

Soilbuild Business Space REIT

Bukit Batok Connection adds stability, but Technics Offshore remains a drag

SINGAPORE | REAL ESTATE (REIT) | UPDATE

11 October 2016

- Preferential Offering was oversubscribed
- Acquisition of Bukit Batok Connection has been completed
- Acquisition adds stability to the portfolio
- Cutting our estimates for Technics Offshore

What is the news?

Soilbuild Business Space REIT (SBREIT) announced the successful acceptance of its Preferential Offering (PO) and completion of the acquisition of Bukit Batok Connection.

There was a valid acceptance for a total of 83,550,598 New Units, with applications for additional New Units being in excess of provisional allotments under the PO. The PO was 1.74 times subscribed. A total of 94,353,672 New Units were allotted, inclusive of 10,803,074 Excess New Units. The New Units were issued at the issue price of S\$0.63 per New Unit and gross proceeds was c.S\$59.4 million. As a result of the strong demand for Excess New Units, Mr Lim Chap Huat, the Sponsor of Soilbuild REIT has only subscribed for his pro rata entitlement of approximately 23.7 million New Units.

In connection with the acquisition of Bukit Batok Connection for S\$100.5mn, SBREIT has entered into a master lease agreement with SB (Westview) Investment Pte Ltd (SB Westview) for a term of seven years on a double net lease basis. Initial annual rental is S\$8.0mn.

How do we view this?

Master lease arrangement adds stability and nudges up portfolio WALE

The master lease for Bukit Batok Connection is on a double-net basis. We understand from the Manager that the reason for that (instead of triple-net) is because the land rent for the property has already been paid up front. As disclosed by the Manager, portfolio weighted average lease expiry (WALE) gets extended to 4.4 years from 4.1 years, by net leasable area (NLA); and to 4.8 years from 4.6 years, by gross rental income (GRI).

Enlarged portfolio to mitigate uncertainties from multi-tenanted properties

SBREIT has three multi-tenanted properties within its portfolio – Eightrium, West Park Bizcentral and Tuas Connection. These three properties contributed 54.7% to portfolio GRI in FY15. On a pro forma basis, their contribution would be marginally lower at 52.5%, taking into consideration the partial contribution from Technics Offshore, which was acquired in 2QFY15 (May 2015). With the addition of Bukit Batok Connection into the portfolio, we estimate the multi-tenanted properties to contribute c.51% of FY16e GRI.

Higher gearing, higher finance costs and dilutive PO

We estimate that SBREIT had raised c.S\$41.1mn of debt to complete the acquisition. Consequently, gearing edges up to c.37% from 36%, with marginal increase in interest expense. Distribution per unit (DPU) for the next four quarters is expected to be lower year-on-year (yoy) due to the 10% dilution, but Unitholders who did subscribe to their pro rata allotments would not be subjected to the dilution.

Technics Offshore remains the key drag to the portfolio, cutting our estimates for FY17e

As of end-2QFY16, the Manager was in negotiations with prospective tenants, to lease the property out piecemeal. We have assumed an occupancy of 60% from 3QFY17 onwards, coinciding with the depletion of the 18-months security deposit.

Downgrade to "Neutral" rating with lower DDM valuation of S\$0.69 (previous: S\$0.79)

Our new target price is lower than the previous, due to the 10% dilution to the Unitholder base and the effect of the lower occupancy expected at Technics Offshore.

Note: SBREIT will be announcing 3QFY16 financial results on 12 October, after trading hours.

Neutral (Downgraded)

LAST CLOSE PRICE	SGD 0.715
FORECAST DIV	SGD 0.065
TARGET PRICE	SGD 0.690
TOTAL RETURN	5.6%

COMPANY DATA

O/S SHARES (MN) :	1039
MARKET CAP (USD mn / SGD mn) :	545 / 748
52 - WK HI/LO (SGD) :	0.84 / 0.65
3M Average Daily T/O (mn) :	159

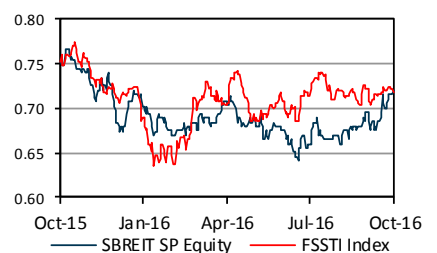
MAJOR SHAREHOLDERS (%)

CHAP HUAT LIM	25.3%
SCHRODERS PLC	7.2%
JINQUAN TONG	6.3%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	3.6	9.2	(4.9)
STI RETURN	(0.6)	2.1	0.9

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	81.7	86.9
NPI (SGD mn)	57.4	67.8	70.9	75.6
Dist. Inc. (SGD mn)	50.2	57.9	58.3	60.7
P/NAV (x)	0.99	0.94	0.87	0.88
DPU, adj (Cents)	6.19	6.49	5.94	5.82
Distribution Yield, %	7.9	8.7	8.8	8.6

Source: Company Data, PSR est.

VALUATION METHOD

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

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Peer relative valuation

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	6,985	2.48	1.22	8.5
Mapletree Industrial Trust	3,135	1.740	1.27	6.5
AIMS AMP Capital Industrial REIT	899	1.410	0.95	8.0
Soilbuild Business Space REIT	748	0.720	0.92	8.8
Cambridge Industrial Trust	717	0.550	0.82	8.2
Viva Industrial Trust	686	0.790	0.98	8.4
Sabana Shari'ah Compliant REIT	387	0.525	0.65	11.1
Average			0.97	8.5

Source: Bloomberg (Updated: 10 October 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	81.7	86.9	86.2
Property expenses	(10.8)	(11.6)	(10.8)	(11.3)	(12.5)
Net property income	57.4	67.8	70.9	75.6	73.7
Net Finance (Expense)/Inc.	(9.7)	(12.8)	(14.0)	(16.2)	(17.0)
Manager's fees	(5.5)	(6.4)	(5.9)	(6.1)	(5.8)
Other items	(1.1)	(1.4)	(1.3)	(1.5)	(1.5)
Exceptional items	-	-	-	-	-
Net income	41.2	47.1	49.7	51.8	49.4
FV change, Invmnt. properties	0.9	4.5	-	-	-
Total Return Before Tax	42.1	51.7	49.7	51.8	49.4
Taxation	-	-	-	-	-
Total Return After Tax	42.1	51.7	49.7	51.8	49.4
Distribution adjustments	8.1	6.2	8.6	8.9	8.6
Income available for distribution	50.2	57.9	58.3	60.7	58.0
Income distributed	50.2	57.9	58.3	60.7	58.0

Per share data

Y/E Dec	FY14	FY15	FY16e	FY17e	FY18e
NAV (Cents)	80.0	79.8	77.3	76.3	75.4
EPU (Cents)	5.09	5.28	5.04	4.97	4.69
DPU (Cents)	6.19	6.49	5.94	5.82	5.51

Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
CFO					
Net income	41.2	47.1	49.7	51.8	49.4
Adjustments	16.7	21.8	20.5	22.9	23.3
WC changes	3.4	(0.5)	0.3	0.6	(0.1)
Cash generated from ops	61.3	68.4	70.5	75.3	72.6
Others	(7.4)	(11.4)	(14.6)	(16.8)	(17.5)
Cashflow from ops	53.9	57.1	55.9	58.5	55.1
CFI					
CAPEX, net	(0.2)	(25.5)	(32.0)	-	-
Purchase of Inv. Propty.	(94.6)	(98.1)	(100.5)	-	-
Others	-	-	-	-	-
Cashflow from investments	(94.8)	(123.6)	(132.5)	-	-
CFF					
Share issuance, net	(0.1)	88.6	59.4	-	-
Loans, net of repayments	91.5	29.3	78.1	-	-
Dividends	(49.4)	(55.7)	(58.0)	(61.5)	(58.4)
Others	-	-	-	-	-
Cashflow from financing	41.9	62.3	79.5	(61.5)	(58.4)
Net change in cash	1.0	(4.2)	2.9	(3.0)	(3.3)
Effects of exchange rate	-	-	-	-	-
Ending cash	21.0	16.8	19.6	16.7	13.4

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	1,323	1,323	1,323
Inv. Propty. Under Devmnt.	-	-	-	-	-
PPE	-	-	-	-	-
Others	1.0	3.4	3.4	3.4	3.4
Total non-current assets	1,032	1,194	1,327	1,327	1,327
Cash	21.0	16.8	19.6	16.7	13.4
Trade receivables	0.8	2.4	2.5	2.7	2.6
Others	0.5	1.2	1.3	1.3	1.3
Total current assets	22.3	20.4	23.4	20.6	17.4
Total Assets	1,054	1,215	1,350	1,347	1,344
LIABILITIES					
Trade payables	8.7	10.1	10.4	11.1	11.0
Borrowings	94.6	-	-	155.0	97.5
Others	2.6	2.7	2.8	3.0	3.0
Total current liabilities	105.9	12.8	13.2	169.1	111.4
Borrowings	274.3	398.5	476.6	321.6	379.1
Others	23.0	57.2	57.2	57.2	57.2
Total non-current liabilities	297.3	455.7	533.8	378.8	436.3
Total Liabilities	403.2	468.6	547.0	547.9	547.8
Net assets	650.8	746.0	803.0	799.4	796.2
Represented by:					
Unitholders' funds	650.8	746.0	803.0	799.4	796.2

Valuation Ratios

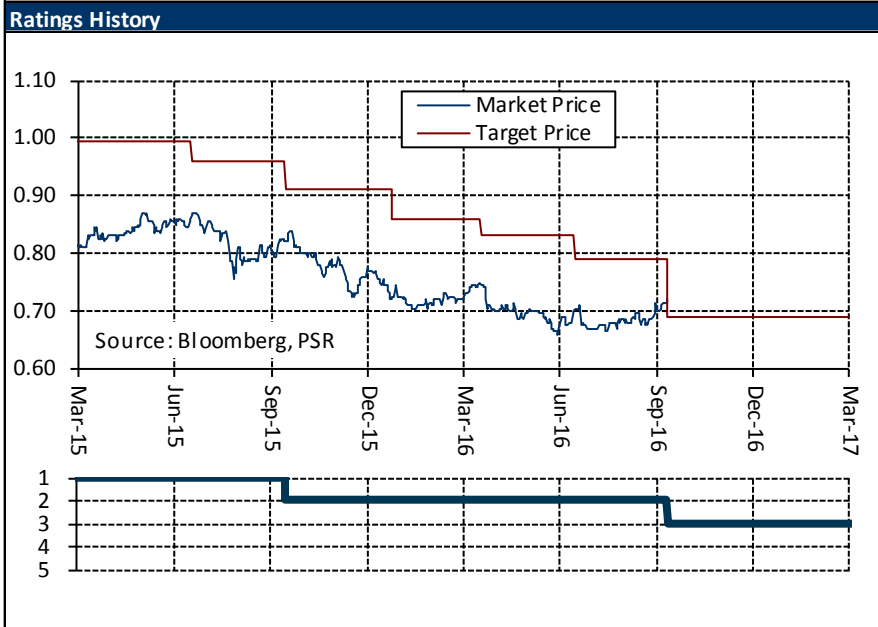
Y/E Dec	FY14	FY15	FY16e	FY17e	FY18e
P/NAV (x)	0.99	0.94	0.87	0.88	0.90
P/DPU (x)	12.73	11.52	11.36	11.60	12.26
Distribution Yield (%)	7.86	8.68	8.80	8.62	8.16
NPI yield (%)	-	-	5.64	5.71	5.57

Growth & Margins (%)

Growth					
Revenue	16.4%	3.0%	6.3%	-0.7%	
Net property income (NPI)	18.2%	4.6%	6.6%	-2.5%	
Distributable income	15.3%	0.8%	4.2%	-4.6%	
DPU	4.7%	-8.4%	-2.1%	-5.3%	
Margins					
NPI margin	84.2%	85.4%	86.8%	87.0%	85.5%

Key Ratios

Net Debt or (Net Cash)	348.0	381.8	457.0	459.9	463.2
Gearing (%)	35.0%	32.8%	35.3%	35.4%	35.5%



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

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