

Soilbuild Business Space REIT

Negligible vacancy risk for the rest of the year

SINGAPORE | REAL ESTATE (REIT) | RESULTS

- S\$19.57mn 2QFY16 GRI missed consensus expectations of S\$20.6mn by 5%
- 1.565 cents 2QFY16 DPU in line with consensus expectations of 1.54 cents
- Lower than expected GRI was offset by lower property tax, lifting NPI
- 2% of leased lettable area left to renew this year

Results at a glance

(SGD mn)	2Q16	2Q15	y-y (%)	Comments
Gross revenue	19.57	19.59	↓(0.1)	Lower revenue from West Park BizCentral (S\$1.0mn) and Tuas Connection (\$0.4mn), offset by higher rental revenue from Technics (S\$1.2mn) acquired in May 2015 and Solaris (S\$0.1mn)
Net property income	17.33	16.71	↑3.7	Property expenses lower by S\$0.6mn mainly due to lower property tax for West Park BizCentral
Distributable income	14.73	14.30	↑3.0	In line with higher Net property income
DPU (cents)	1.565	1.615	↓(3.1)	Larger unit base - 940.7mn in 2Q16 vs. 929.7mn in 2Q15

Source: Company, Phillip Securities Research (Singapore)

Lower than expected GRI was offset by lower property tax, thus lifting NPI and resulting in DPU coming within expectations

Gross rental income (GRI) missed our expectations by 5%, while distribution per unit (DPU) was in line. This was due mainly to lower property tax for West Park BizCentral, which lifted net property income (NPI) and flowed through to distributable income. The 3.1% lower yoy DPU was due to the larger unit base following the Private Placement of 111.8mn new units in 4QFY15.

Sluggish leasing in 2QFY16, but portfolio occupancy remains healthy at 92%

Three renewals were done at 5.7% negative rental reversions; and three new leases were signed at West Park BizCentral and Tuas Connection. There were no forward renewals done during the quarter. Occupancy at West Park BizCentral was worse than expected, plunging 9.6pps qoq to 82.7%. The Manager shared that rent incentives (rent-free period and fit-out period) have remained consistent, but it is the signing rate that has come down. The Manager also guided that volatility in occupancy is to be expected, due to the softer market. Some short-term new leases (three to six months) were signed, which will help to cushion the volatility.

Update on Technics Offshore Property

The Manager has encashed the security deposit of S\$11.8mn from Technics and continues to bill the tenant with rent in arrears. The Manager is actively seeking new tenants to take over the property before the rental arrears exceeds the security deposit. Our view is that it would likely be challenging to find a single tenant to take up the entire Property. The Manager shared that "a couple of smaller users" have expressed interest in the Property, with one putting in an offer. The Manager is open to leasing out the space under a multi-tenancy, and is optimistic on achieving 75% to 80% occupancy.

Maintain "Accumulate" rating with lower DDM valuation of S\$0.79

The portfolio is generally stable, with no master leases expiring within the next two years and only 2% of leases expiring for the remainder of 2016. We have lowered our FY16/17/18 gross revenue assumptions by 2.4%/2.9%/3.6% from previous estimates, in view of the softer leasing market. DDM valuation is now S\$0.79 (previously S\$0.83).

14 July 2016

Accumulate (Maintained)

LAST CLOSE PRICE	SGD 0.700
FORECAST DIV	SGD 0.065
TARGET PRICE	SGD 0.790
TOTAL RETURN	22.1%

COMPANY DATA

O/S SHARES (MN) :	941
MARKET CAP (USD mn / SGD mn) :	492 / 663
52 - WK HI/LO (SGD) :	0.88 / 0.66
3M Average Daily T/O (mn) :	145

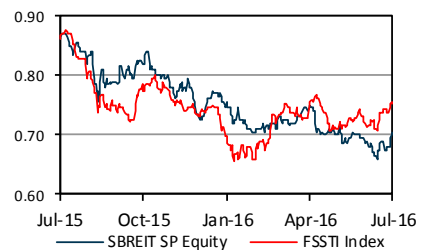
MAJOR SHAREHOLDERS (%)

CHAP HUAT LIM	24.9%
SCHRODERS PLC	8.0%
JINQUAN TONG	6.9%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	0.7	(4.0)	(11.8)
STI RETURN	4.5	2.2	(8.9)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 14	FY 15	FY 16e	FY 17e
Gross Rev. (SGD mn)	68.1	79.3	80.0	81.0
NPI (SGD mn)	57.4	67.8	69.4	70.5
Dist. Inc. (SGD mn)	50.2	57.9	54.1	56.8
P/NAV (x)	0.99	0.94	0.93	0.94
DPU, adj (Cents)	6.19	6.49	6.10	5.98
Distribution Yield, %	7.9	8.7	8.4	8.3

Source: Company Data, PSR est.

VALUATION METHOD

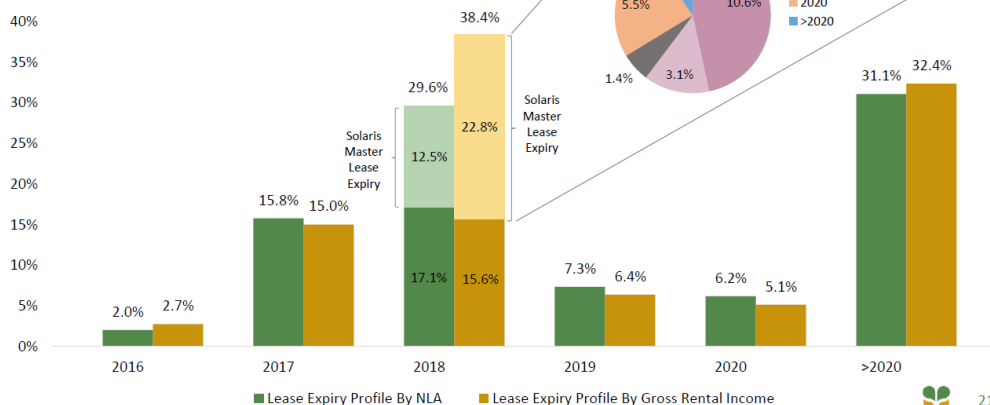
DDM (Cost of Equity: 7.4%; Terminal g: 0.5%)

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

Portfolio Lease Expiry Profile

By % of NLA & % of Rental Income

WALE (by NLA)	4.1 years
WALE (by Gross Rental Income)	4.6 years



Source: Company 2QFY16 Results Presentation, 14 July 2016

2.0% of leased lettable area up for renewal in remainder of 2016

This comes from West Park BizCentral and Eightrium.

15.8% of leased lettable area up for renewal in 2017

About half of this comes from West Park BizCentral, with the remainder approximately split evenly between Eightrium and Tuas Connection. Based on the passing rents at these properties, the Manager shared on possible rent reversions at Eightrium (highly dependent on how other landlords in the area such as Mapletree and Ascendas price their space), Tuas Connection (flat), and West Park BizCentral (c.5% negative reversion).

Relative valuation

Soilbuild Business Space REIT (SBREIT) is undervalued relative to the peer average P/NAV multiple, and offers a higher yield than both the peer average and the larger-capitalised peers.

Peer relative data (arranged by Mkt. Cap.)

	Mkt. Cap. (S\$ mn)	Price (S\$)	trailing P/NAV (x)	12M trailing yield (%)
Ascendas REIT	6,552	2.45	1.19	6.3
Mapletree Industrial Trust	3,152	1.750	1.28	6.4
AIMS AMP Capital Industrial REIT	913	1.435	0.97	7.9
Cambridge Industrial Trust	724	0.555	0.83	8.4
Soilbuild Business Space REIT	658	0.700	0.88	9.2
Viva Industrial Trust	632	0.730	0.90	9.3
Sabana Shari'ah Compliant REIT	394	0.535	0.60	12.0
Average			0.95	8.5

Source: Bloomberg (Updated: 13 July 2016)

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
Gross revenue	68.1	79.3	80.0	81.0	81.9
Property expenses	(10.8)	(11.6)	(10.6)	(10.5)	(11.9)
Net property income	57.4	67.8	69.4	70.5	70.0
Net Finance (Expense)/Inc.	(9.7)	(12.8)	(13.6)	(14.8)	(15.5)
Manager's fees	(5.5)	(6.4)	(5.7)	(5.7)	(5.6)
Other items	(1.1)	(1.4)	(1.3)	(1.4)	(1.4)
Exceptional items	-	-	-	-	-
Net income	41.2	47.1	48.8	48.6	47.5
FV change, Invmnt. properties	0.9	4.5	-	-	-
Total Return Before Tax	42.1	51.7	48.8	48.6	47.5
Taxation	-	-	-	-	-
Total Return After Tax	42.1	51.7	48.8	48.6	47.5
Distribution adjustments	8.1	6.2	8.4	8.3	8.2
Income available for distribution	50.2	57.9	57.2	56.9	55.7
Income distributed	50.2	57.9	57.2	56.9	55.7

Per share data

Y/E Dec	FY14	FY15	FY16e	FY17e	FY18e
NAV (Cents)	80.0	79.8	78.6	77.6	76.6
EPU (Cents)	5.09	5.28	5.20	5.12	4.96
DPU (Cents)	6.19	6.49	6.11	5.99	5.81

Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
CFO					
Net income	41.2	47.1	48.8	48.6	47.5
Adjustments	16.7	21.8	19.9	21.0	21.6
WC changes	3.4	(0.5)	0.1	0.1	0.1
Cash generated from ops	61.3	68.4	68.8	69.8	69.2
Others	(7.4)	(11.4)	(14.2)	(15.3)	(16.0)
Cashflow from ops	53.9	57.1	54.6	54.4	53.2
CFI					
CAPEX, net	(0.2)	(25.5)	(32.0)	-	-
Purchase of Inv. Propty.	(94.6)	(98.1)	-	-	-
Others	-	-	-	-	-
Cashflow from investments	(94.8)	(123.6)	(32.0)	-	-
CFF					
Share issuance, net	(0.1)	88.6	-	-	-
Loans, net of repayments	91.5	29.3	37.0	-	-
Dividends	(49.4)	(55.7)	(58.3)	(57.0)	(56.1)
Others	-	-	-	-	-
Cashflow from financing	41.9	62.3	(21.3)	(57.0)	(56.1)
Net change in cash	1.0	(4.2)	1.4	(2.5)	(2.9)
Effects of exchange rate	-	-	-	-	-
Ending cash	21.0	16.8	18.1	15.6	12.7

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	FY14	FY15	FY16e	FY17e	FY18e
ASSETS					
Investment properties	1,031	1,191	1,223	1,223	1,223
Inv. Propty. Under Devmnt.	-	-	-	-	-
PPE	-	-	-	-	-
Others	1.0	3.4	3.4	3.4	3.4
Total non-current assets	1,032	1,194	1,226	1,226	1,226
Cash	21.0	16.8	18.1	15.6	12.7
Trade receivables	0.8	2.4	2.5	2.5	2.5
Others	0.5	1.2	1.2	1.3	1.3
Total current assets	22.3	20.4	21.8	19.3	16.5
Total Assets	1,054	1,215	1,248	1,245	1,243
LIABILITIES					
Trade payables	8.7	10.1	10.2	10.3	10.4
Borrowings	94.6	-	-	-	-
Others	2.6	2.7	2.7	2.8	2.8
Total current liabilities	105.9	12.8	12.9	13.1	13.3
Borrowings	274.3	398.5	435.5	435.5	435.5
Others	23.0	57.2	57.2	57.2	57.2
Total non-current liabilities	297.3	455.7	492.7	492.7	492.7
Total Liabilities	403.2	468.6	505.7	505.8	506.0
Net assets	650.8	746.0	742.3	739.6	736.6
Represented by:					
Unitholders' funds	650.8	746.0	742.3	739.6	736.6

Valuation Ratios

Y/E Dec	FY14	FY15	FY16e	FY17e	FY18e
P/NAV (x)	0.99	0.94	0.92	0.93	0.95
P/DPU (x)	12.73	11.52	11.88	12.09	12.47
Distribution Yield (%)	7.86	8.68	8.42	8.27	8.02
NPI yield (%)	-	-	5.75	5.77	5.73

Growth & Margins (%)

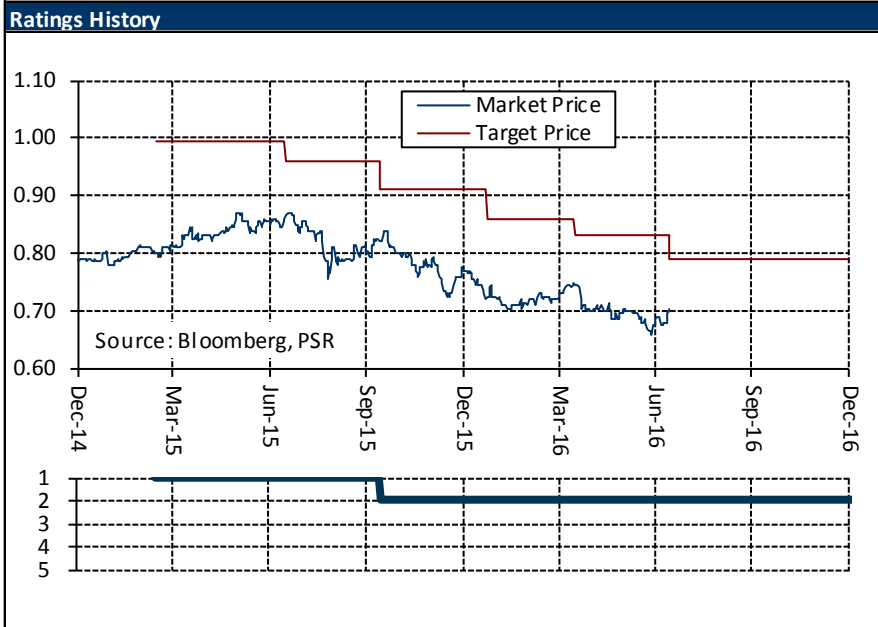
	FY14	FY15	FY16e	FY17e	FY18e
Growth					
Revenue	16.4%	0.8%	1.3%	1.1%	
Net property income (NPI)	18.2%	2.4%	1.6%	-0.7%	
Distributable income	15.3%	-1.1%	-0.5%	-2.2%	
DPU	4.7%	-5.9%	-1.8%	-3.0%	

Margins

	FY14	FY15	FY16e	FY17e	FY18e
NPI margin	84.2%	85.4%	86.8%	87.0%	85.5%

Key Ratios

	FY14	FY15	FY16e	FY17e	FY18e
Net Debt or (Net Cash)	348.0	381.8	417.4	419.9	422.8
Gearing (%)	35.0%	32.8%	34.9%	35.0%	35.0%



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

Contact Information (Singapore Research Team)

Research Operations Officer

Mohamed Amiruddin - amiruddin@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin - sohls@phillip.com.sg

Transport | REITs (Industrial)

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

Banking and Finance

Jeremy Teong - jeremyteongfh@phillip.com.sg

Property | Infrastructure

Peter Ng - peterngmc@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan - tandh@phillip.com.sg

US Equity

Ho Kang Wei - hokw@phillip.com.sg

Macro

Pei Sai Teng - peist@phillip.com.sg

Technical Analysis

Jeremy Ng - jeremyngch@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

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

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

UNITED STATES

Phillip Futures 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

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

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

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

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

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

AUSTRALIA

Phillip Capital Limited

Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

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

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

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

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

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

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

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