Asia Credit Research

OCBC Bank

VIVA Industrial Trust: Credit Update

Monday, 31 October 2016

Keeping our spirits up

- Higher rental contribution from the revitalised Viva Business Park and additional contribution from new acquisitions
- Recent equity fundraising helps keep aggregate leverage ratio below 40%
- Relatively levered Industrial REIT (versus direct peers), though we think credit profile will improve over a 6-month basis. We are raising VIT's issuer profile to Neutral, from Negative and keeping the bond ratings on Overweight.

- **3Q2016 financial results steady:** For the quarter ended September 2016 ("3Q2016"), VIT's revenue grew by 31.9% to SGD24.3mn (3Q2015: SGD18.4mn). Of the SGD5.9mn increase, 63% was on the back of additional rental contribution from Home-Fix Building and 11 Ubi Road 1 (both acquired in November 2015) and 30 Pioneer Road (acquired in 15 April 2016). Taking out the effects from these newly acquired buildings, VIT's revenue increased by 12%, mainly attributable to higher rental and other income contribution from Viva Business Park ("VBP"), a business park property which is undergoing asset enhancement initiatives to increase non-industrial space at the building (eg: food & beverage, sports & fitness, retail). EBITDA/Gross interest was 2.7x during 9M2016, slightly lower than the 2.9x during 9M2015. Due to the early refinancing of its SGD315mn loan, VIT incurred certain one-off items within finance cost. Adjusting these away, we find EBITDA/Gross interest to be higher at 3.2x. VIT's bond covenant gives credit to rental support received. As such, on a net property income ("NPI") plus rental support/adjusted gross interest basis, we find interest coverage to be 4.2x. VIT's remaining rental support will only expire after the maturity of the SGD100mn bond (ie: VITSP 4.15% '18s).

- **Equity funding helps control leverage levels:** As at 30 September 2016, VIT's aggregate leverage as measured by Gross Debt-to-Total Asset was 39.8%. However, this is expected to reduce to 39.3% post completion of its latest acquisition for 6 Chin Bee Avenue (structured as a sales-and-leaseback arrangement). The transaction value of SGD96.8mn will be funded on a 31:69 debt-to-equity basis. Of the equity portion, SGD23mn will be issued to the vendor (at completion, targeted in December 2016) as partial consideration. The rest of the equity financing has been raised via an overnight private placement on 27 October 2016. We estimate that the vendor will hold ~3% of the total enlarged equity capital base upon completion, providing some alignment of interest with the REIT. We view this funding structure as credit positive to bondholders.

- **Portfolio more diversified:** One of our concerns with VIT at initiation was its concentrated portfolio, with UEBizHub (business park portion) and VBH contributing ~57% of total assets at end-2015. Following VIT's acquisition of 30 Pioneer Road in April 2016 and the latest proposed acquisition of 6 Chin Bee Avenue (aggregate purchase price of ~SGD143mn (including upfront land premium)), we expect portfolio concentration of UE BizHub and VBH to decrease to 53% of total assets with further reduction expected as VIT continues to grow its portfolio. The two new assets acquired have been structured with long lease terms, providing higher visibility of cash flow to the REIT (namely, 5+5 for 30 Pioneer Road and 7+3 for 6 Chin Bee Avenue).

- **Revitalisation of VBP asset:** Prior to VBP embarking on asset enhancement works, the building was only 64% occupied as at 31 March 2015. However, in line with the completion of upgrading and expansionary works to the property, VBP has reported increasing gross revenue (due to both expansions in leasable area and rising occupancies). Occupancy for the non-industrial space was 89%

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as at 30 September 2016, which helped boost overall occupancy of the building to 73%. Phase 3 (the final phase) of the AEI works is targeted to complete by end-2016. Given its strategic location near the Bedok Town Centre (core downtown area in a matured residential area), we think the reconfigured non-industrial spaces should provide a cluster effect for tenants to take up space at the rest of the building. As VBP only has less than 15 years left in its underlying lease tenure, we expect time decay effects to negatively affect property valuation in the medium term. However, this is a less significant concern for current bondholders, given VIT's only outstanding SGD bond matures in September 2018.

- **Recommendation**: Although VIT's headline leverage is on the high-side, it is lower than both Sabana Shari'ah Compliant Industrial REIT and Mapletree Logistics Trust ("MLT") (adjusting for MLT's perpetuals). Over a 6-month period and to the extent that the existing bond is concerned, we think VIT's credit profile will improve to be in line with peers, as such raising VIT's issuer profile rating from Negative to <u>Neutral</u>. We continue to be Overweight VITSP 4.15 '18s.

Issuer	Issue	Maturity	Outstanding Amount (SGDm)	Ask Price	Ask YTW	I-Spread	Bond Rating
VIVA	VITSP 4.15 '18	19/09/2018	100	99.80	4.26	292	BB+/NR/NR
SBREIT	SBREIT 3.45 '18	21/05/2018	100	100.65	3.02	173	NR/Baa3/NR (issuer)
CREIT	CREIT 3.50 '18	05/11/2018	155	101.55	2.70	134	NR/Baa3/NR
Sabana	SSREIT 4.00 '18	19/03/2018	90	98.79	4.98	372	NR/NR/NR

Note: (1) Indicative prices as at 31 October 2016
(2) S&P rates VIT's corporate credit rating at BB/Stable

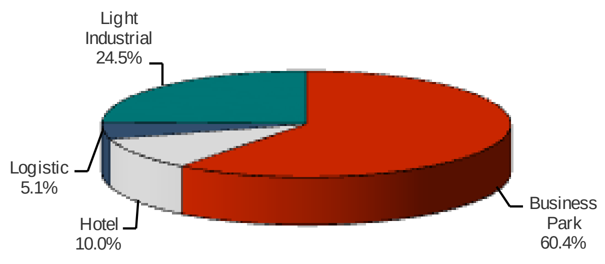
Viva Industrial Trust

Table 1: Summary Financials

Year Ended 31th Dec	FY2014	FY2015	9M2016
Income Statement (SGD'mn)			
Revenue	61.7	74.0	69.6
EBITDA	35.7	44.7	44.9
EBIT	31.5	40.7	42.5
Gross interest expense	11.7	15.6	16.9
Profit Before Tax	47.6	102.4	28.3
Net profit	45.8	100.1	26.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	5.0	48.9	14.3
Total assets	882.5	1,198.3	1,225.3
Gross debt	386.0	459.2	482.1
Net debt	381.1	410.3	467.8
Shareholders' equity	471.5	701.6	699.4
Total capitalization	857.5	1,160.8	1,181.4
Net capitalization	852.6	1,112.0	1,167.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	50.0	104.2	29.1
* CFO	57.6	72.1	65.2
Capex	0.0	13.3	17.9
Acquisitions	112.9	137.7	52.2
Disposals	0.0	0.0	0.0
Dividends	43.6	46.1	34.4
Free Cash Flow (FCF)	57.6	58.7	47.3
* FCF Adjusted	-98.9	-125.1	-39.3
Key Ratios			
EBITDA margin (%)	57.9	60.4	64.6
Net margin (%)	74.2	135.3	38.3
Gross debt to EBITDA (x)	10.8	10.3	8.0
Net debt to EBITDA (x)	10.7	9.2	7.8
Gross Debt to Equity (x)	0.82	0.65	0.69
Net Debt to Equity (x)	0.81	0.58	0.67
Gross debt/total capitalisation (%)	45.0	39.6	40.8
Net debt/net capitalisation (%)	44.7	36.9	40.1
Cash/current borrowings (x)	0.2	0.3	NM
EBITDA/Total Interest (x)	3.0	2.9	2.7

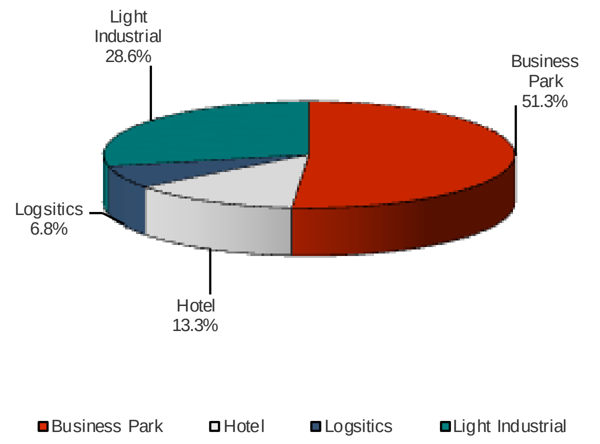
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2016



Source: Company

Figure 2: NPI breakdown by Segment - 9M2016



Source: Company

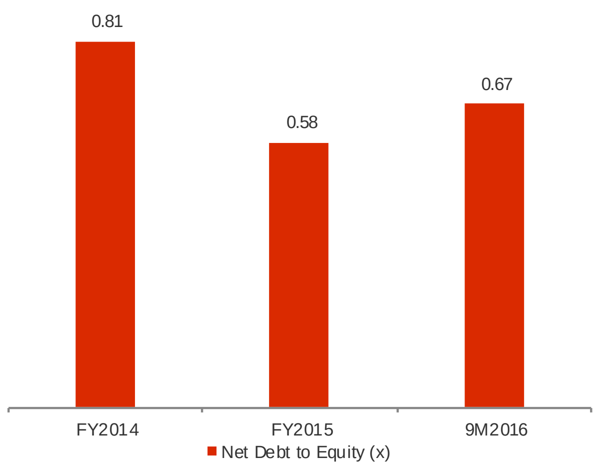
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO before deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	0.0	0.0%
Unsecured	0.0	0.0%
	0.0	**0.0%**
Amount repayable after a year		
Secured	382.7	79.4%
Unsecured	99.4	20.6%
	482.1	**100.0%**
Total	**482.1**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates