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Singapore's Smaller Developers Are Vulnerable To Liquidity Risk

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SINGAPORE (S&P Global Ratings) Sept. 7, 2016--Singapore's real estate sector, which forms the lion's share of outstanding domestic bond issuance, should generally stay resilient to the current volatility in the market. That's according to a report, titled "Is Singapore's Real Estate Sector A Safe Haven In The Local Currency Bond Market?," that S&P Global Ratings published today.

"Leverage among Singaporean developers is very high, but the smaller developers are more at risk of financial distress than larger peers, given weak liquidity, limited financial flexibility, and narrow business models," said S&P Global Ratings credit analyst Kah Ling Chan. "Access to funding will be the key default differentiator for these developers in this uncertain market."

According to the report, some of the smaller developers that may be facing a liquidity squeeze have about Singapore dollar (S$) 1.4 billion of bonds currently outstanding. The median debt-to-EBITDA ratio is more than 20x, with short-term debt maturing within the next 12 months amounting to S$3.1 billion.

Property developers' debt-funded expansion in recent years has generally weakened their financial strength. Cheap funds have translated into increased leverage, and impaired balance sheets. Leverage of domestic currency bond issuers within the sector has grown rapidly, and interest coverage has been declining. This exposes developers to potential increases in interest rates

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going forward.

In contrast, REITs are better positioned, given their stable cash flows, lower leverage, and generally high proportion of unencumbered assets. The have stable margins and strong interest coverage. The regulatory framework for REITs in Singapore is also more supportive of prudent leverage policies.

"The dominance of large players in Singapore's real estate industry should provide some cushion to absorb downside risk in the domestic bond market," said Ms. Chan. "That's because they have greater financial stability and flexibility and more funding sources to weather the near-term market weakness, unlike the volatile oil and gas sector."

Nearly half of the more than S$10 billion of corporate bonds maturing by the end of 2017 are from the real estate sector. In addition, several large players account for a large chunk of the remaining bonds outstanding. Therefore, the overall impact may be muted. Nevertheless, any near-term difficulties among the smaller issuers will continue to rattle the broader market.

Only a rating committee may determine a rating action and this report does not constitute a rating action.

The report is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@spglobal.com. Ratings information can also be found on the S&P Global Ratings' public website by using the Ratings search box located in the left column at www.standardandpoors.com. Members of the media may request a copy of this report by contacting the media representative provided.