

# Soilbuild Business Space REIT

Good start for 1Q; look forward to further growth this year with Technics acquisition

SINGAPORE | REAL ESTATE (REIT) | RESULTS

14 April 2015

- 4.5% y-o-y DPU growth achieved with acquisitions completed in FY 2014.
- Average rental reversions of 9.3% for lease renewals in 1Q FY15.
- Portfolio remains 100% occupied.
- Maintaining our DDM valuation of S\$0.995 on SBREIT. BUY.

## What is the news?

Soilbuild Business Space REIT ("SBREIT") announced its 1Q FY15 results on 13 April after trading hours.

## Results at a glance

(SGD mn)	1Q15	1Q14	y-y (%)	Comments
Gross revenue	18.62	16.84	10.5	Contribution from KTL Offshore, Speedy-Tech & Tellus Marine, acquired in FY 2014.
Net property income	15.80	14.20	11.3	
Distributable income	13.33	12.61	5.7	
<b>DPU (Cents)</b>	<b>1.633</b>	<b>1.562</b>	<b>4.5</b>	

Source: Company, Phillip Securities Research (Singapore)

## Analyst briefing key takeaway

- Tenant retention in the following three quarters.** Management guided that retention at the portfolio level may not be 100%. This does not impact our existing estimates as we had already baked in some vacancy in the multi-tenanted properties. (West Park BizCentral & Tuas Connection)
- Demand for Eighthtrium remains healthy.** There is only one remaining tenant expiry that has not been renewed in this Business Park space.

## How do we view this

- Upcoming positive catalyst.** Acquisition of Technics property is expected to be completed in June 2015 and contributing from 3Q FY15 onwards, thus justifying paying more than 1.0x P/NAV today.

## Investment Merits for SBREIT

- Significant exposure to Business Park space.** 42% by portfolio valuation (as of 1Q FY15), benefitting from the secular trend of decentralising of business activities outside of the City.
- Dominant positioning.** Having the longest average remaining land lease expiry (48.6 years) among the Industrial S-REITs.
- Strong alignment of interest between Manager and Unitholders.** Base fee is pegged to Distributable income, while Performance fee is pegged to DPU growth.
- Attractive distribution yield.** About 7.9%.

## Investment Actions

At 1.04x P/NAV (undervalued relative to larger market capitalised Industrial S-REITs) and forward yield of 7.9%, we believe that there is still room for yield compression for SBREIT. We retain our existing DDM valuation of S\$0.995 on SBREIT. BUY.

## BUY (Maintained)

LAST DONE PRICE	SGD 0.830
FORECAST DIV	SGD 0.066
TARGET PRICE	SGD 0.995
<b>TOTAL RETURN</b>	<b>27.8%</b>

## COMPANY DATA

O/S SHARES (MN) :	86
MARKET CAP (USD mn / SGD mn) :	493 / 677
52 - WK HI/LO (SGD) :	0.84 / 0.77
3M Average Daily T/O (mn) :	1.6

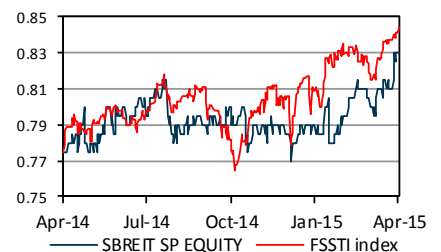
## MAJOR SHAREHOLDERS (%)

CHAP HUAT LIM	27.1%
SCHRODERS PLC	9.9%
JINQUAN TONG	7.1%
SCHRODER INVESTMENT MGMT HK LTD	3.3%
DBS BANK LTD	2.9%

## PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	3.1	7.2	15.8
STIRETURN	2.4	4.4	11.8

## PRICE VS. STI



Source: Bloomberg, PSR

## KEY FINANCIALS

Y/E Dec	FY 13	FY 14	FY 15e	FY 16e
Gross Rev. (SGD mn)	24.6	68.1	78.0	82.2
NPI (SGD mn)	20.6	57.4	65.6	69.2
Dist. Inc. (SGD mn)	18.3	50.2	53.7	55.2
P/NAV (x)	0.95	0.99	1.05	1.07
DPU, adj (Cents)	2.27	6.19	6.57	6.69
Distribution Yield, %	3.0	7.9	7.9	8.1

Source: Company Data, PSR est.

## Valuation Method

DDM (Cost of Equity: 6.5%; Terminal g: 0.5%)

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**Relative valuation**

We compare SBREIT against peers with exposure to Business Park space in their respective portfolios.

SBREIT is relatively under-valued and has a higher historical yield than the larger market capitalised Industrial S-REITs. These two factors suggest there is still room for yield compression for SBREIT.

**Peer relative data (arranged by Mkt. Cap.)**

	Mkt. Cap. (S\$m)	Price (S\$)	P/NAV	yield (%)
Ascendas REIT	6,327	2.63	1.29x	5.6
Mapletree Industrial Trust	2,760	1.580	1.31x	6.8
<b>Soilbuild Business Space REIT</b>	677	0.830	1.04x	7.9
Viva Industrial Trust	504	0.810	1.07x	9.4
<b>Average</b>			<b>1.18x</b>	<b>7.4</b>

Source: Bloomberg (Updated: 13 April 2015)

## Financials

### Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY13	FY14	FY15e	FY16e
<b>Gross revenue</b>	<b>24.6</b>	<b>68.1</b>	<b>78.0</b>	<b>82.2</b>
Property expenses	(4.0)	(10.8)	(12.3)	(13.0)
<b>Net property income</b>	<b>20.6</b>	<b>57.4</b>	<b>65.6</b>	<b>69.2</b>
Net Finance (Expense)/Inc.	(3.3)	(9.7)	(13.3)	(15.4)
Manager's fees	(2.0)	(5.5)	(7.3)	(7.2)
Other items	(0.3)	(1.1)	(2.1)	(2.1)
Exceptional items	-	-	-	-
<b>Net income</b>	<b>15.0</b>	<b>41.2</b>	<b>42.9</b>	<b>44.5</b>
FV change, Invmnt. properties	29.7	0.9	-	-
<b>Total Return Before Tax</b>	<b>44.7</b>	<b>42.1</b>	<b>42.9</b>	<b>44.5</b>
Taxation	-	-	-	-
<b>Total Return After Tax</b>	<b>44.7</b>	<b>42.1</b>	<b>42.9</b>	<b>44.5</b>
Distribution adjustments	(26.5)	8.1	10.8	10.8
<b>Income available for distribution</b>	<b>18.3</b>	<b>50.2</b>	<b>53.7</b>	<b>55.2</b>
<b>Income distributed</b>	<b>18.3</b>	<b>50.2</b>	<b>53.7</b>	<b>55.2</b>

### Per share data (Cents)

Y/E Dec	FY13	FY14	FY15e	FY16e
NAV	80.0	80.0	78.8	77.5
EPU	1.86	5.09	5.25	5.38
DPU	2.27	6.19	6.57	6.69

### Cash Flow

Y/E Dec, SGD mn	FY13	FY14	FY15e	FY16e
<b>CFO</b>				
Net income	15.0	41.2	42.9	44.5
Adjustments	5.8	16.7	20.7	22.6
WC changes	3.0	3.4	1.4	0.6
Cash generated from ops	23.8	61.3	65.0	67.7
Others	(1.8)	(7.4)	(13.4)	(15.4)
<b>Cashflow from ops</b>	<b>22.0</b>	<b>53.9</b>	<b>51.6</b>	<b>52.3</b>
<b>CFI</b>				
CAPEX, net	-	(0.2)	-	-
Purchase of Inv. Propty.	(799.2)	(94.6)	(98.1)	-
Others	-	-	-	-
<b>Cashflow from investments</b>	<b>(799.2)</b>	<b>(94.8)</b>	<b>(98.1)</b>	<b>-</b>
<b>CFF</b>				
Share issuance, net	612.6	(0.1)	-	-
Loans, net of repayments	190.8	91.5	100.0	-
Dividends	(6.1)	(49.4)	(53.7)	(55.2)
Others	-	-	-	-
<b>Cashflow from financing</b>	<b>797.2</b>	<b>41.9</b>	<b>46.3</b>	<b>(55.2)</b>
<b>Net change in cash</b>	<b>20.0</b>	<b>1.0</b>	<b>(0.2)</b>	<b>(3.0)</b>
Effects of exchange rate	-	-	-	-
<b>Ending cash</b>	<b>20.0</b>	<b>21.0</b>	<b>20.8</b>	<b>17.8</b>

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	FY13	FY14	FY15e	FY16e
<b>ASSETS</b>				
Investment properties	935	1,031	1,129	1,129
Inv. Propty. Under Devmnt.	-	-	-	-
PPE	-	-	-	-
Others	0.0	1.0	1.0	1.0
<b>Total non-current assets</b>	<b>935</b>	<b>1,032</b>	<b>1,130</b>	<b>1,130</b>
Cash	20.0	21.0	20.8	17.8
Trade receivables	0.2	0.8	0.9	1.0
Others	0.1	0.5	0.6	0.7
<b>Total current assets</b>	<b>20.2</b>	<b>22.3</b>	<b>22.3</b>	<b>19.4</b>
<b>Total Assets</b>	<b>955</b>	<b>1,054</b>	<b>1,152</b>	<b>1,149</b>
<b>LIABILITIES</b>				
Trade payables	8.3	8.7	9.9	10.5
Borrowings	-	94.6	94.6	94.6
Others	0.8	2.6	2.9	3.1
<b>Total current liabilities</b>	<b>9.1</b>	<b>105.9</b>	<b>107.5</b>	<b>108.2</b>
Borrowings	275.3	274.3	374.3	374.3
Others	23.5	23.0	23.0	23.0
<b>Total non-current liabilities</b>	<b>298.8</b>	<b>297.3</b>	<b>397.3</b>	<b>397.3</b>
<b>Total Liabilities</b>	<b>308.0</b>	<b>403.2</b>	<b>504.8</b>	<b>505.5</b>
<b>Net assets</b>	<b>647</b>	<b>651</b>	<b>647</b>	<b>644</b>
<b>Represented by:</b>				
<b>Unitholders' funds</b>	<b>647</b>	<b>651</b>	<b>647</b>	<b>644</b>

### Valuation Ratios

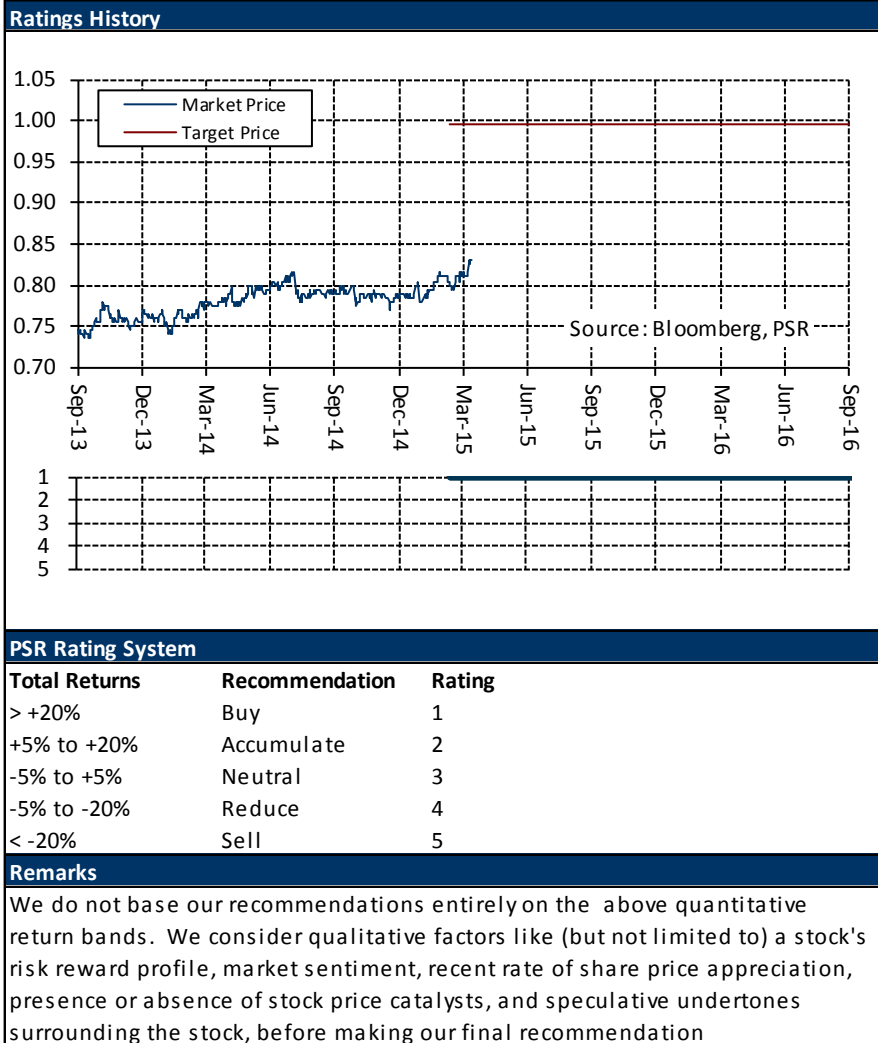
Y/E Dec	FY13	FY14	FY15e	FY16e
P/NAV (x)	0.95	0.99	1.05	1.07
P/DPU (x)	33.55	12.73	12.64	12.41
Distribution Yield (%)	2.98	7.86	7.91	8.06
NPI yield (%)		5.84	6.08	6.13

### Growth & Margins (%)

	FY13	FY14	FY15e	FY16e
<b>Growth</b>				
Revenue	177.4%	14.4%	5.4%	
Net property income (NPI)	178.4%	14.4%	5.4%	
Distributable income	174.7%	7.0%	2.9%	
DPU	172.8%	6.0%	1.8%	
<b>Margins</b>				
NPI margin	84.2%	84.2%	84.2%	

### Key Ratios

	FY13	FY14	FY15e	FY16e
Net Debt or (Net Cash)	255.4	348.0	448.1	451.1
Gearing (%)	28.8%	35.0%	40.7%	40.8%



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