



# Soilbuild Business Space REIT

## (SBREIT SP)

### Doubling down in Australia; Transitional headwinds persist

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- **DPU misses estimates.** 3Q19 DPU of 0.918 Scts fell short of expectations due to negative carry from SBR's recent preferential offering.
- **Increased exposure to office space.** Office assets will make up 15% of SBR's portfolio by GRI following the acquisition of an Australian commercial asset, 25 Grenfell Street.
- **Maintain Neutral, TP of S\$0.58.** We prefer to wait for greater clarity on the NKI Ingredients (NKI) situation and anticipate soft rental reversions in the coming quarters.

**DPU missed estimates.** Soilbuild REIT (SBR) reported 3Q19 and 9M19 rental revenue of S\$21.2mn and S\$66.2mn, representing 24.7% and 77.5% of our full year revenue forecast (S\$85.7mn). 3Q19 DPU of 0.918 Scts (-26.3% YoY) fell short of our expectations, while total distributions declared for 9M19 (3.295 Scts) made up 68.6% of our full year DPU forecast of 4.8 Scts. The lower 3Q19 DPU was in part due to the negative carry from SBR's most recent preferential offering to raise S\$101.8mn at an issue price of 53 Scts per unit for the acquisition of 25 Grenfell Street.

**Revenue figures in line with expectations.** Higher incremental rents from 14 Mort Street and Inghams Burton helped offset lower contributions from NKI, Eightrium and 39 Senoko Way. Occupancy as at end 3Q19 was flattish at 88.4% while WALE decreased from 3.8 years last quarter to 3.7 years due to time decay. Overall rental reversions were slightly positive at 1%. Eightrium's occupancy improved from c.74% in 2Q19 to c.84% this quarter, with the low base a result of DBS' lease termination in March 2019. The improvement in occupancy was attributed to the expansion of an existing client.

**Update on NK Ingredients and 72 Loyang way.** SBR is deferring payments from NKI for Sep and Oct as the tenant is currently placed under judicial management. We outline the two likely scenarios for the NKI property. NKI could either continue operations as a going concern via judicial management and remain a tenant of SBR or discontinue operations, whereby SBR will take repossession of the asset and conduct asset redevelopment to increase gross plot ratio from 0.55 to 1.0. The redevelopment is estimated to cost between S\$55mn and S\$60mn and will require 18 months to complete. As for its 72 Loyang way property, divestment looks to be slightly delay given that it has yet to receive approval from JTC.

**Doubling down in Australia.** SBR announced the acquisition of a third Australian asset, following their first foray in Australia with 14 Mort Street and Inghams Burton. The latest proposed acquisition is for a multi-tenanted freehold Grade A

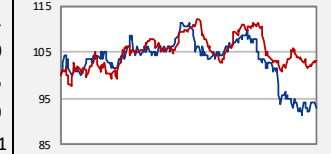
#### Neutral (Maintain)

Price as of 17 Oct 19 (S\$)	0.53	<b>Performance (Absolute)</b>	
12M TP (S\$)	0.58	1 Month (%)	-1.9
Previous TP (S\$)	0.61	3 Month (%)	-12.0
Upside, incl div (%)	18.1%	12 Month (%)	-1.4

#### Trading data

Mkt Cap (\$mn)	661
Issued Shares (mn)	1,260
Vol - 3M Daily avg (mn)	1.5
Val - 3M Daily avg (\$mn)	0.9
Free Float (%)	69.1

#### Perf. vs STI Index (Red)



#### Major Shareholders

Lim Chap Huat	9.9%
Lim Han Feng	5.6%
Lim Han Qin	5.6%

#### Previous Recommendations

19-Jul-19	NEUTRAL \$0.61
16-Jul-19	NEUTRAL \$0.61

#### Financials & Key Operating Statistics

YE Dec SGD mn	2017	2018	2019F	2020F	2021F
Gross revenue	84.8	83.8	88.2	96.8	98.8
Net property income	73.5	69.9	71.6	78.4	80.0
Distributable income	59.9	55.9	51.5	59.0	59.7
DPU (SGD cents)	5.7	5.3	4.1	4.4	4.4
DPU growth (%)	(6.2)	(7.5)	(22.7)	7.8	0.2
Div Yield (%)	8.9	6.7	7.9	8.5	8.5
NAV (SGD cents)	0.6	0.7	0.5	0.5	0.5
Price / Book (x)	1.0	1.1	1.0	1.0	1.0
NPI Margin (%)	86.6	83.5	81.2	81.0	80.9
Net Margin (%)	(33.4)	61.4	53.5	56.5	56.0
Gearing (%)	40.1	37.3	41.3	43.1	43.6
ROE (%)	(4.2)	7.0	6.9	8.2	8.5

Source: Company Data, KGI Research

\* FY19 DPS accounts for an enlarged units base following equity fund raising exercise

office building at a purchase price on par with the current market valuation of A\$134.2mn (S\$127.5mn). The asset, 25 Grenfell Street (Adelaide) is an iconic landmark within Adelaide's central business district, and home to strong key tenants such as the Government of South Australia (26% GRI), legal firm MinterEllison (22% GRI) and engineering firm Aurecon (10% GRI). 25 Grenfell Street stands at a prime location between the core business district cluster and the retail precinct to meet the daily need of end users. At its current occupancy of 88.4%, the implied NPI yield of the asset stands at 7.7%, and an attractive 8.7% NPI yield when fully-leased. This stands out against the current market yields within the Adelaide office market of 5.9%-7.4%, which is outperforming other markets such as Brisbane's 5.3%-5.6%, Melbourne's 4.7%-4.9% and Sydney's 4.8%-4.9%.

#### Increased exposure to office space; less concentration risk.

With the acquisition of 25 Grenfell Street, exposure towards the single largest asset Solaris, will decrease from 33% to 29%, with 25 Grenfell Street becoming SBR's second largest office asset by GRI (12%). Post-acquisition, office assets will make up 15% of SBR's portfolio by GRI, comprising of 25 Grenfell Street and 14 Mort Street. Meanwhile, Business parks would include Solaris (29% GRI) and Eightrium (6% GRI). The top 10 tenants will decrease from 47% of monthly GRI to 43% of monthly GRI.

**5 Grenfell Street acquisition likely DPU dilutive.** A combination of 74% debt and 26% equity will likely to be used to finance for 25 Grenfell Street. This is on the assumption that SBR draws down an existing loan facility of A\$37.13mn (S\$35.28mn) in addition to the S\$101.8mn raised earlier. In such a scenario, DPU will likely see dilution by -3.3%, while gearing will be reduced by 110 bps from 39.4% to 38.3%. Overall portfolio yield will increase from 5.79% to 5.93% led by SBR's 19.4% portfolio exposure to Australia, which yields higher at 7.0%.

**Transitional headwinds.** SBR recorded foreign exchange and derivative losses amounting to S\$560k (YTD 2019) following their first acquisition(s) in Australia. We anticipate the uptick in expense to persist until 4Q19 as SBR completes the acquisition of 25 Grenfell Street. Rents from the asset are expected to flow in starting from Nov 2019 and bump up NPI by S\$1.6mn and S\$10.2mn for FY19/FY20.

**Signs of industrial rents bottoming; future absorption remains a question.** JTC rental statistics showed signs of bottoming industrial rents in 2Q19. Multi-user, single-user, warehouse and business park rents inched -0.3%, +0.4%, -0.2% and +0.9% respectively YoY. Industrial stock for the coming four years will peak in 2020 (1.75mn sqm), with concentration within the business park (7.7% of existing supply) and multi-user (7.2% of existing supply) segments. SBR's rental reversions will likely remain soft for the coming few quarters.

**Valuation & Action: Maintain NEUTRAL, TP of S\$0.58.** We maintain our neutral recommendation with a 12 months target price of S\$0.58. We continue to wait for an update on tenant NKI and anticipate soft rental reversions for the coming quarters. SBREIT is currently trading near its 5 year historical low P/B ratio (0.83x), and offers the highest consensus forward dividend yield (9.5%) among the industrial subsector (average 6.4%).

**Risks:** Soft rental reversions, AUD depreciating further against SGD, and further equity raising to fund NKI's redevelopment.

Transactions Highlights

# Acquisition Highlights



## Grenfell Centre, Adelaide



<b>Address</b>	25 Grenfell Street, Adelaide
<b>Description</b>	24-storey freehold Grade A multi-tenanted office building located in Adelaide's core CBD
<b>Purchase Price</b>	A\$134.22 million (S\$127.51 million) <sup>(1)</sup>
<b>Total Acquisition Cost</b>	A\$142.01 million (S\$134.91 million) <sup>(1)</sup>
<b>Valuation<sup>(2)</sup></b>	A\$134.25 million (S\$127.54 million) <sup>(1)</sup>
<b>Net Lettable Area</b>	24,969 sqm
<b>Committed Occupancy</b>	88.4% <sup>(3)</sup>
<b>WALE (by GRI)</b>	5.0 years <sup>(3)</sup>
<b>Net Property Income</b>	A\$10.3 million <sup>(4)</sup> (S\$9.83 million) <sup>(1)</sup>
<b>Initial NPI Yield</b>	7.67%
<b>Annual Rent Escalation</b>	3.50% - 3.75%
<b>Key Tenants</b>	<ul style="list-style-type: none"> <li>• Government of South Australia</li> <li>• Minter Ellison Lawyers</li> <li>• Lipman Karas Lawyers</li> <li>• Jones Lang Lasalle</li> <li>• Aurecon</li> <li>• Regus</li> </ul>

## 2 Opportunity to Acquire a High-Quality Building in Prime Location



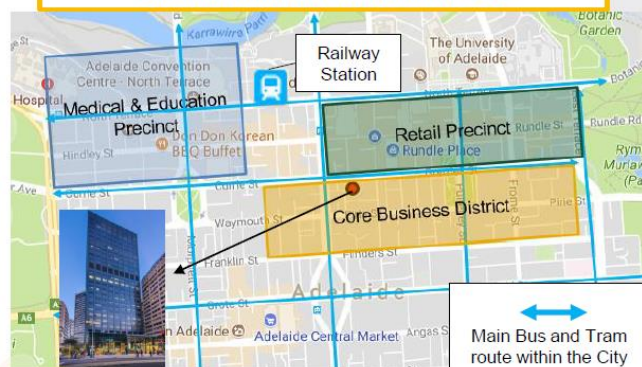
### Opportunity overview

- ✓ Iconic asset in prime location within Adelaide's commercial core
- ✓ Within walking distance from transport nodes and amenities
- ✓ A-Grade office building with secured cash flow and value-adding enhancement potentials through active asset management initiatives
- ✓ Attractive and positive outlook for Adelaide Office Market

### Favourable Property Strengths

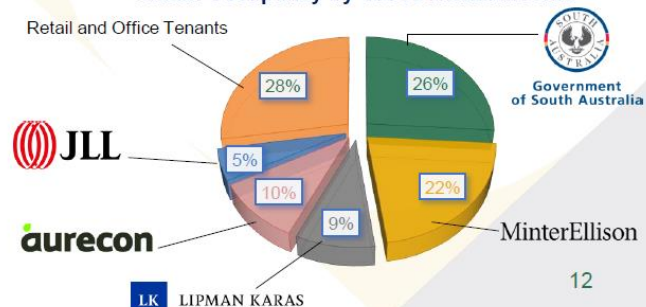
- |                             |  |
|-----------------------------|--|
| Building layout             | <ul style="list-style-type: none"> <li>✓ Ground floor retail podium, elevated lobby, plaza level and modern end-of-trip facilities providing secure bicycle storage, showers with towel service and lockers at the lower ground level and basement, easily accessible by ramps or stairs.</li> <li>✓ Well-designed floor plates with good levels of natural light to upper floors</li> </ul> |
| Construction specifications | <ul style="list-style-type: none"> <li>✓ Steel frame construction with reinforced concrete floors and double-glazed aluminium framed curtain wall facade</li> </ul>  |

### Located within core of Adelaide CBD



### Strong Quality Anchor Tenants

#### Tenant Occupancy by Gross Rental Income



Source: Company Data, KGI Research

## Financials

INCOME STATEMENT (SGD mn)	2017A	2018A	2019F	2020F	2021F
Gross revenue	84.8	83.8	88.2	96.8	98.8
Property expenses	(11.3)	(13.8)	(16.6)	(18.4)	(18.9)
<b>Net property income</b>	<b>73.5</b>	<b>69.9</b>	<b>71.6</b>	<b>78.4</b>	<b>80.0</b>
REIT Manager's fees	(6.0)	(5.6)	(5.6)	(5.6)	(5.6)
REIT Trustee's fees	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Net interest expense	(14.0)	(14.0)	(17.2)	(16.3)	(17.2)
Other expenses	(1.1)	(1.8)	(1.4)	(1.6)	(1.5)
<b>Net profit/(loss)</b>	<b>52.2</b>	<b>48.4</b>	<b>47.2</b>	<b>54.8</b>	<b>55.4</b>
Change in fair value - investment ppty	(80.5)	3.2	0.0	0.0	0.0
<b>Total return before tax</b>	<b>(28.3)</b>	<b>51.5</b>	<b>47.2</b>	<b>54.8</b>	<b>55.4</b>
Income tax	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Total return after tax	(28.3)	51.5	47.2	54.7	55.4
Distributable income	59.9	55.9	51.5	59.0	59.7
BALANCE SHEET (SGD mn)	2017A	2018A	2019F	2020F	2021F
Cash and cash equivalents	11.7	13.7	21.9	13.4	(1.6)
Trade and other receivables	3.9	2.6	3.4	3.4	3.6
Other current assets	54.1	2.0	42.6	0.0	0.0
<b>Total current assets</b>	<b>69.8</b>	<b>18.3</b>	<b>67.8</b>	<b>16.8</b>	<b>2.1</b>
Investment properties	1,110.6	1,229.7	1,229.1	1,229.1	1,229.1
Intangibles, others	1.3	0.0	0.8	0.0	0.0
<b>Total assets</b>	<b>1,181.6</b>	<b>1,248.0</b>	<b>1,297.8</b>	<b>1,246.0</b>	<b>1,231.2</b>
Trade and other payables	10.6	14.0	16.8	18.7	19.1
Other current liabilities	169.4	62.1	5.5	4.3	4.3
<b>Total current liabilities</b>	<b>180.0</b>	<b>76.1</b>	<b>22.2</b>	<b>23.0</b>	<b>23.4</b>
LT Borrowings	326.9	425.2	536.5	536.5	536.5
Other non-current liabilities	6.0	14.4	53.0	17.6	17.6
<b>Total liabilities</b>	<b>513.0</b>	<b>515.7</b>	<b>611.8</b>	<b>577.1</b>	<b>577.5</b>
Unitholders' funds and reserves	668.6	732.2	686.0	668.9	653.7
<b>Total liabilities and equity</b>	<b>1,181.6</b>	<b>1,248.0</b>	<b>1,297.8</b>	<b>1,246.0</b>	<b>1,231.2</b>
CASH FLOW STATEMENT (SGD mn)	2017A	2018A	2019F	2020F	2021F
<b>Total return before tax</b>	<b>(28.3)</b>	<b>51.5</b>	<b>47.2</b>	<b>54.8</b>	<b>55.4</b>
Depreciation & Amortisation	1.5	1.4	1.4	1.4	1.4
Other non-cash adjustments	86.6	2.1	7.0	7.9	6.9
Changes in working capital	(10.5)	10.7	(16.7)	(16.7)	(18.5)
Taxes paid	0.0	(0.1)	0.0	0.0	0.0
<b>Cash flows from operations</b>	<b>49.3</b>	<b>65.6</b>	<b>38.9</b>	<b>47.3</b>	<b>45.3</b>
Capital expenditure	(0.4)	(112.5)	(136.2)	(0.4)	(0.4)
Acquisition of investment properties	0.0	(5.6)	0.0	0.0	0.0
Other investing cashflow	0.0	53.3	(5.2)	0.0	0.0
<b>Cash flows from investing</b>	<b>(0.4)</b>	<b>(64.8)</b>	<b>(141.5)</b>	<b>(0.4)</b>	<b>(0.4)</b>
Borrowings raised / (repaid)	(0.8)	53.8	71.3	0.0	0.0
Equity raised / (bought back)	0.0	0.0	100.0	0.0	0.0
Dividends paid	(61.7)	(55.0)	(56.1)	(51.5)	(56.0)
Perps distributed, others	(1.1)	(1.5)	(6.4)	(3.9)	(3.9)
<b>Cash flows from financing</b>	<b>(63.7)</b>	<b>(2.7)</b>	<b>108.8</b>	<b>(55.4)</b>	<b>(59.9)</b>
FX Effects, Others	0.0	3.0	0.0	0.0	0.0
<b>Net increase in cash</b>	<b>(14.8)</b>	<b>1.1</b>	<b>6.3</b>	<b>(8.4)</b>	<b>(15.0)</b>
Beginning Cash	25.7	11.7	13.7	21.9	13.4
<b>Ending cash</b>	<b>10.9</b>	<b>12.8</b>	<b>19.9</b>	<b>13.4</b>	<b>(1.6)</b>
KEY RATIOS	2017A	2018A	2019F	2020F	2021F
DPU (SGD cents)	5.7	5.3	4.1	4.4	4.4
Dividend yield %	8.9	6.7	7.9	8.5	8.5
NAV per share (SGD cents)	0.6	0.7	0.5	0.5	0.5
Price/NAV (x)	1.0	1.1	1.0	1.0	1.0
<b>Profitability (%)</b>					
NPI Margin	86.6	83.5	81.2	81.0	80.9
Net Margin	(33.4)	61.4	53.5	56.5	56.0
ROE	(4.2)	7.0	6.9	8.2	8.5
ROA	(2.4)	4.1	3.6	4.4	4.5
<b>Financial Structure</b>					
Interest Coverage (x)	4.3	4.3	3.5	3.9	4.0
Gearing (%)	40.1	37.3	41.3	43.1	43.6

Source: Company Data, KGI Research

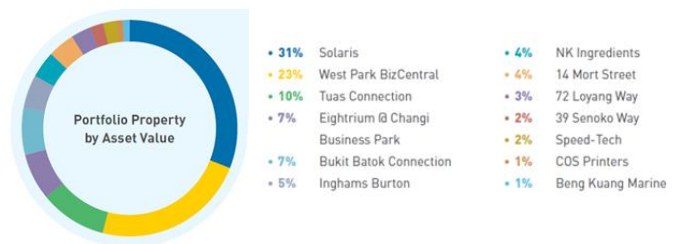
### Company Snapshot

**Figure 1: Company profile**

Soilbuild REIT (SBR) is a Singapore real estate investment trust (REIT) listed on Singapore Exchange Securities Trading Limited (the SGX-ST) since 16 August 2013. Soilbuild's portfolio consists of 3 business park properties and 10 industrial properties, strategically located across Singapore and Australia. The REIT is managed by SB REIT Management Pte. Ltd., a subsidiary of Soilbuild Group Holdings Ltd., a leading integrated property group in Singapore.

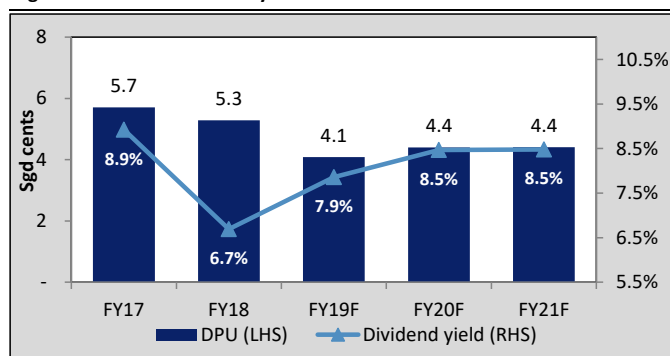
Source: Company

**Figure 2: Portfolio breakdown by NPI contribution**



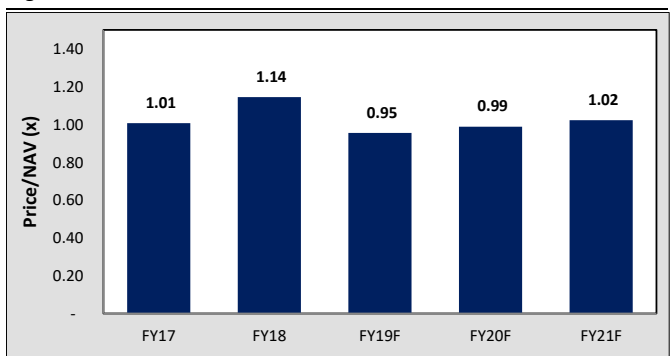
Source: Company Data, KGI Research

**Figure 3: DPU and dividend yield**



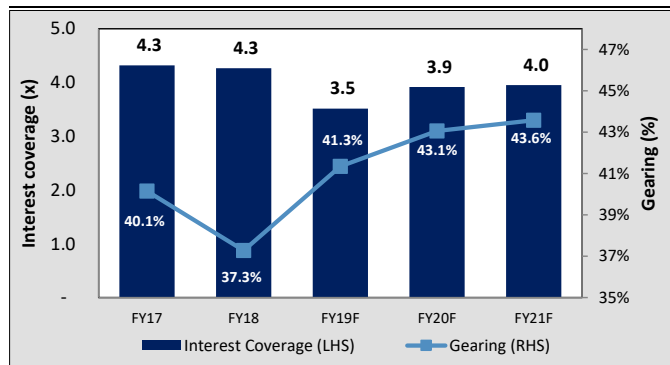
Source: Company Data, KGI Research

**Figure 4: Price/NAV**



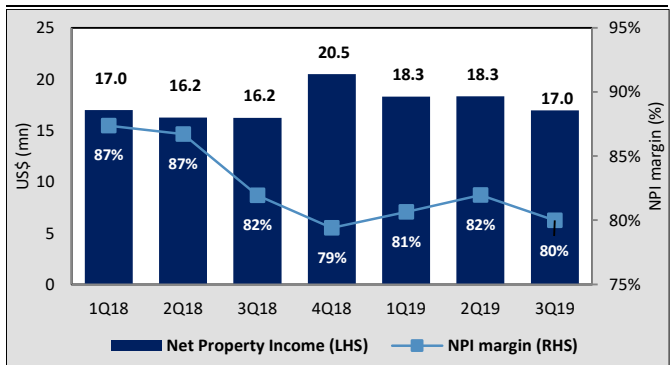
Source: Company Data, KGI Research

**Figure 5: Interest Coverage and Gearing**



Source: Company Data, KGI Research

**Figure 6: Net property income and NPI margin**



Source: Bloomberg, KGI Research

**Figure 7: 5 year historical P/B ratio (x)**



Source: Company Data, KGI Research

**Figure 8: Share price performance against major benchmarks**



Source: Company Data, KGI Research

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