

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

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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.

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