

BHG Retail REIT

Wait for a better entry price

SINGAPORE | REAL ESTATE (REIT) | IPO NOTE

- Second Pure-Play China Retail REIT listed on SGX
- Strategic Investor undertaking to forgo its entitlement to distributions until 2020
- Forecasted FY15 and FY16 DPU yield of 4% and 4.5% (excluding distribution undertaking) pales in comparison to similar REIT. Wait for better entry price

IPO Highlights

BHG Retail REIT (BHG REIT) is set to become the lone SGX Mainboard listing this year. With a portfolio of five retail malls in China, BHG REIT will be the second pure China retail REIT listed on SGX, after CapitaLand Retail China Trust (CRCT, BUY, TP \$1.90), that offers investors exposure to the Chinese consumer growth story. Initial portfolio properties are strategically located in Tier 1, Tier 2 and other “cities of significant economic potential” in China.

Table 1: IPO Portfolio details

Name	Location	Occupancy Rate ¹ (%)	% of Gross Revenue (for Projection Year 2016)	% of Total NPI (Projected 2016)	Remaining underlying land tenure	Commencement of operations
Beijing Mall	Beijing	80.5 ²	44.4	45.7	28	Aug-10
Hefei Mall	Hefei	100	20.4	18.6	29	Feb-13
Chengdu Mall	Chengdu	98	22.8	18.2	31	Dec-13
Dalian Property	Dalian	100 ³	5.1	7.1	26	Jul-00
Xining Mall	Xining	100 ³	7.3	10.3	32	Aug-00

Source: IPO Prospectus, PSR

¹ As at 31 October 2015

² Including tenants whose lease agreements are in the process of finalisation, the committed occupancy rate as at 31 October 2015 is 98.1%

³ Malls on Master Leases

Table 2: Historical Occupancy Rates of Properties

Occupancy table	FY12	FY13	FY14	FY15 ¹
Beijing Mall	93.3	96.4	98.4	80.5 ²
Hefei Mall	-	95.9	100	100
Chengdu Mall	-	88	89.8	98
Dalian Mall	100	100	100	100
Xining Mall	100	100	100	100

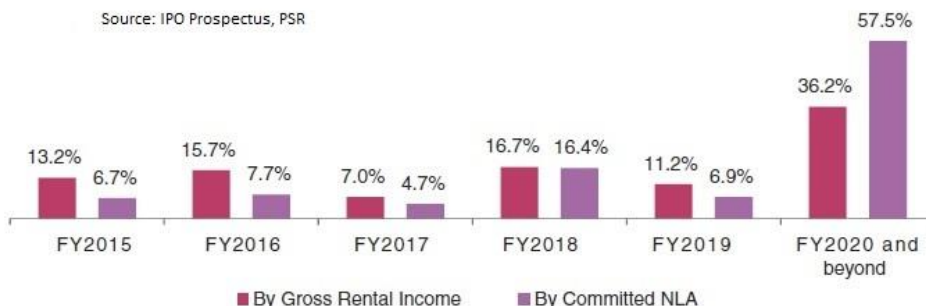
Source: IPO Prospectus, PSR

¹ As at 31 August 2015

² Including tenants whose lease agreements are in the process of finalisation, the committed occupancy rate as at 31 October 2015 is 98.1%

Figure 2: Portfolio Lease Expiries

Source: IPO Prospectus, PSR



Source: IPO Prospectus; PSR

04 December 2015

Avoid

IPO PRICE	SGD 0.800
FORECAST DIV	N/A
TARGET PRICE	N/A
TOTAL RETURN	N/A

IPO STATISTICS

Total new share issue	151,169,000
- Placement tranche	143,169,000
- Public tranche	8,000,000
Listing status	Mainboard
Closing date (public)	noon, 7 Dec 2015
Trading date	11-Dec-15
Lead manager	DBS

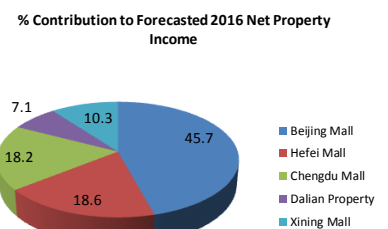
MAJOR UNITHOLDER (%)

Beijing Hualian Group	35.1%
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Cornerstone Investors

China Life Insurance Company	9.5%
China Hi-Tech Holding Company	8.3%
China Merchants Bank Asset Management	7.6%
Dr Chanchai Ruayrungruang	8.8%
Public and institutional investors	30.7%

Figure 1: Weightage of individual malls in IPO Portfolio



Source: IPO Prospectus, PSR

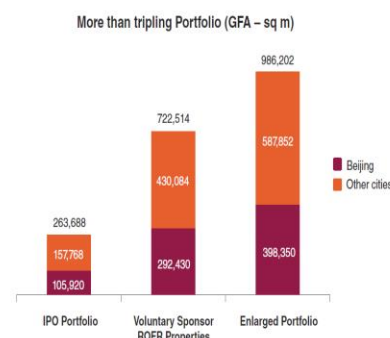
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At an IPO offer price of S\$0.80, annualised distribution yield for forecast year 2015 and projection year 2016 will be 5.7% and 6.3%. This is after factoring in strategic investor Beijing Hualian Group’s (30% of enlarged share capital) **undertaking to give up its rights to distributions until December 31 2020** in a bid to “demonstrate support for BHG REIT and its commitment to the long-term growth and development of BHG REIT”. Without the Distributions undertaking, annualised distribution yields would drop to 4% and 4.5% for 2015 and forecasted 2016. Post listing date, BHG REIT has an aggregate leverage of 33.5%.

BHG REIT’s sponsor is established PRC home-grown retail property operator, Beijing Hualian Department Store Co. Ltd, who owns 12 and manages another 17 malls across China. BHG REIT has been offered the Right of First Refusal (ROFR) to these 12 sponsor-owned properties, which provides a strong acquisition pipeline for the REIT.

However, investors should note that most of these malls are not “stabilized” or ready for injection into BHG REIT until at least 2018. Reasons, as cited in the IPO Prospectus, are that some of these malls are proposed to undergo Asset Enhancement Initiatives (AEIs), tenant re-positioning/remixing, or have yet to commence operations.

Figure 3: IPO Portfolio vs potential enlarged portfolio size



Source: IPO Prospectus

Cornerstone Investors and Use of Proceeds

Concurrent with the public and private institutional tranche offering, BHG REIT has entered into subscription agreements with reputed cornerstone Investors who will subscribe to 168.8m Units in total, representing 34.4% of the enlarged share capital.

Table 3: Cornerstone investors and % of enlarged share capital

Investors	Units in issue after the offering (assume non-exercise of over-allotment option)	
	('000)	(%)
Beijing Hualian Group	172,946	35.1
Cornerstone investors	China Hi-Tech Holding Company Ltd.	41,667 8.5
	China Life Insurance Company Ltd.	46,975 9.5
	China Merchants Bank Asset Management	37,500 7.6
	Dr Chanchai Ruayrungruang	43,509 8.8
Public and institutional investors	150,127	30.5

Source: IPO Prospectus, PSR

Table 4: Use of IPO Proceeds

Use of proceeds			
Sources	(S'000)	Uses	(S'000)
Offering	120,935	Payment of debt under Singapore Holding Companies	488,538
Sponsor Units	19,709	Repayment of Chengdu Loan	35,022
Strategic Investor Units	118,648	Transaction Costs	13,936
Cornerstone Units	134,888	Working Capital	4,684
Facility	148,000		
Total	542,180	Total	542,180

Source: IPO Prospectus, PSR

Financial Information and Peer Comparison

Table 5: Historical Financial Information

S\$('000)				Forecast Period	Projection
	FY12	FY13	FY14	(Nov-Dec 2015)	Year 2016
Net Property Income	18,358	22,716	30,874	6,422	40,028
Net Income	9,338	11,147	18,560	4,295	28,160
Total return before tax	50,606	18,677	18,560	4,295	28,160
Total return for the year	36,812	12,513	11,831	3,441	22,669
Total Return av for distribution	24,836	8,379	7,238	2,615	17,649
DPU (Cents)	-	-	-	0.53	3.56
DPU (excl strategic investor)	-	-	-	0.76	5.08
DPU yield	-	-	-	4.00	4.50
DPU yield (excl strategic investor)	-	-	-	5.70	6.30

Source: IPO Prospectus, PSR

With a dividend yield of 4% and 4.5% (without the strategic investor's undertaking to forgo distributions until 2020), BHG REIT's yield pales in comparison with nearest peer listed on SGX, CRCT, who has an annualised FY15 yield of 7.1% and FY16E yield of 7.4%.

Both REITs are primarily plays on growing Chinese consumption, with strong sponsor backing and ROFR on the sponsor pipeline of properties. Using CRCT's average yield of c.6.6% (post Global Financial Crisis, 2009-Present) on BHG REIT's projected 2016 DPU of 3.56cents and 5.08cents (if strategic investor forgoes entitled distributions), we view the fair value for BHG REIT to be around S\$0.54 (exclusive of the Distributions Undertaking) and \$0.77 (inclusive of the Distributions Undertaking). We do not see any justification for BHG REIT trading at a discounted yield to CRCT, given that the latter has similar strong sponsor backing and ROFR, strong mall operating track record and lower cost of debt.

FY13 and FY14 earnings have been boosted by the commencement of operations of Hefei Mall (Feb 13) and Chengdu Mall (Dec 13). These two malls are slowly stabilizing and are expected to drive DPU growth in FY16 and FY17 (barring any acquisitions). Nonetheless, even with a 10% y/y DPU growth in FY17, DPU yield of 4.5% and 4.95% for FY16 and FY17 offers scant spread over the Singapore 10year government bond yield of c.2.5% and China's at c.3.1%.

For investors still keen on buying exposure to the growing Chinese consumption story with BHG REIT, **we believe the IPO price of S\$0.80 is on the high side** and advocate waiting out for a better entry price. For a similar exposure, we prefer CRCT (BUY, target price S\$1.90).

Table 6: Peer Comparison

Name	Price (S\$)	Mkt Cap (S\$m)	P/NAV	Yield (%)		Leverage ³ (%)	Av cost of debt (%)	Sponsor/ROFR
				FY2015	FY2016E			
BHG REIT	0.8	394.2	0.97	5.7 ¹	6.3 ¹	33.5 (52% fixed interest rate)	4.1-4.4%	Beijing Hualian Dept Store/Yes
CapitaLand Retail China Trust	1.47	1244	0.87	7.1	7.4 ²	29.7 (74% fixed interest rate)	2.98	CapitaMalls Asia/Yes

Source: IPO Prospectus, Bloomberg, PSR

¹Taking into account Strategic Investor's undertaking to forgo distributions until 2020. Without the undertaking, FY2015 and FY2016E yields would be 4% and 4.5%.

²Based on Bloomberg Consensus

³Borrowings as a percentage of Deposited Properties

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