

# 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

20 Feb 2024

### HOLD

Last Traded Price (19 Feb 2024): GBP0.265 (STI : 3,225.91)

Price Target 12-mth: GBP0.28 (6% upside) (Prev GBP0.33)

#### Analyst

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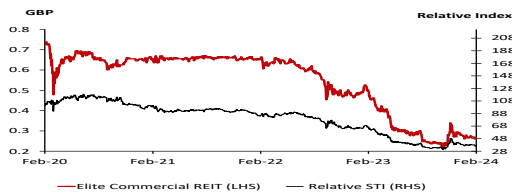
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#### What's New

- 2H23 NPI grew 21.1% y-o-y to GBP21.4m on settlements for dilapidation in relation to vacated assets
- 2H23 DPU of 1.33 pence (90% payout) was lower than our estimates, due to dilution from larger share base post-preferential offering
- Cut FY24F DPU by 15% due to enlarged equity base; we see it as a small trade-off for a stronger foundation to grow
- Maintain HOLD with revised TP of GBP0.28

#### Price Relative



#### Forecasts and Valuation

FY Dec (GBPm)	2022A	2023A	2024F	2025F
Gross Revenue	37.1	45.2	38.1	38.0
Net Property Inc	35.7	41.4	36.2	36.5
Total Return	(18.3)	(22.2)	18.7	18.6
Distribution Inc	36.5	18.0	19.8	19.7
EPU (Pence)	(3.8)	(4.6)	3.50	3.17
EPU Gth (%)	(228)	(20)	nm	(9)
DPU (Pence)	4.81	3.07	3.04	3.02
DPU Gth (%)	(11)	(36)	(1)	(1)
NAV per shr (Pence)	51.5	43.0	53.3	53.6
PE (X)	nm	nm	7.6	8.4
Distribution Yield (%)	18.2	11.6	11.5	11.4
P/NAV (x)	0.5	0.6	0.5	0.5
Aggregate Leverage (%)	48.9	54.1	36.9	36.9
ROAE (%)	(6.8)	(9.7)	7.2	5.9

Distn. Inc Chng (%):			3	4
Consensus DPU			5.60	6.80
Other Broker Recs:	B: 2	S: 1	H: 1	

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

### On a stronger footing

#### Investment Thesis:

**Only UK-focused REIT listed on SGX; counter-cyclical portfolio.** Elite Commercial REIT (ELITE) is the only UK-focused REIT listed in Singapore. It occupies a unique position in the REIT space, where it functions as social infrastructure. With majority of its rental income derived from leases with the AA-rated UK Government, its stable stream of cash flow is a key positive for the REIT.

**Improved credit metrics a relief for investors, albeit flattish DPU expected ahead.** With gearing declining from 49.6% (close to MAS limit of 50%) to a more comfortable level of c.43.7% following the recent equity placement, we believe this is a big step in the right direction to infuse liquidity and strengthen its capital structure, a key overhang on the stock given capital value erosion risk in the UK. Although FY24F/25F DPU appear largely flattish (at 90% payout ratio) on an enlarged equity base, we see it as a small trade-off for a stronger foundation to grow.

**Repositioning the REIT could emerge as a strategic medium-term plan.** ELITE plans to explore repurposing some of its vacant assets for alternative uses such as social housing or student accommodation, which are currently undersupplied in the UK. This presents an opportunity for ELITE to capitalise on emerging trends in the living sector and diversify its tenant base, lease expiries and asset uses in the medium-term. Further, ELITE's Sponsor boasts a portfolio of student accommodation in the UK, which could potentially be integrated into ELITE's pipeline.

**Maintain HOLD with revised TP of GBP0.28,** based on DCF valuation with a WACC of 7.3% and terminal growth rate of 1.0%, as we roll forward our estimates into FY24F. While we see the current risk-to-reward as neutral, we could turn more positive on the stock in the near-term if ELITE maximises value on its vacant portfolio through re-letting or divestment, or restores its dividend payout ratio to 100%.

#### Key Risks

The key risks include: 1) Main tenant DWP (which contributes 92% of gross rental income) not renewing its leases and 2) higher-than-expected cost of debt.

#### At A Glance

Issued Capital (m shrs)	482
Mkt. Cap (GBPm/US\$m)	128 / 101
Major Shareholders (%)	
SUNWAY RE CAP PTE LTD	11.2
HO LEE GROUP TRUST	7.6
PARTNER REINSURANCE EU SE	7.2
Free Float (%)	62.5
3m Avg. Daily Val (US\$m)	0.03
<b>GIC Industry :</b> Real Estate / Equity Real Estate Investment (REITs)	

## WHAT'S NEW

### On stronger footing

#### 2H23 results highlights

- **Revenue** grew 0.9% y-o-y to GBP18.5m in 2H23 from GBP18.4m in 2H22, attributable to higher revenue from rent escalations of c.13.1% for 136 assets but partly offset by eight assets vacating from April 2023
- **Net property income** increased 21.1% y-o-y to GBP21.4m in 2H23 from GBP17.6m in 2H22, mainly due to settlements for dilapidation in relation to vacated assets
- **Distributable income** declined 19.8% y-o-y to GBP8.7m in 2H23 from GBP10.9m in 2H22 on increased borrowing costs, partly mitigated by lower debt levels
- **DPU** fell to 1.33 pence (90% payout ratio) in 2H23 from 2.25 pence (100% payout ratio) in 2H22, due to a lower payout ratio and inclusion of Preferential Offering units in 2H23 which led to an enlarged share base
- **NAV per unit** declined to GBP0.43 as at 31 December 2023 from GBP0.52 as at 31 December 2022
- **Gearing ratio** stood at 49.6% as at 31 December 2023, but would have declined to 43.7% including the effects of the GBP28m Preferential Offering
- **High portfolio occupancy** of 92.3% as at 31 December 2023, with ~100% of rent for 4Q23 paid in advance and within seven days of the due date
- **Long WALE** at 4.2 years as at 31 December 2023

#### Our thoughts

The slight miss in our DPU projection was mainly due to the enlarged equity base post-Preferential Offering, as the units were included in 2H23's distribution. As a result, we have lowered FY24F DPU by c.15%, with the DPU for the next two years expected to remain flattish (at 90% payout ratio). Nonetheless, management hopes to increase the payout ratio in FY24F as the REIT's liquidity position is comfortable following the fund raising exercise. The reduction in payout ratio to 90% previously was due to allocating funds for lease renewals, asset enhancement initiatives etc, which should be lower in the coming year.

On the operational front, ELITE has initiated early discussions with government anchor tenant DWP on diversifying their lease expiries that are set to expire in FY28, which make up more than 96% of the portfolio leases. Meanwhile, there has been a renewal of two leases for another five years at Bradmarsh Business Park, Rotherham and Phoenix House, Bradford. Management is also confident of renewing the upcoming two leases that expire in June 2024.

**Maintain HOLD with revised TP of GBP0.28**, based on DCF valuation with a WACC of 7.3% and terminal growth rate of 1.0%, as we roll forward our estimates into FY24F. While we see the current risk-to-reward as neutral, we could turn more positive on the stock in the near-term if ELITE maximises value on its vacant portfolio through re-letting or divestment, or restores its dividend payout ratio to 100%.

#### 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 (UK).

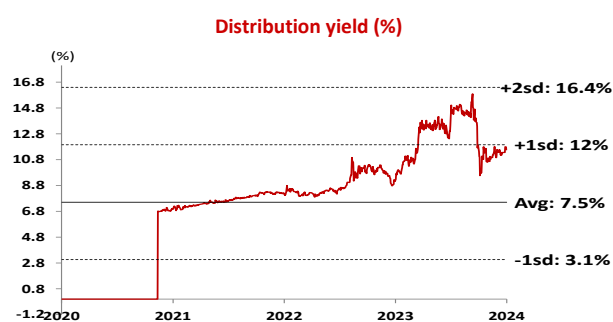
## Elite Commercial REIT

## Interim Income Statement (GBPm)

FY Dec	2H2022	1H2023	2H2023	% chg yoy	% chg hoh
Gross revenue	18.4	21.3	18.5	0.9	(13.1)
Property expenses	(0.7)	(1.3)	(2.5)	243.3	86.1
Net Property Income	17.6	20.0	16.0	(9.1)	(19.8)
Other Operating expenses	(1.8)	(1.6)	3.82	nm	nm
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(5.0)	(4.0)	(7.9)	(60.4)	(99.1)
Exceptional Gain/(Loss)	0.0	0.0	0.12	nm	nm
<b>Net Income</b>	<b>10.9</b>	<b>14.4</b>	<b>12.0</b>	<b>10.1</b>	<b>(16.4)</b>
Tax	2.25	(1.4)	0.64	(71.6)	(144.8)
Minority Interest	0.0	0.0	0.0	-	-
<b>Net Income after Tax</b>	<b>13.2</b>	<b>13.0</b>	<b>12.7</b>	<b>(3.9)</b>	<b>(2.2)</b>
Total Return	(38.4)	8.93	(31.1)	19.0	nm
Non-tax deductible Items	49.2	0.41	39.8	(19.2)	9,680.3
Net Inc available for Dist.	10.9	8.41	7.83	(27.8)	(6.8)
<b>Ratio (%)</b>					
Net Prop Inc Margin	96.0	93.7	86.5		
Dist. Payout Ratio	100.0	90.0	90.0		

Source of all data: Company, DBS Bank Ltd

## Historical distribution yield and PB band



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



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

## Elite Commercial REIT

**Income Statement (GBPm)**

FY Dec	2021A	2022A	2023A	2024F	2025F
Gross revenue	34.7	37.1	45.2	38.1	38.0
Property expenses	(1.0)	(1.3)	(3.8)	(1.9)	(1.5)
<b>Net Property Income</b>	<b>33.7</b>	<b>35.7</b>	<b>41.4</b>	<b>36.2</b>	<b>36.5</b>
Other Operating expenses	(4.5)	(3.8)	(3.1)	(3.4)	(3.4)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(4.4)	(7.4)	(11.9)	(11.5)	(12.0)
Exceptional Gain/(Loss)	(28.2)	(41.4)	(47.7)	0.0	0.0
<b>Net Income</b>	<b>(3.4)</b>	<b>(16.8)</b>	<b>(21.4)</b>	<b>21.2</b>	<b>21.2</b>
Tax	(1.4)	(1.5)	(0.8)	(2.6)	(2.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Income After Tax</b>	<b>(4.7)</b>	<b>(18.3)</b>	<b>(22.2)</b>	<b>18.7</b>	<b>18.6</b>
Total Return	(4.7)	(18.3)	(22.2)	18.7	18.6
Non-tax deductible Items	29.3	41.4	40.2	1.10	1.10
Net Inc available for Dist.	32.9	36.5	18.0	19.8	19.7
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	65.7	6.7	21.9	(15.8)	(0.1)
N Property Inc Gth (%)	65.5	6.0	15.7	(12.6)	0.9
Net Inc Gth (%)	nm	(286.7)	(20.9)	nm	(0.4)
Dist. Payout Ratio (%)	100.0	100.0	90.0	90.0	90.0
Net Prop Inc Margins (%)	97.1	96.4	91.5	95.0	96.0
Net Income Margins (%)	(13.7)	(49.4)	(49.0)	49.1	49.0
Dist to revenue (%)	94.6	98.3	39.9	52.0	51.9
Managers & Trustee's fees	13.1	10.2	6.9	8.9	8.9
ROAE (%)	(1.9)	(6.8)	(9.7)	7.2	5.9
ROA (%)	(1.1)	(3.6)	(4.8)	3.9	3.6
ROCE (%)	6.9	6.5	8.5	6.2	5.7
Int. Cover (x)	6.7	4.3	3.2	2.8	2.8

**Interim Income Statement (GBPm)**

FY Dec	2H2021	1H2022	2H2022	1H2023	2H2023
Gross revenue	18.8	18.7	18.4	21.3	18.5
Property expenses	(0.5)	(0.6)	(0.7)	(1.3)	(2.5)
<b>Net Property Income</b>	<b>18.3</b>	<b>18.1</b>	<b>17.6</b>	<b>20.0</b>	<b>16.0</b>
Other Operating	(2.5)	(2.0)	(1.8)	(1.6)	3.82
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(2.2)	(2.5)	(5.0)	(4.0)	(7.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.12
<b>Net Income</b>	<b>13.6</b>	<b>13.6</b>	<b>10.9</b>	<b>14.4</b>	<b>12.0</b>
Tax	2.19	(3.8)	2.25	(1.4)	0.64
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Income after Tax</b>	<b>15.8</b>	<b>9.84</b>	<b>13.2</b>	<b>13.0</b>	<b>12.7</b>
Total Return	0.69	20.1	(38.4)	8.93	(31.1)
Non-tax deductible Items	12.7	(7.8)	49.2	0.41	39.8
Net Inc available for Dist.	13.4	12.2	10.9	8.41	7.83
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	18	(1)	(2)	16	(13)
N Property Inc Gth (%)	19	(1)	(3)	13	(20)
Net Inc Gth (%)	106	(38)	34	(2)	(2)
Net Prop Inc Margin (%)	97.4	96.8	96.0	93.7	86.5
Dist. Payout Ratio (%)	100.0	100.0	100.0	90.0	90.0

Source: Company, DBS Bank Ltd

## Elite Commercial REIT

**Balance Sheet (GBPm)**

FY Dec	2021A	2022A	2023A	2024F	2025F
Investment Properties	501	460	414	417	418
Other LT Assets	0.51	0.07	0.48	0.48	0.48
Cash	19.5	7.44	20.8	94.8	96.8
ST Investment	0.0	0.0	0.0	0.0	0.0
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	12.0	11.9	2.87	2.42	2.42
Net Intangibles Assets	0.0	0.0	0.0	0.0	0.0
Other Current Assets	0.0	7.44	6.15	6.15	6.15
<b>Total Assets</b>	<b>533</b>	<b>487</b>	<b>444</b>	<b>521</b>	<b>524</b>
ST Debt	6.60	7.20	126	126	126
Creditor	5.63	4.82	4.76	4.61	4.61
Other Current Liab	9.83	10.4	10.5	10.5	10.5
LT Debt	217	213	94.0	66.0	67.0
Other LT Liabilities	5.04	3.40	1.22	1.22	1.22
Unit holders' funds	289	248	207	313	315
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total Funds &amp; Liabilities</b>	<b>533</b>	<b>487</b>	<b>444</b>	<b>521</b>	<b>524</b>
Non-Cash Wkg. Capital	(3.4)	4.08	(6.2)	(6.6)	(6.6)
Net Cash/(Debt)	(204)	(213)	(200)	(97.5)	(96.6)
<b>Ratio</b>					
Current Ratio (x)	1.4	1.2	0.2	0.7	0.7
Quick Ratio (x)	1.4	0.9	0.2	0.7	0.7
Aggregate Leverage (%)	45.8	48.9	54.1	36.9	36.9

**Cash Flow Statement (GBPm)**

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Income	(3.4)	(16.8)	(21.4)	21.2	21.2
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(2.9)	(2.4)	(2.9)	(2.6)	(2.5)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(6.3)	(1.7)	8.93	0.31	0.0
Other Operating CF	35.2	48.8	60.1	1.10	1.10
<b>Net Operating CF</b>	<b>22.7</b>	<b>27.9</b>	<b>44.7</b>	<b>20.1</b>	<b>19.7</b>
Net Invnt in Properties	0.0	(7.4)	(3.7)	(3.7)	(1.0)
Other Invnts (net)	(9.4)	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	0.0	0.0	3.21	0.0	0.0
<b>Net Investing CF</b>	<b>(9.4)</b>	<b>(7.4)</b>	<b>(0.5)</b>	<b>(3.7)</b>	<b>(1.0)</b>
Distribution Paid	(17.6)	(22.8)	(18.5)	(17.8)	(17.7)
Chg in Gross Debt	8.56	(3.4)	(0.9)	(28.0)	1.00
New units issued	0.0	0.0	0.0	103	0.0
Other Financing CF	(5.1)	(7.0)	(14.6)	0.0	0.0
<b>Net Financing CF</b>	<b>(14.1)</b>	<b>(33.2)</b>	<b>(33.9)</b>	<b>57.6</b>	<b>(16.7)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(0.8)	(12.7)	10.4	74.0	1.97
Operating CFPS (Pence)	7.14	6.17	7.43	3.70	3.36
Free CFPS (Pence)	5.59	4.27	8.52	3.08	3.19

Source: Company, DBS Bank Ltd

**Target Price & Ratings 12-mth History**



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	11 Aug 23	0.30	0.33	HOLD

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

Source: DBS Bank Ltd  
 Analysts: Tabitha FOO  
 Derek TAN  
 Dale LAI

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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

Completed Date: 20 Feb 2024 08:46:46 (SGT)

Dissemination Date: 20 Feb 2024 09:42:52 (SGT)

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