

CHINA
DEVELOPMENT
FINANCIAL

Soilbuild Business Space REIT

(SBREIT SP)

2Q19 results update; Lower DPU within expectations

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- **Lower DPU within expectations.** Revenue and DPU reported for 1H19 of \$45.0mn (+18% YoY) and 2.377 Scts (-8.2% YoY) were largely in line with our expectations
- **Vacant space at Eightrium.** Tenancy update earliest in 3Q19; Demand may originate from aviation related tenants
- **Capital recycling with divestment proceeds.** Divestment proceeds of \$34.1mn may be recycled to fund AEI works in Solaris or used to pare down perpetual bond
- **Maintain Neutral.** We await a better entry price given the overhanging issues

Financials & Key Operating Statistics

YE Dec SGD mn	2017	2018	2019F	2020F	2021F
Gross revenue	84.8	83.8	85.7	83.2	84.6
Net property income	73.5	69.9	69.7	67.7	68.9
Distributable income	59.9	55.9	51.5	51.5	51.7
DPU (SGD cents)	5.7	5.3	4.8	4.7	4.6
DPU growth (%)	(6.2)	(7.5)	(8.9)	(3.1)	(0.6)
Div Yield (%)	8.9	6.7	7.9	7.6	7.6
NAV (SGD cents)	0.6	0.7	0.7	0.7	0.7
Price / Book (x)	1.0	1.1	0.9	0.9	0.9
NPI Margin (%)	86.6	83.5	81.4	81.4	81.5
Net Margin (%)	(33.4)	61.4	55.2	56.7	56.0
Gearing (%)	40.1	37.3	37.0	38.4	38.6
ROE (%)	(4.2)	7.0	6.4	6.5	6.6

Source: Company Data, KGI Research

Lower DPU within expectations. Soilbuild REIT's (SBR) 1H19 results were largely in line with expectations. Revenue and DPU reported for 1H19 of \$45.0mn (+18% YoY) and 2.377 Scts (-8.2% YoY) makes up 52% and 49% of our full year forecast of \$85.7mn and 4.8 Scts respectively. This was in part due to weaker rental contributions from Eightrium, 72 Loyang Way & NK Ingredients, and adjustments from a one-off liquidation proceed from Technics Offshore Engineering that contributed \$3.25mn to FY18's revenue.

Incremental revenue support from Solaris. Rental income continues to be uplifted by \$100k per month from the conversion of Solaris from a master lease to a multi-tenanted building. Correspondingly, property expenses for 2Q19 (\$4.0mn) increased 62% YoY after factoring in conversion costs. Management guided that \$3.5mn worth of AEI has been scheduled to start end 3Q19, consisting of a cosmetic revamp within the reception area and lift lobbies, and will take place across 8 months. Given that Solaris had been in operations for 9 years, we anticipate slight rental reversion after the AEI.

Industrial rents bottoming out, business park rents expected to remain flattish. A total of 10 leases were signed this quarter, with 6 new leases primarily within the Industrial segment. We see signs of industrial rents bottoming out this quarter with rental reversion averaging at -3.0%, compared to the same period last year (-11.9%). Lease expiry increased from 3.7 years to 3.8 years YoY factoring in the lease renewals this quarter.

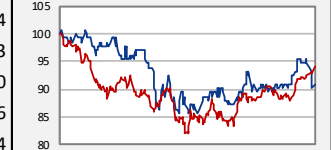
Neutral (Maintain)

Price as of 19 Jul 19 (SGD)	0.62	Performance (Absolute)	
12M TP (S\$)	0.61	1 Month (%)	0.8
Previous TP (S\$)	0.61	3 Month (%)	-0.5
Upside, incl div (%)	7.7%	12 Month (%)	1.3

Trading data

Mkt Cap (\$mn)	654
Issued Shares (mn)	1,063
Vol - 3M Daily avg (mn)	1.0
Val - 3M Daily avg (\$mn)	0.6
Free Float (%)	65.4

Perf. vs STI Index (Red)



Major Shareholders

Lim Chap Huat	9.7%	Previous Recommendations	
Lim Han Feng	6.6%	16-Jul-19	NEUTRAL \$0.61
Lim Han Qin	6.6%		

Vacant space at Eightrium. Occupancy at Eightrium dipped from 90.6% to 74.4% after the exit of DBS in March this year. DBS used to occupy c. 29,000 sqft within Eightrium or 16.9% of the property's NLA. It was communicated that this lease area will be divided into smaller lease plots and will require a transition period of 2 months (ending Aug 19) for the segregation to take place. A tenancy update will likely take place earliest in 3Q19. SBR may see lease demand from aviation related tenants with the construction of Changi Airport Terminal 5 starting some time in 2020.

Capital recycling with divestment proceeds. Divestment of 72 Loyang Way to an unrelated third party, Kim Hock Enterprise, is on track for approval by JTC by end Sep 2019. The divestment proceeds of \$34.1mn, including a divestment gain of \$55k, could potentially go towards the funding of AEI initiatives for Solaris or the paring down of debt to lower overall cost of debt (3.56%). SBR currently has an outstanding 6% coupon perpetual bond on a principal of \$65mn with an option to redeem in Sep 2021. Redemption of the outstanding perpetual bond will see a decrease in average interest cost by c. 38 bps based on our calculations.

Valuation & Action: Maintain NEUTRAL, TP of S\$0.61. We maintain our neutral recommendation with a 12 months target price of S\$0.61. This represents a 7.7% upside, inclusive of FY19's dividend yield at 7.8%. We await a negotiation update with tenant NK Ingredients and an occupancy update on Eightrium. A favorable outcome on these two overhanging challenges could mean a c.6% increase to our FY20 DPU forecast.

Risks: Declining occupancy in SBR's multi-tenanted assets; AUD depreciating further against the SGD; Short term vacancy in Eightrium after the vacation of DBS in Mar 19.

Financials

INCOME STATEMENT (SGD mn)	2017A	2018A	2019F	2020F	2021F
Gross revenue	84.8	83.8	85.7	83.2	84.6
Property expenses	(11.3)	(13.8)	(16.0)	(15.5)	(15.7)
Net property income	73.5	69.9	69.7	67.7	68.9
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)	(15.3)	(13.3)	(14.4)
Other expenses	(1.1)	(1.8)	(1.3)	(1.4)	(1.3)
Net profit/(loss)	52.2	48.4	47.3	47.3	47.5
Change in fair value - investment ppty	(80.5)	3.2	0.0	0.0	0.0
Total return before tax	(28.3)	51.5	47.3	47.3	47.5
Income tax	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Total return after tax	(28.3)	51.5	47.3	47.2	47.4
Distributable income	59.9	55.9	51.5	51.5	51.7
BALANCE SHEET (SGD mn)	2017A	2018A	2019F	2020F	2021F
Cash and cash equivalents	11.7	13.7	30.7	21.4	12.3
Trade and other receivables	3.9	2.6	3.3	2.9	3.1
Other current assets	54.1	2.0	35.9	0.0	0.0
Total current assets	69.8	18.3	69.9	24.2	15.4
Investment properties	1,110.6	1,229.7	1,229.9	1,229.9	1,229.9
Intangibles, others	1.3	0.0	0.8	0.0	0.0
Total assets	1,181.6	1,248.0	1,300.6	1,254.1	1,245.3
Trade and other payables	10.6	14.0	16.1	15.7	15.9
Other current liabilities	169.4	62.1	12.0	12.0	12.0
Total current liabilities	180.0	76.1	28.1	27.7	27.9
LT Borrowings	326.9	425.2	481.2	481.2	481.2
Other non-current liabilities	6.0	14.4	50.1	14.4	14.4
Total liabilities	513.0	515.7	559.4	523.3	523.5
Unitholders' funds and reserves	668.6	732.2	741.1	730.8	721.7
Total liabilities and equity	1,181.6	1,248.0	1,300.6	1,254.1	1,245.3
CASH FLOW STATEMENT (SGD mn)	2017A	2018A	2019F	2020F	2021F
Total return before tax	(28.3)	51.5	47.3	47.3	47.5
Depreciation & Amortisation	1.5	1.4	1.4	1.4	1.4
Other non-cash adjustments	86.6	2.1	7.0	8.9	7.8
Changes in working capital	(10.5)	10.7	(9.6)	(11.1)	(11.0)
Taxes paid	0.0	(0.1)	0.0	0.0	0.0
Cash flows from operations	49.3	65.6	46.1	46.5	45.7
Capital expenditure	(0.4)	(112.5)	(3.8)	(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	0.0	0.0	0.0
Cash flows from investing	(0.4)	(64.8)	(3.8)	(0.4)	(0.4)
Borrowings raised / (repaid)	(0.8)	53.8	34.8	0.0	0.0
Equity raised / (bought back)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(61.7)	(55.0)	(56.1)	(51.5)	(50.5)
Perps distributed, others	(1.1)	(1.5)	(4.0)	(3.9)	(3.9)
Cash flows from financing	(63.7)	(2.7)	(25.3)	(55.4)	(54.4)
FX Effects, Others	0.0	3.0	0.0	0.0	0.0
Net increase in cash	(14.8)	1.1	17.0	(9.4)	(9.1)
Beginning Cash	25.7	11.7	13.7	30.7	21.4
Ending cash	10.9	12.8	30.7	21.4	12.3
KEY RATIOS	2017A	2018A	2019F	2020F	2021F
DPU (SGD cents)	5.7	5.3	4.8	4.7	4.6
Dividend yield %	8.9	6.7	7.9	7.6	7.6
NAV per share (SGD cents)	0.6	0.7	0.7	0.7	0.7
Price/NAV (x)	1.0	1.1	0.9	0.9	0.9
Profitability (%)					
NPI Margin	86.6	83.5	81.4	81.4	81.5
Net Margin	(33.4)	61.4	55.2	56.7	56.0
ROE	(4.2)	7.0	6.4	6.5	6.6
ROA	(2.4)	4.1	3.6	3.8	3.8
Financial Structure					
Interest Coverage (x)	4.3	4.3	3.8	3.8	3.8
Gearing (%)	40.1	37.3	37.0	38.4	38.6

Source: Company Data, KGI Research

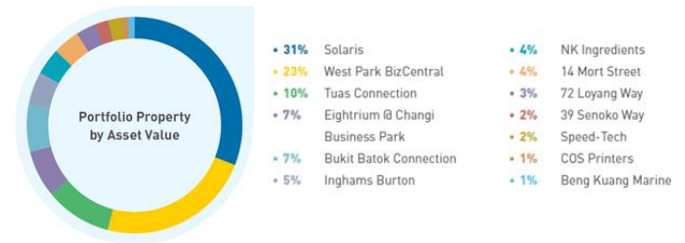
Company Snapshot

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.

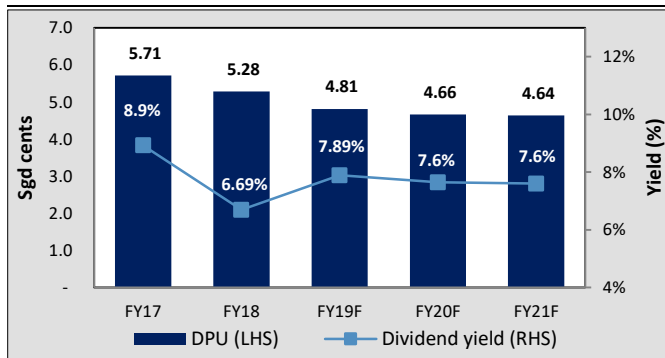
Source: Company

Figure 2: Portfolio breakdown by NPI contribution



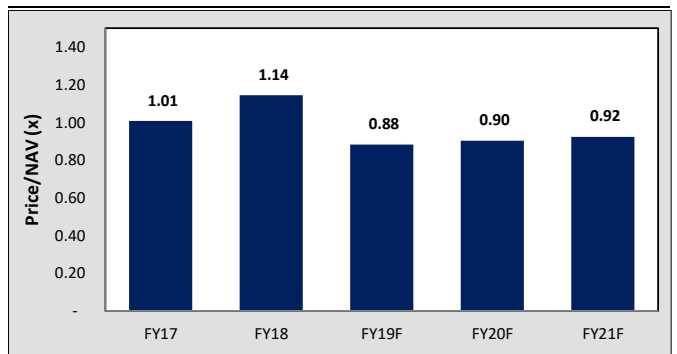
Source: Company Data, KGI Research

Figure 3: DPU and dividend yield



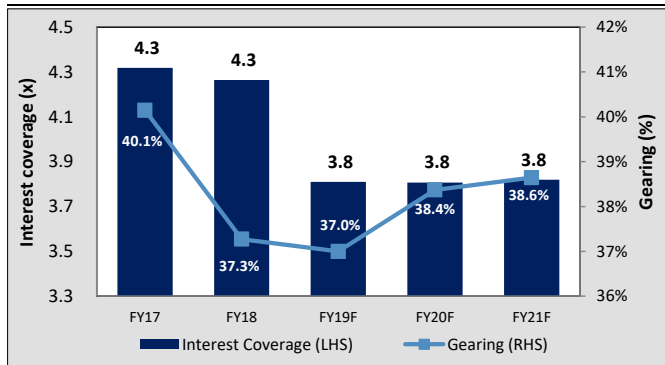
Source: Company Data, KGI Research

Figure 4: Price/NAV



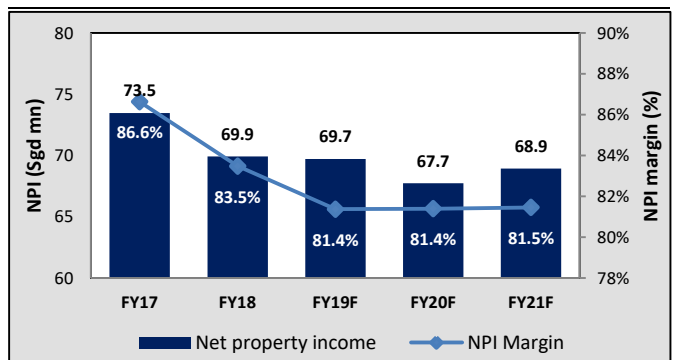
Source: Company Data, KGI Research

Figure 5: Interest Coverage and Gearing



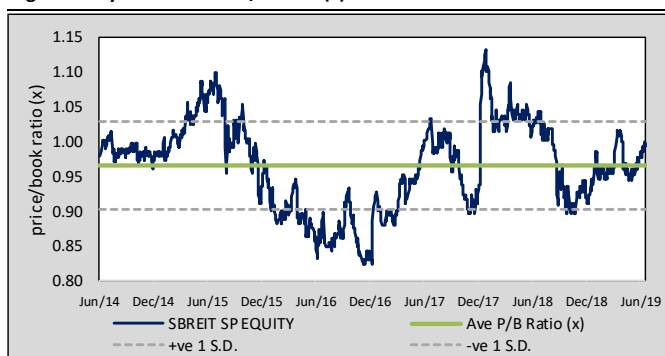
Source: Company Data, KGI Research

Figure 6: Net property income and NPI margin



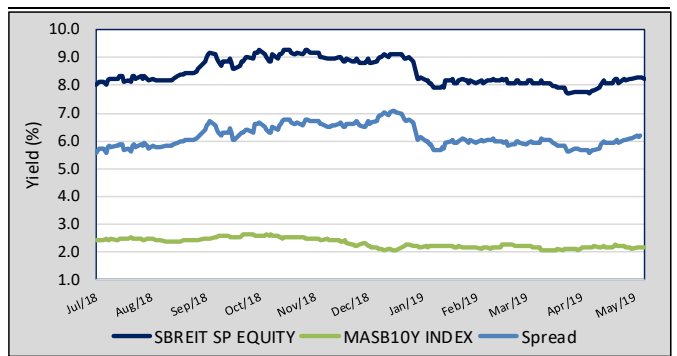
Source: Bloomberg, KGI Research

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



Source: Company Data, KGI Research

Figure 8: Dividend yield spread above 10Y gov bond



Source: Company Data, KGI Research

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	Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
	Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
	Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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