

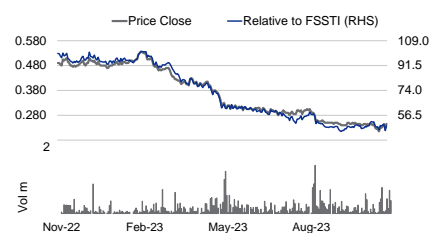
Singapore

**ADD** (no change)

Consensus ratings*:	Buy 1	Hold 2	Sell 0
Current price:	£0.245		
Target price:	£0.49		
Previous target:	£0.49		
Up/downside:	100.0%		
CGS-CIMB / Consensus:	31.2%		
Reuters:	ELIE.SI		
Bloomberg:	ELITE SP		
Market cap:	US\$145.5m		
	£118.3m		
Average daily turnover:	US\$0.08m		
	£0.06m		
Current shares o/s:	482.1m		
Free float:	76.3%		
*Source: Bloomberg			

**Key changes in this note**

➤ No change.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	0	-17	-50
Relative (%)	0	-12.9	-51

**Major shareholders**

	% held
Partner Reinsurance	22.4
Ho Lee Group Trust	7.6
Sunway Re Cap Pte Lt	5.8

# Elite Commercial REIT

## Focusing on building balance sheet strength

- 9M23 revenue of £28.5m was in line, at 73% of our FY23F forecast.
- High portfolio occupancy sustained while gearing ratio improved.
- Reiterate Add with an unchanged TP of £0.49.

### 9M23 update highlights

Elite Commercial REIT (ECR) posted a 2% yoy increase in 9M23 revenue to £28.5m, thanks to 13.1% inflation-linked rental escalation for 136 of its 155 assets effective from Apr 2023, partly offset by income vacuum from eight vacant assets. However, net property income was up a higher 20.4% to £32.5m with the inclusion of dilapidation settlements for nine assets. Income available for distribution fell 25.1% yoy to £13.6m as earnings were eroded by higher interest expenses. 9M23 DPU declined 25.6% to 2.82 pence (2.53 pence based on a 90% payout ratio), 25.6% lower yoy.

### Maintaining high portfolio occupancy

Portfolio occupancy stood at 92.1% at end-9M23, with 100% of rent for the period Oct 23 to Dec 23 collected in advance. Weighted average lease expiry stood at 4.3 years at end-3Q23, providing strong income visibility, in our view. With the bulk 94.8% of its leases expiring in FY28F, ECR has started early dialogues with tenants to extend and diversify these lease expiries. As at Oct 23, the REIT had concluded dilapidation settlements for nine assets, and divested five of these properties for a total of £3.4m (12.2% above valuation). Of the remaining seven vacant buildings, three of the properties, valued at £2.085m, have been earmarked for sale and the remaining are in various stages of asset management evaluation including re-leasing, asset enhancement, redevelopment or divestments. We believe these initiatives would enable the trust to reduce holding costs of the vacated properties or pare down debt to lower its gearing and strengthen balance sheet in the near term.

### De-gearing through capital recycling

The divestment proceeds were mainly utilised to pare down debt and lower gearing to 45.8% at end-3Q23 (45.4% at Oct 23). ECR aims to further reduce gearing through strategic capital recycling and asset enhancement strategies to maximise portfolio value. ECR's funding cost rose qoq to 5.3% at end-3Q23. An estimated 62% of its interest rates are hedged on fixed rates. ECR has no near-term debt maturity until 4Q24. In terms of sensitivity, management guided that for every £5m debt repayment, gearing will reduce by c.60bp and every 100bp rise in funding cost will impact DPU by 5%.

### Reiterate Add rating

We keep our FY23-25F DPU estimates unchanged and maintain our DDM-based TP at £0.49. At the current price, ECR offers an attractive FY23F dividend yield of 15.8%. We like ECR's stable income portfolio, with inbuilt growth through its inflation-linked rental structure. Potential re-rating catalysts could come from an improvement in the UK macroeconomic outlook. Downside risks include tenant concentration exposure to the Department for Work & Pensions (DWP), and high inflation in the UK which could put pressure on interest rates and funding costs.

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**Financial Summary**

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Gross Property Revenue (£m)	34.73	37.08	39.04	39.20	39.20
Net Property Income (£m)	33.73	35.74	37.81	37.96	37.96
Net Profit (£m)	(4.74)	(18.33)	18.66	19.17	19.28
Distributable Profit (£m)	24.53	23.10	17.49	19.58	19.69
Core EPS (£)	0.058	0.048	0.039	0.040	0.040
Core EPS Growth	82.7%	(16.8%)	(19.4%)	2.7%	0.6%
FD Core P/E (x)	4.23	5.09	6.32	6.15	6.11
DPS (£)	0.051	0.048	0.036	0.041	0.041
Dividend Yield	21.0%	19.6%	14.8%	16.6%	16.7%
Asset Leverage	42.0%	45.2%	44.2%	44.1%	44.2%
BVPS (£)	0.61	0.52	0.52	0.53	0.53
P/BV (x)	0.40	0.48	0.47	0.46	0.46
Recurring ROE	9.28%	8.58%	7.47%	7.58%	7.56%
DPS/Consensus DPS (x)			1.01	1.10	1.05

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 1: SREIT peer comparison table**

SREIT	Bloomberg Ticker	Rec.	Price (LC)	Target	Mkt Cap (US \$m)	Last reported asset leverage	Last stated NAV	Price / Stated NAV	Dividend Yield (%)		
			as at 07 Nov 23	Price (LC) (DDM-based)					FY23F	FY24F	FY25F
<b>Hospitality</b>											
CapitaLand Ascott Trust	CLAS SP	Add	0.92	1.32	\$2,540	38.6%	1.16	0.79	6.6%	7.5%	7.8%
CDL Hospitality Trust	CDREIT SP	Add	1.00	1.43	\$919	38.4%	1.31	0.76	6.3%	7.1%	7.7%
Far East Hospitality Trust	FEHT SP	Add	0.61	0.77	\$901	32.2%	0.85	0.71	6.3%	7.0%	7.1%
Frasers Hospitality Trust	FHT SP	NR	0.48	NA	\$675	39.3%	0.65	0.73	4.7%	5.0%	5.2%
<b>Simple Average</b>						<b>37.1%</b>		<b>0.75</b>	<b>6.0%</b>	<b>6.7%</b>	<b>7.0%</b>
<b>Industrial</b>											
AIMS AMP	AAREIT SP	NR	1.30	NA	\$758	36.4%	1.38	0.94	7.8%	7.5%	7.6%
CapitaLand Ascendas REIT	CLAR SP	Add	2.74	3.06	\$8,872	36.7%	2.31	1.19	5.9%	6.0%	6.2%
ESR-LOGOS REIT	EREIT SP	Add	0.28	0.39	\$1,558	37.7%	0.33	0.83	9.6%	9.3%	9.3%
Frasers Logistics & Commercial Trust	FLT SP	Add	1.11	1.27	\$3,053	30.2%	1.17	0.95	6.3%	6.0%	6.2%
Keppel DC REIT	KDCREIT SP	Add	1.80	2.53	\$2,285	37.3%	1.37	1.31	5.7%	6.1%	6.3%
Mapletree Industrial Trust	MINT SP	Add	2.21	2.61	\$4,618	37.9%	1.88	1.18	6.1%	6.2%	6.4%
Mapletree Logistics Trust	MLT SP	Add	1.56	1.88	\$5,707	38.9%	1.42	1.10	5.8%	5.5%	5.6%
Sabana Shariah	SSREIT SP	NR	0.39	NA	\$309	32.4%	0.53	0.73	7.9%	7.9%	8.2%
<b>Simple Average</b>						<b>35.9%</b>		<b>1.15</b>	<b>6.9%</b>	<b>6.8%</b>	<b>7.0%</b>
<b>Office</b>											
Keppel REIT	KREIT SP	Add	0.82	1.14	\$2,288	39.5%	1.31	0.63	7.2%	7.3%	7.6%
OUE Commercial REIT	OUECT SP	Hold	0.26	0.36	\$1,032	39.4%	0.59	0.43	8.3%	8.5%	8.7%
Suntec REIT	SUN SP	Hold	1.14	1.25	\$2,436	42.7%	2.09	0.55	6.2%	6.1%	6.3%
<b>Simple Average</b>						<b>40.5%</b>		<b>0.53</b>	<b>7.3%</b>	<b>7.3%</b>	<b>7.5%</b>
<b>Retail</b>											
CapitaLand Integrated Commercial	CICT SP	Add	1.84	2.17	\$9,030	40.8%	2.12	0.87	5.9%	6.1%	6.3%
Frasers Centrepoint Trust	FCT SP	Add	2.11	2.52	\$2,664	39.3%	2.31	0.91	5.8%	5.6%	5.7%
Lendlease Global Commercial REIT	LREIT SP	Add	0.56	0.82	\$953	40.6%	0.78	0.71	8.4%	7.7%	8.2%
Mapletree Pan Asia Commercial Trust	MPACT SP	Add	1.34	1.54	\$5,185	40.7%	1.81	0.74	7.2%	6.4%	6.5%
Paragon REIT	PGNREIT SP	Hold	0.82	0.88	\$1,704	29.8%	0.91	0.90	5.7%	5.7%	6.1%
Starhill Global REIT	SGREIT SP	Add	0.48	0.62	\$791	37.4%	0.80	0.59	8.0%	8.3%	8.6%
<b>Simple Average</b>						<b>38.1%</b>		<b>0.79</b>	<b>6.8%</b>	<b>6.6%</b>	<b>6.9%</b>
<b>Overseas-centric</b>											
CapitaLand China Trust	CLCT SP	NR	0.92	NA	\$1,139	34.7%	1.55	0.59	8.6%	9.2%	9.5%
Elite Commercial REIT	ELITE SP	Add	0.25	0.49	\$145	45.8%	0.51	0.48	14.8%	16.6%	16.7%
Manulife US REIT	MUST SP	Add	0.08	0.25	\$149	56.0%	0.40	0.21	46.2%	45.9%	45.2%
Sasseur REIT	SASSR SP	Add	0.68	0.95	\$617	26.2%	0.83	0.81	9.2%	9.3%	9.8%
<b>Simple Average</b>						<b>41.0%</b>		<b>0.52</b>	<b>19.7%</b>	<b>20.3%</b>	<b>20.3%</b>
<b>Healthcare</b>											
Parkway Life REIT	PREIT SP	Add	3.54	4.50	\$1,580	36.0%	2.29	1.55	4.1%	4.2%	4.3%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS  
NR estimates are based on Bloomberg consensus forecasts



## ESG in a nutshell

ECR is a UK-focused SREIT with 155 properties in the UK. ECR is in alignment with the UK Government's national climate goals to achieve net carbon emissions by 2050. ECR has identified material ESG topics, including: i) climate change, energy and greenhouse gas emissions, water and tenant engagement under its Environmental pillar; ii) attracting and retaining talent, employee development and diversity under its Social pillar and iii) regulatory compliance and anti-corruption under its Governance pillar. It has adopted a target to achieve an EPC rating of B or higher for all properties by 2030F. About 95.4% of its portfolio by gross rental income has green clauses as at end-FY22. ECR is committed to delivering sustainable growth and returns to its unitholders over the long term, through opportunistic acquisitions and asset enhancements, while adopting a prudent capital management strategy.

### Keep your eye on

As at end-FY22, ECR's portfolio was 97.9% occupied, with a weighted average lease expiry profile of 4.8 years. In Apr 23, ECR had de-risked the portfolio through its Lease Re-gearing exercise. Of the 136 properties due for rent review, rental escalations of 21.07% were achieved for 7 properties and rental escalation of 15.28% was achieved for 127 assets, while the remaining 2 assets had rent reviews based on open market rents. The net result is an increase of 13.1% in net annualised rent income.

### Implications

We have not applied any premium/discount for ESG in our fundamental valuations at present.

### ESG highlights

Some of ECR's ESG highlights in FY22 include upgrading energy performance at Bradmarsh Business Park, Rotherham, by installing a new heating/HVAC system and upgrading to new LED lighting inside the building and in the car park by the occupier. Consequently, the EPC rating of the property increased from D-90 to B-49. In FY22, ECR also secured its first green loan — a revolving credit facility of £15m, to be used exclusively for projects that contribute to the REIT's sustainability goals. It has also committed £14.8m of sustainability contribution over 3 years from 2022 towards sustainability enhancement works to improve energy efficiency of assets occupied by the Department for Work & Pensions (DWP) and MOD. New green leases signed in FY22 include the 5-year lease extension till Dec 2028 for St Katherine's House, Northampton, which included specific green lease wordings in the lease contract. It also achieved an average of 71 employee training hours per employee in FY22.

### Implications

We have not applied any premium/discount for ESG in our fundamental valuations. However, as ECR becomes more active on the ESG front, we believe it could also gain more interest from funds that focus on high ESG achievements.

### Trends

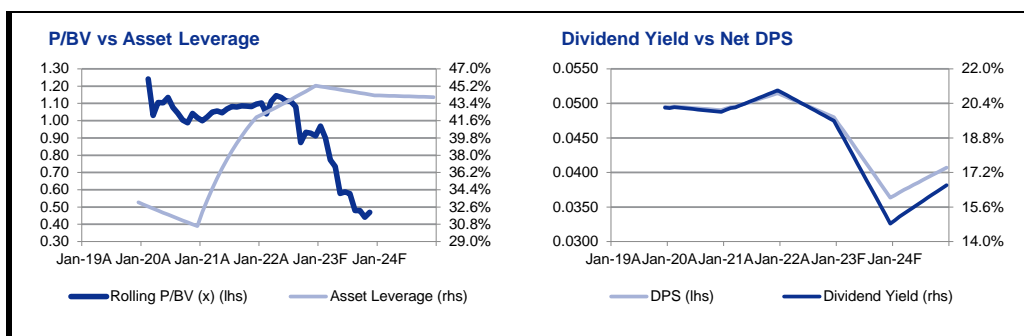
ECR's primary tenant is the DWP, which accounts for 91.5% of gross rental income, while the Ministry of Defence and National Records of Scotland make up a further 2.2% and 1.9%, respectively, of ECR's gross rental income.

### Implications

We have not applied any premium/discount for ESG in our fundamental valuations at present.

SOURCES: CGS-CIMB RESEARCH

## BY THE NUMBERS



### Profit & Loss

(£m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Rental Revenues	34.73	37.08	39.04	39.20	39.20
Other Revenues					
<b>Gross Property Revenue</b>	<b>34.73</b>	<b>37.08</b>	<b>39.04</b>	<b>39.20</b>	<b>39.20</b>
Total Property Expenses	(1.00)	(1.33)	(1.23)	(1.23)	(1.23)
<b>Net Property Income</b>	<b>33.73</b>	<b>35.74</b>	<b>37.81</b>	<b>37.96</b>	<b>37.96</b>
General And Admin. Expenses	(1.98)	(1.37)	(1.45)	(1.45)	(1.45)
Management Fees	(2.45)	(2.31)	(2.23)	(2.25)	(2.26)
Trustee's Fees	(0.10)	(0.11)	(0.09)	(0.09)	(0.09)
Other Operating Expenses					
<b>EBITDA</b>	<b>29.19</b>	<b>31.95</b>	<b>34.04</b>	<b>34.17</b>	<b>34.16</b>
Depreciation And Amortisation					
<b>EBIT</b>	<b>29.19</b>	<b>31.95</b>	<b>34.04</b>	<b>34.17</b>	<b>34.16</b>
Net Interest Income	(4.35)	(7.42)	(11.69)	(11.61)	(11.47)
Associates' Profit	0.00	0.00	0.00	0.00	0.00
Other Income/(Expenses)					
Exceptional Items	(28.22)	(41.37)	0.00	0.00	0.00
<b>Pre-tax Profit</b>	<b>(3.37)</b>	<b>(16.84)</b>	<b>22.35</b>	<b>22.56</b>	<b>22.69</b>
Taxation	(1.37)	(1.50)	(3.69)	(3.38)	(3.40)
Minority Interests	0.00	0.00	0.00	0.00	0.00
Preferred Dividends					
<b>Net Profit</b>	<b>(4.74)</b>	<b>(18.33)</b>	<b>18.66</b>	<b>19.17</b>	<b>19.28</b>
<b>Distributable Profit</b>	<b>24.53</b>	<b>23.10</b>	<b>17.49</b>	<b>19.58</b>	<b>19.69</b>

### Cash Flow

(£m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Pre-tax Profit</b>	<b>(3.37)</b>	<b>(16.84)</b>	<b>22.35</b>	<b>22.56</b>	<b>22.69</b>
Depreciation And Non-cash Adj.	4.35	7.42	11.69	11.61	11.47
Change In Working Capital	(4.72)	(1.68)	(0.15)	(0.03)	0.00
Tax Paid	(2.92)	(2.42)	(3.69)	(3.38)	(3.40)
Others	0.00	0.00	0.00	0.00	0.00
<b>Cashflow From Operations</b>	<b>(6.66)</b>	<b>(13.52)</b>	<b>30.21</b>	<b>30.76</b>	<b>30.76</b>
Capex	0.00	(7.44)	(3.90)	(5.00)	(5.00)
Net Investments And Sale Of FA					
Other Investing Cashflow	(9.40)	0.00	0.00	0.00	0.00
<b>Cash Flow From Investing</b>	<b>(9.40)</b>	<b>(7.44)</b>	<b>(3.90)</b>	<b>(5.00)</b>	<b>(5.00)</b>
Debt Raised/(repaid)	8.56	(3.40)	(3.00)	0.00	3.00
Equity Raised/(Repaid)	(1.36)	(0.99)	2.43	2.45	2.46
Dividends Paid	(17.59)	(22.79)	(17.49)	(19.58)	(19.69)
Cash Interest And Others	(4.89)	(5.98)	0.00	0.00	0.00
<b>Cash Flow From Financing</b>	<b>(15.27)</b>	<b>(33.15)</b>	<b>(18.05)</b>	<b>(17.13)</b>	<b>(14.22)</b>
Total Cash Generated	(31.34)	(54.11)	8.26	8.63	11.53
Free Cashflow To Firm	(15.55)	(20.95)	26.31	25.76	25.76
Free Cashflow To Equity	(11.84)	(31.77)	11.62	14.15	17.28

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(£m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Investments	501.3	460.0	463.9	468.9	473.9
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Other Long-term Assets	0.5	0.1	0.1	0.1	0.1
Total Non-current Assets	501.9	460.0	463.9	468.9	473.9
Total Cash And Equivalents	19.5	7.4	6.3	3.3	3.3
Inventories	0.0	0.0	0.0	0.0	0.0
Trade Debtors	12.0	11.9	13.5	13.6	13.6
Other Current Assets	0.0	7.4	7.4	7.4	7.4
<b>Total Current Assets</b>	<b>31.5</b>	<b>26.8</b>	<b>27.2</b>	<b>24.3</b>	<b>24.3</b>
Trade Creditors	5.6	4.8	6.3	6.3	6.3
Short-term Debt	6.6	7.2	7.2	7.2	7.2
Other Current Liabilities	9.8	10.4	12.5	12.2	12.2
<b>Total Current Liabilities</b>	<b>22.1</b>	<b>22.4</b>	<b>26.0</b>	<b>25.7</b>	<b>25.7</b>
Long-term Borrowings	217.3	213.1	210.1	210.1	213.1
Other Long-term Liabilities	5.0	3.4	3.4	3.4	3.4
Total Non-current Liabilities	222.3	216.5	213.5	213.5	216.5
Shareholders' Equity	289.0	247.9	251.7	254.0	256.1
Minority Interests					
Preferred Shareholders Funds					
<b>Total Equity</b>	<b>289.0</b>	<b>247.9</b>	<b>251.7</b>	<b>254.0</b>	<b>256.1</b>

### Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Gross Property Revenue Growth	65.7%	6.7%	5.3%	0.4%	0.0%
NPI Growth	65.5%	6.0%	5.8%	0.4%	0.0%
Net Property Income Margin	97.1%	96.4%	96.9%	96.9%	96.9%
DPS Growth	5.0%	(6.7%)	(24.3%)	12.0%	0.6%
Gross Interest Cover	6.01	4.31	2.91	2.94	2.98
Effective Tax Rate	0.0%	0.0%	16.5%	15.0%	15.0%
Net Dividend Payout Ratio	NA	NA	94%	102%	102%
Current Ratio	1.43	1.19	1.05	0.94	0.95
Quick Ratio	1.43	1.19	1.05	0.94	0.95
Cash Ratio	0.88	0.33	0.24	0.13	0.13
Return On Average Assets	(1.09%)	(3.59%)	3.82%	3.90%	3.89%

### Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Gross revenue (£\$'m)	37.4	36.4	39.0	39.2	39.2
NPI (£\$'m)	36.4	35.5	38.0	38.2	38.2
AUM (£\$'m)	501.3	460.0	460.0	460.0	460.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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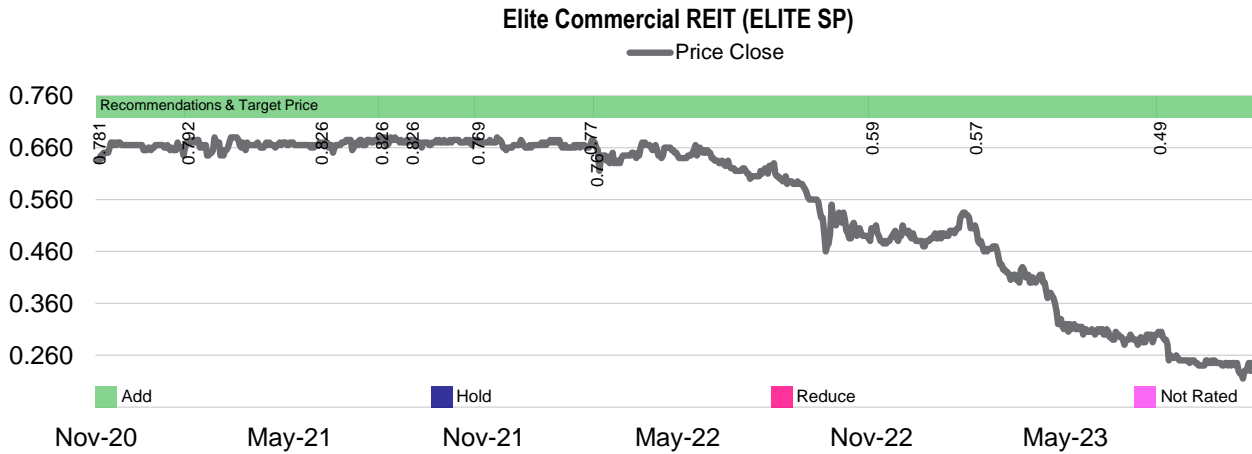
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634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

**Spitzer Chart for stock being researched ( 2 year data )**



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Definition:

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- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

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