

SF Real Estate Investment Trust

Bloomberg: 2191 HK Equity | Reuters: 2191.HK

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DBS Group Research . Equity

7 Jun 2022

BUY

Last Traded Price (6 Jun 2022): HK\$2.98 (HSI : 21,654)
 Price Target 12-mth: HK\$5.80 (94% upside) (Prev HK\$5.50)

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What's New

- Acquiring a modern logistics property in Changsha
- Initial gross yield is estimated at c.7.9%
- DPU is expected to be enhanced by c.3% and c.6% in FY22 and FY23 respectively
- Maintain BUY with a DDM-based TP of HK\$5.80

Price Relative



Forecasts and Valuation

FY Dec (HK\$ m)	2021A	2022F	2023F
Gross Revenue	244	422	465
Net Property Inc	195	336	371
Net Profit	174	177	186
Distribution Inc	138	218	227
DPU (HK\$)	0.17	0.27	0.28
DPU Gth (%)	N/A	N/A	4
Div Yield (%)	9.2*	9.1	9.5
Gross Gearing (%)	31	35	35
Book Value (HK\$)	5.11	5.11	5.25
P/Book Value (x)	0.6	0.6	0.6

DPU Rev (%):		3	6
Consensus DPU (HK\$):		0.24	0.25
Other Broker Recs:	B:4	S:0	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

*on annualized basis

Maiden acquisition to propel growth

Investment Thesis

BUY with HK\$5.80TP. SF REIT offers distribution yields of 9.1-9.5% for FY22-23, which compares favourably with Hong Kong-listed REITs and Singapore-listed logistics plays. The acquisition should signal strong support from its sponsor, SF Holding (SFH), in SF REIT's pursuit of growth, adding investment appeal to the REIT.

New property generates resilient and steadily growing income.

SF REIT made its first acquisition by acquiring a RMB540m modern logistics property in Changsha from SFH. With 98.9% space let as of Mar-22, c.68.4% of leased space is leased to SF-connected tenants, which have agreed to lease the property for a term of about four years and eight months from May-22 with a "step-up" rent arrangement. This extends the property's weighted average lease expiry to c.3.9 years. Overall, this points to resilient and steadily growing rental income for this new property.

Debt-funded acquisition to offer immediate yield accretion. With the initial gross yield estimated at 7.9%, this debt-funded acquisition should be immediately yield accretive. Following this acquisition, SF REIT's gearing is estimated to increase to 35.5% from Dec 21's 30.6%. SF REIT has the right of first refusal over SFH's completed majority-owned projects in China, which span a total area of c.4msm as of Dec-21. Any yield-accretive acquisitions should bode well for its earnings growth and valuation.

Valuation:

Our TP for SF REIT is based on a dividend discount model using a discount rate of 6.3% and terminal growth rate of 1.5%.

Where we differ:

We are more positive on the post-COVID growth outlook of the logistics property sector led by the growing popularity of e-commerce, which should benefit SF REIT.

Key Risks to Our View:

Any faster-than-expected interest rate hike would impact SF REIT's distribution income and valuations. Failure to execute acquisitions may dampen investment sentiment on the counter.

At A Glance

Issued Capital (m shrs)	800
Mkt Cap (HKm/US\$m)	2,384 / 304
Major Shareholders (%)	
SF Fengtai Industrial Park	35.0
Free Float (%)	65.0
3m Avg. Daily Val. (US\$m)	0.49
GICS Industry: Real Estate / Equity Real Estate Investment (REITs)	



Watchlist the stock on Insights Direct to receive prompt updates



WHAT'S NEW**Unveiled first acquisition since listing**

SF REIT entered into an agreement with its parent company, SF Holding, to acquire a modern logistics property in Changsha for RMB493.2m, equivalent to c.HK\$604m. This is based on an agreed property value of RMB540m, which represents a 1.9% discount to its appraised value of RMB550m as of Mar-22. This marks its first acquisition since listing in May-21. This acquisition is a major and connected transaction. Subject to independent shareholders' approval at an EGM on 22 June, the deal is expected to be completed by end-June.

Strategically located at the Changsha Linkong Economic Development Zone, the property is well poised to serve the logistics needs in Changsha and the central region of China. It is in proximity to major infrastructure including the airport, major expressways, and railway station. Spanning a total GLA of 120,055sqm, the property comprises two land parcels with five major components including a two-storey ramp-up distribution centre, a three-storey warehouse with two underground levels, two single-storey warehouses, a nine-storey office building, and three ancillary buildings. The property is equipped with built-to-suit facilities, such as automatic sorting, cold storage, and supply chain support facilities, to fulfil the needs of various tenants.

Housing a total of 21 tenants, the property was 98.9% let as of Mar-22. Among the sectors, logistics was the largest tenant group, accounting for 77.8% of its leased gross lettable space. This was followed by F&B and technology tenants, occupying 11.4% and 10.6% of the leased space, respectively.

As of Mar-22, SF-connected tenants leased, or contributed, about 68.4% of the property's leased GLA, or gross rental income. SF REIT has entered into new leases with these connected tenants for a term of approximately four years and eight months commencing May-22, with "step-up" rental arrangements. Upon lease expiry in Dec-26, tenants will have the option of renewing the lease for a further term of up to five years on substantially the same terms, except for rents which will be determined based on the

Market Rental Package. Weighted average lease expiry of the property was c.3.9 years as of 31 May 2022.

Based on the average monthly rent and agreed property value of the new acquisition, we estimate an initial gross yield of 7.9%.

The acquisition will be funded by 1) an eight-year onshore term loan of RMB267.2m, 2) a five-year offshore term of HK\$259m, and 3) internal resources (RMB21.3m). The onshore loan shall bear an interest cost of 90bps above the loan prime rate for more than five years, which stands at c.4.45%, while the credit margin for the offshore loan is 1.1% p.a.

Upon deal completion, SF REIT's gearing is expected to rise to 35.5% from Dec-21's 30.6%.

The acquisition would enlarge the total property valuation of SF REIT by c.10.3%. We have raised our FY22 and FY23 DPU estimate by c.3% and c.6% respectively to factor in the acquisition.

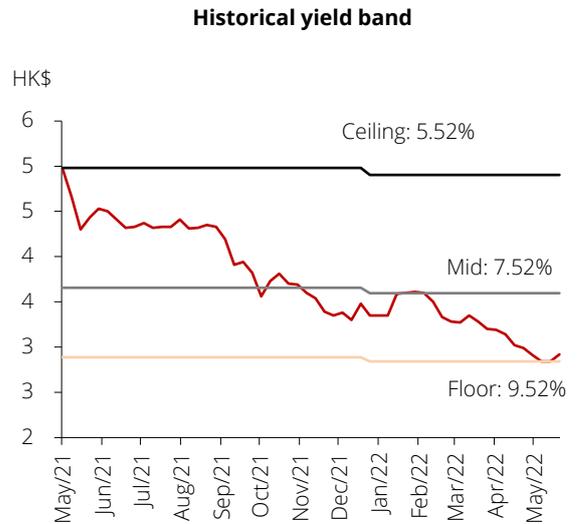
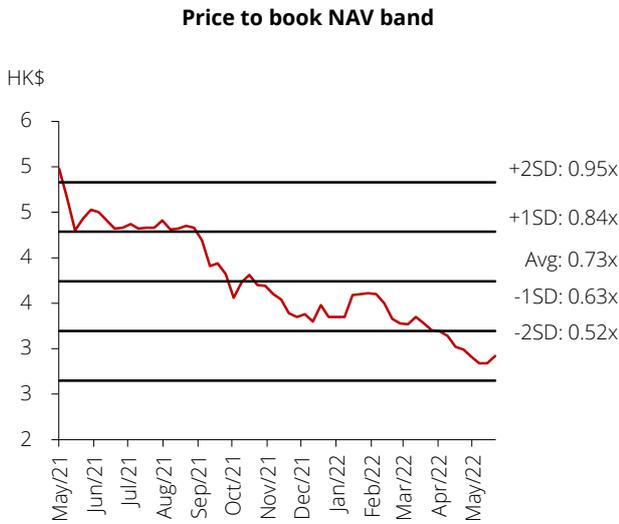
In the past three months, unit price of SF REIT fell 11%. Meanwhile, SF REIT is trading at distribution yields of 9.1-9.5% for FY22-23, which compares favourably to the Hong Kong REITs and Singapore-listed peers. Its valuation remains attractive, even allowing for interest rate hike. The acquisition should signal strong support from its parent company, SF Holding. This should prompt the investors to revisit this quality logistics REIT. Hence, we maintain BUY with a DDM-based TP of HK\$5.80.

Company Background

SF REIT's initial portfolio comprises three modern logistics properties in Hong Kong, Foshan, and Wuhu. In Jun-22, SF REIT made its maiden acquisition by acquiring a RMB540m modern logistics property in Changsha from its sponsor, SF Holding. This offers investors exposure to the rapidly growing logistics sector in Hong Kong and China.

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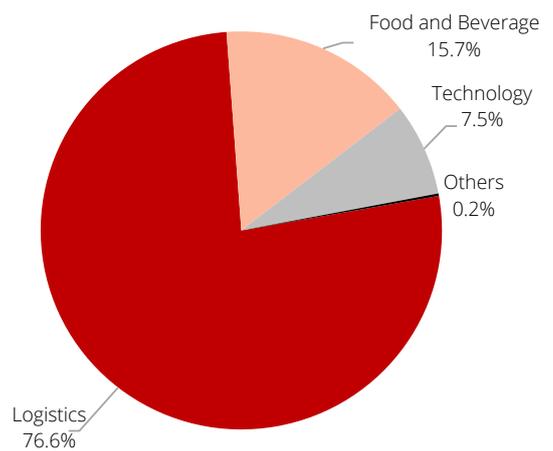
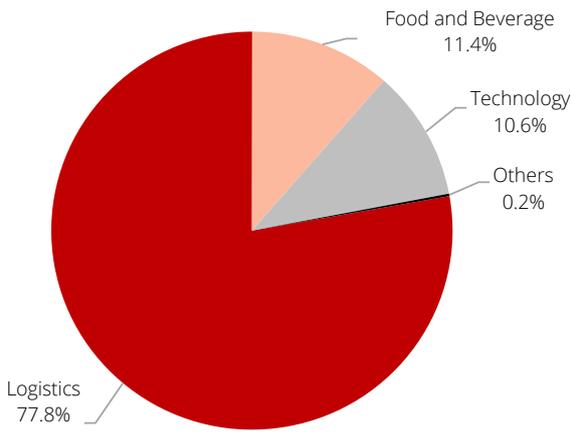
Price to book NAV band and historical yield band



Source: Bloomberg Finance L.P. DBS HK

Leased gross lettable area by sector

Gross rental income by sector



Source: SF REIT

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Key Assumptions (%)

	2022F	2023F
Warehouse rents - HK	3	3
Warehosue rents - China	3	3

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2021A	2022F	2023F
Revenues (HK\$ m)			
Rental income	204	354	395
Management service income	24	42	44
Others	17	26	26
Total	244	422	465

Source: Company, DBS HK

Income Statement (HK\$ m)

FY Dec	2021A	2022F	2023F
Gross revenue	244	422	465
Property expenses	(49)	(86)	(94)
Net Property Income	195	336	371
Other expenses	(32)	(42)	(46)
Interest (Exp)/Inc	(23)	(69)	(87)
Exceptionals	81	0	0
Pre-Tax Profit	221	225	238
Tax	(47)	(47)	(52)
Net Profit	174	177	186
Distribution income	138	218	227
Revenue Gth (%)	N/A	N/A	10
NPI Gth (%)	N/A	N/A	11
Dist. Inc Growth (%)	N/A	N/A	4
DPU Growth (%)	N/A	N/A	4

Source: Company, DBS HK

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Balance Sheet (HK\$ m)

FY Dec	2021A	2022F	2023F
Fixed Assets	6,542	7,268	7,413
Other LT Assets	15	15	15
Intangibles Assets	0	0	0
Bank Balance/Cash & Liquid Debtors	430	404	355
Other Non Cash Current	6	6	6
Total Assets	7,010	7,710	7,807
Creditors	96	171	121
Other Current Liab	89	89	89
LT Debt	2,141	2,728	2,728
Deferred Tax Liabilities	561	601	641
Other LT Liabilities	30	30	30
Unitholders' funds	4,092	4,091	4,197
Total Capital	7,010	7,710	7,807
Share Capital (m)	800	800	800
Gross Debt	(2,141)	(2,728)	(2,728)
Working Capital	268	167	168
Book NAV (HK\$)	5.11	5.11	5.25
Gross Gearing (%)	31	35	35

Source: DBS HK

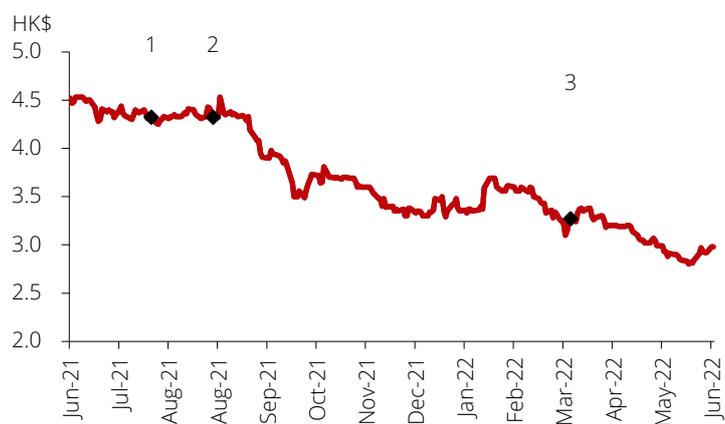
Cash Flow Statement (HK\$ m)

FY Dec	2021A	2022F	2023F
Pre-Tax Income	221	225	238
Tax Paid	(3)	(7)	(12)
Depr/Amort	1	0	0
Chg in Wkg.Cap.	(58)	75	(50)
Other Non-Cash	(51)	69	87
Operational CF	109	362	263
Net Capex	(2)	0	0
Net change in asso/jv	0	0	0
Net Change in Investments	(1,422)	(661)	0
Assoc, MI, Invsmt	0	0	0
Other Investment CF	24	0	0
Investment CF	(1,401)	(661)	0
Net Chg in Debt	1,905	586	0
New issues/Unit Buyback	2,590	0	0
Distribution Paid	0	(244)	(226)
Other Financing CF	(2,806)	(69)	(86)
Financing CF	1,689	273	(312)
Chg in Cash	397	(26)	(49)

Source: Company, DBS HK

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Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	23-Jul-21	HK\$4.32	HK\$5.63	Buy
2:	27-Aug-21	HK\$4.38	HK\$5.63	Buy
3:	18-Mar-22	HK\$3.26	HK\$5.50	Buy

Source: DBS HK

Analyst: Jeff Yau

Ken He

Percy Leung

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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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