

Soilbuild Business Space REIT

DPU impacted by larger unit base

SINGAPORE | REAL ESTATE (REIT) | RESULTS

- 1Q gross revenue and DPU in line with our forecast
- Cut FY17e/FY18e DPU forecast by 2.4%/2.3% on weaker than expected take-up rate for Loyang Way
- Leasing activity remains competitive with a mixed-bag for rental reversions, which was flat on a blended basis

Results at a glance

(SGD mn)	1Q17	1Q16	yoy (%)	Comments
Gross revenue	21.99	20.14	↑ 9.2	S\$2.0mn contribution from Bukit Batok Connection acquired in 3Q16 (27 Sep); offset by S\$0.5mn lower West Park BizCentral
Net property income	19.21	17.19	↑ 11.7	S\$0.2mn lower property expenses
Distributable income	15.57	14.61	↑ 6.6	Higher finance expenses and Manager's fee of S\$0.4mn and S\$0.1mn respectively
DPU (cents)	1.489	1.557	↓ (4.4)	Effect of larger unit base from 1-for-10 Preferential Offering in 3Q16; Manager elected for cash payment amounting to S\$0.5mn in 1Q17
DPU, adj. (cents)	1.539	1.557	↓ (1.2)	Assuming payment of S\$0.5mn in Manager fees in Units, instead of cash

Source: Company, Phillip Securities Research (Singapore)

Higher gross revenue and lower DPU were in line with expectations

We had highlighted in our [previous report](#) (25 January 2017) that the acquisition of Bukit Batok Connection would offset the absence of contribution from Loyang Way, but DPU would be weighed down by the higher unit base. The acquisition of Bukit Batok Connection was partially funded through a 1-for-10 Preferential Offering.

Lower gross revenue and DPU going forward, as Loyang Way security deposit is depleted
Portfolio gross revenue has been maintained in 1Q FY17, as the security deposit for Loyang Way was drawn down. Only S\$1.3 million of the security deposit remains, as at 31 March 2017, which should last to mid-May 2017. The Manager has secured two tenants to occupy ~10% of the property, which is lower than our assumption of 60% occupancy. Going forward, one of the tenants is on a short-term lease while the other will sign a 3-year lease, occupying ~7% of the property. We have lowered our forecast due to weak Loyang Way occupancy (now assume 30% occupancy end 2017). Loyang Way contributed 10% to FY16 portfolio gross revenue. We cut our FY17e/FY18e DPU by 2.4%/2.3%.

Manageable lease expiry of 12.6% by net lettable area (NLA) for the remainder of 2017

Lease renewals and forward lease renewals were flat on a blended basis. Portfolio occupancy improved quarter-on-quarter (qoq) to 91.8% from 89.6% mainly due to higher occupancy at Tuas Connection (short-term leases) and West Park BizCentral. In contrast, portfolio weighted average lease expiry (WALE) by gross rental income dipped qoq to 3.3 years from 3.4 years; we believe due to the short-term leases within the portfolio. Leases expiring in 2017 mainly come from Tuas Connection and West Park BizCentral, concentrated in 2H 2017.

Maintain "Neutral" rating with lower target price of S\$0.66 (previous: \$0.68)

The price of Soilbuild Business Space REIT (SBREIT) has appreciated ~8% over the last month. We believe this to have been driven by market optimism of a consolidation among the smaller capitalised REITs, including SBREIT. However, there are numerous hurdles to a consolidation, such as determining a conversion factor from existing units to units in the new REIT, as well as selection of a new team to form the new Manager.

Our target price gives an implied FY17e P/NAV multiple of 0.93x, which we believe to be fair, when taken in the current context of SBREIT being one of the smaller capitalised REITs.

13 April 2017

Neutral (Maintained)

LAST CLOSE PRICE	SGD 0.680
FORECAST DIV	SGD 0.053
TARGET PRICE	SGD 0.660
TOTAL RETURN	4.9%

COMPANY DATA

O/S SHARES (MN) :	1046
MARKET CAP (USD mn / SGD mn) :	509 / 711
52 - WK HI/LO (SGD) :	0.75 / 0.63
3M Average Daily T/O (mn) :	120

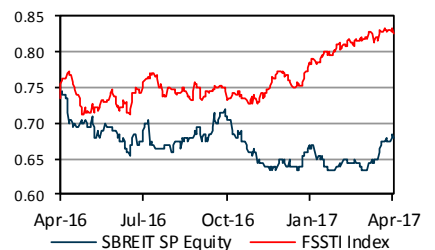
MAJOR SHAREHOLDERS (%)

CHAP HUAT LIM	25.7%
JINQUAN TONG	6.2%
SCHRODERS PLC	6.0%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	7.9	5.5	19
STI RETURN	19	6.9	17.8

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	83.5	83.5
NPI (SGD mn)	67.8	70.7	71.0	68.9
Dist. Inc. (SGD mn)	57.9	60.3	56.0	50.3
P/NAV (x)	0.94	0.91	0.96	0.97
DPU (cents)	6.49	6.09	5.34	4.76
Distribution Yield (%)	8.7	9.2	7.9	7.0

Source: Company Data, PSR est.

VALUATION METHOD

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

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

Relative valuation

Soilbuild Business Space REIT (SBREIT) is relatively undervalued to the peer average P/NAV multiple, and offers a higher yield compared to the peer average as well as 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	7,296	2.53	1.22	7.1
Mapletree Industrial Trust	3,217	1.785	1.30	6.3
AIMS AMP Capital Industrial REIT	888	1.390	0.94	8.1
Cambridge Industrial Trust	763	0.585	0.92	7.1
Viva Industrial Trust	767	0.795	1.00	8.8
Soilbuild Business Space REIT	711	0.680	0.94	8.9
Sabana Shari'ah Compliant REIT	521	0.495	0.66	8.4
Average			1.00	7.8

Source: Bloomberg (Updated: 13 April 2017)

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Gross revenue	68.1	79.3	81.1	83.5	83.5
Property expenses	(10.8)	(11.6)	(10.5)	(12.5)	(14.6)
Net property income	57.4	67.8	70.7	71.0	68.9
Net Finance (Expense)/Inc.	(9.7)	(12.8)	(13.1)	(16.3)	(19.9)
Manager's fees	(5.5)	(6.4)	(6.0)	(5.6)	(5.0)
Other items	(1.1)	(1.4)	(1.2)	(1.5)	(1.5)
Exceptional items	-	-	-	-	-
Net income	41.2	47.1	50.3	47.6	42.5
FV change, Invmnt. properties	0.9	4.5	(50.9)	-	-
Total Return Before Tax	42.1	51.7	(0.6)	47.6	42.5
Taxation	-	-	-	-	-
Total Return After Tax	42.1	51.7	(0.6)	47.6	42.5
Distribution adjustments	8.1	6.2	60.8	8.4	7.8
Income available for distribution	50.2	57.9	60.3	56.0	50.3
Income distributed	50.2	57.9	60.3	56.0	50.3

Per share data (cents)

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
NAV	80.0	79.8	72.1	70.9	70.1
EPU	5.09	5.28	5.21	4.55	4.03
DPU	6.19	6.49	6.09	5.34	4.76

Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
Net income	41.2	47.1	50.3	47.6	42.5
Adjustments	16.7	21.8	22.6	23.5	25.8
WC changes	3.4	(0.5)	10.1	0.9	(0.0)
Cash generated from ops	61.3	68.4	83.9	72.1	68.3
Others	(7.4)	(11.4)	(12.6)	(17.9)	(20.8)
Cashflow from ops	53.9	57.1	71.3	54.1	47.5
CFI					
CAPEX, net	(0.2)	(25.5)	(31.9)	(0.5)	(0.5)
Purchase of Inv. Propty.	(94.6)	(98.1)	(103.9)	-	-
Others	-	-	0.04	-	-
Cashflow from investments	(94.8)	(123.6)	(135.7)	(0.5)	(0.5)
CFF					
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)	(59.3)	(51.1)
Others	-	-	-	-	-
Cashflow from financing	41.9	62.3	73.4	(59.3)	(51.1)
Net change in cash	1.0	(4.2)	9.0	(5.6)	(4.1)
Effects of exchange rate	-	-	-	-	-
Ending cash	21.0	16.8	25.7	20.1	16.0

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

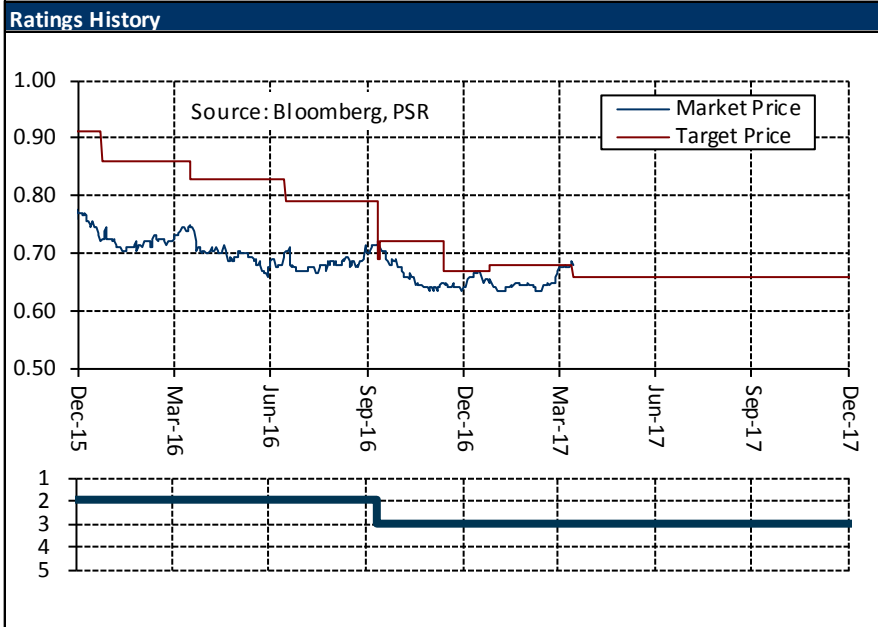
Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
ASSETS					
Investment properties	1,031	1,191	1,244	1,244	1,245
Inv. Propty. Under Devmnt.	-	-	-	-	-
Others	1.0	3.4	0.9	0.9	0.9
Total non-current assets	1,032	1,194	1,245	1,245	1,246
Cash	21.0	16.8	25.7	20.1	16.0
Trade receivables	0.8	2.4	4.3	4.4	4.4
Others	0.5	1.2	0.9	0.9	0.9
Total current assets	22.3	20.4	30.9	25.4	21.3
Total Assets	1,054	1,215	1,275	1,270	1,267
LIABILITIES					
Trade payables	8.7	10.1	12.0	12.3	12.3
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
Total current liabilities	105.9	12.8	17.6	172.9	115.4
Borrowings	274.3	398.5	472.3	317.3	374.8
Rental deposits	23.0	24.2	32.6	33.3	33.3
Others	-	33.0	1.2	1.2	1.2
Total non-current liabilities	297.3	455.7	506.2	351.9	409.4
Total Liabilities	403.2	468.6	523.8	524.8	524.8
Net assets	650.8	746.0	751.7	745.7	742.0
Represented by:					
Unitholders' funds	650.8	746.0	751.7	745.7	742.0

Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/NAV (x)	0.99	0.94	0.91	0.96	0.97
P/DPU (x)	12.7	11.5	10.8	12.7	14.3
Distribution Yield (%)	7.9	8.7	9.2	7.9	7.0
NPI yield (%)	5.6	6.1	5.8	5.7	5.5

Growth & Margins (%)

	FY14	FY15	FY16	FY17e	FY18e
Growth					
Revenue	16.4%	2.3%	2.9%	0.0%	
Net property income (NPI)	18.2%	4.3%	0.4%	-3.0%	
Distributable income	15.3%	4.1%	-7.1%	-10.2%	
DPU	4.7%	-6.1%	-12.3%	-10.9%	
Margins					
NPI margin	84.2%	85.4%	87.1%	85.0%	82.5%
Key Ratios					
Net Debt or (Net Cash)	348.0	381.8	446.6	452.2	456.4
Aggregate Leverage	35.0%	32.8%	37.0%	37.2%	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

Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Operations Officer

Mohamed Amiruddin – amiruddin@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin – sohls@phillip.com.sg

Property | Infrastructure

Peter Ng – peterngmc@phillip.com.sg

Macro

Pei Sai Teng – peist@phillip.com.sg

Transport | REITs (Industrial)

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

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan – tandh@phillip.com.sg

Technical Analysis

Jeremy Ng – jeremyngch@phillip.com.sg

Banking and Finance

Jeremy Teong – jeremyteongfh@phillip.com.sg

US Equity

Ho Kang Wei – hokw@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

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

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

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

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

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

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

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

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

UNITED STATES

Phillip Capital 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

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

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

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

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

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

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

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's licence under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.