

Bloomberg: CITY SP

Reuters: CITY.SI

Price: SGD0.40

Date: May 7, 2012

GICS: Utilities/Gas Utilities

Business Summary: Listed in 2007, CitySpring Infrastructure Trust (CitySpring) is Singapore's first infrastructure trust with a portfolio comprising town gas, desalinated water, electricity and telecommunication assets.

Country of Incorporation: Singapore

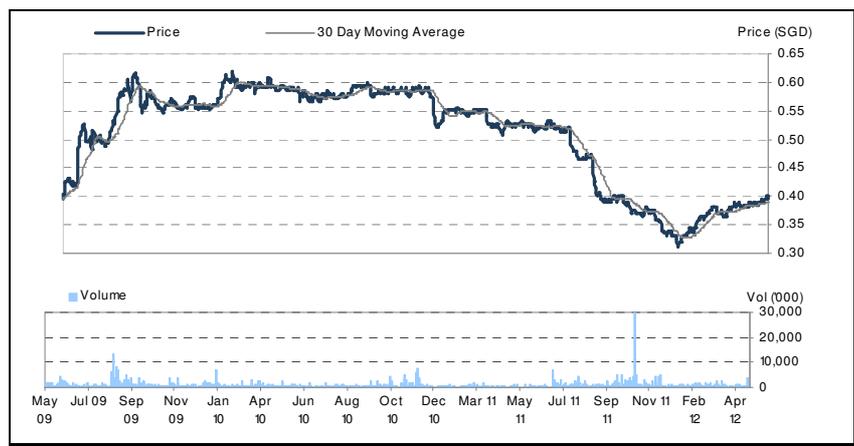
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Key Stock Statistics

52-week Share Price Range (SGD)	0.31 - 0.53
Avg Vol - 12 months ('000 shares)	1,162.8
Price Performance (%)	
- 1 month	3.9
- 3 month	5.3
- 12 month	-24.4
No. of Outstanding Shares (mln)	1,518.9
Free Float (%)	62.6
Market Cap (SGD mln)	600.0
Enterprise Value (SGD mln)	1,792.3
Major Shareholders (%)	
Temasek Holdings (Private) Limited	37.4

Per Share Data

FY Mar.	2012	2013E	2014E
Book Value (SG cents)	33.27	23.54	19.16
Cash Flow (SG cents)	1.5	2.7	2.8
Reported Earnings (SG cents)	-2.8	-0.9	-0.9
Dividend (SG cents)	3.5	3.5	3.5
Payout Ratio* (%)	55.0	81.3	76.5
PER (x)	NM	NM	NM
P/Cash Flow (x)	25.9	14.4	14.2
P/Book Value (x)	1.2	1.7	2.1
Dividend Yield (%)	8.9	8.9	8.9
ROE (%)	-9.4	-3.5	-4.1
Aggregate Leverage (%)	72.8	66.3	68.3

*Based on cash earnings

Profit Rebounds in 4QFY12, Tariff Adjustment Helps

- 4QFY12 (Mar) rebounds to profit.** With decent cost containment in its key City Gas and Basslink subsidiaries coupled with the benefit of an increased gas selling tariff, CitySpring posted a net profit of SGD7.3 mln. Revenue grew 2.6% QoQ with operating expenses flat. As a result, cash earnings improved 8.9% QoQ. Distribution per unit (DPU) for the quarter of 0.82 SG cents is in line with our assumption.
- FY12 bottomline better than expected.** For the full year, net loss widened to SGD36.2 mln from a net loss of SGD23.1 mln in FY11. This was a better bottomline performance than the SGD61.6 mln net loss we expected after the 4QFY12 recovery. Operating performance for City Gas and Basslink both exceeded our expectations on reduced finance costs while City Gas' fuel costs also came in lower than we had estimated in 4QFY12. Basslink contribution continued to suffer from a negative CRSM payment which totaled AUD15.5 mln in FY12 (AUD16.7 mln in FY11).
- FY12 cash earnings drop.** Cash earnings dropped to SGD58.6 mln from SGD70.7 mln with revenue lagging costs. This was 14.6% below our estimate on higher corporate level costs. This did not impact our DPU assumption, with cash earnings still adequate to cover proposed distributions.
- Raising profit but lowering cash earnings forecasts.** We raise our profit forecast for FY13 by 36.5% with the improvement reflecting the latest 3.3% tariff hike for towngas prices at City Gas. Signs of stabilizing fuel costs should see City Gas return to profit especially in 1HFY13, barring another jump in oil prices. Nonetheless, we still expect CitySpring to record a net loss of SGD13.6 mln in FY13 with continued losses at Basslink of AUD22.6 mln on negative CRSM payment of AUD14.4 mln. Due to the incorporation of higher corporate cost deductions, our cash earnings estimate is lowered 23.2% to SGD64.5 mln.
- Management assures no cash call.** CitySpring management assures that there would not be any cash call exercise unless there is a direct tie-in with a significant asset acquisition. New projects and/or smaller investments may be undertaken but these should be afforded by the company and funded internally.
- Risks to our estimates** may arise from an unexpected jump in fuel costs and possible operational delays. Over the longer term, the government continues to consider a move from town gas to natural gas. CityGas' involvement in such a conversion will need to be negotiated. Upside potential comes from a stronger-than-expected economy recovery that boosts utility demand.

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Earnings Outlook

Revenue Drivers:

- We see CitySpring's revenue rising 9.7% in FY13 and 7.8% in FY14. CityGas' tariff hike is a key driver. We see average tariffs up 9.6% in FY13 and 4.6% in FY14. The pace of growth is slightly lower than our original assumptions as we see fuel costs hitting a plateau.
- City Gas will benefit from its recent 3.3% tariff hike effective May 1, 2012. Because oil prices have fallen recently, we would not be surprised to see an adjustment down in tariffs in 2QFY13 assuming oil prices do not rebound in the near term. However, we factor in a tariff hike in 4QFY13 to reflect our view that a mid-term global economic recovery will send oil prices higher into 2013.
- Basslink revenue growth is expected to slow to 4.8% in FY13 and 3.0% in FY14 with inflation pressure declining and a sluggish growth outlook in Australia. There is no change to our view that CRSM payments will stay negative and we assume this to be AUD14.4 mln in FY13 and FY14 (unchanged from our original forecast).
- SingSpring revenue is expected to stay stable.

Margin Outlook:

- EBITDA margin is forecast to slip to 26.7% in FY13 and 25.3% in FY14. This is due to our view that rising costs may not be fully passed through to consumers immediately. There is the risk that inflation in Singapore may prove more stubborn, placing some pressure on staff costs.
- However EBIT margin is assumed to improve 50 bps to 16.3% in FY13 driven by lower finance costs. However, there is the risk that finance expenses may creep up gradually in FY14 and EBIT margin may slip back to 15.5%.

Bottomline:

- With oil prices easing off from recent highs, we see a more conducive profit environment for CitySpring in 1QFY13 with CityGas likely to post a continued profit recovery. The latest gas tariff hike of 3.3%, effective May 1, should also help buffer CityGas' profitability in 1QFY13. Basslink and SingSpring performances are expected to remain stable.
- Over the mid to longer term, we see moderate upside pressure on City Gas' raw material costs of 8.6% in FY13 and 6.5% in FY14. We assume that tariffs will adjust accordingly with the continued lag. However, continued losses are anticipated at Basslink with negative CRSM payments. This should lead to a net loss of SGD13.6 mln in FY13 for CitySpring.
- We also see Basslink posting a similar net loss in FY14 with CRSM payment to stay negative. SingSpring earnings should stay stable. As such, we forecast a net loss for FY14 of SGD13.1 mln.
- Cash earnings should improve to around SGD65 mln in FY13 and FY14. We do not expect distributions to rise as the company looks to make acquisitions.

Earnings Performance

FY Mar. / SGD mln	4Q12	4Q11	% Change
Reported Revenue	128.7	109.8	17.2
Reported Operating Profit	22.7	16.3	39.6
Depreciation & Amortization	-13.9	-13.8	1.0
Net Interest Income / (Expense)	-18.7	-20.5	-8.6
Reported Pre-tax Profit	4.0	-4.2	NM
Reported Net Profit	7.3	-7.0	NM
Reported Operating Margin (%)	17.7	14.8	-
Reported Pre-tax Margin (%)	3.1	-3.8	-
Reported Net Margin (%)	5.7	-6.3	-

Source: Company data

Profit & Loss

FY Mar. / SGD mln	2011	2012	2013E	2014E
Reported Revenue	424.5	481.4	528.0	562.2
Reported Operating Profit	66.3	73.0	85.9	87.0
Depreciation & Amortization	-54.7	-55.6	-55.3	-55.3
Net Interest Income / (Expense)	-82.5	-85.3	-87.3	-87.3
Reported Pre-tax Profit	-16.2	-12.4	-1.4	-0.2
Effective Tax Rate (%)	NM	NM	NM	NM
Reported Net Profit	-23.1	-36.2	-13.6	-13.1
Reported Operating Margin (%)	15.6	15.2	16.3	15.5
Reported Pre-tax Margin (%)	-3.8	-2.6	-0.3	0.0
Reported Net Margin (%)	-5.4	-7.5	-2.6	-2.3

Source: Company data, S&P Equity Research

Key Financial Performance

FY Mar.	2010	2011	2012	2013E
Revenue Growth (%)	-2.7	9.4	13.4	9.7
Operating Profit Growth (%)	89.9	0.9	10.1	12.7
Net Profit Growth (%)	-115.7	-393.5	NM	NM
Cash Earnings Growth (%)	-6.1	32.7	-23.2	18.8

Source: Company data, S&P Capital IQ Research

Key Fundamentals

FY Mar.	2008	2009	2010	2011
Asset turnover (x)	0.2	0.2	0.2	0.2
Receivables turnover (x)	1.5	1.7	1.7	1.9
Inventory turnover (x)	21.5	23.9	21.6	24.2
Current Ratio (x)	0.5	2.2	2.5	0.7
Average leverage (%)	74.7	81.4	70.2	72.8
Debt/Capital (%)	82.7	92.0	78.6	81.8
Interest coverage* (x)	1.2	0.7	0.9	1.1
ROA* (%)	2.8	3.0	2.4	3.3
ROE* (%)	18.1	41.7	12.7	20.3
Payout ratio* (%)	44.6	56.3	68.2	55.0

*based on cash earnings

Source: Company data, S&P Capital IQ Research

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