

Sabana Shari'ah Compliant REIT

Rumblings of Unitholder activism

SINGAPORE | REAL ESTATE (REIT) | TRADING NOTE

Event-driven trading idea

The price of Sabana Shari'ah Compliant REIT (SSREIT) had declined by \$0.335 or 47% to \$0.380 for the year ended December 30, 2016; and returned only 5.26 cents in distributions (for 4QFY15 to 3QFY16) during the year. The recent dilutive 42-for-100 Rights Issue with Issue Price of \$0.258 to fund acquisitions that are non-accretive on a pro forma basis, appears to be the last straw for Unitholders and they are doing something about it.

Investment Action: Event-driven Trading Buy

Our "Trading Buy" call is specifically with a view to trade on the event risk arising from the potential general meeting and subsequent re-rating of the REIT, should Unitholders successfully remove the existing manager. It is not based on any merits/demerits of the proposed acquisitions or fundamental outlook for the REIT. **Key risk:** All bets are off, if a general meeting does not materialise.

What is the news?

Unitholders are taking matters into their own hands

One Unitholder has started a blog, looking to muster the 50 Unitholders required to convene a general meeting, with the intention of removing the existing REIT manager and replacing with an internalised manager, or winding up the REIT. Meanwhile, another Unitholder has created a Facebook group to generate awareness – all in a bid to galvanise other Unitholders. As of this writing, there are already 65 members in the Facebook group.

What do we think of this?

If the existing manager does get removed, possible outcomes are an established manager with a track record comes in to manage the REIT, or the REIT gets sold to a buyer at a fair market value. Either outcome should re-rate the REIT.

Mustering 50 Unitholders is the easiest hurdle

"As at 25 February 2016, 80.0% of the Units in Sabana REIT are held in the hands of public" (Source: FY15 Annual Report, page 154). In view of the loosely held Unitholding structure, we believe that the mustering of 50 Unitholders should be achievable with ease.

Will a general meeting actually get convened?

This is the key uncertainty, as there has not been any recent precedence for a call to remove a manager and it remains to be seen whether a general meeting will be convened. However, we view that once a general meeting materialises, it will be sufficient catalyst for the re-rating to occur.

Sufficient minority Unitholders will have to vote at the general meeting

As disclosed on page 25 of the [Offer Information Statement](#), insiders held a 20.49% interest in the REIT (including 3.68% by the manager). While minority Unitholders will need to aim for representation larger than that at the general meeting, insider holding after allotment of excess Right Units could subsequently be slightly different from this.

We build in a margin of safety for asset impairment at the end of FY16

In deriving our back-of-envelope estimate for the post-rights and post-FY16 NAV/share, we have imputed the S\$76.8 million net cash from the Rights Issue onto the balance sheet and increased the Unitholder base by 310,712,244 units. Our key assumption is a further 8% haircut to the existing 3QFY16 S\$1.028 billion of Investment Properties on the balance sheet. (Investment Properties portfolio had already been revalued downwards by 4.6% in 1HFY16 on a "same-store" basis.) Consequently, we are expecting a NAV/share of \$0.56, which compares against the manager's pro forma guidance of \$0.64.

Our base case scenario is the stock gets re-rated to 0.9x P/NAV, or \$0.51

Apart from our base case scenario, our bear case scenario is 0.8x P/NAV, or \$0.45; and bull case scenario is 1.0x P/NAV, or \$0.56.

23 January 2017

Trading Buy

LAST CLOSE PRICE	SGD 0.375
FORECAST DIV	N/A
TARGET PRICE	SGD 0.510
TOTAL RETURN	36.0%

COMPANY DATA

O/S SHARES (MN) :	739.8
MARKET CAP (USD mn / SGD mn) :	194 / 277
52 - WK HI/LO (SGD) :	0.61 / 0.34
3M Average Daily T/O (mn) :	2.01

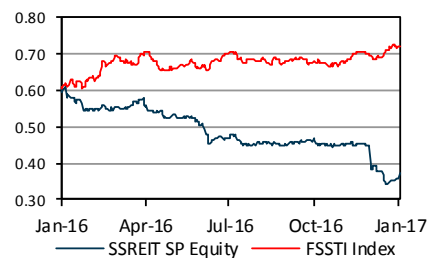
MAJOR SHAREHOLDERS (%)

JINQUAN TONG	8.4%
VIBRANT GROUP	6.5%
SABANA REAL ESTATE INV	3.7%
VANGUARD GROUP	2.0%
KIAN KEONG KHUA	1.8%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(18.4)	(212)	(35.2)
STI RETURN	3.3	6.2	18.4

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 12	FY 13	FY 14	FY 15
Gross Rev. (SGD mn)	81.8	89.8	100.3	100.8
NPI (SGD mn)	76.9	80.4	72.9	71.6
Dist. Inc. (SGD mn)	59.4	61.8	51.6	50.1
P/NAV (x)	1.04	0.99	0.88	0.80
DPU, adj (cents)	9.28	9.38	7.33	6.85
Distribution Yield (%)	8.1	8.7	7.8	9.6

Source: Company Data, Bloomberg

Richard Leow, CFE, FRM (+65 6212 1848)
richardleowwt@phillip.com.sg

Contact Information (Singapore Research Team)
Research Operations OfficerMohamed Amiruddin - amiruddin@phillip.com.sg**Consumer | Healthcare**Soh Lin Sin - sohls@phillip.com.sg**Transport | REITs (Industrial)**Richard Leow, CFTe, FRM -
richardleowwt@phillip.com.sg**Banking and Finance**Jeremy Teong - jeremyteongfh@phillip.com.sg**Property | Infrastructure**Peter Ng - peterngmc@phillip.com.sg**REITs (Commercial, Retail, Healthcare) | Property**Dehong Tan - tandh@phillip.com.sg**US Equity**Ho Kang Wei - hokw@phillip.com.sg**Macro**Pei Sai Teng - peist@phillip.com.sg**Technical Analysis**Jeremy Ng - jeremyngch@phillip.com.sg**Oil & Gas | Energy**Chen Guangzhi - chengz@phillip.com.sg

Contact Information (Regional Member Companies)
SINGAPORE**Phillip Securities Pte Ltd**Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg**JAPAN****Phillip Securities Japan, Ltd.**4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp**THAILAND****Phillip Securities (Thailand) Public Co. Ltd**15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website: www.phillip.co.th**UNITED STATES****Phillip Futures Inc**141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com**INDIA****PhillipCapital (India) Private Limited**No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in**CAMBODIA****Phillip Bank Plc**Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh**MALAYSIA****Phillip Capital Management Sdn Bhd**B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my**INDONESIA****PT Phillip Securities Indonesia**ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id**FRANCE****King & Shaxson Capital Limited**3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com**AUSTRALIA****Phillip Capital Limited**Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au**TURKEY****PhillipCapital Menkul Degerler**Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr**HONG KONG****Phillip Securities (HK) Ltd**11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk**CHINA****Phillip Financial Advisory (Shanghai) Co Ltd**No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn**UNITED KINGDOM****King & Shaxson Capital Limited**6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com**SRI LANKA****Asha Phillip Securities Limited**2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net**DUBAI****Phillip Futures DMCC**Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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