

Singapore REITs

Industrial sub-sector: A major merger on the horizon

SINGAPORE | REAL ESTATE (REIT) | UPDATE

- We believe ESR is laying the foundation to consolidate SSREIT, CIT and Cache
- Cache has a link to ESR through ARA and Warburg Pincus, but HNA could be an opposing force

What is the news?

The manager of **Sabana Shari'ah Compliant REIT (SSREIT)**, **Sabana Real Estate Investment Management Pte. Ltd. (SREIM)**, announced that Mr Kevin Xayaraj, Chief Executive Officer (CEO) and Executive Director (ED) of SREIM has tendered his resignation and his last day of service will be on 31 December 2017 or earlier. The reason given was to "address unitholder's feedback to pave a way for change and new leadership". This comes after the failed attempt by unitholders to remove SREIM as the manager of SSREIT at the recent Extraordinary General Meeting (EGM) on 28 April.

How do we view this?

Resignation of CEO/ED could be connected to the ongoing Strategic Review

We believe that the resignation of the CEO/ED of SREIM could be part of the terms of the ongoing Strategic Review. Recall that **e-Shang Redwood Limited (ESR)** recently became a substantial unitholder of SSREIT with a 5.01% stake in March this year. Though there has been no confirmation, it is possible ESR had voted against Resolution 1 of the EGM to remove SREIM as the manager of SSREIT; and had also voted against Resolution 3 of the Annual General Meeting (AGM) to authorise the manager to issue units or convertible instruments.

ESR exerting pressure on SREIM

We believe that it is not ESR's intention to become the largest shareholder of SSREIT, but to acquire the crown jewel – the lucrative REIT manager franchise. By voting against Resolution 3 of the AGM, ESR had effectively crippled the incumbent manager's ability to make acquisitions, or to manage the cash available for distributable income to unitholders.

Acquiring the manager appears to be cheaper than voting to remove it

In August 2016, the Trustee-Manager of **Croesus Retail Trust (CRT)** was internalised for JPY 4,100 million (~S\$50 million). Based on the JPY 631.837 million Trustee-Manager's fees during FY2016 ended-June, the internalisation was at a Price-to-Sales (PS) multiple of 6.5x of the Trustee-Manager's revenue. Applying the same 6.5x PS multiple to SREIM for FY2016 ended-December Manager's fees of S\$5.333 million, it would appear that SREIM would be priced at ~S\$34.6 million.

In March 2017, ESR had acquired a further 0.12% of SSREIT for S\$546,250, bringing its total stake to 5.01%. We estimate that ESR would have had required at least ~15% of voting rights in SSREIT, had it wanted to vote in favour of Resolution 1 of the EGM to remove SREIM and be reasonably assured of success. The cost of acquiring 15% of SSREIT would have required somewhere in excess of S\$70 million.

Not uncommon for the board of directors and key management to be reshuffled

We have seen board members and key management being reshuffled, as new majority shareholders of the managers of **Cambridge Industrial Trust (CIT)** and **IREIT Global (IREIT)** emerged.

In the case of CIT, ESR had acquired an 80% stake in **Cambridge Industrial Trust Management Limited (CITM)**, the manager of CIT in January 2017. Prior to ESR's acquisition, Mr Philip Henry Lewis Levinson, CITM's then-CEO, had resigned just two months earlier in November 2016 (similar to resignation of SREIM's CEO, Mr Kevin Xayaraj) and so did Non-Executive Director, Mr Ian Andrew Smith in July 2016 (similar to resignation of SREIM's Non-Executive Director, Ms Ng Shin Ein in February 2017).

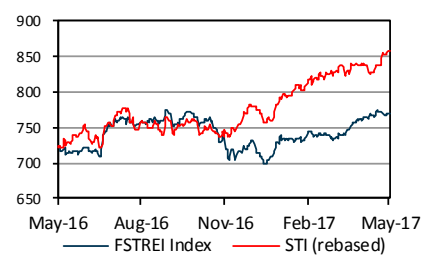
11 May 2017

Equal Weight

INDEX PERFORMANCE (%)

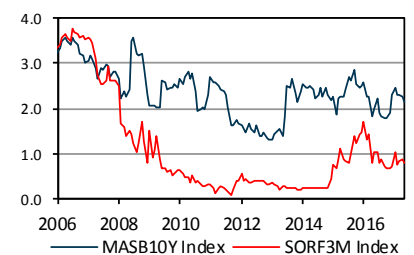
	1M TH	3M TH	1YR
FSTREIRETURN	2.2	5.2	13.5
STIRETURN	3.1	6.7	21.6

FSTREI VS. STI



Source: Bloomberg, PSR

10-year SGS (%) & 3-month SOR (%)



Source: Bloomberg, PSR

Richard Leow, CFTe, FRM (+65 6212 1848)
richardleowwt@phillip.com.sg

Following the completion of ERS's acquisition of the 80% stake in CITM, there were three staff movements in March 2017. Mr Adrian Chui Wai Yin was appointed as the CEO/ED of CITM, Mr Michael Patrick Dwyer resigned to take on a new appointment at ESR and Mr Pearce Philip John was appointed to the Board of CITM.

In the case of IREIT, **Tikehau Investment Management Asia Pacific Pte. Ltd. (Tikehau)** had acquired an 80% stake in IREIT Global Group Pte. Ltd., the manager of IREIT in November 2016. On the same day that the acquisition of the manager was completed, Mr Bruno de Pampelonne was appointed as Non-Executive Director; Mr Itzhak Sella and Mrs Jeremy Adina Bard Cooper resigned from their positions as CEO/ED and Chief Investment Officer/Asset Manager respectively, pursuant to the terms of the acquisition.

CIT is our prime suspect for a consolidation with SSREIT

If ESR were to become a majority shareholder of SREIM, we believe that a consolidation between CIT and SSREIT would be on the cards. ESR is the majority shareholder of CITM and holds a 12.01% stake in CIT (second largest unitholder). A consolidation of the two REITs would bring about scale and efficiency in managing the two portfolios as one. The combined market capitalization of the two REITs would possibly cross the S\$1 billion mark with investment properties in excess of S\$2.3 billion, placing it between **Keppel DC REIT (KDCREIT)** (S\$1.4 billion) and **AIMS AMP Capital Industrial REIT (AAREIT)** (S\$880 million) in terms of market capitalization.

Cache could be included too, by virtue of its relation with Warburg Pincus through ARA

ARA Asset Management Limited (ARA) has been delisted, following a privatisation offer by founder, Mr John Lim together with a consortium which includes private-equity firm, Warburg Pincus. ESR is a subsidiary of Warburg Pincus and Warburg Pincus would have an effective stake in the manager of **Cache Logistics Trust (Cache)**, **ARA-CWT Trust Management (Cache) Limited**. The manager is a 60:40 joint-venture between ARA and **CWT Limited (CWT)**.

There is also an ongoing offer by **HNA Holding Group (HNA)** to acquire CWT. Apart from being a part-owner of Cache's manager, CWT is also the Sponsor for Cache. In the event of a takeover of CWT by HNA, CWT's right of first refusal (ROFR) agreement to Cache remains valid provided ARA-CWT Trust Management (Cache) Limited remains the manager of the trust, and CWT holds at least 15% of the manager. HNA could oppose a merger for Cache, as HNA may lose a platform to inject its assets into to recycle capital.

Mr Tong has majority interest in VIT and could push for a merger as well

ESR currently does not have any involvement with **Viva Industrial Trust (VIT)**. The Sponsors of VIT are **Ho Lee Group Pte. Ltd. (HLG)** and **Kim Seng Holdings Pte. Ltd. (KSH)**. VIT trades as a stapled security with a REIT manager and a business trust trustee-manager – both of which are wholly owned by **Viva Investment Management Pte. Ltd. (VIM)**. VIM is owned by HLG, KSH and various other possible individuals such as Mr Wilson Ang Poh Seng (CEO/ED), Mr Frank Ng Tze Wei (Head of Investor Relations & Investment) and Mr Tong Jinquan (Mr Tong). However, Mr Tong recently became the majority stapled securityholder of VIT on 17 February with a deemed interest of 50.08%.

No influence by ESR over SBREIT has been established

For now, it does not appear that ESR is able to exert any direct influence over **Soilbuild Business Space REIT (SBREIT)**. Both the Sponsor and manager of SBREIT are 100% owned by Mr Lim Chap Huat (Mr Lim). Mr Lim is also the largest unitholder of SBREIT with a 25.56% stake. However, Mr Lim is invested in REITs such as IREIT and SBREIT together with Mr Tong. Mr Tong is in turn invested in CIT and SSREIT, together with ESR.

Investment Actions

We would view any unusual trading activity or price-spikes in the smaller capitalised REITs such as SSREIT, CIT, Cache and VIT as market optimism over a consolidation materialising. At this time, we place a lower probability of SBREIT being involved in such a consolidation.

Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Operations Officer

Mohamed Amiruddin – amiruddin@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin – sohls@phillip.com.sg

Property | Infrastructure

Peter Ng – peterngmc@phillip.com.sg

Macro

Pei Sai Teng – peist@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow, CFTe, FRM –
richardleowwt@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan – tandh@phillip.com.sg

Technical Analysis

Jeremy Ng – jeremyngch@phillip.com.sg

Banking and Finance

Jeremy Teong – jeremyteongfh@phillip.com.sg

US Equity

Ho Kang Wei – hokw@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi – chengz@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

SRI LANKA

Asha Phillip Securities Limited

2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre,#61-64,
Norodom Blvd Corner Street 306,Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

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