

Sabana Shari'ah Compliant REIT

Will there be closure for unitholders?



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SINGAPORE | REAL ESTATE (REIT) | TRADING NOTE

8 August 2017

- News article by Reuters on possible acquisition of Sabana REIT by e-Shang Redwood
- Managers of both Sabana REIT and ESR-REIT have issued clarification announcements
- Maintain Trading Buy with higher target price of \$0.57

What is the news?

A news article by Reuters mentioned that **e-Shang Redwood (ESR)** is in advanced talks to buy **Sabana Shari'ah Compliant REIT (SSREIT)**. This resulted in the price of SSREIT to surge 10% to \$0.49 before a halt in trading was called. The Managers of both SSREIT and ESR-REIT have issued clarification announcements to say that the Manager of SSREIT had approached the Manager of ESR-REIT as part of the ongoing strategic review and that discussions are ongoing.

How do we view this?

This does not come as a surprise to us. ESR had crossed the threshold as a new substantial Unitholder with a 5.01% stake in SSREIT on 3 March and we had stated in our [report](#) (6 March 2017) the possibility of a takeover by ESR. In fact, we had first floated the idea of a takeover in our very first [report](#) (23 January 2017).

Investors who had bought into our event-driven thesis would have reaped 31% capital appreciation and received three distributions totalling 2.57 cents for a total return of 38% over a holding period of about six and a half months.

Acquisition of SSREIT's assets is more likely than acquiring the Manager. If ESR's intent is for a consolidation to reap the benefits of scale, we view the acquisition of SSREIT's assets is the more likely outcome. Acquiring a stake in the Manager and managing both REITs separately does not bring about any benefits of scale. The likely course of action would be to acquire the assets for injection into ESR-REIT.

An equity swap between units of SSREIT and ESR-REIT is possible too. Other than an outright purchase of the assets by ESR for subsequent injection into ESR-REIT, ESR-REIT could instead be the acquirer. In which case, we do not rule out an equity swap transaction. ESR-REIT currently has an aggregate leverage of 37.9%, and we estimate a debt headroom of \$180 million based on 45% target aggregate leverage – which is clearly insufficient to acquire SSREIT's \$964 million in investment properties.

Managers are duty bound to put the interest of unitholders ahead of their own. This is particularly pertinent in this event, as the sale of assets would result in the Manager losing the recurring income from the management fees. As such, if the Manager rejects a reasonable offer, it would have to justify why the offer is not in the best interest of unitholders.

Interested party transaction rules would likely apply. With ESR being a substantial unitholder in both SSREIT (5.01%) and ESR-REIT (12.01%), this would probably be an interested party transaction. What this means is that the assets would be transacted at close to the book value, with neither party paying an excessive premium nor selling at a steep discount.

Maintain Trading Buy, higher target price of \$0.57 (previously \$0.54)

In view of the likely interested party transaction, we are pricing our target price at 1.0x P/NAV multiple over 2Q16 NAV of \$0.57. The key risk to our event-driven thesis is that the sale of assets does not materialise.

Trading Buy

LAST CLOSE PRICE	SGD 0.490
FORECAST DIV	N/A
TARGET PRICE	SGD 0.570
TOTAL RETURN	16.3%

COMPANY DATA

BLOOMBERG CODE:	SSREIT SP
O/S SHARES (MN):	1053.1
MARKET CAP (USD mn / SGD mn):	371 / 505
52 - WK HI/LO (SGD):	0.52 / 0.34
3M Average Daily T/O (mn):	162

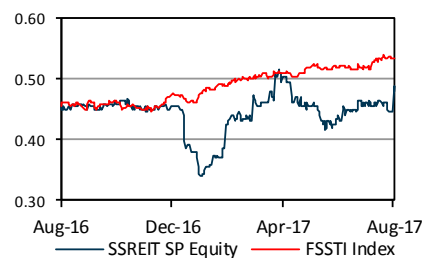
MAJOR SHAREHOLDERS (%)

JINQUAN TONG	6.2%
E-SHANG INFINITY CAYMAN LTD	5.0%
VIBRANT GROUP	4.6%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	8.4	11.8	17.1
STIRETURN	3.6	3.9	21.4

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 13	FY 14	FY 15	FY 16
Gross Rev. (SGD mn)	89.8	100.3	100.8	918
NPI (SGD mn)	80.4	72.9	716	56.9
Dist. Inc. (SGD mn)	618	516	50.1	36.9
P/NAV (x)	0.99	0.88	0.80	0.50
DPU, adj (cents)	9.38	7.33	6.85	4.17
Distribution Yield (%)	8.7	7.8	9.6	9.7

Source: Company Data, Bloomberg

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Peer relative data (arranged by Mkt. Cap.)

	Mkt. Cap. (S\$ mn)	Price (S\$)	P/NAV (x)	12M trailing yield (%)
Ascendas REIT	7,734	2.68	1.29	5.9
Mapletree Industrial Trust	3,335	1.850	1.32	6.2
AIMS AMP Capital Industrial REIT	909	1.420	1.02	7.6
Viva Industrial Trust	890	0.920	1.16	7.9
Soilbuild Business Space REIT	751	0.715	1.00	8.3
ESR-REIT	744	0.570	0.90	6.9
Sabana Shari'ah Compliant REIT	505	0.480	0.84	7.5
Average			1.08	7.2

Source: Bloomberg (Updated: 8 August 2017)

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