

Sabana Shari'ah Compliant REIT

Potential DPU growth in FY 2012

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Industry: Real Estate Operations

Phillip Securities Research Pte Ltd

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Report type: Full Year Results

Company Overview

Sabana REIT is a Singapore-based REIT with a mandate to invest in income-producing industrial real estate and real estate-related assets in Singapore and Asia with compliance to Shari'ah investment principles.

- 4Q11 (FY11) revenue \$18.1m (\$76.9m), NPI \$17.0m (\$73.1m), distributable income \$13.8m (\$60.6m)
- 4Q11 (FY11) DPU of 2.17 cents (9.53 cents)
- Maintain Buy recommendation with target price revised up to \$1.05

What is the news?

Gross revenue and net property income rose 3.8% and 2.6% q-q to \$18.1mn and \$17.0mn in 4Q11 respectively. Distributable income was \$13.8mn, 1.4% q-q higher than preceding quarter. The increase in top- and bottom-lines was due to the contribution from the new properties. The interest cost for the credit facilities used to fund the new purchases was financed at 3.4%-3.9%, lower than the 4.8% of IPO tranche. DPU for the reported quarter was 2.17 cents, bringing DPU for FY11 to 9.53 cents. This constitutes c.94% of our FY11 DPU estimates.

Fig.1. Results Summary

Income Statement (Extract)	3Q11	4Q11	q-q (%)	Comments
Revenue	17.4	18.1	3.8%	Contribution from the new properties
NPI	16.6	17.0	2.6%	Higer property expense
Distributable Income	13.6	13.8	1.2%	
DPU (cents)	2.14	2.17	1.4%	Much in-line with our expectations

Source: Trust, PSR

How do we view this?

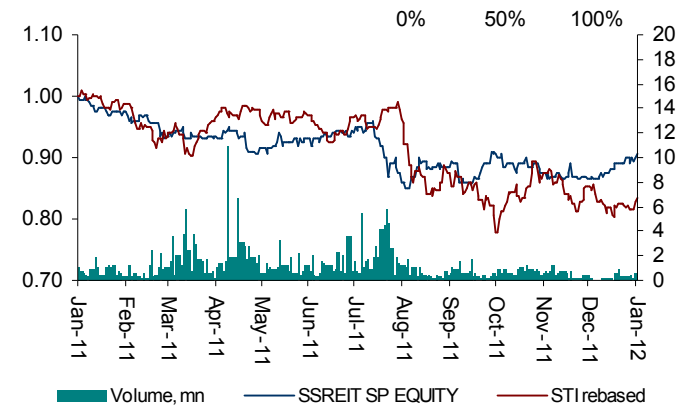
Having the average all-in financing cost moderated down to 4.4%, this would translate to additional cost savings and would further boost the DPU. FY11 DPU of 9.53 cents was much in-line with our expectation. As the transactions of the new properties were completed in the middle and end of 4Q11, we would expect full quarter contribution in 1Q12.

Investment Actions?

To reiterate, we assume occupancy to drop in 2013 as the head tenant may not renew the contract when the bulk of the master leases expired. Hence, FY13 DPU will slide down but recover in FY14 and FY15. As Sabana REIT's FY ended in Dec, we rollover and include FY16 estimates to our forecasts. With impending leases only to expire in 2013, we maintain our BUY recommendation with the target price revised up a clip to \$1.05.

Sabana REIT

Rating	1.00	Buy
- Previous Rating	1.00	Buy
Target Price (SGD)	1.05	
- Previous Target Price (SGD)	1.04	
Closing Price (SGD)	0.905	
Expected Capital Gains (%)	16.0%	
Expected Dividend Yield (%)	9.9%	
Expected Total Return (%)	26.0%	
Raw Beta (Past 2yrs weekly data)	#N/A	N/A
Market Cap. (USD mn)	451	
Enterprise Value (USD mn)	594	
3M Average Daily T/O (mn)	0.5	
52 week range (SGD)	0.835 - 1	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. Freight Links Express Holdings	7.5
2. Al-Salam Bank-Bahrain BSC	5.1
3. Moore Capital Management LP	4.7

Key Financial Summary

FYE	12/11	12/12F	12/13F	12/14F
Revenue (SGD mn)	76.9	78.0	77.7	79.2
Net Profit (SGD mn)	53.5	49.8	49.4	49.9
EPS (SGD)	0.139	0.078	0.077	0.077
P/E basic (X)	6.5	11.6	11.8	11.7
BVPS (SGD)	1.070	1.061	1.055	1.049
P/B (X)	0.8	0.9	0.9	0.9
DPS (SGD)	0.095	0.090	0.084	0.085
Div. Yield (%)	10.5%	10.0%	9.3%	9.4%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

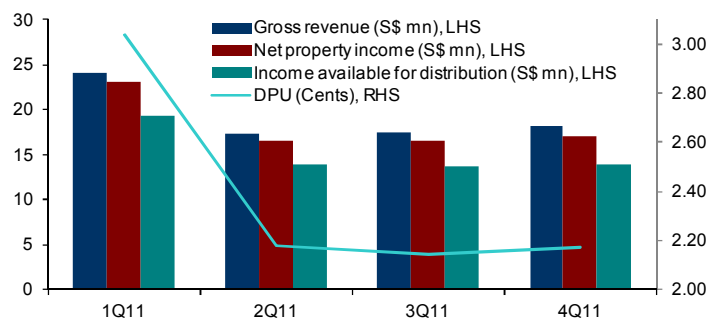
Valuation Method

DDM (Discount rate: 10.0%; terminal g: 1.2%)

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Fig.2. Quarter Gross Revenue, NPI, Distributable income and DPU



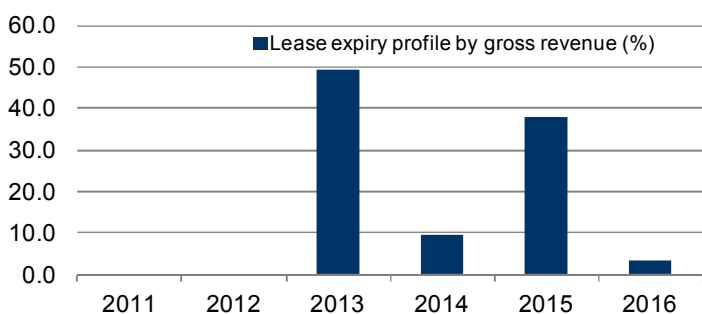
Source: Trust, PSR

1 Tuas Avenue 4 – No rental collections for November and December 2011

Two-month of rental payments (Nov and Dec 2011) were not collected for the chemical warehouse at 1 Tuas Avenue 4. According to the prospectus, security deposits in the form of cash or bank guarantees totaling \$2.1mn was held by Sabana REIT upon the listing date, representing an average of the 12 months of rent. This will act as a buffer and provide the management sufficient time to get a new replacement. In our opinion, given the limited supply of chemical warehouses in Singapore which needs approval by relevant authorities and builds to handle hazardous chemical products, Sabana REIT should not face much problem to source for new tenant.

It was understood that the management is in advanced stage of negotiation with a party for a 10-year lease for the whole building. To some extent the highly concentrated lease expiry profile by gross revenue in 2013 will be slightly reduced should the negotiation materialized.

Fig.3. Lease Expiry Profile by Gross Revenue as at 31 Dec 2011



Source: Trust, PSR

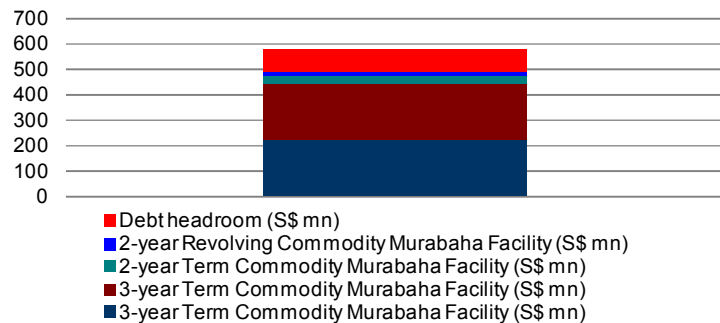
Healthy gearing at 34.1%

Following the acquisition, the aggregate leverage escalated from 23.8% in 3Q11 to 34.1% in 4Q11. This is well below the industry comfortable gearing ratio of 40% and also leaves Sabana REIT with debt headroom of \$87.7mn to acquire new properties based on 39% gearing.

The new tranches were secured through 2- and 3- year term Commodity Murabaha Facilities and revolving Commodity

Murabaha Facility with lower all-in financing cost of 3.4%-3.9%. With the existing loan financed at 4.8%, the aggregate all-in financing cost was moderated down to 4.4%. DPU is expected to enhance given the lower interest cost.

Fig.4. Loan Profile and Debt Headroom as at 31 Dec 2011



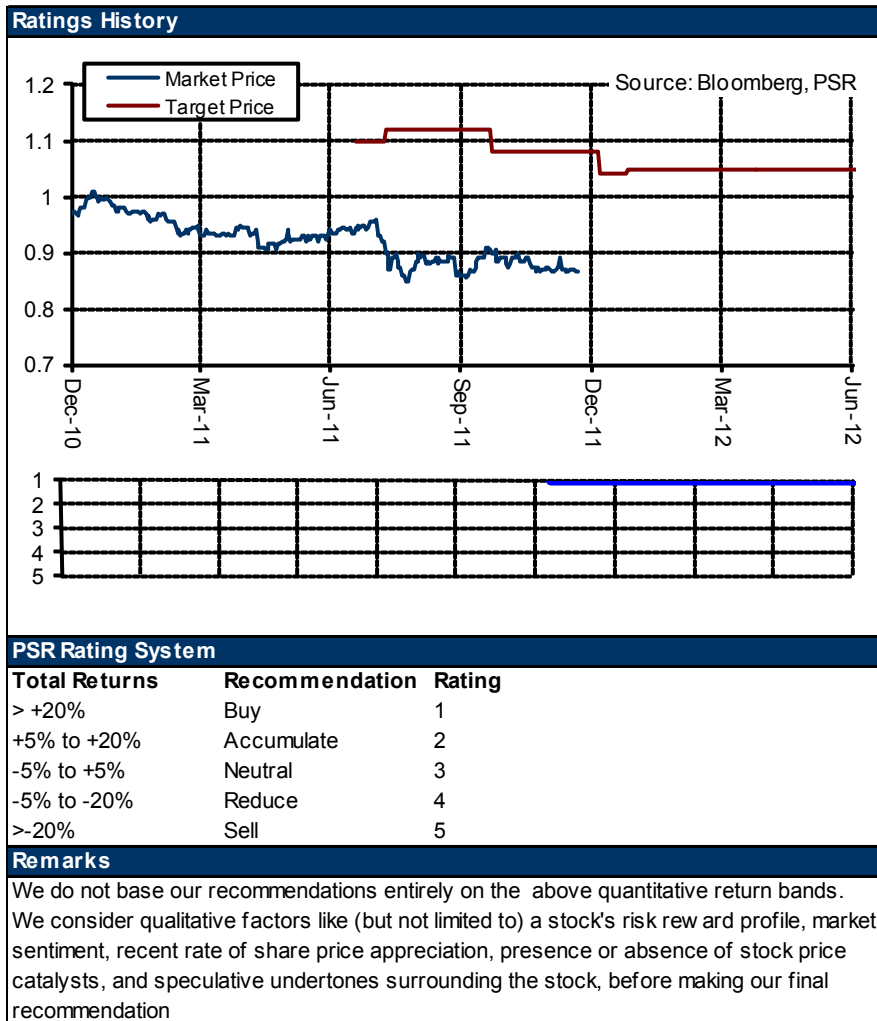
Source: Trust, PSR

FYE Dec	FY11	FY12F	FY13F	FY14F	FY15F
Valuation Ratios					
P/E basic (X)	6.5	11.6	11.8	11.7	11.5
P/B (X)	0.8	0.9	0.9	0.9	0.9
Dividend Yield (%)	10.5%	10.0%	9.3%	9.4%	9.5%
Per share data (SGD)					
EPS basic	0.139	0.078	0.077	0.077	0.079
DPS	0.095	0.090	0.084	0.085	0.086
BVPS	1.070	1.061	1.055	1.049	1.045
Growth & Margins (%)					
Growth					
Revenue	n.m.	1.3%	-0.4%	1.9%	1.1%
EBIT	n.m.	-32.8%	0.5%	0.9%	1.7%
Net Income	n.m.	-6.9%	-0.7%	1.1%	2.1%
EPS	n.m.	-43.9%	-1.9%	1.1%	2.1%
DPS	n.m.	-5.2%	-6.6%	0.9%	1.3%
Margins					
Gross margin	95.0%	96.3%	96.3%	95.3%	95.3%
EBIT margin	130.1%	86.3%	87.1%	86.3%	86.8%
Distribution Margin	78.8%	74.0%	73.0%	72.3%	72.5%
Key Ratios					
ROE (%)	12.9%	7.3%	7.2%	7.3%	7.5%
ROA (%)	8.2%	4.6%	4.6%	4.6%	4.7%
Debt/total assets	0.33	0.34	0.34	0.34	0.34
Debt/equity	0.53	0.53	0.54	0.55	0.55
Interest coverage (x)	8.33	3.82	3.82	3.83	3.88
Income Statement (SGD mn)					
Gross revenue	76.9	78.0	77.7	79.2	80.0
Property expenses	(3.9)	(2.9)	(2.9)	(3.8)	(3.8)
Net property Income	73.1	75.1	74.8	75.4	76.2
Trust expenses	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Management fees	(5.1)	(5.4)	(5.4)	(5.3)	(5.3)
Amortization of intangible asset	(1.5)	(1.2)	(1.2)	(1.2)	(0.9)
Donation of non-shari'ah compliant income	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)
EBIT	100.1	67.3	67.7	68.3	69.5
Interest income	0.1	0.1	0.1	0.1	0.1
Interest expenses	(12.0)	(17.6)	(17.7)	(17.8)	(17.9)
Net income	53.5	49.8	49.4	49.9	51.0
Net change in fair value of financial derivatives	(4.6)	0.0	0.0	0.0	0.0
Net change in fair value of properties	39.4	0.0	0.0	0.0	0.0
Total return before tax and distributions	88.2	49.8	49.4	49.9	51.0
Income tax expense	0.0	0.0	(0.6)	(0.6)	(0.6)
Total return after tax and before distribut	88.2	49.8	48.8	49.4	50.4
Available for distributions	60.6	57.7	56.7	57.3	58.0

Source: PSR

FYE Dec	FY11	FY12F	FY13F	FY14F	FY15F
Balance Sheet (SGD mn)					
Cash & equivalents	31.8	26.8	26.0	25.5	25.1
Trade and other receivables	2.0	2.0	2.0	2.1	2.1
Total current assets	33.8	28.9	28.0	27.6	27.2
Investment properties	1,043.9	1,038.9	1,038.9	1,038.9	1,038.9
Other non-current assets	4.6	3.8	2.6	1.4	0.4
Total non-current assets	1,048.5	1,042.7	1,041.5	1,040.2	1,039.3
Total Assets	1,082.3	1,071.5	1,069.5	1,067.8	1,066.5
Trade and other payables	15.6	17.2	17.2	17.2	17.2
Interest bearing borrowings	11.9	0.0	0.0	0.0	0.0
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Total current liabilities	27.5	17.2	17.2	17.2	17.2
Interest bearing borrowings	347.9	361.7	363.5	365.3	367.1
Other non-current liabilities	25.1	15.2	15.2	15.2	15.2
Total non-current liabilities	373.1	376.9	378.7	380.5	382.3
Total liabilities	400.5	394.1	395.9	397.7	399.6
Shareholder Equity	681.8	677.4	673.6	670.1	667.0
Cashflow Statements (SGD mn)					
CFO					
Total return before tax and distributions	88.2	49.8	49.4	49.9	51.0
Net (inc)/dec in working capital	32.7	(3.7)	0.0	(0.0)	(0.0)
Other operating cashflow	(17.4)	23.1	23.2	23.3	23.0
Cash flow from operations	103.6	69.2	72.0	72.6	73.4
CFI					
Purchase of investment properties	(1,004.5)	0.0	0.0	0.0	0.0
Others	(6.0)	0.1	0.1	0.1	0.1
Cashflow from investments	(1,010.5)	0.1	0.1	0.1	0.1
CFF					
Dividends paid	(46.7)	(58.4)	(57.0)	(57.1)	(57.8)
Inc/(dec) in debt	364.8	0.0	0.0	0.0	0.0
Common stock issuance (repurchase)	664.4	0.0	0.0	0.0	0.0
Other financing cash flow s	(43.9)	(15.8)	(15.9)	(16.0)	(16.1)
Cashflow from financing	938.7	(74.3)	(72.9)	(73.1)	(73.9)
Net change in cash	31.8	(5.0)	(0.8)	(0.5)	(0.4)
Cash & cash eq at beginning of period	0.0	31.8	26.8	26.0	25.5
Cash & cash eq at end of period	31.8	26.8	26.0	25.5	25.1

Source: PSR



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