

Soilbuild Business Space REIT

Ceasing coverage



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SINGAPORE | REAL ESTATE (REIT) | FY17 RESULTS

18 January 2018

- Gross revenue and DPU were in line with our estimates
- 4Q17 DPU of 1.383 cents to be paid on Feb 28 (4Q16: 1.57 cents)
- \$80.5mn revaluation loss, investment properties value now stand at \$1.11bn
- Ceasing coverage due to reallocation of internal resources

Results at a glance

(SGD mn)	FY17	FY16	YoY	Comments
Gross revenue	84.8	81.1	4.5%	Contribution from Bukit Batok Connection (acquired in 3Q16) offset by lower 72 Loyang Way
Net property income	73.5	70.7	4.0%	8.4% higher property expenses
Distributable income	59.9	60.3	-0.5%	Property and lease management fees taken in cash in FY17 (taken in Units in FY16), 7.5% higher finance expense
DPU (cents)	5.712	6.091	-6.2%	Effect of larger unit base (+1% weighted average)

Source: Company, PSR

The positives

- Occupancy as at end of FY17 remained stable at 92.7%.** This was on the back of 920k sq ft of new leases, renewals and forward renewals done during the year, amounting to 24% of the portfolio. Average occupancy across the four quarters was 92.8%; occupancy a year ago at end FY16 was 89.6%.
- QoQ lower average all-in interest cost from 3.32% p.a. to 3.20% p.a.** This was due to refinancing of \$185mn bank loan (originally due 2020) to 2022. Nonetheless, interest expense was higher in FY17 compared to FY16, due to higher debt.

The negatives

- \$80.5mn fair value loss to investment properties, resulting in NAV per Unit drop QoQ from \$0.71 to \$0.64.** Revaluation losses were for 72 Loyang Way (\$27.0mn), West Park BizCentral (\$20.0mn), Eightrium (\$13.2mn), NK Ingredients (\$8.0mn), Tuas Connection (\$4.3 mn) and Bukit Batok Connection (\$2.6mn). Portfolio value now stands at \$1.11bn, excluding \$53mn for KTL Offshore which has been reclassified as property held for sale.
- Operationally, reversions were negative in 4Q17 and FY17.** Renewals in 4Q17 and FY17 were at -14% and -6.3% reversions, respectively. New leases signed in 4Q17 and FY17 were at -18.9% and -15.5% reversions, respectively. New leases showed greater magnitude in negative reversion, as some of the space had been vacant and reversions were computed against historical rent for the specific space.
- QoQ higher aggregate leverage of 40.6% from 37.9%.** Fair value loss on portfolio resulted in a lower asset base used in the computation of aggregate leverage, despite total debt being unchanged.

Outlook

The outlook is negative. The manager expects negative reversions to continue into 1H 2018, stabilising only in 2H 2018. Barring any acquisitions to grow the portfolio, we expect FY18e gross revenue to be lower YoY, due to divestment of KTL Offshore. Current 40.6% gearing inhibits acquisitions, as it is close to the statutory limit of 45%. Divestment proceeds from KTL Offshore is likely to be used to pare down debt. There is an overhang arising from uncertainties on NK Ingredients. Despite NK Ingredients continuing to pose a default risk, our view is that retaining the tenant is the lesser of two evils; the other being to remove the tenant now and suffer an indeterminate period of vacancy.

Ceasing coverage

Our most recent rating from Nov 9, 2017 report, was "Reduce" with target price of \$0.61. We are ceasing coverage on this counter due to reallocation of internal resources.

Ceasing coverage

LAST CLOSE PRICE	SGD 0.705
FORECAST DIV	N.A.
TARGET PRICE	N.A.
TOTAL RETURN	N.A.

COMPANY DATA

BLOOMBERG CODE:	SBREIT SP
O/S SHARES (MN):	1050
MARKET CAP (USD mn / SGD mn):	558 / 740
52 - WK HI/LO (SGD):	0.74 / 0.63
3M Average Daily T/O (mn):	2.04

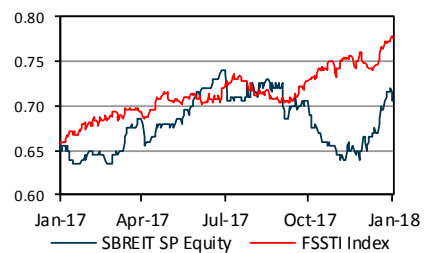
MAJOR SHAREHOLDERS (%)

CHAP HUAT LIM	8.6%
JINQUAN TONG	6.8%
LIM HAN FENG	6.7%
LIM HAN QIN	6.7%
LIM HAN REN	6.7%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	6.0	4.3	16.5
STIRETURN	3.8	6.7	214

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17
Gross Rev. (SGD mn)	79.3	81.1	84.8
NPI (SGD mn)	67.8	70.7	73.5
Dist. Inc. (SGD mn)	57.9	60.3	59.9
P/E (x)	14.1	12.7	14.1
P/NAV (x)	0.94	0.91	1.11
DPU (cents)	6.49	6.09	5.71
Distribution Yield (%)	8.7	9.2	8.1

Source: Company Data, PSR est.

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Ongoing developments

- **Expansion of investment mandate to include Australia.** The manager [announced](#) in November 2017 that it is actively exploring investment opportunities in Australia, where land tenures are longer compared to Singapore. This should also enhance portfolio diversification in terms of tenant base. The manager commented during the results briefing that it is actively looking for acquisitions in Australia, but there is nothing concrete at the moment.
- **Proposed divestment of KTL Offshore.** This was [announced](#) in December 2017 and would transfer away tenant default risk and lower aggregate leverage. The tenant at 61 & 71 Tuas Bay Drive, KTL Offshore Pte Ltd, is in default. The property is commonly known as KTL Offshore and it contributed 5.3% of FY17 portfolio NPI. The property was acquired in October 2014 for \$55.7mn, has been valued at \$53.0mn as at end FY17, and proposed divestment for \$55mn. The Purchaser is a wholly-owned subsidiary of Soilbuild Group Holdings and an Extraordinary General Meeting will be called to seek unitholders' approval. Divestment expected to be completed in 1Q18.
- **Moratorium on proceedings against NK Ingredients.** The manager had sought to take possession of the property at 2 Pioneer Sector 1. However, the tenant, NK Ingredients Pte Ltd, has [applied](#) for a moratorium against proceedings against it. A temporary moratorium has been granted, subject to certain conditions, such as making timely rent payments from here forth and topping up of the security deposit in three tranches. The first default event would be on Jan 31, 2018, when payment of rent for January 2018 is due.

Relative valuation

SBREIT is overvalued relative to the peer average P/NAV multiple, and has a higher yield compared to the peer average. We believe the higher yield compared to peers is a reflection of the risk of the portfolio going forward.

Peer relative data (arranged by Mkt. Cap.)

	Mkt. Cap. (S\$ mn)	Price (S\$)	Trailing P/NAV (x)	12M-trailing yield (%)
Ascendas REIT	7,970	2.76	1.30	5.8
Mapletree Industrial Trust	3,958	2.10	1.49	6.0
AIMS AMP Capital Industrial REIT	929	1.36	1.00	7.2
Viva Industrial Trust	912	0.940	1.19	7.7
ESR-REIT	755	0.575	0.81	6.8
Soilbuild Business Space REIT	740	0.705	1.11	8.4
Sabana Shari'ah Compliant REIT	426	0.405	0.71	8.3
Average			1.09	7.2

Source: Bloomberg (Updated: 18 January 2018)

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16	FY17
Gross revenue	79.3	81.1	84.8
Property expenses	(11.6)	(10.5)	(11.3)
Net property income	67.8	70.7	73.5
Net Finance (Expense)/Inc.	(12.8)	(13.1)	(14.0)
Manager's fees	(6.4)	(6.0)	(6.0)
Other items	(1.4)	(1.2)	(1.3)
Exceptional items	-	-	-
Net income	47.1	50.3	52.2
FV change, Invmnt. properties	4.5	(50.9)	(80.5)
Total Return Before Tax	51.7	(0.6)	(28.3)
Taxation	-	-	-
Total Return After Tax	51.7	(0.6)	(28.3)
Distribution adjustments	6.2	60.8	88.2
Income available for distribution	57.9	60.3	59.9
Income distributed	57.9	60.3	59.9

Per share data (cents)

Y/E Dec	FY15	FY16	FY17
NAV	79.8	72.1	63.6
EPU	5.28	5.21	4.99
DPU	6.49	6.09	5.71

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17
CFO			
Net income	47.1	50.3	52.2
Adjustments	21.8	22.6	15.7
WC changes	(0.5)	10.1	(10.5)
Cash generated from ops	68.4	83.9	57.4
Others	(11.4)	(12.6)	(14.2)
Cashflow from ops	57.1	71.3	43.3
CFI			
CAPEX, net	(25.5)	(31.9)	(0.4)
Purchase of Inv. Propty.	(98.1)	(103.9)	-
Others	-	0.0	-
Cashflow from investments	(123.6)	(135.7)	(0.4)
CFF			
Share issuance, net	88.6	59.1	-
Loans, net of repayments	29.3	73.3	(1.1)
Dividends	(55.7)	(58.9)	(61.7)
Others	-	-	-
Cashflow from financing	62.3	73.4	(62.8)
Net change in cash	(4.2)	9.0	(20.0)
Effects of exchange rate	-	-	-
Ending cash	16.8	25.7	5.7

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

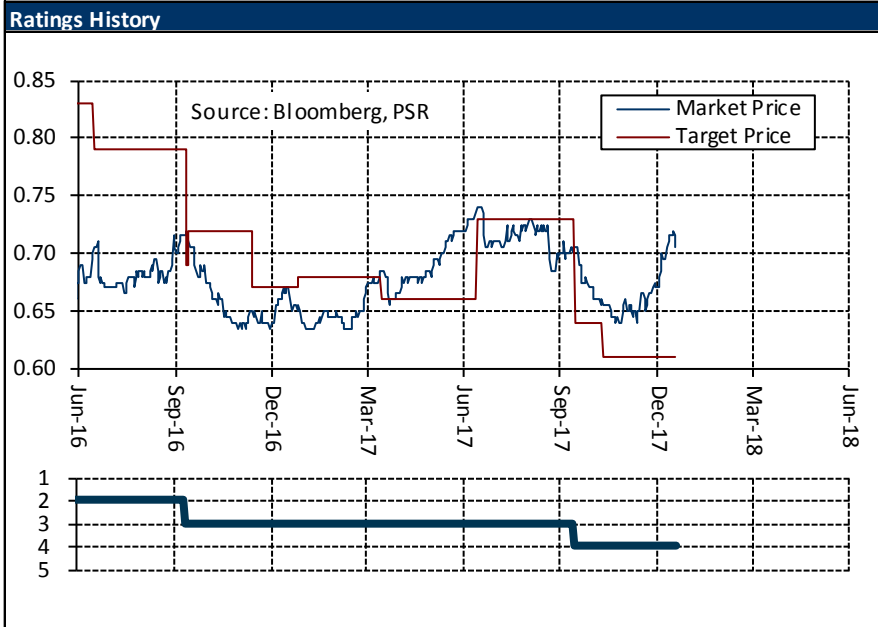
Y/E Dec, SGD mn	FY15	FY16	FY17
ASSETS			
Investment properties	1,191	1,244	1,111
Inv. Propty. Under Devmnt.	-	-	-
Others	3.4	0.9	1.3
Total non-current assets	1,194	1,245	1,112
Cash	16.8	25.7	11.7
Trade receivables	2.4	4.3	3.9
Others	1.2	0.9	54.1
Total current assets	20.4	30.9	69.8
Total Assets	1,215	1,275	1,182
LIABILITIES			
Trade payables	10.1	12.0	10.6
Borrowings	-	-	147
Rental deposits	2.7	5.4	21.8
Others	-	0.2	0.1
Total current liabilities	13	18	180
Borrowings	399	472	327
Rental deposits	24	33	6
Others	33	1	-
Total non-current liabilities	456	506	333
Total Liabilities	469	524	513
Net assets	746	752	669
Represented by:			
Unitholders' funds	746	752	669

Valuation Ratios

Y/E Dec	FY15	FY16	FY17
P/E (x)	14.1	12.7	14.1
P/NAV (x)	0.94	0.91	1.11
P/DPU (x)	11.5	10.8	12.3
Distribution Yield (%)	8.7	9.2	8.1
NPI yield (%)	6.1	5.8	6.2

Growth & Margins (%)

Growth			
Revenue	16.4%	2.3%	4.5%
Net property income (NPI)	18.2%	4.3%	4.0%
Distributable income	15.3%	4.1%	-0.5%
DPU	4.7%	-6.1%	-6.2%
Margins			
NPI margin	85.4%	87.1%	86.6%
Key Ratios			
Net Debt or (Net Cash)	381.8	446.6	462.6
Aggregate Leverage	32.8%	37.0%	40.1%



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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