

RatingsDirect®

Summary:

SMRT Corp. Ltd.

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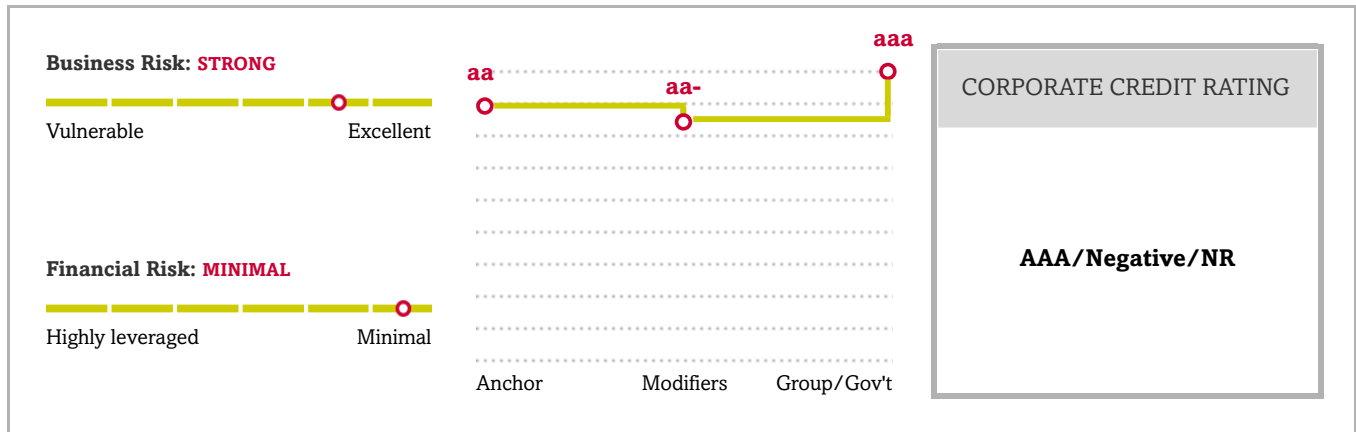
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Summary:

SMRT Corp. Ltd.



Rationale

Business Risk: Strong	Financial Risk: Minimal
<ul style="list-style-type: none"> • Dominant market position in Singapore's public transport sector. • Steady growth prospect for passenger demand. • High operating expenses in the rail and bus businesses. 	<ul style="list-style-type: none"> • Likely lower capital expenditure requirement under the new rail financing framework. • Stabilizing cash flows.

Outlook: Negative

The negative outlook on SMRT Corp. Ltd. reflects the uncertainty about the timing and extent of support from the Singapore government for the company. The outlook also reflects our expectation that a recovery in SMRT's financial performance to a level in line with the rating depends on a new rail financing framework for the company's operating infrastructure.

Downside scenario

We may lower the rating if SMRT's stand-alone credit profile weakens to 'a+' from 'aa-'. This could happen if: (1) the company's cash flows remain depressed due to high capital expenditure; and (2) the timing and scope of government support cause us to believe that SMRT's ratio of funds from operations (FFO) to debt will not recover to at least 35% within the next 12 months, compared with 31.3% for the fiscal 2014 (year ended March 31, 2014).

We could also downgrade SMRT if the regulatory and transport policy framework in Singapore changes materially, negatively affecting SMRT's role as a provider of essential public services. Such an adverse change may lead us to lower our expectation of extraordinary government support to "very high" from "extremely high."

We may also downgrade SMRT if we lower the sovereign credit rating on Singapore (unsolicited rating AAA/Stable/A-1+; axAAA/axA-1+).

Upside scenario

We may revise the outlook to stable if the timing and scope of government support lead us to believe that SMRT can sustain its ratio of FFO to debt at more than 35%.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics			
<ul style="list-style-type: none"> Singapore's GDP to grow at 3%-4% per year over the next two to three years. SMRT's revenue to grow 4%-6% per year over the next two to three years, with annual growth of about 3% in train ridership. EBITDA margin to stabilize at current level. Annual capital expenditure of Singapore dollar (S\$) 600 million in fiscal 2015 and S\$100 million from 2016 and onwards, which will be the minimal capital spending for operating maintenance. 		2014A	2015E	2016E
	EBITDA margin	19.5%	19%-21%	19%-21%
	Debt-to-EBITDA	2.9x	Below 2x	Below 2x
	FFO-to-debt	31.3%	Above 35%	Above 35%
	For fiscal years ending March 31. A--Actual. E--Estimate. FFO--Funds from operations.			

Business Risk: Strong

We expect SMRT to maintain its dominant market position in Singapore's rail sector, with a market share of about 78% in train service. The average daily train ridership in Singapore is about 2 million. Although SMRT has a smaller scale than global peers, we estimate its rail passengers will continue to grow by about 3% over the next two to three years backed by favorable macroeconomic conditions in Singapore. SMRT is also likely to continue to generate steady earnings from rentals and advertising from its operating facilities.

SMRT is in discussions with the Singapore government for a new sustainable rail operating and financing framework to enhance the capacity and reliability of its train service. In our base case, we anticipate that the government will purchase SMRT's operating assets including trains and signaling systems under the new framework.

We anticipate that SMRT's EBITDA margin will stabilize at the current level of about 20% in the next two to three years. Although we believe SMRT's operating expenses such as staff wages and repair and maintenance costs are likely to remain high, steady passenger growth and an improvement in operating efficiency are likely to mitigate the margin pressure.

Financial Risk: Minimal

SMRT is likely to maintain its strong financial standing over the next 24 months. We assume that the government support will be in place in a timely manner.

In our base case, we expect SMRT's annual capital spending to be about S\$600 million in 2015 and about S\$100 million in 2016 and onwards, which will be the minimal capital spending for operating maintenance. As a result, we expect the ratios of FFO to debt and of debt to EBITDA to recover to levels commensurate with a "minimal" financial risk profile over the next 12 months.

Liquidity: Adequate

We view SMRT's liquidity as "adequate" because we expect the company's sources of liquidity, including FFO and undrawn bank lines, to exceed its uses by more than 1.2x over the next 12 months. We also believe that SMRT has a good standing in credit markets--both bank and bonds--which should provide the company good and timely access to funding.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> Cash and cash equivalents of about S\$170.7 million as of Sept. 30, 2014. Undrawn bank lines of S\$450 million. FFO of about S\$200 million. 	<ul style="list-style-type: none"> Short-term debt of S\$156.9 million. Capital spending that we estimate at S\$380 million-S\$400 million in the next 12 months Dividend payment of S\$30 million.

Other Modifiers

The timing and scope of financial support for SMRT from the Singapore government will depend on the new operating and financing framework. In addition, we believe the new operating frameworks could affect SMRT's competitive position and the role for the government. SMRT's stand-alone credit profile is one notch lower than its anchor score of 'aa' to reflect the "negative" comparable rating analysis.

All other rating modifiers are neutral for the rating.

Government Influence

Our rating on SMRT reflects our view of an "extremely high" likelihood of extraordinary government support for the company based on the following factors:

- SMRT's critical role as a key provider of essential public transport services in Singapore.
- Its very strong link with its majority owner, the government of Singapore, through Temasek Holdings (Private) Limited, which owns 54.3% of SMRT.

Ratings Score Snapshot

Corporate Credit Rating

AAA/Negative/NR

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Low
- **Competitive position:** Strong

Financial risk: Minimal

- **Cash flow/Leverage:** Minimal

Anchor: aa

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Negative (-1 notch)

Stand-alone credit profile : aa-

- **Related government rating:** AAA
- **Likelihood of government support:** Extremely high (+3 notches from SACP)

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Standard & Poor's National And Regional Scale Mapping Tables, Sept. 30, 2014
- National And Regional Scale Ratings, Sept. 22, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix						
Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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