equity (x)	0.51	0.43	0.49
Net Debt to Equity (x)	0.47	0.38	0.47
Gross debt/total asset (x)	0.33	0.29	0.32
Net debt/total asset (x)	0.31	0.26	0.31
Cash/current borrowings (x)	0.47	4.32	1.01
EBITDA/Total Interest (x)	1.11	1.11	1.00

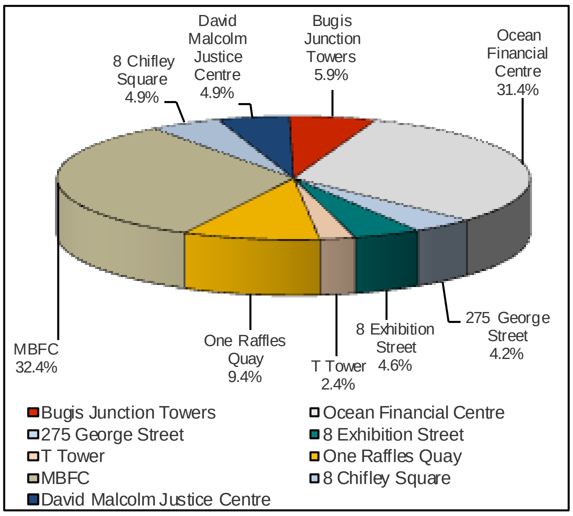
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - 9M2019



Source: Company

Figure 2: NPI breakdown by Property - 9M2019



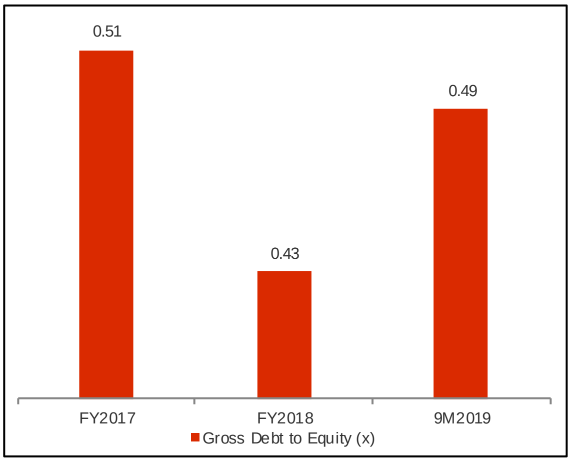
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	100.0	3.9%
	100.0	**3.9%**
Amount repayable after a year		
Secured	855.6	33.5%
Unsecured	1597.1	62.6%
	2452.6	**96.1%**
Total	**2552.6**	**100.0%**

Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:
Neutral (3)

Ticker:
LLCAU

Outlook:
We like LLC for providing significant earnings visibility from its long pipeline of projects. Due to the sale of Engineering business, we think the business profile risks has improved. We turned Overweight on LLCAU '27s.

Background:
Founded in 1958, Lendlease Group ("LLC") today is a leading Australian property company listed on the Australian Securities Exchange ("ASX") with a market cap of AUD10.3bn. LLC structures its businesses along (1) Development, (2) Construction and (3) Investments. Australia is LLC's core market though LLC has been diversifying into Europe, Asia and America. There is no controlling shareholder.

Lendlease Group Ltd

Key Considerations

- **Stronger 2H performance from development mitigated most of the declines in 1H:** Reported EBITDA, excluding Engineering & services ("E&S"), declined 9% y/y to AUD1.49bn for the year ended 30 Jun 2019 ("FY2019"). This is a significant improvement from the 34% y/y fall reported in 1HFY2019. Development segment is the outperformer with reported EBITDA rising 18% y/y to AUD793mn due to strong residential for sale apartment settlements, PLQ Office and US residential investment. While the communities sub-segment in Australia was impacted by subdued market conditions, strong residential for sale apartments (e.g. Darling Square) kept EBITDA contribution from Australia development stable y/y at AUD556mn.

- **Sale of Engineering business is a credit positive:** The E&S business reported a loss of AUD461mn, mainly due to AUD500mn pre-tax provision from the underperforming projects. As a result, LLC has undertaken a strategic review and announced the sale of the Engineering part of the E&S business for AUD180mn (LLC is still looking to sell the Services part), which we think is a significant credit positive as it removes uncertainty/earnings volatility of the business while lightening the balance sheet (E&S business takes up AUD2.09bn in total assets). LLC retains Kingsford Smith Drive and North Connex M1/M2 Tunnel which are not part of the sale, though we are not overly worried as these projects are completing. Melbourne Metro is also currently excluded from the sale with slower than anticipated start to the project; though we understand LLC is negotiating its sale.

- **Not overly worried over weaker results from Construction (excluding E&S):** Reported EBITDA for the segment fell 29% y/y to AUD211mn, mainly due to lower margins of 2.2% (FY2018: 3.1%). That said, this is within LLC's expectations (2-3%) for the segment and we think there should be less variability given that the segment no longer includes E&S.

- **Solid development pipeline provides significant earnings visibility:** Total development pipeline is approaching AUD100bn post FY2019 results. The most significant addition is the AUD20bn San Francisco Bay Area project (secured post-FY2019), which will be jointly undertaken with Google to deliver mixed-use neighbourhoods with 15,000 residential units. Aside from solid earnings visibility from development (covering ~AUD4bn p.a. development activity by more than 20x), part of the pipeline is expected to join LLC's Funds under Management ("FUM"). LLC's expects its FUM to double (AUD35.2bn as of end 30 June 2019).

- **Recurring income from Investments:** While reported EBITDA for Investments fell 27% y/y to AUD489mn, this is due to the decline in revaluations with co-investment revaluations falling to AUD103mn (FY2018: AUD182mn). Meanwhile, operating earnings rose by 8.3% y/y to AUD144mn. We should expect operating earnings to still increase with the growth (1) in FUM to AUD35.2bn (FY2018: AUD30.1bn) and (2) Assets under Management ("AUM") comprising retail and office to AUD15.4bn (FY2018: AUD12.7bn). LLC also holds US Military Housing (AUM: AUD13.3bn). Although LLC is facing redemptions for several of its funds which triggered the sale of 50%-stake in Westfield Marion for AUD670mn, which may result in a loss of AUM or FUM, we think the recently listed Lendlease Global Commercial REIT may mitigate the impact in the future if assets were to be sold to the REIT (instead of 3rd parties).

- **Healthy credit metrics:** Net gearing fell h/h to 22.5% (1HFY2019: 37.4%) on the back of an estimated ~AUD884.2mn cashflow from operating activities in 2HFY2019, bolstered by settlements of apartments (FY2019: AUD1.4bn) concentrated in the 2nd half. Net gearing may rise up to mid-40%, based on LLC's guidance. That said, with (1) expected change in business profile assuming the disposal of the riskier E&S business, (2) still manageable credit metrics and (3) high earnings visibility and recurring income, we upgrade **LLC's Issuer Profile to Neutral (3) from Neutral (4)**.

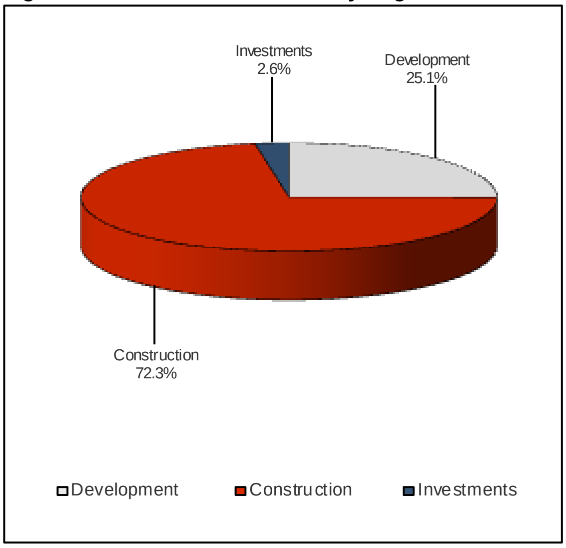
Lendlease Group

Table 1: Summary Financials

Year Ended 30th Jun	FY2017	FY2018	FY2019
Income Statement (AUD'mn)			
Revenue	16,659.0	16,556.1	16,386.0
EBITDA	843.3	618.3	82.0
EBIT	745.1	511.7	-40.0
Gross interest expense	133.9	124.2	178.2
Profit Before Tax	1,007.0	1,066.2	620.0
Net profit	758.7	793.6	467.0
Balance Sheet (AUD'mn)			
Cash and bank deposits	1,249.2	1,177.1	1,290.0
Total assets	20,854.2	16,963.6	17,178.0
Short term debt	291.9	474.8	225.0
Gross debt	2,152.4	2,358.5	2,715.0
Net debt	903.2	1,181.4	1,425.0
Shareholders' equity	6,166.5	6,414.2	6,357.0
Cash Flow (AUD'mn)			
CFO	256.5	181.8	199.0
Capex	136.4	110.3	284.0
Acquisitions	501.7	561.3	378.0
Disposals	561.5	441.5	851.0
Dividend	337.9	372.0	258.0
Interest paid	-120.4	-122.1	-152.0
Free Cash Flow (FCF)	120.1	71.5	-85.0
Key Ratios			
EBITDA margin (%)	5.06	3.73	0.50
Net margin (%)	4.55	4.79	2.85
Gross debt to EBITDA (x)	2.55	3.81	33.11
Net debt to EBITDA (x)	1.07	1.91	17.38
Gross Debt to Equity (x)	0.35	0.37	0.43
Net Debt to Equity (x)	0.15	0.18	0.22
Gross debt/total assets (x)	0.10	0.14	0.16
Net debt/total assets (x)	0.04	0.07	0.08
Cash/current borrowings (x)	4.28	2.48	5.73
EBITDA/Total Interest (x)	6.30	4.98	0.46

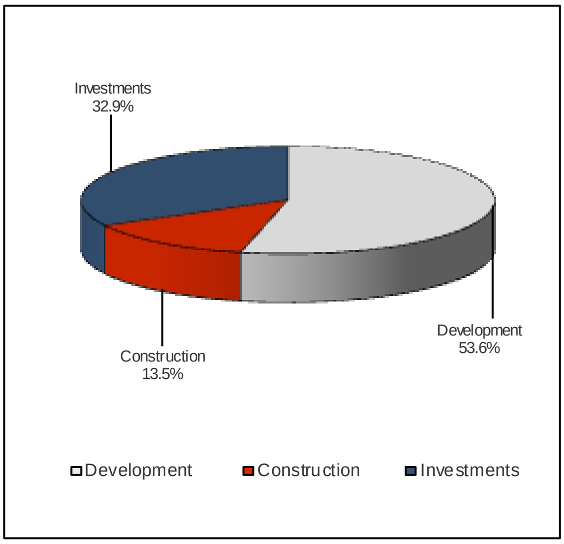
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2019



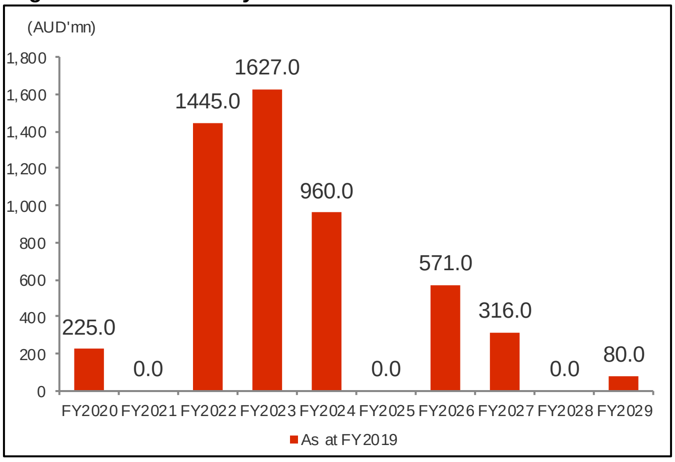
Source: Company

Figure 2: PBT breakdown by Segment - FY2019



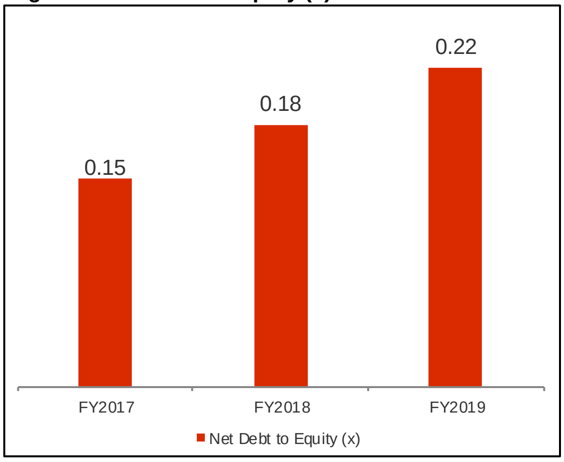
Source: Company

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Lippo Malls Indonesia Retail Trust

Issuer Profile:

Negative (6)

Ticker:

LMRTSP

Outlook:

The worst appears to be over for LMRT with higher collections of receivables from related and non-related party tenants. Liquidity is ample relative to short term debt following the divestment of two malls in Dec 2019 for SGD120.2mn. As such, we remain overweight on LMRTSP '20s for its high yield and short tenor.

Background:

Listed on the SGX on 2007 with a market cap of SGD680mn, Lippo Malls Indonesia Retail Trust ("LMRT") is a retail REIT with a portfolio of 23 retail malls and 7 retail spaces in Indonesia. LMRT is amongst the largest retail S-REIT by floor space, with an NLA of 910,749 sqm. The malls are mostly located within Greater Jakarta, Bundung, Medan and Palembang, targeted at the middle to upper-middle class domestic consumers. LMRT is 31.57%-owned by its sponsor, Lippo Karawaci Tbk PT ("LK"), which is an Indonesian property group. Sponsor-related parties accounts for 24.5% of LMRT's gross revenue.

Key Considerations

- **The worst appears to be over though challenges remain:** 3Q2019 gross revenue rose 6.8% y/y to SGD69.2mn with net property income rising 11.8% y/y to SGD44.1mn due to positive rental reversion of 5.0% and appreciation of IDR against the SGD by 0.8%. In addition, LMRT booked a net reversal of allowance for doubtful debts of SGD1.9mn (3Q2018: net allowance of doubtful debts of SGD2.1mn). This is an improvement from prior quarters when net property income has been falling with increasing amounts of doubtful debts booked. However, we think results may be somewhat pressured going forward as the master lease at Lippo Mall Kemang expired on 16 Dec 2019. If LMRT assumes the leases with the underlying tenants, LMRT estimates that its pro forma 9M2019 NPI would fall 8.7% y/y.

- **Stronger collections point to reducing credit risk:** Trade and other receivables fell q/q to SGD38.9mn (2Q2019: SGD40.4mn), with trade receivables (net of allowance for doubtful debts) falling q/q to SGD25.8mn (2Q2019: SGD26.4mn). In particular, before taking into account allowance for doubtful debts, trade receivables also fell q/q to SGD29.6mn (2Q2019: SGD32.5mn), with the portion due from related parties falling to SGD13.2mn (2Q2019: SGD14.7mn) and SGD16.4mn from non-related parties (2Q2019: SGD17.8mn). LMRT continues to affirm that there is no reason to believe that the Lippo group of companies will not be able to fulfill their payment obligations. LK and related party tenants account for 24.4% of LMRT's 9M2019 gross revenue. We note that LK's balance sheet and liquidity profile has improved following its rights issuance.

- **FX volatility muted in recent quarters though key risk remains:** In our view, FX is the biggest potential risk to LMRT, given that its borrowings are primarily in SGD (or swapped to SGD) while assets and income are in IDR. If IDR depreciates against the SGD by 33% (which we saw during the Global Financial Crisis), we estimate aggregate leverage will rise to 50%.

- **Conservation capital for acquisition?:** Interestingly, LMRT opted to retain SGD1.8mn from amount available for distribution in 3Q2019, which effectively reduced the payout ratio from income available for distribution from 100% to 90%. LMRT is doing so for 'capital management and ensuring stability of distributions. Our interpretation is that LMRT may likely deploy the conserved capital for investments (e.g. Lippo Mall Puri).

- **Lippo Mall Puri as the biggest uncertainty ahead:** Lippo Mall Puri is still on the cards though the proposed acquisition (SGD430mn in transaction cost) has been delayed to 1H2020. The most important consideration will be the funding mix for the mall, given the large acquisition size relative to the market cap and total assets of LMRT. We note that bank lines have yet been committed for the acquisition as the deal has yet to finalise.

- **Still decent portfolio statistics:** Occupancy remains stable q/q at 92.2%, ahead of industry average of 81.3%. In the medium term, carpark income may be challenged given the shift in consumer behavior (fewer consumers drive to shopping malls) though this should be manageable as carpark income is just 6.5% of total gross revenue. Tenant profile is diversified across trade sectors and no single tenant contributes more than 10% of gross revenue (though collectively the related-party tenants account for 24.4% of gross revenue).

- **Manageable credit metrics:** Aggregate leverage fell q/q to 34.7% (2Q2019: 35.2%) due to FX gains (SGD74.4mn). Results look decent with overhang from tenant risks subsiding. We may upgrade LMRT's Issuer Profile if collections from tenants improve more substantially though this is also dependent on the funding mix that LMRT will employ to acquire Lippo Mall Puri, which will amount to SGD430mn in transaction cost. We note LMRT has in Dec 2019 divested Pejaten Village and Binjai Supermall for ~SGD120.2mn, which we think will be redeployed for the acquisition of Lippo Mall Puri.

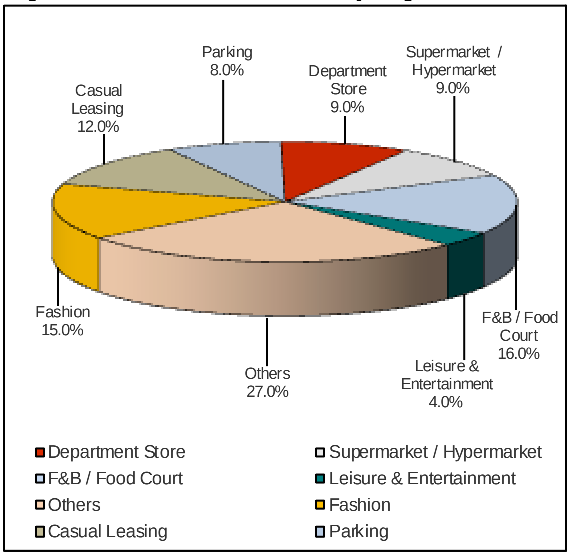
Lippo Mall Indonesia Retail Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	197.4	230.3	203.4
EBITDA	186.8	158.5	123.5
EBIT	171.3	152.9	119.3
Gross interest expense	40.4	34.7	29.9
Profit Before Tax	88.1	99.6	85.9
Net profit	62.7	60.9	58.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	64.9	52.7	116.3
Total assets	2,063.9	1,966.2	2,099.6
Short term debt	268.5	120.0	74.7
Gross debt	688.3	674.0	716.0
Net debt	623.4	621.3	599.7
Shareholders' equity	1,167.9	1,079.2	1,162.3
Cash Flow (SGD'mn)			
CFO	142.7	138.2	108.2
Capex	51.3	11.8	9.8
Acquisitions	133.4	0.0	0.0
Disposals	0.0	0.0	0.0
Dividends	112.8	89.7	56.0
Interest paid	27.0	31.3	26.7
Free Cash Flow (FCF)	91.5	126.4	98.4
Key Ratios			
EBITDA margin (%)	94.62	68.84	60.69
Net margin (%)	31.77	26.46	28.57
Gross debt to EBITDA (x)	3.69	4.25	4.35
Net debt to EBITDA (x)	3.34	3.92	3.64
Gross Debt to Equity (x)	0.59	0.62	0.62
Net Debt to Equity (x)	0.53	0.58	0.52
Gross debt/total asset (x)	0.33	0.34	0.34
Net debt/total asset (x)	0.30	0.32	0.29
Cash/current borrowings (x)	0.24	0.44	1.56
EBITDA/Total Interest (x)	4.62	4.58	4.13

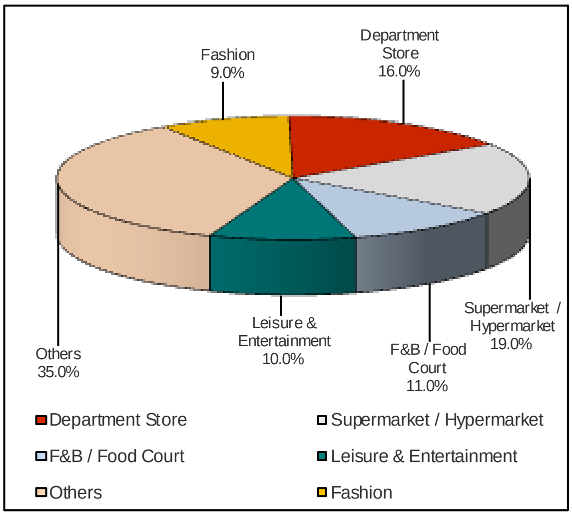
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2019



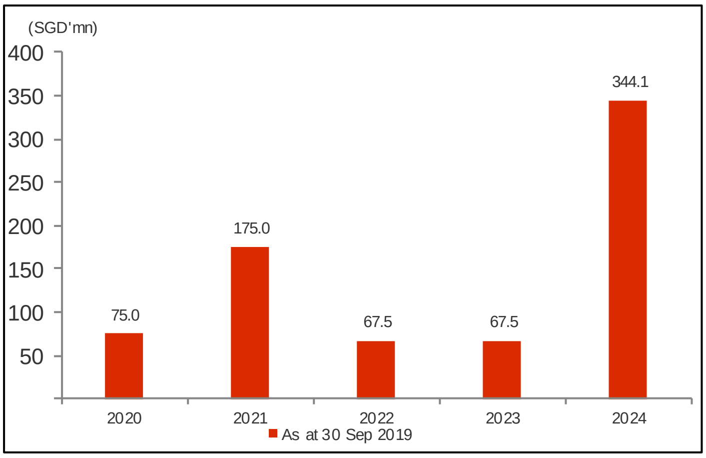
Source: Company

Figure 2: NLA breakdown by Segment - 9M2019



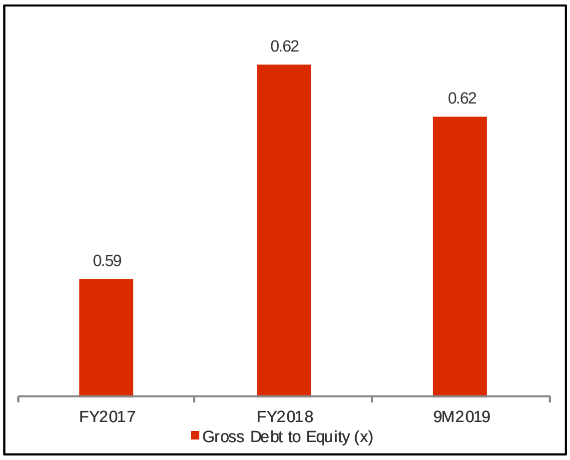
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:
Neutral (3)

Ticker:
MCTSP

Credit Outlook:
We are neutral on the MCT curve as it is trading fair in our view. Broadly, CCT curve trades slightly wider and we think CCT is potentially more attractive for a slight pick up in yield or a shorter tenor. CCTSP 3.17% '24s and MCTSP 3.28% '24s, for instance, are offering similar yields and spreads over swaps but the former has a 6 months shorter tenor.

Background:
Mapletree Commercial Trust ("MCT") is a REIT that invests in office and retail assets. Its five key assets are (1) VivoCity – a retail and leisure complex, (2) Mapletree Business City, (3) Bank of America Merrill Lynch HarbourFront ("MLHF"), (4) PSA office building ("PSAB") that includes a 40-storey office block and Alexandra Retail Centre ("ARC") and (5) Mapletree Anson. The portfolio is valued at SGD8.9bn. MCT is 32.5% owned by Temasek Holdings Pte Ltd through Mapletree Investments.

Mapletree Commercial Trust

Key Considerations

- **Anchored by crown jewel - VivoCity:** Over the half year for financial year ending 31 March 2020 ("1HFY2020"), gross revenue rose 2.6% y/y to SGD224.2mn from SGD218.5mn, largely driven by VivoCity. Similarly, net property income ("NPI") was also up by 2.2% y/y to SGD176.1mn. VivoCity alone saw revenue increase by 5.3% y/y and NPI up by 4.5% y/y on the back of higher rental income for new and renewed leases with an actual occupancy of 99.8% and committed occupancy of 100% as at 30 Sep 2019. That said, reported shopper traffic was down 2.8% y/y with tenant sales down by 2.0% y/y over the half year period. We think this decline is temporary and attributable to the asset enhancement work that has been completed. In fact, the momentum of shopper traffic and tenant sales has picked up with the progressive opening of new stores on Basement 2 and Level 1 during 2QFY2020, as well as NTUC FairPrice commencing and contributing full month from Aug 2019. As such, we expect VivoCity to continue to perform well and lift MCT's result.

- **Acquired Mapletree Business City (Phase 2) ("MBC II"):** MCT has completed the acquisition of MBC II for a total acquisition cost of SGD1.58bn (agreed property value: SGD1.55bn) on 1 Nov 2019. This property has a committed occupancy rate of 99.4% with an NPI yield of 5%, above MCT's existing portfolio yield of 4.7%. The average passing rent is SGD6.15 psf pm. MCT had previously acquired Mapletree Business City (Phase 1) in 2016. This acquisition will complete MCT's control over the entire Alexandra Precinct, and increase MCT's asset base by 21% to SGD8.90bn from SGD7.35bn and NPI by 22% to SGD424.6mn from SGD347.6mn. MCT has used SGD918.5mn of equity funding to partially fund the total acquisition cost and fund the balance SGD657.3mn by a drawdown of loan facilities. As such, aggregate leverage is expected to increase slightly to 33.6%, from 31.7% as of end Sep 2019. The pipeline of Right of First Refusal properties for MCT includes HabourFront Centre, HarbourFront Tower 1 and 2, SPI Development Site (otherwise known as Mapletree Lighthouse), St James Power Station and PSA Vista.

- **Good overall portfolio:** While VivoCity is strong, MCT's remaining assets mostly did better. PSA Building saw +5.0% q/q increase in revenue, as a result of higher rental income from renewed leases offset by lower occupancy. Bank of America Merrill Lynch Harbourfront ("MLHF") also saw revenue rise by 2.0% q/q due to effects of the step-up rents in existing leases. Mapletree Anson ("Anson") though saw revenue fall by 18.8% q/q due to lower occupancy. While actual occupancy at Anson was 75.1% at 30 Sep 2019 (from 92.7% as at 30 June 2019), we are not overly concerned as reported committed occupancy at the property was 99.0%. Therefore, we would expect revenue generated at Anson to recover in the following quarter. Overall MCT's portfolio occupancy was 98.8% on committed basis and slightly lower at 96.1% on actual basis. The portfolio also saw positive rental reversion of 5.0% which was largely driven by the retail segment. MCT has minimal expiring leases (<1% each for retail and office/business park) for the remaining of FY2020.

- **Still healthy credit profile:** Although reported aggregate leverage was lower at 31.7%, down from 33.1% in the preceding quarter, we expect aggregate leverage to rise to ~33% handle given the acquisition of MBC II. That said, the increase in aggregate leverage is slightly lower than expected as MCT has used a substantial amount of equity to fund the acquisition. Specifically, the transaction was funded via 58%/42% equity/debt. MCT has an EBITDA/Interest of 4.4x and minimal debt coming due in FY2020 (just SGD50mn), though it will see SGD452.7mn of borrowings come due in FY2021. Annualized weighted average all-in cost of debt was 3% as at 30 September 2018 (a year ago: 2.93%). With assets 100% unencumbered and no more than 20% of debt due for refinancing in any year, MCT's financial flexibility remains strong in our view.

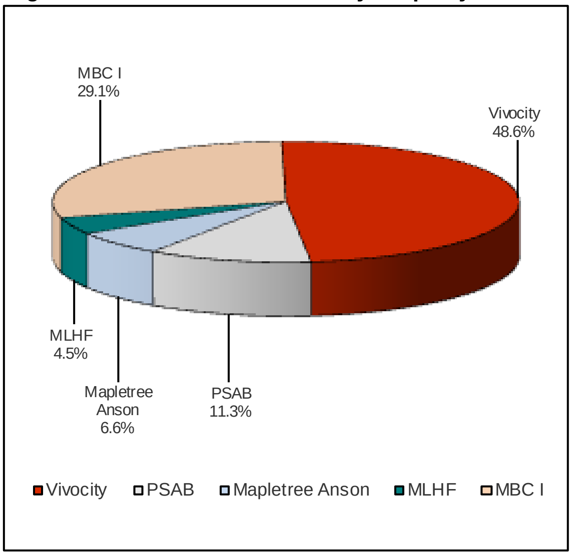
Mapletree Commercial Trust

Table 1: Summary Financials

Year Ended 31st March	FY2018	FY2019	1H2020
Income Statement (SGD'mn)			
Revenue	433.5	443.9	224.2
EBITDA	308.5	316.0	159.3
EBIT	308.4	315.9	159.3
Gross interest expense	64.3	70.0	35.6
Profit Before Tax	567.6	582.3	429.8
Net profit	567.6	582.3	429.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	45.1	49.1	36.4
Total assets	6,740.8	7,100.8	7,402.4
Short term debt	143.9	50.0	481.7
Gross debt	2,329.4	2,350.1	2,354.9
Net debt	2,284.3	2,301.0	2,318.5
Shareholders' equity	4,283.4	4,616.0	4,917.1
Cash Flow (SGD'mn)			
CFO	332.3	337.0	163.7
Capex	0.1	22.1	8.1
Acquisitions	18.5	0.0	0.0
Disposals	0.0	0.0	0.0
Dividends	259.7	262.6	133.6
Interest paid	62.8	67.8	34.5
Free Cash Flow (FCF)	332.2	314.9	155.7
Key Ratios			
EBITDA margin (%)	71.15	71.19	71.07
Net margin (%)	130.92	131.18	191.73
Gross debt to EBITDA (x)	7.55	7.44	7.39
Net debt to EBITDA (x)	7.41	7.28	7.28
Gross Debt to Equity (x)	0.54	0.51	0.48
Net Debt to Equity (x)	0.53	0.50	0.47
Gross debt/total asset (x)	0.35	0.33	0.32
Net debt/total asset (x)	0.34	0.32	0.31
Cash/current borrowings (x)	0.31	0.98	0.08
EBITDA/Total Interest (x)	4.80	4.51	4.47

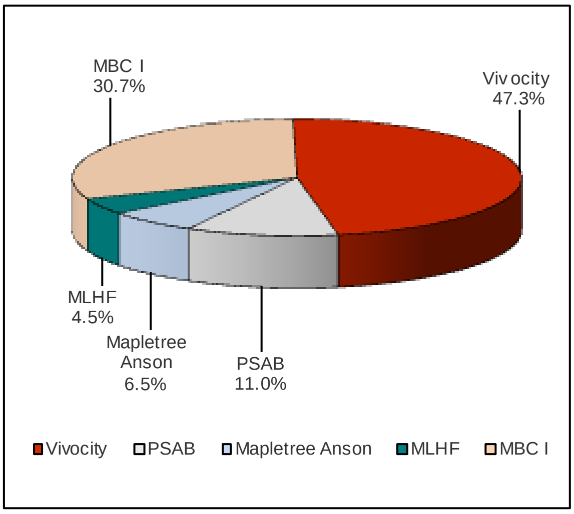
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - 1H2020



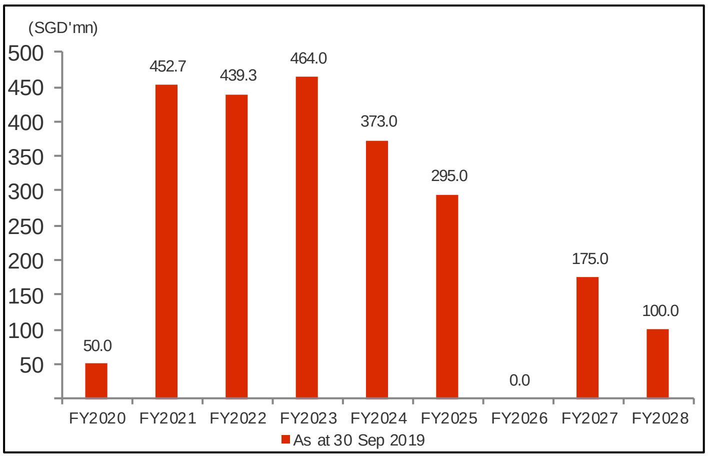
Source: Company

Figure 2: NPI breakdown by Property - 1H2020



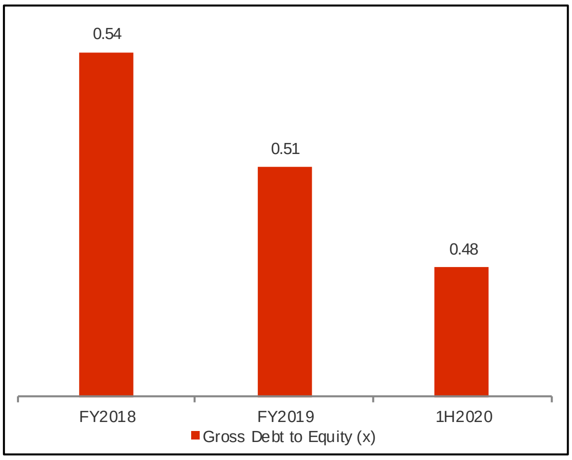
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:
Neutral (4)

Ticker:
MAGIC

Credit Outlook:
We are underweight on both of its bonds MAGIC 3.2% '21s and MAGIC 3.43% '22s. We prefer CCTSP 2.96% '21s over both MAGIC 3.2% '21s which is offering a 2.31% yield for a 1.75y tenor and MAGIC 3.43% '22s which is offering a 2.22% yield for a 2.25y tenor. CCTSP 2.96% '21s which offers a 2.23% yield has an issuer profile of one notch higher than MAGIC.

Background:
Listed on the SGX in 2013, Mapletree North Asia Commercial Trust ("MNACT") is an S-REIT with a mandate to invest in the North Asia region (Greater China and Japan). MNACT holds nine commercial properties located in Hong Kong, China and Japan and has a total book value of SGD7.67bn as of 30 Sep 2019. MNACT generates 62% of its net property income from Festival Walk in Hong Kong. Temasek Holdings Pte Ltd holds a 33.45% stake. Mapletree Investments Pte Ltd is the sponsor of MNACT.

Mapletree North Asia Commercial Trust

Key Considerations

- **Potential loss of income from Festival Walk ("FW"):** The mall is MNACT's largest asset. It accounts for 65.3% of total portfolio valuation as at 31 Mar 2019 and in 1HFY2020, contributed to 62% of total portfolio revenue and net property income ("NPI"). On 12 Nov 2019, FW sustained smashed glass panels, fire within the mall and the office lobby, and has since been closed for major recovery and repair works. MNACT is looking to re-open the mall, either partially or fully in 1Q2020 and rental from the retail tenants will not be collected over the duration that the mall remains closed. The office tower on the other hand has reopened on 26 Nov and rental collection has also resumed. The insurance coverage for FW includes property damage and loss of revenue due to business interruptions. While the loss of retail and office revenue as well as property damage are covered under the insurance policies, the assessment of the quantum of revenue loss and property damage recoverable by insurance claims is currently underway. The quantum and timing of receiving the claims has yet to be determined. Given MNACT is anchored by FW, earnings will be impacted and therefore MNACT will smooth out the distributions to unitholders via borrowings which will be repaid once the insurance claims proceeds are received.

- **Slight y/y growth in the period 1 Apr to 30 Sep 2019:** Prior to the various incidents at FW, MNACT saw gross revenue increased 0.9% y/y to SGD105.5mn, while net property income ("NPI") was up by 1.3% y/y to SGD84.7mn in the second quarter of financial year started 1 March 2019 ("2QFY2020"). This was mainly due to higher rental income from FW, and higher average rate of HKD and JPY, though offset by lower average rate of RMB. Portfolio occupancy dipped slightly to 98.9% from 99.1% in the preceding quarter. This was solely due to Gateway Plaza which saw occupancy fall by 0.7% to 96.5% (1QFY2020: 97.2%). We are seeing 16.2% of leases (by gross rental income) expiring for the remaining of FY2020. We think this is manageable as ~7.4% has already been renewed or re-let. Overall, MNACT saw positive rental reversion across all assets except Gateway Plaza over the half year. That said, weaker economic conditions and protests which started in June 2019 continued to dampen consumer sentiment. As a result, FW saw footfall and retail sales fall by 3.6% y/y and 6.6% y/y respectively from April to Sep 2019. In fact, retail sales across Hong Kong from April-August 2019 contracted by 9.3%. Although these declines did not result in weaker occupancy or lower rent at FW as at Sep 2019, there could be a lag time as the weighted average lease expiry at FW is 2.5 years where tenants are "locked in" on their leases. In addition, the mall subsequently sustained extensive damage in Nov 2019 as mentioned above. Therefore, we think it may be difficult for FW to continue to lift MNACT's performance.

- **Acquisition of Japan properties:** To reduce income and asset concentration of FW and accelerate the REIT's income diversification, MNACT is acquiring an effective interest of 98.47% in two freehold, multi-tenanted office properties located in Greater Tokyo, Japan from its Sponsor. They are mBay Point Makuhari Building ("MBP") and Omori Prime Building ("OPB"). MBP has an occupancy rate of 84.8% as at 30 Sep 2019, while OPB is fully occupied. The total acquisition cost is ~ SGD482.5mn (JPY37.9bn), and MNACT intends to fund it via 30% new equity to its Sponsor and 70% debt or cash. Post transaction, aggregate leverage is expected to increase from 37.1% as at 30 Sep 2019 to 39.0% based on the abovementioned funding structure.

- **Weaker credit metrics:** Prior to the acquisition, EBITDA/Interest was lower at 4.1x versus 4.2x in 1QFY2020, with aggregate leverage higher at 37.1% from 36.9% in the preceding quarter. Post-acquisition, aggregate leverage is expected to jump to 39.0% which is 1-2% higher than its peers. Although we continue to hold MNACT at a Neutral (4) Issuer Profile, we note that MNACT's credit profile has weakened somewhat.

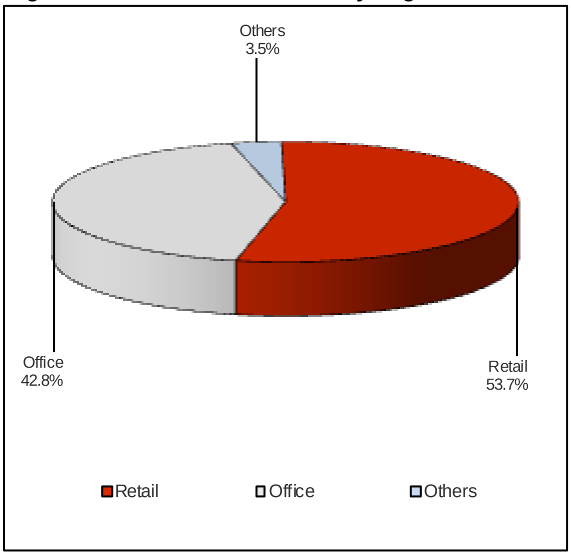
Mapletree North Asia Commercial Trust

Table 1: Summary Financials

Year Ended 31st Mar	FY2018	FY2019	1H2020
Income Statement (SGD'mn)			
Revenue	355.0	408.7	210.4
EBITDA	265.0	303.2	156.1
EBIT	264.3	302.4	155.5
Gross interest expense	69.7	74.3	37.4
Profit Before Tax	618.1	695.8	119.2
Net profit	574.2	634.4	98.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	178.0	178.8	170.0
Total assets	6,522.7	7,820.4	7,862.8
Short term debt	83.8	287.6	364.3
Gross debt	2,361.1	2,867.9	2,918.6
Net debt	2,183.1	2,689.1	2,748.6
Shareholders' equity	3,888.8	4,590.2	4,564.9
Cash Flow (SGD'mn)			
CFO	306.4	309.0	157.0
Capex	1.6	1.4	2.8
Acquisitions	5.0	736.5	0.0
Disposals	0.0	0.0	0.0
Dividends	208.7	285.6	124.2
Interest paid	63.5	70.6	36.4
Free Cash Flow (FCF)	304.8	307.5	154.2
Key Ratios			
EBITDA margin (%)	74.65	74.18	74.20
Net margin (%)	161.74	155.23	46.57
Gross debt to EBITDA (x)	8.91	9.46	9.35
Net debt to EBITDA (x)	8.24	8.87	8.80
Gross Debt to Equity (x)	0.61	0.62	0.64
Net Debt to Equity (x)	0.56	0.59	0.60
Gross debt/total asset (x)	0.36	0.37	0.37
Net debt/total asset (x)	0.33	0.34	0.35
Cash/current borrowings (x)	2.12	0.62	0.47
EBITDA/Total Interest (x)	3.80	4.08	4.17

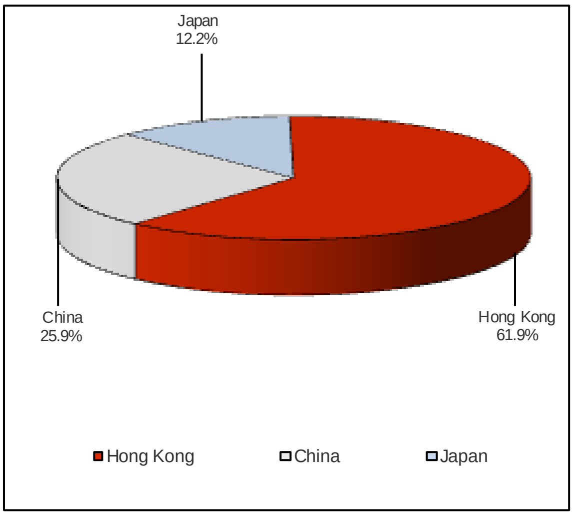
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2020



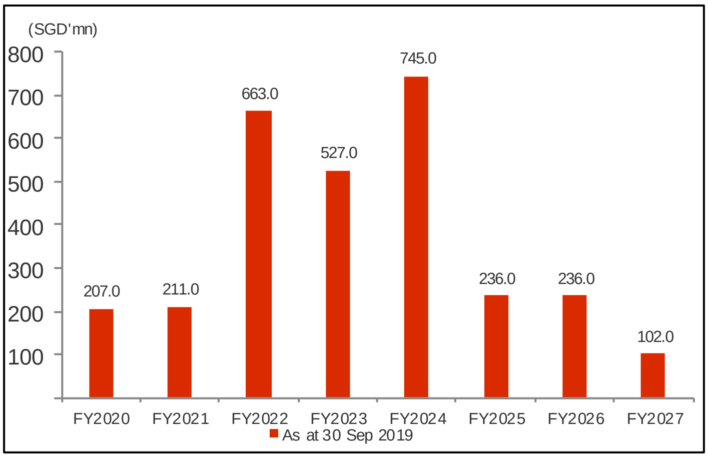
Source: Company

Figure 2: Revenue breakdown by Geography - 1H2020



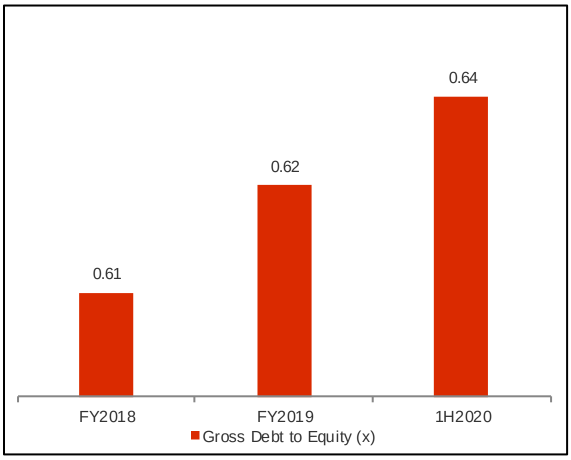
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:

Neutral (3)

Ticker:

MINTSP

Credit Outlook:

We are underweight on MINTSP 3.65% '22s and MINTSP 3.58% '29s and neutral on the rest of the curve. We by and large prefer the CCT curve over the MINT curve. We have both names on Neutral (3) issuer profile. Although MINT has pursued acquisitions in 2019, we note that its credit metrics remain healthy.

Background:

Mapletree Industrial Trust ("MINT") owns a portfolio of 87 flatted factories, hi-tech business parks, stack-up/ramp-up and light industrial buildings in Singapore and 14 data centers in the US via a 40%-stake in a joint venture with its sponsor – Mapletree Investments Pte Ltd ("MAPL"). On 16 Sep 2019, MINT proposed to acquire another 13 data centers located in North America. As at 30 September 2019, MINT's total assets were SGD4.8bn (~SGD5.8bn post acquisition of the 13 data centers). MINT is 27.05% owned by Temasek Holdings Pte Ltd.

Mapletree Industrial Trust

Key Considerations

- **New revenue contributors:** In the financial year ended March 2020 ("2QFY20"), gross revenue increased 10.5% y/y to SGD101.9mn, largely due to contribution from 18 Tai Seng, 30A Kallang Place and Mapletree Sunview 1. Directionally, NPI moved in tandem and grew by 13.3% y/y to SGD80.0mn, as property operating expenses did not increase as much. Q/q, revenue and NPI grew by 2.3% and 2.7% respectively, due to improved occupancies from Business Park Buildings (81.9% from 79.3%), Flatted Factories (88.1% from 87.9%) and 30A Kallang Place.

- **Acquisition of more data centres:** MINT announced on 17 Sep 2019 that it had formed a 50:50 joint venture with its Sponsor, MAPL to acquire (1) 10 powered shell data centres from Digital Realty and (2) an 80% stake in three existing fully fitted hyperscale data centres. Digital Realty will hold the balance 20% stake. In aggregate, MINT's share amounts to SGD950.2mn in purchase consideration (~3.4% discount to independent valuer's valuation) and SGD965.0mn in acquisition cost. Post-acquisition, MINT's asset base will increase by ~21% from SGD4.8bn to SGD5.8bn, with its exposure to Hi-Tech Buildings higher at 53% from 44%, and exposure to overseas data centres (subset of Hi-Tech Buildings) at 24%, up from 9% initially. This move shrinks MINT's overall exposure to other segments. In particular, exposure to Flatted Factories will fall from 33% to 27% of its enlarged asset base (Flatted Factories' proportion of portfolio value: 2QFY2019: 35.7%, 2QFY2018: 41.2%, 2QFY2017: 44.0%). Looking ahead, MINT is redeveloping Kolam Ayer 2 Flatted Factory Cluster into a high-tech industrial precinct. Construction works is expected to commence in 2H2020 and complete in 2H2022. As at 30 Sep 2019, 59 out of 108 of the existing tenants have committed to new leases at alternative MINT clusters, and management has extended a small discount to these tenants. With this redevelopment, MINT's exposure is expected to shift further from Flatted Factories to Hi-Tech Buildings.

- **Strong portfolio statistics:** Portfolio occupancy for its Singapore portfolio improved to 90.2% from 86.2% a year ago, with US portfolio occupancy rate unchanged at 97.4%. 7.2% of MINT's portfolio leases by gross rental income will come due for the remaining of FY2020. With a retention ratio of 80% (lowest in MINT's portfolio by segment), Flatted Factories continue to make up bulk of these leases coming due. That said, we note that in 2QFY2019, retention ratio was in the 65% - 73% range across all its properties, with the exception of Hi-Tech Buildings. In 2QFY2020, we saw improvement and the lowest retention ratio for any segment was 80%. Although the operating environment continues to be challenging, we think MINT has managed its properties well.

- **Healthy credit metrics:** Aggregate leverage of MINT (taking into account MINT's proportionate debt and asset at the JV level) was lower at 29.2% from 33.4% in 1QFY20 and 33.8% in 4QFY2019, as part of the SGD400mn proceeds from the equity fund raising exercise was used to repay some of its debt. EBITDA/Interest was slightly better at 6.2x from 6.0x a year ago. MINT has no debt maturing in FY2020 and just SGD100mn debt maturing in FY2021, along with a well-distributed maturing debt profile with a maximum of ~20% of total debt maturing each year. As at 30 Sep 2019, MINT has SGD224.7mn of cash on hand which is more than sufficient to repay its borrowings in FY2021. As such, we see refinancing risk as minimal. In addition, all of MINT's assets are unencumbered given MINT does not have any secured borrowings. We also note that its USD investment in JV is matched with USD borrowings, and ~89% of its 3QFY2020 net USD income stream is hedged into SGD. Therefore, despite its diversification into the US, the impact of foreign exchange fluctuation on its balance sheet is well managed.

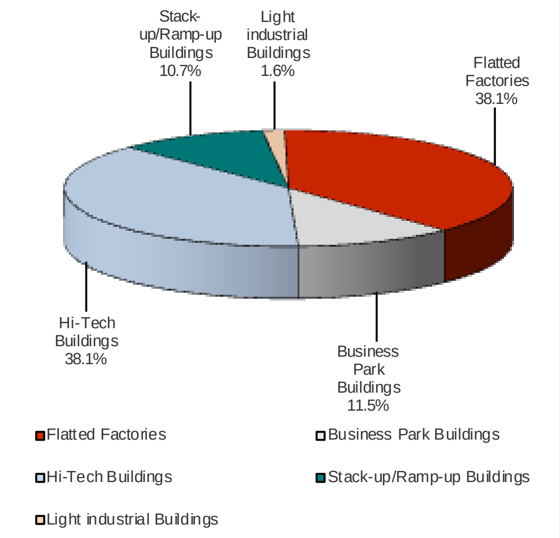
Mapletree Industrial Trust

Table 1: Summary Financials

Year Ended 31st March	FY2018	FY2019	1H2020
Income Statement (SGD'mn)			
Revenue	363.2	376.1	201.4
EBITDA	247.9	256.3	140.7
EBIT	247.8	256.3	140.7
Gross interest expense	34.1	40.1	21.9
Profit Before Tax	300.6	271.1	126.9
Net profit	300.5	271.1	126.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	37.4	22.3	224.7
Total assets	4,154.3	4,550.6	4,902.6
Short term debt	184.9	75.0	0.0
Gross debt	1,218.1	991.7	1,253.0
Net debt	1,180.7	969.3	1,028.3
Shareholders' equity	2,780.1	3,006.6	3,411.3
Cash Flow (SGD'mn)			
CFO	244.4	250.8	114.3
Capex	97.6	35.5	23.0
Acquisitions	187.2	354.8	75.2
Disposals	17.4	0.0	0.0
Dividends	212.1	204.0	86.0
Interest paid	33.3	39.7	21.6
Free Cash Flow (FCF)	146.8	215.3	91.4
Key Ratios			
EBITDA margin (%)	68.24	68.15	69.83
Net margin (%)	82.74	72.09	62.98
Gross debt to EBITDA (x)	4.91	3.87	4.45
Net debt to EBITDA (x)	4.76	3.78	3.65
Gross Debt to Equity (x)	0.44	0.33	0.37
Net Debt to Equity (x)	0.42	0.32	0.30
Gross debt/total asset (x)	0.29	0.22	0.26
Net debt/total asset (x)	0.28	0.21	0.21
Cash/current borrowings (x)	0.20	0.30	NM
EBITDA/Total Interest (x)	7.28	6.39	6.42

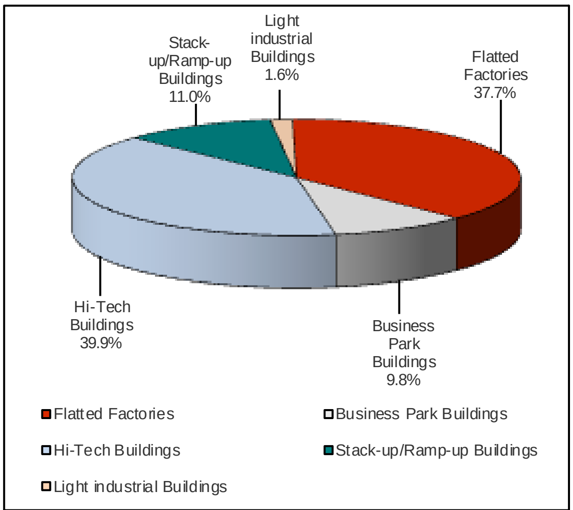
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2020



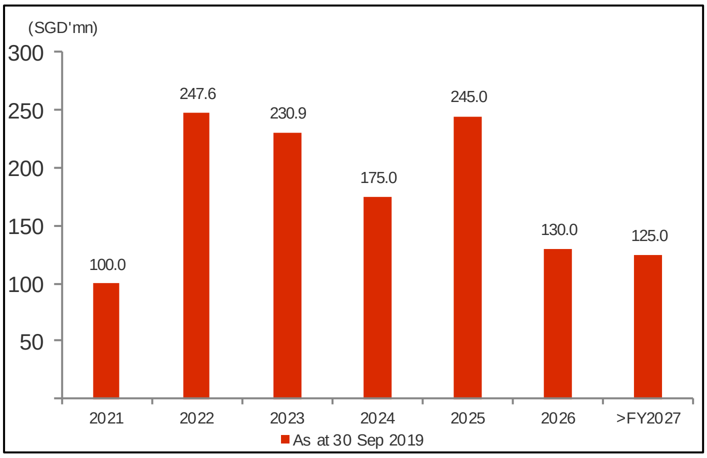
Source: Company

Figure 2: NPI breakdown by Segment - 1H2020



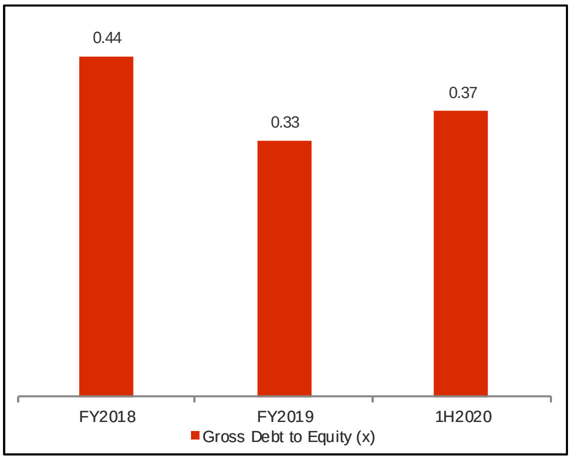
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:

Neutral (4)

Ticker:

MLTSP

Outlook:

With the tightening of the MLTSP 4.18%-PERP, we have turned our interest to the MLTSP 3.65%-PERP instead with a YTC of 3.65%, first call date in March 2023. We prefer this over the ARTSP 3.88%-PERP which is only paying a YTC of 3.51%, first call date in September 2024.

Background:

Mapletree Logistics Trust ("MLT") is the first Asia-focused logistics REIT listed in Singapore. Total assets were SGD8.0bn as at 30 September 2019. As at 30 September 2019 MLT owned 137 properties, inclusive of its 50%-economic interest in 11 properties in China. By asset value, MLT's assets are located in Singapore (32.7%), HKSAR (31.7%), Japan (10.2%), China (7.9%), Australia (7.8%) and others (9.7%). MLT is sponsored by Mapletree Investments Pte Ltd ("MAPL") who also owns ~29% in MLT.

Mapletree Logistics Trust

Key Considerations

- **Y/y growth in gross revenue driven by acquisitions:** MLT's gross revenue for the quarter ended 2020 ("2QFY2020") was SGD121.8mn, up 14.2% y/y, this was attributable to higher revenue from existing properties in HKSAR, redevelopment of Mapletree Ouluo Logistics Park Phase 1 and acquisitions in Singapore (CWT warehouses), Australia, South Korea and Vietnam completed in FY2019. This was offset by sale of the five Japan properties in 1QFY2020 and the weaker AUD, KRW and RMB against the SGD. On a q/q basis which was less affected by asset movements, gross revenue increased 1.6%, driven by existing properties in HKSAR and higher translated revenue from stronger JPY and HKD against the SGD. Net property income ("NPI") performed even stronger, up 2.8% q/q to SGD109.1mn due to the decline in operation and maintenance expenses.

- **Manageable interest coverage ratio:** EBITDA (based on our calculation which does not include other income and other expenses, though includes interest income from shareholder's loans extended to MLT's 11 joint venture properties in China bought in June 2018) was SGD97.3mn, up 2.9% q/q. Interest expense (including impact from SFRS(1) 16) was down 2.0% q/q, resulting in an EBITDA/Interest of 4.6x (1QFY2020: 4.4x). MLT's average debt balance had fallen during the quarter by ~2% while weighted average borrowing cost had also dropped 20bps. Assuming MLT pays out SGD17.0mn in perpetual distribution per annum, this would be SGD4.3mn per quarter and taking 50% of this as interest, we find Adjusted EBITDA/(Interest and 50% perpetual distribution) of 4.2x, still manageable.

- **Lease expiries within historical range though still concentrated to CWT:** As at 30 September 2019, overall occupancy at MLT was 97.5%, steady versus 97.6% in the previous quarter. The drag came from China and South Korea though partly offset by HKSAR. 11.3% of leases by net lettable area ("NLA") come due from 1 October 2019 to 31 March 2020 while 21.2% of NLA comes due in FY2021. We take comfort that this is within range of its past two year average. While the top ten tenants by gross revenue contributed only 29.6%, CWT is still the single largest tenant contributing 9.5% to MLT's revenue. We expect the latest acquisitions from its Sponsor to reduce CWT's contribution slightly, though still at ~9%.

- **Adjusted aggregate leverage on the high side versus other REITs we cover:** As at 30 September 2019, MLT's reported aggregate leverage was 37% (30 June 2019: 36.8%). This includes the proportionate asset and debt at MLT's 11 joint venture properties and including 50% of perpetual as debt, adjusted aggregate leverage was ~40%. As at 30 September 2019, MLT's outstanding perpetuals was SGD430mn. MLT's aggregate leverage is expected to tilt up slightly following announced but yet completed acquisitions. In September 2019, MLT announced that it has entered into a forward purchase agreement to buy a small warehouse in Australia, to be fully debt funded while in October 2019, MLT announced the proposed acquisition of seven properties from its Sponsor, including a 50% interest in each of four logistics properties in China, for a total acquisition cost of ~SGD422mn. Onshore loans on four China properties will not be discharged (MLT's pro-rata share: ~SGD27.8mn) and this would result in a total acquisition outlay (including transaction cost) of ~SGD394mn. As of writing, the acquisition of six out of seven of these properties had been completed.

- **Little refinancing risk:** Exhibiting MLT's strong financial flexibility from equity markets, the REIT's SGD250mn equity private placement to part fund the proposed acquisitions and transaction costs saw an orderbook of more than 13.0x (even prior to the related party transaction being approved by equity holders). The rest of the funding required for the investment outlay will be via debt. As at 30 September 2019, short term debt at MLT was SGD179.0mn, representing only 6% of total debt. Apart from seven properties in Malaysia under an asset securitization structure, MLT's remaining investment portfolio of SGD7.5bn is available to be used to raise secured debt, if need be.

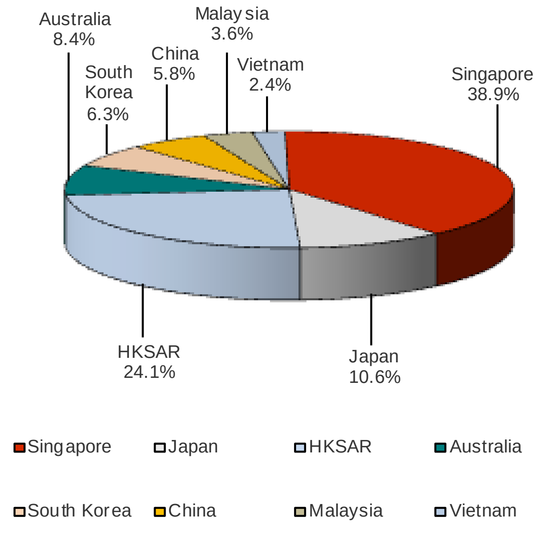
Mapletree Logistics Trust

Table 1: Summary Financials

Year Ended 31st March	FY2018	FY2019	1H2020
Income Statement (SGD'mn)			
Revenue	395.2	454.3	241.6
EBITDA	292.9	340.7	188.9
EBIT	291.3	338.6	187.8
Gross interest expense	54.1	72.5	42.8
Profit Before Tax	521.3	499.3	165.9
Net profit	472.2	456.5	147.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	101.2	104.3	117.5
Total assets	6,678.3	8,078.3	8,060.5
Short term debt	53.2	31.6	185.2
Gross debt	2,511.8	2,993.7	2,984.7
Net debt	2,410.6	2,889.4	2,867.2
Shareholders' equity	3,811.8	4,667.2	4,682.0
Cash Flow (SGD'mn)			
CFO	266.5	354.1	144.4
Capex	0.0	0.0	0.0
Acquisitions	698.3	1,078.0	15.3
Disposals	186.1	90.0	208.7
Dividends	224.1	198.1	142.3
Interest paid	50.4	69.9	38.2
Free Cash Flow (FCF)	266.5	354.1	144.4
Key Ratios			
EBITDA margin (%)	74.13	75.01	78.21
Net margin (%)	119.50	100.50	61.01
Gross debt to EBITDA (x)	8.57	8.79	7.90
Net debt to EBITDA (x)	8.23	8.48	7.59
Gross Debt to Equity (x)	0.66	0.64	0.64
Net Debt to Equity (x)	0.63	0.62	0.61
Gross debt/total asset (x)	0.38	0.37	0.37
Net debt/total asset (x)	0.36	0.36	0.36
Cash/current borrowings (x)	1.90	3.30	0.63
EBITDA/Total Interest (x)	5.42	4.70	4.41

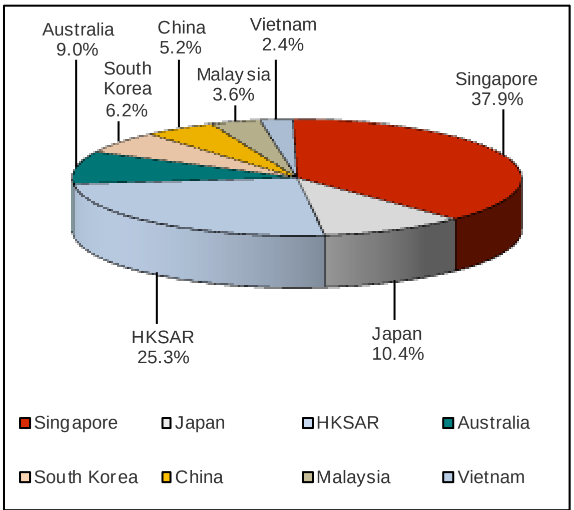
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 1H2020



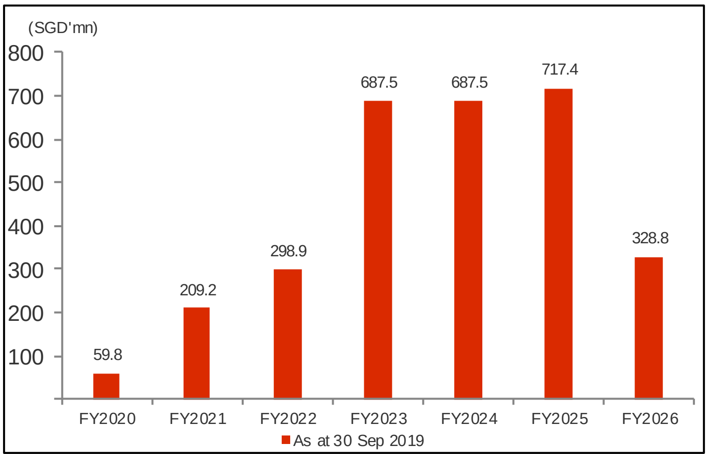
Source: Company

Figure 2: NPI breakdown by Geography - 1H2020



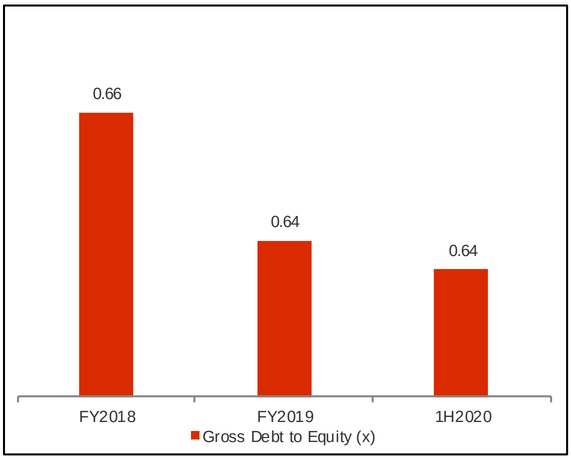
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:
Neutral (4)

Ticker:
METRO

Credit Outlook:
We like both METRO bonds. METRO 4% '21s is offering a yield of 3.28% with a spread of 185bps for a 1.8years tenor, while METRO 4.3% '24s is offering a yield of 3.76% with a spread of 228ps above swap for a 4.3y tenor. We think both look interesting, as the credit health of METRO remains healthy.

Background:
Metro Holdings Ltd ("METRO") was listed on the SGX in 1973. Its principal activities are property investment, property development, and retail operations. Its properties include retail and office properties in Tier 1 cities in China, and properties in the UK, Indonesia and Singapore held through strategic partnerships and joint ventures ("JV"). METRO's retail arm serves customers through a chain of two Metro department stores in Singapore, and another 11 stores in Indonesia.

Metro Holdings Ltd

Key Considerations

- **Stronger top line:** For financial year ending 30 June 2020 ("2QFY2020"), revenue jumped 57.1% y/y to SGD72.8mn from SGD46.3mn, on the back of SGD36.4mn sale of property rights of the residential development properties in Indonesia. The retail division saw revenue increase by 12.9% y/y to SGD34.7mn, due to promotional events over the quarter (Metro Centrepoint had run events leading up to store closure upon lease expiry). Share of associates' results (net of tax) though was down by 93.5% y/y to SGD0.3mn from SGD4.9mn, mainly due to the absence of contributions from Middlewood Locks Phase 2 in the UK. Share of JVs' results (net of tax) was also down by 13.5% y/y to SGD8.9mn as profits recognised from the residential units sold in Singapore was lower. These led to an overall lower profit before tax (incl. interest in associates and JVs) of SGD13.4mn (-9.4% y/y), partly due to higher finance costs of SGD4.6mn (+540.8% y/y, SGD3.8mn of which is related to coupon payment for its bonds) on top of the above mentioned reasons.

- **Acquisitions spree:** On 11 Nov 2019, METRO acquired a 20% stake in a portfolio of 14 freehold office and retail properties in Australia for AUD95.8mn (~SGD89.7mn) via a JV agreement. The portfolio holds 4 office buildings and 10 retail centres across Australia. The total net lettable area is 130,925 sqm with a committed occupancy rate of 96.7% and an overall weighted average lease expiry of ~8 years. While METRO is expected to fund this with internal cash sources and external borrowings, METRO has sufficient cash on hand as at 30 Sep 2019 (SGD236.9mn). Within the year, METRO has also acquired a 50% stake in 7 & 8 Tampines Grande, Singapore in April and a 25% stake in The Mall, Chengdu, China in May. We think these transactions demonstrate METRO's keenness to pursue growth in the property segment.

- **Exited Indonesia retail:** METRO's wholly-owned subsidiary has sold its 50% equity stake in PT Metropolitan Retailmart ("PT MRM") to PT Trans Corpora for a sale consideration of SGD25mn. PT MRM currently operates 11 Metro stores across Indonesia. With this, METRO exits the Indonesia retail space and only has two retail stores remaining in Singapore. As such, we view this transaction as is a significant shift away from the retail business. In 2QFY2020, this retail business arm in Indonesia recorded an overall loss of SGD0.2mn**.** Overall, we view this transaction as broadly credit positive given that it unlocks cash (~10% increase in cash on hand which was SGD236.9mn as at 30 Sep 2019) for METRO to redeploy.

- **Substantial associates and JVs:** METRO held 60% of its total assets and 81% of its non-current assets in associates and JVs as at 30 Sep 2019. As a result, associates and JVs contributed 60% of the Group's profit before tax. METRO's associates and JVs are mainly involved in property investment and development and METRO may not have control or influence over the assets of its associates and JVs. Also, the debt taken up by the JVs and associates are not reflected on METRO's balance sheets and hence it will remain a risk that comes with METRO's business structure. We also expect these percentages to increase with the abovementioned acquisition in Australia. Bondholders of METRO are therefore exposed to significant structural subordination risk as assets held by the associates and JVs.

- **Still healthy credit metrics:** Despite the risk involved as a result of METRO's business structure, we take comfort in METRO's still healthy credit metrics. Net gearing (excluding pledged fixed deposits of SGD15mn) has crept higher to 0.08x, from 0.02x as at 31 March 2019 as expected. We note that METRO has a SGD1.0bn multicurrency debt issuance programme established and has issued a SGD200mn 5-year bond in March this year at 4.3% p.a, and SGD150mn 3-year bond at 4% p.a in Oct last year. METRO has SGD236.9mn cash on hand which is sufficient to repay its short term debt of SGD55.0mn as well as the acquisition transaction (SGD89.7mn). We think METRO still has financial flexibility to pursue opportunities especially in the property space and leverage may continue to creep higher.

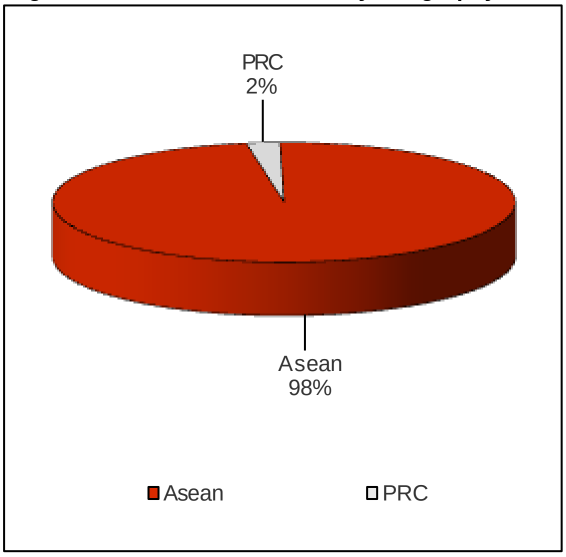
Metro Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Mar	FY2018	FY2019	1H2020
Income Statement (SGD'mn)			
Revenue	136.3	172.0	128.7
EBITDA	-15.4	-10.4	2.4
EBIT	-17.5	-13.7	1.7
Gross interest expense	31.5	35.3	9.2
Profit Before Tax	170.7	107.0	25.7
Net profit	159.7	95.7	21.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	159.4	195.3	236.9
Total assets	1,701.9	1,904.6	2,118.3
Short term debt	136.8	80.5	66.4
Gross debt	136.8	229.7	445.1
Net debt	net cash	34.4	208.3
Shareholders' equity	1,482.1	1,539.1	1,512.0
Cash Flow (SGD'mn)			
CFO	-49.8	-31.8	-44.0
Capex	1.5	2.0	0.4
Acquisitions	7.1	33.8	45.9
Disposals	45.8	3.8	0.0
Dividends	41.4	41.4	37.3
Free Cash Flow (FCF)	-51.3	-33.8	-44.4
Key Ratios			
EBITDA margin (%)	-11.30	-6.07	1.88
Net margin (%)	117.14	55.64	16.78
Gross debt to EBITDA (x)	-8.88	-22.01	91.81
Net debt to EBITDA (x)	net cash	-3.29	42.96
Gross Debt to Equity (x)	0.09	0.15	0.29
Net Debt to Equity (x)	net cash	0.02	0.14
Gross debt/total assets (x)	0.08	0.12	0.21
Net debt/total assets (x)	net cash	0.02	0.10
Cash/current borrowings (x)	1.17	2.43	3.57
EBITDA/Total Interest (x)	-0.49	-0.30	0.26

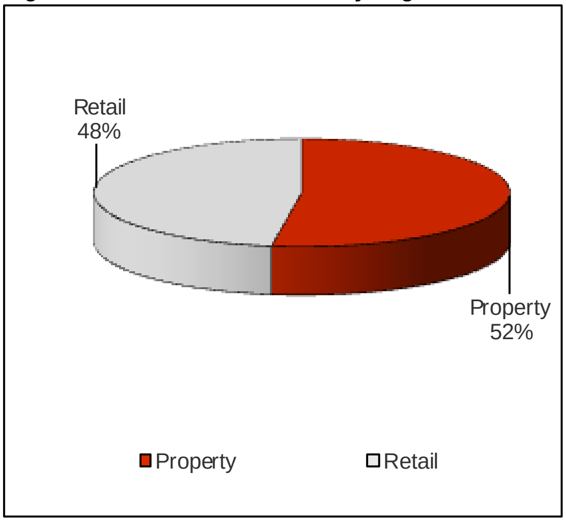
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 1H2020



Source: Company

Figure 2: Revenue breakdown by Segment - 1H2020



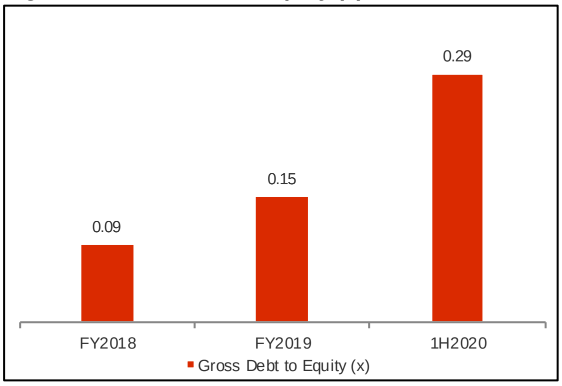
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	24.9	5.6%
Unsecured	41.5	9.3%
	66.4	**14.9%**
Amount repayable after a year		
Secured	0.0	0.0%
Unsecured	378.7	85.1%
	378.7	**85.1%**
Total	**445.1**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Gross Debt to Equity (x)



Source: Company

Issuer Profile:
Neutral (5)

Ticker:
OLAMSP

Outlook:
We are underweight the OLAMSP 5.5%-PERP with a YTC of 4.3% as we think the senior-sub spread of ~55bps is too tight for a high yield issuer.

Background:
Olam International Limited ("OLAM") is a diversified, vertically-integrated agri-commodities merchandiser, producer and trader. It also generates income from the sale of packaged food products, commodity financial services and holding minority stakes in longer term investments. Temasek is the largest shareholder with a ~54%-stake, followed by Mitsubishi Corp with ~17%. Kelwaram Chanrai Group (a co-founder of OLAM) retains a 7%-stake while management team holds ~6%.

Olam International Ltd

Key Considerations

- **Growth in reported EBITDA:** Gross revenue in 3Q2019 was up 0.2% y/y to SGD8.3bn while reported EBITDA was up 25.2% y/y to SGD286.9mn. The y/y increase in EBITDA was driven by Commodity Financial Services ("CFS") which reported EBITDA at SGD1.8mn versus a loss before interest, tax depreciation and amortisation of SGD31.5mn in 3Q2018, driven by stronger performance from OLAM's quantitative fund business while the fundamental fund business within CFS was shuttered in 1Q2019 (and thus stemming losses). Additionally, Food Staples & Packaged Foods saw reported EBITDA up 17.7% y/y while Edible Nuts and Spices was up 38.2% y/y. Confectionary and Beverage saw EBITDA growing slightly by 1% y/y while the cotton focused Industrial Raw Materials, Infrastructure & Logistics segment saw reported EBITDA down 16.4% y/y. On a 9M2019 basis, reported EBITDA grew 16.9% y/y to SGD1.1bn.

- **Seasonally slow quarter drag interest coverage:** Nonetheless, the overall reported EBITDA was also boosted by the adoption of SFRS(1) 16, on a like-for-like basis (removing the SFRS(1) 16 impact), reported EBITDA would have increased by 14.3% y/y instead to SGD261.8mn. Finance costs increased by 15.3% y/y to SGD165.4mn though in part driven by adoption of SFRS(1) 16. Resultant reported EBITDA/reported interest cost which includes the interest in relation to lease liabilities was 1.7x (2Q2019: 1.9x), with third quarter being a historically seasonally weak quarter. On a like-for-like basis, the increase in interest costs was attributable to increase in higher benchmark interest rates.

- **Higher unadjusted net gearing:** Unadjusted net gearing (including lease liabilities) was 1.43x as at 30 September 2019 (30 June 2019: 1.33x). While OLAM repaid significant amounts of debt of SGD750.2mn (net of new borrowings) during the quarter, the company's working capital needs were high versus 2Q2019 while it also paid out interim dividends amounting to SGD110.4mn. Beginning cash was SGD3.6bn though by quarter end this was SGD2.6bn. With commodity prices less controllable, unadjusted net gearing may still tilt higher should working capital needs increase beyond levels seen in the past two years. We take comfort that the company had been disciplined in maintaining unadjusted net gearing below 2.0x.

- **Monitoring OLAM's acquisition and divestments:** On 31 October 2019, OLAM had completed the acquisition of Dangote Flour Mills ("DFM") for ~USD331mn (~SGD452mn). We note that OLAM had acquired this business in a bid to consolidate market share in Nigeria. In October 2019 also, OLAM announced that it will be acquiring Hughson Nut Inc ("Hughson"), an almond processor and ingredient manufacturer for a total enterprise value of USD54.0mn (~SGD74mn). We think these would drive unadjusted net gearing (including lease liabilities) higher to ~1.5x. Per its 2019-2024 Strategic Plans, OLAM has a planned investment of USD3.5bn (USD1.0bn in maintenance capex) while it aims to divest businesses to release USD1.6bn. Per OLAM, for 9M2019, it had unlocked SGD154mn of capital from divestments and exiting several trading desks though this has sped up in 4Q2019.

- **Entered into revenue share arrangements with PureCircle as outstanding issue:** OLAM announced that it will be selling the real estate assets of its onion and garlic processing facility in California for USD110.3mn (~SGD150.5mn) and permanent water rights in Australia to a related entity of one of Canada's largest pension investment managers, for a total consideration of AUD490mn (~SGD455mn). While eye-catching and able to generate large one-off gains, we see these transactions as credit neutral. While unadjusted net gearing may improve temporarily prior to redeployment of funds, OLAM as an operator would need to be sharing revenue with the new owner which should lower its profitability (excluding the one-off gains). OLAM holds a ~17%-stake in PureCircle Ltd ("PureCircle"), a London listed stevia company whose shares are still suspended, pending investigation into potential issues on inventory valuation. As at 30 September 2019, OLAM's stake in this company is booked at SGD101.7mn, which may result in a non-cash loss if this needs to be written off.

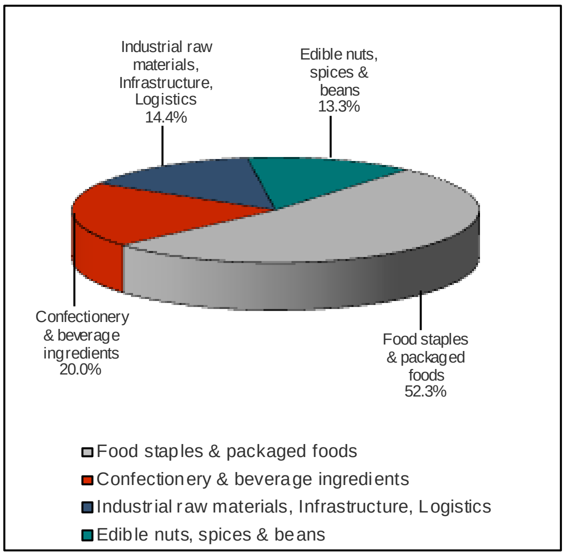
Olam International Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)	**SGD'mn**	**SGD'mn**	**SGD'mn**
Revenue	26,272.5	30,479.1	24,255.2
EBITDA	1,217.2	1,030.7	979.8
EBIT	836.6	637.9	601.9
Gross interest expense	531.2	548.5	494.3
Profit Before Tax	630.9	380.6	250.0
Net profit	551.6	323.2	216.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,986.4	2,480.4	2,757.4
Total assets	22,298.5	23,446.8	24,377.3
Short term debt	4,660.2	4,777.1	6,122.3
Gross debt	11,587.9	11,268.2	11,819.0
Net debt	9,601.6	8,787.9	9,061.6
Shareholders' equity	6,621.0	6,464.1	6,343.8
Cash Flow (SGD'mn)			
CFO	2,121.8	1,947.4	1,678.3
Capex	951.1	804.2	430.6
Acquisitions	0.0	31.7	66.3
Disposals	310.9	292.4	11.3
Dividend	180.4	237.7	238.6
Free Cash Flow (FCF)	1,170.7	1,143.2	1,247.7
Key Ratios			
EBITDA margin (%)	4.63	3.38	4.04
Net margin (%)	2.10	1.06	0.89
Gross debt to EBITDA (x)	9.52	10.93	9.05
Net debt to EBITDA (x)	7.89	8.53	6.94
Gross Debt to Equity (x)	1.75	1.74	1.86
Net Debt to Equity (x)	1.45	1.36	1.43
Gross debt/total assets (x)	0.52	0.48	0.48
Net debt/total assets (x)	0.43	0.37	0.37
Cash/current borrowings (x)	0.43	0.52	0.45
EBITDA/Total Interest (x)	2.29	1.88	1.98

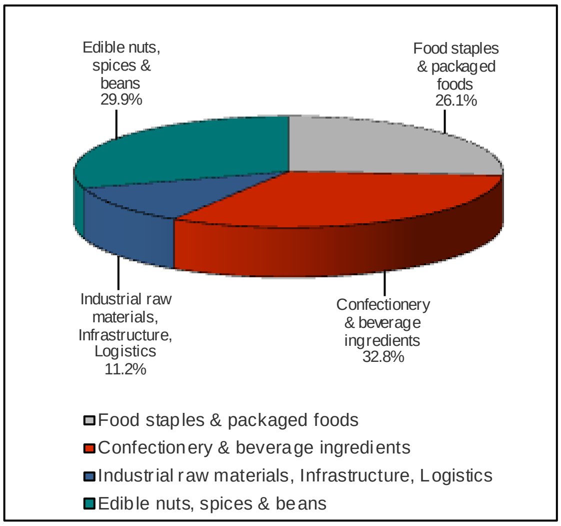
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2019



Source: Company

Figure 2: EBITDA breakdown by Segment - 9M2019



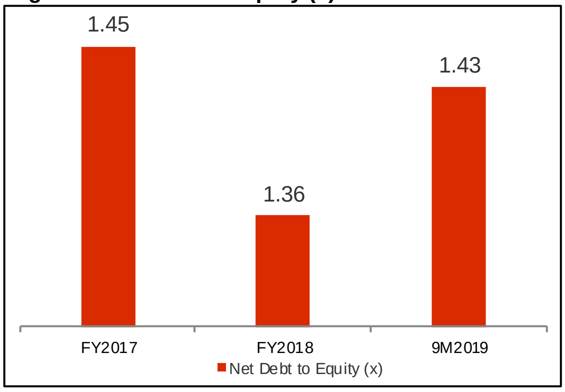
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	77.0	0.7%
Unsecured	6,045.3	51.1%
	6,122.3	**51.8%**
Amount repayable after a year		
Secured	106.6	0.9%
Unsecured	5,590.1	47.3%
	5,696.7	**48.2%**
Total	**11,819.0**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:
Neutral (5)

Ticker:
OUESP

Outlook:
Notwithstanding OUE's lack of recurring income, we are overweight the OUESP 3.8% '20s which matures in April 2020. The issuer's credit profile continues to be underpinned by its assets though we are still awaiting a major asset sale since the sale of the serviced apartments at OUE Downtown. We are broadly underweight the rest of the curve while such uncertainty persists.

Background:
OUE Limited ("OUE")'s key business is as an investment holding company. It holds a ~48%-stake in OUE-Commercial REIT ("OUE-CT"), which combined with OUE-Hospitality Trust ("OUE-HT") in September 2019. OUE also owns investment properties and has increased its exposure to the healthcare and China property businesses. OUE owns a ~64.4%-stake in OUE Lippo Healthcare Ltd, a 60%-stake in First REIT ("FIRT")'s REIT Manager and a ~28%-stake in Gemdale Properties and Investment Corporation Limited ("Gemdale"). OUE is listed on the Singapore Stock Exchange with a market cap of SGD1.3bn as at 23 December 2019.

OUE Limited

Key Considerations

- **Development properties segment driven by land sale:** Following the combination of OUE Commercial Trust ("OUE-CT") and OUE Hospitality Trust ("OUE-HT"), OUE-HT was no longer recorded as an associate but as a subsidiary of OUE whose results are consolidated (i.e.: similar treatment as OUE-CT standalone). As such we find y/y comparison to be less useful for 3Q2019. 3Q2019 overall revenue was SGD282.5mn, of which SGD133.9mn was attributable to the Development property segment where OUE recorded a SGD95mn sale of 26A Nassim Road (sold to OUE Chairman), indicating that SGD38.9mn was attributable to the recognition of revenue from OUE Twin Peaks units sold under deferred payment schemes in 3Q2019. No new development projects have been launched post OUE Twin Peaks. The second largest revenue contributor was Investment properties at SGD72.3mn mainly due to the consolidation of Mandarin Gallery (owned by the enlarged OUE-CT) while Hospitality was SGD62.5mn. Healthcare revenue held up at SGD5.0mn (3Q2018: SGD4.9mn).

- **Profit higher due to non-cash one-off:** During the quarter, OUE recognized SGD81.7mn in share of results of equity-accounted investees (3Q2018: SGD9.8mn), which incorporates both OUE's stake in FIRT and Gemdale Properties and Investment Corporation Limited ("Gemdale"), a HKSAR-listed, China focused developer. Since 31 May 2019, Gemdale had become an associate company of OUE. OUE's profits were also boosted by a large one-off gain from de-recognition of right of use assets and other liabilities amounting to SGD90.9mn in 3Q2019 due to merger effects of OUE-CT and OUE-HT. 3Q2019 saw profit after tax to owners of SGD124.1mn (3Q2018: SGD2.1mn) incorporating these items.

- **Thin interest coverage:** 9M2019 EBITDA (based on our calculation which does not include other income and other expenses) was SGD130.0mn with resultant EBITDA/Interest coverage of only 1.0x while 3Q2019 EBITDA was insufficient to cover interest payments, indicating thin income generation. While OUE's stake in Gemdale had increased to 28%, allowing it to record higher contribution from associates, OUE had received SGD16.5mn in dividends from associates in 3Q2019. Including this as EBITDA, we find Adjusted EBITDA/Interest at 1.1x**.**

- **Unadjusted net gearing lower from consolidating OUE-HT:** As at 30 September 2019, unadjusted net gearing (inclusive of lease liabilities) was 0.65x (30 June 2019: 0.79x). OUE had spent SGD134.1mn in net investing outflows during the quarter, mainly going into buying the additional stake in Gemdale, and wiping out all of its cash flow from operations including cash collection from previously sold OUE TwinPeak units and the partial cash payment on the Nassim Road land. Despite additional debt taken which we think went towards funding interest and dividend payments, OUE's unadjusted net gearing declined due to the consolidation of OUE-HT as a subsidiary.

- **Short term debt coming due:** Excluding lease liabilities, as at 30 September 2019, OUE faces SGD989.4mn of short term debt coming due, of which SGD163.8mn relates to debt at the OUE-CT level. This still leaves SGD825.6mn of OUE debt (excluding debt at OUE-CT) against SGD200.5mn of OUE cash (excluding OUE-CT) and representing 54% of total debt due at OUE (excluding OUE-CT). In November 2019, OUE had completed the sale of the OUE Downtown serviced apartment property and accompanying business (e.g.: entity that holds the hotel license) to a third party for SGD289mn. This would help the short term liquidity situation, particularly for the nearest maturing bond the OUESP 3.8% '20s with an outstanding amount of SGD300mn. Based on our preliminary asset coverage analysis for debt holders, we find asset-to-debt coverage at OUE (excluding OUE-CT) at 2.9x, indicating that there are assets available for OUE to monetize and this continues to underpin the credit profile of OUE, although timing of asset sales is uncertain. OUE had put the US Bank Tower for sale since January 2019 though there have been no updates as of writing. We think this has now become an injectable asset into the enlarged OUE-CT, boosting OUE's financial flexibility.

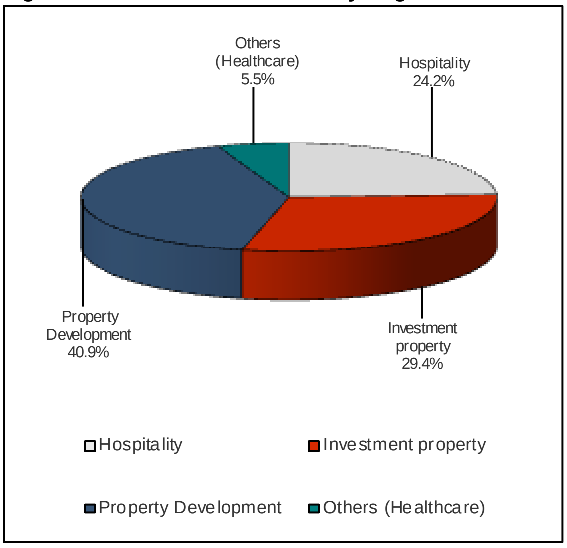
OUE Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	754.1	642.9	715.1
EBITDA	163.9	167.9	130.7
EBIT	156.1	160.0	92.2
Gross interest expense	130.9	139.4	129.5
Profit Before Tax	189.4	103.6	249.4
Net profit	156.9	56.6	211.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	535.2	409.4	262.0
Total assets	9,034.1	9,265.8	10,963.5
Short term debt	1,081.8	471.7	989.9
Gross debt	3,480.9	3,496.3	4,233.4
Net debt	2,945.7	3,086.9	3,971.4
Shareholders' equity	4,875.7	5,139.2	6,065.2
Cash Flow (SGD'mn)			
CFO	249.2	119.4	272.8
Capex	10.5	7.2	8.5
Acquisitions	234.7	842.5	499.2
Disposals	39.0	508.0	466.6
Dividend	59.9	64.9	161.5
Interest paid	124.7	130.2	80.8
Free Cash Flow (FCF)	238.7	112.2	264.4
Key Ratios			
EBITDA margin (%)	21.74	26.11	18.27
Net margin (%)	20.80	8.81	29.62
Gross debt to EBITDA (x)	21.24	20.83	24.30
Net debt to EBITDA (x)	17.97	18.39	22.79
Gross Debt to Equity (x)	0.71	0.68	0.70
Net Debt to Equity (x)	0.60	0.60	0.65
Gross debt/total assets (x)	0.39	0.38	0.39
Net debt/total assets (x)	0.33	0.33	0.36
Cash/current borrowings (x)	0.49	0.87	0.26
EBITDA/Total Interest (x)	1.25	1.20	1.01

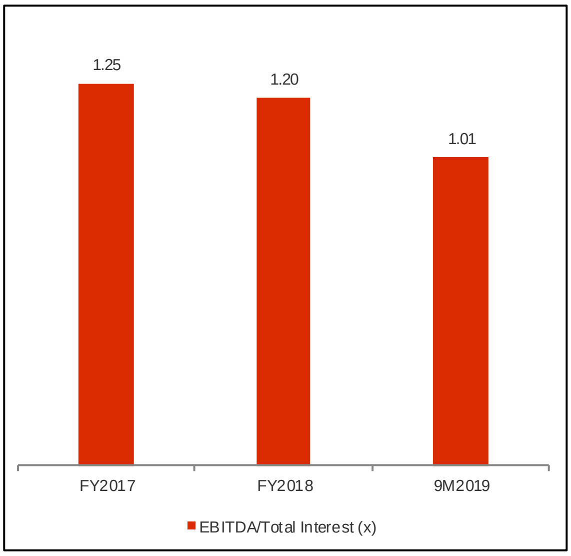
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2019



Source: Company

Figure 2: EBITDA/Total Interest (x)



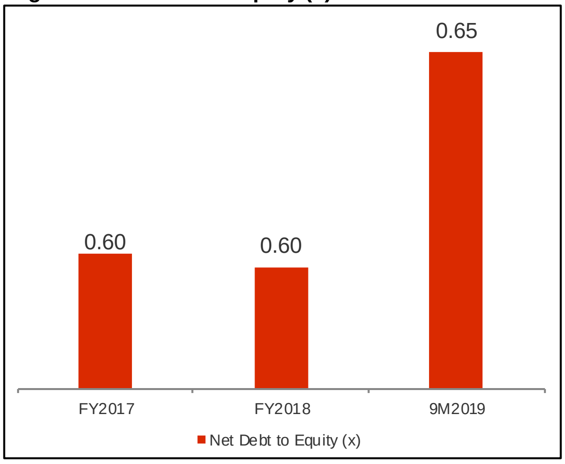
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	157.1	15.1%
Unsecured	100.0	9.6%
	257.1	**24.7%**
Amount repayable after a year		
Secured	599.9	57.6%
Unsecured	184.1	17.7%
	783.9	**75.3%**
Total	**1,041.0**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:
Neutral (5)

Ticker:
OHLSP

Outlook:
We like the OHLSP curve. We expect OHL to deleverage following the sale of Chevron House and shares in United Engineers and property sales in Singapore and worldwide.

Background:
Listed on the SGX in Oct 2010 with a market cap of SGD1.48bn, Oxley Holdings Ltd ("OHL") is a developer of residential and commercial projects in Singapore and abroad, including UK, Ireland, Malaysia, China, Cambodia, Myanmar, Indonesia and Cyprus. OHL holds 10%-stake in Aspen Group Holdings Ltd (SGX listed, market cap: SGD98.3mn), 20%-stake in Galliard Group Ltd (unlisted UK developer) and 100%-stake in Pindan Group Pty Ltd (unlisted Western Australia property and construction company). OHL's key shareholders are its Chairman and CEO Mr. Ching Chiat Kwong (41.7%-stake), its Deputy CEO and Executive Director Mr. Low See Ching (28.1%-stake) and Mr. Tee Wee Sien (11.3%) who appears to be a passive shareholder.

Oxley Holdings Limited

Key Considerations

- **Somewhat better results due to increased settlements:** 1QFY2020 revenue for the quarter ended 30 Sep rose 66% y/y to SGD282.8mn, mainly due to increased settlements from overseas projects (including Royal Wharf in the UK) as well as progressive revenue recognition from Singapore projects. In particular for Singapore, Oxley sold a total of SGD2.85bn in units, which represents 66% of its total Singapore landbank. Although revenue surged, EBITDA rose just 0.9% y/y to SGD47.4mn as margins were lower. Core profitability remains somewhat weak with profit before tax at SGD17.8mn, which includes SGD15mn net fair value gains. That said, we expect this to improve when OHL pares down its debt.

- **Tackling the upcoming maturities:** After repaying SGD300mn OHLSP 5% '19s and refinancing SGD525mn secured debt (with Novotel and Mercure Hotel), OHL faces SGD782mn maturities in CY2020. We think this looks manageable with the upcoming settlement of units in Dublin Landings (future progress billings: SGD252.9mn), The Peak (SGD281.4mn), Royal Wharf (SGD359.1mn) and remaining consideration from sales at Chevron House (estimated: SGD295mn). In addition, OHL has sold a substantial part of its stake in United Engineers Ltd ("UE") following Yanlord's general offer of SGD2.70 per share. We think this will fetch over SGD300mn in proceeds for OHL.

- **Confident to move the remaining Singapore residential pipeline:** Another ~3,900 units worth ~SGD2.0bn remains to be sold/launched, which OHL targets to sell out by end-2020. We think that this target looks achievable given that a strong pace of sales has been achieved. For example, amongst the remaining projects, Riverfront Residences (remaining revenue: SGD392mn) and Affinity at Serangoon (SGD640mn) have already substantially sold out the launched units, with sales totaling ~SGD1.8bn. Kent Ridge Hill Residences (SGD506mn remaining revenue) appears to be selling slower with Phase 2 of the launch just 22% sold, though we are not overly worried as the Singapore property market has recovered somewhat. The remaining projects are smaller in size, such as Mayfair Modern (SGD193mn remaining revenue) and Mayfair Gardens (SGD75mn). In total, from the sales made thus far, OHL has secured SGD1.36bn in future progress billings, which provide earnings visibility.

- **Substantial earnings visibility also from overseas projects:** Overseas projects also provide significant earnings visibility with SGD930.4mn future progress billings. This is mainly attributable to Royal Wharf (SGD359.1mn), The Peak (SGD222.3mn) and Dublin Landings (SGD201.1mn), which we expect OHL to substantially collect in cash in the next 2 years. Remaining overseas landbank looks ample with SGD13.9bn in gross development value, with the bulk in 27.5%-owned Gaobeidian (SGD4.0bn) and 30%-owned Yangon Central Railways Station (SGD3.0bn). The Gaobeidian project is progressing with small sales achieved, which is somewhat slow as this is a 10-year project. Meanwhile, we understand that the Yangon project has yet to commence.

- **Expected improvement in credit metrics:** While net gearing rose q/q to 2.25x (4Q2019 restated: 2.2x) mainly due to working capital used in operations of SGD56.3mn, credit metrics have improved since 3QFY2019 where net gearing was 2.49x. We expect net gearing levels to fall further (to ~1.5x) when OHL receive the cash proceeds from the sale of the property projects, Chevron House and UE. If OHL substantially moves its entire Singapore pipeline, we expect OHL to deleverage further into CY2021 and CY2022. We note that OHL has also put up the Novotel and Mercure Hotel (indicative valuation: SGD953mn) for sale. If these are disposed, we expect credit metrics to substantially improve further. While net debt/EBITDA and EBITDA/Interest are weak at 15x and 1.2x respectively in 1QFY2020, we expect profitability to improve upon the handover of the property projects.

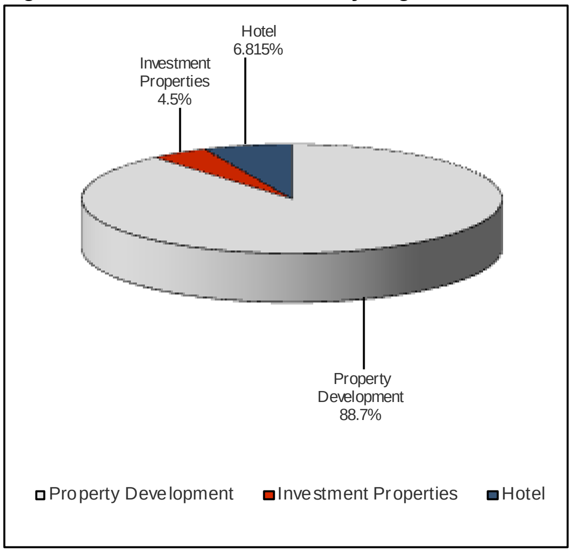
Oxley Holdings Limited

Table 1: Summary Financials

Year Ended 30th Jun	FY2018	FY2019	1Q2020
Income Statement (SGD'mn)			
Revenue	1,188.6	686.1	282.8
EBITDA	132.7	73.1	47.4
EBIT	118.7	55.4	43.6
Gross interest expense	130.0	166.2	38.8
Profit Before Tax	305.3	176.0	17.8
Net profit	282.1	144.2	9.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	255.0	474.4	449.1
Total assets	5,995.5	6,193.9	6,151.7
Short term debt	246.8	1,342.5	1,454.6
Gross debt	3,460.5	3,580.2	3,624.3
Net debt	3,205.5	3,105.8	3,175.2
Shareholders' equity	1,477.0	1,511.4	1,409.1
Cash Flow (SGD'mn)			
CFO	109.9	-318.3	-8.1
Capex	43.1	50.3	0.2
Acquisitions	1,230.4	128.8	23.6
Disposals	200.5	311.0	0.0
Dividend	49.8	10.8	0.5
Interest paid	-95.2	-117.4	-29.8
Free Cash Flow (FCF)	66.8	-368.6	-8.3
Key Ratios			
EBITDA margin (%)	11.16	10.65	16.74
Net margin (%)	23.74	21.01	3.32
Gross debt to EBITDA (x)	26.08	49.00	19.14
Net debt to EBITDA (x)	24.16	42.50	16.76
Gross Debt to Equity (x)	2.34	2.37	2.57
Net Debt to Equity (x)	2.17	2.05	2.25
Gross debt/total assets (x)	0.58	0.58	0.59
Net debt/total assets (x)	0.53	0.50	0.52
Cash/current borrowings (x)	1.03	0.35	0.31
EBITDA/Total Interest (x)	1.02	0.44	1.22

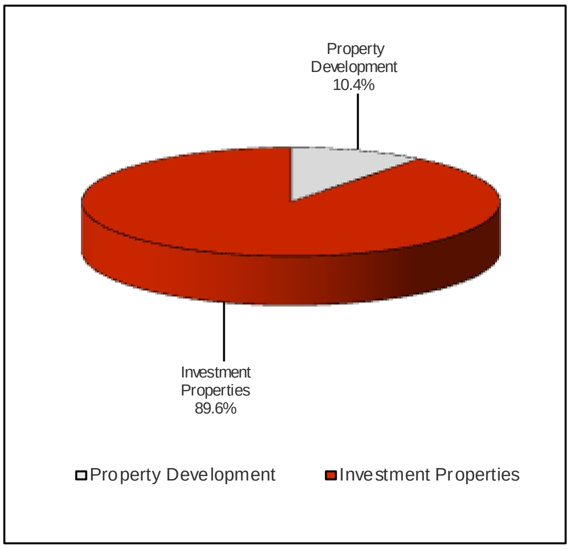
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2019



Source: Company

Figure 2: PBT breakdown by Segment - FY2019



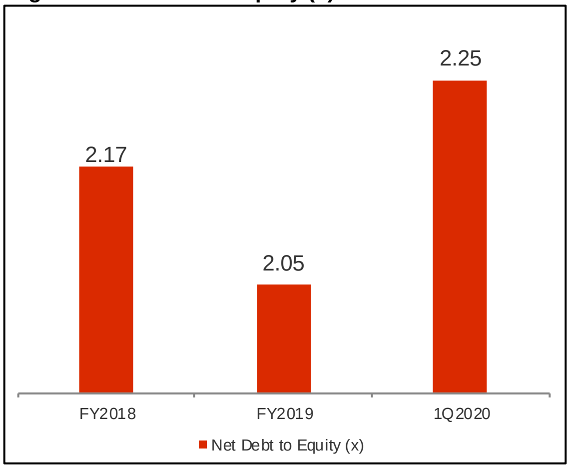
Source: Company | Excludes Corporate and Hotel

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	37.9	7.8%
Unsecured	75.0	15.5%
	112.9	**23.3%**
Amount repayable after a year		
Secured	253.4	52.4%
Unsecured	117.8	24.3%
	371.2	**76.7%**
Total	**484.1**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:

Neutral (5)

Ticker:

PREHSP

Outlook:

We are monitoring PREH for a downgrade should weak results and lack of concrete plans to raise liquidity persist. We are Underweight on the PREH curve.

Background:

Perennial Real Estate Holdings Ltd ("PREH") is an integrated real estate owner and developer focused primarily in China (70.5% by total assets) and Singapore (28.1%). PREH is developing large scale mixed-use developments in railway hubs of China. PREH also holds a portfolio of stabilised office and retail assets in Singapore and China which provide rental income. Listed on the SGX with a market cap of SGD880.7mn, PREH is 82.4%-owned by 4 key sponsors. This includes 36.5%-stake by Mr. Kuok Khoon Hong (CEO of Wilmar International Ltd), 15.5%-stake by Mr. Ron Sim (CEO of V3 Group Ltd, which owns OSIM), 20.0%-stake by Wilmar International Ltd and 10.4%-stake by Mr. Pua Seck Guan (CEO of PREH).

Perennial Real Estate Holdings Ltd

Key Considerations

- **Persistent weak results:** 9M2019 revenue rose 64.9% y/y to SGD91.2mn mainly due to higher contribution from Perennial International Health and Medical Hub ("PIHMH") which commenced operations in Jun 2018, as well as increased revenue from Capitol Singapore which has been consolidated since May 2018. Despite higher revenues, core results remain weak with EBITDA at a mere SGD11.9mn (y/y comparisons not applicable because of accounting changes from SFRS (I) 16). Even if we add SGD45.6mn share of results from associates and JV to EBITDA, this is still insufficient to cover SGD93.8mn of interest expense. As a result, PREH recorded a pre-tax loss of SGD26.3m.

- **Will the weak results persist?:** Part of the reason for the weak results is that Capitol Singapore and PIHMH are likely still on the ramp up phase. Both properties have committed occupancy over 90% which should support results when tenants move in. Already, we observe that EBITDA has improved quarterly to SGD6.2mn in 3Q2019 (2Q2018: SGD3.4mn, 1Q2019: SGD2.4mn). Management also highlighted that Renshoutang (which PREH holds 49.9%-stake) which operates 7000 beds is a significant cashflow generative business though its financials are not consolidated. According to management, cash generated from business has been reinvested into more beds (committed pipeline of over 8000 beds), which incurs start-up expenses and depreciations – thereby generating minimal impact to profitability. That said, without further clarity and explicit guidance, profitability of PREH going forward remains to be seen.

- **Clarity needed to tackle 2020 wall of maturity:** PREH faces SGD1.3bn in maturities in 2020, including SGD560mn of bonds (comprising SGD280mn 4.55% '20s, SGD100mn PREHSP 3.85% '20s, SGD180mn 5.95% '20s) coming due. The remainder comprises mainly loans from Singapore, which we assume that PREH will look to refinance. We understand that PREH intends to divest as part of the strategy to tackle the bond maturities as we note that cash of SGD99.6mn is insufficient to redeem the short term maturities. Thus far, PREH has sold its 32.5%-effective stake in Yanlord Perennial Investment (Singapore) Pte Ltd for SGD202.7mn though more divestments are needed still. PREH has been looking to dispose (at least in part) its 31.2%-stake in AXA Tower though we note that talks of disposal have been ongoing since 3Q2017 – which we think PREH is holding out for better prices given the buoyant office market. If AXA is sold (for at least the stated price of SGD1.65bn), we estimate PREH will receive at least ~SGD250mn in net proceeds (after repaying asset level debt). Other assets we think PREH can divest include 100%-owned Perennial Qingyang Mall (31 Dec 2018 valuation: RMB1,275mn, or SGD250mn), 51%-owned Xi'an North High Speed Railway Integrated Development Plot 4 (RMB1,198mn, or SGD234.9mn) and 100%-owned Perennial Jihua Mall (RMB928mn, or SGD182.0mn). PREH also holds 51.61%-stake in CHIJMES (SGD334mn).

- **Significant expansion plans in China:** We understand that PREH is keen on undertaking further healthcare integrated mixed-use developments connected to high speed railway ("HSR") stations in China. Already, PREH is undertaking HSR integrated developments at Xi'an North, Tianjin South and Kunming South. We estimate that another SGD400mn capital commitment may be required for future potential HSR integrated developments, assuming PREH proceeds with Phase 2 of the investment, noting that the Perennial-led consortium (PREH's stake: 45%) is planning to invest up to USD1.2bn eventually.

- **Credit metrics look weak:** Net gearing inched up q/q to 77% (2Q2019: 76%), mainly due to FX translation losses in 3Q2019 of SGD41.5mn due to the depreciation of CNY against SGD. Due to its weak profitability, EBITDA/Total Interest is a mere 0.1x with net debt/EBITDA at a very weak 186x. Hence, divestments and deleveraging will be essential to meet the upcoming maturities and reduce the interest expense.

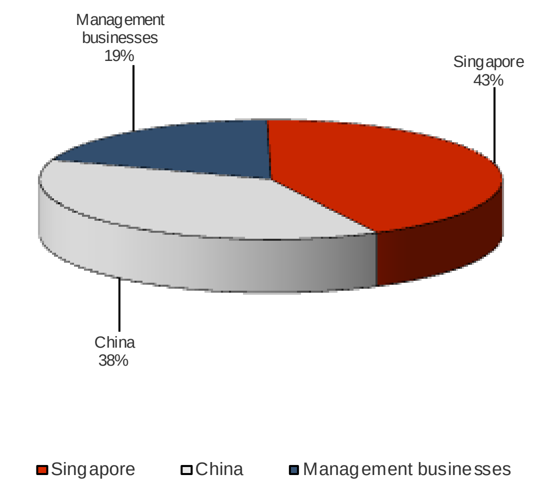
Perennial Real Estate Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	74.5	78.3	91.2
EBITDA	23.2	-1.1	10.0
EBIT	22.6	-7.0	0.2
Gross interest expense	99.0	126.4	93.8
Profit Before Tax	170.2	291.8	-26.3
Net profit	138.8	209.5	-34.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	111.7	76.9	99.6
Total assets	6,704.7	7,670.3	7,581.0
Short term debt	975.0	762.0	1,087.1
Gross debt	2,344.8	2,938.1	3,060.9
Net debt	2,233.1	2,861.2	2,961.3
Shareholders' equity	3,915.9	3,976.4	3,826.5
Cash Flow (SGD'mn)			
CFO	-122.2	-38.5	-28.2
Capex	34.6	84.1	25.5
Acquisitions	163.4	200.1	29.7
Disposals	73.1	0.0	119.6
Dividends	6.7	16.6	6.6
Free Cash Flow (FCF)	-156.8	-122.6	-53.7
Key Ratios			
EBITDA margin (%)	31.08	-1.45	10.96
Net margin (%)	186.36	267.70	-37.93
Gross debt to EBITDA (x)	101.24	-2,590.88	229.73
Net debt to EBITDA (x)	96.42	-2,523.11	222.26
Gross Debt to Equity (x)	0.60	0.74	0.80
Net Debt to Equity (x)	0.57	0.72	0.77
Gross debt/total assets (x)	0.35	0.38	0.40
Net debt/total assets (x)	0.33	0.37	0.39
Cash/current borrowings (x)	0.11	0.10	0.09
EBITDA/Total Interest (x)	0.23	-0.01	0.11

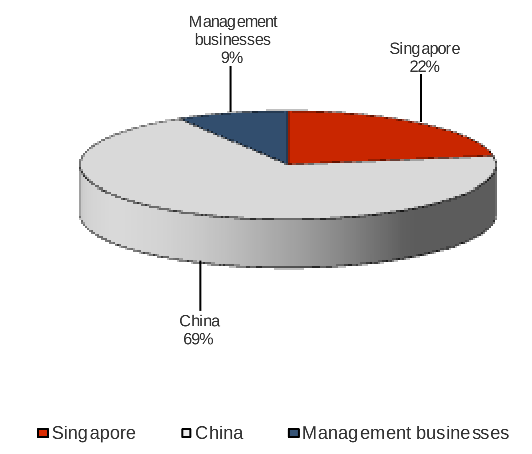
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 9M2019



Source: Company | Excludes Corporate and Others, and Eliminations

Figure 2: EBIT breakdown by Geography - 9M2019



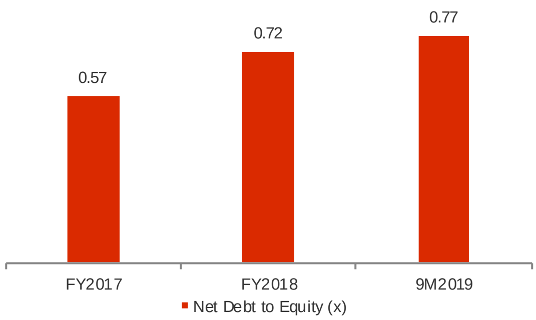
Source: Company | Excludes Corporate and Others, and Eliminations

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	100.1	3.3%
Unsecured	986.9	32.2%
	1,087.1	**35.5%**
Amount repayable after a year		
Secured	1,348.7	44.1%
Unsecured	625.2	20.4%
	1,973.9	**64.5%**
Total	**3,060.9**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

OCBC Bank

Issuer Profile:
Neutral (5)

Ticker:
SCISP

Outlook:
We are broadly underweight-to-neutral the SCISP curve. While SCISP has a commendable Energy business, it continues to be dragged by its subsidiary. Within the curve, we prefer the SCISP 4.25% '25s paying a yield of 3.61% and see heightened non-call risk at first call on the SCISP 3.7%-PERP.

Background:
Sembcorp Industries Ltd ("SCI") focuses on utilities (energy and water solutions), offshore marine (via its 61%-stake in Sembcorp Marine Ltd ("SMM")) and urban development (focused on development of industrial parks across the region). SCI is listed on the Singapore Stock Exchange with a market cap of SGD4.0bn as at 20 December 2019. Temasek is the largest shareholder of SCI with a ~49.5%-stake.

Sembcorp Industries Ltd

Key Considerations

- **Energy underpins SCI's profitability:** SCI's 3Q2019 overall revenue fell 18.9% y/y to SGD2.5bn, led by a decline in the Marine segment (i.e.: 61%-owned Sembcorp Marine Ltd ("SMM")) which was down 38.9% y/y to SGD717mn while Energy was down 7.2% y/y to SGD1.7bn. Overall, SCI's reported profit from operations was down 7.4% y/y to SGD201mn. The Energy segment continues to be the largest contributor to PFO (after exceptional items) at SGD238mn, up 3.5% y/y, with the increase attributable to new assets in Myanmar and Bangladesh, offsetting lower performance from India (absent certain one-off settlements in 3Q2018), weaker UK performance and absence of revenue from divested businesses. SMM though saw a large loss from operations of SGD53mn (down SGD30mn versus 3Q2018) which offset the gains in Energy. Apart from a gross loss of SGD46.2mn, wider losses at SMM were also attributable to accelerated depreciation at Tanjong Kling Yard (operations have been moved out as part of SMM's consolidation strategy for the yards). Excluding the Sete Brasil drillships (reached settlement agreement in October 2019), SMM's net orderbook was SGD2.4bn, dwindling from SGD3.1bn in end-2018 implying that it had not been winning contracts fast enough to replenish those consumed. While we think the SCI-standalone Energy business is overall defensible, SMM continues to drag SCI's issuer profile.

- **EBITDA/Interest coverage slightly lower:** Based on our calculation which does not include other operating income and expenses, overall EBITDA was SGD295mn in 3Q2019, while interest expense was SGD151mn (minimal impact from interest on lease liabilities). As such resultant EBITDA/Interest coverage was 2.0x (somewhat lower than 2Q2019's 2.1x). SMM's contribution to overall EBITDA is minimal at SGD9.2mn and insufficient to cover its interest of SGD35.3mn. We estimate SCI's-standalone interest coverage to be 2.5x in 3Q2019, which factors in the interest cost on the SGD1.5bn bond SCI issued in July 2024 to raise the financing required to be on-lent to SMM to aide SMM's re-profiling of its debt.

- **Expect consolidated net gearing to increase:** As at 30 September 2019, SCI's consolidated unadjusted net gearing was 1.14x, higher than 30 June 2019's 1.08x. The subordinated loan extended by SCI to SMM is eliminated at the consolidated level and as at 30 September 2019, only SGD1.5bn had been on lent to SMM and these were used for refinancing (largely bank debt). We think the increase in consolidated net gearing was driven by higher working capital needs at SMM which was funded by cash. At the standalone SMM-level, its' unadjusted net gearing was 1.6x as at 30 September 2019 although on October 23, 2019, via a consent solicitation exercise ("CSE"), SMM had obtained the consent of its bondholders to revise the definition of its leverage financial covenant to exclude the SGD2bn subordinated loan. On a standalone basis, we estimate SCI's cash balance to be SGD1.2bn though we expect SGD0.5bn will be allocated for SMM's working capital purposes. When this cash is drawn down, SCI's consolidated net gearing may increase to 1.2x.

- **Refinancing risk looming:** As at 30 September 2019, short term debt at SCI was SGD3.1bn, against cash balance of SGD1.7bn, this includes the SCISP 3.7325% '20s SGD300mn bond coming due in April 2020. We expect debt to be refinanced rather than paid down. SCI also faces first call date on two perpetuals namely, its SCISP 4.75%-PERP with an outstanding amount of SGD600mn in May 2020 and the SCISP 3.7%-PERP with an outstanding amount of SGD200mn in June 2020. If we add this SGD800mn as debt, we find adjusted short term debt to total debt at 34%. We think SCI would try to replace the SCISP 4.75%-PERP and in our view there is a good chance they are able to. Secondary trading on the SCISP curve suggests that SCI could replace this perpetual at ~4.0% - 4.2%. SCI's last deal done in June 2019 was largely privately placed, including to its main shareholder and as such a new issue premium may narrow the cost savings. A ~50-75bps p.a discount is still significant and net-net we think SCI would still prefer to call the perpetual. Our base case assumes that the SCISP 3.7%-PERP would not be called at first call given this provides "low cost equity" to SCI.

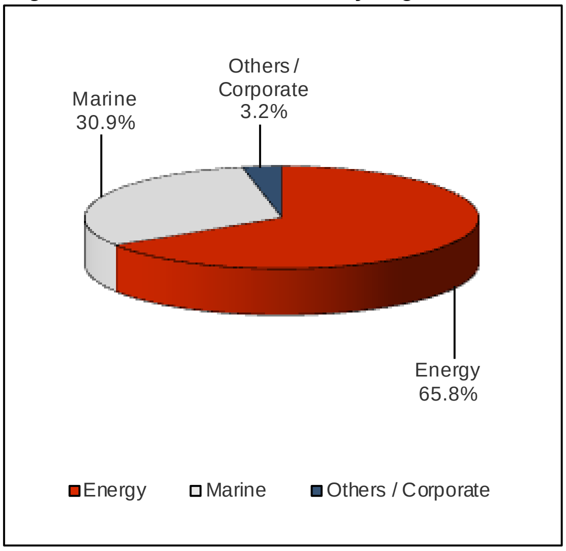
Sembcorp Industries Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	8,345.6	11,689.0	7,301.0
EBITDA	1,097.3	1,107.0	932.0
EBIT	526.0	512.0	421.0
Gross interest expense	525.8	508.0	440.0
Profit Before Tax	312.1	420.0	317.0
Net profit	230.8	347.0	262.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	2,686.7	1,925.0	1,704.0
Total assets	23,213.2	23,321.0	24,169.0
Gross debt	9,847.6	10,732.0	11,251.0
Short term debt	1,572.5	1,862.0	3,103.0
Net debt	7,160.9	8,807.0	9,547.0
Shareholders' equity	8,215.8	7,938.0	7,949.0
Cash Flow (SGD'mn)			
CFO	650.3	739.0	845.0
Capex	736.0	1,107.0	696.0
Acquisitions	184.5	821.0	353.0
Disposals	471.7	465.0	325.0
Dividend	204.4	345.0	90.0
Free Cash Flow (FCF)	-85.7	-368.0	149.0
Key Ratios			
EBITDA margin (%)	13.15	9.47	12.77
Net margin (%)	2.77	2.97	3.59
Gross debt to EBITDA (x)	8.97	9.69	9.05
Net debt to EBITDA (x)	6.53	7.96	7.68
Gross Debt to Equity (x)	1.20	1.35	1.42
Net Debt to Equity (x)	0.87	1.11	1.20
Gross debt/total assets (x)	0.42	0.46	0.47
Net debt/total assets (x)	0.31	0.38	0.40
Cash/current borrowings (x)	1.71	1.03	0.55
EBITDA/Total Interest (x)	2.09	2.18	2.12

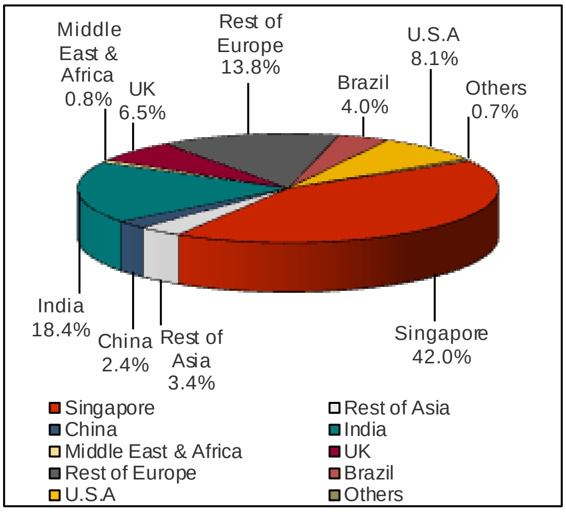
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2019



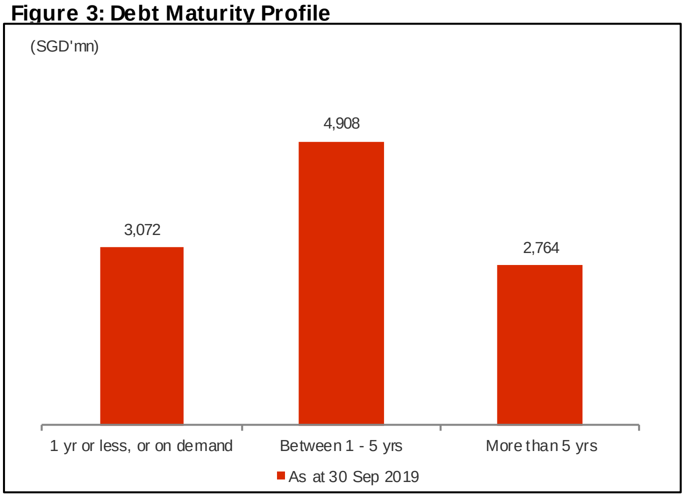
Source: Company | Excludes Urban Development

Figure 2: Revenue breakdown by Geography - 9M2019



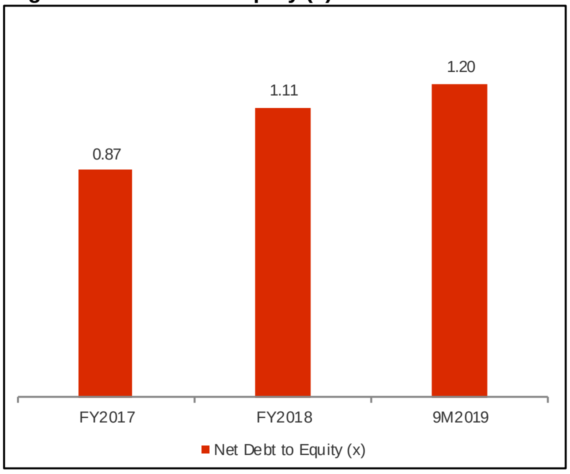
Source: Company

Figure 3: Debt Maturity Profile



Source: Company | Includes Interest-bearing borrowings only

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:

Neutral (4)

Ticker:

SLHSP

Outlook:

We are underweight the SLHSP 4.5% '25s which now only pays a yield of 3.2% and prefer the METRO curve instead for a yield pick up of ~60bps.

Background:

Shangri-La Asia Limited ("SHANG"), incorporated in Bermuda, is an investment holding company focused on the ownership and management of hotels. In addition, SHANG also holds a portfolio of investment properties and develops properties for sale. SHANG's primary listing is on the Hong Kong Stock Exchange, with a secondary listing in Singapore. Kerry Group Ltd holds a ~36%-deemed interest in SHANG while Kerry Group itself is a subsidiary of Kuok (Singapore) Limited.

Shangri-La Asia Limited

Key Considerations

- **Hotel Properties AOP likely weaker in 2H2019:** In 1H2019, Revenue per Available Room ("RevPAR") for SHANG's HKSAR properties were relatively steady at USD237 while occupancy was still decent at 82%, notwithstanding the issues plaguing the city. Based on data from the Hong Kong Tourism Board, occupancy for High Tariff A Hotel Rooms (highest tier hotels) had plunged to ~58% respectively for August and September 2019, before climbing up to 62% in October 2019. In 1H2019, the Hotel Properties segment contributed 20% to SHANG's disclosed operating profit after tax (inclusive of results from associates, after minority interest at subsidiaries where SHANG has no full ownership) ("AOP") of USD148.7mn. AOP was dominated by HKSAR hotels and we expect the segment to be negatively affected in 2H2019. For the Hotel Management and Related Services business which SHANG had been aiming to grow, AOP was a negative USD15.4mn in 1H2019 (1H2018: USD9.2mn), per company SHANG had added headcount for this segment for business development.

- **Investment Properties AOP strong though Property Development outlook murky:** SHANG's Investment Properties segment reported USD88.5mn in AOP for 1H2019 (1H2018: USD80.4mn), driven by growth at its 50%-owned associate China World Trade Centre and Shangri-La Centre, Ulaanbaatar, Mongolia. In 1H2019, Investment Properties AOP comprises ~60% of total AOP. Property Development made up the rest of AOP at USD46.4mn (1H2018: USD12mn) as the company continued to recognized revenue from the sale of One Galle Face in Colombo and Shangri-La Hotel, Dalian Phase II. With bulk of revenue to be recognized in the short term coming from Colombo, we think settlement risk on the units pre-sold has heightened.

- **Expect thinner interest coverage though dividends from associates help:** Consolidated EBITDA (based on our calculation which does not include other income and other expenses) was USD299.4mn, while interest expense including capitalized interest increased by 43% y/y, with resultant EBITDA/Interest of 2.6x (1H2018: 3.8x). This was due to higher proportion of debt in bonds, higher benchmark rates and interest on lease liabilities (USD15.8mn in 1H2019). The more recurrent Hotel Properties and Investment Properties EBITDA collectively made up 94% of the company's reported consolidated EBITDA. Assuming HKSAR Hotel Properties occupancy drops to 50% for 2H2019 and the cost structure stays the same (high fixed costs for luxury hotels), these hotels would be unprofitable, with 2H2019 recurring EBITDA/Interest dropping to ~1.8x. SHANG received significant cash dividends from associates of USD96.1mn and USD105.8mn respectively in FY2018 and FY2017. These were largely from recurring sources and in our view can be used to cover interest payments.

- **Higher net gearing:** Unadjusted net gearing assuming lease liabilities as debt was 0.77x - this was higher than the 0.61x in end-2018 mainly due to adoption of HKFRS16 accounting standard, a known factor when we initiated coverage of SHANG. Additional debt was also taken during 1H2019, driven by larger investing outflow of USD213.3mn (1H2018: USD91.4mn), higher amounts due from associates (dividends to be received) and payment of bonuses. During the period, SHANG had spent on hotel capex, purchased the remaining 25%-stake in Shangri-La Hotel Wenzhou and land sites in Bangkok and Kyoto. As at 30 June 2019, SHANG faced USD497.9mn of capital commitments, mainly for Property Development in second tier cities of Mainland China, which is likely to tilt unadjusted net gearing higher. While we do not expect asset sales in the short term, we view it as a credit positive that assets are available for monetization in the event that this liquidity source is required. Taking property, plant and equipment, investment properties, right of use assets and interest in associates (dominated by property), we find SHANG's debt-to-assets at 0.49x and manageable in our view.

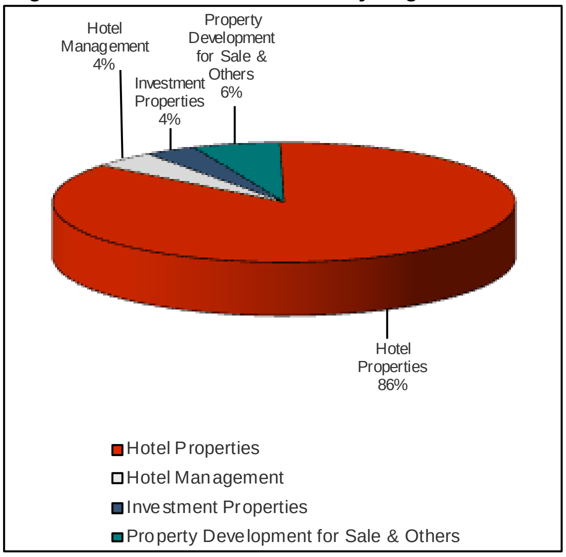
Shangri-La Asia Limited

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1H2019
Income Statement (USD'mn)			
Revenue	2,189.8	2,517.9	1,195.0
EBITDA	522.8	659.6	299.4
EBIT	194.1	306.9	123.1
Gross interest expense	148.2	204.9	111.4
Profit Before Tax	250.2	290.4	189.1
Net profit	144.1	183.7	124.9
Balance Sheet (USD'mn)			
Cash and bank deposits	921.9	1,059.4	831.5
Total assets	13,675.2	13,170.6	13,765.0
Short term debt	234.8	431.2	541.6
Gross debt	5,184.7	5,134.8	5,881.3
Net debt	4,262.8	4,075.5	5,049.8
Shareholders' equity	7,042.0	6,676.9	6,525.9
Cash Flow (USD'mn)			
CFO	625.7	618.7	42.6
Capex	374.6	154.3	182.8
Acquisitions	55.4	141.2	33.6
Disposals	62.4	32.7	0.3
Dividends	85.9	107.4	67.3
Free Cash Flow (FCF)	251.1	464.4	-140.2
Key Ratios			
EBITDA margin (%)	23.87	26.20	25.05
Net margin (%)	6.58	7.30	10.45
Gross debt to EBITDA (x)	9.92	7.79	9.82
Net debt to EBITDA (x)	8.15	6.18	8.43
Gross Debt to Equity (x)	0.74	0.77	0.90
Net Debt to Equity (x)	0.61	0.61	0.77
Gross debt/total assets (x)	0.38	0.39	0.43
Net debt/total assets (x)	0.31	0.31	0.37
Cash/current borrowings (x)	3.93	2.46	1.54
EBITDA/Total Interest (x)	3.53	3.22	2.69

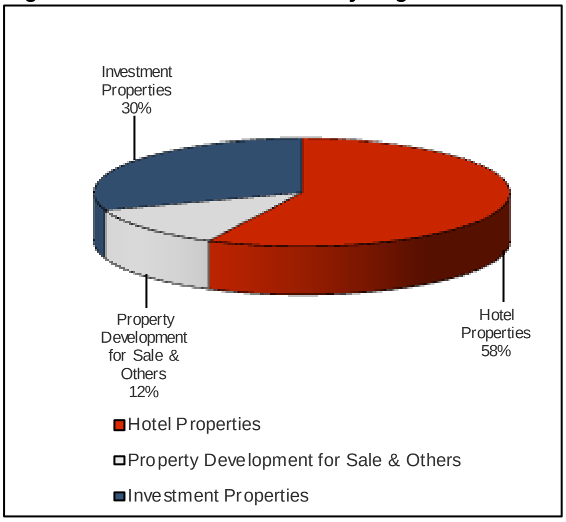
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2019



Source: Company

Figure 2: EBITDA* breakdown by Segment - 1H2019



Source: Company | Excludes Hotel Management

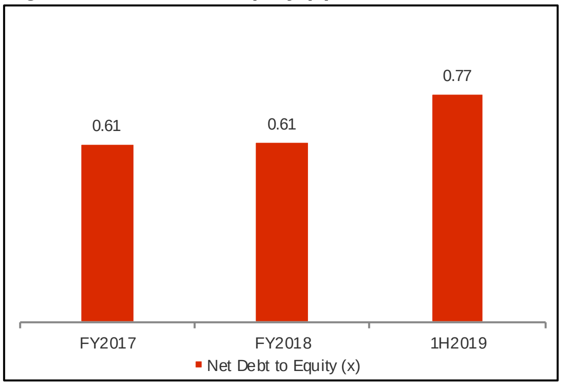
** Aggregate effective share of EBITDA*

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	67.6	1.1%
Unsecured	474.0	8.1%
	541.6	**9.2%**
Amount repayable after a year		
Secured	14.2	0.2%
Unsecured	5,325.5	90.5%
	5,339.7	**90.8%**
Total	**5,881.3**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:

Neutral (3)

Ticker:

SIASP

Outlook:

Within the SIASP curve, we prefer the SIASP 3.75% '24s which is paying a yield of 2.65% and are broadly underweight-to-neutral the rest of the curve.

Background:

Singapore Airlines Ltd ("SIA"), listed on the SGX has a market cap of SGD10.7bn as at 20 December 2019. Apart from its flagship carrier, Singapore Airlines ("SQ"), the company also operates other airlines and businesses: SIA Engineering Company, SilkAir and Scoot. SIA owns a 20%-stake in Virgin Australia Holdings Limited and a 49%-stake in TATA SIA Airlines Limited (operates Vistara Airlines). SIA Group is ~55% owned by Temasek while the remaining shareholding is dispersed.

Singapore Airlines Ltd

Key Considerations

- **Operating profit declined in 2QFY2020:** SIA's gross revenue increased 3.9% y/y in the second quarter for the financial year ended 2020 ("2QFY2020") to SGD4.2bn on the back of passenger growth revenue (up 7.5% y/y) though partly offset by the fall in cargo revenue of 16.3% y/y. Symptomatic of the sector, the cargo business had been affected by the decline in trade volumes. SIA's reported operating profit though declined by 8.5% y/y to SGD213.1mn as expenditure increased by 4.7% y/y, largely due to increase in capacity. SQ reported an operating profit decline of 2% y/y to SGD233mn while SilkAir reported y/y stable operating losses of SGD3.0mn, despite improvement in SilkAir traffic growth which led revenue higher as SilkAir needed to record costs on its grounded 737 MAX 8 planes. Scoot continued to drag overall results, with the segment reporting an operating loss of SGD39mn (operating loss of SGD11mn in 2QFY2019). Operating profit from 77.7%-owned SIA Engineering was SGD19mn for 2QFY2020 (2QFY2019: SGD11mn) driven by a 1.3% y/y increase in revenue (especially airframe and line maintenance) while expenses declined 2.1% y/y.

- **Highly manageable interest coverage:** In our view y/y EBITDA comparison is less useful given the adoption of IFRS16 Leases from 1 April 2019. In 2QFY2020, we find SIA's EBITDA at SGD736mn, while interest expense (including finance charges on lease liabilities) was SGD57.2mn, resulting in an EBITDA/Interest coverage of 12.9x (1QFY2020: 12.2x), still highly manageable. Reported profit to owners was stronger at SGD94.5mn (2QFY2019: SGD56.4mn) mainly due to much narrower share of losses at associated companies (mainly from Virgin Australia) of SGD49.7mn against prior year share of losses of associated companies of SGD117.1mn. Additionally, SIA recorded a SGD9.9mn share of profit from joint venture companies (i.e.: Vistara, NokScoot and Singapore CAE Flight Training) versus a loss from joint venture companies of SGD0.5mn in 2QFY2019.

- **Net gearing expected to rise:** As at 30 September 2019, net gearing (with lease liabilities) was 61.2% (30 June 2019: 51.5%), increasing since 2018 as debt was taken to help fund SIA's large capex spent though the q/q net gearing change was driven by drawing down of existing cash balance to fund capex. As at 30 September 2019, SIA is projecting that it will spend SGD5.7bn in capex for FY2020 and SGD6.0bn for FY2021. Capex is predominantly for aircraft (for fleet renewal and capacity addition to boost network and fuel efficiencies). In 1HFY2020, SIA had spent SGD2.8bn in capex (excluding investments to associates and joint ventures), indicating that the remainder targeted for the financial year will be about equal to 1HFY2020.

- **Serious about India for SIA's multi-hub strategy:** We continue to expect SIA to fund expansion at its joint venture, especially 49%-owned Vistara which is not yet profitable and in a huge expansion phase including commencing international operations since August 2019, ordering new aircraft and taking over assets and employees of a competitor who had ceased operations. Outside of base case, the media has reported that Tata Group, SIA's India joint venture partner) is interested in Air India. We think there is now a higher likelihood for a sale to happen given that the Indian government is a highly motivated seller (considering a 100%-stake sale) while debt levels at Air India had been pared down. In our view, should Tata Group be serious about bidding for Air India, this would likely involve SIA as well (e.g.: with SIA taking a minority stake).

- **Monitoring for a downgrade:** We are monitoring SIA's issuer profile for a downgrade within the next 12 months and are likely to trigger this should profitability at SIA continue to lag its expansion plans. We expect SIA's net gearing to increase to ~85% by end-FY2020, based on SIA's capex alone, which will mean that SIA will no longer fall into our requirement of a Neutral (3) name, notwithstanding its commendable brand standing. While we have less clarity over timing of further investments into 49%-owned Vistara, directionally, in our view it is likely that SIA's net gearing (with lease liabilities) will exceed ~85% in the next 12 months.

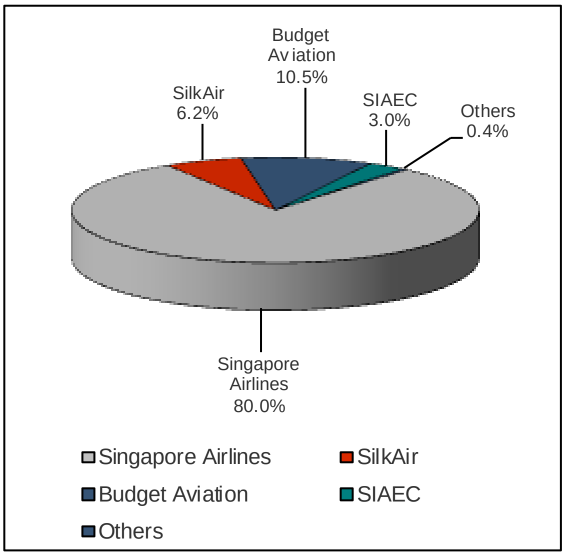
Singapore Airlines Ltd

Table 1: Summary Financials

Year End 31st Mar	FY2018	FY2019	1H2020
Income Statement (SGD'mn)	**SGD'mn**	**SGD'mn**	**SGD'mn**
Revenue	15,806.1	16,323.2	8,324.5
EBITDA	2,741.3	2,456.9	1,439.2
EBIT	1,548.8	1,067.1	413.1
Gross interest expense	89.8	116.1	114.8
Profit Before Tax	1,593.2	868.6	286.5
Net profit	1,345.5	721.6	225.9
Balance Sheet (SGD'mn)			
Cash and bank deposits	2,568.3	2,944.0	1,307.9
Total assets	25,892.5	30,505.2	31,594.3
Short term debt	20.6	231.1	1,343.4
Gross debt	3,127.3	6,654.4	8,770.3
Net debt	559.0	3,710.4	7,462.4
Shareholders' equity	13,228.4	13,683.2	12,197.9
Cash Flow (SGD'mn)			
CFO	2,610.9	2,801.1	1,698.5
Capex	5,209.5	5,562.3	2,781.1
Acquisitions	93.8	251.1	97.1
Disposals	160.8	343.4	38.3
Dividend	298.4	484.2	283.9
Free Cash Flow (FCF)	-2,598.6	-2,761.2	-1,082.6
Key Ratios			
EBITDA margin (%)	17.34	15.05	17.29
Net margin (%)	8.51	4.42	2.71
Gross debt to EBITDA (x)	1.14	2.71	3.05
Net debt to EBITDA (x)	0.20	1.51	2.59
Gross Debt to Equity (x)	0.24	0.49	0.72
Net Debt to Equity (x)	0.04	0.27	0.61
Gross debt/total assets (x)	0.12	0.22	0.28
Net debt/total assets (x)	0.02	0.12	0.24
Cash/current borrowings (x)	124.67	12.74	0.97
EBITDA/Total Interest (x)	30.53	21.16	12.54

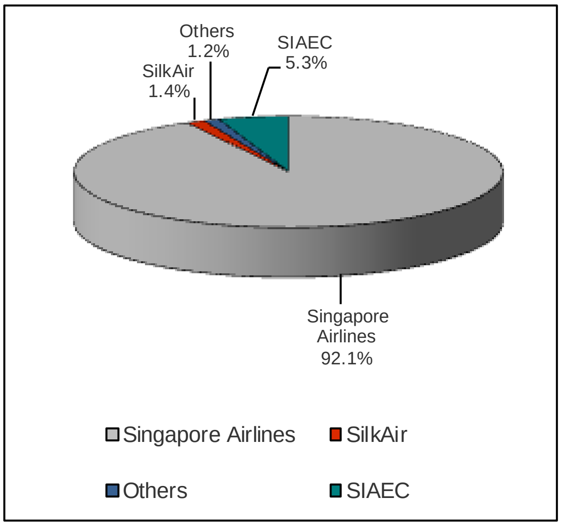
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2020



Source: Company

Figure 2: EBIT breakdown by Segment - 1H2020



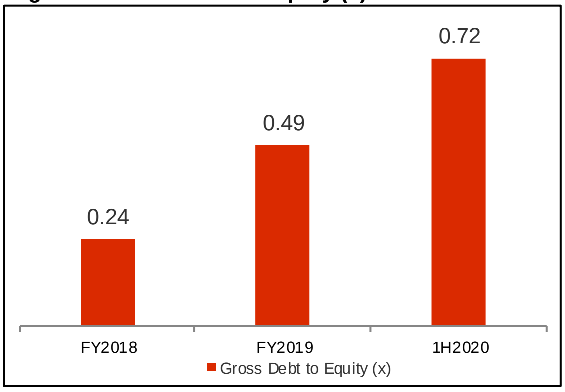
Source: Company | Excludes Budget Aviation

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	225.4	2.6%
Unsecured	1,118.0	12.7%
	1,343.4	**15.3%**
Amount repayable after a year		
Secured	1,921.0	21.9%
Unsecured	5,505.9	62.8%
	7,426.9	**84.7%**
Total	**8,770.3**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Gross Debt to Equity (x)



Source: Company

Issuer Profile:

Positive (2)

Ticker:

SPOST

Credit Outlook:

We are overweight on SPOST bonds. SPOST 4.25% 'PERP is offering a 2.79% yield which we think is attractive given that the likelihood of call at 2.25years' time high as we think SPOST will most likely be able to come to the market and refinance this bond at a lower coupon rate. We note that SPOST remains in a net cash position as at 30 Sep 2019.

Background:

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 ecommerce solutions. Temasek Holdings has a ~22% stake in SPOST. Alibaba Group Holdings is the 2nd largest shareholder with a 14.56% interest.

Singapore Post Ltd

Key Considerations

- **SPOST no longer consolidate its US eCommerce business:** SPOST have failed to sell Jagged Peak and TradeGlobal after its exit announcement in April 2019. In Sep 2019, the business unit filed for relief under Chapter 11 of the US Bankruptcy Code and deconsolidates their financials with effect from the same month. The income statement is now presented as "Continuing Operations", which excludes the U.S. Subsidiaries. Losses from the U.S. Subsidiaries for the period prior to deconsolidation are presented as a single line item called "Discontinued Operations". Moving forward, SPOST will no longer recognise profit or loss from the U.S. subsidiaries. In the second quarter of the financial year ending March 2020 ("2QFY2020"), losses from discontinued operations were 55.8% lower y/y at SGD4.5mn.

- **Revenue growth offset by higher costs:** Revenue of the continuing operations (i.e. excludes U.S. Subsidiaries) was up by 2.0% y/y to SGD324.4mn, led by higher International post and parcel revenue arising from cross-border eCommerce deliveries, though partially offset by a decline in Domestic post and parcel, and freight forwarding revenue. That said, a 6.0% y/y increase in operating expenses, largely due to higher volume-related expenses (i.e. traffic expenses and cost of sales to support higher revenues at International post and parcel) and labour and related expenses. All these brought about a 22.2% y/y decline in profit from operating activities to SGD38.7mn.

- **Only the property segment remained firm:** Over 2QFY2020, profit from operating activities due to the property segment rose 3.1% y/y with SingPost Centre retail mall and office remaining at close to full occupancy. Having recorded steadily stronger figures since the commencement of operations of the mall in October 2017, we think there is little room for organic growth and expects flattish figures going forward, especially with the opening of Paya Lebar Quarter which is located just 450 metres away. Property segment alone accounts for 35.6% of SPOST's operating profit. Post and parcel recorded a 20.8% y/y decline in profit on operating activities, due to an accelerated decline in domestic business letter volumes and the partial cessation of advertising mail volumes as well as higher operating costs to improve service quality standards as mentioned above. And the logistics segment saw a 22.6% y/y increase in losses on operating activities, a result of onboarding costs for eCommerce customers in Asia Pacific, and lower profits from the freight forwarding business due to lower volumes from the slowdown in global trade. As such, SPOST ended the quarter with a net profit before tax from continuing operations of SGD40.1mn, lower by 4.9% y/y, despite the steep decline in profit from operating activities (-22.2% y/y) as SPOST saw a 244.8% y/y increase in net interest income and investment income from SGD0.99mn to SGD3.4mn due to higher interest income and favourable non-trade related FX translation movement.

- **Defensive credit metrics:** As at 30 Sep 2019, gross debt-to-equity was stable 0.175x. Although 97% of its debt is short term, we think it will be manageable for SPOST as it remains in a net cash position of SGD39.3mn (1QFY2020: ~SGD121mn). Adjusting net debt upwards for the perpetuals (which rank pari passu as unsecured debt at the SPOST holding company level), we find adjusted net gearing higher at 0.188x from 0.137x as at 30 June, due to lower cash balance relative to the preceding quarter. Cash was lower as SPOST paid SGD56.2mn dividends to shareholders and repaid bank term loan of SGD92.0mn over the quarter. Based on our calculation though, EBITDA/Interest dipped in 2QFY2020 to 16.6x from 18.8x in 4QFY2019. Having said that, SPOST's credit metrics remains intact.

- **Changes to postal service categories from 2 Dec 2019:** SPOST will introduce "Basic Package" and "Tracked Package", on top of existing "Basic Mail" and "Registered Service (Singapore)", and increase the rates for International mail depending on weight and delivery destination. We will monitor to see if this change brings about improvement in profitability for SPOST.

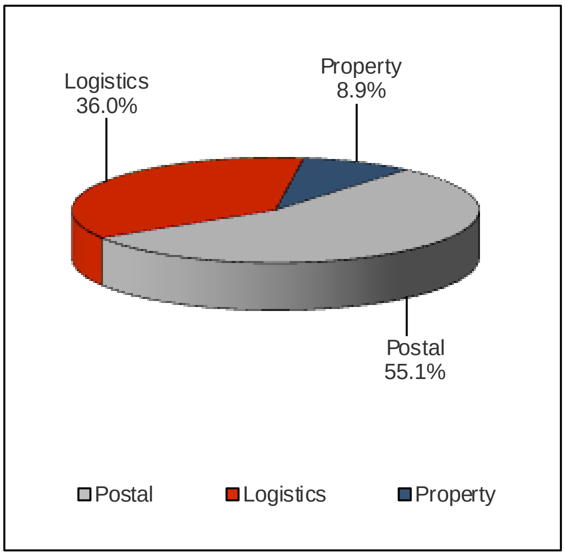
Singapore Post Ltd

Table 1: Summary Financials

Year End 31st Mar	FY2018	FY2019	1H2020
Income Statement (SGD'mn)	SGD'mn	SGD'mn	SGD'mn
Revenue	1,513.4	1,556.7	645.6
EBITDA	205.0	192.8	112.2
EBIT	145.7	134.9	78.0
Gross interest expense	10.8	10.3	6.3
Profit Before Tax	155.3	54.7	68.9
Net profit	124.6	26.9	52.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	314.1	392.2	325.4
Total assets	2,684.1	2,619.2	2,592.4
Short term debt	23.5	281.8	277.5
Gross debt	244.0	290.9	286.1
Net debt	net cash	net cash	net cash
Shareholders' equity	1,746.2	1,660.5	1,636.3
Cash Flow (SGD'mn)			
CFO	198.2	152.2	38.7
Capex	62.1	31.3	6.9
Acquisitions	0.5	0.4	4.5
Disposals	9.3	37.8	0.8
Dividend	60.2	94.6	64.7
Free Cash Flow (FCF)	136.1	120.9	31.8
Key Ratios			
EBITDA margin (%)	13.54	12.39	17.38
Net margin (%)	8.24	1.73	8.07
Gross debt to EBITDA (x)	1.19	1.51	1.27
Net debt to EBITDA (x)	net cash	net cash	net cash
Gross Debt to Equity (x)	0.14	0.18	0.17
Net Debt to Equity (x)	net cash	net cash	net cash
Gross debt/total assets (x)	0.09	0.11	0.11
Net debt/total assets (x)	net cash	net cash	net cash
Cash/current borrowings (x)	13.38	1.39	1.17
EBITDA/Total Interest (x)	19.04	18.78	17.71

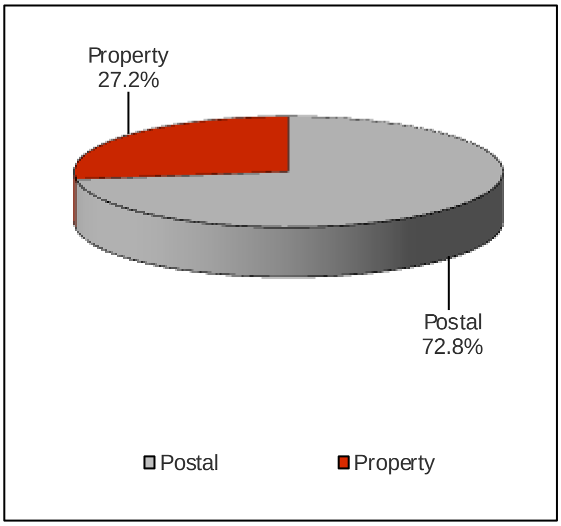
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2020



Source: Company | Excludes Others

Figure 2: EBIT breakdown by Segment - 1H2020



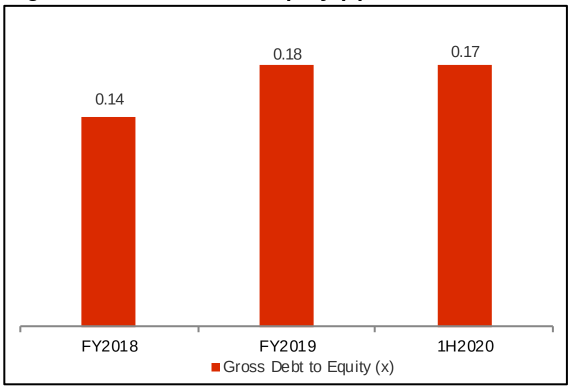
Source: Company | Excludes Others and Logistics

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	1.7	0.6%
Unsecured	275.9	96.4%
	277.5	**97.0%**
Amount repayable after a year		
Secured	8.6	3.0%
Unsecured	0.0	0.0%
	8.6	**3.0%**
Total	**286.1**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Gross Debt to Equity (x)



Source: Company

Issuer Profile:
Positive (2)

Ticker:
STSP

Outlook:
Although SingTel's credit profile remains strong, notwithstanding the weakness from Airtel, we do not find STSP curve attractive due to its tight spreads.

Background:
Singapore Telecommunications Ltd ("SingTel") is the largest listed company in Singapore with a market cap of SGD55bn. SingTel is a communications company, providing various services including mobile, data, fixed, pay television, internet, video, infocomms technology ("ICT") and digital solutions. Through various subsidiaries and associates, SingTel is the leading mobile player in Singapore, Australia, Indonesia, Philippines, Thailand and India. Temasek Holdings is the majority shareholder with 52.5% stake as of 11 Dec 2019.

Singapore Telecommunications Ltd

Key Considerations

- **Lacklustre results:** 2QFY2020 revenue for the quarter ended 30 Sep fell 2.8% y/y to SGD4.15bn mainly due to declines in Group Enterprise (-5.3% y/y to SGD1.49bn) and Group Digital Life (-7.7% y/y to SGD289mn) though Group Consumer did better with growth in Singapore (+1.6% y/y to SGD563mn) and Australia (+4.8% y/y to AUD1.92bn). Excluding NBN migration revenues, SingTel's revenues would have fallen by a larger 6.4% y/y to SGD3.98bn, resulting in reported EBITDA (excluding NBN) falling 10.9% y/y to SGD986mn. The most glaring headline is the first quarterly loss of SGD674mn due to SGD1.93bn provision for Airtel due to regulatory demands related to spectrum fees and licenses.

- **Light at the end of the tunnel for Airtel?:** Aside from the provision, Airtel (India and South Asia) continued to bleed and that contributed to SingTel a pre-tax loss of SGD109mn in 2QFY2019 (2QFY2018: pre-tax loss of SGD104mn). This has been due to intense competition which shaved margins below zero. That said, with the hike in mobile tariffs in the industry, including Airtel and its competitors Vodafone and Reliance Jio, profitability may recover. However, Airtel may still require SingTel to sink in more capital; Airtel (35.2%-owned by SingTel) is looking to raise USD3bn to pay for the regulatory demands.

- **Group Consumer in the doldrums:** We estimate that without NBN, Group Consumer reported EBITDA would have fallen ~10% y/y to SGD659mn. This is mainly due to Australia Consumer reported EBITDA (excluding NBN) falling ~15% y/y due to intense competition on mobile. In addition, we are expecting broadband competition in Australia to intensify with margins perhaps trending to zero, noting over 180 resellers of NBN services. While Singapore Consumer reported EBITDA grew 4.5% y/y to SGD191mn, due to revenue growth as well as decline in indirect costs with TV content costs (excl. World Cup) down 13%, mobile competition will likely intensify and we note its rival StarHub guiding its service revenue to decline by 2-3%.

- **Weakness in Group Enterprise:** Group Enterprise is no longer a reliable hedge against weaknesses in Group Consumer, with Group Enterprise reported EBITDA down 11.5% y/y to SGD389mn. SingTel cited increased competition and especially in Australia, which has been impacted by a weaker business environment and lower demand from key finance sectors, legacy product declines and pricing pressures. Reported EBITDA (-11.5% y/y) fell more than revenue (-5.3% y/y) as ICT (Cyber security and business solutions), which we believe contributes lower margin, contributed 49% (2QFY2019: 47%) of the segment's revenue in 2QFY2020. As higher margin legacy services are expected to continue to decline, Group Enterprise segment may continue to face slowdown if ICT services do not grow quickly enough. Meanwhile, competition in the Enterprise space is heating up.

- **Regional associates are significant contributors to SingTel:** Collectively, excluding Airtel, SingTel's regional associates (Telkomsel, AIS, Intouch, Globe) contribute SGD395mn post-tax profit in 2QFY2020. SingTel expects ~SGD1.2bn dividends from regional associates in FY2020, which we expect to cover interest expense by more than 2x. SingTel's stakes in Airtel, AIS, Intouch and Globe are worth ~SGD26bn, which we think can be divested in part, if needed.

- **Credit metrics though healthy is expected to be somewhat pressured going forward:** Reported net gearing increased q/q to 31.2% (1QFY2020: 28.4%) with reported net debt to EBITDA & share of associates' pre-tax profits rising to 2.1x (1QFY2020: 1.9x). This is mainly due to the payment of SGD735mn to subscribe to Airtel's rights issue. If SingTel is required to inject more capital into Airtel due to the provision, we can expect SingTel's credit metrics to deteriorate further – if so, we may revise SingTel's Issuer Profile lower. Meanwhile, credit metrics look strong with EBITDA/Interest at 9.2x.

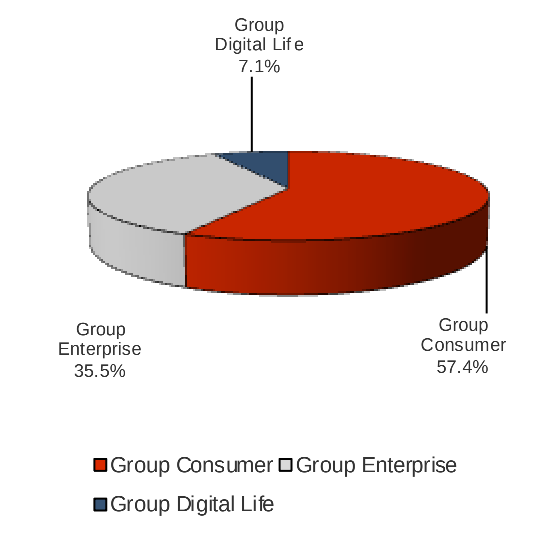
Singapore Telecommunications Ltd

Table 1: Summary Financials

Year End 31st Mar	FY2018	FY2019	1H2020
Income Statement (SGD'mn)			
Revenue	17,268.0	17,371.7	8,264.8
EBITDA	4,791.7	4,467.2	2,246.7
EBIT	2,541.7	2,245.0	961.0
Gross interest expense	390.2	392.8	231.7
Profit Before Tax	6,154.9	3,745.9	167.8
Net profit	5,451.9	3,071.1	-139.2
Balance Sheet (SGD'mn)			
Cash and bank deposits	524.9	512.7	550.9
Total assets	48,495.5	48,914.8	49,067.0
Short term debt	1,823.6	1,880.2	4,536.8
Gross debt	10,491.2	10,664.1	14,109.8
Net debt	9,966.3	10,151.4	13,558.9
Shareholders' equity	29,711.5	29,809.7	27,548.9
Cash Flow (SGD'mn)			
CFO	5,955.2	5,367.6	2,895.6
Capex	2,349.0	1,718.1	903.0
Acquisitions	936.7	584.2	746.8
Disposals	1,366.7	205.9	25.8
Dividend	2,862.0	2,862.0	1,746.7
Interest paid	-379.9	-385.1	-226.2
Free Cash Flow (FCF)	3,606.2	3,649.5	1,992.6
Key Ratios			
EBITDA margin (%)	27.7	25.7	27.2
Net margin (%)	31.6	17.7	-1.7
Gross debt to EBITDA (x)	2.19	2.39	3.14
Net debt to EBITDA (x)	2.08	2.27	3.02
Gross Debt to Equity (x)	0.35	0.36	0.51
Net Debt to Equity (x)	0.34	0.34	0.49
Gross debt/total assets (x)	0.22	0.22	0.29
Net debt/total assets (x)	0.21	0.21	0.28
Cash/current borrowings (x)	0.29	0.27	0.12
EBITDA/Total Interest (x)	12.3	11.4	9.7

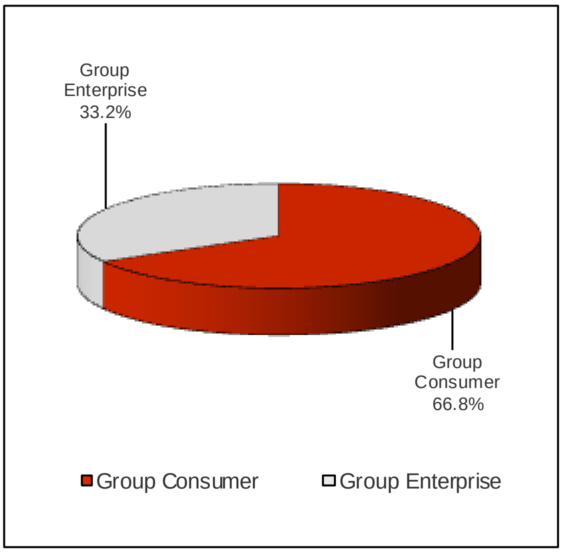
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2020



Source: Company

Figure 2: EBITDA breakdown by Segment - 1H2020



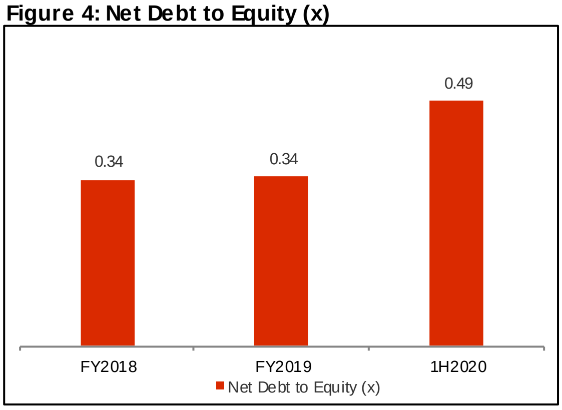
Source: Company | Excludes Group Digital Life and Corporate

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	435.9	3.1%
Unsecured	4,100.9	29.1%
	4,536.8	**32.2%**
Amount repayable after a year		
Secured	1,929.4	13.7%
Unsecured	7,643.6	54.2%
	9,573.0	**67.8%**
Total	**14,109.8**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:
Neutral (4)

Ticker:
SGREIT

Credit Outlook:
We are underweight on the SGREIT curve. We think SUN curve offers better value comparatively. SGREIT 3.5% '21s offers 2.01% yield while SUNSP 3% .21s offers 2.42% yield. SGREIT 3.4% '23s offers 2.56% yield while SUNSP 3.4% '23s offers 2.75% yield. SGREIT 3.14% '26s offers 3.06% yield while SUNSP 3.355% '25s offers 2.95% yield for a 1.7y shorter tenor. Overall, we the SUN curve is more attractive.

Background:
Listed on the SGX in September 2005, Starhill Global REIT ("SGREIT") invests primarily in real estate used for retail and office purposes, both in Singapore and overseas. It owns 10 mid to high end retail properties in five countries, valued at ~SGD3.1bn as at 30 June 2019. The properties include Wisma Atria (74.2% of strata lots) and Ngee Ann City (27.2% of strata lots) in Singapore, Starhill Gallery and Lot 10 in Malaysia, and 6 other malls in China, Australia and Japan. YTL Corp Bhd is SGREIT's sponsor and largest unitholder with ~35.8% stake.

Starhill Global REIT

Key Considerations

- **Weak topline:** For the first quarter results for financial year ended 31 March 2020 ("1QFY2020"), gross revenue declined 7.8% y/y to SGD48.0mn while net property income ("NPI") declined 8.7% y/y to SGD36.9mn. This was largely due to the partial income disruption from the planned asset enhancement works ("AEW") of Starhill Gallery in Malaysia and the weaker AUD against SGD. Starhill Gallery remains partially open during the AEW, with completion of the first phase scheduled for 2020 and official launch of the revamped mall with hotel rooms scheduled for 2021. The revamped property will be renamed "The Starhill". Excluding Starhill Gallery, the gross revenue and NPI for SGREIT would have decreased by 2.4% and 1.7% y/y respectively.

- **Singapore retail portfolio did well:** This component accounted for 53% of total portfolio revenue in 1QFY2020. Although revenue generated from Singapore retail was down by 0.5% y/y, NPI was up by 0.7% y/y. Ngee Ann City (Retail) maintained full occupancy as it is anchored by Toshin master lease (i.e. Takashimaya). Actual occupancy at Wisma Atria (Retail) was 99% up from 91% a year ago, with committed occupancy rate 100% albeit at a softer rent. Wisma Atria has 20.4% of leases by gross rent coming due in FY2020. Given that tenant sales and footfall traffic at Wisma Atria grew 12.7% and 2.8% y/y respectively over the quarter. We think SGREIT may be able to retain or attract new tenants at the mall. Wisma Atria has an existing unutilized plot ratio amounting to ~100,000 sq. ft of GFA. SGREIT is exploring options to potentially unlock the value of the space, in view of the upcoming new Orchard MRT Station serving the new Thomson-East Coast Line. Separately, in Sep 2019, SGREIT has sent a non-binding expression of interest to Isetan Singapore to acquire Isetan's strata area at Wisma Atria though no deal was inked. The Singapore office portfolio which was largely stable contributed to 13% of total portfolio revenue in 1QFY2020.

- **Dragged by weaker AUD:** Foreign currency exposure accounts for ~34% of revenue for 1QFY2020. SGREIT partially mitigated this exposure by foreign currency denominated borrowings and short-term FX forward contracts where appropriate. Its most significant foreign exposure is to Australia where Australia properties (Myer Centre, David Jones and Plaza Arcade) contributed 23% of total revenue in 1QFY2020. Revenue from Australia was down 7.4% y/y while NPI declined 9.5% y/y, mainly due to weakening of AUD against SGD. In Australian dollar terms, NPI would have fallen by 4% y/y instead. We note that SGREIT has long term leases for Myer Centre (22.0% of the property's leases) and David Jones (33.6% of the property's leases), as such the percentage of total leases coming due every year is very manageable at <5% in FY2020 at all the Australia properties. Overall, committed occupancy rate for Australia's office portfolio has improved to 94.2% as at 30 Sep 2019 from 87.1% as at 30 June 2019, while the actual occupancy for Australia's retail portfolio stood at 94.5% as at 30 Sep 2019. Broadly speaking, we expect the weakness in AUD against SGD to continue to weigh on SGREIT as the depreciation continues with no sights of recovery. At the point of writing, AUD/SGD is at its lowest since 2001 (SGD0.9273 per AUD1).

- **Minimal near-term refinancing risk:** Aggregate leverage remains stable at 36.2% as at 30 Sep 2019 (4QFY2019: 36.1%, 4QFY2018: 35.5%) with ~90% of its borrowings fixed. EBITDA/Interest was also stable at 3.6x. SGREIT has minimal refinancing risk in the near term as it has just SGD23mn due in FY2020 (which comprise of short-term revolving credit facilities drawn mainly for working capital purposes) and SGD100mn (which is its SGREIT 3.5% 21s) in FY2021. Average debt maturity is 3.2 years. SGREIT has SGD73.2mn cash on hand which is more than sufficient to cover its maturing borrowings within this financial year and 74% of assets (by value) remains unencumbered as at 31 Sep 2019 which supports financial flexibility. That said, SGREIT has two chunks of debt maturity of SGD344mn in FY2022 (30% of total debt) and SGD385mn in FY2023 (34% of total debt and 12% of total assets).

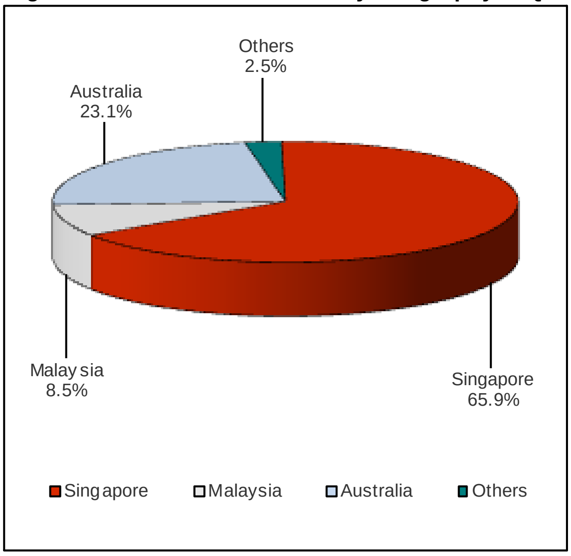
Starhill Global Real Estate Investment Trust

Table 1: Summary Financials

Year Ended 30th June	FY2018	FY2019	1Q2020
Income Statement (SGD'mn)			
Revenue	208.8	206.2	48.0
EBITDA	142.3	138.9	32.1
EBIT	142.3	138.9	32.1
Gross interest expense	38.3	38.7	10.0
Profit Before Tax	87.7	69.1	26.0
Net profit	84.2	65.6	25.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	66.7	72.9	73.2
Total assets	3,191.5	3,142.0	3,140.7
Short term debt	63.4	127.8	22.9
Gross debt	1,130.3	1,132.1	1,134.2
Net debt	1,063.6	1,059.2	1,060.9
Shareholders' equity	1,990.3	1,930.0	1,926.8
Cash Flow (SGD'mn)			
CFO	135.9	134.0	30.5
Capex	13.7	7.7	0.1
Acquisitions	0.0	0.0	0.0
Disposals	6.2	0.0	0.0
Dividends	101.2	97.5	24.0
Interest paid	39.1	37.8	9.1
Free Cash Flow (FCF)	122.2	126.3	30.5
Key Ratios			
EBITDA margin (%)	68.15	67.36	66.98
Net margin (%)	40.34	31.81	52.80
Gross debt to EBITDA (x)	7.94	8.15	8.82
Net debt to EBITDA (x)	7.47	7.63	8.25
Gross Debt to Equity (x)	0.57	0.59	0.59
Net Debt to Equity (x)	0.53	0.55	0.55
Gross debt/total asset (x)	0.35	0.36	0.36
Net debt/total asset (x)	0.33	0.34	0.34
Cash/current borrowings (x)	1.05	0.57	3.20
EBITDA/Total Interest (x)	3.72	3.59	3.22

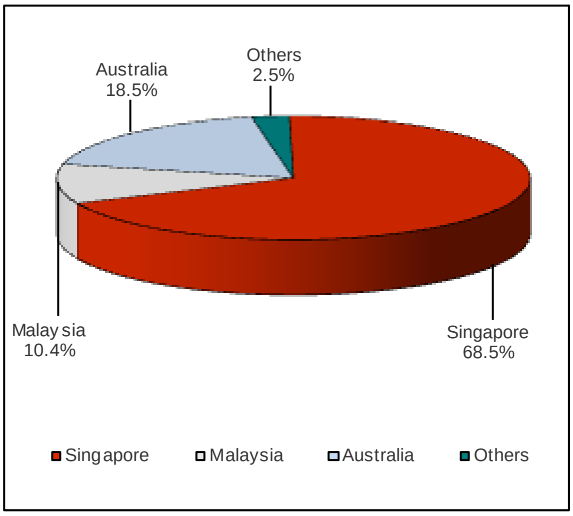
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 1Q2020



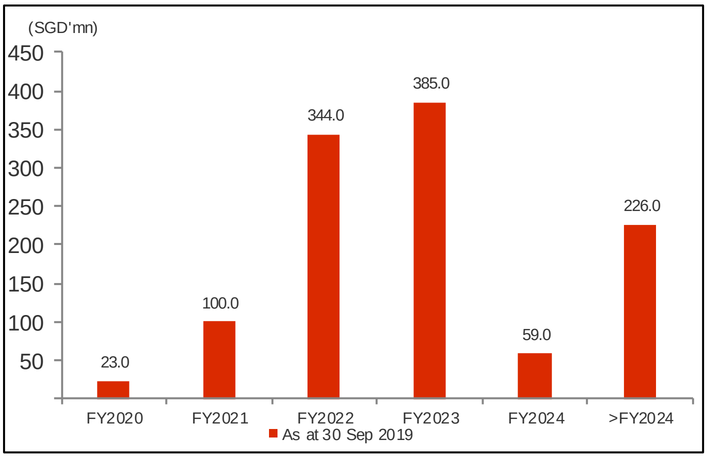
Source: Company

Figure 2: NPI breakdown by Geography - 1Q2020



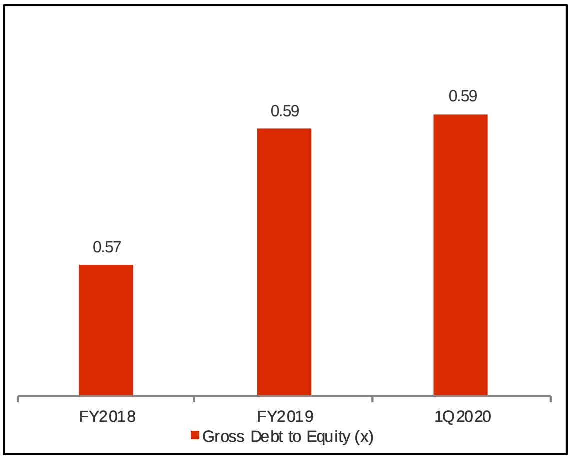
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:
Neutral (3)

Ticker:
STHSP

Outlook:
StarHub's outlook is weak due to significant competition on the mobile segment and capex costs that may be incurred for 5G. That said, StarHub has been proactively cutting costs and dividends, which should limit the downtrend in credit metrics. As such, we are Overweight the STHSP '26s.

Background:
StarHub Ltd ("StarHub") is a Singapore communications company, providing various services for consumer and corporates including mobile, data, fixed telecommunication, pay television, internet and broadband services. Listed on the SGX with a market cap of SGD2.4bn, StarHub is 55.8% owned by Asia Mobile Holdings Pte Ltd, which is 75%-owned by STT Communications Ltd, which is in turn a wholly-owned subsidiary of ST Telemedia (a wholly-owned subsidiary of Temasek).

StarHub Limited

Key Considerations

- **Mobile continues to struggle; light at the end of the tunnel not seen yet:** 3Q2019 revenue fell 1.6% y/y to SGD572.6mn, dragged down by the traditional core segments (Mobile, Pay TV and Broadband). Mobile revenue declined 11.1% y/y to SGD190mn due to declines in legacy segments (e.g. lower IDD, voice) as well as lower excess data usage. In particular, although average smartphone data usage grew strongly to 8.8GB/mth (3Q2018: 5.9GB/mth), post-paid ARPU fell to SGD39/mth (3Q2018: SGD44/mth). StarHub also saw a y/y and q/q fall in market share to 25.1% (2Q2019: 25.8%, 3Q2018: 26.7%) with post-paid customers declining to 1.44mn in 3Q2019 (2Q2019: 1.48mn) on the back of increased monthly churn rate to 1.6% (2Q2019: 1.1%). Expect competition to remain intense with new entrants and incumbents continuing to offer more data at lower price points (e.g. GOMO's SGD20 for 20GB, Circle's SGD18 for 20GB, Giga's SGD25 for 25GB). Meanwhile, sale of equipment revenue grew 12.5% y/y to SGD137.9mn with higher mix of premium handsets, with profit from sale of equipment growing y/y to SGD17.7mn in 3Q2019 (3Q2018: SGD14.8mn).

- **Lower contributions from Pay TV and Broadband though these segments may stabilise:** Pay TV revenue plunged 24.8% y/y to SGD56.1mn in 3Q2019 due to (1) 18% y/y fall in subscribers to 347k and fall in ARPU to SGD40/mth (3Q2018: SGD47/mth). Subscribers may continue to fall given alternatives in the market (e.g. Netflix) though StarHub expects some stability from 1Q2020 given two-year contracts. The decline in Pay TV is not necessarily negative as Pay TV has not been a profitable segment – StarHub has been renegotiating content price (e.g. from fixed to variable) to turn the segment profitability and sustainable. For Broadband, revenue declined 7.8% y/y to SGD43.2mn in 3Q2019 mainly due to declines in ARPU to SGD27/mth (3Q2018: SGD32/mth) due to promotional offers. However, we are not overly worried as the ARPU decline is due to offers for cable-to-fibre migration, which is likely one-off.

- **Growth in Enterprise business may partly mitigate decline in traditional core segments:** 3Q2019 Enterprise revenue grew 16.7% y/y to SGD145.5mn, mainly due to growth in cyber security (+135% y/y to SGD38.8mn). As the growth comes from a small base, we believe there is still opportunity to win new customers and grow further. That said, cyber security is not yet generating profits though losses have narrowed y/y to SGD3.6mn (3Q2018: SGD4.4mn). Enterprise segment revenue as a standalone (without cyber security) fell 1.3% y/y to SGD106.7mn in 3Q2019 due to loss of an enterprise customer in the hospitality sector which involved tens of thousands of SIM cards as the customer faced trading difficulties.

- **Weaker outlook ahead though capex and costs to be contained (in the short term):** Due to weaker performance in the traditional core segments, 3Q2019 profit before tax would have fallen 11.3% y/y to SGD61.1mn if we exclude SGD9.0mn tunnel fees from TPG, which may not recur in the long run. StarHub is guiding service revenue to decline by 2-3% (from stable to decline of 2%), which we think is due to intensifying competition on the mobile front. While the revenue front may be pressured, StarHub is mitigating the impact on profits. Capex is expected to reduce to 8-9% (from 11-12%) of revenue for 2019. The lower capex will likely stay until investments in 5G is required (which may begin from early 2020s), which may push capex to double digit levels of revenue again. In addition, StarHub is targeting cost savings of SGD210mn (e.g. headcount reduction), of which 60% has been completed.

- **Still manageable credit metrics:** 9M2019 net debt/EBITDA looks manageable at 1.7x still though this has somewhat deteriorated y/y (9M2018: 1.2x) due to higher net debt. We remain comfortable, for now, with StarHub with a strong EBITDA/Interest of 15.9x. Looking forward in 2020, we estimate that EBITDA (SGD687mn-SGD741mn) will be able to cover ~SGD200mn in capex, SGD156mn in dividends, ~SGD46mn in interest and distribution to perpetuals as well as SGD282mn in spectrum payments. However, the key uncertainty will be the capex required for 5G and we expect StarHub to face stiffening mobile competition.

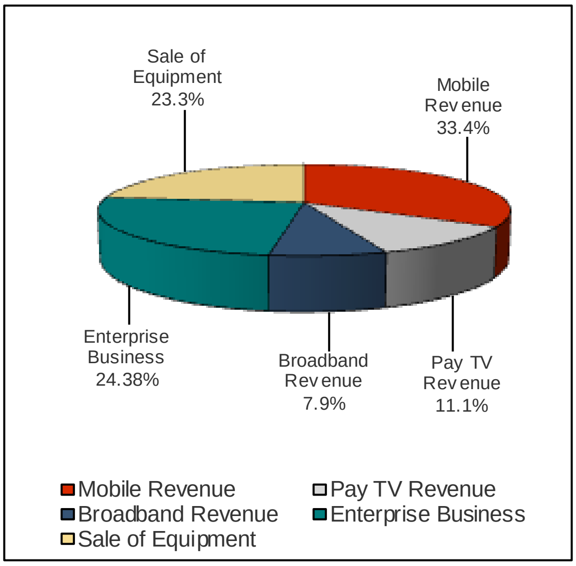
StarHub Limited

Table 1: Summary Financials

Year End 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	2,410.7	2,362.0	1,722.2
EBITDA	638.4	566.1	453.8
EBIT	358.1	272.3	200.3
Gross interest expense	29.9	30.3	29.5
Profit Before Tax	333.4	245.4	180.8
Net profit	273.6	200.5	145.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	345.2	166.0	154.3
Total assets	2,636.1	2,635.4	2,798.7
Short term debt	120.0	50.1	109.7
Gross debt	977.5	1,028.5	1,242.5
Net debt	632.3	862.5	1,088.2
Shareholders' equity	606.0	588.1	579.2
Cash Flow (SGD'mn)			
CFO	517.2	446.6	347.2
Capex	295.9	272.8	164.5
Acquisitions	37.6	93.9	0.0
Disposals	2.0	0.4	0.3
Dividend	293.9	276.9	151.1
Interest paid	-30.0	-30.6	-48.7
Free Cash Flow (FCF)	221.3	173.8	182.7
Key Ratios			
EBITDA margin (%)	26.5	24.0	26.4
Net margin (%)	11.3	8.5	8.4
Gross debt to EBITDA (x)	1.53	1.82	2.05
Net debt to EBITDA (x)	0.99	1.52	1.80
Gross Debt to Equity (x)	1.61	1.75	2.15
Net Debt to Equity (x)	1.04	1.47	1.88
Gross debt/total assets (x)	0.37	0.39	0.44
Net debt/total assets (x)	0.24	0.33	0.39
Cash/current borrowings (x)	2.88	3.31	1.41
EBITDA/Total Interest (x)	21.4	18.7	15.4

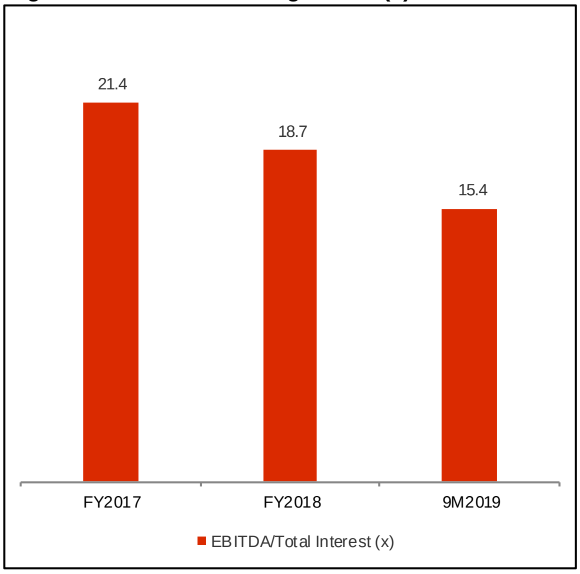
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2019



Source: Company

Figure 2: Interest Coverage Ratio (x)



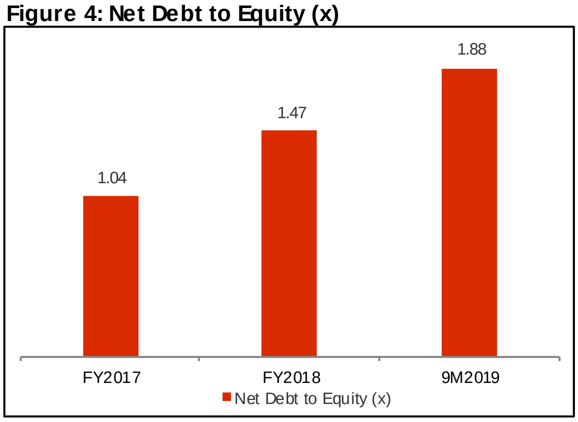
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	109.7	8.8%
	109.7	**8.8%**
Amount repayable after a year		
Secured	0.0	0.0%
Unsecured	1,132.8	91.2%
	1,132.8	**91.2%**
Total	**1,242.5**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:
Neutral (4)

Ticker:
SUNSP

Credit Outlook:
We are overweight on SUNSP 3.025% '22s and neutral on the rest of the SUN curve. Although SUN is more leveraged than peers, we are not overly concerned and we think its refinancing needs remain manageable. With new additions to its portfolio, we think SUN has room to perform better in 2020.

Background:
Listed on the SGX in 2004, Suntec REIT ("SUN") invests in retail and office real estate in Singapore and Australia. This includes "Suntec City" (Suntec City Mall, units in Towers 1–3, and whole of Towers 4 & 5), 60.8%-of Suntec Singapore Convention & Exhibition Centre ("SSECE"), one third of One Raffles Quay ("ORQ"), one-third of Marina Bay Financial Centre Towers 1 & 2 and Marina Bay Link Mall ("MBFC") and 30%-interest in 9 Penang Road. SUN also holds 100% of 177 Pacific Highway in Sydney as well as 50%-interest in both Southgate and 477 Collins Street in Melbourne.

Suntec REIT

Key Considerations

- **Improvement in performance:** Over 3Q2019, gross revenue rose 3.5% y/y to SGD91.9mn from SGD88.8mn a year ago. Net property income ("NPI") likewise improved 3.2% y/y to SGD58.4mn from SGD56.5mn. The stronger results are mainly due to higher contribution from Suntec City (Revenue: +4.5% y/y to SGD60.9mn, NPI: +3.4% y/y to SGD180.7mn), with the office component seeing better occupancy and the retail portion recording higher rental rates. In addition, the REIT also recorded maiden contribution from 55 Currie Street which was acquired on 10 Sep 2019 for AUD148.3mn. These offset the decline recorded at Suntec Singapore (Revenue: -2.0% y/y to SGD20.6mn, NPI: -6.3% y/y to SGD7.0mn) due to smaller scale of events.

- **Joint ventures performed well:** The total income contribution from joint ventures rose 14.4% y/y to SGD26.5mn from SGD23.2mn a year ago, comprising a one-third interest in ORQ (+6.2% y/y to SGD6.1mn), one-third interest in MBFC properties (+18.0% y/y to SGD15.8mn) as well as 50%-interest in Southgate Complex (+14.0% y/y to SGD4.6mn). Though the exact amount is not disclosed, we note that there is a component of one-off compensation included in the total income contribution received from MBFC properties. Looking at the committed occupancy at these properties, we find that the committed occupancy for ORQ improved 0.9 percentage point y/y to 97.0%. The committed occupancy at MBFC Towers 1 & 2 and Marina Bay Link Mall declined 1.5 percentage point and 1.4 percentage point y/y to 98.5% and 98.6% respectively. Southgate Complex's committed office occupancy improved 3.2 percentage point y/y to 100.0%. Overall these assets are quality assets and we expect them to maintain occupancy level above market's average.

- **New additions to the portfolio:** 9 Penang Road, a Grade A office building in Singapore (NLA: 119k sq ft) is on-track to complete in 4Q2019. The office component is 100%-preleased to UBS and target occupation is in 2H2020. Next, Olderfleet, 477 Collins Street, Australia (NLA: 312k sq ft) (a freehold premium office building in Melbourne CBD) whose building structure has topped out on 31 July 2019 is 87% pre-committed and expected to complete in mid-2020. Finally, the REIT is also pending the completion of acquisition of 21 Harris Street, Pyrmont, Sydney, which is currently ~81% completed and schedule to complete in 1Q2020, with pre-committed occupancy of 65%.

- **Management maintains a positive outlook:** The Singapore office market improved marginally in 3Q2019. Overall CBD occupancy improved by 0.5 percentage point to 95.4%, underpinned by a stable leasing market and tight supply while rents increased by a slight 0.2% to SGD10.81 psf/mth as tenants turned cautious amid an uncertain economic environment. Looking ahead, SUN's Singapore office portfolio will continue to perform well resulting from positive rent reversions in the recent quarters. The Singapore retail market remained stable over the quarter. Demand for retail space continued to be driven by new-to-market brands and expansion of existing brands. Looking ahead, the Suntec City Mall is expected to perform well notwithstanding the continuing challenges in the retail sector.

- **Relatively high aggregate leverage though manageable refinancing**: Aggregate leverage was high at 38.2% as at 30 Sep 2019 though has fallen slightly q/q (2Q2019: 38.8%), with EBITDA/Interest coverage of 3.1x. Despite its above average aggregate leverage level, SUN does not have any maturing borrowings for the remaining of 2019 as at 30 Sep 2019 and just SGD310mn worth of debt coming due in 2020 (representing 8.6% of total debt), versus the SGD127.7mn cash it has on hand as at end Sep 2019. As such, we are not overly concerned about its debt levels.

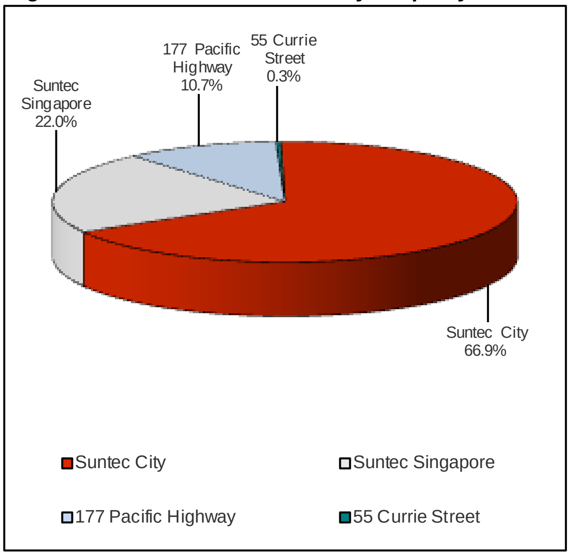
Suntec Real Estate Investment Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Revenue	354.2	363.5	270.0
EBITDA	195.6	190.4	134.1
EBIT	194.4	189.3	133.4
Gross interest expense	96.7	98.2	82.5
Profit Before Tax	247.3	331.1	149.6
Net profit	229.0	318.2	146.1
Balance Sheet (SGD'mn)			
Cash and bank deposits	172.7	136.7	127.7
Total assets	9,241.6	9,512.4	9,774.5
Short term debt	237.0	513.8	309.9
Gross debt	3,230.9	3,491.8	3,590.1
Net debt	3,058.2	3,355.2	3,462.4
Shareholders' equity	5,767.0	5,768.1	5,892.0
Cash Flow (SGD'mn)			
CFO	226.6	210.3	153.7
Capex	25.8	37.0	60.9
Acquisitions	53.1	174.9	158.7
Disposals	0.0	0.0	0.0
Dividends	263.1	273.7	206.0
Interest paid	82.3	94.6	74.1
Free Cash Flow (FCF)	200.8	173.3	92.8
Key Ratios			
EBITDA margin (%)	55.22	52.37	49.65
Net margin (%)	64.66	87.53	54.11
Gross debt to EBITDA (x)	16.52	18.34	20.08
Net debt to EBITDA (x)	15.64	17.63	19.37
Gross Debt to Equity (x)	0.56	0.61	0.61
Net Debt to Equity (x)	0.53	0.58	0.59
Gross debt/total asset (x)	0.35	0.37	0.37
Net debt/total asset (x)	0.33	0.35	0.35
Cash/current borrowings (x)	0.73	0.27	0.41
EBITDA/Total Interest (x)	2.02	1.94	1.63

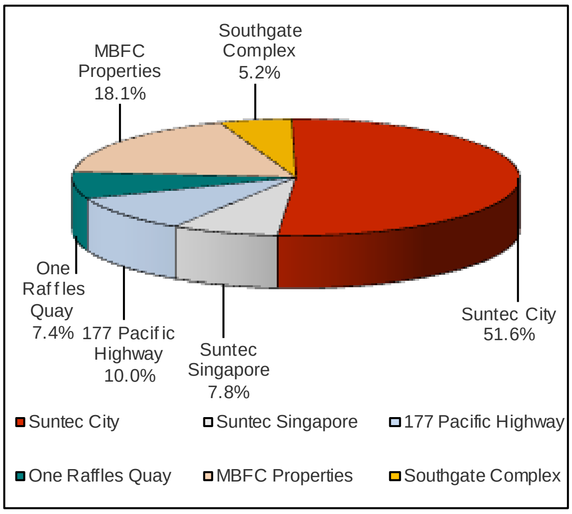
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Property - 9M2019



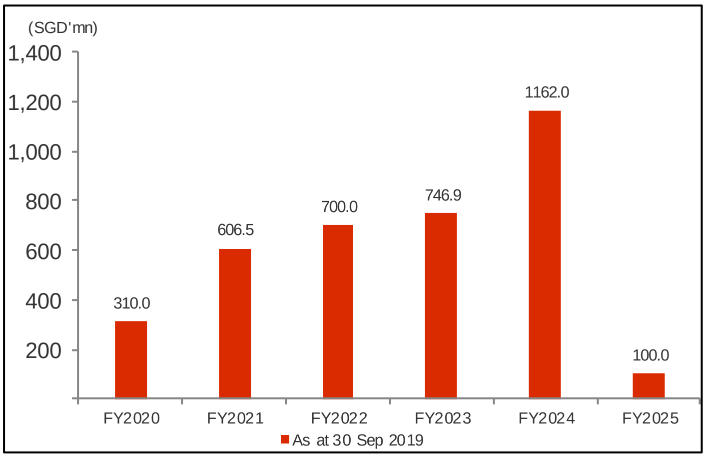
Source: Company

Figure 2: NPI breakdown by Property - 9M2019



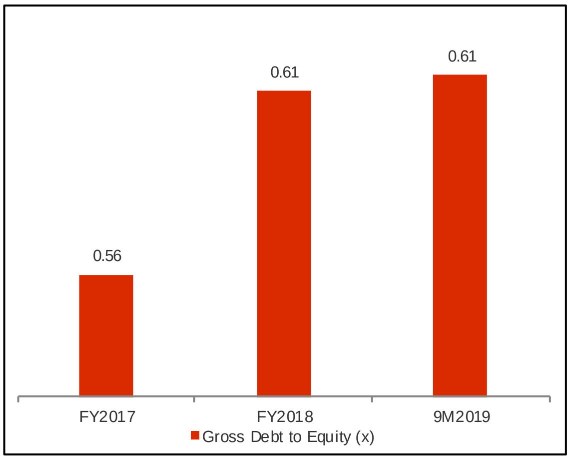
Source: Company | Excludes 55 Currie Street

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Issuer Profile:

Neutral (3)

Ticker:

WHARF

Credit Outlook:

WHARF 4.5% '21 is offering 2.35% yield for a~ 1.67 years tenor which is similar to WHEELK 4.5% '21 despite having its credit profile a notch lower at Neutral (3). We think this could be due to WHARF being overall more exposed to Mainland China and less exposed to Hong Kong. We are neutral on WHARF 4.5% '21.

Background:

The Wharf (Holdings) Ltd ("WHARF") develops and invests in retail, hotel and office property in China and develops properties in Hong Kong. WHARF is also involved in managing hotels and container terminals businesses. In November 2017, WHARF spun off its major investment properties in Hong Kong into an entity that is currently listed as Wharf REIC. WHARF is a subsidiary of Wheelock & Co. Ltd, which owns a 64.55% stake in the company.

The Wharf (Holdings) Ltd

Key Considerations

- **Development properties ("DP") in Mainland China slipped:** WHARF as a whole is most exposed to Mainland China, which holds 68% of its total business assets (over RMB100bn). These assets generated 72% of the Group's revenue and 79% of total underlying net profit. DP in China recorded a 10% decline y/y in revenue to HKD5.2bn (including contributions from joint ventures and associates). Operating profit though fell by a mere 1% y/y to HKD1.8bn. Contracted sales also fell by 10% y/y to ~HKD7.2bn (i.e. RMB6.5bn). Net book order was ~HKD26.1bn (i.e. RMB23.5bn). We note that WHARF has land bank totaling 3.6mn sq. m and has not made any new land purchase for nearly one year as the primary sales pricing is effectively controlled by the government which affects future project profitability. We think that government policy is likely to direct the strategy of this business segment for WHARF going forward.

- **Conversely, investment properties ("IP") in Mainland China did well:** Revenue from this segment rose 22% y/y to HKD2.0bn, while operating profit was up by 30% y/y to HKD1.2bn. Both were due to the HKD0.4bn new revenue contribution from Changsha IFS (opened in late-2018) and a 14% y/y increase in revenue generated at Chengdu IFS to HKD0.9bn. Over 1H2019, Chengdu IFS saw tenant sales increase by 13% y/y and foot fall higher by 9% y/y. For Changsha IFS, Tower 2 (office property) is due to open in 2021. We note that management is expecting the oversupply in the office sector in most cities to increase in the coming years. The retail portion at Changsha IFS is 98% occupied. We note that RMB weakened by 0.4% against HKD in 1H2019, and a further 2.5% from Jul to end Nov 2019. We think WHARF may potentially be negatively impacted.

- **Substantial recurring income:** The IP and Hotel business segments make up WHARF's recurring income. These accounted for 29% of WHARF's revenue (1H2018: 24%) and 34% of total operating profit (1H2018: 36%) in 1H2019. Revenue from IP and Hotel was HKD2.3bn (+21% y/y) while operating profit generated was HKD1.3bn (+25% y/y) which alone is more than sufficient to cover its interest expenses of HKD0.6bn (including capitalised interest). Profit before tax of both segments though was largely stable at HKD1.6bn (-0.5% y/y). For profit before tax which includes share of results of associates and joint ventures, DP/IP split was 30%/41% (2018: 69%/26%, 1H2018: 53%/37%). We think this trend is likely to persist and may skew further towards IP given that Tower 2 at Changsha IFS will open and WHARF has not purchased any new land.

- **Pipeline of DP in Hong Kong:** Although contributions from DP in Hong Kong have been somewhat low, WHARF has a handful of projects underway. They are i) 11 Plantation Road which will provide 7 houses (GFA 46k sq. ft) ii) 77 Peak Road which will provide 8 houses (GFA 42k sq. ft) iii) 1 Plantation Work which will provide 20 houses (GFA 91k sq. ft) iv) Kowloon Tong Residential Project (foundation work is in progress for 4 blocks of 13 storey residential buildings, GFA 436k sq. ft) v) Kowloon East Waterfront Portfolio which comprises Kowloon Godown (considering redevelopment options) and 15%-owned Yau Tong Bay (provide 6,300 residential units, GFA 4mn sq. ft). Given the recent disruption in HKSAR, we think the moving of these units may stall until the situation improves.

- **Manageable credit metrics:** Net debt was reduced by 4% y/y to HKD24.6bn from HKD25.6bn leading to net gearing ratio of 16.9%. Excluding debts that are non-recourse to WHARF and its subsidiaries, net debt was HKD18.4bn and net gearing was 12.6%. EBITDA/Interest (including capitalised interest) was 6.3x, up from 4.7x a year ago. WHARF continues to have healthy liquidity with more than enough cash (HKD19.0bn) to pay off its short term debt (HKD9.5bn).

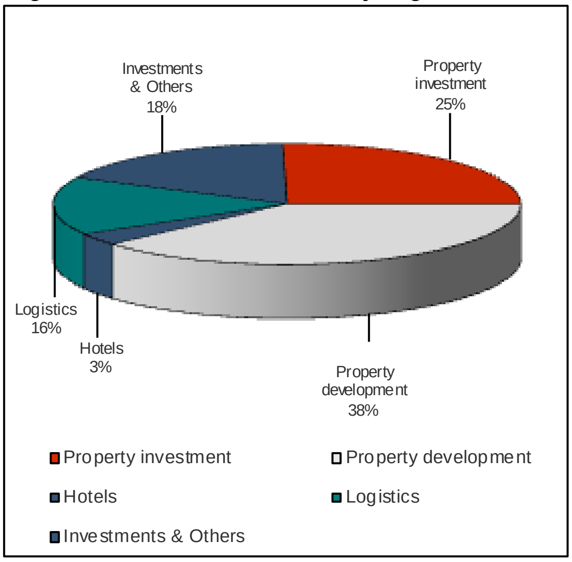
The Wharf (Holdings) Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1H2019
Income Statement (HKD'mn)			
Revenue	43,273.0	21,055.0	8,064.0
EBITDA	21,560.0	9,395.0	4,065.0
EBIT	20,622.0	8,752.0	3,701.0
Gross interest expense	1,382.0	881.0	670.0
Profit Before Tax	30,570.0	10,837.0	3,902.0
Net profit	22,603.0	6,711.0	2,473.0
Balance Sheet (HKD'mn)			
Cash and bank deposits	45,697.0	17,448.0	18,963.0
Total assets	222,647.0	227,349.0	236,335.0
Short term debt	10,142.0	11,239.0	9,516.0
Gross debt	36,409.0	43,086.0	43,610.0
Net debt	net cash	25,638.0	24,647.0
Shareholders' equity	145,471.0	138,760.0	146,064.0
Cash Flow (HKD'mn)			
CFO	5,208.0	-8,091.0	4897.0
Capex	5,368.0	2,504.0	1120.0
Acquisitions	11,355.0	21,676.0	0.0
Disposals	7,715.0	914.0	0.0
Dividends	6,995.0	3,768.0	1219.0
Free Cash Flow (FCF)	-160.0	-10,595.0	3777.0
Key Ratios			
EBITDA margin (%)	49.82	44.62	50.41
Net margin (%)	52.23	31.87	30.67
Gross debt to EBITDA (x)	1.69	4.59	5.36
Net debt to EBITDA (x)	net cash	2.73	3.03
Gross Debt to Equity (x)	0.25	0.31	0.30
Net Debt to Equity (x)	net cash	0.18	0.17
Gross debt/total assets (x)	0.16	0.19	0.18
Net debt/total assets (x)	net cash	0.11	0.10
Cash/current borrowings (x)	4.51	1.55	1.99
EBITDA/Total Interest (x)	15.60	10.66	6.07

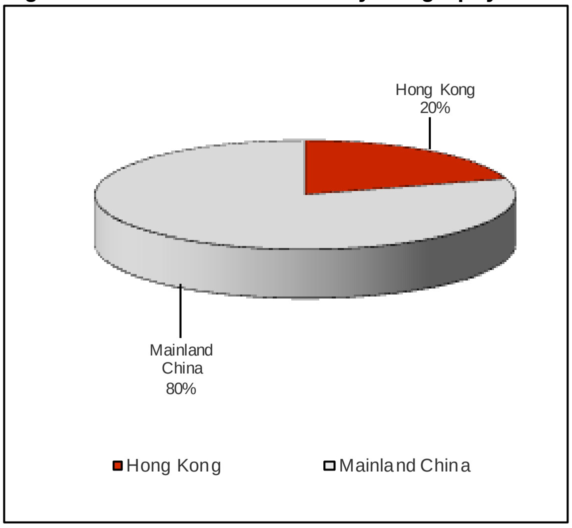
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2019



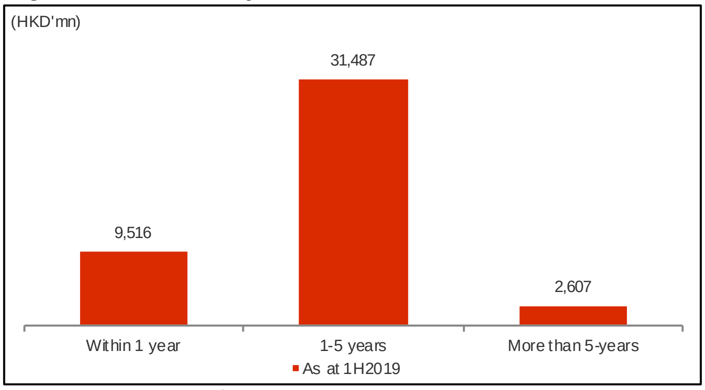
Source: Company

Figure 2: Revenue breakdown by Geography - 1H2019



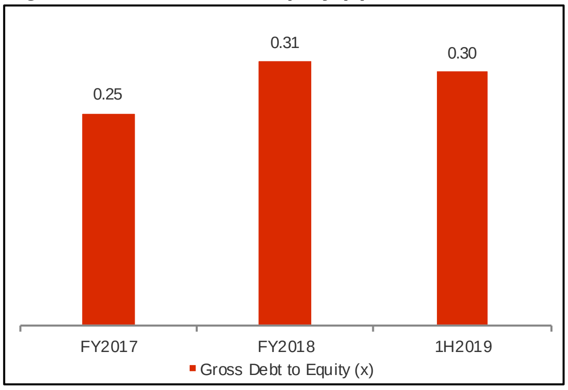
Source: Company | Excludes Others

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Gross Debt to Equity (x)



Source: Company

Issuer Profile:
Positive (2)

Ticker:
WHEELK

Credit Outlook:
WHEELK 4.5 '21 is offering 2.38% yield for a 1.75 years tenor. We are neutral on this bond despite its still firm credit metrics, as we think that investors may be able to obtain higher yields from taking on reasonably more risk. For instance, METRO 4 '21 albeit a weaker credit profile is offering 3.28% yield for a similar tenor. METRO is trading ~90 bps wider.

Background:
Founded in Shanghai in 1857, Wheelock & Co Ltd ("WHEELK") is a Hong Kong-listed investment holding company. Wheelock owns 64.55% of The Wharf (Holdings) Ltd ("WHARF") and 62.28% of Wharf Real Estate Investment Co ("Wharf REIC"). Together with 90.1%-owned Wheelock Properties (Singapore) ("WPSL"), the subsidiary companies generate a solid recurring dividend income for the Group.

Wheelock & Co Ltd

Key Considerations

- **Wharf REIC is crucial to WHEELK:** Wharf REIC contributed HKD3.3bn to WHEELK's underlying net profit (i.e. 46.8% of total). We note that majority of Wharf REIC's revenue is generated from rental income under the investment properties ("IP") segment (87.5% of total revenue) which is largely recurring. Wharf REIC derives 98.8% of its revenue from Hong Kong, with Habour City (including hotels) being the key driver of the six properties it owns. Over 1H2019, total revenue for Habour City rose 5% y/y to HKD6.2bn on the back of higher retail revenue (+6% y/y) and average passing retail rent (+4% y/y) while occupancy rate for Habour City was maintained at 96% as at end-June 2019. Habour City's office component also contributed positively with a higher average spot rent (+9% y/y). We had previously expected Wharf REIC to remain largely stable and continue to be a reliable source of income for WHEELK. Given the recent disruptions in HKSAR, we think contributions from Wharf REIC have now become a significant source of uncertainty for WHEELK. Over 10M2019, visitor arrivals fell by 4.7% y/y with the decline in Oct 2019 at 43.7% y/y. We think this will inevitably drag the performance of its retail malls and hotels.

- **WHARF's IP in Mainland China performed well:** Over 1H2019, revenue at WHARF rose by 3% y/y to HKD8.1bn from HKD7.8bn, on the back of stronger performance from IP (+21% y/y to HKD2.0bn) though partially offset by the development properties ("DP") segment (-21% y/y to HKD3.1bn). Separately, a drift towards IP (away from DP) was observed. For profit before tax which includes share of results of associates and joint ventures, DP/IP split was 30%/41% (2018: 69%/26%, 1H2018: 53%/37%). We think this trend is likely to persist and may skew further towards IP given that Tower 2 at Changsha IFS (under IP) in Mainland China will open and WHARF has not purchased any new land recently. Recurring income made up 29% of WHARF's revenue and 34% of the total operating profit in 1H2019.

- **Wheelock standalone's revenue surged:** Wheelock standalone's revenue was HKD4.6bn, up by 418% y/y while underlying net profit grew 864% y/y to HKD1.9bn. This was largely due to the gain on disposal of the O'South malls and higher sales recognition of DP projects. Residential contracted sales amounted to HKD16.2bn with a total of 1,282 units sold or presold. Though down from the HKD23.4bn recorded in 1H2018, we note that 1H2018 figure was a record high. Net order book (i.e. presold but contracted sales not yet recognised) grew to HKD34.9bn, from HKD26.7bn at end-2018. This increase was mainly driven by successful launches of Montara and Grand Montara which took place in 2Q2019. We think this improvement may not persist given the disruptive activities in HKSAR.

- **Still firm credit metrics:** Wheelock standalone's debt increased to HKD43.1bn from HKD32.6bn, with its net gearing higher at 15.8% at end-June 2019, from 13.0% in the preceding corresponding period. Even though HKD6.5bn of its own debt will come due before 31 December 2020, and based on our estimation it only has cash of ~HKD1.4bn (Wheelock standalone's) as at 30 June 2019, it (Wheelock-standalone) has significant undrawn facilities of HKD26.7bn (38.3% of total available facilities). Therefore, we think the maturing debt would be very manageable, not forgetting the recurrent dividend income that WHEELK receives from its subsidiaries. Specifically, WHEELK is expected to receive HKD2.1bn in dividends from its stake in Wharf REIC and HKD0.5bn from WHARF in September 2019. Total net debt of WHARF, Wharf REIC and other groups which are non-recourse to WHEELK and its wholly-owned subsidiaries was HKD59.1bn. Including which, net gearing on a consolidated basis would have been higher at 25.0% (2018: 23.9%). Cash (consolidated basis) was HKD25.8bn and WHEELK also has a portfolio of listed investments with an aggregate market value of HKD51.2bn which is liquid and available for use if needed. EBITDA/Interest (consolidated basis) was 8.2x, up from 7.3x a year ago largely due to a much larger increase in EBITDA than debt.

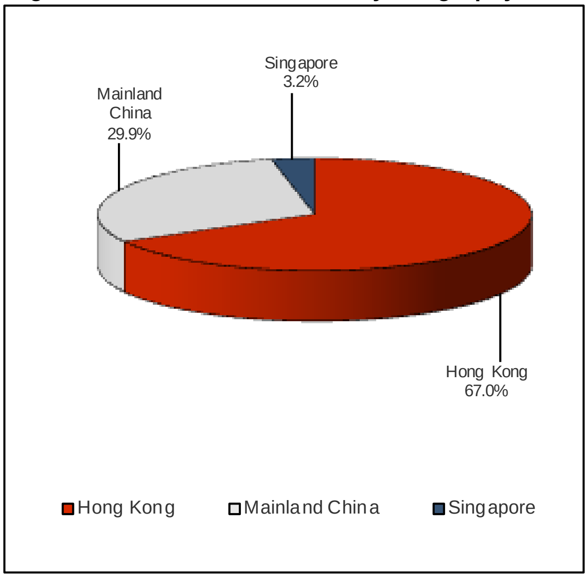
Wheelock & Co Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1H2019
Income Statement (HKD'mn)			
Revenue	70,953.0	48,490.0	21,713.0
EBITDA	24,841.0	25,875.0	13,172.0
EBIT	23,857.0	24,934.0	12,679.0
Gross interest expense	2,247.0	2,812.0	1,616.0
Profit Before Tax	41,466.0	33,500.0	14,696.0
Net profit	33,031.0	26,870.0	11,869.0
Balance Sheet (HKD'mn)			
Cash and bank deposits	56,474.0	28,824.0	25,829.0
Total assets	569,672.0	592,624.0	613,964.0
Short term debt	35,170.0	14,968.0	12,206.0
Gross debt	114,191.0	121,831.0	126,568.0
Net debt	57,717.0	93,007.0	100,739.0
Shareholders' equity	387,823.0	389,478.0	402,363.0
Cash Flow (HKD'mn)			
CFO	17,233.0	7,489.0	3899.0
Capex	8,041.0	3,161.0	1471.0
Acquisitions	20,310.0	30,336.0	2859.0
Disposals	8,812.0	1,178.0	0.0
Dividends	5,979.0	6,973.0	3851.0
Free Cash Flow (FCF)	9,192.0	4,328.0	2428.0
Key Ratios			
EBITDA margin (%)	35.01	53.36	60.66
Net margin (%)	46.55	55.41	54.66
Gross debt to EBITDA (x)	4.60	4.71	4.80
Net debt to EBITDA (x)	2.32	3.59	3.82
Gross Debt to Equity (x)	0.29	0.31	0.31
Net Debt to Equity (x)	0.15	0.24	0.25
Gross debt/total assets (x)	0.20	0.21	0.21
Net debt/total assets (x)	0.10	0.16	0.16
Cash/current borrowings (x)	1.61	1.93	2.12
EBITDA/Total Interest (x)	11.06	9.20	8.15

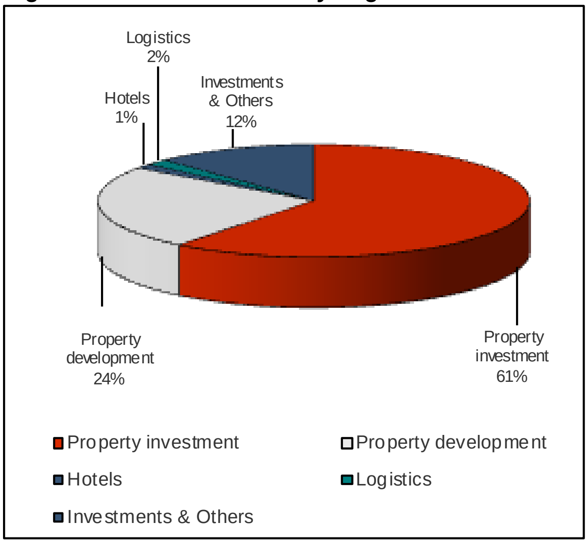
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 1H2019



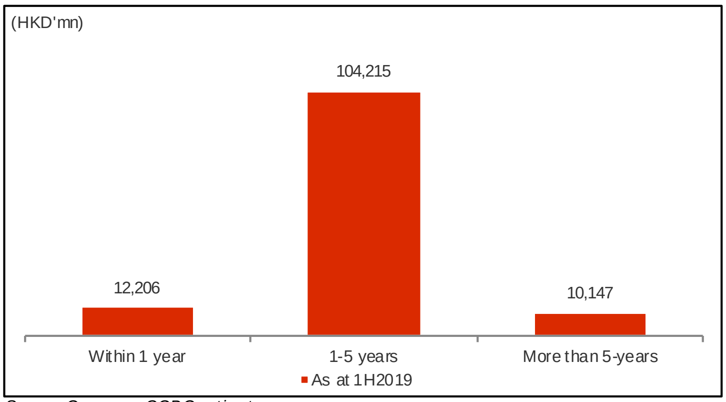
Source: Company

Figure 2: EBIT breakdown by Segment - 1H2019



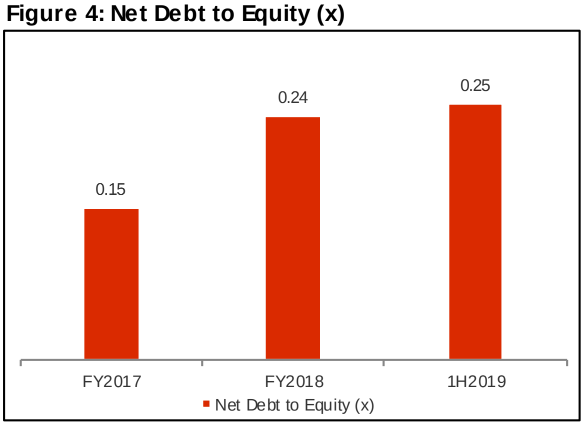
Source: Company

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:

Neutral (4)

Ticker:

WINGTA

Outlook:

Although profitability remains weak due to lacklustre property sales, the credit profile is supported by healthy credit metrics and increasing contribution from the retail segment, anchored by Uniqlo. We like the WINGTA curve.

Background:

Listed on the SGX since 1989, Wing Tai Holdings Ltd ("WTH") core businesses are in property investment and development, lifestyle retail and hospitality management in key Asian markets such as Singapore, Malaysia, Hong Kong and China. WTH's commercial properties include Winsland House in Singapore while its ~34%-owned associate Wing Tai Properties Ltd ("WTP") owns Landmark East in Hong Kong. WTH has a distribution network of 243 retail stores as of 30 Jun 2019. Brands include Uniqlo, G2000, Topshop, Topman, Dorothy Perkins. The group's Chairman Mr. Cheng Wai Kheung owns a ~51%-stake in WTH.

Wing Tai Holdings Ltd

Key Considerations

- **Decent results after a softer FY2019:** FY2019 revenue fell 10.5% y/y to SGD322.6mn mainly due to lower development revenue (-24.1% y/y to SGD136.2mn). That said, 1QFY2020 revenue for the quarter ended 30 Sep rose 2% y/y to SGD79.3mn due to more development properties sold, with 2 units moved at Le Nouvel Ardmore worth SGD32.7mn in the quarter according to URA caveats. WINGTA's associates also did well, with share of profits of associated and joint venture companies up 13% y/y to SGD10.5mn due to higher contributions from Wing Tai Properties Ltd in Hong Kong and Malaren Gardens in Shanghai. Overall, net profit rose 197% y/y to SGD6.8mn.

- **Development properties in the pipeline to support the topline:** While development revenue has declined in FY2019 with reported EBIT from the segment falling to SGD14.1mn in FY2019 (FY2018: SGD67.4mn), this was due to a dry landbank previously. There are 3 projects in the Singapore pipeline which can contribute to future profits. We estimate that ~20 units remain at the 43-unit Le Nouvel Ardmore which can be monetized. 613-unit The Garden Residences (JV with Keppel) has sold 223 units worth SGD223.0mn, which should see progressive revenue recognition. WTH will also be launching 500-units The M Condo. This site is at Middle Road, which WTH won with a SGD492mn bid in Apr 2019. If the Singapore property market continues to recover, this should be supportive for WTH's projects. In total, segment assets of development properties (excluding associates and JV) amount to SGD1.29bn, which accounts for 49.1% of WTH's total assets (excluding associates and JV).

- **Building up the investment properties portfolio:** Rental income for FY2019 rose 19.7% y/y to SGD37.7mn, with WTH beefing up its investment properties to SGD792.7mn as of end-FY2019 (FY2018: SGD733.3mn) through the addition of a 13-storey hotel property in Tokyo. In Sep 2019, WTH acquired a freehold data centre in Australia for AUD51mn (~SGD47mn), following several acquisitions in Australia in the recent years. The more significant investment properties in Singapore include Winsland House I (lettable area: 13,352 sqm), Winsland House II (7,304 sqm) and Lanson Place Winsland Serviced Residences (5,087 sqm). We estimate that the net property income from directly owned investment properties (excluding associates and JV) amount to SGD24.6mn in FY2019 (FY2018: SGD31.5mn). Segment assets of investment properties (excluding associates and JV) amount to SGD878.7mn, which accounts for 33.5% of WTH's total assets (excluding associates and JV).

- **Becoming a major retail company through Uniqlo:** WTH owns 49%-stake in Uniqlo (Singapore) and 45%-stake in Uniqlo (Malaysia). The profit growth rate of Uniqlo in Singapore and Malaysia is high, with profit of SGD41.1mn (FY2018: SGD29.9mn, FY2017: SGD22.4mn) and SGD43.9mn (FY2018: SGD31.4mn, FY2017: SGD22.3mn) respectively in FY2019. Collectively, the retail segment generated SGD40.2mn reported EBIT in FY2019 (FY2018: SGD34.3mn). Uniqlo in Singapore and Malaysia are net cash as of FY2019.

- **Wing Tai Properties Ltd ("WTP") as an important contributor:** WTH's 34.2%-stake in WTP is worth SGD391.4mn and up streams ~SGD20mn dividends p.a. to WTH. While WTP is exposed to Hong Kong which faced social unrest, this should be mitigated by stability in income from WTP's holdings in investment properties which generate recurring income.

- **Manageable credit metrics:** Net gearing is largely unchanged q/q in 1QFY2020 at 11.6% (4QFY2019: 11.4%) despite acquisition of a data centre in Australia. Operating profit of SGD7.6mn barely covers SGD7.2mn of finance costs though we are not overly worried given the contained leverage. Even if we account for the perps as debt because they are senior, net gearing looks manageable at 21.6%. There is no debt maturing within the next 12 months.

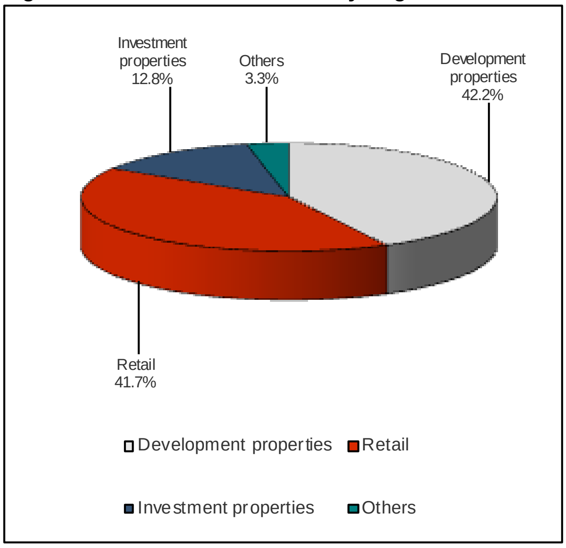
Wing Tai Holdings Ltd

Table 1: Summary Financials

Year Ended 30th Jun	FY2018	FY2019	1Q2020
Income Statement (SGD'mn)			
Revenue	373.2	322.6	79.3
EBITDA	35.5	5.6	13.7
EBIT	27.9	-2.5	6.2
Gross interest expense	32.5	30.9	7.2
Profit Before Tax	239.4	46.3	10.8
Net profit	221.1	48.8	6.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	792.2	217.3	211.9
Total assets	4,531.7	4,359.6	4,426.6
Short term debt	0.0	22.4	0.0
Gross debt	780.1	649.6	628.2
Net debt	-12.1	432.2	416.3
Shareholders' equity	3,550.1	3,582.6	3,603.2
Cash Flow (SGD'mn)			
CFO	105.9	-460.1	52.7
Capex	9.4	9.5	51.8
Acquisitions	149.0	53.5	0.0
Disposals	274.4	4.5	0.0
Dividend	53.3	61.7	0.0
Interest paid	-32.7	-28.3	-7.3
Free Cash Flow (FCF)	96.5	-469.6	1.0
Key Ratios			
EBITDA margin (%)	9.50	1.73	17.26
Net margin (%)	59.24	15.11	8.60
Gross debt to EBITDA (x)	22.00	116.68	11.47
Net debt to EBITDA (x)	net cash	77.64	7.60
Gross Debt to Equity (x)	0.22	0.18	0.17
Net Debt to Equity (x)	net cash	0.12	0.12
Gross debt/total assets (x)	0.17	0.15	0.14
Net debt/total assets (x)	0.00	0.10	0.09
Cash/current borrowings (x)	NM	9.69	NM
EBITDA/Total Interest (x)	1.09	0.18	1.89

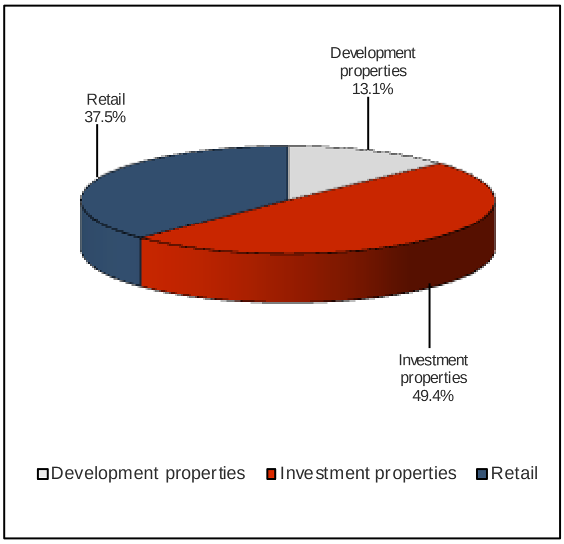
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2019



Source: Company

Figure 2: Reported EBIT by Segment - FY2019



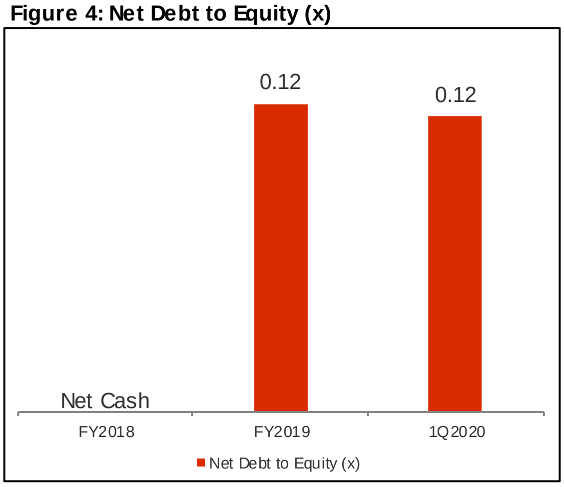
Source: Company | Excludes Others

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	0.0	0.0%
	0.0	**0.0%**
Amount repayable after a year		
Secured	82.9	13.2%
Unsecured	545.3	86.8%
	628.2	**100.0%**
Total	**628.2**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Issuer Profile:

Neutral (4)

Ticker:

WINGTA

Outlook:

The social unrest in HKSAR may impact 2H2019's results. We are Underweight WINGTA 4.35% PERP as we think it is not a certainty that WTP will exercise the call in 2020 due to the absence of reset and step-up on the first call date.

Background:

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

Wing Tai Properties Ltd

Key Considerations

- **Weaker results post divestment of investment properties:** 1H2019 revenue decline 9.7% y/y to HKD423.9mn, mainly due to decline in revenue from property investment and management (-15.7% y/y to HKD314.5mn). This is due to the divestment of Winner Godown Building and W Square in 1H2018. According to WTP, if we exclude fair value changes and contributions from the properties disposed in 2018, property investment and management segment PBIT would have increased from HKD211mn in 1H2018 to HKD229mn in 1H2019 mainly from acquisition of 30 Gresham Street. Overall, due to declines in revenue, reported PBIT for WTP excluding fair value changes fell 10.0% y/y to HKD147.9mn. Meanwhile, hospitality investment and management segment revenue rose y/y to HKD71mn (1H2018: HKD68mn). 1H2019 results still held up despite the social turmoil in Hong Kong as only June was somewhat impacted.

- **Social turmoil may negatively impact 2H2019's results for hospitality and residential…:** With the social turmoil persisting in HKSAR in most parts of 2H2019, we expect WTP's results to be negatively impacted, especially in hospitality. Reported profit before fair value changes for the segment was HKD18.9mn in 1H2019 (1H2018: loss of HKD10.3mn), which could turn into a loss as room rates and occupancy rates have reportedly plunged. WTP has also reported that the residential property market has slowed though we note that housing prices have largely held up. That said, we are not too overly worried yet as WTP's units are still moving. We note that 35%-owned Le Cap and La Vetta with a combined 460k sq. ft. saleable area is 28% and 25% sold respectively as of Aug 2019. The other residential projects completing in the near-term is 100%-owned The Carmel (completing in 2020) with 147k sq. ft. saleable area which is 78% sold and 100%-owned OMA OMA (completing in 2021) with 234k sq. ft. saleable area which is 50% sold.

- **… though investment property should still anchor the portfolio:** We expect investment property segment to provide some stability to WTP's results. Investment properties form HKD20.6bn of the net book value as of 1H2019, representing ~57% of WTP's total assets. The largest contributor is Landmark East, which is WTP's flagship Grade A office property in Kowloon East with 1.34mn sq. ft. in GFA. According to WTP, Landmark East is 97% occupied as of end-1H2019 with stable rental rate. The remaining fully-owned investment properties mostly relate to Shui Hing Centre in HKSAR (187k sq. ft.) and three smaller commercial properties in London. Separately, WTP holds a 50%-stake in 30 Gresham Street, which is a London Commercial property with 404k sq. ft. of area (estimated worth of stake: ~HKD2.3bn) which was acquired in Dec 2018, as well as 25%-stake in Fleet Place with 192k sq. ft. of area.

- **Significant development in Central:** WTP is undertaking development of a commercial complex in Central at Gage Street/Graham Street through a 50-50 joint venture. The cost for the land plot was reportedly HKD11.6bn. This property will have a GFA of up to 433.5k sq. ft. which includes mostly Grade A office tower. Thus far, we understand from Hongkong Land Holdings Ltd results that occupancy and rents at its Central portfolio remains resilient, however we think it remains to be seen if the social unrest will significantly impact WTP's project in Central.

- **Decent credit metrics:** Net gearing looks healthy at 0.08x. If we reclassify the SGD260mn 4.35% PERP (~HKD1.5bn) as debt because it is senior and HKD8.08bn contingent liability as debt, we find that net gearing is still manageable at 0.44x. Meanwhile, EBITDA/Interest coverage is decent at 4.9x. Liquidity is ample with cash and unutilized revolving loan facility of HKD4.78bn covering HKD1.03bn of short-term debt. However, we note that WTP may continue to acquire land and investment properties when opportunities arise which may stretch its balance sheet.

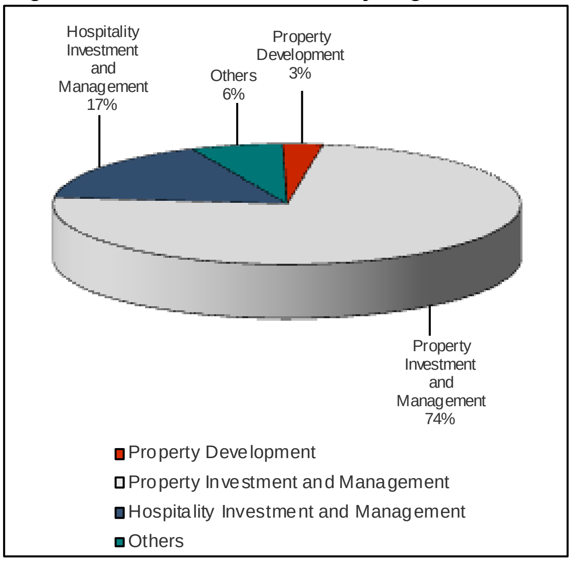
Wing Tai Properties Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1H2019
Income Statement (HKD'mn)			
Revenue	1,064.3	884.7	423.9
EBITDA	476.1	372.3	146.1
EBIT	471.1	362.7	140.7
Gross interest expense	160.6	181.3	29.8
Profit Before Tax	2,101.0	1,432.3	285.4
Net profit	2,002.4	1,379.5	245.4
Balance Sheet (HKD'mn)			
Cash and bank deposits	654.2	2,873.6	2,352.3
Total assets	35,496.1	35,427.7	35,995.7
Short term debt	1,401.5	1,295.3	1,028.8
Gross debt	6,184.1	5,034.5	4,762.2
Net debt	5,529.9	2,160.9	2,409.9
Shareholders' equity	27,809.9	28,721.9	28,651.8
Cash Flow (HKD'mn)			
CFO	897.1	-333.3	312.7
Capex	75.2	95.0	138.2
Acquisitions	0.0	0.7	0.0
Disposals	314.5	4,739.4	0.0
Dividends	246.5	451.0	317.3
Free Cash Flow (FCF)	821.9	-428.3	174.5
Key Ratios			
EBITDA margin (%)	44.73	42.08	34.47
Net margin (%)	188.14	155.93	57.89
Gross debt to EBITDA (x)	12.99	13.52	16.30
Net debt to EBITDA (x)	11.61	5.80	8.25
Gross Debt to Equity (x)	0.22	0.18	0.17
Net Debt to Equity (x)	0.20	0.08	0.08
Gross debt/total assets (x)	0.17	0.14	0.13
Net debt/total assets (x)	0.16	0.06	0.07
Cash/current borrowings (x)	0.47	2.22	2.29
EBITDA/Total Interest (x)	2.96	2.05	4.90

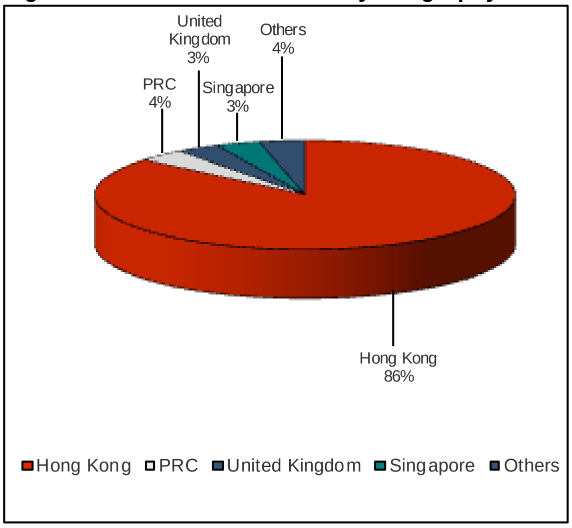
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2019



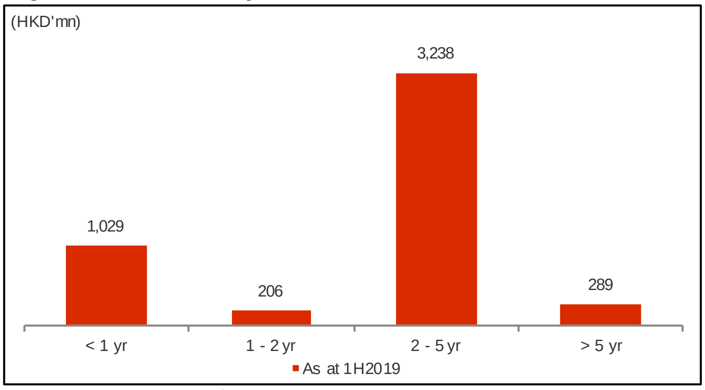
Source: Company

Figure 2: Revenue breakdown by Geography - 1H2019



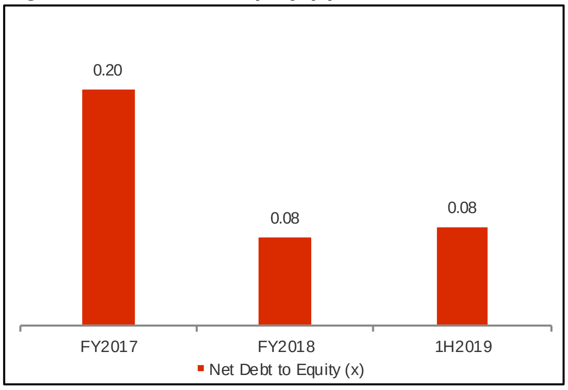
Source: Company

Figure 3: Debt Maturity Profile



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

Financial Institution Outlooks

Issuer Profile:

Neutral (3)

Ticker:

ABNANV

Credit Outlook:

Solid capital ratios balance uncertainties and earnings pressure. The ABNANV 4.75% '26c21s represents decent value for the shorter term to call with a high reset spread amongst other SGD tier 2 papers.

Background:

ABN Amro Bank NV ("ABN") is 56.0% owned by the Dutch government through the Ministry of Finance. It was formed on 1 July 2010 through the merger of Fortis Bank (Nederland) NV with the Dutch activities of ABN AMRO Holding NV. In FY2018, ABN derived 89.8% of operating profit before tax from the Netherlands followed by Europe (6.0%), USA (3.5%) and Asia (1.7%). As at 30 September 2019, it had total assets of EUR400.2bn.

ABN AMRO Bank N.V.

Key Considerations

- **Some uncertainties ahead:** ABN enters 2020 with some open ended items. Current CEO Kees van Dijkhuizen will end his term at the next Annual General Meeting on 22 April 2020 while ABN remains under investigation with regards to requirements under the Dutch Act on the prevention of money laundering and financing of terrorism. The investigation relates to possible failures to report suspicious client transactions under anti-money laundering laws, specifically the inadequate screening of customers during ABN's combination with Fortis Bank (Nederland) N.V. In addition, it has also been reported that ABN is implicated along with other financial institutions and advisors in a tax probe in Germany. While we think the credit impact of the anti-money laundering investigation will be manageable given ABN's current earnings and capital position and prior actions by ABN to review all domestic retail client files as required by the Dutch Central Bank, the timing and financial impact of these two investigations remains uncertain. In particular, the German tax probe is broad and covers multiple parties, impacting the timeline. These developments add to a somewhat uncertain operating environment in 2020 from potentially slower growth in the Netherlands and Europe and the ongoing effects of the trade war and BREXIT.

- **Current strategy remains until otherwise:** While the search for a new CEO continues, ABN's current Target 2020 strategy remains in place. Its three strategic pillars are focused on sustainability transition for clients, improving the customer experience and building a future-proof bank through employee engagement. Key financial targets include return on average equity of 10-13% (11.3% for 9M2019), a cost/income ratio of 56-58% (59.7% in 9M2019), fully loaded CET1 ratio of 17.5%-18.5% (18.4% as at 30 September 2019) and a dividend payout ratio of at least 50% (1H2019 interim dividend equal to 50% of sustainable results attributable to parent company owners, excluding AT1). Although ahead of most of its targets, the cost/income ratio is a focus for management with this target likely to be delayed past 2020 given the expectations of enduring pressure on operating income. How this strategy evolves could depend on whether the board ultimately chooses.

- **Earnings pressure evident:** ABN recently announced its 3Q2019 results with operating profit before tax down 25% y/y and 16% q/q to EUR742mn. The y/y comparison was driven by a 9% fall in operating income (stable net interest income and net fee and commission income while other operating income fell 77%) while operating expenses rose 2% and impairment charges rose 6%. At the same time, net interest income was stable y/y due to net interest margin movements while overall net interest income benefited from corporate loan growth mostly in Commercial Banking. Other expenses drove the y/y operating expense performance. For y/y, the increase was due to provisions for the customer due diligence remediation program in Commercial Banking, SME derivatives-related issues, higher regulatory levies and detecting financial crime related costs.

- **Capital position:** ABN's overall credit profile remains supported by its solid capital position with its CET1 ratio at 18.2% as at 30 September 2019, up from 18.0% as at 30 June 2019 and down from 18.4% as at 31 December 2018. Q/q improvement was due to stable CET1 capital and a q/q fall in risk weighted assets from lower credit and operational risk weighted assets following the sale of Private Banking Channel Islands and equensWorldline in Group Functions. The CET1 ratio remains within the bank's capital target range of 17.5%-18.5%. The CET1 ratio is also well above the 2019 Maximum Distributable Amount (MDA) trigger level of 11.84% comprising the 2020 12.09% Supervisory Review and Evaluation Process requirements and a 0.09% counter-cyclical buffer. ABN's solid capital buffer is important in our view given we expect a more enduring impact on ABN's ongoing operating expenses from higher costs related to customer due diligence, regulatory levies and detecting financial crime as well as potentially higher capital requirements. Along with a muted economic outlook, capital generation could be somewhat constrained.

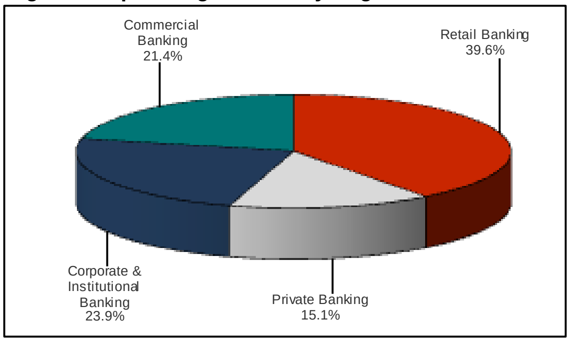
ABN AMRO Group N.V.

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (EUR'mn)			
Net Interest Income	6,456	6,593	4,882
Non Interest Income	2,779	2,456	1,607
Operating Expenses	5,581	5,351	3,884
Pre-Provision Operating Profit	3,654	3,698	2,605
Provisions	-63	655	343
Other Income/(Expenses)	54	43	14
PBT	3,771	3,086	2,276
Income Taxes	979	762	547
Net Income to Common Shareholders	2,773	2,286	1,730
Balance Sheet (EUR'mn)			
Total Assets	393,171	381,295	400,152
Total Loans (net)	273,666	269,961	273,618
Total Loans (gross)	274,906	270,886	275,892
Total Allowances	2,460	2,260	2,179
Total NPLs	6,909	5,887	6,662
Total Liabilities	371,841	359,935	379,157
Total Deposits	236,699	236,123	248,231
Total Equity	21,330	21,360	20,995
Key Ratios			
NIM	1.57%	1.65%	1.64%
Cost-income Ratio	60.1%	58.8%	59.7%
LDR	116.1%	114.7%	110.2%
NPL Ratio	2.51%	2.17%	2.41%
Allowance/NPLs	35.6%	38.4%	32.7%
Credit Costs	-0.02%	0.24%	0.12%
Equity/Assets	5.43%	5.60%	5.25%
CETier 1 Ratio (Full)	17.7%	18.4%	18.2%
Tier 1 Ratio	18.5%	19.3%	20.0%
Total CAR	21.3%	22.1%	26.3%
ROE	14.50%	11.40%	11.30%
ROA	0.70%	0.59%	0.55%

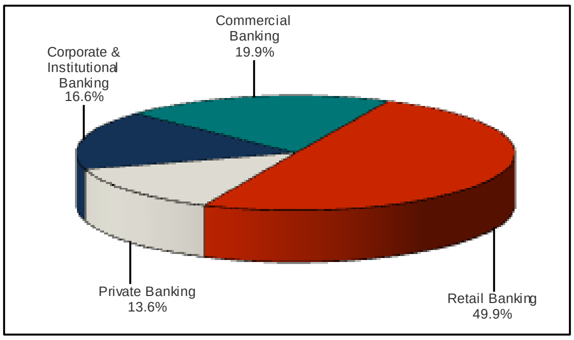
Source: Company

Figure 1: Operating Income by Segment - 9M2019



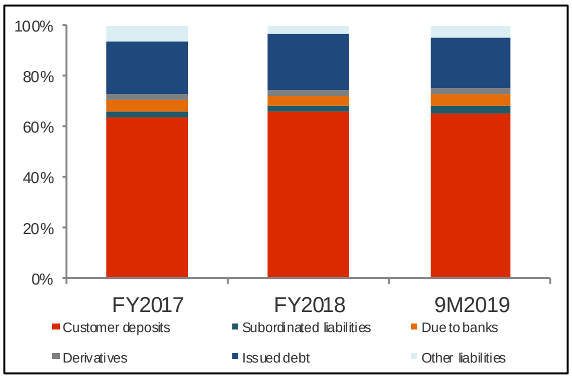
Source: Company

Figure 2: Profit Before Tax by Segment - 9M2019



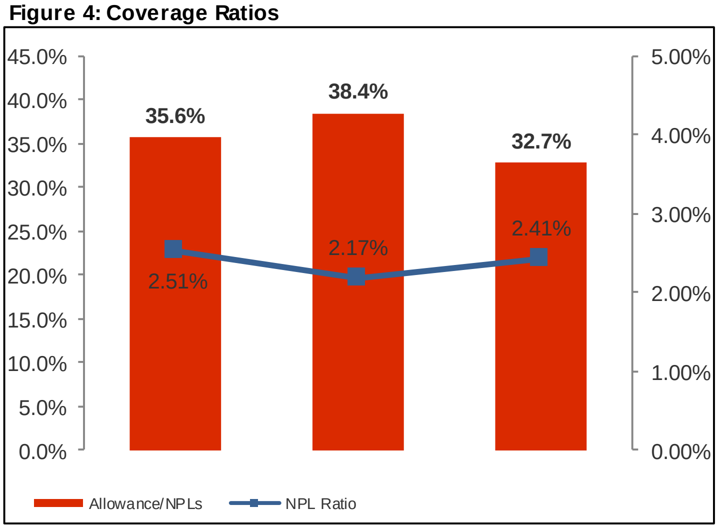
Source: Company

Figure 3: Liabilities Composition



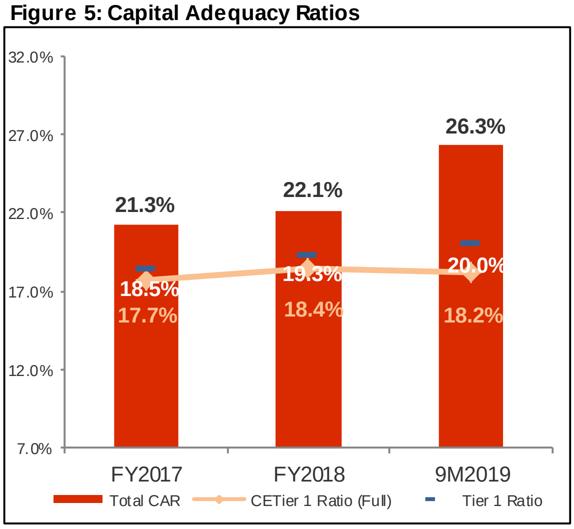
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Issuer Profile:

Positive (2)

Ticker:

ANZ

Credit Outlook:

Fundamentals for ANZ appear on firmer footing compared to peers although it remains exposed to the challenging domestic operating environment. The ANZ 3.75% '27c22s continues to be better value against other Aussie Tier 2 SGD papers.

Background:

Australia & New Zealand Banking Group Limited ('ANZ') is one of Australia's big 4 banks and the largest bank in New Zealand. It is ranked in the top 25 globally by market capitalization with operations in 33 markets. Its business segments cover retail, commercial and institutional banking as well as wealth management. As at 30 September 2019, the bank had total assets of AUD981.1bn.

Australia & New Zealand Banking Group Ltd

Key Considerations

- **Travelling ok along a bumpy road:** FY2019 full year results were impacted by costs for customer remediation charges with statutory profit of AUD5.95bn down 7% y/y. Results were also driven by a 6% y/y fall in operating income as net interest income was down 1% y/y from lower interest rates, changes in the asset and business mix to lower margin products as well as competition that weakened net interest margins. These impacts offset asset growth in Institutional banking and New Zealand home loans. Other operating income also fell 19% y/y. With operating expense reduction lower than the fall in operating income, profit before credit impairments and tax fell 8% y/y to AUD9.71bn. On a cash profit basis however, profit before credit impairments was stable y/y at AUD6.49bn as weaker net interest and other operating income was offset by a fall in operating expenses.

- **An update on credit quality:** Credit impairment charges rose 15% y/y from a rise in collectively assessed credit impairment charges compared to FY2018 which had credit impairment charge releases and more customer upgrades. Individually assessed credit impairment charges were broadly stable y/y with around 90% allocated to the Australia Retail and Commercial division. The rise in total credit impairment charges as a percentage of average loans and advances was more muted with the ratio at 0.13% for FY2019 (0.12% in FY2018) due to loans growth (gross loans and advances rose 2% y/y). In terms of asset quality, gross impaired assets fell 5% y/y due to repayments in the Institutional division (gross impaired assets fell 40% y/y) while impaired assets in the Australia Retail and Commercial division rose 4% y/y due to single name impaired loans in the Commercial portfolio. As such, overall gross impaired assets as a percentage of gross loans and advances fell to 0.33% for FY2019 against 0.35% in FY2018.

- **Institutional still keeping it going:** By segment contribution on a cash profit basis for FY2019, Australia Retail and Commercial continues to be the main contributor (49.4% of total) however given a 11.9% y/y fall in cash profits, its contribution has declined (55.9% in FY2018). In contrast, contribution from ANZ's institutional segment rose to 28.3% in FY2019 from 22.8% in FY2018, overtaking New Zealand as the second largest contributor. This was due to a 23.5% y/y rise in cash profits driven by volume growth and higher Markets income and a 10% y/y fall in operating expenses from lower staff costs and ongoing software amortisation charges. All subsegments (Transaction Banking, Loans & Specialised Finance, Markets) registered y/y improvement. The other y/y improvement was the Technology, Services & Operations ("TSO") and Group Centre which also includes the remaining Asia Retail and Wealth businesses due to lower operating expenses and a higher tax benefit. These two segments combined to offset the weaker y/y performance in Australia Retail and Commercial (lower lending volumes and margins, higher customer remediation) and New Zealand (sale of OnePath Life (NZ), higher regulatory costs and impairment charges).

- **A good thing its capital position remains strong:** ANZ's capital position remains solid with its APRA compliant CET1 ratio as at 30 September of 11.4%, albeit down from 11.8% as at 30 June 2019 but stable y/y. Stability in the ratio y/y was driven by dividends, share buybacks, remediation impacts and regulatory and capital modelling impacts that offset solid earnings generation and proceeds from asset divestments. ANZ's capital position remains well above APRA's minimum 10.5% CET1 benchmark. While we are mindful of challenges facing the operating environment for ANZ, we continue to take comfort in past restructuring endeavours that have improved business sustainability in our view, and earnings generation capacity. This should buffer multiple potential regulatory impacts from the application of additional capital requirements to address higher operational risk, a proposal to update minimum capital requirements with regards investments in subsidiaries (including increasing minimum capital requirements in New Zealand) and the Australian Prudential Regulation Authority's requirement to increase loss absorbing capacity by 3% by January 1, 2024.

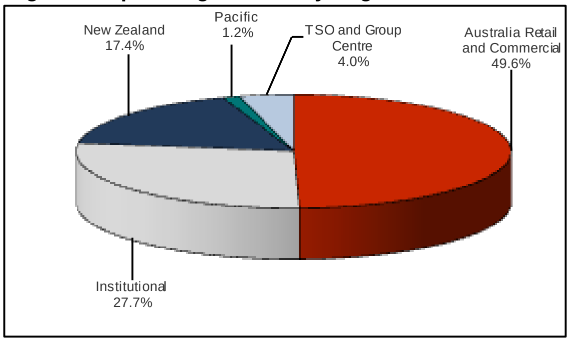
Australia & New Zealand Banking Group Ltd

Table 1: Summary Financials

Year Ended 30th Sep	FY2017	FY2018	FY2019
Income Statement (AUD'mn)			
Net Interest Income	14,875	14,514	14,339
Non Interest Income	4,223	5,287	4,184
Operating Expenses	8,967	9,401	9,071
Pre-Provision Operating Profit	10,131	10,400	9,452
Provisions	1,198	688	794
Other Income/(Expenses)	300	183	262
PBT	9,233	9,895	8,920
Income Taxes	2,874	2,784	2,609
Net Income to Common Shareholders	6,406	6,400	5,953
Balance Sheet (AUD'mn)			
Total Assets	897,326	943,182	981,137
Total Loans (net)	574,331	604,464	615,258
Total Loans (gross)	583,444	608,380	618,767
Total Allowances	3,798	2,917	3,509
Total NPLs	2,118	1,253	1,204
Total Liabilities	838,251	883,777	920,343
Total Deposits	595,611	618,150	637,677
Total Equity	59,075	59,405	60,794
Key Ratios			
NIM	1.99%	1.87%	1.76%
Cost-income Ratio	46.1%	52.0%	49.5%
LDR	96.4%	97.8%	96.5%
NPL Ratio	0.36%	0.21%	0.19%
Allowance/NPLs	179.3%	232.8%	291.4%
Credit Costs	0.21%	0.11%	0.13%
Equity/Assets	6.58%	6.30%	6.20%
CETier 1 Ratio (Full)	10.6%	11.4%	11.4%
Tier 1 Ratio	12.6%	13.4%	13.2%
Total CAR	14.8%	15.2%	15.3%
ROE	11.00%	10.90%	10.00%
ROA	0.70%	0.68%	0.60%

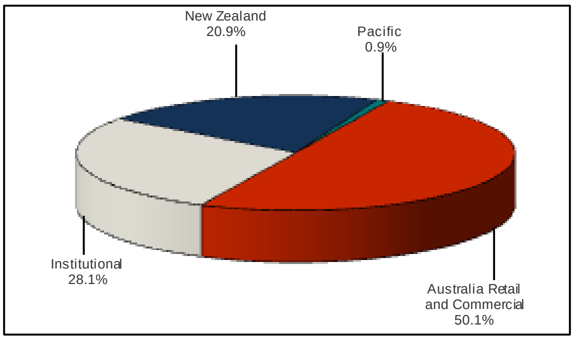
Source: Company

Figure 1: Operating Income by Segment - FY2019



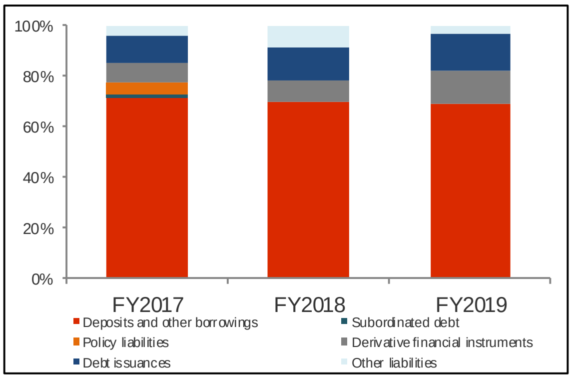
Source: Company | Excludes Others

Figure 2: Profit Before Tax by Segment - FY2019



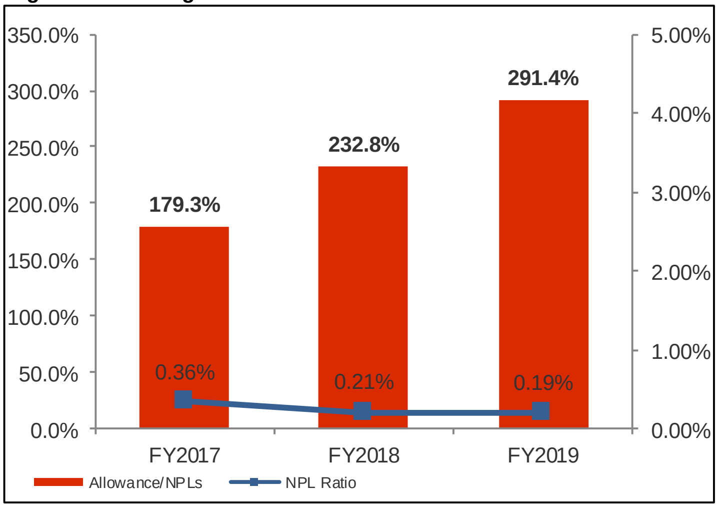
Source: Company | Excludes TSO and Group Centre and Others

Figure 3: Liabilities Composition



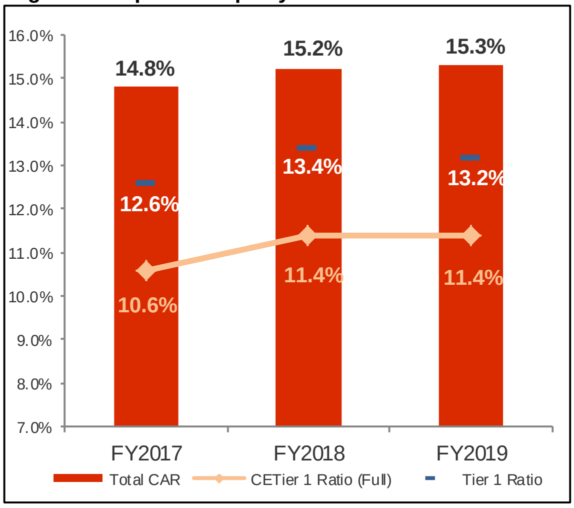
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Issuer Profile:
Neutral (4)

Ticker:
BACR

Credit Outlook:
We are mindful of challenges facing Barclays in 2020. We are neutral the BACR 3.75% '30c25s and see better value in other shorter dated SGD Tier 2s.

Background:
Based in the UK, Barclays PLC ('Barclays') operates across two main business segments – Barclays UK and Barclays International. Its scale in the UK and globally makes Barclays systemically important on both a domestic and global level. As at 30 September 2019, it had total assets of GBP1,290.4bn. Its largest shareholders comprise institutional investors including The Capital Group Companies Inc., Qatar Investment Authority, and BlackRock Inc.

Barclays PLC

Key Considerations

- **Constructive results on trading:** Barclays' recent results have been solid with 9M2019 profit before tax up 4% y/y to GBP3.26bn. Key positives in the results included total income up 2% y/y due to a 4% y/y improvement in total income from Barclays International from both Corporate and Investment Bank ("CIB" – better broad based performance in FICC, banking fees and transaction fees) and Consumer, Cards and Payments ("CC&P" – volume growth from US cards merchant acquisition). This offset a 2% y/y decline in Barclays UK from margin pressure and lower activity in UK cards although this was offset to an extent by growth in mortgages and deposits. In addition, expense performance was stable from cost efficiencies that offset business investments while litigation and conduct expenses fell 22% y/y. Results also included an additional provision for payment protection insurance ("PPI") of GBP1.4bn due to a material increase in the amount of claims and information requests from customers before the Financial Conduct Authority deadline for lodging of new complaints of 29 August as well as enquiries from the Official Receiver on behalf of bankrupt individuals.

- **Wary however on external environment challenges:** Decent total income and expense performance were offset by a 68% y/y rise in credit impairment charges and other provisions in Barclays International due to the lower base in 9M2018 from a favourable view on US economic performance at the time. These expectations have now been revised negatively resulting in higher impairment expectations. Of note though is that credit impairment charges for Barclays UK fell 2% y/y due to an improved risk profile in UK cards (30 and 90 day arrears decreased y/y) and exposure releases in Business Banking which was partially offset by updates to the UK macro-economic scenario. While management has acknowledged the solid 3Q2019 performance, they have also warned that Barclays still faces headwinds from BREXIT and a slowing global economy as well as persistent low interest rates which could make it tough for Barclays to meet its 2020 targets.

- **Conservatism may be warranted:** Management caution is due to Barclays' geographic focus which is concentrated with 50% of 1H2019 Group Income from the UK. This is followed by the Americas at 37% and Europe at 9%. As the largest bank in the UK, Barclays commands solid market positions in retail, small and medium-sized enterprises and corporate banking which provide some measure of earnings stability and solid access to funding and liquidity. That said, ongoing BREXIT uncertainty is likely to put downward pressure on Barclays' return on tangible equity targets of 9% in 2019 and 10% in 2020. While CEO Jes Staley has not revised those targets yet, he has announced plans to reduce expenses more than previously planned in order to achieve profitability targets. This has included staff cuts and a reduction in variable compensation as well as adjusting the pace of investment spending.

- **Capital ratios give comfort against the outlook:** Better earnings performance alongside regulatory adjustments had a positive impact on Barclays capital position with the CET1 ratio as at 30 September 2019 of 13.4%, up 20bps from a year ago and against 31 December 2018. Regulatory adjustments relate to the removal of the previously applied floor for operational risk risk weighted assets ("RWAs") which resulted in RWA reduction and a 60bps positive impact to Barclays CET1 ratio. This along with earnings mitigated the impact from dividends, the additional PPI provision, redemption of AT1 securities and higher RWAs from asset growth in CIB. Barclays CET1 ratio compares favourably to minimum CET1 requirements (12%) as well as its revised target level of 13.5% following the aforementioned regulatory adjustment. As part of this adjustment, Barclays overall CET1 fully loaded minimum capital requirement rose to 12.0% (previously 11.7%) and includes 4.5% for Pillar 1, 2.5% for Capital Conservation Buffer, 0.5% for Countercyclical Capital Buffer, 1.5% for Global Systemic Importance, and 3.0% for Pillar 2A. Per its 3Q2019 results presentation, Barclays also had 16.1x the necessary Available Distributable Items to meet dividend payments and coupons on its Additional Tier 1 instruments as at 31 December 2018.

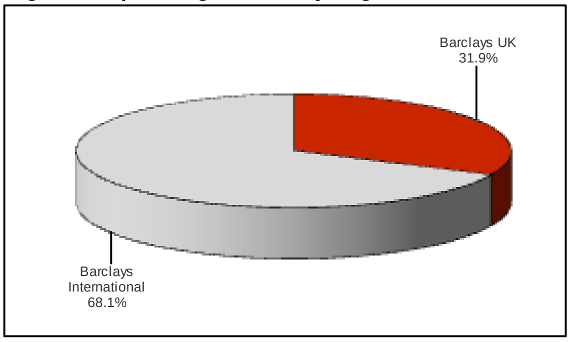
Barclays PLC

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (GBP'mn)			
Net Interest Income	9,845	9,062	7,063
Non Interest Income	11,231	12,074	9,268
Operating Expenses	15,456	16,243	11,733
Pre-Provision Operating Profit	5,620	4,893	4,598
Provisions	2,336	1,468	1,389
Other Income/(Expenses)	257	69	51
PBT	3,541	3,494	3,260
Income Taxes	2,240	1,122	814
Net Income to Common Shareholders	-1,922	1,394	1,780
Balance Sheet (GBP'mn)			
Total Assets	1,133,248	1,133,283	1,290,351
Total Loans (net)	324,048	326,406	345,124
Total Loans (gross)	328,700	333,176	351,787
Total Allowances	4,652	6,770	6,663
Total NPLs	9,081	8,503	8,435
Total Liabilities	1,067,232	1,069,504	1,222,933
Total Deposits	398,701	394,838	420,638
Total Equity	66,016	63,779	67,418
Key Ratios			
NIM	3.74%	3.53%	3.41%
Cost-income Ratio	73.0%	77.0%	71.8%
LDR	81.3%	82.7%	82.0%
NPL Ratio	2.76%	2.55%	2.44%
Allowance/NPLs	51.2%	79.6%	79.0%
Credit Costs	0.71%	0.44%	0.39%
Equity/Assets	5.83%	5.63%	5.22%
CETier 1 Ratio (Full)	13.3%	13.2%	13.4%
Tier 1 Ratio	17.2%	17.0%	17.0%
Total CAR	21.5%	20.7%	21.1%
ROE	-3.60%	3.60%	5.27%
ROA	-0.16%	0.12%	0.18%

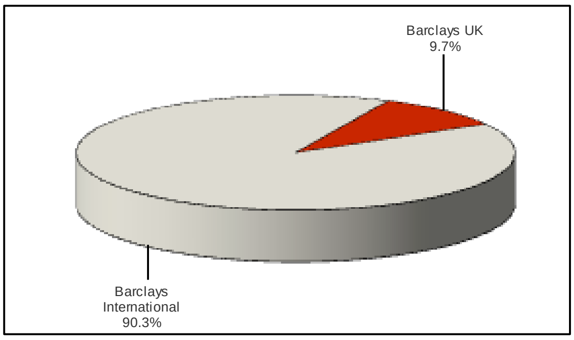
Source: Company

Figure 1: Operating Income by Segment - 9M2019



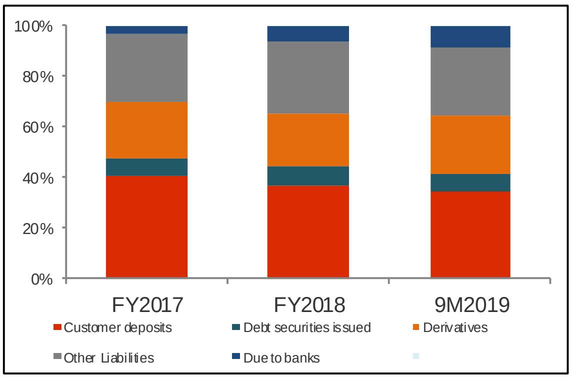
Source: Company | Excludes Head Office

Figure 2: Profit Before Tax by Segment - 9M2019



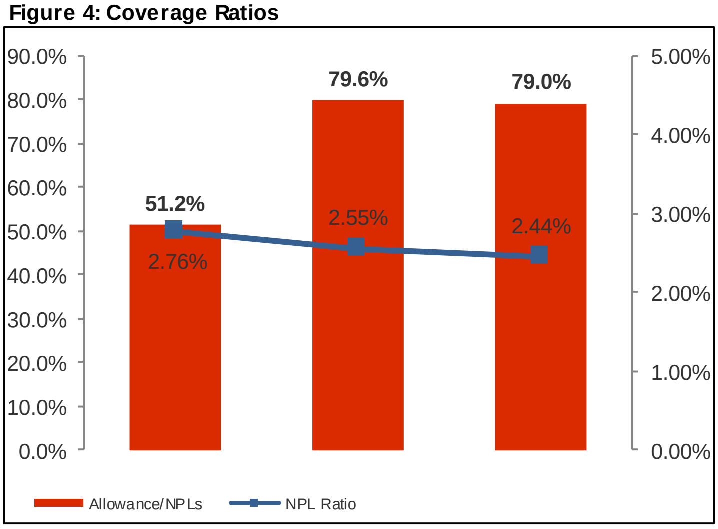
Source: Company | Excludes Head Office

Figure 3: Liabilities Composition



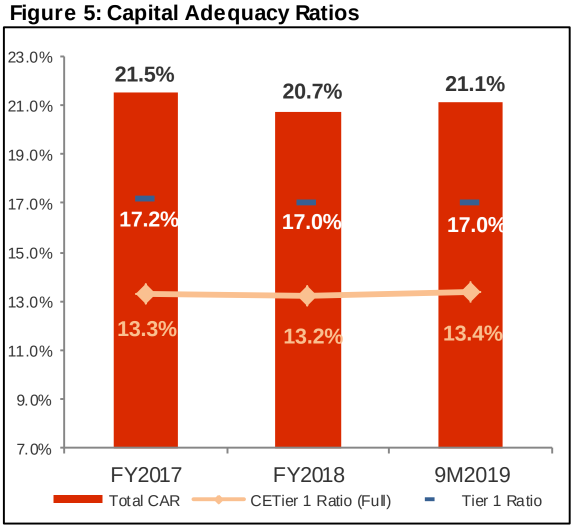
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Issuer Profile:

Neutral (3)

Ticker:

BNP

Credit Outlook:

We are overweight the BNP 4.3% '25c20s and BNP 4.35% '29c22s. BNPP's scale and diversity as a global systemically important bank continues to support its performance and credit profile.

Background:

BNP Paribas S.A. ('BNPP')'s operations span domestic and international retail banking as well as corporate and institutional banking. Concentrated in Europe, its businesses operate in 72 countries. Created in 2000 through a merger of BNP and Paribas, it had total assets of EUR2,510.2bn as at 30 September, 2019. Its largest shareholder at ~7.7% is the Belgian government.

BNP Paribas SA

Key Considerations

- **Scale supports business risk**: As the largest French bank by assets, BNPP's businesses are diversified across geographies and business segments. Revenues remain concentrated in Europe (74.6%), followed by 10.9% in North America and 7.1% in Asia-Pacific in 2018. By total credit risk exposure, France contributed 32% with other main exposures including Belgium (11%) and Italy (10%) in Europe and North America (13.6%) further abroad. Exposures reflect BNPP's broad domestic and international retail banking networks where it holds strong to solid market positions. Together with its insurance and wealth management businesses, BNPP's Retail Banking & Services segment contributes the bulk of consolidated revenues at over 74% in 2018. Its other major segment, Corporate & Institutional Banking (corporate banking, global markets and securities services) contributes the rest.

- **Offsets the operating environment**: BNPP's scale and diversity and entrenched market positions helps combat to an extent weak operating conditions in Europe with solid underlying performance in 3Q2019 and 9M2019 results. While reported pre-tax income was down 0.4% y/y to EUR2.8bn, this was driven by an 88.2% y/y fall in other non-operating items due to the capital gain recognized in 3Q2018 from the sale of 30.3% of First Hawaiian Bank for EUR286mn. Excluding this impact, pre-tax income rose 9.8% y/y. Of note was gross operating income performance for 3Q2019 which rose 13.0% y/y due to revenues from operating divisions rising 5.1% y/y with growth across all divisions. This was a good result, particularly in Domestic Markets with revenues up 0.3% y/y as solid volume growth (outstanding loans up 4.1% y/y) offset low interest rates, especially in specialised businesses. Elsewhere, International Financial Services continues to perform well with revenues up 5.1% y/y on 9.3% y/y growth in outstanding loans and net asset inflows while Corporate and Institutional Banking revenues rose 12.0% y/y on strong performance in Fixed Income, Currencies and Commodities (+34.6% y/y) within Global Markets. This combined to generate a larger rise in revenues (+5.3% y/y) against the rise in operating expenses (+2.0% y/y) which were the result of business growth in International Financial Services (+4.0% y/y) and Corporate and Institutional Banking (+4.8% y/y). Expense growth in Domestic Markets was more muted and only up 0.1% y/y due to reduced network expenses (-0.9% y/y).

- **New strategic plan on the horizon:** Operating expenses also included EUR256mn in exceptional items including mostly 2020 plan transformation costs and restructuring costs from acquisitions. At constant scope and exchange rates, operating expenses rose 0.4% y/y indicating positive progress in cost reduction measures as part of BNPP's 2017-2020 development plan. While the Domestic Markets and International Financial Services strategy of new customer experiences, cost reduction and digitalization remains on track, the changing operating environment and weaker revenue generation and profitability has forced a relook at the transformation strategy within Corporate & Institutional Banking along three key actions – rationalization (reviewing non-strategic, subscale or unprofitable segments); industrialization (reducing costs); and prioritisation (selective investment into growth businesses and regions). 2020 targets have been updated, principally through downward adjustments to revenue growth and upward revisions to cost savings to generate positive JAWs. That said, the final 2020 plan is still being revised according to management.

- **Balance sheet quality and capital strength completes the story:** Overall loan quality appears sound with the reported doubtful loans to gross outstandings as at 30 September 2019 down 20bps to 2.4% compared to 31 December 2018 due to a 1.5% reduction in doubtful loans as well as growth in loan outstandings. BNPP's reported fully loaded CET1 ratio improved 10bps q/q to 12.0% as at 30 September 2019 as earnings generation offset dividend payments while risk weighted assets were stable. BNPP's CET1 capital ratio continues to be well above overall minimum CET1 requirements. Per the 2020 Transformation Plan, BNPP intends to target a CET1 ratio of at least 12% in 2020.

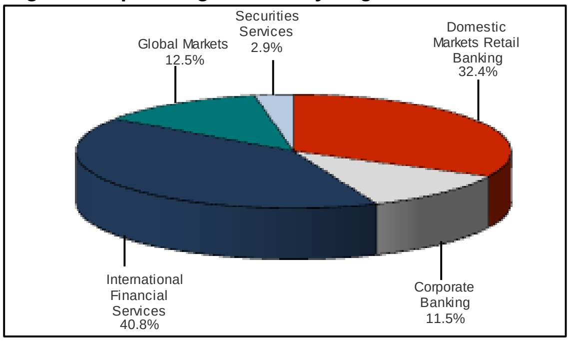
BNP Paribas SA

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (EUR'mn)			
Net Interest Income	21,191	21,062	33,264
Non Interest Income	21,970	21,454	
Operating Expenses	29,944	30,583	23,305
Pre-Provision Operating Profit	13,217	11,933	9,959
Provisions	2,907	2,764	2,237
Other Income/(Expenses)	713	628	457
PBT	11,310	10,208	8,865
Income Taxes	3,103	2,203	2,229
Net Income to Common Shareholders	7,759	7,526	6,324
Balance Sheet (EUR'mn)			
Total Assets	1,960,252	2,040,836	2,510,204
Total Loans (net)	727,675	765,871	797,357
Total Loans (gross)	752,361	791,851	816,757
Total Allowances	24,686	25,980	19,400
Total NPLs	37,531	34,311	25,800
Total Liabilities	1,853,043	1,935,110	2,398,596
Total Deposits	766,890	796,548	850,458
Total Equity	107,209	105,726	111,608
Key Ratios			
NIM	1.60%	1.94%	NA
Cost-income Ratio	69.4%	71.9%	70.1%
LDR	94.9%	96.1%	93.8%
NPL Ratio	4.99%	4.33%	2.60%
Allowance/NPLs	65.8%	79.2%	75.2%
Credit Costs	0.39%	0.35%	0.41%
Equity/Assets	5.47%	5.18%	4.45%
CETier 1 Ratio (Full)	11.9%	11.8%	12.0%
Tier 1 Ratio	13.2%	13.1%	13.3%
Total CAR	14.8%	15.0%	15.4%
ROE	8.90%	8.20%	9.00%
ROA	0.38%	0.38%	0.39%

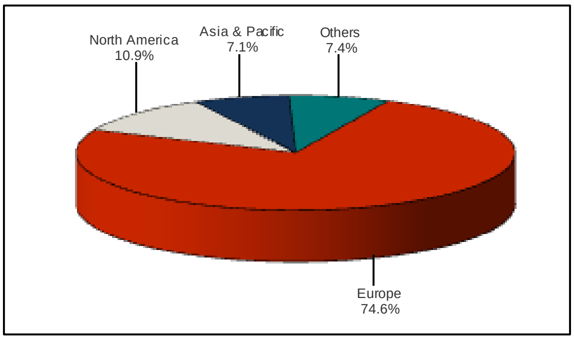
Source: Company

Figure 1: Operating Income by Segment - 9M2019



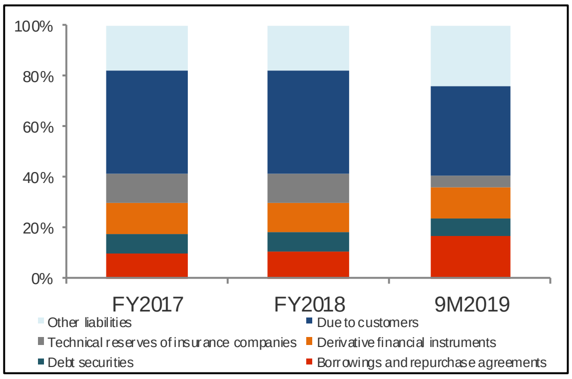
Source: Company | Excludes Corporate Centre

Figure 2: Operating Income by Geography - FY2018



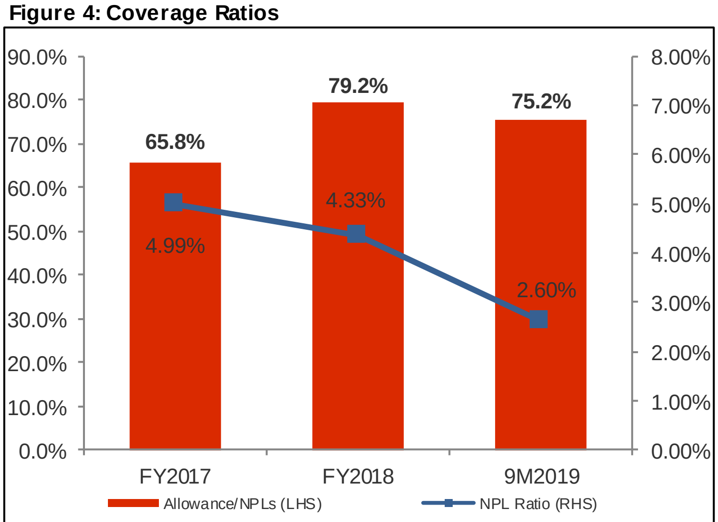
Source: Company

Figure 3: Liabilities Composition



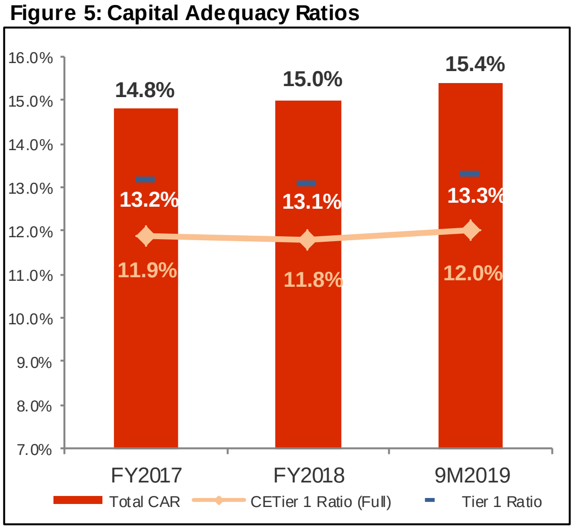
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Issuer Profile:
Neutral (3)

Ticker:
BPCEGP

Credit Outlook:
GBPCE's performance continues to reflect its conservative business profile. We see better value in the BPCEGP 4.50% '26c21s against the BPCEGP 4.45% '25c20s.

Background:
Established in 2009, BPCE SA is the central entity of Groupe BPCE ('GBPCE') , the fourth largest French banking group by total assets. Through its retail cooperative networks and subsidiaries, it provides retail and wholesale financial services to individuals, small and medium-size enterprises (SMEs), and corporate and institutional customers in France and abroad. As at 30 September, 2019, it had total assets of EUR1,381.6bn.

BPCE SA

Key Considerations

- **Centerpiece of the group:** BPCE SA (BPCE) is the central institution of Groupe BPCE (GBPCE). BPCE's two functions include (1) housing Groupe's commercial banking and insurance subsidiaries and publicly listed Natixis which provides wholesale banking, investment solutions and specialized financial services; and more importantly (2) centralizing strategy for the wider Groupe BPCE which includes two co-operative retail and commercial banking networks. Although effectively a subsidiary of the cooperative networks, BPCE's role as GBPCE's central institution means it is legally responsible for supervising and managing group strategies, operations and ensuring ongoing liquidity and solvency through control of a 'mutual financial solidarity mechanism' for GBPCE in times of stress. As BPCE is also protected by this support mechanism, BPCE's credit profile is equal to the wider group.

- **Strategy focused on moving forward from solid base:** GBPCE's current strategic plan ("TEC2020") covers the 2018-2020 period and seeks to combine digital transformation with growth in GBPCE's core businesses. Although digital investments are expected to increase to EUR600mn per year by 2020, GBPCE is expecting to generate additional revenue synergies between Natixis, Banque Populaire Banks and Caisses d'Epargne as well as achieve EUR1bn in savings on a full-year basis by 2020 to accommodate this. While strategic plans and growth targets have been developed across all businesses, the bulk of these are targeted toward Retail Banking and Insurance, where GBPCE has a strong domestic market position. This division continues to have a relatively stable earnings profile and dominates GBPCE's credit profile contributing 67.4% of total net banking income and 70.8% of business unit income before tax (excluding Corporate Centre) for 9M2019.

- **Some recovery in recent results:** GBPCE's 3Q2019 performance was an improvement compared to 2Q2018 thus improving the 9M2019 results with net income up 18.5% y/y but down 8.1% y/y for 3Q2019 and 9M2019. 3Q2019 gross operating income rose 7.0% y/y due to a 0.5% y/y rise in net banking income on growth in Asset & Wealth Management revenues as well as better performance in Corporate & Investment Banking and a 2.1% y/y fall in operating expenses. Risk costs were also slightly improved. 9M2019 performance however remains weaker y/y as net banking income performance (-0.8% y/y) continues to be weaker than operating expenses (-0.5% y/y) although the shortfall improved compared to 1H2019 (which was down 12.5% y/y). Cost of risk also remains higher y/y up 4.2% for 9M2019 due to weakness in large corporates although the non-performing loan ratio at 2.7% as at 30 September 2019, which was stable q/q and down 10bps against 31 December 2018, remains low. The impaired loans coverage ratio weakened marginally to 74.8% as at 30 September 2019 against 75.6% as at 30 June 2019 but is up against 74.5% as at 31 December 2018. All in, GBPCE's results remain resilient against current operating challenges in Europe and despite ongoing transformation and reorganization costs.

- **Capital buffer remains solid:** GBPCE's capital position remains stable q/q with its estimated CET1 capital ratio at 15.5% as at 30 September 2019 (down from 15.8% as at 31 December 2018). CET1 ratios were stable q/q as risk weighted asset growth (-19bps) and methodology changes (-12bps) was offset by positive impacts from capital generation (+21bps), issue of co-operative shares (+6bps) and other changes (+5bps). This remains above GBPCE's minimum 9.98% as defined in the 2019 Supervisory Review and Evaluation Process which includes Pillar 1 and Pillar 2 requirements as well as buffers for capital conservation, global systemic importance and countercyclical measures. Including the acquisition of 50.1% in Oney Bank (completed Oct 2019), the proforma CET1 ratio as at 30 September 2019 is 15.4%, marginally down from the TEC 2020 target CET1 ratio of above 15.5%. GBPCE's Total Loss-Absorbing Capacity (TLAC) ratio also declined marginally q/q to 23.0% as at 30 September 2019 (23.2% as at 30 June 2019) however improved compared to 31 December 2018 (22.5%) and remains above its target level in its TEC 2020 strategic plan of more than 21.5%.

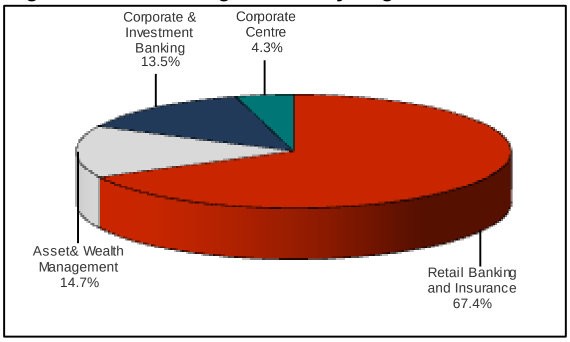
Groupe BPCE

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (EUR'mn)			
Net Interest Income	10,232	8,641	18,004
Non Interest Income	13,488	15,360	
Operating Expenses	17,099	17,687	13,002
Pre-Provision Operating Profit	6,621	6,314	5,002
Provisions	1,384	1,299	941
Other Income/(Expenses)	276	284	0
PBT	5,513	5,299	4,139
Income Taxes	1,811	1,477	1,408
Net Income to Common Shareholders	3,024	3,026	2,241
Balance Sheet (EUR'mn)			
Total Assets	1,194,771	1,273,927	1,381,643
Total Loans (net)	628,049	659,281	685,266
Total Loans (gross)	641,397	671,898	701,116
Total Allowances	13,348	12,617	15,850
Total NPLs	23,156	21,433	21,200
Total Liabilities	1,188,649	1,200,519	1,306,127
Total Deposits	516,689	530,323	561,003
Total Equity	71,201	73,407	75,517
Key Ratios			
NIM	0.90%	0.85%	NA
Cost-income Ratio	72.1%	73.7%	70.0%
LDR	121.6%	124.3%	122.2%
NPL Ratio	3.61%	3.19%	3.02%
Allowance/NPLs	57.6%	58.9%	74.8%
Credit Costs	0.22%	0.19%	0.13%
Equity/Assets	5.96%	5.76%	4.96%
CETier 1 Ratio (Full)	15.4%	15.5%	15.4%
Tier 1 Ratio	15.5%	15.6%	15.4%
Total CAR	19.2%	19.2%	18.8%
ROE	5.50%	5.60%	5.50%
ROA	0.25%	0.30%	0.32%

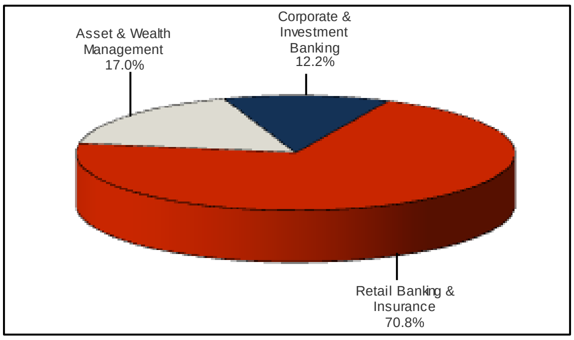
Source: Company

Figure 1: Net Banking Income by Segment - 9M2019



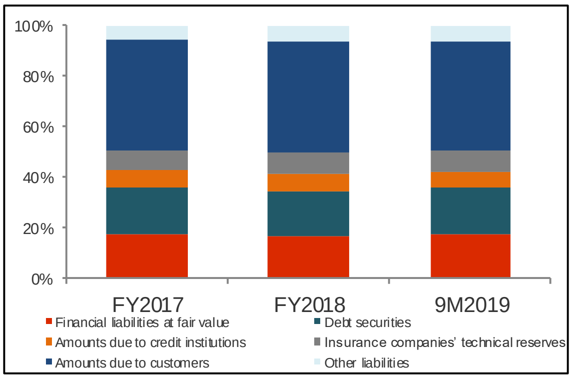
Source: Company

Figure 2: Profit Before Tax by Segment - 9M2019



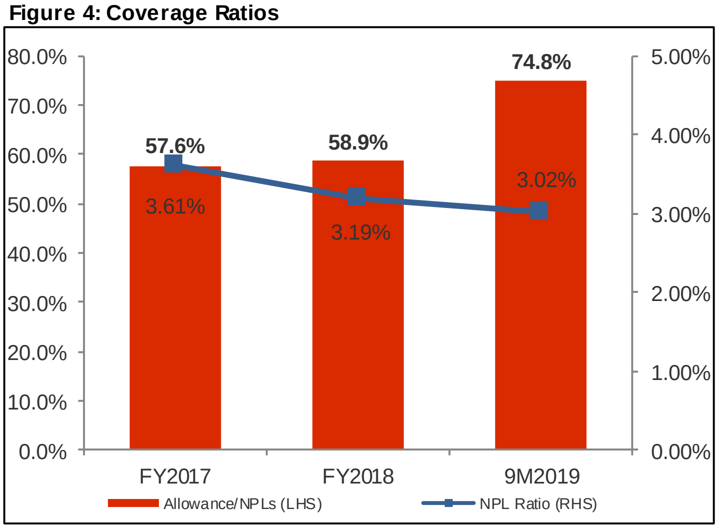
Source: Company | Excludes Corporate Centre

Figure 3: Liabilities Composition



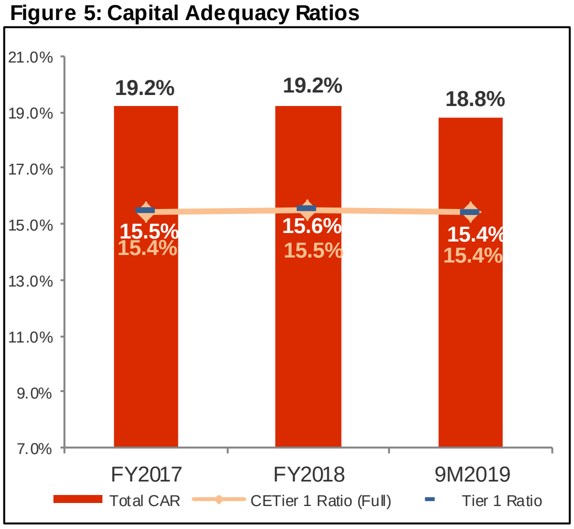
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Issuer Profile:
Neutral (3)

Ticker:
CCB

Credit Outlook:
Fundamentals for CCB are driven by its relatively lower risk balance sheet, systemic importance and a supportive government stance towards the economy. We see better value in the CCB 2.08% '20s against the CCB 2.643% '20s.

Background:
China Construction Bank Corporation ('CCB') was formed as a joint-stock commercial bank in 2004, and listed in Hong Kong and Shanghai in 2005 and 2007 respectively. Founded in 1954, its predecessor, the People's Construction Bank of China, initially provided government funds for construction and infrastructure projects at the direction of the Ministry of Finance before transitioning to a full service commercial bank. Designated as a global systemically important bank, it had total assets of RMB24,517.7bn as at 30 September 2019.

China Construction Bank Corporation

Key Considerations

- **Quantity and quality of the business**: As one of China's big state owned banks, CCB has significant scale both domestically and globally. It is the second largest bank in China by domestic market share of both loans and deposits with almost 15,000 branches spread throughout mainland China. It is also the second largest bank globally by assets after peer Industrial and Commercial Bank of China and one of 30 global systemically important banks (G-SIBs) as designated by the Basel Committee on Banking Supervision. Although present in 29 countries and regions, its main exposure remains China which contributed around 97% of operating income in 1H2019 making it the most geographically concentrated amongst China's big 5 commercial banks. As well as size, CCB's credit profile is supported by its solid balance sheet due to the relatively higher contribution from the Personal Banking segment, which generated ~38.7% of total operating income in 1H2019. This is broadly in line with the contribution of Corporate Banking (39.0%) while the more volatile Treasury Business contributed ~16%. In contrast, operating income for domestic peers comes mainly from Corporate Banking. By profit before tax, Personal Banking's contribution increases to around ~45% while Corporate Banking contributed ~23% in 1H2019. This relative difference in contribution influences loan composition and quality with ~42% of total loans for CCB from Personal Banking in 1H2019 (peers on average have 30-35% of loans from Personal Banking). Of this, ~80% relates to mortgages which have stronger loan quality than Corporate exposures. As at 30 June 2019, the non-performing loan ("NPL") ratio for Corporate Loans and advances was 2.50% while for Personal Loans and advances, the ratio was 0.46%.

- **Resilience in earnings**: Given its business composition, earnings performance remains sound. 1H2019 net operating income was up 7.2% y/y as operating income growth from a rise in net interest income (higher total average interest-earning assets) and solid net fee and commission income performance was higher than growth in operating expenses due to controlled expense growth for staff costs and premises and equipment expenses. 9M2019 performance was similarly sound with net profit up 5.8% y/y on operating income performance as volumes offset margin compression. Credit impairment losses are higher y/y (+11.9% for 1H2019, +9.3% for 9M2019) and non-performing loans grew 3.6% for 1H2019 and 5.2% for 9M2019 however as loans growth was higher, the non-performing loan ratio was improved against prior periods to 1.43% as at 30 September 2019. By segment, Personal Banking continued to contribute the bulk of 1H2019 profit before tax at 44.9%, followed by Treasury business (25.0%) and Corporate Banking (23.0%). Segment performance y/y shows different trends with Personal Banking profit before tax up 6.4% y/y on better operating income and lower operating expenses and credit losses, while Treasury business profit before tax rose 23.4% y/y on strong growth in net interest income. On the flipside, Corporate Banking profit before tax fell 10.7% y/y in 1H2019 from higher operating expenses and higher credit impairment losses.

- **Solid capital buffers:** Despite the solid growth in loans, CCB's CET1/CAR capital ratios of 14.0%/17.3% as at 30 September 2019 were up from 13.7%/17.1% as at 30 June 2019 and 13.8%/17.2% as at 31 December 2018 as growth in risk weighted assets (+7.3% since 31 December 2018) was lower than growth in common equity tier 1 capital (+8.3%) and total capital (+8.0%). This remains well above expected 2019 minimum requirements of 8.5%/11.5% for CET1/CAR ratios respectively (including a fully phased in capital conservation buffer of 2.5%). Minimums however do not include a counter cyclical capital buffer nor global systemically important bank ("G-SIB") buffer requirement. We think CCB's lower G-SIB buffer (with a compliance date in January 2025) of 1.0% compared to that of Bank of China and Industrial and Commercial Bank of China (1.5%) reflects more its stronger risk business rather than a lower relative systemic importance to that of its peers given the government's stable majority ownership and influence on bank strategies and regulations. Government policies to ensure systemic stability and support economic growth are reflected in CCB's strategy.

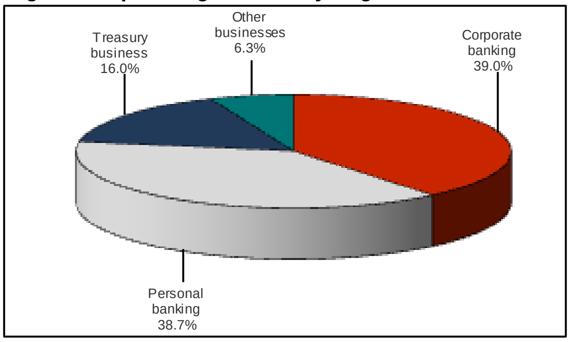
China Construction Bank Corporation

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (RMB'mn)			
Net Interest Income	452,456	486,278	379,522
Non Interest Income	141,575	147,494	132,011
Operating Expenses	167,043	174,764	123,378
Pre-Provision Operating Profit	426,988	459,008	388,155
Provisions	127,362	150,988	110,196
Other Income/(Expenses)	161	140	165
PBT	299,787	308,160	278,124
Income Taxes	56,172	52,534	50,742
Net Income to Common Shareholders	242,264	254,655	227,382
Balance Sheet (RMB'mn)			
Total Assets	22,124,383	23,222,693	24,517,730
Total Loans (net)	12,574,473	13,365,430	14,412,293
Total Loans (gross)	12,903,441	13,783,053	14,873,735
Total Allowances	328,968	417,623	461,442
Total NPLs	192,291	200,881	211,399
Total Liabilities	20,328,556	21,231,099	22,364,764
Total Deposits	16,363,754	17,108,678	18,463,826
Total Equity	1,795,827	1,991,594	2,152,966
Key Ratios			
NIM	2.21%	2.31%	2.27%
Cost-income Ratio	27.2%	26.6%	23.2%
LDR	76.8%	78.1%	78.1%
NPL Ratio	1.49%	1.46%	1.42%
Allowance/NPLs	171.1%	207.9%	218.3%
Credit Costs	0.99%	1.10%	0.74%
Equity/Assets	8.04%	8.51%	8.71%
CETier 1 Ratio (Full)	13.1%	13.8%	14.0%
Tier 1 Ratio	13.7%	14.4%	14.5%
Total CAR	15.5%	17.2%	17.3%
ROE	14.80%	14.04%	15.13%
ROA	1.13%	1.13%	1.27%

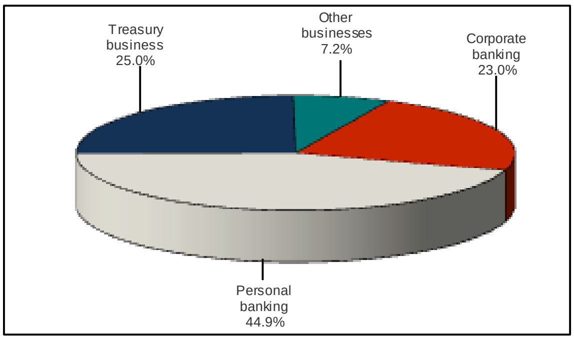
Source: Company

Figure 1: Operating Income by Segment - 1H2019



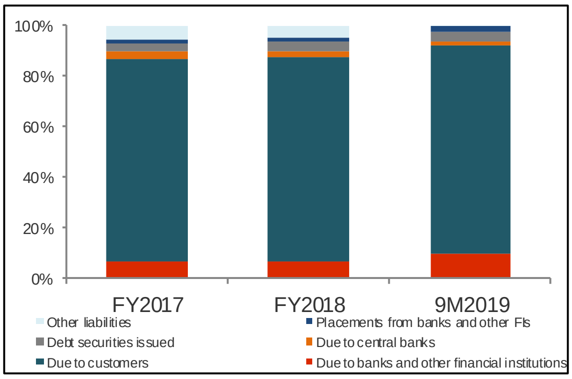
Source: Company

Figure 2: Profit Before Tax by Segment - 1H2019



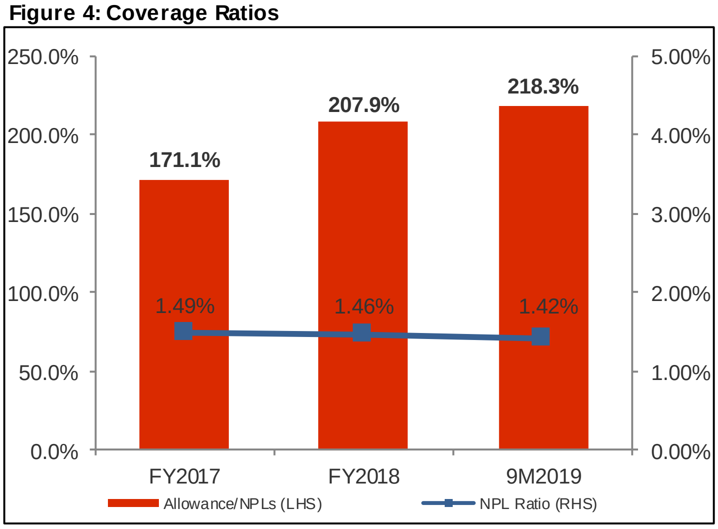
Source: Company

Figure 3: Liabilities Composition



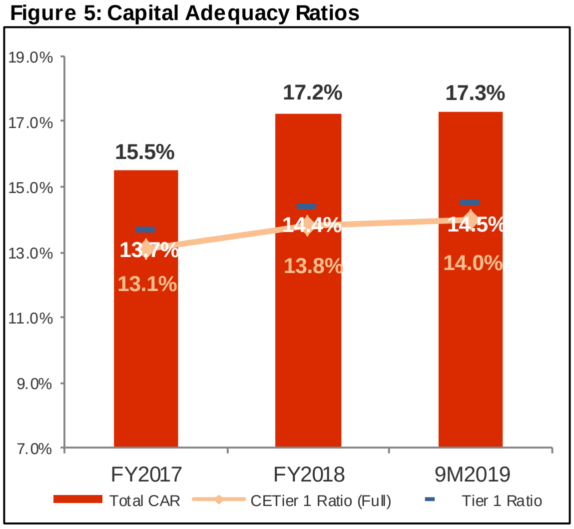
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Issuer Profile:

Neutral (4)

Ticker:

CMZB

Credit Outlook:

While volume growth and expense containment are a positive, the tough operating environment is still placing a cap on earnings growth potential.

We see better value in CMZB 4.875% '27c22s against the CMZB 4.20% '28c23s. It also has a higher reset spread.

Background:

Commerzbank AG ('CMZB') is Germany's second largest publicly listed bank after Deutsche Bank AG. Headquartered in Frankfurt, it had total assets of EUR513.3bn as at 30 September 2019. Its largest single shareholder at 15.6% is Germany's Special Fund for Financial Market Stabilization, set up during the Global Financial Crisis to stabilize Germany's banking system. The remaining shareholdings comprise institutional (~45%) and private (~25%) investors.

Commerzbank AG

Key Considerations

- **Seeking the way forward:** FY2019 was a year of discovery for CMZB, beginning with persisting news on a potential merger before the unveiling of its "Commerzbank 5.0" strategic programme in late September. Key aspects of the plan to improve returns include (1) a focus on mobile banking and branch network rationalisation (closure of around 20% of the current domestic network) in the Private and Small Business Customers segment; (2) increased distribution capacity and digitisation in the Corporate Clients segment to increase market presence with Mittelstand-clients, or SMEs; (3) total investments of EUR1.6bn comprising EUR750mn in digitalisation, IT infrastructure and growth with the rest allocated to restructuring costs associated with planned branch closures and net headcount reductions; and (4) portfolio adjustments through the sale of its stake in Polish mbank S.A. and acquisition of the remaining 18% stake it does not already own in online bank Aktiengesellschaft ("Comdirect"). Management is expecting cost reductions of around EUR600mn by 2023 compared to the current year to offset the weak revenue environment and help the bank achieve a return on equity of more than 4% over the medium term.

- **As the operating environment remains clouded:** Management viewed the above actions as necessary given persisting headwinds which have impacted profitability and hence capital generation. This necessitated both a rethink of actions and a downward revision of expectations. Not only is Germany's banking sector highly fragmented and competitive, but European banks continue to face low interest rates while the government recently downgraded Germany's economic growth forecasts for 2020 as the ongoing trade war and BREXIT uncertainty negatively impacts the manufacturing sector. On the plus side however, public consumption remains somewhat resilient due to low inflation and low interest rates with private expenditure expected to drive a y/y recovery in the German economy in 2020.

- **Results reflect restructuring with divergence in segment performance:** Operating profit for 9M2019 of EUR990mn was down 1.5% y/y while net profit was EUR684mn, down 8.9% y/y. This was influenced by a 73.9% y/y fall in net fair value from financial assets and liabilities through profit or loss and a high base in 9M2018 (restructuring income from Corporate Clients segment) and overshadowed a 7.2% y/y rise in net interest income from credit growth. Operating expense performance was similarly solid for 9M2019 due to CMZB's cost reduction program and internalisation of previously outsourced activities, falling 3.5% y/y while risk results rose 26.6% y/y on absence of provision write-backs in Corporate Clients that occurred in 9M2018. Overall loan quality remains solid with the non-performing loan ratio of 0.8% as at 30 September 2019 (+10bps y/y). From a segment perspective for 9M2019, operating profit from the Private and Small Business Customers segment rose 25.6% y/y on disposal gain from the sale of comdirect subsidiary ebase GmbH as well as growth in customer numbers and mortgage loan and securities volumes that offset margin pressure. Operating expenses also fell (-3% y/y) on cost efficiency measures. Conversely, operating profit from the Corporate Clients segment fell 40.9% y/y despite corporate loan growth due to margin pressure, absence of legacy portfolios contributions and negative valuation effects. This drove a larger fall in revenues than the fall in segment operating expenses.

- **Capital position per management's lower expectations.** CMZB's CET1 ratio was 12.8% as at 30 September 2019, down 10bps compared to 31 December 2018 as a rise in risk weighted assets following the regulatory review of internal risk models (Targeted Review of Internal Models or "TRIM") was above the positive impact from earnings generation. CMZB's overall capital position was stable at 16.3% due to issuance of the bank's inaugural USD1bn AT1 issue in July. The CET1 ratio remains above its target CET1 ratio of 12.75% in 2019, which is down from its 13.0% target in the "Commerzbank 4.0" strategy. The bank is expecting its new strategic programme to ensure its CET1 ratio remains within its targeted range of 12-13% whilst at the same time paying dividends.

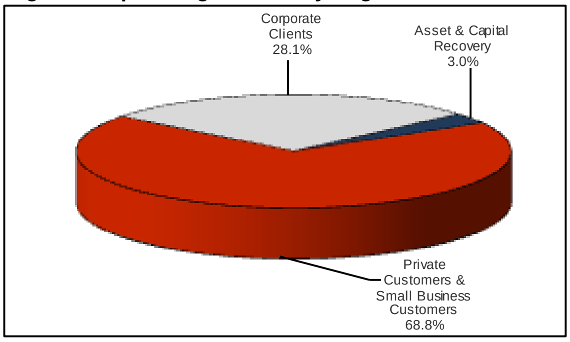
Commerzbank AG

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (EUR'mn)			
Net Interest Income	4,295	4,748	3,764
Non Interest Income	4,445	3,810	2,704
Operating Expenses	6,834	6,879	5,108
Pre-Provision Operating Profit	1,906	1,679	1,360
Provisions	781	446	370
Other Income/(Expenses)	23	12	9
PBT	1,148	1,245	999
Income Taxes	215	268	231
Net Income to Common Shareholders	128	865	684
Balance Sheet (EUR'mn)			
Total Assets	452,495	462,369	513,343
Total Loans (net)	262,942	279,137	269,720
Total Loans (gross)	265,712	280,743	271,349
Total Allowances	2,770	1,606	1,629
Total NPLs	5,569	3,769	3,568
Total Liabilities	422,473	432,958	482,668
Total Deposits	297,907	301,144	326,572
Total Equity	30,022	29,411	30,675
Key Ratios			
NIM	0.98%	1.08%	1.09%
Cost-income Ratio	78.0%	80.3%	79.0%
LDR	88.3%	92.7%	82.6%
NPL Ratio	1.30%	1.30%	1.31%
Allowance/NPLs	49.7%	42.6%	45.7%
Credit Costs	0.29%	0.16%	0.14%
Equity/Assets	6.63%	6.36%	5.98%
CETier 1 Ratio (Full)	14.1%	12.9%	12.8%
Tier 1 Ratio	14.1%	12.9%	13.3%
Total CAR	17.5%	15.9%	15.8%
ROE	0.50%	3.40%	3.50%
ROA	0.19%	0.19%	0.18%

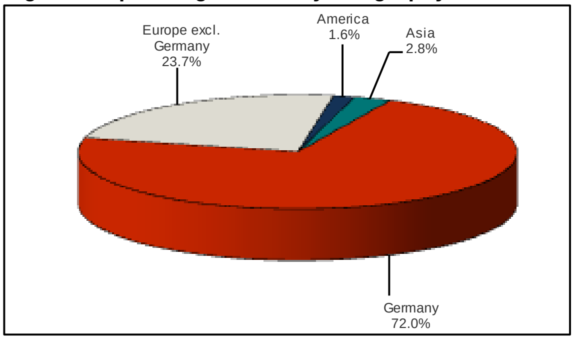
Source: Company

Figure 1: Operating Income by Segment - 9M2019



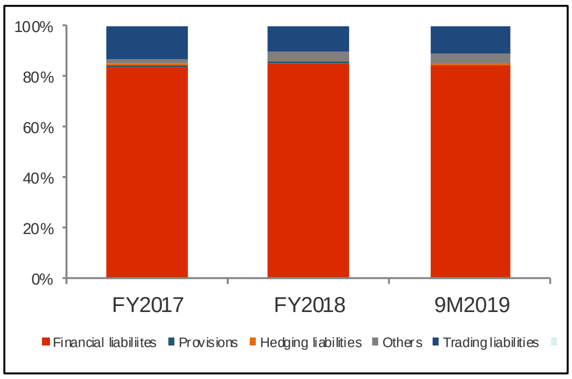
Source: Company | Excludes Others and Consolidation

Figure 2: Operating Income by Geography - 9M2019



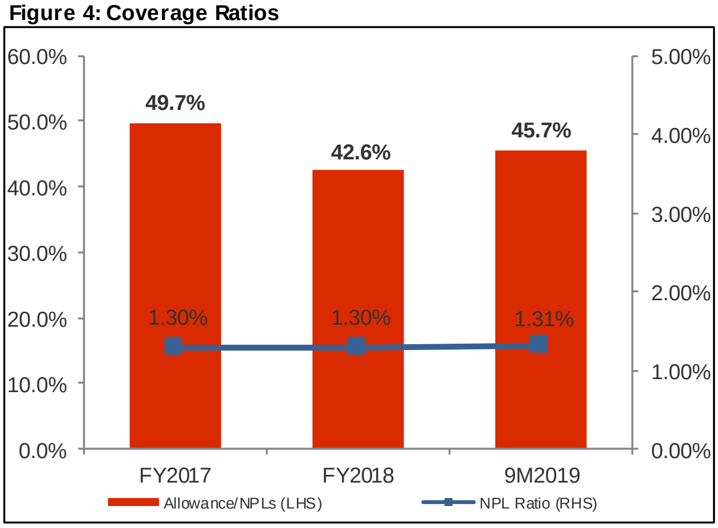
Source: Company

Figure 3: Liabilities Composition



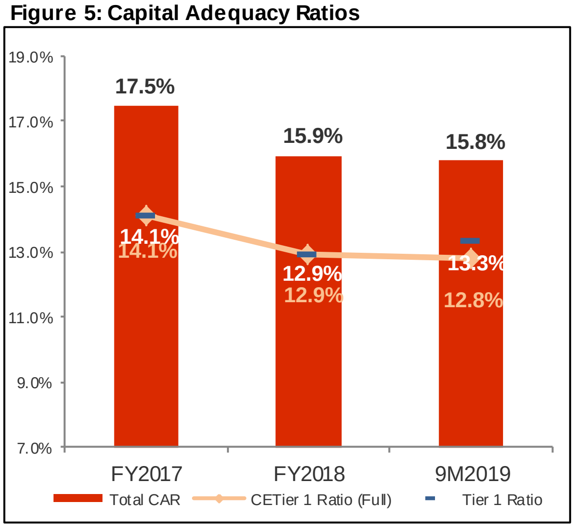
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Issuer Profile:
Neutral (3)

Ticker:
UBS

Credit Outlook:
While CA's credit fundamentals are supported by the quality and quantity of its earnings the ACAFP 3.8% 31c26s still look expensive compared to other names. BNP Paribas papers offer better value in our view.

Background:
Founded in 1894, the Crédit Agricole Group ("CAG") has grown steadily through the years from a local farm co-operative to a universal bank operating across 47 countries. Its businesses comprise mostly domestic retail banking through its retail cooperative networks as well as international retail banking, asset gathering, specialized financial services and financing of large customers. As at 30 September, 2019, it had total assets of EUR2,023.8bn. Total assets of Crédit Agricole SA ("CA") were EUR1,781.0bn in the same period.

Credit Agricole Group

Key Considerations

- **Structural strength and support:** CAG's structure is similar to that of Groupe BPCE with Credit Agricole SA ("CA") as the central entity and lead institution of CAG. This means CA, as the Central Bank to CAG's 39 regional banks, is legally responsible for supervising, reviewing and monitoring the credit and financial risks of group members and ensuring ongoing group member liquidity and solvency. As a result of this role, the regional banks provide a joint and several cross guarantee over all the obligations of CA. While France operates under a statutory write-down regime and CA has indicated there could be some uncertainty as to whether the guarantee can be enforced if a regulator driven resolution occurs prior to liquidation, the existence of the 'no creditor worse off' principle in France's Financial & Monetary Code and the EU's Bank Recovery and Resolution Directive means that the credit profile of CA is effectively equal to that of the wider group. CA's other role is as holdco for CAG's other businesses, which includes international retail banking, asset management, specialized financial services (consumer finance, leasing & factoring) and corporate & investment banking services to large customers.

- **Solid performance across the board in 2019 so far:** 3Q2019 underlying net income was up 5.9% y/y to EUR1.92bn. Key components of 3Q2019 underlying performance include a 3.2% y/y rise in gross operating income on higher growth in revenues (+2.9% y/y on solid business volumes and ongoing synergies in Asset gathering (+3.1%), International Retail banking (+4.4%), and Large Customers (+6.2%) while Specialised financial services were down 2.7% y/y and French Retail banking were stable (+0.2%) against growth in operating expenses (+2.7% y/y) from IT and business investments. This offset an 18.9% y/y rise in cost of risk on one offs in Corporate and Investment Banking while risk costs in the Regional Banks were stable. For CA, underlying net income was up 8.6% y/y due to 10.3% y/y growth in gross operating income (record inflows at Amundi and solid business momentum in Large Customers while operating costs were under control) that offset a 53.2% y/y rise in risk costs. Finally, CAG's Regional Banks generated EUR689mn in underlying net income for 3Q2019, up 2.7% y/y due to a 56.8% fall in risk costs. This offset a 3.4% y/y rise in operating expenses (excluding Single Resolution Fund expenses) from IT investments while underlying revenues were stable y/y as growth in fee and commission income from banking services and insurance products offset lower interest income. While overall 3Q2019 cost of risk as a proportion of outstandings rose 2bps y/y to 20bps, it remains below CAG's medium term plan assumption of 25bps.

- **Capital ratios continue to improve:** Capital ratios improved slightly q/q with the CET1 ratio at 15.5% as at 30 September (15.4% as at 30 June 2019) as earnings generation (+26bps q/q) and unrealised gains (+3bps q/q) offset growth in risk weighted assets (-13bps q/q) and other movements (-8bps q/q). This remains above CAG's 9.7% Supervisory Review and Evaluation Process threshold which includes pillar 1 and pillar 2 requirements, capital conservation (2.5%) and countercyclical (0.19%) buffers and a global systemically important bank buffer of 1.0%. CA's CET1 ratio also improved 10bps q/q to 11.7% as at 30 September 2019 and was above its minimum requirement of 8.7%. CAG is also subject to the Single Resolution Board's ("SRB") minimum requirement for own funds and eligible liabilities ("MREL"). As at 30 September 2019, its estimated MREL ratio was 32% of risk weighted assets, above the SRB's default calculation for the MREL requirement of 24.75%. To ensure it continues to meet its minimum capital requirements, CAG is implementing a new strategic plan to 2022 that was unveiled in June 2019. Key financial targets include a cost to income ratio below 60%, group CET1 ratio above 16% (>11% for CA), group minimum requirement for own funds and eligible liabilities ratio of 24-25% and compound annual revenue growth of 2.5% pa spread evenly across business segments. Business targets include a more balanced and equal revenue contribution amongst retail banking, asset gathering and large customers, a slightly better revenue contribution from the rest of Europe, and lower reliance on interest income.

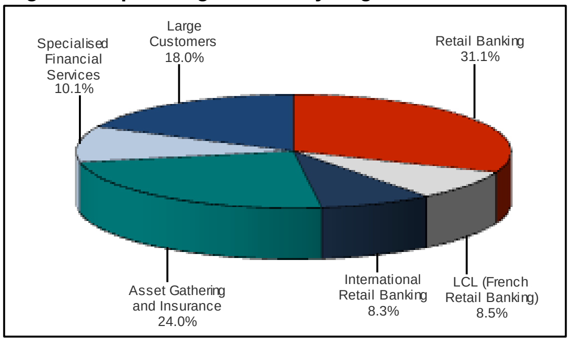
Credit Agricole Group

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (EUR'mn)			
Net Interest Income Non Interest Income	32,113	32,926	24,898
Operating Expenses	20,911	21,454	16,231
Pre-Provision Operating Profit	11,202	11,472	8,667
Provisions	1,651	1,720	1,263
Other Income/(Expenses)	732	266	273
PBT	10,283	10,018	7,677
Income Taxes	3,479	2,733	2,323
Net Income to Common Shareholders	6,536	6,844	5,012
Balance Sheet (EUR'mn)			
Total Assets	1,763,169	1,854,763	2,023,800
Total Loans (net)	814,758	854,681	898,700
Total Loans (gross)	908,490	874,156	918,094
Total Allowances	19,643	19,475	19,394
Total NPLs	25,484	23,048	23,231
Total Liabilities	1,655,433	1,742,575	1,904,800
Total Deposits	732,420	789,835	827,800
Total Equity	107,736	112,188	119,000
Key Ratios			
NIM	2.10%	2.09%	1.93%
Cost-income Ratio	65.1%	65.2%	65.2%
LDR	111.2%	108.2%	108.6%
NPL Ratio	2.81%	2.64%	2.53%
Allowance/NPLs	77.1%	84.5%	83.5%
Credit Costs	0.18%	0.20%	0.18%
Equity/Assets	6.11%	6.05%	6.28%
CETier 1 Ratio (Full)	14.9%	15.0%	15.5%
Tier 1 Ratio	15.8%	15.9%	16.1%
Total CAR	18.2%	18.3%	18.5%
ROE	5.88%	6.03%	5.58%
ROA	0.36%	0.36%	0.48%

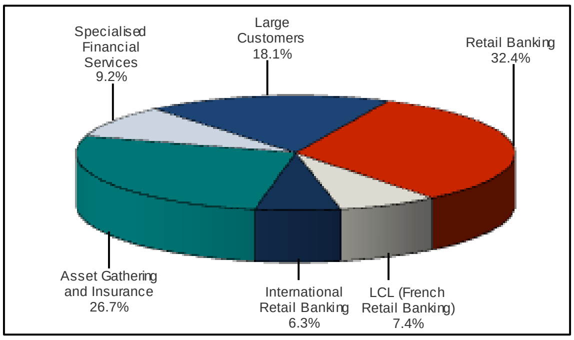
Source: Company

Figure 1: Operating Income by Segment - 9M2019



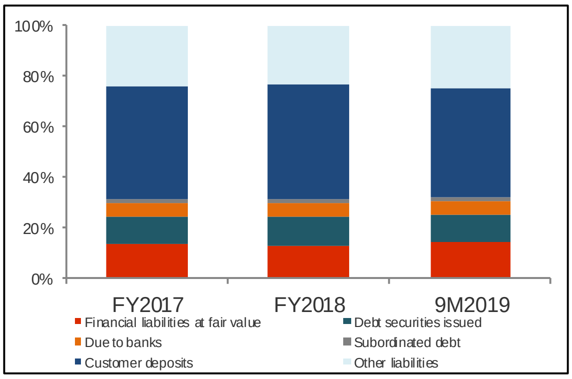
Source: Company | Excludes Corporate Centre

Figure 2: Profit Before Tax by Segment - 9M2019



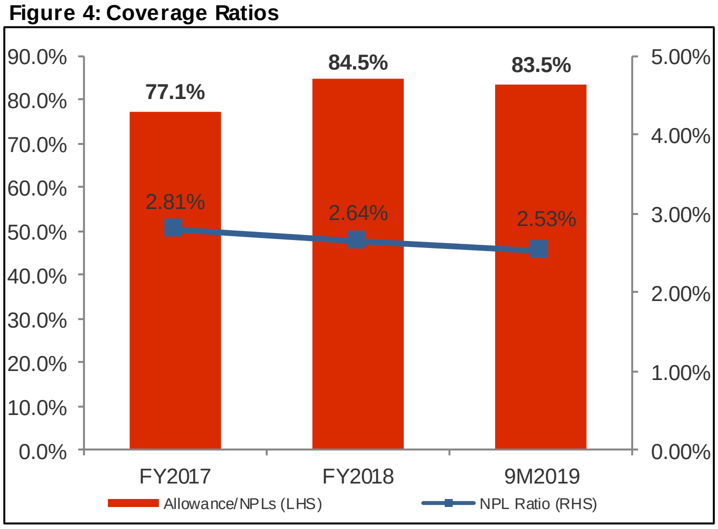
Source: Company | Excludes Corporate Centre

Figure 3: Liabilities Composition



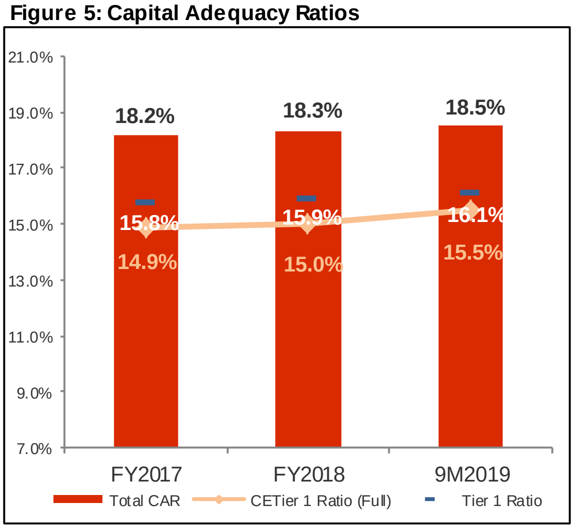
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Issuer Profile:
Neutral (4)

Ticker:
CS

Credit Outlook:
Fundamentals for CS have been improving which is timely given the operating environment. The CS 5.625% PERPc24s looks fairly valued against other European bank SGD Additional Tier 1 instruments although investors may prefer SOCGEN 6.125% PERPc24s given the slightly better business risk.

Background:
Based in Zurich and operating across 50 countries, Credit Suisse Group AG ("CS") operates three regionally focused divisions across (1) Switzerland, (2) Asia-Pacific and (3) Europe, the Middle East, Africa and Latin America. Providing private banking and other universal banking services, these regional businesses are supplemented by two global investment banking divisions. As at 30 September 2019 it had total assets under management of CHF1,482.2bn.

Credit Suisse Group AG

Key Considerations

- **Regional focus for core businesses:** As Switzerland's second largest financial institution, CS provides a broad range of financial services both at home and abroad. That said, services are tailored to specific geographies through three regionally focused divisions. Its Swiss Universal Bank ("SUB") provides the broadest range of services through its Private Banking and Corporate & Institutional Banking businesses across individual (Private, Wealth Management and Premium Clients) and business (Corporate & Investment Banking as well as Institutional) clients located in Switzerland. International Wealth Management provides Private Banking and Asset Management services to private clients, asset managers, governments and corporates in Europe, the Middle East, Africa and Latin America. Finally, the Asia Pacific division services high net worth individuals, corporates and institutional clients through its Private Banking and Investment Banking businesses. Supporting these divisions on a global scale are Global Markets (sales, trading and execution, prime brokerage and comprehensive investment research on equities, solutions and credit) and Investment Banking & Capital Markets (mergers & acquisitions, equity underwriting, and leveraged finance).

- **Positioning for the future:** With its three-year restructuring program completed, CS is embarking on its next phase of transformation with a focus on the future after largely resolving legacy issues. In August CS announced a reorganisation of its SUB division to address shifting industry dynamics and improve its relatively low market share in both younger clients and Swiss retail banking. Retail and commercial clients are organized under a new 'Direct Banking' business area with a focus on core banking products and services while additional investment in digitisation, client advisory and marketing over the next three years will combine digital solutions and higher interaction with personal advice. In SUB's Corporate & Institutional Clients business, investment banking will be managed as a separate business area to provide services to clients both within and outside of SUB while CS is expanding its advisory teams for Wealth Management and Premium clients as well as in its Corporate Banking and Institutional business areas. For the International Wealth Management division, Private Banking International has been set up as a new unit primarily to focus on clients with lower Assets under Management through use of more technology to cut servicing costs given rising competition is suppressing margins in wealth management. Finally, the head of CS's Investment Banking & Capital Markets division stepped down in November.

- **Supportive performance in 3Q2019 across most businesses:** Income before taxes for 3Q2019 were up 70% y/y to CHF1.14bn but down 12% q/q. This was due to movements in net revenues which were up 9% y/y from Global Markets (fixed income trading) and International Wealth Management and down 5% q/q due to weaker Global Markets (lower client activity and underwriting) and Swiss results (lower transaction based revenues). Otherwise, operating expenses were down 1% y/y and 3% q/q for 3Q2019 on absence of restructuring expenses y/y and lower employee costs q/q. Corporate Centre performance was weaker y/y due to inclusion of residual exposures from the Strategic Resolution Unit which ceased to exist as a separate division at the start of 2019 and is now managed in an Asset Resolution Unit.

- **Earnings supporting capital position:** CS' CET1 capital ratio was 10bps and 50bps weaker q/q and y/y at 12.4% as at 30 September 2019 due to a rise in risk weighted assets from model and parameter updates and movement in mainly credit risk. This offset a consistent rise in CET1 capital as earnings generation, regulatory adjustments and positive foreign exchange movements mitigated share buy backs and dividend payments. The ratio remains above the Basel III minimum CET1 ratio of 8.0% (including additional requirements for CS as a global systemically important bank) as well as higher going concern minimum obligations for systemically important banks under Swiss legislation of 10.0%. On a look-through basis (assumes the phase-out of certain capital instruments), CS' swiss CET1 ratio was 12.3% as at 30 September 2019.

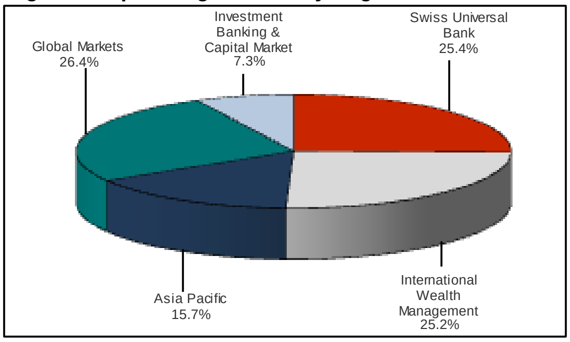
Credit Suisse Group AG

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (CHF'mn)			
Net Interest Income	6,557	7,009	5,315
Non Interest Income	14,343	13,911	10,979
Operating Expenses	18,897	17,303	12,610
Pre-Provision Operating Profit	2,003	3,617	3,684
Provisions	210	245	178
Other Income/(Expenses)	0	0	0
PBT	1,793	3,372	3,506
Income Taxes	2,741	1,361	934
Net Income to Common Shareholders	-983	2,024	2,567
Balance Sheet (CHF'mn)			
Total Assets	796,289	768,916	795,920
Total Loans (net)	279,149	287,581	298,470
Total Loans (gross)	280,137	288,596	299,516
Total Allowances	882	902	924
Total NPLs	2,110	2,192	2,126
Total Liabilities	754,100	724,897	750,616
Total Deposits	361,162	363,925	374,872
Total Equity	42,189	44,019	45,304
Key Ratios			
NIM	0.88%	0.98%	0.95%
Cost-income Ratio	90.4%	82.7%	77.4%
LDR	77.3%	79.0%	79.6%
NPL Ratio	0.75%	0.76%	0.71%
Allowance/NPLs	41.8%	41.1%	43.5%
Credit Costs	0.07%	0.08%	0.08%
Equity/Assets	5.30%	5.72%	5.69%
CETier 1 Ratio (Full)	12.8%	12.6%	12.4%
Tier 1 Ratio	17.4%	16.2%	16.8%
Total CAR	18.9%	17.4%	17.8%
ROE	-2.30%	4.70%	7.80%
ROA	-0.12%	0.20%	0.32%

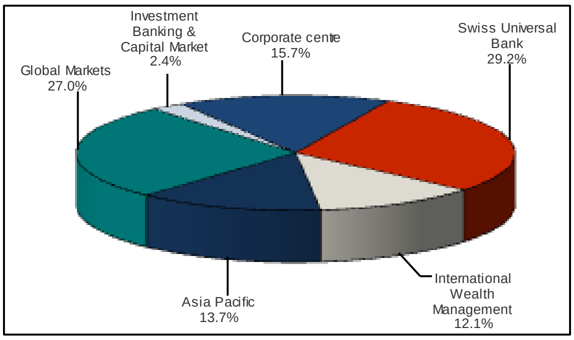
Source: Company

Figure 1: Operating Income by Segment - 9M2019



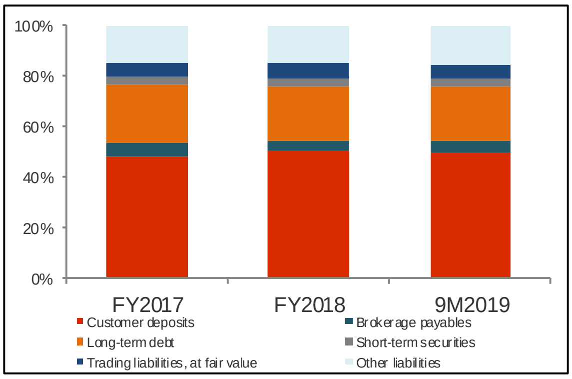
Source: Company | Excludes Corporate Centre

Figure 2: Asset Breakdown by Segment - 9M2019



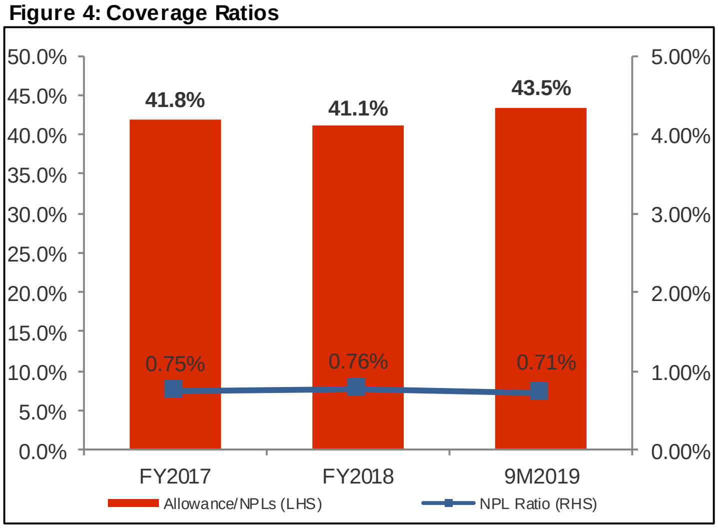
Source: Company

Figure 3: Liabilities Composition



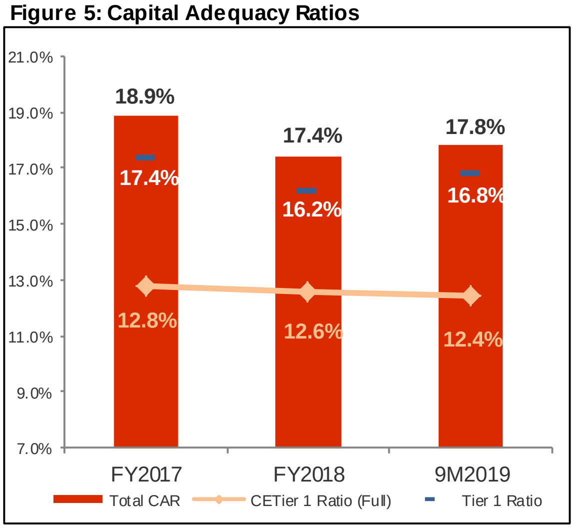
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Issuer Profile:
Positive (2)

Ticker:
DBSSP

Credit Outlook:
DBS looks well positioned for the future given its robust capital generation. We see better value in the Additional Tier 1 DBSSP 3.98% PERPc25 against the Tier 2 DBSSP 3.8% 28c23s.

Background:
DBS Group Holdings Limited ('DBS') primarily operates in Singapore and Hong Kong and is a leading financial services group in Asia with a regional network of more than 280 branches across 18 markets. With total assets of SGD580.7bn as at 30 September 2019, it provides diversified services across consumer banking, wealth management institutional banking, and treasury. It is 30% indirectly owned by the Singapore government through Temasek Holdings Pte Ltd as of 2nd Jan, 2020.

DBS Group Holdings Ltd

Key Considerations

- **Flexing its strength:** DBS continues to announce record results with profit before tax up 18% y/y and 14% y/y for 3Q2019 and 9M2019 to SGD1.96bn and SGD5.84bn respectively. Key to performance continues to be strong earnings generation which offsets growth in expenses and a rise in allowances. 3Q2019 net interest income rose 8% y/y due to solid y/y growth in customer loans as well as a 4bps improvement in net interest margins to 1.90%. Net fee and commission income (mostly wealth management as well as card and loan related fees) and other non-interest income (net trading income and net income from investment securities) were also up 17% and 35% respectively and as a result total income rose 13% y/y to SGD3.82bn. For 9M2019, total income was up 12% y/y to SGD11.08bn due to 9% y/y growth in net interest income (better margins and volumes again), 8% y/y growth in net fee and commission income (wealth management and cards fees), and 35% y/y rise in other non-interest income (net trading income and net income from investment securities). Expenses rose 9% y/y and 8% y/y for 3Q2019 and 9M2019 respectively on higher staff and computerisation costs as revenue related costs were somewhat contained. While allowances for credit and other losses rose 8% y/y and 15% y/y for 3Q2019 and 9M2019 respectively due to a writeback in the prior period and higher general allowances to factor in prevailing political and economic uncertainty, the rises were not as high as peers.

- **Using many muscles:** Consumer Banking/Wealth Management (covers individuals) continues to anchor DBS's results contributing 37.6% of total profit before tax in 9M2019 and up 21.9% y/y on a rise in net interest income (higher volumes and net interest margin) and higher fees from investment product sales, cards and bancassurance. This is complimented by the Institutional Banking segment (covers institutional clients, large corporates and small and medium sized businesses) which contributed 48.2% of total profit before tax in 9M2019 and up 10.2% y/y on cash management, loan-related activities, treasury customer flows and capital markets related services. Treasury Markets' (structuring, market-making and trading of treasury products) contributed 5.7% and rose 132% y/y from higher contributions from interest rate, credit, foreign exchange and equity activities. While all segments saw improvement y/y largely as total income growth exceeded expense growth, we continue to view the Singapore consumer banking segment as the core.

- **Hong Kong exposure high but appears manageable:** From geographic perspective, Singapore continue to generate the bulk of total profit before tax contributing 69.7% in 9M2019 (+20.5% y/y). This is followed by Hong Kong which contributed 22.3% in the same period. While y/y performance improved 7.1% for 9M2019, recent challenges in Hong Kong were evident in quarterly results with 3Q2019 profit before tax from Hong Kong (20.3% of total profit before tax) up 14.4% y/y but down 13.3% q/q on higher general allowances and weaker trading income. That said, management see the performance as somewhat resilient given weaker performance was driven almost entirely by the higher provisions with total income performance in 3Q2019 stable q/q.

- **Improved capital despite growth momentum:** DBS's capital ratios were up y/y and q/q with its fully phased in CET1/CAR ratio of 13.8%/16.4% as at 30 Sept 2019 compared to 13.6%/16.2% as at 30 June 2019 and 13.3%/16.2% as at 30 September 2018. This is due to the strong earnings generation that boosted capital and compensated for dividend payments and higher credit risk-weighted assets from foreign currency impacts and asset growth. The ratios continue to remain above the minimum CET1/ CAR ratio requirements of 9.4%/12.9% as at 30 September 2019 which includes a capital conservation buffer of 2.5%, a countercyclical capital buffer of 0.4%, and a domestic-systemically important buffer of 2.0%. This buffer provides a solid cushion against any unexpected developments in 2020 especially with management expecting net interest margins to be under pressure and offset potential loans growth.

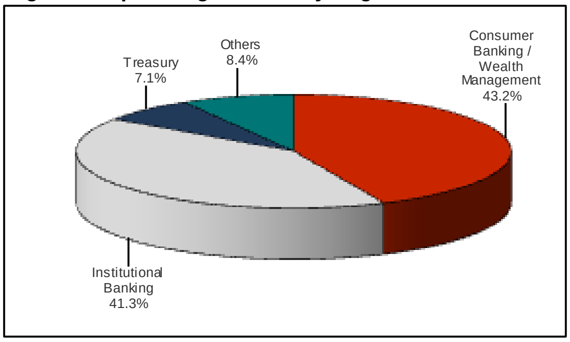
DBS Group Holdings Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Net Interest Income	7,791	8,955	7,199
Non Interest Income	4,483	4,228	3,884
Operating Expenses	5,205	5,814	4,658
Pre-Provision Operating Profit	7,069	7,369	6,425
Provisions	1,894	710	581
Other Income/(Expenses)	0	0	0
PBT	5,175	6,659	5,844
Income Taxes	671	1,006	933
Net Income to Common Shareholders	4,371	5,577	4,883
Balance Sheet (SGD'mn)			
Total Assets	517,711	550,751	580,714
Total Loans (net)	323,099	345,003	353,436
Total Loans (gross)	327,769	349,645	358,373
Total Allowances	4,670	4,642	4,937
Total NPLs	5,517	5,251	5,554
Total Liabilities	467,909	500,876	529,441
Total Deposits	373,634	393,785	400,217
Total Equity	49,802	49,875	51,273
Key Ratios			
NIM	1.75%	1.85%	1.90%
Cost-income Ratio	43.0%	44.0%	42.0%
LDR	86.5%	87.6%	88.3%
NPL Ratio	1.68%	1.50%	1.55%
Allowance/NPLs	84.6%	88.4%	88.9%
Credit Costs	0.58%	0.20%	0.22%
Equity/Assets	9.62%	9.06%	8.83%
CETier 1 Ratio (Full)	14.3%	13.9%	13.8%
Tier 1 Ratio	15.1%	15.1%	14.7%
Total CAR	15.9%	16.9%	16.4%
ROE	9.70%	12.10%	13.60%
ROA	0.89%	1.05%	1.16%

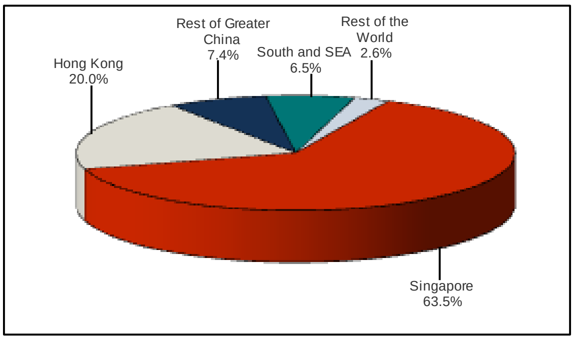
Source: Company

Figure 1: Operating Income by Segment - 9M2019



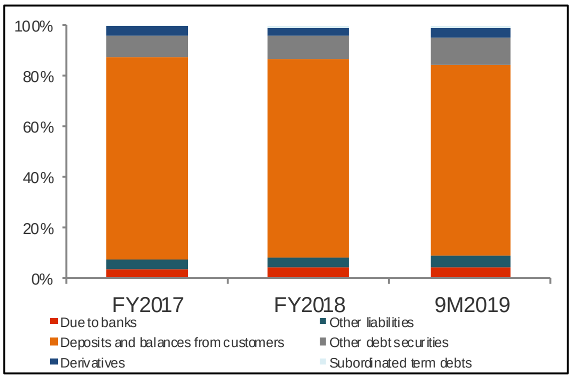
Source: Company | Excludes Others and Consolidation

Figure 2: Operating Income by Geography - 9M2019



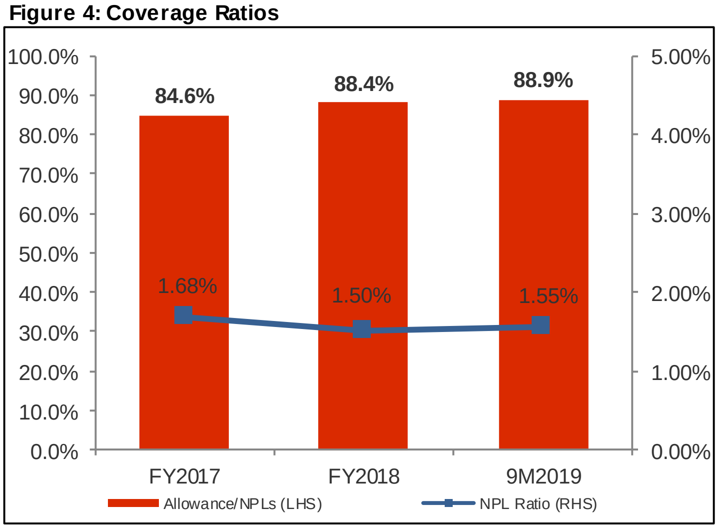
Source: Company

Figure 3: Liabilities Composition



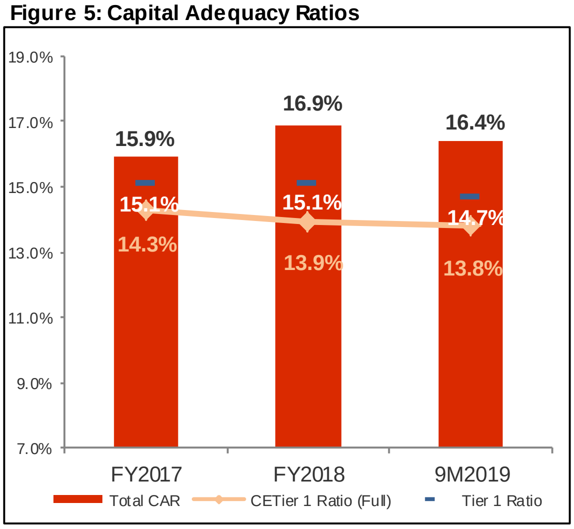
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Issuer Profile:
Positive (2)

Ticker:
HSBC

Credit Outlook:
HSBC's credit profile appears delicately balanced at the current rating level with management and strategy uncertainty weighing on the downside. Investors looking for carry against potential price volatility can still look to the HSBC 4.7% PERPc22s and HSBC 5.0% PERPc23s although the UBS 5.875% PERPc23 looks interesting given higher reset and yield pickup.

Background:
HSBC Holdings PLC ('HSBC') is one of the world's largest banks by asset size and a global systemically important bank ('GSIB'). Based in London, it is the holding company for the HSBC Group which includes global banking operations across 67 countries and territories through major subsidiaries HSBC Bank PLC (in Europe and the UK) and The Hongkong and Shanghai Banking Corporation, Limited (in Asia) amongst others. As at 30 September 2019, it had total assets of USD2,728.3bn.

HSBC Holdings PLC

Key Considerations

- **Longer term strength hiding short-term weakness:** While 9M2019 results benefited from a solid 1H2019 (reported profit before tax of USD17.2bn was up 3.7% y/y), underperformance was evident in 3Q2019 with reported profit before tax down 18.3% y/y to USD4.84bn. On an adjusted basis (includes significant items), profit before tax for 3Q2019 of USD5.35bn was down 12.2% y/y. The weaker bottom line was due to challenges at all levels of the income statement with reported revenue down 3.2% y/y from lower client activity in Global Markets, weakness in insurance as well as adverse movements in credit and funding valuation adjustments in Global Banking & Markets that offset decent performance in Retail Banking. In addition, operating expenses rose 2.3% y/y on account of higher significant items such as customer redress provisions for payment protection insurance and severance/restructuring costs. Excluding these, operating expenses rose 0.8% y/y. Expected credit losses and other credit impairment charges rose 74.2% y/y from unsecured lending in Retail Banking & Wealth Management, Commercial Banking exposures in the UK and Hong Kong as well as an additional charge to reflect the current economic challenges facing Hong Kong.

- **Asia more important in form and substance:** From a geographical perspective, HSBC saw weakness mostly in its European businesses (3Q2019 adjusted profit before tax down 93.6% y/y) as well as the US (North America 3Q2019 adjusted profit before tax down 31.6% y/y) while Asia performance was solid with adjusted profit before tax up 5.3% y/y (the only region to see y/y growth). For HSBC's major business segments, all reported weaker y/y adjusted profit before tax - Retail Banking & Wealth Management adjusted profit before tax for 3Q2019 fell 18.1% y/y and Commercial Banking was down 11.2% y/y due to higher expected credit losses and a rise in operating expenses; Global Banking and Markets saw a 29.7% y/y fall in 3Q2019 from lower operating income due to weaker client activity. Asia's growing importance is due to both better relative growth prospects than other regions as well as HSBC's current strategy centred on eight strategic priorities, first of which is to accelerate growth from HSBC's Asian business.

- **Strategy needing a rethink:** HSBC's current strategic plan was targeted to end in 2020. However, with the ongoing trade war and slowing global economic growth altering the operating environment outside prior expectations, management highlighted in the 3Q2019 earnings release that previous strategic plans 'are no longer sufficient to improve performance' for underperforming businesses and that management are 'accelerating plans to remodel them, and move capital into higher growth and return opportunities.' This will entail changes in capital allocation amongst HSBC's businesses, continued adjustments to costs and reducing risk weighted assets. We take management's comments as somewhat forceful and direct of the need for HSBC to refocus, especially with management's intention to sustain dividends, maintain the CET1 ratio above 14.0% and the recognition that the prior return on tangible equity target of 11.0% in 2020 now looks unachievable. How these changes affect results depends on how recent events in Hong Kong have impacted overall performance and whether the pursuit of higher return opportunities will result in HSBC taking on higher risk. The finalization of a permanent CEO may also affect strategy.

- **Capital strength needed more than ever:** Despite the above challenges, HSBC's capital position remained somewhat resilient due to ongoing capital generation and a 2.3% q/q fall in risk weighted assets from foreign exchange impacts and methodology and policy changes. This offset dividends, a USD1bn share buyback, foreign currency translation differences, and other movements with its CET1 ratio of 14.3% as at 30 September 2019 stable q/q (and up 30bps from 14.0% as at 31 December 2018). While this remains well above disclosed CET1 minimum capital requirements of 11.3% and is above HSBC's assumed range of above 14.0% through 2020, HSBC's plan to issue around USD2bn in Additional Tier 1 instruments in October was shelved pending its strategic review.

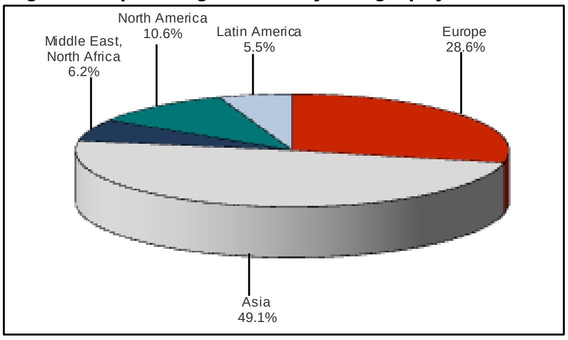
HSBC Holdings PLC

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (USD'mn)			
Net Interest Income	28,176	30,489	22,808
Non Interest Income	23,269	23,291	19,919
Operating Expenses	34,884	34,659	25,296
Pre-Provision Operating Profit	16,561	19,121	17,431
Provisions	1,769	1,767	2,023
Other Income/(Expenses)	2,375	2,536	1,836
PBT	17,167	19,890	17,244
Income Taxes	5,288	4,865	3,512
Net Income to Common Shareholders	10,798	13,727	11,478
Balance Sheet (USD'mn)			
Total Assets	2,518,430	2,558,124	2,728,347
Total Loans (net)	949,737	981,696	1,017,833
Total Loans (gross)	959,080	990,321	1,026,414
Total Allowances	9,343	8,625	8,581
Total NPLs	14,856	13,347	13,649
Total Liabilities	2,322,206	2,363,875	2,530,560
Total Deposits	1,360,227	1,362,643	1,373,741
Total Equity	196,224	194,249	197,787
Key Ratios			
NIM	1.63%	1.66%	1.59%
Cost-income Ratio	67.8%	64.4%	56.8%
LDR	69.8%	72.0%	74.1%
NPL Ratio	1.55%	1.35%	1.33%
Allowance/NPLs	62.9%	64.6%	62.9%
Credit Costs	0.18%	0.18%	0.26%
Equity/Assets	7.79%	7.59%	7.25%
CETier 1 Ratio	14.6%	14.0%	14.3%
Tier 1 Ratio	17.4%	17.0%	17.3%
Total CAR	21.0%	20.0%	20.2%
ROE	5.90%	7.70%	9.20%
ROA	0.44%	0.54%	0.59%

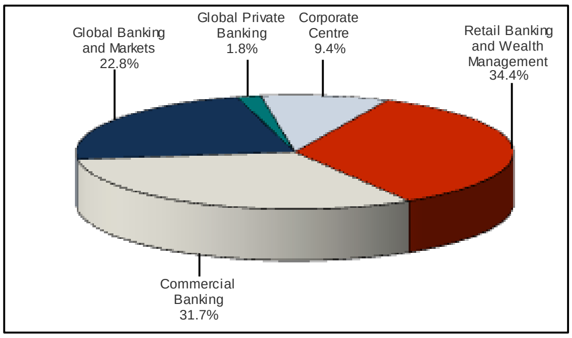
Source: Company

Figure 1: Operating Income by Geography - 9M2019



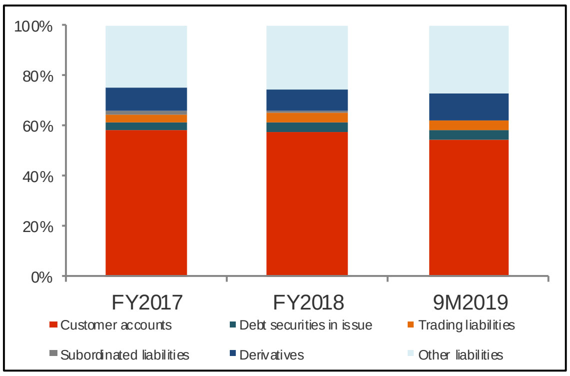
Source: Company

Figure 2: Profit Before Tax by Segment - 9M2019



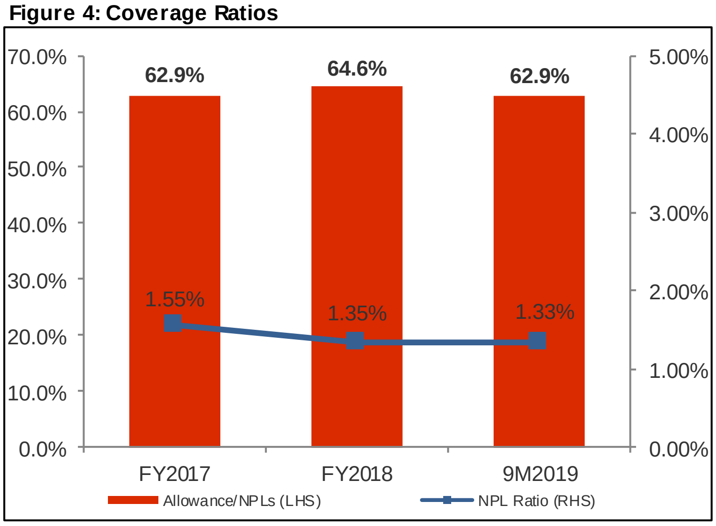
Source: Company

Figure 3: Liabilities Composition



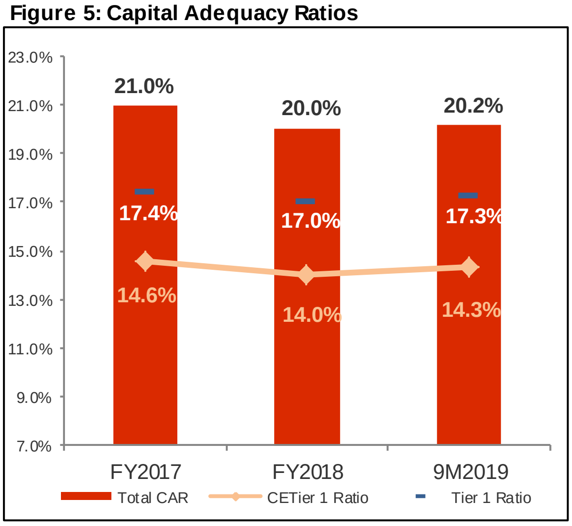
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Issuer Profile:
Neutral (3)

Ticker:
BAERVX

Credit Outlook:
While we see no change to fundamentals for now, we think next year will be an interesting year for JBG with new CEO Philipp Rickenbacher angling the bank for growth after a period of consolidation and de-risking under previous CEO Bernard Hodler. The BAERVX 5.75% PERPc22s look better value against the BAERVX 5.90% PERPc20s.

Background:
Present in over 60 locations and 25 countries, Julius Baer Group Ltd. ("JBG") offers private banking services mainly through Bank Julius Baer & Co. Ltd. Headquartered in Zurich, its services include wealth management, financial planning and investments and mortgages and other lending. As at 30 June 2019, JBG had total client assets of CHF479bn. As at 31 October 2019, it had assets under management of CHF422bn.

Julius Baer Group Ltd

Key Considerations

- **Under new management:** In July 2019, JBG announced the appointment of Philipp Rickenbacher as its new chief executive officer from 1 September, replacing Bernard Hodler. Mr. Hodler's time as CEO was brief but coincided with a period of stabilization, recalibration and transition as JBG sought to reduce operating risk and position itself sustainably for the future. To implement this, several management and leadership changes have been effected by the new CEO including a newly created Chairman Private Banking Key Clients to develop the ultra-high net worth client segment, the hiring of new relationship managers in Zurich and two new market heads for Germany/Austria and Italy. JBG's executive leadership team was reorganized to ensure more timely decision making with the executive boards for both JBG and main operating entity Bank Julius Baer & Co. Ltd ("BJB") aligned and executive leadership numbers reduced. Mr. Rickenbacher has been with JBG since 2004 in various roles and we see his appointment as indicating JBG's desire for continuity and stability which is positive given market volatility and JBG's transitioning credit profile.

- **Strategy refinements in play**: With Mr. Rickenbacher at the helm now for a few months, JBG's trajectory is becoming clearer as announced management changes and current operating conditions influence JBG's strategy that is centred on (1) focus on profitability rather than volume (aforementioned reduction in executive leadership and possible staff cuts, smarter market coverage through streamlining geographic coverage in 17 'core' and 20 'develop' identified markets, closure or sale of offices in Peru, Panama and the Netherlands); (2) investment (digitalisation in key hubs of Switzerland, Luxembourg and Asia to improve productivity, scalability and efficiency); and (3) growth (opening new offices in the UK and Spain, increasing its stake in NSC Asesores in Mexico, expanding JBG's local presence in Brazil and Germany, entering into strategic cooperation agreements in Thailand (new joint venture with The Siam Commercial Bank) and Japan, and recommitting to Latin America with aims to double assets under management in 3-5 years through organic growth and acquisitions). Medium term financial targets include pre-tax margins of 25-28bps (23bps in adjusted 1H2019 results); return on common equity Tier 1 ("CET1") capital above 32% (28% in adjusted 1H2019 results); net new money of 4-6% per annum (3.2% in adjusted 1H2019 results and 3.0% in annualized 10M2019 results); and a reduction in the cost to income ratio to below 68% (just over 70.0% for 10M2019 results and just below 70% through July-Oct).

- **Recovery in recent results:** Strategic actions to address the challenging operating environment that impacted FY2018 results were partially seen in JBG's 1H2019 results which were weaker y/y but an improvement on a h/h basis. Similarly, positives outweighed negatives in JBG's Interim Management Statement for the 10 months to 31 October 2019. Slight negatives included the gross margin lower at 82bps for YTD2019 against 85.5bps for FY2018 and 83.2bps in 1H2019 and slower net new money growth due to outflows from Italian asset and wealth management subsidiary Kairos. On the plus side however, the cost to income ratio at 70.0% for YTD2019 was lower than 70.6% in FY2018 and 71.0% in 1H2019 and the gross margin performance was decent considering the slower net new money growth and 10% YTD increase in Assets under Management. As a result of its ongoing underperformance, JBG will partially impair the goodwill on its investment in Kairos by EUR90mn.

- **Capital ratios still a strength:** Capital ratios remain sound given profit before tax performance with its CET1 ratio at 13.9% as at 31 October 2019, improved from 12.8% as at 31 December 2018 and 13.1% as at 30 June 2019. This is still above the regulatory minimum requirement and management floor of 8.2% and 11% respectively. Its total capital ratio also improved to 21.8% as at 31 October 2019 against 20.7% as at 30 June 2019 and 18.7% as at 31 December 2018 due to June 2019 issuance of CHF350mn in Additional Tier 1 capital. This ratio is also above the regulatory minimum requirement and management floor of 12.4% and 15.0% respectively. Given the strong capital ratio, JBG also announced a CHF400mn share buyback.

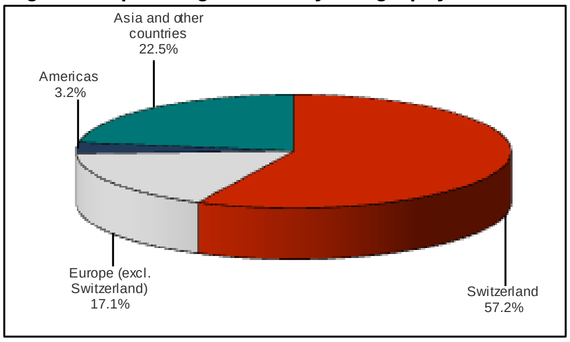
Julius Baer Group Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1H2019
Income Statement (CHF'mn)			
Net Interest Income	988	919	515
Non Interest Income	2,265	2,449	1,178
Operating Expenses	2,329	2,462	1,259
Pre-Provision Operating Profit	923	906	434
Provisions	37	12	22
Other Income/(Expenses)	0	0	0
PBT	887	894	418
Income Taxes	171	159	75
Net Income to Common Shareholders	705	735	343
Balance Sheet (CHF'mn)			
Total Assets	97,918	102,898	103,655
Total Loans (net)	46,624	45,323	46,665
Total Loans (gross)	46,656	45,355	46,696
Total Allowances	30	31	31
Total NPLs	64	73	149
Total Liabilities	92,064	96,857	97,568
Total Deposits	67,637	71,506	71,085
Total Equity	5,854	6,042	6,087
Key Ratios			
NIM	1.72%	1.50%	1.74%
Cost-income Ratio	69.0%	70.6%	71.0%
LDR	68.9%	63.4%	65.6%
NPL Ratio	0.14%	0.16%	0.32%
Allowance/NPLs	46.6%	43.1%	20.5%
Credit Costs	0.08%	0.03%	0.10%
Equity/Assets	5.98%	5.87%	5.87%
CETier 1 Ratio (Full)	16.7%	12.8%	13.1%
Tier 1 Ratio	21.6%	18.4%	20.2%
Total CAR	22.0%	18.7%	20.7%
ROE	12.80%	12.50%	11.27%
ROA	0.73%	0.73%	0.66%

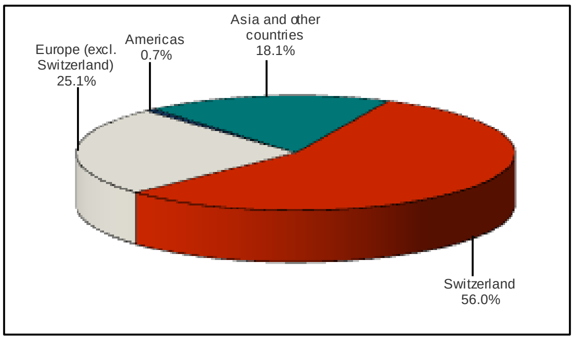
Source: Company

Figure 1: Operating Income by Geography - FY2018



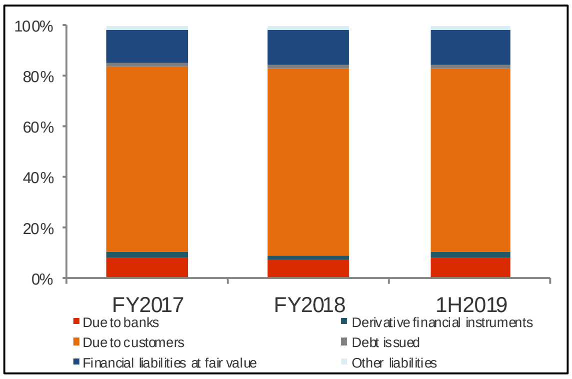
Source: Company

Figure 2: Asset Breakdown by Geography - FY2018



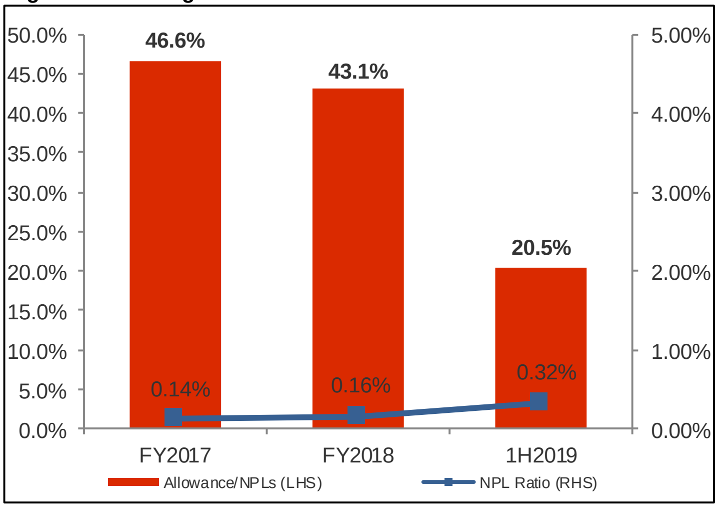
Source: Company

Figure 3: Liabilities Composition



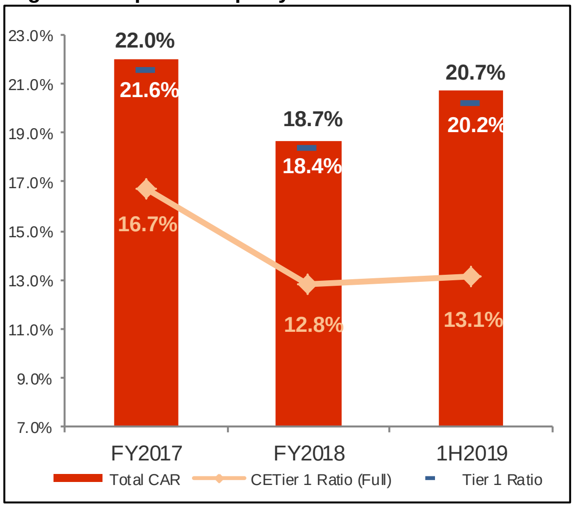
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Issuer Profile:
Neutral (4)

Ticker:
LBBW

Credit Outlook:
LBBW's commercial and public policy roles balance out a challenging operating environment for German banks. The LBBW 3.75% '27c22s looks fairly valued against other European Tier 2 names in the SGD space.

Background:
Based in Stuttgart Germany, Landesbank Baden-Württemberg ('LBBW') is a public law institution providing universal services covering large corporates, capital markets businesses and real estate financing. As at 30 June 2019, it had total assets of EUR265.1bn. As per its website, the bank is 40.5% owned by the Savings Bank Association of Baden-Württemberg, the state capital of Stuttgart (18.9%) and the Federal State of Baden-Württemberg (40.5%).

Landesbank Baden-Württemberg AG

Key Considerations

- **Public policy focus in ownership and function:** As a Landesbank, LBBW is a regionally focused state owned bank tasked with supporting economic development in its related regions. Together with its owners, the local savings banks (or Sparkassen) who provide retail and SME banking services, LBBW provides universal banking services typical of a regional commercial bank including investment banking, wealth management, real estate financing and capital markets products. Its target segment is the 'Mittelstand' or Germany's SME's. LBBW also acts as a provider of wholesale funding for regional savings banks in its core markets which are the German states of Baden-Württemberg, Rhineland-Palatinate and Saxony. In addition to corporates and savings banks, LBBW also serves private and institutional customers. Its ownership structure, together with its less commercial role as the central bank for local savings banks, evidences a strong public policy mandate for the bank and strategic importance for its related states.

- **Balancing commercial and public policy roles well:** LBBW announced decent 1H2019 results with profit before tax up 12.9% to EUR319mn. This was driven by better business volumes, particularly in corporate and real estate customers with net interest income up 1.9% y/y. Net fee and commission income was up 6.5% y/y due to higher financing commission and an increase in income from bond and Schuldschein (German debt instrument) issues while net gains on remeasurement and disposal rose 6.8% y/y from higher sales of securities as part of Liquidity Coverage Ratio portfolio management. Together with other operating income performance, total operating income was up 2.9% y/y to EUR1.29bn. At the same time, costs were stable y/y with a 1.6% y/y fall in administrative expenses offset by a 14.8% y/y rise in expenses for the bank levy and deposit guarantee system. Given the solid operating income performance, the cost/income ratio improved to 71.7% in 1H2019 against 75.4% in 1H2018.

- **Operating environment in focus:** Allowances for losses on loans and securities rose 89.9% y/y due to weaker operating conditions in Germany. While this looked somewhat pre-emptive given the non-performing loan ratio continues to be solid at 0.6% as at 30 June 2019, the outlook for Germany's economy looks weak given weaker industrial demand globally as well as shifting consumer preferences in the automotive industry which has negatively impacted both Germany's export dependent economy and Baden-Württemberg's largest manufacturing industry respectively. Although Baden-Württemberg was the third largest contributor to Germany's 2017 GDP (with Rhineland-Palatinate the sixth and Saxony the eighth out of 16 total states) and is known as one of the wealthiest parts of Germany with its economy home to globally renowned German auto exporters including Daimler AG, Porsche and Robert Bosch GmbH, it has not been immune to the impact on external demand from the US-China trade war as well as BREXIT. Management have already foreshadowed that FY2019 results are likely to be below forecasts although should be slightly above FY2018 results. To meet external challenges, LBBW's current strategy was refined in 1H2019.

- **Sufficient buffers to weather the storm:** As mentioned above, business volumes rose in corporate and real estate customers as well as in retail banking with total assets up 9.9% h/h. Along with a 1% h/h fall in common equity tier 1 capital from a rise in actuarial losses and a slight rise in the value adjustment deficit that offset retained earnings and the improvement in the revaluation reserve, LBBW's CET1 ratio fell to 14.6% as at 30 June 2019 (15.1% as at 31 December 2018) as risk weighted assets rose 2.4% h/h. This remains above regulatory minimum capital requirements which are set annually by the European Central Bank based on the Supervisory Review and Evaluation Process. According to management, LBBW's current CET1 ratio would also be above anticipated future requirements from any countercyclical capital buffer changes or amendments in regulations. To fortify itself further, LBBW launched its first Additional Tier 1 issue in October 2019 raising EUR750mn. It was the first issue for a Landesbank and the second for a German bank after Deutsche Bank.

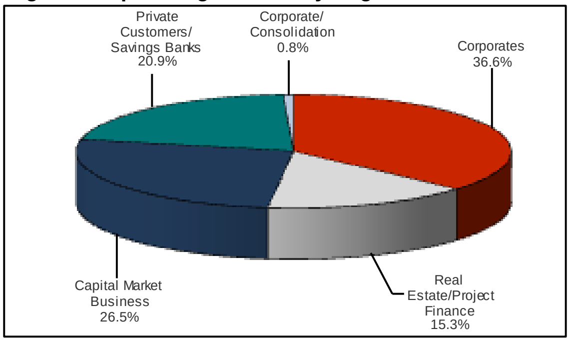
Landesbank Baden-Württemberg

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1H2019
Income Statement (EUR'mn)			
Net Interest Income	1,586	1,558	811
Non Interest Income	986	875	538
Operating Expenses	1,824	1,773	864
Pre-Provision Operating Profit	748	660	485
Provisions	92	142	63
Other Income/(Expenses)	-130	-89	-102
PBT	557	429	320
Income Taxes	97	139	100
Net Income to Common Shareholders	416	420	219
Balance Sheet (EUR'mn)			
Total Assets	237,716	241,214	265,119
Total Loans (net)	107,652	109,231	122,020
Total Loans (gross)	108,480	110,080	122,896
Total Allowances	828	679	876
Total NPLs	908	849	858
Total Liabilities	224,337	228,034	252,140
Total Deposits	79,415	82,481	87,278
Total Equity	13,377	13,179	12,978
Key Ratios			
NIM	0.97%	0.95%	0.80%
Cost-income Ratio	76.4%	72.8%	71.7%
LDR	135.6%	132.4%	139.8%
NPL Ratio	0.84%	0.77%	0.70%
Allowance/NPLs	91.2%	80.0%	102.1%
Credit Costs	0.08%	0.13%	0.10%
Equity/Assets	5.61%	5.46%	4.93%
CETier 1 Ratio (Full)	15.7%	15.1%	14.6%
Tier 1 Ratio	16.9%	16.2%	15.5%
Total CAR	22.3%	22.0%	22.0%
ROE	4.30%	4.00%	5.00%
ROA	0.19%	0.18%	0.33%

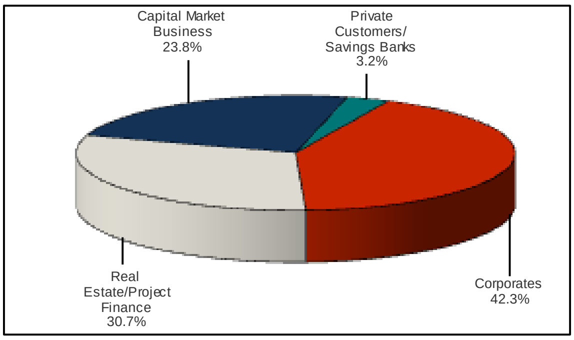
Source: Company

Figure 1: Operating Income by Segment - 1H2019



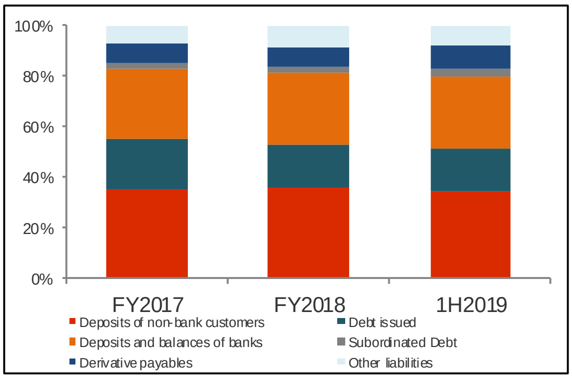
Source: Company

Figure 2: Profit Before Tax by Segment - 1H2019



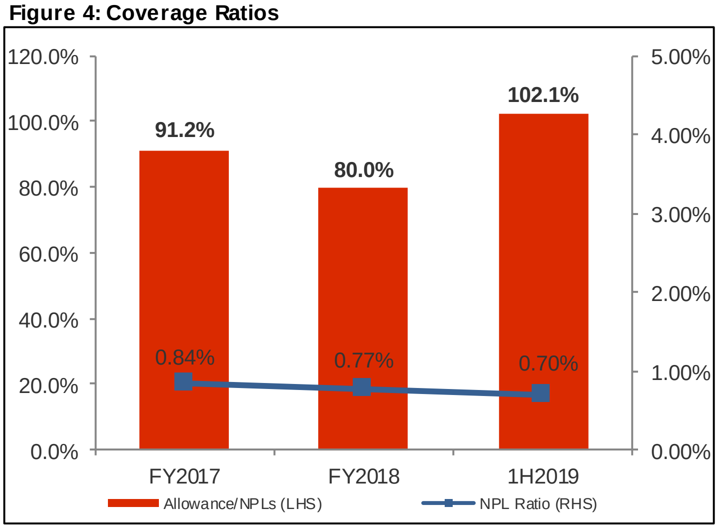
Source: Company | Excludes Corporate/Consolidation

Figure 3: Liabilities Composition



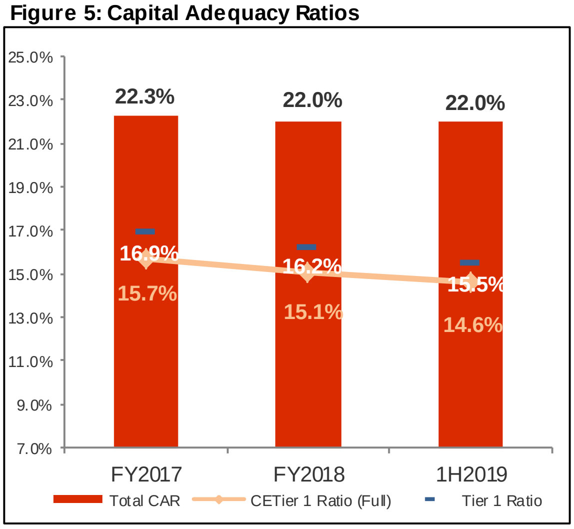
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

National Australia Bank Ltd

Issuer Profile:
Positive (2)

Ticker:
NAB

Credit Outlook:
There is still some uncertainty on 2020 for NAB with a new CEO and outstanding issues. A better outlook for Australia's economy though could be a positive. The ANZ 3.75% '27c22s represent decent value against other Aussie Tier 2 SGD papers

Background:
National Australia Bank Ltd ('NAB') provides retail, business and corporate banking services mostly in Australia but also in New Zealand under the Bank of New Zealand brand. These services are complimented by the bank's wealth management division which provides superannuation, investment and insurance services under various brands. As at 30 September 2019, the bank had total assets of AUD847.1bn.

Key Considerations

- **A difficult year done with new beginnings:** FY2019 has had its challenges for NAB. A shareholder protest in December 2018 against its management remuneration report preceded adverse findings from the Royal Commission into misconduct in the Banking industry in February 2019. As a consequence, CEO Andrew Thorburn departed immediately while Ken Henry, who was Chairman at the time, announced his eventual departure later in the year. Throughout FY2019, NAB has also had to deal with multiple regulatory events including the application of additional capital requirements by the Australian Prudential Regulation Authority to address higher operational risk and the commencement of proceedings by the Australian Securities and Investments Commission for breaches of the National Credit Act. There also remains an outstanding matter with AUSTRAC on potential breaches of anti-money laundering regulations which likely will get urgent attention given recent developments with Westpac. On a more positive note, new Chairman Philip Chronican and new CEO Ross McEwan have recently commenced in their roles.

- **Past issues reflected in results:** FY2019 results were similar to peers with cash earnings after tax and distributions down 10.6% y/y to AUD5.1bn as customer-related remediation charges of AUD1.6bn were recognized in FY2019 (AUD360mn in FY2018). This offset the absence of restructuring related charges (AUD755mn in FY2018). Excluding customer-related remediation charges and other large notable items (capitalised software policy change, income tax benefit), cash earnings after tax and distributions were marginally up 0.8% to AUD6.5bn from a 1.1% y/y rise in net interest income (higher housing and business lending volumes and loan repricing mixed with lower net interest margins from ongoing competitive pressures, changes in the product mix and higher funding costs) and a 1.2% y/y rise in other operating income (lower fees and commissions that was mitigated by higher trading income). This was higher than the 0.4% rise in operating expenses as a 4.1% y/y rise in general expenses (technology, customer experience and compliance and control investment) was partially offset by a 2.1% y/y fall in personnel expenses (productivity benefits, lower performance based compensation) and a 1.4% y/y reduction in occupancy related expenses (branch closures and lease renegotiations).

- **Strategic agenda to drive change:** Given FY2019's developments, NAB's strategy is now focused on both what it wants to do and also how to do it. Its four objectives balance behavioral (net promotor score, employee engagement) and financial (cost to income ratio, return on equity) targets. That said, its three year transformation program to September 2020 continues with the restructuring phase over and the investment phase underway. NAB targeted to spend a total of AUD4.5bn to September 2020 under its transformation strategy (which includes an additional AUD1.5bn) to achieve AUD1bn in cumulative cost savings and focus on becoming the best business bank. To date, it has spent AUD3.2bn and achieved AUD800mn in cumulative cost savings.

- **Capital needs to increase?:** NAB's APRA compliant CET1/CAR ratio rose 18bps and 56bps y/y respectively to 10.38%/14.68% as at 30 September 2019 as AUD1bn in proceeds from the 1HFY2019 underwritten dividend reinvestment plan (+25bps) and earnings growth (+80bps) offset dividend payments (-37bps), adverse regulatory impacts (-34bps) and customer remediation (-29bps). As a result, NAB's CET1 ratio remains below APRA's minimum 10.5% CET1 benchmark. Although the proforma CET1 ratio is expected to be 10.75% after factoring in a positive 37bps impact from a discounted and partially underwritten FY2019 final dividend reinvestment plan, we expect capital issuance to be active given pressure on earnings, potential continued remediation costs, continued investments and APRA's desire to strengthen the minimum loss-absorbing and recapitalisation capacity of Australian Banks. In line with this, NAB launched Tier 2 and Additional Tier 1 deals in 4QCY2019 including the first unlisted capital instrument for Australia's big four banks.

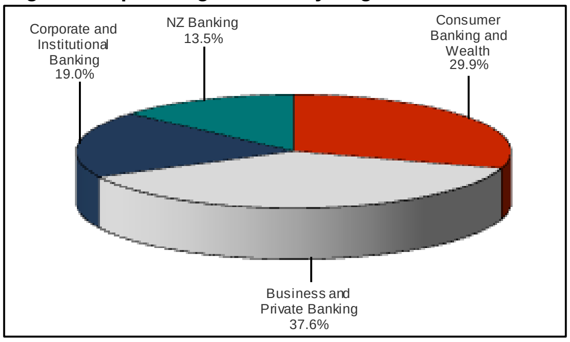
National Australia Bank Ltd

Table 1: Summary Financials

Year Ended 30th Sep	FY2017	FY2018	FY2019
Income Statement (AUD'mn)			
Net Interest Income	13,182	13,505	13,558
Non Interest Income	4,842	5,596	4,373
Operating Expenses	8,539	9,910	9,827
Pre-Provision Operating Profit	9,485	9,191	8,104
Provisions	824	791	927
Other Income/(Expenses)	0	0	0
PBT	8,661	8,400	7,177
Income Taxes	2,480	2,455	2,087
Net Income to Common Shareholders	5,285	5,554	4,798
Balance Sheet (AUD'mn)			
Total Assets	788,325	806,510	847,124
Total Loans (net)	540,125	567,981	587,749
Total Loans (gross)	543,764	571,929	592,101
Total Allowances	3,224	3,513	3,900
Total NPLs	1,724	1,521	1,972
Total Liabilities	737,008	753,798	791,520
Total Deposits	500,604	503,145	522,085
Total Equity	51,317	52,712	55,604
Key Ratios			
NIM	1.85%	1.85%	1.78%
Cost-income Ratio	42.7%	44.6%	44.3%
LDR	107.9%	112.9%	112.6%
NPL Ratio	0.32%	0.27%	0.33%
Allowance/NPLs	187.0%	231.0%	197.8%
Credit Costs	0.15%	0.14%	0.16%
Equity/Assets	6.51%	6.54%	6.56%
CETier 1 Ratio (Full)	10.1%	10.2%	10.4%
Tier 1 Ratio	12.4%	12.4%	12.4%
Total CAR	14.6%	14.1%	14.7%
ROE	10.90%	11.20%	9.10%
ROA	0.83%	0.71%	0.63%

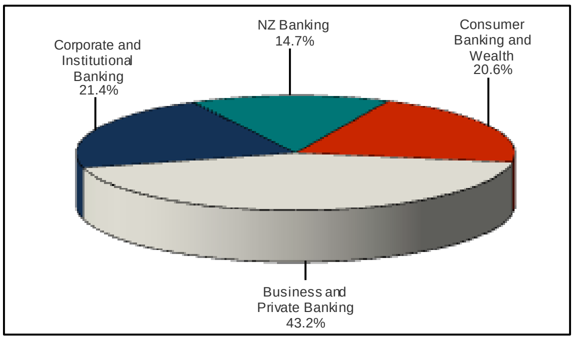
Source: Company

Figure 1: Operating Income by Segment - FY2019



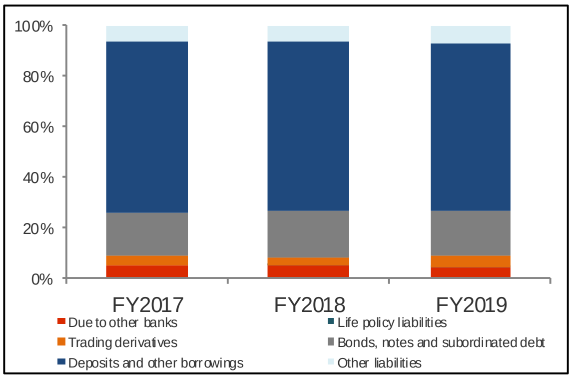
Source: Company | Excludes Corporate Functions and Other

Figure 2: Profit Before Tax by Segment - FY2019



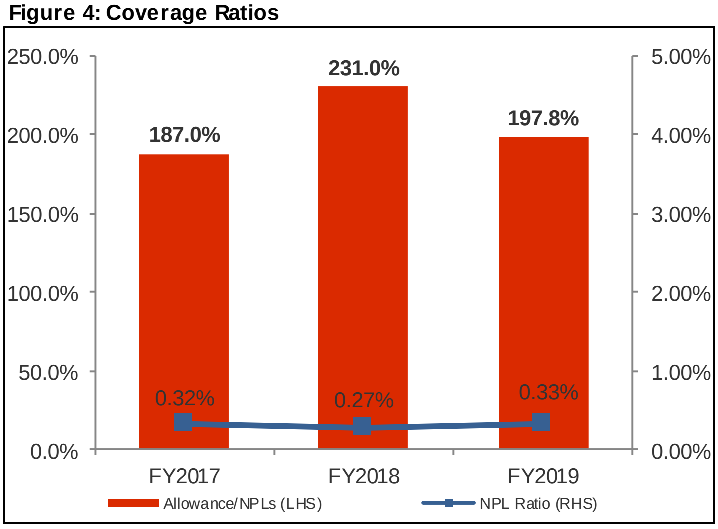
Source: Company | Excludes Corporate Functions and Other

Figure 3: Liabilities Composition



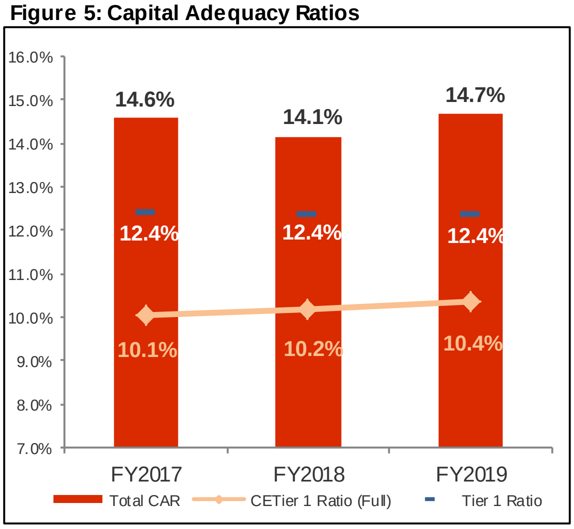
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Issuer Profile:
Neutral (4)

Ticker:
SOCGEN

Credit Outlook:
Although underlying fundamentals remain decent, SocGen remains more exposed to external challenges than domestic peers in our view. Investors comfortable with duration can consider the SOCGEN 6.125% PERPc24s which has the highest reset spread amongst SGD AT1s.

Background:
Headquartered in Paris, Société Générale ('SocGen') offers advisory services and financial solutions to individuals, large corporates and institutional investors. It operates across 67 countries through three core businesses covering retail banking, corporate and investment banking, private banking, and wealth management. As at 30 September, 2019, it had total assets of EUR1,411.1bn.

Société Générale

Key Considerations

- **Prior period challenges persisting:** Reported 3Q2019 and 9M2019 operating income was down 22.6% and 16.2% respectively y/y. Excluding the impact of exceptional items and Corporate Centre results (comprises Group functions and costs related to property management, equity portfolio, and Treasury) reported net banking income from SocGen's business units were down -3.7% y/y for 3Q2019. French Retail Banking net banking income continues to be weak (-3.6% y/y) due to lower fees and interest rates that offset loan volume growth while weaker performance in Global Banking and Investor Solutions (-7.6% y/y on ongoing restructuring, a weaker market environment particularly for equities and prime services and disposal of Belgian Private Banking) was the main drag on business unit net banking income. International Retail Banking and Financial Services continues to be resilient with net banking income stable y/y. 9M2019 segment trends were similar with French Retail Banking net banking income down 2.7% y/y and Global Banking and Investor Solutions down 4.2% y/y. International Retail Banking and Financial Services for 9M2019 was up 2.3% y/y.

- **Strategic focus influencing results:** Net banking income performance overshadowed a 4.1% y/y fall in operating expenses (-1.5% y/y excluding Corporate Centre) due to SocGen's cost reduction program which was influenced by restructuring activities in Global Banking and Investor Solutions and cost control throughout the wider group. Elsewhere, operating expenses rose slightly in French Retail Banking due to ongoing transformation while the rise in operating expenses in International Retail Banking & Financial Services continues to be related to business activity, with the segment generating positive JAWS. Cost containment is one of five 2020 strategic priorities and rising in importance given income generating pressures. This is expected to be achieved through automating processes and implementing a EUR1.1bn efficiency program by 2020 and an additional EUR500mn cost reduction program for Global Banking and Investor Solutions. At the same time, investments will continue in order to implement some of SocGen's other strategic priorities, namely to grow as well as transform through automation to improve customer experience and operating efficiency.

- **International Retail Banking in the spotlight:** Although still somewhat balanced, the relative contributions from SocGen's three core businesses have diverged in recent times with French Retail Banking impacted by low interest rates and Global Banking and Investor Solutions impacted by market conditions and client activity. Offsetting this to an extent continues to be the stable performance of the International Retail Banking and Financial Services to Corporates segment. According to SocGen, its market share is within the top 3 in its key retail regions of Russia, Eastern Europe (primarily Czech Republic and Romania) and Africa (by number of countries) with earnings performance supported by solid momentum across all businesses, cost efficiencies and a broadly positive trend in risk costs. While exposures at default as at 30 June 2019 are balanced between Corporates (39% of total exposure) and retail (38%), International Retail Banking is the main driver of segment performance (66.7% of 9M2019 segment net banking income) followed by Financial Services to Corporates (22.4%) and Insurance (10.9%). Overall, this segment is now the largest contributor to SocGen's consolidated performance contributing 35.0% of 3Q2019 net banking income, followed by Global Banking and Investor Solutions (33.6%) and French Retail Banking (31.4%). While risk cost trends have been supportive, they have been rising and will need monitoring.

- **Growth in capital buffers:** While earnings saw challenges, SocGen's capital ratios continued to improve with the CET1 ratio at 12.5% as at 30 September 2019, up from 12.0% as at 30 June 2019 and 11.2% as at 31 December 2018. The CET1 ratio is now above its target CET1 ratio of 12% by 2020 with a greater than 200bps buffer above the Maximum Distributable Amount regulatory requirement. Driving the q/q improvement was earnings generation, risk weighted asset reduction in Global Markets, and other positive impacts from SocGen's restructuring plan (asset disposals) that offset dividend provisions.

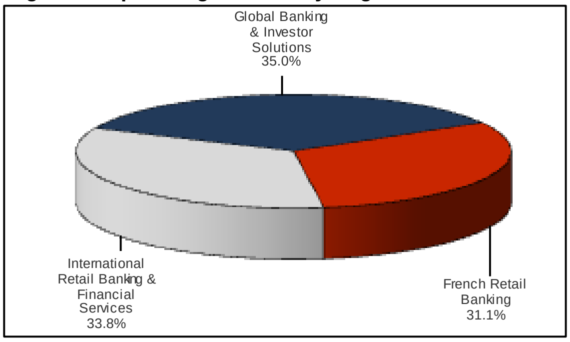
Société Générale

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (EUR'mn)			
Net Interest Income	10,416	11,019	18,458
Non Interest Income	13,538	14,186	
Operating Expenses	17,838	17,931	13,224
Pre-Provision Operating Profit	6,116	7,274	11,039
Provisions	1,349	1,005	907
Other Income/(Expenses)	92	56	25
PBT	4,859	6,325	4,352
Income Taxes	1,708	1,561	1,034
Net Income to Common Shareholders	2,806	3,864	2,594
Balance Sheet (EUR'mn)			
Total Assets	1,275,128	1,309,428	1,411,133
Total Loans (net)	425,231	447,229	445,011
Total Loans (gross)	430,398	458,327	456,311
Total Allowances	13,293	11,435	11,300
Total NPLs	20,900	18,000	16,900
Total Liabilities	1,211,091	1,243,619	1,342,516
Total Deposits	410,633	416,818	415,051
Total Equity	64,037	65,809	68,617
Key Ratios			
NIM	0.93%	1.11%	NA
Cost-income Ratio	74.3%	71.1%	75.0%
LDR	103.6%	107.3%	107.2%
NPL Ratio	4.86%	3.93%	3.70%
Allowance/NPLs	63.6%	63.5%	66.9%
Credit Costs	0.31%	0.22%	0.27%
Equity/Assets	5.02%	5.03%	4.86%
CETier 1 Ratio (Full)	11.4%	11.2%	12.5%
Tier 1 Ratio	13.8%	13.7%	15.2%
Total CAR	17.0%	16.7%	18.5%
ROE	4.90%	7.10%	5.50%
ROA	0.19%	0.32%	0.39%

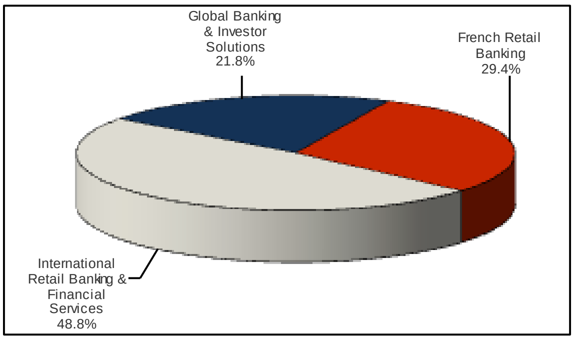
Source: Company

Figure 1: Operating Income by Segment - 9M2019



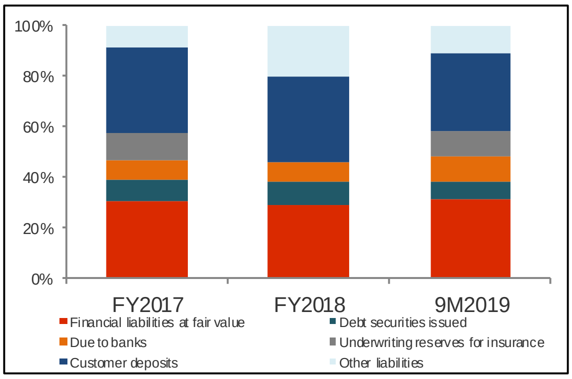
Source: Company | Excludes Corporate Centre

Figure 2: Profit After Tax by Segment - 9M2019



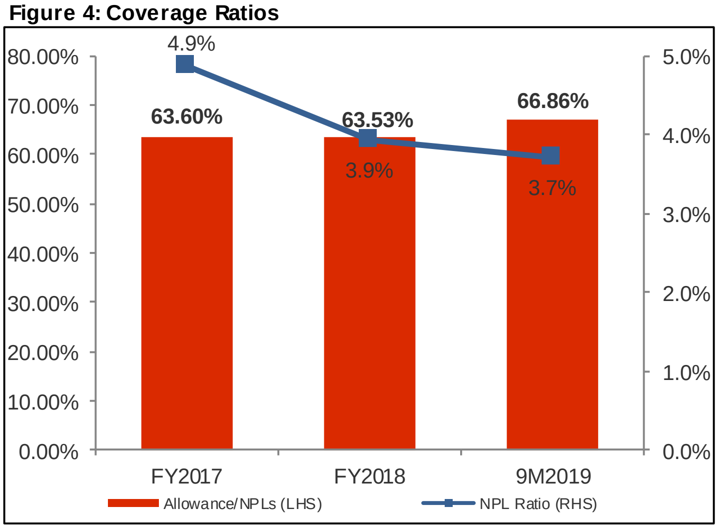
Source: Company | Excludes Corporate Centre

Figure 3: Liabilities Composition



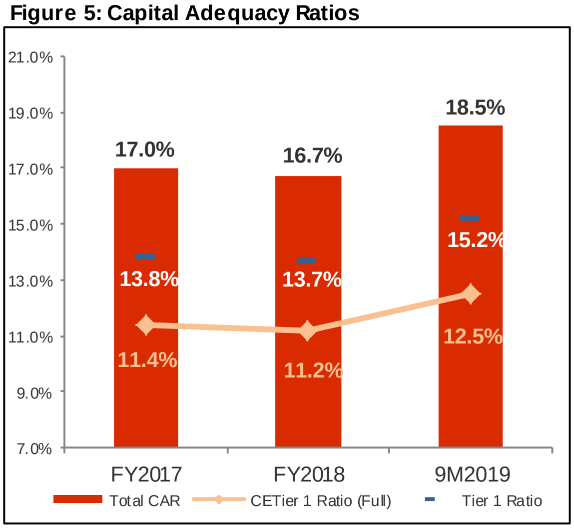
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Issuer Profile:
Neutral (4)

Ticker:
STANLN

Credit Outlook:
We see better value in other European bank SGD Tier 2s against STANLN 4.4% '26c21s such as the BNP 4.3% '25c20s and SOCGEN 4.3% 26c21s. The AT1 STANLN 5.375% PERPc24s on the other hand look fair value compared to similar credits and instruments.

Background:
Formed almost 50 years ago, Standard Chartered PLC ('StanChart') is a universal bank, offering broad services aligned both globally and regionally. Although headquartered in the UK, StanChart's footprint is skewed towards emerging markets, mostly in Greater China & North Asia (Hong Kong), followed by ASEAN & South Asia. As at 30 September 2019, it had total assets of USD734.8bn.

Standard Chartered PLC

Key Considerations

- **Solid performance so far:** 3Q2019 and 9M2019 underlying results were constructive with statutory profit before tax up 4% y/y and 3% y/y respectively to USD1.1bn and USD3.5bn. This was due to operating income growth higher than growth in operating expenses which offset higher credit impairment charges as well as higher restructuring items. Operating income rose 7% y/y and 3% y/y for 3Q2019 and 9M2019 to USD4.0bn and USD11.7bn. Net interest margins were stable y/y at 1.56% and 1.58% while StanChart's balance sheet grew (gross loan and advances rose 6% y/y). This along with higher contribution from Financial Markets trading book assets and increased volumes and margins within Cash Management and Retail Deposits drove Net Interest income improvement by 9% y/y and 7% y/y for 3Q2019 and 9M2019 respectively. Operating expenses were stable for 3Q2019 and rose 2% y/y in 9M2019 on ongoing cost control although management has flagged that costs will increase in 4Q2019 due to its strategic initiatives and investment spending.

- **Credit costs higher but balance sheet stronger:** With regards to credit impairments, the 143% y/y rise and 31% y/y rise in 3Q2019 and 9M2019 were due to exposures in Corporate & Institutional Banking as well as updates to macro-economic forecasts. This was offset to an extent by a reduction in other impairments (-93% and -80% y/y for 3Q2019 and 9M2019 respectively) due to the discontinuation of StanChart's ship leasing business and reclassification of the associated impairments for these exposures classified as a restructuring charge. This contributed to the material rise in reported restructuring items in 3Q2019 and in 9M2019 along with the run down of StanChart's Principal Finance exposures.

- **Strategy paying off:** Recent results indicate the positive effects of its strategic plan implemented in late 2015 to address historical short comings. By segment split for 3Q2019, all client segments saw improvement in performance y/y. Main contributors to performance were Corporate and Institutional Banking with operating income up 13% y/y due to growth in Financial Markets and Cash Management, and Retail Banking performance which improved 4% y/y due to deposits. Both client segments contribute around 80% to total operating income. With the group now stabilized in management's view, StanChart refreshed rather than revised its strategic priorities in February 2019. Geographically, StanChart will continue to focus on Africa and expansion in China using its existing network. Elsewhere, key points of focus will be growth in affluent business within Retail Banking, improving low-return markets (India, Indonesia, Korea and the UAE) and improving productivity through investments and increased digital adoption.

- **Footprint to remain skewed towards heritage:** Although headquartered in the UK, StanChart's footprint is skewed towards emerging markets. As per its 9M2019 results, 39.9% of reported operating income was generated in Greater China & North Asia (mostly Hong Kong, then Korea, China, Taiwan, Japan and Mongolia), followed by 27.6% in ASEAN & South Asia (mostly Singapore and India) and 16.8% in Africa & the Middle East (mostly United Arab Emirates). Europe & America contributed the lowest at 10.8%. Geographic contributions have remained broadly consistent over the past 3 years. StanChart's geographic focus is likely due to a mix of (1) its parentage as a merger of two banks established and historically focused on North & South Asia and Africa; and (2) a continued focus on emerging markets given their higher long term growth potential given their young economy and population.

- **Capital position reflects performance:** StanChart's CET1 ratio was 13.5% as at 30 September 2019, stable q/q and down from 14.2% as at 31 December 2018 and 14.5% as at 30 September 2018. The y/y fall was due to marginally higher credit risk weighted assets, USD1bn in share buy backs, and dividend payments which offset capital generation. Nevertheless, the ratio remains above StanChart's minimum CET1 requirement of 10.2% and within its 13-14% management target range.

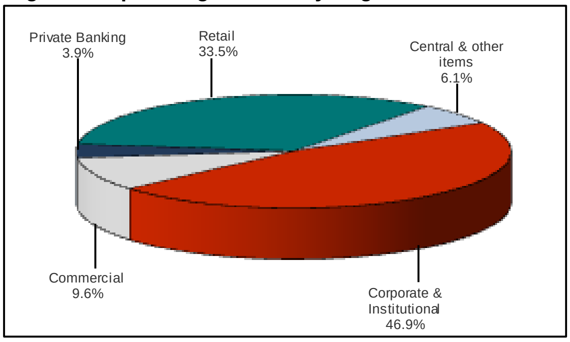
Standard Chartered PLC

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (USD'mn)			
Net Interest Income	8,181	8,793	7,028
Non Interest Income	6,244	5,996	4,646
Operating Expenses	10,417	11,647	7,470
Pre-Provision Operating Profit	4,008	3,142	4,204
Provisions	1,861	835	559
Other Income/(Expenses)	268	241	202
PBT	2,415	2,548	3,847
Income Taxes	1,147	1,439	1,251
Net Income to Common Shareholders	1,219	1,054	2,268
Balance Sheet (USD'mn)			
Total Assets	663,501	688,762	734,800
Total Loans (net)	282,288	256,557	269,703
Total Loans (gross)	287,990	261,455	274,240
Total Allowances	5,702	4,898	4,537
Total NPLs	8,877	6,924	6,189
Total Liabilities	611,694	638,410	684,104
Total Deposits	370,509	391,013	387,857
Total Equity	51,807	50,352	50,696
Key Ratios			
NIM	1.55%	1.58%	1.58%
Cost-income Ratio	72.2%	78.8%	66.7%
LDR	76.2%	65.6%	69.5%
NPL Ratio	3.08%	2.65%	2.26%
Allowance/NPLs	64.2%	70.7%	73.3%
Credit Costs	0.65%	0.32%	0.41%
Equity/Assets	7.81%	7.31%	6.90%
CETier 1 Ratio (Full)	13.6%	14.2%	13.5%
Tier 1 Ratio	16.0%	16.8%	16.0%
Total CAR	21.0%	21.6%	20.4%
ROE	1.70%	1.40%	6.80%
ROA	0.20%	0.30%	0.71%

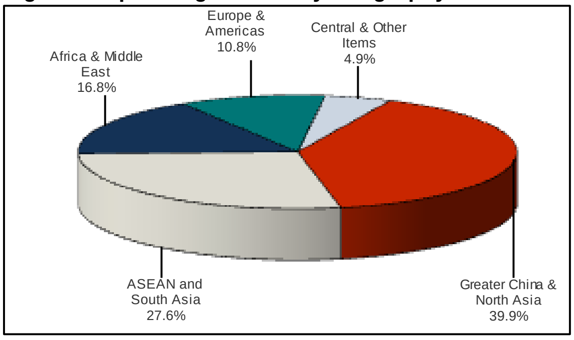
Source: Company

Figure 1: Operating Income by Segment - 9M2019



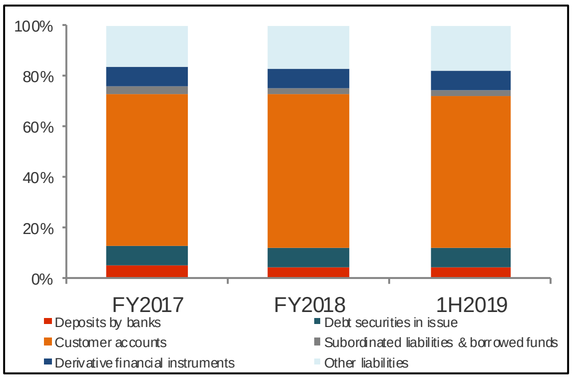
Source: Company

Figure 2: Operating Income by Geography - 9M2019



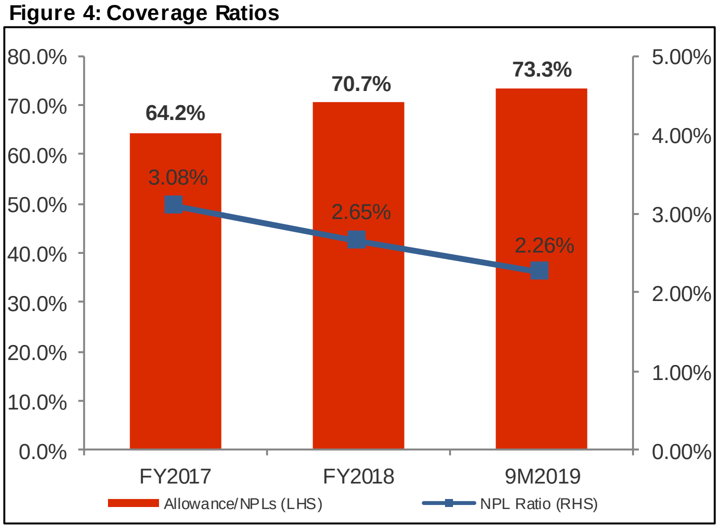
Source: Company

Figure 3: Liabilities Composition



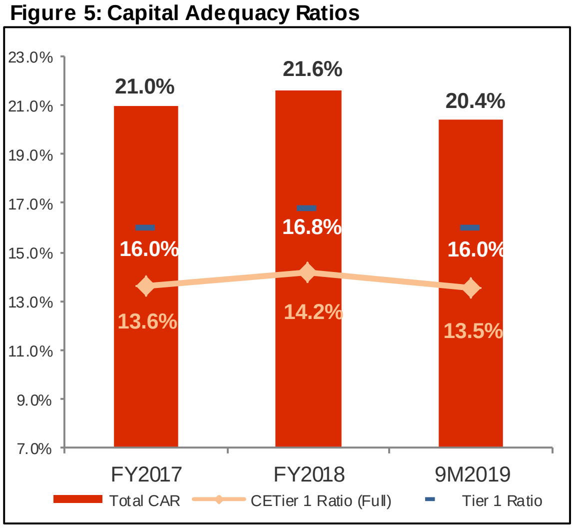
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Issuer Profile:
Neutral (3)

Ticker:
UBS

Credit Outlook:
2020 could be a year of change for UBS with strategic changes and new management to meet an evolving operating environment. The UBS 5.875% PERPc23s and UBS 4.85% PERPc24s look fairly valued against each other similarly rated European AT1 issues in the SGD space.

Background:
UBS Group AG ("UBS") is the world's largest wealth manager by assets under management. Based in Zurich and operating across 50 countries, UBS also provides Personal & Corporate Banking, Asset Management and Investment Banking. As at 30 September 2019 it had total invested assets of USD3,422bn. There is no major shareholder of UBS with shareholdings widely spread across institutional investors with BlackRock Inc. and GIC amongst the 5 largest institutional investors.

UBS Group AG

Key Considerations

- **Global reach but planted at home:** As the world's largest wealth manager, its scale and geographic reach is broad with 42% of total operating income for 3Q2019 generated in the US, 17% in Asia-Pacific and 20% in Europe, Middle East and Africa. While management expect most future growth to come from gaining market share in the US and Asia Pacific, Switzerland (24% of 3Q2019 total operating income) remains very much at the core of UBS' consolidated business. It is the only country where UBS operates all business segments including personal banking, wealth management, corporate and institutional banking, asset management and investment banking. Focus on its domestic market aids underlying income stability in our view given its position as the largest bank in Switzerland.

- **Focused on Strengths:** Just as Switzerland is its global springboard, UBS's strategy is centred on its dominant position in Global Wealth Management, which contributed around 60% of business unit total reported profit before tax ("PBT") in 3Q2019. Wealth Management capabilities are complemented by other businesses including Investment Banking (13% of 3Q2019 PBT) and Asset Management (7%). The wealth management focus has enabled UBS to remain entrenched in the mature wealth management market of the US while supporting growth in emerging wealth management markets such as Asia. Rounding out UBS's business segments is Personal & Corporate Banking (27% of 3Q2019 PBT), which UBS views as core to its universal banking model in Switzerland as a supply avenue for new Wealth Management clients, through cross selling Asset Management and Investment Banking services, and as the manager for UBS's Swiss infrastructure and banking products platform.

- **Weakness in recent performance:** 3Q2019 and 9M2019 results highlighted difficult market conditions from negative interest rates and slowing economic performance with reported profit before tax ('PBT') down 21.1% and 15.6% y/y respectively to USD1.345bn and USD4.65bn due mostly to weaker operating income. Excluding legacy restructuring expenses and net foreign currency translation losses, adjusted PBT was down 17.6% y/y for 3Q2019. While asset management continues to perform adequately (adjusted PBT +6.2% y/y due to higher net management fees and average invested assets with costs stable), other segments saw weaker y/y performance. Global Wealth Management adjusted PBT was down 2% y/y while Personal & Corporate Banking adjusted PBT was down 11.1% y/y. The biggest drag on performance however was a 58.5% y/y fall in adjusted PBT for the Investment Bank.

- **Necessitating some strategic changes:** With expectations of persisting challenges and considering both changing clients' needs and ongoing digital investment, UBS is restructuring its Investment Bank. Corporate Client Solutions is now called Global Banking and Investor Client Services has changed to Global Markets and will include equities and FX as well as rates and credit. With the aim to strengthen collaboration between the Investment Bank and Wealth Management divisions, this realignment will result in restructuring expenses in 4Q2019 of USD100mn, therefore performance in the Investment Bank is unlikely to show positive progress in the near term. To guide the restructured Investment Bank in 2020, senior management changes have also been made. The hiring of new leadership in the Wealth Management division may also result in structural changes in this division.

- **Building buffers for the future:** UBS's solid market position and business offering translates into decent capital generation performance with its CET1 ratio of 13.1% as at 30 September 2019 well above the minimum requirement of 10.0%. UBS is also above its minimum going concern and TLAC requirements as at 30 September 2019. On an ongoing basis, UBS expects its CET1 ratio to stay within its capital guidance of around 13.0% and operate around a 12.7%-13.3% range, whilst at the same time executing a capital returns policy through dividends and share buybacks. Combined with UBS's appeal next June against EUR4.5bn in fines for money laundering related charges, UBS's capital issuance could remain active.

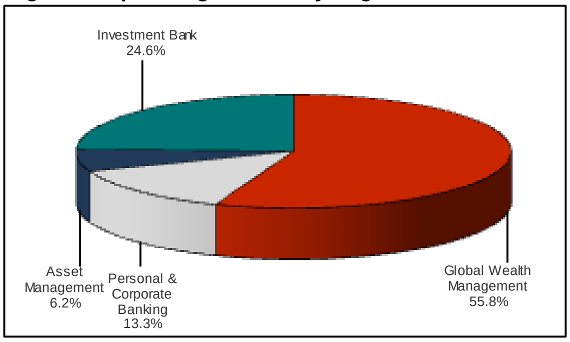
UBS Group AG

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (USD'mn)			
Net Interest Income	6,656	6,025	3,239
Non Interest Income	23,098	24,306	18,669
Operating Expenses	24,272	24,222	17,189
Pre-Provision Operating Profit	5,482	6,109	4,719
Provisions	131	118	70
Other Income/(Expenses)	0	0	0
PBT	5,351	5,991	4,648
Income Taxes	4,305	1,468	1,067
Net Income to Common Shareholders	969	4,516	3,582
Balance Sheet (USD'mn)			
Total Assets	939,280	958,490	973,118
Total Loans (net)	326,746	320,352	319,383
Total Loans (gross)	327,424	321,132	320,170
Total Allowances	678	780	787
Total NPLs	2,149	2,419	3,218
Total Liabilities	886,725	905,385	916,768
Total Deposits	419,577	419,838	426,785
Total Equity	52,555	53,104	56,349
Key Ratios			
NIM	1.57%	1.57%	0.75%
Cost-income Ratio	81.6%	79.9%	78.5%
LDR	77.9%	76.3%	74.8%
NPL Ratio	0.66%	0.75%	1.01%
Allowance/NPLs	31.5%	32.2%	24.5%
Credit Costs	0.04%	0.04%	0.02%
Equity/Assets	5.60%	5.54%	5.79%
CETier 1 Ratio (Full)	13.8%	12.9%	13.1%
Tier 1 Ratio	17.6%	17.5%	19.2%
Total CAR	21.7%	19.8%	21.1%
ROE	1.80%	8.60%	8.90%
ROA	0.11%	0.48%	0.74%

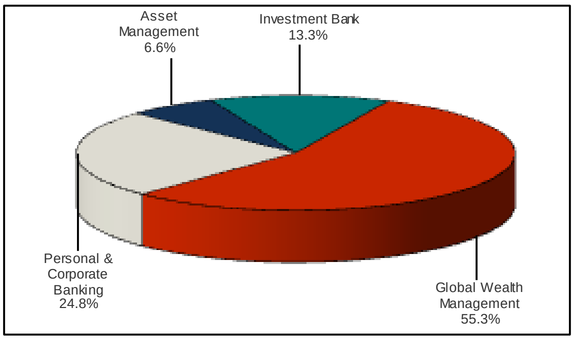
Source: Company

Figure 1: Operating Income by Segment - 9M2019



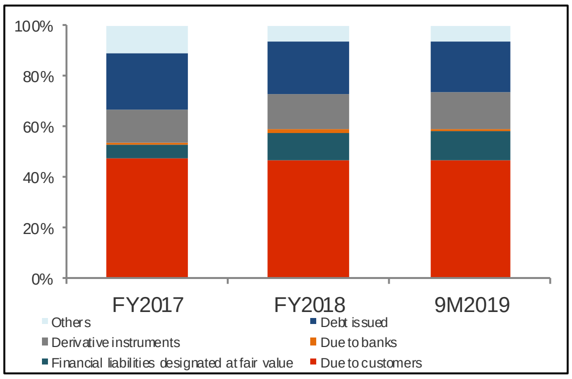
Source: Company | Excludes Corporate Centre

Figure 2: Profit Before Tax by Segment - 9M2019



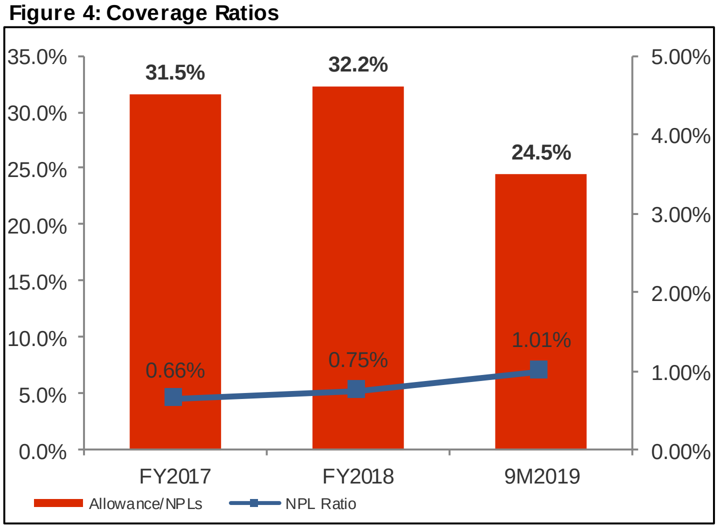
Source: Company | Excludes Corporate Centre

Figure 3: Liabilities Composition



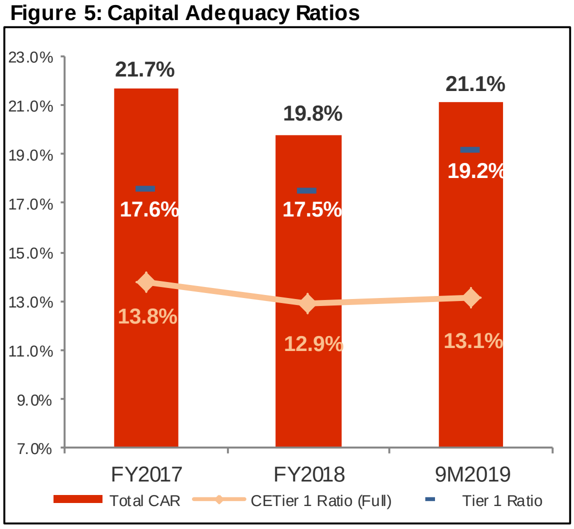
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Issuer Profile:
Positive (2)

Ticker:
UOBSP

Credit Outlook:
Given UOB's solid fundamentals, we think it pays to go down the capital structure with better relative value in the Additional Tier 1s against Tier 2s across the UOB curve.

Background:
United Overseas Bank Limited ('UOB') is Singapore's third largest consolidated banking group with total assets of SGD408.4bn as at 30 September 2019. It has a global network of around 500 offices in 19 countries in Asia Pacific, Europe and North America. Business segments comprise Group Retail, Group Wholesale Banking, Global Markets and Others. Wee Investments Pte Ltd and Wah Hin & co Pte Ltd have a 8.0% and 5.15% stake in UOB, respectively, as of 2nd January 2020.

United Overseas Bank Ltd

Key Considerations

- **Solid momentum in earnings:** UOB's net profit before tax for 3Q2019 and 9M2019 was up 6% and 7% respectively to SGD1.32bn and SGD3.98bn. Of note in our view was expense growth at 14% and 11% y/y respectively for 3Q2019 and 9M2019 that was higher than total income growth at 12% and 10% over the same periods. Expense growth was across the board with a 13% y/y rise in staff costs and a 16% y/y rise in other expenses (mostly revenue and IT related) in 3Q2019, while the driver to income performance in 3Q2019 was solid y/y loans growth (up 8% y/y) that compensated for a fall in net interest margins to 1.77% (1.81% in 3Q2018). This drove a 5% y/y rise in net interest income. In addition, net fee and commission income was up 14% y/y due to good fee performance in wealth management, loan-related and credit cards while trading and investment income grew 68% y/y due to improved customer flows and gains from investment securities.

- **Credit costs in focus but allowance coverage adequate:** Net profit before tax performance was not as solid as operating profit performance. This was due to allowances for credit and other losses which rose 9% y/y for 9M2019 and were up 53% y/y for 3Q2019, primarily for Singapore exposures. The q/q rise was even higher (+184% q/q) with credit costs as a percentage of loans up to 23bps in 3Q2019 from 8bps in 2Q2019. Together with stable operating profit performance q/q on marginal loans growth and a 4bps q/q fall in net interest margins, net profit before tax fell 6% q/q. Both the y/y and q/q rise in allowances in 3Q2019 appears driven by a 4% q/q rise in non-performing loans, 63% of which came from Singapore. Owing to solid loans growth however, the overall non-performing loan ratio remained stable q/q at 1.5% and improved 10bps y/y as at 30 September 2019. Allowance coverage ratio for non-performing assets (including regulatory loss allowance reserves) remained decent at 85%. Excluding non-performing assets secured by collateral, the allowance coverage ratio for unsecured non-performing assets improves to 210%. Both expense and credit allowance performance may need monitoring to ensure earnings momentum continues in the face of potentially slower macro-economic environment.

- **Allowances impacting segment performance:** By segment, Group Retail continues to perform well with 3Q2019 net profit before tax up 7% q/q and 20% y/y. This is due to operating income growth higher than expense growth (better wealth income) while allowances for credit losses fell q/q and y/y. Global Markets also did well with net profit before tax up 7% q/q and 203% y/y (higher trading income and gains from securities investment). On the flipside, Group Wholesale Banking performance was weaker with net profit before tax down 8% q/q and 3% y/y (stable operating income but higher allowances) while Others (corporate support, group functions, property, insurance and investment management) were impacted by a rise in allowances (net profit before tax down 207% q/q and 250% y/y). As such the contribution of Group Wholesale Banking to total profit before tax fell to 55.1% in 3Q2019 (60.2% in 3Q2018), while Group Retail's contribution rose to 40.3% (35.8% in 3Q2018). Both segments contribute over 90% of total profits. This is in line with one of UOB's strategic priorities that is targeted to fulfilling consumers' financial goals.

- **Capital ratios reflect balance sheet growth:** UOB's CET1 ratio was weaker y/y and q/q at 13.7% as at 30 September 2019 (14.1% as at 30 September 2018 and 13.9% as at 30 June 2019). This was due to the aforementioned loans growth as well as the call of several capital instruments that offset earnings generation as well as issuance of SGD750mn in new additional tier 1. That said, the ratio remains well above the minimum CET1 requirement of 9.0%, which includes a 2.0% domestic-systemically important buffer, a 2.5% capital conservation buffer but excludes any countercyclical capital buffer requirement. UOB's CET1 ratio has been on a consistent downward trend since 4Q2017. We expect however that capital buffers may need to rise to enable further balance sheet growth to support its regional franchise whilst complying with finalized Basel III requirements from January 2022.

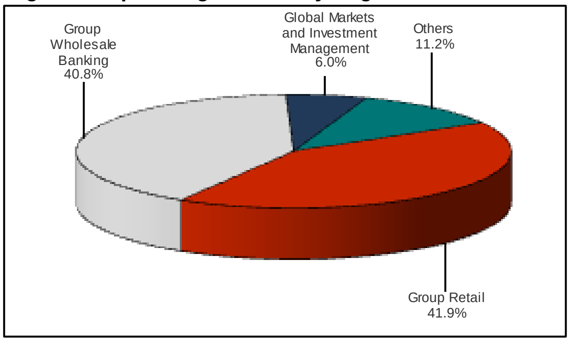
United Overseas Bank Ltd

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	9M2019
Income Statement (SGD'mn)			
Net Interest Income	5,527	6,220	4,927
Non Interest Income	3,323	2,896	2,671
Operating Expenses	4,026	4,004	3,356
Pre-Provision Operating Profit	4,824	5,113	4,241
Provisions	727	393	289
Other Income/(Expenses)	109	106	31
PBT	4,206	4,826	3,983
Income Taxes	800	805	646
Net Income to Common Shareholders	3,390	4,008	3,338
Balance Sheet (SGD'mn)			
Total Assets	358,592	388,092	408,383
Total Loans (net)	232,212	258,627	271,886
Total Loans (gross)	236,028	261,707	275,072
Total Allowances	3,816	3,080	3,186
Total NPLs	4,211	3,994	4,191
Total Liabilities	321,554	350,280	368,685
Total Deposits	272,765	293,186	304,423
Total Equity	37,037	37,813	39,698
Key Ratios			
NIM	1.77%	1.82%	1.79%
Cost-income Ratio	43.7%	43.9%	44.2%
LDR	85.1%	88.2%	85.7%
NPL Ratio	1.78%	1.53%	1.60%
Allowance/NPLs	90.6%	77.1%	76.0%
Credit Costs	0.31%	0.15%	0.14%
Equity/Assets	10.33%	9.74%	9.72%
CETier 1 Ratio (Full)	15.1%	13.9%	13.7%
Tier 1 Ratio	16.2%	14.9%	15.0%
Total CAR	18.7%	17.0%	16.9%
ROE	10.20%	11.30%	11.90%
ROA	0.98%	1.07%	1.11%

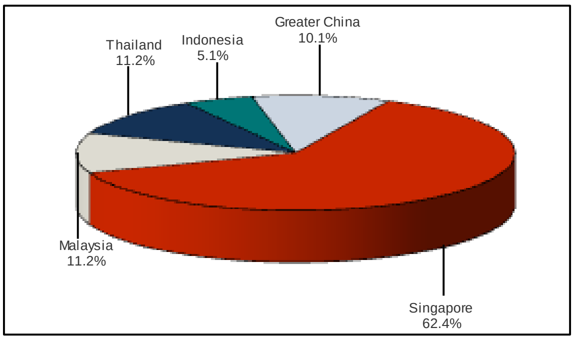
Source: Company

Figure 1: Operating Income by Segment - 9M2019



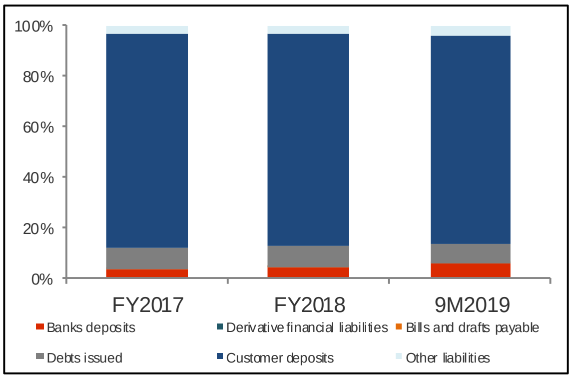
Source: Company

Figure 2: Operating Income by Geography - 9M2019



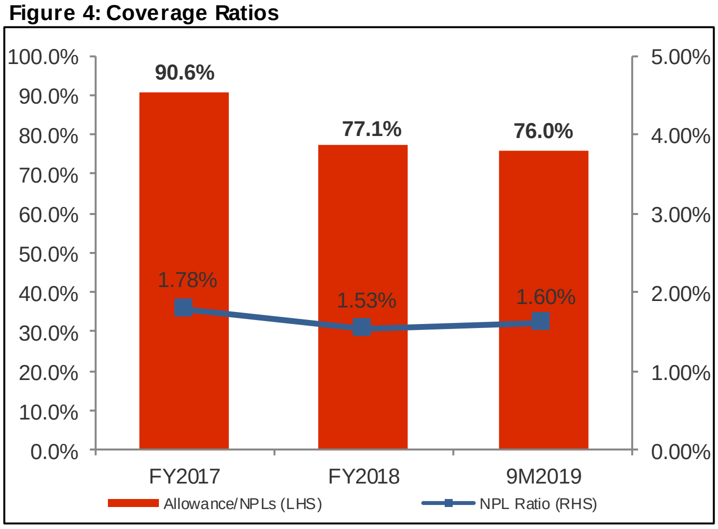
Source: Company

Figure 3: Liabilities Composition



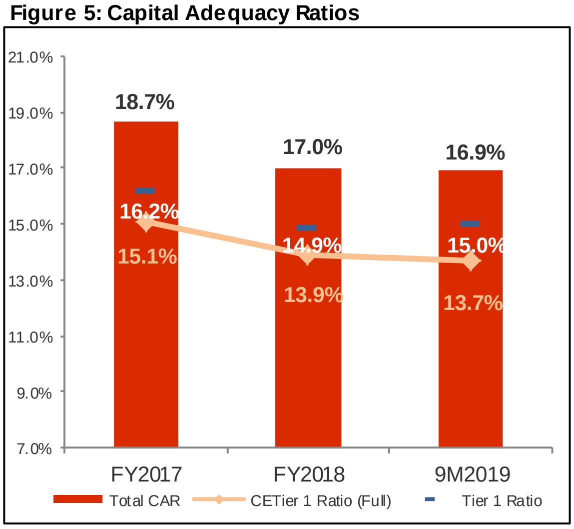
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

Issuer Profile:
Positive (2)

Ticker:
WSTP

Credit Outlook:
Recent developments indicate a destabilizing period ahead that may put pressure on spreads for Westpac's capital instruments. The ANZ 3.75% '27c22s still represents better value against other Aussie Tier 2 SGD papers although all banks still represent good quality credits with a short to medium duration.

Background:
Westpac Banking Corporation ('Westpac') is Australia's oldest bank and second largest by market capitalization and total loans. It offers consumer, business and institutional banking services as well as wealth management and insurance across Australia and New Zealand using a multi-branded strategy. As at 30 September 2019, it had total assets of AUD906.6bn.

Westpac Banking Corporation

Key Considerations

- **Uncertain times ahead**: Westpac's future remains clouded following the announcement of proceedings by Australia's financial crimes intelligence agency ('AUSTRAC') for alleged systemic breaches under the Anti-Money Laundering and Counter-Terrorism Financing Act. Short term management changes through the immediate and planned departures of the CEO and Chairman may yet still give way to further changes given the ongoing independent review by IBM subsidiary Promontory of Westpac's financial crime program and multiple investigations by the Australian Securities and Investments Commission and the Australian Prudential Regulatory Authority ASIC for potential breaches of the Corporation Act as well as other prudential and governance concerns. This translates to unknown business and financial impacts for Westpac at a time when interest rates could drift lower and competition in Australia's banking sector may increase in a slowing growth environment and in the shadow of outcomes from the Royal Commission on misconduct in the Banking industry.

- **Pressure on financials:** Westpac reported a 6% y/y fall in operating income from ordinary activities and net profit after tax down 16% y/y to 6.78bn for FY2019 (ended 30 September). The reasons include an increase in provisions for estimated customer refunds, payments, associated costs, and litigation ("customer related remediation provisions"). This overshadowed stable net interest income performance y/y as 3% growth in average interest earning assets (mostly Australian and New Zealand housing) offset a fall in net interest margins (-1bps to 2.12%). Operating expenses rose 6% y/y on account of higher customer related remediation provisions, escalation in technology investment and regulatory/compliance expenses while impairment charges rose by 12% y/y. These both contributed to profit before income tax falling 17% y/y to AUD9.75bn. From a segment perspective, Consumer, Business and Westpac Institutional Bank all saw weaker y/y operating profit before income tax performance (down 4%, 12% and 11% respectively) while Westpac New Zealand saw a 5% rise in operating profit before income tax due to the sale of Paymark, and an impairment benefit. Asset quality indicator trends are weakening with gross impaired exposure to gross loans up to 0.25% as at 30 Sept 2019 from 0.20% as at 30 Sept 2018. The provision coverage for gross impaired exposures weakened to 44.92% from 46.12% over the same period while both mortgages 90+ day delinquencies and other consumer loans 90+ day delinquencies rose 15bps and 5bps respectively to 0.82% and 1.69% as at 30 September 2019. While still at a relatively low level, the trend is worth monitoring.

- **Strategy likely to be reset:** Westpac's strategy is focused on maintaining its customer franchise, executing performance discipline and digital transformation. Key 2020 focus areas include dealing with outstanding issues and implementing Royal Commission recommendation, reshaping its business to generate peer leading returns and achieving structural cost reductions and productivity savings of AUD500mn from digital migration and reshaping its distribution network. Some of these targets will likely need revising following the AUSTRAC proceedings with an enhanced willingness and capacity to address compliance issues likely a key short-term focus in 2020.

- **Capital position could become vulnerable:** Despite weaker earnings, Westpac's capital position as at 30 September 2019 was solid with its APRA compliant CET1 ratio of 10.7%, up from 10.5% as at 30 June 2019 and 10.6% as at 30 September 2019. This was due to a 1% rise in risk weighted assets y/y and dividend payments that offset continued solid earnings generation. Although its current CET1 ratio remains above the Australian Prudential Regulation Authority's minimum 10.5% CET1 benchmark, the prospect of material fines, a spike in compliance costs and rising capital requirements could result in additional capital raising activities to ensure sufficient capital buffers against future minimum requirements. Westpac had already sought to achieve this through an AUD2.5bn capital raising however the benefit of this raising is now somewhat questionable given recent developments.

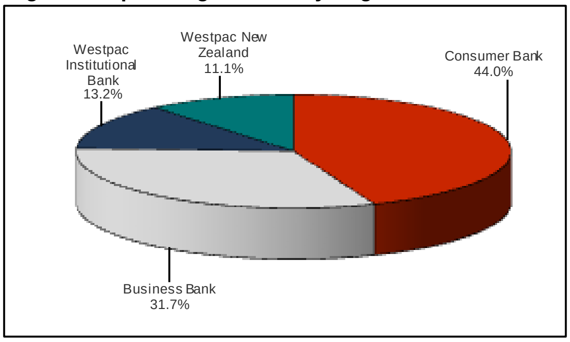
Westpac Banking Corporation

Table 1: Summary Financials

Year Ended 30th Sep	FY2017	FY2018	FY2019
Income Statement (AUD'mn)			
Net Interest Income	15,516	16,505	16,907
Non Interest Income	6,286	5,502	3,742
Operating Expenses	9,434	9,566	10,106
Pre-Provision Operating Profit	12,368	12,441	10,543
Provisions	853	710	794
Other Income/(Expenses)	0	0	0
PBT	11,515	11,731	9,749
Income Taxes	3,518	3,632	2,959
Net Income to Common Shareholders	7,990	8,095	6,784
Balance Sheet (AUD'mn)			
Total Assets	851,875	879,592	906,626
Total Loans (net)	684,919	709,690	714,770
Total Loans (gross)	687,785	712,504	718,378
Total Allowances	2,866	2,814	3,608
Total NPLs	1,542	1,416	1,763
Total Liabilities	790,533	815,019	841,119
Total Deposits	533,591	559,285	563,247
Total Equity	61,342	64,573	65,507
Key Ratios			
NIM	2.06%	2.13%	2.12%
Cost-income Ratio	43.3%	43.8%	48.9%
LDR	128.4%	126.9%	126.9%
NPL Ratio	0.22%	0.20%	0.25%
Allowance/NPLs	185.9%	198.7%	204.7%
Credit Costs	0.12%	0.10%	0.11%
Equity/Assets	7.20%	7.34%	7.23%
CETier 1 Ratio (Full)	10.6%	10.6%	10.7%
Tier 1 Ratio	12.7%	12.8%	12.8%
Total CAR	14.8%	14.7%	15.6%
ROE	13.77%	13.10%	10.65%
ROA	0.92%	0.92%	0.96%

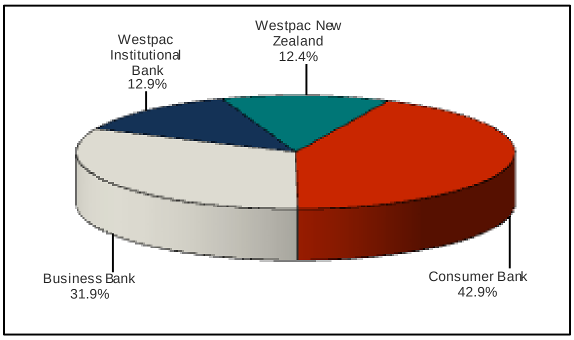
Source: Company

Figure 1: Operating Income by Segment - FY2019



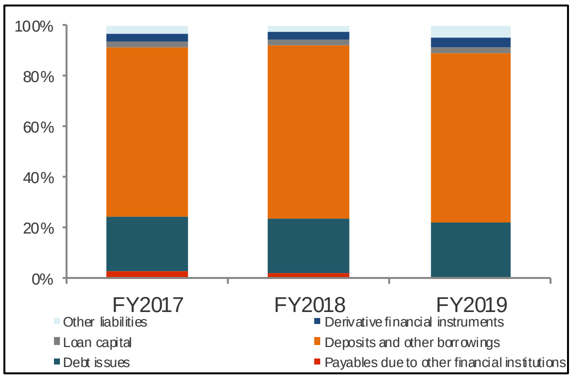
Source: Company | Excludes Group Business

Figure 2: Profit Before Tax by Segment - FY2019



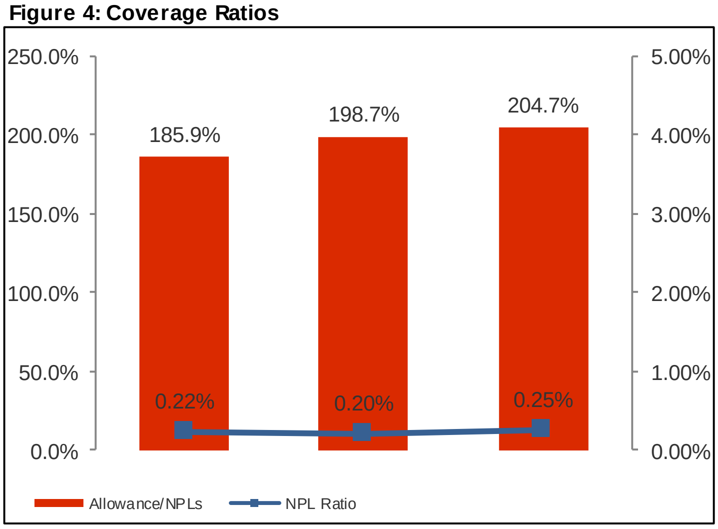
Source: Company | Excludes Group Business

Figure 3: Liabilities Composition



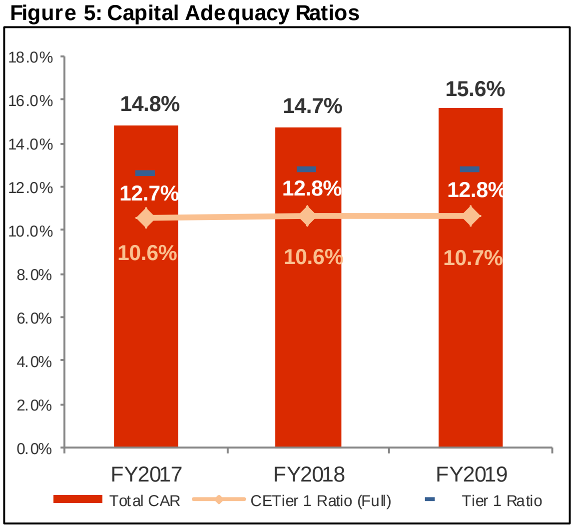
Source: Company

Figure 4: Coverage Ratios



Source: Company, OCBC estimates

Figure 5: Capital Adequacy Ratios



Source: Company

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Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7-point Issuer Profile Score scale.

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

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

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

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed. We may also suspend our issuer rating and bond level recommendation in the ordinary course of business if (1) we believe the current issuer profile is incorrect and we have incomplete information to complete a review; or (2) where evolving circumstances and increasingly divergent outcomes for different investors results in less conviction on providing a bond level recommendation.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

*OCBC Credit Research team would like to acknowledge and give due credit to the contributions of **Benjamin Lim Yong Quan** and **Lin Guixin**.*

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons held financial interests in the following above-mentioned issuers or companies as at the time of the publication of this report: Singapore Airlines Ltd, GuocoLand Ltd, Perennial Real Estate Holdings Ltd, Oxley Holdings Ltd, Suntec Real Estate Investment, Mapletree Commercial Trust, Frasers Hospitality Trust, United Overseas Bank Ltd, BreadTalk Group Ltd and Ascott Residence Trust.

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