

Soilbuild Business Space REIT

Preferential Offering to part-finance acquisition of Bukit Batok Connection

SINGAPORE | REAL ESTATE (REIT) | UPDATE

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- Non-renounceable 1-for-10 Preferential Offering, in conjunction with the acquisition of Bukit Batok Connection from Sponsor
- Issue of up to 94.35mn New Units at S\$0.63 each, to raise gross proceeds of up to c.\$59.4mn and a minimum of S\$15.1mn
- Total acquisition cost of S\$100.5mn, with the balance to be funded with debt

What is the news?

Soilbuild Business Space REIT (SBREIT) announced the launch of a 1-for-10 Preferential Offering to raise gross proceeds of up to c.\$59.4mn. Up to 94.35mn New Units to be issued in the Preferential Offering at S\$0.63 per New Unit. The non-renounceable Preferential Offering is to part-finance the acquisition of Bukit Batok Connection from SB (Westview) Investment Pte Ltd, a wholly-owned subsidiary of the Sponsor, Soilbuild Group. Major shareholder Mr Lim Chap Huat, has committed to take up his pro-rata entitlement of 25.16% which will raise S\$15.1mn of new equity. In addition, Mr Lim may subscribe to excess unsubscribed Units, provided that the total number of Units he and his immediate family members own do not exceed 29.3% of the total issued Units following the Preferential Offering.

How do we view this?

- Non-renounceable PO is significantly different from a renounceable RI**
For non-renounceable Preferential Offering (PO), provisional allotments of New Units cannot be renounced or traded on the SGX-ST. This is in contrast to a renounceable Rights Issue (RI), whereby the Rights can be traded on the SGX-ST up to the book closure date.
- EFR through PO is fairer to existing Shareholders compared to RI**
New Units created in an equity fund raising (EFR) through the PO will only be as a result of existing Unitholders electing to exercise their allotment. Existing Unitholders will not be able to exercise more than their pro-rata entitlement. This is in contrast to a RI whereby both existing Unitholders and non-Unitholders can trade and exercise the Rights during the cum-Rights period. New Units created in a RI will be as a result of both existing Unitholders and non-Unitholders exercising the Rights, leading to dilution of existing Unitholders by new Unitholders.
- SBREIT has sufficient debt headroom to fund the acquisition**
Minimum equity to be raised will be S\$15.1mn; this is from Mr Lim's commitment to take up his entire pro-rata entitlement. Total equity raised will be between S\$15.1mn and S\$59.4mn, depending on take-up rate by minority Unitholders. In the extreme case of only S\$15.1mn being raised, SBREIT has the ability to fund the remaining S\$85.4mn through debt.
- Price has not adjusted because number of new Units to be created remains unknown**
As pointed out earlier, the non-renounceable PO is different from a renounceable RI. For a renounceable RI that is underwritten, the theoretical ex-rights price (TERP) can be determined because the number of new Units to be created is known upfront. This is not the case for the PO, because the number of new units created will only be known after Unitholders have chosen to subscribe to their allocations.

Maintain "Accumulate" rating with unchanged DDM valuation of S\$0.79

We are keeping our target price unchanged, pending the outcome of the Preferential Offering, and the capital structure of the acquisition.

Accumulate (Maintained)

LAST CLOSE PRICE	SGD 0.685
FORECAST DIV	SGD 0.065
TARGET PRICE	SGD 0.790
TOTAL RETURN	24.8%

COMPANY DATA

O/S SHARES (MN) :	944
MARKET CAP (USD mn / SGD mn) :	481/ 651
52 - WK HI/LO (SGD) :	0.85 / 0.66
3M Average Daily T/O (mn) :	138

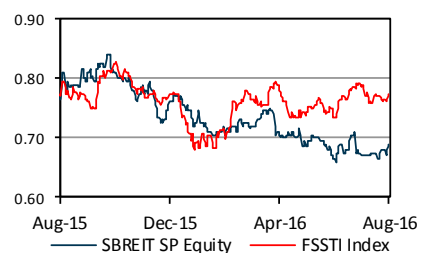
MAJOR SHAREHOLDERS (%)

CHAP HUAT LIM	24.9%
SCHRODERS PLC	8.0%
JINQUAN TONG	6.9%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	1.5	16	(11)
STI RETURN	(10)	6.1	4.9

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 14	FY 15	FY 16e	FY 17e
Gross Rev. (SGD mn)	68.1	79.3	80.0	810
NPI (SGD mn)	57.4	67.8	69.4	70.5
Dist. Inc. (SGD mn)	50.2	57.9	57.2	56.9
P/NAV (x)	0.99	0.94	0.90	0.91
DPU, adj (Cents)	6.19	6.49	6.10	5.99
Distribution Yield, %	7.9	8.7	8.7	8.5

Source: Company Data, PSR est.

VALUATION METHOD

DDM (Cost of Equity: 7.4%; Terminal g: 0.5%)

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Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
Gross revenue	68.1	79.3	80.0	81.0	81.9
Property expenses	(10.8)	(11.6)	(10.6)	(10.5)	(11.9)
Net property income	57.4	67.8	69.4	70.5	70.0
Net Finance (Expense)/Inc.	(9.7)	(12.8)	(13.6)	(14.8)	(15.5)
Manager's fees	(5.5)	(6.4)	(5.7)	(5.7)	(5.6)
Other items	(1.1)	(1.4)	(1.3)	(1.4)	(1.4)
Exceptional items	-	-	-	-	-
Net income	41.2	47.1	48.8	48.6	47.5
FV change, Invmnt. properties	0.9	4.5	-	-	-
Total Return Before Tax	42.1	51.7	48.8	48.6	47.5
Taxation	-	-	-	-	-
Total Return After Tax	42.1	51.7	48.8	48.6	47.5
Distribution adjustments	8.1	6.2	8.4	8.3	8.2
Income available for distribution	50.2	57.9	57.2	56.9	55.7
Income distributed	50.2	57.9	57.2	56.9	55.7

Per share data

Y/E Dec	FY14	FY15	FY16e	FY17e	FY18e
NAV (Cents)	80.0	79.8	78.6	77.6	76.6
EPU (Cents)	5.09	5.28	5.20	5.12	4.96
DPU (Cents)	6.19	6.49	6.10	5.99	5.81

Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
CFO					
Net income	41.2	47.1	48.8	48.6	47.5
Adjustments	16.7	21.8	19.9	21.0	21.6
WC changes	3.4	(0.5)	0.1	0.1	0.1
Cash generated from ops	61.3	68.4	68.8	69.8	69.2
Others	(7.4)	(11.4)	(14.2)	(15.3)	(16.0)
Cashflow from ops	53.9	57.1	54.6	54.4	53.2
CFI					
CAPEX, net	(0.2)	(25.5)	(32.0)	-	-
Purchase of Inv. Propty.	(94.6)	(98.1)	-	-	-
Others	-	-	-	-	-
Cashflow from investments	(94.8)	(123.6)	(32.0)	-	-
CFF					
Share issuance, net	(0.1)	88.6	-	-	-
Loans, net of repayments	91.5	29.3	37.0	-	-
Dividends	(49.4)	(55.7)	(58.3)	(57.0)	(56.1)
Others	-	-	-	-	-
Cashflow from financing	41.9	62.3	(21.3)	(57.0)	(56.1)
Net change in cash	1.0	(4.2)	1.4	(2.5)	(2.9)
Effects of exchange rate	-	-	-	-	-
Ending cash	21.0	16.8	18.1	15.6	12.7

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

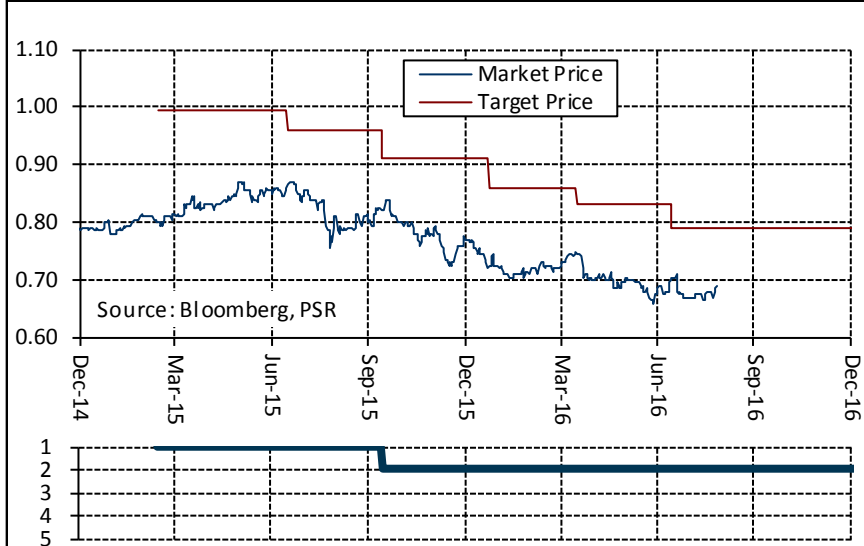
Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
ASSETS					
Investment properties	1,031	1,191	1,223	1,223	1,223
Inv. Propty. Under Devmnt.	-	-	-	-	-
PPE	-	-	-	-	-
Others	1.0	3.4	3.4	3.4	3.4
Total non-current assets	1,032	1,194	1,226	1,226	1,226
Cash	21.0	16.8	18.1	15.6	12.7
Trade receivables	0.8	2.4	2.5	2.5	2.5
Others	0.5	1.2	1.2	1.3	1.3
Total current assets	22.3	20.4	21.8	19.3	16.5
Total Assets	1,054	1,215	1,248	1,245	1,243
LIABILITIES					
Trade payables	8.7	10.1	10.2	10.3	10.4
Borrowings	94.6	-	-	-	-
Others	2.6	2.7	2.7	2.8	2.8
Total current liabilities	105.9	12.8	12.9	13.1	13.3
Borrowings	274.3	398.5	435.5	435.5	435.5
Others	23.0	57.2	57.2	57.2	57.2
Total non-current liabilities	297.3	455.7	492.7	492.7	492.7
Total Liabilities	403.2	468.6	505.7	505.8	506.0
Net assets	650.8	746.0	742.3	739.6	736.6
Represented by:					
Unitholders' funds	650.8	746.0	742.3	739.6	736.6

Valuation Ratios

Y/E Dec	FY14	FY15	FY16e	FY17e	FY18e
P/NAV (x)	0.99	0.94	0.90	0.91	0.92
P/DPU (x)	12.73	11.52	11.55	11.76	12.13
Distribution Yield (%)	7.86	8.68	8.66	8.50	8.24
NPI yield (%)			5.75	5.77	5.73
Growth & Margins (%)					
Growth					
Revenue		16.4%	0.8%	1.3%	1.1%
Net property income (NPI)		18.2%	2.4%	1.6%	-0.7%
Distributable income		15.3%	-1.1%	-0.5%	-2.2%
DPU		4.7%	-5.9%	-1.8%	-3.0%
Margins					
NPI margin	84.2%	85.4%	86.8%	87.0%	85.5%
Key Ratios					
Net Debt or (Net Cash)	348.0	381.8	417.4	419.9	422.8
Gearing (%)	35.0%	32.8%	34.9%	35.0%	35.0%

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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