



Soilbuild Business Space REIT

(SBREIT SP)

Going in the right direction but headwinds remain

Joel Ng / 65 6202 1192 / joel.ng@kgi.com

- QoQ DPU improvement.** SBREIT declared a 0.925 Sing cents dividend for 4Q19, an improvement of 0.8% QoQ, but 36% lower YoY due mainly to the absence of a S\$3.25mn one-off liquidation payout and a larger unit base following the rights issue last year.
- Right direction but overhangs remain.** SBREIT has been embarking on a diversification strategy over the past two years with the acquisition of three Australian assets. However, there are still some short-term overhangs: the divestment of 72 Loyang Way has been delayed pending JTC's final approval by 1H 2020 and plans to redevelop 2 Pioneer Sector 1 building will likely entail a new round of capital raising.
- Maintain Neutral, TP of S\$0.55.** We prefer to wait for greater clarity on plans for the 2 Pioneer Sector 1 building and anticipate soft rental reversions in the coming quarters.

4Q19 results in line with expectations. SBREIT reported 4Q19 and FY2019 gross revenue of S\$22.8mn and S\$89.1mn, meeting our full year revenue forecast. 4Q19 DPU of 0.925 Sing cents was just slightly above our estimates, and grew 0.8% QoQ, mainly due to the two months contributions from newly acquired 25 Grenfell Street. Its FY2019A dividend yield of 8.1% is an attractive premium over peers, with improvements going forward as its new property contributes to full-year revenues.

Dip in headline occupancy to 84% due to NKI. 4Q19 portfolio occupancy dropped to 84.0% from 88.4% in the prior quarter mainly due to the pre-termination of the master lease agreement with NKI. However, occupancy would have been 88.8%, a QoQ improvement, if we were to exclude NKI. Considering the repossession of the NKI building, we think that SBREIT will most likely explore redeveloping the property and increase the gross plot ratio to >1.0 from the existing ratio of 0.55. However, we note that this redevelopment will entail a capital raising to fund the ~S\$60mn in capex.

Business parks now make up 49/45% of gross revenues/NPI. On a positive note, business parks contributed 49/45% of gross revenues/NPI, an increase from 39/33% in 4Q18. Business parks have been a bright spot as rentals continued to expand by 1.1% YoY in 4Q19, in addition to commanding higher renewals at S\$3.40psf/month vs new leases for industrial spaces at S\$1.16psf/month.

Figure 1: Net property income contribution by property type

Net property income	4Q19	4Q18	FY2019	FY2018
Business Park (S\$'000)	7,836	6,828	29,371	25,225
Industrial (S\$'000)	9,612	13,644	41,650	44,704
Total (S\$'000)	17,448	20,472	71,021	69,929
Business Park	45%	33%	41%	36%
Industrial	55%	67%	59%	64%

Source: Company data, KGI Research

Neutral (Maintain)

Price as of 29 Jan 20 (S\$)	0.52	Performance (Absolute)	
12M TP (S\$)	0.55	1 Month (%)	-1.0
Previous TP (S\$)	0.58	3 Month (%)	3.0
Upside, incl div (%)	13.6%	12 Month (%)	-8.2
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	656		
Issued Shares (mn)	1,262		
Vol - 3M Daily avg (mn)	1.4		
Val - 3M Daily avg (\$mn)	0.7		
Free Float (%)	68.9		
Major Shareholders		Previous Recommendations	
Lim Chap Huat	9.9%	18-Oct-19	NEUTRAL \$0.58
Lim Han Feng	5.6%	19-Jul-19	NEUTRAL \$0.61
Lim Han Qin	5.6%	16-Jul-19	NEUTRAL \$0.61

Financials & Key Operating Statistics

YE Dec SGD mn	2018	2019	2020F	2021F	2021F
Gross revenue	83.8	89.1	95.8	98.1	98.4
Net property income	69.9	71.0	77.6	79.4	79.7
Distributable income	55.9	48.6	55.8	57.2	57.5
DPU (SGD cents)	5.3	4.2	4.2	4.2	4.2
DPU growth (%)	(13.2)	(20.1)	(1.4)	1.5	0.4
Div Yield (%)	6.7	8.1	8.1	8.2	8.2
NAV (SGD cents)	0.7	0.6	0.6	0.6	0.6
Price / Book (x)	1.1	0.8	0.8	0.8	0.8
NPI Margin (%)	83.5	79.7	81.0	80.9	80.9
Net Margin (%)	61.4	38.0	52.4	52.6	52.6
Gearing (%)	37.3	37.0	38.3	38.4	38.5
ROE (%)	7.0	4.2	6.3	6.5	6.5

Source: Company Data, KGI Research

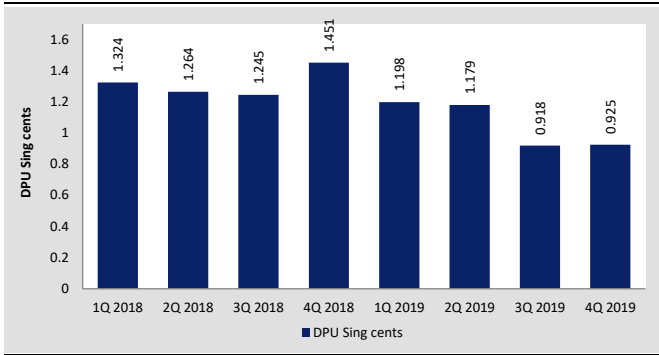
* FY19 DPS accounts for an enlarged units base following equity fund raising exercise

Positive business parks fundamentals offset by industrial supply deluge in 2020. Specialised industrial assets such as business parks continue to perform well due to favourable supply and higher demand, with JTC reporting a 0.2% YoY drop in vacancy rates and a corresponding 1.1% YoY increase in the rental index in 3Q19. However, the picture for the broader industrial space looks to be another challenging year given that there is an estimated 1.9mn sqm of supply in 2020, compared to an average of 1.3mn in the past three years.

Valuation & Action: Maintain NEUTRAL with reduced TP of S\$0.55. We maintain our neutral recommendation with a 12-month target price of S\$0.55 (previously S\$0.58). We continue to wait for confirmation on its redevelopment plans for the NKI property and the approval from JTC for the sale of 72 Loyang Way. Regardless, current unit price could be well-supported as it is now trading near its 5 year historical low P/B ratio (0.87x), and offers the highest dividend yield (8.1%) among Singapore's industrial REIT sector (average 6.1%).

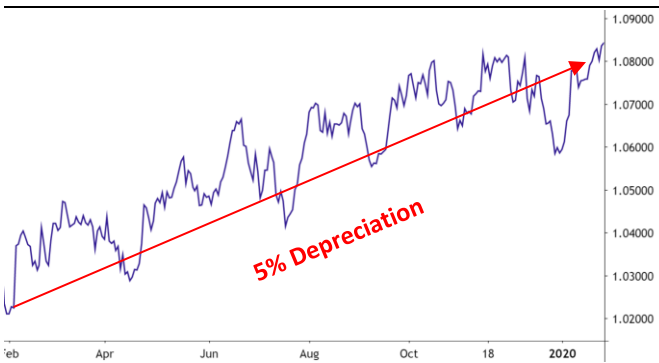
Risks: Soft rental reversions; depreciation of AUD will impact the three most recent Australian acquisitions which now contribute 14% of NPI; further equity raising to fund 2 Pioneer Sector 1's redevelopment. However, we note that SBREIT will receive around S\$33mn in net proceeds from the divestment of 72 Loyang Way which can help offset redevelopment costs.

Figure 2: Quarterly DPU trend shows a bottoming out at around 92 Sing cents



Source: Company data, KGI Research

Figure 3: SGD/AUD - the AUD has continued to depreciate by 5% against SGD from a year ago period



Source: Bloomberg, KGI Research

Consolidation and diversification among REITS. A key theme we saw in 2019 was the consolidation among S-REITs and the push to expand overseas, which is likely due to the limited opportunities in the local market. Yields of properties in Singapore are low by historical standards, as well as against regional peers. As such, we believe a case can be made that the smaller REITs, such as SBREIT, will have to merge in order to achieve the scale and geographical diversification needed to compete effectively and attract investors' attention.

Recent industrial sector consolidations include the merger between ESR-REIT and VIVA Industrial REIT to form a combined REIT with total assets exceeding S\$3.0bn. In other sectors, OUE Commercial Trust and OUE Hospitality Trust merged, while Ascott Residences Trust acquired Ascendas Hospitality Trust. In December 2019, Frasers Logistics & Industrial Trust (FLT) and Frasers Commercial Trust (FCT) proposed a merger to create a REIT holding S\$5.7bn in assets across Asia and in Europe.

Just last week, the managers of CapitaLand Commercial Trust and CapitaLand Mall Trust announced the merger between the two REITs, creating Singapore's largest and Asia-Pacific's third largest REIT.

Financials

INCOME STATEMENT (SGD mn)	2018A	2019A	2020F	2021F	2022F
Gross revenue	83.8	89.1	95.8	98.1	98.4
Property expenses	(13.8)	(18.0)	(18.2)	(18.7)	(18.8)
Net property income	69.9	71.0	77.6	79.4	79.7
REIT Manager's fees	(5.6)	(4.9)	(4.9)	(4.9)	(4.9)
REIT Trustee's fees	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Net interest expense	(14.0)	(17.5)	(17.8)	(18.1)	(18.2)
Other expenses	(1.8)	(2.0)	(2.1)	(2.2)	(2.2)
Net profit/(loss)	48.4	46.3	52.5	54.0	54.2
Change in fair value - investment ppty	3.2	(10.9)	0.0	0.0	0.0
Total return before tax	51.5	35.4	52.5	54.0	54.2
Income tax	(0.1)	(1.6)	(2.3)	(2.4)	(2.4)
Total return after tax	51.5	33.8	50.2	51.6	51.8
Distributable income	55.9	48.6	55.8	57.2	57.5
BALANCE SHEET (SGD mn)	2018A	2019A	2020F	2021F	2022F
Cash and cash equivalents	13.7	16.2	6.3	3.2	(0.8)
Trade and other receivables	2.6	4.2	3.7	4.2	4.0
Other current assets	2.0	35.7	0.0	0.0	0.0
Total current assets	18.3	56.1	10.0	7.4	3.2
Investment properties	1,229.7	1,350.4	1,350.4	1,350.4	1,350.4
Intangibles, others	0.0	0.9	0.2	0.2	0.2
Total assets	1,248.0	1,407.4	1,360.6	1,358.0	1,353.8
Trade and other payables	14.0	16.2	16.3	16.8	16.8
Other current liabilities	62.1	7.5	6.4	6.4	6.4
Total current liabilities	76.1	23.7	22.8	23.2	23.2
LT Borrowings	425.2	521.4	521.4	521.4	521.4
Other non-current liabilities	14.4	49.9	14.6	14.6	14.6
Total liabilities	515.7	594.9	558.7	559.2	559.2
Unitholders' funds and reserves	732.2	812.5	801.9	798.9	794.6
Total liabilities and equity	1,248.0	1,407.4	1,360.6	1,358.0	1,353.8
CASH FLOW STATEMENT (SGD mn)	2018A	2019A	2020F	2021F	2022F
Total return before tax	50.1	46.3	52.5	54.0	54.2
Depreciation & Amortisation	1.4	1.4	1.4	1.4	1.4
Other non-cash adjustments	2.1	4.7	4.7	4.4	4.4
Changes in working capital	10.7	(21.8)	(19.9)	(20.6)	(20.3)
Taxes paid	(0.1)	(0.4)	0.0	0.0	0.0
Cash flows from operations	64.2	30.2	38.7	39.3	39.7
Capital expenditure	(112.5)	(1.8)	(0.4)	(0.4)	(0.4)
Acquisition of investment properties	(5.6)	(127.8)	0.0	0.0	0.0
Other investing cashflow	53.3	(1.6)	0.0	0.0	0.0
Cash flows from investing	(64.8)	(131.3)	(0.4)	(0.4)	(0.4)
Borrowings raised / (repaid)	53.8	56.1	15.0	15.0	15.0
Equity raised / (bought back)	0.0	100.0	0.0	0.0	0.0
Dividends paid	(55.0)	(52.3)	(53.2)	(53.0)	(54.4)
Perps distributed, others	(1.5)	(6.7)	(3.9)	(3.9)	(3.9)
Cash flows from financing	(2.7)	97.0	(42.1)	(41.9)	(43.3)
FX Effects, Others	3.0	(0.1)	0.0	0.0	0.0
Net increase in cash	(0.4)	(4.2)	(3.9)	(3.1)	(4.0)
Beginning Cash	11.7	12.3	10.2	6.3	3.2
Ending cash	11.4	8.1	6.3	3.2	(0.8)
KEY RATIOS	2018A	2019A	2020F	2021F	2022F
DPU (SGD cents)	5.3	4.2	4.2	4.2	4.2
Dividend yield %	6.7	8.1	8.1	8.2	8.2
NAV per share (SGD cents)	0.7	0.6	0.6	0.6	0.6
Price/NAV (x)	1.1	0.8	0.8	0.8	0.8
Profitability (%)					
NPI Margin	83.5	79.7	81.0	80.9	80.9
Net Margin	61.4	38.0	52.4	52.6	52.6
ROE	7.0	4.2	6.3	6.5	6.5
ROA	4.1	2.4	3.7	3.8	3.8
Financial Structure					
Interest Coverage (x)	4.3	3.6	3.9	4.0	4.0
Gearing (%)	37.3	37.0	38.3	38.4	38.5

Source: Company Data, KGI Research

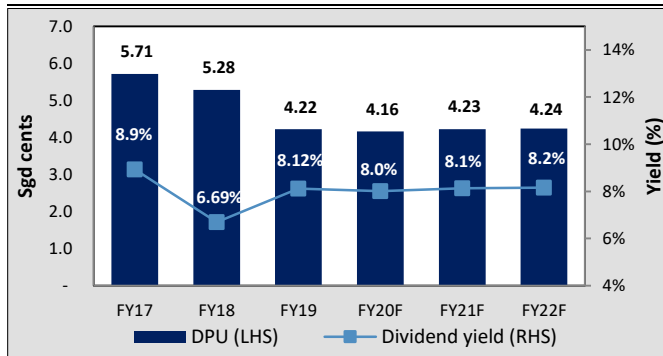
Company Snapshot

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.

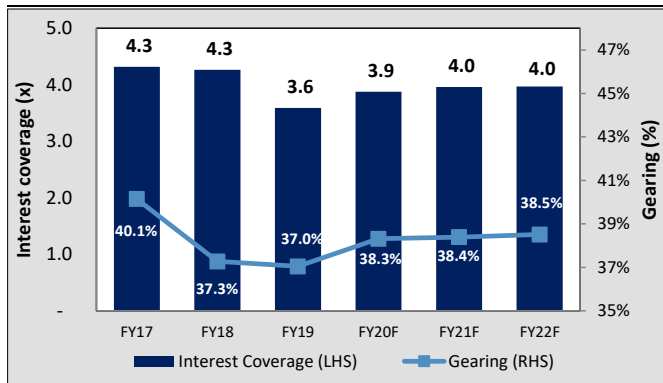
Source: Company

Figure 2: DPU and dividend yield



Source: Company Data, KGI Research

Figure 3: Interest Coverage and Gearing



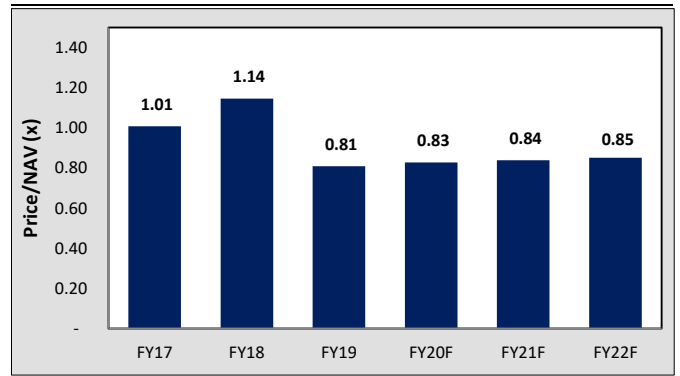
Source: Company Data, KGI Research

Figure 4: 5 year historical P/B ratio (x)



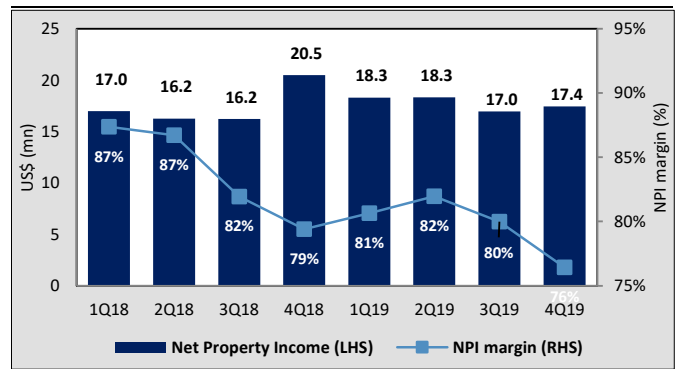
Source: Company Data, KGI Research

Figure 5: Price/NAV



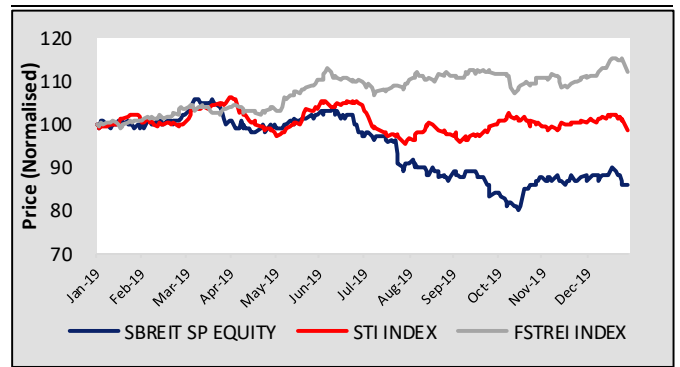
Source: Company Data, KGI Research

Figure 6: Net property income and NPI margin



Source: Bloomberg, KGI Research

Figure 7: Share price performance against major benchmarks



Source: Company Data, KGI Research

KGI's Ratings	Rating	Definition
	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.
	Not Rated (NR)	The stock is not rated by KGI Securities.
	Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

Disclaimer

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2020. KGI Securities (Singapore) Pte. Ltd. All rights reserved.