

# Soilbuild Business Space REIT

Tough year ahead

SINGAPORE | REAL ESTATE (REIT) | RESULTS

25 January 2017

- FY16 Gross revenue of S\$81.13mn in line with our forecast of S\$81.66mn; and in line with consensus expectation of S\$82.43mn
- FY16 DPU of 6.091 cents in line with our forecast of 6.075 cents; and in line with consensus expectation of 6.10 cents
- DPU of 1.570 cents declared for 4QFY16 (4QFY15: 1.614 cents)

Soilbuild REIT's (SBREIT's) portfolio income for FY16 has been predictable, as evident by no major surprises to Gross revenue and DPU in each of the four quarters. However, yoy DPU in each of the quarters were lower (-4.7%, -3.1%, -5.7%, -2.7%) due to larger unit base and new units from the Preferential Offering in 3QFY16. We are of the view that FY17 will be no different, as the acquisition of Bukit Batok Connection will just offset the negative effect of Loyang Way, but weighed down by the higher unit base. Uncertainty on tenant take up at Loyang Way persists.

## Results at a glance

(SGD mn)	FY16	FY15	yoy (%)	Comments
Gross revenue	81.13	79.34	↑ 2.3	Higher contribution from Loyang Way, Bukit Batok Connection, Solaris and Eightrium; offset by lower West Park BizCentral and Tuas Connection
Net property income	70.67	67.78	↑ 4.3	Lower ppty tax and land rent expense
Distributable income	60.25	57.87	↑ 4.1	In line with higher Net property income
DPU (cents)	6.091	6.487	↓ (6.1)	Effect of larger unit base (+17% weighted average)

Source: Company, Phillip Securities Research (Singapore)

## Update on Loyang Way property (Technics Offshore)

The manager has taken possession of the property and 4.4 months of rental deposit remains as at end of December 2016. We understand from the manager that divestment of the property is a possible outcome. However, it is limited to disposal to a third party as JTC is not prepared to buy it back. As the property is slated for waterfront users, the manager is seeking approval from JTC to allow non-waterfront users from sectors such as construction or fabrication, to lease the property. We are retaining our 60% occupancy assumption for the property, but deferring it to 3QFY17, instead of 2QFY17.

## Portfolio revaluation loss was larger than we expected

Revaluation loss of S\$50.9mn to investment properties was substantially due to Loyang Way (S\$32mn). Other properties were West Park BizCentral (S\$13mn) and Tuas Connection (S\$4mn). This does not come as a surprise to us as we had identified these properties in our [previous report](#) (12 December 2016) as likely candidates. What did come as a surprise was the >30% revaluation loss for Loyang Way – we were only expecting up to 20%. Resulting gearing was pushed to 37.6% from 37.0%, still offering a headroom of S\$50mn vs. S\$1.24bn portfolio.

## Rental reversion of -7% albeit from one renewal; 14.1% of leases expiring in 2017

Our channel check suggests that there is limited downside for rent level. Having said that, we do highlight the distinction between rent level and the reversions; we are still expecting double-digit negative reversions for 2017. 72% of leases expiring in 2017 are in 2H2017. Of the leases expiring in 2017, they are split among the multi-tenanted properties of West Park BizCentral (56%), Tuas Connection (31%) and Eightrium (13%). Next master lease expiry will be for Solaris in August 2018, hence there will not be any impact from conversions in 2017.

## Maintain "Neutral" rating with lower target price of S\$0.68 (previous: S\$0.67)

Our DPU forecast for FY18e is lower than FY17e due to the conversion of the master lease at Solaris, which accounts for 23% of portfolio gross revenue. Adverse impact will be due to higher property expenses. Our target price is an implied 0.96x FY17e P/NAV.

## Neutral (Maintained)

LAST CLOSE PRICE	SGD 0.655
FORECAST DIV	SGD 0.055
TARGET PRICE	SGD 0.680
TOTAL RETURN	12.2%

## COMPANY DATA

O/S SHARES (MN) :	1042
MARKET CAP (USD mn / SGD mn) :	477 / 677
52 - WK HI/LO (SGD) :	0.75 / 0.63
3M Average Daily T/O (mn) :	140

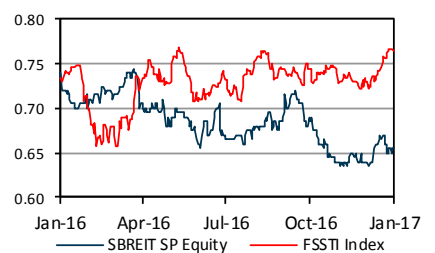
## MAJOR SHAREHOLDERS (%)

CHAP HUAT LIM	25.5%
JINQUAN TONG	6.2%
SCHRODERS PLC	6.0%

## PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	0.8	(4.4)	(0.1)
STI RETURN	3.4	6.3	22.2

## PRICE VS. STI



Source: Bloomberg, PSR

## KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17e	FY 18e
Gross Rev. (SGD mn)	79.3	81.1	85.1	85.0
NPI (SGD mn)	67.8	70.7	72.3	70.1
Dist. Inc. (SGD mn)	57.9	60.3	57.3	51.5
P/NAV (x)	0.94	0.91	0.92	0.94
DPU (cents)	6.49	6.09	5.47	4.87
Distribution Yield (%)	8.7	9.3	8.4	7.4

Source: Company Data, PSR est.

## VALUATION METHOD

DDM (Cost of Equity: 6.7%; Terminal g: 0.0%)

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## Financials

### Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>Gross revenue</b>	<b>68.1</b>	<b>79.3</b>	<b>81.1</b>	<b>85.1</b>	<b>85.0</b>
Property expenses	(10.8)	(11.6)	(10.5)	(12.8)	(14.9)
<b>Net property income</b>	<b>57.4</b>	<b>67.8</b>	<b>70.7</b>	<b>72.3</b>	<b>70.1</b>
Net Finance (Expense)/Inc.	(9.7)	(12.8)	(13.1)	(16.3)	(19.9)
Manager's fees	(5.5)	(6.4)	(6.0)	(5.7)	(5.2)
Other items	(1.1)	(1.4)	(1.2)	(1.5)	(1.5)
Exceptional items	-	-	-	-	-
<b>Net income</b>	<b>41.2</b>	<b>47.1</b>	<b>50.3</b>	<b>48.8</b>	<b>43.6</b>
FV change, Invmnt. properties	0.9	4.5	(50.9)	-	-
<b>Total Return Before Tax</b>	<b>42.1</b>	<b>51.7</b>	<b>(0.6)</b>	<b>48.8</b>	<b>43.6</b>
Taxation	-	-	-	-	-
<b>Total Return After Tax</b>	<b>42.1</b>	<b>51.7</b>	<b>(0.6)</b>	<b>48.8</b>	<b>43.6</b>
Distribution adjustments	8.1	6.2	60.8	8.5	7.9
<b>Income available for distribution</b>	<b>50.2</b>	<b>57.9</b>	<b>60.3</b>	<b>57.3</b>	<b>51.5</b>
<b>Income distributed</b>	<b>50.2</b>	<b>57.9</b>	<b>60.3</b>	<b>57.3</b>	<b>51.5</b>

### Per share data (cents)

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
NAV	80.0	79.8	72.1	71.0	70.0
EPU	5.09	5.28	5.21	4.66	4.13
DPU	6.19	6.49	6.09	5.47	4.87

### Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>CFO</b>					
Net income	41.2	47.1	50.3	48.8	43.6
Adjustments	16.7	21.8	22.6	23.7	25.9
WC changes	3.4	(0.5)	10.1	1.5	(0.1)
Cash generated from ops	61.3	68.4	83.9	74.0	69.4
Others	(7.4)	(11.4)	(12.6)	(17.9)	(20.8)
<b>Cashflow from ops</b>	<b>53.9</b>	<b>57.1</b>	<b>71.3</b>	<b>56.1</b>	<b>48.7</b>
<b>CFI</b>					
CAPEX, net	(0.2)	(25.5)	(31.9)	-	-
Purchase of Inv. Propty.	(94.6)	(98.1)	(103.9)	-	-
Others	-	-	0.0	-	-
<b>Cashflow from investments</b>	<b>(94.8)</b>	<b>(123.6)</b>	<b>(135.7)</b>	<b>-</b>	<b>-</b>
<b>CFF</b>					
Share issuance, net	(0.1)	88.6	59.1	-	-
Loans, net of repayments	91.5	29.3	73.3	-	-
Dividends	(49.4)	(55.7)	(58.9)	(59.9)	(52.8)
Others	-	-	-	-	-
<b>Cashflow from financing</b>	<b>41.9</b>	<b>62.3</b>	<b>73.4</b>	<b>(59.9)</b>	<b>(52.8)</b>
<b>Net change in cash</b>	<b>1.0</b>	<b>(4.2)</b>	<b>9.0</b>	<b>(3.8)</b>	<b>(4.1)</b>
Effects of exchange rate	-	-	-	-	-
<b>Ending cash</b>	<b>21.0</b>	<b>16.8</b>	<b>25.7</b>	<b>21.9</b>	<b>17.8</b>

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

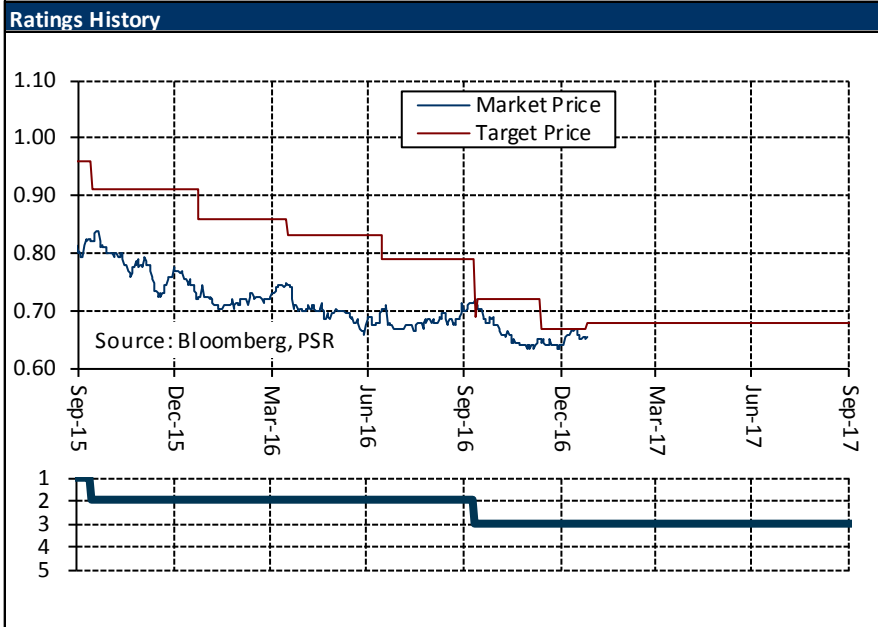
Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>ASSETS</b>					
Investment properties	1,031	1,191	1,244	1,244	1,244
Inv. Propty. Under Devmnt.	-	-	-	-	-
Others	1.0	3.4	0.9	0.9	0.9
<b>Total non-current assets</b>	<b>1,032</b>	<b>1,194</b>	<b>1,245</b>	<b>1,245</b>	<b>1,245</b>
Cash	21.0	16.8	25.7	21.9	17.8
Trade receivables	0.8	2.4	4.3	4.4	4.4
Others	0.5	1.2	0.9	0.9	0.9
<b>Total current assets</b>	<b>22.3</b>	<b>20.4</b>	<b>30.9</b>	<b>27.2</b>	<b>23.1</b>
<b>Total Assets</b>	<b>1,054</b>	<b>1,215</b>	<b>1,275</b>	<b>1,272</b>	<b>1,268</b>
<b>LIABILITIES</b>					
Trade payables	8.7	10.1	12.0	12.5	12.5
Borrowings	94.6	-	-	155.0	97.5
Rental deposits	2.5	2.7	5.4	5.4	5.4
Others	0.1	-	0.2	0.2	0.2
<b>Total current liabilities</b>	<b>105.9</b>	<b>12.8</b>	<b>17.6</b>	<b>173.1</b>	<b>115.6</b>
Borrowings	274.3	398.5	472.3	317.3	374.8
Rental deposits	23.0	24.2	32.6	33.8	33.7
Others	-	33.0	1.2	1.2	1.2
<b>Total non-current liabilities</b>	<b>297.3</b>	<b>455.7</b>	<b>506.2</b>	<b>352.4</b>	<b>409.8</b>
<b>Total Liabilities</b>	<b>403.2</b>	<b>468.6</b>	<b>523.8</b>	<b>525.5</b>	<b>525.4</b>
<b>Net assets</b>	<b>650.8</b>	<b>746.0</b>	<b>751.7</b>	<b>746.3</b>	<b>742.3</b>
<b>Represented by:</b>					
<b>Unitholders' funds</b>	<b>650.8</b>	<b>746.0</b>	<b>751.7</b>	<b>746.3</b>	<b>742.3</b>

### Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/NAV (x)	0.99	0.94	0.91	0.92	0.94
P/DPU (x)	12.7	11.5	10.8	12.0	13.4
Distribution Yield (%)	7.9	8.7	9.2	8.4	7.4
NPI yield (%)	5.6	6.1	5.8	5.8	5.6

### Growth & Margins (%)

<b>Growth</b>					
Revenue		16.4%	2.3%	4.9%	-0.2%
Net property income (NPI)		18.2%	4.3%	2.3%	-3.1%
Distributable income		15.3%	4.1%	-4.9%	-10.1%
DPU		4.7%	-6.1%	-10.2%	-10.9%
<b>Margins</b>					
NPI margin	84.2%	85.4%	87.1%	85.0%	82.5%
<b>Key Ratios</b>					
Net Debt or (Net Cash)	348.0	381.8	446.6	450.5	454.6
Aggregate Leverage	35.0%	32.8%	37.0%	37.1%	37.3%



### 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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