

Soilbuild Business Space REIT

Challenging times in a subdued market

SINGAPORE | REAL ESTATE (REIT) | RESULTS

- S\$19.73mn gross revenue in line with our expectations of S\$19.77mn
- 1.399 cents DPU exceed our expectations of 1.312 cents by 6.6%
- 151,145 sq ft of renewals and new leases signed
- Portfolio occupancy edged up to 94.8%

Results at a glance

(SGD mn)	3Q16	3Q15	y-y (%)	Comments
Gross revenue	19.73	20.70	↓(4.7)	Lower revenue from West Park BizCentral (S\$0.9mn) and Tuas Connection (S\$0.3mn), offset by higher revenue from Solaris (S\$0.1mn) and Bukit Batok Connection (S\$0.1mn)
Net property income	17.26	17.78	↓(2.9)	Lower property operating expenses for West Park BizCentral and Eightrium
Distributable income	14.55	15.15	↓(3.9)	In line with lower Net property income
DPU (cents)	1.399	1.625	↓(13.9)	Larger yoy unit base - 1,039mn vs. 929.7mn
DPU, adj. (cents)	1.533	1.625	↓(5.7)	Adjusted for 1-for-10 Preferential Offering

Source: Company, Phillip Securities Research (Singapore)

Portfolio occupancy edges up to 94.8%, from 92.0% in the previous quarter

This was due to higher occupancy at West Park BizCentral and inclusion of Bukit Batok Connection into the portfolio. Portfolio occupancy would have been 94.2% instead, without Bukit Batok Connection.

Successful leasing, but with rental reversion of -6.6% on forward renewals

The Manager had signed 151,145 sq ft from seven new leases and two forward renewals. The seven new leases signed were all from West Park BizCentral. Among them, four were for 2-3 years and three were short-term of four months. For the forward renewals, one was from Tuas Connection and the other from Eightrium. Negative rental reversion has worsened, as it was -5.7% in 2QFY16, and -0.6% in 1QFY16. Better occupancy of 90.8% (from 82.7%) at West Park BizCentral was the lone bright spot.

Limited exposure to interest rate fluctuation

Weighted average debt maturity is 2.2 years, with no refinancing requirements till 2018. 88.5% of borrowings are at fixed rate. Aggregate leverage of 36.0% allows headroom of S\$88mn.

Update on Technics Offshore Property

The Manager is in negotiations with three potential tenants – two of whom are considering long-term leases of 5-10 years, while the third is short-term of one year. Occupancy at the property will be c.80%, if all three tenants sign a lease. As of our [previous report](#) (11 October), we had assumed an occupancy of 60% from 3QFY17 onwards, coinciding with the depletion of the 18-months security deposit. Our assumption is subject to change, as greater clarity emerges.

Maintain "Neutral" rating with slightly higher of target price of S\$0.72 (previous: S\$0.69)

We under-estimated this quarter's distribution per unit (DPU) by 6% and have made adjustments to our forecasts. Unitholders can expect higher quarter-on-quarter (qoq) DPU in 4QFY16, due to contribution from Bukit Batok Connection, but lower year-on-year (yoy) DPU due to the larger Unitholder base following the Preferential Offering.

13 October 2016

Neutral (Maintained)

LAST CLOSE PRICE	SGD 0.710
FORECAST DIV	SGD 0.061
TARGET PRICE	SGD 0.720
TOTAL RETURN	10.0%

COMPANY DATA

O/S SHARES (MN) :	1039
MARKET CAP (USD mn / SGD mn) :	530 / 733
52 - WK HI/LO (SGD) :	0.84 / 0.65
3M Average Daily T/O (mn) :	158

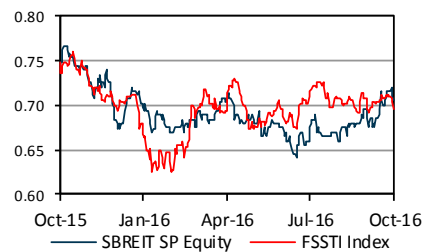
MAJOR SHAREHOLDERS (%)

CHAP HUAT LIM	25.3%
SCHRODERS PLC	7.2%
JINQUAN TONG	6.3%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	2.2	7.6	(5.5)
STI RETURN	(0.6)	10	(10)

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	81.7	86.8
NPI (SGD mn)	57.4	67.8	71.1	75.0
Dist. Inc. (SGD mn)	50.2	57.9	55.0	62.3
P/NAV (x)	0.99	0.94	0.92	0.93
DPU (cents)	6.49	6.49	6.08	5.95
Distribution Yield (%)	7.9	8.7	8.6	8.4

Source: Company Data, PSR est.

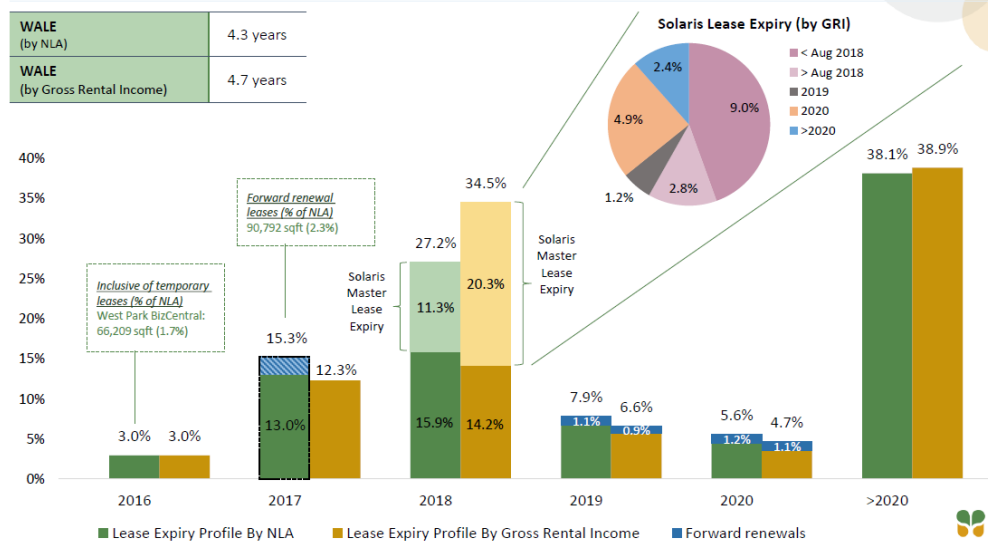
VALUATION METHOD

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

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Portfolio Lease Expiry Profile

By % of NLA & % of Rental Income



Source: Company 3QFY16 Results Presentation, 12 October 2016

3.0% of leased lettable area up for renewal in remainder of 2016

This comes from West Park BizCentral and Eightrium. Lease expiry is slightly higher than the 2.0% that was disclosed in the previous quarter; this is due to the short-term leases of four months that was signed at West Park BizCentral.

13.0% of leased lettable area up for renewal in 2017

Management shared that c.70% of the expiries occur in 2H 2017, and tenants are mostly not willing to commit to renewals yet.

Peer relative valuation

Soilbuild Business Space REIT (SBREIT) is at a slight discount to the peer average P/NAV multiple, and offers a higher yield than both the peer average and the larger-capitalised peers.

Peer relative data (arranged by Mkt. Cap.)

	Mkt. Cap. (S\$ mn)	Price (S\$)	Trailing P/NAV (x)	12M-trailing yield (%)
Ascendas REIT	6,816	2.42	1.19	8.7
Mapletree Industrial Trust	3,072	1.705	1.25	6.6
AIMS AMP Capital Industrial REIT	892	1.400	0.95	8.1
Soilbuild Business Space REIT	733	0.705	0.90	9.0
Cambridge Industrial Trust	724	0.555	0.83	8.2
Viva Industrial Trust	664	0.765	0.95	8.7
Sabana Shari'ah Compliant REIT	391	0.530	0.65	11.0
Average			0.96	8.6

Source: Bloomberg (Updated: 13 October 2016)

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
Gross revenue	68.1	79.3	81.7	86.8	86.2
Property expenses	(10.8)	(11.6)	(10.5)	(11.9)	(13.8)
Net property income	57.4	67.8	71.1	75.0	72.4
Net Finance (Expense)/Inc.	(9.7)	(12.8)	(13.1)	(14.0)	(15.7)
Manager's fees	(5.5)	(6.4)	(6.0)	(6.2)	(5.8)
Other items	(1.1)	(1.4)	(1.3)	(1.6)	(1.6)
Exceptional items	-	-	-	-	-
Net income	41.2	47.1	50.7	53.2	49.4
FV change, Invmnt. properties	0.9	4.5	-	-	-
Total Return Before Tax	42.1	51.7	50.7	53.2	49.4
Taxation	-	-	-	-	-
Total Return After Tax	42.1	51.7	50.7	53.2	49.4
Distribution adjustments	8.1	6.2	4.3	9.1	8.6
Income available for distribution	50.2	57.9	55.0	62.3	58.0
Income distributed	50.2	57.9	55.0	62.3	58.0

Per share data

Y/E Dec	FY14	FY15	FY16e	FY17e	FY18e
NAV (Cents)	80.0	79.8	76.7	75.6	74.7
EPU (Cents)	5.09	5.28	5.13	5.08	4.68
DPU (Cents)	6.19	6.49	6.08	5.95	5.49

Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
CFO					
Net income	41.2	47.1	50.7	53.2	49.4
Adjustments	16.7	21.8	16.2	21.9	22.4
WC changes	3.4	(0.5)	22.0	2.0	(0.3)
Cash generated from ops	61.3	68.4	88.9	77.1	71.5
Others	(7.4)	(11.4)	(14.6)	(15.7)	(16.6)
Cashflow from ops	53.9	57.1	74.3	61.4	54.9
CFI					
CAPEX, net	(0.2)	(25.5)	(32.0)	-	-
Purchase of Inv. Propty.	(94.6)	(98.1)	(100.5)	-	-
Others	-	-	-	-	-
Cashflow from investments	(94.8)	(123.6)	(132.5)	-	-
CFF					
Share issuance, net	(0.1)	88.6	59.4	-	-
Loans, net of repayments	91.5	29.3	66.0	-	-
Dividends	(49.4)	(55.7)	(58.9)	(63.5)	(58.6)
Others	-	-	-	-	-
Cashflow from financing	41.9	62.3	66.5	(63.5)	(58.6)
Net change in cash	1.0	(4.2)	8.3	(2.1)	(3.7)
Effects of exchange rate	-	-	-	-	-
Ending cash	21.0	16.8	25.0	23.0	19.3

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	1,291	1,291	1,291
Inv. Propty. Under Devmnt.	-	-	-	-	-
Others	1.0	3.4	3.4	3.4	3.4
Total non-current assets	1,032	1,194	1,295	1,295	1,295
Cash	21.0	16.8	25.0	23.0	19.3
Trade receivables	0.8	2.4	2.5	2.7	2.6
Others	0.5	1.2	1.3	1.3	1.3
Total current assets	22.3	20.4	28.8	26.9	23.2
Total Assets	1,054	1,215	1,323	1,322	1,318
LIABILITIES					
Trade payables	8.7	10.1	10.4	11.1	11.0
Borrowings	94.6	-	-	155.0	97.5
Rental deposits	2.5	2.7	2.7	2.7	2.7
Others	0.1	-	-	-	-
Total current liabilities	105.9	12.8	13.1	168.8	111.2
Borrowings	274.3	398.5	464.5	309.5	367.0
Rental deposits	23.0	24.2	46.0	47.5	47.3
Others	-	33.0	1.0	1.0	1.0
Total non-current liabilities	297.3	455.7	511.5	358.1	415.4
Total Liabilities	403.2	468.6	524.6	526.8	526.6
Net assets	650.8	746.0	798.8	794.7	791.3
Represented by:					
Unitholders' funds	650.8	746.0	798.8	794.7	791.3

Valuation Ratios

Y/E Dec	FY14	FY15	FY16e	FY17e	FY18e
P/NAV (x)	0.99	0.94	0.92	0.93	0.94
P/DPU (x)	12.73	11.52	11.60	11.85	12.84
Distribution Yield (%)	7.86	8.68	8.62	8.44	7.79
NPI yield (%)	-	-	5.73	5.81	5.61

Growth & Margins (%)

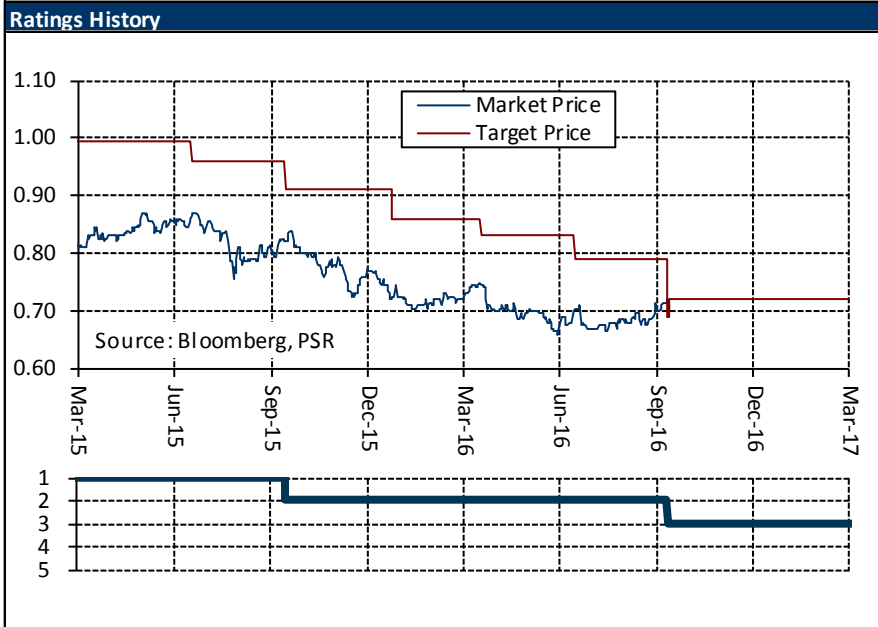
Growth					
Revenue		16.4%	2.9%	6.3%	-0.8%
Net property income (NPI)		18.2%	5.0%	5.4%	-3.4%
Distributable income		15.3%	-4.9%	13.2%	-6.9%
DPU		4.7%	-6.3%	-2.1%	-7.6%

Margins

NPI margin	84.2%	85.4%	87.1%	86.3%	84.0%
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Key Ratios

Net Debt or (Net Cash)	348.0	381.8	439.5	441.5	445.2
Gearing (%)	35.0%	32.8%	35.1%	35.1%	35.2%



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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