

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

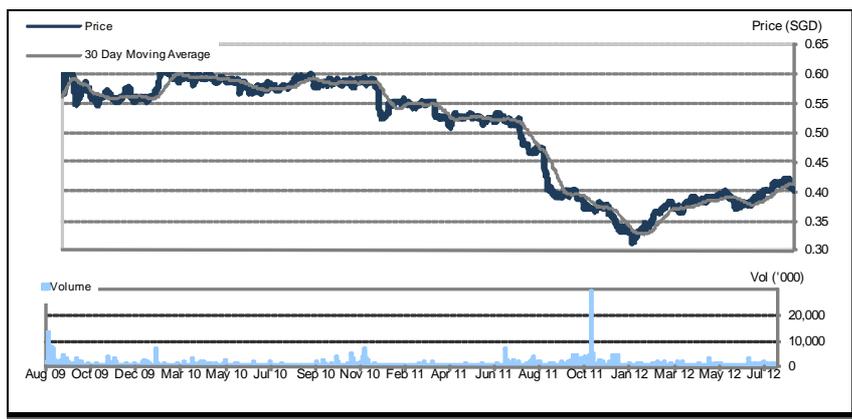
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Key Stock Statistics		
52-week Share Price Range (SGD)		0.31 - 0.42
Avg Vol - 12 months ('000 shares)		1,127.6
Price Performance (%)	- 1 month	-2.4
	- 3 month	2.6
	- 12 month	0.0
No. of Outstanding Shares (mln)		1,518.9
Free Float (%)		62.6
Market Cap (SGD mln)		607.6
Enterprise Value (SGD mln)		1,799.9
Major Shareholders (%)		
Temasek Holdings (Private) Limited		37.4

Per Share Data			
FY Mar.	2012	2013E	2014E
Book Value (SG cents)	33.27	23.77	19.57
Cash Flow (SG cents)	1.5	2.7	2.7
Reported Earnings (SG cents)	-2.8	-0.9	-0.9
Dividend (SG cents)	3.5	3.3	3.3
Payout Ratio* (%)	81.3	68.2	71.6
PER (x)	NM	NM	NM
P/Cash Flow (x)	26.3	14.6	14.7
P/Book Value (x)	1.2	1.7	2.0
Dividend Yield (%)	8.8	8.2	8.2
ROE* (%)	12.8	18.7	21.6
Net Gearing* (%)	66.3	68.1	70.1

*Based on Cash Earnings

Improved Cash Earnings in Line With Expectations

- 1QFY13 operating performance in line with expectations.** With performance in line with expectations, we made only minor adjustments to our full year estimates. CitySpring's net loss of SGD4.3 mln makes up 31% of our full year net loss estimate but we expect net losses to diminish in subsequent quarters. 1QFY13 saw an additional provision of SGD3.8 mln related to its Basslink CRSM payment in 2009 but this is expected to be a one-off item.
- Cash earnings jump.** Cash earnings recovered to SGD21.1 mln in 1QFY13, a seven-fold improvement over 1QFY12, driven by a rise in CityGas tariffs and revenue to better match fuel costs. The easing back in fuel prices in the quarter also helped. To recap, tariff adjustments generally lag by three months. Cash earnings is coming in on stronger than expected but we anticipate lower gas tariffs over the next two quarters and fuel costs to rise in 4QFY13 that may eat into 2HFY13 cash earnings contribution so our full year estimate of cash earnings is raised only slightly by 4.7% to SGD67.6 mln.
- Distribution per unit is as expected at 0.82 cents.** CitySpring should meet FY13 projected distribution of 3.28 cents.
- City Gas performance and recent tariff reduction in line.** The rise in tariffs helped boost City Gas' revenue by 21.2% YoY, in line with our estimate. A cut in tariff by 2.8% effective Aug. 1 is also in line with our assumption.
- SingSpring's earnings within expectations.** Revenue growth of 26.7% surprised us but bottomline returns were in line with costs up 26.9%. Hence, net profit of SGD1.2 mln and cash earnings of SGD4.7 mln were within our estimates and we leave our full year assumptions unchanged.
- Basslink's contribution dampened by provision.** Revenue grew 11.8% YoY and operating expenses kept pace rising 11.9% YoY. However, reduced finance cost was offset by increased fair value loss related to its derivatives. Cash earnings from Basslink improved sharply to AUD2.3 mln in 1QFY13 from a loss of AUD0.5 mln in 1QFY12 despite a one-time AUD2.6 mln provision.

Earnings Outlook

Revenue Drivers:

- Minimal change in our revenue outlook for CitySpring. We project a 10.1% rise in revenue in FY13 led by a 12.3% increase in City Gas sales. The increase in City Gas revenue is mainly due to an assumed 9.6% rise in full year average tariff.
- City Gas' 1QFY13 revenue jumped 21.2% YoY with average tariffs up 21.9% YoY. We expect revenue growth to taper off in subsequent quarters on a higher base effect and with tariffs expected to plateau now that fuel costs have stabilized. The 2.8% adjustment down in tariffs effective Aug.1 is within our assumptions since fuel costs are down from their March high. We had already factored in the slightly lower average tariffs for 2QFY13 and 3QFY13 for City Gas and leave our assumptions unchanged. We see a slight rise in 4QFY13 tariffs with fuel costs anticipated to rise into calendar year 2013 on a global demand recovery.
- SingSpring's 1QFY13 revenue jumped 26.7% matching higher costs of 26.9%. This reflects the contracted passthrough of SingSpring's costs. Similar to SingSpring, Basslink's revenue grew 11.8% in 1QFY13 matching expense growth of 11.9%. Hence in both cases, revenue will continue to be driven by cost passthrough arrangements on top of stable demand growth.
- CitySpring's FY14 revenue growth is forecast to ease to 6.5% on our assumption for slow global growth than keeps cost pressures subdued and hence, lesser impact from tariff adjustments and cost passthrough adjustments.

Margin Outlook:

- EBITDA margin is forecast to slip to 26.3% in FY13 and 24.9% in FY14. Margins are lowered by 40bps from our original assumptions following 1QFY13 performances. 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.
- We had previously expected EBIT margin to improve by 50bps in FY13 but now keep this in line with FY12 level at 15.8%. In addition to the lower EBITDA margin, the provision of SGD3.8 mln at Basslink related to the 2009 CRSM adjustment is reflected and assumed to be a one-off item. This offsets the positive margin impact from lower finance costs. We maintain our view that FY14 EBIT margin may ease to 15.1% on potentially higher interest expense.

Bottomline:

- We see a reduced net loss of SGD13.7 mln in FY13 (vs. net loss of SGD36.2 mln in FY12) and relatively stable loss of SGD13.9 mln in FY14. The key driver to the reduced losses is the better matching of City Gas' revenue to costs with tariffs now at a level that covers fuel costs. Hence, both City Gas and SingSpring should contribute positively to group

profit. Basslink will continue to make losses due to the negative CRSM payment.

- However, cash earnings should improve markedly by 24.5% in FY13 driven by an assumed jump in City Gas' cash earnings of 43.2% - again due to the catch up in tariffs to costs.

Earnings Performance

FY Mar. / SGD mln	1Q13	1Q12	% Change
Reported Revenue	132.6	110.7	19.8
Reported Operating Profit	14.9	8.9	68.3
Depreciation & Amortization	-13.6	-14.1	-3.6
Net Interest Income / (Expense)	-16.1	-22.3	-27.8
Reported Pre-tax Profit	-1.2	-13.4	NM
Reported Net Profit	-4.2	-14.6	NM
Reported Operating Margin (%)	11.3	8.0	-
Reported Pre-tax Margin (%)	-0.9	-12.1	-
Reported Net Margin (%)	-3.2	-13.2	-

Source: Company data

Profit & Loss

FY Mar. / SGD mln	2011	2012	2013E	2014E
Reported Revenue	424.5	481.4	529.9	564.5
Reported Operating Profit	66.3	73.0	83.9	85.3
Depreciation & Amortization	-54.7	-55.6	-55.2	-55.3
Net Interest Income / (Expense)	-82.5	-85.3	-85.5	-87.3
Reported Pre-tax Profit	-16.2	-12.4	-1.6	-2.0
Effective Tax Rate (%)	NM	NM	NM	NM
Reported Net Profit	-23.1	-36.2	-13.6	-13.9
Reported Operating Margin (%)	15.6	15.2	15.8	15.1
Reported Pre-tax Margin (%)	-3.8	-2.6	-0.3	-0.3
Reported Net Margin (%)	-5.4	-7.5	-2.6	-2.5

Source: Company data, S&P Equity Research

Key Financial Performance

FY Mar.	2011	2012	2013E	2014E
Revenue Growth (%)	9.4	13.4	10.1	6.5
Operating Profit Growth (%)	0.9	10.1	10.1	1.7
Net Profit Growth (%)	-393.5	NM	NM	NM
Cash Earnings Growth (%)	32.7	-23.2	24.5	-4.7

Source: Company data, S&P Capital IQ Research

Key Fundamentals

FY Mar.	2009	2010	2011	2012
Asset turnover (x)	0.2	0.2	0.2	0.2
Receivables turnover (x)	1.7	1.7	1.9	2.1
Inventory turnover (x)	23.9	21.6	24.2	25.0
Current Ratio (x)	2.2	2.5	0.7	2.3
Aggregate leverage (%)	81.4	70.2	72.8	66.3
Debt/Capital (%)	92.0	78.6	81.8	76.1
Interest coverage* (x)	0.7	0.9	1.1	0.9
ROA* (%)	3.0	2.4	3.3	2.7
ROE* (%)	41.7	12.7	20.3	12.8
Payout ratio* (%)	56.3	68.2	55.0	81.3

*based on cash earnings

Source: Company data, S&P Capital IQ Research

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