

Singapore Company Update

Sabana REIT

Bloomberg: SSREIT SP | Reuters: SABA.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 Jan 2022

HOLD (Downgrade from BUY)

Last Traded Price (20 Jan 2022): S\$0.455 (STI : 3,294.82)
Price Target 12-mth: S\$0.48 (6% upside) (Prev S\$0.49)

Analyst

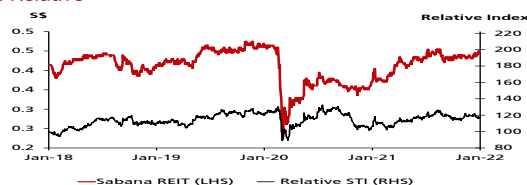
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What's New

- Strong set results in FY21 that have been powered by NTP+ and other AEs
- Expect a DPU CAGR of c.7.0% over the next two years as AEs bear fruit
- Potential AEs and acquisitions to generate upside to earnings, but requires more clarity
- Maintained TP of S\$0.48 but downgrade to HOLD on valuations

Source of all data on this page: Company, DBS Bank, Bloomberg Finance

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2020A	2021A	2022F	2023F
Gross Revenue	71.7	81.9	84.9	88.1
Net Property Inc	44.6	52.0	55.6	56.7
Total Return	(42.2)	48.8	35.9	36.7
Distribution Inc	29.1	32.5	36.3	37.1
EPU (S cts)	1.87	3.09	3.35	3.43
EPU Gth (%)	(31)	65	8	2
DPU (S cts)	2.76	3.05	3.40	3.47
DPU Gth (%)	(5)	10	11	2
NAV per shr (S cts)	51.3	52.0	51.9	51.9
PE (X)	24.3	14.7	13.6	13.3
Distribution Yield (%)	6.1	6.7	7.5	7.6
P/NAV (x)	0.9	0.9	0.9	0.9
Aggregate Leverage (%)	33.0	33.6	34.1	34.6
ROAE (%)	3.5	6.0	6.5	6.6

Distn. Inc Chng (%): 5 4
Other Broker Recs: B: 1 S: 0 H: 0
L.P.

Awaiting earnings growth catalysts

Investment Thesis

NTP+ completion to deliver boost to FY22F earnings. The completion of NTP+ is projected to add c.S\$3.5m to Sabana REIT's revenue and boost occupancies and rental reversions at the REIT's "Crown Jewel". Hence, we are forecasting a DPU CAGR of c.7% over the next two years.

Targeted asset enhancements to drive growth. Having successfully completed five AEs in the past year that led to portfolio revaluation gains and earnings growth, SSREIT will continue to focus its efforts on more portfolio rejuvenation initiatives. With AEs at 1 Tuas Avenue 4 currently on the cards, we believe that more clarity on such plans and firm pre-commitments for the property will drive earnings upside.

Exciting growth plans ahead, but require more clarity. As SSREIT continues to focus on rejuvenating its portfolio, it is ready to embark on acquisitions in the near to medium term. Although SSREIT's capital management fundamentals are conducive for acquisitions, stiff competition for quality industrial and logistics assets could pose a hurdle. As such, we hope to see more clarity on SSREIT's ability to acquire accretively in the coming years to achieve their targeted S\$1.0bn AUM.

Valuation:

Maintain TP of S\$0.48, downgrade to HOLD based on DCF with a WACC of 7.0%. Our TP represents an implied FY22F yield of 7.0%.

Where we differ:

We are the only house covering the stock. That said, we have assumed an uplift in earnings in the next two years driven by the recent completion of NTP+ and other AEs.

Key Risks to Our View:

Resurgence in COVID-19 in Singapore, leading to another round of COVID-19 rental rebates, could affect DPU as seen in 1H20.

At A Glance

Issued Capital (m shrs)	1,070
Mkt. Cap (S\$m/US\$m)	487 / 361
Major Shareholders (%)	
e-Shang Infinity Cayman Ltd	20.0
Quarz Capital Asia Pte Ltd	12.0
UBS AG	4.9
Free Float (%)	58.2
3m Avg. Daily Val (US\$m)	0.29
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



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WHAT'S NEW

Moving on to the next phase of growth

Improved portfolio occupancy with multi-tenanted buildings being the main contributor. SSREIT reported a portfolio occupancy rate of 85.4%, which was mainly attributable to the higher occupancy rates for its multi-tenanted buildings. Within the multi-tenanted properties segment, its occupancy was 90.8%, the highest level seen in over eight years.

We understand that the strong take up during the second half of FY21 came mainly from tenants in the growing sectors of high-tech manufacturing, electronics, life sciences, and technology. The increase in portfolio occupancies was also aided by the recently rejuvenated New Tech Park, where the NTP+ lifestyle mall is 100% occupied.

10.5% positive rental reversions in FY21. The portfolio also saw a 10.5% positive rental reversion in FY21, and we believe it the main contributor was the rejuvenated New Tech Park. In addition, SSREIT also completed four other AEIs in FY21, and these properties also supported the strong positive rental reversions. As the manufacturing sector continues its recovery and the growth sectors continue to expand, we believe that SSREIT will be able to

continue strengthening its portfolio occupancies and report further positive rental reversions.

Improving capital management metrics. Gearing ratio remains healthy at 35.0% and SSREIT's recent entry into an unsecured facility agreement valued at up to S\$255.0m means that there will be no refinancing requirements until FY24. All in all, financing costs of c.3.1% are also expected to remain relatively stable in the near to medium term, as c.67% of its borrowings have been hedged to fixed rates. With c.S\$96m of undrawn committed facilities available, SSREIT has the flexibility to swiftly embark on acquisitions or carry out AEI work if necessary.

FY21 DPU increased 10.5% y-o-y to 3.05 Scts. SSREIT's FY21 DPU of 3.05 Scts is 10.5% higher y-o-y. This was in part due lower profits in FY20 due to rental rebates and reliefs, as well as higher income contribution from its properties. Again, the main contributor to the higher revenues in FY21 came from the New Tech Park as well as the NTP+ lifestyle mall. The better performance of its portfolio and value-creating AEIs also led to a more than 3.1% uplift in valuations in FY21. Consequently, NAV inched up to S\$0.52 in FY21.

Earnings growth driven by five successful AEIs

Progress on AEI and Rejuvenation of Select Assets



151 Lorong Chuan
("151LC or New Tech Park")

- New lifestyle mall NTP+ obtained TOP in 1Q 2021, achieved 100% occupancy
- Replacement of all passenger office lifts completed in 3Q 2021
- Phased upgrading of seven ground floor passenger lift lobbies ongoing, target completion in 3Q 2022
- Valuation up 6.5% y-o-y to \$355.0m



23 Serangoon North Avenue 5
("23SNA5")

- Ground floor office lobby upgrading works completed in 1Q 2021
- Valuation up 11.3% y-o-y to \$40.5m



8 Commonwealth Lane
("8CL")

- Phase 2 upgrading and wayfinding works for ground floor office "Lobby B" completed in 3Q 2021, following completion of Phase 1 ground floor lift lobby ("Lobby A") upgrading in 4Q 2019
- Valuation up 3.6% y-o-y to \$55.4m



15 Jalan Kilang Barat
("15JKB")

- Ground floor office lobby upgrading completed in 4Q 2021
- Valuation up 1.9% y-o-y to \$21.7m



10 Changi South Street 2
("10CSS2")

- Completed the replacement of two cargo lifts in 4Q 2021, following upgrading of ground floor office lobby in 4Q 2019
- Valuation up 8.9% y-o-y to \$36.7m

Source: Sabana REIT

Sabana REIT

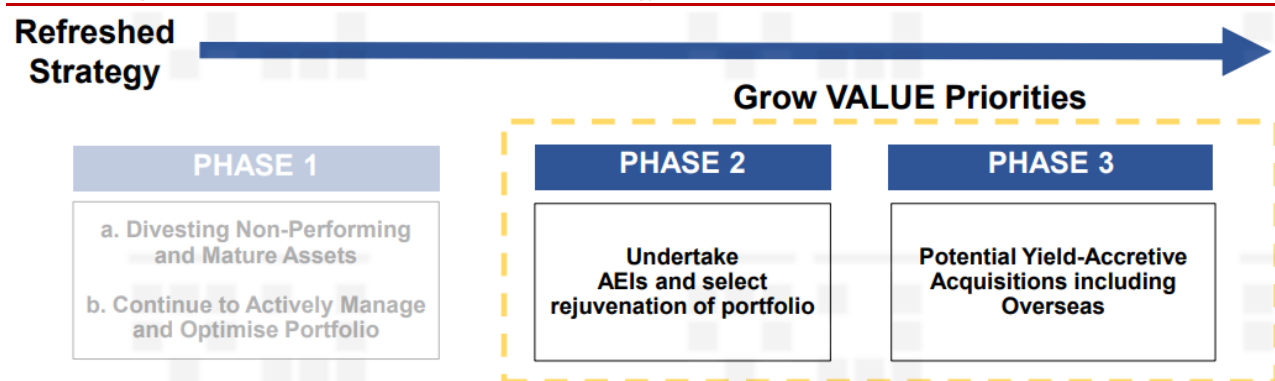
Phase 2 of refreshed strategy. Over the past year, SSREIT successfully carried out five AEIs, which led to a more than S\$31.1m uplift in valuations for the properties. Banking on this successful rejuvenation strategy, SSREIT intends to continue focusing on undertaking more AEIs to rejuvenate its portfolio of 18 properties.

It has currently identified 1 Tuas Avenue 4 as the next major AEI candidate. The property is currently vacant and SSREIT intends to carry out a major refurbishment of the asset to transform it into a specialised logistics facility that offers cold storage. Although there are some new supplies of logistics and warehouse spaces in the Tuas precinct, cold storage warehouses remain limited and are able to command significantly better rents. As such, SSREIT is actively on the lookout for tenant commitment for

specialised logistics spaces and could also consider built-to-suit opportunities for the c.350,000 sqft property.

Transitioning into Phase 3 in the next three to five years. Concurrently, SSREIT is transitioning into Phase 3 of its refreshed strategy and is stepping up efforts to grow the REIT further. SSREIT would be actively looking out for yield accretive acquisitions over the next three to five years, as it targets to grow its portfolio to more than S\$1.0bn. SSREIT will be looking at opportunities both locally and abroad, such as in Australia, Japan, Europe, and the UK. However, we understand that there may be more acquisition opportunities in Singapore currently and SSREIT would like to cement its standing locally before competing on the international stage.

Transitioning into Phase 2 and Phase 3 of refreshed strategy



Source: Sabana REIT

Our thoughts

Waiting for more clarity on AEI plans to drive next phase of growth. As the rejuvenation plans at 1 Tuas Avenue 4 are still in the early stages, we would like to see more clarity on the asset’s AEI potential to drive the next leg of earnings growth. As the property is currently vacant, any lease commitments and revenue from the asset will lead to an incremental upside to earnings. In addition, the vacant 30 & 32 Tuas Avenue 8 would present upside to earnings once leased out.

Maintain target price of S\$0.48, downgrade to HOLD on valuations. Despite maintaining our target price of S\$0.48, we have downgraded our recommendation on SSREIT to HOLD based on valuations. Over the past year, SSREIT’s share price has increased by more than 20%, as its portfolio earnings recovered from the height of the COVID-19 outbreak and optimism for its portfolio rejuvenation took

shape. With a full-year income contribution from New Tech Park and NTP+ in FY22, we project a forward target yield of c.7.0% for SSREIT. At such levels, we believe that SSREIT is fairly priced and, therefore, have maintained our target price.

However, we will relook at our projections once we receive more clarity and firm commitments on the potential earnings growth catalysts. These include value-creating AEI work and acquisitions, as well as backfilling of vacancies within the portfolio.

As such, we will be maintaining our TP of **S\$0.48** and downgrading our recommendation to **HOLD**.

Sabana REIT

Company Background

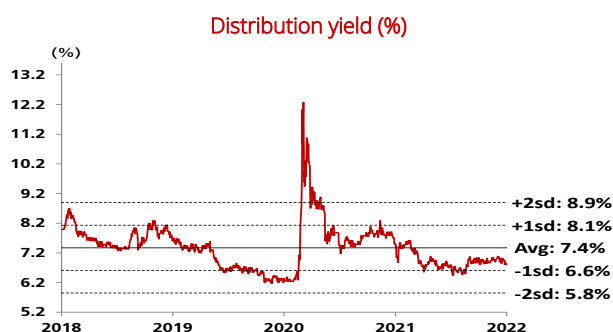
Sabana REIT is a real estate investment trust that primarily invests in industrial real estate in Asia while adhering to Shari'ah investment principles. Based in Singapore, Sabana REIT was listed on the Singapore Exchange on 26 November 2010 and holds 18 properties, including the New Tech Park at 151 Lorong Chuan.

Interim Income Statement (\$m)

FY Dec	2H2020	1H2021	2H2021	% chg yoy	% chg qoq
Gross revenue	37.4	39.1	42.8	14.4	9.5
Property expenses	(13.7)	(13.4)	(16.6)	21.3	23.7
Net Property Income	23.8	25.7	26.3	10.4	2.2
Other Operating expenses	(5.7)	0.41	0.0	nm	nm
Other Non Opg (Exp)/Inc	0.85	1.11	1.02	19.7	(7.7)
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(6.5)	(7.0)	(8.6)	(32.3)	(22.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	12.8	17.5	15.3	19.9	(12.2)
Tax	0.0	0.0	0.0	-	-
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	12.8	17.5	15.3	19.9	(12.2)
Total Return	5.57	34.5	14.3	156.7	(58.6)
Non-tax deductible Items	5.24	(1.8)	(3.6)	(169.0)	97.7
Net Inc available for Dist.	29.2	39.9	27.5	(5.8)	(31.0)
Ratio (%)					
Net Prop Inc Margin	63.5	65.7	61.3		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

Historical Dividend yield and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Sabana REIT

Income Statement (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross revenue	76.3	71.7	81.9	84.9	88.1
Property expenses	(24.7)	(27.1)	(30.0)	(29.3)	(31.4)
Net Property Income	51.6	44.6	52.0	55.6	56.7
Other Operating expenses	(5.9)	(8.2)	(5.7)	(5.8)	(5.9)
Other Non Opg (Exp)/Inc	(0.5)	(3.1)	2.13	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(15.9)	(13.6)	(15.6)	(13.9)	(14.2)
Exceptional Gain/(Loss)	(0.8)	0.0	0.0	0.0	0.0
Net Income	28.5	19.7	32.8	35.9	36.7
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	28.5	19.7	32.8	35.9	36.7
Total Return	20.7	(42.2)	48.8	35.9	36.7
Non-tax deductible Items	8.85	71.3	(16.3)	0.48	0.43
Net Inc available for Dist.	30.7	29.1	32.5	36.3	37.1
Growth & Ratio					
Revenue Gth (%)	(5.7)	(6.1)	14.2	3.7	3.7
N Property Inc Gth (%)	(2.2)	(13.5)	16.4	7.1	1.9
Net Inc Gth (%)	(13.5)	(30.9)	66.4	9.3	2.2
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	67.6	62.3	63.4	65.5	64.4
Net Income Margins (%)	37.4	27.5	40.1	42.2	41.6
Dist to revenue (%)	40.3	40.6	39.7	42.8	42.1
Managers & Trustee's fees	7.7	11.4	7.0	6.9	6.6
ROAE (%)	4.8	3.5	6.0	6.5	6.6
ROA (%)	2.9	2.1	3.5	3.7	3.8
ROCE (%)	4.7	3.9	5.0	5.2	5.3
Int. Cover (x)	2.9	2.7	3.0	3.6	3.6

Earnings continue to be driven by full-year contribution of NTP+.

Source: Company, DBS Bank

Sabana REIT

Interim Income Statement (\$m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Gross revenue	39.6	34.3	37.4	39.1	42.8
Property expenses	(12.7)	(13.4)	(13.7)	(13.4)	(16.6)
Net Property Income	26.9	20.9	23.8	25.7	26.3
Other Operating	(2.8)	(4.3)	(5.7)	0.41	0.0
Other Non Opg (Exp)/Inc	(0.2)	(4.0)	0.85	1.11	1.02
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(7.7)	(7.2)	(6.5)	(7.0)	(8.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	16.2	6.93	12.8	17.5	15.3
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	16.2	5.69	12.8	17.5	15.3
Total Return	18.2	(47.8)	5.57	34.5	14.3
Non-tax deductible Items	(1.9)	4.15	5.24	(1.8)	(3.6)
Net Inc available for Dist.	16.8	19.3	29.2	39.9	27.5
Growth & Ratio					
Revenue Gth (%)	8	(13)	9	4	10
N Property Inc Gth (%)	9	(23)	14	8	2
Net Inc Gth (%)	39	(57)	85	37	(12)
Net Prop Inc Margin (%)	68.0	60.9	63.5	65.7	61.3
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Investment Properties	949	905	943	946	949
Other LT Assets	0.0	0.0	0.19	0.19	0.19
Cash & ST Invts	4.10	9.52	25.9	18.8	21.3
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	3.42	2.84	2.69	2.31	2.40
Other Current Assets	14.9	13.8	0.0	0.0	0.0
Total Assets	972	931	972	967	973
ST Debt	56.5	158	0.0	0.0	0.0
Creditor	15.0	17.4	18.0	14.9	16.0
Other Current Liab	6.52	6.33	5.92	0.0	0.0
LT Debt	219	126	312	318	324
Other LT Liabilities	79.9	83.2	80.2	79.3	78.2
Unit holders' funds	595	540	556	555	555
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	972	931	972	967	973
Non-Cash Wkg. Capital	(3.2)	(7.1)	(21.2)	(12.6)	(13.6)
Net Cash/(Debt)	(271)	(274)	(286)	(299)	(302)
Ratio					
Current Ratio (x)	0.3	0.1	1.2	1.4	1.5
Quick Ratio (x)	0.1	0.1	1.2	1.4	1.5
Aggregate Leverage (%)	31.4	33.0	33.6	34.1	34.6

c.3.1% uplift in portfolio valuations that have been driven by AEIs and improved earnings at properties.

Source: Company, DBS Bank

Sabana REIT

Cash Flow Statement (S\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Income	28.5	19.7	32.8	35.9	36.7
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(6.4)	3.62	2.57	(8.6)	0.97
Other Operating CF	17.2	16.8	13.5	0.48	0.43
Net Operating CF	39.4	40.1	48.9	27.8	38.1
Net Invnt in Properties	93.1	(15.0)	(9.5)	(3.1)	(3.1)
Other Invnts (net)	0.0	0.0	0.0	0.0	0.0
Invnts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(0.6)	0.01	0.01	(1.0)	(1.0)
Net Investing CF	92.6	(15.0)	(9.5)	(4.0)	(4.1)
Distribution Paid	(30.1)	(13.1)	(32.6)	(36.3)	(37.1)
Chg in Gross Debt	(86.5)	8.35	28.6	6.07	6.07
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(48.6)	(15.0)	(19.0)	0.0	0.0
Net Financing CF	(165)	(19.7)	(23.0)	(30.3)	(31.0)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(33.2)	5.42	16.3	(6.5)	2.93
Operating CFPS (S cts)	4.34	3.47	4.36	3.40	3.47
Free CFPS (S cts)	12.6	2.39	3.70	2.31	3.27

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Jan 21	0.40	0.45	BUY
2:	23 Jul 21	0.45	0.49	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Dale LAI

Derek TAN

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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