

Singapore Company Update

Elite Commercial REIT

Bloomberg: ELITE SP | Reuters: ELIE.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Aug 2022

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BUY

Last Traded Price (12 Aug 2022): GBP0.610 (STI : 3,269.27)
Price Target 12-mth: GBP0.70 (15% upside) (Prev GBP0.75)

Analyst

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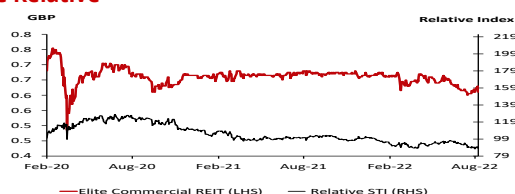
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What's New

- 1H22 revenue grew 17.7% y-o-y to GBP18.7m; DPU declined 2.7% y-o-y to 2.56 pence
- Two more lease break options exercised; rental income secured up to Mar-28 for 87.5% of portfolio
- Cost of debt assumptions increased to 2.6%/3.0% for FY23F/24F post re-financing
- Maintain BUY with lower TP of GBP0.70

Price Relative



Forecasts and Valuation

FY Dec (GBPm)	2020A	2021A	2022F	2023F
Gross Revenue	21.0	34.7	36.8	36.3
Net Property Inc	20.4	33.7	35.8	35.3
Total Return	23.4	(4.7)	36.2	20.6
Distribution Inc	14.8	32.9	22.0	21.5
EPU (Pence)	6.98	(1.2)	7.56	4.31
EPU Gth (%)	nm	nm	nm	(43)
DPU (Pence)	4.43	5.43	4.58	4.48
DPU Gth (%)	nm	23	(16)	(2)
NAV per shr (Pence)	64.9	60.7	66.1	66.2
PE (X)	8.7	nm	8.1	14.2
Distribution Yield (%)	7.3	8.9	7.5	7.3
P/NAV (x)	0.9	1.0	0.9	0.9
Aggregate Leverage (%)	33.7	45.8	40.7	41.1
ROAE (%)	N/A	(1.9)	11.9	6.5

Distn. Inc Chng (%): (3) (5)
Consensus DPU 4.98 4.93
Other Broker Recs: B: 4 S: 0 H: 0

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

Two more lease breaks exercised

Investment Thesis

Maintain BUY with lower TP of GBP0.70, implying 15% potential upside, with attractive yields of 7.5%/7.3% for FY22F/23F. Elite Commercial REIT (ECR)'s portfolio of 155 properties boasts of 98% occupancy and a long weighted average lease to expiry (WALE) of 5.2 years, with over 99% leased to the AA-rated UK Government (primarily, the Department of Work and Pensions, "DWP").

Inflation hedge with built-in inflation-linked rental escalations.

ECR has an upcoming rent review for a large proportion of the portfolio in April 2023, and the rental escalation is estimated to be between 11-15%. We see further upside to our current c.11% rental growth projection for 124 leases, with the lease break option removed and without rent reduction.

Strong income visibility till 2028 a key positive. Approximately 87.5% of the portfolio currently has straight leases through to 2028. The weighted average lease to break (WALB) is now at its longest at c.5 years, which will be a critical factor for the stock to re-rate. Historically, P/NAV was at 1.2x when WALB was at its longest at c.4.5 years, and the stock is currently trading at c.1x P/NAV.

Valuation:

Our target price of GBP0.70 is based on DCF valuation with a WACC of 6.1% and terminal growth rate of 1.00%.

Where we differ:

We are slightly more conservative on the inflation-linked rental uplift in 2023.

Key Risks to Our View:

Tenant risks, country risks, interest rate risks, and regulatory risks.

At A Glance

Issued Capital (m shrs)	479
Mkt. Cap (GBPm/US\$m)	292 / 241
Major Shareholders (%)	
Partner Reinsurance EU SE	8.8
Partner Reinsurance Co Ltd	8.0
Ho Lee Group Trust	7.7
Free Float (%)	63.8
3m Avg. Daily Val (US\$m)	0.15
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



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WHAT'S NEW

Two more lease breaks exercised

Results highlights

- Elite Commercial REIT (ECR) reported 1H22 revenue of £18.7m, which is 17.7% growth y-o-y, mainly due to the full half-year rental contribution from its maiden acquisition on 9 March 2021
- Distributable income rose 9.7% y-o-y to £12.2m, also attributable to lower tax expenses
- Distribution per unit (DPU) of 2.56 pence declined 2.7% y-o-y on a larger unitholder base from 2.63 pence in 1H21 that included an advanced distribution of 0.9 pence
- 3.5% upward revaluation of portfolio value to £517.7m as at 30 June 2022, from £500.1m as at 31 December 2021
- NAV per unit grew to £0.62 as at 30 June 2022, from £0.61 as at 31 December 2021
- Gearing ratio declined to 41.9% as at 30 June 2022, from 42.8% as at 31 March 2022

Portfolio updates

Property	Comments
Lindsay House, Dundee	Lease break option exercised
Ladywell House, Edinburgh	Lease break option exercised
The Forum, Stevenage (two non-government retail tenants)	One was renewed with a rental uplift of 4.6% and another had a mutual lease break moved to 2028

- Two more properties exercised the lease break option, bringing the total number to 12
- Rental income secured up to March 2028 for 87.5% of portfolio by annualised gross rental income after removal of lease break options
- Portfolio occupancy remains high at 98.0% as at 30 June 2022, with vacancies at John Street, Sunderland and Sidlaw House, Dundee
- Manager has collected 99.9% of rent for 3Q22 in advance and within seven days of due date
- Long WALE at 5.2 years as at 30 June 2022

Earnings revision

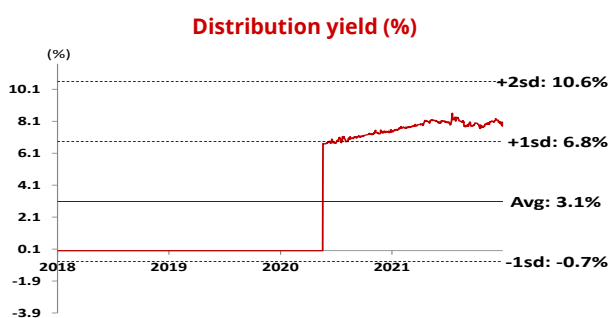
- Cut FY23F revenue to GBP36.3m from GBP37.2m to factor in the new lease breaks for 2 properties (Lindsay House, Dundee and Ladywell House, Edinburgh) and our conservative assumption of zero income
- Lower FY23F net property income (NPI) to GBP35.3m from GBP36.1m
- Upside to earnings if ECR finds new tenants for the 12 properties or divests them
- FY22F/FY23F DPU lowered to 4.58/4.48 pence from 4.70/4.70 pence
- Cost of debt assumptions increased to 2.6%/3.0% for FY23F/FY24F post re-financing
- **Maintain BUY with lower DCF-based TP of GBP0.70**

Elite Commercial REIT

Company Background

Elite Commercial REIT is the only UK-focused Singapore real estate investment trust ("REIT"). It is a Singapore REIT established with the investment strategy of principally investing, directly or indirectly, in commercial assets and real estate-related assets in the United Kingdom ("The UK").

Historical Dividend yield and PB band



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



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

Elite Commercial REIT

Key Assumptions

FY Dec	2021A	2022F	2023F
Rental growth	0.66	0.06	0.0
Occupancy	1.00	1.00	0.93

Income Statement (GBPm)

FY Dec	2020A	2021A	2022F	2023F
Gross revenue	21.0	34.7	36.8	36.3
Property expenses	(0.6)	(1.0)	(1.0)	(1.0)
Net Property Income	20.4	33.7	35.8	35.3
Other Operating expenses	(4.8)	(4.5)	(4.5)	(4.4)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(2.4)	(4.4)	(5.6)	(6.6)
Exceptional Gain/(Loss)	15.9	(28.2)	15.0	0.0
Net Income	29.1	(3.4)	40.8	24.3
Tax	(5.7)	(1.4)	(4.6)	(3.6)
Minority Interest	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0
Net Income After Tax	23.4	(4.7)	36.2	20.6
Total Return	23.4	(4.7)	36.2	20.6
Non-tax deductible Items	(8.5)	29.3	(14.2)	0.82
Net Inc available for Dist.	14.8	32.9	22.0	21.5
Growth & Ratio				
Revenue Gth (%)	N/A	65.7	6.1	(1.6)
N Property Inc Gth (%)	nm	65.5	6.2	(1.6)
Net Inc Gth (%)	nm	nm	nm	(42.9)
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	97.2	97.1	97.2	97.2
Net Income Margins (%)	111.4	(13.7)	98.1	56.9
Dist to revenue (%)	70.8	94.6	59.6	59.2
Managers & Trustee's fees to sales	22.9	13.1	12.1	12.1
ROAE (%)	N/A	(1.9)	11.9	6.5
ROA (%)	N/A	(1.1)	6.6	3.6
ROCE (%)	N/A	6.9	5.2	4.7
Int. Cover (x)	6.6	6.7	5.6	4.7

Source: Company, DBS Bank

Elite Commercial REIT

Balance Sheet (GBPm)

FY Dec	2020A	2021A	2022F	2023F
Investment Properties	312	501	537	540
Other LT Assets	0.0	0.51	0.51	0.51
Cash & ST Invt	20.2	19.5	28.8	28.8
Inventory	0.0	0.0	0.0	0.0
Debtors	0.88	12.0	1.55	1.52
Other Current Assets	0.0	0.0	0.0	0.0
Total Assets	333	533	568	571
ST Debt	0.0	6.60	6.60	6.60
Creditor	2.54	5.63	4.47	4.40
Other Current Liab	5.36	9.83	9.83	9.83
LT Debt	102	217	225	228
Other LT Liabilities	5.92	5.04	5.04	5.04
Unit holders' funds	217	289	317	317
Minority Interests	0.0	0.0	0.0	0.0
Total Funds & Liabilities	333	533	568	571
Non-Cash Wkg. Capital	(7.0)	(3.4)	(12.8)	(12.7)
Net Cash/(Debt)	(81.8)	(204)	(202)	(206)
Ratio				
Current Ratio (x)	2.7	1.4	1.5	1.5
Quick Ratio (x)	2.7	1.4	1.5	1.5
Aggregate Leverage (%)	33.7	45.8	40.7	41.1

Source: Company, DBS Bank

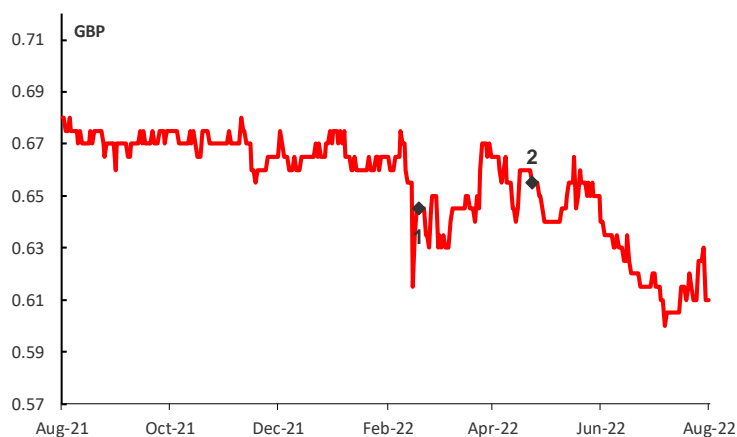
Elite Commercial REIT

Cash Flow Statement (GBPm)

FY Dec	2020A	2021A	2022F	2023F
Pre-Tax Income	29.1	(3.4)	40.8	24.3
Dep. & Amort.	0.0	0.0	0.0	0.0
Tax Paid	(2.6)	(2.9)	(4.6)	(3.6)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	0.06	(6.3)	9.32	(0.1)
Other Operating CF	(10.1)	35.2	(14.2)	0.82
Net Operating CF	16.5	22.7	31.3	21.4
Net Invnt in Properties	0.0	0.0	(7.4)	(3.7)
Other Invnts (net)	0.0	(9.4)	0.0	0.0
Invnts in Assoc. & JV	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0
Net Investing CF	0.0	(9.4)	(7.4)	(3.7)
Distribution Paid	(16.3)	(17.6)	(22.0)	(21.5)
Chg in Gross Debt	(106)	8.56	7.44	3.67
New units issued	105	0.0	0.0	0.0
Other Financing CF	1.67	(5.1)	0.0	0.0
Net Financing CF	(15.6)	(14.1)	(14.5)	(17.8)
Currency Adjustments	0.0	0.0	0.0	0.0
Chg in Cash	0.83	(0.8)	9.32	(0.1)
Operating CFPS (Pence)	4.90	7.14	4.60	4.48
Free CFPS (Pence)	4.92	5.59	4.99	3.70

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	03 Mar 22	0.65	0.80	BUY
2:	06 May 22	0.66	0.75	BUY

Source: DBS Bank

Analyst: Tabitha FOO

Dale LAI

Derek TAN

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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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