

Singapore Company Guide

Soilbuild Business Space REIT

Edition 1 Version 1 | Bloomberg: SBREIT SP | Reuters: SBSR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 Oct 2015

BUY

Last Traded Price: S\$0.835 (STI : 3,015.14)

Price Target : S\$0.88 (5% upside,8% dividend) (Prev S\$0.86)

Potential Catalyst: Acquisitions

Where we differ: Our estimates do not include acquisitions

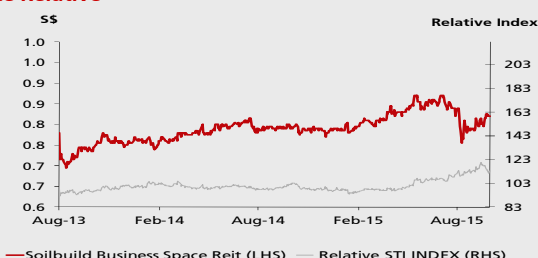
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Price Relative



Forecasts and Valuation

FY Dec (\$ m)	2014A	2015F	2016F	2017F
Gross Revenue	68	82	86	88
Net Property Inc	57	68	72	74
Total Return	42	47	52	54
Distribution Inc	50	57	60	62
EPU (S cts)	5.2	5.3	5.5	5.7
EPU Gth (%)	180	1	6	3
DPU (S cts)	6.2	6.3	6.4	6.6
DPU Gth (%)	173	2	1	3
NAV per shr (S cts)	80.0	80.2	80.1	80.0
PE (X)	16.1	15.9	15.1	14.6
Distribution Yield (%)	7.4	7.6	7.7	7.9
P/NAV (x)	1.0	1.0	1.0	1.0
Aggregate Leverage (%)	35.8	36.4	36.3	36.3
ROAE (%)	6.5	6.8	6.9	7.2

Distn. Inc Chng (%): 0 0 0

Consensus DPU (S cts): 6.3 6.4 6.7

Other Broker Recs: B: 7 S: 0 H: 0

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

NICHE INDUSTRIAL PLAYER

BUY for attractive and growing yields, TP raised S\$0.88.

We continue to like SBREIT's ability to drive steady earnings; supported by a long WALE of 4.4 years, and having 48% of its income backed by long leases. The stock offers attractive FY16-17F yields of c.7.8%-8.0%. Our TP is tweaked higher as we account for lower-than-forecasted debt assumptions.

Acquisitions to drive earnings; as portfolio undergoes tenant churn. SBREIT has been active in acquisitions which we believe are keys to complementing a moderating organic growth profile, given the current competitive operating landscape. Looking ahead, we are forecasting SBREIT to deliver 1-3% growth in distributions mainly from rental hikes and contribution from its recent acquisitions. Upside will come from the execution of asset purchases that is not factored into our numbers yet.

Conservative capital management offers comfort that REIT is shielded substantially from rate hikes in the immediate term.

The manager has lengthened its debt expiry profile to 4.5 years with a reduced all-in cost of debt of 3.2%, and hedged in close to 98% into fixed rates for the next 2.1 years (as of 3Q15). This will enable the REIT to weather any interest rate uncertainty in the medium term.

Valuation:

We have a DCF-backed TP of S\$0.88, supported by an attractive yield of >7.5%. Maintain BUY.

Key Risks to Our View:

Interest rate risks. Rise in interest rates in the medium term will have a negative impact on distributions but the manager has substantially hedged out these risks with a high % of fixed rate borrowings.

At A Glance

Issued Capital (m shrs)	932
Mkt. Cap (\$m/US\$m)	778 / 564
Major Shareholders	
Chap Huat Lim (%)	24.2
Schroders Plc (%)	8.7
Jinquan Tong (%)	7.0
Free Float (%)	60.1
3m Avg. Daily Val (US\$m)	0.77

ICB Industry : Real Estate / Real Estate Investment Trusts

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

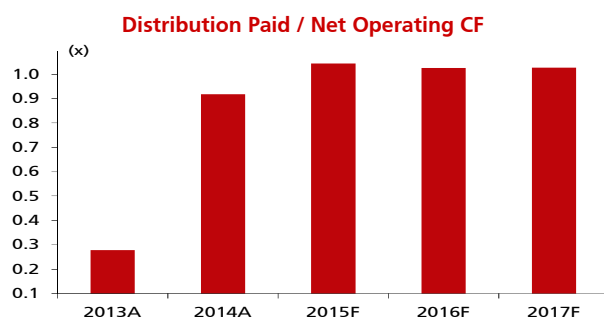
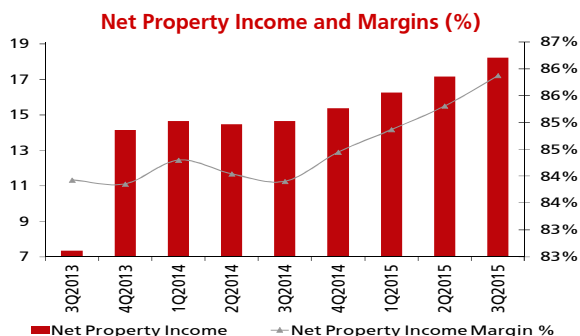
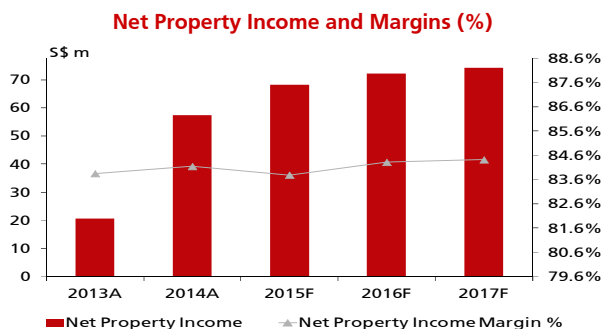
Well-staggered lease expiry profile offering income stability. SBREIT had a healthy weighted average lease to expiry of 4.4 years by NLA as of 3Q15. Embedded in SBREIT’s portfolio, 48% of net property income is derived from master lease agreements that provide long-term leases ranging from 5 to 15 years which contain annual escalations in the range of 2.0-5.0%, ensuring a steady growth profile.

Steady occupancy rates; manager to focus on tenant retention rate. In view of the increasing supply outlook, the manager of SBREIT has looked to forward renew expiring leases with the aim of maintaining a high level of portfolio occupancy. As of 3Q15, SBREIT had reduced lease expiry to 8.5% of NLA and 8.6% of rental income for FY15 and is currently engaging expiries in FY16.

Outlook remains modest with rental reversions expected to moderate for its main properties (West Park Biz Central and Tuas Connection). Given the competitive industrial landscape, the manager is targeting to retain tenants rather than pushing rents higher which are, in our view, a right strategy that will result in earnings remaining resilient.

Acquisitions to complement a steady growth profile. The manager has been one of the more active industrial S-REIT managers. SBREIT has rights of first refusal to four assets that measure up to a maximum potential GFA of 2.3m sq ft, thus we expect to see more acquisitions in the medium term which will further expand the portfolio.

3Q15 results another quarter of stability. 3Q15 revenues and net property income increased by 22.4% and 25.3% respectively. The increase came from acquisitions (namely Technics, KTL Offshore, Speedy Tech) as well as annual rental uplifts (Solaris). Interest expenses increased mainly due to a larger portfolio. Distributable income grew 20.8%; DPU up 5.1% due to a larger unit base.



Source: Company, DBS Bank

Balance Sheet:

Gearing of c.36% remains within management's comfort level. SBREIT's gearing of 36.1% as of 3Q15 remains within the management's range of 35-40% which provides sufficient headroom and financial flexibility for the REIT to acquire opportunistically. We understand that the manager is still keen to pursue acquisitions, but remains disciplined in its approach given the competitive environment.

Prudent capital management; conservative 98% of interest costs hedged into fixed rates. The manager has lengthened its debt expiry profile to 4.5 years with a reduced all-in cost of debt of 3.2%, and hedged in close to 98% into fixed rates for the next 2.1 years (as of 3Q15).

Share Price Drivers:

High yields of 7.8-8.0%; one of the highest among the S-REITs. SBREIT currently offers one of the highest yields among industrial REITs. We believe this is unjustified given the REIT's superior portfolio of high quality industrial assets with a niche exposure in the business park segment, performance which we believe will be more resilient than peers. In addition, with 48% of its income pegged to single-tenant properties, we believe that SBREIT offers one of the strongest income visibilities among industrial REITs.

Better-than-expected operational performance. Better-than-projected rental reversions from its main assets - namely West Park Biz Central and Tuas Connection - will mean upside to our DPU forecasts, implying higher TPs. In addition, with investors' concerns of rising vacancy risks due to increased competition from new completing supply, the ability to maintain a sustained occupancy profile will lift investors' confidence in SBREIT's ability to deliver consistent returns over time.

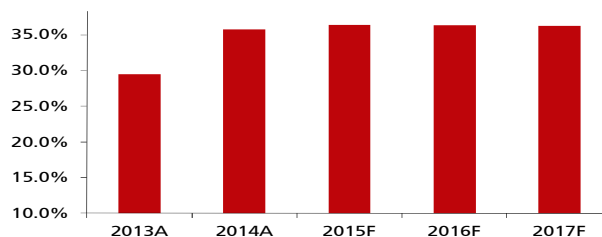
Key Risks:

Higher interest rates. Any increase in refinancing rates will negatively impact distributions. Thoce manager has put in place interest rate swaps/MTNs of 1-4 years to essentially convert c.98% of its debt into fixed rates.

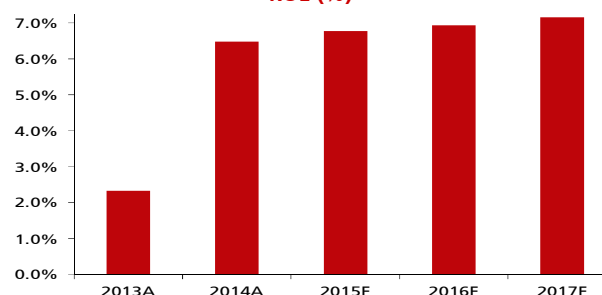
COMPANY BACKGROUND

Soilbuild Business Space REIT is a real estate investment trust that invests in income-producing real estate used primarily for business space purposes in Singapore. Its flagship asset is Solaris, located in the one-north business park.

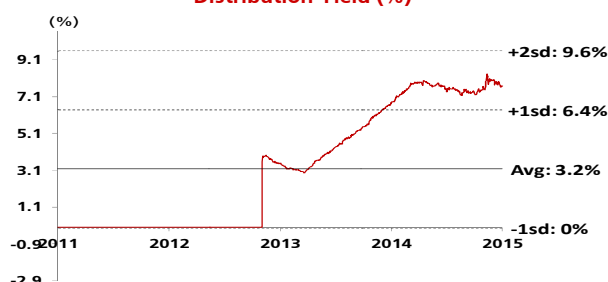
Aggregate Leverage (%)



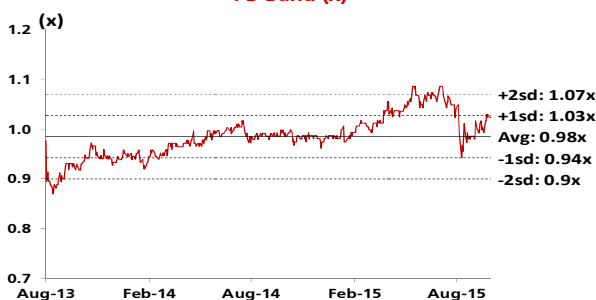
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (\$S m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Gross revenue	25	68	82	86	88
Property expenses	(4)	(11)	(13)	(13)	(14)
Net Property Income	21	57	68	72	74
Other Operating expenses	(2)	(7)	(9)	(7)	(7)
Other Non Opg (Exp)/Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(3)	(10)	(12)	(13)	(13)
Exceptional Gain/(Loss)	0	1	0	0	0
Net Income	15	42	47	52	54
Tax	0	0	0	0	0
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Income After Tax	15	42	47	52	54
Total Return	15	42	47	52	54
Non-tax deductible Items	3	8	10	8	8
Net Inc available for Dist.	18	50	57	60	62
Growth & Ratio					
Revenue Gth (%)	(55.3)	177.4	19.6	5.0	2.8
N Property Inc Gth (%)	(42.3)	178.4	19.1	5.7	3.0
Net Inc Gth (%)	(25.7)	180.7	12.6	9.8	3.8
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	83.9	84.2	83.8	84.3	84.5
Net Income Margins (%)	61.0	61.7	58.1	60.7	61.3
Dist to revenue (%)	74.3	73.6	70.0	70.2	70.4
Managers & Trustee's fees to sales %)	9.4	9.6	11.2	7.9	7.9
ROAE (%)	2.3	6.5	6.8	6.9	7.2
ROA (%)	1.6	4.2	4.2	4.3	4.4
ROCE (%)	2.0	5.1	5.3	5.4	5.6
Int. Cover (x)	5.5	5.3	5.0	4.9	5.0

Growth mainly driven by acquisitions and steady rental reversion profile

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$ m)

FY Dec	3Q2014	4Q2014	1Q2015	2Q2015	3Q2015
Gross revenue	17	18	19	20	21
Property expenses	(3)	(3)	(3)	(3)	(3)
Net Property Income	14	15	16	17	18
Other Operating expenses	(2)	(2)	(2)	(2)	(2)
Other Non Opg (Exp)/Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(2)	(3)	(3)	(3)	(3)
Exceptional Gain/(Loss)	0	1	0	0	0
Net Income	10	11	11	12	13
Tax	0	0	0	0	0
Minority Interest	0	0	0	0	0
Net Income after Tax	10	11	11	12	13
Total Return	10	11	11	12	13
Non-tax deductible Items	2	2	2	3	3
Net Inc available for Dist.	13	13	13	14	15
Growth & Ratio					
Revenue Gth (%)	1	5	5	5	6
N Property Inc Gth (%)	1	5	6	6	6
Net Inc Gth (%)	(2)	11	(1)	5	8
Net Prop Inc Margin (%)	83.9	84.4	84.9	85.3	85.9
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Results show a steady increase due to acquisitions

NPI margins show a steady increase mainly due to contribution from acquisitions which are on triple-net master-lease structures

Balance Sheet (\$\$ m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Investment Properties	935	1,031	1,186	1,188	1,190
Other LT Assets	0	1	1	1	1
Cash & ST Invt	20	21	23	26	29
Inventory	0	0	0	0	0
Debtors	0	1	1	1	1
Other Current Assets	0	1	1	1	1
Total Assets	955	1,054	1,212	1,216	1,221
ST Debt	0	95	95	95	95
Creditor	9	9	8	9	9
Other Current Liab	0	3	3	3	3
LT Debt	275	274	282	282	282
Other LT Liabilities	24	23	78	78	78
Unit holders' funds	647	651	746	751	755
Minority Interests	0	0	0	0	0
Total Funds & Liabilities	955	1,054	1,212	1,216	1,221
Non-Cash Wkg. Capital	(9)	(10)	(9)	(10)	(10)
Net Cash/(Debt)	(255)	(348)	(353)	(350)	(347)
Ratio					
Current Ratio (x)	2.2	0.2	0.2	0.3	0.3
Quick Ratio (x)	2.2	0.2	0.2	0.3	0.3
Aggregate Leverage (%)	29.4	35.8	36.4	36.3	36.3
Z-Score (X)	1.5	1.2	1.1	1.2	1.2

Gearing remains steady

Source: Company, DBS Bank

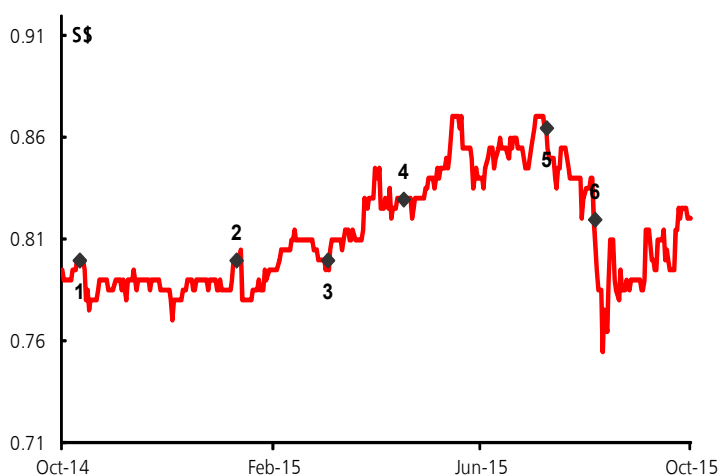
Soilbuild Business Space REIT

Cash Flow Statement (\$\$ m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Income	15	42	47	52	54
Dep. & Amort.	0	0	0	0	0
Tax Paid	0	0	0	0	0
Associates & JV Inc/(Loss)	0	0	0	0	0
Chg in Wkg.Cap.	0	3	(1)	0	0
Other Operating CF	7	8	8	6	6
Net Operating CF	22	54	55	59	60
Net Invnt in Properties	(799)	(95)	(100)	(2)	(2)
Other Invnts (net)	0	0	0	0	0
Invnts in Assoc. & JV	0	0	0	0	0
Div from Assoc. & JVs	0	0	0	0	0
Other Investing CF	0	0	0	0	0
Net Investing CF	(799)	(95)	(100)	(2)	(2)
Distribution Paid	(6)	(49)	(57)	(60)	(62)
Chg in Gross Debt	191	92	8	0	0
New units issued	613	0	97	6	6
Other Financing CF	0	0	0	0	0
Net Financing CF	797	42	48	(54)	(55)
Currency Adjustments	0	0	0	0	0
Chg in Cash	20	1	2	3	3
Operating CFPS (\$ cts)	2.7	6.2	6.1	6.2	6.4
Free CFPS (\$ cts)	(96.3)	(5.1)	(5.0)	6.0	6.2

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	24 Oct 14	0.80	0.92	BUY
2:	23 Jan 15	0.80	0.92	BUY
3:	17 Mar 15	0.80	0.92	BUY
4:	30 Apr 15	0.83	0.91	BUY
5:	22 Jul 15	0.87	0.95	BUY
6:	19 Aug 15	0.82	0.86	BUY

Source: DBS Bank

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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