Asia Credit Research

Earnings Review: Sabana Shari'ah Compliant Industrial Trust ("SSREIT")

Recommendation

- Since January 2018, SSREIT has announced the appointment of a new CEO. There has been a renewed focus at SSREIT to enhance the portfolio while simultaneously ramping up efforts to drive revenue while keeping costs in check. On the back of heavy lease expiries, we are maintaining SSREIT's issuer profile at Neutral (5) until such time we see a better staggering of lease expiries.
- While not a REIT, Hong Fok Corp Ltd's income is driven by its investment properties. The SSREIT 4.25% '19s provide a 140bps spread over the HFCSP 4.75%'19s which more than compensates for its higher leverage and smaller scale in our view.
- We hold both SSREIT and Hong Fok Corp Ltd's issuer profile at Neutral (5)

Relative Value:

Bond	Maturity/Call date	Aggregate leverage	Ask Yield	Spread
SSREIT 4.25% '19	03/04/2019	38.1%	4.91%	311
HFCSP 4.75% '19	22/03/2019	25.5%	3.50%	171

Indicative prices as at 30 April 2018 Source: Bloomberg
Aggregate leverage based on latest available quarter; total debt-to-total asset used for HFCSP

Issuer Profile: Neutral (5)

Ticker: **SSREIT**

Background

Shari'ah Compliant Industrial REIT ("SSREIT") is an industrial REIT in Singapore, with total assets of SGD966.3mn as at 31 March 2018. SSREIT owns a portfolio of 19 properties as at 31 March 2018. Vibrant Group and its related parties hold ~10.4% in the SSREIT, followed by the e-Shang Redwood Group (also second largest unitholder of ESR REIT) with 7.1%.

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Key Considerations

- **Decline in operating results:** Gross revenue declined 4.4% y/y to SGD21.0mn in 1Q2018, on the back of weaker occupancy and negative rental reversions on certain master leases. Additionally, revenue was no longer recognised on 1 Tuas Avenue 4 (property now vacant). Despite the fall in gross revenue, net property income increased 9.4% y/y to SGD14.6mn, driven by (1) a reversal of impairment losses on recovery of trade receivables from the former master tenant at 6 Woodlands Loop (the property was sold on 29 March 2017) and (2) lower impairment losses on trade receivables from 1 Tuas Avenue 4 and (3) lower property expenses from 218 Pandan Loop which was divested on 11 August 2017. In 1Q2018, the REIT Manager's manager fees were SGD1.0mn (versus SGD0.3mn in 1Q2017. In 1Q2018, the REIT Manager had opted to forgo only 20% of its fees versus the 75% forgone in 1Q2017 (to cushion impact on deterioration in distributable income to unitholders, amidst unitholder revolt then). SSREIT reported total return for the period of SGD10.5mn in 1Q2018 (up 43.1% y/y), including divestment gains and net change in derivatives.

- **Interest expense lower:** EBITDA (based on our calculation which does not include other income and other expenses) was higher by 4.8% y/y to SGD13.5mn while finance cost declined 24.7% y/y to SGD4.0mn as a result of lower outstanding borrowings as proceeds from the rights issue was used to pay down debt, refinancing at lower cost of facilities and absent a one-time break fee that was recognised in 1Q2017. Resultant EBITDA/Interest coverage was stronger at 3.4x (1Q2017: 2.4x).

- **Aggregate leverage stable:** As at 31 March 2018, aggregate leverage was 38.1%, stable against end-2017. Short term debt at 31 March 2018 was only SGD47.0mn (representing only 13% of gross debt). Cash as at 31 March 2018 was SGD20.3mn, increasing from SGD7.7mn in end-2017. This was mainly attributable to the sale of 6 Woodlands Loop and SSREIT received SGD13.8mn in divestment proceeds. SSREIT has since used the sale proceeds to pay down debt and aggregate leverage would have reduced 1% to ~37%. In March 2018, SSREIT had redeemed the SSREIT'18s with bank debt. There is no debt due at SSREIT until April 2019 when the SGD100mn sukuk comes due.

- **Heavy looming lease expiries:** On an overall portfolio basis, SSREIT's occupancy was 84.1%. Nonetheless, this number is boosted by eight properties on Master Leases (100% occupied). Average occupancy on SSREIT's ten multi-tenanted properties was 79.0% (end-2017: 78.4%). As at 31 March 2018, a total of 40.1% of leases by net lettable area is due to expire by end-2018, which is majority-related to properties on Master Leases. Three of these properties are master leased to Sponsor related companies (making up about half of the lease expiries). In November 2017, the leases were renewed for one year for SGD8.8mn collectively, at lower rents. For the full year 2017, Sponsor-related companies paid SSREIT SGD10.3mn in rental income. It is yet uncertain if Sponsor would renew leases that are coming due, and if so, at what terms.

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Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

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