

# Soilbuild Business Space REIT

Occupancy risk exists, but acquisitions should stabilise DPU

SINGAPORE | REAL ESTATE (REIT) | UPDATE

14 October 2015

- 11.8% of NLA up for renewal for the rest of the year, as of June 2015.
- Recent refinancing exercise has pushed nearest maturity to 2018.
- Three acquisitions completed recently should support DPU.

Since we initiated coverage on Soilbuild Business Space REIT (SBREIT) in March earlier this year at S\$0.80, the price for SBREIT had peaked at S\$0.87 and has retraced to its current level. Investors would have received 3.248 Cents DPU for 1HFY15. SBREIT has also outperformed the benchmark Straits Times Index over the last three months.

## What is the news?

SBREIT will be announcing its 3Q FY15 (Y/E Dec) results on 14 October after trading hours. We highlight the weak 3Q manufacturing indicators in a sector [update](#) and give an update of what to expect for 3Q15.

## Outlook

- Improved debt maturity profile; next debt maturity will be in 2018.** The Manager made an [announcement](#) and [press release](#) on 25 September 2015 on the refinancing of a S\$185 million Club Loan. Weighted average all-in cost of debt has been reduced to 3.20% p.a. from 3.49% p.a. and weighted average debt maturity has been lengthened to 3.5 years from 2.4 years.
- Well-positioned for inorganic growth through acquisition.** SBREIT's gearing is currently at 36.3%, with a debt headroom of S\$75 million based on a target leverage of 40% gearing.
- Occupancy should remain high, but expect some non-renewals and flattish rental reversions due to the challenging operating landscape.** Portfolio occupancy was 99.8%, as at end June 2015. Multi-tenanted buildings (Eightrium & Tuas Connection) were 100%-occupied, except for West Park BizCentral at 95.1%. SBREIT has 11.8% outstanding lease by NLA expiring in 2015. With the impending supply of industrial property coming on-stream in 2015 and 2016, tenants will be spoilt for choice and able to drive a hard bargain against landlords.
- Gross Revenue and DPU are expected to have modest positive y-o-y growth.** This is due to contributions from acquisitions: KTL Offshore, Speedy-Tech (both acquired in 4Q14) and Technics (acquired in 2Q15).

## Investment Actions

We continue to like SBREIT for its exposure to niche Business Park spaces and its ability to grow its portfolio inorganically through acquisition with its remaining debt headroom. However, we lower our forecasts for FY15e and FY16e in view of the challenging operating landscape, downgrading SBREIT to "Accumulate" rating with lower DDM-backed valuation of S\$0.91 (Previous: S\$0.96).

## Accumulate (Downgraded)

|                     |              |
|---------------------|--------------|
| CLOSING PRICE       | SGD 0.820    |
| FORECAST DIV        | SGD 0.065    |
| TARGET PRICE        | SGD 0.910    |
| <b>TOTAL RETURN</b> | <b>18.9%</b> |

## COMPANY DATA

|                                |             |
|--------------------------------|-------------|
| O/S SHARES (MN) :              | 932         |
| MARKET CAP (USD mn / SGD mn) : | 542 / 760   |
| 52 - WK HI/LO (SGD) :          | 0.88 / 0.74 |
| 3M Average Daily T/O (mn) :    | 132         |

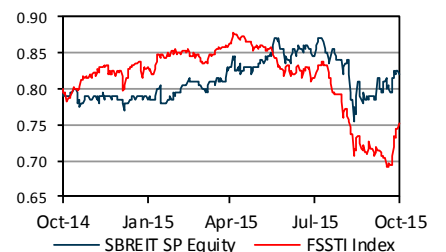
## MAJOR SHAREHOLDERS (%)

|                                 |       |
|---------------------------------|-------|
| CHAP HUAT LIM                   | 24.2% |
| SCHRODERS PLC                   | 8.7%  |
| JINQUAN TONG                    | 7.0%  |
| SCHRODER INVESTMENT MGMT HK LTD | 2.8%  |
| DBS BANK LTD                    | 2.5%  |

## PRICE PERFORMANCE (%)

|           | 1M TH | 3M TH | 1YR   |
|-----------|-------|-------|-------|
| COMPANY   | 3.8   | (19)  | 10.8  |
| STIRETURN | 5.1   | (6.3) | (2.8) |

## PRICE VS. STI



Source: Bloomberg, PSR

## KEY FINANCIALS

| Y/E Dec               | FY 13 | FY 14 | FY 15e | FY 16e |
|-----------------------|-------|-------|--------|--------|
| Gross Rev. (SGD mn)   | 24.6  | 68.1  | 77.1   | 81.9   |
| NPI (SGD mn)          | 20.6  | 57.4  | 64.9   | 68.9   |
| Dist. Inc. (SGD mn)   | 18.3  | 50.2  | 53.0   | 55.0   |
| P/NAV (x)             | 0.95  | 0.99  | 1.07   | 1.08   |
| DPU, adj (Cents)      | 2.27  | 6.19  | 6.48   | 6.66   |
| Distribution Yield, % | 3.0   | 7.9   | 7.7    | 7.9    |

Source: Company Data, PSR est.

## VALUATION METHOD

DDM (Cost of Equity: 6.9%; Terminal g: 0.5%)

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**Relative valuation**

We compare SBREIT against peers with exposure to Business Park space in their respective portfolios.

SBREIT is relatively under-valued and has a higher historical yield than the larger market capitalised Industrial S-REITs. These two factors suggest there is still room for yield compression for SBREIT.

**SBREIT is under-valued relative to the larger market capitalised industrial S-REITs.**

**Peer relative data (arranged by Mkt. Cap.)**

|                                      | Mkt. Cap. (S\$mn) | Price (S\$) | P/NAV (x)   | yield (%)  |
|--------------------------------------|-------------------|-------------|-------------|------------|
| Ascendas REIT                        | 5,827             | 2.42        | 1.18        | 6.0        |
| Mapletree Industrial Trust           | 2,691             | 1.520       | 1.15        | 7.2        |
| <b>Soilbuild Business Space REIT</b> | 760               | 0.815       | 1.03        | 7.9        |
| Viva Industrial Trust                | 526               | 0.745       | 0.90        | 9.8        |
| <b>Average</b>                       |                   |             | <b>1.06</b> | <b>7.7</b> |

Source: Bloomberg (Updated: 13 October 2015)

## Financials

### Statement of Total Return and Distribution Statement

| Y/E Dec, SGD mn                          | FY13        | FY14        | FY15e       | FY16e       |
|--|-------------|-------------|-------------|-------------|
| <b>Gross revenue</b>                     | <b>24.6</b> | <b>68.1</b> | <b>77.1</b> | <b>81.9</b> |
| Property expenses                        | (4.0)       | (10.8)      | (12.2)      | (13.0)      |
| <b>Net property income</b>               | <b>20.6</b> | <b>57.4</b> | <b>64.9</b> | <b>68.9</b> |
| Net Finance (Expense)/Inc.               | (3.3)       | (9.7)       | (12.3)      | (13.2)      |
| Manager's fees                           | (2.0)       | (5.5)       | (7.4)       | (7.6)       |
| Other items                              | (0.3)       | (1.1)       | (2.1)       | (2.1)       |
| Exceptional items                        | -           | -           | -           | -           |
| <b>Net income</b>                        | <b>15.0</b> | <b>41.2</b> | <b>43.2</b> | <b>46.1</b> |
| FV change, Invmnt. properties            | 29.7        | 0.9         | -           | -           |
| <b>Total Return Before Tax</b>           | <b>44.7</b> | <b>42.1</b> | <b>43.2</b> | <b>46.1</b> |
| Taxation                                 | -           | -           | -           | -           |
| <b>Total Return After Tax</b>            | <b>44.7</b> | <b>42.1</b> | <b>43.2</b> | <b>46.1</b> |
| Distribution adjustments                 | (26.5)      | 8.1         | 10.8        | 11.2        |
| <b>Income available for distribution</b> | <b>18.3</b> | <b>50.2</b> | <b>54.0</b> | <b>57.2</b> |
| <b>Income distributed</b>                | <b>18.3</b> | <b>50.2</b> | <b>54.0</b> | <b>57.2</b> |

### Per share data (Cents)

| Y/E Dec | FY13 | FY14 | FY15e | FY16e |
|---------|------|------|-------|-------|
| NAV     | 80.0 | 80.0 | 89.7  | 88.3  |
| EPU     | 1.86 | 5.09 | 5.29  | 5.57  |
| DPU     | 2.27 | 6.19 | 6.61  | 6.92  |

### Cash Flow

| Y/E Dec, SGD mn                  | FY13           | FY14          | FY15e          | FY16e         |
|----------------------------------|----------------|---------------|----------------|---------------|
| <b>CFO</b>                       |                |               |                |               |
| Net income                       | 15.0           | 41.2          | 43.2           | 46.1          |
| Adjustments                      | 5.8            | 16.7          | 19.6           | 20.7          |
| WC changes                       | 3.0            | 3.4           | 1.3            | 0.7           |
| Cash generated from ops          | 23.8           | 61.3          | 64.2           | 67.5          |
| Others                           | (1.8)          | (7.4)         | (12.3)         | (13.2)        |
| <b>Cashflow from ops</b>         | <b>22.0</b>    | <b>53.9</b>   | <b>51.9</b>    | <b>54.3</b>   |
| <b>CFI</b>                       |                |               |                |               |
| CAPEX, net                       | -              | (0.2)         | (25.0)         | -             |
| Purchase of Inv. Propty.         | (799.2)        | (94.6)        | (98.1)         | -             |
| Others                           | -              | -             | -              | -             |
| <b>Cashflow from investments</b> | <b>(799.2)</b> | <b>(94.8)</b> | <b>(123.1)</b> | <b>-</b>      |
| <b>CFF</b>                       |                |               |                |               |
| Share issuance, net              | 612.6          | (0.1)         | 90.0           | -             |
| Loans, net of repayments         | 190.8          | 91.5          | 32.0           | -             |
| Dividends                        | (6.1)          | (49.4)        | (54.0)         | (57.2)        |
| Others                           | -              | -             | -              | -             |
| <b>Cashflow from financing</b>   | <b>797.2</b>   | <b>41.9</b>   | <b>68.0</b>    | <b>(57.2)</b> |
| <b>Net change in cash</b>        | <b>20.0</b>    | <b>1.0</b>    | <b>(3.3)</b>   | <b>(2.9)</b>  |
| Effects of exchange rate         | -              | -             | -              | -             |
| <b>Ending cash</b>               | <b>20.0</b>    | <b>21.0</b>   | <b>17.7</b>    | <b>14.7</b>   |

Source: Company, Phillip Securities Research (Singapore) Estimates

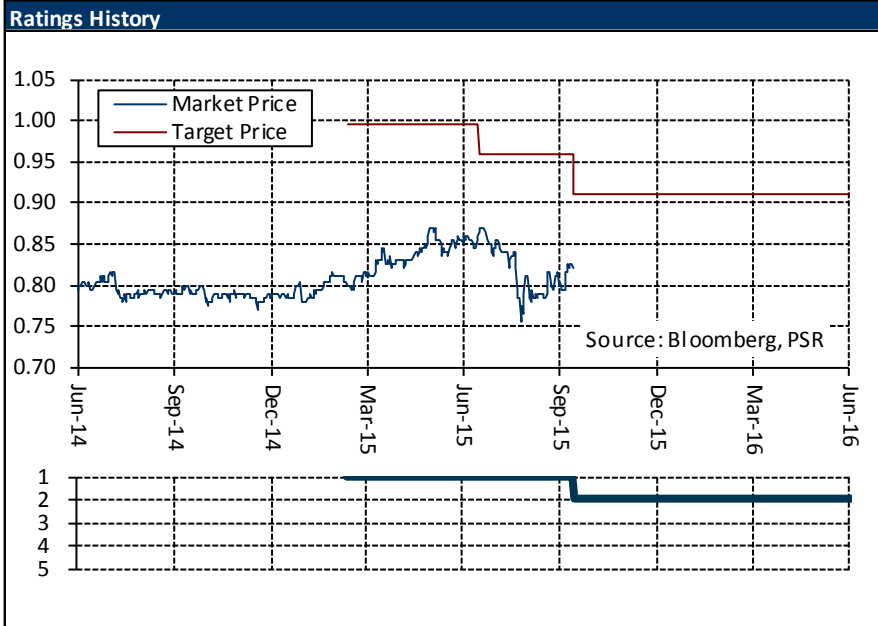
\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

### Balance Sheet

| Y/E Dec, SGD mn                      | FY13         | FY14         | FY15e        | FY16e        |
|--------------------------------------|--------------|--------------|--------------|--------------|
| <b>ASSETS</b>                        |              |              |              |              |
| Investment properties                | 935          | 1,031        | 1,154        | 1,154        |
| Inv. Propty. Under Devmnt.           | -            | -            | -            | -            |
| PPE                                  | -            | -            | -            | -            |
| Others                               | 0.0          | 1.0          | 1.0          | 1.0          |
| <b>Total non-current assets</b>      | <b>935</b>   | <b>1,032</b> | <b>1,155</b> | <b>1,155</b> |
| Cash                                 | 20.0         | 21.0         | 17.7         | 14.7         |
| Trade receivables                    | 0.2          | 0.8          | 0.9          | 1.0          |
| Others                               | 0.1          | 0.5          | 0.6          | 0.7          |
| <b>Total current assets</b>          | <b>20.2</b>  | <b>22.3</b>  | <b>19.2</b>  | <b>16.4</b>  |
| <b>Total Assets</b>                  | <b>955</b>   | <b>1,054</b> | <b>1,174</b> | <b>1,171</b> |
| <b>LIABILITIES</b>                   |              |              |              |              |
| Trade payables                       | 8.3          | 8.7          | 9.8          | 10.4         |
| Borrowings                           | -            | 94.6         | 0.6          | 0.6          |
| Others                               | 0.8          | 2.6          | 2.9          | 3.1          |
| <b>Total current liabilities</b>     | <b>9.1</b>   | <b>105.9</b> | <b>13.4</b>  | <b>14.1</b>  |
| Borrowings                           | 275.3        | 274.3        | 400.3        | 400.3        |
| Others                               | 23.5         | 23.0         | 23.0         | 23.0         |
| <b>Total non-current liabilities</b> | <b>298.8</b> | <b>297.3</b> | <b>423.3</b> | <b>423.3</b> |
| <b>Total Liabilities</b>             | <b>308.0</b> | <b>403.2</b> | <b>436.7</b> | <b>437.4</b> |
| <b>Net assets</b>                    | <b>647</b>   | <b>651</b>   | <b>737</b>   | <b>734</b>   |
| <b>Represented by:</b>               |              |              |              |              |
| <b>Unitholders' funds</b>            | <b>647</b>   | <b>651</b>   | <b>737</b>   | <b>734</b>   |

### Valuation Ratios

| Y/E Dec                         | FY13   | FY14  | FY15e | FY16e |
|---------------------------------|--------|-------|-------|-------|
| P/NAV (x)                       | 0.95   | 0.99  | 0.94  | 0.95  |
| P/DPU (x)                       | 33.55  | 12.73 | 12.70 | 12.13 |
| Distribution Yield (%)          | 2.98   | 7.86  | 7.87  | 8.24  |
| NPI yield (%)                   |        | 5.84  | 5.94  | 5.97  |
| <b>Growth &amp; Margins (%)</b> |        |       |       |       |
| <b>Growth</b>                   |        |       |       |       |
| Revenue                         | 177.4% | 13.2% | 6.2%  |       |
| Net property income (NPI)       | 178.4% | 13.2% | 6.2%  |       |
| Distributable income            | 174.7% | 7.7%  | 5.9%  |       |
| DPU                             | 172.8% | 6.8%  | 4.7%  |       |
| <b>Margins</b>                  |        |       |       |       |
| NPI margin                      |        | 84.2% | 84.2% | 84.2% |
| <b>Key Ratios</b>               |        |       |       |       |
| Net Debt or (Net Cash)          | 255.4  | 348.0 | 383.3 | 386.2 |
| Gearing (%)                     | 28.8%  | 35.0% | 34.2% | 34.2% |



**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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