

# Sabana Shari'ah Compliant REIT

A new substantial Unitholder has emerged

SINGAPORE | REAL ESTATE (REIT) | TRADING NOTE

## Event-driven trading idea

Since our original [Trading Note](#) from over a month ago (23 January), units of **Sabana Shari'ah Compliant REIT (SSREIT)** have appreciated by ~15%, and investors who had bought into it would have also received the 4Q FY16 distribution of 0.88 cent/unit – bringing total return to ~17%. We believe that the odds of a re-rating for the REIT have just improved with the new substantial Unitholder coming on board.

## Investment Action: Event-driven Trading Buy

Our "Trading Buy" call is specifically with a view to trade on the event risk arising from the impending general meeting, restructuring of the REIT and resultant re-rating of the REIT. It is not based on any merits/demerits of the proposed acquisitions or fundamental outlook for the REIT. Our target price of \$0.54 is based on 0.90x P/NAV multiple. **Key risk:** A restructuring does not materialise, thus rendering our thesis void.

## What is the news?

### A new substantial Unitholder has emerged

SSREIT announced through a filing made on 3 March after market hours that e-Shang Infinity Cayman Limited, a 95.2% owned indirect-subsiary of **e-Shang Redwood Limited (ESR)**, has crossed the threshold as a new substantial Unitholder with a 5.01% stake in SSREIT.

To give some background, ESR recently bought an 80% stake in the manager of **Cambridge Industrial Trust (CIT)**. ESR also holds a 12.01% stake in CIT.

## What do we think of this?

### A few possible outcomes, with ESR now in the mix

We do not believe that ESR, being a real estate investment firm, intends to be a passive minority investor of SSREIT. Instead, we believe that ESR has the intention of taking an active role in the REIT. We can think of a few possible scenarios: (1) ESR voting to remove the incumbent manager with the intention of taking over the helm, (2) ESR taking a stake in the incumbent manager and forming a strategic alliance, (3) an outright takeover of SSREIT or (4) ESR taking over as the Sponsor of the REIT – all of which should positively re-rate SSREIT.

### The odds of a re-rating has just improved

Incidentally, Mr. Tong Jinquan who has a 6.19% interest in SSREIT also holds an 18.5% interest in CIT. With ESR joining into the fray, the combined interest of 11.2% by ESR and Mr. Tong is now just ~4.7% shy of Vibrant Group's ~12% stake together with the manager's 3.92% interest. What this means is that the fragmented minority Unitholders do appear to have a shot at removing the incumbent manager and trigger a re-rating of the REIT. Investors should monitor subsequent announcements for updates on ERS's interest in SSREIT.

### Reiterate our base case scenario of SSREIT being re-rated to 0.90x P/NAV

In our original note, our base case scenario was pegged to our forward NAV/unit estimate of \$0.56. We continue to peg our target price to 0.90x P/NAV. Following the Rights Issue and the announcement of FY16 results, we now estimate NAV/unit to be \$0.60, giving a target price of \$0.54 and an implied ~26% upside to go. We believe that our expectation for 0.90x P/NAV is reasonable, given that the ESR-managed CIT is currently trading at 0.91x of its \$0.634 NAV/unit.

Apart from our base case scenario, our bear case scenario is 0.8x P/NAV, or \$0.48; and bull case scenario is 1.0x P/NAV, or \$0.60.

We estimate that gearing has been significantly lowered to ~36%, following the repayment of \$60.0 million of short-term debt from the Rights Issue proceeds.

6 March 2017

## Trading Buy

LAST CLOSE PRICE	SGD 0.430
FORECAST DIV	N/A
TARGET PRICE	SGD 0.540
<b>TOTAL RETURN</b>	<b>25.6%</b>

## COMPANY DATA

O/S SHARES (MN) :	1053.1
MARKET CAP (USD mn / SGD mn) :	321/ 453
52 - WK HI/LO (SGD) :	0.58 / 0.34
3M Average Daily T/O (mn) :	4.62

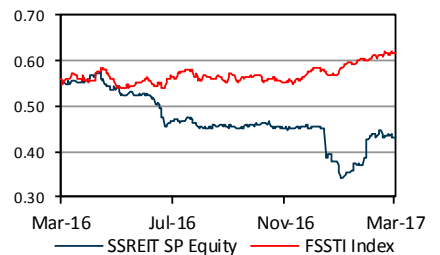
## MAJOR SHAREHOLDERS (%)

VINBRANT GROUP	12.0%
JINQUAN TONG	6.2%
E-SHANG INFINITY CAYMAN LTD	5.0%

## PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	12	(2.3)	(15.3)
STIRETURN	2.7	7.5	16.5

## PRICE VS. STI



Source: Bloomberg, PSR

## KEY FINANCIALS

Y/E Dec	FY 13	FY 14	FY 15	FY 16
Gross Rev. (SGD mn)	89.8	100.3	100.8	91.8
NPI (SGD mn)	80.4	72.9	71.6	56.9
Dist. Inc. (SGD mn)	61.8	51.6	50.1	36.9
P/NAV (x)	0.99	0.88	0.80	0.50
DPU, adj (cents)	9.38	7.33	6.85	4.17
Distribution Yield (%)	8.7	7.8	9.6	9.7

Source: Company Data, Bloomberg

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